# AUSTRALIA & NEW ZEALAND WEEKLY.

## Week beginning 16 May 2022

**Editorial:** Collapse in Consumer Sentiment should not deter RBA from 40bp lift in June.

**RBA:** Minutes.

**Australia:** Westpac-MI Leading Index, Q1 WPI, labour force update.

**NZ:** Budget 2022, GlobalDairyTrade auction, PPI, trade balance.

**China:** Industrial production, retail sales, fixed asset investment.

**Eur:** CPI, trade balance.

**UK:** CPI, unemployment rate, retail sales.

**US:** Retail sales, industrial production, housing updates, leading index. Fed Chair Powell speaking.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 13 MAY 2022.

WESTPAC INSTITUTIONAL BANK

# Collapse in Consumer Sentiment should not deter RBA from 40bp lift in June

The Westpac Melbourne Institute Index of Consumer Sentiment fell by 5.6% in May from 95.8 in April to 90.4.

The Index is now at its lowest level since August 2020 when households were unnerved by the 'second wave' lockdown in Victoria. The weakness in this survey is not related to another pandemic shock but to the combination of rising cost of living pressures and the prospect of rising interest rates.

Excluding the shocks to confidence associated with the pandemic, this fall of 5.6% is the largest since a 6.9% fall in June 2015, when a steep fall in global share markets was triggered by concerns about the stability of the European financial system and a slowdown in China. That came shortly after May 2014 when a poorly received Federal Budget smashed confidence by 6.8%.

The May print is 8.4% below the average seen in 2019, when consumer spending was generally described as lacklustre, essentially holding flat over the year. Consumer spending is much more buoyant over 2022 to date, as households respond to the reopening of the economy. This lift reflects a normalisation from the 'low spending/high saving' pattern seen during the COVID restrictions and is being supported by a large reserve of excess savings accumulated over the past two years.

The survey of 1200 respondents was conducted over the week Monday May 2 to Thursday May 5, which covered the announcement by the Reserve Bank of the 0.25% increase in the cash rate from 0.10% to 0.35%.

Two stunning developments are clearly unnerving consumers.

Firstly, on April 27, headline inflation was reported to have lifted above 5% for the first time since 2007. Then, on May 3, the Reserve Bank raised the cash rate for the first time since 2010.

While headline inflation pressures may ease from this point, consumers are aware that the Reserve Bank plans to continue increasing the cash rate for some time.

Consumers also look to be bracing for a steep rise in interest rates. Our May survey found 77% of respondents expect mortgage interest rates to rise over the next 12 months, up from 70% last month. But it is even more significant that 52% expect rates to rise by more than 1%, up from just 34% only one month ago.

Rising inflation in the goods sector continues to bite hard on attitudes towards spending, the 'time to buy a major household item' sub-index in May was down by 5.7% to 92.6. To put this into perspective, this is near the low seen during Victoria's 'second wave' outbreak in 2020, when health concerns were discouraging shoppers, and, prior to the pandemic, the lowest read since the GFC. The current level of this sub-index is 27% below its long run average of 126.3.

Not surprisingly, the prospect of rising interest rates is weighing heavily on confidence in the interest rate sensitive housing market.

The 'time to buy a dwelling' index, which was already 40% below its most recent peak in November 2020, fell a further 1.6% in May. The Index, which is principally affected by affordability, is now at its lowest level since April 2008 when, due to rising inflation, the RBA felt obliged to raise rates in both February and March despite the looming Global Financial Crisis.

The outlook for house prices is also starting to deteriorate more rapidly. The Westpac Melbourne Institute Index of House Price Expectations fell by 9.4% to 121.4. Most respondents still expect house prices to rise over the next year – indicated by an index read above 100. The latest read compares to the consistent sub-100 prints seen in 2018 and 2019 when house prices were correcting by 12–15% in the Sydney and Melbourne markets.

The Reserve Bank Board next meets on June 7. Having now begun its tightening cycle the Board is almost certain to follow up the move in May with a further move in June. The specific task of reducing demand-related inflation pressures and containing inflationary expectations is now at hand and the disturbing signal from the May sentiment report should not dissuade the Board from that objective.

The report highlights the sensitivity of Australian households to higher rates and rising inflation. Given the recent unexpectedly robust surge in inflation, arguably, the Board would have acted earlier had it expected such a development in the inflation picture (the annual increase in the Bank's preferred measure of underlying inflation printed 3.7% for the March quarter, well above the 3% we calculate the Board would have been expecting).

Some catch up is the best approach for June.

We would prefer to see a policy lift of 40bps rather than the 25bps that the Governor recently intimated in his Press Conference when he referred to 'business as usual' for monetary policy. Such a move would swiftly remove the 65bps of rate cuts which were implemented during 2020 at the height of the COVID emergency.

The Bank has recently lifted its forecast for underlying inflation in 2022 from 2¾% to 4¾% and is now assuming the daunting task of lowering that rate to 3% by mid-2024.

That requires more than a 'business as usual' approach.

The point at which interest rates become a damaging drag on the economy is unknown but it is prudent to balance the need for policy to catch up with the surety that rates are currently well below that inflection point. Leaving any catch-up moves to later in the cycle risks over-shooting that point.

This appears to be the approach being signalled by the US Federal Reserve for the early stages of its own tightening cycle, despite significant weakness in US measures of consumer sentiment.

This preferred approach is consistent with our expected profile for the tightening cycle.

The first stage would be a rapid elimination of the 65 basis point rate cuts during the "emergency" year of 2020.

That would be achieved by June with the 40 basis point increase.

Then we would see two further moves of 25 basis points each in July and August bringing the cash rate to 1.25%.

On our calculations a cash rate at 1.25% would set the household debt servicing ratio on track to near the previous peaks we saw in 2010 and 2018. But the economy and the savings buffers that have accumulated since the pandemic are likely to signal the need for further increases in that ratio. We anticipate that the cash rate will peak at 2.25%.

The moves to the 2.25% terminal rate by May 2023 would be more spaced out than the initial move to 1.25%.

Rather than every meeting the next stage of four moves in increments of 25 basis points would be over a period of nine months out to May.

Our guideline is October; November; February; and May but that "pattern" could change.

This profile for the RBA cycle and our profile for the Federal Reserve with the federal funds rate peaking at 2.625% by December are both predicated on an orderly reversion of underlying inflation back to near the top of the target band.

The risk to these profiles is that underlying inflation proves to be more "sticky" than we are currently forecasting, forcing both central banks to tighten further in full knowledge that a significant lift in rates above the 2.625% (federal funds) and 2.25% (RBA cash rate) terminal rates we envisage would weigh heavily on the growth outlook.

**Bill Evans, Chief Economist**

Confidence in the economy (and financial instruments) has been a key talking point for markets this week.

For Australia's business sector, NAB's April survey showed a decline in confidence in the month despite a further pick up in conditions to a level materially above average. This confidence measure is still best considered consistent with a generally positive mood amongst business however, despite global risks – which escalated in May – and the additional uncertainty created by a Federal election.

From the conditions detail, the re-opening of Australia's economy is clearly a big positive and is expected to remain that way with forward orders continuing to show strength. However, of concern is that upstream price pressures and labour costs hit new record highs in the month, highlighting the lasting consequence of the pandemic on global goods supply and migration to Australia – for an update on the latter, see below.

Rolling forward a month and across to the household sector, our May Westpac-MI consumer sentiment report made for sombre reading, a 5.6% fall in the month leaving the index at just 90.4. This is the lowest reading since August 2020, when households were concerned over Victoria's second-wave lockdown, and is also 8.4% below the average of 2019, when consumer spending was essentially flat over the year.

This pronounced deterioration in sentiment stems from the dramatic rise in Australian inflation to March 2022 and the RBA's response to this development – May's 25bp rate hike. Consumers are anticipating both of these headwinds will have a lasting effect on their finances, with views on family finances for the year ahead down 11% in the month to be 13% below average. Also note, 'time to buy a major household item' is now 27% below average, having falling 6% in May.

As detailed by Chief Economist Bill Evans in his video update, some of the biggest moves seen recently in the survey relate to housing. 'Time to buy a dwelling' is 25% lower than a year ago and 34% below average. House price expectations are similarly 26% lower than a year ago, albeit only 4% below average. Westpac continues to expect a 13% decline in capital city house prices from mid-2022 to mid-2024; a full discussion of the sector's outlook was included in the team's latest Market Outlook in conversation podcast.

April's arrivals and departures meanwhile reported an acceleration (+200.9k and +275.8k respectively), pointing to strong momentum in the recovery of overseas travel. The component detail for March showed a doubling of short-term visitor arrivals over the month to 162k. On departures, Australian residents leaving on a long-term basis reached a series high at nearly 61k – reflecting the pent-up demand for overseas travel/work, likely among young Australians. Given that New Zealand represents the largest source of monthly foreign arrivals, New Zealand's full reopening by end-July is a welcome sign that Australia-NZ travel should return to normal operations quickly.

Offshore, the primary data release of the week was April's US CPI. The headline inflation result was more or less in keeping with expectations, the monthly pulse falling from 1.2% to 0.3%. However, the core CPI (excludes food and energy) was materially above expectations at 0.6% (consensus 0.3%), supporting fears of persistently high inflation.

Nonetheless, it is clear US inflation is slowing. Taken together, March and April imply an annualised inflation pulse of 5.5%, down from 7.0% in the five months to February, and 10% at this time a year ago. Further, looking at the component detail of the CPI basket, it is evident the imbalances caused by the pandemic are abating, with fiscal support for demand long past and the supply-side recovering.

With annualised core inflation still a multiple of the FOMC's 2.0%yr target however, there is a long way to go in resolving the US' inflation concerns. A wealth effect is unlikely to slow demand and inflation hence, but the hit to real incomes from inflation should.

In our view, it is likely to take until late-2023 for real incomes to recover the losses of the past year. By that time, remaining supply-side concerns related the pandemic and Russia's invasion of Ukraine should have abated, while 2022's abrupt tightening of financial conditions will, by then, have had a year to impact. With inflation risks having subsided, the FOMC will be able to cut the fed funds rate back to 2.125% in 2024 to maintain growth near potential and a robust labour market into the medium-term.

The most significant risks to this view are a further escalation of global tensions which feed into inflation and wage expectations. And/or a doubling down by the FOMC or market on the outlook for rates, tightening financial conditions to an outright contractionary level. The possibility of the latter was flagged this week by the US 10yr falling back to 2.85% having run up to 3.20% following the FOMC and Bank of England meetings last week.

Increasingly it seems the risks the US faces may become the baseline expectation for the UK and Europe, with both central banks increasingly intent on raising interest rates despite growth looking as though it has stalled and will remain weak for an extended period. While UK GDP growth in Q1 overall was robust at 0.8%, the monthly data shows an abrupt change in the economy over the period, a 0.7% gain in January followed by no growth in February and a 0.1% decline in March.

This deterioration makes the uncertainty highlighted last week by the Bank of England for late-2022 and 2023 immediate, and also emphasises how skewed to the downside the risks have become. Like the US, real incomes in the UK have been hit hard; unlike the US, there is another wave of pain to come as higher wholesale energy prices feed through to the consumer and the labour market deteriorates.

The data flow for Europe has been very light this week, but a number of regional monetary policy officials including ECB President Lagarde have continued to raise concerns over inflation and the appropriateness of the ECB's policy stance. Consensus at the ECB is often difficult to gauge, particularly in periods of heightened uncertainty; but an end of asset purchases in June now seems highly probable. It also seems a growing group of Governing Council members want rate hikes to follow quickly.

Arguably, the initial step of returning the deposit rate to zero from -0.50% could prove neutral (or even positive) for the economy as long as a succession of additional refi rate hikes are not expected immediately after. So, absent a clear decline in activity in Q2 data, we now look for the ECB to move the deposit rate back to zero in Q3. We still believe best policy would be to leave refi rate hikes to 2023, but the intent of the Council looks instead to be a move to 0.25% at the December meeting assuming contraction is avoided in Q3.

With inflation coming down quickly through 2023, additional rate hikes are likely to be limited to another 50bps, allowing activity growth to recover quickly. For the Bank of England, we believe it would be best to similarly limit their response to inflation to minimise the cumulative impact on activity and the labour market. A peak in the Bank Rate of 1.75% continues to be forecast.

These developments and the risks have weighed heavily on Euro and Sterling in recent weeks, seeing spot trade at USD1.04 and USD1.22 respectively overnight. However, we continue to see a move higher to year end for both currencies as risks abate with respect to inflation and the policy response as well as the conflict itself. A slowing US economy with reduced inflation risk should further support this trend. Full detail on our long-term forecasts can be found on Westpac IQ.

# Week ahead & data wrap

**Throwing the doors open.**

For the past two years, the closure of the borders has been a significant drag on economic activity in New Zealand. That's been felt in terms of a loss of international tourist dollars. It's also resulted in a sharp downturn in population growth, which has affected the labour market and demand growth. Following the easing in border restrictions over the past month, we are now seeing those drags starting to reverse. However, there is still a long way to go.

In terms of visitor arrivals, April saw 28,000 people landing on our shores for short-stay trips. That's up sharply from rates of around 5,000 per month earlier in the year. The bulk of that rise was related to New Zealand citizens who now reside abroad, many of whom delayed coming home for holidays in recent years due to the previous isolation requirements.

More notably, we are also seeing the early signs of a recovery in international tourist arrivals. The borders opened for visitors from Australia mid-way through April. And while the absolute number of visitors from across the ditch are still low, numbers have been climbing quickly, rising from effectively zero to close to 3,000.

We expect international tourist numbers will continue to rise quickly over the coming months. Australian households are starting to travel again, and the borders with other markets will reopen over the coming months. It will still take some time for tourist numbers to retrace the levels we saw prior to the pandemic, especially as visitors from the high spending Chinese market are unlikely to return until 2023. Even so, this change in direction will be a big boost for spending and confidence in our hospitality and accommodation sectors.

The recovery in international tourism will be an important buffer for the economy. The closure of our borders and related net loss of international tourist dollars has resulted in a drag equivalent to around 2% of annual nominal GDP for the past couple of years. As that spending starts to come back, it will limit the downside for growth as domestic demand cools in the face of rising interest rates.

In addition to a rise in short-term arrivals, the number of people moving to New Zealand on a longer-term basis has also started to turn around. Again, the net number of new migrants is still low with 1,200 people arriving in April (compared to rates of around 4,000 prior to the pandemic). Nevertheless, the outflow of people seen over the past year looks like it has stabilised. It's also notable that we have yet to see a pick up in departures of New Zealanders.

We do expect the coming year will see longer-term departures rise as many younger New Zealanders who delayed OEs during the pandemic start to travel again. As a result, net migration is set to remain low for some time.

Longer term, net migration will turn positive again as the number of departing New Zealanders returns to more normal levels. Even so, we don't expect that net migration will rise back to the sort of levels that we saw over the past decade, with the Government now rolling out a reset of migration policy. While still trying to address current shortages of labour, those policy changes are focused on supporting job opportunities and skills development among existing New Zealand residents. To achieve that aim, the Government is tightening entry requirements for new arrivals based around skill levels.

Given that policy change, we expect that net migration will settle at around 30,000 people per annum. That's a big step down from the annual inflows of 50,000 to 60,000 people per annum that we saw in the years leading up to the pandemic. And the impacts will be felt through the labour market and economy more widely.

**Inflation, the RBNZ and the housing market.**

This week we also had the release of the RBNZ's latest survey of inflation expectations. The closely watched 2-year ahead inflation measure remained at 3.3%. At the same time, expectations for inflation in five years' time have risen for a third successive quarter, climbing to 2.4% (up from 2.3%), and that could be raising some red flags at the central bank.

Expectations play a key role in how households and business adjust wages and prices. And if they push higher, that could mean that pressure on prices is more enduring and that larger interest rate rises are needed to stabilise prices.

Overall, the strength in inflation expectations supports our forecast for a series of rapid OCR increases over the coming months. In particular, we're forecasting a 50bp rise at the upcoming May policy meeting (following the earlier 50bp rise in April).

While interest rates are set to push into tight territory over the coming year, there are big questions about how much tightening will be required. There are long lags between interest rate changes and changes in inflation. As a result, the RBNZ will be watching for signs that OCR hikes are gaining traction in terms of domestic demand. On this front, the key area to watch is the housing market.

After a period of rapid house price gains over the past couple of years, the market is now undergoing a rapid correction. Prices fell by 1.1% in April. That was the fifth consecutive month of declines, with prices now down 5% from their peaks in November. With interest rates continuing to rise, we now expect that house prices will fall by 10% over calendar 2022, with a further 5% drop expected over 2023.

The housing market is a key influence on households' wealth and confidence. And just as the earlier period of rapid house price gains boosted spending appetites through the pandemic, the slowdown now in train signals a period of softer spending growth over the next few years. That will have an important impact on the strength of domestic inflation pressures.

**Satish Ranchhod,** Senior Economist

**Round-up of local data released over the last week**

| Date | Release | Previous | Actual | Westpac f/c |
|---|---|---|---|---|
| Tue 10 | Apr retail card spending | –1.3% | 7.0% | 3.5% |
| Thu 12 | Apr REINZ house sales | –1.8% | –4.0% | – |
| | Apr REINZ house prices %mth | –1.3% | –1.1% | – |
| | Apr food price index | 0.7% | 0.1% | 0.8% |
| | Mar net migration | –937 | 1177 | – |
| | Q2 RBNZ inflation expectations | 3.27% | 3.29% | – |
| Fri 13 | Apr manufacturing PMI | 53.7 | 51.2 | – |

# DATA PREVIEWS

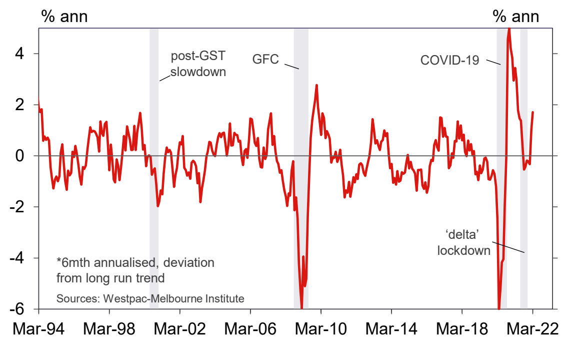
## Aus Mar Westpac–MI Leading Index

**May 18, Last: 1.71%**

The six-month annualised growth rate rose to 1.71% in March from 1.02% in February – posting the fastest growth rate since May 2021. This largely reflects the rebound from last year's 'delta' lockdowns with Q3 disruptions falling into the base of six-month growth rate calculations.

The Apr update is likely to show a similar pace of expansion. While monthly updates to several components will be soft (dwelling approvals down sharply, off a choppy few months, the ASX200 down -0.9% in April, consumer sentiment based measures deteriorating sharply in May) other components have been more stable and supportive in the case of commodity prices (up another 1.7%mth in AUD terms). The base effects from last year's 'delta' disruptions will also continue to hold up 6mth growth rates.

### Westpac-MI Leading Index




## Aus Q1 Wage Price Index %qtr

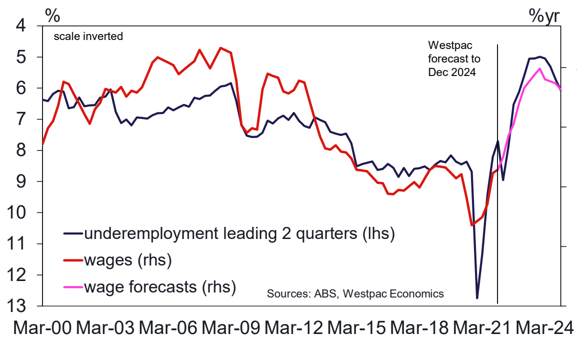
**May 18, Last: 0.7%, WBC f/c: 0.8%**
**Mkt f/c: 0.8%, Range: 0.7% to 0.8%**

The Wage Price Index (WPI) lifted 0.7% in the Dec quarter, spot on Westpac's and the market forecast. This followed on from a 0.6% gain in Q3 which was a lift from the 0.4% print in Q2.

The annual pace lifted to 2.3% from 2.2% and is well up on the low of 1.4% in the later half of 2020. Wages are now back to a pre-Covid pace where wages were underperforming economic activity. If there was ever a time for wages to regain some of relationship with broader labour market indicators, 2022 must be the year.

Even more important than the fall in unemployment to 4% has been the more than halving of underemployment, from a peak of 13.6% in Apr 2020 to 6.3% in Mar 2022. Along with business and consumer surveys reporting meaningful rises in wages, we are looking for the Wage Price Index quarterly pace to lift to 0.8% from 0.7%. A rise closer to, or above 1.0% would be a surprise given the lags between labour market conditions and wages plus the structure of the WPI.

### Underemployment & wages




## Aus April Labour Force Survey, employment '000

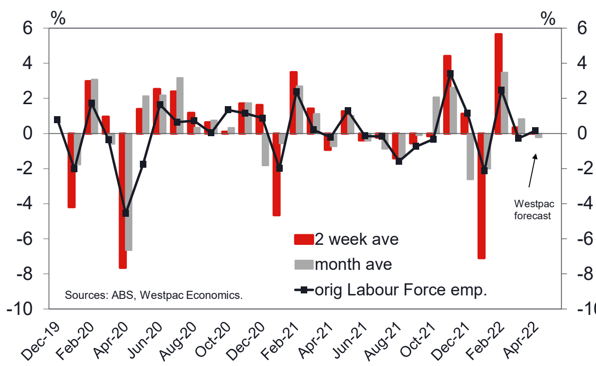
**May 19, Last: 17.9k, WBC f/c: 20k**
**Mkt f/c: 30k Range: 20k to 60k**

March saw the 5th consecutive gain in employment with a 17.9k gain, a bit softer than Westpac's 25k estimate and below the market estimate of 30k. Given flooding and wide spread heavy rain on the east coast, it is not surprising that hours worked contracted 0.6%.

Given the flooding and wet conditions in Mar there was expected weakness in NSW (-0.3k) but we were surprised by the greater weakness in Victoria (-2.8k) contrasted by robust Queensland employment (+8.0k).

Based on a two-week average to Mar 12 compared to a two-week average to Apr 16, payrolls were flat through that five-week period. Our current forecast for employment in the April Labour Force Survey is +32k which we estimate to be a 0.3% rise in original (not seasonally adjusted) terms. We have revised our forecast from +32k to +20k to acknowledge a softer momentum in employment while still allowing for a softer than expected recovery in hours worked.

### Payrolls vs Labour Force Employment



## Aus April Labour Force Survey, unemployment %

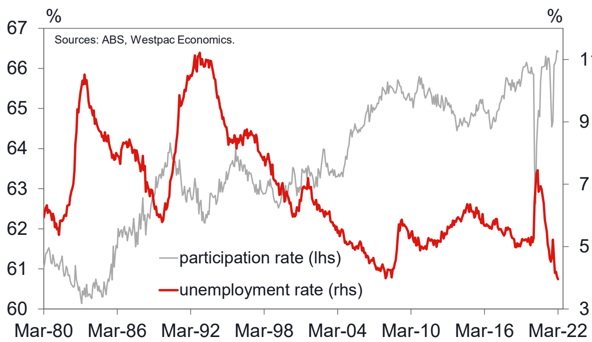
**May 19, Last: 4.0%, WBC f/c: 3.9%**
**Mkt f/c: 3.9% Range: 3.7% to 4.0%**

With a fifth consecutive monthly gain in employment there was a small dip in the participation rate to 66.42% from 66.45% (66.4% from 66.5% rounded). This is not surprising as the wet conditions and flooding in some regions would have discouraged workers from looking, restricting the rise in the labour force to just 8.5k and thus holding the unemployment rate flat at 4.0% (now 3.95% from 4.04%).

As noted by the ABS, 4.0% is the lowest the unemployment rate has been in the monthly survey. Lower rates were seen in the series before November 1974, when the survey was quarterly.

With our forecast for +20k on employment holding the participation rate flat at 66.42% will see a 13k rise in employment with the unemployment rate rounding down to 3.9%.

### Participation back to record highs




## NZ GlobalDairyTrade auction, whole milk powder prices

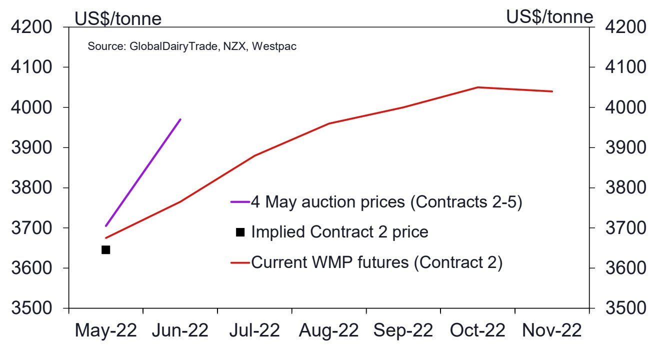
**May 18, Last: -6.5%, Westpac: -2.0%**

We expect whole milk powder prices (WMP) to fall 2% at the upcoming dairy auction. Prices have plunged over the last four auctions by a combined a 14% as the Covid outbreak in China and a temporary surge in auction volumes have weighed on global dairy prices.

Our pick is roughly similar to futures market pricing.

Looking to the second half of 2022, we expect prices to regain some lost ground as market fundamentals remain strong. We also expect a boost to prices when China's Omicron wave eventually passes and the related Covid restrictions are relaxed.

### Whole milk powder prices




## NZ Government Budget 2022

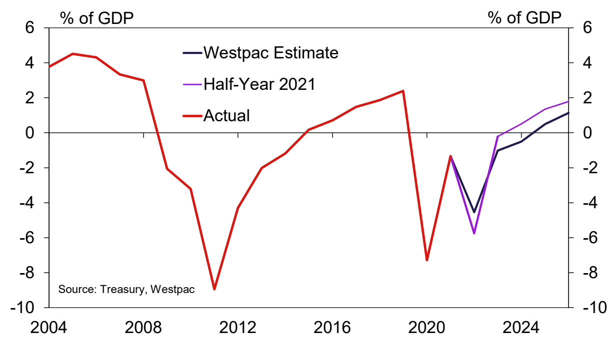
**May 19**

We expect Budget 2022 to show that, all things Covid considered, the Government's books continue to be in good shape.

While not strictly news, Budget 2022 will highlight the Government's newly minted fiscal rules and the realisation that the Government is not as debt constrained as previously thought.

Market interest will be on the expansion in the bond programme to facilitate buying back of the Reserve Bank's Government bond holdings. To this end, we anticipate a circa $28 billion increase in bond issuance spread over the 2023 through 2026 fiscal years

### Operating balance (OBEGAL) as a % of GDP




Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

# For the week ahead

| | | Last | Market median | Westpac forecast | Risk/Comment |
|---|---|---|---|---|---|
| **Mon 16** | | | | | |
| **NZ** | Apr BusinessNZ PSI | 51.6 | – | – | Returned to growth in March as Omicron peak passed. |
| **Chn** | Apr retail sales ytd %yr | 3.3% | 1.2% | – | Near-term weakness in consumption due to lockdowns... |
| | Apr fixed asset investment ytd %yr | 9.3% | 7.0% | – | ... but building momentum for investment... |
| | Apr industrial production ytd %yr | 6.5% | 5.0% | – | ... and lingering strength in trade providing resilience. |
| **Eur** | Mar trade balance €bn | –9.4 | – | – | Deficit to remain wide on elevated energy prices. |
| **UK** | May Rightmove house prices | 1.6% | – | – | Demand to soften as rate hikes take full effect. |
| **US** | May Fed Empire state index | 24.6 | 15.0 | – | NY mfg sector well supported by firm order pipeline. |
| | Fedspeak | – | – | – | Williams. |
| **Tue 17** | | | | | |
| **Aus** | RBA minutes | – | – | – | More colour to the RBA Boards views. |
| **Eur** | Q1 GDP | 0.2% | 0.2% | – | Second estimate to confirm rapid slowing of economy. |
| **UK** | Mar ILO unemployment rate | 3.8% | 3.8% | – | Unemployment now at pre-COVID level. |
| **US** | Apr retail sales | 0.5% | 1.0% | – | Inflation pressuring discretionary incomes and spending. |
| | Apr industrial production | 0.9% | 0.4% | – | Volatility to linger as firms navigate supply issues. |
| | Mar business inventories | 1.5% | 1.9% | – | Businesses rebuilding inventory at a strong pace. |
| | May NAHB housing market index | 77 | 75 | – | Affordability concerns; rising input costs and interest rates. |
| | Fedspeak | – | – | – | Chair Powell interview. Bullard, Harker and Mester too. |
| **Wed 18** | | | | | |
| **Aus** | Apr Westpac–MI Leading Index | 1.71% | – | – | Post-delta rebound still driving strong above-trend reads. |
| | Q1 wage price index | 0.7% | 0.8% | 0.8% | A tighter labour market will be pushing on wages in 2022. |
| **NZ** | GlobalDairyTrade auction price (WMP) | –6.5% | – | –2.0% | China's Omicron outbreak still weighing on prices. |
| **Jpn** | Q1 GDP | 1.1% | –0.5% | – | Consumption took a big hit from Omicron in Q1. |
| | Mar industrial production | 0.3% | – | – | Supply issues are an ongoing headwind. |
| **Eur** | Apr CPI | 0.6% | 0.6% | – | Elevated energy prices remains the key driver... |
| **UK** | Apr CPI | 1.1% | – | – | ... behind European and UK headline inflation. |
| **US** | Apr housing starts | 0.3% | –1.3% | – | Strength of labour market and limited supply... |
| | Apr building permits | 0.4% | –2.4% | – | ... to support residential construction into the medium term. |
| | Fedspeak | – | – | – | Evans and Harker. |
| **Thu 19** | | | | | |
| **Aus** | Apr employment, '000 chg | 17.9 | 30.0 | 20.0 | Payrolls suggest weather & holiday dampened employment... |
| | Apr unemployment rate | 4.0% | 3.9% | 3.9% | ... and also dampened participation so falling unemployment. |
| **NZ** | Q1 PPI | 1.4% | – | – | Higher oil and dairy prices over the quarter. |
| | Budget 2022 | – | – | – | Budget will show Govt's books in relatively good shape. |
| **Jpn** | Mar machinery orders | –9.8% | 3.9% | – | Investment outlook clouded by supply issues. |
| **US** | Initial jobless claims | 203k | – | – | To remain at a very low level. |
| | May Phily Fed index | 17.6 | 16.1 | – | Business conditions still healthy. |
| | Apr existing home sales | –2.7% | –1.8% | – | Limited supply and cooling demand headwinds to sales. |
| | Apr leading index | 0.3% | 0.0% | – | Pointing to a slowing of economic momentum. |
| **Fri 20** | | | | | |
| **NZ** | Apr trade balance $mn | –392 | – | –200 | Dairy price strength running up against the oil price surge. |
| **Jpn** | Apr CPI %yr | 1.2% | 2.5% | – | Ex food/energy, inflation still negative. |
| **Eur** | May consumer confidence | –22 | –22 | – | Inflation pressuring real spending capacity and sentiment. |
| **UK** | May GfK consumer sentiment | –38 | – | – | At lowest level in series history back to 1980. |
| | Apr retail sales | –1.4% | – | – | Cost-of-living pressures to weigh on spending. |

# Forecasts

### Interest rate forecasts

| Australia | Latest (13 May) | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 |
|---|---|---|---|---|---|---|---|---|
| Cash | 0.35 | 0.75 | 1.25 | 1.75 | 2.00 | 2.25 | 2.25 | 2.25 |
| 90 Day BBSW | 0.98 | 0.95 | 1.45 | 1.95 | 2.20 | 2.45 | 2.45 | 2.45 |
| 3 Year Swap | 3.11 | 3.25 | 3.15 | 3.10 | 3.00 | 2.90 | 2.80 | 2.75 |
| 3 Year Bond | 2.79 | 3.05 | 2.95 | 2.90 | 2.80 | 2.70 | 2.60 | 2.55 |
| 10 Year Bond | 3.36 | 3.30 | 3.15 | 2.90 | 2.65 | 2.50 | 2.40 | 2.30 |
| 10 Year Spread to US (bps) | 51 | 40 | 35 | 30 | 25 | 20 | 20 | 20 |
| **US** | | | | | | | | |
| Fed Funds | 0.875 | 1.375 | 2.125 | 2.625 | 2.625 | 2.625 | 2.625 | 2.625 |
| US 10 Year Bond | 2.85 | 2.90 | 2.80 | 2.60 | 2.40 | 2.30 | 2.20 | 2.10 |
| **New Zealand** | | | | | | | | |
| Cash | 1.50 | 2.00 | 2.50 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 90 day bill | 2.12 | 2.40 | 2.90 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 2 year swap | 3.55 | 4.00 | 3.90 | 3.80 | 3.70 | 3.50 | 3.30 | 3.10 |
| 10 Year Bond | 3.59 | 3.80 | 3.70 | 3.50 | 3.30 | 3.20 | 3.10 | 3.00 |
| 10 Year spread to US | 74 | 90 | 90 | 90 | 90 | 90 | 90 | 90 |

### Exchange rate forecasts

| Australia | Latest (13 May) | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 |
|---|---|---|---|---|---|---|---|---|
| AUD/USD | 0.6873 | 0.72 | 0.74 | 0.76 | 0.77 | 0.78 | 0.79 | 0.80 |
| NZD/USD | 0.6248 | 0.65 | 0.67 | 0.69 | 0.70 | 0.71 | 0.72 | 0.72 |
| USD/JPY | 128.52 | 129 | 128 | 126 | 125 | 124 | 122 | 121 |
| EUR/USD | 1.0384 | 1.05 | 1.07 | 1.09 | 1.11 | 1.13 | 1.14 | 1.15 |
| GBP/USD | 1.2207 | 1.23 | 1.24 | 1.26 | 1.28 | 1.30 | 1.32 | 1.34 |
| USD/CNY | 6.7861 | 6.65 | 6.50 | 6.35 | 6.25 | 6.20 | 6.15 | 6.15 |
| AUD/NZD | 1.1001 | 1.11 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 | 1.11 |

### Australian economic growth forecasts

| | 2021 | | | 2022 | | | | Calendar years | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| % change | Q2 | Q3 | Q4 | Q1f | Q2f | Q3f | Q4f | 2020 | 2021 | 2022f | 2023f |
| GDP % qtr | 0.8 | –1.9 | 3.4 | 0.2 | 1.9 | 1.4 | 0.9 | – | – | – | – |
| %yr end | 9.6 | 4.0 | 4.2 | 2.5 | 3.7 | 7.1 | 4.5 | –0.8 | 4.2 | 4.5 | 2.5 |
| Unemployment rate % | 5.1 | 4.6 | 4.7 | 4.1 | 3.7 | 3.3 | 3.2 | 6.8 | 4.7 | 3.2 | 3.4 |
| CPI % qtr | 0.8 | 0.8 | 1.3 | 2.1 | 0.9 | 1.0 | 1.5 | – | – | – | – |
| Annual change | 3.8 | 3.0 | 3.5 | 5.1 | 5.2 | 5.4 | 5.6 | 0.9 | 3.5 | 5.6 | 2.6 |
| CPI trimmed mean %qtr | 0.5 | 0.7 | 1.0 | 1.4 | 1.0 | 1.0 | 1.0 | – | – | – | – |
| %yr end | 1.6 | 2.1 | 2.6 | 3.7 | 4.2 | 4.5 | 4.4 | 1.2 | 2.6 | 4.4 | 3.0 |

### New Zealand economic growth forecasts

| | 2021 | | | 2022 | | | | Calendar years | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| % change | Q2 | Q3 | Q4 | Q1f | Q2f | Q3f | Q4f | 2020 | 2021 | 2022f | 2023f |
| GDP % qtr | 2.5 | -3.6 | 3.0 | 0.3 | 0.7 | 2.3 | 1.3 | – | – | – | – |
| Annual avg change | 5.2 | 4.8 | 5.6 | 5.3 | 1.3 | 2.9 | 3.4 | -2.1 | 5.6 | 3.4 | 4.8 |
| Unemployment rate % | 4.0 | 3.3 | 3.2 | 3.2 | 3.1 | 3.0 | 3.0 | 4.9 | 3.2 | 3.0 | 3.3 |
| CPI % qtr | 1.3 | 2.2 | 1.4 | 1.8 | 0.8 | 1.1 | 0.5 | – | – | – | – |
| Annual change | 3.3 | 4.9 | 5.9 | 6.9 | 6.4 | 5.2 | 4.3 | 1.4 | 5.9 | 4.3 | 2.7 |

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