AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 9 May 2022

Editorial: RBA's May Statement on Monetary Policy highlights inflation task.

Australia: Q1 real retail sales, Westpac–MI Consumer Sentiment, business survey.

NZ: Q2 RBNZ inflation expectations, card spending, housing updates, manufacturing PMI.

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INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 6 MAY 2022.

WESTPAC INSTITUTIONAL BANK

RBA's May Statement on Monetary Policy highlights inflation task

The Reserve Bank's May Statement on Monetary Policy (SOMP) shows some very significant changes in the Bank's forecasts for inflation; wages; and the unemployment rate.

These changes were flagged in the Governor's decision statement and press conference following the Board meeting on Tuesday but the SOMP provides more detail and colour.

Before we analyse these changes it is worth noting that the forecast presentation has been altered slightly in this May SOMP.

Prior to this SOMP the Board included two forecast tables: 1) a Summary Table ("Output Growth and Inflation Forecasts") showing forecasts rounded to the nearest quarter point; and 2) a Detailed Table ("Forecast Table – Central Scenario") with forecasts for a wider range of variables, including those provided in the Summary Table, again using the 'quarter point rounding' convention.

For this SOMP (and presumably future SOMPs) the Summary Table still rounds forecasts to the nearest quarter point but the central scenario now shows forecasts rounded to the first decimal point.

This reveals some notable distinctions. Of most significance is the forecast rate of trimmed mean inflation at end 2022. In the Summary Table, this gets rounded to 4¾% whereas in the Detailed Table it is revealed as 4.6%. An underlying figure of 4.63-4.64% would lead to this result (rounding down to 4.6% in decimals but up to 4¾% in quarter points), indicating that the Bank's task of bringing underlying inflation down in 2023 is from 4.64% to 3.14% rather than the 4¾% to 3¼ % presented in the Summary Table.

In this note we will refer to the forecasts in the Central Scenario rather than the Summary Table.

Of most importance is the revised forecast path for underlying inflation (the trimmed mean). In February, the Bank forecast underlying inflation at 2¾% by end 2022 and holding at that level in 2023. So the new forecasts emphasise the formidable task the Bank now believes it has to bring underlying inflation back to the 2–3% target band. It forecasts that the trimmed mean will return to the band by June 2023, reaching 2.9%.

There have also been significant changes in the labour market forecasts. The unemployment rate is forecast to hold at 3.6% through 2023 compared to 3¾% forecast in February.

Wages growth (based on the Wage Price Index) is forecast to reach 3.5% through 2023, up from 3% in December 2022, compared to the 3%, up from 2¾% in December 2022, forecast in the February SOMP.

The lift in inflation forecasts has been in response to the 3.7% print for annual underlying inflation in the March quarter. We estimate that the Bank would have been expecting an underlying print in March of around 3¼%.

There are a range of explanations for the sharp upgrade in the inflation outlook apart from the obvious higher starting point from the March quarter. These include:

- The upstream cost pressures that have boosted prices of consumer durables and new dwellings since the latter part of 2021 are now expected to persist for longer than previously anticipated due to the invasion of Ukraine and lockdowns in China.
- Cost increases have broadened and a significant share of firms have increased or expect to increase prices over coming months as a result of the sustained rise in input costs.

Later in the forecast period the main contributor to inflation is expected to be the increase in labour costs resulting from a tight labour market with the forecast for wage growth lifted. Notably:

- Total labour costs are forecast to increase at a faster pace than the 'narrower' measure of wages captured in the Wage Price Index with gains across both being partly driven by the lower than previously forecast unemployment rate.
- As discussed, the easing of supply side pressures is expected to occur later but this pick-up in domestically generated inflation pressures from a tight labour market is also forecast to occur sooner.

These forecasts are marked by much greater than normal uncertainty, particularly around the timing and sustainability of the easing of the supply side pressures and the extent of the wage pressures given the unemployment rate is, appropriately, forecast to reach a 50 year low.

Underlying assumptions

For the first time the Bank has provided the specific assumptions around the interest rate profile that leads to its forecasts.

The forecasts are based on a cash rate of 1¾% "in the December quarter of 2022" and 2½% "in the December quarter of 2023."

Crucially it is also assumed that the oil price (Brent crude) holds at US$101/bbl while the AUD holds at US$0.71 – effectively fixing the AUD oil price.

Under those assumptions of a steady oil price, any further addition to headline inflation from petrol prices dissipates rather than reverses. For reference, Westpac's headline inflation forecasts are predicated on oil price returning to US$87/bbl and an AUD at US$0.80 by the end of 2023.

What does this mean for policy?

The specific interest rate profile used in the forecasts points to the Bank expecting that, on a central case view, it has considerably more 'work' to do.

The cash rate is now 0.35% with seven meetings before year's end.

Westpac expects rate hikes of 40bps in June; and subsequent 25bp increases in July; August; October and November.

Next year we expect two hikes of 25bps in February and May.

The risks and uncertainties in the Bank's outlook for inflation point to the dominant risks being to the upside.

- Supply constraints are partly related to the combination of strong demand and the inability of supply to respond in a timely way – these constraints could intensify as they have in other countries and liaison has shown that firms are more willing to pass on input cost pressures.
- With little recent relevant experience to draw on, it is possible that wage and price pressures build more quickly (or slowly) than expected.
- Many Australians have built considerable savings buffers during the pandemic. If the willingness of households to spend from these liquid savings is higher than other forms of wealth, consumption would be stronger than expected.

Of course the main channel through which monetary policy works will be through the impact of higher rates on asset prices and those households with low savings buffers.

These effects are likely to build as the tightening cycle proceeds before it is clear whether the full savings buffer is having an effect.

That dynamic suggests that it is ‘safer’ to front end load the cycle at lower base rates rather than be caught out overestimating the impact of policy on demand and having to tighten further than is optimal at a later stage of the cycle.

Conclusion

The forecasts in the SOMP highlight the task that the RBA has in slowing demand amid uncertainties around the sustainability of supply side shocks and the sensitivity of households and the labour market to policy tightening.

The best approach is to tighten more aggressively in the early stages of the cycle as a way of guarding as much as possible against the potential risks in the current environment.

Bill Evans, Chief Economist

THE WEEK THAT WAS

Three key developed market central banks met this week. All raised rates and, to varying degrees, highlighted the risks pertaining to inflation.

In Australia, the RBA surprised the market consensus by announcing a 25bp increase in the cash rate to 0.35% instead of 15bps. The downward revision in the unemployment rate to 3.5%, a level it expects will be maintained through 2023, emphasises the strength of Australia's economy and gives cause to begin removing accommodation. Doing so quickly however is justified more by their revised expectations of inflation, the RBA's view on underlying inflation at end–2022 revised up 2ppts to a materially above–target 4.75%. The full detail of the RBA's forecasts will be provided today in the May Statement on Monetary Policy (released at 11:30am); but for policy, it is particularly notable that Tuesday's decision statement reported underlying inflation is still expected to be at the top of the RBA's target range in mid–2024 (3.0%, previously 2.75%).

As detailed by Chief Economist Bill Evans following the decision, given the RBA's views and our own, Westpac believes it is appropriate to front–load the normalisation of policy, a 40bp hike to come in June and be followed by a string of 25bp increases in July, August, October, and November, taking the cash rate to 1.75% by year end. In 2023, we see two additional hikes in February and May to a peak cash rate of 2.25%. Given the high debt levels of Australian households, this level of rates is expected to materially reduce momentum through 2023, dissipating demand–driven inflation pressures and allowing the RBA to go on hold.

In the US, a similar perspective of the outlook was presented by the FOMC, albeit while recognising the greater risks the US currently faces from inflation. Very clearly, the FOMC has strong confidence in the US economy thanks to historically–low unemployment and strong consumer balance sheets. They also recognise the scale of the supply–side inflation pressures and the risk to inflation and wage expectations if actual inflation is not reined in quickly from 8.5%yr/6.6%yr on a CPI/PCE basis at March 2022 towards the 2.0%yr medium–term target. Consequently, the FOMC plan an aggressive start to the policy normalisation process, to be followed by 'fine tuning' as neutral approaches.

May's 50bp increase is therefore expected to be followed by two more 50bp hikes in June and July to 1.875% –– the lower–end of the Committee's neutral range of 2–3%. Thereafter, we believe 25bp increments will be seen to a fed funds peak of 2.625% in December. Combined with the estimated policy impact of the FOMC's quantitative tightening program, this level of fed funds would result in financial conditions historically consistent with a 3.0% fed funds rate – the top of the FOMC's neutral range.

Westpac believes this level of rates will instead prove contractionary for the US, particularly after the loss of real income through 2022, and see growth slow below trend in 2023. It is also our expectation that headline inflation will drop from its current level back down to around 3.0% in six–month annualised terms at year end, then into the 2–3% range come 2023. Such an outturn would justify the FOMC going on hold in 2023 and cutting rates in 2024 to a more neutral level once the inflation threat has past.

The outlook for Australia and the US is therefore likely to prove challenging but sanguine, with growth near trend able to be sustained into the medium term and the stance of policy broadly neutral. Unfortunately, increasingly it seems the same cannot be said for Europe and the UK.

As detailed in our latest edition of Market Outlook (due for release on Westpac IQ today), recent developments have created immense uncertainty for Europe, with disruptions to gas supply moving from possible to probable while additional cost pressures are to be imposed on their economies by a phased reduction in coal and oil imports from Russia. The latter is most certainly justified as European authorities seek to force an end to Russia's invasion of Ukraine through economic means, but nonetheless is another cost for Europe's economy at a particularly trying time.

We have therefore lowered our growth view for the region, expecting the Euro Area economy will stall for the remainder of the year before a moderate recovery builds in 2023. To this revised view, risks arguably still lay to the downside. That said, if the conflict were to cease quickly, the hit to real incomes could reverse and the economy rebound strongly – on this point, it is worth remembering that before the invasion occurred, the Euro Area was primed for growth in 2022 at a multiple of trend.

The response of the market to the Bank of England's May meeting was diametrically opposed to both the RBA and FOMC decisions, the combination of dramatically weaker growth forecasts and much stronger and persistent inflation expectations not to mention a third of the Committee preferring a 50bp hike to the 25bps agreed seeing risk appetite disappear during the US session.

Specifically on the UK economy, the BoE now forecast annual growth to be flat at Q2 2023 and a mere 0.2% come Q2 2024; while headline inflation is expected to print at 9.1% in Q2 and peak above 10% in Q4 2022 before falling to 6.6% in Q2 2023 and 2.1% in Q2 2024.

This portrait of stagflation signals an incredible challenge for the Bank to anchor longer–term inflation expectations without causing a deep recession. Tightening aggressively from here will produce a significant risk of enduring weakness in domestic demand, threatening a more severe and sustained output gap into the medium–term.

Finally, to China. While the headlines continue to highlight the market's doubts over the ability of Chinese authorities to navigate through the current spate of COVID–19 outbreaks, we remain constructive. A full view is provided in the May Market Outlook. But at a high level, the combination of the resilience shown to March; the ready availability of credit across the economy; and the growing support from policy makers points to underlying strength that will show itself in the second half of the year.

By sector, near–term growth will be concentrated in public and private investment away from the affected regions of Shanghai and Beijing. As restrictions are removed, we hope sooner than later, this momentum will broaden geographically, and consumption will bounce strongly nationwide – with pent–up demand, income, and sentiment all supportive of sustained growth in spending. GDP growth near authorities' 5.5% target is still readily achievable in 2022 and beyond.

Week ahead & data wrap

There's no question that the New Zealand labour market is running hot. Not only has the unemployment rate remained at a record low, but wage growth is now clearly gathering momentum. That underscores the pressure on the Reserve Bank to keep inflation pressures in check. Even so, we think that the market is underestimating how powerful monetary policy will be.

The unemployment rate held at 3.2% in the March quarter. That was an equal-record in the history of the survey going back to 1986. The result wasn't quite as impressive as our expectation of a further decline to 3.0%, but in the key details it was similar to our view.

The number of people employed was just 0.1% higher for the quarter, similar to our forecast. That was also in line with Stats NZ's monthly filled jobs indicator, which is drawn from tax data and hence provides quite a comprehensive picture. Employment did drop a little in the February and March months, but it was still up for the quarter on average. Disruptions to hiring as the Omicron wave reached its peak may have been a factor here, although the experience overseas suggests that any impact from this will be short-lived.

As the Reserve Bank has noted, the economy is running above the 'maximum sustainable' level of employment. Identifying where that 'maximum' lies is an inexact science – the RBNZ looks at a range of indicators relative to their histories, and whether a consistent message is coming through from them. But the relevance of this concept is in what it means for wage inflation. And in that respect, this week's figures support the idea that the labour market has become unsustainably tight.

Wages have now built up a head of steam. The Labour Cost Index LCI) for all sectors rose by 0.8% for the quarter, to be up 3% on a year ago. Broader measures of the pay rates that workers actually receive are up closer to 5% in the last year.

Moreover, on all of these measures, we're now running at a pace comparable to 2005, which was the last time that the unemployment rate dropped below 4%. On that occasion, wage growth continued to accelerate for a few more years, and consumer price inflation remained stubbornly high relative to the RBNZ's target. It took the impact of the Global Financial Crisis in 2008 to bring that wage-price spiral to a halt.

One notable difference between the mid-2000s and today is that this time wages have fallen behind the cost of living, with consumer prices up 6.9% over the same period. In part that reflects the nature of the inflation threat, with global cost shocks playing a greater role than strong labour demand, at least up until now.

But that's likely to change over the year ahead. Some of the global cost shocks will fade over time, or at least won't be repeated. That will see the headline inflation rate recede from its current highs. But what it settles back to will be determined by the extent of local inflation pressures, and wage inflation in particular. That would mean lower, but also more persistent inflation in the years ahead.

New Zealand is not alone in this problem. New Zealand's strong public health response to Covid meant that it was one of the first countries to end up operating above pre-Covid levels of activity (i.e. overheating). But many other regions are now catching up, and also coming to the recognition that the inflation pressures they face are home-grown and more than just transitory.

For example, the US saw a strong lift in its Employment Cost Index (the equivalent of New Zealand's LCI) in the March quarter. The upcoming figures for Australia are also expected to be solid, although more significantly, the RBA has moved its emphasis away from the slow-moving wage index and more towards the reports from its business liaisons, which point to a widespread lift in wage growth.

The emerging evidence of wage pressures has no doubt played a part in recent central bank decisions to step up the pace of monetary tightening. The RBNZ and the Bank of Canada have lifted their policy rates by 50 basis points at their most recent reviews, the US Federal Reserve followed suit this week, and the Reserve Bank of Australia has begun hiking rates sooner than was expected even a few weeks ago.

It's going to be challenging for central banks to thread the needle of dampening down inflation without driving their economies into recession. The RBNZ at least has the benefit of having started on the problem earlier than most others.

Back in November we predicted the Official Cash Rate to rise to a peak of 3% in 2023. By February, market pricing had risen to be broadly in line with our view. But the market has continued on since then – perhaps led around by trends in overseas markets – and is now factoring in a peak OCR of more than 4%.

That in turn has already lifted fixed-term mortgage rates beyond where we expected them to peak in this cycle. Consequently, we've had to reflect that in our housing market forecasts – we now expect a cumulative 15% drop in prices over the next two years, from a 10% drop previously.

We're still of the view that the market is overcooking it in terms of the OCR outlook. But having got to that point, it's likely to remain there until given a clear reason to think otherwise. That reason will likely be a major fall in house prices, which we think will be forthcoming long before the OCR actually reaches 4% – thereby making it something of a self-defeating prophecy.

Michael Gordon, Acting Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 3	Mar building consents	12.2%	5.8%	-5.0%
Wed 4	GlobalDairyTrade auction prices (WMP)	-4.4%	-6.5%	-2.0%
	Q1 unemployment rate	3.2%	3.2%	3.0%
	Q1 employment	0.0%	0.1%	0.2%
	Q1 LCI wage inflation (pvt, ord time)	0.7%	0.7%	0.7%
	Apr ANZ commodity prices	3.9%	-1.9%	–

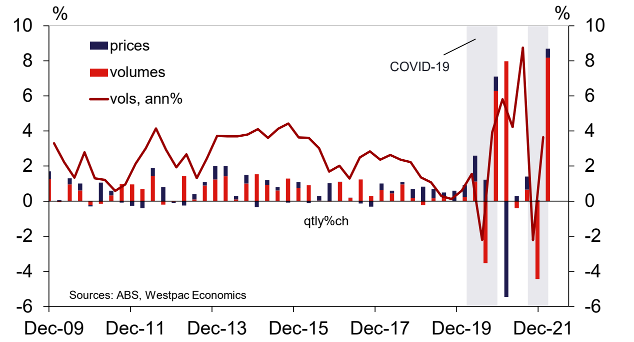
Aus Q1 real retail sales

May 10, Last: 8.2%, WBC f/c: 1.2%
Mkt f/c: 1.0%, Range: -0.7% to 1.6%

Real retail sales soared 8.2% in Q4, rebounding strongly from the delta lock-down driven 4.4% contraction in Q3.

Q1 is set to see a more mixed result with a variety of headwinds – including from the omicron outbreak, weather events and a surge in fuel prices – and a big lift in prices muting what would have otherwise likely have been another big quarterly reopening-driven gain. Monthly retail sales still show nominal sales up 2.9% for the quarter. The detail from the outsized Q1 CPI gain suggests around 1.6% of this was due to higher retail prices. That in turn points to a 1.2%qtr rise in volumes.

Quarterly retail volumes and prices



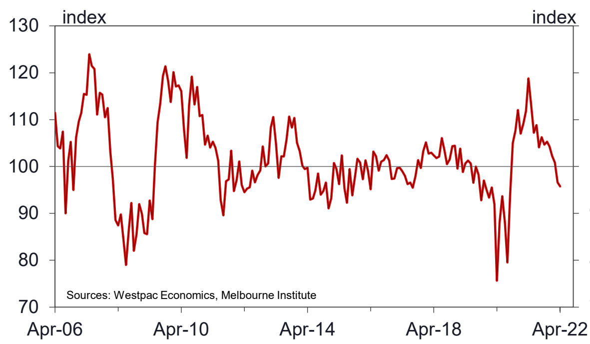
Aus May Westpac-MI Consumer Sentiment

May 11, Last: 95.8

Consumer Sentiment fell 0.9% to 95.8 in April following a 4.2% fall in March. Confidence has flagged on concerns about high inflation and prospective interest rate increases, compounded by severe weather events in NSW and Qld and Russia's invasion of Ukraine. That said, a strong labour market and a relatively well-received Federal budget have provided some offsetting support.

Sentiment is set to see a bigger shock in May following the RBA's 25bp rate hike and indication of further rises to come – the move coming after a surprise surge in CPI inflation to 5.1%yr, reported in late April. While most consumers already expected rates to increase over the next year, the move is coming earlier and looks set to be sharper than most anticipated, reflecting a more challenging and threatening starting point for inflation. Other factors – weather, labour markets, petrol prices, house price and financial market developments etc. – are also in the mix but will take a back seat to interest rate news.

Consumer Sentiment Index



Aus April overseas arrivals and departures, preliminary

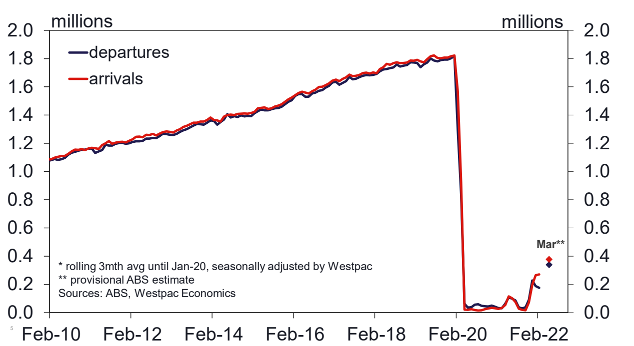
May 12, Arrivals, Last: 376.7k
May 12, Departures, Last: 338.9k

Prior to the pandemic, arrivals and departures averaged 1.8mn and 1.7mn per month respectively. The border closure in early 2020 saw sharp declines in both, to near zero for much of 2020–21.

The March estimate indicated a clear improvement in overseas travel, with arrivals lifting to 376.7k and departures rising to 338.9k, although both components still sit roughly 1.5mn below pre-COVID levels. The return of Australians from short-term trips continues to account for the bulk of arrivals, although short-term visitor arrivals have shown a definite lift from their post-delta/pre-omicron levels.

The April preliminary estimate will provide a gauge of whether the lift in momentum is continuing. The key focus will be on the rebound of visitor arrivals and the visa detail breakdown, each of which are an important component to the strength of local demand and labour supply.

Total overseas arrivals and departures



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.

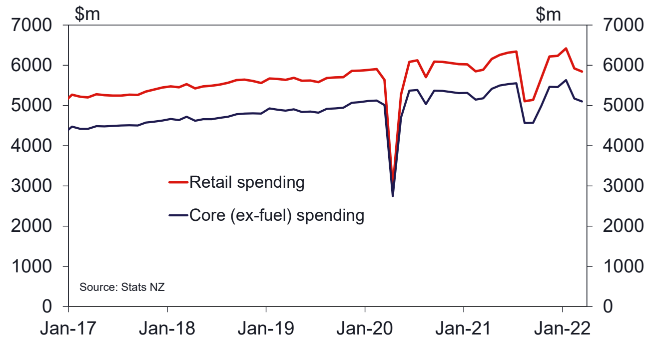
NZ Apr retail card spending

May 10, Last: –1.3%, Westpac: +3.5%

Retail spending fell by 1.3% in March. In part, that soft result was related to the sharp rise in petrol prices which limited spending in other areas. We've also seen increases in mortgage interest rates and a range of other costs for households. And on top of those factors, the Omicron outbreak was a drag on demand in the early part of the year.

We expect to see a recovery in spending in April. While petrol prices are still high, the reduction in fuel taxes has provided some relief. We've also seen a lift in hospitality spending as activity restrictions have been relaxed and spending appetites have recovered.

NZ retail card spending



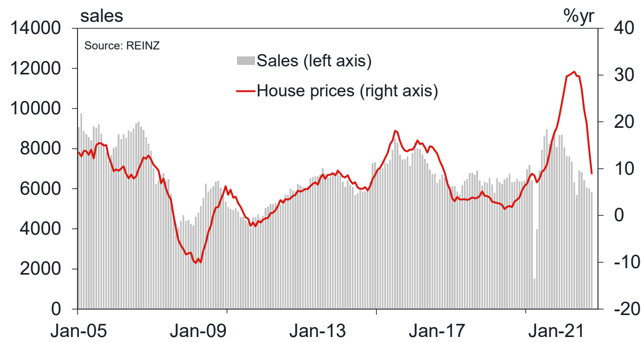
NZ Apr REINZ house sales

May 12, Sales last: –2.9%, Prices last: –1.4% mom, +9.0%yr

The housing market has been cooling rapidly in recent months as fixed mortgage rates have pushed higher. Nationwide prices are now down 5% from their peak in November, with larger declines in Auckland and Wellington. Similarly, sales have fallen below pre-pandemic levels.

We expect that the April housing market report will show that the market has continued to cool. Indicators such as listings on realestate.co.nz and the Auckland sales figures from Barfoot & Thompson suggest that the market remains in decline. Both sellers and buyers are stepping back from the market, but the latter are stepping back faster. The net effect has been that the stock of unsold homes has risen to a three-year high.

REINZ house prices and sales



NZ Q2 RBNZ survey of expectations

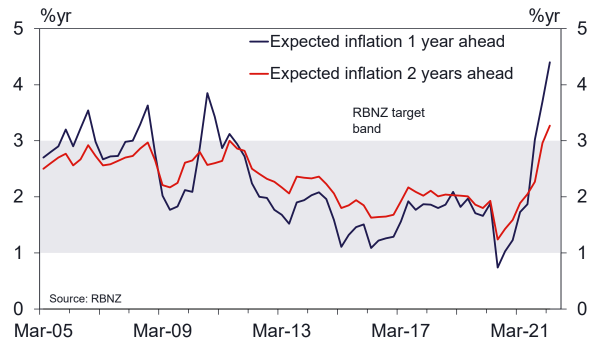
May 12, Two-year ahead inflation expectations, Last: 3.27%

Inflation expectations jumped higher in the RBNZ's March quarter survey of expectations. That jump was a key factor that underpinned the 50bp OCR hike in April.

The June survey came hot on the heels of the March quarter inflation report, which showed inflation has risen to a 31-year high. There have also been continued reports of strong cost pressures across the economy.

With that in mind, we expect the June quarter survey will show a further sharp rise in inflation expectations for near-term horizons (one- and two-years ahead). A result in that vein would support our forecast for another 50bp OCR hike in May.

RBNZ survey of expectations



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 09					
Jpn	Apr Nikkei Japan PMI Services	50.5	–	–	Final estimate for the month.
Chn	Apr trade balance USDbn	47.38	50.65	–	Trade has been a key support through the lockdowns...
	Apr new loans, CNYbn	3130.0	1550.0	–	... but credit momentum is now building...
	Apr M2 money supply %yr	9.7%	9.9%	–	... on support from authorities.
Eur	May Sentix investor confidence	–18	–20	–	Russia-Ukraine severely clouds the outlook.
US	Mar wholesale inventories	2.3%	2.3%	–	Final estimate; restocking at a robust pace.
Tue 10					
Aus	Apr NAB business survey	18	–	–	Reopening momentum, significant price pressures.
	Q1 real retail sales	8.2%	1.0%	1.2%	Nominal sales reported up 2.9%qtr but most of this price-led.
NZ	Apr retail card spending	-1.3%	–	3.5%	Hospo spending firming, but high fuel prices still a drag.
Jpn	Mar household spending	1.1%	–3.3%	–	Rising costs and weaker incomes to squeeze spending.
Eur	May ZEW survey of expectations	–43	–	–	Confidence on par with pandemic lows.
US	Apr NFIB small business optimism	93.2	92.9	–	Cost pressures are the key concern of small businesses.
	Fedspeak	–	–	–	Williams, Barkin, Waller, Kashkari and Mester.
Wed 11					
Aus	May WBC–MI Consumer Sentiment	95.8	–	–	Rate hike reaction to dominate.
NZ	Apr REINZ house prices %yr	9.0%	–	–	... in response to higher mortgage rates.
Chn	Apr PPI %yr	8.3%	7.8%	–	Elevated commodity prices buoying producer inflation...
	Apr CPI %yr	1.5%	1.9%	–	... but limited pass through to consumers.
US	Apr CPI	1.2%	0.2%	0.3%	Energy a negative for April.
	Fedspeak	–	–	–	Bostic.
Thu 12					
Aus	May MI inflation expectations	5.2%	–	–	Elevated and likely to mirror the 5.1%yr lift in Q1 CPI.
	Apr overseas arrivals, prelim. 000's	376.7	–	–	Travel lifted in March but there is still a long way to go.
NZ	Apr REINZ house sales	-2.9%	–	–	Slowdown in the market to continue...
	Apr REINZ house prices %yr	9.0%	–	–	...in response to higher mortgage rates.
	Apr food price index	0.7%	–	0.8%	Minimum wage rise to boost takeaway food prices.
	Mar net migration	–593	–	–	Borders reopened in March, net flows still low.
	Q2 RBNZ inflation expectations	3.3%	–	–	Set to rise sharply following the strong Q1 inflation result.
Jpn	Mar current account balance	1648.3	1765.6	–	Back to surplus from primary income and smaller trade gap.
UK	Q1 GDP	1.3%	1.0%	–	BoE warns Q1 strength to be followed by a sharp slowing.
	Mar trade balance £bn	–9261	–	–	Below average export volumes have widened the deficit.
US	Apr PPI	1.4%	0.5%	–	Supply issues are supporting producer prices.
	Initial jobless claims	200k	–	–	Set to remain at a very low level.
	Fedspeak	–	–	–	Daly.
Fri 13					
Aus	RBA speak	–	–	–	RBA's Bullock-Panel
NZ	Apr manufacturing PMI	53.8	–	–	Conditions have been firming, but business still cautious.
Eur	Mar industrial production	0.7%	–0.5%	–	Supply pressures are an ongoing headwind.
US	Apr import price index	2.6%	0.6%	–	Import prices to hold at an elevated level.
	May Uni. of Michigan sentiment	65.2	63.7	–	Inflation and rate concerns are still front of mind.
	Fedspeak	–	–	–	Kashkari and Mester at different events.

Forecasts

Interest rate forecasts

Australia	Latest (6 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	0.92	0.95	1.45	1.95	2.20	2.45	2.45	2.45
3 Year Swap	3.36	3.25	3.15	3.10	3.00	2.90	2.80	2.75
3 Year Bond	3.04	3.05	2.95	2.90	2.80	2.70	2.60	2.55
10 Year Bond	3.51	3.30	3.15	2.90	2.65	2.50	2.40	2.30
10 Year Spread to US (bps)	44	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	3.07	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	3.94	4.00	3.90	3.80	3.70	3.50	3.30	3.10
10 Year Bond	3.82	3.80	3.70	3.50	3.30	3.20	3.10	3.00
10 Year spread to US	75	90	90	90	90	90	90	90

Exchange rate forecasts

Australia	Latest (6 May)	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
AUD/USD	0.7125	0.74	0.75	0.76	0.77	0.78	0.79	0.80
NZD/USD	0.6436	0.67	0.68	0.69	0.70	0.71	0.72	0.72
USD/JPY	130.43	129	128	126	125	124	122	121
EUR/USD	1.0542	1.07	1.08	1.09	1.11	1.13	1.14	1.15
GBP/USD	1.2373	1.25	1.26	1.27	1.28	1.30	1.32	1.34
USD/CNY	6.6556	6.55	6.45	6.35	6.25	6.20	6.15	6.15
AUD/NZD	1.1072	1.10	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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