AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 23 May 2022

Editorial: RBA hike of 40 basis points in June is still the best policy.

Australia: construction work, private business capex, retail sales.

NZ: RBNZ policy decision, real retail sales, trade balance, consumer confidence.

China: industrial profits.

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Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 20 MAY 2022.

WESTPAC INSTITUTIONAL BANK

RBA hike of 40 basis points in June is still the best policy

This week we have seen the very important Minutes from the RBA May Board meeting which provided useful insights into some changes in the thinking of the Board. Essentially the Board recognises its inflation challenge while indicating that it will not be dependent on the Wage Price Index (WPI) alone as its guide to developments in the labour market.

It also highlighted that other central banks are moving quickly to a neutral stance of monetary policy. That is significant given that the Governor has repeatedly pointed out that Australia's inflation challenge is not as severe as in other countries. That observation is not supported by the current forecasts. The RBA expects underlying inflation to reach 4.6% by year's end whereas the FOMC sees core PCE inflation at 4.1%.

For these reasons we do not see the slightly lower than expected WPI for the March quarter as being a swing factor in its decision on June 7. We still expect the RBA to raise the cash rate by 40 basis points.

The inflation challenge and the actions of other central banks are emphasising that the RBA is well "behind the curve" and needs to catch up.

Inflation fighting credibility can be boosted by unwinding all the emergency stimulus in 2020 (65 basis points) very early in the tightening cycle and sending a clear message that the RBA is committed to achieving its formidable inflation targets.

Some of the lead indicators of a wage price spiral are emerging – businesses confident of more pricing power – no longer limited to cost control; unions making "indexation" style wage claims; supply shocks impeding the demand control policies available to central banks; and rising inflationary expectations.

The Board needs to be vigilant and pro active.

Recognition of that need is apparent in the minutes to the May Board meeting.

They emphasise just how important the Bank's liaison surveys (and possibly the feed back from the business centric independent directors) have been in framing policy.

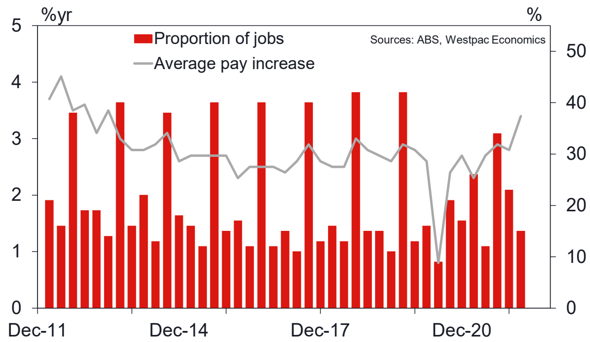
Information from liaison is highlighting to the Board that:

- "Firms' price setting behaviours were undergoing a change from the pre-pandemic period, with businesses becoming more confident that raising prices would not significantly reduce demand or erode their competitive position."
- "Labour costs were rising at a faster pace and this was likely to continue."
- "The outlook for broader measures of labour costs had also been revised up… as firms turned to bonuses, allowances and other measures to attract and retain workers."
- "Many firms were having difficulty hiring workers with the right skills."

This accumulated evidence from the Liaison surveys and other business surveys justified the need to raise the cash rate in May before the standard WPI data printed on May 18 and the broader measures of wages growth (including average weekly earnings) printing in the national accounts on June 1.

The minutes noted that "the recent evidence on wages growth from the Bank's liaison and business surveys was clear."

Private sector wage increase in quarter



Relevance of a slight miss on the WPI

The careful decision from the Board to rely more on surveys and the high frequency data on wages growth than the more backward looking aggregate wages measure of the WPI is noteworthy. It should be seen as a bold pivot away from the recent policy approach, where the Governor nominated a 3% growth rate hurdle for the WPI before a rate hike would be delivered.

The increase in the WPI for the March quarter was slightly lower than the market, Westpac (and most likely the RBA) had anticipated.

The WPI rose 0.7% for the March quarter lifting the annual rate from 2.3% to 2.4%. Consensus was for a lift to 2.5%.

While we accept that the overall annual growth rate is disappointing, momentum has been lifting. The six month annualised growth rate is now 2.6% and after the Covid affected 0.4% for the June quarter last year drops out next quarter, the annual growth rate for the year to June 2022 is likely to also lift to around 2.7%.

There are some more timely aspects to the report that are signalling a solid lift in wage pressures is already underway.

For the private sector, the average increase in wages growth for those in the survey who received a pay rise (15% of the workforce has a pay rise that quarter) was 3.4%. That is up from 2.8% in the December quarter. Between September 2013 and March 2019 wage increases were "stuck" in that 2–3% range.

Awards made a very small contribution to the March quarter increase but this will change significantly when the minimum wage case is resolved next month. Last year the agreed increase was 2.5%; this year the unions have lodged a 5.5% claim and even the Australian Retailers Association would agree to 3.7%.

The flow on from the minimum wage case to both individual agreements and enterprise bargaining will pressure wages growth.

The inertia of the enterprise bargaining component of the WPI can be seen in its annual growth rate which is running at 2.6% – still below the pre-Covid level of 2.8%. Annual growth in individual agreements is already running at 3% compared to 2.4% before Covid.

The second labour market related report is the April employment report. It was a strong report consistent with a hot labour market.

The unemployment rate has now fallen to 3.9% (3.853%) – the lowest since August 1974. During the month only a net 4,000 jobs were added – 92,400 full time jobs minus 88,400 part time jobs. This was probably because many part timers worked extra hours to be classified as full-timers.

That "transition" is supported by the strong 1.3% lift in hours worked and the fall in the underemployment rate from 6.3% to 6.1%. That underemployment rate, which we assess as being a more reliable lead indicator of wages growth than the unemployment rate, has fallen from around 8.5% in 2019.

The unemployment rate remains on track for our forecast of 3.2% by year's end.

The Risks to the Outlook

The Minutes carefully outline the impressive list of risks to the Bank's central case that "Inflation was expected to increase further in the near term but then decline back towards the top of the target range by mid–2024 as supply side disruptions are resolved."

These risks include:

- Uncertainty around how and when the supply–side problems would be resolved.
- Inflation pressures were also emanating from domestic pressures as there was limited but unknown spare capacity in the labour market.
- The sensitivity of household spending and house prices to rising rates and declining real wages.
- The impact of the accumulated savings buffer and the high household savings rate to higher rates.
- The behaviour of prices and wages when the unemployment rate hits 50 year lows.
- The extent to which the reopening of the international border alleviates acute areas of labour shortages.

Policy Prospects

The minutes outline the Board's decision on the day. Three options were considered once it was decided to raise the cash rate.

The 15 basis points option which was favoured by most analysts and the market was dismissed by the Board because policy settings were already "very stimulatory"; further rate rises would be required; and a 15 basis point increase would be inconsistent with the historical practice of changing the cash rate increments of "AT LEAST" 25 basis points.

The case for 40 basis points "could be made given the upside risks to inflation and the current very low level of interest rates." That case remained open without any real argument against it, although "given the Board meets monthly, it would have the opportunity to review the setting of interest rates again within a relatively short period of time."

It has been our argument that the move on June 7 should be 40 basis points. The lack of a clear argument against the 40 in May in the minutes and the fact that they refer to the level of rates being "very stimulatory" supports that case.

At his press conference the Governor referred to "business as usual".

That may have been interpreted as "25 basis point movements." However, the minutes imply that "business as usual" means movements of "at least" 25 basis points.

Another key argument supporting the likely 40 basis point policy is the description of the actions of other central banks in the minutes. "Several central banks in advanced economies had indicated that they were seeking to return policy rates to a neutral setting quickly and may increase policy rates further thereafter."

But the minutes correctly note the significant uncertainty around the level of the neutral rate.

It is for that reason that we have advocated the policy of front–end loading the tightening cycle with an immediate 40 basis point move – adopt a larger increment early in the cycle when it is clear that rates are well below that neutral level.

Market Pricing

We should respect the market's assessment of this cycle, given its early embracing of a "lift off" in May.

Market pricing is implying additional rate increases by year's end of between 225 and 250 basis points.

The 225 configuration would be consistent with 25 basis point moves at each meeting with "50"'s at August and November. Month to month pricing is broadly consistent with that assessment.

That might imply that the RBA is expected to be unsure about its inflation forecasts and will only respond with an outsize move after the actual print of the Inflation Report in August and November.

That "nervous" approach is not best policy. In particular, the implied 50 basis move in November would be on an expected base of 185 basis points – a level that might be above neutral.

The better policy is to take the larger move early in the cycle when rates are clearly below neutral. The significance of neutral is that once rates move above neutral, policy enters contractionary territory with all the risks of over tightening.

Westpac expects the first pause in the cycle should be when rates reach 125 basis points in September to allow a reassessment before resuming 25 basis point hikes in both October and November.

After a second pause in December rates are then expected to increase in February and May at a slower pace given the risks around moving too aggressively into contractionary territory.

Conclusion

We remain comfortable with our forecast that the terminal rate in the tightening cycle will be 225 basis points.

But as the minutes highlight quite clearly there is formidable uncertainty around that target.

However, the minutes do provide some support to our view that the next move in the cycle on June 7 will be an increase of 40 basis points rather than 25.

40 basis points would not conflict with "business as usual"; the grounds for dismissing the case for 40 at the May meeting are not strongly made as is the case with the 15 basis point option; the minutes refer to other central banks wanting to reach neutral "quickly" while the uncertainties highlighted by the minutes do not really come into play until the cash rate is significantly higher than the current 35 basis points.

We have also seen the evidence that the Bank's private liaison surveys are playing a critical role in their assessments of wage pressures. The slightly disappointing headline lift in the WPI should not be interpreted as a critical swing factor in the decision.

The WPI report has not changed the Bank's formidable task of bringing the underlying inflation rate down from 4.6% to 3.1% over the course of 2023.

In fact, there were some aspects of the overall WPI report that pointed to increasing wage pressures.

Markets are expecting the Board to delay any large moves to much later in the cycle when the base rate might have moved above neutral. The more prudent policy, as outlined in our note, is to move quickly early in the cycle to avoid getting behind the curve and, in particular, the need for larger catch up moves when policy may well have entered the "contractionary zone".

Bill Evans, Chief Economist

After a very strong run, Australia's labour market took a breather in April, with only 4k jobs created in the month (market consensus 30k). Still, the unemployment rate recorded a new near 50-year low of 3.9% (note, March was also revised down to 3.9%). Further highlighting the current strength of labour demand, hours worked rose 1.3% in the month as part-time roles transitioned to full-time, and more full-time positions were created.

Ahead, we continue to expect further strong gains for employment, resulting in a low for the unemployment rate of 3.2% late this year despite record participation. As this trend persists, the wage pulse is set to build, from a modest 2.4%yr at Q1 2022 to 4.0%yr in 2023. The detail of the Q1 WPI provides support for this view, with the 15% of private workers who received an increase in the quarter seeing their pay rise by 3.4%, a percentage point more than the current annual rate and the largest increase since June 2013. The 2022 minimum wage decision may provide additional support, with unions having put forward an ambit claim for 5.5%.

The minutes of the May RBA meeting provided additional evidence from their business liaison work of labour market strength and growing momentum for wages. Also of significance for the inflation outlook, firms reported they were becoming more confident in raising prices.

As detailed by Chief Economist Bill Evans, the current momentum in inflation and uncertainty surrounding the outlook suggests the most appropriate path for policy is a moderate but front-loaded hiking cycle from the current level of 0.35% (following May's 25bp increase) to 0.75% in June; 1.75% come November; and a peak of 2.25% by May 2023. Australia's high level of household debt will then see debt service at highs back to the GFC, affecting both discretionary income and sentiment.

In New Zealand, this week saw the release of our team's latest quarterly Economic Overview, a detailed assessment of current conditions and the outlook for the NZ economy. In this release, the team upgraded their expectation for the RBNZ, with a peak cash rate of 3.50% now seen at year end to combat a potent combination of global and local inflation pressures. House sales and prices have already taken a hit and are expected to weaken further as the cycle continues. That said, the cumulative decline should only take prices back to the level seen in early 2021. Through confidence and wealth, this shock is expected to pass to consumption and GDP growth in time, creating the slowdown necessary to quell inflation pressures and risks. Recognising the hit household incomes are taking, the NZ Government's Budget 2022 provided some temporary, targeted cost-of-living relief.

For the US, FOMC speakers including Chair Powell again highlighted this week that, for the time being, inflation pressures and risks remain their focus. Concern over the strength and persistence of inflation in the UK and Euro Area meanwhile had a broad impact, global equities hit hard by fears of stagflation.

We believe it is important to distinguish between the risk of above-target but decelerating inflation with activity growth near trend and that of a stalled or contracting economy with inflation a multiple of target (stagflation).

Our baseline forecast for the US sees GDP growth modestly below trend in 2023; but, throughout that year, inflation is expected to throttle back to be only marginally above 2.0%yr. Achieving this feat in the US requires the abating of energy price growth, not a material fall, and other supply-side price pressures coming back from extreme levels to a moderate positive pace – a process that has clearly set it but has a long way to run.

As emphasised by Chair Powell this week, it is not enough to trust this trend will run its course. Instead, demand's strength has to be actively reined in through financial conditions and real household incomes. Equally though, this does not mean central banks have to halt growth altogether and risk recession. In the US and across most of the developed world, there is a clear belief in acting quickly to move policy and tighten financial conditions towards a neutral level, but only taking an outright contractionary stance if risks materialise. Fears over the outlook for growth therefore should be recognised as a function of market behaviour and uncertainty, not the actions of central banks.

Finally to events in China. Data headlines over the past week caused considerable angst over the economic outlook, far more than the detailed data suggest is warranted. The biggest concern was retail sales, reported to be down 11% in April versus a year ago. However, assessed on a year-to-date basis, the cost to 2022 consumption from COVID-zero policies is seen to be much more manageable, with activity down only 0.2% in the first four months of 2022 versus the same period in 2021. Also important is that year-to-date growth in fixed asset investment largely held up in April, the narrow geographic focus of the lockdowns helping to maintain activity elsewhere.

If success in controlling the spread of the virus in Shanghai and Beijing holds, then the recovery should be swift and sizeable. Supporting this view, the past month has seen authorities' support of the economy continue to build through announced and mooted policy initiatives, and by encouraging credit availability/borrowing. This is not to say that we will see a surge in any and all projects no matter their profitability; but rather that local government and State Owned Enterprises' curated lists of productivity enhancing old and new economy infrastructure projects are being given the green light. Meanwhile, with the residential construction sector having completed its reform phase and given recently announced policy easing, confidence should return amongst buyers and builders in the second half of 2022, supporting a strong recovery in activity.

Clearly, as long as it is active globally, COVID-19 will remain a risk for China. But the continuation of heavy restrictions on international travel should give authorities comfort that the domestic economy can re-open and operate with limited risks hence. This approach to COVID-zero would provide a double win for GDP, limiting the loss to imports while building momentum and confidence in local activity. This is a key support for our view that GDP can still achieve growth near authorities' target for 2022 despite a weak Q2. Apart from the virus, looking ahead the other significant risk to China's growth is external demand which is coming under pressure from tighter financial conditions, weakening real incomes and, of course, uncertainty.

Week ahead & data wrap

From a fiscal point of view, Budget 2022 was in line largely with our and market expectations. Even the key new initiative – a 'cost of living relief' package – was essentially as we predicted. However, there were some concerning aspects to the Treasury's economic forecasts, which perhaps warrant more scrutiny than Budget day usually allows.

For the record, Budget 2022 showed that the Government's accounts remain in good shape. While the operating balance isn't expected to return to surplus for another three years, it's on a credible path to get there and the debt requirement looks manageable.

The books fell well within the new fiscal rules that the Government set out a few weeks ago. The key measure – running an operating surplus of between 0% and 2% in normal times – is met by 2025 or essentially as the books recover from the Covid hit. The other key metric – the net debt ceiling of 30% of GDP – is met over the full forecast period.

But it's still early days for this new fiscal framework. While this year's Budget conforms with the new rules, it doesn't necessarily guarantee that future Budgets will. For example, the multi-year approach to funding allocations in areas such as Health, Natural Resources and Justice means that a large part of the new spending allowance for next year's Budget has already been pre-allocated. That implies that other departments' funding demands will be squeezed into a tighter cap than otherwise. We'll find out next year and whether they hold to that.

In this high inflation environment, getting value out of new Government spending is particularly challenging. There's a risk that even large increases in funding may not lead to the delivery of more public services, but might just add to cost structures instead. The difficulty of finding more workers to deliver those services is a particular challenge when the unemployment rate is already at a record low. The resumption of skilled migrant inflows will help over the next few years, but the demands on the workforce will extend beyond skilled roles, plus there's no guarantee that migrants will arrive, nor skilled Kiwis won't simply up and leave.

In terms of the Budget's contribution to the economy, there are no major implications for our forecasts. The details of this Budget were signalled well in advance, at least in terms of the dollar amounts, and were already captured in our forecasts. The nature of the announced spending isn't obviously more or less stimulatory than we expected. The cost-of-living relief package will help to shore up consumer spending through the middle of this year, but the effects will be quite short-lived.

The question of whether the Government is adding to or detracting from economic growth has never been straightforward to measure, and even less so in the Covid era. The elevated level of Government spending over the past year was largely due to wage subsidies and business support payments during the periods of lockdown – hardly a 'stimulatory' mix of policies. And by the same reasoning, the fact that the Government doesn't expect to be making those payments in the year ahead – because it doesn't expect to be imposing lockdowns in the year ahead – doesn't mean that policy is 'contractionary'.

Finally, the economic forecasts that underpinned the Budget were quite different from our views in some important ways. Indeed, the Treasury painted a surprisingly grim picture, with persistently high inflation, a sharp slowdown in growth, rising unemployment, and a Reserve Bank seemingly unable to meet its targets. This view perhaps warrants more scrutiny than just treating it as part of the backdrop to the Budget.

The main surprise for us was the Treasury's forecasts show inflation lingering above the RBNZ's target band until 2025. Notably, that's not due to oil prices, which the Treasury assumes will ease back over the coming years. In other words, the Treasury assumes that ex-fuel inflation will continue to sizzle away for years to come.

There's no denying that inflation pressures are strong, and we also expect an extended period of high inflation. However, the magnitude and persistence of the inflation pressures that the Treasury forecasts seem overdone to us, especially given the related downturn in the labour market and economic activity that they're also forecasting.

Importantly, this also raises questions about how the Treasury expects the Reserve Bank to respond to the current inflation upswing. In the face of the strong and persistent domestic inflation pressures that the Treasury is forecasting, we would expect the central bank to be hiking rates much more aggressively than is assumed in the Budget. Strangely, the Treasury forecasts include no such monetary policy response.

This raises related risks for the Government's forecasts on two key fronts. First, if inflation is not as strong as the Treasury expects, nominal revenue growth could be lower than the Government is anticipating. Conversely, if inflation really is as strong as the Treasury is expecting, we could see even larger interest rate increases and a deeper slowdown in activity.

The other area where we disagree with the Treasury is around house prices. Roughly speaking, we expect house prices to fall by more than double the Treasury thinks they will. Indeed, actual falls to date this year are already close to the Treasury's forecast fall for the year as a whole (even allowing for the differences in house price measures). Plus, with further mortgage rate rises to come for many borrowers and the generally weak market sentiment, we can't see how prices will not fall further. This is important as the housing market is a key influence on the strength of economic conditions more generally, and a downturn along the lines that we expect would signal downside risk to the Treasury's forecasts for economic activity.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 16	Apr BusinessNZ PSI	51.5	51.4	–
Wed 18	GlobalDairyTrade auction prices (WMP)	-6.5%	-4.9%	-2.0%
Thu 19	Q1 PPI	1.5%	2.6%	–
Fri 20	Apr trade balance $m	-581	584	-200

Aus Q1 construction work

May 25, Last: –0.4%, WBC f/c: 0.5%
Mkt f/c: 0.9%, Range: –2.0% to 3.5%

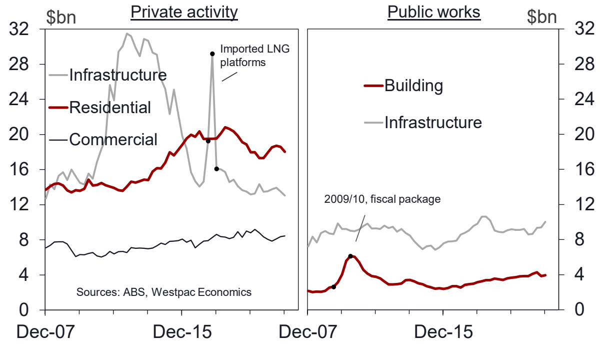
Construction activity advanced in 2021, with strength in Q1 and Q2, supported by substantial policy stimulus, notably: record low interest rates; the HomeBuilder program; and additional public works.

The delta lockdowns hit construction work in NSW during Q3, –7.4%, and Victoria in Q4, –5.5%, punctuating the uptrend in work. Nationally, work fell by –1.2% and –0.4% in Q3 and Q4.

Roll forward to Q1 and disruptions continued. The omicron wave hit in the January holiday month, then wet weather and flooding in NSW and Qld – acting to temper the boost from the post delta reopening.

Our Q1 forecast is 0.5%, with considerable uncertainty. This factors in outcomes which are broadly flat to mildly positive across each of the broad segments (housing, commercial building, infrastructure and public works). By state, potential declines in NSW and Qld are offset by the reopening bounce in Victoria, and gains in other states.

Construction work: by segment



Aus Q1 private business capex

May 26, Last: 1.1%, WBC f/c: 1.1%
Mkt f/c: 1.3%, Range: –1.0% to 3.5%

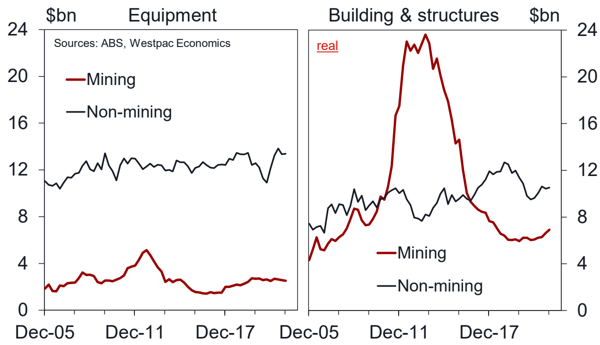
The business mood was generally upbeat throughout 2021 and into 2022, albeit with brief setbacks when virus case numbers spiked.

Firms have increased investment spending, led by equipment, responding to underlying strength in demand, limited spare capacity (mainly in goods sectors) and generous tax incentives.

However, the delta lockdowns over Q3 and Q4 had a material adverse impact, with capex flat over the half year, led lower by a more than 3% decline in equipment.

For Q1, we anticipate a 1.1% lift in capex – to be only 1% higher since mid–2021. The Q1 forecast of +1.1% includes a modest 2% rise in equipment spending and a relatively flat outcome for Building & Structures (possibly impacted by wet weather – although this survey is on an "expenditure basis" rather than actual work done).

CAPEX: by industry by asset



Aus 2022/23 capex plans

May 26, Last: Est 1 $116.7bn

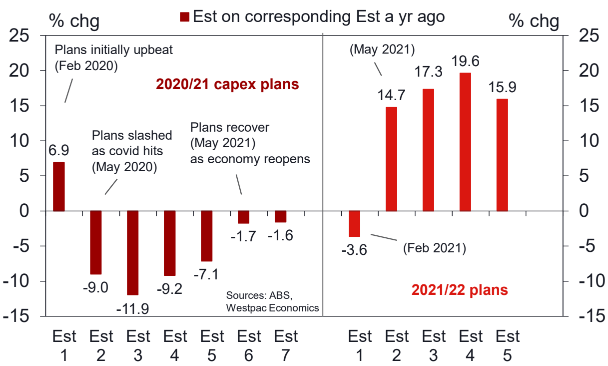
Capex plans point to a sizeable rise in 2021/22, with a further lift in 2022/23. For a given financial year, their are 7 estimates of capex plans, with the figure revised each 3 months, until the outcome.

Of interest, will this latest update, conducted in April and May, confirm a slippage in capex spending – pushing some growth into 2022/23. Disruptions (covid and wet weather), as well as supply headwinds (labour and material shortages) are key constraints.

Three months ago, Est 5 for 2021/22 printed at $140.7bn, 15.9% above Est 5 a year earlier. Potentially, Est 6 prints around $140.4bn. This represents a modest downgrade, with implied growth (we calculate using avg' realisation ratios) moderating from 13.7% to 12%.

Est 1 for 2022/23 printed $116.7bn. That is 10.8% above Est 1 a year ago, a figure we assess to be flattered by weak base effects. Potentially Est 2 prints around $123bn, 8.5% above Est 2 a year ago. This represents an upgrade to growth (due to slippage). On our calculations, implied growth for 2022/23 is marked higher to 5.5%, up from 3% for Est 1.

Capex plans: positive for 2021/22



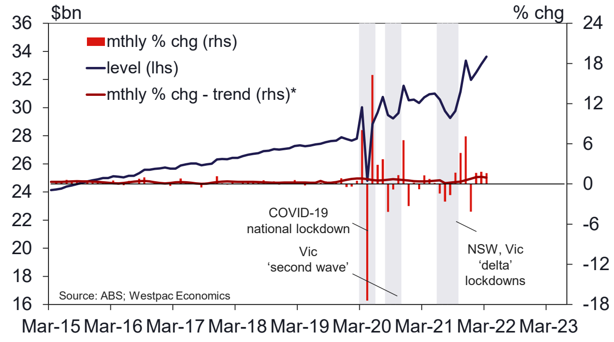
Aus Apr retail trade

May 27, Last: 1.6%, WBC f/c: 1.3%
Mkt f/c: 1.0%, Range: 0.4% to 2.0%

Retail sales rose 1.6% in March follows similar gains in Feb (1.8%) and Jan (1.6%), lifting annual growth to 9.4%yr. Momentum has been well sustained despite multiple headwinds in early 2022 including the omicron outbreak early in the year; generally lousy weather that has seen severe flooding in parts of Qld and NSW; and a spike in fuel prices following Russia's invasion of Ukraine.

Indicators are a little mixed for April with some additional uncertainty around the impact of Easter holidays and the ongoing post–COVID reopening. Our **Westpac Card Tracker** suggests the month was another relatively strong one for most retailers with private sector business surveys also showing an improvement. However, consumer sentiment was clearly weakening with fuel and other cost of living price rises potentially having more effect in the month. Overall we expect sales to post a 1.3% gain but with significant risks to either side of the number.

Monthly retail sales



NZ Q1 retail spending (volumes)

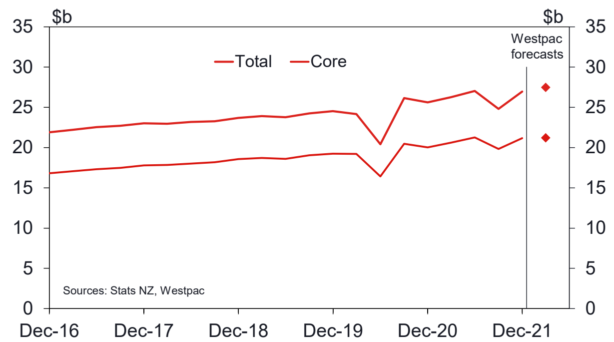
May 24, Last: +8.6%, Westpac f/c: +2.2%

Retail spending rebounded in the December quarter, rising by 8.6%. That almost completely reversed the large Delta–related drop in the previous quarter. The rebound in spending was heavily centred on durable items, while spending in the hospitality sector remained weak.

We're forecasting a 2.2% rise in spending volumes in the March quarter. Much of that rise related to a lift in new car sales, with households rushing to beat the price change for less energy efficient vehicles.

Spending in core categories (excl. fuel and vehicles) is expected to grow by a more modest 1%. While spending has been picking up, increases in the prices of necessities like food and fuel have squeezed discretionary spending. Hospitality spending also remained modest in the early part of the year.

NZ retail spending volumes



RBNZ Monetary Policy Statement

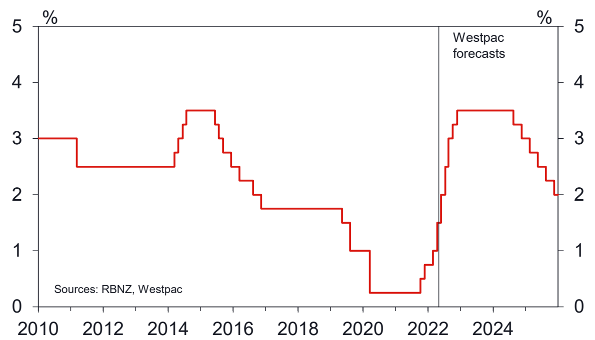
May 25, last: 1.50%, Westpac f/c: 2.00%, Market f/c: 2.00%

We expect the Reserve Bank to raise the Official Cash Rate by another 50 basis points to 2.00% at the May Monetary Policy Statement. We also expect the RBNZ to provide a clear signal that there is more tightening to come.

The RBNZ has come to the conclusion that stronger action early on will reduce the need for an even more painful peak in interest rates in the future. That prompted them to raise the cash rate by 50bps in April, opening the door for further large increases at future meetings.

We think that recent developments will leave the peak in the RBNZ's OCR forecasts close to the 3.4% peak that was projected in February. However, with a faster pace of tightening, that peak will be reached sooner.

RBNZ Official Cash Rate



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 23					
Aus	RBA Assist' Governor Financial Mkts	–	–	–	Kent, speaking at KangaNews Summit at 9:05am.
Ger	May IFO business climate survey	91.8	91.0	–	Russia–Ukraine still weighing heavily on the outlook.
UK	May Rightmove house prices	1.6%	–	–	Demand to soften as rate hikes take effect.
US	Apr Chicago Fed activity index	0.44	–	–	Elevated cost pressures are a key concern for manufacturers.
	Fedspeak	–	–	–	Bostic.
Tue 24					
NZ	Q1 real retail sales	8.6%	–	2.2%	Boost from vehicle sales, core spending more moderate.
Jpn	May Nikkei services PMI	50.7	–	–	Easing of health restrictions supporting services…
	May Nikkei manufacturing PMI	53.5	–	–	… Chinese demand and supply issues are concerns for mfg.
Eur	May S&P Global manufacturing PMI	55.5	55.0	–	Russia–Ukraine and rising cost pressures…
	May S&P Global services PMI	57.7	58.1	–	… are a key risk to European manufacturing and services.
UK	May S&P Global manufacturing PMI	55.8	–	–	The UK are better positioned to weather headwinds…
	May S&P Global services PMI	58.9	–	–	… but a sharp slowdown in activity is still coming.
US	May S&P Global manufacturing PMI	59.2	57.9	–	Continues to point to robust momentum in both sectors…
	May S&P Global services PMI	55.6	55.2	–	… although price pressures are an ongoing risk.
	May Richmond Fed index	14	9	–	Sourcing materials and labour still a challenge.
	Apr new home sales	–8.6%	–1.7%	–	Rising mortgage rates beginning to slow sales activity.
	Fedspeak	–	–	–	George.
Wed 25					
Aus	Q1 construction work done	–0.4%	0.9%	0.5%	Reopening bounce tempered by weather disruptions.
	RBA Assist' Governor Economic	–	–	–	Ellis, speaking at UDIA 2022 conference at 9:45am.
NZ	RBNZ policy decision	1.50%	2.00%	2.00%	RBNZ rushing to get ahead of the rise in infl expectations.
US	Apr durable goods orders	1.1%	0.6%	–	Supply issues are still a headwind.
	FOMC May meeting minutes	–	–	–	Focus on discussions of the path for policy in 2022.
Thu 26					
Aus	Q1 private new capital expenditure	1.1%	1.3%	1.1%	Up on equipment spending. Construction wet weather impacts.
	2022/23 capex plans, AUDbn	116.7	–	–	Disruptions – likely see some slippage of growth into 2022/23.
US	Q1 GDP, annualised	–1.4%	–1.3%	–	A very small revision expected in second estimate for Q1.
	Initial jobless claims	218k	–	–	To remain at a low level.
	Apr pending home sales	–1.2%	–1.8%	–	Demand is cooling amid higher rates.
	May Kansas City Fed index	25	–	–	Manufacturing outlook still positive but fragile.
Fri 27					
Aus	Apr retail sales	1.6%	1.0%	1.3%	Sustained solid momentum through Q1.
NZ	May ANZ consumer confidence	84.4	–	–	Cost of living concerns continuing to weigh on sentiment.
Chn	Apr industrial profits ytd %yr	8.5%	–	–	Profit g'th will build as COVID–19 disruptions fade.
Eur	Apr M3 money supply %yr	6.3%	–	–	Credit data also due. Liquidity ample for economy.
US	Apr wholesale inventories	2.3%	–	–	Businesses striving to lift productivity against supply issues.
	Apr personal income	0.5%	0.5%	–	Purchasing power is an ongoing concern…
	Apr personal spending	1.1%	0.6%	–	… but the lift in services spending is a clear positive.
	Apr PCE deflator	0.9%	0.2%	–	PCE inflation looks to have crested…
	Apr core PCE deflator	0.3%	0.3%	–	… but price pressures will only slowly abate through 2022.
	May Uni. of Michigan sentiment	59.1	59.1	–	Consumer optimism hinges on the inflation outlook.

Forecasts

Interest rate forecasts

Australia	Latest (20 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	1.04	0.95	1.45	1.95	2.20	2.45	2.45	2.45
3 Year Swap	3.10	3.25	3.15	3.10	3.00	2.90	2.80	2.75
3 Year Bond	2.80	3.05	2.95	2.90	2.80	2.70	2.60	2.55
10 Year Bond	3.30	3.30	3.15	2.90	2.65	2.50	2.40	2.30
10 Year Spread to US (bps)	46	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	2.84	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	2.23	2.70	3.40	3.60	3.60	3.60	3.60	3.60
2 year swap	3.52	4.00	4.00	3.90	3.70	3.50	3.30	3.10
10 Year Bond	3.52	3.80	3.70	3.50	3.30	3.20	3.10	3.00
10 Year spread to US	68	90	90	90	90	90	90	90

Exchange rate forecasts

Australia	Latest (20 May)	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
AUD/USD	0.7020	0.72	0.74	0.76	0.77	0.78	0.79	0.80
NZD/USD	0.6383	0.65	0.67	0.69	0.70	0.71	0.72	0.72
USD/JPY	127.68	129	128	126	125	124	122	121
EUR/USD	1.0572	1.05	1.07	1.09	1.11	1.13	1.14	1.15
GBP/USD	1.2453	1.23	1.24	1.26	1.28	1.30	1.32	1.34
USD/CNY	6.7186	6.65	6.50	6.35	6.25	6.20	6.15	6.15
AUD/NZD	1.0999	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 %	5.2	4.6	4.7	4.0	3.7	3.4	3.2	6.8	4.7	3.2	3.5
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	0.6	0.3	1.0	1.1	–	–	–	–
Annual avg change	5.2	4.8	5.6	5.3	1.4	2.7	2.7	–2.1	5.6	2.7	3.3
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	1.1	1.2	0.4	–	–	–	–
Annual change	3.3	4.9	5.9	6.9	6.7	5.6	4.5	1.4	5.9	4.5	2.7

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