AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 6 June 2022

Editorial: We expect the RBA Board will take the right decision and lift the cash rate by 0.4% next week & Australian economic growth forecasts lowered to 4% in 2022 and 2% in 2023.

Australia: RBA policy decision.

NZ: Queen's Birthday public holiday, card spending.

China: Caixin PMI services, CPI & PPI, trade balance, foreign reserves.

Europe: ECB policy decision, Q1 GDP final.

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Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 3 JUNE 2022.

WESTPAC INSTITUTIONAL BANK

We expect the RBA Board will take the right decision and lift the cash rate by 0.4% next week

The Reserve Bank Board meets on June 7 next week.

Immediately following the Board's decision to raise the cash rate by 25 basis points on May 3 we argued that the correct policy decision for June 7 would be to raise the cash rate by a further 40 basis points.

By lifting the cash rate by 40 basis points from 0.35% to 0.75%, the Board would be fully unwinding the emergency rate cuts we saw in 2020 during the Covid crisis.

Clearly that emergency has passed and there is no justification to maintain an extreme emergency policy stance.

We believe that the Board will make that correct decision next week.

Most analysts have and continue to predict a move of 25 basis points, partly in response to the Governor's press conference which he conducted following the decision on May 3.

He referred to going back to a "business as usual" policy process which he implied was movements of 25 basis points at the meetings.

But the Minutes of the meeting provided further insight into that statement.

The Minutes noted that the Board considered three policy options for the cash rate.

The 15 basis points option which was favoured by most analysts (including Westpac) 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 in increments of at least 25 basis points.

The Minutes pointed out that 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".

That second comment could be interpreted in two ways – no need to adopt big moves given the frequency of meetings or the decision to do "40" could be deferred to next month.

The lack of a clear argument against the 40 in May and the fact that they refer to the level of rates being "very stimulatory" supports doing more than 25 and thereby signalling the Board's commitment to achieving its inflation objectives and managing inflationary expectations.

Assistant Governor Kent emphasised at a recent Kanga News Conference (May 16) that it was the level of rates that mattered the most not the change - consistent with the comment in the minutes "current very low level of interest rates."

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

That may have been interpreted as "25 basis point movements." However, the minutes refer to the "historical practice of changing the cash rate in increments of AT LEAST 25 basis points" (my emphasis).

I think it is reasonable to assess the Governor's "business as usual" comments as being in line with that observation and not restricting "business as usual" to 25 basis point moves.

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 (my emphasis) and may increase policy rates further thereafter."

Since that Board meeting we have seen the FOMC lift the federal funds rate by 50 basis points to 0.875%; the Bank of Canada lift its benchmark rate by 50 basis points to 1.75%; the RBNZ lift the official cash rate by 50 basis points to 2.0%; and each bank indicated that further significant increases can be expected.

All these central banks started their cycles with a 25 basis point move followed immediately (FOMC; BOC) by 50 basis points while RBNZ moved to 50's after two moves of 25 basis points.

Larger increases at the early stages of the tightening are good policy. Better to move decisively in the early stages of the cycle when it is clear rates are well below neutral than later in the cycle when there is a risk that policy moves too quickly into contractionary territory.

An early decisive move also sends a clear signal that the Bank is committed to its inflation objective and will likely impact inflationary expectations in the community.

The RBA has been slow to recognise that Australia has a formidable inflation challenge.

It is not appropriate to only compare Australia's CURRENT inflation rate with other countries. Inflation forecasts are just as important.

In that regard note that the RBA's current forecast for inflation by end 2022 is 4.6% (trimmed mean) and 5.9% (headline) compared to the FOMC's forecast by end 2022 (core PCE) of 4.1% and 4.3% (PCE).

Recent developments around energy prices and rents are likely to see the RBA lifting its current forecasts for inflation, although we will not see a formal update until November.

Since the May Board Meeting there have been a number of significant developments which further emphasise the need to be decisive.

Inflation

The March quarter national accounts confirmed the inflation surge we saw in the March quarter CPI report.

The most appropriate measure of domestic price pressures - the domestic final demand implicit deflator – rose by 1.4% in the quarter – the fastest increase since the introduction of the Goods and Services Tax in 2001.

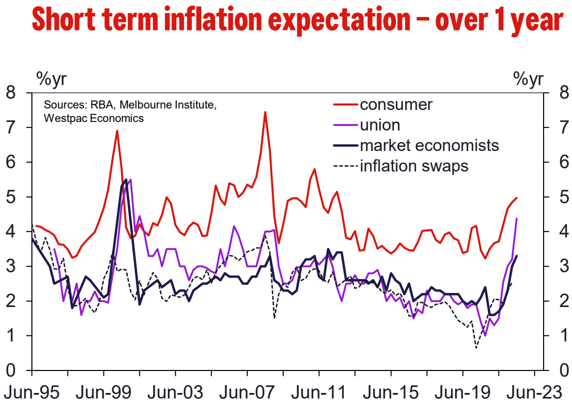
Inflationary expectations are rising quickly. The latest inflation expectations measure from the Melbourne Institute, which is followed very closely by the RBA, (Figure 1) showed that expectations of the trade unions, in particular, lifted from 3.2% to 4.3% over the last three months and are up from just 1.5% a year ago.

Employment

The April jobs report showed a fall in the unemployment rate from 4.0% to a 48 year low of 3.9% while the underemployment rate fell by 0.2% to 6.1% (the lowest level since 2008).

There were "only" 4,000 more jobs added in April but hours worked surged by 1.3% with 88,400 part time jobs being replaced by 92,400 full time jobs as workers increased their hours and "progressed" from part time to full time.

Figrue: 1



Wages

There was some market disappointment that the increase in the WPI printed 0.7% compared with market expectations of 0.8%.

Annual growth was 2.4% compared to expectations of 2.5%.

RBA now assesses the pulse of wages growth using other measures as noted in the Minutes, "more timely evidence from liaison and business surveys indicated that labour costs were rising in a tight labour market and a further pick-up was likely over the period ahead."

We also saw some interesting evidence from the WPI report that the average increase of those who received a wage increase was 3.4%, up from 2.8% in the December quarter and the fastest increase since 2013.

We also saw the "compensation per hour" data from the national accounts – the best measure of the wage pulse in the accounts, given that other measures can be affected by hours worked.

This series lifted by 2.7% for the quarter to be up by 4.9% for the year, compared with a 2% annual growth rate in the December quarter.

Conclusion

The best policy for the RBA Board will be to raise the cash rate by 40 basis points at the June Board meeting next week.

The RBA is well "behind the curve"; has seen further threatening evidence around inflation and inflationary expectations since the last meeting and needs to make a clear statement that, like most developed nations, Australia is facing a formidable inflation challenge which needs a stronger early response than the minimum 25 basis point gesture.

Although the Board meets more frequently than other central banks, the need for a decisive move when rates are extremely stimulatory and the clear need to manage inflationary expectations makes a strong case for a 40 basis point decision.

Taking back the emergency cuts in 2020 would be a very important symbol of the Bank's clear intentions to address the inflation challenge.

The arguments set out above would also be consistent with a 50 basis point move. However given that the Board actively considered 40 basis points at the May meeting we think it is much more likely that the 40 basis point option will be taken.

Bill Evans, Chief Economist

Australian economic growth forecasts lowered to 4% in 2022 and 2% in 2023

Following the release of the March quarter national accounts for Australia we have slightly lowered our growth forecasts for 2022 and 2023.

The 2022 growth rate is lowered from 4.5% to 4.0%; 2023 is reduced from 2.5% to 2.0%; while 2024 is lifted from 2.0% to 2.5%.

In the March quarter national accounts, we saw strong consumer spending growth of 1.5% which was largely funded by a fall in the savings rate from 13.4% to 11.4% releasing $6bn to finance the $8.7bn in additional consumer spending.

At 11.4% currently, the household savings rate remains well above the 6% "equilibrium" rate near where we expect the rate to settle by year's end.

That fall in the savings rate is likely to release a further $15-20bn to support household spending through the year.

Overall, we expect household spending to increase by a solid 6% over the course of 2022 highlighted by 2.6% and 1.1% growth in the June and September quarters to supplement the (disrupted) 1.5% increase in the March quarter.

That is down from a forecast 6.2%. We are now expecting a more abrupt slowing in the December quarter (revised down from 0.9% to 0.7%) as the reopening effect fades; the boost from a lower savings rate ease; and house prices continue to fall.

Consumer Sentiment is likely to remain weak in the face of higher costs and rising interest rates. However, confidence in job security is likely to remain high and household balance sheets have been strengthened by the accumulation of around $265 billion in excess savings over the last two years.

Perceived job security and the balance sheet buffer will allow households to maintain spending plans at a higher level than would have been the case in the current environment of rising living costs and increases in interest rates.

As we saw in the March quarter there is considerable "opening up" momentum in the household sector despite the material disruptions from Omicron and the floods.

The June and September quarters are likely to continue to see that boost momentum lifting further in the absence of those disruptions in the March quarter.

There is still scope for considerable "catch up" – discretionary services consumption is still 12% below pre Covid levels.

The major states – NSW and Victoria – which were most impacted by lockdowns will be in catch up. While nationally, overall spending is 2.5% above pre-Covid levels, it is 5.3% above pre-Covid levels outside NSW and Victoria.

However, by the December quarter, with the savings rate converging on that 6% equilibrium level and households becoming increasingly stretched by further increases in the cost of living (food; rents; energy); rising interest rates and falling house prices we anticipate that momentum in consumer spending will slow appreciably.

That lacklustre momentum will extend into 2023 with consumer spending growth likely to slow from 6% in 2022 to a below trend 2.5% in 2023.

In turn, businesses who are currently generally quite upbeat will have to review their investment plans. We expect business investment growth to slow from 8% in 2022 to 4% in 2023.

Another key factor behind our downward revisions to growth in both 2022 and 2023 is the dwelling construction cycle.

Detached house dwelling approvals have been signalling a very strong cycle, but dwelling construction contracted for the second quarter in a row in the March quarter. Activity has been clearly impacted by labour/material shortages, and runaway costs.

Projects are taking longer to complete while some are being shelved. We have lowered our forecast for dwelling construction growth from 9.4% to 5.6% in 2022; and pushed some of the Home Builder related activity into 2023 but severely written down overall activity, particularly in the second half of 2023.

Supply and demand for new dwellings is expected to dry up under the weight of high costs; labour shortages; and restrained demand.

These forecasts are heavily reliant on our policy; wages; and inflation forecasts.

We have not changed those key parameters: peak in RBA cycle of 2.25% by May next year; peak to trough fall in house prices of 14% to mid 2024; inflation moving back toward the target zone by end 2023; wages growth to peak in 2023; the unemployment rate to bottom out at 3.2% by end 2022 and increasing in the second half of 2023 as demand slows and overseas migration returns to pre Covid levels by end 2024.

Bill Evans, Chief Economist

Australian GDP surprised to the upside in Q1 2022, gaining 0.8% to be 3.3% higher than a year ago. As expected, household consumption was a key support, total spending rising 1.5% in the three months to March (4.0%yr). Most notable in the detail for this sector was that discretionary spending rose 4.3% despite disruptions related to the omicron variant of COVID-19 and heavy flooding on the east coast. Also significant for the immediate outlook is that households chose to finance some of their purchases through a reduction in the savings rate from historically-elevated levels – showing confidence in their individual prospects and the economy more broadly.

Of the other sectors, public spending reported a very healthy gain of 2.6% (8.0%yr) and business investment beat expectations (1.4%; 3.6%yr). Meanwhile, despite a large pipeline of work, residential construction contracted for a second consecutive quarter (-1.0;-1.3%yr), highlighting the impact of labour and construction input shortages being seen the world over. For a full sectoral and state breakdown of the release, see our bulletin.

Providing more detail on the housing market, this week CoreLogic data confirmed that the anticipated house price correction has begun, a 0.3% decline seen across the eight major cities in May. Responding to the uncertainty, turnover continues to decline, down 12% nationally and 25-30% in Sydney and Melbourne – admittedly from high levels late last year. Dwelling approvals also continue to fall, down 2.4% in April to be 32% lower than a year ago.

International trade was also a focus for Australia this week. In Q1, Australia's current account recorded a 12th consecutive surplus, though at 1.3% of GDP, it was materially inside of Q2 2021's peak surplus of 4.1%. Thereafter, the April trade balance printed ahead of expectations at $10.5bn as service exports jumped 10% in the month to be 13% higher than end-2021. Note however, the level at April is still some 39% below that seen prior to the pandemic. With Australia's border now open, further strong gains for tourism and student arrivals are expected over the coming year. Westpac continues to expect the RBA to respond to the strength in Australia's economy and inflation risks by raising the cash rate by 40bps at their June meeting, then to a year-end rate of 1.75% and a cycle peak of 2.25% at May 2023.

Switching from real economic activity to financial transactions, the Q1 financial account again reported strong demand for Australian financial and real assets. Inbound and outbound direct investment was strong and focused on new investment decisions. Portfolio flows out of Australia also showed a bias towards long-term growth opportunities, with 61% of the Q1 gross portfolio outflow dedicated to equity investments (over the 12 months to March, the share was materially higher, circa 90%). A higher proportion of the gross portfolio inflow continues to target debt assets (50% in Q1 and 80% over the year to March). In time, the greater share of equity investment for Australian investors abroad should lead to a higher net return for Australia, particularly if capital gains are left to compound.

Moving offshore, the calendar has been relatively light to date, with the key international release of the week (the US employment report) still to come. The focus of markets has therefore been hawkish guidance from the Bank of Canada as they delivered another 50bp increase in the Bank Rate to 1.50%. An upside surprise for the US ISM manufacturing survey in May along with comments through the week from FOMC members (which continued to signal an intent to move back to neutral by end-2022) allowed the hawkish mood to transfer across to the US, the 10-year rising back above 2.90% mid-week having tested down to around 2.70% last week. We remain of the view that the FOMC will deliver 50bp increases in June and July before slowing the pace of rate hikes back to 25bp increments from September and halting the hiking cycle at 2.625% come December. By this time, in our view, US growth will have slowed to trend and inflation more than halved from its early-2022 peak (on a 6-month annualised basis).

Finally to China. At the beginning of the week, we detailed our expectations for China's recovery from the recent COVID-zero lockdowns. Our view remains that momentum will quickly return and have a strong long-term foundation, built on quality investment, robust trade flows and, in time, a resurgent consumer. In our view, growth near authorities 5.5% target is still achievable in 2022 as long as the Q2 outcome is positive and there are no other significant outbreaks of the virus. The official May PMI outcomes were constructive for our view this week, the services PMI rebounding more than 5pts in the month and the manufacturing PMI back near 50 – this is despite the ongoing impact of the Shanghai and Beijing lockdowns and associated logistic bottlenecks through the month.

Week ahead & data wrap

Building a mystery

Demand for new builds, particularly housing, continues to run hot. But what should be a golden era for builders is turning out to be anything but, as they grapple with supply constraints, ballooning costs and increasing financial distress. That leaves an uncertain outlook for the industry for the year ahead.

One of the more notable findings of the latest ANZ business outlook survey is that confidence in the residential construction sector has fallen sharply in the last few months. A net 50% of firms expect conditions to worsen in the next year, almost as bad as the low point seen during the Covid lockdown in 2020. The responses from commercial construction were more balanced, though down from their recent highs.

That degree of pessimism is striking when you consider that the homebuilding industry is facing its highest demand in decades. More than 50,000 new homes have been consented over the last year, easily the highest on record – although when scaled to the size of the population, that takes us back to where we were in the mid-1970s.

That surge in consent numbers also reflects a change in the mix of what's being built, with a marked shift from low-to medium-density housing. Around a third of the homes built in the last year were townhouses, apartments or other units, with that share doubling over the last five years. The Government's moves to force councils to allow more intensification in the main centres (especially outside of Auckland, which has already seen a major shift in this direction with the Unitary Plan in 2016) mean that there is scope for substantial further densification ahead.

The issues for the building industry lie in turning those consents into completed homes. This week Stats NZ produced some new estimates of completion times for homebuilding. These are labelled 'experimental', and could be revised over time. Nevertheless, the pulling together of this data has helped to shed more light on the challenges.

Stats NZ estimates that almost 35,000 homes were completed (that is, they received a Code Compliance Certificate) in the year to March. However, the pace of completion has actually slowed in the last few quarters. In addition, the time from consent to completion has stretched out to almost a year and a half on average.

On the plus side, the conversion rate still looks quite high – the vast majority of consents result in a finished home. Assuming a lag of 18 months, around 37,000 homes were consented for the same period. This is understandable: it takes a lot of work to get to the consenting stage, so buyers (and builders) are generally pretty well committed by that stage.

What's missing from this data is the number of homes demolished to make room for new ones. That will be a particular issue in Auckland, where the Unitary Plan has greatly expanded the scope for 'brownfield' development – removing one house from a section and replacing it with several townhouses. As a result, the net addition to the housing stock – and therefore the headway we've made on addressing New Zealand's housing shortage – will be somewhere south of what these numbers suggest.

The strength of demand for new homes has exposed the capacity constraints in the building industry. Initially that seemed to be around labour, with the border closure and the loss of access to migrant workers aggravating an already-existing shortage of workers. But in the last year or so there have been growing issues with both the cost and availability of key building materials, with delayed deliveries further adding to the cost of a build. Quotable Value reports that prices alone for materials have risen more than 20% in the last year.

Despite these headwinds, building activity has continued to push forward. Building work put in place rose 3.2% in the March quarter, taking it to another new high for this cycle. That consisted of a 3.5% lift in residential work, as well as a 2.7% rise in non-residential building.

So what lies ahead for the building industry? Even with the progress to date on alleviating our housing shortage, it will take several more years of building at this pace before the demand could be considered satisfied. We think that this will provide some buffer against the forces of falling house sale prices and rising interest rates. But the risks are towards a lower conversion rate than we've seen so far, if cost becomes prohibitive for some planned projects.

We don't hear as much about the pressures in the non-residential construction sector, but there are certainly pockets of strong demand here as well. Covid has seen a hit to demand for office space and strip retailing, but there is still strong demand for industrial property and 'big box' retailing. There's also a large number of infrastructure projects planned or under way. We expect those trends to continue over the coming year, although with interest rates on the rise and economic growth set to cool over the coming year, it's likely that developers will be more cautious about bringing new projects to market.

Michael Gordon, Acting Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 31	Apr building permits	6.2%	-8.5%	-5.0%
	May ANZ business confidence	-42.0	-55.6	–
Thu 2	Q1 terms of trade	-0.9%	0.5%	1.5%
Fri 3	Q1 building work put in place	9.1%	3.2%	2.0%

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.

Aus RBA policy decision

Jun 7, Last: 0.35%, WBC f/c: 0.75%
Mkt f/c: 0.75%, Range: 0.60% to 0.85%

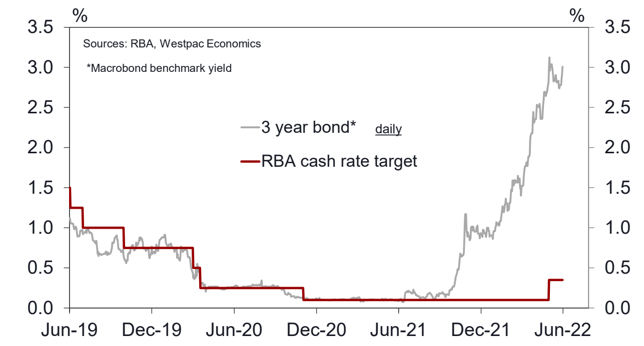
The RBA hiked rates in May, lifting the base rate by 25bps to 0.35%. That was the first increase in official rates since 2010.

The earlier easing of policy in response to the pandemic, a shock which sent the unemployment rate up to 7.5%, was successful. The unemployment rate has fallen to 3.9%, the lowest level since 1974. Inflation has jumped from below the target to be well above.

The RBA, following other central banks around the world, needs to not only unwind the covid stimulus measures, but to combat a significant inflation challenge - in a world of supply headwinds, including disruptions from the Russia / Ukraine conflict.

The enormity of the challenge, including risks that inflation expectations could decouple, points to a front loading of rate hikes. Wespac expects a 40bps move in July, with the cash rate climbing to 1.75% by year-end and to peak at 2.25% by mid-2023.

RBA cash rate and 3 year bonds



NZ GlobalDairyTrade auction, whole milk powder prices

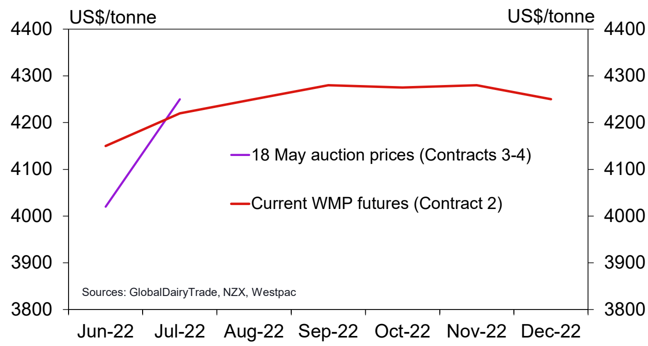
Jun 8, Last: -4.9%, Westpac: +2%

We expect whole milk powder prices (WMP) to lift by around 2% at the upcoming auction. Prices have been slumping over the past few months, so a result in this vein will signal the start of a price turnaround.

The Covid outbreak in China, the collapse of the Sri Lankan dairy market and a temporary surge auction volumes have accounted for the price slide.

However, heading into this auction, the news has been more positive for prices. Covid restrictions have begun to ease in China, an infant formula shortage in the US has boosted demand and a normalisation of auction volumes should all support prices. Indeed, we expect a run of positive results over the next few auctions.

Whole milk powder prices



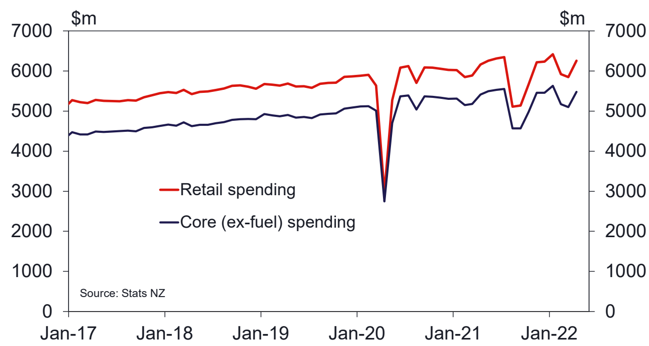
NZ May retail card spending

Jun 10, Last: +7.0%, Westpac: +1.0%

Retail spending levels continued to climb through April, rising by 7%. Helping to boost spending appetites was the easing in health restrictions, which saw a solid rise in hospitality spending over the Easter/school holidays period. However, the rise in spending was widespread. While nominal spending has been firm, some of the strength we've seen has been due to price rises (rather than increases in the volume of goods sold).

We're expecting to see a further modest rise of 1% in retail spending in May. Consumers are increasing their spending on activities like dining out. However, the prices for many goods (including fuel and food) have risen rapidly in recent months. Mortgage rates have also been pushing higher. The related pressure on households' budgets has constrained the overall increase in spending.

NZ retail card spending



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
Aus	May MI inflation gauge %yr	3.4%	–	–	Inflation above the band – intense pressures in 2022.
	May ANZ job ads	–0.5%	–	–	Job ads a plenty – with limited available labour.
NZ	Queen's Birthday	–	–	–	Public holiday, markets closed.
Chn	May Caixin PMI services	36.2	46.2	–	Improvement expected, but services still shrinking.
Tue 07					
Aus	RBA policy decision	0.35%	0.75%	0.75%	Back–to–back rate hikes – debate on likely size of July move.
NZ	May ANZ commodity prices	–1.9%	–	–	Dairy prices were notably weak over the month.
Jpn	Apr household spending	–2.3%	–0.5%	–	Rising costs and weaker incomes to squeeze spending.
Chn	May foreign reserves $bn	3119.7	3110.0	–	Little need for authorities to be active in market in 2022.
Eur	Jun Sentix investor confidence	–22.6	–21.7	–	Outlook clouded by conflict.
UK	May S&P Global services PMI	51.8	51.8	–	Final estimate for the month.
US	Apr trade balance US$bn	–109.8	–89.2	–	Deficit to remain wide on demand and inventory rebuild.
	Apr consumer credit	52.4	32.8	–	Credit growth slowing from a historically–elevated level.
Wed 08					
NZ	GlobalDairyTrade auction prices (WMP)	–4.9%	–	2.0%	Dairy prices to start recovery after recent slump.
Jpn	Q1 GDP, final	–0.2%	–0.3%	–	Small revision expected in the final estimate for Q1.
Eur	Q1 GDP, final	0.3%	0.3%	–	Final estimate to confirm a slow start to 2022.
US	Apr wholesale inventories	2.1%	2.1%	–	Final estimate; restocking at a robust pace.
Thu 09					
Chn	May trade balance USDbn	51.1	58.0	–	Trade has been a key support through the pandemic.
	May new loans, CNYbn	645.4	1,211.5	–	Credit momentum is building…
	May M2 money supply %yr	10.5%	10.1%	–	… thanks to support from authorities.
Eur	ECB policy decision	0.0%	0.0%	–	End of asset purchases; focus on forecasts and guidance.
US	Initial jobless claims	200k	–	–	To remain at a low level.
Fri 10					
NZ	May card spending	7.0%	–	1.0%	Demand firming, rising prices a drag.
Chn	May PPI %yr	8.0%	6.5%	–	Producer inflation remains elevated…
	May CPI %yr	2.1%	2.2%	–	… with limited pass through to consumers.
US	May CPI	0.3%	0.7%	–	Annual inflation looks to have crested.
	Jun Uni. of Michigan sentiment	58.4	58.9	–	Inflation and rate concerns still front of mind.

Forecasts

Interest rate forecasts

Australia	Latest (3 Jun)	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	1.24	1.20	1.70	2.05	2.30	2.45	2.45	2.45
3 Year Swap	3.40	3.15	3.15	3.10	3.00	2.90	2.80	2.75
3 Year Bond	3.01	2.95	2.95	2.90	2.80	2.70	2.60	2.55
10 Year Bond	3.52	3.30	3.15	2.90	2.65	2.50	2.40	2.30
10 Year Spread to US (bps)	60	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	2.92	2.90	2.80	2.60	2.40	2.30	2.20	2.10
New Zealand								
Cash	2.00	2.00	3.00	3.50	3.50	3.50	3.50	3.50
90 day bill	2.47	2.70	3.40	3.60	3.60	3.60	3.60	3.60
2 year swap	3.91	4.00	4.00	3.90	3.70	3.50	3.30	3.10
10 Year Bond	3.69	3.80	3.70	3.50	3.30	3.20	3.10	3.00
10 Year spread to US	78	90	90	90	90	90	90	90

Exchange rate forecasts

Australia	Latest (3 Jun)	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
AUD/USD	0.7260	0.72	0.74	0.76	0.77	0.78	0.79	0.80
NZD/USD	0.6558	0.65	0.67	0.69	0.70	0.71	0.72	0.72
USD/JPY	129.84	128	127	126	125	124	122	121
EUR/USD	1.0750	1.07	1.08	1.09	1.11	1.13	1.14	1.15
GBP/USD	1.2570	1.25	1.25	1.26	1.28	1.30	1.32	1.34
USD/CNY	6.6600	6.65	6.50	6.35	6.25	6.20	6.15	6.15
AUD/NZD	1.1070	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	Q1	Q2f	Q3f	Q4f	2020	2021	2022f	2023f
GDP % qtr	0.8	–1.8	3.6	0.8	1.3	1.1	0.8	–	–	–	–
%yr end	9.7	4.1	4.4	3.3	3.9	6.9	4.0	–0.7	4.4	4.0	2.0
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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