AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 13 June 2022

Editorial: Some more thoughts on the RBA.

Australia: Westpac-MI Consumer Sentiment, business survey, labour force update.

NZ: Q1 GDP, Q1 current account balance, house prices and sales, manufacturing PMI.

China: retail sales, fixed asset investment, industrial production.

Europe: trade balance, industrial production.

UK: BoE policy decision, unemployment rate, retail sales.

US: FOMC policy decision, retail sales, housing updates, leading index, FOMC Chair Powell speaking.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 10 JUNE 2022.

WESTPAC INSTITUTIONAL BANK

Some more thoughts on the RBA

The RBA Board decided to raise the cash rate by 50 basis points at its meeting on June 7.

In our latest preview on June 3, we noted that "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 more likely that the 40 basis point option will be taken."

That statement clearly signals that the Bank now recognises that it has a significant challenge to contain inflation and Tuesday's decision points to it now being prepared to act decisively. That decisive action will, in particular, assist with the important objective of containing those inflationary expectations we referred to above.

For those reasons, we predicted on June 7, following the RBA announcement, that the next move in July will also be a 50 basis point increase.

That would push the cash rate to 135 basis points. Having eliminated the emergency policy settings of 2020, the next move would be to take back the 75 basis points of cuts from 1.5% to 0.75% seen in 2019 when the Bank was frustrated at the consistently low inflation prints.

A slowdown in the pace of hikes in August can be expected but a response will still be necessary to the likely strong inflation print for the June quarter with a further 25 basis point move required.

With the cash rate having reached 160 basis points by August it will be prudent for the Bank to pause. Our analysis of the leverage in household balance sheets points to a cash rate of around 160 basis points being "in the neighbourhood" of neutral – better to pause at that point to assess the impact on household consumption; house prices; the labour market; consumer and business confidence; and the response of wages growth to these inflation pressures.

After that pause we expect further increases of 25 basis points will be required in November and December in response to another disturbing inflation print for the September quarter.

That would see 200 basis points of rate increases in seven months for the RBA.

Even with the expected pause in September/October the RBA would have taken seven months to tighten by 200 basis points; we expect the FOMC will take nine months to tighten by 250 basis points.

2022 would end with a cash rate of 2.1% – a policy stance that we would assess to be in the contractionary zone.

Readers will be aware that we expect that the FOMC will have paused following its December rate move (total of 250 basis points) and the RBA is likely to take some guidance from that decision. We expect that the 25 basis point increase from the RBA in February, following another high inflation report, will be the last in this tightening cycle with the terminal rate settling at 2.35%.

That terminal rate is only slightly higher than the 2.25% terminal rate we forecast following the May Board meeting, mainly because we anticipated an outsize move in Jun.

Critical to our "on hold" view for the RBA and FOMC for the bulk of 2023 is our forecast for inflation in 2023 which relies upon a flattening of some key prices, admittedly at high absolute levels.

Our forecast slowing in inflation in Australia from 6.6% in 2022 to 3.0% in 2023 will be largely achieved by a reduction in the contribution to inflation from house building costs from 1.11 ppt's to 0.23 ppt's (a global slump in building activities); a reduction in the contribution from fuel from 1.16 ppt's to – 0.76 ppt's (supply increases and demand slowdown to see oil prices fall through 2023); a reduction in the contribution from electricity from 1.45 ppt's to 0.63 ppt's (prices still rising but at a slower pace); and a reduction in the contribution from food from 0.70 ppt's to 0.43 ppt's (improved conditions in Ukraine/domestic weather).

These numbers are reliant on the fuel price forecast in particular. We are forecasting the oil price (Brent) to fall from USD110/bbl. to USD85/bbl. over the course of 2023 with a modest improvement in refinery costs. On those numbers fuel subtracts 0.76 ppt's from inflation in 2023. Without that fall, headline inflation would only fall from 6.6% to 3.8% and pose some challenges for policy.

The combined turnaround in those supply related factors is forecast to lower inflation by 4.00 ppt's. That allows some room for a boost in the pressures from the labour intensive sectors such as services as wages growth (WPI) lifts to 4% to reflect the tight labour market.

Critically, an easing in inflation from the supply side and the slowdown in demand, will be sufficient for a boost in real wages in 2023 taking pressure off a damaging wage/price spiral.

Our rate profile is consistent with the revised growth forecasts we released on June 3 (which were predicated on the outsize move in June).

Growth in the June and September quarters of 2022 is expected to be resilient reflecting the ongoing opening of the economy; the release of additional funds from a continuing fall in the savings rate, and the confidence associated with a 48 year low in the unemployment rate.

But as we move into the December quarter; the cash rate moves above 1.6% and policy pivots into the contractionary zone; the near term boost to spending in the June and September quarters fades with growth momentum slowing appreciably.

The December quarter will be much weaker than the earlier quarters in 2022.

We are forecasting growth in 2023 to slow from 4% in 2022 to a below trend 2% in 2023. A contraction in dwelling investment in the second half; a slump in consumer spending; a fall in dwelling prices over 2022 H2 to 2024 H1 of 14%; softer business investment; prospects of a rise in the unemployment rate during the year and a marked easing in inflation will all be sufficient to signal to the RBA that , having paused after February, policy can go on hold for the remainder of the year.

The lagged effect of a lift in the cash rate from 0.1% to 2.35% in the space of only nine months will take its toll but avoid a damaging overshoot in the cash rate in the context of much higher inflation and much greater economic pain.

Bill Evans, Chief Economist

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.

The RBA and ECB were the focus for market participants this week. Both made a stand against inflation and associated risks consistent with their individual circumstances.

The 50bp hike delivered by the RBA in June was twice the market's expectation of 25bps. It signals greater concern over the inflation outlook which the statement suggests is based on both external (global supply concerns and energy prices) and domestic pressures (the historically-tight labour market and other supply restrictions). The breadth and scale of these pressures warrants further decisive action by the RBA in coming months to highlight their determination to remove inflation risks.

As a result, we now look for an additional 50bp hike in July followed by a 25bp increase in August after the next CPI report and another 50bps split over the November and December meetings, taking the cash rate to 2.10% at year end. One final 25bp hike is anticipated to be delivered at the February 2023 meeting to leave the cash rate at 2.35% at peak, a level we believe to be materially above neutral given households' high debt levels.

A full view of the outlook for the RBA and the risks was provided by Chief Economist Bill Evans in this week's video update. Detail on our revised inflation view was also released. On the latter, the startling surge in domestic energy prices being seen currently in Australia leads us to believe that headline CPI inflation will now peak at 6.6%yr at end-2022 and only slowly decline to the top of the target range through 2023. Annual trimmed mean inflation is expected to peak at 4.8%yr in the second half of 2022, but also come back to around 3.0%yr through 2023.

The circumstances being experienced by the Euro Area and the ECB are very different to those Australia faces. Of particular note for Europe: growth is at risk of stalling for an extended period; considerable slack remains outside their labour market; and, of course, Russia's invasion of Ukraine is creating immense uncertainty for the region. Nonetheless, the ECB finds itself needing to fight against historic inflation pressures and risks.

The ECB's revised profile for inflation makes clear the scale of the threat, headline inflation now forecast to end 2022 at 6.8%yr (prev 5.1%yr), 2023 circa 3.5%yr (prev 2.1%yr) and 2024 2.1%yr (prev 1.9%yr). President Lagarde was clear in the press conference that the above view of inflation requires decisive action, starting with a 25bp increase in July. However, the underlying interest rate assumption for their June forecasts, average short-term interest rates of "0.0% in 2022" and "1.3% in 2023", makes clear that the July decision is just the start of Europe's policy normalisation.

Beginning with the September decision, in her prepared remarks President Lagarde stated that if "the medium-term inflation outlook persists or deteriorates, a larger increment [than 25bps] will be appropriate at our September meeting". In the Q&A, she clarified this position, outlining that if inflation is seen "at 2.1% in 2024 or beyond" then "yes", "the increment adjustment will be higher".

What is also important to recognise is that these early rate hikes do not only apply to the deposit rate, "the key ECB interest rates – the three of them" will all be raised. Later in the press conference, President Lagarde mentioned that "keep[ing] those spreads or return[ing] to a better symmetry between those three [rates]" was still to be debated for hikes beyond September.

Given the Council's concern over inflation to end-2024 and belief in the underlying strength of the economy, it seems most probable that July's 25bp hike will be followed by a 50bp move in September, taking the refi rate to 0.75%. Assuming that risks to growth subside between now and November, another 50bp hike at that meeting seems consistent with their focus of making sure medium-term inflation is at or below 2.0%yr. Another 25bps in December would bring the refi rate to 1.50%, the mid-point of the neutral range of 1.0-2.0% previously cited (but still being debated), and be a clean end to the tightening cycle.

Our more bearish view on growth in 2022 and 2023 (2.1% and 1.5% respectively versus the ECB's 2.8% and 2.1%) makes clear the risks to this course of action. Further, history suggests that, when rates rise in Europe, often there are consequences for credit availability and spreads. If our view of growth and/or the concerns we have over credit prove more accurate than the ECB's over the coming half year, some of the above rate hikes could be delayed and/or jettisoned.

One final point on China before concluding for the week. We remain more optimistic on the rebound from the recent COVID-zero lockdowns. This week's May trade balance gave us more reason to be so. From 1.9%yr in April, annual export growth rebounded to 15.3%yr in May against market expectations of a 9.2%yr result. Further, the snap back in import growth was not as strong as anticipated, from -2.0%yr in April to 2.8%yr in May. As a result, the trade balance widened from $51.1bn last month to $78.8bn, some $20bn above the consensus estimate. Clearly authorities are prioritising removing impediments to trade, particularly for exports; GDP in Q2 should therefore receive strong support from net exports, as we have long held. The real test for China's economy will come as investment then consumption is ramped up through the remainder of the year.

For a detailed view of the outlook for Australia, the Euro Area, China and the world, see our June Market Outlook, due for release this afternoon on Westpac IQ.

Week ahead & data wrap

Dairy's back on the horse

Global dairy prices bounced this week. Weighted average auction prices jumped 5.1%, while key whole milk powder prices surged 5.7% (again in weighted average terms). Moreover, that price strength was broad based, with five out of the six products that we monitor posting price gains. WMP prices posted the largest gain, but butter prices were a close second (up 5.5%). Only cheddar prices fell.

The dairy price lift follows a period of around three months when prices were in a funk. At one stage, WMP prices had fallen around 17% from their March highs. Indeed, we revised our 2021/22 farmgate milk price forecast lower by 30 cents to $9.30/kg because of the weakness.

That said, we always expected this price weakness to prove temporary. The key catalyst for the price falls was the Omicron outbreak in China and the associated tightening of Covid restrictions. Given the experience in other countries, we anticipated that the Omicron wave would pass and Covid restrictions would in turn ease.

And to date, this has proved the case. Covid restrictions are lifting, notably in Shanghai. The global dairy market has taken these events on board and has pushed prices higher.

From here, we expect global dairy prices to recover more of the lost ground. WMP prices are around 12% lower than the recent peak in March. We assume that Covid restrictions in China will ease further over coming weeks, taking dairy demand higher as a result. At the same time, we expect global dairy supply to remain very tight, further underpinning prices. Indeed, New Zealand production for the season just gone (year to May) is likely to be down over 4% compared to the season prior. Meanwhile, European and US production is roughly flat for the year to March versus the same period a year ago.

These factors bode well for the new season. Our 2022/23 milk price forecast stands at $9.25/kg. At this level, the milk price will be the second highest on record behind 2021/22. But it is very early days, and we wouldn't rule out the new season's milk price surpassing the one that's just finished.

In other key agriculture news, the Primary Sector Climate Action Partnership, He Waka Eke Noa, has released its recommendations on how the sector will make its contribution to reducing greenhouse gas emissions, in agriculture's case mainly methane and nitrous oxide. The key plank of the proposals is a levy at the farmer level, and therefore agriculture will remain outside the Emissions Trading Scheme (ETS).

A second plank of the plan is the use of a split-gases approach. In other words, the Partnership proposes pricing methane and nitrous oxide differently to how carbon is priced under the ETS. Other components of the proposed plan include incentives to mitigate emissions, such as tree planting and for using eligible technologies, including animal feed additives. The plan also includes support for farmers (note that costs to the horticulture sector are minimal) to understand and measure their emissions and investment into research and technology development.

At first glance, we are supportive of the plan. Placing the cost directly on farmers gives a clear signal to reduce emissions. And we think the split-gases approach is a sensible compromise given the differences between carbon and the other shorter-lived gases like methane.

The overall costs also generally look manageable. Firstly, the costs are small relative to the rest of a farmer's costs. In addition, we note that the plan places costs on farmers and therefore over time leads to lower dairy supply, or effectively no growth in supply in the case of meat production. This fact will put upward pressure on dairy prices in particular, and meat prices to a lesser degree. So farmers in aggregate will receive an additional offset to the cost of the levies in the form of higher farmgate prices. However, on a farm-by-farm basis there will be some devil in the detail as to how they can apply the methane reduction incentives and the sequestration savings (via things like tree plantings).

Within that broad view, we note that the net costs may fall more on sheep and beef farmers than on dairy farmers. As mentioned, lower supply will give a greater boost to dairy prices than meat prices. This fact is due to New Zealand dairy's larger share of global exports, relative to New Zealand sheep and beef's red meat share, and the fact that red meat has more competition from things like chicken, pork and seafood. Secondly, dairy's conversion of feed to milk is more methane-efficient than sheep and beef's conversion to meat. That is, for a given unit of output, dairy will have fewer emissions to pay for than meat will.

There are a few outstanding questions though, the most important being whether the Government will accept the Partnership's recommendations. This partly depends on whether the Government believes that the plan is credible in terms of delivering the required emissions reductions.

To some degree the Government's decision will also be around balancing political pressures. It has invested political capital (and departmental support) in giving the agricultural sector the power of self-determination around its emissions plan. So pushing back too far on the recommendations could risk alienating farmers. At the same time, the Government will be aware that the rest of the electorate may support a tough stance on agriculture given its over-sized share of New Zealand's greenhouse gas emissions. Either way, we will be keenly watching the response to the recommendations later this year.

Nathan Penny, Senior Agri Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 7	May ANZ commodity prices	-1.9%	-2.8%	–
Wed 8	GlobalDairyTrade auction prices (WMP)	-4.9%	-0.3%	2.0%
Fri 10	May card spending	7.1%	1.9%	1.0%

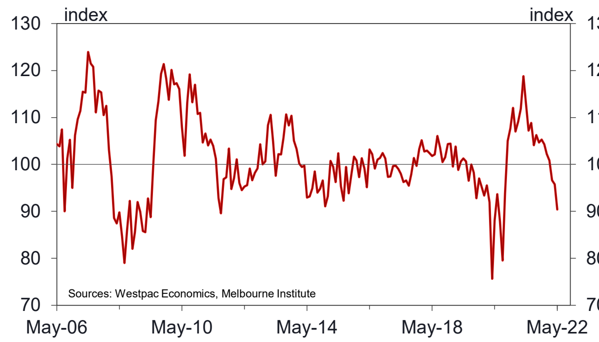
Aus Jun Westpac-MI Consumer Sentiment

Jun 15, Last: 90.4

Consumer Sentiment fell 5.6% to 90.4 in May, hit by rising cost of living pressures and the RBA's 25bp interest rate hike – the first since 2010.

The RBA's 50bp rate hike is likely to see interest rate concerns dominate again in June. Other factors that may influence sentiment include: the Federal election result, which saw a new ALP government come into office; a renewed rise in petrol prices (through $1.90/litre nationally); a reasonably solid Q1 national accounts update; but more signs that housing markets have moved into a correction phase.

Consumer Sentiment Index



Aus May overseas arrivals and departures, preliminary

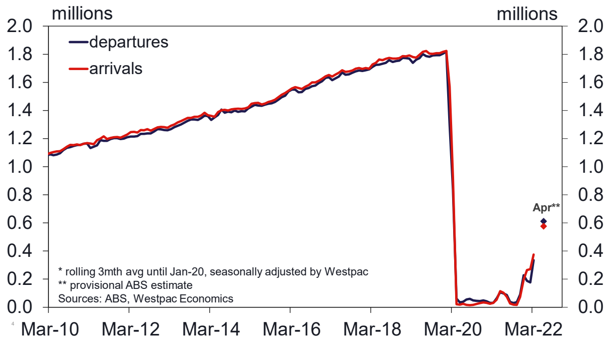
Jun 15, Arrivals, Last: 575.5k
Jun 15, Departures, Last: 611.0k

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 April estimate indicated a clear acceleration in the recovery of overseas travel, with arrivals lifting to 575.5k and departures nearly doubling to 611.0k. This result was accompanied by promising trade data, with tourism related services exports leaping 27% in April, suggesting the March border reopening is starting to see some material impacts.

For the May preliminary estimate, we are hopeful that the pace of recovery continues to forge ahead. With nascent strength in short-term visitor arrivals to boost demand, and robust growth in visa arrivals to gradually alleviate the undersupply of labour, the broader net migration picture will play a critical role in understanding the near-term strength and the long-term health of the Australian economy.

Total overseas arrivals and departures



Aus May Labour Force Survey, employment '000

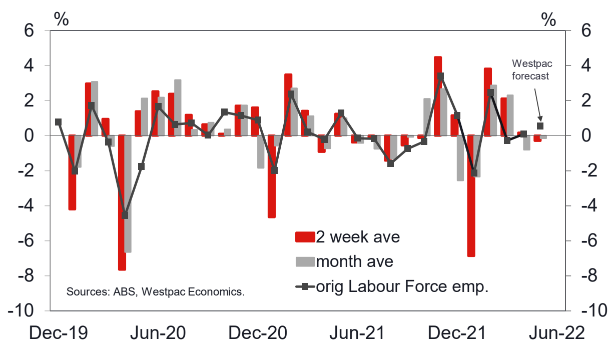
Jun 16, Last: 4.0k, WBC f/c: 5k
Mkt f/c: 25k Range: flat to 40k

Total employment lifted 4k in April, softer than Westpac's 20k estimate and well short of the market estimate of 30k. Weekly payrolls had pointed to softer activity and we thought it might appear more in hours worked than employment. In the end it was the other way around with soft employment print and a robust 1.3% rise in hours worked. April was the sixth consecutive monthly gain in employment for a total gain of 566.0k since October 2021.

We had thought that the April recovery in hours worked was a prelude to a stronger recovery in employment in May. However, Weekly Payrolls jobs to 14th of May were very weak. Comparing the May to April reference weeks Payrolls are down 0.3%; it is usually a seasonally strong month with a positive change in the ABS seasonal factors.

Using the ABS seasonal factors our forecast 5k gain in employment is a 0.6% rise in original terms so stronger than the -0.3% in Payrolls. We do think some of the weakness will appear in hours worked but clearly there is a risk of a negative print in employment.

Payrolls vs Labour Force Employment



DATA PREVIEWS

Aus May Labour Force Survey, unemployment %

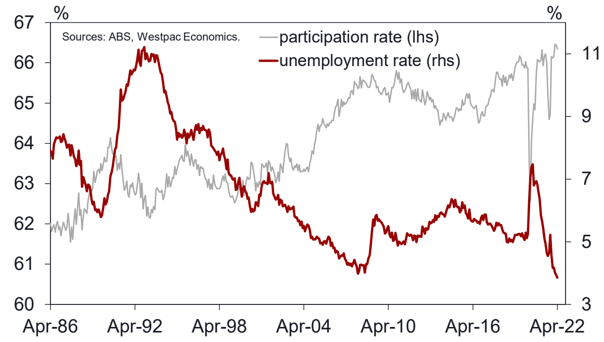
Jun 16, Last: 3.9%, WBC f/c: 3.8%
Mkt f/c: 3.8% Range: 3.8% to 4.0%

In April there was a 0.1ppt dip in the participation rate to 66.3% (66.44% to 66.34% at two decimal places). At the time we thought this could be more to do with poor weather and soft employment leading the marginally attached to not look for work, than a sign participation rate has peaked noting the strong lift in hours worked.

This was enough, so +4.0k on employment generated a 11.0k fall in unemployment and the unemployment rate falling to 3.9%, the lowest the unemployment rate has been in the monthly survey (since February 1978). The last time the unemployment rate was lower than this was in August 1974, when the survey was quarterly.

We think it is possible this will be repeated in May given the soft Payrolls update. We also note the April unemployment was 3.85% at two decimal paces so rounded up to 3.9%. With a very small fall in participation (from 66.34% to 66.30%) this is enough to see unemployment round down to 3.8% (3.84%).

Participation still near record high



NZ May REINZ house sales

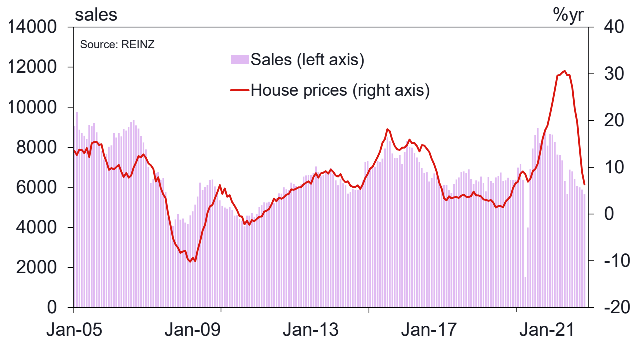
Jun 14 (TBC), Sales last: –4.0%
Prices last: –1.1% mom (seasonally adjusted), +6.3%y

Both house prices and sales continued to cool in April as mortgage rates rose. 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 May will see a further cooling in house prices. Mortgage rates have continued to push higher over the past month and the average number of days to sell has been rising. Similarly, auction clearance rates remain low.

There are tentative signs that the downtrend in sales is flattening off following recent price declines. Even so, the level of sales remains low.

REINZ house prices and sales



NZ Q1 Current Account Balance, % of GDP

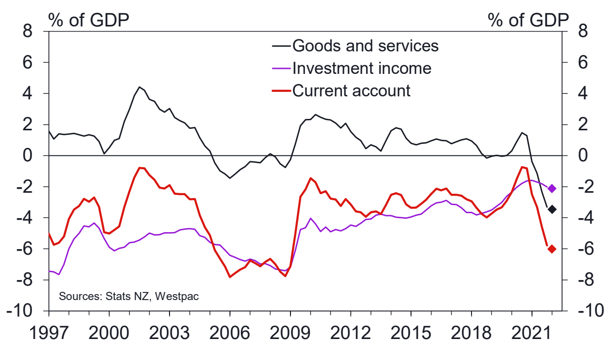
Jun 15, Last: –5.8%, Westpac: –6.0%

We expect the annual current account deficit to widen to 6.0% of GDP in the March quarter, from 5.8% in the December quarter.

The widening of the deficit beyond the average level of recent years essentially reflects the hot New Zealand economy since late 2020 – we have been, at least temporarily, living beyond our means.

Looking ahead, we expect the current account to widen further on the strength of the domestic economy and as tourism exports take time to lift. We expect the annual deficit to reach its widest point of around 7.0% in the second half of the year, before narrowing.

NZ annual current account balance



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DATA PREVIEWS

NZ Q1 GDP

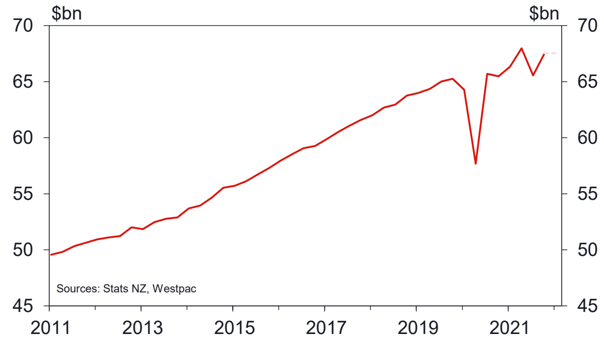
Jun 16, Last: 3.0%, WBC f/c: 0.0%, Mkt f/c: 0.6%

We estimate that GDP was flat in the March quarter. This is a downgrade from our earlier forecast of a 0.6% rise, due to some softness in the final batch of sectoral data releases.

Covid continued to act as a handbrake on the economy. While the December quarter was marked by ongoing Government-mandated restrictions, the March quarter included the peak of the Omicron wave, with worker absenteeism being a substantial issue.

We expect a stronger pickup in the June quarter, and our forecast for growth in 2022 overall remains broadly unchanged.

NZ production-based GDP



US Jun FOMC meeting

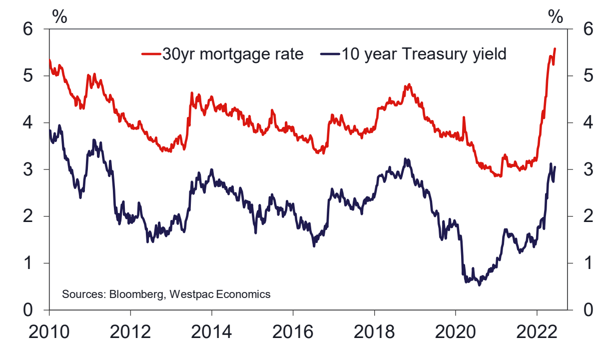
Jun 14-15, fed funds rate, Last: 0.875%, WBC f/c: 1.375%, Mkt f/c: 1.375%

At the June FOMC meeting, the second of three consecutive 50bp increases in the fed funds rate is expected to be delivered, taking the cash rate to 1.375%, on the way to 1.875% in July. These moves have been well telegraphed by the Committee.

What comes next is less certain however, and is likely to be the focus of questioning by the journalists at Chair Powell's post-meeting press conference.

In our view, we are likely to see a more balanced assessment of the risks pertaining to inflation and growth through Q3, culminating in the throttling back of rate hikes to a 25bp pace from September. This shift will be all the more apparent in Q4 as the FOMC ends the tightening cycle at 2.625% in December.

Household financial conditions: regime change



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 13					
NZ	Apr net migration	1177	–	–	Starting to lift following easing in border restrictions.
UK	Apr trade balance £bn	-11552	–	–	Deficit to remain wide on import strength.
US	Fedspeak	–	–	–	Brainard discusses Community Investment Act.
Tue 14					
Aus	May NAB business survey	20	–	–	Federal election campaign, RBA rate hike - any adverse impacts?
NZ	May food price index	0.1%	–	0.8%	Supply and staff shortages adding to cost pressures.
	May REINZ house sales	-4.0%	–	–	Due this week. Slowdown in the market to continue...
	May REINZ house prices %yr	6.3%	–	–	...in response to higher mortgage rates.
Jpn	Apr industrial production	-1.3%	–	–	Final estimate.
Eur	Jun ZEW survey of expectations	–29.5	–	–	Confidence on par with pandemic lows.
UK	Apr ILO unemployment rate	3.7%	3.7%	–	Unemployment to hold below pre-pandemic levels.
US	May NFIB small business optimism	93.2	93.0	–	Cost pressures and labour shortages are key concerns.
	May PPI	0.5%	0.8%	–	Supply issues to keep producer prices elevated in near-term.
Wed 15					
Aus	Jun Westpac–MI Consumer Sentiment	90.4	–	–	RBA's 50bp rate hike to dominate.
	May overseas arrivals, prelim. 000's	575.5	–	–	Acceleration in April, hopefully more to come in May.
NZ	Q1 current account % of GDP	-5.8%	–	-6.0%	Deficit widening on strong domestic demand.
Jpn	Apr machinery orders	7.1%	-1.3%	–	Investment outlook clouded by supply issues.
Chn	May retail sales ytd %yr	–0.2%	-1.7%	–	Weakness in consumption to continue near term...
	May fixed asset investment ytd %yr	6.8%	6.1%	–	... but building momentum for investment...
	May industrial production ytd %yr	4.0%	3.1%	–	... and lingering strength in trade are providing resilience.
Eur	Apr trade balance €bn	-17.6	–	–	Deficit to remain wide on energy prices.
	Apr industrial production	-1.8%	0.7%	–	Supply issues an ongoing headwind.
US	May retail sales	0.9%	0.2%	–	Inflation and higher rates affecting capacity to spend.
	Jun Fed Empire state index	-11.6	3.0	–	Volatile, but the firm order pipeline will support NY mfg.
	May import price index	0.0%	1.2%	–	Import prices to remain at an elevated level.
	Apr business inventories	2.0%	1.2%	–	Businesses rebuilding inventory at robust pace.
	Jun NAHB housing market index	69	68	–	Affordability, rising input costs and interest rates are concerns.
	FOMC policy decision, midpoint	0.875%	1.375%	1.375%	Second of three consecutive 50bp rate hikes inbound.
Thu 16					
Aus	Jun MI inflation expectations	5.0%	–	–	To remain at an elevated level, mirroring official Q1 CPI.
	May employment	4.0k	25.0k	5.0k	Elevated vacancies point to robust labour demand but...
	May unemployment rate	3.9%	3.8%	3.8%	...Payrolls remain soft. Unemployment to round down.
	June RBA Bulletin	–	–	–	Quarterly Bulletin includes RBA research articles.
NZ	Q1 GDP	3.0%	0.6%	0.0%	Demand strong but Covid continues to be a handbrake.
UK	BoE policy decision	1.00%	1.25%	1.25%	Rate hikes needed to tame inflation despite weak growth.
US	May housing starts	-0.2%	-0.6%	–	Labour market and limited supply to provide...
	May building permits	-3.2%	-1.8%	–	...underlying support for resi construction into medium term.
	Jun Phily Fed index	2.6	5.0	–	Inflation and supply chain concerns are front of mind.
	Initial jobless claims	229k	–	–	To remain at a low level.
Fri 17					
NZ	May manufacturing PMI	51.2	–	–	Economic conditions have been firming.
Eur	May CPI, %yr (final)	7.4%	8.1%	–	Price pressures are intensifying and broadening.
UK	May retail sales	1.4%	–	–	Cost-of-living pressures to weigh on spending.
US	May industrial production	1.1%	0.5%	–	Volatility to linger as firms navigate supply issues.
	May leading index	-0.3%	-0.4%	–	Pointing to a slowing of economic momentum.
	Fedspeak	–	–	–	Chair Powell provides opening remarks at Dollar conference.

Forecasts

Interest rate forecasts

Australia	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	0.85	1.60	2.10	2.35	2.35	2.35	2.35	2.35
90 Day BBSW	1.48	2.05	2.47	2.55	2.55	2.55	2.55	2.55
3 Year Swap	3.53	3.40	3.20	3.00	2.85	2.80	2.75	2.75
3 Year Bond	3.12	3.20	3.00	2.80	2.65	2.60	2.55	2.55
10 Year Bond	3.64	3.15	2.90	2.65	2.50	2.40	2.30	2.20
10 Year Spread to US (bps)	58	35	30	25	20	20	20	15
US								
Fed Funds	0.875	2.125	2.625	2.625	2.625	2.625	2.625	2.625
US 10 Year Bond	3.05	2.80	2.60	2.40	2.30	2.20	2.10	2.05
New Zealand								
Cash	2.00	3.00	3.50	3.50	3.50	3.50	3.50	3.50
90 day bill	2.53	3.40	3.60	3.60	3.60	3.60	3.60	3.60
2 year swap	4.01	4.00	3.90	3.70	3.50	3.30	3.10	2.90
10 Year Bond	3.93	3.70	3.50	3.30	3.20	3.10	3.00	2.90
10 Year spread to US	87	90	90	90	90	90	90	85

Exchange rate forecasts

Australia	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.7089	0.74	0.76	0.77	0.78	0.79	0.80	0.80
NZD/USD	0.6397	0.67	0.69	0.70	0.71	0.72	0.72	0.72
USD/JPY	134.14	130	128	126	124	122	121	120
EUR/USD	1.0619	1.09	1.10	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2490	1.26	1.27	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.6925	6.50	6.35	6.25	6.20	6.15	6.15	6.10
AUD/NZD	1.1102	1.10	1.10	1.10	1.10	1.10	1.11	1.11

Australian economic growth forecasts

	2021	2022				2023		Calendar years			
% change	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2020	2021	2022f	2023f
GDP % qtr	3.6	0.8	1.3	1.1	0.8	0.4	0.5	–	–	–	–
%yr end	4.4	3.3	3.9	6.9	4.0	3.6	2.8	-0.7	4.4	4.0	2.0
Unemployment rate %	4.7	4.0	3.8	3.4	3.3	3.3	3.3	6.8	4.7	3.3	3.5
CPI % qtr	1.3	2.1	1.5	0.6	2.2	1.2	0.6	–	–	–	–
Annual change	3.5	5.1	5.8	5.7	6.6	5.6	4.7	0.9	3.5	6.6	3.0
CPI trimmed mean %qtr	1.0	1.4	1.3	1.0	1.0	0.8	0.8	–	–	–	–
%yr end	2.6	3.7	4.5	4.8	4.8	4.2	3.7	1.2	2.6	4.8	3.2

New Zealand economic growth forecasts

	2021	2022				2023		Calendar years			
% change	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2020	2021	2022f	2023f
GDP % qtr	3.0	0.0	1.3	0.7	1.2	0.9	0.7	–	–	–	–
Annual avg change	5.6	5.2	1.3	2.6	2.6	3.2	3.9	-2.1	5.6	2.6	3.4
Unemployment rate %	3.2	3.2	3.1	3.0	3.0	3.0	3.1	4.9	3.2	3.0	3.3
CPI % qtr	1.4	1.8	1.1	1.2	0.4	0.5	0.7	–	–	–	–
Annual change	5.9	6.9	6.7	5.6	4.5	3.2	2.9	1.4	5.9	4.5	2.7

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