AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 20 June 2022

Editorial: Consumer Sentiment highlights RBA's delicate challenge.

RBA: Governor speaking on monetary policy. Minutes June Board meeting.

Australia: Q2 ACCI–Westpac business survey, Westpac–MI Leading index.

NZ: Westpac–MM consumer confidence, trade balance, card spending, Matariki public holiday Friday.

UK: CPI, retail sales.

US: housing updates, regional manufacturing updates, Fed Chair Powell before House and Senate panel, Federal public holiday on Monday, Juneteenth.

Global: S&P Global PMIs.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 17 JUNE 2022.

WESTPAC INSTITUTIONAL BANK

Consumer Sentiment highlights RBA's delicate challenge

The Westpac-Melbourne Institute Index of Consumer Sentiment fell 4.5% in June from 90.4 in May to 86.4 in June. The survey, covering 1200 respondents, was conducted over the four days June 6–9.

On June 7, the Reserve Bank announced a 50bp increase in the cash rate which was passed on in full by the banks.

This read was even weaker than we had expected.

Over the 46-year history of the survey, we have only seen Index reads at or below this level during major economic dislocations. The record lows have been during COVID-19 (75.6); the Global Financial Crisis (79.0); early 1990s recession (64.6); the mid-1980s slowdown (78.7) and the early 1980s recession (75.5). Those last three episodes were associated with high inflation; rising interest rates; and a contracting economy – a mix that may be threatening to repeat.

The survey detail shows a clear picture of a slump in sentiment being driven by rising inflation; an associated lift in interest rates; and a loss of confidence around the economic outlook, both here and abroad.

Every three months we ask respondents about their news recall on specific topics. By far the highest recall in June was around news on inflation – nearly 60% of respondents noted news on this topic. This compares to 43% for 'economic conditions', 24% for 'interest rates; and 23% for 'international conditions'.

This was a particularly high level of recall for 'inflation' news – second only to a 62% read just prior to the Global Financial Crisis and compared to a long run average of just 12%. Not surprisingly, 84% of those recalling inflation news assessed it as unfavourable. This compares to 71% for 'interest rate' news; 85% for news on 'international conditions'; and 78% for news on 'economic conditions'.

There has been a steady increase in the proportion of consumers who expect significant increases in interest rates over the next 12 months. In June, 58% of respondents expected rates to increase by more than 1% over the next year. That compares with 50% in May, 36% in April and 30% in March. Notably, this share jumped to 65% amongst those surveyed following the RBA's 50bp rate hike.

Inflation and interest rate concerns have taken a toll on the sub-indices that assess family finances and the near-term economic outlook.

The 'finances compared to a year ago' sub-index dropped 7% to 74.0 while the 'finances, next 12 months' sub-index fell 7.6% to 86.2.

The level of the 'finances next 12 months' sub-index is particularly noteworthy. Unlike other sub-indices, this one is lower than during the 2008-09 Global Financial Crisis (GFC) – 18% below the average during that period. Enduring high inflation and rising interest rates appear to be a much more concerning prospect for finances than the credit market dislocations and global growth collapse seen during the GFC.

Around the economic outlook, moves were more mixed. The 'economic outlook, next 12 months' sub-index is down by 7.2% to 83.8 but the 'economic outlook, next 5 years' sub-index is holding up surprisingly well, edging 2.1% higher to 98.1.

Surging prices continue to take a heavy toll on spending intentions. The 'time to buy a major household item' sub-index fell 3.3% to 89.5 – weaker reads have only ever been seen during the onset of the COVID pandemic, the GFC and the early 1990s recession.

Despite this collapse in consumer sentiment, Westpac is still constructive on the near-term outlook for consumer spending. The main drivers are a continued post-COVID reopening and the freeing-up of savings, with important support coming from strong labour markets.

The importance of the fall in the savings rate has been well illustrated by the $6 billion boost to spending in the March quarter as the savings rate fell from 13.4% to 11.4%. We expect that rate to fall further through 2022 to around the equilibrium 6%, freeing up potentially a further $15–20 billion in available spending power. Households have also accumulated around $250 billion in "excess savings" through 2020 and 2021, providing a welcome buffer to the ongoing cycle of rising interest rates.

High confidence in the labour market is still very clear in our June survey. The Westpac-Melbourne Institute Unemployment Expectations Index remains at very low levels, falling marginally from 109.6 in May to 108.5 in June (a decline means more respondents expect the unemployment rate to fall – an improved outlook). The Index is still 16% below its long run average of 130.

That labour market strength was further enforced by a fall in the underemployment rate in May from 6.1% to 5.7% – the lowest rate since August 2008. The strength of the labour market is quite stunning as firms require additional labour to meet rising domestic demand. Employment increased by 61,000 in the month, a sizeable gain of 0.5%, and hours worked were even stronger, up by 0.9%. The unemployment rate held steady at a 50 year low of 3.9%, associated with a surge in the participation rate to a new record high.

The same cannot be said for confidence around housing which has seen a further significant deterioration.

The 'time to buy a dwelling' index fell 3.1% from 77.5 in May to 75.1 in June – a new post-GFC low. The index reflects deteriorating affordability which had been due to rising prices but is now being affected by actual and expected rises in interest rates.

A deep chasm has opened between males and females on this topic, with index reads of 85.8 (up 1.1%) for males and 64.7 (down 8.6%) for females. This disharmony does not bode well given that house purchases are usually the most important single spending decision for many families.

House price expectations continue to cool rapidly. The Westpac-Melbourne Institute Index of House Price Expectations fell by 8.4% from 121.4 to 111.1. The Index is still above 100, indicating that more respondents expect prices to rise than fall. However, the picture across states varies. In NSW the Index fell by 11.2% to 103.8 while in Victoria it fell by 9.9% to 101.50. It looks likely that pessimists will soon hold sway in both states. In contrast, optimism still abounds in Queensland where the state index rose 3.1% 124.5.

The wedge between males and females is also apparent on house price expectations, if not quite as severe (115.2 vs 107.2).

Consumer risk aversion has also intensified. Our June survey included updates on our 'wisest place for savings' questions which is run every three months. Safe or defensive options are now heavily favoured with a further rise in the proportion of consumers nominating 'bank deposits', and 'pay down debt'. Indeed, just over 64% of consumers nominated debt repayment or capital protected options, up from 59% in March and near the extreme high of 65.5% seen during the GFC. Conversely, very few consumers favour riskier options, only 8% nominating 'real estate' and 8% nominating shares.

The Reserve Bank Board next meets on July 5. The best policy in a tightening cycle is to move quickly in the early stages of the cycle when interest rates are clearly below neutral and the risk of over–tightening is moderate. It is also important to signal, as early as possible, to economic agents that the Bank is committed to containing inflation.

These principles were well illustrated in the decision by the US FOMC to raise the US federal funds rate by an imposing 75 basis points at its recent meeting to 1.5–1.75%. That rate is still well below the FOMC's estimate of neutral (2.5%) so limiting the risks of over tightening.

We expect the next move by the FOMC will by a further 75 basis points at the July meeting (reaching the assessed neutral) but then scale back to 50 in September and 25 in November and a final 25 December, pushing the federal funds rate up to 3.375% and around 1% above neutral.

With the excessive leverage in the Australian household sector, we expect that Australia's "neutral" RBA cash rate could be in the 1.5% – 2.0% range. The only real way to determine this neutral rate will be for the RBA to push ahead.

For the RBA, we saw a 50bp move in June from 0.35% to 0.85% and we expect another 50bp move in July. That would see not only the emergency cuts in 2020 being withdrawn but also most of the 75bp of cuts made in 2019, when the Board became frustrated with its inability to lift inflation back to within the 2–3% target band.

Our current forecast profile for the RBA cash rate is for rate hikes at four consecutive Board meetings (May–August). This is punctuated by a two month pause, September and October. We then expect rate hikes to resume, with moves at the following three consecutive meetings (November, December and February – with no meeting held in the holiday month of January).

We anticipate that the RBA cash will peak in this cycle at 2.35% – representing a contractionary setting. The key to the cycle will be the RBA's appetite for pressing ahead into contractionary territory.

We will gain an important insight into the Board's "appetite" for this tightening cycle in the minutes to the June Board meeting, to be released on Tuesday June 20. The minutes will provide additional colour around the Boards' decision to increase rates by 50 basis point in June, a move that surprised most analysts and even the ultra hawkish market.

As we have discussed before, the RBA has more flexibility than the US FOMC with six more meetings scheduled this year compared with only four for the FOMC.

Pauses have been customary for the RBA. The longest sequence of consecutive rate hikes by the RBA has been three (October–December 2009) and (March – May 2010) .

The RBA has only raised the cash rate by 50 basis points or more on four occasions since it started announcing rate changes in January 1990.

Three of those occasions were during the rapid rate moves in the second half of 1994 (a total of 275 basis points distributed across three moves in the space of 5 months) while the only other occasion was a single 50 basis point move in February 2000.

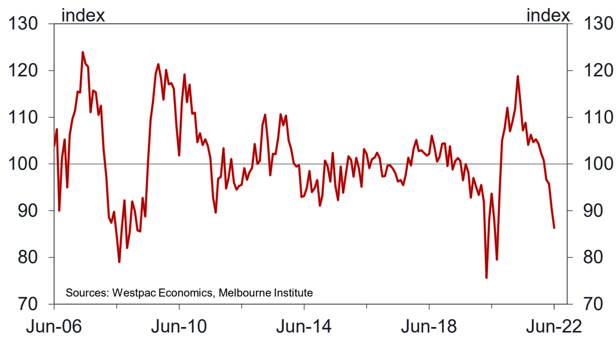
So our expectation of two consecutive increases of 50 basis points has limited precedent. But these are extraordinary times and even since we made that call the case for a big move in July has strengthened.

The RBA Governor has publicly lifted his headline inflation forecast for 2022 from 5.9% (May 4) to 7%; the minimum wage has been lifted by 5.2%; and the May Employment Report, as discussed above has been very strong.

As we have seen with the survey, high inflation has become the major challenge for the Australian economy. The RBA needs to normalise policy quickly to begin to address this very disturbing challenge. Another 50bps in July will be a further decisive step in this process and we expect further unprecedented action over the remainder of 2022.

Bill Evans, Chief Economist

Consumer Sentiment Index



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.

In Australia this week, the material divergence between business and consumer confidence was again highlighted. First to be released, the May NAB business survey reported a moderate deterioration in conditions and confidence; however, conditions remained well above average and confidence modestly so. Notably, the strength in conditions remains broad-based across the mainland states and industry, with construction the sole exception by sector given labour and material shortages. Also of significance, forward orders continued to increase at pace in May, labour demand remained strong and capacity utilisation was reported to be at historic highs. All in all, Australia's business sector remains in good health, and the outlook for employment and investment positive. For those keen to know more about this theme, tune in to our latest Market Outlook in conversation podcast.

Amongst Australian consumers however, confidence looks to have been lost, June's 4.5% decline in Westpac-MI Consumer Sentiment taking it to a level it has only been at or below during major economic dislocations over the survey's 46-year history. As detailed by Chief Economist Bill Evans this week, the June survey depicts a slump in sentiment driven by historic and rising inflation, the abrupt policy response and a general loss of confidence in the outlook.

Unsurprisingly, views on family finances are materially below long-run average levels, as is consumers' belief in whether now is a good 'time to buy a major household item'. Contrasting these outcomes with households' strong expectations of the labour market emphasises job loss is not the concern, but rather anxiety over declining purchasing power. Accelerating wages growth as evinced by the NAB business survey's labour cost measure, RBA liaison and this week's higher-than-expected minimum wage decision will help alleviate some of this concern, but not all. At least employment should remain an enduring positive, May's employment print coming in materially higher than expectations at a strong 61k, driving the employment to population ratio to yet another record high.

With respect to investment, risk aversion is acute, with just over 64% of consumers nominating debt repayment or capital protected investment options as the wisest place for savings – in line with the extreme high of 65.5% seen during the GFC. 'Time to buy a dwelling' shows a similar degree of concern around housing, the index reaching a new post-GFC low in June. While the majority of households still expect prices to rise, these expectations are cooling rapidly now that prices have begun to fall and as interest rates rise.

The other key release for Australia this week was the migration data for May. Arrivals and departures rose at a slower pace in the month to be above a third of pre-pandemic levels at 651.1k and 664.0k respectively. April's strength in short-term visitor arrivals (up to 235k), accompanied by a 27% lift in tourism-related services exports in April's trade account, indicates that the international border reopening is starting to have a material impact on the Australian economy. It was also promising to see temporary work and student visa applications soar in March/April, suggesting that if grants continue to flow at this pace, the pick-up in visa arrivals can play a crucial role in alleviating the issue of labour undersupply.

Moving offshore to New Zealand. GDP came in a touch below Westpac's flat expectation for Q1, a 0.2% quarterly decline instead reported. COVID-19 disruptions were a key factor behind the result, so a rebound is expected in Q2, circa 1.0%. Furthermore, despite the Q1 result, the New Zealand economy is still running above its non-inflationary potential, requiring the RBNZ to hold to its plan to tighten policy aggressively. Our team remain of the view that a peak cash rate of 3.50% will be seen at year end. Full detail on the GDP Q1 release and outlook can be found in our New Zealand team's bulletin.

Further afield, outcomes for the west and east were polar opposite this week. Following last Friday's historic US CPI print of 8.6%yr – a fresh multi-decade high, driven by broad-based price pressures for energy and food related to Russia's invasion of Ukraine as well as domestic capacity constraints – and a very weak June reading for University of Michigan consumer sentiment, financial markets took on a decidedly risk-off posture and progressively priced in a 75bp June hike by the FOMC. The Committee delivered on this expectation and also emphasised their determination to bring inflation back to target in the medium-term, upgrading their forecast for the fed funds rate at year end to 3.4%, circa 175bps higher than the June level. An initial positive response from the market was short lived, with further significant falls in US equities seen overnight.

The crux of the matter is that, while the FOMC are confident they can hike interest rates aggressively and only bring GDP growth back to trend, the market is increasingly troubled by the probability of recession. Prior to the CPI report and this week's developments, we had anticipated US domestic demand would decelerate to trend in 2022 and below it in 2023. With the FOMC now set to be more aggressive – we now forecast a 3.375% peak fed funds rate at year end instead of 2.625% – we concur with the mood of the market, anticipating US growth will stall in 2023.

It is worth emphasising that risks are squarely against the US, with GDP having contracted in Q1 on weaker inventory accrual and imports and potentially being set for a flat result in Q2 given a marked deterioration in growth in domestic demand. In our view, the cumulative impact of declining real incomes, tight financial conditions and very soft consumer confidence risk a prolonged period of growth well below trend. While the FOMC is likely to hold to its determined position regarding inflation to end-2022, policy will then be on hold until rate cuts begin. Our best assessment of the scale and timing of these cuts is 125bps beginning Q4 2023 and running to Q4 2024. Assuming the labour market remains relatively intact in the interim, moving the fed funds rate back to a broadly neutral level should be enough to bring GDP growth back to trend by late-2024.

Over in the UK, the Bank of England are similarly determined to bring inflation to target, but also face significant risks with respect to growth. The Bank of England decided to raise the bank rate by 25bps to 1.25% in June and implement a hawkish shift in guidance, now stating they will "act forcefully" if necessary versus May's softer agreement on "some degree of further tightening". Their long-term view looks largely unchanged, but in the near-term the Committee now expect inflation to be higher (a peak slightly above 11% in October) and growth to contract by 0.3% in Q2. The mixed run of recent UK data makes it difficult to judge the extent to which households are feeling the pain of inflation, but nevertheless, concerns about broadening price pressures and persisting supply issues are clearly front of mind. We now expect a 50bp hike in August, followed by 25bp hikes in September and November, bringing the bank rate to 2.0% by year end.

Finally to China. In May, industrial production, fixed asset investment and retail sales all beat the market's expectations and most improved on their April outcomes. This is despite the Shanghai lockdown remaining in full effect through the month and many other cities also being impacted by shorter-term restrictions. Also out during the past week, the May credit data showed that the above improvement in activity was not a one off, with aggregate financing now up 12% year-to-date in 2022. A broad-based acceleration in local government and business investment therefore looks to be in train; the recent reduction in borrowing costs for consumers should also help this momentum spread to residential construction, albeit with a lag.

While Shanghai's recent experience and authorities continued strong stance against the virus will weigh on consumption near term, in coming months the testing regime is likely to be accepted as a new – hopefully temporary – normal given households desire to return to a free social and work life. As we continue to highlight, the progressive removal of domestic restrictions on activity combined with a continuation of stringent international travel restrictions and encouragement to buy Chinese made goods will not only keep Q2 growth positive but also maximise the longevity and scale of the growth cycle to come, in stark contrast to the west.

Week ahead & data wrap

That's not a recession…

Covid disruptions featured heavily in New Zealand's March quarter GDP figures, which came in lower than expected. But this masks the broader story that the economy is running hot, and that demand needs to be reined in to better match the economy's capacity. We doubt that the Reserve Bank will be too concerned at finding itself on a quicker path of adjustment, although that would argue for a lower peak in the Official Cash Rate than what the RBNZ has projected.

The 0.2% drop in GDP for the March quarter was close to our expectation of a flat result. As the Omicron wave reached its peak, people stayed away from retail spaces out of caution, and the surge in infections meant that worker absenteeism proved to be a major headache for many businesses.

We noted in our preview that: "A flat forecast does mean there's a good chance that GDP could go backwards for the quarter. But that wouldn't tell us anything about the prospects of a recession this year." Even with a slight pull-back in activity in the last quarter, there is every indication that the economy is running too hot, not too cold. The unemployment rate is at a record low, job vacancies are soaring to new highs, and the most common complaint we hear (apart from rising prices) is that people are feeling overworked and burnt out. If this is a recession, it's the weirdest recession that I've ever seen.

Another issue with talking about recession risks is that we need to be careful with what that term means. "Two consecutive quarters of negative growth" is not the definition of a recession, but a rule of thumb for identification. Economic data is noisy, and in any given quarter we might see a drop in GDP just by chance. The lesson of this rule is that we should wait for a second negative result before jumping to conclusions.

This is particularly true these days, as Covid disruptions have made activity even more variable than usual. Indeed, this wasn't the first negative GDP print that we've seen in this cycle. After the initial lockdown ended in 2020, GDP surged by 13.7% in the September quarter, followed by a 0.4% drop in the December quarter. That fall was a combination of catch-up activity petering out, and a change in the seasonal patterns of activity in the absence of overseas tourists. Both of those factors appear to have played a role in the latest quarter as well.

We've pencilled in a 1% rise in GDP for the June quarter. Fewer Omicron disruptions, and the gradual reopening of the border, will provide a more supportive environment for growth. More broadly though, we're expecting modest growth in the economy over the rest of this year, with a fairly subdued outlook for consumer spending as it bears the brunt of rising interest rates and falling house prices.

That transition to a softer growth path is a necessary part of the Reserve Bank's fight against inflation. The RBNZ had previously estimated that the economy was running about 2% above its non-inflationary potential – that is, demand exceeded our ability to meet it without leading to rising prices. The challenge now is to realign demand and supply in a way that brings inflation under control without imposing unnecessary pain on businesses and consumers.

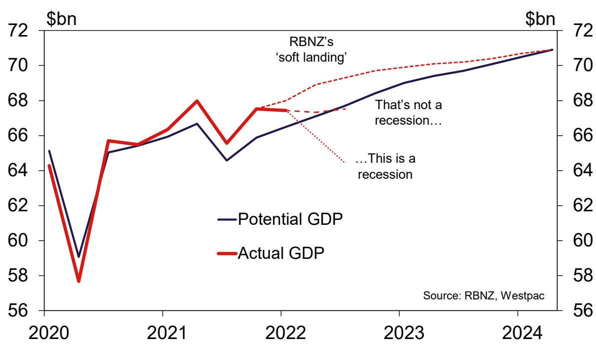
Given that the economy's potential itself is likely to rise over time, that leaves a few options for the path of adjustment. The first path – the one projected by the RBNZ, and probably still the consensus view – is a period of low but still positive growth in activity over the next few years, while the economy's capacity catches up. The risk of this approach is that it may not be enough to anchor inflation at the 2% target – on the RBNZ's forecasts, the economy would be running above its non-inflationary potential for almost four years before closing the gap.

Another – hypothetical – path of adjustment would be a faster closing of the gap over a few quarters rather than a few years. That might involve two consecutive quarters of falling GDP, but that wouldn't really be in the spirit of what we call a 'recession'. A genuine recession would mean a sharper drop in activity to below its potential, with a meaningful rise in unemployment and a rapid drop-off in domestic wage and price pressures.

The latest GDP figures suggest we could be on the way to a faster realignment than the RBNZ was forecasting. We suspect that the RBNZ would be quite happy with that, as long as it continues in a controlled manner. The implication would be that the RBNZ wouldn't need to raise the Official Cash Rate as high as the 4% peak that it was projecting in May, but that's fine too – ultimately the RBNZ wants to be vindicated on inflation, not on interest rates. Our forecast remains for a peak cash rate of 3.5% by the end of this year.

Michael Gordon, Acting Chief Economist NZ

Potential paths of adjustment



Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 13	Apr net migration	926	-80	–
Tue 14	May food price index	0.1%	0.7%	0.8%
	May REINZ house sales	-2.0	-4.4	-
	May REINZ house prices %yr	6.3%	3.7%	-
Wed 15	Q1 current account % of GDP	-5.8%	-6.5%	-6.0%
Thu 16	Q1 GDP	3.0%	-0.2%	0.0%
Fri 17	May manufacturing PMI	51.2	52.9	–

Aus Q2 ACCI–Westpac business survey

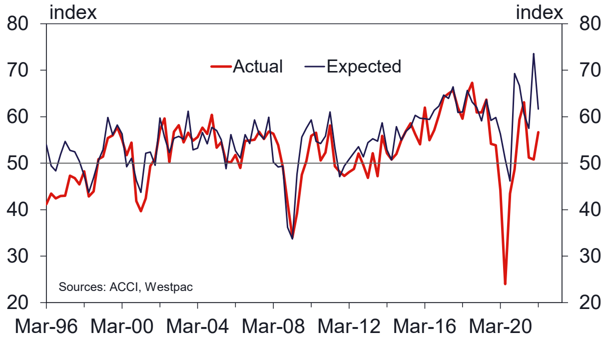
Jun 21, Last: 56.7

The ACCI–Westpac business survey for the June quarter, conducted through May into June, will provide a timely update on manufacturing and insights into economy wide trends.

Manufacturing output stalled over the second half of 2021, and the presence of omicron and weather related disruptions tempered the growth rebound in the opening quarter of 2022. The reopening – which will be a key dynamic into the June and September quarters – will continue to facilitate a lift in activity. It is the pace of this recovery which is of keen interest.

The survey also highlights that the manufacturing sector is facing a broad set of challenges. Supply headwinds surrounding labour and material shortages are acting as a handbrake to growth. Also, soaring input costs are flowing through (in part) to higher prices and squeezing margins. Of interest, how will these pressures impact the rebound in growth through mid–2022?

Westpac-ACCI Composite indexes
Actual & expected, sa



Aus Apr Westpac–MI Leading Index

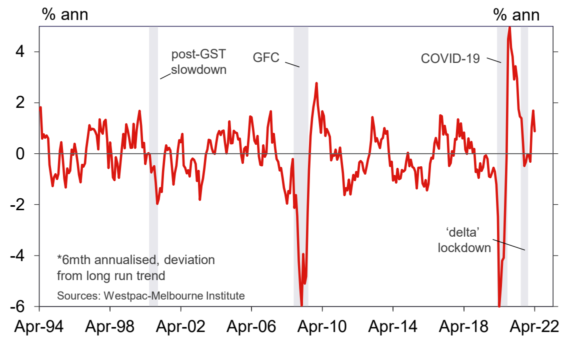
Jun 22, Last: 0.88%

The six-month annualised growth rate slowed to 0.88% in April but remained consistent with above trend growth momentum in 2022.

The May update is likely to see some further moderation with more soft monthly updates for several components, including: the ASX200; the Westpac–MI Consumer Expectations Index; and dwelling approvals.

Other components have been more mixed with commodity prices also holding up relatively well, up 1% in AUD terms in May and likely to post a solid gain for June.

Westpac-MI Leading Index



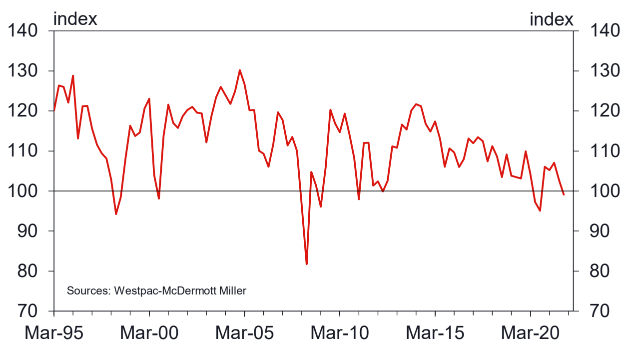
NZ Q2 Westpac McDermott Miller Consumer Confidence

Jun 21, Last: 92.1

Consumer confidence continued to lose ground in March, dropping to its lowest level since the Global Financial Crisis. That growing pessimism around the economic landscape reflected households' increasing concern around their financial positions as consumer prices and mortgage rates have pushed higher. Disruptions stemming from the Omicron outbreak will also have weighed on confidence.

Our latest survey was conducted in the early part of June. While concerns about Covid have been receding, households have continued to grapple with increasingly powerful economic headwinds. That includes ongoing cost of living rises and increases in mortgage rates. The housing market has also continued to cool.

Westpac-McDermott Miller consumer confidence



NZ GlobalDairyTrade auction, whole milk powder prices

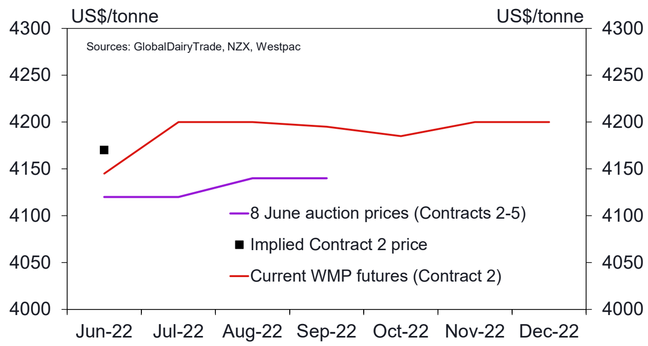
Jun 22, Last: 5.7%, Westpac: +1%

We expect whole milk powder prices (WMP) to lift by around 1% at the upcoming auction. Prices rebounded strongly at the last auction and we expect the market to cement these price gains.

Easing Covid restrictions in China and the associated return in dairy demand should continue to underpin prices at this auction.

Looking over coming months, we anticipate that very weak global supply combined with rebounding Chinese demand should help keep prices at very elevated levels.

Whole milk powder prices



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 20					
NZ	May BusinessNZ PSI	51.4	–	–	Activity gauges low, but firming. Headwinds still evident.
UK	Jun Rightmove house prices	2.1%	–	–	Demand to soften as rate hikes take full effect.
US	Federal holiday – Juneteenth.	–	–	–	Markets closed.
	Fedspeak	–	–	–	Bullard.
Tue 21					
Aus	Q2 ACCI-Westpac business survey	56.7	–	–	Activity accelerates on reopening. Significant supply headwinds.
	RBA media release	–	–	–	Review of the Yield Target, 8:00am
	RBA Governor speaking	–	–	–	*Economic Outlook & Monetary Policy,* Sydney 10:00am.
	RBA minutes	–	–	–	Colour around June 50bps hike, and risks to outlook.
NZ	Q2 Westpac-MM consumer confidence	92.1	–	–	Economic headwinds have continued to mount.
US	May Chicago Fed activity index	0.47	–	–	Labour and cost concerns remain at the fore.
	May existing home sales	-2.4%	-3.7%	–	Limited inventory and rising rates are slowing sales activity.
	Fedspeak	–	–	–	Mester and Barkin.
Wed 22					
Aus	May Westpac-MI Leading Index	0.88%	–	–	Consistent with above trend growth. Partials softened in May.
NZ	GlobalDairyTrade auction prices (WMP)	5.7%	–	1.0%	Dairy prices to rise as Chinese Covid restrictions ease further.
	May trade balance $mn	584	–	500	Dairy price strength shading similar oil price strength.
Eur	Jun consumer confidence	-21.1	–	–	Inflation pressuring capacity, spending and sentiment.
UK	May CPI	2.5%	0.7%	–	Energy inflation remains the key driver.
US	Fed speak	–	–	–	Chair Powell before Senate Panel. Evans, Harker Barkin.
Thu 23					
NZ	Q2 Westpac-MM employment conf.	113.5	–	–	Jobs plentiful, watching for evidence of higher pay.
Jpn	Jun Nikkei services PMI	52.6	–	–	Easing of health restrictions supporting services...
	Jun Nikkei manufacturing PMI	53.3	–	–	... but Chinese demand and supply issues are risks to mfg.
Eur	Jun S&P Global manufacturing PMI	54.6	53.7	–	Supply and cost pressures are the key concerns...
	Jun S&P Global services PMI	56.1	55.5	–	... for European manufacturing and services.
UK	Jun S&P Global manufacturing PMI	54.6	–	–	Similar risks are present in the UK...
	Jun S&P Global services PMI	53.4	–	–	... with a sharp slowdown in activity on its way.
US	Jun S&P Global manufacturing PMI	57.0	56.3	–	The US is weathering these headwinds...
	Jun S&P Global services PMI	53.4	53.7	–	... although price pressures are an ongoing risk.
	Initial jobless claims	229k	–	–	To remain at a low level.
	Jun Kansas City Fed index	23	–	–	Manufacturing outlook is positive but fragile.
	Fed Chair Powell	–	–	–	Appearing before House Panel.
Fri 24					
Aus	RBA Governor Lowe	–	–	–	Panel, Central banks & inflation, Zurich, 9:30pm AEST
NZ	Matariki public holiday	–	–	–	Markets closed.
Jpn	May CPI %yr	2.5%	2.5%	–	Weak underlying price pressures supporting BOJ's stimulus.
Chn	Q1 current account balance	89.5	–	–	Final estimate; holding at a healthy surplus in Q1.
Ger	Jun IFO business climate survey	93.0	92.0	–	Russia-Ukraine still clouding the outlook.
UK	Jun GfK consumer sentiment	-40	–	–	At weakest level in series history that dates back to 1980.
	May retail sales	1.4%	-0.6%	–	Cost-of-living pressures to weigh on spending.
US	Jun Uni. of Michigan sentiment	50.2	50.2	–	Final; confidence has collapsed amid historic inflation.
	May new home sales	-16.6%	0.7%	–	Construction under pressure from rising rates and costs.
	Fedspeak	–	–	–	Bullard and Daly.

Forecasts

Interest rate forecasts

Australia	Latest (17 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	1.80	2.05	2.47	2.55	2.55	2.55	2.55	2.55
3 Year Swap	4.13	3.80	3.60	3.40	3.10	2.90	2.75	2.75
3 Year Bond	3.58	3.30	3.20	3.10	2.90	2.70	2.55	2.55
10 Year Bond	4.11	4.10	3.80	3.40	3.00	2.70	2.50	2.35
10 Year Spread to US (bps)	87	60	50	40	30	20	20	15
US								
Fed Funds	1.625	2.875	3.375	3.375	3.375	3.375	3.125	2.875
US 10 Year Bond	3.24	3.50	3.30	3.00	2.70	2.50	2.30	2.20
New Zealand								
Cash	2.00	3.00	3.50	3.50	3.50	3.50	3.50	3.50
90 day bill	2.80	3.40	3.60	3.60	3.60	3.60	3.60	3.60
2 year swap	4.51	4.50	4.30	4.10	3.80	3.50	3.20	2.90
10 Year Bond	4.26	4.30	4.10	3.70	3.40	3.20	3.00	2.90
10 Year spread to US	102	80	80	70	70	70	70	70

Exchange rate forecasts

Australia	Latest (17 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.7016	0.72	0.75	0.77	0.78	0.79	0.80	0.80
NZD/USD	0.6330	0.65	0.68	0.70	0.71	0.72	0.72	0.72
USD/JPY	134.25	133	131	129	127	125	123	121
EUR/USD	1.0519	1.08	1.10	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2287	1.25	1.27	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.7042	6.50	6.35	6.25	6.20	6.15	6.15	6.10
AUD/NZD	1.1085	1.11	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**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
GDP % qtr	3.0	-0.2	1.0	0.7	1.2	0.9	0.7	–	–	–	–
Annual avg change	5.6	5.1	1.0	2.2	2.1	2.8	3.7	-2.1	5.6	2.1	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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