AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 11 July 2022

Editorial: Why we expect another 50bp rate hike in August and then a pause.

Australia: Westpac–MI Consumer Sentiment (to be released on Tuesday), business survey, labour force.

NZ: RBNZ policy decision, card spending, house prices and sales, manufacturing PMI.

China: Q2 GDP, trade balance, retail sales, fixed asset investment, industrial production.

Europe: industrial production, trade balance.

US: CPI, retail sales, import prices, industrial production, consumer sentiment.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 8 JULY 2022.

WESTPAC INSTITUTIONAL BANK

Why we expect another 50bp rate hike in August and then a pause

The Reserve Bank Board decided to increase the cash rate target by 50 basis points to 1.35% at its July Board meeting. The decision was expected by Westpac and widely anticipated by the market and other analysts.

The Governor's July decision Statement provides ample flexibility for the next Board meeting on August 2. From our perspective the key objective of scrutinising the Statement is to detect whether there appeared to be any clear signal that the Board planned to scale back the sequence of 50 basis point moves which we have now seen for two consecutive months. Since the RBA began announcing the cash rate publicly in 1990 it has never raised the cash rate in two consecutive meetings by 50 basis points each. However, the Governor's statement made no reference to that historical precedent, something that may have been done if he was signalling the intention to scale back the moves. Neither did he assess that the stance of policy had moved from stimulatory to the neutral range.

He sounded more confident about the inflation outlook, noting that the Bank expected that the inflation rate would peak later in 2022. On the other hand, he did observe that the real time data on the labour market and household spending had lifted. We note that this has been despite the sharp deterioration in consumer confidence. However, the resilience of household spending to date has relied upon a strong reopening effect and the release of spending capacity as the savings rate returns to more normal levels. We see those effects fading through 2022 with spending in the December quarter and 2023 falling well short of long run trend.

The Governor stopped referring to rates as "very low" but did not substitute that term with a more moderate assessment. Of some significance was the strong emphasis in the Statement on the importance of inflationary expectations. And most importantly he implied that the June quarter Inflation Report would be pivotal to future decisions. With all this in mind and given our upbeat forecast for the June inflation report (5.8% headline; 4.5% trimmed mean), we remain comfortable with our expectation that the Board will decide on a further 50 basis point lift at the August 2 meeting. In light of that significant expected lift in inflation both headline and underlying it is appropriate for the Board to lift rates by a further 50 basis points , while the policy setting is still stimulatory, to emphasise its commitment to returning inflation to the target range of 2–3%.

However, we are expecting the Board to pause in September and October. A key to that decision to pause will be the RBA's assessment of the level of rates that constitutes a neutral policy stance. We assess that stance as being in the 1.5–2.0% range. Neutral is the rate at which policy is neither stimulatory nor contractionary.

Given the powerful transmission from the cash rate to the household sector (we assess that 90% of borrowers will be directly affected by the RBA's cash rate policy by end 2023), "neutral" has been falling as households have lifted their leverage.

But we cannot be certain of the level of neutral and many central banks have followed the Greenspan example (paraphrased), "I will tell you where neutral is when we get there!" That is the right approach and argues for a near-term pause in the RBA's tightening cycle to assess the cumulative impact of a series of out sized rate increases.

The concept that neutral is "zero real" when inflation is back at the middle of the target band might be an interesting theoretical approach for a steady state analysis but "zero real" is hardly relevant when annual inflation is trending towards 7%.

For example, if inflation was back at 2.5% the dampening impact on the economy of inflation (through the squeeze on household budgets) would be much weaker than the current situation where inflation is more than double 2.5% and rising. With inflation playing a much more prominent role in restraining real activity the level of interest rates required to align demand with supply is appropriately lower – not higher which would be the result of targeting zero real as "neutral".

Consequently, some notion that "neutral" should be 2.5% (zero real) seems misplaced in this extraordinary cycle. There have been some reports that the RBA sees neutral as 2.5% but that is likely to be a theoretical "steady state" assessment – not an approach which is relevant to the current situation.

But to support our expectation that the Board will pause in September we will need to see a significant change in the wording in the August Statement, highlighting some if not all of: how far rates have moved in such a short time; describing the rate of 1.85% as in the neutral zone; noting the much higher frequency of RBA meetings than other central banks: while firmly indicating that further increases will be required.

It will also be important to assess the Bank's revised forecasts which print on August 5, three days after the Board meeting, with the August Statement on Monetary Policy.

As we have done quite successfully through this current cycle, we have chosen to forecast the best policy rather than follow any implied guidelines from the RBA. For September, having firmly established the RBA's inflation targeting credentials over the previous four meetings, the Board's best policy option will be to pause to assess the high frequency response (confidence; house prices; new lending; housing related spending such as durables) and global developments before resuming the cycle following the September quarter Inflation Report. That Report is likely to see underlying inflation lift further to around 4.8% requiring a further, but scaled back, response of 25 basis points to emphasise that the Board remains focussed on its inflation objectives.

Our expected peak in the cycle (2.6%) is likely to be reached in February 2023, although the Board is unlikely to be able to indicate such an expectation.

A further pause in March in recognition that policy is firmly in the contractionary zone would be appropriate to again observe developments in the economy. By then we expect the very clear indications that the economy has slowed substantially with consumer spending growth well below trend; house prices well on the way to our 14% contraction target by end 2023; housing activity signalling an imminent contraction; the FOMC on hold; and the US economy losing all momentum.

But the key will be the March quarter Inflation Report where we expect to see annual inflation, both headline and underlying showing the first signs of falling (headline 6.6% to 5.6%; underlying 4.8% to 4.2%). Although annual inflation will still not be within the target band the Board will be observing a significant easing in supply side inflation pressures which are likely to continue as global demand slows and supply adjusts to elevated prices. The obvious easing in demand in the economy supplemented by increasing overseas arrivals will be closing the demand/supply gap in the labour market and provide the Board with ample justification to maintain its pause.

Bill Evans, Chief Economist

THE WEEK THAT WAS

Policy actions and talk of recession have filled the headlines in Australia and across the world this week.

The July RBA meeting was as expected, with another 50bp hike decided upon by the Board. As detailed by Westpac Chief Economist Bill Evans, there was nothing in the statement to dissuade us of the view that the July hike will prove the second of three consecutive 50bp hikes June through August, necessary to combat historic inflation and associated risks. Arguing in favour of this forecast and our belief that a further 75bps of tightening will be delivered in 25bp increments November through February was the close attention paid by the RBA to the continued rise of Australian inflation as a result of global and domestic pressures; our tight labour market; and recent strength in consumer spending. Downside risks to growth here and abroad are being monitored closely but, at least for the time being, remain secondary to the inflation threat.

On the data front, regarding housing, both dwelling approvals and housing finance surprised materially to the upside in May, largely due to idiosyncratic factors around lumpy high-rise approvals and the clearing of processing backlogs from April. The underlying detail still echoes a down–beat assessment for Australia's housing sector however, with a broad–based decline in private detached housing approvals (–2.4%mth) and persistent weakness in owner–occupier financing due to affordability concerns (–3.7%ytd). The backdrop of rising building costs, an aggressive RBA tightening cycle and a housing market correction are set to sustain the down–trend in dwelling construction and home lending over the remainder of 2022.

Australian trade also materially beat expectations in May, the surplus widening to a record high of $16bn on strength in resource exports. Total exports gained 9.5% as resource earnings rose 12.0%. Of particular note for resources, coal export earnings soared 20% on higher prices and volumes. Smaller in scale but also of significance, service exports gained 4.8% as tourism earnings increased 10% following a 29% jump in April as border re–opening continues to take effect. Along with continued strength in domestic demand, the price of oil and a weaker Australian dollar saw imports up 5.8% in May, partially offsetting exports' strength.

Offshore, the minutes of the FOMC's June meeting were the focus. There was nothing new in the content or tone of the report, with a clear emphasis on the risks to the outlook for inflation and inflation expectations as well as robust belief in the health of the US economy. That said, for inflation, it was emphasised that a key driver of the current wave is supply not demand – limiting the FOMC's ability to curb aggregate inflation with rate hikes; and regarding growth, at numerous times in the minutes evidence of building downside risks was provided. Both trends are consistent with our baseline view that another 75bp hike will be delivered in July and be followed by a 50bp hike come September; however, thereafter the pace and scale of rate increases will decrease abruptly, with only another 50bps of tightening occurring across the November and December meetings.

Of greater significance for term interest rates is that we see a series of rate cuts commencing from Q4 2023, totalling 125bps by Q4 2024. This will leave the fed funds rate at 2.125% into the medium–term, with the risk additional cuts will be required. Consequently, we see the US 10 year back at 2.00% from the end of 2024. Whereas historically high inflation in the US is proving transitory (slowly), increasingly it seems the primary risk for their economy is below–trend growth becoming an enduring force. On this risk, note that the US is already on the cusp of two consecutive negative quarters of GDP at June 2022, while the outlook for income, financial conditions and confidence is adverse. These are themes explored in depth in our July edition of Market Outlook, due for release later today on Westpac IQ.

Despite the ongoing deterioration in US economic prospects, the US dollar continues to ride high. Indeed, midweek it reached a new multi–decade high of 107.3 on a DXY basis, now 107.1. The primary trigger for the move was a gas worker strike in Norway which hit already–fragile belief in the security of Europe's gas supply hard. The strike looks to have already ended, but the weight on Euro from global risk aversion will take a lot longer to lift. With the market effect of the Ukraine conflict receding, and given the resilience the Euro Area economy has shown to date, we believe Euro will rebound in the second half of this year and continue on this uptrend through 2023. The relative and absolute economic foundations of FX markets are also a key topic of discussion in Market Outlook.

Week ahead & data wrap

The RBNZ steps up to the plate next week, with the Official Cash Rate up for review again on Wednesday. We expect the RBNZ to deliver a third consecutive 50 basis-point increase. That's more or less a unanimous view in the market, although pricing has flirted with the idea of a 75 basis-point increase at times. A 50 basis-point rise would also be in line with the path that the RBNZ projected in its May *Monetary Policy Statement*. That projection showed the OCR reaching about 3.5% by the end of this year, and then peaking at near 4% next year.

Earlier this year, the RBNZ's shift to larger OCR hikes and a higher forecast OCR peak came as something of a surprise. Indeed, it didn't seem to be prompted by the flow of economic data. Instead, it was what the RBNZ Governor described as a "behavioural change" within the RBNZ itself. In other words, there was a belated recognition that small, steady (25 basis-point) OCR hikes were not cutting the mustard with an inflation problem of this scale. The OCR was making limited headway in slowing the economy down, and risks were growing that inflation expectations could become entrenched above the RBNZ's target.

At some point, we expect another "behavioural change" at the RBNZ. There will come a point where the pace of hikes will slow. At that point, the pace of further rate hikes (or reductions) will become dependent on what the data shows. But for now, with inflation elevated, the labour market highly stretched and output running well above trend, we expect the RBNZ to continue on the path of rate hikes that it previously laid out.

On the data front, developments since the May policy statement have been mixed. The risks around near-term inflation look to be to the upside of the RBNZ's already-hefty forecasts, largely due to the second wave of fuel price rises. However, the surprise for the RBNZ hasn't been from crude oil prices per se, but from a blowout in refining margins. Blowouts of that sort are highly likely to prove transitory, so we expect the RBNZ to largely look through this source of inflation.

On the other hand, near-term activity is looking softer than the RBNZ expected. March quarter GDP fell by 0.2%, well below the RBNZ's estimate of a 0.7% rise. While Omicron disruptions were the likely suspect behind the March quarter decline, it doesn't look like June quarter activity will make up that lost ground to the extent that the RBNZ was forecasting.

Looking further ahead, the RBNZ still needs to see some further slowdown in activity in order to bring inflation pressures into line. But at this stage the evidence of a softening in economic conditions, let alone a recession, is mostly anecdotal. That said, the lags involved with monetary policy – many borrowers are only just starting to feel the impact of the OCR hikes to date – mean that the risk of overdoing it is a genuine concern.

Market thinking on the extent of OCR hikes that will be required has knee-jerked one way and then the other. Little more than a month ago, the concerns were centred on inflation getting out of control and central banks having to lift their policy rates even more aggressively than they originally thought. That was egged on by the US Federal Reserve's decision to lift its policy rate by 75bps in June, having effectively dismissed the idea just weeks earlier. By that point, New Zealand interest rate markets were pricing in an OCR peak of 4.5% or more, compared to the RBNZ's projection of a 3.9% peak.

However, sentiment has turned back around rapidly in the last few weeks. That's seen sharp declines in share prices and interest rates around the world as markets have become concerned that rapid monetary policy tightening could drive the global economy into recession. But while the speed of the adjustment has been dramatic, bear in mind that market expectations of the OCR have simply come back to be in line with the RBNZ's projections, and are close to where they were at the time of the May *MPS*.

Given where market pricing currently lies, if the RBNZ did become concerned about the risk of a recession, it has a very powerful tool at its disposal: it could simply stop hiking. For example, if it signalled that it was likely to stop hiking the OCR once it had reached 3%, we think that would see wholesale interest rates drop by as much as 50 basis points immediately (and as much as 100 basis points from their recent peaks). Mortgage rates would follow in turn.

But doing that now would risk undermining the work that the RBNZ has done to date to bring inflation pressures under control. For that reason, we think that the RBNZ will carry through with the OCR tightening path that it laid out in May, without bowing to the speculation about recession risks.

The August *Monetary Policy Statement*, on the other hand, could be a different matter. We expect a fourth 50bp hike at that date, which would bring the OCR up to 3%. That's getting much closer to the RBNZ's projected peak of 3.9% (and our forecast of a 3.5% peak) and is more plausibly in the range of 'tight' monetary policy settings. At that point, we think the RBNZ could "change its behaviour" and signal that it's getting on top of the situation. And from there, the RBNZ could assert that further OCR hikes are likely but will still be data-dependent.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 5	Q2 QSBO business opinion – trading activity	-6.8	-0.9	–
	Jun ANZ commodity prices	-4.3%	-0.4%	–
Wed 6	GlobalDairyTrade auction prices (WMP)	-0.6%	-3.1%	1.0%

Aus Jun Westpac–MI Consumer Sentiment

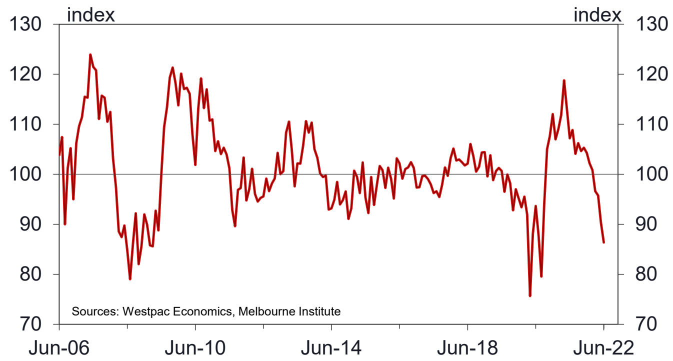
Jul 12, Last: 86.4

The Westpac–MI Consumer Sentiment index will from now be released on the second Tuesday of each month, a week after the RBA meeting – the release time has been brought forward by a day from previously. The exception, in January (when there is no RBA meeting), the release will be on the third Tuesday of the month.

Consumer Sentiment fell 4.5% to 86.4 in June, the RBA's surprise 50bp rate having a clear impact. Over the 46–year history of the survey, we have only seen Index reads at or below this level during major economic dislocations.

Interest rate and inflation concerns are likely to dominate again with the RBA putting through another 50bp rate hike at its July meeting, petrol prices pushing through $2/litre locally and sharemarkets globally continuing to sell off sharply and dwelling prices now clearly correcting lower. Labour markets are the key remaining support for sentiment locally.

Consumer Sentiment: slumped to 86.4 in June



Aus Jun overseas arrivals and departures, prelim'

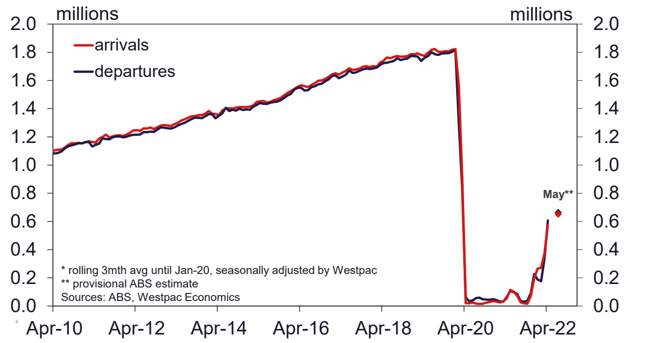
Jul 12, Arrivals, Last: 651.1k
Jul 12, Departures, Last: 664.0k

The headline pace of growth in overseas travel pulled back slightly in May, although a strong recovery has been observed so far this year. Both arrivals and departures are currently sitting above a third of their pre–pandemic levels, having advanced to 651.1k and 664.0k respectively.

For the June preliminary estimate, we anticipate that the pace of recovery continues to forge ahead. The border reopening and associated lifts in short–term visitor arrivals are starting to have a material impact on the economy, as evinced by the recent strong partial rebound in Australia's tourism related service exports.

While strength on the demand–side is welcome, concerns around the undersupply of labour remain front of mind for many businesses. The prospective return of student and temporary worker visa applications towards pre–pandemic levels is promising, and should this translate to continued growth in visa arrivals, it can gradually alleviate labour market pressures over the longer–term.

Total overseas arrivals and departures



Aus Jun Labour Force Survey, employment chg '000

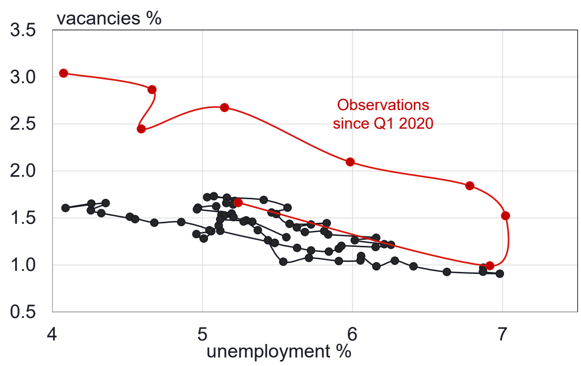
Jul 14, Last: 60.6, WBC f/c: 35
Mkt f/c: 30 Range: –10 to +45

Total employment surged 60.6k (0.5%) in May, significantly stronger than the market estimate of 25k. Weekly payrolls had pointed to a decline in employment but in the end there was a strong lift in employment matched by a robust 0.9% gain in hours worked.

The May increase was the 7th consecutive gain following the easing of lockdown restrictions in late 2021. Average employment growth over the past three months (around 30k) continues to be stronger than the pre–pandemic trend of around 20k per month.

Vacancies and business surveys suggest that labour demand remains very robust. We have pencilled an around trend increase of +35k for June. It is seasonally a soft month in original terms, so if we are still on a positive growth trend then that would suggest upside risks. However, we note the number unemployed to vacancies is down to a record low of 1.3, in the year before COVID it averaged 3.1 and normally ranges between 3 and 5, highlighting very tight supply.

Australian Beveridge Curve



DATA PREVIEWS

Aus Jun Labour Force Survey, unemployment rate %

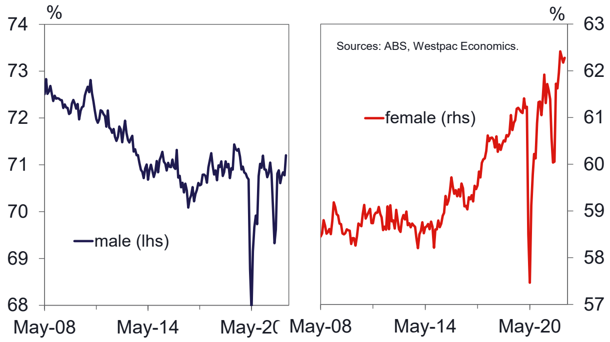
Jul 14, Last: 3.9%, WBC f/c: 3.8%
Mkt f/c: 3.8% Range: 3.7% to 4.0%

In May the labour force very modestly outpaced the rise in employment, lifting 68.4k with the participation rate rising to 66.7% (a new record high) from 66.4%.

With gains in employment being matched by gains in the labour force, the unemployment rate was flat at 3.9%, a small fall at two decimal places to 3.86% from 3.90%. At 3.9%, unemployment is at a record low for the monthly survey which started in February 1978. The last time the unemployment rate was lower than this was in August 1974, when the survey was quarterly.

A strong gain in male employment (54.5k) in May was matched by a rise in male participation (0.4ppt to 71.2%). A long run trend decline in male participation, associated with an aging population, has been arrested for now but a lot still depends on if female participation can rise to supply the needed labour due to limited immigration. With an expected flat participation rate in June, the unemployment rate rounds down to 3.8%.

Australian participation rates by gender



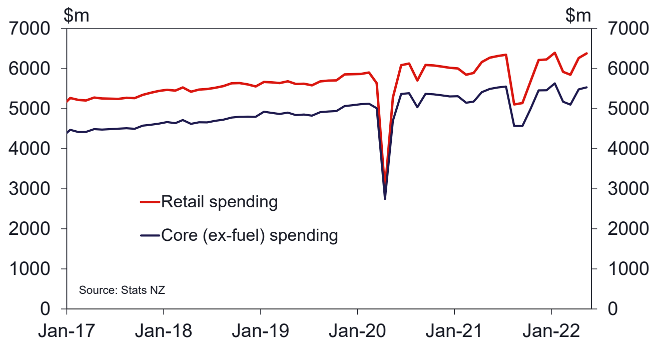
NZ Jun retail card spending

Jul 11, Last: +1.9%, Westpac: –0.5%

Retail spending rose by 1.9% in May. In part, that was due to the continued march higher in consumer prices, with increased spending on fuel accounting for much of the rise. Spending was also boosted by the easing of Covid related disruptions which supported spending in areas like hospitality.

We're forecasting a small easing in spending levels in June. However, that's masking some important details. Retail prices have continued to push higher, with sizeable increases in the price of petrol. Those price increases are crowding out spending in other areas. In fact, we expect that ex-fuel spending will be down 1% over the month. The strength in prices also means that, although nominal spending has been fairly resilient in recent months, the actual volume of goods that consumers can afford is being squeezed.

NZ retail card spending



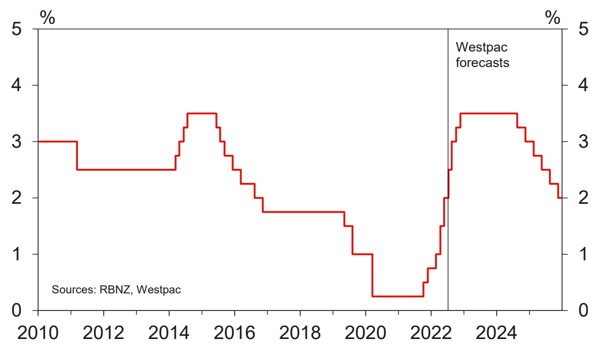
NZ RBNZ Monetary Policy Review

Jul 13, Last: 2.00%, Westpac: 2.50%, Mkt: 2.50%

We expect the RBNZ will raise the Official Cash Rate by another 50 basis points to 2.50% at its July meeting. Recent developments have been mixed for the monetary policy outlook. Near-term inflation is still running hot, but the risks of a global slowdown have increased and early signs of a cooling in domestic activity have started to emerge. For now, the RBNZ will need to carry through with the interest rate hikes it has signalled, or risk undoing its good work so far on bringing inflation pressures under control.

Looking further ahead, the evidence for a softening in activity is more anecdotal than definitive at this stage. However, at some point in the coming months it will be appropriate to signal that the end of the tightening cycle is near.

RBNZ Official Cash Rate



DATA PREVIEWS

NZ Jun REINZ house sales and prices

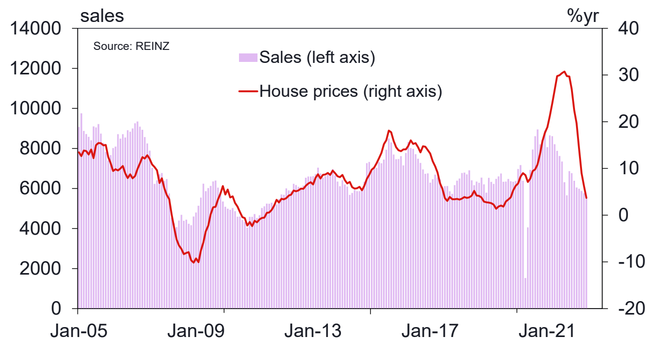
Jul 14 (TBC), Sales last: –4.6%
Prices last: –0.8%mth, +3.7%yr

The REINZ house price index has fallen for the last six months, and is down 6% from its peak. The pace of monthly declines has eased in the last couple of months, which may reflect a fading impact from the imposition of consumer credit regulations and loan-to-value restrictions in late 2021.

Notwithstanding the recent trend, we expect to see further price declines in the coming months on the back of higher interest rates. Fixed-term mortgage rates have risen sharply in recent months, and are at their highest levels since 2015.

House sales have fallen below pre-Covid levels, and the average time to sell has been trending higher. We expect a further softening in these measures as well.

REINZ house prices and sales



China Q2 GDP

Jul 15, GDP %yr, Last: 4.8%, Mkt f/c: 1.2%

China's COVID-zero policy created a large headwind for the economy throughout Q2. The sudden drop in momentum from the Q1 actual to the Q2 consensus forecast highlights this.

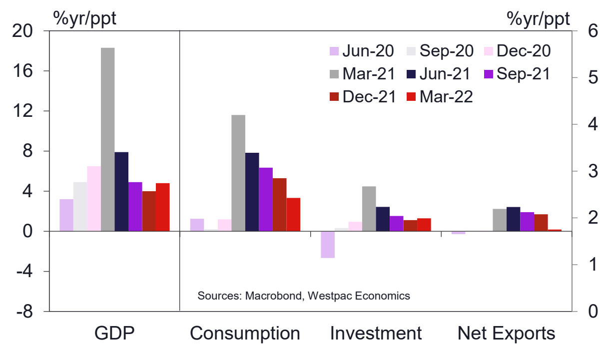
However, in coming to this forecast, the market has had to rely on volatile nominal partial data for consumption and investment which, even in quiet times, only provides part of the story.

In this particular instance, public consumption is likely to provide a significant offset to private sector weakness. Support from international trade is also likely to be material.

We continue to expect a material upside surprise for GDP on release.

The June partial data will also be critical to assess, due for release with GDP.

China GDP: Q2 outcome to dictate 2022 result



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.

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 11					
NZ	Jun card spending	1.4%	–	–0.5%	Price rises and borrowing costs squeezing spending.
Jpn	May machinery orders	10.8%	–5.6%	–	Ongoing volatility in investment amid supply issues.
US	Fedspeak	–	–	–	Williams.
Tue 12					
Aus	Jul Westpac–MI Consumer Sentiment	86.4	–	–	Sentiment weak, sub-90, even before RBA's July rate hike.
	Jun NAB business survey	16	–	–	May: conditions elevated, at +16; confidence cools, -4pts to +6.
	Jun overseas arrivals, prelim. 000's	651.1	–	–	Currently above a third of pre-pandemic levels.
NZ	May net migration	-80	–	–	Set to remain low as arrivals and departures both rise.
Eur	Jul ZEW survey of expectations	–28	–	–	Confidence on par with pandemic lows.
US	Jun NFIB small business optimism	93.1	93.0	–	Cost pressures and labour shortages remain as key concerns.
	Fedspeak	–	–	–	Barkin.
Wed 13					
NZ	RBNZ policy decision	2.00%	2.50%	2.50%	Inflation still elevated, labour market tight.
	Jun food price index	0.7%	–	1.0%	Seasonal rise in veg prices adding to other price pressures.
Chn	Jun trade balance USDbn	78.76	76.85	–	Trade has been a key support through the lockdowns.
Eur	May industrial production	0.4%	0.0%	–	Supply issues are a headwind to production.
UK	May trade balance £bn	-8503	–	–	Deficit to remain wide on import strength.
US	Jun CPI	1.0%	1.1%	–	Annual inflation soon to crest.
	Federal Reserve's Beige book	–	–	–	Qualitative assessment of conditions across the 12 districts.
Can	Bank of Canada policy decision	1.50%	2.00%	–	50bp hike expected to rein in inflation.
Thu 14					
Aus	Jun employment, '000 chg	60.6	30.0	35.0	Labour demand remains robust, job vacancies are very high.
	Jun unemployment rate	3.9%	3.8%	3.8%	Un' rate ticks lower - holding participation steady at record high.
	Jul MI inflation expectations	6.7%	–	–	Well up from 3.5% at the start of 2021, mirroring actual inflation.
NZ	Jun REINZ house sales	–4.4%	–	–	Due this week. Slowdown in the market to continue...
	Jun REINZ house prices %yr	3.7%	–	–	... in response to higher mortgage rates.
Jpn	May industrial production	–7.2%	–	–	Final estimate.
US	Jun PPI	0.8%	0.8%	–	Producer prices remain elevated amid supply issues.
	Initial jobless claims	235k	–	–	To remain at a low level.
	Fedspeak	–	–	–	Waller.
Fri 15					
NZ	Jun manufacturing PMI	52.9	–	–	Has been resilient, but downside pressures are mounting.
Chn	Q2 GDP %yr	4.8%	1.0%	–	COVID-zero lockdowns to weigh on activity.
	Jun retail sales ytd %yr	–1.5%	–1.2%	–	Weakness in consumption to hold in near-term...
	Jun fixed asset investment ytd %yr	6.2%	6.0%	–	... but building momentum for investment...
	Jun industrial production ytd %yr	3.3%	3.5%	–	... and ongoing strength in trade are providing resilience.
Eur	May trade balance €bn	–31.7	–	–	Deficit to remain wide on energy prices.
US	Jul Fed Empire state index	-1.2	-2.6	–	Volatile, but firm order pipeline to support NY mfg.
	Jun retail sales	–0.3%	0.9%	–	Inflation and higher rates affecting spending capacity.
	Jun import price index	0.6%	0.7%	–	Import prices to remain at an elevated level.
	Jun industrial production	0.1%	0.0%	–	Volatility to linger as firms navigate supply issues.
	May business inventories	1.2%	1.1%	–	Businesses rebuilding inventory at a robust pace.
	Jul Uni. of Michigan sentiment	50.0	49.0	–	Inflation and rate concerns still front of mind.
	Fedspeak	–	–	–	Bostic.

Forecasts

Interest rate forecasts

Australia	Latest (8 Jul)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	1.35	1.85	2.35	2.60	2.60	2.60	2.60	2.60
90 Day BBSW	1.93	2.30	2.72	2.80	2.80	2.80	2.80	2.80
3 Year Swap	3.50	3.80	3.60	3.40	3.10	2.90	2.75	2.75
3 Year Bond	2.99	3.30	3.20	3.10	2.90	2.70	2.55	2.55
10 Year Bond	3.50	3.90	3.60	3.30	3.00	2.70	2.50	2.35
10 Year Spread to US (bps)	51	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	2.99	3.30	3.10	2.90	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	2.91	3.40	3.60	3.60	3.60	3.60	3.60	3.60
2 year swap	3.84	4.30	4.10	4.00	3.80	3.50	3.20	2.90
10 Year Bond	3.67	4.00	3.80	3.60	3.40	3.20	3.00	2.90
10 Year spread to US	68	70	70	70	70	70	70	70

Exchange rate forecasts

Australia	Latest (8 Jul)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.6839	0.72	0.75	0.77	0.78	0.79	0.80	0.80
NZD/USD	0.6171	0.65	0.68	0.70	0.71	0.72	0.72	0.72
USD/JPY	135.98	134	132	130	127	125	123	121
EUR/USD	1.0164	1.05	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.2021	1.23	1.26	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.7006	6.55	6.35	6.25	6.20	6.15	6.15	6.10
AUD/NZD	1.1083	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**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
GDP % qtr	3.0	–0.2	1.0	0.7	1.2	0.8	0.6	–	–	–	–
Annual avg change	5.6	5.1	1.0	2.2	2.1	2.7	3.6	–2.1	5.6	2.1	3.3
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	1.4	–0.1	0.8	0.7	–	–	–	–
Annual change	5.9	6.9	6.7	5.9	4.3	3.2	2.8	1.4	5.9	4.3	3.0

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