AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 1 August 2022

Editorial: RBA Board to raise the cash rate by 0.5% next week.

RBA: policy decision, Statement on Monetary Policy.

Australia: NSW bank holiday, housing prices and finance, dwelling approvals, real retail sales, trade balance.

NZ: unemployment rate, LCI, building consents, GlobalDairyTrade auction.

China: Q2 current account balance.

Europe: unemployment rate, retail sales.

UK: BoE policy decision.

US: ISMs, non-farm payrolls, factory orders and durables, trade balance.

Global: S&P Global PMIs.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 22 JULY 2022.

WESTPAC INSTITUTIONAL BANK

RBA Board to raise the cash rate by 0.5% next week

The Reserve Bank Board meets next week on August 2.

For some time we have been forecasting that the Board will decide to lift the cash rate by a further 0.5% to 1.85% and we remain confident of that outcome next week.

Last week we lifted our forecast for the RBA's terminal rate in this cycle to 3.35%, up from 2.6%, with the timing for reaching the terminal rate remaining the February Board meeting next year.

Because we now see an extended period of rates holding well into the contractionary zone (our own estimate of neutral is 1.5-2.0%) with a sudden associated slowdown in economic growth, we are now anticipating a series of rate cuts in 2024 to restore the cash rate to the RBA's neutral zone (total cuts of 100 basis points).

The revised profile sees the Board raising the cash rate by a further 0.5% in September to 2.35% - near the Governor's estimate of neutral which is "at least 2.5%".

Just as we saw Chairman Powell, during the post FOMC Press Conference this week, imply that having reached the neutral zone (around 2.5%) with the federal funds rate (now 2.375%) it would be appropriate to slow the pace of tightening, we expect that following the 0.5% increase in September the RBA Board will move back to 0.25% increments from October as policy moves into the contractionary zone.

Because the RBA Governor will not hold a Press Conference after the September meeting, we expect some signal in the Governor's written Statement or the Minutes for the meeting that policy can change gear to a slower tightening pace at the next meeting with the cash rate now in the neutral zone.

For August, the Governor will continue to make the case for justifying a third consecutive 0.5% move therefore laying the foundation for the expected move in September.

Next week will not only be about the decision on August 2 but the Bank will also publish its revised growth and inflation forecasts in the August Statement on Monetary Policy that will print on Friday August 5.

Readers will be aware that the Government has just released a new set of forecasts from Commonwealth Treasury that represents an update from the forecasts in the Pre-Election Economic and Fiscal Outlook – a document that provided the updated fiscal estimates for the recent campaign that culminated in the Federal election on May 21.

Last week Westpac released its revised forecasts in conjunction with the upward revisions to the interest rate outlook.

Westpac's Forecasts Compared to Treasury's Revised Forecasts

Our key revisions were: GDP growth (through the year) were revised from 4.0% to 4.4% in 2022; down from 2% to 1% in 2023; and down from 2.5% to 2.0% in 2023.

With this growth slowdown in 2023 we lifted our end 2023 unemployment rate forecast from 3.5% to 4.2% and lifted the end of 2024 forecast for the unemployment rate to 5%.

While our forecasts for the June quarter Inflation Report were in line with the actuals there were some developments in the Report (particularly around home building costs and durables) that have lifted our end 2022 inflation forecast from 7.1% to 7.5%, with the trimmed mean annual rate upgraded from 5.0% to 5.5%.

For 2023 we have also lifted our inflation forecasts from 3.0% to 3.1% with the trimmed mean forecast holding at 3%.

These inflation forecasts through 2023 strengthen our case that the RBA will be committed to maintaining the cash rate at 3.35% throughout 2023.

Treasury has revised its GDP growth forecasts for 2021/2022 (Year average) to 3.75% (from 4.25%); for 2022/23 to 3% (from 3.5%) and for 2023/24 to 2% (from 2.5%).

On the "year average fiscal year" basis our own growth forecasts are: 4.1% (2021/22); 4.5% (2022/23); and 1.1% (2023/24).

On a "through the year calendar basis" we estimate the Treasury forecasts are likely to be around: 2.7% (2022); 1.8% (2023); and 2.4% (2024).

As noted there are some big differences between our own forecasts and the revised Treasury forecasts.

In effect, we expect 2022 to be much stronger than Treasury while the slowdown in 2023 will be much more severe as the rate hikes bite.

We expect GDP growth in the June quarter of 2022 to be 2% (we estimate Treasury are factoring in around 0.9%); 1% in the September quarter (an estimated 0.6% by Treasury) and 0.6% in the December quarter (Treasury around 0.4%).

Our differences with Treasury in 2022 are quite significant. Hours worked from the Labour Force survey increased by 4.6% in the June quarter consistent with a strong outcome in that quarter as households freed up more spending, particularly on services, by further lowering their savings rate from the "high" starting point of 11.4% and NSW and Victoria benefitted from the reopening effect we saw in the March quarter.

The Treasury forecasts for headline inflation have been revised up to 7.75% by end 2022 falling to 3.5% by end 2023 and 2.75% by mid-2024 (Treasury has not provided any trimmed mean forecasts).

Westpac's forecasts are: 7.6% in 2022; 3.1% in 2023; and 3.0% in mid-2024.

Treasury forecasts the unemployment rate in June 2023 at 3.75% and 4.0% by June 2024.

What Does this Mean for the RBA's Forecasts in the August Statement on Monetary Policy?

Some very important points to note about the RBA's forecasts are that the forecasts in the May Statement on Monetary Policy were based on "expectations derived from surveys of professional economists and financial market pricing" while the Brent crude oil price is fixed at US$101bbl (as at 4 May) for the entire forecast period.

Since May 4 market pricing has scaled back significantly – at that time markets had the cash rate rising from 0.35% to 4% by May 2023 peaking around 4.5% by May 2024.

Economists were much more cautious with peaks in the 2.25%-2.75% range generally assessed.

Now markets have repriced the peak in the cash rate to mid-2023 at around 3.5% while economists have generally lifted their peak rate forecasts to be around 3%.

Overall it is reasonable that the RBA would be using a somewhat lower expected profile for the cash rate than was the case in May although, because it is a "mix" of two quite different assessments, it is not at all clear exactly how far the rate forecasts will have been reduced.

Perhaps the best approach is to assume a broadly unchanged path for interest rates for the August forecasts. Note that the forecasts for the August Statement will be extended from mid-2024 to end 2024.

In May the key forecasts from the RBA (through the year growth) were: for GDP: 4.25% (2022); 2% (2023); and 2% (to June 2024); for headline inflation: 6% (end 2022); 3.25% (end 2023); and 3% (mid 2024).

Trimmed mean inflation was: 4.75% (2022); 3.25 (2023); and 3% (mid 2024) while the unemployment rate was forecast at 3.75% (end 2022); 3.5% (end 2023); and 3.5% (June 2024).

On growth, we expect the RBA will be much closer to our estimate of 4.4% for 2022; and more upbeat in 2023 than our 1% (perhaps 1.75%) and retain the 2% growth forecast in 2024.

On inflation, the RBA is likely to lift the forecast for 2022 from 6% to 7.5%; retain the 3.25% forecast for 2023 but lower the 2024 forecast to 2.75%.

The RBA's forecast for the unemployment rate is likely to hold at 3.5% in both 2023 and 2024 – lower than Treasury's forecast.

The RBA's "year average – fiscal year" growth forecasts in May were: 3.75% (2021/22); 4.5% (2022/23); 2% (2023/24). Those compare with Treasury's numbers of 3.75%; 3%; and 2%. Our own forecasts are 4.1%; 4.5%; and 1.1%. We do not think that the RBA will follow Treasury with such a sharp downgrade of 2022/23 but believe the 2023/24 forecast will be much closer to the Treasury forecast than our own.

Conclusion

Apart from the 2022 inflation forecast we do not expect any significant forecast changes from the RBA in the August Statement on Monetary Policy despite a downgrading of growth by the Treasury.

However, in particular, we do not expect the RBA to forecast the sharp slowdown in 2023 in line with our own views.

That slowdown is linked with a higher unemployment profile than we expect from the RBA which, we believe, will pave the way for rate cuts in 2024.

The Australian Dollar

Readers will be aware that we have consistently argued for a higher AUD through the second half of 2022 and through 2023.

We have "tweaked" our target profile from USD0.75 (end 2022) and USD0.80 (end 2023) to USD 0.73 (end 2022) and 0.78 (end 2023).

That adjustment mainly reflects the sharper forecast slowdown in Australia's growth rate in 2023 from 2% to 1% and greater uncertainty in the world economy, particularly around China.

However the key principles which continue to underpin the AUD remain, namely: a sharp slowdown in the US economy - undermining the USD; an eventual clear out-performance by China; expected resilience among the prices of a number of Australia's commodity exports; and, most importantly, a clear signal that the risk aversion that undermined the AUD in 2022 H1 (where markets were progressively more nervous about the ability of central banks to contain inflation) will subside in 2023 as inflation slows; markets confidently anticipate lower rates; and risk aversion fades.

Bill Evans, Chief Economist

THE WEEK THAT WAS

The past week has been notable for a global resurgence in risk appetite despite a run of data pointing to deteriorating US economic growth. Principally this is because the softer tone of US data and the FOMC's recognition of it implies a receding risk of rate hikes in excess of those already priced.

Having delivered a second-consecutive 75bp fed funds rate hike to a mid-point of 2.375%, Chair Powell showed a greater degree of comfort over the outlook for inflation in the July press conference. In part this stems from 2.375% being within the 2-3% interest rate range the FOMC believe to be neutral for their economy. However, the greater comfort vis a vis inflation is also a consequence of building apprehension over the outlook for growth. Notably, the press conference also made clear that the FOMC wish to undertake "just the right amount of tightening" to bring about below-trend growth, "not make a mistake" by creating the pre-conditions for recession – as defined by the NBER.

After the July FOMC meeting, Q2 was confirmed as a second consecutive quarter of contraction for GDP, giving further weight to the nascent concerns of Chair Powell and the Committee. Importantly, whereas the weakness in Q1 was principally due to net exports and inventories, in Q2 a marked deterioration in domestic final demand was seen – annualised growth falling from +2.1% in Q1 to -0.1% in Q2. Pricing for the FOMC fell further as a result to now be broadly in line with our own view – a 50bp hike in September followed by only two 25bp hikes come November and December.

Arguably risks to this view are also transitioning from being biased up to skewed down. The most likely catalyst to cement such a change is the weakness recently seen in household survey employment – flat over the three months to June – becoming apparent in nonfarm payrolls and hourly earnings. Along with persistent weakness in domestic demand, a material weakening in these labour market variables would begin to fit the definition of an NBER recession and warrant greater caution be taken with policy. August 5 and September 2, the next two release dates for the US employment report, therefore loom as critical dates in the run to the September FOMC meeting.

Regardless of how the US rate hike cycle concludes in 2022, come 2023 we believe the policy debate will shift to the timing and scale of rate cuts as US economic growth languishes below trend and inflation pressures recede. We are more cautious on the timing of policy easing than the market, holding that it won't begin until late-2023; however, we expect the easing to be material in scale, in the order of 125bps by end-2024.

Australian equities and our dollar have benefitted from this week's recalibration of US economic risks. This is despite domestic data releases which pointed to a modest softening in consumer demand in May/June and a sharp decline in real household disposable income through Q2.

Australia's retail sales posted a soft gain of 0.2% in June, rounding out a 3.2% lift for Q2 after a similarly strong 2.9% increase in Q1. The COVID-19 reopening and normalisation of spending patterns is a key factor here, although strong price inflation over this year has also supported nominal sales. Solid momentum should sustain in the near-term, but come late-2022 and into 2023, the RBA's aggressive tightening cycle is expected to see an abrupt slowing in household spending. For full detail on the Australian consumer, see the latest edition of Westpac's Red Book.

The Q2 CPI report also made clear that household incomes have been, and will continue to be, hit by historic inflation, headline and trimmed mean inflation coming in as expected at 1.8% and 1.5%. At 6.1%yr and 4.9%yr, annual inflation to June is a multiple of aggregate wage growth across the economy, the latest estimate for the wage price index being 2.4%yr at March. The largest contributor to the headline CPI result was housing costs (0.6ppts), driven higher by a lack of supply of inputs and labour and, at the margin, the unwinding of the benefit provided to households by the Government's HomeBuilder grants in recent years.

Supply also impacted the cost of transport, household contents, apparel and food in the quarter and over the year; although for fresh food, the primary catalyst was east coast flooding rather than global supply chain and geopolitical concerns. Ahead, we continue to expect the pressure on households from inflation to persist, with annual headline inflation forecast to trend higher through H2 2022 to a peak around 7%yr in December and thereafter to take all of 2023 to come back near the top of the RBA's target range.

Chief Economist Bill Evans discussed the implications of Australian inflation for the RBA outlook and the economy following the Q2 CPI release. In short, inflation's Q2 result and outlook support our view that the RBA will need to raise the cash rate to 3.35% by February, with 100bps of the 200bps of cumulative hikes to come in August and September. To the extent that this level of the cash rate is materially above our estimate of neutral, the cost to the economy of bringing inflation back to target will be material, with GDP growth to slow in 2023 to just 1.0%yr and the unemployment rate rising to around 5.0% late-2024, approximately 2ppts above the low we forecast for late-2022.

Week ahead & data wrap

New Zealand businesses remain downbeat. The latest ANZBO survey, released this week, showed that nearly 57% of businesses expect that economic conditions will weaken over the coming year. In fact, confidence continues to linger around the lows that we saw during the 2008/09 financial crisis and when the economy first went into lockdown in 2020. Importantly, in addition to concerns about broader economic conditions, the majority of businesses now expect that trading conditions on their own shop floors will weaken over the next few months.

The weakness in business confidence is consistent with our expectations for a slowdown in economic growth over the coming months. We expect the slowdown to flow from the combined crunch on consumer demand from rising borrowing costs and surging living costs. At the same time, rising operating costs (including both materials costs and wages) are already squeezing businesses' margins. Consistent with those headwinds, we're seeing businesses wind back their investment intentions.

So far, though, some households have been immune to the impact of rising interest rates. Those are households who took out mortgages over the last year or so and who have benefitted from the record low fixed mortgage rates over that time.

However, that picture is poised to change. An increasing number of borrowers will see their debt servicing costs jump over the coming months. For example, borrowers who fixed for two years in 2020 may have secured rates in the two percent range. Those same borrowers are now looking at a two-year rate that's close to double what it was back then. For the record, around 10% of mortgages are on floating rates, another 24% will come up for re-pricing by the end of this year, and a further 23% by mid-2023.

The strength of the labour market has also provided many households with a buffer from the other headwinds that they are now facing. Indeed, we expect the June quarter labour market surveys, released next Wednesday, to show a further drop in the unemployment rate to a fresh record low of 3.1%.

Compared to the March quarter, the June quarter was less affected by Omicron-related disruptions. With the labour market still red hot and Covid restrictions having been relaxed, we expect both a jump in the number of employed and in the number of hours worked over the quarter.

We also expect a further lift in wage growth over the quarter, however, we expect that it will still lag inflation at this point in the cycle. For the Labour Cost Index (LCI), we're expecting a 0.9% increase in the overall measure for the June quarter. This would lift annual wage growth to 3.2%, the fastest pace since early 2009. For a better sense of what workers are actually receiving relative to inflation, we can look to the unadjusted measure of the LCI or at average hourly earnings. Both of those measures rose by 4.8% in the year to March, and we're expecting a further acceleration to around 5.5% for the year to June.

While we're on the topic of inflation, the labour market remains a crucial part of the inflation-interest rate nexus. It's still true that much of the surge in prices to date has been due to forces beyond New Zealand's control. But a tight labour market is the mechanism through which an initial price shock could become 'inflation' in the sense of an ongoing process of rising prices.

For this reason, the RBNZ has moved swiftly by hiking the OCR. At the same time, the Bank is striving to strike a balance between slowing the economy and thus inflation, but not to the point where the economy tips over into recession and where unemployment rises sharply.

For our part, we are not forecasting a recession. However, we can't entirely rule out the possibility that we will see a contraction in activity at some point over the coming year. Adding to that risk, we're already seeing activity softening in some of our key trading partner economies, including the United States.

We expect the slowdown in domestic economic activity now in train will prove to be moderate. In addition to the labour market strength, there are other factors in play supporting growth. For example, the low level of interest rates in recent years has been a windfall for many households and has contributed to an increase in household savings. Some households may choose to rundown these savings over the next year or two in order to smooth their consumption.

While the coming slowdown is expected to be manageable from an economy-wide perspective, conditions will be varied across groups and sectors. For instance, many households on lower incomes are facing a sizeable squeeze on their spending power due to increases in the cost of household necessities like food and fuel. These households are also unlikely to have savings to call on over the coming years. In terms of industries, we expect consumer-focused industries like retail and hospitality to be the hardest hit.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Thu 28	Jun Employment indicators	0.2%	0.6%	–
	Jul ANZBO business confidence	-62.6	-56.7	–
Fri 29	Jul ANZ consumer confidence	80.5	81.9	–

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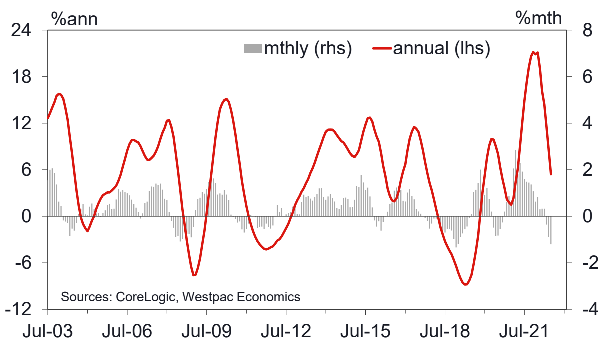
Aus Jul CoreLogic home value index

Aug 1, Last: –0.8%, WBC f/c: –1.5%

The wider housing market tipped over into correction in May, with price declines accelerating in June, the CoreLogic home value index down 0.8% after a 0.3% dip the previous month. Turnover is also declining sharply from high levels. The RBA's tightening cycle, which began with a 25bp rate rise in May and a 50bp move in June, has been the major catalyst turning the market.

Weakness looks to have intensified in July, hit by a further 50bp hike from the RBA. CoreLogic's daily measure points to a 1.5% decline across the major capitals with Sydney set for a particularly eye-catching 2.3% monthly fall.

Australian dwelling prices



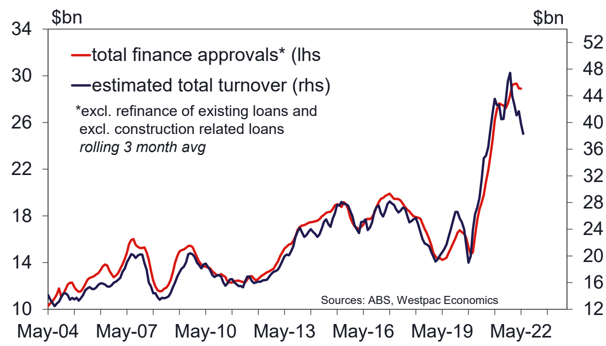
Aus Jun housing finance approvals

Aug 2, Last: 1.7%, WBC f/c: –5.0%
Mkt f/c: –3.0%, Range: –7.0% to 0.5%

Housing finance surprised to the upside in May, posting a 1.7% gain and with an upward revision to April softening the moderation since the start of the year. The timing of holidays and disruptions to processing appear to have seen a backlog in April that cleared in May.

Other indicators - turnover and prices – point to a significantly larger pull-back than the decline seen in housing finance to date. We expect this to show through more clearly in the June finance which are forecast to decline 5%.

New finance approvals*



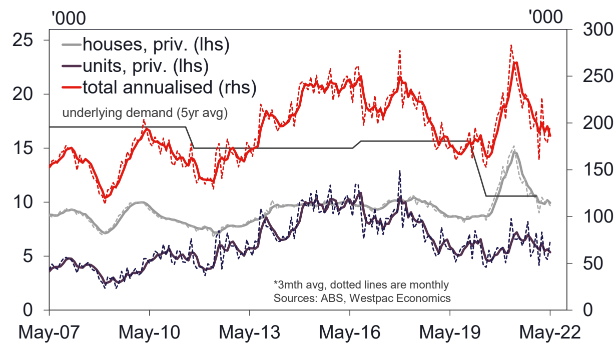
Aus Jun dwelling approvals

Aug 2, Last: 9.9%, WBC f/c: –5.0%
Mkt f/c: –5.0%, Range: –14.0% to –0.5%

Dwelling approvals came in well above expectations in May, posting a 9.9% lift led by a bounce in 'units'. Looking through monthly and segment volatility, there still looks to an underlying down-trend in place, albeit showing some signs of moderation in recent months. The same processing delays that affected housing finance may also have impacted dwelling approvals through Apr-May.

Approvals are expected to see a renewed weakening in June with a 5% fall. While rate rises are often slow to impact new building, the RBA's latest moves are being compounded by a very sharp rise in building costs (the June quarter CPI showing new dwelling costs up 20%yr). There are downside risks to the June number given the Apr-May lift in units and what may have been temporary supports from the clearing of processing backlogs.

Dwelling approvals



Aus RBA policy decision

Aug 2, Last: 1.35%, WBC f/c: 1.85%
Mkt f/c: 1.85%, Range: 1.85% to 2.10%

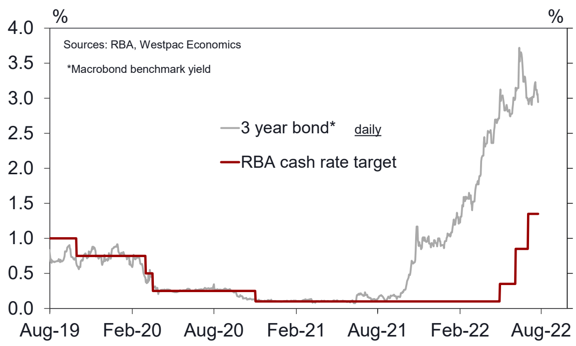
The RBA is quickly moving the cash rate back to "neutral" - and then beyond, in more measured steps. At the August meeting, we anticipate that the Board will lift rates by 50bps - the third consecutive move of 50bps - to 1.85%.

Globally and domestically, the inflation outlook is challenging, with risks that inflation expectations ratchet higher. In Australia, headline inflation is expected to climb to over 7% by year end, well above the RBA's 2–3% target band. The labour market is the tightest in 50 years and wages growth is accelerating, albeit from modest levels.

It is in this environment that the RBA is removing ultra easy monetary conditions and will shift to a contractionary stance.

Westpac anticipates that the cash rate will rise to 3.10% by year end and then peak at 3.35% in February 2023 - the expected path is another 50bps in September, and then 25bps moves at each meeting thereafter (with no meeting in January).

RBA cash rate and 3 year bonds



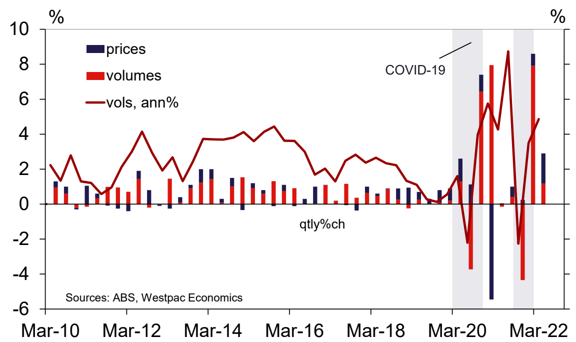
Aus Q2 real retail sales

Aug 3, Last: 1.2%, WBC f/c: 1.2%
Mkt f/c: 1.2%, Range: 0.6% to 2.4%

Real retail sales posted a solid 1.2% gain in Q1 following a sharp 7.9% 'reopening' surge in Q4, lifting annual growth to 4.9%yr.

Q2 is set for a similar result. Monthly figures already released show nominal sales up 3.2%qtr, a touch stronger than Q1's 2.9%qtr. The Q2 CPI detail showed strong gains for some retail categories, notably food prices up 2%qtr, clothing up 3.5%qtr, furniture up 6.2%qtr and furnishings and household equipment both up 4%qtr. Expenditure switching will tend to moderate these effects as they are measured in the retail deflator. However, a quarterly price rise in the order of 2% still looks likely. That would imply a quarterly volume gain of 1.2%qtr, in line with that seen in Q1.

Quarterly retail volumes and prices



Aus Jun trade balance, AUDbn

Aug 4, Last: 16.0, WBC f/c: 14.6
Mkt f/c: 13.9, Range: 10.5 to 18.0

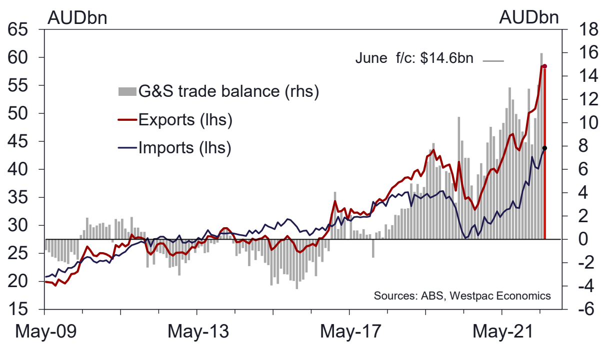
Australia's monthly trade surplus climbed to a fresh record high of $16.0bn in May, up from $13.2bn for April and well above the Q1 average of $10.5bn. Export earnings have increased in Q2 on higher commodity prices, as well as a lift in volumes, off a low base.

For June, we expect the surplus to remain elevated, albeit down from the May peak, at a forecast $14.6bn.

Imports are expected to advance, +3.2%, +$1.4bn. This is on a likely combination of higher prices (including global energy costs) and an upward trend in volumes, to meet rising domestic demand.

Export earnings were potentially flat in the month, consolidating recent strong gains, +5% in April and +9.5% in May. For June, coal earnings are likely lower, on a pull-back in prices from lofty levels. Metal prices were also down. Offsetting this are potential gains for services (border reopening) and a further rise in LNG, as well as an increase in iron ore on additional shipments.

Australia's trade balance



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DATA PREVIEWS

NZ Jun residential building consents

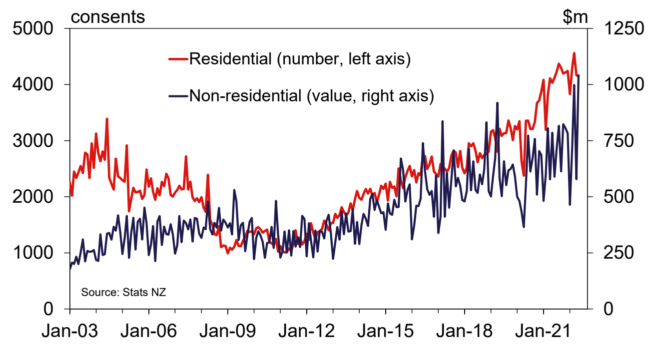
Aug 1, Last: -0.5%, Westpac f/c: -5.0%

While the level of dwelling consent issuance remains very high, the number of consents being issued each month has flattened off.

We're forecasting a 5% drop in consent numbers in June. That's mainly due to a moderation in medium-density consents after last month's sharp rise.

Conditions in the construction sector are turning. Materials shortages and rising costs have been squeezing margins. At the same time, purchasers have been stepping back as interest rates push higher and house prices drop. In light of those developments, we expect to see the number of new projects coming to market dropping off over the coming months, with building activity set to pull back from its recent highs over the coming year.

NZ building consents



NZ GlobalDairyTrade auction, whole milk powder prices

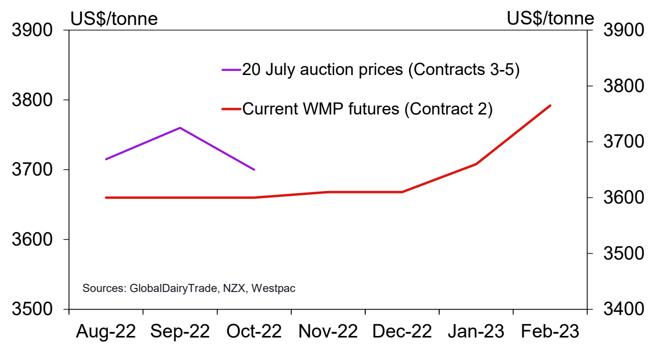
Aug 3, Last: 5.1%, Westpac: -2%

We expect whole milk powder prices (WMP) to drop by around 2% at the upcoming auction. This follows a 5.1% price slide at the previous auction.

Commodity prices have corrected lower on growing concerns about the downside risks for global economic activity, and dairy prices have been no exception. In addition, Fonterra lifted WMP auction volumes for August and September. This move may have increased the downward pressure on prices at least temporarily.

However, further out we anticipate that very weak global supply combined with rebounding Chinese demand will support global dairy prices.

Whole milk powder prices



NZ Q2 Household Labour Force Survey

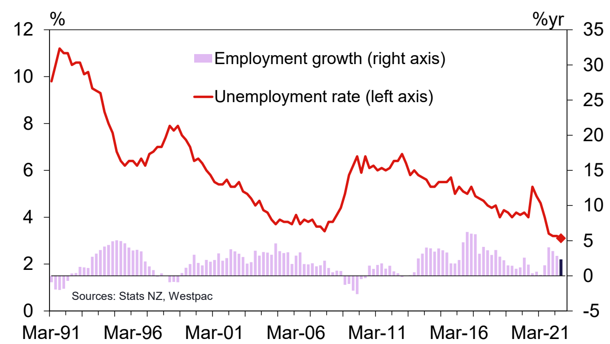
Aug 3, Employment last: 0.1%, Westpac f/c: 0.5%, Mkt: 0.4%
Unemployment rate last: 3.2%, Westpac f/c: 3.1%, Mkt: 3.1%

We expect the unemployment rate to dip further to 3.1% in the June quarter. If so, that would mark another new low going back to the start of the survey in 1986.

The demand for workers remains red-hot. With fewer disruptions from Omicron compared to the previous quarter, we expect to see a lift in both employment and participation, with a small net decline in unemployment on balance.

Our forecast is in line with what the Reserve Bank assumed in its May forecasts, and would leave them on track for another 50 basis point OCR increase in August.

NZ Household Labour Force Survey



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NZ Q2 Labour Cost Index

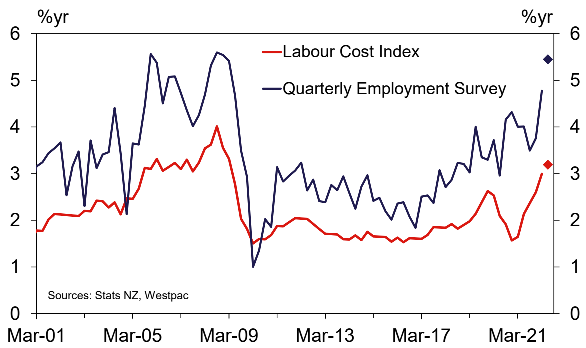
Aug 3, Private sector last: 0.7%, Westpac f/c: 1.0%, Mkt: 1.1%

Wage growth has been picking up over the last year, reflecting the tight jobs market. We expect a 1.0% rise in the Labour Cost Index for the private sector (0.9% overall). This would lift annual growth to 3.2%, the fastest pace since early 2009.

The June quarter tends to be boosted by minimum wage rises. The 6% increase this year was similar to last year's 5.8%, but successive increases capture a greater share of the workforce.

Wage increases continue to fall short of consumer price inflation. That reflects the unusual nature of the Covid shock, where inflation has been driven by both a boost to demand and a hit to productivity.

NZ salary and wage growth, all sectors



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 01					
Aus	Bank holiday NSW	–	–	–	Bank holiday in NSW, Picnic day in NT. Markets are open.
	Jul MI inflation gauge	4.7%	–	–	Inflation well above the RBA's target band.
	Jul ANZ job ads	1.4%	–	–	Job vacancies on par with total unemployed.
	Jul CoreLogic home value index	–0.8%	–	–1.5%	Price correction accelerated in July, Sydney down -2.3%mth.
NZ	Jun building permits	–0.5%	–	–5.0%	Pullback after last month's rise in medium density consents.
Jpn	Jul Nikkei manufacturing PMI	52.2	–	–	Final estimate for the month.
Chn	Jul Caixin manufacturing PMI	51.7	51.5	–	To hold broadly steady as China navigates reopening.
Eur	Jul S&P Global manufacturing PMI	49.6	49.6	–	Final estimate for the month.
	Jun unemployment rate	6.6%	6.6%	–	Holding at record lows.
UK	Jul S&P Global manufacturing PMI	52.2	–	–	Final estimate for the month.
US	Jul S&P Global manufacturing PMI	52.3	–	–	Final estimate for the month.
	Jun construction spending	–0.1%	0.4%	–	Home building to provide medium–term support.
	Jul ISM manufacturing	53.0	52.1	–	Supply and cost pressures weighing on mfg growth.
Tue 02					
Aus	Jun housing finance	1.7%	–3.0%	–5.0%	Downturn to show through more clearly…
	Jun investor finance	0.9%	–	–4.5%	… investors marginally less affected…
	Jun owner occupier finance	2.1%	–	–5.5%	… than affordability constrained owner occupiers.
	Jun dwelling approvals	9.9%	–5.0%	–5.0%	Rate hikes, surging costs to hit.
	RBA policy decision	1.35%	1.85%	1.85%	Rates quickly moving back to neutral – and then beyond.
UK	Jul Nationwide house prices	0.3%	0.5%	–	Demand to soften as rate hikes take effect.
US	Jun JOLTS job openings	11254k	10994k	–	Continues to point to extraordinary labour demand.
	Fedspeak	–	–	–	Evans; NY Fed Q2 household debt and credit report too.
Wed 03					
Aus	Q2 real retail sales	1.2%	1.2%	1.2%	Nominal sales up 3.2%qtr but 2% of that likely due to prices.
NZ	GlobalDairyTrade auction prices (WMP)	–5.1%	–	–2.0%	Global dairy prices remain under pressure.
	Q2 unemployment rate	3.2%	3.1%	3.1%	Evidence points to a further tightening in the jobs market…
	Q2 employment	0.1%	0.5%	0.5%	… with fewer Covid disruptions boosting employment.
	Q2 LCI wage inflation (pvte, ord. time)	0.7%	1.1%	1.0%	Wage growth picking up, boosted by minimum wage in Q2.
	Jul ANZ commodity prices	–0.4%	–	–	Commodity prices falling on the back of dairy price falls.
Jpn	Jul Nikkei services PMI	51.2	–	–	Final estimate for the month.
Chn	Jul Caixin services PMI	54.5	53.8	–	To remain buoyant given lingering virus disruptions.
Eur	Jul S&P Global services PMI	50.6	50.6	–	Final estimate for the month.
	Jun retail sales	0.2%	0.0%	–	Cost of living pressures weighing on retail trade.
UK	Jul S&P Global services PMI	53.3	–	–	Final estimate for the month.
US	Jul S&P Global services PMI	47.0	–	–	Final estimate for the month.
	Jul ISM non–manufacturing	55.3	53.9	–	Services at risk from loss of real income and rates.
	Jun factory orders	1.6%	0.8%	–	Capital investment holding at robust levels…
	Jun durable goods orders	1.9%	–	–	… but uncertainty clouding the outlook.
	Fedspeak	–	–	–	Bullard.
Thu 04					
Aus	Jun trade balance $bn	16.0	13.9	14.6	Imports up (prices & vol's), exports consolidate after rapid gains.
UK	BoE policy decision	1.25%	1.75%	–	50bp hike needed to quell inflation.
US	Jun trade balance US$bn	–85.5	–81.5	–	Deficit to remain wide.
	Initial jobless claims	256k	–	–	Slowly starting to lift from historic lows.
	Fedspeak	–	–	–	Mester.
Fri 05					
Aus	RBA Statement on Monetary Policy	–	–	–	Updated forecasts key focus.
Chn	Q2 current account balance US$bn	88.9	–	–	Trade very strong in 2022.
US	Jul non–farm payrolls	372k	250k	200k	Payrolls due for a week month given HH survey flat in Q2…
	Jul unemployment rate	3.6%	3.6%	3.6%	… but U/E unlikely to rise for a few months…
	Jul average hourly earnings %mth	0.3%	0.4%	0.3%	… putting off the next leg down in wage growth.

Forecasts

Interest rate forecasts

Australia	Latest (29 Jul)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	1.35	2.35	3.10	3.35	3.35	3.35	3.35	3.10
90 Day BBSW	2.15	3.05	3.55	3.55	3.55	3.55	3.38	3.13
3 Year Swap	3.03	3.55	3.50	3.30	3.10	2.90	2.80	2.75
3 Year Bond	2.67	3.20	3.25	3.10	2.90	2.70	2.60	2.55
10 Year Bond	3.06	3.60	3.50	3.35	3.15	2.90	2.65	2.50
10 Year Spread to US (bps)	39	50	50	45	45	40	35	30
US								
Fed Funds	2.375	2.875	3.375	3.375	3.375	3.375	3.125	2.875
US 10 Year Bond	2.67	3.10	3.00	2.90	2.70	2.50	2.30	2.20
New Zealand								
Cash	2.50	3.00	3.50	3.50	3.50	3.50	3.50	3.50
90 day bill	3.15	3.40	3.60	3.60	3.60	3.60	3.60	3.60
2 year swap	3.74	3.90	3.80	3.70	3.50	3.30	3.15	3.00
10 Year Bond	3.42	3.60	3.50	3.40	3.25	3.10	3.00	2.95
10 Year spread to US	75	50	50	50	55	60	70	75

Exchange rate forecasts

Australia	Latest (29 Jul)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.7003	0.71	0.73	0.75	0.76	0.77	0.78	0.78
NZD/USD	0.6316	0.64	0.66	0.68	0.69	0.70	0.71	0.71
USD/JPY	133.76	134	132	130	127	125	123	121
EUR/USD	1.0204	1.05	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.2179	1.23	1.26	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.7449	6.55	6.35	6.25	6.20	6.15	6.15	6.10
AUD/NZD	1.1098	1.11	1.11	1.10	1.10	1.10	1.10	1.10

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	2.0	1.0	0.6	0.4	0.2	–	–	–	–
%yr end	4.4	3.3	4.5	7.5	4.4	4.0	2.2	-0.7	4.4	4.4	1.0
Unemployment rate %	4.7	4.1	3.8	3.3	3.0	3.1	3.4	6.8	4.7	3.0	4.2
CPI % qtr	1.3	2.1	1.8	1.0	2.5	1.0	0.7	–	–	–	–
Annual change	3.5	5.1	6.1	6.3	7.6	6.4	5.2	0.9	3.5	7.6	3.1
CPI trimmed mean %qtr	1.0	1.5	1.5	1.5	1.2	0.8	0.7	–	–	–	–
%yr end	2.6	3.7	4.9	5.5	5.8	5.0	4.2	1.2	2.6	5.8	3.0

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	0.8	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	1.7	1.6	0.1	1.0	0.8	–	–	–	–
Annual change	5.9	6.9	7.3	6.6	5.2	4.4	3.4	1.4	5.9	5.2	3.3

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