AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 15 August 2022

Editorial: Consumer sentiment weak but spending momentum will hold.

RBA: Minutes August Board meeting.

Australia: Westpac-MI Leading Index, Q2 WPI, labour force.

NZ: RBNZ policy decision, GlobalDairyTrade auction, trade balance.

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

Europe: trade balance.

UK: unemployment rate, CPI, retail sales.

US: housing starts, building permits, industrial production, existing home sales, leading index.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 12 AUGUST 2022.

WESTPAC INSTITUTIONAL BANK

Consumer sentiment weak but spending momentum will hold

This week we saw the Westpac–Melbourne Institute Index of Consumer sentiment fall by 3% to 81.2.

That reading is on a par with the lows of the COVID and GFC but still well above the lows seen during the early-90s recession.

Since the recent peak in November 2021 the Index has fallen every month for a cumulative decrease of 22.9%.

Sub-index movements over that period have been: 'finances compared to a year ago' -18%; 'finances, next 12 months' -19%; 'economy, next five years" -18%; 'economy, next 12 months' -31%; and 'time to buy a major household item' -27%.

History shows the 12 month economic outlook is the most volatile of the sub-indexes. However, a feature of the collapse in sentiment over the last nine months has been the sharp deterioration in the 'time to buy a to major household item' sub-index, which has fallen almost as fast as the 12 month economic outlook.

It seems likely that inflation, which we still see as the major negative for confidence over this period, has been weighing particularly heavily on attitudes towards the purchase of consumer durables.

Certainly, the surge in inflation has been more pronounced for many of these items. For example, the recent June quarter inflation report showed a 7%qtr rise in the price of furniture, up 8.3%yr, and a 3.3%qtr increase in the cost of major household appliances, up 5.7%yr. These increases reflect sharp increases in transport and material costs, exacerbated by shortages.

It is ominous that the pace of these price increases has been increasing rapidly.

Interest rates continue to weigh on confidence, with the Reserve Bank delivering yet another 0.5ppt rate increase during the survey week. That said, amongst those surveyed after the move, 57.5% expected rates to rise by 1ppt or more over the next 12 months, down from 72.8% of those surveyed immediately following the RBA's July rate hike.

Despite the higher starting point for the cash rate – 1.85% – there is still a majority of respondents expecting rates to increase by at least 1ppt. We concur. We expect the cash rate to rise by a further 1.5ppts by February next year.

Respondents holding a mortgage were particularly unnerved by the rate rise. Their confidence fell by 8.9% compared to modest moves from tenants (0.2%) and homeowners without a mortgage (-2.1%).

Confidence in the labour market continues to print on the upside. The Westpac Melbourne Institute Unemployment Expectations Index fell 5.8%, a solid improvement (a lower read indicates a lower share of respondents who expect the unemployment rate to rise).

A vibrant jobs market along with solid household balance sheets are important explanations for why current household spending has remained resilient despite the sharp deterioration in confidence.

That effect is very clear in the 'wedge' that has opened up between overall Consumer Sentiment and the Unemployment Expectations Index (Figure 1).

While overall confidence is low, spending appears to be being supported by solid confidence in the labour market. The break-down in this relationship is just another example of the unusual nature of this particular economic cycle.

Consumer sentiment, unemp. expectations

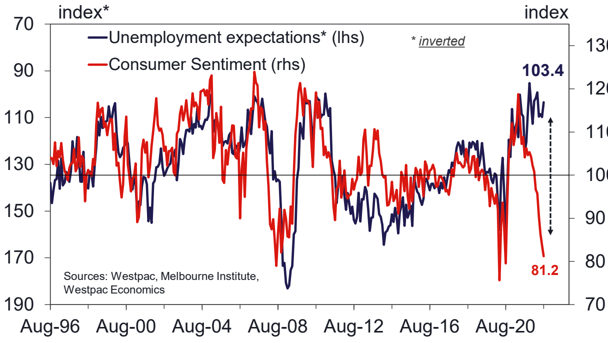


Figure: 1

The NAB business Survey was also released this week. Andrew Hanlan's comments on this were (the full detail available here):

- Business conditions rose in July, to well above average levels. Business confidence was resilient, rebounding in the month. The economy is operating at "full capacity" – with capacity utilisation hitting fresh highs. In that environment, labour and cost pressures escalated further.
- The business conditions index rose by 6pts to an elevated +20 in July. That is the highest reading since last June, ahead of the delta outbreak. The result is consistent with our reading of the economy – with strength likely to be concentrated in Q2 and Q3 this year. The burst of activity is driven by the reopening from delta and the substantial boost from early policy easing.
- Businesses have been encouraged by the ongoing strength of domestic spending. However, we suspect that there is an underlying fragility to business confidence - which will be tested in coming months as the RBA hikes rates further and with the global backdrop remaining volatile.
- Cost pressures intensified further at the beginning of the September quarter. Labour costs grew at a 4.6% quarterly rate. Input costs reportedly escalated at a 5.4% quarterly rate in July, while final product prices rose at a 2.7% pace – further evidence of margin compression. These cost/price pressures suggest there is no relief yet from the sharp increases in consumer prices."

This evidence of rising costs and prices confirms a key theme that has become apparent in my recent meetings with businesses: firms are becoming more confident in their ability to raise prices. The margin squeeze has been the catalyst for this action. But as firms experience more success in this endeavour it may well continue – after all firms are profit maximisers and until recently margins were protected by cutting costs – now they have the scope to raise prices.

That is why it is very important that the Reserve Bank operates policy to dissuade firms from continuing to increase prices. That can only be achieved if firms assess that the current opportunities to increase prices will not be sustained. They must be convinced that demand conditions in 2023 will deteriorate sufficiently to disallow additional rounds of price increases.

Dissuading firms from making more price rises will also go a long way towards averting a dangerous sustained lift in inflation expectations.

In the August Statement on Monetary Policy the RBA raised its forecast for inflation in 2023 from 3.1% to 4.3% – inflation is not forecast to reach 3% until end 2024.

Such a 'patient' approach to bringing inflation back into line is risky. The implicit message is that the Bank is allowing demand to hold up and accommodating a slow return to the inflation target – a message that may not do enough to discourage firms from making further price increases.

The Reserve Bank Board next meets on September 6. We expect the Board will decide to raise the cash rate by a further 50bps to 2.35%.

A decision to switch back to 25bp increments well before policy has reached the neutral range runs the risk of casting doubt on the strength of that 'inflation first' commitment.

A 50bp move would take the cash rate into the 'neutral range' as defined by both the Governor and the Deputy Governor in recent speeches.

It is sensible policy to move the cash rate quickly into that range given the extremely tight labour market and soaring inflation.

Once in that neutral range it would be prudent to scale back the increases to 25bp per meeting as policy settings move further into the contractionary zone.

The Board will clearly be monitoring the impact of the rate increases on the economy, particularly household spending, inflation, and wages growth. That momentum in household spending seems likely to hold up for longer than might generally be expected with such a rapid interest rate tightening.

While our consumer sentiment survey continues to highlight the parlous state of confidence and a rapidly deteriorating housing market, household spending seems set to maintain momentum into the December quarter.

We expect that the Board will respond, after September, by moving to a slower 25bp a month policy tightening tempo through to the end of the year with the last increase expected in February 2023.

It is critical that the Board signal to firms that it is committed to a very significant slowdown in demand in 2023, persuading them that demand in 2023 will not be strong enough to support any extension of the price increases that we are likely to continue to see for most of the remainder of 2022.

Bill Evans, Chief Economist

This week provided cause for optimism over US inflation and global equity markets rallied as a result. Domestically, strength was seen in business conditions and confidence but consumer sentiment weakened further under the weight of real income loss and rising interest rates.

Beginning with Australian consumer sentiment, our Westpac-MI consumer sentiment survey fell another 3% in August, taking the index down to 81.2, almost 23% below its November 2021 peak. Driving this decline has been a marked deterioration in views over the economy's prospects for the year ahead and consumer spending on 'major household items', with both sub-indexes now around 30% below their prior peak. Notably this is despite confidence in the labour market remaining near record highs. While the outlook for nominal household income growth is robust, rapid inflation and rising interest rates have hit consumers' discretionary spending capacity hard. Arguably the pace and scale of change is creating additional anxiety.

Another key theme discussed by Chief Economist Bill Evans after the release of the latest consumer sentiment survey is the hit to housing market expectations. Clearly, households have been unnerved by the acceleration in house price declines across Australia, the Westpac-MI 'time to buy a dwelling' index down another 2.3% in August to be 41% below its prior peak and 34% below average. House price expectations meanwhile slumped 7.5% in August to also be 41% below its prior peak and 23% below average. For a detailed view of the outlook for housing, see our latest Market Outlook in Conversation podcast.

The strength evident in business conditions and confidence in July is a stark contrast to the state of the economy according to the consumer. Consistent with our view of the economy, the NAB business survey indicates Australian businesses experienced a strong start to Q3. Tailwinds from earlier policy stimulus and the burst in activity associated with re-opening look to not only be supporting strong conditions and capacity utilisation now but also robust growth in new orders. Business confidence also showed strength in the month, although the intensification of cost pressures and ongoing labour market tightness points to a degree of fragility. Confidence and conditions will be tested further over the coming months as the RBA's tightening cycle impacts end demand and capacity constraints continue to be felt.

Moving offshore, it has been a particularly interesting week for the US. Last Friday, non-farm payrolls surprised materially to the upside, with 528k jobs reportedly created in July. Hourly earnings also beat expectations in the month, gaining 0.5%. These outcomes were seen by the market as potential concerns for the FOMC because strong growth in employment and wages has the potential to prolong the current historic inflation episode. But, as discussed in Market Outlook in Conversation, other data for the labour market conflict with non-farm payrolls, instead indicating a material deterioration in conditions is underway.

Of late, job openings and the hiring rate have turned down, and initial claims have begun to edge higher. But most importantly, whereas non-farm payrolls suggest almost 1.7 million jobs have been added to the US economy over the past four months, the household survey indicates 170k people have lost or left their jobs over the same period. In part, this is a matter of timing, with the household survey stronger in 2021; but it is also a consequence of non-farm payrolls counting the number of jobs not the people employed – with the cost of living having risen as much as it has and wage outcomes disparate, there is currently good reason for an individual to seek a second or third job. We also have to recognise that the payrolls count assumes new businesses are always being established and begin hiring immediately, with the validity of the assumption not tested until data becomes available a year later.

A slower pace of job creation and household income would be a challenging headwind for the US economy to face currently given the state of consumer confidence and the rapid pace of inflation. On the latter at least, this week brought some good news, with the detail of the July CPI report providing strong evidence that the US is past peak inflation. On a six-month annualised basis, the inflation that came as a result of pandemic supply disruptions looks to be coming to an end; and, in the past two months, clear evidence has emerged of prices pressures from service sector re-opening beginning to dissipate. Further, that wage growth is materially below the pace of inflation and, on some measures, is slowing faster points to little-to-no support for a new wave of demand-driven inflation over the coming year. We therefore remain of the view that US inflation will slow further into end-2022 and be back near the FOMC's 2.0%yr target by end-2023, allowing the FOMC to conclude their rate hike cycle at 3.375% this December and then begin a sequence of rate cuts from December quarter 2023.

Finally on China. The trade data beat expectations yet again in July, with annual growth in exports holding around 18%yr. While annual CPI inflation lifted in the month, at 2.7%yr it is low versus the developed world. Further, the deceleration in the PPI in July points to limited upside risk ahead. The primary economic concern for China therefore remains the spread of COVID-19 within its borders. The virus is seemingly under control in key production regions. But outbreaks in prime tourist regions such as Hainan raise the risk of the virus spreading more broadly across the nation, and consumers consequently deciding to delay or cancel planned domestic holidays. We continue to highlight that the key risk to growth in H2 2022 is the recovery in consumer spending. While early days, recent developments clearly raise the risks around this sector.

Week ahead & data wrap

Stand by for (more) action

Economic news over the past week provided further evidence that demand is cooling. Even so, we are still grappling with strong domestic inflation pressures. As a result, the RBNZ is set to continue raising the Official Cash Rate for some time yet, including a 50bp rise at next week's policy meeting.

We expect that the Reserve Bank of New Zealand will deliver another 50bp increase in the Official Cash Rate at Wednesday's policy meeting. That would be the fourth 50bp rise in a row and would take the cash rate into moderately restrictive territory.

An August rate rise has been well telegraphed by the RBNZ. Their July policy statement reiterated the need to continue hiking the cash rate 'at pace.' That statement also noted that the Monetary Policy Committee remained comfortable with the interest rate projection published in May, which was consistent with ongoing rapid rate increases.

The bigger question for the Reserve Bank, however, is where the cash rate is headed longer term. On this front, recent developments have been mixed, but still leave us expecting further sizeable rate increases before year's end.

Looking first at recent economic activity, the dampening impact of rate hikes to date is becoming increasingly evident, especially in the household sector. The latest REINZ housing market update for July showed that prices have continued to fall, with the nationwide average now down 8% from its peak. We have also seen the number of house sales continuing to drop, with monthly sales now at their lowest level since 2011 (barring the lockdown period in 2020).

The housing market is a key influence on household wealth and confidence. And just as the rapid house price gains in recent years boosted spending appetites, the slowdown now in train signals a period of softer demand over the next few years. Consistent with that, we have seen flagging momentum in household spending in recent months. In fact, nominal spending levels have effectively held flat since May. That is despite strong increases in retail prices, meaning that the actual volume of goods that households have been purchasing has gone backwards.

Importantly, the drag on household spending is set to become much larger. While the OCR has been pushing higher since October last year, around 90% of New Zealand mortgages are on fixed rates. As a result, the majority of households have actually been shielded from the impact of rate increases to date. But that picture is going to change dramatically over the coming months. Around a quarter of mortgages will come up for re-pricing by the end of this year, and another quarter will by mid-2023. In many cases, those borrowers will face re-fixing at rates that are 2 to 3 percentage points higher than the rates they are currently on.

But while we are seeing domestic demand cooling, we have yet to see any material signs that pricing pressures are easing off. In fact, inflation rose by more than the RBNZ expected in the year to June, climbing to a three decade high of 7.3%. Importantly, the details of the June quarter inflation report pointed to a strong boost from domestic demand. And it is those domestic price pressures that monetary policy can, and should, respond to.

That picture of bubbling domestic inflation pressures was also evident in the June labour market surveys, with a larger than expected 6.4% rise in average hourly earnings. Notably, the most common reason for wage increases has been the need to attract or retain staff. In other words, wage increases have been due to the demand-pull of intense competition for a fixed pool of workers, not the cost-push of rising living costs. Admittedly the unemployment rate was weaker than forecast, recording a small rise rather than the expected small drop. But that combination of stagnant jobs growth and surging wages will reinforce to the RBNZ that the economy is operating well beyond the 'maximum sustainable' level of employment.

One thing that has gone more the RBNZ's way is expectations of future inflation. The RBNZ's latest survey showed that while expectations for inflation over the coming years remain elevated, the trend higher seen in recent months looks to have been arrested. Notably expectations at medium-term horizons have eased back, with the closely watched two-year ahead measure softening from 3.3% in May to 3.1% in August. That will leave the RBNZ feeling a bit more comfortable that the risks of high inflation becoming embedded in the economy are easing off (or at least, they have not gotten worse).

The strength in domestic inflation pressures highlights that interest rates will need to continue rising after the August policy decision. Furthermore, rates will need to remain at restrictive levels for some time to bring demand back into line with the economy's productive capacity. Any softening in the RBNZ's tone could see market interest rates fall even further, which would risk undermining the good work that they have done so far.

We recently lifted our OCR forecast to a peak of 4% by the end of this year, from 3.5% previously. That was broadly in line with the interest rate track that the RBNZ published in its May Monetary Policy Statement. We expect the RBNZ to run with something similar this time, emphasising that interest rates will need to remain high for longer than the market is factoring in.

The run of successive large rate hikes over the past year means that the gap between where the RBNZ is and where it needs to be has narrowed significantly. That could allow for a return to normal-sized 25 basis point OCR moves later this year. However, we think that the RBNZ will favour getting the job done quickly rather than dragging it out into next year.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 8	Q3 RBNZ inflation expectations	3.29%	3.07%	–
Tue 9	Jul card spending	0.0%	–0.2%	0.3%
Thu 11	Jul REINZ house sales %yr	–36.1%	–36.7%	–
	Jul REINZ house prices %yr	0.7%	–2.9%	–
	Jun net migration	–853	–896	–
Fri 12	Jul manufacturing PMI	50.0	52.7	–
	Jul food price index	1.2%	2.1%	1.2%

Aus Jul overseas arrivals and departures, prelim'

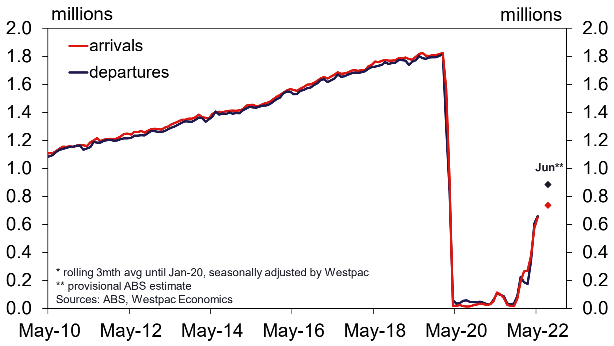
Aug 16, Arrivals, Last: 736.7k
Aug 16, Departures, Last: 885.3k

In June, arrivals posted a similar monthly gain as May, lifting to 736.7k, but the lift in departures accelerated, rising to 885.3k. This gap likely reflects previous visitor inflows (which ran ahead of departures) now cycling out as departures with the bulk of recent visitor arrivals reporting an intention to stay less than two months.

For the July preliminary estimate, we anticipate that the pace of recovery continues to forge ahead. There is still plenty of capacity for overseas travel figures to lift given that arrivals and departures are sitting at 40% and 50% of their pre-pandemic levels respectively.

The visa detail will be of keen interest. Compared to Dec-19, the current stock of temporary working/skilled visa holders in Australia is down by over 100k. Including students, that number is roughly 225k. Given the historic tightness of the labour market, gauging the recovery in net visa arrivals will provide some insight into the evolution of pressures and longer-term health of the labour market.

Total overseas arrivals and departures



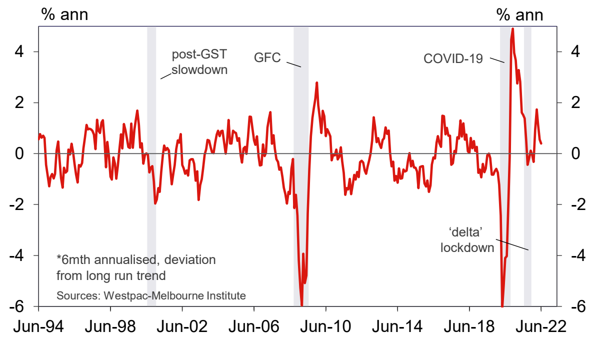
Aus Jul Westpac–MI Leading Index

Aug 17, Last: 0.40%

The six-month annualised growth rate slowed to 0.40% in June, momentum waning but still running at an above trend pace heading into the second half of 2022.

The July read will include a mixed batch of component updates but, on balance, looks likely to weaken again, a move to a negative, below trend growth rate possible. Positives include a 5.7% rebound in the ASX200, which was down -8.9% in the previous month; and continued firm reads around consumer unemployment expectations. But running against this are significant negatives, including a sharp pull back in commodity prices, down 7.6% in AUD terms and more soggy updates on consumer sentiment, dwelling approvals and US industrial production.

Westpac-MI Leading Index



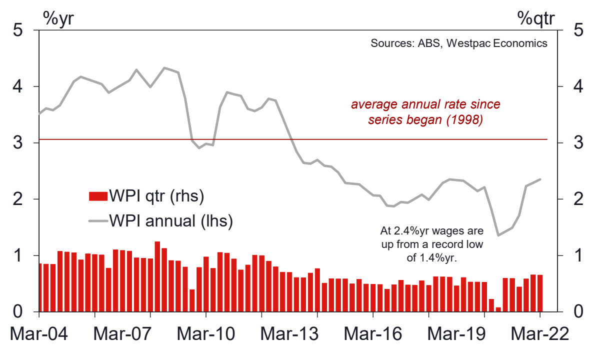
Aus Q2 Wage Price Index %qtr

Aug 17, Last: 0.7%, WBC f/c: 0.9%
Mkt f/c: 0.8% Range: 0.7% to 2.7%

The Wage Price Index (WPI) gained 0.7% in the March quarter, on par with the rise in the December quarter but lifting from the 0.6% increase in September 2021 and 0.4% increase in June 2021. The annual pace lifted to 2.4%yr from 2.3%yr and is well up on the low of 1.4%yr in the second half of 2020. The annual pace is the highest since Q4 2018. Back then wages were consistently under-performing broader economic indicators. We feel if there was ever a time for wages to regain some of relationship with broader labour market indicators, late 2022 and into 2023 must be it.

The anecdotes suggest wages pressures have strengthened as employers bid up wages in an effort to attract workers in a very tight labour market. But the WPI is a very pure quality-adjusted measure of hourly wage rates that can be slow to move compared to broader measures of labour costs. As such, we have pencilled in a 0.9% rise in June but suggest the risks are to the downside. Should the WPI print a larger number, this would be a surprise suggesting we are indeed in a very strong wage inflationary period.

Wage inflation below average, for now



Aus Jul Labour Force Survey, employment chg

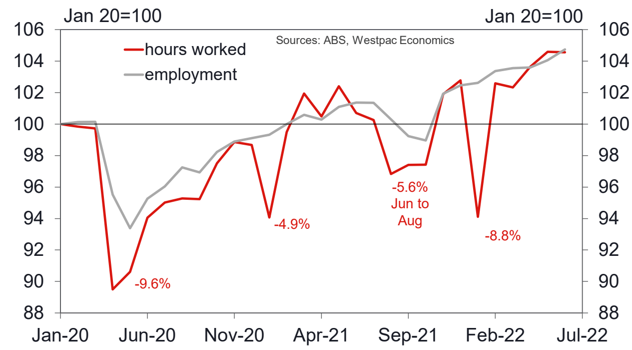
Aug 18, Last: 88.4k, WBC f/c: 50k
Mkt f/c: 25k Range: -10k to 60k

Total employment lifted 88.4k/0.7% in June while hours worked was flat (-0.02%). Employment is up 438.0k or 3.3% in the year – hours worked is up 3.8% in the year. Full-time employment continues to dominate, up 52.9k in the month, to be up 5.2% in the year. Part-time employment lifted 35.5k but is still down -0.8% in the year.

Female employment again outpaced male employment lifting 55.7k/0.9% to be up 3.8% in the year. Nevertheless, male employment was still solid lifting 32.7k/0.5% to be up 2.9%yr.

Business surveys, consumer sentiment surveys and job vacancies all point to continuing solid demand for labour. Weekly payrolls for July did reveal some weakness but these are not seasonally adjusted and the ABS noted higher than usual absences for illness and holidays which will affect hours worked rather than employment. As such we have an around trend forecast of +50k.

Hours worked recovered to employment



Aus Jul Labour Force Survey, unemployment rate

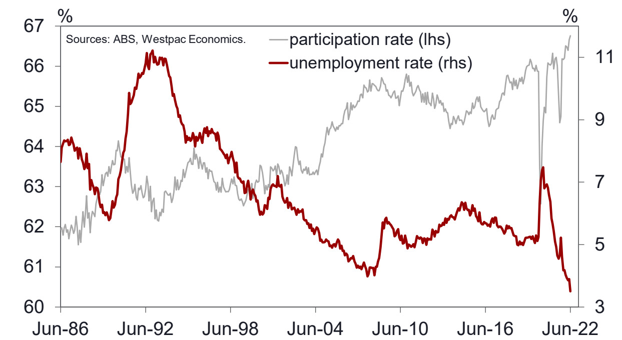
Aug 18, Last: 3.5%, WBC f/c: 3.4%
Mkt f/c: 3.5% Range: 3.4% to 3.5%

The solid demand for labour continues to draw more workers into the workforce and in June participation lifted 0.1ppt to 66.8%, representing a robust 34.1k rise in the labour force. Nevertheless, the even stronger 88.4k gain in employment saw the unemployment rate fall 0.4ppt to a new 48-year low of 3.5%.

In June, female participation lifted to 62.5%, a new record high, while male participation was flat at 71.2%, the highest rate since January 2021. Both are starting to push the boundaries of participation but we do expect to see this lift a little further at least for the near term.

The volatility in weekly payrolls due to illness and holidays is unlikely to have a meaningful impact on seasonally adjusted participation. As such, we look for a further 0.1% increase in participation to 66.9% limiting the fall in unemployment to 0.1ppt to 3.4%.

Participation surges to record high



NZ GlobalDairyTrade auction, whole milk powder prices

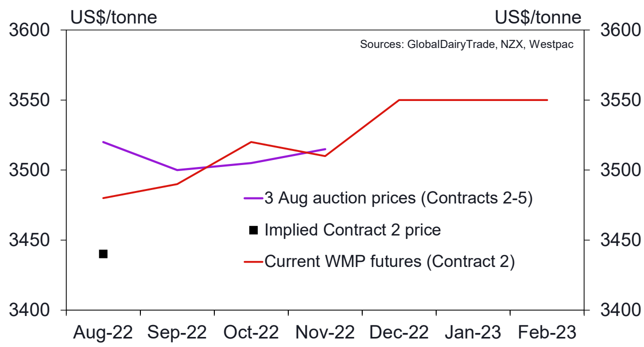
Aug 17, Last: -6.1%, Westpac: -1%

We expect whole milk powder prices (WMP) to drop by around 1% at the upcoming auction. This follows a 6.1% price slide at the previous auction.

In the short term, commodity prices are under pressure and global dairy prices are being similarly impacted. 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



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.

RBNZ Monetary Policy Statement

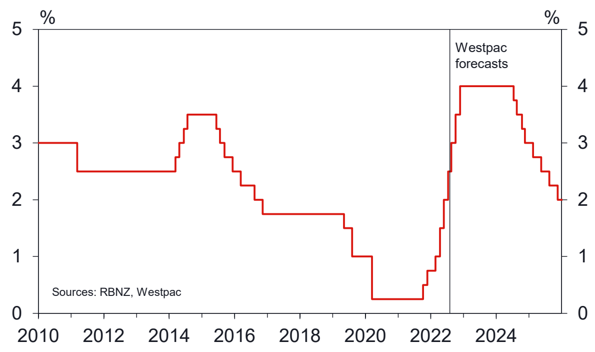
Aug 17, last: 2.50%, Westpac f/c: 3.00%, Market f/c: 3.00%

We expect the Reserve Bank to raise the Official Cash Rate by another 50bps to 3% at the August policy meeting. While we are seeing some signs that demand is cooling, domestic inflation pressures remain strong.

The RBNZ's projection for the OCR is likely to remain similar to the path from May. That is in contrast to financial markets which have moved to pricing in a lower peak for this cycle and an earlier start to interest rate cuts.

Continuing to tighten monetary policy "at pace" would send a message that while the fight against inflation is well under way, a declaration of victory is a long way off.

RBNZ Official Cash Rate



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 15					
NZ	Jul BusinessNZ PSI	55.4	–	–	Has held firm despite the headwinds in the economy.
Jpn	Q2 GDP	–0.1%	0.7%	–	Moderate recovery expected after omicron-affected Q1.
	Jun industrial production, final	8.9%	–	–	Strong reopening bounce but supply issues remain.
Chn	Jul retail sales ytd %yr	–0.7%	0.1%	–	Momentum in consumption starting to build...
	Jul fixed asset investment ytd %yr	6.1%	6.3%	–	... ongoing strength in investment...
	Jul industrial production ytd %yr	3.4%	3.5%	–	... and trade key to recovery.
UK	Aug Rightmove house prices	0.4%	–	–	Rate hikes beginning to slow price momentum.
US	Aug Fed Empire state index	11.1	5.0	–	NY mfg supported by new orders growth; outlook gloomy.
	Aug NAHB housing market index	55	55	–	Builders face intense cost and supply pressures.
Tue 16					
Aus	RBA minutes	–	–	–	Colour around Aug 50bp hike, and risks to outlook.
	Jun overseas arrivals, prelim. 000's	736.7	–	–	Sitting at roughly 40% of pre-pandemic levels.
Eur	Aug ZEW survey of expectations	–51.1	–	–	Confidence has slipped below pandemic lows.
	Jun trade balance €bn	–26.0	–	–	Import demand for energy-related goods driving deficit.
UK	Jun ILO unemployment rate	3.8%	3.8%	–	Holding firmly at pre-pandemic levels.
US	Jul housing starts	–2.0%	–1.2%	–	Demand is being hit by tightening financial conditions...
	Jul building permits	0.1%	–2.7%	–	... while input constraints limit supply.
	Jul industrial production	–0.2%	0.3%	–	Supply headwinds still impacting production.
Wed 17					
Aus	Jul Westpac-MI Leading Index	0.4%	–	–	Above trend but showing a clear moderation.
	Q2 wage price index	0.7%	0.8%	0.9%	How much of reported wage pressure will appear this quarter?
NZ	GlobalDairyTrade auction – WMP	–6.1%	–	–1.0%	Global dairy prices remain under pressure.
	RBNZ policy decision	2.50%	3.00%	3.00%	RBNZ to signal tight policy will be required for some time.
Jpn	Jun machinery orders	–5.6%	0.8%	–	Capital investment looks to be positive in Q2, albeit volatile.
Eur	Q2 GDP	0.7%	0.7%	–	Upside surprise in Q2; second estimate to give more colour.
UK	Jul CPI	0.8%	–	–	Energy inflation remains the key driver.
US	Jul retail sales	1.0%	0.2%	0.0%	Rising rates and inflation is a key risk to consumption.
	Jun business inventories	1.4%	1.4%	–	Businesses rebuilding inventory at robust pace.
	FOMC July meeting minutes	–	–	–	Focus is on discussions of the path for policy in 2022/23.
Thu 18					
Aus	Jul employment, '000 chg	88.4k	25k	50k	Labour demand is very robust in the face of a record...
	Jul unemployment rate	3.5%	3.5%	3.4%	... tightness in the labour market. Will the COVID hit the data?
Eur	Jul CPI, final	0.1%	–	–	Inflation broadening to food and services.
US	Aug Phily Fed index	–12.3	–5.0	–	Regional surveys painting a bleak picture for growth.
	Initial jobless claims	262k	–	–	Slowly lifting from historic lows.
	Jul existing home sales	–5.4%	–5.3%	–	Affordability locking many out of market.
	Jul leading index	–0.8%	–0.5%	–	Growth outlook deteriorating.
	Fedspeak	–	–	–	George and Kashkari.
Fri 19					
NZ	Jul trade balance $m	–701	–	–1250	Agri exports slowing down seasonally; oil prices still high.
Jpn	Jul CPI %yr	2.4%	2.6%	–	Underlying price pressures still weak; BoJ stimulus to remain.
UK	Aug GfK consumer sentiment	–41	–	–	Confidence sunk to series low amid inflation concerns.
	Jul retail sales	–0.1%	–	–	Spending capacity restricted by rising prices.

Forecasts

Interest rate forecasts

Australia	Latest (12 Aug)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	1.85	2.35	3.10	3.35	3.35	3.35	3.35	3.10
90 Day BBSW	2.30	3.05	3.55	3.55	3.55	3.55	3.38	3.13
3 Year Swap	3.50	3.30	3.25	3.20	3.10	2.90	2.80	2.75
3 Year Bond	3.08	2.95	3.00	3.00	2.90	2.70	2.60	2.55
10 Year Bond	3.40	3.20	3.40	3.30	3.10	2.90	2.65	2.50
10 Year Spread to US (bps)	53	40	40	40	40	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	2.87	2.80	3.00	2.90	2.70	2.50	2.30	2.20
New Zealand								
Cash	2.50	3.00	4.00	4.00	4.00	4.00	4.00	4.00
90 day bill	3.28	3.70	4.10	4.10	4.10	4.10	4.10	4.10
2 year swap	3.96	3.80	3.70	3.60	3.50	3.40	3.25	3.10
10 Year Bond	3.54	3.50	3.40	3.30	3.20	3.10	3.05	3.00
10 Year spread to US	67	70	40	40	50	60	75	80

Exchange rate forecasts

Australia	Latest (12 Aug	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.7108	0.71	0.73	0.75	0.76	0.77	0.78	0.78
NZD/USD	0.6452	0.64	0.66	0.68	0.69	0.70	0.71	0.71
USD/JPY	133.30	132	132	130	127	125	123	121
EUR/USD	1.0317	1.05	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.2193	1.23	1.26	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.7366	6.70	6.60	6.50	6.40	6.30	6.20	6.15
AUD/NZD	1.1018	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	3.3	3.3	3.4	3.5	3.6	4.9	3.2	3.4	3.8
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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