AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 29 August 2022

Editorial: Spring looms as a big test for housing market's 'orderly' correction.

Australia: retail, housing (finance, prices, dwelling approvals), credit, construction work, business capex.

NZ: Q2 terms of trade, building consents, business confidence.

China: various PMIs.

Europe: CPI, unemployment rate.

US: house prices, Chicago PMI, ISM manufacturing, non-farm payrolls, factory orders and durables.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 26 AUGUST 2022.

WESTPAC INSTITUTIONAL BANK

Spring looms as a big test for housing market's 'orderly' correction

Australia's housing market correction is gaining momentum. With another batch of data updates due next week and the Spring selling season just around the corner, what are the latest updates telling us and how are things expected to unfold from here?

We are now very clearly into a market correction phase for Australian housing with prices nationally down for a third month in a row in July and the detail showing the pace of falls accelerating and spreading to more markets. The CoreLogic home value index, covering the eight major capital cities, has gone from a 0.4% fall in May to a 0.9% fall in June and a 1.4% drop in July with the daily data point to something similar in August.

The detail shows: deepening falls in Sydney, which is clocking monthly declines of more than 2%; Melbourne pacing the national story but a few more markets now tipping into correction, most notably Brisbane but also Hobart, Canberra and regional areas of NSW, Vic and Qld; and price gains stalling in Adelaide and Perth.

Sales volumes have also fallen sharply, down about 20% since the start of the year, albeit from a very high starting point. Notably, sales in July were broadly in line with the volume of new listings nationally, having run well ahead over the previous 12 months. While we are not yet seeing a substantial overhang of unsold stock, buyers are clearly gaining the upper hand. This is happening more quickly in Sydney and Melbourne where sales are already running well below new listings and the stock of listings is rising quickly.

This shift is likely to become more apparent as we head into the Spring selling season. We typically see a 20% seasonal lift in new listings through September-October that also tends to run ahead of a lift in sales. Sellers may be less prevalent this year given market conditions. Even so, this period will clearly test the depth of demand and the extent to which it has become a buyer's market, seasonal factors also likely to accentuate any price weakness.

Buyers may be gaining the upper hand but they do not look keen. Interest rate rises are still the dominant force for buyer sentiment. Our Consumer Sentiment survey's 'time to buy a dwelling' index, which has a remarkable track record in picking turning points historically, is still languishing around cyclical lows. While the August update shows it holding there rather than weakening further, it is very unlikely to stage a revival until interest rates stop moving higher – and even then may continue to languish until the potential for rate cuts comes back onto the table.

Meanwhile price expectations are now outright pessimistic – those expecting falls outnumbering those expecting gains nationally and with pessimism now looking firmly entrenched in markets that have seen more material declines to date. In contrast to views on 'time to buy', consumer house price expectations are still well above previous cycle lows. As such, further weakening looks very likely.

So are there any positives in this bleak picture?

The downturn clearly has further to run and the peak to trough price decline is already on track to be material, but the correction still looks likely to be reasonably 'orderly'.

So far this has been a 'demand-driven' rather than a 'distress-driven' correction. That is, the prime mover is rising interest rates reducing the volume of demand and the borrowing capacity of buyers, rather than a sharp rise in urgent or distressed sellers. The latter is what would happen if we had a combination of high interest rates and a weakening labour market; if there was a large overhang of unsold and/or vacant stock; or if we were dealing with an unwinding investor-led boom. None of this appears to be a factor in the market right now.

And while we will surely see an increase in stress across the mortgage belt, this will be slow to show through with mortgage arrears coming from an exceptionally low starting point.

The strong labour market is an important factor likely to provide ongoing support here. Job loss is often a trigger for the sort of mortgage distress that can lead owners to sell into a weak market. Job security can also be a big factor on the demand side too – a sudden loss of confidence around jobs could see more buyers hang back. With job vacancies currently outpacing unemployed, risks of a large round of layoffs would appear to be low.

The physical supply-demand balance also looks relatively supportive. Rental vacancy rates are very low in most capital cities and tightening in Sydney and Melbourne with no obvious overhang of physical oversupply. The completion of a large backlog of new dwellings will see some shift in the balance across the wider market but a lift in net migration inflows will also drive up demand, for rental accommodation in particular.

Risks of 'negative equity' compounding the situation also look to be fairly contained. The price declines coming through now – big as they are – follow an extraordinary run-up over the previous two years. In fact, across the fifty sub-segments we follow (city/region by houses/units and by price tier), every single one has still seen net price gains since late 2020 – three quarters have seen net price gains of over 20%, with 46 of the 50 having seen net price gains of more than 10%. The correction to date is still just unwinding some of the earlier gains.

There is also a degree of symmetry: most of the markets now recording the biggest price declines are also coming off bigger gains through the upturn. As we touch on in our most recent Housing Pulse report, this limits the risk of price declines pushing recent buyers into 'negative equity' – where the value of a property drops below the outstanding value of loans secured against it. RBA research shows the presence of negative equity greatly increases both the default risk of mortgages in arrears and the losses on these loans.

Note that this picture around price-driven gains in equity also helps recent borrowers looking to refinance, offsetting, to some extent, the impact of higher interest rates and rising costs on loan serviceability assessments.

Conclusion

While there are valid reasons to expect a continued 'orderly' correction, there is no getting away from the bleak situation right now – markets are locked into a material price correction that has further to run. The RBA is poised to deliver another 50bp rate rise in early September with rate rises expected to continue, albeit at a slower 25bp per meeting pace, through to February, and 'tight' settings maintained throughout 2023. Westpac expects prices nationally to decline 16% from peak to trough, closer to 18% for Sydney and Melbourne. We look to be about a quarter of the way through that adjustment nationally and about 40% through in the case of the Sydney market.

From a buyer's perspective, opportunities may start to emerge next year but a lot needs to happen before then. Most importantly, inflation will need to be firmly back under control. That still looks to be some way off with inflation yet to pass its peak locally and only expected to return to the top of the RBA's 2-3% target band by the end of 2023. As such, the RBA is not expected to relax rate settings until 2024. That said, housing-related sentiment could turn well before then if markets get a sense that the rate cycle may be starting to turn.

Matthew Hassan, Senior Economist

It has been a very light week for data globally, and so the focus has remained on policy actions in China and expectations of a hawkish tone from Chair Powell at the Jackson Hole Symposium this weekend.

On the whole, the US data received this week was mixed. The second estimate of GDP for Q2 surprised to the upside, printing at -0.6% annualised (previously -0.9%) thanks to a modest, but broad based, upward revision to household demand, including residential construction. Still, annualised growth over the first half of 2022 is -1.1%; also, the Atlanta Fed nowcast for Q3 GDP has fallen from an initial estimate near 2.5% annualised to 1.4% currently.

On the partial data released this week: July durable goods orders pointed to little-to-no growth in equipment investment as Q3 began; pending and new home sales fell to their lowest levels since 2020 and 2016 respectively in July; and the S&P Global composite PMI fell to a contractionary read of 45 in August as activity in the services sector jolted lower – note though that the market continues to focus on the signal from the ISM PMI surveys which, for July at least, was materially stronger. All of the above suggests Chair Powell and the FOMC should be increasingly mindful of the risks to activity and the labour market as they pursue their fight against inflation.

European data meanwhile continues to show resilience amid immense uncertainty. German GDP growth for Q2 was revised up at the margin this week from 0.0% to 0.1% (not annualised). German and French business confidence also beat, admittedly very weak, expectations in August.

While a decline in activity in the second half of 2022 seems almost certain given the wave upon wave of energy price inflation and historically-weak consumer confidence, not to mention the risk of power outages, it should be remembered that the Euro Area economy began this period with strength, having grown circa 2.25% annualised in the six months to June and with the labour market historically tight. Moreover, there seems a greater likelihood of Euro Area authorities providing cost of living assistance to households than in the US; paired with robust nominal wage gains, this government support could preserve much of Euro Area households' purchasing power over the coming year.

Another area of the global economy we perceive there to be too much pessimism over is China. Last week, we revised down our growth view for 2022 to 3.0% as a result of the Hainan COVID-19 outbreak and the current weak state of the housing sector. However, we kept to our view of strength come 2023, forecasting a year-average gain of 7.0%.

Developments this week have been supportive of the latter view, with authorities announcing another wave of stimulus targeting nation-building infrastructure investment from late-2022 while also giving local government authorities greater flexibility to support their regional economies, including residential construction. With total social financing already up 15% year-to-date to July and total fixed asset investment having risen almost 6%, the pipeline of work is clearly building quickly. As we outlined this week, there is good reason to believe that residential construction will follow once the liquidity and confidence concerns of the sector are worked through – this is in train.

Coming back to Australia to conclude. While there was no data of significance, this week saw RBA Head of Domestic Markets Jonathan Kearns deliver a speech on "Climate Change Risk in the Financial System". Highlighted in the speech is the reality that, while we know how climate change will impact the environment and society overall, there is "uncertainty about specific aspects". This leads to assessments of the implications for the financial system being focused on quantifying risks, specifically physical risk from weather events and a potential loss of productive capacity as well as transition risk which represents "changes to policies, technology and people's preferences that are brought about by climate change."

For every country, the cumulative impact and timeline will differ, so too for key agents in our financial system, namely insurers, investors and banks. Head of Domestic Markets Kearns goes on to outline the work of regulators to begin assessing the consequences of a delayed or partial transition of the economy and to develop required disclosures and taxonomies to give the financial industry and investors a clear understanding and language for assessing climate-related risks and their management.

Week ahead & data wrap

Feeling the pinch

Clear signs are emerging that the heat is coming out of the economy. The housing market slowdown has been in train for a while, but signs are now also clearly visible in other parts of the economy like the labour market and now the retail sector. If anything, these signs have appeared ahead of schedule and point to monetary policy having its intended impact.

To get on top of inflation, the Reserve Bank needs to cool the overheated New Zealand economy, and it does this via increases in the cash rate. Generally, this mechanism works by cooling the most interest rate sensitive parts of the economy first, like the housing market. As the housing market cools, this then usually translates to lower household spending as household confidence wanes on the back of falling house prices or slower house price growth. Homeowners also feel the pinch from higher mortgage payments. Combined, these effects then reduce demand in the economy and allow the economy's productive capacity to catch up. As this process plays out, inflation begins to cool.

There are now clear signs that household demand is softening along with the other signs of a cooling economy. Retail sales volumes fell for the second quarter in a row, with volumes plunging 2.3% over the June quarter. That makes it a circa 3% fall so far over the year.

At first glance, it appears that surging prices are the likely culprit for the slump in retail sales. Recall that inflation surged 1.8% and 1.7% over the March and June quarters respectively, with consumer prices up an eye-watering 7.3% for the year. Interestingly, wages have also been rising at a brisk pace in recent months, so higher prices are likely to explain some, but not all, of the weakness in spending.

We think the other culprits in play are higher mortgage rates and waning household confidence. More homeowners are now seeing their mortgage payments lift as they roll off low fixed mortgage rates. In some cases, the jump in mortgage rates has been as big as three percentage points. Those higher mortgage payments clearly reduce household disposable incomes in these cases.

Household confidence has also been very weak over recent months. In addition to surging inflation and higher interest rates, household sentiment has turned down in line with the slump in the housing market. Indeed, house prices peaked in late 2021 and have since tumbled by over 8%. From here we expect prices to fall further, with a total decline of 15% expected by the end of 2023.

The key drivers of the slump in retail sales are also consistent with the weak household confidence picture. Purchases of durable items like furniture and electronic goods plummeted 8% and 6% respectively, over the June quarter. Spending in these same categories charged higher over 2020 and 2021 on the back of the surging housing market and associated lift in household confidence. Households also diverted spending from overseas travel to household durable goods over that period, adding to the lift in spending.

The slowdown in household spending doesn't come as a surprise. Indeed, we have been factoring such a slowdown into our forecasts for quite some time. However, the fact that the slowdown has arrived this early does come as somewhat of a surprise.

From here, we expect the slowdown to continue. For retailers, the outlook particularly heading into Christmas points to a soggy festive season spending wise. That said, there will be some exceptions for retail sectors and regions that will be able to welcome an increasing number of overseas tourists heading into summer.

The softer than anticipated retail spending result signals downside risk to our forecasts for a 1.0% rise in June quarter GDP. More importantly, it also signals significant downside risk to the RBNZ's forecast for 1.8% growth. In its recent policy statement, the RBNZ highlighted the strength in inflation and need for further OCR increases. However, in our view the RBNZ gave little credence to the signs of softening demand that have been emerging.

The weak June quarter retail spending result further reinforces our expectation that the OCR will peak at 4% by the end of this year. That's in contrast to the RBNZ's projections, which highlighted the risk of both a higher peak in the cash rate, as well as the possibility of OCR increases spilling over into 2023.

Real time indicators of pricing pressures support our view that inflation has now peaked (at 7.3%) and will fall from here. We expect it to reach 5.1% by the end of the year, 3.2% by the end of 2023, before returning within the RBNZ's target range of between 1% and 3% by mid-2024.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Thu 25	Q2 real retail sales	-0.9%	-2.3%	0.3%
Fri 26	Aug ANZ consumer confidence	81.9	85.4	–

DATA PREVIEWS

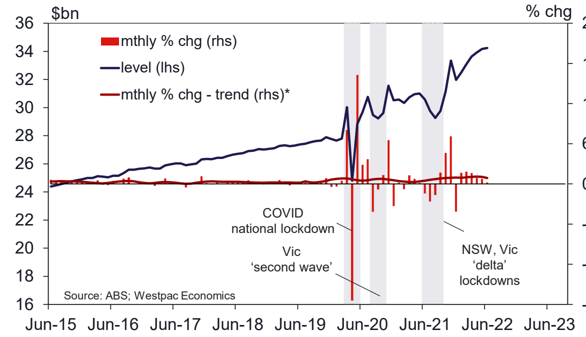
Aus Jul retail trade

Aug 29, Last: 0.2%, WBC f/c: –0.1%
Mkt f/c: 0.3%, Range: –1.5% to 1.0%

Retail sales rose 0.2% in June, the softest monthly gain since the start of the year. This likely reflects a decline in the underlying volume of sales in the month given the pace of retail price inflation over the quarter (+2.1%qtr, a +0.7% monthly pace). Even with the slowing momentum, sales are still at a high level, up 12%yr.

July looks to have been another lacklustre month for retailers. While the continued reopening rebound, and the associated return to more normal spending and saving patterns, is driving gains in wider spending, this is also seeing a shift in the spending mix away from retail towards non-retail segments such as tourism and travel. Meanwhile, retail may also be seeing more impact from rising costs, interest rate hikes and the slump in consumer confidence. On balance, we expect nominal sales to dip 0.1% in the July month.

Monthly retail sales



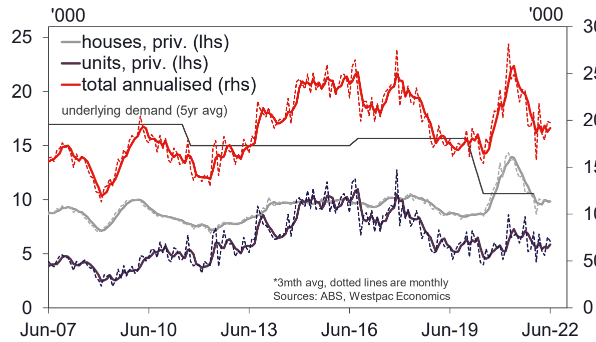
Aus Jul dwelling approvals

Aug 30, Last: –0.7%, WBC f/c: –5%
Mkt f/c: –3%, Range: –10% to 3%

Dwelling approvals were surprisingly resilient in June, posting a slight 0.7% dip to be up 2.4% for Q2 as a whole – that's despite a marked deterioration in the wider housing market, a sharp rise in building costs and widely publicised stresses amongst developers, many sitting on a large backlog of committed 'fixed-price' projects that are now unprofitable. The June segment detail still points to an underlying down-trend, but a much milder one than might be expected given the backdrop.

It still looks like just a matter of time before downward pressures show though in approvals. Notably, new home sales dropped sharply in the month of July, although this series has not been a great guide to dwelling approvals over the last year. Overall, we expect dwelling approvals to show a more meaningful 5% decline in July with further falls to come and risks pitched to the downside.

Dwelling approvals



Aus Q2 construction work

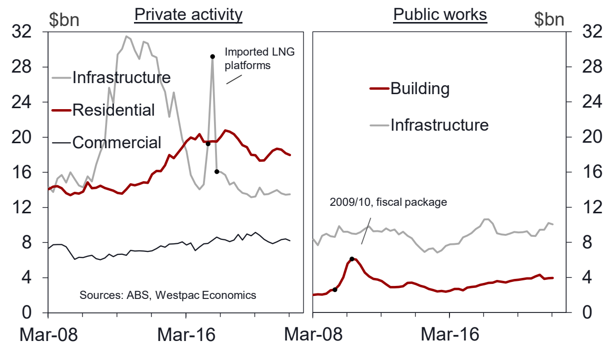
Aug 31, Last: –0.9%, WBC f/c: 3.0%
Mkt f/c: 0.7%, Range: –2.0% to 3.0%

Construction activity contracted over the past 3 quarters, with outcomes of: -1.3%; +0.6%; and then -0.9% for 2022 Q1. It was a challenging time. The delta outbreak and the omicron wave resulted in increased workplace absences. As well, a La Nina delivered wet weather and flooding along the east coast.

Move forward to the June quarter 2022, conditions improved with fewer disruptions. We expect construction work to bounce by 3%. The Q2 rebound will likely be lead by NSW and Qld, coming off weather related Q1 falls of -1.6% and -4.4%, respectively.

There is a sizeable pipeline of construction work across housing and public works, as well as commercial building, which emerged in response to earlier substantial policy stimulus. So much so the sector is experiencing significant supply headwinds (labour and material shortages), which is restricting activity.

Construction work: by segment



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.

Aus Jul private sector credit

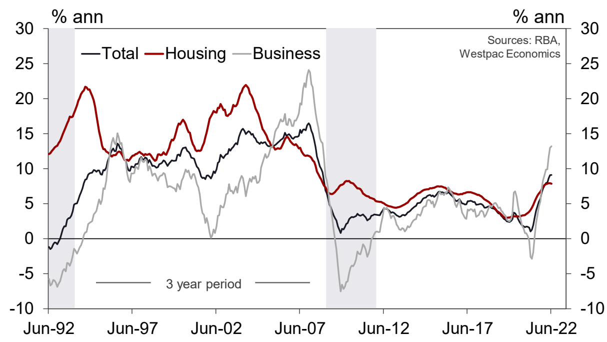
Aug 31, Last: 0.9%, WBC f/c: 0.7%
Mkt f/c: 0.7%, Range: 0.3% to 0.8%

Credit grew by a brisk 9.1% over the year to June, the fastest pace since October 2008, albeit well below the 2007 peak of 16.5%. Businesses and households alike responded to very expansionary policy settings - stimulus which is now being wound back.

The June quarter was a stand-out, with total credit posting gains of 0.9% for each of the three months - a 3 month annualised pace of 11%. These result were boosted by oversized gains for business, at about 1.5% a month, an unsustainable 20% annualised pace. This is further evidence that the June quarter experienced a burst of activity, benefiting from fewer disruptions.

For July, we anticipate a 0.7% increase - a robust outcome, but a step down from the Q2 results, likely led by business. Going forward, the impact of recent RBA rate hikes will become more apparent, with housing - and then in turn business - set to cool.

Credit: annual growth hits 9.1%, a 13½ year high



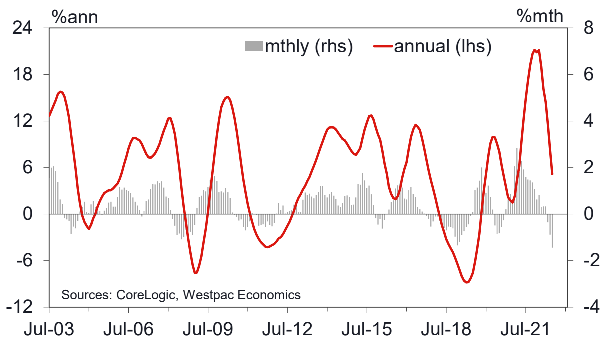
Aus Aug CoreLogic home value index

Sep 1, Last: –1.4%, WBC f/c: –1.5%

The wider housing market tipped over into correction in May (–0.4%mth), with price declines accelerating in June (–0.9%mth) and again in July (–1.4%mth), turnover also off sharply from the highs at the start of the year. The RBA's tightening cycle, which began with a 25bp rate rise in May and saw big 50bp moves in June and July, has been the clear catalyst turning the market.

Aug saw the RBA deliver a fourth successive hike, and a third successive 50bp move, further entrenching the market correction. CoreLogic's daily measure points to a 1.5% fall in prices nationally for the month, with another 2%+ fall in Sydney, and Melbourne and Brisbane both seeing consistent, albeit slightly milder, monthly price declines.

Australian dwelling prices



Aus Jul housing finance approvals

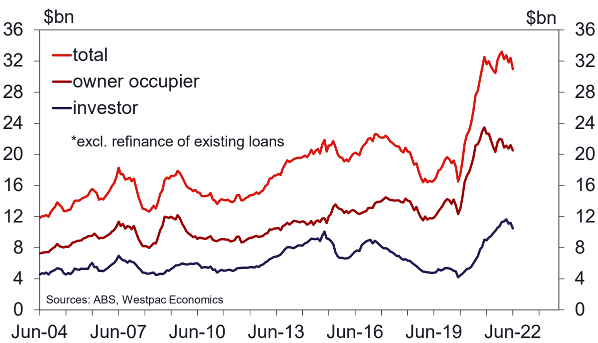
Sep 1, Last: –4.4%, WBC f/c: –4.0%
Mkt f/c: –3.6%, Range: –6.0% to –1.0%

After a couple of false starts, housing finance approvals finally showed a decisive move lower in June, falling 4.4% to be down 6.7% since the start of the year.

While this is broadly consistent with the wider market downturn, finance approvals are still lagging the moves in turnover and prices, the total value of sales down over 15% since the start of the year.

This suggests there are more substantial declines still to come through. We expect July approvals to show another 4% fall with risks to the downside.

New finance approvals by segment



Aus Q2 private business capex

Sep 1, Last: –0.3%, WBC f/c: 4.0%
Mkt f/c: 1.0%, Range: –1.3% to 4.0%

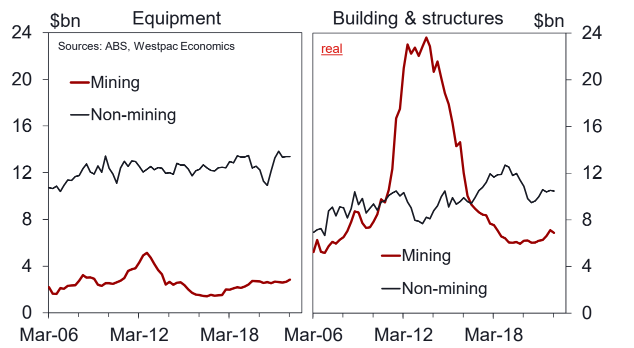
Businesses were upbeat and boosting investment spending early in 2021 - a trend that was interrupted by delta, omicron and wet weather/flooding associated with a La Nina.

In the year to June 2021, capex spending grew by 11.4%. That reversed an 11.4% decline over the previous year, a fall at the outset of the pandemic. Over the 3 quarters since mid-2021, capex spending was choppy, up a tepid 0.8%.

The June quarter 2022 ushered in a burst of activity, supported by earlier stimulus and enabled by fewer disruptions. Associated with this, capex spending strength is likely - up a forecast 4%.

Gains are expected in equipment, a forecast 5%, responding to limited spare capacity, underlying strength in demand and generous tax incentives. Building & structures capex spend also likely lifted, up a forecast 3.5%, across both building work and infrastructure.

CAPEX: by industry by asset



Aus 2022/23 capex plans

Sep 1, Last: Est 2 $130.5bn

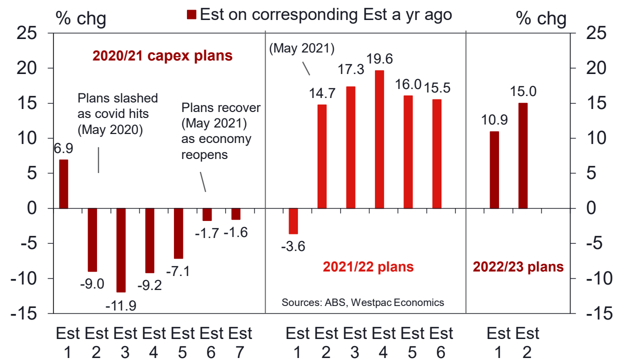
On current plans, the value of capex spending will increase strongly in 2022/23. The 2nd estimate of plans printed at $130.5, some 15% above the 2nd estimate a year earlier. This is broadly based, across mining and non-mining, and across equipment and building & structures. This nominal measure includes the impact of rising costs - inflation exceeded 6% over the past four quarters.

Based on average Realisation Ratios, we estimate that capex spending will lift by 10% in 2022/23.

Est 3, surveyed in July and August, will likely confirm capex strength, consistent with positive fundamentals and the confidence provided by fewer disruptions - as well as the impact of higher costs.

An Est 3 print of around $146bn is feasible. This represents a 12% upgrade on Est 2, in line with the historic average. A $146bn reading is 14.5% above Est 3 a year ago, in line with the Est 2-on-Est 2 comparison of +15%.

Capex plans: positive



NZ Jul monthly employment indicator

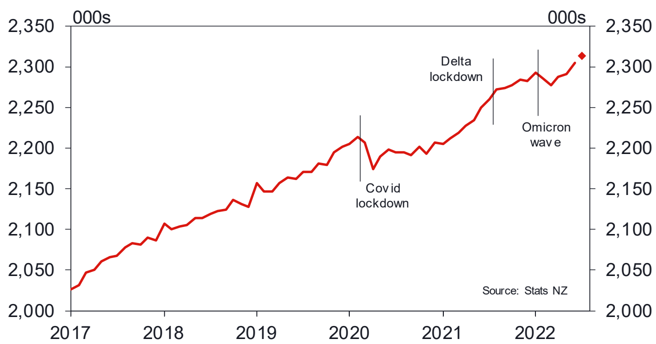
Aug 29, Last: 0.6%, Westpac f/c: 0.3%

The monthly employment indicator, a measure drawn from tax data, showed a strong 0.6% rise in the number of filled jobs in June. Employment has now fully recovered from the Omicron disruptions earlier this year, and continues to set new highs.

The weekly snapshots of the data suggest another solid rise in filled jobs for July. However, the annual pace of growth is slowing.

This indicator will be of particular interest to the Reserve Bank, given their heightened concerns about labour market tightness as a source of ongoing inflation pressures.

NZ monthly filled jobs



NZ Jul residential building consents

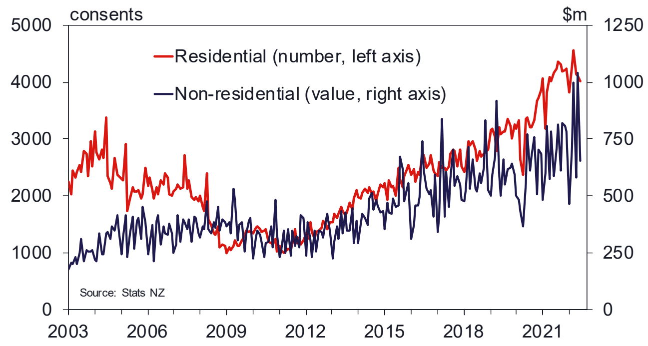
Aug 31, Last: –2.3%, Westpac f/c: Flat

The number of dwelling consents issued fell by 2.3% in June. That drop was mainly due to a pullback in medium-density consent numbers (i.e. townhouses and apartments) after their earlier sharp rise. However, there was also greater than expected softness in stand-alone home numbers.

We expect that overall consent numbers will remain broadly steady in August, with consent numbers still running at firm levels.

While still elevated, consent issuance has been softening in recent months. We expect that trend will continue – if not become more pronounced – over the remainder of this year. The combination of labour shortages, rising costs, and a slowing housing market all point to a pullback in the number of new developments coming to market.

NZ building consents



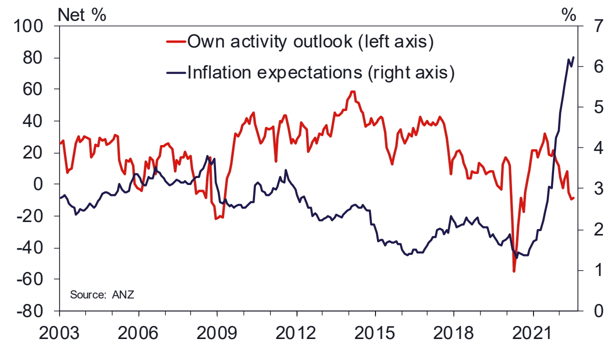
NZ Aug ANZBO business confidence

Aug 31, Last: –56.7

The July business survey highlighted the ongoing weakness in business confidence. Businesses have been under the pump, grappling with the combination of staff shortages, strong cost pressures, falling demand and the rise in interest rates. We expect those factors will leave confidence at low levels in the August survey.

The survey's cost and pricing gauges will again be worth keeping a close eye on. While still elevated, the number of businesses who reported that they expect operating costs and output prices to rise over the coming months remained broadly unchanged in the last survey. If that continues in August, it will reinforce our expectation that the peak in inflation has passed.

NZ business confidence



US Aug employment report

Sep 2, payrolls, Last: 528k, WBC f/c: 250k, Mkt f/c: 300k
Sep 2, unemployment rate, Last: 3.5%, WBC f/c: 3.5%, Mkt f/c: 3.5%

Nonfarm payrolls surprised to the upside in July, with 528k new jobs reported for the month and 28k added to May and June. Household survey employment growth meanwhile remained weak.

Come August, we again expect a materially softer outcome for nonfarm payrolls, while recognising that risks remain to the upside. The latter is principally because an individual can have two or more payroll jobs and the BLS continue to assume new businesses are being created every month and hire immediately despite the decline in activity and confidence through H1 2022.

For the next few months, the unemployment rate can hold around 3.5%; but from the end of the year, it is likely to begin to trend higher as employment growth slows and participation rises as households seek relief from the loss of real spending capacity.

Job openings have lost momentum

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 29					
Aus	Jul retail sales	0.2%	0.3%	-0.1%	Benefiting less from reopening, hit harder by cost & rate rises.
NZ	Jul monthly employment indicator	0.6%	–	0.3%	Another solid month, but annual growth rate is easing.
US	Aug Dallas Fed index	-22.6	-12.2	–	Regional surveys have been volatile of late.
	Fedspeak	–	–	–	Brainard.
Tue 30					
Aus	Jul dwelling approvals	-0.7%	-3.0%	-5.0%	Likely to show a clearer weakening.
Eur	Aug economic confidence	99.0	97.8	–	The highly uncertain outlook…
	Aug consumer confidence	-24.9	–	–	… has sunk consumer confidence to record lows.
UK	Jul net mortgage lending £bn	5.3	5.3	–	Rising rates and the slowing economy to weigh on lending.
US	Jun FHFA house prices	1.4%	0.8%	–	Price momentum is clearly slowing…
	Jun S&P/CS home price index	1.32%	0.75%	–	… as rate hikes take effect.
	Aug consumer confidence index	95.7	97.4	–	Inflation concerns to the fore; job uncertainty to grow.
	Jul JOLTS job openings	10698k	10300k	–	Job openings off peak; hiring rate also softening.
	Fedspeak	–	–	–	Barkin and Williams.
Wed 31					
Aus	Q2 construction work	-0.9%	0.7%	3.0%	Rebound on fewer disruptions, supported by large work pipeline.
	Jul private sector credit	0.9%	0.7%	0.7%	Step down from brisk Q2 pace, led by business. See textbox.
NZ	Jul building permits	-2.3%	–	0.0%	Issuance has flattened off, set to trend down over time.
	Aug ANZ business confidence	-56.7	–	–	Sentiment and activity to remain subdued, costs elevated.
Jpn	Jul industrial production	9.2%	-0.5%	–	Highly volatile as supply issues are worked through.
Chn	Aug manufacturing PMI	49.0	49.2	–	COVID-zero risks increasingly a concern for HH's more…
	Aug non-manufacturing PMI	53.8	52.2	–	… than manufacturers; power uncertainty also a risk.
Eur	Aug CPI %yr	8.9%	8.8%	–	Roughly three-quarters of CPI basket running at >2.5%yr.
US	Aug Chicago PMI	52.1	53.1	–	Weakening new orders growth mirroring other surveys.
	Fedspeak	–	–	–	Mester.
Thu 01					
Aus	Aug CoreLogic home value index	-1.4%	–	-1.5%	Correction deepening and broadening.
	Jul housing finance	-4.4%	-3.6%	-4.0%	Lagging the wider housing market downturn…
	Jul investor finance	-6.3%	–	-4.0%	… but should show another decisive move lower…
	Jul owner occupier finance	-3.3%	–	-4.0%	… all segments impacted by interest rate rises.
	Q2 private new capital expenditure	-0.3%	1.0%	4.0%	Strength associated with burst of activity on fewer disruptions.
	Est 3 2022/23 capex plans, AUDbn	130.5	–	–	Upbeat. Est 2 at $130.5bn, some 15% above Est 2 a year ago.
Jpn	Aug Nikkei manufacturing PMI	51.0	–	–	Final estimate.
Chn	Aug Caixin manufacturing PMI	50.4	50.1	–	A better guide on small and medium-sized manufacturers.
Eur	Aug S&P Global manufacturing PMI	49.7	49.7	–	Final estimate.
	Jul unemployment rate	6.6%	6.6%	–	Holding at record lows.
UK	Aug S&P Global manufacturing PMI	46.0	–	–	Final estimate.
US	Q2 productivity	-4.6%	-4.6%	–	Final estimate.
	Initial jobless claims	243k	–	–	Slowly lifting from historic lows.
	Aug S&P Global manufacturing PMI	51.3	–	–	Final estimate.
	Jul construction spending	-1.1%	-0.1%	–	Home building to provide medium-term support.
	Aug ISM manufacturing	52.8	52.1	–	ISMs still strong; at odds with S&P Global measures.
	Fedspeak	–	–	–	Bostic.
Fri 02					
NZ	Q2 terms of trade	0.5%	–	-3.8%	Imported energy prices peaked over the quarter.
US	Aug non-farm payrolls	528k	300k	250k	Payrolls at odds with many other indicators of the labour…
	Aug unemployment rate	3.5%	3.5%	3.5%	… market which are already weakening.
	Aug average hourly earnings %mth	0.5%	0.4%	0.4%	Employers to gain greater say in wage setting hence.
	Jul factory orders	2.0%	0.2%	–	Q2 investment partials have indicated…
	Jul durable goods orders	0.0%	–	–	… a material softening in capital investment.

Forecasts

Interest rate forecasts

Australia	Latest (26 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	2.41	3.05	3.55	3.55	3.55	3.55	3.38	3.13
3 Year Swap	3.66	3.50	3.25	3.20	3.10	2.90	2.80	2.75
3 Year Bond	3.20	3.15	3.00	3.00	2.90	2.70	2.60	2.55
10 Year Bond	3.58	3.40	3.40	3.30	3.10	2.90	2.65	2.50
10 Year Spread to US (bps)	54	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	3.04	3.00	3.00	2.90	2.70	2.50	2.30	2.20
New Zealand								
Cash	3.00	3.00	4.00	4.00	4.00	4.00	4.00	4.00
90 day bill	3.45	3.70	4.10	4.10	4.10	4.10	4.10	4.10
2 year swap	4.20	3.90	3.90	3.80	3.70	3.50	3.30	3.10
10 Year Bond	3.88	3.40	3.50	3.40	3.30	3.15	3.00	2.95
10 Year spread to US	84	60	50	50	60	65	70	75

Exchange rate forecasts

Australia	Latest (26 Aug)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.6965	0.71	0.73	0.75	0.76	0.77	0.78	0.78
NZD/USD	0.6204	0.64	0.66	0.68	0.69	0.70	0.71	0.71
USD/JPY	136.73	132	132	130	127	125	123	121
EUR/USD	0.9972	1.05	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.1826	1.23	1.26	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.8553	6.70	6.60	6.50	6.40	6.30	6.20	6.15
AUD/NZD	1.1227	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	0.4	0.6	0.6	0.5	–	–	–	–
Annual avg change	5.6	5.1	1.0	2.1	1.8	2.1	2.7	-2.1	5.6	1.8	2.0
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	1.4	0.2	0.9	0.6	–	–	–	–
Annual change	5.9	6.9	7.3	6.4	5.1	4.2	3.1	1.4	5.9	5.1	3.2

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