AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 5 September 2022

Editorial: RBA to raise the cash rate by 50 basis points next week.

RBA: Policy decision. Governor speaking.

Australia: Q2 GDP and partials, trade balance and current account.

NZ: Q2 building work, GlobalDairyTrade auction, card spending.

China: CPI, PPI, trade balance, foreign reserves.

Europe: ECB policy decision, retail sales.

US: Labor Day public holiday, ISM services, trade balance, Fed Chair Powell speaking.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 2 SEPTEMBER 2022.

WESTPAC INSTITUTIONAL BANK

RBA to raise the cash rate by 50 basis points next week

The Reserve Bank Board meets next week on September 6.

We are confident that the Board will decide to raise the cash rate by a further 50 basis points to 2.35%.

The Statement from the Governor following the meeting will be closely scrutinised. In the note below we discuss a range of issues that will be relevant to that issue.

In summary, **"The best approach will be to strengthen the rhetoric we saw in the August Statement; maintain the term "not on a pre set path"; and, following Chair Powell, note that at "some point" it will be appropriate to slow the pace of tightening while emphasising that the cycle may have considerably further to run."**

Raising the cash rate by 50 basis points will move the cash rate into the "neutral zone".

In recent speeches (19 and 20 July) the Governor and Deputy Governor assessed "neutral" is at least 2.5%.

Having quickly moved policy into that neutral zone (225 basis points in four months – five meetings) we expect the Board will decide to slow the pace of increases to 25 basis points from the October meeting.

This second stage of the tightening process, with consecutive 25 basis point increments, is expected to extend out to February next year with the rate peaking at 3.35%.

At that point we expect that it will become evident that the Australian economy is clearly slowing with clear evidence of continuing deterioration as the series of rate hikes and high inflation weigh on households and businesses. Furthermore, although both headline and underlying inflation will be rising on an annual basis, the quarterly increase in underlying inflation will have slowed from 1.5% (September quarter) to 1.2% (December quarter) with the prospect of a further slowing to 0.8% in the March quarter.

Our assessment of "neutral" is lower than the RBA's. We view neutral in the Australian economy to be around 2% (partly relying on comparisons with previous peak debt servicing ratios in earlier cycles).

The 2.5% estimate from the RBA assumes a zero real rate and a nominal component equal to long term inflationary expectations which are judged to be 2.5%.

We accept that the challenge to contain inflationary expectations in this cycle will be formidable given the current evidence that both businesses and households are becoming accustomed to rising prices and short-term inflationary expectations are rising quickly.

Holding the cash rate at 3.35% through 2023, well above the neutral setting of 2.0%, is a necessary condition for the Bank to bring inflation down close to the 3% target – the top of the 2-3% range.

But there will be a price to pay for such success – we forecast the economy to grow by only 1% in 2023 – well below the trend rate of growth of around 2.5%.

This growth forecast is more pessimistic than the Bank's forecast of 1.8% while our forecast for inflation (Trimmed Mean) by end 2023 is 3.1%, well below the RBA's forecast of 3.8%.

Indeed, the RBA's forecast for headline inflation by end 2023 is 4.3% (3.8% underlying) - well above the 2-3% target.

The RBA's economic growth forecast for 2023 is 1.8% – significantly above our 1% forecast.

But the RBA uses a different interest rate profile in its forecasts, "the cash rate assumed to increase to around 3% by end of 2024" – a lower profile than our expectations. This profile is not a policy driven choice but rather "expectations derived from professional economists and financial market pricing".

So, although the Bank has a very clear policy objective, its forecasts use the estimates provided by others for the profile of its policy instrument.

There is a strong case for this approach to be reviewed in the current circumstances. It hardly signals the decisive "whatever it takes" commitment we see from US Fed Chairman Powell's Jackson Hole speech.

In the case of the RBA, the outcome is a set of forecasts that does not emphasise the Bank's commitment to returning inflation to the target zone in a reasonable time.

Consider the two policy approaches of the RBA and the Federal Reserve as indicated by the most recent Statements.

Governor Lowe, "The Board places a high priority on the return of inflation to the 2-3% per cent range over time, while keeping the economy on an even keel." (August Board)

Chairman Powell, "The FOMC's overarching focus right now is to bring inflation back down to our 2% goal… Reducing inflation is likely to require a sustained period of below trend growth… [which] will bring some pain to households and business" (Jackson Hole).

The Jackson Hole speech was clearly aimed at convincing businesses and households that the FOMC is absolutely committed to containing inflationary expectations, whatever the cost.

The Governor's Statement refers to "the path to achieve this balance is a narrow one and clouded in uncertainty."

The much more cautious, softer rhetoric along with the cautious forecasts risks the RBA losing control of inflationary expectations.

Chairman Powell emphasises that risk by invoking Chairman Volker, "Inflation feeds on itself, so part of the job… must be to break the grip of inflationary expectations."

That is compounded by a set of forecasts from the RBA that projects a "leisurely" two and a half years to reach the top of the 2-3% target zone.

So, the question is whether the powerful Jackson Hole speech will spur the RBA into stronger words after the September meeting than we saw in August.

I believe that would be the right approach although it should not commit to extending the 50 basis point increases into October.

Even the robust Chairman Powell noted, "At some point, as the stance of monetary policy tightens further it likely will become appropriate to slow the pace of increases."

The best approach will be to strengthen the rhetoric by strongly emphasising the inflation priority; maintain the term "not on a pre set path"; and, following Chair Powell, note that at "some point" it will be appropriate to slow the pace of tightening while emphasising that the cycle may have considerably further to run."

The Bigger Picture for Central Banks

Chairman Powell has emphasised his 2% inflation target.

It seems clear that he is prepared to impose considerable pain on the US economy to achieve that objective.

We forecast that growth in the US economy will be only 0.7% in 2023; a necessary development to squeeze inflation out of the system.

Consider the structural changes in the global economy in recent years:

- There has been ample supply in global labour markets, due to the rise of China and Eastern Europe. Through ageing; geo-political tensions; health shocks and mobility restrictions the excess supply of global labour has reverted into global shortages.
- The transition from fossil fuels to renewables, as the world deals with the realities of climate change, has quickly transformed into global shortages of fossil fuels which is pressuring energy prices.
- Food supplies are regularly disrupted by extreme climate developments.
- Globalisation and the resulting cost savings is reverting to deglobalisation as businesses that have suffered through supply chain disruptions are reassessing their supply chain policy – moving the mantra from "just in time" to "just in case".
- In response to the major shocks of the GFC and COVID, central banks aggressively expanded their balance sheets. We cannot be sure exactly how this massive boost to liquidity will affect inflation, although the uncertainty is about the extent rather than the direction.

Central banks are likely to be able to restore inflation to their pre-COVID targets through aggressively slowing demand over the course of the next few years. But, in facing these major structural changes to the global economy, they may have to accept higher inflation targets once they rebalance policy settings to revitalise demand and restore their economies to potential growth in the future.

With the key current objective for central banks being to contain inflationary expectations there will be no immediate move to address this challenge.

As we move beyond 2023, and into 2024 when we expect central banks to be easing policy settings to restore demand, upward pressures on inflation may emerge more quickly than is currently expected.

Bill Evans, Chief Economist

THE WEEK THAT WAS

The Australian data flow started the week with a positive surprise, but has disappointed since.

Against an expectation for another broadly flat outcome, July retail sales instead jumped 1.3% higher. Apparel and department store sales were particularly strong, while consumer spending at cafes & restaurants, 'other' retail and food grew robustly. A second consecutive decline for household goods provided only a marginal offset. While we continue to expect higher interest rates, declining house prices and historically-weak consumer sentiment to materially curb households discretionary consumption into year end, currently spending has momentum.

The housing sector stands in stark contrast to consumption having already been hit hard by actual and expected interest rate increases. The CoreLogic home value index fell 1.6% in August – the biggest monthly decline in nearly 40 years – indicating the housing market correction is shifting into a higher gear. This was further emphasised by a steep fall in housing finance approvals (-8.5%mth) and a materially soft outcome for housing credit growth in July. Meanwhile, dwelling approvals surprised with a 17.2% decline driven by a slump in high-rise approvals, but with the surprising resilience of non high-rise segments continuing despite the wider downturn. Nevertheless, weakness in Australia's housing market will persist as the RBA delivers further rate hikes in the coming months.

Arguably the key domestic releases for this week were the two investment partials for Q2 GDP. Construction work done surprised materially to the downside in the three months to June, declining by 3.8%. That construction activity fell sharply as hours worked for the economy overall jolted higher (4.6%) suggests material and labour shortages remain acute for the sector; wet weather was also likely a factor in Q2. While national construction work has fallen 1.5% during the pandemic (since end-2019), the sector's pipeline remains in robust health. An uptrend should become apparent hence.

The Q2 CAPEX survey also signalled a robust outlook for investment in construction and equipment despite a disappointing reading for activity in the quarter. Estimate 3 for FY2022/23 implies a circa 15% gain for total investment, broadly in line with estimate 2. Importantly, this strength was broad-based across the mining and non-mining sectors and comes amid considerable uncertainty over the state of the global economy and as interest rates move higher. A note of caution though: the CAPEX survey projections are nominal and so include cost inflation which was substantial during the current financial year at 8.2%.

Despite the downside surprise in Q2 for construction and CAPEX, we continue to expect GDP to gain 2.0%, 4.5%yr. As detailed in our GDP preview, offsetting weaker investment is strength in net exports. Also due next week is the September RBA decision. Ahead of the meeting, Chief Economist Bill Evans has laid out our rationale for a 50bp increase, taking the cash rate to 2.35%, near the RBA's neutral estimate. Thereafter, we expect the RBA to shift back to a 25bp pace from October through February, when we see the cash rate at a peak of 3.35%. In the note, Chief Economist Bill Evans also discusses the potential medium-term challenges that central banks may face as they try to return GDP growth to trend or above while keeping inflation at target.

Moving offshore, the Asian data flow was very light this week, with only China's official PMIs worthy of note. Power outages and the lingering effect of COVID-zero policies held the manufacturing index below the expansion/contraction divide of 50 for another month. The service sector performed better, printing at 52.6 in August; however, it is clear that the Hainan outbreak and COVID-19 flare ups elsewhere are continuing to impact momentum in the services sector as well.

Turning to the US, Chair Powell's remarks continued to impact markets throughout the week ahead of the all-important August employment report (due tonight). Chair Powell's speech was certainly a decisive stand against inflation, albeit conditional. A contractionary policy stance is necessary now and likely throughout 2023. However, at 2.375%, much of the work has already been done, with the full effect of policy tightening still to be felt. Chair Powell's views and those of other FOMC members since speak to a desire to complete the tightening cycle by year end and to then remain on hold as a negative output gap grows, removing the risks for inflation and inflation expectations.

The FOMC's guidance on timing is consistent with our own view; though we expect their actions to have a greater impact on the economy and, from December 2023, see a need to materially lower the fed funds rate to restore growth to trend and thereby stabilise the labour market. To leave growth well below trend for another year (2024) risks economic weakness becoming entrenched, to the long-term detriment of US households. This would also threaten the US' path to a 50% reduction in emissions by 2030 and the eventual aim of a net zero economy come 2050. This is because much of the planned reduction in emissions requires the consumer to be in good financial health and willing to spend.

Given the swift move higher in US term interest rates and the US dollar this week, a final word on financial conditions. The focus of the FOMC on inflation this week has arguably been primarily about maintaining tight financial conditions rather than expressing a particular level the fed funds rate must get to. At the end of the day, market rates are what economic agents pay, not the fed funds rate itself. To maximise the inflation/ growth trade-off, the stance of policy must be tight now and inflation expectations guided lower. For the US at least, if conditions deteriorate further than the FOMC anticipate, the market will adjust in time, reducing the risk of policy becoming too tight. A focus on near term price dynamics and the risk of inflation persisting at rates materially above target if policy makers do not act aggressively is also likely to be the approach taken by the ECB next week.

Week ahead & data wrap

New Zealand is building new homes at a rapid pace. However, conditions in the construction sector are changing and a slowdown in building activity (rather than a crash) is on the cards over the coming years. At the same time, the downturn in population growth means that the shortages that developed over the past decade are now being rapidly eroded. Even so, we don't think that the country is at risk of having an 'oversupply' of housing.

Construction activity, especially new home building, has been a key driver of economic growth and employment in recent years. In addition, there is a large pipeline of planned projects, with over 50,000 new dwelling consents issued over the past year. However, the ground has shifted under the construction sector with changes on several big fronts.

First are the skyrocketing costs of building, with operating costs in the residential construction sector rising by more than 10% over the past year alone. Those increases are in part due to earlier shortages of materials which have now started to ease. However, the sector is also grappling with an ongoing shortage of skilled staff, which has seen labour costs rising rapidly and widespread poaching.

Compounding the financial headwinds for the construction sector has been the rise in interest rates. Like other central banks around the globe, the RBNZ has been hiking the cash rate at a rapid pace, and further sharp increases are on the cards before the end of this year. We're forecasting 50bp increases at the next two policy meetings which would take the OCR to 4.00%.

In addition to those increases in operating costs, house prices have been tumbling. Prices have already fallen 8% from their peak, and we think that there are further declines yet to come. We're forecasting that house prices will fall by a total of 15% over 2022 and 2023 combined.

Those seismic changes in the economic landscape have meant that prospective purchasers are increasingly hesitant about buying off the plan. At the same time, developers have become more cautious about bringing new projects to market.

Consistent with those trends, consent issuance has flattened off and has effectively been tracking sideways for a year now (albeit at very high levels). We expect to see consent issuance easing back over the coming months, with that decline to extend into the new year. Consistent with that, we're already hearing a number of anecdotes from builders about a reduction in forward orders.

But while consent issuance is set to trend down, the slowdown in actual building activity is set to be more moderate. In fact, we expect that building activity will remain elevated through the back part of this year and early part of 2023. While consent issuance has charged higher over the past few years, building activity has not kept pace. Earlier shortages of materials and staff have seen completion times stretching out. That means there is still a large backlog of projects in the works.

Over time, building levels are set to ease back, as existing orders are filled and fewer new projects come to market. But that will be an easing from very high levels. Furthermore, with a large number of planned projects, we expect any softening will be gradual (rather than a sharp fall) at least over the coming year.

The other big change for the building sector has been the fall in population growth. At the same time as homebuilding activity has been charging higher, net migration has plummeted. And even with the reopening of our borders, we expect that migration will remain well below pre-pandemic levels for the foreseeable future.

Combined, the downturn in net migration and current rapid pace of homebuilding means we're now building much faster than is needed to keep up with population growth. As a result, the housing shortages that developed in recent years are being rapidly eroded. Furthermore, home building is set to continue outpacing population growth for some time, even assuming a slowdown in construction.

This has raised questions about whether we're at risk of an oversupply situation developing in the housing market. We don't think that's the case. But it's worth looking at what's happening across regions to understand why.

In areas outside of Auckland, migration plays less of a role in driving population changes. That means housing shortages in areas outside of Auckland are being eroded more gradually. In fact, the high levels of building that we're now seeing are actually what is needed to take the number of homes per head of population back to the sorts of levels we saw in the middle of last decade (just before the start of the recent period of very strong net migration).

It's a more nuanced picture in Auckland, where the downturn in migration has seen population growth grinding to a halt. Combined with the sharp rise in home building, that's meant much of the underbuilding of houses over the past decade has already been reversed. And given the current rapid pace of building, we expect that shortfall will be completely eliminated over the next year or so.

But even with a massive number of new homes still being built in Auckland, we don't think that we'll see an 'excess' of supply. Housing pressures in Auckland mean that we typically see an outflow of its residents to other parts of the country. An abundant supply of housing would help to stem the exodus of Aucklanders, bringing demand and supply back towards balance.

The other way to look at this issue is in terms of housing availability. Per head of population, there are far fewer homes in Auckland than there are in other regions. And even with rapid home building and low population growth, that's set to remain the case.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 29	Jul monthly employment indicator	0.4%	0.5%	0.3%
Wed 31	Jul building permits	–2.2	5.0%	0.0%
	Aug ANZ business confidence	–56.7	–47.8	–
Fri 2	Q2 terms of trade	0.6%	–2.4%	–3.8%

DATA PREVIEWS

Aus Q2 company profits

Sep 5, Last: 10.2%, WBC f/c: 4.5%
Mkt f/c: 4.5%, Range: 2.0% to 7.0%

Company profits surged over the past year on higher commodity prices - a dynamic that extended into the June quarter 2022.

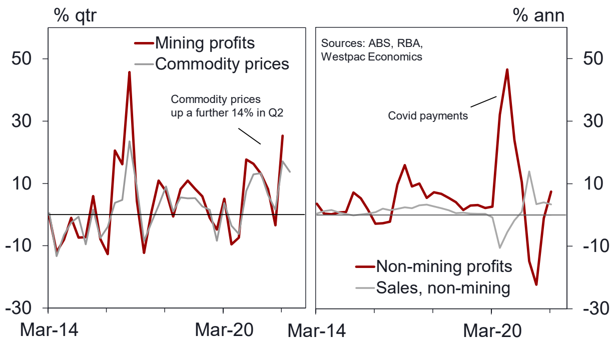
In the year to March, company profits jumped 25% (a rise of $28.4bn), including a stellar 10.2% rise in the March quarter. Mining sector profits have been the key driver - up 48% over the year (+$22.9bn), including a leap of 25% in the March quarter. This was associated with a 43% rise in commodity prices over the year.

During the June quarter, commodity prices pushed further into the stratosphere - up 14%, propelling profits higher still, led by mining.

In addition, non-mining profits likely advanced in the June quarter. Turnover expanded at a brisk pace on a burst of activity - but tempering this - margins were squeezed on spiralling costs along with more modest increases in output prices.

On balance, we anticipate the Business survey will report a 4.5% increase in profits for Q2.

Company profits: led higher by mining



Aus Q2 inventories

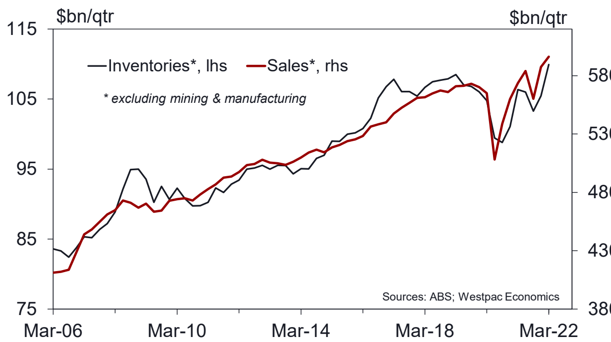
Sep 5, Last: 3.2%, WBC f/c: 1.6% (-0.5pts impact)
Mkt f/c: 1.5%, Range: 0.0% to 3.1%

Sales, production and inventories have been volatile quarter to quarter as the economy navigates the pandemic. Inventory levels weakened during lockdowns and were rebuilt during the reopening periods. A rebuild occurred over 2020Q4-2021Q1 and then, following delta, again over 2021Q4-2022Q1.

Since the end of 2019, prior to the pandemic, the increase in inventory levels is not greatly different from that for sales, at 3.7% and 4.6%, respectively. This calculation excludes mining and manufacturing, which tend to have their own dynamics.

For the June quarter 2022, fewer disruptions facilitated a burst of spending and a sharp lift in output - with hours worked up by 4.6%. We've factored in a 1.6% rise in inventories - a well above par result but one that points to the need for a further rebuild ahead. Such an outcome would see inventories subtract 0.5ppts from activity in Q2.

Inventories and sales: impacted by lockdowns



Aus Q2 current account, $bn

Sep 6, Last: 7.5, WBC f/c: 19.0
Mkt f/c: 22.0, Range: 11.0 to 24.0

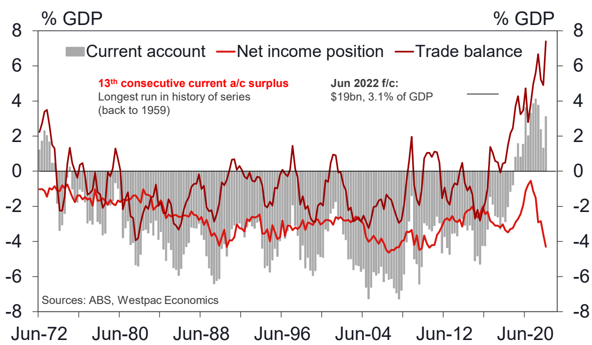
Australia's current account surplus, having narrowed briefly in the March quarter, returned to a very sizeable level in the June quarter.

We anticipate that the current account climbed to $19bn in Q2, around 3.1% of GDP, up from $7.5bn in Q1, and not greatly different in dollar terms from the $21bn average for the initial 3 quarters of 2021.

The trade position improved sharply in the June quarter, surging to $45bn, representing 7.4% of GDP - a fresh record high. That was up from $28.2bn in Q1 (as reported in the BoP). Export earnings grew by a stellar 14.7% on higher prices and increased shipments. The terms of trade increased by around 4.3%, we estimate.

The net income deficit (NID) widened by almost $5bn to $20.7bn in Q1 and we've allowed for this trend to extend into Q2, factoring in a NID in the order of $26bn.

Current a/c surplus: f/c at $19bn for Q2



Aus Q2 net exports, ppts cont'n

Sep 6, Last: -1.7, WBC f/c: 1.0
Mkt f/c: 1.0, Range: 0.2 to 1.4

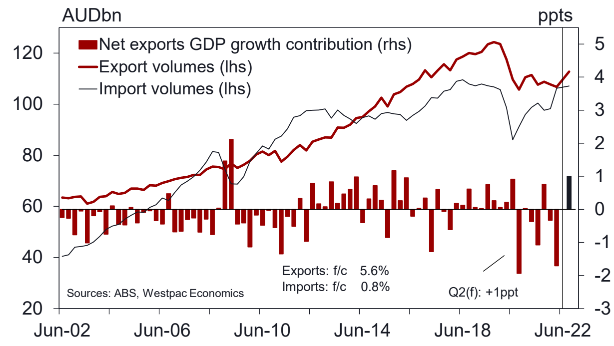
Net exports have been volatile quarter to quarter during the pandemic reflecting swings in demand and production, on lock-downs/reopening. Export supply disruptions in the resource sector have also been significant, albeit these eased in the June quarter. National border restrictions had a major impact on travel services.

The June quarter 2022 will see net exports make a sizeable positive contribution to growth, of about 1ppt. This represents only a partial reversal of a 2ppts drag over the past year and would still have net exports subtracting 2.4ppts from growth since the end of 2019.

Export volumes expanded by 5.6% in the June quarter, including +4.4% for goods (led by resources and rural) and +13.5% for services (the national border reopening boosting education and tourism).

Import volumes, following an 8% surge in Q1 (inflated by a spike in covid vaccine supplies), grew by an estimated 0.8%, including -0.8% for goods and +12.3% for services (with Aussies flocking back to overseas travel).

Net exports: Q2 f/c +1ppt



Aus RBA policy decision

Sep 6, Last: 1.85%, WBC f/c: 2.35%
Mkt f/c: 2.35%, Range: 2.10% to 2.35%

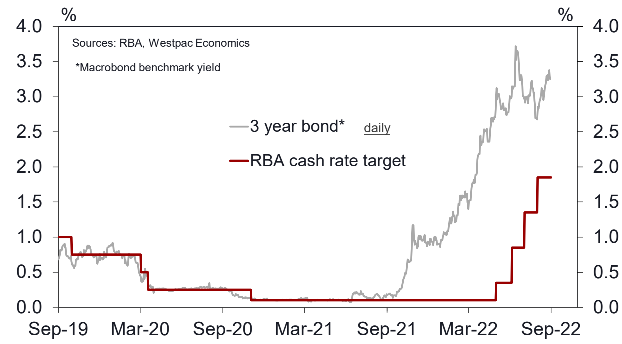
At the September Board meeting, we anticipate that the RBA will lift the cash rate by 50bps - the fourth consecutive move of 50bps. That will take the cash rate to 2.35%, to be in the "neutral zone". Moves beyond this point are likely to be more measured.

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, 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 - with moves of 25bps each meeting from October to February.

For a more detailed discussion, see pages 2 and 3 above.

RBA cash rate and 3 year bonds



Aus Q2 GDP

Sep 7, Last: 0.8%, WBC f/c: 2.0%
Mkt f/c: 1.1%, Range: 0.7% to 2.0%

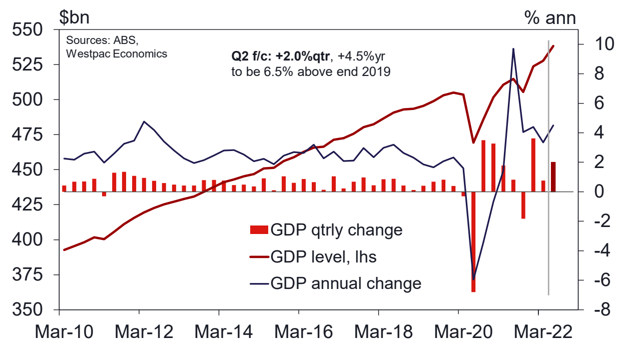
Output growth expanded by a forecast 2% in the June quarter, an improvement on the 0.8% increase reported the quarter prior.

Labour market conditions strengthened in the June quarter, hours worked up by a brisk 4.6%, a turnaround from the -1% for the March quarter, impacted by the omicron wave. However, there have been some mixed partials - notably a sharp decline in construction work.

The arithmetic of our Q2 GDP forecast is: domestic demand +1.6%; net exports +1.0ppt and total inventories -0.7ppts, with +0.1ppt from the statistical discrepancy.

Consumer spending, particularly on hospitality and travel, led the way, enabled by fewer covid restrictions, up a forecast 2.8% (after a +1.5%). The key uncertainty is scaling the acceleration in services spending. Other domestic demand detail appears to have weakened in Q2: housing -4% after a -1%; business investment +0.6% after a +1.4%; and public demand +1% after a well above par +2.6%.

Australian economy: Q2, conditions improve



Aus Jul trade balance, $bn

Sep 8, Last: 17.7, WBC f/c: 13.5
Mkt f/c: 14.5, Range: 10.5 to 17.0

Australia's trade surplus ballooned to new record highs in May and June, of $15.0bn and $17.7bn respectively, up from $12.3bn in April.

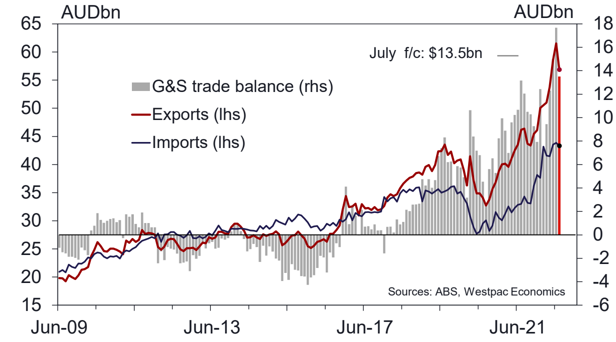
That is probably as good as it gets, with the surplus forecast to retreat to a still elevated $13.5bn in July - a narrowing of $4.2bn.

Exports had a remarkable 3 months to June, up 20.6%, +$10.5bn - on higher prices (in part due to the Ukraine war) and on higher volumes. Roll forward to July, global recession concerns jolted commodity prices lower. Coinciding with this, Australian export shipments were mixed - with coal volumes hard hit by flooding.

Export earnings are forecast to fall by -7.5% in July, down $4.7bn with falls led by coal and iron ore.

Imports are anticipated to decline, down by -1.2%, -$0.5bn, led by sharply lower global fuel prices.

Australia's trade balance



NZ Q2 building work put in place

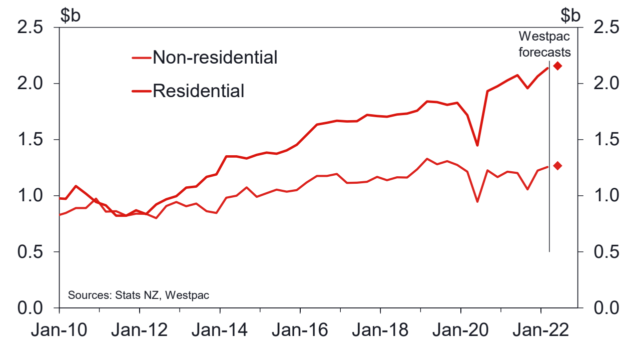
Sep 5, Last: +3.2%, Westpac: +1.0%

Total construction activity rose by 3.2% in the March quarter. Underlying that increase was a 3.2% lift in residential work, as well as a 2.7% increase in non-residential construction.

We're forecasting a further 1% rise in construction activity in the June quarter with modest gains in both residential and non-residential activity. While there is a large amount of work in the pipeline, shortages of materials and labour have been a handbrake on the pace of building.

We expect that construction activity will remain elevated for some time yet, with a large number of planned projects and stretched capacity. However, the financial conditions in the building sector are changing, and activity is set to moderate over the year ahead.

NZ real building work put in place



NZ GlobalDairyTrade auction, whole milk powder prices

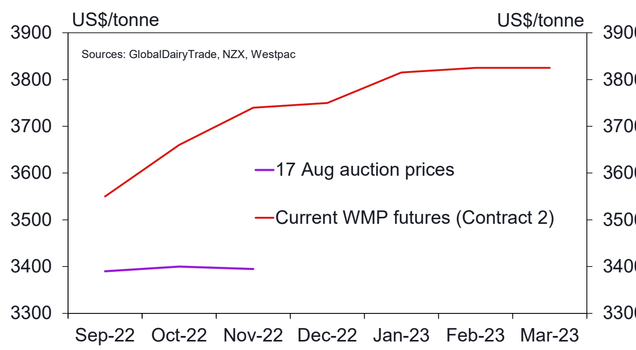
Sep 7, Last: -3.5%, Westpac: +2%

We expect whole milk powder prices (WMP) to lift by around 2% at the upcoming auction. This follows a 3.5% price slide at the previous auction.

Our pick is slightly lower than the circa 3% lift that the futures market is pointing to.

Following the weakness in recent months, we expect global dairy prices to regain strength on very weak global dairy supply and recovering Chinese demand.

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.

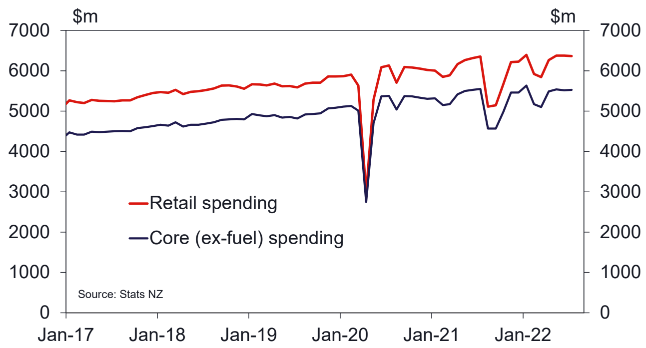
NZ Aug retail card spending

Sep 9, Last: -0.2% Westpac: -0.2%

Retail spending fell by 0.2% in July. That followed similarly muted gains in recent months, with nominal retail spending effectively remaining flat through mid-2022. That's despite large increases in retail prices, meaning that the volume of goods we've been purchasing has actually been going backwards.

We're forecasting another small fall in nominal spending in August of 0.2%. That's mainly due to the sharp fall in petrol prices over the month. However, the reduction in fuel prices is helping to support spending in other areas, with spending in core (excl. fuel) categories expected to be up 0.5%. That's in part related to increased spending in bars and on dining out. We're also seeing a lift in tourist spending (albeit from low levels) following the relaxation of border restrictions.

NZ retail card spending



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 05					
Aus	Q2 company profits	10.2%	4.5%	4.5%	Another strong showing, particularly mining – see textbox.
	Q2 inventories	3.2%	1.5%	1.6%	Above par inventory built, but down from record Q1 pace.
	Aug MI inflation gauge %yr	5.4%	–	–	Inflation well above the RBA's target band.
	Aug ANZ job ads	–1.1%	–	–	Still at a very high level.
NZ	Q1 building work put in place	3.2%	–	1.0%	Modest gains, capacity pressures remain a handbrake.
	Aug ANZ commodity prices	–2.2%	–	–	Dairy prices fell significantly over August.
Jpn	Aug Nikkei services PMI	49.2	–	–	Final estimate.
Chn	Aug Caixin services PM	55.5	54.0	–	Hainan and other COVID-19 flare ups a headwind.
Eur	Aug S&P Global services PMI	50.2	–	–	Final estimate.
	Sep Sentix investor confidence	–25.2	–	–	Confidence seems to be stabilising; but uncertainty high.
	Jul retail sales	–1.2%	–	–	Negative so far this year, highlighting pressure on HH's.
UK	Aug S&P Global services PMI	52.5	52.5	–	Final estimate.
US	Labor Day	–	–	–	Public holiday; markets closed.
Tue 06					
Aus	Q2 current account balance, $bn	7.5	22.0	19.0	Lifts substantially, driven by a record trade surplus of $45bn.
	Q2 net exports, ppts cont'n	–1.7	1.0	1.0	Swings back to a positive, on a burst of exports.
	Q2 public demand	2.6%	–	1.0%	Coming off a very strong Q1 (a spike in covid vaccine supplies).
	RBA policy decision	1.85%	2.35%	2.35%	A 4th consecutive 50bp hike – in a return to "neutral".
Jpn	Jul household spending %yr	3.5%	4.7%	–	Re-opening rebound underway.
US	Aug S&P Global services PMI	44.1	44.2	–	S&P Global has been providing a more cautious read…
	Aug ISM non-manufacturing	56.7	55.2	–	… on state of services sector; clear downside risks for sector.
Wed 07					
Aus	Q2 GDP	0.8%	1.1%	2.0%	Consumers lift spending on services, covid disruptions eased.
NZ	GlobalDairyTrade auction – WMP	–3.5%	–	2.0%	Dairy prices regaining strength on very weak global supply.
Chn	Aug foreign reserves US$bn	3,104	3,078	–	Authorities focused on stability on trade-weighted basis.
	Aug trade balance US$bn	101.26	91.30	–	Weaker global economy a risk for trade into year end.
Eur	Q2 GDP, final	0.6%	0.6%	–	Component detail with final estimate.
US	Jul trade balance US$bn	–79.6	–70.1	–	Decline in domestic demand weighing on imports.
	Federal Reserve's Beige book	–	–	–	Conditions across the regions –– increasingly mixed.
	Fedspeak	–	–	–	Brainard and Barr.
Thu 08					
Aus	Jul trade balance $bn	17.7	14.5	13.5	Still elevated but down from June record high – see textbox.
	RBA Governor Lowe	–	–	–	*Inflation and the Monetary Policy Framework*, Sydney, 1:05pm.
Jpn	Q2 GDP, final	0.5%	0.7%	–	Output should receive tailwind into 2023.
	Jul current account balance ¥bn	–132.4	795.0	–	Opportunities in Asia; developed-world demand a risk.
Eur	ECB policy decision, refi rate	0.50%	–	1.25%	Market priced for 75bps; fear of inflation also supportive.
US	Initial jobless claims	232k	–	–	Likely to remain at low levels for time being.
	Jul consumer credit	40.154	32.500	–	High rates to weigh over coming year.
	Fed Chair Powell	–	–	–	Speaking at policy conference in Washington.
Fri 09					
NZ	Aug card spending	–0.2%	–	–0.2%	Lower fuel prices a drag, core spending has flattened off.
Chn	Aug PPI %yr	4.2%	3.2%	–	Upstream price pressures decelerating…
	Aug CPI %yr	2.7%	2.8%	–	…. and consumer inflation remains relatively benign.
	Aug new loans, CNYbn	679.0	1500.0	–	Further strength in credit likely…
	Aug M2 money supply %yr	12.0%	12.3%	–	… into year end on authorities' encouragement.
US	Jul wholesale inventories	0.8%	0.8%	–	Uncertain time for retailers and those that supply them.
	Fedspeak	–	–	–	Waller.

Forecasts

Interest rate forecasts

Australia	Latest (2 Sep)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	1.85	3.10	3.35	3.35	3.35	3.35	3.10
90 Day BBSW	2.49	3.55	3.55	3.55	3.55	3.38	3.13
3 Year Swap	3.73	3.25	3.20	3.10	2.90	2.80	2.75
3 Year Bond	3.30	3.00	3.00	2.90	2.70	2.60	2.55
10 Year Bond	3.69	3.40	3.30	3.10	2.90	2.65	2.50
10 Year Spread to US (bps)	43	40	40	40	40	35	30
US							
Fed Funds	2.375	3.375	3.375	3.375	3.375	3.125	2.875
US 10 Year Bond	3.26	3.00	2.90	2.70	2.50	2.30	2.20
New Zealand							
Cash	3.00	4.00	4.00	4.00	4.00	4.00	4.00
90 day bill	3.49	4.10	4.10	4.10	4.10	4.10	4.10
2 year swap	4.35	3.90	3.80	3.70	3.50	3.30	3.10
10 Year Bond	4.03	3.50	3.40	3.30	3.15	3.00	2.95
10 Year spread to US	77	50	50	60	65	70	75

Exchange rate forecasts

Australia	Latest (2 Sep)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.6792	0.73	0.75	0.76	0.77	0.78	0.78
NZD/USD	0.6082	0.66	0.68	0.69	0.70	0.71	0.71
USD/JPY	140.13	132	130	127	125	123	121
EUR/USD	0.9962	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.1549	1.26	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.9018	6.60	6.50	6.40	6.30	6.20	6.15
AUD/NZD	1.1194	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

** GDP forecasts to be reviewed post Q2 National Accounts, released on Wednesday September 7.*

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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