AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 12 September 2022

Editorial: Sharp slowdown in growth in 2023.

Australia: Westpac-MI Consumer Sentiment, business survey, labour force.

NZ: Q2 GDP, current account balance, housing updates, manufacturing PMI.

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

Europe: CPI, trade balance, industrial production.

UK: BoE policy decision, CPI, unemployment rate, retail sales.

US: CPI, PPI, retail sales, industrial production, small business optimism, consumer sentiment.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 9 SEPTEMBER 2022.

WESTPAC INSTITUTIONAL BANK

Sharp slowdown in growth in 2023

The Australian economy expanded by 0.9% in the June quarter for annual growth of 3.6%. For 2023 we expect growth to slow to 1.0%.

That solid growth in the June quarter was being driven by strong household spending (around 54% of GDP) from a boost to expenditure through the reopening of the economy, particularly discretionary services. That was supplemented by a substantial fall in the still elevated savings rate which freed up scope for more spending.

We had anticipated growth in household spending of 2.6%, compared to the actual result of 2.2%. But spending growth in the March quarter was revised up from 1.5% to 2.2%, confirming our positive view of the household sector.

The detail around household spending was also in line with our thinking – the savings rate fell from 11.1% to 8.7%, freeing up $7.6 billion to largely finance the additional $10.8 billion in spending during the quarter. Discretionary services boomed in the quarter – transport services up 37.3%; hotels cafés and restaurants up 8.8% and recreation and culture up 3.6%.

But residential construction contracted by 2.9% and non–residential construction (private and public) was down by 1.8%. This unexpected contraction in construction (subtracted 0.3ppt from growth in the quarter) represented around a 0.6ppt turnaround from our prior.

Looking forward, we expect to see a slowdown in the growth rate of consumer spending in the September and December quarters. The reopening effect will begin to fade, and the recent interest rate increases will start to impact households.

There were two rate hikes in the June quarter (0.25% in May and 0.5% in June). The impact on household finances from those rate increases in the June quarter will have been minimal.

But by the September and December quarters, which has seen rate 0.5% increases in July; August; and September the impact will be substantial.

We expect further increases of 0.25% in each of October; November; and December with a final increase of 0.25% in February.

Although around one third of households hold a mortgage; one third are renters; and one third own their properties outright, rate increases impact all groups through a range of channels – the cash flow of borrowers; the indirect impact from investors who pass on higher funding costs to renters, particularly as rental vacancy rates are near record lows in many cities and regions; the wealth effect of falling house prices on those who own their properties outright and borrowers; and the recent collapse in Consumer Confidence.

Nationally, house prices have already fallen by 4%, with, our forecast of another 12% likely to follow through to the second half of 2023.

The contraction in construction in the June quarter has been attributed to weather delays and supply constraints. We expect to see construction lifting modestly through the second half of 2022 reflecting the build-up in the construction pipeline. A further contraction can be expected in 2023 as rising rates weigh on demand – effectively reducing the pipeline.

Reflecting these changes, we have lowered our growth forecast for 2022 from 4.4% to 3.4%.

Growth in consumer spending during 2022 is expected to slow from 4.4% in the first half of the year to 1.8% in the second half.

But with the expected recovery in the construction cycle we see dwelling construction lifting by 5.4% in the second half of this year, a turnaround from a contraction of 3.4% in the first half of 2022.

Related recoveries are expected for commercial building and engineering.

Overall, with the expected short term recovery in the construction cycle partially offsetting the slowdown in the pace of consumer spending we expect growth in the second half of 2022 to hold around the same 3.2% annualised pace as we saw in the first half – albeit conditions in the final quarter of 2022 are likely to more subdued than those during the September quarter.

We have not changed our downbeat view for growth in 2023.

We expect GDP growth in 2023 to slow to 1.0% with private domestic demand growth slowing to 0.2% (a sharp deceleration from an expected 5.4% expansion in 2022).

We cannot rule out a negative quarter of growth in 2023 but do not expect a classic recession.

Consumer spending growth is expected to slow from 6.3% in 2022 to 1.2% in 2023; business investment growth will slow from 5.8% to -1.0%; while dwelling construction growth will slow from 2.0% to -4.0%.

That slowdown in consumer spending growth will include a very modest further fall in the savings rate from 3.6% by the end of 2022 to 2.3% through 2023.

We assess that the equilibrium savings rate is around 6% so reductions in the savings rate to below that level will be associated with households drawing down some of their accumulated excess savings. We expect that stock of excess savings accumulated during the pandemic, which currently stands at around $275 billion, to fall to around $200 billion by end 2023.

The economy in 2023 will experience the full accumulated effect of the lift in the cash rate from 0.1% in April 2022 to 3.35% in February 2023. Other negatives for growth in 2023 are: a total fade out of the "reopening" effect; a limited further fall in the savings rate to below equilibrium as households continue to draw down those excess savings albeit at a slower pace than in 2022; a rise in the unemployment rate from 3.0% to 4.2%; and a fall in house prices from peak to trough of around 16%.

The slowdown in 2023 will be necessary to contain any build up in "inflationary psychology" where businesses expect to be able to raise their prices and households accommodate in the expectation of out-size wage increases.

Flat demand conditions will mean that business' confidence in their flexibility to continue raising prices will dissipate and we can return to a period of steady inflation.

If we are wrong and demand is much more robust than we expect in 2023 (perhaps the "even keel") then the risk is that further rate increases will be required much later in the year.

Bill Evans, Chief Economist

For Australia, GDP was the focus this week along with the RBA's September decision and a speech by Governor Lowe. Globally, central bank decisions and views on the outlook remained key.

Q2 GDP for Australia met the market's expectation at 0.9%, 3.6%yr. As expected, household consumption drove growth in the quarter, consumption's strong 2.2% gain in the 3 months to June coming as a result of the economy's progressive re-opening and as spending was supported by both robust nominal income gains and a further reduction in the savings rate. While discretionary services spending remains materially below pre-pandemic levels, in coming months households will feel the full effect of the rapid rise in interest rates and the hit to real incomes from historic inflation, limiting further upside. We continue to expect consumption growth to decelerate to a pace well below trend from Q4 2022 through end-2023, taking GDP growth with it. At December 2023, annual GDP growth is expected to have slowed to just 1.0%yr.

The consequences for growth of an abrupt tightening cycle and the hit to discretionary spending capacity from inflation are clearly on the mind of the RBA. Having taken policy to a broadly neutral stance with a fourth consecutive 50bp increase in the cash rate at their September meeting, the Governor's decision statement recognised that consumer sentiment is weak and household wealth falling, with "the full effects of higher interest rates yet to be felt in mortgage payments". As discussed this week by Chief Economist Bill Evans, with policy "normalised", a slower pace of rate hikes is likely to prove prudent from here.

That being said, with inflation yet to peak and, as per the Governor's speech, risks remaining for inflation expectations, we are still some way from this hiking cycle ending. Westpac continues to see four further 25bp increases to a 3.35% peak in February 2023 after which the stance of policy is set to remain on hold to end-2023 as inflation retreats back to the top of the RBA's target range.

Q2's trade and financial account data is also worthy of comment. In the quarter, the current account widened sharply to a surplus equivalent to 3.0% of GDP as a result of a record trade surplus circa 7% of GDP. The flip-side of the record profitability of our mining sector however is an outsized flow of dividends to foreign shareholders. As a result, Australia's net income deficit has once again jumped higher to around 4% of GDP, a percentage point above the average since 1980.

Underlying this result though is a favourable structural change in the equity return Australians are receiving from their rapidly growing overseas investments. Highlighting the significance of this trend, over calendar 2021, Australia's net foreign liabilities declined by 15% of GDP to 36% of GDP with 65% of the reduction the result of equity investment abroad and favourable price changes.

While prices have moved adversely since, presumably this is temporary and, all the while, new capital is being invested. Splitting the equity outflow between direct and portfolio holdings (the difference being whether an investor's equity interest is more or less than 10%), it becomes apparent that the buoyant appetite of Australian super funds for offshore assets (both listed and unlisted) is a primary driver of this trend, one that is likely to endure. Such a sizeable, steady outflow of capital, with little-to-no immediate offset from distributed returns, could have a substantial and lasting dampening impact on the Australian dollar.

Over in the US, this week's mixed data highlights the variable conditions faced by businesses across the nation. The ISM services PMI edged higher in August; although respondents seemed cautious on the outlook, with the production and new order indexes printing above 60 as employment held around 50 – the divide between expansion and contraction. In stark contrast, the S&P Global services PMI was very weak, coming in at 43.7, around 3.5 points below the July read. Our take on these two outcomes is that large service providers have the market position and pricing power to weather a weak economy; however, the smaller providers picked up by S&P Global do not. The combined effect seems most likely to be a stagnant economy, the latest Beige Book indicating economic activity was "unchanged, on balance".

Speaking towards the end of the week, Chair Powell kept to a hard line against inflation. Clear in his remarks was a need to act swiftly against these risks so as to not allow expectations of higher inflation to become entrenched. History suggests this will limit the need for contractionary policy and the ill effects for the economy. For the upcoming September meeting, this points to another outsized increase. Whether it is 50bps (as we currently forecast) or 75bps will depend on the pulse of core inflation in August, due for release next week.

Either outcome will take the fed funds rate to the top end of the FOMC's neutral range for policy, allowing a return to 25bp increments for the remaining hikes of the cycle. To our mind, given underlying inflation dynamics and the absence of activity growth, 3.375% at end-2022 is the most appropriate peak rate for this cycle, particularly as it is to be held for 12 months. Though, the market continues to see modest risk of a higher peak, and some FOMC members agree. 75bp increases by both the Bank of Canada and European Central Bank this week (following 100bp and 50bp hikes respectively at their last meetings) fanned these expectations.

Looking more closely at the ECB's decision, concerns around the intensity and breadth of inflation and the risk of de-anchoring inflation expectations were clearly front-of-mind for the Committee. Indeed, they now see annual headline inflation at 8.1% in 2022 and holding above target to end-2024. Regarding growth, the ECB's sanguine baseline view sees output growth only stalling to March 2023 before a robust rebound takes hold, with 1.9% growth forecast through 2024.

However, these outcomes depend heavily on how current risks evolve. The ECB knows this well and estimates that a "downside scenario" – involving protracted conflict and compromised energy security – could see growth print 2ppts lower over the forecast horizon relative to their baseline projection. That inflation is not expected to be materially different in such circumstances supports the ECB's intent to deliver further rate hikes into year-end, the pace and scale of which will depend critically on incoming data.

Week ahead & data wrap

Double, or nothing?

New Zealand recorded a 0.2% drop in GDP in the March quarter as the Omicron wave swept through the country. That wasn't all that far from our forecast of a flat result. But with recession risks already on people's minds, that inevitably sparked an interest in what the June quarter figures (to be released next Thursday) would hold. Would we see a second quarter of decline, meeting the 'technical' criteria for a recession? Or would it turn out to be nothing, simply a product of noisy data in an unusual environment?

With all the available data now to hand, it looks more likely that the March drop was a big nothing – we estimate that GDP bounced by 1.6% in the June quarter. That's an upgrade from our initial forecast of a 1% rise, and is closer to the 1.8% increase that the Reserve Bank forecast in its recent Monetary Policy Statement.

That said, the margin of uncertainty around our forecast – already quite wide throughout the pandemic – is particularly large this time. There were some big forces operating on the economy through the June quarter – not just the easing of the Omicron wave, but also the scaling back of the Covid response. And most importantly, the reopening of the border has seen the return of overseas tourists during what would normally have been the seasonal lull. We're expecting to see some big sectoral shifts in both directions, and it's not at all clear where the balance will lie.

Transport and accommodation were the obvious beneficiaries from the return of overseas tourists. The challenge has been in identifying what they did once they got here. They clearly weren't hitting the shops – retail spending was down more than 2% for the quarter. Instead, the gains will come through in sectors such as administrative services (which includes tour operators) and arts and recreation.

A number of sectors appear to have benefited from the easing of the Omicron wave over the June quarter, in particular the reduced degree of worker absences. We expect around a 4% lift in food manufacturing, helped by meatworks operating closer to full capacity, as well as improved growing conditions relative to previous quarters. Construction, non-food manufacturing and professional services are also expected to see an uptick to varying degrees.

Some of the sectoral details of GDP will need to be read with caution. The Marsden Point oil refinery was decommissioned in April and became an import-only facility. That means for GDP purposes its activities have been reclassified from manufacturing to wholesale and distribution. Without that effect, we'd be expecting to see a solid lift in non-food manufacturing, but a drop in wholesale trade, for the June quarter.

There are two areas where we expect to see a meaningful drag on GDP. The first is mining, with substantially lower oil and gas extraction during the quarter. That said, mining is a small sector (the decline knocks maybe 0.1% off total GDP growth for the quarter) and it doesn't tell us much about the health of the wider economy.

The second is healthcare. That, however, is more about returning to normal levels of activity. The Covid vaccination programme has largely wound down, as has PCR testing, with home tests taking over.

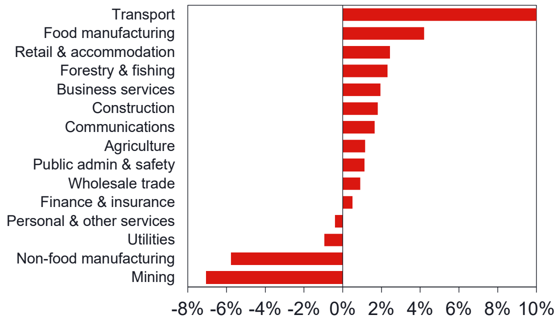
In New Zealand the production measure of GDP is generally considered more reliable, compared to the expenditure approach that's often favoured overseas. That's going to be particularly true for the June quarter figures. For one, the absence of overseas tourists until now has completely thrown off the usual seasonal patterns in services exports. Stats NZ also notes that there are issues with identifying how consumer spending is apportioned between tourists and New Zealand households, so that increased volatility has affected the household consumption figures as well. The production measure of GDP is much less affected by these issues.

A bounce in GDP in line with our forecasts would leave us with a picture of an economy that's still operating well above its sustainable potential. The Reserve Bank's task will be to close that gap in a timely manner in order to bring inflation pressures to heel, while also avoiding unnecessary volatility in the economy. We're already well down the path of higher interest rates, and we expect to see those have an increasing impact on activity in the months ahead.

But this process could take quite some time to play out, before we see the benefits of a return to low and stable inflation. So it's likely that some parts of the economy (such as the household sector) will have some pain to wear in the years ahead, even as other sectors such as tourism begin their recovery.

Michael Gordon, Acting Chief Economist NZ

Q2 GDP forecast by production



Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 5	Q2 building work put in place	1.1%	2.6%	1.0%
	Aug ANZ commodity prices	–2.2%	-3.3%	–
Wed 7	GlobalDairyTrade auction – WMP	–3.5%	5.1%	2.0%
Fri 9	Aug card spending	–0.2%	0.9%	–0.2%

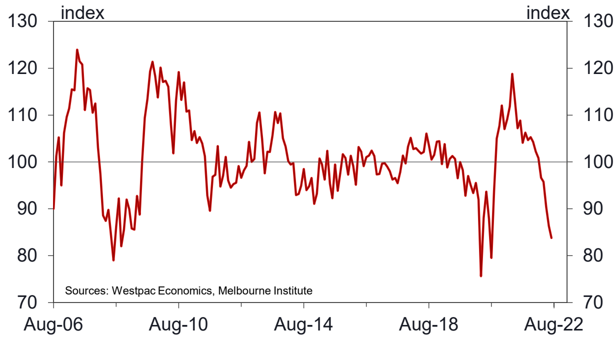
Aus Sep Westpac-MI Consumer Sentiment

Sep 13, Last: 81.2

Consumer Sentiment fell a further 3% to 81.2 in August, putting the Index on a par with the lows seen during COVID and the GFC but still well above those seen during the recession in the early 1990s. The Index has now seen a cumulative 22.9% fall from its peak in Nov last year.

September is shaping as another weak read, the RBA making a fourth 50bp interest rate rise in as many months, bringing the cumulative increase in rates since April to 2.25ppts. On top of this, equity markets have re-entreed correction mode, reversing most of last month's rally, and price declines are becoming more pronounced and widespread in housing markets. More positively, the Q2 national accounts showed the economy sustaining gains through to mid-year, unemployment also remaining near historic lows and petrol prices continuing to retrace from recent highs. This is likely to be of little comfort though with overriding concerns about the shock from rapid rate rises likely to dominate.

Consumer Sentiment Index



Aus Aug overseas arrivals and departures, prelim'

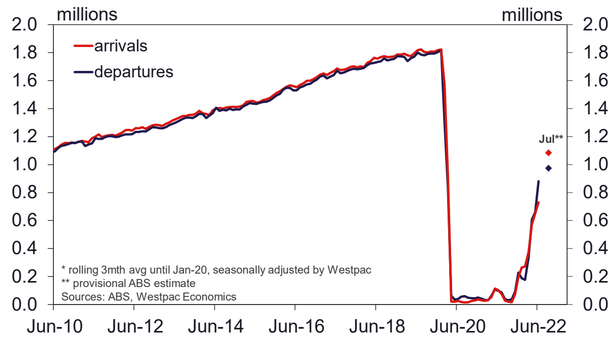
Sep 13, Arrivals, Last: 1083.2k
Sep 13, Departures, Last: 972.6k

A return to seasonal mid-year travel saw arrivals and departures post solid gains in July, lifting to 1083.2k and 972.6k respectively. The surge in June's departures reflected Australians leaving for short-term trips, and July's strength in arrivals marks their return, alongside a strong lift in short-term visitor arrivals. It is also promising to see the recovery thus far have material impacts, Q2 GDP reporting large increases in travel-related spending.

For the August preliminary estimate, we expect the recovery in overseas travel to continue forging ahead. With arrivals and departures at 60% and 55% of their respective pre-pandemic levels, there is still plenty of capacity for growth.

As always, there will be a keen focus on the visa detail. With further resources dedicated to processing the extreme backlog of visas, it will be interesting to gauge how quickly this translates to a pick-up in net visa arrivals, especially among temporary workers.

Total overseas arrivals and departures



Aus Aug Labour Force Survey, employment '000

Sep 15, Last: –40.9k, WBC f/c: 110k
Mkt f/c: 37.5k, Range: 10k to 110k

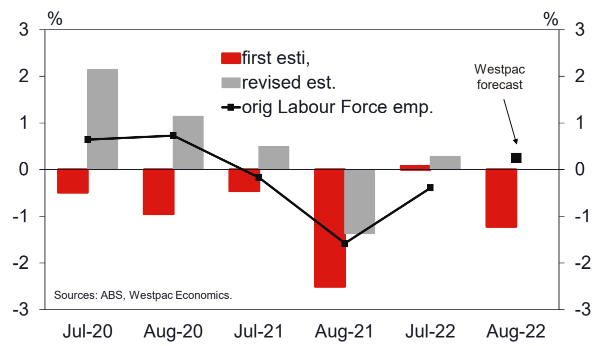
Total employment surprised by falling 40.9k/0.3% in July and total hours worked fell in 0.8%.

Why did employment contract given the various labour market indicators pointing to an extremely tight market? Shifting seasonality in a post COVID world! The ABS noted that the July Labour Force reference period coincided with winter school holidays, worker absences associated with various illnesses (including COVID), and further flooding events in NSW.

We are looking for a solid recovery from those events, but in comparing Labour Force reference periods, Weekly Payrolls fell -1.2% in the month to August, suggesting further weakness. However, post financial year Payrolls can be subject to significant revisions. The average revisions for July/August in the last two years is +1.4ppt, +1.6ppt if you look at August alone.

As such we see the risk skewed to upside hence our solid +110k employment forecast.

Payroll revisions upwards (Jul/Aug observations)



DATA PREVIEWS

Aus Aug Labour Force Survey, unemployment %

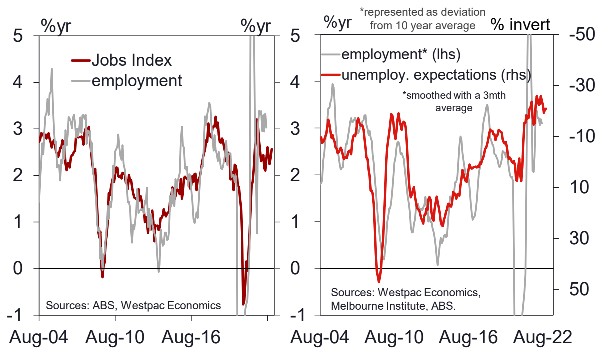
Sep 15, Last: 3.4%, WBC f/c: 3.4%
Mkt f/c: 3.4%, Range: 3.2% to 3.6%

A decline in employment that is associated with less people being willing and/or able to work in the month would be reflected in a drop in participation which fell 0.3ppt in July to 66.4%, leading to a 61.2k decline in the labour force. As the decline in the labour force was larger than the decline in employment, the unemployment rate fell 0.1ppt to 3.4%; to 3.38% from 3.48% at two decimal points.

The decline in unemployment was matched by a decline in underemployment from 6.1% to 6.0%. Falling underemployment is unusual when hours worked contract but is consistent with the rise in part-time employment and further supply disruptions in July.

The fall in both underemployment and unemployment associated with falling employment and hours worked is a sign of seasonal volatility. Normally, you would expect unemployment and underemployment to rise with a fall in hours worked, suggesting many workers left the labour market in July. We expect them to return in August holding unemployment flat at 3.4%.

Westpac employment indicators



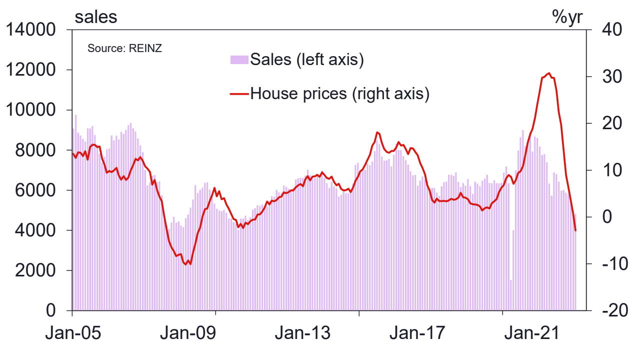
NZ Aug REINZ house sales and prices

Sep 12 (Due this week), Sales last: –3.1% m/m, –36.7% y/y
Prices last: –1.7% m/m, –2.9% y/y

The July housing market update from REINZ showed a further cooling in the housing market. Nationwide house prices are now down 8% from their peak in November 2021, and there have been particularly large falls in Auckland and Wellington. We've 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).

We expect the August update will show that the softening in the housing market has continued. The low level of sales, increasing inventories of unsold homes, and a rise in the time to sell all point towards a further easing in sale prices. Mortgage rates did dip for a period in August. Even so, we expect the number of sales will remain low.

REINZ house prices and sales



NZ Q2 Current Account Balance, % of GDP

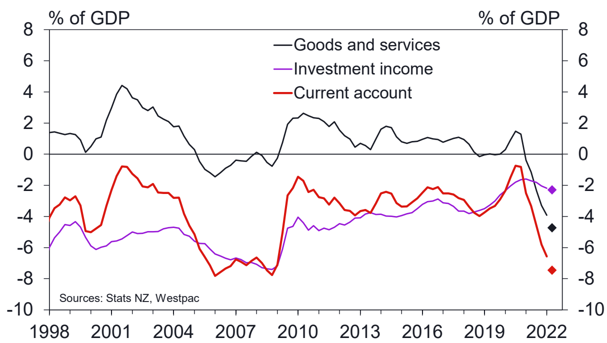
Sep 14, Last: –6.5%, Westpac: –7.5%

We expect the annual current account deficit to widen to 7.5% of GDP in the June quarter, from 6.5% in the March quarter.

The widening of the deficit beyond the average level of recent years essentially reflects the hot New Zealand economy since late 2020 – we have been, at least temporarily, living beyond our means.

However, we expect that 7.5% will represent the widest point for the current account deficit in this cycle. From here and as the economy slows, we expect the current account deficit to narrow to 6.7% by year end and to around 3.5% by December 2023.

NZ annual current account balance



NZ Q2 GDP

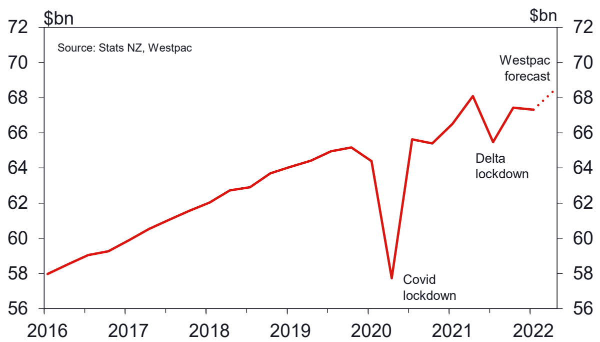
Sep 15, Last: –0.2%, WBC f/c: 1.6%, Mkt f/c: 1.0%

We expect a 1.6% rise in GDP for the June quarter. This follows a 0.2% drop in the March quarter as Omicron swept through the country.

The reopening of the border, and the resumption of overseas tourism, is expected to provide a significant boost to areas such as travel services, accommodation, and arts and recreation.

A result in line with our view would emphasise that the New Zealand economy remains far from recession. Indeed, the challenge is one of an economy that is running too hot.

NZ production-based GDP



US Aug CPI

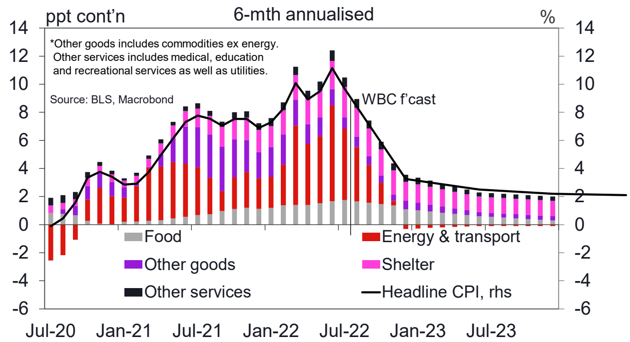
Sep 13, CPI mth chg, Last: 0.0%, Mkt f/c: –0.1%, WBC –0.2%

Coming a week ahead of the September FOMC meeting, this release looks set to decide whether the Committee will raise by 50bps or 75bps.

Headline inflation will be weighed down by the rapid decline in the oil price this month, so it is the core reading (ex energy and food) that will give a true read on the current pace of inflation and the risks ahead.

Arguably, with the economy having contracted through the first half, and household discretionary spending capacity under significant pressure, we are due a modest downside surprise. As such, we forecast +0.2% for core and -0.2% for headline. If achieved though, it should not be assumed that October and beyond will see repeats, with volatility likely to persist.

US CPI inflation past its peak



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 12					
NZ	Jul net migration	-896	–	–	Still low, but starting to turn following opening of the border.
	Aug REINZ house sales %yr	–36.7%	–	–	Expected this week. Sales to remain low…
	Aug REINZ house prices %yr	–2.9%	–	–	… with a further easing in prices expected.
UK	Jul trade balance £mn	–11387	–	–	Deficit to remain wide on import strength.
Tue 13					
Aus	Sep Westpac-MI Consumer Sentiment	81.2	–	–	To be hit by a fourth 50bp rate hike in as many months.
	Aug NAB business survey	20	–	–	Conditions up 6pts in July. Any signs of cooling in August?
	Aug overseas arrivals, prelim '000s	1083.2k	–	–	Arrivals at 60% of pre-COVID levels on mid-year travel.
NZ	Aug food price index	2.1%	–	0.0%	Lower veg prices balanced against gains in other prices.
Eur	Sep ZEW survey of expectations	–54.9	–	–	Sunk to a series low; similar to other sentiment surveys.
UK	Jul ILO unemployment rate	3.8%	3.7%	–	Slack to become more visible into year-end.
US	Aug NFIB small business optimism	89.9	90.5	–	Consolidating near pandemic lows; outlook still gloomy.
	Aug CPI	0.0%	–0.1%	–0.2%	Core inflation the focus. 0.2%/0.3% necessary to quell fears.
Wed 14					
NZ	Q2 current account balance (% of GDP)	–6.5%	–	–7.5%	Deficit may be reaching its widest point.
Jpn	Jul machinery orders	0.9%	–0.8%	–	Incredible volatility in capital investment…
	Jul industrial production	1.0%	–	–	… and production as firms find their footing.
Eur	Jul industrial production	0.7%	–0.7%	–	Buoyant through Q2, though supply issues linger.
UK	Aug CPI %yr	10.1%	10.4%	–	Energy inflation still a key risk.
US	Aug PPI	–0.5%	0.0%	–	Producer inflation cooling as supply issues ease.
Thu 15					
Aus	Sep MI inflation expectations	5.9%	–	–	Will falling petrol prices have an impact on expectations?
	Aug employment	–40.9k	37.5k	110k	Employment bounces out of illness, holidays & flood induced…
	Aug unemployment rate	3.4%	3.4%	3.4%	… collapse while a lift in participation steadies unemployment.
NZ	Q2 GDP	–0.2%	1.0%	1.6%	Post-lockdown bounce and return of international tourists.
Eur	Jul trade balance €bn	–30.8	–	–	Value of energy-related imports remains elevated.
UK	BoE policy decision	1.75%	–	2.50%	50bp/75bp hike likely as each other.
US	Initial jobless claims	222k	–	–	Likely to remain at low levels for time being.
	Sep Fed Empire state index	–31.3	–15.5	–	Regional surveys have been highly volatile…
	Sep Phily Fed index	6.2	2.0	–	… and are increasingly varied across the nation.
	Aug retail sales	0.0%	0.0%	–	Inflation and rates clearly weighing on consumption.
	Aug import price index	–1.4%	–1.3%	–	Import prices are declining from elevated level.
	Aug industrial production	0.6%	0.2%	–	Businesses are working through supply issues…
	Jul business inventories	1.4%	0.6%	–	… and rebuilding inventories at a robust pace.
Fri 16					
NZ	Aug manufacturing PMI	52.7	–	–	Remains low, drags from rising costs and staff shortages.
Chn	Aug retail sales ytd %yr	–0.2%	0.2%	–	Consumption will be a key area of support into year-end.
	Aug fixed asset investment ytd %yr	5.7%	5.5%	–	Businesses are working through domestic virus disruptions…
	Aug industrial production ytd %yr	3.5%	3.6%	–	… as a weakening global economy weighs on trade.
Eur	Aug CPI %yr	9.1%	9.1%	–	Final estimate to provide detail on breadth and intensity.
UK	Aug retail sales	0.3%	–	–	Negative so far this year, highlighting pressure on HH's.
US	Sep Uni. of Michigan sentiment	58.2	59.3	–	Consumers still feeling the heat from inflation and rates.

Forecasts

Interest rate forecasts

Australia	Latest (9 Sep)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	2.35	3.10	3.35	3.35	3.35	3.35	3.10
90 Day BBSW	2.61	3.55	3.55	3.55	3.55	3.38	3.13
3 Year Swap	3.51	3.25	3.20	3.10	2.90	2.80	2.75
3 Year Bond	3.11	3.00	3.00	2.90	2.70	2.60	2.55
10 Year Bond	3.58	3.40	3.30	3.10	2.90	2.65	2.50
10 Year Spread to US (bps)	29	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	3.29	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	3.54	4.10	4.10	4.10	4.10	4.10	4.10
2 year swap	4.19	3.90	3.80	3.70	3.50	3.30	3.10
10 Year Bond	3.99	3.50	3.40	3.30	3.15	3.00	2.95
10 Year spread to US	70	50	50	60	65	70	75

Exchange rate forecasts

Australia	Latest (9 Sep)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.6825	0.73	0.75	0.76	0.77	0.78	0.78
NZD/USD	0.6107	0.66	0.68	0.69	0.70	0.71	0.71
USD/JPY	143.12	132	130	127	125	123	121
EUR/USD	1.0069	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.1582	1.26	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.9392	6.60	6.50	6.40	6.30	6.20	6.15
AUD/NZD	1.1176	1.11	1.10	1.10	1.10	1.10	1.10

Australian economic growth forecasts

	2021	2022				2023		Calendar years			
% change	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
GDP % qtr	3.9	0.7	0.9	1.1	0.6	0.3	0.2	–	–	–	–
%yr end *	4.5	3.3	3.6	6.7	3.4	3.0	2.2	-0.7	4.5	3.4	1.0
Unemployment rate %	4.7	4.1	3.8	3.4	3.1	3.1	3.4	6.8	4.7	3.1	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	1.6	0.4	0.6	0.6	0.5	–	–	–	–
Annual avg change	5.6	5.1	1.2	2.4	2.2	2.7	3.1	-2.1	5.6	2.2	2.2
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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