AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 3 October 2022

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

RBA: policy announcement, Financial Stability Review – half yearly update.

Australia: housing updates (prices, finance, and dwelling approvals), trade balance.
Public holiday Monday (NSW, Qld, SA, ACT). Daylight saving time starts October 2 (NSW, Vic, SA, Tas, ACT).

NZ: RBNZ policy decision, Q3 NZIER survey of business opinion, GlobalDairyTrade auction.

China: foreign reserves.

US: ISMs, factory and durable goods, trade balance, non-farm payrolls, unemployment.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 30 SEPTEMBER 2022.

WESTPAC INSTITUTIONAL BANK

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

The Reserve Bank Board meets next week on October 4.

We expect it will decide to raise the cash rate by a further 50bps to 2.85%. Readers will be aware that on September 19 we changed our forecast for the October meeting from a 25bp increase to a 50bp increase.

Global interest rates have lifted significantly since the last Board meeting on September 6 and the speech to the Australian Business Economists on September 8.

Westpac has raised its forecast for the terminal federal funds rate from 3.375% to 4.625% (up 125bps). This change occurred in the aftermath of the August inflation report for the US on September 14 (up 75bps) and the FOMC meeting on September 21 (up a further 50bps).

While we have argued strongly that the RBA Board should slow the pace of increases once it has reached a neutral setting there was always some uncertainty as to whether the current starting point for the meeting, 2.35%, was sufficiently close to neutral to justify the scale back.

The Governor and Deputy Governor have opined on several occasions that real neutral is at least zero and using long run measures of inflationary expectations as a guide to the nominal component (2.5%) then neutral is at least 2.5%.

Given this view and in light of the rise in global rates, it seems sensible to push the cash rate to 2.85% in October, taking it comfortably above the neutral benchmark before scaling back the pace of rate increases.

Note that the RBA Governor's appearance before the House of Representatives Standing Committee on Economics on September 16 came after the US inflation print and the upgraded outlook for the federal funds rate and may be a more reliable guide to the Board's inclinations.

At that inquiry, in our view, he appeared to be more hawkish than at the two earlier public events.

He emphasised his key challenge: "The general inflation psychology does appear to be shifting. It's easier for firms to put their prices up, and the public is more accepting of this."

He was more circumspect: "… at some point we'll obviously not need to be increasing rates by 50bps at each meeting, and we're getting closer to that point."

And since the hearing we have seen another upgrade of the outlook for the federal funds rate by a further 50bps following the September FOMC meeting.

By lifting our forecast for the October meeting from 25 to 50bps we lifted our forecast for the RBA terminal rate by 25bps to 3.6% compared to a 125bp increase to our federal funds rate outlook to 4.625%.

Consequently, we now have the federal funds rate peaking 1.025% higher than the RBA peak.

The adjustment to the spread is taken in the currency and the margin between US and Australian long term bond rates. Relative to before the US inflation report we have revised down our end 2022 target rate for the AUD from USD0.73 to USD0.65 – a US8c downward revision in the AUD.

We also revised down our target spread between AUD and USD long bonds from 40 basis points to 10 basis points.

The adjustments reflect the forecast widening of the terminal cash rate/federal funds rate spread by 100bp.

That widening results from our strong expectation that the RBA WILL slow the pace of the tightening at the November Board meeting to 25bps.

The Board will have responded to the sharp increase in the outlook for global rates; pushed the cash rate firmly into contractionary territory and slowed the pace to reflect its concerns about the lag to the impact on the economy of the accumulated rate hikes.

Rate hikes are expected to continue out to February 2023 as the December inflation report is likely to show consumer prices lifting strongly in the December quarter, we expect a 2.5% jump in the headline and a still hefty 1.2% rise for underlying inflation.

If we are wrong and the terminal differential between the cash rate and the federal funds rate has to narrow by further than the 100bps we now envisage, then it is likely to mean an extension of the RBA's 25bp increases beyond February.

Bill Evans, Chief Economist

THE WEEK THAT WAS

This week, Australian data was broadly constructive on the outlook. Meanwhile, considerable volatility was present financial markets after the announcement of the UK Government's expansionary Fiscal Update.

Australian retail sales came in slightly above expectations in August with a solid 0.6% lift gain largely centred on food retailing (+1.1%) and cafés/restaurants (+1.3%). Though it is likely that higher retail prices are concealing a softening in sales volumes, the preliminary detail implies that retail volumes are tracking above-trend pace for Q3, suggesting that the RBA's aggressive tightening cycle is still yet to significantly impact demand.

The Q3 ACCI-Westpac Business Survey also highlighted the strength of demand within Australia's manufacturing sector. The ongoing 'burst' in activity after virus and weather-related disruptions earlier this year materialised as an acceleration in output and new orders, both reaching series highs in the September quarter. That said, it's clear that the upside for growth is being constrained by significant and persistent headwinds. Of note, an unprecedented 67.5% of respondents reported that labour was "harder to find" – the tightest conditions in the series' history – and material shortages are at levels still comparable to the mid-1970s oil shock. Cost pressures remain acute, putting upward pressure on finished goods prices and hence consumer inflation.

On inflation, the ABS released further detail around the Monthly CPI on Thursday. While several components within the basket are only measured in the last month of the quarter, the annual growth rates for the months of July and August imply a lift in the headline CPI of 0.5% and 0.2% respectively, the latter reflecting a clearer softening in dwelling prices. As such, we have revised down our Q3 headline CPI forecast to 0.7%, though our trimmed mean CPI forecast remains at 1.5%.

The Federal Government's Final Budget Outcome also revealed a dramatic improvement in the fiscal position for the 2021/21 financial year. Lower utilisation of COVID-19 business support measures saw higher-than-expected company tax receipts, resulting in a $24bn upside surprise on revenue. Additionally, lower demand for other COVID-19/health-related support saw a $20bn downside surprise on expenses, leading to a much lower deficit than forecast in March, at -$32bn. This represents a marked $48bn improvement, placing the Government in a more favourable fiscal position as the Australian economy navigates a sharp slowdown in growth over 2023 and 2024, which we forecast to be 1% and 2% respectively.

Turning then to New Zealand. Recent developments around the exchange indicates that the imported component of inflation will not be as quick to recede as previously expected, pointing towards further inflationary pressure over the medium-term. As such, our New Zealand economics team have revised up their forecast for the RBNZ's Official Cash Rate, with a 50bp rate hike expected at the upcoming October policy meeting, followed by two further 50bp rate hikes in November and February, taking the cash rate to a peak of 4.5% for the cycle.

Moving offshore, financial markets were rattled by the UK Government's Fiscal Update. The update outlined a suite of fiscal stimulus centred on income and corporate tax cuts, removal of insurance and health/social care levies and an increase in stamp duty thresholds. Given the expected cost of these measures (£25-45bn per annum over five years) in addition to the energy guarantee plan announced last week (£60bn first six months), and the Government's funding strategy on based on borrowing and expected growth over the forecast horizon, markets were fraught with concern over the Government's fiscal credibility.

In the days following, the Bank of England began purchasing long-dated Gilts and announced a postponement of their balance sheet reduction as FX and fixed income markets demonstrated considerable volatility. Indeed, mid-week the GBP/USD tested lows of 1.05, now settling back around 1.11, and 30yr Gilt yields spiked to multi-decade highs of 5.15%, before retreating to 3.97 currently. The Bank of England's actions, alongside the UK Government's subsequent announcements of further planned updates over October and November, served to cool tensions in financial markets, though volatility will likely remain in the near-term.

The Bank of England's Chief Economist stated that the fiscal stimulus would likely have to be met with a significant monetary policy response. This also comes after last week's split decision between a 50bp-75bp rate hike, the difference largely stemming from uncertainty around the impact of the energy guarantee plan on demand, both within energy consumption and more broadly across the economy. In response, markets have begun to price in a much more aggressive rate hike cycle for the Bank of England, reflecting heightened concerns about the inflation outlook and recessionary risks.

On the whole, US data received this week was mixed. The final estimate of GDP for Q2 was unchanged, printing at -0.6% annualised, as a firmer gain in personal consumption was offset by weaker investment and net trade. On the partial data released this week: August's durable goods orders suggest the drag in equipment investment is extending into Q3; regional manufacturing surveys, albeit volatile, are generally pointing towards subdued production conditions; and the FHFA and S&P/CS home price indexes posted their first monthly decline in July, highlighting a broad-based weakening in housing across the nation. These materially weak developments have seen the Atlanta Fed nowcast for Q3 GDP hold at 0.3% annualised, down from an initial estimate of 2.5%.

All of the above suggests Chair Powell and the FOMC should remain mindful of the risks to activity. Though, as evinced by the suite of Fedspeak throughout the week, the FOMC's focus remains squarely on inflation, necessitating the continuation of further financial tightening well into restrictive territory.

Finally, to China. The official manufacturing PMI posted a stronger-than-expected lift, from 49.4 to 50.1, meanwhile the services PMI slid by more than expected, from 52.6 to 50.6 in September. Taken together, the official composite has weakened to 50.9, reflecting a delicate near-term outlook. Government stimulus and the restoration of power supply provided key support to manufacturing however, ongoing virus-related risks are still impacting the services, leaving both sectors just within the 'expansionary zone'. The Caixin manufacturing PMI meanwhile reported weaker conditions for the sector, at 48.1, highlighting the risks facing the sector, especially as global demand begins to cool into year-end.

Week ahead & data wrap

The good, the bad, and the currency.

We've revised up our forecast of how high the Official Cash Rate will need to go in the Reserve Bank of New Zealand's battle against inflation. We now expect a peak of 4.5%, compared to our previous forecast of 4%. We expect the RBNZ to reach this point with a 50 basis point hike at next Wednesday's review, followed by another 50 basis points at each of the next two reviews in November and February.

Recent developments in the New Zealand economy have been mixed, but on balance have pointed to ongoing resilience in activity.

GDP grew by 1.7% in the June quarter. The main contributor to that growth was a surge across the services sectors, as New Zealand reopened its border to overseas tourists. That pace of growth is unlikely to be repeated, but it's a potent reminder that key parts of the economy are still in recovery mode, even as we see signs of cooling in the parts that had become overheated.

As we've moved through the back part of the year, the signs of cooling demand that the RBNZ has been looking for have started to emerge, and the household sector is bearing most of the brunt of the adjustment as we expected. House prices have continued to soften in the face of higher mortgage rates, and are now down around 9% from their peak last November. We've also seen a flattening off in nominal consumer spending (at a time that prices have been rising rapidly), and consumer confidence is languishing at low levels. Finally, the effective average mortgage rate paid by homeowners has continued to push higher, and is set to continue rising over the coming months.

But while some steam has come out of the economy, activity is still trucking along at a solid pace. That's been reflected in the latest PSI and PMI reports, which pointed to resilient demand and a lift in forward orders. Similarly, the labour market remains strong, with continued growth in filled jobs and job advertisements over recent months.

We've also seen positive developments in our export sectors. Prices for our commodity exports have held firm, with world dairy prices rising 7% over the past month alone. At the same time, international visitor arrivals have been climbing rapidly since the reopening of the borders.

The more significant developments for the monetary policy outlook have been on the global stage. With inflation boiling over around the world, policy rates in major economies have been charging higher in recent months. At the same time, geopolitical tensions, including the Ukraine war and an escalation in Russian rhetoric, are rippling through financial markets. And on top of those developments, the sustainability of the UK's longer term fiscal position has been thrown into question following the announcement of significant stimulus measures.

As a result, global investors have flocked to the perceived safe haven of the US dollar. That's come at the expense of currencies such as the New Zealand dollar in particular – we've fallen by more than 10% against the USD in recent weeks, and have lost ground to a lesser degree against others like the euro and the Australian dollar.

We had been forecasting the US dollar to ease back again over the next couple of years, as worldwide inflation rates passed their peaks and global markets became more comfortable that central banks were getting on top of the problem. However, that point is now looking more distant. So in addition to the lower starting point, we now expect a later and more subdued recovery in the New Zealand dollar. We expect the NZD to remain below 0.60 against the USD through to the middle of next year, only rising to 0.67 by 2024.

A lower New Zealand dollar does come with some benefits to the economy, boosting our export earnings and providing some insulation from the headwinds to global growth. But it also means higher costs for imported consumer goods and production inputs, adding to inflation over the year or so ahead.

As a rule of thumb, a sustained 10% drop in the New Zealand dollar would add around 0.4% to the rate of inflation for the following year. This comes at a time when inflation was already expected to be outside the RBNZ's medium-term target range of 1–3% for an extended period.

The real issue, however, is the risk of second-round effects, as higher headline inflation can act as a catalyst for further price increases. The risk of that occurring is much greater when the economy is stretched thin, or if there is a large and persistent rise in inflation. And that's exactly what we're seeing now. In addition to businesses raising their prices to maintain margins, wage growth has risen sharply as workers have sought compensation for the large increases in the cost of living. Now, with a stronger outlook for consumer prices, that pressure on wages (and other operating costs) is likely to be even more intense.

Like the RBNZ, we had previously judged that an OCR of around 4% would be enough to bring inflation back to the target range within a medium-term horizon – but only barely. There was little room for the RBNZ to absorb any further upside surprises on inflation before it would have to revise its OCR track higher as well.

Next week's decision won't include a new set of forecasts, so any change in the projected path for the OCR will have to be conveyed verbally. We expect the RBNZ to repeat its recent language that it will continue to tighten monetary policy "at pace", and may say that the Committee anticipates a higher OCR path than what was projected in the August statement.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Thu 29	Sep ANZ business confidence	–47.8	–36.7	–
Fri 30	Sep ANZ consumer confidence	85.4	85.4	–
	Aug building permits	4.9%	–1.6%	0.0%

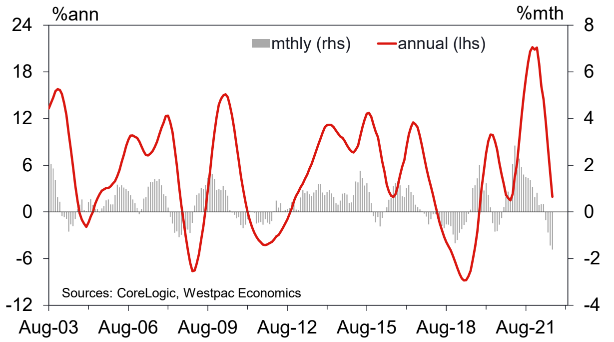
Aus Sep CoreLogic home value index

Oct 4, Last: –1.6%, WBC f/c: –1.4%

The housing market correction that began in May and accelerated through June–July continued to run at a rapid pace in August, the month registering a 1.6% decline across the major capital cities, for a cumulative decline of just over 4%. The RBA's aggressive interest rate tightening has been the main catalyst and accelerant, with price weakness spreading to most jurisdictions.

Its set to be a similar story for September with the RBA delivering a fourth consecutive 50bp rate increase at the start of the month. CoreLogic's daily measure points to a 1.4% fall in prices across the major capital cities, the detail showing a faster pace in Sydney and Brisbane, a more moderate decline in Melbourne and only small dips in Adelaide and Perth. Notably, September will also see the annual growth rate dip into negative for the first time.

Australian dwelling prices



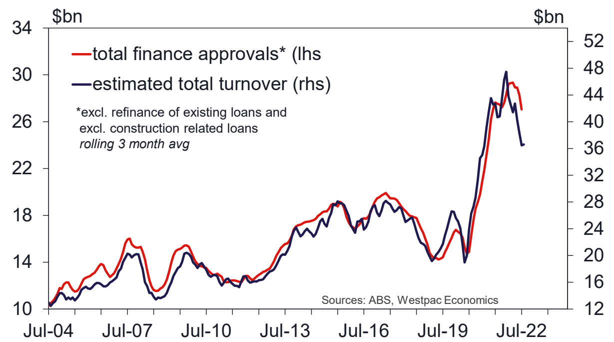
Aus Aug housing finance approvals

Oct 4, Last: –8.5%, WBC f/c: –2.5%
Mkt f/c: –4.0%, Range: –5.0% to 2.0%

Housing finance approvals fell sharply in July, an 8.5% drop following on from a 4.4% decline in June and bringing the series more in to line with the pull-back already evident in housing sales and prices.

Sales and prices continued to track lower through July–August, pointing to another decline in finance approvals in the August month. We expect the total value of new finance approvals to be down 2.5%. Owner occupiers may outpace investors this month given the outsized 11.2% drop the latter posted in July.

New finance approvals vs value of sales



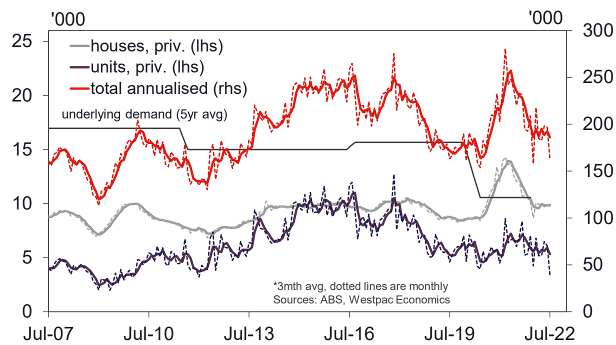
Aus Aug dwelling approvals

Oct 4, Last: –17.2%, WBC f/c: 2%
Mkt f/c: 9.0%, Range: 2.0% to 15.0%

Dwelling approvals slumped 17.2% in July led by an extreme fall in 'high rise' approvals. Despite this, approvals have held up better than expected in 2022, especially for detached houses where rate hikes, surging construction costs and pressures from a large backlog of unprofitable projects have yet to really dent new approvals.

We expect the impact of these negatives to become much clearer in coming months. However, the volatility of high rise approvals coming off a steep fall a month prior is likely to swamp these effects in August. On balance we expect to see a small 2% gain with a bounce in high rise largely negated by a sizeable fall in non high rise approvals – the first material decline for the latter in the cycle to date.

Dwelling approvals



Aus RBA policy decision

Oct 4, Last: 2.35%, WBC f/c: 2.85%
Mkt f/c: 2.85%, Range: 2.60% to 2.85%

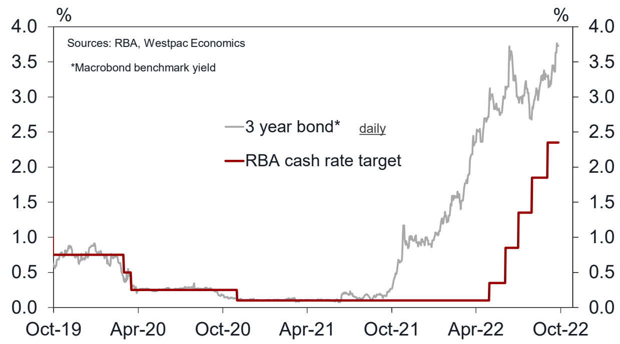
At the October Board meeting, we anticipate that the RBA will lift the cash rate by 50bps – the fifth consecutive move of 50bps. That will take the cash rate to 2.85%, a touch on the high side of “neutral”. Moves beyond this point are likely to be more measured.

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 peak at 3.60% in February 2023 – with further moves of 25bps at each of the three meeting from November to February.

For a more detailed discussion, see page 2.

RBA cash rate and 3 year bonds



Aus Aug trade balance, AUDbn

Oct 6, Last: 8.7, WBC f/c: 10.1
Mkt f/c: 10.1, Range: 16.5 to 7.0

Australia’s trade surplus shrunk to a still sizeable $8.7bn in July, as export prices retreated on global recession concerns.

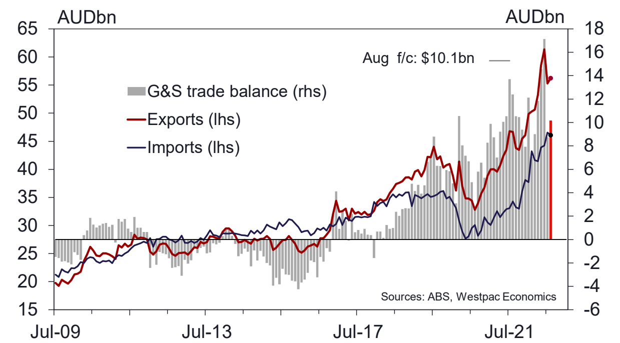
That was after the surplus ballooned to back-to-back fresh record highs of $14.6bn and $17.1bn in May and June – inflated by the spike in commodity prices in part triggered by the Ukraine war.

For August, we forecast the surplus to widen modestly, to $10.1bn.

Export earnings are expected to lift by 1.7%, +$0.9bn, after correcting 9.9% lower in July. The August lift is centred on a recovery of coal shipments after major flooding disruptions in NSW the month prior.

The import bill is expected to edge 1% lower, –$0.5bn, led lower by global energy costs. That largely locks in July’s strong 5.2% rise in imports, with the uptrend in response to rising domestic demand.

Australia’s trade balance



NZ Q3 NZIER Quarterly Survey of Business Opinion

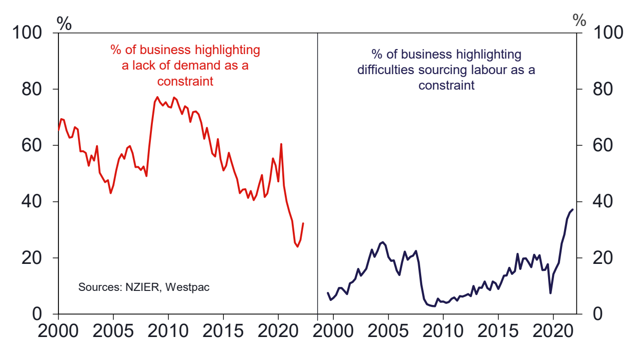
Oct 4, Domestic Trading Activity (past 3mths) last: –0.9

Despite a fall in economic confidence, the NZIER’s June quarter survey of business opinion highlighted resilient economic conditions, along with continued strong inflation pressures.

We expect the September quarter survey will echo the mixed themes seen in other recent business surveys. Economic activity has been resilient. However, businesses are continuing to grapple with rising costs, especially for staff. That’s seen profit margins eroded. Businesses also remain nervous about the economic outlook over the next few years.

The survey’s various price and cost gauges are again expected to point to continued strong and widespread inflation pressures. That will be of interest for the RBNZ ahead of the upcoming policy decision.

Factors constraining business activity



DATA PREVIEWS

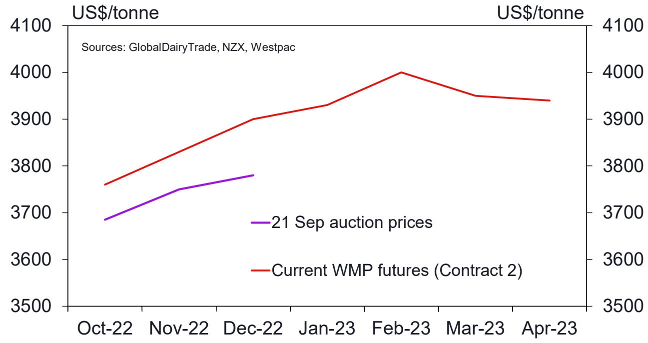
NZ GlobalDairyTrade auction

Oct 5, Last: 3.7%, Westpac: No change

We expect whole milk powder prices (WMP) to be unchanged at the upcoming auction. This follows a 3.7% price rise at the previous auction. Our pick is lower than the circa 2% lift that the futures market is pointing to.

Fundamentally, global dairy prices are being underpinned by very weak global dairy supply. However, at this auction we are erring on the side of caution as the surging US dollar has made dairy prices more expensive for most dairy buyers. In addition, we anticipate a degree of nervousness amongst buyers on the back of wider financial market volatility.

Whole milk powder prices



RBNZ Official Cash Rate review

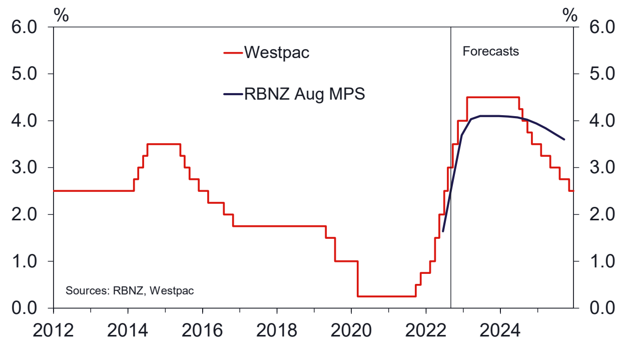
Oct 5, Last: 3.00%, Westpac: 3.50%, Market: 3.50%

We have revised up our forecast for the Official Cash Rate to a peak of 4.5% (previously 4%). We expect that to be achieved with three more 50 basis point hikes at the October, November and February reviews.

Recent developments point to the risks of stronger and more persistent inflation pressures than we anticipated. In particular, we now expect the New Zealand dollar to be lower for longer, adding to the pace of inflation in the year ahead. In an already-overheated economy – which is proving to be more resilient in the near term than we thought – the risks of second-round inflation pressures are greater.

At next week's review, we expect the RBNZ to repeat that the OCR will continue to rise "at pace", and to signal a higher peak for this cycle.

RBNZ Official Cash Rate



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 03					
Aus	Daylight saving time starts Oct 2	–	–	–	Clocks forward 1 hour (NSW, Vic, SA, Tas, ACT).
	Public holiday	–	–	–	Labour Day (NSW, SA, ACT).
	Sep MI inflation gauge %yr	4.9%	–	–	Inflation well above RBA's target band.
Jpn	Q3 Tankan large manufacturers index	9	11	–	Reopening support limited by volatile supply conditions.
	Sep Nikkei manufacturing PMI	51.0	–	–	Final estimate.
Eur	Sep S&P Global manufacturing PMI	48.5	–	–	Final estimate.
UK	Sep S&P Global manufacturing PMI	48.5	–	–	Final estimate.
US	Sep S&P Global manufacturing PMI	51.8	51.8	–	Final estimate.
	Aug construction spending	–0.4%	–0.1%	–	Near-term weakening in demand weighing on construction.
	Sep ISM manufacturing	52.8	52.4	–	Mfg growth gradually slowing; risk of demand easing further.
	Fedspeak	–	–	–	Bostic and Williams.
Tue 04					
Aus	Sep CoreLogic home value index	–1.6%	–	–1.4%	Correction deepens, annual price growth set to turn negative…
	Aug housing finance	–8.5%	–4.0%	–2.5%	… finance activity tracking clearly lower in line with falling…
	Aug investor finance	–11.2%	–	–1.5%	… sales and prices. Investors coming off a big drop in Aug…
	Aug owner occupier finance	–7.0%	–	–3.5%	… but the cycle still mainly being driven by owner occupiers.
	Aug dwelling approvals	–17.2%	9.0%	2.0%	'Dead cat' bounce led by units. Detached houses to fall.
	Sep ANZ job ads	2.0%	–	–	Still at a very high level.
	RBA policy decision	2.35%	2.85%	2.85%	Fifth 50bp move – lifting rates to the hold side of neutral
NZ	Q3 NZIER survey of business opinion	–0.9	–	–	Activity resilient, but continued cost pressures.
US	Aug factory orders	–1.0%	0.2%	–	Drag on capital investment…
	Aug durable goods orders	–0.2%	–	–	… extending into Q3.
	Aug JOLTS job openings	11239k	–	–	Job opening off peak but still strong.
	Fedspeak	–	–	–	Logan, Williams, Mester, Jefferson and Daly.
Wed 05					
NZ	GlobalDairyTrade (WMP)	3.7%	–	0.0%	Global dairy supply weak, but strong USD crimping prices.
	RBNZ policy decision	3.00%	3.50%	3.50%	Global developments adding to inflation pressures.
Jpn	Sep Nikkei services PMI	51.9	–	–	Final estimate.
Eur	Sep S&P Global services PMI	48.9	–	–	Final estimate.
UK	Sep S&P Global services PMI	49.2	–	–	Final estimate.
US	Aug trade balance US$bn	–70.7	–67.9	–	Decline in domestic demand weighing on imports.
	Sep S&P Global services PMI	49.2	–	–	S&P Global materially weaker than ISM…
	Sep ISM non-manufacturing	56.9	56.5	–	… pointing to clear downside risks for sector.
	Fedspeak	–	–	–	Bostic.
Thu 06					
Aus	Aug trade balance $bn	8.7	10.1	10.1	Coal export shipments to recover from July floods.
NZ	Sep ANZ commodity prices	–3.3%	–	–	Dairy prices lifted over September.
Eur	Aug retail sales	0.3%	–	–	Negative so far this year; highlighting the pressure on HH's.
US	Initial jobless claims	193k	–	–	Likely to remain at low levels for time being.
	Fedspeak	–	–	–	Evans and Cook
Fri 07					
Aus	RBA Financial Stability Review	–	–	–	Half yearly update.
Jpn	Aug household spending	3.4%	7.2%	–	Reopening rebound underway but virus risks remain.
Chn	Sep foreign reserves $bn	3054.88	–	–	Authorities ready to employ measures for currency stability.
US	Sep non-farm payrolls	315k	250k	250k	Payrolls are at odds with many other indicators…
	Sep unemployment rate	3.7%	3.7%	3.7%	… but U/E likely to remain unchanged in near-term…
	Sep average hourly earnings %mth	0.3%	0.3%	0.3%	… putting off the next leg down in wage growth.
	Aug wholesale inventories	1.3%	–	–	Uncertain time for retailers and those that supply them.
	Aug consumer credit	23.811	25.000	–	High rates to weigh over coming year.
	Fedspeak	–	–	–	Waller, Mester, Williams.

Forecasts

Interest rate forecasts

Australia	Latest (30 Sep)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	2.35	3.35	3.60	3.60	3.60	3.60	3.35	3.10
90 Day BBSW	3.06	3.80	3.80	3.80	3.80	3.63	3.38	3.13
3 Year Swap	4.09	3.95	3.85	3.70	3.55	3.45	3.40	3.35
3 Year Bond	3.58	3.60	3.55	3.45	3.35	3.25	3.20	3.15
10 Year Bond	3.95	3.75	3.50	3.40	3.20	3.00	2.80	2.70
10 Year Spread to US (bps)	16	15	10	10	10	10	10	10
US								
Fed Funds	3.125	4.375	4.625	4.625	4.625	4.625	4.375	3.875
US 10 Year Bond	3.79	3.60	3.40	3.30	3.10	2.90	2.70	2.60
New Zealand								
Cash	3.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50
90 day bill	3.85	4.30	4.60	4.60	4.60	4.60	4.60	4.40
2 year swap	4.78	4.70	4.60	4.40	4.20	3.95	3.65	3.35
10 Year Bond	4.27	4.30	4.20	4.00	3.80	3.60	3.40	3.25
10 Year spread to US	48	60	60	60	60	60	60	55

Exchange rate forecasts

Australia	Latest (30 Sep)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD/USD	0.6495	0.65	0.66	0.67	0.69	0.72	0.73	0.74
NZD/USD	0.5744	0.58	0.59	0.60	0.62	0.65	0.66	0.66
USD/JPY	144.70	143	141	139	137	134	132	130
EUR/USD	0.9810	0.97	0.99	1.02	1.04	1.07	1.09	1.10
GBP/USD	1.1118	1.10	1.12	1.14	1.17	1.20	1.22	1.24
USD/CNY	7.1217	7.00	6.80	6.60	6.40	6.30	6.20	6.15
AUD/NZD	1.1357	1.12	1.12	1.12	1.11	1.11	1.11	1.12

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	3.5	6.8	4.7	3.1	4.3
CPI % qtr	1.3	2.1	1.8	0.7	2.7	1.2	0.8	–	–	–	–
Annual change	3.5	5.1	6.1	6.1	7.5	6.5	5.4	0.9	3.5	7.5	3.8
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	5.6	5.8	5.1	4.3	1.2	2.6	5.8	3.1

New Zealand economic growth forecasts

	2021	2022				2023		Calendar years			
% change	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	2020	2021	2022f	2023f
GDP % qtr	3.0	-0.2	1.7	0.4	0.6	0.6	0.5	–	–	–	–
Annual avg change	5.5	4.9	1.0	2.4	2.2	2.8	3.2	-2.1	5.5	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	1.6	0.3	1.0	0.8	–	–	–	–
Annual change	5.9	6.9	7.3	6.6	5.3	4.6	3.6	1.4	5.9	5.3	3.6

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