AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 17 October 2022

Editorial: Some unintended consequences of the RBA's Pivot.

RBA: Minutes October Board meeting, Deputy Governor speaking.

Australia: Westpac-MI Leading Index, labour force.

NZ: Q3 CPI, GlobalDairyTrade auction, trade balance.

China: Q3 GDP, retail sales, fixed asset investment, industrial production.

UK: CPI, retail sales.

US: regional surveys, industrial production, housing updates, leading index.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 14 OCTOBER 2022.

WESTPAC INSTITUTIONAL BANK

Some unintended consequences of the RBA's Pivot

The Westpac Melbourne Institute Index of Consumer Sentiment only fell by 0.9% from 84.4 to 83.7 in the October Survey.

The Index remains in deeply pessimistic territory but could have been much weaker.

As discussed when we released the results of the survey we examined the two samples over the four day period.

The first sample (covering the responses on day 1 of the survey) preceded the RBA's decision to raise the cash rate by 25 basis points. The second sample covered responses which followed the rate decision.

The first sample (sample of 476) showed a Sentiment Index of 77.4 – down 8.3% from the September print of 84.4.

But the Index for the second sample (a sample of 724) printed 88.7 (up 5.1% on the September print). The difference between the two surveys represented a turnaround of 14.7%.

The turnaround in housing market confidence was even more spectacular. The first sample measure for the Westpac Melbourne Institute Index of House Price Expectations showed a 16% fall in the Index while the second sample showed a lift of around 8% relative to the September print.

This spectacular change in the Index is very likely attributable to the Reserve Bank's decision to raise the cash rate by "only" 25 basis points despite market pricing that gave a probability of around 90% to an increase of 50 basis points.

In my 30 years following RBA policy and markets I cannot recall the RBA moving against market expectations when the probabilities have been so high.

The key indicator for the Sentiment survey was the media reports which took the lead from market pricing and signalled a very confident expectation to the public that a further 50 basis point move was to be expected.

We can congratulate the Board for a courageous decision while pointing out some likely unintended consequences.

Westpac had expected a 25 basis point move until we were obliged to lift our forecast for the terminal federal funds rate by 125 basis points to accommodate a much more aggressive guidance from the FOMC and upside surprises on US inflation.

In lifting our forecast for "global rates" by 125 basis points we lifted our terminal rate for the RBA cash rate by 25 basis points to 3.6%, with the upward adjustment coming in October – a 50 basis point move instead of our earlier preference for 25 basis points.

Because the Australian economy is much more sensitive to the cash rate than is the US economy to the federal funds rate it is not appropriate to follow the full lift in FOMC pricing.

The major adjustment came in our AUD/USD forecast with a US7¢ cut in the likely exchange rate by end 2022 to USD0.65.

With the surprise 25 basis point move, the market lowered its terminal cash rate by around 50 basis points. Central banks like to see the markets doing their job for them so a fall in the fixed rates only adds to the task of easing demand pressures.

From our perspective that price response was a surprising reaction to the decision from the RBA and an unintended consequence of the decision.

We observe from the confidence turnaround in the Sentiment survey the RBA decision has provided a short term boost to confidence that is likely to delay the slowdown in demand which will be necessary to constrain demand and inflation pressures.

The key for central banks at this stage of the inflation cycle is to slow demand overall including the demand for labour so that businesses question whether their recent successes in raising their prices, particularly to restore margins, can be sustained or whether they can proceed with plans to increase prices.

Without that hesitation the RBA will fail to wring the inflation pressures out of the system.

Questioning the sustainability of demand will also be consistent with questioning the need to boost employment plans – this is at a time when the labour market is the tightest in 50 years. Currently, labour supply cannot adjust quickly enough to contain wages pressures – thus labour demand needs to slow.

Tight labour market conditions emerged during the pandemic, associated with the national border "closure" – with restrictions on the inflow of people (labour supply) more stringent than those for the outflow. Net immigration averaged around plus 240,000 before Covid and over the two years during the pandemic Australia experienced outflows of around 120,000 – a net loss of around 600,000 people. This was at a time when fiscal and monetary stimulus was boosting demand, exacerbating the employment shortfall.

The third unintended consequence of the RBA surprise has been an unexpected further collapse in the AUD to around USD0.625 from USD0.65 before the announcement.

That can be expected to heap further pressure on inflation, adding upside risks to the RBA's current forecast of 7.75% by end 2022 and, potentially, its 2023 forecast.

And the fourth unintended consequence is that a decision to speed up rate increases back to 50 basis points would now be particularly dangerous.

Just as we saw an overreaction in confidence from a positive shock, the impact of a larger tightening than expected is likely to be too damaging from the RBA's perspective.

The RBA has not ruled out returning to "50's" should the data so demand, although we think the hurdle to going by 50 now will be very high.

At the time of the announcement, we interpreted these likely unintended consequences as justifying no change to our terminal rate of 3.6% but extending the length of the tightening cycle.

We have extended our estimate of the end of the tightening cycle from February to March.

As discussed, that would be consistent with activity holding up for longer given the boost to confidence of the policy pivot.

Consequently, we now expect 25 basis point moves in November; December; February (no meeting in January) and March.

We still expect that achieving a terminal rate of 3.6% will be sufficient to slow growth in the economy from 3.4% for 2022 to 1.0% in 2023.

Activity may hold up a little better in the first half of 2023, given a little more momentum in 2022, resulting from the lower rate profile, to be followed by a more rapid slowdown in the second half.

Any risks of consecutive negative growth quarters would centre on the second half of 2023 rather than the first half, although that "recession" scenario is not our central case.

If our four percentage point down swing in inflation in 2023 does not appear to be materialising (and that has to be a central risk) then we expect that the RBA will have to raise the terminal rate even further – certainly a more likely scenario than trying to fine tune inflation with a more benign rate cycle and a stronger growth outcome.

The Role of the Neutral Rate

Our view has been that the "handbook" for central banking is, when it becomes necessary to contain an inflation shock at the same time policy is clearly stimulatory, the strategy is to quickly return the cash rate to "neutral" and then move more slowly.

In previous speeches the RBA Governor has identified "neutral" to be at least zero real, where the nominal component is best assessed as long term inflationary expectations - around the policy target of 2.5%.

The guideline we have been working with is minimum neutral is 2.5%.

The cash rate is now 2.6% so policy is just now in the neutral region.

On October 12, RBA Assistant Governor (Economic) Ellis delivered an important speech on measures of neutral.

She nominates a range of "neutral" from negative 0.5% real to positive 2.0% real – with her various models indicating a central tendency of around 1% real, (or 3.5% nominal).

But neutral is described in terms of the long term. It is the rate which is consistent with the economy holding at trend growth and inflation at the inflation target.

Ellis concludes "The neutral rate is an important guide rail for thinking about the effect policy might be having. It is not necessarily a prescription for what policy should do."

This indicates that neutral is a long term concept whereas actual policy will be buffeted by short term shocks.

It is a similar approach to when Chairman Greenspan was asked where he saw neutral. He answered along the lines of "I will tell you when we are there" or even after we have been there.

Nevertheless, it does now seem that the Bank has a concept of neutral that is likely to be around where we are today if not a little higher.

For other reasons we discussed above that points to the shift to 25 basis point moves being the most likely outcome.

Bill Evans, Chief Economist

Global inflation and its consequences for real income and interest rates were (yet again) the near sole focus of market participants this week. For Australia, the lens was our own Westpac-MI consumer sentiment survey. For the world, it was the latest IMF World Economic Outlook and, of course, the September US CPI report.

Beginning in Australia, despite a smaller than expected increase in the cash rate this month by the RBA (25bps instead of 50bps), Westpac-MI Consumer Sentiment remained deeply pessimistic in October, falling 0.9% to 83.7 – a historically-weak outcome. The available split of pre and post-RBA responses highlights that consumers viewed the smaller increase by the RBA as a material positive, with sentiment amongst those surveyed after the decision almost 15% higher. Nonetheless, with Westpac still expecting the cash rate to peak at 3.60% in March 2023, it is clear that interest rates will continue to place significant pressure on consumer sentiment for an extended period, particularly their views on family finances and housing. This headwind is in addition to the loss of real discretionary spending capacity from historic inflation.

Chief Economist Bill Evans provided a detailed discussion of these themes and other salient consumer sentiment trends in his video update this week; sentiment is also a key area of discussion in Westpac Economics' latest Market Outlook in Conversation podcast.

In contrast to those facing the consumer, conditions remain highly supportive for Australian firms, NAB's latest business survey reports. Up 3pts to +25 in September, the strength in conditions is broadly based across states and industries. And, with capacity utilisation still at historically strong levels, activity looks to have been resilient through Q3. Business confidence did however ease in September, down 5pts to +5, to be roughly in line with the long-run average. Constructive to the inflation outlook was the gradual easing in upstream cost pressures, although they remain at very elevated levels, having reached a peak in July.

The September overseas arrivals and departures release meanwhile continued to reflect a robust recovery, with each component having posted strong seasonally adjusted gains since the June/July travel season (+31k and +36k). The key highlight though was centred on net arrivals of travellers on 'temporary work' visas, an estimated +19k in September and +12k in August, marking significant progress in reducing visa processing backlogs. As grants continue to flow, the return of foreign labour should, in time, go some way towards alleviating Australia's labour supply constraints.

Turning then to the US, where CPI inflation again surprised to the upside in September as headline prices rose 0.4% and the core measure (ex food and energy) gained 0.6%. Interestingly, while above market expectations and a multiple of the FOMC's 2.0%yr medium-term target, the underlying detail of this report differed to recent reports with similar headline outcomes that sparked market alarm. Most notably, core goods prices were flat in the month, having averaged a 0.5% gain the past five months. Food inflation meanwhile looks to have peaked, admittedly at a very high level; and, albeit with less certainty, the same could be said of shelter. In our view, the overarching messages from this report is that support for inflation from demand looks to be fading quickly and, while stubborn, supply-side factors are topping out. For the FOMC, this should be a pleasing sign, although it is too early to slow the pace of tightening.

Westpac continues to expect another 75bp hike at the November FOMC meeting followed by 50bps in December and a final 25bp move at their January/ February meeting, leaving the fed funds rate at 4.625% at peak. Given the FOMC's recent rhetoric, and the stubbornness of supply-side pressures, it is appropriate for the market to continue pricing modest upside risk to the peak level of fed funds and, more significantly, the length of time the fed funds rate will be held at peak. As discussed in Market Outlook in Conversation, the underlying trends evident in the inflation data along with the clear loss of momentum in domestic demand and job creation give us confidence that US interest rates will move lower from 2023, with term yields to front-run 200bps of cuts in the fed funds rate through 2024 and the first half of 2025 to a more neutral 2.625% at June 2025.

Finally to the IMF's latest WEO. Unsurprisingly, the IMF's global growth forecasts highlighted lost momentum and downside risks. At 3.2% and 2.7% for 2022 and 2023 respectively, the IMF are still more optimistic for the current year but pessimistic on 2023 than we are (Westpac 3.0% and 3.3% respectively). Regarding 2023, our more constructive view comes as a result of a stronger showing by developing economies, particularly in Asia as a result of their easier financial conditions; ability to stimulate; global tourism's re-opening; the region's ongoing economic development; and, for China, a progressive exit from domestic COVID-zero restrictions. These factors should allow the region to be materially stronger in 2023 than 2022, also supporting the currencies of the region against the US dollar, with flow-on benefit for Australia's dollar. For interested readers, WEO provides considerable detail on the impact of inflation and tighter financial conditions on the global economy as well as assessments of past high-inflation periods and the lessons for today.

Week ahead & data wrap

Next week's Consumers Price Index is set to reveal another big rise in prices. We're forecasting a 1.8% increase in the CPI over the three months to September. That would see the annual inflation rate slipping to 6.9%, down a little from the 32-year high of 7.3% that was reached in the June quarter. Even so, it will still leave us with a picture of consumer prices that are continuing to charge higher.

The September quarter inflation result will be boosted by the seasonal rise in vegetable prices, along with the annual increases in local council rates and alcohol taxes. But underlying the large price rises in those specific areas, we're also continuing to see widespread inflation pressures rippling through all corners of the economy.

In part, that broad-based strength in inflation is due to continued pressure on businesses' operating costs. Notably, recent months have seen wage costs rocketing higher as businesses have struggled to attract and retain staff.

Those elevated cost pressures have been compounded by the continued firmness in demand. That's been seen most clearly in the construction sector, with building activity charging higher over the past year. However, strong demand has also seen growing pressures on operating capacity, namely a severe shortage of workers, in other parts of the economy, especially in service sector industries like hospitality.

That firmness in demand and the related pressures on operating costs will also be reflected in the range of core inflation measures that Stats NZ and the RBNZ will publish next week. Those measures track the underlying trend in prices, and we expect they will continue to run well above the RBNZ's 1% to 3% target band.

Up the elevator, down the stairs – inflation is past its peak

While the economy is continuing to be buffeted by powerful inflation headwinds, the annual inflation rate is actually expected to soften in the September quarter. That easing is mainly due to swings in petrol prices, which rose rapidly over 2021 and early 2022 as the global economy emerged from the pandemic and the demand for fuel picked up again.

While prices at the pump remain well above the levels we saw prior to the pandemic, they have dropped in recent months. In addition, the very large petrol price increases that we saw last year are now dropping out of the annual CPI calculation. Nevertheless, this still leaves us with annual inflation that is running close to a multi-decade high, signalling ongoing pressure on households' spending power.

September quarter inflation result to reinforce the RBNZ's hawkish bias

Our forecast for September quarter inflation is higher than the RBNZ's latest published forecast for a 1.4% rise. However, the RBNZ's forecast was finalised in August, and since that time, market opinion has generally shifted towards a higher OCR peak than the 4.1% that the RBNZ was projecting. The hawkish tone of its October policy review, which highlighted that the Committee had discussed a larger 75 basis point hike, suggests that the RBNZ is already braced for stronger inflation pressures in the near term.

Recent weeks have seen financial markets pricing in the likelihood of large Official Cash Rate increases continuing into the new year. A result in line with our forecasts would strengthen the case for those moves.

The great rebalancing

As higher interest rates dampen domestic demand, the economy is rebalancing. The opening of our borders, high export commodity prices and the weak New Zealand dollar are adding to the effect.

On the travel front, tourists are flooding back to our shores. From a standing start in March, August tourist arrivals are now back to around 40% of pre-Covid (2019) levels. And for Australian arrivals, the bounceback has been even more impressive, with August arrivals touching three-quarters of the pre-Covid levels. Anyone who has been in Queenstown recently will have noticed this.

Looking to the peak tourist season over the summer months, we expect the surge to continue. Notably, over this period we expect tourists from longer-haul markets, such as Europe and North America, to return en masse as well. Indeed, the announcements and subsequent commencement of routes such Auckland to New York by a number of airlines suggests that they're well aware of the level of demand.

The pandemic years aside, tourism has been a cornerstone of our export earnings. We estimate that tourism's pre-Covid net contribution to the economy (the earnings from tourists visiting New Zealand less the amount that New Zealanders spend overseas) was around 2.5% of GDP. We expect the balance to return to around this magnitude over coming years.

The return of tourists to our shores is thus a shot in the arm for the economy, and comes at a time when other parts of the economy like the household sector are slowing. It's a big part of the reason why we expect the overall economy to grow slowly in the next couple of years rather than tipping into outright recession. The other key reason is strong export commodity prices, reinforced by the weak New Zealand dollar.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

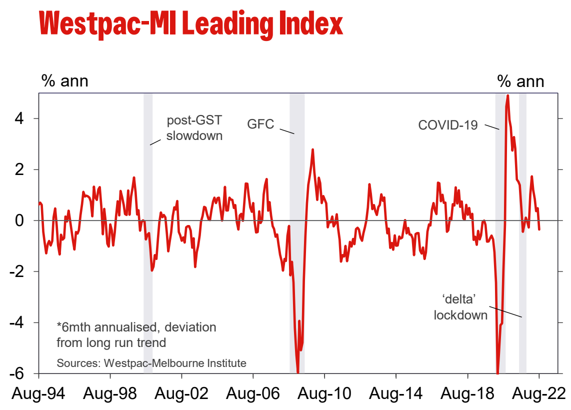
Date	Release	Previous	Actual	Westpac f/c
Tue 11	Sep retail card spending	1.0%	1.4%	0.4%
Wed 12	Sep REINZ house sales %yr	–16.1%	–10.9%	–
	Sep REINZ house price index %yr	–5.8%	–8.1%	–
	Aug net migration	475	47	–
Thu 13	Sep food price index	1.1%	0.4%	-0.3%
Fri 14	Sep manufacturing PMI	54.8	52.0	–

Aus Sep Westpac–MI Leading Index

Oct 19, Last: –0.36%

The six-month annualised growth rate fell to –0.36% in August, down from +0.49% in July. This was the first negative print since the start of the year and the weakest since the delta lockdown in 2021 points – indicating a material loss in momentum to a below-trend pace.

The September read looks set to further entrench the weakening signal. It will include some very weak component updates: commodity prices down steeply (-15.8% in AUD terms); the ASX200 down sharply as well (-7.3%); and sentiment based components also weakening further (the Westpac-MI Consumer Expectations Index off another -2.1% and the Westpac-MI Unemployment Expectations Index off by 11.7%). This will be partially offset by a rebound in the volatile dwelling approvals component and continued gains in hours worked but the net result looks likely to see a further move into negative.

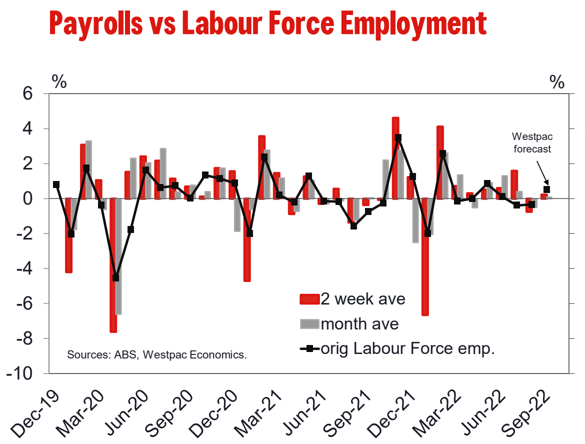


Aus September Labour Force - employment '000

Oct 20, Last: 33.5k, WBC f/c: 25k
Mkt f/c: 25k, Range: 13.5k to 45k

In August, the 33.k rise in employment was close to the market estimate of +37.5k but well under Westpac's +110k. Where did we go wrong? Underestimating the impact of the ongoing Covid outbreak and other illness. The ABS noted that the number of people working reduced hours due to being sick/illness increased 11k to 761k in August 2022, which is around double the number typically seen at the end of winter.

So why not go for a bounce in September to make up for the large July loss (-41k in July)? August employment was 8k below the June level. Weekly Payrolls point to a very mild bounce, and while there is likely to be some upward revision, it suggests we can't be confident in a strong bounce. Job ads and job vacancies have started to soften, from a high level, while our business surveys Job Indicator has levelled out. Unemployment expectations did ease in September but they jumped 11% in October pointing to weakness in the labour market though September.

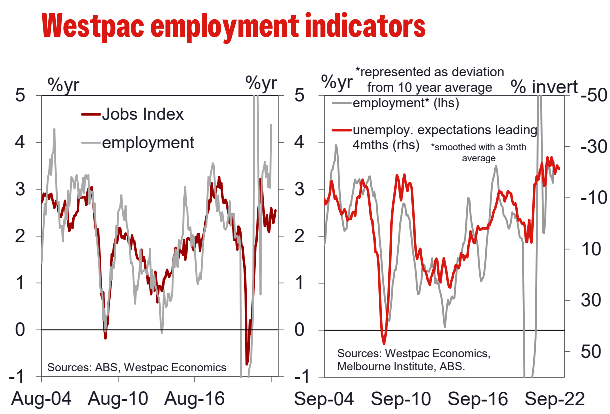


Aus September Labour Force - unemployment %

Oct 20, Last: 3.5%, WBC f/c: 3.4%
Mkt f/c: 3.5%, Range: 3.4% to 3.6%

In August the labour force lifted 47.5k, greater than the gain in employment, so as well as lifting the participation rate to 66.6% the number of unemployed rose 14.0k and the unemployment rate gained 0.1ppt to 3.5% (at two decimal points from 3.38% to 3.46%). The participation rate is now just 0.1ppt off the June 2022 record high of 66.8% while unemployment is still down from 4.2% at the start of this year.

The larger than usual number of people not working due to illness does not just effect employment and hours worked but it also has an impact on the availability of labour, and hence, the labour force. As ongoing illnesses are likely to be a factor behind the soft September Weekly Payrolls update we expect it to have an impact on the labour force as well. We expect the labour force to lift just 17k holding the participation rate flat at 66.6% while the unemployment rate will round down to 3.4% from a rounded up 3.5%.



NZ Q3 Consumer price inflation

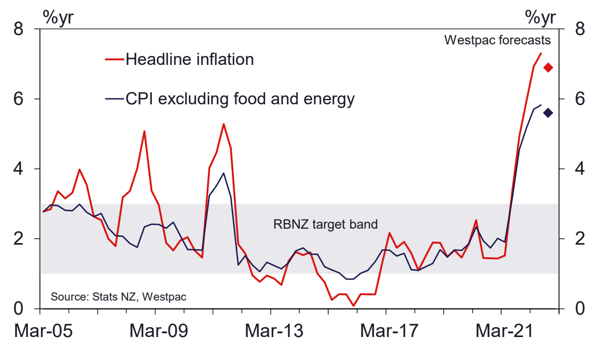
Oct 18, Quarterly – Last: +1.7%, Westpac: +1.8%, Market f/c: +1.5%
Annual – Last: +7.3%, Westpac: +6.9%, Market f/c: +6.6%

We estimate that consumer prices rose by 1.8% in the September quarter. While that would see the annual inflation rate slipping from 7.3% last quarter to 6.9%, we're still left with a picture of rapid increases in consumer prices.

The September quarter saw large increases in food prices and housing related costs. Those increases were only partially offset by the easing in fuel prices. Measures of core inflation are expected to remain elevated reflecting the strong and widespread price pressures rippling through the economy.

Our forecast is higher than the RBNZ's last published forecast. A result in line with our forecast would reinforce the recent rise in market pricing for the OCR.

NZ Consumer Price Inflation



NZ GlobalDairyTrade auction, whole milk powder prices

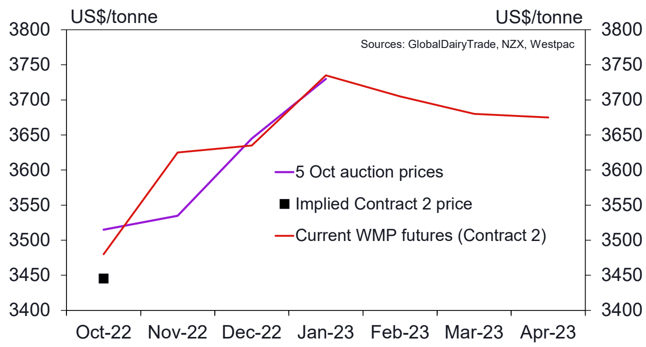
October 19, Last: –4.0%, Westpac: –2.0%

We expect whole milk powder prices (WMP) to fall by around 2% at the upcoming auction. This follows a 4.0% price slide at the previous auction.

Our pick is slightly lower than the circa 1% fall that the futures market is pointing to.

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

Whole milk powder prices



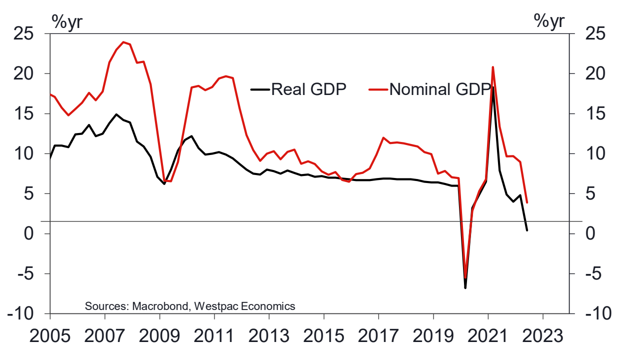
China Q3 GDP

Oct 18, %yr, Last: 0.4%yr, Mkt f/c: 3.5%, WBC 2.9%

COVID-zero restrictions and ongoing weakness in the housing construction sector hit activity hard in Q2, with a GDP decline of 2.6% recorded. In Q3, partial data points to a robust rebound in consumption and a broadening up-trend for investment. While our expectation is a little lower than consensus, it is more a matter of timing than the strength of the rebound, with Q4 to experience similar growth to Q3 in our view.

Into year end, the risks to the China outlook that are known are COVID-zero, which will only slowly recede as a headwind at some stage, and how long it will take for housing to reset. The more unknown risk is trade which has provided material support over the past year, but ahead will come under pressure as Western economies stall and/or enter recession. Growth in Asian economies will provide an offset, but likely only a partial one.

Q2's fall to reverse in Q3; g'th to persist



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 17					
NZ	Sep BusinessNZ PSI	58.6	–	–	Ongoing resilience despite interest rate rises.
Jpn	Aug industrial production	2.7%	–	–	Final estimate.
UK	Oct Rightmove house prices	0.7%	–	–	More declines to come as policy tightening continues.
US	Oct Fed Empire state index	–1.5	–1.0	–	Regional surveys showing weakness.
Tue 18					
Aus	RBA minutes	–	–	–	Key insights into the surprise 25bp rate hike decision.
	RBA Deputy Governor	–	–	–	Bullock, speaking to AFIA at 11:05am.
NZ	Q3 CPI	1.7%	1.5%	1.8%	Boosted by large increases in food and housing costs…
	Q3 CPI %yr	7.3%	6.6%	6.9%	… annual inflation is past its peak, but still running hot.
Chn	Q3 GDP %yr	0.4%	3.5%	2.9%	Activity to rebound; COVID-zero a lingering risk.
	Sep retail sales ytd %yr	0.5%	1.0%	–	Consumption will be a key support moving into 2023.
	Sep fixed asset investment ytd %yr	5.8%	6.0%	–	Businesses are working through domestic virus disruptions…
	Sep industrial production ytd %yr	3.6%	3.7%	–	… while weakening global demands looms for trade.
Eur	Oct ZEW survey of expectations	–60.7	–	–	Collapsed to a series low.
US	Sep industrial production	–0.2%	–0.1%	–	Weakness in domestic and global demand a key risk.
	Oct NAHB housing market index	46	44	–	Housing market under significant and lasting pressure.
	Fedspeak	–	–	–	Bostic.
Wed 19					
Aus	Sep Westpac-MI Leading Index	–0.4%	–	–	Slowdown to below trend pace likely to deepen.
NZ	GlobalDairyTrade auction (WMP)	–4.0%	–	–2.0%	Dairy prices likely to fall again at this auction.
Eur	Sep CPI %yr	10.0%	–	–	Final estimate to provide detail on breadth and intensity.
UK	Sep CPI %yr	9.9%	–	–	Energy inflation a key risk moving into year-end.
US	Sep housing starts	12.2%	–5.6%	–	Demand is being hit hard by rising interest rates…
	Sep building permits	–10.0%	0.5%	–	… while input availability continues to limit construction.
	Federal Reserve's Beige book	–	–	–	To provide an update on conditions across the regions.
	Fedspeak	–	–	–	Kashkari.
Thu 20					
Aus	Sep employment	33.5k	25k	25k	Employment was held back in Aug but absent sick workers…
	Sep unemployment rate	3.5%	3.5%	3.4%	… with Payrolls suggesting this effect continued into Sep.
US	Initial jobless claims	228k	–	–	Likely to remain at low levels for time being.
	Oct Phily Fed index	–9.9	–4.5	–	Regional surveys showing weakness.
	Sep existing home sales	–0.4%	–2.2%	–	Declines set to continue given further tightening from FOMC.
	Sep leading index	–0.3%	–0.3%	–	Growth outlook clearly deteriorating.
	Fedspeak	–	–	–	Evans, Bullard, Jefferson, Cook, Bowman.
Fri 21					
NZ	Sep trade balance $mn	–2447	–	–2450	Import values strong on weak NZD and high oil price.
Jpn	Sep CPI %yr	3.0%	2.9%	–	Price pressures gradually building; BoJ focussed on wages.
Eur	Oct consumer confidence	–28.8	–	–	Collapsed to a series low.
UK	Oct GfK consumer sentiment	–49	–	–	Collapsed to a series low.
	Sep retail sales	–1.6%	–	–	Negative so far this year, highlighting pressure on HH's.
US	Fedspeak	–	–	–	Williams.

Forecasts

Interest rate forecasts

Australia	Latest (14 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	2.60	3.10	3.60	3.60	3.60	3.60	3.35	3.10
90 Day BBSW	2.93	3.80	3.80	3.80	3.80	3.63	3.38	3.13
3 Year Swap	4.01	3.75	3.85	3.70	3.55	3.45	3.40	3.35
3 Year Bond	3.54	3.40	3.55	3.45	3.35	3.25	3.20	3.15
10 Year Bond	4.00	3.70	3.50	3.40	3.20	3.00	2.80	2.70
10 Year Spread to US (bps)	8	10	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	3.92	3.60	3.40	3.30	3.10	2.90	2.70	2.60
New Zealand								
Cash	3.50	4.00	4.50	4.50	4.50	4.50	4.50	4.50
90 day bill	3.98	4.30	4.60	4.60	4.60	4.60	4.60	4.40
2 year swap	4.95	4.70	4.60	4.40	4.20	3.95	3.65	3.35
10 Year Bond	4.59	4.30	4.10	4.00	3.80	3.60	3.40	3.25
10 Year spread to US	67	70	70	70	70	70	70	65

Exchange rate forecasts

Australia	Latest (14 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD/USD	0.6329	0.65	0.66	0.67	0.69	0.72	0.73	0.74
NZD/USD	0.5642	0.58	0.59	0.60	0.62	0.65	0.66	0.66
USD/JPY	147.30	143	141	139	137	134	132	130
EUR/USD	0.9796	0.99	0.99	1.02	1.04	1.07	1.09	1.10
GBP/USD	1.1335	1.14	1.14	1.14	1.17	1.20	1.22	1.24
USD/CNY	7.1733	7.00	6.80	6.60	6.40	6.30	6.20	6.15
AUD/NZD	1.1167	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	1.8	0.5	1.2	0.9	–	–	–	–
Annual change	5.9	6.9	7.3	6.9	5.9	5.3	4.5	1.4	5.9	5.9	4.0

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