AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 24 October 2022

Editorial: Budget to highlight Fiscal challenge.

RBA: Assistant Governor Financial Markets speaking.

Australia: 2022/23 Federal Budget, Q3 CPI.

NZ: Labour Day, business and consumer confidence.

China: Industrial profits.

Europe: ECB policy decision.

US: Q3 GDP, house sales and prices, regional surveys, PCE deflator, consumer sentiment.

Global: S&P Global PMIs.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 21 OCTOBER 2022.

WESTPAC INSTITUTIONAL BANK

Budget to highlight Fiscal challenge

The Australian Treasurer will release the Federal Budget next week on October 25.

We forecast that the deficit will increase to $45 billion in 2022/23, from $31.9bn for 2021/22, but will still be $32.9 billion less than in the April Pre-Election and Fiscal Outlook (PEFO).

This will be an update on the PEFO which was prepared by the Secretary to the Treasury and the Secretary to the Department of Finance ahead of the May Federal election.

Coming so quickly after the March 29 Budget of the previous government it is essentially a restatement of the March Budget.

In the October Budget, the newly elected government is set to deliver on their election promises, with a focus on child care; education and training; aged care; health care; and climate change. These policies were largely fully funded – as costed by the Parliamentary Budget Office. We expect little to no impact on the underlying budget deficit from new policy.

Earlier this week we released a very detailed analysis of the numbers we expect to be included in the October Budget (see Evans and Hanlan, 18 October).

In that analysis we used the economic forecasts that we expect the government to adopt in the Budget. This is largely taken from the Treasurer's Ministerial Statement to Parliament on July 28. We anticipate that the July forecasts will be revised for the 2023/24 year, with growth marked down even further and inflation and the unemployment rate marked higher.

We anticipate that the government will downgrade GDP growth in 2023/24 from 2.0% to 1.5%; lift inflation by 0.75% to 3.5%; and raise the unemployment rate from 4.0% to 4.25%.

In our Budget Preview we have drawn out an important message which we expect will be the key theme of the Treasurer's commentary on Budget Night.

That theme will be that the profile for the budget deficit differs greatly from that in PEFO.

PEFO anticipated that the deficit would decline each year, with a path back towards balance and that gross debt to GDP would gradually stabilise around 45% of GDP.

By contrast, the October Budget, which will incorporate a much smaller deficit outcome for 2021/22, by some $47.9bn, will likely project that the deficit which increase each year.

The deficit will become elevated, potentially at around 2.7% of GDP in 2025/26, and the gross debt to GDP ratio will exhibit an upward trend – albeit still at around that 45% mark by the end of the forecast period.

An ongoing structural budget deficit and rising public debt highlights the need for fiscal reform.

We do not believe the Treasurer will introduce new policies in the October Budget to deal with that but expect he will open the debate on the need for reform as an urgent economic priority.

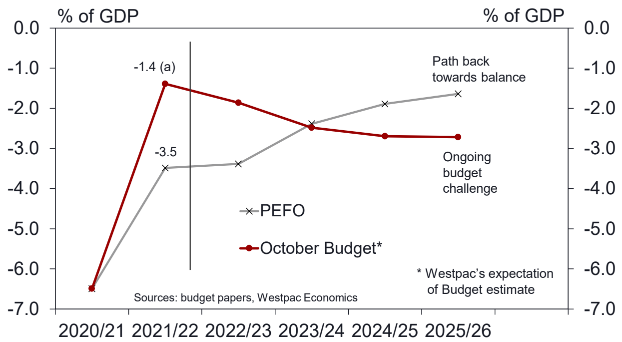
In our analysis we estimate that the Treasurer's forecasts for the underlying deficits will be as in Table 1.

Table 1: key budget numbers

	'21/22	'22/23	'23/24	'24/25	'25/26
$bn					
Budget deficit, PEFO	**–79.8**	**–77.9**	**–56.5**	**–47.1**	**–42.9**
% of GDP	–3.5	–3.4	–2.4	–1.9	–1.6
Revenue surprise	27.6	59.5	14.5	1.1	3.0
Payment surprise	–20.3	26.4	18.0	22.0	32.2
Net improvement	47.9	32.9	–3.5	–20.9	–29.1
Budget deficit, October	**–31.9**	**–45.0**	**–60.0**	**–68.0**	**–72.0**
% of GDP	–1.4	–1.9	–2.5	–2.7	–2.7
Gross debt, PEFO	906	977	1,056	1,117	1,169
% of GDP	39.5	42.5	44.6	44.9	44.7
Gross debt, October	895	902	994	1,086	1,176
% of GDP	39.0	37.3	41.1	43.0	44.3

* Westpac's expectations of Government forecasts to appear in the October Budget.
** **Budget deficit refers to the underlying cash deficit.**
Sources: budget papers, ABS, Westpac Economics

Budget deficit profile



Note that PEFO forecast that the underlying deficit would fall from 3.5% of GDP in 2021/22 to 1.6% of GDP in 2025/26.

By sharp contrast, we anticipate that the October Budget will forecast that the underlying deficit will rise from the lower than expected 1.4% of GDP outcome for 2021/22 to 2.7% for 2024/25 and 2025/26.

As noted above, the deficit for 2021/22 came in $47.9 billion lower than expected in PEFO.

We expect the deficit to widen to $45bn in 2022/23, but that is still $32.7 billion lower than in PEFO.

So, over the first two years, the budget deficit will be $81bn lower than expected.

From 2023/24 the story changes. The budget deficit is expected to deteriorate by $54bn over the final three years of the forward estimates – reducing the net improvement over the five years to a modest $27bn.

There are two key dynamics driving this turnaround.

First, currently the economy is performing stronger than expected but from here, the economic outlook deteriorates due to high inflation and rising interest rates.

Whereas the size of the economy in 2022/23 is now forecast to be 5% larger than anticipated in PEFO, by 2025/26 that narrows to only 1.3%. Moreover, while the revenue share of the economy surprised to the high side in 2021/22 and will likely do so in 2022/23, by 2025/26 that share is likely to underperform relative to PEFO, in part reflecting a higher unemployment rate.

Revenue across the five years is expected to be $106bn higher than in PEFO – but this is front loaded, with an $87bn upside in the initial two years and only a $4bn upside in the final two years.

Second, is the profile for expenses.

For 2021/22, expenses came in $20bn lower than expected and while that is likely to be reversed in 2022/23, on our figuring expenses over the initial two years are only $6bn higher than expected in PEFO.

However, there is considerable upward pressure on expenses, which will become more apparent over the final years of the forward estimates. In PEFO, the reverse was expected, with expenses as a share of the economy projected to fall over the final two years of the forward estimates.

Wage and price pressures, along with higher interest costs, are adding to expenditures.

The other and most notable source of change is the costing of existing programs, with NDIS; aged care; health care and defence key sources of pressure.

We have incorporated these effects by lifting the expenses profile across the five years by $78bn relative to PEFO.

With this budget deficit rising and becoming elevated as a share of GDP the Treasurer is very likely to initiate a debate on the best way to approach structural budget repair.

Stage Three Tax Cuts in the Firing Line

Having made a convincing case that Budget repair is urgent the Treasurer is likely to open the debate around repair initiatives for the May Budget when the government will need to provide a much more comforting outlook for the fiscal position.

This debate will be around very significant savings rather than marginal initiatives.

In that regard the Stage 3 Tax Cuts are likely to be scrutinised closely.

The Parliamentary Budget Office recently costed the cuts at $17.7 bn in 2024/25, lifting to $20.4 bn in 2025/26 – around 0.8% of GDP. The dollar cost rises by around a couple of billion a year, to be at an estimated $36.9bn in 2032/33 – with the cumulative cost over the nine year period at $243.5bn.

Based on our numbers, cancelling the cuts would reduce the deficit in 2025/26 from 2.7% of GDP to 1.9% of GDP – allowing significant stability in the projected debt to GDP ratios going forward.

While that may make eminent sense from a fiscal perspective dropping those cuts is not good economics:

- We expect the economy to be operating well below capacity in 2023/24 with the RBA moving to cut rates during 2024 so a fiscal tightening would be inconsistent with the goals of monetary policy.
- Around 70% of the benefits go to the "higher income" earners but they already pay 65% of total tax; and the Stages 1 and 2 were specifically targeted at low income earners.
- One aspect of the Stage 3 is to increase the threshold at which the maximum tax rate begins from $180,000 to $200, 000. If indexed since the last time that ceiling was lifted (2008) the threshold would now be $250,000 – comparable with UK and Canada and well short of US.
- Lowering the marginal rate from 37% to 30% for income earners above $120,000 would provide real incentive for middle income earners – potentially boosting participation and productivity.
- The reduction in the marginal tax rate for income earners between $45,000 and $120,000 from 32.5% to 30% is an expensive aspect of the Stage 3 cuts that may also come under scrutiny separately from the benefits outlined above. Such a move does represent a significant 7.7% reduction in the marginal tax rate for lower/middle income earners and is consistent with the major objectives of lifting incentives and lowering the overall share of direct tax and should also be retained.
- Australia needs to change its tax mix to lessen reliance on direct taxes – cancelling direct tax cuts only exacerbates that problem.

Conclusion

Next week's Budget is unlikely to include any major new fiscal initiatives.

But the changes in the underlying forecasts and reassessments of the costs of existing social programs will show that Australia's debt to GDP ratio is unlikely to stabilise over the forecast period.

That highlights the risk that overall debt to GDP ratio does not stabilise in the long term.

Such results will be interpreted by the Treasurer as highlighting a major fiscal challenge.

While we agree with the analysis we do not believe that the solution is to cancel the Stage 3 tax cuts.

Bill Evans, Chief Economist

THE WEEK THAT WAS

Global markets have remained cautious this week amid ongoing concern over inflation and interest rates, and as China's National Party Congress has taken place.

In Australia, [the October RBA meeting minutes] kicked off the week's information flow. As detailed by Chief Economist Bill Evans, the document gave a detailed assessment of the case for hiking 25bps (their eventual decision) and 50bps (the market's prior expectation) at the October meeting. Arguing for 50bps were inflation and wage risks, particularly while the economy remains strong; the cash rate not being especially high; and the potential for the market and/or community to question the resolve of the Board. In favour of a 25bp hike however, was recognition that downside risks to activity growth are building; that inflation could subside quickly; and also the lag between the change in policy and its impact. Also clear from the minutes was that reducing the pace of hiking to 25bps per month is not a sign of a near–term pause, with "further increases in interest rates over the period ahead" expected.

The September labour force survey subsequently surprised to the downside, with only 900 jobs created in the month. The unemployment rate was unchanged to 1 decimal point, though to 2 decimal points it rose from 3.48% to 3.54% as participation remained unchanged but the size of the labour force grew. While we expect employment growth to remain robust into 2023, accelerating growth in the population will limit further downside for the unemployment rate, and help to better match labour supply and demand.

Next week for Australia, both the Q3 CPI and second Federal Budget 2022 are due. On the CPI, Westpac expects a strong 1.1% rise in headline inflation, taking the annual rate 0.4ppts higher to 6.5%yr. Notably, without state energy rebates, the Q3 forecast would have been higher still circa 1.8%, in line with the gain seen in Q2. The trimmed mean core measure is anticipated to gain another 1.5% in Q3, in line with Q1 and Q2 and enough to lift the annual rate to 5.6%yr. Our preview details our expectations for all the key components of the CPI. Note as well, this week's New Zealand CPI highlights that risks related to inflation remain skewed to the upside, requiring central banks globally to slow their economies in an attempt to balance demand with supply. With NZ annual inflation now above 7% and showing continued momentum, Westpac expects the RBNZ to raise their cash rate to a peak of 5.0% (previously 4.5%).

For October's Budget 2022, while the new Australian Government will have the benefit of an improved starting point, a weaker economy over the forecast horizon sets the scene for some tough discussions and, potentially, decisions next May in Budget 2023. In the interim, the updated Budget 2022 is expected to emphasise the priorities of the new Labor Government, with a particular focus on the policies they took to this year's election. The key themes are discussed by Chief Economist Bill Evans in this week's video update, while our written preview provides full detail on both our policy expectations and the Government's forecasts.

Turning to China, the spotlight has remained on the National Party Congress and President Xi's degree of control, particularly after this week's data (including Q3 GDP) was delayed with little notice and no explanation. So far, President Xi and the Party have emphasised their desire for China's position in the global economy to continue to strengthen while remaining resolute in their belief in the success of COVID–zero as well as their geopolitical views, particularly for Taiwan. As we have seen throughout the past year, China is pursuing the growth opportunities open to it through efficiency; productivity; and expansion into Asian markets. As this economic development is achieved, China's position in the region and global economy will continue to strengthen. While this opens up opportunity for greater trade and growth for the region overall, it also raises the probability of geopolitical uncertainty and volatility continuing as the West (particularly the US) seeks to preserve its position and influence. The end of the 2022 Congress, particularly changes to the leadership, will be closely watched at the weekend.

For the US, data has been light this week, though that received has clearly highlighted the impact of higher interest rates on the economy, particularly housing. In September: existing home sales fell for an 8th consecutive month; the NAHB housing market index fell for a 10th consecutive month to be near its pandemic lows; and housing starts and permits remained volatile, well below their cycle highs. The Federal Reserve's Beige Book more broadly pointed to a soft economy, with growing risks over the activity outlook and evidence of businesses beginning to question their staffing plans. These developments highlight that FOMC officials must give greater weight to downside risks for activity in 2023; although, until then, it seems Committee members hawkish resolve will remain.

Finally to the UK. After only 44 days in office, Liz Truss has officially resigned as Prime Minister and the Conservative Party leadership election is due to take place in the next week. This comes after weeks of financial market turmoil following the announcement of Truss' economic plan, centred on significant and unfunded fiscal stimulus in the form of generous tax cuts at a time of historically elevated inflation. This was rightfully received poorly by many, even in Truss' own government, resulting in most of the fiscal plan being scrapped in the week leading up to her resignation. Since Truss took over the Prime Ministership, the 11ppt difference in voting intentions (Labour 42%; Conservatives 31%) has now widened to a staggering 29ppts (Labour 52%; Conservatives 23%). A more responsible fiscal plan that is cognisant of the risks to inflation, but supportive to households and businesses over the tough period ahead, is necessary to avoid excessive financial tightening from the Bank of England.

Week ahead & data wrap

OCR now expected to peak at 5%

The September quarter inflation figures were ugly. In every corner of the economy, prices are charging higher. And even though forecasters were braced for a strong number, the result beat all expectations. Coming on top of signs that domestic demand is holding up in the face of interest rate hikes to date, it looks like the Reserve Bank still has a lot more work to do.

We now expect the Official Cash Rate to reach a peak of 5% for this cycle (previously 4.5%). With the cash rate currently at 3.5%, that implies the RBNZ is still some way from where it needs to be, with no room for delay. Consequently, we now expect a 75 basis point hike to 4.25% at the November *Monetary Policy Statement*, a step up from the 50 basis point increases at recent reviews.

Beyond that, we've pencilled in a 50 basis point rise at the following review in February, and another 25 basis points in April to reach a 5% peak. That last move is not a firm forecast, but a reflection of our view that the risks beyond February are for anything between 0 and 50 points.

To its credit, the Reserve Bank has had the right idea with monetary policy this year: strong action early on can reduce the total amount of tightening that's needed to get on top of inflation. But even after all the RBNZ has done so far – a total of 325 basis points of OCR hikes over the past year – it seems that they're still not ahead of the game in the way they would have hoped at this stage.

Inflation refuses to die, activity holding firm

Underlying the change in our OCR forecast has been the ongoing strength in inflation, as well as resilience in domestic economic activity. Inflation pressures are not showing signs of easing despite the sharp rise in interest rates over the past year. Those developments mean that the RBNZ still has a lot more to do to slay the inflation dragon.

On the inflation front, the September quarter Consumers Price Index result delivered a large upside surprise. Prices rose by 2.2% over the past three months and are up 7.2% over the past year. While that's a touch lower than the 32-year high of 7.3% that was reached last quarter, prices are continuing to rocket higher. Notably, we're seeing ongoing strength in the domestically oriented non-tradable components of inflation.

September quarter inflation was above our forecast for a 1.8%. The result was also well above the RBNZ's last published forecast of a 1.4% rise.

Moreover, the strength in prices hasn't been limited to a few categories. Inflation pressures are broad based and running red-hot right across the economy. That's been reflected in measures of core inflation, which smooth through quarter-to-quarter volatility and track the underlying trend in prices. Most core inflation measures are now running above 6%. And the RBNZ's own 'Sectoral factor model of core inflation has lifted to 5.4% – well outside the 1-3% target band for inflation.

Importantly, and in contrast to the modest drop in headline inflation, core inflation has actually pushed higher even as headline inflation has softened. That indicates that underlying inflation pressures in the economy are continuing to boil over, a year after the RBNZ's tightening cycle began.

On top of the ongoing strength in inflation, we're continuing to see resilience in domestic economic activity. That's been seen on several key fronts.

First, the labour market remains white hot. Jobs growth remains strong, and wage rates have been rising rapidly as businesses have struggled to both attract and retain staff. Consistent with that, we've seen ongoing strength in job advertisements and high levels of staff turnover. Those conditions do not point to an economy that is coming off the boil.

Next is the strength of household balance sheets. Mortgage rates have been rising for some time, and increasing numbers of borrowers are now rolling off the very low fixed rates that were on offer through the pandemic. However, the drag from those rate increases has not been as stark as we might have expected. Indeed, we're still seeing large numbers of households running ahead on their mortgage payments. Households' finances have come through the pandemic in good shape, with disposable incomes and savings rates pushing higher in recent years. That's providing them with a buffer from headwinds like higher inflation and interest rates. Consistent with that, nominal household spending levels have remained firm.

Lastly, demand in the economy is getting a sizeable boost from the reopening of the borders and the return of international tourists. While visitor numbers are still running below pre-pandemic levels, they have been climbing rapidly, and they are set to continue rising over the months ahead. That's helping to offset any cooling in domestic demand, and is also adding to the demand for workers in labour-intensive industries like hospitality.

With resilient economic activity, the current strong inflation pressures are likely to be with us for some time yet. We're also likely to see further increases in wage rates, which would reinforce the pressure on domestic prices. Against this backdrop, the RBNZ will need to take the cash rate much further into tight territory than they had previously anticipated. Indeed, the battle against inflation is far from over.

Michael Gordon, Acting Chief Economist and Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 17	Sep BusinessNZ PSI	58.6	55.8	
Tue 18	Q3 CPI	1.7%	2.2%	1.8%
	Q3 CPI	7.3%	7.2%	6.9%
Wed 19	GlobalDairyTrade auction (WMP)	-4.0%	-4.4%	-2.0%
Fri 21	Sep trade balance $m	-2625	-1615	-2450

DATA PREVIEWS

Aus Federal Budget 2022/23, $bn

Oct 25, Last: –31.9, WBC f/c: –45

The recently elected government will release another budget update, on Tuesday October 25, refreshing the fiscal projections.

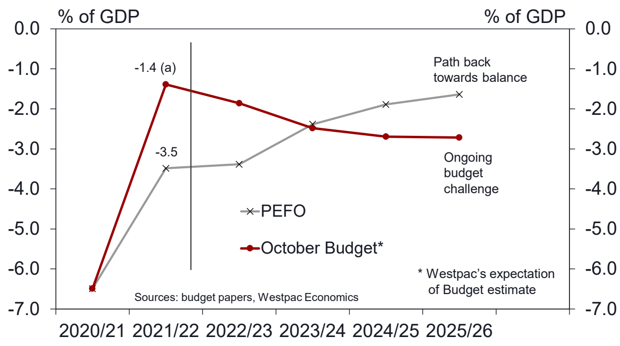
For 2021/22, the budget deficit came in at $31.9n (1.4% of GDP), some $47.9bn below that in the Pre-election Economic and Fiscal Outlook (PEFO). Revenue surprised to the high side by $27.6bn and expenses were $20.3bn lower than forecast (partly due to delays).

For 2022/23, we anticipate that the October Budget will forecast a widening of the deficit to $45bn, 1.9% of GDP impacted by upward pressure on expenses. That would still be $32.9bn below PEFO.

From 2023/24, the budget deficit profile is likely to deteriorate – increasing each year and being above that in PEFO. This reflects the crimping of revenue from the emerging economic slowdown and upward pressure on expenses (from higher inflation, rising interest rates and escalating program cost).

For more detail, see page 2 above and our Budget Preview.

Budget deficit profile



Aus Consumer Price Index %qtr

Oct 26, Last: 1.8%, WBC f/c: 1.1%
Mkt f/c: 1.6%, Range: 1.1% to 2.0%

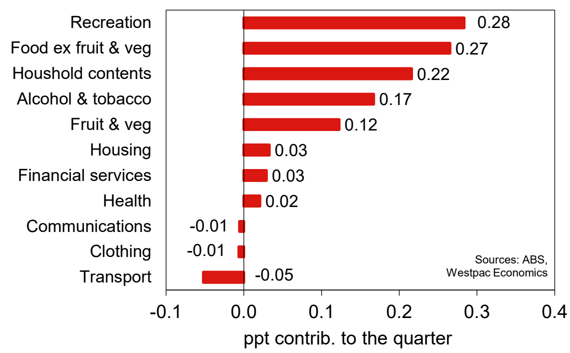
Westpac is forecasting a 1.1% print, lifting the annual pace 0.4ppt to 6.5%. The reason for the step down from 1.8%qtr print in Q2 are the significant state energy rebates, particularly in WA and Victoria. Due to these rebates, utility cost are forecast to fall 10.5% subtracting 0.48ppt from the September quarter CPI.

Without the rebates our CPI forecast would have been 1.8%qtr.

The Trimmed Mean is forecast to lift 1.5% in September, matching the March and June quarters, taking the annual pace to 5.6%yr from 4.9%yr, well up from the March 2021 low of 1.1%yr. Our forecast peak is 5.8%yr in December 2022.

For more details please see "September Quarter CPI Preview – Ongoing pressures offset by state energy rebates but it is only a temporary reprive and does not lower core inflation".

Contributions 2022Q3 CPI 1.1%qtr forecast



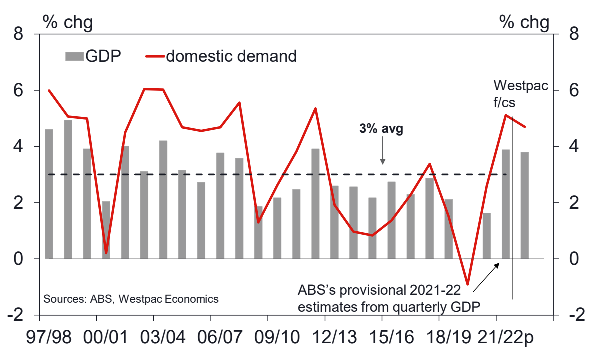
Aus 2021–22 national accounts

Oct 28, Current estimate: 3.9%

The June quarter national accounts showed the economy kicking clear of COVID disruptions, growth lifting to a robust 3.9% pace in annual average terms, up from 1.6% in the year to June 2021 despite a hit from delta disruptions through the second half of last year.

The annual national accounts provide new 'benchmark' estimates of income, expenditure, production and balance sheets with more detail on sectors, industries and aspects such as net additions to the capital stock and productivity growth. This often leads to significant revisions to previously published estimates – revisions that only get incorporated into the quarterly GDP data with the Q3 release in December. These can be most pronounced for areas that rely on annual survey sources where quarterly indicators are unavailable, such as consumer spending on services. Given the 'reopening rebound' dynamics driving growth there is a clear risk that the annual benchmarks lead to significant upward revisions to spending and growth estimates for 2021–22.

Australia: annual economic performance



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

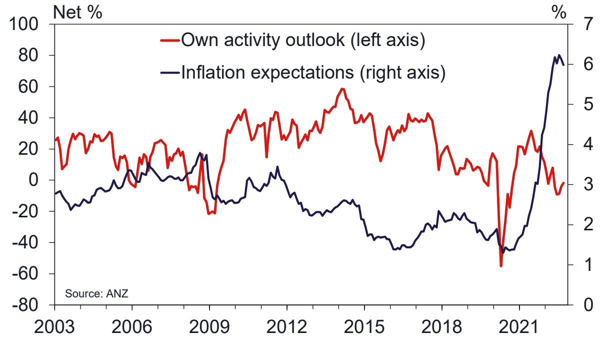
NZ Oct ANZBO business confidence

Oct 26, Last: –36.7

Business confidence nudged higher again in September. Nevertheless, New Zealand businesses remain deeply pessimistic about the economic outlook. Businesses have been grappling with shortages of staff, strong cost pressures, and the rise in interest rates. We expect those factors will continue to weigh on confidence in the October survey.

The survey's cost and pricing gauges will again be worth keeping a close eye on. Despite softening in recent months, those measures have remained elevated. We expect that pattern will be repeated in the October survey, consistent with our forecast for only a gradual easing in inflation.

NZ business confidence



NZ Sep monthly employment indicator

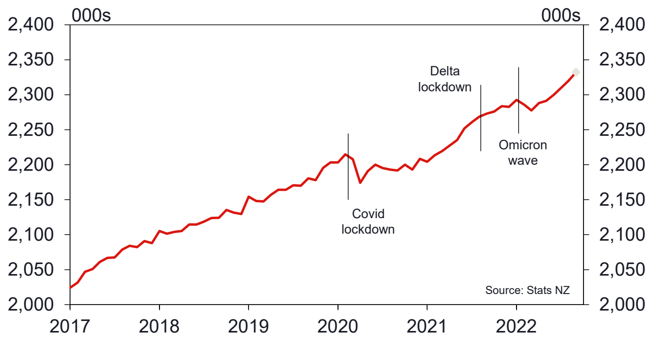
Oct 28, Last: 0.4%, Westpac f/c: 0.5%

Weekly jobs numbers have continued to push higher, indicating that job creation is continuing at pace. That's consistent with other labour market indicators, such as job advertisements, which remain elevated. At the same time, wage rates have been rising rapidly as businesses have struggled to attract and retain staff.

The firmness in the jobs market signals that the economy has not lost much steam despite the rise in interest rates over the past year.

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

NZ monthly filled jobs



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 24					
Aus	RBA Assist' Governor, Financial Mkts	–	–	–	Kent speaking at Global Markets Conference, Sydney, 9:05am.
NZ	Labour Day	–	–	–	Markets closed.
Jpn	Oct Nikkei services PMI	52.2	–	–	Services supported by looser COVID-19 restrictions…
	Oct Nikkei manufacturing PMI	50.8	–	–	… but manufacturing remains in a fragile state.
Eur	Oct S&P Global manufacturing PMI	48.4	48.0	–	A broad-based weakening in demand across manufacturing…
	Oct S&P Global services PMI	48.8	48.5	–	… and services is beginning to materialise.
UK	Oct S&P Global manufacturing PMI	48.4	–	–	Similar risks are also present in the UK as inflation…
	Oct S&P Global services PMI	50.0	–	–	… continues to restrict spending capacity.
US	Sep Chicago Fed activity index	0.0	–	–	Growth outlook clearly subdued.
	Oct S&P Global manufacturing PMI	52.0	51.0	–	Mfg activity is soft but fragile…
	Oct S&P Global services PMI	49.3	49.4	–	… S&P points to clearer risks for services.
Tue 25					
Aus	2022/23 Federal budget, $bn	-31.9	–	-45	Deficit widens on expenses, but still well below PEFO f/c.
Ger	Oct IFO business climate survey	84.3	83.8	–	Outlook highly uncertain; set to remain that way.
US	Aug FHFA house prices	–0.6%	–0.7%	–	Correction set to deepen…
	Aug S&P/CS home price index	–0.44%	–0.80%	–	… as rate hikes take effect.
	Oct consumer confidence index	108.0	105.5	–	Confidence starting to consolidate; similar to UoM.
	Oct Richmond Fed index	0	-5	–	Regional surveys showing weakness.
Wed 26					
Aus	Q3 CPI	1.8%	1.6%	1.1%	Food, dwellings, electricity and domestic holiday all driving…
	Q3 CPI %yr	6.1%	7.0%	6.5%	… headline inflation higher. There is significant uncertainty…
	Q3 trimmed mean CPI	1.5%	1.5%	1.5%	… regarding the impact of the electricity rebates. We expect…
	Q3 trimmed mean CPI %yr	4.9%	5.5%	5.6%	… they will be significant, holding the increase to just 1.1%.
NZ	Oct ANZ business confidence	-36.7	–	–	Activity indicators to remain weak, inflation gauges elevated.
US	Sep wholesale inventories	1.3%	1.1%	–	Unwarranted inventory accrual a risk given end demand.
	Sep new home sales	28.8%	-15.3%	–	Clearer weakening to crystalise into year-end.
Can	Bank of Canada policy decision	3.25%	3.75%	–	Toss-up between 50/75bp hike.
Thu 27					
Aus	Q3 export price index	10.1%	–	-7.0%	Commodity prices down from highs on global growth fears.
	Q3 import price index	4.3%	–	0.8%	Gasoline prices off highs. Non-fuel prices continue to rise.
Chn	Sep industrial profits %yr	–	–	–	Virus risks will loom over profit growth into year-end.
Eur	ECB policy decision	1.25%	2.00%	2.00%	Another 75bp hike needed to quell inflationary pressures.
US	Q3 GDP, annualised	–0.6%	2.3%	2.1%	Domestic demand weak; but inventory and trade big +'ve.
	Initial jobless claims	214k	–	–	Likely to remain at low levels for time being.
	Sep durable goods orders	–0.2%	0.6%	–	Investment spending clearly subdued.
	Oct Kansas City Fed index	1	–	–	Regional surveys showing weakness.
Fri 28					
Aus	Q3 PPI	1.4%	–	–	Will take a close look at construction input costs.
	2021–22 Annual National Accounts	–	–	–	Annual benchmarks can result in material revisions.
NZ	Oct ANZ consumer confidence	85.4	–	–	Expected to remain subdued.
	Sep employment indicator	0.4%	–	0.5%	Jobs growth has picked up momentum in recent months.
Eur	Oct economic confidence	93.7	–	–	The highly uncertain outlook has left…
	Oct consumer confidence	–	–	–	… consumer confidence at historic lows.
UK	Oct Nationwide house prices	0.0%	–	–	Annual growth cooling as rate hikes impact.
US	Q3 employment cost index	1.3%	1.2%	1.2%	Tight labour market supporting robust wage/benefit g'th.
	Sep personal income	0.3%	0.3%	0.2%	Real income will remain under pressure…
	Sep personal spending	0.4%	0.4%	0.3%	… while inflation puts consumption at risk.
	Sep PCE deflator	0.3%	0.3%	0.3%	Strength seen in CPI report…
	Sep core PCE deflator	0.6%	0.5%	0.6%	… also to show in PCE inflation.
	Sep pending home sales	-2.0%	-5.3%	–	Housing market under significant and lasting pressure.
	Oct Uni. of Michigan sentiment	59.8	59.6	–	Final estimate.

Forecasts

Interest rate forecasts

Australia	Latest (21 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	3.03	3.80	3.80	3.80	3.80	3.63	3.38	3.13
3 Year Swap	4.24	3.75	3.85	3.70	3.55	3.45	3.40	3.35
3 Year Bond	3.69	3.40	3.55	3.45	3.35	3.25	3.20	3.15
10 Year Bond	4.14	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	0
US								
Fed Funds	3.125	4.375	4.625	4.625	4.625	4.625	4.375	3.875
US 10 Year Bond	4.22	3.80	3.60	3.50	3.30	3.10	2.90	2.70
New Zealand								
Cash	3.50	4.25	4.75	5.00	5.00	5.00	5.00	5.00
90 day bill	4.13	4.55	5.00	5.10	5.10	5.10	5.10	4.80
2 year swap	5.38	5.30	5.20	5.10	4.90	4.70	4.40	4.10
10 Year Bond	4.72	4.70	4.60	4.50	4.30	4.10	3.90	3.80
10 Year spread to US	50	110	120	120	120	120	120	120

Exchange rate forecasts

Australia	Latest (21 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD/USD	0.6266	0.65	0.66	0.67	0.69	0.72	0.73	0.74
NZD/USD	0.5675	0.58	0.59	0.60	0.62	0.65	0.66	0.66
USD/JPY	150.35	143	141	139	137	134	132	130
EUR/USD	0.9771	0.99	0.99	1.02	1.04	1.07	1.09	1.10
GBP/USD	1.1201	1.14	1.14	1.14	1.17	1.20	1.22	1.24
USD/CNY	7.2469	7.00	6.80	6.60	6.40	6.30	6.20	6.15
AUD/NZD	1.1077	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	4.0	3.8	3.5	3.3	3.4	3.8	6.8	4.7	3.3	4.5
Wages (WPI)	0.7	0.7	0.7	1.1	1.2	1.1	1.0	–	–	–	–
annual chg	2.3	2.4	2.6	3.1	3.7	4.2	4.4	1.4	2.3	3.7	4.5
CPI Headline	1.3	2.1	1.8	1.1	2.5	0.9	0.8	–	–	–	–
annual chg	3.5	5.1	6.1	6.5	7.7	6.5	5.4	0.9	3.5	7.7	3.5
Trimmed mean	1.0	1.5	1.5	1.5	1.3	0.8	0.7	–	–	–	–
annual chg	2.6	3.7	4.9	5.6	5.8	5.1	4.4	1.2	2.6	5.8	3.2

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	2.2	0.5	1.3	0.9	–	–	–	–
Annual change	5.9	6.9	7.3	7.2	6.2	5.7	4.9	1.4	5.9	6.2	4.1

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