AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 14 November 2022

Editorial: Sentiment collapses but spending jolt is only just beginning.

RBA: Minutes November Board meeting.

Australia: Westpac-MI Leading Index, Q3 wage price index, labour force.

NZ: house prices and sales, GlobalDairyTrade auction.

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

UK: unemployment, CPI, retail sales.

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

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 11 NOVEMBER 2022.

WESTPAC INSTITUTIONAL BANK

EDITORIAL

Sentiment collapses but spending jolt is only just beginning

The Westpac Melbourne Institute Consumer Sentiment Index fell by 6.9%, from 83.7 in October to 78.0 in November.

Sentiment continues to plumb historic lows. This print of 78.0 is now below the low point of the GFC (79.0) and only slightly higher than when the COVID pandemic first hit in April 2020 (75.6). Prior to that, we need to go back to the deep recession in the early 1990s to find a weaker read.

The latest sentiment decline follows ABS figures showing inflation surged from 6.1% in June to 7.3% in September, with official forecasts for inflation to go even higher by the end of 2022 and to remain relatively high through 2023.

Consumers would also have been unnerved by forecasts in the Government's October Budget showing electricity prices are expected to increase by 56% over the next two years.

The Budget looks to have been poorly received in terms of its immediate support for household finances. After every Federal Budget we ask consumers what impact they expect it to have on their family finances over the next 12 months. The proportion responding that the October Budget has worsened their financial outlook was a historically high 35%. While that is well short of the 58% recorded following the newly elected Coalition government's 'horror' budget of 2014, it is the second highest since then and well above the 14-year average of 30%.

This is to some extent a high inflation story as well, with the government taking a restrained approach to fiscal policy so that it does not stoke inflation pressures.

Interest rate rises were a clear factor weighing on confidence in the month. The RBA raised the official cash rate by a further 0.25ppts at its November meeting, the announcement coming mid-way through the survey week. Sentiment amongst those surveyed before the decision showed a steady 83.1 but sentiment amongst those surveyed after showed a steep fall to 75.6.

Given that the move was widely anticipated, the negative response likely reflects the clear signal from the Governor that further increases can be expected.

Certainly, more consumers expect substantial follow-on rate rises. Amongst those surveyed after the RBA decision, nearly 60% expect rates to increase by 1ppt or more over the next year, up on 54% in the October survey.

Prior to this latest jolt to the Index in November it had been extraordinarily weak over the 6 months since the Reserve Bank began raising rates in May while inflation had become embedded in the economy. Over that May-October period the Index averaged a dismal 85. Yet consumer spending boomed in the June quarter, growing by 2.2% and we expect spending growth over those two quarters to be running at an annualised pace in excess of 6%.

This post Covid cycle has been unlike others we have seen with the accumulated impact of aggressive government fiscal policy colliding with health policy to shrink the supply of labour (border closures); boost household and business balance sheets; and create strong pent up demand.

The survey has captured labour shortage effect through the impact on jobs security. Figure 1 shows the unusual mismatch between the outlook for unemployment and overall confidence.

Figure: 1

Consumers: Sentiment & Unemployment ' expectations – differ

This confidence in job security is one of the key explanations behind the resilience of consumer spending.

The November survey shows that some of this resilience is fading, as we expected, as we move into the December quarter and 2023.

Consumers are becoming less confident about the jobs outlook. The Westpac-Melbourne Institute Unemployment Expectations Index increased by 5.4% from 111.3 to 117.3 (recall that a higher index means more consumers expect unemployment to rise in the year ahead). While the index remains well below the long run average of 129, it has jumped sharply, by 17.8%, over the last two months, consistent with labour markets nearing a turning point.

Further evidence of this was apparent in the NAB Business survey for October that was also released this week.

Partly reflecting strong consumer spending, Business Confidence has been much more resilient than Consumer Confidence. But as seen in Figure 2 business confidence is now starting to sag. This may be largely finally reflecting the weak consumer confidence whereas the actual performance of the businesses is holding up remarkably well.

Figure: 2

Confidence: consumers and businesses

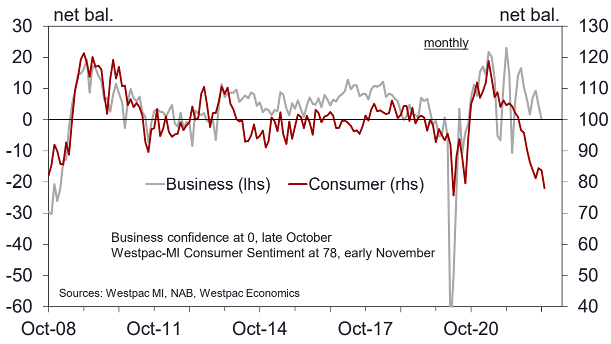
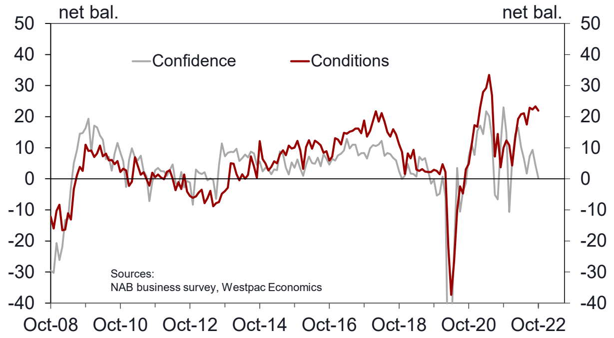


Figure: 3

Business conditions and confidence

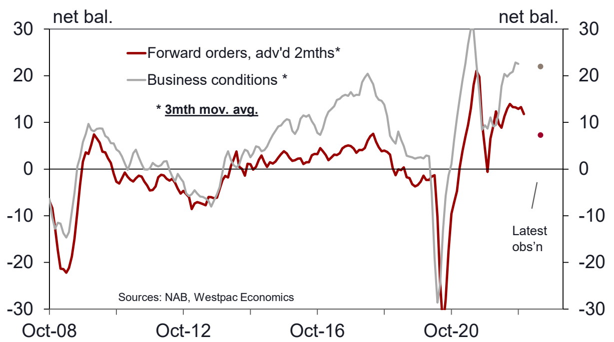


Note the contrast between Business Confidence and Business Conditions, (Figure 3). Conditions remain strong, although we do expect to see a significant easing in business conditions as the Consumer slows further. One lead indicator of Business Conditions, Forward Orders (Figure 4) is starting to ease.

As discussed we are forecasting a slowdown in growth in 2023 to 1%, highlighted by household spending growth of around 1.2% compared to the 6% pace we are observing in 2022.

Figure: 4

New orders: soften, down 7pts to +7, Oct



For now, activity has been holding up well but there are emerging signs around confidence in the labour market; business confidence and some weakness in certain components of Business Conditions (notably forward orders – Figure 4) that are pointing to that slowdown.

The collapse in Consumer Sentiment has not yet been reflected in a sharp slowdown in consumer spending. This cycle has been unusual in that respect given the extreme distortions resulting from necessary government policy during the pandemic.

But as inflation; and tightening monetary and fiscal policy weigh on households the signs of early cracks are appearing.

Bill Evans, Chief Economist

THE WEEK THAT WAS

This week delivered a very weak update for Australian consumer sentiment, highlighting the impact of declining real income and high interest rates. In stark contrast however, market confidence surged in the US today following a better-than-expected CPI print and a broadly neutral outcome in Tuesday's mid-term elections.

Beginning in Australia, the Westpac-MI Consumer Sentiment survey reported a sharp decline in confidence, the headline index down 6.9% in November. It's clear that inflation, having reached 7.3%yr at September 2022, and interest rates remain the key issues weighing on the minds of consumers. At 78.0, the headline index has sunk below GFC-era pessimism, suggesting that the cost-of-living pressures facing households will have a material impact on real spending capacity into year-end.

Indeed, on Christmas spending intentions, almost 40% of consumers expect to reduce spending on gifts this year – the highest proportion in the history of the series back to 2009. Consumers expect this pressure to be long-lasting too, with the 'family finances, next 12 months' sub-index posting a steep 11.2% fall in the month to its lowest level since 2014. Pessimism is also beginning to spread into consumer's views on the labour market which, albeit still constructive versus the long-run average, have deteriorated markedly, unemployment expectations rising 17.8% in two months.

The labour market has been one of the few areas of support to consumers since the RBA begun hiking rates in May, but the recent shift in confidence is consistent with signs the labour market is nearing a turning point. Chief Economist Bill Evans provided a full discussion of these results and other salient themes from the survey in a video update mid-week. The outlook for inflation is also a key area of discussion in Westpac Economics' latest Market Outlook in Conversation podcast.

NAB's latest business survey meanwhile suggests that business conditions for Australian firms are beginning to crest as the economy slows under the weight of high inflation and rising interest rates. Down 1pt to +22, conditions are still supportive, but the strength of output growth into year-end remains an open question. Business confidence has weakened significantly, down 5pts in October to a below-average reading of 0, reflecting a deteriorating global backdrop and some signs of slowing in parts of the domestic economy.

Following these releases, RBA Deputy Governor Bullock again emphasised the need to quell inflation pressures and risks, but also growing uncertainty around the activity outlook and a desire to maintain the strength of Australia's economy and labour market for the medium-term. Both sets of risks will be monitored closely by the RBA into 2023 as they continue to raise the cash rate further into contractionary territory – Westpac believes to a peak of 3.85% in May 2023.

Over in the US, expectations of a red wave across Congress were not met, with the Senate likely to remain divided and the new Republican majority in the House of Representatives slim. If history is a guide, Congress will therefore have limited reform capacity this term; the risks around the next debt ceiling debate, due early-2023, have also increased.

The key event for the US this week however was the release of the October CPI. After a string of upside surprises, October finally delivered a weaker-than-expected result with constructive underlying detail. Despite a rebound in energy prices and further strength in food in the month, headline prices rose 'just' 0.4% against a 0.6% expectation. Ex food and energy, prices rose 0.3%, half the pace of September.

Notably, the core outcome was despite another robust print for shelter which gained 0.8%, goods ex energy and food offsetting as it declined 0.4% following a flat outcome in September. Medical care service costs also declined in October, -0.6%, further reducing the significance of shelter's gain.

Looking ahead, the mix of inflation pressures in both September and October point to a marked deceleration in end demand and consequently reduced pricing power amongst firms. As policy's full effect is yet to be felt and the FOMC are intent on continuing to tighten into 2023, there is reason to be confident that inflation will trend lower from here. Eventually, this price trend and underlying weakness in economic activity will beget a need to ease monetary policy back to near-neutral levels. Having peaked at 4.625% in February, we anticipate 200bps of easing from early-2024 through mid-2025 to 2.625%.

Turning finally to China. This week's data again emphasised that inflation is not a concern, with annual inflation decelerating to 2.1%yr in October, a fraction of the US' 7.7%yr and Europe's 10.7%yr. Price controls and the slack created by COVID-zero are factors here, but so too is the nation's productivity and efficiency – underlying strengths which will allow authorities to keep policy accommodative as the domestic economy recovers fully from COVID-zero. Of concern though is that export demand continues to weaken, the October trade balance coming in well below expectations, albeit in line with the previous month, as exports fell 0.3%yr.

With developed-world demand to be held back by policy for an extended period, if it is to experience continued growth in trade income, increasingly China will have to depend on the geographic expansion of its export markets through Asia as well as increasing the output of disruptive industries such as electric vehicles. China's dual circulation strategy is constructive here, reducing the need for imports and also aiding in the development of new products which can also be exported. For aggregate demand, it is not only the income received from trade that matters, but also the investment it incentivises. We suspect this wave of capacity expansion will be large in scale and long in duration.

Week ahead & data wrap

Data over the past week has highlighted that demand remains firm, while inflation pressures are showing few signs of abating. That reinforces our expectations for a jumbo sized 75bp hike from the Reserve Bank of New Zealand at its upcoming 23 November policy meeting. However, there are big questions about just how far the RBNZ will have to go to cool demand and inflation.

Looking first at demand, the latest retail spending report delivered a sizeable upside surprise, with spending levels rising by 1.0% in October. That followed similarly sized gains over the past few months.

In part, the increase in spending levels has been due to the continued march higher in consumer prices, including the large increases in the prices of necessities like groceries. But despite those strong price rises, consumers have not been reining in their spending on discretionary items. In fact, October's lift in spending was predominantly due to a 2.8% rise in purchases of durable items, like household furnishings.

The resilience in durables spending is notable as purchases of such items tend to be quite sensitive to changes in prices and borrowing costs. But despite the sharp rise in interest rates over the past year, spending is yet to show any real signs of slowing down.

And it's not just demand that has been holding firm. Inflation pressures are continuing to run red-hot in every corner of the economy. Consumer prices rose by 7.2% over the past year, and food price inflation hit a 14 year high of 10% in October. Similarly, business operating costs have increased by an average of 10%.

Crucially for the Reserve Bank, expectations for inflation over the coming years have also been pushing higher, as seen in the RBNZ's own survey of businesspeople and professionals. Notably, the closely watched gauge of expected inflation in two years' time has risen sharply, jumping from 3.1% in the September quarter to 3.6% now. That's the highest this measure has been since 1991 and well above the RBNZ's medium-term target of 2%.

The elevated level of inflation expectations is a big worry for the RBNZ. Expectations, especially over longer horizons, are a key influence on how businesses adjust prices and wages. Their recent rise signals that the current inflation cycle could be even more protracted.

Compounding the challenges for the RBNZ is that once inflation expectations do rise, it can be difficult to pull them down again. Doing so often requires a protracted fall in inflation, and that can mean a period of weak economic activity.

In response to those surging inflation pressures, the RBNZ has been hiking the Official Cash Rate at a rapid pace, with the cash rate rising by 325bp since October last year. However, a year after the tightening cycle began, inflation is showing few signs of cooling.

At the same time, the drivers of inflation have changed. Initially, the upswing in prices was mainly due to Covid-related supply disruptions and a sharp rise in import costs. However, inflation pressures are now increasingly related to domestic factors, particularly the pressures in the labour market. With businesses across the country struggling to attract and retain workers in the face of firm demand, wage costs have been surging, with average hourly earnings in the private sector up a whopping 8.6% over the past year.

To head off those red-hot domestic inflation pressures, we're forecasting that the RBNZ will deliver a jumbo-size 75 bp hike at its 23 November policy meeting, and we expect that will be followed by continued rate increases in early 2023.

One of the major complications in the RBNZ's fight against inflation is the prevalence of mortgage rate fixing. Around 90% of New Zealand mortgages are on fixed rates, and many of those are still locked in at the very low interest rates that were on offer in the early stages of the pandemic. That's meant large numbers of households are yet to feel the impact of rate hikes to date, which has allowed them to maintain their spending patterns.

That picture will change dramatically over the coming months, with more than half of all mortgages coming up for repricing over the next 12 months. In many cases, borrowers will face refixing at rates that are 3 percentage points higher than those they are currently on. And as that occurs, we're certain to see a slowing in domestic demand.

But while we wait for the full impact of interest rate hikes to date to ripple through the economy, we're still left with a picture of sizzling inflation pressures. And that leaves the RBNZ with a tough balancing act. Taking a more gradual approach and waiting to see the full impact of rate hikes could actually mean more pain in the longer term if inflation pressures do not ease off. In contrast, more aggressive rate hikes now could risk a sharper than necessary downturn in economic activity and employment.

Ultimately, we expect the RBNZ will maintain its 'stitch in time' approach. That means the central bank is likely to continue to front load its policy tightening. And on balance we think that is the right approach, especially given the clear upside risks for inflation expectations. Indeed, if the RBNZ doesn't get in front of those pressures soon, the New Zealand economy could realistically find itself mired in a wage-price spiral. That would impose serious harm on households and the economy more generally, with ongoing pressure on living costs and weakness in economic activity.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 8	Q4 RBNZ inflation expectations (2yrs)	3.1%	3.6%	–
Wed 9	Oct card spending	1.3%	1.0%	0.2%
Fri 11	Oct manufacturing PMI	51.7	49.3	–
	Oct food price index	0.4%	0.8%	–0.4%

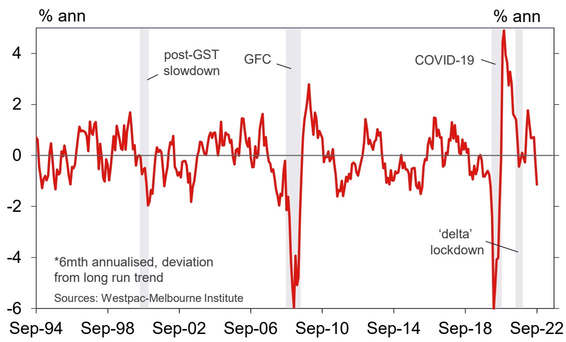
Aus Oct Westpac–MI Leading Index

Nov 16, Last: –1.15%

The six-month annualised growth rate fell to –1.15% in Sep, down from –0.33% in Aug, pointing to a material loss in momentum to a below-trend growth pace heading into 2023. The Sep read was the weakest since the pandemic first hit in 2020, and, prior to that, since early 2016.

October is likely to give a similar picture, with a further deterioration in the six month growth pace possible. It will include some weaker component updates for the Westpac-MI Consumer Expectations Index (down a further -8.6%); and the Westpac-MI Unemployment Expectations Index (deteriorating by a further 5.4%), with commodity prices continuing to slide in AUD terms (down a further -5.7%). Other components have been more mixed, the ASX posting a solid 6% rally through Oct, dwelling approvals falling back after a big rise in the previous month; and US industrial production and hours worked both flat rather than weak.

Westpac-MI Leading Index



Aus Q3 Wage Price Index - excluding bonuses %qtr

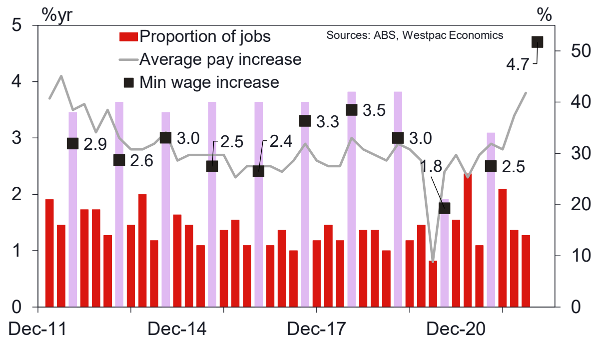
Nov 16, Last: 0.7%, WBC f/c: 1.1%
Mkt f/c: 0.9%, Range: 0.8% to 1.4%

The WPI lifted 0.7% in Q2, softer than Westpac's 0.9% forecast and the market's 0.8%. The last five prints from the WPI index have been 0.7% for Q2, Q1, and Q4 2021, 0.6% for Q3 2021 and 0.4% in Q2 2021. So, there has been a steady gradual rise in wage inflation but it is far from what you would describe as a wages breakout.

The annual pace lifted to 2.6%yr from 2.4%yr, well up on the H2 2020 low 1.4%yr. It is now the fastest pace since March 2014. Back then wages also underperformed broader economic indicators. If there was ever a time for wages to regain some of their relationship to broader economic indicators, now must be the time.

The September quarter has historically been the quarter where the majority of workers received their pay rise as it is the start of the new financial year plus the quarter when the increase in awards/minimum wage is paid. This year the 4.7% increase in the award/minimum wage was much larger than previous year increases hence our 1.1% forecast, the largest quarterly rise since September 2010.

Private sector wage increase in quarter



Aus October Labour Force - employment '000

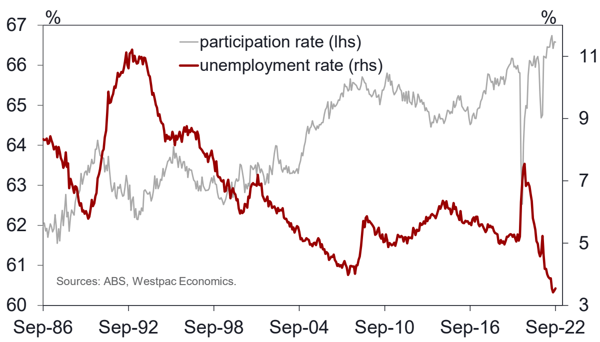
Nov 17, Last: 0.9k, WBC f/c: 15k
Mkt f/c: 15k, Range: –3k to 45k

The 900 increase in employment in September was the third consecutive disappointing print from the Labour Force Survey. With a three month average increase in employment of just 200, compared to working age population growth average of 17.4k per month over the same period, it does appear that the Australian labour market stalled heading into the last quarter of the year.

Consumer unemployment expectations remain at historically sound levels but nonetheless, they are 17.8% higher in the last two months suggesting households are not as confident about jobs as they were, a sign employment momentum has eased. Business surveys remain upbeat and vacancies at historical highs so the question is: are we at full employment resulting in a lack of suitable candidates?

We can't be sure if that is the case but we do know that the lack of suitable labour is a critical constraint on activity.

Participation near record high



Aus October Labour Force - unemployment %

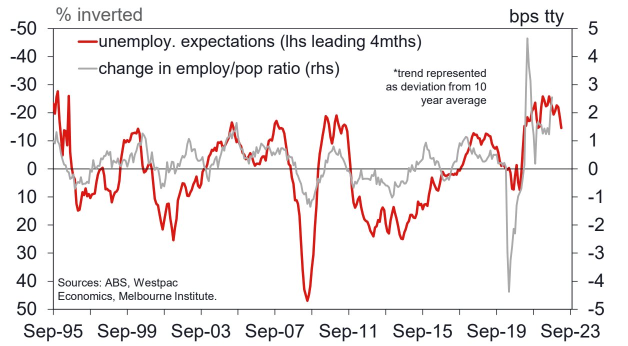
Nov 17, Last: 3.5%, WBC f/c: 3.6%
Mkt f/c: 3.5%, Range: 3.5% to 3.6%

The 900 in employment in September was an increase of just 0.01%. Contrast that with a gain in the working age population of 0.08% and a 9.8k, or 0.07%, lift in the labour force. This left the participation rate flat at 66.6% and the unemployment rate flat at 3.5%. However, at two decimal points it lifted from 3.48% to 3.54% so very close to rounding up to 3.6% while the employment to population ratio eased back to 64.22% from 64.27%.

Given the rounding only just kept the unemployment rate at 3.5%, we would argue that September was a softer than expected update on the labour market.

Holding participation flat in October, our forecast 15k gain in employment is not enough to prevent the unemployment rate rounding up to 3.6%. We see there is a risk of a softer gain in employment in October while participation can remain robust, hence we see upside risk to our unemployment rate.

Unemployment expectations vs. employ/pop



NZ Oct REINZ house sales and prices

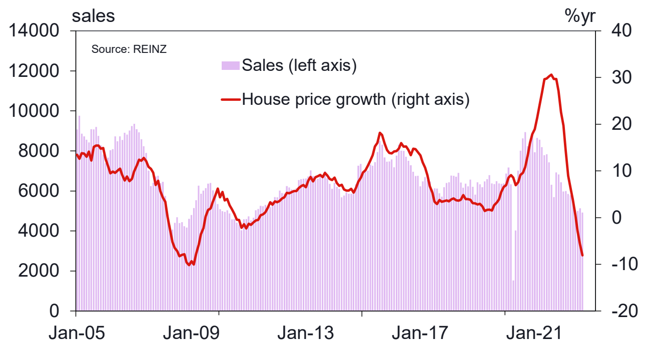
Nov 15, Sales last: –4.1% m/m, –10.9% y/y
Nov 15, Prices last: –1.6% m/m, –8.1% y/y

The correction in New Zealand's housing market continues at pace, with prices down by 11% since last November. That has only taken them back to where they were in April last year, highlighting the ferocity of the price rise over 2020 and 2021.

Higher interest rates have been the key driver of the correction, and they point to further price declines to come. Fixed-term mortgage rates eased slightly in August and September, but rebounded to reach new highs in October.

There are signs of house sales flattening out in recent months, albeit at very low levels. The supply of unsold homes on the market also looks to be stabilising, though this is largely due to a drop in new listings, as falling prices have kept potential sellers away from the market.

REINZ house prices and sales



NZ GlobalDairyTrade auction, whole milk powder prices

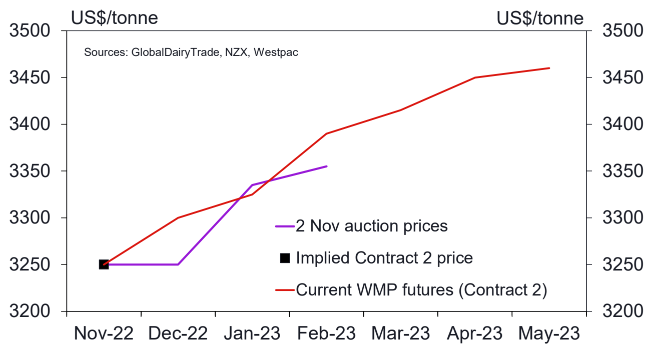
Nov 16, Last: -3.4%, Westpac: Flat

We expect whole milk powder prices to be unchanged at the upcoming auction. This follows a 3.4% price slide at the previous auction.

Our pick is roughly in line with futures market pricing (as at 10am Friday 11 November).

Fundamentally, very weak global dairy supply is underpinning the medium-term global dairy price outlook. However, weak demand on the back of a soft Chinese economy is providing offset to tight supply.

Whole milk powder prices



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 14					
NZ	Oct BusinessNZ PSI	55.8	–	–	Demand for services has firmed in recent months.
Eur	Sep industrial production	1.5%	–	–	Support from easing supply issues but outlook is gloomy.
UK	Nov Rightmove house prices	0.9%	–	–	More declines to come as policy tightening continues.
US	Fedspeak	–	–	–	Waller, Brainard.
Tue 15					
Aus	RBA minutes	–	–	–	More colour on the Nov decision.
	Oct overseas arrivals, prelim '000s	1072.9	–	–	Net temporary visa arrivals starting to pick up.
NZ	Oct REINZ house sales %yr	-10.9%	–	–	Signs of sales flattening out, albeit at low levels.
	Oct REINZ house prices %yr	-8.1%	–	–	Rising interest rates point to further price declines to come.
	Sep net migration	47	–	–	Still low, but we're not seeing an outflow of people anymore.
Jpn	Q3 GDP	0.9%	0.3%	–	Weak trade to offset support from consumption.
	Sep industrial production	-1.6%	–	–	Final estimate.
Chn	Oct retail sales ytd %yr	0.7%	0.8%	–	Consumption is key for growth moving forward...
	Oct fixed asset investment ytd %yr	5.9%	5.9%	–	... but domestic virus risks, COVID-zero and a softening...
	Oct industrial production ytd %yr	3.9%	4.1%	–	... global economy are still clear headwinds for activity.
Eur	Nov ZEW survey of expectations	–59.7	–	–	A very challenging outlook ahead.
	Sep trade balance €bn	–47.3	–	–	Energy-related import values still elevated.
	Q3 GDP, second estimate	0.2%	0.2%	–	Growth outcome surprisingly resilient given headwinds.
UK	Sep ILO unemployment rate	3.5%	3.5%	–	Slack to become more visible into year-end.
US	Oct PPI	0.4%	0.5%	–	Producer inflation cooling as supply issues ease.
	Nov Fed Empire state index	-9.1	-5.0	–	Regional surveys showing weakness.
	Fedspeak	–	–	–	Williams, Harker, Cook, Barr.
Wed 16					
Aus	Oct Westpac-MI Leading Index	-1.15%	–	–	Pointing to a material loss in momentum heading into 2023.
	Q3 wage price index	0.7%	0.9%	1.1%	The outsize increase in minimum wage seen this quarter.
NZ	GlobalDairyTrade auction (WMP)	-3.4%	–	0.0%	Dairy prices to halt their recent slide.
Jpn	Sep machinery orders	-5.8%	0.6%	–	Volatile but points to downside capex spending risk.
UK	Oct CPI %yr	10.1%	–	–	Likely to crest by year's end.
US	Oct retail sales	0.0%	0.9%	–	Inflation and rates to weigh more heavily on consumption.
	Oct import price index	-1.2%	-0.5%	–	Import prices are declining from elevated levels.
	Oct industrial production	0.4%	0.2%	–	Weakness in domestic and global demand a key risk.
	Sep business inventories	0.8%	0.5%	–	Pace of inventory accrual beginning to slow.
	Nov NAHB housing market index	38	36	–	Housing market under significant and lasting pressure.
	Fedspeak	–	–	–	Williams, Barr, Waller.
Thu 17					
Aus	Oct employment, '000 chg	0.9k	15k	15k	Employment growth average just 200 per month for the last...
	Oct unemployment rate	3.5%	3.5%	3.6%	... 3 months & firm participation points to a rise in unemploy.
Eur	Oct CPI %yr	9.9%	10.7%	–	Final estimate to confirm expanding breadth of inflation.
US	Oct housing starts	-8.1%	-1.3%	–	Demand is being hit hard by rising interest rates...
	Oct building permits	1.4%	-3.0%	–	... while input availability limits construction.
	Nov Phily Fed index	-8.7	-6.0	–	Regional surveys showing weakness.
	Initial jobless claims	225k	–	–	Likely to remain at low levels, at least for time being.
	Nov Kansas City Fed index	-7	–	–	Regional surveys showing weakness.
	Fedspeak	–	–	–	Bullard, Bowman, Mester, Jefferson, Kashkari.
Fri 18					
Jpn	Oct CPI %yr	3.0%	3.7%	–	Price pressures building; BoJ focussed on wages.
UK	Nov GfK consumer sentiment	-47	–	–	Consumer confidence is historically weak...
	Oct retail sales	-1.4%	–	–	... leading many households to pull-back spending.
US	Oct existing home sales	-1.5%	-7.3%	–	Declines set to continue given further tightening from FOMC.
	Oct leading index	-0.4%	-0.4%	–	Growth outlook clearly deteriorating.

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.

Forecasts

Interest rate forecasts

Australia	Latest (11 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	2.85	3.10	3.60	3.85	3.85	3.85	3.60	3.35
90 Day BBSW	3.03	3.55	3.97	4.05	4.05	3.97	3.72	3.47
3 Year Swap	3.81	3.90	4.00	3.85	3.70	3.60	3.55	3.50
3 Year Bond	3.19	3.55	3.70	3.60	3.50	3.40	3.35	3.30
10 Year Bond	3.66	3.80	3.80	3.60	3.40	3.20	3.00	2.90
10 Year Spread to US (bps)	-15	-20	-20	-20	-20	-20	-10	0
US								
Fed Funds	3.875	4.375	4.625	4.625	4.625	4.625	4.375	3.875
US 10 Year Bond	3.81	4.00	4.00	3.80	3.60	3.40	3.10	2.90
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	4.95	5.00	4.90	4.80	4.60	4.40	4.15	3.90
10 Year Bond	4.25	4.50	4.50	4.30	4.20	4.00	3.80	3.70
10 Year spread to US	44	50	50	50	60	60	70	80

Exchange rate forecasts

Australia	Latest (11 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD/USD	0.6616	0.65	0.66	0.67	0.69	0.72	0.73	0.74
NZD/USD	0.6014	0.58	0.59	0.60	0.62	0.65	0.66	0.66
USD/JPY	141.92	147	145	143	140	136	133	130
EUR/USD	1.0187	1.00	1.01	1.02	1.04	1.07	1.09	1.10
GBP/USD	1.1677	1.13	1.14	1.16	1.18	1.20	1.22	1.24
USD/CNY	7.1663	7.20	7.00	6.80	6.60	6.50	6.40	6.30
AUD/NZD	1.0999	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	1.8	1.9	1.2	0.9	–	–	–	–
annual chg*	3.5	5.1	6.1	7.3	7.9	6.9	6.0	0.9	3.5	7.9	4.1
Trimmed mean*	1.1	1.5	1.6	1.8	1.8	1.2	1.0	–	–	–	–
annual chg*	2.6	3.8	4.9	6.1	6.8	6.5	5.9	1.2	2.6	6.8	3.8

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	3.3	3.5	3.6	4.9	3.2	3.3	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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