

# AUSTRALIA & NEW ZEALAND WEEKLY.

## Week beginning 28 November 2022

**Editorial:** Housing hostage to the policy cycle.

**RBA:** Governor Lowe speaking, Head of Domestic Markets speaking.

**Aus:** retail, housing (prices, dwelling approvals, finance), credit, monthly CPI, construction work, private business capex.

**NZ:** employment indicators, building consents, terms of trade.

**Europe:** CPI, unemployment.

**China:** various PMIs.

**US:** non-farm payrolls, unemployment, PCE deflator, ISM manufacturing, house prices, Chair Powell speaking.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT  
CURRENT AS AT 25 NOVEMBER 2022.

**WESTPAC INSTITUTIONAL BANK**



## Housing hostage to the policy cycle

Australia's housing markets are in the grips of a material correction that still has a long way to run. While there are some tentative signs that the pace of price and turnover declines may be moderating, we are unlikely to see a stabilisation any time soon. Markets are basically hostage to the policy tightening cycle and the associated economic cycle. This means the course of the correction from here will be determined by two main factors: 1) how the inflation outlook evolves; and 2) how heavily interest rate rises impact on the wider economy, labour markets in particular.

Australia's housing market correction is now into its seventh month. Next week's November CoreLogic figures are set to show another monthly decline with major capital city prices down over 7.5% from their April peak, and turnover 30% below the post-delta reopening surge a year ago.

There have been some tentative signs of stabilisation in recent months. The monthly pace of price falls has moderated, turnover has steadied, and auction clearance rates have lifted.

But these shifts should all be read with caution. Prices are still firmly locked into a weakening path, and low volumes, still-elevated pre-auction withdrawals, and end-of-year seasonality all make clearance rates less reliable than usual.

More importantly, the RBA's interest rate tightening cycle – now the dominant factor for housing markets – has further to run. We expect the Bank to raise rates by another 1ppt between now and mid-2023, a view broadly shared by the market.

What happens beyond mid-2023 is also important.

History shows housing market corrections usually come in two distinct phases: the first being when rate rises are the main driver, and a second when rates are on hold but still high and the economy is weakening. Stabilisation and recovery usually only emerge once interest rates start to move lower and the economic backdrop is stabilising.

The chart right shows how these phases unfolded during the five material national price corrections we have good data on – during the early-80s and early-90s recessions, the GFC, and in 2010-11 and 2017-19. Prices are shown in inflation-adjusted terms based to 100 at the start of the correction and with the final rate rise and first rate decline marked (keying off the standard variable mortgage rate rather than the cash rate). Two strips at the bottom show the pace of interest rate and unemployment rate changes – capturing the intensity of changes in monetary policy and the wider economy.

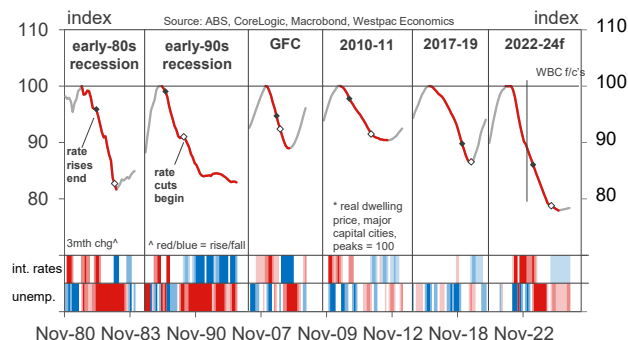
Every correction has its own characteristics, but the two phases are reasonably clear. They are most distinct during the recession and GFC corrections, when rising unemployment was a big factor. A lengthy period of high interest rates was also a clear compounding issue during the two recessions, reflecting the high inflation backdrops at the time that reduced the scope for (and delayed the timing of) policy easing.

Contrast this with the 2010-11 and 2017-19 corrections, which were against relatively benign inflation and economic backdrops and had more muted 'second leg' price declines (bearing in mind that the 2017-19 correction was more to do with investor-related policy issues than the interest rate and economic cycle).

Inflation constraints on the RBA, and how its actions impact the economy, will factor again in 2023-24.

As noted, we expect the RBA to raise rates by another 1ppt with a pause coming from mid-2023. How long rates remain high will depend on how quickly inflation dissipates. Global inflation is already showing signs of passing a peak, with freight rates retracing most of

### Australian housing corrections: prices



their supply-shock spike, and commodity prices unwinding most of the Russia-Ukraine war-related gains. But for Australia, the focus will increasingly turn to domestic pressures, particularly around energy costs, rents and wages. Wages will be of special concern given the extent of labour market tightness, their most recent surge, prospective changes to industrial relations policy, and what are often long lags between shifts in labour market conditions and wage setting.

On balance, we expect the RBA to hold rates at a high level through to the end of 2023 with policy easing coming through in 2024, but only if a sustained return to 2-3% inflation appears secure.

The extent of further price weakness during this second phase of the correction will also depend on the extent to which policy tightening impacts the economy. Household financial stress will ratchet higher with rates and then be impacted by a downturn in the labour market. Westpac expects the unemployment rate to start tracking higher from about March next year, with a material 1ppt rise coming over the six months to September. While the bulk of this is expected to be in the form of slower hiring, there may be some more active labour-shedding through this period.

For housing, this essentially locks in a further period of correction through 2023 before a recovery in 2024. Notably, the second phase of a correction does tend to see some slowing in the pace of price declines – what we are seeing now may even be the beginning of a transition to this slower pace. But to really draw a line under the current correction, we will more than just an end to hikes – at the very least we will need to see a clear signal from central banks that the next move in rates will be down, which in turn depends on their confidence that inflation will make a sustained return to target. And its likely that we will also need to have seen off the worst of the economic downturn, particularly as it relates to jobs.

On balance we think both criteria should be met by the end of 2023 but there are clear risks around that timing. The last three corrections have been aided by a benign inflation backdrop and mild economic contractions. However, the current correction is facing a more difficult combination.

Looking further out, this more difficult combination of high inflation and more pronounced economic cycles could become more common. The RBA Governor's latest speech noted four factors that could see 'supply-side' shocks like the one we are experiencing now become more frequent going forward. They are: deglobalisation; demographic ageing; climate change; and the global energy transition to low-emission sources. For housing, that could mean more frequent and material correction phases and increased volatility more generally.

**Matthew Hassan, Senior Economist**

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Short on domestic data releases, the focus this week was a [speech from RBA Governor Lowe](#) which explored a number of key issues facing monetary policy. He discussed four current trends within the global economy that are contributing to growing inflexibility on the supply-side, including: deglobalisation and barriers to trade/investment; the projected decline in working-age populations in advanced economies; climate change, and the energy transition towards low carbon-intense emission technologies. Arguing that these trends can lead to an increase in the prevalence of supply shocks, he advocated for productivity-enhancing policies and flexibility for inflation targeting (2-3%yr, over the medium-term) to ensure the strength of the nominal anchor amid an increasingly uncertain environment.

Regarding the current stance of policy, Governor Lowe reiterated that the RBA is not on a pre-set path, leaving the door open to pause or return to 50bp moves. As discussed by [Chief Economist Bill Evans](#) earlier this week, given the strength of the labour market, as evinced by the fall in the unemployment rate to a 50-year low (3.4% in October) and the strength of private sector wages growth (3.4%yr in September), we expect the cash rate to be increased by 25bps at the December, February, March and May meetings to a peak of 3.85% in May 2023.

Central banks also remained front of mind outside Australia. Fearing that inflationary forces are becoming embedded in New Zealand's economy, [the RBNZ raised their cash rate](#) by 75bps at the November meeting and signalled that further increases to 5.50% by early-2023 would likely prove necessary. The RBNZ also made clear the scale of the shock to activity they expect will be required to quell inflation and wage pressures, forecasting a downturn similar in scale to New Zealand's GFC experience.

Arguably time is too short to dissuade the RBNZ from hiking to 5.50% (Westpac NZ's revised expectation is in line with the RBNZ), but our New Zealand team is becoming increasingly concerned over the consequences of the tightening cycle, with rate cuts now forecast to begin six months sooner in early-2024. A fact that needs to be kept in mind is that New Zealand's fixed mortgage rate structure is delaying the impact of policy. As discussed in our [New Zealand team's latest quarterly](#) (released a fortnight ago), this will change materially over the coming year.

In the US meanwhile, the market keenly awaited the mid-week release of the [FOMC's November meeting minutes](#), hoping for a sign that the FOMC consensus was shifting to a slower pace of hikes from December. They got such a signal: at the November meeting, "a substantial majority of participants judged that a slowing in the pace of increase would likely soon be appropriate". This fits with our expectation that the pace of rate hikes will slow to 50bps in December, then 25bps at the January/February meeting. For the resulting 4.625% fed funds rate to prove the peak for this cycle however, we need to see a further deceleration in inflation and increase in labour market slack. Financial conditions also have to remain tight – to our mind, the best simple guide for this metric is the 10-year Treasury yield holding near 4.0%, currently 3.7%.

Most important in the November meeting minutes was actually the degree of uncertainty apparent to the FOMC over inflation pressures and risks; growth in employment and wages; the scale and timing of policy lags; and the eventual impact of all these factors on financial conditions, activity and sentiment. The FOMC's holistic assessment of these issues could see them take an increasingly cautious view on the outlook for activity now that policy is contractionary, our baseline view; but their experience with inflation over the past year could also rule the day, resulting in a more aggressive approach, at the cost of growth in 2023 and beyond.

The next few months of data updates will therefore prove critical for both the short and medium-term health of the US economy. With the S&P Global manufacturing and service PMIs having disappointed materially in November, with outright contractionary readings reported this week, it will be interesting to see the ISM outcomes over the next fortnight. The ISMs have a narrow focus on large firms with strong market positions; so, if they are also feeling pressure, a material deterioration in the US economy has likely begun.

Moving over to Europe, the [ECB's October Meeting Minutes](#) emphasised the growing concern over the underlying breadth of inflation, but it is clear the Governing Council also remains cognisant of the risks to growth. Although the region has exhibited an unexpected resilience in activity through 2022, the ECB is set to factor in a materially weaker result for growth in the December quarter, supporting an easing in the pace of rate hikes from 75bps to 50bps. The limited run of data releases over the week also echoed this risk. With consumer confidence printing a very weak -23.9 in October and the November S&P Global manufacturing and services PMIs holding in contractionary territory, rising prices and interest rates are clearly weighing heavily on the economy moving into year-end. Hence, we continue to favour a step-down to 50bps at the December meeting, though risks are skewed to the upside should inflation print materially above expectations.

Finally to China. Uncertainty over the road out of COVID-zero persists, with local authorities much more cautious over the spread of the virus than central authorities' recent 'policy adjustments' imply. New COVID-19 cases are currently around the highs of the pandemic, although reports of severe health outcomes have been limited and the total count of infections does not seem to be multiplying rapidly. As things stand, we continue to believe central authorities will stick to their plan for a progressive re-opening of the domestic economy, although confidence will take until mid-2023 to build. The expected recovery in consumption will therefore remain the chief risk for the growth outlook for the foreseeable future.

## Week ahead & data wrap

The Reserve Bank of New Zealand delivered a jumbo sized 75 basis point rise in the Official Cash Rate at its November meeting. The central bank also signalled that the cash rate is likely to rise much higher in the months ahead. We have revised up our forecast for the Official Cash Rate and now expect a peak of 5.50% in early 2023. For New Zealand households, that signals big increases in borrowing costs. And as those higher interest rates ripple through the economy, we're likely to see growth slowing and unemployment rising.

We have revised our forecast for the Official Cash Rate higher. We now expect a 75 basis point rise in February, and a further 50 basis point rise in April (previously we had expected increases of 50bp and 25bp respectively at those meetings). Those increases would take the OCR to a peak of 5.50% – its highest level since 2008.

Behind that change in our OCR forecast has been ongoing persistence in inflation, and a related hawkish lurch from the RBNZ. The central bank delivered a 75 basis point rise in the Official Cash Rate at its November policy meeting. That was the largest ever increase in a single meeting, and it follows a series of large increases in the cash rate over the past year. In fact, the cash rate has now risen by a total of 400 basis points since the tightening cycle began in October last year.

And the RBNZ isn't slowing down. It has signalling that further large increases in the cash rate are coming in short order. From here, the central bank is projecting the cash rate to peak at 5.50%. That's a significant upgrade from the peak of 4.1% they had expected back in August.

Underlying that much more hawkish assessment from the RBNZ has been the strength and persistence of inflation pressures. Prices are charging higher in nearly every corner of the economy, with the Consumer Price Index rising by 7.2% in the year to September. That was a much larger increase than the Reserve Bank had expected. Importantly, the drivers of inflation have changed over time. Price rises were initially related to supply disruptions and increases in import costs in the wake of the pandemic. However, it's domestic factors that are now driving much of the strength in inflation that we're seeing. That includes the strength of domestic demand. It also includes the tightly stretched labour market, with wage costs rising rapidly as businesses have struggled to attract and retain workers.

Crucially for the RBNZ, households and businesses increasingly expect that inflation will remain elevated despite the rise in interest rates over the coming year. And that is a big worry for the central bank. Expectations, especially over longer horizons, are a key influence on how businesses adjust prices and wages, and their recent rise means that the current inflation cycle could be even more protracted. Indeed, we are already seeing signs of a wage-price spiral emerging. Average hourly earnings rose by 7.4% over the past year with the very low level of unemployment giving workers greater bargaining power. And the strength of activity means that businesses have been willing to pay (and pass on) those higher labour costs.

Interest rate increases to date have started to weigh on domestic activity. That's been seen most clearly in the housing market, with sales dropping to low levels and prices down an average of 12% from their peak in November 2021. Nevertheless, overall economic activity remains elevated. In fact, the latest retail spending figures have shown that households are not winding back their spending despite mounting financial pressures. Instead, nominal spending levels were up another 2.5% in the three months to September. In addition, core inflation measures (which track the underlying trend in prices) have continued to push higher despite rate increases over the past year.

Against this backdrop, the RBNZ is right to be concerned about the persistence of inflation. Both we and the RBNZ expect that inflation will remain well above the target range over the year ahead.

To get the inflation genie back in the bottle, it's clear that demand needs to soften. In fact, the RBNZ is forecasting that a recession will be needed, and is projecting falls in economic activity from mid-2023 to early-2024, along with a related rise in unemployment.

But we think a note of caution is needed here. Although inflation has been resilient to rate increases thus far, there should be no mistake – monetary policy is still effective. However, it takes time for interest rate changes to affect demand and inflation. To coin a phrase, it won't happen overnight, but it will happen.

A key reason for that is because the vast majority of New Zealand mortgages are on fixed interest rates, which has shielded them from interest rate increases to date. Many borrowers are still on the very low rates that were on offer during the early stages of the pandemic.

That picture will change dramatically over the coming year. Over the next 12 months, more than half of mortgages will come up for repricing, and many borrowers will face interest rate rises of 2% or more. That will certainly pull down spending and employment. And it could also see the current strength in domestic inflation dissipating much more quickly than the RBNZ expects.

Consistent with that, we now expect OCR cuts to begin in early 2024, six months earlier than we did previously. Those rate cuts are both earlier and faster than what the RBNZ is projecting.

**Satish Ranchhod**, Senior Economist

### Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
<b>Tue 22</b>	Oct trade balance \$m	-1696	-2129	-
<b>Wed 23</b>	RBNZ policy decision	3.50%	4.25%	4.25%
<b>Fri 25</b>	Nov ANZ consumer confidence	85.4	80.7	-
	Q3 real retail sales	-2.2%	0.4%	0.5%

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## Aus Oct retail trade

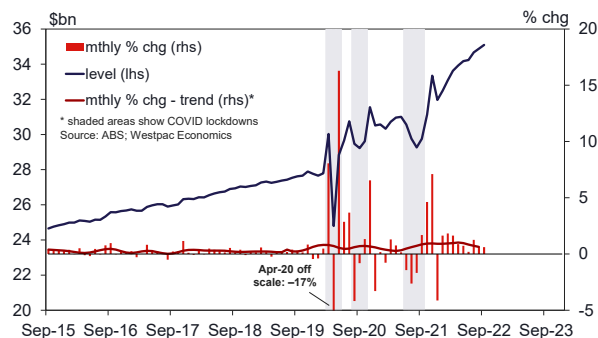
**Nov 28, Last: 0.6%, WBC f/c: 0.2%**  
**Mkt f/c: 0.5%, Range: 0.0% to 0.9%**

Retail sales posted 0.6% gains in Sep and Aug, most of which looks to have been on higher prices with underlying volumes about flat. Rising interest rates may be having some small dampening effect as well with the Sep month showing notable declines in the value of sales for household goods and department stores despite likely higher prices.

The Oct update should start to show a clearer impact from interest rate rises although available evidence suggests this continues to be mild. Our [Westpac Card Tracker Index](#) held up reasonably well through the month, albeit with retail components showing some signs of softening. Retail responses to private sector business surveys were also a touch softer but still very positive overall.

On balance, we expect nominal sales to post 0.2% gain in the month, implying a small outright decline in underlying sales volumes.

## Monthly retail sales



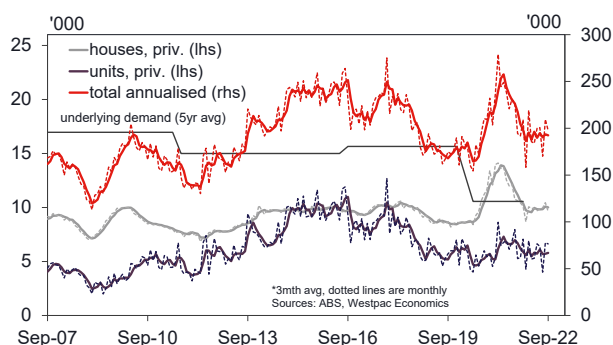
## Aus Oct dwelling approvals

**Nov 30, Last: -5.8%, WBC f/c: -5.0%**  
**Mkt f/c: -2.0%, Range: -6.0% to 3.0%**

Dwelling approvals posted a 5.8% decline in Sep, following a string of upside surprises through most of 2022. The detail suggests approvals are starting to reflect the numerous headwinds at play – including sharp rises in interest rates and building costs, and the wider housing market downturn – with a notable decline in private detached houses.

October is likely to show a clearer cyclical shift. We expect approvals to post another 5% decline with risks again to the downside.

## Dwelling approvals



## Aus Oct Monthly CPI Indicator %yr

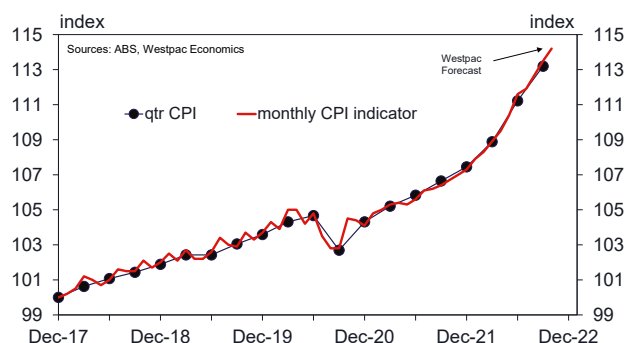
**Nov 30, Last: 7.3%, WBC f/c: 7.3%**  
**Mkt f/c: 7.6%, Range: 7.1% to 8.3%**

The monthly indicator has proven to be reliable leading indicator for the quarterly CPI. Through the September quarter the monthly indicator lifted 0.6% in July, 0.2% in August and 0.6% in September taking the annual pace from 6.7% at June to 7.3% in September. The quarterly CPI was up 7.3% in the year to September.

Considering the partial indicators we have, and making reference to the timing of the surveys for the various components of the CPI, Westpac is forecasting the Monthly Indicator to lift 0.6% in October holding the annual rate flat at 7.3%. We are nearing the peak in the annual pace of inflation but given the timing of the various surveys we don't expect to see it until December.

From there we expect inflation to moderate as we move through 2023 within the usual month to month volatility.

## CPI monthly indicator vs. qtr CPI



## Aus Q3 construction work

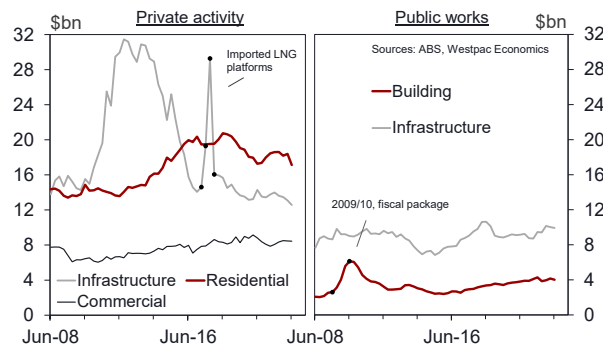
**Nov 30, Last: -3.8%, WBC f/c: 2.0%**  
**Mkt f/c: 2.0%, Range: -1.8% to 5.0%**

Construction work contracted in 3 of the past 4 quarters, including a 3.8% drop in June, despite a sizeable pipeline of work. Inclement weather associated with the La Nina has caused significant delays, compounded by labour and material shortages.

For the September quarter, given the ongoing headwinds, we anticipate only a partial rebound from that sizeable 3.8% decline in June – at a forecast +2%, which would still leave the level of activity below that a year ago (-1.3%) and below that in mid-2021 (-2.4%).

That June quarter fall included declines across each of the states, as well as declines across segments – notable was a sharp drop in private detached home building, of -13.9%. If there is confirmation of a September quarter partial recovery in work, we envisage that it will be relatively broadly based across the segments – with gains in housing, business construction and public works.

## Construction work: by segment



## Aus Oct private sector credit

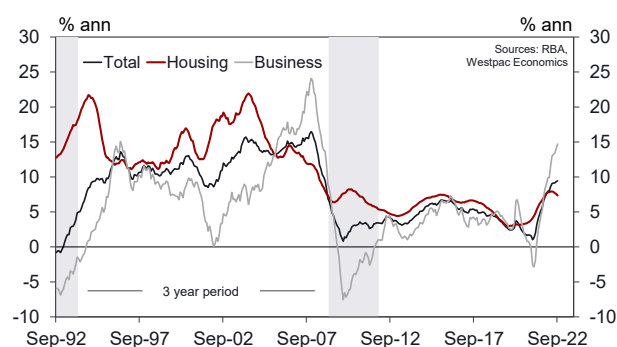
**Nov 30, Last: 0.7%, WBC f/c: 0.6%**  
**Mkt f/c: 0.6%, Range: 0.5% to 0.8%**

There is an emerging gradual slowing in the monthly pace of credit growth – as rapidly rising interest rates reduce the borrowing capacity of households.

This comes after a period of strong growth, as households and businesses responded to earlier policy stimulus. Over the year to September, credit grew by 9.4%, the fastest annual pace since 2008. The September outcome included 7.3%yr for residential, flat for personal and 14.7%yr for business lending.

Monthly credit growth has eased from 0.9% throughout the June quarter to 0.8% for July and August, then a 0.7% result for September. We anticipate that credit growth will edge down to 0.6% in October, led by housing, as well as some easing in the recent rapid pace of business lending. New lending for housing is in retreat, contracting by 24% over the past 8 months to September, including a 22% fall over the past 4 months.

## Credit: annual growth at 9.4%, a 14 year high



## Aus Nov CoreLogic home value index

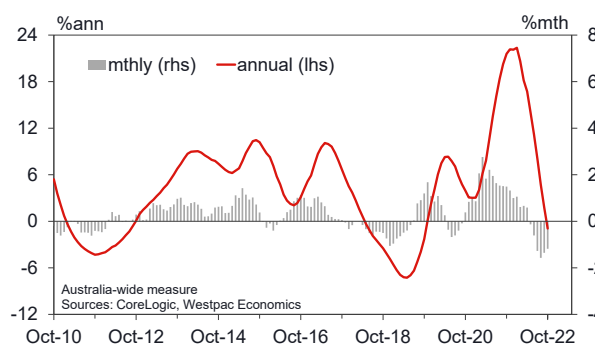
**Dec 1, Last: -1.1%, WBC f/c: -1.0%**

The housing market correction that began in May ran at a rapid pace through the second half of 2022. Prices fell 1.1% in October, a slight moderation on the 1.4-1.6%/mth declines in Q3 but still a rapid rate overall.

November is set to see a repeat with the daily index pointing to another 1.0% decline for the month. This will take annual growth to -5.4%yr with a 7.5% fall since April.

While the slightly milder monthly pace and marginal improvement in auction markets suggest the correction is moderating, stabilisation still looks a long way off, especially with more rate rises on the way (see p2 for a full discussion of the house price outlook).

## Australian dwelling prices





## Aus Q3 private business capex

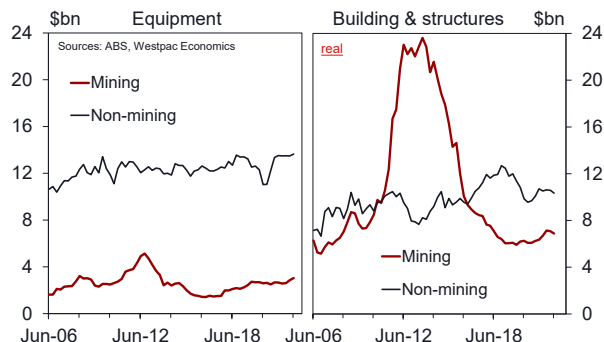
**Dec 1, Last: -0.3%, WBC f/c: 1.6%**  
**Mkt f/c: 1.4%, Range: -0.5% to 4.0%**

Business capex spending was little changed over the initial two quarters of 2022 (+0.4% and -0.3%). Gains in equipment spending over this period (+1.5% and +2.1%) were broadly offset by a retreat in Building & Structures (B&S) (-0.6% and -2.5%), which was adversely impacted by inclement weather and supply headwinds.

For the September quarter, we anticipate a 1.6% lift in capex spending, including a partial rebound in B&S, +2.0%, and a further increase in equipment spending, +1.2%. The upward trend in equipment spending, from the September 2020 low, is associated with the economy's reopening. Firms are responding to increased demand, limited spare capacity and tax incentives.

Of late, the capex survey readings on equipment spending (+1.5% and +2.1%) have understated the national accounts estimate (+3.1% and +3.9%) partly due to a narrower coverage (excluding agriculture) and late returns. We expect this to continue in September.

## CAPEX: by industry by asset



## Aus 2022/23 capex plans

**Dec 1, Last: Est 3 \$146.4bn**

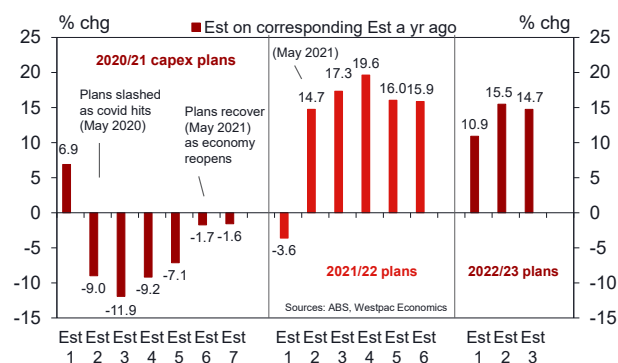
Capex spending rose by 13.3% in 2021/22 (+5.1% for prices and +7.7% for volumes). For 2022/23, plans point to another double digit rise – but the volume / price split is an unknown – thereby making the survey more difficult to interpret during periods of high inflation.

Est 3 for 2022/23 printed \$146.4bn, 14.7% above Est 3 a year ago. Strength is broadly based by asset and industry. Based on average Realisation Ratio (RR), we estimate that this implies a 14.2% rise.

Est 4, surveyed in October and November, will likely confirm a prospective sizeable lift in capex – as costs rise sharply and on positive near-term fundamentals. The outlook is becoming gloomier as interest rates rise – which will impact 2023/24 capex spending.

An Est 4 print of around \$154bn is broadly in line with Est 3 – implying a 14.2% lift in capex spending (based on avg RRs). On such an outcome, Est 4 is 11% above Est 4 a year ago and is about a 5½% upgrade on Est 3 – consistent with the average of recent years.

## Capex plans: positive



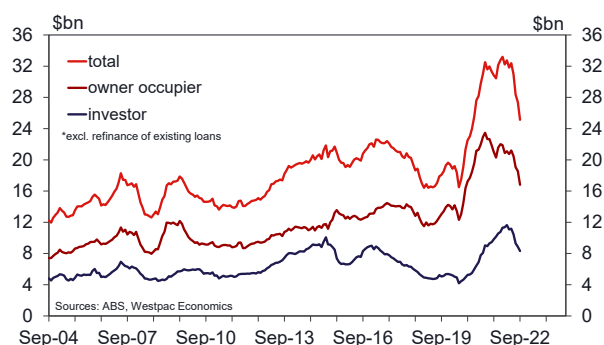
## Aus Oct housing finance approvals

**Dec 2, Last: -8.2%, WBC f/c: -3.5%**  
**Mkt f/c: -2.1%, Range: -5.0% to 4.0%**

Housing finance approvals fell sharply in September, an 8.2% drop taking the total value of new loans 26% below their peak at the start of the year (but still well above their pre-COVID levels and previous peaks in 2017). Owner occupier loans led the fall in September with a steep 9.3% decline.

Latest data on turnover and prices point to some stabilisation in established markets in recent months. However, construction-related loans (-12% of total own occupier loans) look to have fallen sharply with HIA new home sales dropping 25% over Sep-Oct. We expect the total value of new finance approvals to be down 3.5%, the construction drop weighing more on owner occupier loans (-4.5%) with investor loans showing a milder 2% fall. Note that this is likely to be temporary steadying ahead of further declines as the next round of RBA rate rises impact.

## New finance approvals by segment



## NZ Oct monthly employment indicator

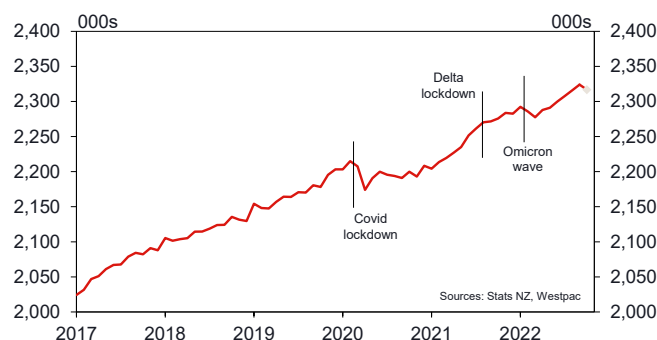
**Nov 28, Last: 0.4%, Westpac f/c: -0.3%**

The monthly employment indicator reports the number of filled jobs, drawn from income tax data. This measure has recorded some solid gains in previous months, rising by 1% over the September quarter as a whole.

The indicator also highlights that around 40% of the growth in employment over the last year has been among teenagers – one of the few remaining areas where there is scope to bring people into the workforce. However, this is not a viable source of labour for many industries.

The weekly snapshots of the data suggest a modest easing in jobs in October, although that's in the context of a strong run of growth recently. Employment growth is still outstripping growth in the labour force on an annual basis.

## NZ monthly filled jobs



## NZ Oct residential building consents

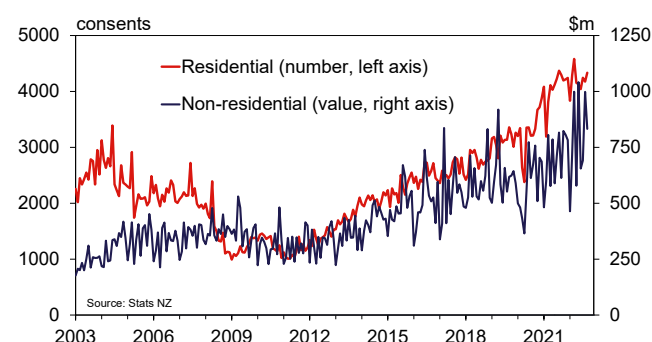
**Nov 30, Last: +3.8%, Westpac f/c: -5.0%**

Dwelling consent issuance rose by 3.8% in September. That stronger than expected increase was mainly due to the large number of apartment consents issued over the month. Looking at the underlying trend in consent numbers, issuance remains around record highs supported by the large number of medium density developments (like apartments and townhouses).

We are forecasting a 5% decline in consent numbers in October. That's mainly due to an easing in the 'lumpy' apartments category after last month's surge. But even with that decline, the level of consents is expected to remain elevated.

Looking further ahead, we expect that less favourable financial conditions for both purchasers and developers will see consent issuance trend down over the year ahead.

## NZ building consents



## NZ Nov ANZBO business confidence

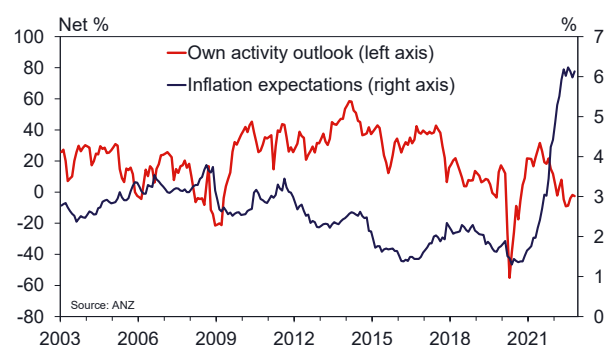
**Nov 30, Last: -42.7**

Business confidence dropped further into pessimistic territory in October. Although activity levels in the economy have held up, businesses are grappling with a range of challenges, including rising interest costs and ongoing shortages of staff. At the same time, operating costs have been charging higher, squeezing margins for many firms.

Confidence is set to remain low in the November survey. Labour market pressures and operating costs have continued to push higher. There is also growing concern about the outlook for activity as interest rates continue to rise.

Despite softening in recent months, the survey's price and cost gauges have remained elevated. We expect that pattern will be repeated in the November survey, consistent with our forecast for only a gradual easing in the current high rate of inflation.

## NZ business confidence





## For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 28</b>					
<b>Aus</b>	RBA Governor Lowe	-	-	-	- Appearing before Senate Economics Committee, 10am.
	Oct retail sales	0.6%	0.5%	0.2%	Rate rises starting to impact?
<b>NZ</b>	Oct employment indicators	0.4%	-	-0.3%	Easing after some solid gains in recent months.
<b>UK</b>	Nov Nationwide house prices	-0.9%	-	-	- Due this week. Housing market correction clearly deepening.
<b>US</b>	Nov Dallas Fed index	-19.4	-23.0	-	- Regional surveys broadly showing weakness.
	Fedspeak	-	-	-	- Williams and Bullard.
<b>Tue 29</b>					
<b>Eur</b>	Nov economic confidence	92.5	-	-	- Broader economic sentiment continues to deteriorate...
	Nov consumer confidence	-23.9	-	-	- ... though consumer confidence is consolidating at low levels.
<b>US</b>	Sep FHFA house prices	-0.7%	-1.2%	-	- Correction deepening amid broad-based price declines...
	Sep S&P/CS home price index	-1.32%	-1.15%	-	- ... cumulative rate hikes to date will continue to impact.
	Nov consumer confidence index	102.5	100.0	-	- Inflation and rates are weighing heavily on households.
<b>Wed 30</b>					
<b>Aus</b>	Oct dwelling approvals	-5.8%	-2.0%	-5.0%	Surprisingly steady through Q3 but set to fall.
	Oct CPI Monthly Indicator %yr	7.3%	7.6%	7.3%	The Monthly Indicator is a reliable leading indicator for...
	Oct CPI MI trimmed mean %yr	5.4%	-	-	... the quarterly CPI. It is yet to show signs of peaking.
	Q3 construction work done	-3.8%	2.0%	2.0%	Only a partial rebound, constrained by ongoing headwinds.
	Oct private sector credit	0.7%	0.6%	0.6%	Emerging gradual slowing as higher interest rates impact.
<b>NZ</b>	RBA Head of Domestic Markets	-	-	-	- Kearns speaking at Securitisation conference, Sydney 11am.
	Oct building permits	3.8%	-	-5.0%	Pullback in medium density consents after last month's surge.
	Nov ANZ business confidence	-42.7	-	-	- Activity gauges to remain low, price gauges elevated.
<b>Jpn</b>	Oct industrial production	-1.7%	-1.7%	-	- Soft export demand from Europe/US to weigh into year-end.
<b>Chn</b>	Nov manufacturing PMI	49.2	49.0	-	- Policy initiatives will support mfg and services in time...
	Nov non-manufacturing PMI	48.7	48.0	-	- ... but virus and global demand risks loom for now.
<b>Eur</b>	Nov CPI %yr	10.7%	-	-	- Breadth of inflation pulse of increased concern.
	Oct wholesale inventories	0.6%	0.5%	-	- Unwarranted inventory accrual a risk given end demand.
<b>US</b>	Q3 GDP, annualised	2.6%	2.7%	-	- Very small revision anticipated in second estimate for Q3.
	Nov Chicago PMI	45.2	47.0	-	- Pointing to clear downside risk for business conditions.
	Oct pending home sales	-10.2%	-5.2%	-	- Weakness in sales volumes set to persist.
	Oct JOLTS job openings	10717k	10325k	-	- Gradually falling from historic peak.
	Federal Reserve Beige book	-	-	-	- To provide an update on conditions across the 12 Fed districts.
	Fedspeak	-	-	-	- Chair Powell on economy and labour market. Bowman, Cook.
		-	-	-	-
<b>Thu 01</b>					
<b>Aus</b>	Nov CoreLogic home value index	-1.1%	-	-1.0%	Price declines still look firmly entrenched.
	Q3 private new capital expenditure	-0.3%	1.4%	1.6%	Upward trend in equipment, partial rebound in B&S.
	2022/23 capex plans, Est 4, \$bn	146.4	-	-	Est 4 of \$154bn would be consistent with Est 3, see textbox.
<b>Jpn</b>	Nov Nikkei manufacturing PMI	49.4	-	-	- Final estimate.
<b>Chn</b>	Nov Caixin manufacturing PMI	49.2	48.9	-	- Under pressure from virus risks and weakening global demand.
<b>Eur</b>	Nov S&P Global manufacturing PMI	47.3	-	-	- Final estimate.
	Oct unemployment rate	6.6%	-	-	- Slack will begin to emerge more clearly in 2023.
<b>UK</b>	Nov S&P Global manufacturing PMI	46.2	-	-	- Final estimate.
<b>US</b>	Oct personal income	0.4%	0.4%	-	- Real incomes remain under pressure from inflation...
	Oct personal spending	0.6%	0.8%	-	- ... putting consumption at risk of weakness.
	Oct PCE deflator	0.3%	0.4%	-	- FOMC is paying close attention to core PCE inflation...
	Oct core PCE deflator	0.5%	0.3%	-	- ... as they plan to step down the pace of rate hikes.
	Nov S&P Global manufacturing PMI	47.6	-	-	- Manufacturing activity clearly remains in a fragile state...
	Nov ISM manufacturing	50.2	49.8	-	- ... S&P indicating that small/mid-sized firms are under pressure.
	Oct construction spending	0.2%	-0.2%	-	- Softening demand clearly weighing on construction.
	Initial jobless claims	240k	-	-	- To remain at relatively low levels for now.
	Fedspeak	-	-	-	- Logan and Bowman.
		-	-	-	-
<b>Fri 02</b>					
<b>Aus</b>	Oct housing finance	-8.2%	-2.1%	-3.5%	Stabilising turnover suggests a slower pace of decline...
	Oct owner occupier finance	-9.3%	-	-4.5%	... for finance associated with purchase of established...
	Oct investor finance	-6.0%	-	-2.0%	... dwellings but construction-related looks to be down sharply.
	RBA Governor Lowe	-	-	-	- Panel participant at Bank of Thailand conference, 1pm AEDT.
<b>NZ</b>	Q3 terms of trade	-2.4%	-	0.5%	Improved export prices balanced out the rising import bill.
<b>US</b>	Nov non-farm payrolls	261k	200k	180k	Payrolls increasingly at odds with other indicators...
	Nov unemployment rate	3.7%	3.7%	3.8%	... but U/E likely to remain little changed in near-term...
	Nov average hourly earnings %mth	0.4%	0.3%	0.3%	... supporting robust wage growth, for now.
	Fedspeak	-	-	-	- Barr and Evans.

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## Forecasts

### Interest rate forecasts

Australia	Latest (25 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	3.10	3.55	3.97	4.05	4.05	3.97	3.72	3.47
3 Year Swap	3.82	3.90	4.00	3.85	3.70	3.60	3.55	3.50
3 Year Bond	3.23	3.55	3.70	3.60	3.50	3.40	3.35	3.30
10 Year Bond	3.54	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
<b>US</b>								
Fed Funds	3.875	4.375	4.625	4.625	4.625	4.625	4.375	3.875
US 10 Year Bond	3.69	4.00	4.00	3.80	3.60	3.40	3.10	2.90
<b>New Zealand</b>								
Cash	4.25	4.25	5.00	5.50	5.50	5.50	5.25	4.75
90 day bill	4.40	4.60	5.50	5.60	5.60	5.50	5.05	4.55
2 year swap	5.21	5.30	5.20	5.00	4.80	4.50	4.20	3.90
10 Year Bond	4.09	4.30	4.30	4.20	4.10	4.00	3.80	3.70
10 Year spread to US	40	30	30	40	50	60	70	80

### Exchange rate forecasts

Australia	Latest (25 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD/USD	0.6767	0.68	0.69	0.70	0.72	0.74	0.75	0.76
NZD/USD	0.6260	0.63	0.64	0.65	0.66	0.67	0.68	0.68
USD/JPY	138.68	140	138	136	134	132	130	128
EUR/USD	1.0412	1.04	1.05	1.07	1.09	1.11	1.12	1.13
GBP/USD	1.2103	1.20	1.21	1.22	1.23	1.24	1.25	1.26
USD/CNY	7.1628	7.20	7.00	6.80	6.60	6.50	6.40	6.30
AUD/NZD	1.0810	1.08	1.08	1.08	1.09	1.10	1.11	1.13

### 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	3.3	3.9	6.8	4.7	3.3	4.6
Wages (WPI)	0.7	0.7	0.8	1.0	1.1	1.1	1.1	-	-	-	-
annual chg	2.3	2.4	2.6	3.1	3.6	4.1	4.4	1.4	2.3	3.6	4.5
CPI Headline*	1.3	2.1	1.8	1.8	2.1	1.3	0.8	-	-	-	-
annual chg*	3.5	5.1	6.1	7.3	8.1	7.2	6.2	0.9	3.5	8.1	4.1
Trimmed mean*	1.1	1.5	1.6	1.8	1.8	1.1	1.0	-	-	-	-
annual chg*	2.6	3.8	4.9	6.1	6.8	6.4	5.8	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	0.4	0.9	0.1	-	-	-	-
Annual avg change	5.5	4.9	1.0	2.4	2.2	2.7	3.1	-2.1	5.5	2.2	1.9
Unemployment rate %	3.2	3.2	3.3	3.3	3.3	3.4	3.5	4.9	3.2	3.3	3.8
CPI % qtr	1.4	1.8	1.7	2.2	0.8	1.2	0.9	-	-	-	-
Annual change	5.9	6.9	7.3	7.2	6.5	5.9	5.1	1.4	5.9	6.5	3.9



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