AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 5 December 2022

Editorial: RBA to raise the cash rate by 25 basis points next week.

RBA: policy decision.

Aus: Q3 GDP and partials (profits, inventories, net exports), Q3 current account, trade balance.

NZ: commodity prices, retail card spending.

Europe: retail sales.

China: CPI, PPI, foreign reserves, trade balance.

US: ISM services, PPI, trade balance, consumer credit, UoM consumer sentiment.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 2 DECEMBER 2022.

WESTPAC INSTITUTIONAL BANK

EDITORIAL

RBA to raise the cash rate by 25 basis points next week

The Reserve Bank Board meets next week on December 6.

We expect the Board will decide to raise the cash rate by 25 basis points from 2.85% to 3.1%.

A further 25 basis point adjustment at the December meeting is likely to have been firmly on the Board's future agenda when it last met on November 1.

Recall the added attraction of moving in December is that the next meeting will not be until February 7, providing ample opportunity to assess the cumulative impact of the normalisation process.

In the Minutes to the November meeting the Board discussed increasing the rate by 50 basis points while noting that, "interest rates were still fairly low in an historical context."

Indeed, the decision to raise the cash rate by only 25 basis points at the November meeting came as a surprise to Westpac given the September quarter Inflation Report printed a 1.8% rise (in underlying terms) for the quarter – well in excess of market forecasts of 1.5%.

A more worrying aspect of the Report showed that "around three quarters of prices in the CPI basket grew faster than 3% in annualised terms in the September quarter" (RBA November SoMP) and the annual growth in the Trimmed Mean reached 6.1% – the strongest outcome since 1990.

The Minutes of the November meeting revealed a new guideline for monetary policy, "acting consistently would support confidence in the monetary policy framework."

Having unexpectedly pivoted from increments of 50 basis points to 25 basis points in October moving back to 50 would not have been a "consistent" action.

The motive of "consistency" does seem to be at cross purposes with the core policy of "[t]he size and timing of future interest rate increases will continue to be determined by the incoming data."

A third 25 basis point lift in December would certainly be "consistent".

Markets are pricing around a 75% probability of that 25 basis point move.

That is down from over 90% a week ago.

Up until the precedent of the October move even a 75% probability in pricing from the market would be seen as consistent with an almost certain such move in December.

But markets had a 90% probability of a 50 basis point move in October and the Board settled on 25. That puts markets on edge that the Board can spring "surprises" and may explain why pricing is so tentative for December.

The "consistency" argument and the flow of the most significant data around the labour market since the November meeting point to the 25 basis point decision.

Since the Board meeting data on the labour market and wages highlight that the labour market is tightening and wages growth is gathering pace.

Private sector wages grew by 1.2% over the September quarter, the highest quarterly pace since the September quarter 2010; yearly growth lifted to 3.4%, fastest since 2012.

Jobs bounced back in October to lift by 32,200; the unemployment rate fell to a near 50 year low of 3.4% and hours worked lifted by 2.3%, indicating that the weak jobs growth over the previous three months may have been more due to supply rather than demand constraints.

Market pricing for the RBA has eased significantly over the last week.

The prospects of December/February combined have eased from a total of 45 basis points to 33. Only around 5 basis points of that 12 point reduction is likely to be due to the market following the downward revision to the outlook for the federal funds rate over that period.

Westpac expects that pricing should be near 50 basis points. We confidently expect increases of 25 basis points in both December and February.

Much weight is being given to the surprise drop in monthly inflation in the October Inflation Report to 6.7%yr from 7.3% in September and market expectations it would lift to 7.6%.

However, only 43% of the components of the Index (by their weight in the index) are updated monthly with the rest being updated only once per quarter or even once per year. As such the resulting monthly volatility is becoming apparent in the series. (e.g. travel and accommodation.)

Key reasons for the low result were a sharp fall in fresh food prices (not yet incorporating any possible impact from the October floods); the highly volatile travel series; and a softer than expected read on new dwellings price growth.

In addition, the ABS noted that 0.2% of the reduction in the annual inflation rate reflected changes on the components' weights and as such we have lowered our forecast quarterly inflation rate in the December quarter from 2.1% to 2.0%

That compares with the 1.8% lift in headline inflation in the September quarter – indicating that inflation has not peaked even in a quarterly sense.

The reweighting also saw us lower our annual inflation forecast peak from 8.1% to 8.0%.

We also saw a 0.2% surprise fall in nominal retail sales in October – biggest falls were in department stores; household goods; and clothing and footwear. Monthly retail sales data is volatile but this was an eye watering result.

An important reason for care in reading too much into the result is the recent advent of special sales in November (Black Friday; Cyber sales), which according to anecdotal evidence were extremely strong. That interpretation is consistent with the specific areas of weakness in October and would counsel the RBA to be very cautious in interpreting that result.

We have also seen solid progress in our Westpac Card Tracker data in November, which covers both retail and non-retail.

The GDP Report next week is likely to show that the growth rate slowed a little between June and September quarters from 0.9% to 0.8%.

Westpac has lowered its forecast for GDP growth in the September quarter from 1.1% to 0.8%. Forecasts from other houses are considerably lower and these forecasts may also have had some impact on market pricing.

The GDP report will not print until after the RBA Board meeting.

Westpac is forecasting that economic growth will slow to well below trend in 2023 to a pace of only 1%.

It seems likely that the buffers that have built up in the economy – a 50 year low unemployment rate; $260 billion in excess savings with the household sector; record high capacity utilisation for businesses; extreme labour shortages; are likely to see growth beginning 2023 at a faster pace than we will see in the second half.

That momentum should signal to the RBA that it needs to stay the course on policy. It should also be somewhat cautious to calibrate policy to its forecasts rather than reacting to current data.

The RBA's biggest risk with behaving in line with current market pricing for the first half of 2023 is that these forces, along with businesses' recent successful experience in raising prices (75% of CPI components growing faster than 3% annualised in the September quarter) and evidence of a broadening of wage pressures is that an early pause risks this inflation psychology becoming embedded in the Australian economy.

That would see an unsatisfactory pace of inflation in 2023 and 2024 which would preclude the RBA from providing some rate relief to a weak economy in 2024.

The policy of least regret, which appears to be a clear strategy in other jurisdictions, whereby the choice of short–term weakness over long term embedded inflation should also be embraced by the RBA.

That would certainly not include pausing in December or February.

Bill Evans, Chief Economist

Updates on the consumer, housing and investment kept Australian market participants busy this week. While new information for the US argued for greater caution from policy makers.

Domestically, the week began with a sour update on the Australian consumer, October's retail sales printing its first negative result of the year at –0.2%. The limited detail showed the weakness was broadly–based, with declines in nominal spending across almost all store–types and states. That retail prices are rising at a pace of 2%qtr suggests the underlying decline in real spending volumes this month was much larger than the nominal headline figure, likely in the –0.5% to –1.0% range. Rising interest rates are clearly beginning to impact retail spending, and with the RBA expected to tighten policy into early–2023, the pressure on consumer demand will build in the period ahead.

Developments on housing were also downbeat. CoreLogic's home price index, covering the eight major capital cities, fell by another 1.1% in November. Price declines remain broadly–based across the major eastern states, with most segments by price tier, region and type of dwelling continuing to move lower. That dwelling approvals tumbled another 6.0% lower in October provided additional perspective on the scale of housing's downturn, with private detached houses and private sector units respectively down –2.2% and –11.3%. Given the extensive set of headwinds facing the construction sector and broader housing market, further significant declines are expected ahead, hitting GDP as well as the demand for housing credit.

Lastly for the consumer, some evidence of a deceleration in inflation was seen in October. The ABS' new monthly CPI came in at 0.2% against our expectation for a 0.6% rise, with food, housing, auto fuel and holiday travel all materially weaker than anticipated. Note though that key components of the CPI are not sampled every month; as an example, electricity costs are assessed in the end month of the quarter. Moreover, the October release would not have captured the impact of that month's flooding. Still, the October release points to the circa 8%yr pace we have forecast for Q4 being the peak for this cycle.

In the lead–up to next week's Q3 GDP report, the ABS also released two partial indicators of investment.

Construction work done staged a rebound in Q3 as expected, rising 2.2% to reverse Q2's –2.0% (initially –3.8%). The ABS however noted that this outcome should be regarded as a preliminary estimate with a below–average 70% response rate to the survey. The gains for construction were broad based in the quarter. Though housing's 1.3% increase came despite a 5.0% decline in renovations, and the overall level of construction remains 0.5% below mid–2021. Supply delays, difficulties in sourcing labour and inclement weather continue to limit the sector's ability to work through its project pipeline. Higher costs are also a consequence, up 2.8% in Q3 and 10.8% versus a year ago – the most rapid pace of cost escalation since 1989.

CAPEX spending subsequently disappointed, falling 0.6% owing to a dip in mining sector activity (–5.1% versus +1.4% for non–mining) which is likely to prove temporary given investment in the sector rose 11% over the 12 months to June 2022 and as expectations remain constructive. For mining, the update on 2022/23 investment intentions points to a 11% increase in spending; meanwhile, a near–17% gain is projected for non–mining, resulting in a 15% forecast for investment growth overall. Clearly businesses are responding to tight capacity and rising demand, though tax incentives and rapid price growth are also buoying these nominal estimates. With the economy set to slow dramatically in 2023 and remain below–trend in 2024, we are likely to see increased caution come 2023/24.

Following the downside surprise for retail sales, renovation work and equipment investment, we have revised down our forecast for Q3 GDP from 1.1% to 0.8%.

Over in the US this week, both the data and tone of central bank speak pointed to a need for caution over the outlook. Ahead of tonight's nonfarm payrolls release, November's 127k rise in ADP private payrolls was well below expectations at close to half October's gain. For October, the JOLTS survey also pointed a loss of momentum for employment, with job openings and the hiring rate both falling. In our view, annual growth in both indicators is now below average, signalling a trend deceleration in net job creation and, likely, wage growth. Quantitative and qualitative views on business activity also deteriorated in November. Most notably, the ISM manufacturing index followed the S&P Global measure and fell to a contractionary reading of 49.0, signalling that big manufacturers at the core of the US economy are now also coming under pressure. More broadly, the latest Beige Book from the Federal Reserve pointed to stagnation across the economy, with growth assessed to only be "flat or up slightly".

Given these outcomes, it is not surprising that FOMC Chair Powell, while still determined to defeat the threat of inflation, was a little more circumspect on the outlook this week, making clear that the FOMC planned to downshift their pace of tightening at the December meeting, from 75bps to 50bps. Helpfully, in the speech and Q&A, Chair Powell provided some benchmarks for employment growth and wage inflation, referring to 100k in monthly job gains as the pace required to match population growth – with any outcome lower than this level increasing slack in the labour market – and a need for wages growth to be 1.5–2.0ppts below its recent pace to be consistent with inflation returning to the 2.0%yr target in the medium–term.

The ADP and business surveys point to employment growth decelerating to or below the 100k level very soon; while wages growth also looks to be converging to the 3.5–4.0%yr range that the FOMC is arguably looking for, with annualised ECI private sector compensation growth in Q3 around 4.5% compared to 6.0% in Q2 and hourly earnings growth having averaged 0.3% per month the past 3 months – a sub–4.0% annual pace. If labour market momentum does slow as these partials suggest, the FOMC would be justified in halting the hiking cycle at 4.625% in February. However, if more momentum is seen in nonfarm payrolls and/or financial conditions ease quickly, the FOMC may look to continue slowly tightening towards mid–2023 to make sure inflation risks are guarded against.

Finally to China. The path out of COVID–zero remained in focus this week with new cases near record highs. Giving the market confidence, the actions of the Government were deliberate and controlled, with health authorities announcing a drive to increase the vaccination rate amongst the elderly, and Beijing allowing some of its residents to isolate at home. Current restrictions in cities with high caseloads were also narrowed, highlighting the intent of both central and local authorities to progressively free the domestic economy from the constraints of COVID–zero. Uncertainty will remain for some time, but both consumer activity and sentiment should see a material lift during the first half of 2023.

When assessing the outlook for China, it is also important to recognise the drive they are undertaking to revolutionise their power grid with renewable power, benefitting industry through improved access to power and by minimising cost pressures. The scaling up of renewable power is also allowing for the rapid take–up of electric vehicles, aiding both economic activity and their environment. Furthermore, leading in the green transition is giving Chinese industry a strong incentive to scale up their production of finished goods and parts required for society's electrification, with potential markets spanning the globe. However, with regards to export opportunities, we must also remain cognisant of the threat of geopolitics.

Week ahead & data wrap

Over the past few weeks, we've been talking to businesses across the country. Those we spoke to did point to some looming dark clouds on the economic horizon. Even so, the feedback we received on current economic conditions was generally very upbeat, with most of the businesses we spoke to reporting that demand had remained firm in recent months.

That resilience in activity has also been seen in recent economic data. For instance, the latest update on retail spending showed that nominal spending levels have continued to charge higher, with a 2.5% rise in the September quarter alone.

Much of the rise in spending that we've seen over the past year has been due to price rises. In fact, the actual amount of goods we're purchasing has remained fairly steady since early 2021 (in other words, while households are splashing out more cash, we're actually getting a lot less bang for our buck). But even in the face of those large price rises, we're still seeing resilience in spending appetites. Notably, discretionary spending – which is more likely to be affected by changes in prices and households' finances – has continued to climb.

Businesses in our services sector have also been reporting solid trading conditions, with the Performance of Services Index pointing to a strong lift in sales over recent months. A particular bright spot has been the hospitality sector, with operators in the sector reporting a resurgence in demand. That's in part due to the welcome return of international tourists to our shores after a long absence. At the same time, we're also seeing New Zealanders dialling up their spending on hospitality and other leisure activities.

One area where things are looking more mixed is the construction sector. Building levels picked up strongly in the wake of the pandemic, and there is still a large pipeline of planned projects (especially in Auckland and Canterbury). However, as we've highlighted before, financial conditions in the construction sector have become a lot tougher. Operating and financing costs have risen sharply over the past year. And at the same time, house prices are tumbling in many parts of the country. Builders, as well as those supplying into the industry, have told us that those conditions are weighing on demand, with forward orders dropping off. We've also seen dwelling consent numbers starting to ease back in many parts of the country. We expect those conditions will see the level of building activity peeling back through the latter part of next year.

On balance, although there are some areas where demand is cooling, the overall level of economic activity looks set to remain elevated through the final part of 2022. But while conditions are holding firm for now, businesses have highlighted some big concerns about the economic landscape as they look to the new year.

First is the state of the labour market, with nearly every business we spoke to reporting significant difficulties finding staff. Many of them also noted the low level of migration has been a major factor contributing to those difficulties.

The other big concern that is worrying many businesses is the ongoing rise in interest rates. As seen in the latest Business Outlook survey, a net 14% of businesses now expect trading conditions will weaken over the coming year. Expectations for trading activity have only been this low twice in the past two decades – first during the 2008/09 Global Financial Crisis, and then again during the initial Covid lockdown.

The large interest rate increases over the past year have been gradually rippling through the economy. To date, their impact has been seen most clearly in the housing market, with prices down 12% from their peak in November 2021 and sales at their lowest level since 2011 (barring the 2020 lockdown). Even so, overall demand in the economy has actually proven to be resilient to interest rate hikes thus far.

We expect those conditions will change dramatically over the coming year. More than half of all mortgages will come up for re-fixing in the next twelve months, and many borrowers will face large increases in their debt servicing costs. We expect that the resulting squeeze on household finances will result in outright falls in household spending through 2023. That also signals related softness in businesses' investment spending.

With those mounting concerns about the strength of demand over the coming year, we're starting to see a change in businesses' pricing behaviour. Over the past year, businesses' operating costs have been rising rapidly, climbing by an average of 9% across the economy in the year to September. And while that has resulted in pressure on margins, much of the rise in operating costs has actually passed through to higher consumer prices.

However, the latest business confidence survey signalled that businesses are finding it tougher to pass on cost increases. While the vast majority of businesses expect their operating costs will continue to rise over the coming year, the numbers who expect to raise their output prices has been dropping back. That signals ongoing pressure on margins over the months ahead.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 28	Oct employment indicators	0.3%	0.0%	-0.3%
Wed 30	Oct building permits	3.6%	-10.7%	-5.0%
	Nov ANZ business confidence	-42.7	-57.1	–
Fri 2	Q3 terms of trade	-2.3%	-3.4%	0.5%

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.

Aus Q3 company profits

Dec 5, Last: 7.6%, WBC f/c: –4.5%
Mkt f/c: -1.8%, Range: –4.5% to +4.0%

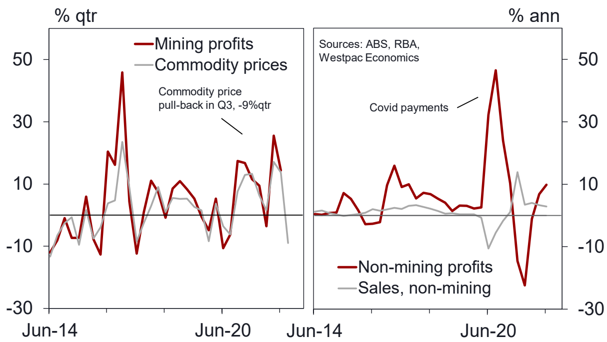
Company profits likely took a backward step in the September quarter, a forecast –4.5%, after surging 28.5% over the past year.

Global commodity prices retreated in Q3 on global recession fears, declining from recent highs. In AUD terms, commodity prices fell 9% in the quarter, following a Q2 result of +17.5%qtr, +49.6%yr. That will see mining profits move lower, following a +14.3%qtr, +51.3%yr for Q2.

Non-mining profits (ex finance) posted a Q2 result of +2.5%qtr, +12.8%yr. The upward trend likely extended into Q3, and is associated with rising demand on the economic reopening.

Note, the Business Indicators (BI) survey is on an accounting basis and in Q3 will likely book a sizeable loss from a reduction in the value of inventories. Our –4.5% forecast attempts to make an allowance for this. Expressed differently, we expect National Accounts profits for Q3 to be less negative than the BI survey reading.

Company profits to ease from Q2 high



Aus Q3 inventories

Dec 5, Last: 0.3%, WBC f/c: 1.4% (0.4ppts impact)
Mkt f/c: 1.0%, Range: –0.3% to +2.0%

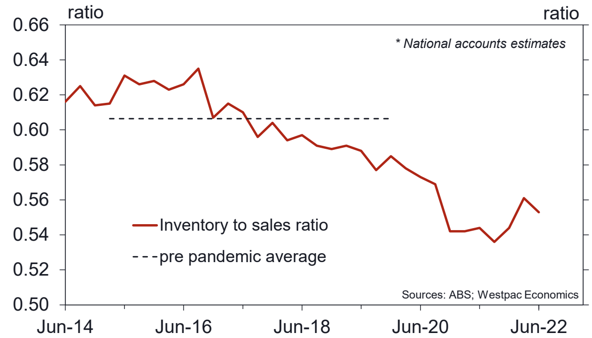
During the past 2½ years, there has been considerable economic volatility, including in the level of business inventories, as we navigate the pandemic.

An inventory rebuild was underway in the final quarter of 2021 and the opening quarter of 2022, with gains of 1.6% and 3.6%, associated with the reopening from the delta lockdowns and rising imports. That rebuild stalled in the June quarter, with inventory levels up only 0.3%, in part due to disruptions to the supply of goods imports.

In the September quarter, the inventory rebuild appears to have resumed. We anticipate a rise of around of 1.4%, +$2.5bn, which would have inventories add around 0.4ppts to activity.

Of note, goods imports posted a sizeable rise in the quarter (+4%, +$3.7bn) albeit that is well below the March quarter goods import surge (+9%, +$7.75bn), which was associated with that large jump in inventories (+3.6%, +$6.2bn).

Inventory rebuild faltered in Q2 2022



Aus Q3 current account, $bn

Dec 6, Last: 18.3, WBC f/c: 6.0
Mkt f/c: 6.2, Range: 5.5 to 17.5

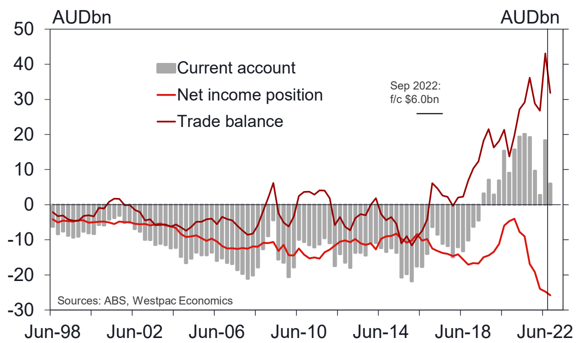
Australia's current account surplus jumped in the June quarter, from $2.8bn to $18.3bn, only to retreat in the September quarter, to a forecast $6.0bn. This will represent the 14th consecutive quarterly current account surplus (a run that began in June 2019).

The trade surplus ballooned to $43bn in the June quarter, boosted by a record high terms of trade in part due to the Ukraine war.

In the September quarter, the trade surplus narrowed to around $31.8bn, we estimate, trimmed by a pull-back in global commodity prices and a surge in import volumes. The terms of trade likely moderated by around 6% in the quarter.

The net income deficit (NID) widened to $24.8bn in Q2, 3.9% of GDP, more in line with levels prevailing in 2018 (as a share of the economy) and after temporarily narrowing to historic lows in 2020. Another sizeable deficit is in prospect, we've factored in $25.8bn

Australia's current account: f/c $6.0bn Q3



Aus Q3 net exports, ppts cont'n

Dec 6, Last: +1.0, WBC f/c: –0.5
Mkt f/c: –0.5, Range: –1.3 to 0.0

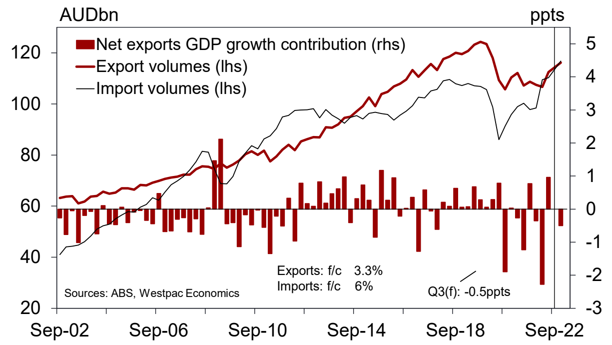
Net exports have been volatile quarter to quarter during the pandemic reflecting swings in demand and production, on lock-downs / reopening. Export supply disruptions in the resource sector and national border restrictions / reopening have also been factors.

For the September quarter, net exports are expected to be a material negative, subtracting –0.5ppts from activity – partially reversing a sizeable 1.0ppt positive contribution in June.

Import volumes grew by around 6% in the quarter we estimate, including goods +4% (on robust demand and improved supply) and services +16% (increased holiday travel abroad).

Export volumes grew by around 3.3% in the quarter, we estimate, with goods up by around 2% (led by rural goods) and services +10% (international holiday makers and students returning).

Net exports: Q3 f/c -0.5ppts



Aus RBA policy decision

Dec 6, Last: 2.85%, WBC f/c: 3.10%
Mkt f/c: 3.10%, Range: 3.00% to 3.10%

At the December Board meeting, Westpac anticipates that the RBA will lift the cash rate by 25bps, to 3.10%.

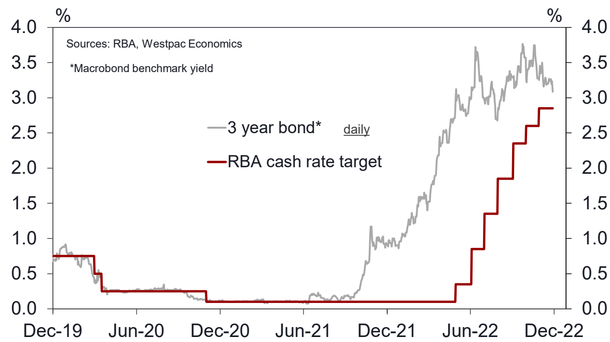
The RBA, in responding to a significant inflation challenge and the tightest labour market in 50 years, has quickly raised interest rates.

Rates have lifted from a record low of 0.1% at the start of May, with moves at each monthly Board meeting, including 50bps hikes for the four meetings July to September. The RBA slowed the pace of tightening at the October meeting, back to 25bp increments, with that policy arguably moving into the contractionary zone.

Inflation is still too high and more work needs to be done in our view. Annual headline inflation is expected to hit the 8% mark in the December quarter and to still be above the 2–3 target band at the end of 2023 (at about 4%, we expect).

For a more detailed discussion, see page 2.

RBA cash rate and 3 year bonds



Aus Q3 GDP

Dec 7, Last: 0.9%, WBC f/c: 0.8%
Mkt f/c: 0.7%, Range: 0.1% to 0.8%

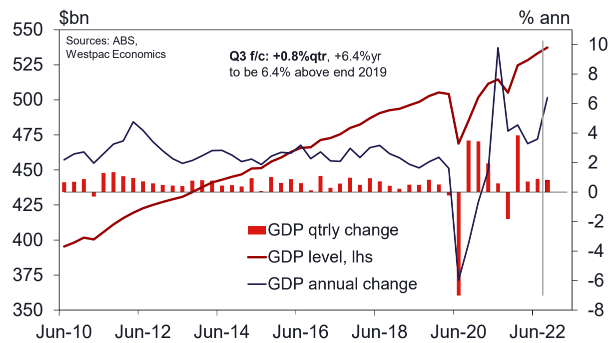
Australia's economic expansion remains robust for now, with tailwinds from earlier policy stimulus and the reopening effect from the delta lockdowns of 2021. This is ahead of the full adverse impacts of sharply higher interest rates.

Output growth is a forecast 0.8%qtr, 6.4%yr for the September quarter. The arithmetic is: domestic demand +0.9% and –0.1ppts on balance from net exports (–0.5ppts) and inventories (+0.4ppts).

Consumer spending grew by a forecast 1.0%, led by services and motor vehicles. That's a slowing from the very brisk 2.2% gains in Q1 and Q2 when the reopening effect was greatest and with high inflation hitting retail. Business investment rose by a forecast 1.3%, construction work rebounding and outweighing a dip in equipment spending. Public demand likely returned to growth, a forecast 0.8%, while home building was flat (on a retreat in renovation work).

The Labour Force survey reported muted employment and hours worked gains in the quarter (0.3% and 0.2%) crimped by elevated sick leave (covid impacts) and elevated holiday leave.

Australian economy: Q3, robust growth



DATA PREVIEWS

Aus Oct trade balance, $bn

Dec 8, Last: 12.4, WBC f/c: 12.1
Mkt f/c: 12.1, Range: 8.0 to 15.0

Australia's trade surplus remains sizeable, albeit down from the June record high of $17.6bn when commodity prices were at their highs. A $12.4bn surplus printed for September, including a 7.0% rebound in export earnings in the month and broadly steady imports, +0.4%.

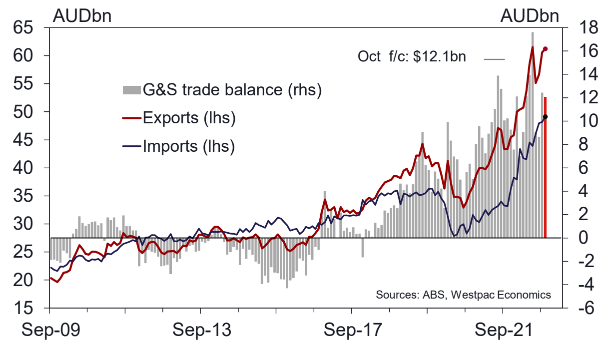
For October, we expect the surplus to remain elevated at $12.1bn.

The Australian dollar was sharply weaker in the month, down 5% against the US dollar and 3% on a TWI basis, thereby boosting prices for exports and imports.

We've factored in a 2% rise in the import bill for the month, +$1.0bn, on a combination of higher prices and the upward trend in volumes.

For exports, we expect a 1% rise, $0.6bn, led by LNG, while lower coal shipments on flooding disruptions are a headwind.

Australia's trade balance



NZ Q3 building work put in place

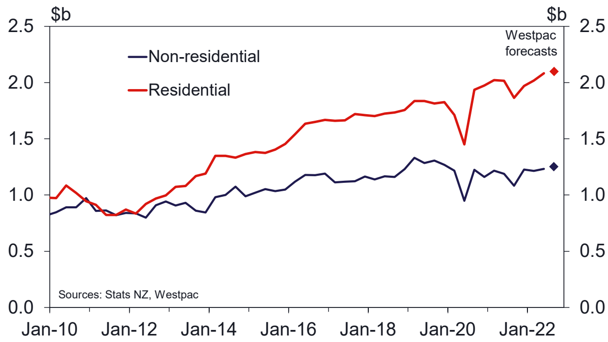
Dec 6, Last: +2.6%, Westpac: +1.1%

Total construction activity rose by 2.6% in the June quarter. Underlying that increase was a 3.2% lift in residential work, as well as a 1.6% increase in non–residential construction.

We're forecasting a further 1.1% rise in construction activity in the September quarter with modest gains in both residential and non–residential activity. While there is a large amount of work in the pipeline, shortages of labour and difficulties sourcing materials continue to act as a handbrake on the pace of building.

We expect that construction activity will remain elevated for some time yet, with a large number of planned projects. However, the financial conditions in the building sector are changing, and activity is set to moderate over the year ahead.

NZ real building work put in place



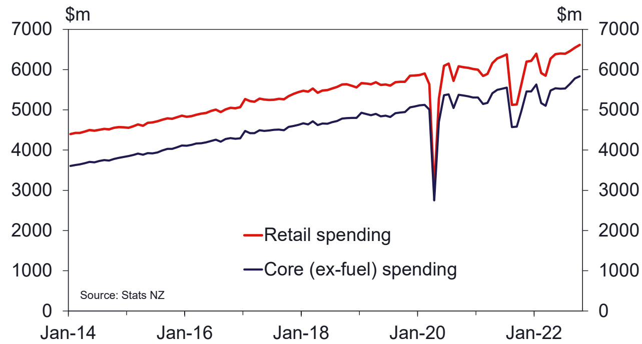
NZ Nov retail card spending

Dec 9, Last: +1.0%, Westpac: +0.6%

Spending levels rose by 1.0% in October. The continued firmness in spending appetites seen in recent months is notable given the sharp rise in interest rates and increases in consumer prices. Despite those headwinds, New Zealanders have not dialled back their discretionary spending (though there has been a change in the mix of spending away from goods and towards services).

We're forecasting a 0.6% rise in spending levels in November. New Zealanders have been increasing their spending on hospitality activities, like dining out. Spending is also being boosted by the return of international tourists. On top of those developments, November also saw the usual proliferation of Black Friday/Cyber Monday sales.

NZ retail card spending



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 05					
Aus	Q3 company profits	7.6%	-1.8%	-4.5%	Mining profits off highs as commodity prices pull-back.
	Q3 inventories	0.3%	1.0%	1.4%	Rebuild resumes after pause in Q2, aided by higher imports.
	Nov MI inflation gauge %yr	5.2%	–	–	To date has been an inconsistent lead to ABS CPI measures.
	Nov ANZ job ads	-0.5%	–	–	Still at a very high level even though it has eased a bit.
NZ	Nov ANZ commodity prices	-3.4%	–	-5.0%	Falling meat, dairy prices in November.
Jpn	Nov Nikkei services PMI	50.0	–	–	Final estimate.
Chn	Nov Caixin services PMI	48.4	48.0	–	Ongoing virus disruptions will continue to impact for now.
Eur	Nov S&P Global services PMI	48.6	–	–	Final estimate.
	Dec Sentix investor confidence	-30.9	–	–	Confidence is beginning to consolidate.
	Oct retail sales	0.4%	–	–	Negative so far this year; weakness is broadly-based.
UK	Nov S&P Global services PMI	48.8	–	–	Final estimate.
US	Nov S&P Global services PMI	46.1	46.1	–	S&P Global materially weaker than ISM…
	Nov ISM non-manufacturing	54.4	53.5	–	… pointing to clear downside risks for the sector.
	Oct factory orders	0.3%	0.7%	–	Capital investment subdued through Q3.
Tue 06					
Aus	Q3 current account balance $bn	18.3	6.2	6.0	Trade surplus narrows after record high in Q2.
	Q3 net exports, ppts cont'n	1.0	-0.5	-0.5	Import strength outstrips lift in exports, see textbox.
	Q3 public demand	0.0%	–	0.8%	Return to growth after rare flat quarter.
	RBA policy decision	2.85%	3.10%	3.10%	Tightening cycle continues, responding to inflation challenge.
NZ	Q3 building work put in place	2.6%	–	1.1%	Continued gains in residential and non-residential work.
Jpn	Oct household spending %yr	2.3%	0.9%	–	Real spending capacity under pressure into year-end.
US	Oct trade balance US$bn	-73.3	-77.0	–	Import prices and demand are easing.
Wed 07					
Aus	Q3 GDP	0.9%	0.7%	0.8%	Domestic demand growth remains robust, see textbox.
NZ	GlobalDairyTrade auction (WMP)	2.4%	–	0.0%	Futures prices broadly flat since the last auction.
Chn	Nov foreign reserves USDbn	3052	–	–	Authorities focused on stability on trade-weighted basis.
	Nov trade balance USDbn	85.2	78.1	–	Asia a key support, but developed world demand still a risk.
Eur	Q3 GDP	0.2%	–	–	Final estimate.
US	Q3 productivity	0.3%	0.3%	–	Final estimate.
Can	Bank of Canada policy decision	3.75%	4.00%	–	Toss-up between 25bp and 50bp hike.
Thu 08					
Aus	Oct trade balance $bn	12.4	12.1	12.1	Another sizeable surplus, supported by LNG export revenue.
	RBA Assist' Governor, Financial Syst	–	–	–	Jones speaking at FIRN Conference, Sydney, 8:45am.
Jpn	Oct current account balance ¥bn	909.3	605.4	–	Surplus under pressure from weak Yen.
	Q3 GDP	-0.3%	-0.3%	–	Final estimate.
US	Oct consumer credit	25.0	26.5	–	High rates to weigh over coming year.
	Initial jobless claims	225k	–	–	To remain at relatively low levels for now.
Fri 09					
NZ	Nov retail card spending	1.0%	–	0.6%	Domestic demand holding firm, tourist spending on the rise.
Chn	Nov PPI %yr	-1.3%	-1.4%	–	Upstream price pressures are continuing to decelerate…
	Nov CPI %yr	2.1%	1.6%	–	… as consumer inflation remains little-changed.
	Nov new loans, CNYbn	615.2	1225.0	–	Credit gains to continue…
	Nov M2 money supply %yr	11.8%	11.6%	–	… on authorities encouragement.
US	Nov PPI	0.2%	0.2%	–	Annual producer inflation is easing from record highs.
	Oct wholesale inventories	0.8%	–	–	Final estimate.
	Dec Uni. of Michigan sentiment	56.8	56.8	–	Pressure from inflation and rates still dominates.

Forecasts

Interest rate forecasts

Australia	Latest (2 Dec)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	2.85	3.60	3.85	3.85	3.85	3.60	3.35
90 Day BBSW	3.06	3.97	4.05	4.05	3.97	3.72	3.47
3 Year Swap	3.56	4.00	3.85	3.70	3.60	3.55	3.50
3 Year Bond	3.02	3.70	3.60	3.50	3.40	3.35	3.30
10 Year Bond	3.39	3.80	3.60	3.40	3.20	3.00	2.90
10 Year Spread to US (bps)	-15	-20	-20	-20	-20	-10	0
US							
Fed Funds	3.875	4.625	4.625	4.625	4.625	4.375	3.875
US 10 Year Bond	3.54	4.00	3.80	3.60	3.40	3.10	2.90
New Zealand							
Cash	4.25	5.00	5.50	5.50	5.50	5.25	4.75
90 day bill	4.43	5.50	5.60	5.60	5.50	5.05	4.55
2 year swap	5.02	5.20	5.00	4.80	4.50	4.20	3.90
10 Year Bond	3.99	4.30	4.20	4.10	4.00	3.80	3.70
10 Year spread to US	45	30	40	50	60	70	80

Exchange rate forecasts

Australia	Latest (2 Dec)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD/USD	0.6812	0.69	0.70	0.72	0.74	0.75	0.76
NZD/USD	0.6357	0.64	0.65	0.66	0.67	0.68	0.68
USD/JPY	135.07	138	136	134	132	130	128
EUR/USD	1.0523	1.05	1.07	1.09	1.11	1.12	1.13
GBP/USD	1.2245	1.21	1.22	1.23	1.24	1.25	1.26
USD/CNY	7.0528	7.00	6.80	6.60	6.50	6.40	6.30
AUD/NZD	1.0682	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	0.8	0.6	0.3	0.2	–	–	–	–
%yr end*	4.5	3.3	3.6	6.4	3.1	2.7	1.9	-0.7	4.5	3.1	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	2.0	1.3	0.8	–	–	–	–
annual chg	3.5	5.1	6.1	7.3	8.0	7.1	6.1	0.9	3.5	8.0	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	6.5	5.9	1.2	2.6	6.8	3.8

** GDP forecasts to be reviewed post Q3 National Accounts.*

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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