AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 19 December 2022

Editorial: The market themes for 2023 and 2024.

RBA: Minutes December Board meeting.

Aus: Westpac–MI Leading Index, Q4 ACCI–Westpac business survey, private sector credit.

NZ: Q4 Westpac–MM Consumer Confidence, trade balance, business confidence, GlobalDairyTrade auction.

US: housing updates, leading index, durable goods orders, personal income and spending, PCE deflator.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 16 DECEMBER 2022.

WESTPAC INSTITUTIONAL BANK

The market themes for 2023 and 2024

The Reserve Bank Board lifted the cash rate by 0.25% at its December meeting.

Markets were convinced that the Governor would soften his guidance with a weaker tightening bias. In the event he maintained the guidance used in the last two meetings, that "the Board expects to increase rates further in the period ahead" although adding "but is not on a pre-set course." That term has been used in previous communications and does not detract from the interpretation that the statement carries a strong tightening bias.

Central banks to remain resolute on inflation fight in 2023
Despite market pricing now only anticipating around a 50% chance that the cash rate will reach our target of 3.85% from the current 3.1% by May we confirm that forecast.

Forces we expect will require that higher rate by May include evidence of very high inflation prints for both the December and March quarters. Our current forecasts are: 7.5% for the December quarter (6.7% underlying) and 6.6% for the March quarter (6.5% underlying).

While these numbers indicate that inflation is slowing, mainly because of easing supply side pressures, the Board will be cautious given that wage increases will be intensifying in the first half of 2023 and some components of inflation – particularly services – will remain a challenge while the need to anchor inflationary expectations in the face of such high inflation prints will be ongoing.

Convincing evidence that wages are lifting quickly will also be apparent by the May meeting with wages growth on the way to a 4.5% peak by the June quarter. Only the December quarter Wage Price Index report will be available by the May meeting – and is expected to show a forecast 3.6%yr gain up from 3.1%yr in September – but this will be enough to unnerve authorities given anecdotal evidence of ongoing pressures and still historically low unemployment.

Meanwhile the Australian economy is likely to be showing only a modest slowing. There will be some initial resilience for consumers – spending growth is expected to run at a 2% annualised pace in the first half of the year, down from 4% annualised in the second half of 2022 but still running at a reasonable pace. The unemployment rate is forecast to still be holding near 50-year lows by March. We have also been surprised by the strong recent recovery in population growth and the surge in jobs growth in October and November which will provide some added growth support.

So the May Board meeting will see the Board confronted with inflation in the 6–7% range; an unemployment rate near 50-year lows; clear evidence of rising wage pressures and a degree of uncertainty about how long restrictive policy will be required in the US and other major developed markets.

The situation will turn more decisively from mid-year. Consumer spending is expected to stagnate in the second half of 2023; the unemployment rate will edge higher; and inflation pressures will continue to ease, providing RBA with some comfort that the inflation rate can eventually return to the target band.

This scenario is consistent with the RBA going on hold through the second half while making it clear that rates are unlikely to be eased in 2023.

Markets are currently flirting with around a 50% chance of a further rate hike in the second half of 2023 to be followed by a rate cut later in 2023 – in our view both prospects, which imply a very skittish approach to policy, appear to be unlikely.

Sustained policy easing in 2024
As we move into 2024, ongoing evidence of a stalling economy and rising unemployment, coupled with a slowdown in wage pressures and the inflation rate edging back towards 3%, will allow the RBA to begin to cut the cash rate back towards the 'neutral zone' which we believe is 2.5–3.0%.

We anticipate around 100bps of cuts in 2024 from the March quarter pushing the cash rate to 2.85% by year's end.

Central banks will be tentative in running policy on the basis of forecasts given their recent disappointing forecasting records. But we believe that by 2024 even the RBA will feel sufficiently confident to move away from the clear contractionary stance of policy. It will still be dealing with inflation rates running above the 2–3% band (3.9% headline; 3.6% underlying by end 2023) but a move into the band will be more clearly within sight, particularly with unemployment rising and wages growth easing.

The policy objective will shift from fighting inflation towards providing relief for a stagnating economy in the context of existing restrictive policy.

That profile for the RBA will be close to that of the FOMC – we expect the fed funds to be lifted in January and March 2023, before going on hold for the remainder of 2023 despite nearly two years of an economy that is near stall speed.

That policy will be seen to be needed to ensure that the decline in inflation is sustained into 2024. With this achieved, the Fed is expected to also pivot to responding to the stalled economy, providing extensive rate cuts in 2024. Note that the latest FOMC forecast 'dots' show 100bp of rate cuts in 2024 despite the inflation target (PCE inflation) only slowing to 3.1% by end 2023.

We are anticipating an even lower inflation rate by end 2023 and lower outcomes in 2024 that allow for more extensive rate cuts during that year – in the order of 200bps.

Key risk is inflation stickiness around wages and services
But there may be some stickiness in inflation in both economies initially, presenting a clear risk to market pricing, which is currently anticipating FOMC and RBA rate cuts in the second half of 2023.

If inflation is slower to fall the FOMC, in particular with a more ambitious inflation target, will need to signal its strong commitment to lowering inflation permanently, delaying rate relief – the task of bringing inflation below 3% might prove much tougher than moving it from 8% to 4%.

That task will be closely aligned with the progress in slowing wages growth. While there is evidence of slowing inflation for goods prices and even shelter costs, it is apparent that stubbornly high wages growth is holding up inflation in the core services sector. The risks are that the challenge of reining in wage-driven service sector inflation may be much more difficult than we are anticipating.

In our view the issue for both RBA and FOMC in this inflation fight is around wages and the direct link to services inflation. Goods inflation pressures are easing as supply chains are being restored and demand is slowing. But wages growth is increasing in Australia and remains elevated in the US due to record labour shortages. Even though Australia does not have a labour participation problem like the US, COVID disruptions and restricted immigration are affecting labour supply in both countries.

Greater momentum in wages growth than we currently envisage that would stem from rising inflationary expectations represents the dominant risk to our central cases.

Markets again pre–empting shifts

The key theme which we promoted through most of 2022 was that 2023 was going to be the year when bond rates would fall and the appetite for the USD would wane. We had thought US 10 year Treasuries would fall towards 3.2% by end 2023 from the 4% starting point by end 2022, while the AUD would lift from USD0.65 to USD0.72 in 2023.

We did not sufficiently count on the propensity for markets to be pre–emptive. Once the headline inflation rate in the US appeared to peak markets factored in a lower terminal federal funds rate – a rational response to the sustained expected weakness in the US economy – and this move spread to Australia.

Those anticipated falls in bond rates and increased aversion to the USD, including support for the AUD, were partially brought forward to the final quarter of 2022.

We have only made a slight reduction in the end 2023 target rate for US 10 year bonds, from 3.2% to 3.1%, with the fall from 4%+ occurring more in late 2022 than 2023.

With the AUD now expected to finish the year at USD0.68 rather than USD0.65 we have revised up our end 2023 forecast from USD0.72 to USD0.74.

Conclusion

The risks to these scenarios are evenly balanced. The supply side drag on inflation could overwhelm the lingering demand side, mainly represented by rising wages and bold pricing policies from businesses, to yield a much faster slowdown in inflation in both the US and Australia than we are factoring in. That would open up the possibility of earlier rate cuts in both markets than we currently envisage.

On the other hand, the supply side drag may prove to be unsustained while demand pressures build and inflationary expectations become entrenched. That would raise the unsavoury prospect of an extended round of rate hikes in both economies during the stagnation in the second half of 2023.

That fear of stagflation should motivate both the FOMC and the RBA to err on the side of higher rates in the near term and to remain resolute in keeping rates on hold in 2023.

In summary, we see 2023 as a year when inflation falls; economies stall; central banks continue to tighten decisively in the first half; are on hold by mid year; and remain resolute through the remainder of the year.

That will lay the platform for an extension of the falling inflation in 2024 and the conditions for sustained policy easing.

Compared to our central scenario, markets are too dovish on the RBA in the first half of 2023; too ambitious around the timing of rate cuts both by the RBA and FOMC later in 2023; and too cautious around the extent of rate cuts in 2024.

Bill Evans, Chief Economist

THE WEEK THAT WAS

This week, we received updates on consumer and business confidence and the labour market for Australia. Offshore, a string of 50bp rate hikes were seen across the US, Europe and the UK.

The December Westpac–MI survey reported a welcome 3% lift in consumer sentiment; although at 80, confidence amongst households remains comparable to the low points seen during the pandemic and the GFC. Inflation remained the primary concern of households, though 'budget and taxation', 'economic conditions' and 'interest rates' were also prominent. All of these factors are likely contributing to the weak state of family finances which, versus a year ago and for the year ahead, are respectively 25% and 19% below long-run average levels despite a strong labour market (see below) and favourable expectations for employment. In turn, households' financial concerns are restricting their plans for major purchases, with 'time to buy a major household item' 33% below average.

The November labour force survey provided the largest domestic surprise this week. Against the market consensus for a 19k gain in employment, a striking 64k jobs were created in the month. Additionally, the 71k increase in the size of the labour force saw the participation rate return to a historic 66.8%; the employment-to-population ratio print a fresh record high of 64.5%; and the underemployment rate – which has lagged the broader recovery to date – fall 0.2ppts to 5.8%. Clearly, Australia's labour market is a resounding source of strength for households as the year draws to a close, echoed by favourable expectations for employment in the Westpac–MI survey. Note though, with the unemployment rate holding firm at 3.4% in November, Westpac's forecast for a quarter-average unemployment rate of 3.3% will be harder to achieve given the unexpected strength in participation.

It is promising to see the continued recovery in immigration flows and growth in the working age population consequently rise well above pre-pandemic levels to 2.0%yr. Being derived from estimates of Australia's overseas arrivals and departures, the solid recovery in migrant flows is resulting in significant upward revisions to the size of the Australian labour force. It is worth mentioning that net arrivals are holding at very high levels among temporary workers (+13.5k/mth average) and students (+17.7k/mth average) after many months of significant net outflows due to the pandemic. Should the strength in net visa arrivals be sustained, the severe labour constraints facing businesses can be alleviated in time, thereby facilitating the longer-term recovery of the Australian economy.

In terms of the outlook, Chief Economist Bill Evans discussed the key implications from the consumer sentiment survey for consumption and housing in his video update this week. The evolution of both consumer demand and business conditions in 2023 was also the primary focus of our December Market Outlook in conversation podcast. For a full view of our forecasts for 2023 and 2024, see the December 2022 & January 2023 Market Outlook.

Moving offshore, first to New Zealand. GDP grew by a very strong 2% in Q3, more than twice the market and RBNZ expectation. As detailed by our New Zealand Economics team, GDP is now 8% above its end-2019 level, prior to the pandemic, with half of this gain coming in the last two quarters as international tourism returned. In Q3, solid-to-strong gains in activity were also seen outside of tourism-related sectors, highlighting the strength of current momentum in New Zealand's economy. With supply still constrained, this result supports the view that the RBNZ will open 2023 with another large increase in the cash rate (75bps at the February meeting) even as other major central banks slow their pace of tightening and begin to consider drawing their hiking cycles to a close.

Over in the US, debate over the peak for fed funds and how quickly rate cuts will follow rages on. The updated economic forecasts of the FOMC make clear that the Committee remains resolute in their determination to fight inflation (a peak of 5.1% for fed funds now seen in 2023, to be followed by only modest cuts in 2024) as their assessment of price risks remains tilted to the upside. Still, in the press conference, Chair Powell made clear that their decisions would be data dependent and materially reduced the duration of his comments regarding financial conditions.

On the latter, whereas getting term interest rates well into contractionary territory has been his focus for the past year, in this press conference Chair Powell's response to a question on financial conditions was focused on fed funds, the overnight policy rate. Arguably, this points to a recognition that, late in the tightening cycle, the market inevitably will price in the timing and scale of the rate cuts to come. Managing these expectations is critical to getting inflation back to target and doing so without a lasting hit to activity. Regarding activity growth, it is clear that both the FOMC and the market is becoming more concerned. The FOMC now only see cumulative growth through 2022 and 2023 of 1.0%; though, highlighting the downside risks present, that is still twice Westpac's expectation. The data released this week also spoke to these downside risks. Of particular significance, control group retail sales fell 0.2% in November and October's gain was revised down.

In Europe, the ECB delivered a 50bp rate hike across all policy rates as widely anticipated, slowing from the 75bp pace of the prior two meetings. However, a clear hawkish shift was adopted within the accompanying statement and the following press conference, with President Lagarde advocating for large, sustained increases in interest rates over the period ahead. Indeed, the Governing Council's updated macroeconomic projections continue to paint a bleak picture for the outlook. That inflation is not expected to return to the medium-term target of 2% over the forecast horizon (6.3% in 2023; 3.4% in 2024 and 2.3% in 2025) suggests a growing concern over the structure and pace of core inflation, which itself held firm at 5.0% in November. Reinforced with plans to reduce the APP portfolio from March 2023, the ECB's tightening cycle will likely run further into 2023, but this will depend crucially on the flow of data over the next few months as the Governing Council gauges the evolution of inflation pressures and resilience of the economy over winter.

The Bank of England meanwhile provided relatively fewer surprises, also slowing the pace of tightening to 50bps in December. The decision statement was very similar to that of last month, the Committee stating that the economy is evolving broadly in line with the projections laid out in the November report. The dovish shift in the voting profile (6–3 for 50bps in December; 7–2 for 75bps in November) had little market impact, with any signal of a shift of sentiment within the Committee being overshadowed by the still formidable inflation outlook that warrants further increases in interest rates over coming months.

A final note on China. This week we have continued to see further progress away from COVID-zero, with broad-based regular testing for the virus resigned to the past. Authorities are also making a concerted effort to hold up then stoke confidence in the outlook as COVID-19 spreads across the country, inevitably causing health consequences for at-risk groups. For our growth expectations to be met for 2023, confidence amongst households must be robust, else they continue to choose to stay home and not spend. How consumption responds a month or two after the removal of restrictions will determine the skew of risks for household demand in 2023. That in turn will give a guide on the likelihood of an upturn in domestically-focused investment, across the business sector and for housing. As outlined in Market Outlook, the global green transition and Asia's structural development are creating broad-based and long-lasting export opportunities for China. But the initial wave of investment could prove bumpy given both domestic and global uncertainties, even with the policy stance highly accommodative and China's competitiveness improving ahead of anticipated FX appreciation.

This is the last edition of Cliff Notes until late January 2023. Merry Christmas and best wishes for 2023.

Week ahead & data wrap

Timing is everything

Reflecting back on 2022, the key themes that we identified at the start of the year were a consistent presence throughout; where they surprised was often in terms of their magnitude. We think that in the year ahead, the debates about the economy will be increasingly coloured by the fact that monetary policy comes with lags – in both directions.

We've been running a fairly consistent story about the New Zealand economy over this year. Monetary and fiscal stimulus during the Covid shock bought us a huge lift in demand – but this was in the face of what proved to be largely a supply-side hit. The result was an overheating of the economy and a resurgence in inflation. And over the course of 2022, the bill has come due in the form of higher interest rates.

Even so, the extent of both the resurgence of inflation and the monetary policy response has been a surprise. Early in the year, we forecast that inflation would soon peak at 6.3%, and recede to 3.5% by the end of this year. But by the June quarter, inflation had reached 7.3%. We still think that the peak has now passed (although the Reserve Bank is forecasting another lift in the near term). But we now expect that it will remain uncomfortably high for longer, not returning within the 1–3% target range until mid-2024.

Similarly, we expected the Official Cash Rate to rise from 0.75% at the start of this year to reach a peak of 3% – a forecast that was market-leading at the time we made it. Instead, the cash rate has ended the year at 4.25%, with a high likelihood of further large increases in the early part of next year.

We weren't alone in this regard – a similar story played out in many other advanced economies over the course of this year. Where New Zealand was different turned out to be mostly in terms of timing. Our Covid elimination response in 2020 meant that we were able to operate for the best part of a year largely without domestic restrictions (the one, big, remaining restriction was the border closure).

As a result, the New Zealand economy was able to build up more of a head of steam than other countries; economic activity rose above pre-Covid levels earlier than elsewhere. But that meant that the inflation issue came to a head earlier as well. In that light, while the RBNZ may have been among the first to start tightening monetary policy, it wasn't 'early' in relation to the prevailing economic conditions, and has found itself playing catch-up just as much as its overseas peers.

It's well recognised that monetary policy works with a lag. With that in mind, we spent much of the year highlighting the channels that we'd be watching to see if it was having the required effect: from interest rates to the housing market, to households' willingness to spend, to business activity, to the demand for workers, to wage pressures and ultimately to inflation.

On the first part, the results have been clear. House prices started to fall at the end of 2021 in response to the rise in fixed-term mortgage rates, and they're now down almost 14% from their peak on average. That still only takes them back to where they were in early 2021, which just goes to show how massive the run-up in prices was in the first place.

Despite this hit to household wealth, consumer spending has been fairly resilient to date. Spending in dollar terms has continued to grow at a solid clip, although increasingly that has reflected rising prices rather than volumes.

What has helped is that household incomes have been growing strongly too. At the start of this year, wage growth was the shoe that had yet to drop in this cycle, prompting questions around whether something had changed in the structure of the labour market. That didn't last long though – wage growth has accelerated sharply in the last few quarters, on some measures reaching its fastest pace in decades. Average wages are now rising fast enough to keep pace with consumer price inflation.

However, there is one area where wage growth will increasingly fall short in the year ahead. Mortgage interest payments are set to rise sharply in the coming months, as borrowers who fixed in previous years at mortgage rates below 3% start to roll onto rates that are now well above 6%. That will put a growing squeeze on households' discretionary spending, and in time we think it will provide the necessary braking effect on inflation.

Mortgage fixing has been a key reason for the lagged effects of monetary policy – the consequences of past OCR decisions will be far more apparent in the next twelve months than they were in the past twelve. But this point applies in both directions. Our forecasts include an extended series of OCR cuts over 2024 and 2025; on our estimates, this is what it would take just to stabilise the effective average mortgage rate that borrowers are paying by 2025.

In other words, this lag in the transmission of monetary policy means that the RBNZ will have to do a lot just to take its foot off the brake in time, never mind hitting the accelerator. And given the RBNZ's adopted 'stitch in time' approach – strong early action reduces the risk of having to do even more later – the need to start thinking about the appropriate timing of OCR cuts is not all that far away. Certainly financial markets will be raring to price in the next phase of the cycle, especially with economic activity and the labour market set to weaken markedly over the year ahead.

Michael Gordon, Acting Chief Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 12	Oct net migration	3430	3343	–
	Nov REINZ house sales %yr	-31.5%	-36.1%	–
	Nov REINZ house prices %yr	-10.9%	-13.7%	–
Tue 13	Nov food price index	0.8%	0.0%	-0.3%
Wed 14	Q3 current account % of GDP	-7.7%	-7.9%	-8.0%
Thu 15	Q3 GDP	1.9%	2.0%	0.9%
Fri 16	Nov manufacturing PMI	49.1	47.4	–

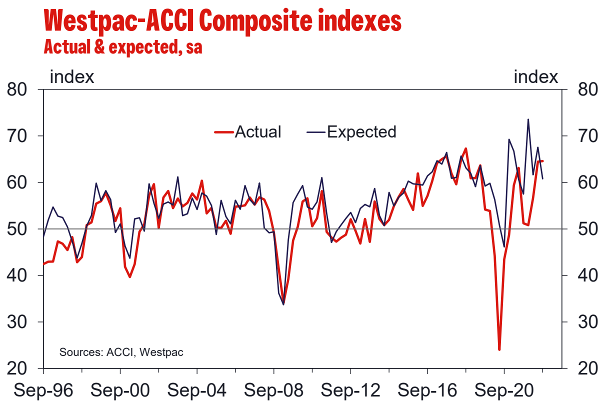
Aus Q4 ACCI–Westpac business survey

Dec 20, Last: 64.6

The ACCI–Westpac business survey for the December quarter, conducted through November into December, will provide a timely update on manufacturing and insights into economy wide trends.

Momentum in the manufacturing sector held firm in Q3, supported by a reopening burst in demand that led to a surge in new orders and output. The evolution of these reopening dynamics will be of keen interest in the December quarter.

The survey also highlights that the manufacturing sector is facing a broad set of challenges. Labour and material shortages, in particular, are acting as a major drag on business activity. Additionally, soaring input costs are flowing through (in part) to higher prices and squeezing margins.

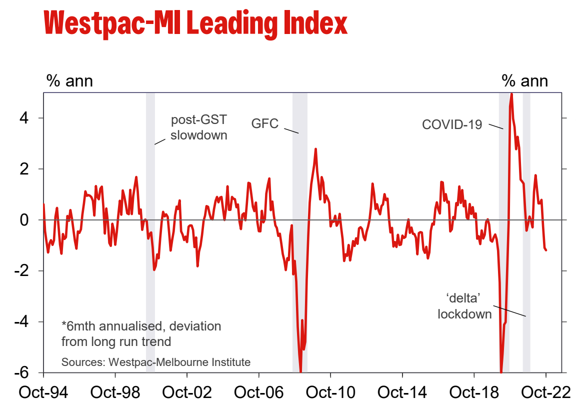


Aus Nov Westpac–MI Leading Index

Dec 21, Last: –1.19%

The six-month annualised growth rate in the Leading Index fell to –1.19% in October, pointing to a material loss in momentum to a below-trend growth pace heading into 2023.

The November update is likely to show another weak read. It will include positive updates for some components: the ASX200 up a further 6.1%; the Westpac–MI Consumer Expectations Index up 4%. But this is likely to be offset by weak updates on dwelling approvals (–18.5%) and a slightly softer tone around the labour market. Other components – including US industrial production, commodity prices and the yield spread, and the Westpac–MI Unemployment Expectations Index – look to be largely unchanged.



Aus Nov private sector credit

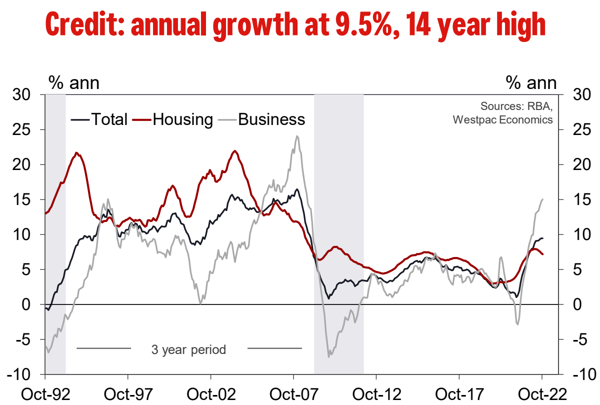
Dec 23, Last: 0.6%, WBC f/c: 0.5%
Mkt f/c: 0.5%, Range: 0.5% to 0.6%

A gradual slowing in the monthly pace of credit growth is underway – as rapidly rising interest rates reduce the borrowing capacity of households, and the economy more broadly loses momentum.

This comes after a period of strong credit growth, as households and businesses responded to earlier policy stimulus. Over the year to October, credit grew by 9.5%, the fastest annual pace since 2008.

Monthly credit growth has eased from 0.9% throughout the June quarter to 0.8% for July and August, a 0.7% result for September and then 0.6% for October.

We anticipate that credit growth will edge down to 0.5% in November, led by housing, as well as some easing in the recent strong pace of business lending. New lending for housing is in fast retreat, contracting by 23% over the 9 months to October. Annual growth eases to 9.0%, moderating from the October cycle peak.



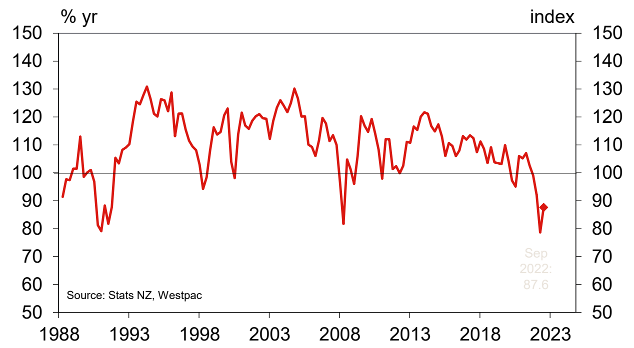
NZ Q4 Westpac McDermott Miller Consumer Confidence

Dec 19, Last: 87.6

Consumer confidence rebounded in the September quarter, with sentiment likely to have been boosted by the firming in economic conditions and easing of health restrictions following the peak in the Omicron wave. Even so, confidence remained very weak, with households reporting ongoing concerns about their financial position as consumer prices and mortgage interest costs pushed higher. There was also continued pessimism around the outlook for economic conditions more broadly.

Since our previous survey, the headwinds buffeting households have remained intense. Mortgage rates have taken another step higher. There's been large increases in living costs. And the housing market has continued to weaken. The combination of those factors points to mounting pressure on households' balance sheets.

Consumer confidence



NZ Nov ANZBO business confidence

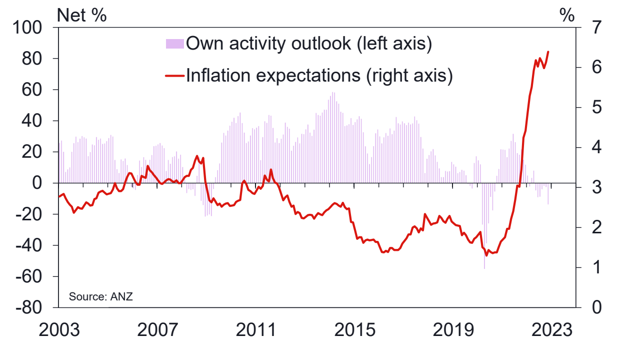
Dec 20, Last: –57.1

Business confidence dropped further into pessimistic territory in November. In addition, increasing numbers of businesses also reported that they expect trading conditions on their own shop floors will deteriorate over the coming months.

Confidence is set to remain low in the December survey. Businesses are grappling with a range of challenges, including rising interest costs and ongoing shortages of staff.

The survey's cost and pricing gauges will be a key focus. In November, large numbers of firms reported continued pressure on operating costs. However, the numbers of businesses who are actually passing on those increases eased back. We'll be watching to see if that pattern has continued.

NZ business confidence



NZ GlobalDairyTrade auction, whole milk powder prices

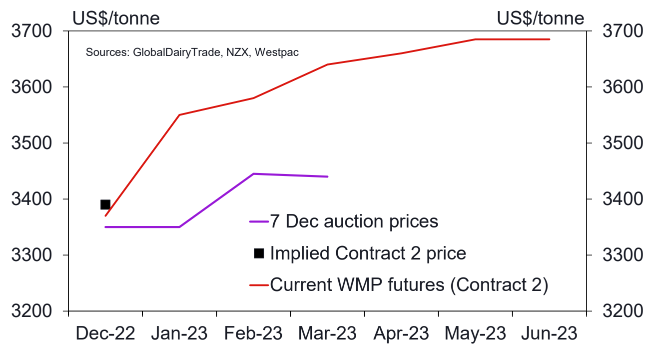
Dec 21, Last: 0.1%, Westpac: +1.0%

We expect whole milk powder prices (WMP) to lift 1% at the upcoming auction. This follows a 0.1% price rise at the previous auction.

Our pick is lower than the circa 3% price rise that the futures market is pointing to (as at 12pm Friday 16 December).

At this juncture and with tight global dairy supply fully priced into the market, the dairy market is focused on Chinese Covid developments. On that front, there have been further easing of restrictions and this is the likely catalyst for the potential auction price strength.

Whole milk powder prices



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 19					
NZ	Nov BusinessNZ PSI	57.4	–	–	Has picked up with improving conditions in hospitality.
	Q4 Westpac–MM consumer confidence	87.6	–	–	Financial pressures have continued to build.
Ger	Dec IFO business climate survey	86.3	–	–	Risks are heightened heading into the winter months.
US	Dec NAHB housing market index	33	34	–	Housing market under significant and lasting pressure.
Tue 20					
Aus	RBA minutes	–	–	–	More colour on the December decision.
	Q4 ACCI–Westpac business survey	64.6	–	–	Manufacturing supported by reopening through mid-year.
NZ	Nov trade balance $mn	–2129	–	–1800	Export prices have eased, import cost pressures continuing.
	Dec ANZ business confidence	–57.1	–	–	Set to remain low in response to tighter financial conditions.
Eur	Dec consumer confidence	–23.9	–	–	Confidence is consolidating but still at historic lows.
US	Nov housing starts	–4.2%	–1.5%	–	Demand is being crimped by rising interest rates…
	Nov building permits	–3.3%	–1.0%	–	… limiting near-term support for residential construction.
Wed 21					
Aus	Nov Westpac–MI Leading Index	–1.19%	–	–	Pointing to a material loss in momentum heading into 2023.
NZ	GlobalDairyTrade auction (WMP)	0.1%	–	1.0%	Global dairy prices lifting as China's Covid restrictions ease.
	Dec ANZ consumer confidence	80.7	–	–	Continues to be weighed down by financial concerns.
US	Nov existing home sales	–5.9%	–5.2%	–	Declines in sales volumes are well entrenched.
	Dec consumer confidence index	100.2	101.0	–	Rates and inflation offsetting labour market optimism.
Thu 22					
UK	Q3 GDP	–0.2%	–	–	Final estimate.
US	Q3 GDP, annualised	2.9%	2.9%	–	Final estimate.
	Initial jobless claims	211k	–	–	To remain at relatively low levels for now.
	Nov Chicago Fed activity index	–0.05	–	–	Growth outlook…
	Nov leading index	–0.8%	–0.4%	–	… clearly deteriorating.
	Dec Kansas City Fed index	–6	–	–	Regional surveys generally showing weakness.
Fri 23					
Aus	Nov private sector credit	0.6%	0.5%	0.5%	Gradual slowdown: impacted by higher rates & slowing economy.
Jpn	Nov CPI %yr	3.7%	3.9%	–	Price pressures building from weak Yen; BoJ unperturbed.
US	Nov durable goods orders	1.1%	–0.8%	–	Core orders pointing to subdued investment spending.
	Nov personal income	0.7%	0.2%	–	Nominal income growth surprisingly robust but inflation…
	Nov personal spending	0.8%	0.2%	–	… pressures will limit real spending capacity into 2023.
	Nov PCE deflator	0.3%	0.2%	–	Close attention on core PCE inflation…
	Nov core PCE deflator	0.2%	0.2%	–	… as tightening pace begins to slow.
	Dec Uni. of Michigan sentiment	59.1	59.1	–	Final estimate.
	Nov new home sales	7.5%	–5.1%	–	Return to sizeable declines widely expected.

Forecasts

Interest rate forecasts

Australia	Latest (16 Dec)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.10	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	3.19	3.97	4.05	4.05	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.68	3.80	3.75	3.70	3.60	3.55	3.50	3.45	3.40
3 Year Bond	3.14	3.35	3.35	3.35	3.30	3.30	3.30	3.25	3.20
10 Year Bond	3.44	3.20	3.10	3.00	2.90	2.80	2.70	2.60	2.50
10 Year Spread to US (bps)	-4	-20	-20	-20	-20	-10	0	0	0
US									
Fed Funds	4.375	4.875	4.875	4.875	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.48	3.40	3.30	3.20	3.10	2.90	2.70	2.60	2.50
New Zealand									
Cash	4.25	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75
90 day bill	4.55	5.50	5.60	5.60	5.50	5.05	4.55	4.05	3.75
2 year swap	5.27	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50
10 Year Bond	4.29	4.00	3.95	3.90	3.80	3.70	3.60	3.50	3.50
10 Year spread to US	81	60	65	70	70	80	90	90	100

Exchange rate forecasts

Australia	Latest (16 Dec)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6717	0.69	0.70	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6361	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	137.23	136	135	134	132	130	128	126	124
EUR/USD	1.0647	1.06	1.07	1.09	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2210	1.22	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.9709	6.90	6.80	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0568	1.08	1.08	1.09	1.10	1.11	1.13	1.13	1.13

Australian economic growth forecasts

	2022			2023				Calendar years			
% change	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2021	2022f	2023f	2024f
GDP % qtr	0.9	0.6	0.6	0.6	0.2	0.0	0.2	–	–	–	–
%yr end	3.2	5.9	2.6	2.7	2.0	1.4	1.0	4.6	2.6	1.0	2.0
Unemployment rate %	3.8	3.5	3.3	3.3	3.9	4.5	4.6	4.7	3.3	4.6	5.1
Wages (WPI)	0.8	1.0	1.1	1.1	1.1	1.1	1.1	–	–	–	–
annual chg	2.6	3.1	3.6	4.1	4.4	4.5	4.5	2.3	3.6	4.5	3.5
CPI Headline	1.8	1.8	1.6	1.3	0.8	1.0	0.7	–	–	–	–
annual chg	6.1	7.3	7.5	6.6	5.6	4.8	3.9	3.5	7.5	3.9	3.0
Trimmed mean	1.6	1.8	1.7	1.3	0.9	0.7	0.7	–	–	–	–
annual chg	4.9	6.1	6.7	6.5	5.8	4.6	3.6	2.6	6.7	3.6	3.0

New Zealand economic growth forecasts

	2022			2023				Calendar years			
% change	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2021	2022f	2023f	2024f
GDP % qtr	1.9	2.0	0.5	0.4	0.0	-0.1	-0.2	–	–	–	–
Annual avg change	1.1	2.7	2.9	3.9	4.5	3.2	2.2	6.1	2.9	2.2	0.0
Unemployment rate %	3.3	3.3	3.3	3.4	3.5	3.7	3.9	3.2	3.3	3.9	4.8
CPI % qtr	1.7	2.2	1.1	1.6	1.0	1.2	0.6	–	–	–	–
Annual change	7.3	7.2	6.9	6.7	5.9	5.0	4.4	5.9	6.9	4.4	2.4

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