AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 23 January 2023

Editorial: Inflation dynamics point to RBA's tightening cycle peaking after the FOMC.

Aus: Westpac-MI Leading Index, Q4 CPI, business survey, Australia Day public holiday.

NZ: Q4 CPI, business confidence.

Asia: Lunar New Year.

US: Q4 GDP, leading index, durable goods orders, personal income and spending, PCE deflator, house sales.

Global: S&P Global PMIs.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 20 JANUARY 2023.

WESTPAC INSTITUTIONAL BANK

Inflation dynamics point to RBA's tightening cycle peaking after the FOMC

The central issue for the economies and markets will be the evolution of inflation over 2023.

Westpac forecasts that headline inflation in Australia will peak at 7.4% in 2022 (December quarterly result to be released on January 25).

That read will be an increase from 6.3% in the year to June 2022.

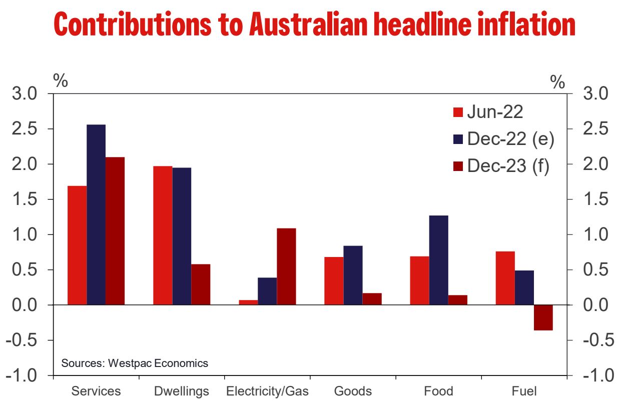
We expect headline inflation in 2023 to slow to 3.7% – well below the Reserve Bank's current forecast of 4.7%, although it is likely that the RBA will lower its forecast in the February Statement on Monetary Policy.

While lower than the current official forecast the annual print in 2023 will still be well above the Bank's 2–3% target range, most likely precluding it from easing policy anytime in 2023.

With inflation running well above the target range it seems it will be reluctant to ease policy during 2023 despite a stagnating economy; a rising unemployment rate and a slowdown in inflation momentum in the second half of 2023.

Figure 1 sets out the forecast contribution to inflation from the key components, highlighting the evolution of those components in 2023.

Figure 1:



Key factors to note are:

- The contribution to inflation from dwellings and rent will slow dramatically in 2023. In particular dwelling costs which contributed 1.87 ppt's to inflation in the year to June 2022 and 1.70 ppt's to December will slow to 0.29 ppt's in 2023. Rents themselves that lifted from 0.1 ppt's in June to 0.25 ppt's in December are likely to hold at 0.29 ppt's in 2023. The trend in the slowdown in dwelling costs is already underway with the monthly measure showing that dwelling costs have slowed from 1.5–2.0% per month in the middle of 2022 to only 0.1 % in November following 0.5% in both October and September.

- The services measure used in Figure 1 combines both private sector and public sector (including both health and education) services. The lift in the services contribution between June and December is apparent (1.69 ppt's up to 2.56 ppt's). This measure most closely captures the impact on inflation of rising wages. We expect wages growth to lift from the 3.1% recorded for the September quarter 2022 to 4.5% by June before slowing in the second half. Although over the year we have a slowing in the contribution relative to December (2.1 ppt's) the risks on this component are to the upside. Because these forces most closely capture the "demand" element they are likely to keep the RBA on "inflation alert" during the first half of 2023. The slowing in these pressures is expected in the second half of 2023 and will provide the RBA with some comfort to remain on hold in the second half of 2023 with a view to easing policy in 2024.

- Easing supply chain pressures not only directly lower building cost inflation but direct goods inflation. We expect goods to contribute only 0.17 ppt's in 2023 down from 0.84 ppt's in 2022.

- Fuel and food prices are also expected to contribute to the slowdown in inflation in 2023 – food 1.27 ppt's in 2022 down to 0.14 ppt's; fuel: 0.76 ppt's in June and 0.49 ppt's in December. Down to –0.36% in 2023.

- Partially offsetting these positive developments is energy with electricity/gas contributing 1.09 ppt's in 2023 compared to 0.39 ppt's in 2022.

So, for Australia the forecast reduction in inflation in 2023 of 3.7 ppt's (from 7.4% to 3.7%) is driven by dwelling costs (1.38 ppt's); food (1.13 ppt's); goods (0.68 ppt's); and services (0.46 ppt's).

Markets are currently focussing on the theme that global inflation is falling faster than expected and that should be an encouraging signal for central banks.

We agree that inflation relating to supply chains and other supply shocks is largely a global story. Our forecasts for 2023 certainly incorporate those messages – around building costs; fuel; food and goods.

But the demand factors in Australia, largely captured by services, are likely to intensify in the first half of 2023 before easing in the second half.

Those intensifying demand pressures should keep the RBA in tightening mode in the first half of 2023.

The "global theme" is best captured by the inflation developments in the US.

Figure 2, shows our assessments of the contribution to inflation of the comparable components in the US, including estimates of the components making up our (top down) forecast of 2.3% headline inflation for the US in 2023.

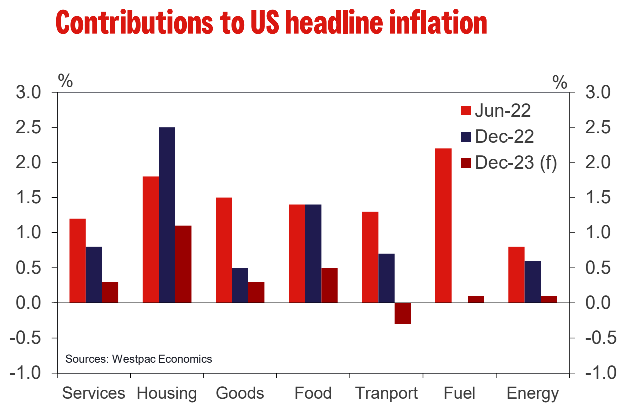
The figure shows that actual headline inflation in the US slowed from 9.1% in June 2022 to 6.5% in December. That compares with our forecast lift in inflation over the same period in Australia from 6.3% to 7.4%.

Some points to note:

- The services contribution to inflation slowed between June and December in contrast with Australia. This is likely to be explained by Australia being behind the US on the wages and labour market cycle; while wages growth is set to accelerate in Australia it seems to have peaked in the US.

- Easing of supply chain pressures has already become apparent in goods inflation in the US and that is expected to ease further in 2023, as we expect for Australia.

Figure 2:



- Easing in food pressures is expected in the US along similar lines to Australia.
- Over 2023, housing pressures in the US (as measured by owners equivalent rents) are expected to ease substantially, just as we are seeing in Australia (although Australia takes a different approach to measuring housing cost pressures). In the US market driven rents are already falling although there will be lag before those effects show up in US inflation significantly reducing shelter's contribution to inflation through 2023.
- A major difference between Australia and US inflation in 2023 is expected to be around utility inflation (electricity/gas) where Australia's market rigidities are expected to boost inflation in 2023 whereas in the US markets are operating efficiently.

Conclusion

Inflation is expected to ease substantially in both Australia and the US in 2023. Supply issues, which represent global pressures, associated with housing; goods; food; and fuel will all generate downward pressure on inflation.

However, the key services inflation cycle looks to be ahead for Australia while it is slowing in the US. Wage inflation in Australia is still lifting as labour markets remain tight through the first half of the year.

Headline inflation in Australia will also be held up in 2023 by rising gas and electricity prices.

The high starting point for inflation and initially slow progress should mean that both the Federal Reserve and RBA have more work to do before remaining on hold in the second half of 2023.

With Australia's inflation cycle behind the US and both central banks facing much higher, albeit slowing, inflation than their target levels it seems appropriate that they will continue to tighten through the early months of 2023.

On this basis that the demand cycle in Australia is lagging the US it also seems prudent for the RBA to be behind the FOMC on the cycle.

We expect that the FOMC's tightening cycle will peak at the March FOMC meeting while the RBA will persist for a little longer with the peak being in May.

Bill Evans, Chief Economist (Westpac Group)

This week's data was broadly supportive of confidence, with the risks around inflation and therefore the policy outlook thought to have improved into the new year.

Beginning in Australia, the Westpac-MI Consumer Sentiment survey reported another improvement in confidence, the headline index up 5.0% in January to be up 8.1% over the last two months. However, at 84.3, confidence among households is still in deeply pessimistic territory comparable to other major recessions. The lack of an RBA Board meeting in January looks to have provided households some temporary relief from the tightening cycle, highlighted by a 10.7% lift in sentiment among mortgage holders.

Although the survey's sub-indexes showed an improvement in households' expectations around the economic outlook and finances, households' spending intentions for major items remained little changed and acutely pessimistic given the persistence of cost-of-living pressures. As detailed in our CPI preview, Westpac expects inflation to peak in Q4 2022 at 7.4%yr after a 1.5% quarterly lift in consumer prices before gradually easing over the course of 2023. Still, with more interest rate rises anticipated in coming months, consumer confidence will likely remain in a fragile state.

The December labour force survey provided the largest domestic surprise of the week. Against a market consensus of an around-trend 30k gain in employment, 14.6k jobs were instead lost in the month. This follows multiple months of robust prints for employment growth, averaging around 40k between August and November. Illness remains the key factor limiting employment and hours worked, as evinced by the fact that 50% more people worked reduced hours than is typically seen in December. This is also likely why the participation rate declined by 0.2ppts to 66.6%, resulting in the unemployment rate holding at 3.5%.

It was also interesting to note though that the proportion of workers taking annual leave was below the pre-pandemic average in December despite 2022/23 being the first summer of unrestricted travel since the pandemic. This was also partly reflected in Australia's overseas arrivals and departures data wherein we estimate that departures, despite posting a 345.6k lift in original terms, underperformed once seasonally adjusted. Progress in short-term visitor flows has been a key positive of late, with the excess of arrivals over departures averaging roughly 65k/mth so far in FY23, pointing to some upside risk to the Government's net overseas migration forecast of 235k.

In New Zealand meanwhile, we saw evidence of the impact of higher rates and inflation on consumer spending and the housing market. In December, retail card spending materially disappointed expectations, falling 2.5% following a 0.3% rise in November. House prices also continued their decline, taking the cumulative loss-to-date to 15% -- Westpac believes on its way to a trough reading of -21%. Unsurprisingly, given the much-higher marginal cost of debt, house sales are now down 39% versus a year ago. This week, Westpac NZ economics released a detailed view on the impact of higher rates on household finances and wealth. Ahead of next week's Q4 CPI, their preview was also released.

Arguably though, the data release of the week came from offshore, with Chinese GDP and the associated partials witnessing to the turmoil created by the December end of COVID-zero but also the underlying strength of their economy. Instead of contracting, GDP stalled in the December quarter as households' panic buying of necessities offset a significant fall in services consumption. Fixed asset investment meanwhile remained resilient, both to the 10% decline in residential construction through 2022 and COVID-zero's end, with total investment up 5% for the year. Most notable for the outlook is the strength of high-tech investment in both manufacturing and services, up 22% and 12% respectively in 2022.

Not only is this a way to offset the cost to the economy of the structural decline and ageing of their population, but also to produce the increased productivity and profitability necessary to fund a doubling in per capita GDP by 2035 as Chinese authorities intend. We continue to expect China's economy to grow at an average rate of 5% or more through 2022-2024, and for this rate of growth to prove sustainable into the medium term. There may however be consequences for geopolitical relations, with US authorities showing through 2022 a desire to restrict China's rise, both in the global economy and industry.

Still in Asia, the Bank of Japan kept policy unchanged at its January meeting, having surprised by adjusting their stance the month prior. The January decision highlights the doubts the BoJ have over the sustainability of inflation at-or-above target into the medium term despite the extraordinary inflation the developed-world is currently experiencing. Arguably, these doubts could grow hence, with the global fight against inflation proving successful – best evinced by the US. With the evolving global backdrop and having held firm in January, it is difficult to see the BoJ making another change before Governor Kuroda steps down in April, keeping the historic divergence in rates between Japan and the rest of the developed world intact.

Then to the US. The limited commentary we have seen from FOMC members to date in 2023 has, by and large, suggested the Committee remains on track to raise the fed funds rate to a peak around 5% at March or May – Westpac continues to expect two more 25bp moves to a 4.875% peak in March. However, increasingly it is becoming clear that activity in the economy is deteriorating more than the FOMC expected. Retail sales was an example this week.

More to the point for the FOMC though, the inflation detail is now showing very clear signs of rapid disinflation. From a peak of 7.6% annualised at June, the three-month change in 'sticky' prices as measured by the Atlanta Federal Reserve has fallen to 5.5%. Excluding shelter, the deceleration has been more than twice as large, from 7.7% to 2.9% annualised. 'Flexible' price growth on a core basis has dropped from +8.7% to -6.8% annualised over the same period. These are very large and sustained moves which put US headline inflation on a path back near the FOMC's 2.0% annualised target in the second half of the year.

It is not surprising then the market is pricing in rate cuts by the FOMC in the second half of the year and that the 10-year yield has declined almost 50bps through January. With the US labour market to only weaken slowly, and given the FOMC's resolve over inflation, we believe a 2024 start date for rate cuts is more probable, although we then forecast a hefty 200bps of cuts to end-2024.

While Europe and the UK have seen much less of an improvement in printed inflation, upside risks are subsiding and there is growing belief that through 2023 a marked reduction in price pressures will occur. So, through January, a more cautious tone has been struck by officials on the policy outlook. Most notably, ECB Chief Economist Lane put the focus squarely on the tightening to date when speaking in January, with interest rates now seen as "ballpark neutral" – as an aside, Westpac believes they are best considered contractionary, particularly if market spreads and the limited risk tolerance of banks is taken into consideration. To that end, we anticipate the ECB's tightening cycle will conclude at roughly the same time as the FOMC's, but at a much lower level of rates. For EUR/USD and the US dollar more broadly, relative growth opportunities should then take centre stage, with Euro and Asia gaining favour as this transition occurs.

Week ahead & data wrap

The new year has gotten off to a rocky start for the New Zealand economy. Signs of a downturn in both the household and business sectors are mounting. And with a significant tightening in financial conditions over the past year, we expect that economic activity will continue to weaken over 2023. Despite that, we're yet to see signs that inflation pressures are easing.

Looking first at the household sector, nominal spending levels slumped in December, dropping 2.5%. Spending was down in nearly all categories, with sizeable declines in discretionary areas, like durables and apparel. That's particularly notable as for most of the past year, households were continuing to dial up their discretionary spending despite some large price increases.

As we've been highlighting for some time, households' finances are coming under increasing pressure on several big fronts. First is the sharp rise in consumer prices that has been eating away at households' spending power. The past year has seen particularly large increases in the prices of necessities. Notably, housing and accommodation costs were up 9% in the year to September, and food price inflation hit a 32 year high of 11% in the year to December. Those increases are being felt by every family across the country. They've been particularly tough on those families on lower incomes, who tend to spend a larger share of their earnings on necessities.

Compounding the pressure on households' finances has been the sharp rise in mortgage interest rates over the past year. Thus far, many households have been insulated from the march higher in mortgage rates. That's because around 90% of New Zealand mortgages are on fixed rates, and many borrowers are still on the very low rates that were on offer in the early stages of the pandemic.

However, as discussed in our recent report *"From squeeze to crush"*[1] a dramatic increase in borrowing costs is set to hit many New Zealand households through 2023. Around half of all loans will come up for refixing over 2023. Many borrowers will be faced with significant increases in debt servicing costs. In some cases, borrowers could see their mortgage rates rising by more than 3 percentage points. That will offset much of the boost from the strong labour market and accrued savings.

As the full brunt of interest rate increases ripples through the economy, household spending is set to slow sharply and we expect that the economy will slip into a shallow recession in late 2023 / early 2024. And as activity weakens, we're also likely to see unemployment trending higher, rising from 3.3% currently up to 4.8% over the next few years. For the affected households, that will further compound the pressure on their finances.

Adding to the downwards pressure on household demand, the housing market has continued to slow. Prices fell by another 1.3% in December and are now down 15% since their peak in 2021. We've also seen sales dropping to lows that we last saw during the global financial crisis. New Zealanders hold a large amount of their wealth in owner occupied or investor housing. Consequently, the fall in prices now in train represents a sizeable knock to many households' net worth.

The downturn in demand is already being felt in the business sector. The past three months saw a sharp fall in trading activity, with a net 13% of businesses in the latest Survey of Business Opinion reporting weaker trading activity in the December quarter. The majority of businesses expect activity will continue to weaken over the early part of 2023, with businesses scaling back their plans for hiring and capital expenditure.

But while the economy may be turning down, that's after an extended period where it's been running hot. For now, the economy remains stretched. Crucially, we're not seeing any signs that inflation pressures are easing. In fact, recent months have seen increasing numbers of businesses reporting that operating costs have increased. At the same time, there has also been a lift in the number of businesses who have been raising their output prices.

We expect that those ongoing pressures will be reflected in next week's inflation report. We estimate that consumer prices rose by 1.1% in the three months to December. That would see the annual inflation rate slipping to 6.9%, down from 7.2% in the year to September. But even with the annual inflation rate starting to soften, prices are still rising at an alarming pace, with annual inflation remaining close to multi-decade highs.

As always, the devil will be in the detail. The December quarter saw big swings in some specific prices. That includes large supply driven increases in food prices and a continued post-pandemic rise in air fares, as well as a sharp 8% drop in fuel prices. But looking at the underlying trend in prices, most measures of core inflation have been tracking above 6%, and we expect that they will have remained around those levels in the December quarter. Looking ahead, we don't expect that inflation will be back within the RBNZ's target band until mid-2024. That will keep the pressure on the RBNZ to continue hiking the cash rate for some time yet.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 17	Dec REINZ house sales %yr	–36.1%	–39.0%	–
	Dec REINZ house prices %yr	–34.3%	–13.7%	–
	Q4 NZIER survey of business opinion	–42.6	–72.9	–
Wed 18	GlobalDairyTrade auction (WMP)	–1.4%	0.1%	–
	Dec retail card spending	0.3%	–2.5%	0.6%
Thu 19	Q4 Westpac–MM employment conf.	115.2	108.0	–
	Dec food price index	0.0%	1.1%	0.6%
Fri 20	Dec manufacturing PMI	47.2	47.2	–
	Nov net migration	3857	6110	–

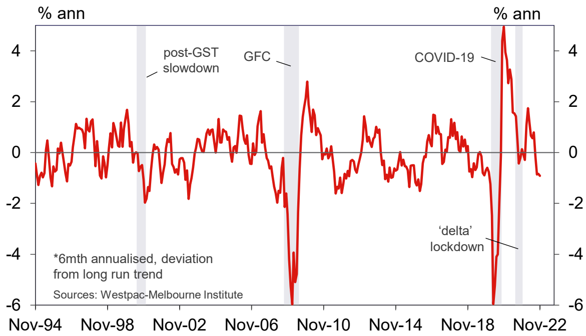
Aus Dec Westpac–MI Leading Index

Jan 25, Last: –0.92%

The six-month annualised growth rate in the Leading Index fell from –0.84% in October to –0.92% in November, the sub-zero read indicating below trend growth momentum heading into late 2022 that will carry well into 2023.

The December update is likely to show another weak read with monthly updates including a large fall in commodity prices (down 10% in AUD terms), a further decline in dwelling approvals (–9%), a sell-off in equities (ASX200 down -3.4%) and more soft reads on US industrial production and aggregate hours worked.

Westpac-MI Leading Index



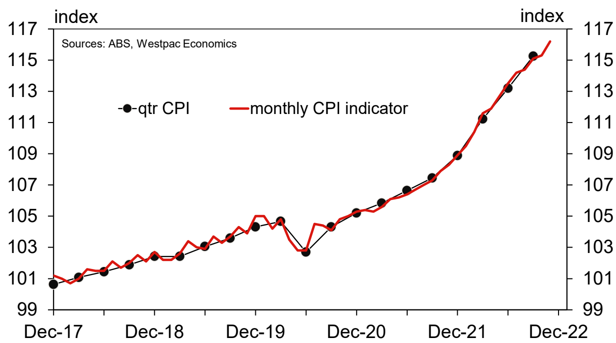
Aus Q4 Consumer Price Index %qtr

Jan 25, Last: 1.8%, WBC f/c: 1.5%
Mkt f/c: 1.6%, Range: 1.5% to 2.2%

The CPI lifted 1.8% in Q3, greater than the market's 1.6% forecast. The main surprise was the +3.2% jump in electricity prices; Westpac had forecast a -17% fall due to the state government rebates. The ABS estimates that excluding the rebates electricity prices would have risen 15.6% in the quarter. The annual pace lifted from 6.1% to 7.3%, the fastest pace since June 1990 (7.7%yr) and significantly faster than the 5.0%yr pace at the peak of the mining boom.

Westpac is forecasting 1.5% rise in Q4 boosting the annual pace 0.1ppt to 7.4% which is our forecast peak for the current cycle. The reasons behind the step down from 1.8%qtr print in Q3 are the ongoing moderation in pace of price increases for food, clothing & footwear, new dwellings and household contents & services. The Trimmed Mean is forecast to lift 1.6%, a moderation from the 1.8% gain in Q3. The annual pace for the Trimmed Mean is set to lift to 6.6%yr, from 6.1%yr. See our **"CPI Preview"** for more information.

CPI Monthly Indicator vs. qtr CPI



NZ Q4 Consumer price inflation

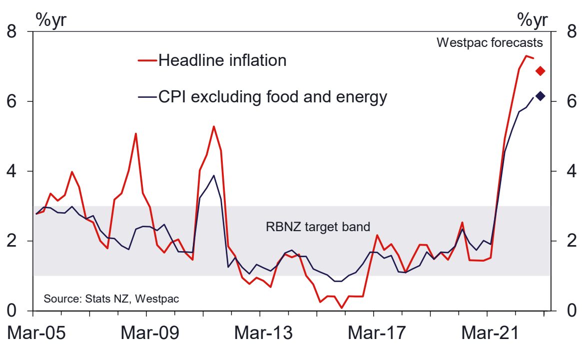
Jan 25, Qty. – Last: +2.2%, Westpac: +1.1%, Market f/c: +1.3%
Jan 25, Annual – Last: +7.2%, Westpac: +6.9%, Market f/c: +7.1%

We estimate that consumer prices rose by 1.1% in the December quarter. While that would see the annual inflation rate slipping from 7.2% last quarter to 6.9%, we're still left with a picture of rapid increases in consumer prices.

The December quarter saw large increases in food prices and housing related costs. December quarter inflation is also likely to be boosted by the post-Covid recovery in domestic and international tourism, and the related price rises for services like airfares. Those increases have been partially offset by the easing in fuel prices.

Measures of core inflation are expected to remain elevated reflecting the strong and widespread price pressures rippling through the economy.

NZ Consumer Price Inflation



NZ Jan ANZBO business confidence

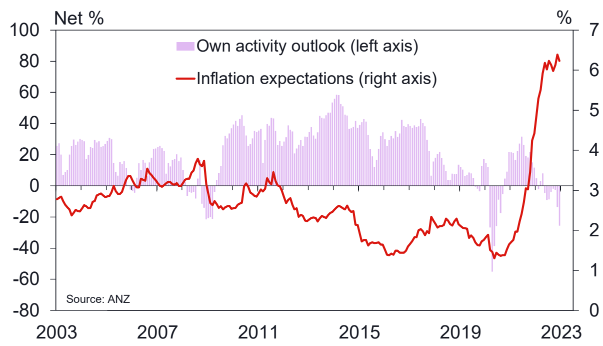
Jan 27, Last: –70.2

Business confidence plummeted to a record low at the end of 2022, with the majority of businesses expecting trading conditions on their own shop floors to deteriorate over the coming months.

With interest costs on the rise and signs that demand is faltering, confidence is set to remain low in the January survey.

The survey's cost and pricing gauges will be a key focus. Large numbers of businesses are reporting pressure on their operating costs, and we expect continued strong pricing pressures over the months ahead.

NZ business confidence



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.

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 23					
Asia	Lunar New Year celebrations	–	–	–	New Year on 22nd. Ongoing celebrations/holidays.
Eur	Jan consumer confidence	–22.2	–	–	Falling gas prices to support up-trend in confidence.
US	Dec leading index	–1.0%	–0.7%	–	Signalling a significant softening in economic conditions.
Tue 24					
Aus	Dec NAB business survey	20	–	–	Nov, conditions still elevated, at +20. Pessimistic mood, at -4.
NZ	Dec BusinessNZ PSI	53.7	–	–	Trended higher last year, but signs demand is cooling.
Jpn	Jan Nikkei manufacturing PMI	48.9	–	–	Manufacturing health depends on support from demand…
	Jan Nikkei services PMI	51.1	–	–	… which is proving to be a positive in the services sector.
Eur	Jan S&P Global manufacturing PMI	47.8	48.5	–	Lower gas prices providing support to mfg…
	Jan S&P Global services PMI	49.8	50.0	–	… and services, but the outlook remains uncertain.
UK	Jan S&P Global manufacturing PMI	45.3	–	–	Conditions for UK manufacturing are weakening materially…
	Jan S&P Global services PMI	49.9	–	–	… services is more optimistic, but headwinds remain.
US	Jan S&P Global manufacturing PMI	46.2	46.5	–	S&P Global paints a bleak picture for mfg and services…
	Jan S&P Global services PMI	44.7	46.0	–	… in stark contrast to ISMs which just tipped into contraction.
	Jan Richmond Fed index	1	–	–	In subdued territory, like other regional surveys.
Wed 25					
Aus	Dec Westpac-MI Leading Index	–0.92%	–	–	Clear signal of slowing to below trend pace.
	Q4 CPI	1.8%	1.6%	1.5%	Electricity pushing on inflation despite rebates but dwelling…
	Q4 CPI %yr	7.3%	7.5%	7.4%	… price inflation is moderating much faster than anticipated.
	Q4 CPI trimmed mean	1.8%	1.5%	1.6%	There are very few negatives to trim from the data which…
	Q4 CPI trimmed mean %yr	6.1%	6.5%	6.6%	… helps to boost core inflation above that for the headline.
NZ	Q4 CPI	2.2%	1.3%	1.1%	Sharp falls in fuel prices limiting the rise in inflation…
	Q4 CPI %yr	7.2%	7.1%	6.9%	… but prices rises remain widespread and rapid.
Ger	Jan IFO business climate survey	88.6	90.6	–	Favourable conditions thus far over winter.
Can	Bank of Canada policy decision	4.25%	4.50%	–	Markets favouring a 25bp rate hike.
Thu 26					
Aus	Australia Day	–	–	–	Public holiday, markets closed.
US	Q4 GDP, annualised	3.2%	2.6%	3.0%	Robust H2 offset H1 declines; stagnation to end-24 f'cast.
	Dec wholesale inventories	1.0%	–	–	Unwanted inventory accrual remains a risk.
	Dec Chicago Fed activity index	–0.05	–	–	Reflecting a subdued growth outlook.
	Initial jobless claims	190k	–	–	Should remain at relatively low levels for time being.
	Dec durable goods orders	–2.1%	2.8%	–	Core orders pointing to subdued investment spending.
	Dec new home sales	5.8%	–4.1%	–	Housing market to remain under significant pressure.
Fri 27					
Aus	Q4 PPI	1.9%	–	–	Falling energy prices should see an easing in PPI inflation.
NZ	Jan ANZBO business confidence	-70.2	–	–	Softening activity, but persistent inflation pressures.
US	Dec personal income	0.4%	0.2%	–	Officials still concerned over robust nominal income growth…
	Dec personal spending	0.1%	–0.1%	–	… which risks a more 'sticky' retreat in inflation pressures.
	Dec PCE deflator	0.1%	0.0%	–	Easing PCE inflation is a key dynamic…
	Dec core PCE deflator	0.2%	0.3%	–	… that must be sustained through early 2023.
	Dec pending home sales	–4.0%	-1.0%	–	Declines in sales volumes are well entrenched.
	Jan Uni. of Michigan sentiment	64.6	64.6	–	Final estimate.

Forecasts

Interest rate forecasts

Australia	Latest (20 Jan)	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	3.27	3.97	4.05	4.05	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.43	3.80	3.75	3.70	3.60	3.55	3.50	3.45	3.40
3 Year Bond	3.01	3.35	3.35	3.35	3.30	3.30	3.30	3.25	3.20
10 Year Bond	3.39	3.20	3.10	3.00	2.90	2.80	2.70	2.60	2.50
10 Year Spread to US (bps)	-1	-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	3.40	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	4.83	5.50	5.60	5.60	5.50	5.05	4.55	4.05	3.75
2 year swap	4.93	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50
10 Year Bond	4.00	4.00	3.95	3.90	3.80	3.70	3.60	3.50	3.50
10 Year spread to US	60	60	65	70	70	80	90	90	100

Exchange rate forecasts

Australia	Latest (20 Jan)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6928	0.69	0.70	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6398	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	128.87	136	135	134	132	130	128	126	124
EUR/USD	1.0840	1.06	1.07	1.09	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2390	1.22	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.7815	6.90	6.80	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0793	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	3.5	3.5	3.5	3.9	4.6	4.7	3.5	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	1.5	1.2	0.7	0.9	0.8	–	–	–	–
annual chg	6.1	7.3	7.4	6.5	5.3	4.4	3.7	3.5	7.4	3.7	3.0
Trimmed mean	1.6	1.8	1.6	1.2	0.8	0.6	0.8	–	–	–	–
annual chg	4.9	6.1	6.6	6.3	5.5	4.3	3.4	2.6	6.6	3.4	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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