AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 30 January 2023

Editorial: Inflation picture supports higher rates.

Aus: retail sales, housing updates (prices, dwelling approvals, finance), credit.

NZ: unemployment rate, LCI, trade balance, building consents, consumer confidence.

China: various PMIs, industrial profits.

Europe: ECB policy decision, Q4 GDP, CPI, unemployment rate.

UK: BoE policy decision.

US: FOMC policy decision, ECI, nonfarm payrolls, unemployment rate, ISMs, house prices, Chicago PMI.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 27 JANUARY 2023.

WESTPAC INSTITUTIONAL BANK

Inflation picture supports higher rates

The December inflation report provides more support for our view that the Reserve Bank will continue raising the cash rate in 2023 from 3.1% to a peak in May of 3.85%.

Last week we discussed the outlook for inflation. We highlighted that global supply pressures were likely to ease markedly in 2023 allowing Australia's headline inflation to fall to 3.7% by end 2023.That was based on our estimate that inflation in 2022 would be 7.4%.

Inflation for 2022 has printed 7.8% – an upside surprise raising the risk that our 3.7% target for 2023 could also be a little higher. But we do not believe that any upward revision will be sufficient to delay the first rate cut which we expect in the March quarter of 2024.

The analysis we used to highlight the important role that global supply factors would play pointed out that the unwinding of these pressures was already underway in the US and that Australia is following suit (goods inflation eased a little from 9.6% in June to 9.5% in December).

Demand forces in the US, typically proxied by services inflation, have already begun to ease in the second half of 2022. Headline inflation in the US has fallen from 9.1% in June 2022 to 6.5% in December 2022. The US measure of services inflation has fallen from a contribution of 1.2ppts to annual inflation in June 2022 to 0.8ppts in December.

That slowing is likely to be associated with the peaking in wage pressures in the US in 2022.

But wage pressures in Australia still have some way to run. We are forecasting wage inflation to lift from 3.1% in the year to the September quarter 2022 to 4.5% in the year to June 2023.

The persistence of services inflation in Australia has been highlighted by the December quarter inflation report. Annual services inflation lifted from 3.3% in the year to June 2022 to 5.5% in the year to December 2022. Major contributors were: holiday travel; meals out; and takeaway food although there was evidence of other widespread pressures.

Inflation pressures were widespread more generally, with nearly 80% of items in the CPI printing at gains in the quarter running above a 3% annualised pace.

These pressures, especially in services, highlight that businesses are responding to strong demand and cost pressures by raising prices and that households are accepting the increases and expecting them to continue, near term inflationary expectations still high.

We argued that the desynchronisation of the US and Australia with respect to services inflation and wages would mean that the RBA tightening cycle is likely to extend beyond the cycle for the Federal Reserve. We currently expect the Federal Reserve to lift the federal funds rate by 25bps at the meeting next week prior to a final 25bp increase at the meeting on March 21–22.

If lower inflation is reflecting easing supply side pressures but price pressures, associated with domestic demand, remain strong then central banks will accept that there is more work to do.

A disturbing aspect of the December inflation report for the Reserve Bank was that while the headline print of 7.8% was a little lower than their most recent forecast of 8.0%, the 6.9%yr gain in the trimmed mean, which the Board uses to gauge sustained inflation pressures, significantly exceeded their forecast of 6.5%.

The December inflation report almost certainly ensures that the Reserve Bank Board lifts the cash rate by 25bps at its next meeting on February 7.

But it is what follows that holds the most interest. We expect that the Board will leave its options open in the Governor's Statement after the February meeting to allow scope to raise rates at the March meeting. A central bank is unlikely to pause when there the evidence of demand pressures and firms seizing some pricing power associated with rising services inflation as we saw in the December inflation report.

Prior to the March Board meeting (March 7) we will see important updates on wages for the December quarter, both from the wage price index on February 22, and the December quarter national accounts on March 1.

With services inflation pressures accelerating (5.5% in December; up from 3.3% in June) the Board should be particularly focussed on the wages report. We expect it will show a marked increase in wage inflation, from 3.1% in the year to September to 3.6% in the year to December.

There will be a monthly inflation report for January (March 1) although with the ABS choosing to exclude the trimmed mean from the monthly series there will be no further updates of this key underlying measure.

Rising wage inflation in the context of intensifying demand-related inflation in the December inflation report will make a convincing case for a further 25bp rate increase at the March Board meeting.

With the cash rate at 3.6% – arguably 0.5–1.0ppt above neutral – and the ongoing need to monitor the accumulated impact of the of the series of rate increases since May 2022 there will be a case for the Board to pause in April, pending further information on inflation in the March quarter inflation report.

That report will be available for the May Board meeting. While we expect that overall inflation pressures will have eased further in the goods sector, upward pressure will still be apparent in services and other wage-related components of the Index.

The meeting will occur on May 2 only two days before the Federal Reserve meeting where a pause will be confidently expected.

An RBA hike in May coinciding with an FOMC pause will be consistent with our view that the RBA tightening cycle has lagged the FOMC cycle.

The decision to go on hold after the increase in May will not reflect a peaking in wage pressures.

But demand conditions are likely to have eased sufficiently for the RBA, with rates firmly in the restrictive zone, to anticipate real difficulties for businesses to continue to pass on higher costs while costs associated with supply chains and even wages (from the second half of 2023) continue to ease.

Conclusion
Persistent inflation pressures will see RBA Board raising the cash rate in February and March. After a pause in April we expect a final move at the May meeting, in recognition of the persistence of demand-related inflation in the first half of 2023.

Bill Evans, Chief Economist (WestpacGroup)

THE WEEK THAT WAS

With much of Asia taking time to celebrate lunar new year and the US/European data calendar light, inflation data for Australia and New Zealand received a lot of attention.

Before the inflation data though, NAB's latest business survey revealed conditions for Australian firms are cooling at an appreciable rate, the 8pt decline at the turn of the year broad based by industry and state. However, conditions are still above average. And, in this survey, an easing in labour costs and upstream prices pressures contributed to a modest improvement in business confidence, up 3pts to -1 – only a slightly pessimistic read.

The Q4 Australian CPI report subsequently provided an upside surprise, headline inflation printing at 1.9% (7.8%yr), well above the market's expectation and our own. Despite stronger-than-expected gains in new dwelling purchase costs and utilities, housing made a relatively minor 0.06ppt contribution to headline inflation's upside surprise. The key contributor was instead a 5.4% surge in recreation prices, as pent-up demand for holidays jolted travel costs 10.9% higher into year end.

Critically though, trimmed mean inflation was broadly in line with Westpac's expectation at 1.7% (6.9%yr), indicating that underlying inflation pressures are generally evolving as anticipated. The Q4 report confirms for us both that the RBA has more to do in the first half of 2023, with three more 25bp hikes expected at the February, March and May meetings, but also that domestic inflation pressures will subside through 2023 and return back to target in 2024. At that time, the RBA will be able to begin unwinding their contractionary policy stance, supporting a modest recovery in GDP growth back to trend in 2025.

New Zealand's Q4 CPI also surprised to the upside, albeit only at the margin (1.4%; 7.2%yr). Like in Australia, travel costs were a key driver of inflation in Q4; so was food. However, pressures were broad-based overall. Critically for policy, the annual rate showed that inflation continued to crest in Q4 instead of accelerating further as the RBNZ had anticipated. This has led our NZ team and the market to become less hawkish on the path for policy in H1 2023.

February's RBNZ meeting is now expected to deliver a 50bp hike instead of 75bps to be followed by another 50bp move in April, resulting in a 5.25% peak for the cycle (previously 5.50%). Note as well that April's 50bp hike is contingent on the state of the economy at that time. If the downturn in activity is sharper than anticipated, or inflation cools quicker, a 25bp final hike to 5.00% could instead be in order.

Turning to Europe and the US, the S&P Global PMIs gained momentum across the board in December. However, the respective levels in both jurisdictions continue to highlight that the greater risk for growth is in the US not Europe. In December, the US service and manufacturing PMIs remained well below the 50 expansion/contraction threshold at 46.6 and 46.8 respectively. Although European manufacturing contracted further in the month (48.8), the service sector measure rebounded into expansion at 50.7. Seasonally warm weather will have contributed, but arguably so did improving sentiment over the outlook and global tourism's progressive re-opening.

Other data for the US also highlighted the uncertainty the nation faces heading into 2023. As we anticipated, headline Q4 GDP growth was robust at 2.9% annualised. But, as was the case in Q3, consumption growth was modest, at circa 2.1%. The composition of consumption was also notable, with growth in services consumption continuing to slow – the 3.2% annual rate at December less than half the cycle peak of H2 2021. Goods consumption also effectively stalled in H2 2022, and residential construction continued to contract at a rapid rate, -19%yr. Had it not been for intangibles spending (R&D etc), business investment would have also contracted in Q4. The support from trade seen through mid-2022 also looks to be giving way.

Over 2022, annual growth in US domestic demand has slowed from 5.5%yr at December 2021 to 1.3%yr currently. And, in 2023, our baseline expectation is that domestic demand will stall, with risks heavily skewed to the downside. With US inflation already in rapid retreat, the foundation for aggressive rate cuts by the FOMC back to a more neutral level during 2024 is in place. Even though two more 25bp rate hikes are priced by Westpac and the market before mid-2023, markets are becoming increasingly focussed on the timing and scale of the subsequent cutting cycle. Next week's FOMC decision and press conference are therefore keenly awaited, particularly after the Bank of Canada called an end to its tightening cycle this week, assuming the outturn is in line with their expectations. Note that for the US, this is without a material disruption from the latest iteration of debt-ceiling uncertainty which looks set to continue through the first half of the year.

Week ahead & data wrap

How hard will the RBNZ pump the brakes?

We have revised down our forecast for the Official Cash Rate and now expect a 50bp rise at the RBNZ's February policy meeting (previously we expected a 75bp rise). Inflation pressures remain strong. However, the acceleration in inflation that the RBNZ has been forecasting has not eventuated. At the same time, a slowdown in demand is taking shape. Against this backdrop, the extent of policy tightening required to get inflation back inside the target band now looks like it will be more moderate than the central bank previously anticipated.

Inflation has remained strong, with the Consumers Price Index rising 1.4% in the December quarter, and prices up 7.2% over the past year. Inflation has been boosted by unusually large price rises for some specific items, with food prices up a massive 11% and large increases in both domestic and international airfares. But even adjusting for those sorts of swings in specific areas, there is no denying that the pressures on prices are widespread and that the underlying trend in inflation remains strong. In fact, most measures of core inflation are continuing to track around 6%.

That continued firmness in underlying inflation pressures is not a surprise. We were not expecting to see any material easing in inflation just yet.

However, the RBNZ did not just expect that inflation pressures would remain strong: the central bank actually expected an acceleration in inflation in the December quarter. In its last policy statement, the RBNZ forecast that the annual inflation rate would rise to 7.5%, and that it would remain around that level through the early part of 2023.

Instead, inflation has fallen short of the RBNZ's forecast. Annual inflation peaked at 7.3% back in June. And while still elevated, it does not look to be pushing higher. Rather, the annual inflation rate has held steady at 7.2% for the past six months.

We are still looking at a hot inflation outlook. After strong activity in recent years, the economy has become highly stretched. Businesses are reporting ongoing pressure on productive capacity. Similarly, next week's labour market reports are expected to show that unemployment remains around a multi-decade low of 3.3% and that wages are continuing to rise at a rapid pace. On top of that, disruptions to food production and the end of the Government's fuel excise reductions will both add to inflation over the coming months.

Against that backdrop, annual inflation is set to remain over 6% through the first half of this year. However, that would still be much lower than the RBNZ had been expecting in November when they delivered a jumbo size 75bp rise in the OCR and signalled further large increases would be coming in short order.

Furthermore, while inflation is currently elevated, it is set to ease from its current highs over the year ahead (albeit gradually). Over the past few weeks, we have seen mounting evidence that the long forecast slowdown in demand is now taking shape. In the household sector, retail card spending declined 2.5% in December, with softness in spending seen across a range of discretionary categories. At the same time, businesses are reporting a downturn in trading activity and forward orders. We have also seen job advertisements dropping back.

On top of that, the coming year will see increasing pressure on households' finances. In part, that's due to the continued rapid increases in consumer prices that is squeezing households' purchasing power. In addition, around half of fixed rate mortgages will come up for re-pricing within the next 12 months. In many cases, borrowers will face refixing at interest rates that are 3ppts higher than those they are currently on. These financial pressures, along with the related downturn in the housing market, will be a significant drag on demand – and inflation – over the coming year.

Putting this all together, we are still left with a strong inflation outlook and the need for continued interest rate increases to get inflation back inside the 1% to 3% target band. However, the extent of further policy tightening required to do that does not look like it will be as large as the RBNZ had previously assumed. As a result, we have revised down our forecast for the peak in the Official Cash Rate.

We are now forecasting a 50bp rise in the OCR at the RBNZ's February policy meeting (previously we forecast a 75bp increase). We continue to expect a 50bp rise in April with a pause after that time. Those increases would take the cash rate to a peak of 5.25% - lower than the 5.50% peak we previously projected. That's also below the 5.50% peak that the RBNZ had signalled in their last published forecasts from November.

While we are continuing to forecast a 50bp hike in April, that will be dependent on the strength of economic conditions over the next few months. If the downturn in demand is sharper than we expect, or if inflation pressures start to cool sooner than anticipated, the RBNZ could opt for a smaller 25bp hike.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 24	Dec BusinessNZ PSI	53.8	52.1	–
Wed 25	Q4 CPI	2.2%	1.4	1.1%
	Q4 CPI	7.2%	7.2	6.9%
Fri 27	Jan ANZBO business confidence	–70.2	–52.0	–

DATA PREVIEWS

Aus Dec private sector credit

Jan 31, Last: 0.5%, WBC f/c: 0.5%
Mkt f/c: 0.5%, Range: 0.3% to 0.7%

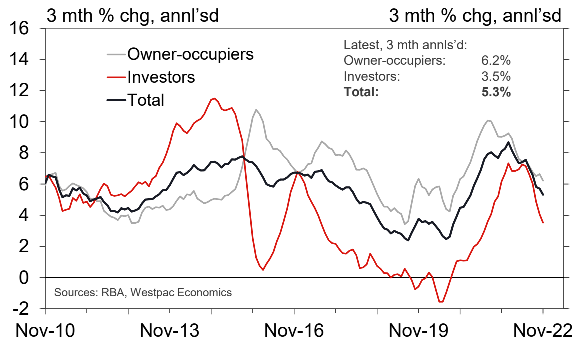
The credit slowdown in the face of sharply higher interest rates is well underway and has further to run.

The pace of monthly total credit growth has slowed progressively and appreciably, from 0.9% for April and May to 0.5% for October and November. We anticipate another 0.5% reading for December, ahead of softer results over the first half of 2023.

The housing sector is cooling as higher interest rates reduce borrowing capacity. New lending in November was 26% below that 10 months earlier. Associated with that, the 3 month annualised pace of housing credit growth has slowed to 5.3% currently, down from a high of 8.7% at the start of 2022.

Business credit growth is also moderating, following a rapid burst in the June quarter, associated with the reopening effect. November posted a 0.7% increase, down from a high of 1.5% in June.

Housing credit slowdown well underway



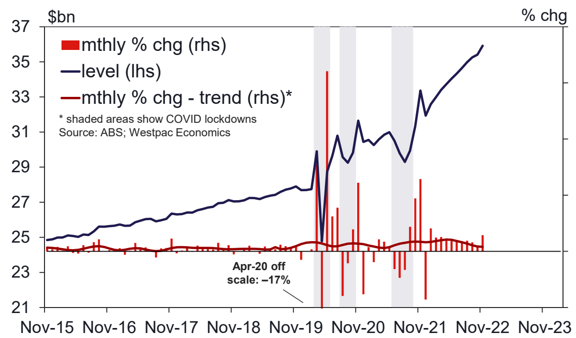
Aus Dec retail trade

Nov 31, Last: 1.4%, WBC f/c: –0.3%
Mkt f/c: –0.2%, Range: –2.5% to 0.8%

Retailers are coming off a very strong Nov, sales surging 1.4% in the month and previous estimates revised materially higher. Annual growth lifted to 7.7%yr vs what had been shaping as a 5-5.5%yr gain heading into the release. Clearly last year's 'Black Friday' and 'Cyber week' sales were a roaring success. However, the upward revisions also point to a firmer underlying trend which now shows only a very mild slowing in response to higher interest rates.

Our **Westpac Card Tracker** and other measures point to conditions remaining buoyant through Dec. That said, retail components were softer with gains in card activity centring non-retail segments like travel and recreational services. The high weighting of food (accounting for just over half of retail) also looks to have been a drag, some of which may be price-related. On balance we expect nominal sales to decline 0.3% in Dec. **Note that the final Dec release, including Q4 real retail sales estimates, will be published on Feb 6.**

Monthly retail sales



Aus Jan CoreLogic home value index

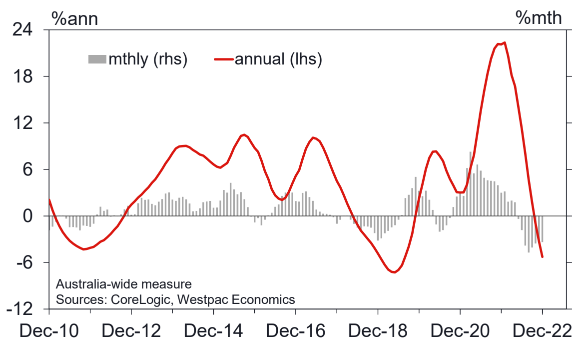
Feb 1, Last: –1.2%, WBC f/c: –1.1%

There looks to have been no holiday repreive for Australia's housing markets with the correction that began around mid-2022 carrying into the first month of the new year. Daily measures show price declines continued to run at a 1.1% monthly pace through Jan.

That said, the Dec-Jan 'low season' means data tends to be less meaningful with the reopening of auction markets in mid-Feb usually providing a better litmus test for conditions in the new year.

Interestingly, there has also been some dissent amongs the various dwelling price measures in recent months with Proptrack and Domain showing a more pronounced moderation in price declines in the December quarter. The exact reason behind the differences is unclear but sustained divergences are fairly rare.

Australian dwelling prices



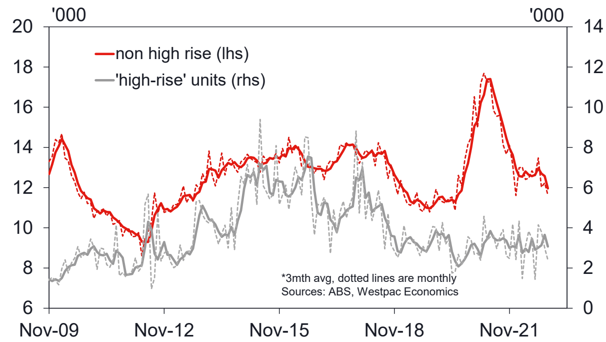
Aus Dec dwelling approvals

Feb 2, Last: –9%, WBC f/c: –4%
Mkt f/c: 1%, Range: –5% to 8%

Dwelling approvals fell 9% in Nov after a 5.6% decline in Oct, the headline and detail pointing to the beginning of a trend weakening, approvals having chopped around a flat trend in Q3. Notably, non high rise approvals are now showing a clear move lower in response to multiple headwinds including: surging costs, supply chain and labour force disruptions, a large backlog of unprofitable jobs, and a sharp downturn in the wider housing market in the wake of rapid interest rate rises.

We expect the Dec update to underscore the shift. HIA figures show new home sales fell steeply in late 2022, dropping 26% in the final quarter of the year. While approvals tend to be more stable, that points to clear downside risks. We expect approvals to fall 4% in the Dec month.

Dwelling approvals: high rise vs non high rise



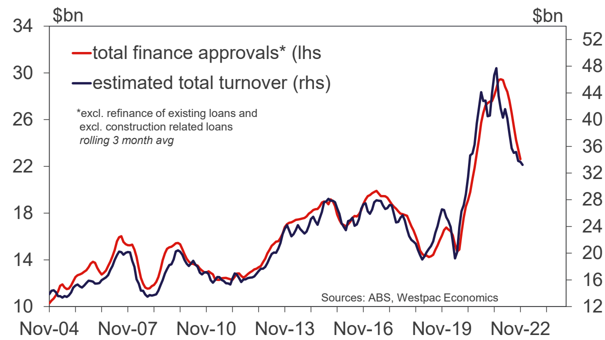
Aus Dec housing finance approvals

Feb 3, Last: –3.7%, WBC f/c: –3%
Mkt f/c: –3%, Range: –4.0% to flat

Housing finance continued to move lower in Nov, the total value of new loans (ex re-finance) down a further 4.1% in the month to be 24% below the peak at the start of the year. Despite the falls, approvals remain well above their pre-COVID levels and previous peaks in 2017.

Dec is expected to show more weakness albeit with a the pace of declines in the established market easing a touch in line with a slight moderation in falls in the total value of property sales. The total value of new finance approvals is expected to show a 3% fall for the Dec month with similar falls across owner occupier and investor segments. Looking ahead, first home buyer activity may get a filip in Jan from changes in NSW that allow eligible buyers to opt for an annual land tax payment instead of an up-front stamp duty charge.

New finance approvals vs value of sales



NZ Q4 Household Labour Force Survey

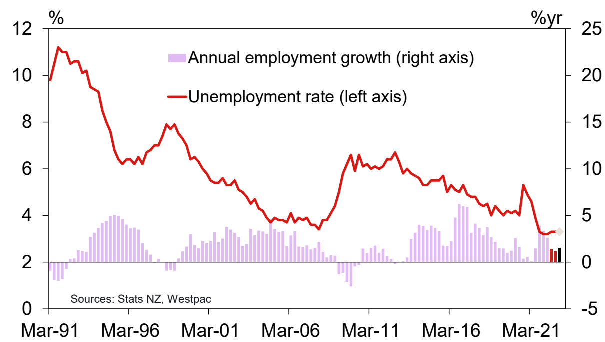
Feb 1, Employment last: 1.3%, Westpac f/c: 0.3%, Mkt: 0.3%
Unemployment last: 3.3%, Westpac f/c: 3.3%, Mkt: 3.3%

We estimate that the unemployment rate remained at 3.3% in the December quarter. If so, this would mean that unemployment has held at more or less the same low level for a year and a half straight – as good an indication as any that the economy has hit the wall in terms of spare capacity.

While surveys suggest that hiring intentions are starting to ease off from their highs, the shortage of workers remains a major headache for businesses. We expect a 0.3% rise in employment for the quarter, partly helped by the return of migrant workers.

We expect that unemployment will rise in the coming years as the economy cools off. But with the labour typically being a laggard in the economic cycle, we are not likely to see signs of that just yet.

NZ Household Labour Force Survey



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.

DATA PREVIEWS

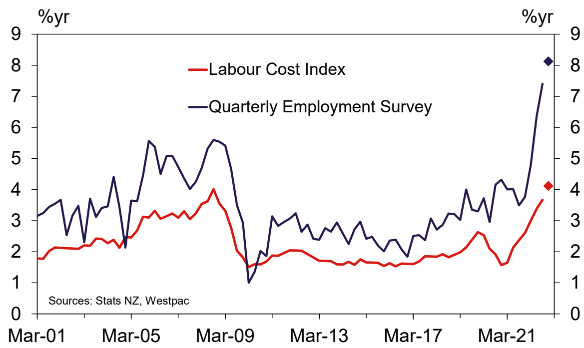
NZ Q4 Labour Cost Index

Feb 1, Last: 1.1%, Westpac f/c: 1.1%

Despite a tight labour market and a surge in the cost of living, wage growth remained fairly modest in 2021. But it picked up the pace significantly in 2022, and we suspect that it has further to go. We expect another 1.1% rise in the Labour Cost Index for the December quarter, which would lift the annual growth rate to 4.1%, topping the previous high of 4% that it reached before the Global Financial Crisis in 2008.

The Quarterly Employment Survey (QES) measure of average hourly earnings has taken off even faster than that, rising by 7.4% in the year to September. The large and growing gap between these two wage growth measures is something of a puzzle, but both are historically high and rising, and nowhere near consistent with 1-3% inflation in the foreseeable future.

NZ salary and wage growth, all sectors



NZ Dec residential building consents

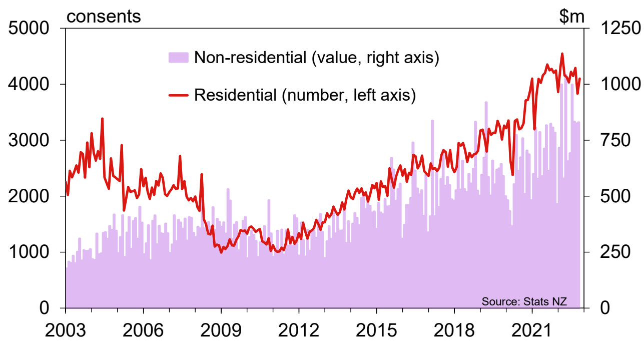
Feb 2, Last: +7.0%, Westpac f/c: -2.0%

Dwelling consent issuance rose by 7% In November. That was close to our forecast and was mainly related to a recovery in multi-unit consents following a fall in October.

We are forecasting a modest 2% decline in consent numbers in December. Financial conditions in the building sector have deteriorated over the past year. House prices and sales have fallen sharply, while building costs and interest rates have risen rapidly. Those conditions mean that prospective purchasers are increasingly hesitant, while developers are cautious about bringing new projects to market.

Consent issuance remains elevated for now. But we expect it will trend down over the year ahead.

NZ building consents



US Feb FOMC policy meeting

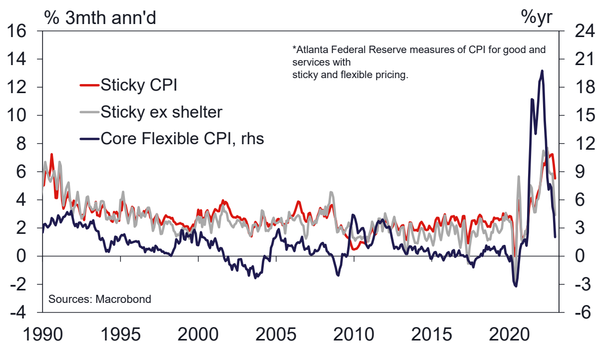
Jan 31/Feb 1: Last: 4.375%, Mkt f/c: 4.625%, WBC: 4.625%

Since the Dec meeting, there has been a significant change in expectations regarding US inflation risks and the policy outlook.

Coming in to the Jan/Feb meeting, the market believes US inflation is well on its way back to the FOMC's target, leaving the Committee with little more to do. indeed, it could be argued that, were the FOMC not as resolute in their determination to remove all inflation risks, the market could have seen this meeting as the last move – so confident participants have become in the US inflation outlook.

Since the CPI peaked in June 2022, we have anticipated a rapid easing in pressures and risks. But, we also recognise it will likely take until March for the FOMC to feel confident to stop. Hence we expect this cycle to end with 25bp hikes in Feb and Mar.

US 'flexible' inflation collapsing



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 30					
NZ	Auckland Anniversary	–	–	–	Markets open.
	Dec trade balance $m	–1863	–	–750	Export prices have eased; import demand still strong.
	Dec employment indicators	0.2%	–	0.3%	Availability of workers improving as migration picks up.
Eur	Jan consumer confidence	–20.9	–	–	Falling gas prices should provide some support…
	Jan economic confidence	95.8	–	–	… to overall economic sentiment.
US	Jan Dallas Fed index	–18.8	–	–	Conditions are soft across the regions.
Tue 31					
Aus	Dec retail sales	1.4%	–0.2%	–0.3%	Coming off a very strong Nov. Still a solid finish to 2022.
	Dec private sector credit	0.5%	0.5%	0.5%	Credit slowdown well underway, sharply higher rates biting.
Jpn	Dec industrial production	0.2%	–	–	Global demand risks still at play.
Chn	Jan manufacturing PMI	47.0	–	–	Easing of COVID-zero restrictions to provide some relief…
	Jan non-manufacturing PMI	41.6	–	–	… but virus and global demand remain as risks.
	Dec industrial profits %yr	0.8%	–	–	Profit growth set to rebuild over 2023.
Eur	Q4 GDP	0.3%	–	–	Economic resilience to be tested.
UK	Dec net mortgage lending £bn	4.4	–	–	To gradually ease as housing correction ensues.
US	Q4 employment cost index	1.2%	–	–	A critical update on wage pressures; g'th should moderate.
	Nov FHFA house prices	0.0%	–	–	House price declines to continue…
	Nov S&P/CS home price index	-0.52%	–	–	… as interest rates suppress demand and affordability.
	Jan Chicago PMI	45.1	–	–	Reflecting a material loss of economic momentum.
	Jan consumer confidence	108.3	–	–	Up-trend in confidence limited by rates and real income.
Wed 01					
Aus	Jan CoreLogic home value index	–1.2%	–	–1.2%	Broad-based correction still firmly entrenched.
NZ	Q4 unemployment rate	3.3%	3.3%	3.3%	Expected to hold near record lows…
	Q4 employment change	1.3%	0.3%	0.3%	…as new workers remain in short supply.
	Q4 LCI wage inflation (pvt, ord. time)	1.1%	–	1.1%	Wage growth has picked up rapidly in the last year.
Chn	Jan Caixin manufacturing PMI	49.0	–	–	Tension between fewer restrictions and increased virus risks.
Eur	Jan CPI %yr	9.2%	–	–	Falling energy prices leading the decline in headline inflation.
	Dec unemployment rate	6.5%	–	–	Slack to emerge slowly over 2023.
US	Jan S&P Global manufacturing PMI	46.8	–	–	Manufacturing activity remains in a fragile state…
	Jan ISM manufacturing	48.4	–	–	… with S&P and ISM broadly mirroring each other.
	Dec construction spending	0.2%	–	–	Softening demand weighing on construction.
	Dec JOLTS job openings	10458k	–	–	Gradually falling from historic peak.
	FOMC policy decision, midpoint	4.375%	4.625%	4.625%	Hawkish resolve likely to remain in place till Mar pause.
Thu 02					
Aus	Dec dwelling approvals	–9.0%	1.0%	–4.0%	Showing a clearer down-trend in response to rate rises.
NZ	Dec building permits	7.0%	–	–2.0%	Still elevated, financial conditions an increasing drag.
Eur	ECB policy decision, refi rate	2.50%	–	3.00%	50bp hike most likely, but 25bps a risk.
UK	BoE policy decision	3.50%	–	4.00%	BoE very near the end of this cycle.
US	Initial jobless claims	xx	–	–	To remain at a relatively low level, at least for time being.
Fri 03					
Aus	Dec housing finance	–3.7%	–3.0%	–3.0%	Down 24% from Jan peak but still above pre-COVID levels …
	Dec investor finance	–3.6%	–	–2.5%	… both turnover and average prices still moving lower …
	Dec owner occupier finance	–3.8%	–	–3.0%	… own-occ a touch weaker on falling building-related loans.
NZ	Jan ANZ consumer confidence	73.8	–	–	Down sharply in recent months as cost of living rises.
Chn	Jan Caixin services PMI	48.0	–	–	Tension between fewer restrictions and increased virus risks.
US	Jan non-farm payrolls	223k	175k	185k	Payrolls growth gradually slowing but still elevated…
	Jan unemployment rate	3.5%	3.6%	3.5%	… 100k/mth pace in payrolls and softer wages growth…
	Jan average hourly earnings %mth	0.3%	0.3%	0.2%	… is critical to timing fed funds peak and subsequent cuts.

Forecasts

Interest rate forecasts

Australia	Latest (27 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	3.38	3.97	4.05	4.05	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.65	3.80	3.75	3.70	3.60	3.55	3.50	3.45	3.40
3 Year Bond	3.21	3.35	3.35	3.35	3.30	3.30	3.30	3.25	3.20
10 Year Bond	3.57	3.45	3.30	3.10	2.90	2.70	2.55	2.50	2.50
10 Year Spread to US (bps)	5	5	0	-10	-20	-20	-15	-10	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	3.51	3.40	3.30	3.20	3.10	2.90	2.70	2.60	2.50
New Zealand									
Cash	4.25	4.75	5.25	5.25	5.25	5.00	4.50	4.00	3.50
90 day bill	4.86	5.25	5.35	5.35	5.25	4.80	4.30	3.80	3.50
2 year swap	4.90	4.80	4.60	4.30	4.00	3.80	3.60	3.45	3.35
10 Year Bond	4.10	4.00	3.90	3.85	3.80	3.70	3.60	3.55	3.50
10 Year spread to US	59	60	60	65	70	80	90	95	100

Exchange rate forecasts

Australia	Latest (27 Jan)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.7122	0.69	0.70	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6505	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	129.74	136	135	134	132	130	128	126	124
EUR/USD	1.0881	1.06	1.07	1.09	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2400	1.22	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.7845	6.90	6.80	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0949	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	1.9	1.2	0.8	0.8	0.8	–	–	–	–
annual chg	6.1	7.3	7.8	6.9	5.9	4.8	3.7	3.5	7.8	3.7	3.0
Trimmed mean	1.6	1.9	1.7	1.3	0.8	0.6	0.7	–	–	–	–
annual chg	5.0	6.1	6.9	6.6	5.8	4.5	3.5	2.6	6.9	3.5	3.1

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

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.

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. 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 ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a client of Westpac.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and Australian credit licence 233714. Information is current as at date shown on the publication. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. XYLO Foreign Exchange's combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing customercare@XYLO.com.au.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents.

Disclaimer continued overleaf

Disclaimer continued

The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

I. Chinese Wall/Cell arrangements;

II. physical separation of various Business/Support Units;

III. Strict and well defined wall/cell crossing procedures;

IV. a "need to know" policy;

V. documented and well defined procedures for dealing with conflicts of interest;

VI. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.