AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 6 February 2023

Editorial: RBA to lift rates by 25bps in February; maintain guidance.

RBA: policy decision, Statement on Monetary Policy.

Aus: Q4 real retail sales, trade balance, weekly payrolls.

NZ: commodity prices, GlobalDairyTrade auction, manufacturing PMI, retail card spending.

China: CPI, PPI, current account balance, foreign reserves.

Europe: retail sales.

US: trade balance, consumer credit, UoM consumer sentiment, Chair Powell speaking.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 3 FEBRUARY 2023.

WESTPAC INSTITUTIONAL BANK

RBA to lift rates by 25bps in February; scope for another 25bp move in March

The Reserve Bank Board meets next week on February 7.

We expect it is highly likely that the Board will decide to raise the cash rate by 25 basis points while maintaining the guidance used in December for the next meeting on March 7.

On February 10 the Bank will release its February Statement on Monetary Policy where the interest will be in the Bank's forecasts of inflation, wages and growth.

Consider the wording in the Governor's statement following the December Board decision to raise the cash rate by 25 basis points: "The Board expects to increase interest rates further over the period ahead, but it is not on a pre-set course. It is closely monitoring the global economy, household spending and wage and price behaviour."

Developments since that Statement support a rate increase.

With the unexpectedly rapid reopening of China; a mild European winter associated with lower energy prices; and justifiable expectations that the US Federal Reserve is nearing the end of its tightening cycle and as inflation reports continue to be encouraging (including this week's report showing a further slowing in US wage inflation), there is good cause to be more optimistic about the global economy than at the time of the December Board meeting.

Even the IMF has recognised these developments by raising its forecast growth rate for 2023 from 2.7% to 2.9%.

The latest Retail Trade report showed retail sales fell by 3.9% in December following an upwardly revised 1.7% increase in November.

Note that about half of the retail sales category is food, the rest covering department stores; household goods and clothing. Retail sales also account for only about a third of overall household consumption.

Also note that the survey figures are 'seasonally adjusted'. Unadjusted retail sales still rose in December – by 16% – but not by as much as anticipated by the estimated usual seasonal move: 20%. The challenge here is that the increasing popularity of Black Friday sales in late November is seeing what looks to be a permanent shift in the regular seasonality. This can only be confirmed over time. Until then, seasonal adjustments will tend to overstate 'underlying' strength in November and overstate weakness in December.

It will be instructive to wait for January retail sales estimates to see whether this December effect has been overstated.

It is also important to note that the ABS survey definition of retail sales excludes a wide range of spending, including many segments that might ordinarily be thought of as 'retail'. It does not cover pubs and bars, hotels and accommodation, motor vehicles, fuel, the bulk of market services including recreational services like cinemas, theme park, telecommunications, and travel and other services including health and education.

The December quarter inflation report provided some evidence of demand conditions in the services sector. The domestic travel and accommodation sector saw prices lifted by 13.3% and by 7.6% for international accommodation and travel.

Our Westpac Card Tracker (which covers credit and debit card turnover across the Westpac Group) suggests wider turnover held up reasonably well in December but with some weakening in spending in retail components offset by a strong surge in non-retail components – travel and recreational services in particular. Note that this is over and above regular seasonal increases around the holiday period.

We expect the RBA Board will be cautious around the December retail print. It will not base its decision on one month's data, particularly given the issues noted above. It is likely to instead wait to assess seasonal issues and to get a better assessment of wider consumer spending in the December quarter national accounts, which will be available on March 1 just prior to the March Board meeting.

The key issue for the RBA around the inflation story is the surprise increase in the Trimmed Mean measure of inflation. In November it had forecast that measure to reach 6.5%yr so it would be very unsettled by the print of 6.9%yr.

We also noted that annual services inflation had lifted from 3.1% in June to 5.5% in December. Services inflation typically reflects demand and wages growth.

Whereas there is evidence that some supply-side inflation pressures are easing in Australia – along the lines of the US – services inflation is still rising.

While that will partly be about demand, it is also consistent with the idea that Australia's wages cycle is lagging the US: while wage inflation is easing in the US, wage pressure is still building in Australia.

The Minutes of the December Board meeting noted that the Board discussed options of 50 basis points, 25 basis points and on hold.

In the Governor's statement, following the meeting, he did not refer to that detailed discussion, so we will not know whether all options were considered on February 7 until the minutes are released. But from here it seems likely that all options will again be on the table.

If we consider the situation facing the Board at the February meeting compared to December, the stand-out is the higher-than-expected measure for underlying inflation and the associated lift in services inflation that aligns with a stronger domestic demand and wages growth environment.

Accordingly, it seems likely that the Governor will maintain his wording from the December Statement: "The Board expects to increase rates further over the period ahead, but it is not on a pre-set course".

That still provides ample flexibility but makes it clear that the Board is not yet comfortable with its progress in returning inflation to the target range.

The Board will receive updates on wages in the Wage Price Index on February 22 and in the national accounts for the December quarter on March 1.

Westpac expects that after the 25 basis point move in March there will be scope for a pause in April, to await the March quarter inflation report. Another 25 basis point increase in May, in response to a likely 6.5% Trimmed Mean inflation print, will mark the end of the tightening cycle with the cash rate peaking at 3.85%.

As the RBA awaits the June quarter Inflation Report the evidence around inflation; wages; and demand will be sufficient to avoid an August move with rates on hold for the remainder of 2023.

Still likely to avoid a recession in 2023

Despite having a higher trajectory for the cash rate than most other analysts, many of whom also expect a recession, we think the Australian economy will avoid a recession in 2023.

Our central case is for economic stagnation in the second half of the year, although the risks are to the upside.

The key dynamic behind the stagnation is the cumulative impact of a 375 basis point rate increase on the household sector.

But this post-pandemic cycle is different to previous tightening cycles.

Households have accumulated around $270bn in excess savings, around $110bn of which is held in mortgage offset accounts.

The Reserve Bank calculates that the proportion of household disposable income allocated to loan repayments before the tightening cycle will be around the same after the tightening cycle (based on a peak cash rate estimate of 3.6%). That is because higher interest payments will essentially replace the 'ahead of schedule' principal repayments households were making a year ago.

In aggregate, the Bank calculates that the median mortgage borrower is currently 20 months ahead on their repayments, although 20% of variable rate borrowers are only 0-3 months ahead.

It will be the vulnerable marginal borrower who has the most difficult period ahead with higher rates.

But note that scheduled principal repayments represent around 50% of total scheduled mortgage repayments. Borrowers and lenders have some flexibility to adjust the principal portion – extending the term of the loan or even moving to interest-only in some instances.

Labour market conditions should also remain broadly supportive. While we expect the unemployment rate to rise during the second half of the year, this is coming from 50-year lows and to a still relatively low level by historical standards. It is also against a backdrop of accelerating wage growth. The bottom line is that most households will be in much better shape to maintain incomes than in previous economic slowdowns, again improving their prospects of meeting mortgage repayments and/or refinancing on better terms.

While these forces will undoubtedly see a significant slowdown in household spending, the legacies of record low unemployment and accumulated excess savings mean the economy is unlikely to lapse into recession.

RBA forecasts in the Statement on Monetary Policy (SoMP)

The most important aspect of the SoMP is the Bank's revised forecasts, particularly for inflation, growth and the labour market.

These forecasts are based on an interest rate path of the average of market economist forecasts and market pricing.

For the November Statement on Monetary Policy, the Bank forecast GDP growth of 1.4% in 2023 compared to Westpac's forecast of 1%. Both forecasts do not envisage a recession, while anticipating a significant slowdown, and as stated, there are reasons to see upside risks to the Westpac forecast. It seems unlikely that the Bank will make a significant change to the growth profile.

The areas of most interest will be inflation and wages.

The RBA's November SoMP had wages growth forecast to lift to 3.9% in 2023. Westpac has 4.5%, partly reflecting 3.6% pace at end 2022, which compares to 3.1% for the RBA. The September quarter Wage Price Index printed higher than the RBA had anticipated in November leading to a likely lift in their 2022 forecast.

The wages growth profile for 2023 is likely to be lifted in the SoMP, potentially to around 4.2%.

When we saw the RBA's 2023 forecast for 4.7% inflation in the November SoMP we were concerned that this showed a lack of urgency about returning inflation to the 2–3% target.

Our own forecast of 3.9% includes a much larger deflationary pulse from supply-side factors in 2023 (including lower fuel prices – the RBA's convention is to assume flat oil prices in its forecasts). Having observed the encouraging supply-side developments in the US (already affecting fuel, food, energy, goods, and building costs) it is reasonable that RBA will be able to lower its inflation forecast despite lifting the wages profile.

A revision in the headline inflation number to 4.5% in 2023 seems reasonable.

Conclusion

The disturbing inflation report is likely to be the key driver of the decision to raise the cash rate in February.

Wages and Inflation will again drive the March decision and a follow-up in May.

But even at those high rates the economy should avoid recession, thanks in large part to the household sector's strength.

Bill Evans, Chief Economist (WestpacGroup)

THE WEEK THAT WAS

This week, we received a set of downbeat updates on the consumer and housing in Australia. Meanwhile, a slew of rate hikes and updated policy guidance from across the US, Europe and the UK gave markets plenty to think about.

Beginning in Australia, the week began with a downside surprise for the consumer, December's retail sales posting a sizeable 3.9% decline against the consensus estimate for a 0.2% fall. The decline was generally broad-based albeit with some seasonal volatility likely at play, with non-food retail, department stores and clothing all posting very weak reads. Having said that, December's result more than reversed the upwardly revised gain of 1.7% in November, suggesting that an underlying down-trend in consumption is beginning to materialise in response to the rising interest rate burden. For a comprehensive update on the current state of the Australian consumer, see our January edition of the Red Book.

Developments on the housing front continued to point toward further weakness to come. CoreLogic's home value index fell another 1.1% in January and, at -8.7%yr, the annual pace of decline has now exceeded that of the 2018-19 correction to be the weakest reading dating back to 1981. The current correction remains broadly-based and firmly entrenched, with all capital cities and major regional areas recording price declines and continued easing in turnover.

A similar theme was also present in December's dwelling approvals release, with non-high rise approvals (a better gauge for underlying trends given the 90% spike in high rise approvals) posting a 2% decline in the month to be down 14.8% from its August peak. Given the extensive set of headwinds facing the construction sector and the broader housing market, further significant declines are expected in the period ahead, which will also feed through to demand for housing credit.

In a video update mid-week, Chief Economist Bill Evans outlined Westpac's views on the outlook for Australian interest rates and the consequences for activity. In essence, our expectation for a 3.85% peak in the cash rate in May is reflective of robust wage pressures – a forecast 4.5%yr peak by end-2023 – and a slower retreat in services inflation. However, we do not expect this to result in a 'classic' recession as households are relatively well placed to weather these headwinds. Indeed, with a savings buffer of around $250 billion and a historically-tight labour market as supports, we anticipate a stalling in household consumption rather than an outright contraction in response to rising interest costs. If inflation recedes as we expect, there will be room for the RBA to deliver 100bps of rate cuts over 2024, easing the pressure on demand and facilitating a return to around-trend growth by end-2025.

Offshore, market participants were buoyed by the guidance given by key central banks this week. While the US FOMC raised by 25bps and the European Central Bank (ECB) and Bank of England (BoE) followed with 50bp hikes, the market took their data-dependent guidance on the outlook to mean the end of the tightening cycle is near.

After slowing the pace of hikes to 25bps at their January/February meeting, subtle but significant changes in communication highlighted the evolving balance of risks faced by the FOMC, with inflation having "eased somewhat" and the Committee now focused on the cumulative impact of policy versus the pace of meeting-by-meeting hikes. With annual headline inflation having slowed from 9%yr to 6%yr June to December 2022, and we might add the six-month annualised pace now back at the 2%yr target, the FOMC could have been more constructive on the outlook for inflation than they were. The reason they held back was made clear in the press conference, with Chair Powell highlighting that the deceleration to date has been concentrated in goods, with services inflation yet to ease.

Still, with market estimates of rent growth decelerating rapidly and wage gains slowing quicker than the FOMC anticipated, Chair Powell expressed growing confidence that disinflation will broaden in 2023. From the partial data and the trajectory of short-term momentum in service CPI components, this is our expectation too. Indeed, we remain of the view that the FOMC will only need to hike once more, taking the fed funds to a peak of 4.875% at March. They may decide to continue to May; but, in either case, the US tightening cycle will have concluded by June.

As expected, this week the ECB were decidedly more hawkish than the FOMC, with a 50bp hike delivered and a strong signal given that another 50bp increase will follow next month. The justification for doing so is that core inflation remains at peak levels in the Euro Area while both economic activity and the labour market continue to outperform, signalling a much-reduced chance of recession in 2023. It also has to be remembered that the ECB is a long way behind the FOMC, the current level of the ECB's deposit rate being 2.50% versus US fed funds at 4.625%. Despite the ECB's near-term hawkish resolve, the market still reacted favourably to the Governing Council's guidance, taking "future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach" to signal that the ECB's tightening cycle will also end by mid-year.

In the UK, the BoE's 50bp hike to a bank rate of 4.00% with two dissenting opinions and a materially-improved outlook for inflation in 2023 (4.0%yr from 5.25%yr previously) has seen the market price an almost immediate end to the tightening cycle, with bank rate now forecast to peak circa 4.25% – only +25bps from the current level. Arguably, the Committee's expectation that inflation will be back below it's 2.0%yr target in 2025 is providing the market with further confidence.

With each of these key central banks now more mindful of the outlook for activity and, while still risk-aware, showing confidence over the outlook for inflation, the market is clearly now focused on the scale and timing of rate cuts. This is highlighted by the spread between 10 year yields and central bank policy rates. For the US, Euro Area and UK, the current market expectation for peak policy rates are approximately 4.875%, 3.25% and 4.25% whereas their 10 year yields are circa 3.40%, 2.10% (German Bund) and 3.00%. For risk assets, also critical is that these materially-lower term interest rates are paired with more favourable outlooks for growth than previously feared. Note that this week Euro Area GDP growth was reported to have remained positive in Q4; while, at February, the scale of the Bank of England's recession forecast for 2023 and 2024 was materially reduced.

The US is the one jurisdiction in this group which has a deteriorating growth outlook, highlighted last week by the deceleration in domestic demand growth, and this week by weakness in the manufacturing sector (the ISM manufacturing survey pointing to a further decline in activity in January) and construction activity. We remain of the view that the US' contraction will be shallow; but, given the much-improved outlook for the Euro Area and UK versus 2022's expectations, this calls for further weakness in the US dollar to the end of 2024.

Another reason to expect continued weakness in the US dollar is that China and other developing markets are showing great promise at the start of 2023. Following December's turmoil, this week a dramatic rebound in China's official PMIs to near long-run average levels was reported. This signals that, not only has there been no lasting impact from the end of COVID-zero for manufacturing, but more importantly confidence amongst households has snapped back. In our view, Chinese consumers also have plenty of capacity to spend given accumulated savings and positive real income growth through 2022.

A final note on China. This week also saw authorities change their rules regarding tertiary education. To be recognised, students now need to undertake courses in person not online. As a result, in coming months Chinese students will need to quickly return to the countries in which their tertiary institutions are based, including Australia. As the visa and arrivals data allows, we will assess the implications.

NEW ZEALAND

Week ahead & data wrap

It's raining, it's pouring

The heavy rainfall in Auckland and parts of the upper North Island has left many people with a major recovery job in the months ahead. While we do not think this will meaningfully alter the outlook for the wider economy, there will be some effects to watch for in the upcoming data.

It's still early days in terms of gauging the scale of the damage, and we will review our numbers as we go. Based on what has been reported so far, we estimate that it could be in the range of $500m, and potentially higher.

This makes it New Zealand's most expensive weather-related event by quite some margin. However, it's well short of the cost of repairs that followed the 2010-11 Canterbury earthquakes, which came in at around $40bn (spread over many years). Repairs following the 2016 Kaikoura earthquake cost around $2bn.

To put these numbers in perspective, nationwide building activity (including infrastructure) is currently running at over $50bn a year. Moreover, the industry is already stretched to capacity, especially in the residential building sector. This is a major contrast with the Canterbury earthquake rebuild, when the industry was starting from a depressed state in the wake of the GFC recession.

As a result, we suspect that flood recovery work will not end up being much of a boost to building activity – rather, we may see some projects delayed or shelved while the repair work takes priority. The additional pressure is instead likely to be channelled into prices. There were signs that construction cost inflation was starting to slow at the end of 2022, but it may now take longer to recede.

We are also likely to see food price inflation hold up for longer. Vegetable growers were already contending with poor growing conditions that saw prices rise by 23% over 2022, and this year's flooding has caused major damage to some crops in the Auckland region.

Both of these effects should be temporary, as the repair work is completed and as the new growing season begins. They are not a source of sustained inflation that might warrant a response from the central bank. However, they will require some patience to look through as they feed into the inflation data over the coming months.

Delayed downturn

The additional work created by the flood recovery doesn't detract from the broader issues that the home-building industry faces. The level of activity remains very high for now, but the financial incentives for housing development have turned a lot less attractive. Interest rates have risen sharply, building costs are rising rapidly, and existing house prices have fallen. This is leading to hesitancy among both developers and purchasers. As a result, we expect to see building consents easing back from their current elevated levels over the next few years.

That does not mean that a crash in construction activity is imminent. Indeed, over the past year, the number of new consented projects has risen much faster than actual construction activity. As a result, there still is a substantial existing pipeline of planned work. The construction sector is continuing to grapple with stretched capacity and shortages of skilled staff. Those conditions are acting as a handbrake on the pace of building activity. We expect an easing in construction activity over the next few years as fewer new projects come to market. But that is likely to be a gradual easing from high levels.

Even a gradual downturn will prove challenging for some operators. As our recent report notes,[1] the homebuilding industry is dominated by small players, often weakly capitalised and with little oversight of their finances. Even in the best of times, construction firms account for an outsized proportion of business failures. Those that can tightly control their costs and diversify their sources of income will be best placed to ride out the down-leg of the cycle.

Turning point

This week's employment figures for the December quarter were close to what was expected by market forecasters and the Reserve Bank, if anything fractionally on the softer side. The labour market is still very tight, but there are signs that we've passed the very peak.

The unemployment rate rose slightly to 3.4%. That's still close to its recent record low of 3.2%, and it's held around these levels for the last year and a half – as good a sign as any that the economy has effectively reached full employment. Labour shortages remain top of the list of businesses' concerns, although the number of job vacancies has receded from its highs in recent months.

The greater story will be around what happens in the year ahead, as higher interest rates increasingly weigh on people's spending, and in turn what that does to the demand for workers. We're expecting the unemployment rate to rise over the next couple of years to a peak of 4.8% – not that high compared to history, but consistent with a much lower rate of wage and price inflation than we have today.

Market forecasts and pricing now seem to have converged around a 50 basis point increase in the OCR at this month's review, reaching a peak of 5.25% within the next few months. That matches the call that we made last week after the inflation figures. We're also seeing some of the popular one and two-year fixed mortgage rates being trimmed, reflecting the slightly lower expected peak in the OCR for this cycle.

Michael Gordon, Acting Chief Economist

1 Available here: https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2023/Bulletins/Research-Papers_Residential-building_bulletin_03Feb23.pdf

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 30	Dec trade balance $m	–2180	–475	–750
	Dec employment indicators	0.2%	–0.1%	0.3%
Wed 1	Q4 unemployment rate	3.3%	3.4%	3.3%
	Q4 employment change	1.3%	0.2%	0.3%
	Q4 LCI wage inflation (pvt, ord. time)	1.2%	1.1%	1.1%
Thu 2	Dec building permits	6.7%	–7.2%	–2.0%
Fri 3	Jan ANZ consumer confidence	73.8	83.4	–

DATA PREVIEWS

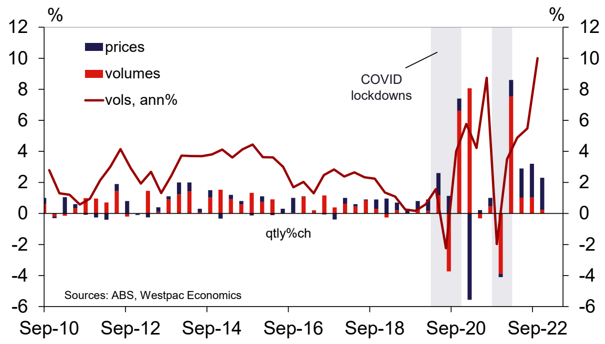
Aus Q4 real retail sales

Feb 6, Last: 0.2%, WBC f/c: –0.3%
Mkt f/c: –0.5%, Range: –0.1% to –0.9%

Real retail sales slowed materially in Q3, rising just 0.2%qtr after back to back gains of 1% gain in Q1 and Q2. The main dynamic was around a sharp spike in retail prices eroding purchasing power with the 2.5%qtr gain in nominal spend comparable to the 2.5-3% gains in the previous two quarters.

Preliminary estimates show nominal sales slowed abruptly in Q4 with a sharp fall in the final month leaving sales up just 0.9%qtr. The Q4 CPI showed prices continued to rise at a rapid pace, albeit with more of that pressures starting to emanate from 'non-retail' segments (slower gains in food prices a particularly important component given food accounts for about half of retail sales). Overall we expect retail prices to have risen by about 1.2%qtr, pointing to a 0.3% dip in real retail sales 'volumes'. Note that wider measures of spending suggest this weakness in retail has been largely offset by a surge in non-retail spend, services in particular.

Quarterly retail volumes and prices



Aus Dec trade balance, AUDbn

Feb 7, Last: 13.2, WBC f/c: 13.5
Mkt f/c: 12.4, Range: 11.5 to 15.0

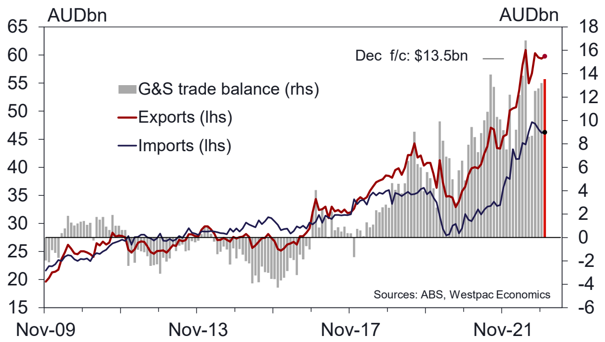
Australia's trade surplus remains sizeable with commodity prices still elevated (albeit the terms of trade is down a little from the June quarter record high).

The surplus printed at $13.2bn for November - only the fourth occasion the surplus has exceeded the $13bn mark. We expect the surplus to edge higher in December, rising to $13.5bn.

The import bill is forecast to be little changed, up by 0.2%, +$0.1bn. Lower prices (falling oil and freight costs) broadly offset a rise in overseas travel and a potential modest lift in goods volumes.

Export earnings are forecast to rise modesty, up 0.7%, +$0.4bn. Coal shipments rebounding from flood disruptions, gold lifting off a low base and rising tourism numbers are all positives. Fuel exports likely fell on lower global oil prices, while metal ores (dominated by iron ore, including lithium) may ease from November's record high with softer volumes more than outweighing the higher iron ore price.

Australia's trade balance



Aus RBA policy decision

Feb 7, Last: 3.10%, WBC f/c: 3.35%
Mkt f/c: 3.35%, Range: 3.10% to 3.35%

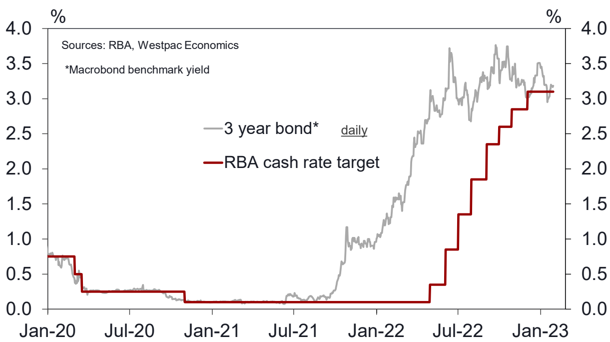
At the February Board meeting, Westpac anticipates that the RBA will lift the cash rate by 25bps, to 3.35%. The RBA, in responding to a significant inflation challenge and the tightest labour market in 50 years, has quickly raised interest rates.

Rates have lifted from a record low of 0.1% in May 2022, with moves at each monthly Board meeting, including 50bp hikes for the four meetings July to September. The RBA slowed the pace of tightening at the October meeting, back to 25bp increments, with policy arguably moving into the contractionary zone.

Last week, the Q4 CPI report revealed that annual trimmed mean (underlying) inflation reached 6.9%, significantly higher than the RBA's November forecast for 6.5%. Inflation is still clearly too high, and more work needs to be done in our view.

The RBA will also release its Feb Statement on Monetary Policy on Feb 9 including updated forecasts. For a more detailed discussion, see page 2.

RBA cash rate and 3 year bonds



NZ GlobalDairyTrade auction, whole milk powder prices

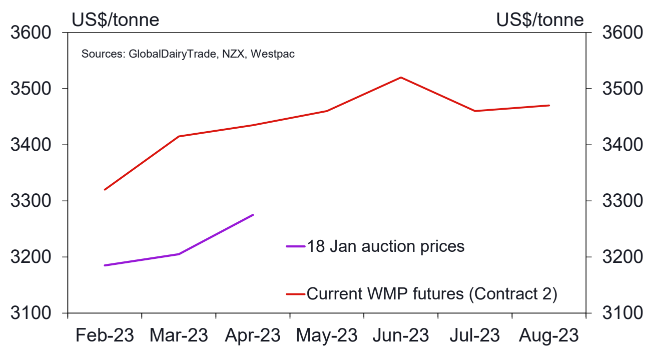
Feb 8, Last: +0.1%, Westpac: +5.0%

We expect whole milk powder prices (WMP) to jump 5% at the upcoming auction. This follows essentially no price change at the previous auction.

Our pick is similar to futures market pricing (as at 12pm Friday 3 February).

The rapid easing of Covid restrictions in China is likely to boost global demand and thus lift dairy prices.

Whole milk powder prices



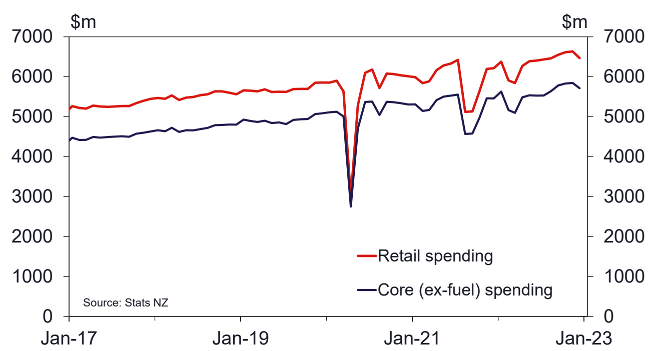
NZ Jan retail card spending

Feb 10, Last: –2.5%, Westpac: +1.0%

Retail spending fell by 2.5% in December with declines across a range of discretionary spending categories. That fall was particularly notable as for most of 2022, households were continuing to dial up their spending on discretionary items despite large price increases. Spending was also boosted by the return of international tourists to our shores. However, with increases in inflation and interest rates, the pressure on households' finances has been growing. And it now looks like spending appetites are starting to falter.

We're forecasting a 1% rise in spending in January, underpinned by the sharp rise in food prices and a partial recovery in durables spending after last month's sharp fall. Even so, we expect to see spending appetites soften over the year ahead as financial pressures mount.

NZ retail card spending



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
Aus	Jan MI inflation gauge	5.9%	–	–	It leads the monthly CPI but provides a general view of risk.
	Q4 real retail sales	0.2%	–0.5%	–0.3%	Price gains to outstrip nominal spend with declining volumes.
NZ	Waitangi Day public holiday	–	–	–	Markets closed.
Eur	Feb Sentix investor confidence	–17.5	–	–	Robust economy should support gains hence.
	Dec retail sales	0.8%	–	–	Consumer impacted by high inflation; but jobs secure.
Tue 07					
Aus	Dec trade balance $bn	13.2	12.4	13.5	Another sizeable surplus expected.
	RBA policy decision	3.10%	3.35%	3.35%	Tightening cycle continues, responding to inflation challenge.
NZ	Jan ANZ commodity prices	–0.1%	–	–	Meat prices falling on earlier weakness in Chinese demand.
Jpn	Dec household spending %yr	–1.2%	–0.4%	–	Labour market supportive; uncertainty fading.
Chn	Jan foreign reserves $bn	3127.7	3154.0	–	Little pressure on reserves.
Ger	Dec industrial production	0.2%	–2.0%	–	Likely to experience a few volatile months.
US	Dec trade balance $bn	–61.5	–68.5	–	Deficit should narrow as consumer demand weakens.
	Fedspeak	–	–	–	Chair Powell to speak. Barr too.
Wed 08					
NZ	GlobalDairyTrade auction (WMP)	0.1%	–	5.0%	Easing Chinese Covid restrictions boosting dairy prices.
Jpn	Dec current account balance ¥bn	1804	100	–	China's reopening to support in time.
US	Dec consumer credit $bn	27.96	25.00	–	Demand for credit likely to continue to decline.
	Dec wholesale inventories	0.1%	0.1%	–	Volatile times ahead.
	Fedspeak	–	–	–	Williams, Cook, Barr, Bostic, Kashkari and Waller.
Thu 09					
Aus	Dec weekly payrolls %mth	0.7%	–	–	Will the summer holiday collapse be larger than usual?
Chn	Jan M2 money supply %yr	11.8%	11.6%	–	Credit will remain freely available…
	Jan new loans, CNYbn	1398	4000	–	… as authorities support recovery.
US	Initial jobless claims	183k	–	–	To remain at low level for time being.
Fri 10					
Aus	RBA Statement on Monetary Policy	–	–	–	Forecast update.
NZ	Jan manufacturing PMI	47.2	–	–	Set to remain weak, new orders contracting.
	Jan card spending	–2.5%	–	1.0%	Boosted by higher food prices and some lift in durables.
Chn	Jan CPI %yr	1.8%	2.3%	–	Inflation to remain a benign force for consumers…
	Jan PPI %yr	–0.7%	–0.5%	–	… and likely also for most businesses.
	Q4 current account balance US$bn	144.3	–	–	Trade surplus showing resilience as Asia gives support.
UK	Dec trade balance £bn	–1802	–	–	Weaker consumer should narrow deficit in 2023.
	Q4 GDP	–0.3%	–	–	A lengthy recession is beginning.
US	Feb Uni. of Michigan sentiment	64.9	–	–	A base is beginning to form.
	Jan monthly budget statement $bn	–85.0	–	–	Budget figures in focus as debt ceiling looms (again).
	Fedspeak	–	–	–	Waller and Harker.

Forecasts

Interest rate forecasts

Australia	Latest (3 Feb)	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	3.34	3.97	4.05	4.05	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.41	3.80	3.75	3.70	3.60	3.55	3.50	3.45	3.40
3 Year Bond	3.02	3.35	3.35	3.35	3.30	3.30	3.30	3.25	3.20
10 Year Bond	3.38	3.45	3.30	3.10	2.90	2.70	2.55	2.50	2.50
10 Year Spread to US (bps)	1	5	0	-10	-20	-20	-15	-10	0
US									
Fed Funds	4.625	4.875	4.875	4.875	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.37	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	4.89	5.25	5.35	5.35	5.25	4.80	4.30	3.80	3.50
2 year swap	4.69	4.80	4.60	4.30	4.00	3.80	3.60	3.45	3.35
10 Year Bond	3.92	4.00	3.90	3.85	3.80	3.70	3.60	3.55	3.50
10 Year spread to US	55	60	60	65	70	80	90	95	100

Exchange rate forecasts

Australia	Latest (3 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.7060	0.69	0.70	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6475	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	128.58	136	135	134	132	130	128	126	124
EUR/USD	1.0894	1.06	1.07	1.09	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2212	1.22	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.7440	6.90	6.80	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0910	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	1.3	0.9	0.8	0.8	–	–	–	–
annual chg	6.1	7.3	7.8	6.9	6.0	5.0	3.9	3.5	7.8	3.9	3.1
Trimmed mean	1.6	1.9	1.7	1.3	0.9	0.6	0.8	–	–	–	–
annual chg	5.0	6.1	6.9	6.6	5.9	4.6	3.6	2.6	6.9	3.6	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	3.4	3.5	3.6	3.7	3.9	3.2	3.4	3.9	4.8
CPI % qtr	1.7	2.2	1.4	1.4	1.0	1.6	0.6	–	–	–	–
Annual change	7.3	7.2	7.2	6.8	6.1	5.6	4.7	5.9	7.2	4.7	2.4

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