AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 13 February 2023

Editorial: RBA's 'narrow path to achieving a soft landing' getting narrower.

RBA: Governor Lowe appearing before Senate and House of Representatives.

Aus: Westpac-MI Consumer Sentiment, business survey, Labour Force, overseas arrivals.

NZ: Q1 RBNZ inflation expectations, house sales and prices, food prices, net migration.

Europe: industrial production, trade balance.

UK: CPI, unemployment rate, retail sales.

US: CPI, retail sales, industrial production, leading index, regional surveys, housing starts, building permits.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 10 FEBRUARY 2023.

WESTPAC INSTITUTIONAL BANK

RBA's 'narrow path to achieving a soft landing' getting narrower

The Reserve Bank has released its February Statement on Monetary Policy (SoMP). The highlight of these Statements is usually the Bank's revised forecasts for growth, unemployment and inflation. However, this time around it was the more detailed picture around underlying inflation and wages that was of most interest. And on this, the Statement does show a notable shift, both indicators now expected to track above 4%yr in 2023 and wages growth to remain around 4% in 2024. While that was in line with our priors, it's a troubling prospect for a central bank seeking to return inflation to the 2-3% target band. Aside from forecast changes, the SoMP also provides important colour around the Bank's views and the messages coming via its liaison programme, both of which are tending to underscore the more hawkish tone present in the Governor's decision statement earlier in the week.

That decision statement had already given away most of the key points from the Bank's latest forecasts, namely: "CPI inflation to decline to 4¾ per cent this year and to around 3 per cent by mid-2025"; "GDP growth … to slow to around 1½ per cent over 2023 and 2024"; and "the unemployment rate to increase to 3¾ per cent by the end of this year and 4½ per cent by mid-2025" – all of which were largely unchanged from November.

Note that this is despite some slight shifts in the 'conditioning assumptions' used by the RBA in its forecasts – a peak cash rate of 3¾% rather than 3½% (based on the market economist forecasts and market pricing); an AUD at US$0.69 rather than US$0.64; and crude oil prices at US$82/bbl vs US$89/bbl. Note also that the RBA's forecast horizon has also been extended out to June 2025.

While the central case view was largely unchanged, the RBA did make some notable tweaks to the it's more detailed forecasts.

On inflation, the upside surprise on annual 'trimmed mean' inflation in Q4 (6.9% vs the RBA's forecast 6.5%) led the Bank to lift its 2023 track, underlying inflation now holding at 6.2%yr in H1 and only easing back to 4.3%yr by December (vs previously forecast to track back to 3.8%yr). Aside from the starting point, the RBA also cited "second-round effects from higher energy prices" and a pick-up in domestic labour cost growth as factors lifting the view here.

Wages are quickly becoming the Bank's central concern. Back in November we noted that the RBA's 3.9%yr forecast for wages growth in 2023 looked underdone compared to our own forecast peak of 4.5%yr. The February SoMP has materially closed the gap, the RBA now forecasting a lift to 4.2%yr by year-end, holding at 4%yr in 2024. This was directly in line with our expectations going into the Statement.

That said, our broader views on the inflation outlook are now considerably more 'constructive' than the Bank's. Westpac expects both headline and underlying measure of inflation to track back to a sub-4% annual pace by year-end with a larger deflationary pulse from supply-side factors showing through (including lower fuel prices, which the RBA's convention assumes hold flat). We have already observed some encouraging supply-side developments in the US, particularly as they affect fuel, food, energy, goods, and building costs.

On the growth outlook, the unchanged view for 2023 and 2024 reflects a slightly weaker picture around momentum in the second half of 2022 (mainly around consumer spending but also dwelling investment and public demand), offset by a stronger outlook for population growth (now assumed to track in line with pre-COVID average pace). Notably consumer spending is seen as having moderated in the December quarter mainly due to the impact of higher prices on purchasing power rather than higher interest rates on household disposable incomes.

Interestingly the bank continues to sound relatively comfortably on the capacity of the mortgage belt to absorb interest rate rises. Based on cash rate rises to date, it projects scheduled mortgage payments to reach 9½-9¾% of household disposable income by the end of 2023, a similar level to total payments (principal, interest and excess payments) made through 2022. The accumulated 'excess savings' buffer across the wider household sector is also now estimated at just under $300bn with $120bn of this sitting in mortgage offset accounts.

A box-story 'side-note' in the SoMP also sends a more nuanced message around the 'cash flow' channel of interest rate rises. High household debt and the higher prevalence of variable rate and shorter-duration fixed term mortgages means this channel of policy tightening operates more quickly in Australia compared with most other advanced economies. However, the evidence suggests that policy more broadly (including effects through other channels) is not any more potent in Australia than elsewhere. While this has potentially chilling implications for how far policy rates may need to rise, it does not seem to be a view that is framing the Bank's policy decisions.

Over five pages of the SoMP is dedicated to coverage of feedback from the RBA's detailed business liaison program, which looks to be having a significant bearing on the Bank's views. Key take-outs include: "some goods-related firms implemented fewer and smaller price increases over recent months than earlier in 2022 and expect price growth to slow further over coming quarters"; "… labour cost pressures generally increased as wages growth picked up over the December quarter" ; "Firms … expect wages growth to stabilise around 4 per cent in coming quarters" ; "… around half are looking to expand headcount"; "Around one-third of private sector firms reported wage increases above 5 per cent in the December quarter".

Those comments feed directly into the Bank's concerns around inflation expectations, which look to have been elevated slightly. The Overview section of the SoMP largely reiterates the messages from the Governor's decision statement but gives more prominence to inflation expectations and their link with inflation psychology. Specifically, it observes that: "Longer term inflation expectations and wages growth in Australia have so far remained consistent with the inflation target. It is important this remains the case. That said, domestically sourced inflation and wages growth are both picking up. Given the importance of avoiding a price-wage spiral, the Board will continue to play close attention to both the price-setting behaviour of firms and the evolution of labour costs in the period ahead."

Conclusion

The RBA has already described what it sees as a "narrow path to achieving a soft landing" in the economy. The February SoMP suggests this path is becoming even narrower with domestic inflation pressures coming to the fore and looking both stronger and more persistent, especially with respect to the labour market. Westpac remains comfortable with the view we expressed in October that the cash rate is likely to peak at 3.85%, entailing a further 0.25% increase in March and a final 0.25% increase at the May Board meeting. While we think this and a sharp disinflationary effect from easing supply-side pressures will be sufficient to bring inflation back under control, the tone of this latest RBA commentary suggests the Board may see itself with less scope to pause and potentially more work to do.

Matthew Hassan, Senior Economist

THE WEEK THAT WAS

In Australia, the RBA was the focus for participants this week. Offshore, with the data calendar light, markets had time to reflect on last week's nonfarm payrolls surprise and the responses of FOMC members.

The RBA delivered a 25bp rate hike in February, a decision that was widely expected by market participants and in line with Westpac's view. What was more surprising, however, was the slightly hawkish shift in rhetoric since their last meeting in December. Going against the trend seen in market chatter, which has been focused on the potential for a lower peak in the cash rate or even a near-term pause, the Board instead responded to the 6.9% print for annual trimmed mean inflation in Q4 which was above their forecast of 6.5%. Coupled with the RBA's central expectation that inflation will not reach the top of the target band until mid-2025, this result led them to take a firmer stance in their forward guidance, stating that "further increases in interest rates will be needed over the months ahead." A full view of the RBA's baseline forecasts and assessment of risks will be available in its February Statement on Monetary Policy (due 11:30am AEDT).

As outlined by Senior Economist Matthew Hassan in this week's video update, these developments are consistent with Westpac's view that the cash rate will be raised by 25bps in March and May to a peak of 3.85%. Inflation threats should then recede over the course of 2023 allowing a series of interest rate cuts to occur through 2024. This period of contractionary policy will come at a cost though, a material slowdown in economic growth, centred on the Australian consumer.

Indeed, some evidence of this weakening has begun to emerge in the retail sector, as evinced by the 0.2% decline in retail sales volumes in Q4. With annual growth now down to 1.8% from 5.5% in June, it is clear that key retail segments are feeling the effects of tighter policy and lost purchasing power owing to elevated inflation. It should be noted that broader measures of consumer spending such as the Westpac Card Tracker suggest non-retail spending has been offsetting much of the weakness in retail, meaning total consumer spending likely remained resilient into year-end.

The trade balance meanwhile finished the year with a sizeable surplus, having printed $12.2bn in December. For Q4, the surplus widened from $29.3bn to $38.3bn, representing a substantial $9bn improvement in the trade position due to higher commodity prices and a lower import bill. Constructive for the outlook, easing restrictions in China and their mandate for outbound students to return to in-person learning are both set to support Australia's services exports and the broader trade position this year.

This week's big story offshore actually came to the market last Friday: January's stellar nonfarm payrolls gain of 517k, with +71k in back revisions to the prior two months. Questions have been raised over the impact of strikes and seasonal adjustment. Still, at 356k, the average of the past three months is 3.5 times the monthly pace the FOMC believe balances demand and supply.

Intriguingly, despite strong job creation and limited supply, wage growth abruptly decelerated through the second half of 2022 into 2023, with average hourly earnings gaining around 0.3% per month over the period – a sub-4% annualised pace compared to the 5.9% peak for annual growth at March 2022. While this measure has likely been biased down by the creation of low-to-mid income jobs, the composition adjusted Employment Cost Index reported a similarly sized deceleration Q2 to Q4 2022, the annualised pace of private sector wage growth slowing from 6% to 4%.

Despite the market's shock over the payrolls print, the policy consequences seem benign. A slew of FOMC members spoke this week and, while watchful for upside risks for inflation, their consensus expectation from December for a peak fed funds rate of 5.125% (just 50bps higher than the current level) was affirmed. Chair Powell in particular took a balanced approach to the risks, highlighting that financial conditions had tightened following the payrolls release and that the deceleration in wages growth was constructive for services inflation which, to date, has only crested while annual goods inflation more than halved.

We remain of the view that the prudent path for the FOMC would be to deliver one more 25bp hike then pause through the remainder of 2023, allowing time to assess the cumulative effect of policy on inflation and activity. An additional 25bp hike to 5.125% is certainly justifiable on risk management grounds, though the market clearly believes this would prove too much for the economy and be reversed quickly, with the move to 5.125% priced in by June but out by December. The risk we need to remain watchful over is an acceleration in demand-driven inflation. Arguably this would require wage growth to kick higher, improving household's discretionary spending power and confidence.

The data out this week was of little significance. US consumer credit data came in materially below expectations, highlighting the effectiveness of contractionary monetary policy. But initial claims remained benign, indicating that the majority of households have robust job security. The US service PMIs (out last Friday) conflict with one another, the ISM expansionary at 55.2 but S&P Global's measure contractionary at 46.8. An average of the two points to modest growth in the economy at the start of 2022; but the divergence between the two surveys suggests this growth is unequally distributed, with small-to-mid sized firms under pressure.

Week ahead & data wrap

China is back open for business. And this is a welcome development for New Zealand Inc.

China is the key market for our main exports. In fact, at one stage in 2021, it accounted for over 40% of New Zealand's dairy and meat export volumes. In 2022, in the midst of the various COVID lockdowns, China's share of food exports dropped, notably dipping as low as a 30% share for our dairy exports.

Now, though, with the Chinese economy reopening, we expect the Chinese economy's growth to double to 6% over calendar 2023, from around 3% growth over 2022. In turn, we expect that to lift demand for our food exports and similarly to take our food export prices higher.

This week we had the first sign that this dynamic is starting to play out. Global dairy prices posted a solid lift at this week's auction, with overall prices lifting 3.2% and key whole milk powder prices rising by 3.8%. Before this week's auction, global dairy prices had been on a steady downward path, dropping by around a third from the peak back in March 2022.

Within the overall price lift, milk fat prices led the way, with butter prices jumping by 6.6%. This jump is the clearest evidence that the price rebound stems from the lifting of China's COVID-zero policy. Indeed, Chinese consumers are now largely free to move about and return to restaurants, cafes and bakeries. And those are just the places that use large amounts of butter.

In contrast, the price signals in New Zealand's meat markets are less clear. Farmgate prices have bottomed rather than lifted so far this year, albeit that is somewhat against the normal seasonal trend where prices would normally fall through the summer and autumn.

That said, there is some hint that a broader upward move in prices is underway. Lamb flap prices, a product popular in China, have lifted over recent weeks. With that in mind, we expect mutton and lamb prices to soon start ticking higher over coming months too. Meanwhile, beef prices are likely to strengthen as Chinese demand lifts as well as on the back of a tightening in US beef supply. There, the lingering impacts of severe drought are likely to keep beef production very low over 2023 and most likely beyond.

New Zealand's tourism sector is also making the most of being back open for business. Using the latest available data (for November), we estimate that tourist numbers are back at around two-thirds of the pre-COVID level.

Moreover, the rebound to date has outpaced our forecasts. Notably, it's tourists from markets like the US that have exceeded our expectations. In fact, the number of US tourist arrivals have effectively doubled each month from September through to November, noting that the spring months precede the normal summer surge. And we expect this rebound to continue, with Delta Airlines announcing recently the opening of a new Los Angeles-Auckland route later this year.

And now with China re-opening, tourism operators will also be able to welcome Chinese visitors back into the mix. Pre-COVID, China was New Zealand's second-largest tourist market. And based on the patterns of recovery in other markets, we expect a swift recovery in Chinese tourist arrivals over the course of this year. Interestingly, Chinese airlines kept their fleets flying during the pandemic, meaning there are few barriers at the Chinese end to tourists returning to our shores.

Finally, the education sector is also set to rebound much sooner than expected. The Chinese government has mandated that students must study in-person (as opposed to online) for their overseas qualifications to be recognised. This requirement plus with university and polytech semesters getting under way soon, Chinese students are likely to arrive en masse over the year, if not the next month or so. Note that export education was a significant earner for New Zealand pre-COVID, accounting for around 5% of New Zealand's total goods and services export values back in 2019.

All up, this paints a relatively positive picture for New Zealand's trade sector and puts it in stark contrast with the likely weakening in the domestic economy over the year. Recall that we anticipate that as interest rates increasingly bite on households and their spending, the economy will dip into recession in the second half of 2023 and early 2024. However, we do foresee a relatively shallow recession, with the strength in the New Zealand trade sector partially offsetting weakness elsewhere in the economy.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 7	Jan ANZ commodity prices	–0.2%	–1.0%	–
Wed 8	GlobalDairyTrade auction (WMP)	0.1%	3.8%	5.0%
Fri 10	Jan manufacturing PMI	47.8	50.8	–
	Jan card spending	–2.3%	2.6%	1.0%

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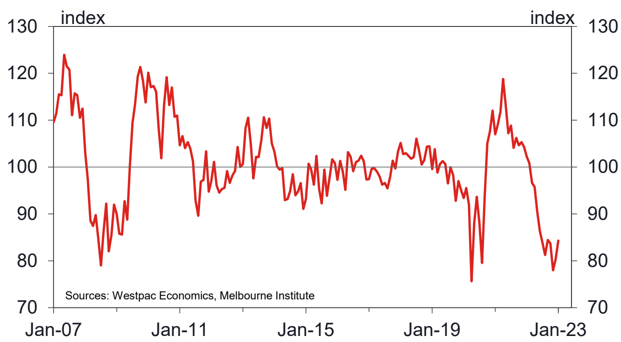
Aus Feb Westpac-MI Consumer Sentiment

Feb 14, Last: 84.3

Consumer Sentiment rose 5% between Dec and Jan, likely reflecting the break in the RBA's sequence of rate rises over the Christmas period, although this was due to the Bank Board having no scheduled meeting rather than a choice to leave rates on hold. At 84.3, the Index remains at extreme lows by historical standards – weaker reads only ever seen during the depths of recessions.

Unfortunately, Feb is likely to see this 'mini-rally' unwind with the RBA resuming rate hikes at its first meeting of the year and giving a strong indication that more increases can be expected in coming months. There also looks to have been little let-up on the inflation front as well with domestic price pressures becoming more evident.

Consumer Sentiment Index



Aus Jan Labour Force - employment chg, '000

Feb 16, Last: –14.6k, WBC f/c: 15k
Mkt f/c: 20k, Range: –5k to 45k

Total employment fell by 14.6k in December, following a robust run of employment growth that averaged 40k/mth between August and November. Additionally, seasonally adjusted hours work decreased by 0.5%, greater than the decline in employment (-0.1%).

It looks as though illness-related disruptions remained a key drag on jobs growth and hours worked heading into year-end. It was therefore surprising to see a lower proportion of employed people taking annual leave (6.1% in December 2021 vs. 6.7% pre-pandemic December average) given this has been the first 'disruption-free' summer break since the onset of the pandemic.

The January update will provide more insight into how these forces are impacting the labour market. We suspect that illness-related absences and a 'catch-up' in summer leave will result in an employment print slightly below trend, as opposed to another outright decline. Hence, we have pencilled in a 15k rise in employment.

Westpac employment indicators

Aus Jan Labour Force - unemployment rate %

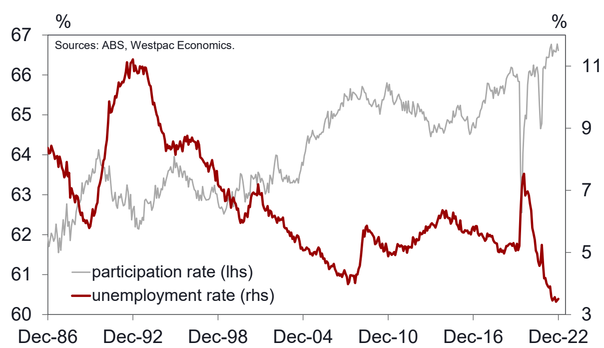
Feb 16, Last: 3.5%, WBC f/c: 3.5%
Mkt f/c: 3.5%, Range: 3.4% to 3.6%

In December the labour force shrunk by 8.8k, less than the decline in employment. This brought the participation rate down from its historic high of 66.8% to 66.6%, but the 5.8k rise in the number of unemployed people allowed the unemployment rate to hold flat at 3.5%. The unemployment rate is just 0.1ppts off the 50-year low print of 3.4% in October, signalling a still historically tight labour market.

The working age population continues to grow at a very strong pace, up from 0.6%yr in December 2021 to 2.1%yr in December 2022. The recovery in overseas travel and migration flows is positively contributing to the growth of the working age population, to an extent that exceeds the prior peak of 1.7%yr in 2018/19 which was also associated with robust immigration.

Holding participation at 66.6% and the rate of growth in the working age population steady, this should see a 20k increase in the labour force in December. Our forecast 15k gain in employment is enough to hold the unemployment rate at 3.5%.

Unemployment lowest since 1974



Aus Jan overseas arrivals and departures, preliminary

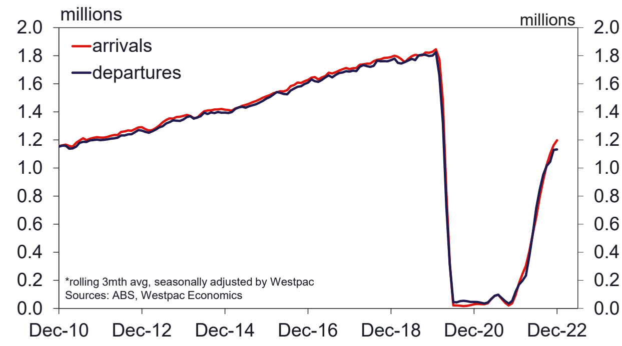
Feb 16, Arrivals, Last: 1,269.2k
Feb 16, Departures, Last 1,523.1k

Over the course of last year, the recovery in overseas travel has forged ahead at an unexpectedly strong pace. As of December, both arrival and departure flows are sitting above 60% of their respective pre-pandemic levels.

Net arrivals of temporary workers and students have also been highlights. Rising at an average of +12.4k/mth and +17.1k/mth respectively, the recovery within these key visa categories is gradually alleviating labour supply constraints. This, coupled with the recovery in short-term visitor flows, is pointing to clear upside risk in the Government's net overseas migration forecast of 235k.

The January provisional estimate will also provide a timely look into the momentum in overseas travel during the summer break and its broader impact on migration flows.

Total overseas arrivals and departures



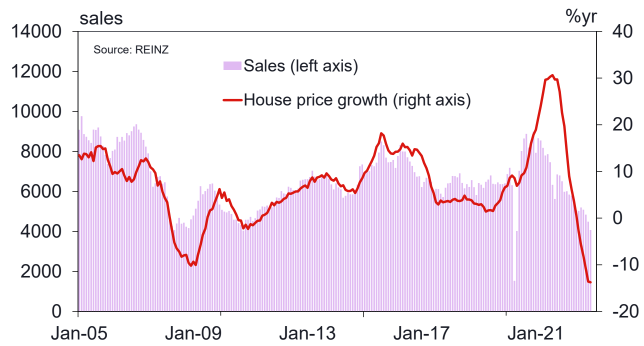
NZ Jan REINZ house sales and prices

Feb 14 (tbc), Sales last: –9.2% m/m, –39% y/y
Prices last: –1.3% m/m, –13.7% y/y

The New Zealand housing market progressively cooled over 2022, as rising mortgage rates reduced buyer appetite. Nationwide house prices have now fallen by 15% from their peak, taking them back to where they were in early 2021.

While it seems likely that fixed-term mortgage rates have now reached their peak, the housing market is still adjusting to these conditions. Low turnover and listings, as property owners hold back rather than selling at a loss, are contributing to the slow pace of correction. We expect a further 8% decline in sale prices over 2023.

REINZ house prices and sales



NZ Q1 RBNZ survey of expectations

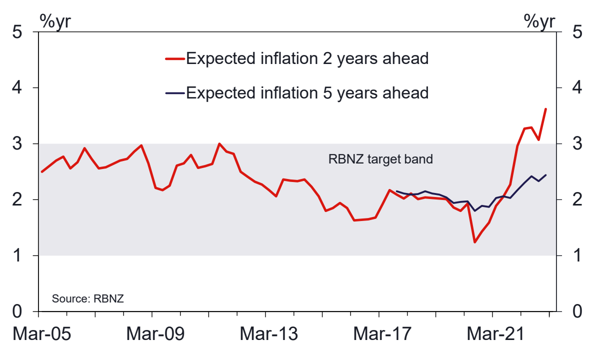
Feb 14, Two-year ahead inflation expectations, Last: 3.62%

The risk of an enduring wage-price spiral is a key concern for the RBNZ. Central to this is the level of inflation expectations, which have risen sharply over the past year. That includes a rise at the longer-term horizons that are of more concern for monetary policy.

The February survey is likely to show that expectations for inflation remain elevated at both short and longer-term horizons. However, with inflation remaining steady over the past six months (albeit at very high levels) and mounting headwinds for domestic activity, we do not expect a further rise in expectations in the latest survey.

Note that the latest survey came in the wake of the recent flooding in Auckland, which could tilt the results to the upside.

RBNZ survey of expectations



US Jan CPI

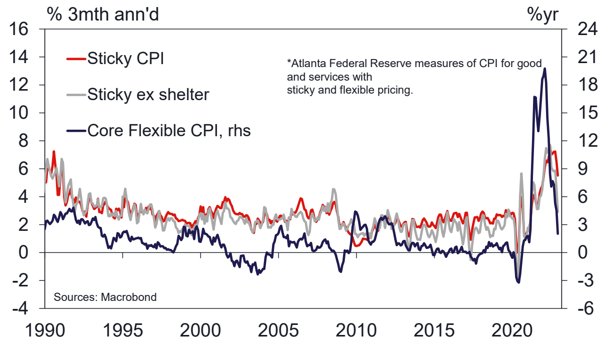
Feb 14: Last: –0.1%, Mkt f/c: 0.5%, WBC: 0.5%

The peak in US inflation is most certainly behind us, bar another large global supply shock. However, for the FOMC to have confidence it can end the tightening cycle soon, as we and the market expect, disinflation needs to broaden to services.

While headline inflation will be pushed higher in January by higher energy prices, the set up for core inflation is constructive. Wages growth has throttled back with inflation, keeping consumer discretionary spending power contained, and market measures point to a material slowing in the sticky shelter component in coming months.

The composition of price changes remains in line with our forecast for inflation to be back near target by year end. But a long road lies ahead.

US disinflation trend to broaden slowly



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 13					
NZ	Jan BusinessNZ PSI	52.1	–	–	Conditions have been cooling in recent months.
US	Fedspeak	–	–	–	Bowman.
Tue 14					
Aus	Feb WBC-MI Consumer Sentiment	84.3	–	–	Crushed by price surge and rate rises. No let-up in sight.
	Jan NAB business survey	12	–	–	Conditions are easing but remain above average.
NZ	Jan REINZ house sales %yr	-39.0%	–	–	Expected date. Continued rises in mortgage rates…
	Jan REINZ house prices %yr	-13.7%	–	–	… will likely keep buyers away and prices down.
	Jan food price index	1.1%	–	1.4%	Seasonal lift in produce prices, shortages of many products.
	Q1 RBNZ inflation expectations	3.6%	–	–	Expected to ease, still uncomfortably high for the RBNZ.
Jpn	Q4 GDP	–0.2%	0.5%	–	Solid rebound expected; exports and inflation are drags.
	Dec industrial production	–0.1%	–	–	Final estimate.
Eur	Q4 GDP	0.1%	0.1%	–	Narrowly avoided decline; more colour with second estimate.
UK	Dec ILO unemployment rate	3.7%	3.7%	–	Slack will begin to emerge more clearly this year.
US	Jan NFIB small business optimism	89.8	91.0	–	Inflation remains the key concern of small businesses.
	Jan CPI	–0.1%	0.5%	0.5%	Energy supportive in Jan; core held back by turn in services.
	Fedspeak	–	–	–	Logan, Harker, Williams.
Wed 15					
Aus	RBA Governor Lowe speaking	–	–	–	To Senate Committee on Economics, 11:15am AEDT.
Eur	Dec industrial production	1.0%	-1.2%	–	Supported by easing supply issues, but outlook is gloomy.
	Dec trade balance €bn	-15.2	–	–	Pressure on deficit to ease as energy price gains unwind.
UK	Jan CPI %yr	10.5%	10.1%	–	Stickiness of core inflation is the key risk.
US	Feb Fed Empire state index	-32.9	-20.0	–	Manufacturing conditions are weak across the nation.
	Jan retail sales	-1.1%	1.7%	–	New year bounce anticipated.
	Jan industrial production	–0.7%	0.5%	–	Performance in line with evidence from regional surveys.
	Dec business inventories	0.4%	0.3%	–	Inventory growth gradually easing; unwanted accrual a risk.
	Feb NAHB housing market index	35	37	–	Housing market is under significant and lasting pressure.
Thu 16					
Aus	Feb MI inflation expectations	5.6%	–	–	Expectations becoming increasingly important for the RBA.
	Jan employment, '000 chg	-14.6k	20k	15k	Illness remains a drag but employment growth set to return…
	Jan unemployment rate	3.5%	3.5%	3.5%	… flat participation should see unemployment rate hold firm.
	Jan overseas arrivals, prelim '000s	1269.2	–	–	Momentum has been building over the summer break.
NZ	Dec net migration	6110	–	–	Net inflows back at strong levels following border reopening.
Jpn	Dec machinery orders	-8.3%	2.8%	–	Clear downside risks to capex spending.
US	Jan housing starts	-1.4%	-2.0%	–	Demand is being hit hard by interest rates…
	Jan building permits	-1.0%	1.0%	–	… with monthly approvals back at pre-pandemic levels.
	Feb Phily Fed index	-8.9	-7.4	–	Manufacturing conditions are weak across the nation.
	Jan PPI	–0.5%	0.4%	–	Decelerating quickly from historic peak.
	Initial jobless claims	196k	–	–	To remain at a relatively low level for now.
	Fedspeak	–	–	–	Mester, Bullard, Cook.
Fri 17					
Aus	RBA Governor Lowe speaking	–	–	–	Testimony to House of Reps Committee, 9:30am AEDT.
UK	Jan retail sales	-1.0%	–	–	Sales volumes under pressure, reflecting household's woes.
US	Jan import price index	0.4%	-0.1%	–	Decelerating quickly from historic peak.
	Jan leading index	–0.8%	–0.3%	–	Pointing to materially weak conditions over the period ahead.

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Forecasts

Interest rate forecasts

Australia	Latest (10 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.35	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	3.47	3.97	4.05	4.05	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.87	3.80	3.75	3.70	3.60	3.55	3.50	3.45	3.40
3 Year Bond	3.44	3.35	3.35	3.35	3.30	3.30	3.30	3.25	3.20
10 Year Bond	3.73	3.45	3.30	3.10	2.90	2.70	2.55	2.50	2.50
10 Year Spread to US (bps)	6	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	3.67	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	5.00	5.25	5.35	5.35	5.25	4.80	4.30	3.80	3.50
2 year swap	5.11	4.80	4.60	4.30	4.00	3.80	3.60	3.45	3.35
10 Year Bond	4.22	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 (10 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6934	0.70	0.71	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6327	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	131.77	132	131	130	129	128	127	126	125
EUR/USD	1.0731	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2105	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.7906	6.75	6.70	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0979	1.09	1.09	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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