AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 20 February 2023

Editorial: Signs of inflationary pressures peaking but it is also clear we are not out of the woods yet.

RBA: Minutes February Board meeting.

Aus: Westpac-MI Leading index, wage price index, construction work, capex.

NZ: RBNZ policy decision, trade balance, GlobalDairyTrade auction, PPI.

US: President's Day, FOMC meeting minutes, PCE deflator, personal income and spending, home sales.

Global: S&P Global PMIs.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 17 FEBRUARY 2023.

WESTPAC INSTITUTIONAL BANK

Signs of inflationary pressures peaking but it is also clear we are not out of the woods yet

The last few weeks have provided us with critical updates on inflation and the labour market while in the coming week we get an update on wages, which can be thought of as both an outcome of, and interplay between, these two factors.

Inflation peaked at the end of 2022

In December, CPI inflation lifted to 7.8%yr from 7.3%yr, the fastest pace since March 1990. The 'trimmed mean' measure of core inflation lifted to 6.9%yr from 6.1%yr, the fastest pace since December 1988 and above the RBA's forecast of 6.5%yr. The most significant contributions came from domestic holiday travel & accommodation (+13.3%), electricity (+8.6%), and international holiday travel & accommodation (+7.6%). However, it was a widespread inflationary pulse in the quarter with 90% of expenditure classes recording inflation running above 3.0%yr, up from just 31% a year earlier and the highest share since September 1988.

As highlighted above by those groups with higher than average price gains, the inflationary pressure is shifting from goods to services. Goods prices lifted 9.5% in the year to December, the annual pace basically holding flat on September and almost twice the pace of services inflation at 5.5%yr. However, the quarterly pace of goods inflation is moderating with goods prices up 1.6%qtr in December compared to an average of 2.5%qtr for the previous three quarters. This was also less than the 2.1%qtr rise in services prices which was the largest quarterly rise since the 4.5%qtr associated with the GST introduction in September 2000.

Stronger services price inflation will hold up the overall rate of inflation in the face of softer goods prices, and presents an upside risk to our end 2023 forecast of 3.9%yr. Rents and electricity are already facing major cost rises but it is the broader 'market services' segment (which covers just over 20% of the CPI) and its closer link with domestic wages growth that is of most concern.

So what gives us some confidence that the inflationary pulse is peaking? From the consumer durables side we have seen a rapid correction in global shipping and freight rates which have returned to levels more consistent with what was seen pre-COVID. It is true that supply chain disruptions remain more elevated than usual but they improved significantly through 2022 and are no longer the inflationary force they were. We have also seen a rapid improvement in energy prices, which combined with lower shipping costs and weakening demand, has shifted the momentum in global inflation.

Domestically, this shift in inflationary pressure can also be seen in the recent moderation in inflation expectations. Consumer 1-year expectations peaked at 5.8% in mid-2022 and have eased down to 5.3% in early 2023. Amongst union reps, inflation expectations peaked at 6.0% in September 2022 and have moderated to 5.0% so far in 2023, while market economists' inflation forecasts peaked at 5.2% in September 2022 and are so far down to 4.0% in the March quarter of 2023.

Just as important when thinking about wages and domestic inflationary pressure, particularly for services, is the recent softening in labour market conditions.

While individual factors are behind recent surprising correction in employment it does not change the fact that the labour market has softened and unemployment is rising.

We had expected a softening in employment growth through 2023. However, the ABS suggests that the recent run of weaker than expected prints is mainly due to one off factors associated with annual leave and illness. Hence, we have not revised our forecast for the unemployment rate to be around 4¾% by end 2023.

Total employment fell almost 12k in January following on from a 15k decline in December, shifting the three-month average change in employment from 45k in November to 33k in December then down to just 1k in January. Annual growth in employment has moderated from 6.8%yr in October to 3.4%yr in December then 3.0%yr in January, highlighting a significant step-down in the pace of employment growth.

This can be seen in the employment-to-population ratio, which fell 0.2ppts to 64.0% in January. While it is 0.5ppts higher than a year earlier, it is still consistent with a moderation in the annual pace in employment growth. The annual change in employment-to-population peaked at 2.9ppts in October then fell back to just 0.8ppts in December, moderating further to 0.5ppts in January.

While we agree that there has been a clear step-down in employment growth, something we expected to see as the surge out of the COVID recovery lost momentum, the big question is: should we take this significant shift in employment growth at the end of 2022 and in early 2023 as the start of new softer trend, or even a correction in employment, despite business and household surveys still pointing to robust labour demand?

We don't think so, as the ABS noted some factors that would make you want to see more data before you accept the past few months being indicative of a new softer trend. Notably, the RBA Governor reiterated this theme in his submission to House of Representatives Standing Committee on Economics on Friday.

Along with a larger-than-usual increase in unemployment in January, there was also a similarly larger-than-usual rise in the number of unemployed who had a job to go to in the future. January is the most seasonal month of the year (employment fell 343k in original terms) with people not just leaving jobs but also getting ready to start new jobs or return from extended leave. In January 2023 the ABS noted there was a greater than usual number with a job indicating they were starting or returning to work later in the month.

The ABS determines if someone is employed using multiple criteria so it is possible that someone can have attachment to a job without the ABS reporting them as employed. Prior to the pandemic, there was a relatively small number of people each month who had attachment to a job but were not considered to be employed, peaking in January each year. There are two groups:

- The 'long-term away from work' who have a job that they are away from without pay for more than a month (e.g. unpaid parental leave); and,
- The 'waiting to start work' who have a job but have not started yet (they can be categorised as either unemployed or not in the labour force accordingly).

In January there is always a surge in the share of those who have a job to go to but are not classified as employed as it is the peak of our summer holiday season. Pre-COVID the share was around 4%, in 2022 it surged to 5.1% then was 5.2% in 2023. If we make the assumption that the difference between pre-COVID and the recent share is due to post-COVID surge in holiday activity then you could argue, in original/not seasonally adjusted terms, this held back employment by around 60k in January of 2021 and 2022. Our February 2023 forecast for the increase in original employment is 276k. If we add a further 60k to that estimate this boosts our seasonally adjusted estimate from 50k to around 100k. This points to a clear upside risk to our current February forecast of a 50k rise in employment.

Why are we cautious about forecasting a larger rise in February employment given there is a clear upside risk? There are also a number of factors that increase the uncertainty in regards to the February labour force forecasts. As we expected in January, there was a greater than usual 'holiday effect' while the rate of illness improved from December. Seasonally adjusted monthly hours worked declined 2.1% reflecting a higher-than-usual number taking annual leave in January. Early January is the seasonal peak in people taking annual leave. As in 2021 and 2022, January 2023 again saw more than usual taking annual leave with around 43% of those employed working reduced or no hours because they were on leave, compared with around 41% of those employed over the same period before the pandemic.

January 2023 did see a reversal of the impact of rising illness. The proportion of people away from work on sick leave was back around the average, pre-pandemic level, unlike January 2022, when more people than usual were away from work on sick leave. It is not clear if this return to work was a positive or neutral for employment in February give the significant holiday affect.

A softer labour market will see wage and inflation pressure ease through 2023.

Our current forecasts have wage inflation, as measured by the wage price index, peaking at 4.5% in late 2023 which is consistent with the low in unemployment, the strongest point for the labour market being near the end of 2022. A lot will depend on the 2023 Minimum Wage Decision but offsetting this risk is the fact the Enterprise Bargaining wages have not picked up as expected while the informal bargaining sector wages have shown themselves to be very responsive to changes in labour market conditions.

Westpac is forecasting a 1.3%qtr rise in the CPI for the March quarter, the softest print since December 2021. This will take the annual pace down to 6.9%yr from 7.8%yr. The trimmed mean is forecast to rise 1.3% in the quarter seeing the annual pace ease back to 6.5%yr from 6.9%yr.

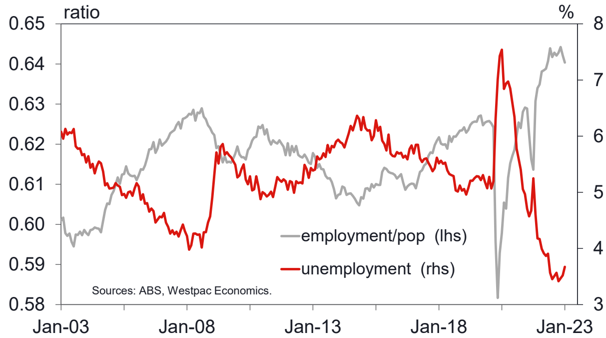
The correction in crude oil prices is a major factor in this moderation in inflationary pressure with falling auto fuel making a -0.2ppt contribution in March. While still rising, higher electricity prices are set to make a smaller contribution as the effect of the rebates fade while furniture and furnishing prices are moderating. Holiday travel prices are forecast to hold their current very high level, rather than surge again, thus making a smaller contribution than they did in December.

Our end 2023 forecast for CPI is 3.9%yr while our trimmed mean forecast is 3.6%yr, both still well clear of the top of the RBA's inflation target band but a nonetheless a meaningful moderation from the current pace.

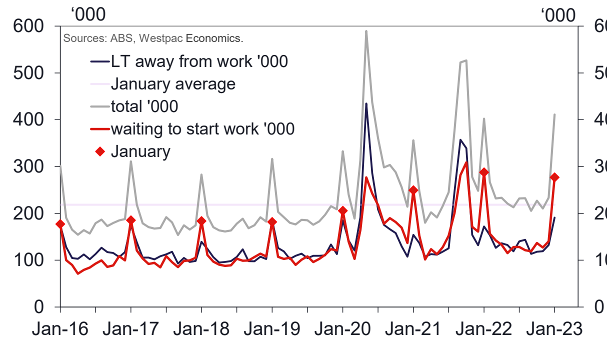
For further details on our thought on inflation please see our "Q4 Deeper Insights on Australian Inflation".

Justin Smirk, Senior Economist

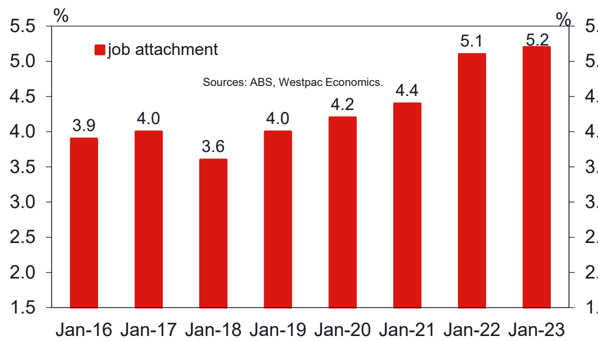
Unemployment vs. employment/pop



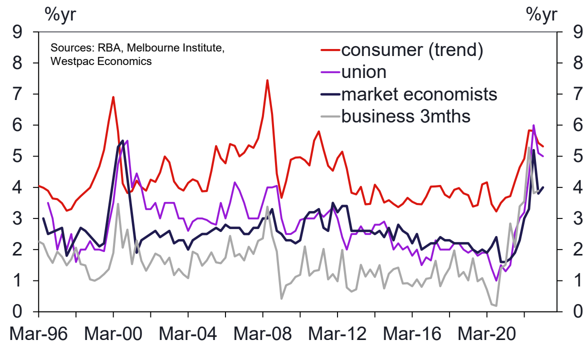
Not working but have job to go to



Proportion not employed with job to go to



Near term inflation expectations



THE WEEK THAT WAS

This week, updates on sentiment and the labour market put the Australian consumer in the spotlight. The US CPI report meanwhile again highlighted the challenge the FOMC face in bringing down services inflation.

The Westpac-MI Consumer Sentiment survey delivered a sour update on confidence. After earning some reprieve through the Christmas/New Year period, the headline index fell by 6.9% in February. At 78.5, confidence has returned to the lows seen last November, and before that the onset of the pandemic and the GFC. Households are clearly unnerved by the persistence of widespread inflationary pressures and the hawkish shift in the RBA's guidance in early 2023. The survey's sub-indexes clearly highlight both the fragile state of family finances and the likely implications for spending, with family finances versus a year ago 30% below long-run average levels and 'time to buy a major household item' 38% below average. For a detailed analysis of these topics, see this week's video update by Senior Economist Matthew Hassan and/or our February Market Outlook in conversation podcast.

Of the data received domestically this week, the January labour force survey was most significant. Over the last two months, total employment has declined by 35.5k and the unemployment rate has risen 0.2ppts to 3.7% – results that are typically consistent with a softening trend emerging in the labour market. However, it is important to recognise that the survey also reported a rise in the number of unemployed people who have lined up a job in the near feature similar to the rise in unemployment. Additionally, the 2.1% decline in seasonally adjusted hours worked indicates a higher-than-usual number of people taking annual leave in January. Taken together, this suggests that some caution should be applied to recent labour force data, especially given that business (see below) and household surveys (see above) are still pointing to robust labour demand. Slack in the labour market will begin to emerge more clearly in time but we do not expect this to occur until H2 2023, with the unemployment rate forecast to rise to 4.6% by year-end.

The recovery in immigration flows has led to robust growth in the working age population, holding firmly above pre-pandemic levels at 2.1%yr. Indeed, there has been a surge in overseas arrivals and departures over the Christmas/New Year period, with seasonally adjusted estimates indicating that this strength is close to patterns seen during the pre-pandemic years. Although travel by Australian residents constitutes the bulk of this, it was promising to see the recovery in net visitor arrivals strengthen over the course of 2022, lifting from 420k in H1 to 675k in H2. The return of international visitors from China – a segment that has lagged the broader recovery to date – will be a key support over the coming year; however, broader strength in visitor flows will need to be sustained through 2023 before overseas travel can return to pre-pandemic levels.

Before moving offshore, a quick note on businesses. The latest NAB business survey suggests that business conditions and confidence were supported by robust consumer spending. Results from consumer segments have remained broadly constructive, with the large swings in overall conditions over the last two months (-8pts in Dec; +5pts in Jan) the result of extreme volatility within the mining, manufacturing and construction segments over a tricky survey period impacted by holidays. The +6pt bounce in confidence was also associated with the continued easing in labour costs and overall upstream price pressures, although mounting headwinds around the interest rate outlook and prospective weakness in consumption will likely dominate over 2023.

The key release in the US this week was the January CPI report. The 0.5% headline and 0.4% core results were as expected, as was the detail of the release. Core goods prices were little changed in the month, with a decline in used vehicle prices offsetting robust gains for apparel and medical care commodities. Core services inflation remained strong however, with prices up 0.5%. Within services, rent inflation continues to crest at a historically high rate, the downtrend reported for market measures of rents yet to flow through; also supporting the 0.7% total shelter gain in January was a strong rise in the cost of short-term accommodation (1.2%), arguably a consequence of demand from both US and international holiday makers.

While in line with expectations, the January CPI release is notable because it again highlights the stickiness of services inflation and consequently the challenge before the FOMC to return headline inflation to target. We still expect this to occur, but not until late-2023, necessitating a lengthy pause in FOMC policy once the peak rate is reached.

On demand, US January retail sales were also released this week. At +3.0%, the headline result was a material upside surprise to the 2.0% consensus view. Stripping out the monthly volatility and looking at the control group measure, spending growth was still strong at 1.7% and also ahead of the market's expectation of 1.0%. Prices were supportive in the month, but the principal driver of the outsized gain is instead the weak results of late-2022, with the level in January only 0.4% higher than October in nominal terms. This multi-month result speaks to our expectation that the US economy will stagnate through 2023, albeit with volatility seen quarter to quarter.

Across in Europe, Q4 GDP was meanwhile confirmed at +0.1%, signalling the Euro Area is also likely to experience economic stagnation versus recession. However, as laid out on the Europe page of our February Market Outlook, the caveat to this view is that, in Q4, the country outcomes offset one another bar Ireland's 3.5% gain. This result is not a one off, but with annual growth now at 15.7%yr, Ireland's momentum seems unlikely to sustain for much longer. If the other Euro Area economies remain weak, a run of negatives is still a distinct possibility for Euro Area GDP, although the scale of cumulative decline is likely to be small given the strength of their labour market.

With the Euro Area now likely to outperform the US in 2023, and most certainly market expectations from 2022, Euro is expected to continue its uptrend during H2 2023 and 2024. Asian currencies are expected to be stronger still, outperforming the US dollar trend as they benefit not only from a sustainable growth advantage but also retreating inflation and rate risks. Australia's dollar should follow the example of Asia, rising to USD0.74 end-2023 and USD0.77 end-2024.

Week ahead & data wrap

Aftermath

As the country emerges from under the shadow of Cyclone Gabrielle, it's clear that many parts of the North Island are facing a long and costly recovery. The breadth and the nature of the damage makes it difficult to put a dollar value on it, though it will clearly be measured in the billions.

The cyclone came on top of the severe rains that hit in late January. Together, these events have resulted in extensive damage through large swathes of the upper North Island. They have had a particularly severe impact on Gisborne, the Bay of Plenty, and the Hawke's Bay, as well as Northland, Auckland, and the Waikato. Combined, these regions are home to around 60% of the population.

It's very early days and damage is continuing to occur. Until we have more information, we can only speak very generally about the cost of these events. However, at this stage the cost of these two events is likely to extend into the billions of dollars. Insurers have drawn comparisons to the Kaikoura earthquake of 2016, which saw over $2bn of insured losses. There has also been significant damage in areas that won't be captured by this: roads, farmland, electricity networks, water supplies and communications.

The immediate impact on the economy will come in the form of significant disruptions to people's everyday lives, and the loss of business activity. Given that Hawke's Bay and Gisborne were among the worst-affected regions, there has been an especially large impact on our horticulture sector. In particular, some fruit crops like apples are likely to see significant losses given that Gabrielle hit during the picking season. Vegetable growers, including those in the Auckland region, have also been severely impacted, though they may be able to recover sooner given the shorter rotations of crops.

The livestock sector is relatively less affected overall. Certainly there will be some stock losses, but by and large the overall numbers are likely to be moderate. The bigger issue for the sheep and dairy sector, as well as forestry (in Hawke's Bay, Gisborne and Northland) will be the time necessary to restore roading and other infrastructure.

The reconstruction in the wake of these disasters is likely to be spread over several years. In addition to a large number of damaged homes, there has been extensive damage to roading and other infrastructure, as well as damage to business assets. The need for this work comes at a time when the building sector is already stretched, with a large amount of work already planned, widespread shortages of staff, and some continuing shortages of materials. As a result, the recovery may prove to be more 'instead of' rather than 'in addition to' for the construction sector, with some existing work being displaced to make way for essential repairs.

Natural disasters are typically regarded as inflationary on balance. This comes firstly through the direct impacts on prices, whether that be the additional pressure on building costs, disruptions to supply chains, higher food prices due to crop damage, or higher insurance premiums. Some of these price rises may prove to be temporary, while some will be more lasting.

Then there's the impact of the rebuild, which boosts economic activity and draws on the nation's resources of labour and capital. And to the extent that this is funded through insurance payouts and additional government borrowing, this amounts to a net stimulus. (To be clear on what the claim is here: natural disasters are unambiguously bad for the economy. But when they do happen, rebuilding is better for the economy than not rebuilding.)

For the Reserve Bank, this leaves it with a delicate balancing act as it prepares next week's *Monetary Policy Statement.* To what extent should it respond to these additional inflation pressures, on top of what was already occurring in the economy?

For now, the simple answer is to not respond one way or the other. Monetary policy is a tool for managing the level of demand in the economy; the effects of the cyclone are more in the nature of a supply-side shock. While the disruptions will boost inflation in the near term, they are not a source of sustained price rises over the medium term, which is the relevant horizon for monetary policy.

The answer is a little more complicated when it comes to the impact of the rebuild. If the boost to activity and inflation is spread over several years, there's a greater risk that it could become baked into people's inflation expectations. In this case, the RBNZ would need to run monetary policy tighter than otherwise.

Even then, we'd be careful of overstating this risk. In an economy that produces around $380bn per year, there is scope to absorb a rebuild job of this size. Even the 2011 Christchurch earthquake rebuild, a roughly $40bn rebuild spread over many years, did not prove to be the inflationary force that was initially feared. Indeed, inflation was persistently on the lower side of the RBNZ's target over the following decade – monetary policy was kept tighter than it needed to be, given the prevailing conditions across the wider economy.

Of course, the prevailing conditions today are very different from what they were in 2011 – Covid disruptions and an overheated economy have already pushed inflation to a multi-decade high. A period of tight monetary policy is required, at least until it's clear that inflation is on its way back towards the target range. With that in mind, the RBNZ will be wary of relenting too soon – and that means delivering on the OCR hikes that the market is already pricing in.

Michael Gordon, Acting Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 13	Jan BusinessNZ PSI	52.0	54.5	–
Tue 14	Jan REINZ house sales %yr	–39.0%	–27.0%	–
	Jan REINZ house prices %yr	–13.8%	–13.9%	–
	Jan food fprice index	1.1%	1.7%	1.4%
	Q1 RBNZ inflation expectations	3.6%	3.3%	–

DATA PREVIEWS

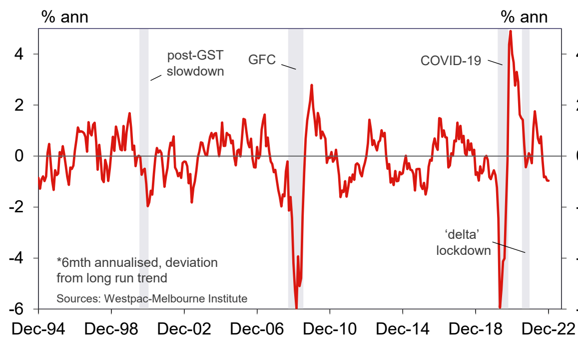
Aus Feb Westpac–MI Leading Index

Feb 22, Last: –0.97%

The six-month annualised growth rate in the Leading Index was –0.97% in December, marking the fifth consecutive negative read, a consistent signal of below-trend growth heading into the first half of 2023.

The February release will include a couple of notable positive component updates, the ASX200 up 6.2% in the month; dwelling approvals posting a strong 18.5% bounce (albeit one that is not expected to sustain). However, this is likely to be swamped by other negatives, including a sharp deterioration in consumer sentiment measures, another steep fall in commodity prices in AUD terms (-9.4%) and a decline aggregate hours worked (-2.1%).

Westpac-MI Leading Index



Aus Q4 Wage Price Index %qtr

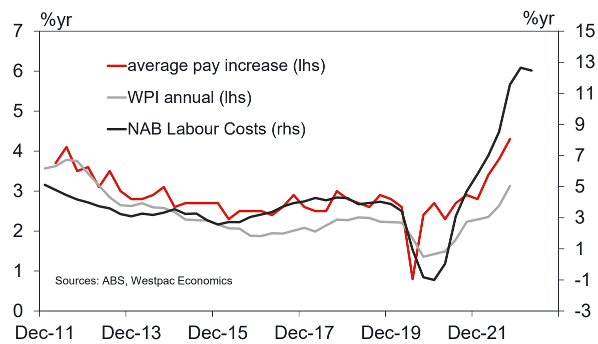
Feb 22, Last: 1.0%, WBC f/c: 1.1%
Mkt f/c: 1.0%, Range: 0.9% to 1.3%

The Wage Price Index lifted 1.0% in the September quarter, splitting the difference between Westpac's 1.1% forecast the market's 0.9%. The increase boosted the annual pace to 3.1%yr from 2.6%yr, the fastest pace since March 2013 (3.1%yr) and well up from the COVID low of 1.4%yr. Private sector wages lifted 1.2% in the quarter, the strongest increase since September 2010 and only match once in the series back in June 2008. Outside of the 1.1% increase in September 2007 all other increases have been 1.0% or less; most in fact are less than 1%.

Boosting the private sector wages was the largest Fair Work Commission (FWC) minimum wage/award increase in more than a decade. This let a rise in both the size of the average wage increase and the proportion of private sector jobs recording a wage increase.

While most of the increase in the minimum wage was paid in September, the FWC continues to stagger some industries wage increase which will boost the September result.

Ave pay increase in quarter vs annual WPI



Aus Q4 construction work

Feb 22, Last: 2.2%, WBC f/c: 1.6%
Mkt f/c: 1.5%, Range: –1.0% to 2.0%

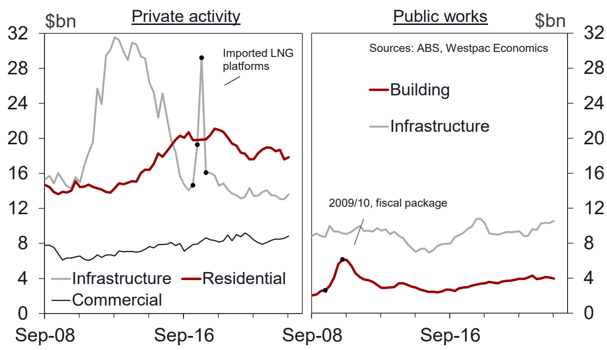
Construction sector activity rebounded by 2.2% in the September quarter, reversing a 2.0% decline the quarter prior.

Some lessening of disruptions in the period facilitated a lift in work - the sector had been hard hit by wet weather and flooding over the first half of the year. That still left a sizeable pipeline of work outstanding (particularly for stand alone homes). The size of the Q3 rebound was constrained by ongoing headwinds (labour and material shortages, as well as rising insolvencies).

These themes likely extended into the December quarter. Accordingly, we anticipate a further but modest rise in overall construction work - up by a forecast 1.6%.

That would have the level of activity in the sector at the end of 2022 only 1% above that in mid-2021 and about 3% above than in mid-2020 - a relatively lacklustre result given the extraordinary stimulus injected into the economy.

Construction work: by segment



Aus Q3 private business capex

Feb 23, Last: -0.6%, WBC f/c: 2.0%
Mkt f/c: 1.3%, Range: –3.0% to 4.0%

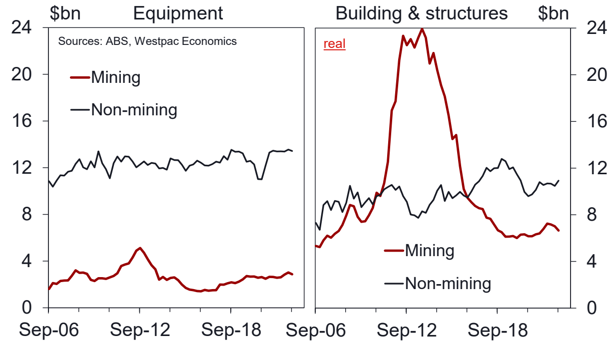
Total business capex spending consolidated over the opening three quarters of 2022. That followed an 11% bounce in 2021, which reversed weakness over the previous two years (-6% and -6.6%).

For the December quarter 2022, we anticipate a rise in the order of 2%, with broadly similar gains across Building & Structures (B&S) and equipment. This is in the context of positive near-term capex plans, responding to resilient demand and limited spare capacity.

Businesses lifted equipment spending in Q1 and Q2 of 2022 (1.4% and 2.2%) associated with the economic reopening. While this was followed by a -1.6% fall in Q3, that was likely a temporary dip.

B&S expenditure moved lower in Q1 and Q2 (-0.5% and -2.0%) hit by disruptions. With those disruptions lessening, the second half of 2022 is more promising, kicking-off with a gain of 0.5% in Q3.

CAPEX: by industry by asset



Aus 2022/23 and 2023/24 capex plans

Feb 23, Last: 2022/23 Est 4 $155.7bn

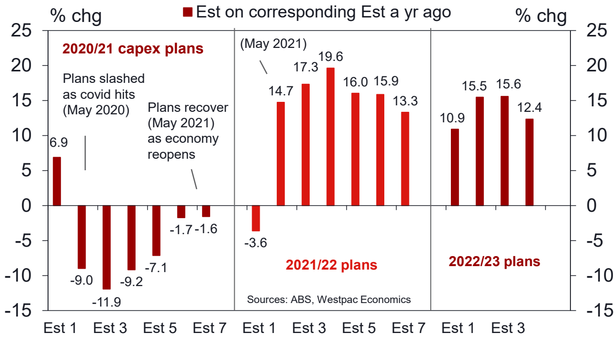
Capex spending rose by 13.3% in 2021/22 (+5.2% for prices and +7.7% for volumes). For 2022/23, plans point to another double digit rise – but the volume / price split is an unknown – thereby making the survey more difficult to interpret during periods of high inflation.

Est 4 for 2022/23 printed $155.7bn, 12.4% above Est 4 a year ago. Strength is broadly based by asset and industry. Based on average Realisation Ratio (RR), we estimate that this implies a 15% rise.

Est 5, surveyed in January and February, will likely confirm a sizeable lift for 2022/23 – on positive near–term fundamentals, as well as higher capex costs. An Est 5 of around $160bn would be broadly consistent with the Est 4 reading.

Capex prospects are set to sour in 2023/24 as the economy slows. However Est 1 for 2023/24 is unlikely to fully factor in the likely weakness, that will take time to emerge. Est 1 may print at $132bn, 13% above Est 1 a year ago and implying a rise of 6% based on RRs.

Capex plans: positive for 2022/23



NZ GlobalDairyTrade auction, whole milk powder prices

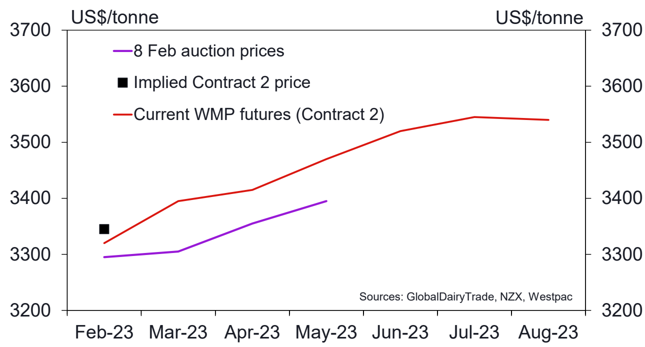
Feb 22, Last: +3.8%, Westpac: +1.0%

We expect whole milk powder prices (WMP) to post a small 1% rise at the upcoming auction. If correct, this rise will build on the 3.8% lift at the previous auction.

Our pick is marginally lower than the circa 2% rise that the futures market is pointing to (as at 12pm Friday 17 February).

Over the first half of this year, we expect that rebounding Chinese dairy demand will lead global dairy prices higher.

Whole milk powder prices



RBNZ Feb Monetary Policy Statement

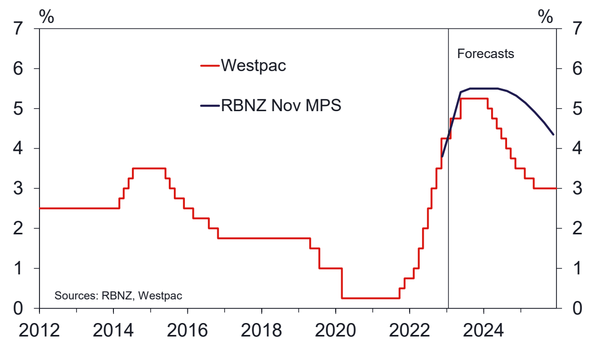
Feb 22, Last: 4.25%, Westpac f/c: 4.75%, Market f/c: 4.75%

We expect the Reserve Bank to lift the Official Cash Rate by 50 basis points to 4.75% next week.

That's down from the 75 basis point rise that the market was widely expecting, and which the RBNZ seemed set on delivering, in the wake of the November Monetary Policy Statement. But the inflation data since then, while strong, hasn't accelerated in the way that the RBNZ was bracing for.

We still expect the RBNZ to retain a hawkish stance, with further hikes projected in the coming months. The RBNZ will want to dissuade the market from factoring in rate cuts too soon, which would risk restimulating the economy before the inflation battle has clearly been

RBNZ Official Cash Rate



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 20					
Eur	Feb consumer confidence	-20.9	–	–	Consolidating after a better-than-expected winter.
UK	Feb Rightmove house prices	0.9%	–	–	Price correction to remain entrenched over 2023.
US	President's Day	–	–	–	Public holiday; markets closed.
Tue 21					
Aus	RBA minutes	–	–	–	More colour around the hawkish shift in guidance.
NZ	Q4 PPI	1.6%	–	–	Operating costs are rising at a rapid pace.
Jpn	Feb Nikkei manufacturing PMI	48.9	–	–	Manufacturers' health depends on support from demand...
	Feb Nikkei services PMI	52.3	–	–	... which is proving to be a positive in the services sector.
Eur	Feb S&P Global manufacturing PMI	48.8	49.3	–	Burgeoning support from better conditions over winter...
	Feb S&P Global services PMI	50.8	50.7	–	... is facilitating growth in services and recovery in mfg...
	Feb ZEW survey of expectations	16.7	–	–	... as confidence rebounds strongly.
UK	Feb S&P Global manufacturing PMI	47.0	47.5	–	Comparatively the UK faces a tough near-term outlook...
	Feb S&P Global services PMI	48.7	49.3	–	... but the expected scale of recession now smaller.
US	Feb S&P Global manufacturing PMI	46.9	47.0	–	S&P in contrast with ISM services, pointing to major slowing...
	Feb S&P Global services PMI	46.8	46.9	–	... in the sector, likely concentrated in small/mid-sized firms.
	Jan existing home sales	-1.5%	2.1%	–	Sales volumes have sunk to near historic lows.
Wed 22					
Aus	Jan Westpac-MI Leading Index	-0.97%	–	–	Clear signal of slowing to below trend pace.
	Q4 Wage Price Index	1.0%	1.0%	1.1%	Residual min wage increase will further boost Q4 print.
	Q4 construction work done	2.2%	1.5%	1.6%	Up on fewer disruptions and still sizeable work pipeline.
NZ	GlobalDairyTrade auction (WMP)	3.8%	–	1.0%	Dairy prices rising on rebounding Chinese demand.
	Jan trade balance $mn	-475	–	-1250	Export prices have eased; import demand still firm.
	RBNZ Monetary Policy Statement	4.25%	4.75%	4.75%	Inflation has peaked but remains intense.
Ger	Feb IFO business climate survey	90.2	90.7	–	Consolidating after a better-than-expected winter.
US	FOMC February meeting minutes	–	–	–	Focus is on discussion of path for policy over 2023.
Thu 23					
Aus	Q4 private new capital expenditure	-0.6%	1.3%	2.0%	Equipment upward trend to resume, after Q3 dip.
	2022/23 capex plans Est 5, $bn	155.7	–	–	Est 5 likely to confirm double digit growth implied by Est 4.
	2023/24 capex plans Est 1, $bn	–	–	–	Outlook to sour on slowing economy, but survey slow to adjust.
Eur	Jan CPI %yr	8.5%	8.5%	–	Final estimate to give crucial detail on services inflation.
US	Jan Chicago Fed activity index	-0.49	–	–	Pointing to a material loss of economic momentum.
	Q4 GDP, annualised	2.9%	2.9%	–	Second estimate.
	Initial jobless claims	194k	–	–	To remain at a relatively low level.
	Feb Kansas City Fed index	-1	–	–	Conditions remain highly volatile, but trend weak.
	Fedspeak	–	–	–	Bostic and Daly.
Fri 24					
Jpn	Jan CPI %yr	4.0%	4.4%	–	Price pressures building steadily; BoJ to remain unperturbed.
UK	Feb GfK consumer sentiment	-45	–	–	Inflation and rates have left consumers deeply pessimistic.
US	Jan personal income	0.2%	1.0%	–	New year bounce to offset weakness at end-2022...
	Jan personal spending	-0.2%	1.0%	–	... flattening trend indicates a loss of momentum.
	Jan PCE deflator	0.1%	0.4%	–	FOMC will be closely monitoring...
	Jan core PCE deflator	0.3%	0.4%	–	... services inflation components.
	Jan new home sales	2.3%	0.7%	–	Weakness in sales volumes set to persist.
	Feb Uni. of Michigan sentiment	66.4	66.4	–	Final estimate.
	Fedspeak	–	–	–	Jefferson, Collins and Waller.

Forecasts

Interest rate forecasts

Australia	Latest (17 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	3.95	3.80	3.75	3.70	3.60	3.55	3.50	3.45	3.40
3 Year Bond	3.52	3.35	3.35	3.35	3.30	3.30	3.30	3.25	3.20
10 Year Bond	3.83	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	3.89	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	4.95	5.25	5.35	5.35	5.25	4.80	4.30	3.80	3.50
2 year swap	5.09	4.80	4.60	4.30	4.00	3.80	3.60	3.45	3.35
10 Year Bond	4.35	4.00	3.90	3.85	3.80	3.70	3.60	3.55	3.50
10 Year spread to US	46	60	60	65	70	80	90	95	100

Exchange rate forecasts

Australia	Latest (17 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6836	0.70	0.71	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6226	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	134.74	132	131	130	129	128	127	126	125
EUR/USD	1.0638	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.1945	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.8781	6.75	6.70	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0995	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	3.6	3.6	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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