

# AUSTRALIA & NEW ZEALAND WEEKLY.

## Week beginning 27 February 2023

**Editorial:** We have lifted both the RBA cash rate forecast and the FOMC forecast.

**RBA:** Assistant Governor (Financial System) speaking.

**Aus:** Q4 GDP and partials (profits, inventories, net exports), Q4 current account, retail sales, credit, monthly CPI, housing updates (prices, dwelling approvals, finance).

**NZ:** Q4 real retail sales, building consents, employment indicator, business confidence, terms of trade.

**China:** various PMIs.

**Eur:** CPI, unemployment rate.

**US:** ISMs, housing updates (prices, sales), durable goods orders, Chicago PMI, regional surveys.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT  
CURRENT AS AT 24 FEBRUARY 2023.

**WESTPAC INSTITUTIONAL BANK**



## We have lifted both the RBA cash rate forecast and the FOMC forecast

We have lifted our forecast terminal RBA cash rate from 3.85% to 4.1%.

We have also lifted our forecast for the federal funds rate with a peak in June of 5.25–5.5%, from 4.75–5% in March.

Since October we have consistently held the view that the cash rate would peak in May at 3.85%.

We still see the date of the peak as May 2023 but now see that peak as slightly higher.

The previous view envisaged a 25 basis point hike in March followed by a pause in April with the final hike of 25 basis points in May.

Over the course of the last few months of 2022 the Board consistently referred to the possibility of pausing and, as recently as December, considered a pause as one of three policy options.

However, the Board has adopted a more hawkish approach since the release of the December quarter inflation report which showed: underlying inflation at 6.9% compared to the official forecast of 6.5%; goods inflation up in the quarter; and services inflation particularly strong.

The February Minutes noted that: “members agreed that further increases in interest rates are likely to be needed over the months ahead”. This was stronger guidance than “The Board expects to increase interest rates further over the period ahead, but is not on a pre-set path”, which we saw in December. In particular, “not on a pre-set path” had allowed scope for a near term pause.

We also saw the February Board Minutes where the Board did not even consider a pause.

During the Governor’s two appearances in Canberra last week, he outlined his support for a steady approach to policy. Abruptly pausing in April, only to resume with a hike in May (as implied by our previous forecast) would not be consistent with this steady approach.

Another way to maintain the 3.85% terminal rate and eliminate the pause in April would have been to bring forward the May hike to April.

But recall that the May meeting will have the advantage of a full update of March quarter inflation including the trimmed mean underlying measure, which is not calculated in the monthly inflation indicator. We expect annual trimmed mean inflation to print 6.6% for the March quarter, down from 6.9% in December. We estimate the Reserve Bank is probably expecting around 6.7%.

This slowdown will not be sufficient for the Bank to significantly change its inflation forecasts, which are refreshed for the May meeting.

The current forecast does not envisage that inflation will be back at the 2–3% target band until June 2025.

In December, the Board Minutes noted a key reason why a pause was not appropriate: “The Bank’s most recent forecasts had indicated that, even with further increases in the cash rate as incorporated in the November forecasts, inflation was expected to take several years to return to the target range.”

With this condition unlikely to change by May it seems that a pause would again not be considered appropriate.

By the time of the June meeting, we expect that there will be credible evidence that demand is slowing; labour markets are easing; and risks of a wage/price spiral have receded.

We expect that to be confirmed by the March quarter Wage Price Index Report which is forecast to print a soft 0.8%qtr gain indicating that wage pressures are not accelerating (as we have just seen with the December Report which showed growth slowing from 1.1%qtr in September to 0.8%qtr).

At 4.1%, the cash rate will be in deeply contractionary territory and a pause will be appropriate.

The decision to pause will be with a reasonable view that the tightening cycle has peaked. Westpac concurs and expects that the next move in rates beyond mid-2023 will be the beginning of an easing cycle in the March quarter 2024.

But there are risks to this scenario and they appear to land mainly on the upside.

The downside risks – an earlier easing than March next year – seem low.

While we expect the economy to stagnate in the second half of 2023, there will not be sufficient progress in bringing inflation into line with the target before the end of 2023 to accommodate earlier rate cuts.

We expect inflation in Australia to still be around 4% by end 2023, falling to 3.0% by end 2024, allowing a policy response to a stagnating economy by the first quarter of 2024.

### The outlook

The risks to our near-term rate outlook are pitched to the upside.

We have recently written about the RBA’s tightening cycle lagging the Federal Reserve’s.

This was because wages growth had peaked in the US and goods inflation had been slowing considerably.

In Australia we are yet to see across-the-board weakness in goods inflation while wage inflation is still lifting on an annual basis, although now appears to be slowing somewhat on a quarterly basis.

The surprise easing in the quarterly pace of wage inflation means we are now predicting a wage inflation peak of 4.0%, down from 4.5%.

The forecast extension of the US tightening cycle is in response to a further late-cycle tightening in the labour market; some evidence of resilience in demand; a slowing in the pace of overall disinflation while services inflation remains stubbornly high.

The Reserve Bank will be aware that these developments in the US may provide potential warning signals for Australia.

Our new forecasts now have Australia’s tightening cycle peaking around six weeks before the US cycle.

In Australia we also have a number of ‘COVID legacies’ that may hold up demand in the first half of 2023: the \$300 billion in accumulated household excess savings; the lift in national incomes coming from the boost in the terms of trade (partly due to the reopening of China); solid household wage income growth directly stemming from tight labour markets; and the boost in demand from surging net migration (we estimate net migration reached 400,000 in 2022 and will remain strong at 350,000 in 2023).

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.

Were these factors to offset the drags from high interest rates and collapsing real wages in the first half of 2023, the RBA might have to respond with a further move at its August meeting, since inflation is already forecast to hold up at uncomfortably high levels (the RBA expects trimmed mean inflation of 6.2% by the June quarter).

Finally, we were surprised to see the observation in the February Board Minutes that: “the cash rate was lower than in many other comparable economies”; complemented by: “there was little evidence to suggest that the overall impact of monetary policy on activity and inflation in Australia was materially different than elsewhere.” Taken on face value these comments place our two terminal rate forecasts of 4.1% and 5.25%–5.5% as quite anomalous.

## Conclusion

The RBA seems locked in to further hikes in the cash rate in both March and April. The revised forecasts and March quarter inflation report are likely to require a further hike in May.

With the concerns about a wage-price spiral easing following the December quarter Wage Price Index report; demand slowing; and the cash rate deeply contractionary, at 4.1%, the case for a pause in June is credible.

Further out the next move is likely to be a rate cut beginning in the March quarter 2024.

But risks to this scenario are to the upside – COVID legacy factors that could boost demand and slow the disinflation process; the extension of the US tightening cycle; and recent recognition that Australia's cash rate is below other countries will keep markets alert to those upside rate risks.

**Bill Evans, Chief Economist (WestpacGroup)**

## Interest rate forecasts

| Australia                  | 24-Feb-23 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
|----------------------------|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cash                       | 3.35      | 3.60   | 4.10   | 4.10   | 4.10   | 3.85   | 3.60   | 3.35   | 3.10   | 2.85   | 2.60   | 2.35   | 2.35   |
| 90 Day BBSW                | 3.51      | 4.22   | 4.30   | 4.30   | 4.22   | 3.97   | 3.72   | 3.47   | 3.22   | 2.97   | 2.73   | 2.60   | 2.60   |
| 3 Year Swap                | 4.08      | 4.00   | 3.95   | 3.90   | 3.80   | 3.65   | 3.50   | 3.35   | 3.20   | 3.20   | 3.20   | 3.20   | 3.20   |
| 3 Year Bond                | 3.60      | 3.55   | 3.55   | 3.55   | 3.50   | 3.40   | 3.30   | 3.15   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   |
| 10 Year Bond               | 3.88      | 3.85   | 3.75   | 3.45   | 3.25   | 3.00   | 2.80   | 2.70   | 2.50   | 2.45   | 2.45   | 2.45   | 2.45   |
| 10 Year Spread to US (bps) | -2        | -5     | -5     | -5     | -5     | -10    | -10    | -10    | -10    | -5     | -5     | -5     | -5     |
| US                         |           |        |        |        |        |        |        |        |        |        |        |        |        |
| Fed Funds                  | 4.625     | 4.875  | 5.375  | 5.375  | 5.375  | 4.875  | 4.375  | 3.875  | 3.375  | 2.875  | 2.625  | 2.375  | 2.125  |
| US 10 Year Bond            | 3.90      | 3.90   | 3.80   | 3.50   | 3.30   | 3.10   | 2.90   | 2.80   | 2.60   | 2.50   | 2.50   | 2.50   | 2.50   |

Critical data for Australia's economy was mixed this week; elsewhere, the mindset of policy makers dominated the headlines.

The [minutes of the RBA's February meeting](#) provided more colour around the Board's decidedly more hawkish view. Most notably, the option of keeping rates 'on hold' was not considered in February having previously been an option in December. Further, debate between a 25bp and 50bp rate hike highlighted questions over the necessary scale of tightening to come and some lingering uncertainty around the timing of inflation's peak "only [to] be confirmed in a few months' time".

Given time and pressure from policy are both expected to be required to bring inflation back to target towards the end of the RBA's forecast horizon, and as the RBA has confidence in the state of the labour market and prospects for growth, as detailed by [Chief Economist Bill Evans](#), it now seems most likely that the Board will hike in March, April and May to a peak of 4.10% (previously 3.85%). At that deeply contractionary level, the RBA will be able to go on hold; however, it remains our view that the combined outlook for growth and inflation will not justify rate cuts until early-2024. Over the course of 2024 and 2025, we see 175bps of cuts to a low of 2.35% where the cash rate is expected to settle, with growth at trend and inflation at the top of the 2-3%yr range.

Given how tight Australia's labour market is, it was surprising to see the [WPI print materially to the downside](#) in Q4 at 0.8% (consensus 1.0%). While the average wage increase among those who received a pay rise remained elevated at 4.0%, only 21% of private sector jobs received an increase in Q4, down from 46% in September and more in line with the seasonal norm. Individual arrangements are continuing to drive wages growth – reflecting robust demand for skilled labour – but the roll-over of minimum wage/award increases from September to December was not as strong as anticipated.

In the lead-up to next week's Q4 GDP report, the ABS also released two partial indicators for investment.

[Construction work done](#) disappointed in the three months to December, falling 0.4% owing to a dip in private business construction and another decline in private home renovation. In contrast to Q3's 3.7% rebound (revised up from 2.2%), the Q4 result clearly indicates a loss of momentum heading into year-end despite a sizeable pipeline of work and as supply constraints eased.

The [Q4 CAPEX survey](#) subsequently signalled a mixed outlook for investment. Of note from the detail on current activity, equipment spending posted a mild 0.6% gain as weakness in mining offset support from non-mining sectors. On spending intentions, in our view, the fifth estimate for the 2022/23 financial year implies a 14% gain in CAPEX (in line with the prior estimate). The first estimate for 2023/24 was also robust, up 11% on the first estimate from a year ago; however, the realisation ratio adjustment implies this equates to a much more modest gain of 5.5%. It bears remembering that all of these figures are nominal and price growth has been rapid of late, CAPEX costs up 10.5%yr at December 2022.

Despite the downside surprise in construction work and soft read on equipment spending, we have revised up our forecast for Q4 GDP from 0.6% to 0.7% as net exports look to have been stronger than initially anticipated. Our full GDP preview will be on [Westpac IQ](#) later today.

For those interested in medium and long-run trends, this week also saw the release of a deep dive into Australia's [historic surge in net migration](#) which is set to continue through 2023 and 2024. Also worthy of consideration are the implications of the safeguard mechanism for Australia's heavy emitters and carbon markets, topics taken up in the latest instalment of [Commodities in Transition](#).

Over in New Zealand this week, the RBNZ delivered a 50bp increase as expected while retaining a hawkish outlook – guiding that they expect the cash rate to peak at 5.5% mid-2023 and remain at that level until late next year. Our NZ economics team expect this peak to be achieved through a 50bp increase in April and 25bps in May. We are more cautious on the outlook than the RBNZ however, believing that rate cuts will need to commence in early-2024 rather than near its end. As discussed by [Acting NZ Chief Economist Michael Gordon](#), "it will take some time just to stabilise the average rate that homeowners are paying, let alone provide some relief as the economy cools off". Note as well that the destruction caused by the recent cyclone is being looked through by the RBNZ, with disruptions to prices and activity expected to prove temporary.

In the US, the [minutes of the February FOMC](#) meeting were largely as anticipated. Broadly, they conveyed a sanguine view on economic momentum and the labour market, with the soft but positive pulse in domestic demand at Q4 welcome. The focus for policy makers therefore remained on risks to inflation and the appropriateness of financial conditions. While they believe progress is being made, the FOMC are not yet "confident" inflation is "on a sustained downward path" back to target. This will require a broadening of the disinflationary pulse to date concentrated in goods pricing. While partial data signals this next step is near, its scale and speed is yet to be proven.

While they wait for further data, the FOMC is intent on making sure that "overall financial conditions [are] consistent with the degree of policy restraint that the Committee is putting into place". In our view, the Committee is aiming to hold up the long end of the Treasury curve, the 10-year yield between 3.50% and 4.00% as an example. In doing so, they will restrict the housing market and durables consumption (such as car purchases) while also holding back equity markets and household wealth. Unlike other major economies, the downside of the FOMC taking this course is limited, with the market able to reprice term interest rates household and businesses borrow at should the policy stance have a larger than anticipated impact on the economy. This 'release valve' for policy is a key reason why we believe that the fed funds rate won't be cut until 2024, [having been raised to 5.375% at June](#) through 25bp increases at the March, May and June meetings.

## Week ahead & data wrap

The Reserve Bank of New Zealand hiked the Official Cash Rate by 50 basis points this week and continued to talk tough on inflation. As a result, we've revised up our forecast for the peak in the cash rate to 5.50%.

As expected, the RBNZ delivered another large 50bp hike at its February policy meeting. That was the latest in a string of large interest rate increases, and it took the cash rate to its highest level since 2008.

Underlying the rapid rise in the cash rate over the past 18 months has been a very familiar story: the economy has been running hot, productive capacity and the jobs market are stretched thin, and inflation pressures are boiling over.

Against that backdrop, tighter policy is needed to get inflation back inside the RBNZ's target band. However, there is more uncertainty around exactly how much more tightening will be needed.

Back in November, the RBNZ's forecast signalled a 5.50% peak in the cash rate. But since that time, although inflation remained strong at 7.2%, it fell short of the RBNZ's forecast of a rise to 7.5%. As a result, we had expected that the RBNZ's updated policy projections would indicate that the cash rate could rise by slightly less than they had previously signalled.

However, the central bank has remained resolute: inflation is much too high, and higher interest rates are still needed to bring it down to more sustainable levels.

Given the RBNZ's clearly stated intentions, we've reversed the change we made to our forecasts in the wake of the December quarter inflation report. We now expect the OCR will rise to a peak of 5.50% in mid-2023 (previously, we were forecasting a peak of 5.25%).

That sort of change in the OCR doesn't indicate a big change in economic conditions more broadly - the RBNZ has already delivered a large amount of tightening, and that will be a significant drag on demand over the coming year. An additional 25 points doesn't change that. However, this does help to clearly signal the RBNZ's intentions. And when the central bank says what it's going to do, it's very likely to follow through (at least in the near term).

There is, however, greater uncertainty around just how quickly the OCR will rise. The RBNZ's forecasts were intentionally ambiguous about the precise pace of tightening from here, including whether the April policy meeting will see a 25bp or 50bp rise in the cash rate. Interest rates have already risen by a large amount and the peak in the policy cycle is approaching. Consequently, the RBNZ is now moving into a 'fine tuning' phase of its tightening cycle, as it considers exactly how much further interest rates need to increase.

With ongoing uncertainties about the economic landscape, the central bank could reasonably shift to 25bp moves from here. However, the RBNZ preference through the current cycle has been to adjust policy quickly to get interest rates where they think they need to be, rather than spreading them out. As a result, we expect that they will deliver another 50bp hike in April, followed by a 25bp rise in May.

### Round-up of local data released over the last week

| Date          | Release                        | Previous | Actual | Westpac f/c |
|---------------|--------------------------------|----------|--------|-------------|
| <b>Tue 21</b> | Q4 PPI                         | 1.6%     | 0.9%   | -           |
| <b>Wed 22</b> | GlobalDairyTrade auction (WMP) | 3.8%     | -2.0%  | 1.0%        |
|               | Jan trade balance \$mn         | -636     | -1954  | -1250       |
|               | RBNZ Monetary Policy Statement | 4.25%    | 4.75%  | 4.75%       |

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An additional consideration for the RBNZ is the impact of the recent storms and flooding through large swathes of the North Island. Those events will boost inflation in the near term, with much of that due to increases in food prices following the damage to crops in the affected regions. However, the RBNZ recognises that these are temporary supply-side disruptions, which don't warrant a monetary policy response.

Of more concern for the RBNZ is the longer-term boost to demand from reconstruction, and the related impact on inflation. The construction sector is already stretched, and the required repair work will boost demand over the medium-term horizons that are a key focus for monetary policy.

But even then, it's not certain that this will require additional interest rate increases. Borrowing costs have already risen to their highest level in more than a decade, which over the coming year will dampen both demand and inflation. Notably, tighter financial conditions are already weighing on demand in the building sector, with builders reporting a drop-off in new demand and fewer new projects set to come to market over the year ahead. That slowdown in construction activity (and demand more generally) will free up capacity for the rebuild and limit the related rise in inflation pressures. Consistent with that, the RBNZ indicated that the recent floods haven't materially affected the outlook for monetary policy.

It will take some time for the full extent of damage stemming from the floods to be assessed, and the RBNZ's approach could change over time. But for now, it's taken an appropriately measured approach to these events.

Where we continue to differ from the RBNZ is on the timing of OCR cuts. As we've been highlighting, monetary policy acts with a lag. During the tightening cycle, mortgage rate fixing has delayed the impact of rate hikes and households have yet to feel the full brunt of interest rate increases to date (that's likely to be seen through the back part of this year). However, this works in both directions - it will take some time just to stabilise the average interest rate that homeowners are paying, let alone provide some relief as the economy cools off.

The RBNZ's proactive approach should extend to thinking about the appropriate time to start taking its foot off the brake. We expect rate cuts will be appropriate from early-2024 as the downturns in demand and inflation deepen. In contrast, the RBNZ's forecast don't show a material easing in policy until the end of 2024.

**Satish Ranchhod, Senior Economist**

## Aus Q4 company profits

**Feb 27, Last: -12.4%, WBC f/c: +1%**  
**Mkt f/c: 1.5%, Range: -2% to +6%**

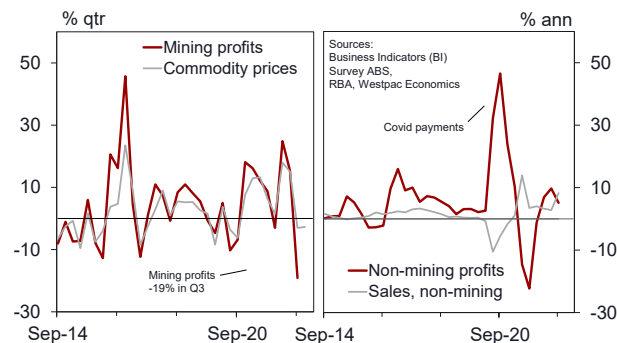
The Business Indicators (BI) headline company profits measure is, at times, a misleading estimate of profitability.

For Q3, the survey reported a -12.4% plunge in profits, greatly exaggerating the actual decline, a fall of -4.7% in the national accounts. For Q4, we see the reverse as likely.

The BI survey is on an accounting basis and books changes in the value of inventories as a profit or loss – the Inventory Valuation Adjustment (IVA). Inventory prices swung from a Q2 increase of 4.6% to a Q3 decline of -0.1%, resulting in the IVA subtracting 6.4ppts from the headline profit number.

For Q4, we assess that underlying profits declined by around 1% (led lower by mining on a fall in global commodity prices). However, we suspect that the profit measure in the BI survey will be boosted by the IVA, to print around a positive 1%.

## BI company profits, -12.4% in Q3 (overly weak)



## Aus Q4 inventories

**Feb 27, Last: 1.7%, WBC f/c: -1.0% (-0.9ppts impact)**  
**Mkt f/c: 0.0%, Range: -1.0% to +1.4%**

The sharp inventory run-up in the September quarter was likely in large part reversed in the final three months of 2022.

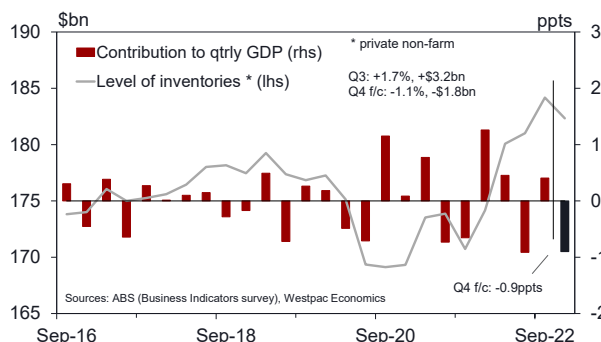
Non-farm private business inventory levels jumped by a sizeable \$3.16bn (1.7%) in the September quarter, adding 0.4ppts to activity.

The September run-up included a (very large) \$2.0bn jump in mining inventories (transport links to ports being disrupted) and a \$1.8bn increase in retail (as outlets looked to stock-up early ahead of sales to avoid potential supply chain delays).

Both of these dynamics likely reversed in the December quarter, as suggested by a rise in resource export shipments and a decline in goods imports (down by an estimated 4.5%).

On our forecast, (subject to revisions), inventories will directly subtract 0.9ppts from activity in the December quarter.

## Q3 inventory run-up on one-offs to be unwound



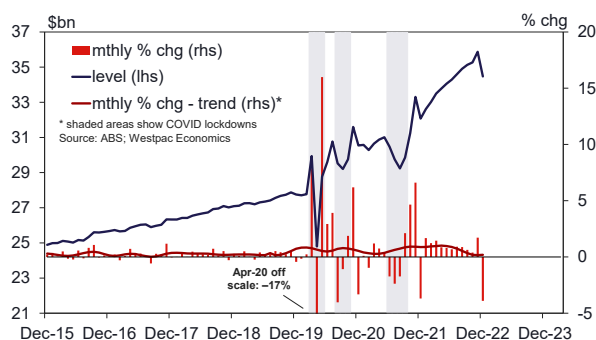
## Aus Jan retail trade

**Feb 28, Last: -3.9%, WBC f/c: 1%**  
**Mkt f/c: 1.5%, Range: -1% to 5%**

Retail sales posted a very large 3.9% drop in Dec. Some of this looks to be volatility around the Black Friday/Cyber week sales complicated by seasonal adjustment difficulties – Nov's 1.4% gain was marked up to 1.7% and there was a similar choppy profile around Nov-Dec in 2021. However, the Dec fall more than reverses the Nov gain and, taking the two months together, suggests there has been a slowing underlying trend in response to rising interest rates that may have bitten harder late in the year.

Our **Westpac Card Tracker** and other measures also suggest retail was slowing into year-end with wider spending showing a big pivot towards non-retail segments (travel and hospitality in particular) over and above normal seasonal shifts. Volatility is clearly an issue and we may well see revisions to soften some of the choppy monthly profile. On balance we expect nominal sales to post a 1% gain in Jan, which would still be broadly consistent with stalling underlying growth.

## Monthly retail sales





## Aus Q4 current account balance, \$bn

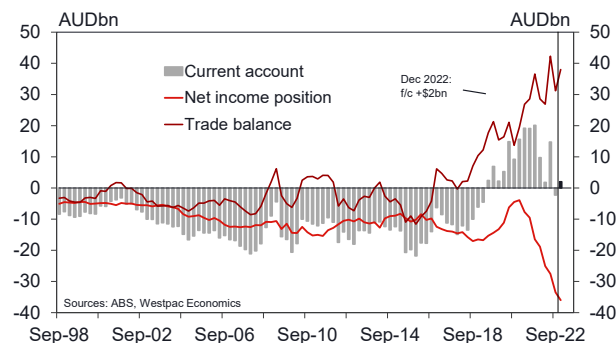
**Feb 28, Last: -2.3, WBC f/c: +2.0**  
**Mkt f/c: +5.0, Range: -3.2 to +10.0**

Australia's current account position slipped into deficit in the September quarter, to the tune of \$2.3bn – ending a record run of 13 consecutive quarters of surplus.

A deterioration of \$17bn in the quarter (from +\$14.7bn) included an \$11bn narrowing of the trade surplus (to \$31.2bn, since revised to \$29.3bn). It also included a \$6bn widening of the net income deficit (NID) on higher returns to international investors in the resource sector (to -\$33.2bn, the largest deficit on record at -5.4% of GDP).

In the December quarter, the current account potentially edged back into surplus, to a forecast \$2.0bn, on a rebound in the trade position. The trade surplus swelled to around \$38bn, on a lift in export volumes and a dip in import volumes. We've factored in a further increase in the NID, to \$36bn.

## Australia's current account: Q4 f/c +\$2bn



## Aus Q4 real net exports, ppts cont'n

**Feb 28, Last: -0.2, WBC f/c: +1.4**  
**Mkt f/c: 1.3, Range: 0.3 to 1.8**

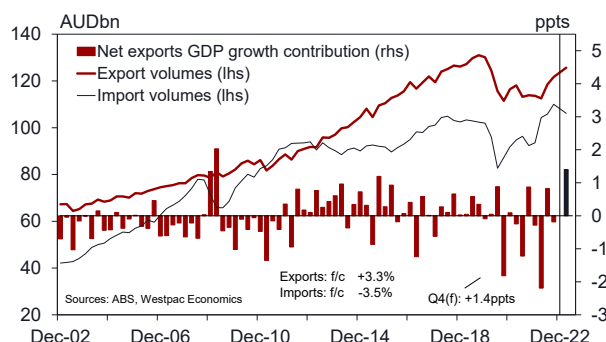
Volatility in the quarterly net export position continues – swinging to a sizeable positive in the December quarter, after a small drag the previous three months and a large subtraction over the year prior.

Net exports added in the order of 1.4ppts to activity in the December quarter, we estimate, following a -0.2ppt qtr, -1.9ppt yr subtraction.

Import volumes, having surged 19% over the past year to meet rising demand on the reopening of the economy, consolidated in the December quarter, slipping back by an estimated -3.5%.

Exports were disappointing up to Q1 2022 (to be 13.5% below the level prevailing at the end of 2019). Since then, a recovery has emerged, with volumes up by an estimated 3.3% in Q4 (building on a +5.3% and a +2.7%). In Q4, strength was evident across services (tourism and education) and a lift in resources (including a jump in lithium), as well as a rise in manufactured goods.

## Net exports: Q4 f/c +1.4ppts



## Aus Jan private sector credit

**Feb 28, Last: 0.3%, WBC f/c: 0.4%**  
**Mkt f/c: 0.3%, Range: -0.1% to 0.4%**

The appetite for credit has diminished significantly as sharply higher interest rates impact, reducing borrowing capacity.

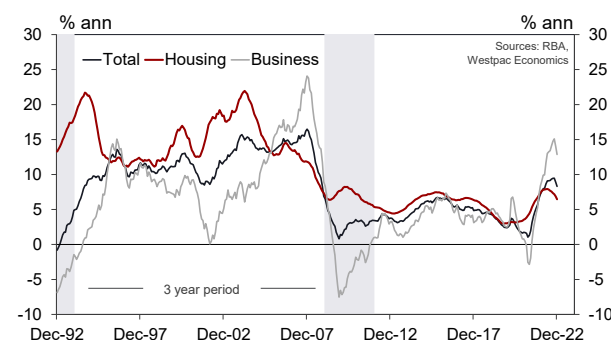
The monthly pace of private sector growth has slowed progressively and appreciably, from 0.9% for April and May, to 0.5% in October and November, then dipping to a sluggish 0.3% in December.

The December result, potentially impacted by hesitancy in the lead-in to Christmas holidays, may overstate the current underlying weakness. We anticipated a 0.4% rise for January, 8.0%yr.

Housing credit grew by 5.4% annualised in the three months to December, moderating from a high of 11% mid-year. New lending was 31% lower in December than at the start of 2022.

Business credit grew by 7.3% annualised in the 3 months to December, down from 19% in June, an unsustainable pace boosted by the reopening.

## Credit: annual growth slips to 8.3%



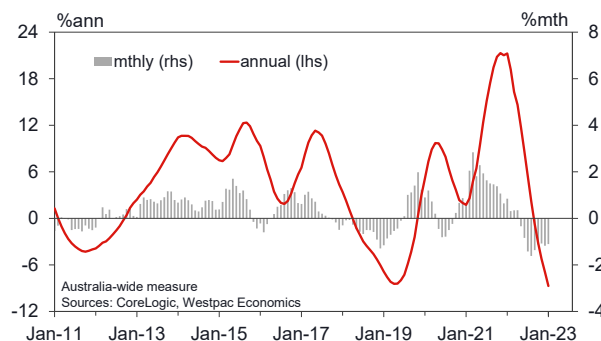
## Aus Feb CoreLogic home value index

**Mar 1, Last: -1.1%, WBC f/c: -0.1%**

The CoreLogic home value index fell 1.1% in January to be down 8.7%yr, the annual pace of falls eclipsing the 2018-19 correction for the first time to be the weakest on records back to 1981. All capital cities and major regional areas recorded price declines in the month.

While the correction looks to have continued into February, the daily index is pointing to a much milder monthly decline. We expect the final wash-up to show a 0.2% dip in prices nationally. That said, some of this looks to be due to temporary factors – in particular, changes in NSW allowing eligible buyers to opt for an annual land tax payment instead of an up-front stamp duty charge which look to have provided a significant boost to demand. Seasonality can also flatter prices a little in February (worth about +0.3ppts on the Jan-Feb price move). More generally, the RBA's interest rate tightening cycle clearly has further to run and will remain a dampener throughout 2023.

## Australian dwelling prices



## Aus Q4 GDP

**Mar 1, Last: 0.6%, WBC f/c: 0.7%**  
**Mkt f/c: 0.7%, Range: 0.4% to 1.9%**

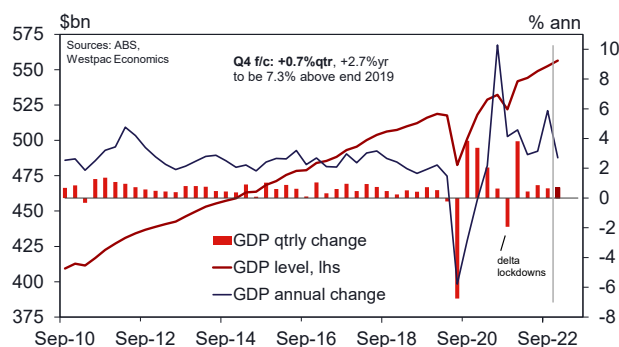
We assess that the Australia's economy grew by a moderate 0.7% in the December quarter, following a 0.6% gain, to be 2.7% higher over the year.

The arithmetic is: domestic demand +0.3% and +0.4ppts on balance from net exports (+1.4ppts) and inventories (-1.0ppt).

Conditions appear to be mixed – with service sectors benefiting from fewer covid disruptions but with the adverse impacts from high inflation and rising interest rates becoming apparent (falling retail sales, declining home renovations and lower housing turnover).

Consumer spending grew by a forecast 0.8%qtr, 5.9%yr; home building was flat; public demand is consolidating (a forecast +0.3%) as the spike in covid related spending unwinds; while business investment appears to have edged lower. The recent export recovery continued, after the weakness from end 2019 to Q1 2022.

## Australian economy: a mixed end to 2022



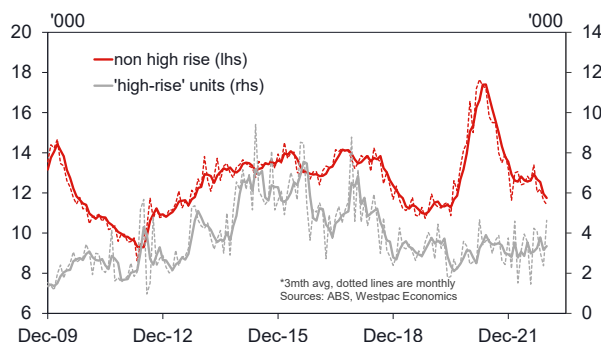
## Aus Jan dwelling approvals

**Mar 2, Last: 18.5%, WBC f/c: -10%**  
**Mkt f/c: -7.5%, Range: -5% to -12%**

Dwelling approvals produced a large upside surprise for December with an 18.5% jump in total approvals for the month. This was very much against the run of play with significant declines in Oct-Nov that suggested rate rises and other pressures were starting to bite. The detail suggests this underlying weakness was still present in December with the headline gain driven by a spike in high rise approvals and 'core' non high rise approvals still tracking lower.

The January update is expected to see a sharp reversal with significant downside risks. Underlying trend weakness looks to have accelerated through year-end, HIA figures on new home sales showing another steep fall in Jan. With high-rise approvals coming off what is very likely a temporary spike, total approvals are primed for a big fall. Overall, we expect approvals to be down 10%mo. Note that the summer low period can also see seasonal adjustment amplify monthly moves in Jan, meaning a much bigger fall is possible.

## Dwelling approvals: high rise vs non high rise





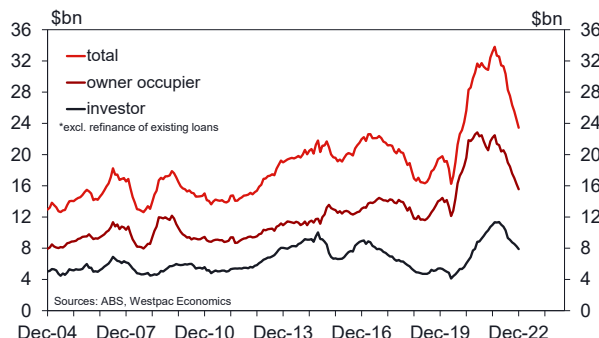
## Aus Jan housing finance approvals

**Mar 3, Last: -4.3%, WBC f/c: -4.0%**  
**Mkt f/c: -3.0%, Range: -4.0% to 0.5%**

The housing finance data was another sea of red in December, the total value of approvals down 4.3% in the final month of 2022 to be 25.4% lower for the year. All major segments and states recorded declines.

Jan is set to show a similar picture with no let up in the pace of declines in established markets or new and construction-related home sales. The total value of new finance approvals is expected to show a 4% fall for the Jan month with similar falls across owner occupier and investor segments. Looking ahead, first home buyer activity looks likely to get a flip in Feb as recent changes to stamp duty in NSW show through.

## New finance approvals by segment



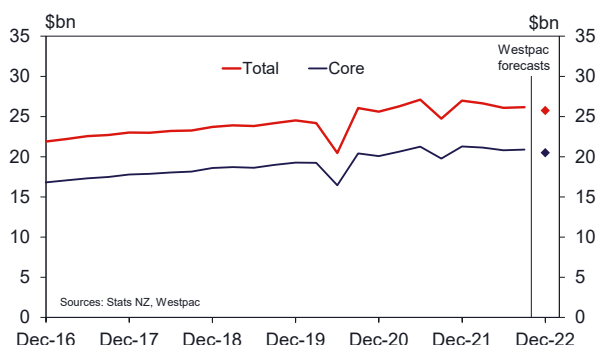
## NZ Q4 retail spending volumes

**Feb 27, Last: +0.4%, Westpac f/c: -1.7%**

Over the past year, nominal spending has continued to rise at a brisk pace. However, while households are splashing out more cash, the actual amount of goods we've been purchasing hasn't really been rising, with large price rises eroding households' spending power. Nevertheless, the resilience in nominal spending, including purchases of discretionary items, points to firmness in spending appetites in the face of the large increases in interest rates.

We expect that the December quarter retail report will highlight that financial pressures, including high inflation and rising interest rates, are now squeezing households' budgets. We're forecasting a 1.7% drop in volumes, with a more modest 0.6% fall in nominal spending. That includes a pullback in spending on discretionary items like household goods.

## NZ retail spending volumes



## NZ Jan monthly employment indicator

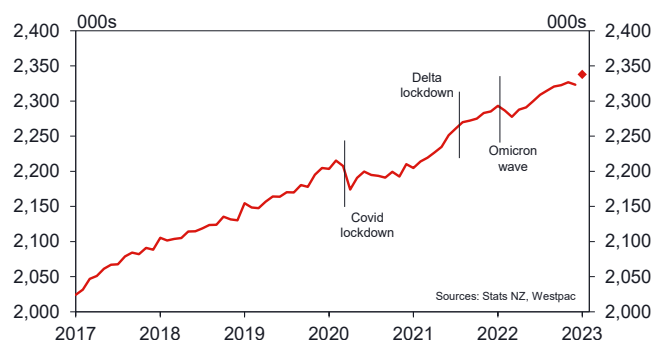
**Feb 28, Last: -0.1%, Westpac f/c: 0.5%**

The monthly employment indicator is drawn from income tax data, making it a fairly comprehensive record of the number of people in work.

This measure has seen subdued growth in recent months, with a slight decline in December. However, weekly snapshots suggest that this was temporary, due to a larger than normal dip over the Christmas period. We estimate there was a 0.5% pickup in January.

There are some signs that the heat is starting to come out of the labour market. Job advertisements have fallen substantially in the last few months, though that's only taken them from extremely elevated to around pre-Covid levels.

## NZ monthly filled jobs



## NZ Feb ANZBO business confidence

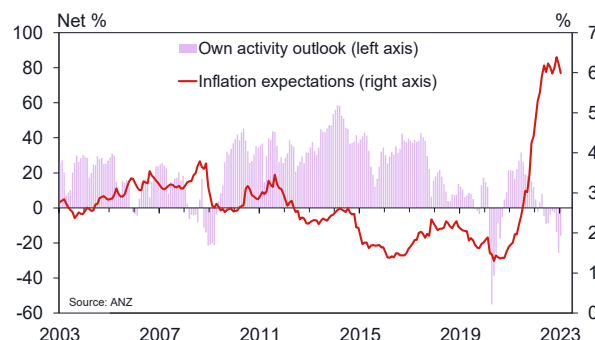
**Feb 28, Last: -52.0**

While business confidence lifted in the early part of the year, the January confidence survey still pointed to weak conditions across New Zealand's business sectors.

The latest survey comes in the wake of the recent severe storms that have caused widespread damage through the upper and central North Island. It is not clear how large of an impact those events will have had on the survey. Some businesses in the affected regions will not have been operating for several days and may not have been contactable.

Given the significant disruptions from the recent storms, as well as the other significant headwinds businesses were already facing, we expect that the February survey will again point to low levels of business confidence. We also expect weakness in trading activity and ongoing pressure on operating costs.

## NZ business confidence



## NZ Jan building consents

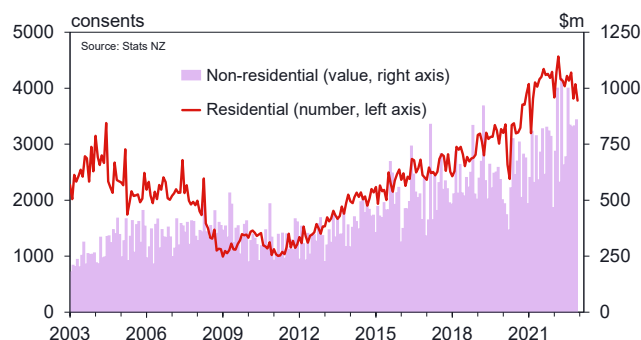
**Mar 1, Last: -7.2%, Westpac f/c: +5.0%**

Dwelling consent issuance fell by 7% in December. Much of that was due to a fall in the lumpy multi-unit consents category, which relates to dwellings such as townhouses and apartments, and which are often issued in lots. We're forecasting a bounce in January as December's drop reverses.

However, smoothing through the normal month-to-month volatility, monthly consent issuance has started to ease back in many regions, as tighter financial conditions have seen increasing hesitancy among both developers and purchasers. We expect that trend will continue over the next few years.

The January update on consent issuance pre-dates most of the severe weather that struck the North Island. Those events will have a larger impact on consent issuance in the coming months.

## NZ building consents



## For the week ahead

|               |                                       | Last   | Market median | Westpac forecast | Risk/Comment                                                    |
|---------------|---------------------------------------|--------|---------------|------------------|-----------------------------------------------------------------|
| <b>Mon 27</b> |                                       |        |               |                  |                                                                 |
| <b>Aus</b>    | Q4 company profits                    | -12.4% | 1.5%          | 1.0%             | Headline likely to overstate underlying profits (see textbox).  |
|               | Q4 inventories                        | 1.7%   | 0.0%          | -1.0%            | Sharp Q3 mining & retail inventory run-up to reverse.           |
| <b>NZ</b>     | Q4 real retail sales                  | 0.4%   | -             | -1.7%            | Higher interest rates and prices weighing on spending.          |
| <b>Eur</b>    | Feb consumer confidence               | -19.0  | -             | -                | - Consumer and business sentiment improving...                  |
|               | Feb economic confidence               | 99.9   | -             | -                | - ... after a better-than-expected winter.                      |
| <b>US</b>     | Jan durable goods orders              | 5.6%   | -3.9%         | -                | - Core orders pointing to subdued demand.                       |
|               | Jan pending home sales                | 2.5%   | 0.9%          | -                | - Sales to remain weak for now, but low point likely passed.    |
|               | Feb Dallas Fed index                  | -8.4   | -9.5          | -                | - Regional surveys are consolidating in broadly weak territory. |
|               | Fedspeak                              | -      | -             | -                | - Jefferson.                                                    |
| <b>Tue 28</b> |                                       |        |               |                  |                                                                 |
| <b>Aus</b>    | Jan retail sales                      | -3.9%  | 1.5%          | 1.0%             | Choppy Nov-Dec-Jan but with an underlying slowdown.             |
|               | Q4 current account balance, \$bn      | -2.3   | 5.0           | 2.0              | A potential return to surplus on improved trade performance.    |
|               | Q4 real net exports, ppts cont'n      | -0.2   | 1.3           | 1.4              | Exports robust rise, imports dip but still at a high level.     |
|               | Q4 public demand                      | 0.2%   | -             | 0.2%             | Consolidation phase, as covid spending spike unwinds.           |
|               | Jan private sector credit             | 0.3%   | 0.3%          | 0.4%             | Higher rates biting - but softness in December overstated?      |
| <b>NZ</b>     | Jan employment indicator              | -0.1%  | -             | 0.5%             | Dec softness looks to have been temporary.                      |
|               | Feb ANZ business confidence           | -52.0  | -             | -                | - Activity indicators to remain low, price pressures strong.    |
| <b>Jpn</b>    | Jan industrial production             | 0.3%   | -2.7%         | -                | - Softening global demand a key drag on output.                 |
| <b>UK</b>     | Feb Nationwide house prices           | -0.6%  | -             | -                | - Price correction remains well entrenched.                     |
| <b>US</b>     | Jan wholesale inventories             | 0.1%   | 0.1%          | -                | - Pace of inventory accrual has fallen to near-stall speed.     |
|               | Dec FHFA house prices                 | -0.1%  | -0.2%         | -                | - House price declines set to continue...                       |
|               | Dec S&P/CS home price index           | -0.54% | -0.35%        | -                | - ... as interest rates suppress demand and affordability.      |
|               | Feb Chicago PMI                       | 44.3   | 45.0          | -                | - Reflecting a material loss of economic momentum.              |
|               | Feb Richmond Fed index                | -11    | -             | -                | - Regional surveys are consolidating at weak level.             |
|               | Feb consumer confidence index         | 107.1  | 108.4         | -                | - Up-trend in confidence limited by rates and real income.      |
| <b>Wed 01</b> |                                       |        |               |                  |                                                                 |
| <b>Aus</b>    | Feb CoreLogic home value index        | -1.1%  | -             | -0.1%            | Daily measures surprisingly steady in Feb but one-offs at play. |
|               | RBA Assist' Governor (Financial Syst) | -      | -             | -                | - Jones, IIF Australia Forum in Sydney, 9:30am AEDT.            |
|               | Q4 GDP                                | 0.6%   | 0.7%          | 0.7%             | A mixed end to the year ahead of a sharp slowdown in 2023.      |
|               | Jan CPI Monthly Indicator %yr         | 8.4%   | 8.0%          | 7.9%             | Falling domestic holidays & survey timing mutes Jan print.      |
| <b>NZ</b>     | Jan building permits                  | -7.2%  | -             | 5.0%             | Bounce in multi-unit consents, longer term trend down.          |
| <b>Jpn</b>    | Feb Nikkei manufacturing PMI          | 47.4   | -             | -                | - Final estimate.                                               |
| <b>Chn</b>    | Feb manufacturing PMI                 | 50.1   | -             | -                | - Conditions have drastically improved since the removal of...  |
|               | Feb non-manufacturing PMI             | 54.4   | -             | -                | - ... COVID-zero; risks around global demand remain, but...     |
|               | Feb Caixin manufacturing PMI          | 49.2   | -             | -                | - ... burgeoning support from Asia will provide some offset.    |
| <b>Eur</b>    | Feb S&P Global manufacturing PMI      | 48.5   | -             | -                | - Final estimate.                                               |
| <b>UK</b>     | Jan net mortgage lending £bn          | 3.2    | -             | -                | - Gradually easing amid widespread housing correction.          |
|               | Feb S&P Global manufacturing PMI      | 49.2   | -             | -                | - Final estimate.                                               |
| <b>US</b>     | Jan construction spending             | -0.4%  | 0.3%          | -                | - Softening demand weighing on construction.                    |
|               | Feb S&P Global manufacturing PMI      | 47.8   | 47.8          | -                | - Manufacturing activity remains in a fragile state...          |
|               | Feb ISM manufacturing                 | 47.4   | 47.8          | -                | - ... with S&P and ISM mirroring each other.                    |
| <b>Thu 02</b> |                                       |        |               |                  |                                                                 |
| <b>Aus</b>    | Jan dwelling approvals                | 18.5%  | -7.5%         | -10%             | Big pull-back on unwinding high-rise spike & wider weakness.    |
| <b>NZ</b>     | Q4 terms of trade                     | -3.4%  | -             | -1.0%            | Meat prices led overall export prices down over the quarter.    |
| <b>Eur</b>    | Jan unemployment rate                 | 6.6%   | -             | -                | - Slack to emerge slowly over 2023.                             |
|               | Feb CPI %yr                           | 8.6%   | -             | -                | - Stickiness of core inflation remains the key concern.         |
| <b>US</b>     | Q4 productivity                       | 3.0%   | 2.5%          | -                | - Final estimate.                                               |
|               | Initial jobless claims                | 192k   | -             | -                | - Holding at a relatively low level.                            |
|               | Fedspeak                              | -      | -             | -                | - Jefferson.                                                    |

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.

|               |                             | Last  | Market median | Westpac forecast | Risk/Comment                                                 |
|---------------|-----------------------------|-------|---------------|------------------|--------------------------------------------------------------|
| <b>Fri 03</b> |                             |       |               |                  |                                                              |
| <b>Aus</b>    | Jan housing finance         | -4.3% | -3.0%         | -4.0%            | No let-up in the broad-based correction, turnover down in... |
|               | Jan investor finance        | -4.4% | -             | -4.2%            | ... established market and new construction weakening...     |
|               | Jan owner occupier finance  | -4.2% | -             | -4.0%            | ... investor loan pull-back a touch faster.                  |
| <b>NZ</b>     | Feb ANZ consumer confidence | 83.4  | -             | -                | Set to remain weak as financial pressures mount.             |
| <b>Jpn</b>    | Feb Nikkei services PMI     | 53.6  | -             | -                | Final estimate.                                              |
| <b>Chn</b>    | Feb Caixin services PMI     | 52.9  | -             | -                | Services sector embracing the easing of restrictions.        |
| <b>Eur</b>    | Feb S&P Global services PMI | 53.0  | -             | -                | Final estimate.                                              |
| <b>UK</b>     | Feb S&P Global services PMI | 53.3  | -             | -                | Final estimate.                                              |
| <b>US</b>     | Feb S&P Global services PMI | 50.5  | -             | -                | S&P staged a surprise rebound in February, but larger...     |
|               | Feb ISM non-manufacturing   | 55.2  | 54.5          | -                | ... service providers in ISM survey still much more buoyant. |
|               | Fedspeak                    | -     | -             | -                | Logan, Bostic, Bowman.                                       |

## Forecasts

### Interest rate forecasts

| Australia                  | Latest (24 Feb) | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
|----------------------------|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cash                       | 3.35            | 3.60   | 4.10   | 4.10   | 4.10   | 3.85   | 3.60   | 3.35   | 3.10   |
| 90 Day BBSW                | 3.51            | 4.22   | 4.30   | 4.30   | 4.22   | 3.97   | 3.72   | 3.47   | 3.22   |
| 3 Year Swap                | 4.08            | 4.00   | 3.95   | 3.90   | 3.80   | 3.65   | 3.50   | 3.35   | 3.20   |
| 3 Year Bond                | 3.60            | 3.55   | 3.55   | 3.55   | 3.50   | 3.40   | 3.30   | 3.15   | 3.00   |
| 10 Year Bond               | 3.88            | 3.85   | 3.75   | 3.45   | 3.25   | 3.00   | 2.80   | 2.70   | 2.50   |
| 10 Year Spread to US (bps) | -2              | -5     | -5     | -5     | -5     | -10    | -10    | -10    | -10    |
| <b>US</b>                  |                 |        |        |        |        |        |        |        |        |
| Fed Funds                  | 4.625           | 4.875  | 5.375  | 5.375  | 5.375  | 4.875  | 4.375  | 3.875  | 3.375  |
| US 10 Year Bond            | 3.90            | 3.90   | 3.80   | 3.50   | 3.30   | 3.10   | 2.90   | 2.80   | 2.60   |
| <b>New Zealand</b>         |                 |        |        |        |        |        |        |        |        |
| Cash                       | 4.75            | 4.75   | 5.50   | 5.50   | 5.50   | 5.25   | 4.75   | 4.25   | 3.75   |
| 90 day bill                | 5.10            | 5.40   | 5.60   | 5.60   | 5.50   | 5.05   | 4.55   | 4.05   | 3.75   |
| 2 year swap                | 5.39            | 5.30   | 5.10   | 4.80   | 4.40   | 4.10   | 3.80   | 3.60   | 3.40   |
| 10 Year Bond               | 4.66            | 4.60   | 4.50   | 4.20   | 4.00   | 3.85   | 3.70   | 3.60   | 3.50   |
| 10 Year spread to US       | 76              | 70     | 70     | 70     | 70     | 75     | 80     | 80     | 90     |

### Exchange rate forecasts

| Australia | Latest (24 Feb) | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
|-----------|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|
| AUD/USD   | 0.6820          | 0.70   | 0.71   | 0.72   | 0.74   | 0.75   | 0.76   | 0.76   | 0.77   |
| NZD/USD   | 0.6231          | 0.64   | 0.65   | 0.66   | 0.67   | 0.68   | 0.68   | 0.68   | 0.68   |
| USD/JPY   | 134.65          | 132    | 131    | 130    | 129    | 128    | 127    | 126    | 125    |
| EUR/USD   | 1.0605          | 1.08   | 1.09   | 1.10   | 1.11   | 1.12   | 1.13   | 1.14   | 1.15   |
| GBP/USD   | 1.2024          | 1.21   | 1.22   | 1.23   | 1.24   | 1.25   | 1.26   | 1.27   | 1.28   |
| USD/CNY   | 6.9167          | 6.75   | 6.70   | 6.60   | 6.50   | 6.40   | 6.30   | 6.20   | 6.10   |
| AUD/NZD   | 1.0934          | 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 | 0.7 | 0.6  | 0.2 | 0.0 | 0.2 | -              | -     | -     | -     |
| %yr end             | 3.2  | 5.9 | 2.7 | 2.7  | 2.0 | 1.4 | 1.0 | 4.6            | 2.7   | 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  | 1.1 | 0.8 | 0.8  | 1.0 | 1.0 | 1.0 | -              | -     | -     | -     |
| annual chg          | 2.6  | 3.2 | 3.3 | 3.5  | 3.8 | 3.7 | 4.0 | 2.4            | 3.3   | 4.0   | 3.2   |
| CPI Headline        | 1.8  | 1.8 | 1.9 | 1.5  | 1.0 | 0.7 | 0.7 | -              | -     | -     | -     |
| annual chg          | 6.1  | 7.3 | 7.8 | 7.2  | 6.3 | 5.2 | 4.0 | 3.5            | 7.8   | 4.0   | 3.0   |
| Trimmed mean        | 1.6  | 1.9 | 1.7 | 1.3  | 0.9 | 0.6 | 0.7 | -              | -     | -     | -     |
| 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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## Disclaimer continued

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