AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 6 March 2023

Editorial: RBA on track for hike in March.

RBA: policy decision, Governor Lowe speaking.

Aus: trade balance.

NZ: Q4 building work, card spending, GlobalDairyTrade auction, manufacturing PMI.

China: CPI, PPI, foreign reserves

Eur: retail sales.

UK: trade balance.

US: Chair Powell before Senate and House Committee, non-farm payrolls, unemployment rate, trade balance.

Key economic & financial forecasts.

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

WESTPAC INSTITUTIONAL BANK

RBA on track for hike in March

The Reserve Bank Board meets next week on March 7.

We expect the Board will decide to lift the cash rate by a further 0.25% from 3.35% to 3.6%.

Most interest will be in the guidance the Governor provides in his Statement announcing the decision.

In February he changed the wording from the December Statement which noted that "The Board expects to increase interest rates further over the period ahead, but is not on a pre-set course" to "The Board expects that further increases in interest rates will be needed over the months ahead …"

The term "not on a pre-set course" allowed for the possibility of an imminent pause before resuming hikes later in the cycle. By choosing to leave that term out of the guidance a reasonable assumption was that the Board had decided to continue the steady 25 basis points per meeting before deciding on a permanent pause.

The Minutes from the February meeting confirmed that a change of approach had been adopted by noting that a pause had not even been considered at the meeting.

For these reasons we would be very surprised if the Board decided to pause in March.

The issue will be whether the Board chooses to revert back to language that accommodates a possible pause in April or decides to confirm the guidance from February ("further increases in interest rates") with a statement like, "The Board expects to increase interest rates further over the period ahead." (The December statement without the "not on a pre-set path").

Such an approach would be consistent with the "further increases" wording in February.

A further hike in April, which is Westpac's view, seems the logical extension of the February statement.

But since the February Board meeting, we have seen downside surprises on both the Wage Price Index and economic activity in the December national accounts.

The Wage Price Index printed an increase of 0.8% in the December quarter compared to market forecasts of 1%; economic activity lifted by 0.5% in the December quarter compared to market forecasts of 0.8%.

The measures of wage pressures in the national accounts also confirmed the slow down signal from the WPI, although a sharp deterioration in productivity saw unit labour costs surge by 7% for the year – highlighting the risk from wages growth for inflation.

On the other hand, inflation indicators in the national accounts were strong while the outlook for US Federal Reserve policy has been boosted – Westpac has lifted its forecast for the peak in the federal funds rate from 4.75-5.0% to 5.25-5.5% and some analysts have gone even further.

In the Parliamentary hearings the RBA Governor attended recently he emphasised the importance of a steady policy approach.

Having signalled multiple rate hikes at the February Board it seems that the prudent approach for the Board at the March meeting will be to remain consistent with that guidance while certainly not committing to a move in May.

The best way to achieve that will be for the Governor to simply note that "The Board expects to increase interest rates over the period ahead."

That will send a clear signal for April while keeping options open for May.

Any policy change to take the recent data into account should be contemplated for May.

National Accounts raise alarm bells about the household balance sheet.

The Governor has talked about the narrow path that would keep the economy on an even keel.

The national accounts that printed this week for the December quarter highlighted the risks associated with the narrow path.

Domestic demand was flat in the quarter with consumer spending growth slowing from 1% in the September quarter to 0.3% in the December quarter. That was despite a significant fall in the household savings rate from 7.1% to 4.5%, freeing up around $9 billion of spending capacity – compared to around $6 billion of actual spending.

The household sector faced some extraordinary pressures during the December quarter. Nominal disposable income contracted by 0.7% weighed down by a 7.4% lift in income tax payments and a 22.4% increase in interest payments – an all time high in absolute dollar terms ($25.2 billion).

The increase in tax payments partly reflects rising employment and rising wages but there is a considerable base effect coming from an unusually small increase in tax payments in the September quarter (partly affected by the Low and Middle Income Offset which lowered tax payments in the September quarter).

The fall in real wages (inflation at 7.8% in 2022 compared to wages growth of 3.3%) contributed to a record (outside the volatile pandemic period) fall in real disposable income of 2.2%.

The interaction between negative real wages growth; rising tax and interest payments; labour income growth; and the drawdown in excess savings will dictate household incomes and spending over the course of 2023 and 2024. In turn that process will dictate the path of growth in the overall economy.

Sharp Deterioration in Line with Westpac's Forecasts – only minor downward revisions.

While Westpac was surprised by the sharp contraction in real incomes in the December quarter, we see this development as broadly consistent with our outlook for consumer spending in 2023 and 2024.

We expect wages growth in 2023 of 4% and inflation of 4% ending the contraction in real wages that was apparent in 2022 while in 2024 wages growth and inflation slow to 3.2% and 3% respectively.

However with slower employment growth and lower wages growth in 2023 and 2024 labour income growth will also be much weaker.

We expect three more rate hikes from the RBA through 2023 while rates are forecast to fall by 100 basis points in 2024.

Consumer spending is likely to be boosted by further freeing up of spare capacity as the savings rate continues to fall – settling at around 2% by the end of 2024.

Over the course of the two years we expect that households will draw down around $50 billion in 2023 and $70 billion in 2024 out of the $300 billion in excess savings that have been accumulated.

Slowing employment growth; low confidence; drags from higher tax payments and interest costs will weigh on the household sector over 2023 and 2024.

Cyclical offsets to these negative forces as we move through 2023 and 2024 will be stability in real wages and capacity to drawdown excess savings balances.

We have not materially lowered our growth forecasts for consumer spending in 2023 and 2024 despite the alarming signal around the household balance sheet from the December national accounts.

We have lowered our already very modest forecasts for consumer spending growth from 1% to 0.7% in 2023 and from 2% to 1.5% in 2024.

Those adjustments see our GDP growth forecast hold at 1% for 2023 and trimmed to 1.5% for 2024 (marked down from 2%).

Other important developments remain largely unchanged – equipment investment down by 6.5% in 2023 and 3% in 2024; dwelling investment down 3.2% in 2023 and 2024; while net exports contribute 1.2ppts to growth in 2023 (upgraded from 1ppt) and 0.1ppt in 2024.

Note that we have not changed our RBA call that the cash rate will peak at 4.1% in May while the easing cycle will begin in the March quarter 2024, while we recognise that the RBA will be even more challenged to keep the economy on that even keel.

Bill Evans, Chief Economist (WestpacGroup)

This week, Australia's Q4 GDP report and monthly consumer/housing releases provided a broad update on the health of Australia's economy and its outlook. Offshore, the diverging prospects of the US and China were on display.

Q4 GDP for Australia came in well below the market's expectation at 0.5%, 2.7%yr. In the event, the main surprise was an abrupt slowdown in household spending growth, which fell from 1.0% in Q3 to just 0.3% in Q4. Despite support for consumption from a 2.1% lift in nominal wages and a decline in the savings rate from 7.1% to 4.5% – freeing up roughly $9bn in spending capacity – intense cost of living pressures and rapidly rising interest rates saw a 2.2% decline in real disposable incomes, leading households to restrict their spending particularly on services.

With the tailwinds from earlier policy stimulus and reopening dynamics having now faded, the report suggests consumption growth will remain under pressure this year as the full effect of higher interest costs and inflation's hit to real incomes continues to materialise (see below). Conditions for investment were lacklustre, the fall in construction work and decline in equipment spending leading a -0.8% decline in new business investment. Though, with capacity tight and tax incentives supportive, businesses remain constructive on the outlook for investment over the coming year.

More positively, Australia's current account surplus widened from $0.8bn in Q3 (revised up from a deficit of $2.3bn) to $14.1bn in Q4, thereby marking 15 consecutive quarters of surplus, the longest run in the history of the series which dates back to 1959. As evinced by the 1.1ppt contribution from net exports to GDP growth, Australia's trade position proved to be a key support for the economy into year-end. Indeed, the trade surplus widened to $41bn in the quarter as services exports bounced 9.8% thanks to the recovery in tourism and foreign student arrivals, while total import volumes posted a broad-based decline of 4.3%.

Another batch of volatile housing data meanwhile broadly reaffirmed our view on the outlook. Of note, dwelling approvals posted a much larger-than-expected decline of -27.6% in January, partly representing an unwinding of the high-rise unit spike of December, though the sharp 13.8% decline in private sector house approvals suggests the broader weakening remains well entrenched. However, the CoreLogic home value index fell by only 0.1% in February – a seemingly stable result corroborated by a slowing in price declines across all major capital cities. It should be noted that early-year housing data is prone to low-season measurement issues, distorting the finer interpretation of these results and warranting confirmation over the next few months of data.

As noted above, the Australian consumer will be at the epicentre of the slowdown in growth over 2023. This is supported not only by the clear softening in consumer spending in the national accounts, but also the accumulating evidence of underlying weakness within the retail sector, growth in sales having effectively stalled on a three month basis. Although the retail sector only accounts for around a third of total consumer spending, it is clear that broader inflation pressures remain at an uncomfortable level (despite month-to-month volatility) and are eroding household's real spending capacity, the full effect of which will likely be a stalling in household consumption during second half of this year.

Moving offshore, the most significant US release this week was the ISM manufacturing survey for February. Overall, it pointed to continued contraction in the manufacturing sector and a belief that this trend will persist – the new orders series printing at 47.0 versus production's 47.3. Relative to the headline and activity outcomes, employment remains resilient, the index indicating only a marginal reduction in labour use. The prices paid (for inputs) series received the most attention from the market, as it rebounded from 44.5 to 51.3 in the month. Some context is needed here, however. In the two years to June 2022, the height of the pandemic inflationary wave, this index averaged 78. Indeed, in the five years before the pandemic (to end-2019), the average was still 56. While inflation risks have to be monitored wherever they appear, we also have to be realistic on the significance of the signal. With respect to businesses, it is also worth mentioning that, taken together, the durable goods data and regional business surveys point to continued weakness in business investment.

This week's housing data was also consistent with a sector that is stagnant to down. Residential construction fell a further 0.6% in January after a run of large negatives through late-2022. While the S&P CoreLogic CS 20-city house price measure fell another 0.5% in December. That said, when interest rates and supply allow, there is still demand for housing, pending home sales snapping 8.1% higher in January while mortgage rates were at their recent lows. Note though that pending homes sales are still 22% lower than a year ago and also that the 30-year mortgage rate is back near its cycle highs.

Turning to China, the official PMIs from the NBS confirmed this week that the economy has responded well to the end of COVID-zero, the manufacturing PMI rising to 52.6 and the services index to 56.3. For both sectors, output, new orders and employment all rose strongly. Service producers also reported an expansion of their profitability, with input costs inflation slowing as selling prices rose. Notable too was that the Caixin manufacturing PMI gained a similar amount as the NBS PMI. This points to smaller manufacturers also experiencing the benefit of the rebound.

Taking a longer-term perspective, this week we also investigated the outlook for Chinese industry associated with the global green transition. While the US has sought to curb China's capacity and influence through the Inflation Reduction Act and their semiconductor regulation, the evidence suggests China's dominance in many green industries is unlikely to be challenged. Simply, the Chinese product that the US decides to forgo can instead be marketed to Asia and other developed/developing nations across the world. The sale price may be lower in such a situation, but China's efficiency and scale of production will make up for it. China's own demand for green energy and transport will also remain strong for decades to come.

The negative consequences of the US' actions are therefore likely to fall on their own economy, with limited supply and higher prices for related goods likely, particularly in the continued absence of rapid, large-scale investment in new capacity. The fringe risk for the global economy and environment is if the US encourages other developed markets to take a similar position against China. But, as for the US, the outcome of such a decision would likely be a slower path of emissions reduction at a higher cost; meanwhile China will continue to lead and profit from developing markets' long path towards net zero. Ironically, China may even find its political and economic position strengthens as a result of the US' hard line.

Week ahead & data wrap

Weathering the storm

Our latest Economic Overview details the storm that's brewing for the New Zealand economy in the year ahead, as households absorb a significant rise in mortgage rates. We now expect the economy to slip into a moderate recession from late-2023 through to mid-2024.

Despite rising interest rates and a weaker housing market, household spending has actually remained firm in recent months. That's in part due to the strong growth in incomes, with average hourly earnings rising by 7.2% over the past year. Savings levels have also increased since the start of the pandemic, which has provided many households with a buffer from some of the other headwinds they are now facing.

Most mortgage lending in New Zealand is on fixed rates, typically for terms of one to two years. That's shielded many homeowners from the tightening of monetary policy so far. Indeed, while the Official Cash Rate has been rising since October 2021, we estimate that the effective average mortgage rate paid by borrowers didn't bottom out until mid-2022, at around 3.2%.

That average rate has since risen to around 3.8% today, as some mortgages have come up for refixing at higher interest rates than before. Over the coming year, the effective mortgage rate is set to rise sharply as increasing numbers of borrowers roll off earlier low interest rates and refix at the higher rates now on offer. We estimate that the effective average mortgage rate will have risen to 5.3% by the end of this year.

This rapid rise in debt servicing costs will take a big bite out of many households' disposable incomes. Household spending accounts for around 60% of total economic activity, and the expected weakening in demand will drive a broader slowdown in economic growth over the coming years.

We now expect GDP growth to slow sharply this year, with the economy contracting by 1% from late 2023 through to mid-2024. This would be a moderately-sized recession by the standards of history: much less severe than the 2008-09 recession during the Global Financial Crisis, but comparable to the one in 1997-98 during the Asian Financial Crisis. Both of these recessions were also preceded by a rapid tightening of monetary policy in New Zealand.

While consumer spending is likely to bear the brunt of the downturn, there are some forces that will help to soften the economic blow. The first is the rebound in international travel now that New Zealand has reopened its border. Overseas visitor numbers have already retraced around two-thirds of their pre-pandemic levels, contributing much of the 4% surge in GDP growth over the June and September quarters last year.

The second factor is the unexpectedly abrupt end to China's COVID-zero policies. For much of last year, tight COVID restrictions crimped consumer demand for many of our exports as households were confined to their homes for long periods of time. As people take advantage of their new-found freedoms, we expect consumer demand to lift and for our export prices to follow.

The devastation caused by Cyclone Gabrielle has complicated the outlook for the economy in the years ahead. In the near term there's likely to be a hit to activity, with people displaced from their homes and businesses forced to shut down. As we saw with the Canterbury earthquakes in 2010-11, cleaning up and repairs will also boost measured activity in the short term. However, a key point of difference is that the earthquakes did not substantially affect our exporting capacity, whereas the cyclone has led to a significant loss of agricultural output that won't be recovered.

We're also likely to see some upward pressure on prices this year, particularly for food prices where crops were wiped out. Some of those price rises may prove to be temporary, but they will mean an even longer wait until the rate of inflation comes back down to a more acceptable level.

Looking further ahead, repairs and reconstruction will add to activity and create a draw on the nation's resources over several years. At this stage there's a great deal of uncertainty around the magnitude of this job, though it's likely to be in the several billions of dollars. There are also some big decisions still to be made about what will be rebuilt and how.

At the margin, the rebuild could mean more inflation pressure and higher interest rates than otherwise. Yet we should be careful about making too much of this. Right from the start, the Canterbury earthquakes were recognised as something that would stretch the economy's capacity, potentially requiring tighter monetary policy. And indeed, while there was a significant amount of pressure on construction costs, overall inflation remained stubbornly on the low side of the Reserve Bank's target range throughout the rebuild period. The lesson from the Canterbury rebuild is that while an event like this might mean higher interest rates than otherwise, the "otherwise" is far more important and far more uncertain.

Of course, today's conditions are quite different from 2011 – we're starting out with an economy that is already overheated. But if the economy slips into recession as we expect, it will be running substantially below full capacity by the time the cyclone rebuild is in full swing. Hence, our view remains that inflation is on track to return to target over the medium term. And given the inherent lags in monetary policy, the RBNZ will need to be nimble in determining when to take its foot off the brake.

Michael Gordon, Acting Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 27	Q4 real retail sales	0.6%	–0.6	–1.7%
Tue 28	Jan employment indicators	–0.5%	0.8%	0.5%
	Feb ANZ business confidence	–52.0	–43.3	–
Wed 1	Jan building permits	–7.1%	–1.5%	5.0%
Thu 2	Q4 terms of trade	–3.9%	1.8%	–1.0%
Fri 3	Feb ANZ consumer confidence	83.4	79.8	–

Aus Jan trade balance, AUDbn

Mar 7, Last: 12.2, WBC f/c: 12.5
Mkt f/c: 12.25, Range: 11.5 to 13.0

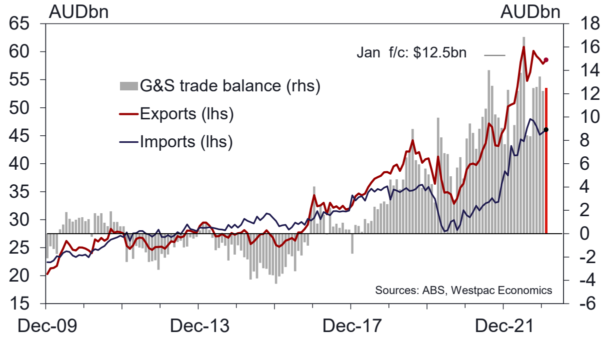
Australia's trade account will begin the 2023 year with another sizeable surplus as global commodity prices remain elevated, albeit down from the peaks of mid-2022.

The surplus printed $12.2bn for December and averaged $11.3bn over the 18 months from July 2021 (prior to 2021, the largest surplus was $9.9bn). For January, we anticipate a surplus of $12.5bn.

Export earnings are forecast to rise by 1.2%, +$0.7bn, supported by a rise in commodity prices and the ongoing recovery in service exports post the national border reopening. Goods volumes were likely mixed (LNG up and gold possibly higher on Lunar New Year but LNG shipments lower and coal down on renewed disruptions).

Imports are forecast to rise by around 1%, +$0.4bn. Service imports likely posted another strong rise, as more of us holiday abroad, and goods volumes are trending higher. However, the AUD moved higher, placing downward pressure on prices.

Australia's trade balance



Aus RBA policy decision

Mar 7, Last: 3.35%, WBC f/c: 3.60%
Mkt f/c: 3.60%, Range: 3.60% to 3.60%

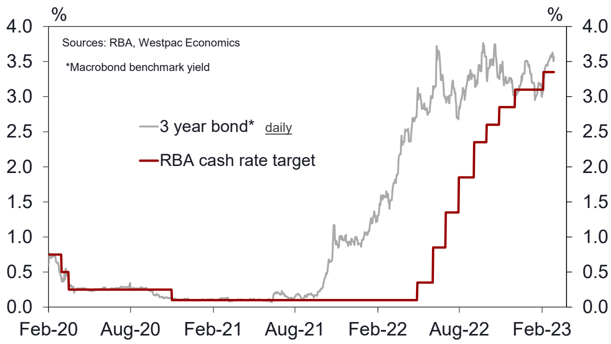
At the March Board meeting, Westpac anticipates that the RBA will lift the cash rate by 25bps, to 3.60%. The RBA, in responding to a significant inflation challenge and a tight labour market, has quickly raised interest rates.

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

This week, the Q4 GDP report revealed a weak consumer, impacted by the rising cost of living and elevated interest costs despite strong nominal wage gains and a further reduction in the savings rate. The Board will be mindful of these signals but will remain focussed on its task of ensuring a return to the inflation target zone of 2-3%.

For more detail, see page 2.

RBA cash rate and 3 year bonds



NZ Q4 building work put in place

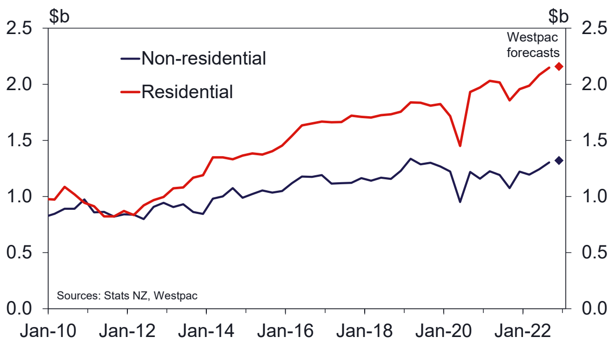
Mar 6, Last: +3.8%, Westpac: +1.0%

Construction activity has been running hot, with the amount of building work put in place rising by 3.8% in the September quarter. Strength in activity has been widespread across regions, with building levels particularly strong in Auckland and Wellington.

We're forecasting a further 1.0% rise in construction activity in the December quarter with gains in both residential and non-residential activity.

We expect that construction activity will remain elevated in the near term, with a large number of projects already in the works. However, with increasingly tough financial conditions, we expect that construction activity will trend down over the coming years as the current backlog of projects is cleared.

NZ real building work put in place



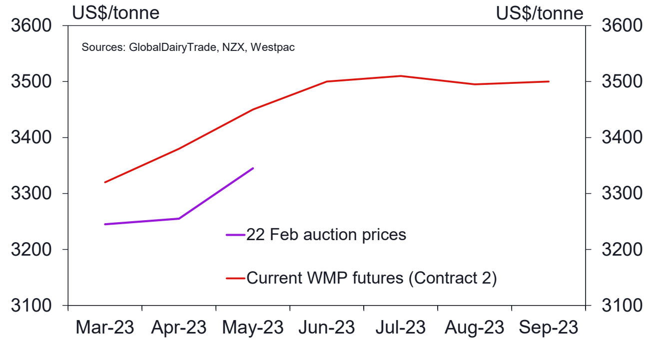
NZ GlobalDairyTrade auction, whole milk powder prices

Mar 8, Last: -2.0%, Westpac: +1.0%

We expect whole milk powder prices (WMP) to post a small 1% rise at the upcoming auction. Our pick is marginally lower than the circa 2% rise that the futures market is priced for.

Over the first half of this year, we expect that rebounding Chinese dairy demand and disruptions to New Zealand supply following recent storms will lead global dairy prices higher.

Whole milk powder prices



NZ Feb retail card spending

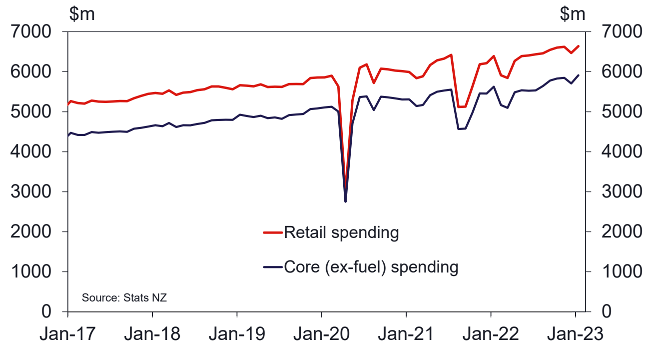
Mar 9, Last: +2.6%

Household spending appetites have been resilient in the face of growing financial pressures. Retail spending rebounded in January, rising by 2.6%. That followed softer-than-usual spending in December and took spending back to the firm levels we had seen in previous months.

Cyclone Gabrielle struck in mid-February, resulting in significant disruptions to household and business activity through large parts of the North Island. That was compounded by the damage to transport and communications networks. Notably, the damage to communications networks also resulted in widespread disruptions to payment networks.

It's hard to pin down exactly how large the resulting disruptions will be. However, we are likely to see a sharp fall in retail spending in February with a bounce back in March.

NZ retail card spending



US Feb employment report

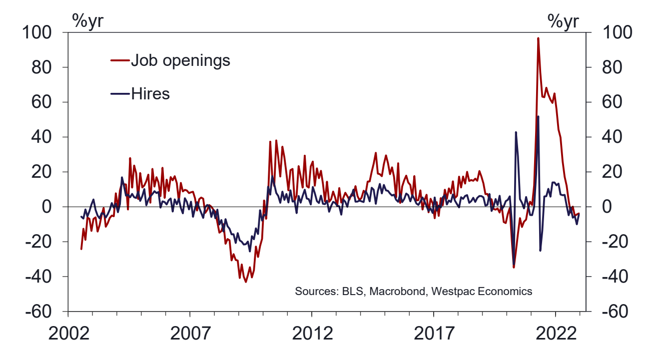
Mar 10: nonfarm payrolls, Last: 517k, Mkt f/c: 215k, WBC: 180k
Mar 10: unemployment rate, Last: 3.4%, Mkt f/c: 3.4%, WBC: 3.4%

The strength of the January nonfarm payrolls report shocked markets. Even taking the average of the three months to January, the pace of job creation still stood at 3.5 times the 100k believed necessary to balance demand and supply.

Curiously though, average hourly earnings growth was benign at 0.3% and the unemployment rate just 0.1ppt lower.

It is impossible therefore to overstate the significance of the February report. The state of the economy and statistics argue for a snap back below 200k in the month and likely some downward revisions to the prior two periods. A stronger outcome is likely to unnerve the market and result in interest rate expectations rising to new highs.

Job openings lost momentum; hiring g'th rate avg



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
Aus	Feb MI inflation gauge %yr	6.4%	–	–	Provides a general view of risk.
NZ	Q4 building work put in place	3.8%	–	1.0%	Residential and commercial work continuing to rise.
	Feb ANZ commodity prices	–1.0%	–	1.0%	Meat prices lifted in Feb, dairy prices flat.
Eur	Mar Sentix investor confidence	–8.0	–	–	Broader conditions supportive of sentiment...
	Jan retail sales	–2.7%	–	–	... but high inflation still impacting consumers.
US	Jan factory orders	1.8%	–1.5%	–	Investment outlook generally subdued.
Tue 07					
Aus	Jan trade balance $bn	12.2	12.25	12.5	Another sizeable surplus. Commodity prices higher.
	RBA policy decision	3.35%	3.60%	3.60%	Taming inflation remains the focus.
Chn	Feb foreign reserves $bn	3184	–	–	Little pressure on reserves.
US	Jan wholesale inventories	–0.4%	–	–	Final estimate.
	FOMC Chair Powell	–	–	–	Appearance before Senate Banking Panel.
Wed 08					
Aus	RBA Governor Lowe	–	–	–	Speaking at the AFR Business Summit, Sydney, 8:55am AEDT.
NZ	GlobalDairyTrade auction (WMP)	–2.0%	–	1.0%	Rebounding Chinese demand expected to support prices.
Jpn	Jan current account balance ¥bn	33.4	–729.6	–	China's reopening to support in time.
Eur	Q4 GDP	0.1%	0.1%	–	Final estimate.
US	Jan consumer credit $bn	11.6	22.5	–	Demand for credit likely to continue.
	Feb ADP employment change	106k	200k	–	Slowing in labour market momentum...
	Jan JOLTS job openings	11012k	–	–	... critical to the outlook for interest rates.
	Jan trade balance US$bn	–67.4	–69.0	–	Deficit should narrow as consumer demand weakens.
	FOMC Chair Powell	–	–	–	Appearance before House Financial Service Committee.
Can	Bank of Canada policy decision	4.50%	4.50%	–	BoC to remain on hold and evaluate risks.
Thu 09					
NZ	Feb card spending	3.3%	–	–	Likely to be pulled down by February's cyclone.
Jpn	Q4 GDP	0.2%	0.2%	–	Final estimate.
Chn	Feb CPI %yr	2.1%	2.0%	–	Inflation to remain a benign force for consumers...
	Feb PPI %yr	–0.8%	–1.4%	–	... and likely also for most businesses.
	Feb M2 money supply %yr	12.6%	12.4%	–	Credit will remain freely available...
	Feb new loans, CNYbn	4900	1500	–	... as authorities support recovery.
US	Initial jobless claims	190k	–	–	To remain at a relatively low level for now.
	Fedspeak	–	–	–	Barr.
Fri 10					
NZ	Feb manufacturing PMI	50.8	–	–	Mounting financial headwinds weighing on activity.
Jpn	Jan household spending %yr	–1.3%	–0.4%	–	Labour market and incomes supportive.
UK	Jan trade balance £bn	–7150	–	–	Weak consumer should narrow deficit in 2023.
US	Feb non-farm payrolls	517k	215k	180k	Payrolls growth is set to snap back after Jan's burst...
	Feb unemployment rate	3.4%	3.4%	3.4%	... but remain above the 100k/mth 'neutral' pace...
	Feb average hourly earnings %mth	0.3%	0.3%	0.3%	... a stronger result will pose upside risk to rates outlook.

Forecasts

Interest rate forecasts

Australia	Latest (3 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.35	4.10	4.10	4.10	3.85	3.60	3.35	3.10
90 Day BBSW	3.63	4.30	4.30	4.22	3.97	3.72	3.47	3.22
3 Year Swap	4.06	3.95	3.90	3.80	3.65	3.50	3.35	3.20
3 Year Bond	3.60	3.55	3.55	3.50	3.40	3.30	3.15	3.00
10 Year Bond	3.89	3.75	3.45	3.25	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	–16	–5	–5	–5	–10	–10	–10	–10
US								
Fed Funds	4.625	5.375	5.375	5.375	4.875	4.375	3.875	3.375
US 10 Year Bond	4.05	3.80	3.50	3.30	3.10	2.90	2.80	2.60
New Zealand								
Cash	4.75	5.50	5.50	5.50	5.25	4.75	4.25	3.75
90 day bill	5.16	5.60	5.60	5.50	5.05	4.55	4.05	3.75
2 year swap	5.44	5.10	4.80	4.40	4.10	3.80	3.60	3.40
10 Year Bond	4.69	4.50	4.20	4.00	3.85	3.70	3.60	3.50
10 Year spread to US	64	70	70	70	75	80	80	90

Exchange rate forecasts

Australia	Latest (3 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6739	0.71	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6233	0.65	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	136.70	131	130	129	128	127	126	125
EUR/USD	1.0605	1.09	1.10	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.1964	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.9073	6.70	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0831	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	Q4	Q1f	Q2f	Q3f	Q4f	2021	2022f	2023f	2024f
GDP % qtr	0.9	0.7	0.5	0.4	0.2	0.1	0.2	–	–	–	–
%yr end	3.1	5.9	2.7	2.5	1.8	1.2	1.0	4.6	2.7	1.0	1.5
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	0.3	–0.2	0.2	0.2	–0.2	–	–	–	–
Annual avg change	1.1	2.7	2.8	3.6	4.1	2.7	1.7	6.1	2.8	1.7	–0.5
Unemployment rate %	3.3	3.3	3.4	3.5	3.6	3.8	4.0	3.2	3.4	4.0	5.1
CPI % qtr	1.7	2.2	1.4	1.3	1.3	1.9	0.4	–	–	–	–
Annual change	7.3	7.2	7.2	6.7	6.4	6.2	5.1	5.9	7.2	5.1	2.9

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