AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 13 March 2023

Editorial: RBA Governor wants to pause in April; we are not yet convinced.

Aus: Westpac-MI Consumer Sentiment, labour force survey, private business survey, arrivals data.

NZ: Q4 GDP, net migration.

China: retail, industrial production, fixed asset investment.

Eur: ECB policy decision, CPI (final estimate), industrial production.

US: CPI, retail sales, consumer sentiment, housing and regional manufacturing updates, industrial production.

Key economic & financial forecasts.

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

WESTPAC INSTITUTIONAL BANK

RBA Governor wants to pause in April; we are not yet convinced

The Reserve Bank Board lifted the cash rate by 25 basis points from 3.35% to 3.6% at the March meeting.

While this decision was widely expected the real issue was the guidance the Governor would provide for the future.

He chose to use the words, “The Board expects that further tightening of monetary policy will be needed to ensure inflation returns to target …. In assessing when and how much further interest rates need to increase, the Board will be paying close attention to developments in the global economy, trends in household spending and the outlook for inflation and the labour market.”

The compares to the February Statement which noted, “The Board expects that further increases in interest rates will be needed over the months ahead … in assessing how much further interest rates need to increase.”

Note that in February the issue was around “how much” whereas in March it has become “when and how much.”

The revised assessments (from the February Statement) of those issues that the Board is following with respect to future policy are:

- The monthly CPI suggests that inflation has peaked.
- At the aggregate level wages growth is still consistent with the inflation target and recent data suggest a lower risk of a cycle in which prices and wages chase one another.
- The Board remains alert to the risk of a price-wage spiral given the limited spare capacity in the economy.
- Household consumption growth has slowed. But in contrast, the outlook for business investment remains positive.
- Rents are increasing at the fastest rate for some years.
- Employment fell in January but that reflects changing seasonal patterns.

These observations were based on lower than expected prints for the Wage Price Index; GDP growth in the December quarter; a significant fall in annual inflation in the monthly series; and a fall in employment in January.

These insights indicate that, as should be expected, the accumulation of ten consecutive rate hikes is having an impact on the economy.

We had been expecting that the Board would continue to point to higher rates with ‘guidance’ along the lines of “The Board expects to increase interest rates further over the period ahead.”

In referring to monetary tightening rather than interest rates the case could be made for a very different message but the second line in the paragraph – “when and how much further interest rates need to increase” – returns the theme to interest rates as the monetary policy instrument but adds the notable “when” to earlier guidance.

For these reasons the case can be made for a pause in April.

We should not overlook that the Board still has a very strong tightening bias and, by April, will still not be forecasting that inflation will return to the 2–3% target zone before mid-2025. The forecasts will not be refreshed until the May Board meeting.

Recall a key reason for dismissing a pause at the December meeting was that “inflation was expected to take several years to return to the target range.”

Since then, markets have also lifted the profile for the US federal funds rate by 50–75bps required to support the FOMC’s forecasts to lower inflation to 3.3% in 2023.

In contrast the RBA’s “target” of 4.75% by end 2023 seems quite leisurely.

We continue to expect rate increases in both April and May.

On the day following the March Decision Statement, the Governor spoke at a Business Conference. He noted that “before our next Board meeting, we’ll have important data on employment, … monthly inflation indicator… retail spending and business surveys…. If collectively they suggest that the right thing to do is pause, then we’ll do that.”

That statement indicates that he would like to pause but will continue to be data dependent.

The employment and monthly inflation indicator are both volatile particularly in the first two months of the year due to changing seasonal patterns.

In the January Labour Force Survey not only was there a larger-than-usual increase in unemployment (3.5% to 3.7%) there was a larger-than-usual rise in the number of unemployed who had a job to go to.

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 his speech the Governor pointed out, “In early January there were around 100,000 more people than usual indicating they had a firm offer to start a job within the next four weeks.”

Our February 2023 forecast for the increase in original employment is 276k. If we add, say, a further 60k to that estimate, this boosts our seasonally adjusted estimate for jobs growth from 50k to around 100k. This points to a clear upside risk to our current February forecast of a 50k rise in employment.

Justin Smirk who forecasts our labour market statistics notes that, “This may not lower the unemployment rate. A large proportion of those unemployed with a job to go to would not have been looking for work, it is the summer holidays, so they would not have been counted as unemployed as they were not included in the labour force. Not only will they boost employment in February, but they will also boost the participation rate as they return to the labour force.”

All this is uncertain, but if there is a big jump in jobs without a pull back in the unemployment rate the Governor might see that as consistent with the need to pause.

The monthly CPI is a useful additional source of information on how inflationary pressures may be evolving.

While the ABS collects a lot of monthly price data a large proportion of the CPI is still only available on a quarterly, or even an annual, basis. This is also why the ABS has discontinued the monthly measure of the Trimmed Mean. And recall that the biggest shock the RBA received from the December quarter Inflation Report was that the Trimmed Mean inflation had lifted to 6.9% compared to the forecast of 6.5%.

The monthly CPI fell 0.4% in January; we had been looking for a flat print but saw a risk of a larger than expected fall in holiday travel costs. In the end this did occur (-7.2%) but there was broader softness in prices with food -0.1%, clothing -3.6% and household contents -1.6% – these were all weaker than we had expected."

The RBA will be analysing the February Inflation Report to assess that the downturn in inflation pressures which abruptly emerged in the January Report remains intact.

Since the March Board meeting an additional source of uncertainty has emerged in the US. Market pricing now gives a 50% probability to the FOMC lifting the federal funds rate by 50 basis points on the morning of March 23 – less than two weeks before the April RBA Board – pausing in the face of a 50 by the FED would be a brave move indeed.

Conclusion

There is ample evidence that the Governor favours a pause in April – his Statement; speech; Q and A. But the task is reliant on a series of highly volatile data reports and overseas developments.

In that context Westpac has not changed its call for rate hikes in both April and May, assessing that more needs to be done to tame inflation.

Bill Evans, Chief Economist (WestpacGroup)

With the domestic and international data calendar light, the actions and rhetoric of policymakers was the key focus for markets this week.

While the RBA's decision to deliver a 25bp rate hike in March was widely expected, the dovish guidance in the decision statement was a surprise to markets, with the Governor opening the door for a pause potentially as soon as April by noting that the Board would be assessing "when and how much" to increase interest rate hence. This compares to only "how much" in February. Coming updates on household spending, inflation and the labour market will be crucial to the RBA's decision making in the months ahead. The greater degree of comfort shown by the RBA over the Australian CPI as the FOMC once again asserted their concerns over US inflation hit the Australian dollar hard, AUD/USD falling below USD0.66. Australian yields also fell, the AU/US 10yr spread widening to -25bps.

It is important to recognise, however, that the RBA still has a strong tightening bias given inflation is not expected to return to 3% until mid-2025. This represents three years in which inflation is outside of the RBA's 2-3% target band, the key reason a pause was dismissed in December. Hence, we continue to expect 25bp rate hikes in both April and May, producing a peak cash rate of 4.10% which will be held through the remainder of 2023 and followed by gradual policy easing over the course of 2024 and 2025.

On the limited data received this week, Australia's trade surplus printed a little below expectations, down from $13.0bn in December to $11.7bn in January. The main surprise centred on a burst in transport equipment imports thanks to improved supply and ahead of Lunar New Year, up 29% in the month. While total imports rose 4.6%, the downtrend in goods imports excluding transport remains well entrenched, the 6.8% fall pointing to a softening in consumer spending in early 2023. Our Westpac Card Tracker broadly corroborates this, with a clear stalling in nominal spending activity.

In the US, FOMC Chair Powell's appearance before both the Senate Banking Panel and the House Financial Service Committee were this week's highlights. His comments before the Senate Banking Panel were construed by the market as hawkish, with a clear focus on inflation's persistence following upward revisions to annual CPI and PCE inflation to December 2022 as well as stronger-than-expected readings for January. Also called out by Chair Powell was the labour market's persistent strength and evidence of a bounce back in consumer spending as 2023 begins. For policy, the intent was clear: the FOMC will do what it takes to bring inflation back to target within a reasonable timeframe.

In his follow-up appearance before the House Committee, Chair Powell conveyed the same concerns over inflation as well as confidence in the robust health of the US economy; but on policy, he was a little more circumspect, making clear that the FOMC's decisions are not on a pre-set path and will instead be determined by the strength of the data. While the market continues to hedge its bets between a 25bp and 50bp hike at the March meeting, arguably Chair Powell's tone means that the payroll and CPI data to come over the next week will have to outperform to warrant the larger move.

Also evident in Chair Powell's remarks this week was a belief that the Committee has already tightened policy and financial conditions materially, and that the full effect on the economy will come with a lag. So, as long as coming labour market and inflation data point to decelerating momentum, this cycle likely only has a few more hikes left in it before a lengthy pause to March quarter 2024. A similar state of affairs is evident in Euro Area monetary policy; while, in Canada, a pause has already commenced. For each of these markets, it is our expectation that inflation will ebb back towards target in 2023 without need for a recession. The longer-term concern is whether these nations are dynamic enough to rebound to, or above, trend growth once financial conditions ease. If not, faced with high debt burdens, their futures are likely to prove very challenging.

Though China's 2023 growth target of 'only' 5% disappointed the market this week, it should have been seen as a reason for confidence. From the detail of the accompanying remarks, it is clear authorities do not see a need to pump up economic growth with aggressive public infrastructure spending. While this type of investment continues at a robust pace, it is the strength of the private sector (and efficient SOEs) that will dictate the scale of China's outperformance, both in the near term and further out.

In our view, having shown considerable strength amid tremendous uncertainty in 2020-22, and with burgeoning export opportunities across the developing world, China's industry has a high probability of delivering national growth outcomes well above authorities' stated 2023 ambition. Importantly, being driven by productivity and capacity and with benefits flowing through to the Government and households, this momentum should prove sustainable and non-inflationary.

Week ahead & data wrap

In some ways, business conditions have remained surprisingly resilient. Notably, domestic spending levels have remained firm. That's despite the deterioration in financial conditions over the past year as interest rates have jumped progressively higher and inflation has run red hot.

The retail sector is case in point. The December quarter data showed nominal retail sales climbing a decent 1.7% over the quarter and a solid 5.4% over the year. At first glance, these numbers don't hint at any particular weakness.

Similarly, manufacturing survey data out this week pointed to a sector that, whilst not exactly shooting the lights out, is still in expansion. Over February, the PMI was up 0.8 percentage points to 52.0, with the reading pointing to expansion for the second consecutive month.

Meanwhile, the last PSI survey from January ticked up higher and pointed to healthy service sector activity levels on the back of the rebound in tourism sector activity – tourism arrivals have rebounded back to two thirds of their pre-Covid levels. The combination of those two surveys also points to relatively resilient activity.

But buried below the surface of these relatively positive headlines are signs of clear weakness. For example, looking underneath the firm nominal retail spending figures, the volume of goods sold (i.e. spending adjusted for price changes) has fallen by around 4% over the past year. In other words, households are feeling the squeeze - red hot inflation is gobbling up consumers' spending power meaning that they are getting less and less bang for their buck.

Firms are also coming under pressure. In our discussions with businesses, a clear theme has emerged. That is, while sales and revenue remain resilient, firms' costs continue to rise at pace, and this is putting a squeeze on firms' profits. Indeed, average operating costs have risen by around 8% over the past year. In a few sectors such as the construction, manufacturing and agriculture sectors the jump has been even higher at 12% or more over the same period.

Firms are also telling us that they are beginning to act on these trends. First up, they are dialling back their hiring plans. And these anecdotes gel with the trend in job ads data: these have fallen by over 20% since their peak back in August 2022. Secondly, firms are becoming increasingly cautious about capital expenditure, with recent surveys showing that plans for investment spending have been wound back.

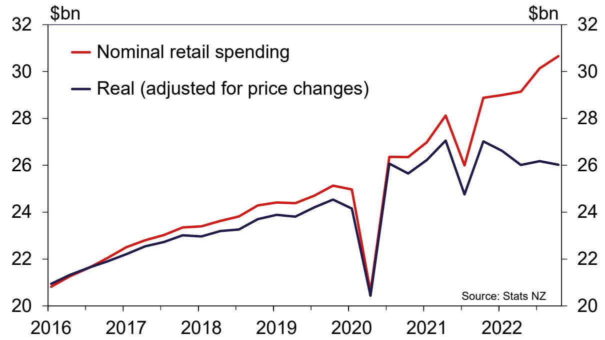
From here, we expect economic activity to continue to slow. As we have noted in recent publications, many households and particularly those with mortgages are likely to tighten their belts over the year ahead, with a decline in retail spending levels likely to flow from there. In fact, many households are now facing an increase in their mortgage interest rate payments as they roll off fixed terms considerably lower than prevailing rates. Recall that we have estimated that the average mortgage rate was 3.8% in December 2022 and that it will rise to circa 5.3% by December 2023.

Similarly, we expect building activity to slow. Financial conditions in the housing construction sector have become a lot tougher. Operating and financing costs have risen sharply over the past year. And at the same time, house prices are tumbling in many parts of the country. That's meant prospective buyers are increasingly nervous, and developers are cautious about bringing new projects to market. Builders, as well as those supplying into the industry, have told us that those conditions are weighing on demand, with forward orders dropping off. Data out this week were consistent with this trend. The amount of residential building work put in place fell by 2.6% over the December quarter.

Household spending and residential investment account for the largest chunk of the economy. Household spending alone represents over 60%. As a result, declining activity in these two areas will be enough to tip the economy into recession from the end of the year and into early 2024. Although, the ongoing rebound in tourism arrivals and the boost to activity from reconstruction after the recent storms will help to support activity through 2023 and 2024.

Nathan Penny, **Senior Agri Economist**

NZ retail spending



Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 6	Q4 building work put in place	5.3%	–1.6%	1.0%
	Feb ANZ commodity prices	–0.9%	1.3%	1.0%
Wed 8	GlobalDairyTrade auction (WMP)	–2.0%	0.2%	1.0%
Thu 9	Feb card spending	3.3%	0.0%	–
Fri 10	Feb manufacturing PMI	51.2	52.0	–

DATA PREVIEWS

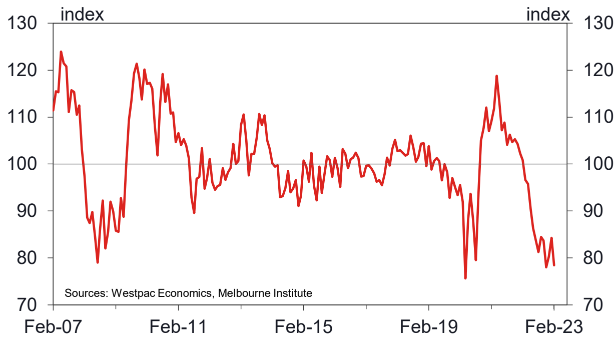
Aus Mar Westpac-MI Consumer Sentiment

Mar 14, Last: 78.5

Consumer sentiment fell 6.9% in February to 78.5, moving back into deeply pessimistic territory. Hopes of some easing in cost of living and interest rate pressures were dashed by a strong December quarter CPI and the RBA's resumption of its interest rate tightening cycle.

March looks likely to be much the same. The RBA raising rates by another 25bps and signalling further tightening ahead, albeit with the Governor's decision statement and comments indicating the path is now more data-dependent, with the Board open to pausing. On the economy, the Q4 GDP came in softer than expected, perhaps raising concerns about near term prospects. Notably, housing markets have shown some tentative signs of stabilising at the start of the year, which may have eased home-owner concerns about the impact of further price declines on balance sheets.

Consumer Sentiment Index



Aus Feb overseas arrivals and departures, preliminary

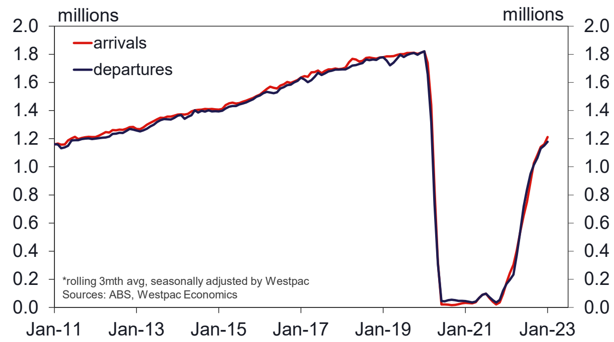
Mar 15, Arrivals, Last: 1608.2k
Mar 15, Departures, Last: 1384.6k

Over the course of last year, the recovery in overseas travel has forged ahead at an unexpectedly strong pace. For the month of January, both arrival and departure flows are sitting at 80% of their respective pre-pandemic levels for that month.

Net visitor arrivals rose considerably from H1 2022 (+420k) to H2 2022 (+675k); net visa arrivals for students and temporary workers remained elevated into year-end; and short-term visitor arrivals from China are set to bounce in 2023 given recent removal of COVID-zero restrictions. All of this points to a substantial increase in net migration in the years to come, which we estimate to be +400k, +350k and +275 in 2022, 2023 and 2024 respectively.

The February provisional estimate will provide a timely look into the patterns of student travel. Given the Chinese Government's mandate for a return to in-person learning, a burst in student arrivals is likely.

Total overseas arrivals and departures



Aus Feb Labour Force - employment chg, '00

Mar 16, Last: –11.5k, WBC f/c: +50k
Mkt f/c: +50k, Range: +4k to +100k

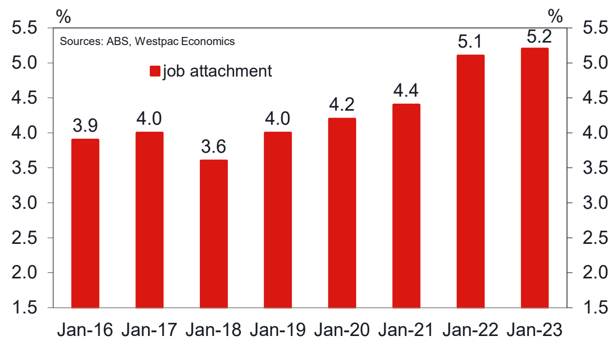
The 11.5k decline in employment in January marked the second consecutive fall in jobs growth from the Labour Force Survey. With a three-month average increase in employment of just 1k and annual growth in employment moderating to 3.0%yr in January from 6.8%yr in October, it raises the question - whether the Australian labour market stalled into early 2023.

The positive is that the January survey reported a larger-than-usual number of people indicating that they have a job to go to in the future. This, coupled with the recent run of soft prints, suggests that employment growth should bounce in the February survey.

We are, however, cautious about forecasting a particularly large rise in employment given the uncertainty around holiday and illness dynamics.

We have pencilled in a 50k rise in employment for February, but risks are clearly to the upside.

Proportion not employed with job to go to



Aus Feb Labour Force - unemployment rate %

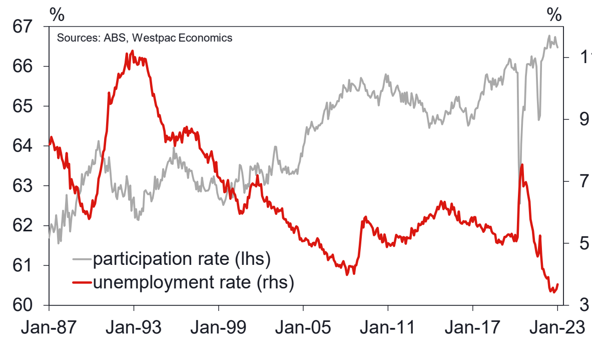
Mar 16, Last: 3.7%, WBC f/c: 3.6%
Mkt f/c: 3.6%, Range: 3.5% to 3.8%

In January the labour force increased by 10.4k. Contrast that with the 11.5k decline in employment, and the participation rate nudged down from 66.6% to 66.5% (or 66.56% to 66.48%). This saw the unemployment rate lift from 3.5% to 3.7%, which is the highest read since May 2022.

On our forecast of employment +50k, and an expectation that the participation will hold flat at 66.5%, the unemployment rate edges lower, from 3.7% to 3.6%.

If, alternatively, the jump in employment is much larger than our 50k forecast, a sharp move lower in the unemployment rate will not necessarily occur. This is because, a significant proportion of those not employed in January but with a job to go may have been out of the labour force. So, upon return, they will not only boost employment but also participation.

Unemploy. lowest since '74, record participation



NZ Feb REINZ house sales and prices

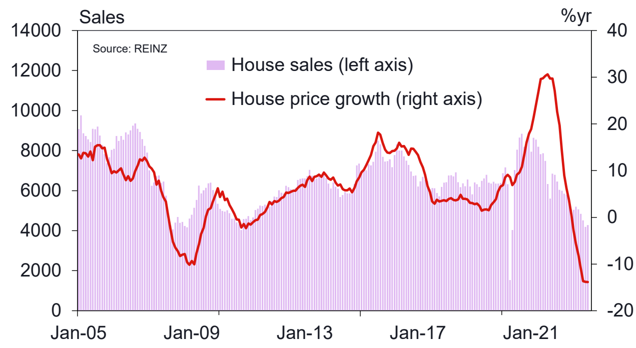
Mar 14 (tbc), Sales last: +2.2% m/m, -27% y/y
Prices last: -0.7% m/m, -13.9% y/y

The housing market continued its decline in the early part of this year. Nationwide house prices have now fallen by 15% from their peak, taking them back to where they were in early 2021.

We expect house prices to continue to fall in the coming months. Fixed-term mortgage rates may have reached their peaks and are even coming down in some instances. However, the market is still adjusting to the higher level of interest rates, with low listings and turnover slowing the price discovery process.

Flooding and cyclones are likely to have disrupted house sales in February, though with no obvious implication for prices.

REINZ house prices and sales



NZ Q4 current account balance, % of GDP

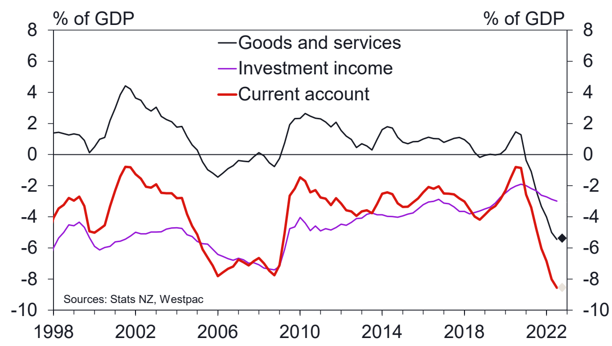
Mar 15, Last: -8.6%, Westpac: -8.5%, Mkt: -8.3%

New Zealand's current account deficit has blown out in the last year. The loss of overseas tourist revenue (until recently) and the sharp rise in imported goods prices and shipping costs have been a factor. But more broadly, the widening deficit is a symptom of an overheated economy – we are continuing to spend beyond our current means.

The deficit for the year to September was initially reported at 7.9% of GDP. However, Stats NZ has noted some significant upward revisions to overseas travel by New Zealanders, which will further add to the deficit. We expect the September result to be revised to 8.6% of GDP, which would make it the largest deficit since the 1970s.

For the year to December, we expect the deficit to narrow slightly to 8.5% of GDP. With the border now open, (net) tourism spending is picking up again. This will flow through to the annual balance over several quarters.

NZ annual current account balance



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NZ Q4 GDP

Mar 16, Last: 2.0%, WBC f/c: -0.2%, Mkt: -0.2%

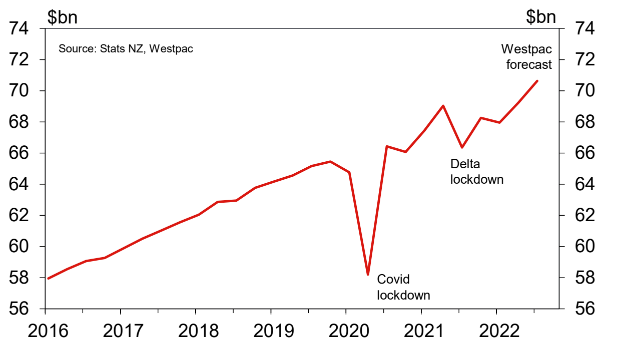
We estimate that GDP fell by 0.2% in the December quarter. That follows a surge of almost 4% over the two previous quarters, as the reopening of the border and the return of overseas tourists boosted activity to a surprising degree.

The GDP data has been choppy since the Covid pandemic, with alternate data sources having to be used, and with the border closure throwing out the normal seasonal patterns. This would be the third time in two years that we see a drop in quarterly GDP that wasn't caused by a lockdown.

The drivers of growth are becoming patchier. Retail, wholesale, manufacturing and construction all saw declines in the December quarter, while both personal services (including tourism) and businesses services look to have strengthened.

Like us, market forecasts appear to be converging on a negative number. This would be markedly softer than the 0.7% growth that the Reserve Bank expected in its February policy statement.

NZ production-based GDP



US Feb CPI report

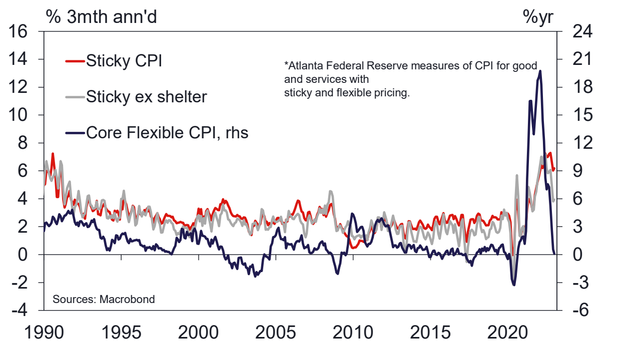
Mar 10: headline, Last: 0.5%, Mkt f/c: 0.4%, WBC: 0.4%

US inflation data continues to justify policy makers taking a skewed risk view, particularly after the upward revisions to December 2022 and the momentum shown in January.

Come February or March, the pulse should downshift. Goods inflation has already disinflated, and the partial indicators for shelter point to a near and abrupt turn in the sub-sector's trend. This is key given the weight it has in the basket.

Still, with the labour market holding in, it is likely that the FOMC also wants to see a material deceleration in the core services, ex-shelter component -- a barometer of both discretionary demand and the passthrough of wage gains. A delayed softening of this component risks the FOMC pushing on with rate hikes past our current forecast peak of June.

US disinflation trend to broaden slowly



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 13					
NZ	Feb BusinessNZ PSI	54.5	–	–	Has remained at moderated levels despite headwinds.
	Feb food price index	1.7%	–	0.6%	Price rises widespread, boosted by poor weather.
Tue 14					
Aus	Mar WBC-MI Consumer Sentiment	78.5	–	–	Rate hikes and cost of living pressures still weighing heavily.
	Feb NAB business survey	18	–	–	Conditions index peaked last September – as economy slows.
NZ	Feb REINZ house sales %yr	-27.0%	–	–	The rise in borrowing costs...
	Feb REINZ house prices %yr	-13.9%	–	–	...is continuing to weigh on prices and sales.
	Jan net migration	4581	–	–	With a firm jobs market, net inflows have risen sharply.
UK	Jan ILO unemployment rate	3.7%	–	–	Firm for now, but slack to emerge over coming months.
US	Feb NFIB small business optimism	90.3	–	–	Inflation remains the key concern for small businesses.
	Feb CPI	0.5%	0.4%	0.4%	Waiting for shelter inflation to begin downtrend.
Wed 15					
Aus	Feb overseas arrivals, prelim '000s	1608.2k	–	–	Focus centred on rebound in Chinese visitors and students.
NZ	Q4 current account, % of GDP	-8.6%	-8.3%	-8.5%	Slight improvement from record deficit as tourists return.
Chn	Feb retail sales ytd %yr	-0.2%	3.5%	–	Conditions have drastically improved since the removal...
	Feb fixed asset investment ytd %yr	5.1%	4.5%	–	... of COVID-zero; risks around global demand remain, but...
	Feb industrial production ytd %yr	3.6%	2.6%	–	... burgeoning support will provide a longer-term offset.
Eur	Jan industrial production	-1.1%	–	–	Lasting issues with energy-intensive sectors; otherwise +ve.
US	Feb PPI	0.7%	0.3%	–	Decelerating quickly from historic peak.
	Mar Fed Empire state index	-5.8	-7.7	–	Consolidating at a broadly weak level.
	Feb retail sales	3.0%	0.2%	–	Soft outcome expected after stellar bounce in January.
	Jan business inventories	0.3%	0.0%	–	Inventory accrual near stalling speed as economy slows.
	Mar NAHB housing market index	42	41	–	Past the worst, but housing market still under major pressure.
	Fedspeak	–	–	–	Bowman.
Thu 16					
Aus	Mar MI inflation expectations	5.1%	–	–	Expectations becoming increasingly important for RBA.
	Feb employment	-11.5k	+50k	+50k	Some catch-up with many people expecting a job in Feb...
	Feb unemployment rate	3.7%	3.6%	3.6%	... flat participation should see unemployment tick downwards.
	RBA March Bulletin	–	–	–	Quarterly Bulletin includes RBA research articles.
NZ	Q4 GDP	2.0%	-0.2%	-0.2%	Growth is becoming patchier outside of the tourism rebound.
Jpn	Jan machinery orders	1.6%	1.7%	–	Volatile but pointing to downside risk to capex spending.
	Jan industrial production	-4.6%	–	–	Final estimate.
Eur	ECB policy decision, refi rate	3.00%	3.50%	3.50%	To deliver well-telegraphed 50bp rate hike with hawkish tone.
US	Feb import price index	-0.2%	-0.2%	–	Falling energy costs driving a sharp deceleration.
	Feb housing starts	-4.5%	0.1%	–	Flattening near pre-pandemic levels...
	Feb building permits	0.1%	0.8%	–	... sustained recovery not yet in sight.
	Initial jobless claims	211k	–	–	To remain at a relatively low level for now.
	Mar Phily Fed index	-24.3	-14.8	–	Consolidating at a broadly weak level.
Fri 17					
Eur	Feb CPI %yr	8.6%	–	–	Final estimate; critical insight into services inflation.
US	Feb industrial production	0.0%	0.5%	–	Performance in line with evidence from regional surveys.
	Feb leading index	-0.3%	-0.2%	–	Pointing to materially weak conditions over the period ahead.
	Mar Uni. of Michigan sentiment	67.0	67.0	–	Renewed hawkishness from FOMC a risk for confidence.

Forecasts

Interest rate forecasts

Australia	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.60	4.10	4.10	4.10	3.85	3.60	3.35	3.10
90 Day BBSW	3.64	4.30	4.30	4.22	3.97	3.72	3.47	3.22
3 Year Swap	3.77	3.95	3.90	3.80	3.65	3.50	3.35	3.20
3 Year Bond	3.34	3.55	3.55	3.50	3.40	3.30	3.15	3.00
10 Year Bond	3.63	3.70	3.40	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-25	-10	-10	-10	-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	3.87	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	5.22	5.60	5.60	5.50	5.05	4.55	4.05	3.75
2 year swap	5.40	5.10	4.80	4.40	4.10	3.80	3.60	3.40
10 Year Bond	4.46	4.50	4.20	4.00	3.85	3.70	3.60	3.50
10 Year spread to US	58	70	70	70	75	80	80	90

Exchange rate forecasts

Australia	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6584	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6103	0.64	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	136.02	131	130	129	128	127	126	124
EUR/USD	1.0591	1.09	1.10	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.1919	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.9652	6.70	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0779	1.08	1.09	1.10	1.11	1.13	1.13	1.13

Australian economic growth forecasts

	2022			2023				Calendar years			
% change	Q2	Q3	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	–0.2	–0.2	0.2	0.2	–0.2	–	–	–	–
Annual avg change	1.1	2.7	2.7	3.4	3.7	2.2	1.3	6.1	2.7	1.3	–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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