AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 20 March 2023

Editorial: RBA to pause in April before final rate hike in May.

RBA: Minutes March Board meeting, Assistant Governor (Financial Markets) speaking.

Aus: Westpac-MI Leading Index, Q1 ACCI-Westpac business survey.

NZ: Q1 Westpac-MM Consumer Confidence, GlobalDairyTrade auction, trade balance.

UK: BoE policy decision, CPI.

US: FOMC policy decision, house sales, durable goods orders.

Global: S&P Global PMIs.

Key economic & financial forecasts.

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

WESTPAC INSTITUTIONAL BANK

RBA to pause in April before final rate hike in May

We have lowered our terminal rate for the RBA in this tightening cycle from 4.1% to 3.85%.

We now expect a pause in April to be followed by a final increase of 0.25% at the May meeting.

Prior to the Governor's surprisingly hawkish response to the December quarter Inflation Report where he effectively signalled consecutive rate hikes in both March and April, Westpac had expected that there would be a pause in April with a final hike in May.

The Governor has had an 'about-face' following the March Board meeting. He responded to the disappointing growth print for the December quarter; the slower than expected wages gain in the December quarter; and the 0.4% fall in the monthly inflation index in January.

In the Statement following the March decision he noted: "The Board expects that further tightening of monetary policy will be needed … assessing when and how much further interest rates need to increase…"

So, the tentative signal in March was much changed from the confident signal in February.

Following a speech the next day (March 8) the Governor noted that a pause in April would be considered in the light of the data flow out to the Board meeting on April 4 – specifically: the business surveys; the February employment report; the February retail sales report; and the monthly inflation indicator report for February.

We have now seen the main business survey (NAB) which showed that business confidence fell quite sharply, although business conditions, while weaker still held at above average levels.

The employment report for February was relatively strong – a lift in employment of 64,600 jobs and a fall in the unemployment rate from 3.7% to 3.5% (to two decimal places the fall was a more modest 0.13pts from 3.67% to 3.54%).

This report is significant as it means the view that unemployment had bottomed out and was starting to trend higher now requires more information to be confirmed.

In terms of the Governor's check-list, confirming a sustained shift towards easing labour market conditions would be a particularly encouraging sign that domestic wage-driven price pressures were likely to remain contained.

The other really important data series – the monthly inflation indicator report for February – does not print until March 29th. In January the Index fell by 0.4% from December with some key components slowing, including: new dwelling costs (from 0.9% in December to 0.5% in January); holiday travel (+27.0% to -7.2%); and clothing (+2.1% to -5.0%).

The February report will be important confirmation of this sudden turnaround in inflation trends. Westpac is sceptical and expects the monthly indicator to lift again, by 0.6% in February, with the January update overstating the extent of slowing.

Global financial market developments

But the major change since the March RBA Board meeting has been the adverse developments in global markets.

At the start of the month there was active discussion about whether the FOMC would hike by 50bps at its March 21/22 meeting. Now markets and many analysts are contemplating no move at all.

We think a shift to no change is a bridge too far for the FOMC and still expect it to raise the cash rate by 25bps at next week's meeting. But we anticipate real uncertainty will continue to surround the prospects for policy thereafter.

As we write, the most realistic risk scenario for the US economy involves a credit squeeze from regional banks (generally those with assets below $250bn, and that are not subject to the strict Dodd–Frank regulations, having been exempted following active lobbying of the Trump government in 2018). As markets, regulators and rating agencies restrict the capacity of these smaller banks to support SMEs and small business (around 50% of total market coverage) a new drag will emerge for the US economy. This is also likely to undermine confidence and raise some questions about the stability of the global banking system.

Wildly gyrating markets are highlighting the uncertainty around this scenario.

Despite current market pricing, which anticipates a series of rate cuts by the FOMC in 2023, we continue to favour an easing cycle that only begins in 2024. Inflation will remain too high through most of 2023 to allow the FOMC to start cutting rates any earlier.

By 2024, inflation will have fallen to a level consistent with the FOMC easing off on the monetary pressure and moving policy to a less restrictive setting.

If credit developments intensify beyond our current expectation, then more drastic action will be required from the FOMC.

Change to FOMC view

Our current prior, that the FOMC will extend the tightening cycle to cover both the May and June Board meetings, now looks less likely given the realistic chance that a credit slowdown will do some of the Fed's work for it.

Accordingly, we now see the March hike as the final move in the FOMC's tightening cycle.

While hiking cycles continue near-term for the FOMC and ECB (which has just raised rates by 50bps) we expect the RBA to pause at its April meeting.

Positioning prior to the recent market turmoil is key here. Whereas the FOMC and ECB have both been 'talking up' the prospect of rate hikes, the RBA has adopted much less hawkish rhetoric following the March meeting, signalling that a pause on hikes was already on the table for its April meeting. Despite the better than anticipated employment report, we expect the risks around financial market developments and the evidence of the soft data since the February Board meeting will prompt the RBA to use its 'pause option' in April.

Even if the markets settle by the time of the RBA's April Board meeting there will be sufficient uncertainty for a prudent Board that was already clearly open to a pause to take that option.

RBA pause in April followed by hike in May

For the following Board meeting in May the issues will be more clear-cut.

The Board will have the benefit of refreshed staff forecasts, especially for inflation following the March quarter inflation report (due April 26). Note that the monthly inflation indicator reports do not include estimates of core inflation measures such as the trimmed mean.

We expect the March quarter report will show core inflation still running at 6.7%yr, down only slightly from 6.9%yr and that the RBA's updated forecasts will show no marked improvement in the inflation outlook.

We do not think that a further pause would be credible in the face of ongoing high inflation and prospects of not returning to the target band until mid-2025.

Recall that the RBA currently forecasts headline inflation to still be holding at 4.8% in 2023.

We expect a further lift in the cash rate from 3.6% to 3.85% at the May meeting.

By the time of the June meeting, with the cash rate deeply in contractionary territory, the economy slowing at a more rapid pace, and evidence from the March quarter wage price index that the trajectory for wages growth remains moderate, it will be appropriate to delay any further tightening until the next quarterly inflation report, released ahead of the August Board meeting.

We expect that by August the case for pushing the cash rate even further into contractionary territory will be weak as the economic slowdown becomes more entrenched and as we start to see real progress in lowering inflation, especially if global credit issues continue to impact growth and markets.

Rate cuts to follow in 2024

We maintain our call that the preconditions for the beginning of the easing cycle will be apparent in the March quarter of 2024. These include a fall in the inflation rate to below 4%; policy deeply in contractionary territory (we see the neutral cash rate as being around 2.75–3.0%); the economy stagnating through the second half of 2023 and the prospect of continued weakness in the first half of 2024; the unemployment rate heading towards 5% by end 2024; and wages growth slowing from a 2023 peak of 4%.

As discussed, we also expect that the FOMC will have succeeded in driving down US inflation by holding the federal funds rate at a clearly contractionary level through 2023 allowing the beginning of an aggressive easing cycle by the FOMC.

The RBA will always respect guides on policy from the FOMC. Note that our revised RBA and FOMC profiles restore a natural order for the tightening cycles. With wages growth lifting in Australia and Australia's credit market much more resilient than the US it seems appropriate that Australia's tightening cycle (peaking in May) will lag the US cycle (peaking in March).

Bill Evans, Chief Economist (WestpacGroup)

Interest rate forecasts

Australia	17-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	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85	2.60	2.35	2.35	2.35
90 Day BBSW	3.66	3.95	3.95	3.97	3.72	3.47	3.22	2.97	2.72	2.48	2.60	2.60
3 Year Swap	3.55	3.65	3.60	3.50	3.40	3.20	3.00	2.90	2.80	2.70	2.60	2.60
3 Year Bond	3.03	3.20	3.20	3.15	3.10	2.95	2.80	2.70	2.60	2.50	2.40	2.40
10 Year Bond	3.44	3.60	3.40	3.20	3.00	2.80	2.70	2.50	2.45	2.45	2.45	2.45
10 Year Spread to US (bps)	-14	-10	-10	-10	-10	-10	-10	-10	-5	-5	-5	-5
US												
Fed Funds	4.625	4.875	4.875	4.875	4.375	3.875	3.375	2.875	2.375	2.125	2.125	2.125
US 10 Year Bond	3.58	3.70	3.50	3.30	3.10	2.90	2.80	2.60	2.50	2.50	2.50	2.50

The US banking system was in the spotlight this week, with fragility emerging amongst the regional banks, shocking global interest rate expectations. Domestically, data received was broadly in line with our views on the economy.

Beginning in Australia, the Westpac-MI Consumer Sentiment survey delivered yet another dismal update on confidence. That the headline index remained at 78.5 for a second consecutive month indicates sentiment is firmly entrenched in deeply pessimistic territory, a situation only comparable to the major economic dislocations observed during the 1980s-90s. With inflation and interest rates remaining the dominant concern for households, the survey reported a further weakening in expectations for family finances, intentions to purchase a major household item, and the medium-term economic outlook.

Most notable, however, was the sharp deterioration in homebuyer sentiment. The 'time to buy a dwelling' sub-index fell 11.1% in February to 65.7, the weakest reading since 1989 – an era where standard variable mortgage rates were in excess of 15%. Exacerbated by a curious lift in house price expectations (+8.6%), it seems price-led improvements in affordability are no longer providing a buffer to the severe impact of rising interest rates on housing market confidence. Despite recent softening, household's views around the labour market remain broadly supportive, with expectations for unemployment still below the long-run average.

On employment, the February labour force survey reported an expected bounce-back in jobs as a larger-than-usual number of people who were waiting to start a new job – identified in the January survey – returned to work. The gains were evident across most areas of the survey: the 64.6k lift in employment growth more than reversing the 27.5k decline reported in the prior two months; the unemployment rate falling from 3.7% to 3.5% as a surge in full-time work saw the underemployment rate fall 0.4ppts to 5.8%; and accordingly, seasonally adjusted hours worked lifting by a substantial 3.9%. Taken together, it suggests that the labour market has begun the year on a firm footing; however, the outlook remains challenging, with slack to emerge in the labour market into the second half of 2023.

Into the longer-term, the recovery in immigration flows should provide some underlying support to the problem of labour unavailability. Indeed, according to official population data, the estimate for net overseas migration in Q3 2022 printed a record +106.2k for the quarter. This, in addition to the upward revisions for Q1 and Q2, aligns with our view that net overseas migration is set to print at a historic high in 2022. Looking at 2023, Australia's overseas arrivals and departures data also continues to reflect substantial progress, with strong net inflows of temporary workers and a sizeable lift in international student arrivals, up +120k in February. From the removal of COVID-zero restrictions, the nascent strength in inflows from China is also becoming increasingly apparent, indicating that immigration will remain highly supportive of labour supply over the next few years.

Given the sustained pressures around business conditions, the fragility of business confidence re-emerged as a key issue in the latest NAB business survey. Indeed, the survey reports that high inflation and rising interest rates remain a clear drag on the strength of demand, as evinced by the continued cooling in forward orders growth and the downtrend in general business conditions. As a consequence of these mounting headwinds, the business confidence index declined by 10pts, and is once again reflective of a pessimistic business mood. With the domestic outlook gloomy, business confidence will struggle to earn significant reprieve over the period ahead.

Taking into consideration the sum of domestic conditions and the global uncertainties discussed below, we have changed our RBA view. As discussed by Chief Economist Bill Evans, we now expect a pause in April to be followed by a 25bp hike at the May meeting to 3.85% which we now expect will be the peak rate for this cycle. We continue to believe an extended pause will prove necessary into 2024 given inflation's persistence after which 150bps of easing is expected, 25bps a quarter from Q1 2024 to 2.35% in Q2 2025.

Moving offshore, the closure of Silicon Valley Bank (SVB) last Friday shocked global financial markets given its significance to both the tech sector and the national economy. Signature Bank in New York was also closed within days, and a cascading crisis of confidence ensued. Mid-week, the threat of rapid outflows and a dramatic decline in its share price saw another regional bank, First Republic, downgraded to junk by both S&P and Fitch despite there being no known similarities with SVB or Signature, nor obvious concern regarding its business practices. This also occurred despite authorities' swift action to guarantee the deposits of both SVB and Signature after they re-opened under the control of the FDIC. Overnight then, a combined effort by US banks and regulators was needed to sure up confidence in First Republic and the sector more broadly, banks across the country depositing a cumulative $30bn of deposits to show trust and provide liquidity.

Along with the measures already in place, this action should go a long way to restoring trust in the regional banks amongst households and businesses. However, the hit to broader confidence is likely to have a lasting impact on economic activity and employment, particularly given the economy has been growing below trend for a year and there are downside risks for the period ahead.

Inflation also remains a risk though. While core CPI inflation (ex food and energy) surprised to the upside in February at 0.5%, this was a result of shelter which contributed close to 0.3ppts by itself. For the policy outlook, this is not a concern as all leading indicators of rents point to an abrupt deceleration ahead. The remaining detail was also constructive for the medium-term. Goods inflation was negligible overall, and key sub-categories such as food witnessed to easing commodity and wage pressures – note, the latter was also evinced last Friday by the February nonfarm payrolls report where both hourly and weekly earnings decelerated, keeping real wage growth negative. Albeit volatile and still high versus history, on a multi-month basis, growth in the price of airfares is also in a downtrend. New car prices meanwhile were little changed and used car prices continue to fall. Incorporating this information into our forecasts, we continue to expect a return to near-target inflation in the second half of 2023.

So for the FOMC, while there is still cause to raise by 25bps next week, this is likely to be the last hike for the cycle, with the uncertainty around the banking sector to also tighten financial conditions. A lengthy pause is still expected into early-2024 however, as it will take time for inflation risks to fully subside. Over 2024 and 2025, we then expect the fed funds rate to be brought back near neutral, allowing growth to slowly accelerate back towards trend.

While the market currently has considerable doubts over the outlook for the FOMC given the uncertainties around US banks, the ECB's decision to still raise by 50bps at their March meeting despite Credit Suisse's woes and fears over the implications for the European financial system highlights that central banks have confidence and also like to keep their monetary and financial stability decision making separate. In the press conference that followed the Council's decision, ECB President Lagarde made clear that the ECB and regulators stood ready to do what is necessary to avert any risk of crisis or disfunction in the banking system; but she also highlighted the need to make sure that risks to the welfare of the economy from inflation are dealt with. Without incorporating the effects of current developments, inflation was forecast by the ECB to come back to target in late-2025 even with growth above trend in both 2024 and 2025 (1.6%). As for the US, recent instability is likely to soften growth and dampen inflation, reducing the need for further policy action from the Governing Council. We now also only see one more hike of 25bps by the ECB at their next meeting, with policy to then remain on hold to 2024 before a progressive return to a neutral level by mid-2025.

Data from China this week was thankfully very constructive. Following the end of COVID-zero and despite the usual disruptions of lunar new year, fixed asset investment surprised to the upside, growing 5.5% year-to-date at February. This included a significant positive surprise for residential construction, fuelled by a return to growth for property sales, 3.5% year-to-date, and with confidence also aided by house price gains. The consumer was also shown to be in robust shape and willing to spend at February, retail sales gaining 3.5%. Together with the burgeoning trade opportunities apparent across Asia, these nascent domestic demand trends point to strong growth in 2023 and an ability to sustain growth near authorities' 2023 target for a number of years to come.

Week ahead & data wrap

With signs that the economy isn't running as hot as we or the RBNZ thought, we have revised down our forecast for the Official Cash Rate. We now expect that the OCR will reach a peak of 5.00% (down from our previous forecast of 5.50%). That implies just one more 25bp rise in the current cycle, which we expect will occur at the RBNZ's next policy meeting in April.

For the past 18 months, the Reserve Bank of New Zealand has been hiking the Official Cash Rate at a rapid pace against a backdrop of an overheating economy and a related surge in inflation. And at the time of its last policy decision in February, the RBNZ remained resolute that further rate increases would be needed to get inflation back inside the target band. The forecasts that accompanied their February policy statement showed the cash rate rising from 4.75% to a peak of 5.50%. At that time, we broadly agreed with that assessment.

However, recent updates have cast fresh light on the strength of economic conditions. Although activity remains elevated, GDP figures for the year to December 2022 have shown that the economy is not running as hot as we or the RBNZ had thought.

Economic output fell by 0.6% in the December quarter. That was a sharper decline than we and other analysts expected. The result was also well below the Reserve Bank of New Zealand's forecast for a 0.7% rise in activity over the quarter.

Looking under the surface, there was widespread weakness in activity, with declines in both the goods and services sectors. Notably, there were falls in retail and accommodation spending, transport, and personal services. Those are all sectors that are benefitting from the rebound in tourism currently in train, and their recent declines highlights the softening in domestic demand.

Importantly, it wasn't just the December quarter that has turned out softer than expected – estimates of activity through the middle part of 2022 have also been revised down. Putting that altogether, it's turned out that GDP is running almost two percent below what the RBNZ was expecting in its February Monetary Policy Statement.

Even with the softer-than-expected end to 2022, we're still left with a picture of an economy that is highly stretched, with elevated levels of demand, high levels of employment, and rapidly rising prices. And that means some further rise in the OCR is still needed.

However, the economy is not nearly as stretched as the RBNZ thought. That matters for how much of a slowdown – and exactly how much further interest rates need to rise – to bring inflation back under control.

We've revised our forecast for the peak in the OCR to 5.00% (down from 5.50% previously). That implies only one more 25 basis point increase in this cycle, which we still think will be delivered at the April OCR review.

The RBNZ won't necessarily call time on the tightening cycle at that point – and since it won't be publishing new forecasts at the April review, it doesn't have to be explicit about the path forward. Rather, it could shift its language towards noting that a substantial amount of tightening has been put in place over the last 18 months, and that any further moves will be data-dependent.

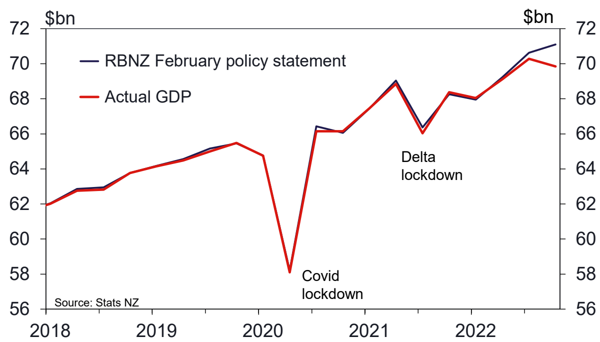
In terms of what economic data is likely to show over the coming months, New Zealand is widely expected to slip into recession this year. However, the weak economic activity in the December quarter was not necessarily the start of that. In fact, some key gauges of economic activity that softened through the latter part of 2022 – such as card spending and the PMI manufacturing survey – have actually picked up again in the first two months of this year. On top of that, the clean-up from Cyclone Gabrielle will generate extra activity that will add to GDP over the coming months. More generally, most businesses we've spoken to in recent weeks have continued to report firm levels of demand in recent months. Consistent with that, we expect to see continued, albeit modest, rates of economic growth through the first half of this year.

Looking further ahead, we expect economic activity to cool off through the back half of this year. Over the coming months, large numbers of borrowers will face refixing their mortgages at substantially higher rates. The resulting increases in debt servicing costs will be a substantial drag on households' spending power and domestic demand more generally.

That downturn in domestic demand will help to dampen inflation over time. Even so we're still looking at a strong inflation outlook over the coming year, and that's been exacerbated by the recent storms which have seen sharp rises in the prices of items like fresh produce. Given that strength in inflation pressures (which is already feeding into higher wage claims), we don't think the RBNZ will look at taking their foot off the brake until mid-2024 – slightly later than we previously forecast.

Satish Ranchhod, Senior Economist

Level of quarterly GDP



Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 13	Feb BusinessNZ PSI	54.7	55.8	–
	Feb food price index	1.7%	1.5%	0.6%
Tue 14	Feb REINZ house sales %yr	-27.0%	-31.1%	–
	Feb REINZ house prices %yr	-13.9%	-14.2%	–
Wed 15	Q4 current account, % of GDP	-8.5%	-8.9%	-8.5%
Thu 16	Q4 GDP	1.7%	-0.6%	-0.2%

Aus Q1 ACCI-Westpac business survey

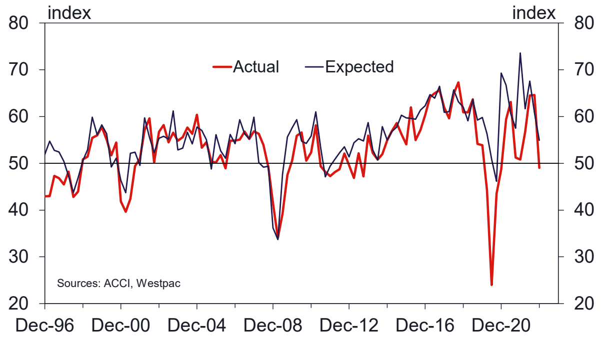
Mar 21, Last: 49.0

The ACCI–Westpac business survey for the March quarter, conducted through February into March, will provide a timely update on manufacturing and insights into economy wide trends.

After a burst in demand through mid-year 2022, momentum in the manufacturing sector abruptly stalled in Q4. There was little change in new orders, a decline in employment and a sharp deceleration in output expansion – together, marking a sober finish to an otherwise robust year of recovery and growth.

The survey also highlights that the manufacturing sector is facing a broad set of challenges. Labour and material shortages, in particular, are acting as a major drag on business activity. Additionally soaring input costs – exacerbated by a surge in energy costs – are flowing through (in part) to higher prices and squeezing margins.

Westpac-ACCI Composite indexes
Actual & expected, sa



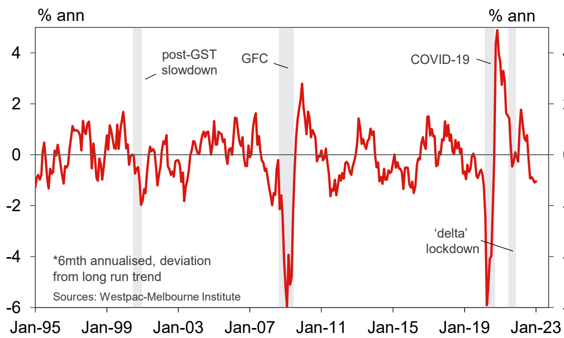
Aus Mar Westpac–MI Leading Index

Mar 22, Last: –1.04%

The Leading Index continued to send a weak signal in Feb, the six-month annualised growth rate coming in at –1.04%, indicating momentum is running well below trend heading in the first half of 2023.

The March report will include a mixed bag of component updates. On the weak side, the ASX200 declined -2.9%; commodity prices fell -4.6% in AUD terms and dwelling approvals dropped -28%, more than unwinding a 15% jump in the previous month. The main positive component update will be on hours worked which surged 3.9% in Feb following a 2.1% drop in Jan – abnormal seasonal shifts around leave contributing to big swings.

Westpac-MI Leading Index



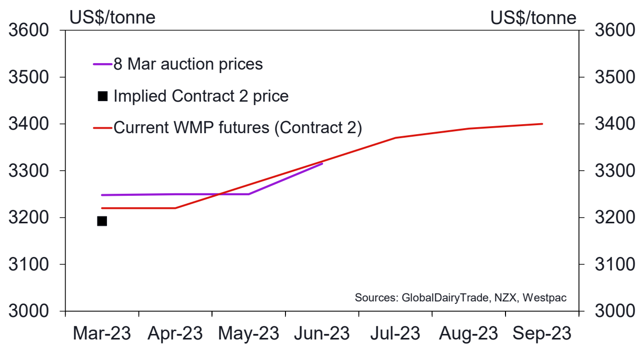
NZ GlobalDairyTrade auction, whole milk powder prices

Mar 22, Last: 0.2%, Westpac: flat

We expect whole milk powder prices (WMP) to be flat at the upcoming auction. Our pick is marginally higher than the circa 1% fall that the futures market is pointing to.

Over the 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



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.

NZ Q1 Westpac McDermott Miller Consumer Confidence

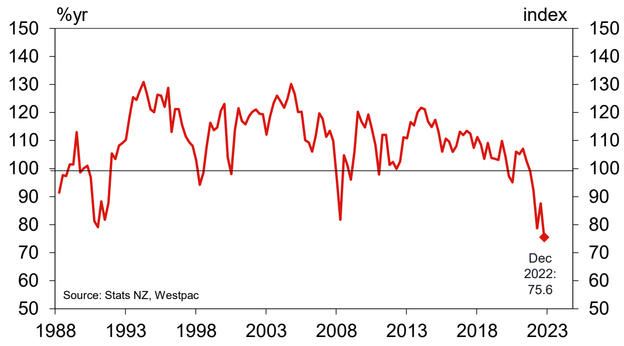
Mar 22, Last: 75.6

Consumer confidence fell sharply at the end of 2022, dropping to its lowest level on record. Underlying that weakness in sentiment have been mounting financial pressures, with sharp rises in living costs and interest rates. Those conditions have been weighing on households' spending appetites.

Since our previous survey, the headwinds buffeting households have remained intense. Mortgage rates have taken another step higher. There's been continued large increases in living costs. And the housing market has continued to weaken. The combination of those factors points to further pressure on households' balance sheets.

In addition to financial pressures, our latest survey occurred in the wake of the recent severe storms. Those events will have added to the challenges for many families.

Consumer confidence



US Mar FOMC meeting

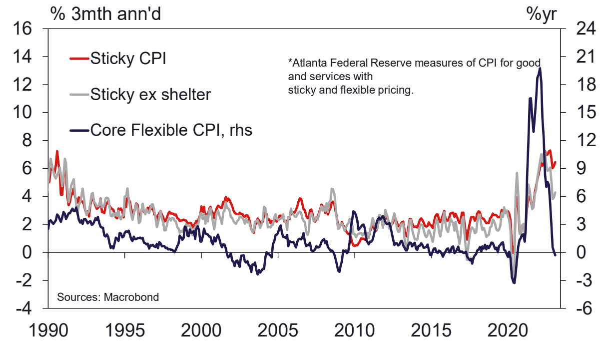
Mar 21-22: fed funds, Last: 4.625%, Mkt f/c: 4.875%, WBC: 4.875%

Versus their January/February meeting, the FOMC have a lot of new information and risks to consider before coming to a decision on the stance of policy.

The data certainly remains supportive of further hikes, with job creation continuing at a pace well in excess of that the FOMC feel is consistent with inflation at target. The February CPI report was constructive for a return to at-target inflation in the second half of 2023, but currently remains elevated.

Then there are the uncertainties around the banking sector. To our mind, recent developments will have a lasting contractionary impact on the economy, but is not a reason to panic. Hence we look for another 25bp hike at the March meeting, but for this to be the last of the cycle, followed by a pause to 2024.

US disinflation trend to broaden slowly



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 20					
Aus	RBA Assist' Governor, Financial Mkts	–	–	–	Kent speaking at KangaNews Summit, Sydney, 9:05am
Eur	Jan trade balance €bn	–18.1	–	–	Lower energy costs to narrow deficit over time.
UK	Mar Rightmove house prices	0.0%	–	–	Prices decelerating sharply on an annual basis.
Tue 21					
Aus	Q1 ACCI–Westpac business survey	49.0	–	–	Manufacturers are under intense pressure from rising costs.
	RBA minutes	–	–	–	Crucial detail around recent 'dovish' shift.
NZ	Feb trade balance $mn	–1954	–	–800	Export prices have eased; import demand still firm.
Eur	Mar ZEW survey of expectations	29.7	–	–	Economic sentiment bounce reflecting improved outlook.
US	Feb existing home sales	–0.7%	3.8%	–	Established market near/at nadir; outlook still challenging.
Wed 22					
Aus	Feb Westpac–MI Leading Index	-1.04%	–	–	Momentum running well below trend.
NZ	GlobalDairyTrade auction (WMP)	0.2%	–	Flat	Awaiting signs of lifting Chinese demand and dairy prices.
	Q1 Westpac–MM consumer confidence	75.6	–	–	Households continuing to grapple with high living costs.
UK	Feb CPI %yr	10.1%	9.9%	–	Headline and core off-peak; stickiness of latter main concern.
US	FOMC policy decision, midpoint	4.625%	4.875%	4.875%	Best to focus on inflation and highlight trust in banks.
Thu 23					
NZ	RBNZ Chief Economist Conway	–	–	–	Speech on inflation outlook at KangaNews conference.
Eur	Mar consumer confidence	–19.0	–18.9	–	Inflation and interest rates limiting the up-turn in confidence.
UK	BoE policy decision	4.00%	4.25%	4.25%	Set for last 25bp rate hike with risks to the downside.
US	Feb Chicago Fed activity index	0.23	–	–	Temporary lift but largely below-trend, signalling slowdown.
	Initial jobless claims	192k	–	–	To remain at relatively low levels for now.
	Feb new home sales	7.2%	–3.0%	–	New home market more encouraging; outlook challenging.
	Mar Kansas City Fed index	0	–	–	Regional surveys highlighting headwinds for mfg sector.
Fri 24					
Jpn	Feb CPI %yr	4.3%	3.3%	–	Government support to lower utility costs over near-term.
	Mar Nikkei manufacturing PMI	47.7	–	–	Domestic and global demand key risk for manufacturing…
	Mar Nikkei services PMI	54.0	–	–	… services recovery still in full swing from reopening.
Eur	Mar S&P Global manufacturing PMI	48.5	48.8	–	Manufacturing activity is consolidating as supply issues fade…
	Mar S&P Global services PMI	52.7	52.5	–	… services buoyant for now; inflation and rates still a concern.
UK	Mar S&P Global manufacturing PMI	49.3	–	–	Risks facing the UK are similar to that of Europe…
	Mar S&P Global services PMI	53.5	–	–	… as expected scale of recession continues to shrink.
	Feb retail sales	0.5%	–	–	Real spending capacity under pressure from prices and rates…
	Mar GfK consumer sentiment	–38	–	–	… leaving households deeply pessimistic on the outlook.
US	Feb durable goods orders	–4.5%	1.7%	–	Core orders pointing to subdued demand.
	Mar S&P Global manufacturing PMI	47.3	47.3	–	Manufacturing remains in a fragile state as headwinds build…
	Mar S&P Global services PMI	50.6	50.3	–	… smaller/mid-sized service providers feeling pressure too.

Forecasts

Interest rate forecasts

Australia	Latest (17 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	3.66	3.95	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.55	3.65	3.60	3.50	3.40	3.20	3.00	2.90
3 Year Bond	3.03	3.20	3.20	3.15	3.10	2.95	2.80	2.70
10 Year Bond	3.44	3.60	3.40	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-14	-10	-10	-10	-10	-10	-10	-10
US								
Fed Funds	4.625	4.875	4.875	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.58	3.70	3.50	3.30	3.10	2.90	2.80	2.60
New Zealand								
Cash	4.75	5.00	5.00	5.00	5.00	4.75	4.25	3.75
90 day bill	5.14	5.10	5.10	5.10	5.00	4.55	4.05	3.75
2 year swap	5.17	4.90	4.60	4.30	4.00	3.70	3.55	3.40
10 Year Bond	4.44	4.40	4.20	4.00	3.85	3.70	3.60	3.50
10 Year spread to US	86	70	70	70	75	80	80	90

Exchange rate forecasts

Australia	Latest (17 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6698	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6232	0.64	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	133.20	131	130	129	128	127	126	124
EUR/USD	1.0636	1.09	1.10	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2139	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.8916	6.70	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0748	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	1.6	1.7	-0.6	0.2	0.2	0.2	-0.2	–	–	–	–
Annual avg change	1.1	2.7	2.4	2.9	3.2	1.6	1.1	6.0	2.4	1.1	-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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