AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 27 March 2023

Editorial: Australian economy, downside surprises on activity and wages.

Aus: retail sales, monthly CPI, private sector credit.

NZ: Q1 Westpac-MM Employment Confidence, employment indicator, building consents, business confidence.

China: industrial profits, official PMIs.

Eurozone: CPI, unemployment rate.

US: house prices, regional manufacturing updates, personal income and spending, PCE deflator.

Key economic & financial forecasts.

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

WESTPAC INSTITUTIONAL BANK

Australian economy, downside surprises on activity and wages

Over the past month, key updates on the Australian economy for the December quarter – the Wage Price Index (WPI) and economic activity in the national accounts – both provided downside surprises. The WPI printed a quarterly rise of 0.8% compared to market forecasts of 1%; and economic activity lifted by 0.5% in the period compared to market forecasts of 0.8%.

The measures of wage pressures in the national accounts also confirmed the benign signal from the WPI, although a sharp deterioration in productivity saw unit labour costs surge by 7% for the year, highlighting the inflation risk from wider labour costs. Inflation indicators in the national accounts were also strong, confirming that inflation was far too high in late 2022.

Strikingly, the December quarter National Accounts raised alarm bells about household finances and revealed weak domestic demand conditions as high inflation and higher interest rates impact. The RBA Governor has talked about the ‘narrow path’ that would rein in inflation while keeping the economy on an even keel. The national accounts highlighted the many risks associated with this narrow path.

Domestic demand was flat in the quarter, the weakest outcome since June 2014 (outside of the lock-down quarters during 2020 and 2021). The stalling of domestic demand was associated with consumer spending growth slowing from 1.0% for the September quarter to only 0.3%. The flat result for wider domestic demand came from: a decline in home building activity on an unfolding downturn in renovations work, –0.9%; a dip in business investment, –0.8%; and a cresting of public demand at a high level, edging 0.2% higher.

We have also seen stresses in the US banking system with the failure of three regional banks. Looking forward this is likely to lead to a significant lift in regulation of regional banks, resulting in a tightening of credit conditions in the US and other regions where the market fears similar developments. That development is likely to see a flatter profile for the federal funds rate, although “sticky” inflation and tight labour markets are unlikely to allow rate cuts in the US before 2024. Australian banks do not have the regulatory issues faced by the US, but global confidence is likely to be another headwind for the Australian economy. We do not expect to see the Reserve Bank cutting rates before the first quarter of 2024 in response to the very weak demand conditions we expect across the Australian economy.

These powerful headwinds to growth are triggering a broad based slowdown, not only across segments of domestic spending but also across each of the state economies - pointing to a likely broadly based downturn in 2023, as we discuss in this Report. In the December quarter state final demand contracted across NSW (–0.1%), Qld (–0.3%) and SA (–0.2%). A flat result was posted by Tasmania, while WA and Victoria eked out small gains, +0.1% and +0.2%, respectively.

The slowing of consumer spending growth nationally was despite a significant fall in the household savings rate from 7.1% to 4.5%, which effectively ‘freed up’ $9bn of spending capacity – compared to an increase in actual spending of around $6bn. In other words, spending would have fallen if households had not opted to put less of their income towards savings.

The household sector across the nation faced some extraordinary pressures during the period. Nominal disposable income contracted by 0.7% in the December quarter, weighed down by a 7.4% lift in tax payments and a 22.4% increase in interest payments – the latter to an all-time high in dollar terms ($25.2bn). 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 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 fall in real disposable income of 2.2% (outside the volatile pandemic period).

The interaction between negative real wages growth; rising tax and interest payments; labour income growth; and the draw-down in excess savings will dictate household incomes and spending over 2023 and 2024 – and in turn, the path of growth in the overall economy. While Westpac was surprised by scale of the contraction in real incomes in the December quarter, we see this development as broadly consistent with our long held downbeat outlook for consumer spending in 2023 and 2024.

We expect the contraction in real wages to end in 2023 but with very little in the way of gains – wages and inflation both tracking 4% in 2023, and 3.2% and 3% respectively in 2024. However, with slower employment gains in 2023 and 2024 total labour income growth will be much weaker. Meanwhile there will be more pressure from rising rates near term, with two 25bp hikes already passed and another two expected by mid year. Rates are forecast to fall by 100bps in 2024.

Consumer spending is likely to continue drawing support from a lower savings rate, which is expected to settle at around 2% by the end of 2024. This represents a partial draw-down on the reserve accumulated during the pandemic. We expect households to draw down around $50bn in 2023 and $70bn in 2024 out of the $300bn in excess savings that has been accumulated.

In summary, slowing employment growth; low confidence; drags from higher tax payments and interest costs will weigh heavily 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 the capacity to draw down on excess savings balances.

We have not materially lowered our growth forecasts for consumer spending in 2023 and 2024 despite the alarming signal around household finances. Our already very modest forecasts for consumer spending growth have been trimmed from 1% to 0.7% in 2023 and from 2% to 1.5% in 2024.

These adjustments see our GDP growth forecast hold at 1% for 2023 and trimmed from 2.0% to 1.5% for 2024. 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.

Bill Evans, Chief Economist Westpac Group

THE WEEK THAT WAS

The FOMC and Bank of England both delivered 25bp rate hikes at their March meeting, bringing their respective tightening cycles to an end – in our view. The RBA's policy tightening is also near its end, with one final 25bp move to occur in May.

The March RBA meeting minutes gave a detailed assessment of only one policy option, their decision to hike by 25bps. Though discussion of a pause at the March meeting was not evident, the Board "agreed to reconsider the case for a pause at the following meeting, recognising that pausing would allow for additional time to reassess the outlook for the economy". It was also interesting to see the Board's in depth assessment of market pricing, particularly as their commitment to considering a pause in April pre-dated current developments in the global banking sector, which have seen market pricing flip from hikes to cuts offshore and in Australia.

As discussed by Chief Economist Bill Evans in a video update midweek, the minutes support our view of a pause from the RBA in April; however, we do not believe this will mark the end of the tightening cycle. By May, we expect the Board will be presented with a strong Q1 CPI report and an updated set of economic forecasts that justify one final 25bp rate hike, raising the cash rate from 3.60% to a peak of 3.85% in order to fully ensure that inflation risks are contained. Developments thereafter will be centred on the abrupt slowing of growth and easing inflation over the second half of 2023, warranting the RBA remain on hold over the rest of the year to assess before easing in 2024, with 150bps of rate cuts through to mid-2025. For an in-depth summary and state-by-state breakdown of the growth outlook, see the latest edition of Westpac's Coast-to-Coast.

Before moving on, a quick note on Australian manufacturing. The latest ACCI-Westpac Business Survey reported that manufacturing conditions, after having stalled flat in Q4 2022, posted a modest improvement in Q1 2023. That said, the overall tone of the survey is still downbeat, with expectations for future activity moderating amid broadening headwinds for the sector. Most notably, Australian manufacturers are facing acute cost pressures – a net 70% reporting an increase in input prices in the period – as surging energy costs continue to impact, resulting in margin squeeze and a loss of competitiveness. With regards to production, not only is labour still being cited as a major limiting factor, but evidence is also beginning to emerge that manufacturers are facing pressures in sourcing financing.

Turning to the US, at their March meeting, the FOMC kept the immediate focus on the fight against inflation by hiking 25bps to a mid-point of 4.875% while also recognising the tightening of financial conditions to come as a result of this month's Silicon Valley Bank and Signature Bank failures. While uncertain in time and scale, the inclusion of "Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation" makes clear the Committee's expectation that the cost to the economy from this crisis of confidence in US regional banks will prove significant. The FOMC could certainly justify hiking once more in May to a peak of 5.125%. However, given the risks around financial conditions and confidence, holding off to assess would be the prudent course, particularly given policy is already contractionary and forward indicators for inflation and the labour market were pointing down ahead of this shock. Accordingly, we confirm our view that the federal funds rate has now peaked for this cycle.

Against market expectations of 3-4 cuts by January 2024, we also confirm our view that the federal funds rate is likely to remain on hold through the remainder of 2023, with a clear need to guard against inflation risks over the period. It is only once inflation is back near target that the FOMC will be confident to cut and, at that time, we believe they will do so aggressively, by 200bps in 2024 and a further 75bp in 2025, back to 2.125% -- a broadly neutral policy level. In assessing the risks to this view, it is important to emphasise as Chair Powell did in the press conference, that there are now multiple financial condition dynamics to assess in real time, each with its own timeline and risk profile. Even as rates are cut in 2024, a tighter regulatory focus on regional banks with less than $250bn in assets will likely continue to constrain lending and consequently investment and employment. It is only after the regulatory regime is reset and confidence fully restored that easier policy will bring growth back above trend on a sustainable basis. This is unlikely before late-2024, at the earliest.

Over in the UK, the Bank of England (BoE) also delivered a 25bp hike, albeit with two members voting instead for no change. In the communications from the meeting, there was little concern over the recent upside surprise for inflation which came as a result of core goods inflation, primary clothing and footwear "which tend to be volatile". Services inflation meanwhile had proven to be marginally weaker than forecast in February, and the MPC anticipate that Q2 2023 will see a significant deceleration to a rate lower than forecast in February given falls in wholesale energy prices and a three-month extension of the Government's Energy Price Guarantee from April. It is notable that this confidence in the outlook for inflation comes despite the economy continuing to outperform expectations and the Government giving additional modest support to the economy in the Spring Budget.

Like in the US, another 25bp hike could certainly be justified by the BoE in coming months, though it would come with the risk of a swift reversal. To us, the prudent course for the BoE is instead to remain on hold, providing stability and confidence while the already-contractionary stance of policy and global uncertainty works to cool inflation pressures. Albeit with one more hike to go, on our expectations, the ECB clearly finds itself in a similar position. This week, it was constructive to see ECB speakers much more conscious of the broad array of risks they face for the remainder of 2023 and into 2024.

Week ahead & data wrap

When the tide goes out

A clutch of bank failures has put global markets on edge in recent weeks. If this were to blow up into a wider issue, past experience shows that New Zealand could find it harder and costlier to fund itself from overseas, and global growth would be undermined. But as long as the pressures remain contained, the Reserve Bank's focus can remain on the battle against inflation.

The closure of Silicon Valley Bank, along with two other regional US banks earlier this month, sparked a crisis of confidence in the banking sector. Concerns about contagion – the risk that investors and depositors start to withdraw indiscriminately, potentially putting otherwise healthy banks in distress – led authorities to provide a range of assurances and support measures. Those interventions have been effective so far, and global markets have been calmer in recent days.

Time will tell whether this proves to be the last of the banking sector concerns. Global interest rates have risen substantially in the last year or so. This will inevitably shake out bad investments and bad practices that flourished during the period of extraordinary low interest rates following the Covid shock. For instance, Silicon Valley Bank was among the first banks to fail because, as it turned out, it had done an exceptionally poor job of managing its interest rate risk.

Where this could become a more serious issue for New Zealand is if investors' appetite for risk dries up, and they instead focus on shoring up their own positions. When this occurs, capital tends to flow back to its home markets. And for the most part, 'home' is not New Zealand – we have long been a net borrower on the world stage.

Indeed, just as we were before the 2008 Global Financial Crisis, we are very reliant on international markets to fund our spending behaviour at the moment. Figures released earlier this month showed that our current account deficit has widened to 8.9% of GDP, from as little as 1% of GDP two years ago.

The blowout in the deficit has been due to multiple factors: the loss of overseas tourist earnings during the border closure, rising world prices for our imports, and a sharp rise in shipping costs. But the overriding factor is that we have not adjusted our spending to account for these shocks. In fact just the opposite – demand in the domestic economy, including demand for imported goods, has been running hot in the last couple of years.

A loss of risk appetite among global investors would force a narrowing of this deficit, through two potential channels. The first would potentially be a sharp drop in the New Zealand dollar, until it reached a level that made it attractive to investors again. This would actually worsen the deficit initially, as the dollar value of exports, imports, and the (negative) balance would all increase. But over time, this would help to boost export volumes and reduce demand for imports.

The other potential channel is that New Zealand banks and business would find that overseas funding becomes more expensive and harder to come by. That means higher interest rates, independently of what the Official Cash Rate is doing, which would slow the economy and reduce the demand for imports. Indeed, it's possible that market interest rates could rise by more than what the Reserve Bank intended, in which case it may have to adjust its path for the OCR accordingly.

At this stage, though, there's no sign of these sorts of pressures emerging. So the Reserve Bank's interest rate decisions can stay focused on the fight against inflation.

As the RBNZ's chief economist noted in a speech this week, that fight remains incredibly challenging. The inflation rate remains close to a three-decade high, and more worryingly, the drivers of inflation have evolved. The initial spike was mainly due to large price rises in a relatively small number of largely imported items. However, we are now seeing price rises across a wide range of goods and services, and increasingly driven by local rather than global forces.

However, the RBNZ's response to inflation is now well advanced. The OCR has been rising since October 2021, and has now reached a level that the RBNZ considers to be contractionary. There are some early signs that this is having the desired effect, and that demand in the economy is starting to cool off.

Even so, there is a lot of water to go under the bridge before we can be confident that inflation is coming back under control. Firms are still facing a range of cost increases, workers are still in short supply and the upward pressure on wages remains strong.

We recently revised our OCR forecast to a peak of 5% this year, with one further 25 basis point increase at the next review in April. However, with the RBNZ continuing to talk tough on inflation, the risks lean towards further increases beyond then.

Michael Gordon, Senior Economist

On another note, we welcome Kelly Eckhold, our new Chief Economist for New Zealand. Kelly says:

Hello everyone! I've been working in the US for the last decade for the International Monetary Fund, working on global macroeconomic, monetary policy and financial stability issues. I am really looking forward to re-engaging with New Zealand economic issues. There's a lot going on out there that matters to you our customers, and my goal is to try to bring you a steady supply of relevant, accessible insights that help you as you navigate the times ahead.

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 21	Feb trade balance $mn	–2113	–714	–800
Wed 22	GlobalDairyTrade auction (WMP)	0.2%	–1.5%	Flat
	Q1 Westpac-MM consumer confidence	75.6	77.7	–

DATA PREVIEWS

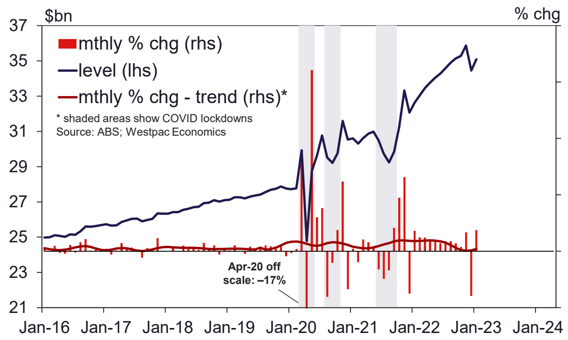
Aus Feb retail trade

Mar 28, Last: 1.9%, WBC f/c: 0.5%
Mkt f/c: 0.1%, Range: –1.2% to 0.8%

Retail sales rose 1.9% in Jan, a partial rebound from the very large 4% drop in Dec, all industries posting gains in the month. Despite the monthly rise, the underlying trend still shows a material slowdown, sales up just 0.1% over the 3mths to Jan compared to the 3mths to Oct. Looking through the volatility, the rising cost of living and RBA tightening cycle both appear to be dampening demand.

Our **Westpac Card Tracker** suggests the underlying trend in retail slowed further in Feb, dipping into negative on a rolling 3mth basis. That said, the volatile monthly profile since Nov, and the big decline in Dec in particular, mean the Feb month is still likely to see a gain vs Jan. A 0.5% rise will still leave retail sales down 1.4% on a 3mth basis (i.e. Dec-Jan-Feb vs Sep-Oct-Nov). With retail prices still rising, this suggests there has been a more pronounced weakening in sales volumes.

Monthly retail sales



Aus Feb Monthly CPI Indicator %yr

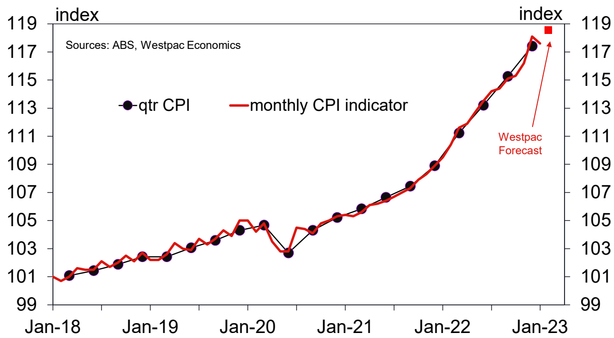
Mar 29, Last: 7.4%, WBC f/c: 7.4%
Mkt f/c: 7.2%, Range: 6.7% to 7.7%

The Monthly Indicator releases the Quarterly CPI data collected the month in question and with many series are surveyed quarterly, some annually, the Indicator is quite volatile month to month.

The CPI Indicator rose 7.4% in the year to January compared to Westpac's 7.9%yr forecast and the market's 8.0%yr. On a monthly basis the was a 0.4% fall in the index, a moderation from the 1.6% rise in Dec, 0.8% increase in Nov and a 0.2% increase in October. Contributions worth noting was the 3.6% fall in clothing & footwear; a 1.1% rise in auto fuel prices and a very modest 0.2% rise in tobacco.

The February survey will include the quarterly data for restaurants & take away, hairdressing, other household services, spare parts & accessories/maintenance/other services for motor vehicles, urban transport fares, communication, audio visual & computing services, equipment for sport, games/hobbies, sports participation/ other recreation, education, and insurance. Our 7.4%yr forecast is represents a 0.8% increase in the month.

CPI Monthly Indicator vs. qtr CPI



Aus Feb private sector credit

Mar 31, Last: 0.4%, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: 0.3% to 0.5%

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

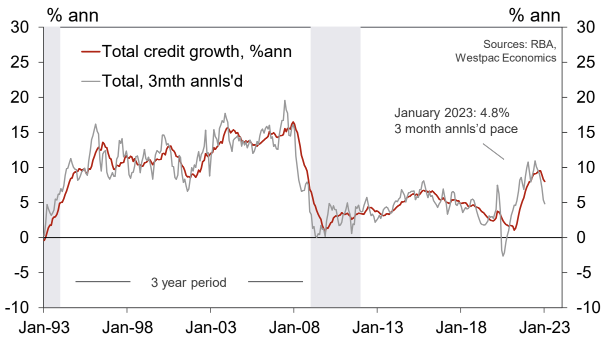
The monthly pace of credit growth has slowed progressively, from a high of 0.9% for April and May, to 0.5% in October and November, then 0.4% for January (after dipping to a soft 0.3% in December).

We anticipate growth will hold at 0.4% in February, with annual growth slowing to 7.7%, while the 3 month annualised pace will be only 4.5%, down from about 11% in mid-2022.

Housing credit grew by a modest 4.3% annualised in the three months to January, half the pace at the start of 2022. New lending was 35% lower in January than at the peak 12 months earlier.

Business credit grew by 6.1% annualised in the 3 months to January, down from over 19% last June, an unsustainable pace boosted by the reopening.

Credit: growth pulse slows to a modest 4.8%



NZ Feb monthly employment indicator

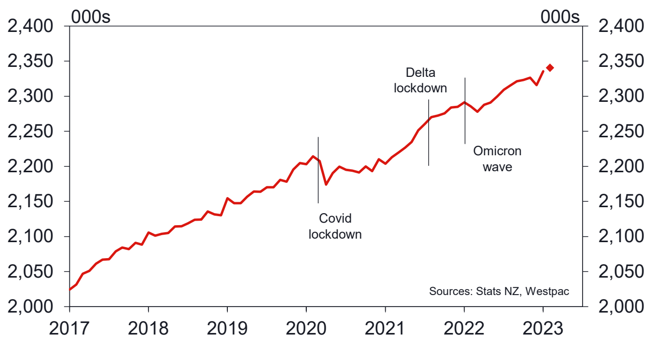
Mar 28, Last: 0.8%, Westpac f/c: 0.2%

The monthly employment indicator is drawn from income tax data. This makes it a fairly comprehensive record of the number of people in work, and helps to fill a gap in what is otherwise largely quarterly data on the labour market.

There was a surprisingly large 0.5% fall in employment in December, although the weekly snapshots indicated that this was limited to a larger than usual dip over the Christmas period. Accordingly, we saw a strong 0.8% rebound in January.

The February figures point to a return to the modest growth pace of the last year. That is in the context of a labour force that is growing again as net migration has turned strongly positive. Even so, there is little in the way of recessionary signals coming from the labour market just yet.

NZ monthly filled jobs



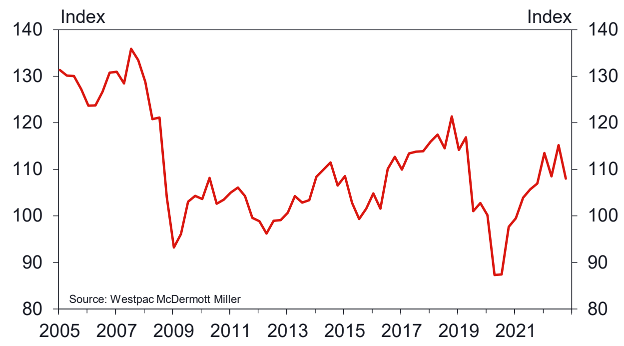
NZ Q1 Westpac McDermott Miller Employment Confidence

Mar 29, Last: 108.0

The Westpac McDermott Miller Employment Confidence Index fell to 108 in December, after having reached a post-pandemic high in September. Perceptions about future job opportunities were notably softer at the end of last year, with households taking heed of the growing warnings of a downturn in economic conditions. Earnings growth was still seen as subdued, perhaps reflecting a sense among many households that they aren't getting ahead of the rising cost of living.

Our latest survey was conducted in the first half of March. The early part of this year has seen some signs that activity has firmed. However, the mounting pressure on living costs remains front of brain for many households, as highlighted in our recent consumer confidence survey.

NZ Employment Confidence Index



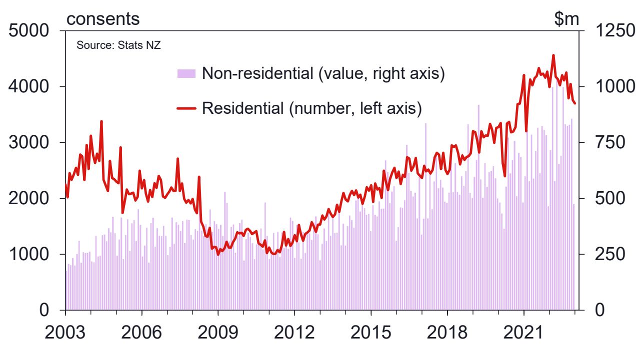
NZ Feb building consents

Mar 30, Last: –1.5%, Westpac f/c: +3.0%

We're forecasting a modest 3% bounce in consents in February following the sharp decline in multi-unit consents in recent months. However, that would only reverse some of the recent weakness. Under the surface, tighter financial conditions mean that fewer new projects are now coming to market. While consent issuance is still elevated, issuance peaked last year and we expect the downturn will become increasingly pronounced over the months ahead.

In late January and early February New Zealand was struck by severe storms. Those events cause significant damage to homes in the upper and central North Island, and the resulting repair work will boost construction over time. However, in February it is more likely that storm related disruptions will have been a drag on consent processing.

NZ building consents



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 Mar ANZBO business confidence

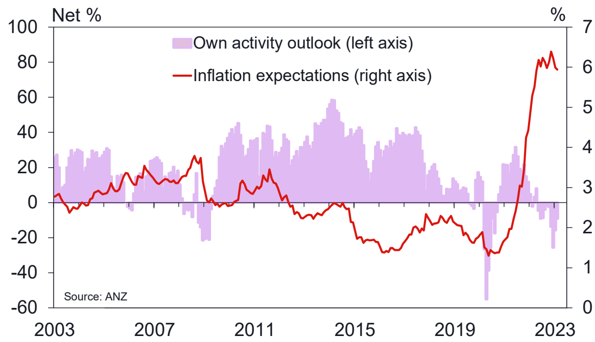
Mar 30, Last: –43.3

While sentiment lifted in February, business confidence remained subdued with the majority of firms still expecting that trading conditions will weaken over the months ahead.

We expect that the March confidence survey will continue to highlight weakness in business sentiment. Although most businesses are continuing to report firm sales, cost pressures remain intense and margins are being squeezed. However, it is a mixed picture across the economy – while retailers and those in the construction sector are reporting softer conditions, businesses in sectors like hospitality are benefiting from the recovery in international tourism.

The survey's cost and pricing gauges will be closely watched. While those gauges have softened in recent months, they continue to point to strong inflation pressures.

NZ business confidence



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

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 27					
Chn	Feb industrial profits ytd %yr	-4.0%	–	–	Should build as domestic momentum gathers.
Ger	Mar IFO business climate survey	91.1	91.9	–	Confidence in the outlook is growing.
US	Mar Dallas Fed index	-13.5	–	–	Regional surveys highlighting manufacturers' challenges.
Tue 28					
Aus	Feb retail sales	1.9%	0.1%	0.5%	Monthly gains, but in the context of a material slowdown.
	RBA Head of Payments Policy	–	–	–	Connolly speaking at AFR Banking Summit, Sydney 4:15pm.
NZ	Feb employment indicators	0.8%	–	0.2%	Back to modest growth after a catch-up rise in Jan.
UK	Mar Nationwide house prices	-0.5%	–	–	Price correction remains well entrenched.
US	Feb wholesale inventories	-0.4%	–	–	Sustained inventory decline may weigh on growth in 2023.
	Jan FHFA house prices	-0.1%	–	–	Pace of price declines have clearly slowed…
	Jan S&P/CS home price index	-0.51%	–	–	… but a recovery is not yet in sight.
	Mar Richmond Fed index	-16.0	–	–	Regional surveys highlighting manufacturers' challenges.
	Mar consumer confidence index	102.9	101.5	–	Up-trend in confidence limited by rates and real income.
	Fedspeak	–	–	–	Jefferson.
Wed 29					
Aus	Feb CPI Monthly Indicator %yr	7.4%	7.2%	7.4%	Feb will survey a larger number of services prices.
NZ	Q1 Westpac-MM employment conf.	108.0	–	–	Fell in late 2022 with concerns about job openings.
UK	Feb net mortgage lending £bn	2.5	–	–	Downtrend firming amid broad-spread correction.
US	Feb pending home sales	8.1%	-2.3%	–	Likely past low-point after January bounce.
Thu 30					
NZ	Feb building permits	-1.5%	–	3.0%	Bounce in multi-unit consents, but longer term trend down.
	Mar ANZ business confidence	-43.3	–	–	Sentiment to remain subdued as cost pressures bite.
Eur	Mar consumer confidence	-19.2	–	–	Inflation and interest rates weighing on confidence recovery…
	Mar economic confidence	99.7	–	–	… across both consumers and businesses.
US	Q4 GDP, annualised	2.7%	2.7%	–	Final estimate.
	Initial jobless claims	191k	–	–	To remain at a relatively low level for now.
	Fedspeak	–	–	–	Barkin, Collins.
Fri 31					
Aus	Feb private sector credit	0.4%	0.4%	0.4%	Further confirmation of significant slowdown – rate rises bite.
NZ	Mar ANZ consumer confidence	79.8	–	–	Set to remain low in the face of rising living costs.
Jpn	Feb industrial production	-5.3%	2.7%	–	Softening global demand acting as a drag on output.
Chn	Mar manufacturing PMI	52.6	52.0	–	Benefitting greatly from the removal of COVID-zero…
	Mar non-manufacturing PMI	56.3	54.2	–	… momentum should hold firm for the time being.
	Q4 current account balance US$bn	106.8	–	–	Final estimate.
Eur	Feb unemployment rate	6.6%	–	–	Labour market tight for now but slack will emerge gradually.
	Mar CPI %yr	8.5%	–	–	Attention is firmly centred on momentum in services.
UK	Q4 GDP	0.0%	0.0%	–	Final estimate.
US	Feb personal income	0.6%	0.3%	–	Flattening trend set to crystalise…
	Feb personal spending	1.8%	0.3%	–	… indicating a loss of momentum.
	Feb PCE deflator	0.6%	0.4%	–	FOMC will be closely monitoring…
	Feb core PCE deflator	0.6%	0.4%	–	… services inflation components.
	Mar Chicago PMI	43.6	43.8	–	Economic conditions clearly subdued.
	Mar Uni. of Michigan sentiment	63.4	63.4	–	Final estimate.
	Fedspeak	–	–	–	Barr, Williams, Waller, Cook.

Forecasts

Interest rate forecasts

Australia	Latest (24 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	3.70	3.95	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.32	3.65	3.60	3.50	3.40	3.20	3.00	2.90
3 Year Bond	2.85	3.20	3.20	3.15	3.10	2.95	2.80	2.70
10 Year Bond	3.23	3.60	3.40	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-17	-10	-10	-10	-10	-10	-10	-10
US								
Fed Funds	4.875	4.875	4.875	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.40	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	5.15	5.10	5.10	5.10	5.00	4.55	4.05	3.75
2 year swap	4.87	4.90	4.60	4.30	4.00	3.70	3.55	3.40
10 Year Bond	4.14	4.40	4.20	4.00	3.85	3.70	3.60	3.50
10 Year spread to US	74	70	70	70	75	80	80	90

Exchange rate forecasts

Australia	Latest (24 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6679	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6242	0.64	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	130.41	131	130	129	128	127	126	124
EUR/USD	1.0825	1.09	1.10	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2276	1.22	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	6.8456	6.70	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0712	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

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.

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. 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 ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a client of Westpac.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and Australian credit licence 233714. Information is current as at date shown on the publication. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. XYLO Foreign Exchange's combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing customercare@XYLO.com.au.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents.

Disclaimer continued overleaf

DISCLAIMER

Disclaimer continued

The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

I. Chinese Wall/Cell arrangements;

II. physical separation of various Business/Support Units;

III. Strict and well defined wall/cell crossing procedures;

IV. a “need to know” policy;

V. documented and well defined procedures for dealing with conflicts of interest;

VI. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (‘WCM’), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.