AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 8 May 2023

Editorial: RBA lowers growth and inflation forecasts but seems nervous – August Board meeting "is live".

Australia: Federal Budget, dwelling approvals, Q1 real retail sales, business survey.

NZ: Q2 RBNZ inflation expectations, retail card spending, house prices and sales, manufacturing PMI.

China: CPI, PPI, trade balance, current account balance.

UK: BoE policy decision, Q1 GDP, trade balance

US: CPI, PPI, UoM consumer sentiment, small business optimism.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 5 MAY 2023.

WESTPAC INSTITUTIONAL BANK

RBA lowers growth and inflation forecasts but seems nervous – August Board meeting "is live"

The Reserve Bank's May Statement on Monetary Policy shows that the Bank has lowered its growth and inflation forecasts for 2023 from the February Statement.

The forecasts in the May Statement assume the cash rate peaks at 3.75%, which is in line with the assumption used in the February SOMP, while the AUD assumption is around 4% lower on a TWI basis.

Forecast growth for 2023 has been lowered from 1.6% to 1.2% reflecting weaker outcomes in both household consumption (1.7% to 1.3%) and business investment (3.7% to 2.3%).

Despite these changes and the boost to population growth the unemployment track is unchanged. (3.6% in June; 4.0% in December).

Inflation forecasts have also been lowered "due to slightly weaker than expected March quarter outcome".

Headline inflation in 2023 has been lowered from 4.8% to 4.5% and trimmed mean inflation has been lowered from 4.3% to 4.0%.

However, the inflation path does not change through 2024 with headline inflation in 2024 still forecast at 3.2% (trimmed mean 3.1%) and 2.9% (trimmed mean 2.9%) by June 2025.

Wages growth has also been downgraded from 4.2% to 4.0% in 2023.

The Bank notes that "the downgrades to the labour market and labour costs offset a stronger outlook for rent inflation and a small depreciation in the exchange rate."

The weaker growth outlook is also putting some further downward pressure on inflation through, "retailers have increasingly cited weaker demand as a constraint on their ability to increase prices."

We were given a "flavour" of the Bank's concerns for the risks to the inflation outlook in the Governor's statement following the May Board decision to raise the cash rate by 25 basis points. He emphasised his concerns with the resilience of services inflation – consistent with observations overseas.

In turn those services pressures that are largely linked to wages growth are exacerbated if productivity growth in the services sectors remains weak. This theme figures prominently in the commentary, "services inflation is expected to remain high in 2023… growth in unit labour costs is expected to be solid over the forecast period, adding to cost pressures for labour intensive market services."

This dynamic is worrying the Bank. "Inflation could also be more persistent if productivity growth does not pick up, which would make the current outlook for labour costs more inflationary than anticipated."

On the other hand, there is some recognition of the link between the softening of demand that is recognised in the lowering of the growth forecasts and inflation through goods inflation. "If prices for consumer durables reversed one third of the price increases recorded since the onset of the pandemic, year ended inflation would be around half a percentage point lower than the current forecast … inflation would be around the middle of the target range in the second half of 2024, instead of being above it."

So, the key theme in the SOMP is the risks around the inflation outlook given the evidence both domestically and offshore that services inflation is slow to fall. That can be explained by the ongoing tightness of the labour market holding up wages growth and poor productivity in the market services sector which is boosting unit labour costs.

This dilemma appears to have recently become a source of considerable frustration for the Board. Their policy instrument – interest rates – is doing its job in restraining demand as demonstrated by the significant downward revisions (from the already modest forecast pace) to household spending and investment growth but has had no real success in easing pressures in the labour market or, as is to be expected, boosting productivity.

The Board is also looking abroad at similar messages, "Globally… services price inflation remains strong and could prove to be quite persistent."

What does this message mean for the policy outlook?

The Bank's current forecasts are based on no further increase in the cash rate. That differs from the February forecasts where the same 3.75% peak in rates was embedded in the forecasts. (At the time of the February Board meeting the cash rate was 3.10%). The forecasts still indicate that the 2.9% "target" of inflation will be reached by mid 2025.

Consequently, despite the guidance that "Some further tightening of monetary policy may be required." the forecasts indicate that is not expected to be necessary to achieve the long-term target of 2.9%.

But forecasts are not definitive – particularly two years out.

We expect that if there is to be another hike (which is not our current base case) it will come at the August Board meeting when a complete picture of developments in overall inflation and services inflation will be available from the June quarter Inflation Report.

The Bank's forecasts indicate that the Board will, by August, still be observing a record tight unemployment rate (3.6%); a fall in trimmed mean inflation over the quarter from 6.6% to 6.0%; a fall in headline inflation from 7% to 6.3%. Those results would be necessary to support the Board's view that it is still on target to achieve the 2.9% by June 2025. Our current inflation forecasts suggest that the results would give the Board encouragement that inflation is slowing more quickly than they had expected.

Spending growth is expected to be slowing sharply with GDP growth and consumer spending growth down to 1% (annualised) in the first half of 2023 – in line with our own forecast.

Globally, while labour markets and services inflation may be holding up, spending growth is expected to under extreme pressure – with a real prospect of a US recession and the FOMC firmly on hold.

In some ways this scenario is similar to the data observed in May – tight labour market; inflation still way too high (but lower than expected).

But the evidence of the impact of the monetary policy tightening on real activity is expected to be much more sobering by August than we saw in May.

Our central case remains that a positive surprise on lower than expected inflation; evidence of the impact on demand of the accumulated rate hikes; and offshore pessimism will be enough to keep the Board on hold in August. But the eery comparison of the likely tight labour market and robust services inflation with May certainly indicates upside risks to our scenario.

Bill Evans, Chief Economist, Westpac Group

THE WEEK THAT WAS

It has been a busy but highly-informative week, with the RBA, FOMC and ECB all meeting and a slew of significant data releases in between.

Beginning in Australia, the RBA's 25bp rate hike came as a surprise to ourselves and markets. Crucial to this decision was the Board's interpretation of the Q1 CPI report, focussing on the strength of inflation amongst service components despite the moderation in the headline and trimmed mean measures seemingly running ahead of the Board's expectations. With inflation rightly noted as being uncomfortably high, there was a greater emphasis on "the importance to returning inflation to target within a reasonable timeframe". Note, a full update of the RBA's forecasts was released as part of today's May *Statement on Monetary Policy*.

Following the RBA's decision, Chief Economist Bill Evans noted that, although the cash rate is currently at a level we believe will prove the peak for this cycle, the evolution of inflation and labour market outcomes represent a material risk for policy moving forward. Updated information on these indicators will be available prior to the August Board meeting. Our baseline expectation is for a further moderation in annual headline inflation (7.0% to 6.3%) and trimmed mean inflation (6.6% to 6.1%) in Q2, results which will allow the RBA to feel comfortable they are on track and allow policy to remain on hold. At the same time, the labour market is expected to remain very tight; so, should inflation not decelerate to an acceptable degree, the RBA may see cause to raise interest rates further.

Domestic data releases this week highlighted a diverging sectoral performance. Of note, nominal retail sales have only made a partial recovery so far this year, rising 0.4% in March to effectively be flat on a quarter-average basis. Given the persistence of price rises, a material contraction in inflation-adjusted sales over Q1 is likely and is therefore pointing to downside risk to household consumption as a whole, which we forecast will print an already-soft 0.3% in Q1. In contrast, the CoreLogic home value index lifted by 0.7% in April, with gains seemingly broadly-based across the nation, albeit led by Sydney where prices are up a stellar 2.7% since February. The evidence clearly indicates that the housing market's correction phase has concluded. Meanwhile, the trade surplus surprised to the upside in March, widening $1.1bn to the second-highest surplus in the history of the series, $15.3bn.

Before moving offshore, it is worth mentioning that the Federal Budget will be released early next week. In our budget preview, we highlight that the budget position relative to October 2022 has improved materially given higher-than-anticipated commodity prices, inflation and strength in the labour market. Given the ongoing pressures facing households, there will be some flexibility to deliver targeted relief to those who are most vulnerable, but the Government is expected to show restraint by retaining the bulk of the windfall revenue gain.

To the US, the data out this week showed further evidence of an economy under pressure. The ISM manufacturing survey reported another contractionary outcome in April as production and new orders continued to decline. Employment showed resilience however, bouncing back to a marginally expansionary 50.2 after declining in February and March. Meanwhile, moderate growth continued to be seen in the service sector across both activity and employment. Of the other activity indicators released this week, construction and durable goods (a partial indicator of equipment investment) remained weak, while the JOLTS survey continued to point to a loss of momentum in new job creation without any evidence of wide-spread staff retrenchment.

Taking this information and the other data points available between the March and May FOMC meetings into consideration, the FOMC raised the fed funds rate by 25bps this week but then provided guidance consistent with a conditional pause. Notable in both the meeting decision statement and Chair Powell's press conference was a focus on the accumulated impact of policy tightening to date and an awareness of the potential impact of recent bank closures and deposit flight on credit growth and standards. The full impact of monetary tightening and developments in the banking sector are not yet known; authorities have also made clear that regulation in the sector will be tightened hence, creating yet another headwind. For policy, the deceleration in inflation and wage pressures is therefore timely, giving the Committee another reason to be less concerned over inflation risk, and allowing more scope to consider the outlook for activity.

We remain of the view that, by December 2023, the FOMC will have enough evidence to believe that annualised inflation is back near target; with developments in the banking sector proving a persistent threat, the case to begin cutting will be proven, first by 25bps in December then by 50bps per quarter through 2024 and Q1 2025. By mid-2025, we expect a low of 2.125% to have been reached for the fed funds rate. This view is predicated on a mild recession in late-2023 and a slow recovery back to trend growth at end-2025. We view there being downside risks for activity throughout the period, while lingering upside risks for inflation should dissipate. The market is clearly more concerned over the immediate downside risks to activity, having now priced in 100bps of cuts by end-2023 and a continuation of those cuts in 2024.

In Europe, the ECB's May meeting was the focus. While some Council members would have preferred to increase their key rates by 50bps, the consensus decision was for a 25bp rise. In contrast to the FOMC, President Lagarde made clear that the Council believe they have more to do to bring inflation back under control. While headline inflation has declined materially since its late-2022 peak, from near 11% to 7%, core price pressures have shown greater persistence, annual price growth excluding food and energy only 0.1ppts below and one month on from its peak. In recent months, both economic activity and the labour market have also shown greater resilience than was anticipated last year, giving the Council more reason to fear demand-driven inflation pressures.

The important offset to the above developments is that the latest quarterly Bank Lending Survey points to a "further substantial tightening" in standards and that "Demand for loans [has] decreased strongly". This survey has a strong track record of guiding on the conditions faced by households and business and so, as the ECB do, should be given significant weight in assessments of the economy. All considered, it looks as though the ECB will continue their tightening cycle to mid-year then hold a tightening bias into the second half. By late in the year, the impact of policy and banking sector developments should see inflation risks abate and the case for easing develop. Cuts are still most likely to come in 2024; though the market is more concerned, with a modest probability of cuts priced in by year end. In either event, support for Euro is likely to remain in place through 2024 as policy and the balance of risks around the economic outlook favour Europe over the US.

Reversing course back to the beginning of the week, there is one further data point to discuss, China's official NBS PMIs for April. The results of these surveys were mixed, with activity in the manufacturing sector pulling back in the month while services continued to experience robust growth. From the detail of the reports, it is clear that the weakness becoming evident in developed-world demand is impacting export orders. Further weakness has to be expected in coming months, although increasingly Asian markets and Chinese construction will have capacity to offset. Services meanwhile is likely to continue to see robust gains, with the household sector experiencing real income growth through 2022 into 2023, expansionary monetary policy (in stark contrast to the developed world), and with considerable pent-up demand to push through. A full discussion of China's outlook relative to that of the US and Europe as well as the implications for FX markets is provided in our May Market Outlook, due for release today on Westpac IQ.

Week ahead & data wrap

Missing the trifecta

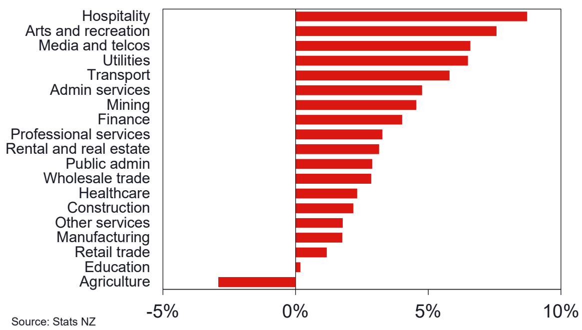
The monetary policy cycle in New Zealand is well advanced, and we are getting closer to a long-awaited turning point where the fruits of the RBNZ's efforts to restrain demand and inflation pressures should be becoming apparent. That's why this week's March quarter labour market report was closely watched by us and, we daresay, the RBNZ. The labour market has tended to give a clearer and timelier picture on the underlying state of the economy than GDP has in the post-COVID environment.

The labour market report didn't disappoint, highlighting that the economy is still running hot. The unemployment rate remained very low at 3.4% in line with Westpac's forecasts. Employment growth was robust at 0.8% for the quarter – again close to our expectations. And labour market participation rose to a new high of 72%.

Both supply and demand factors contributed to the strong March quarter labour results and are important for assessing where the economy is heading. On the supply side, an historic surge in migration has driven strong growth in the supply of available workers, with an inflow of 52,000 new long-term migrants over the past year. That's driven a 0.5% increase in the working age population, adding critical supply to a labour starved economy.

On the demand side, businesses have long been crying out for staff. And now, with new workers flowing into the country, hiring has picked up. However, there are some big differences across sectors. While demand for labour is slackening in some more interest rate sensitive sectors such as construction, the tourism centric sectors gladly accepted the new supply of workers. On balance, this still leaves us with a picture of a highly stretched labour market.

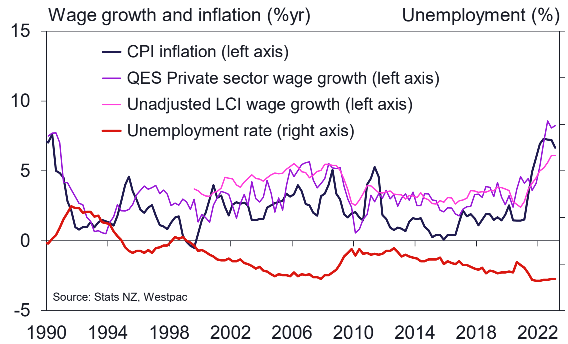
NZ filled jobs by sector, annual change



Putting this altogether, it seems unlikely that the fall in GDP seen in Q4 2022 marked an early start to recession. There are also scant signs that the labour market is turning down. Consequently, the RBNZ's forecast for a recession to begin as early as Q2 2023 is looking increasingly doubtful.

Wages are also continuing to rise rapidly, with average hourly earnings in the private sector up 8% over the past year. That continued firmness in wage growth, despite signs of cooling in some parts of the economy, isn't really a surprise – wage growth tends to lag changes in the labour market and economy more broadly, and we didn't expect that it would be slowing at this point. Even so, this is a key concern for the RBNZ who want to see a decline in underlying inflation pressures. But at the current time, with consumer prices rising rapidly and the labour market stretched tight, wage growth is set to remain elevated for some time yet. Inflation is at the centre of ongoing wage negotiations and probably will be for a while.

NZ labour market and inflation



All this boils down to cementing in a 25bp hike in the OCR at the May policy meeting. The RBNZ foreshadowed such a move back in February and emphasised its likelihood in April when they delivered a larger than expected 50bp hike. There could even be some upside risks beyond then depending on how quickly things come off. The wild card is what migration does for activity and inflation pressures.

But let's not get too pessimistic. The RBNZ is now a fair way through the tightening cycle, and we are definitely seeing demand in some interest sensitive sectors starting to struggle. For instance, this week's building consents data look very consistent with the downturn in construction we have been expecting for a while.

We felt that the RBNZ needed three horses to come in over April and May to make the case to stop at 5.25%. Coming in first was the March quarter CPI which, while still strong, was much less worrying than the RBNZ had feared. Next, the Government has talked positively about delivering a "no-frills" budget, suggesting that fiscal policy might not be as much of a driver of demand pressures over the coming years. But while those first two horses made it to the finishing line, the firm labour market looks like it broke the RBNZ's trifecta. Consequently, that last 25 points is necessary insurance – and let's hope that will be it for a year or so.

Kelly Eckhold, Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Wed 3	GlobalDairyTrade auction (WMP)	1.0%	5.0%	2.0%
	Q1 employment	0.5%	0.8%	0.8%
	Q1 unemployment rate	3.4%	3.4%	3.4%
	Q1 LCI wage inflation (pvt, ord. time)	1.1%	0.9%	1.1%
Thu 4	Mar building consents	–9.4%	7.0%	5.0%
	Apr ANZ commodity prices	1.3%	–1.7%	–

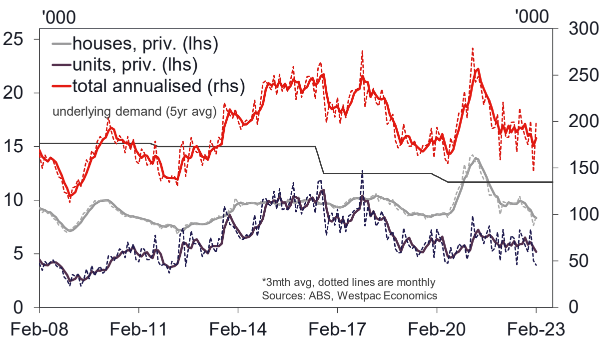
Aus Mar dwelling approvals

May 8, Last: 4.0%, WBC f/c: 1.0%
Mkt f/c: 3.0%, Range: –0.5% to 15.0%

Feb saw a 4% lift in dwelling approvals but coming off a sharp decline in the previous month and a surge in December. Looking through the choppy monthly profile, year-on-year figures still show a clear slowdown with approvals down over 30%yr. Some of the volatility may be due to processing delays due to workforce disruptions from unusually high rates of leave early in the year.

HIA new home sales continued to weaken in March, suggesting the underlying down-trend in non-high rise approvals remains intact. However high rise approvals are coming off an extreme low in Feb and are very likely to post a sizeable bounce. On balance we expect this to see another small net gain in total approvals, up 1% in the March month but with large risks either side.

Dwelling approvals



Aus Q1 real retail sales

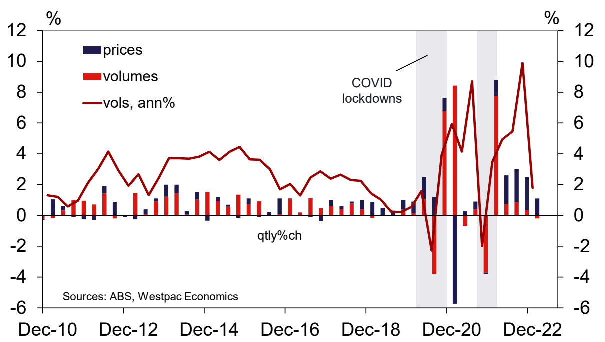
May 9, Last: –0.2%, WBC f/c: –1.0%
Mkt f/c: –0.5%, Range: –1.4% to +1.4%

Real retail sales declined 0.2% in Q4 with a nominal gain of 0.9% more than offset by a 1.1% rise in retail prices.

Preliminary estimates show nominal sales stalled flat in Q1. Meanwhile the CPI detail suggests retail prices continued to rise, up about 1% overall with basic food prices up 1.6%qtr.

That in turn points to a sizeable 1%qtr contraction in real retail sales – which would mark the largest quarterly decline in volumes since the 1990 recession – outside of the temporary disruptions seen during COVID and the GST introduction.

Quarterly retail volumes and prices



Aus Federal Budget

May 9, Budget 2023

The 2023 Budget is set against the backdrop of high inflation and sharply higher interest rates, which is placing considerable pressure on household incomes. The Budget will attempt to deliver some relief for the most vulnerable households, balanced against the need for restraint in terms of the impact of fiscal policy on the economy.

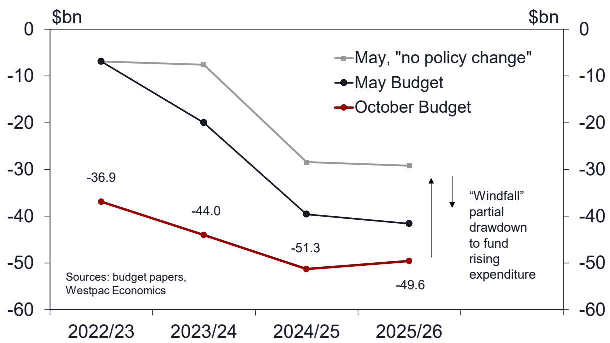
The Federal budget profile has improved relative to that in the October Budget - with national income stronger than official forecasts and given ongoing labour market strength.

On our figuring, the budget deficit for the four years to 2025/26 has improved by $110bn due to the "stronger economy". Some of this will be deployed to meet the cost of net new spending, as well as the escalating cost of existing programs – the scale and dimensions of these forces is unclear. We speculate that together they may $36bn.

See chart for budget profile and our previews for additional detail.

[Australian Federal Budget May 2023: a preview | Westpac IQ](#)
& [Federal budget preview, extending our considerations](#)

Budget deficit profile



NZ Apr retail card spending

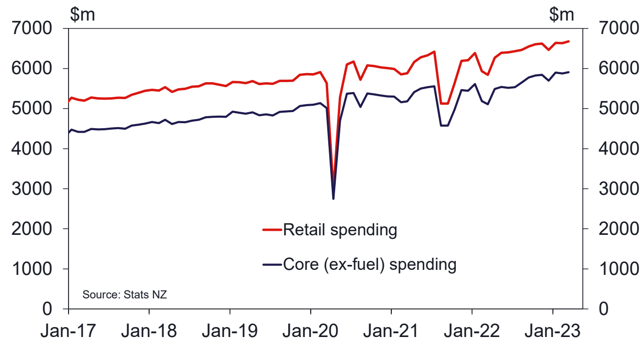
May 9, Last: +0.7%, Westpac f/c: +0.5%

Recent months have seen a rotation in spending appetites. Following strong gains over the past year, spending on durable items and apparel has been flattening off. That's been balanced against increased spending in areas like hospitality. That latter trend reflects both a switch in New Zealanders' spending preferences, as well as the rise in international visitor numbers.

We're forecasting a modest 0.5% rise in retail spending in April. Underlying that, we're expecting to see further softness in durables spending but ongoing gains in the hospitality sector.

Much of the forecast rise in spending is related to continued increases in output prices, which are eroding households' spending power.

NZ monthly retail card spending



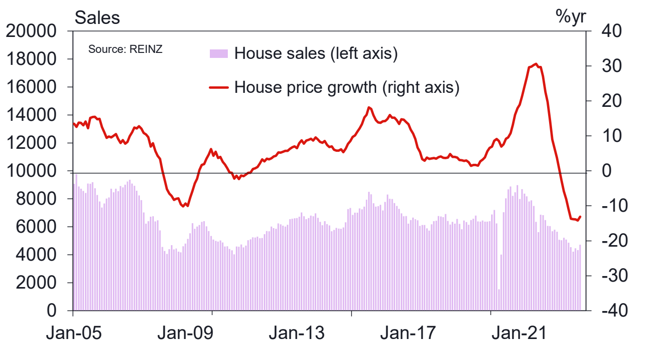
NZ Apr REINZ house sales and prices

May 11 (tbc), Sales last: +9% m/m, –15% y/y
Prices last: 0% m/m, –13.1% y/y

The New Zealand housing market has remained soft in the early part of this year, although there are some signs that the downturn is nearing its end. Sales have picked up from their rock-bottom lows, the supply of homes on the market is easing, and the rate of decline in prices appears to be slowing, although it has been choppy from month to month.

With monetary policy now approaching the end of the tightening cycle, fixed-term mortgage rates are likely at or near their peaks, and have even fallen for some longer terms. We think that house prices still have a little further to go to adjust to the higher level of interest rates, but the 17% fall that we've seen to date is broadly in line with the correction that we've been forecasting for the past two years.

REINZ house prices and sales

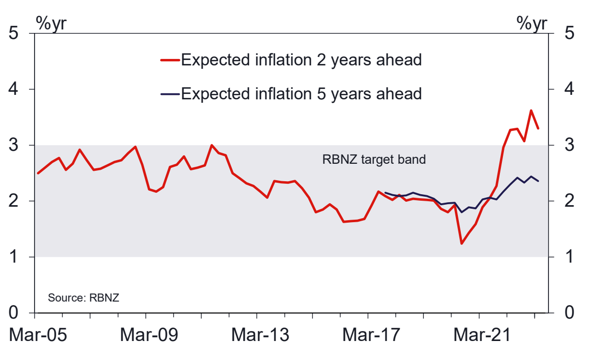


NZ Q2 RBNZ Survey of Expectations

May 12, Two-year ahead inflation expectations, Last: 3.30%

The RBNZ's latest Survey of Expectations signalled that although expectations for inflation remain elevated, they are not continuing to creep higher. The closely watched two-year ahead measure took a step down, falling from 3.6% to 3.3%. Similarly, expectations for inflation 5 years ahead pushed down slightly.

RBNZ survey of expectations



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 08					
Aus	Mar dwelling approvals	4.0%	3.0%	1.0%	Volatility clouding underlying downtrend.
	Apr NAB business survey	16	–	–	Conditions trend moderation. Confidence fragile.
Jpn	Apr Nikkei services PMI	54.9	–	–	Final estimate.
Eur	May Sentix investor confidence	–8.7	–	–	Up-trend limited by lingering uncertainties.
US	Mar wholesale inventories	0.1%	0.1%	–	Final estimate.
Tue 09					
Aus	Q1 real retail sales	–0.2%	–0.5%	–1.0%	Shaping as a big quarterly decline.
	Federal Budget	–	–	–	Improved budget position, but challenges remain, see textbox.
NZ	Apr retail card spending	0.7%	–	0.5%	Continued rotation towards hospitality spending.
Jpn	Mar household spending %yr	1.6%	0.9%	–	Likely to remain subdued over 2023.
Chn	Apr trade balance US$bn	88.2	74.3	–	Intra-regional trade supportive to longer-term outlook.
	Apr M2 money supply %yr	12.7%	12.5%	–	Credit will remain freely available…
	Apr new loans, CNYbn	3890	1375	–	… as authorities support growth.
US	Apr NFIB small business optimism	90.1	89.7	–	Emerging evidence of post-SVB credit tightening.
	Fedspeak	–	–	–	Jefferson, Williams.
Wed 10					
US	Apr CPI	0.1%	0.4%	0.3%	Shelter and discretionary services critical.
	Apr monthly budget statement	–378.1	–	–	Budget figures in focus as debt ceiling looms.
Thu 11					
Aus	May MI inflation expectations	4.6%	–	–	Expectations are easing from an elevated level.
NZ	Apr food price index	0.8%	–	0.5%	Prices firm, boosted by minimum wage increase.
	Apr REINZ house sales %yr	–15.0%	–	–	Date TBC. Sales are tentatively picking up…
	Apr REINZ house prices %yr	–13.1%	–	–	… suggesting that prices may be nearing their trough.
Jpn	Mar current account balance ¥bn	2197	2865	–	Weaker ¥ and narrowing trade deficit to support.
Chn	Apr CPI %yr	0.7%	0.3%	–	Inflation to remain a benign force…
	Apr PPI %yr	–2.5%	–3.2%	–	… for consumers and most businesses.
UK	Q1 GDP	0.1%	–	–	2023 growth outlook weak.
	BoE policy decision	4.25%	4.50%	4.50%	One final 25bp rate hike to ensure inflation's downtrend.
	Mar trade balance £bn	–4805	–	–	Weak consumer should narrow deficit over this year.
US	Initial jobless claims	242k	–	–	Likely to remain at a low level versus history.
	Apr PPI	–0.5%	0.3%	–	Decelerating quickly from a historic peak.
	Fedspeak	–	–	–	Waller.
Fri 12					
NZ	Apr manufacturing PMI	48.1	–	–	Conditions set to remain weak.
	Mar net migration	11655	–	–	Foreign arrivals have surged since border re-opening.
	Q2 RBNZ inflation expectations	3.3%	–	–	Likely to soften, but only modestly.
Chn	Q1 current account balance USDbn	103.1	–	–	Surplus near historic highs prior to COVID-zero reopening.
US	Apr import price index	–0.6%	0.3%	–	Falling energy costs driving a sharp deceleration.
	May Uni. of Michigan sentiment	63.5	63.0	–	Forward looking gauges providing downbeat view on outlook.

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.

Forecasts

Interest rate forecasts

Australia	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.85	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	3.87	3.95	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.35	3.60	3.50	3.40	3.30	3.10	2.90	2.80
3 Year Bond	2.92	3.20	3.15	3.05	3.00	2.85	2.70	2.60
10 Year Bond	3.28	3.40	3.30	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-10	-10	-10	-10	-10	-10	-10	-10
US								
Fed Funds	5.125	5.125	5.125	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.38	3.50	3.40	3.30	3.10	2.90	2.80	2.60
New Zealand								
Cash	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.25
90 day bill	5.62	5.60	5.60	5.60	5.50	5.05	4.55	4.25
2 year swap	5.02	5.10	4.80	4.50	4.20	3.90	3.70	3.50
10 year bond	4.09	4.20	4.10	4.00	3.85	3.70	3.60	3.50
10 year spread to US	71	70	70	70	75	80	80	90

Exchange rate forecasts

Australia	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6705	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6295	0.64	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	134.10	132	130	128	127	126	125	124
EUR/USD	1.1028	1.11	1.11	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2587	1.25	1.25	1.26	1.26	1.27	1.28	1.29
USD/CNY	6.9113	6.75	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0652	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	2022	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	3.5	3.9	4.5	4.7	3.5	4.5	5.0
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	1.4	1.1	0.7	0.7	–	–	–	–
annual chg	6.1	7.3	7.8	7.0	6.3	5.2	4.0	3.5	7.8	4.0	3.1
Trimmed mean	1.6	1.9	1.7	1.2	1.0	0.6	0.7	–	–	–	–
annual chg	5.0	6.1	6.9	6.6	6.1	4.7	3.7	2.7	6.9	3.7	3.1

New Zealand economic growth forecasts

	2022			2023				Calendar years			
% change	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2021	2022	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	1.2	1.0	1.7	0.5	–	–	–	–
Annual change	7.3	7.2	7.2	6.7	5.9	5.5	4.5	5.9	7.2	4.5	2.7

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