AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 15 May 2023

Editorial: Budget does not pose immediate risk to rates.

RBA: Minutes of the May Board meeting.

Australia: Westpac-MI Consumer Sentiment, Q1 wage price index, labour force survey, overseas arrivals.

NZ: Budget, GlobalDairyTrade auction, trade balance.

China: retail sales, industrial production, fixed asset investment.

Eurozone: industrial production, trade balance.

UK: unemployment rate, consumer sentiment.

US: FOMC Chair Powell speaking, retail sales, industrial production, housing updates, leading index.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 12 MAY 2023.

WESTPAC INSTITUTIONAL BANK

Budget does not pose immediate risk to rates

The starting point for the 2023 Budget is an improvement in the underlying cash position of $146 billion over the five years 2022/23 – 2026/27 compared to the October 2022 Budget.

The deficit profile which was announced in the May Budget, after new policy, the cumulative deficits over the period have been reduced to $126 billion. That means that the government has "saved" 86% of the improvement over the five years.

This dramatic "improvement" should not be seen as only a direct result of the government's astute economic management. It is largely down to the Government, and the market, underestimating Australia's fiscal prospects in October last year.

For example, the October Budget forecast that the iron ore price would fall from around $100 pt to $55 pt between October 2022 and March 2023, was overly pessimistic, particularly given the commitment from the producers to controlling output. But, of most importance was an underestimate of the strength of the labour market, with a sustained 3.5% unemployment rate, being considered unlikely.

For this 2023 Budget Westpac assesses that the government is underestimating the likely weakness in the real economy in the key 2023/24 fiscal year. We expect that consumption growth will slow to only 0.7% with GDP growth at 0.9%. That compares with the government's forecasts of 1.5% and 1.5% respectively.

That is an important dimension of the interest rate debate. By our measure this is an "expansionary" budget when compared with the ten budgets preceding the Covid period. Over that period net spending in the fiscal year immediately following the Budget ranged up to 0.25% of GDP; and over the three years up to 0.5% of GDP. In the 2023 budget net new spending in 2023/24 is $12 billion or 0.5% of GDP and around $20 billion or 0.76% of GDP over 2023/24 – 2025/26.

The Reserve Bank will be aware of these comparisons but this observation is unlikely to be a factor in their deliberations at the August Board meeting, the first meeting when we expect any decision to further raise rates is a live possibility. The issues of importance for that meeting will continue to be the unemployment rate; the extent to which underlying inflation has fallen during the June quarter; global developments, and the overall state of the economy. As we saw in May the Board considered that inflation was too high and the labour market was very tight requiring a further response. Those factors could still be sufficient to see another hike in August, although we expect that evidence of the economic slowdown will be much clearer in August and, globally, central banks will be on hold.

The Bank will also be aware of the acceleration in the maturities of fixed rate housing loans that are rolling over into much higher floating rates. In its recent Statement on Monetary Policy it calculated that, since April 2022, average mortgage rates had increased by 225 basis points, compared to the increase in the cash rate of 375 basis points, despite the banks consistently passing the full cash rate increase onto existing borrowers. This reflects lags in the banks passing on their increases; strong competition for new loans; and the volume of fixed rates in the system which are unaffected by RBA policy.

If the RBA goes on hold from May and, once the banks have passed on the rate hikes from previous increases by the RBA, we expect the average mortgage rate can still increase by up to 75 basis points as the fixed rates are rolled over into the higher floating rates. That process, whereby average rates are rising even with the RBA on hold, should be a very important consideration for the Board through the second half of 2023.

We assess that spending in the Australian economy is going to be weaker than the Government assesses in its forecasts. Evidence of that weakness, in both the March and June quarters and complemented by the prospect of automatic increases in average mortgage rate through the second half of 2023 is likely to keep the RBA on hold in August. The spending boost from the Budget will work through the economy in 2023/24 and the RBA is likely to wait to assess the impact of that process as we move through 2023/24.

Our assessment of the impact on the economy from the ongoing increases in average mortgage rates; the sharp economic slowdown that is already underway; and prospects for further falls in inflation are consistent with the RBA beginning its easing cycle from February next year. That cycle will also be consistent with expected cuts in the federal funds rate from the FOMC which we expect to begin in late December this year.

If the expansionary budget is to have any major implications for monetary policy it will be in the timing of the beginning of that easing cycle. At worst those cuts might be delayed but given our views on the slowdown in spending; the ongoing increases in average mortgage rates; falling inflation; and the significant downturn in the advanced economies the stimulus in the budget is likely to be a second order factor for the interest rate outlook.

Bill Evans, Chief Economist, Westpac Group

This week, Australian Federal Budget 2023/24 gave the market a lot to consider regarding Australia's outlook. Offshore, policy expectations remained the focus.

Beginning with Budget 2023/24, our bulletin and conversation with Chief Economist Bill Evans provides a full view of the Government's fiscal position and economic expectations for the next four years. Most notable is the markedly improved starting point for Budget 2023/24, the strength of the economy delivering a $121.5bn windfall through to 2025/26. As a result, the profile for net debt has improved notably, the peak now forecast at 24% of GDP in 2025/26 compared to 28.5% of GDP in October's Budget 2022/23. The Budget's spending measures were focussed on cost-of-living relief – including an increase in rental subsidies and a reduction in energy bills for vulnerable households – alongside additional spending on welfare programs and essential services, particularly health and aged care.

Regarding monetary policy, we believe the budget will have little influence on the RBA's assessment of the economy, at least for the remainder of the year. While cognisant of the medium-term risks around the expansionary nature of the budget, the Board will be focussed on near-term developments for underlying inflation and the labour market. Our central view is a clear downtrend in inflation and gradual easing in labour market tightness as a consumer-led slowdown in growth materialises, warranting policy to remain on hold though 2023 before rate cuts commence in 2024. However, if inflation risks were to assert, the timing of 2024's rate cuts may need to be pushed out.

The latest NAB business survey was consistent with our baseline view, highlighting a further easing in business conditions – particularly across consumer sectors – as inflation and interest rate pressures impact. Also, following a 0.3% fall in Q4, real retail sales posted a larger 0.6% decline in Q1, thereby marking the largest six-month contraction in retail sales volumes since 1986 (excluding COVID and the GST's introduction). Our Westpac Card Tracker has also shown that wider consumer spending activity is stalling, emphasising the broad-based nature of these headwinds. Additionally, the underlying weakening in dwelling approvals indicates that the recent stabilisation in house prices will take time to cycle through to new construction activity.

Of greatest importance offshore this week was the April CPI report for the US. Both the headline and core readings were in line with expectations (0.4% for the month and 4.9%yr/5.5%yr respectively over the year). Critical though was the detail. The all-important shelter component continued to slowly slip away from its peak level. Meanwhile, food prices were unchanged for a second month, suggesting the secondary impacts of commodity inflation have passed and also that wages are not driving another wave of abnormal price increases by business. Overall, goods inflation is now a benign force, with goods ex food & energy up just 2.0%yr in April. Ex shelter, a similar judgement can be made for services. We therefore regard US inflation as on track to return to a 2.0% annualised pace towards the end of this year, providing the FOMC with scope to ease policy, beginning with a 25bp cut in December.

This will just be the start however, with need for 200bps of further easing through 2024 – in our view. By 2024, the pullback in bank lending and tightening of standards we are beginning to see in the credit data and senior loan officer survey respectively will be having its full effect on the economy. Most notably, the just released April Senior Loan Officer Survey reported a tightening in lending standards and increase in spreads over banks' cost of funds similar in breadth to that seen during the pandemic, GFC and 2000-01 tech wreck.

It is important to emphasise though that this survey reports on the percentage of respondents taking action (e.g. tightening standards) not the scale of the change; ergo, the effect of this tightening on the supply of credit is unlikely to be as significant as that seen during the GFC.

A caveat applies however, as the Senior Loan Officer Survey only captures a subset of banks, with 65 domestic banks reporting in this instance. The qualitative guidance by bank size makes clear that the complete market is likely experiencing tighter conditions and weaker lending than the survey implies, with the results for mid-sized and small banks notably worse than for large banks.

Following last week's FOMC and ECB decisions, this week the Bank of England (BoE) followed suit, delivering a 25bp hike to 4.50% at their May meeting. As anticipated, their guidance was somewhere between the FOMC and ECB, but still best characterised as a conditional pause. Conditioned on the market path for rates, which includes a brief lift in Bank Rate to 4.75% from August 2023 to March 2024, the BoE continue to expect elevated inflation to give way this year and next, with a year-end forecast of 5.0% for 2023 and 2024 average of 2.25% followed by below-target inflation in 2025. This steady return to target is despite recent upside surprises for goods inflation (including highly-elevated food inflation) and a material upward revision to growth expectations, with recession no longer anticipated in 2023. Given available data and in light of the BoE's revised projections, while there may be need for another hike mid-year, the BoE seems highly likely to be in a position to cut interest rates by mid-2024, following a similar path to both the FOMC and ECB.

Finally to China. While the trade balance surprised to the upside in April, the market took the report negatively given it included a sharp annual drop in imports, -7.9%yr, and as the upside surprise to annual export growth, 8.5%yr, was viewed as masking short-term weakness. Seemingly missed by participants was that the trade breakdown by country continued to show the strength of Asian demand, with the surplus from the region materially higher than a year ago. For our growth view, this is critical as we hold that accelerating growth in Asia will largely offset the negative effect of weak developed-world demand. Also critical is that Chinese manufactured goods demand is increasingly satiated by Chinese supply. Both factors will allow the trade position to hold up for the remainder of the year.

We were also unconcerned by the weak price detail announced this week. However, we are carefully watching the credit data. New loans and aggregate finance were both weak in April after a strong March. For investment growth to hold up, the private sector have to be willing to expand capacity. We believe they will, but there are risks around the timing and scale of growth.

Week ahead & data wrap

The 'No Frills' budget

The Government has stated clearly not to expect too much from Budget 2023 next week. The economy is close to stall speed, and inflation is running red hot. With a Cyclone recovery in the mix, the Government has signalled that it will do what is necessary to alleviate cost-of-living pressures, fast track recovery from Cyclone Gabrielle, and maintain key public services, but not (a lot) more.

We have taken this sentiment largely at face value. Our economic forecasts relative to the Treasury's at the Half-Year Update are more pessimistic. We have then flowed this through to a lower tax revenue outlook. Indeed, the accounts are already behind what was forecast at the Half-Year Update – total Government revenue is $2.9bn behind forecast for the nine months to March 2023.

Notably, the squeeze is on corporate and other individuals' tax, with the two tax types collectively running $1.5bn behind Treasury's Half-Year Update forecasts. That is consistent businesses feeling the pressure on their margins from inflation and/or from a slowing in demand.

All up, we expect the operating balance (OBEGAL) to tick over into surplus one year later than previously signalled i.e. in 2025/26. Notably, though, the Government still meets its fiscal rules of running small surpluses allowing for economic conditions.

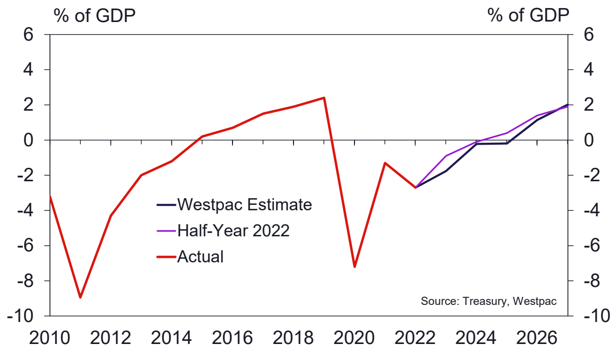
To get there, we expect the Government will run a tight ship. That means no changes (increases) to the Budget allowances as they were signalled back in December (election sweeteners will have to wait, if they come at all). Although, we do note that the Government has found around $4bn of savings to spend on its priorities at this Budget.

We also expect the larger deficits also translate to a modest increase in the net debt forecasts. That said, it will be more modest than the increase in deficits alone. Net debt will start the forecast period lower than forecast as the New Zealand Superannuation Fund has made some large investment gains since the Half-Year Update.

Market interest will be on the size of the bond programme. Overall, we expect an increase of $12bn over the five-year forecast period relative to Budget 2022. This increase mainly (circa $10bn) reflects the increase in the forecast deficits resulting from reduced growth assumptions. We have also allowed for a small increase in borrowing ($2bn) to fund infrastructure costs relating to the Cyclone recovery. We have spread the increase evenly across the forecast period, although arguments could be made for this to be front-loaded to a degree.

Meanwhile, the stabilisation in New Zealand's housing market continued in April. House sales were up by another 5% after adjusting for seasonal factors. While the number of sales remains relatively low, they're up by more than 20% from the cycle low that was reached in December last year.

NZ Govt operating balance (OBEGAL)



The REINZ house price index rose by 0.3%, the first monthly increase in a year and a half. The rise was fairly widely shared across the country, though with a particularly strong lift in the Otago region. Nationwide prices are still down about 16% from their peaks, with Wellington and Auckland having seen the biggest downward adjustment.

The forces that have been weighing against the housing market over the last couple of years are now starting to turn. There's a growing belief that mortgage rates are at or near their peaks, and there have even been some cuts at the longer fixed terms.

On top of this, the flow of migrants has turned from a modest net outflow to a strong net inflow since New Zealand reopened its international border. The annual net inflow has surged 65,000, with the annual pace of recent months around the 100,000 mark. That will put renewed pressure on the housing stock, since the rate of homebuilding is no longer keeping pace with population growth (this is a factor for house prices regardless of whether new arrivals buy or rent, since someone has to own the houses that they will rent).

The latest figures suggest that the housing market may have reached its bottom earlier than we expected (it's also worth noting that house prices are picking up again in Australia, under similar economic conditions). To put this in context though, we've been correctly forecasting a double-digit fall in house prices for the last two years; the last few percentage points are not critical to our view.

We'll be providing updated house and migration forecasts in our quarterly Economic Overview, released next Tuesday.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 09	Apr card spending	0.7%	0.7%	0.5%
Thu 11	Apr food price index	0.8%	0.5%	0.5%
	Apr REINZ house sales %yr	–13.0%	–12.0%	–
	Apr REINZ house prices %yr	–13.5%	–15.3%	–
Fri 12	Apr manufacturing PMI	48.1	49.1	–
	Mar net migration	12108	12609	–
	Q2 RBNZ inflation expectations	3.30%	2.79%	–

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.

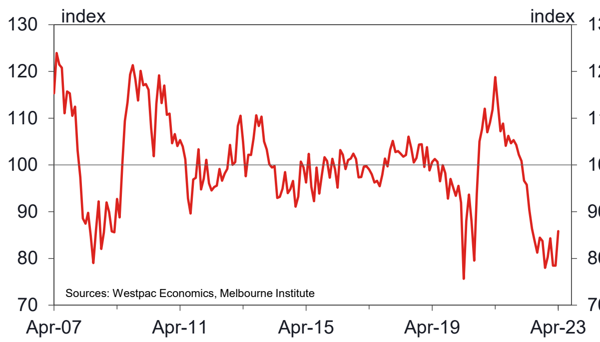
Aus May Westpac-MI Consumer Sentiment

May 16, Last: 85.8

Consumer sentiment surged 9.4% in April, buoyed by the RBA decision to pause the sequence of interest rate hikes that began in May last year. Despite the bounce, the index remained in deeply pessimistic territory at 85.8.

The April story does not augur well for May given the RBA resumed hikes with a surprise 25bp increase. The latest survey will also capture reactions to the Federal Budget, although even a positive reception here may not be enough to counter a rate rise shock.

Consumer Sentiment Index



Aus Apr overseas arrivals and departures, preliminary

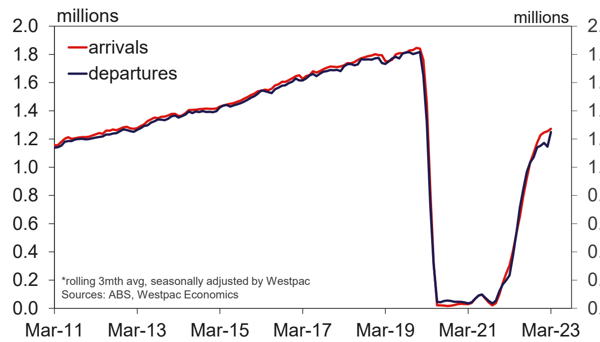
May 16, Arrivals, Last: 1347.3k
May 16, Departures, Last: 1332.8k

Following on from an unexpectedly strong pace of growth over the course of last year, the recovery in overseas arrivals and departures has begun to consolidate to a more manageable but still robust pace.

On a seasonally adjusted basis (done by Westpac), growth in overseas arrivals is beginning to track a relatively softer trend, from a three-month average of 18.9% in December to 3.5% in March. However, this more so represents a tentative cooling in short-term travel from the strength evident over summer. As a better (but still imperfect) indication of migration, permanent and long-term arrivals are stabilising well above pre-pandemic levels, net inflows tracking an impressive +118k in the three months to February.

It is also worth noting that the 2023/24 Federal Budget provided an update to the Government's forecast for net overseas migration. In line with our view, the Government expects net migration to print a historic +400k in 2023/24, before moderating to a still elevated +315k in 2023/24 before settling at +260k in 2024/25.

Total overseas arrivals and departures



Aus Q1 Wage Price Index %qtr

May 17 Last: 0.8%, WBC f/c: 0.8%
Mkt f/c: 0.9%, Range: 0.8% to 1.1%

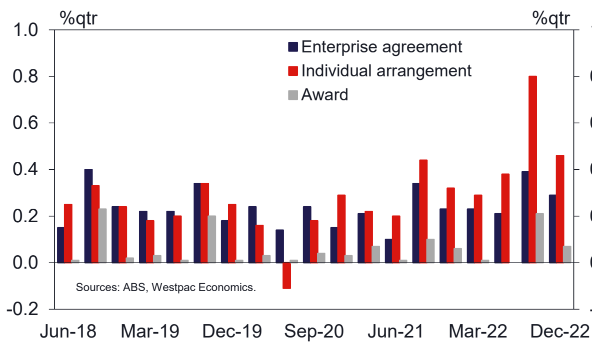
The Wage Price Index (WPI) was surprisingly soft in the December quarter, the 0.8% gain less than market expectation of 1.0% and Westpac's 1.1% forecast. It was also a step down from the 1.1% increase in September.

While a clear step down in pace, the ABS noted that the 0.8% increase was largest result out of all the December quarters in the past decade, following on from September and June quarter increases which were also higher than their comparable quarters back to 2012.

The share of wages negotiated via individual bargaining arrangements continued to grow, lifting from 36% in 2017 to 43% in 2022 which has made wages more responsive to changes on economic conditions.

Our forecast 0.8% increase in the March quarter will lift the annual rate from 3.3%yr to 3.5%yr.

Wage increases by bargaining arrangement



Aus Apr Labour Force - employment chg, '000

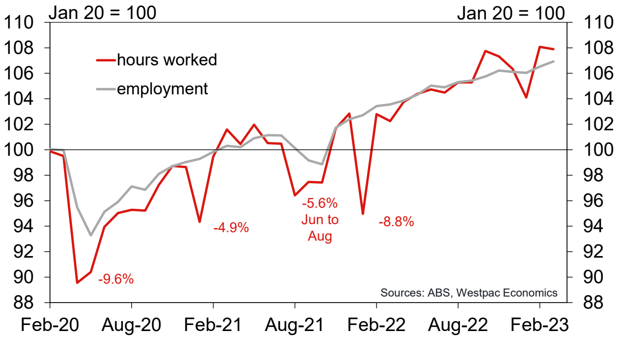
May 18, Last: 53k, WBC f/c: +40k
Mkt f/c: +25k, Range: flat to +40k

Following a +63.6k bounce in February, employment posted another strong gain in March, up +53.0k, shifting the three-month average change in employment from 13.3k/mth to 35.4k/mth.

Underlying this strength is two critical factors: (1) job vacancies are at an elevated level, representing a robust appetite for new workers despite broadening headwinds; and (2) the recovery in immigration, resulting in a large and sustained expansion in the size of the Australian labour force. Together, these two factors have driven a persistence in robust labour market outcomes, a situation that was otherwise unanticipated this late in the economic and policy cycle.

These underlying dynamics present clear upside risk to employment outcomes, at least over the near-term. Hence, for April, we have pencilled in an above-trend increase in jobs growth, at +40k.

Hours worked continue robust trend



Aus Apr Labour Force - unemployment rate %

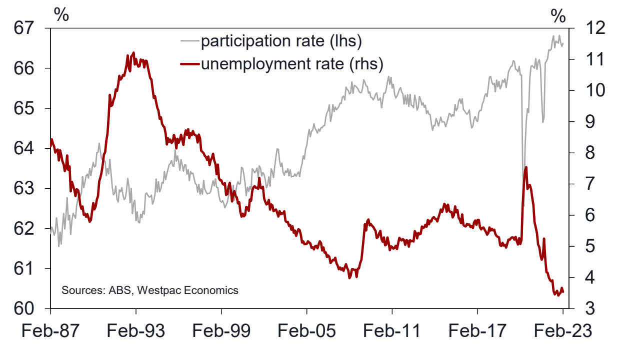
May 18, Last: 3.5%, WBC f/c: 3.5%
Mkt f/c: 3.5%, Range: 3.4% to 3.6%

In March, the participation rate held flat at 66.7%, but at two decimal points, it rose 0.09ppt from 66.65% to 66.74%. This gain in participation saw the labour force grow by 51.4k, broadly in line with the lift in employment, resulting in the unemployment rate holding flat at 3.5%, just 0.1ppt off the cycle-low back in October 2022.

Like in February, it is interesting to note the divergence in gender outcomes. Females are currently capturing effectively all of the employment (+56.3k for females; -3.3k for males) and labour force growth (+55.6k for females; -4.2k for males), seeing their unemployment rate fall to a fresh record low of 3.4%.

More broadly though, the strength in labour force growth due to the recovery in immigration is being met with robust labour demand (high level of vacancies) resulting in an unemployment rate holding lower, for longer. We see the participation rate rounding up to 66.8%, for a flat unemployment rate of 3.5% in April.

Unemploy. lowest since '74, record participation



NZ GlobalDairyTrade auction, whole milk powder prices

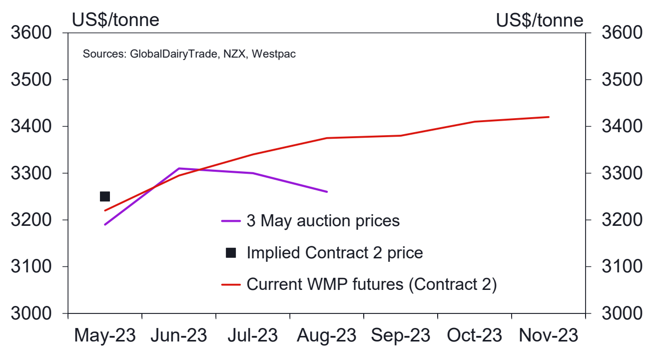
May 17, Last: +5.0%, Westpac: Flat

We expect whole milk powder prices (WMP) to be unchanged at the upcoming auction. Flat prices would cement the 6% price gains over the previous two auctions.

Our pick is between the modest fall at last week's mini (GDT pulse) auction and the circa 1% lift that the futures market is pointing to.

Over the year, we expect that rebounding Chinese dairy demand and very subdued global supply will lead global dairy prices higher.

Whole milk powder prices



NZ Government Budget 2023

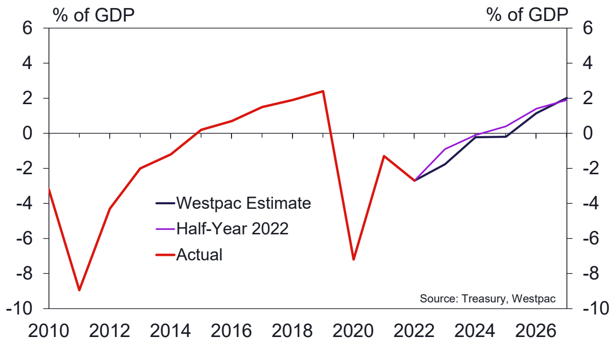
May 18

We expect Budget 2023 will show a moderate deterioration in New Zealand's fiscal position compared to the Half-Year Update in December.

We have taken the recent Government announcements of a "no-frills" Budget at face value, and have factored only limited additional spending focused on cost-of-living pressures and cyclone recovery.

Crucially, we expect the Treasury to factor in a weaker economic outlook, translating into lower tax revenues in future years. With that in mind, we expect the operating balance will return to surplus in 2025/26, a year later than previously forecast. We expect the net debt profile to shift modestly higher, and a moderate lift in the debt programme.

NZ Govt operating balance (OBEGAL)



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 15					
NZ	Apr BusinessNZ PSI	54.4	–	–	Remains resilient, but headwinds mounting.
Eur	Mar industrial production	1.5%	-1.3%	–	Buoyed by capital goods; energy starting to show promise.
US	May Fed Empire state index	10.8	-4.0	–	Conditions to remain subdued for now.
	Fedspeak	–	–	–	Bostic, Kashkari, Cook.
Tue 16					
Aus	RBA minutes	–	–	–	More colour on May's surprise move.
	May Westpac-MI Consumer Sentiment	85.8	–	–	RBA's surprise rate hike and Budget reaction to impact.
	Apr overseas arrivals, prelim	1347.3k	–	–	Permanent/long-term arrivals well above pre-COVID levels.
Chn	Apr retail sales ytd %yr	5.8%	8.2%	–	The rebound in consumer spending is well underway...
	Apr industrial production ytd %yr	3.0%	4.9%	–	... and industry is set to benefit from expansion into...
	Apr fixed asset investment ytd %yr	5.1%	5.8%	–	... Asian markets, offsetting softer demand from US/Europe.
Eur	Q1 GDP	0.1%	0.1%	–	Second estimate.
	Mar trade balance €bn	-0.1	–	–	Return to surplus likely on falling energy prices.
	May ZEW survey of expectations	6.4	–	–	Consolidating amid persistent cost-of-living pressures.
UK	Mar ILO unemployment rate	3.8%	3.8%	–	Off cycle-low but still indicating a tight labour market.
US	Apr retail sales	-0.6%	0.7%	–	Rebound from March likely, but underlying weakness clear.
	Apr industrial production	0.4%	0.0%	–	Manufacturing to drag in coming months.
	Mar business inventories	0.2%	0.0%	–	Accrual stalling as economy slows.
	May NAHB housing market index	45	45	–	Long road ahead for home builder confidence recovery.
	Fedspeak	–	–	–	Mester, Barr, Williams, Logan.
Wed 17					
Aus	Q1 Wage Price Index	0.8%	0.9%	0.8%	Wages surprisingly soft in Q4 despite minimum wage lift.
NZ	GlobalDairyTrade auction (WMP)	5.0%	–	0.0%	Dairy prices consolidating after recent rises.
Jpn	Q1 GDP	0.0%	0.2%	–	Domestically sound on investment, policy; consumption a risk.
	Mar industrial production	0.8%	–	–	Final estimate.
Eur	Apr CPI %yr	7.0%	7.0%	–	Final estimate.
US	Apr housing starts	-0.8%	-1.7%	–	Headwinds around affordability and uncertainty impacting...
	Apr building permits	-7.7%	-0.2%	–	... but multi-family consent issuance presents an opportunity.
	Fedspeak	–	–	–	Bostic & Goolsbee.
Thu 18					
Aus	Apr employment	+53k	+25k	+40k	Elevated job vacancies and immigration's recovery is seeing...
	Apr unemployment rate	3.5%	3.5%	3.5%	... robust employment outcomes and low U/E for longer.
NZ	Budget 2023	–	–	–	Budget to show a moderate deterioration in fiscal position.
US	Initial jobless claims	264k	–	–	Off recent lows, but still relatively weak versus history.
	May Phily Fed index	-31.3	-21.1	–	Downtrend in business conditions well entrenched.
	Apr existing home sales	-2.4%	-3.6%	–	Supply remains the chief concern.
	Apr leading index	-1.2%	-0.5%	–	Growth to remain well below trend.
	Fedspeak	–	–	–	Jefferson, Barr, Logan.
Fri 19					
NZ	Apr trade balance $mn	-1273	–	100	Balance to ticking into surplus; underlying weakness remains.
Jpn	Apr CPI %yr	3.2%	3.5%	–	Should return smoothly back to target in time.
UK	May GfK consumer sentiment	-30	–	–	Pessimism easing, but still by no means optimistic.
US	Fedspeak	–	–	–	Chair Powell & Fmr. Chair Bernanke. Williams, Bowman.

Forecasts

Interest rate forecasts

Australia	Latest (12 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	3.89	3.95	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.38	3.60	3.50	3.40	3.30	3.10	2.90	2.80
3 Year Bond	3.02	3.20	3.15	3.05	3.00	2.85	2.70	2.60
10 Year Bond	3.32	3.40	3.30	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-6	-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	5.60	5.60	5.60	5.60	5.50	5.05	4.55	4.25
2 year swap	4.99	5.10	4.80	4.50	4.20	3.90	3.70	3.50
10 year bond	4.04	4.20	4.10	4.00	3.85	3.70	3.60	3.50
10 year spread to US	66	70	70	70	75	80	80	90

Exchange rate forecasts

Australia	Latest (12 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6693	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6254	0.64	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	134.71	132	130	128	127	126	125	124
EUR/USD	1.0924	1.11	1.11	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2517	1.25	1.25	1.26	1.26	1.27	1.28	1.29
USD/CNY	6.9466	6.75	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0702	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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