AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 29 May 2023

Editorial: Expected minimum wage increase to support, rather than boost, wage inflation.

RBA: Governor Lowe appearing before Senate with Jacobs (Assistant Governor, Financial System).

Australia: monthly CPI, housing updates (dwelling approvals, prices, finance), construction work, capex, credit.

NZ: employment indicator, building consents, business confidence, building work, terms of trade.

China: various PMIs.

Eurozone: CPI, unemployment rate.

US: nonfarm payrolls, unemployment rate, ISM manufacturing, house prices, Chicago PMI.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 26 MAY 2023.

WESTPAC INSTITUTIONAL BANK

Expected minimum wage increase to support, rather than boost, wage inflation

We must be getting close to an announcement from the Fair Work Commission on the 2023 Minimum Wage/Awards decision. While there is no formal timeline or announcement date, as noted by the Fair Work Ombudsman, the increase is applied from the 1st of July so an announcement is expected to be handed down in June.

Every year, the Fair Work Commission's (FWC) Expert Panels review the minimum wages received by employees in the national workplace relations system.

The review considers:

- written submissions from interested organisations and individuals
- consultations before the Expert Panels
- research commissioned by the Expert Panels

At the conclusion of this review, a national minimum wage order is made which will apply from the first full pay period on or after 1 July each year.

This should not be confused by the four yearly review, which is being conducted currently, which is about the structure of the award system. While this is linked to the wage setting process by defining wage setting arrangements, it is separate of the annual review of the minimum wage from the Fair Work Commission.

Before 2018, the Commission was required to review all modern awards every 4 years. During the review the Commission could make new modern awards, or change (vary) or cancel (revoke) existing modern awards. The 4 yearly review commenced on 1 January 2014. The process was conducted in 3 stages.:

- an initial stage to determine any jurisdictional issues
- an award stage where each award would be reviewed in its own right, and
- a common issues stage dealing with claims that would affect all or most modern awards.

Note: any variation of minimum wages as part of the modern awards review can only be based on work value reasons.

The review is now in its final stages.

The focus here is what positions are covered by an award and what are the relevant minimum conditions for that award. Previous governments had been trying to minimise the coverage of awards while unions have been try to maintain award coverage if not expand it. The unions are also likely to attempt to lock in current above award wages and conditions that are being paid via individual bargaining in a very tight labour market.

As we get closer to June, there is increasing interest in what the minimum wage outcome might look like. Is the current thinking for the Minimum Wage Increase consistent with our forecast of wage inflation, as measured by the Wage Price Index (WPI) hitting 4.1%yr by the end of this year (this forecast incorporate a pickup in the quarterly profile from 1.0% in June to 1.1% in September and 1.2% in December)?

In a recent article in by David Marin-Guzman, it does appear that in the recent Budget 2023 estimates Treasury was working on the basis that the expect rise in the minimum wage would be consistent with a 4%yr inflation rate for the WPI.

"for inflation to drop to 3.25 per cent and for wages to grow to a peak of 4 per cent by the end of June 2024 included "an assumption that broadly proxies your decision last year".

"Last year, the panel split its decision by awarding a 5.2 per cent increase to 180,000 workers on the lowest minimum wage – in line with inflation at the time – and a $40 a week or at least 4.6 per cent increase for 2.6 million on higher award rates. Treasury representative Ineke Redmond said the budget papers assumed a wage increase in line with the March inflation figure – which it estimated would be 6.9 per cent when drafting the budget – and then "essentially the minimum increase would be 4 per cent and slightly above" for those between the lowest rate and higher award rates."

So, it appears the Treasury are looking at an increase in the minimum wage of something around 7% (for the 180k on it) and around 4% (or a bit more though it is not stated what a bit is) for the rest on awards (around 2.25 million). The average pay increase from the 2022 minimum wage/award decision was 4.7% based on the 5.2% for the minimum wage while the smallest percentage increase for the rest of 4.6% (it was a fixed dollar increase so the percent increase was naturally lower the higher the pay rate). We guess that the average minimum wage/award increase in 2023 would be something around 4.6% again based on a high of 7% and a low of 4.5%. On this basis wage inflation from the award system will be a constant or steady, rather than increasing, contribution to overall wage inflation.

For our forecast of 4.1%yr in the WPI by end 2023 we have the awards contribution lifting modestly from 0.29ppt to 0.35ppt. Individual arrangement wage inflation appears to be peaking so only a small increase in contribution from 1.93ppt to 2.03ppt. The larger lift is from enterprise bargaining which lifts its contribution from 1.12ppt to 1.74ppt. For now, this is more of "what is a reasonable scenario consistent with our overall wage inflation forecast" than a hard forecast for each wage bargaining sector.

Please note the data used in the following analysis of wage bargaining contributions is in original terms and not seasonally adjusted. Wages in Australia are very seasonal with a significant majority being adjusted in the September quarter which is the start of the Australian financial year.

Using estimate weights for the various bargaining arrangements we can back out a quarterly profile and use this as a basis for forecasting bargaining sector wage outcomes. For now, we have awards annual wage inflation lifting modestly while individual bargaining is holding onto its current peak and thus steady to end 2023. It is enterprise agreements that we expect to see the largest increase in the annual pace of wage inflation.

It is important to remember that if you are paid more than the award this is more likely to be via an individual bargain than a collective agreement. And if you are paid more than the award there is no legal pressure for your employer to lift your pay once an award increase is announced unless the increase in the award takes the award rate of pay to a higher level than what is currently being paid.

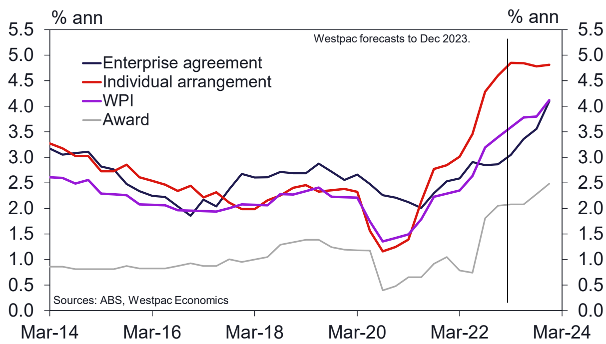
From an average quarterly contribution of 0.31ppt in the year to March, we expect the contributions from enterprise bargaining to lift to 0.37ppt in June, 0.49ppt in September and then 0.52ppt in December. We are expecting a very modest adjustment in individual arrangements contributions and given the significant seasonality with the large share of wages rises being paid in the September quarter; we see this contribution moderating from 0.80ppt in September 2022 to 0.77ppt in September 2023. There is a similar pattern for awards/minimum wage with the September contribution lifting from 0.21ppt in September 2022 to 0.24ppt in September 2023.

We would argue that as the labour market starts to slow in the second half of this year it is possible some employers will take the opportunity to bring those employees on above award pay rates back closer to the award thus a moderation in individual bargaining increase is likely – it will all depend on just how tight the labour market is. Our forecast for underutilisation (unemployment and underemployment) to increase from the second half of 2023 is driving our forecast for WPI inflation to peak at 4.1% at the end of 2023 and to then moderate through 2024.

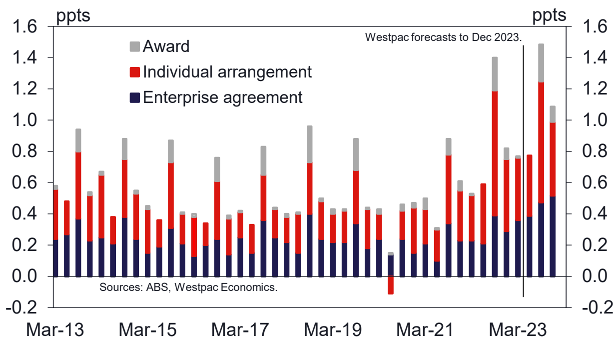
So while the expected increase in the minimum wage/award is inflationary as it is expected to be very similar to what was granted in 2022 is it not additive, that its contribution is to hold wage inflation around it current pace rather than add to, or suppress, that pace.

Justin Smirk, Senior Economist

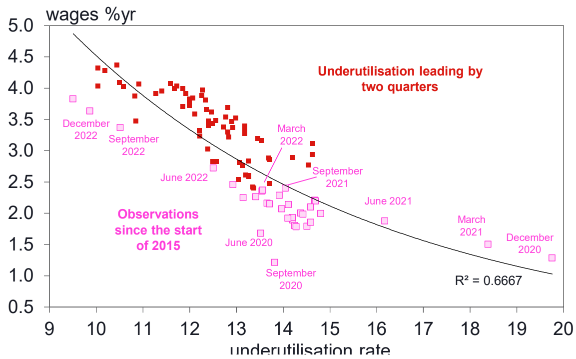
Wage growth by bargaining method



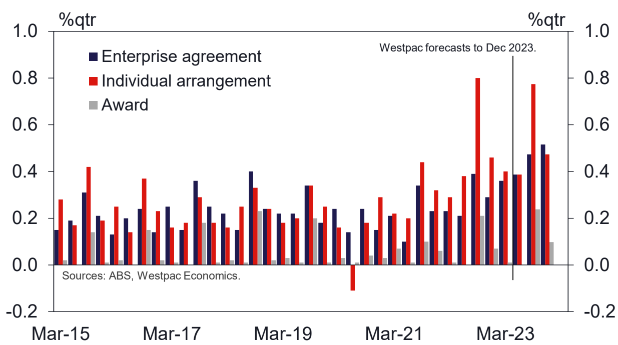
Wage inflation by bargaining arrangement



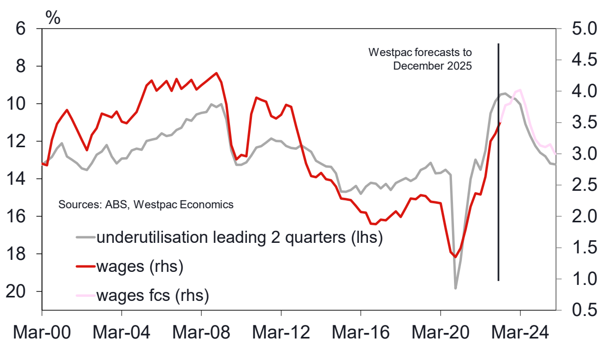
Underutilisation & private wages, national



Wage increases by bargaining arrangement



Labour market drives wages



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.

Events and data have all been offshore this week, with Australia's single ABS release (April retail sales) due later today.

In New Zealand, at their May meeting, the RBNZ hiked the cash rate by 25bp to 5.50% as expected. However, their forward guidance surprised. Despite strong population growth at a time of limited capacity and expansionary fiscal policy, the RBNZ believe they have likely done enough to contain and reduce inflation, with their forward profile showing the cash rate at its peak. This is not to say policy will be eased anytime soon. Rate cuts are not expected until the second half of 2024.

Our New Zealand Economics team see upside risks to the RBNZ's views on growth and inflation, and so continue to believe further tightening will be required, with one more hike forecast for August to 5.75% and rate cuts to start no sooner than July 2024. Westpac NZ Chief Economist Kelly Eckhold provided an overview of the key issues before New Zealand and the RBNZ in this week's video update.

In the US meanwhile, the FOMC May meeting minutes highlighted the scale of the uncertainty clouding the outlook. The Committee clearly remains cautious regarding inflation risks, but increasingly these are being balanced by downside risks to growth – the result of both policy's effect on the economy as well as the additional tightening in financial conditions associated with recent bank closures and deposit flight.

"Participants generally expressed uncertainty about how much more policy tightening may be appropriate" and "Several participants noted that if the economy evolved along the lines of their current outlooks, then further policy firming after this meeting may not be necessary" point to a conditional pause being the consensus view of the Committee. That said, rate cuts from December as we forecast will require a continued deceleration in inflation and labour market momentum. Principally due to shelter costs, the chief risk for inflation is that it sustains above-target momentum into 2024, even as activity deteriorates. This would put the FOMC in a difficult position.

As we go to press, fractious debate over the terms of a debt ceiling increase continue despite Treasury's extraordinary measures potentially being exhausted within a fortnight. We expect a deal to inevitably get done, and some headlines received today have been constructive on this point. But we will have to wait to see whether an agreement materialises and, critically, how far out it pushes the next debt ceiling conflict.

Finally to the data received this week. For the US, the tone has remain mixed, with the S&P Global manufacturing PMI disappointing with a contractionary reading of 48.5 while the services measure beat with a robust 55.1. New and pending home sales meanwhile both disappointed in April net of revisions to March; while the second estimate of Q1 GDP carried next-to-no significance, the annualised estimate edged up from 1.1% to 1.3%.

Other global PMI results were similarly mixed across Europe, the UK and Japan, with manufacturing stagnant (Japan) or contractionary (Europe and the UK) but services experiencing healthy growth. For the UK, the key release for the week was the April CPI report which again shocked to the upside, headline inflation rising 1.2%/ 8.7%yr against 0.7%/8.2%yr expectations. Of even greater concern, the annual rate for core inflation lifted from 6.2%yr to 6.8%yr against expectations for an unchanged result.

In recent communications, the Bank of England have sought to look through the current strength in inflation, believing it will prove fleeting given underlying price dynamics and the steps already taken with policy. This outcome is sure to test their resolve. The market now has 100bps of additional hikes priced for UK Bank Rate by late-2023 compared to 50bps for the ECB and a December rate cut by the FOMC.

Week ahead & data wrap

While the Reserve Bank of New Zealand delivered the expected increase in the Official Cash Rate at its May meeting, the central bank's assessment of economic conditions was much more dovish than we expected. We continue to expect that the cash rate will need to rise further to bring inflation back to target. However, given the tone of the RBNZ's policy outlook, we have revised down our forecast for the peak in the cash rate to 5.75% (from 6.00% previously).

As expected, the Reserve Bank of New Zealand hiked the Official Cash Rate by 25bps at their May policy meeting, taking the cash rate to 5.50%. However, in contrast to our own and market expectations for a hawkish tilt from the central bank, the tone of the RBNZ's policy assessment was surprisingly dovish. Most notably, the RBNZ continues to assume that a peak cash rate of 5.50%, if held for long enough, would be sufficient to bring inflation back to target.

In contrast, we think that the cash rate will need to rise further from here, especially given the boost to demand from the current surge in migration. However, given the RBNZ's dovish stance, we have revised down our forecast for the OCR. We now expect that the OCR will rise to a peak of 5.75% (down from 6.00% previously) with that final 25bp rise coming in August.

Digging into the details of the RBNZ's policy assessment, the central bank is conscious of the same factors that we have been highlighting, most notably the squeeze on households' purchasing power from higher living costs and increases in interest rates. However, while we agree that those tighter financial conditions will be a significant drag on demand, we think the RBNZ may be overestimating just how much demand will soften. In fact, if we look at the RBNZ's assumption for per-capita spending growth, the central bank expects that rate hikes to date will see spending dropping even more sharply than during the 2008/09 Global Financial Crisis.

Even though there will be a good deal of belt tightening from households over the coming months, we're not as pessimistic as the RBNZ is on this front. A key reason for this is the state of the labour market – employment levels remain high, and rising wages are helping to support household spending. And although we do expect the labour market will cool over time, we expect that the downturn will be more modest than the RBNZ has assumed (especially if the RBNZ stays on hold, as their forecasts imply).

On top of this, the current surge in migration inflows signals a material upside risk to the RBNZ's forecasts. The RBNZ's migration forecasts are actually quite similar to our own. But the big question is what this means for the balance of demand and supply conditions in the economy. And to be fair, the RBNZ acknowledged there is some uncertainty around how those pressures will evolve. However, we think that the surge in net migration will ultimately result in stronger inflation pressures than the central bank expects.

Notably, the RBNZ seems to be putting a lot of weight on the idea that migration will ease the labour shortages that have plagued the country for the last few years. They note that job advertisements have fallen substantially from their mid-2022 highs, as New Zealand's border was reopened and the surge in migrants began.

However, job ads are not weak by any means. Although they have come down, they're still substantially above pre-Covid levels. The demand for workers remains strong and, as the March quarter labour force survey showed, employment is still outstripping population growth.

The RBNZ has also downplayed the impact of migration on the housing market. Housing is the part of the economy where migration is most obviously a net inflationary force as the supply of new homes is relatively unresponsive to population changes (at least in the near term). This pressure on house prices occurs regardless of whether migrants are buying or renting, since somebody has to own the houses that they rent.

Putting this altogether, it's likely that domestic demand and inflation pressures will prove stronger than the RBNZ expects. However, it will take some time – likely not until late this year – before the strength of those pressures becomes obvious. The key area to watch will be the housing market. The RBNZ is forecasting a further 3.5% fall in house prices over the next year before they bottom out. However, the most recent REINZ sales figures hint that the turn in the market may have already arrived. The upturn in house prices in Australia – which has seen a similar resurgence in net migration – should serve as a warning for what might come next here.

A complicating factor is that, even with the RBNZ's lower OCR forecast, inflation is still set to fall sharply over the next few months. That's because some of the very large cost increases that we saw in the wake of the pandemic (many of which were due to temporary supply side disruptions) are now dropping out of the annual inflation figures. That will pull headline inflation down from close to 7% currently to around 4.5% by the end of this year. But underlying that is a picture of more persistent domestic inflation pressures. And if the RBNZ doesn't take the OCR higher from here, it's likely that those domestic inflation pressures will linger, meaning interest rates will also likely need to remain higher for longer.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Wed 24	Q1 Retail trade	–1.0%	–1.4%	–0.5%
	RBNZ May Official Cash Rate decision	5.25%	5.50%	5.50%
Fri 26	May ANZ consumer confidence	79.3	79.2	–

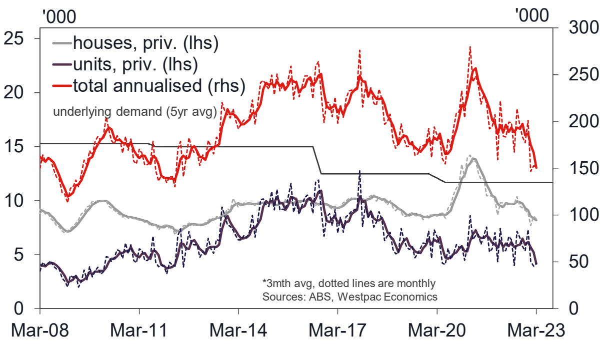
Aus Apr dwelling approvals

May 30, Last: –0.1%, WBC f/c: 2.0%
Mkt f/c: 2.0%, Range: –3.5% to 9.0%

Approvals were flat in March but with the detail on the weak side, a bounce in high rise unit approvals from an extremely weak February read concealing sizeable declines in both private house approvals (–2.9%mth) and low-mid-rise unit approvals (–4.7%mth).

April looks likely to be another mixed read. A decent lift in HIA new home sales suggest non high rise segments should hold up better, a solid gain. High rise approvals are much harder to pick, the segment still coming off a weak level in March and, as always, prone to volatility, but not a clear case of sustained moves in either direction from here. On balance, a lift in non high rise should see total dwelling approvals up 2%mth but high rise is a big wild-card.

Dwelling approvals



Aus Q1 construction work

May 31, Last: –0.4%, WBC f/c: 1.2%
Mkt f/c: 0.7%, Range: –1.5% to 2.0%

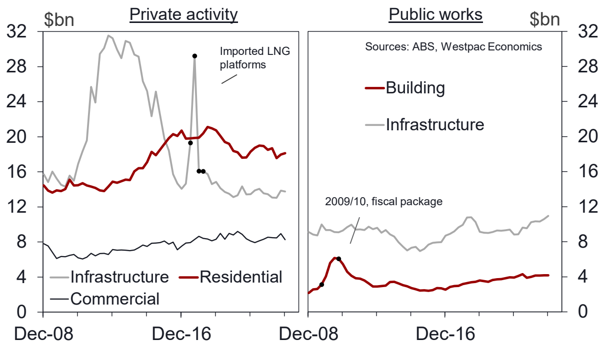
Over 2022, construction work was volatile around a tepid upward trend. Material and labour shortages, which have eased of late, were a headwind. Weather fluctuations impacted quarter to quarter.

Activity in the sector expanded by 1% over 2022 (including a 3.3% rise over the second half of the year). Strength in public works, +6.3%yr, and private infrastructure, +2.2%yr, outweighed a decline in private building activity, –2.3%yr.

The 2023 year is expected to begin on a mildly positive note, with work forecast to rise by 1.2%. The upward trend in public works and private infrastructure likely extended into the March quarter, consistent with recent strength in commencements.

Housing may be mixed, with renovation work moderating from the earlier boom, while new dwelling construction will be supported by the still sizeable work pipeline.

Construction work: by segment



Aus Apr private sector credit

May 31, Last: 0.3%, WBC f/c: 0.3%
Mkt f/c: 0.3%, Range: 0.2% to 0.4%

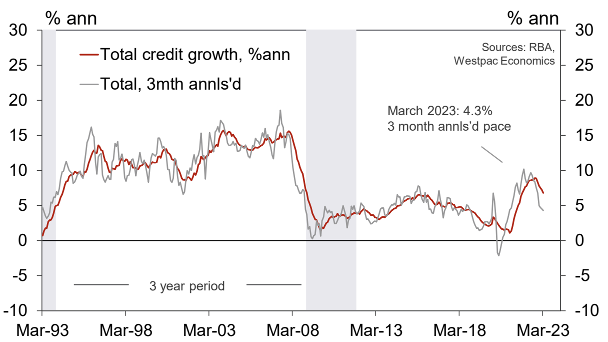
Over the past half year, the monthly pace of credit growth broadly stabilised – with outcomes of either 0.3% or 0.4%.

Prior to that, the appetite for credit diminished significantly as sharply higher interest rates impacted, reducing borrowing capacity. Monthly credit growth slowed from a high of 0.8% for May and June 2022 to be at 0.3% for March 2023.

For April, we anticipate another reading of 0.3%. That would see annual growth slow from 6.8% to 6.4%, while the 3-month annualised pace will be 4.0%, down from 9.7% in mid-2022.

Housing credit growth, on a monthly basis, has stabilised recently, consistent with an emerging stabilisation in the established property market. The 3 month annualised pace of housing credit growth is currently 4.0%, compared with 6.4% for business and –0.7% for personal.

Credit: growth pulse slows to 4.3% – a 2 year low



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 Apr Monthly CPI Indicator %yr

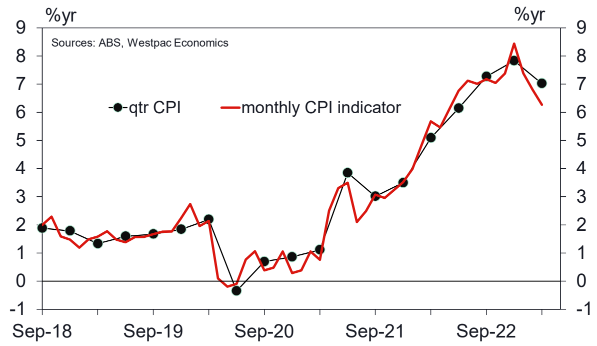
May 31 Last: 6.3%, WBC f/c: 6.5%
Mkt f/c: 6.4%, Range: 6.1% to 6.6%

The Monthly CPI Indicator gained 0.6%mth/6.3%yr in March. This increase was due to a 0.4% increase in food of which the standouts being a 1.1% increase in fresh fruit & vegetables, 1.8% increase in dairy products while meat & seafood prices fell 0.2%. Also worth noting was the most 0.2% gain in clothing & footwear, the seasonal 2.6% jump in health costs and 2.2% fall in auto fuel prices.

In March housing costs lifted 0.8% driven by a 0.5% increase in rents, 0.2% increase in dwelling prices and a small 0.2% fall in electricity prices due to state government rebates.

For April we are forecasting a 0.5%mth/6.5%yr increase composed of a 0.3% increase in food, 0.8% increase in clothing & footwear, a 0.5% increase in housing, 1% increase in furnishings and a 1.2% increase in transport costs with a 3.6% increase in auto fuel.

CPI Monthly Indicator vs. qtr CPI



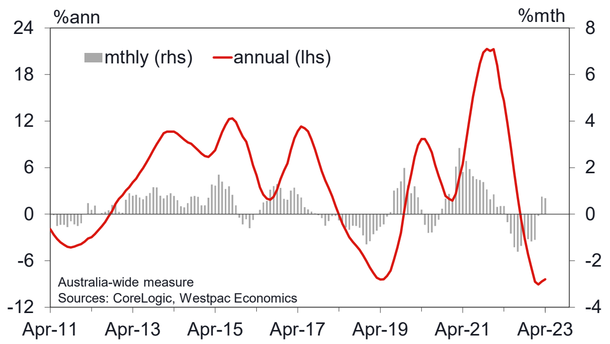
Aus May CoreLogic home value index

Jun 1, Last: 0.7%, WBC f/c: 1.4%

The CoreLogic home value index rose 0.7%mth in April, extending on a 0.8%mth gain in March and a flat result in February. That follows a sharp 9.4% drop over the previous nine months, a correction that now looks to be clearly over.

The CoreLogic daily index points to a further strengthening in May, with prices across the major capital cities tracking a 1.4% rise for the month, gains accelerating across all markets. As noted in our revised house price view, support looks to be coming from a resurgence in immigration, the rising cost of newly built dwellings and low on-market supply. A surge in consumer house price expectations also looks to be anchoring gains.

Australian dwelling prices



Aus Q1 private business capex

Jun 1, Last: 2.2%, WBC f/c: 1.0%
Mkt f/c: 1.0%, Range: –0.5% to 2.5%

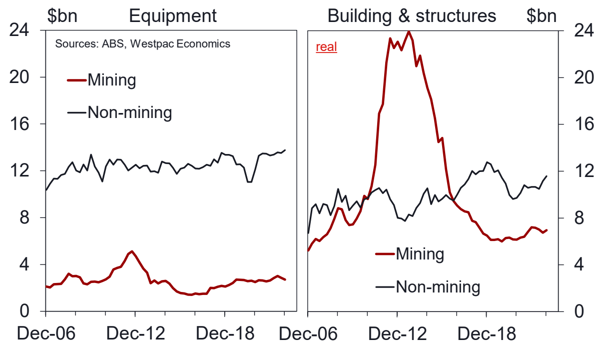
The Capital Expenditure survey reported a 3.6% increase during 2022, including a 3.8% rise in Building & Structures and a 3.4% lift in equipment spending.

For the March quarter 2023, capital expenditure is expected to post a rise of 1% – with similar gains across the two segments.

Private infrastructure activity is trending higher, given the recent strength in commencements – which should see B&S expenditure up in the quarter.

Equipment spending likely has a little further upside, near-term, centred on businesses across the non-mining economy responding to limited spare capacity.

CAPEX: by industry by asset



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.

DATA PREVIEWS

Aus 2023/24 capex plans

Jun 1, Last: 2023/24 Est 1 $129.7bn

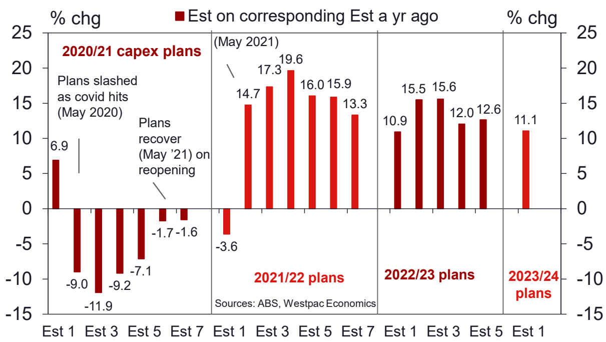
Capex spending rose by 13.3% in 2021/22 (+5.2% for prices and +7.7% for volumes). For 2022/23, plans point to another double digit rise – but the volume/price split is an unknown – thereby making the survey more difficult to interpret during periods of high inflation.

Capex prospects are set to sour in 2023/24 as the economy slows (and as inflation moderates). However Est 1 for 2023/24, as foreshadowed, had yet to fully factor in the likely weakness, something that will take time to emerge in this survey.

Est 1 printed $129.7bn, some 11% above Est 1 a year ago – a comparison which is flattered by weak base effects. We calculate that Est 1 implies a 5.5% rise in capex spending for 2023/24 (based on average Realisation Ratios).

Our guesstimate of businesses guesstimate for Est 2 is around $135bn, which: implies capex up by 4.5% in 2023/24, we calculate; and is 3.0% above Est 2 a year ago (with the weak base effects dropping out of the calculation).

Capex plans: 2023/24 an uncertain outlook



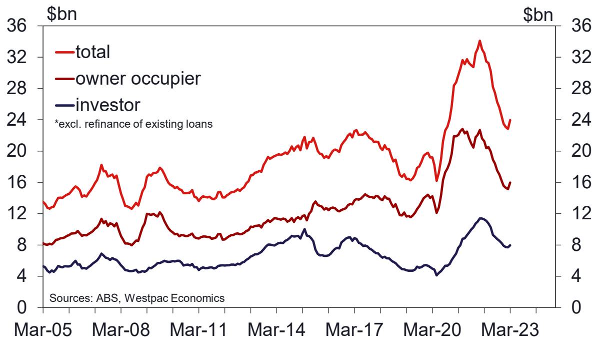
Aus Apr housing finance approvals

Jun 2, Last: 4.9%, WBC f/c: 3.0%
Mkt f/c: 2.0%, Range: –1.0% to 4.4%

The value of housing finance approvals rose 4.9% in March, coming in well ahead of expectations and dispelling any lingering doubts that Australia's housing markets are moving out of their 2022 downturn. The mix also surprised, owner-occupier loans leading the way, first homebuyers (FHBs) showing particularly big gains and construction-related loans firming rather than declining. Investor loans posted a solid but milder gain.

April is expected to show a further lift. Both prices and turnover look to have posted gains in recent months. New home sales also suggest construction-related activity is starting to turn a little, with high costs an additional factor for the value of loans. Easter may have seen some disruptions or delays to approval processing in the month, but these effects are hard to second-guess. On balance, we expect the total value of approvals to post a solid 3% gain.

New finance approvals by segment



NZ Apr monthly employment indicator

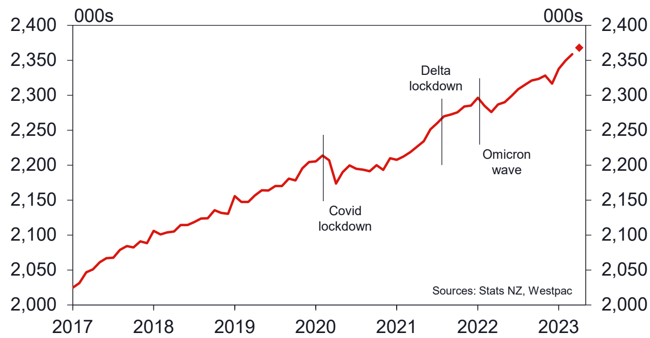
May 29, Last: 0.4%, Westpac f/c: 0.4%

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 mostly quarterly data on the labour market.

The pace of employment growth has actually picked up in recent months. This is no doubt in part because there are more people around to hire – migrant inflows have surged as the reopening of the border has unleashed a pent-up demand to live and work here.

The weekly snapshots provided by Stats NZ suggest a continuation of this solid pace of growth. We expect a 0.4% rise in jobs in April, matching the increase in March.

NZ monthly filled jobs



NZ Apr building consents

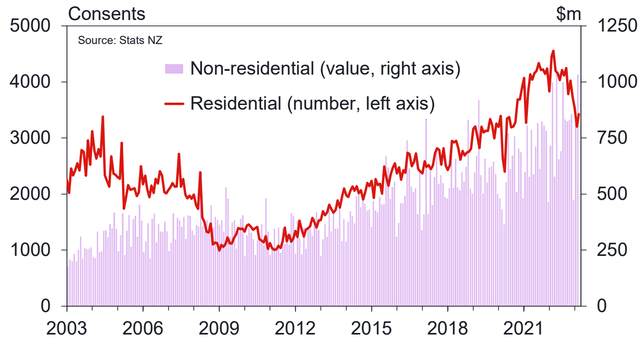
May 30, Last: +7.0%, Westpac f/c: –10.0%

The number of new dwelling consents rose 7% in March, with 3,400 new dwellings consented over the month. Underlying March's rise in overall consent numbers was a large rise in multi-unit consent numbers (like apartments and townhouses), the bulk of which were in Auckland.

We're forecasting a 10% drop in consents in April. In part, that large drop is a normalisation following last month's spike in multi-unit consents.

More generally, the past year has seen a sharp rise in borrowing costs, falls in house prices and large increases in build costs. The related fall in demand has meant that developers are bringing fewer new projects to market. We expect the downturn will become increasingly pronounced over the months ahead.

NZ building consents



NZ May ANZBO business confidence

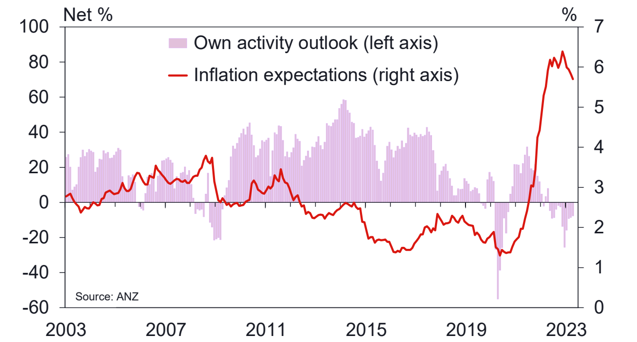
May 31, Last: –43.8

The April business survey continued to point to a slowdown in economic activity. It also continued to highlight strong inflation pressures. However, with earlier interest rate increases rippling through the economy and activity losing steam, the survey's gauges of inflation pressures have been easing back.

We expect that the May confidence survey will again highlight weakness in business sentiment. However, it is a mixed picture across the economy – while retailers and those in the construction sector are reporting softer conditions, businesses in service sectors like hospitality are reporting firmer activity (supported in part by the ongoing 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



NZ Q1 building work put in place

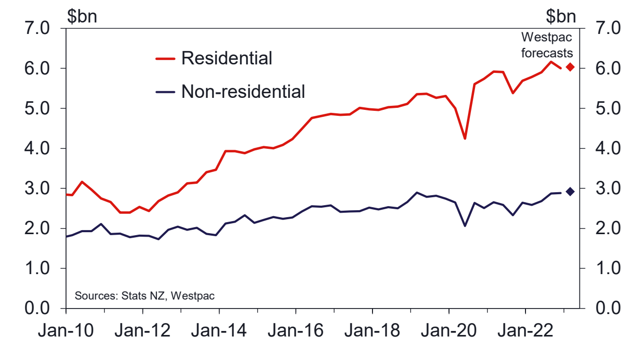
Jun 2, Last: –1.6%, Westpac: +0.8%

While still elevated, the amount of building work put in place fell by 1.6% in the December quarter. That fall was due to a 2.6% fall in residential activity. In contrast, non-residential building activity rose by 0.4% over the quarter.

We're forecasting a 0.8% rise in construction activity in the March quarter with gains in both residential and non-residential activity.

We expect that construction activity will remain elevated in the near-term, with a large number of projects already in the works. However, with increasingly tough financial conditions, we expect that construction activity will trend down over the coming years as the current backlog of projects is cleared and not replaced by new builds.

NZ real building work put in place



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.

DATA PREVIEWS

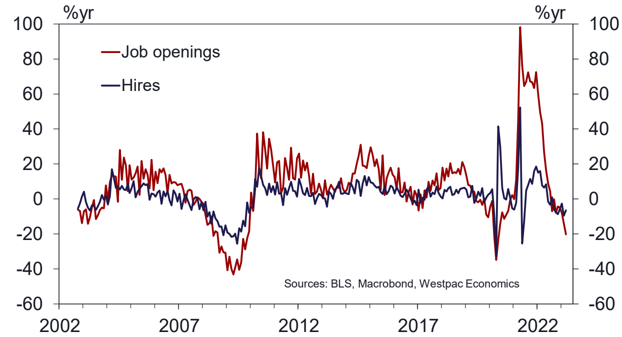
US Apr employment report

Jun 2: nonfarm payrolls, Last: 253k, Mkt f/c: 180k, WBC: 150k
Jun 2: unemployment rate, Last: 3.4%, Mkt f/c: 3.5%, WBC: 3.5%

In recent months, indicators of the US labour market have continued to show a slow deceleration in momentum, albeit with considerable volatility month-to-month and on first and second estimates. We expect this downtrend to remain in place through the remainder of 2023 and into 2024 as the US economy enters recession.

As slack builds, wage growth will take another leg lower, reducing inflation risks but also putting activity at risk of a deeper contraction. How the consumer adapts to this deterioration and the degree to which businesses perceive the weakness as transitory or permanent will determine how long this contraction will run for and the strength of the recovery to follow.

Job openings have lost momentum



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 29					
NZ	Apr employment indicator	0.4%	–	0.4%	Growth picking up, fuelled by migrant arrivals.
UK	May Nationwide house prices	0.5%	–	–	Fundamentals point to ongoing correction.
Tue 30					
Aus	Apr dwelling approvals	–0.1%	2.0%	2.0%	Up-tick but coming from a very low level.
NZ	Apr building permits	7.0%	–	-10.0%	Multi-unit numbers to fall after last month's spike higher.
Eur	May consumer confidence	-17.4	–	–	Recovery in consumer confidence stalling…
	May economic confidence	99.3	99.0	–	… as cost-of-living pressures bite.
US	Mar FHFA house prices	0.5%	0.3%	–	Limited supply to keep price growth going despite…
	Mar S&P/CS home price index	0.1%	0.0%	–	… contractionary policy and softening labour market.
	May consumer confidence index	101.3	99.9	–	Health of the labour market critical to confidence.
	May Dallas Fed index	-23.4	-19.5	–	Businesses under pressure across the nation.
	Fedspeak	–	–	–	Barkin.
Wed 31					
Aus	RBA Governor Lowe	–	–	–	Appearing before Senate in Canberra, 9:00am AEST.
	Apr CPI Monthly Indicator %yr	6.3%	6.4%	6.5%	A 0.5%mth increase following on from a 0.6% gain in March.
	Q1 construction work done	–0.4%	0.7%	1.2%	Higher on public works and private infrastructure.
	Apr private sector credit	0.3%	0.3%	0.3%	Monthly growth steady of late as housing stabilises.
NZ	May ANZ business confidence	-43.8	–	–	Activity subdued. Cost pressures easing from high levels.
Jpn	Apr industrial production	1.1%	1.4%	–	Global slowdown to increasingly weigh on output growth.
Chn	May manufacturing PMI	49.2	49.5	–	Volatility likely in coming months as economy adjusts to…
	May non-manufacturing PMI	56.4	55.2	–	… re-opening and the deterioration in developed economies.
US	May Chicago PMI	48.6	47.5	–	Businesses under pressure across the nation.
	Apr JOLTS job openings	9590k	–	–	Job openings and hiring continues to weaken.
	Federal Reserve Beige Book	–	–	–	Update on conditions across the 12 Fed districts.
	Fedspeak	–	–	–	Collins & Bowman. Harker, Jefferson.
Thu 01					
Aus	May CoreLogic home value index	0.7%	–	1.4%	Lift strengthening and broadening but on very low volumes.
	Q1 private new capital expenditure	2.2%	1.0%	1.0%	Gains likely across both equipment and Building & Structures.
	2023/24 capex plans Est 2, $bn	129.7	–	–	Clouded outlook in face of slowing economy. See textbox.
Jpn	May Nikkei manufacturing PMI	50.8	–	–	Final estimate.
Chn	May Caixin manufacturing PMI	49.5	49.5	–	Export-orientated industries adjusting to shifts in demand.
Eur	May CPI %yr	7.0%	6.4%	–	Energy driving headline descent; underlying remains sticky.
	Apr unemployment rate	6.5%	6.5%	–	Labour market remains in robust health.
	May HCOB manufacturing PMI	44.6	–	–	Final estimate.
UK	May S&P Global manufacturing PMI	46.9	–	–	Final estimate.
	Apr net mortgage lending £bn	0.0	–	–	Cost-of-living and rates major headwinds for housing.
US	May ADP employment change	296k	160k	–	Businesses continue to slow hiring amid uncertainty.
	Initial jobless claims	229k	–	–	Job shedding negligible as firms hold on to staff.
	Apr construction spending	0.3%	0.2%	–	New capacity needed but uncertainty to remain high.
	May S&P Global manufacturing PMI	48.5	–	–	Small and medium sized businesses under pressure…
	May ISM manufacturing	47.1	47.0	–	… big business well positioned for downturn, but pressure on.
	Fedspeak	–	–	–	Harker.
Fri 02					
Aus	Apr housing finance	4.9%	2.0%	3.0%	Lifting off lows, consistent with wider market firming…
	Apr owner occupier finance	5.5%	–	3.5%	… surprisingly strong owner occupier gain in March…
	Apr investor finance	3.7%	–	2.0%	… with investor activity lagging a little.
NZ	Q1 terms of trade	1.8%	–	0.0%	Likely flat result masks falls in both import and export prices.
	Q1 building work put in place	-1.6%	–	0.8%	Still elevated, modest gains expected across segments.
US	May non-farm payrolls	253k	180k	150k	Revisions are creating volatility, but downtrend is clear.
	May unemployment rate	3.4%	3.5%	3.5%	Unemployment will slowly tick higher in coming months…
	May average hourly earnings %mth	0.5%	0.3%	0.3%	… and, as it does, wage growth will take the next leg lower.

Forecasts

Interest rate forecasts

Australia	Latest (26 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	3.95	3.95	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.80	3.60	3.50	3.40	3.30	3.10	2.90	2.80
3 Year Bond	3.45	3.20	3.15	3.05	3.00	2.85	2.70	2.60
10 Year Bond	3.73	3.40	3.30	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-7	-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	3.80	3.50	3.40	3.30	3.10	2.90	2.80	2.60
New Zealand								
Cash	5.50	5.50	5.75	5.75	5.75	5.75	5.25	4.75
90 day bill	5.69	5.70	5.85	5.85	5.85	5.55	5.05	4.75
2 year swap	5.28	5.20	5.00	4.80	4.50	4.30	4.10	4.00
10 Year Bond	4.41	4.20	4.15	4.10	3.95	3.80	3.75	3.70
10 Year spread to US	0.00	70	75	80	85	90	95	110

Exchange rate forecasts

Australia	Latest (26 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6523	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6065	0.64	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	139.68	132	130	128	127	126	125	124
EUR/USD	1.0729	1.11	1.11	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2340	1.25	1.25	1.26	1.26	1.27	1.28	1.29
USD/CNY	7.0522	6.75	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0735	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	1.0	0.4	0.2	–	–	–	–
Annual avg change	1.1	2.7	2.4	2.8	3.2	1.7	1.6	6.0	2.4	1.6	0.9
Unemployment rate %	3.3	3.3	3.4	3.4	3.5	3.7	3.9	3.2	3.4	3.9	4.9
CPI % qtr	1.7	2.2	1.4	1.2	1.0	1.8	0.5	–	–	–	–
Annual change	7.3	7.2	7.2	6.7	5.9	5.6	4.6	5.9	7.2	4.6	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.