AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 5 June 2023

Editorial: RBA Board to hold the line at the June meeting.

RBA: policy decision, Governor Lowe and Deputy Governor Bullock speaking.

Australia: Q1 GDP and quarterly partials, current account, trade balance.

NZ: King's Birthday, GlobalDairyTrade auction.

China: CPI, PPI, trade balance, foreign reserves.

Eurozone: retail sales.

US: ISM services, factory orders, trade balance, consumer credit.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 2 JUNE 2023.

WESTPAC INSTITUTIONAL BANK

RBA Board to hold the line at the June meeting

The Reserve Bank Board meets next week on June 6. The meeting is live in that the case for a further rate increase is likely to be seriously discussed. However, we expect the Board to decide to hold the cash rate steady at 3.85% while continuing to emphasise its tightening bias.

The line: "Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable time frame, but that will depend on how the economy and inflation evolve" is likely to be repeated in the Governor's statement following the meeting.

Note that the qualifier "may be required" was used despite the Minutes for the May meeting showing that the Board had become more concerned about range of issues including: immigration; house prices; and the inflation forecast being to only reach the top of the target range by mid-2025.

Since the May Board meeting the Governor has been publicly voicing more concerns about inflation risks, particularly relating to wages.

However, it seems unlikely that he will choose to use stronger language than we saw in May. For example, stronger language would see "may be required" be replaced with "will be required".

There are still too many uncertainties for him to choose to strengthen the guidance.

In particular, the March quarter national accounts are set to be released on June 7 – the day after the Board meeting.

The May Board Minutes correctly highlighted concerns about household spending, members observing that "the outlook for consumption was weak."

Consumer spending slowed from 1% in the September quarter to 0.3% in the December quarter. Westpac notes that real retail sales contracted by 0.6% in the March quarter (compared to a decline of 'only' 0.3% in the December quarter) and vehicle sales have been flat while we have seen a marked deterioration in Westpac's debit and credit card activity.

Overall we are expecting consumer spending to be flat in the March quarter, held up by services spend, but there are clearly some downside risks. Even a flat outcome will be a disturbing result and something that the Board should treat with care.

Due to upside surprises for construction and equipment investment, the headline GDP result is still expected to be positive but come in at a tepid 0.2% growth for the quarter – only just avoiding a contraction. With uncertainty, particularly around net exports, inventories and services spend, the Board should be deliberating on the basis that a negative GDP result is entirely possible.

With Board meetings every month and given the rapid increase in rates since May last year waiting for the national accounts report seems to be the most prudent approach.

This report will also provide important updates on other areas of concern for the Board, including the savings rate; productivity; labour costs and inflation.

Other data since the May Board meeting also emphasises uncertainty – most notably, a surprise lift in the unemployment rate in April, from 3.5% to 3.7% . We assess that this increase has been due to seasonal anomalies in April associated with the timing of Easter but, once again, it would be prudent for the Board to wait for further information to clarify the employment data.

The quarterly growth rate of the Wage Price Index held at 0.8% in the March quarter – the same as December, which had slowed from 1.1% in the September quarter. That came as a surprise to most commentators who were expecting a modest lift in wage momentum. The contribution from wages set by 'individual arrangement' – a highly cyclical segment – also slowed. Against this, the just-announced 5.75% increase to the national minimum and award wage rates is higher than last year's average increase of 4.7% (and looks to be materially higher than Treasury's assumptions) but is broadly in line with what our aggregate wage growth forecasts were already implying for 2023.

The monthly inflation indicator showed an increase in annual inflation to 6.8% up from 6.3% in March. The average monthly increase in the indicator in the first three months of 2023 was 0.1% compared to the 0.8% for April. A significant part of the increase in annual inflation was explained by fuel – reflecting the temporary halving in excise duty introduced in April last year. However, the strong April month rise came from rents; house purchase costs; and holiday travel and accommodation.

Because the Board has discussed the stickiness of services as an issue offshore the 7.2% increase in travel and accommodation might raise a few eyebrows but this highly volatile series follows +27% in December; and -7.2%; -14.6%; and +1.5% in the following months. Some of the April rise is also clearly seasonal – even with COVID effects, the monthly history back to 2019 shows a consistent pattern of price gains in April (averaging +7%) and falls in May (averaging –5.7%).

Volatile month to month moves mean the April result is not sufficiently definitive to trigger an immediate rate response. The full picture for inflation in the quarter will be released on July 26, ahead of the August Board meeting.

We suspect the Board is still not recognising the full extent of the impact of rate tightening to date. It discusses the lagged effect of the rate hikes since May last year but does not set out just how much of this is yet to come through. As at March (the latest month available), the average mortgage rate on outstanding loans has only lifted by just over 225bps since the start of the cycle, despite a cash rate rise of 325bps (with a further 50bps in tightening since then). About 25bps of this gap reflects lags in the pass-through of official rate moves to borrowers on standard variable rates. The rest reflects the high proportion of borrowers, around 30%, on fixed rate loans. Many of these borrowers are still only rates of 2-3% due to extraordinary fixed-rate offers that were available when the RBA was providing lenders with three-year money at 0.1%.

As these fixed rate loans mature and are rolled over into floating rate at 5-6%, the average mortgage rate will continue to increase. The combination of lagged effects from official pass-through and this roll-over effective mean average mortgage rates will lift close to 100bps by year end, with more modest rises coming in 2024. In effect even once the RBA goes on hold mortgage borrowers on average will still see significant effective rate increases through the rest of this year and next.

Another concerning drag on households has been the surge in rents. There appears to be angst in the Board about the impact of sharply rising rents on inflation but our estimates indicate that wider housing cost inflation is likely to moderate as growth in construction costs cools rapidly – outright price declines even possible given the downturn in new residential building (note the 8.1% drop in dwelling approvals in April, now down a steep 24.1% for the year).

With around 30% of households being renters, sharp increases in rents are likely to further constrain household spending. That said, rents are largely a transfer between households – hence rises will provide some offset to the cost of living and interest rate pressures bearing down on other households.

Overall, these developments still make a strong case for the Board to take an extended pause, to get a clearer picture on demand and inflation, and to allow the automatic further increases in average mortgage rates and the financial squeeze on renters to work their way through the economy.

From the perspective of inflation, weakening demand will put significant downward pressure on inflation and eventually ease the demand for labour and therefore the more persistent pressure on services inflation.

We remain comfortable with our 4% inflation forecast by year's end with no need for any further increases in the cash rate.

Markets are now pricing in a 100% chance of a further rate increase by August. The odds should probably be more evenly balanced than that given the extraordinary in-built lags in the system. Market pricing has already been wildly out of line on three occasions in this unique cycle: in June, October and May.

In terms of the global policy backdrop, FOMC speakers have effectively ruled out another move by the FOMC in June but markets are already speculating on a July move. In this cycle the FOMC is using a less effective instrument (the federal funds rate) than the RBA's cash rate given that US household borrow is typically on fixed-rate terms of 20-30 years - the federal funds rate operates primarily through business lending; credit card rates and asset market channels rather than directly through the cash-flow of the household sector. In this cycle, US households have been more resilient than we are seeing in Australia, allowing the RBA to achieve its objectives with a more moderate tightening cycle. Despite the significant gap that is opening up between the federal funds rate and the cash rate, the RBA should not be seeking to chase the FOMC.

Conclusion

There is too much uncertainty for the RBA Board to raise the cash rate again next week. In particular the outlook for household spending is very worrying especially with inbuilt lags associated with this unique cycle. An extended pause to allow full evaluation of these lags is the best policy.

Bill Evans, Chief Economist (Westpac Group)

The ABS Monthly CPI Indicator surprised to the upside in April, a solid 0.5% lift raising the annual rate of inflation from 6.3% to 6.8%, well above the consensus estimate for a slight up-tick to 6.4%. Although dwelling prices and rents came in stronger than expected, this was largely offset by a fall in electricity prices, leaving total housing costs up only 0.3% in the month. In our view, the most significant driver for headline inflation was a 7.2% rise in holiday travel/accommodation costs. Highlighting the breadth of the pulse, the annual trimmed mean measure – which was reinstated in April– showed underlying inflation lifting from 6.5% to 6.7%.

The April CPI update poses upside risk to our current Q2 CPI forecast of 1.1% and highlights the need to continue carefully assessing inflation risks.

In the lead-up to next week's Q1 GDP report, the ABS also released two partial indicators for investment.

Construction work done rose by a solid 1.8% in the three months to March, centred on the continued uptrend in infrastructure investment, public infrastructure up a sizeable 18%yr and private infrastructure 12%yr. Private building experienced mixed fortunes however, with new dwelling construction down 2.6% but renovation work up 2.7%.

The Q1 CAPEX survey subsequently delivered an upside surprise. In the detail for current activity, equipment spending posted a notable 3.7% gain, with strength most apparent in mining. On spending intentions, the second estimate for 2023/24 CAPEX plans remained constructive, up 5.0% compared to the second estimate a year ago. In our view, this implies a 5.9% rise in CAPEX spending over the financial year. While positive for now, we anticipate the investment outlook will soften, with later estimates likely to see firms mark down their plans.

Despite the solid reads on construction work and equipment spending, we have revised down our forecast for Q1 GDP from 0.4% to 0.2%, reflecting a softer read on consumption and a materially weaker contribution from net exports.

Before moving offshore, a quick note on housing. The recent stabilisation in Australia's housing market continues to reverberate through CoreLogic's home price data, as evinced by the 1.4% gain in May across the nation's capital cities, leaving prices up 3% over the last three months alone. Reflective of this progress, private credit growth within housing-related lending segments is also stabilising at a subdued level, tracking a three-month annualised pace of 4%. While developments around the established market were mostly positive, an 8.1% decline in dwelling approvals highlights the hit to new construction from interest rates and construction costs. For a comprehensive update on the sector, see the Westpac Housing Pulse.

Offshore, China's NBS manufacturing PMI remained in contractionary territory for a second consecutive month in May at 48.8 as the initial wave of re-opening faded. The non-manufacturing PMI also fell, but at 54.5 remained materially above 50, signalling continued expansion.

Lower demand from developed economies and anxiety over the outlook likely contributed to the deceleration, with the new export orders detail for manufacturing weaker than total new orders. For services, despite a material decline in new orders, the employment index held steady. This speaks to confidence in the medium-term outlook amongst the service sector. A historic comparison highlights why: over the 5 years before the pandemic, the non-manufacturing PMI averaged 54.1, 0.4pts below May; during the period, annual GDP averaged 6.7%.

Input and output prices also saw a substantial decline in the month across the economy. The producer price index has been declining on a year ago basis since October 2021 despite the input prices metric in the PMI growing for much of that time. Depressed input prices are flowing through to output prices, contributing to the palsy CPI prints seen since the start of the year – the CPI up just 0.1%yr in April.

Clearly then, the inflation concern of the developed world is not an issue for China. This provides scope for authorities to offer additional support if/ when they feel there is need. We expect data to remain volatile over coming months, but to orbit a strengthening trend. Policy support should only prove necessary at the margin.

Over in the US, the ISM manufacturing PMI ticked down to 46.9 points in May from 47.0 in April. The biggest change was seen in the 'prices paid' detail which plunged below 50 to 44.2. Assessed together with the Chinese data, this outcome suggests falling commodity prices and slower demand are resetting price growth globally. New orders and the order backlog also declined, signalling ongoing contraction in coming months. That said, manufacturers look as though they intend to hold onto staff, with the employment index holding above 50.

The desire to hold onto staff is being seen more broadly across the economy. Earlier in the week, the JOLTS survey reported 10,103k job openings in April, up from 9,745k in March, breaking the downtrend present since December 2022. The series tends to be highly volatile, so this result should not be taken as a sign of renewed labour market tightness but rather resilience. Supporting this view, the hiring rate remained stable in April, corroborating reports from the Fed's beige book that businesses seem less keen on expanding their labour force, with many reporting they are 'pausing hiring or reducing headcount'. Employees are also clearly of the view that it is better to remain in a known role than chance a new opportunity, the quit and separation rates continuing their downward trend.

Considering economic activity, the Fed's Beige book also confirmed a slowdown in demand for transport services which likely fed through to input costs. But the Fed also reported "growth in spending on leisure and hospitality" and for economic activity overall, pointing to GDP growth below trend or stagnation instead of recession.

Finally to policy. FOMC committee member Barkin emphasised in a speech this week that he is looking at the employment and inflation data before determining whether demand-side pressures are abating in supporting the case for a pause at the June meeting. Jefferson and Harker however seemed to have a June pause as their base case ahead of tonight's nonfarm payrolls release, as we do. Importantly, this week also saw the debt ceiling suspended until 2025, the market's uncertainty fading as the bill moved through Congress.

The monetary policy outlook for Europe is much more uncertain. The flash CPI reported inflation fell to 6.1%yr in May as services inflation decelerated to 5%yr. But core inflation remains uncomfortably high. Indeed, ECB President Lagarde opined this week that "there is no clear evidence that underlying inflation has peaked" and that there is still "ground to cover to bring interest rates to sufficiently restrictive levels".

Week ahead & data wrap

Checking the housing pulse

In our recent *Economic Overview* we revised up our assessment of the New Zealand housing market. We now think that house prices have bottomed out, with interest rates nearing their peaks and a resurgence in migration providing a fresh source of demand. We're only forecasting a moderate lift in prices from here on, but we're watching the data carefully – history shows that it's difficult to predict how far the housing market will go once it starts to gain some momentum.

The last few years have seen perhaps the most dramatic rise and fall in house prices in New Zealand's history. The sharp drop in interest rates in response to the Covid-19 pandemic, on top of the significant rate reductions in 2019, added new fuel to the fire. House prices fell slightly during the lockdown period, but then shot up by 43% over the following year and a half. Rising mortgage rates put paid to this rally by late 2021, and prices have since fallen by almost 17% from their peaks. That's still only taken them back to where they were at the start of 2021.

There are now some signs of life returning to the market. House sales appear to have bottomed out in December last year, and have since risen by about 20% – though that still puts them at very low levels compared to history. The number of listed properties also appears to have peaked and turned lower in that same time.

The REINZ House Price Index, released a few weeks ago, showed a 0.2% rise in prices in seasonally adjusted terms in April. That was the first monthly rise that we've seen since November 2021. We wouldn't read too much into that number on its own – it's a tiny increase, and seasonal adjustment is not an exact science. But it's in keeping with the trend of slowing price declines in previous months.

The REINZ index is our preferred measure of house prices, as we think it provides the best trade-off between quality and timeliness. The other major measure is from CoreLogic, whose figures released this week pointed to a 0.7% drop in prices in May. However, the CoreLogic measure tends to lag REINZ for two reasons: it's a rolling three-month average, and sales are recorded at the date of settlement, which puts them about a month behind the REINZ figures (which are recorded on the date that a sale goes unconditional). On a like-for-like basis, the CoreLogic figures were much in line with the REINZ series.

The forces that have been weighing against the housing market over the last couple of years are now starting to turn. Firstly, the end of the Reserve Bank's monetary policy tightening cycle is in sight. Indeed, the RBNZ has signalled that it now expects to keep the cash rate on hold for an extended period, although we see the risks tilted to at least one more hike this year, and financial markets are pricing in some chance of a further hike. In any case, the fixed-term interest rates that New Zealand borrowers tend to favour are now being priced for the prospect of OCR cuts in 2024 and beyond.

On top of this, the balance of migration has turned from a modest net outflow to a strong net inflow over the last year, as New Zealand has reopened its international border. This reflects a pent-up demand to live and work in New Zealand, and it will eventually run its course. But it's hugely uncertain how strong this flow could become in the meantime. We're forecasting a net inflow of 100,000 people for this year, but it could be substantially either side of that.

Migrant arrivals provide a fresh source of demand on the housing stock. While many of them won't be positioned to buy a house when they arrive, they still need a roof over their heads. In that case, the pressure is likely to manifest through upward pressure on rents, which in turn will increase what buyers are willing to pay for a house as a rental property.

Our previous forecast was for a further 7% fall in house prices over 2024. In inflation-adjusted terms, this would have meant a complete reversal of the surge in prices that we saw over 2020-21. However, the recent data suggests that the housing market is stabilising earlier than we expected. And with the developing trends in interest rates and migration, we now think it's likely that prices have reached their bottom.

We're only forecasting a modest lift in prices from here – just 0.5% over the second half of this year, and another 2.5% over next year. But we acknowledge that there are substantial upside risks to this view.

Previous upswings in net migration in New Zealand have been associated with a strong rise in house prices. However, the driver of the migration upturn is different this time. People tend to move to opportunity, and New Zealand has typically seen net inflows when our economy is performing relatively well – and often that's been because it was being fuelled by cyclically low interest rates. This time, however, the migration boom reflects a period of catch-up, and interest rates are already at or near their peak for the cycle.

Of course that doesn't rule out the possibility of a stronger upturn in house prices. We only need to look to Australia for a warning of what may be coming here. Australia is also seeing a sharp surge in net migration (they reopened their border earlier than we did). Rents are now rising sharply, especially in Sydney, and house prices have risen by 3% in the last few months – unwinding about a third of the decline that they saw in 2022.

Michael Gordon, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 29	April Monthly employment indicator	+0.4%	+0.6%	+0.4%
Tue 30	April building consents	+6.6%	–2.6%	–10.0%
Wed 31	April ANZBO business confidence	–43.8	–31.1	–
Fri 2	Q1 Building work put in place	–0.8%	+0.6%	+0.8%

Aus Q1 company profits

Jun 5, Last: +10.6%, WBC f/c: –3.0%
Mkt f/c: +2.0%, Range: –3.0% to +7.0%

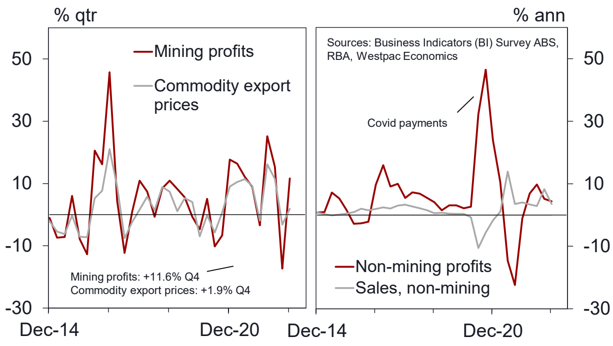
Company profits reportedly jumped 10.6% in the December quarter (reversing an 11.5% dip the period prior).

The Q4 result included an 11.6% partial rebound in mining profits and a 9.5% spike in non-mining profits (ex finance). The National Accounts estimated that profits in Q4 actually rose by a far more modest 3.7% – a reminder that the Business Indicator (BI) survey (which is on an accounting basis) is an imperfect partial indicator.

For the March quarter, we anticipate that the BI survey will report a 3% decline in company profits.

Mining profits are expected to fall on lower commodity prices, with the RBA index 2% lower in the quarter. Non-mining profits were likely patchy at a time of subdued domestic demand. Another negative for Q1 – we estimate that lower prices will reduce the value of inventories on hand, which is booked as a loss in the BI survey.

BI company profits Q4, +10.6% (overly strong)



Aus Q1 non-farm inventories

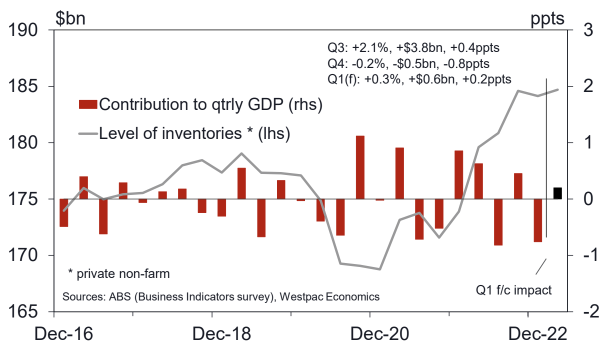
Jun 5, Last: –0.2%, WBC f/c: +0.3%, +0.2ppts cont'n
Mkt f/c: +0.3%, Range: –0.3% to +2.2%

Non-farm business inventories edged 0.2% lower in the December quarter as some one-offs reversed. The Q3 outcome of a 2.1% jump in inventory levels was boosted by mining (transport disruptions delayed deliveries to ports) and retail (Christmas stocking brought forward to avoid supply chain disruptions).

For the March quarter, inventory levels are forecast to rise by a tepid 0.3%. This is at a time of weak demand – recall that domestic demand stalled in Q4 and another soft result is in prospect for Q1 (in part due to declining real retail sales, down by –0.6%). The likely soft result for Q1 inventories is despite strength in goods imports for the quarter (in the order of +4%).

Such an outcome would, subject to revision, see inventories make a small positive contribution to growth in the quarter, of 0.2ppts.

Inventories: likely tepid in Q1 on soft demand



Aus Q1 current account, $bn

Jun 6, Last: 14.1, WBC f/c: 7.0
Mkt f/c: 15.0, Range: 7.0 to 15.0

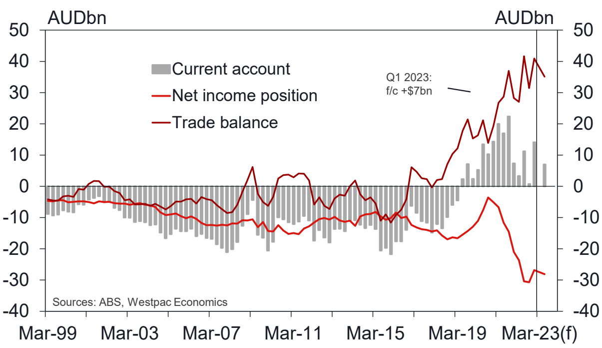
The current account surplus jumped from $0.75bn to $14.1bn in the December quarter. That was on a combination of a larger trade surplus and a dip in the net income deficit (NID).

We anticipate a reversal of those dynamics in the March quarter, resulting in a partial unwind of the current account surplus, to a forecast $7bn.

The trade surplus, on a balance of payments basis, having risen from $31.5bn for Q3 to $40.9bn for Q4, is estimated to narrow to around $35.1bn for Q1. The import bill was broadly flat in the quarter, while export earnings declined on lower prices. *Note that these estimates differ from the monthly trade numbers due to seasonal differences and is subject to revisions.*

The NID has climbed to be at elevated levels, exceeding $30bn in Q2 and Q3 in 2022. A dip to $26.8bn in Q4 was likely temporary, with an expected partial reversal to around $28.1bn for Q1.

Australia's current account: Q1 f/c +$7bn



Aus Q1 real net exports, ppts cont'n

Jun 6, Last: +1.1, WBC f/c: –0.3
Mkt f/c: –0.5, Range: –0.7 to +0.2

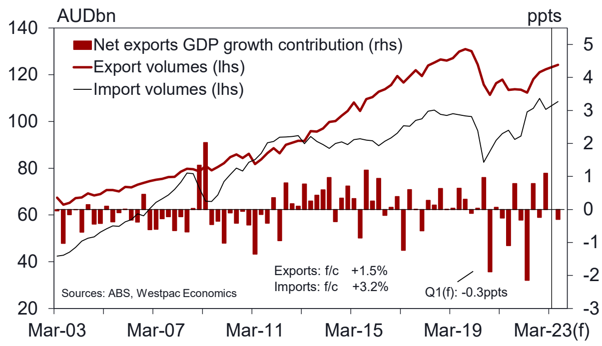
Real net exports have swung from a positive for growth in the December quarter (+1.1ppts) to a negative impact in the opening months of 2023 – a switch centred on import volatility.

Net exports are forecast to subtract 0.3ppts from growth in Q1, *with a considerable degree of uncertainty around this figure given difficulties translating partial indicators to the balance of payments.*

Import volumes increased by an estimated 3.2% in the quarter, partially reversing a 4.3% dip the period prior. The rebound includes a 4% plus rise in goods and a decline in total services (notwithstanding a rise in overseas travel by Australians).

Export volumes expanded by an estimated 1.5% in the quarter *(with a material degree of uncertainty around this figure)*. Goods are 0.5% higher, while services posted a sizeable gain, 7% plus, on the recovery in international students and tourist numbers.

Net exports: Q1 f/c -0.3ppts



Aus RBA policy decision

Jun 6, Last: 3.85%, WBC f/c: 3.85%
Mkt f/c: 3.85%, Range: 3.85% to 4.10%

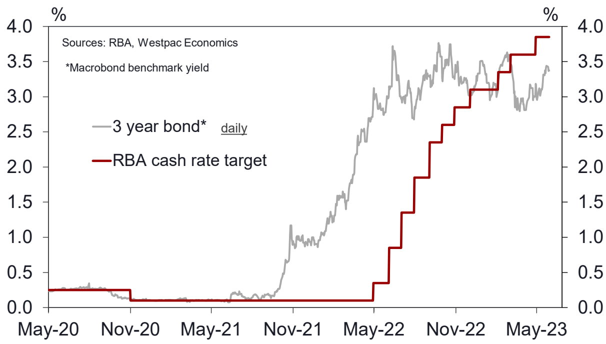
At the June Board meeting, Westpac anticipates that the RBA will keep the cash rate on hold at 3.85%.

The Board raised rates 25bps in May after a brief pause in April, citing concerns that more persistent services inflation may delay the already slow return of inflation to the top of the RBA's 2-3% target range.

While the Board may still be uneasy, and will likely consider a further move at the June meeting, we expect it to pause given the uncertain picture from recent inflation and labour force updates and the more general update on the wider economy due with the Q1 National Accounts release on June 7 – the day after the meeting.

That said, the Governor's statement will continue to exhibit a clear tightening bias as risks to inflation dominate. For more detail, see page 2.

RBA cash rate and 3 year bonds



Aus Q1 GDP

Jun 7, Last: 0.5%, WBC f/c: 0.2%
Mkt f/c: 0.3%, Range: –0.2% to 0.5%

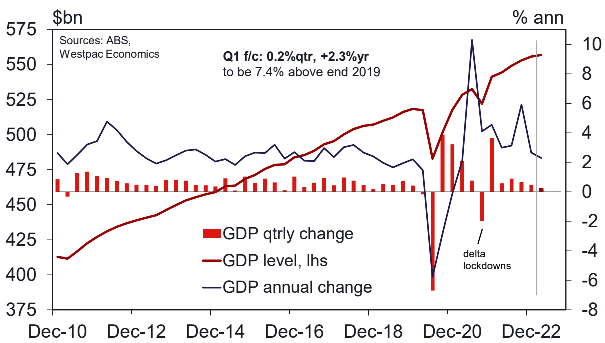
We assess that the Australia's economy slowed appreciably in early 2023, with GDP barely rising 0.2% in Q1 following a weak 0.5% gain in Q4.

The top-line arithmetic is: domestic demand +0.5%, a flat contribution from inventories and -0.3ppts drag from net exports.

Domestically, the detail is expected to show consumer spending stalled flat with the only growth coming from a lift in new business investment and public demand.

The accounts will also provide important updates on household incomes and savings; productivity; labour costs and inflation.

Australian economy: Q1



Aus Apr trade balance, $bn

Jun 8, Last: 15.3, WBC f/c: 11.8
Mkt f/c: 14.0, Range: 11.8 to 15.5

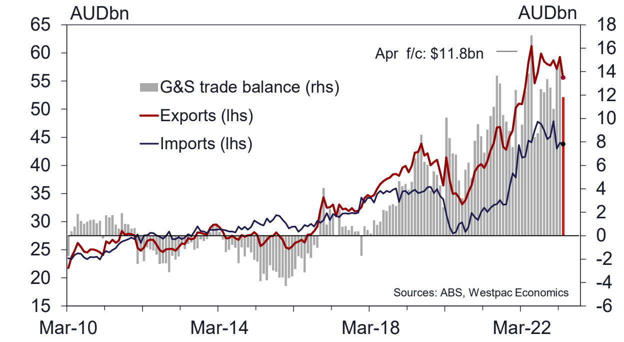
Australia continues to achieve a sizeable trade surplus each month – averaging $11.7bn during 2022. The 2023 year began on a positive one, with the surplus climbing to be approaching a record high, at $14.2bn and $15.3bn for February and March.

For April, a correction from those extreme highs is in prospect, with the surplus forecast to print at $11.8bn, down by $3.5bn.

Export earnings are expected to pull-back sharply, declining by 6.2%, –$3.7bn, on a combination of lower commodity prices (RBA index –4.3% to lowest level since February 2022) and lower volumes (iron ore, cyclone impacts, and coal, maintenance).

On the import bill, we've allowed for a small decline of –0.5%, –$0.2bn. April was a "holiday month" – more so than usual this year, given the way Easter and school holidays fell. That, and subdued underlying demand, point to the risk of lower volumes in the month.

Australia's trade balance



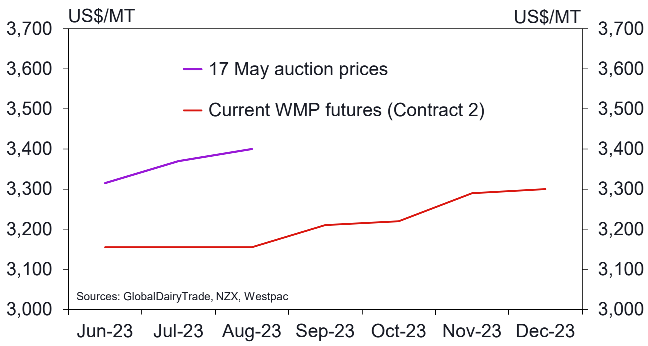
NZ GlobalDairyTrade auction, whole milk powder prices

Jun 7, Last: 0.3%, Westpac f/c: –4.0%

We expect whole milk powder prices (WMP) to fall 4% at the upcoming auction. A fall of this at around this magnitude would reverse much of the recent auction price gains. Our pick is between the 3% fall at last week's mini (GDT pulse) auction and the circa 5% fall that the futures market is pointing to.

In the short term, we expect that very strong New Zealand dairy production over autumn and underwhelming Chinese dairy demand will continue to put downward pressure on prices. In the medium term, we expect that soft underlying global dairy production, and improving Chinese dairy demand will lift dairy prices.

Whole milk powder prices



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

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 05					
Aus	Q1 company profits	10.6%	2.0%	-3.0%	Lower on mining profits. Domestic conditions subdued.
	Q1 inventories	-0.2%	0.3%	0.3%	Q3 +2.1%, Q4, -0.2%. Q1 f/c a tepid 0.3% rise, adds 0.2ppts.
	May MI inflation gauge %yr	6.1%	–	–	Provides a general view of risks.
	May ANZ job ads	-0.3%	–	–	Easing from a very high level; labour demand still robust.
NZ	King's Birthday	–	–	–	Markets closed.
Chn	May Caixin services PMI	56.4	55.2	–	Smooth-sailing post reopening a hard ask.
Eur	Jun Sentix investor confidence	-13.1	–	–	Flattening at weak level given uncertainty over outlook.
US	May ISM non-manufacturing	51.9	52.5	–	Services not yet contracting but under growing pressure.
	Apr factory orders	0.4%	0.8%	–	Underlying weakening, as evinced by core orders…
	Apr durable goods orders	1.1%	-0.2%	–	… highlighting downside to near-term capex outlook.
Global	May S&P Global services PMI	–	–	–	Final estimate due for Japan, Eurozone, UK and US.
Tue 06					
Aus	Q1 current account balance, $bn	14.1	15.0	7.0	Partial reversal of Q4 jump (both trade & NID), see textbox.
	Q1 net exports, ppts cont'n	+1.1	-0.5	-0.3	M's solid rebound, X's modest gain. Considerable uncertainty.
	Q1 public demand	0.2%	–	0.8%	Up on investment (public construction works rose 4.9%).
	RBA policy decision	3.85%	3.85%	3.85%	Expected to pause but case for hike likely to be discussed.
NZ	May ANZ commodity prices	-1.7%	–	–	Dairy and meat prices rose over the month.
Jpn	Apr household spending %yr	-1.9%	-2.2%	–	Likely to remain subdued over 2023.
Eur	Apr retail sales	-1.2%	–	–	Discretionary spending capacity under lasting stress.
Wed 07					
Aus	RBA Governor Lowe	–	–	–	Speaking, 9:20am AEST.
	RBA Deputy Governor Bullock	–	–	–	Panel Discussion, 9:50am AEST.
	Q1 GDP	0.5%	0.3%	0.2%	Growth slowed to a crawl in early 2023.
NZ	GlobalDairyTrade auction (WMP)	0.3%	–	-4.0%	Down on strong NZ autumn supply and soft Chinese demand.
Chn	May foreign reserves US$bn	3204.8	–	–	Little pressure on reserves.
	May trade balance US$bn	90.2	94.2	–	Intra-regional trade supportive to longer-term outlook.
US	Apr trade balance $bn	-64.2	-75.4	–	Deficit to gradually narrow as consumer demand softens
	Apr consumer credit $bn	26.5	21.2	–	Consumer demand to remain under pressure.
Can	Bank of Canada policy decision	4.50%	4.50%	–	Labour market strength a risk to inflation and rate outlook.
Thu 08					
Aus	Apr trade balance $bn	15.3	14.0	11.8	Exports sharply lower, on both prices & volumes – see textbox.
Jpn	Apr current account balance ¥bn	2278	1628	–	Trade supportive in April; primary income volatility at play.
	Q1 GDP, final	0.4%	0.5%	–	Minor upward revision anticipated in final estimate.
Eur	Q1 GDP, final	0.1%	–	–	To provide detailed cross-country comparison.
US	Initial jobless claims	232k	–	–	Job shedding negligible as firms hold onto staff.
	Apr wholesale inventories	-0.2%	-0.2%	–	Final estimate.
Fri 09					
Chn	May CPI %yr	0.1%	0.2%	–	Inflation to remain a benign force…
	May PPI %yr	-3.6%	-4.3%	–	… for both consumers and producers.
	May M2 money supply %yr	12.4%	12.0%	–	Credit is freely available…
	May new loans, CNYbn	718.8	1664.0	–	… as authorities support growth -- tentative date.

Forecasts

Interest rate forecasts

Australia	Latest (2 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	4.02	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.81	3.50	3.40	3.30	3.10	2.90	2.80
3 Year Bond	3.45	3.15	3.05	3.00	2.85	2.70	2.60
10 Year Bond	3.64	3.30	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	3	–10	–10	–10	–10	–10	–10
US							
Fed Funds	5.125	5.125	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.61	3.40	3.30	3.10	2.90	2.80	2.60
New Zealand							
Cash	5.50	5.75	5.75	5.75	5.75	5.25	4.75
90 day bill	5.68	5.85	5.85	5.85	5.55	5.05	4.75
2 year swap	5.20	5.00	4.80	4.50	4.30	4.10	4.00
10 Year Bond	4.30	4.15	4.10	3.95	3.80	3.75	3.70
10 Year spread to US	69	75	80	85	90	95	110

Exchange rate forecasts

Australia	Latest (2 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6607	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6089	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	138.91	130	128	127	126	125	124
EUR/USD	1.0765	1.11	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2529	1.25	1.26	1.26	1.27	1.28	1.29
USD/CNY	7.0786	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0850	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	3.7	4.1	4.7	4.7	3.5	4.7	5.2
Wages (WPI)	0.9	1.1	0.8	0.8	1.0	1.1	1.2	–	–	–	–
annual chg	2.6	3.2	3.4	3.7	3.8	3.8	4.1	2.3	3.4	4.1	3.3
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

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