AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 12 June 2023

Editorial: Slowing growth for now not enough to allay RBA's rising inflation concerns.

Australia: Westpac-MI Consumer Sentiment, business survey, labour force survey, overseas arrivals.

NZ: Q1 GDP, current account balance, house prices and sales, retail card spending, manufacturing PMI.

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

Eurozone: ECB policy meeting, industrial production, trade balance.

UK: unemployment rate, trade balance, monthly GDP.

US: FOMC policy decision, CPI, PPI, retail sales, industrial production, UoM consumer sentiment.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 9 JUNE 2023.

WESTPAC INSTITUTIONAL BANK

Slowing growth for now not enough to allay RBA's rising inflation concerns

Events this week have highlighted a clear shift in focus from the RBA. While the latest economic data confirms growth is slowing markedly in response to cost of living and rate rise shocks, this is unlikely to sway the RBA from delivering another 25bp rate hike at its next meeting in July. The 25bp move in June and the Governor's accompanying statements show he is much more focused on inflation than growth and has clear concerns about a potential shift in inflation expectations delaying the return of inflation to target.

The Reserve Bank Board raised the cash rate by 0.25% to 4.1% at its June Board meeting. Along with the usual decision statement, the RBA Governor also provided commentary on the decision in a speech the following morning, before the national accounts release.

The Governor's decision statement shows a clear reordering of priorities. Maximum emphasis is placed on the damage associated with high inflation and the risk of high inflation expectations becoming entrenched in the economy.

The central reason for the move is that: "Recent data indicate that the upside risks to the inflation outlook have increased, and the Board has responded to this". The RBA states that the June decision is "to provide greater confidence that inflation will return to target within a reasonable timeframe." This can be read as both confidence to the Board and to the wider public.

Most notably, the June decision statement omitted a key line that "Medium-term inflation expectations remain well anchored …" – a line that has been in every decision statement since it was first introduced in July last year. The Governor has noted the importance of expectations many times in the past, citing a 'one-for-one' relationship between inflation expectations and the cash rate, i.e. all else being equal, every quarter point increase in medium term inflation expectations requires an additional quarter point increase in the cash rate.

He points out that services price inflation is still very high and that unit labour costs are rising briskly as productivity growth remains subdued. The Q1 national accounts showed little change on both fronts. The productivity story remains very weak – a 0.6%qtr gain in hours worked running ahead of a 0.2% lift in output, the gap on an annual basis now very wide (+7.1% vs +2.3%). That in turn saw nominal unit labour costs up another 2%qtr, lifting the annual pace to 7.9%yr, up from 4%yr in mid-2022.

The prospect of a further lift in headline wage costs is also a clear concern. The Governor's decision statement notes that public sector wage growth is expected to pick up further (the NSW and Vic state governments are both putting forward increases of 1.5ppts higher than last year) and that the annual increase in award wages was higher than last year.

We go into the Fair Work Commission's minimum wage decision in more detail here. One aspect of this is that while the affected wages make up a relatively small 11% portion of the total wage bill in Australia – dampening the effect on the ABS Wage Price Index measure – the significantly higher 20-25% proportion of all workers covered by the decision suggests it may have more substantive impact via expectations shaping enterprise bargaining and individual wage negotiations. The Governor's decision statement again emphasises that: "The Board remains alert to the risk that expectations of ongoing high inflation contribute to larger increases in both prices and wages." More pointedly, the Governor's speech the day after the decision made particular note of a significant increase in medium term inflation expectations in its regular survey of union officials.

The Governor clearly now views his dominant objective as being to contain inflation expectations and achieve the inflation objective which he now sees as associated with more risk. Our reading of the statement is that the Board believes that further work will need to be done in the near term to allay their concerns around inflationary expectations and wages growth. Despite having increased the cash rate in both May and June we expect that a further rate 25bp hike will be required by the Board in July, to really emphasise their commitment to the inflation objective.

Thereafter the risk is that a further follow-up move may be required at the August meeting when the June quarter inflation report will be available. We expect that underlying inflation will have dropped from 6.6% to 6.1% – giving the RBA enough confidence to pause at the August meeting – but labour markets will still be tight and ongoing concerns around wage pressures may see the RBA maintain a clear tightening bias.

Inflation issues will continue to dominate but we anticipate that growth concerns will become more prominent as the year progresses.

On economic conditions, the Governor's decision statement already acknowledges a shift is underway, noting "a substantial slowing in household spending" and "uncertainties regarding the global economy".

The Q1 national accounts emphasised the domestic slowdown. Output nationally grew by a tepid 0.2% in the March quarter 2023, a material slowing on the 0.6% gain in the December quarter and an average quarterly pace of 0.65% throughout 2022. Annual growth is now 2.3%, barely outpacing population growth and lagging well behind in the latest quarter.

The most notable and concerning aspect of the national accounts was the weakness around the consumer. Spending eked out a slight 0.2%qtr rise in the quarter, but the detail around both spending and incomes was again poor. Real disposable incomes (after tax and interest payments and allowing for inflation) continued to decline in the quarter, contracting at the fastest annual rate in forty years, with no real let-up in sight. The spending mix showed sharp cuts in 'big ticket' discretionary categories, offset by higher spending on utilities and travel – the latter almost certain to fall away as post-COVID 'catch-up' trips subside.

Weakness in the economy is more apparent in per capita terms. Notably, consumer spending has now recorded two material quarterly declines in per capita terms, with falls of -0.2% and -0.3% in the December and March quarters. Output nationally also contracted in per capita terms in the March quarter, declining by -0.2%, following the smallest of gains in September and December, both +0.1%.

More importantly for the forward view, consumer spending gains continue to be funded entirely by lower new saving by households and a run-down of the large reserves accumulated during the pandemic – a dynamic that looks to have less scope to provide support going forward, the savings rate now having dropped to 3.7%. Indeed, our latest Westpac Card Tracker – based on data to the first week of June – shows a further deterioration and a clear risk of a flat or negative result for spending in Q2.

Conclusion

The RBA Board has become much more concerned about inflation risks that will continue to dominate near term. Despite having raised the cash rate on two consecutive months following the pause in April, we now expect a follow up move in July. Inflation is expected to show enough easing to allow the RBA to pause in August but a tightening bias is likely to be retained.

As inflation moderates, further evidence of a sharp slowing in the economy will see growth concerns come more into frame. Economic activity in the Australian economy has already slowed to a crawl as the intense headwinds of high inflation and rising interest rates bite leading to a decline in real household disposable income and a resulting deceleration in consumer spending.

Westpac has been expecting the first rate cut in the next easing cycle to come in February 2024 with at least 100bps of cuts over the course of next year. Since that call was made, the Board has now raised the cash rate by an additional 50bps with another 25bp move now expected in July.

While this will put additional pressure on the Australian economy, particularly for households and eventually business, progress on reducing inflation and wages growth will not be sufficient to allow for a pivot to rate cuts any earlier than February.

Matthew Hassan, Senior Economist

Q1 GDP for Australia came in broadly as anticipated at 0.2%, 2.3%yr. Household spending managed to lift by only 0.2% in Q1 after a similarly weak 0.3% gain in Q4. This was despite another fall in the savings ratio from 4.4% to 3.7% – freeing up roughly $2bn in funding for expenditure – as elevated inflation, interest rates and fiscal drags eroded nominal earnings and saw household's real disposable income fall by 0.3% in the quarter to be 4% lower over the year.

As interest rates continue to rise and inflation only slowly abates, real discretionary spending capacity will remain under pressure. Regarding other areas of the domestic economy, conditions for investment were supportive in the quarter, a rise in construction work and equipment spending leading a 2.9% increase in new business investment overall. Note though, the outlook for investment is clouded given emerging weakness in household demand and global uncertainties.

On trade, Australia's current account surplus widened from $11.7bn in Q4 (revised down from $14.1bn) to $12.3bn in Q1. This was primarily driven by an improvement in the trade surplus, up $2.1bn in the quarter upon sustained strength in Australia's terms of trade which rose 2.8% in Q1. In real terms however, the lift in import volumes (+3.2%) outpaced exports (+1.8%), leading net exports to subtract from GDP growth in Q1, -0.2ppts.

The RBA's decision to raise the cash rate by 25bps this week, which came as a surprise to markets, highlights the Board's concern over inflation risks proving persistent alongside its implications for the economy. Providing more colour around the decision, Governor Lowe delivered a speech the following day, highlighting four key areas critical for the RBA's navigation of the 'narrow path'. These include; the global economy, household spending, unit labour costs and inflation expectations.

The Board still believes it can lower inflation whilst maintaining the economic gains from earlier expansionary policy, but the risks are considerable. Given their decision in June and associated communications, we now expect a further 25bp increase in the cash rate in July to 4.35%. Another move in August is a possibility depending on the data's evolution. Rate cuts will have to wait until 2024.

The RBA wasn't the only central bank to surprise this week – the Bank of Canada also raised its policy rate by 25bps to 4.75%, ending the pause which started in January. The stronger-than-expected Q1 GDP print of 3.1% annualised, with a "surprisingly strong and broad-based" contribution from household consumption, led policymakers to believe that a further rate hike was warranted to rein in excess demand. Strong core inflation also contributed to the decision as the bank expressed concern that "CPI inflation could get stuck materially above the 2% target". Forward guidance was scant but, having been wrong-footed in June, market participants are now pricing in additional tightening, with a hike fully priced by September and a 50/50 chance of another by year end.

South of the border in the US, the ISM non-manufacturing survey weakened to 50.3 in May – a whisker above the neutral threshold and around six points below the five-year pre-COVID average. There was a broad-based fall in the sub-indices, with 'backlog of orders' and 'new orders' falling the most. Most notably though, the employment sub-index fell below 50, signalling a modest reduction in headcount at service firms. This is consistent with the uptick reported for initial claims this week and the reduction in hours found by the establishment survey last week; however, it is a stark contrast to the outsized 339k gain in nonfarm payrolls also reported by the BLS' establishment survey.

The US trade deficit meanwhile widened to $74.6 billion in April as a result of both weaker exports and stronger imports which recovered much of the weakness seen last month. On the exports side, industrial supplies and consumer foods both saw a sizeable downshift. Exports to Germany contracted – an unsurprising result given Germany and the Euro Area overall are now estimated to have experienced a mild recession during Q4 and Q1. Exports to China also fell, but not by as much.

Reversing our perspective and moving a month forward in time to May, China's trade surplus narrowed to US$65.8bn as exports weakened and imports rose. Exports to the US have declined on a year ago basis every month since August 2022. Offsetting growth in demand has however come from Asia, momentum that is likely to be sustained through 2023. Imports are expected to strengthen further following a pick-up in construction. Residential sales have already jumped higher and starts will follow. As these projects begin, demand for key inputs such as iron ore and timber will grow. China's post-COVID consumer recovery is also likely to result in an increase in consumption of imported goods and services. This is good news for our region as Chinese visitors support tourism across Asia and Oceania.

Week ahead & data wrap

Cheese cutter

Global dairy consumers have fallen in love with cheese, with cheese prices sizzling at or near record highs since late 2021. Pinning down the exact genesis for the cheesy trend is a question for the marketing experts – however, we suspect it has something to do with Covid lockdowns, the ease of pizza deliveries during said lockdowns, and therefore a new-found love of cheese in large fast-growing markets, particularly in Asia.

While increasing global consumption of dairy products is normally a good thing for New Zealand, we are not well-placed to benefit from higher cheese prices, at least in the short term. New Zealand dairy companies have limited factory capacity to produce more cheese. And while cheese production has expanded where possible, in the short term, these companies are stuck producing other less profitable products like whole milk powder (WMP).

Some commentators have pointed to rising Chinese WMP production as a sign of increasing Chinese self-sufficiency and/or notable strength in Chinese dairy production. In contrast, our view is that China is filling the gap left by global dairy exporters. Indeed, if we could, we would be producing even more cheese and subsequently even less WMP, creating an even larger WMP gap for China to fill.

With cheese production capacity capped, New Zealand cannot optimise the average price of dairy exports given the current mix of global dairy product prices. Put differently, total dairy export values would be higher if New Zealand dairy companies could produce more higher value cheese products and less WMP (which is selling at a relatively lower price). We note that in larger cheese producing regions such as the EU, average dairy prices are higher and thus total dairy incomes are faring better.

As it turns out, there's a reason for this inflexibility. That is, cheese and WMP normally track each other, so there normally isn't a large trade-off between producing one over the other. However, over the last year or two, cheese prices have never been higher relative to WMP.

Stepping back, the global dairy market is generally healthy. Global dairy demand is not soft. On the contrary, there is a large amount of unmet cheese demand (and a relative oversupply of WMP). We also note that global production is generally soft. We expect flat production growth in the US or EU over calendar 2023 and for New Zealand production to grow at about 1% this year. Meanwhile, production in Australia and Argentina continues to fall sharply.

With the above in mind, we have maintained our positive global dairy market outlook, but we have revised down our outlook for returns in New Zealand. To this end, we have lowered our 2023/24 milk price forecast to $8.90/kg, down from $10.00/kg previously. This puts our forecast slightly above the top end of Fonterra's forecast range of $7.25/kg to $8.75/kg.

At the same time, we expect high Fonterra dividends for farmers over the season just gone and also for 2023/24 (Fonterra's cheese profits are paid as dividends to farmers rather than reflected directly in the milk price). This is a new development given the low dividends Fonterra has paid over recent years.

Last month, Fonterra said that it expects normalised earnings per share of 65-80 cents for 2022/23. Assuming it pays 70% of its earnings as a dividend, this equates to a dividend of between 45.5 and 56 cents per share.

We anticipate that Fonterra will continue to pay a similar dividend over 2023/24. Adding this together to our milk price would equate to between $9.355/kg to $9.46/kg. In other words, the healthy dividend does not fully offset our lower milk price forecast (as Fonterra cannot fully capitalise on very high cheese prices).

Looking ahead, the key question in dairy markets is how long will cheese prices stay high? And secondly, how soon can Fonterra and/or other dairy companies start to produce more cheese?

For now, we assume that the cheese price strength and relative WMP weakness persists over the year (on top of an underlying increase in global dairy prices). Essentially, it's relatively difficult to build new capacity over this sort of short-term horizon.

However, if New Zealand companies can produce significantly more cheese in the next 12 months, then cheese prices will fall and WMP prices will rise. In this case, the milk price will be higher, and the Fonterra dividend will fall to a lesser degree i.e. closer to our previous forecast.

But it's a competitive global market and there are no guarantees that it will be Fonterra or another New Zealand company that takes advantage of high global cheese prices. Nor is there any guarantee that cheese prices maintain their premium. So, how these dynamics play out will have significant implications either way for the New Zealand dairy industry and the broader New Zealand economy.

GDP down in the March quarter, but less overheated rather than weak

Meanwhile, we expect next week's GDP data to show a 0.4% drop for the March quarter, following on from the 0.6% fall in the December quarter. Technically, this would represent a move into recession.

For our part, though, we'd characterise the economy as 'less overheated' rather than 'weak'. Indeed and despite the expected fall in output, the economy is still running well ahead of the potential growth rate where inflation remains stable and low. Thus, a substantial cooling-off period is needed to bring inflation fully under control.

Our forecast is on the weak side of both market and Reserve Bank forecasts. However, there is a high degree of uncertainty around the result. Covid-19 has significantly disrupted the usual seasonal patterns in the data.

Either way, monetary policy is starting to get traction in slowing the economy. But with annual inflation still closer to seven than six, it'll be a considerable period before the RBNZ can even hint at declaring victory.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 6	May ANZ commodity prices	-1.7%	0.3%	–
Wed 7	GlobalDairyTrade auction (WMP)	0.3%	-3.0%	-4.0%

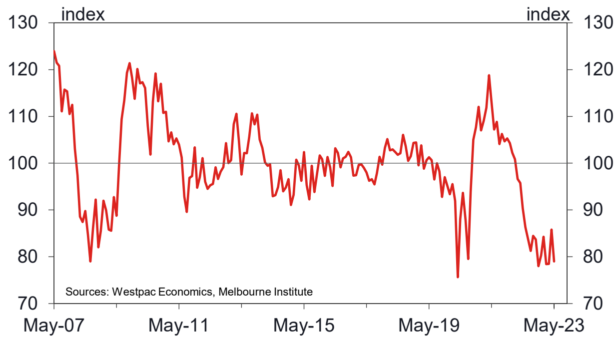
Aus Jun Westpac-MI Consumer Sentiment

Jun 14, Last: 79.0

Consumer sentiment dropped 7.9% to be back near historical lows in May – the RBA's decision to resume its hiking cycle after a brief pause in April dashing hopes of an extended pause and over-riding any positives around the Federal Budget.

The June update looks set to be more of the same, the RBA moving again and warning more increases may be required. Other factors that may influence sentiment include: the Fair Pay Commission's decision to increase the Federal minimum and award wages by 5.75%; more signs of a firming in housing markets, prices in particular; and a tepid update on economic growth from the Q1 national accounts.

Consumer Sentiment Index



Aus May overseas arrivals and departures, preliminary

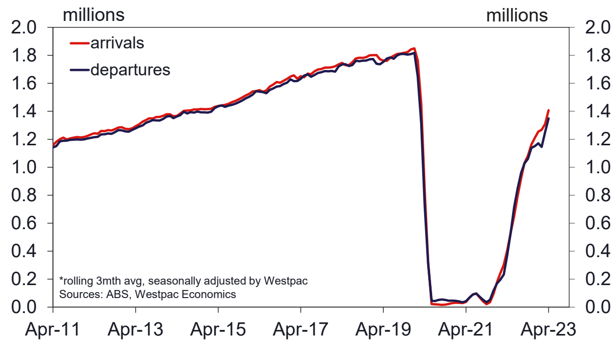
Jun 14, Arrivals, Last: 1372.4k
Jun 14, Departures, Last: 1433.0k

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

Permanent and long-term travel, which tends to be a better (albeit still limited) indicator of net migration flows, is continuing to exhibit strength, with net arrivals in this category tracking monthly gains of +37k/mth on a three-month average basis. The visa detail is also constructive, suggesting that the recovery in net overseas migration is continuing to track a strong pace.

This week we will also receive official population estimates for Q4 2022. So far, we have seen net migration print +100.9k in Q1; +63.8k in Q2 and +106.2k in Q3, and given the evidence seen in other indicators to date, the Q4 estimate is set to confirm a historic year for net migration inflows.

Total overseas arrivals and departures



Aus May Labour Force - employment chg, '000

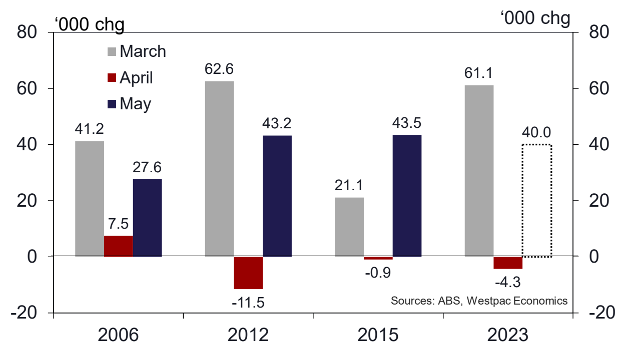
Jun 15, Last: –4.3k, WBC f/c: +40k
Mkt f/c: +15k, Range: –10k to +45k

After two consecutive months of robust jobs growth, employment unexpectedly declined in April, falling by 4.3k.

We believe that a key reason for this unexpected weakness was a seasonal anomaly pertaining to survey timing and Easter. Typically, the April survey overlaps only partially with the Easter holidays. However, 2023 is among a small set of years in which the April survey period *fully* captured all Easter holidays, something which was only observed three other times over the last 20 years (2015, 2012 and 2006). Common across all of these years is a pronounced softness in April and a bounce-back in May.

Hence, we have pencilled in an above-trend increase in jobs growth of +40k, largely reflecting a 'catch-up' from the seasonal anomaly in April. Spread over two months, our +40k May forecast represents a monthly average increase in employment of +18k for April and May.

Employment in years with Easter 'anomalies'



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Aus May Labour Force - unemployment rate %

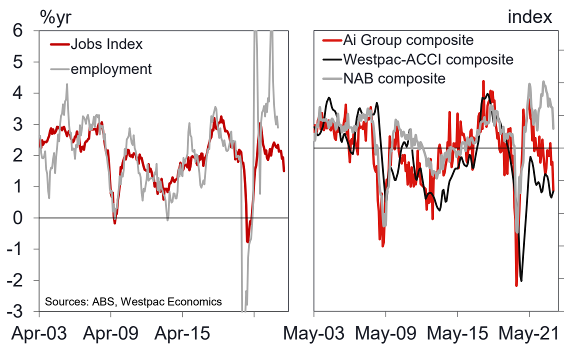
Jun 15, Last: 3.7%, WBC f/c: 3.7%
Mkt f/c: 3.7%, Range: 3.6% to 3.8%

The fall in the participation rate from 66.8% in March to 66.7% in April saw the labour force expand by only +18.4k, but this was enough to raise the unemployment rate from 3.5% to 3.7%. However, at two decimal points, the increase in the unemployment rate was a more modest 0.12ppt lift (3.54% to 3.66%).

Critical to the near-term evolution for unemployment is the strength of labour demand. Indicators suggest it remains robust for now, but the outlook is uncertain. On the one hand, job vacancies and advertisements are at historically elevated levels, and hours worked are rising strongly. On the other, emerging evidence from other business surveys points to an unfolding softening in labour demand.

For May, we have factored in a solid rise in participation back toward March's 66.8%, which would see the unemployment rate hold at 3.7%. Given the above, we would view the risks for unemployment as being tilted slightly to the downside.

Components of the Jobs Index



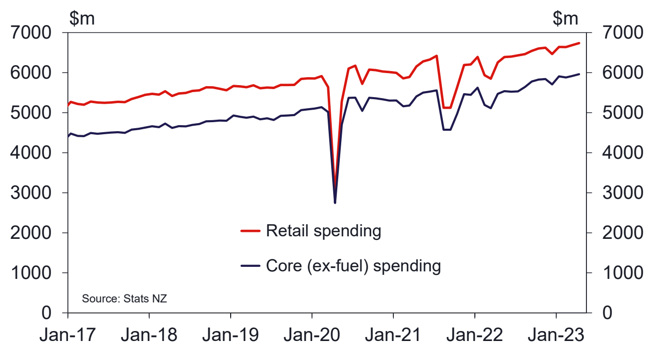
NZ May retail card spending

June 12, Last: +0.7%, Westpac f/c: +0.3%

Retail sales rose 0.7% in April, underpinned by increased spending on groceries and durable items like furnishings. While that rise points to resilience in spending appetites, retail prices are continuing to rise at a rapid pace, meaning consumers are getting less bang for their buck.

We're forecasting a 0.3% rise in retail spending in May, with falls in petrol prices restraining the rise in overall spending levels. Under the surface, we expect a firmer 0.5% rise in core (ex-fuel) categories, with spending levels being boosted by continued price rises and increases in the population.

NZ monthly retail card spending



NZ Apr net migration

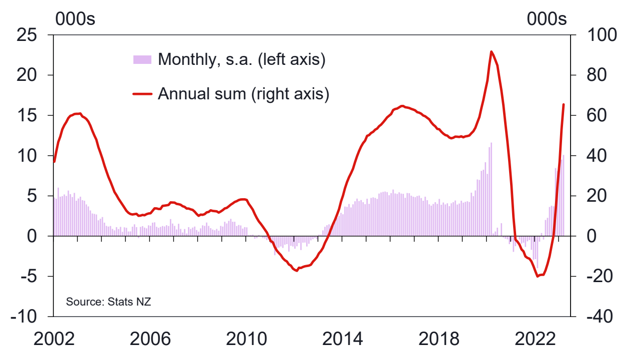
Jun 13, last: 12.1k mth, 65.4k annual

Net migration has turned sharply positive again, as the reopening of the border has unleashed a pent-up demand to live and work in New Zealand. Net inflows reached more than 65,000 people in the year to March, from a net outflow of 20,000 in the previous year.

While these inflows will eventually run their course, it's highly uncertain how high they will reach in the meantime. Our forecast is for a record net inflow of 100,000 people over 2023, but recent months have actually been running ahead of that pace.

The critical issue is not just the number of arrivals but the balance of their effects on the economy. Migrant workers will help to address labour shortages in some areas, but they also add to demand, most notably in the housing market.

NZ net migration



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NZ May REINZ house sales and prices

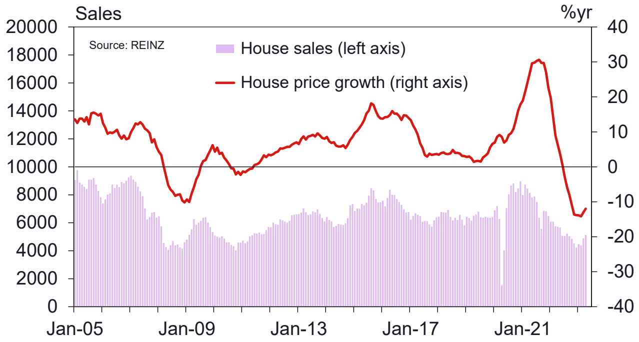
Jun 14, Sales last: +5.1% m/m, –15.3% y/y
Prices last: +0.2% m/m, –12.0% y/y

The New Zealand housing market has started to stabilise in recent months. House sales have risen by 20% since the end of last year, although they remain at a low level compared to history. The REINZ house price index recorded a slight increase in April, the first monthly gain since November 2021.

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

On top of this, the flow of migrants has turned from a modest net outflow to a strong net inflow since New Zealand reopened its border. That will put renewed pressure on the housing stock, as the rate of homebuilding once again falls behind the pace of population growth.

REINZ house prices and sales



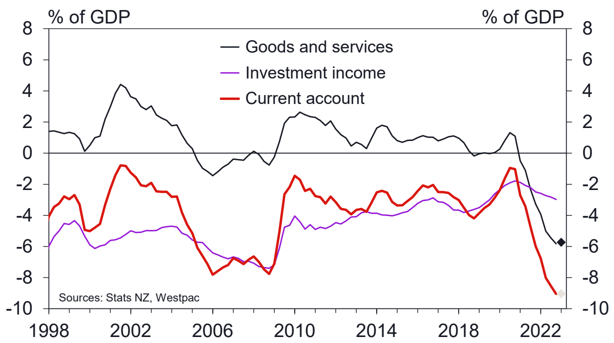
NZ Q1 current account balance, % of GDP

Jun 14, Last: –8.9%, Westpac f/c: –9.0%, Mkt f/c: –9.0%

New Zealand's current account deficit has blown out over the last two years. The loss of overseas tourist revenue (until recently) and the sharp rise in import prices and shipping costs have been a factor. But more broadly, the widening deficit is a symptom of an overheated economy – we are continuing to spend beyond our current means.

We expect the deficit to reach a fresh high of 9% of GDP for the year to March. The services balance is improving as overseas tourists return. However, the goods deficit worsened significantly in the March quarter as export prices fell sharply. A fall in import prices was offset by a rise in volumes.

NZ annual current account balance



NZ Q1 GDP

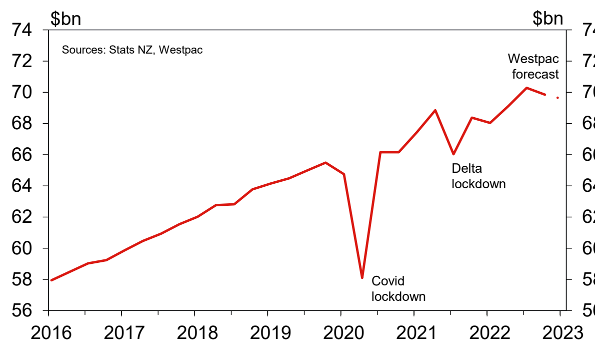
Jun 15, Last: –0.6%, Westpac f/c: –0.4%, Mkt f/c: 0.0%

We estimate that GDP fell by 0.4% in the December quarter. This would be the second straight quarterly decline, and would be weaker than market and Reserve Bank forecasts.

There's a high degree of uncertainty around the quarterly result, as Covid-19 has significantly disrupted the usual seasonal patterns in the data. However, the underlying picture is that the economy is losing momentum – as we'd expect to see after the accumulated monetary tightening over the last year and a half.

We would still characterise the economy as 'less overheated' rather than 'weak'. A substantial cooling-off period will be needed to bring inflation fully under control.

NZ production-based GDP



US June FOMC meeting

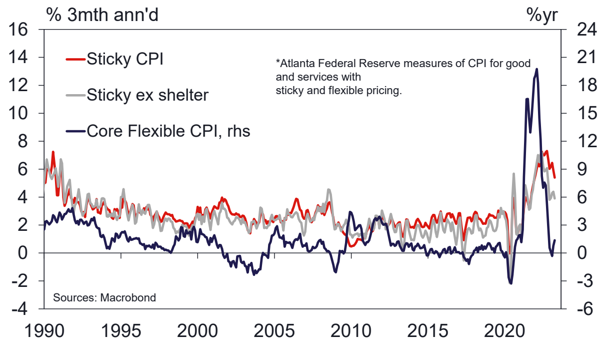
Jun 13-14: fed funds, Last: 5.125%, Mkt f/c: 5.125%, WBC: 5.125%

Commentary from the FOMC ahead of the pre-meeting blackout was decidedly mixed, with a number of participants initially highlighting inflation risks and a potential need to tighten further, but then senior members arguing for time to assess.

Together with the mixed data since, to us and the market it seems most appropriate for the FOMC to hold fire this month while retaining the option to tighten further in the second half of 2023, if conditions warrant it.

Albeit too late to inform their revised published forecasts, the May CPI report (due Tuesday, as the FOMC meet) will be closely scrutinised at the meeting. Most critical will be the impulse for services excluding shelter – a barometer of discretionary demand. Shelter itself requires more time to dis-inflate.

US disinflation trend broadening



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 12					
Aus	King's Birthday public holiday	–	–	–	All states except Qld & WA. Markets closed.
NZ	May retail card spending	0.7%	–	0.3%	Fuel prices down. Core spending continuing to rise.
Tue 13					
Aus	Jun WBC–MI Consumer Sentiment	79.0	–	–	Bracing for another rate rise shock.
	May NAB business survey	14	–	–	Conditions cooling from Sep 2022 high, confidence fragile.
NZ	Apr net migration	12108	–	–	Arrivals have surged since the border was reopened.
Eur	Jun ZEW survey of expectations	–9.4	–	–	Concerns shifting toward domestic outlook, rates and inflation.
UK	Apr ILO unemployment rate	3.9%	4.0%	–	Labour market gradually softening, but still tight for now.
US	May NFIB small business optimism	89.0	88.2	–	Outlook for small businesses increasingly tough.
	May CPI	0.4%	0.2%	0.3%	Goods inflation negligible; shelter holding up services.
Wed 14					
Aus	May overseas arrivals, prelim '000s	1372.4	–	–	Permanent and long-term net arrivals exhibiting strength.
NZ	May REINZ house sales %yr	–15.3%	–	–	While still low, sales have been turning upwards…
	May REINZ house prices %yr	–12.0%	–	–	…while prices appear to be near or at their trough.
	May food price index	0.5%	–	0.7%	Prices rising rapidly, higher wage costs a key driver.
	Q1 current account % of GDP	–8.9%	–9.0%	–9.0%	Trade deficit remains unsustainably large.
Eur	Apr industrial production	–4.1%	1.2%	–	Broad-based weakness highlights a challenging outlook.
UK	Apr trade balance £bn	–2.9	–	–	Deficit to narrow over this year upon consumer weakness.
	Apr monthly GDP	–0.3%	0.2%	–	Bounce-back from March's decline likely.
US	May PPI	0.2%	–0.1%	–	Decelerating quickly from a historic peak.
	FOMC policy decision, midpoint	5.125%	5.125%	5.125%	On hold this month, but hawkish bias to remain.
Thu 15					
Aus	Jun MI inflation expectations	5.2%	–	–	Expectations broadly easing from an elevated level.
	May employment	–4.3k	+15k	+40k	Employment to bounce-back from April seasonal anomaly…
	May unemployment rate	3.7%	3.7%	3.7%	… a lift in participation to see unemployment rate unchanged.
	Q4 net migration	106.2k	–	–	To confirm a historic calendar year for net migration.
	RBA June Bulletin	–	–	–	Quarterly bulletin including RBA research articles.
NZ	Q1 GDP	–0.6%	0.0%	–0.4%	Economy is cooling as higher interest rates bite.
Jpn	Apr machinery orders	–3.9%	3.0%	–	Broadly neutral so far this year.
Chn	May retail sales ytd %yr	8.5%	9.5%	–	Near-term volatility to be expected as economy adjusts…
	May industrial production ytd %yr	3.6%	3.9%	–	… to post-reopening normalisation, but the underlying…
	May fixed asset investment ytd %yr	4.7%	4.4%	–	… picture remains constructive for China this year.
Eur	Apr trade balance €bn	17.0	–	–	Stunning return to surplus as trade patterns normalise.
	ECB policy decision, deposit rate	3.25%	3.50%	3.50%	Another hike anticipated given lingering inflation risks.
US	May retail sales	0.4%	0.0%	–	Momentum likely to ebb further through 2023.
	Initial jobless claims	261k	–	–	Job shedding negligible as firms hold onto staff.
	May industrial production	0.5%	0.1%	–	Manufacturing under pressure.
	May import price index	0.4%	–0.6%	–	Consistent with limited imported inflationary pressure.
	Jun Fed Empire state index	–31.8	–15.6	–	Regional surveys highlight…
	Jun Phily Fed index	–10.4	–12.3	–	… downside risks for US.
	Apr business inventories	–0.1%	0.2%	–	Uncertain outlook points to inventory restraint.
Fri 16					
NZ	May manufacturing PMI	49.1	–	–	Production and orders remain subdued.
Jpn	BoJ policy decision	–0.10%	–	–	Lack of demand-side pressures diminish need for action
Eur	May CPI %yr	6.1%	6.1%	–	Final estimate to provide key detail around services.
US	Jun Uni. of Michigan sentiment	59.2	60.0	–	Inflation expectations the focus.

Forecasts

Interest rate forecasts

Australia	Latest (9 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.10	4.35	4.35	4.10	3.85	3.60	3.35
90 Day BBSW	4.21	4.45	4.47	4.22	3.97	3.72	3.47
3 Year Swap	4.12	4.00	3.90	3.80	3.60	3.40	3.30
3 Year Bond	3.83	3.65	3.55	3.50	3.35	3.20	3.10
10 Year Bond	3.95	3.50	3.40	3.20	3.00	2.90	2.70
10 Year Spread to US (bps)	21	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	3.74	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	5.36	5.00	4.80	4.50	4.30	4.10	4.00
10 Year Bond	4.52	4.15	4.10	3.95	3.80	3.75	3.70
10 Year spread to US	78	75	80	85	90	95	110

Exchange rate forecasts

Australia	Latest (9 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6717	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6090	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	139.42	130	128	127	126	125	124
EUR/USD	1.0780	1.11	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2563	1.25	1.26	1.26	1.27	1.28	1.29
USD/CNY	7.1215	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.1010	1.09	1.10	1.11	1.13	1.13	1.13

Australian economic growth forecasts

	2022			2023				Calendar years			
% change	**Q2**	**Q3**	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022**	**2023f**	**2024f**
GDP % qtr * *fc/s under review*	0.8	0.6	0.6	0.2	–	–	–	–	–	–	–
%yr end	3.1	6.0	2.6	2.3	–	–	–	4.6	2.6	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	1.0	–	–	–	–
annual chg	6.1	7.3	7.8	7.0	6.3	5.1	4.2	3.5	7.8	4.2	3.2
Trimmed mean	1.6	1.9	1.7	1.2	1.2	0.7	1.0	–	–	–	–
annual chg	5.0	6.1	6.9	6.6	6.1	4.8	4.1	2.7	6.9	4.1	3.2

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	–0.4	0.9	0.4	0.2	–	–	–	–
Annual avg change	1.1	2.7	2.4	2.8	3.1	1.6	1.3	6.0	2.4	1.3	0.8
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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