AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 19 June 2023

Editorial: Growth forecasts lower – RBA to hike in both July and August.

RBA: Minutes of June Board meeting, Deputy Governor Bullock speaking.

Australia: Westpac–MI Leading Index.

NZ: Q2 Westpac–MM Consumer Confidence, trade balance, GlobalDairyTrade auction.

UK: BoE policy decision, CPI, consumer sentiment, retail sales.

US: FOMC Chair Powell speaking, housing updates (starts, sales), building permits, leading index.

Global: S&P Global PMIs.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 16 JUNE 2023.

WESTPAC INSTITUTIONAL BANK

Growth forecasts lower – RBA to hike in both July and August

In March, when we last revised our economic forecasts, we expected growth of 1% in 2023 to be followed by a tepid 1.5% in 2024.

That was based on an RBA cash rate peak of 4.1% in May with an easing in the cash rate beginning in February 2024.

Those growth forecasts were well below consensus at the time (the RBA had 1.6% growth for 2023) while the cash rate outlook was also above consensus.

Westpac has now lowered its growth forecasts to 0.6% in 2023 and 1.0% in 2024.

The key driver of this insipid growth outlook is household consumption which we now expect to grow by just 0.3% in 2023 and 0.6% in 2024 (the latter consisting of a –0.3% contraction in H1 and +0.9% lift in H2). This consumption profile is consistent with the very weak measures of Consumer Sentiment we have seen since the onset of high inflation and rising interest rates in 2022.

The forecasts mean per capita spending recessions in both 2023 and 2024 of –1.5% in 2023 followed by –1.0% in 2024. It also implies GDP per capita recessions of –1.2% in 2023 and –0.6% in 2024.

This consumption profile is decidedly weaker than consumption growth during the deep recession years of the early 1990s when annual growth remained positive (+1.2% in 1990 and +1.9% in 1991).

The main difference between the outlook for 2023 and 2024 and the deep recession of 1990 and 1991 is around business investment which contracted by 13.3% in 1990 and 16.7% in 1991 compared to our forecasts of +4.7% and –3.9% for 2023 and 2024 respectively.

The difference in the business investment profile is attributed mainly to forecasts of solid investment growth in infrastructure; renewables; and mining investment. However, we do expect businesses to respond to the weakening sales outlook with a 15% reduction in equipment investment in the year to June 2024.

Consumer spending prospects, in the face of high inflation and sharply higher interest rates, would be even weaker were it not for the substantial savings buffer that households accumulated during the pandemic and the strong starting point for jobs. The tightest labour market conditions in 50 years and still elevated job vacancies are providing clear support to household incomes and spending, but also give those households coming under more intense financial pressure more scope to make adjustments.

Following the RBA's decision to raise the cash rate to 4.1% in June we lifted our forecast for the cash rate peak to 4.35% on the expectation of a further immediate 0.25% increase in July while noting that there was "considerable risk" of a follow-on move in August.

The May Labour Force Survey tips the balance on our August call. It showed an increase in employment of 76,000, outstripping even our top-of-the range forecast for a 40,000 bounce from a small decrease in April that looked to be mainly due to an Easter-related seasonal anomaly. The stronger rebound means we now have average growth of 36,000 jobs over the two months – around the monthly pace we have seen over the past year, indicating no significant slowing of jobs growth despite the RBA's 400 basis points of tightening over the same period. The evidence of strong ongoing momentum in the labour market is sufficient to trigger the "considerable risk" of an August rate hike in our central forecast.

We now expect a further final increase in the cash rate of 0.25% to 4.6% at the August Board meeting, for a peak in the cycle of 4.6%.

This extension of the tightening cycle to August, with the ongoing evidence of a tight labour market, now indicates that the beginning of the easing cycle which we anticipated for February will be delayed to May.

Next year, with labour markets remaining tight for longer than we expected back in March, the RBA Board will require further convincing that the inflation path will land within the 2–3% target zone by June 2025. They will have little choice but to hold-off on the much-needed rate relief by three months. Accordingly, we now expect 25 basis point rate cuts in May; August and November 2024 prior to further cuts in 2025 eventually bringing the cash rate below 3%, our estimate of 'neutral', by year-end.

Given the higher interest rate path than we expected in March it is reasonable to have considered an even larger downside revision to our growth forecasts. But a number of offsetting factors are at play including: higher population growth than expected back in March; a much lower AUD (now forecast to be at USD0.69 by year's end compared to March forecast of USD0.74); stability in the housing market rather than a further year of house price falls; and upsides to household income growth as labour markets remain tighter for longer, wage setting arrangements are adjusted in favour of higher wage outcomes, and fiscal measures provide some additional support.

Consistent with our views in March, our forecasts are based on an additional gradual increase in average mortgage rates over the next year coming from 'fixed rate roll-offs' as up to 30% of fixed-rate loans transition to much higher floating rates (increases generally from 2% to 5.5–6.0%). With the RBA's rate increases from May, June, and (expected) July and August also being passed on, the average mortgage rate over the next year or so will rise by at least 150 basis points – nearly 40% of the current tightening cycle of 400 basis points.

This weaker growth profile has also seen us raise our target unemployment rate for end 2024 from 5% to 5.3%.

Do these growth adjustments constitute a recession?

The standard definition of a 'technical recession' is two consecutive negative quarters of GDP growth. Our forecasts now contain one negative quarter – the March quarter of 2024 (–0.2%) while our forecasts for the adjacent quarters – December quarter 2023 (+0.1%) and June quarter 2024 (+0.2%) – are still positive although well within the range of forecast error. Consequently, on this definition, we are not forecasting a technical recession but recognise the high degree of uncertainty.

There are a range of other ways to define a recession. An increase in the unemployment rate from 3.5% at the beginning of 2023 to 5.3% at the end of 2024 might fit an alternative definition of a recession although we are unaware of any formal definition.

Note that our forecasts also imply per capita spending and GDP recessions in 2023 and 2024, which is sometimes used as an alternative measure definition of recession (see above).

Risks

The significant change in the emphasis of priorities delivered by the Governor in his June decision statement – from staying on the 'narrow path' of protecting post pandemic employment gains to containing inflationary expectations and worrying about rising unit labour costs pointed to those further near-term rate increases.

Our down–beat growth forecasts reflect that policy outlook.

Given the notable resilience of the labour market to date; the prospect of adjustments to industrial relations arrangements that will add pressure to wages growth; and the lift to wage expectations from recent award wage decisions we cannot dismiss prospects of even further increases in the cash rate.

For now, we will bow to the prospect of ongoing tepid growth eventually containing these inflation pressures, expecting rates to go on hold beyond August. But we cannot entirely dismiss these risks and the inevitable implications for the state of the economy in 2024.

Bill Evans, Chief Economist (WestpacGroup)

THE WEEK THAT WAS

Westpac-MI Consumer Sentiment was broadly unchanged in June, the modest rise from 79.0 to 79.2 reflecting a deeply pessimistic view of the outlook. The RBA's decision to raise the cash rate by 25bps was a key factor in June, those surveyed before the decision clearly more confident (+10pts to 89.0) than those surveyed afterwards (-6.4pts to 72.6). Another foreboding development in the month centred on the labour market, an area which broadly over this cycle has been a key support for confidence. Unemployment expectations increased 6.6% to an above-average read for the first time in the cycle. With 78% of respondents after the RBA decision anticipating further rate rises, a sustained rebound in confidence faces considerable headwinds, even if household's perceptions of job prospects don't weaken materially from here.

The labour market certainly remains in robust health for now. Indeed, the May labour force survey delivered an upside surprise, the +75.9k surge in employment surpassing even Westpac's near top-of-the-market forecast. It was also encouraging to see ongoing strength in the supply side of the labour market, as both the participation rate and employment-to-population ratio printed fresh record highs alongside a fall in the unemployment rate to 3.6%. This strength can, in part, be explained as a bounce-back from an unusual seasonal 'anomaly' in April; though, with strength across multiple indicators, if the labour market is softening, it is only doing so at the margin.

Data on Australia's overseas arrivals and departures was also constructive for the outlook. With permanent and long-term net arrivals still tracking at an appreciable +35k/mth average pace, ongoing strength in net arrivals from students and temporary workers as well as scope for further gains from China's reopening, the recovery in net migration remains in full swing. These gains also follow historic strength last year, the ABS' updated population estimate confirming net migration was +387k in 2022, consistent with our long-standing view.

Before moving offshore, a quick note on businesses. The latest NAB business survey provided further evidence of an economic slowdown and a fragile, pessimistic mood amongst businesses. The business conditions index fell by 7pts to +8 in May, well down from earlier highs and reflective of the loss of momentum within the Australian economy due to high inflation and rapid interest rate rises. Against this gloomy backdrop, business confidence moderated 4pts to -4, a mildly pessimistic reading that highlights growing concern over the near-term outlook for activity.

Note, following this week's developments for the labour market, we have revised up our peak for the RBA cash rate. We now expect a hike at the July and August meetings, taking the cash rate to 4.60%. The first rate cut is also now expected to be delayed until May 2024, previously February 2024. The implications for growth and the labour market are material, with GDP growth of just 0.6%yr and 1.0%yr forecast for 2023 and 2024, and consequently the unemployment rate seen at 5.3% by end-2024. For full detail on the forecast changes, see Chief Economist Bill Evan's note.

There was no shortage of fanfare offshore this week, with central bank meetings, activity indicators and price data across the major regions.

In the US, the FOMC expectedly left the fed funds rate unchanged at 5.125%. The accompanying statement was broadly the same as May, but the updated member forecasts showed greater confidence in the economy and uncertainty regarding inflation. This followed the May CPI report which showed an 11th consecutive month of deceleration from June 2022's 9.1%yr peak. Note though that annual CPI inflation is still twice the FOMC's medium-term 2.0%yr target at 4%yr and core inflation is higher still at 5.3%yr, in large part due to shelter's contribution.

The FOMC's headline PCE inflation forecasts are unchanged from March at 3.2%yr, 2.5%yr and 2.1%yr 2023 through 2025; but the underlying strength of the economy saw core PCE inflation revised up 0.3ppts to 3.9%yr in 2023 and kept broadly unchanged at 2.6%yr and 2.2%yr for 2024 and 2025. That the end-2025 core PCE inflation forecast is above the 2.0%yr policy target is arguably as significant as the revision to 2023.

Consequently, FOMC members now project a year-end peak for the fed funds rate in 2023 of 5.6%, 50bps higher than March. The end-2024 and 2025 forecasts are also 30bps higher than the prior set, respectively 4.6% and 3.4%. Versus the 'longer-run' estimate of 2.5%, this implies Committee members believe it will prove necessary to keep policy restrictive for more than 2.5 years from today.

On balance, the FOMC's June decision leads us to believe one more 25bp hike in July is the most likely course – come early-2024 we expect the case to have been made for rate cuts.

Elsewhere in the US, retail sales surprised to the upside rising 0.3%mth in May supported by an uptick in building materials and gardening equipment. Stripping away volatile components, retail sales rose 0.2%mth versus 0.5%mth in April, indicating discretionary spending is being tempered. Initial jobless claims held up at their highest level since 2021 last week; however, claims are still near their historic low.

Over in Europe, the ECB lifted rates by 25bps as underlying inflation remained strong. While the statement acknowledged inflation has decelerated, updated projections point to inflation remaining sticky. Underlying inflation is expected to reach 5.1%yr in 2023 (previously 4.6%yr), 3%yr in 2024 (previously 2.9%yr) and then come down to 2.3%yr by 2025 (previously 2.1%yr). These forecast compare to May's 5.3%yr read. Given the upgraded inflation outlook, it was no surprise that President Lagarde characterised a July rate hike as 'very likely' at the press conference. Views on the meetings beyond were relatively non-committal, with the Governing Council intent on remaining data dependent.

Coming back to Asia, China's May data came in weaker than April, which also was a downside surprise. Fixed asset investment nudged down to 4.0%yr year-to-date as a result of slower growth in state-owned projects and a small decline in private investment. The slowdown in investment will be of concern to policymakers whose growth and social ambitions rely on capacity and income expansion into the medium term.

Unsurprisingly, the PBoC cut the 7-day reverse repo rate by 10 basis points, and followed up with a cut in the medium-term lending rate. But for firms and the consumer, there is need for additional support. On consumption, retail sales growth slowed in May to 12.7%yr from the 18.4%yr seen in April. Services spending continues to outpace goods coming out of lockdown. Highlighting the impact of decelerating developed-world demand, industrial production was lacklustre, growing 3.5%yr, or 3.6%yr year-to-date. Out of the 16 categories, 13 reported increases in year-to-date terms. Of particular note, the production of electric vehicles has ramped up substantially compared to a year ago.

NEW ZEALAND

Week ahead & data wrap

More slowing to go

This week's GDP report showed that the New Zealand economy is steadily cooling down. That's entirely to be expected in the wake of more than 500 basis points of cash rate increases over the last two years. Indeed, it would be astonishing if we weren't seeing some braking effect on the economy by now. But this simply marks a pullback from what was an overheated starting point.

GDP dipped by 0.1% in the March quarter. This was in line with the average market forecast, but a little stronger than our forecast of a 0.4% fall. However, downward revisions to previous quarters meant that annual growth was right in line with our forecast at 2.2%.

This was a second consecutive drop in GDP, following the 0.7% fall in the December 2022 quarter. Debating whether this constitutes a recession, 'technical' or otherwise, is rather fruitless at this stage. The GDP figures will continue to be revised for years to come, and a negative outturn as small as this week's one (–0.06% before rounding) could easily change sign at some point in the future.

What's more, there is a clear direction to the revisions at the moment. With New Zealand's border reopened and international travel rebounding, Stats NZ has resumed regularly updating the seasonal adjustment factors that it applies to the GDP figures. These updates are having the effect of boosting growth rates in the December and March quarters – the usual peak in visitor arrivals – and reducing it in the June and September quarters (see chart). The March 2023 quarter is ripe for an upward revision.

We find that the single best real-time gauge of how the economy is faring is the unemployment rate, which isn't subject to the same kinds of revisions as the GDP figures. What is this telling us right now? Unemployment was 3.4% in the March quarter, compared to a record low of 3.2% a year ago. That suggests that the economy is still running hot, but has turned the corner – much as you would expect after a long period of rising interest rates.

We can take a similar signal from the current account balance, which was also released this week. The annual deficit narrowed to 8.5% of GDP in the March quarter, compared to the previous reading of 9% of GDP which was the largest deficit since the mid-1970s. The shift back from eye-wateringly high levels was a welcome one (although much of it appeared to be due to one-off items). However, the deficit remains unsustainably large by any reasonable measure, and shows that demand in the economy continues to run well beyond our capacity to supply it.

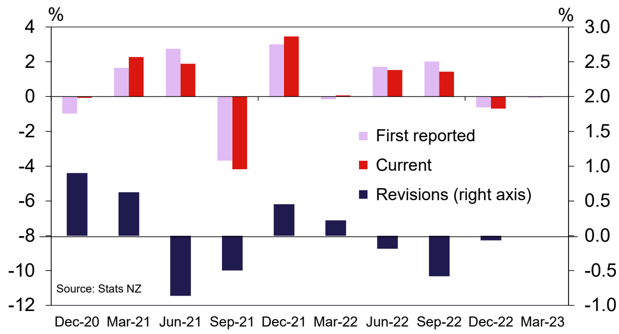
We do expect the economy to continue to slow, as a growing number of borrowers face the bite of higher interest rates. That won't necessarily result in an outright fall in GDP, as stronger migration-led population growth is likely to mask some of the decline. But it's likely to be a long period of adjustment before we can be confident that the inflation pressures in the economy have been tamed – neither we nor the RBNZ are expecting inflation to be back within the 1–3% target range until the second half of next year. Any scope for OCR cuts looks to be some time away, and we still need to see tangible signs of a significant fall in non-tradables inflation in the quarters ahead.

The March quarter GDP result was below the 0.3% rise that the RBNZ had assumed in their May Monetary Policy Statement. That will no doubt leave the RBNZ comfortable with their decision to pause after a long series of interest rate hikes. Curiously, that stance is now putting them out of step with overseas central banks, who are growing more concerned about the potential for 'core' inflation to remain stubbornly high, and are stepping up their warnings about the need for further interest rate hikes.

The key things that we'll be watching from here are (1) the state of the labour market, (2) the degree to which the inflation rate slows over the course of this year, and (3) the potential for a rebound in the housing market. The May REINZ figures showed that house sales have picked up from their lows and that prices have stabilised after a cumulative decline of around 17% since late 2021. The rise in house prices and rents in Australia, following a similar rebound in net migration, may be a warning as to what could happen here.

Michael Gordon, Senior Economist

Quarterly GDP growth before and after revisions



Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 12	May retail card spending	0.4%	–1.7%	0.3%
Tue 13	Apr net migration	13176	5785	–
Wed 14	Q1 current account % of GDP	–9.0%	–8.5%	–9.0%
	May food price index	0.5%	0.3%	0.7%
Thu 15	May REINZ house sales %yr	–12.0%	–4.0%	–
	May REINZ house prices %yr	–11.9%	–11.2%	–
	Q1 GDP	–0.7%	–0.1%	–0.4%
Fri 16	May manufacturing PMI	48.8	48.9	–

DATA PREVIEWS

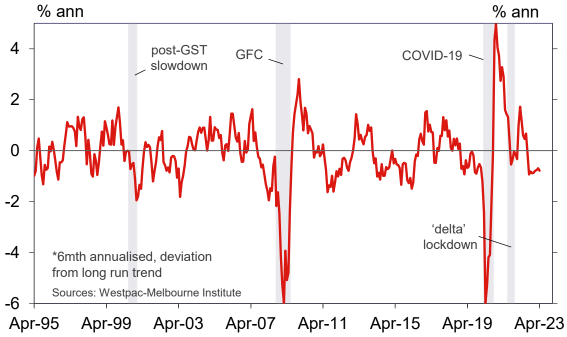
Aus May Westpac–MI Leading Index

Jun 21, Last: –0.78%

The Leading Index continued to send a weak signal in April, the six-month annualised growth rate dipping to –0.78%, marking a ninth successive below–trend read and suggesting that the slowdown that began late last year is set to extend through the second half of 2023 and into early 2024.

The May read will see another batch of weak component updates. The big negatives include: a 10% drop in commodity prices (in AUD terms); a further 8% decline in dwelling approvals; a 1.8% fall in total hours worked; and a 3% fall in the ASX200.

Westpac-MI Leading Index



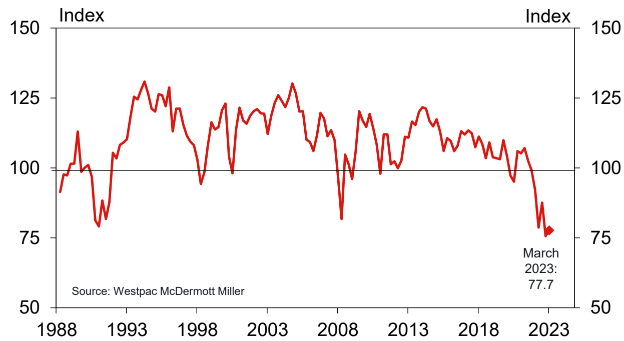
NZ Q2 Westpac McDermott Miller Consumer Confidence

Jun 20, Last: 77.7

Despite nudging higher at the time of our last survey, consumer confidence remained weak in the early part of this year. Households across the country have been grappling with skyrocketing living costs and higher mortgage rates. The downturn in the housing market over the past year will also have been a knock to many families' net worth.

Our latest survey was conducted in the first half of June. Recent weeks have seen signs of a softening in domestic demand as borrowing costs have risen and living costs have continued to rise. However, at the same time, there are increasing signs that the housing market is finding a base.

NZ Consumer Confidence Index



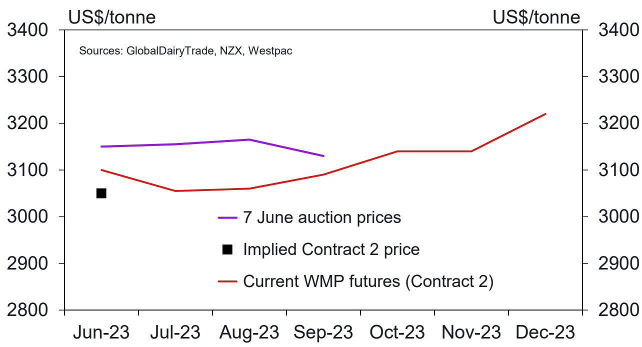
NZ GlobalDairyTrade auction, whole milk powder prices

Jun 21, Last: –3.0%, Westpac f/c: –2.0%

We expect whole milk powder prices (WMP) to fall 2% at the upcoming auction. If prices fall as expected, then this would continue the slow downward trend seen over recent months. Our pick is similar to the 2% fall at last week's mini (GDT pulse) auction, although not as large as the circa 3% fall that the futures market is pointing to. We note that Fonterra has announced a reduction in auction volumes on offer and this has swayed us towards a slightly smaller price decrease.

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



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 19					
NZ	May BusinessNZ PSI	49.8	–	–	Orders have fallen sharply in recently.
US	Juneteenth	–	–	–	Public holiday; markets closed.
	Jun NAHB housing market index	50	51	–	Lack of inventory to drive optimism among builders
Tue 20					
Aus	RBA minutes	–	–	–	More colour around the 25bp move.
	RBA Deputy Governor Bullock	–	–	–	Speaking at AI Group, Newcastle, 1:30pm.
	RBA Assist' Governor (Fin Mkts) Kent	–	–	–	Panel participant at ISDA/AFMA Forum, Sydney, 11:35am.
NZ	Q2 WBC–MM Consumer Confidence	77.7	–	–	Has been at low levels in recent months.
Jpn	Apr industrial production	–0.4%	–	–	Preliminary surveys suggest IP is picking up moderately.
US	May housing starts	2.2%	–0.1%	–	Weakness to come as pipeline runs dry.
	May building permits	–1.4%	0.9%	–	Pessimism to provoke paltry permits.
	Fedspeak	–	–	–	Bullard, Williams.
Wed 21					
Aus	May Westpac–MI Leading Index	–0.78%	–	–	Pointing to an extended period of below–trend growth.
NZ	GlobalDairyTrade auction (WMP)	–3.0%	–	–2.0%	Down on strong NZ autumn supply and soft Chinese demand.
UK	May CPI %yr	8.7%	8.5%	–	Strong base will decelerate growth but pressure remains.
US	Fedspeak	–	–	–	Powell before House Financial Services Panel; also Goolsbee
Thu 22					
NZ	May trade balance $mn	427	–	250	Underlying balance improving gradually as imports soften.
Eur	Jun consumer confidence	–17.4	–	–	Uptrend in confidence limited by rates and inflation.
UK	BoE policy decision	4.50%	4.75%	4.75%	Strong price and wages growth will necessitate a 25bp hike.
US	May Chicago Fed activity index	0.07	–	–	Seeping pessimism slowing activity…
	May leading index	–0.6%	–0.8%	–	… and creating downside risk.
	May existing home sales	–3.4%	–0.7%	–	Lack of inventory and affordability slowing sales.
	Initial jobless claims	262k	–	–	Volatility keeping pundits on toes over outlook.
	Jun Kansas City Fed index	–1	–	–	Blank backlogs bludgeon manufacturing.
	Fedspeak	–	–	–	Powell before Senate Panel; Waller, Bowman, Mester, Barkin.
Fri 23					
Jpn	May CPI %yr	3.5%	3.2%	–	Core inflation to remain high.
	Jun Nikkei manufacturing PMI	50.6	–	–	EV production to brighten prospects for manufacturing.
	Jun Nikkei services PMI	55.9	–	–	Demand producing optimism for services.
Eur	Jun HCOB manufacturing PMI	44.8	–	–	German weakness dragging on manufacturing sentiment…
	Jun HCOB services PMI	55.1	–	–	… services to follow soon enough.
UK	Jun GfK consumer sentiment	–27	–	–	Anticipation of a further rate hike to weigh in on sentiment
	May retail sales	0.5%	–	–	Some weakness expected as demand declines.
	Jun S&P Global manufacturing PMI	47.1	–	–	Pessimism to remain in manufacturing while…
	Jun S&P Global services PMI	55.2	–	–	… services see a boost.
US	Jun S&P Global manufacturing PMI	48.4	48.5	–	The US is likely to experience similar outcomes…
	Jun S&P Global services PMI	54.9	54.0	–	… though risks for services greater.
	Fedspeak	–	–	–	Bullard, Mester.

Forecasts

Interest rate forecasts

Australia	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.10	4.60	4.60	4.60	4.35	4.10	3.85
90 Day BBSW	4.30	4.80	4.80	4.63	4.38	4.13	3.88
3 Year Swap	4.30	4.30	4.15	4.00	3.80	3.60	3.50
3 Year Bond	3.99	4.00	3.85	3.75	3.55	3.40	3.30
10 Year Bond	4.00	3.80	3.70	3.50	3.30	3.20	3.10
10 Year Spread to US (bps)	27	20	20	20	20	20	20
US							
Fed Funds	5.125	5.375	5.375	4.875	4.375	3.875	3.375
US 10 Year Bond	3.73	3.60	3.50	3.30	3.10	3.00	2.90
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	5.35	5.00	4.80	4.50	4.30	4.10	4.00
10 Year Bond	4.48	4.30	4.20	4.00	3.80	3.75	3.70
10 Year spread to US	75	70	70	70	70	75	80

Exchange rate forecasts

Australia	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6885	0.69	0.69	0.71	0.72	0.73	0.74
NZD/USD	0.6232	0.62	0.62	0.63	0.64	0.65	0.66
USD/JPY	140.63	138	136	134	132	130	128
EUR/USD	1.0943	1.11	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2786	1.27	1.27	1.28	1.28	1.29	1.29
USD/CNY	7.1311	7.00	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.1039	1.11	1.11	1.13	1.13	1.12	1.12

Australian economic growth forecasts

	2022	2023			2024			Calendar years			
% change	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2021	2022	2023f	2024f
GDP % qtr	0.6	0.2	0.1	0.2	0.1	-0.2	0.2	–	–	–	–
%yr end	2.6	2.3	1.5	1.1	0.6	0.2	0.3	4.6	2.6	0.6	1.0
Unemployment rate %	3.5	3.6	3.6	3.7	4.2	4.8	5.0	4.7	3.5	4.2	5.3
Wages (WPI)	0.8	0.8	1.0	1.1	1.2	0.8	0.7	–	–	–	–
annual chg	3.4	3.7	3.8	3.8	4.1	4.1	3.8	2.3	3.4	4.1	3.3
CPI Headline	1.9	1.4	1.1	0.7	1.0	0.9	0.9	–	–	–	–
annual chg	7.8	7.0	6.3	5.1	4.2	3.7	3.5	3.5	7.8	4.2	3.2
Trimmed mean	1.7	1.2	1.2	0.7	1.0	0.8	1.0	–	–	–	–
annual chg	6.9	6.6	6.1	4.8	4.1	3.7	3.5	2.7	6.9	4.1	3.2

New Zealand economic growth forecasts

	2022	2023			2024			Calendar years			
% change	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2021	2022	2023f	2024f
GDP % qtr	-0.7	-0.1	0.5	0.5	0.1	0.0	0.0	–	–	–	–
Annual avg change	2.7	2.9	3.0	1.5	1.2	0.9	0.8	6.0	2.7	1.2	0.5
Unemployment rate %	3.4	3.4	3.5	3.7	3.9	4.2	4.5	3.2	3.4	3.9	4.9
CPI % qtr	1.4	1.2	1.0	1.9	0.5	0.6	0.6	–	–	–	–
Annual change	7.2	6.7	5.9	5.6	4.7	4.0	3.7	5.9	7.2	4.7	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.