AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 26 June 2023

Editorial: Central banks have more work ahead.

Australia: Q2 ACCI-Westpac business survey, monthly CPI, retail sales, private credit.

NZ: Q2 Westpac-MM employment confidence, employment indicator, business confidence.

China: official PMIs, industrial profits.

Eur: CPI, unemployment rate.

US: housing updates (prices, sales), durable goods, personal income and spending, PCE deflator.

Global: ECB's Annual Central Banking Forum – policy panel with FOMC's Powell, ECB's Lagarde, BoE's Bailey.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 23 JUNE 2023.

WESTPAC INSTITUTIONAL BANK

Central banks have more work ahead

Over the last four weeks I have been travelling to US (East Coast); Canada (Toronto); Europe (including Paris and Frankfurt) and London visiting customers and officials.

Just as we have seen the RBA step up its tightening agenda following the pause in April we have seen similar themes in other countries. The BOC paused and restarted and BOE has accelerated its cycle. Today we see that the BOE has surprised markets with a 50 basis point increase.

The FOMC paused in June but expects to resume tightening twice more by year's end.

My take on the current challenges of central banks is that they have been responding to the surprising resilience of asset markets; services inflation; labour markets; and, in some cases, household spending due to the unusual legacies of the pandemic.

I see those legacies in three categories.

The first is the imbalance between the demand and supply of labour. During the pandemic households were provided generous income support from governments while being restrained in their ability to spend. Once they were "released" a sharp lift in demand for services, boosted labour demand while simultaneously labour supply was being constrained by border closures; early retirements; and "pandemic caution." That imbalance which is measured by the gap between job vacancies or openings and available labour has been slow to close. This issue was raised only this week by the deputy Governor of the Reserve bank in a speech in Newcastle.

The second imbalance is the accumulation of excess savings by households and businesses. In the case of Australia, the RBA estimates that excess savings balances reached 20% of disposable income at their peak. These excess balances made household spending more resilient to central bank tightening than normally and blunted a key transmission mechanism through asset markets. Housing markets have stabilised in UK; Canada; and Australia while the US equity market has been remarkably resilient to the FOMC's aggressive tightening cycle. The higher income groups have been the dominant beneficiaries of this liquidity build up boosting investment in housing and equity assets. The lower income groups initially used the savings as buffers but are now quickly running down their holdings.

The third imbalance has been the build- up in fixed rate borrowings in Australia; Canada; UK and NZ in response to the long run of low fixed rates in the years leading up to and particularly during the pandemic. This has, to some extent, "blunted" the traditional key transmission mechanism for monetary policy through the cash flow of the household sector. In the February Statement on Monetary Policy, the RBA calculated that to December 2022 the average mortgage rate for Australia had lifted by around 1.8% despite the cash rate rising by 3.25%. That compared with Canada – 4.2% tightening and the average mortgage rate rising by around 1.4%; the UK 4% and 0.5% and New Zealand 4% and 1.5% respectively.

This transmission mechanism is never a factor for the US where nearly all mortgages are written with 20–30 year fixed terms. Consequently, the average mortgage rate for the US hardly lifted despite the federal funds rate increasing by 4.5% by end 2022. A rising federal funds rate affects the US economy primarily through its impact on the cost of unsecured borrowing; small business funding costs; the equity market as discussed above; bond rates and the USD.

Evidence of this "frustration" shows with the actions of the BOE, which expected to be on hold earlier in the year only to have to accelerate hiking as inflation; labour markets and spending remained resilient. We saw a similar response from the BOC which paused earlier this year only to have to resume tightening recently. The RBNZ has indicated it expects to be on hold going forward although the Westpac economists anticipate another move. The FOMC has paused but expects to raise the federal funds rate by a further 50 basis points.

The most likely outcome of this global dynamic is that central banks push rates to levels that would not have been necessary if not for the "pandemic legacies"; hold them there for longer; but reach a non-linear point where the accumulated increases have a much larger than anticipated impact, including an earlier than expected slowdown in inflation. Our consistent view has been that markets have been too early in their estimates of the beginning of the easing cycles. Markets have now made that adjustment but are not sufficiently "ambitious" about the extent to which rates can fall through 2024.

This brings us to the RBA.

The RBA paused in April and markets and most commentators expected an extension to the pause in May. But the Board surprised with increases in both May and June. Resilience of the jobs market; structural changes in the labour market, which support higher wages growth; concerns around sticky services inflation and a recovery in the housing market all conspired to elevate concerns around inflation, particularly at the June Board meeting.

The Governor noted following the June decision that "upside risks to the inflation outlook have increased".

This response is consistent with the positions taken in other countries where risks are assessed to have increased despite aggressive tightening cycles.

Despite some curious "softening" in patches of the rhetoric in the June Board Minutes that key theme was still consistently conveyed.

And that was before the Employment Report registered 76,000 new jobs in May (well above the Consensus of 15,000 and Westpac's forecast of 40,000) and as the housing market has sustained its upward momentum in June – current daily data points to a further 1% plus lift in house prices in June, following 1.4% in May.

The Governor's Statement following the June Board meeting, which elevated concerns around rising inflationary expectations and the signals to labour markets from the award wage and minimum wage decisions, pointed to a change in the Board's reaction function to be more urgent around the need to contain inflation risks.

After the May decision there was genuine concern raised about the current target of only reaching the top of the band by mid- 2025.

That rebalancing of the reaction function signalled to Westpac that a further move can be expected in July with considerable risk for August. The employment and housing data triggered that "considerable risk" pushing us to forecast both July and August.

The Reserve Bank Deputy Governor clarified the Bank's position on the labour market in a speech during the week. Essentially, she noted that "full employment" was estimated by the Bank as an unemployment rate of around 4.5%. That unemployment rate was consistent with inflation reaching the top of the range by 2025.

That revelation is consistent with our view that the Bank's reaction function has been evolving – targeting a 1% increase in the unemployment rate has a different tone to aiming to preserve the post pandemic employment gains as far as possible. In 2019, the year before the pandemic, the unemployment rate hovered around 5% - targeting an unemployment rate of 4.5% (with likely further increases in 2025) means that the "preservation" is only around a 0.5% improvement in the unemployment rate relative to pre pandemic.

The Bank's current forecast is for the unemployment rate to reach 4.5% by mid -2025. Westpac expects a higher rate of 5.5% by mid-2025. Evidence like the recent Employment Report which showed the unemployment rate falling from 3.7% to 3.55% will not be welcomed in the context of achieving that 4.5% "target".

Conclusion

Central banks have extended expected tightening cycles due to the unusual legacies of the pandemic, including the RBA. They can be expected to continue on this path in the near future.

The impact of the tightening cycles has been delayed rather than neutralised – that points to, eventually, more aggressive easing cycles, than currently factored into market pricing, which are likely to begin during 2024.

Bill Evans, Chief Economist (WestpacGroup)

In Australia, the **June RBA** meeting minutes confirmed that, when it comes to achieving the inflation target, the Board views the risks as having shifted to the upside. The arguments made in favour of the two policy options of a pause or 25bp rate increase were largely familiar: the slowing in activity and uncertain duration of policy lags versus the current strength of domestic inflation indicators, particularly the stickiness of services inflation. However, the Board also expressed specific concern over the risk of a wage-price spiral and a de-anchoring of inflation expectations, noting the possibility of "implicit indexation of wages to past high inflation" and firms "indexing their prices, either implicitly or directly, to past inflation."

As discussed by Chief Economist Bill Evans in a video update mid-week, the minutes are consistent with our view that, despite policy's goal to retain the labour market's recent gains, the inflation challenge is the RBA's focus. Hence, we continue to expect the Board to raise the cash rate in both July and August to a peak of 4.60%. This will certainly have an impact on households, with consumption expected to stall and GDP growth slowing to a negligible pace this year and early next. For more information on our broader views, see our latest Market Outlook In Conversation Podcast.

As detailed by Chief Economist Bill Evans today, it is not only the RBA that is facing these challenges. The developed world over the legacies of the pandemic and capacity constraints means central banks have more work to do before they can rest confident inflation is sustainably trending back to target. Note though, this only means the impact of policy tightening has been delayed not neutralised. In 2024, a more aggressive easing than the market has priced will prove necessary.

The **UK and Bank of England** are a case in point. The BoE surprised markets in June, raising the bank rate by 50 basis points to 5%. The minutes noted that the outsized hike came because of stronger than expected inflation and wage data. Seven members voted in favour of a 50bp hike; however, two members voted to keep rates steady at 4.5%. The May CPI ticked up to 8.7%yr, exceeding the bank's forecast for an 8.2%yr lift in the second quarter. Services inflation, of particular importance to the BoE, also accelerated for the fourth month in a row to 7.3%yr. Price pressures remain broad with 89% of the CPI basket running hotter than the BoE's 2% inflation target. The Bank no longer expects services inflation to abate this year; but, albeit more slowly, headline inflation is still expected to temper by the end of the year.

According to the Bank, a higher proportion of fixed rate mortgages have kept mortgage repayments lower than they otherwise would have been. This has prolonged the monetary policy lag with the committee noting "the full impact of the increase in Bank Rate to date will not be felt for some time".

Looking ahead, the BoE will be taking a data-dependent approach. Further tightening has not been ruled out, noting "If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required". It remains to be seen if the Bank will feel it is necessary to hike by another 50bps or can (again) slow the pace of tightening.

In the **United States**, members of the FOMC were active this week, with Chair Jerome Powell speaking before the House and Senate and notable comments made by Austan Goolsbee and Raphael Bostic.

Chair Powell highlighted while before Congress that this meeting's pause was part of a necessary deceleration to a "careful pace" as they approach their destination – a metaphor also used by ECB's Lagarde. Powell's comments also highlighted that the FOMC's concern over inflation risks will dissipate as inflation returns to target and be balanced with activity risks as labour market slack increases. Implicit is that rate cuts will occur when perceived activity risks are greater than those for inflation – this is unlikely until early-2024.

Consistent with this timeline and nascent shift in risks, Atlanta Fed President Bostic assessed that policy had only been restrictive 'for less than a year' and called for the pause to remain for the rest of the year, to account for the lag in monetary policy transmission. Chicago Fed President Goolsbee described the pause as a 'reconnaissance mission'; but on a less dovish note, called the decision a 'close call'. Taken together, these comments suggest the path ahead for policy will depend on how data prints.

Also for the US this week, housing indicators surprised to the upside. Building permits were up 5.2%mth in May and housing starts a staggering 21.7%. Optimism over a floor in activity for the sector is also picking up amongst builders, as captured by the NAHB Index which rose 5 points to an expansionary 55. Supply remains the chief concern for existing sales (0.2%;-20%yr), highlighting the opportunity for new construction.

Assessing the composition of the pipeline, while single and multi-family dwellings have both been supportive of late, over the year, multi-family has shown considerable strength, the number of units under construction at more than 50-year highs. This feature of the sector highlights the impact of affordability and the interest of institutional investors in expanding rental capacity in regions experiencing an imbalance between demand and supply. Eventually, this should help stop the extreme rent inflation experienced over recent years. Though it must be recognised that commercial-scale investors require competitive returns, so robust rent increases will be sought and contribute meaningfully to total consumer inflation into the medium term.

Week ahead & data wrap

Household finances still in the vice

The mood among New Zealand households has remained gloomy in the face of mounting financial pressures. That ongoing pessimism reinforces our expectations for subdued household spending and economic growth over the months ahead.

While our Westpac McDermott Miller Consumer Confidence Index did rise 5.4 points in June, it currently sits at just 83.1. That's well below average and signals that the number of households who are feeling pessimistic about the economic landscape outweighs those who are optimistic by a wide margin. Consumer confidence has been lingering at extremely low levels for more than a year now, with confidence weak across all regions, age groups and income brackets.

This downbeat assessment of economic conditions is despite New Zealand's strong labour market. Unemployment is currently just 3.4% and disposable incomes have risen by 6.5% over the past year.

But even as earnings have pushed higher, the majority of households are reporting that their finances are being squeezed. In fact 43% of the households we spoke to in June told us that their financial position had deteriorated over the past year, while just 14% had seen an improvement.

That pressure on household finances is coming on two big fronts. First, living costs have been charging higher, with consumer prices up 6.7% over the past year. Notably, a big chunk of that increase has been due to increases in the costs of necessities – housing and utility costs were up 7% in the year to March and food prices were up an eye watering 12% in the year to May. Those cost increases are hitting every family in the country in the pocket. They have been especially tough on those families who are on lower incomes, who tend to spend a larger share of their income on necessities.

The other big factor squeezing many households' finances has been the rise in mortgage rates. Interest rates have been on the rise for well over a year now. However, with around 90% of New Zealand mortgages on fixed rates, many borrowers were insulated from those increases for a period. But that picture has now changed. Large numbers of mortgages have now rolled on to higher interest rates. In fact, accounting for the extent of interest rate fixing, we estimate that the average 'effective' mortgage rate that New Zealand borrowers are actually paying has increased by around 120 bps since early 2022.

And there's more pain to come on this front. Around 50% of all fixed rate mortgages will come up for repricing over the year ahead, and the average mortgage rate is set to rise by a further 150 bps by early 2024. That will see the average household's spending on interest costs increasing from around 5% of their disposable income in 2022 to 10% in 2024, and some borrowers will face much larger increases.

In the face of these powerful financial headwinds, overall spending levels in the economy have actually remained firm in recent months. However, that apparent resilience in the headline spending figures masks a much softer picture beneath the surface. Although nominal spending levels have been pushing higher, those gains are entirely due to the impact of price increases. The amount of goods that households have actually been taking home has been trending down for the past year.

Crucially, with financial headwinds continuing to mount, households are likely to continue to rein in their spending over the coming months. In fact, we expect that per capita household spending will fall by around 2% over 2023 and 2024 combined. Household spending accounts for around 60% of overall economic activity, and the retrenchment that is already in train will be a significant drag on economic growth.

But while there's no denying that many households are grappling with some big challenges, consumer confidence has actually picked up a bit from the record lows we saw at the end of last year. And looking ahead, there's reason to think that we could see a further rise over the coming months with some big shifts in the economic landscape already in train. Notably, the interest rate cycle is looking close to a peak. Consistent with that, we're already seeing signs that the housing market is finding a base, with both house sales and prices rising over the past few months. In addition, the high rates of inflation that have been eating away at households' spending power have started to moderate, and a further easing is on the cards over the coming year.

Furthermore, while mounting financial pressures will be tough for many households, the slowdown still looks like it will be manageable for the economy as a whole. On average, New Zealand households are entering the current downturn with their finances in good shape. In addition to a strong labour market, savings rates have picked up in recent years. At the same time, many households have taken advantage of the low interest rates in recent years to get ahead on their mortgage payments. And while interest costs are pushing higher, that's been a rise from extraordinarily low levels - mortgage rates are currently sitting around the averages we saw through the past decade.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 19	May BusinessNZ PSI	50.1	53.3	–
Tue 20	Q2 WBC-MM Consumer Confidence	77.7	83.1	–
Wed 21	GlobalDairyTrade auction (WMP)	-3.0%	0.0%	-4.0%
Thu 22	May trade balance $m	236	46	250

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Aus Q2 ACCI-Westpac business survey

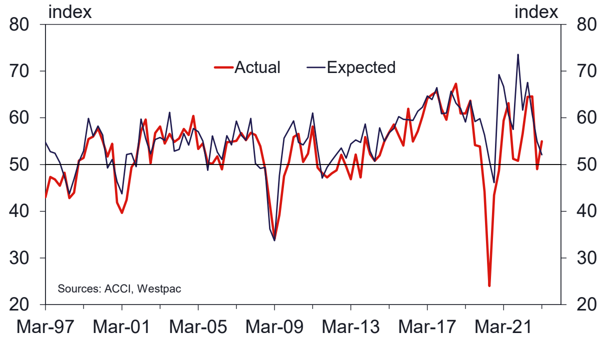
Jun 27, Last: 55.0

The ACCI-Westpac business survey for the June quarter, conducted through May into June, will provide a timely update on manufacturing and insights into economy wide trends.

Australia's manufacturing sector, having abruptly stalled in the final months of 2022, experienced a partial rebound in the March quarter. The survey reported similar growth in output and new orders and a modest increase in employment, reflecting a mild expansion in the context of a trend downturn.

However, the manufacturing sector continues to face a broad set of challenges. Labour and material shortages, in particular, have acted as a major drag on business activity. Additionally, input cost pressures remain intense and are flowing through (in part) to higher prices and squeezing margins.

Westpac-ACCI Composite indexes
Actual & expected, sa



Aus May Monthly CPI Indicator %yr

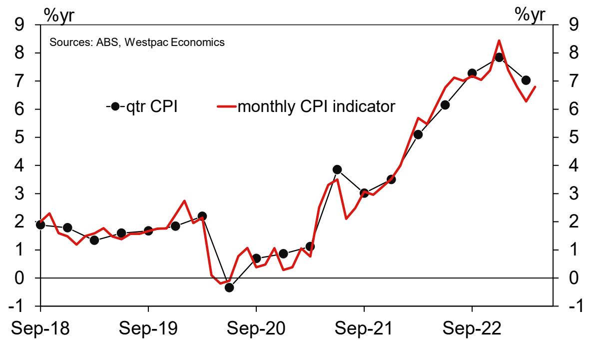
Jun 28, Last: 6.8%, WBC f/c: 6.1%
Mkt f/c: 6.0%, Range: 5.6% to 6.9%

The Monthly CPI Indicator gained 0.8%mth/6.8%yr in April. One of the main drivers of April's gain was a 2.9% increase in fuel prices, but the 7.2% rise in holiday travel and accommodation also acted as a key upside surprise, adding 0.17ppt on the Monthly Indicator.

The annual trimmed mean measure was also reinstated in April, and showed that underlying inflation lifted from 6.5%yr to 6.7%yr, highlighting inflation's lingering breadth.

For May, we are forecasting a 0.1%mth/6.1%yr increase, driven by: a 0.8% increase for food; 0.3% increase in clothing and footwear; 0.4% increase for housing; and a 0.5% increase in furnishings. Offsetting this, a 1.9% fall in transport (including a 7.6% fall in fuel) and 1.0% fall in recreation (including a 4.9% fall in holiday travel) are anticipated.

CPI Monthly Indicator vs. qtr CPI



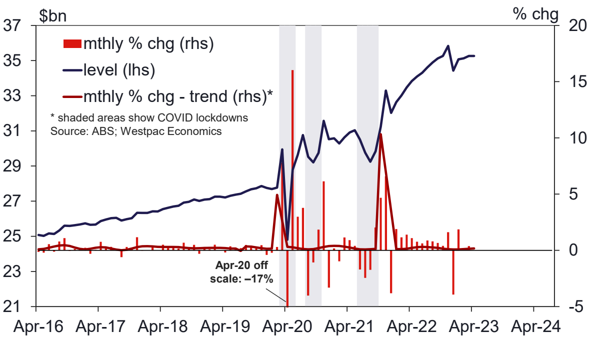
Aus May retail trade

Jun 29, Last: flat, WBC f/c: –0.2%
Mkt f/c: 0.1%, Range: –2.0% to 0.4%

Retail sales were flat in April following a 0.4% rise in March and 0.2% rise in Feb. The key message continues to be of a material slowing in momentum since late last year, centred on discretionary goods and reflecting rising cost of living and interest rate pressures.

The retail segment of our **Westpac Card Tracker** remained weak through April-May, with declines across all major segments (basic food, hospitality and non-food retail). We expect May retail sales to show a 0.2% decline, with downside risks in the mix.

Monthly retail sales



Aus May private sector credit

Jun 30, Last: 0.6%, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: 0.3% to 0.7%

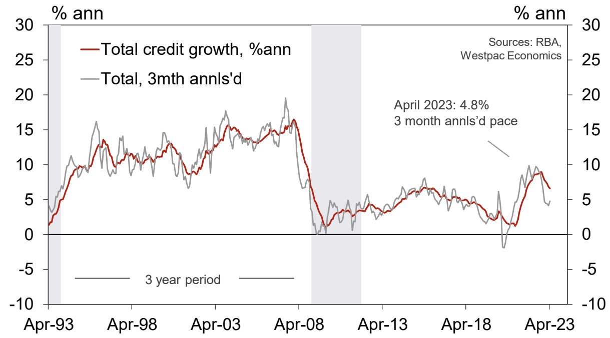
Over the past half year, to March, the monthly pace of credit growth broadly stabilised at a subdued average of 0.4% – against the backdrop of an emerging stabilisation in the housing market.

Prior to that, the appetite for credit diminished significantly as sharply higher interest rates impacted, reducing borrowing capacity. Monthly credit growth slowed from a high of 0.8% for May and June 2022 to be at 0.2% for March 2023.

Then in April, credit growth lifted, printing a 0.6% centred on a spike in the often volatile business segment, up 1.1% in the month. That result is unlikely to be sustained and was likely associated with some lumpy transactions. Over the six months prior to that, business credit growth average 0.5%.

For May, we anticipate a return to a modest 0.4% gain in total credit growth, with annual growth edging lower from 6.6% to 6.2%.

Credit: growth pulse has slowed to be at 4.8%



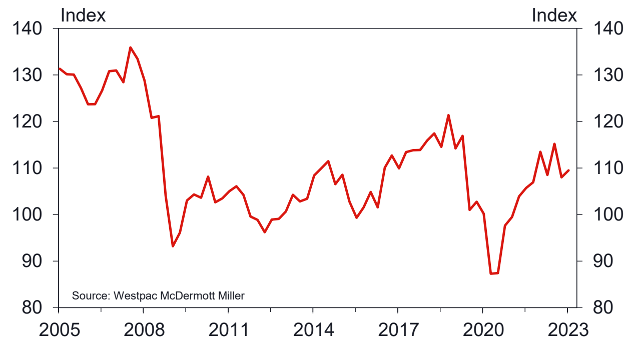
NZ Q2 Westpac McDermott Miller Employment Conf. Index

Jun 27, Last: 109.5

In contrast to the steep decline in consumer confidence, New Zealand households have stayed relatively positive about the state of the labour market. In particular, job opportunities have been seen as plentiful, reflecting a strong demand for workers and the low unemployment rate. However, perceptions about earnings growth remain subdued.

Our latest survey was conducted in the first half of June. Since the last survey, the unemployment rate has held steady at 3.4% and inflation has eased from its peak. Net inward migration has surged since the border was reopened last year, but it remains to be seen to what extent this will alleviate long-running labour shortages.

NZ Employment Confidence Index



NZ May monthly employment indicator

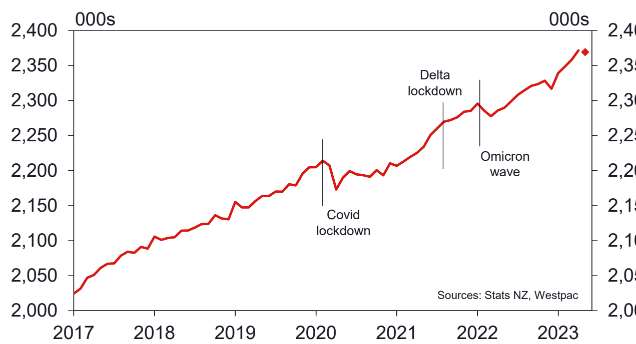
Jun 28, Last: +0.6%, Westpac f/c: –0.1%

The monthly employment indicator is drawn from income tax data. This makes it a fairly comprehensive record of the number of people in work, and helps to fill a gap in what is otherwise mostly quarterly data on the labour market.

Jobs growth has noticeably accelerated in 2023 so far. This is no doubt in part because there are more people around to hire – migrant inflows have surged as the reopening of the border has unleashed a pent-up demand to live and work here.

The weekly snapshots provided by Stats NZ suggest a slight decline in jobs in May compared to April. We view this as the jobs market taking a breather from the rapid growth in previous months, rather than a sign of emerging weakness. We still expect job numbers to be up 3.5% on the same time last year, well ahead of population growth even with the migration surge.

NZ monthly filled jobs



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NZ Jun ANZBO business confidence

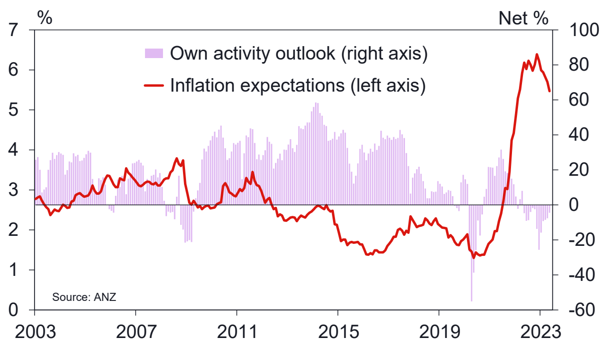
Jun 29, Last: –31.1

While off its lows, business confidence remained weak in May with the majority of firms expecting that trading conditions would weaken over the months ahead.

We expect that the June confidence survey will continue to highlight weakness in business sentiment. However, while trading conditions remain challenging, recent months have seen some encouraging developments for many businesses. Cost pressures have started to moderate. In addition, the recovery in net migration is helping to alleviate labour shortages and is adding to demand. Against that backdrop, some gauges of economic activity are starting to look less-dire.

The survey's cost and pricing gauges will be closely watched. While those continue to point to strong inflation pressures, they have been trending down for several months now. We expect that trend will continue in this month's survey.

NZ business confidence



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 26					
Ger	Jun IFO business climate survey	91.7	–	–	Pessimism in manufacturing will weigh.
US	Jun Dallas Fed index	–29.1	–	–	Weaker demand will be a drag on activity.
Tue 27					
Aus	Q2 ACCI–Westpac business survey	55.0	–	–	Manufacturers are under intense pressure from rising costs.
NZ	Q2 Westpac employment confidence	109.5	–	–	Perceptions about jobs have been relatively upbeat.
US	May durable goods orders	1.1%	–1.0%	–	Weaker business sentiment to dampen demand.
	Apr FHFA house prices	0.6%	–	–	Prices are finding their floor…
	Apr S&P/CS home price index	0.45%	–	–	… as inventories dry up and…
	May new home sales	4.1%	–3.0%	–	… owners take advantage of demand.
	Jun consumer confidence index	102.3	103.5	–	Teetering towards pessimism.
	Jun Richmond Fed index	–15	–	–	Manufacturing hit by demand and uncertainty.
Wed 28					
Aus	May Monthly CPI Indicator %yr	6.8%	6.0%	6.1%	A 0.1%mth forecast increase following a 0.8%mth gain in April.
NZ	May employment indicator	0.6%	–	–0.1%	Taking a breather from recent strong growth.
Chn	May industrial profits ytd %yr	–20.6%	–	–	Losses to continue as expenses go up
Eur	ECB's Annual Central Banking Forum	–	–	–	Policy panel with FOMC's Powell, ECB's Lagarde, BoE's Bailey.
UK	Jun Nationwide house prices	–0.1%	–	–	Higher rates to drive prices down further.
US	May wholesale inventories	–0.1%	–	–	Slowly stagnating as businesses hold back new orders.
Thu 29					
Aus	May retail sales	0.0%	0.1%	–0.2%	Consumer slowdown becoming clearer.
	Q2 job vacancies	–1.5%	–	–	Gradually easing from a historically elevated level.
NZ	Jun ANZ business confidence	–31.1	–	–	Activity measures still low, price gauges easing from highs.
Eur	Jun consumer confidence	–16.1	–	–	Sentiment down in the dumps for consumers…
	Jun economic confidence	96.5	–	–	… flowing through to increasingly miserable businesses.
UK	May net mortgage lending £bn	–1.4	–	–	Lending to taper as high rates ward off buyers.
US	Initial jobless claims	264k	–	–	Volatility keeping pundits on toes over outlook.
	Q1 GDP, annualised	1.3%	1.4%	–	Final estimate.
	May pending home sales	0.0%	–0.3%	–	Getting closer to a price floor.
	Fedspeak	–	–	–	Chair Powell at Bank of Spain. Bostic speaking too.
Fri 30					
Aus	May private sector credit	0.6%	0.4%	0.4%	Credit growth broadly stabilising at a subdued level.
NZ	Jun ANZ consumer confidence	79.2	–	–	Remains at weak levels.
Jpn	May industrial production	0.7%	–1.0%	–	Preliminary estimate to show a fall in production.
Chn	Jun manufacturing PMI	48.8	48.9	–	Manufacturers are feeling down…
	Jun non-manufacturing PMI	54.5	53.7	–	… while the service industry continues to expand.
Eur	May unemployment rate	6.5%	6.5%	–	Plentiful jobs drive unemployment lower.
	Jun CPI %yr	6.1%	–	–	Services spending keeping inflation high.
UK	Q1 GDP	0.1%	–	–	Final estimate.
US	May personal income	0.4%	0.4%	–	Strong wages growth supporting incomes gains overall…
	May personal spending	0.8%	0.2%	–	… allowing spending momentum to hold up.
	May PCE deflator	0.4%	0.1%	0.1%	PCE outcomes likely to match CPI result…
	May core PCE deflator	0.4%	0.4%	0.4%	… though technical differences a marginal upside risk for core.
	Jun Chicago PMI	40.4	44.2	–	Business activity has waned in recent months.
	Jun Uni. of Michigan sentiment	63.9	63.9	–	Final estimate.

Forecasts

Interest rate forecasts

Australia	Latest (23 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	4.32	4.80	4.80	4.63	4.38	4.13	3.88
3 Year Swap	4.36	4.30	4.15	4.00	3.80	3.60	3.50
3 Year Bond	4.06	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)	22	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	3.78	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	5.69	5.85	5.85	5.85	5.55	5.05	4.75
2 year swap	5.47	5.00	4.80	4.50	4.30	4.10	4.00
10 Year Bond	4.55	4.30	4.20	4.00	3.80	3.75	3.70
10 Year spread to US	77	70	70	70	70	75	80

Exchange rate forecasts

Australia	Latest (23 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6708	0.69	0.69	0.71	0.72	0.73	0.74
NZD/USD	0.6148	0.62	0.62	0.63	0.64	0.65	0.66
USD/JPY	143.09	138	136	134	132	130	128
EUR/USD	1.0935	1.11	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2711	1.27	1.27	1.28	1.28	1.29	1.29
USD/CNY	7.1795	7.00	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.0912	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

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