AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 3 July 2023

Editorial: We confirm our call for 0.25% increase in the cash rate next week.

RBA: policy decision.

Australia: housing updates (prices, finance, dwelling approvals), trade balance.

NZ: Q2 NZIER survey, building consents, GlobalDairyTrade auction.

China: Caixin PMIs, foreign reserves.

Eur: PPI, retail sales.

US: Independence Day, ISMs, factory orders, trade balance, non-farm payrolls, unemployment rate.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 30 JUNE 2023.

WESTPAC INSTITUTIONAL BANK

EDITORIAL

We confirm our call for 0.25% increase in the cash rate next week

The Reserve Bank Board meets next week on July 4. We confirm our view that the Board will decide to lift the cash rate by 0.25% to 4.35% at the July meeting with a further 0.25% increase to follow in August.

With core inflation holding above 6%; the unemployment rate holding nearly 1 ppt below the NAIRU (RBA's estimate) and the cash rate only around 1 ppt into contractionary territory (we see neutral around 3%) the cash rate will need to go higher. A second pause, to gather further information, seems unnecessary and only risks the need for the cycle to extend even further into 2023 when the prospects for damage to the economy increase substantially.

A terminal cash rate of 4.6% is likely to be sufficient to achieve the Bank's inflation objectives, although growth is forecast to slow to a crawl this year and next. Westpac's forecasts, which are based on a 4.6% terminal rate, point to very weak growth in both 2023 (0.6%) and 2024 (1.0%) and an earlier achievement of the inflation target than currently forecast by the RBA.

The case for a further rate increase has strengthened since the last Board meeting on June 6.

Of most importance are indications that the Board has, appropriately, adjusted its reaction function at the June meeting to prioritise containing inflationary expectations and addressing the risk (admittedly low) of a 1970s-style extended period of high inflation. Specifically, the minutes to the meeting noted that: "Members discussed the possibility of implicit indexation of wages to past high inflation and the potential for this to become widespread."

The objective of "preserving as many of the gains in employment as possible" is still noted by the Board in the minutes but other communication suggests it is taking a more cautious approach to safeguarding employment gains. Deputy Governor Bullock in a speech on June 20 indicated that the Board's inflation objective could not be achieved without the unemployment rate rising to 4.5%. Recall that the unemployment rate was around 5% before the pandemic, so an unemployment rate objective of 4.5% only represents a modest 0.5% net gain.

There have been some the key developments in the economy since that last Board meeting.

- The unemployment rate fell from 3.7% to 3.6% in May – remaining near recent lows despite the 4% tightening cycle.
- Jobs growth printed 76,000 in May – well above market consensus of 15,000 and Westpac's forecast of 40,000, meaning that the monthly pace of jobs growth has hardly slowed since the tightening cycle began.
- Business surveys continue to point to intense labour shortages. Official job vacancies fell a modest 2% between February and May – a slightly slower pace than the 2.2% fall we saw between November and February with the vacancy-to-unemployed ratio still 0.83 compared to 0.27 before the pandemic.
- The May CPI indicator showed a sharp fall in headline inflation to 5.6% in May from 6.8% in April but was largely due to volatile items (fruit, vegetables and fuel) and holiday travel. The Reserve Bank typically strips out these items when assessing inflation trends. Annual inflation in the CPI excluding volatile items and holiday travel fell from 6.5% to 6.4%, while the monthly increase in this measure lifted from 0.2% in April to 0.5% in May. Fuel provides a clear example of the risks involved with relying on monthly moves without adjusting for volatile items. Fuel prices fell 7.6% in May but are already up 6.4% over the June month to date.
- The measure for the trimmed mean inflation fell from 6.7% to 6.1%. Even if the fall is confirmed by the much more reliable June quarter CPI, annual underlying inflation at over 6% at a time when the unemployment rate is holding well below full employment is not consistent with pausing.
- The RBA should be unnerved by dwelling prices which have continued to post gains despite recent rate hikes – an unwelcome 1.4% rise in May has been followed by what looks to be a further 1.3% lift in June.
- A surprise 0.7% lift in nominal retail sales in May suggests consumer demand has retained some momentum in the second quarter, albeit with volumes still tracking a subdued pace.
- The March quarter national accounts reported a further lift in annual unit labour costs growth, surging to 7.9%yr, up from 7%yr in December and just 4%yr in June last year. Unit labour costs, which are closely linked to market services inflation, have become a particular source of concern for the Board.
- The surprise 50 basis point lift by the Bank of England, last week, highlights the general mood overseas that central banks expect that their tightening cycles have further to run.

What are the arguments against a move?

The July decision comes one month before the Board can assess the staff's revised inflation and growth forecasts, which are refreshed in February, May, August and November. This will include an extension of the forecasting horizon out to the end of 2025.

The minutes to the June meeting show there is already unease on the Board about the time being taken to reach the inflation target. Specifically: "… members noted that a more prolonged period of above-target inflation would increase the risk that firms' and households' expectations for inflation rise." Waiting for the refreshed forecasts is always a respectable reason not to move. It seems unlikely that they will entail any change in the 'timetable' and should include the expectation that inflation will be in the centre of the target band by end 2025.

The Board minutes describe the arguments for and against the June tightening as 'finely balanced'. My view is that arguments will always be 'finely balanced' near the peak of a tightening cycle.

But from the perspective of our forecast for July, a much more troubling aspect of the minutes is the absence of the comment that "some further tightening of monetary policy may be required". This was used by the Governor in his statement following the decision and repeated in his speech the following day, which the Board minutes noted "would provide an opportunity to explain the decision in more detail."

It would be extraordinary if the omission of this sentence was a basic oversight, especially when used twice by the Governor in other communication.

With the Governor nearing the end of his tenure, the spectre of the recommendations of the recent Review of the Reserve Bank, and some turnover at Board level the current task of forecasting monetary policy has become even more challenging.

We can only promote what we think is the appropriate decision given the issues outlined above.

Last month the Board had two high profile triggers to move – the award wage agreements and the increase in the monthly inflation gauge.

A more tentative Board than we think should be appropriate at this stage of the cycle which does not have the high profile "trigger" of the wage agreements and the temporary boost from the monthly Inflation Indicator could choose to pause pending more information.

Given the issues, which are clearly pointing to the need for higher rates, a second pause in this cycle seems inappropriate and unnecessarily complicates the central task of bringing inflation back into line.

Bill Evans, Chief Economist (WestpacGroup)

The main data release for Australia this week was the Monthly CPI Indicator which provided a mixed read on current inflation trends. The headline index surprised to the downside in May, the 0.4% monthly decline seeing the annual rate ease from 6.8%yr in April to 5.6%yr. The detail was broadly as anticipated, with prices for many services still rising on a monthly basis; however, a large decline in holiday travel and accommodation prices (–11.3%mth) more than offset this.

Measures of underlying inflation were more resilient however, the recently reinstated annual trimmed mean only falling from 6.7%yr to 6.1%yr, while the index that excludes volatile items (including holiday travel) was little changed. If anything, the May update reinforces the fact that the Monthly CPI Indicator is a volatile gauge, making it difficult to obtain a clear read through the quarter.

The decline in job vacancies was modest. From a high level, the 2.0% fall over the three months to May leaves vacancies just 10% below their May 2022 peak and still almost twice the level observed before the onset of the pandemic. This is consistent with other labour market indicators, including the Labour Force Survey and business surveys like the Westpac-ACCI Survey on Industrial Trends, which suggest the labour market remains historically tight with only tentative signs of easing evident.

It is also interesting to note that retail sales surprised to the upside in May, rising 0.7%mth after a poor run since December. Considering the context — high inflation and strong population growth — nominal spending in May is still best considered weak. We estimate that sales volumes were flat in Q2.

As outlined by Chief Economist Bill Evans, the persistence of service sector inflation and labour market strength warrant the RBA tightening further in July and August; and, as important, thereafter holding the resulting 4.60% cash rate peak into 2024. That said, from May 2024 to end-2025, there will be need for concerted policy easing as activity growth remains materially below trend and the unemployment rate rises above the RBA's estimate of full employment.

Offshore, attention was focussed on the ECB Forum on Central Banking in Sintra, Portugal. Overall, the policy panel, which included the heads of the Bank of England, Bank of Japan, the European Central Bank and the US Federal Reserve, made clear that further tightening is likely to prove necessary in coming months.

The ECB's Lagarde signalled a hike in July remains the Council's expectation; however, she pushed back on the idea that a follow-up move in September was certain, citing the slew of data to be released between now and then. Sticky underlying inflation and labour market strength justify the **ECB**'s hawkish bias.

Looking back to the June decision, the **BoE**'s Bailey clarified that the step up to a 50bp hike occurred because the Bank believed data to hand warranted two further 25bp hikes. Bailey also pointed out that policy transmission was slower in this tightening cycle, with circa 85% of all mortgages being fixed rate loans. The UK's tight labour market is expected to remain a concern for inflation, with many businesses expected to hold on to labour through the impending downturn.

Unsurprisingly, **FOMC'**s Chair Powell also highlighted strength in the labour market, although he pointed out that momentum was heading in the right direction and risks coming into balance. The Committee's median expectation of two more hikes in 2023 was referenced, but Chair Powell also made clear the FOMC's actions would remain data dependent. (Note, Chair Powell subsequently spoke at a Bank of Spain event, although the primary focus was financial stability.)

In stark contrast to the above speakers, **BoJ**'s Governor Ueda subsequently justified holding policy steady, referencing moderate 'underlying inflation' and a continued belief that headline and core inflation would return below target towards the end of 2025.

Coupled with the light but constructive data flow for the US and other markets, the above comments on policy led the market to price in a greater chance of 'higher rates for longer', the US 2 and 10-year yields, as examples, currently 12bps and 10bps higher than the end of last week, respectively 4.86% and 3.84%. With respect to the short-term risks for policy rates, the market's concern is acute for the UK, with 5 more hikes priced by December/February versus the 1-2 moves for the FOMC and ECB.

Turning then to the international data received. While modest in scale, the market was most surprised by the revision in the third estimate of Q1 US GDP from 1.3% to 2.0% annualised. This update occurred because of a mix of modestly stronger consumption; slightly less inflation; and better exports. The market's response also looked to be supported by initial jobless claims retreating near their historic lows.

Earlier in the week, the US saw a substantial 12% gain in new home sales in May as existing home supply remained constrained – pending home sales 21% lower than a year ago in May and S&P CoreLogic CS' April house price gain of 0.9% attesting to the latter. Durable goods orders also gained 1.7% in May, though much of the orders uptick reportedly came from the transportation sector as easing supply chain pressures prompted car manufacturers to ramp up production.

Week ahead & data wrap

Cooling, but not cracking.

Recent indicators show that the previously red-hot labour market is cooling off a bit. That's to be expected in the wake of a sharp tightening in monetary policy over the last year and a half. But what remains to be seen is whether it's slowing by enough to be consistent with a return to low and stable inflation.

Firstly, the Westpac-McDermott Miller Employment Confidence Index shows that New Zealanders remain optimistic on balance about the state of the labour market, in contrast to the slump in consumer confidence over the last year or so. However, the index eased by 3.9 points to 105.6 in the June quarter, which was the lowest reading since June 2021.

The biggest contributor to the fall in confidence was perceptions about current job opportunities, down by 11 points to a net 14.6. This measure has traditionally given a good steer on the near-term direction of the unemployment rate (though less so since the Covid-19 shock). The latest reading is consistent with a modest rise in unemployment over the next couple of quarters, from its still-low current level of 3.4%.

Perceptions about the availability of jobs may reflect the fact that inflows of migrant workers have resumed in full force since New Zealand reopened its border last year. Migrants normally have a mixed impact on the labour market – filling in skill shortages in some areas, but also adding to the overall level of demand in the economy. But it appears that, at least for now, migrants are seen as adding more to the supply side on balance, helping to address some of the distortions that had arisen during the border closure.

There does also seem to have been a genuine softening in the demand for workers, compared to what it once was. Online job advertisements fell by about 4% in May compared to April, and were down about 20% from the peaks they reached a year ago. These figures are not weak by any means – they're still running above their pre-Covid levels. But we've now unwound the surge in ads that we saw in 2021 and 2022, which reflected a high level of churn as employers scrambled to attract more workers from a largely static population.

The ANZ business opinion survey also suggests that businesses remain a little reticent about hiring. Overall confidence about their own prospects has actually improved in recent months, with the balance turning (slightly) positive in June for the first time in more than a year. But while conditions have been looking brighter on several fronts – cost pressures are easing, access to credit is improving, expected profits are rising – employment intentions remain slightly negative, and have hardly budged so far this year.

Finally, the weekly figures on Jobseeker Benefit recipients have clearly turned a corner. After steadily declining over 2021 and 2022, they have flattened off in recent months and are now a touch higher than they were a year ago. We need to be careful about how to interpret these figures – the criteria for receiving the benefit are quite different from the official definition of unemployment (a study by Stats NZ found that the overlap is only about one-third). So they're better used for identifying broad trends and turning points, rather than making specific forecasts.

On a more positive note, the Monthly Employment Indicator (MEI) showed a 0.2% rise in the number of filled jobs in May. The MEI is drawn from income tax data, making it quite a comprehensive record of the number of people in work, and far less prone to the volatility that we would see in a household or business survey. While the May increase was smaller than we've seen in previous months, it still points to a solid upward trend – up 3.7% on a year ago.

So where does that leave us in terms of a forecast for the unemployment rate? Technically it is possible to have both rising employment and rising unemployment, within a growing population. However, even with migrant inflows helping to boost population growth, the rate of jobs growth seems to be outpacing that. The other option is if more people are being brought into the active labour force. However, the participation rate was already at an all-time high of 72% in the March quarter, and it's not clear where the scope lies to lift this rate even further.

We do expect a gradual rise in the unemployment rate over the rest of this year and beyond, as the economy continues to cool. However, the conditions for a substantial rise in unemployment don't appear to be in place just yet.

In its May *Monetary Policy Statement*, the Reserve Bank was projecting only a slight rise in the unemployment rate to 3.5% for the June quarter, but then a rapid rise to 4.1% in the September quarter and 4.6% by year-end. That's more akin to the pace of increase that we saw in 1998 or in 2009, when the New Zealand economy was deep into recession and employment was falling outright. It remains to be seen whether the gentler slowdown that we're currently facing will be enough to fully break the back of inflation.

On a related note, both household and business surveys show that inflation expectations for the year ahead have eased substantially from their highs. There are undoubtedly some easy gains to be made in terms of bringing the headline inflation rate down, with shipping costs easing and many commodity prices lower than they were a year ago. The real test will be whether the 'core' components of inflation come down as readily – these are proving to be surprisingly stubborn in many parts of the world.

Michael Gordon, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 27	Q2 Westpac employment confidence	109.5	105.6	–
Wed 28	May employment indicator	0.5%	0.2%	–0.1%
Thu 29	Jun ANZ business confidence	–31.1	–18.0	–
Fri 30	Jun ANZ consumer confidence	79.2	85.5	–

DATA PREVIEWS

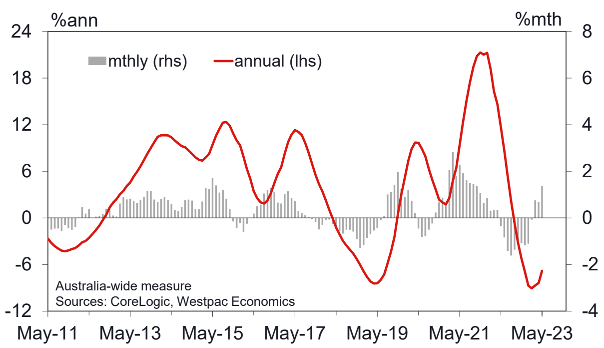
Aus Jun CoreLogic home value index

Jul 3, Last: 1.4%, WBC f/c: 1.4%

The CoreLogic home value index rose 1.4% in May, accelerating on the 0.7% gain in April and 0.8% gain in March. The 3% lift in the space of three months follows a sharp 9.4% drop over the previous nine months.

The CoreLogic daily index points to another robust gain in June, prices across the major capital cities tracking a 1.4% rise for the month. The recovery is unusual in the way it has been sustained despite high and rising mortgage interest rates. A feature of the lift to date is the 'thin' market conditions with both listings and turnover at decade lows. As such, an interesting aspect of the June update will be the extent to which we see a lift in turnover and a tightening in between demand and 'on-market' supply.

Australian dwelling prices



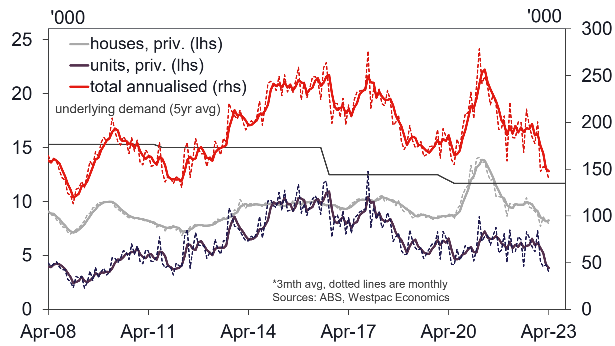
Aus May dwelling approvals

Jul 3, Last: –8.1%, WBC f/c: 3.0%
Mkt f/c: 4.0%, Range: –2.0% to 5.0%

Dwelling approvals fell sharply in April, the 8.1% drop in the month pointing to a significant broad-based down-trend that remains firmly intact. Weakness shows through more clearly on a rolling 3mth basis – a 2.8%qtr dip in the final quarter of 2022 giving way to a sharp 19.7%qtr drop in the first quarter of 2023 with the April update continuing to track in line with the weakening. In annualised terms, approvals are now tracking at just a 140k pace compared to a 187k pace at the end of 2022 and an eleven-year low.

Despite this weakness, a bounce in HIA new home sales through April-May suggests non high rise approvals should start to find a base through the middle of the year. High rise approvals are much harder to predict but are already at extreme lows – both further big falls and gains looking unlikely from here. On balance, a lift in non high rise should see total dwelling approvals up 3%mth, high rise activity again the main wild card.

Dwelling approvals



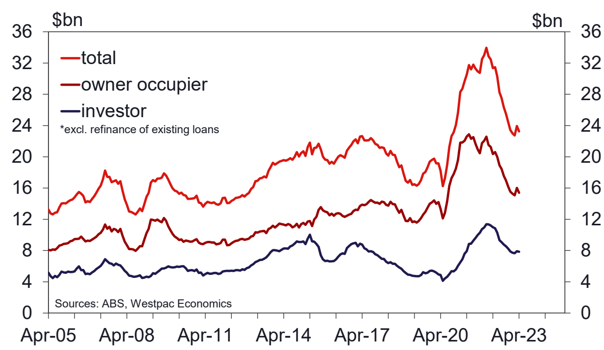
Aus May housing finance approvals

Jul 3, Last: –2.9%, WBC f/c: 4.0%
Mkt f/c: 1.7%, Range: –1.0% to 4.0%

Housing finance approvals posted a surprise 2.9% decline in April, after a robust 5.3% gain in March and despite the wider improvement in housing market conditions. We suspect the timing of Easter may have had a hand in the weak result. That said, some of the weakness around construction-related loans clearly reflects what was still a weak picture for dwelling approvals early in the year.

May should see a gain, reflecting both the firming in established markets and a stabilisation in construction-related loans. However, flat turnover and pressure on borrowing capacity will likely be restraints. On balance we expect to see the total value of loans rise 4%mth with similar gains across owner occupier and investor segments.

New finance approvals by segment



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DATA PREVIEWS

Aus RBA policy decision

Jul 4, Last: 4.10%, WBC f/c: 4.35%
Mkt f/c: 4.10%, Range: 4.10% to 4.35%

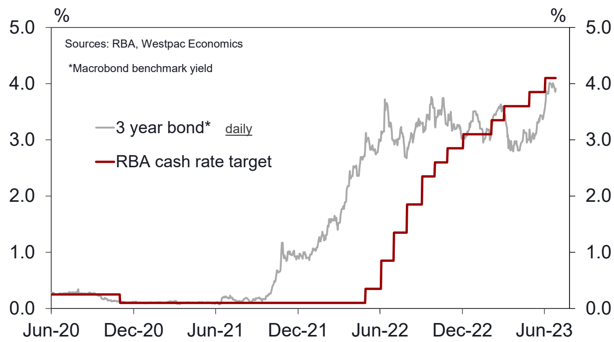
At the July Board meeting, Westpac anticipates that the RBA will raise the cash rate by 25bps to 4.35%.

Following a brief pause in April, the Board raised rates by 25bps in both May and June, citing concerns over the strength of domestic inflation indicators – particularly the stickiness of services inflation – and the risk of a slower return to the top of the 2-3% target range.

The recent data flow is reflective of these concerns: jobs growth is still exhibiting strength (+76k in May) and job vacancies are only gradually moderating from a historic high, together pointing to upside risk to services inflation. The Monthly CPI Indicator also reported that annual trimmed mean inflation held above 6% in May.

In our view, there is enough evidence to warrant a move in both July and August, raising the cash rate to a peak of 4.60%. For more detail, see Page 2.

RBA cash rate and 3 year bonds



Aus May trade balance, $bn

Jul 6, Last: 11.2, WBC f/c: 11.0
Mkt f/c: 10.7, Range: 9.5 to 12.6

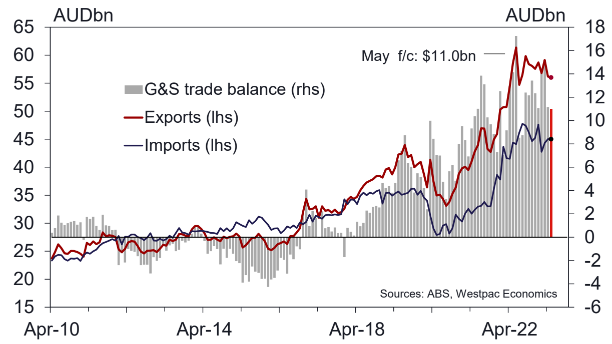
Australia's trade surplus narrowed in April, down from around record highs by $3.7bn to still be a sizeable $11.2bn. That move was driven by goods exports, which retreated by a hefty 7% (–$3.6bn) on a combination of lower commodity prices and softer volumes.

For May, we anticipate that the trade surplus moved broadly sideways, edging lower by $0.2bn to a forecast $11.0bn.

Export earnings are expected to be resilient, down by only 0.3%, –$0.2bn. That is despite a further sharp fall in commodity prices, down by -6.8% in the month after a –4.2% fall in April. Resource export volumes, which have been underwhelming, appear to have bounced off their lows (led by a rebound in coal, plus a lift in LNG shipments and potentially a rise in gold).

The import bill is factored in to be flat in the month, with downside pressure on fuel prices potentially offsetting higher volumes.

Australia's trade balance



NZ May building consents

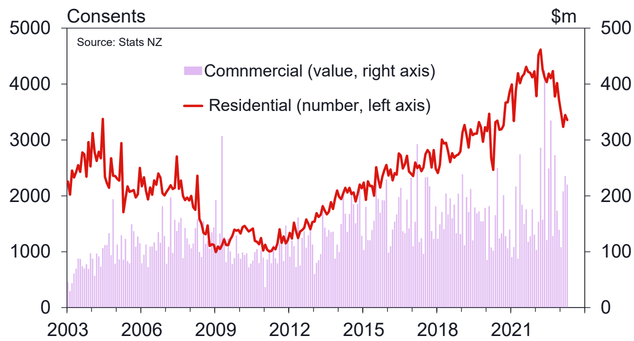
July 3, Last: –2.6%, Westpac f/c: +5.0%

The number of new dwelling consents fell 2.6% in April, with 3,400 consents issued over the month. That drop was spread across regions and building types.

We're forecasting a 5% bounce in consent numbers in May. Underpinning that rise is an expected recovery in some 'lumpy' categories, like apartments and retirement villages.

Despite the bounce expected in May, the longer-term trend in consent issuance remains to the downside, with tougher financial conditions (including higher interest rates) continuing to dampen new housing development.

NZ building consents



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DATA PREVIEWS

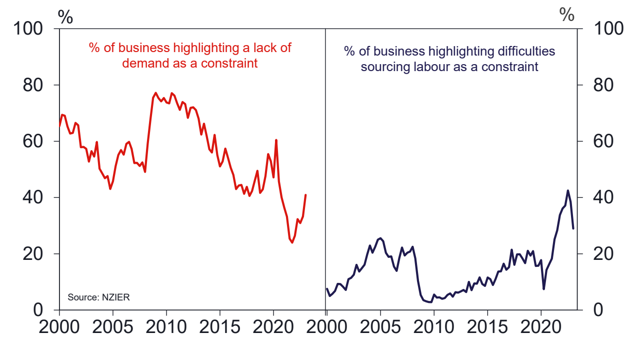
NZ Q2 NZIER Survey of Business Opinion

July 4, General business confidence, last: –61.3

The NZIER's survey of business conditions lifted in the early part of this year, but continued to point to tough trading conditions. Notably, gauges of trading activity remained low, while ongoing cost pressures have continued to eat away at margins.

We expect that the June confidence survey will highlight ongoing headwinds in the business sector, including continued pressure on margins and softening demand. However, some of the challenges that businesses have been dealing with over the past year, including shortages of staff, have now started to ease. As a result, although business sentiment is set to remain low in the June survey, it is likely to tick higher from the levels we saw at the start of the year.

Factors constraining NZ business activity



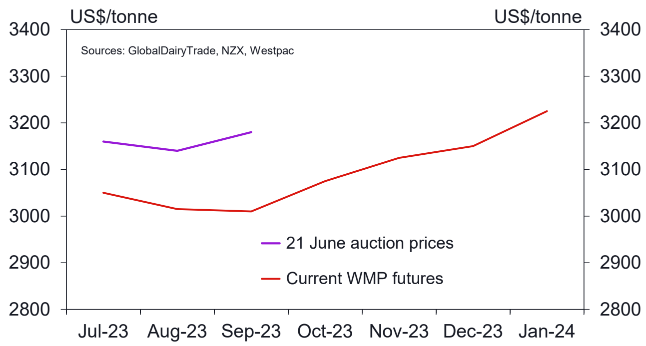
NZ GlobalDairyTrade auction, whole milk powder prices

Jul 5, Last: 0.0%, Westpac: –4.0%

We expect whole milk powder prices (WMP) to fall by 4% at the upcoming auction. If prices fall as expected, then this would continue the downward trend seen over recent months. Our pick is similar to the 3.7% drop that the futures market is pointing to as at Friday 30 June.

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



US June employment report

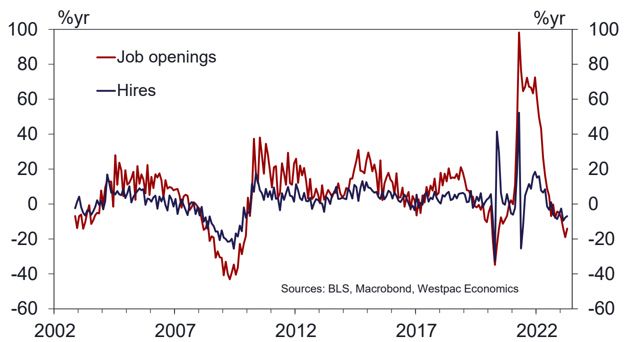
Jul 7: nonfarm payrolls, Last: 339k, Mkt f/c: 200k, WBC: 190k
Jul 7: unemployment rate, Last: 3.7%, Mkt f/c: 3.6%, WBC: 3.6%

May saw a strong 339k increase in nonfarm payrolls plus an additional 93k in back revisions. In stark contrast, the household survey reported 310k less people employed in May than April, the unemployment rate rising 0.3ppts as a result to 3.7%.

Multiple job holders and the assumptions that go into the estimation of nonfarm payrolls will likely see a material divergence remain between the household survey and nonfarm payrolls, with the latter to correct back in line with household employment over the course of the recession forecast from late-2023.

Our below consensus expectation for nonfarm payrolls exists to signal we anticipate a downtrend to become established. Its marginal scale however highlights that, at present, the threat of a material deterioration in net job creation seems a way off.

Job openings have lost momentum



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 03					
Aus	Jun CoreLogic home value index	1.4%	–	1.4%	Recovery unperturbed by RBA's latest rate rises.
	May dwelling approvals	–8.1%	4.0%	3.0%	Lifting a little after big falls in early 2023.
	May housing finance	–2.9%	1.7%	4.0%	Starting to stabilise as established market sees price gains…
	May owner occupier finance	–3.8%	–	4.0%	… and a modest lift in volumes, and construction-related…
	May investor finance	–0.9%	–	4.0%	… activity also moves off recent lows.
	Jun ANZ job ads	0.1%	–	–	Moderating slowly from a very elevated level.
	Jun MI inflation gauge %yr	5.9%	–	–	Provides a general view of risks.
NZ	May building permits	–2.6%	–	5.0%	Bounce following recent softness, trend remains weak.
Jpn	Q2 Tankan large manufacturers index	1	3	–	Sentiment weak against a challenging global backdrop.
Chn	Jun Caixin manufacturing PMI	50.9	50.0	–	Reopening has provided mixed fortunes for manufacturing.
US	Jun ISM manufacturing	46.9	47.1	–	Manufacturing is feeling the weight of weaker demand.
	May construction spending	1.2%	0.4%	–	New capacity needed, but uncertainty a material headwind.
Global	Jun S&P Global manufacturing PMI	–	–	–	Final estimates for Japan, Eurozone, UK and US.
Tue 04					
Aus	RBA policy decision	4.10%	4.10%	4.35%	Expected to hike but case for pause to be discussed.
NZ	Q2 NZIER Survey of Business Opinion	–61.3	–	–	Sentiment still weak, but starting to rise.
US	Independence Day	–	–	–	Public holiday; markets closed.
Wed 05					
NZ	GlobalDairyTrade auction (WMP)	0.0%	–	–4.0%	Weaker prices to reflect sluggish Chinese demand.
	Jun ANZ commodity prices	0.3%	–	–	All main commodity prices were under pressure over June.
Chn	Jun Caixin services PMI	57.1	56.2	–	Services received most of the benefit post-reopening.
Eur	May PPI	–3.2%	–	–	Decelerating rapidly from historic peak.
US	May factory orders	0.4%	0.6%	–	Underlying demand for investment goods soft, as evinced…
	May durable goods orders	1.7%	–	–	… by core orders.
	FOMC June meeting minutes	–	–	–	Consensus opinion around June's 'skip' in focus.
	Fedspeak	–	–	–	Williams.
Global	Jun S&P Global services PMI	–	–	–	Final estimates for Japan, Eurozone, UK.
Thu 06					
Aus	May trade balance $bn	11.2	10.7	11.0	Exports resilient, sharply lower prices offset by volume rebound.
Eur	May retail sales	0.0%	0.2%	–	Under pressure as discretionary spending capacity weakens.
US	May trade balance $bn	–74.6	–68.3	–	Deficit to gradually narrow as consumer demand softens.
	Jun ISM non-manufacturing	50.3	51.2	–	Momentum in services has gradually waned..
	Jun S&P Global services PMI	54.1	–	–	… as downturn looms on horizon.
	Initial jobless claims	239k	–	–	Trending upwards; no signs of large-scale job shedding yet.
	May JOLTS job openings	10103k	–	–	Low response rate to survey raises questions re accuracy.
	Fedspeak	–	–	–	Logan.
Fri 07					
Jpn	May household spending %yr	–4.4%	–2.5%	–	To remain subdued for the remainder of 2023.
Chn	Jun foreign reserves US$bn	3176.5	–	–	Little pressure on reserves.
US	Jun non-farm payrolls	339k	200k	190k	Payrolls likely to be last data point to show weakness.
	Jun unemployment rate	3.7%	3.6%	3.6%	HH survey points to a very marginal increase in slack.
	Jun average hourly earnings %mth	0.3%	0.3%	0.3%	Current pace at top end of that consistent with 2% CPI.

Forecasts

Interest rate forecasts

Australia	Latest (30 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	4.35	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	4.02	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)	16	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	3.84	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	5.71	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	4.64	4.30	4.20	4.00	3.80	3.75	3.70
10 Year spread to US	80	70	70	70	70	75	80

Exchange rate forecasts

Australia	Latest (30 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6632	0.69	0.69	0.71	0.72	0.73	0.74
NZD/USD	0.6096	0.62	0.62	0.63	0.64	0.65	0.66
USD/JPY	144.72	138	136	134	132	130	128
EUR/USD	1.0868	1.11	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2625	1.27	1.27	1.28	1.28	1.29	1.29
USD/CNY	7.2508	7.00	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.0881	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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