AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 7 August 2023

Editorial: The August Statement on Monetary Policy sees inflation success without further rate hikes.

Australia: Westpac-MI Consumer Sentiment, business survey.

NZ: Q3 RBNZ inflation expectations, retail card spending, housing updates, manufacturing PMI, food prices.

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

UK: Q2 GDP, trade balance.

US: CPI, PPI, trade balance, consumer credit, UoM consumer sentiment, small business optimism.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 4 AUGUST 2023.

WESTPAC INSTITUTIONAL BANK

The August Statement on Monetary Policy sees inflation success without further rate hikes

The August Statement on Monetary Policy (SOMP) provides an update to the Bank's forecasts from the May Statement.

The forecast horizon has been extended from June 2025 to December 2025.

As we expected, following the Governor's Statement after the Board meeting on August 1, the inflation forecasts still do not envisage either core or headline inflation reaching the middle of the target band (2.5%) by December 2025. Both headline inflation and trimmed mean inflation are forecast to reach 2.8% by end 2025.

This "patience" risks undermining the message that the Board is committed to returning inflation to the target in a reasonable time.

The forecast for headline inflation in 2023 was lowered to reflect the better than forecast outcome to June (6.0% down from 6.3%) but no meaningful improvement is assumed for the second half of 2023, with the forecast fall of 1.9ppts in August compared to 1.8ppts in May.

The forecast fall in headline inflation in 2024 was 1.3ppts in the May SOMP compared with 0.8ppts in the August SOMP. That seems a little strange although it may be driven by the desire for inflation to reach an unchanged end 2024 level despite the lower starting point in August.

A much closer assumption is made for the core measure, with inflation falling by 0.9ppts in the May SOMP compared to 0.8ppts in the August SOMP through 2024.

For August, the forecast slowdown in inflation in 2025 is much more sedate than 2024, falling by 0.5ppts for the headline measure and 0.3ppts for the core measure.

The growth forecast for 2023 has been lowered from 1.2% to 0.9%; and from 1.7% to 1.6% for 2024. These numbers emphasise the likely downdraft that weak growth in demand can be expected to exert on inflation.

These forecasts are in line with Westpac's forecasts of 1.0% and 1.4% respectively.

The forecast for the unemployment rate was lowered marginally for 2023 (4.0% to 3.9%) but remain the same for 2024, at 4.4%.

These forecasts compare with Westpac's forecasts of 3.8% and 4.7% respectively.

The forecasts for August are based on a peak cash rate of 4.25% compared with 3.75% in the May SOMP – that largely reflects the May and June rate increases which were not anticipated generally by the market or the professional forecasters (forecasts are based on the average of market pricing and forecasts of the professionals).

With the cash rate now at 4.1% the forecasts are effectively based on a flat profile for the cash rate.

Therefore, the forecasts are telling us that the Bank believes it can achieve its target without any further interest rate increases.

My experience with international observers of the RBA's policy approach indicates a degree of dissatisfaction that the Board is not targeting the middle (2.5%) of the policy target band. That issue was also raised in the recent RBA Review, where an approach to target the mid-point of the band was favoured.

The commentary in the SOMP seems to be marginally more dovish than other recent communications from the Bank.

SOMP's always give considerable attention to the risks around the inflation outlook.

In particular, the Overview in the SOMP noted that "the risks around the inflation outlook are broadly balanced".

This contrasts with the recent theme that the Board was concerned about inflation overshooting the target (see commentary in both May and June).

While the Board did consider a rate hike at the August meeting, as has been the case for every meeting since May last year, the attraction of taking more time to assess the cumulative impact of the tightening cycle was clearly the preferred option.

Although this approach is not apparent in the revised forecasts (no lowering of the inflation forecasts by end 2024 or mid 2025), the Board does conclude that "the data in recent months have confirmed that inflation is moving in the right direction and are consistent with inflation returning to the 2-3% target range over the forecast period."

The ongoing concern with weak productivity and rising unit labour costs is also prominent, while the forecasts continue to be based on a return to the modest productivity growth we saw before the pandemic. Real concern around this issue should be apparent in the inflation forecasts for 2024. Although we did see a more modest fall in forecast headline inflation in August than we saw in May, that was not replicated in the core inflation forecasts, implying that the productivity "concern" does not figure in the central forecasts.

The mandatory risk issues are still considered, including the upside risks to wages growth over the second half of 2023 (tight labour market; impact of minimum wage decisions; unresolved increases for the public sector). The SOMP also noted that tightening policy could provide further insurance against the upside risks to inflation.

That insurance opportunity was clearly available from the August Board meeting and was the basis of Westpac's incorrect forecast, but it was not taken up.

As the economy and inflation slow (note RBA's 1% growth forecast for 2023), the case for "taking insurance" will surely dissipate as we move forward.

Indeed, the time should be at hand when the Board will feel comfortable to drop the soft tightening bias "some tightening of monetary policy may be required".

The forecasts, which only include around 12 basis points of tightening over six months, are consistent with achieving the RBA's target without further rate increases. So while the "soft bias" can be used, it is not consistent with the forecasts.

Other encouraging observations in the SOMP are: "the monthly CPI indicator points to easing inflationary pressures"; "short-term inflation expectations have declined"; and "most medium and long-term inflation expectation measures remain consistent with the Bank's inflation target".

Conclusion

The forecasts and commentary in the SOMP, while pointing out the risks, support the case for the RBA to remain on hold.

Inflation risks are perceived to be evenly balanced and growth is forecast to slow to a limp 1% in 2023 despite strong population growth, before recovering to only 1.6% in 2024.

Waiting to assess the cumulative impact of the rapid tightening cycle appears to be the dominant policy motive of late; and the August SOMP's forecasts are based on a flat trajectory for the cash rate to achieve the target.

The most respectable argument for higher rates is that the forecast – which are based on flat rates – does not see the inflation rate returning to the middle of the target band.

It appears for this Board that bringing inflation back to just "within" the band is sufficient.

Westpac is broadly comfortable with the RBA's forecasts and the conclusion that rates have peaked prior to the first rate cut, which is likely for the September quarter next year.

The issue of not returning to the middle of the band may well have to be considered at a later date, but by then I think it is likely that it will be possible to credibly forecast that return without resorting to higher rates.

Bill Evans, Chief Economist (WestpacGroup)

This week, the RBA decided to leave policy unchanged for a second consecutive month. As was the case in July, the Board's decision reflects a preference to 'wait-and-assess' the evolution of risks as the cumulative impact of policy tightening is increasingly felt. Curiously, the RBA has retained the same forecast track for inflation following a better-than-expected Q2 CPI print, with headline inflation still expected to reach 3.25% by the end of 2024. The RBA's Statement on Monetary Policy will provide a full update of the staff forecasts; and, of particular interest, more clarity over how far into the 2–3% target range the RBA expect to be by end-2025. Nevertheless, the Board has retained a clear tightening bias and likely will continue to do so over the near-term as risks are assessed.

As discussed by Chief Economist Bill Evans in a video update midweek, we believe this decision likely confirms the end of the RBA's tightening cycle. Although the September meeting certainly remains 'live' – the Monthly CPI Indicator and WPI could surprise – our central case is that policy will remain on hold from now as evidence of a slowing economy, moderating inflation pressures and a gradual emergence of slack in the labour market continue to build over the coming year. In our view, these dynamics warrant an interest rate easing cycle starting from Q3 2024, with a 25bp rate cut per quarter until a broadly neutral level is reached for policy, ensuring growth sustainably returns to trend as inflation nears target.

The lower-than-expected peak in the cash rate and a firmer labour market – the unemployment rate set to rise to only 3.8% in 2023 and 4.7% in 2024 – will put less pressure on the Australian consumer over H2 2023 and 2024 than we had initially anticipated. The consumer sector will be coming off an already weak base, associated with deteriorating real incomes and spending capacity, also highlighted by the large contraction in real retail sales through H1 2023. So, while the improvement in our consumption forecast (0.8% in 2023; 0.9% in 2024) has lifted our view for GDP – from 0.6% to 1.0% in 2023 and from 1.0% to 1.4% in 2024 – these results are still characterised as very weak versus history.

Before moving offshore, a quick note on housing. This week's data raised more questions about the sustainability of the housing market's current momentum given the elevated level of interest rates. Indeed, while CoreLogic's home value index posted another broad-based gain in July (0.8%), this represented a continued moderation in the pace of price gains from May (1.4%) and June (1.2%). The fall in housing finance approvals also provided a tentative signal of growing uncertainty in borrowers' interest in the housing market, with clear weakness in loans for existing dwellings apparent. A sizeable pipeline of work is currently holding up housing construction but, abstracting for high-rise volatility, dwelling approvals' weak trend suggests housing construction activity will decline over the coming year. Housing supply is therefore likely to remain constrained to end-2024 and beyond, supporting the level of both prices and rents.

Offshore, the Bank of England raised its Bank Rate by 25bps to 5.25%. Strong momentum in wages and resilience in GDP growth justified the Committee's decision in August and point to further hikes ahead. Despite the significant deceleration in inflation in June (7.9%yr from 8.7%yr in May) and a belief that policy is contractionary, inflation risks remain skewed to the upside and two members of the Committee felt a 50bp move would have been more appropriate in August. Despite services inflation having accelerated for four consecutive months, the Committee seem optimistic that the trend will top out, projecting it "to remain elevated at close to its current rate in the near term." Signs that the labour market is coming into better balance and a weaker forecast profile for the unemployment rate support this view.

The forecasts for inflation overall, which are predicated on a market implied rate around 6% in 2023 and 2024, point to inflation a bit above target in 2024, but back at 2%yr in Q2 2025 and below that level near end-2025. GDP growth is expected to be materially below potential through 2023-25, creating a sizeable output gap, and so the longer-run expectation for inflation based on the market-implied rate path has to be below target. While the risks regarding inflation calls for further rate hikes in the near-term, the current market-implied rate for 2025 of 5% seems improbable. Growth below trend and inflation below target in 2025 would instead argue for a neutral or accommodative stance at that time; history points to that level being a fraction of 5%.

Close by, Europe's flash HCIP showed prices grew 5.3%yr in July versus 5.5%yr in June. Core inflation remained unchanged at 5.5%yr while services inflation accelerated to 5.6%yr. While not alarming, the August report will need to show more improvement for the ECB to stay put on rates. Regardless of the August CPI outcome, it seems prudent to us for the ECB to hike once more in September and then go on hold till mid-2024 at a restrictive level to guard against inflation risks, particularly as the labour market remains strong and economic activity resilient.

Across in the US, the ISM Manufacturing PMI for July ticked up to 46.4 points, although that still marks nine consecutive months of contraction. There was an improvement in new orders and production reversed some of last month's fall, but both sub-indexes remained below 50. Meanwhile, the employment sub-index fell to a deeply negative reading of 44.4, suggesting US manufacturers are increasingly of the view that conditions will remain weak and current staffing is excessive. The services ISM PMI also subsequently disappointed in July, coming in at modestly expansionary 52.7. The softening was broad-based but most notable for employment which at 50.7 is now consistent with little-to-no growth in employment. Admittedly, both of the ISM employment indexes have been volatile over the past year, but the trend is clear: in aggregate, US businesses are increasingly of the view that they do not need additional staff and may indeed have too many workers; into year end and through 2024, the unemployment rate is likely to rise and wage growth slow back to average levels.

In China, the NBS manufacturing PMI meanwhile rose 0.3pts to 49.3, leaving it 1.2pts below the 5-year pre-COVID average. The largest improvement was in new orders and raw material inventories, though both remained below 50. The NBS non-manufacturing PMI however weakened to 51.5, with a particularly notable decline in new orders. The level of both NBS PMIs corroborate other evidence of excess capacity in China's economy from the CPI and PPI. Yet, from the fixed asset investment data and given recent encouragement by authorities, it is clear additional capacity will come online over the next year. With developed world demand weak, this can only lead to further goods disinflation or outright deflation for some products globally. We see this trend continuing to aid the return of western inflation back towards trend, though to fully achieve this aim also requires services inflation in developed markets to ebb, a problem the West will have to resolve themselves.

As a final point, the BoJ decision last week to expand its 10-year trading range to +/-1.0% from +/-0.5% to improve the sustainability of YCC further highlights the need to continue to assess each nation's inflation path and contributing factors carefully. Wage and capacity trends will continue to vary greatly between the US, Europe, Japan and developing countries like China; so too then will monetary policy outcomes. A full discussion of the implications for FX markets will be available in our August Market Outlook released on Westpac IQ today.

Week ahead & data wrap

RBNZ to hold in August, but a hike is still likely before year end

We continue to see the RBNZ raising the cash rate to 5.75%, but now expect that to occur in November instead of August. While recent data have highlighted the lingering strength in domestic inflation pressures, at this stage we doubt this will be enough to overcome the RBNZ's strong bias to keep the OCR at 5.50%. Nevertheless, we think resilience in economic conditions and sticky inflation will eventually force the RBNZ to act.

Since May 2023, we have had the view that the RBNZ would need to tighten policy further to ensure a timely fall of inflation to within the 1-3% target range. This view was predicated on a sense that current very high rates of inflation would be slow to recede and that risks to the longer-term outlook were tilted towards a very protracted easing in inflation pressures. Strong net migration was seen as supporting both the housing market and the economy right at the time the RBNZ would have hoped that growth would be quickly slowing and providing a much needed disinflationary impetus.

In large part, the accumulated evidence has supported our view. While GDP in the March quarter was somewhat weaker than expected, we can see tangible signs that strong migration is supporting the economy. The housing market has exhibited strength compared to the relatively dire predictions of commentators earlier this year. Business and consumer confidence have bottomed out and are staging a tentative recovery, which is unusual if the end of the tightening cycle has been reached. The labour market has been a particular area of strength. Employment growth has remained strong in defiance of concerns of a recessionary economy. Large numbers of migrants have found jobs in a labour market that, while better balanced than a year ago, remains tight. The strong labour market has meant that household incomes have continue to grow strongly, leaning against the considerable disinflationary impact of the RBNZ's 525 bps of interest rate increases delivered in recent years.

The June quarter CPI also provided a timely reminder of the upside risks to the inflation outlook. While annual headline inflation fell to 6% in line with projections, inflation remains far north of the 1-3% target range. And digging under the surface, the details of the latest inflation report raised a number of red flags for the central bank. The most important of those was the continued strength in domestic inflation (aka non-tradable prices). The RBNZ pays particular attention to non-tradables inflation given its close connection to the strength of domestic economic conditions, and they had expected it to fall from 6.8% in the year to March to 6.3% now. But instead, non-tradables inflation has actually held at higher levels than the RBNZ expected, nudging down only slightly to a still strong level of 6.6% in the year to June. That's despite the sharp rise in interest rates.

Looking more closely at those domestic inflation pressures, there has been particular strength in the prices of services, which are up an average of 6.1% over the past year. That's consistent with the ongoing tightness in the labour market and related strength in wage growth (private sector wages were up 4.3% in the year to June). We expect those conditions will see domestic inflation remaining elevated well into the new year.

However, while we are seeing strong and potentially concerning data, that probably won't be sufficient to budge the RBNZ's Monetary Policy Committee in August. The RBNZ has previously signalled its very strong bias to keep the OCR steady at 5.5% until the second half of next year, and that's a high hurdle to clear. So on this one we must play the man (the MPC) as opposed to the ball.

We retain confidence that recent trends will continue: the economy will likely continue to be supported by ongoing strong migration, the housing market will continue to strengthen, and inflation will only ease gradually at current interest rates. In addition, we continue to doubt the economy will experience an outright recession in the second half of 2023 as forecast by the RBNZ (although risks from the concerning situation in China and weaker agricultural commodity prices warrant keeping a close eye on that element of the forecast).

Against this backdrop, underlying inflation pressures will likely prove stickier than the RBNZ is expecting. While headline inflation is set to continue easing as earlier supply disruptions drop out of the annual calculations, we don't expect a return within the target band until late next year. And a return to the 2% target mid-point will likely take significantly longer.

Given those conditions, the interest rate reductions we had previously expected to occur in the second half of 2024 will likely now occur more slowly, consistent with the RBNZ only easing cautiously as inflation gradually eases. We suspect many other central banks will be taking a similarly cautious approach.

Kelly Eckhold, Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 31	Jul ANZ business confidence	–18.0	–13.1	–
Tue 1	Jun building permits	–2.3%	3.5%	-5.0%
Wed 2	GlobalDairyTrade auction (WMP)	–1.5%	–8.0%	–2.0%
	Q2 unemployment rate	3.4%	3.6%	3.5%
	Q2 LCI wage inflation (pvte, ord. time)	0.9%	1.1%	1.3%
	Q2 employment	1.1%	1.0%	0.8%
Thu 3	Jul ANZ commodity prices	–1.7%	–2.6%	–

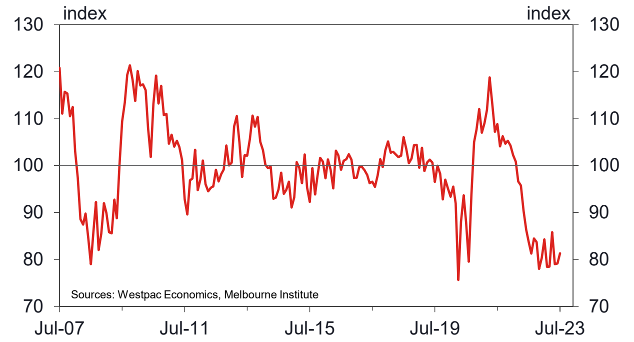
Aus Aug Westpac-MI Consumer Sentiment

Aug 8, Last: 81.3

Consumer sentiment rose 2.7% in July but remained at deeply pessimistic levels overall at 81.3, in the weak range that has prevailed for just over a year now. That modest lift reflected the RBA's decision to hold rates steady at its July meeting, but the improvement in sentiment was limited by widespread expectations of further hikes to come, ongoing cost of living pressures on family finances, and concerns about the economic outlook.

The 'relief rally' in sentiment is likely to get a little more traction in August, following the RBA's decision to leave rates on hold for a second consecutive month, retaining a clear tightening bias but with indications that the 'hurdle' for further rate rises is now higher. That partly reflects a slightly faster improvement in headline inflation which may also allay concerns about sharp rises in the cost of living.

Consumer Sentiment Index



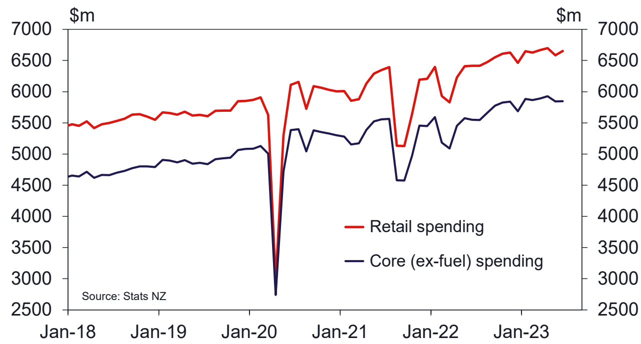
NZ Jul retail card spending

Aug 9, Last: +1.0%, Westpac f/c: +0.7%

Retail sales rose by 1% in June, underpinned by a 2.4% rise in fuel spending as households rushed to fill their tanks ahead of July's lift in fuel taxes. In contrast, spending in core (ex-fuel) categories was subdued. While that may just be a timing effect, with increased spending on fuel diverting spending away from other areas, households' budgets are also being squeezed by increases in both prices and interest rates.

We're forecasting a 0.7% rise in retail spending in July. We expect that to be underpinned by a lift in hospitality spending, including a boost related to the FIFA Women's World Cup matches. However, spending in other areas is expected to be more subdued as a result of the continuing pressures on households' finances.

NZ monthly retail card spending



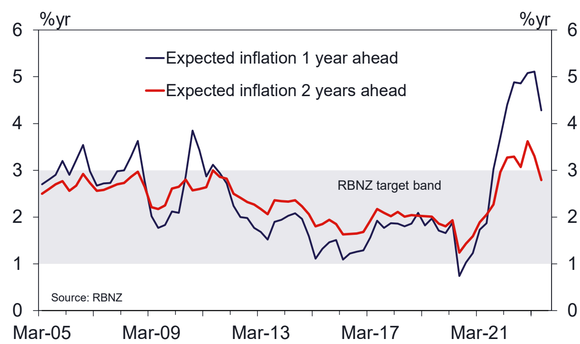
NZ Q3 RBNZ survey of expectations

Aug 9, Expected inflation 2 years ahead, last: +2.79%,

The RBNZ's June survey showed that expectations for inflation over the next few years have been dropping back as actual inflation has continued to ease. Notably, expectations for inflation at the closely watched two-year ahead horizon have fallen below 3% for the first time since 2021.

Inflation has continued to ease since the time of the RBNZ's June survey, with headline inflation dropping from 6.7% at the start of the year to 6.0% now. Against this backdrop, expectations are set to fall again in the September quarter survey. However, with 'stickiness' in domestic inflation, any easing in expectations is likely to be gradual.

RBNZ survey of expectations



DATA PREVIEWS

NZ Jul REINZ house sales and prices

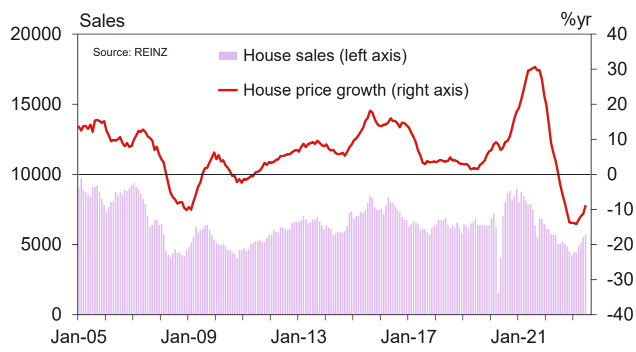
Aug 11 (TBC), Sales, Last: +2.2% m/m, 14.6% y/y
Aug 11 (TBC), Prices, Last: +1.2% m/m, –9.0% y/y

This year, the New Zealand housing market has shown signs of recovery, likely supported by rapid migrant-driven population growth and a growing sense amongst buyers that interest rates are close to or at their peak.

House sales, while still well below average, are up about a third from last year's low-point. Prices have also moved higher in recent months, though they are still 15% below the peak.

Migrant inflows have slowed a little in recent months and mortgage rates have edged higher as funding costs have risen. Should the housing recovery gather pace regardless, this will doubtless raise eyebrows at the RBNZ.

REINZ house prices and sales



US Jul CPI

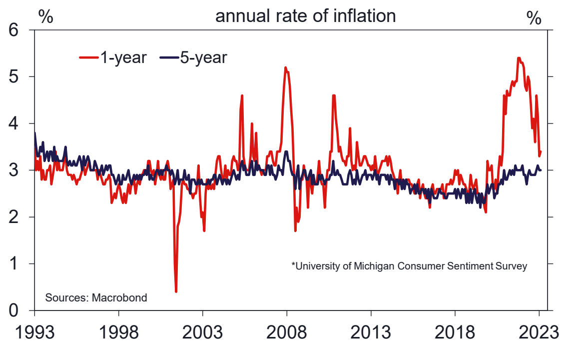
Aug 10, Headline %mth, Last: 0.2%, Mkt f/c: 0.2%, WBC f/c: 0.2%

The June CPI report was pivotal for the current cycle as a modest 0.2% monthly print brought annual headline inflation down to 3.0%yr, a third of its peak level. A similar outcome is expected by Westpac and the market in July, though the annual rate will lift slightly owing to an adverse base effect.

The composition of US inflation remains problematic, however. Goods inflation is benign and services ex. shelter increasingly constructive for a return to target well before the medium term. But, because of its weight and scale, by itself shelter inflation has the capacity to hold inflation above the 2.0%yr target for the foreseeable future.

It is also worth recognising that, while shelter inflation should abate to year end and through early-2024, capacity in the sector will remain a concern for years, and with it shelter inflation.

Household inflation expectations normalising



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

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 07					
Aus	Bank holiday, NSW	–	–	–	Financial markets open.
	Jul ANZ job ads	–2.5%	–	–	Declining from an elevated level.
Chn	Jul foreign reserves US$bn	3193.0	3201.5	–	Little pressure on reserves.
Eur	Aug Sentix investor confidence	–22.5	–25.0	–	Cloudy economic outlook weighing on confidence.
US	Jun consumer credit $bn	7.2	13.5	–	Consumer credit remains strong despite rate hikes.
	Fedspeak	–	–	–	Bostic and Bowman.
Tue 08					
Aus	Aug WBC–MI Consumer Sentiment	81.3	–	–	A more convincing 'relief rally' after RBA's latest pause?
	Jul NAB business survey	9	–	–	Conditions well down from highs. Confidence soft, fragile.
	RBA Acting Head of Domestics Mkts	–	–	–	Schwartz, speaking at Risk Australia Conference, 9:05am.
Jpn	Jun household spending %yr	–4.0%	–3.8%	–	High inflation weighing on discretionary spending.
	Jun current account balance ¥bn	1862.4	–1414.5	–	Strong investment earnings maintaining the surplus.
Chn	Jul trade balance US$bn	70.6	67.8	–	Demand from Asia supporting trade surplus.
US	Jul NFIB small business optimism	91.0	90.5	–	Small businesses continue to be upbeat given circumstances.
	Jun trade balance $bn	–69.0	–65.0	–	Deficit to narrow as US growth slows.
	Jun wholesale inventories	–0.3%	–0.3%	–	Final estimate.
	Fedspeak	–	–	–	Harker.
Wed 09					
NZ	Jul retail card spending	1.0%	–	0.7%	Lift in hospitality spending offsetting softness elsewhere.
	Q3 RBNZ infl. expectations, 2yrs ahead	2.79%	–	–	Set to ease now that headline inflation is well past its peak.
Chn	Jul CPI %yr	0.0%	–0.5%	–	Fixed prices and excess capacity to keep inflation low.
	Jul PPI %yr	–5.4%	–4.0%	–	Softening commodity prices drive declines.
	Jul new loans, CNYbn	3050	760	–	Impact of stimulus measures to materialise in time…
	Jul M2 money supply %yr	11.3%	11.1%	–	… providing support to domestic demand.
Thu 10					
Aus	Aug MI inflation expectations	5.2%	–	–	Provides a general view of risks.
NZ	Jul REINZ house sales %yr	14.6%	–	–	The stabilisation of the housing market is set to continue…
	Jul REINZ house prices %yr	–9.0%	–	–	… with sales turning higher and prices flattening out.
US	Jul CPI	0.2%	0.2%	0.2%	Shelter the focus with goods inflation benign.
	Initial jobless claims	227k	–	–	Likely to remain at historic lows.
	Jul monthly budget statement	–227.8	–	–	Stronger revenues to reduce budget deficit, slightly.
	Fedspeak	–	–	–	Bostic.
Fri 11					
NZ	Jul manufacturing PMI	47.5	–	–	Conditions continue to soften, production and orders weak.
	Jul food price index	1.6%	–	1.6%	Seasonal rise in the price of fresh vegetables.
UK	Q2 GDP	0.1%	0.0%	–	To show resilience in the economy, all things considered.
	Jun trade balance £bn	–6.6	–	–	Weak export demand set to sustain the deficit.
US	Jul PPI	0.1%	0.2%	–	High base from 2022 to keep producer prices weak.
	Aug Uni. of Michigan sentiment	71.6	71.0	–	FOMC's pause to aid in sentiment's recovery.

Forecasts

Interest rate forecasts

Australia	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.10	4.10	4.10	4.10	4.10	3.85	3.60
90 Day BBSW	4.18	4.30	4.30	4.30	4.22	3.97	3.72
3 Year Swap	4.08	4.00	3.95	3.90	3.80	3.70	3.60
3 Year Bond	3.81	3.75	3.70	3.65	3.60	3.50	3.40
10 Year Bond	4.17	3.75	3.55	3.45	3.30	3.25	3.20
10 Year Spread to US (bps)	-1	-5	-5	5	10	15	20
US							
Fed Funds	5.375	5.375	5.375	5.125	4.625	4.125	3.625
US 10 Year Bond	4.18	3.80	3.60	3.40	3.20	3.10	3.00
New Zealand							
Cash	5.50	5.50	5.75	5.75	5.75	5.50	5.25
90 day bill	5.64	5.70	5.85	5.85	5.85	5.60	5.35
2 year swap	5.50	5.64	5.49	5.29	5.06	4.81	4.58
10 Year Bond	4.82	4.50	4.45	4.30	4.15	4.05	3.95
10 Year spread to US	64	70	85	90	95	95	95

Exchange rate forecasts

Australia	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6558	0.67	0.68	0.69	0.71	0.73	0.74
NZD/USD	0.6080	0.62	0.63	0.63	0.64	0.65	0.66
USD/JPY	142.63	140	138	135	132	130	128
EUR/USD	1.0952	1.11	1.12	1.12	1.13	1.14	1.15
GBP/USD	1.2715	1.28	1.28	1.29	1.29	1.30	1.30
USD/CNY	7.1695	7.10	7.00	6.80	6.70	6.60	6.50
AUD/NZD	1.0787	1.07	1.08	1.09	1.10	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	0.4	0.2	0.2	0.1	0.3	–	–	–	–
%yr end	2.6	2.3	1.8	1.4	1.0	0.9	0.8	4.6	2.6	1.0	1.4
Unemployment rate %	3.5	3.6	3.6	3.6	3.8	4.1	4.5	4.7	3.5	3.8	4.7
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	0.8	0.9	0.7	0.9	0.9	–	–	–	–
annual chg	7.8	7.0	6.0	5.1	3.9	3.4	3.4	3.5	7.8	3.9	3.2
Trimmed mean	1.7	1.3	0.9	0.8	0.8	0.8	0.8	–	–	–	–
annual chg	6.9	6.6	5.9	4.7	3.8	3.3	3.3	2.6	6.9	3.8	3.1

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	0.8	0.1	0.1	0.1	0.0	–	–	–	–
Annual avg change	2.7	2.9	3.1	1.5	1.1	0.8	0.5	6.0	2.7	1.1	0.4
Unemployment rate %	3.4	3.4	3.6	3.8	4.3	4.7	5.0	3.2	3.4	4.3	5.2
CPI % qtr	1.4	1.2	1.1	2.0	0.5	0.7	0.4	–	–	–	–
Annual change	7.2	6.7	6.0	5.9	4.9	4.4	3.7	5.9	7.2	4.9	2.9

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