AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 14 August 2023

Editorial: Consumers not convinced rate hikes are over but RBA looks to be more firmly on hold.

RBA: Minutes from the July meeting.

Australia: Q2 WPI, Westpac-MI Leading Index, labour force survey, overseas arrivals.

NZ: RBNZ policy decision, GlobalDairyTrade auction, house prices and sales.

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

UK: CPI, unemployment rate, retail sales.

US: retail sales, industrial production, housing starts, building permits, leading index, FOMC minutes.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 11 AUGUST 2023.

WESTPAC INSTITUTIONAL BANK

Consumers not convinced rate hikes are over but RBA looks to be more firmly on hold

Inflation may be off its peaks and the RBA on hold but the 'inflation lockdown' continues to weigh heavily on Australian consumers.

The Westpac-Melbourne Institute Consumer Sentiment survey continues to show only a muted response to the RBA Board's decision to leave the cash rate on hold in recent meetings, up only 2.3% in the two months since June, and slightly lower for the mortgage belt. Continued pressures on family finances from sharp rises in the cost of living, fears of further rate hikes to come and concerns about the near-term economic outlook continue to weigh heavily on confidence.

Around living costs, the easing in reported headline inflation is likely being offset by continued strong rises in a range of essentials, most notably around rents, fuel, and electricity. On the last two: petrol prices have lifted 10% in the last month as a rally in global oil prices has combined with a lower AUD; while electricity costs rose significantly from July 1 with 'benchmark maximum' rates up 20-25% across the major eastern states and expected to be up 7% on average nationally in the September quarter.

On interest rates, consumer fears partly relate to the RBA's continued warnings that further tightening may still be required. Our survey shows most consumers are still bracing for further rate rises with over two thirds of those surveyed after the RBA's August decision expecting rates to move higher over the year ahead – nearly half of this group expecting a rise of over 1ppt. That is about the same hawkish mix of responses we saw when the RBA first actively paused its rate rise cycle back in April.

Westpac's view is that the RBA tightening cycle is now over. While there are still clear risks, particularly around the tight labour market, these are unlikely to form a strong enough case for the RBA to tighten further in coming months, particularly with inflation continuing to ease and growth outcomes confirming a sharp economic slowdown. The RBA's recent commentary has shown increased confidence in achieving a reasonably timely return to low inflation and that it is also comfortable with inflation 'only' returning to the 2-3% range by late 2025 rather than being more intent on hitting the mid-point of that range.

The RBA Governor's testimony to the House of Representatives Standing Committee on Economics gave some further articulation to the Bank's views. Within this long and wide-ranging Q&A was a particularly notable discussion of the RBA's 'reaction function' – how it is assessing the risks and trade-offs involved with different policy approaches. Governor Lowe described two alternatives: one in which the RBA set out to achieve an earlier return to low inflation by the end of 2024 (in line with many other central banks overseas); and another in which inflation was allowed to run higher for longer, only returning to target some time in 2026.

His assessment was that, given the strong inflation already locked-in around rents and electricity near term, achieving the inflation target in 2024 would require a substantial additional tightening in interest rates – in the order of as "at least a further 1ppt" – delivering a significantly larger shock to the economy that would result in a significantly higher unemployment rate. This trade-off was not one the Board was willing to make (presumably partly on the notion that rent and electricity cost inflation would become less of an issue beyond 2024).

On a slower return to target, the Governor's key concern was that such a prolonged return, which would see inflation above target for over four years in a row, risked losing public confidence that the Bank was serious about achieving its inflation goals.

Separately, the Governor's discussion of the evolution of the return to low inflation also provides some clues to how risks may play out from here – in our view, more as a constraint on prospective policy easing rather than additional tightening.

The Governor described the 'next phase' of the return to low inflation as one that requires slower growth in unit labour costs. That in turn relies on the extent to which labour costs rise and the degree to which we see a lift in labour productivity – output per unit of labour. Unit labour costs have surged 7.9% over the year to March, well above the 2.5% average seen over the inflation-targeting period. However, measures have been heavily impacted by COVID disruptions, making identifying shifts in underlying trends extremely difficult, particularly for what was already a volatile measure. Productivity and unit labour cost updates are only available quarterly with the national accounts figures on GDP. Going by the Governor's testimony, it could take several quarters for a definitive shift to emerge.

Assessing the extent to which productivity is normalising and the rate of inflation in the 'cost base' of the economy is easing will not be easy – inflation updates may well give more clues before the productivity data does. These uncertain and slow dynamics will make it difficult to make a case for further policy tightening. Instead, the main implications from 'unit labour cost' risks are likely to be for the timing and extent to which the RBA can ease policy. We expect scope for easing to emerge in the second half of 2024 with a rate cut cycle beginning in the September quarter. But that scope could be challenged if unit labour cost growth looks likely to stay well above the 2.5%yr pace seen in the past.

For now, however, the main message is still of an RBA that is comfortable with policy settings as they are, more confident of achieving the 'narrow path' back to low inflation over a reasonable timeframe without doing too much damage along the way in terms of unemployment, and sees the requirement for further policy tightening as a 'possibility' but as part of a more balanced range of risks. Next week's wage and labour force updates will be important, as will the monthly CPI indicator release later in the month but given the high hurdle for any further rate increases another 'on hold' decision at the RBA's September meeting looks very likely at this stage.

Matthew Hassan, Senior Economist (WestpacGroup)

THE WEEK THAT WAS

Despite the RBA leaving policy unchanged for a second consecutive month, [Westpac-MI Consumer Sentiment] fell by 0.4% in August. At 81.0, the headline index suggests extreme pessimism remains firmly entrenched, with confidence at levels only seen during periods of major economic dislocation over the survey's near fifty-year history.

With no constructive response to the RBA pause, it remains clear that fears around the interest rate outlook and cost-of-living pressures are continuing to weigh heavily. This is evident across many of the survey's sub-indexes, with households' assessment of economic conditions, family finances and spending intentions on 'major household items' all well below their long-run averages. Housing affordability is also a major concern, with house price expectations rising to a cycle-high whilst 'time to buy a dwelling' held at historic lows. This pressing reality will weigh on the housing market recovery into the medium-term.

The latest NAB business survey provided further confirmation of a slowdown in business conditions, the headline index down 1pt to +10 in July. An area of growing concern has been the deterioration in forward orders. Having remained in contraction for three consecutive months (–5 in May; –2 in June; –1 in July), the survey points to a subdued near-term outlook, particularly for retail. That said, the trends in overall business conditions look to be broad-based by industry and state. Given these circumstances, it is unsurprising that business confidence is soft and fragile, with a sustained reprieve unlikely in the months ahead.

Offshore, the key data for the week came from the US and China.

US CPI inflation met the market's expectation in July, headline and core consumer prices rising a benign 0.2%mth. Annual headline inflation ticked higher given July 2022's flat print, from 3.0%yr to 3.2%yr; but annual core inflation edged down, from 4.8%yr to 4.7%yr. The detail of the report was also constructive. Having been broadly unchanged April to May, the price of 'food at home' rose 0.3% in July, but this uptick was offset by a deceleration in 'food away from home' from 0.4% to 0.2%, signalling less pressure from wages growth.

Core prices meanwhile signalled a further softening in discretionary demand. For a second consecutive month, core goods prices declined, led lower by used car prices and as apparel prices held steady. For services, 'lodging away from home' fell 0.3%mth following a 2.0%mth decline in June. And airfares dropped 8.1% for a fourth consecutive decline. Helpfully, June's step-down in shelter inflation was sustained in July; although, at almost 5% annualised, shelter inflation remains much higher than the pre-pandemic average near 3%.

In August, headline inflation is likely to be higher given the recent energy prices uptrend. And, over the next few months, core prices may also strengthen given the recent sizeable falls in a number of key sub-categories. But the trend into year-end continues to point towards six-month annualised inflation being around 2% in December, and annual inflation returning to target over the first half of 2024. Such an outturn would set the stage for rate cuts beginning March 2024 as per our forecast.

Turning the clock back to June, the US trade deficit narrowed to US$65.5bn largely due to a US$3.1bn drop in imports as exports slipped US$0.3bn. Slowing consumer demand saw most import categories tick down; however, there was notable strength in car imports as order backlogs are filled.

Over in Asia, China's annual inflation rate fell to –0.3%yr in July, the first annual deflation print outside of COVID since 2009. On a monthly basis, prices did rise 0.2% in July, but this followed five consecutive negative outcomes. Food prices were responsible for the annual decline, food prices falling 1.7%yr while CPI ex food was flat and CPI ex food and energy up 0.8%yr. The perspective given by services inflation is also constructive, the annual rate accelerating to 1.2%yr in July having averaged 0.9%yr the three months prior.

Still, a rapid reversal of recent weakness is highly unlikely. Excess capacity in the economy has meant that the reopening has not led to price pressures. With producer prices –4.4%yr, further disinflation for consumers in China and, via exports, across the world is still to come. The uptick in the input prices component of the manufacturing PMI to an expansionary 52.4 in July however suggests downside risks regards inflation and activity are receding.

The July trade surplus also received a lot of coverage this week as export and import growth plunged, respectively –14.5%yr and –12.4%yr (from –12.4%yr and –6.8%yr in June). Note though that the trade surplus actually widened from $70.6bn in June to $80.6bn in July. This is a striking outcome, only $20bn inside the peak trade surplus of mid-2022 and almost three times the average surplus of 2017-2019. Weakness in exports is broadly-based across all goods except transport, but stronger demand from Asian trade partners is compensating for weaker demand from Europe and the US.

Week ahead & data wrap

Over the past week we released our quarterly Economic Overview. The key theme is "the great rebalancing," and we ask whether and how quickly it will occur? The economy is clearly slowing, as further demonstrated by this week's soft retail spending and manufacturing PMI reports. However, the economy remains overstretched and inflation far too high. Twin deficits – external and fiscal – are in play, raising clear risks the required adjustments in economic conditions might be bumpy and prolonged.

Our baseline is that further monetary policy action is needed to ensure the required adjustments come fast enough. But there are risks in both directions. On the upside, we continue to see the risk of only slow adjustments in economic activity and lingering 'sticky' inflation pressures, which could mean that the OCR needs to move even higher – perhaps even above 6%. But on the downside, the possibility of weaker Chinese demand could allow for a faster adjustment than we have factored in. But even then, local interest rates will likely remain higher than pre-pandemic levels.

Looking ahead to the coming week, the key event in the local diary is Wednesday's RBNZ's OCR decision and updated *Monetary Policy Statement*. As we wrote in our preview, we are not expecting any fireworks, with the Bank likely to deliver the same "steady as she goes" message as was conveyed last month. Specifically, the OCR is almost certain to remain at 5.5% and the Bank is very likely to retain its baseline projection that the rate cycle has peaked. Looking beyond this meeting, the Bank's projection for the OCR will likely continue to indicate policy on hold until around the August 2024 meeting, before gradually moving lower thereafter. But it is probable – and certainly desirable – that the Bank will emphasise that policy is not on a predetermined path and that it will be closely monitoring the emerging data flow both here and abroad.

Economic developments since the July policy meeting – and since May when the RBNZ released its last set of forecasts – will likely be viewed as mixed, and so lead to only modest changes to the broad thrust of the Bank's overall growth and inflation forecasts. That's not to say there won't be changes within the detail. For example, the RBNZ's starting point for the level of excess capacity in the economy will be adjusted down to reflect that March quarter GDP was weaker than they expected. However, indicators – including robust employment growth – point to a stronger June quarter than the Bank had projected, so the implications for the output gap will likely be a wash.

Recent external sector developments will have been a downside surprise for the RBNZ. Of particular significance has been ongoing weakness in China's recovery and the related substantial downgrade to the outlook for commodity export prices (dairy, meat, logs for example), which will lower farm and business incomes. On the other hand, house prices have found a base sooner than the RBNZ expected and have even taken tentative steps higher. And while the headline CPI was in line with expectations, non-tradables inflation was higher than the RBNZ had forecast, and that will raise questions on how persistent price pressures will be in the next few quarters. The widespread nature of pricing pressures should see some short-term upward adjustment to the inflation outlook.

While the RBNZ's baseline outlook may not have changed much, both upside and downside inflation risks have become more pronounced since the May *Statement*. On the downside the focus should be on the weakness in China and commodities markets, along with the related possibility of a steeper downturn in the economy and an earlier move lower in inflation. A May 2024 easing could come into focus in that scenario. On the upside, greater persistence in domestic inflation, stronger house prices, and a slower adjustment in the labour market would confirm Westpac's view that a hike in the OCR will be back on the table by the time of the RBNZ's November OCR decision and *Statement*.

Ahead of next week's RBNZ's meeting, there will be some interest in the REINZ housing report for July and migration data for June. In recent months house sales have moved decisively off their cycle lows and house prices have edged higher – developments that will no doubt have caught the attention of the RBNZ. Very strong net migrant inflows earlier this year have probably contributed to this uplift, so we will be interested to see whether the recent slight moderation in inflows has continued in June. On Wednesday the results of the latest GDT auction will likely be awaited with some trepidation, especially after the very sharp fall in whole milk powder prices at the last auction. Indeed, given the weakness in recent auction results, and following Fonterra's own forecast revision, we have this week further revised down our forecast for the 2023/24 farmgate milk price to $7.50kg – a level that will likely leave many farmers in the red for the season. The June quarter business price indexes close out the week on Thursday. While not a big focus for markets, the producer price indexes might cast some light on the inflation pipeline.

Kelly Eckhold, Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Wed 09	Jul retail card spending	0.9%	0.0%	0.7%
	Q3 RBNZ infl. expectations, 2yrs ahead	2.79%	2.83%	–
Fri 11	Jul manufacturing PMI	47.4	46.3	–
	Jul food price index	1.6%	–0.5%	1.6%

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.

Aus Q2 Wage Price Index %qtr

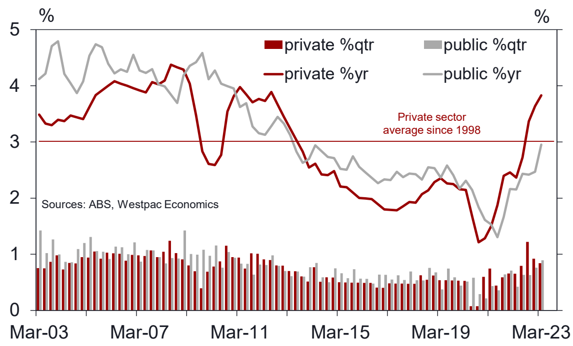
Aug 15 Last: 0.8%, WBC f/c: 1.0%
Mkt f/c: 0.9%, Range: 0.8% to 1.1%

Wages lifted 0.8% in March, softer than the market's expectation for a 0.9% but spot on Westpac's 0.8% forecast. Wages continue to disappoint broader expectations and while private sector wage gains are moderating faster than we had anticipated, at least for now, the uptick in public sector wages means we can hold the forecast peak at 4.1%yr.

However, that forecast implies a step up in the quarterly pace of wage inflation, and given an emerging moderation in private sector wages, more emphasis will be placed on public sector wage inflation, the emerging risks to that forecast now lie to the downside.

Westpac is forecasting a 1.0% rise in the June quarter taking the annual pace from 3.7% to 3.8%. June is a seasonally soft quarter with most wage rises being paid post June 30th, and most of the remainder occurring at the start of the year.

Public vs. private wages



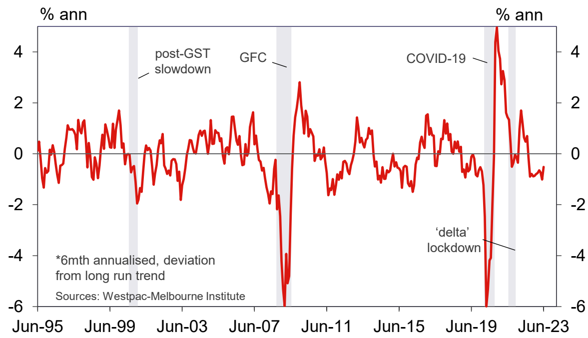
Aus Jul Westpac–MI Leading Index

Aug 16, Last: –0.51%

The Leading Index lifted to –0.51% in June from –1.01% in May. Despite the improvement, the Index continue to send a weak signal on growth momentum, pointing to a below-trend pace continuing through the second half of 2023 and into early 2024.

The July read will include another mixed bag of component updates. On the plus-side, the ASX200 rose 2.9% and total hours worked increased slightly after big swings in previous months. But against this, commodity prices have fallen sharply again (–12.2% in AUD terms) and dwelling approvals have cycled a one-off high rise driven jump in May. Sentiment-based components have also been mixed, the Westpac-MI Consumer Expectations Index softening but the Westpac-MI Unemployment Expectations Index improving marginally. The mix is likely to leave another negative signal overall.

Westpac-MI Leading Index



Aus Jul Labour Force – employment change ('000s)

Aug 17, Last: 32.6k, WBC f/c: +25k
Mkt f/c: +15k, Range: –20k to +45k

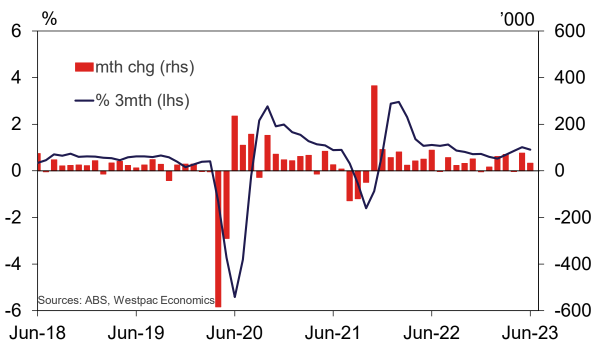
In June, employment lifted by 32.6k – slightly higher than Westpac's forecast (+25k) but well above the market median forecast (+15k).

We suspect there is scope for another robust read in July for two main reasons. Firstly, and more importantly, the data flow has not signalled any meaningful shift in tone around the current strength of labour demand, especially given the clear lack of moderation in job vacancies.

Secondly, work-hour restrictions for international students were reinstated on July 1 (from unlimited to 48hrs/fortnight). This poses an upside risk to jobs growth as employers may seek to replace the hours lost from the policy change with more workers. Admittedly, there is uncertainty around how this could present itself in the data.

Hence, we have erred on the side of caution and pencilled in +25k for employment. By all means, this is still a robust read that is reflective of current momentum, but we note the upside risk at hand.

Employment growth: momentum robust



Aus Jul Labour Force – unemployment rate (%)

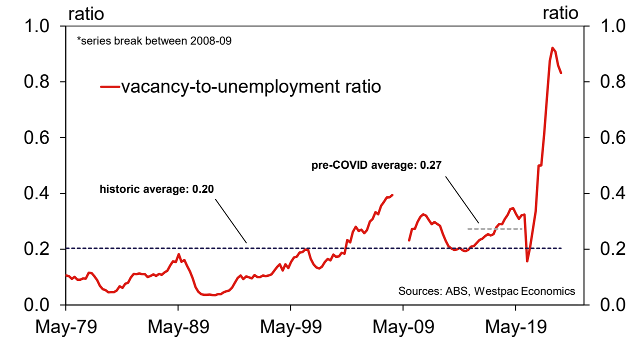
Aug 17, Last: 3.5%, WBC f/c: 3.5%
Mkt f/c: 3.6%, Range: 3.5% to 3.7%

In June, the participation rate edged slightly lower, from 66.9% to 66.8%, seeing the labour force grow by a solid 21.8k. However, jobs growth still managed to outperform, resulting in the unemployment rate holding firm near fifty-year lows, at 3.5%. In fact, June's print was only 0.04ppt above the cycle low from October 2022.

These results speak to the resilience of the labour market, supported by a lasting strength in labour demand – as evinced by a historically elevated level of job vacancies – amidst a surge in population growth. Hence, we have marked down our profile for the unemployment rate, which we now expect to print 3.8% by end-2023 and 4.7% by end-2024 (prior: 4.0% and 5.3% respectively).

For July, we expect the participation rate will be little changed, at 66.8%, resulting in the unemployment rate holding flat at 3.5%.

Vacancy-to-unemployment ratio



Aus Jul overseas arrivals and departures, preliminary

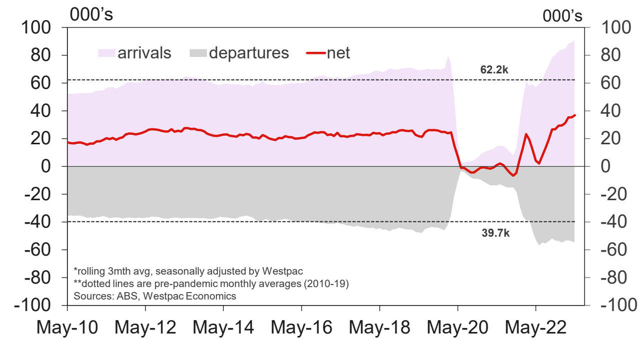
Aug 17, Arrivals, Last: 1358.5k
Aug 17, Departures, Last: 1563.7k

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

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

Another dynamic that remains at play is the recovery in travel from China since their reopening from COVID-19. There is some evidence that momentum is beginning to gather, particular in longer-term categories of travel, but progress on this front is certainly lagging the broader recovery to date.

Permanent & long-term travel



NZ Jul REINZ house sales and prices

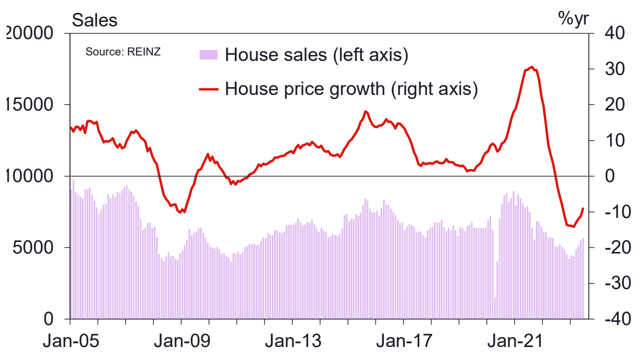
Aug 15, Sales, Last: +2.2% m/m, 14.6% y/y
Aug 15, Prices, Last: +1.2% m/m, –9.0% y/y

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



NZ GlobalDairyTrade auction, whole milk powder prices

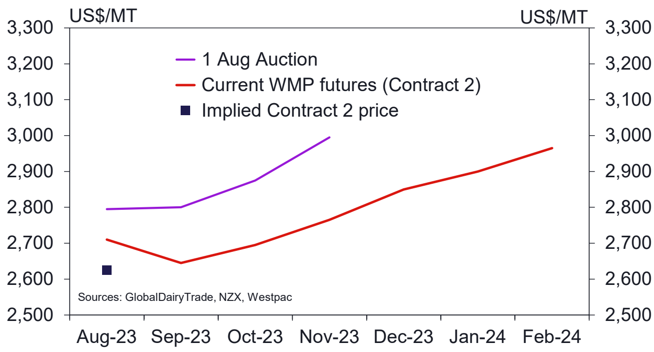
Aug 16, Last: –8.0%, Westpac f/c: –5.0%

We expect whole milk powder prices (WMP) to fall 5% at the upcoming auction. Prices slid 8% at the previous auction.

Notably, Fonterra has announced a 5.6% increase auction volumes on offer over the next year compared to what was previously signalled. This is a large amount for the market to absorb and thus is likely to put further downward pressure on prices.

This increase may partially reflect that New Zealand production was very strong in April and May and/or the release of previously held milk powder stocks. In addition, this sudden increase in auction volumes and likely impact on prices may explain Fonterra's larger than expected milk price forecast revision (to a $7.00/kg midpoint) last week.

Whole milk powder prices



NZ RBNZ Monetary Policy Statement

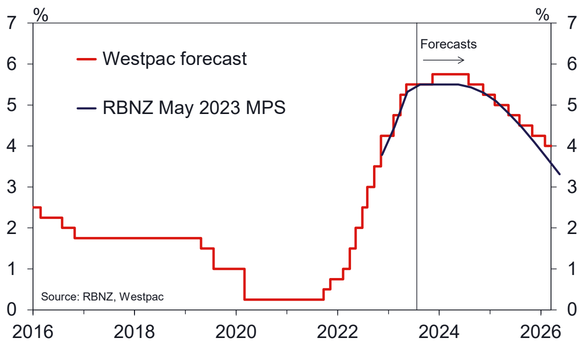
Aug 16, Last: 5.50%, Westpac f/c: 5.50%, Market f/c: 5.50%

The RBNZ will keep the OCR at 5.50% at its August policy meeting and retain its baseline forecast that the rate cycle has peaked. The Bank's forecast for the OCR should continue to indicate rates on hold until August 2024, falling slowly thereafter.

Economic developments will likely be viewed as broadly mixed and so will likely lead to only modest changes in the Bank's growth and inflation forecasts. Weaker than expected March quarter GDP and a softer outlook for the external sector are balanced against a firmer housing market and persistent domestic inflation pressures.

The Bank will likely emphasise that any future move in policy will depend on the emerging data flow at home and abroad.

RBNZ Official Cash Rate



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 14					
NZ	Jul BusinessNZ PSI	50.1	–	–	Has been trending lower since mid last year.
	Jun net migration	4939	–	–	Departures picked up sharply in May, lowering the net inflow.
Tue 15					
Aus	Q2 wage price index	0.8%	0.9%	1.0%	Wage inflation has been surprisingly soft.
	RBA Minutes	–	–	–	More colour around the second consecutive policy pause.
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.
Jpn	Q2 GDP	0.7%	0.7%	–	External demand likely to offset consumer's weakness.
	Jun industrial production	2.0%	–	–	Final estimate.
Chn	Jul retail sales ytd %yr	8.2%	7.6%	–	The lack of confidence is acting as a headwind to spending…
	Jul industrial production ytd %yr	3.8%	3.9%	–	… but as policy support comes online, momentum can shift…
	Jul fixed asset investment ytd %yr	3.8%	3.8%	–	… facilitating a sustained period of high-quality growth.
Eur	Aug ZEW survey of expectations	–12.2	–	–	Lingering pessimism as policy tightening ensues.
UK	Jun ILO unemployment rate	4.0%	4.0%	–	Wages growth holding up following prolonged tightness.
US	Jul retail sales	0.2%	0.4%	0.3%	Underlying downtrend in line with goods disinflation.
	Jul import price index	–0.2%	0.2%	–	Rapidly decelerating from an elevated level.
	Aug Fed Empire state index	1.1	–0.7	–	Reflective of subdued conditions for manufacturing.
	Jun business inventories	0.2%	0.2%	–	Accrual nearing stall speed as economy slows.
	Aug NAHB housing market index	56	56	–	Lack of supply aiding confidence boost.
	Fedspeak	–	–	–	Kashkari.
Wed 16					
Aus	Jul Westpac–MI Leading Index	–0.51%	–	–	Pointing to below-trend growth carrying into early 2024.
NZ	GlobalDairyTrade auction	–8.0%	–	–5.0%	Down further on large increase in dairy auction volumes.
	RBNZ policy decision	5.50%	5.50%	5.50%	Another 'steady as she goes' message seems likely.
Eur	Q2 GDP	0.3%	0.3%	–	No change is anticipated in the second estimate.
	Jun industrial production	0.2%	–0.6%	–	Likely to be positive in Q2, but only modestly so.
UK	Jul CPI %yr	7.9%	6.7%	–	Services prices remain strong, goods have scope to ease
US	Jul housing starts	–8.0%	0.4%	–	Struggling to gain momentum after start-of-year nadir…
	Jul building permits	–3.7%	1.6%	–	… risks around the pipeline to linger.
	Jul industrial production	–0.5%	0.4%	–	Regional surveys and PMIs not promising for production.
	FOMC July meeting minutes	–	–	–	Focus on consensus view around policy pause.
Thu 17					
Aus	Jul employment change	32.6k	15.0k	25.0k	Resilience in labour demand provides scope for further gains…
	Jul unemployment rate	3.5%	3.6%	3.5%	… allowing the unemployment rate to remain lower, for longer.
	Jul overseas arrivals (preliminary)	1358.5k	–	–	China to aid further in the recovery, in time.
NZ	Q2 PPI	0.3%	–	–	Pipeline inflation looks to be slowing.
Jpn	Jun machinery orders	–7.6%	3.5%	–	Broadly flat so far in Q3.
Eur	Jun trade balance €bn	–0.9	–	–	Export demand will remain a risk over foreseeable future.
US	Initial jobless claims	248k	–	–	Likely to remain near its lows, for now.
	Aug Phily Fed index	–13.5	–10.0	–	Reflective of subdued conditions for manufacturing.
	Jul leading index	–0.7%	–0.4%	–	Clearly pointing to downside risks for activity.
Fri 18					
Jpn	Jul CPI %yr	3.3%	3.3%	–	Tentative signs of core inflation cresting.
Eur	Jul CPI %yr	5.3%	5.3%	–	Final estimate to provide more colour around services.
UK	Aug GfK consumer sentiment	–30	–	–	Recovery flattening as interest rate concerns persist.
	Jul retail sales	0.7%	–	–	Up year-to-date, supported by income growth.

Forecasts

Interest rate forecasts

Australia	Latest (11 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	4.09	4.00	3.95	3.90	3.80	3.70	3.60
3 Year Bond	3.82	3.75	3.70	3.65	3.60	3.50	3.40
10 Year Bond	4.12	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	4.11	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	5.49	5.64	5.49	5.29	5.06	4.81	4.58
10 Year Bond	4.85	4.50	4.45	4.30	4.15	4.05	3.95
10 Year spread to US	74	70	85	90	95	95	95

Exchange rate forecasts

Australia	Latest (11 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6521	0.67	0.68	0.69	0.71	0.73	0.74
NZD/USD	0.6009	0.62	0.63	0.63	0.64	0.65	0.66
USD/JPY	144.72	140	138	135	132	130	128
EUR/USD	1.0989	1.11	1.12	1.12	1.13	1.14	1.15
GBP/USD	1.2684	1.28	1.28	1.29	1.29	1.30	1.30
USD/CNY	7.2276	7.10	7.00	6.80	6.70	6.60	6.50
AUD/NZD	1.0852	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	0.0	0.0	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	0.3
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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