AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 28 August 2023

Editorial: RBA focuses on unit labour costs but their concern may be overdone as the pace of growth is set to ease.

Australia: retail sales, monthly CPI, housing (prices, finance and dwelling approvals), construction work, capex survey, private credit.

NZ: monthly employment indicator, building permits, business confidence.

China: NBS PMIs, Caixin manufacturing PMI.

Eurozone: CPI, unemployment rate.

US: nonfarm payrolls, unemployment rate, ISM manufacturing, personal income and spending, house prices.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 25 AUGUST 2023.

WESTPAC INSTITUTIONAL BANK

RBA focuses on unit labour costs but their concern may be overdone as the pace of growth is set to ease

The cost-of-living crisis has brought intense focus on inflation measures over the last two years, including the intricate detail on goods and services and on some more obscure measures that do not often get coverage. One that has been given particular emphasis in the Australian context over the last month is 'unit labour costs' – the RBA Governor even indicating that the evolution of this cost measure sits at the centre of 'next phase' of getting inflation back to the 2-3% target range.

'Unit labour costs' are basically a measure of the productivity-adjusted cost of labour, or to put it more simply, what it costs to produce a unit of output as measured by the National Accounts. As such, changes capture the combined effect of two elements: 1) wage inflation; and 2) changes in productivity. Official measures are provided with the quarterly National Accounts, with the June quarter update due on September 6.

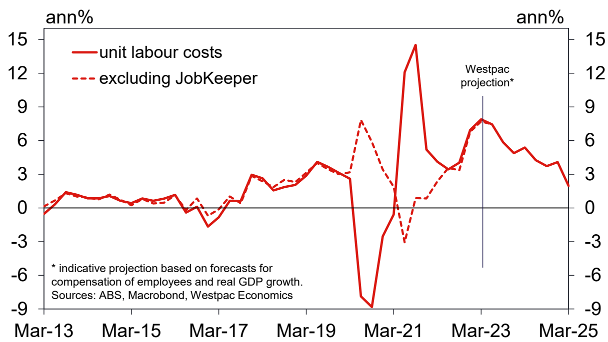
For policy, the central concern is the high starting point with unit wage cost growth running at 7.9% over the year to March. This is largely due to a poor productivity performance with GDP growth barely keeping pace with the rise in hours worked. If that poor performance were to continue, then inflation would be unlikely to below 3% even if wages growth remained benign.

However, a couple of points are worth noting.

Firstly, derived measures like productivity and unit labour costs can bounce around a lot, are subject to meaningful revisions and have been particularly volatile during the COVID period, due both to lock-downs and the scale of policy measures. The latter had a particularly significant impact on unit labour costs due to JobKeeper support, which amounted to a large subsidy for labour costs in 2020 that rolled off in 2021 (see Chart 1).

Chart 1

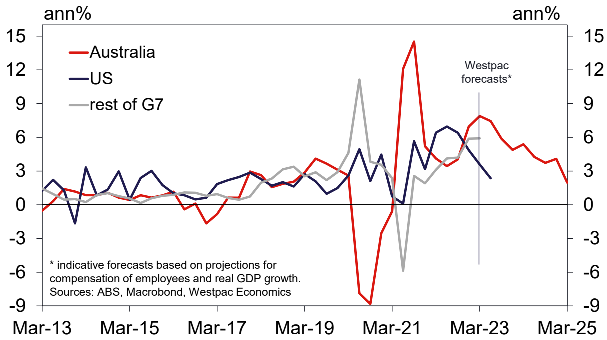
Unit labour costs: Australia



More generally, like the inflation surge, the robust growth in unit labour costs over the last year also looks to be part of a global phenomenon. Across the G7 developed economies we typically benchmark Australia to, unit labour costs rose 6.7%yr in 2022, hitting multi-decade highs in most countries (excluding the COVID period). Moreover, to the extent that there is a common driver, there are also signs that the surge is temporary. The US, which has led the way through the post-pandemic inflation story to date, has seen a material slowing in unit labour cost growth which has tracked back to 2.4%yr as at June (see Chart 2).

Chart 2

Unit labour costs: Australia vs G7

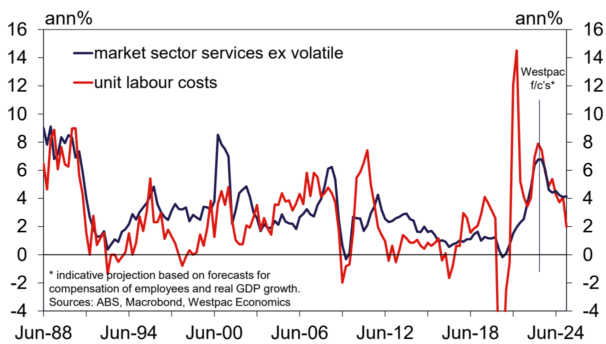


Australia will probably see something similar. While unit labour costs are not something we formally forecast, we can back out an implied projection from our views on wage incomes and forecasts of GDP growth. This indicative path has unit labour cost growth gradually tracking lower over the next two years, to just over 4%yr in 2024, as wages growth slows to around 3.2%yr after peaking at 3.9%yr in September 2023 and moderating to 3.8%yr at end-2023. That should be enough to allay the RBA's concerns (see Charts 1, 2 or 3).

While some slowing is highly likely, in practice the path is unlikely to be a simple straight line and judging prospects will be difficult. It will require corroborating evidence, especially from the detailed inflation updates. Unit labour costs are essentially the 'cost-base' for domestic production and have particularly strong links to price-setting in sectors that face little or no international competition; the 'market services' sector is a particular standout here. Hence, market services components of inflation will be watched very closely for signs of lingering price pressure. Westpac forecasts have market services inflation (excluding the volatile components, so more of a core measure) easing back from a peak of 6.8%yr at June 2023 to 4.6%yr by end 2023 and then down to 4.1%yr by end 2024 (see Chart 3).

Chart 3

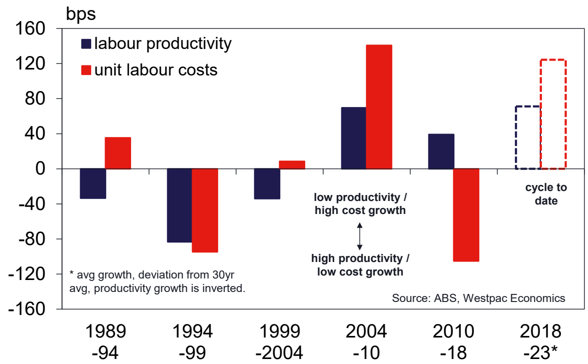
Unit labour costs vs services inflation



For interest rates, these concerns will tend to play out as a constraint on any policy easing rather than a cause for additional tightening. If the slowing in unit labour cost growth is too gradual the Bank's fear will be that inflation may take longer to get back below 3% or even get stuck above target – moving to less restrictive policy settings in that situation would be untenable.

Chart 4

Unit labour costs and productivity



This is not to downplay the RBA's wider concern. As Treasury's latest Intergenerational Report highlights, productivity growth sits at the heart of Australia's medium to longer term prospects. Accumulated over decades, a few percentage points difference in average growth make an enormous difference. Australia's poor productivity performance over the last year is unsettling but may at least be partly cyclical. The poor performance over the last five years is much more troubling (see Chart 4). With major challenges ahead, particularly from population ageing, adapting to climate change and transitioning away from carbon based energy, it is imperative that Australia finds a way back to an improved productivity performance. Policy-wise, that's a task for governments rather than the RBA.

Matthew Hassan, Senior Economist

THE WEEK THAT WAS

Following last week's update on aggregate wage inflation, Westpac revised its profile for wages growth over 2023 and 2024. In essence, the update speaks to a broad-based moderation in the pace of wage inflation. This is certainly highlighted by the softer-than-expected outcome for the headline figure in June, up 0.8% (3.6%yr), but is also witnessed to by the detail. The moderation is evident across most components of the data, not only in the breakdowns by sector and by bargaining arrangement, but also if bonuses are included or only those who received a pay increase are considered. The next update for September quarter 2023 will capture an above-average increase in the minimum wage (5.9% in 2023 vs. 4.7% in 2022) in addition to the 15% pay raise for aged care workers. Still, factoring in that strength – a forecast 1.3% gain – is still not enough to offset the broader moderation at play, leading us to revise down our year-end forecast for wages growth from 4.1%yr to 3.8%yr.

The August edition of Westpac's Housing Pulse provided an in-depth update on the current drivers and outlook for Australia's housing market. The upturn has gradually gained traction over recent months, but with turnover rising slowly, the recovery remains characterised as 'price-led'. The nature of the recovery to date highlights the importance of affordability constraints, a factor which we believe will play a key role in guiding house price outcomes over the next few years. This is most aptly highlighted by the sub-indexes in the Westpac-MI Consumer Sentiment survey. At 72.1, the 'time to buy a dwelling' index remains near extreme cyclical lows; at 151.2, the House Price Expectations Index is meanwhile at a new cycle high, in strongly optimistic territory. Westpac expects house prices to rise by 7% in 2023; then, as affordability acts as a drag on buyer sentiment and demand, house price growth is expected to slow to 4% in both 2024 and 2025.

Before moving offshore, a quick note on Australia's goods exports. This sector has become an increasingly important driver of growth over the last three years, with its share of the national economy up from 19% in 2019 to 27% in 2022. However, this strength was inherently built upon a fragile base, effectively being the consequence of a surge in global commodity prices, up 52.8% since 2019. Meanwhile, goods export volumes have declined by 2.1% over the last three years, the weakest result on record dating back to 1960. This largely speaks to the emerging weakness in resource exports, namely the "Big 3" of metal ores, coal and other fuels which together account for nearly two-thirds of Australia's goods export volumes. The "Big 3" have suffered from a sustained period of underinvestment in capacity and repeat instances of disruptions to production, an environment that is clearly unable to foster quality growth in real export volumes. While the near-to-medium term outlook should benefit from fewer disruptions and some semblance of an investment response, the longer-term outlook for resource exports appears more uncertain. The transition to net-zero necessitates a restructuring of energy production globally, weakening global appetite for Australia's fossil fuel exports. However, it also requires rapid investment in infrastructure and the replacement of transport fleets globally. The transition is therefore a constraint for some producers, but a great opportunity for others.

Offshore, the August flash PMIs for Europe, UK, US and Japan were instructive, pointing to a further deterioration in manufacturing and emerging weakness in services.

In the US, the manufacturing PMI ticked down to 47.0 from 49.0 led by declines in output and new orders. Services also ticked down from 52.3 to 51.0, likely attributable to softening consumer spending. The employment sub-index for both showed an incremental increase in employment, the slowest through this cycle, with declining new orders and rising wage costs arguably prompting some firms to consider cutting staff. Input price inflation was positive again after a brief trip below 50. This was supported by larger wage bills and an increase in raw material prices. However, output prices are now under pressure as firms discount their goods and services given constrained consumer spending power.

In the UK, the services PMI fell into contraction for the first time since January, 48.7. Both new orders and output declined while jobs rose marginally. A moderation in input costs came from lower energy and material prices, but wages continue to worry many firms. Output prices eased for the fourth month in a row, though this is yet to show up in the CPI. Manufacturing meanwhile fell deeper into contraction to 42.5, the thirteenth sub-50 reading in a row. New order and production both decelerated, signalling a bleak outlook.

Europe's services PMI saw a sizeable decline to 48.3, a 30-month low, while manufacturing improved to a still deeply contractionary 43.7. Employment in manufacturing was weak while services employment softened but remained expansionary. Manufacturers' costs declined, likely thanks to easing energy prices, as strong wage growth supported services input costs. Manufacturer output prices fell, continuing along their trend, while services prices rose slowly.

Japan's manufacturing PMI was little changed at 49, and services held up at 54.3. Optimism in services is likely driven by strong tourism spending versus domestic demand. Employment continued to show promise, a constructive development for next year's spring wage negotiations which the BoJ will keenly assess. Input prices also increased in Japan, though the detail suggests pass-through to services is more probable than manufacturing.

While there was no new data of significance for China this week, market participants remained focused on possible outcomes there in coming months. A quiet data week allowed us to take a deep dive into the recent detail for trade, investment and consumption, with a view to assess both the strengths and weaknesses of China's economy and consequently the most probable evolution of growth with/ without further support from authorities. In our view, clear, active support from authorities can sustain growth around the current 5% target for a few more years. However, inaction is likely to entrench current pessimism amongst consumers and small business, weakening growth prospects to the extent that authorities medium-term development ambitions are unlikely to come to pass. Which path China takes will be determined in the next few months.

Week ahead & data wrap

The long and bumpy road to balance

This week I had the opportunity to spend time talking with customers around the country on the strength of the economy and the likely direction of growth, wages, inflation, and the exchange rate. The theme of the presentation I was giving was that of rebalancing and the path we see the economy taking in the years ahead. Customers seemed to agree that the economy was likely heading into a rough patch and that it would take time for some of the excesses built up in recent years to be worked off and dissipate.

There were an interesting set of views around the outlook for wages and inflation. Our forecast embodies the idea that wage inflation has now peaked at relatively high levels and will soon weaken. This is a key factor that drives core inflation pressures down very significantly and quickly over the coming year such that overall inflation moves back inside the target range by the end of 2024. Customers seem more sceptical that the going will be so easy on this front. There was a consensus that wage growth will remain steady (at these current strong levels) or weaker. This could be a worrying sign of some ongoing persistence in wages growth, especially if workers try to recoup the real wage cuts received in recent years. The reality is that the labour market isn't weak enough yet to give confidence that wage growth is going to slow significantly. This perspective probably explains why customers overwhelmingly believe inflation won't be back in the 1-3% target range until sometime in 2025. The RBNZ's view on the OCR hinges on their target being reached sooner than that.

The theme of a bumpy path to rebalancing is certainly reflected in concerns around the exchange rate. Our analysis this week noted the government's books are likely headed more deeply in the red, with next month's fiscal update likely to lift this year's borrowing programme by around NZ$6bn to NZ$40bn. When combined with the large current account deficit, which seems set to decline only slowly considering recent declines in export commodity prices, raising exchange rate risks. Customers unsurprisingly perceive the risk distribution around the exchange rate as strongly skewed to significant depreciation.

Finally, customers also see a decent chance that the economy will be in recession by the end of this year (unsurprisingly, customers in tourism-focused Queenstown were more positive). Certainly, this seems consistent with our forecasts, which are for flat growth and so an economy that is flirting with recession. For some more detailed data on customers' views, please check out next week's New Zealand Weekly.

The domestic data flow over the past week certainly suggests that the RBNZ's monetary policy tightening may be gaining increasing purchase on the economy. Of note was an unexpectedly steep 1.0% decline in the volume of retail sales in the June quarter, with core sales (i.e., excluding vehicle and fuel sales) down an even steeper 1.8%. Nominal spending fell 0.2% following a 0.9% decline in the March quarter. This is a remarkable result considering ongoing growth in wages, very strong population growth and a recovering tourism sector. In the detail, we saw a pronounced decline in discretionary spending (especially hospitality) and in housing-related spending (especially hardware and construction materials).

While the poor retail spending report will contribute negatively to GDP growth in the June quarter, growth is still likely to be positive thanks to a large bounce in export volumes. However, this week's merchandise trade data hinted that this bounce could be short-lived, with exports receipts slumping by a seasonally adjusted 10% in July (albeit lower commodity prices undoubtedly explain some of this decline). Moreover, import values again pointed to weakening domestic demand, with imports of consumption goods declining 6.5% from year-earlier levels, and imports of plant and equipment falling more than 12%. The ANZ's "Truckometer" also continued the run of weak July data, with the Heavy Traffic Index – which has the best correlation with GDP growth – falling 3% during the month.

Looking ahead to the coming week, the data flow kicks off on Monday with the monthly employment indicator. Filled jobs have trended higher over the first half of this year, but weekly data suggests that this trend may have halted in July. Wednesday's building consents report may point to a small decline in dwelling consent issuance in July, but the downtrend does appear to have flattened in recent months in line with the recovery in other housing indicators. On Thursday the ANZ's Business Outlook Survey could prove a mixed bag for markets. The recent steep decline in dairy export prices and general concerns about the Chinese economy may have interrupted this year's recovery in business sentiment. However, the recent rise in petrol prices may also have halted this year's decline in pricing indicators and inflation expectations. On Thursday, the ANZ's consumer confidence index is likely to point to still moribund levels of sentiment in August. Meanwhile, we will be interested to see whether growth in private sector credit has slowed further in July.

Kelly Eckhold, Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 21	Jul trade balance $mn	–111	–1107	–300
Wed 23	Q2 real retail sales	–1.6%	–1.0%	–0.1%

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.

DATA PREVIEWS

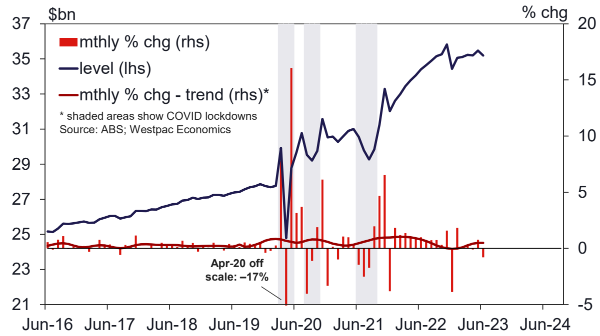
Aus Jul retail trade

Aug 28, Last: –0.8%, WBC f/c: 0.4%
Mkt f/c: 0.2%, Range: –0.3% to 0.6%

Retail sales weakened in June, a 0.8% fall unwinding a 0.8% gain in May to leave sales flat over the two months, the choppy profile partly reflecting the timing of sales events. Annual sales growth slowed to 2.3%yr.

Our **Westpac Card Tracker** suggests retail spending was a little firmer in July, bearing in mind that this and the retail sales measure include price-driven changes. Note also that population growth alone is running at 0.2%mth. As such, even if sales hold flat in real (i.e. inflation-adjusted) per capita terms, total nominal sales would be up about 0.4%mth. We expect that to be broadly the story in July, with a 0.4% rise for the month.

Monthly retail sales



Aus Jul Monthly CPI Indicator %yr

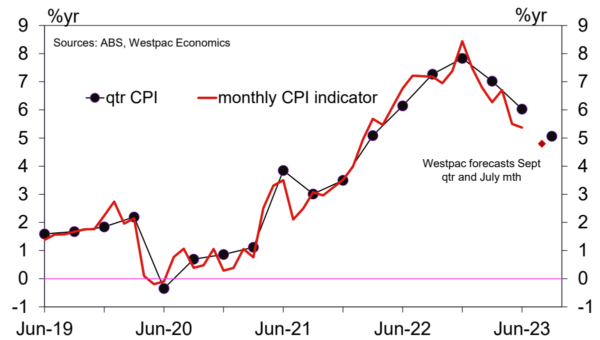
Aug 30 Last: 5.4%, WBC f/c: 4.8%
Mkt f/c: 5.2%, Range: 4.7% to 5.9%

The Monthly CPI Indicator lifted 0.7% in June to be up 5.4%yr, a moderation from the 5.5%yr in May and 6.7%yr in April. The June print was softer than anticipated with the reported annual pace moderating significantly faster than the quarterly CPI which reported growth of 6.0% in the year to the June quarter.

The Monthly Indicator is not a true monthly inflation measure but rather the release of the data from the quarterly CPI as it becomes available. A lot of the data is monthly but a fair proportion is only available quarterly (and appears in the month of the quarter the survey is conducted) while a smaller proportion is annual.

Electricity presents a key risk this quarter both in terms of the impact of state energy rebates and the timing of bill increases. The ABS recently introduced a monthly electricity price series for the CPI but it only goes back to September 2017 so we don't have a good handle on the monthly seasonality of electricity price changes.

CPI Monthly Indicator vs. qtr CPI



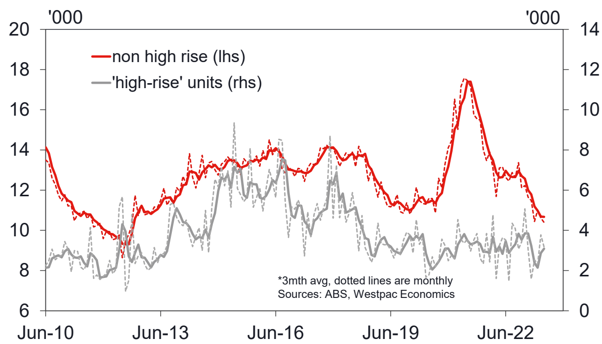
Aus Jul dwelling approvals

Aug 30, Last: –7.7%, WBC f/c: –1.0%
Mkt f/c: –1.0%, Range: –21.0% to 8.0%

Dwelling approvals fell 7.7% in June, partially unwinding a 20% apartment-driven jump in May. Apartment approvals on retraced part of the May spike, a big fall back in NSW offset by gains in Vic and Qld. Notably, ex high rise approvals were soft, down about 1.7%mth, having shown a marginal 3.3%mth gain in May. That suggests underlying conditions are still weak, particularly given recent gains in high rise approvals are very unlikely to be part of a sustained lift.

HIA new home sales weakened through June-July, the recovery momentum evident in previous months fading somewhat. With July still likely to see some unwind in high rise approvals that points to a small decline in approvals overall, we expect in the order of a 1% fall for the month.

Dwelling approvals: high rise vs non high rise



Aus Q2 construction work

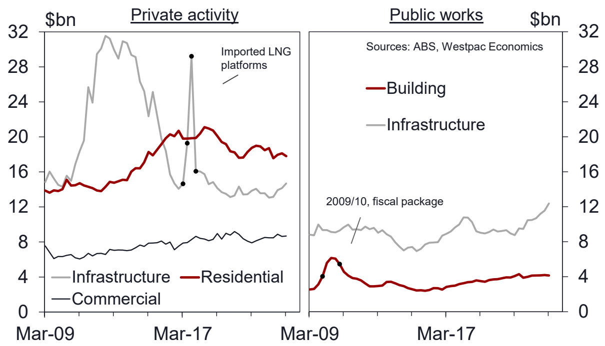
Aug 30, Last: 1.8%, WBC f/c: 1.5%
Mkt f/c: 1.0%, Range: –1.5% to 1.5%

Construction activity, led by business and public works, has trended higher from mid-2022, with ongoing positive momentum. Current strength in part reflects earlier delays to project starts and work due to COVID-19, bad weather and shortages. More fundamentally, the capital stock needs to expand as the population increases.

Work increased by 3.9%, 1.0% and 1.8% in the past three quarters, and we anticipate a 1.5% rise for 2023 Q2. That lifts annual growth to 8.4%, a five-year high.

Public works grew by 11.4% over the past three quarters and has considerable further upside given a sizeable pipeline (notably transport infrastructure projects). Private business construction work rose 8% over the past three quarters and also has further upside. Housing, by contrast, is mixed. Renovations are in a downturn, off a high level. New residential building still has further upside, near-term, given a backlog of work caused by COVID delays, cost pressures, and other disruptions.

Construction work: by segment



Aus Q2 private business capex

Aug 31, Last: 2.4%, WBC f/c: 2.0%
Mkt f/c: 1.0%, Range: –2.4% to 2.0%

As with total construction work, private business capex spending has trended higher from mid-2022.

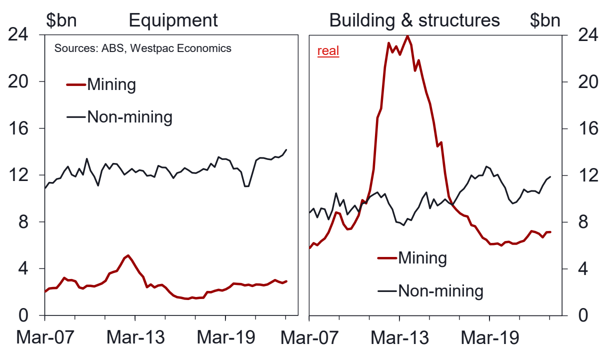
COVID delays, other disruptions, the need to expand capacity and generous tax incentives (some of which expired on 30 June 2023) have contributed to current strength.

Capex spending is 6% higher over the three quarters to March, including +9% on Building & Structures and +3% for equipment.

For the June quarter, we anticipate a 2% rise, with equipment up an expected 2½%. Annual growth lifts to a little in excess of 8%.

Beyond Q2, we anticipate that business capex trends will diverge – equipment in retreat (with the expiry of some tax concessions and weak consumer demand) while B&S will continue to march higher.

Capex: by industry by asset



Aus Est 3 2023/24 capex plans, $bn

Aug 31, Last: 2023/24 Est 2 $137.6bn

In 2022/23, capex spending likely rose by about 15%, potentially including volumes up by around 5% and prices 9% higher.

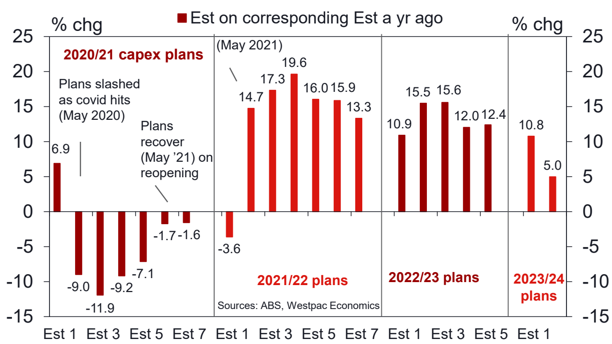
For 2023/24, we expect divergent capex trends, equipment down and B&S up, while capex inflation will likely halve (on our figures).

We forecast total business investment (national accounts estimate) to rise by 5.5% in 2023/24 (nominal), with volumes up a timid 1%.

Est 2 for 2023/24 printed $137.6bn, some 5% above Est 2 a year ago (with the price/volume split an unknown). On our calculations, Est 2 implies a 5.3% rise for the 2023/24 year.

Est 3 may possibly print around $156bn, some 5.5% above Est 3 a year ago and, on our calculations, still imply capex will be 5.3% higher in 2023/24. CAUTION: the upgrade between Est 2 and Est 3 is, on average, the largest between any of the estimates, at 13%. With such large and variable movements (particularly for non-mining equipment) there is significant scope for surprises.

Capex plans: 2023/24 an uncertain outlook



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Aus Jul private sector credit

Aug 31, Last: 0.2%, WBC f/c: 0.3%
Mkt f/c: 0.3%, Range: –0.1% to 0.4%

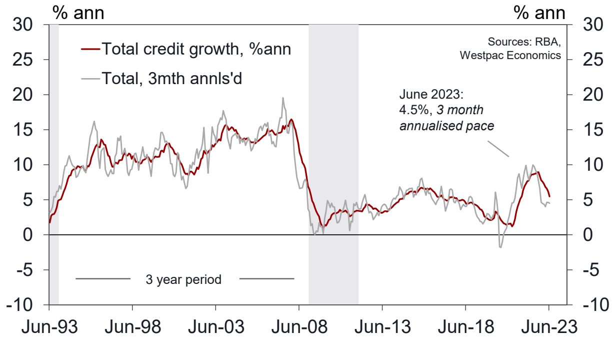
Over the first half of 2023, credit growth broadly stabilised at a subdued monthly average of 0.35% (albeit still with some month-to-month variation) against the backdrop of a stabilising housing market and late cycle resilience in business investment.

Prior to that, the appetite for credit diminished significantly as sharply higher interest rates reduced borrowing capacity. Monthly credit growth was running at an average pace of 0.7% over the second half of 2021 and through January to September 2022.

For June, credit growth printed 0.2%, including a particularly soft reading for investors, swinging from +0.2% to –0.1% – despite a lift in lending. That weakness looks overdone, even allowing for a lift in repayments associated with refinancing.

For July, we anticipate credit grew by 0.3%, which would see annual growth slow to 5.0% and a 3-month annualised pace of about 3½%.

Credit: growth pulse at a modest 4.5%



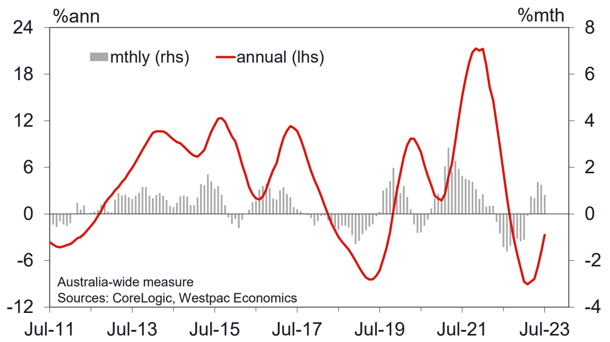
Aus Aug CoreLogic home value index

Sep 1, Last: 0.8%, WBC f/c: 1.0%

The CoreLogic home value index rose 0.8% in July, a slight moderation on the 1.2% and 1.4% gains in June and May respectively, and more in line with the milder 0.7-0.8% gains in April and March. Prices are now up 5% from their Feb low, reversing just over half of the 9.7% decline over the previous ten months. The annual pace of price declines moderated to –2.7%yr.

The CoreLogic daily index suggests price growth quickened again in August, the major capital city index tracking a 1% gain for the full month. All cities look to have posted solid gains in the month.

Australian dwelling prices



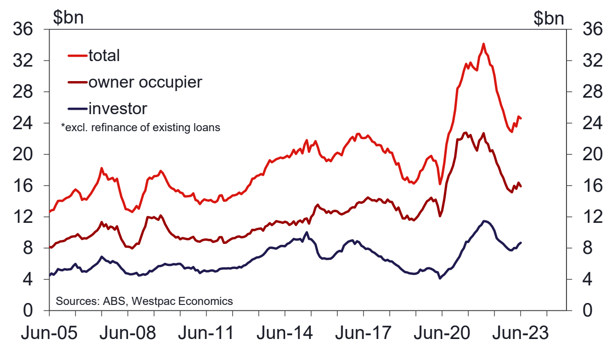
Aus Jul housing finance approvals

Sep 1, Last: –1.0%, WBC f/c: 1.2%
Mkt f/c: –0.5%, Range: –2.0% to 2.5%

Housing finance approvals dipped 1% in June, led by a 2.8% decline in owner occupier loans that was partially offset by a 2.6% rise in investor loans. Despite the dip, approvals remain on a clear up-trend, having risen 7.6% from their Feb low. However, that gain is being led by prices with volumes still relatively flat to date.

July should see the up-trend resume, albeit with a still fairly muted gain. While turnover in the established market continues to track higher, construction-related activity looks to have been softer in recent months. Overall, we expect the total value of loans to be up 1.2%mth with investors again leading the way.

New finance approvals by segment



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DATA PREVIEWS

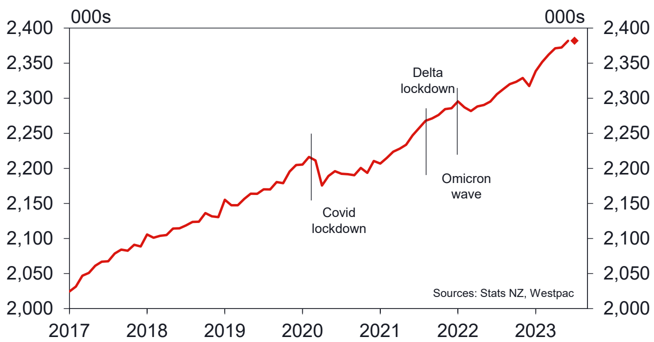
NZ Jul monthly employment indicator

Aug 28, Last: +0.4%, Westpac f/c: 0.0%

The monthly employment indicator is drawn from income tax data, making it a fairly comprehensive record of the number of people in work. This fills a gap in what is otherwise mostly quarterly data on the labour market. And helpfully, while there are conceptually differences, the monthly employment indicator does a very good job of predicting the household survey measure of employment.

Job growth remained very robust over the first half of 2023, with a surge in migrant inflows allowing employers to fill longstanding vacancies. However, the weekly snapshots provided by Stats NZ – together with a decline in job vacancies – suggests that this uptrend may have halted in July.

NZ monthly filled jobs



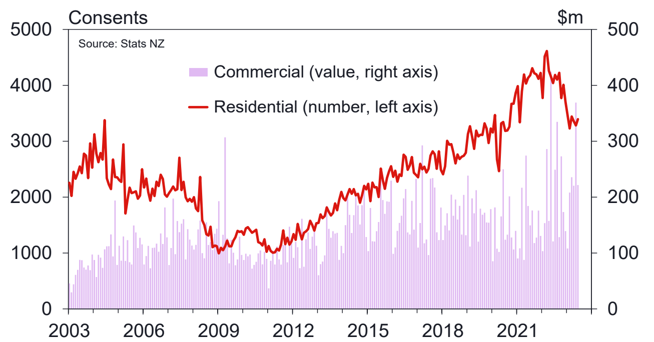
NZ Jul building consents

Aug 30, Last: +3.5%, Westpac f/c: –2.0%

After falling sharply last year, the downturn in dwelling consent issuance looks like it has now flattened off. Since the start of this year, monthly consent issuance has running at around 3,400 per month. We expect that it will remain close to that level in the July figures.

The flattening off in consent issuance coincides with the stabilisation in the housing market in recent months. That's a key influence on developers' willingness to bring new projects to market. With interest rates at contractionary levels, we think the upside for consents is limited in the near term, and there is some chance of a further easing.

NZ building consents



NZ Aug ANZBO business confidence

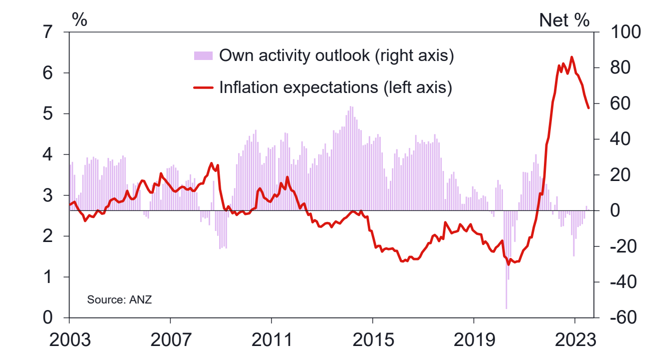
Aug 31, Last: –13.1

While business confidence improved further in July, it remained low, with respondents remaining cautious about prospects for trading conditions over the months ahead.

We expect that the August confidence survey will continue to highlight weakness in business sentiment, although with variation among sectors. Since the last survey, further declines in key export commodity prices and weaker than expected Chinese demand will have provided an additional challenge to some businesses that are already facing high borrowing costs and other headwinds.

The survey's cost and pricing gauges will also be closely watched. While these have continued to point to strong inflation pressures, they have been trending down for several months now. However, the recent uplift in fuel prices might halt that trend, at least in this month's survey.

NZ business confidence



US Aug employment report

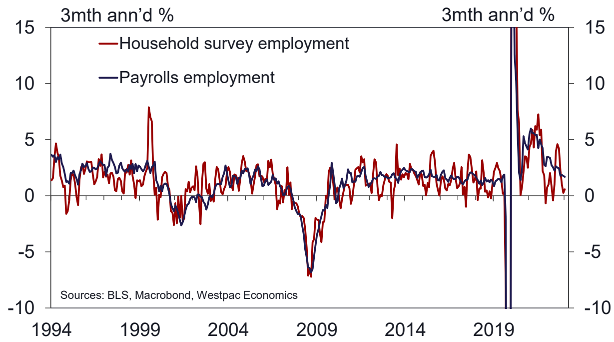
Sep 1, nonfarm payrolls, Last: 187k, Mkt f/c: 168k, WBC: 190k
Sep 1, unemployment rate, Last: 3.5%, Mkt f/c: 3.5%, WBC: 3.6%

The US labour market continues to slowly lose momentum, allowing demand to fall into line with supply, reducing pressure on wages and inflation.

We expect this trend to continue at a similar pace in coming months, though an acceleration in the downtrend via back revisions or a sudden jolt lower in payrolls is a risk.

On a multi-month view, household employment is likely to show a greater degree of weakness and see the unemployment rate edge higher towards 4.0%. Hourly earnings growth should also moderate with a delay. For households, as long as the downtrend in inflation persists, softer nominal wage growth should be of little concern.

US job growth to slow further into year end



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 28					
Aus	Jul retail sales	–0.8%	0.2%	0.4%	Slightly better month but flat in real, per capita terms.
NZ	Jul Monthly Employment Indicator	0.4%	–	0.0%	Weekly indicators suggest that the uptrend has halted
UK	Aug Nationwide house prices	–0.2%	–	–	Sustained recovery unlikely anytime soon.
US	Aug Dallas Fed index	–20.0	–	–	Regional surveys pointing to subdued mfg outlook.
	Fedspeak	–	–	–	Barr.
Tue 29					
Aus	RBA Dep. Governor Bullock speaking	–	–	–	“Climate Change and Central Banks”, Canberra, 5:40pm AEST.
Jpn	Jul jobless rate	2.5%	2.5%	–	Labour demand robust amidst post-pandemic normalisation.
US	Jun FHFA house prices	0.7%	–	–	Price gains unlikely to abate in the near-term but are…
	Jun S&P/CS home price index	0.99%	1.00%	–	… nevertheless fragile, as buyers compete for limited supply.
	Jul JOLTS job openings	9582k	–	–	Still tracking a gradual downtrend from historic highs.
	Aug consumer confidence index	117.0	116.6	–	Up-tick centred on labour market optimism.
	Fedspeak	–	–	–	Barr.
Wed 30					
Aus	Jul Monthly CPI Indicator %yr	5.4%	5.2%	4.8%	Electricity prices are a big unknown due to the state rebates.
	Jul dwelling approvals	–7.7%	–1.0%	–1.0%	Continued unwind of May high rise spike, flat ex. high-rise.
	Q2 construction work done	1.8%	1.0%	1.5%	Upward trend, led by business & public works. Housing mixed.
NZ	Jul building permits	3.5%	–	–2.0%	Consent levels have found a floor in recent months.
Eur	Aug consumer confidence	–16.0	–	–	Uptrend has few legs to stand on given rates and inflation…
	Aug economic confidence	94.5	–	–	… are seeing broader economic sentiment continue to sour.
UK	Jul net mortgage lending £bn	0.1	–	–	Lending has effectively stalled with rates near their peak.
US	Aug ADP employment change	324k	200k	–	Often at odds with BLS data.
	Q2 GDP, annualised	2.4%	2.4%	–	No change anticipated in the second estimate.
	Jul wholesale inventories	–0.5%	–	–	Foreshadowing a further softening in production.
	Jul pending home sales	0.3%	–0.5%	–	Near-term recovery fragile given supply constraints.
Thu 31					
Aus	Q2 private capital expenditure	2.4%	1.0%	2.0%	Boost from tax incentives, which expired on 30 June 2023.
	Est 3 2023/24 capex plans, $bn	137.6	–	–	Est 2: 5% above Est 2 a year ago. See textbox.
	Jul private sector credit	0.2%	0.3%	0.3%	June weakness looked to be a little overstated. See textbox.
NZ	Aug ANZ business confidence	–13.1	–	–	Lower dairy prices might halt the recent uptrend in sentiment
Jpn	Jul industrial production	2.4%	–1.3%	–	Holding up for now, but global slowdown clouds the outlook.
Chn	Aug manufacturing PMI	49.3	49.2	–	Our best guide to employment momentum across industry…
	Aug non-manufacturing PMI	51.5	51.3	–	… and services. Services job growth key for confidence.
Eur	Aug CPI %yr	5.3%	5.0%	–	Stickiness in services is impeding core’s deceleration…
	Jul unemployment rate	6.4%	6.4%	–	… just as unemployment reaches a new historic low.
US	Jul personal income	0.3%	0.3%	0.3%	Wages growth sustaining income gains as job growth slows…
	Jul personal spending	0.5%	0.7%	0.6%	… allowing spending to continue ticking higher.
	Jul PCE deflator	0.2%	0.2%	0.2%	Likely to broadly match CPI outcome for month.
	Initial jobless claims	230k	–	–	To remain near its lows, for now.
	Aug Chicago PMI	42.8	44.1	–	Reflective of soft manufacturing conditions
	Fedspeak	–	–	–	Bostic.
Fri 01					
Aus	Aug CoreLogic home value index	0.8%	–	1.0%	Upturn continues to gain traction. Sales vols also likely up.
	Jul housing finance	–1.0%	–0.5%	1.2%	Should reconnect with clear underlying up-trend…
	Jul owner occupier finance	–2.8%	–	0.5%	… but soft construction-related activity a drag for own-occ…
	Jul investor finance	2.6%	–	2.5%	… investor activity leading the gains.
NZ	Aug ANZ consumer confidence	83.7	–	–	Little reason to expect a lift from historically low levels
Chn	Aug Caixin manufacturing PMI	49.2	49.2	–	An highly uncertain time for small manufacturing firms.
US	Aug nonfarm payrolls	187k	168k	190k	Job growth continues to decelerate, slowly balancing…
	Aug unemployment rate	3.5%	3.5%	3.6%	… demand with supply…
	Aug average hourly earnings %mth	0.4%	0.3%	0.3%	… and taking the pressure off wages.
	Aug ISM manufacturing	46.4	46.9	–	US manufacturers face considerable headwinds.
	Jul construction spending	0.5%	0.5%	–	Non-residential construction has a long pipeline of work.
	Fedspeak	–	–	–	Bostic, Mester.
Global	Aug S&P Global manufacturing PMI	–	–	–	Final estimate for Japan, Eurozone, UK and US.

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Forecasts

Interest rate forecasts

Australia	Latest (25 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	4.13	4.30	4.30	4.30	4.22	3.97	3.72
3 Year Swap	4.12	4.00	3.95	3.90	3.80	3.70	3.60
3 Year Bond	3.85	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)	-8	-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	4.25	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	5.63	5.70	5.85	5.85	5.85	5.60	5.35
2 year swap	5.56	5.64	5.49	5.29	5.06	4.81	4.58
10 Year Bond	5.00	4.50	4.45	4.30	4.15	4.05	3.95
10 Year spread to US	75	70	85	90	95	95	95

Exchange rate forecasts

Australia	Latest (25 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6406	0.67	0.68	0.69	0.71	0.73	0.74
NZD/USD	0.5903	0.62	0.63	0.63	0.64	0.65	0.66
USD/JPY	146.07	140	138	135	132	130	128
EUR/USD	1.0783	1.11	1.12	1.12	1.13	1.14	1.15
GBP/USD	1.2566	1.28	1.28	1.29	1.29	1.30	1.30
USD/CNY	7.2872	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	3.7	3.8	4.1	4.5	4.7	3.5	3.8	4.7
Wages (WPI)	0.8	0.8	0.8	1.3	0.8	0.8	0.8	–	–	–	–
annual chg	3.4	3.7	3.6	3.9	3.8	3.8	3.8	2.3	3.4	3.8	3.2
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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