AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 16 October 2023

Editorial: Weak consumer, restrictive policies, but easing in cost pressures is not assured.

RBA: Minutes from the October meeting, Governor Bullock speaking.

Australia: Westpac-MI Leading Index, labour force survey.

NZ: Q3 CPI, trade balance, GlobalDairyTrade auction.

China: Q3 GDP, retail sales, fixed asset investment, industrial production.

UK: CPI, unemployment rate, average earnings, retail sales.

US: FOMC Chair Powell speaking, retail sales, industrial production, existing home sales, Beige Book.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 13 OCTOBER 2023.

WESTPAC INSTITUTIONAL BANK

Weak consumer, restrictive policies, but easing in cost pressures is not assured

The week began with the tragic news out of the Middle East. As well as the human cost, there are important geopolitical implications and impacts on oil prices. Our current assessment is that there is enough spare capacity on the sidelines to keep oil supply flowing and prevent prices from spiking too far. As with all geopolitical risks, though, further escalation can't be ruled out.

In domestic news, we saw the October release of the Westpac–Melbourne Institute Survey of Consumer Sentiment. As my Westpac Economics colleague, senior economist Matthew Hassan commented, Australian consumers are still very gloomy: they are being squeezed by high inflation, a rising tax take and escalating housing costs – both rents and rising mortgage payments. There are some glimmers of hope, especially for households with interest income, but the overall picture remains very weak.

Given weak consumer sentiment, it is no surprise that business surveys are also showing a moderation recently. This was the message of the ACCI–Westpac survey earlier, and as Westpac Economics colleague, senior economist Andrew Hanlan reported this week, it is also the message of the September NAB survey. An important theme from both surveys is that cost pressures are starting to ease.

The Reserve Bank of Australia will need to see those signs of easing cost pressures translate into an actual easing in inflation. One area to watch is whether falls in global prices of some goods flow through to falls in retail prices here in Australia, or whether prices instead stabilise and margins expand. The RBA has been alluding to this issue for a while. The August Statement on Monetary Policy noted that prices of furniture and home furnishings were still rising strongly in the June quarter and included a graph showing that audiovisual prices have been trending up since 2021, counter to the historical trend. RBA Head of Economic Analysis Marion Kohler also called out the delayed turning point in audiovisual goods prices in her speech in May.

Also relevant to the inflation outlook was the tick up in consumer inflation expectations reported this week. The trimmed mean measure increased from 4.6%yr in September to 4.8%yr in October. At least some of the move can be attributed to the well-known sensitivity of these measures to movements in petrol prices. The developments in the Middle East this week will therefore have a bearing on future releases. But the RBA's communication continues to focus on the need for medium-term inflation expectations to remain anchored, not so much the shorter-term expectations. So far, they have done so. More important to the RBA's view (though not the only thing they will be watching) will be the September quarter inflation data due out later this month. A surprise there could spur a revision to their forecasts in November and – if it is a big enough surprise – be a consideration at the November Board meeting.

In other RBA news, Assistant Governor (Financial Markets) Chris Kent spoke on the transmission mechanism of monetary policy. This speech read as an educational piece, not one intended to convey a change in policy messages. It provided a useful reminder that monetary policy works through more channels than the effects on the cash flows of households with mortgages. This effect does come through a bit faster here in Australia than in other countries, but it does not mean that monetary policy is more powerful overall here than elsewhere. Other things adjust.

There were some interesting points in the Q&A after the speech as well. Kent reiterated that the RBA thinks that monetary policy is restrictive now. This is another indication that they see real (inflation-adjusted) interest rates in terms of longer-term measures of inflation; if you were to calculate a real interest rate using current inflation or short-term expectations, you would get a negative number and be misled into thinking policy is still expansionary. Nothing about current borrowing behaviour and credit growth would support that conclusion.

Perhaps of more interest to those with a market bent was the question on the RBA's bond holdings. Some might have interpreted Assistant Governor Kent's answer as suggesting that the RBA is more open to active selling of bonds ('active QT') than it was before. A more likely interpretation is that this was a restatement of their earlier position that it is not something they are ruling out forever, but nor are they actively planning to embark on a program of sales. Look to the Annual Report, which should be out soon, or an official communication before concluding that there has been a change in view. While Kent pointed to the interest rate risk on the RBA's balance sheet as a consideration, a broader issue is the fiscal implications of any losses crystallised by such sales. The Annual Report would be the normal vehicle to provide more detail on the balance sheet implications, but based on earlier information, Commonwealth revenue will go without the benefit of a dividend from the RBA for a few years while its capital levels are rebuilt. This might seem less of an issue in a time of budget surpluses, but there are scenarios where that strategy becomes less comfortable for fiscal policymakers.

Another thing that caught my eye over the past week was the release of the Financial Stability Board's report into the failures of Credit Suisse, as well as Silicon Valley Bank, Signature Bank and First Republic Bank in the United States. While this report will mostly be of interest to regulatory aficionados (or recovering ones), it highlighted the potential for losses on bond holdings when long interest rates rise as quickly as they have in recent times. For certain portfolios, banks aren't required to mark to market in real time, leaving them vulnerable to large unrealised losses crystallising if rates move sharply.

In Australia, though, the large banks are required to hold capital against this so-called interest rate risk in the banking book. This is not the case in other major jurisdictions, where the international standards that apply are much more principles-based and designed around measurement and disclosure. A result of these different supervisory incentives is that Australian banks have less incentive to engage in those risks, and in particular to 'borrow short, lend long' (or in the case of the US banks that got into trouble, hold long). If while reading Chris Kent's speech, you wondered why Australia's mortgage market and monetary transmission mechanism are so geared towards variable-rate lending compared with some other jurisdictions, this difference in regulatory approach is one of the reasons.

Luci Ellis, Chief Economist Westpac Group

In Australia, Westpac-MI Consumer Sentiment remains in deeply pessimistic territory, with consistently weaker results only seen in the deep recession of the 1990s. This is despite a prolonged pause by the RBA, emphasising the cumulative impact of cost-of-living pressures. The sub-index tracking family finances over the past year is incredibly weak; at 63.1, the current read is in the bottom 3.5% of observations over the survey's history. Consistent with the weakness in households' views on finances, 'time to buy a major household item' is currently within the bottom 2.5% of observations. Thankfully, households' views on the labour market remain constructive. These results emphasise that, for confidence to return and spending to sustainably accelerate, inflation pressures must abate and interest rate cuts come into view.

Before moving offshore, a quick note on businesses. The latest NAB business survey pointed to a further softening in business conditions (–3pts to +11) amid subdued new orders and fragility in business confidence (flat at +1). Constructive for the outlook is that firms' cost pressures eased notably in September – down to a quarterly pace of 1.8%. The pace of price increases also moderated to a two-year low of 1.0%qtr. These developments, if sustained, would point to a further deceleration in consumer inflation, supporting the view that interest rates have peaked – outcomes that would be welcomed by households.

Offshore, news coverage has focused on the tragic loss of life and destruction in Israel and Gaza following Hamas' initial attack and hostage taking. Israel's declaration of war against Hamas in response and the ensuing fighting has kept market participants focused on potential implications for commodity markets and broader risks; but with oil supply currently unaffected, price moves associated with the war have been marginal. Market pricing has instead been driven by developments related to US monetary policy and inflation.

Mid-week, the September FOMC meeting Minutes broadly reflected public comments made by members since the meeting. The Committee discussed the increase in longer-term yields, which have risen even more since the meeting, and noted they have contributed to tighter financial conditions. While partially a result of stronger-than-expected data, together with tighter credit standards, rates are set to weigh on growth and inflation hence. Of key importance regarding policy, the minutes noted that "the current stance of monetary policy was restrictive and that it broadly appeared to be restraining the economy as intended." However, more evidence is necessary for the Committee to be confident inflation will decelerate all the way back to 2%yr.

The latest US CPI report again provided mixed messages. September's headline and core outcomes were broadly as expected at 0.4% and 0.3% respectively. Annual headline inflation was unchanged at 3.7%, while core edged a little lower to 4.1%. However, the detail was problematic. Shelter inflation doubled from 0.3% to 0.6% month-to-month, largely as a result of a rebound in owners' equivalent rent as growth in tenant rents held up – results in stark contrast to the continued downtrend in market rents. Lodging away from home also rebounded sharply, reversing the decline of the prior two months. Thankfully, core goods were slightly weaker than anticipated, declining 0.4% for a fourth consecutive monthly decline.

Looking ahead, given the current price of oil and our forecasts, energy will provide significant support to inflation until December, but then be broadly neutral on a 6-month annualised basis. Food is less certain. Given the continued abrupt deceleration in wage growth, it seems most likely that providers of 'food away from home' are responding to the totality of input price inflation over recent years as well as current volatility in energy and food commodities. If this uncertainty remains, we likely won't see any further disinflation in this category, even as wages continue to slow. 'Food at home' is also likely to prove sticky hence.

For the FOMC, this is a difficult result as there is not a lot they can do to ease inflation from shelter, food or energy. Meanwhile, the other sub-categories of inflation are largely on track, abstracting from month-to-month volatility. As an example, September's lodging away from home rebound could be read as a sign of resurgent discretionary demand. But prices for the sub-category are roughly flat over 3 months, while other related categories (airfares and car hire) are down over the period.

With term interest rates near their highs for the cycle and considerable uncertainty over the cumulative impact of inflation and high rates on demand into 2024, the FOMC are justified in remaining on hold in November. But we'll pay close attention to Chair Powell and other speakers next week ahead of the 31 October /1 November meeting.

Finally, in the UK, GDP rose 0.2%mth in August following a 0.5% decline in July. August's result was driven by an improvement in services, although production and construction declined further. Forward indicators suggest production will remain under pressure, leaving Q3 GDP at risk of undershooting the Bank of England's expectation for a 0.4% increase.

Week ahead & data wrap

Since late last year, migrant arrivals have surged in New Zealand. Indeed, new estimates released this week suggests that the surge has been even larger than thought previously. In seasonally adjusted terms, on net, almost 10,000 people arrived in New Zealand in August. Moreover, arrivals in the year to July are around 7,000 higher than previously estimated. That's meant that the annual inflow grew to over 110,000 in the year to August – a new record and sufficient to lift annual population growth to a considerable 2.5%. To date the inflow seems to be helping to alleviate tightness in the labour market – helping to explain reports of record applications for the jobs on offer – while also underpinning a lift in house sales, prices and especially rents. How these competing influences on the economy and inflation continue to play out will have an important bearing on the required level of interest rates over the year ahead. Given the increasing size of this inflow, understanding the economic impact has certainly become more important than ever.

Despite these strong migrant inflows, the modest recovery in the housing market appears to have taken a breather in September. Our seasonal adjustment indicates that the number of house sales fell by around 3% during the month. As a result, sales were just 5% higher than a year earlier and remain low by historic standards. Meanwhile, we estimate that prices increased just 0.1% in the month – the smallest increase since April. We suspect that the proximity of the impending General Election will have dampened activity during the month, and this is also likely to be evident when October data are released next month. An informed read on housing market trends will probably not come available until the summer selling season kicks off in earnest once people return from the Christmas holiday period.

Looking ahead, there are two major risk events in New Zealand over coming days that have the potential to move financial markets: the General Election on Saturday 14 October and Tuesday's September quarter CPI report. As far as the election is concerned, opinion polls continue to suggest that the centre-left Labour government will most likely be replaced by a centre-right coalition. However, polling figures have tightened in recent weeks and it now appears likely that the centrist NZ First party will hold the balance of power following the election. During the campaign, NZ First has indicated that it will not form a government with Labour (and vice versa). So it seems most likely that NZ First will support the formation of a centre-right National-ACT government, either as a member of a three-way coalition, or outside the government on a supply and confidence basis.

Elsewhere we have previewed the economic policies of the major political parties. In short, we don't think that the election outcome will have significant short term macro implications as the bottom-line fiscal strategies of the major parties on the centre-left and centre-right have a similar focus on returning the operating balance to surplus over the next three years. That said, we generally see coalition negotiations as pulling National towards a more contractionary stance, as both potential coalition partners advocate for greater fiscal restraint.

Once the election night results are known, market reaction will likely be mainly determined by whether there is a clear-cut path to the formation of a government. Should the result be very close, it is possible that the viable government may not be known until official election results are published on 3 November. On that score, it is worth noting that the so-called "special votes" that will be counted after election night have tended to favour the centre-left. Indeed, following the counting of special votes, in each of the last two elections the centre-left has gained two additional seats at the expense of the centre right. So a tight election night result – and the uncertainty that would bring – could impact the NZ dollar negatively on Monday morning. Similarly, a strong result for the potential minor coalition partners would raise the likelihood that a protracted period of coalition negotiations will be required to form a government, perhaps also weighing on the NZ dollar due to the uncertainty this might bring.

Turning to the CPI, following this week's softer-than-expected news regarding food prices and rents, we have slightly lowered our forecast. We now look for the headline index to post a 1.9% lift in the quarter, allowing headline inflation to edge down 0.2ppts to 5.8%. The large increase that we foresee during the quarter owes in part to a big seasonal lift in local council rates, while the annual increase in excise tax on alcohol will also take effect this quarter. Of course, the other special factor this quarter is a near 17% rebound in fuel prices. Importantly, reflecting our sense of ongoing momentum across the service sector, we expect that non-tradeable prices will rise by 1.7% during the quarter. While this would reduce the annual inflation rate by 0.3ppts to 6.3%, this would leave it far above levels consistent with achieving the 1-3% inflation target.

Our forecast for headline inflation is 0.2ppts below the estimate published by the RBNZ in the August Monetary Policy Statement, which may reflect a decline in food prices since the RBNZ made its forecast. More importantly, our forecast for non-tradeable inflation is in line with that made by the RBNZ. A material upside surprise, especially to non-tradeables inflation, would increase the likelihood that the RBNZ will feel compelled to lift the OCR further next month, especially coming after the upside surprise in the June quarter. On the other hand, the market may well breathe a sigh of relief should inflation print in line with our expectations or lower. We doubt that such a print would fully assuage the RBNZ's concerns about whether inflation will return to the target range quite as quickly as it had forecast in August, although it may lift the bar for a rate hike as soon as the November meeting. That said, there is plenty of additional economic data to be released in coming weeks, notably the September quarter labour market data on 1 November. And assuming a government is formed, the fiscal policy intentions of that government will also have a bearing on whether the RBNZ views further policy tightening to be warranted.

Darren Gibbs, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Wed 11	Aug net migration	6440	9980	–
Thu 12	Sep REINZ house sales %yr	11.6%	5.1%	–
	Sep REINZ house prices %yr	–4.6%	–3.3%	–
	Sep food price index	0.5%	–0.4%	0.1%
Fri 13	Sep manufacturing PMI	46.1	45.3	–
	Sep retail card spending	0.6%	–0.8%	0.3%

Aus Sep Westpac–MI Leading Index

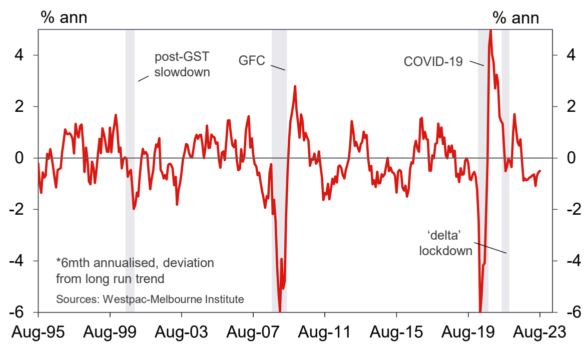
Oct 18, Last: –0.50%

The Leading Index rose slightly to –0.50% in August from –0.56% in July. However, the big picture continues to be of an extended period of below trend growth that looks set to extend into 2024.

The September read will again see a mixed bag component-wise, latest monthly updates showing the ASX200 down 3.5% and total hours worked down 0.5% but dwelling approvals recording a 7% bounce, commodity prices up 3.9% in AUD terms in September and consumer sentiment based components improving slightly. The yield spread has also widened on higher bond yields, although the big moves here came in the first half of October rather than September.

Stepping back, the headline index here is a six-month annualised growth rate which may start to show more signs of stabilisation in the months ahead as some weak mid-year reads cycle out. Of course, that's predicated on no new shocks coming in the front end which is by no means assured.

Westpac-MI Leading Index



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

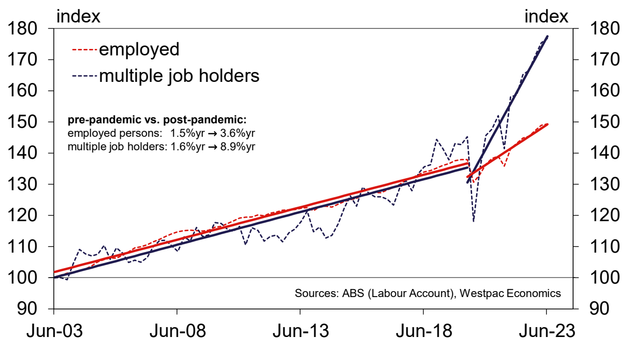
Oct 19, Last: 64.9k, WBC f/c: 20k
Mkt f/c: 20k, Range: 5k to 45k

Following a soft print in July, employment bounced back notably in August, lifting +64.9k (0.5%). The choppy profile over the last two months again looks to be partly a reflection of shifting seasonalities around school holidays, as was the case in January/February and April/May.

Employment growth has slowed gradually over the course of this year, from a 'red-hot' pace (based on 3mth averages) of +49k/mth in March to +34k/mth in June. Businesses have demonstrated a remarkable ability to absorb the migration-driven surge in labour supply, although this dynamic will be tested as the broader economy continues to slow.

Our +20k forecast for employment leaves the average pace of employment growth below trend, but only modestly so. We anticipate that the labour market will remain tight into year-end, before a more material degree of slackening emerges in 2024.

Multiple job holder post-pandemic boom



Aus Sep Labour Force – unemployment rate (%)

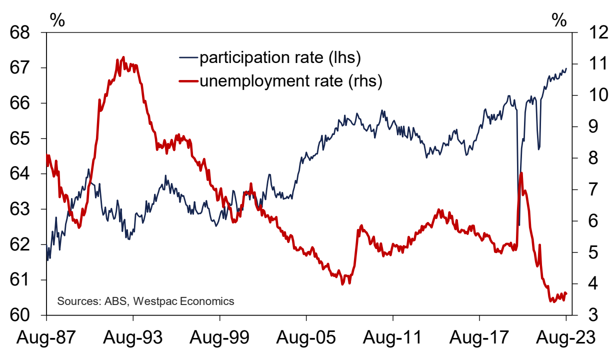
Oct 19, Last: 3.7%, WBC f/c: 3.7%
Mkt f/c: 3.7%, Range: 3.6% to 3.8%

In August, the participation rate rose to 67.0%, a fresh record high within the Labour Force Survey. This saw the labour force expand by +62.2k, which having broadly matched the gain in employment, left the unemployment rate unchanged at 3.7%.

The labour market has moved past its tightest point but is not yet slackening to a material degree. For September, we expect the participation rate to pare-back slightly to 66.9%, resulting in the unemployment rate once again holding flat at 3.7%.

The evolution of underemployment and hours worked in particular will continue to provide important signals at this current 'turning point'. Given that the gains in hours worked (+9.4%yr) have more than outstripped that of overall employment (+5.9%yr), if slack were to emerge more clearly through to year-end, it would likely appear in hours first.

Unemploy. lowest since '74, record participation



DATA PREVIEWS

NZ Q3 CPI

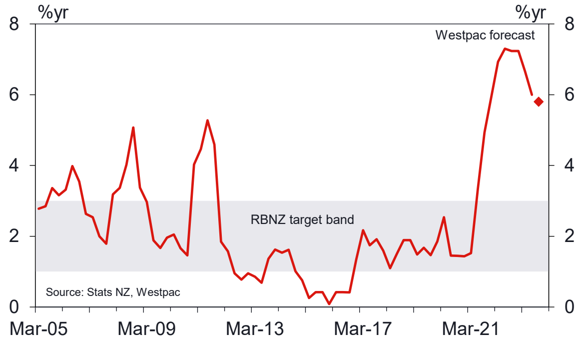
Oct 17, Quarterly. – Last: +1.1%, Westpac f/c: +1.9%
Oct 17, Annual – Last: +6.0%, Westpac f/c: +5.8%

We estimate that New Zealand consumer prices rose by 1.9% in the September quarter. That would see annual inflation slip to 5.8%, down from 6.0% in the year to June.

The September quarter saw a sharp rise in fuel prices and other transport costs, as well as a large increase in local body rates and the annual increase in tobacco taxes. That's only partially offset by the softening in food prices in recent months.

Our forecast is a little lower than the RBNZ's projection (published back in August) reflecting a lower forecast for tradable prices. Even so, core inflation and non-tradables inflation are expected to remain red hot.

NZ Consumers Price Index



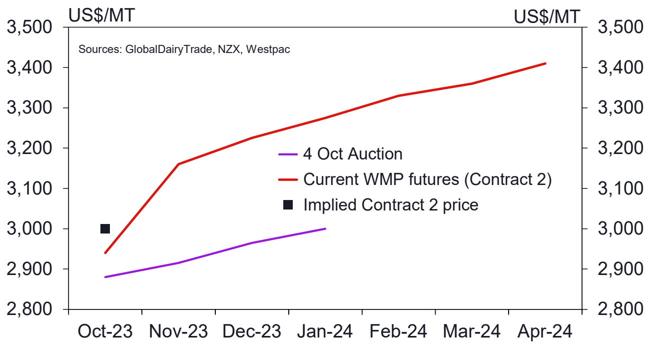
NZ GlobalDairyTrade auction, whole milk powder prices

Oct 18, Last: 4.8%, Westpac f/c: 3.0%

We expect whole milk powder prices (WMP) to rise 3% at the upcoming auction. Note WMP prices jumped by 4.8% at the previous auction. Our pick is in line with the result at last week's mini (GDT pulse) auction, whereas the futures market is currently pointing to a rise of around 6%.

Market sentiment has turned over September and October. The likely drivers of the improvement are a lift in demand from Middle East buyers alongside increased drought risk (El Niño has been declared). From 2024, we anticipate that improving Chinese demand will gradually lift prices, although there is clear uncertainty as to the timing and magnitude of any further price recovery.

Whole milk powder prices



China Q3 GDP (%yr)

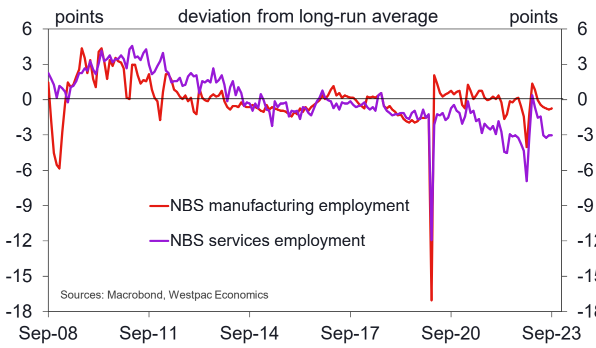
Oct 18, Last: 6.3%, Mkt f/c: 4.5%, WBC f/c: 4.4%

Market participants remain uncertain over China's outlook. Q3 activity data showed some promise, but also clear evidence of significant cyclical and structural headwinds. Towards the end of the quarter, precautionary saving by households also reduced and credit growth picked up modestly.

While we remain constructive on the outlook, our quarterly growth expectation for Q3 is a touch below consensus. That said, we do expect a material acceleration in Q4.

For full-year growth to step up from around 5.0% in 2023 to 5.5% in 2024 as we forecast, infrastructure and manufacturing investment must remain strong and residential construction stabilise. Together with additional support from the Government, this should be enough to buoy consumer sentiment.

GDP to depend on consumer; jobs needed



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 16					
Aus	RBA Assist' Governor (Financial Mkts)	–	–	–	Jones, speaking at AFR Cryptocurrency Summit, 10:30am.
NZ	Sep BusinessNZ PSI	47.1	–	–	Set to remain low due to mounting financial pressures.
Jpn	Aug industrial production	0.0%	–	–	Final estimate.
Eur	Aug trade balance €bn	2.9	–	–	Choppy profile highlights risks to external demand.
US	Oct Fed Empire state index	1.9	-5.0	–	Growing optimism over six-month demand outlook.
	Fedspeak	–	–	–	Harker.
Tue 17					
Aus	RBA Minutes	–	–	–	More colour around the Board's views on risks.
NZ	Q3 CPI %qtr	1.1%	–	1.9%	High fuel prices partially offset by lower food prices.
	Q3 CPI %yr	6.0%	–	5.8%	Core and domestic inflation still red hot.
Eur	Oct ZEW survey of expectations	–8.9	–	–	Tracking sideways, signalling weak momentum.
UK	Aug ILO unemployment rate	4.3%	4.3%	–	Rise in labour supply driving the lift in unemployment.
	Aug average weekly earnings %yr	8.5%	7.8%	–	Sustained lift in wage inflation of most concern for BoE.
US	Sep retail sales	0.6%	0.3%	–	Excluding vehicle sales and gasoline, spending soft.
	Sep industrial production	0.4%	–0.1%	–	Solid performance over the last two months.
	Aug business inventories	0.0%	0.3%	–	Broadly flat so far this year upon weakness in wholesale.
	Oct NAHB housing market index	45	45	–	Pessimism re-emerging as financial tightening impacts.
	Federal Reserve Beige Book	–	–	–	Update on economic conditions across the regions.
	Fedspeak	–	–	–	Williams, Barkin, Harker.
Wed 18					
Aus	RBA Governor Bullock	–	–	–	Speaking at AFSA Annual Summit Panel, 9:30am.
	RBA Head of International Dept.	0.0%	–	–	Smith, speaking at CFA Societies Conference, 10:40am.
	Sep Westpac–MI Leading Index	–0.50%	–	–	Pointing to growth remaining well below trend in early 2024.
NZ	GlobalDairyTrade auction (WMP)	4.8%	–	3.0%	Global dairy prices have turned after a sustained weak run.
Chn	Q3 GDP %yr	6.3%	4.5%	4.4%	Emerging signs of promise as households' precautionary...
	Sep retail sales ytd %yr	7.0%	6.7%	–	... savings ease and credit growth picks up modestly...
	Sep industrial production ytd %yr	3.9%	3.9%	–	... but headwinds remain, requiring further policy support...
	Sep fixed asset investment ytd %yr	3.2%	3.2%	–	... in the interim and robust investment in the medium-term.
Eur	Sep CPI %yr	4.3%	–	–	Final estimate.
UK	Sep CPI %yr	6.7%	6.2%	–	Services beginning to moderate from an elevated level.
US	Sep building permits	6.8%	–5.9%	–	Showing signs of promise as uptrend sustains momentum...
	Sep housing starts	–11.3%	8.5%	–	... only a partial carry-over to housing starts however.
Thu 19					
Aus	Sep employment change	64.9k	+20k	+20k	Labour market is at a turning point as employment growth...
	Sep unemployment rate	3.7%	3.7%	3.7%	... holds modestly below trend and U/E holds off its lows.
US	Initial jobless claims	209k	–	–	Will remain at low levels, for now.
	Oct Phily Fed index	–13.5	–6.4	–	Generally pointing to subdued conditions, albeit volatile.
	Sep existing home sales	–0.7%	–3.5%	–	Supply constraints and high rates weighing on sales activity.
	Sep leading index	–0.4%	–	–	Activity to slow ahead but not halt.
	FOMC Chair Powell	–	–	–	Speaking at Economic Club of New York.
	Fedspeak	–	–	–	Goolsbee, Bostic, Harker.
Fri 20					
NZ	Sep trade balance $mn	–2291	–	–2350	Earlier weakness in dairy prices leading to wider deficit.
Jpn	Sep CPI %yr	3.2%	3.0%	–	Falling energy prices are a key support.
UK	Oct GfK consumer sentiment	–21	–	–	Confidence recovering as inflation moderates and wages lift...
	Sep retail sales	0.4%	–	–	... pass-though to consumer spending will be limited for now.
US	Fedspeak	–	–	–	Logan, Harker.

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.

Forecasts

Interest rate forecasts

Australia	Latest (13 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	4.10	4.10	4.10	4.10	3.85	3.60	3.35	3.10
90 Day BBSW	4.15	4.30	4.30	4.22	3.97	3.72	3.47	3.22
3 Year Swap	4.17	4.10	4.00	3.90	3.80	3.70	3.50	3.40
3 Year Bond	3.97	3.85	3.75	3.70	3.60	3.50	3.30	3.20
10 Year Bond	4.49	4.45	4.50	4.40	4.30	4.20	4.00	3.90
10 Year Spread to US (bps)	–18	–15	–15	–20	–20	–20	–20	–20
US								
Fed Funds	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875
US 10 Year Bond	4.67	4.60	4.65	4.60	4.50	4.40	4.20	4.10
New Zealand								
Cash	5.50	5.75	5.75	5.75	5.75	5.75	5.50	5.25
90 day bill	5.70	5.85	5.85	5.85	5.85	5.75	5.50	5.20
2 year swap	5.69	5.81	5.67	5.50	5.29	5.08	4.86	4.65
10 Year Bond	5.42	5.45	5.45	5.40	5.30	5.15	4.90	4.80
10 Year spread to US	75	85	80	80	80	75	70	70

Exchange rate forecasts

Australia	Latest (13 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
AUD/USD	0.6325	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD/USD	0.5917	0.61	0.61	0.62	0.62	0.62	0.63	0.63
USD/JPY	149.75	147	145	143	141	138	135	132
EUR/USD	1.0545	1.08	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.2202	1.23	1.24	1.25	1.26	1.27	1.28	1.30
USD/CNY	7.3062	7.20	7.10	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.0689	1.08	1.10	1.10	1.11	1.13	1.13	1.14

Australian economic growth forecasts

	2022	2023			2024			Calendar years			
% change	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	2021	2022	2023f	2024f
GDP % qtr	0.7	0.4	0.4	0.3	0.2	0.2	0.3	–	–	–	–
%yr end	2.7	2.4	2.1	1.7	1.2	1.1	1.0	4.6	2.7	1.2	1.6
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	1.1	0.9	0.8	0.7	–	–	–	–
annual chg	7.8	7.0	6.0	5.3	4.3	3.7	3.6	3.5	7.8	4.3	3.2
Trimmed mean	1.7	1.3	0.9	1.1	0.8	0.8	0.8	–	–	–	–
annual chg	6.9	6.6	5.9	5.0	4.1	3.6	3.5	2.6	6.9	4.1	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	–0.5	0.0	0.9	–0.1	0.1	0.0	0.0	–	–	–	–
Annual avg change	2.7	2.9	3.2	1.6	1.3	0.9	0.5	6.0	2.7	1.3	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	1.9	f0.5	0.7	0.4	–	–	–	–
Annual change	7.2	6.7	6.0	5.8	4.8	4.3	3.6	5.9	7.2	4.8	2.8

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