AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 6 November 2023

Editorial: Better outcomes on employment can coexist with low inflation.

RBA: policy decision, Statement on Monetary Policy.

Australia: no data of note.

NZ: Q4 RBNZ inflation expectations, GlobalDairyTrade auction, manufacturing PMI.

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

Europe: retail sales.

UK: Q3 GDP.

US: trade balance, consumer credit, UoM consumer sentiment.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 3 NOVEMBER 2023.

WESTPAC INSTITUTIONAL BANK

EDITORIAL

Better outcomes on employment can coexist with low inflation

The last time the unemployment rate was around its current levels, I was in pre-school. Underemployment has picked up, but it is still low.

Compared with the unemployment rates of the 1980s and 1990s, when rates above 8% were common and 6% seemed as much as we could hope for, this is a remarkable achievement.

As policymakers try to tame high inflation, the question arises: can Australia hold onto the gains we have made in getting unemployment down? And can we achieve full employment?

If you don't know what you are trying to achieve, you'll never get there. At least now, with the White Paper, we have a definition of full employment that seems to have broad agreement. The definition given is, paraphrased, the state of the world where everyone who wants a job can get one without having to look for too long, and where the job is secure and paid decently.

There's a lot to unpack in that definition. It captures the quality of the employment experience and whether people can get the hours of work they want. But the hours of work people want is itself partly determined by the hourly wage they can get, as well as their family and other obligations.

This differs from economists' definition of a NAIRU, which is simply the rate of unemployment below which inflation starts to pick up. Or more directly, and to my mind preferably, the rate of unemployment below which wages growth starts to pick up – the NAWGRU, if you like.

I prefer a definition keying off wages growth because, as we have seen recently, inflation in goods and services prices can be affected by factors beyond the cost of labour. If you're not careful, you would end up attributing inflation that stemmed from supply shocks to a rising NAIRU. Indeed, if you were to run the standard models now, with no account for the pandemic, they would see the global inflation surge and conclude that the NAIRU was currently around 6%. I don't believe that for a minute.

So full employment and the NAIRU are two different things. The concept of full employment is normative, a goal we have. While the concept of NAIRU is empirical. It is how things are.

If the NAIRU/NAWGRU accords with full employment, then the aspiration can be sustained. But if not, we can't stay at full employment for long without other problems arising.

If the NAIRU is above the aspiration for full employment, this does not mean we have to give up. The NAIRU is not fixed or handed down from the heavens. It is an emergent property of a complex system. It absolutely can shift.

One way, therefore, to think about full employment as a policy objective is:

- first, to find a way to ensure that the NAIRU declines to be close to full employment.
- And second, to make sure that policymakers either know this has happened or at least conduct policy in a way that allows for the possibility. Without this, macro policy could end up being too tight until the policymaker learns from experience that the NAIRU has fallen.

This was possibly part of the post-GFC story. In the late 2010s, many countries found they could get unemployment lower than previously, without igniting inflation. It is no surprise that during this period, official estimates of NAIRUs for advanced economies, such as those produced by the OECD, were repeatedly revised down.

The first part of the objective – reducing the current level of the NAIRU from wherever it is – is usually framed as being an issue with the worker. The policy focus is all about removing barriers to employment, improving skills, lifting literacy and so on. And these things are worth doing. But I question whether they are the whole story.

For no matter how job-ready the potential worker might be, there has to be a firm ready with a job. As well as the firm having work that needs doing, the firm needs to see that worker as suitable for the role. This comes down to employer practice as much as the worker's actual characteristics. Firms have already seen the benefit of increasing the diversity of their workforce across dimensions such as sex, age and cultural background. But there can still be a bit of a tendency to want to hire people into roles who have already done that role elsewhere.

When the labour market isn't as tight as it is now, it is common for workers to complain that job selection criteria don't always make sense. That you need a qualification that the nature of the work doesn't really require. That you need five years' experience for an entry-level position, or in a technology platform that has only been around for three years.

As the labour market tightens up, firms do learn not to be so specific. They start taking on school leavers or new graduates, or people with a non-standard collection of experience. After all, in a few years' time, the inexperienced person becomes an experienced person.

But it takes time for firms to learn that this is what they need to do, that isn't a temporary situation they can ride out. And no doubt it takes the HR department a while to agree with the changed approach, organisations being what they are.

This isn't a critique of employers or HR professionals by any means. It is simply the fact that any single person or organisation has only one window into the whole labour market. So it isn't always obvious to people whether the market has tightened, or they've just been unlucky in their search.

We economists have a fancy word for this process of lower unemployment nudging the NAIRU lower – hysteresis. Normally we think about the reverse case, though, where high actual unemployment drags the NAIRU up. But hysteresis works both ways, and this search and learning process is probably a lot of the reason for it. It means that if we find that the economy can run with a lower average unemployment rate without igniting much wages growth, then testing that boundary just a little can result in better outcomes over time.

So the first part of the problem, getting the NAIRU down, has three elements:

1. All the usual worker-centric policies around training, removal of barriers and job-readiness
2. running the economy a little tight, but not too tight, so that firms have the incentive to learn that they can hire someone who isn't already doing the same job somewhere else, perhaps with some training. Of course, this cannot go too far, else inflation will increase. It is an argument for approaching the limits slowly, to create that learning time, rather than pushing for the fastest possible return to wherever the NAIRU is estimated to be now.

3. related to this, finding ways to speed up firms' learning process, so that it isn't the case that every episode of labour market tightening is construed as a labour shortage. I don't pretend to have all the answers on how to make this happen, but this seems like the right forum to ask the question. A good place to start would be to ensure that the process of matching firms and workers is as efficient as it could be. The private sector has a role to play here, through platforms and other initiatives. It isn't the sole responsibility of government.

The second part – making sure policymakers realise that the NAIRU can decline or has declined – is a task for the economics profession. I would like to encourage my academic colleagues to explore the underlying drivers of this emergent property of the system. It would also be worth investigating whether it is feasible to forecast its movements. The ageing of the population and rising participation of older workers will be a factor here.

The profession can also assist in keeping policymakers alert to these issues. The good news is that, in Australia at least, the culture of public policy is pragmatic and evidence based. I do not see too many people in that sphere who take models and invisible "star" variables as gospel. So I do not see much risk here of a policy mistake coming from decisions that assume a fixed, and too–high, NAIRU. And for that reason, I believe that full employment and low inflation are compatible, at least in principle, and with time.

To do that, we need to make sure that we aren't caught up in pre–conceived ideas. We can do more to recognise that the NAIRU can move, that it might be able to be forecast, and that – perhaps – we can do more to influence it in the right direction, so that our full employment aspirations can be achieved.

And by "we", I don't only mean government policy. As with Australia's recent weak productivity outcomes, it is too often assumed that causes and solutions rest entirely on government actions. Productivity isn't something the government does to us, though. It is mostly the result of the decisions every business makes: how much to invest; when and how to train employees; and how work is organised and prioritised.

So it is with the emergent properties of the labour market. Public policy has an influence, but it isn't the only thing. Private sector decisions matter, including who and how we hire, how we onboard and train staff, and how we organise our work and – especially – our working hours and locations. Tighter labour markets require nimbleness and creativity in filling roles, but these skills can atrophy in times of labour market slack. At a time when participation in the labour market is close to an 113–year high, we can't say that there is a shortage of willing labour. The challenge is to match that willing labour with suitable roles to achieve our aspirations of full employment. That is something we can all participate in, rather than waiting for the government to do it for us.

Luci Ellis, Chief Economist Westpac Group

In Australia, nominal retail sales rose strongly in September, up 0.9% (2.0%yr). However, this was mostly due to transitory factors, including policy changes around medicines under the Pharmaceutical Benefits Scheme and major product releases, most notably the latest iPhone model. On a three-month rolling basis, nominal retail sales lifted 0.8% in September; underlying this, the just released quarterly data reports volumes rose 0.2% in Q3 following a 0.6% decline in Q2. Our Westpac Card Tracker suggests that through October, retail card activity partially retraced some of the gradual improvement experienced through Q3.

Turning to the housing data, the CoreLogic home value index posted another broad-based gain in October (0.9%) with solid increases reported in most of the major capital cities. Despite ongoing momentum in prices, housing finance approvals still imply a shaky recovery in transaction volumes, the total value of new loans up just 0.6% in September with the detail of the report very patchy, owner-occupier loans down 0.1% as investor loans gained 2.0%. Construction-related lending's flat result in September and dwelling approvals 4.6% decline in the month also showcases lingering fragility for construction. Costs pressures and capacity constraints will act as a drag on building activity in the near-term, providing support for house prices and rents.

Australia's goods trade surplus subsequently surprised to the downside in September, slipping from $10.2bn to $6.8bn. This was largely a consequence of a surprise surge in imports, up 7.5%, due to a spike in transport equipment. Exports meanwhile exhibited some softness in the month, falling -1.4%, as volatility in gold exports persisted. According to this data, the goods trade balance was soft in the quarter overall, with goods exports declining -1.4% and goods imports rising 3.0%. The Balance of Payments will provide an update on services trade in a few weeks' time.

With a view to the medium term, Westpac Chief Economist Luci Ellis spoke this week at the Melbourne Institute 2023 Economic & Social Outlook Conference on sustaining full employment and low inflation. A copy of her presentation is now available on Westpac IQ.

First cab off the rank offshore was the Bank of Japan who changed the 1% upper bound for 10-year Japanese Government Bond (JGB) yield from a hard cap to a "reference", potentially allowing the 10-year JGB yield to trade modestly above that level if market conditions warrant. However, their overall commitment to Yield Curve Control and the -0.1% policy rate are unchanged. While markets took the upper bound decision to mean the BoJ may be readying for a substantial policy shift, we believe the BoJ is instead planning to remain ultra accommodative for the foreseeable future. Revised forecasts show upward revisions to inflation in FY23 and FY24 to above the 2% target, but inflation is still expected to be back below target in FY25. Importantly, the BoJ attributed the upward revisions to stronger pass through of import prices. But, as import price growth dissipates, consumer prices are also expected to ease. Evidence of demand-driven inflation meanwhile remains scant.

Committee members would have taken into consideration the trade union confederation RENGO's 'above 5%' wage demands for 2024 when they made the assessment that "if the behaviour and mindset based on the assumption that wages and prices will not increase easily remain deeply entrenched, there is a risk that moves to increase wages will not strengthen as much as expected from next year and prices will deviate downward from the baseline scenario." Overall, the BoJ's decision reflects a desire to keep policy accommodative as long as necessary to encourage expectations to strengthen and inflation to hold sustainably at target.

The FOMC subsequently chose to keep rates steady and reaffirmed they believe the US economy is cooling sufficiently to meet the 2% inflation target in time. In the statement, changes to language were marginal and in response to recent data, economic activity "expanded at a strong pace" replacing "expanding at a solid pace" following Q3's outsized 4.9% annualised gain. The tense of the revised statement is significant: yes Q3 was "strong", but momentum ahead is uncertain.

Into 2024, the balance of risks will likely shift against growth, requiring the FOMC to make real-time judgements over the appropriate degree of policy restrictiveness. This is a determination that will depend not only on the right level of the real fed funds rate but also on an assessment of the stability of term premiums and credit conditions. The US release of the week is still to come, with the October employment report due tonight. With the Q3 Employment Cost Index benign and other partial data softer than expected, the market is likely hoping for a partial reversal of last month's payrolls strength.

In the UK, the Bank of England kept rates steady at 5.25% in a 6-3 vote. The lower-than-expected inflation print resulted in a downward revision for 2023 inflation. However, 2024 and 2025 were revised up reflecting upside risks for inflation from energy prices and a longer-than-expected unwinding of second-round effects. This likely means policy will remain restrictive for longer in line with the global narrative. Concerns about growth remain ever-present as the BoE revised down its forecast for 2024 to be flat.

In Europe, headline inflation eased to 2.9%yr in October helped by base effects with 2022's soaring energy prices falling out of the annual inflation calculation. Core inflation held above 4% (4.2%yr from 4.5%yr last month), confirming the ECB's view that there would be a late but steep deceleration for core. These inflation outcomes were paired with a 0.1%qtr contraction in Q3 GDP following an upwardly revised 0.2% gain in Q2. While France, Italy, and Spain saw an expansion in Q3, likely fuelled by strong tourism spending, Germany posted a decline due to manufacturing sector weakness. Together these outcomes point to the ECB remaining on hold into 2024.

NEW ZEALAND

Week ahead & data wrap

Over the past week we have published our latest quarterly Economic Overview. The broad outlook for the New Zealand economy has not changed much in recent months. In short, we continue to think that sustained tight monetary policy settings – which are necessary to ensure that inflation returns to the RBNZ's target range – will mean that economic growth is relatively weak over the year ahead (and negative in per capita terms). That said, we have slightly revised up our forecast for growth, reflecting our assumption that the current large inflow of migrants will persist for longer than previously foreseen. We have also slightly revised up our forecasts for inflation and now no longer expect that it will return to the RBNZ's target range next year. This reflects our taking a more cautious view of the speed at which inflation might fall in parts of the service sector, rather than a significant change to our forecast of the real economy. As previously highlighted, we continue to forecast that the RBNZ will most likely need to lift the OCR further in 2024 while at this stage we don't see scope for policy easing until early 2025. But as always, the path taken by monetary policy will hinge on the flow of economic data and other developments over the months ahead.

Turning to this week's economic data, with prospects for continued disinflation tied inextricably to forecasts of increasing economic slack, most interest centred on the labour market surveys. In summary, these provided some good news for the RBNZ. As we had expected, the unemployment rate increased by a further 0.3ppts to 3.9% in the September quarter, marking the highest reading in more than two years. Also of note, the so-called underutilisation rate – which amongst other things also captures those people that would like more work – increased by 0.5ppts to 10.4%. In the detail, employment fell 0.2% during the quarter, which was a weaker outcome than suggested by the tax-based Monthly Employment Indicator (MEI). While this could reflect conceptual and coverage differences between the MEI and household survey, we are inclined to think that rotation of the survey sample may explain much of the unexpected weakness in employment in the September quarter, especially as the labour force participation rate also surprised to the downside.

Most importantly, there were further signs that the uplift in the unemployment rate is beginning to take some of the heat out of wage growth. In particular, the private sector Labour Cost Index increased by a less than expected 0.9% in the September quarter. This marked the second consecutive quarter in which growth has printed 0.2ppts lower than in the same quarter a year earlier, and so annual growth has declined to 4.1% from a peak of 4.5% in the March quarter. Wage growth in the public sector was very strong, in part reflecting large settlements in the education sector. However, looking ahead, we expect wage growth to weaken in the public sector, lagging the private sector has it usually does. This is especially so given that the parties that will form the incoming centre-right government have pledged to focus on tight control of spending, which will likely include some job losses in the bureaucracy. Coming on top of the recent downside surprise in CPI inflation, this week's labour market news will almost certainly allow the RBNZ to remain on the sidelines at this year's final meeting on 29 November. But further significant progress in reducing inflation pressures will be required to keep the RBNZ on the sidelines next year.

This week's other key economic data concerned building activity and business confidence. Somewhat disappointingly, the number of consents for dwellings fell by a further 5% in September and are now more than 30% lower than a year earlier. In addition, consents for commercial buildings were also weak, with the with the amount of floor-space consented over the past 12 months down 13% on the previous year. More positively, the ANZ's Business Outlook Survey pointed to a sharp lift in business confidence, while firms' assessment of their own trading outlook also improved significantly. That said, it remains to be seen to what extent this is simply a kneejerk reaction to the success of centre-right parties in last month's General Election. Elsewhere in the survey, key inflation indicators eased only modestly, and over coming months will need to make substantial further progress to arrive at levels consistent with inflation inside the RBNZ's target range.

This week the RBNZ released its six-monthly Financial Stability Report. Unsurprisingly, the RBNZ concluded that New Zealand's banking system remains well placed to handle potential external shocks and a downturn in the economy, with banks' liquidity positions viewed as "strong" and asset quality described as "high". The RBNZ noted that pockets of stress are likely to grow in the medium term as highly-indebted households continue to be tested by higher debt servicing burdens. In the farm sector, it was noted that a prolonged downturn in dairy prices could see a material pickup in loan losses for banks, and that farmers in some areas also face increased risk of drought conditions. None of these comments would have been a surprise to market participants.

In other local news, the formation of a new government moved a step closer with the release today of the final results of this year's General Election. As history had suggested, following the counting of special votes, the centre-right National Party has lost 2 seats since election night, finishing with 48 seats. As a result, the combined seat-holding of National and its preferred coalition partner ACT is 59 seats – insufficient to command a majority in what will become a 123-seat parliament following the Port Waikato by-election on 25 November (even allowing for the fact that National will almost certainly gain a further seat at the by-election). So as had seemed probable, the support of the NZ First party (which gained 8 seats) will be required to form a stable government. Coalition talks will now move beyond the preliminary discussions that have been held to date. Although it could still be a couple of weeks before a formal coalition agreement is signed, the respective parties have indicated a desire to move as fast as possible. And a quick agreement will be required if the new government is to release a mini-budget before the end of the year, as desired by PM-elect Christopher Luxon.

Turning to the week ahead, on Wednesday the RBNZ's Survey of Expectations will reveal whether the gradual downtrend in inflation expectations has remained intact. Earlier that day, the latest GDT dairy auction will also be of interest to see if the recent recovery in prices has been sustained. On Thursday, the Treasury will release the Government's Financial Statements for the three months to September. Finally, on Friday we'll get October's Business NZ manufacturing PMI, which has slumped in recent months.

Darren Gibbs, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tues 31	Sep building consents	-7.0%	-4.7%	0.0%
	Oct ANZ business confidence	1.5	23.4	
Wed 1	Unemployment	3.6%	3.9%	3.9%
	Employment	1.1%	-0.2%	0.4%
	Labour cost index (Private, incl. overtime)	1.1%	0.9%	1.0%

Aus RBA policy decision

Nov 6, Last: 4.10%, WBC f/c: 4.35%
Mkt f/c: 4.35%, Range: 4.10% to 4.35%

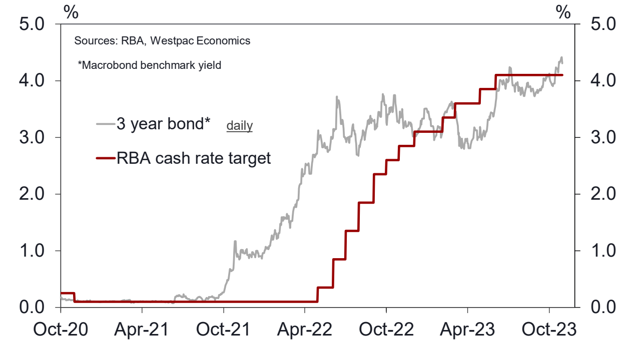
At the November Board meeting, Westpac anticipates that the RBA will raise the cash rate by 25bps to 4.35%. Such an outcome would follow four consecutive 'on-hold' decisions, from July to October.

Last week, Michele Bullock stated in her first speech as Governor that the Board "will not hesitate to raise the cash rate further if there is a material upward revision to the outlook for inflation". In our view, the Q3 CPI report highlighted that the pace of disinflation was not as fast as the RBA were hoping for, and the risk of a longer return to target – relative to the RBA's current forecasts – is therefore material.

The resilience of the household sector, alongside lingering capacity constraints amid strong population growth, supports the decision to raise rates as well. However, the Board will also recognise that the labour market has turned and the risk of a price-wage spiral is receding. In essence, November's rate hike decision will be finely balanced.

For more detail, see **last week's note** from Chief Economist Luci Ellis.

RBA cash rate and 3 year bonds



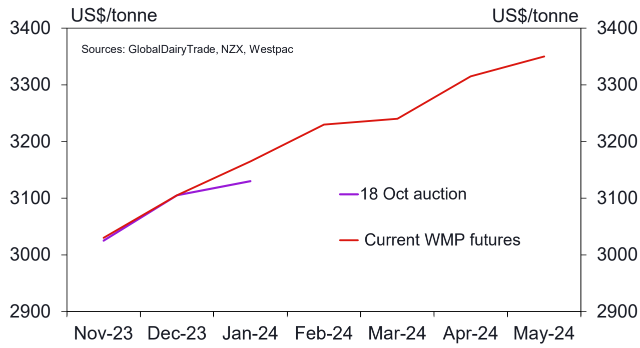
NZ GlobalDairyTrade auction, whole milk powder prices

Nov 8, Last: 4.2%, Westpac f/c: –1.0%

We expect whole milk powder prices (WMP) to fall 1% at the upcoming auction. Note WMP prices jumped by 4.2% at the previous auction. Our pick is between the circa 3% fall at the recent mini (GDT pulse) auctions and the flat prices as indicated by the futures market.

Global dairy prices lifted off their lows over September and October. The likely drivers of the improvement were a lift in demand from Middle East buyers alongside increased drought risk over summer and/or autumn stemming from the El Nino weather pattern. In the short term, New Zealand spring production has been firm and this may explain the likely price fall at this auction.

Whole milk powder prices



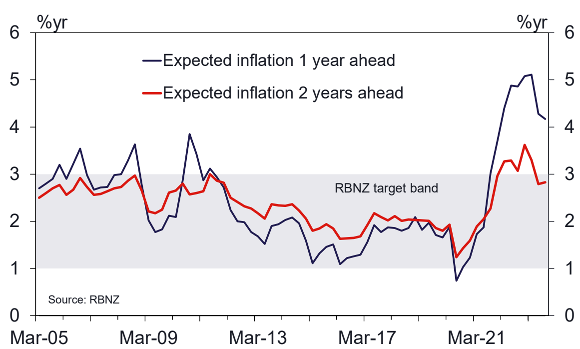
NZ Q4 RBNZ survey of expectations

Nov 8, Expected inflation 2 years ahead, last: +2.83%

The RBNZ's September survey showed that expectations for inflation over the next few years are, on average, continuing to soften. However, that easing has been gradual, and expectations remain above the 2% midpoint of the RBNZ's target band.

Inflation has continued to ease since the time of the RBNZ's last survey, with headline inflation dropping 5.6%. In addition, borrowing costs have continued to push higher. Against that backdrop, expectations for inflation are set to fall again in the December quarter survey. Even so, inflation expectations are likely to remain above 2%.

RBNZ survey of expectations



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
Aus	Oct MI inflation gauge %yr	5.7%	–	–	Provides a general view of risks.
	Oct ANZ job ads	–0.1%	–	–	Broadly stable over last three months.
NZ	Oct ANZ commodity prices	0.0	–	–	Dairy prices jumped over October.
Eur	Nov Sentix investor confidence	–21.9	–20.7	–	Gloomy outlook as the impact of rate hikes materialise.
Global	Oct S&P Global services PMI	–	–	–	Final estimate for Japan and Eurozone.
Tue 07					
Aus	RBA policy decision	4.10%	4.35%	4.35%	RBA to respond to upside risks to inflation outlook.
	Melbourne Cup	–	–	–	Public holiday (Vic); Vauban favoured by bookies.
Jpn	Sep household spending %yr	–2.5%	–2.7%	–	Real income pressures constraints spending momentum.
Chn	Oct trade balance US$bn	77.8	84.2	–	Asian demand has held up surplus through 2023.
	Oct foreign reserves US$bn	3115.1	–	–	Authorities focused on stability of TWI not USD/CNY.
Eur	Sep PPI %yr	–11.5%	–13.0%	–	Last year's energy inflation has almost fully cycled out.
US	Sep trade balance $bn	–58.3	–60.5	–	Likely to remain volatile given swings in demand and prices.
	Sep consumer credit $bn	–15.6	10.0	–	Interest rates to grow as a headwind for demand.
	Fedspeak	–	–	–	Logan and Schmid.
Wed 08					
NZ	GlobalDairyTrade auction (WMP)	4.2%	–	–1.0%	Dairy prices taking a breather after rising since August.
	Q4 RBNZ inflation expectations	2.83%	–	–	Above target, but set to continue easing back.
Eur	Sep retail sales	–1.2%	–	–	Broad-based weakness highlights fragility of consumption.
US	Sep wholesale inventories	0.0%	0.0%	–	Final estimate.
Thu 09					
Jpn	Sep current account balance ¥bn	2279.7	2988.9	–	Primary income supporting surplus through weak ¥.
Chn	Oct CPI %yr	0.0%	–0.2%	–	Soft demand and capacity to limit consumer inflation…
	Oct PPI %yr	–2.5%	–2.8%	–	… while growing capacity holds back upstream price gains.
	Oct new loans, CNYbn	2311.8	650.0	–	Government support for credit growth building…
	Oct M2 money supply %yr	10.3%	–	–	… though gains likely limited until property support increases.
US	Initial jobless claims	217k	–	–	Low and will remain so for foreseeable future.
	FOMC Chair Powell	–	–	–	IMF Panel, "Monetary Policy Challenges in a Global Economy".
	Fedspeak	–	–	–	Bostic and Paese.
Fri 10					
Aus	RBA Statement on Monetary Policy	–	–	–	Forecast update; inflation outlook in focus.
NZ	Oct manufacturing PMI	45.3	–	–	Set to remain low in as demand continues to cool.
UK	Q3 GDP	0.2%	0.0%	–	Growth faltering under the weight of interest rate tightening.
US	Nov Uni. of Michigan sentiment	63.8	63.5	–	Expectations weak, likely to weigh on demand hence.
	Fedspeak	–	–	–	Bostic and Logan.

Forecasts

Interest rate forecasts

Australia	Latest (3 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	4.10	4.35	4.35	4.35	4.10	3.85	3.60	3.35
90 Day BBSW	4.35	4.55	4.55	4.47	4.22	3.97	3.72	3.47
3 Year Swap	4.49	4.40	4.30	4.20	4.10	4.00	3.80	3.60
3 Year Bond	4.29	4.20	4.10	4.00	3.90	3.80	3.60	3.40
10 Year Bond	4.74	4.70	4.60	4.50	4.40	4.30	4.15	4.05
10 Year Spread to US (bps)	8	-10	-10	-10	-10	-10	-5	-5
US								
Fed Funds	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875
US 10 Year Bond	4.66	4.80	4.70	4.60	4.50	4.40	4.20	4.10
New Zealand								
Cash	5.50	5.50	5.75	5.75	5.75	5.75	5.50	5.25
90 day bill	5.63	5.85	5.85	5.85	5.85	5.75	5.50	5.20
2 year swap	5.38	5.79	5.67	5.50	5.29	5.08	4.86	4.65
10 Year Bond	5.22	5.45	5.45	5.40	5.30	5.15	4.90	4.80
10 Year spread to US	57	65	75	80	80	75	70	70

Exchange rate forecasts

Australia	Latest (3 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
AUD/USD	0.6430	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD/USD	0.5889	0.60	0.61	0.62	0.62	0.62	0.63	0.63
USD/JPY	150.34	147	145	143	141	138	135	132
EUR/USD	1.0626	1.08	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.2201	1.23	1.24	1.25	1.26	1.27	1.28	1.30
USD/CNY	7.3153	7.20	7.10	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.0908	1.08	1.09	1.10	1.11	1.12	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	1.2	1.1	0.8	0.7	–	–	–	–
annual chg	7.8	7.0	6.0	5.4	4.6	4.0	3.9	3.5	7.8	4.6	3.4
Trimmed mean	1.7	1.2	1.0	1.2	0.9	0.9	0.8	–	–	–	–
annual chg	6.8	6.6	5.9	5.2	4.4	4.0	3.8	2.6	6.8	4.4	3.3

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	0.2	0.2	–	–	–	–
Annual avg change	2.7	2.9	3.2	1.6	1.2	1.0	0.6	6.0	2.7	1.2	0.9
Unemployment rate %	3.4	3.4	3.6	3.9	4.3	4.6	4.9	3.2	3.4	4.3	5.3
CPI % qtr	1.4	1.2	1.1	1.8	0.9	0.9	0.7	–	–	–	–
Annual change	7.2	6.7	6.0	5.6	5.1	4.7	4.3	5.9	7.2	5.1	3.2

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