AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 13 November 2023

Editorial: Statement on Monetary Policy: no margin for surprises.

Australia: Q3 WPI, Westpac–MI Consumer Sentiment, business survey, labour force survey.

NZ: net migration, monthly price gauges, card spending, housing updates, Q4 household expectations survey.

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

Europe: industrial production, trade balance.

UK: CPI, retail sales.

US: CPI, retail sales, industrial production, regional manufacturing surveys, housing starts and permits.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 10 NOVEMBER 2023.

WESTPAC INSTITUTIONAL BANK

Statement on Monetary Policy: no margin for surprises

The RBA's Statement on Monetary Policy elaborates on the reasoning behind this week's decision to raise the cash rate. Underlying inflation has not declined as fast as the RBA expected a year ago or three months ago. The inflation forecasts have been revised up and most of the risks are to the upside, including domestic services inflation, rising medium-term inflation expectations and weak productivity boosting growth in effective labour costs. The RBA highlighted their concerns about the higher inflation outlook by adding a graph showing both current and August forecasts for trimmed mean inflation in addition to the usual forecast-with-uncertainty-bands graph.

The RBA has been surprised by the resilience of domestic demand, especially outside the household sector; this is another factor that will tend to lift inflation. Near-term GDP growth is now expected to be stronger, with some of the resilience of business investment seen in the first half of 2023 carrying over into the second half. Our own forecasts embed a view that much of this first-half strength in equipment spending was a pull-forward to take advantage of tax breaks, which will not be repeated in the second half. Likewise, some of the strength was a catch-up as supply chain disruptions dissipated, a process that will come to an end at some point. On the other hand, more investment is needed to restore the ratio of capital to labour to earlier trends, and so support the needed improvement in productivity.

As flagged in the Governor's decision statement, the unemployment rate profile has also been revised down. It might be that the RBA is expecting more of the softening in labour market conditions to come through underemployment than previously thought. The labour market has clearly turned, though it remains tight; the SMP points to a range of indicators in support of this assessment, including youth and medium-term unemployment, as well as underemployment.

These upside revisions to the forecast have occurred despite a roughly ¼ percentage point higher assumed profile for the cash rate, based on market pricing and private sector forecasts. The peak is around 4½%, which does not imply that further increases after November's are baked in.

Central to these changes is the upward revision to assumed population growth. Both GDP growth and employment growth are about ½ percentage point higher in the forecast for 2024 than in the RBA's August forecasts. Because the extra population adds to both supply and demand, the effect on unemployment and (non-housing) inflation is marginal at best. There is, however, a significant effect on the housing market. The SMP text calls out the strong growth in rents, rising housing prices and increases in average household size in the major cities as being connected to this dynamic.

Despite the forecast upgrades, GDP growth is expected to remain slow. The household sector is being squeezed by the higher cost of living, rising tax take and, increasingly, the effect of higher interest rates. The consumption forecasts for 2024 were revised down noticeably (–0.3%points), with no growth payback in 2025. Given the higher population assumption, this is a material downgrade on a per person basis. It also aligns with what we are seeing in our Card Tracker data (see Westpac Senior Economist Matt Hassan's report earlier today).

The RBA notes that falling real household incomes are driving the weakness in consumer spending. The Bank's real household disposable income forecast for year to June quarter 2024 has been revised down 1½ percentage points to –1.1%. Such is the weakness in the income forecasts that even the current weak consumption forecasts can only be sustained with a near-zero household saving ratio in the first half of 2024.

It is hard to conceive how such an extended period of declining real incomes – even worse in per household terms – can coexist with a still-tight labour market. It is also a little hard to square the still-tight labour market and cost of living squeeze with the downward revision to the forecast path for wages growth and (in 2024) average earnings. While the forecast bounce-back in household incomes is also a bit sharper, the experience of the Australian household sector will stand in contrast to its counterparts overseas.

Most of the other changes speak to increasing concerns that inflation will not come down as quickly as the Board intends. The language around weak productivity growth continues to highlight inflation risks. The SMP overview states, "the forecasts assume that productivity growth will pick up, which will be needed for labour cost growth to be consistent with the inflation target". In August, the assumption was that productivity growth would return to pre-pandemic trends. The SMP text calls this out as being a particular issue for services inflation, which embeds a larger share of labour costs than do goods prices. Another important change in language in the SMP overview is the recognition that some measures of medium-term inflation expectations have risen a little lately.

Because services inflation has been so sticky, the RBA is also sceptical that disinflation abroad is assured. It believes that '[t]he risk that inflation takes even longer to return to target has increased.' On the other hand, the risks to global growth were held to be tilted to the downside. We agree, but there is a tension in how these risks sit together.

The Board considered both the case to hold and the case to increase rates at the November meeting. As we expected, the case to raise rates was stronger. The chance that the Board will need to do more, presumably in February, is also rising. The refreshed forecasts embed very little margin for upside surprises on inflation.

Luci Ellis, Chief Economist Westpac Group

This week, the RBA Board opted to raise the cash rate by 25bps to 4.35%. As detailed by Chief Economist Luci Ellis, this decision marked a direct response to persistence in inflation and upside risks to the outlook. The underlying tone of the real economy has shifted in recent months, the household sector exhibiting resilience against intense interest rate and cost–of–living pressures. This has, in part, contributed to the more worrisome inflation outlook, with the Board noting that "the prices of many services are continuing to rise briskly" and, regarding inflation's return to target, that "progress looks to be slower than earlier expected". Indeed, the RBA Board have revised up their inflation projections – from 3.3% to 3.5% in 2024 and 2.8% to 2.9% in 2025 – and now expect a firmer labour market, with the unemployment rate expected to rise to just 4.3% (previously 4.5%). A full update of the RBA's forecasts and assessment of risks is available in the just released November Statement on Monetary Policy.

On the outlook for policy, we are of the view that the RBA Board will not raise rates further from here. If the real economy continues to evolve as we anticipate, i.e. economic growth remains well below–trend and slack emerges in the labour market, inflation should continue to decelerate at pace. That will give the RBA Board confidence that policy is working as intended, shifting the focus towards when it is most appropriate to begin easing policy, which we anticipate will be in Q3 2024. However, if there were to be further material upside surprises to the inflation outlook in the near–term – something that the RBA Board clearly has a low tolerance for – the risk of another interest rate increase is not dismissible. For more information on our views on the Australian economy and global outlook, see the November edition of Westpac's Market Outlook on Westpac IQ.

Moving offshore, Chinese annual CPI inflation fell back below zero in October to –0.2%yr as a result of deflation in food prices. Upward pressure on the CPI came from services where momentum has been accelerating the last few months. Consistent with the 2.6%yr decline in the PPI, the decline in consumer goods also endured. The potential impact of persistent weak inflation on the consumer mindset is likely being assessed by PBOC policymakers. Market participants expect a further 10bp reduction in the 1–year loan prime rate and 25bp cut in the Reserve Requirement Ratio in the near future. However, with the property sector outlook still highly uncertain, it will take a lot more stimulus for consumer demand to grow strongly on a sustainable basis.

Overnight, FOMC Chair Powell spoke at an IMF Panel on monetary policy. His remarks were balanced, recognising the significant progress made in the fight against inflation but also that 2% is still a long way away and that risks remain, and so if "it becomes appropriate to tighten policy further, we will not hesitate to do so". However, the "risk of overtightening" is also front of mind for the FOMC, particularly as the full effects of the tightening in monetary policy and financial conditions are yet to be felt. This was a point highlighted by the FOMC's Barkin this week and the latest Senior Loan Officers Survey which showed a further tightening of loan conditions and increased credit spreads. We expect both US economic activity and the labour market to soften in coming months; if inflation also continues to ease over the period, then the FOMC will have cause to ease from March to stop a further tightening in the real stance of policy. Financial conditions will also prove critical to this decision making process, however. If term yields fall further, the market could be argued to have done the FOMC's easing for it.

Chair Powell's speech is also interesting for its views on the potential implications for inflation of supply shocks and constraints. These are forces that threaten to hold inflation above target even with growth at or below trend. Balancing the risks between inflation and growth is set to remain a concern not only for the next few months, but into the medium term.

Week ahead & data wrap

The past week has been a relatively quiet one as far as local data and events were concerned, with New Zealand markets mostly tossed around by developments in offshore markets. Perhaps of greatest interest to a net energy importer like New Zealand has been a further sharp decline in the price of crude oil, with Brent now trading around $80/bbl compared to over $95/bbl just a few weeks ago. Should this decline be sustained, lower retail petrol prices will release disposable income that can be spent elsewhere in the economy. And at the margin, lower petrol prices will help to reduce inflation and inflation expectations.

On that score, the RBNZ's latest survey of business expectations – capturing the views of a small number of professional forecasters and business leaders – provided some moderately comforting news. The 1-year ahead expectation of inflation fell 57bps to a more than two-year low of 3.60%, while the 2-year ahead expectation fell 7bps to 2.76%. Both remain much higher than their pre-pandemic levels, but the RBNZ will welcome the direction of travel. Expectations of inflation at the 5-year and 10-year ahead horizon increased slightly. However, the RBNZ's research has indicated that incorporating long-horizon expectations does not improve the accuracy of forecasts of inflation.

Following on from last week's soft labour market news, Seek reported a further 5.6% decline in job advertising in October. The level of advertising is now 29.4% lower than a year earlier and well below trend levels. News from the manufacturing sector was even more downbeat this week, with the Business NZ manufacturing PMI declining a further 2.6pts to 42.5. This is the weakest outcome for a non-COVID affected month since May 2009, when the economy was still mired in the post-GFC recession. The output index fell to an even weaker 41.5, while the employment and new orders indexes fell to 43.3 and 44.1 respectively. Given the focus of New Zealand's manufacturing sector, we think that the weakening trend likely owes in part to the steep decline in dwelling consents over recent months, which portends a looming slowdown in construction activity.

Turning to the rural sector, the recent run of better dairy news was halted with the latest GDT auction producing a 2.7% decline in the price of whole milk powder. We remain comfortable with our forecast that Fonterra's farmers will receive $7.25 per kilo for their milk this season – a level that will leave many farmers in the red given high interest rates and on-farm costs. The past week has also seen an increasing focus of the plight of New Zealand's sheep farmers. Lamb schedules have declined to around $6.75 per kilo of late, down more than $2 from the same time last year. As with weakness in dairy prices, much of the weakness in prices for lamb can be traced to soft demand from China, while increased production in Australia is also hindering returns this year. Weak commodity prices mean that the rural sector will be a weight on economic growth over the coming year.

Finally, this week also saw the release of the interim government financial statements for the three months to September, providing the first insight into how the fiscal accounts are tracking in the new 2023/24 year. This provided some good news for the incoming government, with tax revenue running fractionally ahead of the heavily downgraded forecasts that were contained in the Pre-Election Economic and Fiscal Update. At face value, this suggests that we should not expect a further upward revision to this year's borrowing programme when the Treasury releases the Half-Year Economic and Fiscal Update next month.

Looking ahead to the coming week, on Monday BusinessNZ will release the Performance of Services Index for October. Following three months below the key 50-level, the index rebounded to a slightly expansionary reading of 50.7 in September, with the new orders index improving to its highest level since May. A sharp pick-up in responses from the Otago/Southland region and in the cultural/recreational industry hinted at the impact the ongoing recovery in foreign tourist arrivals. It will be interesting to see whether the improvement has been maintained, especially in light of this week's poor PMI survey.

On Tuesday, Statistics New Zealand will publish an expanded set of monthly CPI series for October. In addition to the usual update on food and dwelling rental prices, for the first time we will receive monthly data covering airfares, accommodation services, fuel prices (exclusive of discounts) and prices for tobacco and alcohol. The new data on airfares will be especially useful, as this is one of the more volatile and so difficult to forecast components of the quarterly CPI report.

A busy Wednesday will begin with REINZ releasing its housing report for October. After allowing for seasonal effects, house sales fell, and prices moved sideways in September. We suspect that the proximity of the General Election played a role in suppressing activity in September, and this may have also been at play in the first half of October. Indeed, figures published this week by Auckland's largest real estate agency indicated a further small decline in their sales in October (after allowing for seasonal effects), which nonetheless remained well above the exceptionally low levels reached a year earlier.

Later that morning, we expect news of another large inflow of migrants in September. Of greater importance will be whether there is a repeat of the recent pattern of large upward revisions to previous months – revisions that lifted the annual inflow to a record 110,000 people in August. Electronic card transactions data for October will also command attention, especially after the very soft consumer spending that was reported in September. Meanwhile, the RBNZ will release the results of its latest survey of household inflation expectations. The RBNZ's research has indicated that amongst all measures of inflation expectations, year-ahead household inflation expectations add the most explanatory power to forecasts of inflation.

The week will close with the release of the annual national accounts for the year to March 2023 and the business price indexes for the September quarter. At least through the June quarter, the latter have pointed to a significant moderation in the pace of increases in firms' non-labour costs, and we expect that this trend will have remained intact through the latest quarter despite higher energy-related costs. Finally, we are hopeful that coalition negotiations to form the next government will have concluded by the end of next week. If so, the focus for the market will be on what policy trade-offs have been made to secure the agreement.

Darren Gibbs, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 6	Oct ANZ commodity prices	1.4%	2.9%	–
Wed 8	GlobalDairyTrade auction (WMP)	4.2%	-2.7%	-1.0%
	Q4 RBNZ inflation expectations	2.83%	2.76%	–
Fri 10	Oct manufacturing PMI	45.1	42.5	–

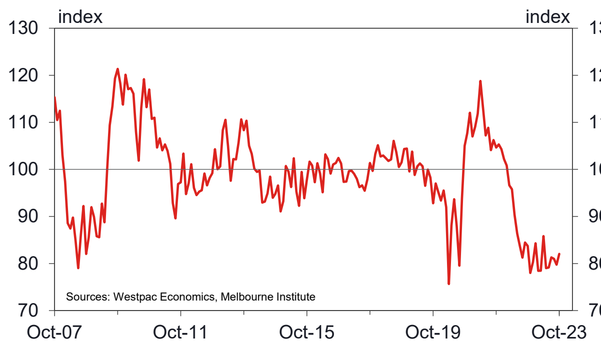
Aus Nov Westpac-MI Consumer Sentiment

Nov 14, Last: 82.0

Consumer sentiment rose 2.9% in October but has been basically bouncing around the bottom of a deep slump since the second half of last year. At 82, the October Index read is still very pessimistic. While there are some faint glimmers of hope around family finances and the outlook for jobs, these continue to be overshadowed by cost of living and interest rate rise concerns.

The November update will capture the sentiment impact of the RBA's decision to raise the official cash rate by 25bps at its November Board meeting – the move coming after a four month pause. Cost of living issues are likely to remain front-and-centre as well given the material upside surprise from the September quarter CPI update that triggered the RBA's move. The deteriorating geopolitical situation in the Middle East may also have some bearing on confidence at the margin.

Consumer Sentiment Index



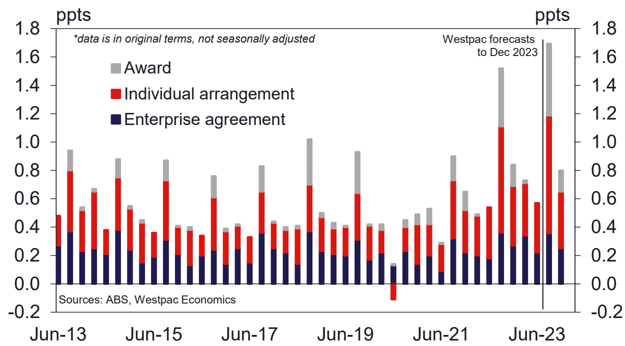
Aus Wage Price Index (%qtr)

Nov 15 Last: 0.8%, WBC f/c: 1.3%
Mkt f/c: 1.3%, Range: 1.2% to 1.5%

Wages gained just 0.8% in June, softer than market expectation for a 0.9% lift; the bottom of the forecast range in Bloomberg's analysts survey was 0.8%. Wage inflation has been quite disappointing compared to just how tight the labour market is and the announced outsized gain in the minimum wage this year. It is true that the increase in the minimum wage is not applied till July 1st, so its main impact will appear in the September quarter, but we had thought it should have some signalling impact on near-term wage bargaining.

Our forecast is for a minimum wage increase boosted rise of 1.3% (in seasonally adjusted terms) which would be 1.7% in original terms. While all wage bargaining groups will see an outsized wage in September of 1.7% increase, almost a 1/3 will come from awards even though they represent just 16% of the workforce. Contrast that with individual arrangements which represent more than half the workforce and yet their contribution will be less than half.

Wage inflation contributions



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

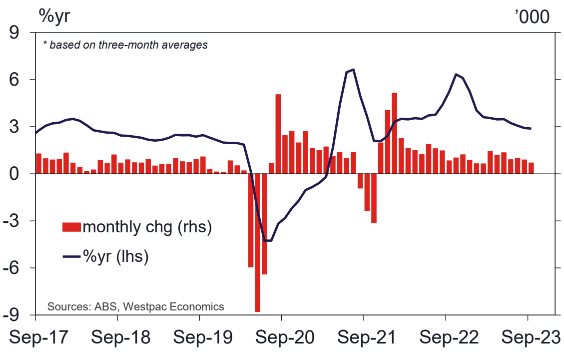
Nov 16, Last: +6.7k, WBC f/c: +25k
Mkt f/c: +24.5k, Range: –8.7k to +45k

In September, employment was softer than anticipated, rising just 6.7k. Abstracting from month-to-month volatility, employment growth's pace has moderated from +48k/mth in March, to +30k/mth in June, now to +23k/mth in September.

While employment is tracking a gradual softening, there are clearer signs of softness emerging from hours worked. In essence, employers are less willing to provide hours but are not yet materially reducing their workforce. This provides another signal that the Australian labour market is at a turning point – no longer tightening, but it is yet to begin slackening to a significant degree.

Our 25k forecast for employment leaves the three-month average pace of employment growth around-trend or modestly below trend, depending on the measure. We anticipate that the labour market will remain tight into year-end, before clearer weakness in employment growth begins to take hold in 2024.

Employment growth is gradually moderating



Aus Oct Labour Force – unemployment rate (%)

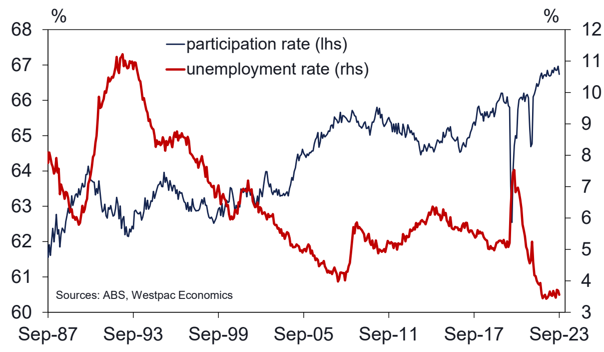
Nov 16, Last: 3.6%, WBC f/c: 3.6%
Mkt f/c: 3.7%, Range: 3.5% to 3.8%

After a fresh record high print of 67.0% in August, the participation rate pared back to 66.7% in September and the unemployment rate fell from 3.7% to 3.6%.

The large fall in participation is notable, as that saw the labour force contract by –13.1k. This was the largest decline in the labour force since the 'delta' outbreak in Q3 2021 – a fairly uncommon occurrence in the midst of a migration-driven surge in labour force growth.

For October, we expect the participation rate to nudge up to 66.8% and the unemployment rate will hold flat at 3.6%. Our focus will also be on various measures of underutilisation within the survey, measures that tend to be more insightful at turning points in the labour market.

Participation dips from post-WWI record high



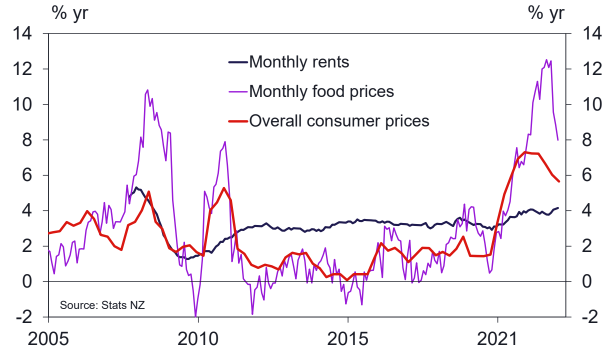
NZ Oct food prices and other monthly price gauges

Nov 14

From this month Stats NZ will be releasing an expanded suite of monthly price data. In addition to information on food prices and housing rents which they have already been providing, Stats NZ will now also provide monthly information on alcoholic beverages and tobacco, petrol and diesel, domestic and international airfares and accommodation services.

As prices for many of these goods and services can be volatile, they are often excluded when looking at 'core' measures of inflation. However, combined they account for around 44% of household spending. This information will help remove some of the uncertainty around the quarterly CPI result.

NZ consumer prices



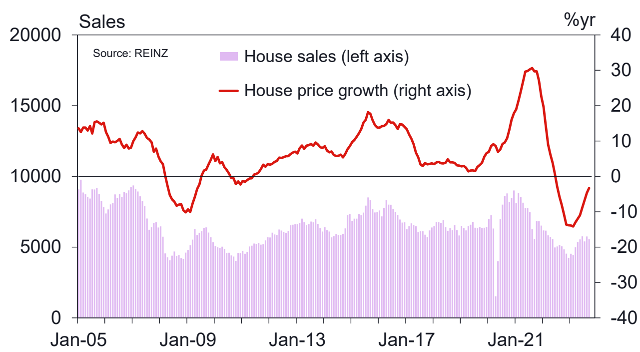
NZ Oct REINZ house sales and prices

Nov 15, Sales* – Last: –3.4% mth, +5.1% annual
Nov 15, Prices* – Last: +0.1% mth, –3.3% annual
Monthly figures based on Westpac seasonal adjustment

New Zealand's housing market has found a base, but it isn't roaring away just yet. Sales have picked up in recent months, though they remain at low levels. Similarly, the sharp fall in house prices seen over the past year has been arrested with prices starting to nudge higher in some regions.

After a pause in September, we expect the firming in the housing market continued through October. In addition to strong population growth, real estate agents are reporting enquiries have picked up over the past month. Even so, we still expect that the recovery in the housing market will remain gradual for now, with increases in borrowing rates and (potentially) some lingering election related uncertainty in the first half of the month.

REINZ house prices and sales



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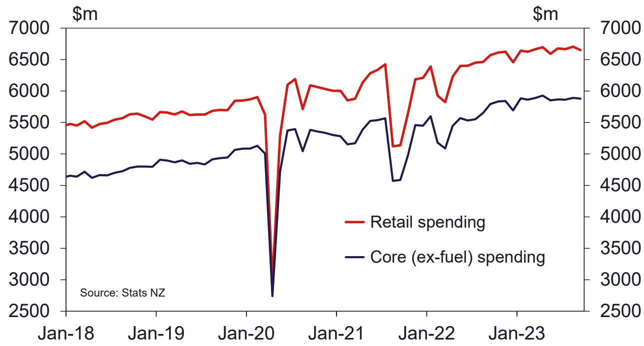
NZ Oct retail card spending

Nov 15, Last: –0.8%, Westpac f/c: +0.1%

Retail spending fell by 0.8% in September with widespread softness. Households' purchasing power has been significantly eroded by large increases in consumer prices, as well as related increases in financing costs.

We expect those financial headwinds will remain a drag on spending through the final months of the year, and are forecasting a muted 0.1% rise in retail spending in October. While the rapid increases in the population are providing a floor under spending, spending on items such as household durables is expected to remain soft.

NZ monthly retail card spending



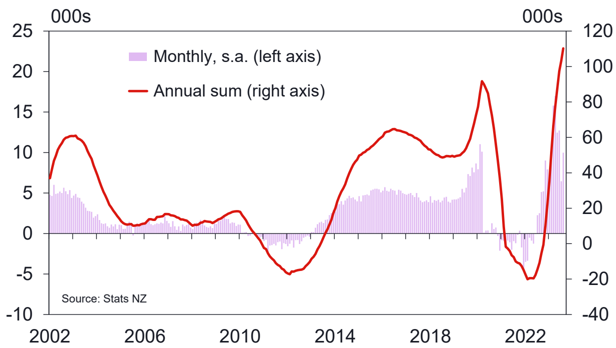
NZ September net migration

Nov 15, Last: +9,980 (s.a.)

Tightening financial conditions and weak commodity prices are weighing on the economy. However, a very large migrant inflow is providing considerable support to domestic demand and the housing market, while also allowing firms to address shortages of skilled labour.

Allowing for seasonal factors, net migrant inflows have slowed somewhat since peaking in April. Even so, with this month's net inflow likely to exceed that seen a year earlier, the annual inflow is likely to surpass the record 110,000 people reached in August. Indeed, the annual inflow could increase significantly if inflows in earlier months are revised higher, as has been the recent trend.

NZ net migration



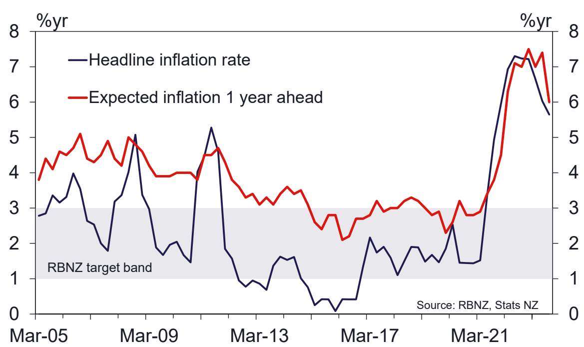
NZ RBNZ Household Expectations Survey

Nov 15, Last: Expected inflation one year ahead: +6.0%

The RBNZ looks at a range of measures when assessing how inflation expectations are evolving, including the expectations of households. The RBNZ's research has highlighted that, although they often overestimate how fast prices are rising, households' expectations tend to have greater explanatory power for inflation than surveys of business people.

As inflation has been easing, households' expectations for inflation have also fallen. We expect a further fall in November, especially as the survey comes on the back of the softer than expected September quarter inflation report. We'll also be watching how expectations for house prices and wages are evolving.

RBNZ Household Expectations Survey



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US Oct CPI (%mth)

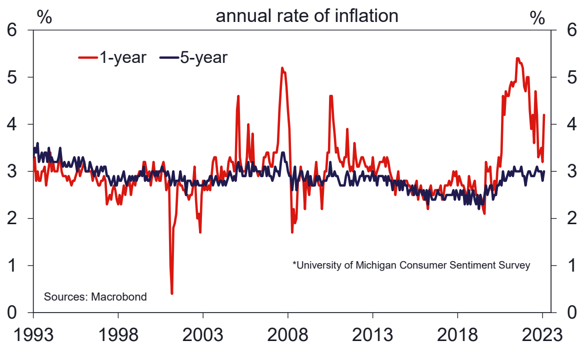
Nov 14, Last: 0.4%, Mkt f/c: 0.1%, WBC f/c: 0.1%

The oil price has experienced considerable volatility over the past two months as the market sought to price first the risk of OPEC+ oil production cuts then the potential for an escalation of the war between Israel and Hamas and, in recent weeks, concerns over global growth and consequently oil demand.

Come early November, the net result is an oil price significantly lower than that seen in October and September's highs. The Oct CPI report will include the first step down in this sequence, likely resulting in little–to–no growth in total consumer prices in the month and a material step down in the annual rate towards 3%. Another leg lower will be seen in the November report if spot is sustained.

Core price pressures continue to show a degree of persistence although, with the exception of shelter, slowly inflation risks excluding energy and food are receding. Shelter is due to decelerate based on market indicators, but this has been the case for some time.

Household expectations susceptible to oil



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 13					
Aus	RBA Acting Assist' Gov. (Economic)	–	–	–	Kohler, speaking at UBS Conference, 10:00am AEDT.
NZ	Oct BusinessNZ PSI	50.7	–	–	Set to remain low in the face of tight financial conditions.
Tue 14					
Aus	Nov WBC–MI Consumer Sentiment	82.0	–	–	Will capture the sentiment impact of the RBA's Nov rate hike.
	Oct NAB business survey	11	–	–	Cost & price pressures eased in Sep, as conditions moderated.
NZ	Oct monthly price indicators	–	–	–	Stats NZ to release expanded set of month price gauges.
	RBNZ Assist' Gov. Silk	–	–	–	Speech on balance sheets and financial stability.
Eur	Q3 GDP	–0.1%	–0.1%	–	Second estimate.
	Nov ZEW survey of expectations	2.3	–	–	Rate hikes weighing on sentiment.
UK	Sep average weekly earnings %yr	8.1%	8.3%	–	Sustained lift in wage inflation remains a concern.
US	Oct CPI	0.4%	0.1%	0.1%	Services inflation to keep pressure on headline inflation.
	Oct NFIB small business optimism	90.8	–	–	Costs keeping businesses pessimistic.
	Fedspeak	–	–	–	Jefferson and Goolsbee.
Wed 15					
Aus	Q3 WPI	0.8%	1.3%	1.3%	Sep qtr lift boosted by an outsized minimum wage increase.
NZ	Oct REINZ house sales %yr	5.1%	–	–	Firming in housing market to continue but…
	Oct REINZ house prices %yr	-3.3%	–	–	… high interest rates acting as a brake on demand.
	Sep net migration	9980	–	–	A large inflow is likely; also watching for upward revisions.
	Sep retail card spending	–0.8%	–	0.1%	Financial headwinds weighing on spending.
	Q4 Household Expectations Survey	6.0%	–	–	Expectations to fall again following the drop in the inflation.
Jpn	Q3 GDP	1.2%	–0.1%	–	Net exports likely a drag; consumption will remain fragile.
Chn	Oct retail sales ytd %yr	6.8%	6.9%	–	Chinese consumers remain cautious.
	Oct industrial production ytd %yr	4.0%	4.1%	–	Asian demand is keeping production up.
	Oct fixed asset investment ytd %yr	3.1%	3.1%	–	Ex-property to show strength, property remains in slumber.
Eur	Sep industrial production	0.6%	–	–	Cars are a bright spot.
	Sep trade balance €bn	11.9	–	–	Asian demand added strength to exports.
UK	Oct CPI %yr	6.7%	–	–	Simmering goods inflation to aid disinflation.
US	Oct retail sales	0.7%	–0.3%	–	Pullback in consumer spending likely after surprise lift.
	Oct PPI	0.5%	0.1%	–	Oil price movements in October could feed through to PPI.
	Nov Fed Empire state index	–4.6	–2.1	–	Little reason to be upbeat about manufacturing.
	Sep business inventories	0.4%	0.4%	–	Uncertain demand outlook will keep inventories low.
Thu 16					
Aus	Oct employment change	6.7k	24.5k	25k	Hours worked is weakening as employment softens gradually…
	Oct unemployment rate	3.6%	3.7%	3.6%	… in line with low unemployment but rising underutilisation.
	Nov MI inflation expectations	4.8%	–	–	Provides a general view of risks.
Jpn	Sep core machinery orders	–0.5%	0.9%	–	Weakness in developed world demand weighing on orders.
US	Oct industrial production	0.3%	–0.4%	–	Downbeat manufacturing sentiment to see lower IP.
	Oct import price index	0.1%	–0.3%	–	Strong dollar keeping import prices low.
	Initial jobless claims	217k	–	–	To remain low, for now.
	Nov Philly Fed index	-9	-11	–	Regional indicators to show weakness in manufacturing…
	Nov Kansas City Fed index	-8	–	–	… sentiment as demand softens.
	Nov NAHB housing market index	40	40	–	Low inventory slows sales.
	Fedspeak	–	–	–	Mester, Williams and Barr.
Fri 17					
Eur	Oct CPI %yr	2.9%	2.9%	–	Final estimate.
UK	Oct retail sales	–0.9%	–	–	Rate hikes weigh in on discretionary spending.
US	Oct housing starts	7.0%	–0.6%	–	Tight financial conditions are dissuading residential…
	Oct building permits	–4.5%	–1.4%	–	… construction adding risks to pipeline of work.
	Fedspeak	–	–	–	Collins, Goolsbee and Daly.

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 (10 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	4.35	4.35	4.35	4.35	4.10	3.85	3.60	3.35
90 Day BBSW	4.40	4.55	4.55	4.47	4.22	3.97	3.72	3.47
3 Year Swap	4.44	4.50	4.40	4.30	4.20	4.10	3.90	3.70
3 Year Bond	4.24	4.30	4.20	4.10	4.00	3.90	3.70	3.50
10 Year Bond	4.64	4.70	4.60	4.50	4.40	4.30	4.15	4.05
10 Year Spread to US (bps)	2	–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	4.62	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	5.62	5.85	5.85	5.85	5.85	5.75	5.50	5.20
2 year swap	5.33	5.79	5.67	5.50	5.29	5.08	4.86	4.65
10 Year Bond	5.12	5.45	5.45	5.40	5.30	5.15	4.90	4.80
10 Year spread to US	50	65	75	80	80	75	70	70

Exchange rate forecasts

Australia	Latest (10 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
AUD/USD	0.6367	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD/USD	0.5896	0.60	0.61	0.62	0.62	0.62	0.63	0.63
USD/JPY	151.33	149	147	144	141	138	135	132
EUR/USD	1.0669	1.08	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.2224	1.23	1.24	1.25	1.26	1.27	1.28	1.30
USD/CNY	7.2849	7.20	7.10	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.0800	1.09	1.10	1.11	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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