AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 11 December 2023

Editorial: The RBA's new Statement on the Conduct of Monetary Policy.

RBA: Governor Bullock speaking at AusPayNet Summit.

Australia: Westpac-MI Consumer Sentiment, Federal MYEFO, labour force survey, business survey.

NZ: Q3 GDP, current account, monthly price indices, retail card spending, house prices and sales.

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

Eurozone: ECB policy decision, industrial production, trade balance.

UK: BoE policy decision, trade balance.

US: FOMC policy decision, CPI, PPI, retail sales, industrial production.

Global: S&P Global PMIs.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 8 DECEMBER 2023.

WESTPAC INSTITUTIONAL BANK

The RBA’s new Statement on the Conduct of Monetary Policy

Recently a parliamentary committee released a report into a central bank’s performance. It concluded that the central bank in question had made significant errors in its conduct of monetary policy in recent years. It expressed concerns about a ‘perceived lack of intellectual diversity’ in the central bank and a culture of ‘insufficient challenge’. It critiqued the overly broad and vague mandate, arguing that a ‘democratic deficit has emerged’, where ‘critically important economic decisions are delegated to unelected officials’. The report therefore called for a five-yearly review of that central bank’s remit.

While this might sound familiar in the context of the RBA Review released earlier this year, the report was in fact by the UK House of Lords Economic Affairs Committee, about the Bank of England. Making an independent Bank of England work better (parliament.uk)

The RBA has also been through the review process recently, with very similar findings and recommendations. Today’s release of a refreshed Statement on the Conduct of Monetary Policy marks a further step in the response to that review; the previous Statement was released in September 2016, when the previous Governor took over. There are few surprises in the new document, but several noteworthy changes.

The first comes in the first paragraph. Rather than recording the common understanding of the Governor as Chair of the RBA Board, and the Government, the new Statement frames this common understanding as being of the Board as a whole and the Government. This lines up with the thrust of the RBA Review’s recommendations to make the Board have more ownership and accountability for monetary policy decision rather than centring all the focus on the Governor. Other changes in this vein include the publication of unattributed votes, and of Board papers with a five-year lag. This shift also presumes that the Board will have more capacity to challenge the Governor and staff.

A further layer of challenge comes from the changes to the appointment process for Board members. Currently nominations come from a register of ‘eminent candidates’ maintained by the Secretary of Treasury and the Governor. The new Statement adds an ‘independent third party’ to the group maintaining a ‘shortlist of candidates’ who should have the ‘right balance of skills and experience to best discharge [the Board’s] functions’. The RBA Review suggested that the third party could be an outside expert, but they could also be a past Board member or the Chair of the Governance Board. Since the Governor is to be the Chair of the Governance Board, this third nominator needs to be an outsider. The Statement was not the place to give examples of who that could be. If not a former Board member, though, the creation of this role removes somebody from the pool of potential Board members.

Similarly, the expert advisory group on monetary policy to be convened by the Board presumes that there are enough such (unconflicted) outside experts available to serve. Expect at least some of these experts to be drawn from overseas, and so be less expert about the differences between Australia’s institutions and those abroad.

The revised Statement does not change the RBA’s flexible inflation target in a material way. The 2–3% band is validated, with the Statement declaring that ‘all outcomes within the target range are consistent with the Reserve Bank Board’s price stability objective.’ In the very next sentence, the Statement goes on to say, ‘The Reserve Bank Board sets monetary policy such that inflation is expected to return to the midpoint of the target.’ This could be interpreted as mandating that policy should always be set so that the endpoint of the inflation forecast should be 2.5%. Since that is not currently the case, some observers might think this implies that the RBA now needs to get inflation down faster than its recent statements imply, with hawkish implications for interest rates.

In our view that would be a misreading of the intent of this change. The length of the RBA’s published forecasts has been defined by the capacity of its past forecasting technology. As modelling approaches have improved and expanded, it is entirely possible for the RBA to publish a longer horizon for its forecasts and show inflation returning to 2.5% on a longer trajectory.

We can therefore expect the RBA to start publishing longer-run forecasts, at least from time to time. In doing so it will need to decide how to represent uncertainty around those longer horizons. The RBA currently does this by showing error bands around its forecasts based on its own past forecast errors. This is good practice, but it cannot be done for forecast periods that go beyond the length of its past published forecasts. A new, perhaps hybrid, approach must be found.

Along with longer forecasts, the Statement announces that the RBA has agreed to publish more detailed forecasts, including assessments of potential output and full employment. It should be noted that in the past the RBA has not tended to emphasise the unobserved concept of potential output and the output gap in its communication. This shift will bring it more into line with practice at some other central banks. How that fits in with the intent to reduce groupthink remains to be seen.

Consistent with the recommendations of the RBA Review and the proposed changes to the Reserve Bank Act, the Statement clarifies the Bank’s full employment objective to be ‘sustained full employment, which is the current maximum level of employment that is consistent with low and stable inflation.’ This is essentially the NAIRU (non-inflation accelerating rate of unemployment) from economic theory. The Statement’s recognition that ‘full employment is not directly measurable and changes over time’ is therefore welcome.

The financial stability responsibilities of the RBA have been revised as well, though the substance of the section is little changed. The Statement does not mention the RBA’s role as chair of the Council of Financial Regulators and the text could even be read to imply that the RBA need not be a member. While we do not regard that as the Statement’s actual intent, it is an interesting omission.

Since the publication of the previous Statement in 2016, the RBA has joined the ranks of central banks that have used unconventional policy tools such as Quantitative Easing (that is, buying bonds and other assets). These policy tools sparked considerable concern in the House of Lords report, but in the Australian context, the Government has been content for the Board to ‘use its judgement to determine what these tools are, when they are needed and how they are to be deployed most effectively.’ To ensure transparency and accountability, in the Statement the Board undertakes to ‘communicate a framework to guide the use of additional monetary tools, including the benefits, costs and risks associated with available tools.’ No timetable is set for the publication of this framework. Much of this work had already been done and articulated in speeches and other public documents. We can nonetheless expect to see more formalised and structured documents capturing any new analysis on these issues.

“Luci Ellis is a member of the Australian Statistics Advisory Council (ASAC) which is a key advisory body to the Minister and the Australian Bureau of Statistics on statistical services. Luci does not have access to sensitive data/ reports in her capacity as a member of ASAC.”.

The other main set of changes in the Statement relates to the role of Treasury. For all the language added to the first section about the importance of the RBA's independence, the Review and the new Statement tighten the relationship between the RBA and Treasury. Some of this is welcome, for example the commitment to work together to better understand the joint effect of monetary and fiscal policy. Setting out an explicit responsibility for the Secretary to the Treasury to 'provide independent insight on the outlook for the economy and fiscal policy' is also welcome as good practice. But there are other areas where the increased role of Treasury has less obvious benefits. For example, the Statement sets out that there shall be a review of the RBA's monetary policy framework and tools every five years. Unlike other central banks' regular reviews, this will be done jointly with Treasury. This sits uncomfortably with the concerns expressed by the House of Lords about the Bank of England being overly dominated by UK Treasury perspectives and former Treasury staff.

Based on the revised Statement, we expect to see more detailed – and possibly longer – forecasts in the February Statement on Monetary Policy, and unattributed votes in the February decision statement. The formation of the expert panel and independent member of the Board appointment panel will probably take a little longer.

Luci Ellis, Chief Economist Westpac Group

Q3 GDP for Australia surprised to the downside, printing 0.2% (2.1%yr). Relative to expectations, the key disappointment in the quarter was consumer spending, unchanged in Q3 after just a 0.1% gain in Q2. Per capita consumption growth is in the realm of –2.0%yr, second only to the GFC experience. Interest costs and tax payments are putting households under significant pressure, the drag from the latter being the largest ever recorded. Together these detractors wiped out a robust gain in nominal gross income in Q3. Also accounting for inflation, real disposable income has deteriorated materially (–4.3%yr).

Elsewhere in the domestic economy, public demand was a key contributor to growth, rising 1.4% in the quarter. In part this explains some of the weakness in consumption – government subsidies reducing the cost of electricity for households. That public investment meanwhile extended its uptrend (+12%yr) reflects the pursuit of capacity to meet the needs of a growing population. The impetus seen in business investment H1 2023 is, in contrast, fading after the expiration of generous tax incentives. From 2.5% in Q2, quarterly growth in business investment is now just 0.6%.

On trade, Australia's current account balance fell from a surplus of $7.8bn in Q2 to a slight deficit of –$0.2bn in Q3. That was primarily driven by a moderation in the trade position as the terms of trade continued to slip (–2.6%), a trend that extended into October for goods. In real terms, the decline in export volumes (–0.7%) in Q3 was met with a lift in imports (+2.1%), leading net exports to subtract a material 0.6ppts from GDP in the three months to September.

As detailed by Chief Economist Luci Ellis, the RBA's decision to leave policy unchanged earlier in the week was unsurprising given the constructive dataflow ahead of the decision. The Board's patience – to allow careful assessment of the dataflow – was further justified by the picture the National Accounts painted of the household sector.

Westpac remains of the view that the RBA does not need to tighten any further. The Q4 CPI still holds some risk; but with the consumer clearly pulling back on discretionary spending in response to higher interest rates and a growing tax burden, not only is the Q4 CPI likely to show softer momentum, but the detail is also expected to imply persistence in this downtrend through 2024.

Before moving offshore, a final note on housing. October's housing finance data showcased a 5.6% bounce in the value of owner-occupier loan approvals, centred on a surge in construction-related lending (+9.1%) and, to a lesser extent, loans for the purchase of existing dwellings (+4.6%). Highlighting the price-led nature of the cycle thus far, the volume of total owner-occupier loans is little-changed from last year (–0.6%) whilst the total value of loans has lifted 12.1% over the same period. Affordability will continue to have a significant bearing on housing market outcomes in 2024.

Offshore, North America was in focus.

The Bank of Canada kept rates steady at 5% in December. The statement noted "the economy is no longer in excess demand", implying that monetary policy is achieving its aims. Despite this, the Governing Council are still cautious on risks to wages and inflation and so "remains prepared to raise the policy rate further if needed". Arguably, the BoC are keen to restrain market participants from pricing in rate cuts too soon, thereby easing financial conditions and risking additional momentum in inflation. Having already had to resume rate hikes once, they won't want a repeat. Elevated wage growth is the primary risk for inflation, but it is receding as job creation and vacancies slow.

South of the border, US data pointed to a gradual easing in activity and the labour market. Factory orders fell 3.6%mth, with weakness in both durable and non-durable goods. Weaker demand sets the stage for a continued cooling of the labour market. The job openings rate declined 0.3ppts in October while hiring and separation rates were broadly stable, in line with pre-pandemic levels. The official US employment report is out tonight; but, ahead of that release, the services ISM this week, and other business surveys previously, pointed to downside risks for employment from November.

Week ahead & data wrap

The dataflow in New Zealand this week was very light which left the markets focused on developments offshore as well as further ruminations on the hawkish message the RBNZ sent the week before last. Markets seem to have accepted the idea that the RBNZ is not looking at any near-term change in policy direction, hence near-term expectations for the Official Cash Rate have proved to be well anchored around 5.5%. Further out, views have been more influenced by the direction of offshore markets where there is a growing view that official interest rates will be cut, perhaps quite significantly, by the end of 2024.

While interest rate markets have been relatively placid domestically this week, we do see some more interesting trends in the NZD FX market which seem to reflect expectations of the relative stance of monetary policy. Overall, this week the NZD stayed stable on a trade weighted basis at around 71.8. More generally the NZD has been well supported given the weaker trend in the USD of late and the RBNZ's relatively hawkish policy stance (the TWI is around 1.5% higher than the RBNZ assumed for early 2024). However, we see some divergent performances of the NZD on the crosses where the NZD has lifted against currencies where policy rate expectations have fallen more in the last week (for example the Euro and the AUD). In contrast, the NZD has fallen versus the Japanese Yen where there is a growing sense that the Bank of Japan might finally lift their policy rate out of negative territory.

This week, we released our inaugural Retail Spending Pulse report which looks at the card spending data from our customer base. It shows that spending growth has continued to slow in recent months in line with the trends we have seen in the broader economy this year. The slowdown in spending is most notable in 'nice to have' or discretionary items, with households increasingly focused on value for money. These trends point to soft spending appetites heading into the holiday shopping season. Watch this space for further insights from this rich database.

Next week, there is a lot more important data on the calendar. Of particular interest to the RBNZ will be the November migration and REINZ housing market data. Both indicators will be important in determining the resilience of the migration cycle (we expect a further rise in the annual total net migration figures to new record highs and perhaps some further upward revisions to historical data as has been the trend of late) and its contribution to domestic demand. The housing market took a pause in the last couple of months around the election – it will be interesting to see if there a resurgence now we are closer to the peak house selling season and clear of the election. The monthly selected price indices will also be closely watched to see the extent of any reversal of the fall in food and tradables prices seen last month, as well as for signs of any moderation in rents.

The September quarter GDP data on Thursday is likely to be the premier event of the week. We think that this is likely to show that the economy largely treaded water in the September quarter. Specifically, we've pencilled in a modest 0.1% decline in output, which is unchanged from the early estimate we made in late October in our updated Economic Overview. This follows a 0.9% lift in output in Q2 (at least as currently measured), that in part reflected a rebound in activity from a weather-impacted Q1, but also reflected a strong lift in activity in the government sector. Our estimate is weaker than the 0.3% lift in output factored into the RBNZ's November Monetary Policy Statement. In addition, we note that Statistics NZ have indicated that the net impact of annual benchmark and other revisions will be to lower annual average growth by 0.5ppts in the year to March 2022 and to raise annual average growth by 0.1ppts in the year to March 2023. So subject to any further revisions associated with the release of the September quarter report (including potential revisions to the June 2022 quarter), revisions are set to modestly lower the level of real activity compared to that estimated previously. And if growth in the September quarter proves weaker than the RBNZ estimated last month, this would indicate the potential for the RBNZ to lower its estimate of the positive output gap that prevailed in that quarter. At the margin, this would lower the prospect of a rate hike, at least as soon as February.

Finally, this week we issued our preview of the Half Year Economic and Fiscal Update (HYEFU) which has been announced for 20 December. The RBNZ called out the fiscal stance as a reason for why further interest rate increases might be required. We don't expect the HYEFU to show marked changes to the picture depicted in the PREFU in September. At the margin we expect that the Government will assume further expenditure cuts to balance their tax cuts and other spending initiatives implied by the final coalition agreement. Hence the OBEGAL and bond program projections should look no worse than the previous government was assuming and perhaps a bit more restrictive in future years in line with the more conservative fiscal credentials the Coalition partners campaigned on. The most interesting data item will be projections of the fiscal impulse which will encompass the OBEGAL projections and investment spending requirements. There has been commentary from the new Minister of Finance about "fiscal snails" lurking in the government's books – and we suspect this might relate to underfunded future investment spending commitments. If these commitments are significant, and can't be offset by other savings, this will make the RBNZ less comfortable that fiscal policy will be helping reduce medium term inflation pressures.

Kelly Eckhold, Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 4	Q3 terms of trade	0.3%	–0.6%	–2.5%
Tue 5	Q3 building work	1.9%	–2.4%	–1.4%
	Nov ANZ commodity prices	2.8%	–1.3%	–
Wed 6	GlobalDairyTrade (WMP)	1.9%	2.1%	2.0%

Aus Federal Mid-Year Budget (MYEFO)

Date TBC, 2023/24 –$13.9bn

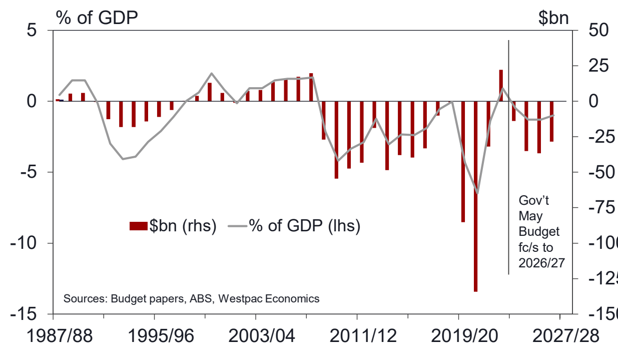
The Federal budget moved into surplus in 2022/23, with an outcome of $22.1bn (upgraded from the estimated $4.2bn as at May).

The government expects a return to deficit in 2023/24, with the May forecast of –$13.9bn. The Mid-Year Economic & Fiscal Outlook (MYEFO), to be released this week (date tbc), will see the government upgrade that forecast – to a small deficit.

Revenue to October is $8.4bn ahead of forecast (and the budget balance is $9.1bn ahead) on upsides to population, jobs, and commodity prices. With commodity prices to remain well above the lows assumed in budget figuring, Westpac expects the budget will remain in surplus in 2023/24, on current policy and program costs.

MYEFO is unlikely to unveil major new initiatives, that will occur in the May 2024 Budget. MYEFO will include economic and fiscal projection updates, as well as any program cost revisions (e.g. NDIS), and recent policy decisions (e.g. infrastructure re-profiling, deals with the states on GST top-up payment, hospital funding and NDIS).

Federal budget: underlying cash balance



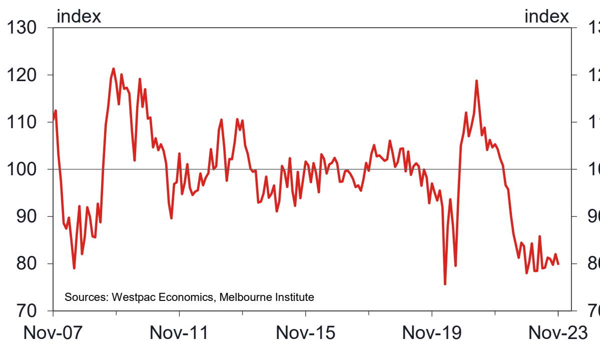
Aus Dec Westpac-MI Consumer Sentiment

Dec 13, Last: 79.9

Consumer sentiment fell 2.6% in November, knocked back by disappointing inflation reads and the RBA's November rate hike which put renewed pressure on family finances and reignited concerns about further cost of living and rate increases to come. Sentiment had seen a slight improvement over the previous four months, when the RBA paused its tightening cycle.

The RBA opted to leave the official cash rate unchanged at its December Board meeting but retained a clear tightening bias. Other developments have been mixed: the October Monthly CPI Indicator suggesting inflation eased a touch but the September quarter national accounts showing weaker than expected growth, particularly around consumer demand with household incomes remaining under intense pressure.

Consumer Sentiment Index



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

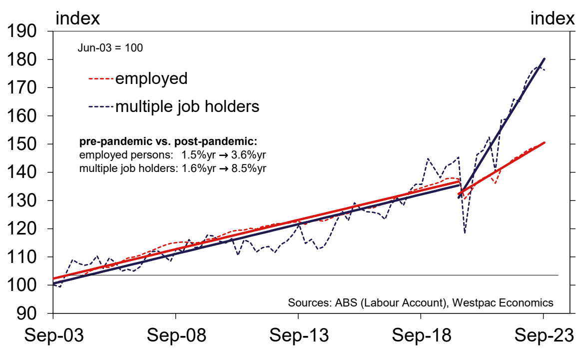
Dec 14, Last: 55.0k, WBC f/c: +25k
Mkt f/c: +10k, Range: –30k to +30k

In October, employment was stronger than anticipated, rising 55.0k. This result follows a sequence of 'hot-and-cold' prints over the last few months, but overall, it has lifted the three-month average pace from +33k/mth in July to +44k/mth in October.

The 2023 Australian Indigenous Voice referendum has been considered as a possible explanation behind the upside surprise. However, history tells us that previous referendums and major voting events have not had a major impact on employment (possible due to many election officials already being in employment when they take on these additional roles).

For that reason, we do not anticipate a post-referendum "let-down" in employment. Rather, our above consensus forecast for a 25k lift in employment speaks to the fact that employment's momentum continues to outpace expectations, and we think that will remain the case over the near-term.

Multiple job holder post-pandemic boom



Aus Nov Labour Force – unemployment rate (%)

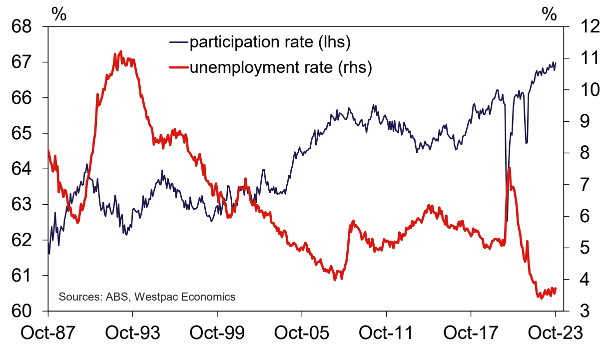
Dec 14, Last: 3.7%, WBC f/c: 3.7%
Mkt f/c: 3.8%, Range: 3.6% to 3.9%

Having just fell to 66.7% in September, the participation rate staged a return to its recent record high, back up to 67.0% in October. That saw the labour force expand by a sizeable +82.9k, outstripping the gain in employment, seeing the unemployment rate round up to 3.7% – a rate seen at multiple instances throughout the past year.

The labour market is clearly past its tightest point and it is slackening only marginally. For November, we expect the participation rate to pare–back slightly to 66.9%, resulting in the unemployment rate holding flat at 3.7%.

The evolution of underemployment and hours worked will continue to provide important signals of current dynamics – employers have shown a propensity to adjust work hours before determining whether a change to the size of the workforce is necessary.

Participation returns to post-WWI record high



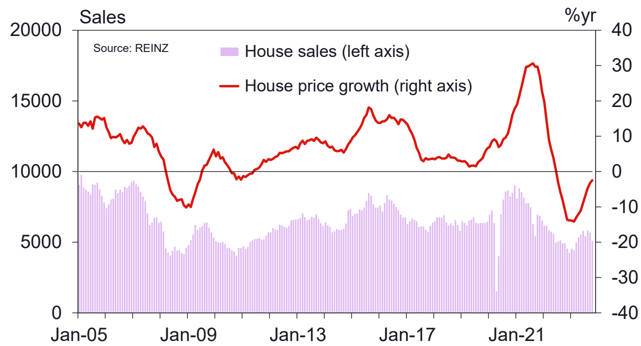
NZ Nov REINZ house sales and prices

Dec 11 (TBC), Sales* – Last: –10.1%mth, +8.0%yr
Dec 11 (TBC), Prices* – Last: –0.4%mth, –2.5%yr
***Monthly figures based on Westpac seasonal adjustment**

Since September, house prices have effectively tracked sideways. Similarly, while sales are off their earlier lows, they haven't been rising. In part, this 'pause' in the housing market may have been related to the timing of October's election. In addition, the past month saw borrowing costs pushing higher.

November's update is expected to show the housing market picking up again. Real estate agents are reporting that enquiries have increased over the past month. In addition, the new Government is set to introduce policies that will be supportive of investor demand. Even so, we still expect that the recovery in the housing market will remain gradual for now due to high borrowing costs.

REINZ house prices and sales



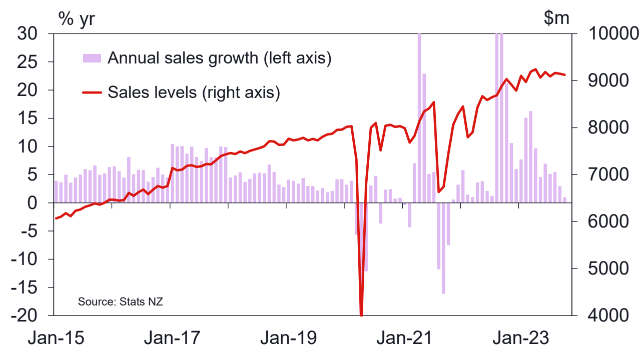
NZ Oct retail card spending

Dec 12, Last: –0.7%, Westpac f/c: +0.6%

Retail spending levels dropped 0.7% in October with widespread falls. That followed a similar decline in September. The softness in spending is notable as it comes at the same time as population growth is continuing to surge. Underlying this softness in spending has been tougher financial conditions, with continued large increases in consumer prices, as well as related increases in borrowing cost.

We expect that the November report will show a 0.6% rise in sales. Underlying that rise is an expected increase in durables spending in response to 'Black Friday' and other November sales events. However, that would still leave the longer–term softening in spending growth in place. We expect that softness will continue into the new year.

NZ monthly retail sales



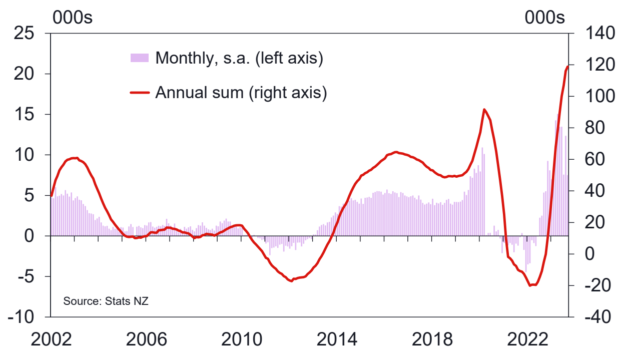
NZ October net migration (s.a.)

Dec 12, Last: +7,510

Tightening financial conditions and weak commodity prices have weighed on the economy. However, an increasingly large migrant inflow is providing considerable support to domestic demand and the housing market, and has become a key issue of concern for the RBNZ as it seeks to slow the economy and inflation.

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 119,000 people reached in September. 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 Nov selected price series

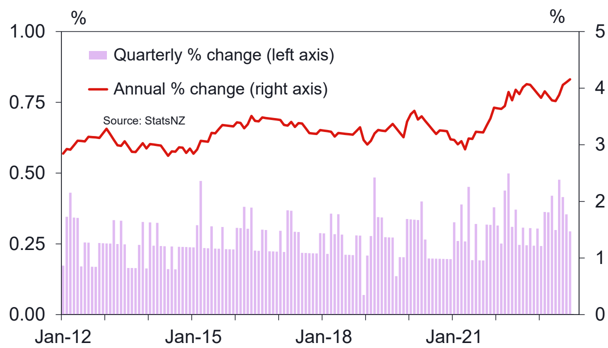
Dec 13

Stats NZ's expanded suite of monthly price data covers around 44% of the CPI. While much of this data relates to non-core categories (like prices for airfares), this information helps to remove much of the uncertainty around the prices of volatile items that can cause large swings in the CPI.

We expect that the November update will show a 1.4% fall in fuel prices, along with a seasonal 0.4% drop in food prices.

A key focus will be the update on rents, which has been an important concern for the RBNZ given the rise in migration. In line with recent trends, we are expecting a 0.4% rise over the month. That would leave rents up a solid 4.4% over the past year.

NZ housing rents



NZ Q3 GDP

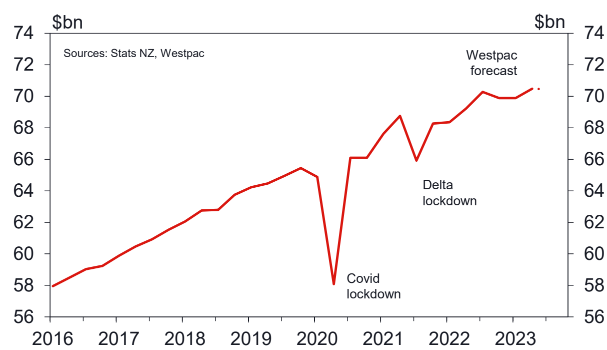
Dec 14, Last: 0.9%, Westpac f/c: –0.1%, RBNZ f/c: 0.3%, Mkt f/c: 0.2%

After rebounding in the June quarter – in part due to climatic factors – we expect that activity was little changed in the September quarter. Activity is likely to have been broadly flat in the primary sector. An increase in government–funded activity should have helped boost activity in the service sector, but we estimate that this has been offset by a sharp decline in activity in the manufacturing sector.

In the absence of revisions, we expect annual growth to slow to just 0.2%. Statistics NZ have indicated that the level of activity will likely be revised down modestly following the incorporation of new annual benchmarks and other measurement improvements, but these revisions appear to be focused in the 2021/22 year.

Our forecast is slightly below that of the market and more so the RBNZ. Taken together with the signalled revisions, our forecast implies a slightly less positive output gap than the upgraded estimate contained in the RBNZ's November MPS.

NZ production-based GDP



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

DATA PREVIEWS

US Nov CPI

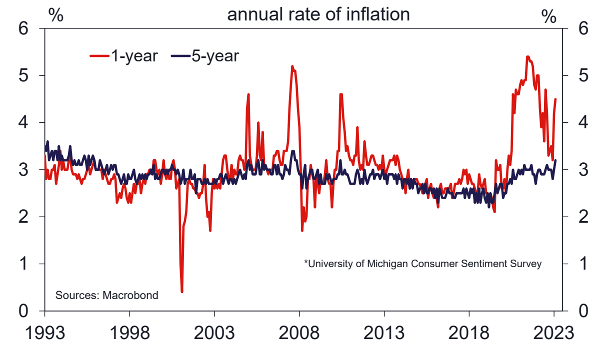
Dec 12, Last 0.0%, Mkt f/c: 0.0%, WBC f/c: 0.0%

Headline consumer prices were unchanged in October, in part due to declining oil prices and despite persistence in both shelter and food. The detail on goods and services prices also pointed to softening discretionary spending and a loss of pricing power amongst businesses. Core prices overall grew by a benign 0.2%.

With the labour market softening, confidence very weak and further declines in the price of oil, a matching outcome is likely in November – a 0.0% for headline and 0.2% for core prices. If achieved, annual headline inflation is likely to hold around 3% and core 4%.

Into 2024, core inflation is expected to remain soft albeit principally because shelter inflation will abate while other components experience modest growth. If the oil price holds around current levels in early–2024, annual headline inflation will quickly decelerate towards 2% and core inflation follow into mid-year.

Expectations to unwind on oil price falls



US FOMC policy decision

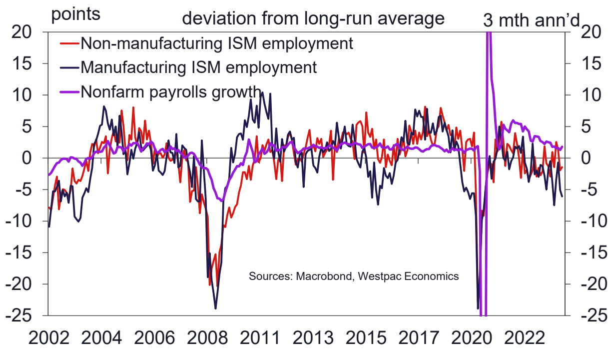
Dec 12–13, fed funds, last 5.375%, Mkt f/c: 5.375%, WBC f/c: 5.375%

Expectations for US monetary policy have shifted materially since the November meeting, with close to 150bps of rate cuts now priced for 2024, beginning in March. This turn has occurred due to sustained evidence of disinflation and the labour market coming into balance, with downside risks.

It is almost a given the FOMC and Chair Powell will continue to highlight that inflation risks remain their primary focus. Though discussion in the press conference is also likely to include an assessment of the downside risks for growth and the labour market as well as recognition that, without cutting nominal interest rates, the real stance of policy will continue to tighten as inflation eases.

If our March start date for cuts is correct, come the January meeting, activity is likely to take over from inflation.

Surveys point to downside risks for jobs



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 11					
Aus	Federal Mid-Year Budget update	–	–	–	Date TBC. Budget position has improved, see textbox.
NZ	Nov REINZ house sales %yr	8.0%	–	–	November update expected to show the housing market...
	Nov REINZ house prices %yr	–2.5%	–	–	... picking up again, though interest rates remain a drag.
UK	Dec Rightmove house prices	–1.7%	–	–	Near its lows.
Tue 12					
Aus	RBA Governor Bullock	–	–	–	Speaking at AusPayNet Summit, 9:20am AEDT.
	Dec Westpac–MI Consumer Sentiment	79.9	–	–	Knocked back to historical lows in November.
	Nov NAB business survey	13	–	–	Conditions at +13, down from year ago, confidence weak at –2.
NZ	Nov retail card spending	–0.7%	–	0.6%	The long-term trend in spending growth remains soft.
	Oct net migration	7510	–	–	Annual net inflow to rise to fresh record high.
Eur	Dec ZEW survey of expectations	13.8	–	–	Economy recovering, past worst of downturn.
UK	Oct average weekly earnings %yr	7.9%	–	–	Expected to ease as labour market softens.
US	Nov CPI	0.0%	0.0%	0.0%	Shelter component remains sticky.
	Nov NFIB small business optimism	90.7	90.7	–	Credit constraints weighing in on small businesses.
Wed 13					
NZ	Q3 current account balance	–7.5%	–	–7.7%	Goods export values dipped over the quarter.
	Nov selected price data	–	–	–	Rents to remain firm, food and fuel prices softening.
Jpn	Q4 Tankan large manufacturers index	9	10	–	Auto sector recovery supporting optimism.
Eur	Oct industrial production	–1.1%	–	–	Weakness persists as demand dwindles.
UK	Oct trade balance £bn	–1574	–	–	Gradual trend towards smaller deficit levels.
US	Nov PPI	–0.5%	0.1%	–	Upstream prices pressures modest.
	FOMC policy decision (midpoint)	5.375%	5.375%	5.375%	On hold, forecasts the focus.
Thu 14					
Aus	Nov employment change	55k	+10k	+25k	Employment growth has consistently outpaced expectations...
	Nov unemployment rate	3.7%	3.8%	3.7%	... leaving the unemployment rate near its lows, for longer.
	Dec MI inflation expectations	4.9%	–	–	Provides a general view of risks.
	RBA Assist' Gov. (Financial Systems)	–	–	–	Jones, speaking at Finance & Banking Conference, 2:00pm.
NZ	Q3 GDP	0.9%	0.2%	–0.1%	Reverting to subdued trend following last quarter's bounce.
Jpn	Oct machinery orders	1.4%	–0.4%	–	Developed market demand is dwindling cutting export orders.
Eur	ECB policy decision (deposit rate)	4.00%	–	4.00%	Rates have peaked. Pace of inflation downtrend in focus.
UK	BoE policy decision	5.25%	5.25%	5.25%	On hold for the foreseeable future as risks assessed.
US	Nov retail sales	–0.1%	–0.1%	0.2%	Captures Black Friday sales.
	Nov import price index	–0.8%	–0.9%	–	Disinflation in Asia to keep import prices low.
	Oct business inventories	0.4%	0.0%	–	Uncertain demand outlook keeps inventories low.
	Initial jobless claims	220k	–	–	To remain low, for now.
Fri 15					
NZ	Nov manufacturing PMI	42.5	–	–	Financial headwinds weighing on sales and orders.
Chn	Nov retail sales ytd %yr	6.9%	7.4%	–	Weak consumer confidence is delaying recovery.
	Nov industrial production ytd %yr	4.1%	4.2%	–	Sufficient activity from orders thus far, outlook uncertain.
	Nov fixed asset investment ytd %yr	2.9%	3.0%	–	High-tech manufacturing strong; property at lows.
Eur	Dec HCOB manufacturing PMI	44.2	–	–	Manufacturing activity recovering from recent dip.
	Dec HCOB services PMI	48.7	–	–	Service activity to remain weak.
	Oct trade balance €bn	9.2	–	–	Trend pointing towards higher surplus levels.
UK	Dec S&P Global manufacturing PMI	47.2	–	–	Weakness persists.
	Dec S&P Global services PMI	50.9	–	–	Strong income gains keeping service growth positive.
	Dec GfK consumer sentiment	–24	–	–	Solid improvement in consumer confidence.
US	Dec Fed Empire state index	9.1	3.8	–	Weakness to persist.
	Nov industrial production	–0.6%	0.2%	–	A reversal expected after strike-related weakness.
	Dec S&P Global manufacturing PMI	49.4	49.3	–	Manufacturing sector increasingly fragile.
	Dec S&P Global services PMI	50.8	50.7	–	Holiday season to provide support for services.

Forecasts

Interest rate forecasts

Australia	Latest (8 Dec)	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	4.34	4.55	4.55	4.47	4.22	3.97	3.72	3.47
3 Year Swap	4.08	4.50	4.40	4.30	4.20	4.10	3.90	3.70
3 Year Bond	3.90	4.30	4.20	4.10	4.00	3.90	3.70	3.50
10 Year Bond	4.30	4.70	4.60	4.50	4.40	4.30	4.15	4.05
10 Year Spread to US (bps)	14	-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	4.16	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	5.20	5.79	5.67	5.50	5.29	5.08	4.86	4.65
10 Year Bond	4.87	5.45	5.45	5.40	5.30	5.15	4.90	4.80
10 Year spread to US	71	65	75	80	80	75	70	70

Exchange rate forecasts

Australia	Latest (8 Dec)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
AUD/USD	0.6610	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD/USD	0.6168	0.60	0.61	0.62	0.62	0.62	0.63	0.63
USD/JPY	143.72	149	147	144	141	138	135	132
EUR/USD	1.0792	1.08	1.09	1.11	1.13	1.14	1.15	1.16
GBP/USD	1.2593	1.23	1.24	1.25	1.26	1.27	1.28	1.30
USD/CNY	7.1539	7.20	7.10	6.90	6.80	6.70	6.60	6.50
AUD/NZD	1.0726	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	Q3	Q4f	Q1f	Q2f	2021	2022	2023f	2024f
GDP % qtr	0.9	0.5	0.4	0.2	0.2	0.3	0.3	–	–	–	–
%yr end	2.3	2.4	2.0	2.1	1.4	1.2	1.0	5.4	2.3	1.4	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	0.9	0.9	1.3	0.9	0.9	0.8	–	–	–	–
annual chg	3.3	3.6	3.6	4.0	4.1	4.1	4.0	2.4	3.3	4.1	3.2
CPI Headline	1.9	1.4	0.8	1.2	0.8	0.7	0.8	–	–	–	–
annual chg	7.8	7.0	6.0	5.4	4.3	3.5	3.5	3.5	7.8	4.3	3.2
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	3.2

New Zealand economic growth forecasts

	2022	2023			2024			Calendar years			
% change	Q4	Q1	Q2	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	4.5	4.8	3.2	3.4	4.3	5.2
CPI % qtr	1.4	1.2	1.1	1.8	0.6	0.9	0.7	–	–	–	–
Annual change	7.2	6.7	6.0	5.6	4.8	4.4	4.1	5.9	7.2	4.8	3.3

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