AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 29 January 2024

Editorial: The Octopus and the Big Picture on Tax.

Australia: Q4 CPI, retail sales, housing updates (prices, finance, dwelling approvals), private credit.

NZ: RBNZ Chief Economist speaking, trade balance, building consents, business and consumer confidence.

China: NBS PMIs, Caixin manufacturing PMI.

Eurozone: Q4 GDP, CPI, unemployment rate,

UK: BoE policy decision.

US: FOMC policy decision, non-farm payrolls, unemployment rate, ISM manufacturing, Q4 ECI.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 25 JANUARY 2024.

WESTPAC INSTITUTIONAL BANK

The Octopus and the Big Picture on Tax

If you (or your predecessors) decide a course of action years in advance, it might not feel like the right choice when the time comes. Circumstances can change, and so can incentives.

This issue is well-known to students of monetary policy, where it is called the "time-inconsistency problem". The inflation-targeting regime followed by the RBA and most other advanced-economy central banks was designed in part to address that issue.

When it comes to fiscal policy, there is a similar issue. If tax brackets are not indexed, the tax take from households will rise over time. This creates an imperative to give back some of that fiscal drag periodically. But the shape of that adjustment then becomes a choice. As the current government has found, pre-specifying the distribution of the tax relief can lead to time-inconsistency issues. The distributional choices you made based on past information might not be the choices you would make based on what you know now. This would have been an issue even if the government had not changed.

Some countries deal with this issue by indexing tax brackets automatically to inflation. As we have discussed previously, though, this reduces the role of fiscal policy as an automatic stabiliser that leans against periods of strong growth. Flattening tax system brackets also reduces bracket creep, but it too results in the automatic stabiliser properties being lost. Even more of the burden of macroeconomic management would fall on monetary policy. This would have its own distributional implications. It is also the reason why we have previously advocated for the tax brackets to be indexed by the mid-point of the RBA's inflation target, 2.5%, each year.

First-order versus second-order

Over coming days, many analysts will release detailed analyses of the impact of the announced changes. Our own colleague, Westpac Senior Economist Pat Bustamante, will likewise release a note today. It will show our assessment that the changes do not materially affect the macroeconomic outlook.

Relative to the originally legislated Stage 3 package, the changes redistribute the benefits to lower-income and middle-income taxpayers. Past research suggests that, on average, these households tend to spend more out of every dollar of extra income than higher-income households do; economists call this the "marginal propensity to consume". The changes therefore redistribute more of the tax relief to people who are more likely to spend more of it.

So yes, this can be construed to imply that the adjusted package is a bit more stimulatory than the original version.

But no, lower-income households have seen stronger income growth on average than higher-income households lately, according to RBA analysis. So they might be less constrained to begin with, and those marginal propensities to consume, which are generally estimated using a long run of data, might not be a good guide to current behaviour.

But yes, spending could be higher than expected because middle-income households (along with higher-income ones) spend proportionately more on discretionary goods and services than low-income households. Hence, they had more scope to pull back spending in the face of cost-of-living pressures. In the current circumstances, their spending might bounce back more than assumed, offsetting the smaller bounce from higher-income households.

But no, by retaining the 37% bracket, the system is not flattened out as much as originally planned. This means that more households will still face some fiscal drag, and fiscal policy retains more of its automatic stabilising properties. The RBA would therefore not need to do as much in the face of strong income growth, should that emerge.

If you think the issue all the way through to the end in this way, you end up with so many "on the other hand" arguments that you feel like a bit of an octopus. As with many of these analyses of whether the effect of a policy change is different than before, the factors discussed are offsetting, and in any case each of them is at the margin. (Similar issues arise when discussing whether the effects of interest rate moves has changed recently.) It is far better to focus on the big picture.

The big-picture issue is that households have been squeezed in recent times by a rapidly rising tax take. Real household incomes have been falling. Tax relief in the second half of the year goes some way to reducing the tax drag on household incomes. The original package was already factored into our forecasts, and everyone else's. While the changes this week alter the distribution of the benefits, the macroeconomic impact of this – relative to the package as originally announced – is marginal. We do not expect that this will affect the RBA's view of the inflation outlook or the future path of the cash rate.

It is also important to remember that these tax cuts will not take place until 1 July. By that stage, inflation is likely to be within striking distance of the RBA's 2–3% target. Any surprises around the effect of the tax package on household spending will only emerge after that. What matters for near-term monetary policy decisions is whether the RBA currently thinks that the outlook has changed, not whether things turn out differently once we get to that point. Media reports suggest that the RBA has already confirmed with the government that the tax changes do not affect the outlook.

Actual (monthly) inflation has surprised a little on the downside since the RBA's last forecast round. Much of the data on real spending has also been softer in recent weeks. For the announced changes to the tax package to push the RBA in the direction of raising the cash rate again, the changes would have to offset these downside risks and signals. It would be hard to make a case that a second-order distributional change to a known large tax package more than offsets these other factors. This would still be the case even if the RBA were only focusing on the differences in marginal propensities to consume, rather than channelling their inner octopus and considering all the offsetting factors noted above.

Luci Ellis, Chief Economist Westpac Group

"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.".

In Australia, the latest NAB business survey delivered another sombre update on the state of the domestic economy at the turn of the year – the "December" survey was in the field January 3–15. In an environment characterised by high inflation, elevated interest rates and weak consumer spending, business conditions declined a further 2pts to +7 as trading conditions slipped below average. Forward orders point to persistent weakness having contracted in seven of the past eight months. Business confidence meanwhile continues to oscillate at well below–average levels, currently –1.

As discussed in our analysis of the NAB survey, last week's December labour force survey reported that businesses reduced hours worked by 1.3% in the second half of 2023, on par with Australia's GFC experience. Conditions as measured by the NAB survey are likely to result in a further decline in hours and a throttling back of business investment. These outcomes are consistent with Westpac's expectation that Australian GDP growth will remain below trend throughout 2024.

On a more positive note, the NAB survey reported a continued easing in cost and price pressures through the final months of the year. Final product price inflation is now tracking at a 0.9%qtr pace according to the survey, the softest pace since February 2021. In line with these developments and a benign read for Q4 inflation in New Zealand, Westpac confirmed its forecast for next week's Australian Q4 CPI at 0.8%qtr/4.3%yr for headline inflation and 0.9%qtr/4.4%yr for the trimmed mean.

Continued progress with inflation in 2024 and soft economic momentum should allow the RBA to commence rate cuts in Q3 2024, with 125bps of rate cuts from Q3 2024 to Q3 2025 to leave the cash rate at 3.10% by end–2025. A return to trend GDP growth in 2025 remains our baseline expectation.

Offshore, central banks remained cautious on near–term risks, but showed increasing confidence in achieving their medium–term objectives.

The Bank of Japan maintained its policy stance in January. Updates to GDP growth for fiscal 2023 and 2024 were minimal, FY2023's slight downward revision offset by a modest upgrade to FY2024. Forecasts for core inflation (less fresh food and energy) were broadly the same as October, the BoJ still anticipating this measure of inflation will moderate to 1.9%yr by 2025. The BoJ also continue to expect inflation expectations to drift up and prompt stronger growth in wages and consequently consumption into the medium term. Risks to this view are most prominent near term. Results from the spring wage negotiations will be available through March/April and the BoJ's take presented in the March statement.

The Bank of Canada kept rates steady at its January meeting despite December's upside inflation surprise. Shelter inflation remains high and is expected to show further persistence, keeping CPI above the 3%yr top of the target range during H1 2024. In the accompanying press statement, Governor Tiff Macklem did not 'rule out' further policy rate increases, with inflation expectations and persistence in wage growth risks to their sanguine baseline view. However, in the absence of an unexpected resurgence in inflation, in coming months discussion will focus on how much longer rates need to remain on hold. The revised forecasts were supportive of moderate policy easing from mid–to–late 2024. GDP is expected to remain weak in 2024 then return near trend in 2025. Inflation meanwhile is seen back at 2.0%yr in 2025.

In Europe, the ECB's Bank Lending Survey showed that demand for loans continued to decline across both households and firms in Q4 2023, the consequence of high inflation and interest rates as well as a decline in fixed asset investment. Expectations for Q1 2024 were constructive, with net demand expected to increase in Q1 2024 for the first time since 2022. However, banks remain very cautious on the outlook, risk perceptions seeing credit conditions become more restrictive in the quarter, and a further tightening anticipated in Q1 2024. 2023's rate hikes and their consequences are clearly still transmitting through the economy.

Coming back to China. Overnight, the PBoC announced a 50bp cut to banks' Reserve Requirement Ratio, freeing up lending capacity. This follows reports of support for the equity market via buying by large government–linked entities. The intent behind these measures is principally to buoy, or at least hold up, sentiment across the economy while the benefits of rapid growth in high–tech manufacturing permeate and the cost of structural reform in the property sector is worked through. Authorities are likely to continue their targeted approach to supporting the economy through 2024, assuming 2023's gains in manufacturing, infrastructure and trade continue.

Still to come offshore are the European Central Bank's January meeting and, in the US, Q4 GDP and December PCE data, with the inflation print the market's primary focus.

Week ahead & data wrap

December's update on consumer prices showed that inflation in New Zealand is continuing to cool. Consumer prices rose by 0.5% in the December quarter and 4.7% for the year –the lowest annual rate in over two years.

December's inflation result was in line with our own estimate but lower than the RBNZ's last published forecast for a 0.8% rise. Inflation has fallen short of the RBNZ's forecasts for most of the past year.

Lower import and food prices (tradables inflation) were the key driver. These prices are more volatile, less reflective of domestic economic conditions, and of less focus for the RBNZ when setting monetary policy.

The RBNZ is more concerned with core inflation trends. Core inflation indicators are gradually moderating from very strong levels and are now running at annual rates of around 4% to 5%, and hence remain uncomfortably high. The RBNZ's own sectoral model of core inflation fell from 5.2% to 4.5% – still well above the 1% to 3% target band.

Domestic inflation continues to sizzle. Non-tradable prices were up 1.1% over the quarter – more than we or the RBNZ expected. And on an annual basis, non-tradables inflation is running at a still-strong rate of 5.9% and remains particularly strong outside the construction sector. Those lingering domestic price pressures mean that it will still be some time before overall inflation returns to levels consistent with the RBNZ's target.

The RBNZ will likely feel more confident that inflation expectations will remain in check as headline inflation is coming down faster than they had forecast. However, this still leaves us with a picture of 'lower' inflation, not low inflation. The lingering strength in domestic and core inflation means that the Monetary Policy Committee won't be comfortable taking its foot off the brake just yet and we continue to expect the OCR to remain unchanged over 2024. We think the RBNZ will need to see a further easing in core inflation before adjusting the OCR lower. The RBNZ will also be keeping a close eye on the global stage, with recent disruptions to global shipping likely to slow the fall in imported inflation.

A key concern for the RBNZ is whether interest rate reductions could reignite inflation pressures, and central to that assessment is the strength of household demand. On this front, recent economic news has pointed to flagging momentum in spending appetites. Over the past year, spending levels have effectively been tracking sideways. Compared to the same time in 2022, card spending in December 2023 was down 0.6% despite population growth of around 2% and around 5% inflation.

We expect that household spending will remain under pressure this year. Household finances will continue to be constrained by high mortgage rates and the ongoing movement of borrowers from the lower mortgage interest rates available in recent years to higher rates. Over the next 12 months around 60% of all fixed rate mortgages will come up for repricing which will occur at a higher rate. The average mortgage rate that borrowers are paying has already risen by around 230bp since 2022, and it will rise by a further 80bps on average in 2024.

The continued rise in debt servicing costs will suck a lot of money out of households' wallets. We estimate that for households with mortgages, their spending on debt servicing costs has already risen from just under 10% in 2021 to around 16% now, and it's set to rise to over 20% over the coming year. (Note: We are basing this on current mortgage rates and are not assuming any changes in the interest rates that are on offer from lenders.)

The other key area that will be crucial for determining the strength of domestic spending appetites is the state of the labour market. While economic growth has slowed sharply over the past year, unemployment has remained low and currently sits at just 3.9%. We've also seen strong growth in disposable incomes of around 5% over the past year. That strength in the labour market has helped support household spending in the face of mounting financial pressures.

However, we think the job market will cool over 2024. Employment growth has slowed and there's also been a sharp fall in employee turnover as economic growth has slowed. We expect the unemployment rate will rise to 5% by the end of this year with a related easing in wage growth. That will reinforce the downward pressure on spending.

There are some factors that will help to support household spending in the face of those pressures. First is that many households took advantage of the low borrowing costs in recent years to get ahead on their repayments. That's giving them a buffer from the recent rise in interest rates.

Second, the decline in household wealth levels over the past few years has been arrested. The value of financial assets, like KiwiSaver balances, have been rising. In addition, the housing market has found a base – prices are no longer falling and some regions have seen modest price rises. We expect that household wealth levels will push higher over the coming year, underpinned by a pickup in house prices. And with New Zealanders holding a large portion of their wealth in owner-occupied or investor housing, that will provide some boost to spending appetites. But that will only offset a portion of the other headwinds that households will face over the coming year. We continue to expect that 2024 will see weakness in household demand and overall GDP growth.

The key event for local markets over the coming week will be a speech from RBNZ Chief Economist Conway titled 'Surfing the waves of economic change.' The speech will be live streamed at NZ 9:00am Tuesday and will be focused on the challenges for monetary policy in the wake of the pandemic. Notably, the speech will include brief comments on domestic data released since the RBNZ's November policy statement. We expect that will include comments on GDP growth and inflation, both of which have fallen short of the RBNZ's forecasts. However, we don't expect the speech will provide updated guidance on the outlook for monetary policy as the RBNZ is unlikely to have updated its projections ahead of February's policy meeting.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 23	Dec BusinessNZ PSI	51.1	48.8	–
Wed 24	Q4 CPI %qtr	1.8%	0.5%	0.5%
	Q4 CPI %yr	5.6%	4.7%	4.7%

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DATA PREVIEWS

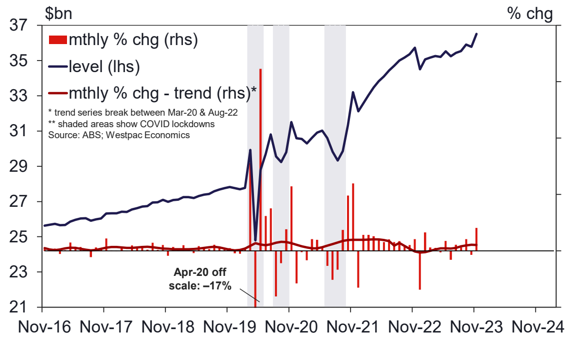
Aus Dec retail sales

Jan 30, Last: 2.0%, WBC f/c: –0.5%
Mkt f/c: –2.0%, Range: –4.0% to 2.0%

Retail sales recorded a stronger than expected 2% gain in Nov, coming off a choppy Sep–Oct and a subdued year, total sales only up 2.2%yr. Shifting seasonal patterns likely exaggerated the latest monthly result with more end of year spending occurring in the increasingly popular ‘Black Friday’ and ‘Cyber–week’ sales periods. The ABS highlighted this in it’s Nov report, showing that the last decade has seen Nov seasonality increase by about 10% for several categories.

However, these shifts take time to confirm, meaning that initial estimates can wrongly attribute a move to non–seasonal factors. This looks to have been partly the case in Nov, meaning we are likely see some drop back in Dec. Our **Westpac Card Tracker** suggests spending was patchy over the Christmas period with consumers making the most of sales discounts but underlying momentum weak. On balance, we expect the official retail sales figures to show a 0.5% decline in Dec with some risks to the downside. Note that the Q4 estimates of real retail sales will be released on Feb 6.

Monthly retail sales



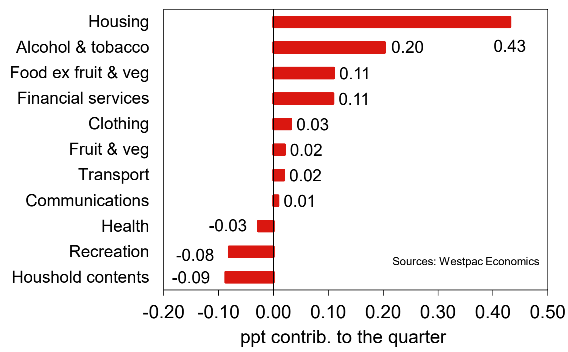
Aus Q4 CPI %qtr

Jan 31, Last: 1.2%, WBC f/c: 0.8%
Mkt f/c: 0.8%, Range: 0.7% to 1.1%

The September quarter CPI surprised to the upside lifting 1.2% compared to the markets and Westpac’s expectation of 1.1%. The annual pace of inflation continues to moderate, down to 5.4%yr from 6.0%yr in June, 7.0%yr in March and the recent peak of 7.8%yr in December 2022. The Trimmed Mean also surprised to the upside rising 1.2%qtr for an annual pace of 5.2%yr.

In our CPI preview “December set to confirm a moderation in inflation” we outline in greater detail why our near–cast for the Q4 CPI remains 0.8%qtr/4.3%yr while the Trimmed Mean estimate is also unchanged at 0.9%qtr/4.4%yr. Housing, via robust gains in rents, dwelling prices and electricity, is contributing a touch more than half of the increase while alcohol & tobacco is contributing about a quarter. Offsetting these increases are falling prices for health (due to rising access to the PBS), recreation (seasonal fall in airfares) and household contents (falling durable goods prices).

Contributions 2023Q4 CPI 0.8%qtr forecast



Aus Dec Monthly CPI Indicator %yr

Jan 31, Last: 4.3%, WBC f/c: 3.0%
Mkt f/c: 3.7%, Range: 3.0% to 4.4%

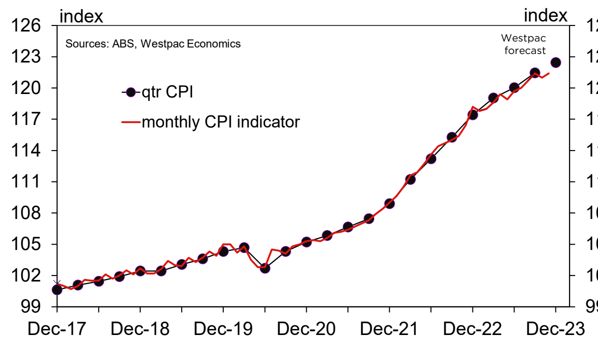
While it is not a true monthly CPI, as it captures data from various price surveys as they become available over the quarter, it is a critical monthly data source for updating our near–cast of the quarterly CPI.

The Monthly CPI Indicator rose 4.3% in the year to November, down from 4.9%yr in October and a recent peak of 8.4%yr in December 2022. The November print was a touch softer than Westpac’s forecast and the market’s median forecast of 4.4%yr.

For the December Monthly CPI Indicator, Westpac is forecasting a 3.0%yr increase (the ABS focuses on through the year estimates for the Monthly Indicator) which would be a 0.3% increase in the month.

For a more detailed breakdown of our December Monthly CPI Indicator forecast please see our December CPI preview.

CPI Monthly Indicator vs. qtr CPI



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DATA PREVIEWS

Aus Dec private sector credit

Jan 31, Last: 0.4%, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: 0.3% to 0.6%

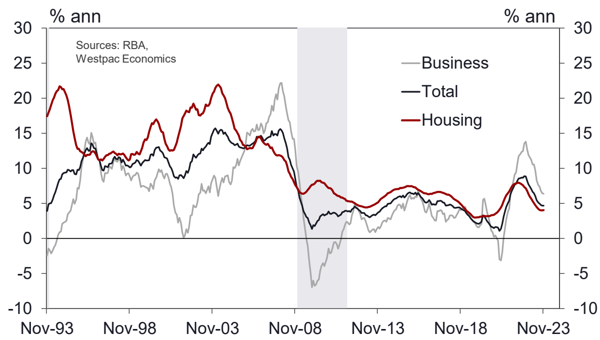
Private sector credit growth is subdued – a trend that is set to continue as interest rates remain elevated and with economic growth slowing to a crawl over the second half of 2023.

Credit grew by 0.4%, 4.7%yr in November and we anticipate a repeat of that for December. Annual credit growth is well down from a high of 8.9% in September 2022 as sharply higher interest rates from the RBA led (initially) to a housing downturn.

Housing credit grew 4.6% annualised over the past three months, up from 3.7% in May (but down from 8.8% at the start of 2022). New lending rebounded through much of 2023, with property prices squeezed higher as brisk population growth boosted demand at a time of limited supply.

Business credit grew 6.4% over the past year, sharply lower from a high of 13.8%yr in late 2022. The slowdown will extend into 2024 as businesses adjust further to particularly weak consumer demand.

Total credit: annual growth 4.7%, a 2 year low



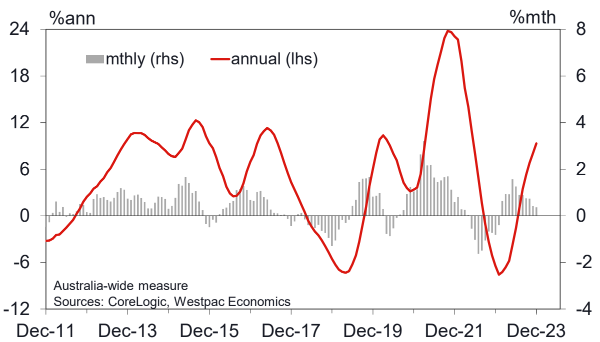
Aus Jan CoreLogic home value index

Feb 1, Last: 0.4%, WBC f/c: 0.5%

The CoreLogic home value index, covering the eight major capital cities, rose 0.4% in December to be up 9.3% for the calendar 2023 year. The monthly pace of gains moderated into year-end, led by much flatter results in Sydney and Melbourne.

The CoreLogic daily index points to another soft gain in Jan, prices across the major capital cities tracking a 0.5% rise for the month as a whole. As always, housing data needs to be treated with more caution around the Dec-Jan 'off season' due to low levels of activity. Housing markets reopen from around mid-Feb when auction activity gets underway again.

Australian dwelling prices



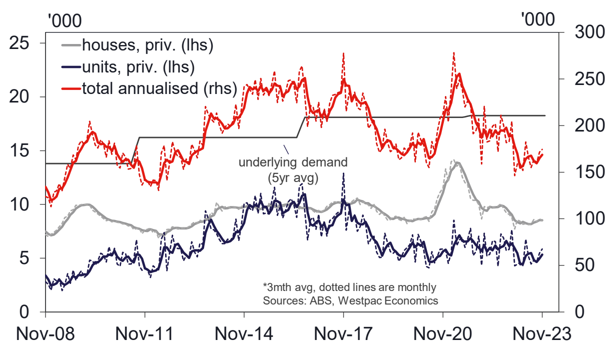
Aus Dec dwelling approvals

Feb 1, Last: 1.6%, WBC f/c: –0.5%
Mkt f/c: 0.5%, Range: –4.0% to 3.0%

Dwelling approvals posted a 1.6% rise in Nov extending on a surprisingly strong 7.2% bounce in Oct. Despite the back-to-back gains there is little evidence of a sustained underlying up-trend with the latest rise mainly driven by units – a notoriously 'lumpy' component – with the more stable 'detached houses' segment still tracking a trend that is flat at best.

December is likely to see this underlying subdued trend reassert as unit approvals unwind giving a small negative overall. We expect total approvals to be down 0.5%. While approvals may be bumping around the bottom of the cycle, positives from the recovery in dwelling prices and strong population growth are likely still being heavily outweighed by negatives such as high interest rates and the high cost of building. In the backdrop, NSW and Vic state governments are both considering changes to 'fast-track' approval for medium density dwelling projects but no major changes have been made to date.

Dwelling approvals



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DATA PREVIEWS

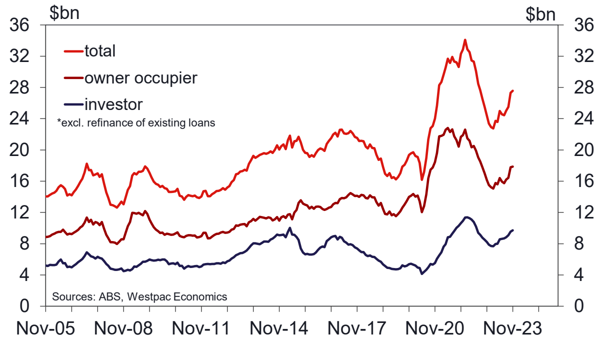
Aus Dec housing finance approvals

Feb 2, Last: 1.0%, WBC f/c: 2.5%
Mkt f/c: 1.1%, Range: –4.5% to 3.0%

The total value of housing finance approvals lifted 1% in Nov, following an upwardly revised 7.1% surge in Oct. Investor loan growth outperformed owner occupier loan growth by two to one. Total approvals are up nearly 23% from their Feb low but still 15% below their previous peak.

The upturn looks set to continue into year–end with both prices and volumes ticking higher (albeit with the latter a touch softer in the Dec month). Overall we expect total approvals to post a 2.5% gain, investor loans (+3.5%) again likely to outperform owner occupier loans (2%). That said, the latter may get some boost from the Qld state government's decision to temporarily double its first home buyer grant (coming into effect in late Nov and set to run until mid–2025).

New finance approvals by segment



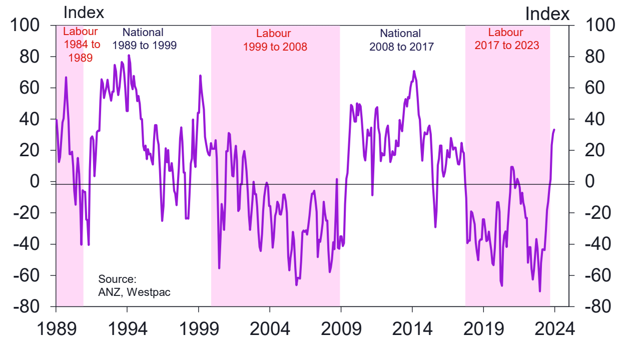
NZ Jan ANZBO business confidence

Jan 31, Last: 33.2

Business confidence has taken a sizeable step higher since October's election. However, while business sentiment has been on the rise, trading activity and hiring have actually remained subdued. We'll be watching the January survey to see if that divergence has continued into the new year. We're forecasting subdued economic growth through the early part of the year.

A key focus will be the survey's various price and inflation gauges. Consumer price inflation in New Zealand is dropping back, but many businesses are continuing to report pressures on operating costs and margins.

NZ ANZBO business confidence



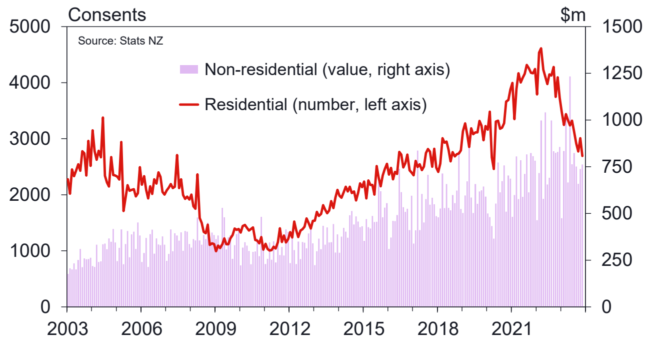
NZ Dec building consents

Feb 2, Last: –10.6%, Westpac f/c: +5.0%

Building consent issuance fell by nearly 11% in November. That was mainly due to falls in the lumpy apartment and retirement categories. Looking at the more stable categories (like standalone houses and town houses), the sharp slowdown that we've seen over the past year has continued, but is showing some signs of levelling off.

We expect a 5% bounce in consent issuance in December as some of the fall in volatile categories that we saw in November reverses. That would still leave the downtrend in consent issuance seen over the past year remaining in place.

NZ building consents



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US Jan FOMC meeting

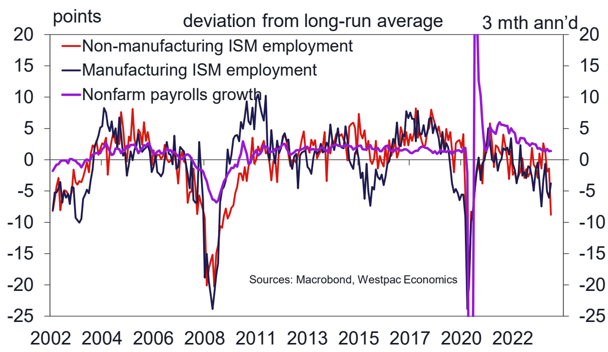
Jan 30–31, fed funds, last 5.375%, Mkt f/c: 5.375%, WBC f/c: 5.375%

Annual inflation is trending to target, core PCE annualising near 2% on a 3– and 6–month basis as of November. Demand and supply in the labour market has also come into balance, and the business surveys are signalling that risks have shifted to the downside.

While GDP carried momentum into year end and consumer confidence has recently improved markedly, a weakening labour market will keep consumers under pressure in 2024 as uncertainty limits businesses' willingness to investment.

With the real stance of policy highly restrictive, the January meeting communications will be closely scrutinised for signals of the timing and scale of rate cuts to come as well as any guidance on what will lead to a re–assessment by the FOMC. We continue to expect the case for a cut to be made by March, but also believe policy easing should continue at a modest pace thereafter.

Surveys point to downside risks for jobs



US Jan nonfarm payrolls

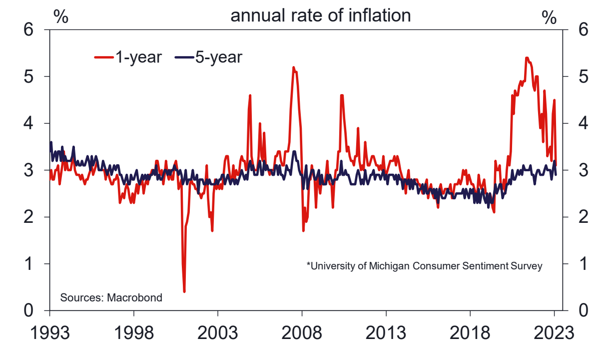
Feb 1 nonfarm payrolls, last 216k, Mkt f/c: 168k, WBC f/c: 150k

Participants continue to focus on momentum in nonfarm payrolls, in particular that the month–on–month increase remains above the 100k FOMC members have put forward as the rate of job creation that balances demand and supply.

Yet it is clear from other indicators that supply is, at least, sufficient for demand, with the more probable reality being that excess supply is building. Note that as of December, the 3–month average change for household employment was –122k compared to payrolls +165. The business surveys are weaker still.

Our outlook for 2024 and 2025 is relatively benign, but we expect payrolls (net of revisions) to begin disappointing market expectations, narrowing the differential to the other indicators and focusing attention on downside risks.

CPI expectations consistent with target



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 29					
NZ	Dec trade balance $mn	-1234	–	-390	A smaller deficit likely, reflecting a seasonal pickup in exports.
	Dec employment indicator	0.1%	–	-0.8%	Hiring may have been pulled forward into November.
US	Jan Dallas Fed index	-9.3	–	–	Manufacturing conditions are soft across the regions.
Tue 30					
Aus	Dec retail sales	2.0%	-2.0%	-0.5%	Post Black Friday 'let down'.
NZ	RBNZ Chief Economist Conway	–	–	–	Speech on monetary policy, incl. comments on recent data.
Jpn	Dec jobless rate	2.5%	–	–	Tight labour market to facilitate sustainable wages growth.
Eur	Q4 GDP	-0.1%	–	–	Growth set to print about flat for the year.
US	Nov S&P/CS home price index	0.64%	–	–	Limited supply buoying price momentum.
	Jan consumer confidence index	110.7	111.6	–	Policy expectations shift, confidence upswing into year-end.
	Dec JOLTS job openings	8790k	–	–	Taken together, key series point to labour market balance.
Wed 31					
Aus	Q4 CPI %qtr	1.2%	0.8%	0.8%	Broad disinflationary forces outside of housing, and some…
	Q4 CPI %yr	5.4%	4.3%	4.3%	… market services, will see inflation continue to moderate.
	Q4 Trimmed Mean CPI %qtr	1.2%	0.9%	0.9%	A marginal downside risk to the December forecast as the…
	Q4 Trimmed Mean CPI %yr	5.2%	4.3%	4.4%	… Nov increase in household services was less than expected.
	Dec Monthly CPI Indicator %yr	4.3%	3.7%	3.0%	Inflationary pace to moderate with a 0.3%mth increase.
	Dec private sector credit	0.4%	0.4%	0.4%	Subdued pace, with elevated rates and economic slowdown.
NZ	Jan ANZ business confidence	33.2	–	–	Confidence has firmed but trading activity still soft.
Jpn	Dec industrial production	-0.9%	–	–	Subdued trend, downside risk near-term amid global slowdown.
Chn	Jan NBS manufacturing PMI	49.0	–	–	Policy support is limiting downside risks…
	Jan NBS non-manufacturing PMI	50.4	–	–	… across both manufacturing and services sectors.
US	Q4 employment cost index	1.1%	1.0%	–	Another robust read likely as tightness gradually fades.
	Jan Chicago PMI	47.2	48.1	–	Broadly speaking to soft conditions across the economy.
	FOMC policy decision, midpoint	5.375%	5.375%	5.375%	Progress towards target and risks the focus.
Thu 01					
Aus	Jan CoreLogic home value index	0.4%	–	0.5%	Monthly gains have been moderating since mid-2023.
	Dec dwelling approvals	1.6%	0.5%	-0.5%	Bumping around the bottom of the cycle.
	Q4 import price index	0.8%	0.6%	0.2%	Little changed, AUD TWI flat, gasoline prices modestly lower.
	Q4 export price index	-3.1%	2.2%	3.3%	Up in qtr but down over year – mirroring commodity prices.
Chn	Jan Caixin manufacturing PMI	50.8	–	–	More volatile than NBS, broadly signalling flat conditions.
Eur	Jan CPI %yr	2.9%	–	–	Food now comprises one-third of overall inflation.
	Dec unemployment rate	6.4%	–	–	Labour market historically tight despite broader slowdown.
UK	BoE policy decision	5.25%	–	5.25%	On hold and closely monitoring inflation's downtrend.
US	Jan ISM manufacturing	47.4	47.3	–	Manufacturing conditions are soft across the regions.
	Initial jobless claims	–	–	–	To remain at a low level, for now.
Global	Jan S&P Global manufacturing PMI	–	–	–	Final estimate for Japan, Eurozone, UK and US.
Fri 2					
Aus	Dec housing finance	1.0%	1.1%	2.5%	Solid upturn underway, led by established market…
	Dec owner occupier finance	0.5%	–	2.0%	… where both prices and turnover are moving higher…
	Dec investor finance	1.9%	–	3.5%	… investor activity starting to outperform slightly.
	Q4 PPI	1.8%	–	–	Falling energy prices should be the highlight in December.
NZ	Jan ANZ consumer confidence	93.1	–	–	Set to remain low due to continued financial pressures.
	Dec building permits	-10.6%	–	5.0%	Longer term down trend to remain in place.
US	Jan non-farm payrolls	216k	168k	150k	Payrolls likely to see weakness in coming months.
	Jan unemployment rate	3.7%	3.8%	3.8%	Upward pressure on unemployment rate to remain in place.
	Jan average hourly earnings %mth	0.4%	0.3%	0.3%	Wage pressures to slowly abate.
	Dec factory orders	2.6%	0.5%	–	Soft finish to the year.
	Jan Uni. of Michigan sentiment	78.8	78.8	–	Final estimate.

Forecasts

Interest rate forecasts

Australia	Latest (25 Jan)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Cash	4.35	4.35	4.35	4.10	3.85	3.60	3.35	3.10	3.10
90 Day BBSW	4.35	4.55	4.47	4.22	3.97	3.72	3.47	3.30	3.30
3 Year Swap	3.98	4.15	4.10	4.05	4.00	3.90	3.70	3.60	3.50
3 Year Bond	3.82	3.95	3.90	3.85	3.80	3.70	3.50	3.40	3.30
10 Year Bond	4.25	4.35	4.30	4.20	4.15	4.10	4.05	4.00	4.00
10 Year Spread to US (bps)	12	10	10	5	5	5	0	0	0
US									
Fed Funds	5.375	5.125	4.875	4.625	4.375	4.125	3.875	3.625	3.375
US 10 Year Bond	4.13	4.25	4.20	4.15	4.10	4.05	4.05	4.00	4.00
New Zealand									
Cash	5.50	5.50	5.50	5.50	5.50	5.25	5.00	4.75	4.50
90 day bill	5.66	5.60	5.60	5.60	5.50	5.25	4.95	4.75	4.50
2 year swap	4.83	5.10	4.95	4.75	4.50	4.40	4.15	4.10	4.00
10 Year Bond	4.71	4.85	4.80	4.75	4.70	4.60	4.50	4.45	4.35
10 Year spread to US	53	60	60	60	60	55	45	45	35

Exchange rate forecasts

Australia	Latest (25 Jan)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD/USD	0.6575	0.67	0.68	0.69	0.70	0.71	0.72	0.72	0.73
NZD/USD	0.6110	0.62	0.62	0.62	0.63	0.63	0.63	0.63	0.64
USD/JPY	147.65	145	144	141	138	135	132	130	127
EUR/USD	1.0879	1.09	1.11	1.13	1.14	1.15	1.16	1.17	1.17
GBP/USD	1.2714	1.26	1.27	1.28	1.29	1.30	1.30	1.31	1.31
USD/CNY	7.1574	7.10	6.90	6.80	6.70	6.60	6.50	6.40	6.30
AUD/NZD	1.0760	1.08	1.11	1.11	1.11	1.13	1.14	1.14	1.15

Australian economic growth forecasts

	2023			2024				Calendar years			
% change	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2022	2023f	2024f	2025f
GDP % qtr	0.4	0.2	0.2	0.3	0.3	0.4	0.5	–	–	–	–
%yr end	2.0	2.1	1.4	1.2	1.0	1.3	1.6	2.3	1.4	1.6	2.5
Unemployment rate %	3.6	3.7	3.8	4.0	4.2	4.4	4.5	3.4	3.8	4.5	4.6
Wages (WPI)	0.9	1.3	0.9	0.9	0.8	0.8	0.7	–	–	–	–
annual chg	3.6	4.0	4.1	4.1	4.0	3.5	3.2	3.3	4.1	3.2	3.0
CPI Headline	0.8	1.2	0.8	0.7	0.8	1.0	0.7	–	–	–	–
annual chg	6.0	5.4	4.3	3.5	3.5	3.3	3.2	7.8	4.3	3.2	2.8
Trimmed mean	1.0	1.2	0.9	0.9	0.8	0.8	0.7	–	–	–	–
annual chg	5.9	5.2	4.4	4.0	3.8	3.4	3.2	6.8	4.4	3.2	2.8

New Zealand economic growth forecasts

	2023			2024				Calendar years			
% change	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2022	2023f	2024f	2025f
GDP % qtr	0.5	–0.3	0.1	0.0	0.1	0.2	0.3	–	–	–	–
Annual avg change	3.0	1.3	0.7	0.3	0.0	0.2	0.3	2.4	0.7	0.3	1.6
Unemployment rate %	3.6	3.9	4.2	4.6	5.0	5.3	5.5	3.4	4.2	5.5	5.1
CPI % qtr	1.1	1.8	0.5	0.9	0.6	0.9	0.6	–	–	–	–
Annual change	6.0	5.6	4.7	4.3	3.8	3.0	3.1	7.2	4.7	3.1	2.5

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