

AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 27 May 2024

Editorial: Hand in hand is the surer way to land.

Australia: Westpac-MI Leading Index, Monthly CPI, CAPEX, construction work, retail sales, dwelling approvals.

NZ: Budget 2024, monthly employment indicator, building consents, business confidence.

Japan: Tokyo CPI, jobless rate, industrial production.

China: NBS PMIs, industrial profits.

Eurozone: CPI, unemployment rate.

US: Beige Book, PCE deflator, personal income and spending, consumer confidence, regional surveys.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 24 MAY 2024.

WESTPAC INSTITUTIONAL BANK



Hand in hand is the surer way to land

This week saw the RBA Board minutes observe that many households have been pulling back on spending even when their incomes have not been falling. We also saw a similar implication from the May release of the Westpac-Melbourne Institute Consumer Sentiment Survey.

As Westpac Economics colleague Matt Hassan [noted](#), most households who expect to receive a tax cut plan to save most or all of it. Altogether, around 80% of the increase in post-tax income is planned to be saved. Plans do not always pan out and the households that do not expect to receive the tax cut might spend that pleasant surprise. Even still, these results tilt more to saving than did the responses to surveys concerning previous rounds of stimulus.

That households plan to save more out of the extra income than in previous episodes should not come as a surprise. It is the expected implication of contractionary monetary policy. One of the main ways that monetary policy dampens demand is by changing the incentive to save versus borrow or spend. It does not need to reduce people's incomes to change their behaviour. The RBA minutes referred to this as 'simply choosing' to spend less, but there is no mystery behind the choice. It is what economists call the 'intertemporal substitution channel'. People 'simply choose' to respond to the incentives created by higher interest rates.

Intertemporal substitution is likely to be more powerful than the 'cash flow channel' working via lowering the incomes of households with mortgages, not least because it affects everyone. In the Australian context, though, it is often forgotten. Because variable-rate mortgages predominate in the Australian market, the mortgage cash flow channel receives far more attention than its overall impact warrants. The commentary in the RBA minutes and the downward revision to its consumption forecasts suggest that the RBA, too, might have over-focused on the cash flow channel in its recent analysis.

Higher mortgage rates have been a struggle for many households recently. Across the whole household sector, though, they have not been as big a drag on incomes as inflation itself or the resulting tax bracket creep. As we have been [highlighting for some time](#), higher tax payments have done more to weigh on real household incomes than higher net interest payments have done. And as we have [also been highlighting](#), this additional fiscal squeeze distinguishes Australia from some peer economies, including the United States and Canada where tax brackets are CPI-indexed. It means that one cannot read across from those countries' experiences to infer how much monetary contraction is needed here, or for how long. It matters if fiscal and monetary policy are working hand in hand or not.

Such a policy alignment contrasts with the common presumption that monetary policy needs to offset fiscal policy, in a macro-policy version of Newton's Third Law. Post-Budget commentary arguing that additional spending would need to be met with higher rates falls into this camp. It assumes that there is no spare capacity in the economy when the spending occurs, so inflation must rise if it is not offset. It also tends to understate the role of automatic stabilisers relative to conscious policy decisions. In fact, so-called 'parameter variations' – in other words, the economy turning out differently than expected – have typically shifted budget outcomes more than explicit policy decisions have.

In the same vein, if monetary policy is poised to become a bit less contractionary late this year, it would make sense for fiscal policy to be set with a similar stance. It would certainly make fiscal and monetary policy more coherent – and the impact less uneven – than choosing this moment to achieve a significant fiscal consolidation, in the name of long-term sustainability or demand-shock absorption.

Treating monetary and fiscal policy purely as counterbalances rather than working in the same direction also sits oddly with the likely future of climate and supply-driven inflation shocks. If Australia and the world are indeed facing a more inflationary environment – or as the RBA Governor put it, 'shock after shock after shock' – surely it would make sense to refine the economic policy architecture to be more resistant to inflationary surges. And again, it would make sense for fiscal policy and monetary policy to operate hand in hand. This can be achieved by good system design as well as conscious coordination, without necessarily detracting from the independence of the central bank.

One obvious improvement would be stop indexing administered prices such as education fees and subsidised medicines to the CPI. This simply propagates a surge in inflation into the following year. Indexing by 2½%, the midpoint of the RBA's inflation target, would avoid this issue.

Another refinement that would improve the response to inflation surges would be to index tax brackets by 2½%, as we have [previously advocated](#). Fixed tax brackets lean against inflationary surges via bracket creep. This form of automatic stabilisation has its advantages. However, as we have seen in Australia recently, it can overdo the negative consumption response to inflation surges, leaving other sectors such as public demand or business investment relatively untouched. And without periodic tax cuts, the share of income paid in tax will rise forever. On the other hand, indexing brackets to CPI, as the US and Canadian tax systems do, means monetary policy and explicit fiscal actions must shoulder the load of inflation control. Lifting tax thresholds at a fixed rate retains the stabilisation properties of fixed brackets while avoiding the bias to higher taxation over time.

Indexing by 2½% would be preferable to CPI indexation in a range of other domains, too. Governments and others could build a preference for contract bids with escalation clauses fixed at 2½% annually, not CPI-linked indexation clauses. Capital gains could be taxed at the full marginal rate on a 'real' return using a 2½% annual inflation rate. This would remove the tax preference for capital gains over rental income – a significant distortion in the housing market – without the complexity of the pre-1999 system and without having to touch negative gearing. And all of these policy refinements would help anchor inflation expectations by keeping that 2½% figure front of mind.

There are, of course, other refinements that would help make the system more resistant to inflationary surges. Enhancing the automatic stabilisers in fiscal policy is one, for example by targeting welfare payments appropriately (though Australia is already much further down this road than peer economies). Efforts to make the supply side more resilient to shocks would also help. And fiscal austerity now, to minimise government debt and create space for stimulus later, might be less useful if future shocks are more likely to be supply-driven and inflationary, rather than demand shocks.

Achieving a soft landing after a large shock cannot be left to one policy tool that operates unevenly across the community and is not well tuned to all kinds of shock. Policies working hand in hand are a surer way to land.

Luci Ellis, Chief Economist Westpac Group

In Australia, [Westpac-MI Consumer Sentiment](#) is still yet to show any material signs of recovery. In May, the headline index remained locked in deeply pessimistic territory, moving 0.3% lower to 82.2. The latest update captured consumer reactions to the Federal Budget, which included a number of cost-of-living relief measures. The Budget was well received, with fewer households than usual expecting to be 'worse off' post-Budget than traditionally is the case. That said, the survey suggests households plan to save around 80% of the benefit from the Stage 3 tax cuts. Such an outcome would aid the RBA in their goal to ensure inflation returns to, and remains sustainably, at target.

Here and now however, headwinds continue to be felt. The sub-index tracking family finances versus a year ago fell 3.6% to 63.2, while views on 'time to buy a major household item' declined 2.8% to 76.5; these indexes are now 28% and 39% below their respective long-run averages. The higher-than-expected Q1 inflation outcome is likely the chief culprit, and helps explain the positive reception the Budget has received. Thankfully, forward views on finances continue to improve, 'finances next twelve months' rising another 0.7% to 96.1, only 10% below the long-run average. Also encouraging is that the one-year and five-year economic outlook measures remain constructive, lifting 0.7% and 2.6% respectively, the 5-year view now in line with the historic average.

The [RBA May Minutes](#) provided more colour around the Board's deliberations, in particular the considerations for monetary policy of stronger-than-expected inflation outcomes. The case for another hike was premised on risk judgements, the two main considerations being that staff forecasts could be viewed as "overly optimistic about the forces that would drive down inflation" and that consumption may "pick up somewhat more rapidly if labour market outcomes remained benign". The case for leaving policy unchanged was deemed stronger though, the Board of the view that, while recent updates have slightly tilted the balance of risks, it is not to the degree that warrants further tightening. The Board expects inflation to continue decelerating towards target as demand and supply come into better balance, but it needs more confidence in this view before debating the timing and scale of easing. We continue to believe the Board will have this confidence by November, allowing the RBA to embark on a measured rate cutting cycle, 25bps per quarter to 3.10% in Q4 2025. The coordination between fiscal and monetary policy frameworks was explored in [this week's essay](#) from Chief Economist Luci Ellis.

The [RBNZ's May Monetary Policy Statement](#) meanwhile highlighted that significant risks remain for New Zealand's inflation outlook. Inflation is forecast to fall back into the 1-3% band at the end of 2024, but is now not anticipated to return to the 2% mid-point until mid-2026. The RBNZ cash rate track points to the risk of another hike in late-2024 and the first cut not occurring until August 2025. Westpac remains of the view that the first cut will come earlier, in February 2025; but that the ensuing cutting cycle will be gradual, and the end-point in mid-2026 100bps above the RBNZ's upwardly revised estimate of neutral (3.75% versus 2.75%).

Further afield, S&P Global flash PMIs for May were constructive regarding activity but highlighted lingering inflation risks. The US measures received the most attention, the services PMI jumping 3.5pts, while the manufacturing PMI retraced half April's loss. Unnerving some participants was an acceleration in input prices for manufacturing and services; however, output prices were little changed in the month, and all of the price indexes remain well below the elevated readings of 2021-23. If employment slows in coming months, as this survey suggests, further pressure will be placed on output prices. As alluded to by FOMC members and the minutes this week (see below), inflation risks remain; but a return to, or very near, the 2.0% inflation target during the next 6-12 months is most probable.

Over in the UK, the service and manufacturing indexes came in below the market's expectations and April's outcomes, but were still expansionary. Helpfully, UK businesses reported that cost and wage pressures continue to abate, setting the scene for rate relief later in 2024 despite the latest CPI report coming in above expectations - April seeing a headline rise of 0.3% against the consensus estimate of 0.1% as services inflation held up. The Euro Area results also point to abating consumer price risks; input prices continue to grow at a robust pace, but selling prices are under pressure. As the ECB begins to cut interest rates from mid-year, the services sector should gain further strength. Having recovered to a 15-month high, the manufacturing index suggests European manufacturers are ready to benefit from stronger growth at home and abroad. This is also the case for Japan's manufacturers, the Jibun manufacturing PMI returning to growth in May after almost 18 months of contraction. Japan's service sector meanwhile continues to benefit from Yen weakness and nascent positive real income growth amongst households.

With other data inconsequential, for much of the week, the market again focused on the subtleties of US FOMC policy guidance. From the minutes and the members who spoke, the message was clear: as yet, the FOMC do not have enough confidence in the inflation outlook to begin cutting; but policy is considered restrictive and effective; hence a return to target inflation is believed to be only a matter of time, with further tightening only required if inflation surprises to the upside.

Week ahead & data wrap

Ruffling the hawks' feathers.

While delivering the expected on-hold decision at its May policy meeting, the Reserve Bank of New Zealand (RBNZ) hawked up its rhetoric and forward guidance. We continue to expect the first OCR easing in February next year, followed by gradual rate cuts thereafter. However, the tone of the May policy decision indicates the risk that easing comes later than we anticipate.

As expected, the RBNZ left the Official Cash Rate unchanged at 5.50% at its May policy meeting. However, in contrast to financial markets pricing for rate cuts by the end of this year, the RBNZ actually revised up its projection for the OCR and pushed out the likely timing of easings. The projected OCR path now peaks at 5.65% (vs. the peak of 5.60% assumed in the RBNZ's previous February forecast). In addition, the updated path is not consistent with a cut until late 2025 (compared to mid-2025 previously).

Underlying the RBNZ's more hawkish stance has been the lingering strength in inflation. The RBNZ now forecasts that inflation will end 2024 at a rate of 2.9%. That's in line with our own forecast, but is considerably higher than their previous forecast of 2.5% inflation. On top of that, the RBNZ now expects that it will take even longer to get inflation back to the 2% target mid-point – the May MPS forecasts don't have inflation back at 2% until mid-2026 (compared to late 2025 in their previous forecasts). That's even with the upward revision to their OCR forecasts.

That upwards revision to the RBNZ's inflation forecasts is mainly due to the strength of domestic inflation, which has clearly ruffled the feathers of the hawks at the RBNZ. Non-tradables inflation has surprised to the upside of the RBNZ's assumptions for a year now, including a large 0.5ppt surprise in the most recent quarter. The minutes accompanying the May policy decision noted that "persistence in non-tradable inflation remains a significant upside risk."

The RBNZ, like ourselves, expects that non-tradables inflation will drop back over the course of this year, but only gradually. While inflation in interest rate-sensitive areas of the economy (like the cost of property maintenance) is easing back, other prices like rents, insurance charges and local council rates have held at firm levels. Although these sorts of costs might be less responsive to changes in interest rates, those aren't pressures the RBNZ can look through, especially as they can affect inflation expectations and operating cost more generally.

The RBNZ is now factoring in a more gradual easing in domestic prices. Even so, we still think the RBNZ could continue to be surprised to the upside on this front. That would be very important for the RBNZ's stance over the coming quarters.

Balanced against that risk of persistent domestic inflation, imported inflation has fallen well short of the RBNZ's forecasts. We expect that will continue to be the case over the coming year, and that will be important for helping to keep inflation expectations anchored in the face of lingering domestic pressures. Even so, it's now looking like a longer road back to 2%.

The RBNZ has also revised its thinking in a couple of other key areas. First, the RBNZ's growth forecasts have been revised down significantly, which helps them retain confidence that inflation will ultimately fall. However, that is balanced by a downgraded view of the economy's productive potential, meaning the deflationary impact of slower economic growth is likely to be less pronounced than previously assumed. That judgement reflects the ongoing firmness in inflation despite recent softness in GDP, pointing to lower than assumed productivity in the economy.

Second, the neutral OCR has been revised up 25bps to 2.75% – this is a driver of longer-term OCR projections.

Finally, while Budget 2024 is out next week, the RBNZ's forecast for government expenditure is still based on the Treasury's Half Year Economic and Fiscal Update 2023. The RBNZ raised the possibility that the timing of signalled changes in government spending and tax cuts might pose an upside risk to its forecasts for aggregate demand. That is, the impact of reductions in government spending to date (albeit those mainly initiated by the previous government) may already be reflected in indicators of activity (which the RBNZ has taken onboard in downgrading its forecasts), whereas impending tax cuts may not yet be factored into spending decisions. We'll have more to say about our view regarding the impact of fiscal policy next week in our coverage of Budget 2024 ([our preview is available here](#)).

Overall, recent developments have left the RBNZ with a more challenging inflation outlook – it wouldn't take much for inflation to remain above 3% this year, especially with the risk of large increases in local council rates and tax cuts in the second half of the year, along with ongoing pressure on rents and businesses' operating margins. Combined with the related risk for inflation expectations, there isn't scope for the RBNZ to take their foot off the brake just yet. Consistent with that, the minutes accompanying the May policy decision noted that the Monetary Policy Committee discussed the possibility of tightening, while RBNZ officials have noted that interest rate cuts are not part of the current policy discussion.

The RBNZ's updated thinking is very consistent with that in our [recently updated Economic Overview](#) – that is, there are still "hard yards" to be done to bring inflation down to the 2% target midpoint in a timely and sustainable manner. As a result, monetary policy will need to remain tight for some time yet. Our baseline view remains that the first 25bp policy easing won't occur until February next year, to be followed by a series of gradual (once a quarter) 25bp reductions that will eventually lower the OCR to around 3.75% in 2026. That's a later start to the easing cycle than implied by financial market's pricing, which is consistent with rate cuts from November.

We now find a large gap between our own OCR forecast of an easing in February 2025 and the RBNZ's August 2025 view, and there is some risk that our forecast proves to be too optimistic. With economic activity and the labour market cooling, another hike looks unlikely. However, should inflation pressures prove to be stronger than we or the RBNZ expects, the RBNZ may keep the OCR at its current level for even longer. We'll make an assessment after reviewing the Q2 CPI in July and the RBNZ's updated view in the August Statement.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Wed 22	GlobalDairyTrade auction (WMP)	2.4%	2.9%	-
	RBNZ policy decision	5.50%	5.50%	5.50%
Thu 23	Q1 real retail sales	-1.8%	0.5%	-0.5%
Fri 24	May ANZ consumer confidence	82.1	84.9	-
	Apr trade balance \$mn	476	91	717

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Aus Apr Retail Trade (%mth)

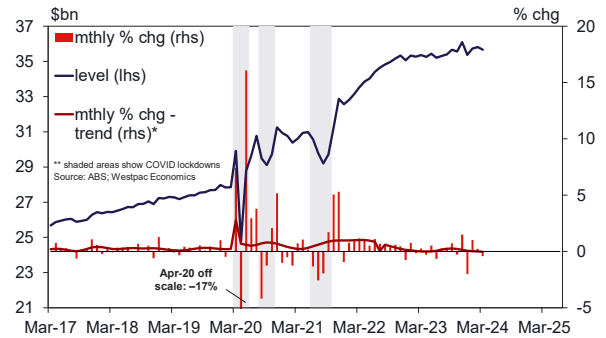
May 28, Last: -0.4%, WBC f/c: 0.6%
Mkt f/c: 0.2%, Range: flat to 2.5%

Retail sales came in weaker than expected for March, down 0.4%. While an unwinding Taylor Swift boost was in the mix, weakness was broad based with only basic food retail posting a gain in the month.

The Westpac Card Tracker suggests spending improved again in April, albeit fading badly again from the end of April and over the last four weeks.

Retail sales have been a little steadier and slower to capture shifts. We expect April to show a better 0.6% mth gain but note that this still leaves quarterly growth in nominal sales (i.e. three months to Apr vs the previous three months) about flat with annual growth in the same metric holding at 1.4% yr (below inflation, and materially negative in per capita terms).

Monthly retail sales



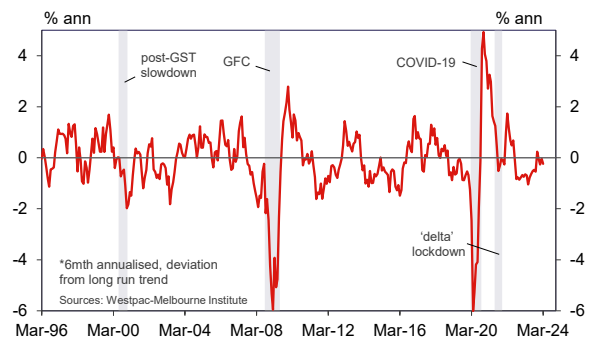
Aus Apr Westpac-MI Leading Index

May 29, Last: -0.23%

The Leading Index fell to -0.23% in March from -0.03% in February, indicating Australia's sub-trend growth performance is like to continue throughout 2024. Despite some improvement over the last six months, and a brief one-month lift into positive late last year, the Index growth rate has been stuck firmly below zero in early 2024.

Component-wise, the April read looks likely to be on the soft side again with the ASX200 down -2.9%, commodity prices down another -1.6% in AUD terms, total hours worked stalling flat again after solid gains in recent months and consumer unemployment expectations deteriorating.

Westpac-MI Leading Index



Aus Apr Monthly CPI Indicator %yr

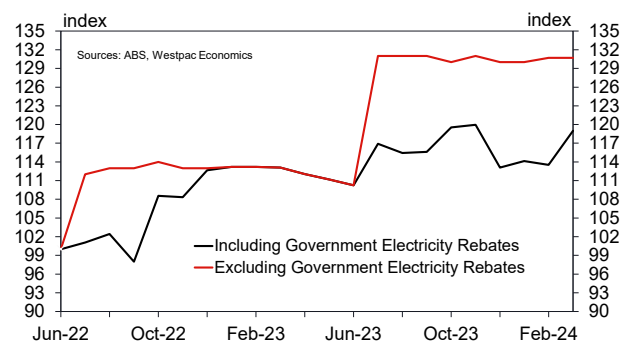
May 29 Last: 3.5%, WBC f/c: 3.5%
Mkt f/c: 3.4%, Range: 3.2% to 3.8%

The March Monthly CPI Indicator was stronger than we had expected lifting 0.7% mth/3.5% yr. Our forecast was 0.3% mth/3.2% yr. The main surprise was the stronger than expected bounce in electricity prices as various government power rebates expired.

For April, our forecast is for a 0.7% increase in the month which will hold the annual pace flat at 3.5% year. If there are any risks to this forecast we suspect they are to the upside. Why? Firstly, there is uncertainty around how much electricity prices can jump in any one month as the rebates roll off. We pencilled in a 5% mth rise for April, which is similar to March, but they could jump a lot more.

In addition, ABS seasonal factors suggest the seasonal increase in April is around 0.6% meaning our forecast would close to a flat print in seasonally adjusted terms.

Monthly electricity prices



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Aus Q1 Construction Work (%qtr)

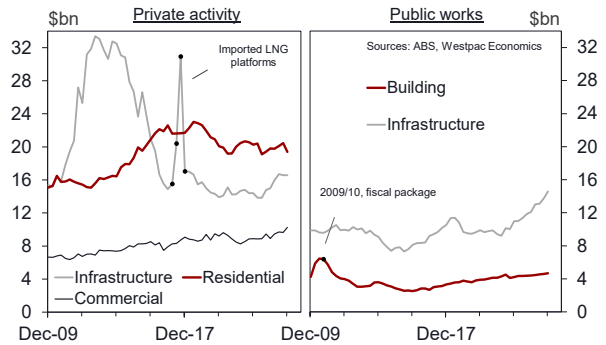
May 29, Last: 0.7%, WBC f/c: flat
Mkt f/c: 0.5%, Range: flat to 1.5%

Construction work done grew 0.7% in the December quarter to be 8.7% higher over 2023. That annual result was driven by public works (+16.6%) and private business construction (+15.0%), which was partly offset by a fall in private residential (-2.1%).

The increase in construction activity over 2023 was front loaded, with a noticeable step down in gains over the second half. This step down was concentrated in the private sector, particularly in residential construction. Public works continues to expand, driven by the elevated infrastructure pipeline, which received a boost after recent Federal and state government budgets.

For the March quarter 2024, we anticipate that construction work done was flat. The number of hours worked in construction declined over the quarter suggesting some softness in activity. We expect gains to be made in public works, offset by continued soft outcomes in residential construction.

Construction work: led higher by infrastructure



Aus Q1 Private Business Capex (%qtr)

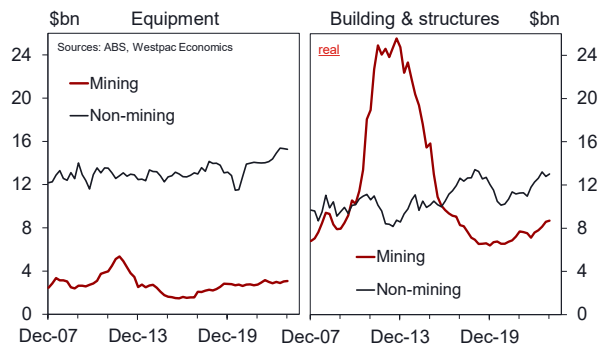
May 30, Last: 0.8%, WBC f/c: 1.6%
Mkt f/c: 0.7%, Range: flat to 2.5%

Private business capex spending grew 0.8% in Q4, to be 7.9% higher over 2023. Growth over last year was driven by a 9.3% increase in building & structures (B&S) and a 6.4% increase in equipment.

Capex spending recorded a significant lift over the first half of 2023, with gains slowing in the second half as generous COVID-era investment incentives expired. Despite the slowdown, capex spending remains elevated. This reflects above average levels of capacity utilisation, greater availability of capital goods as supply disruptions fade, and ongoing investment in the net zero transition.

While growth in capex is expected to moderate given the slowdown in consumption, we anticipate a solid 1.6% increase in the March quarter, driven by equipment. Capital imports of machinery and equipment have grown strongly over the quarter as global supply chains improve and the prices of capital goods ease.

Capex: by industry by asset



Aus 2024/25 Capex Plans (\$bn)

May 30, Last: Est 1 \$145.6

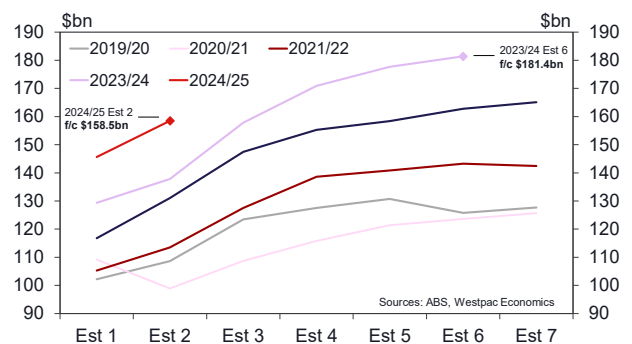
Capex spending rose 15.9% in 2022/23 (volumes 6.7% and prices 9.2%). Capex plans point to a slowdown in 2023-24 and 2024-25.

This will be driven by disinflation in the prices of capital goods as ripple effects from the pandemic continue to fade. In addition, as the consumer continues to pull back on spending and business conditions ease from its highs, investment is also expected to slow but remain elevated.

Est 5 for 2023/24 printed \$177.7bn. Our 'guesstimate' of what businesses will estimate for Est 6 is \$181.4bn. Using average realisation ratios, this implies growth in capex of 8.9% in 2023-24.

Est 1 for 2024/25 printed \$145.6bn. Our 'guesstimate' for Est 2 is \$158.5bn. Using average realisation ratios, this implies growth of 5.2% in 2024-25, a clear step-down in growth versus last year.

Total CAPEX spending plans



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Aus Apr Dwelling Approvals (%mth)

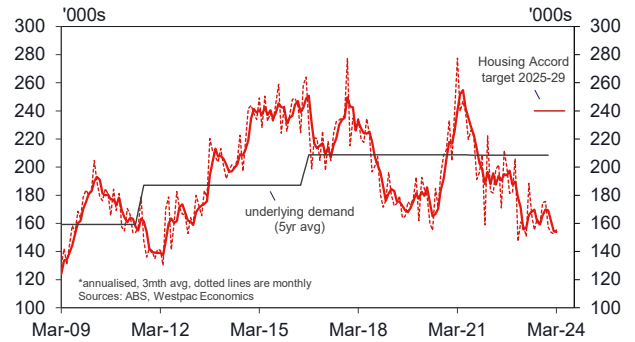
May 30, Last: 1.9%, WBC f/c: 4.0%
Mkt f/c: 1.5%, Range: -0.4% to 7.0%

Dwelling approvals rose 1.9% in March, bumping 12yr lows after taking another mini-led down in late 2023.

While the general backdrop is still weak, the next few months are likely show a temporary lift in approvals. HIA new home sales jumped 22% in April, led by particularly strong numbers in Vic and Qld where buyers pull forward sales to beat building code changes coming into effect in May. We saw a similar pull-forward and subsequent drop off in NSW back in September last year.

The play-through to dwelling approvals was smaller and spread over a few months but should still see a solid gain in detached house approvals. With unit approvals at extreme lows, this could easily produce a sharp jag higher if there is any monthly noise in this volatile segment. Overall, a 4% rise is a reasonable starting point for monthly approvals with upside risks from unit 'noise' balanced against downside risks if the sales spike is slower to appear in approvals.

Dwelling approvals



Aus Apr Private Sector Credit (%mth)

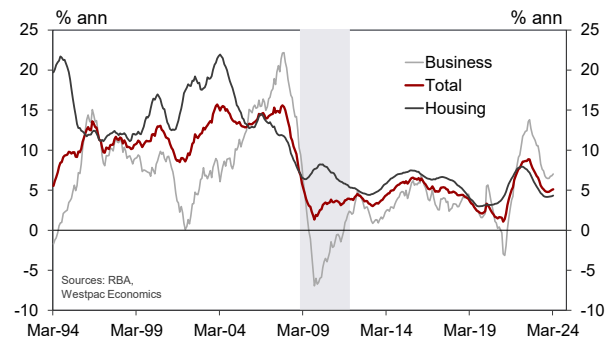
May 31, Last: 0.3%, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: 0.3% to 0.6%

Credit to the private sector is expanding at a modest pace tracking around a 5% annualised pace, with residential credit growth around historic lows.

Total credit growth slowed markedly in 2022, moderating from a peak of 8.9%yr, but has since moved sideways, to be at 5.1%yr in March. The moderation reflects a backdrop of elevated interest rates and slowing growth but with an economy that is still operating with tight capacity, providing some baseline support to both residential and business credit growth.

For April, we expect a similar picture with total credit rising 0.4%, holding annual growth at 5%yr. Housing credit growth has firmed a touch as new finance approvals have rallied off last year's lows. Business credit has been resilient but is showing no real direction to momentum.

Credit growth holds at around 5%yr



NZ Apr Monthly Employment Indicator (%mth)

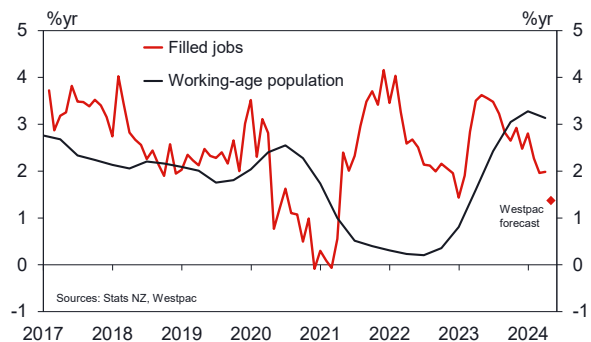
May 28, Last: +0.4%, Westpac f/c: -0.2%

The monthly employment indicator is drawn from income tax data, making it a comprehensive record of the number of people in work. While there are conceptual differences, it generally does a good job of predicting the more widely followed quarterly household survey measure of employment.

Job growth has been slowing since mid-2023, and has now fallen behind the pace of population growth, which continues to be boosted by record net inward migration. Surveys suggest that businesses are no longer struggling to find more workers, and job advertisements have fallen substantially below pre-COVID levels.

The weekly snapshots provided by Stats NZ are incomplete for April, but they have been losing momentum in recent weeks. We expect to see a modest 0.2% decline in jobs for the month, along with a likely downward revision to the initially reported 0.4% rise in March.

NZ monthly filled jobs growth



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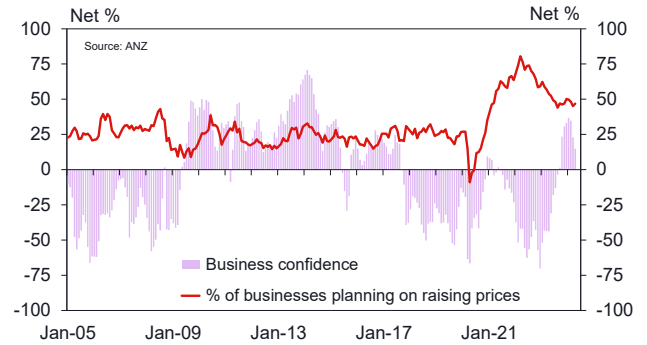
NZ May ANZ Business Confidence

May 29, Last: 14.9

The April business outlook survey was effectively the worst of both worlds. Business confidence fell further, effectively giving back all of the initial post-election bounce as the reality of a slowing economy set in again. At the same time, more firms reported a rise in their operating costs, and pricing intentions remained at a relatively high level.

There has been little in the last month that is likely to have changed the mood. The survey's price and inflation gauges will remain a key focus – note that the May survey follows the March quarter CPI release, where headline inflation slowed from 4.7% to 4.0% but the domestically-driven components remained uncomfortably high.

NZ ANZBO business confidence



NZ Apr Building Consents (%mth)

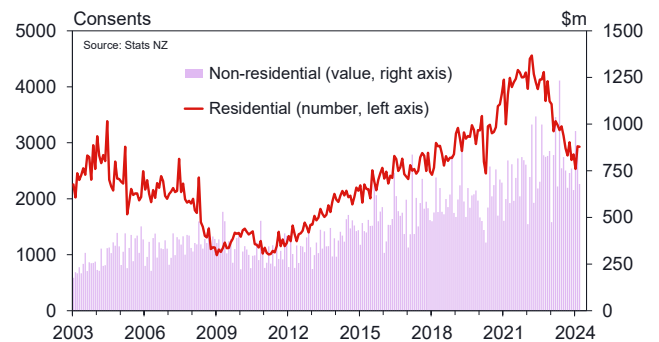
May 30, Last: -0.2%. Westpac f/c: -5.0%

Consent issuance is down 25% over the past year. However, it looks like issuance is finding a floor. Consents for standalone houses (around 40% of the total) have held around current levels for more than six months now. The more volatile multi-unit category has been dropping back over the past year, however that downtrend is showing signs of flattening off.

We're forecasting a further 5% fall in April. That's mainly due to falls in the lumpy apartment and retirement village categories. In contrast, issuance in other categories is expected to track around recent levels.

Even with signs that consents are stabilising, residential construction is set to trend down this year.

NZ building consents



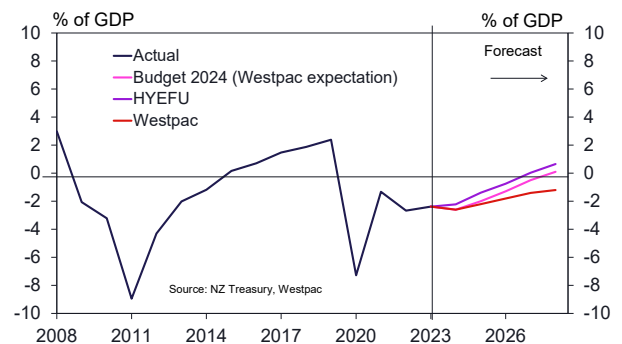
NZ Government Budget 2024

May 30, Released at NZ 2:00pm

The first Budget of the new Government will provide the first official costings of the spending and taxation policies set out in the coalition agreements. However, while the size of tax cuts will be of key interest to the public, the dominant driver of revisions to the fiscal outlook will be the deterioration in the economy since the last forecasts were made in December.

We expect that the Treasury will forecast a cumulative \$NZ11bn deterioration in the operating surplus across the forecast period. So with capital spending needs also to be funded, we expect the NZGB borrowing programme to be raised by around \$NZ15bn. The Treasury may be able to forecast a small surplus in '27/28 – one year later than previous – be we have doubts that this will be delivered given ongoing spending pressures.

NZ Operating Balance (OBEGAL)



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 27					
Chn	Apr Industrial Profits %yr	-3.5%	-	-	Falling producer-gate prices a key drag on profitability.
Ger	May IFO Business Climate Survey	89.4	90.0	-	Prospects of rate cuts underpinning confidence recovery.
Tue 28					
Aus	Apr Retail Sales %mth	-0.4%	0.2%	0.6%	April looks a slightly better month but trends still very weak.
NZ	Apr Employment Indicator %mth	0.4%	-	-0.2%	Signs that hiring has lost momentum.
US	Mar S&P/CS Home Price Index %mth	0.61%	0.30%	-	Near-term momentum depends critically on turnover.
	May Consumer Confidence Index	97.0	96.0	-	Highly sensitive to developments in employment outlook.
	May Dallas Fed Index	-14.5	-	-	Conditions soft across the regions.
	Fedspeak	-	-	-	Mester at BoJ event. Kashkari too.
Wed 29					
Aus	Apr Westpac-MI Leading Index	-0.23%	-	-	Below-trend growth run set to continue throughout 2024.
	Apr Monthly CPI Indicator %yr	3.5%	3.4%	3.5%	The end of energy rebates increases monthly uncertainty.
	Q1 Construction Work Done %qtr	0.7%	0.5%	0.0%	Easing that emerged over H2 2023 to persist into 2024.
NZ	May ANZ Business Confidence	14.9	-	-	Businesses pressured by both soft demand and rising costs.
US	May Richmond Fed Index	-7	-	-	Conditions soft across the regions.
	Federal Reserve's Beige Book	-	-	-	An update on economic conditions across the regions.
	Fedspeak	-	-	-	Williams.
Thu 30					
Aus	RBA Assistant Governor (Economic)	-	-	-	Hunter, fireside chat at AIRA Conference, 8:50am AEST.
	Q1 Private Capital Expenditure %qtr	0.8%	0.7%	1.6%	Capex spending level remains elevated. See textbox.
	2024/25 Capex Plans, Est 2 \$bn	145.6	-	-	Plans point to a slowing in CAPEX into 2024/25.
	Apr Dwelling Approvals %mth	1.9%	1.5%	4.0%	HIA new home sales point to gains over the coming months.
NZ	Apr Building Consents %mth	-0.2%	-	-5.0%	The decline in issuance is starting to slow.
	Budget 2024	-	-	-	NZGB borrowing programme to rise by around \$NZ15bn.
Eur	May Economic Confidence	95.6	-	-	Optimism gradually returning in anticipation of rate cuts.
	Apr Unemployment Rate %	6.5%	-	-	Holding steady at a historic low.
US	Q1 GDP (Annualised)	1.6%	1.2%	-	Small revision anticipated in the second estimate.
	Apr Wholesale Inventories %mth	-0.4%	-	-	Inventory management remains a key challenge.
	Apr Pending Home Sales %mth	3.4%	0.3%	-	Sales volumes bouncing around at very weak levels.
	Initial Jobless Claims	215k	-	-	Very low and likely to remain so.
	Fedspeak	-	-	-	Bostic, Williams, Logan.
Fri 31					
Aus	Apr Private Sector Credit %mth	0.3%	0.4%	0.4%	Growth stuck around 5% annual pace.
Jpn	Apr Jobless Rate %	2.6%	2.6%	-	Labour market tight, supportive of wage gains.
	May Tokyo CPI %yr	1.8%	2.2%	-	Sustaining services inflation critical to achieving target.
	Apr Industrial Production %mth	4.4%	1.5%	-	Factory output growth struggling to remain afloat.
Chn	May NBS Manufacturing PMI	50.4	50.4	-	Broadly consistent with long-run average levels for industry.
	May NBS Non-Manufacturing PMI	51.2	51.5	-	Signs of optimism returning to a challenged services sector.
Eur	May CPI %yr	2.4%	2.6%	-	Last inflation read prior to a likely June ECB rate cut.
US	Apr Personal Income %mth	0.5%	0.3%	0.4%	Wages growth is moderating...
	Apr Personal Spending %mth	0.8%	0.3%	0.4%	... services demand is holding up spending.
	Apr PCE Deflator %mth	0.3%	0.3%	0.3%	Any deviation from consensus will be closely scrutinised.
	May Chicago PMI	37.9	40.8	-	Pointing to downside risk for manufacturers.
	Fedspeak	-	-	-	Bostic.

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Forecasts

Interest rate forecasts

Australia	Latest (24 May)	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
90 Day BBSW	4.34	4.37	4.37	4.17	3.92	3.72	3.55	3.30
3 Year Swap	4.14	4.10	4.00	3.90	3.80	3.70	3.60	3.50
3 Year Bond	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30
10 Year Bond	4.32	4.35	4.30	4.25	4.20	4.10	4.00	4.00
10 Year Spread to US (bps)	-15	-15	-10	-5	0	0	0	0
US								
Fed Funds	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875
US 10 Year Bond	4.47	4.50	4.40	4.30	4.20	4.10	4.00	4.00
New Zealand								
Cash	5.50	5.50	5.50	5.50	5.25	5.00	4.75	4.50
90 day bill	5.62	5.60	5.60	5.50	5.25	4.95	4.75	4.50
2 year swap	5.11	5.10	5.00	4.80	4.55	4.40	4.25	4.15
10 Year Bond	4.78	5.00	4.90	4.80	4.70	4.65	4.55	4.50
10 Year spread to US	31	50	50	50	50	55	55	50

Exchange rate forecasts

Australia	Latest (24 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD/USD	0.6602	0.66	0.66	0.67	0.68	0.69	0.70	0.71
NZD/USD	0.6099	0.60	0.60	0.61	0.62	0.63	0.64	0.65
USD/JPY	157.09	156	156	154	150	146	143	140
EUR/USD	1.0809	1.08	1.09	1.10	1.11	1.12	1.13	1.14
GBP/USD	1.2691	1.26	1.27	1.28	1.29	1.30	1.31	1.31
USD/CNY	7.2455	7.20	7.15	7.10	7.05	7.00	6.90	6.80
AUD/NZD	1.0827	1.10	1.10	1.10	1.10	1.10	1.09	1.09

Australian economic growth forecasts

% change	2023			2024				Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2022	2023	2024f	2025f
GDP % qtr	0.5	0.3	0.2	0.3	0.3	0.4	0.5	-	-	-	-
%yr end	2.1	2.1	1.5	1.3	1.1	1.3	1.6	2.4	1.5	1.6	2.5
Unemployment rate %	3.6	3.7	3.9	3.9	4.0	4.2	4.3	3.5	3.9	4.3	4.6
Wages (WPI)	1.0	1.2	1.0	0.8	0.8	0.8	0.7	-	-	-	-
annual chg*	3.7	4.0	4.2	4.1	3.9	3.5	3.1	3.3	4.2	3.1	3.0
CPI Headline	0.8	1.2	0.6	1.0	0.9	0.6	0.8	-	-	-	-
annual chg	6.0	5.4	4.1	3.6	3.7	3.0	3.2	7.8	4.1	3.2	2.8
Trimmed mean	0.9	1.2	0.8	1.0	0.7	0.8	0.8	-	-	-	-
annual chg	5.8	5.1	4.2	4.0	3.7	3.4	3.5	6.8	4.2	3.5	2.8

New Zealand economic growth forecasts

% change	2023			2024				Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2022	2023	2024f	2025f
GDP % qtr	0.5	-0.3	-0.1	0.1	-0.1	0.3	0.3	-	-	-	-
Annual avg change	3.0	1.3	0.6	0.2	-0.3	-0.1	0.2	2.4	0.6	0.2	1.8
Unemployment rate %	3.6	3.9	4.0	4.3	4.6	4.9	5.2	3.4	4.0	5.2	5.4
CPI % qtr	1.1	1.8	0.5	0.6	0.8	1.1	0.4	-	-	-	-
Annual change	6.0	5.6	4.7	4.0	3.7	3.0	2.9	7.2	4.7	2.9	2.2



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