AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 3 June 2024

Editorial: The Grumpy Hawk and Other Scenarios.

RBA: Deputy Governor Hauser speaking.

Australia: Q1 GDP and partials, housing updates (prices, finance), goods trade balance.

NZ: King's Birthday (public holiday), building work, terms of trade, GlobalDairyTrade auction.

China: Caixin PMIs, trade balance, foreign reserves.

Eurozone: ECB policy decision, retail sales.

US: nonfarm payrolls, unemployment rate, hourly earnings, ISMs, factory orders, trade balance.

Canada: BOC policy decision.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 31 MAY 2024.

WESTPAC INSTITUTIONAL BANK

The Grumpy Hawk and Other Scenarios

Growth in economic activity is expected to be soft in the first half of 2024, driven by weak consumer spending. Beginning in the second half of the year, it will gradually pick up as the factors weighing on household income ease and consumer spending recovers.

Inflation is falling, despite the upside surprise in the March quarter and April month. Monetary policy is restrictive and helping to dampen discretionary spending and so domestic inflation. Wages growth has already peaked; the March quarter result for the Wage Price Index was slightly below our expectations and the detail suggests that this was not simply noise. This implies that domestic labour cost pressures have peaked.

With the RBA in data-dependent mode, surprises in the data flow could change the timing of rate cuts, but not the underlying decision process. The RBA Board recognises that monetary policy is currently contractionary. At some point, it must reduce that restrictive stance and return to something closer to a level it considers to be 'neutral'. Otherwise, inflation would eventually decline below the target range. Because monetary policy works with a lag, rate cuts need to start before inflation has returned to target.

The question the RBA Board will be asking itself is what it needs to see to be confident that inflation will return to target soon. The likely trajectory of disinflation from here precludes a rate cut much before November. Trimmed mean inflation was still a full percentage point above the top of the target range over the year to the March quarter. Services inflation – a key focus for the RBA Board at present – remains elevated. It will take time for enough evidence to accumulate to convince the Board that the disinflation is on track. But if things turn out as we expect, a forward-looking central bank would want to start reducing the restrictiveness of policy by about November.

What could send things off track from our base case?

As always, there are many shocks that could push outcomes away from our base case. Most of these would be inflationary rather than deflationary. For example, geopolitical tensions could boost energy prices or global goods prices via trade restrictions or a further increase in shipping costs. Domestic supply chain capacity also appears to be still quite constrained relative to peer economies. A few upside and downside scenarios are of particular note.

Upside scenarios

The main thing that would cause the RBA to shift its first rate cut later is inflation remaining sticky above the target range. Recent communication from the Board has focused on services prices, which include non-discretionary services such as rent and insurance where inflation has been very high recently. Inflation in discretionary goods and services is much lower and in many cases is already back in the 2–3% target range. It is possible that consumer spending recovers more than expected in response to tax cuts and other fiscal support measures, and so pressure on firms to limit price increases wanes. The spending plans implied by responses in the Westpac–Melbourne Institute Consumer Sentiment survey would suggest that this is a lower probability scenario than previously thought. But after such a long period of cost-of-living pressure, households might instead want to unwind past cutbacks quickly.

Another possible pathway to a later start to the rate-cutting phase would be a stronger outlook for labour costs than expected. This could occur if the Fair Work Commission decision scheduled for Monday awards a larger increase to award and minimum wage rates than we expect, and other bargaining streams follow. Our wages growth forecasts assume an outcome around 4½% but anywhere in the 4–4 ½% range seems reasonable. Another scenario in this vein would be if productivity remains low because of domestic supply constraints, which would also imply that unemployment remains lower than expected. Again, given our analysis pointing to the productivity slump unwinding, this seems unlikely.

A more plausible, and pessimistic, scenario is one where domestic demand and especially consumption remain soft, but supply-driven inflation in key sectors such as housing, insurance, health and especially energy keeps aggregate inflation too high for the RBA Board's comfort. This 'grumpy hawk' scenario would see weak consumer sentiment and a softening labour market collide with difficulties expanding supply in these key sectors.

A particular risk is the domestic energy cost outlook. In Europe, gas prices escalated sharply after Russia's invasion of Ukraine, but then unwound almost as quickly. By contrast in Australia, the forces pushing up electricity and gas prices are largely home-grown and stickier. Ongoing rebates may manage to 'tunnel through the mountain' and meet up with a falling wholesale price on the other side. On current information, though, governments in Australia could end up needing to extend rebates even further to avoid a delayed escalation in household energy bills in a year's time.

Downside scenarios

There is not enough time for the RBA to see enough evidence of a downside surprise to move much before November. Even if June quarter CPI is much weaker than we expect – a low-probability event – the RBA will want to see more than one quarter of downside before forming a conclusion.

If domestic demand growth slows rather than starting to recover over the course of this year, or the labour market starts to contract, the inflation outlook in 2025 and beyond will be noticeably weaker. If this turns out to be the case, then the RBA will probably seek to unwind the restrictive stance of policy faster than we currently assume. This would imply a faster decline to the low 3s and possibly beyond, rather than an earlier start.

There are a few ways domestic demand could fail to pick up as forecast. In the minutes of the May Board meeting, the RBA indicated that it had been surprised that households had cut back on spending even when their incomes had not fallen. This suggests that consumption has been more interest-sensitive than expected in a high-inflation context. Another possibility – as hinted at by the results of the latest consumer sentiment survey – is that consumers spend less out of the forthcoming tax cuts than they normally would out of extra income.

Another way inflation could be lower in the short term is if the unwind in goods inflation turns out to be larger than we or the RBA expect. Currently, the RBA assesses that the disinflation in goods prices is complete. The detail of the April CPI also points to more upside than downside risk in prices of clothing and some other consumer durables. But if demand remains soft, discounting could resume.

Luci Ellis, Chief Economist Westpac Group

In Australia, the Monthly CPI Indicator rose to 3.6%yr in April, from 3.5%yr in March and 3.4%yr in January and February. By sub-category, there were various differences relative to expectations which offset one another – a notable increase in prices for clothing and footwear (+4.0%mth) and a pull-forward of the health insurance premium increase met by another fall in electricity prices, principally due to another round of energy rebates in Tasmania (–1.9%mth). While the latest figures point to a slight upside surprise for the Q2 CPI, subsequent updates – especially the quarterly services components next month – will be crucial for gauging the balance of risks into mid-year.

This week's consumer and housing updates came in on the softer side. Growth in nominal retail sales printed a feeble 0.1% (1.3%yr) in April, continuing the past six months' very subdued trend. Falling retail prices in certain segments may be partially to blame, though underlying volumes clearly remain weak. Meanwhile, the –0.3% decline in dwelling approvals points to a fragile outlook for new dwelling investment, at odds with the needs of a rapidly growing economy.

In the lead-up to next week's Q1 GDP report, the ABS also released two partial indicators of investment.

Construction activity surprised materially to the downside, contracting –2.9% in Q1. Declines were recorded across both private and public sectors (–2.4% and –4.3%) and were broad-based across segments, with non-residential building works particularly weak (–7.0%). The sharp decline in hours worked in the sector was the likely culprit behind the moderation in activity. That said, there remains a sizeable pipeline of construction projects yet to be completed and, given the extra boost to the pipeline from recent Federal and State Government budgets, construction activity has scope to remain at a high level.

The Q1 CAPEX survey subsequently reported a 1.0% lift in capital expenditure. Spending on machinery and equipment, which feeds into GDP, posted a solid 3.3% lift, while building and structures moderated, –0.9%, the mining sector acting as a drag across both segments. On spending intentions, the second estimate for 2024/25 CAPEX plans remained optimistic, up 13% compared to the second estimate a year ago. In our view, this implies an 8.3% rise in nominal CAPEX spending over the financial year, or roughly 5.25% on an inflation-adjusted basis. Constructive for the medium-term outlook, businesses still see a need to build capacity and alleviate constraints.

Our Q1 GDP preview will be published later today on WestpacIQ. Looking further out, Chief Economist Luci Ellis' essay this week investigates the key risks Australia and its policymakers face as we seek to return inflation to target and foster a recovery in GDP growth to or above trend.

Following Australia's Budget a fortnight ago, this week it was New Zealand's turn. Spending and revenue forecasts have both been lowered, and the return to surplus delayed. For all the detail, see Westpac New Zealand Economics' Budget report.

In the US this week, the Federal Reserve's May Beige Book pointed to subdued conditions across the economy. 10 of 12 districts reported "slight or modest growth", and the remaining 2 no growth. Retail spending was little changed, with "lower discretionary spending " observed. Growth in housing demand was also modest, population and the labour market were supportive but affordability and borrowing capacity remain significant headwinds.

The Beige Book's view on labour market momentum remains at odds with nonfarm payrolls but in line with the household survey, eight districts reporting "negligible to modest job gains, and the remaining four Districts reported no changes in employment". Commentary around headcounts suggests a mixed picture. Some districts reported businesses increasing headcounts, while others allowed headcounts to shrink through natural attrition. Businesses are seemingly taking down the 'need help' sign as the economy slows.

Helpfully for services inflation, "Several Districts reported that wage growth was at pre-pandemic historical averages or was normalizing toward those rates". Price increases were considered modest, consumers pushing "back against additional price increases ". Evident here is that discounts are becoming necessary to entice consumers to spend.

Looking at the economy as a whole, US Q1 GDP growth was revised marginally lower in the second estimate to 1.3% annualised (prev 1.6%), primarily as a result of softer consumption. After a strong 2023, consumption growth in Q1 is now estimated at a below-trend 2.0% annualised. What's more, April retail sales (released earlier in the month) suggests this moderation in growth continued into Q2. A moderation in growth to, or slightly below trend, will alleviate remaining concerns over inflation and allow the FOMC to ease from late-2024.

Over in Europe, the unemployment rate edged down to 6.4% in April. Continued strength in the labour market data highlights lingering risks for wage growth and services inflation. We expect the ECB to begin their cutting cycle next week at their June meeting, but subsequent easing will be modest in scale and pace, with momentum and risks to be assessed meeting by meeting.

Week ahead & data wrap

Budget 2024 confirms bumpy road back to surplus

The focus in New Zealand over the past week was the release of Budget 2024. This provided the first official costings of the policies of the new Government, as well as an updated outlook for operating balances and debt based on a much weaker economy than had been assumed when the last update was published in December.

As it turns out, the Government more-or-less delivered on all the spending and revenue initiatives that had been proposed in the coalition agreements, including raising income tax thresholds for low to middle income earners (beginning 31 July), funded by significant savings, reprioritisations and revenue initiatives. So, as we expected, the key driver of the revisions to the fiscal outlook were on the revenue side of the ledger, with a weaker profile for nominal GDP leading to a more than $18bn shortfall in tax revenue across the forecast period.

In the near-term, the fiscal outlook was portrayed even more negatively than we had expected, with an operating (OBEGAL) deficit of 3.1% of GDP now expected in 2024/25 – more than double that forecast in December and larger than the 2.7% of GDP deficit now forecast for the current fiscal year. Thereafter, the Government has set itself very skinny annual operating allowances of just $2.4bn to fund new initiatives in subsequent Budgets. On that basis, government spending is forecast to decline by more than 2ppts of GDP, allowing the Government to forecast a tiny OBEGAL surplus of 0.3% of GDP in 2027/28, which was in line with our expectations.

The weaker fiscal outlook has necessitated a lift in the Government's borrowing programme, with bond issuance now forecast to be $12bn greater across the forecast period than forecast in December. While this was a slightly smaller lift than we had expected, this was only possible due to a $4bn increase in short-term borrowings (Treasury bills and Euro Commercial Paper) and the curtailment of the usual buyback of maturing bonds. The maximum size of nominal bond lines has been raised by $7bn to $25bn.

The weaker near-term outlook for OBEGAL means that the Treasury's estimate of the fiscal impulse now implies that the fiscal stance is not contractionary in the 2024/25 year compared to the December update. We think that this explains why the tone of the RBNZ's commentary around fiscal policy in the May Monetary Policy Statement (MPS) was notably more hawkish than that offered previously. While the formal projections in the MPS were based on publicly available data, the RBNZ had been briefed on the broad parameters of Budget 2024. Budget 2024 is not a game changer for the RBNZ, but a tighter fiscal stance would have been welcomed. Given the higher inflation outlook, a game changer is not required to introduce risk into the future RBNZ view. We continue to see news of ongoing non-tradables price increases (such as air travel related cost increases and utilities increases) which means that any downside risk to our short-term inflation forecasts is looking increasingly limited.

Looking ahead, the risks to the Budget outlook still appear to lie to the downside. Living within such tight fiscal allowances will be challenging for the Government, especially given population growth.

It is notable that the Treasury's forecasts are based on an optimistic assessment of the outlook for inflation, which allows the Treasury to project a significant easing of monetary policy by the middle of next year. This leads the Treasury to forecast a relative rapid rebound in the economy than we think is likely, and means that the Treasury's forecasts of financing costs are lower than our own. On the revenue side, should the remaining carbon auctions fail to clear – as would appear to be the risk – that would present an additional source of fiscal risk.

While the underlying detail of Budget 2024 might ordinarily have been expected to be somewhat bearish for the bond market, a small decline in yields following the announcement suggests that investors were braced for even worse news – although the shift towards shorter maturity issuance is likely also a factor.

This week's ANZ Business Outlook survey provided some better news for the RBNZ. After moving sideways for several months, the proportion of firms forecasting a rise in their selling prices over the next three months stepped down and firms' year-ahead inflation expectations fell. These are both factors the RBNZ has said would be important in giving them confidence to ultimately ease once inflation moves inside the target range. The survey also pointed to an ongoing weak activity outlook – with the construction sector notably weak (as is clear from a raft of indicators). Overall, we see the ANZ survey as consistent with our view that activity is likely contracting modestly in the current quarter following a very small expansion in the March quarter.

The labour market needs to continue to weaken if non-tradables inflation is to fall from current elevated levels. The ANZ's survey also provided some signs that this process is ongoing, with a net 16% of respondents reporting lower employment levels than a year earlier and a net 7% of respondents expecting to reduce staffing levels over the coming months. Firms also expect wage growth of just 2.8% over the next 12 months. The Monthly Employment Indicator did point to a 0.1% lift in filled jobs during April which may end up revised lower subsequently but seems consistent with our view of flat employment growth over the period ahead.

Looking ahead to the coming week, we will be interested to see the first reports on real estate activity during May. Other than that, international trade, construction and business financial data reports will cast light on whether the economy grew in Q1. The results of the latest GDT dairy auction will also be of interest, especially following stronger-than-expected outcomes over the prior two auctions.

Darren Gibbs, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 28	Apr employment indicator	0.3%	0.1%	–0.2%
Wed 29	May ANZ business confidence	14.9	11.2	–
Thu 30	Apr building permits	–0.2%	–1.9%	–5.0%

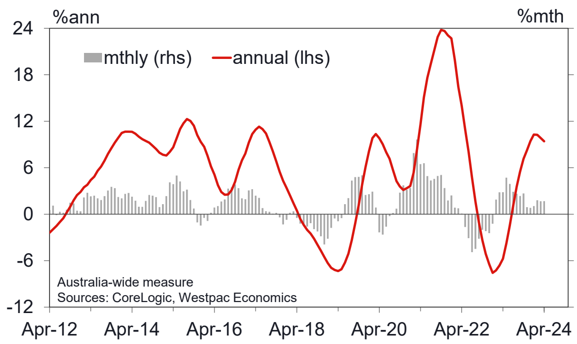
Aus May CoreLogic Home Value Index (%mth)

Jun 4, Last: 0.6%, Westpac f/c: 0.8%

The CoreLogic home value index rose 0.6% in April, matching the gains in March and Feb and slightly firmer than the 0.3% average through Nov-Jan. Annual price growth moderated to 9.4%yr from 9.8%yr in March and a peak of 10.3%yr in Jan. There continues to be a notable divergence between monthly trends reported in the headline, non seasonally adjusted, measure and CoreLogic's seasonally adjusted estimates – the latter suggesting momentum has seen a gradual fade since mid-2023.

The CoreLogic daily index points to a stronger 0.8% gain over the May month, with all major capitals seeing an improvement but gains still materially stronger in Brisbane, Adelaide and Perth. How much this translates through to gains in seasonally adjusted terms will again be of interest.

Australian dwelling prices



Aus Q1 Private Non-Farm Inventories (%qtr)

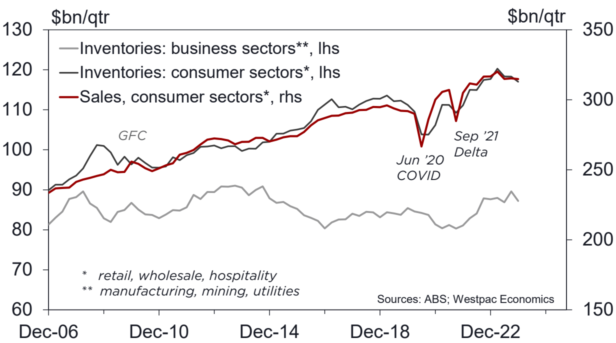
Jun 4, Last: –1.7%, Westpac f/c: 1.0% (+0.9ppts contribution)
Mkt f/c: 0.8%, Range: –0.4% to 1.2%

Westpac expects private non-farm inventories increased by 1.0% in Q1, contributing +0.9ppts to economic activity, representing a sharp turnaround the –1.0ppt detraction in Q4.

For private non-farm business inventories, the tempo of private domestic demand (sales) is key to (underlying) trends. Private demand was likely soft in Q1. We also saw consumer goods imports grow strongly over the quarter. This suggests that firms are rebuilding inventory levels for the year ahead. We expecting this rebuild to extent across the consumers sector, the business services sector and to a lesser extent, the mining sector.

We expect total inventories (incl. farm and public) to contribute +0.5ppts, with public inventories set to retrace last quarter's increase, associated with delays to publicly subsidised goods.

Inventory levels and trends



Aus Q1 Company Profits (%qtr)

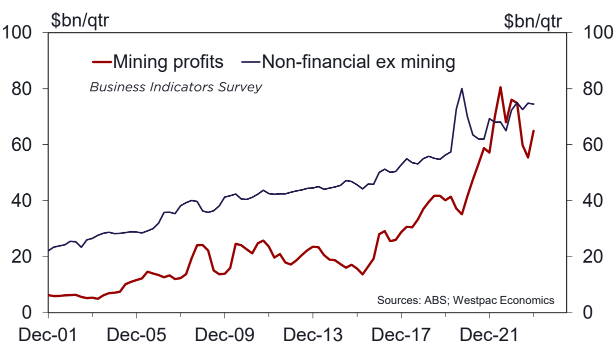
Jun 4, Last: 7.4%, Westpac f/c: –1.0%
Mkt f/c: –1.0%, Range: –2.5% to 3.0%

Company profits are anticipated to have recorded a fall over Q1 2024 of an estimated –1.0%.

The mining sector is expected to weigh on profits in the quarter. In Aussie dollar terms, commodity prices were broadly flat compared to the December quarter 2023, but trade data points to a fall in the value of mining exports in the March quarter.

Non-mining turnover was slightly positive in the March quarter, which could partly offset some softness in mining profits. However, the costs equation is largely unknown, leaving room for non-mining profits to swing either way. On balance, we suspect a slight lift in non-mining profits given the underlying inflation pulse and producer price inflation. This is also consistent with the Westpac Quarterly Business Snapshot which showed a slight improvement in non-mining cash flow in the March quarter.

Company profits: swings in mining are key



Aus Q1 Current Account Balance ($bn)

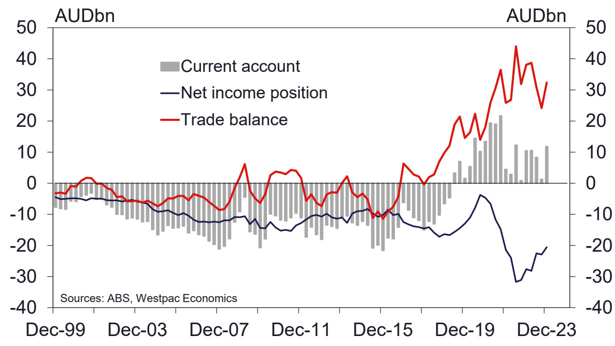
Jun 4, Last: 11.8, Westpac f/c: 4.1
Mkt f/c: 5.9, Range: 3.0 to 19.6

Australia's current account surplus increased to $11.8bn in Q4 2023, up from the $1.3bn surplus recorded in the September quarter. The key driver of the improvement was the trade surplus, increasing due to higher commodity prices and a sharp fall in import volumes (–3.4%). The net income deficit was little changed.

Commodity prices have been flat this quarter in Aussie dollar terms. In addition, we are expecting a turnaround in imports, to grow by at least +2.3% in Q1, driven by imports of consumption and capital items. We are also expecting a slight improvement in the net income deficit.

All together, the current account surplus is expected to narrow $4.1bn in the March quarter.

Australia's current account



Aus Q1 Net Exports (ppt cont'n)

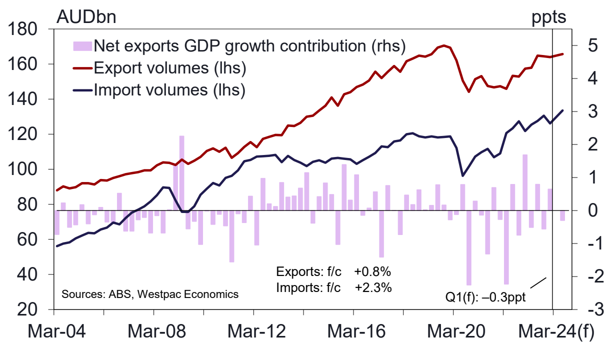
Jun 4, Last: +0.6, Westpac f/c: –0.3
Mkt f/c: –0.7, Range: –1.1 to +0.2

Net exports are expected to swing from a sizeable positive for December quarter activity (+0.6%), to a negative in Q1 – a forecast –0.3 ppts detraction from activity.

Import volumes are expected to increase by +2.3% in Q1, following a fall of –3.4% last quarter. The imports of goods were strong this quarter, particularly consumption and capital items. Exports are expected to grow by +0.8% in Q1, following a decline of –0.3% last quarter. Higher exports are expected to be driven by both goods, as well as higher export of travel services.

Caveat: monthly services data has been discontinued and while arrivals data is available, there are many more unknowns than before.

Net exports: Q1 f/c –0.3ppt



Aus Q1 GDP (%qtr)

Jun 5, Last: 0.2%, Westpac f/c: 0.3%
Mkt f/c: 0.2%, Range: flat to 0.5%

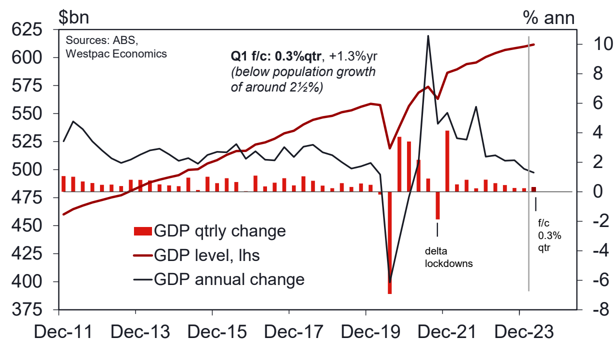
We expect GDP expanded by 0.3% in Q1. This would see annual growth ease from 1.5% to 1.3%. These outcomes are well below annual population growth, which is around a brisk 2½%.

The domestic demand impulse is expected to have flatlined, edging 0.1% higher for the second consecutive quarter, a consequence of a lack of momentum in consumer spending. Hours worked are expected to record a flat outcome over the quarter, pointing to soft growth in economic activity more broadly.

The arithmetic of our GDP forecast is: +0.1% for domestic demand, net exports –0.3ppts and total inventories +0.5ppts (which largely reverses a –0.3ppts from inventories last period).

The domestic demand detail is expected to include: consumer spending +0.1%; housing –1.7%; business investment +0.5%; and new public demand +0.3%.

Australian economy: f/c 0.3% for Q1



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

Aus Apr Goods Trade Balance ($bn)

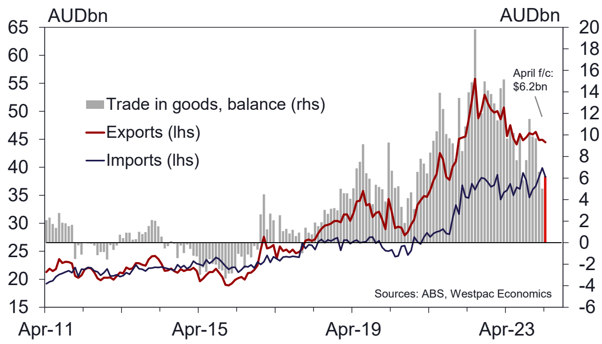
Jun 6, Last: 5.0, Westpac f/c: 6.2
Mkt f/c: 5.5bn, Range: 4.0 to 7.2

Over the past five months, Australia's goods trade balance has moderated significantly, from a surplus of $11.8bn in November 2023 to $5.0bn in March 2024, the smallest since November 2020.

More recently, the surprise has been largely centred on the import bill. Over the past three months, imports have risen 10.8% and have been broad based across consumption (+11.5%), capital (+13.3%) and intermediate goods (9.4%). Export earnings have meanwhile weakened, falling -2.1% over the past three months, impacted by easing commodity prices

For April, we have pencilled in a surplus of $6.2bn. Exports will likely remain soft, given another fall in commodity prices (RBA index down 1.5%) offset by higher volumes, particularly iron ore. However, imports should also soften, as the burst in capital goods imports begins to unwind as we head to the end of the financial year.

Australia's trade in goods balance



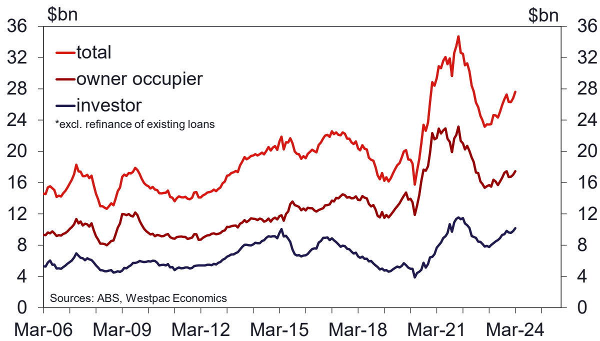
Aus Apr Housing Finance Approvals (%mth)

Jun 6, Last: 3.1%, WBC f/c: 3.0%
Mkt f/c: 1.5%, Range: –0.5% to 3.5%

The value of new housing finance approvals rose 3.1% in March, the detail suggesting investor activity is becoming a more prominent driver of gains, especially in WA but with the notable exception of Victoria.

The April update is expected to show a similar gain of 3%. Around the established market, the total value of turnover picked up again in the first few months of the year as price growth regained a bit of traction and volumes saw a relatively positive, albeit choppy, start to the year. Around construction, April saw a 22% surge in new home sales as buyers looked to beat new building code regulations in Vic and Qld. That should see some related lift in construction-related finance approvals, although it failed to generate much traction with dwelling approvals in the month so the effect may be quite muted. Overall, both owner occupier and investor loans are expected to see similar gains for the month.

New finance approvals by segment: value



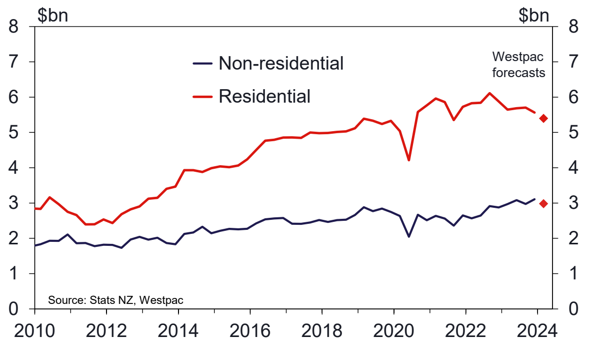
NZ Q1 Building Work (%qtr)

Jun 6, Last: –0.1%, Westpac f/c: –3.3%

Construction activity was broadly steady in the December quarter, falling just 0.1%. However, underlying the resilience in total building activity, residential construction has been trending down. That offset firmer non-residential construction over the quarter.

We're forecasting a 3.3% fall in total construction activity in the March quarter. The downturn in residential building is deepening, with financial headwinds and the soft housing market putting the brakes on new development. In addition, softening economic activity and mounting uncertainty about the outlook is increasingly weighing on non-residential work.

NZ real building work put in place



US May Employment Report

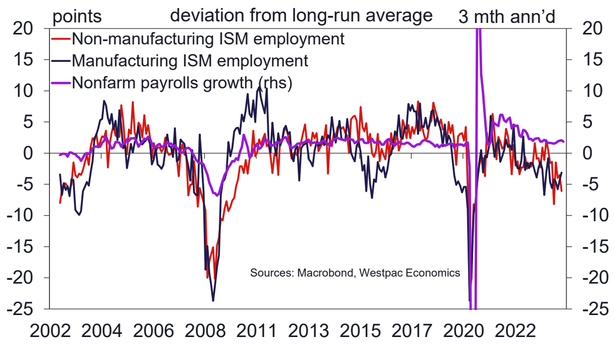
Jun 7, Nonfarm Payrolls, Last 175k, Mkt f/c: 180k, WBC f/c: 165k
Jun 7, Unemployment Rate, Last 3.9%, Mkt f/c: 3.9%, WBC f/c: 3.9%

Average nonfarm payrolls growth stepped down from 377k in 2022 to 251k in 2023, and has maintained that pace to date in 2024. However, assessed month-by-month, the April outcome points to a further deceleration being in train, Q1's 269k per month followed by 175k in April. Another modest deceleration in coming months, as we are forecasting for May (165k), would be enough to bring labour demand and supply into balance.

The household survey and leading indicators such as the ISM employment indexes meanwhile continue to point to downside risks, the former to a stalling out in job growth, the latter to outright declines. Labour market weakness is an emerging risk to monitor.

On both our baseline and downside risk views, wage growth is set to slow further in coming months, back to a rate broadly consistent through history with inflation at target.

ISMs point to downside employment risks



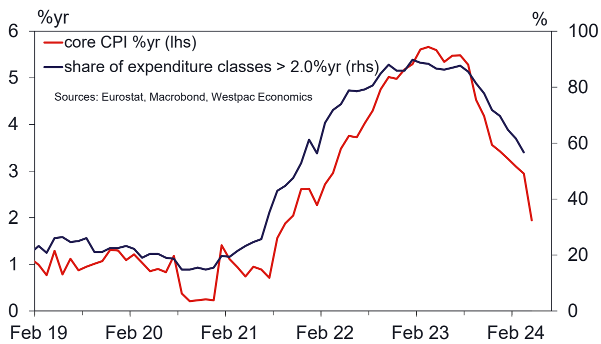
Eur ECB Policy Decision

Jun 6, Last: 4.00%, WBC f/c: 3.75%
Mkt f/c: 3.75%, Range: 3.50% to 4.00%

The European Central Bank is expected to cut rates at its June meeting. Forward indicators of wage growth suggest momentum is moderating, allowing services inflation, headline inflation's primary driver, to ease. Along with stability in energy prices, this development will give the ECB sufficient confidence to reduce policy's restrictiveness. Also on the minds of the Governing Council is that lending conditions are tight and the banks highly attentive to risks, limiting the pass through of policy easing to the economy.

With growth firming and the labour market strong, the ECB will be in no rush to return policy to a neutral setting. We look for one 25bp cut per quarter from June through to the end of 2025, resulting in a cumulative 150bps. This should bring the stance of policy back to a broadly neutral level; although, taking credit conditions into consideration, the financial sector is unlikely to become an outright support for growth.

Underlying inflation is easing



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 03					
Aus	May CoreLogic Home Prices %mth	0.6%	–	0.8%	Daily firmer in May but may be partly seasonal.
	May MI Inflation Gauge %yr	3.7%	–	–	Provides a general view on risks.
	May ANZ-Indeed Job Ads %mth	2.8%	–	–	Generally tracking flat so far in 2024.
NZ	King's Birthday	–	–	–	Public holiday; markets closed.
Chn	May Caixin Manufacturing PMI	51.4	51.6	–	High-tech strong, but the rest face uncertain outlook.
US	May ISM Manufacturing	49.2	49.7	–	Employment series pointing to job losses.
	Apr Construction Spending %mth	-0.2%	0.2%	–	High financing costs a significant concern.
Global	May S&P Global Manufacturing PMI	–	–	–	Final estimate.
Tue 04					
Aus	Q1 Private Non-Farm Inventories %qtr	-1.7%	0.8%	1.0%	Expected to contribute 0.9ppts to activity. See textbox.
	Q1 Company Profits %qtr	7.4%	-1.0%	-1.0%	Mining sector set to weigh on profits in the quarter.
	Q1 Current Account Balance $bn	11.8	5.9	4.1	Flat commodity prices, rising imports to drive narrowing.
	Q1 Net Exports (ppt cont'n)	+0.6	-0.7	-0.3	Swinging from a positive contribution to a drag on growth.
US	Apr JOLTS Job Openings	8488k	8300k	–	Businesses are slowing, but not halting, hiring.
	Apr Factory Orders %mth	1.6%	0.7%	–	Durable goods orders suggest robust headline print.
Wed 05					
Aus	Q1 GDP %qtr	0.2%	0.2%	0.3%	Weak consumption sees domestic demand stall. See textbox.
NZ	GlobalDairyTrade Auction	3.3%	–	–	GDT Pulse suggests prices holding around current levels.
	Q1 Terms of Trade %qtr	-7.8%	–	4.6%	A rebound expected after a surprisingly steep fall in Q4.
Chn	May Caixin Services PMI	52.5	52.6	–	Consumers seeing silver linings as stimulus feeds through.
Eur	Apr PPI %yr	-7.5%	-5.3%	–	Shipping costs add risk to producer prices.
US	May ISM Non-Manufacturing PMI	49.4	51.0	–	Service sector experiencing mixed conditions.
Can	Bank of Canada Policy Decision	5.00%	4.75%	4.75%	Risks to growth to prompt a cautious cut.
Global	May S&P Global Services PMI	–	–	–	Final estimate.
Thu 06					
Aus	Apr Housing Finance %mth	3.1%	1.5%	3.0%	Should see a similar gain to March's - established market...
	Apr Owner Occupier Finance %mth	2.8%	–	3.0%	... still seeing prices tick higher with volumes a bit better...
	Apr Investor Finance %mth	3.8%	–	3.0%	... new homes sales also point to uptick for construction loans.
	Apr Goods Trade Balance $bn	5.0	5.5	6.2	Exports to remain soft; imports may retrace recent gains.
NZ	Q1 Building Work %qtr	-0.1%	–	-3.3%	Residential and commercial activity dropping back.
	May ANZ Commodity Prices %mth	0.5%	–	1.0%	World dairy prices picked up further in April.
Eur	Apr Retail Sales %mth	0.8%	–	–	Weak demand as tight policy dissuades consumers.
	ECB Policy Decision (Deposit Rate)	4.00%	3.75%	3.75%	Rate cut expected as inflation nears 2%.
US	Apr Trade Balance US$bn	-69.4	-69.8	-69.0	Asian demand supporting exports.
	Initial jobless claims	219k	–	–	To remain low, for now.
Fri 07					
Aus	RBA Deputy Governor	–	–	–	Hauser fireside chat at "Australia's Economic Outlook".
Jpn	Apr Household Spending %yr	-1.2%	0.6%	–	Up-tick expected as higher wages feed through.
Chn	May Trade Balance US$bn	72.4	70.0	–	Asian partners supporting the surplus.
	May Foreign Reserves US$bn	3201	–	–	Remains robust.
Eur	Q1 GDP %qtr	0.3%	0.3%	–	Final estimate.
US	May Non-Farm Payrolls	175k	180k	165k	Further deceleration in train, bringing demand and...
	May Unemployment Rate %	3.9%	3.9%	3.9%	... supply into balance. Downside risk remain prompting...
	May Average Hourly Earnings %mth	0.2%	0.3%	0.3%	... a slowdown in wage growth.
	Apr Consumer Credit %mth	6.274	10.2	–	Slowing momentum argues for modest gains hence.

Forecasts

Interest rate forecasts

Australia	Latest (31 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	4.35	4.37	4.37	4.17	3.92	3.72	3.55	3.30
3 Year Swap	4.18	4.20	4.10	4.00	3.85	3.70	3.60	3.50
3 Year Bond	4.05	4.00	3.90	3.80	3.65	3.50	3.40	3.30
10 Year Bond	4.41	4.35	4.30	4.25	4.20	4.10	4.00	4.00
10 Year Spread to US (bps)	-14	-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	4.55	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	5.63	5.60	5.60	5.50	5.25	4.95	4.75	4.50
2 year swap	5.09	5.10	5.00	4.80	4.55	4.40	4.25	4.15
10 Year Bond	4.83	5.00	4.90	4.80	4.70	4.65	4.55	4.50
10 Year spread to US	28	50	50	50	50	55	55	50

Exchange rate forecasts

Australia	Latest (31 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD/USD	0.6633	0.66	0.66	0.67	0.68	0.69	0.70	0.71
NZD/USD	0.6116	0.60	0.60	0.61	0.62	0.63	0.64	0.65
USD/JPY	156.75	156	155	154	150	146	143	140
EUR/USD	1.0817	1.08	1.09	1.10	1.11	1.12	1.13	1.14
GBP/USD	1.2720	1.26	1.27	1.28	1.29	1.30	1.31	1.31
USD/CNY	7.2411	7.20	7.15	7.10	7.05	7.00	6.90	6.80
AUD/NZD	1.0826	1.10	1.10	1.10	1.10	1.10	1.10	1.10

Australian economic growth forecasts

	2023			2024				Calendar years			
% change	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

	2023			2024				Calendar years			
% change	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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