AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 10 June 2024

Editorial: Time for the Spakfilla?

Australia: King's Birthday, labour force survey.

NZ: monthly price indicators, retail card spending, net migration, manufacturing PMI.

Japan: BoJ policy decision.

China: CPI, PPI, credit and money supply data.

UK: unemployment rate, average weekly earnings, monthly GDP.

US: FOMC policy decision, CPI, PPI, UoM consumer sentiment, NFIB small business optimism.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 7 JUNE 2024.

WESTPAC INSTITUTIONAL BANK

Time for the Spakfilla?

This week's national accounts confirm that the Australian economy is still soft. Domestic demand has limped along at a quarterly pace of 0.1–0.2% for a couple of quarters. Real household income was flat in the quarter and again lagged population growth over the year.

Consumption over the past two years was not as weak as previously stated. This is because the ABS has revised its assessment of past overseas tourism spending by Australians. This counts as consumption and has resulted in a lower estimated household saving ratio. But because outbound tourism counts as imports, this had no implications for GDP.

With the revisions, Australia no longer looks like such a downside outlier on the performance of consumption per capita relative to peer economies. The United States is still clearly an outlier on the upside, though.

Some observers have speculated that these revisions might imply that households are more willing to spend than previously thought. They might therefore spend more out of the forthcoming tax cuts than predicted. This possibility needs to be weighed against both the Westpac–Melbourne Institute survey results suggesting the opposite, and the reduced ability to spend implied by the lower savings buffer remaining.

Indeed, the revisions remove some of the puzzle about household saving remaining as high as it had appeared. Some resilience in saving could be reconciled because higher interest rates encourage higher saving, and lower consumption, even when incomes are not outright falling. But household disposable income growth has been unusually weak in Australia. The fiscal consolidation and drag from higher taxation have been larger in Australia than in some peers. It seems these factors have offset each other, and the overall boost to saving has not been material.

At its May meeting, the RBA Board assessed that demand was coming back into line with supply quite quickly. Key to its assessment of the inflation outlook, though, is where the level of demand stands relative to the level of supply. This is harder to assess. It is also important to remember that in an environment of large and more frequent supply shocks, demand outstripping supply does not necessarily imply that demand is strong. It could instead be a case of weak demand and even weaker supply, hampered by various constraints. This interpretation becomes more plausible as high inflation rates become confined to a smaller range of categories of consumption. Recent increases in shipping costs suggest that disruptions are ongoing.

Monetary policy works by hammering down demand to make it in line with supply. In recent years, though, part of the issue is that the demand 'nail' is only sticking out because the supply 'wood' around it has been eroded away. Some of the supply disruptions related to the pandemic have taken a long time to unwind.

Outbound tourism is a good example of this. According to data from the Bureau of Infrastructure and Transport Research Economics (BITRE), in February 2024 – the latest available data – there were around 2.15 million outbound airline seats available going to 65 cities. This compares with around 1.6 million seats for 52 cities the previous February and just 440,000 seats to 37 cities in February 2022, soon after the borders reopened. The expansion over the latest year occurred partly because China's borders only opened in early 2023. Most of the destinations added since February 2023 are in China.

There is an element of two-way interaction, too. As tourism demand recovered, airlines would have been willing to put on more flights. That said, most of what we saw was supply recovering and the relative price of overseas travel normalising. It is only since the beginning of this year that available seats have returned to the levels seen in the corresponding month of 2019. For most of 2023, flight capacity was 10–15% short of 2019 levels.

It should be noted that this rebound in the number of available seats and travellers was already in the data. The latest revision to consumption relates to the average amount of spending Australians did when they were overseas. While it is hard to be sure on the basis of available information, it seems reasonable to suppose that the Australians who did go overseas on holiday in 2022/23 – when flights were still constrained and expensive – were disproportionately the ones who could spend up big when they did travel. There might also have been an element of 'revenge spending' following the years when overseas travel was not possible.

The key point, though, is that the revision is for several quarters ago. Unlike the long and variable lags of monetary policy, the effect of extra demand on inflation comes through quickly. Whatever effect this extra spending had on inflation, it has already happened. Past inflation data already incorporated the effects of this extra spending, though we did not know this at the time. And since this spending occurred overseas, it did not involve domestic supply capacity in any case.

We therefore regard these revisions as having no material implications for the inflation outlook.

There is a broader point here about how we should interpret and respond to an excess of demand over supply when supply shocks are so prevalent. Instead of only hammering down the demand nail, policymakers and businesses also need to consider what they can do to rebuild the supply of wood surrounding the nail.

Time for some Spakfilla? Simplifying and fast-tracking approval processes, and ensuring skilled migration is directed to activities that add to supply would be a start. At the least, what is needed is some understanding that the ripple effects of the pandemic are not yet over. It also needs to be understood that high inflation concentrated in a few categories is not the same thing as generalised high inflation. Tight monetary policy might still be needed. The assessment of the outlook should, however, allow for these differences.

Luci Ellis, Chief Economist Westpac Group

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Australian Q1 GDP printed broadly as expected, rising 0.1% (1.1%yr). There were some surprises for consumption however, a firmer-than-anticipated gain of 0.4% in Q1 – thanks in part to major events like Taylor Swift Era's Tour and the Formula 1 – and an upward revision to tourism-related spending by Australians abroad, adding $22bn to nominal spending over the past five quarters and 1.0ppt to annual consumption growth. These revisions also appeared as a lift in services imports, and consequently had zero net impact on GDP. In this week's essay, Chief Economist Luci Ellis explains why these revisions are not a concern for future inflation.

Even with these revisions, Australian per capita consumption is still down 1.1% over the year to March 2024, broadly in line with the experiences of peer economies, excluding the US. Additionally, inflation's impact on household earnings was material, enough to leave real disposable income flat over Q1 and up just 0.4% versus March 2023. The financial health of Australian consumers is set to remain fragile. The Stage 3 tax cuts and the recently announced 3.75% increase in the minimum wage and awards will provide some relief, but the cumulative impact of elevated inflation will linger.

Other parts of the domestic economy were soft too. The main detractor from domestic demand was new business investment, –0.7% in Q1 as weakness in non-dwelling construction (–4.3%) and infrastructure (–4.8%) outweighed the lift in equipment spending (+2.0%). Housing investment also remains in a downtrend (–3.4%yr). That private demand was near-flat in the quarter (+0.1%) highlights the breadth of current economic weakness, with only the public sector in robust health, up 0.6% and 4.5%yr.

On trade, Australia's current account balance slid from a surplus of $2.7bn in Q4 to a deficit of –$4.9bn in Q1. As noted earlier, significant revisions to tourism-related services imports were the chief culprit. Accounting for that, the scale of the reduction in the balance between Q4 and Q1 (–$7.6bn) was in line with expectations. Strength in import volumes (+5.1%) was met with only a modest increase in exports (+0.7%), leading net exports to detract a material 0.9ppts from GDP in Q1. The latest data on monthly goods trade suggests a partial unwind of recent import strength is underway in Q2, at least for goods.

Before moving offshore, a final note on housing. The latest data from CoreLogic highlighted a growing divergence by capital city. On a three-month annualised basis, house price growth ranged from –0.9% in Melbourne to 5.0% in Sydney and 17%, 18% and 27% respectively in Brisbane, Adelaide and Perth. It was therefore unsurprising to see housing finance approvals continue to surge in April, up 4.8% (25%yr), as investor activity soared to new heights across the aforementioned smaller capitals. The diversity of conditions across the states will continue to have a significant bearing on nation-wide outcomes. For more housing insights, see our latest Housing Pulse published earlier this week on Westpac IQ.

Offshore, the Bank of Canada cut its policy rate by 25bps to 4.75% at their June meeting. The decision came as the Bank became more confident that inflation will sustainably return to 2%, with inflation's breadth narrowing to near its "historical average" and wage pressures easing. Wages and housing inflation will remain key determinants of CPI inflation hence. Canada's labour market is slowing, and supply is sufficient for new demand, allowing wage and services inflation to cool. When questioned about policy divergence with the US, both the Governor and Senior Deputy Governor held that their decisions are based on domestic factors and that, while there are limits to how much Canada can deviate from the US without material implications for the currency, those limits are some way off. Still, the Governing Council remain mindful of residual inflation risks, and so policy is not on a pre-set course. If the economy evolves as expected, further rate cuts will come in time. Updates for GDP and the labour market will be released prior to the Council's July meeting.

The ECB subsequently cut their policy rates by 25bps at the June meeting, as expected, having kept rates at peak levels for nine months. Over that period, inflation has decelerated 2.5ppts, and President Lagarde made clear that the Council have also become more confident in returning inflation to target in the medium term with inflation expectations having declined "at all horizons". Interestingly, this decision was made and guidance given despite an upward revision to the inflation outlook, headline inflation now seen averaging 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026. The persistence of above-target inflation is a result of domestic inflation, supported by elevated wage growth. The ECB see this wage growth as "making up for the past inflation surge" and believe that wage momentum and services inflation will take time to moderate. However, forward looking wage indicators and profits absorbing some of the "pronounced rise in unit labour costs" give the Council confidence that the deceleration is ongoing and catch-up wage growth will have a limited impact on consumer inflation hence.

The ECB's GDP forecasts point to similar confidence in a return to potential growth, GDP growth to accelerate from 0.9% in 2024, to 1.4% in 2025 and 1.6% in 2026. President Lagarde made clear however that there is an array of risks facing the economy which will need to be assessed carefully. Although GDP growth was robust in Q1 at 0.3% and the unemployment rate is historically low, the downside surprise in April retail sales (-0.5%, 0.0%yr) provides evidence of consumer uncertainty. The restrictive nature of credit conditions also need to be monitored closely. The ECB will maintain a 'data dependent' approach to setting policy, taking their time with further easing. But, being a long way from neutral, having had success with inflation and given the immediate uncertainty surrounding economic growth, a series of rate cuts should be expected through 2024 and 2025 – Westpac forecasts a cumulative 150bps (including today's decision) to end 2025.

Over in the US, the ISM manufacturing PMI surprised to the downside, falling from 49.2 to 48.7 points. New orders jolted lower despite a gain for export orders, pointing to weak domestic demand. Employment gained in the month but is currently only around average levels, while price pressures were reported as benign. The non-manufacturing PMI meanwhile rose 4.4 points to 53.8, supported by a rebound in business activity and new export orders. Price pressures for services were also assessed as benign. Of concern for activity however, the services employment index remained materially below its historic average, pointing to outright job losses. In contrast, the JOLTS survey provided a benign signal for the employment outlook, with job ads slowly converging to their pre-pandemic level, the job opening rate now 4.8% versus 4.5% in 2018 and 2019, and the hiring and separation rates consistent with moderate gains for employment and limited churn. Overall, these data points signal the FOMC have time on their side when assessing policy, but also that downside risks to activity are building. A measured pace of rate cuts from September through 2025 to 3.375% at mid-2026 should manage these concerns and achieve inflation near target over the period. The FOMC's own view on the outlook will be made clear through next week's June update to Committee forecasts and Chair Powell's post-meeting press conference.

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Week ahead & data wrap

Spotlighting agriculture

One of the key events this week was the Global Dairy Trade auction. The overall dairy price index rose 1.7% on the previous auction, which was in line with expectations. Prices have now risen for five consecutive auctions, and are 16% up on this time last year, and 12% higher than at the beginning of this year.

There were gains for all the major products. Whole milk powder (WMP) prices rose 1.7%, underpinned by lower offer volumes and stronger demand from Southeast Asia/Oceania. Buyers from North Asia, which includes China, as well as those from the Middle East were also evident, purchasing similar volumes as they did at the previous auction.

Skim milk powder (SMP) prices were also up, rising 3% on stronger demand out of Europe, which is past its seasonal production peak, as well as from North Asia. Meanwhile, Anhydrous milkfat (AMF) prices lifted 0.9%, mostly on buying out of the Middle East, settling at another record high, while butter prices, underpinned by stronger demand out of China, edged ever closer to previous record highs. AMF prices are now 58% higher than a year ago, while butter is up 28%.

There were, however, some notable exceptions. Lightly traded buttermilk powder (BMP) jumped 10.4%, but much of that is likely to be due to BMP not being available at the previous action. Lactose was only negative result from the auction, with prices falling 1.9%.

All of this is potentially good news for news for farmers, who will be hoping that the recent lift in dairy prices translates into higher farmgate milk prices over the 2024/25 season.

Our mid-point forecast for the milk payout is currently $8.40 per kg ms. That has remained unchanged since March when dairy prices were lower than they are today. That's also bit below the $8.55 that the futures market is suggesting but well up on Fonterra's rather cautious season opening mid-point forecast of $8.00.

At first blush, the recent pick up in dairy prices suggests there is upside risk to our farmgate milk price forecast. However, it important to remember that the season has just begun. There is a lot more water to go under the bridge over the coming months that could help sway prices and the exchange rate.

Keeping with the agricultural theme, we recently published a report on productivity in the agricultural sector.

Improving productivity is important for farmers. Typically price takers, their living standards/quality of life/wellbeing are, in large part, tied to their ability to control unit costs of production. Producing more output for a given level of input can certainly help in that regard.

More broadly, lifting productivity could help the sector make a meaningful contribution to the Government's goal of doubling the value of New Zealand exports over the next 10 years.

The sector itself has performed well on the productivity front. In its heyday back in the 1980s agricultural productivity rose by about 40%, slowing to around 30% a decade later. The catalyst was a series of market reforms, which as soon followed by a period of rapid mechanisation, the pursuit of economies of scale, and changes in land use, evidenced in part by the conversion of beef and sheep farms into dairy.

Indeed, between 1978 and 2022 multi-factor productivity in the agricultural sector grew by a whopping 189%. Contrast that to the fast-expanding services sector, which saw growth of 33% over the same period and the paltry 2% recorded for the goods producing sector, which includes manufacturing and construction. Even today, the agricultural sector continues to outperform its peers.

That said, the trajectory of productivity growth in the agricultural sector has slowed markedly over recent decades. There are two key factors at play here. The first is the extent to which actual levels of agricultural production have edged ever closer to the ecological limits of what can be farmed. We think that like their peers in other first world country, farmers in New Zealand already operate close to these limits. The second is the diminishing marginal returns that can be generated from ongoing investment in mechanisation (and new technologies).

Given the importance of productivity, the question then is what can be done to lift it?

In essence we think that requires both a change in production mix and farming practice. In the first instance, that is about changing the volume of different inputs in the production mix to deliver maximum greatest output gains.

In the second it's about changing the quality of factor inputs used in the production process. In the case of labour, that is about improving the skills and competencies of the workforce. On the job learning has always been a feature of agriculture. Education is becoming increasingly important as farmers seek to bridge their lack of understanding of how technologies can deliver smarter and faster operations that make their life easier.

For capital, it's about getting more out of machinery, plant, and equipment as well as land, and livestock through the adoption of smart or precision farming practices that leverage off cutting edge technologies and data driven approaches. Think sensors, drones, artificial intelligence, robotic process automation and enhanced data analytics – just to name a few.

There are, of course, obstacles to adopting smart farming practices and new digital technologies. Some farmers are set in their ways and prefer the tried and trusted. Cost is also an issue, especially when they are upfront and returns on investment take time to materialise. It's also true that adopting new technologies can disrupt existing operations.

These obstacles are significant, but they can be overcome. New Zealand's farmers have a long tradition of innovation and adopting new technologies, and there is no reason why that cannot continue in the future.

Paul Clark, Industry Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Wed 5	GlobalDairyTrade auction	3.3%	1.7%	–
	Q1 terms of trade	–7.8%	5.1%	4.6%
Thu 6	Q1 building work	0.5%	–4.0%	–3.3%
	May ANZ commodity prices	0.5%	1.1%	–

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Aus May Labour Force – Employment Change (000's)

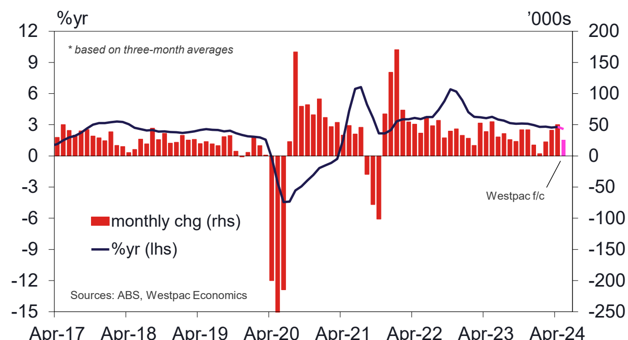
Jun 13, Last: +38.5k, Westpac f/c: +45k
Mkt f/c: +25k, Range: –10k to +107k

The level of employment rose by +38.5k (0.3%) in April, moderately stronger than expected. Despite this, the increase in employment was likely suppressed by shifting seasonal patterns. There tends to be more people than usual who are *not employed* during school holiday months, but who also have a job lined up for the next month.

While this dynamic has become more prevalent in recent years, at least for now, these changes in underlying behaviours are not yet fully captured by seasonally adjusted estimates. This provides scope for an above-trend increase in employment as this temporary dynamic unwinds in May, all else equal.

We believe that will be the case, and have therefore pencilled in a lift of +45k in employment. We see risks as relatively balanced around our forecast – the unwind of the seasonal dynamic could add more to employment, but at the same time, the labour market is softening.

Employment growth trending lower, gradually



Aus May Labour Force – Unemployment Rate (%)

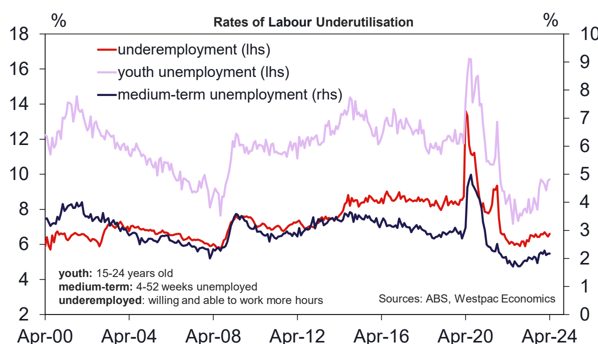
Jun 13, Last: 4.1%, Westpac f/c: 4.0%
Mkt f/c: 4.0%, Range: 3.9% to 4.3%

In April, the participation rate moved higher, from 66.6% to 66.7%, implying a large lift in the size of the labour force (+68.8k). In the context of a smaller rise in employment (+38.5k), the unemployment rate rose from 3.9% to 4.1%.

The group of *not employed* mentioned in the box above includes both unemployed and those not in the labour force. As these individuals move into the jobs they had lined up, we expect there to be a combination of rising participation and falling unemployment.

At two decimal places, the participation rate and unemployment rate printed 66.74% and 4.05% respectively. With this seasonal dynamic unwinding, we think it is likely that participation will round up to 66.8% and for the unemployment rate to round down to 4.0%.

Other measures of underutilisation are rising



NZ May Retail Card Spending (%mth)

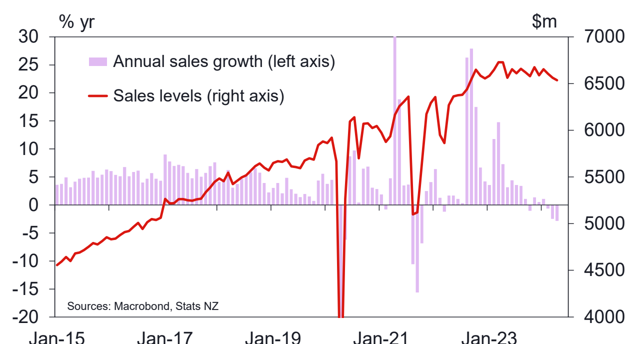
Jun 13, Last: –0.4%, Westpac f/c: –0.3%

Total retail spending fell 0.4% in April. That followed a 0.7% fall in March and was the fourth decline in the past five months.

We're forecasting another 0.3% fall in spending in May. While we expect continued modest gains in grocery purchases (related to strong population growth), spending in other areas has been dropping back. That includes notable softness in spending on durables and apparel.

The longer-term trend in spending remains weak. Households' budgets remain under pressure from continued high interest rates and still high inflation. At the same time, the labour market is softening. Those conditions (along with the related softness in sentiment) means that spending appetites are likely to remain weak for some time yet.

NZ monthly retail spending



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DATA PREVIEWS

NZ May Monthly Selected Price Indices

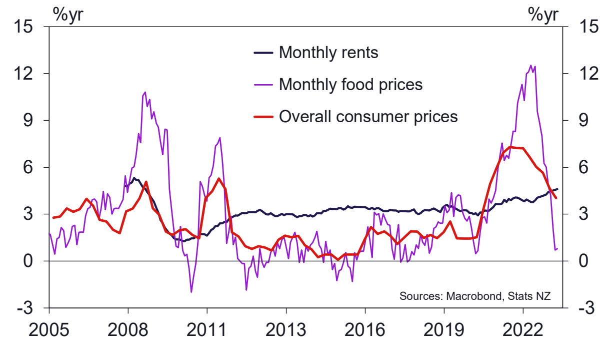
Jun 14

Stats NZ's suite of monthly price data covers around 45% of the CPI, providing timely updates on some of the more volatile components of inflation.

In terms of the big items, we're expecting a 3% fall in fuel prices in April, along with a 0.4% rise in food prices (including a lift in takeaway food prices related to the increase in the minimum wage).

On the domestic front, the key focus will be housing rents. Rental growth tends to be more modest through the middle part of the year. Accordingly, we expect a 0.3% rise this month (following increases of around 0.4% to 0.5% in recent months). If that slowdown doesn't occur, it would reinforce the RBNZ's concerns about the stickiness in domestic inflation.

NZ consumer prices



US May CPI (%mth)

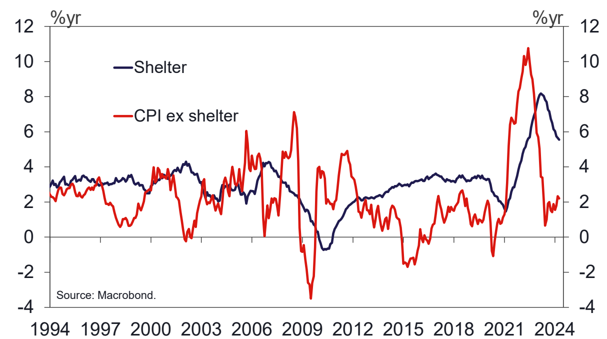
Jun 12, Last 0.3%, Mkt f/c: 0.1%, Westpac f/c: 0.1%

April's CPI outcome provided a reprieve for the market following a re-acceleration in services inflation during Q1 2024. One month does not make a trend, but it certainly can start one. It is critically important for market expectations that May shows further evidence of disinflation towards the 2.0%yr medium-term target.

Helping in May will be the reversal in oil's Q1 2024's gains. But core inflation is also likely to show evidence of progress. Strong sub-components like motor vehicle insurance are expected to plateau, and shelter decelerate further.

It is important to recognise that goods inflation is already absent, and service components related to discretionary demand benign. Indeed, excluding shelter, annual inflation is already back at target.

CPI ex-shelter holding at target



US June FOMC Policy Decision

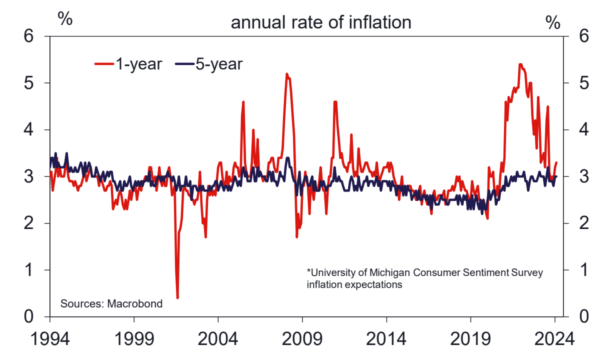
Jun 12, Fed Funds Rate, Last 5.375%, Mkt f/c 5.375%, WBC 5.375%

All eyes will be on the FOMC next week after rate cuts in Europe and Canada last week and with recent data for the US economy pointing to balance between demand and supply and emerging downside risks for activity.

The FOMC are unlikely to materially change their expectations for activity or inflation at this meeting, though Chair Powell may point greater emphasis on the risks to the outlook. Increasingly, upside risks for inflation look to be fading while downside risks for employment and activity grow.

Between now and September, we expect these trends to remain in place, laying the foundation for a cutting cycle to begin at the September meeting. However, our baseline expectation for the economy remains that growth will slow to around trend. If correct, the easing cycle through 2024-26 will prove measured in scale and timing.

Inflation expectations coming into line



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For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 10					
Aus	King's Birthday	–	–	–	All states except WA and Qld. Markets closed.
Jpn	Q1 GDP %qtr	–0.5%	–0.5%	–	Final estimate.
	Apr Current Account Balance ¥bn	3398.8	–	–	Weak Yen beneficial for exports.
Chn	May M2 Money Supply %yr	7.2%	7.2%	–	Further policy support needed to accelerate...
	May Aggregate Financing CNYbn ytd	12731	15030	–	... credit and money supply. Due June 10–15.
Eur	Jun Sentix Investor Confidence	–3.6	–	–	Policy easing should benefit sentiment in coming months.
Tue 11					
Aus	May NAB Business Survey	7	–	–	Conditions easing, broadly in line with average levels.
UK	Apr Unemployment Rate %	4.3%	4.3%	–	Labour market tightness persists...
	Apr Average Weekly Earnings %yr	5.7%	–	–	... keeping wage growth sticky.
US	May NFIB Small Business Optimism	89.7	89.7	–	Small business concern over outlook building.
Wed 12					
NZ	Apr Net Migration	4910	–	–	Easing from its highs, but revisions still clouding the picture.
Chn	May CPI %yr	0.3%	0.4%	–	Weak demand is keeping CPI inflation subdued...
	May PPI %yr	–2.5%	–1.5%	–	... as growing capacity weighs on upstream prices.
UK	Apr Monthly GDP %mth	0.4%	0.0%	–	Growth risks are amplified supporting the case for a cut.
US	May CPI %mth	0.3%	0.1%	0.1%	CPI ex-shelter at target, has been for some time.
	FOMC Policy Decision (midpoint)	5.375%	5.375%	5.375%	Commentary around labour market key. Sep likely first cut.
Thu 13					
Aus	May Employment Change 000's	38.5	25.0	45.0	Many persons not working but with a job lined up for May...
	May Unemployment Rate %	4.1%	4.0%	4.0%	... should see employment move higher and U/E round down.
NZ	May Retail Card Spending %mth	–0.4%	–	–0.3%	Continued weakness in discretionary spending.
Eur	Apr Industrial Production %mth	0.6%	–	–	Slowing demand a headwind for production.
US	May PPI %mth	0.5%	0.1%	–	Producers continue to face cost pressures according to PMIs.
	Initial Jobless Claims	229k	–	–	To remain low, for now.
	Fedspeak	–	–	–	Williams.
Fri 14					
NZ	May Manufacturing PMI	48.9	–	–	Businesses continue to report sluggish demand.
	May Food Prices %mth	0.5%	–	0.4%	Modest increases, including a lift in the price of takeaways.
	May Housing Rents %mth	0.5%	–	0.3%	Will be an important indicator of domestic price pressures.
Jpn	BoJ Policy Decision (upper)	0.10%	–	–	Data does not support another move quite yet.
Eur	Apr Trade Balance €bn	17.3	–	–	Global easing over 2024/25 should benefit exports.
US	May Import Price Index %mth	0.9%	0.1%	–	Shipping costs a lingering pressure.
	Jun Uni. of Michigan Sentiment	69.1	73.0	–	Inflation expectations to remain benign.
	Fedspeak	–	–	–	Goolsbee.

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Forecasts

Interest rate forecasts

Australia	Latest (7 Jun)	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	4.07	4.20	4.10	4.00	3.85	3.70	3.60	3.50
3 Year Bond	3.90	4.00	3.90	3.80	3.65	3.50	3.40	3.30
10 Year Bond	4.23	4.35	4.30	4.25	4.20	4.10	4.00	4.00
10 Year Spread to US (bps)	-7	-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	4.30	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	5.00	5.10	5.00	4.80	4.55	4.40	4.25	4.15
10 Year Bond	4.63	5.00	4.90	4.80	4.70	4.65	4.55	4.50
10 Year spread to US	33	50	50	50	50	55	55	50

Exchange rate forecasts

Australia	Latest (7 Jun)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD/USD	0.6674	0.66	0.66	0.67	0.68	0.69	0.70	0.71
NZD/USD	0.6191	0.60	0.60	0.61	0.62	0.63	0.64	0.65
USD/JPY	155.61	156	155	154	150	146	143	140
EUR/USD	1.0895	1.08	1.09	1.10	1.11	1.12	1.13	1.14
GBP/USD	1.2790	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	1.0768	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	Q1	Q2f	Q3f	Q4f	2022	2023	2024f	2025f
GDP % qtr	0.4	0.2	0.3	0.1	0.3	0.6	0.5	–	–	–	–
%yr end	1.9	2.1	1.6	1.1	1.0	1.4	1.6	2.5	1.6	1.6	2.3
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	0.7	0.7	–	–	–	–
annual chg	3.7	4.0	4.2	4.1	3.9	3.4	3.0	3.3	4.2	3.0	3.0
CPI Headline	0.8	1.2	0.6	1.0	1.0	0.1	0.8	–	–	–	–
annual chg	6.0	5.4	4.1	3.6	3.8	2.7	2.9	7.8	4.1	2.9	3.1
Trimmed mean	0.9	1.2	0.8	1.0	0.9	0.8	0.7	–	–	–	–
annual chg	5.8	5.1	4.2	4.0	4.0	3.6	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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