



Week beginning 8 July, 2024

# AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

## In this week's edition:

**Economic Insight:** RBA Minutes: gaps narrowing, and so is the path.

**The Week That Was:** Assurance over inflation a matter of time.

**Focus on New Zealand:** Keeping it tight.

## For the week ahead:

**Australia:** Westpac-MI Consumer Sentiment, housing finance approvals, NAB business survey.

**New Zealand:** RBNZ Policy Decision, retail card spending, selected price indices, REINZ data.

**China:** CPI, PPI, trade balance.

**UK:** Monthly GDP.

**United States:** CPI, PPI, UoM consumer sentiment, consumer credit, small business optimism. FOMC Chair Powell testifies before Senate and House Committees.

Information contained in this report current as at 5 July 2024

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# RBA Minutes: gaps narrowing, and so is the path



**Luci Ellis**  
Chief Economist, Westpac Group

The minutes for the RBA Board's June 2024 meeting highlighted that levels matter in the RBA's view of the economy, as well as growth rates. The brief section on international developments noted that it was the economies with negative output gaps (where aggregate demand is below aggregate supply), such as Canada and Sweden, that were seeing services inflation decline. On the domestic side, the minutes started by noting that the staff assessed that 'aggregate demand had continued to exceed aggregate supply'. Likewise, the labour market 'was still assessed as tight relative to full employment'. Both the output gap and the labour market tightness were assessed as narrowing.

The discussions on considerations for monetary policy are increasingly being framed as assessments of these gaps. This is not a complete departure from past approaches, but as the apparent gaps narrow, the evidence base for these estimates will face intensified scrutiny. So will the Board's assessment that global growth has troughed, noting the current uncertainties around trade policy and geopolitics more broadly.

Given the uncertainties around these 'gap' estimates, the point at which the gaps are assessed to have closed will be something of a judgement call, a point acknowledged in the minutes. The June quarter CPI and the revised forecasts will, therefore, be important inputs to the August Board meeting.

One point to watch in future RBA communication is how the central bank reconciles its view that the labour market is still tighter than the full employment level, with its view – which we share – that wages growth has peaked. The minutes also noted the easing in growth in unit labour costs, as previously [highlighted](#) by Westpac Economics colleague Pat Bustamante.

This might help explain why the Board is indicating that it was not following the practice of other central banks in assuming that 'some spare capacity was necessary to bring inflation back to target within a reasonable timeframe'.

The RBA had been surprised by the stronger durable goods inflation in the April inflation indicator. However, there was little new information on services inflation, which has been more of a focus recently.

The May monthly inflation indicator, which was released after the meeting, came in above consensus, but the services component showed further moderation. That said, the pace of decline is slow, as it has been overseas. Again, we expect that the Board will look to the full quarterly data to form a revised view.

The minutes highlighted an increased risk that inflation could take longer to return to target than previously expected. However, actual outcomes implied that 'the economy was still broadly tracking on a path consistent with returning inflation to target in 2026'. If future developments point to this no longer being the case, the Board would act. But as the output and labour market gaps narrow, the case to take out insurance against heightened perceived risks alone would weaken.

The revisions to overseas holiday spending were seen as bringing household consumption behaviour more in line with past relationships. But the implications for future household spending are not clear. The implied level of household saving is now very low, though this is often revised and extra payments into mortgages are higher than the pre-pandemic average. There is probably a distributional angle here – the minutes do not tease this out but did mention 'clear evidence that many households were experiencing financial stress'. Also noteworthy in the minutes is the mention of household debt growing more slowly than incomes, especially once extra payments into offset accounts were included.

**“... is demand weak enough to bring inflation down fast enough?”**

While many of these questions will be slow to resolve, the consumer response to the 'Stage 3' tax cuts and a range of other fiscal support measures that went live this week will be of close interest. The degree to which this extra income freed up by these measures is either spent or put towards rebuilding buffers will be an important clue to the likely path of spending. Certainly the guidance from [retail sales](#), [consumer sentiment](#) and our [Westpac Card Tracker](#), points to weakness rather than strength.

Several of the developments mentioned in the minutes highlight the awkwardness of the current policy environment. This is not a situation of needing to lean against strong private sector demand that is driving inflation higher. Rather, we see weak demand and declining inflation. The policy decision therefore rests on views on whether demand is weak enough to bring inflation down fast enough, given the factors working in the wrong direction.

Among these factors, it is noteworthy that the minutes highlighted the role of public sector demand in driving both GDP and employment growth. In addition, the minutes noted that if aggregate supply were more constrained than previously assumed, this might also strengthen the case to raise rates. Ongoing slow (but positive) productivity growth was also highlighted.

If that scenario does play out, the case for other policymakers to do what they can to repair the supply side becomes more urgent.

Overall, these minutes confirm our view that the Board would raise rates if the outlook shifted to imply a slower or stalled decline in inflation. But it has not come to that point yet. And given the increased focus on the Bank's full employment mandate, one can readily imagine that the Board is hoping that it doesn't come to that point, either.

# Assurance over inflation a matter of time

Ryan Wells & Illiana Jain  
Economists, Westpac Group

In Australia, the [Minutes from the RBA June Meeting](#) provided more colour around the Board's deliberations, in particular its considerations for monetary policy in the context of lingering inflation pressures. The case for another rate hike was premised largely on the RBA's assessment that demand had continued to outstrip supply and that this imbalance could continue – the former could hold up better than expected, or the latter could be more constrained than currently assumed – increasing the possibility that inflation will take longer to sustainably return to target. The case for leaving policy unchanged was deemed stronger, the Board of the view that “the economy was still broadly tracking on a path consistent with returning inflation to target in 2026, while preserving as many of the gains in employment as possible.”

[Chief Economist Luci Ellis](#) highlighted that it is the ‘gaps’ between demand and supply, whether that be in the labour market or the broader economy, that are receiving a greater focus in the Board's policy deliberations. Here, it is noted that both labour market tightness and the output gap are assessed as narrowing, but given the difficulty in precisely estimating such dynamics, there remains uncertainty in judging when the ‘gaps’ might actually close. For now, 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. Last week's partial inflation data may have unnerved market participants but it had no impact on [our inflation forecasts](#) nor our view on the interest rate outlook. 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.

Other data received this week were largely focused on the consumer and housing. On the former, [retail sales](#) beat expectations, rising 0.6% (1.7%yr). However, most of the strength can largely be attributed to inflation and population growth, with real per capita sales likely tracking in the realm –2.5% to –3.0%. Meanwhile, growth in [dwelling prices](#) continues to forge ahead at a solid pace, up 0.7% across the nation's eight major capital cities. While the latest increase in [dwelling approvals](#) was certainly welcome, the outlook for new dwelling investment remains fragile, at odds with needs of a rapidly growing economy.

Offshore, the focus was on the US with the June ISM PMIs. The ISM non-manufacturing index fell 5pts in June from 53.8 to 48.8. This is the second sub-50 reading in three months, but more importantly the June read is almost 7.5pts below the decade average. The employment index also fell back to April's weak level (6pts below average) after rebounding in May. Business activity and new orders also dropped sharply in June. The level of these sub-components speak to the risk of outright contraction against our base expectation of modest growth, warranting close monitoring ahead. The ISM manufacturing survey edged lower from 48.7 to 48.5 against expectations for a modest lift to 49.1. Production deteriorated, from 50.2 to 48.5, but new orders gained in the month, from 45.4 to 49.3. Both sub-indexes are below their respective six-month averages, signalling a continuation of the sector's deceleration. At 49.3, the employment sub-index was again consistent with outright job loss. Prices paid fell back to 52.1 in the month, below both the six-month and long-run historic averages.

The FOMC also released its minutes for the June meeting which were consistent with the Committee's positive forecasts for the economy. Policy is viewed as restrictive and as working toward bringing about desired inflation outcomes in time. That said, there were some notes of caution over momentum in the labour market, in particular “several” participants noted that nonfarm payrolls may be overstating job creation. Anecdotes on the labour market and consumer behaviour were also used to justify the view that both wage inflation and consumer inflation is continuing to decelerate. That said, “some” participants were willing to raise rates should inflation remain elevated. That raising rates was not considered and inflation looks to be on its downward trajectory suggests this scenario remains improbable. Despite the shift to only one cut this year in its published forecasts, the Committee looks to be ready to begin easing as incoming data give confidence in inflation's downtrend and/or should downside risks materialise. We maintain our view that rate cuts will begin in September 2024. For more detail, see our latest edition of [Market Outlook](#), published earlier today on WestpacIQ.

The June JOLTS survey provided further evidence of labour demand and supply coming into balance. The job opening count was a touch higher than the market expected at 8.14mn, but the job opening rate was little changed from May and within 0.5% of the pre-pandemic level. The hiring, separation and quit rates were also all near their pre-pandemic averages.

In Europe, the European Central Bank held its annual conference in Sintra, the key event being a panel with ECB President Lagarde, FOMC Chair Powell and Bank of Brazil's Campos Neto. Lagarde and Powell's remarks were both constructive on inflation and the health of their respective economies. Powell in particular noted that the US is back on a "disinflationary path", but that further confidence is necessary amongst Committee members before acting. Powell also made clear that the risks the US faces are increasingly balanced, with downside risks to the labour market coming into view.

Euro Area inflation was as expected in June, prices rising 0.2% in the month and 2.5% over the year. Core inflation was a touch stronger than consensus at 2.9%yr as services inflation held around 4%yr, a rate held since the start of this year. Overall, this flash release indicates goods remain the predominant disinflationary force and further progress on services will be needed for inflation to remain sustainably at target. The unemployment rate remained at 6.4% in May. Labour market conditions are heterogenous across the region with services-oriented industries seeing labour market tightness persist while others see slack building.

In Asia, the Bank of Japan's Q2 Tankan Survey reflected a constructive outlook with some risks emerging on the horizon. The outlook on general prices remains little-changed around 2.0% for the 3-year and 5-year horizons, suggesting inflation expectations are holding firm. Forecasts for employment conditions declined further, suggesting businesses are expecting it to be difficult to secure labour ahead. Persistent sentiment around labour scarcity will support wage negotiations ahead. Expectations for investment continue to grow – at present they sit around where they were prior to the Asian Financial Crisis when capacity was expanding rapidly. Profits however are expected to decline. This creates risk to both the investment and wages outlook as strong profitability has supported both over the last year. Wages and investment need to remain strong for inflation to persist and for policy to normalise further.

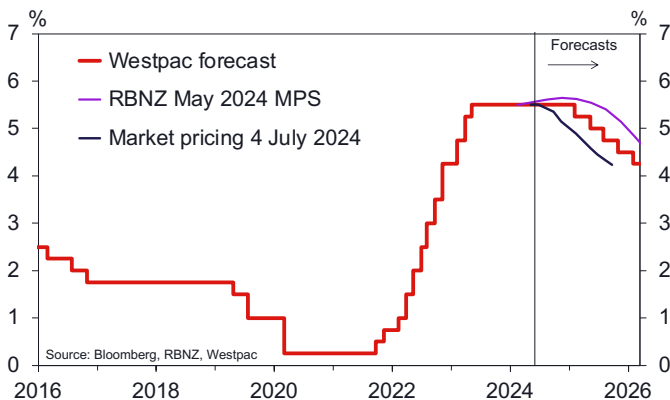
# Keeping it tight



**Kelly Eckhold**  
Chief Economist

The key event over the coming week in New Zealand will be the RBNZ's latest policy review, with the decision to be announced at 2pm NZT on Wednesday. That said, we are not anticipating any change in the OCR – which will remain at 5.5% – or the guidance that “...monetary policy needs to remain restrictive to ensure inflation returns to target within a reasonable timeframe”. The overall tone of the RBNZ's communication is likely to be similar to that seen in May, when the Bank pushed out the timing of its first policy easing to August next year. While there have been some developments since the RBNZ's May meeting that might shift the policy outlook at the margin, there are several very important data releases that lie ahead in coming weeks – notably the Q2 CPI and labour market reports. The RBNZ will want to see this data before contemplating any change in stance. The August Monetary Policy Statement meeting will see the RBNZ present updated projections for the economy and a refreshed track for the OCR and would be the more likely vehicle for communicating any less hawkish stance – one more consistent with our forecast of a first policy easing in February next year.

## RBNZ Official Cash Rate

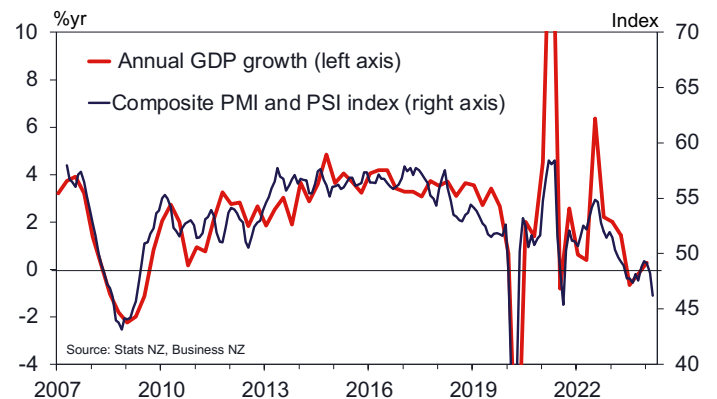


With the key policy message likely unchanged, we expect the policy statement accompanying next week's decision will be very brief, much as was the case with the April policy review. The main interest therefore will likely fall on the nuances conveyed in the discussion in the Record of Meeting, which might provide some

insight into how the RBNZ is provisionally interpreting recent developments. Back in May, the RBNZ noted that some upside risks to growth and inflation potentially could come from the fiscal outlook. Next week's review is the RBNZ's first opportunity to update its view now the Budget is public. We anticipate the RBNZ will continue to retain a hawkish perspective with respect to fiscal risks as Budget 2024 ended up being slightly less contractionary than the projections the RBNZ's forecasts were based on. However, we doubt the Bank will be drawing definitive conclusions as no forecasts will be presented at this review and it is too early to judge the impact that tax cuts (timed to begin at the end of July) will have on consumer spending and inflation.

On the other hand, while the March quarter GDP outcome printed in line with the RBNZ's expectations, recent data pertaining to the June quarter has been very soft – indeed suggesting that the economy has likely contracted during the quarter, in contrast to the RBNZ's expectations. Following some very weak PMI data in mid-June, this week's NZIER QSBO confirmed that economic activity remained weak in the June quarter – particularly in the interest-sensitive construction sector – with a net 28% of respondents reporting a decline in their own domestic trading activity. Considering the weakness seen in recent top-down activity indicators, we have nudged down our early estimate of Q2 GDP growth to -0.2%qtr from -0.1%qtr previously.

## GDP growth and the composite PMI

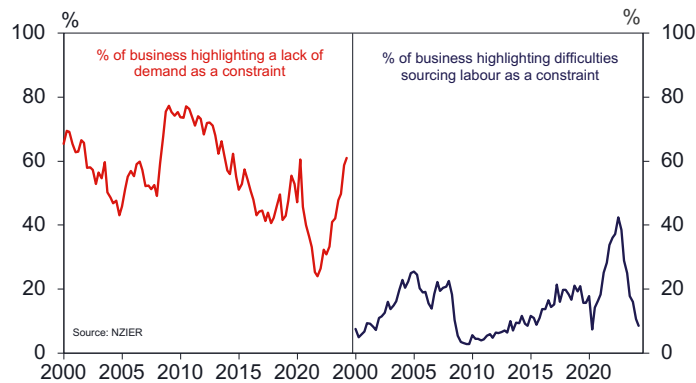


Within the survey firms reported a weaker outlook for investment and employment. Almost 61% of firms reported that lack of demand was the single biggest constraint on output – the most since 2013. Meanwhile, less than 9% of firms cited lack of labour

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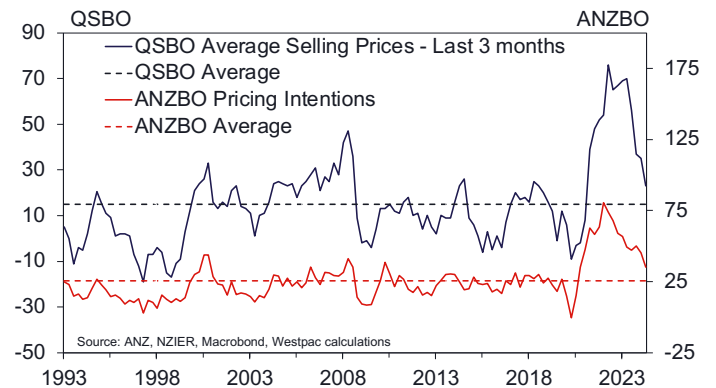
as the biggest constraint – the least since 2014 when the nationwide COVID lockdown quarter is excluded. Indeed, the broad sweep of labour market indicators in the QSBO survey confirmed that the unemployment rate almost certainly increased further during the quarter. The Monthly Employment Indicator (MEI), also released this week, pointed to a broadly unchanged level of filled jobs in May. However, the MEI has been consistently overestimating employment on its first release, with April employment levels revised down 0.2ppts to now report a 0.1% decline. So, with the working age population continuing to grow, the RBNZ might be thinking they have some upside risks to their unemployment rate projections (which are 0.2ppts lower than Westpac’s by the end of 2024).

**Factors constraining NZ business activity**



On the pricing side of the ledger, we don’t see very much to have moved the RBNZ’s short term inflation forecasts. The partial monthly CPI data suggest the Q2 CPI will be in line with the RBNZ’s May forecast of 0.6%. House prices have been flat recently and might have some modest downside risks in the RBNZ’s forecasts given recent trends. Pricing indicators in both the ANZ and QSBO business surveys suggest that inflation pressures are receding but remain somewhat elevated. The most recent pricing intentions data – which have posted notable declines since the RBNZ’s May meeting – will have added to the RBNZ’s confidence. However, the RBNZ will want to see these intentions translated into the hard data, with the next couple of quarterly CPI prints most important in that regard.

**Surveyed pricing intentions**



All up, we don’t think the markets will get a dovish tilt that supports recent market pricing (around a 60% chance of an easing in the October Review and around 38bps priced in by end 2024).

Aside from the RBNZ’s policy meeting, there are several data releases due next week which will also have a bearing on the policy outlook. On Thursday, Statistics NZ will release the Selected Price Indexes for June, which cover about 45% of the CPI regimen. Following this report, we will finalise our pick for the Q2 CPI, which will be released the following week. On Wednesday we will receive an update on migrant and tourist flows for the month of May. Recent data has suggested that net migrant inflows have slowed from the very high peak levels seen last year, while the pace of recovery in tourist inflows has slowed markedly. Friday will bring the release of news on consumer spending (which is likely to have remained soft in June if anecdotal and survey reports are any guide) and the latest manufacturing PMI (which has been in contractionary territory since March last year). Finally, late in the week we will receive the REINZ housing report for June. Here too, anecdotal reports point to a still subdued housing market with house prices tracking broadly sideways since September last year.

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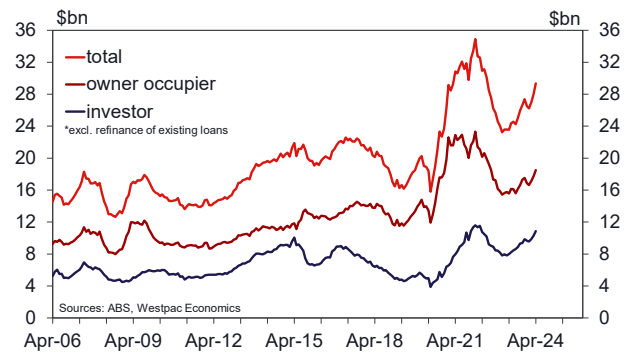
**AUSTRALIA: May Housing Finance Approvals**

**Jul 8 (%mth), Last: 4.8%, Westpac f/c: -2.0%**  
**Mkt f/c: 1.8%, Range: -2.0% to 4.0%**

The value of new housing finance approvals posted a punchy 4.8% gain in April, the third consecutive monthly rise, extending the upswing since early 2023 to be up 24.6%yr. Investors lending continued to outperform owner occupier loans.

May looks likely to see a minor consolidation with market turnover softening a little through the second quarter. That said, owner occupier construction-related loans should see some residual strength associated with a pull-forward in activity ahead of regulatory changes in Victoria and Queensland. Overall, a small 2% retracement looks likely, leaving a solid underlying up-trend intact.

**New finance approvals by segment: value**



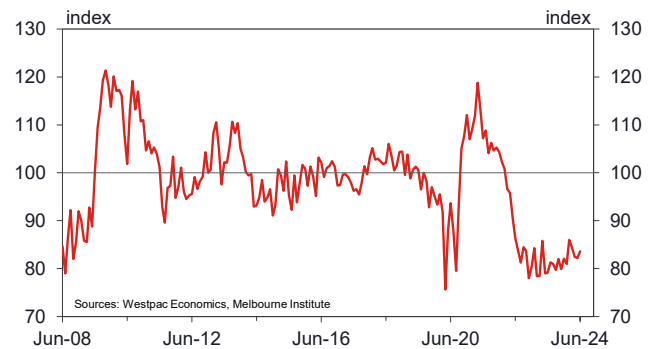
**AUSTRALIA: Jul Westpac-MI Consumer Sentiment**

**Jul 9, Last: 83.6**

Consumer sentiment rose 1.7% in June but at 83.6, the Index remained below its March level and still firmly in pessimistic territory. The survey detail continues to show some positives emerging around family finances, as drags from inflation and rate rises dissipate and the prospect of tax cuts nears. But this is being largely negated by renewed concerns about inflation and the potential for further rates rises.

The July survey is in the field over the week ending July 6. It will capture reactions to the 'stage 3' tax cuts going live on July 1, but also to the May CPI indicator update that has stoked fears of further RBA rate rises.

**Consumer Sentiment index**



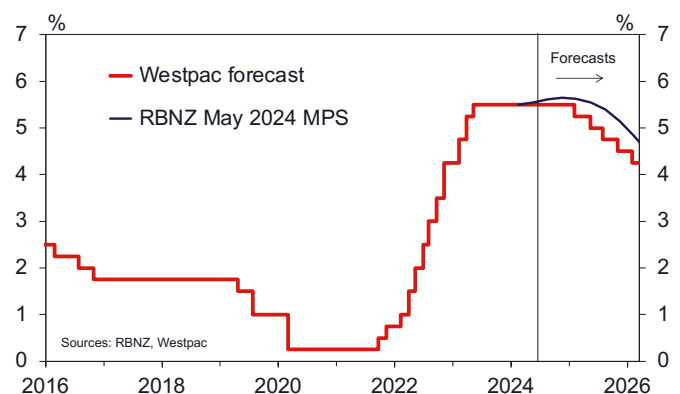
**NEW ZEALAND: RBNZ Monetary Policy Review**

**Jul 10, Last: 5.50%, Westpac f/c: 5.50%, Mkt f/c: 5.50%**

We expect the RBNZ to leave the OCR at 5.50%, with a brief accompanying statement.

The RBNZ will emphasise the upside risks to inflation emanating from the less contractionary than expected Budget 2024. But they will balance this with some dovish messages around potential downside risks to growth as the economy continues to stall and the labour market eases.

**RBNZ Official Cash Rate**



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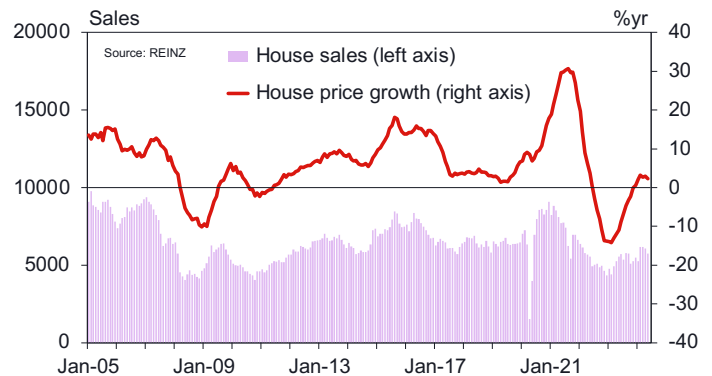
## NEW ZEALAND: Jun REINZ House Sales & Prices

Jul 11 (TBC), Sales, Last: **-5.2%*mt***, **+6.8%*yr***  
 Jul 11 (TBC), Prices, Last: **-0.3%*mt***, **+2.3%*yr***

New Zealand's housing market remained subdued in May. Sales fell for the third month in a row after a surge in activity at the start of the year, while prices have effectively been tracking sideways since last September.

We expect the current softness in the market will eventually give way to a period of stronger activity, underpinned by population growth and policy changes to support investor demand. It may be later this year before we see a meaningful drop in fixed-term mortgage rates, with the RBNZ expected to hold the OCR until 2025.

## REINZ house prices and sales



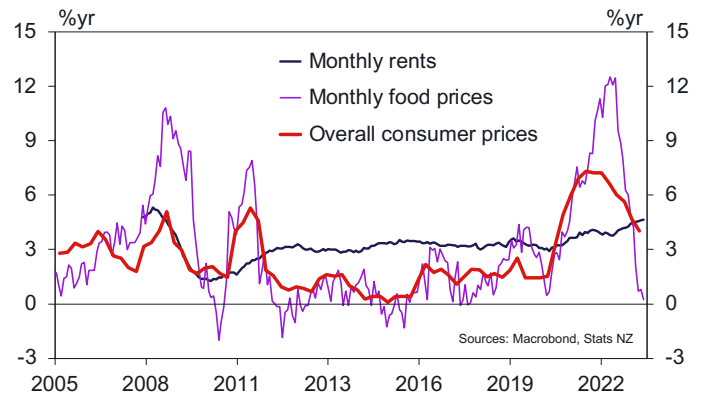
## NEW ZEALAND: Jun Selected Price Indices

Jul 11

Stats NZ's suite of monthly price data covers around 45% of the CPI, providing a timely update on some of the more volatile components of inflation. We expect a 4% fall in fuel prices in June, along with a 1% rise in food prices (related to a seasonal lift in fresh produce prices). On the domestic front, we expect a 0.3% rise in rents.

A key focus will be whether the cooling in price pressures in discretionary spending area seen recently, like takeaway food and holiday/travel costs, has continued. While these prices are not typically a focus for monetary policy, easing pressures across a range of goods and services would be encouraging for the RBNZ.

## NZ consumer prices



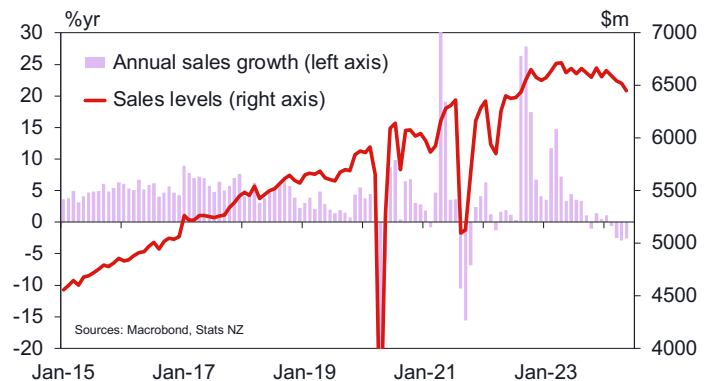
## NEW ZEALAND: Jun Retail Card Spending

Jul 12 (%*mt*), Last: **-1.1%**, Westpac f/c: **-0.2%**

Total retail spending fell 1.1% in May, its fourth consecutive month of decline. Falls in spending have been widespread across categories other than food. That weakness has been a result of continued pressure on households' finances from cost-of-living increases and high interest rates.

We're forecasting another modest 0.2% fall in June. While spending on food is expected to be up, spending in discretionary categories is expected to continue dropping back. Petrol prices also fell over the month.

## NZ monthly retail spending

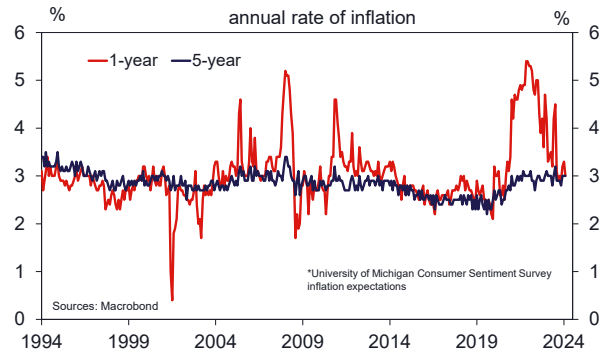


## UNITED STATES: JUNE CPI

Jul 11 (%mth), Last 0.0%, Mkt f/c 0.1%

A second consecutive weak reading for headline inflation in June is set to bring the annual rate down to 3.1%yr. Core inflation will continue to hold up a little more, but at an expected 3.4%yr is still just over half the peak level of 2022. In June and beyond, the detail of the survey will show an absence of demand-driven pressures and reduced cause for concern over the supply side. Behind this trend is a stalling out of household demand, while the labour market detail signals dissipating wage pressures and downside risks for employment.

## Inflation expectations coming into line



# What to watch

|               | For | Data/Events                   | Unit   | Last   | Market f/c | Westpac f/c | Risk/Comment  |
|---------------|-----|-------------------------------|--------|--------|------------|-------------|---|
| <b>Mon 08</b> |     |                               |        |        |            |             |   |
| Aus           | May | Housing Finance               | %mth   | 4.8    | 1.8        | -2.0        | Minor consolidation after several strong monthly gains...   |
|               | May | Owner Occupier Finance        | %mth   | 4.3    | -          | -2.0        | ... temporary factors supporting owner-occupier loans...    |
|               | May | Investor Finance              | %mth   | 5.6    | -          | -2.0        | ... investor activity has outperformed.                     |
| Jpn           | May | Current Account Balance       | ¥bn    | 2050.5 | 2393.5     | -           | Weak yen is supporting inflows.                             |
| Eur           | Jul | Sentix Investor Confidence    | pts    | 0.3    | 0.0        | -           | Rate cuts are igniting confidence.                          |
| US            | May | Consumer Credit               | \$bn   | 6.4    | 11         | -           | Expected to rise as buffer runs out.                        |
| <b>Tue 09</b> |     |                               |        |        |            |             |   |
| Aus           | Jul | Westpac-MI Consumer Sentiment | pts    | 83.6   | -          | -           | Tax cuts go live but more inflation and rate rise concerns? |
|               | Jun | NAB Business Conditions       | pts    | 6      | -          | -           | Conditions gradually moderating to below-average levels.    |
| Chn           | Jun | M2 Money Supply               | %yr    | 7.0    | 6.8        | -           | Due between July 9-15.                                      |
| US            | Jun | NFIB Small Business Optimism  | pts    | 90.5   | 89.0       | -           | Uncertainty around elections keeps sentiment contained.     |
|               |     | FOMC Chair Powell             |        | -      | -          | -           | Testifies before Senate Banking and Housing Committee.      |
| <b>Wed 10</b> |     |                               |        |        |            |             |   |
| NZ            | May | Net Migration                 | mth    | 7380   | -          | -           | Easing from its highs, but revisions cloud the picture.     |
|               | Jul | RBNZ Policy Decision          | %      | 5.50   | 5.50       | 5.50        | Expecting a brief statement ahead of key data.              |
| Chn           | Jun | CPI                           | %yr    | 0.3    | 0.4        | -           | Excess capacity alongside weak demand will...               |
|               | Jun | PPI                           | %yr    | -1.4   | -0.8       | -           | ... continue to limit price growth.                         |
| US            |     | FOMC Chair Powell             |        | -      | -          | -           | Testifies before the House Financial Services Committee.    |
| <b>Thu 11</b> |     |                               |        |        |            |             |   |
| Aus           | Jul | MI Inflation Expectations     | %yr    | 4.4    | -          | -           | Provides a general view of risks.                           |
| NZ            | Jun | REINZ House Prices            | %yr    | 2.3    | -          | -           | Expected date. The housing market remains in stalemate...   |
|               | Jun | REINZ House Sales             | %yr    | 6.8    | -          | -           | ... while high borrowing costs keep buyers on the sideline. |
|               | Jun | Food Price Index              | %mth   | -0.2   | -          | 1.0         | Watching for signs price pressures are continuing to ease.  |
| Jpn           | May | Core Machinery Orders         | %mth   | -2.9   | 0.9        | -           | Developed world demand is hampering orders.                 |
| Kor           | Jul | Bank of Korea Policy Decision | %      | 3.50   | 3.50       | -           | Inflation risks remain negating confidence for a rate cut.  |
| UK            | May | Monthly GDP                   | %mth   | 0.0    | -          | -           | Restrictive policy keeps growth constrained.                |
| US            | Jun | CPI                           | %mth   | 0.0    | 0.1        | -           | Shelter is holding up the headline figure.                  |
|               |     | Initial Jobless Claims        | 000's  | 238    | -          | -           | To remain low, for now.                                     |
|               |     | Fedspeak                      |        | -      | -          | -           | Musalem.  |
| <b>Fri 12</b> |     |                               |        |        |            |             |   |
| NZ            | Jun | Manufacturing PMI             | pts    | 47.2   | -          | -           | Businesses continue to report sluggish demand.              |
|               | Jun | Retail Card Spending          | %mth   | -1.1   | -          | -0.2        | Households' spending appetites remain weak.                 |
| Chn           | Jun | Trade Balance                 | US\$bn | 82.6   | 84.7       | -           | Asian demand is supporting the surplus.                     |
| US            | Jun | PPI                           | %mth   | -0.2   | 0.1        | -           | Easing oil and commodity prices lowers producer costs.      |
|               | Jul | Uni. of Michigan Sentiment    | pts    | 68.2   | 67.0       | -           | Inflation expectations gauge of key importance.             |

# Economic & financial forecasts

## Interest rate forecasts

|                            | Latest (5 Jul) | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
|----------------------------|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Australia</b>           |                |        |        |        |        |        |        |        |        |        |        |
| Cash                       | 4.35           | 4.35   | 4.10   | 3.85   | 3.60   | 3.35   | 3.10   | 3.10   | 3.10   | 3.10   | 3.10   |
| 90 Day BBSW                | 4.46           | 4.42   | 4.19   | 3.96   | 3.75   | 3.55   | 3.30   | 3.30   | 3.30   | 3.30   | 3.30   |
| 3 Year Swap                | 4.28           | 4.10   | 4.00   | 3.85   | 3.70   | 3.60   | 3.50   | 3.50   | 3.50   | 3.55   | 3.60   |
| 3 Year Bond                | 4.16           | 3.90   | 3.80   | 3.65   | 3.50   | 3.40   | 3.30   | 3.30   | 3.30   | 3.35   | 3.40   |
| 10 Year Bond               | 4.41           | 4.30   | 4.25   | 4.20   | 4.10   | 4.00   | 4.00   | 4.00   | 4.05   | 4.10   | 4.15   |
| 10 Year Spread to US (bps) | 5              | -10    | -5     | 0      | 0      | 0      | 0      | 0      | 0      | 5      | 5      |
| <b>United States</b>       |                |        |        |        |        |        |        |        |        |        |        |
| Fed Funds                  | 5.375          | 5.125  | 4.875  | 4.625  | 4.375  | 4.125  | 3.875  | 3.625  | 3.375  | 3.375  | 3.375  |
| US 10 Year Bond            | 4.37           | 4.40   | 4.30   | 4.20   | 4.10   | 4.00   | 4.00   | 4.00   | 4.05   | 4.05   | 4.10   |
| <b>New Zealand</b>         |                |        |        |        |        |        |        |        |        |        |        |
| Cash                       | 5.50           | 5.50   | 5.50   | 5.25   | 5.00   | 4.75   | 4.50   | 4.25   | 4.00   | 3.75   | 3.75   |
| 90 day bill                | 5.61           | 5.60   | 5.50   | 5.25   | 5.00   | 4.75   | 4.50   | 4.25   | 4.00   | 3.85   | 3.85   |
| 2 year swap                | 4.87           | 5.00   | 4.80   | 4.60   | 4.40   | 4.25   | 4.15   | 4.05   | 4.00   | 4.00   | 4.00   |
| 10 Year Bond               | 4.73           | 4.90   | 4.80   | 4.70   | 4.65   | 4.55   | 4.50   | 4.40   | 4.35   | 4.35   | 4.35   |
| 10 Year spread to US       | 36             | 50     | 50     | 50     | 55     | 55     | 50     | 40     | 30     | 30     | 25     |

## Exchange rate forecasts

|         | Latest (5 Jul) | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
|---------|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| AUD/USD | 0.6730         | 0.66   | 0.67   | 0.68   | 0.69   | 0.70   | 0.71   | 0.72   | 0.72   | 0.73   | 0.73   |
| NZD/USD | 0.6115         | 0.60   | 0.61   | 0.62   | 0.63   | 0.64   | 0.65   | 0.65   | 0.65   | 0.65   | 0.65   |
| USD/JPY | 161.16         | 159    | 158    | 156    | 153    | 150    | 147    | 144    | 141    | 138    | 135    |
| EUR/USD | 1.0814         | 1.09   | 1.10   | 1.11   | 1.12   | 1.13   | 1.14   | 1.14   | 1.14   | 1.15   | 1.15   |
| GBP/USD | 1.2760         | 1.27   | 1.28   | 1.29   | 1.30   | 1.31   | 1.31   | 1.31   | 1.31   | 1.31   | 1.31   |
| USD/CNY | 7.2680         | 7.20   | 7.10   | 7.05   | 7.00   | 6.90   | 6.80   | 6.70   | 6.60   | 6.55   | 6.50   |
| AUD/NZD | 1.1005         | 1.10   | 1.10   | 1.10   | 1.10   | 1.10   | 1.10   | 1.11   | 1.11   | 1.12   | 1.12   |

## Australian economic growth forecasts

| % Change            | 2024 |     |     |     | 2025 |     |     |     | Calendar years |       |       |       |
|---------------------|------|-----|-----|-----|------|-----|-----|-----|----------------|-------|-------|-------|
|                     | Q1   | Q2f | Q3f | Q4f | Q1f  | Q2f | Q3f | Q4f | 2023           | 2024f | 2025f | 2026f |
| GDP % qtr           | 0.1  | 0.3 | 0.6 | 0.5 | 0.5  | 0.6 | 0.6 | 0.7 | -              | -     | -     | -     |
| %yr end             | 1.1  | 1.0 | 1.4 | 1.6 | 2.0  | 2.2 | 2.2 | 2.3 | 1.6            | 1.6   | 2.3   | 3.5   |
| Unemployment rate % | 3.9  | 4.0 | 4.2 | 4.3 | 4.4  | 4.5 | 4.6 | 4.6 | 3.9            | 4.3   | 4.6   | 4.5   |
| Wages (WPI)         | 0.8  | 0.8 | 0.7 | 0.7 | 0.7  | 0.8 | 0.8 | 0.8 | -              | -     | -     | -     |
| annual chg          | 4.1  | 3.9 | 3.4 | 3.0 | 2.9  | 2.8 | 2.9 | 3.0 | 4.2            | 3.0   | 3.0   | 3.3   |
| CPI Headline        | 1.0  | 1.0 | 0.1 | 0.8 | 0.7  | 0.8 | 0.9 | 0.6 | -              | -     | -     | -     |
| annual chg          | 3.6  | 3.8 | 2.7 | 2.9 | 2.7  | 2.4 | 3.2 | 3.1 | 4.1            | 2.9   | 3.1   | 2.8   |
| Trimmed mean        | 1.0  | 0.9 | 0.8 | 0.7 | 0.7  | 0.7 | 0.7 | 0.6 | -              | -     | -     | -     |
| annual chg          | 4.0  | 4.0 | 3.6 | 3.5 | 3.2  | 3.0 | 2.8 | 2.8 | 4.2            | 3.5   | 2.8   | 2.6   |

## New Zealand economic growth forecasts

| % Change            | 2024 |      |     |     | 2025 |     |     |     | Calendar years |       |       |       |
|---------------------|------|------|-----|-----|------|-----|-----|-----|----------------|-------|-------|-------|
|                     | Q1   | Q2f  | Q3f | Q4f | Q1f  | Q2f | Q3f | Q4f | 2023           | 2024f | 2025f | 2026f |
| GDP % qtr           | 0.2  | -0.2 | 0.3 | 0.3 | 0.5  | 0.5 | 0.7 | 0.7 | -              | -     | -     | -     |
| Annual avg change   | 0.2  | -0.2 | 0.0 | 0.2 | 0.4  | 0.9 | 1.3 | 1.8 | 0.6            | 0.2   | 1.8   | 3.2   |
| Unemployment rate % | 4.3  | 4.6  | 4.9 | 5.2 | 5.3  | 5.4 | 5.4 | 5.4 | 4.0            | 5.2   | 5.4   | 4.7   |
| CPI % qtr           | 0.6  | 0.6  | 1.1 | 0.4 | 0.5  | 0.4 | 0.8 | 0.5 | -              | -     | -     | -     |
| Annual change       | 4.0  | 3.6  | 2.9 | 2.8 | 2.7  | 2.4 | 2.2 | 2.2 | 4.7            | 2.8   | 2.2   | 2.2   |

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.



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