Week beginning 15 July, 2024

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: The two wolves of Monetary Policy.

The Week That Was: Shifting risks and rhetoric.

Focus on New Zealand: RBNZ looking forward to cuts… but when?

For the week ahead:

Australia: Westpac-MI Leading Index, labour force survey.

New Zealand: Q2 CPI.

China: Q2 GDP, retail sales, industrial production, fixed asset investment.

Eurozone: ECB Policy Decision, industrial production, trade balance.

United Kingdom: CPI, unemployment rate, average hourly earnings, retail sales.

United States: Beige Book, Chair Powell speaking, retail sales, industrial production, leading index.

Information contained in this report current as at 12 July 2024

The two wolves of Monetary Policy

Luci Ellis
Chief Economist, Westpac Group

There is a story in Native American folklore that inside each of us are two wolves, one evil, one good. The one that wins – the one you become – goes the saying, is the one you feed.

So too for monetary policy. In that case, though, the two wolves are demand shocks and supply shocks. The demand shocks are well known and well understood. Policymakers know how to respond to these. When demand is strong, tighten policy to keep inflation in check. When it is weak, ease policy to support demand.

In contrast, supply shocks create a trade-off between keeping inflation at target and stabilising output or employment. It is an easy trade-off to stomach when the supply shocks are benign and inflation is showing a tendency to undershoot your target. Adverse supply shocks are less comfortable, with higher prices and lower output.

We can see this conflict of narratives in the Reserve Bank's own analysis of the economy, as well as in some of the discourse from other quarters. Some observers frame the situation as demand-driven. They focus on fiscal and monetary support during the pandemic and argue that this has resulted in an economy where demand is simply too strong for the economy's supply capacity to meet it. No wonder we see repeated stories worrying about every extra dollar going into households' pockets, afraid that this will boost inflation. Perhaps this is right, but there are a lot of assumptions going into that argument.

A demand-led narrative is also more comfortable for the economics profession. Most of the models we learned at university primarily capture demand-side relationships. Supply capacity is usually treated as given or driven by unpredictable (and transitory) 'productivity shocks'.

Don't assume, test

We should grant that advanced economy governments and central banks provided massive stimulus during the peak of the pandemic. In Australia and a handful of other economies, fiscal support managed to overfill the income hole created by lockdowns – an understandable outcome given the many uncertainties at the time. We should recognise the possibility that some of the resulting strength in demand might not have unwound fully. But we should test this proposition, not assume it.

Recognising and understanding the supply shocks – much like making the virtuous choices involved in feeding the good wolf – can be hard. Hitting the strong demand 'nail' with the policy hammer is so much more straightforward. Even when supply shocks are recognised, it is sometimes assumed that the response still needs to be to hammer down demand to fit supply. We see some flavour of this view in the June 2024 RBA Minutes, which said, 'The case to raise the cash rate could be further strengthened if members judged that aggregate supply was likely to be more constrained than had been assumed.'

Again, there are some unstated assumptions here: that the supply constraint is persistent, or fading so slowly that demand-based policy still needs to respond to keep inflation in check. It would be a mistake to assume that a particular supply constraint lasts forever; better to understand what is driving it before reaching that conclusion.

Curves, shifts and other fruit

We must bear a few things in mind when assessing whether something is a supply constraint and how it might play out.

Firstly, and as we have said before, simultaneous increases in prices and volumes for some goods and services are not necessarily evidence of strong overall demand. We could be dealing with an 'other fruit' problem, where supply shocks affecting some goods and services displace demand elsewhere.

Another thing to be aware of is that some economic relationships are nonlinear and others can shift. The RBA knows this: it has long recognised that the Phillips Curve is indeed a curve, not a straight line. It has also, commendably, recognised that the unemployment rate consistent with the full employment concept in its mandate can shift.

There are other labour market phenomena that we should recognise are nonlinear, or shifting, or some combination of the two. As discussed in a recent note, Fed Governor Waller and others at the Federal Reserve have argued that theory would suggest that when job vacancies are high enough, they can fall back to more usual levels without unemployment rising much. The relationship between the two variables is nonlinear.

Subsequent events, including in other countries, have supported Waller's thesis. For some countries, like the Netherlands, the high vacancy rate was in line with the normal nonlinear relationship, and it could reverse without unemployment rising by much. For others, like the United States, United Kingdom – and possibly Australia – there was a bit more going on. But that 'bit more' was a pandemic-related shock to labour supply. As the shock faded and participation recovered, the historical relationship re-asserted itself.

There is a deeper question about why labour supply took a long time to come back in those countries, but not others, even after social distancing restrictions were removed. Indeed, in the United Kingdom it is going in the wrong direction again. In Australia, at least, the constraint was more about the borders than about participation. This means that we can reasonably conclude that this supply shock, to the extent it was relevant, has been fading of its own accord.

Of course, there might still be other supply constraints at play in Australia. Some supply shocks might persist, while others unwind without help from monetary policy. However, policymakers might not recognise that the shock will not persist. And even if they do, policymakers might still conclude – rightly or wrongly – that demand needs to be reduced to meet it.

It would be good to know what the RBA is assuming about supply constraints, their causes, and their likely persistence. Newish Deputy Governor Hauser mentioned the need to do more work on supply issues during the Q&A to his recent speech. Hopefully the post-Review changes will direct more resources into such activity than was previously available.

Which wolf should we feed? More importantly, which wolf is the RBA feeding?

Shifting risks and rhetoric

Ryan Wells & Illiana Jain
Economists, Westpac Group

The July Westpac-MI Consumer Sentiment Survey confirmed that households remain downbeat, with the headline index falling 1.1% to 82.7. The latest update continues to speak to a challenging context, characterised by a resurgence in anxiety over inflation and fears over further interest rate increases.

Indeed, Westpac-MI Mortgage Rate Expectations have staged a cumulative 30% bounce over the past three months alone, representing the sharpest 'hawkish' turn in the past seven years. Against that backdrop, it is hardly surprising that households' views on their financial position soured in the month, the sub-index tracking 'family finances vs a year ago' and 'family finances next 12 months' declining 8.4% and 4.5% respectively in July.

Consumers' unemployment expectations fell 3.3% in July, returning back to the long-run average after having begun to tick higher over recent months. This is consistent with a softening in labour market conditions rather than a sharp rise in job losses, as has broadly been the case for much of the past year.

Given that the unemployment rate remains fairly close to its lows, one might speculate that the labour market remains just as tight as it was last year. Earlier this week, Chief Economist Luci Ellis instead highlighted that labour market tightness can ease significantly without necessitating a corresponding large rise in unemployment. In today's essay, Chief Economist Luci Ellis explores the importance of identifying the underlying drivers and appropriate response to such dynamics.

Other data received this week was in line with our views. Housing finance approvals posted a broad-based decline of –1.7% in the month after having experienced an 11.6% surge over the past three months. With some of the steam coming out of housing market – both with respect to prices and turnover – a more moderate pace of firming heading into next year looks more likely. Meanwhile, the latest NAB business survey provided a downbeat update on business conditions, underscored by a persistent weakening in forward orders and a slowdown in hiring. For policy, it was constructive to see gauges of prices and costs ease following May's bounce.

"However, the onus ultimately lies on official inflation data to assess disinflation's current pace."

In the US, the headline CPI fell –0.1% in June, bringing annual headline inflation down from 3.3%yr to 3.0%yr. Meanwhile, core inflation rose just 0.1% in the month and at 3.3%yr, it remains slightly above the headline measure. The detail showcased a decline in core goods prices (–0.1%) and a marginal 0.1% lift in core services prices, much lower compared to the six-month average of 0.4%.

Deceleration in the shelter component was key to the latter, as both rent and owners' equivalent rent components eased. This is consistent with other timely measures on rents which are showing weaker rental growth in new leases signed.

The result provides the 'greater confidence' that FOMC Chair Powell alluded to in his recent hearings.

During his testimony to Congress, Powell's comments hinted that the FOMC may be more open to rate cuts in the near future. Powell characterised the labour market as 'fully back into balance' compared to 'moving into better balance' last month, reflecting an updated assessment following recent labour market data.

Better still, he remarked that the labour market was 'not a source of broad inflationary pressure for the economy'. Alongside the risks of elevated inflation, he emphasised the risks of reducing policy 'too late or too little'.

"That the risk of moving too slowly is being actively considered suggests the Committee is more biased towards moving than not."

Overall, this week's data and commentary further supports our view that the FOMC will begin rate cuts in September and pursue at a measured pace of one rate cut per quarter until June 2026. Before then, we will get a couple more inflation readings likely to bolster the FOMC's confidence. The July meeting and the sentiment at the Jackson Hole symposium in late August should provide a clearer signal of willingness to cut rates.

Meanwhile, the Bank of Korea also noted this week that they will 'examine the timing of a rate cut'. The Bank of Korea was the first central bank in Asia to raise rates in 2021. Core inflation in South Korea was at the 2.0% target in May and June while headline has been easing, currently at 2.4%yr.

Korea is similar to most of Asia, where inflation is at, or very close, to central bank targets. However, most are hesitant to move before the FOMC at risk of devaluing their currencies and potentially introducing imported inflation. This leaves many policymakers buying time before cutting, even as domestic conditions necessitate easing monetary policy settings.

In China, consumer prices undershot expectations rising 0.2%yr while producer prices fell –0.8%yr. While some of the downward pressure on consumer prices in the month were a result of discounting for various household contents and automobiles during the "618" shopping festival, the underlying picture of slow consumer demand remains. The more benign fall in producer prices compared to history reflects an increase in energy and commodity prices in recent months.

"However, excess capacity in the economy will continue to be a disinflationary force looking ahead."

Finally in the UK, GDP grew 0.4% in May, adding to the cumulative 1.5% increase in GDP since December 2023. Much of this was supported by the 0.7% growth in consumer-facing services, no doubt a result of robust real wages growth. As BoE policymakers focus on bringing sticky services inflation down, this result suggests they can be patient if needed in normalising policy.

RBNZ looking forward to OCR cuts… but when?

Kelly Eckhold
Chief Economist NZ

Surprisingly, the RBNZ's July OCR Review was markedly less hawkish than May. The RBNZ's growth forecasts seem to have been significantly downgraded and crucially the RBNZ seems more confident that annual inflation will be below 3% quite soon. The recent QSBO survey likely crystalised the downside risks to the growth and inflation outlooks that were evident in other high frequency indicators. The RBNZ's abrupt change in messaging at the July Review suggests a non-trivial risk of policy easing before long. Our central expectation remains that the RBNZ will begin easing policy in February next year. But an earlier move is very feasible and will be data dependent.

What caused the marked change in the RBNZ's tone in the July OCR Review?

We were very surprised by the marked change in tone in this week's RBNZ meeting. As the economy has looked to be steadily weakening relative to the RBNZ's May *Statement* view, we expected the RBNZ would soon begin to moderate the very hawkish tone conveyed in the May *Statement*. But we didn't expect as large a shift so soon and thought it more likely the RBNZ's view would begin to evolve in the August *Statement* towards our own longstanding view that easing could begin early in 2025.

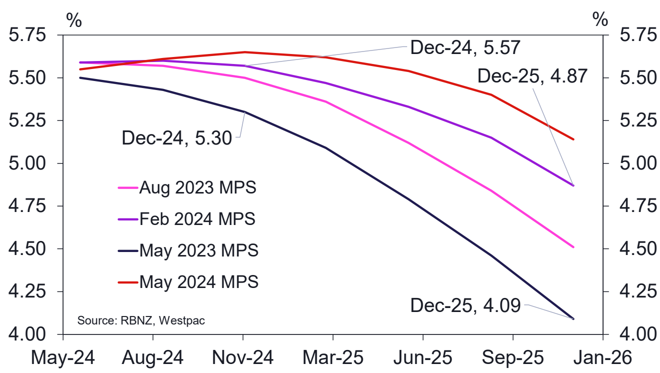
We discussed the main features of the July OCR Review in our review. The RBNZ's commentary was more optimistic outlook for inflation this year and less optimistic outlook for activity. The key final paragraph of the press statement gave a signal on the policy outlook: "The Committee agreed that monetary policy will need to remain restrictive. *The extent of this restraint will be tempered over time consistent with the expected decline in inflation pressures*" (our emphasis in italics). We didn't expect such a message at this review and suggests the adjustment to the RBNZ's view is relatively large given important inflation and labour market data looming.

Our recent note setting out the conditions we think would need to be in place for the RBNZ to begin cutting sooner than February 2025, also discusses the data we think the RBNZ has been focused on when shifting their view. Business surveys were likely key in solidifying the RBNZ's view that the growth outlook is much weaker than previously thought as well as suggesting the labour market is easing. Importantly, these surveys confirm a significant step lower in firms' pricing intentions that, along with monthly inflation indicators, has likely increased the RBNZs confidence that headline inflation will return to within the target range "in the second half of this year". If realized, the return of inflation to the 1-3% target range would be an important milestone given the RBNZ's relatively hawkish stance since late 2023 has been entirely driven by concerns that inflation would take too long to adjust lower.

We think the RBNZ's expected OCR profile is now much flatter and shows earlier easing. It's not clear how big the adjustment is but we think it's relatively large given that the RBNZ felt it necessary to make this change so soon after the May Statement. Its plausible that the RBNZ's May 2023 and February 2025 OCR forecast profiles help provide a benchmark for how large the reassessment might be.

A move back to the RBNZ's February view (removing the May hawkish sojourn) would imply easing around February 2025 (Westpac's current forecast) and around 50-75 basis points of easing by end 2025. Looking back to May 2023 provides a relatively dovish alternative and showed a chance of an easing in October 2024 and a likely easing in November 2024.

RBNZ OCR forecast profiles since May 2023



What scenarios could see the RBNZ tempering restriction in the next 6 months?

Here we discuss some more specific data hurdles we think need to be crossed to begin reducing restriction, recognizing that there are also other key indicators (both domestic and abroad) that will impinge on the assessment of the domestic policy outlook:

- For easing to begin in **August**, we would likely need to have seen the following:
  - A significant broad-based downside surprise in the Q2 CPI on 17 July (WBC forecast 0.6% qoq/3.5% yoy). The surprise would need to be sufficient to give confidence that future quarterly CPI outcomes will soon sit close to historic norms. This implies a need to see significant downside surprise in the non-tradables component of the CPI (WBC forecast 0.8% qoq/5.3% yoy) that is itself broad-based and consistent with excess capacity flowing through to lower core inflation pressures; and
  - A significant upside surprise (perhaps close to 5%) in the unemployment rate in the Q2 labour market data on 7 August (WBC forecast 4.6%), and clear signs that wage inflation is dissipating more quickly than expected (WBC forecast 3.5% annual total private sector LCI); and
  - Further evidence that Q2/Q3 GDP growth is significantly weaker than current forecasts (WBC -0.2 qoq perhaps with some downside risks).
- A first easing to occur at the **October** meeting, would likely require:
  - The RBNZ to have foreshadowed some probability of an October easing at the August *Statement* and a much larger probability of a November easing; and
  - A moderate downside surprise in the Q2 CPI on 17 July, including the non-tradables component. This should be sufficient to suggest some additional and ongoing progress in reduced core inflation pressures; and
  - A significant upside surprise in the unemployment rate in the Q2 labour market data on 7 August, and clear signs that wage inflation is dissipating more quickly than had been expected; and
  - Confirmation of a marked decline in activity in the Q2 GDP report on 20 September (WBC forecast -0.2 qoq – perhaps with downside risks); and
  - More evidence of weak activity, expanding spare capacity and easing inflation indicators in the Q3 QSBO on 1 October; and
  - Signs that tax cuts in late July aren't significantly increasing economic momentum or reducing excess capacity unduly.
- For a first easing to occur at the **November** meeting, we would likely need to have seen the following:
  - Sufficient broad-based weakness in the Q2 and Q3 CPIs (17 July and 17 October), including in the non-tradables component of the CPI that suggest that inflation is clearly on track to move close to the midpoint of the target in 2025 (WBC Q3 forecasts 1.1% qoq total/1.4% qoq non-tradables); and
  - A moderate upside surprise in the unemployment rate in the Q2 and Q3 labour market data on 7 August and 6 November respectively (WBC Q3 forecast 4.9%), and signs that wage inflation is dissipating more quickly than had been expected; and
  - Confirmation of a decline in activity in the Q2 GDP report on 20 September; and
  - More evidence of weak activity, expanding spare capacity and easing inflation indicators in the Q3 QSBO on 1 October; and
  - Signs that tax cuts in late July were not leading to a greater lift in household spending than the RBNZ had expected.
- For the first easing to occur at the **February 2025** meeting, we would expect to see something like our current *Economic Overview* outlook to evolve with a focus on the inflation outlook in particular.

For now, the outcome of the June quarter CPI looks pivotal in terms of determining which scenario we are looking at going forward.

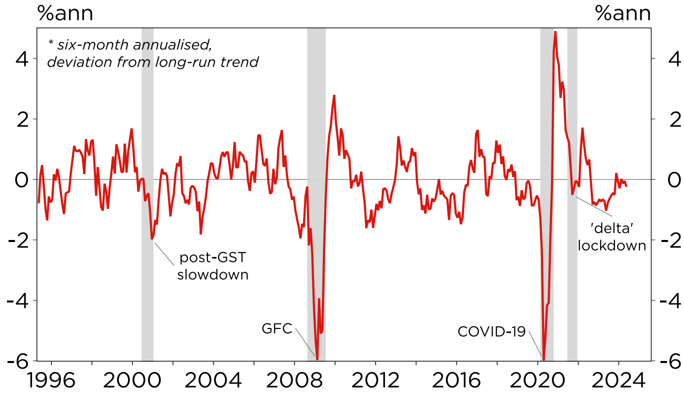
AUSTRALIA: Jun Westpac-MI Leading Index (%ann)

Jul 17, Last: –0.24%

The Leading Index fell from –0.05% in April to –0.24% in May. Previous reads had pointed to momentum stabilising but the May decline suggests it remains patchy.

The June read will reflect a mixed bag of monthly updates. There were small improvements in equities and dwelling approvals but consumer sentiment-based components were largely unchanged. Hours worked was down 0.5% in the latest month and commodity prices recording a relatively sharp 2.8% fall (measured in AUD terms).

Westpac-MI Leading Index



Source: Westpac-Melbourne Institute

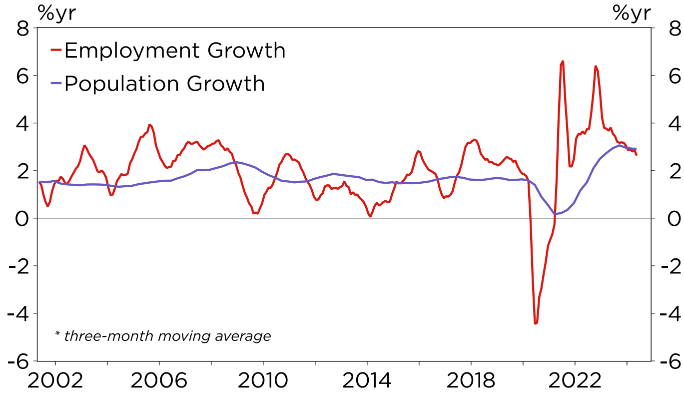
AUS: Jun Labour Force – Employment (mth change)

Jul 18, Last: 39.7k, Westpac f/c: 30k
Mkt f/c: 20k, Range: -20k to 40k

Employment growth has been solid over the past two months, up +37.4k in April and +39.7k in May. There was some underlying volatility in the data over this period, smoothing out what could have been a larger gain in April and a smaller increase in May.

For June, we have pencilled in a lift in employment of +30k. That broadly matches the current pace of population growth, and would therefore see the employment-to-population ratio hold steady. Moving into the second half of this year, we expect this ratio to begin moderating, as employment growth slows.

Employment tracking in line with population



Source: ABS, Macrobond, Westpac Economics

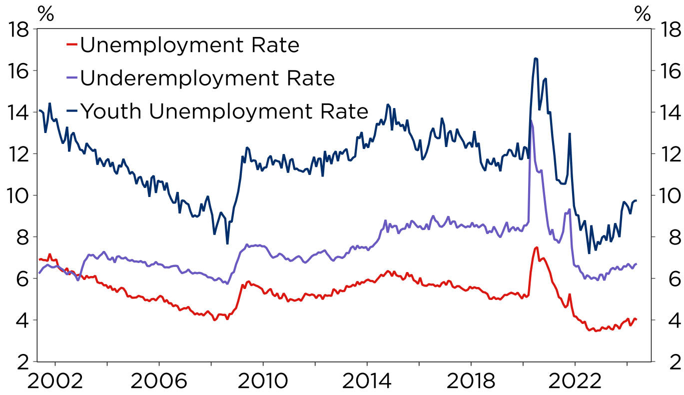
AUS: Jun Labour Force – Unemployment Rate (%)

Jul 18, Last: 4.0%, Westpac f/c: 4.0%
Mkt f/c: 4.1%, Range: 3.9% to 4.1%

In May, the participation rate held at 66.8%, resulting in a solid +30.5k expansion in the size of the labour force and a tick-down in the unemployment rate, to 4.0%. On a three-month average basis, the unemployment rate is ticking gradually higher.

For June, we expect the participation rate to once again hold flat at 66.8%, which would also see the unemployment rate hold at 4.0%. With hours worked softening and industry differences emerging, there will also be a focus on other measures the RBA pays close attention to, including underemployment and youth unemployment.

Youth conditions easing faster than others



Source: ABS, Macrobond, Westpac Economics

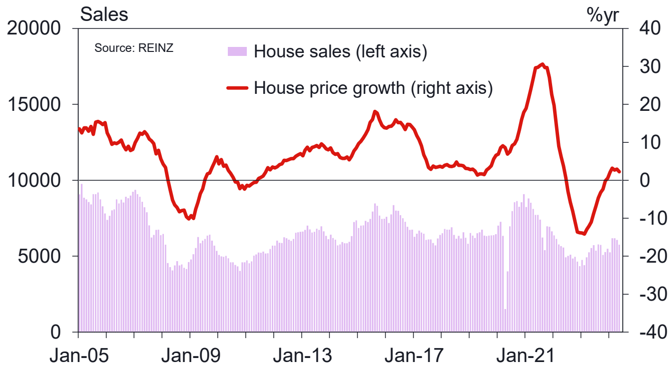
NZ: REINZ Jun House Sales and Prices

Jul 15, Sales, Last: –5.2%mth, +6.8%yr
Jul 15, Prices, Last: –0.3%mth, +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.

RBNZ house prices and sales



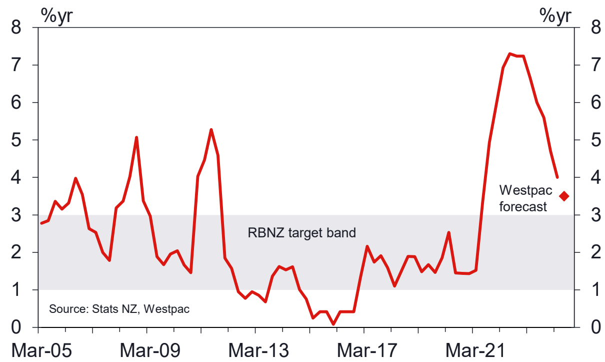
NZ: Q2 CPI

Jul 17, (%qtr), Last: +0.6%, Westpac f/c: +0.6%, Mkt: +0.4%
Jul 17, (%yr), Last: +4.0%, Westpac f/c: +3.5%, Mkt: +3.4%

We estimate that New Zealand consumer prices rose by 0.6% in the June quarter. That would see the annual inflation rate dropping to 3.5%, down from 4.0% in the March quarter. Our forecast is close to the RBNZ's forecast from their May Monetary Policy Statement.

We expect to see continued strength in domestic inflation. In contrast, tradables prices have been cooling in response to the downturn in domestic spending and are likely to soften further this quarter. A key area to watch will be services sector prices which have been rising at a solid pace, but are now starting to cool.

NZ Consumers Price Index



What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 15							
NZ	Jun	REINZ House Price Index	%yr	2.3	–	–	The housing market remains in a stalemate…
	Jun	REINZ House Sales	%yr	6.8	–	–	… while high borrowing costs keep buyers on the sideline.
	Jun	BusinessNZ PSI	pts	43.0	–	–	Services have turned down sharply in recent months.
Chn	Q2	GDP	%yr	5.3	5.0	–	Growth likely eased moving into mid-year as concerns…
	Jun	Retail Sales	ytd %yr	4.1	4.0	–	… over housing continue to weigh heavily on consumers…
	Jun	Industrial Production	ytd %yr	6.2	6.0	–	… leaving China's robust industrial capacity and trade…
	Jun	Fixed Asset Investment	ytd %yr	4.0	3.8	–	… as key supports to economic activity in the interim.
Eur	May	Industrial Production	%mth	–0.1	–1.0	–	Auto struggles see IP weaken.
US	Jul	Fed Empire State Index	pts	–6	–8	–	To remain volatile around a weak level.
		FOMC Chair Powell	–	–	–	–	Interview at the Economic Club of Washington.
		Fedspeak	–	–	–	–	Daly.
Tue 16							
Eur	Jul	ZEW Survey of Expectations	pts	51.3	–	–	Optimism over growth prospects continues to strengthen.
	May	Trade Balance	€bn	19.4	–	–	Slow demand from developed markets add risk to outlook
	Q2	ECB Bank Lending Survey	–	–	–	–	Credit demand weak amid restrictive financial conditions.
US	Jun	Retail Sales	%mth	0.1	–0.2	–	Growth to decelerate to or below trend this year.
	Jun	Import Price Index	%mth	–0.4	–	–	Renewed focus on rising shipping costs.
	May	Business Inventories	%mth	0.3	0.3	–	Steady inv-to-sales points to apt order book management.
	Jul	NAHB Housing Market Index	pts	43	43	–	Homebuilders have little cause for optimism.
		Fedspeak	–	–	–	–	Kugler.
Wed 17							
Aus	Jun	Westpac-MI Leading Index	%ann	–0.24	–	–	Momentum looking patchier again.
NZ	Jul 17	GlobalDairyTrade Auction	%chg	–6.9	–	–	Futures prices have eased further since the last auction.
	Q2	CPI	%qtr	0.6	0.4	0.6	Slow easing in domestic inflation, tradable prices soft.
	Q2	CPI	%yr	4.0	3.4	3.5	Downtrend in headline and core continuing.
UK	Jun	CPI	%yr	2.0	1.9	–	Services remain sticky despite at-target headline.
US	Jun	Housing Starts	%mth	–5.5	1.8	–	Borrowing costs remain a headwind for builders…
	Jun	Building Permits	%mth	–2.8	–0.3	–	… front-end risks around the pipeline linger.
	Jun	Industrial Production	%mth	0.7	0.3	–	Production continues to hold broadly flat year-on-year.
	Jul	Federal Reserve's Beige Book	–	–	–	–	An update on economic conditions across the regions.
		Fedspeak	–	–	–	–	Barkin.
Thu 18							
Aus	Jun	Employment Change	000's	39.7	20.0	30.0	Employment broadly tracking in line with population g'th…
	Jun	Unemployment Rate	%	4.0	4.1	4.0	… and will soon move below, seeing U/E tick higher in 2024.
	Jul	RBA Bulletin	–	–	–	–	Quarterly publication providing insights on the economy.
Eur	Jul	ECB Policy Decision (Deposit)	%	3.75	3.75	3.75	Policy easing will ensue at a measured pace.
UK	May	ILO Unemployment Rate	%	4.4	4.4	–	Labour market tightness is gradually fading…
	May	Average Weekly Earnings	%yr	5.9	–	–	… real income trends will remain key.
US	Jul	Phily Fed Index	pts	1.3	2.9	–	Conditions remain subdued across the regions.
	Jun	Leading Index	%mth	–0.5	–0.3	–	Data inputs speak to risks around the outlook.
	Jul 13	Initial Jobless Claims	000's	222	–	–	Holding around relatively low levels.
Fri 19							
Jpn	Jun	CPI	%yr	2.8	2.8	–	Closely inspecting for signs of a virtuous wage-price cycle.
UK	Jul	GfK Consumer Sentiment	pts	–14	–	–	Consumers' deeply pessimistic attitude is fading…
	Jun	Retail Sales	%mth	2.9	–	–	… providing an impetus for a recovery in spending.
US		Fedspeak	–	–	–	–	Daly, Bowman, Williams, Bostic.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (12 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
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	4.17	4.10	4.00	3.85	3.70	3.60	3.50	3.50	3.50	3.55	3.60
3 Year Bond	4.07	3.90	3.80	3.65	3.50	3.40	3.30	3.30	3.30	3.35	3.40
10 Year Bond	4.34	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)	13	-10	-5	0	0	0	0	0	0	5	5
United States											
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	4.21	4.40	4.30	4.20	4.10	4.00	4.00	4.00	4.05	4.05	4.10
New Zealand											
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	5.55	5.60	5.50	5.25	5.00	4.75	4.50	4.25	4.00	3.85	3.85
2 year swap	4.49	5.00	4.80	4.60	4.40	4.25	4.15	4.05	4.00	4.00	4.00
10 Year Bond	4.50	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	29	50	50	50	55	55	50	40	30	30	25

Exchange rate forecasts

	Latest (12 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6768	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.72	0.73	0.73
NZD/USD	0.6100	0.60	0.61	0.62	0.63	0.64	0.65	0.65	0.65	0.65	0.65
USD/JPY	159.06	159	158	156	153	150	147	144	141	138	135
EUR/USD	1.0871	1.09	1.10	1.11	1.12	1.13	1.14	1.14	1.14	1.15	1.15
GBP/USD	1.2914	1.27	1.28	1.29	1.30	1.31	1.31	1.31	1.31	1.31	1.31
USD/CNY	7.2642	7.20	7.10	7.05	7.00	6.90	6.80	6.70	6.60	6.55	6.50
AUD/NZD	1.1095	1.10	1.10	1.10	1.10	1.10	1.10	1.11	1.11	1.12	1.12

Australian economic growth forecasts

	2024				2025				Calendar years			
% Change	**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

	2024				2025				Calendar years			
% Change	**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	3.5	2.8	2.7	2.6	2.4	2.2	2.2	4.7	2.7	2.2	2.2

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