Week beginning 26 August, 2024

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: Being data-dependent in an uncertain world.

The Week That Was: The global easing cycle gains traction.

Focus on New Zealand: Back to data watching.

For the week ahead:

Australia: construction work done, monthly CPI, CAPEX, retail sales, private sector credit

New Zealand: employment indicator, business and consumer confidence, building permits.

Japan: Tokyo CPI, jobless rate, industrial production.

United States: durable goods, home prices, consumer confidence, PCE deflator, Fed surveys.

Global: German IFO, Euro CPI, unemployment; China industrial profits and PMIs

Information contained in this report current as at 23 August 2024

Being data-dependent in an uncertain world

Luci Ellis
Chief Economist, Westpac Group

Much has been made of the number of times the word 'uncertainty' or its variants appeared in the minutes of the RBA Board meeting in August. Perhaps more noteworthy was the increase in the number of times the word 'staff' appeared: 13, compared with low single-digit numbers in most of last year's minutes. The total was higher for meetings where new staff forecasts were discussed. Outside of forecast months, though, the word appeared not even a handful of times in each of last year's minutes and in the September 2023 minutes, not at all.

Another word being used a lot more is 'judge' and its variant 'judgement'. Until May this year, the word barely featured, appearing at most two or three times in each issue of the minutes since February last year. Since May, it is recording double-digit word counts, appearing 15 times in the August minutes. Some of this is purely stylistic: one of the drafters might have decided that 'Members judged' was an attractive variation on 'Members assessed' and some of the other options favoured by drafters of the past.

Taken together, though, this shift in word choice might suggest something deeper. Particularly noteworthy was the following passage:

"In addition, the staff's assessment was that the gap between aggregate demand and supply would be wider than previously judged throughout the forecast period, because of both a stronger outlook for demand and a reassessment of the economy's current spare capacity. Members noted that judgements about this gap were highly uncertain."

Indeed, several of the uses of the word 'uncertainty' relate to the uncertainty about the staff's judgement about this gap, which was mentioned more than once in the minutes. One in particular made me wonder if the Board had not been fully convinced by the arguments supporting the latest revisions to the staff forecasts.

"Based on the data and evidence over a period of time, the staff had assessed that the economy had less spare capacity than previously assumed. This reflected higher inflation outcomes over the preceding 12–18 months than could be explained by previous estimates of excess demand, and signals from labour market indicators and survey measures of capacity utilisation. Members discussed the considerable uncertainty around estimates of spare capacity and the need to reassess this judgement regularly as the data evolve."

The final sentence in that passage suggests that the Board was not willing to base its policy decision on the staff's judgements about the output gap.

There are a number of reasons why the Board might have been so cautious in this area. Recall our previous observation that the net surprise on inflation over the past three quarters has been small to zero. Adjusting your assessment of your current position based on your forecast errors over the past 12–18 months is a reasonable approach. But it becomes less reasonable when most of that forecast error relates to periods that were more than a year ago.

"The RBA Board is uncertain, including about the staff's judgements about demand and supply. But is being data-dependent any better?"

Another issue is that we cannot truly see aggregate demand and supply; we can only infer them from data. If the indicator data being used do not map linearly to the 'true' levels of demand and supply, then estimates of the gap could be off-base. In addition, inflation outcomes only tell you about the gap between demand and supply. Inferring whether the surprise comes from demand or supply needs other sources of information. The Board highlighted this in the minutes, noting that there were uncertainties around the persistence of supply shocks. While some other public statements from RBA officials suggest that the RBA is assuming that pandemic-related supply shocks have fully washed through, the minutes suggest that the Board does not think this is so clear-cut.

Given these difficulties, the Board has responded by continuing to place "greater-than-usual weight on the flow of data, relative to the forecasts".

This raises the question of which data can be relied on, given the uncertainties of measurement. As we discussed last week, hours worked data might be getting a bit less weight now than they appeared to have in the compilation of the August forecast round. US policymakers have just had an experience of this with the payrolls data as well.

Some inspiration might be gleaned from the statements of peer central banks in economies that opened earlier after the pandemic, and thus where the disinflation started earlier. For example, the Bank of Canada Governing Council decided to hold rates steady at its April meeting but signalled that it was preparing to ease; it subsequently cut rates at its June and July meetings. In its announcement after the April meeting, it highlighted four key indicators of underlying inflation pressure that it was monitoring:

- the balance of supply and demand in the economy
- corporate pricing behaviour
- inflation expectations
- wage growth relative to productivity

Three of the four would be familiar to readers of RBA communication, but the emphasis on corporate pricing behaviour is less often seen here. In addition, the role of weak productivity growth is interpreted somewhat differently in Canada. While some members publicly worried in the July statement about the strength of wages growth relative to weak productivity growth, the same statement also noted: "Wage growth was expected to moderate given the presence of labour market slack and weak labour productivity".

In other words, in an environment of weak productivity growth, employers might be less willing to agree to large wage increases, and this would tend to reduce wages growth relative to outcomes when productivity growth was stronger, and all else equal. This potential direction of causation does not appear in RBA communication, even though wages growth has already peaked in Australia. Nor does the possibility that high labour costs might induce firms to invest more in labour-saving technologies or increase productivity in other ways.

Rather, the RBA's analysis seems to embed a linear mapping from hours worked to productivity to unit labour costs to inflation. Arithmetically, that is how it works. In an environment of uncertainty, though, it is risky to assume that a surprise in one component (such as hours worked) maps fully to a revision in the next quantity in the chain (such as productivity), holding no implications for related variables (such as GDP).

"... in the end, there is still a model behind ... judgements ... [the RBA's] model seems to have a flavour of cost-plus pricing to it"

A similar example in the RBA's August minutes is the comment that "persistence of cost pressures was a key theme reported by firms in liaison discussions". This is no doubt true, but the implications for the next link in the chain – business pricing decisions – are less clear.

One of the risks about being data-dependent is that, in the end, there is still a model behind your judgements, even if only a mental one. In the Australian context, that model seems to have a flavour of cost-plus pricing to it. Until the staff of the RBA start to judge that some labour market slack has emerged, the RBA will likely continue to interpret the data flow from a perspective of believing that demand is still strong, and set policy accordingly.

Cliff Notes: the global easing cycle gains traction

Elliot Clarke, Head of International Economics
Ryan Wells, Economist

In Australia, the RBA's August meeting minutes again reinforced the Board's well telegraphed views on the economy. In short, there is "less spare capacity than previously assumed" given stronger momentum in demand and a weaker assessment of potential supply. The Board also noted that financial conditions appeared to have "eased modestly" over recent months, as house prices and credit growth had picked up. Alongside the uncertainty over the timing of inflation's sustainable return to target, these judgements were central to the debate over whether to raise or maintain the cash rate at the July meeting.

While the case to leave the cash rate unchanged was deemed stronger, the decision was paired with a need to remain vigilant of inflation risks and guidance that "it was unlikely that the cash rate target would be reduced in the short term", with the Board of the view that "holding the cash rate target steady at its current level for a longer period than currently implied by market pricing may be sufficient to return inflation to target in a reasonable timeframe".

Chief Economist Luci Ellis' essay this week assesses the judgements and points of uncertainty underlying the RBA's decision making. To us it is evident that, while a "greater-than-usual weight" might be being placed "on the flow of data, relative to the forecasts", it is only after the RBA judge labour market slack to have emerged that they will shift their stance on policy. We continue to expect 100bps of easing through 2025, beginning at the February meeting.

Offshore, it was also a quiet week, markets largely marking time ahead of tonight's address to the Jackson Hole Symposium by FOMC Chair Powell.

Ahead of Chair Powell's address, the minutes of the July FOMC meeting made clear that the Committee is very close to deciding the stance of policy is now unnecessarily tight and should be eased. In their discussions, members expressed growing comfort with the trajectory of inflation, with "some further progress… broad based across the major subcomponents of core inflation". Supply and demand in the labour market was also regarded as coming into better balance.

Not known at the time of the meeting is that nonfarm payrolls over the year to March 2024 was 818k lower than initially estimated. While we won't know the month-by-month profile until early next year, when this week's initial revision is finalised, it is equivalent to the average monthly gain over the year to March 2024 being revised from 242k to 174k. Considering payrolls captures the number of jobs, which some people may have two or more of, and as population growth averaged 133k over the year to March 2024, it now looks as though the US labour market has been in balance for more than a year. This fits with CPI ex-shelter inflation holding at or below the 2.0% target since mid-2023.

Note though, activity growth is still characterised by the Committee as robust, so there is no cause for alarm. Instead, the tone of commentary from FOMC officials this week has remained measured, consistent with the "majority" view in the minutes that "if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting".

Of the other data released this week, the inflation readings from the Euro Area and Canada were most significant. Euro Area inflation outcomes for July were unchanged in the final release, prices unchanged in the month and up 2.6%yr. Constructive for the inflation outlook, the ECB's wage measure also moderated to 3.6%yr from 4.7%yr three months earlier. Canadian annual headline inflation meanwhile edged lower in July from 2.7%yr to 2.5%yr as expected.

The data flow and commentary from officials therefore continues to point to rate cuts in coming months not only in the US but across most of the developed world, including the Euro Area, Canada and the UK.

Back to data watching

Darren Gibbs
Senior Economist NZ

Since last week's surprise RBNZ rate cut, several Monetary Policy Committee members have indicated an openness to accelerating the pace of future rate cuts if the incoming economic data flow points to downside risks to activity and inflation. However, on balance, we think the data flow over the past week remains consistent with our central forecast that the Official Cash Rate will end the year at 4.75%, which is also the level signalled in the RBNZ's heavily revised August projections.

Following on from last week's modest bounce in its manufacturing counterpart, the BusinessNZ Performance of Services Index posted a somewhat underwhelming improvement in July, rising just 3.9pts to 44.6 – still about 9pts below the historic average. In the detail, the activity index rose an even less impressive 2.9pts to 39.1 – a full 15pts below the historic average and the second worst reading ever excluding the Covid lockdown months. The new orders index lifted a more encouraging 6.4pts to 45.3 (almost 12pts below average) and the employment index remained in contractionary territory for an eighth consecutive month. All up, this suggests that activity probably continued to decline in July, consistent with our and the RBNZ's forecasts for GDP to contract slightly in the September quarter.

Turning to the housing market, data released by REINZ indicated that the number of home sales rebounded 7% in July after sales in the previous month were negatively impacted by the floating Matariki holiday (which was in July in 2023). Even so, the number of sales remains low, selling times remain longer than normal and house prices fell by a further 0.5% in July – the third consecutive decline – with especially large falls seen in Auckland (-1.3%) and Wellington (-1.8%).

As a result, prices were almost unchanged from a year earlier (up just 0.2%). The inventory of unsold homes also rose to a fresh 9-year high in July, although the inventory to sales ratio did tick down from its very high level in June. Annual house price inflation is likely to turn negative next month, but the focus is really on how quickly housing market activity responds to the marked decline in mortgage rates and the turnaround in interest rate expectations that has occurred over the past month. It's too early to tell right now.

"Monetary Policy Committee members have indicated an openness to accelerating the pace of future rate cuts ... [but] data flow over the past week remains consistent with our central forecast"

Consumer spending was predictably downbeat, Stats NZ's official retail sales report – an input into GDP – pointing to a 1.2% decline in sales volumes in the June quarter. In per capita terms, the volume of spending fell for a tenth consecutive quarter. This result wasn't quite as weak as we had forecast, but remains consistent with our view that GDP declined in the June quarter. The largest negative contributions to growth came from reduced spending on electrical and electronic goods, and motor vehicles. The clampdown on discretionary spending was also highlighted by falls in spending on food and beverage services, apparel and recreational goods. By contrast, spending at supermarkets made a positive contribution to growth during the quarter.

On a more positive note, the latest GDT dairy auction saw overall prices rise 5.5% this week, and prices for the key whole milk powder product up 7.2%. The auction featured significant participation by Chinese buyers, which doubtless played a role in driving prices higher. If prices can sustain these levels, upside risks to our 2024/25 milk price forecast of $8.40 will be in play. Indeed, this week Fonterra revised up its own midpoint forecast by 50c to $8.50. That said, we need to be careful about extrapolating recent price trends. Chinese auction participation has been hit-and-miss this year, and price volatility significant. Reflecting the fact that it is early in the season and most product is yet to be sold, Fonterra continues to place a wide plus-or-minus 75c range around its new midpoint forecast.

In other news, a merchandise trade deficit of almost $1.0bn in July was quite a bit wider than we expected. Merchandise exports printed much as forecast, and over the past three months have increased 3.7% year-on-year.

However, imports rebounded more strongly than expected after a very weak June. While imports over the past three months are still down 1.3% versus a year ago, this is a much smaller decline than the -9.1% reported over the three months to April. Some of the rebound in July was due to a lift in petrol and intermediate imports from unusually low levels in June. However, imports of consumption goods and plant and machinery were also firmer than expected – the latter posting positive annual growth for the first time since May last year despite weaker investment intentions. On the other hand, vehicle imports remained weak, falling 26%y/y in July.

Looking ahead to the coming week, interest will centre on the Monthly Employment Indicator for July and the ANZ Business Outlook survey for August. Whilst stabilising in the second half of July, weekly tax data suggests the former will report a further decline in the number of filled jobs, with the reading for June likely to be revised lower as well.

The ANZ survey will almost certainly report a lift in headline sentiment and forward-looking activity indicators (although some responses will likely have been received ahead of the RBNZ's rate cut). Of more interest will be what the survey has to say about recent levels of business activity and any developments in measures of firms' pricing intentions and inflation expectations.

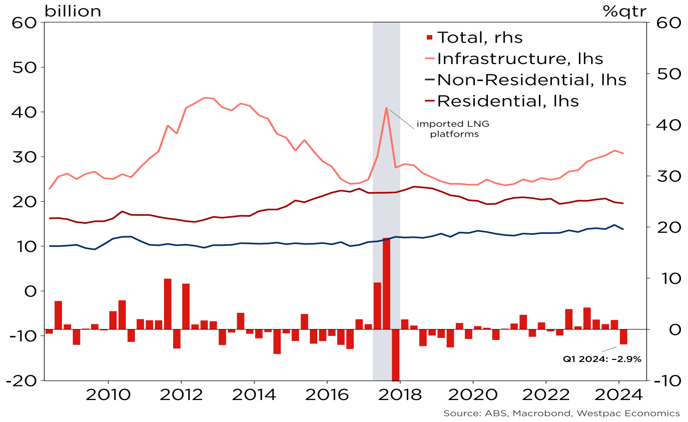
AUS: Q2 Construction Work Done (%qtr)

Aug 28, Last –2.9%, WBC f/c: 2.4%
Mkt f/c: 0.5%, Range: –1.0% to 2.4%

Construction activity declined –2.9% in the March quarter following a 1.8% lift in the December quarter (revised up from 0.7%), leaving annual growth at just 1.8%yr. The decline was broad based with falls in building construction (–3.7%), particularly in non-residential works (–7.0%), and infrastructure activity down –2.1%. The largest surprise was in the public sector, with activity shifting from strong gains over the second half of 2023 to a sharp contraction in Q1 2024 (–4.3%).

Notably, hours worked in the construction sector fell 1.9% in Q1. Our estimates suggest hours worked jumped ~4.1% in Q2, suggesting construction will post a solid rebound. We expect a 2.4%qtr gain.

Q2 rebound



AUS: July Monthly CPI Indicator (%year)

Aug 28, Last: 3.8%, Westpac f/c: 2.9%
Market f/c: 3.4%, Range: 2.7% to 3.9%

Released with the quarterly CPI, the June Monthly CPI Indicator is hidden by its older sibling. It rose 0.5%mth/3.8%yr in June, a touch stronger than our 0.3%mth/3.5%yr forecast but still consistent with a moderation in the pace of inflation.

The Commonwealth, Qld and WA governments' energy rebates became available in July. They are paid to energy distributors and thus lower electricity bills. Westpac is forecasting electricity prices to fall -32% in July. When combined with a -2.3%mth fall in auto fuel and flat food, this should see a -0.6%mth decline in the July Monthly CPI Indicator with the annual pace dropping sharply from 3.8%yr to 2.9%yr.

How large will the rebate hit be?

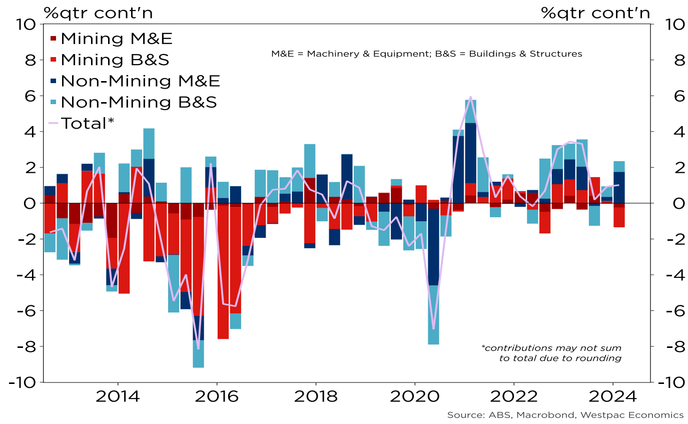
AUS: Q2 Private Capex (%qtr)

Aug 29, Last: 1.0%, WBC f/c: 1.1%
Mkt f/c: 1.0%, Range: flat to 1.9%

Private business capex rose 1.0% in Q1 following a gain of 0.9% in Q4 2023. The Q1 gain was led by a 3.3%qtr rise in machinery & equipment spend partially offset by a 0.9% decline in building & structures. By sector, non-mining capex rose 3.3%qtr, well above the pre-pandemic average, partially offset by a 4.7% fall in mining capex.

We expect Capex to rise a further 1.1% in Q2 based on capital imports (+0.5%qtr) and a likely rebound in buildings/structures tied to the construction work done story above. Business credit data, surveys and anecdotal reports also suggest there has been a pick-up in equipment investment, giving some upside risk to the number, balanced by the soft-ish imports number.

On the rise



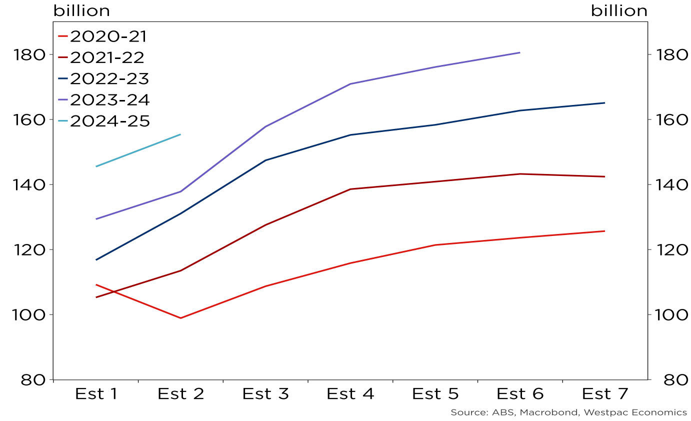
AUS: 2024/25 Capex Plans ($bn)

Aug 29, Last (Est 2): $155.4bn

Last quarter's survey pointed to Capex coming in at around $180bn in 2023-24 and $195bn in 2024-25, a rise of 9.5% and 8.3% respectively. Note that these estimates are in nominal terms and will incorporate any expected price increases.

The Q2 survey will include the third estimate for 2024/25. We expect this to be similar to estimate 2, a planned spend of $170.1bn would imply a similar full year spend given that these estimates rise as we get nearer to the period.

Spend marked higher, partly due to prices



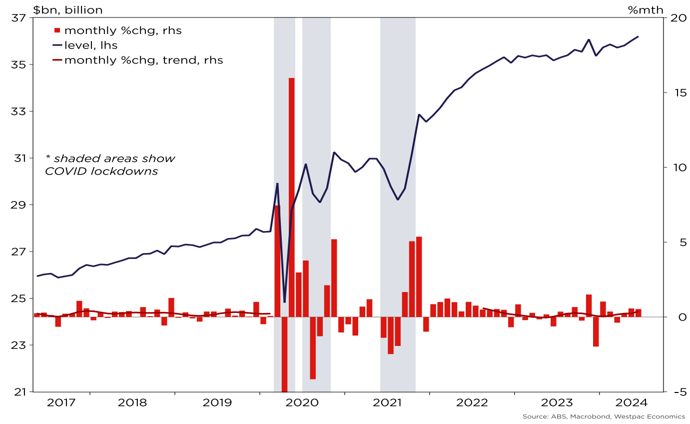
AUSTRALIA: Jul Retail Trade (%mth)

Aug 30, Last: 0.5%, WBC f/c: 0.8%
Mkt f/c: 0.3%, Range: flat to 0.8%

The July retail sales report will give the first official figures on the extent to which 'stage 3' tax cuts are boosting consumer spending. Other data sources, including our Westpac Card Tracker, suggest consumers are mostly sitting on the income gains so far with only a very muted lift in spending activity.

An added complication here is that retail sales are coming off decent gains in June (+0.5%) and May (+0.6%), some of which was attributed to better than expected End of Financial Year sales, raising the risk of some post-sales drop-back. Some of this may also have been spending in anticipation of tax relief. On balance we expect retail sales to post a 0.8% gain in July, likely to be viewed as a subdued result given the context.

First official post-tax cut read on spend



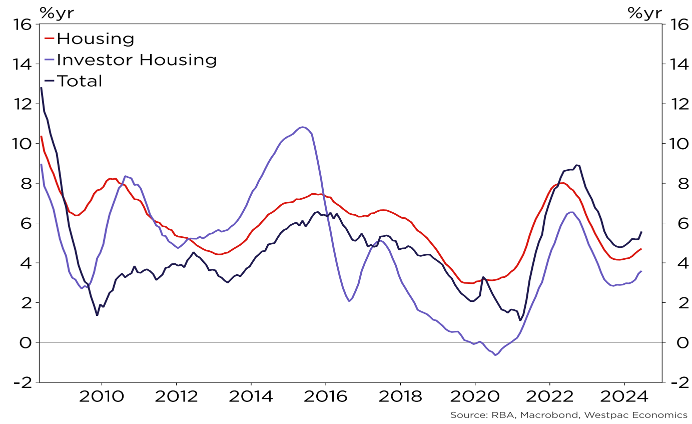
AUSTRALIA: Jul Private Sector Credit (%mth)

Jul 31, Last: 0.4%, WBC f/c: 0.4%
Mkt f/c: 0.5%, Range: 0.4% to 0.6%

Private sector credit grew by 0.4% in May to be up 5.2%yr, basically unchanged on April and within the tight range that has prevailed over most of the last year. Credit is expanding at a modest pace, restrained by elevated interest rates and a sluggish economy on the one hand but supported by a need to add to capacity. Note that annual credit growth at 5.2% compares with a post 2000 average of 7.5%yr and a more subdued post-GFC average of 4.6%.

For June, we expect a very similar picture with credit growth posting another 0.4% gain for the month, annual growth ticking up ever so slightly to 5.3%yr.

Expanding at a modest pace



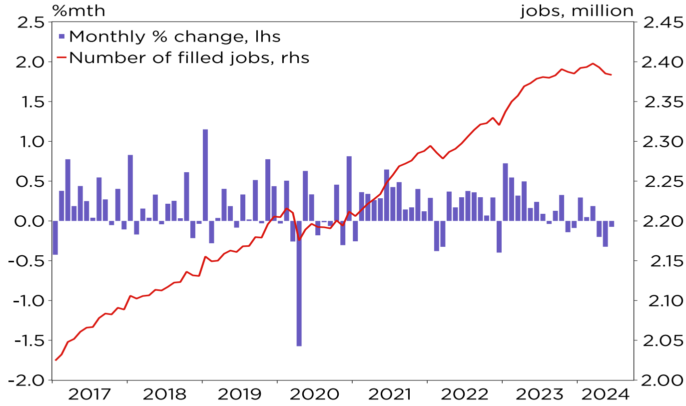
NZ: Jul Employment Indicator (%mth)

Aug 28, Last: -0.1%, Westpac f/c: -0.3%

The monthly employment indicator is a comprehensive measure of the number of jobs, based on income tax records. Weekly snapshots provided by Stats NZ have shown a marked downturn over the last couple of months.

Note that the monthly indicator has tended to be overstated by around 0.3ppts on the first release. We expect that the 0.1% fall in June will be revised to a larger decline. Our pick of an initial print of -0.3% for July assumes future downward revisions too.

Filled jobs now in decline



Source: Stats NZ, Macrobond, Westpac Economics

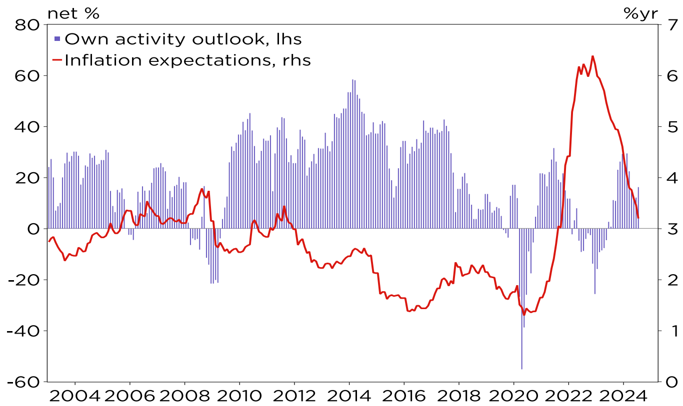
NZ: Aug ANZ Business Confidence (index)

Aug 29, Last: 27.1

Business confidence lifted in July, though it remained at a relatively low level. Inflation indicators were mixed, with year-ahead inflation expectations falling to a three-year low while firms' own price and wage expectations were little changed.

The RBNZ's dovish shift and the lower-than-expected CPI both occurred within the survey period, so we have yet to see their full impact on sentiment. Similarly, the RBNZ's surprise 25bp rate cut occurred mid-survey in August.

Can interest rate cuts lift business sentiment?



Source: ANZ, Macrobond, Westpac Economics

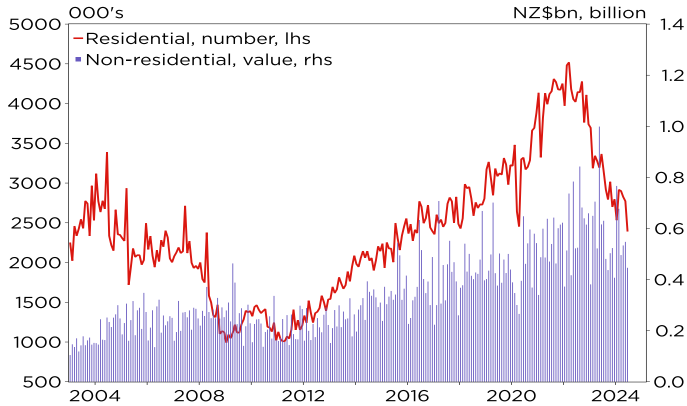
NZ: Jul Building Consents (%mth)

Aug 30, Last: -13.8%, Westpac f/c: +10%

June saw a sharp fall in consent issuance. While that drop was likely overstated by the Matariki holiday, the broader trend in consent issuance is down. Consent numbers have fallen 25% over the past year, with tight financial conditions and a soft housing market discouraging new work. We're expecting a 10% bounce in July, within a longer-term trend that remains soft.

Non-residential consent issuance has also been dropping back (though trends are mixed across segments). We expect that softness to continue for some time yet.

Building consents especially weak in June



Source: Stats NZ, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 26							
Ger	Aug	IFO Business Climate Survey	pts	87.0	–	–	Suggests headwinds to only slowly abate.
US	Jul	Durable Goods Orders	%mth	–6.7	3.9%	–	Investment outlook challenged by politics and cycle.
	Aug	Dallas Fed Index	pts	–17.5	–	–	Manufacturing is weak across the regions.
Tue 27							
Chn	Jul	Industrial Profits	%yr	3.6	–	–	Soft demand outlook remains a headwind to profitability.
US	Jun	S&P/CS Home Price Index	%mth	0.34	–	–	Robust price growth a reflection of limited inventory.
	Aug	CB Consumer Confidence	pts	100.3	100.0	–	Labour market softening, delaying sentiment recovery.
	Aug	Richmond Fed Index	pts	–17	–	–	Manufacturing is weak across the regions.
Wed 28							
Aus	Q2	Construction Work Done	%qtr	–2.9	0.5	2.4	To rebound from a poor result in Q1
	Jul	Monthly CPI Indicator	%yr	3.8	3.4	2.9	Important update on impact of cost-of-living measures.
NZ	Jul	Employment Indicator	%mth	–0.1	–	–0.3	Weekly snapshots show substantial softening in Jun-Jul.
US		Fedspeak	–	–	–	–	Bostic.
Thu 29							
Aus	Q2	Private Business CAPEX	%qtr	1.0	1.0	–	Signs of firming.
NZ	Aug	ANZ Business Confidence	pts	27.1	–	–	Prospect & delivery of OCR cut may lift confidence further.
Eur	Aug	Economic Confidence	pts	95.8	–	–	Significant uncertainty remains over outlook.
US	Q2	GDP	%ann	2.8	2.8%	–	Second estimate; no change expected.
	Jul	Pending Home Sales	%mth	4.8	–	–	Has been declining year-on-year for nearly three years.
	Jul	Wholesale Inventories	%mth	0.2	–	–	Steady inv-to-sales points to sound order management.
		Initial Jobless Claims	000's	–	–	–	To remain low, at least for now.
	Jul	Trade balance	$bn	96.6	97.5	–	Should narrow on softer consumer into year end.
Fri 30							
Aus	Jul	Retail Sales	%mth	0.5	0.3	0.8	First official post-tax-cut read on consumer spending.
	Jul	Private Sector Credit	%mth	0.6	0.5	0.4	Tracking a modest 5.2% annual pace.
NZ	Aug	ANZ Consumer Confidence	pts	87.9	–	–	As with business confidence, may be boosted by OCR cut.
	Jul	Building Permits	%mth	-13.8	–	10.0	Bounce after last month's fall, longer term trend weak.
Jpn	Aug	Tokyo CPI	%yr	2.2	–	–	Path to sustainable at-target inflation is in sight.
	Jul	Jobless Rate	%	2.5	–	–	Labour market tight, and likely to remain so.
	Jul	Industrial Production	%mth	–4.2	–	–	Contraction from auto halts will prove temporary.
Eur	Aug	CPI	%yr	2.6	–	–	Services inflation sticky at twice the ECB's 2.0% target.
	Jul	Unemployment Rate	%	6.5	–	–	Holding firm at a historically low level.
US	Jul	Personal Income	%mth	0.2	0.2	0.2	Softening labour market to slow income growth…
	Jul	Personal Spending	%mth	0.3	0.5	0.4	… and eventually household spending.
	Jul	PCE Deflator	%mth	0.1	0.2	0.1	Inflation is at target on an ex shelter basis.
	Aug	Chicago PMI	pts	45.3	–	–	Volatile around a very weak trend.
	Aug	Uni. of Michigan Sentiment	pts	67.8	67.8	–	Final estimate.
Sat 31							
Chn	Aug	NBS Manufacturing PMI	pts	49.4	–	–	Policy support will take time to filter its way through…
	Aug	NBS Non-Manufacturing PMI	pts	50.2	–	–	… the economy; downside risks to linger in the interim.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (23 Aug)	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	4.35	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.37	4.42	4.42	4.19	3.96	3.73	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.59	3.75	3.70	3.65	3.60	3.55	3.50	3.50	3.50	3.55	3.60
3 Year Bond	3.55	3.70	3.65	3.55	3.50	3.40	3.35	3.30	3.30	3.35	3.40
10 Year Bond	3.92	4.00	3.90	3.90	3.90	4.00	4.05	4.05	4.10	4.10	4.15
10 Year Spread to US (bps)	8	15	15	15	10	10	5	5	5	5	5
United States											
Fed Funds	5.375	5.125	4.625	4.125	3.875	3.625	3.375	3.375	3.375	3.375	3.375
US 10 Year Bond	3.84	3.85	3.75	3.75	3.80	3.90	4.00	4.00	4.05	4.05	4.10
New Zealand											
Cash	5.25	5.25	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75
90 Day Bill	5.24	5.05	4.75	4.50	4.25	4.00	3.85	3.85	3.85	3.85	3.85
2 Year Swap	3.90	3.80	3.90	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
10 Year Bond	4.21	4.20	4.20	4.25	4.30	4.35	4.40	4.40	4.40	4.35	4.35
10 Year Spread to US	38	35	45	50	50	45	40	40	35	30	25

Exchange rate forecasts

	Latest (23 Aug)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6708	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.72	0.73	0.73
NZD/USD	0.6153	0.60	0.61	0.62	0.62	0.63	0.63	0.63	0.63	0.63	0.64
USD/JPY	146.15	150	150	148	146	144	142	140	138	136	134
EUR/USD	1.1117	1.10	1.10	1.11	1.12	1.13	1.13	1.14	1.14	1.15	1.15
GBP/USD	1.3097	1.29	1.29	1.30	1.30	1.31	1.31	1.32	1.32	1.32	1.32
USD/CNY	7.1470	7.15	7.10	7.05	7.00	6.90	6.80	6.70	6.60	6.55	6.50
AUD/NZD	1.0915	1.10	1.10	1.10	1.11	1.12	1.13	1.14	1.14	1.14	1.14

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	4.1	4.2	4.3	4.4	4.5	4.6	4.6	3.9	4.3	4.6	4.5
Wages (WPI) %qtr	0.9	0.8	0.8	0.7	0.7	0.7	0.8	0.8	–	–	–	–
%yr end	4.1	4.1	3.5	3.2	3.0	2.9	2.9	3.1	4.2	3.2	3.1	3.3
CPI Headline %qtr	1.0	1.0	-0.1	0.8	0.7	0.9	0.9	0.6	–	–	–	–
%yr end	3.6	3.8	2.4	2.6	2.4	2.3	3.4	3.2	4.1	2.6	3.2	2.8
CPI Trimmed Mean %qtr	1.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7	–	–	–	–
%yr end	4.0	3.9	3.5	3.5	3.1	3.0	2.9	2.8	4.1	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	-0.6	-0.2	0.4	0.5	0.5	0.5	0.6	–	–	–	–
Annual avg change	0.2	-0.3	-0.3	-0.3	-0.3	0.1	0.8	1.3	0.6	-0.3	1.3	2.3
Unemployment Rate %	4.4	4.6	5.0	5.3	5.5	5.6	5.6	5.6	4.0	5.3	5.6	4.9
CPI %qtr	0.6	0.4	1.1	0.4	0.5	0.4	0.8	0.5	–	–	–	–
Annual change	4.0	3.3	2.6	2.5	2.4	2.4	2.1	2.2	4.7	2.5	2.2	2.1

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