Week beginning 25 November, 2024

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

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Eurozone: CPI, economic confidence.

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Information contained in this report current as at 22 November 2024

RBA cash rate: later but faster cuts now more likely

Luci Ellis
Chief Economist, Westpac Group

We have revised our view of the most likely scenario for the path of the RBA's cash rate, pushing out the start date of the rate-cutting cycle from February to May. Similar to the pattern in some peer economies, we expect the initial moves to be somewhat front-loaded, with consecutive cuts in late May and early July. This is also a change from our previous expectation of a moderate pace of decline of one cut per quarter. We continue to expect the terminal rate to be 3.35%, to be reached by year-end 2025.

As always, our view on the cash rate is predicated on things turning out broadly as we expect, which can differ from the RBA's own view. An earlier start in February or March is still possible, but it is no longer more likely than a May start date. A later start date is also a risk scenario, if inflation does not decline as the RBA is currently forecasting, let alone our own marginally more dovish expectation. That said, the longer the RBA Board waits, the faster they will need to move thereafter, as it would then be more likely that they have hesitated too long.

The minutes of the RBA Board meetings often provide important colour about the Board's deliberations, going beyond what is already covered in communications immediately after the meeting. While the post-meeting communication was still broadly in line with our earlier expectation, subsequent public appearances and the minutes now suggest that the balance of probabilities has shifted. The recent sharp increase in consumer sentiment – though still to a below-average level – and ongoing resilience in the labour market will have also tilted the balance of probabilities to waiting longer.

The minutes note that 'staff forecasts were consistent with the Board's strategy of aiming to return inflation to target within a reasonable timeframe while preserving as many of the gains in the labour market as possible'. This is important confirmation that, if things turn out as the RBA expects, it will eventually become time to normalise policy. Policy is restrictive, and if it were to stay where it is for an extended period, inflation would undershoot the target sooner or later.

The path for interest rates assumed in the forecasts is a technical assumption, and small changes in timing are not that consequential. Even so, recent RBA communication does suggest that they are more comfortable with the later date embedded in recent market pricing than the late-2023 timing implied by market pricing not so long ago.

Market participants and other observers have also pointed to the language in the latest meeting Minutes that the Board 'would need to observe more than one good quarterly inflation outcome to be confident that such a decline in inflation was sustainable'. This has been interpreted as saying that the RBA needs to see at least two more quarterly CPI (and more importantly, trimmed mean) outcomes from here before being confident of their forecasts. This is almost certainly how the Board and staff are thinking about the outlook. It suggests that they will wait for longer than we previously believed.

We are mindful, though, that things can pivot quite quickly, and that the RBA's view of the economy looks somewhat more hawkish than we think is warranted.

The RBA's view of the economy looks somewhat more hawkish than we think is warranted.

Recall that as late as February 2022, the RBA was not signalling that it expected to increase the cash rate anytime soon. At the time, then-Governor Lowe was reported as saying, "I think these uncertainties are not going to be resolved quickly. Another couple of CPI's would be good to see." Yet it raised rates in May of that year. When the facts change – it became apparent that wages growth had actually picked up at last – you have to change your mind.

Recall also that the RBNZ pivoted quickly this year, too. Only a couple of months before the first cut in August, it was looking like it was going to stay on hold for all of 2024.

The language of the minutes emphasised that trimmed mean inflation was high and declining more gradually than the rebates-affected headline CPI. No mention was made that their near-term forecast for trimmed mean inflation over the year to December 2024 was shaved down slightly to 3.4% from 3.5% in the August round, as was the end-2025 forecast. This was characterised as being 'little changed'. It does raise the question of what constitutes a 'good quarter' for inflation. Indeed, our own near-term view is a touch lower still. And if the December quarter outcome turns out to be a little lower than even our own view, it would take the annual rate to 3.2%, just barely above target. In that scenario, one would have to start wondering exactly what they are waiting for.

As the minutes highlighted, the RBA's forecasts hang crucially on a relatively bullish view of the potential for consumption growth to pick up as inflation declines and real incomes recover. Our own view incorporates a more modest recovery, noting the relatively subdued response so far to the income boost from the Stage 3 tax cuts. And while public demand (and non-market employment) is sustaining some demand growth for now, this will not last forever. When the outsized growth in this area does eventually fade, it will take time for other sectors to recover in compensation. Australia could end up with an extended period of lacklustre growth.

Another area where the RBA could end up revising its view is on the labour market. Employment growth has been unexpectedly robust. It is important to remember that, with labour force participation rates trending up over many decades, employment has to run very hard to avoid an increase in the unemployment rate. While the unemployment rate has levelled out recently, the underlying trend has been an upward drift for precisely this reason. If employment growth slowed even moderately, things could unravel quite quickly.

Related to this, RBA has (correctly) avoided being too focused on a single number in assessing full employment. But in doing so, it has down-weighted the fact that wages growth has already turned down. Its assessment of the level of full employment could be too hawkish as a result. As we noted last week, the RBA already had to downgrade its wages growth forecasts in the November round. It will need to do so again following the September quarter WPI result.

Taking all these factors together, we assess the risks around our revised view of the rates outlook as two-sided.

Cliff Notes: calm conditions

Elliot Clarke, Head of International Economics
Illiana Jain, Economist
Ryan Wells, Economist

In Australia, the RBA's November Meeting Minutes provided a deep dive into the Board's baseline views and assessment of risks. Chief Economist Luci Ellis subsequently discussed a number of noteworthy developments, one being the statement that the Board "would need to observe more than one good quarterly inflation outcome to be confident that such a decline in inflation was sustainable." This is in line with the Board's policy strategy to take and signal a patient and careful approach to assessing current disinflation. It should also be noted that the RBA's economic and policy forecasts incorporate technical assumptions on the cash rate path based on market pricing. Of late, market pricing has shifted the start date for cuts back and also reduced the expected quantum of easing; the RBA have expressed a greater degree of comfort with such a view, considering known risks at this time.

Following these developments, we adjusted our view on the most probable path for monetary policy. We have moved back the start date for the cutting cycle from February to May, but have retained 100bps of easing in 2025, with a terminal rate of 3.35% still forecast for the December quarter. We see risks to the timing of the first cut in May as broadly balanced. Some of the more notable risks include the pace of the expected recovery in consumer spending following Stage 3 tax cuts – the hit to real incomes in prior years and caution shown by consumers towards spending in recent months leads us to expect a slower recovery in consumption growth than the RBA – and the tightness of the labour market. Both of these uncertainties have important implications for inflation's trajectory. Next week's October monthly inflation gauge will be another important update on Australia's immediate inflation pulse and the risks (see here for our preview).

Over in the UK, annual inflation accelerated to 2.3% in October as electricity price rebates from 2023 cycled out. Core inflation was unaffected by this development, but edged higher to 3.3%yr in the month as services inflation remained sticky around 5.0%yr. Inflation is on track to overshoot the Bank of England's 2.0%yr target for 2024 overall – the CPI needs to rise just 0.1% in the next two months for annual inflation to print at 2.25%yr come December 2024. The BoE's more cautious tone around back-to-back cuts hence speaks to the lingering uncertainty for inflation.

In Japan meanwhile, while the data has not pushed rate hikes off the table, it is also yet to convince that the virtuous cycle of prices and wages is being sustained. Governor Ueda noted this week that the December meeting would be 'live' and that data between now and December would dictate their decision. CPI ex. fresh food came in slightly above expectations at 2.3%yr in October, below September's 2.4%yr and August's 2.8%yr, but above the 2.0%yr policy target.

Data is yet to convince that the virtuous cycle of prices and wages is being sustained.

Services inflation has shown greater momentum in the past three months. RENGO leader Tomoko Yoshino has called on the new Prime Minister to support small businesses in raising wages ahead of the union's wage negotiations in March. RENGO will be targeting another 5.0% increase in wages for FY25 after it secured a 5.1% increase in FY24. Persistence in inflation will help make the union's case, as will support from the government. Large businesses in Japan have been quieter this year about their wage plans. Arguably, the BoJ will want to see evidence that businesses intend to maintain wage growth in FY25 before they raise rates again.

RBNZ to take another large step towards neutral

Darren Gibbs
Senior Economist

It has been a relatively quiet week for economic data in New Zealand. The key activity indicators released in recent days have continued to point to subdued activity, while pricing indicators were somewhat mixed.

Starting with activity, MBIE's index of online job advertising weakened in October, following a small increase in September. Standing back, while still down about 30% compared with a year earlier, the index has flattened off in recent months at an 11-year low (excluding the short-lived downward spike associated with the pandemic). Scaling for the fact that employment has grown by around 30% over this period, advertising has fallen to levels not seen since 2010.

Meanwhile, the BusinessNZ Performance of Services Index nudged just 0.3pts higher to 46.0 in October, remaining in contractionary territory and around 7pts below the long-term average. This accords with last week's manufacturing counterpart, which disappointingly fell back to a similar reading of 45.8. So while the building blocks of economic recovery are falling into place, for now trading conditions remain quite tough. This is consistent with the forecasts in our recently updated *Economic Overview,* which predicted that it will be mid-next year before growth picks up to a solid pace.

Following a softer than expected CPI report, the business price indexes painted a mixed picture in the September quarter. The producer price indexes for both inputs and outputs posted strong growth during the quarter, so that their annual growth rates picked up to 5.1% and 4.2% respectively. Both indexes were influenced by large increases associated with higher commodity prices in the dairy sector – growth that continued this week with a further 1.9% rise in the GDT index at the latest auction. Indeed, given the recent trend in prices, we have again revised up our forecast of this season's Fonterra milk payout to $10 kg/ms. Our new forecast implies that farmer revenues will be more than $4bn higher than last season (about 1% of GDP), which should provide a strong boost to New Zealand's rural regions.

By contrast, prices for capital goods rose just 0.1% in the September quarter, causing annual growth to slow to 2.1%. Prices for machinery fell 0.5% during the quarter and so were up just 1.2%y/y. Meanwhile, the RBNZ's household survey reported that the median 1-year ahead inflation expectation fell to 3.0% in the December quarter – the lowest reading in three years and now back in line with the pre-pandemic average.

Looking ahead to the coming week, the main domestic focus will be Wednesday's RBNZ policy review and Monetary Policy Statement (MPS) – the final review this year. As we set out in our preview, we think it is very likely that the RBNZ will reduce the OCR by a further 50bps to 4.25% (80% probability). We see only a small chance (about 15%) that the RBNZ will elect to slow the pace of easing to 25bps, especially given the sizeable gap to the next policy review in February. Similarly, we only see a small chance (about 5%) that the RBNZ will decide to cut the OCR by 75bps and thus accelerate the time at which policy returns to a fully neutral setting (back in August the RBNZ forecast that the OCR would fall to around 3% by the end of 2026).

With a 50bps easing fully priced by financial markets, the reaction on the day will depend on the guidance provided by the RBNZ regarding the outlook for policy in 2025 and beyond – the formal baseline OCR projection and how the Bank describes the balance of risks around that forecast. Our central expectation is that the RBNZ will project the OCR to decline to around 3.50% by the end of next year – around 35bps lower than projected in the August MPS. That more front-loaded easing will reflect increased confidence regarding the outlook for inflation, with actual inflation tracking below the forecast made in August, even as activity and labour market trends track broadly in line with expectations. Such a track would still imply a slower pace of easing next year.

But there are other possibilities that we need to consider. For example, it is possible that the RBNZ could project the OCR to end next year at a similar level to that forecast previously. The recent strong lift in business confidence and improved dairy commodity prices might cause the RBNZ to take a cautious approach to further lowering the OCR, the closer it moves to the neutral zone (recognising the uncertainty that surrounds any estimate of where the neutral policy rate lies). Concerns about the potential for weakness in the exchange rate – thus disrupting the current helpful disinflation in the traded goods sector – might also be a consideration.

On the other hand, it is also possible that the RBNZ could lower its year-end target for the OCR. It might do this if recent price and wage outcomes – both slightly softer than expected – are viewed as providing a very high degree of confidence that inflation will stay close to the target midpoint. If so, the RBNZ would likely want to more quickly move policy towards a neutral setting, so as to mitigate the possibility that a slow economic recovery could push inflation well below the target midpoint for a period.

As always, the minutes (or “record”) of the meeting will need to be read closely and will offer additional insight into policymakers’ thinking that is not captured in the central interest rate projection. This is especially the case now, with the recent re-election of President Trump already impacting the mix and level of financial conditions in New Zealand. Moreover, the possibility that Trump will implement broad-based tariffs on imports into the US presents clear downside risks to the exports of both New Zealand and its key trading partners. Given the various uncertainties surrounding the outlook, policymakers will doubtless want to keep all options open for the February meeting, especially with a full round of GDP, labour market and CPI data to be released ahead of that meeting.

AUS: Oct Monthly CPI Indicator (%yr)

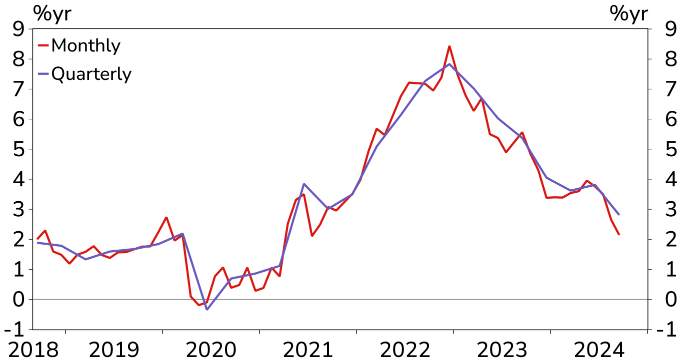
Nov 27, Last: 2.1, Westpac f/c: 2.3
Market f/c: 2.3, Range: 2.0 to 2.8

In September, the annual pace of inflation for the Monthly CPI dropped from 2.7% to 2.1%. As the data is released on the same day of the quarterly CPI it is often lost in the excitement.

The CPI Monthly Indicator is not a pure monthly CPI, hence the Indicator tag, as many components are estimated once a quarter with the data being released in the month of the survey. However, while the headline measure is not a good guide to headline CPI, used judiciously, it is our best source of information for the components of quarterly CPI.

Westpac's October near-cast is -0.2%mth which will see the annual pace bump up to 2.3%yr. We will use the component data in the October release to fine tune our December quarter CPI estimate. For more information see our Deeper Insights.

October Monthly CPI forecast: –0.2%mth, 2.3%yr



Source: ABS, Macrobond, Westpac Economics

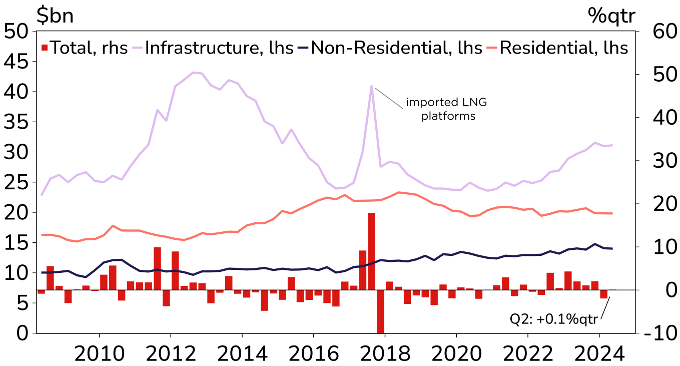
AUS: Q3 Construction Work Done (%qtr)

Nov 27, Last: 0.1, Westpac f/c: flat
Market f/c: 0.5, Range: –0.4 to 1.2

Construction work held broadly flat into mid-year, up just 0.1% in Q2. Engineering construction grew (+0.5%qtr) as the sector works through the elevated pipeline of infrastructure projects. This was offset by falls in non-residential building (–0.5%qtr) and residential construction (–0.1%qtr).

For Q3, we anticipate that construction activity held flat. The sector remains constrained amid labour shortages, elevated material costs and liquidations in the residential space over the past year. This is placing a handbrake on the speed at which the sector can work through the pipeline of projects. Engineering construction will tick higher in Q3, with non-residential activity lower. Resi construction is expected to stabilise after recent falls.

Capacity constraints continue to bite



Source: ABS, Macrobond, Westpac Economics

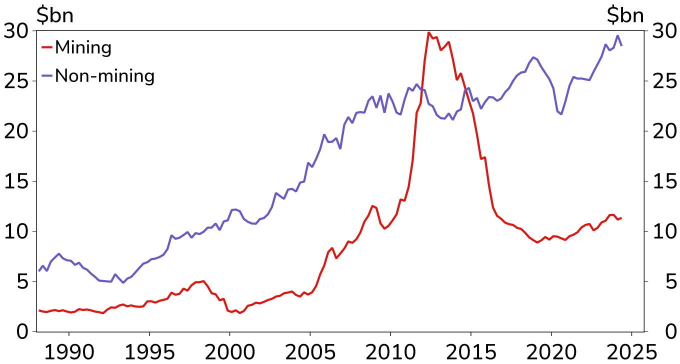
AUS: Q3 Private CAPEX (%qtr)

Nov 28, Last: –2.2, Westpac f/c: 0.9
Market f/c: 1.0, Range: –0.6 to 3.5

Private CAPEX declined 2.2%qtr in Q2 following a gain of 1.9%qtr in Q1. The decline was broad-based across machinery and equipment (–0.5%qtr) and buildings and structures (–3.8%qtr). The drop in buildings and structures was caused by lower spending on major infrastructure projects.

We expect CAPEX spending to grow 0.9%qtr in Q3. Buildings and structures is expected to increase 1.2%qtr as businesses continue to work through the elevated investment pipeline, which includes significant renewable energy and transport infrastructure. Machinery and equipment is expected to grow 0.6%qtr, consistent with capital imports. The transition to net zero and the infrastructure pipeline will continue to support investment, with the near-term outlook weighed down by industries at the coal face of the consumer led slowdown.

CAPEX to stabilise at an elevated level



Source: ABS, Macrobond, Westpac Economics

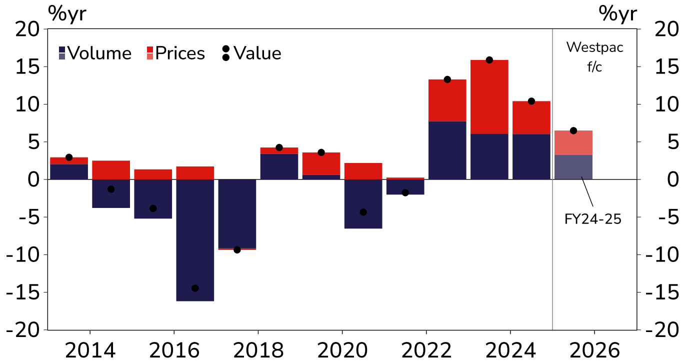
AUS: 2024/25 CAPEX Plans ($bn)

Nov 28, Last (Est 3): 170.7

Last quarter's survey pointed to CAPEX spending coming in at around $170.7bn for 2024/25, around 8.2%yr higher versus the same estimate last year. Based on historical realisation ratios, the value of total spending is expected to lift by 6.4%yr in 2024/25 in nominal terms.

The Q3 survey will include the fourth estimate for 2024/25. We expect it to lift to $183.0bn, with most of this increase driven by the non-mining sector of the economy. After adjusting for empirical bias in the estimates, nominal CAPEX is expected to grow by around 6.5%yr in 2024/25 (in line with last quarter's estimate). This is expected to see CAPEX volumes grow by around 3.3%yr in 2024/25, enough to ensure the capital stock keeps pace with the growing population and businesses replace depreciated capital.

Investment to keep pace with population



Source: ABS, Macrobond, Westpac Economics

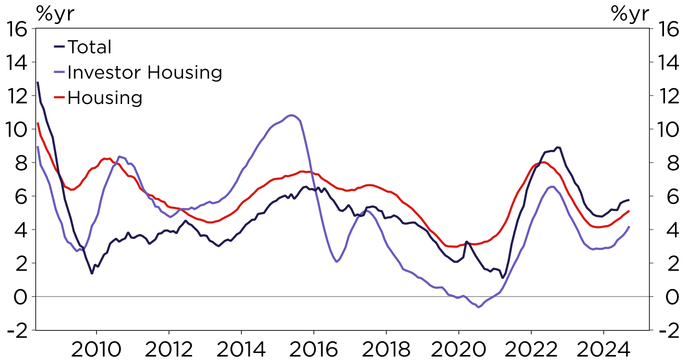
AUS: Oct Private Sector Credit (%mth)

Nov 29, Last: 0.5, Westpac f/c: 0.5
Mkt f/c: 0.5, Range: 0.3 to 0.6

Private sector credit continued to follow a steady upward trend in September posting a third consecutive 0.5%mth increase. In fact, out of the nine monthly readings this year only three were different from 0.5%mth, and they all deviated by only +/-0.1ppt.

We expect that this steady trend continued in October, with private credit expected to rise 0.5%mth again. However, we think that risks are skewed slightly to the upside, not least given stronger consumer and business sentiment surveys and our own data suggesting that business credit growth accelerated recently.

Maintaining a stable growth trend



Source: RBA, Macrobond, Westpac Economics

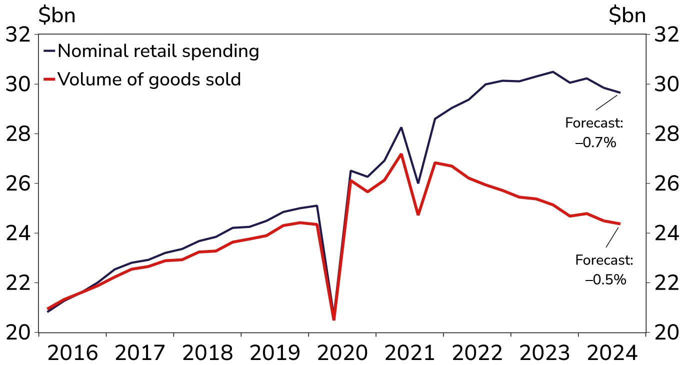
NZ: Q3 Retail Spending (%qtr)

Nov 25, Last: –1.2, Westpac f/c: –0.5

Retail spending levels dropped through the first half of this year in response to continued pressure on households' finances. There's been particular softness in spending in discretionary areas, like household durables and apparel.

We expect that pattern will be repeated in the September quarter report and are forecasting a 0.5% drop in quarterly retail volumes and a similar decline in nominal spending levels. While the financial pressures that have squeezed spending over the past year are easing, a turnaround isn't expected until next year.

Retail spending soft as households feel the pinch



Source: Stats NZ, Macrobond, Westpac Economics

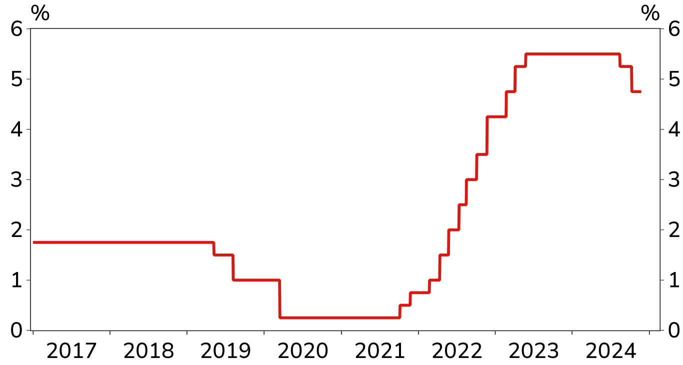
NZ: Nov RBNZ Monetary Policy Statement (%)

Nov 27, Last: 4.75, Westpac f/c: 4.25, Market f/c: 4.25

We expect the RBNZ will cut the OCR by a further 50bps to 4.25% at its November meeting. The RBNZ will likely indicate increased confidence that pricing and wage setting behaviour will quickly normalise now that annual CPI inflation is close to 2%.

The accompanying projections will likely suggest further OCR cuts in 2025 and a 3.5% OCR by year-end (around 35bps lower than they forecast back in August). The RBNZ's terminal rate will likely still be in the 3-3.5% zone after 2025.

RBNZ expected to cut another 50bps



Source: RBNZ, Macrobond, Westpac Economics

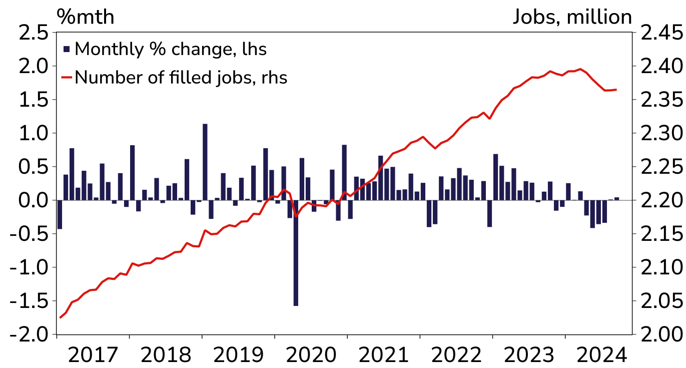
NZ: Oct Monthly Employment Indicator (%mth)

Nov 28, Last: flat, Westpac f/c: –0.2

New Zealand's prolonged economic slowdown is now clearly impacting the labour market, with the Monthly Employment Indicator (MEI) turning to net job losses since April. While the last two months have been flat, this series tends to be revised down in the months after its initial release.

Job advertisements have stabilised in recent months but at very low levels, and the weekly snapshots of the MEI data suggest that the usual upturn in hiring ahead of Christmas has yet to emerge. We expect a 0.2% fall for October (which again is likely to be revised lower in subsequent releases).

Filled jobs to fall further in Oct



Source: Stats NZ, Macrobond, Westpac Economics

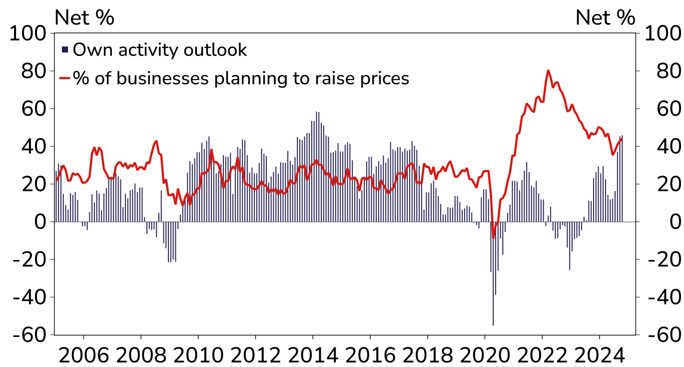
NZ: Nov ANZ Business Confidence

Nov 28, Last: 65.7

Interest rate cuts, with the prospect of more to come, have sparked a surge in surveyed business confidence, with general expectations for the year ahead reaching 10-year highs. That optimism has yet to be matched by the reality; firms still report that their activity is down on the same time last year, though the gap is closing.

The price measures in the survey will also be of interest. While general inflation expectations have eased (and may fall further this time, in response to the Q3 CPI release in late October), firms' own pricing intentions have been ticking higher again in recent months.

Business sentiment up sharply since OCR cuts



Source: ANZ, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 25							
NZ	Q3	Real Retail Sales	%qtr	–1.2	–0.5	–0.5	Spending restrained by subdued confidence.
	Oct	Trade Balance	$mn	–2108	–	–1450	Deficit to narrow as seasonal lift in exports begins.
Ger	Nov	IFO Business Climate Survey	index	86.5	–	–	Points to downside risks for activity.
US	Oct	Chicago Fed Activity	index	–0.28	–	–	Volatile around a level consistent with trend growth.
	Nov	Dallas Fed	index	–3	–1.8	–	Manufacturing broadly soft on average across the regions.
Tue 26							
US	Sep	S&P/CS Home Price Index	%mth	0.35	–	–	Annual price growth moving off highs from earlier in the year…
	Oct	New Home Sales	%mth	4.1	–2.2	–	… but tight inventory will continue to provide underlying support.
	Nov	CB Consumer Confidence	index	108.7	112.5	–	Labour market critical to supporting household confidence.
	Nov	Richmond Fed	index	–14	–	–	Manufacturing broadly soft on average across the regions.
	Nov	FOMC Minutes	–	–	–	–	More colour around views on balance of risks.
Wed 27							
Aus	Q3	Construction Work Done	%qtr	0.1	0.5	flat	Capacity constraints continue to weigh on construction activity.
	Oct	Monthly CPI Indicator	%yr	2.1	2.3	2.3	Partial inflation indicator expected to fall in Oct (–0.2%mth).
NZ	Nov	RBNZ Policy Decision	%	4.75	4.25	4.25	Lower inflation allows a large step towards neutral.
Chn	Oct	Industrial Profits	%yr	–27.1	–	–	Base effects, falling producer prices and weak demand at play.
US	Q3	GDP	%ann'd	2.8	2.8	–	No revisions anticipated in second estimate.
	Oct	Personal Income	%mth	0.3	0.3	–	Growth in wages continues to slow…
	Oct	Personal Spending	%mth	0.5	0.4	–	… consumers use savings to support spending.
	Oct	PCE Deflator	%mth	0.2	0.2	–	Consistent with inflation sustainably at target.
	Oct	Durable Goods Orders	%mth	–0.7	0.5	–	Core orders tracking a gradual uptrend.
	Oct	Wholesale Inventories	%mth	–0.2	–	–	Steady inv–to–sales points to sound orders management.
		Initial Jobless Claims	000s	213	–	–	Downside risks to labour market are growing.
Thu 28							
Aus	Q3	Private New Capital Expenditure	%qtr	–2.2	1.0	0.9	Set to partially retrace the decline from Q2.
	Est 4	2024/25 CAPEX Plans	$bn	170.7	–	–	Capital stock growing at pace with population.
		RBA Governor Bullock	–	–	–	–	Speech at the Annual CEDA Conference, 7:55pm AEDT.
NZ	Oct	Employment Indicator	%mth	0.0	–	–0.2	Weekly data point to a small decline this month.
	Nov	ANZ Business Confidence	index	65.7	–	–	Confidence already lofty; pricing the focus this month.
Eur	Nov	EC Economic Confidence	index	95.6	–	–	Holding flat as soft business confidence offsets consumer recovery.
US		Thanksgiving	–	–	–	–	Markets closed.
Fri 29							
Aus	Oct	Private Sector Credit	%mth	0.5	0.5	0.5	Maintaining a stable growth trend.
NZ	Nov	ANZ Consumer Confidence	index	91.2	–	–	Worries about job security weighing on sentiment.
Jpn	Oct	Jobless Rate	%	2.4	2.5	–	Labour market set to remain tight for foreseeable future.
	Nov	Tokyo CPI	%yr	1.8	2.2	–	Authorities growing confident in sustainable inflation.
	Oct	Industrial Production	%mth	1.6	4.0	–	Greater volatility masking a soft underlying trend.
Eur	Nov	CPI	%yr	–	–	–	Disinflation starting to stall; all eyes on sticky services.
US	Nov	Chicago PMI	index	41.6	–	–	Points to downside risks for manufacturing.
Sat 30							
Chn	Nov	NBS Manufacturing PMI	index	50.1	50.3	–	Recovery in employment and confidence is critical…
	Nov	NBS Non–Manufacturing PMI	index	50.2	–	–	… before authorities green–light further stimulus.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (22 Nov)	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	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.43	4.43	4.43	4.20	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	4.05	4.00	3.90	3.90	3.80	3.80	3.85	3.90	3.90	4.00
3 Year Bond	4.09	3.95	3.80	3.80	3.65	3.65	3.65	3.70	3.70	3.80
10 Year Bond	4.55	4.50	4.45	4.45	4.50	4.55	4.65	4.75	4.85	4.85
10 Year Spread to US (bps)	14	20	15	15	10	5	5	5	5	5
United States										
Fed Funds	4.625	4.375	3.875	3.625	3.375	3.375	3.375	3.375	3.625	3.875
US 10 Year Bond	4.41	4.30	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.80
New Zealand										
Cash	4.75	4.25	4.00	3.50	3.50	3.50	3.50	3.75	3.75	3.75
90 Day Bill	4.38	4.25	3.80	3.60	3.60	3.60	3.70	3.85	3.85	3.85
2 Year Swap	3.73	3.80	3.80	3.80	3.85	3.95	4.00	4.00	4.00	4.00
10 Year Bond	4.60	4.55	4.55	4.60	4.60	4.70	4.75	4.80	4.85	4.85
10 Year Spread to US (bps)	19	25	25	30	20	20	15	10	5	5

Exchange rate forecasts

	Latest (22 Nov)	Dec–24	Mar–25	Jun–25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6507	0.67	0.67	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD/USD	0.5839	0.59	0.59	0.59	0.59	0.59	0.60	0.60	0.61	0.61
USD/JPY	154.30	152	151	150	149	148	146	144	142	141
EUR/USD	1.0473	1.08	1.09	1.09	1.10	1.10	1.11	1.11	1.11	1.11
GBP/USD	1.2584	1.30	1.31	1.31	1.32	1.32	1.33	1.33	1.33	1.33
USD/CNY	7.2462	7.10	7.05	7.00	6.95	6.90	6.85	6.80	6.75	6.70
AUD/NZD	1.1144	1.13	1.14	1.15	1.17	1.18	1.18	1.18	1.18	1.18

Australian economic growth forecasts

	2024				2025				Calendar years			
% Change	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
GDP %qtr	0.2	0.2	0.6	0.5	0.5	0.5	0.6	0.6	–	–	–	–
%yr end	1.3	1.0	1.2	1.5	1.9	2.2	2.2	2.4	1.6	1.5	2.4	2.4
Unemployment rate %	3.9	4.1	4.1	4.2	4.3	4.4	4.5	4.6	3.9	4.2	4.6	4.6
Wages (WPI) %qtr	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	–	–	–	–
%yr end	4.1	4.1	3.5	3.2	3.1	3.0	2.9	2.9	4.3	3.2	2.9	3.3
CPI Headline %qtr	1.0	1.0	0.2	0.3	0.6	0.9	1.1	0.7	–	–	–	–
%yr end	3.6	3.8	2.8	2.5	2.1	2.0	2.9	3.3	4.1	2.5	3.3	2.8
CPI Trimmed Mean %qtr	1.0	0.9	0.8	0.6	0.7	0.7	0.7	0.7	–	–	–	–
%yr end	4.0	4.0	3.5	3.3	3.0	2.8	2.6	2.8	4.2	3.3	2.8	2.6

New Zealand economic growth forecasts

	2024				2025				Calendar years			
% Change	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
GDP %qtr	0.1	–0.2	–0.2	0.3	0.4	0.6	0.6	0.7	–	–	–	–
Annual avg change	0.3	–0.2	–0.1	0.0	–0.1	0.3	0.9	1.5	0.7	0.0	1.5	2.8
Unemployment rate %	4.4	4.6	4.8	5.1	5.3	5.4	5.4	5.4	4.0	5.1	5.4	4.6
CPI %qtr	0.6	0.4	0.6	0.4	0.5	0.3	0.9	0.3	–	–	–	–
Annual change	4.0	3.3	2.2	2.1	1.9	1.8	2.1	2.0	4.7	2.1	2.0	2.1

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