Week beginning 17 February, 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: The flaw of averages.

The Week That Was: Resilience offers promise.

Focus on New Zealand: Mind that left tail!

For the week ahead:

Australia: RBA policy decision, Q4 WPI, Westpac-MI Leading Index, labour force survey.

New Zealand: RBNZ policy decision, house prices and sales, trade balance, net migration.

Japan: Q4 GDP, CPI.

Eurozone: trade balance, consumer confidence.

United Kingdom: unemployment rate, weekly earnings, retail sales, consumer confidence.

United States: FOMC minutes, housing starts, building permits, regional surveys.

Global: S&P Global PMIs.

Information contained in this report current as at 14 February 2025

The flaw of averages

Luci Ellis
Chief Economist, Westpac Group

The RBA's mandate involves an inflation target of 2–3%, always aiming for the 2½% midpoint, while recognising that there will be times when flexibility is needed. The overall CPI inflation result can be pushed around by one-off movements in particular components that say nothing about future trends. That is why the RBA also focuses on various measures of 'underlying' or trend inflation. They particularly focus on the trimmed mean measure, which is calculated by excluding the largest increases and decreases that quarter, then taking the average over what remains. Trimmed mean inflation is not the target, but it is the best available single indicator of current momentum in inflation. It is also the measure the RBA uses in most of its forecasting models.

Within both total and trimmed mean inflation, particular subcategories can have inflation rates that are very different from the 2–3% target. Some of these are the results of transitory supply shocks, like the 17% increase in lamb and goat meat prices over 2024, or policy changes, like the 12% increase in tobacco prices over the same period. These shifts typically get excluded from the trimmed mean calculation. As such, there is no real need to remove selected items and then perform the trimmed mean calculation.

(Be sceptical, too, when people advocate removing one policy-affected item, such as electricity, but not another policy-affected item moving in the opposite direction, such as tobacco. In any case, Westpac Senior Economist Justin Smirk has previously calculated that removing electricity before calculating the trimmed mean makes very little difference to the result.)

There are, however, plenty of categories where the trend rate of inflation is materially different from the overall inflation rate. For example, insurance prices have risen at an annual rate of more than 5% over the past 20 years. On the other side, prices of garments, adults' shoes and household appliances have fallen overall over the same period. Not all these categories will be trimmed out in a particular quarter. It depends on how extreme those trend price changes are relative to the overall distribution of inflation by component.

The important point here is that the RBA's mandate is not to get prices of every single category in the CPI basket increasing at 2–3%. As long as the average is in the range – and, per the latest Statement on the Conduct of Monetary Policy, heading towards its midpoint – then the mandate is being fulfilled. There will always be items with price inflation a long way from that range. Changes in relative prices are a natural and desirable part of a well-functioning market economy. They are central to the way buyers and sellers – in this case, consumers and producers – respond to real-world changes.

This is why one should be wary of arguments that the RBA should set monetary policy in a specific way because some subset of the inflation basket is showing price growth above the 2–3% target range, even though overall inflation is at or near target. It depends on the context.

For example, for much of the inflation-targeting period since the mid-1990s, services inflation has run faster than goods inflation. Is that difference a reason to run tight policy? Not necessarily. It depends on whether the low-inflation category is likely to stay that way.

That question became particularly salient in the post-pandemic period. Goods inflation increased considerably as supply chains were disrupted. If goods inflation normalised (to below-target rates) as supply chains normalised, then services inflation could also normalise to its above-target average rate, and overall inflation could settle within the target as intended.

"There will always be items in the CPI basket with price inflation a long way from the RBA's 2–3% target. "

The wrinkle would be if goods prices reverted some way back to their pre-pandemic norms. That would mean goods inflation would spend some time below normal, possibly involving some outright price declines, before presumably reverting to average. If overall inflation had returned to target on the back of a temporary period of below-normal goods inflation, then clearly above-trend services inflation would not be compatible with keeping inflation sustainably in the target range once goods inflation normalised.

This has been part of the concern in the US. Like Australia, services inflation typically runs faster than goods inflation there. Rolling 10-year average inflation rates have generally been 1ppt or so higher for US services than US goods, similar to the post-2000 picture in Australia. But unlike the situation in Australia, goods inflation fell noticeably below its pre-pandemic average recently, flattering the overall rate of inflation. Given recent tariff announcements, it seems unlikely that goods prices will continue falling for an extended period. Indeed, a period of US goods inflation above historical averages is probably on the cards. Falling housing-related inflation may help offset this, but one can't help thinking that the sustainability of US inflation near target is more fragile than is the case for Australia.

Some may object that current rates of inflation for services in Australia are still well above pre-pandemic rates. Recall, though, that overall inflation undershot the RBA's target for several years pre-pandemic, partly because services inflation was running at a persistently below-average pace. So that is not the best benchmark period for comparison. Current services inflation is also a bit above the average of the first decade of the 21st century, but not drastically so. And the ongoing unwind in rents and insurance inflation, as pandemic effects continue to wash out, should help narrow the gap.

Perhaps we should be more concerned that, despite weak household demand, goods inflation didn't see the same period of decline as in the US. Part of this might be the pause in the long-running trend decline in prices of audiovisual and computing equipment in Australia. We also observe, though, that homebuilding costs are included in the CPI in Australia but not in the US, and that the pandemic surge in these costs is unwinding.

Whatever the main driver of the difference, the main point here is that goods inflation is not temporarily flattering the total inflation result in Australia. And since electricity prices are currently excluded from the trimmed mean inflation rate, they are not flattering underlying inflation either. Economy-watchers, including the RBA, can therefore be confident that the 3.2% result for trimmed mean inflation over 2024 (and an annualised rate of 2.7% over the second half of the year) is indeed giving a sufficiently accurate picture of current inflation pressures in Australia, and act accordingly.

Cliff Notes: resilience offers promise

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

In Australia, the Westpac-MI Consumer Sentiment Index was broadly unchanged in February, nudging just 0.1% higher from 92.1 to 92.2. Though, this 'cautiously pessimistic' tone marks a material improvement from the last two-and-a-half years of deep pessimism, aided by more constructive views on future conditions. Indeed, the constituent sub-indexes tracking the one-year and five-year economic outlooks have both moved above their long-run averages, and the year-ahead outlook for family finances is also within striking distance.

Views on current conditions are still weak however, both the 'family finances vs. a year ago' and 'time to buy a major household item' indexes notably below historic averages. This composition emphasises the weak starting point of consumers, having been battered by cost-of-living pressures and real income declines over 2022-24. That said, moderating inflation (as discussed by Chief Economist Luci Ellis this week) and the 'Stage 3' tax cuts combined with imminent interest rate relief are expected to support a recovery in time.

Businesses' perspective on the economy looks to be broadly aligned with the consumer view. The latest NAB business survey confirmed business conditions continue to track the steady decline in place since 2022. This trend, alongside our own evidence from card activity and the Westpac-DataX Consumer Panel, is consistent with lingering downside risks concentrated in consumer spending. Business confidence meanwhile remains broadly neutral but extremely volatile month-to-month. With the combination of building expectations for rate cuts, a Federal Election, and an extremely fluid global backdrop, this is likely to remain the case for some time.

A final note for Australia on housing. The latest batch of loan approval data, now released on a quarterly frequency, revealed a softer finish to the year. The total value of finance approvals (excl. refinancing) rose 1.4% in Q4 despite fewer loans being approved (–0.4%qtr) owing to higher average loan sizes – a dynamic responsible for more than half the growth in total housing finance value since Q2 2022. Indeed, despite pulling back from a stellar annual pace of +25%yr in September, total housing finance values are still tracking +16%yr, reflecting the backdrop of robust house price growth over 2023/24 and stretched affordability.

Before moving further afield, this week our New Zealand economics team released their latest quarterly Economic Overview, detailing in depth their baseline expectations for New Zealand and the key risks.

Over in the US, last Friday's January nonfarm payrolls print was solid at 143k and came with a +100k revision to the prior two months. Annual revisions in contrast cut 589k jobs from the level at March 2024. The average pace of nonfarm payrolls growth is now estimated to have slowed from 380k in 2022 to 216k in 2023 then 165k since the beginning of 2024. Arguably, gains since the beginning of 2023 are consistent with a labour market in balance.

"Arguably, gains since the beginning of 2023 are consistent with a labour market in balance."

Adjustments were also made to the level of household survey employment at January; as such, the December 2024 and January 2025 employment outcomes are not comparable. The ratios are unaffected however and provided a positive update, the unemployment rate edging down from 4.1% to 4.0%, a rate also consistent with a balanced labour market. January's strong average hourly earnings gain of 0.5% is likely a one-off given the series has, on average, increased 0.3% per month since the beginning of 2024 and the Employment Cost Index also continues to point to a trend deceleration in wage and compensation growth.

January's CPI subsequently printed above expectations, total prices up 0.5% and the core sub-set 0.4%. Annual headline and core inflation edged higher as a result to 3.0% and 3.3% respectively. On the services side, transport and recreation services both reaccelerated, pointing to capacity constraints. Shelter inflation was also a touch stronger in the month and the annual rate, while slowly trending lower, is still materially above its long-run average. As we begin to consider the potential implications of US tariffs on domestic inflation, it is important to recognise that the highly-beneficial deflationary trend for core goods looks to have come to an end, with three of the past five readings positive and the annual change now just -0.1%. The PPI also came in stronger than expected at 0.4%mth and the history was revised up. However, components that feed into the calculation of PCE inflation, the FOMC's preferred consumer inflation gauge, were favourable, health care costs and airfares both down in the month.

Reflecting on the latest employment and CPI readings, during testimony to Congress, FOMC Chair Jermone Powell reaffirmed the FOMC is in no hurry to ease monetary policy further. He noted that "reducing policy restraint too fast or too much could hinder progress on inflation" and characterised the labour market as “broadly in balance” and “not a source of significant inflationary pressure”. When questioned on tariffs, Chair Powell kept his comments apolitical, but did note they could impact monetary policy’s stance. Overall, it is clear the FOMC is confident in the underlying health of the US economy and believe they have time on their side to judge the persistence of inflation and the consequences of the new administration’s policies

On government policy, this week saw US President Donald Trump announce a 25% tariff on steel and aluminium imports into the US, with no immediate exceptions. The pathway to implementing reciprocal tariffs is also to be studied. Reciprocal tariffs would arguably have the greatest impact on emerging markets, in particular countries such as India and Thailand where tariffs have been put in place to protect the development of critical domestic industry, including the supply of everyday essentials to household sectors with limited financial means.

Mind that left tail!

Kelly Eckhold
Chief Economist NZ

This week we launched our first Economic Overview of the year with the theme "Turning the corner", reflecting our more optimistic view for growth for 2025 and beyond relative to 2024. However, there are significant risks on either side of our core view that interest rates and the New Zealand dollar have a bit further to fall depending on how things turn out. It's probably worth putting special focus on outcomes at the lower end of the distribution, beginning with the outcome of the RBNZ's interest rate decision next week.

After a rough 2024 where growth went significantly backwards, we see the economy now at a turning point where we go from negative to positive growth. There are plenty of mixed indicators, as one would expect at a turning point. But there are at least two key drivers that should mean growth returns to trend by the end of 2025.

The first key factor is the impact that the significant interest rate cuts the RBNZ has delivered since August, and will continue to deliver in the first half of 2025, will have on consumers, the housing market and businesses. Mortgage rates are down significantly from a year back and will be delivering significant cash flow benefits for mortgaged households in short order. Borrowers are likely to increasingly migrate to longer-term fixed rates, which are especially low, in coming months. House prices should benefit from these tailwinds (we see house prices rising by around 7% this year) as should discretionary spending. As consumer confidence and spending improves, businesses will become increasingly confident that their expectations of stronger future activity are being realised, thus supporting investment and hiring.

The second key factor is the boost that the primary sector is receiving from higher commodity export prices. The dairy sector is doing especially well, and we have upgraded our already record nominal milk price forecast for the 2024/25 season to $10.30/kg and introduced an opening forecast of $10/kg for the 2025/26 season. The merchandise terms of trade rose around 17% in 2024, and we see another 4% in 2025. Price gains have also occurred outside the dairy sector with horticulture, forestry and even the much-maligned meat sector receiving stronger returns in 2024.

These price gains come at a time of good climatic conditions and falling costs. These serendipitous conditions imply the regional economies will be receiving an income boost of perhaps 1-2% GDP compared to previous years. We suspect that while sentiment in the major urban areas will remain weak until the labour market turns, activity in the regions will lead.

We see annual inflation as remaining fairly well anchored around 2% over the medium term. For 2025, the headline inflation rate seems likely to edge up to as high as 2.7%y/y as the impact of a weaker exchange rate and firmer soft commodity prices push up tradables inflation from the relatively low levels of 2024. But the still-weakening labour market and accumulated negative output gap should see domestically generated non-tradables inflation continue to fall. It's those domestic inflation dynamics that we assume (hopefully not too optimistically) will be more permanent and, in the end, be of more relevance to the RBNZ.

This relatively positive outlook implies that after next week's last larger-than-usual 50bp cut to 3.75%, the RBNZ should slow the pace of easing from here. We see an OCR at 3.75% as being broadly neutral, so further cuts after February will be dipping into (mildly) stimulatory territory. The RBNZ though doesn't agree and continues to emphasise 3% as the mid-point of a wide range for the neutral OCR. We suspect they will keep nudging the OCR toward 3% until substantive signs of a turnaround in the labour market emerge – which should be from mid-year all going well.

But before we get to the rosier future we need to confront where we are now. This week's data saw a continuation of some rougher and smoother indicators. Consumer spending pulled back 1.6% in January, giving back some of that large increase we saw in December (though the longer-term trend remains positive). The manufacturing PMI registered a decent rebound to 51.4 in January, coming off a disappointing outcome in December. If mirrored in next week's generally more upbeat services PMI, that could portend an economy on track to return to trend growth. The ANZ Truckometer's Heavy Traffic Index also rose strongly in January. Friday's Selected Price Indices were somewhere in between these outcomes. Low rental inflation suggested muted domestic inflation pressures. Rising food prices seem to conform with our view for 2025 that inflation will be stable to rising overall, but with a change in composition from 2024's trend of weak tradables inflation and firm non-tradables inflation.

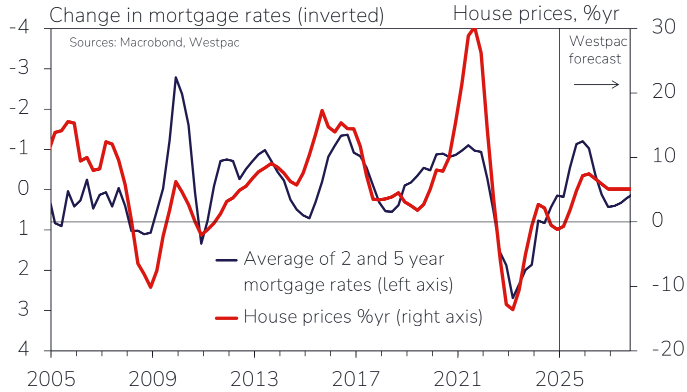
Risks are significant around the medium-term outlook. Is fair to say we have thus far taken a sanguine view of the extent to which global trade issues will impinge on global growth and inflation. And we don't currently expect New Zealand to be singled out for tariffs. But developments here could turn out to be less favourable. Fortunately, we think that the exchange rate will adjust lower, buffering the export sector, should downside risks become tangible. Hence the left tail of the likely range for the NZ dollar could be tested in the year ahead.

More immediately, it's worth considering the distribution of potential outcomes for the OCR. The RBNZ gave strong guidance back in November that it saw a 50bp cut in the OCR as more likely than not. This guidance has anchored market and analyst expectations and is a key reason why we and the market see a 50bp cut as by far the most likely outcome of the RBNZ meeting next week. However, the left side of the distribution for the OCR could be explored next week should the RBNZ believe the economy is "in a hole", as noted by the RBNZ's Chief Economist on 29 January. This would be especially so if the Monetary Policy Committee were to put a lot of weight on getting the OCR quickly to 3% – the midpoint of the RBNZ's range of estimates of the neutral rate. A larger than 50bp move next week seems unlikely but it's an outside chance that's worth considering and is certainly not priced.

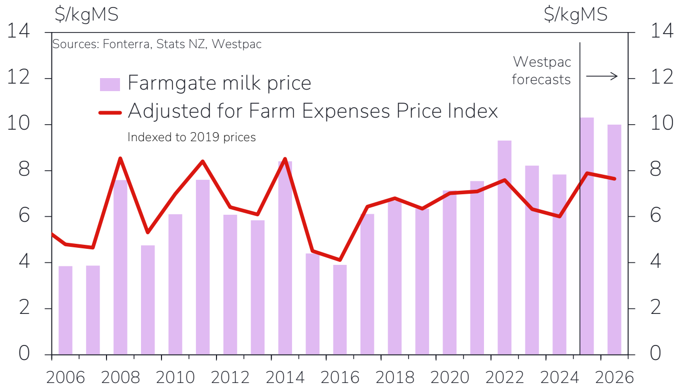
To be clear, I think this would be the wrong move as it's getting well past time to cut the pace of easing and see what impact the work to date is going to have on the outlook. Aggressive cuts from here are likely to be procyclical and set up the tightening cycle we already have pencilled in for the second half of 2026. And right now, the chances of a 1% CPI inflation rate look pretty remote.

In any case, let's mind those left tails!

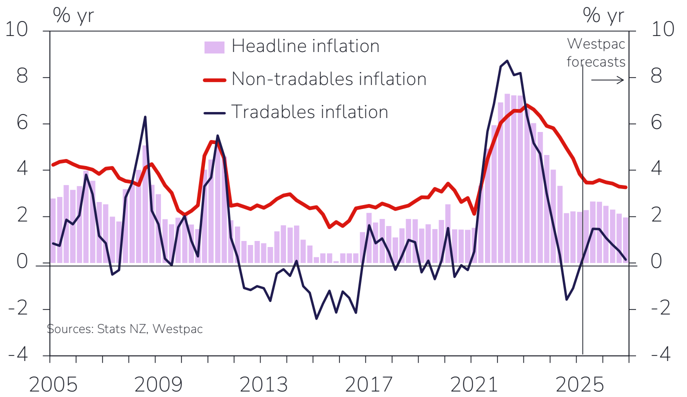
House price growth vs interest rates



Farmgate milk prices



Inflation components



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AUS: RBA Policy Decision (%)

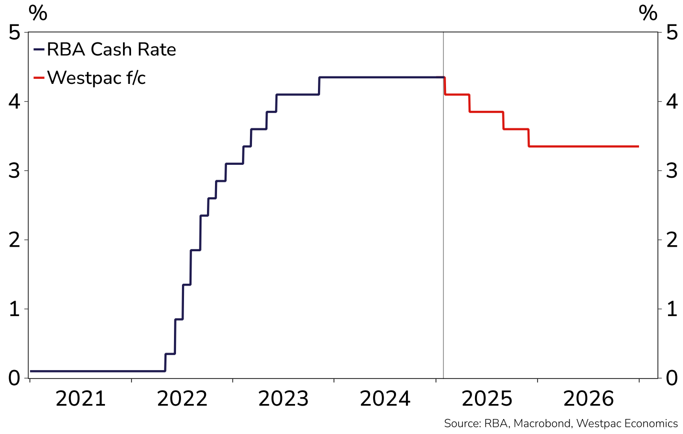
Feb 18, Last: 4.35, Westpac f/c: 4.10
Market f/c: 4.10, Range: 4.10 to 4.35

Westpac anticipates that the RBA Board will cut the cash rate by 25bps to 4.10% at its upcoming policy meeting.

The Q4 CPI revealed headline inflation rose 0.2% (2.4%yr) and trimmed mean inflation rising 0.5% (3.2%yr), or 2.7% on a six-month annualised basis. We saw downside risk to our own forecast at the outset, and in the event, that materialised.

In our view, this better-than-expected read on inflation – in the context of all other data on the domestic economy and the labour market – tips the balance in favour of the RBA embarking on its policy normalisation journey in February. This path is likely to be gradual, with just one 25bp cut per quarter to Q4 2025, bringing the cash rate to a broadly neutral 3.35%.

RBA to cut rates by 25bps in February



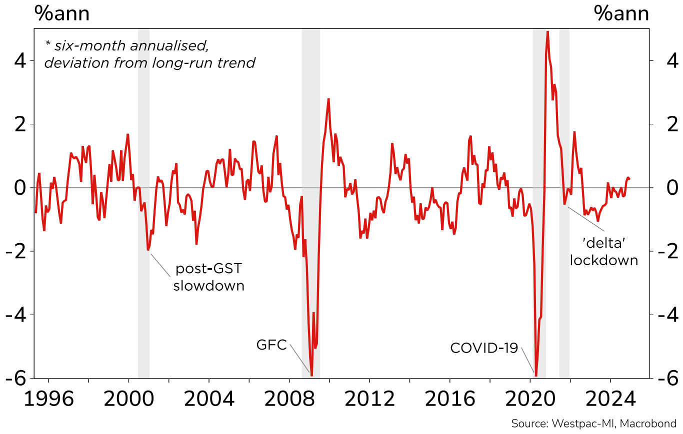
AUS: Jan Westpac-MI Leading Index (ann'd)

Feb 19, Last: +0.25%

The Leading Index stayed in positive territory in December, albeit easing a touch to 0.25% from 0.33% in November. The growth signal has shown a clear improvement on the persistently negative, below-trend reads recorded over the previous two years. That said, the pace is still not particularly strong.

The January read will include another mostly positive batch of component updates. The sharemarket posted a strong month in Jan, a global rally carrying the ASX200 4.6% higher. The month also saw another 1% improvement in consumer expectations for the labour market and for finances and the economy more generally. Commodity prices rose slightly in AUD terms, thanks to currency moves, dwelling approvals nuding higher and the yield spread widening slightly on firming expectations of rate cuts locally.

Westpac-MI Leading Index



AUS: Wage Price Index (%qtr)

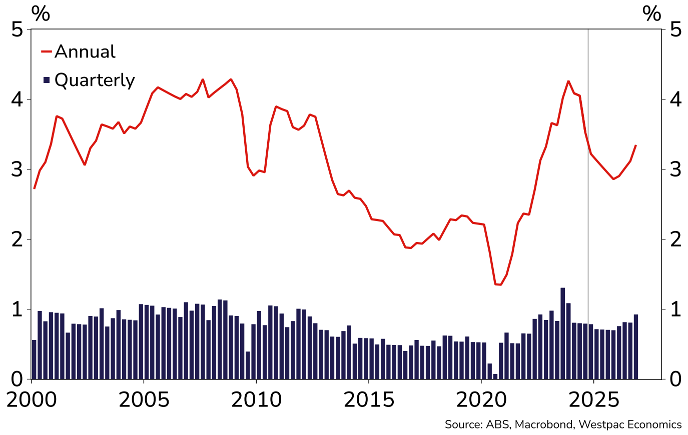
Feb 19, Last: 0.8, Westpac f/c: 0.8
Market f/c: 0.8, Range: 0.7 to 1.0

The WPI rose 0.8% in the September quarter, matching Westpac's forecast but below the 0.9% market consensus. Annually, wages increased by 3.5%, down from 4.1% in June and 4.2% in December 2023.

Comparing September 2024 to September 2023 as this data is not seasonally adjusted; Enterprise Bargaining contributed 0.46ppt (down from 0.66ppt), Individual Arrangements contributed 0.59ppt (down from 0.74ppt, and Awards/Minimum Wage contributed 0.36ppt (down from 0.63ppt) highlighting the bargaining sector most sensitive to labour market conditions has seen a marked step down in the pace of wage inflation.

As such, any risk to our 0.8% near cast is to the downside.

Wage Price Index



AUS: Jan Labour Force – Employment Change (000s)

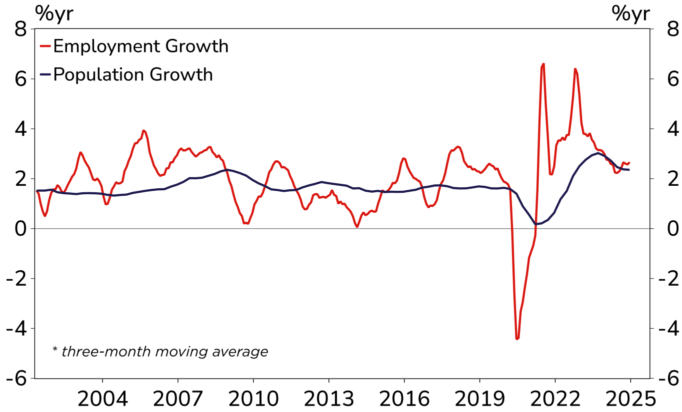
Feb 20, Last: 56.3, Westpac f/c: 15
Market f/c: 20, Range: 5 to 40

In December, employment growth surprised materially to the upside with an increase of +56.3k. At a three-month average pace of 2.7%yr, employment growth is only slightly below the 3.0%yr pace recorded back in December 2023.

January is the most seasonal time of year for the labour market and over recent years, there seems to be an emerging shift in seasonal patterns, notably around leave-taking and timing of new jobs, resulting in volatility in hours and employment.

This has usually presented as weaker employment growth in January (relative to the context in surrounding months), so we have pencilled in a lift of 15k. There are risks to both sides, depending on whether the firmer trend into year-end or emerging seasonal shifts dominates the mix.

Employment growth broadly in line with population



Source: ABS, Macrobond, Westpac Economics

AUS: Jan Labour Force – Unemployment Rate (%)

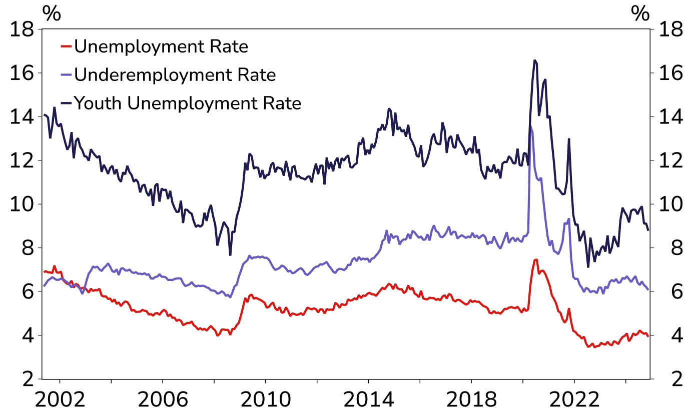
Feb 20, Last: 4.0, Westpac f/c: 4.1
Market f/c: 4.1, Range: 4.0 to 4.1

The participation rate rose nearly 0.2ppts to 67.1% at year-end. Growth in the size of the labour force outstripped the gain in employment, which was enough to lift the unemployment rate very slightly from 3.9% to 4.0% (3.93% to 3.98%).

Virtually all rates of labour underutilisation moved lower over H2 2024, suggesting the easing in labour market conditions paused over this period. This week's Q4 WPI data will be crucial to assess the degree to which this persisting 'tightness' may be impacting wages growth, and relatedly, what that might mean for assessments of the NAIRU.

Given January's seasonality, the data is unlikely to be very informative on its own. We anticipate participation holding flat at 67.1% and the unemployment rate edging up to 4.1%.

Labour market stopped easing over H2 2024



Source: ABS, Macrobond, Westpac Economics

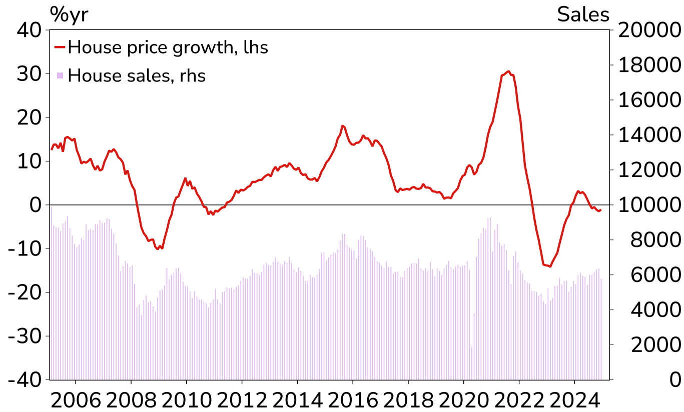
NZ: Jan REINZ House Prices and Sales

Feb 17 (TBC), Prices Last: –1.1%yr, Sales Last: +1.8%yr

As mortgage rates have fallen, we've seen clear signs of a revival in interest among potential buyers, with home loan applications well up on a year ago. However, that has yet to translate into a lift in activity. December sales in particular were unusually low, partly affected by a drop-off in new listings which have since picked up strongly in January.

House prices have risen slightly over the last few months, having fallen through the first half of last year. We expect prices to gain some momentum in the months ahead, with a 7% rise over 2025.

Housing market to benefit from lower interest rates



Source: REINZ, Macrobond, Westpac Economics

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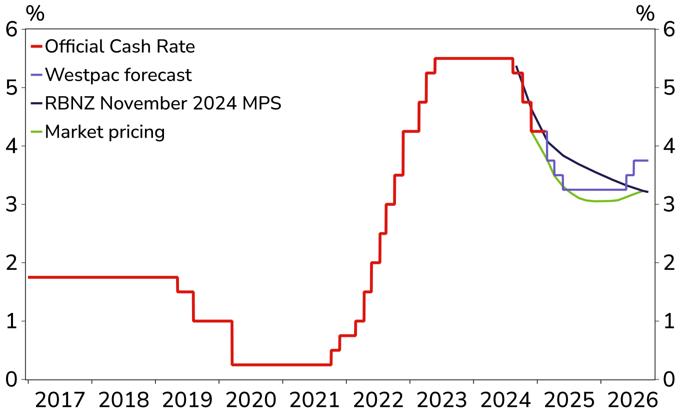
NZ: RBNZ Monetary Policy Statement (%)

Feb 19, Last: 4.25, Westpac f/c: 3.75, Market f/c: 3.75

We expect the RBNZ will cut the OCR by 50bps to 3.75% at its February policy meeting. The accompanying policy statement is likely to signal further easing is likely over 2025, but at a more gradual pace. We see the RBNZ projecting an end-2025 OCR of around 3.25% and an unchanged terminal rate of about 3%. While the RBNZ's medium term inflation projections are likely to remain close to 2%, their near-term CPI forecasts will likely be revised slightly higher due to the weaker TWI and higher commodity prices. The RBNZ will likely note significant risks associated with global trade policies, although few conclusions will be drawn given the significant uncertainties.

RBNZ expected to cut another 50bps



Source: RBNZ, Macrobond, Westpac Economics

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What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 17							
NZ	Jan	BusinessNZ PSI	index	47.9	–	–	Should start 2025 on a brighter note.
	Dec	Net Migration	no.	2070	–	–	Migrant inflows stabilising; tourist inflows picking up.
	Jan	REINZ House Sales	%yr	1.8	–	–	Due this week. Loan demand is picking up, but...
	Jan	REINZ House Prices	%yr	–1.1	–	–	...prices have moved sideways in recent months.
Jpn	Q4	GDP	%qtr	0.3	0.3	–	Recovery in household consumption to materialise in 2025.
Eur	Dec	Trade Balance	€bn	12.9	14.0	–	Pre–tariff rush to support export volumes.
US		Fedspeak	–	–	–	–	Harker, Bowman.
Tue 18							
Aus		RBA Policy Decision	%	4.35	4.10	4.10	Easing inflation gives green light to start policy easing ...
		RBA Statement on Monetary Policy	–	–	–	–	... cautiously at a gradual pace of 25bps/quarter.
Eur	Feb	ZEW Survey Of Expectations	index	18	–	–	Businesses are circumspect amidst tariff uncertainty.
UK	Dec	ILO Unemployment Rate	%	4.4	4.6	–	Scarce labour supply meets dwindling demand ...
	Dec	Average Weekly Earnings	%ann	5.6	–	–	... putting downward pressure on wages.
US	Feb	Fed Empire State	index	–12.6	–1.0	–	Forward indicators to provide early reaction on Trump's tariffs.
		Fedspeak	–	–	–	–	Waller, Daly.
Wed 19							
Aus	Jan	Westpac–MI Leading Index	%ann'd	0.25	–	–	Growth signal has improved, but it is not particularly strong.
	Q4	Wage Price Index	%qtr	0.8	0.8	0.8	Wage pressures easing pointing to downside risk to our f/c.
NZ		RBNZ Policy Decision	%	4.25	3.75	3.75	RBNZ likely to signal slower easing at future meetings.
Jpn	Dec	Core Machinery Orders	%mth	3.4	0.4	–	Pointing to a solid turnout for business investment in Q4.
UK	Jan	CPI	%ann	2.5	2.7	–	Decelerating but energy to add pressure to headline inflation.
US	Jan	Housing Starts	%mth	15.8	–7.0	–	High rates and building costs remain as hurdles ...
	Jan	Building Permits	%mth	–0.7	–2.3	–	... to the much–needed expansion in housing supply.
	Jan	FOMC Minutes	–	–	–	–	Key focus on uncertainties: inflation's persistence and tariffs.
Thu 20							
Aus	Jan	Employment Change	000s	56.3	20	15	January has been seasonally weaker in recent years ...
	Jan	Unemployment Rate	%	4.0	4.1	4.1	... but there remains risks to both sides.
Eur	Feb	Consumer Confidence	index	–14.2	–13.9	–	Slowing growth to hamper consumer view on outlook.
US	Feb	Phily Fed	index	44.3	25.4	–	Forward indicators to provide early reaction on Trump's tariffs.
		Initial Jobless Claims	000s	213	–	–	To remain low, for now.
		Fedspeak	–	–	–	–	Jefferson, Goolsbee, Musalem, Barr.
Fri 21							
Aus		RBA Parliamentary Testimony	–	–	–	–	RBA's top brass to appear before House of Representatives.
NZ	Jan	Trade Balance	$mn	219	–	–750	Back in deficit due to a holiday–induced lull in exports.
Jpn	Jan	CPI	%ann	3.6	4.0	–	Food and energy prices keep pressure on headline.
	Feb	Jibun Bank Manufacturing PMI	index	48.7	–	–	Uncertainty around tariffs is at the fore ...
	Feb	Jibun Bank Services PMI	index	53.0	–	–	... while tourism lends a hand to services sector.
Eur	Feb	HCOB Manufacturing PMI	index	46.6	46.7	–	European manufacturing in contraction since mid–2022 ...
	Feb	HCOB Global Services PMI	index	51.3	51.5	–	... and a delayed recovery in services is stalling progress.
UK	Feb	Gfk Consumer Sentiment	index	–22	–	–	Pain from cost–of–living and a slowing economy ...
	Jan	Retail Sales	%mth	–0.3	–	–	... is manifesting as weakness in consumer spending ...
	Feb	S&P Global Manufacturing PMI	index	48.3	–	–	... with broad impacts across already–weak manufacturing ...
	Feb	S&P Global Services PMI	index	50.8	–	–	... and a continued slowdown in services activity.
US	Feb	S&P Global Manufacturing PMI	index	51.2	–	–	Reactions to tariff announcements will be key ...
	Feb	S&P Global Services PMI	index	52.9	–	–	... while fading seasonal disruptions could support services.
	Feb	Uni. Of Michigan Sentiment	index	67.8	–	–	Revisions to inflation expectation of importance.
		Fedspeak	–	–	–	–	Kugler, Jefferson.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (14 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Cash	4.35	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.18	4.20	3.95	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.81	3.75	3.75	3.80	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.83	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.85
10 Year Bond	4.41	4.45	4.60	4.75	4.70	4.70	4.65	4.65	4.65
10 Year Spread to US (bps)	–12	–15	–20	–25	–25	–20	–20	–15	–15
United States									
Fed Funds	4.375	4.375	4.375	4.375	4.375	4.125	3.875	3.875	3.875
US 10 Year Bond	4.53	4.60	4.80	5.00	4.95	4.90	4.85	4.80	4.80
New Zealand									
Cash	4.25	3.75	3.25	3.25	3.25	3.25	3.50	3.75	3.75
90 Day Bill	3.82	3.55	3.35	3.35	3.35	3.45	3.70	3.85	3.85
2 Year Swap	3.50	3.40	3.50	3.65	3.80	3.90	3.95	4.00	4.00
10 Year Bond	4.53	4.60	4.70	4.85	4.90	5.00	5.00	5.00	4.95
10 Year Spread to US (bps)	0	0	–10	–15	–5	10	15	20	15

Exchange rate forecasts

	Latest (14 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
AUD/USD	0.6321	0.60	0.60	0.61	0.62	0.63	0.64	0.66	0.68
NZD/USD	0.5687	0.54	0.54	0.54	0.54	0.55	0.56	0.57	0.59
USD/JPY	152.76	155	154	153	152	150	148	146	144
EUR/USD	1.0459	1.01	1.00	1.00	1.01	1.02	1.03	1.04	1.06
GBP/USD	1.2558	1.23	1.23	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	7.2845	7.30	7.30	7.25	7.25	7.20	7.15	7.10	7.00
AUD/NZD	1.1115	1.11	1.11	1.14	1.15	1.15	1.15	1.15	1.15

Australian economic growth forecasts

	2024				2025				Calendar years			
% Change	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
GDP %qtr	0.2	0.2	0.3	0.7	0.5	0.5	0.5	0.6	–	–	–	–
%yr end	1.1	1.0	0.8	1.3	1.7	2.0	2.3	2.2	1.5	1.3	2.2	2.2
Unemployment rate %	3.9	4.1	4.1	4.0	4.1	4.2	4.4	4.5	3.9	4.0	4.5	4.5
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	0.2	0.5	0.7	0.9	0.8	–	–	–	–
%yr end	3.6	3.8	2.8	2.4	2.0	1.7	2.4	2.9	4.1	2.4	2.9	2.7
CPI Trimmed Mean %qtr	1.0	0.9	0.8	0.5	0.5	0.6	0.7	0.7	–	–	–	–
%yr end	4.0	4.0	3.6	3.2	2.7	2.4	2.3	2.4	4.2	3.2	2.4	2.5

New Zealand economic growth forecasts

	2024				2025				Calendar years			
% Change	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
GDP %qtr	0.3	–1.1	–1.0	0.3	0.4	0.8	0.5	0.8	–	–	–	–
Annual avg change	1.4	0.6	0.1	–0.5	–1.2	–1.0	–0.1	0.9	1.8	–0.5	0.9	3.0
Unemployment rate %	4.4	4.6	4.8	5.1	5.3	5.4	5.4	5.3	4.0	5.1	5.3	4.6
CPI %qtr	0.6	0.4	0.6	0.5	0.6	0.5	1.0	0.5	–	–	–	–
Annual change	4.0	3.3	2.2	2.2	2.2	2.3	2.7	2.6	4.7	2.2	2.6	2.0

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