

# AUSTRALIA & NEW ZEALAND WEEKLY.

## Week beginning 13 May 2024

**Editorial:** The fiscal and monetary balancing act.

**Australia:** 2024/25 Federal Budget, Q1 WPI, labour force, NAB business survey.

**NZ:** Q2 RBNZ inflation expectations, selected price indices, retail card spending, net migration.

**China:** retail sales, industrial production, fixed asset investment.

**Eurozone:** Q1 GDP (second estimate), industrial production.

**UK:** unemployment rate, average weekly earnings.

**US:** CPI, retail sales, industrial production, NFIB small business optimism, FOMC Chair Powell speaking.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT  
CURRENT AS AT 10 MAY 2024.

**WESTPAC INSTITUTIONAL BANK**



## The fiscal and monetary balancing act

As expected, the RBA Board left the cash rate target unchanged at 4.35% following its May meeting but strengthened its rhetoric around upside inflation risks. The forward-looking parts of the press statement continue to emphasise that the Board is not ruling anything in or out in terms of future policy. The statement highlighted that inflation is declining, but more slowly than expected. Services inflation is moderating only gradually, hampered by a labour market that the RBA now assesses to be tighter than previously thought. We continue to expect the labour market to ease and note that leading indicators of demand for labour have shifted more than lag indicators such as the unemployment rate.

One of the changes to the RBA's practice wrought by the RBA Review is that its communication is now more explicit about its assessment of the stance of monetary policy. Policy is assessed as restrictive, supporting continued progress on getting inflation back into the 2-3% target range. Recent weak outcomes on household spending and discretionary inflation support that view. Both we and the RBA expect a subdued result for domestic demand when the March quarter national accounts are released next month.

Weak domestic demand and declining inflation are important context for interpreting the upside surprises in recent inflation and labour market data. The RBA Board would be mindful that economic data can be noisy and it is important not to overreact to particular monthly or quarterly outcomes. Recall that an upside surprise on inflation in the September quarter was met with a rate hike at the November meeting, only for the December quarter data to surprise on the downside and forecast upgrades reversed out for the February 2024 round. In some respects, the Board had already taken out some insurance against upside surprises on inflation, and so did not need to do so again in May.

Overall, we see the policy decision as delicately poised. As the Governor noted in the media conference, it is hoped that rates will not need to be raised further, but they will act if needed. Likewise, our house view is that the most likely outcome is unchanged rates until November. By that point, inflation should have declined enough for the Board to have comfort that a return to the 2-3% target range is in sight. This is a little later than our earlier view that the first rate cut would come at the September meeting. With the upside surprise in the March quarter data, it will take longer for inflation to decline far enough for the Board to be sufficiently confident of the disinflation trajectory to remove some of the current policy tightness.

Further upside surprises on inflation would change the calculus, however. While the outlook for inflation in the June quarter has been upgraded, mostly on higher petrol prices, further upside in that quarter and beyond would imply a different trajectory than the one the RBA Board is trying to achieve.

Market pricing had recently been leaning towards the scenario that interest rates would need to increase in Australia. Recent upside surprises for US inflation lent weight to the idea that inflation, especially services inflation, would prove sticky and require further policy action to get under control. In our view, a straight-through read from the US situation to Australia's ignores some important distinctions between the two economies, including the weak consumer and more restrictive fiscal policy settings here.

This contrast will come into sharper focus next week when the Australian government budget is handed down. Several state governments have already announced their budgets, including fresh cost-of-living support and other spending measures. Unlike in the United States and most other peer economies, though, governments in Australia are keenly aware that the more support to demand they provide, the greater the upward pressure on inflation and so interest rates. As my colleague Westpac Senior Economist Pat Bustamante highlighted in his [note earlier this week](#), the federal Government is on track to deliver a second consecutive surplus, and a third is achievable.

With a fiscal situation in stark contrast to that in the United States, Australia's 10-year bond yield is likely to trade in line with the US 10-year over the forecast period and into the medium term, rather than at a premium as in the past. We therefore regard the 4.0% level as a floor for yields in Australia, even as policy rates fall.

Our house view is that the global structure of interest rates will be somewhat higher in the period ahead than it was in the period between the Global Financial Crisis and the pandemic. Looser fiscal policy in the major economies – especially the United States – and the investment needs of the climate transition are reshaping the global balance of saving and investment in ways that the usual saving pools coming from Asia and elsewhere will not offset. Higher average interest rates are the way these shifts will be equilibrated.

**Luci Ellis, Chief Economist Westpac Group**

In Australia, the [RBA Board left the cash rate unchanged](#) at 4.35%. This decision, following an upside surprise on inflation data and stronger-than-expected labour market data but weaker partials for consumption, highlights the Board's cautious approach amid volatile data.

The Board is certainly not ignoring incoming information regarding inflation. Refreshed staff projections incorporate recent upside momentum into both the headline and trimmed mean inflation forecasts, the year-end figures revised up from 3.2% and 3.1% to 3.8% and 3.4% respectively. Dec-25 and Jun-26 were unchanged, however. The profile for unemployment is slightly firmer too, Dec-24 and Dec-25 revised down 0.1ppt to 4.2% and 4.3% respectively. The weak state of consumption meanwhile saw year-end GDP revised down from 1.8% to 1.6% for 2024. 2025-26 is unchanged.

As discussed by [Chief Economist Luci Ellis](#) in a video update mid-week, we view the Board's forecasts, language and ultimate decision as striking a delicate balance. Recent data has put the Board back on high alert for further near-term upside risks. But, the Board's confidence in returning inflation sustainably to target in the medium-term without undue cost to the economy remains. Rate cuts are therefore unlikely to be delivered until late in the year, November being our forecast for the first move, with policy relief ensuing at a measured pace thereafter – 25bp per quarter, taking the cash rate to 3.10% at Q4 2025.

Highlighting the consequence of elevated inflation and rates for the consumer, [real retail sales](#) contracted again in Q1, declining -0.4% (-1.3%yr). The modest gain in nominal sales (0.2%) suggests retail prices posted a solid increase (0.6%) despite enduring weakness in sales volumes. Perhaps even more stark, real retail sales have fallen 5.9% since mid-2022 on a per capita basis – a result that stands in stark contrast to most other advanced economies. Alongside other consumption partials for vehicle and fuel sales, this release suggests consumer spending was near flat in Q1.

Next week on May 14, the Federal Government will deliver Budget 2024/25. For more detail, see our [preview](#) published earlier this week. For more information on our broader views on the state of the domestic and global economy, our latest Market Outlook will be published today on [WestpacIQ](#).

The international data flow has been relatively quiet this week, leaving last Friday's US employment and ISM services reports front of mind. Much has already been written about these releases, so we will be brief. Key is that April saw a material step down in the pace of nonfarm payrolls growth, to 175k from 269k per month in the three months to March. Household survey employment was weak again at 25k (having averaged 94k per month in Q1) and average hourly earnings were benign, rising just 0.2%. One month does not make a trend, but the labour market continuing on this path is consistent with US inflation sustainably returning near target.

Ahead, the FOMC will have to scrutinise downside risks for activity and the labour market more closely. Both the ISM surveys, but particularly the services measure, are pointing to outright job losses in coming months. This week's [Senior Loan Officers Survey](#) for April also highlighted that banks continue to tighten standards across most lines of lending. Credit demand from businesses and households was also said to have weakened broadly in the last reporting period.

Turning to the UK, in their May meeting communications, the [Bank of England's MPC](#) made clear a return to target inflation is within sight and consequently that they will likely be able to ease policy soon. Indeed, two members of the MPC voted for a 25bp cut at this meeting and "Conditioned on market interest rates [which include several rate cuts]... CPI inflation is [now] projected to be 1.9% in two years' time and 1.6% in three years", below the BoE's 2.0% medium-term target. Demand has certainly been weaker in the UK than many other developed markets, particularly the US; but this revised projection highlights the success policy makers are having globally in the fight against inflation.

## Week ahead & data wrap

### Mixed news as RBNZ meeting draws closer into view

The local and international data flow has been relatively light over the past week, leaving the domestic market to ruminate on the meaning of recent softer-than-expected labour market reports in both New Zealand and the US. These reports have caused the market to grow a little more confident that the RBNZ will ease monetary policy before the end of this year, notwithstanding the stronger-than-expected CPI inflation data released last month. This stands in contrast to our own forecast – and that of the RBNZ – that stickiness in domestic sources of inflation will likely require the OCR to remain at its present level until at least the beginning of next year.

Turning to this week's economic news, the latest Global Dairy Trade auction produced a better-than-expected outcome for the nation's dairy farmers, with the headline GDT index rising 1.8% when the futures market had anticipated a decline. Prices for whole milk powder – the key element of New Zealand's product mix – increased 2.4%. Given this outcome, we remain content with our forecast of a \$7.90 farmgate milk price for the current season, rising to \$8.40 next season. The latter would restore at least some level of positive profitability to all but the most leveraged farmers.

Less encouragingly, in April the Business New Zealand manufacturing PMI remained in contractionary territory for a fourteenth consecutive month, albeit lifting 1.9pts to 48.9. In the detail, the production index posted the largest increase, rising 4.8pts to 50.8 – the first expansionary reading since January 2023. However, the new orders index remained very soft at 45.3 – a full 9pts below the historic average for this series. Official statistics were thin on the ground, although production of ready-mixed concrete – a good indicator of construction activity – fell a further 3.7% in the March quarter. Indeed, concrete production has declined 12% over the past year and fallen for nine consecutive quarters. This outcome strongly suggests that construction activity will make a significant negative contribution to GDP growth during the March quarter.

The weak performance of the economy was reflected in the Government's Financial Statements for the 9 months to March, which showed a continued negative divergence against the forecasts contained in the Half-Year Economic and Fiscal Update (HYEFU). Specifically, total tax revenue in the year to March is now \$1.36bn below the HYEFU forecast. In the detail, corporate tax is now running \$1.7bn below the HYEFU forecast, reflecting weaker than forecast profits. Indeed, the corporate tax take is down 15% compared with the same nine months of the '22/23 year. GST is also running \$0.3bn below forecast due to weaker than expected consumption spending, which the Treasury suggests could continue through to the end of the fiscal year. At this stage, government expenditure is running behind forecast (as usual) so the OBEGAL deficit is just \$0.6bn larger than the HYEFU forecast. The core Crown residual cash deficit is also \$0.6bn higher than forecast.

These are the final accounts to be released ahead of Budget 2024, which will be tabled on 30 May. They confirm that the fiscal starting point is a little worse than the forecast in the HYEFU. But as set out in the Budget Policy Statement (BPS) in late March, the real problem for the Government is that the HYEFU forecasts assumed that the economy would soon pick up and generate significantly more tax over the forecast period. Unfortunately, recent economic data – including very weak trend productivity growth – suggests that the HYEFU forecasts are too optimistic, as the BPS acknowledged. Indeed, in her first pre-Budget speech this week, the Minister of Finance lamented that she had grown to dread updates from her Treasury officials, with each successive update seemingly pointing to a weaker fiscal outlook than the last. So going forward, it seems inevitable that Budget 2024 will announce yet another large increase in the forecast government borrowing programme.

Next week will bring the release of the final domestic economic indicators that will come available prior to the RBNZ's next monetary policy deliberation on 22 May. The week is bookended with pricing data. On Monday, the Selected Price Indexes (SPI) for April will allow analysts to begin to refine their forecasts for the Q2 CPI, with the SPI providing insight regarding 45% of the CPI basket, including some of the most volatile and so hard-to-predict components in the tradable sector (e.g., international airfares). Also on Monday, the RBNZ will release its quarterly Survey of Expectations for Q2. Last quarter the survey pointed to a solid decline in inflation expectations across all horizons, but expectations nonetheless remained above pre-pandemic levels. On Friday, Statistics New Zealand will release its suite of business price indexes for Q1, including the producer price and capital goods price indexes.

The focus elsewhere during the week will be on key activity indicators. On Monday the Business NZ services index for April will be of interest, especially following the sharp pull-back in this indicator in March. Tuesday will bring an update on migrant arrivals in March and consumer spending in April. Net migrant inflows seem to have slowed a little in recent months but remain at very high levels. There is considerable uncertainty about how quickly inflows will respond to the weakening labour market that is now in train. Finally, the REINZ housing report for April (also out on Tuesday) will be of particular interest. Some indicators suggest that house prices may again be softening amidst a renewed slump in consumer confidence, increasing worries about job security and a sharp lift in the number of listings. Should house prices not pick up this year as we and the RBNZ have forecast, this would likely point to downside risks to consumer spending over the balance of this year.

**Darren Gibbs, Senior Economist**

### Round-up of local data released over the last week

| Date   | Release                        | Previous | Actual | Westpac f/c |
|--------|--------------------------------|----------|--------|-------------|
| Mon 6  | Apr ANZ commodity prices       | -1.3%    | 0.5%   | 2.0%        |
| Wed 8  | GlobalDairyTrade auction (WMP) | 0.7%     | 2.4%   | -           |
| Fri 10 | Apr manufacturing PMI          | 46.8     | 48.9   | -           |

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

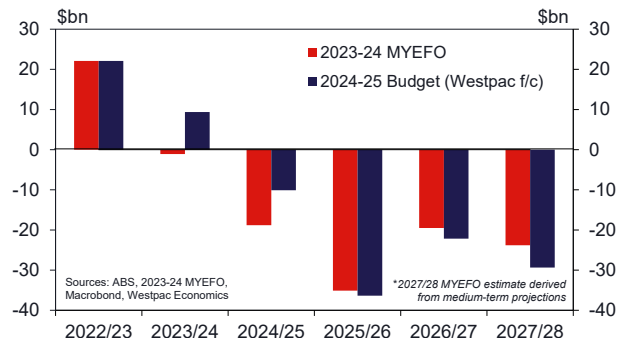
## Aus 2024/25 Federal Budget

May 14

The 2024-25 Federal Budget will be delivered on Tuesday, 14 May. Fiscal estimates are expected to show a second consecutive surplus for 2023-24, before the budget slips into deficit in 2024-25 and beyond.

The Budget will focus on providing targeted cost of living support and securing Australia's economic and strategic future. A number of significant policy changes have been announced in the lead up to Tuesday's budget including: industry support for solar panel manufacturing; further investment in Australia's defence capability; and measures to promote women's economic security such as extending the leaving violence payment and superannuation on paid parental leave.

## Underlying cash balance estimates



## Aus March Quarter Wage Price Index %qtr

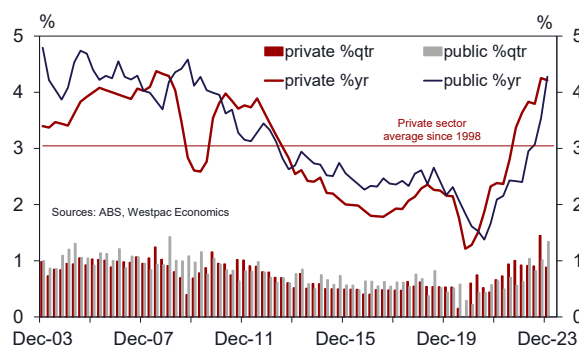
May 15, Last: 0.9%, WBC f/c: 0.9%  
Mkt f/c: 0.9%, Range: 0.8% to 1.0%

The 0.9% rise in December was on expectations while the 4.2% annual increase was a touch stronger (expectations were for 4.1%yr). While this was a robust update, the lift in public sector enterprise agreement wages masks softer wage outcomes in sectors more responsive to labour market conditions. Public sector wages lifted 1.3%qtr compared to 0.9%qtr in the private sector.

Westpac estimates that Enterprise Bargaining wages were storming ahead at 1.5%qtr/5.7%yr while Award wages lifted 0.8%qtr/5.2%yr (Awards surged 4.2%qtr in September on the back of the larger than usual increase in the 2023-24 Minimum and Award Wage). Individual Agreement wages lifted 0.7% in the quarter to see the annual pace ease back a touch from 3.5%yr to 3.4%yr.

We have already seen a rise in underemployment point to softer wages growth. Our forecast for a 0.9% rise in WPI will see the annual pace hold flat at 4.2%yr.

## Public vs. private wages



## Aus Apr Labour Force - employment change ('000s)

May 16, Last: -6.6k, WBC f/c: +20k  
Mkt f/c: 21.9k, Range: -10k to 45k

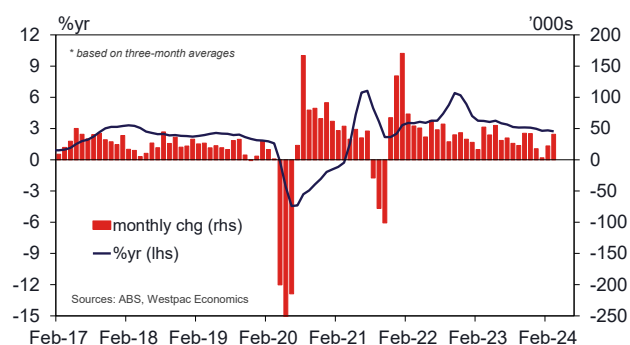
Over the past year, larger-than-usual seasonal volatility has created difficulty in predicting month-to-month moves in labour market conditions. April, with its variable timing of Easter and school holidays year-to-year, represents another challenge in this context.

Recall that in April 2023, the survey's reference weeks had an unusual 'double overlap' with Good Friday and Easter Monday, in addition to partly covering every state's school holidays. The survey reported a surprise decline in employment that month (-15.4k).

For April 2024, the survey will capture only Easter Monday and fewer state's school holidays (Vic, Qld and WA) - a much more common blend of holiday timings over the survey's recent history.

Assuming there are no other material surprises, we anticipate a moderate but slightly below-trend gain in employment of +20k.

## Employment growth trending lower, gradually



## Aus Apr Labour Force – unemployment rate (%)

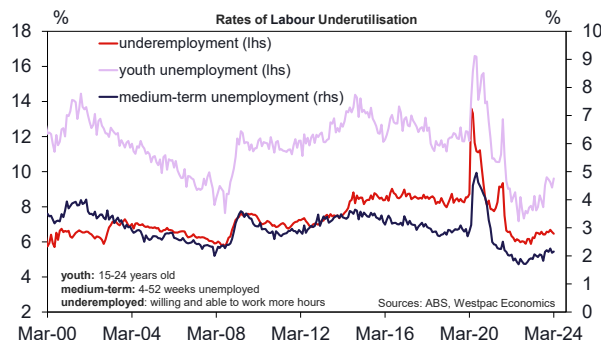
**May 16, Last: 3.8%, WBC f/c: 3.9%**  
**Mkt f/c: 3.9%, Range: 3.8% to 4.0%**

In March, the participation rate moved slightly lower, from 66.7% to 66.6%. That implied a modest lift in the size of the labour force (+14.0k), but in the context of a fall in employment (-6.6k), there was a rise in the unemployment rate, from 3.7% to 3.8%.

While labour demand has certainly cooled over the past year, it remains in generally robust health to the extent that employment growth remained moderately positive over the opening quarter. Indeed, the RBA continues to assess that the labour market is “tighter than full employment and ... easing only gradually”.

We expect that gradual pace of easing to persist near-term. With participation holding flat at 66.6%, we see room for the unemployment rate to round up to 3.9% in April, noting that in March, it printed 3.84% to two decimal places.

## Other measures of underutilisation are rising



## NZ Apr monthly selected price indices

**May 13**

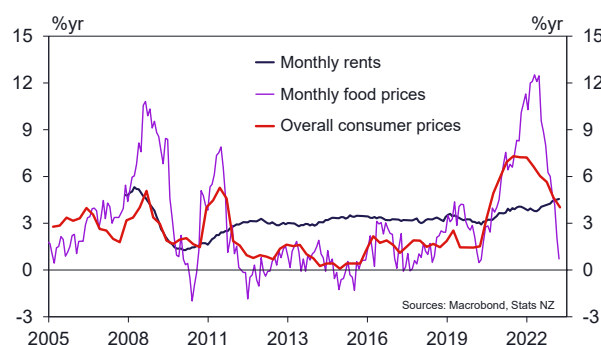
Stats NZ's suite of monthly price data covers around 45% of the CPI, providing timely updates on some of the more volatile components of inflation.

In terms of the big items, we expect a 2% rise in fuel prices in April, along with a small 0.1% fall in food prices related to seasonal declines in produce prices.

On the domestic front, the key focus will be housing rents. April typically sees larger rent rises and we are forecasting a solid 0.4% rise in line with recent trends.

We will also be keeping a close eye on the volatile travel components, like airfares and the cost of holiday accommodation which can drive much of the quarter-to-quarter swings in the CPI. We expect some easing in those prices after firm out-turns in recent months.

## NZ consumer prices



## NZ Q2 RBNZ survey of expectations

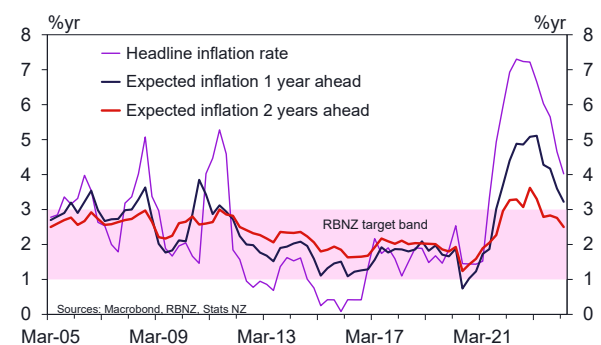
**May 13, Expected inflation one year ahead, last: 3.2%**  
**May 13, Expected inflation two years ahead, last: 2.5%**

The RBNZ looks at a range of surveys and the importance of this particular measure has waned over time. However, it still provides useful colour on economic conditions.

Both short and longer-term inflation expectations have been dropping back, consistent with the fall in actual inflation over the past year. Notably, the closely watched two-year ahead measure has fallen to its lowest level since 2021.

With inflation continuing to ease in the early part of this year, inflation expectations are set to take another step down. However, with domestic inflation pressures remaining sticky, there is a risk that the decline in inflation expectations is more modest going forward, and that expectations linger at levels above the RBNZ's 2% target midpoint.

## NZ RBNZ Survey of Expectations





## NZ Apr REINZ house sales and prices

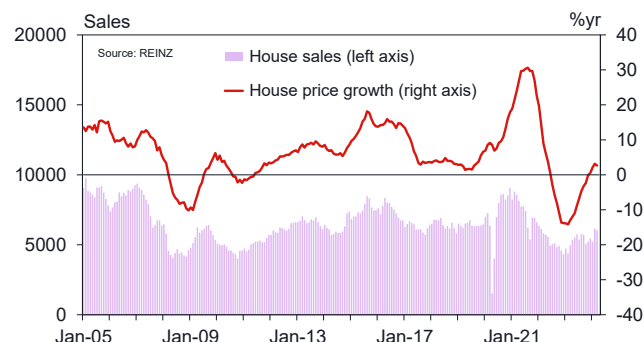
**May 14 (TBC), Sales\* - Last: -2.1% mth, +8.0% annual**  
**May 14 (TBC), Prices\* - Last: -0.2% mth, +2.6% annual**  
 \* Monthly figures based on Westpac seasonal adjustment

New Zealand's housing market remained subdued in March, with sales still low and some easing in prices.

Recent anecdotes from real estate agencies indicate that the momentum in sales remained limited in April. That's despite reports of an increasing number of properties coming up for sale. Consistent with that, prices are also likely to have remained weak.

We expect that the current softness will gradually give way to a period of stronger activity supported by population gains and changes to policies affecting investors' tax burden. However, with borrowing costs still at elevated levels for now, that pickup is still some way off.

## REINZ house prices and sales



## NZ Apr retail card spending

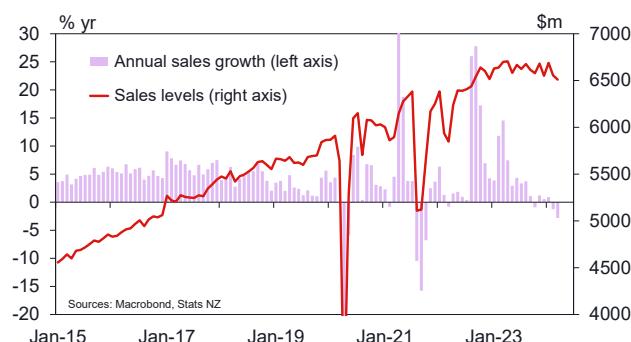
**May 14, Last: -0.7%, Westpac f/c: 0.4%**

Retail spending levels fell 0.7% in March with widespread falls.

We are forecasting a modest 0.4% rise in retail spending in April. Underlying that forecast are moderate gains in grocery purchases (related to continued strong population growth) and hospitality spending. In contrast, spending on durables and apparel is continuing to trend down.

The longer-term trend in spending remains weak. Over the past year, nominal spending levels have been flat to slightly down. That's despite strong population growth and continued price increases. The softness in spending highlights the squeeze on households' spending power from high inflation and interest rates. Nervousness about the economic outlook and the softening in the jobs market is also prompting many households to rein in their spending.

## NZ monthly retail spending



## US Apr CPI

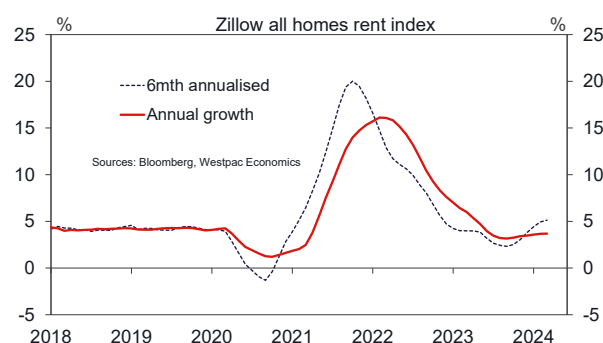
**May 15, Last 0.4%, Mkt f/c: 0.4%, WBC f/c: 0.3%**

In recent months, the US CPI has surprised to the upside, principally owing to momentum in services inflation. In our view, the components that have driven the lift are supply-side factors the FOMC have little-to-no immediate impact on. Price components related to discretionary demand have, in contrast, provided further evidence of abating momentum and risks.

In April, energy prices will be supportive and shelter inflation should continue to dictate the overall pace of CPI inflation thanks to its extraordinary weight. Demand-linked components are meanwhile likely to present further evidence of a gradual softening across the economy which, in time, will see the FOMC's target met.

Note that in April, annual CPI inflation will benefit from a favourable base effect. But this will be the last such outcome until August, making further progress with annual inflation a challenge until then.

## Rent disinflation slowly reining in shelter



## For the week ahead

|               |                                    | Last   | Market median | Westpac forecast | Risk/Comment  |
|---------------|------------------------------------|--------|---------------|------------------|---|
| <b>Mon 13</b> |                                    |        |               |                  |   |
| <b>Aus</b>    | Apr NAB business survey            | 9      | -             | -                | Conditions easing as confidence treads water.                 |
| <b>NZ</b>     | Apr BusinessNZ PSI                 | 47.5   | -             | -                | Financial headwinds continuing to weigh on demand.            |
|               | Apr food prices                    | -0.5%  | -             | -0.1%            | Seasonal softness in produce prices.                          |
|               | Apr housing rents (stock measure)  | 0.4%   | -             | 0.4%             | Population and cost pressures remain strong.                  |
|               | Q2 RBNZ inflation expectations     | 2.5%   | -             | -                | Likely to fall, but still remain above 2%.                    |
| <b>US</b>     | Fedspeak                           | -      | -             | -                | Mester and Jefferson.   |
| <b>Tue 14</b> |                                    |        |               |                  |   |
| <b>Aus</b>    | 2024/25 Federal Budget             | -      | -             | -                | On track to deliver a second consecutive surplus.             |
| <b>NZ</b>     | Apr REINZ house sales %yr          | 8.0%   | -             | -                | Sales subdued despite a surge in new listings...              |
|               | Apr REINZ house prices %yr         | 2.6%   | -             | -                | ...suggesting downward pressure on prices for now.            |
|               | Apr retail card spending           | -0.7%  | -             | 0.4%             | Spending growth remains muted despite population gains.       |
|               | Mar net migration                  | 7630   | -             | -                | Annual net inflow dropping back, but risk of large revisions. |
| <b>Eur</b>    | May ZEW survey of expectations     | 43.9   | -             | -                | Optimism growing as rate cuts come into view.                 |
| <b>UK</b>     | Mar unemployment rate %            | 4.2%   | 4.3%          | -                | Survey volatility makes gauging U/E trend difficult...        |
|               | Mar average weekly earnings %yr    | 5.6%   | -             | -                | ... but wage g'th indicates labour market is finding balance. |
| <b>US</b>     | Apr NFIB small business optimism   | 88.5   | 88.1          | -                | Confidence fragile; employment gauge in focus.                |
|               | Apr PPI %mth                       | 0.2%   | 0.3%          | -                | Consistent with at-target consumer goods inflation.           |
|               | FOMC Chair Powell                  | -      | -             | -                | Speaking in Netherlands alongside ECB's Knot.                 |
| <b>Wed 15</b> |                                    |        |               |                  |   |
| <b>Aus</b>    | Q1 WPI %qtr                        | 0.9%   | 0.9%          | 0.9%             | Rising underemployment points to wage inflation peaking.      |
| <b>Eur</b>    | Q1 GDP %qtr                        | 0.3%   | 0.3%          | -                | Second estimate to provide more colour at national level.     |
|               | Mar industrial production %mth     | 0.8%   | -             | -                | Very weak versus last year as manufacturers struggle.         |
| <b>US</b>     | Apr CPI %mth                       | 0.4%   | 0.4%          | 0.3%             | Supply-side to blame for lack of progress.                    |
|               | Apr retail sales %mth              | 0.7%   | 0.4%          | 0.6%             | Growth to decelerate to or below trend this year.             |
|               | Mar business inventories %mth      | 0.4%   | 0.0%          | -                | Run-down remains centred on wholesale.                        |
|               | May Fed Empire state index         | -14.3  | -10.0         | -                | Volatile around a weak level.                                 |
|               | May NAHB housing market index      | 51     | 51            | -                | Homebuilder sentiment has a long recovery ahead.              |
|               | Fedspeak                           | -      | -             | -                | Kashkari.   |
| <b>Thu 14</b> |                                    |        |               |                  |   |
| <b>Aus</b>    | Apr employment change (000's)      | -6.6   | 21.9          | +20              | Should provide a clearer read on underlying conditions...     |
|               | Apr unemployment rate %            | 3.8%   | 3.9           | 3.9%             | ... with room for the unemployment rate to round up.          |
|               | RBA Assistant Governor (Economic)  | -      | -             | -                | Hunter speaking at REIA 100 Conference, Hobart.               |
| <b>Jpn</b>    | Q1 GDP %qtr                        | 0.1%   | -0.3%         | -                | Set to slip back into contraction on weak consumption.        |
| <b>US</b>     | Apr industrial production %mth     | 0.4%   | 0.2%          | -                | Production level has held broadly flat for around a year now. |
|               | Apr housing starts %mth            | -14.7% | 8.6%          | -                | Borrowing costs remain a headwind for builders...             |
|               | Apr building permits %mth          | -3.7%  | 1.4%          | -                | ... risks to the pipeline linger.                             |
|               | May Philly Fed index               | 15.5   | 8.0           | -                | Stronger performance relative to other regions.               |
|               | Apr import price index %mth        | 0.4%   | 0.2%          | -                | Global goods disinflation story remains in tact.              |
|               | Initial jobless claims             | -      | -             | -                | To remain relatively low, for now.                            |
|               | Fedspeak                           | -      | -             | -                | Mester, Bostic.   |
| <b>Fri 15</b> |                                    |        |               |                  |   |
| <b>NZ</b>     | Q1 PPI %qtr                        | 0.7%   | -             | -                | Both input and output inflation back around 2%yr.             |
| <b>Chn</b>    | Apr retail sales ytd %yr           | 4.7%   | 4.7%          | -                | Lingering uncertainty over labour market and wealth...        |
|               | Apr industrial production ytd %yr  | 6.1%   | 6.0%          | -                | ... leaving growth in the hands of robust industrial...       |
|               | Apr fixed asset investment ytd %yr | 4.5%   | 4.6%          | -                | ... expansion and Asia's appetite for China's exports.        |
| <b>Eur</b>    | Apr CPI %yr                        | 2.4%   | 2.4%          | -                | Final estimate.   |
| <b>US</b>     | Apr leading index %mth             | -0.3%  | -0.3%         | -                | Data speaks to risks around the outlook.                      |

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.



## Forecasts

### Interest rate forecasts

| Australia                  | Latest (10 May) | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
|----------------------------|-----------------|--------|--------|--------|--------|--------|--------|--------|
| Cash                       | 4.35            | 4.35   | 4.35   | 4.10   | 3.85   | 3.60   | 3.35   | 3.10   |
| 90 Day BBSW                | 4.38            | 4.37   | 4.37   | 4.17   | 3.92   | 3.72   | 3.55   | 3.30   |
| 3 Year Swap                | 4.17            | 4.10   | 4.00   | 3.90   | 3.80   | 3.70   | 3.60   | 3.50   |
| 3 Year Bond                | 3.97            | 3.90   | 3.80   | 3.70   | 3.60   | 3.50   | 3.40   | 3.30   |
| 10 Year Bond               | 4.34            | 4.35   | 4.30   | 4.25   | 4.20   | 4.10   | 4.00   | 4.00   |
| 10 Year Spread to US (bps) | -12             | -15    | -10    | -5     | 0      | 0      | 0      | 0      |
| US                         |                 |        |        |        |        |        |        |        |
| Fed Funds                  | 5.375           | 5.375  | 5.125  | 4.875  | 4.625  | 4.375  | 4.125  | 3.875  |
| US 10 Year Bond            | 4.45            | 4.50   | 4.40   | 4.30   | 4.20   | 4.10   | 4.00   | 4.00   |
| New Zealand                |                 |        |        |        |        |        |        |        |
| Cash                       | 5.50            | 5.50   | 5.50   | 5.50   | 5.25   | 5.00   | 4.75   | 4.50   |
| 90 day bill                | 5.63            | 5.60   | 5.60   | 5.50   | 5.25   | 4.95   | 4.75   | 4.50   |
| 2 year swap                | 5.00            | 5.10   | 5.00   | 4.75   | 4.55   | 4.30   | 4.15   | 4.00   |
| 10 Year Bond               | 4.73            | 4.80   | 4.70   | 4.60   | 4.50   | 4.40   | 4.35   | 4.25   |
| 10 Year spread to US       | 28              | 30     | 30     | 30     | 30     | 30     | 35     | 25     |

### Exchange rate forecasts

| Australia | Latest (10 May) | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
|-----------|-----------------|--------|--------|--------|--------|--------|--------|--------|
| AUD/USD   | 0.6623          | 0.66   | 0.66   | 0.67   | 0.68   | 0.69   | 0.70   | 0.71   |
| NZD/USD   | 0.6036          | 0.60   | 0.60   | 0.61   | 0.62   | 0.63   | 0.64   | 0.65   |
| USD/JPY   | 155.33          | 156    | 156    | 154    | 150    | 146    | 143    | 140    |
| EUR/USD   | 1.0785          | 1.08   | 1.09   | 1.10   | 1.11   | 1.12   | 1.13   | 1.14   |
| GBP/USD   | 1.2529          | 1.26   | 1.27   | 1.28   | 1.29   | 1.30   | 1.31   | 1.31   |
| USD/CNY   | 7.2197          | 7.20   | 7.15   | 7.10   | 7.05   | 7.00   | 6.90   | 6.80   |
| AUD/NZD   | 1.0965          | 1.10   | 1.10   | 1.10   | 1.10   | 1.10   | 1.09   | 1.09   |

### Australian economic growth forecasts

|                     | 2023 |     |     | 2024 |     |     |     | Calendar years |      |       |       |
|---------------------|------|-----|-----|------|-----|-----|-----|----------------|------|-------|-------|
| % change            | Q2   | Q3  | Q4  | Q1f  | Q2f | Q3f | Q4f | 2022           | 2023 | 2024f | 2025f |
| GDP % qtr           | 0.5  | 0.3 | 0.2 | 0.3  | 0.3 | 0.4 | 0.5 | -              | -    | -     | -     |
| %yr end             | 2.1  | 2.1 | 1.5 | 1.3  | 1.1 | 1.3 | 1.6 | 2.4            | 1.5  | 1.6   | 2.5   |
| Unemployment rate % | 3.6  | 3.7 | 3.9 | 3.9  | 4.0 | 4.2 | 4.3 | 3.5            | 3.9  | 4.3   | 4.6   |
| Wages (WPI)         | 1.0  | 1.3 | 0.9 | 0.9  | 0.9 | 0.8 | 0.5 | -              | -    | -     | -     |
| annual chg          | 3.7  | 4.1 | 4.2 | 4.2  | 4.2 | 3.7 | 3.2 | 3.3            | 4.2  | 3.2   | 3.1   |
| CPI Headline        | 0.8  | 1.2 | 0.6 | 1.0  | 0.9 | 0.6 | 0.8 | -              | -    | -     | -     |
| annual chg          | 6.0  | 5.4 | 4.1 | 3.6  | 3.7 | 3.0 | 3.2 | 7.8            | 4.1  | 3.2   | 2.8   |
| Trimmed mean        | 0.9  | 1.2 | 0.8 | 1.0  | 0.7 | 0.8 | 0.8 | -              | -    | -     | -     |
| annual chg          | 5.8  | 5.1 | 4.2 | 4.0  | 3.7 | 3.4 | 3.5 | 6.8            | 4.2  | 3.5   | 2.8   |

### New Zealand economic growth forecasts

|                     | 2023 |      |      | 2024 |      |     |     | Calendar years |      |       |       |
|---------------------|------|------|------|------|------|-----|-----|----------------|------|-------|-------|
| % change            | Q2   | Q3   | Q4   | Q1f  | Q2f  | Q3f | Q4f | 2022           | 2023 | 2024f | 2025f |
| GDP % qtr           | 0.5  | -0.3 | -0.1 | 0.2  | 0.2  | 0.2 | 0.2 | -              | -    | -     | -     |
| Annual avg change   | 3.0  | 1.3  | 0.6  | 0.2  | -0.2 | 0.1 | 0.4 | 2.4            | 0.6  | 0.4   | 1.6   |
| Unemployment rate % | 3.6  | 3.9  | 4.0  | 4.3  | 4.6  | 4.9 | 5.2 | 3.4            | 4.0  | 5.2   | 5.4   |
| CPI % qtr           | 1.1  | 1.8  | 0.5  | 0.6  | 0.6  | 1.0 | 0.4 | -              | -    | -     | -     |
| Annual change       | 6.0  | 5.6  | 4.7  | 4.0  | 3.6  | 2.8 | 2.7 | 7.2            | 4.7  | 2.7   | 2.3   |



Start receiving your usual Westpac research and strategy reports from Westpac IQ.  
<https://www.westpaciq.com.au/subscribe>

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

© 2024 Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141, AFSL233714 ('Westpac'). References to the "Westpac Group" are to Westpac and its subsidiaries and includes the directors, employees and representatives of Westpac and its subsidiaries.

## Disclaimer

This information has been prepared by the Westpac Institutional Bank and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

**Conflicts of Interest:** In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

**Author(s) disclaimer and declaration:** The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

## Additional country disclosures

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714).

**Note:** Luci Ellis, Westpac Chief Economist is a member of the Australian Statistics Advisory Council (ASAC) which is a key advisory body to the Minister and the Australian Bureau of Statistics on statistical services. Luci does not have access to sensitive data/ reports in her capacity as a member of ASAC.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz).

**Singapore:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore.

**US:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation ("FDIC"). Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

## Disclaimer continued overleaf

## Disclaimer continued

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

**UK and EU:** The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac's London branch by the PRA are available from us on request.

Westpac Europe GmbH ("WEG") is authorised in Germany by the Federal Financial Supervision Authority ('BaFin') and subject to its regulation. WEG's supervisory authorities are BaFin and the German Federal Bank ('Deutsche Bundesbank'). WEG is registered with the commercial register ('Handelsregister') of the local court of Frankfurt am Main under registration number HRB 118483. In accordance with APRA's Prudential Standard 222 'Association with Related Entities', Westpac does not stand behind WEG other than as provided for in certain legal agreements (a risk transfer, sub-participation and collateral agreement) between Westpac and WEG and obligations of WEG do not represent liabilities of Westpac.

This communication is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an 'investment recommendation' and/or 'information recommending or suggesting an investment', both as defined in Regulation (EU) No 596/2014 (including as applicable in the United Kingdom) ("MAR"). In accordance with the relevant provisions of MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest of the sender concerning the financial instruments to which that information relates have been disclosed.

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found here: <https://www.westpaciq.com.au/terms-and-conditions/investment-recommendation-disclosure>. Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

To the extent this communication comprises an investment recommendation it is classified as non-independent research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and therefore constitutes a marketing communication. Further, this communication is not subject to any prohibition on dealing ahead of the dissemination of investment research.