Australia & New Zealand weekly.

Week beginning 27 May 2019

- RBA to cut the cash rate to 0.75% by November; AUD to 0.66 USD by end 2019.
- Australia: dwelling approvals, business capex, private credit.
- NZ: Federal Budget, dwelling consents, business confidence, RBNZ FSR.
- China: NBS PMI's.
- Europe: European Commission business survey.
- US: PCE inflation, consumer confidence.
- Key economic & financial forecasts.

Information contained in this report current as at 24 May 2019.

Westpac Institutional Bank

RBA to cut the cash rate to 0.75% by November; AUD to 0.66 USD by end 2019

Earlier this week Westpac moved forward its forecast for RBA cash rate cuts from the original forecast on February 21 of cuts in August and November to June and August.

The June cut remains almost certain; a second in August is our expectation and the November cut should also proceed.

Therefore, Westpac is now forecasting three cuts in 2019 in June; August and November to push the cash rate from 1.5% to 0.75% and to hold at that level through 2020.

Our forecasts for employment; wages growth; economic growth; inflation and conditions in the housing market are consistent with the need for policy to ease through the full course of 2019, not to go on hold as early as August.

We see the unemployment rate drifting up to 5.4% by year's end; economic growth at 2.2% for 2019; underlying inflation at 1.4%; and the housing market still weak although approaching stability.

That means that the June and August cuts should be supported by a further cut in November.

An option which we considered was a move to some form of Quantitative Easing (QE) should the RBA see the need to ease policy further beyond the 1% level. However, consideration of the RBA's own research on the deposit structure of major banks (see below) indicates that the RBA could be expected to anticipate that the policy transmission mechanism will still have some effect at a cash rate below 1%.

2019 also seems somewhat early to expect the RBA to embrace QE. Central banks have always favoured interest rate policy over QE until they believed that rate policy flexibility had passed or further lowering rates would be ineffective. Central banks have also mainly favoured QE to ease credit conditions rather than boosting demand.

Looking into 2020 we expect that the case for policy easing could still be apparent but as rates go lower and time passes the option to use QE will become more attractive. Arguably the RBA may see our current forecast of 0.75% as the base or possibly as low as 0.5%. Beyond 0.5% QE seems to be the more effective policy if further easing was required.

Consequently our central forecast for the terminal cash rate in this cycle is 0.75% with risks to the downside, although we would certainly see 0.5% as the floor for the cash rate, with QE a more effective policy tool thereafter.

Optimism that further easing in 2020 may not be necessary would be based on the stabilisation of the housing market; a sustained boost to confidence from a stable Federal government which would be in a position to embrace genuine reform; an improving fiscal position as the terms of trade hold up much better than assumed in the Budget estimates; and a more settled global environment as trade tensions are finally settled.

The revised terminal cash rate has implications for our AUD and fixed rate forecasts. While back in February we expected the low in the AUD to be USD 0.68 we have now shaved that forecast back to USD 0.66 by end 2019. This forecast is also predicated on our constructive view on commodity prices and a steady US federal funds rate over 2019.

Markets are currently pricing in a terminal cash rate of around 0.85% by June next year so we have marginally shaved back our bond and swap rate forecasts to reflect a lower and earlier bottom in the cash rate than priced into the market.

The case for further rate cuts

Our decision to bring forward the forecasts of rate cuts that we released in February was in response to a speech delivered by Governor Lowe on May 21 when he commented, "A lower cash rate would support employment growth and bring forward the time when inflation is consistent with the target. Given this assessment, at our meeting in two weeks' time, we will consider the case for lower interest rates".

However there was a fundamental change in the Governor's approach. Whereas most of his time as Governor has been marked by an overriding concern with the risks posed to the economy around excessive household debt and frothy housing markets he has now turned his attention to the unemployment rate and labour markets.

Recall that the Bank has three objectives: stability of the currency; full employment; and economic prosperity and welfare of the Australian people. Of course "stability of the currency" relates to its objective to hold the inflation rate within the 2–3% band on average over the cycle.

The focus on household debt and asset markets emphasises "economic prosperity and welfare".

In his speech the Governor turned to another part of his overall objective – the unemployment rate. He noted " my judgement of the accumulating evidence is that the Australian economy can support an unemployment rate of below 5% without raising inflation concerns". A lower unemployment rate is also supportive of the "welfare" objective, a possibility of boosting wages growth and assisting with the achievement of the inflation target.

He also noted that "monetary policy has a role to play here".

However the RBA's current forecasts do not inspire confidence that the unemployment rate will fall much below 5%. The current forecasts have the unemployment rate holding at 5% out to the end of 2020. It is important to note that those forecasts are based on market pricing at the time of the May Board meeting which the Board (May Board Minutes) notes as "Cash rate can be expected to be lowered by 25 basis points within the next three months and again by the end of 2019". The forecast is also based on the AUD holding steady at USD 0.70.

With our forecast that the cash rate will be lowered by 25 basis points on June 4 and August 6 the boost to the economy from rate cuts can be expected to be somewhat stronger than if they are delayed as expected in the RBA's forecast. Furthermore, the RBA forecast assumes that the AUD holds at USD 0.70 for the duration of the forecast period whereas the current trajectory (spot already below USD0.69) can be expected to be lower.

Nevertheless it seems unlikely that the RBA would make any significant changes to its forecasts on the basis of those second order changes in the assumptions.

The Governor notes that other policies including fiscal support through infrastructure spending; and structural reform also have a role to play.

These are longer term, necessary initiatives but the point arises as to whether the RBA should do even more than is currently factored into its forecasts.

There are three key issues here:

- Westpac forecasts that even allowing for the stimulus from the rate cuts the trend in the unemployment rate is

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likely to edge up. We have a target of 5.4% by end 2019, well above the RBA's forecast of 5%.This would reflect clear below trend growth in the economy – we expect 2.2% for 2019 compared with the RBA's forecast of 2.6% supplemented by the weakening trend in the employment outlook – "some labour market indicators have softened a little" – RBA Governor, May 21.

- The risk of overstimulating the housing market seems low. There is some evidence that the market may be stabilising but we expect that with affordability still stretched in Sydney and Melbourne and other capital city markets now turning down due to the tight credit environment any risk of an overshooting (as we saw in 2016) in response to lower rates seems low.
- Will a lower cash rate fail to ease financial conditions due to its very low level? The issue here revolves around the RBA's expectation of the capacity of the banks to pass on lower rates. Of paramount importance is the structure of banks' funding arrangements. The RBA has produced a graph in the May Statement on Monetary Policy (Graph 3.6). Our estimate of the numbers in the graph is that: 8% of banks' deposits are held at 0% interest rate; 25% between 0% and 1%; 15% between 1% and 1.5%; 42% above 1.5% and 10% in offset accounts (effectively earning the mortgage rate). On these numbers the RBA would assess that around 90% of banks' deposits could cope with the 0.5% rate cut, already expected. Arguably, onthese numbers, around 75% would cope with a further cut. These numbers are approximate and, no doubt, do not cover all issues.

Without doubt the option of QE would be on the radar screen for the RBA but, given the analysis of banks' deposit structures, it is reasonable that they would look to lower rates in the first instance. At some level of the cash rate, perhaps 0.75% but certainly 0.5%, it is likely that the transmission mechanism from QE would be more effective in easing credit conditions and boosting demand.

The most likely forms of QE would include the RBA purchasing asset backed securities issued by the non-banks or providing attractive funding for the banks secured against their securitised portfolios of mortgages aimed at supporting existing borrowers and possibly tied to new lending targets.

These policies may well be needed to help the RBA move towards its key objectives but are more likely issues for 2020 rather than the immediate challenges which are faced in 2019.

Bill Evans, Chief Economist

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The week that was

From the RBA, there were two key communications this week, the May meeting minutes and a speech by Governor Lowe. In the May minutes, an easing bias was clearly evident, with the Board noting that "without an easing in monetary policy over the next six months, growth and inflation outcomes would be expected to be less favourable than the central scenario".

In his follow-up speech, Governor Lowe went further, stating that "at our meeting in two weeks' time, we will consider the case for lower rates". With respect to policy, Governor Lowe's focus was on the labour market, noting that the "Australian economy can support an unemployment rate of below 5% without raising inflation concerns". With considerable slack also apparent in underemployment and wages, and leading indicators pointing to a deterioration in employment growth in coming months, there is clearly a need (and willingness on the part of the RBA) to act quickly.

With a cut in June locked in, the next question is how much further does the cash rate need to fall to 'right' the economy. When we introduced our 2019 rate cut view in February, we pencilled in two cuts. However, evident in the May Statement on Monetary Policy forecasts is the RBA's view that two rate cuts would only get growth and inflation back to barely acceptable levels (growth at trend and underlying inflation at 2.0% in 2019 and 2020). Our own forecasts and recent data imply that risks to this view are clearly to the downside. And so, following this week's clear guidance by Governor Lowe that the RBA is willing to pro-actively support the economy in pursuit of lower unemployment and stronger wages growth, we have not only moved the two cuts we were forecasting forward (to June and August) but also added a third in November. Following this course would take the cash rate down to 0.75%.

To this view, as detailed by our Chief Economist Bill Evans, the risks are skewed to the downside, and so further action from the RBA cannot be ruled out in 2020 if the economy disappoints.

For Australia, data has been light this week, the March quarter construction work done report the only key release. In line with many other recent releases, it disappointed falling 1.9% in the quarter and fall 6.0%yr. Despite a strong pipeline, public work was soft in the quarter. There was also a further reduction in private infrastructure activity, and continued weakness in housing investment. Whereas commencements for private infrastructure have been positive of late, the outlook for housing remains poor, with dwelling approvals 27% below end-2017 levels. By itself, this partial indicator points to construction subtracting around 0.25ppts from growth in the March quarter.

From New Zealand this week comes our team's latest quarterly update. Of particular note in their report is discussion of the implications of lower interest rates for the New Zealand housing market and household demand. In opposition to this positive impetus for the economy however is the uncertainty that low inflation is creating for business. In short, firms' pricing power is limited, restricting their appetite for both investment and employment.

To the US. The April/May FOMC meeting minutes made clear that the Committee remains constructive on the outlook for the US economy. The consumer remains the cornerstone for growth, supported by strong employment; robust sentiment and growing household wealth. The forward view for business investment is less certain, but the FOMC remains optimistic. The minutes also again made clear that the Committee see recent weakness in core PCE inflation as transitory, seeing this benchmark inflation measure move back to target in coming months. In contrast to market pricing of two cuts over the coming year, the FOMC clearly believe they will instead be on hold for the foreseeable future. To their view (which is also our own), US/China trade tensions look set to remain a persistent threat.

Lastly, this week once again highlights ambiguity in the European economic data. Regarding surveys, consumer confidence continued to edge higher whereas the business surveys remain sombre. On net, the survey data for Q2 is disappointing. Yet the survey data also disappointed in Q1 where hard data later printed above potential growth of 0.4%.

What is clearer however is that the regional geopolitical situation continues to present downside risk to the economic outlook. The results of European Parliament elections over the weekend will be a bellwether for national developments.

On that note, early polling in the UK shows the Farage led Brexit party are forecast to have gained the most British votes. Similarly in the UK Parliament, it is expected that PM May will set out resignation plans on Friday. The likelihood of a near-term exit deal has decreased dramatically.

Chart of the week: Australian resource exports

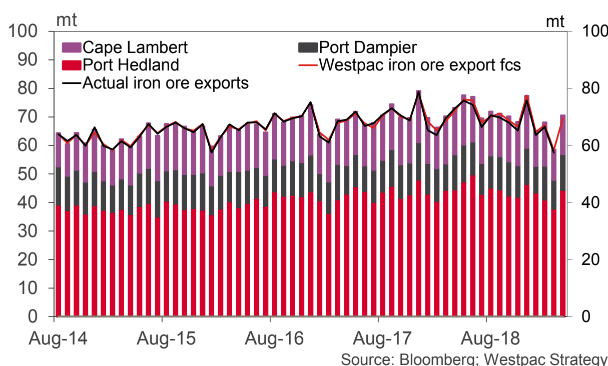
We use high frequency shipping data to analyse current trends and drivers of bulks exports from Australia and assess the impact of macro and micro economic factors on demand and prices.

If there is a key message for Australian commodity exports from our shipping activity data models for the month of April, then it's one of sharp improvement in export volumes as we moved from Q1 and into Q2.

The combination of solid/ rising bulk commodity prices and a recovery in export volumes presents a positive backdrop for the continued expansion in the value of resource exports to Australia.

Click here to see the full report.

Aus iron ore exports -3.7%yy April; but +19%mm



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New Zealand: week ahead & data wrap

Game changer

The New Zealand economy lost some momentum in the second half of last year, and looks to have remained subdued in the early part of this year. But our latest quarterly Economic Overview highlights that some change is already on the way. Lower interest rates will help to boost the housing market and spur consumer demand. Combined with the already-planned fiscal stimulus, we expect this to lift growth above 3% again in 2020.

New Zealand's GDP growth has slowed from a peak of 4% in 2016 to around 2.5% today. Initially, the slowdown was led by consumers reacting to a cooling housing market. House price inflation peaked at 15% in 2016, but has since slowed to around 2% nationwide, largely due to a flattening off in prices in Auckland and Canterbury. The pace of growth in household spending has accordingly slowed from its peaks, though it continues to be supported by household income growth via rising employment and wages.

In more recent times the slowdown has become business-led. Surveys of business confidence have been sharply weaker since the change of government in late 2017, but only recently have there been signs of this manifesting in business decisions. Even though firms are citing capacity constraints and difficulty in finding workers, growth in business investment has been sluggish and private sector job advertisements have flattened off.

No doubt some of this grumpiness relates to dissatisfaction with Government policies that have added to business costs, such as minimum wage increases, changes to employment law, and increased regulatory requirements. But an equally important aspect is that firms are not confident about their ability to pass on these cost increases. Technology changes and international competition have put more power in the hands of consumers, and moreover, demand isn't expanding quickly enough for firms to be able to justify price rises. As a result, firms are seeing a squeeze on their profitability and are scaling back their expansion plans accordingly.

The factors that have weighed on growth recently are likely to stick around for a while yet. Nevertheless, we think that the mix of government policy will support a lift in growth over the next couple of years.

The first factor is a significant shift in the stance of monetary policy. The subdued growth and competitive pressures that have weighed on business confidence have also led to persistently low inflation. Consumer prices rose 1.5% in the year to March, putting it within the lower half of the Reserve Bank's 1-3% target range. In fact, aside from some short-term volatility in fuel prices, inflation has remained below the 2% midpoint for seven years running.

For some time the RBNZ has been forecasting that an extended period of low interest rates would boost growth, increase capacity pressures and bring inflation towards the 2% midpoint. But by May it had decided that even more stimulus would be needed to achieve this, and it reduced the OCR to a new record low of 1.50%. That's led to a sharp drop in fixed-term mortgage rates in recent months, and history suggests that this will have a powerful impact on the housing market.

The other major development for the housing market is that in April the Government announced that will it not proceed with its proposal for a capital gains tax, and the Labour Party said it will not campaign on introducing one for the foreseeable future. In our previous forecasts we had assumed that a CGT would be introduced in some form, if not the full-blooded version that was proposed. Ruling it out altogether was a major surprise, and combined with the impact of lower interest rates, we are now expecting a 7% lift in house prices in 2020.

Scrapping the proposed CGT – which would have covered business assets as well as investment properties – could also go some way towards lifting the malaise among businesses, though this was far from the only concern on their minds. Next week's business confidence survey, the first one since the CGT announcement, will shed some light on the matter.

We are also expecting fiscal policy to support GDP growth over the coming year. Last year's Budget incorporated a substantial lift in spending on public services, an increase in transfers to low-income households, and plans for a substantial ramp-up in capital spending over the next few years. Fiscal stimulus is certainly not a new part of our economic forecasts, but we think that a significant part of its impact is yet to be felt.

The 2019 Budget, to be unveiled next Thursday, will confirm that the planned fiscal boost is on track. That's despite a weaker than expected starting point for the economy, which will reduce projected tax revenues over the coming years. We expect that will result in smaller projected surpluses and a higher borrowing requirement, rather than any belt-tightening on the expenditure side.

The Government has said that next week's Budget will comply with its self-imposed fiscal responsibility rules, which include reducing net core Crown debt to 20% of GDP within five years of taking office (ending in 2022). However, the Finance Minister announced this week that beyond 2022 the Government will target a range of 15 to 25% of GDP, providing additional breathing space in the event of a recession, or if the Government sees opportunities for investment. Given that governments will always see opportunities for investment, in practice it's likely that 25% of GDP will become a debt ceiling, with the lower end of the range rendered irrelevant.

The announcement itself came as a surprise, but it felt somewhat inevitable. While the Government had not previously made any commitments beyond 2022, the Treasury's longer-term projections had shown net debt falling even further below 20% of GDP in later years, based on current tax and spending plans. There would have been little political advantage in continuing with such restraint, given the ongoing demands on the public purse. Our forecasts already assumed some increase in the Government's spending allowances beyond what had already been announced; this week's decision provides even more scope to do so.

Round–up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Mon 20	Apr BusinessNZ PSI	52.3	51.8	–
Wed 22	GlobalDairyTrade auction	0.4%	-1.2%	–
	Q1 real retail sales	1.7%	0.7%	0.6%
Fri 24	Apr trade balance $m	824	433	450

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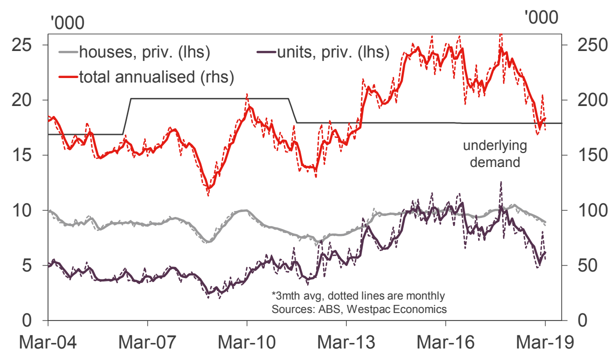
Data previews

Aus Apr dwelling approvals

May 30, Last: –15.5%, WBC f/c: –1.0%
Mkt f/c: flat, Range: -5.0% to 8.0%

- Dwelling approvals have been volatile in recent months, a spike in high rise approvals producing a 19.1% jump in Feb that mostly unwound in March with a 15.5% drop. The underlying trend elsewhere has been weak, non high rise approvals down about 2% March following a 4% fall in Feb.
- For the Apr update, high rise approvals still look to retrace further, the March level still well above the average over the last few months (excluding the Feb spike). Construction-related finance approvals have been a touch firmer in recent months suggesting weakness in non high rise segments should diminish. Overall, we expect a modest 1% decline in total dwelling approvals for Apr. Note that the timing of Easter and its close proximity to the ANZAC day public holiday may be a disruptive factor with fewer effective processing days potentially skewing approvals lower.

Dwelling approvals

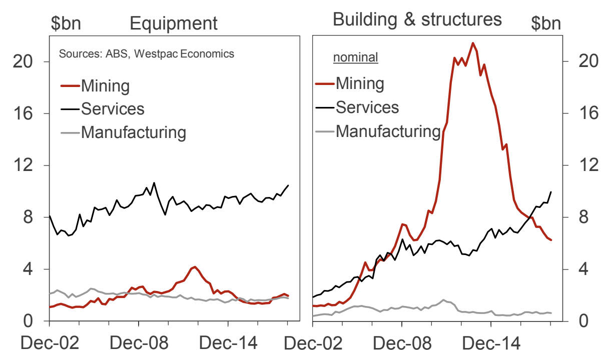


Aus Q4 private business capex

May 30, Last: +2.0%, WBC f/c: +0.2%
Mkt f/c: 0.5%, Range: -0.5% to 2.7%

- Private business spending on capex moved a little higher in 2018, up 2%, with an 8% lift in equipment spending outweighing a further retreat in Building & structures, -3%.
- For Q1, we anticipate only a small rise, +0.2%, with - once again - an uneven result, equipment up and building & structures down.
- Equipment spending is forecast to advance in Q1 by 0.8%qtr, 5%yr. The uptrend in equipment investment during 2018 was broadly based across services, manufacturing and mining. Momentum should continue but with consumer spending slowing, the risk is for a stumble in coming quarters.
- Building & structures activity has been in a downtrend, led lower by mining investment as work on the remaining gas projects was finalised. This dynamic has extended into 2019, with a forecast decline of -0.3%.

CAPEX: by industry by asset

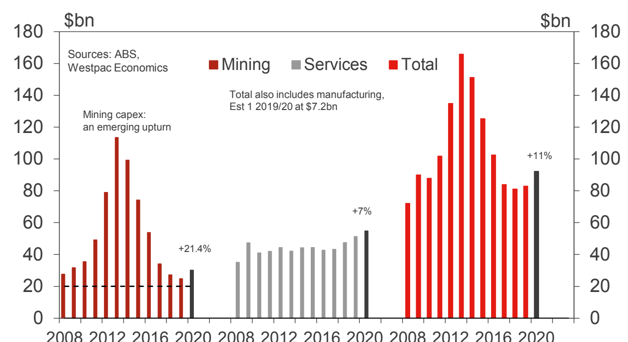


Aus 2018/19 & 2019/20 capex plans

May 30, Last: Est 5 for 2018/19: $118.4bn, +3.6%
May 30, Last: Est 1 for 2019/20: $92.1bn, +11%

- This survey, conducted in April and May, includes the 6th estimate of capex spending plans for 2018/19 and the 2nd estimate for 2019/20 plans.
- Recall Est 5 is $118.4bn, some 3.6% ($4.0bn) above Est 5 a year ago, with strength in services, +9% ($6.1bn) and mining taking one last leg lower, -7% (-$2.5bn).
- Est 1 for 2019/20 is 11% (+$9.2bn) above Est 1 a year ago, with mining +21.4% (+$5.3bn) and services +6.8% (+$3.5bn).
- This update may be less upbeat, but not substantially so. Business conditions have weakened, so too global growth. However, services investment strength is in transport (spill-overs from public infrastructure) and power generation (renewable energy) - and these are largely locked-in. Also, mining is benefitting from higher commodity prices.
- As to Est 2 for 2019/20, we caution that often the initial two estimates are an unreliable guide to actual spending.

Capex plans, by industry: Estimate 1



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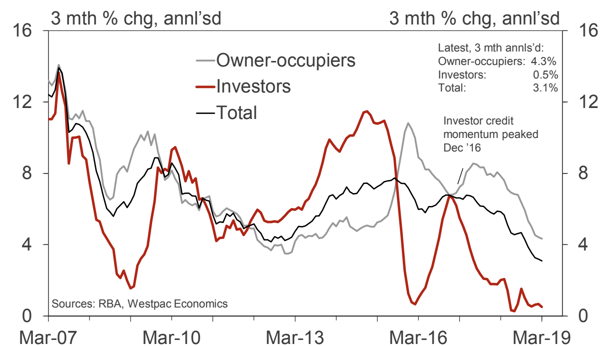
Data previews

Aus Apr private credit

May 31, Last: 0.3%, WBC f/c: 0.2%
Mkt f/c: 0.3%, Range: 0.2% to 0.4%

- Private sector credit growth has slowed to a sluggish pace as the housing sector weakens. Annual growth is 3.9% and the 3 month annualised pace is 3.1%.
- In March, credit grew by 0.3%, fractionally above the average of the previous 3 months (0.23%) - boosted by a solid 0.5% rise in business credit
- For April, we anticipate a reversion to a gain of 0.2%, with the risk that business credit expands at a more modest pace.
- Housing credit growth is weak at an historic low of 4.0%yr and 3.1% annualised for the 3 months to March. Another soft update is in the offing, with new lending trending lower, albeit at a more modest rate of decline.
- Business credit grew by 4.9% over the past year as investment in the real economy expanded. Recently, new lending has softened, pointing to some loss of momentum.

Housing credit weakens

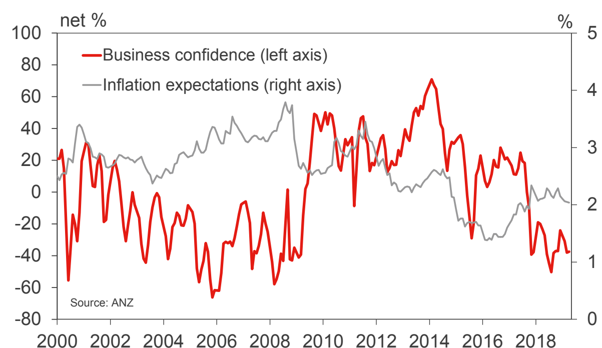


NZ May ANZ Business confidence

May 29, Last -37.5

- The May business confidence survey will give us our first gauge of how business confidence has responded to the Government's surprise announcement that it will not be pushing ahead with any form of capital gains tax.
- This is likely to see an improvement in headline confidence. However, the impact on other components of the survey such as investment intentions is less clear.
- Pricing intentions and expected inflation have been relatively stable of late.

NZ business confidence and inflation expectations

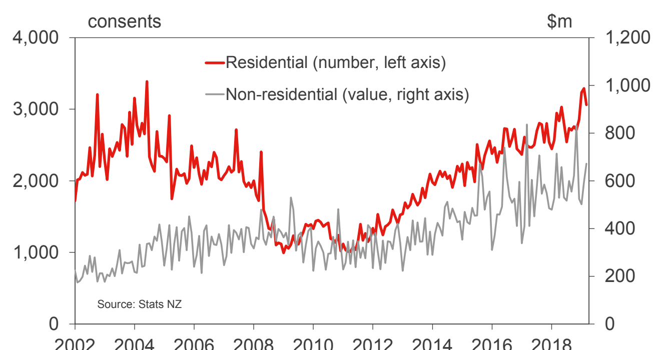


NZ Apr dwelling consents

May 30, Last: -6.9%, WBC f/c: -2%

- Residential dwelling consent issuance fell by 6.9% in March. That followed a strong lift earlier in the year and left annual consent issuance at multi-decade highs. While much of this strength has been centred on Auckland, consent issuance has also been strong in many other regions.
- With at least some of the recent strength in consents related to lumpy categories like apartments, we expect a 2% pullback in April. That would still leave the annual level of issuance around multi-decade highs.

NZ building consents



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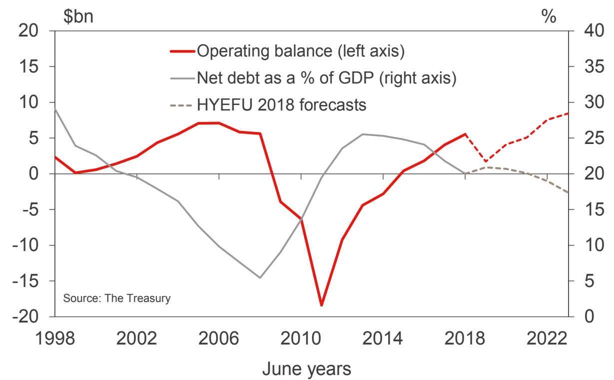
Data previews

NZ Budget 2019

May 30

- The long awaited "Wellbeing Budget" will be delivered next week. The accompanying array of Budget documents will cover a much broader range of topics than usual.
- The fiscal accounts are likely to show the Government is running out of wiggle room. The weaker than expected starting point for the economy will be weighing on the Treasury's revenue projections, and the recent run of surprisingly strong tax revenues has come to an end.
- We expect little additional spending to be announced in next week's Budget although we could see some reprioritisation of spending. Despite this, the Government is still likely to need to borrow a bit more. Beyond 2021/22 the Government has given itself some extra headroom by softening its net debt to GDP target. That could leave room for more of a spend-up in future years.

NZ fiscal position



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Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 27					
Chn	Apr industrial profits %yr	13.9%	–	–	Aided by commodity prices.
Tue 28					
Eur	Apr M3 money supply %yr	4.5%	4.3%	–	Maintaining its pace.
	May business climate indicator	0.42	–	–	Should edge lower in the month.
	May economic confidence	104.0	103.5	–	Softer business senitment to offset consumer increase.
UK	May Nationwide house prices	0.4%	–	–	TBC. Housing market weakness continuing, esp. in London.
US	Mar FHFA house prices	0.3%	–	–	House price growth has slowed...
	Mar S&P/CS home price index	0.2%	0.6%	–	... but should stabilise around this level given lower rates.
	May consumer confidence index	129.2	130.5	–	Remains robust, aided by jobs and asset price gains.
	May Dallas Fed index	2.0	7.0	–	Manufacturing being hit by US dollar and tariff concerns.
Wed 29					
NZ	RBNZ Financial Stability Report	–	–	–	Unlikely to see further policy announcements at this stage.
	May ANZ business confidence	–37.5	–	–	First survey since the proposed capital gains tax was scrapped.
Jpn	BOJ Governor Kuroda speaks	–	–	–	BOJ International conference.
Eur	ECB Rehn speaks	–	–	–	At an event in London.
US	May Richmond Fed index	3	7	–	Manufacturing being hit by US dollar and tariff concerns.
Can	Bank of Canada policy decision	1.75%	1.75%	–	On hold.
Thu 30					
Aus	Apr dwelling approvals	–15.5%	flat	–1.0%	Feb high rise spike still unwinding. Holiday timing a factor?
	Q1 private new capital expenditure	2.0%	0.5%	0.2%	Softness in B&S, equipment expected to rise modestly.
	2018/19 capex plans, AUDbn	118.4	–	–	Est 5 is +3.6% vs Est 5 a yr ago. See textbox.
	2019/20 capex plans, AUDbn	92.1	96.0	–	Est 1 is +11% vs Est 1 a yr ago – led by mining.
NZ	Apr building permits	–6.9%	–	–2.0%	Multiples to soften after earlier strength, level still strong.
	Budget 2019	–	–	–	Weaker starting point for the economy means smaller surpluses.
US	Q1 GDP 3rd estimate %annualised	3.2%	3.1%	3.1%	Only a negligible revision expected.
	Apr wholesale inventories	–0.1%	–	–	A big positive in Q1; could reverse in Q2.
	Initial jobless claims	211k	–	–	Very low.
	Apr pending home sales	3.8%	1.0%	–	Existing home market held back by supply.
Fri 31					
Aus	Apr private sector credit	0.3%	0.3%	0.2%	Has slowed to a subdued pace, led by housing downturn.
NZ	May ANZ consumer confidence	123.2	–	–	Consumer sentiment has been stable in recent months.
Jpn	Apr jobless rate	2.5%	2.4%	–	Remains very low.
Kor	Bank of Korea policy decision	1.75%	1.75%	–	On hold but trade tensions are a concern.
Chn	May non-manufacturing PMI	54.3	54.3	–	Investment becoming more supportive of growth.
	May manufacturing PMI	50.1	49.9	–	Manufacturing remains under pressure from tariffs.
Eur	ECB Visco speaks	–	–	–	At the Bank of Italy annual gathering.
Ger	May CPI	2.0%	1.6%	–	Easter effect to be reversed.
UK	May GfK consumer sentiment	–13	–13	–	Heightening political tension to weigh further?
	Apr net mortgage lending, £bn	4.1	3.7	–	Credit growth weak as uncertainty weighs on housing demand.
US	Apr personal income	0.1%	0.3%	0.4%	Income growth has lost some momentum...
	Apr personal spending	0.9%	0.2%	0.3%	.... but is still robust, aiding spending.
	Apr PCE deflator	0.0%	0.2%	0.2%	Core PCE inflation to track back up to 2.0%yr in late 2019.
	May Chicago PMI	52.6	54.0	–	Manufacturing being hit by US dollar and tariff concerns.
	May Uni. of Michigan sentiment	102.4	101.5	–	Remains robust, aided by jobs and asset price gains.
Can	Q1 GDP ann'd %	0.4%	–	0.2%	Softness in goods sectors, including mining and gas.

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Economic & financial forecasts

Interest rate forecasts

	Latest (24 May)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Cash	1.50	1.25	1.00	0.75	0.75	0.75	0.75	0.75
90 Day BBSW	1.44	1.45	1.25	1.00	1.00	1.00	1.00	1.00
3 Year Swap	1.20	1.20	1.15	1.10	1.15	1.20	1.25	1.30
10 Year Bond	1.54	1.60	1.65	1.70	1.75	1.80	1.85	1.90
10 Year Spread to US (bps)	-79	-80	-85	-90	-85	-80	-70	-60
International								
Fed Funds	2.375	2.375	2.375	2.375	2.375	2.375	2.375	2.375
US 10 Year Bond	2.33	2.40	2.50	2.60	2.60	2.60	2.55	2.50
US Fed balance sheet USDtrn	3.86	3.80	3.75	3.75	3.75	3.75	3.77	3.79
ECB Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20	-0.10
New Zealand								
Cash	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
90 day bill	1.71	1.70	1.65	1.65	1.65	1.65	1.65	1.65
2 year swap	1.49	1.55	1.60	1.65	1.70	1.75	1.75	1.80
10 Year Bond	1.73	1.80	1.85	1.90	1.90	1.95	2.00	2.00
10 Year spread to US	-60	-60	-65	-70	-70	-65	-55	-50

Exchange rate forecasts

	Latest (24 May)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
AUD/USD	0.6886	0.69	0.68	0.66	0.66	0.67	0.67	0.68
NZD/USD	0.6516	0.65	0.64	0.65	0.65	0.66	0.66	0.67
USD/JPY	109.61	110	111	112	112	112	111	110
EUR/USD	1.1181	1.11	1.10	1.10	1.11	1.12	1.13	1.14
GBP/USD	1.2659	1.27	1.28	1.28	1.28	1.29	1.29	1.30
AUD/NZD	1.0569	1.06	1.06	1.02	1.02	1.02	1.02	1.01

Australian economic growth forecasts

	2018			2019				Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2017	2018	2019f	2020f
GDP % qtr	0.8	0.3	0.2	0.6	0.4	0.5	0.7	–	–	–	–
% yr end	3.1	2.7	2.3	1.9	1.5	1.7	2.2	2.4	2.3	2.2	2.5
Unemployment rate qtr avg, yr end	5.4	5.2	5.0	5.0	5.2	5.3	5.4	5.5	5.0	5.4	5.6
CPI % qtr	0.4	0.4	0.5	0.0	0.6	0.5	0.6	–	–	–	–
% yr end	2.1	1.9	1.8	1.3	1.6	1.7	1.8	1.9	1.8	1.8	1.6
CPI underlying % qtr	0.5	0.3	0.4	0.2	0.4	0.3	0.4	–	–	–	–
% yr end	1.7	1.7	1.7	1.4	1.4	1.3	1.3	1.9	1.7	1.3	1.7

New Zealand economic growth forecasts

	2018			2019				Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2017	2018f	2019f	2020f
GDP % qtr	0.9	0.3	0.6	0.5	0.6	0.7	0.8	–	–	–	–
Annual avg change	3.2	3.1	2.8	2.6	2.3	2.3	2.3	3.1	2.8	2.3	3.1
Unemployment rate %	4.4	4.0	4.3	4.2	4.3	4.3	4.2	4.5	4.3	4.2	3.9
CPI % qtr	0.4	0.9	0.1	0.1	0.6	0.6	0.4	–	–	–	–
Annual change	1.5	1.9	1.9	1.5	1.7	1.4	1.7	1.6	1.9	1.7	1.9

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