

Australia & New Zealand weekly.

Week beginning 11 May 2020

- Reserve Bank Statement on Monetary Policy confirms baseline forecasts.
- Australia: Westpac-MI Consumer Sentiment, labour force, wage price index.
- RBNZ: policy decision & Monetary Policy Statement.
- New Zealand: Government Budget, retail card spending.
- China: CPI, retail sales, industrial production, investment, trade balance.
- US data: CPI, retail sales, industrial production.
- Fedspeak: FOMC's Bullard, Harker, Quarles and Mester.
- Euro Area: industrial production, trade balance.
- Key economic & financial forecasts.

Information contained in this report current as at 8 May 2020.



Reserve Bank Statement on Monetary Policy confirms baseline forecasts

The Reserve Bank has released its much anticipated Statement on Monetary Policy.

In the document the Bank provides detailed forecasts for its “base case” outlook and sets out two sets of scenarios which could be described as ‘faster recovery’ and ‘slower recovery’.

It does not provide details around the alternative scenarios except for some comments in the Overview on the ‘faster recovery’ – “the unemployment rate could return to around 5% in a couple of years and the level of GDP would return to a path that is close to that implied in the forecasts published in the February Statement on Monetary Policy”.

The key details of the baseline forecasts have already been discussed by the Governor in a number of speeches.

They indicate a contraction in GDP of 10% in the first half of 2020; with a recovery in the second half for an overall contraction over 2020 of 6%; to be followed by growth of 6% in 2021.

The unemployment rate is expected to peak at 10% by June; fall to 9% by years end; to 7.5% by end 2021; reaching 6.5% by June 2022.

Inflation, as measured by the trimmed mean CPI will fall to 1.25% by end 2020; fall further to 1.25% by end 2021; but lift to 1.5% by June 2022.

Wages growth will slow to 1.5% in 2020; and only lift to 1.75% in 2021.

Consumption is expected to contract by 15% in the June quarter; by 9% in the year to December 2020; but lift by 9% in the year to December 2021.

Dwelling investment is forecast to contract by 13% in 2020; and rebound by 6% in 2021.

Business investment is forecast to contract by 13% in 2020 and recover by 4% in 2021.

Exports are forecast to contract by 7% in 2020 and recover by 12% in 2021 as the world economy moves into expansion phase.

The near term forecasts are generally in line with the forecasts Westpac released on March 31, which were based on an industry approach to forecasting GDP and employment, – GDP growth through 2020 of minus 5% and minus 9.5% in first half of 2020; unemployment rate of 9% by June 2020; to be followed by 7.5% by December; and 6.5% by end 2021; with the unemployment rate ‘stuck’ above 6% out to 2023.

Our lower unemployment forecasts in the near term likely reflect a lower expected participation rate as the structural changes in the overall economy which we anticipate will result from the COVID shock, particularly around those sectors which employ a high share of part time workers, will lead to a significant shock to participation.

However we do differ from the Bank’s 6% growth forecast for 2021. We only expect 4% growth through 2021 with the level of activity in the economy, by end 2021, significantly lower than the activity level at the beginning of 2020.

The RBA baseline forecasts imply a more optimistic view on activity levels by end 2021. The ‘faster recovery’ scenario implies a full recovery of the lost production in 2020 and a further ‘catch up’ of the near 9% growth that was forecast over the 2020-22 period in back in February.

It is not surprising that our near term forecasts are very close to the RBA’s view given we have a similar baseline profile for the evolution of policy over the remainder of 2020. The RBA describes the baseline as: “the relaxation of domestic activity restrictions over coming months, with most of these restrictions lifted by the end of the September quarter; restrictions on large public gatherings and international travel could remain in force for longer than this.”

In Westpac’s analyses on the likely evolution of policy we have been more cautious around the activity profile in the December quarter with the constraint around social distancing impacting activities more generally.

The profile for 2021 is much more cautious in our forecasts than we have seen in the RBA’s baseline.

We are sceptical about the key consumer related activities – consumption (up 9%) and dwelling investment (up 6%) lifting as quickly as the RBA has forecast. Our forecasts are consumption up 4% and dwelling investment up 3%. No doubt consumption growth, in particular, will begin the year with some residual momentum but we expect it to fade fairly quickly.

There will be many ongoing restraints, including: high unemployment; the scaling back of government income support programs; insipid wages growth; a collapse in immigration (on May 1, the Prime Minister forecast that net migration inflows would be down by 85% in 2021 compared to the 2018/19 base); likely ongoing caution around a return of the virus; a supply shock to consumption services as many service-based businesses do not survive the depths of the recession; permanent changes in work and spending habits; a likely focus on business rather than households in the Budgets of October 2020 and May 2021; falling house prices as affordability and unemployment weigh on buyer confidence; and don’t forget the fundamental problem around consumer spending and weak income growth which was the key driver of the weak economy going into the COVID crisis.

Policy

The Statement was not aimed at providing further insights into policy.

The policy outlook is somewhat confusing. In his Statement on Tuesday the Governor noted “The Bank is prepared to scale-up these purchases again and will do whatever is necessary... to achieve the yield target for three year AGS. The target will remain in place while progress is being made towards the goals of full employment and inflation”.

In the Statement on Monetary Policy, the Overview comments: “The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2-3% target band.”

These policy triggers seem to be identical but the implication behind holding the three year bond rate target at 0.25% is that the Bank expects to hold the cash rate target for around three years.

Currently it is probably consistent to inter mix the signals but as the economy heals it will be somewhat confusing for markets.

Westpac's view is that the three year bond target rate will be lifted during 2022 to around 0.4% prior to the target being shelved altogether at a later date. We do not expect the cash rate to be increased before end 2023 with our forecast for an unemployment rate still holding around 6% by that time.

Finally, consider the 'faster recovery' scenario.

The forecast is that the unemployment rate would have fallen from the peak of 10% in June 2020 to 5% by June 2022. Strong downward momentum in the unemployment rate along with, presumably, higher inflation prints is likely to get the markets very excited about an imminent rate hike.

Our forecasts are that the Governor's seven year term will expire before he gets that opportunity but, if the 'faster recovery' materialises he could add some welcome symmetry to his term.

Bill Evans, Chief Economist

The week that was

This week has been another positive one for markets despite persistent weakness in available data and caution from policy makers across the globe. The beginnings of an easing of COVID-19 restrictions in the US and Europe; hope over treatments; and a continued broad stabilisation in the global case count are all playing their part.

Domestically, the RBA remains resolute in their support for the Australian economy. At their May meeting, the board confirmed “it will do whatever is necessary to ensure bond markets remain functional and to achieve the yield target for three year AGS”. Further, that target for the three year AGS rate will remain in place until “progress is being made towards the goals for full employment and inflation”. As highlighted by [Chief Economist Bill Evans](#), with a spot target of 4.5% for the unemployment rate and ‘comfortably within the 2-3% target band’ for inflation, the Board clearly has a long journey ahead. While the RBA has been able to reduce asset purchases of late as markets calmed, at their May meeting, the Board emphasised their capacity to do more if necessary by [adding corporate bonds to the list of eligible assets](#) for repurchase agreements.

Following the May meeting, today the RBA released their full view on the implications of COVID-19 for our economy as well as the risks in the [May Statement on Monetary Policy](#). Their baseline view is that GDP will contract by 6.0% in 2020 then rebound by the same percentage in 2021. The legacy of this crisis will be long lasting, with the unemployment rate still seen around 7.5% at end-2021 having peaked near 10% in mid-2020. Westpac’s own forecasts are broadly in line with those of the RBA. For a full review of our views and how they relate to the RBA’s expectations as well as key partial data out this week on [retail sales](#) and preliminary [employment](#), see [Chief Economist Bill Evan’s latest video update](#).

Going offshore, while sentiment remains robust, evidence of the economic cost of COVID-19 continues to mount. The tension between sentiment and economic reality is at its extreme in the US where another 3 million workers filed for initial jobless claims last week. That takes the total number of claimants to some 33 million. While we expect the US unemployment rate to jump to around 17% at April (the April employment report is due tonight), the continued rapid increase in claims since the April survey period points to an even more concerning reality come May and June – a US unemployment rate in excess of 20%. The broader implications of this situation are discussed at length in our latest [Market Outlook](#) publication. In short, this dramatic surge in unemployment, which will only slowly unwind, is why we believe the US recovery will lag our own. There will be a consequence for the US dollar come 2021 of this economic reality, with a moderate downtrend seen from end-2020.

As is also detailed in [Market Outlook](#), a stabilisation and nascent recovery in Europe on a similar trajectory to the US should see the Euro move higher in 2021 as risk aversion abates. Asia should prosper to a greater degree, having already shown a capacity to hold the virus at bay while getting its productive capacity back to work in recent months. China continues to lead Asia’s recovery by a considerable margin.

New Zealand: week ahead & data wrap

The coming week will be a big one for the New Zealand economy. First up, Cabinet is due to review the COVID-19 alert level on Monday afternoon. With the daily number of new infections remaining very low, an easing of the current activity restrictions to Alert Level 2 is looking likely.

At Alert Level 2, much of the economy will open up again. That includes the retail, personal services and hospitality sectors. These are sectors that employ large numbers of workers, and where online trading or working from home has generally not been possible. In addition, travel between regions will be permitted again. That will be a very welcome development for the hospitality and tourism sectors which are struggling with the halt in international tourist arrivals.

Nevertheless, the economy won't be back to full speed. Distancing requirements and restrictions on international visitor arrivals mean that large amounts of normal economic activity will remain on hold at Alert Level 2. Furthermore, spending appetites are likely to be subdued as a result of job losses, as well as sharp falls in both household and business confidence.

The Reserve Bank and Government are delivering massive stimulus to try to cushion the blow from COVID-19. Even so, New Zealand will still be wrestling with a severe recession. As we discuss in our recent *Economic Overview*,¹ unemployment is set to rise to 9.5% in the June quarter (up from 4.2% at the end of March) and GDP is expected to fall by 16%. We're also likely to see inflation dropping to low levels. Against this backdrop, the economy is going to need a lot more support. And over the coming week, we think that both the RBNZ and Government will oblige.

The RBNZ's next policy meeting is on 13 May. We expect that they will announce a significant expansion of the bond-buying programme to \$60bn per year, up from the \$30bn that was announced in March.

As well as stipulating a maximum cap on bond purchases, the RBNZ might explicitly target a particular interest rate on government bonds (similar to the approach followed by the RBA). The RBNZ could also provide forward guidance on its bond buying programme. This could take the form of a commitment to keep the interest rates on bonds at or below a certain level for a set period of time.

If the RBNZ decides that even more stimulus is required, its options will be more limited. The RBNZ is reluctant to expand its holdings of Government bonds beyond 40% to 50% of the market due to concerns about market liquidity. At the same time the OCR is already at a low level, and in March the RBNZ committed to holding it there for 12 months.

However, since March's OCR cut, the economic outlook has continued to deteriorate. In fact, a recent analytical note from the RBNZ indicated that they are significantly more pessimistic than we are about the impact of the lockdowns on economic activity.

We expect that the RBNZ will keep the Official Cash Rate on hold in May. However, in our assessment, a negative OCR is eventually going to have to be part of the mix. We expect that the RBNZ will cut the OCR to -0.5%, but not until November.

It's unlikely that the RBNZ will give any explicit endorsement to the idea of a negative OCR next week. Trading banks need time to prepare their systems before a negative OCR could be implemented. And cutting the OCR this year would technically break the RBNZ's previous commitment to keep the OCR at 0.25% for a year. Instead, the RBNZ is likely to repeat that a negative OCR is an option for the future, but they will emphasise that it will not go negative any time soon. How emphatically the RBNZ expresses this will help us determine the timing of our negative OCR call.

There is a chance that the Reserve Bank will give an iron-clad guarantee that it will keep the OCR at 0.25% until March next year. If that occurs, we would change our forecast to expecting a negative OCR early next year, rather than late this year.

The more likely scenario is that the RBNZ is less emphatic – perhaps it will express an intention to keep the OCR at 0.25%. In that case, we would stick to our forecast of a November OCR cut to -0.5%.

Hot on the heels of the RBNZ, the Government will release the 2020 Budget on 14 May. The Government has already committed over \$20bn to cushion the economy through the lockdown phase. We expect that the Budget will include around \$15bn more in new spending and investment to support the recovery.

But there's a limit to how much stimulus the Government can comfortably provide. We expect that the large increases in fiscal spending, along with falls in tax revenue will result in net core Crown debt reaching about 50% of GDP after five years, compared to around 20% today. The Government will have to demonstrate a clear plan to get that debt ratio back down again if it is to avoid a ratings downgrade, especially with large increases in spending related to the aging population on the cards over the coming years.

This suggests that at some point later this decade we'll see some combination of belt-tightening and a hunt for new sources of revenue. We don't think that any tax changes will be announced just yet, lest it undermine confidence during the recovery phase. But over time, it's increasingly likely that new or increased taxes will enter the conversation.

¹ Available here: <https://www.westpac.co.nz/assets/Business/Economic-Updates/2020/Bulletins-2020/Westpac-QEO-May-2020-Final-Web.pdf>

Round-up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Tue 5	Mar building permits	5.7%	-21.3%	-
	Apr ANZ commodity prices	-2.0%	-1.1%	-
Wed 6	Q1 unemployment rate	4.0%	4.2%	4.3%
	Q1 employment	0.0%	0.7%	4.3%
	Q1 LCI wages (pvte, ordinary time)	0.6%	0.3%	-
Thu 7	Q2 RBNZ inflation expectations	1.93%	1.24%	-

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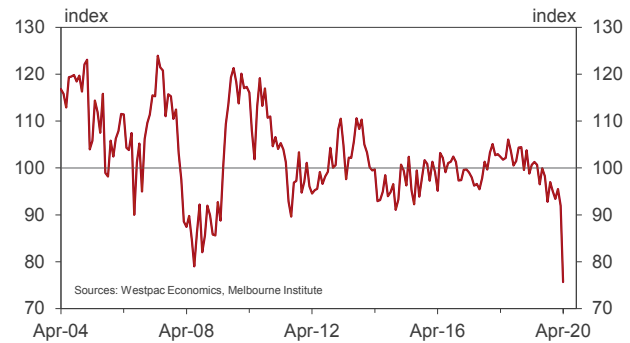
Data previews

Aus May Westpac-MI Consumer Sentiment

May 13 Last: 75.6

- Consumer sentiment plunged 17.7% to 75.6 in April, as the full impact of the Coronavirus shutdown impacted. The decline was the single biggest monthly fall in the 47yr history of the survey, taking the Index beyond GFC lows to levels only seen during the deep recessions of the early 1990s (64.6) and early 1980s (75.5). Despite the shocking result, the fall could easily have been worse – notably, the survey was conducted after the Federal Government had unveiled its massive \$130bn JobKeeper Payment scheme.
- The May update is in the field over the week ending May 9. Developments over the last month have been mixed. On the positive side, Australia's Coronavirus case count has been lower than feared, allowing for an earlier than expected relaxation in restrictions that is likely to be confirmed late in the survey week. There has been some improvement abroad although new cases and fatalities remain relatively high. Against this, news around the economy, both here and globally, is confirming a very heavy impact on activity and jobs.

Consumer Sentiment Index

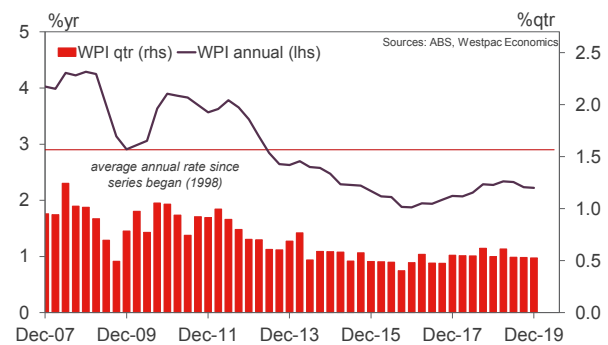


Aus Q1 Wage Price Index

May 13, Last: 0.5%, WBC f/c: 0.5%
Mkt f/c: 0.5%, Range: 0.3% to 0.6%

- Wages growth was running at a slow pace even before the COVID-19 recession hit Australia. The Wage Price Index (WPI) rose 0.5% in the final quarter of 2019, holding annual growth at 2.2%yr but with a slight moderation to a 2.1% annual pace over the second half of the year. That compares to a cycle low of 1.6% over the second half of 2016 but is still well below the long-run average of 3%.
- We expect wage inflation to show another weak result for the first quarter of 2020 ahead of a material slowing as the Coronavirus shock plays through. Note that shifts in the labour market are usually slow to be reflected in wages growth as gains in many sectors are set by annual minimum wage decisions or adjusted in line with CPI results. Conversely, that also means wages can also be very slow to reflect tightening labour market conditions, particularly when there are wide reaching structural factors at play as well (as has been the case in recent years).

Wages growth: weak starting point

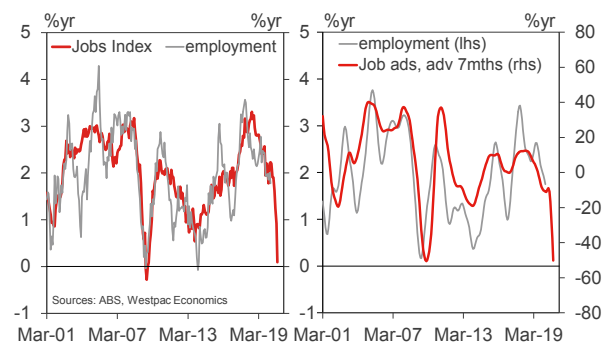


Aus Apr employment change

May 14, Last: +5.9k, WBC f/c: -450k
Mkt f/c: -550k Range: -125k to 1000k

- The timing of the labour force survey – covering the first two weeks of the month – meant the March update did not capture the impact of broad based lockdowns implemented late in the month. That is not going to be the case in April which will reflect the full scale of the virus hit.
- All signs suggest the fall-out has been brutal with recent data based on ATO payroll information indicating close to a million workers have been rendered inactive. The main question is how this will be reflected in the official statistics given the specific classifications used (e.g. with payrolls a measure of jobs, not employees, and with most JobKeeper recipients likely to be considered employed) and other technical differences (including adjustments for population growth and seasonality).
- On balance, we expect April update to show a -450k drop in seasonally adjusted employment, estimated to be a -3.5% fall in original terms.

Employment: big Coronavirus hit



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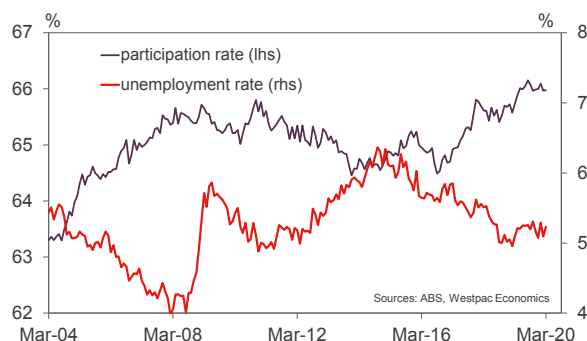
Data previews

Aus Apr unemployment rate

May 14, Last: 5.2%, WBC f/c: 8.3%
Mkt f/c: 8.3% Range: 5.6% to 10.0%

- Unemployment nudged up to 5.2% in March but is set to spike sharply in April.
- As with the employment number, there is some uncertainty around how inactive workers are classified – those receiving support from the Federal Government's JobKeeper scheme should be classified as employed even if they were not active in the survey week (they will be classed as employed but working no hours).
- A second consideration is how many of those moving out of jobs exit the labour market altogether. Note that to be considered unemployed in the survey, individuals must be available to work in the survey week and actively looking for work. On balance we expect the participation rate to dip from 66% to 65.8%, giving a spike in the unemployment rate to 8.3%. Measures of underemployment, which are less affected by these definitional vagaries, will show a much bigger jump.

Unemployment and participation rates

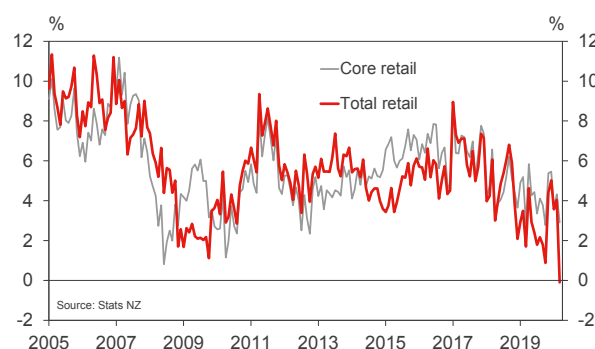


NZ Apr retail card spending

May 11, Last: -3.9%, WBC f/c: -60%

- Retail spending on electronic cards fell 3.9% in March as efforts to control the spread of COVID-19 put the brakes on spending.
- Lockdown conditions remained in place through most of April. During that time, we did see large increases in online trading in some sectors. However, that did not come close to offsetting the impact of trading restrictions which saw many retail and hospitality businesses shutting their doors for most (if not all) of April.
- We estimate that overall retail spending fell 60% in April, with consumables (i.e. groceries) the only sector where we expect anything like normal trading levels. Spending in all other categories has fallen sharply, in some cases by more than 90%. COVID-19 disruptions mean that there is a very wide band of uncertainty around this month's result.

Card transactions, annual % change

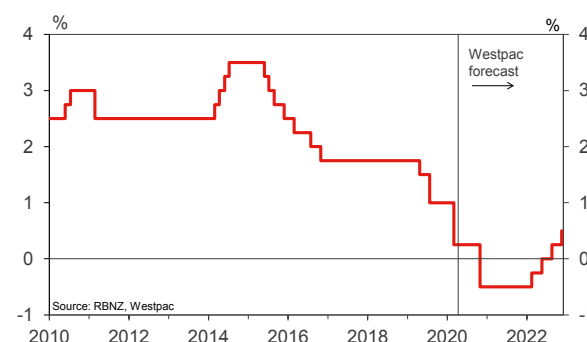


NZ RBNZ policy decision & Monetary Policy Statement

May 13, Last: 0.25%, WBC f/c: 0.25%, Mkt f/c: 0.25%

- The RBNZ cut the OCR to 0.25% at an intra-meeting decision in March and signalled that it would remain at that level for at least 12 months. The cut was shortly followed by the introduction of a bond purchase program. Since that time, the economic outlook has continued to deteriorate.
- We expect the RBNZ will expand its bond purchase programme to \$60bn in May. The RBNZ may also announce a target interest rate for Government Bonds or give more forward guidance, such as a commitment to keep buying bonds for a set period.
- We do not expect the RBNZ will explicitly signal a negative OCR. However, we remain strongly of the view that the OCR will go negative in the future. What the RBNZ says next week might help us determine the timing of that.

RBNZ Official Cash Rate



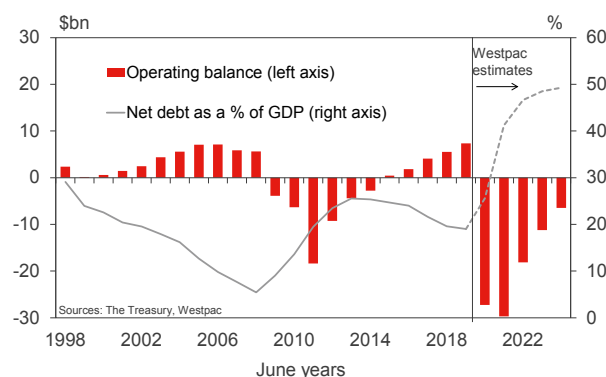
Data previews

NZ Government Budget 2020

May 14

- We expect operating deficits of close to 10% of GDP for each of the next two fiscal years.
- On top of the already-announced support measures during the lockdown, the Government is expected to announce billions of dollars of new spending to bolster the economy's recovery phase.
- Tax revenue will fall sharply during the downturn, and is likely to remain permanently lower than the Treasury's previous projections.
- Government bond issuance could rise by more than \$100bn over the coming years, and is likely to be front-loaded.

NZ fiscal position



NZ Apr REINZ House Price Index

May 15, Last: +9.3%yr

- House prices rose by only 0.3% in March, with sales down 16.5% over the month. Late March saw the economy going into lockdown, effectively reducing the number of working days. We also saw growing nervousness about the economic outlook, which will have dampened purchasers' appetites.
- With the economy in lockdown through most of April, sales will have taken a serious knock. However, a small number of sales will still have settled over the month. It's not clear what this will mean for average sale prices due to the small sample size.
- New listings have started to rise again as the lockdown level has been dialled back. However, with job losses and increased economic uncertainty, we expect house prices will drop over the months ahead.

REINZ house prices and sales



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 11					
NZ	Apr retail card spending	-3.9%	-50.0%	-60.0%	Lockdown restrictions in effect though most of April.
Tue 12					
Aus	Apr NAB business survey	-21	-		- Confidence (to -66) and conditions (-21) plunged on COVID.
	Federal government update	-	-		- Ministerial statement: update on economy & COVID package.
Chn	Apr PPI %yr	-1.5%	-2.6%		- Factory-gate prices expected to slip into deeper deflation.
	Apr CPI %yr	4.3%	3.7%		- Soft demand, easing supply constraints & oil to weigh.
Inr	Apr CPI %yr	5.9%	5.7%		- To moderate as panic buying dissipates & on low fuel prices.
	Mar industrial production %yr	4.5%	-8.4%		- Will take a big hit from tough lockdown measures.
US	Apr NFIB small business optimism	96.4	86.5		- Small business to be hit particularly hard by COVID.
	Apr CPI	-0.4%	-0.7%	-0.6%	- Airfares, energy & accommodation prices particularly weak.
	Apr monthly budget statement Fedspeak	-119.1	-		- April to show impact from slow processing of tax returns. Bullard, Harker, Quarles and Mester all to speak.
Wed 13					
Aus	May WBC-MI Consumer Sentiment	75.6	-		- Confidence collapsed in April as COVID shutdown hit.
	Q1 wage cost index	0.5%	0.5%	0.5%	- Wages usually slow to respond to labour market shifts.
NZ	Apr food price index	0.7%	-		- May be a spike due to lack of 'specials' during lockdown.
	RBNZ policy decision	0.25%	0.25%	0.25%	- OCR on hold; QE program expected to increase to \$60bn.
Jpn	Mar current account balance ¥bn	3168.8	1999.2		- Spike in March set to be partially unwound.
Eur	Mar industrial production	-0.1%	-12.0%		- Production set for a record monthly contraction.
UK	Mar trade balance £bn	-2793	-2500		- Volatile over last few months; a small narrowing expected.
	Q1 GDP	0.0%	-2.6%		- Will contract, but should fare better than EU majors in Q1.
US	Apr PPI	-0.2%	-0.4%		- Factory price deflation set to continue in April.
Thu 14					
Aus	May MI inflation expectations	4.6%	-		- Petrol at <\$1/litre should be driving expectations lower.
	Apr employment	5.9k	-550k	-450k	- Coronavirus impact to be revealed in full: sharp drop in ...
	Apr unemployment rate	5.2%	8.3%	8.3%	- ... hours worked & employment; spike in unemployment.
NZ	Mar net migration	8250	-		- Set to fall sharply due to border closures.
	Budget 2020	-	-		- More stimulus spending, large deficits, rising debt.
Inr	Apr wholesale prices %yr	1.0%	0.2%		- Strong food prices offset by a fall in energy in last read.
US	Apr import price index	-2.3%	-3.1%		- In March, airfares index fell 11.3% vs a year ago.
	Initial jobless claims	3169k	-		- Has been harrowing reading over last two months.
Fri 15					
NZ	Apr manufacturing PMI	53.2	-		- Likely to fall sharply vs Feb (survey not run in March).
	Apr REINZ house sales	-16.5%	-		- Due this week. Sales plunged during the lockdown ...
	Apr REINZ house prices %yr	9.3%	-		- ... making it harder to gauge the true impact on prices.
HK	Q1 GDP %yr	-8.9%	-8.9%		- Final read set to confirm the major contraction in the prelim.
Chn	Apr industrial production YTD %yr	-8.4%	-4.8%		- With China gradually coming back online...
	Apr retail sales YTD %yr	-19.0%	-12.0%		- ... the contraction in production, trade & investment ...
	Apr fixed asset investment YTD %yr	-16.1%	-9.5%		- ... will be much less dramatic than in March.
Inr	Apr trade balance \$bn	-9760.0	-7400.0		- Deficit should continue to narrow as imports drop sharply.
Eur	Mar trade balance €bn	25.8	-		- Volatility in trade balance should continue in months ahead.
	Q1 GDP	-3.8%	-3.8%		- Prelim set to confirm unprecedented fall in advance read.
US	Apr retail sales	-8.7%	-11.0%	-13.0%	- Lockdowns will continue to suppress retail trade volumes.
	May Fed Empire state index	-78.2	-65.0		- Expected to recover slightly as NY gets virus under control.
	Apr industrial production	-5.4%	-11.4%		- Poised for one of the biggest falls in a century.
	Mar business inventories	-0.4%	-0.3%		- Will continue the unwinding cycle.
	Mar JOLTS job openings	6882	-		- Job openings will be hit by hiring freezes.
	May Uni. of Michigan sentiment	71.8	67.5		- Record fall seen in April, but stabilised late in the month.
	Mar total net TIC flows \$bn	-13.4	-		- In Feb, Treasury net purchases grew but corporate fell.

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Economic & financial forecasts

Interest rate forecasts

Australia	Latest (8 May)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Cash	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW	0.10	0.15	0.20	0.25	0.30	0.35	0.40	0.45
3 Year Bond	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 Year Swap	0.26	0.35	0.35	0.40	0.40	0.45	0.50	0.55
10 Year Bond	0.91	0.75	0.80	0.85	0.90	1.00	1.10	1.20
10 Year Spread to US (bps)	27	15	15	15	15	20	20	20
US								
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	0.64	0.60	0.65	0.70	0.75	0.80	0.90	1.00
New Zealand								
Cash	0.25	0.25	0.25	-0.50	-0.50	-0.50	-0.50	-0.50
90 day bill	0.27	0.30	0.20	-0.20	-0.20	-0.20	-0.20	-0.10
2 year swap	0.18	0.20	0.10	0.00	0.00	0.00	0.10	0.20
10 Year Bond	0.73	0.75	0.80	0.80	0.85	0.90	1.00	1.10
10 Year spread to US	9	15	15	10	10	10	10	10

Exchange rate forecasts

	Latest (8 May)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
AUD/USD	0.6496	0.62	0.64	0.66	0.68	0.68	0.69	0.70
NZD/USD	0.6089	0.59	0.61	0.61	0.63	0.64	0.65	0.66
USD/JPY	106.35	107	105	106	107	107	108	110
EUR/USD	1.0833	1.07	1.06	1.06	1.07	1.08	1.09	1.10
GBP/USD	1.2371	1.22	1.23	1.24	1.25	1.25	1.26	1.27
USD/CNY	7.0842	7.02	6.90	6.85	6.80	6.75	6.70	6.60
AUD/NZD	1.0668	1.05	1.05	1.08	1.08	1.06	1.06	1.06

Australian economic growth forecasts

	2019		2020					Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2018	2019	2020f	2021f
GDP % qtr	0.6	0.6	0.5	-0.7	-8.5	-0.6	5.2	-	-	-	-
%yr end	1.6	1.8	2.2	1.0	-8.2	-9.3	-5.0	2.2	2.2	-5.0	4.0
Unemployment rate %	5.2	5.2	5.2	5.2	8.8	8.9	7.6	5.0	5.2	7.6	6.3
CPI % qtr	0.6	0.5	0.7	0.3	-2.0	1.3	0.6	-	-	-	-
Annual change	1.6	1.7	1.8	2.2	-0.4	0.3	0.3	1.8	1.8	0.3	2.4
CPI trimmed mean: %qtr	0.4	0.4	0.5	0.5	0.0	0.3	0.3	-	-	-	-
% yr end	1.6	1.6	1.6	1.8	1.3	1.2	1.1	1.8	1.6	1.1	1.8

New Zealand economic growth forecasts

	2019		2020					Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2018	2019	2020f	2021f
GDP % qtr	0.0	0.8	0.5	-1.0	-16.0	13.0	1.5	-	-	-	-
Annual avg change	2.9	2.7	2.3	1.6	-2.8	-4.7	-6.3	3.2	2.3	-6.3	4.7
Unemployment rate %	4.0	4.1	4.0	4.2	9.5	8.5	7.7	4.3	4.0	7.7	7.1
CPI % qtr	0.6	0.7	0.5	0.8	-0.4	0.8	0.2	-	-	-	-
Annual change	1.7	1.5	1.9	2.5	1.6	1.6	1.3	1.9	1.9	1.3	1.0

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