Australia & New Zealand weekly.

Week beginning 6 July 2020

- Outlook for Federal budget deficits deteriorates by a further $75bn.
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- New Zealand: retail card spending, NZIER quarterly, business confidence.
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Information contained in this report current as at 3 July 2020.

Westpac Institutional Bank

Outlook for budget deficits deteriorates by a further $75bn

We have now revised our estimates of the Federal budget deficits for 2019/20 and 2020/21 to $95bn (4.8% of GDP) and $230bn (11.7% of GDP) respectively, amended from $80bn and $170bn.

The lift in the estimated deficit for 2019/20 is due to an upward revision to the cyclical deficit.

The 2020/21 budget deficit is comprised of: a cyclical deficit of $100bn (5% of GDP); around $90bn in fiscal stimulus – as already announced; as well as about $50bn of new spending – which includes approximately $35bn to extend and modify the JobKeeper (JKP) and JobSeeker packages (JSP) plus a $15bn stimulus package to be unveiled on budget day in October.

Details behind our thinking on these issues appear below. We have endeavoured to set out a framework for considering this highly complex issue and providing some rational basis for what is certain to turn out to be a staggering deficit (11.7% of GDP) in 2020/21, if only by Australian standards.

The Treasurer is scheduled to provide an economic and fiscal outlook on July 23 when some official estimates of these fiscal forecasts will be available although it is unlikely that the policy implications which we are considering in this document will be available. The annual budget will be delivered in October.

1. The Cyclical Deficits

The Australian Federal budget moves sharply into deficit during economic recessions. The marked contraction in activity associated with economic shocks or recession leads to the jaws of death for the budget: falling revenues and rising expenditures.

On March 31, when we wrote on the budget outlook in the context of the COVID global pandemic, we noted that history suggests we could expect the cyclical budget deficit to potentially be around 2% of GDP in the initial year of the shock, 2019/20, rising to 4% in the second year. Any additional government spending measures – policy stimulus – would add to the deficit over and above the cyclical deterioration.

It now appears that the cyclical deficit for 2019/20 will be more than 2% of GDP, closer to 2.75% of GDP, or around $55bn.

Monthly financial statements are available to May. These show that the deficit for the year to date, the eleven months to May, is some $64.9bn. This includes a deficit of $24.9bn for the month of May. Revenues for May were down on the same month a year ago by close to 19%. Expenditures have exploded to be almost 50% higher than the same month a year ago. Based on these trends, we estimate that the deficit for June will be approaching $30bn. For the 2019/20 financial year, that has the annual deficit at $95bn.

Of the $95bn deficit for 2019/20, about $40bn is due to new policy measures introduced in response to the pandemic. Recall that to date the government has announced around $140bn in fiscal policy measures, with around $40bn in the initial year, rising to almost $90bn for 2020/21, as well as $6bn for 2021/22.

The remaining $55bn of the $95bn budget deficit for 2019/20 is the cyclical component, which has jumped from a balanced position in 2018/19. In this pandemic recession the deterioration in economic conditions was particularly compressed – rather than being spread over a number of quarters as is typically the case. This feature was evident in the labour market, with employment contracting by a dramatic 6.4% and hours worked by around 10% in the space of only two months, during April and May.

The unemployment rate jumped from 5.2% to 7.1% over the period and would have been 11.4% if the participation rate had remained unchanged. With this rapid deterioration in conditions the cyclical deficit has surprised to the high side in 2019/20 – coming in at around 2.75% of GDP, rather than the 2% which we had originally estimated.

For the 2020/21 financial year we had anticipated a cyclical deficit of 4% of GDP. The 4% was comprised of a 2% base effect from 2019/20, the initial year of the shock, plus a further 2% deterioration in the 2020/21 year. We have revised the 2020/21 cyclical deficit to 5.0%, taking on board the weaker starting position for 2019/20 (2.75% vs 2.0%) and allowing for a slightly larger deterioration in 2020/21 than originally anticipated (2.25% vs 2%) mindful of the deep damage to the labour market from the current crisis. Given the highly compressed shock to activity in April/May 2020 we do not expect the additional deterioration to the cyclical deficit in 2020/21 to be as severe.

2. The Scaled Unwinding of JobKeeper

The government is faced with a challenge to balance the need to ease back on the JobKeeper Payments (which are scheduled to expire in September) and the requirement to maintain support for the economy particularly for those employers who will continue to have their businesses affected by the ongoing restrictions which will be necessary to maintain control of the virus.

These key restrictions will include social distancing requirements and the closure of Australia's international borders. We expect that by end September all domestic borders will have reopened.

Senate Estimates report the following industry concentration of the individual recipients of JKP:

Industry	Number	Proportion
Professional services	396,424	12.0
Health care & social assistance	385,679	11.7
Construction	348,077	10.5
Hospitality	313,582	9.5
Retail	313,357	9.5
Manufacturing	246,047	7.4
Other services	233,367	7.1
Admin & support services	188,531	5.7
Wholesale trade	160,111	4.8
Transport, postal & warehousing	157,698	4.8
Arts & recreational services	129,104	3.9
Education and training	124,034	3.8
Real estate services, etc	100,673	3.0
Financial & insurance services	58,426	1.8
Agriculture	58,489	1.8
Information, media & telecommunications	50,671	1.5
Public administration	19,137	0.6
Mining	12,145	0.4
Utilities	9,042	0.3
Unclassified	2,431	0.1
Total	**3,307,025**	**100**

Recall that an employer qualified for JKP by documenting through the Business Activity Statement a 30% (GST turnover below $1 billion) or 50% (GST turnover above $1 billion) reduction in turnover in the month compared to the same period one year earlier. Importantly, applicants are able to determine projected turnover for the current month, which has typically mainly been for the month of April.

While we expect that the beneficiaries of the extension of JKP will be mainly determined by the exposure an employer has to the ongoing restrictions there will be cases where the government will see the need, based on the original criteria, to extend support for other employers.

It is also reasonable that those employers in the directly affected industries who cannot continue to meet the earlier criteria will not receive an extension.

Based on the above table we would expect that employers covering significant parts of: arts and recreation (129,104 employees receiving JKP); hospitality (313,582); education and training (124,034); and transport postal and warehousing (157,698) would still be in need of support. These industries currently represent 22% of the current workers receiving JKP.

However, not all employers in these categories will continue to be affected.

The main transport worker effect will be around air travel. The education impact will be centred on foreign students, although the numbers above are unlikely to include universities which are required to include Commonwealth grants and apply the criteria over a six month period, effectively excluding them from the program.

In addition there will be employers in other industries who will be able to make credible cases for ongoing support potentially based on their indirect exposure to the ongoing restrictions. These industries may include retail; manufacturing; media; and construction.

For example, construction firms engaged in residential accommodation for foreign students or hotel construction may have a strong case.

In that regard, another useful update was recently released by the ABS which reported survey results from June where 53% of respondents in hospitality were recording a revenue reduction of more than 50%. Other badly affected industries were arts and recreation (46%); media and telecommunications (42%); and education (25%).

On the other hand: retail (19%); construction (15%); professional services (16%) and real estate (9%) were showing promising signs of recovery, albeit with some employers still facing tremendous difficulties.

The decision on how to extend JKP will come down to some qualitative judgements from the government and clear evidence that the business is still qualifying under the original turnover conditions.

We have factored in a further three month extension for employers covering around 33% of the current 3.3 million employees, with half of that number, representing those employers directly impacted by the ongoing restrictions, gaining a further six month extension – taking them through to the end of the 2020/21 financial year.

This longer term group would represent around 500,000 employees, which, based on the numbers currently receiving JKP would cover arts; hospitality and air travel.

Indeed we cannot rule out the possibility of some firms gaining even longer term support specifically in the absence of a vaccine or affordable anti- viral drugs as border and distancing rules continue to inhibit their businesses.

That extension is estimated to add around $24bn to the estimated cost of JobKeeper in the 2020/21 fiscal year.

Before the introduction of JobKeeper the government announced a number of policy responses to boost the cash flow of employers. Payments are in two stages – one from April 2020 (estimated cost of $14.9 billion) and one from July 2020 (estimated cost of $17 billion). These payments which are equal to the salary withheld for tax purposes of employees up to a maximum of $50,000 for each payment are assumed not to be extended.

3. The Downscaling of JobSeeker.

Under our assessment employers covering 2.2 million employees will lose the JKP payments in September.

Current large users of JKP (see above table) are the professional services; health care; construction; retail and manufacturing.

The ABS report indicates that as at mid-June there were still many firms in those industries facing extreme difficulties (revenue down 50% in June year on year). We estimate that there will be some scope in the transition package to accommodate those firms but most of those firms will lose the JKP.

Inevitably, some employees will have to transition from JKP to unemployment benefits. On the other hand, given the uneven nature of this recession, there will be other employees who will transition off unemployment benefits into the workforce. We are currently forecasting a lift in GDP in the December quarter of 2% as further confidence returns to the economy. On balance we are factoring in a steady unemployment rate of 8% across the December quarter.

We are estimating that the government will lift the original Newstart payment by around $230, effectively reducing the JobSeeker Payment (JSP) from about $1150 to around $850 per fortnight. That will be around 60% of the minimum wage – striking that difficult balance between providing a "living wage" and ensuring incentive and competitiveness for the unemployed. It will represent a 25% reduction in the JSP but a permanent near 40% increase in the original Newstart.

That adjustment is estimated to add around $11bn to the budget deficit for fiscal 2020/21.

4. The October Federal Budget

The "theme" of the October Budget – which was delayed from the usual timing of May – is likely to be around policies that will increase the fiscal stimulus while not embedding ongoing costs into the Budget as will happen with the permanent lift in Newstart.

That can be achieved by: bringing forward the personal income tax cuts that are already legislated to begin in July 2022 (annual cost of around $14 billion); providing a "one off" payment to lower income recipients to supplement the benefit of the tax cuts; and some targeted lift in infrastructure expenditure.

(Recall that the government has already committed to a $750 payment in July to social security; veteran and other income support recipients including pensioners, costing $3.9 billion following a similar payment in April costing $4.9 billion.)

The initial two measures in the package would act to boost household incomes, which in turn will act to lift consumer spending. We are not expecting any changes to the corporate tax rate. While business investment outside the mining sector has been near decade lows as a proportion of GDP the motivations behind a sustained lift in investment are likely to be around expectations of stronger demand and the benefits to productivity from reform rather than a lower tax rate.

The third measure would act to directly boost activity through construction activity, with the nation still facing an infrastructure deficit after years of brisk population growth. The choice of infrastructure should also be influenced by the expected boost to productivity.

There may be other initiatives as well, some of which could focus on boosting health spending, or dealing with other aspects of the current health crisis.

The October fiscal package may be in the order of around $15bn. Of this almost half would be income tax cuts ($7bn over six months), with the remainder split between the one-off cash payment and additional infrastructure work.

5. Government Debt

On our figuring, the cumulative budget deficit for the years 2019/20 and 2020/21 is $325bn. That compares with the government's pre crisis forecasts for a cumulative surplus of $11.1bn.

This budget deterioration will boost debt levels by $336bn.

Net debt will rise to a still manageable $715bn in mid-2021, 36% of GDP. That is up from $374bn, 19% of GDP at mid-2019.

Gross debt on issue will climb to about $895bn in mid-2021, 45% of GDP. That is up from $542bn, 28% of GDP at mid-2019.

Importantly, the 10 year government bond yield is trading at less than 1% currently, well below Australia's medium-term growth potential. That suggests that a temporary increase in government debt levels is not a concern for now.

Furthermore, international agencies are generally projecting fiscal slippages of around 15% of GDP over the two years for most developed economies not out of line with the estimates we are making for Australia in this note.

Bill Evans, Chief Economist

Andrew Hanlan, Senior Economist

The week that was

Data for Australia this week has been focused on housing. CoreLogic house prices, across the 8 capital cities, declined 0.8% in June following a 0.5% fall in May. Declines were most pronounced in Melbourne and Perth (-1.1%) but relatively muted in Brisbane and Adelaide (respectively -0.4%, -0.2%). Sydney was right in the middle, -0.8%. As detailed in the bulletin, the weakness evident in June was most concentrated in areas of the housing market that had seen the strongest gains over the past year such as top and mid-tier Melbourne and top-tier Sydney. These are also the parts of the national market where affordability is of most concern. Ahead we continue to expect a circa 10% cumulative decline in prices as the income effect of this crisis is felt and given turnover has now largely recovered to pre-COVID-19 levels. Notable risks in the months ahead are the end of the existing JobKeeper and JobSeeker programs and temporary loan repayment holidays. Property investors' appetite for increased exposure to the sector will also be key – highlighting their current caution, in May investor credit fell.

Dwelling approvals were hit hard by the crisis in May, -16.4%mth; -11.6%yr, after holding up in April. Unit approvals were down 35% in the month, high-rise units likely around -50%. Importantly, the ABS emphasised in the release that the May outcome reflected demand ahead of the April lockdown, hence there is arguably further weakness to come. The Federal Government's Homebuilder scheme will provide some support in the months ahead. However, we still see approvals troughing near their GFC lows and, because of sharply declining net migration, this level of approvals will remain ahead of 'underlying demand'.

This deterioration in net migration is a big concern for growth not only in 2020 but potentially for years to come, a theme investigated in depth by Chief Economist Bill Evans this week. Of greatest concern is the 50% share of net migration foreign students represent which is currently at risk directly from COVID-19 restrictions as well as the lasting impact the virus will have on household incomes and behaviour across the world. Potential growth for the Australian economy is at risk.

Highlighted in our latest Coast-to-Coast report and a key themes video released this week, this net migration story has a disproportionate impact on the states, affecting the south-east the most given the majority of Australia's tertiary institutions are located there. Other key sectors are also being affected to differing degrees across the nation. Of particular note: housing affordability is also heavily skewed against the south-east, affecting housing activity and consumption; though business investment in mining is warranted, benefitting WA, elsewhere across our economy investment is weak and at risk; finally Queensland's warmer climate and existing infrastructure set it up to benefit most from domestic tourism as state borders open. Also note, as has occurred in Melbourne in recent weeks, any renewed outbreaks of COVID-19 will affect the distribution of activity as well.

Globally, the US was the focus this week given the release of the June employment report and June FOMC meeting minutes, not to mention comment from several FOMC members. Nonfarm payrolls overdelivered against already optimistic market expectations as 4.8 million jobs were created in the month. The unemployment rate correspondingly fell 2.2ppts from 13.3% to 11.1% despite a 0.7ppt rise in participation. An even larger decline in the U6 measure of labour underutilisation, from 21.2% to 18.0%, further emphasises the rapid erosion of labour market slack possible as state economies re-open. This most certainly is a strong report but has to be put in context.

First, the 7.5 million jobs created in May and June recovers only a third of the job losses of March and April. Second, the 5.6 million reduction in continuing claims in May and June compared to the 7.5 million increase in payrolls suggests many workers have not been brought back to pre-COVID hours, leaving them to rely on government support – this is all the more the case if aid to business through the Paycheck Protection Program is also recognised. Finally, following the June survey week, new cases of COVID-19 in the US skyrocketed to new highs, repeatedly. Rising cases are now being seen in the vast majority of states, and some state and local authorities are responding with new restrictions. It seems inevitable that the September quarter will see an abrupt slowing in employment growth, or potentially a reversal of recent gains. Here it is not just the direct effect of any restrictions and sentiment that matter, but also the cumulative effect of lost business over many months, particularly for small and medium-sized firms.

While the FOMC continue to emphasise the risks before the US economy, in all communications they also make clear their intent to do whatever is necessary to offset the negative consequences of COVID-19 and to set the economy up for recovery. For now, this is enough, but if new cases continue to rise at the rate they have been and authorities are forced to act to stop the spread, financial markets and the broader economy could quickly become acutely aware of the risks. It remains an open question as to whether the monetary and fiscal support that could be offered would be sufficient to offset a resurgent wave of concern.

New Zealand: week ahead & data wrap

Rolling back, paying it forward

As COVID restrictions have been rolled back, New Zealanders have been opening up their wallets again. In fact, after falling 50% during the Alert Level 4 lockdown, retail weekly spending is now only a little below the levels that we saw this time last year.

Despite the sharp rebound, we do expect to see some retail spending weakness later in the year. Unemployment has increased and economic confidence has fallen. There's also ongoing weakness in sectors like hospitality due to the closure of the borders. In addition, some of the recent increase in spending is likely to be catch-up spending, i.e. pent-up demand after the lockdown.

However, at this stage the downturn in spending is looking like it will be at the more moderate end of expectations.

Our recent Westpac McDermott Miller survey of consumers has provided some colour how spending appetites are shaping up as the economy has emerged from lockdown.

The survey has shown that after being stuck inside for a month New Zealanders are in the mood to hit the town again, with many of the households we spoke to telling us that it's a good time to increase their spending in bars. People are also keen to spend more on in-home entertainment, like Netflix and online gaming.

However, with nervousness about the economic environment, households have told us that they are cautious about their spending on major household items, like furnishings.

In addition, while many households have had to scrap plans for overseas holidays, we haven't really seen much of an increase in the number of New Zealanders who are planning to spend more on domestic holidays. We do think that over time New Zealanders will increase their spending on domestic holidays. However, this may be cold comfort to many tourism operators already looking at a big hole in their current earnings.

It's also possible that some households who have had to cancel overseas trips will choose to spend on other items instead. For instance, we're hearing a lot of anecdotes about spending on home renovations. Down the track and if those anecdotes translate into broader household sentiment, that could mean a change in appetite for spending on major household items.

Meanwhile last week we published a bulletin on the COVID impact on the agricultural sector.

In it we noted that the agricultural sector has come through the COVID lockdown largely unscarred. This relatively moderate impact stems from the fact that the Government prioritised food supply during the lockdown, with the sector and its supply chain classified as 'essential services'. And with supermarket shopping allowed during the lockdown, importantly, households also continued to have ample access to food. The same principle applied offshore, with governments prioritising food imports, meaning market access, some bottlenecks aside, was largely maintained through the worst period of global COVID lockdowns.

The other saving grace for the agricultural sector was that it was in a strong position prior to the virus outbreak. Meat prices sat at or near record prices at the end of 2019, horticultural export incomes were at record highs, while the forecast milk price sat above a healthy $7.00/kg. This strength meant farm and orchard balance sheets were either strong or improving. We do note though that the drought was a spanner in the works for some regions on top of the COVID impacts.

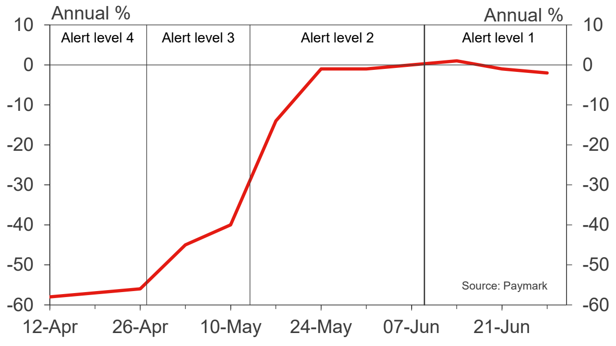
Nonetheless, food export prices still fell during the (global) lockdown. As a general rule, while supermarkets were open, restaurants were closed. And often it is at restaurants, cafes, bakeries and the like where the pointy end of food demand is. In other words, it is in these venues that consumers are, in normal circumstances, willing to pay highest prices for food.

More recently, and as lockdown restrictions have eased globally, overall agricultural export prices have firmed. And we anticipate that this rebound has further to run over the coming months.

However, we caution that a global recession of unprecedented scale still looms large over the New Zealand economy and the agricultural sector. And with this in mind, we expect COVID will knock dairy and meat sector incomes later in the year. For example, our 2020/21 farmgate milk price forecast stands at $6.50/kg, down from an estimated $7.20/kg for 2019/20.

Stepping back, though, the sector is likely to prove relatively resilient compared to other parts of the economy. Importantly, the sector is also likely to remain profitable over the next year or two. As a result, activity and employment are likely to hold up well in the sector, affording agriculture options that some other sectors don't have.

Weekly retail spending



Round–up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Tue 30	Jun ANZ business confidence (final)	–41.8	–34.4	–
Wed 1	May building consents	–9.9%	35.6%	–

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.

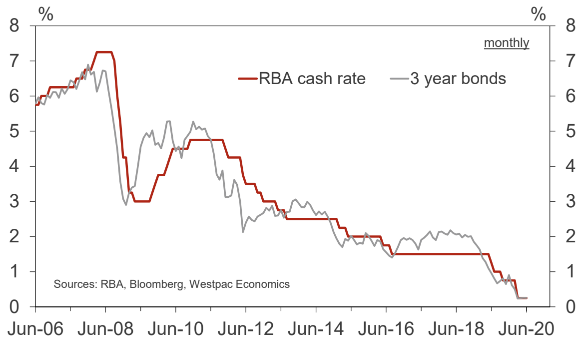
Data previews

Aus Jul RBA policy decision

Jul 7, Last: 0.25%, WBC f/c: 0.25%
Mkt f/c: 0.25%, Range: 0.25% to 0.25%

- The RBA is providing considerable stimulus to the economy through a range of policies and will continue to do so.
- Interest rates and policy settings will be unchanged in July.
- The key elements of the RBA's response to the pandemic are as follows. (1) Lowering the cash rate to 0.25%. (2) Targeting the 3 year government bond rate at 0.25%. (3) Market operations, as needed, to provide ample liquidity to the banking system. (4) A Term Funding Facility for the banking system providing 3 year funding at 0.25%. (5) Setting the rate paid on Exchange Settlement balances at the RBA at 10bps.
- The cash rate is set to remain at its current level for a very long time - we assess until at least the end of 2023 although the 3yr bond target rate will likely be lifted during 2022.

RBA cash rate and 3 year bonds

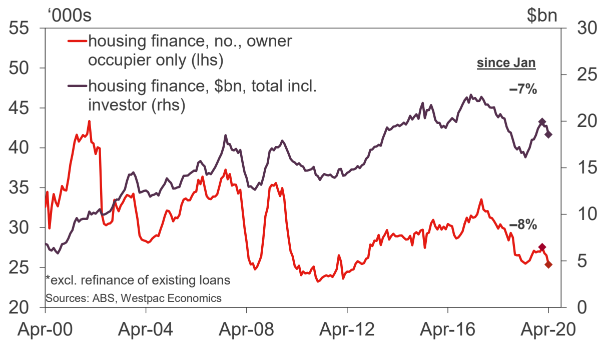


Aus May housing finance approvals

Jul 9, Last: -4.8%, WBC f/c: -10%
Mkt f/c: -6.0%, Range: -10.0% to -5.0%

- Housing finance approvals started to reflect COVID disruptions in April but are expected to see a materially bigger hit in May.
- The total value of new loans fell 4.8% in April, a milder than expected fall given the steep 40% drop in property turnover during the lockdown. That disconnect likely reflects lags more than anything with lenders still processing applications submitted prior to the lockdown.
- While property markets reopened in May, turnover returning to more normal levels in June, May finance approvals are expected to reflect the earlier disruptions with a 10% drop forecast.

New finance approvals*

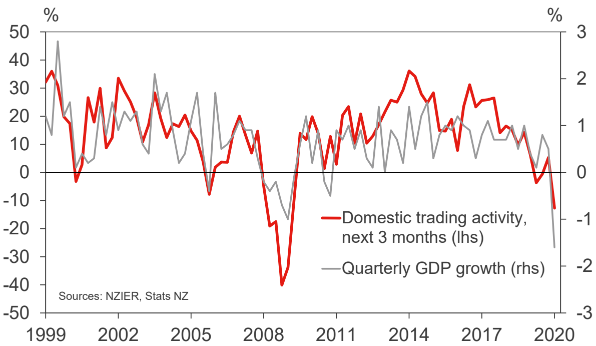


NZ Q2 Survey of Business Opinion

Jul 7, General business situation, Last: -67.3
Domestic trading activity (past 3 mths), Last: -10.5

- The June quarter survey will have been run after COVID related restrictions on domestic activity were eased.
- We expect that the backwards looking components of the survey, including the closely watched domestic trading activity gauge, will have fallen sharply. That would be consistent with very weak activity through the June quarter, which included the Alert Level 4 lockdown through April when many businesses were unable to trade.
- While the economy has been opening up again, many businesses are still very nervous about the outlook. Consequently, we expect weakness in the hiring and investment gauges.

QSBO domestic trading activity and GDP



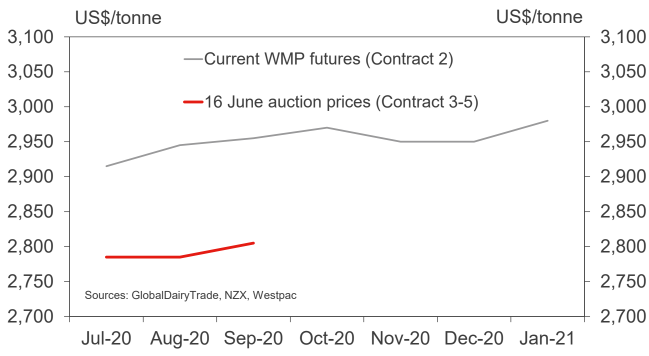
Data previews

NZ GlobalDairyTrade auction, whole milk powder prices

Jul 8, Last: +2.2%, Westpac: +5%

- We expect that whole milk powder prices will post a solid gain of circa 5% at this dairy auction as global dairy markets continue to rebound after earlier COVID-related weakness. Whole milk powder prices rose 2.2% at the previous auction.
- At this juncture, the dairy futures market also points to a price lift of around 5%.
- Over the remainder of the NZ spring, we anticipate that the recent uptick in global dairy prices has further to run. However, later in the year and as the global economic recession bites, we expect global dairy prices will come under renewed downward pressure from weak global demand.

Whole milk powder prices

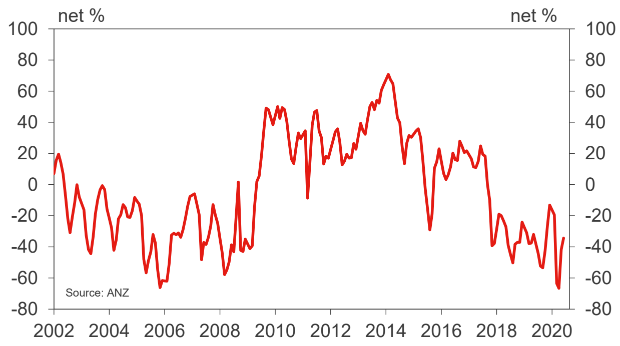


NZ Jul ANZBO business confidence (flash)

Jul 9, Last: -34.4

- After falling sharply during the lockdown, business confidence has picked up again. Nevertheless, it remains well below the levels we saw prior to the outbreak of COVID. Expectations for trading activity over the coming months remain subdued.
- We expect that confidence will rise again in July but that it will remain at low levels. Recent weeks have seen signs that domestic activity is picking up again. However, the borders remain closed and there is lingering nervousness about the impact of COVID on domestic activity.
- Nervousness about economic conditions means that many businesses will remain cautious with regards to their plans for capital spending and hiring for some time yet.

NZ business confidence

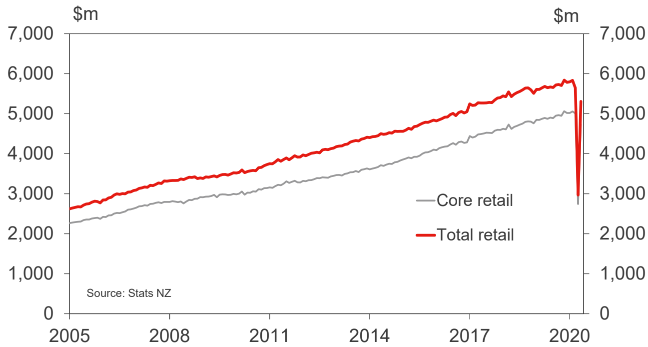


NZ Jun retail card spending

Jul 10, Last: +80.7%, WBC f/c: +18%

- Retail spending on electronic cards rose by 80% in May. That larger than expected gain followed a nearly 50% drop during New Zealand's Alert Level 4 lockdown, but still left spending below pre-COVID levels. Looking beneath the surface, spending was boosted by pent up demand after the lockdown that added to demand in items like household durables. However, we also saw signs of more general resilience in spending appetites.
- We expect another sizeable gain in June and have pencilled in an 18% rise for the month. That would take spending back to the levels we saw before the outbreak. Weekly updates indicate that spending by New Zealand citizens has been pushing higher, particularly for durable items. That may reflect some substitution from international travel. There is continued weakness in the hospitality sector.

Card transactions



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
Aus	Jun MI inflation gauge	0.1%	–	–	Lack of underlying inflationary pressures.
	Jun ANZ job ads	0.5%	–	–	Job ads collapsed earlier in the year.
NZ	Jun ANZ commodity prices	–0.1%	–	–	Dairy prices rebounding after COVID-related fall.
HK	Jun Nikkei PMI	43.9	–	–	Asian PMIs show recovery across region at varying speeds.
Eur	Jul Sentix investor confidence	–24.8	–	–	Since Apr low, confidence has been clawing back losses.
	May retail sales	–11.7%	–	–	Apr captured the shopping shutdown, clothing -21% in mth.
US	Jun Markt service PMI	46.7	47.0	–	Final estimate for services PMI to confirm recovery trend.
	Jun ISM non-manufacturing	45.4	50.0	–	Business activity driving gains, new orders less pronounced.
Chn	Jun foreign reserves $bn	3101.69	3112.00	–	Reserve stockpiles growing steadily on reduced outflows.
Tue 07					
Aus	Jun AiG PSI	31.6	–	–	May, services +4.5pts. Rate of contraction to ease in June.
	RBA policy decision	0.25%	0.25%	0.25%	RBA providing considerable stimulus. On hold.
NZ	QSBO general business situation	-67.3	–	–	Expected to rise, but remain at low levels.
Sing	Q2 GDP %yr	–0.7%	–11.0%	–	First look at aggregate growth for Q2 in Asia.
Can	Jun Ivey PMI	39.1	–	–	Manufacturing gauges picking up from April lows.
US	May JOLTS job openings	5046	4800	–	Hiring; firing and job opening detail.
	Fedspeak				FOMC Daly and Barkin speak (04:00 AEST)
Wed 08					
NZ	GlobalDairyTrade auction, WMP prices	2.2%	–	5.0%	Whole milk powder prices likely to post solid gain.
US	May consumer credit, $bn	–68.7	–15.0	–	After drastic fall Mar-Apr, market looks for stabilisation.
Thu 09					
Aus	May investor finance	–4.2%	–8.0%	–10%	Lagged effect of April's market shutdown likely to impact …
	May housing finance	–4.8%	–6.0%	–10%	… more fully in May despite the subsequent reopening …
	May owner occupier finance	–5.0%	–4.5%	–10%	… that has seen turnover return to normal in June.
NZ	Jul ANZ business confidence	-34.4	–	–	Continued lift from low levels expected.
Jpn	May machinery orders	–12.0%	–4.7%	–	Steep decline in machine orders due to delayed ext. recov.
Chn	Jun PPI %yr	–3.7%	–3.2%	–	Lower material prices aid profits, but final demand weak.
	Jun CPI %yr	2.4%	2.6%	–	Economic slack gives PBOC cause for accommodative policy.
US	Initial jobless claims	–	–	–	Downtrend intact, at least for now. July holds risks.
	May wholesale inventories	–1.2%	–1.2%	–	To remain volatile in the months ahead.
Fri 10					
NZ	Jun card spending	80.7%	–	18.0%	Continued gains as trading restrictions have been eased.
Chn	Jun M2 money supply %yr	11.1%	11.1%	–	Monetary easing supporting money supply.
	Jun new loans, CNYbn	1480.0	1823.5	–	Credit availability key positive for recovery.
	Jun foreign direct investment %yr	7.5%	–	–	Long-term development requires foreign involvement.
US	Jun PPI	0.4%	0.4%	–	Food and energy were key factors for final demand prices.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (3 Jul)	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
90 Day BBSW	0.10	0.10	0.15	0.20	0.25	0.30	0.35
3 Year Bond	0.26	0.25	0.25	0.25	0.25	0.25	0.25
3 Year Swap	0.23	0.30	0.30	0.35	0.35	0.40	0.45
10 Year Bond	0.91	1.00	1.00	1.05	1.15	1.25	1.35
10 Year Spread to US (bps)	24	25	25	25	30	35	40
US							
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	0.67	0.75	0.75	0.80	0.85	0.90	0.95
New Zealand							
Cash	0.25	0.25	0.25	0.25	-0.50	-0.50	-0.50
90 day bill	0.31	0.25	0.20	-0.10	-0.20	-0.20	-0.20
2 year swap	0.22	0.10	0.00	-0.10	-0.10	-0.10	0.00
10 Year Bond	0.96	0.85	0.85	0.85	0.90	1.00	1.10
10 Year spread to US	29	10	10	5	5	10	15

Exchange rate forecasts

	Latest (3 Jul)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
AUD/USD	0.6925	0.70	0.72	0.73	0.74	0.75	0.76
NZD/USD	0.6513	0.65	0.65	0.64	0.65	0.66	0.67
USD/JPY	107.53	106	106	107	107	108	108
EUR/USD	1.1246	1.13	1.14	1.15	1.16	1.17	1.18
GBP/USD	1.2464	1.26	1.27	1.27	1.28	1.29	1.30
USD/CNY	7.0658	7.00	6.90	6.85	6.80	6.70	6.60
AUD/NZD	1.0632	1.08	1.11	1.14	1.14	1.14	1.13

Australian economic growth forecasts

	2019			2020				Calendar years			
	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	2018	2019	2020f	2021f
GDP % qtr	0.6	0.6	0.5	-0.3	-7.0	1.5	2.0	–	–	–	–
%yr end	1.6	1.8	2.2	1.4	-6.3	-5.4	-4.0	2.2	2.2	-4.0	3.0
Unemployment rate %	5.2	5.2	5.2	5.2	7.0	8.3	8.3	5.0	5.2	8.3	7.1
CPI % qtr	0.6	0.5	0.7	0.3	-2.1	1.5	0.4	–	–	–	–
Annual change	1.6	1.7	1.8	2.2	-0.5	0.4	0.2	1.8	1.8	0.2	2.3
CPI trimmed mean: %qtr	0.4	0.4	0.5	0.5	0.0	0.2	0.3	–	–	–	–
% yr end	1.6	1.6	1.6	1.8	1.3	1.2	1.0	1.8	1.6	1.0	1.8

New Zealand economic growth forecasts

	2019			2020				Calendar years			
	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	2018	2019	2020f	2021f
GDP % qtr	0.1	0.8	0.5	-1.6	-13.5	14.0	0.9	–	–	–	–
Annual avg change	2.9	2.7	2.3	1.5	-2.4	-3.6	-4.6	3.2	2.3	-4.6	5.1
Unemployment rate %	4.0	4.1	4.0	4.2	7.0	8.0	7.5	4.3	4.0	7.5	6.6
CPI % qtr	0.6	0.7	0.5	0.8	-0.5	0.8	-0.3	–	–	–	–
Annual change	1.7	1.5	1.9	2.5	1.5	1.5	0.8	1.9	1.9	0.8	0.4

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