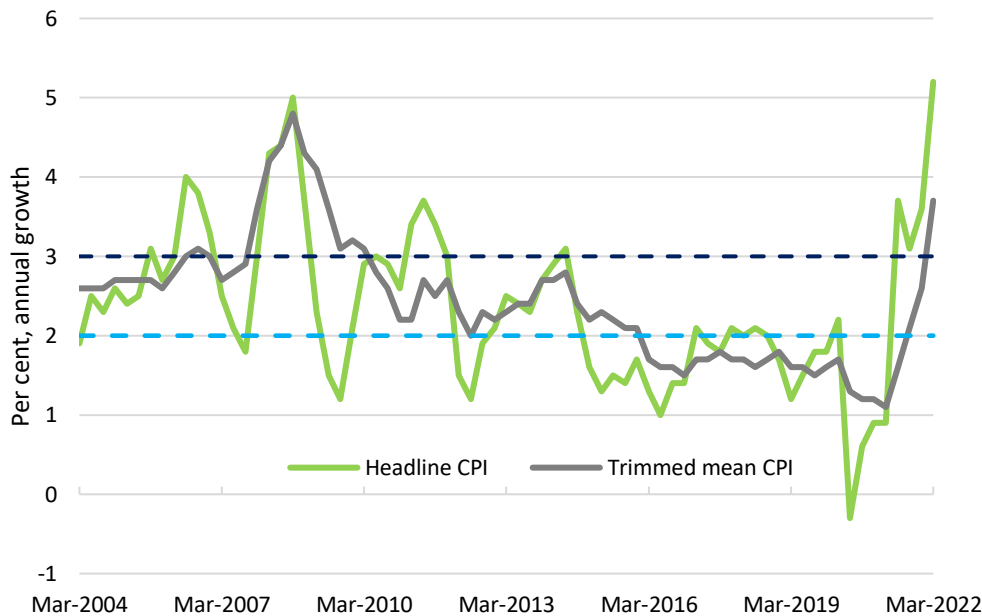


Chart of the week: National headline inflation hits a more than two-decade high



From the Chief Economist:

There was big news on inflation this week, but events next week could be even more significant (see below). The rise in national consumer prices in Q1 was even larger than surveyed economists had feared at 2.1%q/q over the quarter (1.7% for Sydney, the smallest rise of the eight capital cities). This was the largest gain since the aftermath of the introduction of the GST more than two decades ago. Annual inflation was above 5%. The big contributors to inflation last quarter were in the main non-discretionary items of the CPI basket, as had been expected – petrol, food and housing. Sure, some of the drivers of these gains are international, like supply chain issues and war, but there are underlying price pressures too. Even after stripping out the largest price moves for last quarter, core inflation (the trimmed mean measure) lifted to 3.7%oya, well above the RBA’s target range. Private sector economists quickly adjusted their forecasts for interest rates – many now expect a rate hike this week (see preview below). The other main economic news last week was that NSW slipped to seventh on rankings of state and territory economic performance by Commsec. However, the comparisons of current performance are against the past decade (“normal”). NSW was outperforming other states for much of this period, so the latest comparisons are unflattering.

There is a decent bag of economic data released this week, but all eyes will be on the RBA on Tuesday, when it announces its decision on interest rates. In the wake of the upside surprise on inflation last week, futures markets now fully price in a rate hike for tomorrow and another for June. The election campaign is a complication for tomorrow’s decision, but the RBA has hiked ahead of elections before (in 2007). Economists from three of the big four domestic banks expect a 15bp hike tomorrow. Much of the inflation pressure stems from supply constraints, and demand management via higher interest rates will do little (nothing?) to address these. But, the cash rate is the main tool available to the Board, and it seems likely that officials are about to raise it.

Economic Update – major developments last week

Global economy and financial markets – surprise contraction in US output in Q1

- There was an unexpected contraction in the size of the **US economy last quarter**. Economists had expected annualised GDP growth of 1% in Q1, but the actual result was a fall of 1.4%. The main drags came from net trade and inventories, which masked increases in domestic spending.
- There was increased volatility in financial markets this week. Most **equity indexes** lost ground over fears about rising interest rates and further escalation of the conflict between Russia and Ukraine. **Bond yields**, though, continued to climb on expectations of assertive central bank actions, including by the US Federal Reserve after the chairman speculated about a 50bp move next week. The **AUD** sank to a two-month low below 72 US cents on speculation that demand for commodities in China would weaken because of the nation's zero-COVID approach, but the AUD rallied after the CPI data.

Australian economy – fastest rate of headline inflation in more than 20 years

- The pop in **inflation** last quarter was even worse than had been feared. Consumer prices nationally (the average of the 8 capital city changes) rose by 2.1%q/q over the quarter for an annual rise of 5.1% - surveyed economists had expected 4.6%. The gain last quarter means headline inflation is running at its fastest rate since the GST was introduced more than 20 years ago. Even underlying inflation, measured by the trimmed mean, was unexpectedly high at 3.7% in Q1 - this is the fastest rate of trimmed mean inflation since March 2009. All of the main drivers of inflation played out as expected – higher petrol prices owing partly to Russia's invasion of Ukraine, surging housing costs, mainly because of higher rents, and rising food prices, partly because of the recent floods.
- The upside surprise on inflation places even more pressure on **RBA officials** to raise the cash rate from the current record low of 0.1%. Futures markets are fully pricing rate hikes in both May and June, and some prominent economists now expect a move at the May meeting, in the midst of the federal election campaign. Futures markets price even more aggressive policy tightening in the months ahead. The market implies more than eight quarter point rate hikes by the RBA in 2022 alone. More hikes are expected in 2023.

NSW economy – state ranked seventh on latest regional report card

- NSW slipped to seventh in the latest **Commsec State of the States** report. For the ninth straight quarter, Tasmania was the best performing jurisdiction. Victoria was second, followed by WA and Queensland. Only the NT was performing worse than NSW on this metric. That said, the methodology compares performance across eight economic measures relative to “normal” – a 10-year average. The fact that NSW was the best performing state for much of the past decade means current comparisons are unflattering.
- **Inflation in Sydney** last quarter was the lowest of all capital cities at 1.7%q/q. Still, this left annual inflation at 4.4%, a rapid acceleration from the final quarter of 2021. The main drivers of inflation in Sydney were the same as those nationally, but they were slightly more subdued than in other capital cities. Inflation was highest in Perth, Melbourne, Brisbane and Canberra.

This week – all eyes on the RBA decision on Tuesday

- **The RBA board** faces a dilemma on Tuesday. Does it raise the cash rate next week - ahead of the federal election – or wait until June? Markets were priced for June, but the chances of a 15bp hike (to 0.25%) on Tuesday have increased significantly.

Market Update

- Equity markets were weaker last week on the back of unflattering inflation data. The Australian market fell slightly from near record highs driven by a sizeable fall in iron ore. **Bond yields** generally continue to climb, with 10-year yields in the US returning to 2.93 per cent. The **AUD** fell during the week as **Crude oil prices** rose slightly.

Chart A: Bond Yields

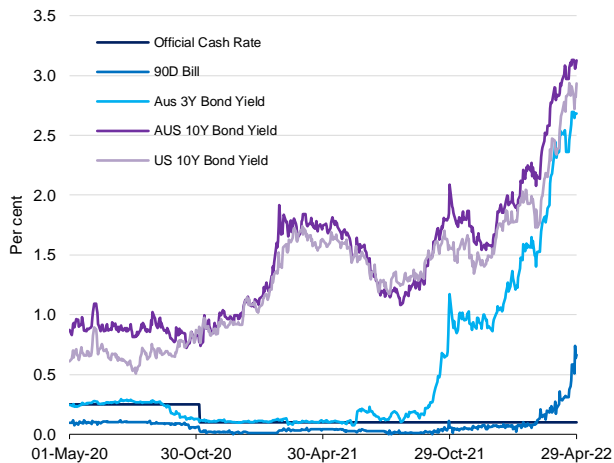


Chart B: Commodity Prices

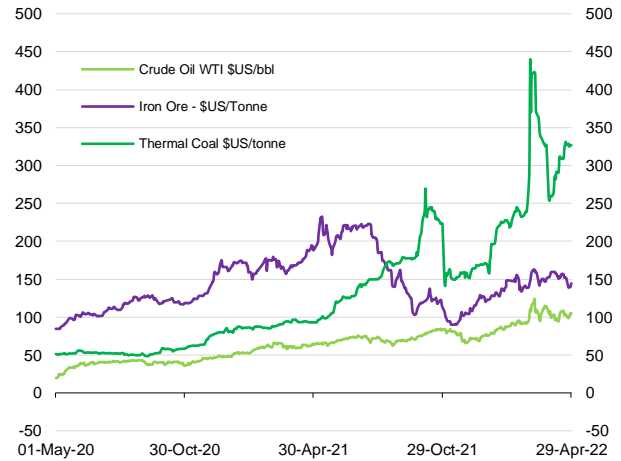


Chart C: Share Price Index

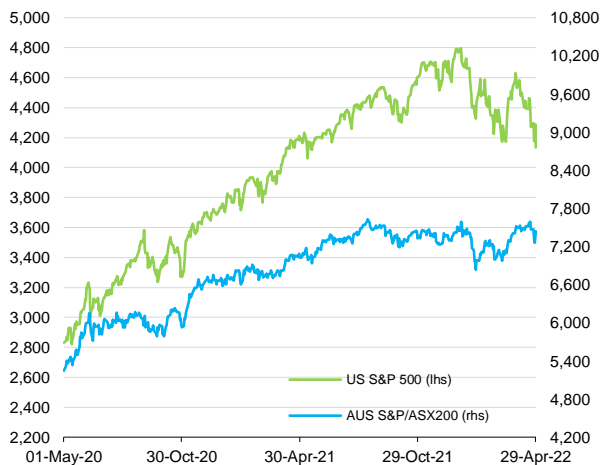
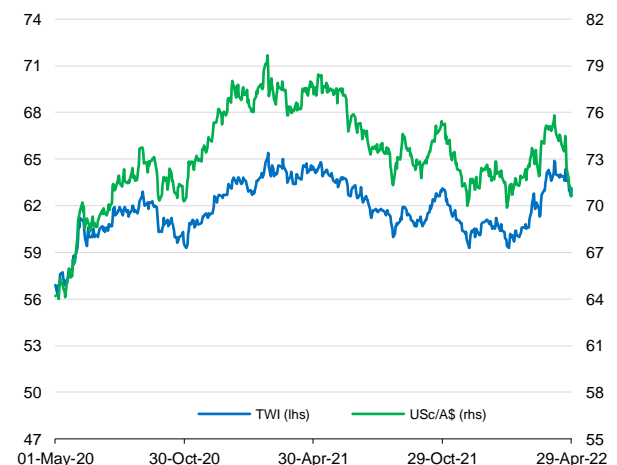


Chart D: Exchange rate



	Value	Change on Week	Change on Year
US S&P 500	4131.93	-3.3 %	-1.2 %
ASX200	7435.01	-0.5 %	5.8 %
Australian Dollar (USD)	0.71	-2.5 %	-8.5 %
TWI	63.10	-0.8 %	-2.0 %
Oil (USD/bbl)	104.69	2.6 %	64.7 %
Iron ore (\$US/Tonne)	144.50	-4.3 %	-23.3 %
Gold (USD/oz)	1911.30	-1.6 %	8.1 %
Thermal Coal (USD/tonnes)	326.60	-0.2 %	250.1 %
Australian 10 Year Bond Yield (%)	3.13	-0.5 bps	137.9 bps
NSW T-Corp 10 Year Bond Yield (%)	3.54	1.5 bps	167.5 bps
United States 10 Year Bond Yield (%)	2.93	3.5 bps	130.8 bps

International Economic Update

Country	Indicator	Unit	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
Canada	GDP	%YoY	3.8	3.5	4.5	-	-
	BoC Interest Rate Decision	%	0.25	0.25	-	0.50	1.00
China	GDP	%YoY	4.0	-	-	4.8	-
	Retail Sales	%YoY	1.7	-	-	-3.5	-
	CPI	%YoY	1.5	0.9	0.9	1.5	-
	PPI	%YoY	10.3	9.1	8.8	8.3	-
	Manufacturing PMI	Index, sa	50.3	50.1	50.2	49.5	47.4
	Non-Manufacturing PMI	Index, sa	52.7	51.1	51.6	48.4	41.9
	Industrial Production	%YoY	4.3	-	-	5.0	-
	Trade Balance	\$USD billion	94.3	85.1	30.5	47.4	-
Euro Area	GDP	%YoY	4.7	-	-	5.0	-
	ECB Interest Rate Decision	%	0.00	-	0.00	0.00	0.00
	Retail Sales	%YoY	2.3	8.4	5.0	-	-
	Unemployment Rate	%	7.0	6.9	6.8	-	-
	Employment Change	%YoY	2.1	-	-	-	-
	CPI	%YoY	5.0	5.1	5.9	7.5	7.5
	Consumer Confidence	Index, sa	-8.4	-8.5	-8.8	-18.7	-16.9
	Business Confidence	Index, sa	14.6	13.9	14.1	10.4	-
	Markit Manufacturing PMI	Index, sa	58.0	58.7	58.2	56.5	55.3
	Markit Services PMI	Index, sa	53.1	51.1	55.5	55.6	57.7
	Industrial Production	%YoY	1.8	-1.5	2.0	-	-
		Trade Balance	€ billion, sa	-11.9	-7.7	-9.4	-
Germany	GDP	%YoY	1.8	-	-	3.7	-
	Retail Sales	%YoY	1.2	10.0	6.8	-	-
	CPI	%YoY	5.3	4.9	5.1	7.3	7.4
	GfK Consumer Confidence	Index	-1.8	-6.9	-6.7	-8.5	-15.7
	IFO Business Climate	Index, sa	94.8	96.1	98.7	90.8	91.8
	Markit Manufacturing PMI	Index, sa	57.4	59.8	58.4	56.9	54.1
	Industrial Production	%YoY	-2.7	1.1	3.2	-	-
India	GDP	%YoY	5.4	-	-	-	-
	CPI	%YoY	5.7	6.0	6.1	7.0	-
Japan	GDP Growth	%QoQ, sa	1.1	-	-	-	-
	BoJ Interest Rate Decision	%	-0.1	-0.1	-	-0.1	-0.1
	Retail Sales	%YoY	1.2	1.1	-0.9	0.9	-
	Unemployment Rate	%	2.7	2.8	2.7	2.6	-
	CPI	%YoY	0.8	0.6	1.0	1.3	-
	PPI	%YoY	8.9	9.2	9.7	9.5	-
	Consumer Confidence	Index, sa	38.3	36.5	35.2	32.8	-
	Manufacturing PMI	Index, sa	54.3	55.4	52.7	54.1	53.4
	Industrial Production	%YoY	2.2	-0.8	0.5	-1.7	-
		Trade Balance	¥ billion, sa	-549.5	-776.9	-1066.6	-899.8
New Zealand	GDP	%YoY	3.1	-	-	-	-
	RBNZ Interest Rate Decision	%	-	-	1.00	-	1.50
	CPI	%YoY	5.9	-	-	6.9	-
	Trade Balance	\$NZD million	-990.3	-1121.2	-690.9	-391.6	-
UK	GDP	%YoY	6.6	-	-	-	-
	BoE Interest Rate	%	0.25	-	0.50	0.75	-
	Retail Sales	%YoY	-1.6	9.6	7.2	0.9	-
	ILO Unemployment Rate	%	4.1	3.9	3.8	-	-
	CPI	%YoY	5.4	5.5	6.2	7.0	-
	Markit Manufacturing PMI	Index, sa	57.9	57.3	58.0	55.2	55.3
		Trade Balance	£ million, sa	-4077.0	-12838.0	-9261.0	-
US	GDP	%QoQ, sa, annualised	6.9	-	-	-1.4	-
	Fed Interest Rate Decision	%	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	-
	Retail Sales	%MoM, sa	-1.6	2.7	1.7	0.7	-
	Unemployment Rate	%	3.9	4.0	3.8	3.6	-
	BLS Employment Change (non-farm payrolls)	'000, MoM, sa	588	504	750	431	-
	ADP Employment Change (private non-farm payrolls)	'000, MoM, sa	780	512	486	455	-
	CPI	%YoY	7.0	7.5	7.9	8.5	-
	University of Michigan Consumer Sentiment	Index	70.6	67.2	62.8	59.4	65.2
	ISM Manufacturing PMI	Index, sa	58.8	57.6	58.6	57.1	-
	ISM Services PMI	Index	62.3	59.9	56.5	58.3	-
	Industrial Production	%MoM, sa	-0.4	1.0	0.9	0.9	-
	Factory Orders	%MoM, sa	0.7	1.5	-0.5	-	-
		Trade Balance	\$USD billion, sa	-82.0	-89.2	-89.2	-

Domestic Economic Update

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	1.4%	1.5%	% annual average (real)	2020-21 Next: November 22
State/Domestic Final Demand	4.0%	4.6%	% through the year (real)	December quarter 21 Next: 1 June 22
	6.7%	2.9%	% change on last qtr.	
BUSINESSES				
NAB Business Confidence	+16	+16	NAB Monthly Index	March 22 (mthly) Next: 10 May 22
NAB Business Conditions	+15	+18		
HOUSING				
Dwelling Approvals	62.7k	224.1k	Number of app 12mms	March 22 (mthly) Next: 5 May 22
	-18.0%	-21.6%	% through the year, trend	
Residential Prices (capitals)	20.6%	18.6%	% through the year (hedonic original)	March 22 Next: 2 May 22
LABOUR FORCE				
Employment	+1.9%	+2.6%	% through the year (to 2021)	March 22 Next: 19 May 22
Unemployment Rate	3.9%	4.0%	Current rate	
Youth unemployment rate	9.9%	10.1%	12 month moving average rate	
CONSUMER				
Retail Sales	8.5%	9.1%	% through the year (nominal)	February 22 (mthly) Next: 4 May 22
Westpac MI Consumer Confidence	99.1	95.8	Westpac MI Index	April (mthly) Next: 11 May 22
CPI (Capital cities)	4.4%	5.1%	% through the year	March quarter 22 Next: 27 July 22
Official cash rate	0.10%		Lowered 15 basis points in November 2020	April 22 (mthly) Next: 3 May 22

ECONOMIC FORECASTS ^(a)	NSW Forecasts (as per 2021-22 HYR)			Australian Gov't Forecasts (as per 2022-23 Budget)		
	2020-21 Actual	2021-22 Forecast	2022-23 Forecast	2020-21 Actual	2021-22 Forecast	2022-23 Forecast
State/Domestic Final Demand (%)	2.9	2 ¾	5	n.a.	n.a.	n.a.
Gross State/Domestic Product (%)	1.4	2 ½	3 ¼	1.5	3 ½	5 ¾
Employment (%)	0.4	½	2 ¼	6.5	2 ¾	1 ½
Unemployment rate (%) ^(b)	5.2	5 ¼	4 ½	5.1	4	3 ¾
CPI (%)	1.5	2 ½	2 ¼	3.8	4 ¼	3
Wage Price Index (%)	1.5	2 ¼	2 ¼	1.7	2 ¾	3 ¼

(a) Per cent change, annual average, unless otherwise indicated. (b) June quarter, per cent.

Economic Calendar

Date	Domestic Calendar	International Calendar
Mon 2-May	CoreLogic Monthly House Price Data, Apr-22	Japan Consumer Confidence, Apr-21 Germany Retail Sales, Mar-21 Euro Area Business Confidence, Apr-21
Tue 3-May	RBA Interest Rate Decision, May-22	US Manufacturing PMI, Apr-21 Euro Area Unemployment Rate, Mar-21
Wed 4-May	ABS Retail Trade, Mar-22	US Factory Orders, Mar-21 Euro Area Retail Sales, Mar-21 US ADP Employment Change, Apr-21 US Trade Balance, Mar-21
Thu 5-May	ABS Building Approvals, Mar-22 CoreLogic Weekly Auction Data, 01-May-22 ABS International Trade, Mar-22	US Services PMI, Apr-21 US Interest Rate Decision, May-21 UK Interest Rate Decision, May-21
Fri 6-May	RBA Statement on Monetary Policy, MayQ-22	Japan CPI, Apr-21 Germany Industrial Production, Mar-21 US Change in Non-farm Payrolls, Apr-21 US Unemployment Rate, Apr-21
Sat 7-May		
Sun 8-May		
Mon 9-May		China Trade Balance, Apr-21
Tue 10-May	ABS Retail Trade (additional information), Mar-22 NAB Business survey, Apr-22	
Wed 11-May	W-MI Consumer Sentiment, May-22	China PPI, Apr-21 China CPI, Apr-21 US CPI, Apr-21
Thu 12-May	ABS Overseas Arrivals and Departures, Mar-22 ABS Regional Building Approvals, Mar-22 ABS Weekly Payrolls and Wages, 16-Apr-22 CoreLogic Weekly Auction Data, 08-May-22	UK GDP, Preliminary, MarQ-21 UK Trade Balance, Mar-21 India CPI, Apr-21
Fri 13-May		Euro Area Industrial Production, Mar-21
Sat 14-May		US Consumer Sentiment, Preliminary, May-21
Sun 15-May		
Mon 16-May		Japan PPI, Apr-21 China Industrial Production, Apr-21 China Retail Sales, Apr-21 Euro Area Trade Balance, Mar-21
Tue 17-May	RBA Monetary Policy Minutes, May-22 ABS Household Impacts of COVID-19, Apr-22	UK Unemployment Rate, Mar-21 Euro Area Employment Change, Preliminary, MarQ-21 Euro Area GDP, Preliminary, MarQ-21 US Retail Sales, Advance, Apr-21 US Industrial Production, Apr-21
Wed 18-May	ABS Wage Price Index, MarQ-22	Japan GDP, Preliminary, MarQ-21 UK CPI, Apr-21
Thu 19-May	ABS Labour Force, Apr-22 CoreLogic Weekly Auction Data, 15-May-22	Japan Trade Balance, Apr-21
Fri 20-May		New Zealand Trade Balance, Apr-21 UK Retail Sales, Apr-21
Sat 21-May		Euro Area Consumer Confidence, Advance, May-21
Sun 22-May		
Mon 23-May	ABS Indicator of Household Spending, Mar-22	Germany Business Climate, May-21
Tue 24-May		Japan Manufacturing PMI, Preliminary, May-21 Germany Manufacturing PMI, Preliminary, May-21 Euro Area Manufacturing PMI, Preliminary, May-21 Euro Area Services PMI, Preliminary, May-21 UK Manufacturing PMI, Preliminary, May-21
Wed 25-May	ABS Construction Work Done, MarQ-22	
Thu 26-May	ABS Private New Capital Expenditure, MarQ-22 ABS Regional Labour Force, Apr-22 CoreLogic Weekly Auction Data, 22-May-22	US GDP Annualised, MarQ-21
Fri 27-May	ABS Retail Trade, Apr-22	Japan CPI, May-21 Germany Retail Sales, Apr-21