September 2024

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK September 2024

Australia 3

Australian markets:
RBA stays hawkish 4

Australian economy:
Economic growth remains sluggish 6

The World 8

Commodities:
Generally weaker through August 8

Global FX:
USD to remain in slow downtrend 10

New Zealand:
RBNZ begins the next easing cycle early 12

China:
The longer authorities wait ... 14

United States:
No cause for alarm 16

Asia:
Carry trade to give way to longer term 18

Summary forecast tables 20

Australia – financial 19

Australia – economic 20

New Zealand 21

Commodity prices 22

United States 23

Europe 24

Asia – financial 25

Summary of world output 26

Westpac Market Outlook is a monthly publication produced by Westpac Economics.

Internet: www.westpac.com.au
Email: economics@westpac.com.au

This issue was finalised on 11 September 2024.

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.

Global easing cycle begins

The global policy wheel continues to turn. With inflation coming back under control, central banks are finally starting to relax. Inflation hit 8.5% across the major developed economies in 2022. After a fairly stop-start slowing through 2023 it has been firmly back in the 2.5-3% range over the last six months.

That has allowed the ECB, Bank of England and Bank of Canada to begin lowering interest rates with the US FOMC poised to follow suit in little over a week. Indeed, major downward revisions to US payrolls estimates have injected a little more urgency into the US situation over the last month. Markets are now pricing in close to 250bps in cuts by this time next year. That sort of 'shock and awe' easing does not seem warranted – the US labour market may be weaker than it appeared but the data suggests it is far from capitulating.

Markets are clearly struggling to work out what the policy path looks like for a central bank that is no longer fearful of inflation but still not overly concerned about weak growth. We think it looks a bit more orderly, with 200bps of easing.

The other major global development has been a drop in commodity prices amid ongoing concerns about demand out of China. As always, the moves vary commodity to commodity, the drop in iron ore in line with our expectations but the fall in crude prices, which has more of a supply element to it, leading to a significant lowering in our near term forecasts. The situation bears watching though, particularly given risks around China's medium term growth.

More locally, the inflation, growth and policy situation in New Zealand is tracking a similar path to northern hemisphere peers. However, it remains somewhat different in Australia where growth is sluggish rather than recessionary and persistent inflation has seen the RBA retain a more hawkish stance. While the June quarter national accounts detail suggests this sluggishness will extend beyond 2025, the RBA easing cycle is still not expected to start until early next year.

Australia: The economy remained sluggish in the June quarter, growing just 0.2%qtr and 1.0%yr. While the outcome was broadly in line with expectations, the mix contained some surprises that suggest private demand is more fragile and will be slower to lift. We now see a different growth mix in 2025 and a slower pace in 2026. Despite this, and policy easing abroad, the hawkish RBA is still expected to leave rates unchanged in 2024.

Commodities: Prices weakened through August, led by a 12% fall in met coal, a 10% fall in iron ore and a 7% fall in oil. With US production hitting new highs and inventories rising, we have revised down our price forecasts, crude now expected to reach US$67/bbl by March 2025.

Global FX Markets: The US dollar is exposed to several conflicting forces with diminished support from interest differentials; but markets still giving the US the benefit of the doubt on growth risks; and ever-present geopolitical uncertainties. The US dollar downtrend is therefore expected to be shallow and still have the currency at an above-average level by late-2026.

New Zealand: A more dovish than expected RBNZ kicked off an easing cycle in August. We now see the OCR ending 2024 at 4.75% en route to a nadir of 3.75% by end-2025. Economic momentum was very weak through the middle of this year and it remains to be seen how quickly activity responds to easier financial conditions. We expect lingering price pressures to constrain the RBNZ's easing.

United States: We remain sanguine on the outlook, recognising that inflation ex-shelter has been either side of the 2%yr target since May 2023 without signs of diverging price risks and that, even with revisions, payrolls still point to activity growing near trend. In these circumstances, it is best for the FOMC to cut at every meeting at successive meetings with 25bp moves, taking rates back near neutral.

China: Sentiment is poor and seemingly deteriorating by the day. Yet, for all the concern, growth in 2024 is still likely to land near target. In our view, it is the risks to the medium-term that are troubling. While we have nudged our 2024 growth view down to 4.8%, we see growth lower at circa 4.5% in 2025 and 2026. This assumes a floor is put in for labour incomes and wealth before year-end. If not, the risks for China's economy will mount and challenge authorities' capacity to restore momentum.

Asia: With policy differentials between EM Asia and the FOMC narrower, gains from carry trades into Asia will be less beneficial over the forecast horizon. However, strong growth opportunities should still attract capital and provide an alternative support for currencies.

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.

RBA stays hawkish ...

Luci Ellis
Chief Economist, Westpac Group

Peer central banks overseas have either started lowering policy interest rates or have confirmed that they are close to doing so. Inflation continues to track down globally and attention has pivoted to softening labour markets as policymakers try to ensure soft landings. In Australia, though, the RBA has taken a more hawkish turn in recent months, characterising the level of domestic demand as strong and revising down its view of supply capacity. Although inflation is declining, it remains uncomfortably above target, so the RBA has all but ruled out rate cuts this year.

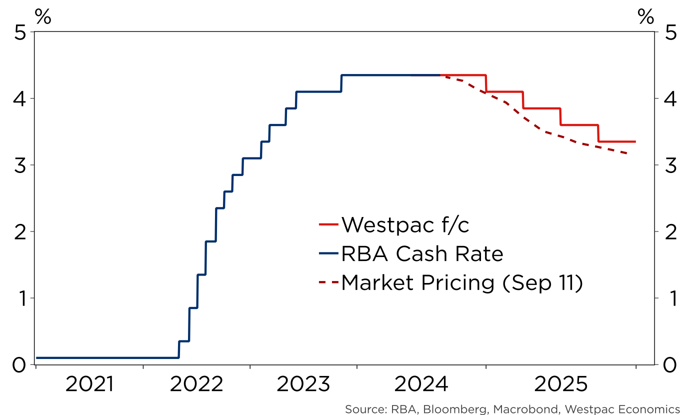
The RBA's recent communication has focused on the slow rate of decline in trimmed mean inflation and its assessment that Australia's supply capacity is less than it previously thought. Underlying this reassessment is a view that productivity will remain weak in the near term. Productivity has in fact rebounded solidly in the non-mining market sector. However, this has been offset by a drag from falling mining output and a burgeoning public sector, where productivity growth is mostly set to zero by assumption. Also relevant to future productivity growth is the outlook for investment, and so the amount of capital each worker has available to work with.

Despite this, market pricing still gives an 80%+ chance of the RBA's rate cutting phase beginning at its December meeting, rather than February next year as per our own base case view. In part, this divergence keys off the global view, which has been shaped by the softening in the US labour market and the decisive pivot in FOMC rhetoric.

We continue to expect that the RBA will be unmoved by the actions of its global peers. It is instead focused on the domestic inflation outlook and will not begin cutting the cash rate until it is convinced that inflation in on track to return sustainably to the 2–3% target range.

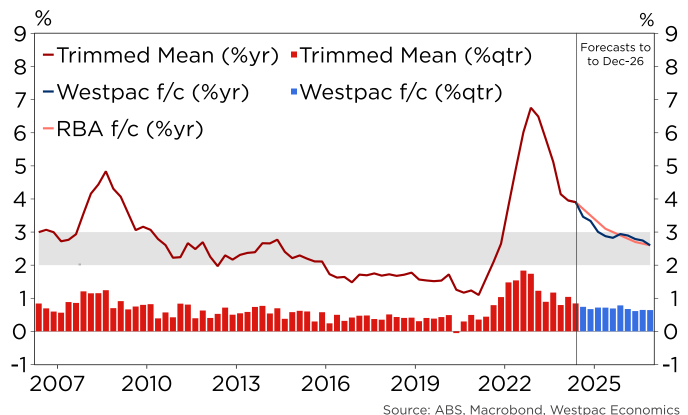
The USD remains noticeably richly valued and is likely to stay that way while geopolitical risks remain to the fore – the currency is still treated as a safe haven. This may start to shift as US domestic politics takes centre stage ahead of the US elections in November. In the meantime the shifting relative rates outlook – Australia's easing pushed out and the US path a little faster than earlier assumed – has led to some repricing in bilateral exchange rates, the AUD/USD already fairly close to our year-end forecast.

Markets pricing a chance RBA backflips



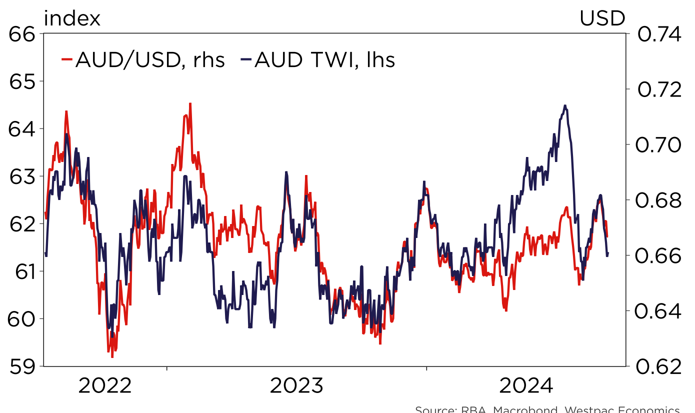
Source: RBA, Bloomberg, Macrobond, Westpac Economics

Core inflation to fall further



Source: ABS, Macrobond, Westpac Economics

Risk and rates cross-currents affect AUD

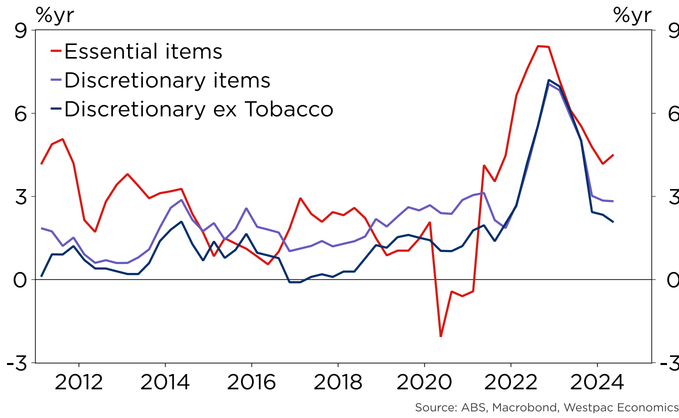


Source: RBA, Macrobond, Westpac Economics

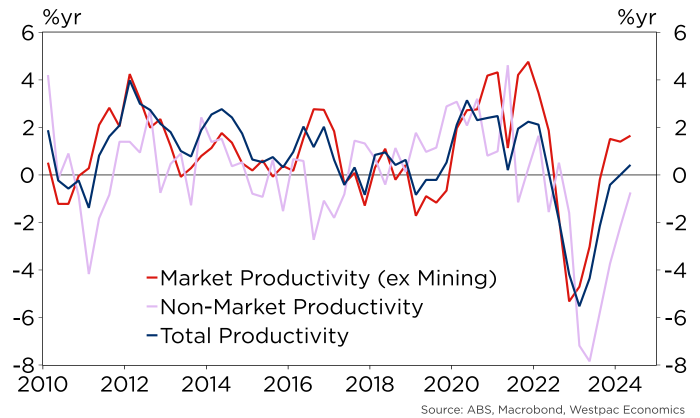
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

... while it sees a lack of supply

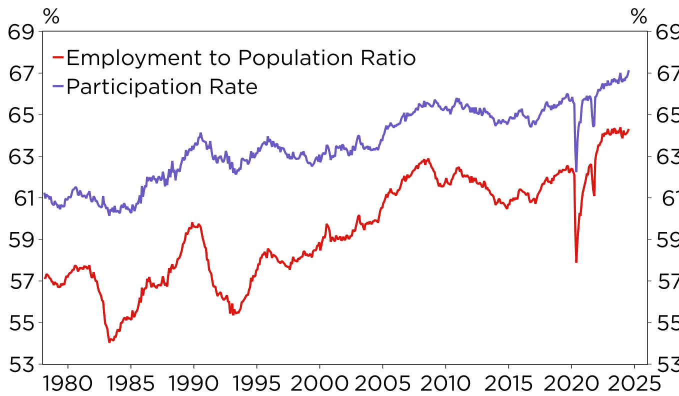
Discretionary inflation already low ...



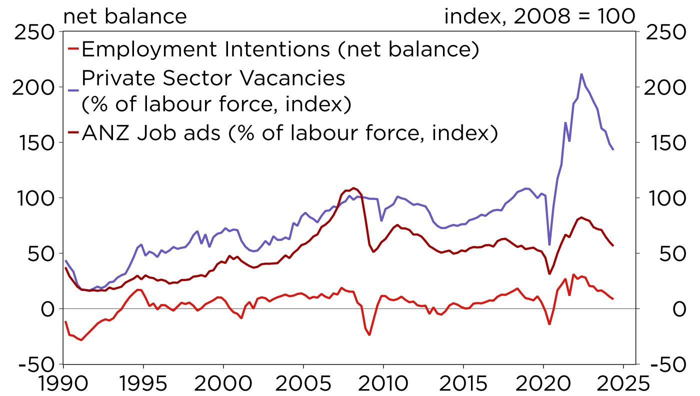
... with market-sector productivity rising



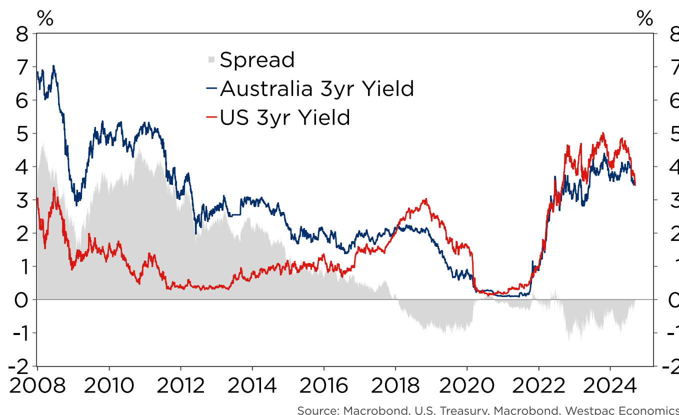
Labour supply is higher than ever before ...



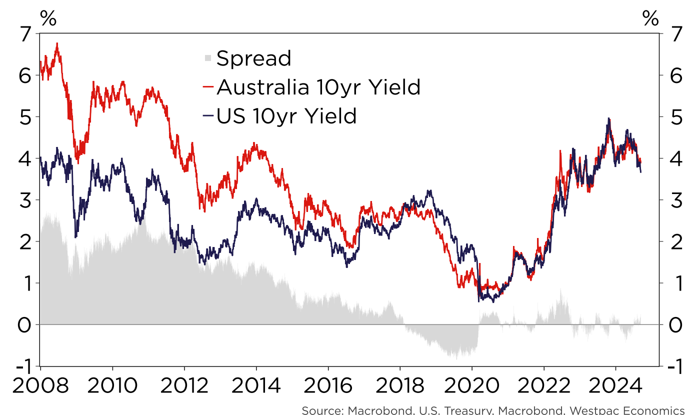
... as leading indicators of demand ease



Policy view sensitive to US slowing ...



... with global rates above post-GFC norms



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.

Economic growth remains sluggish ...

Matthew Hassan, Head of Australian Macro-Forecasting
Pat Bustamante, Senior Economist

The Australian economy remained sluggish in the June quarter, growing just 0.2%qtr and 1.0%yr. While the outcome was broadly in line with expectations, the mix contained some surprises that suggest private demand is more fragile and will be slower to lift once the surge in government demand has topped out.

The biggest surprise was consumer spending which declined 0.2%qtr – the largest quarterly decline since the GFC, excluding the COVID period. This was particularly weak given population growth of 0.7%qtr which was the second strongest quarterly gain on record. Annual growth in spending slowed to just 0.5%yr.

This protracted period of weakness in consumer spending is now clearly weighing on businesses where new investment increased by 0.1%qtr and 2.2%yr in the June quarter – a step down from the 4.5%yr recorded in the March quarter and the 10.1%yr recorded in the June quarter 2023. Putting these outcomes together, new private demand (consumer spending and business investment) was flat in the quarter and up just 0.8%yr.

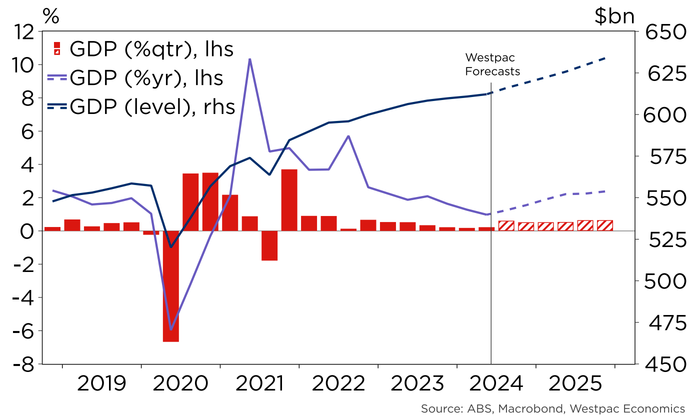
In stark contrast, public demand continued to grow strongly and is now at a record share of the economy (27.3% of GDP, surpassing the previous peak of 27.1% set during COVID). Public consumption, which includes the provision of subsidised goods and services, grew 1.4%qtr and 4.7%yr. The expansion of government programs, such as the NDIS, as well as higher public sector wages on the back of upgraded enterprise bargaining agreements, drove the increase. Further growth is expected next quarter as the cost-of-living measures announced in recent state and federal budgets come into effect.

Growth lags population, cost pressures ease

Economy-wide, the annual pace of growth is well below trend and is the slowest since the early 1990s recession (excluding the COVID period). Growth is particularly weak in per capita terms given population growth running at around 2.5%yr. Indeed, Australia has now recorded six consecutive quarters of declining per capita GDP – the longest stretch on estimates back to 1959.

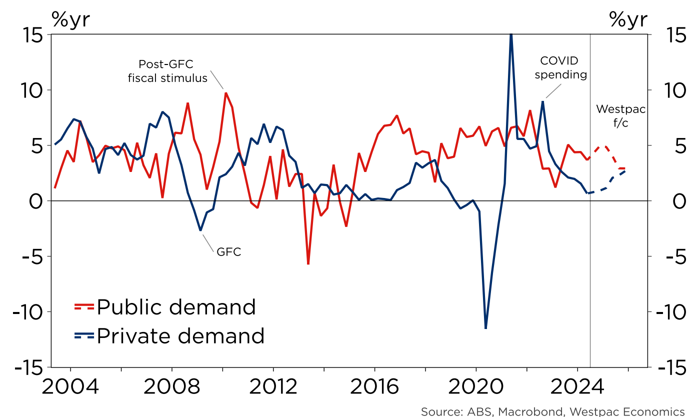
The national accounts showed that cost pressures remained unchanged, with a step down in average earnings offsetting subdued productivity. Unit labour costs (a key measure of domestic cost pressures) are now running at 3.4% in six-month annualised terms, broadly in line with the March quarter – this is in line with the outcomes recorded over 2019 when underlying inflation was below the target band.

Growth slows to a crawl



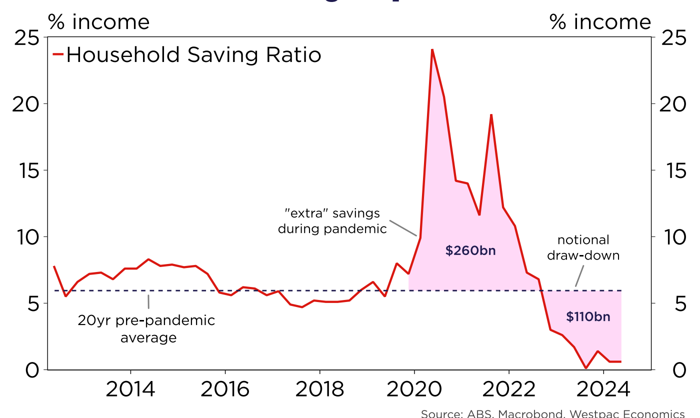
Source: ABS, Macrobond, Westpac Economics

Private demand looking fragile



Source: ABS, Macrobond, Westpac Economics

Households leaning on pandemic reserves



Source: ABS, Macrobond, Westpac Economics

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.

... the recovery in private demand to take longer

Growth forecasts downgraded

We have previously flagged downside risks to growth in private demand. The accounts show those risks materialising.

The 'triple squeeze' on household incomes from high inflation, rising interest rates and a higher tax take has seen real disposable income per capita fall a whopping 10% from its 2023 peak. We are now of the view that it will take more time for real incomes to recover and for consumption to regain momentum, particularly given some normalisation in savings rates from their very low starting point. Accordingly, we have revised our consumption forecasts lower, by ½ppt in 2025 and 1ppt in 2026.

More of this weakness is expected to spill over to businesses. Investment has been a bright spot this cycle, with businesses increasing capital spend strongly once supply chains normalised. This reflected several underlying drivers including: a need to expand capacity to keep pace with strong population growth; the transition to net zero; and technology-driven investment such as the construction of new data centres.

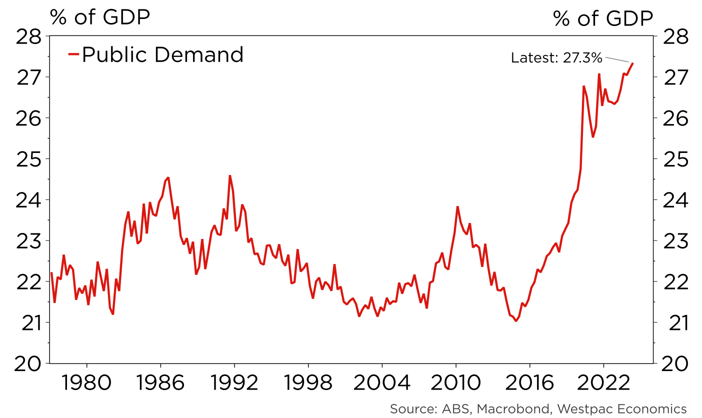
However, the accounts showed business investment slowed materially in the June quarter, especially across industries at the coal face of the consumer-led slowdown. With the recovery in consumer spending pushed back, this drag on investment will last longer. Accordingly, we have pared back our profile for new business investment by ½ppt in 2025 and 1ppt in 2026.

Public demand is expected to offset this weakness in private demand in the near term. Based on our previous work suggesting the national fiscal impulse would be 2.2ppts of nominal GDP in 2024-25, we have revised up our forecast by 1.7ppts in 2024, 1.1ppts in 2025. Growth in new public demand is expected to be lower in 2026, but the level of activity will remain elevated compared with our previous set of forecasts.

Putting this all together, our GDP forecasts are broadly unchanged for 2024 and 2025 but have been lowered from 3.5% to 2.4% for 2026. These changes have resulted in a slightly weaker profile for unemployment and a slightly softer path for inflation and wages growth (see p20 for the full detail). What this boils down to is a much shakier 'handover' of growth – public demand topping out at a structurally higher level but the pick-up in private sector activity coming through more slowly.

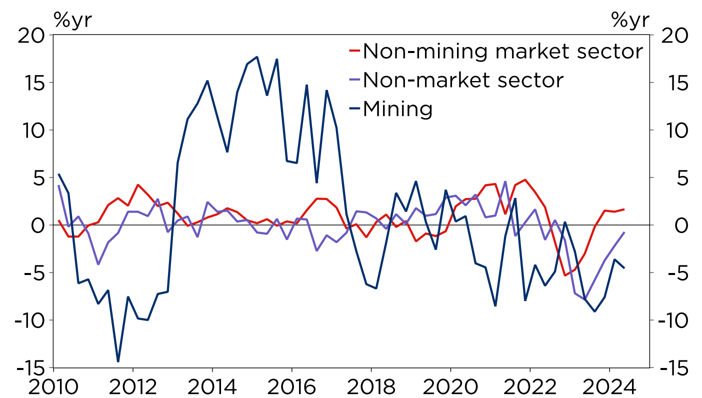
Our revised profile means that by end-2026 Australia will have seen five years of below-trend growth with GDP essentially flat in per capita terms. While not a recession, that is a longer period of stagnation than was seen during the early 1990s recession.

Public demand at record highs

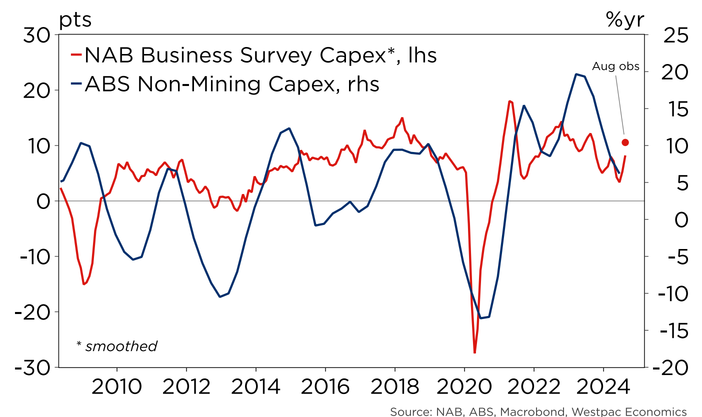


Source: ABS, Macrobond, Westpac Economics

Market sector productivity improving



Business investment weaker



Source: NAB, ABS, Macrobond, Westpac Economics

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.

Generally weaker through August ...

Justin Smirk
Senior Economist, Westpac Group

Commodities weakened through August, led by a 12% fall in met coal and a 10% fall in iron ore while crude oil also fell 7% as supply remained robust in the face of softer demand. Offsetting this was an 11% rise in aluminium, a 5% rise in zinc and a 2% gain in copper. On the back of US crude production hitting new record highs and rising crude inventories we have revised down our end-2024 forecast to US$70/bbl (from US$77) and March 2025 to US$67/bbl (from US$78).

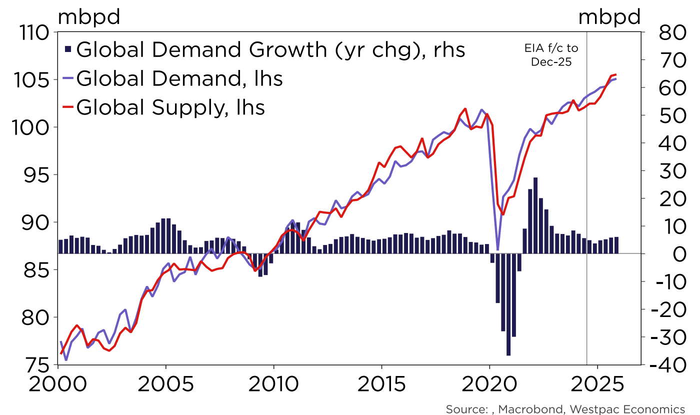
Brent to go below US$70/bbl

Robert Rennie has been highlighting the near term risk of Brent extending its trend decline to possibly as low as US$74/bbl. He also suggested that unless there was a "significant deterioration in the Middle East disrupting shipping activity again, or Ukraine renewing its attacks on Russian refineries it was doubtful that OPEC+ would be able to return the voluntary cuts in production in 2024". Thus, we are not surprised to see that OPEC+ held an eight member virtual meeting and "emphasized their collective resolve to ensure full compliance with the voluntary production adjustments". The statement highlighted that "the eight participating countries have agreed to extend their additional voluntary production cuts of 2.2 million barrels per day for two months until the end of November 2024, after which these cuts will be gradually phased out".

The market's reaction was disappointing to say the least as it focused on this being a two month reprieve highlighting the pressure on OPEC members to return production to the market – for if they do not, then others will fill the gap instead (particularly North America). The EIA is forecasting global crude production to rise by 2.2mbpd over the next year with 1.6mb coming from non-OPEC producers and just 0.67mb from OPEC. Contrast that with a 1.35mbpd increase in world consumption over the same period. If OPEC only brings back part of the 2.2mbpd it cut then global crude production will grow at the sharpest pace in two years. But if all of the 2.2mbpd are returned to the market then supply is set to grow materially faster than demand until lower prices see North American producers cut back on production.

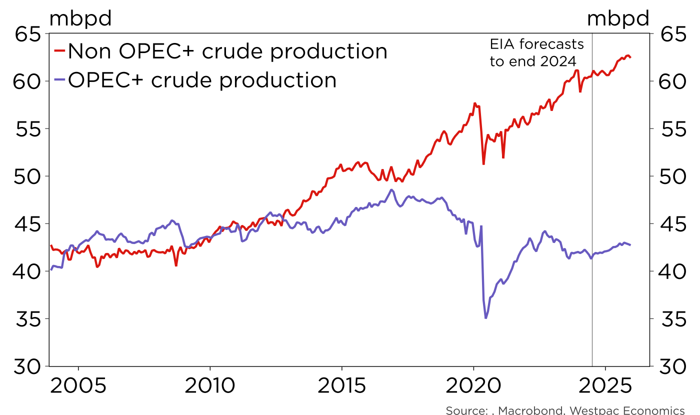
This scenario is behind our revised forecast for a low of US$67/bbl in March 2025 before a rallying in the second half of the year to US$77/bbl as demand lifts and supply from North America moderates.

Crude oil market to soften into 2025



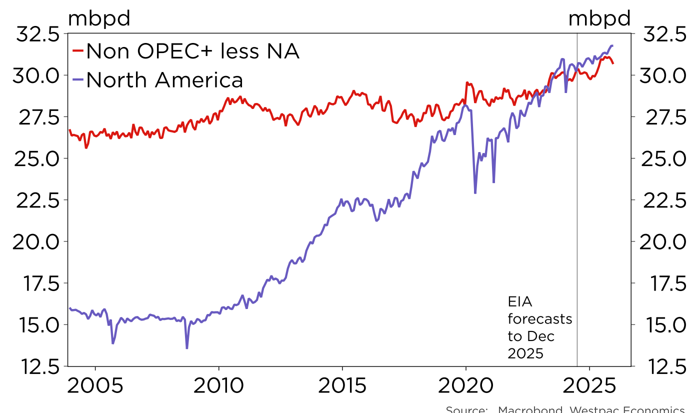
Source: , Macrobond, Westpac Economics

Non-OPEC driving increase in crude supply



Source: , Macrobond, Westpac Economics

North America key to supply increase



Source: , Macrobond, Westpac Economics

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.

... as met coal, iron ore and crude oil all head south.

Iron ore heading to US$85/t

We suspected that the recent bounce in iron ore prices back into the low $100s would be temporary before prices moved back down to $90 and then into the mid-$80s. Through August we noted that port inventories of ore surged to a fresh 29-month high while steel inventories at major mills grew to a seasonal two year high. Chinese port stocks are up around 35Mt year to date and now back to levels, relative to steel production, last seen in 2022. At the same time steel mill profitability dropped to a multi-decade low in late August (despite falling met coal prices offering some offset) while blast furnace operating rates dropped to the lowest seasonal level since 2018. All these indicators suggest ongoing weakness in the demand for iron ore.

Meanwhile, Chinese property starts dropped to the lowest level since 2006 in July and steel production was down 6%yr, with preliminary indicators for August pointing to a decline of more than 9%yr. That would leave combined July and August steel production at its lowest level since 2018.

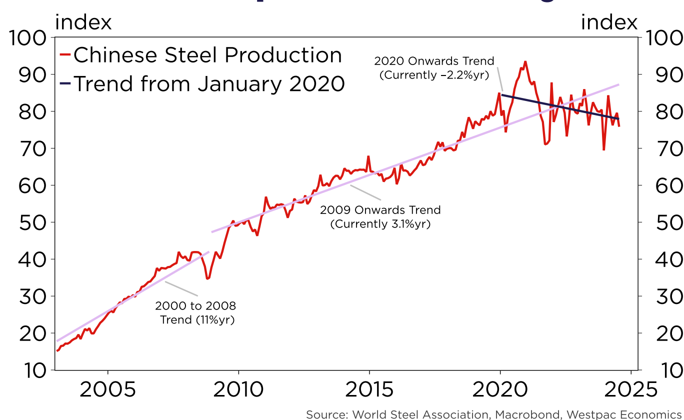
At the same time Chinese steel exports held at record highs – the surge in exports also indicative of weak domestic demand for steel. Chinese pig iron production is down 4.1%yr so some of the hit has been taken by local ore supplies (Chinese ore is the most expensive source and tends to be used by inland mills that are integrated with a mine while the larger coastal mills tend to use imported ore). However, a large share of the increase in imports has gone into port inventory.

India continues to be the swing iron ore supplier to China taking advantage of high prices when they are available. So as prices eased from the peak of US$140/t at the start of the year, supplies from India have declined. Sluggish consumer spending and weak manufacturing new orders for steel in August pose a risk to steel production and iron ore demand as we move through September, supporting our view that iron ore will finish the year around US$85/t.

Met coal heading south

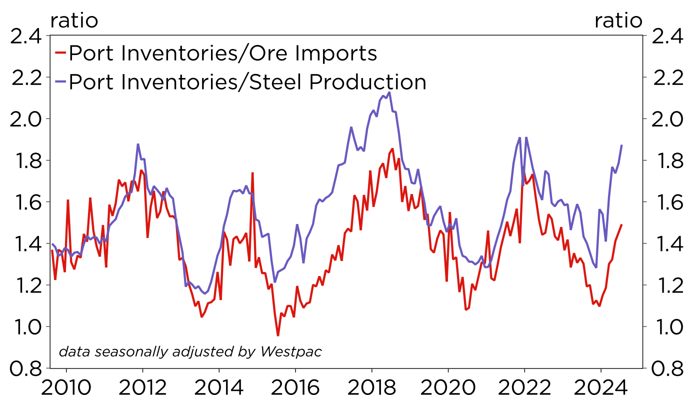
Met coal prices continued to fall into September, the market plagued by a glut of premium hard coking coal. Supply has recovered from the major suppliers while demand in China continues to soften as steel production adjusts to the continuing correction in Chinese construction. It does appear that this correction in met coal prices may offer some modest support for iron ore prices that remain at levels higher than you might expect given current market conditions.

Chinese steel production trending lower

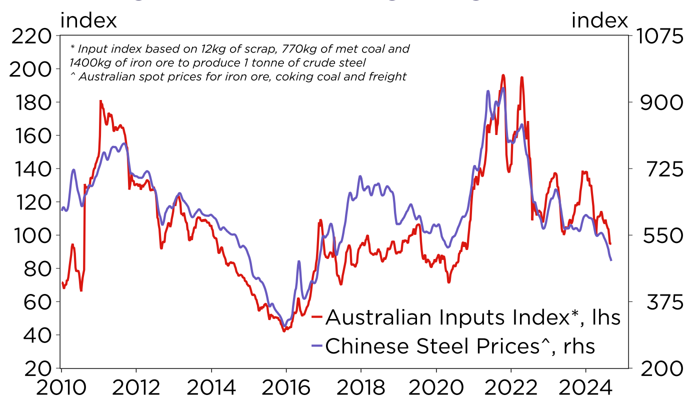


Source: World Steel Association, Macrobond, Westpac Economics

Inventories high compared to steel output



Falling met coal helping margins



Source: , Macrobond, Westpac Economics

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.

USD to remain in slow downtrend ...

Elliot Clarke
Head of International Economics

As the third quarter draws to a close, a number of conflicting forces are at work in global FX markets. On the one hand is definitive evidence that inflation and associated risks are receding, allowing for a progressive normalisation of monetary policy. On the other however, are broad-based growth risks, with the US still being perceived as the most resilient of the developed economies.

Looking ahead, we see the market's current expectations for policy easing not being fully realised, but proportionally so across different jurisdictions. This is critical as it means the end rate differentials across key nations will likely end up being similar to what is currently being anticipated.

Versus our projection of 200bps of cuts by the US FOMC by December 2025: the ECB is expected to cut by 150bps cumulative and the UK's BoE by 175bps (both having already delivered 25bps). Of less significance for DXY, but still worth noting, the Bank of Canada is anticipated to cut by roughly the same amount as the US FOMC.

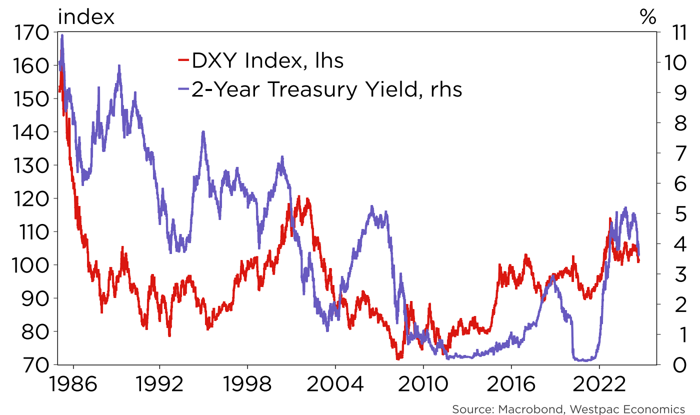
At the long end of the curve, we also see little change from today in the outright level of 10-year government yields across these jurisdictions. Rather, we expect the US fiscal situation to inform the global term premium, even though differences are evident in the level of debt and recurring deficits across countries.

The main reason to note these expectations is that they are the foundation of our belief that interest rates, the dominant factor in FX valuation since the pandemic, will wane in significance. This is not to say changes in spreads and forward expectations will not matter anymore; rather we see little change in these parameters, and so little net effect for FX pairs.

What is set to change materially over the forecast period are growth differentials. Most notably, both on our expectations and those of market economists broadly, Euro Area and UK growth is set to stage a rebound to back near trend. With US growth slowing from well above to around trend over the same period, growth differentials will change dramatically by end-2025.

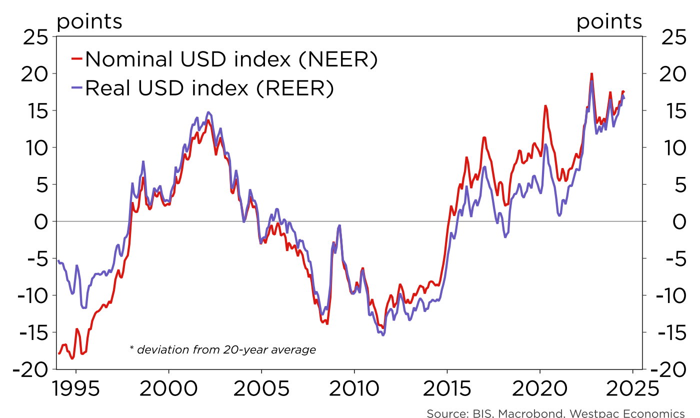
It is also possible, albeit not probable, that Euro Area and UK politicians will both be able to develop investment initiatives to progress the green transition and value add across industry while the impact of the energy crisis and Russia's threat to the region remains front of mind.

For the USD, rates support is fading



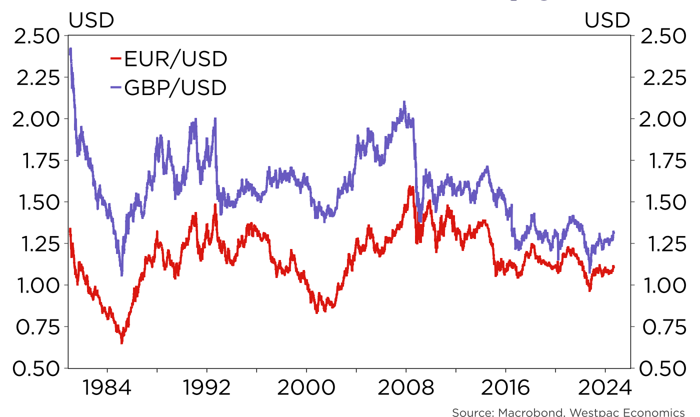
Source: Macrobond, Westpac Economics

But markets still see the US as resilient



Source: BIS, Macrobond, Westpac Economics

EUR and GBP to be supported by growth



Source: Macrobond, Westpac Economics

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.

... risks to dictate relative under/outperformance

In the US meanwhile, polling for November's elections remains extremely tight, offering a low likelihood of either party being able to have power over law-making and consequently the ability to enact meaningful domestic policy changes.

While we therefore consider the growth differential narrative as central to our baseline forecasts, the potential shift in relative political power is held as a downside risk for the US dollar.

As a result, though we have gone with the market's recent momentum and priced in a little more US dollar weakness near term, the US dollar downtrend remains limited in scale and slow to come through over the entire forecast period. DXY is forecast to decline from 101.5 today to 98.5 by end-2025, then 97 by end-2026 – both still well above the 90.1 average of the two decades prior to the pandemic.

On a pair basis, this would see: EUR/USD steadily rise from USD1.11 to USD1.15 by end-2026; and GBP/USD gain from USD1.31 to USD1.35 over the same period. Japan's Yen would meanwhile continue its run from almost JPY162 in July to JPY142 today, down to JPY138 by end-2025 and then JPY134 by end-2026. Note though, if this forecast is realised, the Yen would still be 23% above its 2019 average.

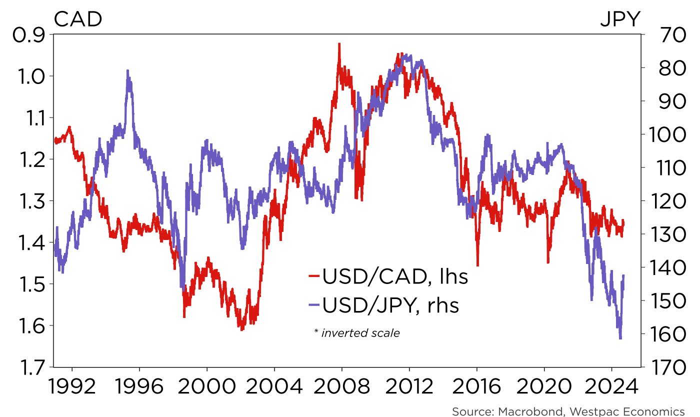
It is interesting to note that, despite the pessimism around China, USD/CNY has actually marched lower over the past month, from pushing towards CNY7.30 in June to CNY7.12 today. However, as this appreciation has not been as great as other currencies in Asia, China's trade-weighed index CFETS has actually edged lower recently, implying an improved competitive advantage against neighbouring nations.

While a threat to other similarly developed nations in the region, this is not a situation easily reversed, particularly if investors remain uneasy towards China's growth prospects.

Other major nations in the region should not share this concern, and so will appreciate with, or ahead of, the US dollar trend. However, this is not a given. Recently, unease over proposed tax changes and the outlook have resulted in an outflow of capital from India, holding USD/INR near its recent high of INR84.

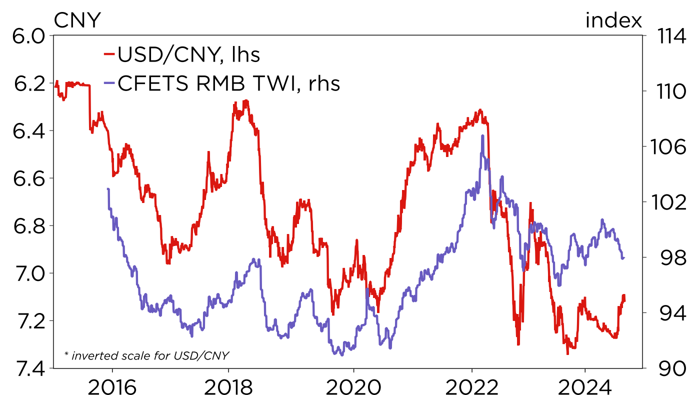
For emerging market currencies, the risks to investment will continue to matter as much, or more, as the expected return for the forseeable future, limiting upside against developed-world currencies.

Less so CAD and JPY

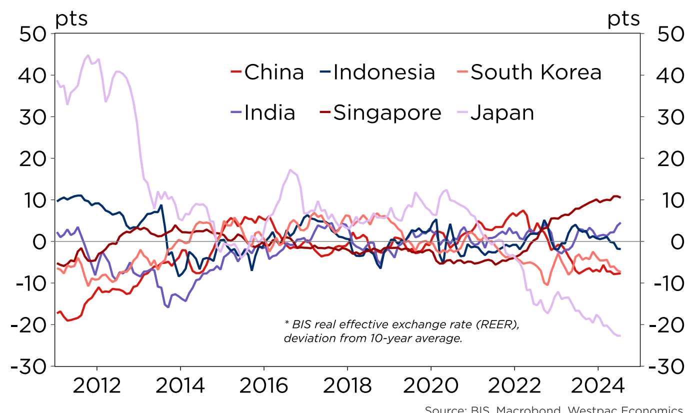


Source: Macrobond, Westpac Economics

Despite pessimism, CNY is advancing



Risk to remain a key focus for investors



Source: BIS, Macrobond, Westpac Economics

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.

RBNZ begins the next easing cycle early ...

Kelly Eckhold
Chief Economist NZ

The RBNZ has kicked off its easing cycle relatively early and seems intent on tempering policy restriction more quickly than had been expected. There has been a sharp easing in financial conditions as wholesale and retail interest rates have adjusted to levels not seen in some years. Key to the outlook will be the extent to which the economy responds to these easier conditions. There are some encouraging but not definitive signs. Hence, we are all on bounce-back watch.

The RBNZ surprised us at the August Monetary Policy meeting, opting to start the easing cycle early, forecasts in the accompanying statement also showing the OCR falling much more quickly through 2025 and 2026, bringing the OCR close to the assumed long-run neutral OCR level of 2.75-3.00%.

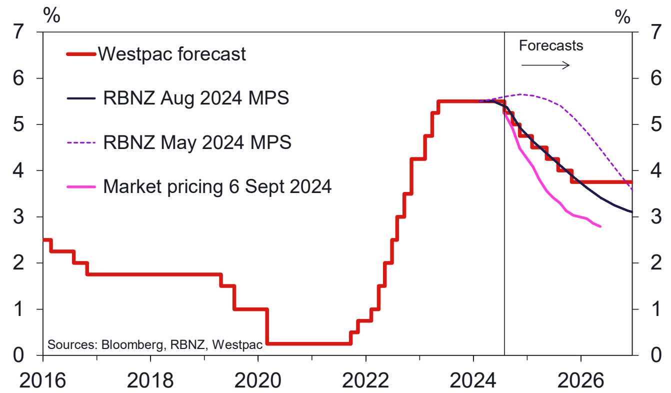
This significant shift in view reflected the weaker high-frequency activity and employment indicators seen in recent months and an associated weaker GDP profile for Q2 and Q3 2024 that implies a much more deeply negative output gap than previously anticipated. In addition, the RBNZ reduced its forecasts for near-term inflation given the weaker than expected June quarter CPI, and the lower pricing intentions and inflation expectations indicators that have emerged since May.

The upshot is that the RBNZ is now more comfortable with removing policy restriction much earlier and more quickly than previously signalled. With headline CPI inflation forecast to remain well within the 1-3% target range from Q3 2024, the RBNZ feels much more freedom to respond to weaker output and employment indicators.

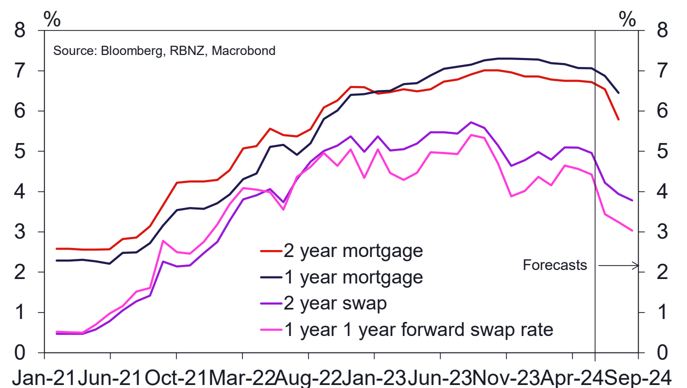
As a result, financial conditions have eased significantly. Short-term swap rates are down around 100bps and mortgage rates have fallen by 50-100bps. Mortgage rates are now at levels not seen since late 2022/early 2023 and forward-starting swap rates are now as low as 3% – levels not seen since late 2021.

Looking forward, the key will be how consumers and businesses react. A quick bounce-back would indicate that the mid-year activity weakness mostly stemmed from pessimism that interest rate relief would not be coming for a while. A deeper and more protracted output slump would instead suggest the economy will labour for a while yet under the lagged impact of the tightening cycle that concluded in May 2023.

Official Cash Rate forecasts



Wholesale and retail borrowing rates



The future path of interest rates and FX markets will be guided by which story holds the most water.

The RBNZ recognised this when they pointed to the importance of the path of short term 'forward looking' indicators in guiding the future path of interest rates. In addition, the path of global policy interest rates will also be of relevance – particularly if the FOMC chooses to validate current market pricing of over 100bp of rate cuts by the end of the year.

Our baseline view is that by the end of this year the economy will have begun to respond to the easing in conditions that has occurred. We have already seen straws in the wind in support of that view as July and

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.

... putting markets on bounce-back watch

August high-frequency indicators have rebounded from exceptionally weak June levels, albeit to varying degrees.

We also note that housing market activity looks to have picked up based on mortgage applications trends since early July.

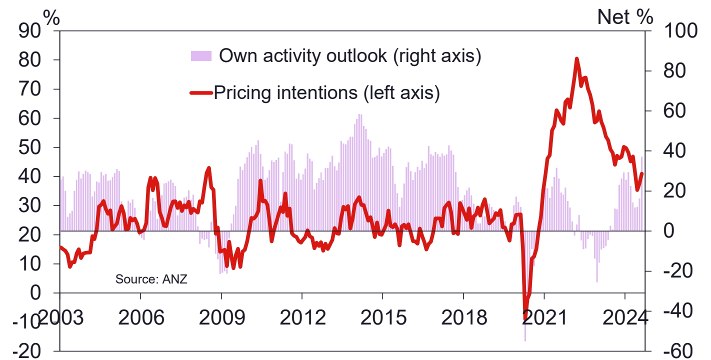
We think the RBNZ will be comfortable with delivering two 25bp cuts in the remaining meetings in 2024 should things pick up a bit. The OCR path for next year is naturally a lot more speculative.

Markets continue to reflect a more negative economic view and price a significant chance of at least one 50bp cut before Christmas. This could be in prospect should the economy remain as weak as it appears to have been in the June quarter (we estimate GDP contracted -0.6% in Q2) and if global central banks determine a faster removal of restriction is appropriate.

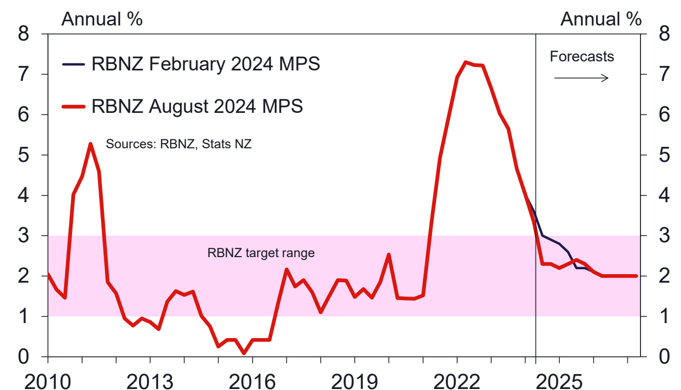
We think a faster fall in the OCR will be more likely if the activity and inflation outlook deteriorate such that it seems necessary for the OCR to spend some time below neutral. Right now, the RBNZ seems some distance from believing this is appropriate given they do not see inflation falling to even 2% until June 2026.

We might expect to see commentators forecasting annual CPI inflation settling significantly lower than 2% to justify a deeper trough in the OCR. For our part, we would likely respond to a weaker activity and inflation outlook by introducing a steeper rate cut cycle into our OCR forecast profile as opposed to tinkering with our ‘terminal OCR’ estimate of 3.75%.

Business activity outlook



Consumer price inflation



	2023				2024							
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
REINZ house sales %mth	–0.5	–11.1	3.8	4.7	–4.3	17.7	–0.4	–2.2	–3.3	–8.6	7.0	–
Residential building consents %mth	–4.5	7.6	–10.2	3.6	–9.7	16.2	–0.3	–2.2	–1.6	–17.0	26.2	–
Electronic card transactions %mth	–0.8	–0.6	1.6	–0.6	1.0	–1.3	–1.0	0.9	–1.0	–0.5	0.7	–
Private sector credit %yr	2.4	2.5	2.1	2.2	2.4	2.5	2.7	2.5	3.0	2.7	2.7	–
Commodity prices %mth	1.4	2.8	–1.3	2.4	2.1	3.6	–1.3	0.5	1.1	1.5	–1.7	2.1
Trade balance $m	-1081	-856	-865	-895	-393	-829	-329	-940	-995	-379	-770	–

Quarterly data	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**	**Q2:24**
Westpac McDermott Miller Consumer Confidence	92.1	78.7	87.6	75.6	77.7	83.1	80.2	88.9	93.2	82.2
Quarterly Survey of Business Opinion	–5	–1	3	–16	–10	–12	–18	6	–24	–28
Unemployment rate %	3.2	3.3	3.3	3.4	3.4	3.6	3.9	4.0	4.4	4.6
CPI %yr	6.9	7.3	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.3
Real GDP %yr	4.6	0.7	2.5	2.4	2.7	3.0	1.2	0.6	0.2	–
Current account balance % of GDP	–6.6	–7.9	–8.3	–8.8	–8.2	–7.6	–7.4	–6.9	–6.8	–
Nominal GDP %yr	2.5	5.2	5.4	3.9	4.2	4.2				

Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

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.

The longer authorities wait, the greater the cost ...

Elliot Clarke
Head of International Economics

Sentiment towards China is poor, and seemingly deteriorates further with every passing week. This is despite the majority of revisions to the growth outlook by market forecasters being marginal, and this year's consensus estimate of 4.8% remaining very close to the 'around 5%' guidance authorities gave at the start of the year.

The number of headlines given to debateing 2024's growth pace notwithstanding, the focus should instead be on the set–up for growth in 2025 and beyond, where, in our view, cause for concern is growing once again.

In terms of the immediate growth pulse, the manufacturing PMI has been sub–50 for much of the past two years. Yet, on average, the outcomes of this period are within a single point of the five years before the pandemic, 49.8 versus 50.5, when GDP growth averaged 6.7% per year.

The services PMI has seen more of a weakening compared to the five years pre–COVID – averaging 52.3 through 2023 and 2024 versus 54.1 – but achieving 5% GDP growth in such circumstances still seems readily achievable.

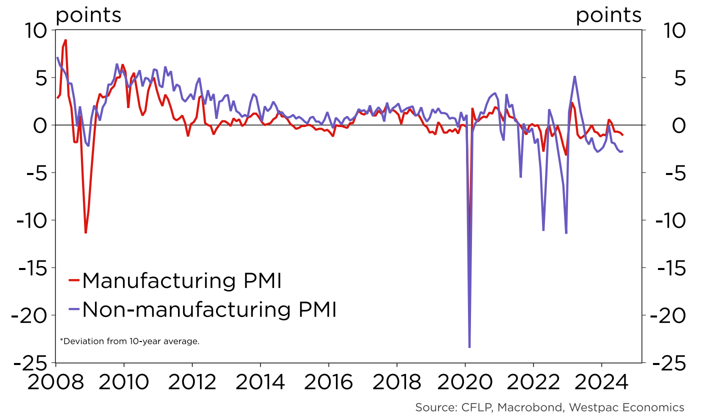
Apart from property, the sector that is nowhere near its pre–pandemic rate of growth is household consumption. Nominal retail sales has been growing at just 2.7%yr on average through 2023 and 2024, in contrast to almost 10% between 2015 and 2019.

This weakness is not solely the consequence of poor labour demand. Indeed, the manufacturing PMI employment measure is in line with the average of the five years prior to the pandemic, while the services PMI measure is resilient, recording 'only' four points below the prior period average despite housing construction having contracted by more than a third.

Rather, the steep deceleration in sales growth instead reflects the hit to sentiment about future job prospects – which has been across the entire population – and the impact of a prolonged decline in property prices on actual and anticipated wealth.

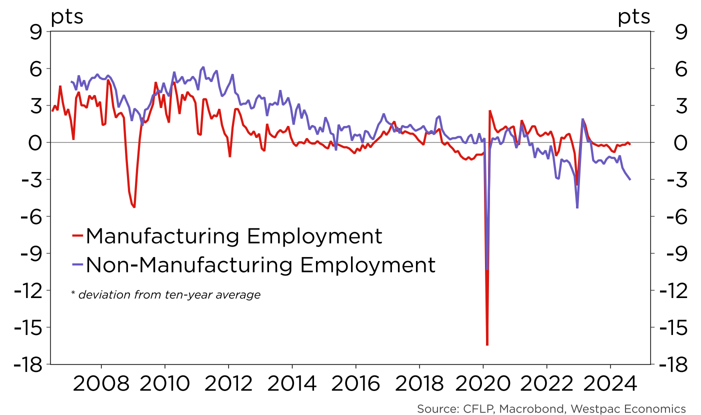
A dramatic loss of confidence is also evident in the household savings data. Precautionary savings across 'at call' and term deposit accounts having accrued rapidly during and after the pandemic. This could not have eventuated if discretionary income was being constrained by reductions in jobs and/or hours worked, particularly given that sales have still risen and population is flat to down. Confidence is therefore key.

NBS PMIs still consistent with 5% growth



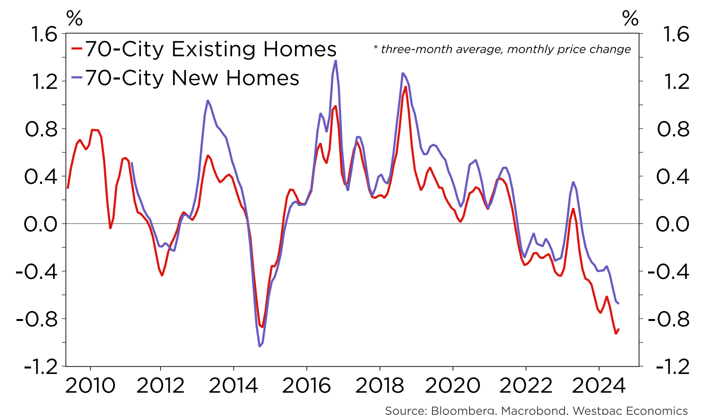
Source: CFLP, Macrobond, Westpac Economics

But employment in services very weak



Source: CFLP, Macrobond, Westpac Economics

Wealth continues to decline



Source: Bloomberg, Macrobond, Westpac Economics

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.

... and the risks

What can be done to fix the situation? Are authorities willing to do what it takes? These are two very important questions for the outlook.

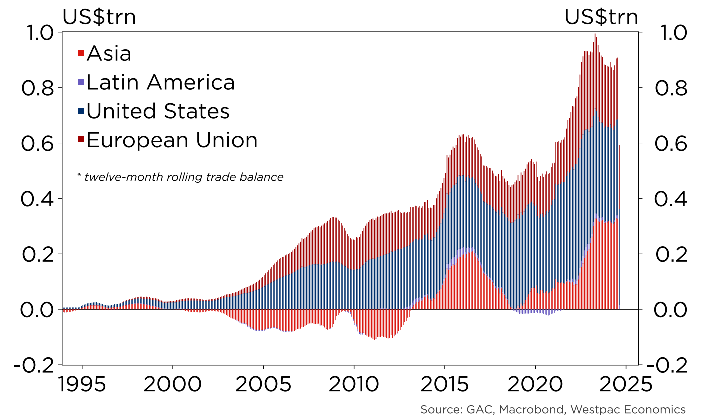
In short, the answer to the first question is: job creation and wealth distribution. Contrasting the PMI employment indexes against the rapid growth in high-tech manufacturing and infrastructure investment over recent years makes it clear that the new capacity is coming without a material lift in labour demand. Automation and efficiency are critical to the competitiveness of these industries.

For the broader economy to benefit from new capacity's value add, the ensuing returns from trade need to be distributed either by the Government or markets. However, neither is possible in the current circumstances given the approach authorities have taken to tax and spending as well as the weak standing of domestic capital markets.

Until structural reform takes place to strengthen these channels of income distribution, the Central Government instead needs to support wealth and income creation directly through local government stimulus and by underwriting the housing market. 'Shock and awe' stimulus is not necessary yet but if a credible floor for property prices and incomes does not appear soon it may become the only option to reset economic expectations.

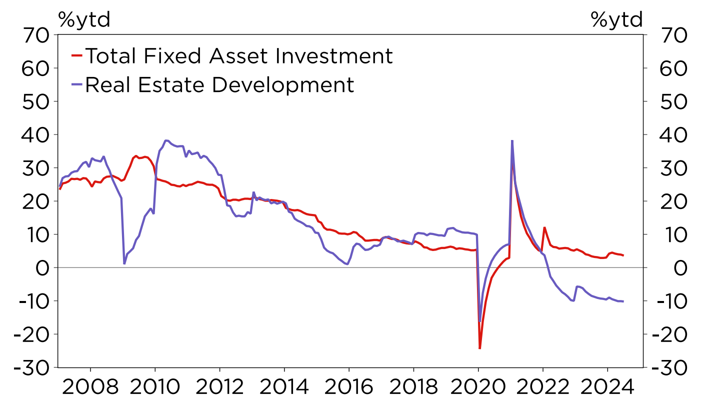
Given the actions taken to date, admittedly belatedly, we continue to assume authorities will deliver what is necessary in coming months. Still, the damage already done leads us to believe that 4.8% growth in 2024 is about as close to 5.0% as authorities can now get; and, come 2025 and 2026, 4.5% is the better benchmark. Risks to these views are skewed downward, more to 2026 than 2025 and 2024. The more entrenched fear and uncertainty become, the more risks skew towards a deeper and more prolonged period of weakness.

Benefits of trade have to flow through



Source: GAC, Macrobond, Westpac Economics

Credible floor needed on property downturn



	2023				2024							
Monthly data %yr	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
Consumer prices – headline	0	–0.2	–0.5	–0.3	–0.8	0.7	0.1	0.3	0.3	0.2	0.5	0.6
Money supply M2	10.3	10.3	10	9.7	8.7	8.7	8.3	7.2	7	6.2	6.3	–
Manufacturing PMI (official)	50.2	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1
Fixed asset investment %ytd	3.1	2.9	2.9	3.0	3.0	4.2	4.5	4.2	4.0	3.9	3.6	–
Industrial production (IVA)	4.5	4.6	6.6	6.8	6.8	7.0	4.5	6.7	5.6	5.3	5.1	–
Exports	–6.8	–6.6	0.7	2.1	7.8	5.2	–7.9	1.2	7.5	8.6	7.0	8.7
Imports	–6.3	3.0	–0.6	0.3	15.5	–8.0	–1.9	8.3	1.8	–2.4	7.2	0.5
Trade balance USDbn	75.1	55.9	69.1	74.7	84.1	38.7	57.5	71.7	82.4	98.9	84.6	91.0

Quarterly data	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**	**Q2:24**
Real GDP %yr	4.5	6.3	4.9	5.2	5.3	4.7
Nominal GDP %yr	5.2	5.4	3.9	4.2	4.2	4.0

Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

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.

No cause for alarm ...

Elliot Clarke
Head of International Economics

The market is increasingly attuned to the US economy's shifting risks. However, this is not a new phenomenon and, based on the data to hand, there is no cause for alarm.

On inflation, benign outcomes have been achieved for many months. Indeed, when the market was focused on the strength of 'supercore' inflation (core services ex housing) in Q1 and Q2 2024 we instead emphasised that the broader CPI ex shelter measure (which includes supercore) had been either side of the FOMC's 2.0%yr medium-term target since May 2023. Measures of inflation expectations also corrected through 2024 to be back in line with pre-pandemic average levels, a time when core inflation was below target, and wage growth also retreated but remained robust. Prices therefore have met the FOMC's hopes.

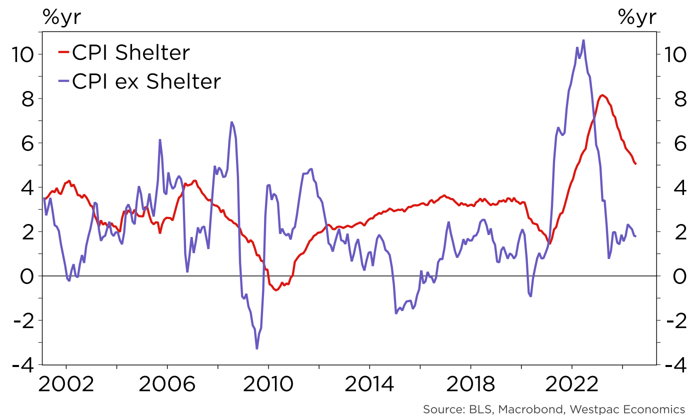
On the labour market, back in February, we laid out our reasoning for why it was important to consider the BLS employment situation report in its entirety, and to also cross reference this data against other quantitative and qualitative gauges of the labour market. At the time, the three month average for nonfarm payrolls had just jumped to 290k and the annual rate stood at 3.2%yr. Yet, the household survey was pointing to much weaker conditions, an outright decline in the level of employment between October 2023 and January 2024 leaving the average gain since January 2023 at just 142k.

Since then, the rate of growth in both nonfarm payrolls and household employment has slowed, respectively averaging 174k and 40k between February and August 2024, while the business surveys and the Federal Reserve's Beige Book continue to point to downside risks for the months ahead.

Historic revisions are also adding to uncertainty over the trajectory of the US labour market. While not yet incorporated into the published monthly data, the BLS has given guidance that they believe the level of nonfarm payrolls at March 2024 is 818k lower than initially estimated, equivalent to a 174k month-average pace over the prior year instead of the 242k published.

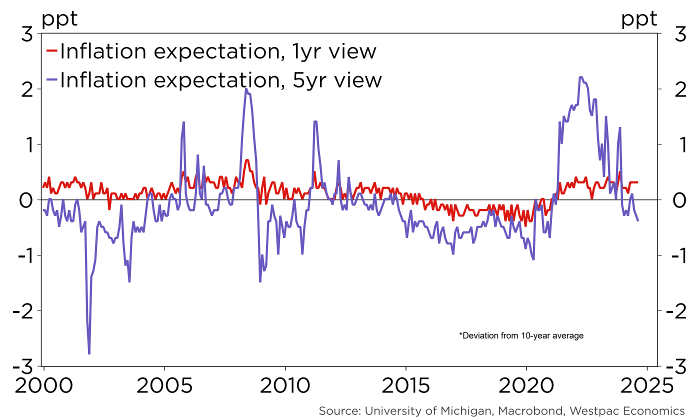
In the immediate past, accompanying August's minor downside surprise for nonfarm payrolls (142k actual against the consensus estimate of 165k) was a -86k revision to June and July combined - equivalent to almost a third of the estimated employment growth over those two months.

Inflation stable around target since 2023



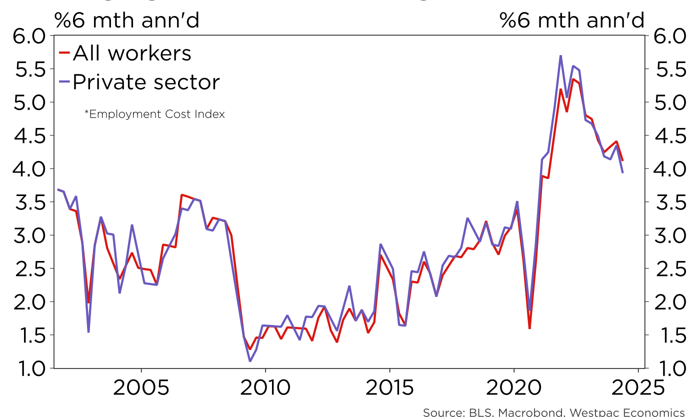
Source: BLS, Macrobond, Westpac Economics

Expectations are also benign



Source: University of Michigan, Macrobond, Westpac Economics

Wage growth moderating but still robust



Source: BLS, Macrobond, Westpac Economics

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.

... over US growth

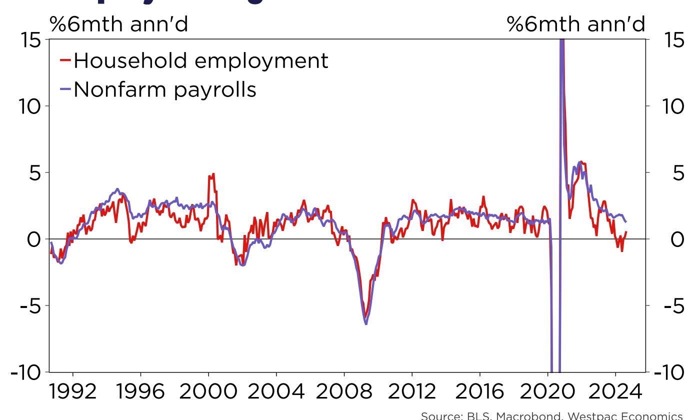
Still, it is important to recognise that job growth as estimated by both surveys remains positive and that the downside risks alluded to by the business surveys over the past year have not eventuated. The hiring and separation rates from the JOLTs survey also remain consistent with the experience of the five years prior to the pandemic – a robust period of growth for the labour market. Consumers also remain broadly sanguine on job security and are willing to grow spending at a pace broadly consistent with trend GDP growth.

As such, while Chair Powell made clear at Jackson Hole that the "time has come for policy to adjust", there is no need to panic. Instead, as long as employment growth holds near 100k a month and consumer confidence shows resilience, it is better to steadily lower the fed funds rate towards neutral 25bps at a time. This is what we expect from the September 2024 to March 2025 meetings for a cumulative 125bps of rate cuts.

If we are correct in anticipating growth near trend over the coming six months, the FOMC will be able to slow the pace of easing to one cut per quarter to end-2025, equating to another 75bps June through December 2025 for 200bps in total from today. Doing so will allow the underlying strength of the US economy to show, and careful assessment of the remaining inflation pressures, particularly those emanating from domestic supply constraints, which require investment to resolve.

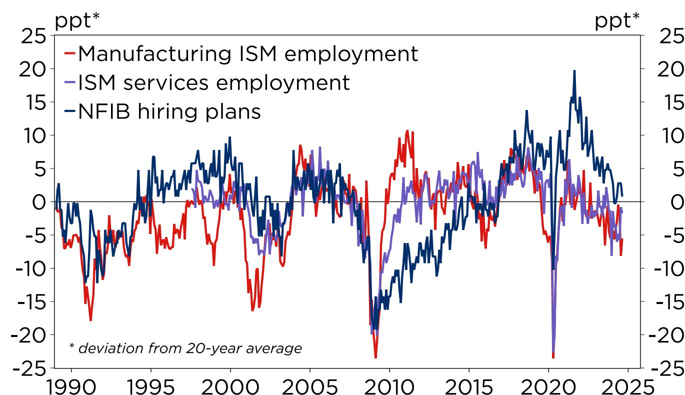
We see these inflation risks as likely to sustain, limiting the FOMC's cutting cycle to 200bps to 3.375% instead of a run to below neutral, currently estimated by the FOMC at 2.8%. Though, if cyclical momentum in the labour market and activity prove weaker, the FOMC clearly has scope to ease further in the near or medium term to compensate.

Employment growth still solid



Source: BLS, Macrobond, Westpac Economics

Survey's risks have not eventuated



	2023				2024							
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
PCE deflator %yr	3.4	2.9	2.7	2.6	2.5	2.5	2.7	2.7	2.6	2.5	2.5	–
Unemployment rate %	3.8	3.8	3.7	3.7	3.7	3.9	3.8	3.9	4.0	4.1	4.3	4.2
Non-farm payrolls chg '000	246	165	182	290	256	236	310	108	216	118	89	142
House prices* %yr	4.1	5.1	5.6	6.4	6.8	7.5	7.5	7.2	6.8	6.4	–	–
Durables orders core 3mth %saar	1.2	0.7	-1.3	0.2	1.7	2.2	-1.2	2.3	-3.4	-0.5	-1.7	–
ISM manufacturing composite	48.6	46.9	46.6	47.1	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2
ISM non-manufacturing composite	53.4	51.9	52.5	50.5	53.4	52.6	51.4	49.4	53.8	48.8	51.4	51.5
Personal spending 3mth %saar	6.8	5.1	5.5	4.8	4.3	5.0	5.4	6.0	5.9	4.5	5.7	–
UoM Consumer Sentiment	67.8	63.8	61.3	69.7	79.0	76.9	79.4	77.2	69.1	68.2	66.4	67.9
Trade balance USDbn	-62.2	-64.3	-64.8	-64.9	-66.4	-68.9	-68.0	-74.9	-75.3	-73.0	-78.8	–

Quarterly data	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24(f)
Real GDP % saar	2.1	4.9	3.4	1.4	2.8	2.2
Current account USDbn	-232.6	-220.7	-221.8	-237.6	–	–

Sources: Government agencies, Bloomberg, *S&P Case-Shiller 20-city measure.

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.

Carry trade to give way to longer-term ...

Illiana Jain
Economist, Westpac Group

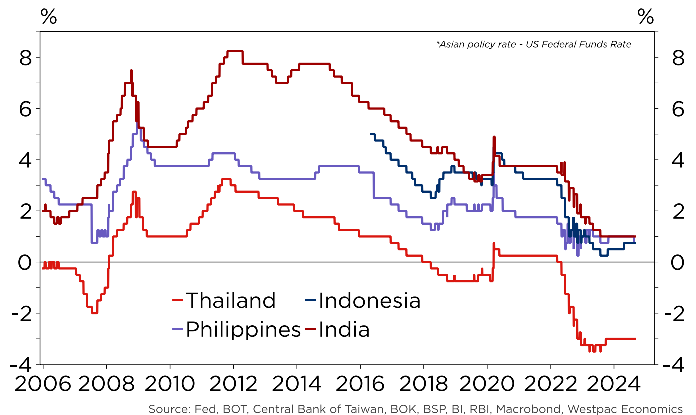
With the US FOMC soon to start its rate cutting cycle, central bankers across emerging markets (EMs) are also getting ready to adjust policy. At the end of this cycle, policy rates across the region are likely to be much closer to the fed funds rate than is typical through history. While partly a consequence of the higher starting point for the fed funds rate in this cycle, the smaller spreads also reflect fewer capacity constraints given the efficiency and connectivity of Asia and consequently less inflation pressure. This will have implications for growth and economic development, and could see currencies sustainably appreciate against the US dollar.

Since the beginning of the pandemic, monetary policy has been comparatively looser in Asia than in the US. Initially, central banks in India, the Philippines and Indonesia all cut rates by more than the US FOMC. These central banks, as well as the Bank of Thailand then raised rates by far less during the post-pandemic tightening: the FOMC's 525bps of rate rises compares to the Philippine Bangko ng Pilipinas' 450bps, the Bank Indonesia's 275bps, the Reserve Bank of India's 250bps and the Bank of Thailand's 200bps. This has left spreads to the federal funds rate at their lowest levels since before the 2008-09 Global Financial Crisis.

Moreover, current policy rates are arguably too high for current domestic conditions. While growth is strong in aggregate, domestic consumption growth is tracking below the trend pace over the 10 years prior to COVID in all of these economies except India. Consumption in Indonesia is 4ppts below where this trend would have led to had COVID not occurred, Thailand around 5ppts below and the Philippines circa 6ppts lower. Investment is also weak in all of these countries except for India. This enduring underperformance has limited the pass through of global price pressures and led to the build up of a degree of slack amongst households and related businesses, with aggregate growth instead being held up by government expenditure and export growth.

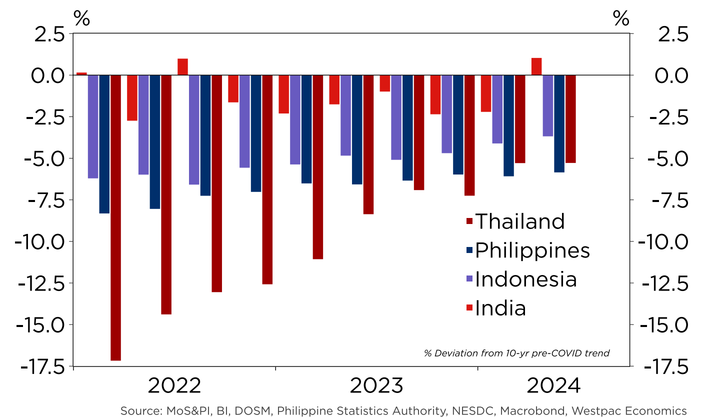
Given this slack and the fed funds rate's higher starting point, we expect EM Asia's central banks to follow the US FOMC lower through the coming easing cycle, keeping spreads between EM policy rates and the FOMC comparatively low versus history. This means capital flows into these economies will need to be driven by growth prospects not yield differentials. These opportunities are found in both the region's domestic markets and its export sectors.

Spreads to US rates are set to be lower



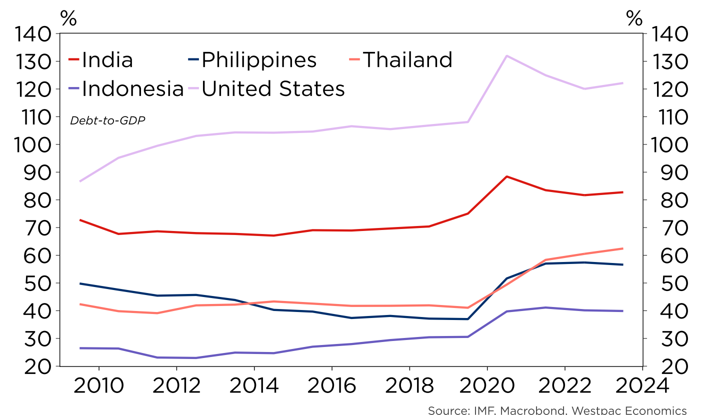
Source: Fed, BOT, Central Bank of Taiwan, BOK, BSP, BI, RBI, Macrobond, Westpac Economics

Slack points to scope for policy easing



Source: MoS&PI, BI, DOSM, Philippine Statistics Authority, NESDC, Macrobond, Westpac Economics

Fiscal capacity ample in Asia



Source: IMF, Macrobond, Westpac Economics

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.

... investment in Asian growth

Growth in EM Asia can be catalysed by public expenditure. Governments have ample fiscal space thanks to manageable debt liabilities and the potential to expand the tax base as the economy grows. There is justification for EM Asia's nations to embark on strong investment agendas given young and growing populations as well as their increasing importance in global production chains. Households should also benefit from this strength in government expenditure and exports, fuelling consumption. Consumption below pre-COVID trends implies there is already some pent-up demand still to flow through.

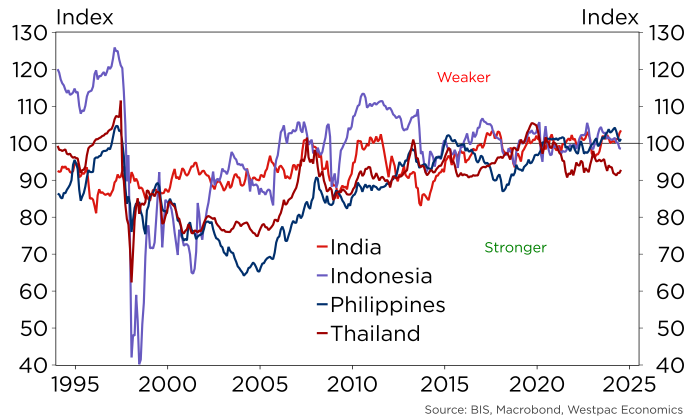
Importantly, real effective exchange rates – the value of a currency against the weighted average of currencies of major trade partners adjusted for inflation – have held steady through the pandemic and recovery. This has provided some certainty for inflation and trade despite some weakening in US dollar bilaterals more recently. This is likely to remain the case going forward, albeit with some variation. That should allow the region to focus more on the development of comparative advantages, efficiency and diversifying export markets instead of simply being a mass-volume, low-cost exporter to the US.

That said, the region's currencies remain sub-par against the US dollar and other developed-world currencies, providing an opportunity arguably to grow share in these markets as well. Note that this is not only applicable to manufacturing and mining but to tourism as well, broadening the benefits from trade to a wider population. Further foreign investment will also be incentivised by this trend and the deeper cross-border relationships it fosters.

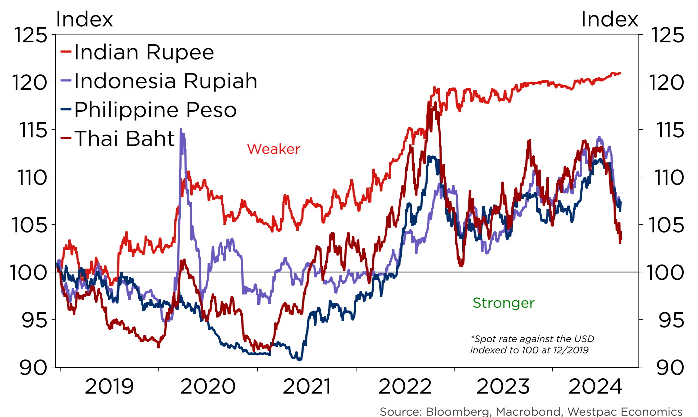
The lasting uncertainty created by the pandemic and its inflationary consequences may therefore, in time, create structural strength in Asia's developing economies. This should in turn incentivise long-term investment in the region over short-term carry trades built on risk premia.

The building out of industry and greater two-way trade also stands to reduce concern over cyclical volatility and the immaturity of regional capital markets. While the uptrend in the region's currencies against the US dollar is likely to prove shallow, recurring improvement in capacity and productivity should stand the region in good stead and drive a longer term uptrend – a shift that will mitigate tradeable inflation risks and reflect slowly improving global purchasing power and financial stability across these countries. The outlook for Asia's economies and currencies is therefore bright.

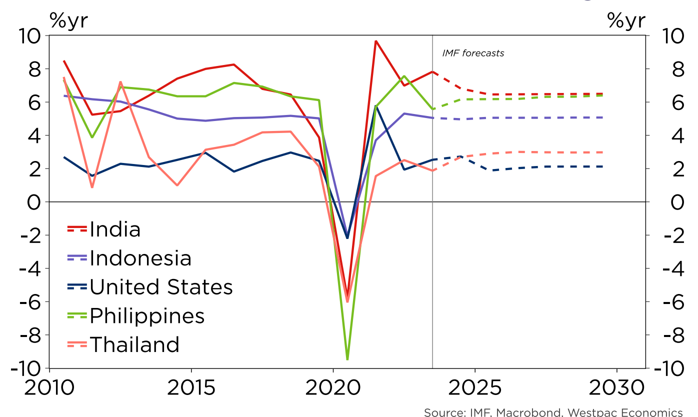
Real effective exchange rates steady



Weak spot rates present opportunities



Growth across EM Asia will be strong



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.

Australia

Interest rate forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Cash	4.35	4.35	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.42	4.42	4.19	3.96	3.73	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.50	3.60	3.60	3.55	3.55	3.50	3.50	3.50	3.55	3.60
3 Year Bond	3.49	3.55	3.50	3.45	3.40	3.35	3.30	3.30	3.35	3.40
10 Year Bond	3.87	3.90	3.90	3.90	4.00	4.05	4.05	4.10	4.10	4.15
10 Year Spread to US (bps)	23	15	15	10	10	5	5	5	5	5

Currency forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD vs										
USD	0.6653	0.68	0.69	0.70	0.71	0.72	0.72	0.73	0.73	0.73
JPY	94.60	97	97	98	99	99	99	99	99	98
EUR	0.6037	0.61	0.62	0.63	0.63	0.63	0.63	0.63	0.63	0.63
NZD	1.0819	1.10	1.10	1.11	1.14	1.13	1.13	1.14	1.14	1.14
CAD	0.9055	0.92	0.92	0.93	0.94	0.94	0.94	0.94	0.93	0.93
GBP	0.5086	0.52	0.52	0.53	0.53	0.54	0.54	0.54	0.54	0.54
CHF	0.5633	0.57	0.58	0.59	0.60	0.60	0.61	0.62	0.62	0.62
DKK	4.5048	4.57	4.64	4.66	4.68	4.71	4.71	4.74	4.74	4.74
SEK	6.9011	7.00	7.11	7.14	7.17	7.22	7.22	7.26	7.26	7.26
NOK	7.2012	7.31	7.41	7.45	7.48	7.53	7.53	7.57	7.57	7.57
ZAR	11.94	12.1	12.2	12.3	12.3	12.4	12.4	12.5	12.5	12.5
SGD	0.8676	0.89	0.90	0.91	0.92	0.93	0.92	0.93	0.93	0.93
HKD	5.1878	5.30	5.38	5.45	5.52	5.60	5.59	5.67	5.66	5.66
PHP	37.55	38.3	38.8	39.3	39.8	40.2	40.0	40.4	40.3	40.3
THB	22.38	22.8	23.1	23.4	23.6	23.8	23.4	23.4	23.0	23.0
MYR	2.8867	2.96	2.97	2.98	2.98	3.02	2.99	3.03	2.99	2.99
CNY	4.7418	4.83	4.86	4.90	4.90	4.90	4.82	4.82	4.78	4.75
IDR	10282	10472	10557	10570	10579	10584	10440	10439	10293	10293
TWD	21.42	21.8	22.0	22.1	22.2	22.3	22.1	22.2	22.0	22.0
KRW	894	911	918	924	930	936	929	934	927	927
INR	55.98	56.8	57.3	57.8	58.2	58.3	57.6	57.7	56.9	56.2

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.

Australia

Activity forecasts*

	2024				2025				Calendar years			
%qtr / %yr avg	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	0.6	-0.2	0.6	0.3	0.5	0.5	0.5	0.6	2.0	1.1	1.7	2.2
Dwelling investment	-0.4	0.6	-1.5	-0.8	1.1	1.2	1.3	1.3	1.8	-2.5	1.8	6.4
Business investment *	-0.4	0.1	0.6	0.7	0.8	0.9	1.3	1.3	9.3	2.4	3.3	5.7
Private demand *	0.3	0.0	0.5	0.4	0.6	0.6	0.7	0.7	2.6	1.2	2.1	3.3
Public demand *	0.8	0.8	2.0	0.7	0.7	0.7	0.9	0.7	3.3	3.9	3.6	2.6
Domestic demand	0.5	0.2	0.9	0.4	0.6	0.6	0.8	0.7	2.8	1.9	2.5	3.1
Stock contribution	0.7	-0.3	-0.1	0.2	0.0	0.0	0.0	0.0	-0.9	0.3	0.0	0.2
GNE	1.2	-0.1	0.81	0.6	0.6	0.6	0.8	0.7	1.8	2.2	2.6	3.2
Exports	0.8	0.5	0.4	0.5	0.6	0.6	0.5	0.6	6.7	1.4	2.2	1.9
Imports	6.1	-0.2	1.2	1.0	1.0	1.0	1.1	1.0	6.4	6.2	3.9	5.3
Net exports contribution	-1.1	0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.4	-1.0	-0.3	-0.7
Real GDP %qtr / yr avg	**0.2**	**0.2**	**0.6**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**	2.0	1.3	2.2	2.4
%yr end	**1.3**	**1.0**	**1.2**	**1.5**	**1.9**	**2.2**	**2.2**	**2.4**	**1.6**	**1.5**	**2.4**	**2.4**
Nominal GDP %qtr	1.2	0.2	0.7	0.6	0.6	0.8	1.2	1.2	–	–	–	–
%yr end	3.7	4.4	3.7	2.6	2.1	2.7	3.2	3.9	5.5	3.6	3.0	4.8

Other macroeconomic variables

	2024				2025				Calendar years			
% change	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Employment (2)	0.5	0.8	1.0	0.3	0.2	0.1	0.1	0.2	–	–	–	–
%yr	2.8	2.7	3.1	2.6	2.3	1.5	0.7	0.6	3.1	2.6	0.6	1.5
Unemployment rate % (2)	3.9	4.1	4.2	4.3	4.4	4.5	4.5	4.6	3.9	4.3	4.6	4.6
Wages (WPI) (2)	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7	–	–	–	–
%yr	4.1	4.1	3.5	3.2	3.0	2.9	2.8	2.9	4.2	3.2	2.9	3.4
Headline CPI (2)	1.0	1.0	0.3	0.4	0.6	0.9	1.2	0.8	–	–	–	–
%yr	3.6	3.8	2.9	2.6	2.3	2.2	3.2	3.6	4.1	2.6	3.6	2.8
Trimmed Mean CPI	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.8	–	–	–	–
%yr (2)	4.0	3.9	3.5	3.3	3.0	2.9	2.8	2.9	4.1	3.3	2.9	2.6
Current account $bn	-6.3	-10.7	-13.9	-11.6	-9.3	-8.6	-8.2	-6.7	–	–	–	–
% of GDP	-0.9	-1.6	-2.0	-1.7	-1.4	-1.2	-1.2	-0.9	0.3	-1.6	-1.2	-1.3
Terms of trade annual chg (1)	-7.2	-3.8	-3.9	-6.1	-4.5	-1.6	1.0	0.9	-6.3	-5.3	-1.1	-1.2

Calendar year changes are (1) period average for GDP, terms of trade, unless otherwise stated (2) through the year for inflation, wages and employment. Unemployment is year end.
* GDP & component forecasts are reviewed following the release of quarterly national accounts.
** Business investment and government spending adjusted to exclude the effect of private sector purchases of public sector assets.

Macroeconomic variables – recent history

	2023		2024								
Monthly data	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Employment '000 chg	63.1	-61.1	12.5	121.9	-4.6	36.6	41.2	52.3	58.2	–	–
Unemployment rate %	3.9	3.9	4.1	3.7	3.9	4.1	4.0	4.1	4.2	–	–
Westpac-MI Consumer Sentiment	79.9	82.1	81.0	86.0	84.4	82.4	82.2	83.6	82.7	85.0	84.6
Retail trade %mth	1.5	-2.0	1.0	0.3	-0.4	0.3	0.5	0.5	0.0	–	–
Dwelling approvals %mth	0.2	-7.0	-5.5	2.4	0.6	1.0	6.7	-6.4	10.4	–	–
Private sector credit %mth	0.4	0.4	0.5	0.5	0.4	0.5	0.4	0.6	0.5	–	–
Trade in goods balance AUDbn	11.8	10.7	10.1	6.6	4.8	6.0	5.1	5.4	6.0	–	–

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.

New Zealand

Interest rate forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Cash	5.25	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75
90 Day Bill	5.11	4.75	4.50	4.25	4.00	3.85	3.85	3.85	3.85	3.85
2 Year Swap	3.74	3.90	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
10 Year Bond	4.17	4.20	4.25	4.30	4.35	4.40	4.40	4.40	4.35	4.35
10 Year Spread to US	53	45	50	50	45	40	40	35	30	25
10 Year Spread to Aust	30	30	35	40	35	35	35	30	25	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
NZD vs										
USD	0.6149	0.62	0.63	0.63	0.63	0.64	0.64	0.64	0.64	0.64
JPY	87.44	88	89	88	87	88	88	87	86	86
EUR	0.5580	0.56	0.57	0.56	0.55	0.56	0.56	0.56	0.56	0.56
AUD	0.9243	0.91	0.91	0.90	0.88	0.89	0.89	0.88	0.88	0.88
CAD	0.8370	0.84	0.84	0.84	0.83	0.84	0.84	0.83	0.82	0.81
GBP	0.4701	0.47	0.48	0.48	0.47	0.48	0.48	0.48	0.47	0.47
CNY	4.3790	4.40	4.44	4.41	4.31	4.35	4.29	4.22	4.19	4.16

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2024				2025				Calendar years			
% change	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	1.6	-1.0	-0.2	0.5	0.4	0.6	0.7	0.8	0.6	1.0	1.4	3.5
Government consumption	-0.3	-1.0	-1.0	-0.5	0.0	0.0	0.4	0.6	-0.8	-1.6	-0.8	2.2
Residential investment	-3.7	-2.5	-2.3	-1.5	-1.1	-0.5	-0.1	0.2	-4.1	-8.0	-4.3	3.3
Business investment	-0.5	-0.9	-2.8	-1.2	-0.9	0.0	0.8	1.2	0.7	-4.4	-2.7	5.4
Stocks (ppt contribution)	0.7	1.6	-0.1	0.3	0.4	0.2	0.0	-0.1	-1.4	0.9	1.1	-0.4
GNE	1.4	0.4	-1.0	0.2	0.4	0.5	0.6	0.7	-1.5	-0.4	1.0	3.2
Exports	-0.4	1.7	1.4	0.8	0.8	0.7	0.8	0.8	9.8	3.9	4.1	3.0
Imports	6.1	-4.4	-1.8	0.1	0.5	0.7	1.2	1.4	-0.5	-1.3	0.4	5.9
GDP (production)	0.2	-0.6	-0.2	0.4	0.5	0.5	0.5	0.6	0.6	-0.3	1.3	2.3
Employment annual %	1.3	0.6	0.3	-0.4	-0.3	-0.8	-0.4	-0.1	2.9	-0.4	-0.1	1.5
Unemployment rate % s.a.	4.4	4.6	5.0	5.3	5.5	5.6	5.6	5.6	4.0	5.3	5.6	4.9
LCI, all sect incl o/t, ann %	4.1	4.3	3.9	3.5	3.2	2.6	2.5	2.3	4.3	3.5	2.3	1.9
CPI annual %	4.0	3.3	2.6	2.5	2.4	2.4	2.1	2.2	4.7	2.5	2.2	2.1
Current account % of GDP	-6.8	-6.5	-6.0	-5.3	-4.6	-4.2	-4.1	-4.0	-6.9	-5.3	-4.0	-4.2
Terms of trade annual %	-3.7	-0.5	1.7	9.8	4.6	2.1	1.3	2.4	-10.7	9.8	2.4	1.8

Sources: Statistics NZ, Westpac Economics.

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.

Commodity prices

End of period	Latest (11 Sep)***	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Australian commodities index#	292	292	283	275	273	277	283	286	288	289	291
Bulk commodities index#	**399**	**400**	**370**	**360**	**350**	**350**	**350**	**350**	**350**	**340**	**350**
iron ore finesTSI @ 62% US$/t	91	99	85	85	85	86	87	84	83	83	84
Premium low vol met coal (US$/t)	182	209	185	182	180	175	170	170	169	168	169
Newcastle spot thermal coal (US$/t)	147	147	140	130	125	120	120	121	122	122	123
crude oil (US$/bbl) Brent ICE	71	77	70	67	72	77	85	87	87	88	88
LNG in Japan US$mmbtu	12.88	12.6	11.8	10.7	10.2	10.8	11.4	12.5	12.8	12.8	12.9
gold (US$/oz)	2,537	2,480	2,530	2,550	2,560	2,580	2,600	2,620	2,650	2,670	2,690
Base metals index#	**204**	**204**	**202**	**198**	**199**	**207**	**224**	**229**	**229**	**231**	**232**
copper (US$/t)	8,983	9,160	8,880	8,900	9,000	9,630	10,630	10,880	10,880	10,950	11,020
aluminium (US$/t)	2,810	2,660	2,750	2,600	2,650	2,800	3,030	3,090	3,090	3,100	3,120
nickel (US$/t)	15,732	16,210	15,800	15,750	15,500	15,250	15,250	15,660	15,660	15,780	15,900
zinc (US$/t)	2,697	2,760	2,700	2,550	2,450	2,450	2,550	2,600	2,600	2,610	2,620
lead (US$/t)	1,943	2,030	1,950	1,950	1,940	1,940	2,070	2,100	2,100	2,110	2,120
Rural commodities index#	**121**	**121**	**119**	**115**	**124**	**133**	**148**	**152**	**152**	**153**	**154**
NZ commodities index ##	**358**	**355**	**353**	**348**	**348**	**349**	**351**	**355**	**358**	**362**	**366**
dairy price index ##	312	311	309	302	300	301	303	305	307	310	312
whole milk powder USD/t	3,396	3,390	3,350	3,370	3,400	3,430	3,450	3,480	3,500	3,530	3,550
skim milk powder USD/t	2,753	2,730	2,600	2,650	2,700	2,720	2,740	2,760	2,780	2,800	2,820
lamb price index ##	473	460	463	466	470	475	480	488	496	504	511
beef price index ##	291	284	284	284	284	284	285	286	286	287	288
forestry price index ##	158	157	159	160	162	164	166	168	170	173	176

	levels				%change			
Annual averages	2023	2024(f)	2025(f)	2026(f)	2023	2024(f)	2025(f)	2026(f)
Australian commodities index#	**323**	**305**	**277**	**288**	**-15.8**	**-5.7**	**-9.3**	**4.0**
Bulk commodities index#	**500**	**435**	**354**	**347**	**-10.1**	**-13.0**	**-18.6**	**-2.1**
iron ore fines @ 62% USD/t	120	105	86	84	-0.5	-11.8	-18.8	-2.2
LNG in Japan $mmbtu	14.9	12.9	10.8	12.6	-20.0	-13.5	-16.1	16.9
ave coking coal price (US$/t)	215	197	160	148	-10.2	-8.5	-18.8	-7.3
ave thermal price (US$/t)	185	133	116	113	-45.1	-28.1	-12.6	-2.9
iron ore fines contracts (US¢ dltu)	160	157	125	124	-7.9	-2.2	-20.6	-0.5
Premium low vol met coal (US$/t)	296	236	178	169	-19.0	-20.3	-24.4	-5.1
crude oil (US$/bbl) Brent ICE	80	78	74	87	-12.4	-2.8	-5.1	17.8
gold (US$/oz)	1,962	2,367	2,567	2,649	8.4	20.6	8.5	3.2
Base metals index#	**212**	**207**	**206**	**228**	**-16.5**	**-2.4**	**-0.6**	**11.1**
copper (US$/t)	8,500	9,100	9,400	10,900	-3.7	7.1	3.3	16.0
aluminium (US$/t)	2,700	2,700	2,700	3,100	-30.3	0.0	0.0	14.8
nickel (US$/t)	21,600	16,800	15,500	15,700	-17.6	-22.2	-7.7	1.3
zinc (US$/t)	2,700	2,700	2,500	2,600	-22.2	0.0	-7.4	4.0
lead (US$/t)	2,100	2,100	2,000	2,100	-2.5	0.0	-4.8	5.0
Rural commodities index#	**141**	**125**	**127**	**151**	**-17.9**	**-11.2**	**1.9**	**18.9**
NZ commodities index ##	**330**	**351**	**349**	**360**	**-12.4**	**6.5**	**-0.5**	**3.2**
dairy price index ##	286	310	301	309	-18.8	8.4	-2.8	2.4
whole milk powder USD/t	3,081	3,300	3,400	3,500	-20.8	7.1	3.0	2.9
skim milk powder USD/t	2,640	2,600	2,700	2,800	-30.9	-1.5	3.8	3.7
lamb price index ##	461	452	472	497	-26.2	-1.8	4.3	5.4
beef price index ##	271	278	284	286	-3.2	2.4	2.2	0.8
forestry price index ##	160	159	162	171	-6.9	-0.6	2.2	5.4

Chain weighted index: weights are Australian export shares. * Australian export prices fob – ABS 5432.0 Merchandise Trade Exports. ** WCFI – Westpac commodities futures index. *** Weekly averages except for the Bulks Index. ^ AWEX market prices. Sources for all tables: Westpac Economics, Bloomberg ##ANZ NZ commodity price index ^^ GlobalDairyTrade

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.

United States

Interest rate forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Fed Funds*	5.375	4.875	4.375	4.125	3.875	3.625	3.625	3.625	3.625	3.625
10 Year Bond	3.64	3.75	3.75	3.80	3.90	4.00	4.00	4.05	4.05	4.10

Sources: Bloomberg, Westpac Economics. * +12.5bps from the Fed Funds lower bound (overnight reverse repo rate).

Currency forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USD vs										
DXY index	101.66	101.1	100.8	100.1	99.1	98.5	98.3	97.6	97.3	97.2
JPY	142.19	142	141	140	139	138	137	136	135	134
EUR	1.1021	1.11	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15
AUD	0.6653	0.68	0.69	0.70	0.71	0.72	0.72	0.73	0.73	0.73
NZD	0.6149	0.62	0.63	0.63	0.63	0.64	0.64	0.64	0.64	0.64
CAD	1.3611	1.35	1.34	1.33	1.32	1.31	1.30	1.29	1.28	1.27
GBP	1.3080	1.31	1.32	1.32	1.33	1.33	1.34	1.34	1.35	1.35
CHF	0.8467	0.84	0.84	0.84	0.84	0.84	0.85	0.85	0.85	0.85
ZAR	17.95	17.76	17.63	17.50	17.38	17.26	17.26	17.14	17.14	17.14
SGD	1.3041	1.31	1.30	1.30	1.29	1.29	1.28	1.28	1.27	1.27
HKD	7.7973	7.80	7.79	7.79	7.78	7.78	7.77	7.77	7.76	7.76
PHP	56.39	56.30	56.20	56.10	56.00	55.80	55.60	55.40	55.20	55.20
THB	33.65	33.6	33.5	33.4	33.2	33.0	32.5	32.0	31.5	31.5
MYR	4.3403	4.35	4.30	4.25	4.20	4.20	4.15	4.15	4.10	4.10
CNY	7.1210	7.10	7.05	7.00	6.90	6.80	6.70	6.60	6.55	6.50
IDR	15455	15400	15300	15100	14900	14700	14500	14300	14100	14100
TWD	32.19	32.1	31.9	31.6	31.3	31.0	30.7	30.4	30.1	30.1
KRW	1344	1340	1330	1320	1310	1300	1290	1280	1270	1270
INR	83.98	83.50	83.00	82.50	82.00	81.00	80.00	79.00	78.00	77.00

Activity forecasts*

	2023	2024				2025		Calendar years			
% annualised, s/adj	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	3.3	1.5	2.3	2.1	1.8	1.5	1.8	2.2	2.2	1.8	1.9
Dwelling investment	2.8	16.0	-1.4	3.2	3.2	3.2	3.6	-10.6	5.4	3.2	3.0
Business investment	3.8	4.4	5.2	2.6	2.4	3.3	3.3	4.1	3.8	3.1	2.8
Public demand	4.6	1.8	3.1	2.0	1.2	1.2	1.2	4.1	3.1	1.4	1.1
Domestic final demand	3.6	2.4	2.7	2.2	1.8	1.8	2.0	2.3	2.7	2.0	2.1
Inventories contribution ppt	-0.4	-0.5	0.8	0.0	-0.3	-0.3	0.0	-0.4	0.1	0.0	-0.1
Net exports contribution ppt	0.2	-0.7	-0.8	0.0	-0.1	-0.2	-0.2	0.6	-0.3	-0.2	-0.2
GDP	3.4	1.4	2.8	2.2	1.6	1.4	1.9	2.5	2.6	1.8	1.7
%yr annual chg	3.1	2.9	3.1	2.5	2.0	2.0	1.8	–	–	–	–

Other macroeconomic varilables

Non-farm payrolls mth avg	**206**	**257**	**192**	**115**	**90**	**70**	**50**	**245**	**164**	**68**	**133**
Unemployment rate %	3.7	3.8	4.0	4.1	4.3	4.5	4.7	3.7	4.3	4.7	4.7
CPI headline %yr	2.5	2.5	2.5	2.3	2.2	2.1	2.0	2.7	2.2	2.2	2.1
PCE deflator, core %yr	2.5	2.5	2.5	2.4	2.3	2.3	2.2	2.4	2.2	2.2	2.2
Current account %GDP	-2.7	-2.7	-2.7	-2.6	-2.6	-2.5	-2.5	-2.4	-2.4	-2.3	-2.3

Sources: Official agencies, Factset, Westpac Economics

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.

Europe & the United Kingdom

Interest rate forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Euro Area										
ECB Deposit rate	3.75	3.25	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50
10 Year Bund	2.13	2.15	2.15	2.20	2.25	2.30	2.35	2.40	2.45	2.50
10 Year Spread to US	-151	-160	-160	-160	-165	-170	-165	-165	-160	-160
United Kingdom										
BoE Bank Rate	5.00	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	3.82	3.85	3.80	3.80	3.90	4.00	4.00	4.05	4.05	4.10
10 Year Spread to US	18	10	5	0	0	0	0	0	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
euro vs										
USD	1.1021	1.11	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15
JPY	156.71	158	157	157	157	157	156	156	155	154
GBP	0.8426	0.85	0.84	0.85	0.85	0.86	0.85	0.86	0.85	0.85
CHF	0.9332	0.93	0.93	0.94	0.95	0.96	0.97	0.98	0.98	0.98
DKK	7.4620	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.4309	11.43	11.43	11.43	11.43	11.43	11.43	11.43	11.43	11.43
NOK	11.9284	11.93	11.93	11.93	11.93	11.93	11.93	11.93	11.93	11.93
sterling vs										
USD	1.3080	1.31	1.32	1.32	1.33	1.33	1.34	1.34	1.35	1.35
JPY	185.99	186	186	185	185	184	184	182	182	181
CHF	1.1075	1.10	1.11	1.11	1.12	1.12	1.14	1.14	1.15	1.15
AUD	0.5086	0.52	0.52	0.53	0.53	0.54	0.54	0.54	0.54	0.54

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2020	2021	2022	2023	2024f	2025f	2026f
Eurozone GDP	-6.1	5.6	3.3	0.4	0.6	1.5	1.3
private consumption	-8.0	3.5	4.0	0.6	0.9	1.3	1.2
fixed investment	-8.4	3.6	3.5	1.0	-0.2	1.5	1.8
government consumption	1.4	3.8	1.2	0.1	1.2	1.0	1.0
net exports contribution ppt	-0.7	1.0	0.3	0.1	0.2	0.3	0.4
Germany GDP	-3.8	3.2	1.8	-0.3	0.2	1.2	1.2
France GDP	-7.5	6.4	2.5	0.7	1.0	1.2	1.2
Italy GDP	-9.0	8.3	3.7	0.9	0.8	1.0	1.0
Spain GDP	-11.2	6.4	5.8	2.5	2.5	1.9	1.6
Netherlands GDP	-3.8	6.3	4.4	0.1	0.4	1.5	1.5
memo: United Kingdom GDP	-10.4	9.6	4.5	0.4	0.9	1.3	1.4

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.

Asia

China activity forecasts

Calendar years	2019	2020	2021	2022	2023	2024f	2025f	2026f
Real GDP	6.0	2.2	8.4	3.0	5.2	4.8	4.5	4.5
Consumer prices	2.9	2.5	0.9	2.0	0.2	0.7	1.8	2.1
Producer prices	-0.5	-0.4	10.3	-0.7	-3.0	-1.0	1.1	1.6
Industrial production (IVA)	5.8	5.1	6.7	3	4.4	5.1	4.5	4.5
Retail sales	8.0	-3.9	12.5	-0.2	7.6	4.4	5.1	5.2
Money supply M2	8.7	10.1	9.0	11.8	11.2	8.0	8.5	8.2
Fixed asset investment	5.4	2.9	4.9	5.1	3.5	4.4	4.4	4.5
Exports %yr	7.9	18.1	20.9	-9.9	-4.6	4.4	4.0	3.5
Imports %yr	16.5	6.5	19.5	-7.5	-5.3	3.0	2.7	2.8

Source: Macrobond

Chinese interest rates & monetary policy

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Required reserve ratio %*	10.00	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Loan Prime Rate, 1-year	3.35	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25

* For major banks.

Currency forecasts

	Latest (11 Sep)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
JPY	142.19	142	141	140	139	138	137	136	135	134
SGD	1.3041	1.31	1.30	1.30	1.29	1.29	1.28	1.28	1.27	1.27
HKD	7.7973	7.80	7.79	7.79	7.78	7.78	7.77	7.77	7.76	7.76
PHP	56.39	56.3	56.2	56.1	56.0	55.8	55.6	55.4	55.20	55.20
THB	33.65	33.6	33.5	33.4	33.2	33.0	32.5	32.0	31.5	31.5
MYR	4.3403	4.35	4.30	4.25	4.20	4.20	4.15	4.15	4.10	4.10
CNY	7.1210	7.10	7.05	7.00	6.90	6.80	6.70	6.60	6.55	6.50
IDR	15455	15400	15300	15100	14900	14700	14500	14300	14100	14100
TWD	32.19	32.1	31.9	31.6	31.3	31.0	30.7	30.4	30.1	30.1
KRW	1344	1340	1330	1320	1310	1300	1290	1280	1270	1270
INR	83.98	83.5	83.0	82.5	82.0	81.0	80.0	79.0	78.0	77.0

Source: Bloomberg, Westpac Economics.

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.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023	2024f	2025f	2026f
World	**2.8**	**-2.7**	**6.5**	**3.5**	**3.2**	**3.3**	**3.2**	**3.2**
United States	2.5	-2.2	5.8	1.9	2.5	2.6	1.7	1.7
Japan	-0.4	-4.1	2.6	1.0	1.9	0.2	1.1	0.9
Euro zone	1.6	-6.1	5.9	3.4	0.4	0.6	1.5	1.3
Group of 3	**1.8**	**-3.9**	**5.5**	**2.4**	**1.7**	**1.6**	**1.6**	**1.5**
United Kingdom	1.6	-10.4	8.7	4.3	0.1	0.9	1.3	1.4
Canada	1.9	-5.0	5.3	3.8	1.1	1.1	1.9	1.8
Australia	1.8	-2.1	5.5	3.9	2.0	1.3	2.2	2.4
New Zealand	3.1	-1.4	5.6	2.4	0.6	-0.3	1.3	2.3
OECD total	**1.8**	**-4.3**	**5.8**	**2.8**	**1.7**	**1.5**	**1.6**	**1.6**
China	6.0	2.2	8.4	3.0	5.2	4.8	4.5	4.5
Korea	2.2	-0.7	4.3	2.6	1.4	2.6	2.3	2.3
Taiwan	3.1	3.4	6.6	2.6	1.4	4.0	2.7	2.7
Hong Kong	-1.7	-6.5	6.5	-3.7	3.2	2.8	2.7	2.5
Singapore	1.3	-3.9	9.7	3.8	1.1	2.7	2.7	2.5
Indonesia	5.0	-2.1	3.7	5.3	5.0	5.2	5.2	5.1
Thailand	2.1	-6.1	1.5	2.5	1.9	2.7	3.2	3.1
Malaysia	4.4	-5.5	3.3	8.7	3.7	4.7	4.5	4.5
Philippines	6.1	-9.5	5.7	7.6	5.6	5.9	6.0	6.0
Vietnam	7.4	2.9	2.6	8.1	5.0	6.2	6.5	6.5
East Asia	**5.2**	**0.7**	**7.1**	**3.5**	**4.6**	**4.6**	**4.4**	**4.4**
East Asia ex China	3.8	-2.3	4.3	4.5	3.3	4.3	4.2	4.1
NIEs*	**2.0**	**-0.5**	**5.9**	**2.2**	**1.5**	**3.0**	**2.5**	**2.5**
India	3.9	-5.8	9.7	7.0	7.8	7.0	6.8	6.5
Russia	2.2	-2.7	6.0	-1.2	3.6	3.0	1.5	1.5
Brazil	1.2	-3.3	4.8	3.0	2.9	2.2	2.0	1.8
South Africa	0.3	-6.0	4.7	1.9	0.6	0.9	1.2	1.4
Mexico	-0.3	-8.6	5.7	3.9	3.2	2.4	1.4	1.9
Argentina	-2.0	-9.9	10.7	5.0	-1.6	-2.8	5.0	4.5
Chile	0.6	-6.1	11.3	2.1	0.2	2.0	2.5	2.4
CIS^	-1.4	0.1	10.4	-1.6	-0.6	5.9	6.9	6.6
Middle East	1.3	3.2	2.8	2.8	2.8	2.9	2.9	2.9
C & E Europe	-2.4	-4.8	9.0	4.3	3.2	2.5	3.2	3.4
Africa	3.2	-1.6	4.7	4.0	3.4	3.8	4.0	4.0
Emerging ex-East Asia	**1.6**	**-2.6**	**6.5**	**3.6**	**3.9**	**4.0**	**4.1**	**4.0**
Other countries	**6.7**	**-2.9**	**6.9**	**3.4**	**4.9**	**4.0**	**3.5**	**3.5**
World	**2.8**	**-2.7**	**6.5**	**3.5**	**3.2**	**3.3**	**3.2**	**3.2**

#Regional and global groupings are weighted using PPP exchange rates updated to reflect ICP 2011 benchmark revisions.* "NIEs" signifies "Newly Industrialised Economies" as defined by the IMF, viz; Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore. ^ CIS is the Commonwealth of Independent States, including Mongolia.
Sources: IMF, Westpac Economics.

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.

Authors

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis
Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan
Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke
Head of International Economics
E: eclarke@westpac.com.au

Justin Smirk
Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante
Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells
Economist
E: ryan.wells@westpac.com.au

Illiana Jain
Economist
E: illiana.jain@westpac.com.au

Jameson Coombs
Economist
E: jameson.coombs@westpac.com.au

Neha Sharma
Economist
E: neha.sharma1@westpac.com.au

Westpac Economics / New Zealand

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold
Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon
Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs
Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand
Senior Economist
E: shamal.chand@westpac.com.au

westpaciq.com.au

DISCLAIMER

©2024 Westpac Banking Corporation ABN 33 007 457 141 (including where acting under any of its Westpac, St George, Bank of Melbourne or BankSA brands, collectively, "Westpac"). References to the "Westpac Group" are to Westpac and its subsidiaries and includes the directors, employees and representatives of Westpac and its subsidiaries.

Things you should know

We respect your privacy: You can view our privacy statement at Westpac.com.au. Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

This information, unless specifically indicated otherwise, is under copyright of the Westpac Group. None of the material, nor its contents, nor any copy of it, may be altered in any way, transmitted to, copied of distributed to any other party without the prior written permission of the Westpac Group.

Disclaimer

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

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

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

Further important information regarding sustainability-related content: This material may contain statements relating to environmental, social and governance (ESG) topics. These are subject to known and unknown risks, and there are significant uncertainties, limitations, risks and assumptions in the metrics, modelling, data, scenarios, reporting and analysis on which the statements rely. In particular, these areas are rapidly evolving and maturing, and there are variations in approaches and common standards and practice, as well as uncertainty around future related policy and legislation. Some material may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. There is a risk that the analysis, estimates, judgements, assumptions, views, models, scenarios or projections used may turn out to be incorrect. These risks may cause actual outcomes to differ materially from those expressed or implied. The ESG-related statements in this material do not constitute advice, nor are they guarantees or predictions of future performance, and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of the statements). You should seek your own independent advice.

Additional country disclosures:

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). You can access Westpac's Financial Services Guide here or request a copy from your Westpac point of contact. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice.

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

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection

Disclaimer continues overleaf ▶

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.

with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation ("FDIC"). Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM.

If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

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

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

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

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

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

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found here. Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

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

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.