WESTPAC MARKET OUTLOOK JUNE 2022.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

Mid-way through 2022, inflation remains the dominant concern with central banks stepping up policy tightening efforts over the last month. The urgency follows a continued surge in inflation globally, headline CPI measures now averaging 7%yr across the G7, a 40-year high. The extent and persistence of the problem, the balance of risks between inflation and growth, and how different monetary authorities judge the situation are the key questions.

There are some clear leaders and laggards in the inflation fight. More aggressive moves from the US Fed look like they are already starting to bite, with some easing in the US inflation pulse that is expected to show through more clearly in coming months and an associated slowdown in activity also likely to see growth risks become a more prominent consideration. The Fed still has more to do on rates near term to ensure success, but we still think the mix should see it pause by year end with the federal funds rate topping out at 2.625%. Policy tightening is still in the 'normalisation' phase for most other jurisdictions but is clearly accelerating. We expect the RBA to continue moving more decisively, lifting the cash rate 2ppts in just seven months. The ECB has also signalled a more aggressive approach. While circumstances differ, the way the inflation and policy situation pans out in the US will clearly have a bearing on how forceful other central banks will feel they need to be. China is a notable exception to inflation themes with the focus instead on COVID developments where the news is much more positive – an end to two months of heavy restrictions for much of the country paving the way for a strong rebound in activity. For China, the inflation-related risks are more around how policy tightening elsewhere may impact export demand.

The wider environment continues to be a very unsettled one for markets as the threat and uncertainty around inflation and policy tightening combines with ongoing supply issues and geopolitical disruptions around Russia's invasion of Ukraine. However our central case scenario still points to a marked easing in inflation pressures in 2023.

Australia: Reopening momentum, emerging from the delta lockdowns of last year, was evident early in 2022. Consumer spending posted a strong gain in the March quarter, despite disruptions such as the omicron wave and flooding, as the household savings rate progressively deflates from very elevated levels. This dynamic has further to run and will likely drive strong growth in the June and September quarters. However, the RBA has begun to tighten policy in response to a significant inflation challenge. Higher rates will weigh on the housing sector and the consumer, pointing to a loss of economic momentum from late 2022, into 2023. We now expect output growth to slow to a subdued 2% pace in 2023, moderating from a robust 4% this year.

Commodities: May was a volatile month for commodities with no clear overall trend. Westpac's Export Price Index is best described as flat but there have been big swings within this. The most extreme was the 27% rise in thermal coal and the 21% fall in met coal which left met coal trading below lower grade thermal coal, a sign of a market well out of equilibrium. Crude oil prices have firmed with Brent lifting 11% while base metals are down 2%. Even gold has moderated, dipping 1% with iron ore flat.

Global FX markets: Last month, global risk aversion and anxiety over the persistence of inflation saw us revise up our US dollar profile. However, we retained our view that the US dollar would enter a sustained downtrend in coming months – a view that we still hold a month on. In short, the US growth outlook is deteriorating to be broadly in line with other key developed nations, and forecast policy rate differentials are narrowing. A broadening in global growth is, in time, expected to increase the weight on the US dollar and be a prime support for Asia.

New Zealand: As expected, the Reserve Bank of New Zealand followed April's 50bp increase in the official cash rate with another big 50bp rise at its May policy meeting. Further rapid increases are on the cards over the coming months, and we are forecasting the cash rate to reach a peak of 3.50% by the end of this year.

United States: The talk of the market and the actions of the FOMC remain focused on the historic momentum evident in inflation and related risks. However, the pulse of underlying inflation looks to have turned, and we believe the nascent slowdown will persist. In the second half of 2022 and in 2023, economic growth will also slow, first to trend then below, giving another reason for caution on rates.

China: The impact from recent hard lockdowns associated with China's 'COVID-zero' policy has been large but temporary, with partial data to April and aid from policymakers boding well for a rapid and sustained rebound. While there are risks to the outlook, a probable path towards authorities' 5.5% growth target for 2022 remains in place. Such a rate of growth can be maintained in 2023 and beyond.

Europe: The ECB have undergone a considerable change to both their outlook and policy stance. Now having ended asset purchases, the Council intend to raise policy rates in July and September. Despite the bleak outlook for growth, the inflation challenge is most pertinent, thus we expect the ECB to act decisively and lift the refinancing rate to 1.50% by year's end to a roughly neutral area.

Summary of world GDP growth (year average*)

Real GDP %ann*	2017	2018	2019	2020	2021	2022f	2023f
United States	2.3	3.0	2.2	-3.5	5.7	2.5	1.6
China	6.9	6.7	5.8	2.3	8.1	5.3	5.5
Japan	1.7	0.6	0.3	-4.8	1.8	1.7	1.8
India	6.8	6.5	4.0	-8.0	9.0	7.7	6.5
Other East Asia	4.7	4.4	3.7	-2.4	4.2	4.5	4.6
Europe	2.6	1.9	1.3	-6.6	4.9	2.2	1.5
Australia	2.4	2.8	2.0	-2.1	4.8	4.5	2.7
New Zealand	3.1	3.2	2.4	-2.1	5.6	2.7	3.3
World	**3.8**	**3.6**	**2.8**	**-3.3**	**5.5**	**3.4**	**3.3**

Sources: IMF, Westpac Economics. Aggregates weighted using purchasing power parity exchange rates.
***Year average growth estimates,** the profile of which can differ from that of the 'growth pulse'.

RBA steps up tightening pace …

A bolder 50bp hike in June …

The RBA Board decided to raise the cash rate by 50bps at its June Board meeting. The bold decision came as quite a surprise to many analysts. Even the decidedly hawkish market was priced for a more modest move.

In our latest preview on June 3, we noted that: "[our arguments] would also be consistent with a 50bp move. However, given that the Board actively considered 40bp at the May meeting we think it more likely that the 40bp option will be taken."

… caught many off guard …

Readers will be aware that the Board opted to raise the cash rate by 0.25% on May 2 and the Governor described the 25bp move as "business as usual". The Governor's comments may have been interpreted as 'guidance' about likely future moves. Westpac took a different view. We argued at the time that while the apparent guidance seemed to be consistent with a 25bp move in June such a decision would be the wrong policy. We argued that the right policy would be a 'large' move and opted for 40bps.

… but was clearly required …

Over the five weeks leading to the June 7 decision, we consistently made the case for a large move in June. That was supported by the May minutes; aspects of the Q1 wages report; the surge in hours worked in the April employment report; a sharp increase in domestic inflation and average wage increases in the national accounts. We also pointed out that inflationary expectations, particularly amongst trade unions, had been significantly boosted in recent surveys.

Consistent with our analysis was the key observation in the Governor's June decision statement that "Inflation… is higher than earlier expected. Global factors account for much of the increase. But domestic factors are playing a role too, with capacity constraints in some sectors and the tight labour market contributing to upward pressure on prices."

… to address a significant inflation challenge.

This clearly signals that the Bank now recognises it has a significant challenge to contain inflation and Tuesday's decision points to it now being prepared to act decisively. That decisive action will, in particular, assist with the important objective of containing the lift in inflation expectations.

Another 50bp hike in July …

For these reasons, we expect that the next move in July will also be a 50bp increase.

That would push the cash rate to 1.35%. Having eliminated the emergency policy settings of 2020, the next move would be to take back the 75bp of cuts we saw in 2019 from 1.5% to 0.75% when the Bank was frustrated at the consistently low inflation prints.

… to be followed by slower 25bp moves …

A slowdown in the pace of hikes in August can be expected but a response will still be necessary to the likely strong inflation print for the June quarter with a further 25bp move required.

… then a pause as rates near 'neutral'.

With the cash rate having reached 1.60% by August it will be prudent for the Bank to pause. Our analysis of the leverage in household balance sheets points to a cash rate of around 1.60% being "in the neighbourhood" of neutral – better to pause at that point to assess the impact on household consumption; house prices; the labour market; consumer and business confidence; and the response of wages growth to these inflation pressures.

RBA's more frequent schedule …

While the Board has pointed to other central banks wanting to quickly return to neutral, a total of 150bps in RBA tightening in only three months would be faster than the FOMC; the BOC; and the RBNZ. This is because the RBA meets more frequently than these other central banks – eleven times per year compared to the FOMC and BOC's eight meetings and the RBNZ's seven.

… gives it scope to catch up.

The RBNZ has taken nine months to raise the OCR by 175bps; we expect that the FOMC will take four months to increase the federal funds rate by 175bps; and the BOC has taken three months to move by 125bps.

After that pause we expect further increases of 25bps will be required in November and December in response to another disturbing inflation print for the September quarter. That has 2022 end with a cash rate at 2.1%, a policy stance that we assess as in the contractionary zone.

We continue to favour 2.35% as the 'terminal' cash rate …

Readers will be aware that we expect the US FOMC to pause following its December rate move, with a fed funds rate at 2.625%, with the RBA likely to take some guidance from that decision. We expect that the 25bp increase from the RBA in February 2023 will be the last in this tightening cycle with the terminal rate settling at 2.35%.

Even though the RBA's forecasts and our own forecasts point to a larger inflation task than expected in May the decision to front end load the hikes (previously we had expected the one 40bp hike in June to be followed by 25s) will prove to be much more effective in meeting the inflation challenge by signalling clearly to economic agents that the RBA is very serious about its role in returning inflation to within the target band by 2024.

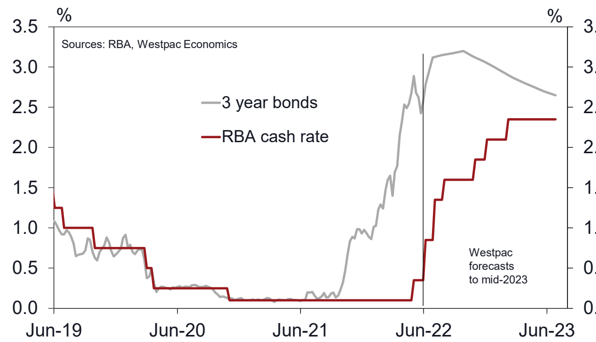
… 'front-loading' helping to contain medium term inflation risks.

Containing inflationary expectations must be the most urgent task of a central bank and front loaded moves assist in that regard. That rate profile is broadly consistent with the revised growth forecasts which are discussed on page 6.

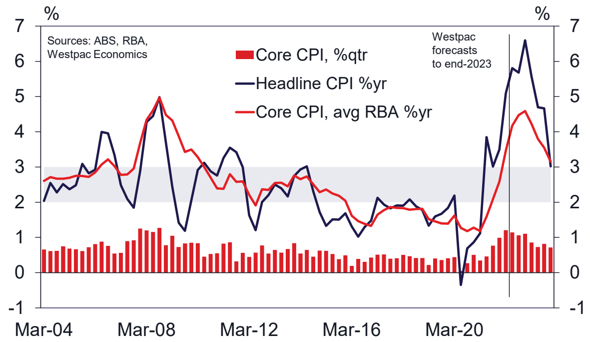
Bill Evans, Chief Economist

… front-loading to help manage inflation risks

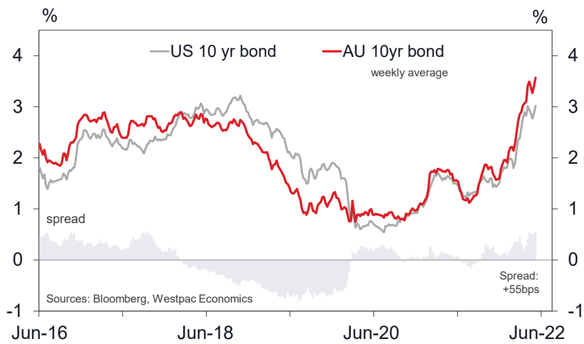
RBA cash rate and 3 year bonds



CPI inflation

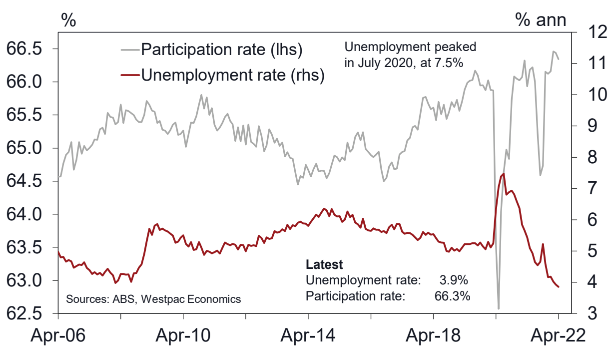


10 year bonds yields hold at highs

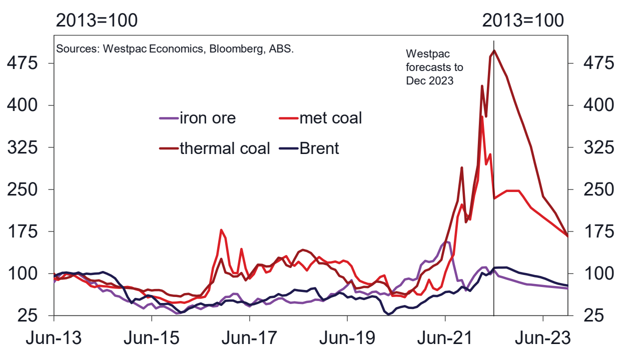


US yield curve inversion

Unemployment hits 3.9%, a 48 year low



Australian commodities



Australian growth forecasts trimmed …

Reopening momentum was evident in the March quarter …

Following the release of the March quarter national accounts for Australia we have slightly lowered our growth forecasts for 2022 and 2023. The 2022 growth rate is lowered from 4.5% to 4.0%; 2023 is reduced from 2.5% to 2.0%; while 2024 is lifted from 2.0% to 2.5%.

In the March quarter national accounts, we saw strong consumer spending growth of 1.5% which was largely funded by a fall in the savings rate from 13.4% to 11.4% releasing $6bn to finance the $8.5bn in additional consumer spending.

… with consumer spending posting a strong increase …

At 11.4% currently, the household savings rate remains well above the 6% 'equilibrium' rate near where we expect the rate to settle by year's end. That fall in the savings rate is likely to release a further $15-20bn a quarter to support household spending through the year.

Overall, we expect household spending to increase by a solid 6% over the course of 2022 highlighted by 2.6% and 1.1% growth in the June and September quarters to supplement the (disrupted) 1.5% increase in the March quarter.

… as the savings rate descends from elevated levels.

That is down from a forecast 6.2%. We are now expecting a more abrupt slowing in the December quarter (revised down from 0.9% to 0.7%) as the reopening effect fades and the boost from a lower savings rate eases; and as the drag from rising interest rates, weak sentiment and house price declines intensifies.

Consumer Sentiment is likely to remain weak in the face of higher costs and rising interest rates. However, confidence in job security is likely to remain high and household balance sheets have been strengthened by the accumulation of around $265bn in excess savings over the past two years.

This dynamic has further to run, likely driving strong growth in Q2 and Q3.

Perceived job security and the balance sheet buffer will allow households to maintain spending plans at a higher level than would have been the case in the current environment of rising living costs and increases in interest rates.

As we saw in the March quarter there is considerable 'opening up' momentum in the household sector despite the material disruptions from Omicron and the floods.

But policy tightening …

The June and September quarters are likely to continue to see that boost, with momentum lifting further in the absence of those disruptions in the March quarter. There is still scope for considerable 'catch up' – discretionary services consumption is still 12% below pre-COVID levels. The major states – NSW and Victoria – which were most impacted by lockdowns in 2021 will still be in catch up. While nationally, overall spending is 2.5% above pre-COVID levels, it is 5.3% above pre-COVID levels outside NSW and Victoria.

… in response to a significant inflation challenge …

However, by the December quarter, with the savings rate converging on that 6% equilibrium level and households becoming increasingly stretched by further increases in the cost of living (food; rents; energy); rising interest rates and falling house prices we anticipate that momentum in consumer spending will slow appreciably. That lacklustre momentum will extend into 2023 with consumer spending growth likely to slow from 6% in 2022 to a below trend 2.5% in 2023.

In turn, businesses, who are currently generally quite upbeat, will have to review their investment plans. We expect business investment growth to slow from 8% in 2022 to 4% in 2023.

… will weigh on housing and the consumer mood …

Another key factor behind our downward revisions to growth in both 2022 and 2023 is the dwelling construction cycle.

Detached house dwelling approvals have been signalling a very strong cycle, but dwelling construction contracted for the second quarter in a row in the March quarter. Activity has been clearly impacted by labour/material shortages, and runaway costs.

… slowing growth from 4% this year …

Projects are taking longer to complete while some are being shelved. We have lowered our forecast for dwelling construction growth from 9.4% to 5.6% in 2022; pushed some of the backlogged HomeBuilder-related activity into 2023 but severely written-down the new pipeline of work, which will show through more clearly in a weakening over the second half of 2023.

Supply and demand for new dwellings is expected to dry up under the weight of high costs; labour shortages; interest rate rises and correction in the wider housing market.

These forecasts are heavily reliant on our policy; wages; and inflation forecasts.

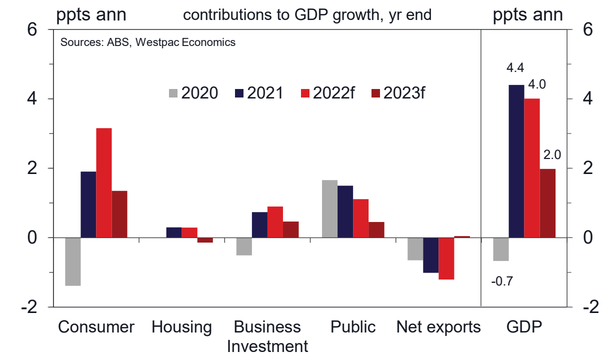
… to a subdued 2% pace in 2023.

We have not materially changed those key parameters: peak in RBA cycle of 2.35% by early next year; peak to trough fall in house prices of 14% to mid 2024; inflation moving back toward the target zone by end 2023; wages growth to peak in 2023; the unemployment rate to bottom out at 3.2% by end 2022 and increasing in the second half of 2023 as demand slows and overseas migration returns to pre-COVID levels by end 2024.

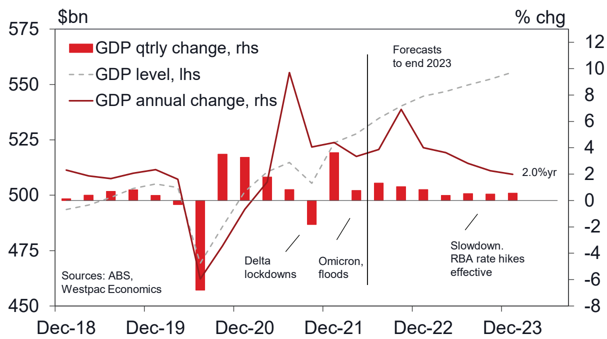
Bill Evans, Chief Economist

... a more pronounced slowdown in prospect for 2023

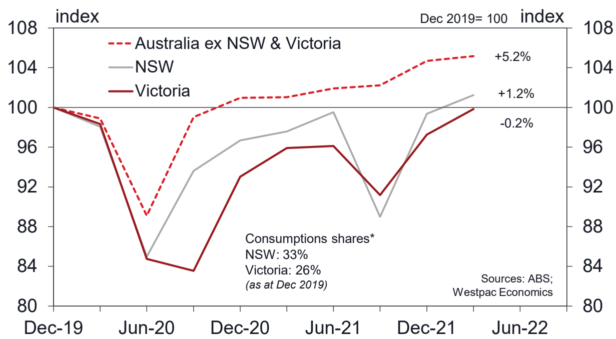
Australia: the growth mix



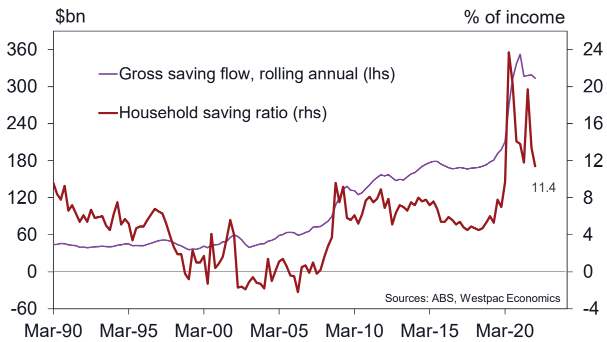
Australia: volatile path navigating covid



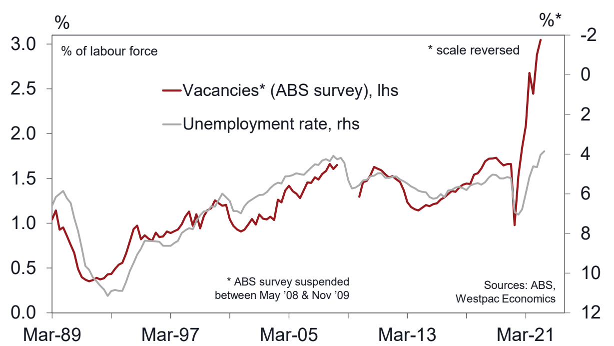
Consumer spending by state: paths diverge



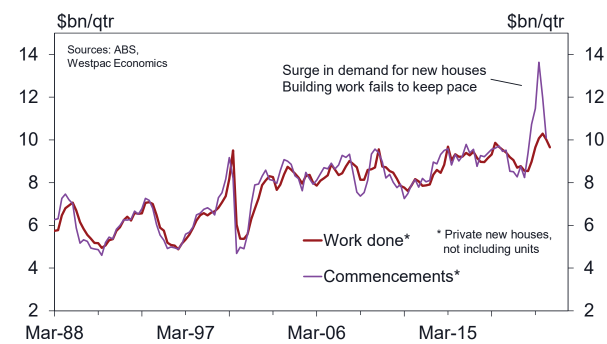
Household saving ratio and gross saving flow



Job vacancies aplenty



New house building*: hit by bottlenecks



Recovery in demand hits Russian embargoes …

Broad commodity index flat through May …

In the last month commodity prices have been quite volatile with no clear overall trend. Westpac's Export Price Index is best described as flat, lifting just 1% in the month. But there have been big swings within this. The most extreme example is the 27% rise in thermal coal prices to US$423/t and the 21% fall in met coal to US$371/t – yes met coal is trading below lower grade thermal coal, a sign of a market well out of equilibrium. Crude oil prices have firmed with Brent lifting 11% to US$119/bbl while base metals are down 2% with copper now trading at US$9,684/t. Even gold has moderated, dipping 1% to US$1,853/oz with iron ore flat at US$146/t.

… but with some individual commodities moving in wildly opposite directions.

Needless to say, the seaborne coal market has entered a very interesting phase now that thermal coal is trading at a significant premium to higher grade met coal. Even the top end premium low vol met coal was traded at a US$407/t average in the last week, a meaningful discount to thermal coal and something that has never been seen before. Various market sources have cited the different fundamentals in these markets, along with sub-optimal downstream steel demand and poor steel mill margins as reasons for the inversion. This is captured by the reversal of the recent trend for Australian met coal to trade at a premium to Chinese met coal In the last week mid vol HCC cfr China was +US$4/mt or 2% compared to -US$44/mt or -11% for mid vol HCC fob Australia, on Chinese restocking demand as the COVID restrictions were eased.

Thermal coal up 27% as robust demand and Russian sanctions hit limited supply.

The lift in thermal prices reflects: 1) tight supply from Indonesia (export bans were introduce in January) and Australia (Q1 was much wetter than usual due to an extended La Niña); and 2) geopolitics, as Russian coals faces bans. Met coal prices were largely demand-driven until the Russia-Ukraine conflict, and resulting embargo, saw prices surge higher. But there is something specific to the Australian thermal coal market. In the past month Newcastle prices are up +US$96/t or 32% compared to +US$25/t or +12% at Richards Bay (South Africa) and a fall of -US$10/t or -7% at Kalimantan (Indonesia). The Australian thermal coal market is extremely tight as post-pandemic demand recovers strongly. This year's Japanese reference Price talks occur against a backdrop of significant price volatility fanned by the Ukrainian conflict, an extended La Niña wet season in Australia, and a March earthquake off Japan. The supply side constraints from widespread flooding and under investment have collided with the better-than-expected demand. In the last few weeks the shipping queue at Newcastle has risen to 16 from single digits at the second half of May. However, it may not just be a demand issue as cargo assembly is taking longer than usual with many producers facing production issues due to the recent wet weather.

Met coal prices have eased 21% as demand cools.

Chinese COVID and related restrictions hit hard in April. Transport and logistics started to improve from mid-April but to date progress has been slow. Consumer movements remain restricted in multiple cities and property sales continue to drop. The government has ramped up policy support recently, and we expect more as indicated by the Politburo meeting at end-April, including tax rebates, faster bond issuance and easier local government financing to support more infrastructure investment and more explicit support for property. As noted on page 16 we see the Chinese economy readying itself for strong rebound in the second half of year. Overall, we believe the administration's target of near 5.5% growth in 2022 is still attainable but with two clear risks: 1) further significant outbreaks and lock downs; and 2) the global economy slowing under the weight of higher interest rates and weak real incomes which may hit Chinese exports harder. For the near term we will be closely monitoring the Chinese recovery, steel production and rising seaborne supply (for both coal and iron ore).

Improved optimism about a Chinese recovery has supported prices …

The above China optimism lifted iron prices which saw the largest weekly increase since March, up ~US$10/t to $145/t, with demand optimism returning after Shanghai ended its two month strict lockdown and Beijing confirmed it will resume public transport in most districts, restart dine-in restaurant services & allow workers to return to offices. Construction sites have gradually resumed work over the last few days and demand (as well as prices) for rebar has picked up. Other iron ore signals remain supportive with China iron ore & steel inventories falling, China pig iron production holding strong, while global iron ore shipments still disappoint. We acknowledge the risk of further lockdowns (with China adhering to the zero-COVID policy) and the recent pledges to lower steel output in 2022 compared to 2021.

… while EU sanctions have increased demand for non-Russian crude oil.

The EU has agreed to further sanctions including a ban on Russian seaborne crude and oil products, phased in over six and eight months respectively. A ban on shipping insurance for Russian oil by EU companies would be included in this package. European refiners representing >55% of the region's capacity had already stopped buying from Russia or announced intentions to stop purchases by year-end. Russian exports to the EU are already down ~1Mb/d. Nearly 20% of exports, or ~750kb/d, transit via the excluded Druzbha pipeline, but both Germany and Poland have said they would stop pipeline imports by year-end. This leaves Hungary, Slovakia and Czech Republic with an exemption and they typically import ~250kb/d. When the embargo comes into effect 97% of Europe's refining capacity will be banned from Russian oil and less than 10% of normal Russian exports will flow into the EU.

Justin Smirk, Senior Economist

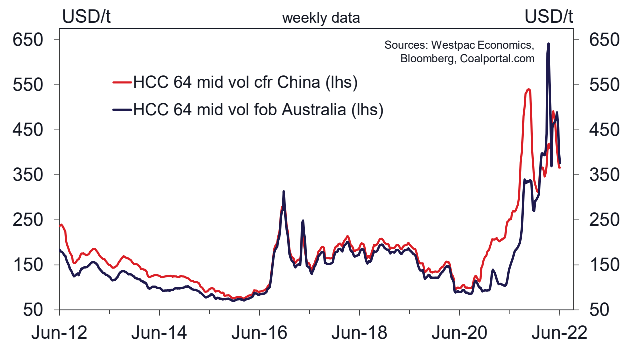
... while an earlier surge in met coal normalises

Australian commodities in US$

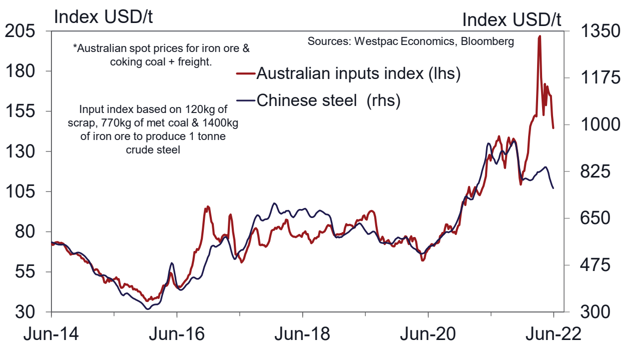
	Current	% change since	% change Jun 21 to
	9-Jun-22	24-Feb-22	Feb-22
Wheat	1,093	18	37
Crude oil, Brent	122	27	29
Thermal Coal	415	65	78
Met Coal	354	–14	143
Iron Ore	147	8	–37
Nickel	28,811	15	37
Copper	9,730	–2	6
Export Price Index	410	6	14

Source: Bloomberg, Westpac Economics

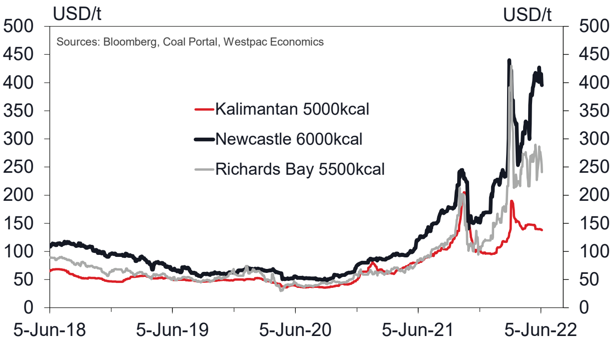
Aust met coal premium was very short lived



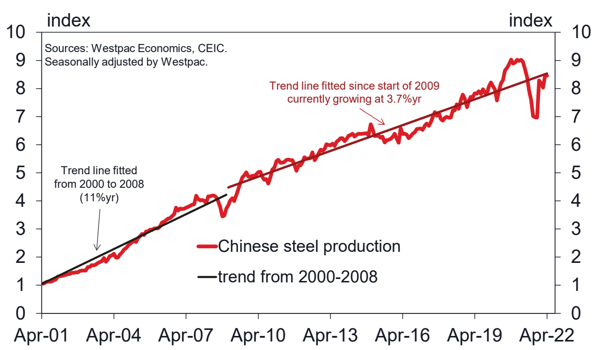
Steel inputs vs. Chinese steel prices



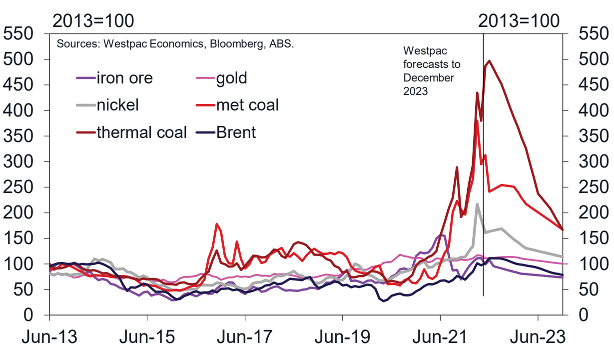
Thermal coal prices



Chinese steel production back to trend



Australian commodities



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.

US dollar tide is turning …

USD to lose altitude through H2 2022 and 2023.

Last month we revised up our profile for the US dollar. That said, against spot at the time, the level forecast for June and December 2022 was still 1.5% and 3.5% lower; and, come end-2023, the dollar was expected to be 8% weaker on a DXY basis. This month, the forecast for the first leg of this down-trend has proven prescient, the DXY index spending the majority of the last three weeks below 103, currently 103.3. Circumstances are also evolving in line with our 2022/23 views.

The growth differential is narrowing …

While growth expectations for other developed markets outside the US remain weak with risks skewed to the downside, this is increasingly true for the US as well. As detailed on page 14, partial data is currently signalling that the US economy stalled through the first half of 2022. While domestic demand continues to grow modestly above trend, weak consumer sentiment, declining real income and the tightening of financial conditions are set to slow domestic demand to trend in the second half of 2022, then below it in 2023. Throughout this period, risks will likely remain skewed to the downside – as recent market chatter of a potential US recession in 2023 attests.

Having been a positive until now, growth differentials are therefore set to become a neutral factor for the US dollar versus Euro and Sterling. Meanwhile, the differential between the US and Asia will sustainably shift to favour the latter – more on this below. Of course, growth differentials are not the only factor at play for currency markets. Policy divergence and sentiment are also critical.

… so too the divergence in policy expectations.

With respect to policy, particularly notable for the Euro this month has been the coming together of the Governing Council in favour of an immediate end to QE and near-term rate hikes. Indeed, early in the month, President Lagarde noted that the time between these two steps could be "a period of only a few weeks" and, at the June meeting, made clear the first hike was just the beginning of normalisaton. Further helped by the hawkish views of other Council members, the market's year-end view for the refi rate, which currently sits at zero, had jumped from 0.43% at the time of our May Market Outlook to 0.89% ahead of the hawkish outcome for June's meeting.

A full discussion of the ECB and Euro Area outlook is provided on page X, but of significance for the Euro outlook is that the ECB remain confident in the economy's strength and intent on bringing inflation below 2.0%yr by end-2024. While we have doubts over growth, if their view proves correct, then the focus on reiging in inflation will remain, likely seeing July's 25bp first hike followed by 50bps in September and another 75bps by year end, taking the refi rate to 1.50%.

Importantly for DXY, policy expectations are also currently aiding Sterling against the US dollar despite the clear risk of a UK recession, the terminal Bank Rate as estimated by the market now within 40bps of the market's expected fed funds rate peak. For Canada as well, the market's forward policy profile has strengthened as the Bank of Canada has taken a strong stand against inflation while continuing to show confidence in the economy's strength. The near-term peak policy rate priced for Canada is now broadly in line with the market's US view.

Euro and Sterling's recent gains set to continue.

While Canada's dollar is likely to only see a modest appreciation from here as oil prices stabillise then correct, USD/CAD falling from CAD1.27 currently to CAD1.24 in 2023, we see Euro and Sterling holding to a robust uptrend through the forecast period.

Our base expectation for Euro is a near 4% gain from USD1.06 to USD1.10 by December 2022, then a further 5.5% appreciation to USD1.16 by March 2024. Sterling meanwhile is expected to slowly trend higher to USD1.27 at end-2022, then gain 7% to USD1.35 by March 2024.

Risks against the USD …

Arguably, the risks for each of these currencies against the US dollar are to the upside if the global growth outlook evolves as we anticipate. Simply put: the US dollar is a safe-haven. Assuming political and economic risks subside and the fiscal policy stance remains as telegraphed, global investors will have every reason to venture out of the US and US dollar, particularly to Asia.

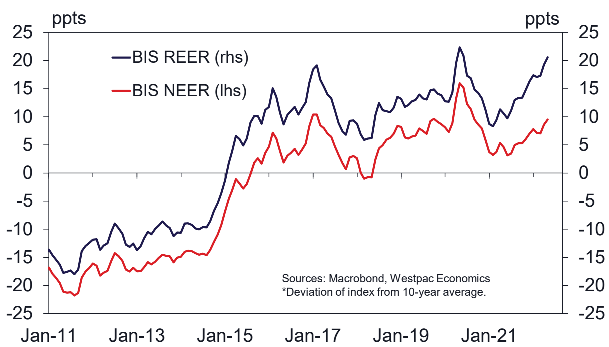
… and particularly favourable for Asia's currencies.

Why Asia? As we continue to highlight, the region not only has robust current momentum, thanks to its position of strength in manufacturing and the nascent recovery in global travel, but it also has the strongest development prospects. The reforms undertaken over the past few years in China and the fiscal support being offered to escape the COVID-zero downturn put China's Renminbi in prime position to lead the gains from here. From CNY6.69 currently, we continue to forecast a fall to CNY6.10 at March 2024, a near 9.0% move. India's demographics and industrial growth also argue for a strong appreciation of the Rupee by March 2024, +8.0% to INR71.50. Japan's Yen remains the counterpoint. Hit by a gaping policy differential and the high cost of energy, USD/JPY has risen back to JPY134 this month. A reversal is likely, but will only be partial, with Yen likely to hold above JPY120 through to March 2024.

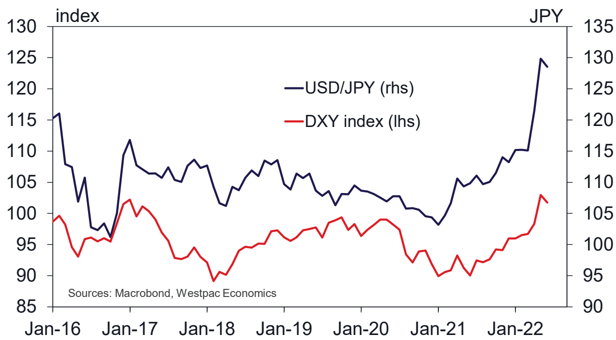
Elliot Clarke, CFA, Senior Economist

… and will soon go out

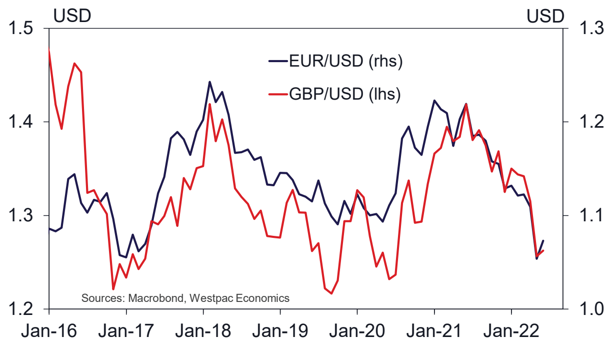
USD at a very elevated level versus history



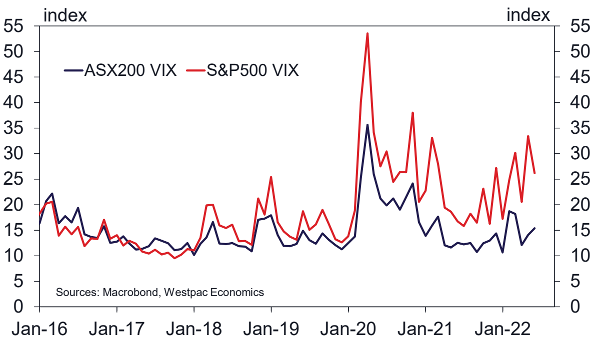
JPY has given DXY material support



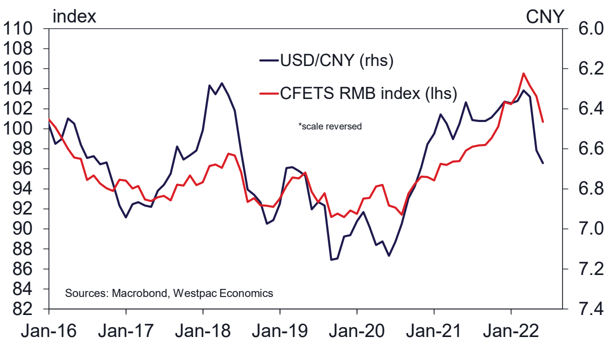
EUR & GBP finding a base



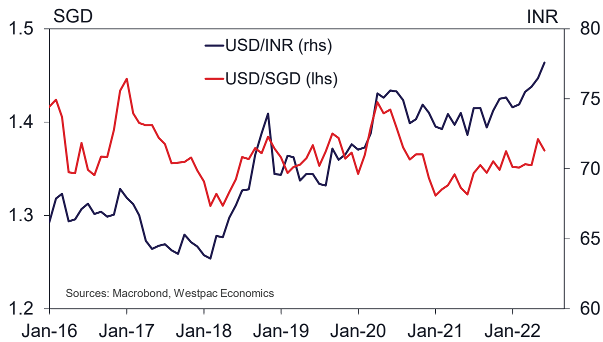
Distance from source of uncertainty key



CNY trading in line with USD trend



Rest of Asia also well positioned for recovery



Rates have risen rapidly …

Inflation has surged …

Looking back over the past decade, the chances of the RBNZ raising the Official Cash Rate (OCR) in 50bp bounds would have seemed like a very distant possibility. However, inflation pressures and the policy landscape in New Zealand have undergone a rapid transformation over the past year.

… with both global and domestic factors at work.

After struggling to reach even the 2% target midpoint for most of the past decade, inflation is now running at a 30-year high of 6.9%, and it's set to remain well above the RBNZ's target for some time. It's true that much of that is due to offshore disruptions to global supply chains and soaring prices for commodities like oil. However, domestic factors are also playing a big role in boosting inflation, including the drum-tight labour market and the strength of domestic demand. Crucially, that strength in domestic inflation pressures has been underpinned by the very accommodative monetary policy settings that were put in place in recent years.

Inflation expectations and wage pressures also lifting.

A further worrying development for the RBNZ has been the rise in inflation expectations. If this spills over into how households and businesses adjust wages and prices, the strength in inflation could persist even after the current supply disruptions ease. That could require even tighter policy to stabilise inflation. On this front, we are already seeing mounting claims for higher wage settlements across the economy.

The RBNZ has been raising the cash rate …

Against this backdrop, the RBNZ began lifting the cash rate last year. Even so, the OCR is still a long way from where it needs to be given the red-hot inflation pressures that are now rippling through the nation.

… at a rapid pace …

To limit the longer-term risks for the economy, the RBNZ opened the door to larger increases in the cash rate at its April meeting with a 50bp rise. And as was widely expected, they followed that up with another 50bp move at the May meeting.

Importantly, the RBNZ has signalled that further rapid rate increases are on the cards over the coming months. The RBNZ's updated projections show the cash rate reaching a peak of close to 4% by the second half of next year, with most of the increase being front-loaded. Their forecast implies that the OCR will reach 3.5% by the end of this year – and with just four more review dates this year, some of the upcoming moves will have to be 50-pointers as well.

… that is set to continue …

The RBNZ's updated projection fully endorses our own projections for the cash rate. We are forecasting 50bp hikes in July and August, with 25bp moves in October and November. That would take the cash rate to 3.50% in November. We have no reason to change that view after the RBNZ's May policy statement.

… taking the OCR into 'tight' territory for a period.

The RBNZ did emphasise that their projections are for a temporary peak in the OCR, rather than a permanently higher level. The intention is to keep monetary policy 'tight' for long enough to bring demand and supply in the economy into better alignment, before returning interest rates to more sustainable long-term levels. That's been a feature of our own forecasts for some time too. We expect the RBNZ to begin lowering the OCR by the second half of 2024, towards a more neutral long-run level of 2%. For any forecast that far ahead, neither the timing nor the level should be taken as gospel. But it's important to emphasise the idea that, even though the RBNZ may be moving in larger steps than we are used to, this is an old-fashioned economic cycle, not a new normal.

Rate increases will squeeze household spending power …

The rise in the cash rate, and the related rise in mortgage rates that we have already seen, will ripple through the economy. Around 60% of mortgages are on floating rates or will come up for repricing within one year, and another 20% will come up for repricing within two years. In some cases, borrowers will be looking at mortgage rates that are 2 to 3 percentage points higher than when they last fixed. Combined with the increases in food, fuel and other living costs, this signals a sizeable squeeze on many households' discretionary spending.

… and slow growth …

That squeeze on household spending will be a drag on overall economic activity, with a period of slower economic growth on the cards over the coming years. In fact, that's what the RBNZ needs to see in order to dampen domestic inflation pressures. But this does leave them treading a very fine line. While the RBNZ wants to slow the economy to ensure inflation pressures remain manageable in the long run, it still wants to avoid a recession.

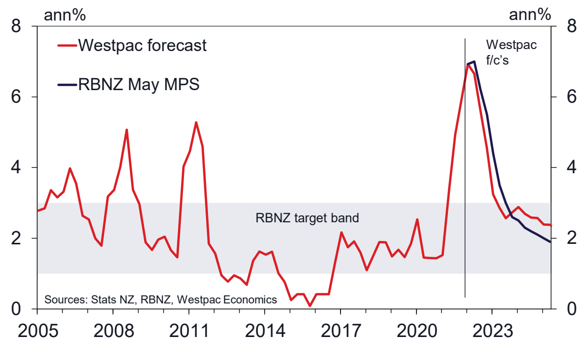
… but still a slowdown rather than recession.

At this stage, we still think a slowdown in economic growth is more likely than a recession. A key reason for that is because of the strength of labour market and household balance sheets. For most of the past decade, income growth has far outpaced the growth in inflation, and saving levels have been rising. That's providing households with a buffer from the other factors that are crimping their discretionary spending. Similarly, debt servicing costs are expected to account for a low to average share of most households' disposable incomes compared to history, even allowing for a rise in interest costs (though there will be large differences across households).

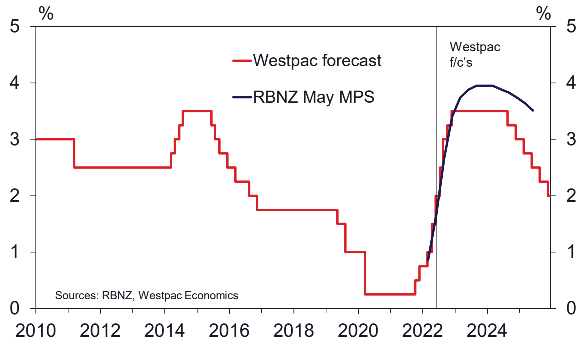
Satish Ranchhod, Senior Economist

… and more large increases are coming

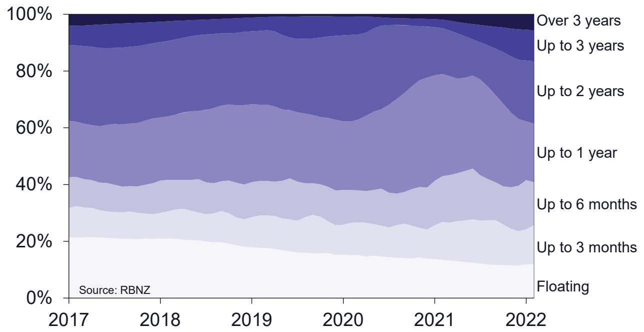
Consumer price inflation



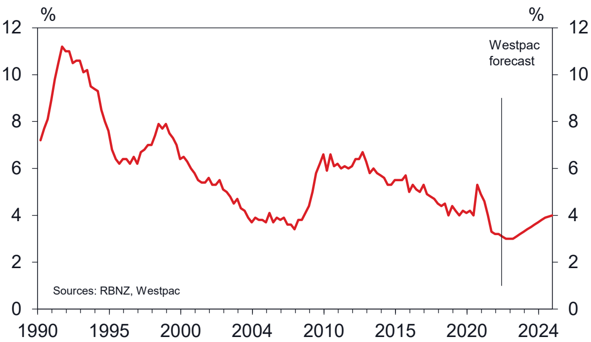
RBNZ Official Cash Rate



Share of mortgages by time to refixing



Unemployment rate



	2021							2022				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
REINZ house sales %mth	–0.3	–3.6	–14.0	–10.0	21.2	–1.3	–5.6	–5.4	–1.1	–1.8	–4.0	–
Residential building consents %mth	3.5	2.5	3.3	–1.8	–1.8	0.5	0.8	–9.6	11.9	6.1	–8.5	–
Electronic card transactions %mth	1.5	0.6	–21.7	1.3	9.8	9.1	1.8	1.8	–7.3	1.7	7.0	–
Private sector credit %yr	6.4	7.1	7.0	7.3	7.6	7.7	7.5	7.3	7.3	6.9	6.8	–
Commodity prices %mth	0.9	–1.7	–1.6	1.5	2.1	2.8	–0.3	1.0	3.9	3.9	–1.9	–2.8
Trade balance $m	–114	–469	–1018	–874	–932	–630	–1124	–985	–1123	–1165	–507	–

Quarterly data	**Q2:20**	**Q3:20**	**Q4:20**	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**
Westpac McDermott Miller Consumer Confidence	104.2	97.2	95.1	106.0	105.2	107.1	102.7	99.1
Quarterly Survey of Business Opinion	–39	0	1	2	25	12	–3	–9
Unemployment rate %	4.0	5.3	4.9	4.6	4.0	3.3	3.2	3.2
CPI %yr	1.5	1.4	1.4	1.5	3.3	4.9	5.9	6.9
Real GDP %yr	–1.0	–1.6	–2.1	–1.4	5.2	4.8	5.6	–
Current account balance % of GDP	–1.5	–0.7	–0.8	–2.5	–3.3	–4.6	–5.8	–

Sources: ANZ, Statistics NZ, REINZ, RBNZ, NZIER, Westpac Economics.

Risks to inflation and growth to tilt lower ...

FOMC is in the middle of a run of 50bp hikes ...

As we go to press, the June FOMC meeting is less than a week away. At that time, the Committee is universally expected to deliver the second of three consecutive 50bp rate hikes.

The intent behind these rate decisions has been widely and consistently telegraphed by FOMC members for many months. Where the uncertainties lie is in the consequence of these hikes for domestic demand and inflation as well as how the hiking cycle evolves from September.

... but policy tightening momentum will slow from Sep ...

Our baseline view is that the September meeting will see a throttling back of rate hikes to 25bp increments, a pace that is expected to be maintained until the fed funds rate peaks at 2.625% in December. The market's view varies week to week with the flow of global data and rhetoric, but two additional hikes are currently priced by the market, a peak of 3.31% seen in May 2023.

The trend for inflation in coming months will be the primary determinant of which scenario comes to pass. The oil price and refining margins have driven headline inflation higher recently, but to our mind there is clear evidence of dissipating underlying inflation pressures.

... with the fed funds rate peaking in Dec.

Most notable is that, on a six-month annualised basis, the contribution from 'other goods', which includes all the imported items for the home for which demand far exceeded supply through the pandemic, has fallen from 3.2ppts at September 2021 to 1.4ppts in April 2022, on its way to almost zero come late-2023 in our view.

Justifying this view: the pulse of underlying inflation has turned ...

Also, while shelter and food is expected to show enduring strength, household spending capacity is likely to moderate gains, particularly if the price level of other essentials such as fuel remains high. Even with historically-high rent growth and food price gains, six-month annualised CPI inflation can still fall to 3.0% at December 2022 and circa 2.0% by December 2023.

... and is set to slow sharply to year end and through 2023.

It is important to note here that there is no evidence in the data of wage growth creating a new wave of inflation risk in late-2022 or 2023. In May, hourly earnings instead grew 0.3%, a pace it has now averaged for four months having averaged 0.5% per month for the prior ten.

Annualised wage growth over the four months to May is therefore below 4% against an annual rate of 5.2%yr as well as annualised inflation above 8%yr. Real income and discretionary purchasing power therefore continues to fall.

Risks to activity are also set to rise ...

While decelerating inflation will be enough to justify a slower pace of rate hikes by September and, come year end, an open-ended pause, risks around activity growth also look set to become a more prominent reason for greater caution amongst policymakers.

... as the loss for real incomes and contractionary policy weigh.

Following a 1.3% contraction in Q1, the Atlanta Fed 'nowcast' for Q2 GDP is currently printing at a weak 0.9% – suggesting the economy basically stalled flat through the first half of 2022. That said, we believe the Q2 gain will print stronger than the 'nowcast' implies, noting that these weak outcomes principally stem from inventories and imports not domestic demand. Through the second half of 2022 we anticipate growth in both domestic demand and GDP will print around trend. During that six months, the risk of a further deceleration is also likely to build, with the loss of real income and modestly-restrictive financial conditions weighing heavily on consumption, fostering uncertainty for business.

Fiscal policy support is a long way off.

For 2023 and beyond, it is also important to recognise that the economy will lack policy support until the FOMC transitions to an easing bias and/or cuts rates, which we do not see occurring until 2024. Fiscal policy will be, at best, neutral for the foreseeable future. For an economy that is dependent on domestic demand, this policy outlook points to downside risks to our benign baseline activity view, all the more so as sentiment amongst households is weak and fragile.

Capacity and productivity gains also seem a distant prospect.

Thinking more broadly about the medium term, an argument for stronger business investment can be made on the basis of avoiding a repeat of the supply disruptions of the pandemic and deglobalisation on geopolitical concerns.

On both fronts, Asia holds the upper hand.

However, to us, a material gain for the US from investment is unlikely. The primary reason being that China and the rest of Asia are in a much stronger position with respect to: positions in the global supply chain; the cost and productivity of labour; and continuing research and development spend. Further, the capital intensity of manufacturing is on the rise. Hence, the windfall for labour income associated with capacity expansions in the US and other developed nations is likely to decline over time.

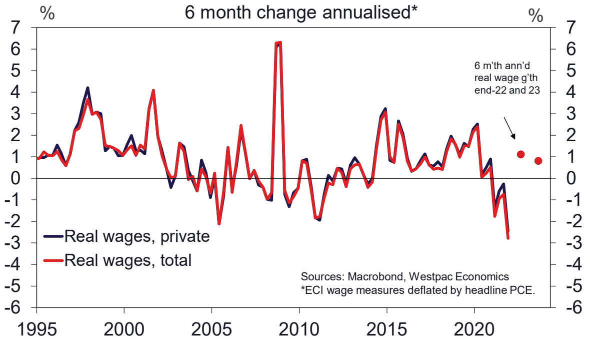
We expect this to remain the case.

Into the medium-term then, it is difficult to see the US as a positive outlier with respect to its growth or policy settings. To the contrary, the risks are, and will remain, to the downside.

Elliot Clarke, CFA, Senior Economist

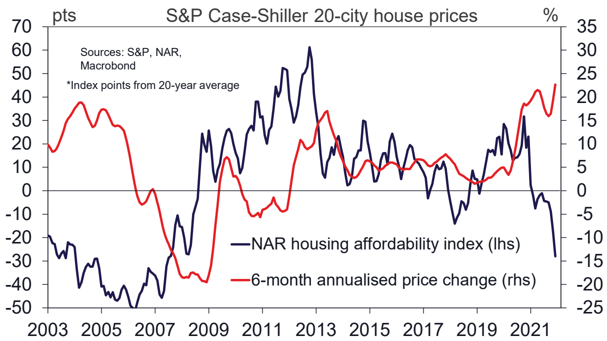
… with medium term growth risks firmly to the downside

US real wages to take until late-2023 to recover

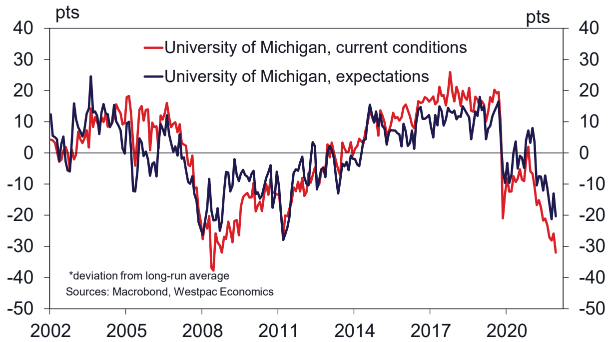


Household savings rate near pre-pandemic lows

Financial conditions also a material negative



Consumer sentiment hard hit



	2021							2022				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
PCE deflator %yr	4.0	4.2	4.2	4.4	5.1	5.6	5.8	6.0	6.3	6.6	6.3	–
Unemployment rate %	5.9	5.4	5.2	4.7	4.6	4.2	3.9	4.0	3.8	3.6	3.6	3.6
Non-farm payrolls chg ‘000	557	689	517	424	677	647	588	504	714	398	436	390
House prices* %yr	19.2	20.0	19.7	19.1	18.5	18.3	18.5	19.0	20.3	21.2	–	–
Durables orders core 3mth %saar	14.5	4.2	16.8	6.9	12.0	9.6	11.4	9.3	5.2	9.6	5.3	–
ISM manufacturing composite	60.9	59.9	59.7	60.5	60.8	60.6	58.8	57.6	58.6	57.1	55.4	56.1
ISM non-manufacturing composite	60.7	64.1	62.3	62.6	66.7	68.4	62.3	59.9	56.5	58.3	57.1	55.9
Personal spending 3mth %saar	9.2	5.1	9.7	7.5	13.1	10.4	3.9	6.7	7.2	17.4	12.2	–
UoM Consumer Sentiment	85.5	81.2	70.3	72.8	71.7	67.4	70.6	67.2	62.8	59.4	65.2	58.4
Trade balance USDbn	–71.4	–69.4	–71.4	–78.3	–68.2	–78.0	–78.9	–88.0	–88.1	–107.7	–87.1	–

Quarterly data	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22f**
Real GDP % saar	6.3	6.7	2.3	6.9	–1.4	2.5
Current account USDbn	–187.5	–196.4	–219.9	–217.9	–	–

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

Ready for a strong rebound ...

'COVID-zero' lockdowns hit economy hard in April-May ...

The restrictions put in place in Shanghai, Beijing and other smaller cities through April and May were not Chinese society's first experience with authorities' hard-line 'COVID-zero' approach, but it was the most severe. The full lockdown of Shanghai and partial closures elsewhere saw the non-manufacturing PMI plunge to a deeply contractionary 42 in April. The manufacturing sector went backwards, with logistic networks jamming under the stress of test and trace programs.

With the threat of the virus seemingly downgraded, affected regions are re-opening. Now we need to ask: "How quickly can China's economy bounce and how large will the upswing be?"

... but partial data is constructive on a rapid and robust rebound.

Partial data available up to April is helpful in gauging the scarring, and hence capacity of the economy to rebound. Clearly, the cost is nowhere near that of 2020 when GDP initially contracted 10% in Q1 before rebounding more than 17% in the following nine months. At the nadir of the 2020 outbreak, retail sales were down 20% year-to-date. As at April 2022, sales are just 0.2% lower. Similarly, in 2020, fixed asset investment troughed almost 25% below its level of a year before; whereas in 2022, it is currently up almost 7% compared to the same time in 2021. While trade has recently been heavily disrupted, China's net trade position was still a spectacular positive in April 2022, having seen a historic widening through 2020, 2021 and into 2022.

Scarring of 2022 is a fraction of 2020's ...

These facts emphasise the strength and vitality of China's economy. Like 2020, released from lockdown, it is capable of bouncing strongly, particularly given the breadth and scale of policy support on offer.

On the monetary front: April's reserve requirement ratio cut of 25bps, on top of the 50bp cut delivered last December, has provided the banking system with liquidity and purpose; May's cut to the 5-year loan prime rate subsequently provided additional targeted support for housing demand, making mortgages cheaper.

... while policy support is material and lasting.

With respect to fiscal policy, local government borrowing was allotted early in 2022, and these authorities have now been encouraged to commit the funds to projects within months. Over thirty additional fiscal measures to aid household finances, reduce business costs and encourage hiring were also introduced this month. Consequently, both public and private investment are set to surge through the second half of 2022.

Risks remain, particularly for consumption ...

However, if the official 5.5% growth target is to be achieved, household consumption must also rally. Here there is more uncertainty, not because of the income shock households experienced during lockdown but as a result of the toll on confidence. For pent-up household demand to be released, consumers must believe it is safe to get out and about. They also have to feel confident their incomes and wealth will grow. This is why we expect the consumption resurgence to be delayed to mid-to-late Q3 and only be fully realised towards the end of the year. As it is, the economic benefit is likely to remain within China's borders, with international travel to remain highly restricted and the purchase of Chinese made goods encouraged over foreign imports.

... and external demand for China's exports.

Overall, the GDP target of near 5.5% growth is still attainable in 2022 but there are two clear risks: 1) that further significant outbreaks and lockdowns are seen; and 2) that the global economy slows under the weight of higher interest rates and weak real incomes, hitting demand for Chinese exports. We will continue to keep a close eye on both of these as well as the success of policymakers in re-setting the domestic economy.

Elliot Clarke, CFA, Senior Economist

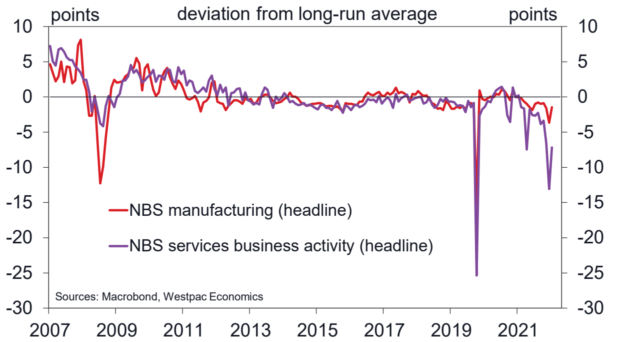
	2021							2022				
Monthly data %yr	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
Consumer prices – headline	1.1	1.0	0.8	0.7	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1
Money supply M2	8.6	8.3	8.2	8.3	8.7	8.5	9	9.8	9.2	9.7	10.5	
Manufacturing PMI (official)	50.9	50.4	50.1	49.6	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6
Fixed asset investment %ytd	12.6	10.3	8.9	7.3	6.1	5.2	4.9	4.9	12.2	9.3	6.8	
Industrial production (IVA)	8.3	6.4	5.3	3.1	3.5	3.8	4.3	4.3	7.5	5.0	-2.9	
Exports	32.0	19.2	25.4	27.9	26.8	21.7	20.8	24.1	6.3	14.6	3.9	16.9
Imports	37.3	28.2	32.5	16.7	20.0	31.3	19.6	20.1	10.6	0.0	0.0	4.1
Trade balance USDbn	50.1	55.9	59.2	68.1	84.9	71.8	94.1	84.5	30.2	47.1	51.1	78.8

Quarterly data	**Q4:20**	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**
Real GDP %yr	6.4	18.3	7.9	4.9	4.0	4.8
Nominal GDP %yr	7.0	21.2	13.6	9.8	9.4	8.9

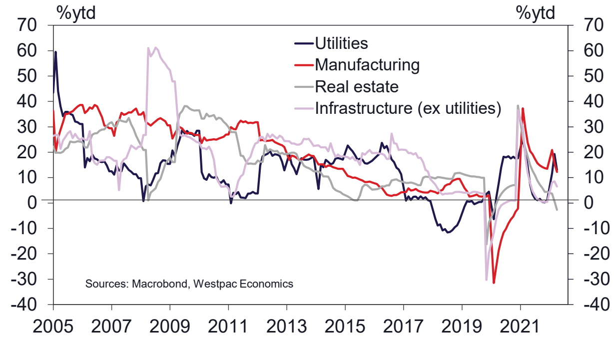
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

… from 'COVID-zero' lockdowns

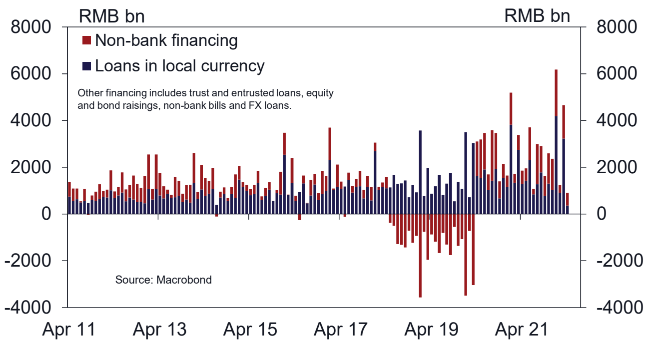
COVID-zero delivered a short sharp shock



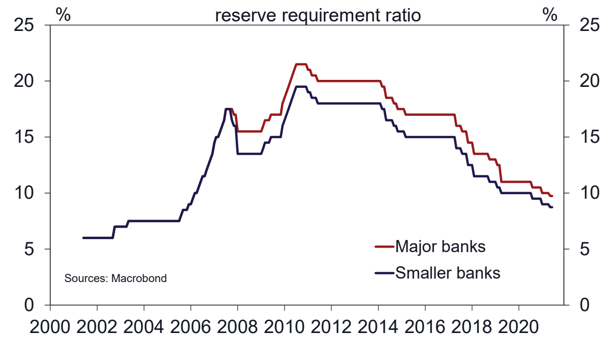
Investment is building a base



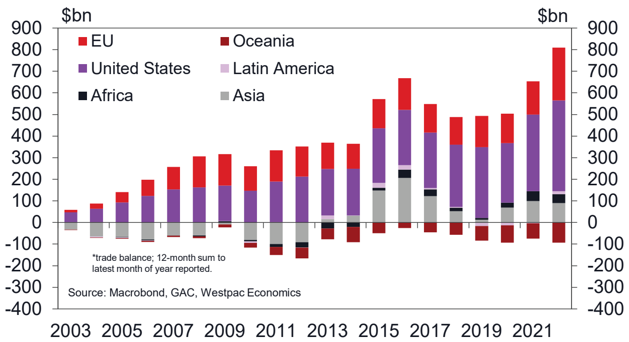
Total financing: +7% in 2022 versus 2021



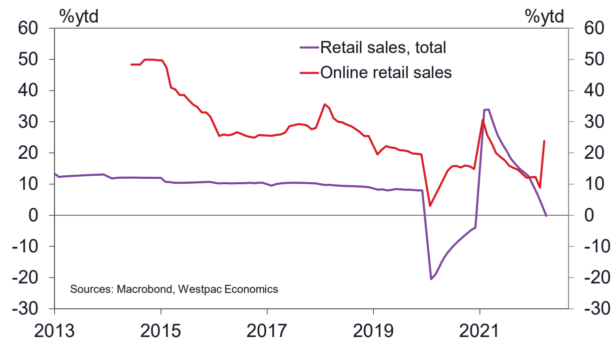
PBOC can and will act as necessary



Promise abounds for China's exporters



Consumption to take time to recover



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 battle to rein in inflation …

ECB begins normalising, with QE to end in June …

At the highly anticipated June policy meeting, the ECB delivered considerable changes to their policy stance and outlook for the European economy.

As widely expected, the ECB formally announced the conclusion of net asset purchases under their open-ended Asset Purchase Programme (APP) from 1 July. The Council sees fit to continue reinvesting the proceeds from maturing securities for an extended period beyond the commencement of interest rate tightening, in order to maintain "ample" (no longer "favourable") liquidity conditions and an "appropriate" (no longer "accommodative") policy stance. This marks a key step in the normalisation of policy, positioning the ECB to begin rate hikes at an earlier stage than expected prior to Russia's invasion of Ukraine.

… and rate hikes locked in for July and Sep.

Indeed, the ECB unanimously agreed on an intention to lift all key policy rates by 25bps at their next meeting in July. The Council also expect to raise policy rates at the September meeting, the size of the move depending on the evolution of inflation. If the medium-term inflation outlook "persists or deteriorates", or more specifically if inflation is seen "at 2.1% in 2024 or beyond", a larger hike of 50bps will be deemed appropriate. In alignment with their forecast assumptions for short-term rates, the Council are also in favour of rate hikes beyond September, signalling a clear intent to diligently tighten policy to rein in historic, and building, inflation pressures.

A more intense and persistent inflation outlook …

Justifying this definitive shift in policy, the ECB have significantly upgraded their forecasts for inflation. Highlighting the enormity of the challenge at hand, the Council now see HICP inflation reaching an annual pace of 6.8% in 2022 (prev 5.1%), 3.5% in 2023 (prev 2.1%) and 2.1% in 2024 (prev 1.9%). This comes just after another record print in consumer inflation, the headline figure printing 8.1%yr in May. While energy and food inflation continue to make big contributions at 39.2%yr and 7.5%yr respectively, price pressures are broadening across many goods and services, as evinced by a core inflation rate of 3.8%yr materially above the ECB's medium term target of 2%.

… and near-term disruptions to activity …

Clearly, the Russia-Ukraine conflict is the prime source of risk facing the Euro Area, presenting itself through historically elevated energy and commodity prices and sustained supply-side disruptions. Assuming the conflict does not escalate further and no severe loss of energy supply occurs, the ECB now expect growth to be 2.8% in 2022 and 2.1% in 2023, a downgrade of 0.9ppts and 0.7ppts respectively. Despite a strengthening labour market and a pick-up in services consumption, households are clearly being affected by intense inflation pressures, and businesses are rightly circumspect about the outlook.

… put the ECB in a tough position as they continue to tighten policy over 2022.

In contrast to the ECB, we believe these disruptions will lead to a stalling of economic activity over the rest of this year, followed by an above-trend recovery next year as risks abate. However, the ECB are clearly focused on inflation and unlikely to fully factor in weakness in growth until it is seen in the data. We therefore hold that the ECB is most likely to follow the 25bp hike in July and 50bp hike in September with another 50bp hike in November and a 25bp hike in December. This would take the refinancing rate to 1.50% by year's end, the mid-point of the previously cited 1.0-2.0% neutral range. Should our growth view prove more accurate, some of the above rate hikes could be delayed or even shelved. But again, risks would need to crystallise quickly for this to occur.

Ryan Wells, Economist

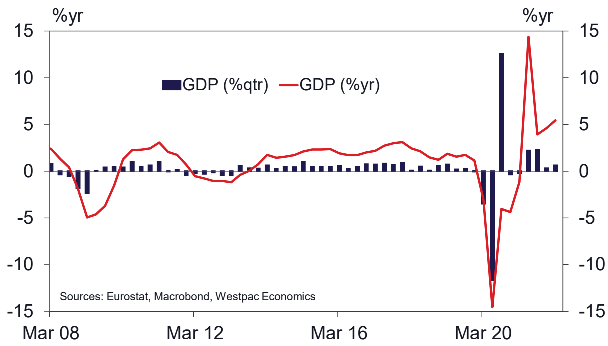
	2021							2022				
Europe	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
Eur consumer prices %yr	1.9	2.2	3.0	3.4	4.1	4.9	5.0	5.1	5.9	7.5	7.5	8.1
Eur unemployment rate %	7.9	7.7	7.5	7.4	7.3	7.1	7.0	6.9	6.8	6.8	6.8	–
Eur industrial production %yr	11.0	8.4	5.5	4.1	0.1	–1.3	1.8	–1.5	1.7	–0.8	–	–
Eur retail sales volumes %yr	5.6	3.4	1.4	2.7	1.6	8.5	2.3	8.5	5.2	1.6	3.9	–
Eur consumer confidence	–1.9	–3.7	–5.2	–3.8	–5.4	–8.2	–9.3	–9.7	–9.5	–21.5	–22.0	–21.1
Eur current account balance €bn	31.3	33.0	16.9	23.3	5.1	7.2	10.0	21.6	15.7	–1.6	–	–
United Kingdom												
UK Consumer price index %yr	2.5	2.0	3.2	3.1	4.2	5.1	5.4	5.5	6.2	7.0	9.0	–
UK unemployment rate %(ILO)	4.7	4.6	4.5	4.3	4.2	4.1	4.1	3.9	3.8	3.7	–	–
UK industrial production %yr	9.8	4.8	3.3	1.9	0.3	0.2	1.0	3.2	2.1	0.7	–	–
UK retail sales volumes %yr	8.8	2.0	0.7	–0.6	–1.2	3.6	–1.3	9.9	7.4	1.3	–4.9	–
UK consumer confidence	–9	–7	–8	–13	–17	–14	–15	–19	–26	–31	–38	–40

Quarterly data	**Q3:20**	**Q4:20**	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**
Eur GDP %qtr/%yr	12.6/–4.0	–0.3/–4.3	–0.1/–0.9	2.2/14.6	2.2/4.1	0.3/4.7	0.3/5.1
UK GDP %qtr/%yr	17.6/–7.7	1.5/–6.3	–1.2/–5.0	5.6/24.5	0.9/6.9	1.3/6.6	0.8/8.7
UK current account balance £bn	–7.9	–26.8	–12.4	–11.3	–28.9	–7.3	–

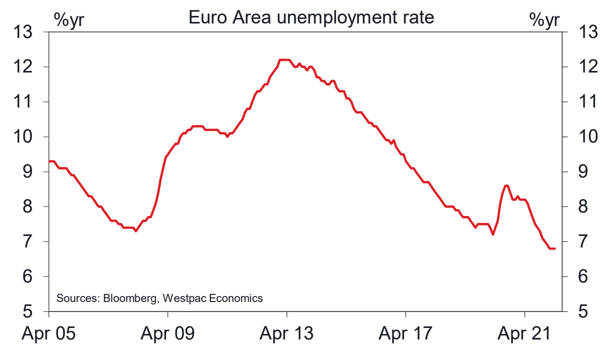
Source: Official agencies.

... is only just beginning

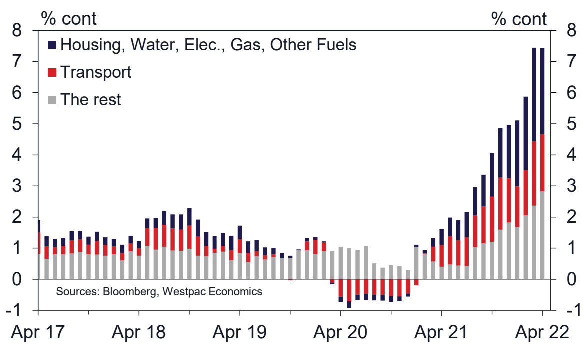
Slow start to 2022 for the Euro Area



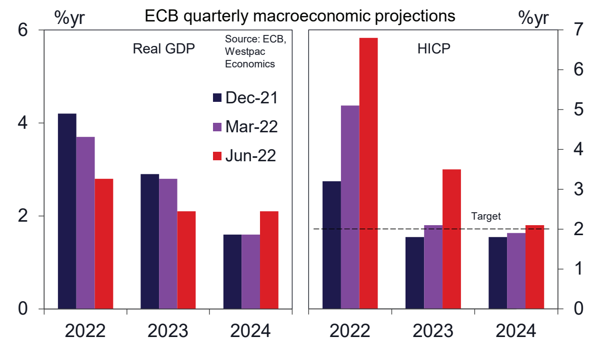
Policy has kept labour market in good shape



CPI: energy prices account for half the jump

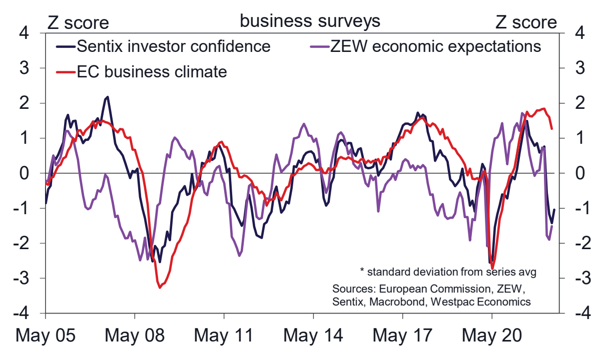


Long-term inflation slightly above target



Early signs of wages growth

Sentiment more broadly also requires support



FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	0.85	1.60	2.10	2.35	2.35	2.35	2.35	2.35
90 Day BBSW	1.48	2.05	2.47	2.55	2.55	2.55	2.55	2.55
3 Year Swap	3.53	3.40	3.20	3.00	2.85	2.80	2.75	2.75
3 Year Bond	3.12	3.20	3.00	2.80	2.65	2.60	2.55	2.55
10 Year Bond	3.64	3.15	2.90	2.65	2.50	2.40	2.30	2.20
10 Year Spread to US (bps)	58	35	30	25	20	20	20	15

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD vs								
USD	0.7089	0.74	0.76	0.77	0.78	0.79	0.80	0.80
JPY	95.09	96.2	97.3	97.0	96.7	96.4	96.8	96.0
EUR	0.6677	0.68	0.69	0.69	0.69	0.69	0.70	0.69
NZD	1.1102	1.10	1.10	1.10	1.10	1.10	1.11	1.11
CAD	0.9007	0.93	0.95	0.95	0.97	0.99	1.00	1.00
GBP	0.5676	0.59	0.60	0.60	0.60	0.60	0.60	0.59
CHF	0.6947	0.72	0.73	0.73	0.73	0.74	0.74	0.74
DKK	4.9668	5.05	5.14	5.12	5.14	5.16	5.18	5.11
SEK	7.0308	7.15	7.28	7.24	7.27	7.30	7.33	7.23
NOK	6.8030	6.92	7.04	7.01	7.03	7.06	7.09	7.00
ZAR	10.99	11.2	11.4	11.5	11.5	11.6	11.7	11.7
SGD	0.9800	1.01	1.03	1.03	1.04	1.05	1.06	1.05
HKD	5.5644	5.81	5.93	6.01	6.05	6.12	6.20	6.20
PHP	37.97	38.5	38.8	38.5	38.6	38.7	39.2	39.1
THB	24.56	25.3	25.5	25.4	25.0	24.5	24.8	24.8
MYR	3.1212	3.18	3.19	3.20	3.20	3.20	3.24	3.24
CNY	4.7628	4.81	4.83	4.81	4.84	4.86	4.92	4.88
IDR	10322	10730	10982	11088	11154	11218	11345	11329
TWD	21.07	21.6	22.0	21.9	22.0	22.1	22.4	22.3
KRW	897	925	927	916	905	893	901	897
INR	55.85	55.9	56.2	56.2	56.6	56.9	57.6	57.2

ECONOMIC FORECASTS

Australia

Activity forecasts*

	2021	2022				2023			Calendar years		
%qtr / yr avg	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2020	2021	2022f	2023f
Private consumption	6.4	1.5	2.6	1.1	0.7	0.5	0.5	–5.8	4.9	6.8	3.2
Dwelling investment	–1.9	–1.0	2.9	2.1	1.6	0.0	–0.4	–5.5	9.7	1.7	1.7
Business investment*	0.7	1.4	2.8	1.8	1.7	1.5	1.0	–4.2	5.9	5.5	5.8
Private demand *	4.5	1.2	2.5	1.2	0.8	0.6	0.5	–5.3	6.0	5.9	3.2
Public demand *	–0.1	2.6	0.5	0.5	0.5	0.4	0.4	6.0	6.0	5.4	1.8
Domestic demand	3.2	1.6	2.0	1.0	0.7	0.5	0.5	–2.4	6.0	5.8	3.2
Stock contribution	1.0	1.0	–0.7	–0.2	0.0	–0.1	0.0	0.0	0.5	0.5	–0.4
GNE	4.3	2.6	1.2	0.8	0.7	0.4	0.5	–2.5	6.6	6.2	2.4
Exports	–0.9	–0.9	2.6	3.0	2.5	2.0	2.0	–9.8	–1.8	2.0	9.2
Imports	0.7	8.1	2.0	1.9	1.9	2.1	1.8	–13.0	6.2	10.8	8.0
Net exports contribution	–0.3	–1.7	0.1	0.2	0.1	0.0	0.1	0.4	–1.6	–1.6	0.3
Real GDP %qtr / yr avg	**3.6**	**0.8**	**1.3**	**1.1**	**0.8**	**0.4**	**0.5**	–2.1	4.8	4.5	2.7
%yr end	**4.4**	**3.3**	**3.9**	**6.9**	**4.0**	**3.6**	**2.8**	**–0.7**	**4.4**	**4.0**	**2.0**
Nominal GDP %qtr	3.5	3.7	2.8	1.0	0.8	–0.1	0.3				
%yr end	10.2	10.2	9.8	11.5	8.5	4.5	2.0	0.9	10.2	8.5	1.5

Other macroeconomic variables

	2021	2022				2023			Calendar years		
% change	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2020	2021	2022f	2023f
Employment (2)	0.7	1.9	0.6	0.7	0.5	0.4	0.4	–	–	–	–
%yr	2.2	2.9	2.5	3.9	3.7	2.1	2.0	–1.0	2.2	3.7	1.7
Unemployment rate % (2)	4.7	4.0	3.8	3.4	3.2	3.3	3.2	6.8	4.7	3.2	3.5
Wages (WPI) (2)	0.7	0.7	0.8	0.8	1.0	1.0	1.0	–	–	–	–
%yr	2.3	2.4	2.7	2.9	3.3	3.6	3.8	1.4	2.3	3.3	3.9
CPI Headline (2)	1.3	2.1	1.5	0.6	2.2	1.2	0.6	–	–	–	–
%yr	3.5	5.1	5.8	5.7	6.6	5.6	4.7	0.9	3.5	6.6	3.0
Core inflation trimmed mean	1.0	1.4	1.3	1.0	1.0	0.8	0.8	–	–	–	–
%yr (2)	2.6	3.7	4.5	4.8	4.8	4.2	3.7	1.2	2.6	4.8	3.2
Current account AUDbn	13.2	7.5	12.5	9.0	4.0	-3.0	-7.0	51.1	76.2	33.0	-32.0
% of GDP	2.4	1.3	2.1	1.5	0.7	–0.5	–1.2	2.6	3.5	1.4	–1.3
Terms of trade annual chg (1)	10.1	8.3	3.2	–0.2	0.5	–9.8	–15.4	–0.3	17.7	3.0	–12.8

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

	2021						2022				
Monthly data	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Employment '000 chg	–2	–139	–139	–44	373	58	18	94	20	4	–
Unemployment rate %	4.6	4.5	4.7	5.2	4.6	4.2	4.2	4.0	3.9	3.9	–
Westpac–MI Consumer Sentiment	108.8	104.1	106.2	104.6	105.3	104.3	102.2	100.8	96.6	95.8	90.4
Retail trade %mth	–2.6	–1.7	1.7	4.6	7.1	–4.1	1.6	1.8	1.6	0.9	–
Dwelling approvals %mth	–7.6	6.9	–1.7	–14.6	1.0	8.7	–24.6	41.4	–19.2	–2.4	–
Credit, private sector %yr	4.0	4.7	5.2	5.7	6.6	7.2	7.6	8.0	8.0	8.6	–
Trade balance AUDbn	12.9	12.2	10.9	10.4	9.3	8.2	12.7	7.8	9.7	10.5	–

New Zealand

Interest rate forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	2.00	3.00	3.50	3.50	3.50	3.50	3.50	3.50
90 Day Bill	2.53	3.40	3.60	3.60	3.60	3.60	3.60	3.60
2 Year Swap	4.01	4.00	3.90	3.70	3.50	3.30	3.10	2.90
10 Year Bond	3.94	3.70	3.50	3.30	3.20	3.10	3.00	2.90
10 Year Spread to US	88	90	90	90	90	90	90	85
10 Year Spread to Aust	30	55	60	65	70	70	70	70

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZD vs								
USD	0.6386	0.67	0.69	0.70	0.71	0.72	0.72	0.72
JPY	85.65	87.1	88.3	88.2	88.0	87.8	87.1	86.4
EUR	0.6014	0.61	0.63	0.63	0.63	0.63	0.63	0.62
AUD	0.9006	0.91	0.91	0.91	0.91	0.91	0.90	0.90
CAD	0.8112	0.84	0.86	0.87	0.88	0.90	0.90	0.90
GBP	0.5113	0.53	0.54	0.55	0.55	0.55	0.54	0.53
CNY	4.2729	4.36	4.38	4.38	4.40	4.43	4.43	4.39

^ Approximate market forward price for NZD/USD, not a forecast. Sources: Bloomberg, Westpac Economics.

Activity forecasts*

	2021	2022				2023		Calendar years			
% change	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
Private consumption	6.2	4.0	–0.7	1.5	1.5	1.6	2.3	–1.1	6.2	1.5	0.6
Government consumption	10.2	9.5	7.8	5.8	2.1	0.3	–0.3	6.8	10.2	2.1	0.6
Residential investment	10.8	7.4	0.5	4.6	6.8	7.7	7.8	–3.2	10.8	6.8	4.1
Business investment	9.1	8.5	4.6	8.5	5.3	6.8	6.8	–8.7	9.1	5.3	5.3
Stocks (ppt contribution)	1.6	0.6	0.7	–0.6	–0.6	–0.2	–0.8	–0.8	1.6	–0.6	-0.1
GNE	9.4	6.7	2.5	2.9	2.0	2.4	2.1	–1.8	9.4	2.0	1.5
Exports	–3.0	5.3	0.3	0.2	2.1	5.0	11.3	–12.7	–3.0	2.1	13.9
Imports	15.7	18.7	13.8	9.0	5.2	4.5	3.9	–16.1	15.7	5.2	5.0
GDP (production)	**5.6**	**5.3**	**1.4**	**2.7**	**2.7**	**2.9**	**3.8**	**–2.1**	**5.6**	**2.7**	**3.3**
Employment annual %	3.5	2.8	2.1	0.6	0.8	1.0	0.9	0.6	3.5	0.8	0.9
Unemployment rate % s.a.	3.2	3.2	3.1	3.0	3.0	3.0	3.1	4.9	3.2	3.0	3.3
Labour cost index, all sect incl o/t, ann %	2.6	3.0	3.4	3.6	4.0	4.3	4.4	1.6	2.6	4.0	4.3
CPI annual %	**5.9**	**6.9**	**6.7**	**5.6**	**4.5**	**3.2**	**2.9**	**1.4**	**5.9**	**4.5**	**2.7**
Current account balance % of GDP	–5.8	–5.9	–6.8	–6.9	–6.6	–6.3	–5.9	–0.8	–5.8	–6.6	–5.6
Terms of trade annual %	2.6	4.0	1.2	0.1	–0.3	–2.7	–3.4	–1.6	2.6	–0.3	–0.3

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (10 Jun)***	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Australian commodities index#	410	406	398	370	342	317	**298**	**278**	**259**	**247**	**234**
Bulk commodities index#	**646**	**646**	**640**	**570**	**524**	**484**	**451**	**414**	**374**	**350**	**326**
iron ore finesTSI @ 62% US$/t	146	145	124	115	109	106	103	100	97	94	91
Qld coking coal index (US$/t)	359	360	370	371	326	302	277	253	228	203	178
Newcastle spot thermal coal (US$/t)	420	420	380	325	275	200	175	140	110	100	90
crude oil (US$/bbl) Brent ICE	119	120	120	110	105	100	90	85	80	75	70
LNG in Japan US$mmbtu	15.84	15.8	19.7	19.5	17.6	16.5	15.5	13.7	12.8	11.8	10.9
gold (US$/oz)	1,852	1,850	1,900	1,900	1,825	1,775	1,725	1,675	1,625	1,600	1,590
Base metals index#	**246**	**245**	**248**	**244**	**237**	**228**	**223**	**214**	**208**	**199**	**189**
copper (US$/t)	9,685	9,690	9,700	9,650	9,550	9,300	9,150	8,900	8,750	8,500	8,075
aluminium (US$/t)	2,764	2,775	2,800	2,800	2,750	2,725	2,700	2,600	2,500	2,300	2,147
nickel (US$/t)	28,774	28,800	29,000	26,500	24,500	22,500	21,500	20,500	20,000	19,500	19,000
zinc (US$/t)	3,806	3,800	3,825	3,750	3,500	3,250	3,150	3,000	2,806	2,639	2,472
lead (US$/t)	2,213	2,211	2,200	2,200	2,100	2,000	1,950	1,925	1,900	1,850	1,800
Rural commodities index#	**198**	**198**	**198**	**195**	**184**	**177**	**164**	**160**	**151**	**143**	**134**
NZ commodities index ##	**395**	**396**	**394**	**377**	**362**	**354**	**347**	**342**	**338**	**335**	**335**
dairy price index ^^	376	378	376	347	323	316	310	306	302	300	300
whole milk powder US$/t	4,158	4,262	4,266	3,900	3,798	3,700	3,650	3,600	3,550	3,500	3,500
skim milk powder US$/t	4,240	4,346	4,284	3,700	3,599	3,500	3,450	3,400	3,350	3,300	3,300
lamb leg UKp/lb	656	656	654	646	634	619	603	587	575	569	569
bull beef US¢/lb	307	300	300	294	284	270	260	256	255	255	255
log price index ##	180	181	172	169	167	166	165	164	164	164	164
strong wool US¢/kg	165	172	172	172	172	172	172	172	172	172	172

	levels				% change			
Annual averages	**2020**	**2021**	**2022(f)**	**2023(f)**	**2020**	**2021**	**2022(f)**	**2023(f)**
Australian commodities index#	**214**	**306**	**397**	**316**	**-2.0**	**43.1**	**29.7**	**-20.4**
Bulk commodities index#	**347**	**510**	**620**	**516**	**0.8**	**47.0**	**21.6**	**-16.7**
iron ore fines @ 62% USD/t	108	159	132	106	16.6	46.6	-16.9	-20.1
LNG in Japan $mmbtu	7.8	10.3	17.5	16	-28.0	31.1	70.0	-6.6
ave coking coal price (US$/t)	108	143	324	301	-30.9	33.2	126.0	-7.2
ave thermal price (US$/t)	57	99	264	154	-24.1	74.4	166.3	-41.5
iron ore fines contracts (US¢ dltu)	138	239	169	172	11.7	72.8	-29.2	2.0
coal coking contracts (US$/t)	126	205	380	319	-31.5	62.5	85.2	-15.9
crude oil (US$/bbl) Brent ICE	44	70	110	97	-31.2	60.2	56.8	-11.8
gold (US$/oz)	1,779	1,801	1,887	1,769	27.3	1.2	4.7	-6.3
Base metals index#	**151**	**213**	**251**	**225**	**-2.6**	**41.1**	**18.0**	**-10.5**
copper (US$/t)	6,191	9,297	9,762	9,288	2.8	50.2	5.0	-4.9
aluminium (US$/t)	1,721	2,477	2,943	2,710	-4.7	44.0	18.8	-7.9
nickel (US$/t)	13,837	18,452	28,489	22,750	-0.6	33.4	54.4	-20.1
zinc (US$/t)	2,276	3,006	3,819	3,288	-9.9	32.1	27.0	-13.9
lead (US$/t)	1,832	2,190	2,243	2,017	-8.6	19.6	2.4	-10.1
Rural commodities index#	**117**	**150**	**191**	**166**	**-7.8**	**28.0**	**27.0**	**-13.3**
NZ commodities index ##	**297**	**359**	**391**	**351**	**-0.7**	**21.2**	**8.9**	**-10.3**
dairy price index ##	257	322	371	314	-2.8	25.2	15.1	-15.4
whole milk powder US$/t	2,975	3,843	4,232	3,718	-4.6	29.2	10.1	-12.1
skim milk powder US$/t	2,717	3,332	4,216	3,518	5.8	22.6	26.6	-16.6
lamb leg UKp/lb	506	599	669	616	-1.4	18.4	11.7	-7.9
bull beef US¢/lb	234	279	301	271	-3.0	19.0	8.0	-10.1
log price index ##	156	179	173	166	-5.2	14.8	-3.2	-4.5
strong wool US¢/kg	144	173	173	172	-30.2	20.4	-0.1	-0.4

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

FORECASTS

United States

Interest rate forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Fed Funds*	0.875	2.125	2.625	2.625	2.625	2.625	2.625	2.625
10 Year Bond	3.05	2.80	2.60	2.40	2.30	2.20	2.10	2.05

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

Currency forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
USD vs								
DXY index	103.32	100.9	99.9	98.3	97.3	96.3	95.4	94.3
JPY	134.14	130	128	126	124	122	121	120
EUR	1.0619	1.09	1.10	1.12	1.13	1.14	1.15	1.16
AUD	0.7089	0.74	0.76	0.77	0.78	0.79	0.80	0.80
NZD	0.6386	0.67	0.69	0.70	0.71	0.72	0.72	0.72
CAD	1.2703	1.25	1.25	1.24	1.24	1.25	1.25	1.25
GBP	1.2490	1.26	1.27	1.28	1.30	1.32	1.34	1.35
CHF	0.9799	0.97	0.96	0.95	0.94	0.94	0.93	0.93
ZAR	15.49	15.2	15.0	14.9	14.8	14.7	14.6	14.6
SGD	1.3824	1.37	1.35	1.34	1.33	1.33	1.32	1.32
HKD	7.8487	7.85	7.80	7.80	7.75	7.75	7.75	7.75
PHP	52.96	52.0	51.0	50.0	49.5	49.0	49.0	48.9
THB	34.64	34.2	33.5	33.0	32.0	31.0	31.0	31.0
MYR	4.4014	4.30	4.20	4.15	4.10	4.05	4.05	4.04
CNY	6.6925	6.50	6.35	6.25	6.20	6.15	6.15	6.10
IDR	14560	14500	14450	14400	14300	14200	14181	14161
TWD	29.54	29.2	29.0	28.5	28.2	28.0	28.0	27.9
KRW	1266	1250	1220	1190	1160	1130	1126	1121
INR	77.81	75.5	74.0	73.0	72.5	72.0	72.0	71.5

Activity forecasts*

	2021		2022				2023	Calendar years			
% annualised, s/adj	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	2020	2021	2022f	2023f
Private consumption	2.0	2.5	2.7	2.7	2.3	1.8	1.8	-3.8	7.9	3.0	1.7
Dwelling investment	-7.7	2.1	2.1	1.2	3.2	3.2	3.2	6.8	9.2	-0.1	2.9
Business investment	1.6	2.9	9.2	7.0	6.4	6.4	6.4	-5.2	8.0	6.4	5.1
Public demand	0.9	-2.6	-2.7	0.0	1.2	1.2	1.2	2.5	0.5	-1.0	1.1
Domestic final demand	1.4	1.7	2.7	2.8	2.7	2.4	2.4	-2.6	6.7	2.7	2.1
Inventories contribution ppt	2.1	5.3	-0.7	-0.2	-0.2	-0.2	-0.2	-0.6	0.1	0.9	0.9
Net exports contribution ppt	-1.5	-0.7	-3.9	-0.4	-0.5	-0.5	-0.5	-0.2	-1.9	-1.5	-0.4
GDP	2.3	6.9	-1.4	2.5	2.1	1.9	1.9	-3.4	5.7	2.5	1.6
%yr annual chg	4.9	5.5	3.6	2.5	2.5	1.3	1.3	–	–	–	–

Other macroeconomic variables

Non-farm payrolls mth avg	565	586	573	390	320	250	200	-759	514	383	138
Unemployment rate %	5.1	4.2	3.8	3.5	3.5	3.6	3.7	8.1	5.4	3.6	4.0
CPI headline %yr	5.4	7.1	8.6	7.5	7.0	5.3	3.1	1.2	5.1	7.1	2.5
PCE deflator, core %yr	3.7	4.9	5.2	4.5	4.4	3.5	3.0	1.5	3.5	4.4	2.6
Current account %GDP	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5	-2.5	-2.5	-2.4	-2.4	-2.4

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Euro area								
ECB Refi rate	0.00	0.75	1.50	1.50	1.50	1.50	1.50	1.50
10 Year Bund	1.43	1.20	1.00	0.85	0.80	0.75	0.75	0.75
10 Year Spread to US	-162	-160	-160	-155	-150	-145	-135	-130
United Kingdom								
BoE Bank Rate	1.00	1.50	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Gilt	2.32	2.10	1.95	1.80	1.75	1.70	1.65	1.65
10 Year Spread to US	-73	-70	-65	-60	-55	-50	-45	-45

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
euro vs								
USD	1.0619	1.09	1.10	1.12	1.13	1.14	1.15	1.16
JPY	142.42	142	141	141	140	139	139	140
GBP	0.8502	0.87	0.87	0.88	0.87	0.86	0.86	0.86
CHF	1.0405	1.06	1.05	1.06	1.06	1.07	1.07	1.08
DKK	7.4391	7.44	7.44	7.44	7.44	7.44	7.44	7.44
SEK	10.5304	10.5	10.5	10.5	10.5	10.5	10.5	10.5
NOK	10.1888	10.2	10.2	10.2	10.2	10.2	10.2	10.2
sterling vs								
USD	1.2490	1.26	1.27	1.28	1.30	1.32	1.34	1.35
JPY	167.51	164	163	161	161	161	162	162
CHF	1.2238	1.22	1.21	1.21	1.22	1.23	1.25	1.25
AUD	0.5676	0.59	0.60	0.60	0.60	0.60	0.60	0.59

Source: Bloomberg, Westpac Economics.

Activity forecasts*

Annual average % chg	2018	2019	2020	2021	2022f	2023f
Eurozone GDP	1.9	1.3	-6.6	5.3	2.2	1.5
private consumption	1.5	1.3	-8.0	3.5	2.5	2.0
fixed investment	3.2	5.7	-8.4	3.6	3.2	3.5
government consumption	1.2	1.8	1.4	3.8	3.0	2.0
net exports contribution ppt	0.4	-0.5	-0.7	1.0	0.6	0.4
Germany GDP	1.6	0.6	-5.5	2.9	1.5	2.0
France GDP	1.8	1.5	-8.5	7.0	2.0	1.8
Italy GDP	0.8	0.3	-9.0	6.6	1.8	1.5
Spain GDP	2.4	2.0	-11.0	5.1	4.0	4.0
Netherlands GDP	2.4	1.7	-4.5	5.1	2.5	2.0
memo: United Kingdom GDP	1.3	1.4	-9.9	7.2	3.7	0.0

FORECASTS

Asia

China

Calendar years	2017	2018	2019	2020	2021f	2022f	2023f
Real GDP	6.9	6.7	6.0	2.3	8.1	5.3	5.5
Consumer prices	1.8	1.9	4.5	0.2	1.5	2.2	2.4
Producer prices	4.9	0.9	-0.5	-0.4	10.3	5.5	1.5
Industrial production (IVA)	6.6	6.2	5.7	2.8	9.6	5.0	5.4
Retail sales	10.2	9.0	8.0	-3.9	12.5	5.5	8.0
Money supply M2	8.2	8.1	8.7	10.1	9.0	10.0	8.5
Fixed asset investment	7.2	5.9	5.4	2.9	4.9	6.5	5.5
Exports	12.7	-4.4	6.3	13.5	28.7	6.5	6.0
Imports	8.7	-7.6	11.8	2.4	30.7	6.0	5.0
Trade balance USDbn	420	351	421	524	945	727	799

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Required reserve ratio %*	11.25	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Loan Prime Rate, 1-year	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70

* For major banks.

Japanese interest rates & monetary policy

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Basic balance deposit rate*	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Policy-rate balance deposit rate*	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
10 Year JGB	0.25	0.25	0.25	0.25	0.25	0.30	0.35	0.40

* The Bank of Japan introduced a three-tier interest rate structure for bank deposits in January 2016.

Currency forecasts

	Latest (10 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
JPY	134.14	130	128	126	124	122	121	120
SGD	1.3824	1.37	1.35	1.34	1.33	1.33	1.32	1.32
HKD	7.8487	7.85	7.80	7.80	7.75	7.75	7.75	7.75
PHP	52.96	52.0	51.0	50.0	49.5	49.0	49.0	48.9
THB	34.64	34.2	33.5	33.0	32.0	31.0	31.0	31.0
MYR	4.4014	4.30	4.20	4.15	4.10	4.05	4.05	4.04
CNY	6.6925	6.50	6.35	6.25	6.20	6.15	6.15	6.10
IDR	14560	14500	14450	14400	14300	14200	14181	14161
TWD	29.54	29.2	29.0	28.5	28.2	28.0	28.0	27.9
KRW	1266	1250	1220	1190	1160	1130	1126	1121
INR	77.81	75.5	74.0	73.0	72.5	72.0	72.0	71.5

Source: Bloomberg, Westpac Economics.

SUMMARY OF THE WORLD

Economic growth forecasts (year average)

Real GDP %ann	2017	2018	2019	2020	2021	2022f	2023f
World	**3.8**	**3.6**	**2.8**	**-3.3**	**5.5**	**3.4**	**3.3**
United States	2.3	3.0	2.2	-3.5	5.7	2.5	1.6
Japan	1.7	0.6	0.3	-4.8	1.8	1.7	1.8
Euro zone	2.6	1.9	1.3	-6.6	4.9	2.2	1.5
Group of 3	**2.4**	**2.3**	**1.6**	**-4.8**	**4.9**	**2.3**	**1.6**
United Kingdom	1.7	1.3	1.4	-9.9	7.2	3.7	0.0
Canada	3.0	2.4	1.9	-5.4	4.8	3.6	2.8
Australia	2.4	2.8	2.0	-2.1	4.8	4.5	2.7
New Zealand	3.1	3.2	2.4	-2.1	5.6	2.7	3.3
OECD total	**2.4**	**2.3**	**-0.8**	**-0.7**	**4.4**	**2.3**	**1.7**
China	6.9	6.7	5.8	2.3	8.1	5.3	5.5
Korea	3.2	2.9	2.0	-1.0	4.0	2.6	2.7
Taiwan	3.3	2.8	3.0	3.1	6.5	3.5	3.3
Hong Kong	3.8	2.8	-1.2	-6.1	6.4	1.0	3.0
Singapore	4.5	3.5	1.3	-5.4	7.9	4.2	4.0
Indonesia	5.1	5.2	5.0	-2.1	3.7	5.1	5.3
Thailand	4.2	4.2	2.3	-6.1	1.6	3.5	4.5
Malaysia	5.8	4.8	4.3	-5.6	3.2	6.0	5.5
Philippines	6.9	6.3	6.0	-9.5	5.6	6.8	6.5
Vietnam	6.9	7.1	7.0	2.9	2.6	7.0	7.0
East Asia	**6.1**	**5.9**	**5.1**	**0.7**	**6.8**	**5.0**	**5.2**
East Asia ex China	4.7	4.4	3.7	-2.4	4.2	4.5	4.6
NIEs*	**3.4**	**2.9**	**1.9**	**-0.8**	**5.4**	**2.9**	**3.1**
India	6.8	6.5	4.0	-8.0	9.0	7.7	6.5
Russia	1.8	2.8	2.0	-3.1	4.5	-12.0	-1.0
Brazil	1.3	1.8	1.4	-4.1	4.8	0.5	2.0
South Africa	1.4	0.8	0.2	-6.4	5.5	2.0	1.8
Mexico	2.1	2.2	-0.1	-8.2	4.8	2.3	2.2
Argentina	2.8	-2.6	-2.1	-9.9	9.5	2.5	2.2
Chile	1.2	3.7	1.0	-5.8	12.0	2.5	2.0
CIS^	-5.8	2.7	1.2	-1.9	4.3	0.5	0.5
Middle East	1.8	1.4	1.3	3.2	2.8	2.8	2.7
C & E Europe	-0.6	0.1	-1.3	-8.9	4.5	3.8	2.0
Africa	3.1	3.2	3.2	-1.9	3.4	4.0	4.0
Emerging ex-East Asia	**2.6**	**2.9**	**1.9**	**-3.5**	**5.3**	**2.5**	**3.2**
Other countries	12.7	5.6	5.0	0.4	2.2	5.7	5.0
World	**3.8**	**3.6**	**2.8**	**-3.3**	**5.5**	**3.4**	**3.3**

#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.

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