# WESTPAC MARKET OUTLOOK JULY 2022.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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# EXECUTIVE SUMMARY

The Reserve Bank of Australia delivered a third consecutive interest rate increase at their July meeting. As widely expected, the RBA lifted the cash rate by 50bps to a still below neutral 1.35%. At this level, rates are still too low in an environment of high inflation and the tightest labour market in 50 years. Ahead of the August meeting, the critical Q2 update on consumer inflation will be released, with the likelihood of annual inflation approaching 6%. Informed by this, we expect the RBA to deliver a third back-to-back 50bp rate hike in August, taking the cash rate to 1.85%. Thereafter, the RBA is likely to shift tact, moving rates in more measured steps, to a likely peak of 2.6% in early 2023.

Fears of an imminent global recession continue to build. Indeed, many in the market seemingly now believe a recession in the developed world a fait accompli. Interestingly, participants continue to flock to the safety of the US dollar despite the US economy being an underperformer in terms of current momentum, and with a greater risk of tight financial conditions choking off growth for an extended period. Of note in our revised forecasts is that we now see the Euro Area likely to grow more strongly than the US through 2022 and 2023. Also of significance for the outlook is that China and the rest of Asia continue to show resilience in the face of adversity and look to be primed for a return to strength.

**Australia:** The Australian economy has considerable momentum in 2022, representing a reopening recovery from the delta lockdowns of 2021 and supported by earlier considerable stimulus. This is confirmed by labour market developments in the June quarter, ahead of impacts from recent RBA interest rates hikes. Output growth is forecast to be a robust 4% this year, including a 6% increase in consumer spending, with the delta impacted states of NSW and Victoria likely to outperform. However, there has been a policy u-turn, with the RBA beginning what will be an aggressive tightening cycle. This will see the economy lose momentum by year end. Growth is expected to slow to a below trend pace in 2023, a forecast 2%, led lower by consumers and housing as higher interest rates and high inflation bite.

**Global FX markets:** The markets' appetite for risk has continued to diminish this month, with talk of recession and shocks to energy supply filling the headlines. Strong US dollar gains in such an environment are hardly surprising; though in this instance, the markets' confidence in the US dollar seems misplaced. Not only is the US economy on the cusp of a second consecutive negative print for US GDP, but forward indicators point to this weakness becoming entrenched. Expectations for rate cuts in the US from 2023 look set to build, and should result in a narrowing of expected rate differentials over the forecast period. Soon enough, emerging markets will also be seen as a source of strength and opportunity, in stark contrast to the developed world.

**New Zealand:** Consumer confidence in New Zealand has plummeted, as household budgets have been squeezed by higher mortgage rates and increases in living costs. That weakness in confidence is weighing on household spending appetites, reinforcing our expectations for a slowdown in economic growth. This also reinforces our expectation that the Official Cash Rate won't rise as far as market pricing implies.

**United States:** The reality for economic activity of declining real wages and 2022's sharp tightening of financial conditions is becoming apparent in US data. Consumption is clearly under pressure, while the case for new business investment is withering by the day. The market is becoming fixated on the timing and scale of an imminent recession. To us however, the bigger concern is the possibility of an extended period of below trend growth through 2022 and 2023 which saps confidence in the outlook amongst consumers and businesses alike.

**China:** Most market participants remain doubtful or downright pessimistic on China's near-term outlook. This is despite a very promising run of partial data over the past month as COVID-zero restrictions were scaled back. Taken together with the year-to-date trade and credit/investment data, we instead believe the June PMI reports point to a small but positive outcome for GDP in Q2. Absent another wave of COVID-zero restrictions, the momentum becoming evident gives support to the notion that authorities can still achieve growth near their 5.5% target in 2022 assuming policy remains expansionary and sentiment is supported.

**Europe:** As the ECB begins lifting policy rates in July, Europe's growth outlook hinges delicately on the evolution of risks. The Russia-Ukraine conflict and its associated consequences on inflation are weighing heavily on consumer and business sentiment. This will likely stunt growth over 2022, however the ECB seem willing to accept this to triumph over inflation. We therefore expect the ECB to deliver 150bp of rate hikes through to year end, raising the refi rate to a peak of 1.5% by December.

## Summary of world GDP growth (year average*)

| Real GDP %ann* | 2017 | 2018 | 2019 | 2020 | 2021 | 2022f | 2023f |
|---|---|---|---|---|---|---|---|
| United States | 2.3 | 2.9 | 2.3 | –3.4 | 5.7 | 2.0 | 0.8 |
| China | 6.9 | 6.8 | 6.0 | 2.2 | 8.1 | 5.3 | 5.5 |
| Japan | 1.7 | 0.6 | –0.2 | –4.5 | 1.6 | 1.7 | 1.8 |
| India | 6.8 | 6.5 | 3.7 | –6.6 | 8.9 | 7.5 | 6.5 |
| Other East Asia | 4.7 | 4.5 | 3.8 | –2.3 | 4.1 | 4.5 | 4.6 |
| Europe | 2.6 | 1.8 | 1.6 | –6.4 | 5.3 | 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 | 2.1 | 3.3 |
| **World** | **3.7** | **3.6** | **2.9** | **–3.1** | **6.1** | **3.4** | **3.2** |

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'.

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 delivers back-to-back 50bp hikes …

**The RBA lifts the cash rate to 1.35% in July …**

The Reserve Bank Board decided to increase the cash rate target by 50 basis points to 1.35% at its July Board meeting. The decision was expected by Westpac and widely anticipated by the market and other analysts.

**… delivering back-to-back 50bp moves.**

The Governor's July decision Statement provides ample flexibility for the next Board meeting on August 2. From our perspective the key objective of scrutinising the Statement is to detect whether there appeared to be any clear signal that the Board planned to scale back the sequence of 50 basis point moves which we have now seen for two consecutive months. Since the RBA began announcing the cash rate publicly in 1990 it has never raised the cash rate in two consecutive meetings by 50 basis points each. However, the Governor's statement made no reference to that historical precedent, something that may have been done if he was signalling the intention to scale back the moves. Neither did he assess that the stance of policy had moved from stimulatory to the neutral range.

**That still has the cash rate below neutral …**

He sounded more confident about the inflation outlook, noting that the Bank expected that the inflation rate would peak later in 2022. On the other hand, he did observe that the real time data on the labour market and household spending had lifted. We note that this has been despite the sharp deterioration in consumer confidence. However, the resilience of household spending to date has relied upon a strong reopening effect and the release of spending capacity as the savings rate returns to more normal levels. We see those effects fading through 2022 with spending in the December quarter and 2023 falling well short of long run trend.

**… at levels too low …**

The Governor stopped referring to rates as "very low" but did not substitute that term with a more moderate assessment. Of some significance was the strong emphasis in the Statement of the importance of inflationary expectations. And most importantly he implied that the June quarter Inflation Report would be pivotal to future decisions. With all this in mind and given our upbeat forecast for the June inflation report (5.8% headline; 4.5% trimmed mean), we remain comfortable with our expectation that the Board will decide on a further 50 basis point lift at the August 2 meeting.

However, we are expecting the Board to pause in September and October. A key to that decision to pause will be the RBA's assessment of the level of rates that constitutes a neutral policy stance. We assess that stance as being in the 1.5–2.0% range. Neutral is the rate at which policy is neither stimulatory nor contractionary.

**… given the significant inflation challenge …**

Given the powerful transmission from the cash rate to the household sector (we assess that 95% of borrowers will be directly affected by the RBA's cash rate policy by end 2023), "neutral" has been falling as households have lifted their leverage. But we cannot be certain of the level of neutral and many central banks have followed the Greenspan example (paraphrased), "I will tell you where neutral is when we get there!" That is the right approach and argues for a near-term pause in the RBA's tightening cycle to assess the cumulative impact of a series of out sized rate increases. We do not support the concept that neutral is "zero real" when inflation is back at the middle of the target band. If inflation was back at 2.5% the dampening impact on the economy of inflation (through the squeeze on household budgets) would be much weaker than the current situation where inflation is more than double 2.5% and rising.

Consequently, some notion that "neutral" should be 2.5% (zero real) seems misplaced in this extraordinary cycle. There have been some reports that the RBA sees neutral as 2.5%. If that were to be the case, then our expectation of a pause in September would be contentious.

**… which will be further confirmed by the upcoming Q2 inflation report.**

Indeed, to justify our expectation of a pause in September we will need to see a significant change in the wording in the August Statement, highlighting: how far rates have moved in such a short time; describing the rate of 1.85% as in the neutral zone; noting the much higher frequency of RBA meetings than other central banks: while firmly indicating that further increases will be required.

**That points to a follow-up 50bp rate rise in August …**

As we have done quite successfully through this current cycle, we have chosen to forecast the best policy rather than follow any implied guidelines from the RBA. For September, having firmly established the RBA's inflation targeting credentials over the previous four meetings, the Board's best policy option will be to pause to assess the high frequency response (confidence; house prices; new lending; housing related spending such as durables) and global developments before resuming the cycle following the September quarter Inflation Report.

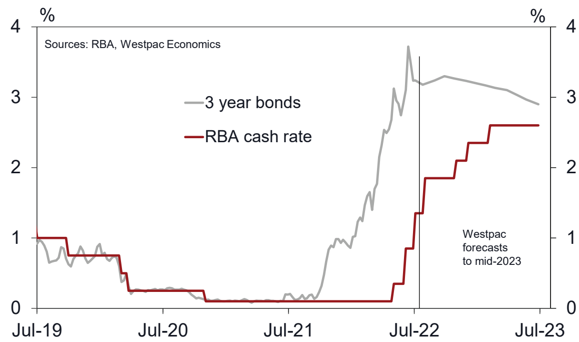
**… with the cash rate to peak at 2.6% in February 2023.**

The peak in the cycle (2.6%) is likely to be reached in February 2023 with clear signals at the May Board meeting that inflation peaked in the December quarter and the associated slowdown both domestically and internationally will allow an end to the cycle.

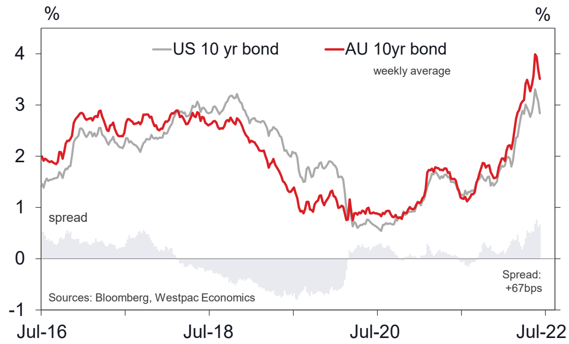
**Bill Evans, Chief Economist**

# … August will see another 50bp move

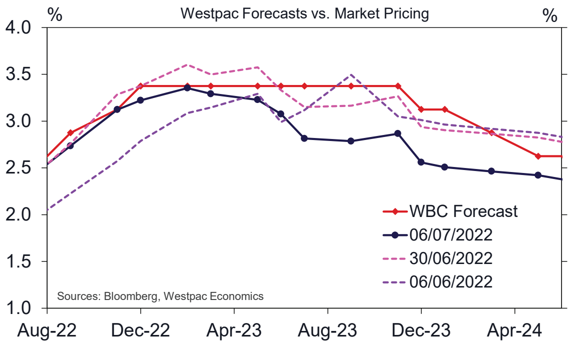
## RBA cash rate and 3 year bonds



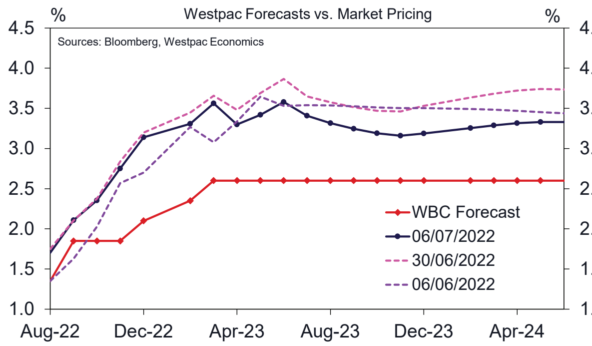

## 10 year bonds yields: down from June peak



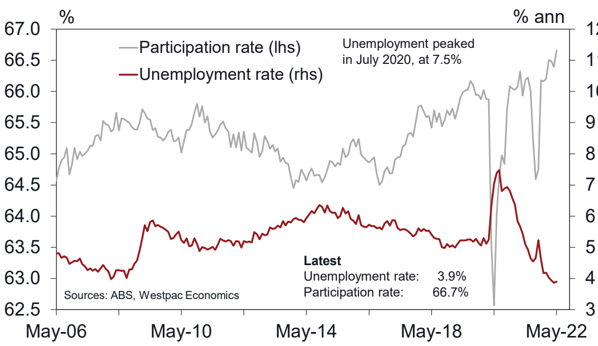

## Fed funds forward pricing



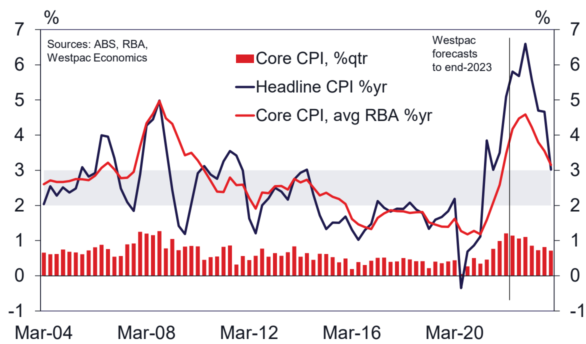

## RBA forward pricing




## Unemployment at 3.9%, a 48 year low




## CPI inflation



# Considerable momentum in 2022 ...

**The economy has considerable momentum in 2022 ...**

The Australian economy is set to swing from strength over 2021 and 2022, to a period of sub-trend expansion in 2023. Currently, activity is being supported by earlier and substantial policy stimulus introduced in response to the pandemic. However, a policy u-turn is underway, with stimulus being wound back in recognition of a significant inflation challenge and with the labour market the tightest in 50 years. In May, the RBA began what will be an aggressive tightening cycle by raising interest rates for the first time since 2010. Higher inflation and rising interest rates will begin to bite by year end, triggering a significant loss of momentum in the economy - slowing growth below trend in 2023, to bring demand and supply more into balance.

**... a reopening recovery from the delta lockdowns of 2021.**

Westpac is forecasting output in Australia to expand by 4% in 2022, following a 4.4% increase in 2021, representing a recovery from the Covid related recession of 2020, when output declined by 0.7%. Looking ahead to 2023, output growth slows to a soggy 2%, with trend growth assessed to be around 2.5%.

**Households are spending more freely ...**

The recent data appears, on the surface, to be giving some mixed messages. Those indicators relating to current conditions, including the labour market, have tended to confirm that the economy has considerable momentum ahead of any significant impacts from the initial RBA rate hikes. Other, more forward looking indicators, such as the Westpac-MI Consumer Sentiment index, reveal that the consumer mood has darkened - with the index falling to a weak 86.4 in June. This sharp loss of consumer confidence will, in time, impact spending decisions, and supports the view that the economy is set to slow heading into 2023, and likely slow appreciably.

**... as the savings rate corrects lower from elevated levels ...**

Focusing on prospects for 2022, a robust expansion will be driven by consumer spending, which is forecast to increase by 6.0% and directly adding 3.2ppts to activity. Household balance sheets are in good shape and the tight labour market will drive an acceleration in wage incomes, both supportive of households spending more freely. Importantly, the household saving rate at 11.4% is currently elevated and well above the 6% 'equilibrium' rate. Prospects are for the saving rate to correct lower, gravitating towards that 6% equilibrium by year end. That fall in the savings rate is likely to release a further $15-20bn a quarter to support household spending through the year.

**... and supported by a buoyant labour market.**

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. 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.

**A policy u-turn is underway, with an aggressive tightening cycle by the RBA ...**

Labour market trends indicate that the economy accelerated in the June quarter. Hours worked are up sharply, increasing by 4.6% in the June quarter (as at May) relative to the opening three months of the year. This points to upside risks to our Q2 GDP forecast of 1.3%. These labour market developments, consistent with other indicators such as upbeat retail sales, suggest broad based strength across the economy ahead of impacts from the RBA's interest rate hikes.

**... in response to a significant inflation challenge.**

However, by the December quarter this year, with the household saving 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. Consumer spending is forecast to expand by a tepid 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.

**Consumer confidence has already weakened ...**

Fortunes in the interest rate sensitive housing sector are also set to weaken. Supply and demand for new dwellings is expected to dry up under the weight of high costs; labour shortages; interest rate rises and a correction in the wider housing market. Home building activity is expected to contract by around 2.5% in 2023, after two years of expansion.

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

We anticipate an aggressive RBA tightening cycle in response to a significant inflation challenge. The cash rate is expected to quickly return to around neutral levels, to be at 1.85% after the August meeting. From there, the cash rate increases further, in more gradual steps, to a forecast peak of 2.60% in February 2023.

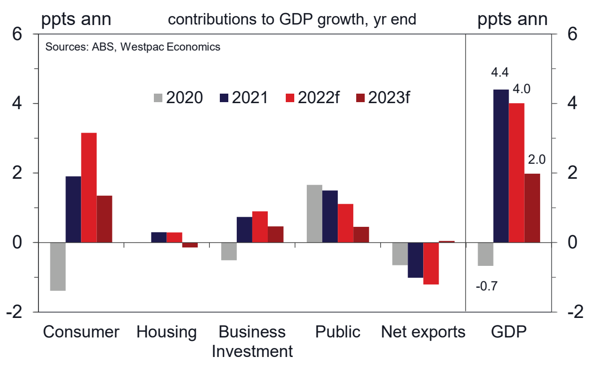
**... with the economy to slow to a below trend pace in 2023 as higher rates bite.**

In this environment we anticipate: a 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 3.3% 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.

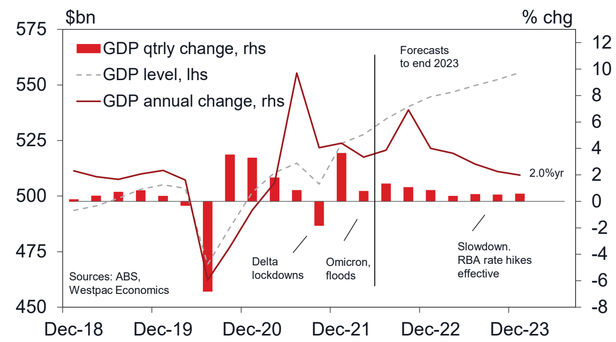
**Bill Evans, Chief Economist; Andrew Hanlan, Senior Economist**

# … slowing to below trend growth in 2023, as higher rates bite

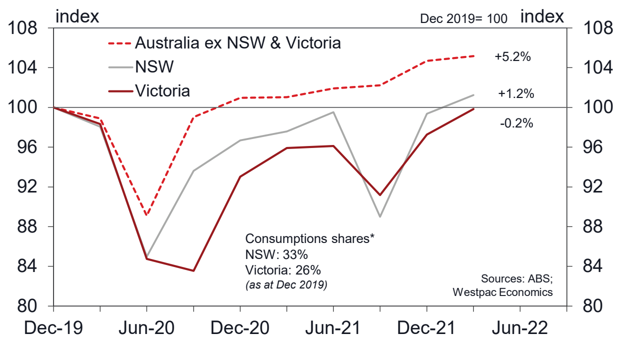
## Australia: the growth mix



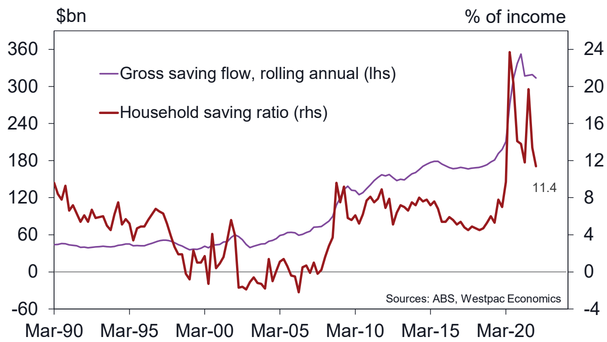

## Australia: volatile path navigating covid



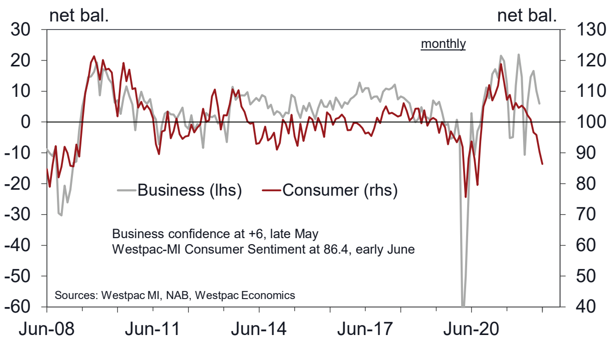

## Consumer spending by state: paths diverge



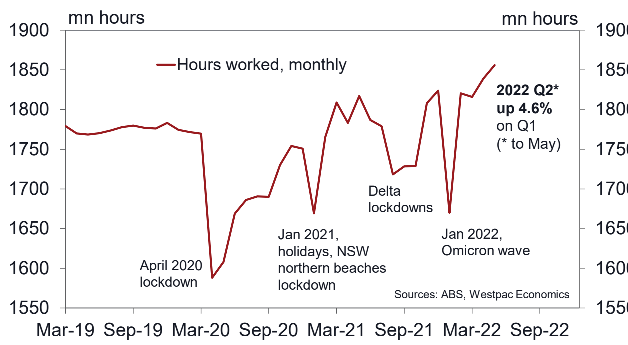

## Household saving ratio and gross saving flow




## Confidence: consumers and businesses




## Hours worked: strength in Q2 2022



# FX fundamentals continue to …

**Fear of the unknown continues to drive FX markets …**

In developing our FX forecasts for the coming two to five years, we typically assess the significance of three key factors: the relative growth outlook; interest rate differentials; as well as participants' perceptions of and appetite for risk. More often than not, we find that one of these factors dominates the others. To date in 2022, risk has certainly been the primary factor.

**… seeing the US dollar jump to yet another multi-decade high.**

This was again the status quo over the past month, with the US dollar gaining almost 4% from its spot level at the time of our June publication to its mid-month peak of 107.3. The primary risk on the mind of the market this month was global recession stemming from the hit to spending power due to rapid consumer inflation and the abrupt tightening of financial conditions as central banks react to the inflation threat.

Despite current FX market pricing, the above factors are as great an issue for the US as the rest of the developed world.

**But the economic foundation for US dollar strength is poor …**

This is not only because of the actions of the FOMC through mid-2022, but also because, as per recent data, the US economy is materially weaker than previously thought. As highlighted on page 12, not only is there a distinct possibility of back-to-back negative GDP outcomes in Q1 and Q2 2022, but the scene is set for persistent weakness into 2023 given real incomes continue decline; employment growth is slowing; and consumer confidence is at record lows.

**… with recent data pointing to stronger growth elsewhere, even in Europe.**

Indeed, on our updated forecasts for 2022 and 2023, growth in Europe is expected to be stronger than in the US, respectively 2.2%/1.5% and 2.0%/0.8% for 2022/2023. The array of risks facing both jurisdictions also seems more likely to skew against the US given the high expectation the market has over the US' ability to weather this storm, and as US fiscal authorities are less able/willing to act to counter a downturn.

**A marked decline in the US dollar continues to be seen …**

While the starting point for the US dollar is much higher this month than in June, we remain of the view that at end-2022 and end-2023, DXY is likely to be back near 101 and 95 respectively.

Driving the US dollar depreciation over the period will be the Euro which is forecast to rise from USD1.02 currently to USD1.09 end-2022 and USD1.15 end-2023. Sterling is expected to contribute similarly, with GBP/USD forecast to rise from USD1.20 to USD1.26 end-2022 and USD1.34 end-2023 – although we must note that there is a much greater chance of disappointment for Sterling than Euro given the UK's current political and Brexit-related concerns.

Albeit smaller in magnitude than for Euro and Sterling, the anticipated rise in Canada's dollar is also significant for DXY, with USD/CAD forecast to fall from CAD1.30 to CAD1.25, a level that is expected to be broadly maintained until March 2024. While the gains forecast for Euro and Sterling are arguably as much to do with the removal of idiosyncratic risks as they are stronger underlying growth prospects, the forecast for the Canadian dollar is tied closely to the breadth and persistence of growth in emerging markets. This is all the more true for the Asian FX complex.

Take China as an example. While growth in the US and Europe has collapsed below potential and is expected to remain there in 2023, momentum in China's economy is expected to hold around trend through both years.

**… and global growth receives more support from emerging markets.**

Moreover, the economic activity driving this growth should be favourable for the currency, with the investment being undertaken in the economy targeted at increasing efficiency, productivity and boosting the trade balance. Note as well that, the ongoing reforms being undertaken by authorities and the starting valuations for equities are also supportive of financial flows into China, in addition to those related to trade. For these reasons, we continue to have a bullish expectation for Renminbi, expecting USD/CNY to fall from CNY6.70 currently to CNY6.35 end-2022 and CNY6.15 end-2023.

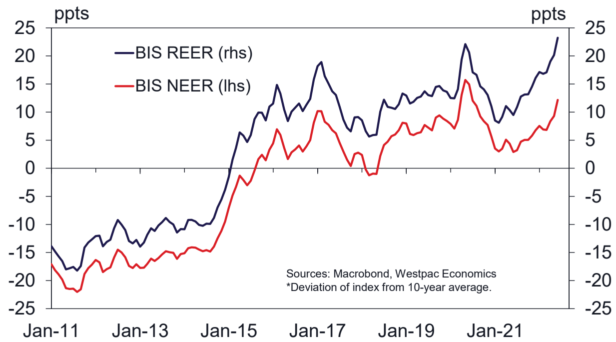
**China's opportunity remains second to none, but the rest of Asia is also well placed.**

China's economic prospects remain second to none. But, given their weaker starting points, a number of other Asian currencies arguably have stronger prospects to end-2023. India's Rupee is an excellent example. Having lost 9% against the US dollar since May last year despite a strong performance by their economy, the tide is set to turn as the US outlook sours and global risks dissipate. By end-2023, we believe the Rupee can regain the 9% lost; and thereafter, as for China's Renminbi, additional development-led gains will be seen. Despite talk of deglobalisation, the prowess of Asia's manufacturing industry and related logistics as well as the region's tourism infrastructure and brand mean the potential for development-driven currency gains is both long lasting and significant in scale.

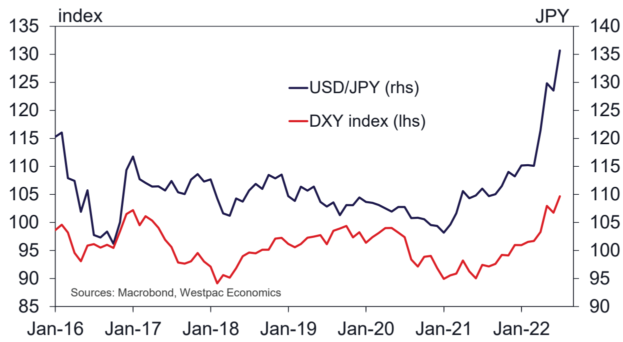
**Elliot Clarke,** CFA, Senior Economist

# … turn against the US dollar

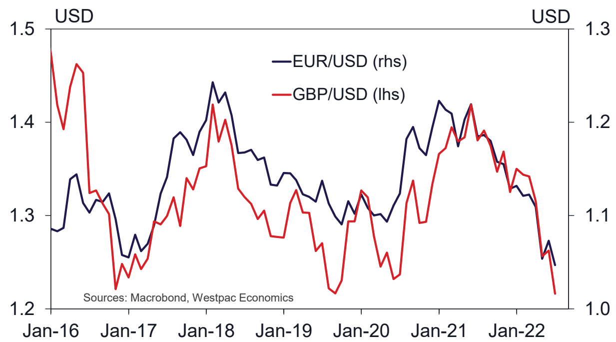
### USD at a very elevated level versus history



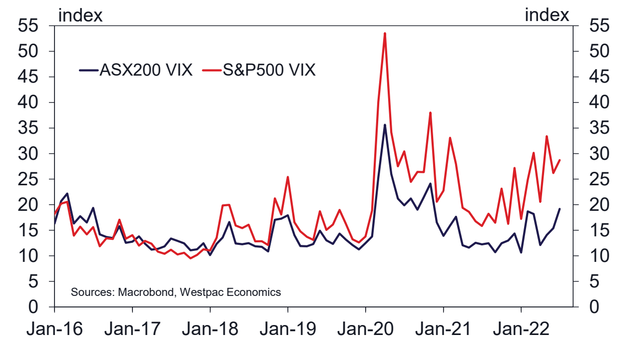

### JPY has given DXY material support



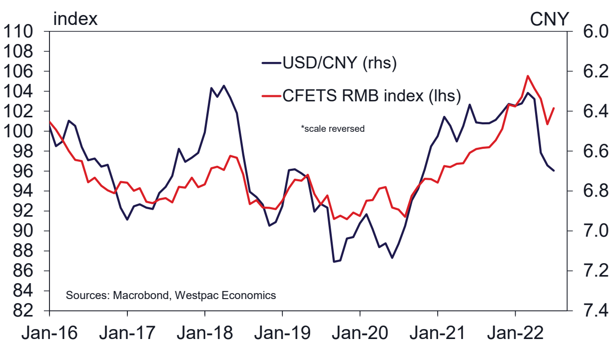

### EUR/ GBP at risk from idiosyncratic factors



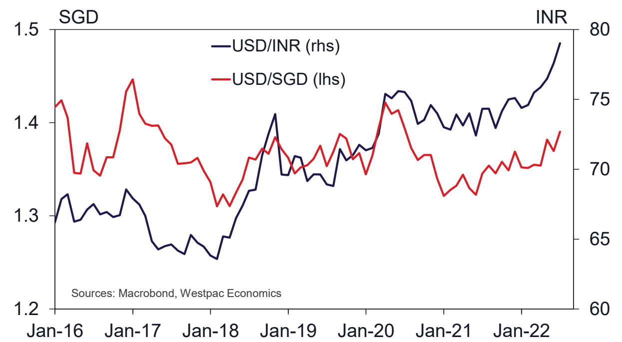

### Distance from source of uncertainty a +'ve




### CNY trading with USD trend




### Rest of Asia well positioned for growth



# Household budgets are being squeezed …

**Economic confidence has plummeted.**

There's been a palpable downturn in economic confidence in New Zealand. Previously, we've highlighted the fall in business sentiment as firms across the nation have grappled with rising cost pressures and ongoing disruptions to supply chains. That concern has now spread to the household sector. Our latest Westpac McDermott Miller survey revealed that confidence among New Zealand households has plummeted, dropping to its lowest levels since we began the survey back in 1988. Confidence has only come close to these sorts of lows twice before – first during the recession in the early-1990s, and then again during the Global Financial Crisis in 2008/09.

**Household budgets are being squeezed by increases in living costs…**

Underlying this grim assessment of economic conditions, household budgets are being squeezed in a way that they haven't been for decades. Much of that is a result of the mounting pressure on living costs, with prices for all manner of consumer goods charging higher in recent months. There have been particularly large increases in the prices of household essentials, with food prices up nearly 7% over the past year and petrol prices now running at over $3/ltr across the country.

**… and rising interest rates.**

The pressure on household budgets has been compounded by the rise in interest rates. The Reserve Bank has been hiking the Official Cash Rate at a rapid pace, from 0.25% last October to 2.0% in May, and have signalled that it is likely to rise substantially more over the coming months. For many households, the related rise in mortgage rates has already taken a sizeable bite out of their disposable incomes. In addition, around half of mortgages will come up for repricing over the coming year, and another 20% will come due within two years. In some cases, borrowers will face re-fixing at interest rates that are 2% to 3% higher than the rates they are currently on.

**Asset prices have also tumbled.**

Adding to the concerns about the economic landscape, many households have seen the value of their assets falling in recent months. Nationwide house prices have dropped by 6% since November. Similarly, the value of KiwiSaver balances and other financial assets have dropped sharply since the start of the year.

**The squeeze on households' budgets …**

With growing pessimism about the economic landscape and mounting concerns about their personal finances, households are keeping an increasingly close eye on their purse strings. In fact, the number of households who think it's a good time to make a major purchase has collapsed, dropping to the lowest level on record. At the same time, households have reported that they have scaled back their spending on leisure activities (like dining out) even as health restrictions have been gradually wound back.

**… signals a cooling in spending …**

The pressure on household finances and sharp fall in confidence reinforces our expectations for a downturn in household spending – and economic growth more generally – over the coming months. However, there are big questions about just how stark that downturn will be.

**… reinforcing our expectations for slower economic growth.**

While the economy is being buffeted by some powerful headwinds, we continue to expect that the coming months will see a slowdown in growth, rather than a crash. A key reason for that is the strength of the labour market. Unemployment is just 3.2%, demand for workers is running hot, and wage rates are pushing higher. The related lift in labour incomes has been a partial buffer from the other factors that are crimping households' discretionary spending.

**Interest rate increases will be a drag on demand …**

Similarly, while borrowing costs are on the rise, that is an increase from record lows back to 'average' levels. Looking at that change in a different way: for someone who took out a mortgage five years ago, the last couple of years have been a windfall as they were able to re-fix their mortgage at much lower rates. The increases in borrowing rates now in train are taking debt servicing costs for those borrowers back to where they previously were.

**… though their impacts will be varied across the economy.**

On balance, while the increase in financial pressures will squeeze households' disposable incomes and spending, overall demand in the economy is likely to remain resilient. However, that does mask some big differences among households. In particular, many families on lower incomes will be facing a significant crunch on their disposable incomes.

**With signs that the economy is cooling …**

While we expect economic conditions to be resilient, the sharp fall in confidence does highlight the chances of a more abrupt downturn. And that would have an important bearing on just how far the Official Cash Rate needs to rise. The RBNZ's own projections show the cash rate rising to 3.9%, while financial markets have flirted with the idea that it could go as high as 4.5% in recent weeks.

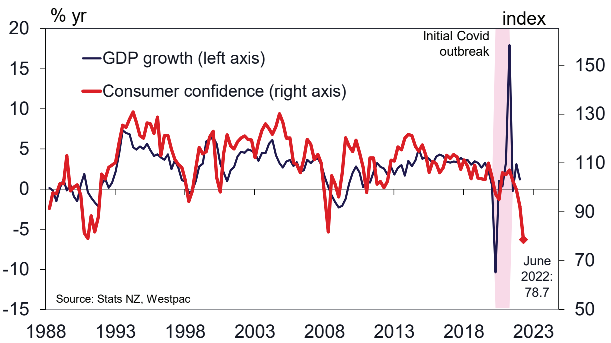
**… OCR hikes are likely to fall short of financial markets pricing.**

We agree that there's a substantial amount of work still to be done to bring inflation pressures back into check. However, with signs that rate hikes to date are already starting to dampen demand, we expect that increases in the cash rate will be more measured. We continue to forecast a peak in the cash rate of 3.5% by the end of this year.

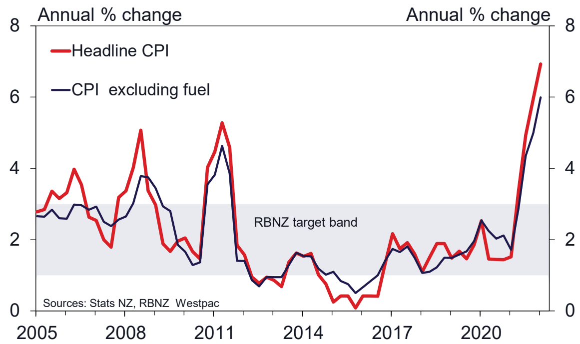
**Satish Ranchhod,** Senior Economist

# … and growth is set to slow

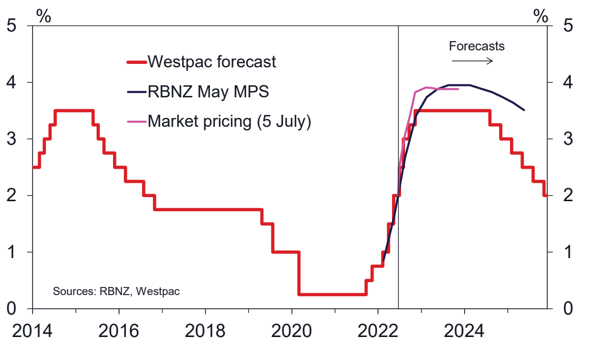
## Consumer confidence and economic growth



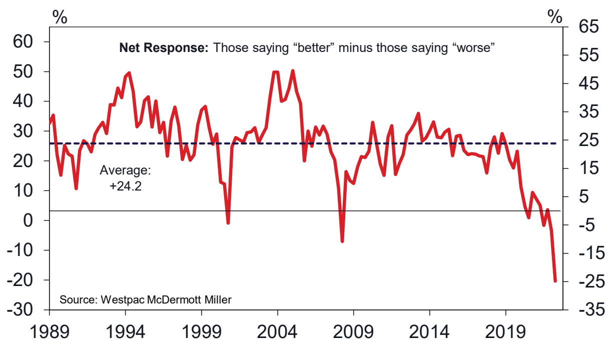

## Consumer price inflation




## RBNZ Official Cash Rate




## A good time to buy a major household item?




| | 2021 | | | | | | 2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Monthly data** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** |
| REINZ house sales %mth | –3.6 | –14.1 | –10.3 | 21.3 | –1.5 | –5.6 | –5.3 | –1.0 | –1.8 | –2.0 | –4.4 | – |
| Residential building consents %mth | 2.5 | 3.4 | –1.7 | –2.4 | 0.5 | 0.7 | –9.7 | 12.0 | 6.3 | –8.6 | –0.5 | – |
| Electronic card transactions %mth | 0.7 | –21.8 | 1.5 | 9.7 | 9.1 | 1.9 | 1.9 | –7.5 | 1.7 | 7.3 | 1.4 | – |
| Private sector credit %yr | 7.1 | 7.0 | 7.3 | 7.6 | 7.7 | 7.5 | 7.3 | 7.3 | 6.9 | 6.8 | 6.4 | – |
| Commodity prices %mth | –1.7 | –1.6 | 1.5 | 2.1 | 2.8 | –0.3 | 1.0 | 3.9 | 3.9 | –1.9 | –4.3 | –0.4 |
| Trade balance $m | –481 | –1025 | –879 | –934 | –627 | –1119 | –979 | –1118 | –1172 | –585 | –644 | – |

| **Quarterly data** | **Q3:20** | **Q4:20** | **Q1:21** | **Q2:21** | **Q3:21** | **Q4:21** | **Q1:22** | **Q2:22** |
|---|---|---|---|---|---|---|---|---|
| Westpac McDermott Miller Consumer Confidence | 95.1 | 106.0 | 105.2 | 107.1 | 102.7 | 99.1 | 92.1 | 78.7 |
| Quarterly Survey of Business Opinion | 0 | 2 | 4 | 22 | 11 | –2 | –7 | –1 |
| Unemployment rate % | 5.3 | 4.9 | 4.6 | 4.0 | 3.3 | 3.2 | 3.2 | – |
| CPI %yr | 1.4 | 1.4 | 1.5 | 3.3 | 4.9 | 5.9 | 6.9 | – |
| Real GDP %yr | –1.6 | –2.1 | –1.4 | 5.2 | 4.9 | 5.6 | 5.1 | – |
| Current account balance % of GDP | –0.7 | –0.8 | –2.5 | –3.3 | –4.6 | –5.8 | –6.5 | – |

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

# Activity already in decline and a ...

**The US economy is coming under significant pressure ...**

The US economy's ability to exhibit sustained strength in the face of historic inflation and rapid policy tightening has come into question this month, with a stalled economy or recession becoming the talk of both Wall Street and Main Street. Notably, it is not the probability of a distant shock being assessed, but rather the scale of an imminent downturn.

Indeed, on the data to hand, it could be argued that the US is already in recession. Globally a technical recession is typically defined as two quarters of negative GDP growth. In Q1 2022, US GDP contracted 1.6% annualised; and for Q2, the Atlanta Fed's nowcast is pointing to a decline in GDP of around 2.0% annualised.

**... from inflation and rising interest rates ...**

Since the US instead uses the NBER dating procedure to define a recession – and in so doing requires a marked deterioration in employment as well as activity – the first half of 2022 is highly unlikely to be defined as an official recession. That said, given the starting point and as headwinds continue to build, a NBER-defined recession remains a distinct possibility in coming quarters.

**... materially raising the risk of recession.**

With risks related to COVID-19 and the market impact of Russia's invasion of Ukraine subsiding, why do we believe headwinds are building for the US?

Principally it is because of the cumulative loss of real household income suffered through the pandemic, with the share of the population employed at June 2022 still 1.1ppts below the prior peak and inflation having printed at a multiple of nominal wage growth for more than a year.

**The labour market will likely remain in robust health ...**

The risks to the income outlook are also skewed. As demand for labour has far exceeded supply over the past 18 months, it seems unlikely that employment growth will abruptly flip from a robust positive to material negative. However, the recent tone of activity data and the deterioration in employment indexes becoming evident in key surveys such as the ISMs point to a much-reduced pace of job creation and nominal wage growth hence. With University of Michigan consumer sentiment already at historic lows on concerns over family finances, such a turn of events could see persistent weakness in the volume of consumption, and consequently GDP, well into 2023.

**... but be less supportive of spending, which financial conditions are also against.**

The aggressive tightening of financial conditions over the past six months is also proving a substantial negative for the economy. Since December last year, US term interest rates have jolted higher as fed funds rate expectations exploded, the US 10 year yield for example more than doubling from 1.35% in early December 2021 to 3.00% currently via a peak of 3.50% mid-June.

With the US dollar DXY index currently at levels last exceeded in 2002, global competitiveness is poised to become another concern for business. Combined with the array of global and domestic uncertainties present, these financing and competitiveness pressures raise concerns over investment and employment, not just for coming months but into the medium-term.

**Weak economic growth could persist for an extended period.**

Given the above, the chief risk for the US economy is therefore not that it experiences a shallow technical recession in 2022 or 2023, but rather that weak or negative outcomes persist as a result of a series of hits to household and business income from an incomplete recovery in employment; the loss of real income via inflation; and, in time, potentially an erosion of productivity and profitability through underinvestment. Saddled with significant Federal debt and a tax base dependent on household income, this would be a concern difficult to rectify, particularly if US political debate remains divisive and fragmented.

**Market pricing for the FOMC has begun to shift to factor in the risks to activity ...**

As we go to press, market pricing for the FOMC still shows greater concern over inflation than economic activity, but the tide has clearly turned. Since 20 June, 45bps has been cut from the market's forecast of this cycle's peak fed funds rate, and its timing has also been brought forward 5 months. Broadly, it now aligns with our own expectation for a 3.375% peak in the US policy rate come December 2022.

Assessing the risks to this forecast. While inflation dynamics likely prevent the FOMC from easing up in their fight against inflation in July and September 2022 – when we expect 75bp and 50bp rate hikes to be delivered – a further deterioration in activity through the second half could result in the need for the 25bp hikes forecast for November and December being debated.

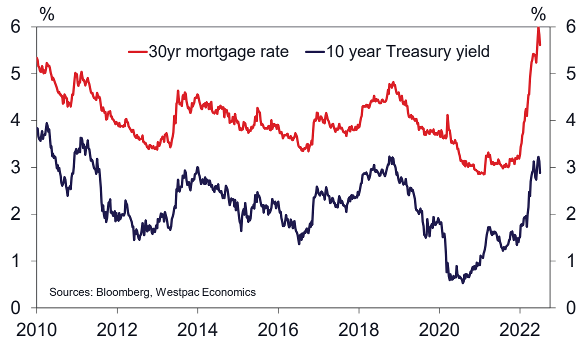
**... but we believe it has a lot further to go.**

The more material point however – particularly with respect to term interest rates and the US dollar – is the market's expectation of what comes next. Given our concerns over the threat of enduring weakness in growth and the accumulation of a sizeable output gap, we anticipate rate cuts in the order of 125bps to a fed funds rate of 2.125% will prove necessary from late-2023 to bring annual growth back near trend in 2024. If accurate, this forecast will weigh heavily on US term interest rates and consequently the dollar over the next 18 months.

**Elliot Clarke,** CFA, Senior Economist

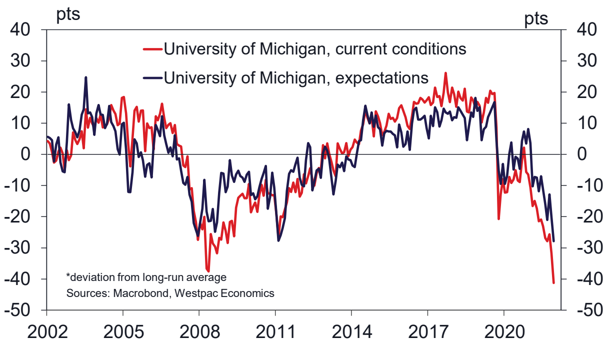
# … growing risk of recession

## Household financial conditions: regime change

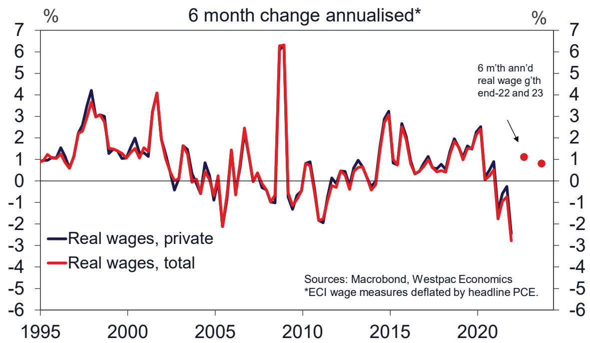



## Household savings rate near pre-pandemic lows


## Consumer sentiment hard hit




## US real wages to take until late-2023 to recover




| | 2021 | | | | | | 2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Monthly data** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** |
| PCE deflator %yr | 4.2 | 4.2 | 4.4 | 5.1 | 5.6 | 5.8 | 6.0 | 6.3 | 6.6 | 6.3 | 6.3 | – |
| Unemployment rate % | 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 | 689 | 517 | 424 | 677 | 647 | 588 | 504 | 714 | 398 | 436 | 390 | – |
| House prices* %yr | 20.0 | 19.7 | 19.1 | 18.5 | 18.3 | 18.5 | 19.0 | 20.3 | 21.1 | 21.2 | – | – |
| Durables orders core 3mth %saar | 4.2 | 16.8 | 6.9 | 12.0 | 9.6 | 11.4 | 9.3 | 5.2 | 9.6 | 5.1 | 8.6 | – |
| ISM manufacturing composite | 59.9 | 59.7 | 60.5 | 60.8 | 60.6 | 58.8 | 57.6 | 58.6 | 57.1 | 55.4 | 56.1 | 53.0 |
| ISM non-manufacturing composite | 64.1 | 62.3 | 62.6 | 66.7 | 68.4 | 62.3 | 59.9 | 56.5 | 58.3 | 57.1 | 55.9 | 55.3 |
| Personal spending 3mth %saar | 5.1 | 9.7 | 7.5 | 13.1 | 10.4 | 3.9 | 5.9 | 6.1 | 15.3 | 9.5 | 7.9 | – |
| UoM Consumer Sentiment | 81.2 | 70.3 | 72.8 | 71.7 | 67.4 | 70.6 | 67.2 | 62.8 | 59.4 | 65.2 | 58.4 | 50.0 |
| Trade balance USDbn | -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 | -1.6 | 1.3 |
| Current account USDbn | -188.7 | -206.4 | -226.4 | -224.8 | -291.4 | – |

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

# A robust rebound in activity is taking ...

**Available data continues to point to a robust rebound ...**

Curiously, the past month has seen many market participants double-down on their pessimistic 2022 view for China despite a run of data that consistently beat expectations.

Of the data received, the PMI reports were arguably the biggest surprise. For manufacturing, the production index jumped to its highest level since March 2021 despite the lingering effects of COVID-zero restrictions in key cities such as Shanghai and Beijing and the associated logistical snarl. The June pick-up in employment was more modest, although the scale of this recovery was in keeping with the smaller prior loss for employment versus activity. Importantly for the outlook, new orders were also promising, rising back to the top of their recent range.

**... in services as well as manufacturing ...**

Ahead of the June survey, the services sector was generally anticipated to lag manufacturing in recovery. However, the PMI data suggests the composition of the rebound could be the reverse, with the services PMI storming higher in June to 54.7 – its strongest read since May 2021. Significantly, the components of the services survey point to broad-based momentum across the sub-sectors and in employment as well as strength in new business.

**... which together with trade and investment, points to a positive GDP outcome in Q2.**

The above outcomes are just one aspect of China's promise, with strength in exports also apparent year to date and a pick-up in domestic investment expected through the remainder of 2022. Of note for the latter, based on the directives of central authorities, the investment being planned and commenced is in keeping with the 'quality investment' focus of recent years. Hence, while local governments and State Owned Enterprises are likely to lead the recovery, soon private enterprise will buy into the upcycle, expanding capacity to match robust domestic demand growth and as plans to diversify to new export markets are set in motion. This investment cycle should therefore quickly become self sustaining and broad based.

**Consumption and residential investment are still at risk ...**

The component of the strong recovery forecast for H2 2022 which remains in doubt is the consumer story. Concerns regarding residential investment are being slowly worked through and, along with improving employment prospects, stimulus should support the formation of a new construction cycle. How quickly households are willing to take hold of opportunities and the geographical dispersion of activity are open questions however.

**... but we remain optimistic on the opportunities ahead ...**

Sentiment towards both the economy and households' family finances will also matter a great deal to the outlook for discretionary household consumption. If optimism returns full force, the sizable pent-up demand that exists after two years of partial lockdowns and heavy travel restrictions has the potential to create a long-lasting, outsized gain for the economy. Amplifying the benefit for GDP is the reality that consumer choice for services remains restricted to domestic options and authorities' continued encouragement of consumers to purchase locally-made goods from Chinese-owned firms.

**... assuming COVID-19 and COVID-zero is kept under control.**

Yet there remains a clear risk that consumers will respond to COVID-zero uncertainties by holding back on their discretionary spending. An escalation of the currently small and sporadic outbreaks of COVID-19 being seen across the country would materially raise the risks of a consumer strike, particularly if another lockdown of the scale of Shanghai was deemed necessary.

On the information we have to hand, we continue to believe growth near authorities' 5.5% 2022 ambition is still within reach even though the Bloomberg consensus expectation is currently 4.1%. But clearly, risks need to be monitored closely.

**Elliot Clarke,** CFA, Senior Economist

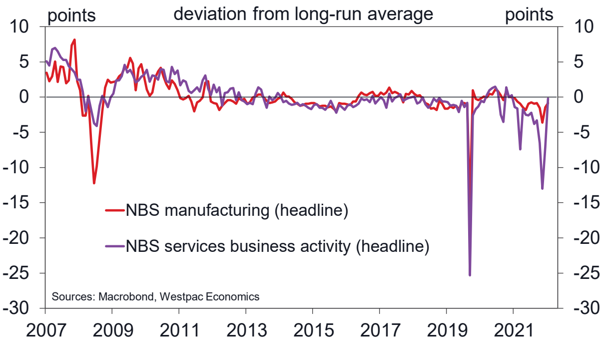
| | 2021 | | | | | | 2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Monthly data %yr** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** |
| Consumer prices – headline | 1.0 | 0.8 | 0.7 | 1.5 | 2.3 | 1.5 | 0.9 | 0.9 | 1.5 | 2.1 | 2.1 | - |
| Money supply M2 | 8.3 | 8.2 | 8.3 | 8.7 | 8.5 | 9 | 9.8 | 9.2 | 9.7 | 10.5 | 11.1 | - |
| Manufacturing PMI (official) | 50.4 | 50.1 | 49.6 | 49.2 | 50.1 | 50.3 | 50.1 | 50.2 | 49.5 | 47.4 | 49.6 | 50.2 |
| Fixed asset investment %ytd | 10.3 | 8.9 | 7.3 | 6.1 | 5.2 | 4.9 | 4.9 | 12.2 | 9.3 | 6.8 | 6.2 | - |
| Industrial production (IVA) | 6.4 | 5.3 | 3.1 | 3.5 | 3.8 | 4.3 | 4.3 | 7.5 | 5.0 | -2.9 | 0.7 | - |
| Exports | 19.2 | 25.4 | 27.9 | 26.8 | 21.7 | 20.8 | 24.1 | 6.3 | 14.6 | 3.9 | 16.9 | - |
| Imports | 28.3 | 32.4 | 16.7 | 20.0 | 31.4 | 19.6 | 20.4 | 10.9 | 0.1 | -0.1 | 4.1 | - |
| Trade balance USDbn | 55.9 | 59.2 | 68.1 | 84.9 | 71.7 | 93.9 | 84.1 | 29.7 | 46.8 | 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 |

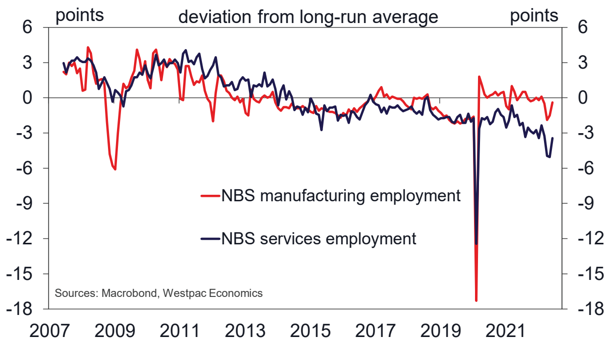
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

# … shape despite risks

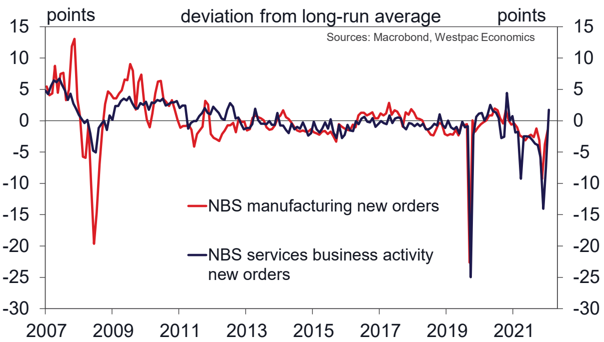
## COVID-zero delivered a short sharp shock



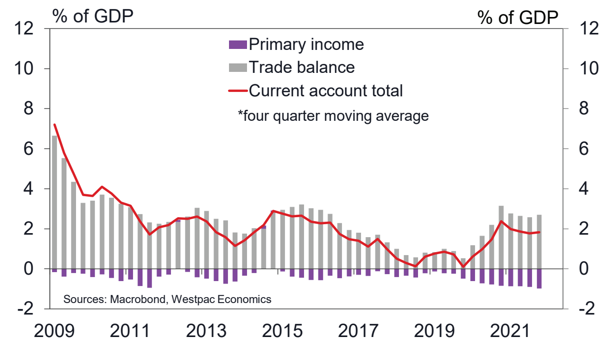

## Employment was less affected



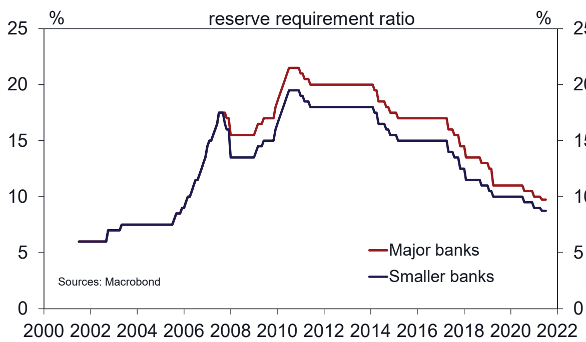

## Measures of new business constructive



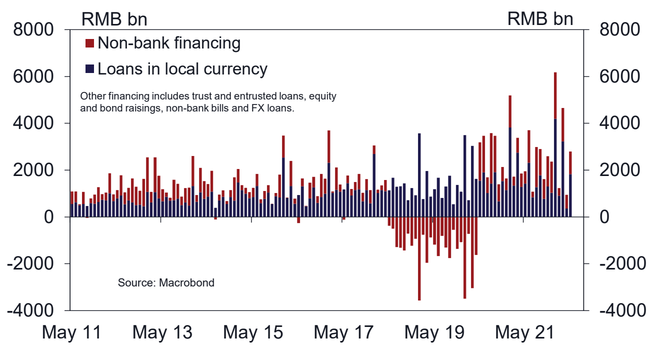

## Trade opportunities remain plentiful




## PBOC offering support as necessary




## Sentiment as important as credit and terms



# ECB set to raise rates in July …

**The conflict has brought risks around energy security and supply issues to the fore …**

As we move into the second half of 2022, the Euro Area finds itself in a tough position, with a series of rate hikes necessary to quell inflation as significant threats loom for activity.

Energy security clearly remains the prime concern for the region. The EU have now committed to multiple packages of sanctions against Russian imports, most notably around coal and oil, effectively banning approximately two thirds of total energy imports from Russia.

Progress towards unified action against natural gas imports has been slow going; however, Russia may take this decision out of the EU's hands, having already banned gas exports to certain countries while restricting flows to others. Until supply is diversified away from Russia, the risks to economic activity from energy supply will remain acute.

**… and its consequences on the inflation outlook …**

The supply issues associated with the conflict have obviously also generated intense inflationary pressures. June's flash CPI indicates annual headline inflation is at a record 8.6%yr, with energy up an extraordinary 41.9%yr. The recent broadening of price pressures outside energy also warrants close attention, though core inflation's small fall in June to 3.7%yr holds promise.

**… are weighing heavily on confidence and activity.**

Unsurprisingly, the threats of conflict and historic inflation is front of mind for European businesses and households, creating another activity headwind. In short, the collapse seen in both the ZEW and Sentix sentiment surveys points to a marked decline in consumers willingness to spend and businesses interest in capacity expansion. As a result, Q2 GDP for the Euro Area, due to print later this month, will likely confirm a stalling of growth. This confidence effect could persist for an extended period; equally though, with fewer 'material shocks' from the Russia-Ukraine conflict and as inflation moderates, sentiment could quickly stabilise and turn into a tailwind for spending.

**Strength of the labour market is providing some underlying support …**

The robust health of the labour market supports a quick turn in confidence. The unemployment rate currently sits at a record low of 6.6%, and demand for labour remains strong – job vacancies currently sit at a record 3.1%. The tight labour supply-demand balance is also establishing a strong foundation for robust wages growth into the medium-term, as evinced by measures of labour costs and negotiated wages.

**… as the ECB begins hiking policy rates in July, but the path for tightening …**

At the ECB's Central Banking forum last week, President Lagarde recognised the tight bind policy makers are in. Citing the strength of the labour market in their justification, the ECB look set to raise policy rates by 25bps at the upcoming July meeting. Given the pace of inflation and associated uncertainties, the ECB is then expected to follow up with a 50bp hike in September, another 50bp in November and a final 25bp hike in December, taking the refi rate to a peak of 1.50%. As these rate hikes take place, targeted reinvestment of PEPP coupons will occur in the hope of avoiding a 'fragmentation' of financial markets across the Continent.

**… hinges delicately on how these risks evolve.**

The evolution of the risks around energy supply, financial conditions and sentiment for the entire Continent will be critical for the path of policy. Should growth prove weaker than the ECB's optimistic view, or financial conditions tighten disproportionately to the rise in the refi rate, some of the above rate hikes could be delayed or shelved. Though, like other central banks across the developed world, the ECB seem willing to accept a degree of weakness to triumph over inflation.

**Ryan Wells,** Economist

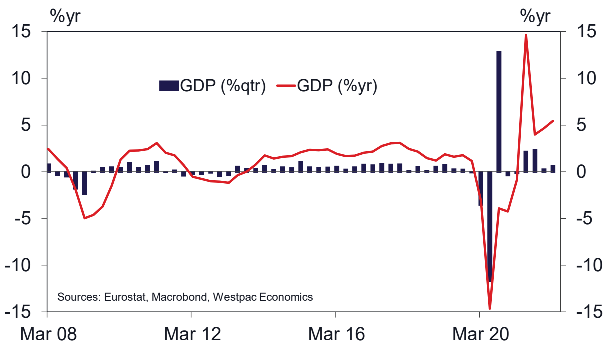
| | 2021 | | | | | | 2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** |
| Eur consumer prices %yr | 2.2 | 3.0 | 3.4 | 4.1 | 4.9 | 5.0 | 5.1 | 5.9 | 7.5 | 7.5 | 8.1 | 8.6 |
| Eur unemployment rate % | 7.6 | 7.5 | 7.3 | 7.3 | 7.1 | 7.0 | 6.9 | 6.8 | 6.8 | 6.7 | 6.6 | – |
| Eur industrial production %yr | 8.4 | 5.5 | 4.1 | 0.0 | –1.3 | 1.8 | –1.5 | 1.8 | –0.5 | –2.0 | – | – |
| Eur retail sales volumes %yr | 3.4 | 1.4 | 2.7 | 1.6 | 8.5 | 2.3 | 8.5 | 5.2 | 1.6 | 3.9 | – | – |
| Eur consumer confidence | –3.7 | –5.2 | –3.8 | –5.3 | –8.2 | –9.3 | –9.7 | –9.5 | –21.6 | –22.1 | –21.2 | –23.6 |
| Eur current account balance €bn | 33.0 | 16.9 | 23.3 | 5.1 | 7.2 | 10.0 | 21.6 | 15.7 | –1.6 | –5.8 | – | – |
| United Kingdom | | | | | | | | | | | | |
| UK Consumer price index %yr | 2.0 | 3.2 | 3.1 | 4.2 | 5.1 | 5.4 | 5.5 | 6.2 | 7.0 | 9.0 | 9.1 | – |
| UK unemployment rate %(ILO) | 4.6 | 4.4 | 4.3 | 4.2 | 4.1 | 4.0 | 4.0 | 3.8 | 3.7 | 3.8 | – | – |
| UK industrial production %yr | 4.8 | 3.3 | 1.9 | 0.3 | 0.2 | 1.0 | 3.2 | 2.1 | 0.7 | 0.7 | – | – |
| UK retail sales volumes %yr | 1.8 | 0.7 | –0.7 | –1.1 | 3.3 | 1.3 | 9.7 | 7.5 | 1.5 | –5.7 | –4.7 | – |
| UK consumer confidence | –7 | –8 | –13 | –17 | –14 | –15 | –19 | –26 | –31 | –38 | –40 | –41 |

| **Quarterly data** | **Q3:20** | **Q4:20** | **Q1:21** | **Q2:21** | **Q3:21** | **Q4:21** | **Q1:22** |
|---|---|---|---|---|---|---|---|
| Eur GDP %qtr/%yr | 12.8/–3.9 | –0.4/–4.2 | –0.1/–0.9 | 2.2/14.7 | 2.3/4.0 | 0.2/4.7 | 0.6/5.4 |
| 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 | –51.7 |

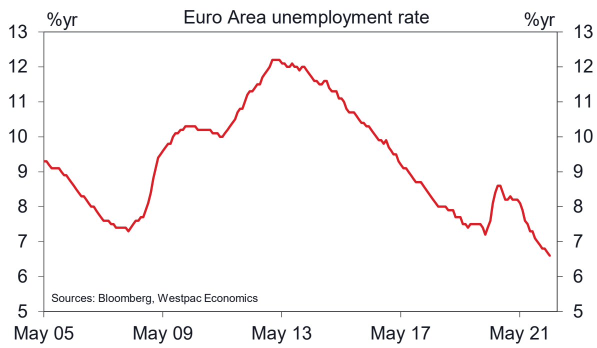
Source: Official agencies.

# … amid a delicate balance of risks

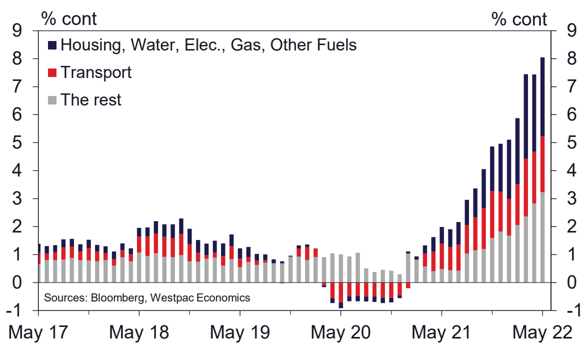
## Slow start to 2022 for the Euro Area



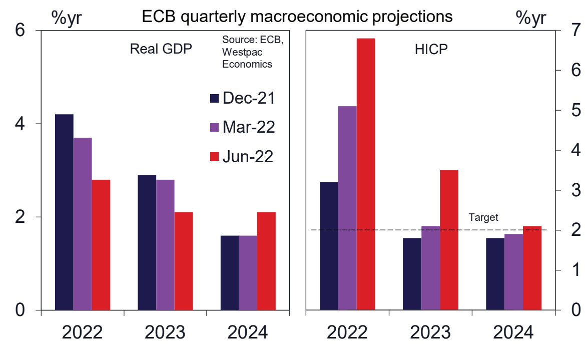

## Policy has kept labour market in good shape



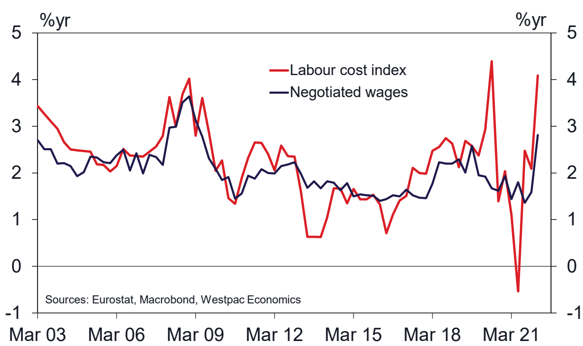

## CPI: energy prices account for half the jump



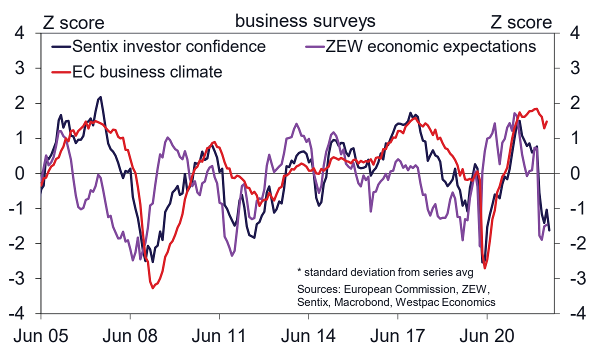

## Long-term inflation slightly above target




## Early signs of wage pressures




## Sentiment hit hard by conflict and inflation



# Australia

## Interest rate forecasts

| | Latest (8 Jul) | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|
| Cash | 1.35 | 1.85 | 2.35 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 |
| 90 Day BBSW | 1.93 | 2.30 | 2.72 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 |
| 3 Year Swap | 3.50 | 3.80 | 3.60 | 3.40 | 3.10 | 2.90 | 2.75 | 2.75 |
| 3 Year Bond | 2.99 | 3.30 | 3.20 | 3.10 | 2.90 | 2.70 | 2.55 | 2.55 |
| 10 Year Bond | 3.50 | 3.90 | 3.60 | 3.30 | 3.00 | 2.70 | 2.50 | 2.35 |
| 10 Year Spread to US (bps) | 51 | 60 | 50 | 40 | 30 | 20 | 20 | 15 |

Sources: Bloomberg, Westpac Economics.

## Currency forecasts

| | Latest (8 Jul) | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|
| **AUD vs** | | | | | | | | |
| USD | 0.6839 | 0.72 | 0.75 | 0.77 | 0.78 | 0.79 | 0.80 | 0.80 |
| JPY | 92.99 | 96.5 | 99.0 | 100.1 | 99.1 | 98.8 | 98.4 | 96.8 |
| EUR | 0.6729 | 0.69 | 0.69 | 0.69 | 0.69 | 0.69 | 0.70 | 0.69 |
| NZD | 1.1083 | 1.11 | 1.10 | 1.10 | 1.10 | 1.10 | 1.11 | 1.11 |
| CAD | 0.8872 | 0.91 | 0.94 | 0.95 | 0.97 | 0.99 | 1.00 | 1.00 |
| | | | | | | | | |
| GBP | 0.5689 | 0.59 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.59 |
| CHF | 0.6662 | 0.70 | 0.72 | 0.73 | 0.73 | 0.74 | 0.74 | 0.74 |
| DKK | 5.0071 | 5.10 | 5.12 | 5.16 | 5.14 | 5.16 | 5.18 | 5.11 |
| SEK | 7.2013 | 7.34 | 7.36 | 7.42 | 7.39 | 7.42 | 7.44 | 7.35 |
| NOK | 6.8961 | 7.03 | 7.05 | 7.11 | 7.07 | 7.10 | 7.13 | 7.04 |
| ZAR | 11.46 | 11.8 | 12.0 | 12.2 | 12.2 | 12.3 | 12.4 | 12.4 |
| | | | | | | | | |
| SGD | 0.9579 | 0.99 | 1.02 | 1.04 | 1.05 | 1.05 | 1.06 | 1.05 |
| HKD | 5.3671 | 5.65 | 5.89 | 6.01 | 6.08 | 6.12 | 6.20 | 6.20 |
| PHP | 38.22 | 38.2 | 38.3 | 38.5 | 38.6 | 38.7 | 39.2 | 39.1 |
| THB | 24.66 | 25.2 | 25.5 | 25.4 | 25.0 | 24.5 | 24.8 | 24.8 |
| MYR | 3.0289 | 3.10 | 3.15 | 3.20 | 3.20 | 3.20 | 3.24 | 3.24 |
| CNY | 4.5770 | 4.72 | 4.76 | 4.81 | 4.84 | 4.86 | 4.92 | 4.88 |
| IDR | 10256 | 10584 | 10875 | 11088 | 11154 | 11218 | 11345 | 11329 |
| TWD | 20.37 | 21.2 | 21.8 | 21.9 | 22.0 | 22.1 | 22.4 | 22.3 |
| KRW | 889 | 907 | 915 | 916 | 905 | 893 | 901 | 897 |
| INR | 54.16 | 55.1 | 56.6 | 56.6 | 56.6 | 56.9 | 57.6 | 57.2 |

# 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 | 0.5 | 0.7 | 0.5 | 0.4 | 0.4 | – | – | – | – |
| %yr | 2.2 | 2.9 | 2.4 | 3.7 | 3.5 | 2.0 | 2.0 | –1.0 | 2.2 | 3.5 | 1.7 |
| Unemployment rate % (2) | 4.7 | 4.0 | 3.8 | 3.4 | 3.3 | 3.3 | 3.3 | 6.8 | 4.7 | 3.3 | 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 | 17.0 | 11.0 | 4.5 | –2.0 | –6.0 | 51.1 | 76.2 | 40.0 | –30.0 |
| % of GDP | 2.4 | 1.3 | 2.9 | 1.8 | 0.8 | –0.3 | –1.0 | 2.6 | 3.5 | 1.7 | –1.2 |
| Terms of trade annual chg (1) | 10.1 | 8.3 | 6.3 | 2.9 | 3.5 | –7.0 | –15.4 | –0.3 | 17.7 | 5.0 | –12.2 |

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

| | 2021 | | | | | 2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Monthly data** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** |
| Employment '000 chg | –138 | –138 | –34 | 384 | 70 | 21 | 98 | 24 | 5 | 61 | – |
| Unemployment rate % | 4.5 | 4.7 | 5.2 | 4.6 | 4.2 | 4.2 | 4.0 | 3.9 | 3.9 | 3.9 | – |
| Westpac–MI Consumer Sentiment | 104.1 | 106.2 | 104.6 | 105.3 | 104.3 | 102.2 | 100.8 | 96.6 | 95.8 | 90.4 | 86.4 |
| Retail trade %mth | –1.7 | 1.7 | 4.6 | 7.1 | –4.1 | 1.6 | 1.8 | 1.6 | 0.9 | 0.9 | – |
| Dwelling approvals %mth | 6.1 | –0.1 | –16.5 | –1.2 | 8.7 | –24.3 | 37.8 | –14.5 | –3.9 | 9.9 | – |
| Credit, private sector %yr | 4.7 | 5.2 | 5.7 | 6.6 | 7.2 | 7.6 | 8.0 | 8.0 | 8.6 | 9.0 | – |
| Trade balance AUDbn | 12.0 | 10.7 | 10.3 | 9.2 | 8.3 | 12.9 | 8.1 | 10.4 | 13.2 | 16.0 | – |

# FORECASTS

## New Zealand

### Interest rate forecasts

| | Latest (8 Jul) | 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 | 2.91 | 3.40 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 |
| 2 Year Swap | 3.84 | 4.30 | 4.10 | 4.00 | 3.80 | 3.50 | 3.20 | 2.90 |
| 10 Year Bond | 3.67 | 4.00 | 3.80 | 3.60 | 3.40 | 3.20 | 3.00 | 2.90 |
| 10 Year Spread to US | 68 | 70 | 70 | 70 | 70 | 70 | 70 | 70 |
| 10 Year Spread to Aust | 17 | 10 | 20 | 30 | 40 | 50 | 50 | 55 |

Sources: Bloomberg, Westpac Economics.

### Currency forecasts

| | Latest (8 Jul) | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|
| **NZD vs** | | | | | | | | |
| USD | 0.6171 | 0.65 | 0.68 | 0.70 | 0.71 | 0.72 | 0.72 | 0.72 |
| JPY | 83.90 | 87.1 | 89.8 | 91.0 | 90.2 | 90.0 | 88.6 | 87.1 |
| EUR | 0.6071 | 0.62 | 0.62 | 0.63 | 0.63 | 0.63 | 0.63 | 0.62 |
| AUD | 0.9022 | 0.90 | 0.91 | 0.91 | 0.91 | 0.91 | 0.90 | 0.90 |
| CAD | 0.8005 | 0.82 | 0.85 | 0.87 | 0.88 | 0.90 | 0.90 | 0.90 |
| GBP | 0.5133 | 0.53 | 0.54 | 0.55 | 0.55 | 0.55 | 0.54 | 0.53 |
| CNY | 4.1367 | 4.26 | 4.32 | 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** | **Q1** | **Q2f** | **Q3f** | **Q4f** | **Q1f** | **Q2f** | **2020** | **2021** | **2022f** | **2023f** |
| Private consumption | 6.1 | 4.4 | 0.2 | 2.8 | 3.3 | 2.7 | 2.8 | -1.1 | 6.1 | 3.3 | 0.4 |
| Government consumption | 10.1 | 10.4 | 9.5 | 8.2 | 5.5 | 2.8 | 1.4 | 6.8 | 10.1 | 5.5 | 0.6 |
| Residential investment | 10.9 | 7.0 | -0.3 | 3.4 | 4.9 | 6.3 | 6.8 | -3.2 | 10.9 | 4.9 | 4.1 |
| Business investment | 9.4 | 10.4 | 8.1 | 13.7 | 11.5 | 11.5 | 9.9 | -8.8 | 9.4 | 11.5 | 5.4 |
| Stocks (ppt contribution) | 1.6 | 0.8 | 0.8 | -0.6 | -0.6 | -0.4 | -0.9 | -0.8 | 1.6 | -0.6 | -0.1 |
| GNE | 9.5 | 7.5 | 4.1 | 5.0 | 4.6 | 4.1 | 3.1 | -1.9 | 9.5 | 4.6 | 1.4 |
| Exports | -3.6 | 1.9 | -3.7 | -4.5 | -3.2 | 3.6 | 10.9 | -12.6 | -3.6 | -3.2 | 15.3 |
| Imports | 15.0 | 17.3 | 12.0 | 6.7 | 2.6 | 2.5 | 2.5 | -16.0 | 15.0 | 2.6 | 4.9 |
| **GDP (production)** | **5.6** | **5.1** | **1.0** | **2.2** | **2.1** | **2.7** | **3.6** | **-2.1** | **5.6** | **2.1** | **3.3** |
| Employment annual % | 3.5 | 2.8 | 2.1 | 0.6 | 0.8 | 0.9 | 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** | **5.9** | **4.3** | **3.2** | **2.8** | **1.4** | **5.9** | **4.3** | **3.0** |
| Current account balance % of GDP | -5.8 | -6.5 | -7.5 | -7.8 | -7.5 | -6.8 | -6.4 | -0.8 | -5.8 | -7.5 | -6.1 |
| Terms of trade annual % | 2.8 | 3.3 | 0.6 | -0.5 | -1.1 | -2.7 | -3.4 | -1.6 | 2.8 | -1.1 | -0.3 |

Sources: Statistics NZ, Westpac Economics.

# FORECASTS

## United States

### Interest rate forecasts

| | Latest (8 Jul) | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|
| Fed Funds* | 1.625 | 2.875 | 3.375 | 3.375 | 3.375 | 3.375 | 3.125 | 2.875 |
| 10 Year Bond | 2.99 | 3.30 | 3.10 | 2.90 | 2.70 | 2.50 | 2.30 | 2.20 |

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

### Currency forecasts

| | Latest (8 Jul) | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|
| **USD vs** | | | | | | | | |
| DXY index | 107.13 | 104.1 | 100.9 | 99.1 | 97.2 | 96.2 | 95.1 | 93.8 |
| JPY | 135.98 | 134 | 132 | 130 | 127 | 125 | 123 | 121 |
| EUR | 1.0164 | 1.05 | 1.09 | 1.11 | 1.13 | 1.14 | 1.15 | 1.16 |
| AUD | 0.6839 | 0.72 | 0.75 | 0.77 | 0.78 | 0.79 | 0.80 | 0.80 |
| NZD | 0.6171 | 0.65 | 0.68 | 0.70 | 0.71 | 0.72 | 0.72 | 0.72 |
| CAD | 1.2972 | 1.26 | 1.25 | 1.24 | 1.24 | 1.25 | 1.25 | 1.25 |
| | | | | | | | | |
| GBP | 1.2021 | 1.23 | 1.26 | 1.28 | 1.30 | 1.32 | 1.34 | 1.35 |
| CHF | 0.9740 | 0.97 | 0.96 | 0.95 | 0.94 | 0.94 | 0.93 | 0.93 |
| ZAR | 16.76 | 16.3 | 16.0 | 15.8 | 15.7 | 15.6 | 15.5 | 15.5 |
| | | | | | | | | |
| SGD | 1.4006 | 1.38 | 1.36 | 1.35 | 1.34 | 1.33 | 1.32 | 1.32 |
| HKD | 7.8474 | 7.85 | 7.85 | 7.80 | 7.80 | 7.75 | 7.75 | 7.75 |
| PHP | 56.07 | 53.0 | 51.0 | 50.0 | 49.5 | 49.0 | 49.0 | 48.9 |
| THB | 36.05 | 35.0 | 34.0 | 33.0 | 32.0 | 31.0 | 31.0 | 31.0 |
| MYR | 4.4267 | 4.30 | 4.20 | 4.15 | 4.10 | 4.05 | 4.05 | 4.04 |
| CNY | 6.7006 | 6.55 | 6.35 | 6.25 | 6.20 | 6.15 | 6.15 | 6.10 |
| IDR | 14996 | 14700 | 14500 | 14400 | 14300 | 14200 | 14181 | 14161 |
| TWD | 29.79 | 29.4 | 29.0 | 28.5 | 28.2 | 28.0 | 28.0 | 27.9 |
| KRW | 1298 | 1260 | 1220 | 1190 | 1160 | 1130 | 1126 | 1121 |
| INR | 79.22 | 76.5 | 75.5 | 73.5 | 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 | 1.8 | 1.4 | 1.1 | 0.4 | 0.4 | -3.8 | 7.9 | 2.3 | 0.2 |
| Dwelling investment | -7.7 | 2.1 | 0.5 | 2.0 | 3.2 | 3.2 | 3.2 | 6.8 | 9.2 | -0.3 | 2.4 |
| Business investment | 1.6 | 2.9 | 10.0 | 6.9 | 5.9 | 6.2 | 6.2 | -5.2 | 8.0 | 6.5 | 5.5 |
| Public demand | 0.9 | -2.6 | -2.9 | 0.0 | 1.2 | 1.2 | 1.2 | 2.5 | 0.5 | -1.0 | 1.1 |
| Domestic final demand | 1.4 | 1.7 | 2.1 | 2.0 | 1.9 | 1.4 | 1.4 | -2.6 | 6.7 | 2.3 | 1.2 |
| Inventories contribution ppt | 2.1 | 5.3 | -0.1 | -0.9 | -0.1 | -0.3 | -0.3 | -0.6 | 0.1 | 0.9 | 0.9 |
| Net exports contribution ppt | -1.5 | -0.7 | -3.9 | 0.1 | -0.5 | -0.2 | -0.2 | -0.2 | -1.9 | -1.4 | -0.2 |
| GDP | 2.3 | 6.9 | -1.6 | 1.3 | 1.4 | 1.0 | 1.0 | -3.4 | 5.7 | 2.0 | 0.8 |
| %yr annual chg | 4.9 | 5.5 | 3.5 | 2.2 | 2.0 | 0.5 | 0.5 | – | – | – | – |

### Other macroeconomic variables

| | Q3 2021 | Q4 2021 | Q1 2022 | Q2f 2022 | Q3f 2022 | Q4f 2022 | Q1f 2023 | 2020 | 2021 | 2022f | 2023f |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-farm payrolls mth avg | 565 | 586 | 573 | 360 | 300 | 250 | 200 | -759 | 514 | 371 | 138 |
| Unemployment rate % | 5.1 | 4.2 | 3.8 | 3.6 | 3.6 | 3.7 | 3.8 | 8.1 | 5.4 | 3.7 | 4.1 |
| CPI headline %yr | 5.4 | 7.1 | 8.6 | 7.9 | 7.5 | 5.7 | 3.5 | 1.2 | 5.1 | 7.1 | 2.5 |
| PCE deflator, core %yr | 3.7 | 4.9 | 5.2 | 4.6 | 4.5 | 3.6 | 3.1 | 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

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.

# FORECASTS

## Europe & the United Kingdom

### Interest rate forecasts

| | Latest (8 Jul) | 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 | 1.25 |
| 10 Year Bund | 1.32 | 1.75 | 1.55 | 1.40 | 1.20 | 1.05 | 0.95 | 0.90 |
| 10 Year Spread to US | –168 | –155 | –155 | –150 | –150 | –145 | –135 | –130 |
| **United Kingdom** | | | | | | | | |
| BoE Bank Rate | 1.25 | 1.75 | 2.00 | 2.00 | 2.00 | 2.00 | 1.75 | 1.50 |
| 10 Year Gilt | 2.13 | 2.60 | 2.45 | 2.30 | 2.15 | 2.00 | 1.85 | 1.75 |
| 10 Year Spread to US | -87 | -70 | -65 | -60 | -55 | -50 | -45 | -45 |

Sources: Bloomberg, Westpac Economics.

### Currency forecasts

| | Latest (8 Jul) | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|
| **euro vs** | | | | | | | | |
| USD | 1.0164 | 1.05 | 1.09 | 1.11 | 1.13 | 1.14 | 1.15 | 1.16 |
| JPY | 138.19 | 141 | 144 | 144 | 144 | 143 | 141 | 141 |
| GBP | 0.8455 | 0.85 | 0.87 | 0.87 | 0.87 | 0.86 | 0.86 | 0.86 |
| CHF | 0.9900 | 1.02 | 1.04 | 1.05 | 1.06 | 1.07 | 1.07 | 1.08 |
| DKK | 7.4411 | 7.44 | 7.44 | 7.44 | 7.44 | 7.44 | 7.44 | 7.44 |
| SEK | 10.7019 | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 |
| NOK | 10.2488 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 |
| **sterling vs** | | | | | | | | |
| USD | 1.2021 | 1.23 | 1.26 | 1.28 | 1.30 | 1.32 | 1.34 | 1.35 |
| JPY | 163.44 | 165 | 166 | 166 | 165 | 165 | 165 | 163 |
| CHF | 1.1709 | 1.19 | 1.20 | 1.21 | 1.22 | 1.23 | 1.25 | 1.25 |
| AUD | 0.5689 | 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 | 2021 | 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 | 5.5 |
| 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 (8 Jul) | 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.

### Currency forecasts

| | Latest (8 Jul) | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|
| JPY | 135.98 | 134 | 132 | 130 | 127 | 125 | 123 | 121 |
| SGD | 1.4006 | 1.38 | 1.36 | 1.35 | 1.34 | 1.33 | 1.32 | 1.32 |
| HKD | 7.8474 | 7.85 | 7.85 | 7.80 | 7.80 | 7.75 | 7.75 | 7.75 |
| PHP | 56.07 | 53.0 | 51.0 | 50.0 | 49.5 | 49.0 | 49.0 | 48.9 |
| THB | 36.05 | 35.0 | 34.0 | 33.0 | 32.0 | 31.0 | 31.0 | 31.0 |
| MYR | 4.4267 | 4.30 | 4.20 | 4.15 | 4.10 | 4.05 | 4.05 | 4.04 |
| CNY | 6.7006 | 6.55 | 6.35 | 6.25 | 6.20 | 6.15 | 6.15 | 6.10 |
| IDR | 14996 | 14700 | 14500 | 14400 | 14300 | 14200 | 14181 | 14161 |
| TWD | 29.79 | 29.4 | 29.0 | 28.5 | 28.2 | 28.0 | 28.0 | 27.9 |
| KRW | 1298 | 1260 | 1220 | 1190 | 1160 | 1130 | 1126 | 1121 |
| INR | 79.22 | 76.5 | 75.5 | 73.5 | 72.5 | 72.0 | 72.0 | 71.5 |

Source: Bloomberg, Westpac Economics.

## Economic growth forecasts (year average) #

| Real GDP %ann | 2017 | 2018 | 2019 | 2020 | 2021 | 2022f | 2023f |
|---|---|---|---|---|---|---|---|
| **World** | **3.7** | **3.6** | **2.9** | **-3.1** | **6.1** | **3.4** | **3.2** |
| | | | | | | | |
| United States | 2.3 | 2.9 | 2.3 | -3.4 | 5.7 | 2.0 | 0.8 |
| Japan | 1.7 | 0.6 | -0.2 | -4.5 | 1.6 | 1.7 | 1.8 |
| Euro zone | 2.6 | 1.8 | 1.6 | -6.4 | 5.3 | 2.2 | 1.5 |
| | | | | | | | |
| **Group of 3** | **2.3** | **2.2** | **1.7** | **-4.7** | **5.1** | **2.1** | **1.2** |
| | | | | | | | |
| United Kingdom | 2.1 | 1.7 | 1.7 | -9.3 | 7.4 | 3.3 | 0.0 |
| Canada | 3.0 | 2.8 | 1.9 | -5.2 | 4.6 | 4.0 | 2.5 |
| 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 | 2.1 | 3.3 |
| | | | | | | | |
| **OECD total** | **2.4** | **2.3** | **-0.7** | **-0.6** | **4.4** | **2.1** | **1.3** |
| | | | | | | | |
| China | 6.9 | 6.8 | 6.0 | 2.2 | 8.1 | 5.3 | 5.5 |
| Korea | 3.2 | 2.9 | 2.2 | -0.9 | 4.0 | 2.6 | 2.7 |
| Taiwan | 3.3 | 2.8 | 3.1 | 3.4 | 6.3 | 3.5 | 3.2 |
| Hong Kong | 3.8 | 2.8 | -1.7 | -6.5 | 6.4 | 1.0 | 3.0 |
| Singapore | 4.7 | 3.7 | 1.1 | -4.1 | 7.6 | 4.2 | 3.5 |
| Indonesia | 5.1 | 5.2 | 5.0 | -2.1 | 3.7 | 5.3 | 5.4 |
| Thailand | 4.2 | 4.2 | 2.2 | -6.2 | 1.6 | 3.5 | 4.5 |
| Malaysia | 5.8 | 4.8 | 4.4 | -5.6 | 3.1 | 6.0 | 5.2 |
| Philippines | 6.9 | 6.3 | 6.1 | -9.6 | 5.6 | 7.0 | 6.5 |
| Vietnam | 6.9 | 7.2 | 7.2 | 2.9 | 2.6 | 7.0 | 6.8 |
| | | | | | | | |
| **East Asia** | **6.1** | **5.9** | **5.2** | **0.7** | **6.8** | **5.1** | **5.2** |
| East Asia ex China | 4.7 | 4.5 | 3.8 | -2.3 | 4.1 | 4.5 | 4.6 |
| **NIEs*** | **3.5** | **3.0** | **1.9** | **-0.6** | **5.3** | **2.9** | **3.0** |
| | | | | | | | |
| India | 6.8 | 6.5 | 3.7 | -6.6 | 8.9 | 7.5 | 6.5 |
| Russia | 1.8 | 2.8 | 2.2 | -2.7 | 4.7 | -12.0 | -1.0 |
| Brazil | 1.3 | 1.8 | 1.2 | -3.9 | 4.6 | 0.8 | 1.5 |
| South Africa | 1.2 | 1.5 | 0.1 | -6.4 | 4.9 | 1.9 | 1.4 |
| Mexico | 2.1 | 2.2 | -0.2 | -8.2 | 4.8 | 2.0 | 2.5 |
| Argentina | 2.8 | -2.6 | -2.0 | -9.9 | 10.2 | 4.0 | 3.0 |
| Chile | 1.3 | 4.0 | 0.8 | -6.1 | 11.7 | 1.5 | 0.5 |
| CIS^ | 2.4 | 1.6 | -2.3 | 1.9 | 29.4 | 10.5 | 3.4 |
| Middle East | 1.8 | 1.4 | 1.3 | 3.2 | 2.8 | 2.8 | 2.8 |
| C & E Europe | 0.3 | -0.2 | -2.1 | -5.0 | 9.6 | 3.8 | 3.3 |
| Africa | 3.0 | 3.3 | 3.1 | -1.7 | 4.5 | 3.8 | 4.0 |
| | | | | | | | |
| **Emerging ex-East Asia** | **3.0** | **2.8** | **1.6** | **-2.7** | **7.3** | **3.1** | **3.4** |
| | | | | | | | |
| Other countries | 6.5 | 6.7 | 6.3 | -4.1 | -0.5 | 3.5 | 5.0 |
| | | | | | | | |
| **World** | **3.7** | **3.6** | **2.9** | **-3.1** | **6.1** | **3.4** | **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.

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