WESTPAC MARKET OUTLOOK OCTOBER 2022.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

CONTENTS

Australia

Australian markets: RBA Board surprises with a 25bp move	4
Australian economy: the 2023 outlook remains downbeat	6

The world

Commodities: crude demand fading	8
New Zealand: another 50bp move from the RBNZ	10
United States: the FOMC fights inflation	12
China: resilience and resolve	14
Europe: RePowerEU sets the stage	16

Summary forecast tables

Australia – financial	18
Australia – economic	19
New Zealand	20
Commodities:	21
United States	22
Europe	23
Asia – financial	24
Summary of world output	25

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

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Corporate directory

Westpac Economics

Sydney
Level 3, 275 Kent Street
Sydney NSW 2000
Australia
Telephone (61–2) 8254 8372
Facsimile (61–2) 8254 6907

Bill Evans
Chief Economist
Global Head of
Economics & Research

Elliot Clarke, CFA
Senior Economist

Andrew Hanlan
Senior Economist

Matthew Hassan
Senior Economist

Justin Smirk
Senior Economist

Ryan Wells
Economist

New Zealand Economics

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand
Telephone (64–9) 336 5671
Facsimile (64–9) 336 5672

Michael Gordon
Acting Chief Economist

Satish Ranchhod
Senior Economist

Paul Clark
Industry Economist

Nathan Penny
Senior Agri Economist

London
Camomile Court,
23 Camomile St,
London EC3A 7LL
United Kingdom

Singapore
12 Marina View
#27-00,
Asia Square Tower 2
Singapore, 018961

New York
39th Floor
575 Fifth Avenue
New York, 10017 USA

EXECUTIVE SUMMARY

The Reserve Bank of Australia lifted the cash rate by 25bps in October, to 2.6%, moderating the pace of increase from the 50bp moves at each of the previous four monthly meetings. In the decision statement, the Governor highlighted that "the cash rate has been increased substantially in a short period of time" and repeated the phrase that "with the full effects of higher interest rates yet to be felt in mortgage payments". We have long argued that when the cash rate returns to around a neutral level, the RBA will become more measured, moderating the pace of rate rises as it moves into contractionary territory. In the event, the pivot to moves of 25bps occurred one month earlier than we anticipated.

We still expect the RBA cash rate to peak at 3.6%, with the timing pushed out a month, to March 2023. The RBA has more work to do given the significant inflation challenge, against the backdrop of the tightest labour market in 50 years. We assess that wage and price expectations have moved higher and that risks are skewed to the upside - pointing to the tightening cycle extending into 2023.

Events of the past two months have left their mark on global markets. A hawkish US FOMC doubled down at Jackson Hole in August, then doubled down again at their September rate decision meeting in the wake of an upside inflation surprise. We have lifted the expected peak in the US fed funds rate from 3.375% in our August Market Outlook to an eye watering 4.625%. The FOMC is determined to crush inflation, with the approach of prioritising potential medium-term gains over short-term costs to activity. However, this dials up recession risks in the US and globally. There is turmoil in Europe, with Russia's ongoing invasion of Ukraine and its attempts to blackmail the rest of Europe via vital gas supplies. Then there was the UK's ill conceived aggressive tax cuts, part of which was quickly withdrawn.

For currency markets, the US dollar has surged, the Euro has fallen sharply, the British pound collapsed, then rebounded on the BoE's bond buying rescue, and the Yen is at historic lows for the period since the mid-1980s. It is against this backdrop that we have lowered our Australian dollar forecast, to be 65US¢ at year end, marked down from 69¢ previously. We still expect the Aussie to move higher in 2023, as the US FOMC goes on hold, with the Australian dollar rising to be around 72US¢ by end year.

Australia: We have not changed our downbeat view on the 2023 growth outlook. A sharp slowdown is in prospect, with growth forecast to be a well below par 1%. The slowdown will be led by consumer and the housing sector as higher interest rates and high inflation impact. For 2022, output growth is forecast to be a robust 3.4%, centred on a reopening effect and the boost from earlier stimulus, which has contributed to the tightest labour conditions in 50 years.

Commodities: Commodity prices were broadly weaker through September. Markets are increasingly focused on central bank policy tightening and growth risks. However, in general, supply conditions remain very tight. As growth recovers into 2024, this will lift commodity prices again. This tension between tight supply and growth risks is particularly apparent in the crude oil market.

New Zealand: The Reserve Bank of New Zealand increased the OCR by another 50 basis points to 3.50% at its October policy meeting. The RBNZ also signalled that there is more tightening to come. Inflation pressures in the local economy remain intense, with strong demand running up against constrained capacity. We now expect the cash rate will reach a peak of 4.50%, with further 50 basis point increases in November and February.

United States: Chair Powell and the FOMC look set to hike rates another 150bps before this cycle concludes, lifting the fed funds rate to a peak of 4.625%, with a likely timing of January 2023. Their fight against inflation will come at a significant cost to the economy, particularly as the fed funds rate is expected to remain on hold through 2023. We anticipate an output gap of 4% by end-2024 and for the unemployment rate to be 2ppts higher, containing price pressures and allowing the FOMC to ease policy in 2024.

China: Despite another run of COVID-19 outbreaks and lockdowns in response, retail sales growth jumped higher in August. Fixed asset investment also firmed a touch despite a further deterioration in residential construction activity. Ahead, yet another threat looms: deteriorating growth in the West. With ample scope to ease policy, the opportunities before China continue to outweigh the negatives.

Europe: The immediate risk that Europe faces from a loss of Russian gas imports is acute, with a recession essentially guaranteed if gas inventory cannot be raised further ahead of winter. However, beyond 2023, the continued removal of Russian gas from Europe's energy mix in favour of renewable energy sources offers considerable opportunity with respect to economic growth and industry's cost base. The UK is in a state of flux. The government announced sizeable tax cuts, then partially withdrew them after a financial market meltdown.

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	1.6	0.4
China	6.9	6.8	6.0	2.2	8.1	3.0	7.0
Japan	1.7	0.6	–0.2	–4.5	1.6	1.7	1.7
India	6.8	6.5	3.7	–6.6	8.9	7.0	7.0
Other East Asia	4.7	4.5	3.8	–2.3	4.1	4.5	4.5
Europe	2.6	1.8	1.6	–6.4	5.3	2.9	0.5
Australia	2.4	2.8	2.0	–2.1	4.9	4.2	1.9
New Zealand	3.1	3.2	2.4	–2.1	5.6	2.2	2.2
World	**3.7**	**3.6**	**2.9**	**–3.1**	**6.1**	**3.0**	**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'.

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 Board surprises …

The RBA lifted rates by 25bps to 2.6% in October …

The Reserve Bank Board decided to increase the cash rate by 25 basis points to 2.60%. This was a lower increase than we had expected and is justified by "The cash rate has been increased substantially in a short period of time. Reflecting this, the Board decided to increase the cash rate by 25 basis points this month as it assesses the outlook for inflation and economic growth in Australia." We had anticipated one last move of 50bps.

The Governor noted to the House of Representatives Standing Committee on Economics on September 16, "at some point we'll obviously not need to be increasing rates by 50 basis points at each meeting, and we're getting closer to that point."

… slowing the pace of increase - a month earlier than we anticipated.

He clearly delivered on that observation despite a significant lift in global interest rates since the last Board meeting and the ambiguity as to whether that point had actually been reached. Note that in previous speeches the Governor has opined that the real neutral rate is at least positive with the nominal component being long run inflationary expectations of 2.5%. That would set a lower bound on the neutral rate of 2.5% – above the meeting's starting point of 2.35%. There was a clear case for pushing the cash rate safely above neutral before scaling back the tightening pace.

The RBA notes that rates have increased substantially in a short time …

The Board also changed the guidance from "The Board expects to increase interest rates further over the months ahead" (in September) to "The Board expects to increase interest rates further over the period ahead." However in an earlier paragraph, the Statement refers to "FURTHER INCREASES are likely to be required over the period ahead" (my emphasis). That second observation points to at least two consecutive moves of 25 basis points in both November and December.

… and gives prominence to global growth concerns.

While the key theme from the September Statement, "the full effects of higher interest rates yet to be felt in mortgage payments" has been repeated in the October Statement, strong emphasis has been given to the global economy. Ironically it was developments in the global economy that swayed our forecast from 25 basis points to 50 basis points on September 19. We had already lifted our forecast for the peak federal funds rate by 75 basis points and considered a further increase quite likely following the meeting of the FOMC on September 21.

The RBA recognises that it still has more work to do …

But the RBA was clearly unnerved by the financial sector upheaval in the UK, following a shock mini Budget and spill over volatility in the European banking system. The market has subsequently settled down while there was never any realistic concern for some type of GFC related contagion from the weakened entity (CSFB) to the overall system. The fragility of the European banking system, which never really recovered from the GFC, has been well understood for many years. In the key final paragraph the Statement notes that "The Board… is closely monitoring the global economy, household spending and price-setting behaviour".

… stating, "further increases are likely to be required over the period ahead".

Putting the global issues ahead of domestic concerns in the "check list" just emphasises the depth of the RBA's concern.

We believe the primary emphasis should have been on "price setting behaviour". The Governor neatly summed up the key issue for the RBA and other central banks at the Standing Committee when he noted, "The general inflation psychology does appear to be shifting. It's easier for firms to put their prices up and the public is more accepting of this."

We continue to expect a peak cash rate of 3.6% …

Westpac had expected that the terminal rate in this cycle will be 3.6%. That involved a 50 basis point increase in October to be followed by three 25 basis point increases in November; December; and February. The decision does not change our view that there will be 25 basis point increases in November; December and February - and now March as well.

It seems unlikely that slowing the pace of increase a month earlier than expected will mean a lower terminal rate particularly given a likely short term respite to confidence; spending; and the housing market. We still expect the federal funds rate to peak at 4.625%, holding the AUD at around USD0.65 over the course of 2022.

… with the likely timing pushed out a month, to March 2023.

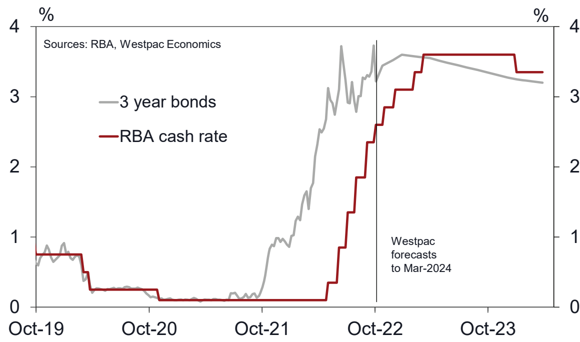
We do not share the RBA's confidence around the containment of wage pressures and expect that economic growth will have to slow to 1% in 2023 to achieve an acceptable slowdown in inflation and wages growth.

Consequently we retain our forecast that the cash rate will peak at 3.6% although now that the sequence of increases has slowed to 25 basis points per meeting, one meeting earlier than expected, the peak is now likely to be March rather than February.

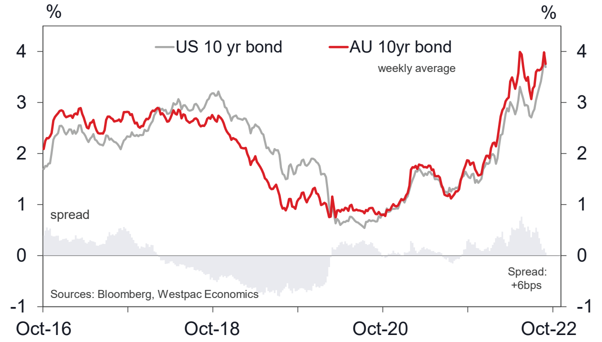
Bill Evans, Chief Economist

... with a 25 basis point increase in the cash rate

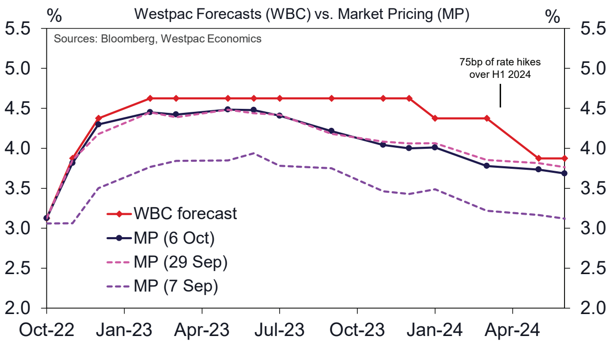
RBA cash rate and 3 year bonds



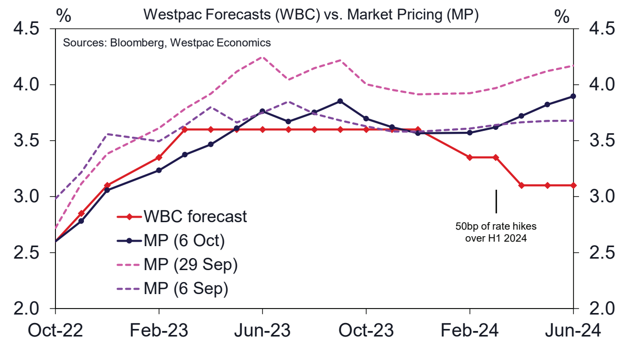
10 year bonds yields: return to highs



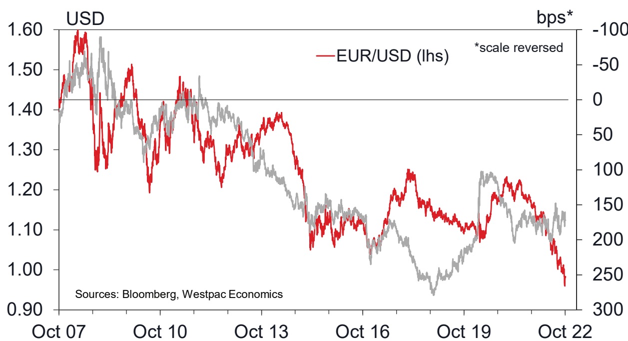
Fed funds forward pricing



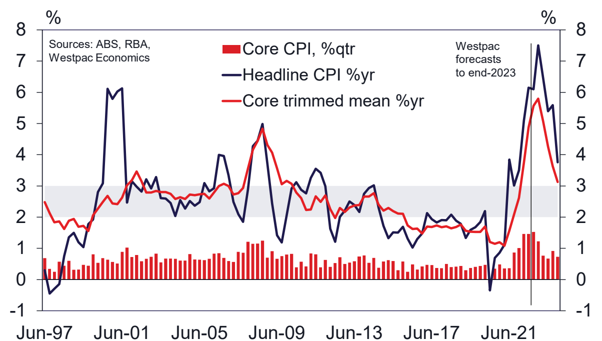
RBA forward pricing



EUR/USD and bond spread



CPI inflation



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The 2023 outlook remains downbeat ...

We have not changed our downbeat view for growth in 2023.

The Australian economy is forecast to expand by a robust 3.4% in 2022 centred on the reopening effect from the delta lockdowns of 2021 and a boost from earlier policy stimulus. In 2023, growth is set to slow sharply to a well below trend 1% pace, placing upward pressure on the unemployment rate, as higher interest rates and high inflation impact. That sharp slowdown will be led by consumers and housing.

Growth will slow sharply, to a well below par 1% ...

Recall that the June quarter National Accounts reported a solid 0.9% increase in national output. Strong household spending (around 54% of GDP) was the key driver, as the reopening of the economy saw a further boost to expenditure, particularly on discretionary services. That was accompanied by a substantial fall in the household saving rate from an elevated level, moderating from 11.1% to 8.7%, effectively freeing up $7.6bn to finance the additional $10.8bn in spending during the quarter. Discretionary services boomed in the quarter – transport services up 37%; hotels, cafés and restaurants up 8.8%; and recreation and culture up 3.6%.

... as higher interest rates and high inflation impact.

Looking across the first half of 2022, consumer spending grew by 4.4% and accounted for 2.4ppts of the 3.0% increase in domestic demand nationally. The significance of the reopening effect is apparent from the state detail. Across the "delta states" of NSW, Victoria and the ACT, consumer spending grew by a brisk 5.7% over the first half of 2022, underpinning a 3.9% increase in state final demand. Across the rest of the nation, consumer spending expanded by a more modest 2.4% over the six months and state final demand posted a 1.9% increase. Consumer spending in the delta states is converging towards that across the rest of the nation.

Over the first half of 2022, the economy expanded at a robust pace ...

Looking forward, we expect to see a slowdown in the growth rate of consumer spending in the September and December quarters. The reopening effect will begin to fade, and the recent interest rate increases will start to impact households. In the June quarter, there was minimal impact on household finances from the start of the RBA tightening cycle. But by the September and December quarters, the impact from higher rates will be building and become substantial as the cash rate rapidly rises from 0.1% at the start of May to a likely 3.1% by year end and then a forecast peak of 3.6% in March 2023.

... driven by the reopening from the delta lockdowns in NSW, Vic and the ACT.

Recent partial indicators have been mixed, as is to be expected with the RBA winding back earlier policy stimulus. The residential property market is pulling back. Dwelling prices fell by 5.5% over the five months to September, with a peak to trough decline of 16% expected. Currently, that still has prices around 16% above levels early in 2020, ahead of the pandemic. On home building activity, and construction more generally, we anticipate that work done will likely pick-up over the second half of 2022, aided by fewer disruptions, including from inclement weather.

Currently, there are emerging signs that the economy is in transition ...

The Westpac-Melbourne Institute survey reveals that Consumer Sentiment has tumbled, to be well in pessimistic territory, at 84.4 in September. However, consumers are currently feeling confident about their job security. The labour market is the tightest it has been in the past 50 years, with further confirmation of this in the ACCI-Westpac business survey for the September quarter. It is against this backdrop that retail sales have continued to expand in the September quarter, albeit at a slower pace.

... property prices are retreating and the consumer mood has soured.

Another dynamic impacting activity is the reopening of the national border earlier this year. Australia's population, which stalled over the second half of 2020, grew by 0.5% in the March quarter 2022. For the labour market, working age annual population growth has rebounded from 0.2% to 1.1% currently, moving back towards the pre-covid pace of 1.7% - a recovery which will help to lessen any further deterioration in labour shortages. We have lift-off on international holiday travel, a net negative for activity currently as many more Australian's holiday abroad. The education sector is a major beneficiary of the reopening, as foreign students return.

We have not changed our downbeat view for growth in 2023. We expect GDP growth in 2023 to slow to 1.0% with private domestic demand growth slowing to 0.2% (a sharp deceleration from an expected 5.4% expansion in 2022). We cannot rule out a negative quarter of growth in 2023 but do not expect a classic recession.

The labour market remains red hot, with the tightest conditions in 50 years ...

Consumer spending growth is expected to slow from 6.3% in 2022 to 1.2% in 2023; business investment growth will slow from 5.8% to -1.0%; while dwelling construction growth will slow from 2.0% to -4.0%. That slowdown in consumer spending growth will include a very modest further fall in the savings rate from 3.6% by the end of 2022 to 2.3% through 2023 - below the "equilibrium" rate of 6%. This will see the stock of "excess savings" accumulated during the pandemic, currently at $275 billion, wound back to around $200 billion by end 2023.

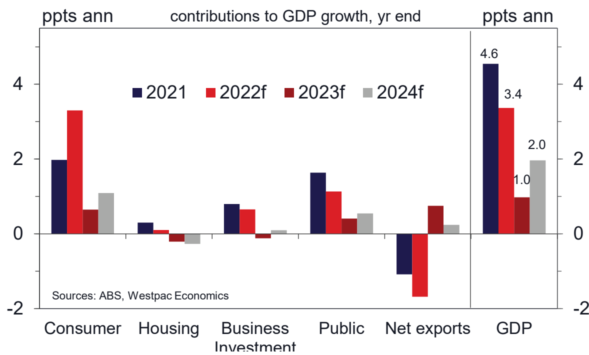
... providing some near-term support to consumer spending.

The economy in 2023 will experience the full accumulated effect of the lift in the cash rate from 0.1% in May 2022 to 3.6% in March 2023. In summary, other negatives are: a total fade out of the "reopening" effect; a limited further fall in the savings rate to below equilibrium as households continue to draw down those excess savings albeit at a slower pace than in 2022; a rise in the unemployment rate from 3.0% to 4.2%; and a peak to trough decline in house prices of about 16%.

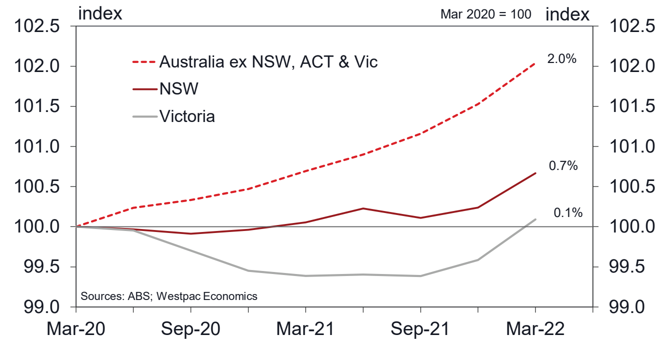
Bill Evans, Chief Economist and Andrew Hanlan, Senior Economist

… growth to slow sharply, to a well below par 1%.

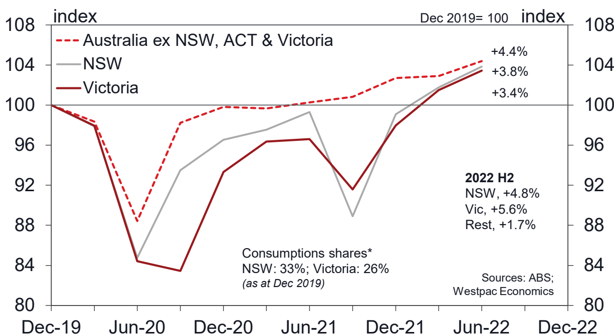
Australia: the growth mix



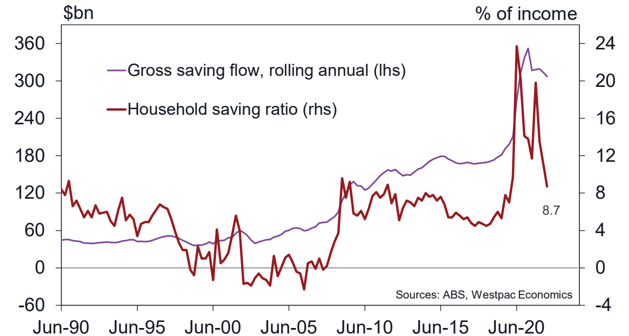
Population, recovery on border reopening



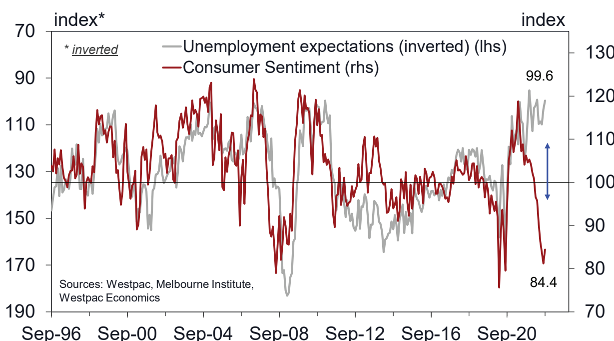
Consumer spending per capita



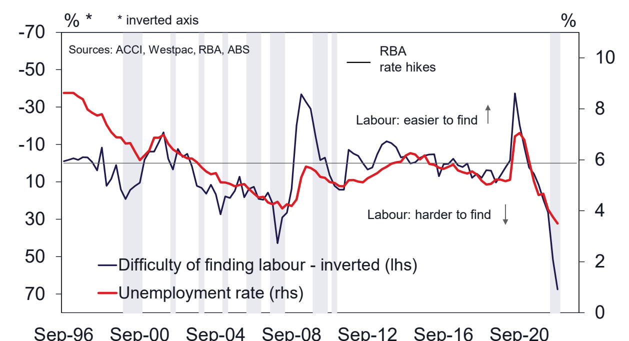
Household saving ratio and gross saving flow



Consumer Sentiment & unemploy' expectations



Labour market, tightest in 50 years



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Crude demand fading ...

Commodity prices were broadly weaker through September ...

Volatility continues in commodities market but through September the focus has been on global central banks increasingly intensive fight against inflation and the growing risk of a recession in the US as well as Europe. As such, it has been a month for broad based trend weakness in commodity prices with the Westpac Export Price Index down almost 3% since the publication of the September Market Outlook. Leading the charge down has been base metals and crude oil whose demand is perhaps most tightly tied to demand from the industrialised world. Brent is down around 7% in the month while base metals have fallen around 6% led by a 6% fall in aluminium and copper, an 8% fall in zinc and lead while nickel is down around 4%. Gold is down around 4% in the month. However, Australia's bulk exports, which tend to be more influenced by developments in China than exchange traded commodities, have also weakened. Iron ore and met coal are both down around 4% in the month while thermal coal continues to hold around record highs falling around 1%.

... as markets increasingly focus on central bank policy tightening and growth risks.

The ongoing tension between tight supply and meaningful growth risks can be drawn out in greater detail in the crude oil market. At the micro level we can look at the tight supply conditions as Russia is excluded from the market (and production there continues to decline) and disappointing growth in US production vs. growing fears of a US/Europe recession (you can see in the chart over what an outside impact the COVID shock/recovery had on depressing/boosting OECD demand); we also have the risk of Iran re-joining the market and adding 1 million bpd to supply contrasted with the need for the US to refill the Strategic Petroleum Reserve (the SPR has contracted 28% so far this year as the US has released reserves into the market). While it is true the US is unlikely to refill the SPR while prices remain elevated, and supply is limited, whenever they choose to do so it will be supportive of crude prices. In addition, the lower the SPR gets the more likely it is the US government will reduce, or even stop, out flows from the Reserve putting greater pressure on existing supplies and further boosting prices.

However, supply conditions remain very tight ...

The EIA is forecasting the crude oil market (including other liquids) to switch from a deficit to a surplus through the second half of 2022 but this is dependent on some ambitious assumptions. They expect a lift in non-OPEC+ production of around 1.5mbpd from June to end 2022 (of which 0.6mbpd is from outside North America and 1.0mbp from North America), then a further 0.8mbpd to end 2023. They expect OPEC production to be up 0.9mbp to end 2022 (it is already up 1.1mbpd from June to August so this is actually a contraction from current levels), before falling around 0.9mbpd through 2023.

... and as growth recovers into 2024 this will lift prices again.

A lot is dependent on this increase in non-OPEC crude coming online to push the market into surplus in the second half of 2022. An increase in US production is expected to provide a significant contribution to this lift. However, to date the lift in US crude production has been somewhat underwhelming. It is true that US crude production is up around 1mbpd so far this year but that still has US production some 0.9mbpd below its pre-Covid peak in March 2020. And while rig rates have lifted around 25% in the year to date they are still 32% lower than the November 2018 peak; back in 2018 West Texas crude monthly average peaked at US$71/bbl, contrast that with the September 2022 average price around US$90/bbl. It has been pointed out that the US industry is facing acute labour shortages, which comes on top of a general strategy of US oil companies to focus on increasing shareholder returns rather than investing in lifting output.

We explore these dynamics for the outlook for crude and refined petroleum products ...

The outlined conflicting factors create micro vs. macro trends and short-term vs. longer-term equilibriums. For the near term, we see the sharp moderation in developed world activity being a drag on energy demand and thus presenting a downside risk to crude oil prices. For the near term the SPR remains a downside risk for crude and, at least to the embargo date of December 5, Russian crude continues to flow into the EU. Westpac has a low for Brent of US$83/bbl in March 2023 before the recovery and expectations of easier monetary policy from central banks along with ongoing underperformance in crude production will tighten the market, lifting prices back to around US$92/bbl by end 2023 then lifting crude further to US$115/bbl.

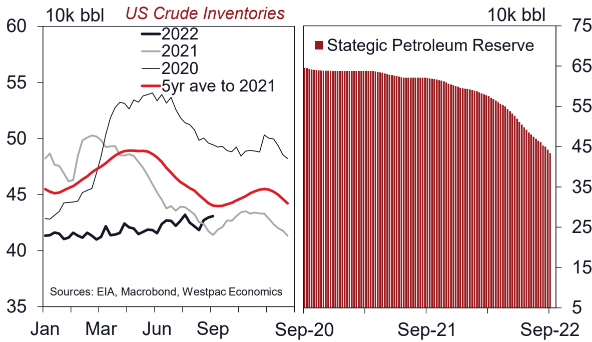
... and find a dispersion of outcomes due to supply and demand conditions.

There are, however, a number of other forces that have seen petroleum refined products, and alternatives such as LNG, seek out a stronger path than suggested by crude. Diesel prices have spiked higher (as illustrated by Singapore gas oil in the chart over) as Russian crude face full embargo into the EU in December and most EU's German winter grade diesel purchased from Russia and there is little capacity from other refiners to produce this grade of diesel. This has seen an increase in demand for diesel (due to increased transport and shipping) just as demand for jet fuel (which is close on the refining fraction to diesel) lift as European and US air travel picked up from the COVID lock-downs. While not as extreme, gasoline prices have firmed against crude due to low inventories but are expected to moderate as excess supplies of naphtha, LPG and petrochemicals are expected to flow back into the gasoline pool as we head in to 2023.

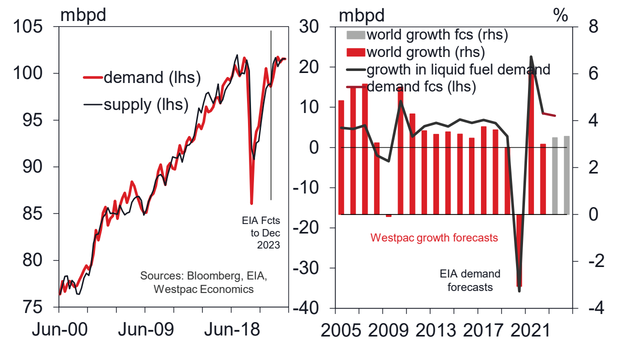
Justin Smirk, Senior Economist

… but supplies remain tight

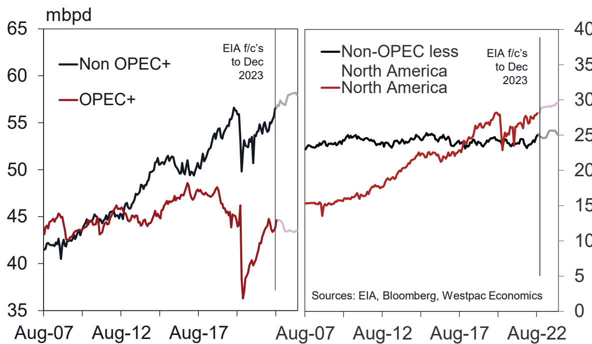
Private inventories flat but SPR falling



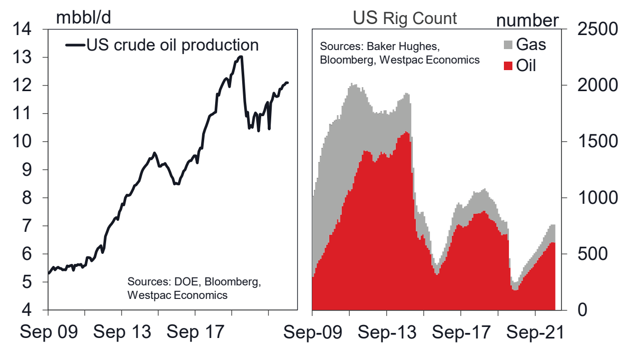
Crude demand at risk but so too is supply



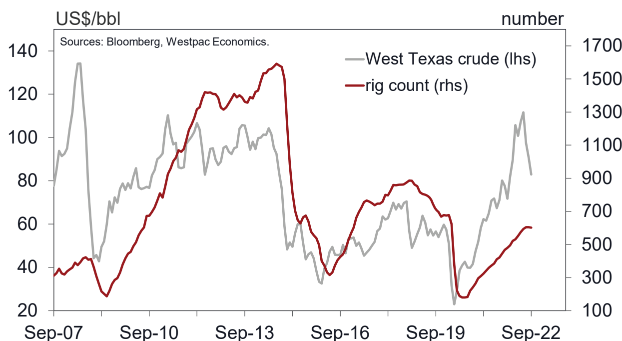
Ambitious production outlook for non-OPEC



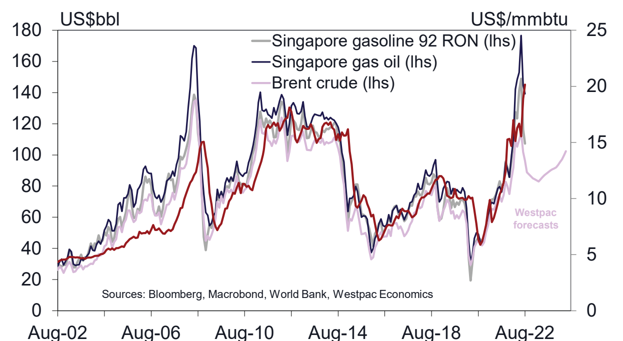
US crude oil production & rig count



West Texas crude & US rig count



Gas oil (diesel) lifts due to Russian embargo



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Another 50bp move from the RBNZ ...

The RBNZ hiked the cash rate 50bps in October ...

As expected, the Reserve Bank of New Zealand raised the Official Cash Rate by 50bp at its October Policy Review. That was the fifth 50bp move in a row and took the cash rate to a 13 year high of 3.50%. The RBNZ also repeated that it would continue moving "at pace" until it's satisfied that interest rates are high enough to bring inflation back to target.

... and again signalled further hikes are on the cards.

The October statement didn't give any direct indication of where exactly the RBNZ now thinks the peak in the cash rate will be. That's understandable: October's policy review didn't include a full set of new forecasts, and it's not really desirable for the RBNZ to be giving signals about work that hasn't been done yet.

The minutes accompanying the October decision ...

However, the record of the meeting was unusually explicit in one respect, noting that the Committee had debated between a 50 or a 75bp hike this time. The latter was argued on a 'stitch in time' basis: a larger increase now could reduce the need for a higher peak in the OCR cycle overall. This is the same reasoning that was applied when the RBNZ switched up from 25 to 50bp moves earlier this year. So this was effectively a 'hawkish' shift in the RBNZ's thinking, without being too precise about the scale of it.

... suggest the RBNZ now expects a higher peak in the cash rate.

The RBNZ's comments strongly suggest that they now expect a higher peak in the OCR than they did before. In the August Monetary Policy Statement, the RBNZ projected a peak of just over 4% by the second half of next year. If that was still the number they had in mind, then moving to 3.75% at the October review would have done very little in terms of trimming the expected peak in the cycle. Stepping up the pace of rate hikes – or even discussing it – makes more sense in an environment where the RBNZ is quite some distance from where it thinks it needs to be.

Domestic activity has remained resilient.

A key point to take from the October statement is that the RBNZ is firmly focused on setting monetary policy for local conditions. The statement was filled with references to strong demand, constrained capacity, labour shortages, and elevated core inflation. There was much less emphasis on overseas conditions, or – surprisingly to us – the sharply lower exchange rate over recent weeks.

Although there are some signs of an emerging slowdown ...

Looking at local developments since the RBNZ's previous policy statement in August, we have seen some signs that the economy is starting to lose steam. Most notably, the housing market has continued to cool, with prices now down 9% since their peak in November. We've also seen a flattening off in nominal spending at the same time that prices and earnings have been rising rapidly. In addition to those developments, the effective average mortgage rate that households are paying has risen substantially, and it's set to continue rising over the coming months.

... the labour market remains in good health ...

However, while signs of a slowdown are taking shape, overall economic activity has continued to run hot. That's been seen most clearly in the labour market with continued strength in filled jobs, high levels of staff turnover, and a rise in job advertisements. We're also continuing to hear reports of strong increases in wage rates.

... and the level of demand is elevated.

Looking at economic conditions more generally, the latest NZIER survey of business opinion has seen businesses continuing to report firm levels of demand and ongoing pressure on operating capacity. Businesses are also continuing to report significant pressure on operating costs, with very large numbers passing those increases into their output prices.

We have revised up our forecast for the cash rate, to a peak of 4.5%.

With activity remaining resilient and inflation pressures still red hot, we recently revised up our forecast peak in the current cash rate cycle to 4.50% (up from 4.00% previously). We expect that to be achieved with 50bp increases at both the November and February policy meetings.

Reinforcing the need for a higher peak in the cash rate, we've also made some significant downward revisions to our exchange rate forecasts, which suggest that the imported component of inflation won't recede as quickly as we thought. This comes at a time when inflation was already expected to be outside the RBNZ's medium-term target range of 1-3% until 2024.

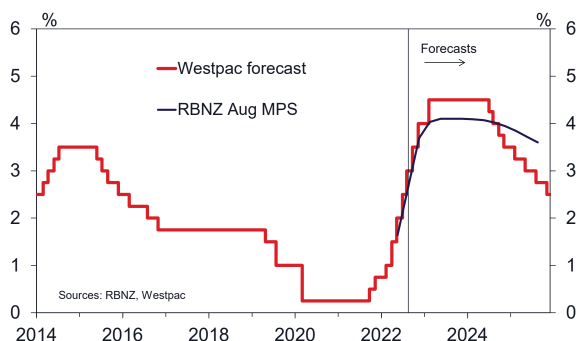
Inflation is well above the target band, and upside risks continue to mount.

This extended period of very high inflation also raises the risk of so-called 'second round' inflation effects. That's when a lift in inflation acts as a catalyst for further price increases, resulting in a more protracted inflation cycle. The risk of that occurring is much greater when the economy is stretched thin, or if there is a large and persistent rise in inflation. And that's exactly what we're seeing now. In addition to businesses raising their prices to maintain margins, wage growth has risen sharply as workers have sought compensation for the large increases in the cost of living. Wage growth is now running at its fastest pace since the financial crisis in 2009, with average hourly earnings rising by 6.4% over the past year.

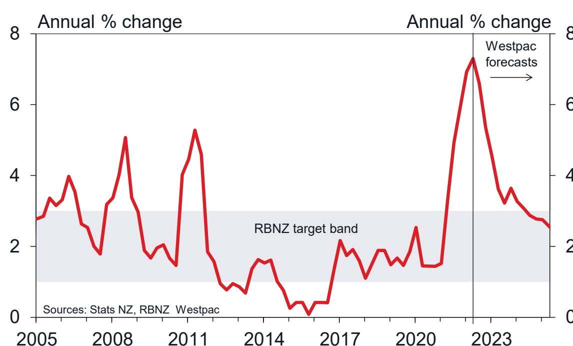
Michael Gordon, Acting Chief Economist and **Satish Ranchhod,** Senior Economist

... with further large increases still to come

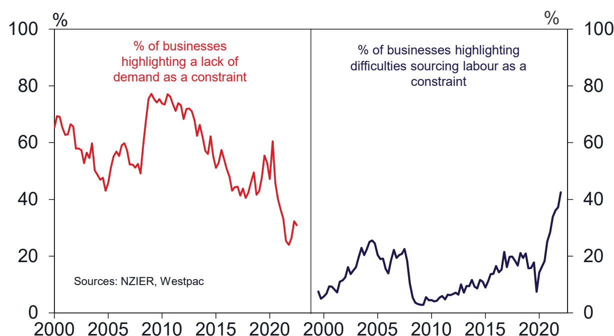
RBNZ Official Cash Rate



Consumer price inflation



Factors constraining business activity



New Zealand dollar

	2021			2022								
Monthly data	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
REINZ house sales %mth	20.6	-1.4	-5.7	-7.0	0.4	-2.2	-1.5	-2.9	-10.6	1.4	-1.7	–
Residential building consents %mth	-2.6	0.5	0.7	-10.0	12.3	6.6	-9.2	-0.5	-2.3	4.9	-1.6	–
Electronic card transactions %mth	10.0	9.2	2.0	1.9	-7.6	1.8	7.2	1.6	-0.1	-0.3	0.7	–
Private sector credit %yr	7.6	7.7	7.5	7.3	7.3	6.9	6.8	6.4	6.0	5.6	5.6	–
Commodity prices %mth	2.1	2.8	-0.3	1.0	3.9	3.9	-1.9	-4.3	-0.4	-2.2	-3.4	-0.5
Trade balance $mn	-928	-645	-1122	-1007	-1178	-1219	-518	-777	-1409	-1612	-894	–

Quarterly data	**Q4:20**	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**
Westpac McDermott Miller Consumer Confidence	106.0	105.2	107.1	102.7	99.1	92.1	78.7	87.6
Quarterly Survey of Business Opinion	2	4	24	10	-2	-7	0	3
Unemployment rate %	4.9	4.6	3.9	3.3	3.2	3.2	3.3	–
CPI %yr	1.4	1.5	3.3	4.9	5.9	6.9	7.3	–
Real GDP %yr	-2.1	-1.4	5.1	4.8	5.5	4.9	1.0	–
Current account balance % of GDP	-0.8	-2.6	-3.4	-4.8	-6.0	-6.8	-7.7	–

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

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FOMC's fight against inflation to come ...

September saw the FOMC double down again in the fight against inflation ...

Consistent with market expectations, the FOMC and Chair Powell delivered a hawkish approach to policy in September, raising the fed funds rate by 75bps and signalling another 150bps of tightening to the end of this cycle. As has been the case so far, these hikes are projected to be front loaded, coming at the next three meetings – November, December and January. In the Committee's view, the remaining hikes are to be delivered in a data dependent manner – the median expectation at end-2022 of 4.4% only needs one member to pull back for the 2022 high to move down to 4.1% while the peak in early-2023 could be 25bps lower if just two members' views on the economy deteriorate. However, based on the press conference, Chair Powell is most likely in that more hawkish group. With such a short hiking window, the probability of a big-enough miss on inflation and/or nonfarm payrolls seems a relatively low probability.

... following a strong gain for core CPI inflation in August.

On inflation firstly, while medium-term expectations remain well anchored, core CPI momentum is strong. This is largely as a result of the shelter component which has slowly been pricing in the extreme jump in market rents seen across the nation on tight supply. Shelter, at best, is likely to take six months to come down to the top end of the prior historic range. The resilience of the shelter component was clearly noted by Chairman Powell in the press conference.

There is little-to-no time for data to change their view ...

Regarding nonfarm payrolls, at least on the initial estimate, the establishment survey has remained resilient to the stalling of activity growth in 2022, and we see this trend continuing into year end. It is only on the second and third estimate for a given month, and in the annual revisions due early-2023, that a stalling of job creation will show itself. That many workers need to take on multiple jobs to make ends meet also favours persistent job creation into year end, perhaps at the cost of hours worked per employee and, depending on the sector, nominal wage growth.

... cementing expectations of another 150bps of hikes to this cycle's peak.

Given the tight timeline, the determination of the Committee and the inertia of recent data, it makes sense to further adjust our view on the FOMC to now expect yet another 75bp hike at the November meeting, followed by 50bps at the December meeting and 25bps in January - to be at a high of 4.625%. By March, the economy will be noticeably weaker than the FOMC currently expects, allowing the FOMC to go on hold and the market to price the timing of interest rate cuts.

There are two significant points to draw out here: (1) even with another 150bps of hikes to January, financial conditions are unlikely to tighten materially from here; and (2) the easing of financial conditions from January 2023, as markets anticipate rate cuts in 2024 at the latest, will arguably limit the FOMC's need to cut the fed funds rate in 2023.

In 2023, the easing of financial conditions will hold off cuts by the FOMC ...

On (1), it is important that despite flagging a peak fed funds rate of 4.6% in (early) 2023 and an expectation that this level will be largely maintained until the end of 2024 (median expectation of 3.9%), the US 5 and 10 year yields have only risen 15bps since to 3.90% and 3.70%, a negative differential of around 70-90bps to the peak fed funds rate.

... but once the cost of this tightening cycle is fully known, they will come.

We expect that easing financial conditions (bond rates and the USD falling; equity markets stabilising) through 2023 are likely to give the FOMC scope to hold back from cutting the fed funds rate until 2024. This is because the aggressive tightening of policy to January 2023 will have far greater consequences for the US economy than the FOMC currently anticipate. And those consequences will be apparent in 2023, including a more rapid slowing in the inflation rate.

There is a real risk that the economic cost of fighting inflation ...

Against their year-end growth views for 2022 and 2023 of +0.2% and +1.2%, we forecast -0.1% and +0.5%. Our first look at 2024 of 1.2% is also materially lower than the FOMC's current estimate of 1.7%. In cumulative terms, that is 1.5ppts of additional slack, leaving an output gap of close to 4.0ppts by end-2024 against the pre-pandemic trend. This implies a near 2ppt lift in the unemployment rate to 5.4% at end-2024, 1ppt above the FOMC's current peak forecast. In the absence of an abrupt and sustained decline in nonfarm payrolls or inflation, in these circumstances, the FOMC is likely to remain sanguine on the outlook, a decline in the US 10 year of around 75bps by end-2023 arguably seen as enough to restore near-trend growth in 2024. As significant to our view is that, with inflation having surprised so aggressively to the upside in 2022, the FOMC will want to keep real yields across the curve above 1.0% for fear of a resurgence in price pressures and/or expectations as 'excess' demand is eradicated.

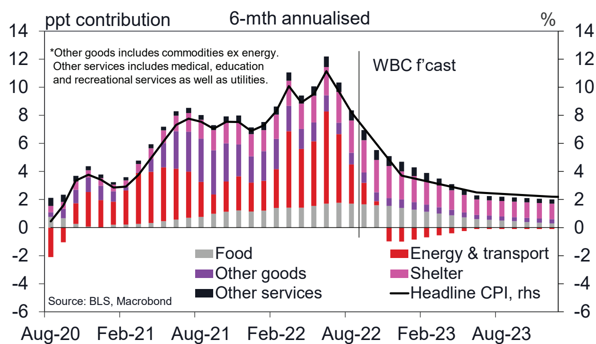
... will endure into the medium term.

While it is too early to tell definitively, our view that the unemployment rate will settle almost 1.5ppts above the FOMC's 'longer run' full employment level highlights a concern that this course of action by the Committee will have consequences for the US' productive capacity and efficiency into the medium-term. It may prove to be the case that, in cutting off inflation so abruptly, potential growth is impaired. Even if the 150bps of cuts we forecast through 2024 (200bps cumulative to June 2025) strengthen growth back above trend from 2025, it will certainly take many years for the output gap we are forecasting to be reduced.

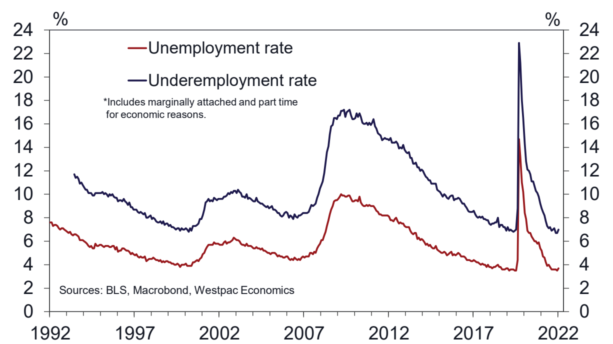
Elliot Clarke, CFA, Senior Economist

... at material cost

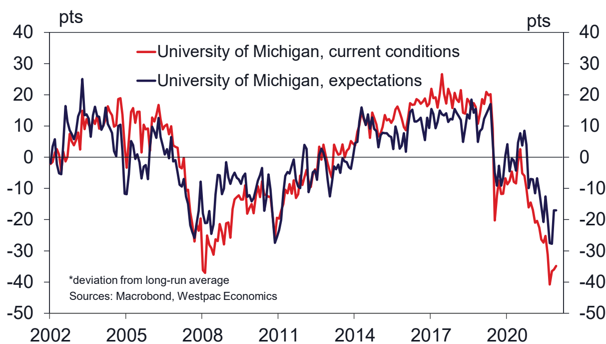
Inflation remains at concerning levels



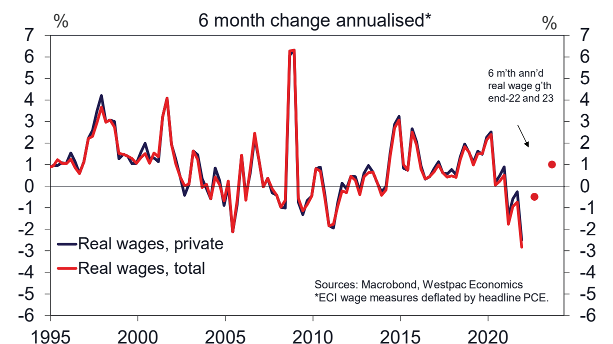
US labour market at risk of a sharp downturn



Sentiment is holding back spending...



... with real wage gains still a long way off



	2021			2022								
Monthly data	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
PCE deflator %yr	5.2	5.9	6.0	6.1	6.4	6.8	6.4	6.5	7.0	6.4	6.2	–
Unemployment rate %	4.6	4.2	3.9	4.0	3.8	3.6	3.6	3.6	3.6	3.5	3.7	–
Non-farm payrolls chg '000	677	647	588	504	714	398	368	386	293	526	315	–
House prices* %yr	18.5	18.3	18.5	19.0	20.3	21.2	21.3	20.5	18.7	16.1	–	–
Durables orders core 3mth %saar	12.0	9.6	11.4	9.3	5.2	9.6	5.1	8.2	7.5	9.0	12.8	–
ISM manufacturing composite	60.8	60.6	58.8	57.6	58.6	57.1	55.4	56.1	53.0	52.8	52.8	50.9
ISM non-manufacturing composite	66.7	68.4	62.3	59.9	56.5	58.3	57.1	55.9	55.3	56.7	56.9	56.7
Personal spending 3mth %saar	11.6	10.6	6.4	6.3	7.1	13.5	9.7	9.5	9.3	6.9	5.7	–
UoM Consumer Sentiment	71.7	67.4	70.6	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6
Trade balance USDbn	–68.2	–78.0	–78.9	–88.0	–87.8	–106.9	–86.7	–85.9	–80.9	–70.5	–67.4	–

Quarterly data	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22f**
Real GDP % saar	6.7	2.3	6.9	–1.6	–0.6	1.0
Current account USDbn	–206.4	–226.4	–224.8	–282.5	–251.1	–

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

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Resilience and resolve ...

Headwinds remain for China; indeed, a new one is emerging.

China's economy continues to face a number of significant headwinds, most notably difficulty in containing the spread of COVID-19 and the weak state of the residential property sector. Ahead, the weak financial state of western consumers is also likely to take a toll. That said, at the conclusion of Q3 2022 as we look ahead to 2023, we find good reason to remain positive on the opportunities before the economy, both short and long-term.

Yet we remain positive given signs of a pick-up in consumption ...

The August activity data was constructive overall, but one data point stood out: retail sales. Against a July outcome of 2.7%yr and consensus estimate of 3.3%yr, growth in retail sales jumped to 5.4%yr in August. Contrasting this 12-month growth rate to the year-to-date (ytd) pulse of 0.5%yr highlights the dramatic impact of COVID-zero lockdowns to mid-year, but also the degree of pent-up demand present now. Opportunity is also evident in the comparison of total and online retail sales growth (respectively 0.5%yr ytd and almost 6.0%yr).

... despite weakness in the labour market.

Bear in mind that the above occurred with weak labour markets and as COVID-zero lockdowns continued to disrupt sentiment and activity, the Hainan outbreak being of particular concern as it had the potential to spread the virus across the nation through returning holiday makers.

Investment continues to show strength overall ...

While fixed asset investment growth only edged higher in August, from 5.7%yr ytd to 5.8%yr ytd, this was achieved as residential construction deteriorated further, from -6.4%yr ytd to -7.4%yr ytd. Offsetting this property sector weakness was an acceleration in infrastructure and utilities investment undertaken by local government authorities. Manufacturing meanwhile stabilised at a very healthy pace of 10%yr ytd despite the risk of a loss of western demand for exports.

... while housing is now receiving the support it needs to rebound.

Although the housing sector continues to disappoint, anecdotal evidence argues we are at, or very close, to the sector's nadir. Of late, authorities have become much more active in their support. And, ever so slightly, the decline in property sales improved in August, from -31.4%yr ytd to -30.3%yr ytd. The cumulative price decline for new homes also remains negligible from its peak, pointing to robust underlying demand, while the past few months has seen numerous semi-completed projects recommence work -- even those owned and run by Evergrande.

Even a stabilisation of activity in the sector will materially improve headline growth for total fixed asset investment over the next 6-12 months, with significant upside possible given the tight supply of newly-finished dwellings and as authorities intend to promote new construction of homes for low and middle-income households. At the same time, total social financing growth points to broad support for investment momentum across the sectors.

For exports, a further pivot to Asian markets is necessary.

The new uncertainty clouding China's outlook is the potential loss of demand from western consumers as those economies wilt under the pressure of contractionary monetary policy and historic inflation. This is a real risk to Chinese growth into year end, particularly given stories of unwanted inventory amongst retailers. While the recent depreciation of the Renminbi has offered some protection from the loss of export income (CNY export income was up 11.8%yr at August compared to a 7.1%yr gain in US dollars), the only way to sustainably offset a loss of exports in one jurisdiction is by increasing them in another. For China, this opportunity is found in Asia. Indeed, in the medium to long-term, China stands to not only benefit from growth in demand from this region, but also by using lower wage costs in neighbouring nations to increase the profit margin of low-skill production undertaken by Chinese manufacturers, with the return from production repatriated back to the Chinese shareholders of these firms.

Elliot Clarke, CFA, Senior Economist

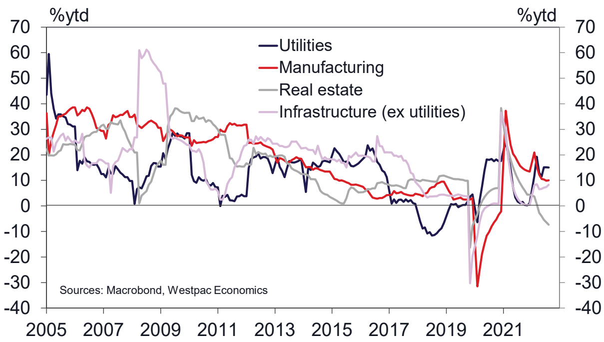
	2021			2022								
Monthly data %yr	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Consumer prices – headline	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	–
Money supply M2	8.7	8.5	9.0	9.8	9.2	9.7	10.5	11.1	11.4	12.0	12.2	–
Manufacturing PMI (official)	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1
Fixed asset investment %ytd	6.1	5.2	4.9	4.9	12.2	9.3	6.8	6.2	6.1	5.7	5.8	–
Industrial production (IVA)	3.5	3.8	4.3	4.3	7.5	5.0	-2.9	0.7	3.9	3.8	4.2	–
Exports	26.8	21.7	20.8	23.9	6.0	14.4	3.5	16.3	17.4	17.9	7.1	–
Imports	20.0	31.4	19.7	20.9	11.7	0.6	0.1	3.9	0.8	2.2	0.3	–
Trade balance USDbn	84.8	71.7	93.7	82.6	27.9	44.9	49.8	77.5	97.2	101.3	79.4	–

Quarterly data	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**
Real GDP %yr	18.3	7.9	4.9	4.0	4.8	0.4
Nominal GDP %yr	21.2	13.6	9.8	9.4	8.9	3.9

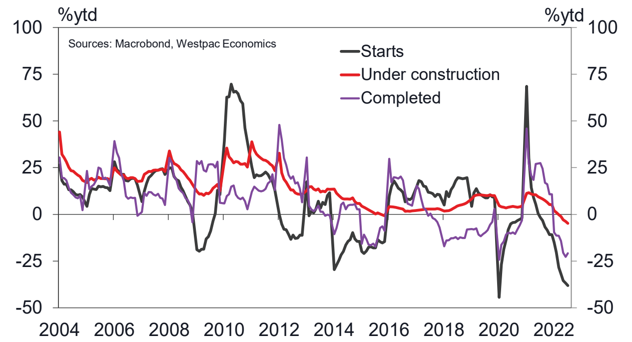
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

... to see China through tough times

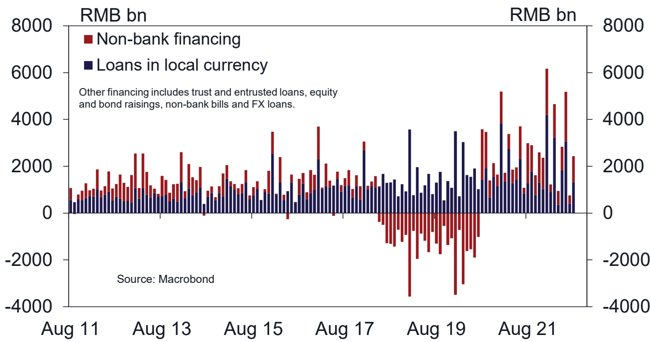
Fixed asset investment strengthening



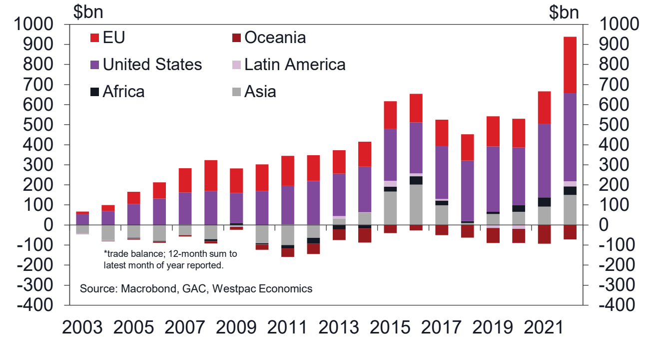
Starts and project re-starts to aid housing



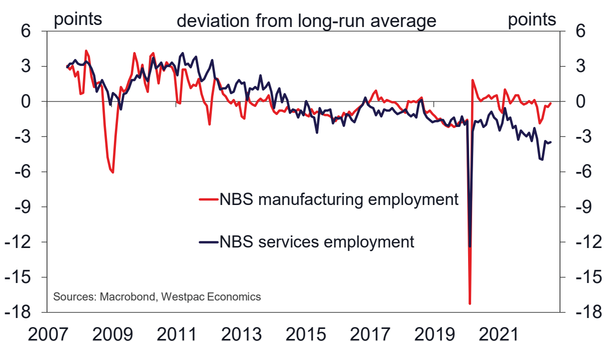
Credit growth supportive



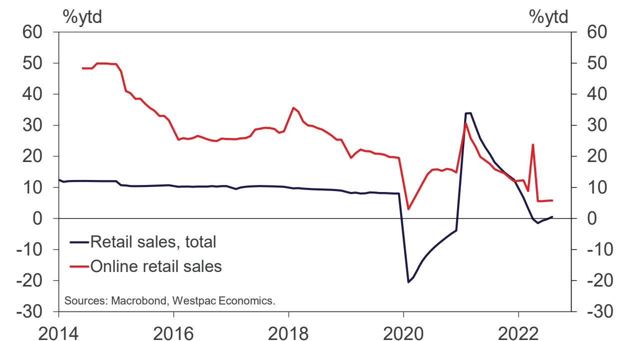
China is diversifying its export markets



Services employment key for consumption



Pent-up demand from consumers significant



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RePowerEU sets the stage ...

Although energy security has been a key risk facing the Euro Area of late ...

As attested by EUR/USD weakness, the immediate risk that Europe faces from a loss of Russian gas imports is acute, with a recession essentially guaranteed if gas inventory cannot be raised further ahead of winter, or if the weather proves harsh.

However, beyond 2023, the continued removal of Russian gas from Europe's energy mix offers considerable opportunity with respect to economic growth and the industry's cost base, potentially setting the region up to outperform the US in the medium to long-run.

... it is also an opportunity to accelerate the renewable energy transition.

The reason this is the case is that the response of European authorities to the threat Russia poses has been to double down on its green transition, targeting a 45% renewables share for power generation by 2030 along with wide-ranging efficiency measures. The cumulative effect of these policies is expected to be a reduction in emissions of at least 55% by 2030.

In terms of support for the economy, EUR210bn are to be spent on new initiatives across the Continent by 2027. Importantly, this spending can be fully funded through recovery and resilience facility loans and grants; and, once the investment has been completed, is estimated by authorities to reduce Europe's Russian import bill for gas, oil and coal by EUR100bn annually. That is an annual saving equivalent to half the total investment under RePowerEU to 2027 – a very good return.

Investment into emissions reduction and efficiency ...

Now some of these savings will go to other foreign producers, particularly in the short term as LNG cargos replace Russian pipeline gas. But, towards 2027 and on to 2030, hydrogen is targeted as a key energy source for the region, with 50% of the hydrogen consumed to come from within Europe's borders. A doubling of solar output to 2027 and a four-fold increase to 2030 also has the potential to materially reduce gas demand, particularly if the roll-out of heat pumps and efficiency measures across the economy proves successful.

... should yield significant economic and financial returns ...

The RePowerEU initiative therefore has three primary economic benefits: an increase in real investment from now until at least 2027; a much more stable and lower cost of energy for European businesses and households; and finally, a reduced drag on the trade balance from energy imports, both on a nominal and real basis. While fear over the consequences of Russia's invasion of Ukraine for Europe's economic health and competitiveness have materially depressed confidence and the Euro's value this year, as we move through 2023 and then run towards 2025 and 2027, under RePowerEU, the region's fundamentals are primed to strengthen rapidly, in a highly visible manner.

... placing Europe in a favourable position in the long-run.

Importantly, not only should this new economic reality turn the tide for confidence in the region, but it also has the capacity to incentivise private sector investment by businesses and households into the long-run, with the pipeline of work necessary to push towards net zero in 2050 broad and deep across the region. If the ECB can bring inflation down quickly with only a marginal, temporary cost to the labour market, the private sector will be well placed and incentivised to expand.

Clearly Europe's authorities believe the government leading with investment materially increases the probability of success, both in terms of reducing the economy's toll on the environment, and setting up long-term growth in activity and real income. Together with Europe's advanced industry, it is also a good reason to anticipate sustained strength in Euro from the current level.

The UK's stimulatory fiscal proposals are at odds with the broader outlook.

In stark contrast, new fiscal policy initiatives in the UK have been met with harsh criticism, inciting considerable volatility within financial markets. The UK Government's Fiscal Update outlined a suite of fiscal stimulus centred on income and corporate tax cuts, removal of levies associated with insurance and health/social care and an increase in stamp duty thresholds. Given the expected cost of these measures (£25-45bn per annum over five years) in addition to the energy guarantee plan announced earlier (£60bn first six months), and the Government's funding strategy based on borrowing and expected growth over the forecast horizon, markets were fraught with concern over the Government's fiscal credibility.

If implemented, a more aggressive response from the BoE may be warranted ...

The Bank of England have since postponed their balance sheet reduction and begun purchasing long-dated Gilts to cool tensions within financial markets, while the Bank of England's Chief Economist stated that these initiatives would warrant a significant monetary policy response. This comes after September's split decision between a 50bp and 75bp rate hike, the difference largely stemming from uncertainty around the Government's energy guarantee plan. This led markets to price in a much more aggressive rate hike cycle as concerns over inflation and recession boil over.

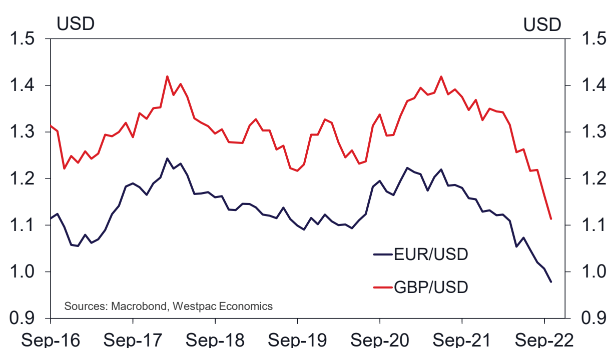
... raising the risk of below-trend growth for a substantially longer period.

This is an evolving situation though, with Prime Minister Liz Truss already making a U-turn on the proposed high income tax bracket cut at this week's Conservative Party Conference. Markets will be closely monitoring the subsequent budget releases over the next couple of months, the eventual outcome of which will certainly impact the UK's near-term economic outlook, especially if fiscal and monetary policy objectives are unaligned.

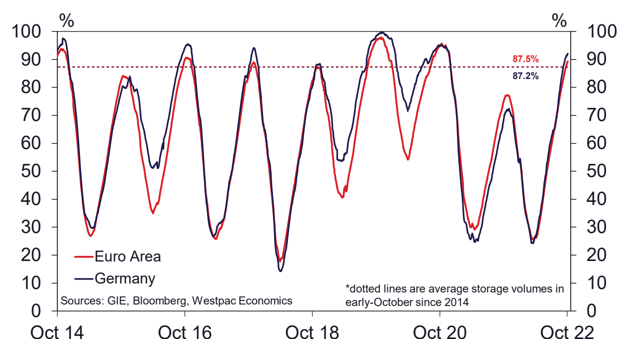
Elliot Clarke, CFA, Senior Economist and **Ryan Wells,** Economist

... for Europe to outperform US

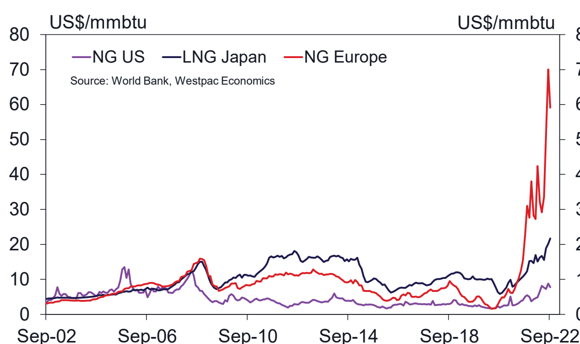
Uncertainty has hit Euro hard



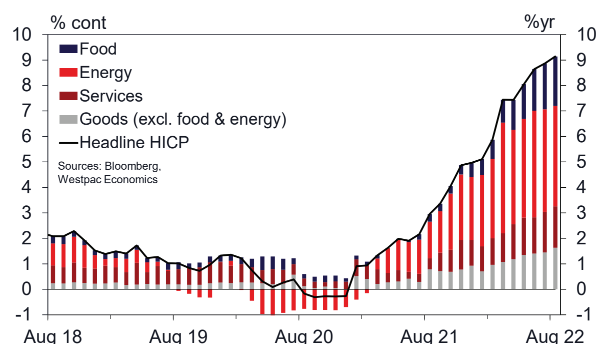
Gas storage needs to increase further



Euro Area gas price shock has been extreme



Energy has fed straight into CPI



	2021			2022								
Europe	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Eur consumer prices %yr	4.1	4.9	5.0	5.1	5.9	7.5	7.5	8.1	8.6	8.9	9.1	10.0
Eur unemployment rate %	7.3	7.1	7.0	6.9	6.8	6.8	6.7	6.7	6.7	6.6	6.6	–
Eur industrial production %yr	0.1	-1.3	1.9	-1.3	1.7	-1.1	-2.5	1.6	2.2	-2.4	–	–
Eur retail sales volumes %yr	1.7	8.4	2.4	8.5	5.1	1.9	4.2	0.6	-3.2	-0.9	–	–
Eur consumer confidence	-5.3	-8.1	-9.3	-9.7	-9.5	-21.6	-22.1	-21.2	-23.7	-27.1	-25.0	-28.8
Eur current account balance €bn	6.6	7.3	12.6	16.8	8.7	-3.0	-4.3	-6.9	4.2	-19.9	–	–
United Kingdom												
UK Consumer price index %yr	4.2	5.1	5.4	5.5	6.2	7.0	9.0	9.1	9.4	10.1	9.9	–
UK unemployment rate % (ILO)	4.2	4.1	4.0	4.0	3.8	3.7	3.8	3.8	3.8	3.6	–	–
UK industrial production %yr	0.3	0.2	1.0	3.3	2.0	1.1	1.6	1.8	2.4	1.1	–	–
UK retail sales volumes %yr	-1.2	3.3	1.2	9.4	7.5	2.1	-6.1	-5.1	-6.4	-3.2	-5.4	–
UK consumer confidence	-17	-14	-15	-19	-26	-31	-38	-40	-41	-41	-44	-49

Quarterly data	**Q4:20**	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**
Eur GDP %qtr/%yr	-0.4/-4.3	-0.1/-0.9	2.1/14.6	2.3/3.9	0.4/4.8	0.5/5.4	0.8/4.1
UK GDP %qtr/%yr	1.2/-9.2	-1.2/-7.8	6.5/24.3	1.8/8.5	1.6/8.9	0.7/10.9	0.2/4.4
UK current account balance £bn	-35.8	-12.3	-6.9	-23.1	-3.2	-43.9	-33.8

Source: Official agencies.

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FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	2.60	3.10	3.60	3.60	3.60	3.60	3.35	3.10
90 Day BBSW	2.87	3.80	3.80	3.80	3.80	3.63	3.38	3.13
3 Year Swap	3.86	3.75	3.85	3.70	3.55	3.45	3.40	3.35
3 Year Bond	3.44	3.40	3.55	3.45	3.35	3.25	3.20	3.15
10 Year Bond	3.85	3.70	3.50	3.40	3.20	3.00	2.80	2.70
10 Year Spread to US (bps)	3	10	10	10	10	10	10	10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD vs								
USD	0.6414	0.65	0.66	0.67	0.69	0.72	0.73	0.74
JPY	93.02	93.0	93.1	93.1	94.5	96.5	96.4	96.2
EUR	0.6548	0.66	0.67	0.66	0.66	0.67	0.67	0.67
NZD	1.1327	1.12	1.12	1.12	1.11	1.11	1.11	1.12
CAD	0.8815	0.87	0.88	0.88	0.89	0.92	0.93	0.94
GBP	0.5743	0.57	0.58	0.59	0.59	0.60	0.60	0.60
CHF	0.6351	0.63	0.63	0.64	0.65	0.68	0.68	0.68
DKK	4.8716	4.88	4.96	4.88	4.93	5.00	4.98	5.00
SEK	7.1514	7.17	7.28	7.17	7.25	7.35	7.31	7.35
NOK	6.8734	6.89	7.00	6.90	6.96	7.06	7.03	7.06
ZAR	11.52	11.6	11.7	11.8	12.0	12.2	12.3	12.4
SGD	0.9162	0.92	0.92	0.92	0.93	0.96	0.96	0.98
HKD	5.0346	5.10	5.15	5.23	5.35	5.58	5.66	5.74
PHP	38.17	37.7	37.6	37.5	37.3	37.4	37.9	38.5
THB	23.98	24.1	24.0	23.7	23.6	23.8	24.0	24.4
MYR	2.9979	2.93	2.90	2.88	2.90	2.99	3.02	3.07
CNY	4.5781	4.55	4.49	4.42	4.42	4.54	4.53	4.55
IDR	9741	9685	9768	9782	9936	10152	10251	10425
TWD	20.21	20.3	20.3	20.4	20.6	21.3	21.5	21.9
KRW	900	910	911	905	911	929	931	947
INR	52.95	52.0	52.1	52.3	52.1	53.6	53.7	54.0

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ECONOMIC FORECASTS

Australia

Activity forecasts*

	2021	2022				2023		Calendar years			
%qtr / yr avg	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
Private consumption	6.5	2.2	2.2	1.3	0.5	0.3	0.2	–5.8	4.9	7.4	2.3
Dwelling investment	–2.0	–0.5	–2.9	2.7	2.7	0.9	–0.5	–5.5	9.8	–1.6	1.4
Business investment*	0.8	1.0	0.6	2.1	2.0	1.2	0.4	–4.2	6.2	3.8	3.2
Private demand *	4.7	1.7	1.4	1.4	0.8	0.4	0.1	–5.3	6.1	5.8	2.0
Public demand *	0.3	2.5	0.0	0.8	0.8	0.4	0.3	6.0	6.1	5.5	1.9
Domestic demand	3.5	1.9	1.0	1.2	0.8	0.4	0.2	–2.4	6.1	5.7	2.3
Stock contribution	1.0	1.0	–1.2	0.3	–0.2	–0.1	–0.3	0.0	0.6	0.3	–0.6
GNE	4.4	2.9	–0.2	1.5	0.5	0.3	–0.1	–2.5	6.8	6.0	1.4
Exports	–1.1	–0.8	5.5	1.6	2.5	2.1	2.1	–9.8	–1.8	3.5	9.5
Imports	0.6	11.3	0.7	3.6	2.3	1.7	1.0	–13.0	6.3	14.0	7.0
Net exports contribution	–0.4	–2.3	1.0	–0.4	0.0	0.1	0.2	0.4	–1.6	–2.0	0.5
Real GDP %qtr / yr avg	**3.9**	**0.7**	**0.9**	**1.1**	**0.6**	**0.3**	**0.2**	–2.1	4.9	4.2	1.9
%yr end	**4.5**	**3.3**	**3.6**	**6.7**	**3.4**	**3.0**	**2.2**	**–0.7**	**4.5**	**3.4**	**1.0**
Nominal GDP %qtr	3.6	4.1	4.3	1.1	1.0	0.3	0.3				
%yr end	10.4	10.5	12.1	13.7	10.8	6.8	2.8	0.9	10.4	10.8	1.0

Other macroeconomic variables

	2021	2022				2023		Calendar years			
% change	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
Employment (2)	0.8	2.3	0.8	0.4	0.8	0.5	0.0	–	–	–	–
%yr	2.4	3.4	3.3	4.4	4.3	2.5	1.7	–1.0	2.4	4.3	0.2
Unemployment rate % (2)	4.7	4.1	3.8	3.4	3.1	3.1	3.5	6.8	4.7	3.1	4.3
Wages (WPI) (2)	0.7	0.7	0.7	1.1	1.2	1.1	1.0	–	–	–	–
%yr	2.3	2.4	2.6	3.1	3.7	4.2	4.4	1.4	2.3	3.7	4.5
CPI Headline (2)	1.3	2.1	1.8	0.7	2.7	1.2	0.8	–	–	–	–
%yr	3.5	5.1	6.1	6.1	7.5	6.5	5.4	0.9	3.5	7.5	3.8
Core inflation trimmed mean	1.0	1.5	1.5	1.5	1.2	0.8	0.7	–	–	–	–
%yr (2)	2.6	3.7	4.9	5.6	5.8	5.1	4.3	1.2	2.6	5.8	3.1
Current account AUDbn	9.7	2.8	18.3	4.0	2.0	-3.0	-5.0	47.0	68.4	27.0	-26.0
% of GDP	1.7	0.5	3.0	0.7	0.3	–0.5	–0.8	2.4	3.2	1.1	–1.0
Terms of trade annual chg (1)	10.0	9.8	7.5	–0.5	2.0	–8.8	–15.0	–0.2	17.6	4.6	–12.0

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	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Employment '000 chg	384	70	35	111	38	–9	47	75	–41	34	–
Unemployment rate %	4.6	4.2	4.2	4.0	3.9	3.9	3.9	3.5	3.4	3.5	–
Westpac–MI Consumer Sentiment	105.3	104.3	102.2	100.8	96.6	95.8	90.4	86.4	83.8	81.2	84.4
Retail trade %mth	7.1	–4.1	1.6	1.8	1.6	0.9	0.7	0.2	1.3	0.6	–
Dwelling approvals %mth	–1.1	9.0	–24.2	38.6	–15.2	–1.2	9.0	0.3	–18.2	28.1	–
Credit, private sector %yr	6.6	7.2	7.6	8.0	8.0	8.6	9.1	9.1	9.1	9.3	–
Trade balance AUDbn	9.3	7.6	12.0	7.0	8.9	11.9	14.3	17.5	9.0	8.3	–

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New Zealand

Interest rate forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	3.50	4.00	4.50	4.50	4.50	4.50	4.50	4.50
90 Day Bill	3.88	4.30	4.60	4.60	4.60	4.60	4.60	4.40
2 Year Swap	4.70	4.70	4.60	4.40	4.20	3.95	3.65	3.35
10 Year Bond	4.27	4.30	4.10	4.00	3.80	3.60	3.40	3.25
10 Year Spread to Aust	42	60	60	60	60	60	60	55
10 Year Spread to US	45	70	70	70	70	70	70	65

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZD vs								
USD	0.5663	0.58	0.59	0.60	0.62	0.65	0.66	0.66
JPY	82.12	82.9	83.2	83.4	84.9	87.1	86.5	85.8
EUR	0.5782	0.59	0.60	0.59	0.60	0.61	0.60	0.60
AUD	0.8829	0.89	0.89	0.90	0.90	0.90	0.90	0.89
CAD	0.7782	0.78	0.78	0.79	0.80	0.83	0.83	0.84
GBP	0.5070	0.51	0.52	0.53	0.53	0.54	0.54	0.53
CNY	4.029	4.06	4.01	3.96	3.97	4.10	4.06	4.06

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

Activity forecasts*

	2021	2022				2023		Calendar years			
% qtr / yr change	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
Private consumption	5.3	5.0	-3.1	0.1	-0.1	0.0	0.1	-1.2	6.2	2.3	-0.3
Government consumption	3.8	2.0	0.6	-0.7	-0.7	-0.7	-0.7	6.9	9.9	6.4	-2.7
Residential investment	7.4	-0.1	1.0	0.8	0.6	0.2	0.2	-3.2	7.8	1.3	0.9
Business investment	13.8	-0.2	-4.0	0.8	1.7	1.3	0.6	-8.8	9.7	4.1	2.7
Stocks (ppt contribution)	-2.9	0.4	-0.2	-0.1	0.1	0.0	0.0	-0.8	1.5	-0.8	0.1
GNE	4.5	2.0	-1.0	0.0	0.3	0.1	0.1	-1.9	9.2	2.6	-0.1
Exports	-1.0	-14.6	20.5	2.8	4.0	3.1	2.6	-12.7	-3.6	0.6	16.2
Imports	3.2	-2.6	-1.4	2.6	2.0	1.0	1.0	-16.0	14.9	2.7	5.0
GDP (production)	**3.0**	**-0.2**	**1.7**	**0.4**	**0.6**	**0.6**	**0.5**	**-2.1**	**5.5**	**2.2**	**2.2**
Employment annual %	-0.1	0.0	0.0	0.1	0.1	0.1	0.2	0.6	3.4	0.2	0.8
Unemployment rate % s.a.	3.2	3.2	3.3	3.3	3.4	3.5	3.6	4.9	3.2	3.4	3.8
Labour cost index, all sect incl o/t, ann %	2.6	3.0	3.4	3.5	3.9	4.2	4.3	1.6	2.6	3.9	4.3
CPI annual %	**5.9**	**6.9**	**7.3**	**6.6**	**5.3**	**4.6**	**3.6**	**1.4**	**5.9**	**5.3**	**3.6**
Current account balance % of GDP	-6.0	-6.8	-7.7	-7.7	-7.1	-6.0	-5.3	-0.8	-6.0	-7.1	-4.4
Terms of trade annual %	2.8	3.3	-2.4	0.5	1.4	1.6	4.7	-1.6	2.8	1.4	2.3

Sources: Statistics NZ, Westpac Economics.

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Commodity prices

End of period	Latest (7 Oct)***	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Australian commodities index#	357	338	316	302	288	273	**269**	**267**	**266**	**269**	**272**
Bulk commodities index#	**546**	**513**	**484**	**463**	**426**	**382**	**365**	**347**	**325**	**321**	**340**
iron ore finesTSI @ 62% US$/t	95	100	99	96	93	90	87	84	81	80	85
Qld coking coal index (US$/t)	252	240	230	226	221	212	202	192	183	183	183
Newcastle spot thermal coal (US$/t)	458	445	375	300	225	150	140	130	115	105	105
crude oil (US$/bbl) Brent ICE	91	85	83	87	90	92	97	105	110	115	110
LNG in Japan US$mmbtu	20.84	17.7	15.5	14.9	15.4	15.8	15.9	16.5	17.6	18.2	18.7
gold (US$/oz)	1,720	1,675	1,650	1,675	1,700	1,725	1,735	1,735	1,735	1,745	1,755
Base metals index#	**200**	**194**	**191**	**192**	**199**	**210**	**214**	**217**	**226**	**237**	**229**
copper (US$/t)	7,701	7,500	7,450	7,750	8,000	8,500	8,600	8,700	9,176	9,656	9,362
aluminium (US$/t)	2,321	2,200	2,150	2,175	2,200	2,500	2,600	2,700	2,777	2,853	2,729
nickel (US$/t)	22,138	22,250	21,750	21,550	21,650	21,750	22,250	22,500	23,700	24,907	24,582
zinc (US$/t)	3,056	3,000	2,900	2,750	3,000	3,150	3,125	3,110	3,105	3,246	3,112
lead (US$/t)	1,998	1,800	1,775	1,750	1,875	1,800	1,825	1,850	1,875	1,964	1,862
Rural commodities index#	**160**	**167**	**171**	**175**	**175**	**174**	**173**	**188**	**198**	**208**	**200**
NZ commodities index ##	**366**	**369**	**359**	**358**	**353**	**352**	**358**	**361**	**363**	**365**	**367**
dairy price index ^^	329	338	329	334	329	322	324	327	328	330	332
whole milk powder US$/t	3,573	3,733	3,645	3,683	3,500	3,550	3,600	3,625	3,650	3,675	3,700
skim milk powder US$/t	3,497	3,547	3,550	3,586	3,450	3,500	3,550	3,575	3,600	3,600	3,600
lamb leg UKp/lb	610	610	597	588	583	583	583	583	583	583	583
bull beef US¢/lb	264	264	244	236	238	256	274	280	280	280	280
log price index ##	172	170	163	160	158	159	161	162	164	165	167
strong wool US¢/kg	171	171	171	171	171	171	171	171	171	171	171

	levels				% change			
Annual averages	**2021**	**2022(e)**	**2023(f)**	**2024(f)**	**2021**	**2022(e)**	**2023(f)**	**2024(f)**
Australian commodities index#	**306**	**376**	**300**	**268**	**43.1**	**22.8**	**-20.3**	**-10.6**
Bulk commodities index#	**510**	**592**	**491**	**374**	**47.0**	**16.1**	**-17.0**	**-23.8**
iron ore fines @ 62% USD/t	159	121	95	84	46.6	-24.2	-20.8	-12.2
LNG in Japan $mmbtu	10.3	17.5	16	17	31.1	70.5	-11.1	8.1
ave coking coal price (US$/t)	143	257	228	195	33.2	79.5	-11.3	-14.5
ave thermal price (US$/t)	99	315	239	107	74.4	217.9	-24.2	-55.0
iron ore fines contracts (US¢ dltu)	239	184	151	141	72.8	-23.1	-17.8	-6.6
coal coking contracts (US$/t)	205	364	231	196	62.5	77.7	-36.7	-15.0
crude oil (US$/bbl) Brent ICE	70	97	87	105	60.2	38.0	-9.7	19.9
gold (US$/oz)	1,801	1,794	1,683	1,736	1.2	-0.4	-6.1	3.1
Base metals index#	**213**	**226**	**195**	**219**	**41.1**	**6.0**	**-13.5**	**11.9**
copper (US$/t)	9,297	8,712	7,842	8,937	50.2	-6.3	-10.0	14.0
aluminium (US$/t)	2,477	2,677	2,231	2,703	44.0	8.1	-16.7	21.1
nickel (US$/t)	18,452	25,427	21,717	23,076	33.4	37.8	-14.6	6.3
zinc (US$/t)	3,006	3,481	2,938	3,139	32.1	15.8	-15.6	6.8
lead (US$/t)	2,190	2,084	1,800	1,865	19.6	-4.8	-13.6	3.6
Rural commodities index#	**150**	**172**	**164**	**178**	**28.0**	**14.2**	**-4.2**	**8.2**
NZ commodities index ##	**359**	**380**	**355**	**364**	**21.2**	**5.8**	**-6.6**	**2.6**
dairy price index ##	322	356	327	329	25.2	10.6	-8.2	0.6
whole milk powder US$/t	3,843	3,944	3,595	3,652	29.2	2.6	-8.9	1.6
skim milk powder US$/t	3,332	3,913	3,528	3,589	22.6	17.4	-9.8	1.7
lamb leg UKp/lb	599	617	585	583	18.4	3.0	-5.2	-0.4
bull beef US¢/lb	279	263	248	279	19.0	-5.9	-5.5	12.6
log price index ##	179	172	159	164	14.8	-4.2	-7.1	3.1
strong wool US¢/kg	173	171	171	171	20.4	-1.2	-0.2	0.0

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

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United States

Interest rate forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Fed Funds*	3.125	4.375	4.625	4.625	4.625	4.625	4.375	3.875
10 Year Bond	3.82	3.60	3.40	3.30	3.10	2.90	2.70	2.60

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

Currency forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
USD vs								
DXY index	112.26	110.7	110.4	107.8	105.6	102.8	100.8	99.7
JPY	145.03	143	141	139	137	134	132	130
EUR	0.9794	0.99	0.99	1.02	1.04	1.07	1.09	1.10
AUD	0.6414	0.65	0.66	0.67	0.69	0.72	0.73	0.74
NZD	0.5663	0.58	0.59	0.60	0.62	0.65	0.66	0.66
CAD	1.3744	1.34	1.33	1.31	1.29	1.28	1.27	1.27
GBP	1.1168	1.14	1.14	1.14	1.17	1.20	1.22	1.24
CHF	0.9902	0.97	0.96	0.95	0.94	0.94	0.93	0.93
ZAR	17.97	17.8	17.7	17.6	17.3	17.0	16.8	16.7
SGD	1.4286	1.41	1.40	1.37	1.35	1.33	1.32	1.32
HKD	7.8499	7.85	7.80	7.80	7.75	7.75	7.75	7.75
PHP	58.67	58.0	57.0	56.0	54.0	52.0	51.9	52.0
THB	37.40	37.0	36.3	35.3	34.2	33.0	32.9	33.0
MYR	4.6361	4.50	4.40	4.30	4.20	4.15	4.14	4.15
CNY	7.1139	7.00	6.80	6.60	6.40	6.30	6.20	6.15
IDR	15187	14900	14800	14600	14400	14100	14043	14088
TWD	31.51	31.2	30.8	30.4	29.9	29.6	29.5	29.5
KRW	1403	1400	1380	1350	1320	1290	1275	1280
INR	81.89	80.0	79.0	78.0	75.5	74.5	73.5	73.0

Activity forecasts*

	2021	2022				2023		Calendar years			
% annualised, s/adj	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	2020	2021	2022f	2023f
Private consumption	2.5	1.8	1.5	0.3	0.3	-0.8	-0.4	-3.8	7.9	2.2	0.0
Dwelling investment	2.1	0.5	-16.2	-7.8	2.4	2.0	2.0	6.8	9.2	-5.3	-0.4
Business investment	2.9	10.0	0.0	4.9	5.4	4.5	4.5	-5.2	8.0	5.1	4.5
Public demand	-2.6	-2.9	-1.8	0.0	0.0	0.4	0.4	2.5	0.5	-1.6	0.1
Domestic final demand	1.7	2.1	0.1	0.7	1.1	0.2	0.5	-2.6	6.7	1.7	0.6
Inventories contribution ppt	5.3	-0.1	-2.1	0.7	0.0	-0.4	0.0	-0.6	0.1	0.8	-0.1
Net exports contribution ppt	-0.7	-3.9	1.4	-0.5	-0.2	-0.1	-0.2	-0.2	-1.9	-1.1	-0.1
GDP	6.9	-1.6	-0.6	1.0	0.9	-0.3	0.4	-3.4	5.7	1.6	0.4
%yr annual chg	5.5	3.5	1.7	1.4	-0.1	0.2	0.5	–	–	–	–

Other macroeconomic variables

Non-farm payrolls mth avg	586	573	409	360	200	75	50	-759	514	386	56
Unemployment rate %	4.2	3.8	3.6	3.6	3.8	4.2	4.6	8.1	5.4	3.7	4.7
CPI headline %yr	7.1	8.6	7.9	7.5	5.7	3.5	2.4	1.2	5.1	7.1	2.5
PCE deflator, core %yr	4.9	5.2	4.6	4.5	3.6	3.1	2.6	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

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Europe & the United Kingdom

Interest rate forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Euro area								
ECB Refi rate	1.25	2.50	2.75	2.75	2.75	2.75	2.75	2.50
10 Year Bund	2.09	1.95	1.90	1.90	1.80	1.70	1.60	1.60
10 Year Spread to US	–174	–165	–150	–140	–130	–120	–110	–100
United Kingdom								
BoE Bank Rate	2.25	3.50	4.50	5.00	5.00	5.00	4.50	4.00
10 Year Gilt	4.17	3.90	3.95	4.00	3.75	3.50	3.10	2.80
10 Year Spread to US	35	30	55	70	65	60	40	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
euro vs								
USD	0.9794	0.99	0.99	1.02	1.04	1.07	1.09	1.10
JPY	142.05	142	140	142	142	143	144	143
GBP	0.8770	0.87	0.87	0.89	0.89	0.89	0.89	0.89
CHF	0.9699	0.96	0.95	0.97	0.97	1.01	1.01	1.02
DKK	7.4392	7.44	7.44	7.44	7.44	7.44	7.44	7.44
SEK	10.9200	10.9	10.9	10.9	10.9	10.9	10.9	10.9
NOK	10.4958	10.5	10.5	10.5	10.5	10.5	10.5	10.5
sterling vs								
USD	1.1168	1.14	1.14	1.14	1.17	1.20	1.22	1.24
JPY	161.97	163	161	158	160	161	161	161
CHF	1.1059	1.11	1.09	1.08	1.09	1.13	1.13	1.15
AUD	0.5743	0.57	0.58	0.59	0.59	0.60	0.60	0.60

Source: Bloomberg, Westpac Economics.

Activity forecasts*

Annual average % chg	2018	2019	2020	2021	2022f	2023f
Eurozone GDP	1.8	1.6	–6.1	5.2	2.9	0.5
private consumption	1.5	1.3	–8.0	3.5	3.0	0.8
fixed investment	3.2	5.7	–8.4	3.6	2.8	2.0
government consumption	1.2	1.8	1.4	3.8	1.0	1.2
net exports contribution ppt	0.4	–0.5	–0.7	1.0	0.3	0.2
Germany GDP	1.0	1.1	–3.7	2.6	1.5	0.5
France GDP	1.9	1.8	–7.8	6.8	2.3	0.7
Italy GDP	0.9	0.5	–9.0	6.6	3.1	0.5
Spain GDP	2.3	2.1	–10.8	5.1	4.5	2.0
Netherlands GDP	2.4	2.0	–3.9	4.9	3.8	1.0
memo: United Kingdom GDP	1.7	1.7	–9.3	7.4	3.4	–0.5

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Asia

China

Calendar years	2017	2018	2019	2020	2021	2022f	2023f
Real GDP	6.9	6.7	6.0	2.2	8.1	3.0	7.0
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	4.5	5.5
Retail sales	10.2	9.0	8.0	–3.9	12.5	3.5	8.5
Money supply M2	8.2	8.1	8.7	10.1	9.0	11.5	9.0
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	8.0	4.0
Imports	8.7	–7.6	11.8	2.4	30.7	5.0	4.5
Trade balance USDbn	420	351	421	535	670	804	822

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-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	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65

* For major banks.

Currency forecasts

	Latest (7 Oct)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
JPY	145.03	143	141	139	137	134	132	130
SGD	1.4286	1.41	1.40	1.37	1.35	1.33	1.32	1.32
HKD	7.8499	7.85	7.80	7.80	7.75	7.75	7.75	7.75
PHP	58.67	58.0	57.0	56.0	54.0	52.0	51.9	52.0
THB	37.40	37.0	36.3	35.3	34.2	33.0	32.9	33.0
MYR	4.6361	4.50	4.40	4.30	4.20	4.15	4.14	4.15
CNY	7.1139	7.00	6.80	6.60	6.40	6.30	6.20	6.15
IDR	15187	14900	14800	14600	14400	14100	14043	14088
TWD	31.51	31.2	30.8	30.4	29.9	29.6	29.5	29.5
KRW	1403	1400	1380	1350	1320	1290	1275	1280
INR	81.89	80.0	79.0	78.0	75.5	74.5	73.5	73.0

Source: Bloomberg, Westpac Economics.

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SUMMARY OF THE WORLD

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**	**3.0**	**3.3**
United States	2.3	2.9	2.3	-3.4	5.7	1.6	0.4
Japan	1.7	0.6	-0.2	-4-.5	1.6	1.7	1.7
Euro zone	2.6	1.8	1.6	-6.4	5.3	2.9	0.5
Group of 3	**2.3**	**2.2**	**1.7**	**-4.7**	**5.1**	**2.1**	**0.6**
United Kingdom	2.1	1.7	1.7	-9.3	7.4	3.4	-0.5
Canada	3.0	2.8	1.9	-5.2	4.6	3.5	1.8
Australia	2.4	2.8	2.0	-2.1	4.9	4.2	1.9
New Zealand	3.1	3.2	2.4	-2.1	5.6	2.2	2.2
OECD total	**2.4**	**2.3**	**-0.7**	**-0.6**	**4.4**	**1.9**	**0.7**
China	6.9	6.8	6.0	2.2	8.1	3.0	7.0
Korea	3.2	2.9	2.2	-0.9	4.0	2.6	2.5
Taiwan	3.3	2.8	3.1	3.4	6.3	3.5	3.0
Hong Kong	3.8	2.8	-1.7	-6.5	6.4	0.0	3.0
Singapore	4.7	3.7	1.1	-4.1	7.6	3.5	3.3
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	4.1
Malaysia	5.8	4.8	4.4	-5.6	3.1	6.4	5.0
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	7.2	7.0
East Asia	**6.1**	**5.9**	**5.2**	**0.7**	**6.8**	**3.5**	**6.2**
East Asia ex China	4.7	4.5	3.8	-2.3	4.1	4.5	4.5
NIEs*	**3.5**	**3.0**	**1.9**	**-0.6**	**5.3**	**2.7**	**2.8**
India	6.8	6.5	3.7	-6.6	8.9	7.0	7.0
Russia	1.8	2.8	2.2	-2.7	4.7	-10.0	-2.0
Brazil	1.3	1.8	1.2	-3.9	4.6	1.7	1.2
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**	**3.2**	**3.5**
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**	**3.0**	**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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