WESTPAC MARKET OUTLOOK FEBRUARY 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

CONTENTS

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EXECUTIVE SUMMARY

The new year has kicked off picking up where the old one left off. For markets, the key theme has again been around pinpointing the end of the central bank tightening cycle and how quickly easing inflation will allow for cuts. While official interest rates do look to be nearing a peak, the data-flow has provided mixed guidance over the last two months. Most inflation measures are continuing to come off their 2022 highs but pressures are persisting in services components, and wages momentum is varying across developed markets. Meanwhile, a 'storming' nonfarm payrolls result in the US has cast doubt on the pace and timing of the economic slowdown.

Central bank commentary has also remained fairly hawkish, with a notable shift from the RBA indicating that it is still a number of hikes away from pausing. That said, central banks were always going to be vigilant with their rhetoric given the very high starting point for inflation and the risks of a sustained lift in inflation expectations – better to 'declare victory' on inflation once its back under control rather than run the risk of signalling a policy shift prematurely. We continue to expect just one more 25bp hike from the FOMC and BoE, 50bps from the RBA and 100bps from the RBNZ and ECB. Easing cycles are expected to commence in late 2023 for the BoE but not until early 2024 for the rest.

While markets are focussed on the next policy turn, real economies are yet to reflect the full brunt of the tightening. The bulk of this is set to hit home over the course of 2023. As such, this is set to a very challenging and unsettled year even if inflation comes under control quickly. In terms of growth, China and the rest of Asia are the global economy's main hope, with activity spurred on by both re-opening and productivity-focused investment.

Australia: The economy faces a difficult outlook as surging inflation and aggressive interest rate rises bear down more heavily in 2023. Our central view remains that growth is set for an abrupt slowdown with activity expected to essentially stall through the second half, lowering the annual pace of GDP gains to just 1%yr, before policy easing generates a modest recovery in 2024. The consumer sits at the centre of this. Household consumption is forecast to slow from an annualised pace of 4% in H2 2022 to around 2% in H1 2023 and near zero in H2 2023. In expenditure terms, the drag takes 2.5ppts directly off GDP growth between 2022 and 2023. Needless to say, the path of inflation – around services and wages in particular – presents a key risk to this outlook.

Commodities: The re–opening of China with the ending of zero–COVID policies has been a positive for iron ore and met coal prices while thermal coal prices have been crushed by a warm winter that reduced demand even as supply from Australia remained disrupted. Globally, gas prices have eased as European and US demand proved to be weaker than expected, leading to an unexpected inventory overhang in the EU. Russia responded to price caps and softer crude prices by cutting back production.

Global FX markets: The US dollar depreciated around year-end as participants began to price out inflation and activity risks. January's extraordinary payroll gain subsequently saw a partial reversal of DXY's decline, although it remains 9% off its peak. While inflation risks are likely to persist to mid-year, thereafter the US dollar down-trend will gather momentum and sustain through to end–2024.

New Zealand: We now expect a 50bp rise at the RBNZ's February policy meeting (we had previously expected a 75bp rise). Inflation pressures remain strong. However, the acceleration in inflation that the RBNZ had forecast has not eventuated. At the same time, a slowdown in demand is taking shape. Against this backdrop, the extent of policy tightening required to get inflation back inside the target band now looks like it will be more moderate than the central bank had previously anticipated.

United States: February's FOMC meeting confirmed for many market participants that the peak in the fed funds rate is near. Straight after however, nonfarm payrolls stormed higher. Looked at this holistically, we believe the labour market data is still pointing to a down-trend in job creation and, more importantly, a marked deceleration in wage growth. The recent tightening in financial conditions following the payrolls release will also help to broaden the US disinflation trend, with near–target inflation likely by year end.

China: COVID–zero's sudden end in December came as a huge shock to the economy and global markets. The immediate panic quickly subsided however, and anecdotes regarding consumer demand around lunar new year have been very positive. Beyond the immediate recovery, China's economy is expected to continue to show robust and broad–based strength.

Europe: The risks that were developing ahead of the northern hemisphere winter look to have been largely absent so far in early 2023. Challenges around the inflation outlook remain intense, particularly on the stickiness of core inflation and momentum within services categories. A further 100bps of tightening from the ECB will put significant pressure on prices and the economy, warranting a rapid easing cycle in 2024–25.

Summary of world GDP growth (year average)

Real GDP %ann*	2018	2019	2020	2021	2022f	2023f	2024f
United States	2.9	2.3	–3.4	5.7	2.1	0.9	1.0
China	6.8	6.0	2.2	8.4	3.0	6.2	5.5
Japan	0.6	–0.4	–4.6	1.7	1.6	1.5	1.0
India	6.5	3.7	–6.6	8.7	7.0	5.8	6.5
Other East Asia	4.5	3.8	–2.3	4.2	4.6	4.2	4.3
Europe	1.8	1.6	–6.1	5.2	3.5	0.6	1.4
Australia	2.8	1.9	–1.8	5.2	3.6	1.8	1.2
New Zealand	3.6	3.1	–1.4	6.1	2.9	2.2	0.0
World	**3.6**	**2.8**	**–3.0**	**6.0**	**3.3**	**3.0**	**3.1**

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'.

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RBA's 'narrow path to a soft landing' …

RBA resumes tightening with a 25bp hike in February …

The Reserve Bank Board decided to increase the cash rate from 3.10% to 3.35% at its February meeting, picking up where it left off in 2022. While the decision was in line with market expectations and the Westpac view, the Governor's decision statement and the Bank's full Statement on Monetary Policy (SoMP) released a few days later showed a clear hawkish shift. Domestic-demand-driven inflationary pressures are becoming more of a concern, particularly those emanating from a very tight labour market.

… and a clear hawkish shift …

Going into the RBA's February meeting, the major area of uncertainty was around the wording in the decision statement, especially the closing section's 'forward guidance'. Westpac expected this to be in line with December's "The Board expects to increase interest rates further over the period ahead, but is not on a pre-set course". But there was speculation the language might be 'diluted', perhaps shifting to something along the lines of: "The Board is prepared to increase interest rates further …". Such a shift would have been viewed as a nudge towards a possible pause in March.

… that makes a near term pause unlikely.

In the event the wording was more hawkish than even Westpac's view. The operative line in the February decision statement was: "The Board expects that further increases in interest rates will be needed over the months ahead …" with the "not on a pre-set course" qualification dropped altogether. While not definitive, the message seems clear: that the Board expects to make more than one more rate rise from here and does not anticipate pausing in March.

This hawkish shift was evident in other parts of the statement, and in both the forecasts and commentary in the Bank's February Statement on Monetary Policy.

The Bank's forecasts are much the same …

The RBA's main forecasts are largely unchanged from November: CPI inflation expected to track back to 4¾% by the end of 2023 and to around 3% by mid-2025; GDP growth to slow abruptly to 1½% in both 2023 and 2024; and the unemployment rate to increase to 3¾% by end 2023 and 4½% by mid-2025.

… but the complexion of the inflation challenge has changed …

However, the more detailed picture around underlying inflation and wages seems to account for the more hawkish tone. Both are now expected to track above 4%yr in 2023, wages growth expected to remain around 4% in 2024. While that was in line with our priors given recent updates, it's a troubling prospect for a central bank seeking to return inflation to a 2–3% target band.

… domestic drivers coming to the fore …

It also looks to be more than just a 'starting point' issue. Q4's upside surprise on 'trimmed mean' inflation (6.9%yr vs the RBA's forecast 6.5%yr) has played a part in the Bank lifting its 2023 track for underlying inflation (now holding at 6.2%yr in H1 and only easing back to 4.3%yr by December vs previously forecast to track back to 3.8%yr) but the RBA also cited "second-round effects from higher energy prices" and a pick-up in domestic labour cost growth as factors lifting its view.

Aside from forecast changes, the SoMP also provides important colour around the Bank's views and the messages coming via its liaison programme, both of which are tending to underscore the more hawkish tone present in the Governor's decision statement earlier in the week. Notable 'snippets' include: the unchanged growth outlook reflects softer momentum over the second half of 2022 offset by a stronger outlook for population growth; the Bank continues to sound relatively comfortable on the capacity of the mortgage belt to absorb interest rate rises; and the key message from liaison is that despite actual and expected easing in price inflation for some goods-related firms, labour pressures have seen a lift in wages growth that is expected to run at 4% in coming quarters.

… raising the risk that high inflation becomes entrenched in expectations.

The real concern is around high inflation becoming entrenched in expectations. The Overview section of the SoMP largely reiterates the main messages from the Governor's decision statement but gives more prominence to inflation expectations and their link with inflation psychology. Specifically, it observes that: "Longer term inflation expectations and wages growth in Australia have so far remained consistent with the inflation target. It is important this remains the case. That said, domestically sourced inflation and wages growth are both picking up. Given the importance of avoiding a price-wage spiral, the Board will continue to play close attention to both the price-setting behaviour of firms and the evolution of labour costs in the period ahead."

We are more hopeful on the near term inflation outlook …

Our broader view on the inflation outlook is considerably more 'constructive' than the Bank's. Westpac expects both headline and underlying measure of inflation to track back to a sub-4% annual pace by year-end with a larger disinflationary pulse from supply-side factors showing through. We have already observed some encouraging supply-side developments in the US, particularly as they affect fuel, food, energy, goods, and building costs.

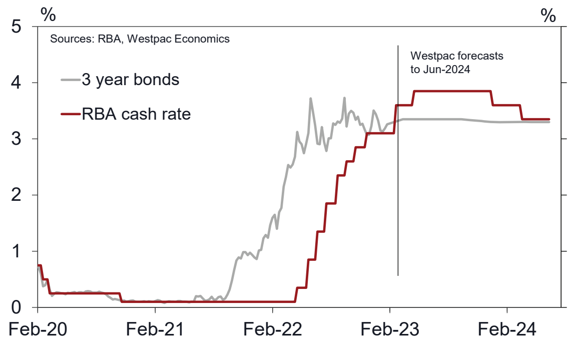
… but the path to a 'soft landing' is looking narrower

The RBA has already described what it sees as a "narrow path to achieving a soft landing" in the economy. The February SoMP suggests this path is becoming even narrower with domestic inflation pressures coming to the fore and looking both stronger and more persistent, especially with respect to the labour market. Westpac remains comfortable with the view we expressed in October that the cash rate is likely to peak at 3.85%, entailing a further 0.25% increase in March and a final 0.25% increase at the May Board meeting. While we think this and a sharp disinflationary effect from easing supply-side pressures will be sufficient to bring inflation back under control, the tone of this latest RBA commentary suggests the Board may see itself with less scope to pause and potentially more work to do.

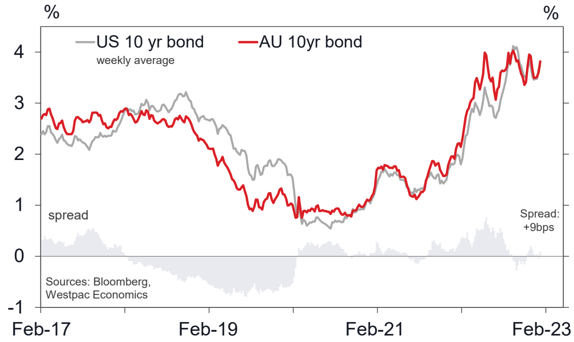
Matthew Hassan, Senior Economist

... getting narrower

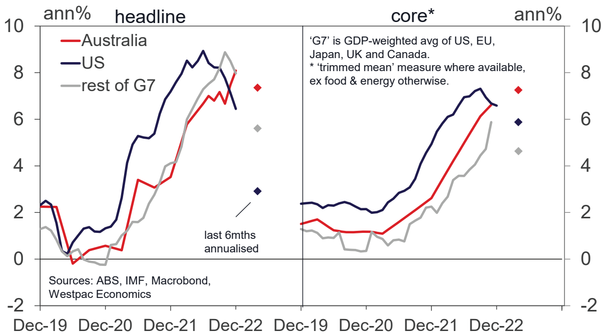
RBA cash rate and 3 year bonds



10 year bonds yields: choppy start to 2023

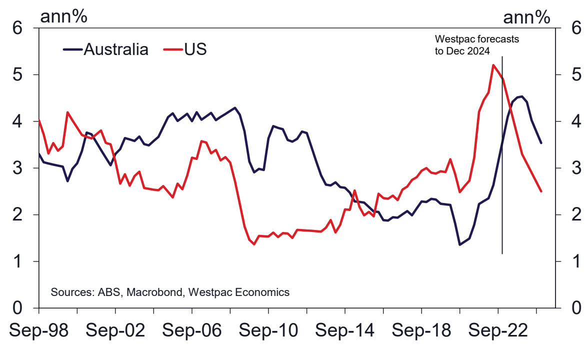


Global inflation showing signs of peaking

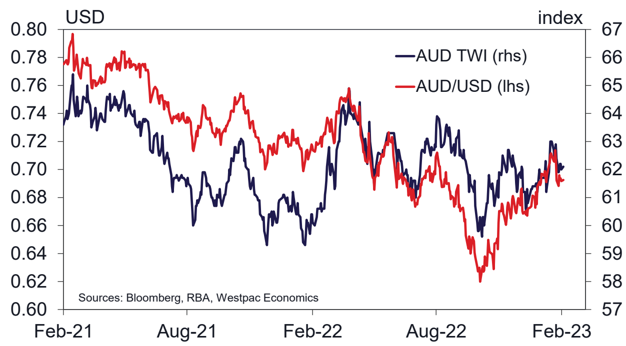


Global trade contracting

Wages growth: Australia vs US



AUD/USD & AUD TWI



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All eyes on the consumer …

A challenging year ahead …

The Australian economy faces a difficult outlook as surging inflation and aggressive interest rate rises bear down more heavily in 2023. While there are already signs activity is slowing, much of the impact is still in the forward view. The two months since our December report suggest wider consumer spending retained reasonable momentum into year-end, albeit with a softening in some retail segments. Meanwhile, the Q4 inflation report has underscored the extent of the inflation problem, an unsettling lift in underlying measures and service-sector components showing domestically-driven price pressures are becoming more problematic. This month we take a look at the latest CPI and consumer updates in more detail.

… as cost and interest rate pressures bear down on the consumer.

Our central view remains that growth is set for an abrupt slowdown with activity expected to essentially stall through the second half, lowering the annual pace of GDP gains to just 1%yr, policy easing in turn generating a modest recovery in 2024. The consumer sits at the centre of this view. Household consumption is forecast to slow from an annualised pace of 4% in H2 2022 to around 2% in H1 2023 and near zero in H2 2023. In expenditure terms, the drag takes 2.5ppts directly off GDP growth between 2022 and 2023.

Key supports are starting to wane …

The weakening reflects the progressive impact of higher interest rates, especially on the mortgage belt, and the waning of four main supports: 1) tailwinds from post-COVID reopening; 2) the 'funding' of spending out of reduced new savings and large carry-over savings 'buffers' from the pandemic; 3) fixed rate mortgages protecting many borrowers from higher interest rates; and 4) strong labour market conditions.

The evidence suggests there has only been a moderate slowing in spending to date.

… with a notable weakening in retail …

The weakest signals are coming from retail sales, official figures showing a 0.2% dip in Q4 after a sluggish 0.3% gain in Q3. The Q4 fall centred on non-food retail (clothing, department stores and household goods), which recorded a 2.1% decline on a combined basis. However, there may be some technical issues here, with volatility during COVID and the rise in popularity of 'Black Friday' sales making seasonal adjustment difficult. Certainly anecdotal reports and other measures suggest a better performance through year-end.

… but the much larger non-retail components …

Note that the retail measure also skews heavily towards particular parts of spending: food, clothing and household goods, and only covers about a third of total consumption, even excluding many segments that might ordinarily be thought of as 'retail'. Areas not covered include: pubs and bars, hotels and accommodation, motor vehicles, fuel, the bulk of market services including recreational services like cinemas, theme parks, telecommunications, and travel and other services such as health and education.

… still look to be maintaining momentum overall

Broader measures of consumer spending have been more buoyant, most notably our Westpac Card Tracker. The detail here suggests a weakening in the non-food retail segments highlighted in the ABS survey has been largely offset by a strong surge in non-retail spend particularly around tourism and travel. The tracker suggests total spending continued to grow at a 2.5%qtr pace in Q4 in nominal terms, moderating only slightly in the first five weeks of 2023.

'Red-hot' CPI in Q4 …

In December, CPI inflation lifted to 7.8%yr from 7.3%yr, the fastest pace since March 1990. The 'trimmed mean' measure of core inflation lifted to 6.9%yr from 6.1%yr, the fastest pace since December 1988 and above the RBA's forecast of 6.5%yr. The most significant contributions came from domestic holiday travel & accommodation (+13.3%), electricity (+8.6%), and international holiday travel & accommodation (+7.6%). However, it was a widespread inflationary pulse in the quarter with 90% of expenditure classes recording inflation running above 3.0%yr, up from just 31% a year earlier and the highest share since September 1988.

… the quarterly rise in services outpacing goods …

As highlighted above, the inflationary pressure is shifting from goods to services. Goods prices lifted 9.5% in the year to December, the annual pace basically holding flat on September and almost twice the pace of services inflation at 5.5%yr. However, the quarterly pace of goods inflation is moderating with goods prices up 1.6%qtr in December compared to an average of 2.5%qtr for the previous three quarters. This was also less than the 2.1%qtr rise in services prices which was the largest quarterly rise since the 4.5%qtr associated with the GST introduction in September 2000.

… and presenting upside risks given rising wage pressures.

Stronger services price inflation will hold up the overall rate of inflation in the face of softer goods prices, and present an upside risk to our end 2023 forecast of 3.9%yr. Rents and electricity are already facing into major cost rises but it is the broader 'market services' segment (which covers just over 20% of the CPI) and its closer link with domestic wages growth that is of most concern.

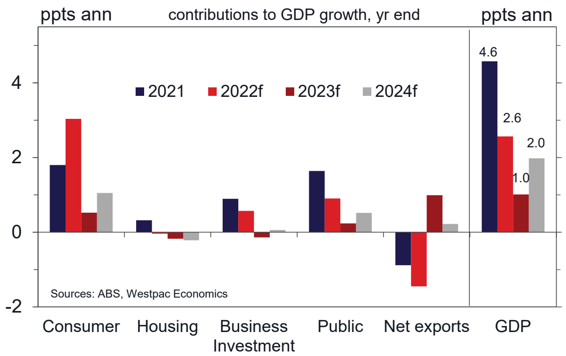
Critical updates due in coming weeks.

Data releases over the next month will provide important updates on both the consumer and services inflation picture. The Q4 wage price index, due February 22, and the Q4 national accounts, due March 1, both loom particularly large. The central scenario is still one of stagnation in 2023 rather than recession but it is very challenging nonetheless with heightened risks around the path of inflation.

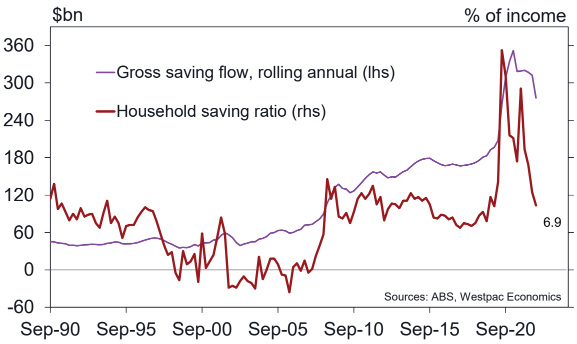
Matthew Hassan, Senior Economist and **Justin Smirk,** Senior Economist

... and domestic-demand-driven services inflation

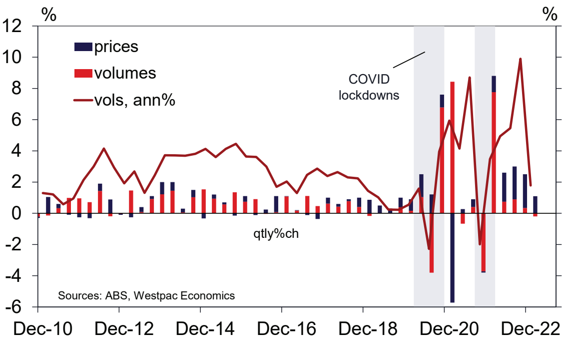
Australia: the growth mix



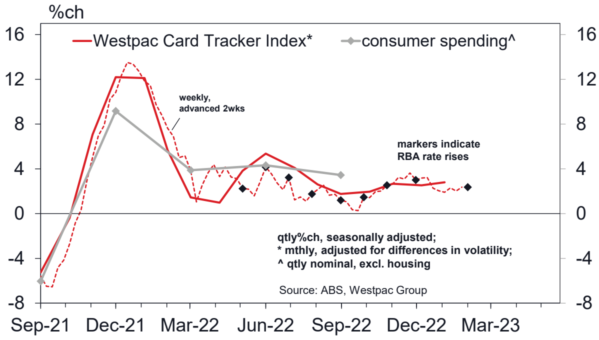
Household saving ratio and gross saving flow



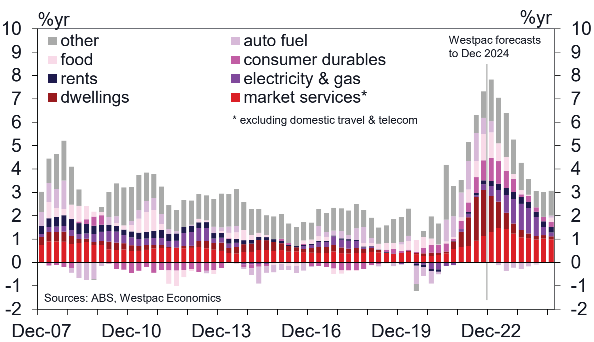
Quarterly retail volumes and prices



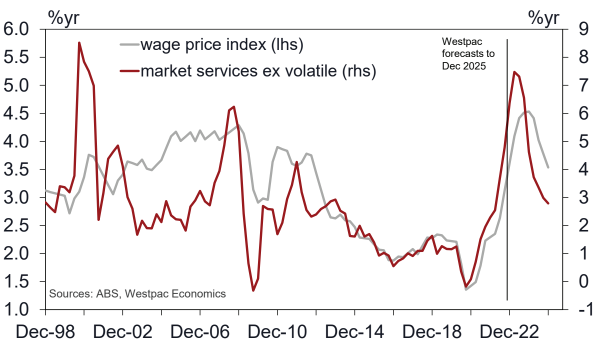
Westpac Card Tracker Index



Contributions to annual inflation



Wages and market services inflation



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The re-opening of China is a positive …

China's re-opening positive for iron ore and met coal …

Since our last report in mid December commodities have been on a volatile ride. Since December 14, iron ore has rallied 13% to US$125/t which is less than half of what happened to met coal, which surged almost 50% to US$344/t while thermal coal, which had been in a very unusual position of trading at a premium to met coal, collapsed 43% to US$240/t. Meanwhile, with Russia announcing a cut in production, crude oil had a last minute rally to US$85/bbl, an 8% lift since our last report. Gas prices have been easing around the world with a mild winter reducing demand in the northern hemisphere and LNG landed in Japan easing 4% to US$18.80/mmbtu while gold has lifted 4% to US$1,879/oz. As a group, base metals have been flat but individual metals more mixed; copper rallying 5% to US$8,875/t, aluminium flat and the rest moderating (nickel -4% to US$27,852/oz, zinc -6% to US$3,085/t and lead -5% to US$2,089/t).

… while thermal coal prices were crushed due to a warm winter reducing demand …

Commodities received some support from a depreciating US dollar but more recently, stronger than expected economic activity, while positive for near term demand, has increased fears of tighter than expected financial conditions resulting in slower growth that would accelerate an unfolding disinflationary trend. The sudden shock ending of China's COVID-zero policies left commodities in limbo until positive anecdotes regarding consumer demand around Lunar New Year started to put out a more positive tone. Chinese pig iron and crude steel production slowed as we neared year-end but sentiment improved as we cleared Lunar New Year.

… even as supply from Australia remains disrupted.

We have a gradual easing in the iron ore profile through 2023 to US$100/t by year-end, up from the US$90/t in December. Chinese demand is expected to be broadly flat with the weakness in China's property market offset by a pick-up in infrastructure. Meanwhile, there is still an expectation that supply is set to lift from Australia and India, with steel scrap also becoming increasingly easy to source. Chinese data for December supports our long-held view that China's economy is well-positioned to not only rebound from COVID-zero, but also to grow strongly into the medium-term. We expect it to average growth of 5% or more through 2022 to 2024 and likely beyond. Therefore, the key risk to our cautious view is a stronger than expected recovery in China and in the Chinese property market in particular. There was some improvement in new home sales and the secondary market before the Lunar New Year but, for now, it remains consistent with our cautious view. We also note that Chinese re-bar spreads to iron ore are still depressed while ore inventories at Chinese ports have started to lift. In addition demand for ore from the rest of the world remains weak while iron ore shipments from Australia have been solid so far this year (albeit with some softening in shipments from South Africa and Brazil).

Globally gas prices eased as European & US demand was not as strong as expected …

Falling European gas prices put significant pressure on thermal coal prices even though coal supply remains disrupted. Newcastle 6000kcal prices fell significantly with spot down to around US$250/t compared to around $400/t in December. The rapid correction in thermal coal prices was driven by a milder than expected northern hemisphere winter resulting in lower natural gas prices and soft demand in the Atlantic coal market. Despite earlier fears, European gas inventories remain high at around 70% of capacity. Globally, coal shipments are up 12% year to date so far this year but high-CV coal producing regions are still struggling; Australia down 10%, Colombia -30% and South Africa -11%. The additional supply is coming from Indonesia (+59% year to date) and North America (+33% year to date). This should see the premium for Newcastle coal to other grades/suppliers continue to narrow towards the end of the northern hemisphere winter. However, we still expect thermal coal prices to remain elevated compared to history over the next two years due to ongoing supply constraints; thermal coal holding at US$200/t at end-2023 and US$175 at end-2024.

… leading to an unexpected inventory overhang in the EU.

Contrast the collapse of thermal coal with the rally in met coal. Prices are up almost 50% from mid December amid improving sentiment from China, although the increase in PCI and semi soft coals were a bit less at around +40% as falling thermal coal would have been a bit of a drag on the lower grades of met coal. Wet and stormy conditions continue to feature along the Australian east coast, particularly in Queensland, presenting an ongoing near-term supply risk. We are forecasting met coal prices to hold around US$300/t through 2023 ending the year at US$280/t due to support from rising demand from China. Australia's first coal shipment after more than two years of an unofficial ban reached China's southern Guangdong Province in early February. While supply remains disrupted, the return of the Chinese market is a clear upside risk for met coal.

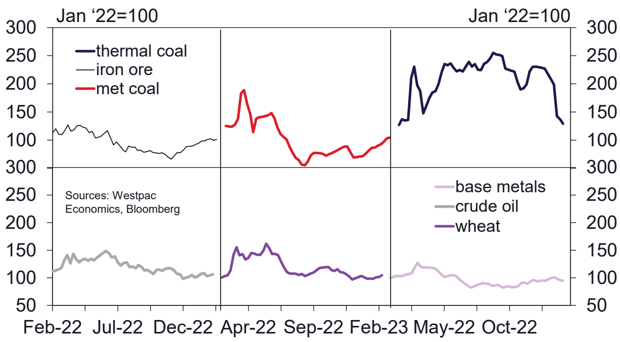
Russia responded to price caps and softer crude prices but cutting back production.

In the US, gas prices remain stuck at under US$3/mmbtu, a clear signal for producers to dial back drilling new wells and for power producers to maximise natural gas burn at the expense of coal. Prices reflect a mild winter along with an explosion at the Freeport LNG Terminal that has seen a loss of export demand. Crude oil prices had been under pressure in December as demand risk emerged but just as demand appeared to firm a bit in early 2023, Russia announced that it would cut oil production by 500k bpd, around 5% of output, in March which was positioned as a response to the West's imposed price caps on Russian oil and oil products.

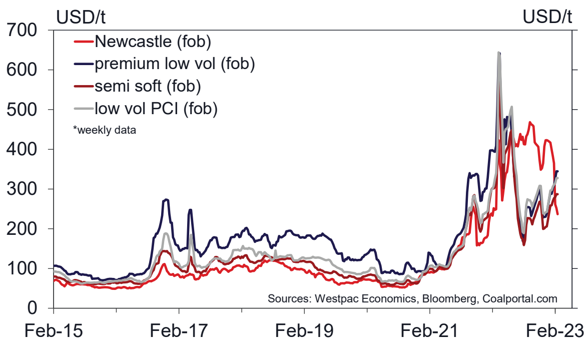
Justin Smirk, Senior Economist

… but only for iron ore and met coal

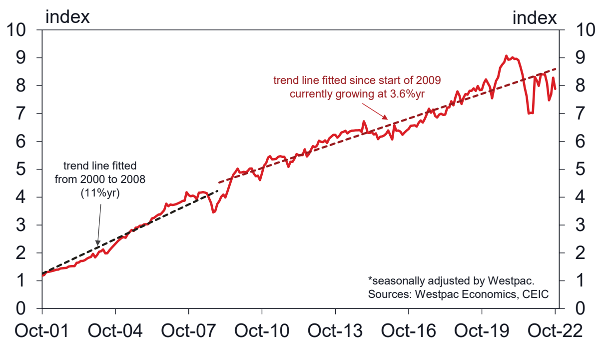
Commodities; thermal coal sheds premium



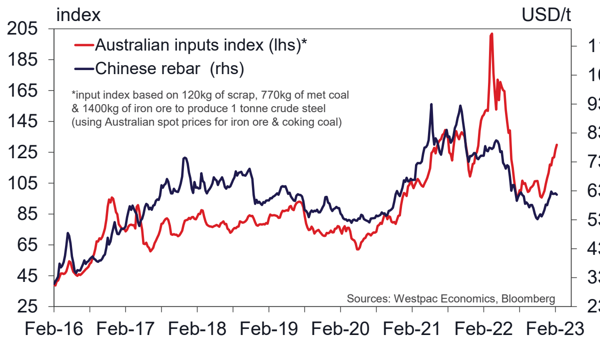
Thermal coal back below met coal



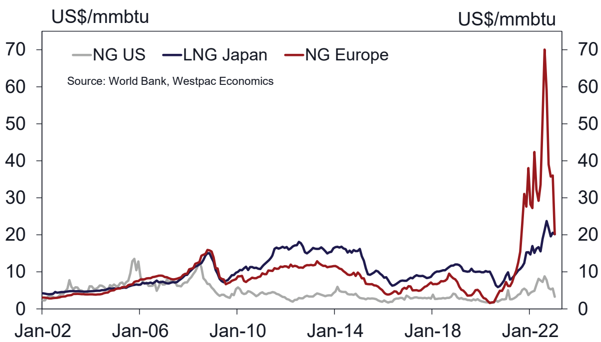
Chinese steel production below trend



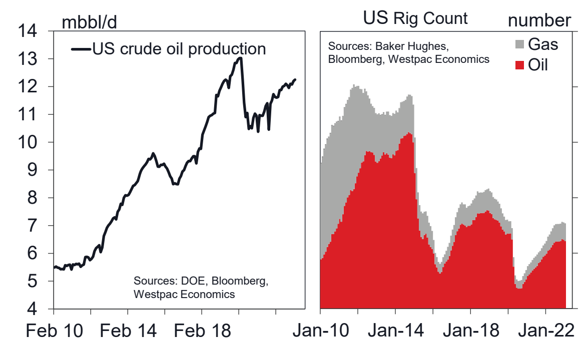
Chinese rebar & input costs



EU's gas price shock is less extreme in 2023



US crude oil production & rig count



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USD downtrend to gather momentum …

Risk appetite continued to strengthen over year-end.

FX market participants continued to add risk through the December/January period, the US dollar DXY index reaching a trough of 101.2 on 1 February, more than 11% below last September's peak level of 114.1. Following the extraordinary January nonfarm payrolls print, risk appetite has been pared back somewhat; although as we go to press, the DXY index is still 9% off its peak.

We remain of the view that the US dollar will move materially lower than its current level, although likely not for some months. The reason for this is that inflation risks linger in the US and other developed markets; and there remains a view amongst market participants that the country most able to navigate this period is the US, thanks to the strength of their labour market and the FOMC's willingness to do 'what it takes'.

From mid-year, we expect this trend to continue …

By the middle of 2023, not only will US disinflation broaden to services, but job creation will throttle back while wage growth continues to slow. The market's focus from that point on will be growth differentials, with the Euro Area and Canada to outperform the US, and the UK to outperform current expectations of market participants.

… with Euro to lead the way.

From USD1.07, Euro is expected to grind higher through 2023 and 2024, to USD1.10 and USD1.15 (+7% from spot) at the end of each year. Over the same time periods, USD/CAD is similarly projected to decline from CAD1.35 to CAD1.29 and CAD1.26 (-5%). Sterling meanwhile will edge up from USD1.21 to USD1.24 then USD1.28 by December 2023 and 2024, according to our forecasts (+6% to end-2024).

Further gains for Yen are likely to take time.

Where there is less certainty over appreciation is around Japan's Yen. While USD/JPY has broken away from the JPY150 level as expectations of US inflation have moderated and US term interest rates peaked and retreated, there is still a gaping rate differential between Japan and the rest of the developed world with the high oil price also working against Japan and the Yen given the nation's import needs.

Still, it seems most appropriate to expect the Yen to, more or less, follow the US dollar trend over the forecast period given the turn in sentiment against the dollar; Japan's robust growth prospects; and its exposure to the Asian region, where momentum and opportunity is clearly building. USD/JPY is only forecast to ease from JPY131 currently to JPY129 end-2023. However, as rate cuts are delivered in the US and the rate differential narrows, the down-trend is expected to accelerate, with JPY124 the target for end-2024 (-6%).

If these moves occur, then DXY will fall to 100 by the end of 2023 and close to 96 at the close of 2024 (-7%). With this end-point still above the decade average and given current circumstances, risks are likely to remain to the downside for the US dollar throughout the next two years.

Asia is poised to outperform the US dollar trend.

The main USD downside risks are with respect to Asia, which we expect to deliver on its clear opportunities. Roughly a third of the growth we forecast for the world economy is expected to come from China. Another third will come from developing nations, many of which are part of the wider Asian sphere. Underlying this growth is a number of factors: the end of COVID-zero restrictions in China; the scale and depth of investment being undertaken across its economy and the wider region; global tourism's re-opening; and, looking to the long-term, Asia ex-China's population dynamics and needs.

CNY and INR have the greatest promise …

USD/CNY is expected to see a large sustained move, from near CNY6.80 currently to CNY6.50 end-2023 and CNY6.10 end-2024 (-11%). From a weaker starting point, India's Rupee is also poised to appreciated at a rapid pace. USD/INR75 and USD/INR72 are the forecast levels for end-2023 and 2024, from USD/INR82 at present (-13% to end-2024).

… but gains will be broad-based across the region.

Outcomes for the rest of the region are likely to vary given the divergence in starting positions and growth opportunities. But broadly, the likes of Thailand and Indonesia are expected to receive a material windfall and appreciation on the back of global tourism's re-opening, particularly with China's borders now open. Korea and Taiwan meanwhile are likely to have to wait until global growth strengthens before pre-pandemic levels can again be tested. Being at the heart of the region and benefiting from movement out of Hong Kong, Singapore's dollar has already rebounded. Further gains are likely to be modest, at least for the time being.

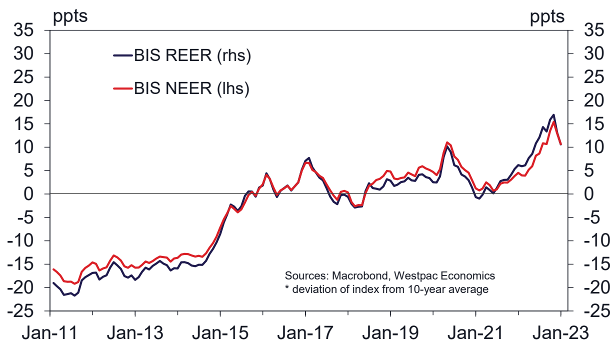
AUD is set to benefit from both growth and sentiment.

As a final note, it is worth highlighting that the strength of Asia will benefit the Australian dollar. This support is multi-faceted, with: elevated commodity prices and greater export tonnage to boost national income; a return of foreign students and tourists to broaden the export base; while sentiment firms as global risks recede. AUD/USD is seen at USD0.74 end-2023 and USD0.77 end-2024 (+11%).

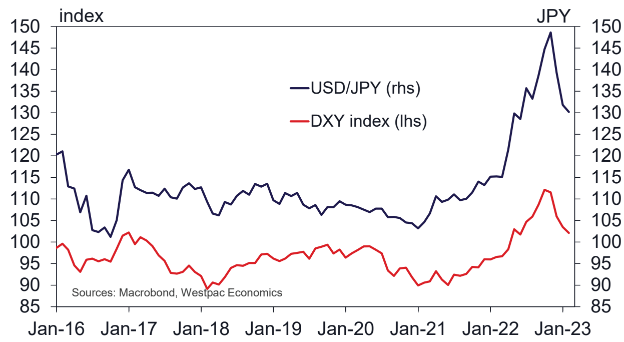
Elliot Clarke, Senior Economist

… from mid year

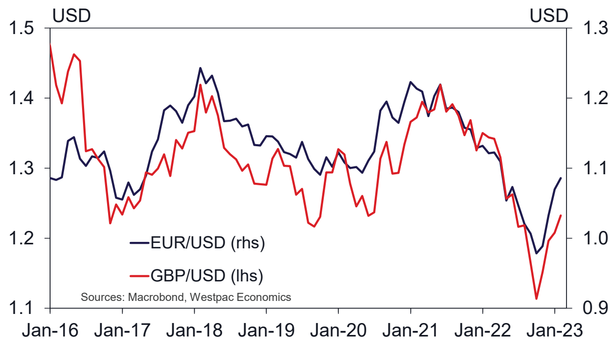
USD elevated versus history on broad basis



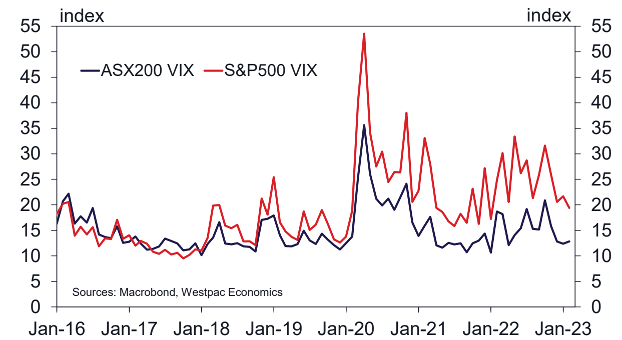
JPY continues to give DXY material support



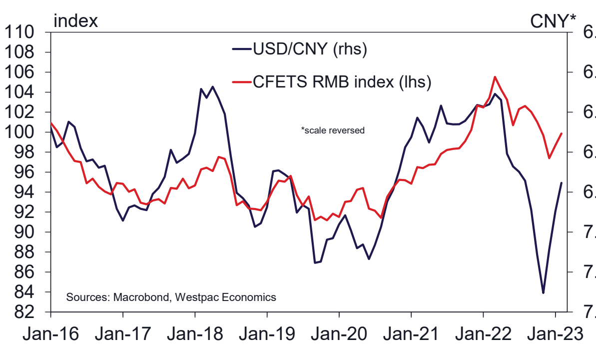
EUR & GBP negatives to fade in ’23



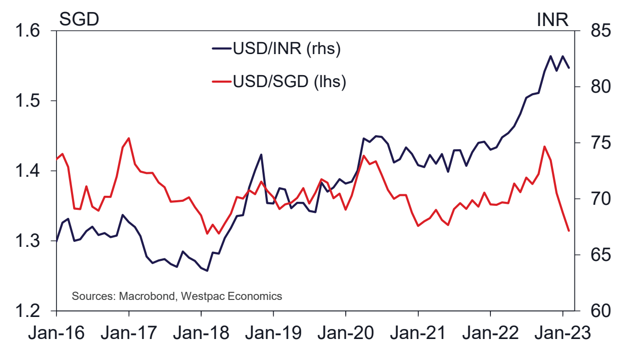
Distance from source of uncertainty a +‘ve



Renminbi ‘weakness’ USD-centric



Rest of Asia well positioned for growth



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Inflation pressures remain strong ...

We have revised down our forecast for the OCR.

We have revised down our forecast for the Official Cash Rate and now expect a 50bp rise at the Reserve Bank of New Zealand's February policy meeting (previously we expected a 75bp rise).

Inflation pressures remain strong ...

The acceleration in inflation that the RBNZ was expecting has not eventuated. In its last policy statement (released in November) the RBNZ forecast annual inflation to rise to 7.5% and hold around that level through the early part of 2023. Instead, annual inflation came in at 7.2% in the year to December, unchanged from the September quarter. And while inflation is set to remain strong for some time yet, it does not look like it's pushing higher from here.

... but have fallen short of the RBNZ's forecasts.

We are still looking at a hot inflation outlook, with annual inflation set to remain over 6% through the first half of this year. However, that would still be much lower than the RBNZ had been expecting in November when they delivered a jumbo-sized 75bp rise in the OCR and signalled further large increases would be coming in short order.

Slowdown in domestic demand now taking shape ...

In addition, recent weeks have seen increasing signs that steam is coming out of the economy, with businesses reporting a downturn in trading activity and forward orders. We have also seen job advertisements dropping back.

... household finances coming under increasing pressure.

Importantly, the coming year will see increasing pressure on households' finances. In part, that's due to the continued rapid increases in consumer prices that is squeezing households' purchasing power. In addition, around half of fixed rate mortgages will come up for re-pricing within the next 12 months. In many cases, borrowers will face re-fixing at interest rates that are 3ppts higher than those they are currently on. Those financial pressures, along with the related downturn in the housing market, will be a significant drag on demand – and inflation – over the coming year.

Further policy tightening still needed ...

Putting this all together, we are still left with a strong inflation outlook and the need for continued interest rate increases to get inflation back inside the 1-3% target band. However, the extent of further policy tightening required to do that does not look like it will be as large as the RBNZ had previously assumed. As a result, we have revised down our forecast for the peak in the Official Cash Rate.

... but slightly less than previously anticipated.

We are now forecasting a 50bp rise in the OCR at the RBNZ's February policy meeting (previously we forecast a 75bp increase). We continue to expect a 50bp rise in April with a pause after that. These increases will take the cash rate to a peak of 5.25% – lower than the 5.50% peak we previously projected. That is also below the 5.50% peak the RBNZ signalled in their last published forecasts.

While we are continuing to forecast a 50bp hike in April, this will depend on the strength of economic conditions over the next few months. If the downturn in demand is sharper than we expect, or if inflation pressures start to cool sooner than anticipated, the RBNZ could opt for a smaller 25bp hike.

Flooding in the upper North Island has caused significant damage ...

An additional concern for the RBNZ is the recent flooding in Auckland and parts of the upper North Island. It's still early days in terms of gauging the scale of the damage, and we will review our numbers as we go. Based on what has been reported so far, we estimate that the cost could be in the range of $500m, and potentially higher. This makes it New Zealand's most expensive weather-related event by quite some margin. Even so, it's well short of the cost of repairs that followed the 2010-11 Canterbury earthquakes, which came in at around $40bn. To put those numbers in perspective, nationwide building activity (including infrastructure) is currently running at over $50bn a year and New Zealand's annual nominal GDP is around $370bn.

... and with the construction sector already stretched ...

The coming quarters will see a large amount of repair work to housing and business assets, as well as work on roading and other infrastructure. However, that comes at a time when the building sector is already stretched, with a large amount of work in-train or planned, as well as widespread shortages of staff. As a result, we do not expect a significant lift in the level of construction activity due to repair work. Instead, we are likely to see some projects delayed or shelved while the repair work takes priority.

... there will be some related lift in inflation ...

Furthermore, with the construction sector already stretched, the additional flood-related activity is instead likely to be channelled into higher prices for building materials and services. We are also likely to see other flood related price increases for items such as fresh produce, insurance and rents.

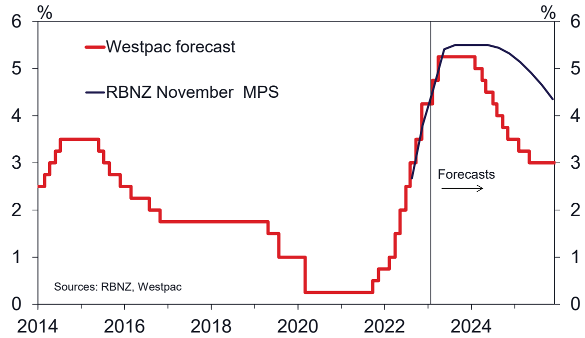
...but not sufficient to warrant additional action from the RBNZ.

While the repairs may take an extended period to complete and the inflationary impacts may linger for a time, they are not a source of sustained inflation that might warrant a response from the central bank. However, they will require some patience to look through as they feed into inflation data over the coming months.

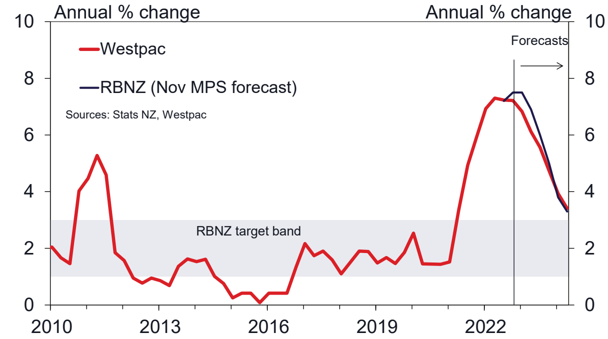
Satish Ranchhod, Senior Economist

… while a slowdown in demand is taking shape

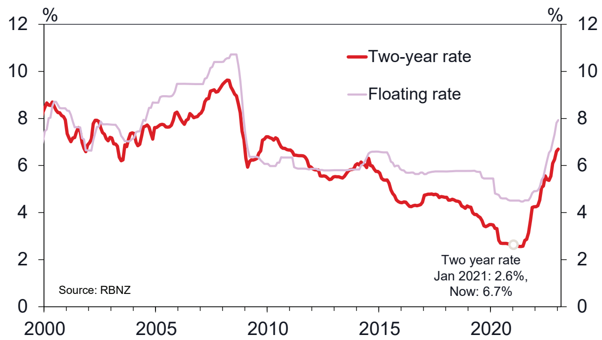
RBNZ Official Cash Rate



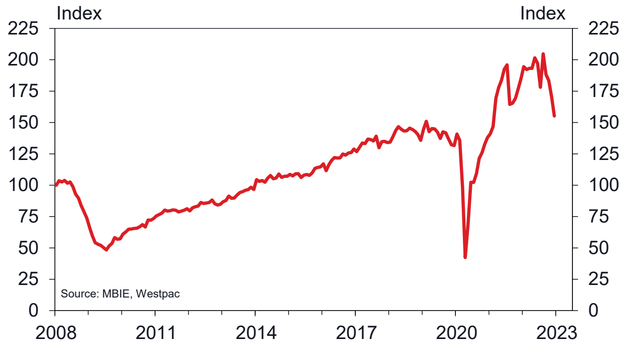
Consumer price inflation



Mortgage rates



Job advertisements



	2022											2023
Monthly data	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
REINZ house sales %mth	0.4	-2.7	-1.0	-2.7	-10.1	-0.8	3.4	-2.1	-4.8	-7.3	-9.2	–
Residential building consents %mth	11.3	5.9	-8.6	-0.7	-2.3	4.7	-1.8	3.5	-10.7	6.3	-7.2	–
Electronic card transactions %mth	-7.9	2.0	7.4	1.3	0.2	-0.2	0.8	2.1	0.9	-0.6	-1.2	3.3
Private sector credit %yr	7.3	6.9	6.8	6.4	6.1	5.6	5.7	5.6	5.1	4.9	4.6	–
Commodity prices %mth	3.9	3.9	-1.9	-4.3	-0.4	-2.2	-3.4	-0.6	-3.4	-4.0	-0.2	-1.0
Trade balance $m	-1224	-1154	-825	-875	-1600	-1726	-983	-737	-1608	-1614	-898	–

Quarterly data	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**
Westpac McDermott Miller Consumer Confidence	105.2	107.1	102.7	99.1	92.1	78.7	87.6	75.6
Quarterly Survey of Business Opinion	5	22	9	0	-6	-1	2	-13
Unemployment rate %	4.6	3.9	3.3	3.2	3.2	3.3	3.3	3.4
CPI %yr	1.5	3.3	4.9	5.9	6.9	7.3	7.3	7.2
Real GDP %yr	-0.7	6.0	5.4	6.1	5.2	1.1	2.7	–
Current account balance % of GDP	-2.6	-3.4	-4.7	-6.0	-6.8	-7.7	-7.9	–

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

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FOMC has cause for caution …

February's FOMC meeting confirmed for the market that peak fed funds is near.

Early February held great significance for US monetary policy, with the market responding to the latest FOMC meeting by making clear it expects an end to the tightening cycle within months, with rate cuts to follow.

Less than a week later, January nonfarm payrolls printed at almost three times the consensus estimate as the unemployment rate edged down to its historic low. While monetary policy's effect comes with a lag, we have to assume that these outcomes are at least incorporating the neutral monetary policy setting established six months ago. Is the market wrong about the rate outlook?

But immediately after, nonfarm payrolls stormed higher.

Abstracting from month-to-month volatility, it seems fair to conclude that economic policy and the end of the service-sector re-opening has materially slowed job growth, the three-month average change in nonfarm payrolls falling from 561k in the first quarter of 2022 to 356k in the three months to January 2023, a down-trend we expect to continue.

Throughout 2022, there was also a sustained divergence between monthly growth in nonfarm payrolls at 401k and household survey employment circa 264k, at least in part because many US workers need to hold multiple jobs to have enough income to get by (a perennial feature of their economy).

Enough evidence to suggest job growth is slowing …

Further, while the current monthly pace of job creation remains a multiple of the 100k per month the FOMC believe is consistent with a balanced, non-inflationary labour market, wage growth is showing no evidence of accelerating. Rather, it is in retreat.

Average hourly earnings rose 0.3% in January – a sub-4% annualised pace – and the average of the past six months has been broadly in line with this rate, bringing annual growth down from a cycle-peak of 5.9% in March 2022 to 4.4% in January.

… and, more importantly, that wage growth is in retreat.

Disproportionate growth in low paid jobs is likely biasing hourly earnings growth down. But, after adjusting for compositional changes, the Employment Cost Index (ECI) confirms both wage and total compensation growth staged a material retreat over the six months to December 2022. In particular, private sector wage growth slowed from a 6% annualised pace in the June quarter to a 4% pace in the final three months of 2022. Clearly, the US is not experiencing a wage-price spiral.

We expect developments in the labour market to weigh on activity growth hence …

What are the implications of these developments for activity, inflation and policy?

For consumption, at best, households find themselves with unchanged levels of real income since before the pandemic and a historically-low savings rate. It is not surprising then that goods consumption stalled in the second half of 2022 and growth in services consumption more than halved during 2022. Together with declining housing construction and very weak business investment, a stagnant economy through 2023 seems most probable, arguably with downside risks.

… limiting demand-driven inflation pressures …

Only focusing on demand, the path back to headline inflation circa 2% on an annualised basis through 2023 seems clear. For this goal to be achieved however, the supply-side factors that have held annual service inflation at its highs since September 2022 must also abate. Most notable is the extraordinary pace of rent inflation over the past two years and, more broadly, the consequence of elevated wage growth.

… and helping resolve supply-side issues.

Immediately after the February FOMC decision and again since, Chair Powell made clear there is good reason to believe the contribution to inflation from shelter (i.e. rental growth) will moderate significantly during 2023, with market measures of rents in a sustained down-trend. The larger concern though is services ex-shelter which make up 56% of the core PCE measure of inflation. However, this is principally the consequence of wage inflation and excess demand, both of which are now clearly in retreat.

Financial conditions are also supportive of a near-term peak for fed funds.

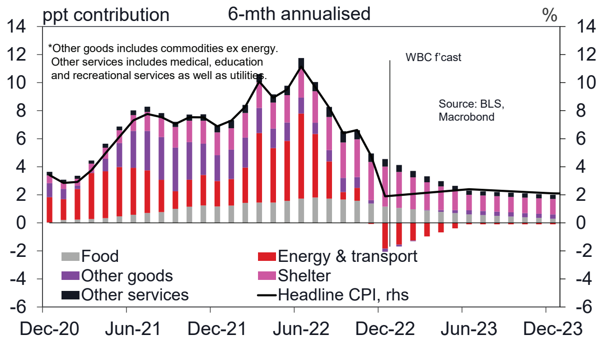
Note as well that the market's response to the January payrolls outcome has seen financial conditions tighten recently, the 10-year yield, as an example, rising from 3.35% back to 3.75%, keeping real yields positive across the curve. If there are lingering inflation pressures in the economy, contractionary financial conditions should remove them in time.

We therefore remain of the view that one more 25bp hike in March will bring an end to this tightening cycle before a lengthy pause for policy until rate cuts begin in 2024. The FOMC may decide to add one extra hike in May on risk management grounds, but the consequence for term interest rates and the dollar from such a decision will be limited, with peak fed funds firmly in their sights. For sustained market concern over rates and growth to be seen, there will need to be a clear upturn in wages and demand-driven inflation.

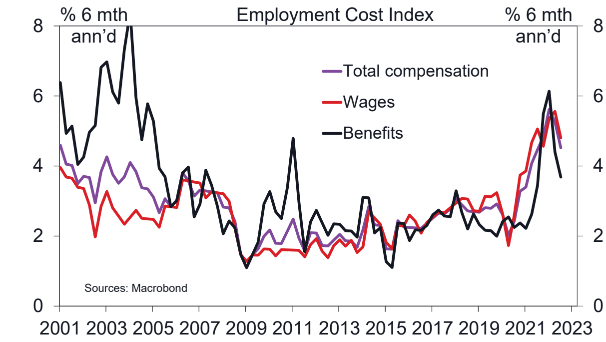
Elliot Clarke, CFA, Senior Economist

... not aggressive action

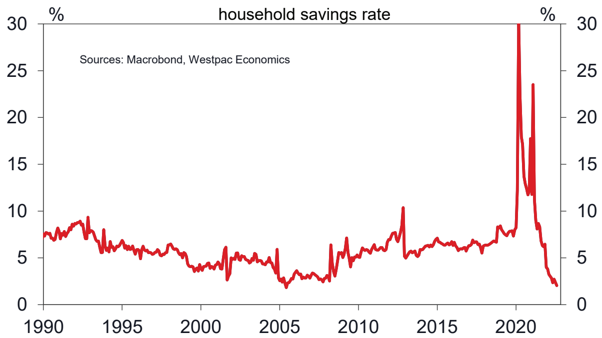
US inflation downtrend established



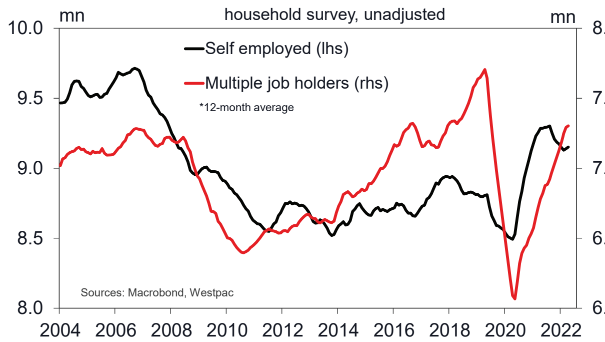
US wage growth turning down



Household savings heavily constrained



Multiple jobs a necessity for many



	2022									2023	
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
PCE deflator %yr	6.8	6.4	6.5	7.0	6.4	6.3	6.3	6.1	5.5	5.0	–	–
Unemployment rate %	3.6	3.6	3.6	3.6	3.5	3.7	3.5	3.7	3.6	3.5	3.4	–
Non-farm payrolls chg '000	414	254	364	370	568	352	350	324	290	260	517	–
House prices* %yr	21.2	21.2	20.5	18.6	16.0	13.1	10.4	8.7	6.8	–	–	–
Durables orders core 3mth %saar	9.6	5.1	8.2	7.5	9.0	10.8	3.4	1.9	-1.9	0.3	–	–
ISM manufacturing composite	57.0	55.9	56.1	53.1	52.7	52.9	51.0	50.0	49.0	48.4	47.4	–
ISM non-manufacturing composite	58.4	57.5	56.4	56.0	56.4	56.1	55.9	54.5	55.5	49.2	55.2	–
Personal spending 3mth %saar	13.5	9.7	9.5	9.3	7.3	7.6	5.1	9.0	5.3	1.8	–	–
UoM Consumer Sentiment	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	66.4
Trade balance USDbn	-106.4	-86.7	-85.2	-80.2	-70.2	-65.3	-73.6	-77.3	-61.0	-67.4	–	–

Quarterly data	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23f**
Real GDP % saar	7.0	-1.6	-0.6	3.2	2.9	1.1
Current account USDbn	-224.8	-282.5	-238.7	-217.1	–	–

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

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China positions to grow its ...

China's economy showed strength in adverse circumstances in Q4 ...

China's economy experienced a dramatic upheaval in the final quarter of 2022 as the stringent COVID-zero protocols of the past three years were abruptly dismantled. Amid this uncertainty, China's economy materially exceeded expectations.

Whereas Bloomberg's consensus estimate for quarterly GDP was for a 1.1% decline, activity was instead unchanged in Q4. Annual growth to December 2022 consequently came in at 3.0% on a year-to-date basis. While a long way off authorities' initial 5.5% target for 2022, given the repeated shocks to activity and sentiment throughout 2022, 3.0% is a strong result.

... as COVID-zero came to an end.

From the monthly partial data that accompanies GDP, it is clear that consumer spending was biased up in Q4 by COVID-zero's end, but also that the underlying health of China's economy heading into 2023 is robust, if not strong.

Annual growth in retail sales was the biggest surprise in December, coming in at -1.8% against an expectation of -9.0%. While services such as catering came under substantial pressure from fears over the virus, with annual growth falling from -8% at November to -14% in December, this decline in activity was offset by precautionary buying of medicine and food (+40% and +11%).

Investment was only impacted at the margin and has great promise.

The end of COVID-zero meanwhile looks to have had little immediate effect on fixed asset investment, with the annual rate at December broadly in line with November's read, circa 5%. Importantly, this is inclusive of the 10% decline in residential construction experienced during 2022, with 9% gains for infrastructure and manufacturing more than offsetting this.

Most notable for the outlook though is the rapid transformation of China's industrial capacity. In their December analysis, the NBS brought attention to investment in high-tech manufacturing and services which grew by an extraordinary 22% and 12% respectively in 2022.

Productivity and profitability growth is a clear focus for authorities ...

In part, this is a response to an expected structural decline in the size of China's population, with new and improved capacity required to offset the cost of a declining and ageing population. However, it also recognises that the only way to achieve the doubling of per capita GDP by 2035 authorities intend is through rapid, large-scale increases in productivity and profitability. The structural growth opportunities apparent across Asia and from China's own domestic economy will provide the necessary appetite for new industry to thrive.

... being necessary to offset unfavourable demographics and to drive income gains.

Coming back to the consumer and considering 2023, the rapid growth in medicine and food spending by households will reverse. However, with anecdotes pointing to rapidly fading concern over the virus' spread and consumers now free to travel as they desire, the rest of the consumer basket is expected to show strength from early in the year.

Moreover, unlike the developed world, per capita real disposable household income growth is currently strong in China at 2.9%yr and, with the investment currently being undertaken by industry, has a strong foundation into the medium-term. Precautionary and 'involuntary' savings accumulated through the pandemic are also likely to be spent in coming quarters.

As the developed world struggles in coming years, China will thrive.

Overall, the December data round supports our long-held view that China's economy is well positioned to not only rebound from COVID-zero, but also to grow strongly into the medium-term, averaging growth of 5% or more through 2022 to 2024 and likely beyond. With the UK, Europe and US all expected to experience recession or stagnation in 2023 followed by weak recoveries, China's economic and geopolitical strength will continue to grow.

Elliot Clarke, CFA, Senior Economist

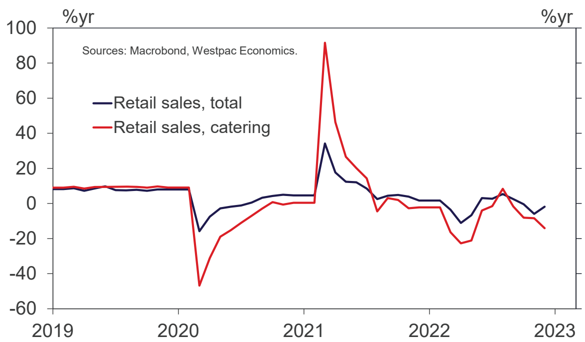
	2022											2023
Monthly data %yr	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
Consumer prices – headline	0.90	1.50	2.10	2.10	2.50	2.70	2.50	2.80	2.10	1.60	1.80	2.10
Money supply M2	9.2	9.7	10.5	11.1	11.4	12	12.2	12.1	11.8	12.4	11.8	12.6
Manufacturing PMI (official)	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1
Fixed asset investment %ytd	12.2	9.3	6.8	6.2	6.1	5.7	5.8	5.9	5.8	5.3	5.1	–
Industrial production (IVA)	7.5	5.0	–2.9	0.7	3.9	3.8	4.2	6.3	5.0	2.2	1.3	–
Exports	6.0	14.3	3.5	16.4	17.1	18.1	7.4	5.6	–0.3	–9.0	–9.9	–
Imports	11.7	0.7	0.1	3.5	0.0	1.6	0.0	0.2	–0.7	–10.6	–7.5	–
Trade balance USDbn	27.5	44.5	49.4	78.3	97.3	102.2	80.3	84.0	84.9	69.1	78.0	–

Quarterly data	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**
Real GDP %yr	4.9	4.0	4.8	0.4	3.9	2.9
Nominal GDP %yr	9.8	9.4	8.9	3.9	6.1	3.5

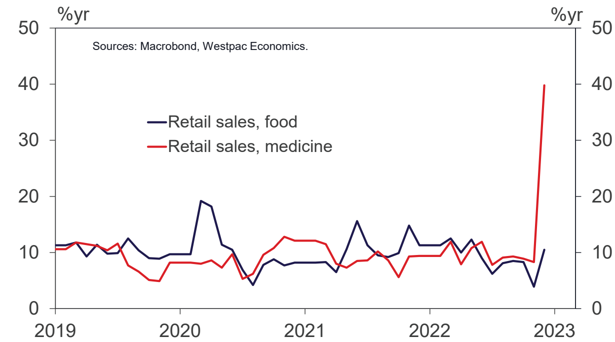
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

... advantage

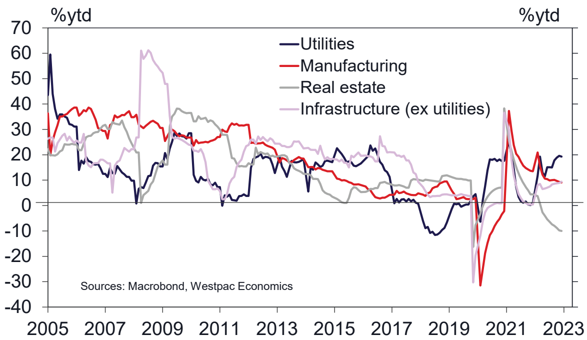
COVID-zero's end hit consumer services ...



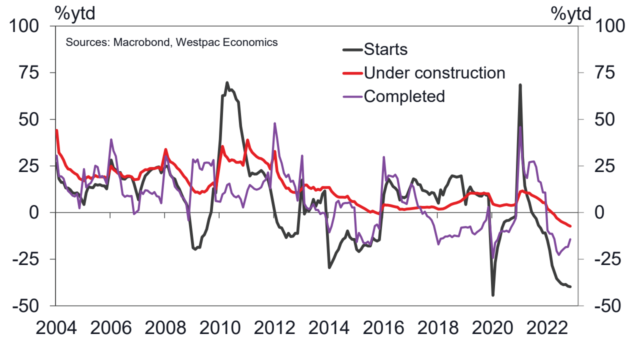
... but there was panic buying of essentials



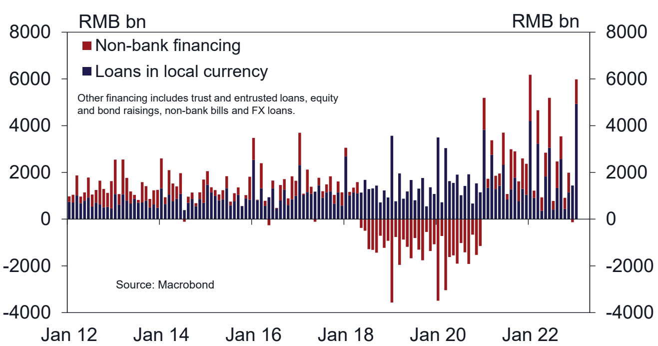
Investment promising for 2023 and beyond



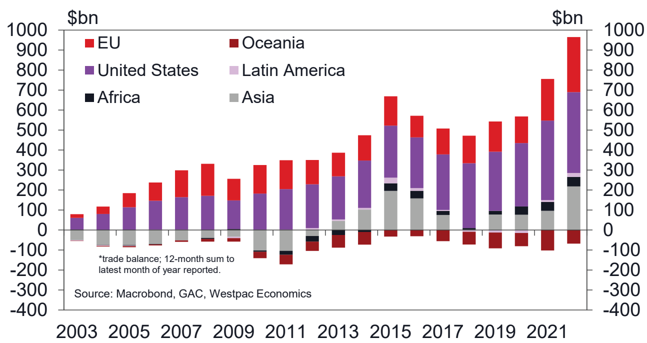
Starts and project re-starts to aid housing



Authorities to make sure credit is available



China is diversifying its export markets



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'Stickiness' of core inflation …

Europe has navigated winter seemingly unscathed …

Despite the many risks Europe's economy faced heading into winter – such as the potential for an escalation in the conflict with Russia, unfavourable weather conditions and gas storage uncertainty – the region has found itself, once again, in an unexpectedly robust position.

… managing to narrowly avoid a contraction …

Against the consensus estimate for a 0.1% decline in output, GDP posted a modest gain of 0.1% in Q4, leaving annual growth on par with the average of the three years prior to the pandemic, 1.9%. While celebrated as another upside surprise on GDP, the difference between the forecast and actual is small, and is still evidence of the European economy stalling into year-end. Complicating matters, the results were mixed by country, with contractions and expansions generally offsetting each other bar the exception of Ireland. Often criticised for reporting disproportionate gains driven by multinational companies, Ireland expanded by a substantial 3.5% in Q4, likely tipping the scale from negative to positive for the broader region.

… and rebuild confidence among consumers and businesses.

More positively, sentiment among European households and businesses continues to improve from a weak base, similar to levels seen at the onset of the pandemic. While favourable weather conditions and lower energy bills are helpful, the region's historically-tight labour market is arguably the critical factor, stoking robust nominal growth in wages to offset the effect of historic inflation on consumer purchasing power.

Challenges lie ahead, particularly in regards to services inflation.

The above is not to say that risks to the outlook have completely evaporated. While headline inflation has begun to ease in Europe and across the developed world, generally reflecting lower goods inflation and the energy price unwind, but the 'stickiness' of core inflation remains a significant threat. At 5.2%yr, it is running at more than two-and-a-half times the ECB's medium-term inflation target and points to an uncomfortable degree of momentum in key services components.

Although tight financial conditions are already impacting …

The crux for policy therefore lies within the evolution of the underlying drivers of services inflation, namely the near-term strength of job creation and wages growth. Aiding policy's effectiveness at this time, the ECB's latest Bank Lending Survey reports that bank standards have tightened considerably while loan demand among consumers is declining. These outcomes suggest financial conditions are at, or near, restrictive levels for households.

… the ECB will need at least 100bps of rate hikes through to June to quell inflation.

Given the cumulative tightening of policy is starting to impact and as momentum in core inflation is set to ease over H1 2023, we believe the ECB will deliver the telegraphed 50bp increase in March and follow up with two more 25bp rate hikes in May and June. Holding a peak refi rate of 4.0% over 2023, inflation threats should recede as the economy stalls, giving room for the ECB to implement a rapid easing cycle over 2024 and H1 2025, amounting to 250bps of rate cuts.

The BoE is likely to have a nearer-term peak of 4.25% by March.

The scale of the anticipated recession in the UK has also decreased over the last couple of months, but is still material. Recognising the current tightness of financial conditions and now expecting a quicker retreat in inflation, the Bank of England has adopted a decidedly more dovish policy view. Its tightening cycle should conclude with a 25bp increase in March before a staged rate cut cycle ensues, totalling 200bps from Q4 2023 to Q3 2025.

Ryan Wells, Economist

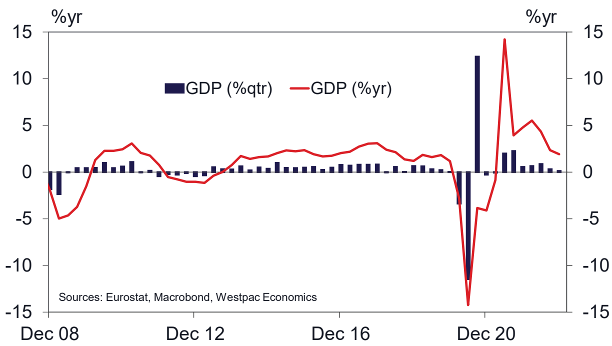
	2022											2023
Europe	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
Eur consumer prices %yr	5.9	7.4	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.5
Eur unemployment rate %	6.8	6.8	6.7	6.7	6.7	6.6	6.7	6.7	6.6	6.6	6.6	–
Eur industrial production %yr	1.7	–1.0	–2.5	1.6	2.2	–2.5	2.8	5.1	3.4	2.0	–	–
Eur retail sales volumes %yr	6.2	2.3	5.2	1.1	–2.9	–0.7	–1.3	0.1	–2.6	–2.5	–2.8	–
Eur consumer confidence	–9.4	–21.9	–22.4	–21.5	–24.0	–27.2	–25.0	–28.7	–27.5	–23.8	–22.1	–20.9
Eur current account balance €bn	3.3	-3.3	-15.0	-14.8	-9.4	-32.2	-38.6	-35.1	-0.5	13.6	–	–
United Kingdom												
UK consumer price index %yr	6.2	7.0	9.0	9.1	9.4	10.1	9.9	10.1	11.1	10.7	10.5	–
UK unemployment rate % (ILO)	3.8	3.7	3.8	3.8	3.8	3.6	3.5	3.6	3.7	3.7	–	–
UK industrial production %yr	–1.7	–2.6	–2.3	–3.7	–3.4	–4.3	–6.2	–5.3	–4.2	–4.3	–4.0	–
UK retail sales volumes %yr	7.2	1.9	–6.3	–5.2	–6.3	–3.4	–5.4	–6.7	–5.5	–5.7	–5.8	–
UK consumer confidence	–26	–31	–38	–40	–41	–41	–44	–49	–47	–44	–42	–45

Quarterly data	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**
Eur GDP %qtr/%yr	2.0/14.2	2.3/4.0	0.5/4.8	0.6/5.5	0.9/4.4	0.3/2.4	0.1/1.9
UK GDP %qtr/%yr	6.5/24.4	1.7/8.5	1.5/8.9	0.5/10.5	0.1/3.9	–0.2/1.9	0.0/0.4
UK current account balance £bn	-3.4	-25.7	-3.3	-61.1	-42.7	-21.6	–

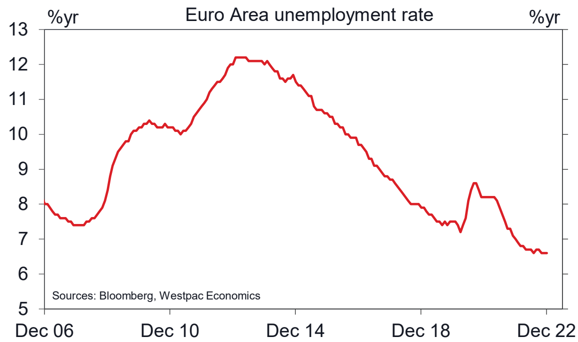
Source: Official agencies.

... key to the economic and policy outlook

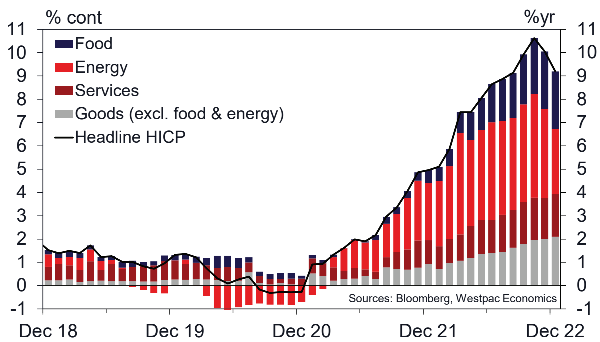
Growth stalled into year-end



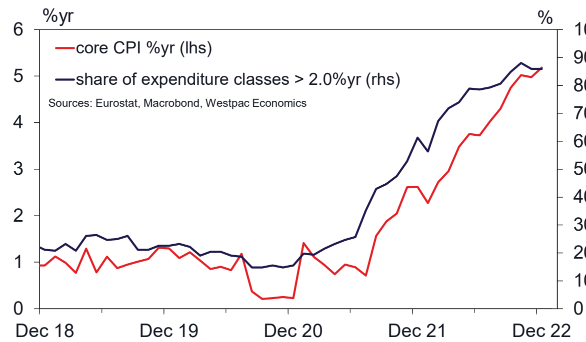
Labour market remains historically tight



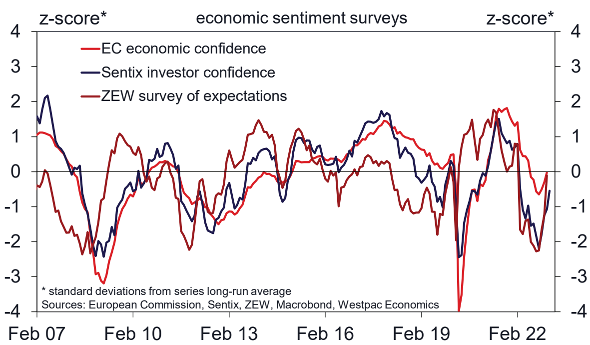
Energy inflation unwind driving headline CPI



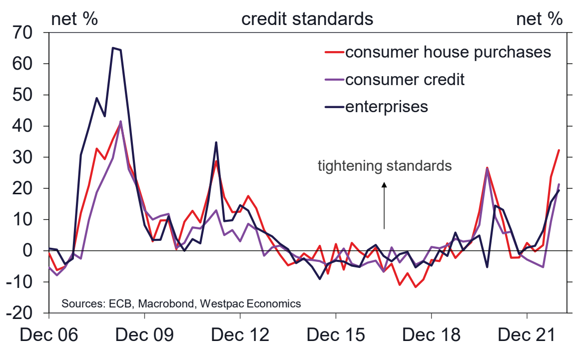
'Stickiness' of core inflation is a key concern



Confidence begins to consolidate



Bank standards tightening substantially



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Australia

Interest rate forecasts

	Latest (14 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.35	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	3.50	3.97	4.05	4.05	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.94	3.80	3.75	3.70	3.60	3.55	3.50	3.45	3.40
3 Year Bond	3.48	3.35	3.35	3.35	3.30	3.30	3.30	3.25	3.20
10 Year Bond	3.76	3.45	3.30	3.10	2.90	2.70	2.55	2.50	2.50
10 Year Spread to US (bps)	6	5	0	-10	-20	-20	-15	-10	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (14 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD vs									
USD	0.6966	0.70	0.71	0.72	0.74	0.75	0.76	0.76	0.77
JPY	92.25	92.4	93.0	93.6	95.5	96.0	96.5	95.8	95.5
EUR	0.6497	0.65	0.65	0.65	0.67	0.67	0.68	0.67	0.67
NZD	1.0956	1.09	1.09	1.09	1.10	1.11	1.13	1.13	1.13
CAD	0.9290	0.94	0.94	0.94	0.95	0.96	0.97	0.96	0.97
GBP	0.5739	0.58	0.58	0.59	0.60	0.60	0.60	0.60	0.60
CHF	0.6409	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.69
DKK	4.8396	4.83	4.85	4.88	4.97	4.99	5.03	4.97	4.99
SEK	7.2271	7.21	7.25	7.28	7.42	7.45	7.52	7.42	7.45
NOK	7.0321	7.01	7.05	7.08	7.21	7.25	7.31	7.21	7.25
ZAR	12.44	12.5	12.6	12.7	12.8	12.9	13.0	13.0	13.1
SGD	0.9254	0.93	0.94	0.95	0.97	0.98	1.00	0.99	1.00
HKD	5.4684	5.47	5.55	5.62	5.76	5.83	5.90	5.89	5.97
PHP	37.95	38.2	38.3	38.5	39.2	39.0	38.8	38.4	38.5
THB	23.55	23.5	23.4	23.4	23.7	23.6	23.6	23.2	23.5
MYR	3.0171	3.01	3.02	3.02	3.07	3.08	3.08	3.08	3.08
CNY	4.7541	4.73	4.76	4.75	4.81	4.80	4.79	4.71	4.70
IDR	10591	10570	10650	10656	10804	10800	10792	10640	10626
TWD	21.06	21.0	21.2	21.4	21.8	22.0	22.2	22.1	22.3
KRW	890	882	888	893	903	900	897	882	886
INR	57.25	56.7	55.4	54.7	55.5	55.5	55.5	55.1	55.4

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Australia

Activity forecasts*

	2022			2023				Calendar years			
%qtr / yr avg	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022f**	**2023f**	**2024f**
Private consumption	2.1	1.1	0.9	0.5	0.3	0.1	0.1	5.0	6.7	2.6	1.2
Dwelling investment	–3.1	1.0	1.8	1.3	–0.4	–2.2	–2.2	9.9	–2.5	0.5	–7.5
Business investment*	1.5	0.7	2.0	1.1	0.4	–1.4	–1.3	8.2	3.6	2.6	–2.0
Private demand *	1.5	0.7	0.9	0.5	0.2	–0.4	–0.3	6.5	5.1	1.9	0.1
Public demand *	–0.1	0.2	0.5	0.2	0.2	0.2	0.2	5.8	5.3	1.0	1.4
Domestic demand	1.0	0.6	0.8	0.5	0.2	–0.2	–0.2	6.3	5.1	2.6	1.2
Stock contribution	–1.0	0.2	–0.3	–0.1	–0.3	0.0	0.1	0.4	0.3	–0.6	0.2
GNE	0.0	0.8	0.5	0.4	–0.1	–0.3	0.0	6.9	5.4	1.0	0.6
Exports	5.3	2.7	2.7	2.1	2.0	2.0	2.0	–2.0	4.0	10.0	5.8
Imports	1.4	3.9	2.5	1.4	1.1	0.9	0.9	5.4	15.0	7.2	3.5
Net exports contribution	0.8	–0.2	0.1	0.2	0.2	0.3	0.3	–1.4	–1.7	0.8	0.6
Real GDP %qtr / yr avg	**0.9**	**0.6**	**0.6**	**0.6**	**0.2**	**0.0**	**0.2**	5.2	3.6	1.8	1.2
%yr end	**3.2**	**5.9**	**2.6**	**2.7**	**2.0**	**1.4**	**1.0**	**4.6**	**2.6**	**1.0**	**2.0**
Nominal GDP %qtr	4.1	0.8	2.5	0.9	0.2	0.1	0.6				
%yr end	11.8	13.1	12.0	8.5	4.5	3.7	1.8	10.3	12.0	1.8	3.6

Other macroeconomic variables

	2022			2023				Calendar years			
% change	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022f**	**2023f**	**2024f**
Employment (2)	1.1	0.7	0.7	0.4	0.3	–0.2	–0.5	–	–	–	–
%yr	3.5	4.9	4.8	3.0	2.1	1.2	–0.1	2.4	4.8	–0.1	0.7
Unemployment rate % (2)	3.8	3.5	3.5	3.5	3.5	3.9	4.6	4.7	3.5	4.6	5.1
Wages (WPI) (2)	0.8	1.0	1.1	1.1	1.1	1.1	1.1	–	–	–	–
%yr	2.6	3.1	3.6	4.1	4.4	4.5	4.5	2.3	3.6	4.5	3.5
CPI Headline (2)	1.8	1.8	1.9	1.3	0.9	0.8	0.8	–	–	–	–
%yr	6.1	7.3	7.8	6.9	6.0	5.0	3.9	3.5	7.8	3.9	3.1
Core inflation trimmed mean	1.6	1.9	1.7	1.3	0.9	0.6	0.8	–	–	–	–
%yr (2)	5.0	6.1	6.9	6.6	5.9	4.6	3.6	2.6	6.9	3.6	3.1
Current account AUDbn	14.7	–2.3	–1.0	–4.0	–5.0	–8.0	–8.0	68.1	13.0	–25.0	–40.0
% of GDP	2.4	–0.4	–0.2	–0.6	–0.8	–1.2	–1.2	3.1	0.5	–1.0	–1.5
Terms of trade annual chg (1)	7.5	–0.3	8.0	–3.4	–11.2	–8.4	–11.9	17.2	6.0	–8.8	–8.0

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

	2022										
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
Employment '000 chg	34.1	27.1	58.2	86.5	-19.8	48.5	9.1	43.7	58.3	-14.6	–
Unemployment rate %	3.9	3.9	3.9	3.6	3.5	3.5	3.6	3.4	3.5	3.5	–
Westpac–MI Consumer Sentiment	96.6	95.8	90.4	86.4	83.8	81.2	84.4	83.7	78.0	80.3	78.5
Retail trade %mth	1.5	0.9	0.8	0.7	0.9	0.9	0.6	0.4	1.7	-3.9	–
Dwelling approvals %mth	-15.7	-0.1	8.3	0.0	-15.5	26.4	-8.3	-5.6	-8.8	18.5	–
Credit, private sector %yr	8.0	8.7	9.1	9.1	9.1	9.3	9.5	9.5	8.9	8.3	–
Trade balance AUDbn	9.2	12.2	13.8	16.8	8.6	8.7	12.5	12.7	13.2	12.2	–

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New Zealand

Interest rate forecasts

	Latest (14 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.25	4.75	5.25	5.25	5.25	5.00	4.50	4.00	3.50
90 Day Bill	5.10	5.25	5.35	5.35	5.25	4.80	4.30	3.80	3.50
2 Year Swap	5.23	4.80	4.60	4.30	4.00	3.80	3.60	3.45	3.35
10 Year Bond	4.27	4.00	3.90	3.85	3.80	3.70	3.60	3.55	3.50
10 Year Spread to US	57	60	60	65	70	80	90	95	100
10 Year Spread to Aust	51	55	60	75	90	100	105	105	100

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (14 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD vs									
USD	0.6358	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.68
JPY	84.20	84.5	85.2	85.8	86.4	86.4	85.7	85.1	84.3
EUR	0.5930	0.59	0.60	0.60	0.60	0.60	0.60	0.59	0.59
AUD	0.9127	0.91	0.92	0.92	0.91	0.90	0.89	0.89	0.88
CAD	0.8480	0.86	0.86	0.86	0.86	0.86	0.86	0.85	0.86
GBP	0.5239	0.53	0.53	0.54	0.54	0.54	0.54	0.53	0.53
CNY	4.3355	4.32	4.36	4.36	4.36	4.32	4.25	4.19	4.15

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

Activity forecasts*

	2022			2023				Calendar years			
% change	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022f**	**2023f**	**2024f**
Private consumption	-3.4	-0.1	0.1	-0.2	-0.2	-0.3	-0.2	7.4	2.4	-1.4	0.6
Government consumption	0.2	-1.4	-0.5	-0.5	-0.5	-1.0	-0.6	8.2	4.4	-2.4	-1.1
Residential investment	2.7	2.7	0.5	0.0	-1.0	-1.5	-2.0	8.0	2.7	0.3	-7.3
Business investment	-3.8	2.8	1.2	0.9	0.4	-0.1	-1.0	14.1	5.5	2.1	-3.1
Stocks (ppt contribution)	0.2	0.3	-0.6	0.1	0.0	0.0	0.0	1.3	-0.3	-0.2	0.1
GNE	-0.8	0.1	-0.4	0.1	-0.2	-0.4	-0.5	10.0	3.0	-0.9	-0.8
Exports	17.2	7.8	-1.7	2.1	1.9	2.1	2.2	-3.6	-0.5	11.9	7.1
Imports	-1.4	1.5	0.9	0.5	0.6	0.5	0.6	14.9	1.8	2.5	2.8
GDP (production)	**1.9**	**2.0**	**0.5**	**0.4**	**0.0**	**-0.1**	**-0.2**	**6.1**	**2.9**	**2.2**	**0.0**
Employment annual %	1.4	1.2	1.3	1.4	1.5	0.3	0.1	3.3	1.5	-0.1	-0.1
Unemployment rate % s.a.	3.3	3.3	3.4	3.5	3.6	3.7	3.9	3.2	3.4	3.9	4.8
Labour cost index, all sect incl o/t, ann %	3.4	3.7	4.1	4.4	4.5	4.3	4.2	2.6	4.1	4.2	3.4
CPI annual %	**7.3**	**7.2**	**7.2**	**6.8**	**6.1**	**5.6**	**4.7**	**5.9**	**7.2**	**4.7**	**2.4**
Current account balance % of GDP	-7.7	-7.9	-7.3	-5.9	-5.2	-4.8	-4.4	-6.0	-7.3	-4.4	-3.4
Terms of trade annual %	-2.2	-5.9	1.8	0.9	3.0	6.4	-1.0	2.8	1.8	-1.0	0.3

Sources: Statistics NZ, Westpac Economics.

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Commodity prices

End of period	Latest (14 Feb)***	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Australian commodities index#	363	354	353	342	326	323	**321**	**314**	**321**	**319**	**311**
Bulk commodities index#	**593**	**568**	**555**	**523**	**481**	**462**	**449**	**419**	**415**	**407**	**377**
iron ore finesTSI @ 62% US$/t	125	125	120	112	100	95	89	84	90	90	87
Qld coking coal index (US$/t)	344	340	330	310	290	280	276	271	261	236	220
Newcastle spot thermal coal (US$/t)	240	240	230	220	220	220	225	200	175	150	125
crude oil (US$/bbl) Brent ICE	85	85	85	82	85	87	90	95	105	110	115
LNG in Japan US$mmbtu	18.80	20.0	19.8	19.7	18.0	18.7	18.9	19.4	20.0	21.0	20.9
gold (US$/oz)	1,879	1,890	1,885	1,870	1,825	1,800	1,775	1,750	1,745	1,755	1,760
Base metals index#	**224**	**224**	**225**	**221**	**219**	**219**	**222**	**230**	**250**	**259**	**268**
copper (US$/t)	8,875	8,880	9,000	9,000	8,800	8,600	8,700	9,135	10,000	10,429	10,856
aluminium (US$/t)	2,437	2,455	2,475	2,500	2,500	2,600	2,700	2,790	2,966	3,051	3,134
nickel (US$/t)	27,852	27,500	27,500	25,000	25,000	25,000	25,000	26,181	28,523	29,678	30,824
zinc (US$/t)	3,085	3,100	3,000	3,000	3,150	3,125	3,110	3,105	3,317	3,420	3,521
lead (US$/t)	2,089	2,100	2,100	2,000	1,875	1,850	1,850	1,875	2,044	2,127	2,210
Rural commodities index#	**158**	**157**	**156**	**155**	**157**	**160**	**166**	**177**	**197**	**207**	**217**
NZ commodities index ##	**337**	**323**	**322**	**326**	**335**	**342**	**346**	**349**	**352**	**355**	**356**
dairy price index ^^	308	309	314	318	321	324	327	329	331	333	336
whole milk powder US$/t	3,400	3,454	3,500	3,550	3,600	3,625	3,650	3,675	3,700	3,728	3,756
skim milk powder US$/t	3,102	3,301	3,400	3,450	3,500	3,550	3,600	3,625	3,650	3,677	3,705
lamb leg UKp/lb	504	476	472	477	492	507	522	537	552	561	562
bull beef US¢/lb	236	208	205	208	223	232	234	234	235	236	236
log price index ##	160	148	145	150	158	162	162	163	164	164	164
strong wool US¢/kg	157	157	157	157	157	157	157	157	157	157	157

	levels				% change			
Annual averages	**2021**	**2022**	**2023(f)**	**2024(f)**	**2021**	**2022**	**2023(f)**	**2024(f)**
Australian commodities index#	**306**	**379**	**349**	**320**	**43.0**	**23.7**	**-7.9**	**-8.3**
Bulk commodities index#	**510**	**567**	**533**	**439**	**47.0**	**11.3**	**-6.0**	**-17.7**
iron ore fines @ 62% USD/t	159	120	116	90	46.5	-24.3	-3.2	-22.4
LNG in Japan $mmbtu	10.3	18.3	19	19	31.1	78.0	5.3	-0.9
ave coking coal price (US$/t)	143	248	301	267	33.2	73.0	21.4	-11.3
ave thermal price (US$/t)	99	281	329	291	74.8	183.7	16.8	-11.3
iron ore fines contracts (US¢ dltu)	239	187	171	160	72.8	-21.7	-8.4	-6.8
coal coking contracts (US$/t)	205	372	309	270	62.5	81.2	-16.9	-12.7
crude oil (US$/bbl) Brent ICE	70	97	84	93	60.2	38.4	-13.4	10.1
gold (US$/oz)	1,801	1,809	1,875	1,774	1.2	0.5	3.6	-5.4
Base metals index#	**213**	**230**	**223**	**225**	**41.1**	**8.0**	**-3.0**	**0.9**
copper (US$/t)	9,297	8,827	8,941	9,009	50.2	-5.1	1.3	0.8
aluminium (US$/t)	2,477	2,711	2,485	2,725	44.0	9.5	-8.4	9.7
nickel (US$/t)	18,452	26,228	26,576	25,882	33.4	42.1	1.3	-2.6
zinc (US$/t)	3,006	3,471	3,077	3,150	32.1	15.4	-11.3	2.4
lead (US$/t)	2,190	2,154	2,045	1,891	19.6	-1.6	-5.1	-7.5
Rural commodities index#	**150**	**171**	**155**	**171**	**28.0**	**14.0**	**-9.8**	**10.7**
NZ commodities index ##	**359**	**375**	**326**	**347**	**21.2**	**4.4**	**-13.0**	**6.4**
dairy price index ##	322	352	316	328	25.2	9.4	-10.5	3.9
whole milk powder US$/t	3,843	3,896	3,506	3,652	29.2	1.4	-10.0	4.2
skim milk powder US$/t	3,332	3,826	3,378	3,590	22.6	14.8	-11.7	6.3
lamb leg UKp/lb	599	544	479	524	18.4	-9.2	-12.0	9.6
bull beef US¢/lb	279	245	211	233	19.0	-12.3	-13.9	10.7
log price index ##	179	171	150	163	14.8	-4.6	-12.3	8.5
strong wool US¢/kg	173	160	157	157	20.4	-7.8	-1.6	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 (14 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Fed Funds*	4.625	4.875	4.875	4.875	4.875	4.375	3.875	3.375	2.875
10 Year Bond	3.70	3.40	3.30	3.20	3.10	2.90	2.70	2.60	2.50

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

Currency forecasts

	Latest (14 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD vs									
DXY index	103.31	102.9	102.0	101.0	100.1	99.2	98.6	97.4	96.5
JPY	132.43	132	131	130	129	128	127	126	124
EUR	1.0724	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15
AUD	0.6966	0.70	0.71	0.72	0.74	0.75	0.76	0.76	0.77
NZD	0.6358	0.64	0.65	0.66	0.67	0.68	0.68	0.68	0.68
CAD	1.3337	1.34	1.33	1.31	1.29	1.28	1.27	1.26	1.26
GBP	1.2137	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.28
CHF	0.9200	0.92	0.92	0.91	0.91	0.90	0.90	0.89	0.89
ZAR	17.86	17.8	17.7	17.6	17.3	17.2	17.1	17.1	17.0
SGD	1.3284	1.33	1.32	1.32	1.31	1.31	1.31	1.31	1.31
HKD	7.8499	7.82	7.82	7.80	7.78	7.77	7.76	7.75	7.75
PHP	54.78	54.5	54.0	53.5	53.0	52.0	51.0	50.5	50.0
THB	33.80	33.5	33.0	32.5	32.0	31.5	31.0	30.5	30.5
MYR	4.3592	4.30	4.25	4.20	4.15	4.10	4.05	4.05	4.00
CNY	6.8185	6.75	6.70	6.60	6.50	6.40	6.30	6.20	6.10
IDR	15205	15100	15000	14800	14600	14400	14200	14000	13800
TWD	30.24	30.0	29.9	29.7	29.5	29.3	29.2	29.1	29.0
KRW	1278	1260	1250	1240	1220	1200	1180	1160	1150
INR	82.73	81.0	78.0	76.0	75.0	74.0	73.0	72.5	72.0

Activity forecasts*

	2022			2023				Calendar years			
% annualised, s/adj	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	2.0	2.3	2.1	1.3	-0.8	-0.5	-0.3	8.3	2.8	0.9	0.8
Dwelling investment	-17.8	-27.1	-26.7	-3.9	-3.9	-3.9	-3.9	10.7	-10.7	-12.9	0.5
Business investment	0.1	6.2	0.7	4.9	3.0	2.9	3.0	6.9	4.1	3.3	4.4
Public demand	-1.6	3.7	3.7	2.0	-0.4	-0.4	-0.4	0.6	-0.6	1.4	-0.4
Domestic final demand	0.5	2.0	1.2	1.7	-0.3	-0.1	0.0	6.8	2.0	0.9	1.1
Inventories contribution ppt	-2.1	-1.4	1.8	-0.6	-0.4	-0.4	-0.4	0.2	0.7	-0.3	-0.1
Net exports contribution ppt	1.2	3.3	0.7	-0.1	-0.2	-0.2	-0.2	-1.7	-0.6	0.5	-0.1
GDP	-0.6	3.2	2.9	1.1	-0.9	-0.7	-0.6	5.9	2.1	0.9	1.0
%yr annual chg	1.8	1.9	1.0	1.7	1.6	0.6	-0.3				

Other macroeconomic variables

Non-farm payrolls mth avg	399	429	318	150	125	75	50	514	406	100	75
Unemployment rate %	3.6	3.6	3.6	3.7	3.9	4.2	4.5	5.4	3.7	4.8	5.5
CPI headline %yr	8.0	7.4	5.3	3.5	2.4	2.2	2.2	5.1	7.4	2.3	2.1
PCE deflator, core %yr	4.8	4.6	3.8	3.1	2.6	2.4	2.2	3.5	4.5	2.3	2.1
Current account %GDP	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5	-2.5	-2.4	-2.4	-2.4	-2.4

Sources: Official agencies, Factset, Westpac Economics

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Europe & the United Kingdom

Interest rate forecasts

	Latest (14 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro area									
ECB Refi rate	3.00	3.50	4.00	4.00	4.00	3.50	3.00	2.50	2.00
10 Year Bund	2.37	2.10	2.05	2.00	1.95	1.80	1.65	1.60	1.50
10 Year Spread to US	-133	-130	-125	-120	-115	-110	-105	-100	-100
United Kingdom									
BoE Bank Rate	4.00	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.00
10 Year Gilt	3.40	3.25	3.15	3.05	2.95	2.80	2.60	2.50	2.40
10 Year Spread to US	-30	-15	-15	-15	-15	-10	-10	-10	-10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (14 Feb)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
euro vs									
USD	1.0724	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15
JPY	142.02	143	143	143	143	143	143	144	143
GBP	0.8835	0.89	0.89	0.89	0.90	0.90	0.89	0.90	0.90
CHF	0.9863	0.99	1.00	1.00	1.01	1.01	1.01	1.01	1.02
DKK	7.4498	7.45	7.45	7.45	7.45	7.45	7.45	7.45	7.45
SEK	11.1258	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
NOK	10.8242	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
sterling vs									
USD	1.2137	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.28
JPY	160.74	160	160	160	160	160	160	160	159
CHF	1.1167	1.11	1.12	1.12	1.13	1.13	1.13	1.13	1.14
AUD	0.5740	0.58	0.58	0.59	0.60	0.60	0.60	0.60	0.60

Source: Bloomberg, Westpac Economics.

Activity forecasts*

Annual average % chg	2019	2020	2021	2022	2023f	2024f
Eurozone GDP	1.6	-6.1	5.2	3.5	0.6	1.4
private consumption	1.3	-8.0	3.5	3.2	1.0	1.4
fixed investment	5.7	-8.4	3.6	2.9	2.0	4.5
government consumption	1.8	1.4	3.8	1.0	1.1	2.0
net exports contribution ppt	-0.5	-0.7	1.0	0.3	0.2	-0.2
Germany GDP	1.1	-3.7	2.6	1.9	0.4	1.2
France GDP	1.8	-7.9	6.8	2.5	0.5	1.0
Italy GDP	0.5	-9.0	6.7	3.8	0.4	1.0
Spain GDP	2.1	-10.8	5.1	5.5	1.4	2.2
Netherlands GDP	2.0	-3.9	4.9	4.3	1.0	1.5
memo: United Kingdom GDP	1.7	-9.3	7.4	4.0	-0.5	1.5

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Asia

China

Calendar years	2018	2019	2020	2021	2022	2023f	2024f
Real GDP	6.7	6.0	2.2	8.1	3.5	6.2	5.5
Consumer prices	1.9	4.5	0.2	1.5	1.8	2.4	2.3
Producer prices	0.9	–0.5	–0.4	10.3	–0.7	1.0	1.2
Industrial production (IVA)	6.2	5.7	2.8	9.6	3.6	5.5	5.0
Retail sales	9.0	8.0	–3.9	12.5	–0.2	8.0	7.5
Money supply M2	8.1	8.7	10.1	9.0	11.8	10.5	9.0
Fixed asset investment	5.9	5.4	2.9	4.9	5.1	6.0	5.5
Exports %yr	–4.4	7.9	18.1	20.9	–9.9	5.0	6.0
Imports %yr	–7.6	16.5	6.5	19.5	–7.5	4.5	4.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (14 Feb)	Mar–23	Jun–23	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
Required reserve ratio %*	11.00	11.00	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	3.65

* For major banks.

Currency forecasts

	Latest (14 Feb)	Mar–23	Jun–23	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
JPY	132.43	132	131	130	129	128	127	126	124
SGD	1.3284	1.33	1.32	1.32	1.31	1.31	1.31	1.31	1.31
HKD	7.8499	7.82	7.82	7.80	7.78	7.77	7.76	7.75	7.75
PHP	54.78	54.5	54.0	53.5	53.0	52.0	51.0	50.5	50.0
THB	33.80	33.5	33.0	32.5	32.0	31.5	31.0	30.5	30.5
MYR	4.3592	4.30	4.25	4.20	4.15	4.10	4.05	4.05	4.00
CNY	6.8185	6.75	6.70	6.60	6.50	6.40	6.30	6.20	6.10
IDR	15205	15100	15000	14800	14600	14400	14200	14000	13800
TWD	30.24	30.0	29.9	29.7	29.5	29.3	29.2	29.1	29.0
KRW	1278	1260	1250	1240	1220	1200	1180	1160	1150
INR	82.73	81.0	78.0	76.0	75.0	74.0	73.0	72.5	72.0

Source: Bloomberg, Westpac Economics.

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SUMMARY OF THE WORLD

Economic growth forecasts (year average)

Real GDP %ann	2018	2019	2020	2021	2022f	2023f	2024f
World	**3.6**	**2.8**	**-3.0**	**6.0**	**3.3**	**3.0**	**3.1**
United States	2.9	2.3	-3.4	5.7	2.1	0.9	1.0
Japan	0.6	-0.4	-4.6	1.7	1.6	1.5	1.0
Euro zone	1.8	1.6	-6.1	5.2	3.5	0.6	1.4
Group of 3	**2.2**	**1.7**	**-4.6**	**5.0**	**2.6**	**0.9**	**1.2**
United Kingdom	1.7	1.7	-9.3	7.4	4.0	-0.5	1.5
Canada	2.8	1.9	-5.2	4.5	3.3	1.0	2.0
Australia	2.8	1.9	-1.8	5.2	3.6	1.8	1.2
New Zealand	3.6	3.1	-1.4	6.1	2.9	2.2	0.0
OECD total	**2.3**	**-0.8**	**-0.6**	**4.8**	**2.2**	**0.9**	**1.2**
China	6.8	6.0	2.2	8.4	3.0	6.2	5.5
Korea	2.9	2.2	-0.7	4.1	2.6	2.0	2.2
Taiwan	2.8	3.1	3.4	6.6	2.5	2.2	2.5
Hong Kong	2.8	-1.7	-6.5	6.3	-3.0	3.0	2.7
Singapore	3.7	1.1	-4.1	7.6	3.8	3.0	2.7
Indonesia	5.2	5.0	-2.1	3.7	5.3	5.4	5.5
Thailand	4.2	2.2	-6.2	1.5	3.5	4.1	4.2
Malaysia	4.8	4.4	-5.5	3.1	8.5	5.0	5.0
Philippines	6.3	6.1	-9.5	5.7	7.6	6.0	6.0
Vietnam	7.2	7.2	2.9	2.6	7.4	6.5	6.5
East Asia	**5.9**	**5.2**	**0.7**	**7.0**	**3.5**	**5.6**	**5.1**
East Asia ex China	4.5	3.8	-2.3	4.2	4.6	4.2	4.3
NIEs*	**3.0**	**1.9**	**-0.5**	**5.5**	**2.2**	**2.3**	**2.4**
India	6.5	3.7	-6.6	8.7	7.0	5.8	6.5
Russia	2.8	2.2	-2.7	4.7	-4.0	-1.0	0.0
Brazil	1.8	1.2	-3.9	4.6	2.5	1.5	2.0
South Africa	1.5	0.3	-6.3	4.9	2.1	1.1	1.2
Mexico	2.2	-0.2	-8.1	4.8	2.1	1.2	1.1
Argentina	-2.6	-2.0	-9.9	10.4	4.0	2.0	1.9
Chile	3.9	0.9	-6.1	11.7	2.0	-1.0	-0.9
CIS^	1.5	-2.1	1.9	15.3	10.1	3.3	3.2
Middle East	1.4	1.3	3.2	2.8	2.8	2.8	2.7
C & E Europe	0.3	-2.2	-5.0	9.5	5.2	2.8	2.0
Africa	3.3	3.2	-1.6	4.7	3.6	3.7	3.7
Emerging ex-East Asia	**2.9**	**1.6**	**-2.7**	**6.4**	**3.8**	**3.0**	**3.4**
Other countries	5.7	7.2	-3.9	4.4	4.3	5.1	4.0
World	**3.6**	**2.8**	**-3.0**	**6.0**	**3.3**	**3.0**	**3.1**

#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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