WESTPAC MARKET OUTLOOK MARCH 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

Global inflation fears have returned over the last month. The renewed concern centres on signs that global price pressures are taking longer to subside and that economic activity appears to be holding up better than expected. This in turn raises the prospect of both further monetary tightening and tighter settings being maintained for longer. The reaction from financial markets has seen more turbulence, US bond yields pushing higher, the USD firming and equities entering another modest sell-off. Perhaps the simplest measure of how far things have swung is that market pricing is now giving about a 50:50 chance of the FOMC passing a 50bp rate hike at its next meeting later this month. While there is clearly more FOMC tightening to come and a big move is a risk, we remain confident that US inflation will be essentially back at target in the second half of the year, meaning that markets will start back-tracking on these moves from around mid-year.

Closer to home, the last month has seen some notable shifts, the Australian economy posting a soft finish to 2022 with clearer signs of strain emerging across the household sector where rate rises are having a clear impact, and more 'non-threatening' reads on wages growth. This has allayed some concerns about domestic-driven price pressures although returning inflation to target remains the primary concern for the RBA, with the bank warning that further monetary tightening can still be expected even though it is more open on the timing and extent of rate moves – with any further moves data dependent. While a pause is an option on the table in coming months we continue to expect two more 25bp increases in April and May before the RBA will be comfortable enough about the inflation situation to leave rates unchanged.

Australia: We continue to expect a sharp economic slowdown in 2023, with growth forecast at a well-below-trend 1%, as high inflation and higher interest rates impact. The softer-than-expected end to 2022 lends support to this view. Domestic demand stalled in the final three months of 2022, including a slowing of quarterly consumer spending from 1% to 0.3%. Household income flows are under intense pressure from rising interest payments, an increase in taxes payable and a reduction in social support payments, as well as high inflation. The sizeable household savings buffer, and a still robust labour market, will cushion the impacts of these pressures. Economic growth is forecast to lift to a still modest 1.5% in 2024 (downgraded from 2.0% previously) supported by an emerging easing of monetary policy.

Commodities: Westpac's Commodities index fell 5% in February led by a 23% fall in thermal coal prices, while met coal prices fell just 3%, seeing a return of the met coal premia. EU gas prices have halved since the December peak but Australian LNG export prices are less volatile than global spot prices and have fallen by less. Chinese iron ore demand has firmed but input costs are squeezing steel mill margins while OPEC+ pricing power is returning to the crude oil markets.

Global FX markets: The US dollar has rallied over the past month amid greater persistence in inflation and with activity growth resilient. While the peak in the fed funds rate is likely to be higher than previously anticipated, policy will take effect, reining in inflation and suppressing growth. As market participants gain confidence and search for opportunity, capital will flow from the US dollar to Asia.

New Zealand: The Reserve Bank of New Zealand hiked the Official Cash Rate by 50bps in February and continued to talk tough on inflation. As a result, we have revised up our forecast for the peak in the cash rate to 5.50%. As the full impact of high inflation and interest rate hikes over the past 18 months ripples through the economy, we expect a sharp downturn in domestic demand over the course of this year, with a related rise in unemployment.

United States: In the past month, the US has shown resilience, but also fresh evidence of persistence in price pressures. Our medium-term expectations remain unchanged, but current circumstances require the FOMC to do more to mid-year to quell inflation risks. While not on the mind of the market, the most significant risk for the US is getting stuck in a low-growth rut.

China: Over the past year, the US has sought to restrict China's growth in industry related to the green transition. While US authorities can certainly alter their citizens preferences for Chinese goods, and perhaps the appetite of some other developed nations, China's dominance in many of these burgeoning areas of growth is unassailable, particularly given the scale of developing world demand.

Europe: Benefiting from the global easing in supply issues, the policy focus has quickly shifted to domestic drivers of inflation. Having been the key economic support for the past year, strength in labour market outcomes now represents the key near-term risk to inflation. With slack yet to emerge, the ECB will maintain their hawkish resolve upon delivering another 50bp rate hike next week.

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	3.7	1.6	1.0
New Zealand	3.6	3.1	–1.4	6.1	2.8	1.7	–0.5
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'.

RBA tightens again, shifting guidance …

RBA hikes again …

The Reserve Bank Board lifted the cash rate by 25bps from 3.35% to 3.60% at its March meeting. While this decision was widely expected the real issue was the guidance the Governor would provide for the future.

… but shifts guidance …

He chose to use the words: "The Board expects that further tightening of monetary policy will be needed to ensure inflation returns to target. In assessing when and how much further interest rates need to increase, the Board will be paying close attention to developments in the global economy, trends in household spending and the outlook for inflation and the labour market." This compares to the February Statement which noted, "The Board expects that further increases in interest rates will be needed over the months ahead … In assessing how much further interest rates need to increase …". Note that in February the issue was around "how much" whereas in March it has become "when and how much."

… local data updates …

Compared to February, the revised assessments of those issues that the Board is following closely with respect to future policy are:

- The monthly CPI suggests that inflation has peaked.
- At the aggregate level wages growth is still consistent with the inflation target and recent data suggest a lower risk of a cycle in which prices and wages chase one another.
- The Board remains alert to the risk of a price-wage spiral given the limited spare capacity in the economy.
- Household consumption growth has slowed. But in contrast, the outlook for business investment remains positive.
- Rents are increasing at the fastest rate for some years.
- Employment fell in January but that reflects changing seasonal patterns.

… showing the tightening is impacting.

These observations followed lower-than-expected prints for the Wage Price Index; GDP growth in the December quarter; a significant fall in annual inflation in the monthly series; and a fall in employment in January. The insights indicate that, as should be expected, the accumulation of ten consecutive rate hikes is having an impact on the economy.

A pause may now be 'on the table' for April …

We had been expecting that the Board would continue to point to higher rates with 'guidance' along the lines of: "The Board expects to increase interest rates further over the period ahead." In referring to monetary tightening rather than interest rates the case could be made for a very different message but the second line in the paragraph – "when and how much further interest rates need to increase" – returns the theme to interest rates as the monetary policy instrument with the notable addition of "when".

For these reasons the case can certainly be made for a pause in April.

… but a clear tightening bias …

We should not overlook that the Board still has a very strong tightening bias and, by April, will still not be expecting inflation to return to the 2–3% target zone before mid 2025. The Bank's forecasts will not be refreshed until the May Board meeting.

Recall that a key reason for dismissing a pause at the December meeting was that "inflation was expected to take several years to return to the target range."

… and challenging inflation situation …

Since then, markets have also lifted the profile for the federal funds rate by 50–75bps despite the FOMC's forecasts expecting to lower inflation to 3.3% in 2023 compared to the RBA's forecast of 4.75% by end 2023.

There is definitely a case to be made from the Governor's Statement that a pause could be expected in April but the big picture for inflation has not improved sufficiently to justify that call.

… mean two more hikes likely.

We continue to expect rate increases in both April and May.

Key data updates will be important …

On the day following the Statement the Governor spoke at a business conference. He noted that: "Before our next Board meeting, we'll have important data on employment, … [the] monthly inflation indicator, … retail spending and the business survey. …. If collectively they suggest that the right thing to do is pause, then we'll do that."

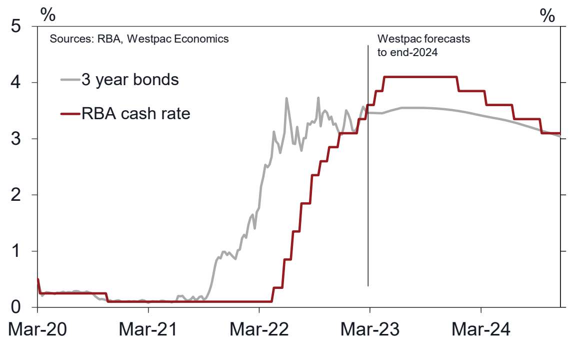
… but risk of a big Fed move could make a pause tricky.

Employment and the monthly inflation indicator are both volatile particularly when following the highly seasonal January period. In addition, he has the added uncertainty that the market is now pricing in a 50% probability of a 50bp increase from the Federal Reserve on the morning of March 23 – less than two weeks before the April meeting. Pausing in the face of a '50' by the FOMC would be a brave move indeed.

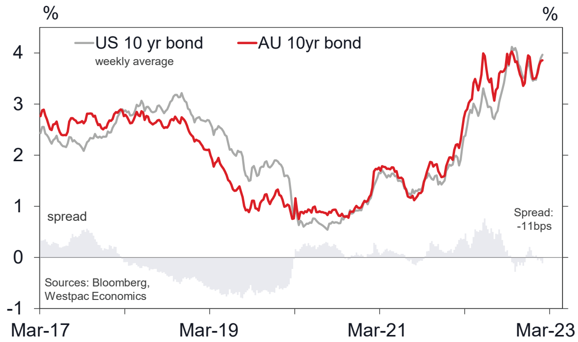
Bill Evans, Chief Economist

... but rates still expected to go higher

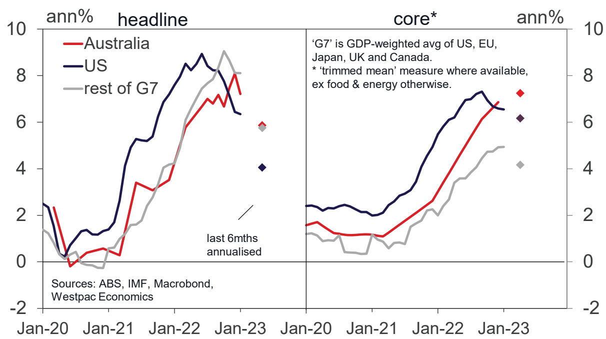
RBA cash rate and 3 year bonds



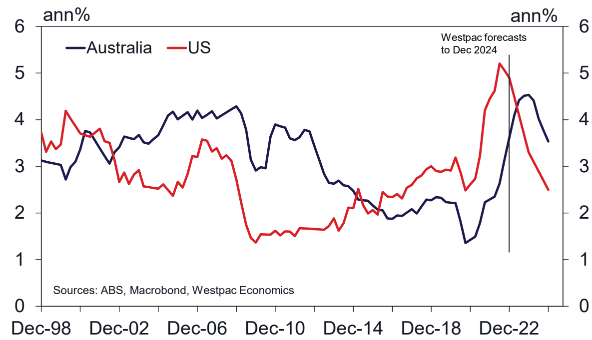
10 year bonds yields: elevated



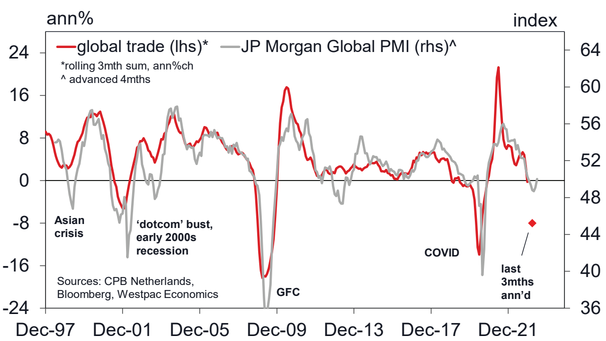
Global inflation showing signs of peaking



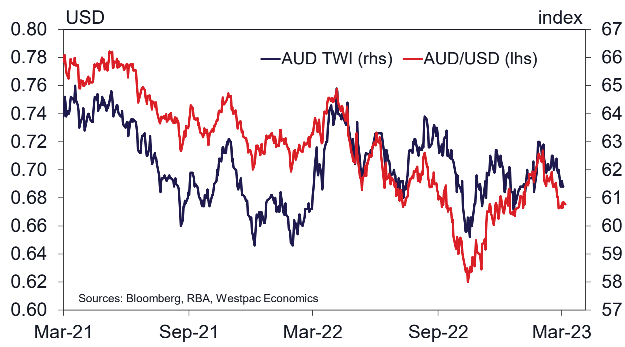
Wages growth: Australia vs US



Global trade contracting



AUD/USD & AUD TWI



Downside surprises on wages and activity …

Economic growth is set to slow sharply in 2023, to a well below trend 1% …

Over the past month, key updates on the Australian economy for the December quarter – the Wage Price Index (WPI) and economic activity in the national accounts – both provided downside surprises. The WPI printed a quarterly rise of 0.8% compared to market forecasts of 1%; and economic activity lifted by 0.5% in the period compared to market forecasts of 0.8%.

The measures of wage pressures in the national accounts also confirmed the benign signal from the WPI, although a sharp deterioration in productivity saw unit labour costs surge by 7% for the year, highlighting the inflation risk from wider labour costs. Inflation indicators in the national accounts were also strong, confirming that inflation was far too high in late 2022.

… as high inflation and higher interest rates impact.

Strikingly, the December quarter National Accounts raised alarm bells about household finances and revealed weak domestic demand conditions as high inflation and higher interest rates impact. The RBA Governor has talked about the 'narrow path' that would rein in inflation while keeping the economy on an even keel. The national accounts highlighted the many risks associated with this narrow path.

Australia's economy ended 2022 on a soft note …

Domestic demand was flat in the quarter, the weakest outcome since June 2014 (outside of the lock-down quarters during 2020 and 2021). The stalling of domestic demand was associated with consumer spending growth slowing from 1.0% for the September quarter to only 0.3%. The flat result for wider domestic demand came from: a decline in home building activity on an unfolding downturn in renovations work, –0.9%; a dip in business investment, -0.8%; and a cresting of public demand at a high level, edging 0.2% higher in the period.

The slowing of consumer spending growth was despite a significant fall in the household savings rate from 7.1% to 4.5%, which effectively 'freed up' $9bn of spending capacity – compared to an increase in actual spending of around $6bn. In other words, spending would have fallen if households had not opted to put less of their income towards savings.

… domestic demand stalling in the December quarter …

The household sector faced some extraordinary pressures during the period. Nominal disposable income contracted by 0.7% weighed down by a 7.4% lift in tax payments and a 22.4% increase in interest payments – the latter to an all-time high in dollar terms ($25.2bn). The increase in tax payments partly reflects rising employment and rising wages but there is a considerable base effect coming from an unusually small increase in the September quarter (partly affected by the Low and Middle Income Offset which lowered tax payments in the September quarter). The fall in real wages (inflation at 7.8% in 2022 compared to wages growth of 3.3%) contributed to a record fall in real disposable income of 2.2% (outside the volatile pandemic period).

.. as consumer spending growth slowed from 1% to 0.3%.

The interaction between negative real wages growth; rising tax and interest payments; labour income growth; and the draw-down in excess savings will dictate household incomes and spending over 2023 and 2024 – and in turn, the path of growth in the overall economy. While Westpac was surprised by scale of the contraction in real incomes in the December quarter, we see this development as broadly consistent with our long held downbeat outlook for consumer spending in 2023 and 2024.

Household incomes are under pressure on a number of fronts …

We expect the contraction in real wages to end in 2023 but with very little in the way of gains – wages and inflation both tracking 4% in 2023, and 3.2% and 3% respectively in 2024. However, with slower employment gains in 2023 and 2024 total labour income growth will be much weaker. Meanwhile there will be more pressure from rising rates near term, with two 25bp hikes already passed and another two expected by mid year. Rates are forecast to fall by 100bps in 2024.

Consumer spending is likely to continue drawing support from a lower savings rate, which is expected to settle at around 2% by the end of 2024. This represents a partial draw-down on the reserve accumulated during the pandemic. We expect households to draw down around $50bn in 2023 and $70bn in 2024 out of the $300bn in excess savings that has been accumulated.

… rising interest payments; taxes; lower social assistance payments; and high inflation.

In summary, slowing employment growth; low confidence; drags from higher tax payments and interest costs will weigh heavily on the household sector over 2023 and 2024. Cyclical offsets to these negative forces as we move through 2023 and 2024 will be: stability in real wages and the capacity to draw down on excess savings balances.

We have not materially lowered our growth forecasts for consumer spending in 2023 and 2024 despite the alarming signal around household finances. Our already very modest forecasts for consumer spending growth have been trimmed from 1% to 0.7% in 2023 and from 2% to 1.5% in 2024.

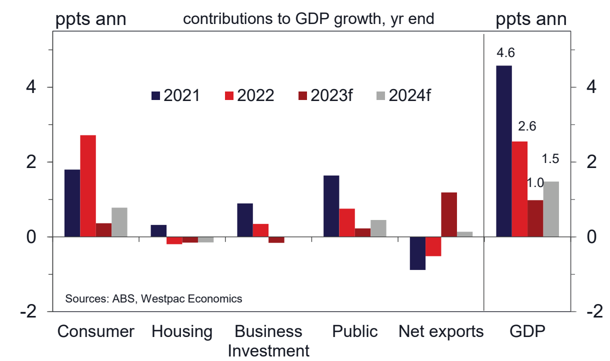
Large saving buffer and a tight labour market will cushion the downturn.

These adjustments see our GDP growth forecast hold at 1% for 2023 and trimmed from 2.0% to 1.5% for 2024. Other important developments remain largely unchanged – equipment investment down by 6.5% in 2023 and 3% in 2024; dwelling investment down 3.2% in 2023 and 2024; while net exports contribute 1.2ppts to growth in 2023 (upgraded from 1ppt) and 0.1ppt in 2024.

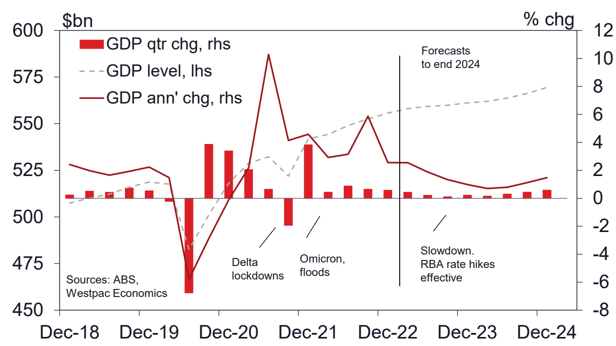
Bill Evans, Chief Economist

… with household incomes under intense pressure

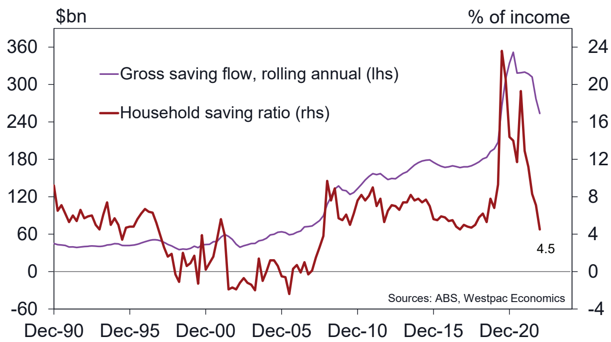
Australia: the growth mix



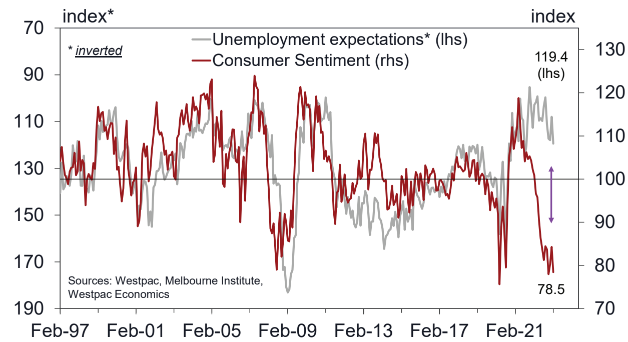
Australian economy: sharp slowdown in 2023



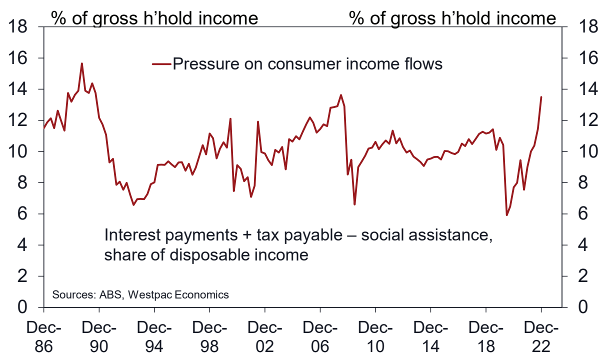
Household saving ratio and gross saving flow



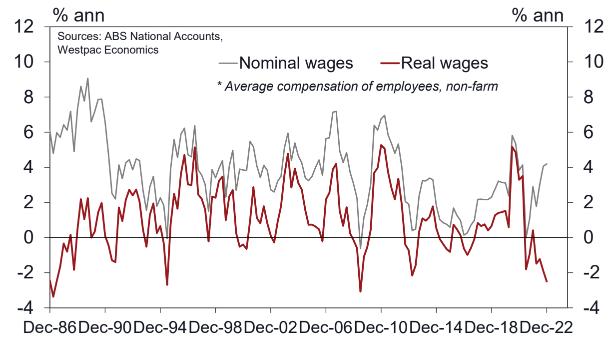
Consumers: Sentiment & unemploy' expectations



Pressure on consumer income flows



Wages – inflation squeeze



China reopening has been a positive …

Westpac's Commodities index fell 5% in February …

Westpac's broadest commodities Index (the Westpac Export Price Index) describes an overall soft month for commodities, having fallen just under 5% since our February report. As is often the case, there has been volatility in individual commodity prices with the most significant being the 23% fall in Newcastle thermal coal prices to US$194/t. Meanwhile, hard coking coal has managed to hold on to most of its recent gains, falling around 3% to US$330/t, while iron ore has firmed on the reopening of China to be up almost 2% in the month. By contrast, crude oil prices have been flat in the month while the JKL futures suggest that Australia's LNG export prices may have fallen by as much as 10%. Base metals prices have been under pressure, with some taking the view that the National People's Congress (NPC) was not as conducive for demand as hoped for. We do not subscribe to this view but nevertheless base metal prices are down a bit more than 4% with nickel leading the charge (-12%) and aluminium (-5%) and zinc (-3%) also taking a hit. Our rural commodities index fell 7% in the month.

… led by a 23% fall in thermal coal prices.

Our readers may remember that back in December we were in the very unusual position where thermal coal, at $422/t, was trading at premium to met coal at US$230/t due to the surge in EU demand for high quality thermal coal resulting from a shortage of gas and coal supplies out of Russia. On top of that, weather disruptions in Australia meant Australian exports were below average and not able to respond to the amazing surge in thermal coal prices. We knew this situation could not last as the market would rebalance, but the speed of that rebalancing has been faster than anticipated. Since our December report, Newcastle thermal coal has fallen 40% while met coal has lifted 48%.

With met coal falling just 3%, the met coal premia to thermal coal has returned.

The extreme volatility associated with the disruptions to Russian energy supplies has, in the case of Australian exports, manifested in coal markets. Since December, EU gas prices have fallen more than 50%, the JKM futures down by a similar amount over the same period. More broadly, since the Russian invasion of Ukraine on the 24th of February 2022, Brent prices are now 10% lower, thermal coal is down 24% while met coal is down 19%. Australia's average LNG export prices are about 8% higher than at the invasion – our exports tend to be contract-based so are slower to move, and less volatile, than spot or futures prices.

EU gas prices have halved since the December peak …

China's reopening has proceed better than broader market expectations with many updating their growth forecasts from 'starting with a 4' to 'starting with a 5'. Westpac's forecast was already 6.2% as we had a more constructive view on the outlook for the Chinese economy, so our forecast remains unchanged even though the NPC has set this year's growth target at "around 5%". Recent key indicators that confirm the better-than-expected reopening include: 1) a feared 'second-wave' of COVID has failed to materialise; 2) subway traffic and urban traffic congestion has climbed back above 2019 levels; 3) property sales look to have surpassed 2022 levels and are climbing back to 2019 levels; and 4) the February manufacturing PMI which came in at 52.6, the highest in a decade, confirming the strength of the economic recovery.

… but Australian LNG export prices are less volatile than global spot prices.

From here the supply of coal is likely to pick up. The Australian Bureau of Meteorology (BOM) have suggested that the wetter-than-usual La Niña conditions are nearing an end. February was drier than average across most of Queensland's coal regions and the BOM expects above-average rainfall to ease over the next few weeks with the March to May period likely to be drier than average. Coal exports from Gladstone halved in February compared to January, hitting a decade low following a derailment that disrupted deliveries. Despite this potential lift in supply, met coal prices remain buoyant with muted trading as many remain on the sidelines waiting for further clarity. This improving outlook for Australian coal supply is a clear downside risk for prices.

Chinese iron ore demand has firmed but input costs are squeezing steel mill margins.

Chinese pig iron production lifted 6% in the last week of February to be up around 9% through the year, reflecting the usual post Lunar New Year lift in demand. Chinese crude steel production is up 2%yr. Due to elevated input costs (iron ore, met coal and scrap steel) Chinese rebar margins remain under pressure but this was contrasted with a 1% drop in iron ore port inventories in the last week (inventories had lifted around 5% since early February). Iron ore demand from the rest of the world remains weak at -9%yr and is unlikely to lift in a significant way in 2023. We continue to forecast a correction in iron ore prices though the year, to US$100/t by year-end, as we expect demand to be broadly flat through the year while the supply of ore from Australia and India is set to lift while high prices will continue to draw out more scrap steel.

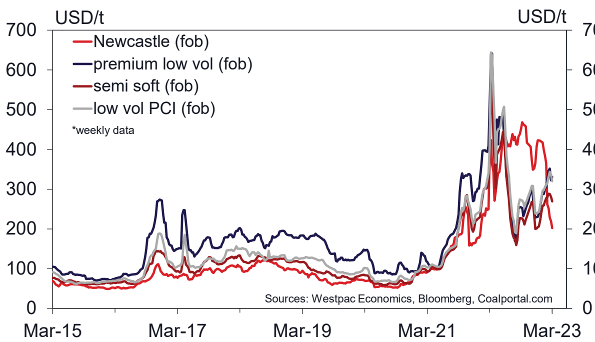
OPEC+ pricing power is returning.

The US is handing the mantle of price-setting producer back to OPEC+. Despite a robust outlook for crude oil demand (the EIA continues to upgrade its forecast for global crude and liquids consumption in 2023) the number of oil rigs active in the US is still some 32% lower than the pre-COVID peak in late 2018/early 2019. OPEC+ production is also still 8% below pre-COVID peaks and yet total crude supply in February was estimated to be just 1% lower than pre-COVID levels. The extra supply has come from non-US non-OPEC+ production. Both non-OPEC production outside of North America, and North American production are back to pre-COVID levels, highlighting current supply growth is coming for the more marginal producers

Justin Smirk, Senior Economist

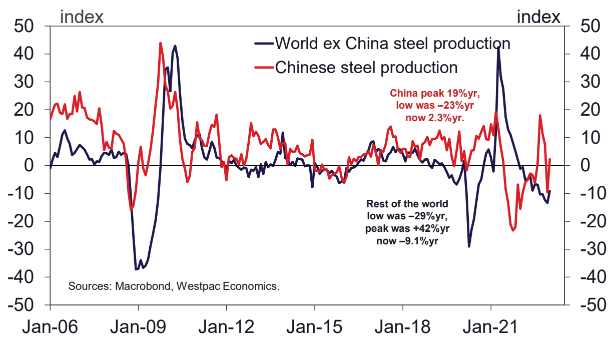
... but there is a bigger story out there

Thermal coal back below met coal

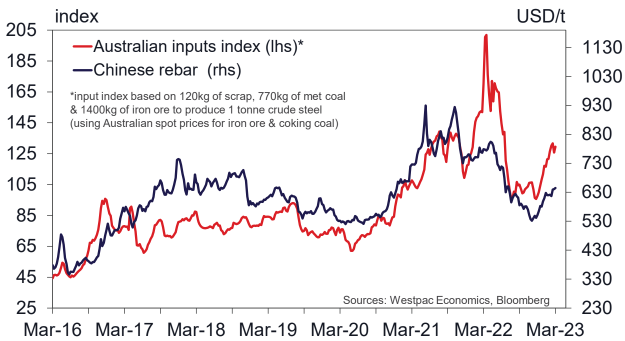


Growth in global steel production

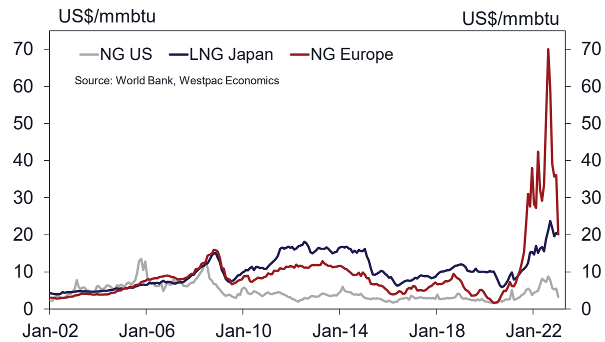
Steel production -3%yr; rest of the world -7%yr, China 2%yr



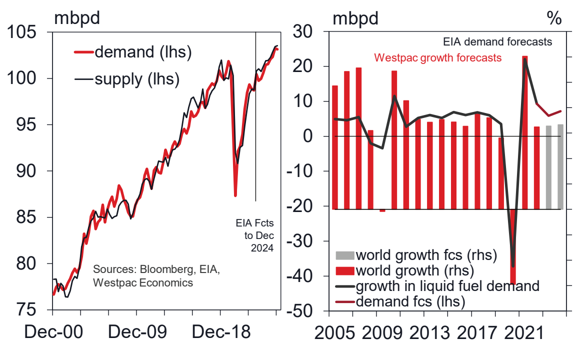
Chinese rebar & input costs



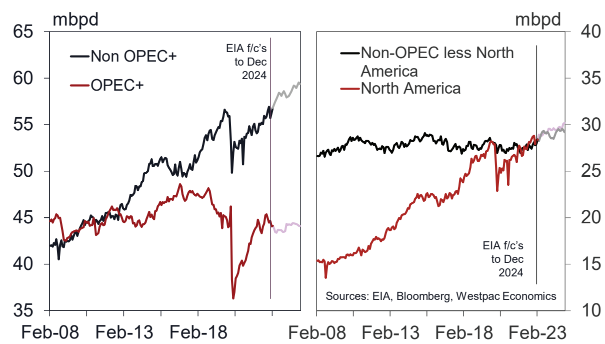
EU's gas price shock is less extreme in 2023



Crude demand continues to firm



OPEC+ has tightened supply, non-OPEC on trend



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

US dollar is fragile ...

Data and sentiment continues to favour the US dollar ...

The past month has been favourable for the US dollar, with yet another wave of inflation uncertainty permeating through markets. From 103.3 mid-February when the last edition of Market Outlook was released, the DXY rallied to a high of 105.9 (+2.5%), now 105.2.

... but increasingly the currency is struggling to swim with the tide.

Dollar appreciation initially came as a result of upward revisions to the CPI and PCE indexes to December 2022 and more persistence in the January outcomes. Albeit not of a scale that should have caused concern, the market's subsequent response to the rebound in the ISM manufacturing prices paid series in February highlighted that participants' risk assessment remains skewed.

Another way to look at this is through market pricing for the fed funds rate and the 10-year yield. For fed funds, the mid-year peak forecast of the market is now 30bps higher around 5.50%. More importantly, expectations of a rate cut by year end are now marginal, with 2024 seen by market participants as the most likely start date for the cutting cycle.

Around mid year, sentiment will shift against the US dollar, in favour of growth.

The 'higher-for-longer' view has also been priced into the US 10-year, its yield having risen from 3.70% last month to an end-of-day peak of 4.06% last week, currently 3.87%. Note though that the substantial degree of curve inversion still speaks to an eventual end to inflation risks as well as consequences for the economy from contractionary policy come late-2023 and 2024.

Of the DXY pairs, Euro is positioned to outperform through 2023 and 2024.

Given that these inflation risks have been priced while activity data showed resilience, and also considering the 2022 peak for DXY was 9% above spot at 114.8, it could be argued that the US dollar underperformed last month. This conjecture highlights that foreign exchange is a relative game. At the same time the above developments occurred in the US, it became evident that: Europe did not enter recession at end-2022; the ECB's comfort with activity and concern over inflation will require further rate hikes to mid-2023; and Asia's economy is primed for growth.

In our view, the above confluence of factors points to a material decline in the US dollar into year end, and again through 2024. Our forecasts for DXY is essentially unchanged from last month at 100 and 96 for end-2023 and end-2024 respectively (-5% and -9% versus spot).

Sterling and Canada's dollar are likely to lag, at least in 2023.

Dictating the DXY trend to end-2024 will be Euro which is set to benefit not only from Europe's economic resilience, but also export opportunities in Asia and the developed world, both for goods (high-value machinery and production inputs) and services (tourism). From USD1.06 currently, we expect Euro to appreciate to USD1.11 by December and USD1.15 by end-2024 (+5% and +8% from spot respectively).

Yen is also likely to be held back, although the growth of the rest of Asia ...

Despite the UK having more limited export opportunities than Europe, Sterling is expected to perform in line with Euro to end-2024 given its weak starting point. From USD1.19 today, we expect an end-2023 level of USD1.24, then USD1.28 at end-2024 (4% and 8% versus spot respectively). Uncertainty is also likely to linger over the Canadian dollar given policy is now on hold and its economy looks to be turning down. Though, as developing markets show strength and global growth steadies, Canada's commodity endowments are likely to aid national income and the currency. By end-2024, we expect Canada's dollar to have appreciated against the USD dollar by a similar degree to Euro, USD/CAD falling to CAD1.26 (9% from spot).

Global inflation risks have buffeted developed and developing Asia alike over the past month. The anticipated reversal of these risks and the implications for the region's currencies are likely to be equally as broad based. However, thereafter we see scope for developing Asia to outpace the likes of Yen in 2024 and beyond.

... should give support in time. China and India are primed for strong gains.

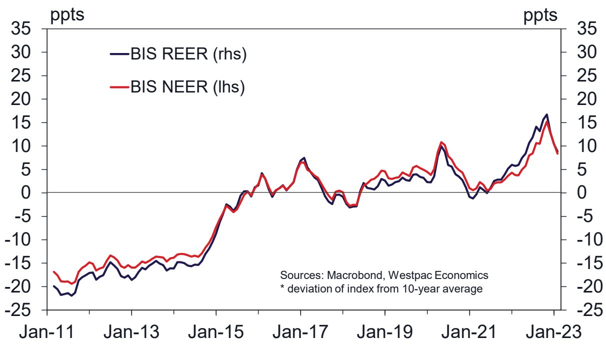
Between now and end-2024, USD/JPY is expected to decline from JPY136 to JPY126 (-7%). Meanwhile, USD/CNY and USD/INR are forecast to fall from CNY6.97 to CNY6.10 and from INR82 to INR72 respectively (both -12%).

The reason for the forecast differential is two-fold: 1) developing markets will benefit greatly from the global shift from risk-off to risk-on as inflation and global recession fears abate; and 2) into the medium-term, the growth prospects for countries like China and India are a multiple of the developed world, and importantly they are to be driven by greater productivity and capacity as well as a raising up of the middle class, not mere efficiency. Note that achieving growth in this way should allow these nations to hold on to their competitive advantage, creating scope for further appreciation in the long run.

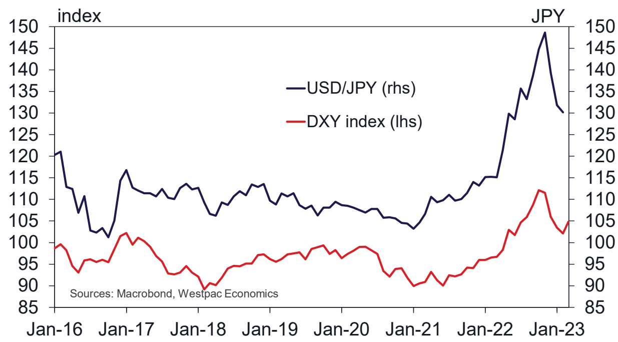
Elliot Clarke, CFA, Senior Economist

... and poised for another leg down

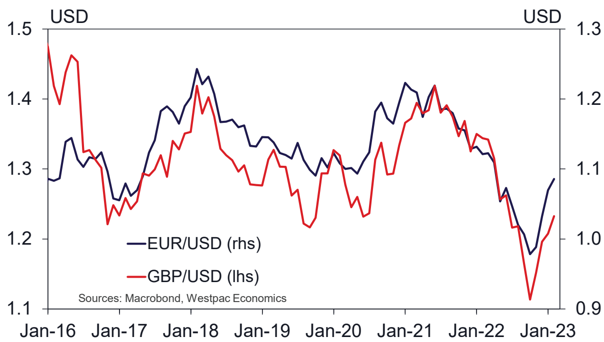
USD still historically elevated on broad basis



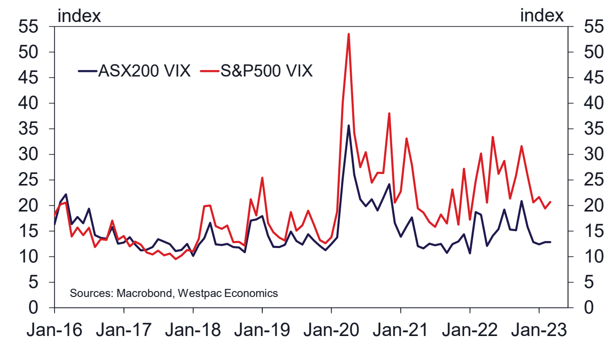
JPY continues to give DXY material support



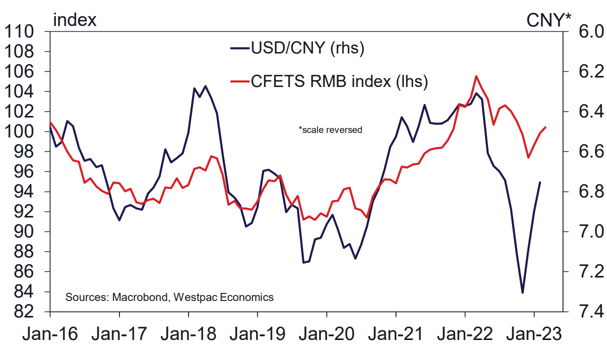
EUR & GBP negatives to fade in '23



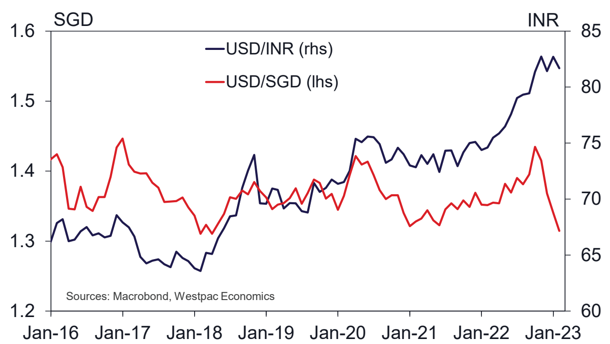
Distance from source of uncertainty a +'ve



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



Economic activity set to turn down sharply ...

The RBNZ hiked the OCR by 50bps in February ...

As expected, the RBNZ delivered another large 50bp hike at its February policy meeting. This was the latest in a string of large interest rate increases, and took the cash rate to its highest level since 2008. Underlying the rapid rise in the cash rate over the past 18 months has been a very familiar story: the economy has been running hot, productive capacity and the jobs market are stretched thin, and inflation pressures are boiling over. Against that backdrop, tighter policy is needed to get inflation back inside the RBNZ's target band. However, there is more uncertainty around exactly how much more tightening will be needed.

... and the RBNZ has signalled further hikes are coming.

Back in November, the RBNZ's forecast signalled a 5.50% peak in the cash rate. Since then, inflation has fallen short of the Bank's earlier forecast for a rise to 7.5% but remained strong at 7.2%. Accordingly, we had expected the RBNZ's updated policy projections to indicate the cash rate could rise by slightly less than had been previously signalled.

The central bank has instead remained resolute: stating that inflation is much too high, and higher interest rates are still needed to bring it down to more sustainable levels.

We have revised up our forecast for the peak in the OCR to 5.50%.

Given the RBNZ's clearly-stated intentions, we have reversed the change we made to our forecasts in the wake of the December quarter inflation report. We now expect the OCR to rise to a peak of 5.50% in mid-2023 (previously, we were forecasting a peak of 5.25%).

The past year has seen a significant tightening in financial conditions.

As discussed in our latest *Economic Overview*,[1] the combination of continued high inflation and a sharp rise in borrowing costs foreshadows significant changes in the economy over the year ahead. The housing market has already turned down sharply, with house prices falling by an average of 15% across the country since the start of the tightening cycle. And with interest rates set to continue pushing higher, we are forecasting further falls in house prices over the year ahead. Coming on the back of the declines we have already seen, this will leave nationwide house prices down 21% from the highs reached in 2021. New Zealanders hold a large amount of their wealth in owner-occupied or investment housing. Consequently, the fall in house prices signals a sizeable knock to net worth for many households that will in turn weigh on their appetite for spending.

Household finances are coming under increasing pressure.

In addition, over the coming year increasing numbers of households will be affected by the rise in borrowing rates. Most New Zealand mortgages are on fixed rates, and many borrowers are still on the very low rates that were on offer through the pandemic. Around half of all mortgages will come up for repricing in the next twelve months, and many borrowers will face re-fixing at much higher rates. In some cases, borrowers will face interest rate increases of 2 to 3 percentage points.

... and spending is set to turn down sharply over the year ahead.

These large increases will take a big bite out of disposable incomes for many households. And combined with the large increases in consumer prices and a weaker housing market, this will be a significant additional drag on demand. Putting it all together, we expect to see per-capita spending levels falling by around 2% over the next few years.

Business conditions are also cooling.

Household spending accounts for around 60% of total economic activity, and the expected weakening in demand will drive a broader slowdown in economic growth over the coming years. The majority of businesses in recent surveys have already reported that trading activity has turned down over the past few months, with many builders and retailers also reporting a fall in forward orders. Combined with mounting pressure on operating costs, this has seen growing pressure on margins and many businesses pare back their plans for capital expenditure.

The tightening in financial conditions is expected to see the economy tip into recession by the end of this year.

As households and businesses feel the full brunt of tighter financial conditions, we expect the economy will slip into recession through late-2023 and early-2024. We are forecasting a contraction in economic output of around 1%, along with a related rise in unemployment to 5.2%. This would be a modest recession by historical standards: much less severe than the 2008-09 recession during the Global Financial Crisis, but comparable to the one in 1997-98 during the Asian Financial Crisis. Both of these recessions were also preceded by a rapid tightening of monetary policy in New Zealand.

Recent storms have caused significant damage, but are not expected to prompt a response from the RBNZ.

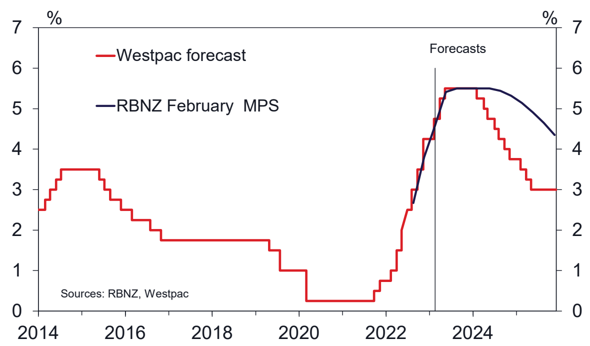
New Zealand is also dealing with the impact of recent severe storms which have caused billions of dollars of damage to housing, infrastructure and other assets in the North Island. These events have also resulted in significant damage to primary industries like horticulture. The necessary reconstruction work will take several years and repair spending will add to inflation. However, this shock is not expected to prompt a policy response from the RBNZ, especially as the significant rise in interest rates to date will help to contain inflation pressures more generally.

Satish Ranchhod, Senior Economist

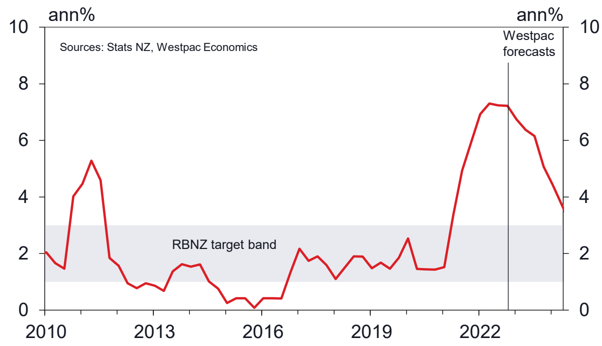
1 https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2023/Other/Economic-Overview_QEO_report_28Feb23.pdf

… as high inflation and interest rate rises weigh on demand

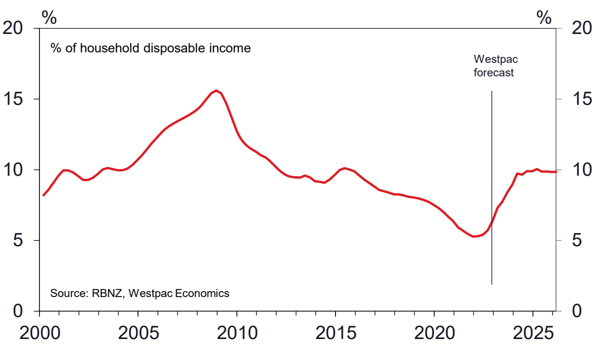
RBNZ Official Cash Rate



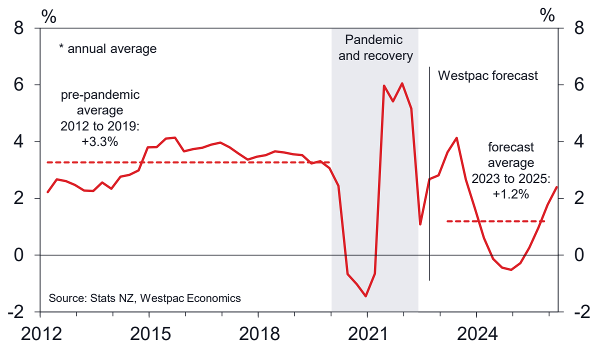
Consumer price inflation



Household debt servicing



GDP growth



	2022									2023	
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
REINZ house sales %mth	–2.4	–1.0	–2.3	–10.5	–0.4	3.0	–2.5	–4.4	–6.7	–7.2	2.2	–
Residential building consents %mth	6.2	–8.8	–0.8	–2.3	4.6	–1.9	3.4	–10.9	6.7	–7.2	–2.1	–
Electronic card transactions %mth	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	6.9	6.8	6.4	6.1	5.6	5.7	5.6	5.1	4.9	4.6	4.2	–
Commodity prices %mth	3.9	–1.9	–4.3	–0.4	–2.2	–3.4	–0.6	–3.4	–4.0	–0.2	–0.9	1.3
Trade balance $m	–1155	–836	–874	–1598	–1732	–997	–744	–1648	–1663	–1004	–1457	–

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.

Inflation to return to target ...

Concerns over the likely persistence of US inflation ...

In the brief time since our last Market Outlook in mid-February, expectations around the US economy and monetary policy have shifted. Highlighting the scale of the change, the market's peak fed funds rate expectation and the 10-year bond yield have both risen around 40bps, to near 5.625% and 4.00% respectively.

This combination of rate increases points not only to greater uncertainty around the peak fed funds rate for this cycle, but also the time contractionary policy will need to remain in place. Against a 'neutral' level of 2.50%, the 10-year yield is pointing to significant pain for US households and financial markets for quite some time.

... remain front and centre for markets fixated by the level and timing ...

What has driven this revision? The positive is that activity in the US economy has shown greater resilience over year end than many had feared, with the data overall consistent with Westpac's expectation of stagnation through 2023 rather than fears of recession. The negative is that this resilience in activity has been paired with evidence of greater persistence in inflation.

The initial data that caught the market's attention is, in our view, actually not a concern. Each year at this time, the BLS revise the CPI to December of the previous year. Weights are revised and seasonal adjustments re-estimated.

... of the peak in US rates.

Most notably, the weights of the components that have seen the greatest price appreciation rise while others fall to compensate. In this instance, the strength and significance of shelter saw a material upward revision to the annual CPI at December, heightening the market's inflation fears.

The reality though is that a higher starting point for shelter and the CPI overall is actually a positive for the forward inflation view, particularly as market measures of rents are pointing to a substantial, enduring period of shelter disinflation. What is a concern though is the ongoing strength in discretionary service categories such as 'lodging away from home' which gained 1.2% in January to be 7.7% higher over the year, and recreation which is 4.8% higher than a year ago.

Responding to the FOMC's rhetoric and the market's nerves, we have added...

Also signalling greater uncertainty over inflation in the months ahead, apparel gained 0.8% in the month despite goods consumption essentially having flat-lined through the second half of 2022. Along with the latest ISM manufacturing price paid outcome and PPI report, the result for apparel indicates that the sharp fall in the US dollar since September 2022 may be creating some inflationary pressure at the margin, with US businesses of the view that the level of demand is still robust enough to accept price pass-through.

... two more hikes in mid-2023 and continue to believe rate cuts will be delayed.

We have responded to these occurrences, adding two more hikes to our fed funds rate profile to leave a peak forecast of 5.375% at June 2023. The timing of the first cut remains March quarter 2024, the lengthy pause deemed necessary to quell residual inflation pressures and risks. That said, we continue to have confidence in our forecast that headline inflation will essentially be back at target in the second half of 2023 on a six-month annualised basis. This is a pace we expect to be broadly maintained through 2024.

Still, we are confident annualised inflation will be back near target by late-2023.

Arguing in favour of this view is not only the trajectory of home rents, but also the abrupt slowing seen in wage growth which we expect to continue. The JOLTs survey also points to a dramatic slowing in employment growth which, paired with accelerating population growth, will spread greater caution amongst households over their job and income prospects. Real wealth has also been hit, and the level of rates has drastically changed the calculus for home affordability.

As we move to 2024, it looks as though the primary risk for the US economy will become the time it takes for the economy to accelerate back to trend growth and whether the output gap created by this period of high inflation and rates can be recovered.

The cost to activity of tight policy will then be understood.

At this stage, we are circumspect on the US economy's prospects, believing that the consumer is likely to take their time accelerating demand while businesses hold off on investment amid continuing uncertainty. We do not expect trend growth to be seen again until mid/late-2025 and thereafter anticipate only a marginal closing of the output gap.

Note though, weak activity is not necessarily disinflationary.

Of course, this not only raises risks regarding the robustness of growth, but also for inflation. If investment is not undertaken to replenish and expand capacity, price rises will prove necessary to ration demand. Specifically with respect to housing, challenging affordability is likely to create a captive market of renters for the institutional landlords who increasingly control new supply in major US cities.

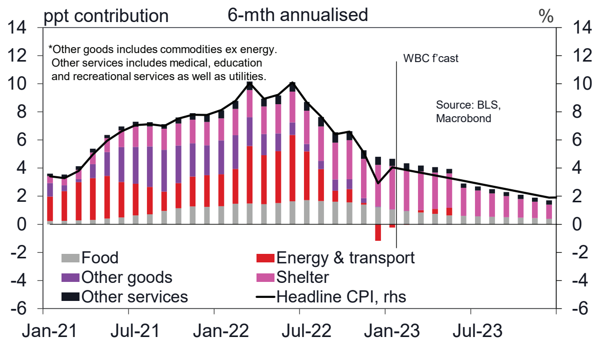
If capacity is impaired, above-target inflation could return.

After a period of at-target inflation, late-2025 and beyond may see yet another acceleration to a materially above-target pace, even with growth remaining around trend and persistent labour market slack. This would not be a good state of affairs for the US, particularly with the level of government debt already hanging over the economy.

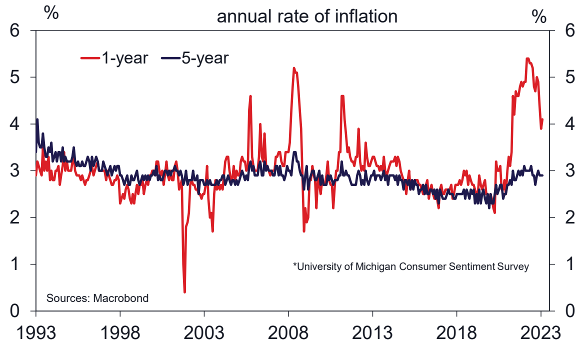
Elliot Clarke, CFA, Senior Economist

... but risks will linger

US inflation downtrend established

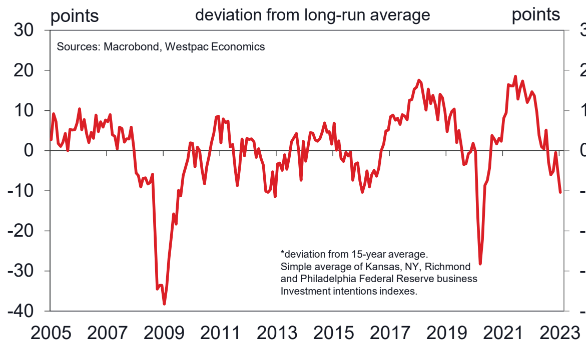


Households see inflation easing, eventually



Job openings & hiring have lost momentum

Investment at risk of sustained weakness



	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	5.6	5.3	5.4	–
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	4.7	–	–
Durables orders core 3mth %saar	9.6	5.1	8.2	7.5	9.0	10.8	3.4	1.9	-2.4	-0.5	1.3	–
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	47.7
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	55.1
Personal spending 3mth %saar	13.5	9.7	9.5	9.3	7.3	7.6	5.1	8.7	4.9	1.9	6.0	–
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	67.0
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	2.7	1.6
Current account USDbn	-224.8	-282.5	-238.7	-217.1	–	–

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

China's dominance in the green transition ...

The US wants its own industry to benefit from the global green transition ...

The signing into law of the US Inflation Reduction Act last August was seen as a breakthrough in the global green transition, with an estimated $370bn to flow to investment across the US economy to achieve ambitious emission reduction targets. However, this legislation also set up strict limits around commodity and component sourcing for the goods required for this investment. A simple example highlights the absolute nature of these rules.

... and, in order to do so, plans to try to hold China back.

The adoption of electric vehicles is a key means by which US emissions are to be reduced in coming decades given transport represented 27% of all 2020 emissions. The inflation reduction act incentivises change by offering a large tax credit to EV purchasers. But to qualify for the full credit, the EV needs to be assembled in North America and, by 2026, 80% of the battery's components by value must also come from the US or nations with a US free trade agreement.

Why is this policy decision a concern for the global green transition? Because China, who certainly does not have a free trade agreement with the US, is essential to the global supply of electric vehicles and componentry as well as many other goods critical to the green transition.

However, China has an impressive lead and is continuing to invest at pace.

To give a sense of China's importance to global supply, BloombergNEF estimate that China represents over 70% of battery cell production, lithium refining and wind turbine nacelles. More significant still, China is also currently producing over 95% of the global supply of solar wafers and ingots.

Given the pivot China is making into Asian markets and the need the region has for green energy and transport, any Chinese-produced products that the US does not want could instead be marketed to Asia, not to mention other developed and developing nations. The US decision to impose protectionist measures on production related to the green transition is therefore principally a threat to its own emission reduction goals, not China's strength.

Even if protectionist measures broaden, China will still be in a strong position ...

The fringe risk however is if the US splinters the global production chain by encouraging other countries to apply similar restrictions against China. This has been seen already for semiconductors and related machinery. Even if broader action were to be taken against China, it would still have its own domestic demand and that of the developing world to satiate, admittedly with less of a profit margin.

The developed world would meanwhile face higher transition costs, lacking the production and logistic chains to produce componentry as efficiently as China does. Competition and inefficiency in the sourcing of commodities, labour and freight would add further uncertainty to costs and supply to end users.

... given burgeoning developing-world demand.

The financial bill to the world could become substantial, but it is the time delays in adoption and emission reduction and the adverse impact on the environment that will prove most costly. Even if the US and other nations were to dramatically ramp up investment in their own supply chains and prove successful, it would be years before enough capacity came online to meet their own needs let alone those of other countries.

The developed world would face higher costs and tighter supply, slowing change.

All the while, China will be moving ahead, using the productive capacity already built and that under construction to reduce emissions and increase productivity while also strengthening relationships across the developing world. Ironically then, the stand that US authorities have taken against Chinese supply may, in the long run, improve China's political standing and economic power.

Elliot Clarke, CFA, Senior Economist

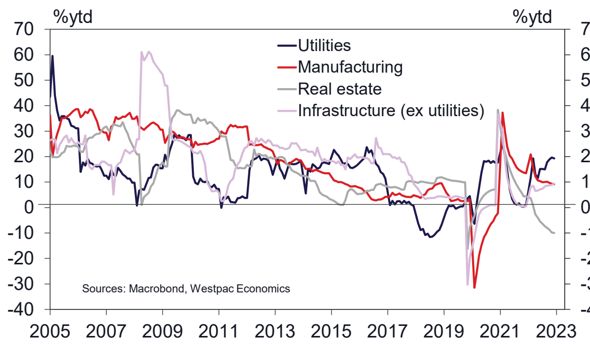
	2022										2023	
Monthly data %yr	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
Consumer prices – headline	1.50	2.10	2.10	2.50	2.70	2.50	2.80	2.10	1.60	1.80	2.10	–
Money supply M2	9.7	10.5	11.1	11.4	12	12.2	12.1	11.8	12.4	11.8	12.6	–
Manufacturing PMI (official)	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6
Fixed asset investment %ytd	9.3	6.8	6.2	6.1	5.7	5.8	5.9	5.8	5.3	5.1	–	–
Industrial production (IVA)	5.0	–2.9	0.7	3.9	3.8	4.2	6.3	5.0	2.2	1.3	–	–
Exports	14.3	3.5	16.4	17.1	18.1	7.4	5.6	–0.3	–9.0	–9.9	–	–
Imports	0.7	0.1	3.5	0.0	1.6	0.0	0.2	–0.7	–10.6	–7.5	–	–
Trade balance USDbn	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

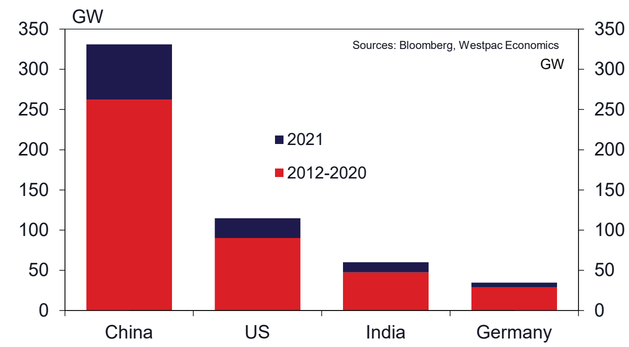
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

… not at risk

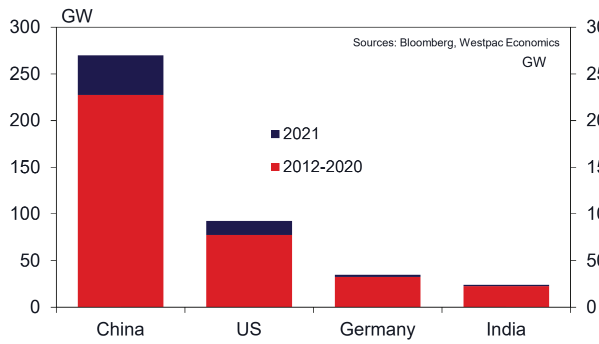
Investment promising for 2023 and beyond



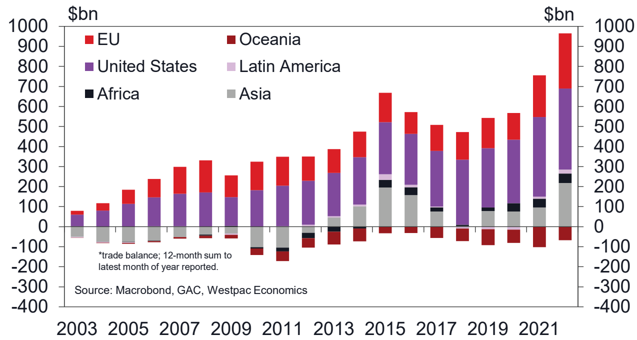
Chinese solar power capacity additions



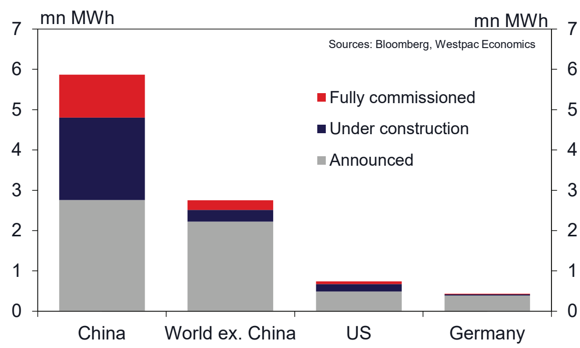
Chinese wind power capacity additions



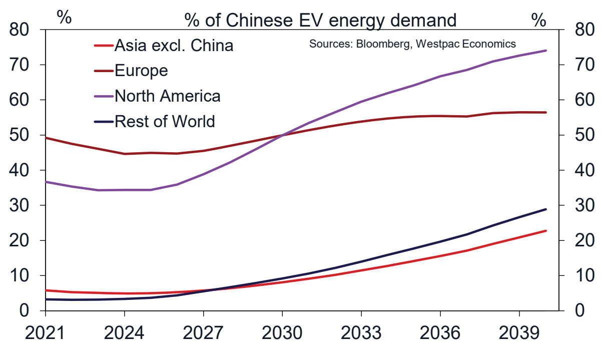
China is diversifying its export markets



Global lithium-ion battery manufacturing capacity



Global electric vehicle energy demand



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.

ECB's hawkish resolve to be tested ...

The ECB have taken on a more hawkish tone recently.

In the weeks since the ECB's decidedly hawkish February policy meeting, the data flow has continued to highlight the upside risk to inflation outcomes and has consequently strengthened the Committee's case for further interest rate increases over coming months.

Headline inflation is declining thanks to easing global disruptions ...

Like many other developed economies, Europe is currently experiencing a material deceleration in goods inflation. Reflective of the broad-spread easing in global commodity prices and supply chain disruptions, goods inflation has fallen from a peak of 15.1%yr to 11.7%yr, which encouragingly, drove headline inflation down to 8.5%yr in February. While certainly a welcome development, the chief risk for inflation now stems from services which tend to more closely capture the strength of domestic conditions.

... but momentum in services components has become the chief concern.

Services inflation posted a 0.9% gain in February, raising the annual rate from 4.4% to 4.8%. The component detail (available up to January) shows that the structure of services inflation is broadly spread and its momentum robust. Most notably, restaurants and hotels, which covers about a quarter of the services basket, has seen price inflation double from 4.1%yr in Jan 2022 to 8.2%yr in Jan 2023. Many other categories, including services related to housing, clothing and footwear, health and education, also continue to post robust gains. The remaining services categories have, at best, shown a considerable degree of 'stickiness' over the last few months, with the annual rates of inflation for services related to transport, furniture and furnishings, and recreation and culture all holding at levels three-to-four times their pre-pandemic average.

Strength in the labour market has been a resounding positive ...

In assessing the risks to the inflation outlook, particularly with regards to services, the strength of the labour market suggests that these are tilted to the upside, at least in the near-term. The unemployment rate is at an all-time low of 6.6%, and with high rates of participation among women and youths, unemployment rates by gender and age are also at historic lows. Coupled with record high job vacancy rates, it suggests that the Euro Area is at or near full employment, meaning it will likely take months before an observable degree of slack emerges in the labour market.

... but at this stage of the cycle, it represents a risk for policy.

This setting has been highly conducive to nominal income growth over 2022 and, as indicated by measures of negotiated wages and the surveys, some of this momentum carried through to 2023. This is the chief concern from a policy perspective, as robust nominal wages growth raises the risk of entrenching price growth, both via demand (higher household spending capacity) and supply (pass-through of wage costs). The supply dynamic will be most apparent in services given the labour-reliant nature of the industry.

The ECB will remain cautious, with another 100bps of tightening likely to follow.

The ECB will therefore likely maintain its hawkish resolve in March, referencing the resilience of the region's economy and highlighting the strength of the labour market, while noting its consequences for the momentum of underlying inflation and its broad-spread. However, it is important to recognise that the above risks are likely concentrated in the near-term. Evidence from the ECB's Bank Lending Survey suggests that the rate hikes to date have begun to impact, meaning slack in the labour market will likely emerge over the year and upside risks to services inflation will abate. After delivering the well-telegraphed 50bp rate hike in March, the pace of rate hikes will likely slow to 25bps in May and June.

Ryan Wells, Economist

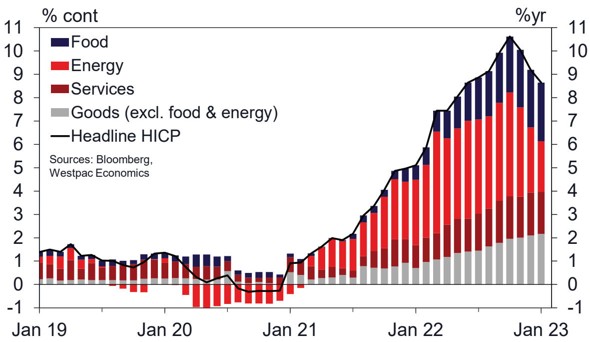
	2022										2023	
Europe	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
Eur consumer prices %yr	7.4	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5
Eur unemployment rate %	6.8	6.7	6.7	6.7	6.7	6.7	6.7	6.6	6.7	6.7	6.6	–
Eur industrial production %yr	-1.0	-2.5	1.6	2.2	-2.5	2.6	5.1	3.4	2.8	-1.7	–	–
Eur retail sales volumes %yr	2.3	5.1	1.2	-2.9	-0.8	-1.3	0.2	-2.6	-2.4	-2.8	-2.3	–
Eur consumer confidence	-22.0	-22.4	-21.5	-24.0	-27.2	-25.0	-28.7	-27.4	-23.7	-22.0	-20.7	-19.0
Eur current account balance €bn	-3.3	-15.0	-14.8	-9.4	-32.2	-38.6	-35.1	-0.7	12.8	15.9	–	–
United Kingdom												
UK consumer price index %yr	7.0	9.0	9.1	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	–
UK unemployment rate % (ILO)	3.7	3.8	3.8	3.8	3.6	3.5	3.6	3.7	3.7	3.7	–	–
UK industrial production %yr	-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	1.9	-6.3	-5.2	-6.3	-3.6	-5.4	-6.7	-5.5	-5.7	-6.1	-5.1	–
UK consumer confidence	-31	-38	-40	-41	-41	-44	-49	-47	-44	-42	-45	-38

Quarterly data	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**
Eur GDP %qtr/%yr	2.0/14.3	2.3/4.0	0.5/4.9	0.6/5.5	0.9/4.4	0.4/2.5	0.0/1.8
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	-2.5	-19.1	-2.4	-46.5	-35.1	-19.4	–

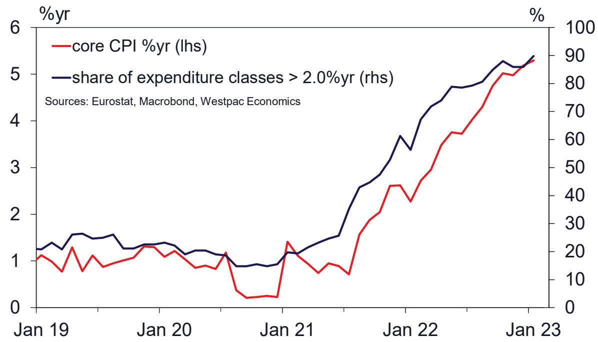
Source: Official agencies.

... by near-term strength in labour market and inflation

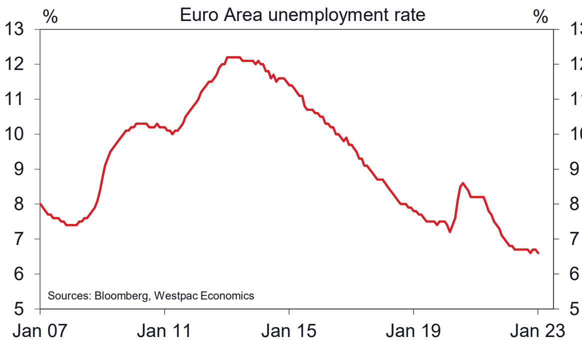
Energy inflation unwind materialising



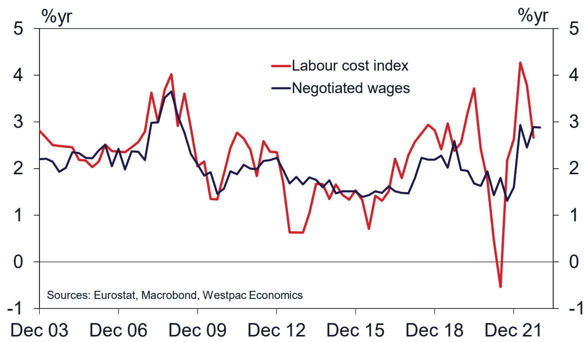
Services inflation still an underlying pressure



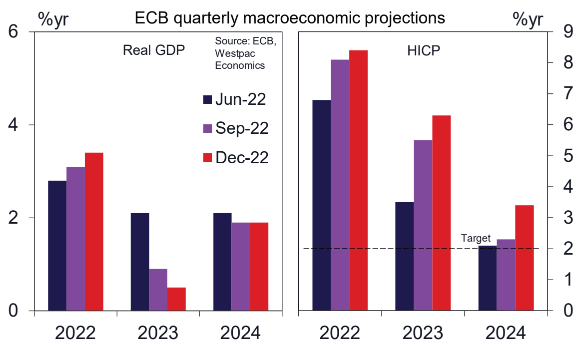
Labour market remains historically tight



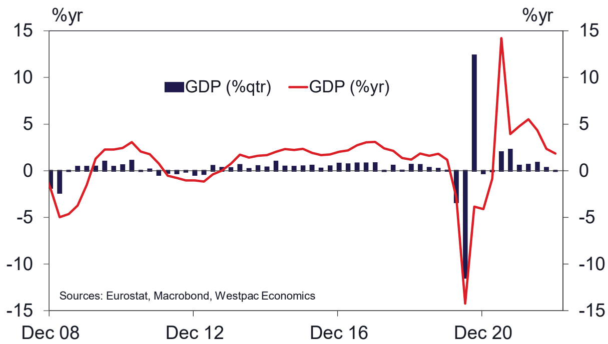
Wages growth at robust levels



Long-term inflation above target



Growth stalled into year-end



Australia

Interest rate forecasts

	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.60	4.10	4.10	4.10	3.85	3.60	3.35	3.10
90 Day BBSW	3.64	4.30	4.30	4.22	3.97	3.72	3.47	3.22
3 Year Swap	3.77	3.95	3.90	3.80	3.65	3.50	3.35	3.20
3 Year Bond	3.34	3.55	3.55	3.50	3.40	3.30	3.15	3.00
10 Year Bond	3.63	3.70	3.40	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-25	-10	-10	-10	-10	-10	-10	-10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD vs								
USD	0.6584	0.69	0.72	0.74	0.75	0.76	0.76	0.77
JPY	89.51	90	94	95	96	97	96	95
EUR	0.6216	0.63	0.65	0.67	0.67	0.68	0.67	0.67
NZD	1.0779	1.08	1.09	1.10	1.11	1.13	1.13	1.13
CAD	0.9107	0.92	0.94	0.95	0.96	0.97	0.96	0.97
GBP	0.5522	0.57	0.59	0.60	0.60	0.60	0.60	0.60
CHF	0.6138	0.63	0.66	0.67	0.68	0.68	0.68	0.69
DKK	4.6255	4.71	4.87	4.96	4.98	5.03	4.96	4.98
SEK	7.0573	7.19	7.43	7.57	7.60	7.67	7.57	7.60
NOK	7.0190	7.15	7.39	7.53	7.56	7.63	7.53	7.56
ZAR	12.20	12.5	12.8	12.9	13.0	13.1	13.1	13.2
SGD	0.8916	0.91	0.95	0.97	0.98	1.00	0.99	1.00
HKD	5.1683	5.40	5.62	5.76	5.83	5.90	5.89	5.97
PHP	36.37	37.3	38.5	39.2	39.0	38.8	38.4	38.5
THB	23.05	22.8	23.4	23.7	23.6	23.6	23.2	23.5
MYR	2.9791	2.93	3.02	3.07	3.08	3.08	3.08	3.08
CNY	4.5848	4.62	4.75	4.81	4.80	4.79	4.71	4.70
IDR	10161	10350	10656	10804	10800	10792	10640	10626
TWD	20.32	20.6	21.4	21.8	22.0	22.2	22.1	22.3
KRW	873	863	893	903	900	897	882	886
INR	54.18	53.8	54.7	55.5	55.5	55.5	55.1	55.4

Australia

Activity forecasts*

	2022			2023				Calendar years			
%qtr / yr avg	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	2.2	1.0	0.3	0.3	0.2	0.1	0.1	5.0	6.5	1.8	1.0
Dwelling investment	–3.1	0.7	–0.9	0.3	–0.3	–1.6	–1.6	9.9	–3.4	–2.2	–5.6
Business investment*	1.5	1.5	–0.8	1.0	0.5	–1.4	–1.5	8.2	3.3	0.8	–2.6
Private demand *	1.6	0.7	–0.1	0.3	0.1	–0.3	–0.3	6.5	4.8	0.9	–0.2
Public demand *	–0.5	0.2	0.2	0.2	0.2	0.2	0.2	5.8	5.0	0.6	1.2
Domestic demand	1.0	0.6	0.0	0.3	0.2	–0.2	–0.2	6.3	4.9	1.8	0.9
Stock contribution	–1.0	0.4	–0.5	0.0	–0.2	–0.1	0.0	0.4	0.4	–0.6	0.1
GNE	0.0	1.0	–0.5	0.3	–0.1	–0.3	–0.1	6.9	5.3	0.1	0.3
Exports	5.2	2.5	1.1	2.3	2.0	2.0	1.8	–2.0	3.3	8.8	5.7
Imports	1.4	4.0	–4.3	1.8	0.8	0.4	0.4	5.4	12.6	1.7	3.0
Net exports contribution	0.8	–0.2	1.1	0.2	0.3	0.4	0.3	–1.4	–1.5	1.6	0.7
Real GDP %qtr / yr avg	**0.9**	**0.7**	**0.5**	**0.4**	**0.2**	**0.1**	**0.2**	5.2	3.7	1.6	1.0
%yr end	**3.1**	**5.9**	**2.7**	**2.5**	**1.8**	**1.2**	**1.0**	**4.6**	**2.7**	**1.0**	**1.5**
Nominal GDP %qtr	4.0	1.2	2.1	1.0	0.4	0.3	0.4				
%yr end	11.7	13.3	12.0	8.5	4.7	3.8	2.1	10.3	12.0	2.1	3.2

Other macroeconomic variables

	2022			2023				Calendar years			
% change	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022**	**2023f**	**2024f**
Employment (2)	1.1	0.7	0.7	0.3	0.4	–0.2	–0.5	–	–	–	–
%yr	3.5	4.9	4.8	2.7	2.1	1.2	0.0	2.4	4.8	0.0	0.7
Unemployment rate % (2)	3.8	3.5	3.5	3.6	3.6	3.9	4.6	4.7	3.5	4.6	5.1
Wages (WPI) (2)	0.8	1.1	0.8	0.8	1.0	1.0	1.0	–	–	–	–
%yr	2.6	3.2	3.3	3.5	3.8	3.7	4.0	2.4	3.3	4.0	3.2
CPI Headline (2)	1.8	1.8	1.9	1.5	1.0	0.7	0.7	–	–	–	–
%yr	6.1	7.3	7.8	7.2	6.3	5.2	4.0	3.5	7.8	4.0	3.0
Core inflation trimmed mean	1.6	1.9	1.7	1.3	0.9	0.6	0.7	–	–	–	–
%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	11.2	0.8	14.1	9.0	4.0	4.0	3.0	66.7	29.4	20.0	–2.0
% of GDP	1.8	0.1	2.2	1.4	0.6	0.6	0.5	3.1	1.2	0.8	–0.1
Terms of trade annual chg (1)	7.7	0.0	7.2	–3.5	–11.1	–7.7	–10.1	17.2	6.0	–8.2	–6.7

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									2023	
Monthly data	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
Employment '000 chg	26	57	87	–21	48	9	40	55	–20	–12	–
Unemployment rate %	3.9	3.9	3.6	3.5	3.5	3.6	3.4	3.5	3.5	3.7	–
Westpac–MI Consumer Sentiment	95.8	90.4	86.4	83.8	81.2	84.4	83.7	78.0	80.3	84.3	78.5
Retail trade %mth	0.9	0.8	0.7	0.9	0.9	0.7	0.4	1.7	–4.0	1.9	–
Dwelling approvals %mth	–0.2	8.7	0.0	–16.0	26.7	–8.7	–5.8	–5.1	15.3	–27.6	–
Credit, private sector %yr	8.7	9.1	9.1	9.1	9.3	9.5	9.5	8.9	8.3	8.0	–
Trade balance AUDbn	12.5	13.6	16.8	8.6	8.3	12.5	12.6	13.5	13.0	11.7	–

FORECASTS

New Zealand

Interest rate forecasts

	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.75	5.50	5.50	5.50	5.25	4.75	4.25	3.75
90 Day Bill	5.22	5.60	5.60	5.50	5.05	4.55	4.05	3.75
2 Year Swap	5.40	5.10	4.80	4.40	4.10	3.80	3.60	3.40
10 Year Bond	4.46	4.50	4.20	4.00	3.85	3.70	3.60	3.50
10 Year Spread to US	58	70	70	70	75	80	80	90
10 Year Spread to Aust	83	80	80	80	85	90	90	100

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD vs								
USD	0.6103	0.64	0.66	0.67	0.68	0.68	0.68	0.68
JPY	83.01	83.8	85.8	86.4	86.4	85.7	85.1	84.3
EUR	0.5762	0.59	0.60	0.60	0.60	0.60	0.59	0.59
AUD	0.9275	0.93	0.92	0.91	0.90	0.89	0.89	0.88
CAD	0.8442	0.85	0.86	0.86	0.86	0.86	0.85	0.86
GBP	0.5120	0.52	0.54	0.54	0.54	0.54	0.53	0.53
CNY	4.2501	4.29	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	0.0	-0.1	0.0	-0.1	-0.1	7.4	2.3	-1.0	0.7
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	0.7	-0.5	-1.8	-2.2	8.0	2.7	1.1	-9.5
Business investment	-3.8	2.8	0.5	0.2	0.7	0.0	-0.8	14.1	5.3	1.3	-2.7
Stocks (ppt contribution)	0.2	0.3	-0.5	0.6	-0.4	-0.1	0.1	1.3	-0.3	0.0	-0.1
GNE	-0.8	0.1	-0.5	0.4	-0.4	-0.5	-0.3	10.0	3.0	-0.7	-0.9
Exports	17.2	7.8	0.2	-0.8	4.0	3.6	1.1	-3.6	0.0	12.4	5.2
Imports	-1.4	1.5	2.7	1.5	1.1	0.6	0.5	14.9	2.3	5.3	2.5
GDP (production)	**1.9**	**2.0**	**0.3**	**-0.2**	**0.2**	**0.2**	**-0.2**	**6.1**	**2.8**	**1.7**	**-0.5**
Employment annual %	1.4	1.2	1.3	1.6	1.9	0.7	0.5	3.3	1.3	0.5	-0.3
Unemployment rate % s.a.	3.3	3.3	3.4	3.5	3.6	3.8	4.0	3.2	3.4	4.0	5.1
Labour cost index, all sect incl o/t, ann %	3.4	3.7	4.1	4.4	4.6	4.7	4.6	2.6	4.1	4.6	3.5
CPI annual %	**7.3**	**7.2**	**7.2**	**6.7**	**6.4**	**6.2**	**5.1**	**5.9**	**7.2**	**5.1**	**2.9**
Current account balance % of GDP	-7.7	-7.9	-7.6	-6.8	-6.5	-6.3	-5.8	-6.0	-7.6	-5.8	-4.5
Terms of trade annual %	-2.2	-5.9	-4.6	-5.6	-1.2	3.8	4.6	2.8	-4.6	4.6	1.2

Sources: Statistics NZ, Westpac Economics.

FORECASTS

Commodity prices

End of period	Latest (10 Mar)***	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Australian commodities index#	347	342	334	320	314	**308**	**304**	**312**	**312**	**309**
Bulk commodities index#	**521**	**556**	**522**	**479**	**454**	**434**	**416**	**426**	**413**	**381**
iron ore finesTSI @ 62% US$/t	126	120	112	100	95	89	84	90	90	87
Qld coking coal index (US$/t)	331	320	310	291	276	271	267	257	232	217
Newcastle spot thermal coal (US$/t)	192	200	195	190	185	180	175	170	150	125
crude oil (US$/bbl) Brent ICE	84	85	82	85	87	88	92	95	105	110
LNG in Japan US$mmbtu	17.31	15.7	15.9	15.3	15.9	16.2	16.3	17.0	17.5	19.2
gold (US$/oz)	1,850	1,870	1,870	1,825	1,800	1,775	1,750	1,745	1,755	1,760
Base metals index#	**213**	**216**	**217**	**215**	**212**	**212**	**219**	**225**	**244**	**254**
copper (US$/t)	8,829	8,950	9,000	8,800	8,600	8,700	9,056	9,322	10,205	10,642
aluminium (US$/t)	2,342	2,375	2,400	2,400	2,400	2,375	2,445	2,497	2,668	2,750
nickel (US$/t)	24,173	24,350	24,500	24,400	24,300	24,200	25,135	25,832	28,143	29,282
zinc (US$/t)	3,000	3,000	3,000	3,150	3,125	3,110	3,105	3,171	3,388	3,493
lead (US$/t)	2,097	2,100	2,000	1,875	1,850	1,850	1,875	1,927	2,101	2,186
Rural commodities index#	**145**	**145**	**150**	**147**	**149**	**150**	**157**	**163**	**181**	**191**
NZ commodities index ##	**338**	**361**	**373**	**381**	**386**	**387**	**386**	**383**	**379**	**374**
dairy price index ^^	302	321	333	340	346	349	349	348	345	341
whole milk powder US$/t	3,277	3,725	3,811	3,900	3,925	3,950	3,912	3,875	3,799	3,725
skim milk powder US$/t	2,739	2,825	2,911	3,000	3,074	3,150	3,200	3,250	3,300	3,350
lamb leg UKp/lb	450	505	533	555	567	570	567	555	546	543
bull beef US¢/lb	253	282	286	288	288	285	282	276	270	264
log price index ##	166	171	174	176	177	176	173	170	167	166
strong wool US¢/kg	164	166	166	166	166	166	166	166	166	166

	levels				% change			
Annual averages	**2021**	**2022**	**2023(f)**	**2024(f)**	**2021**	**2022**	**2023(f)**	**2024(f)**
Australian commodities index#	**307**	**379**	**342**	**310**	**43.3**	**23.5**	**–9.9**	**–9.2**
Bulk commodities index#	**510**	**556**	**510**	**431**	**47.0**	**9.1**	**–8.3**	**–15.5**
iron ore fines @ 62% USD/t	160	120	116	90	47.2	–24.7	–3.3	–22.5
LNG in Japan $mmbtu	10.3	18.2	16	16	31.1	77.6	–10.9	–0.4
ave coking coal price (US$/t)	143	240	281	267	33.2	67.2	17.2	–4.8
ave thermal price (US$/t)	99	281	351	305	74.8	183.7	24.7	–13.2
iron ore fines contracts (US¢ dltu)	239	174	164	144	72.8	–27.0	–6.1	–11.9
coal coking contracts (US$/t)	205	372	314	271	62.5	81.2	–15.5	–13.7
crude oil (US$/bbl) Brent ICE	70	97	84	90	60.2	38.4	–13.8	7.1
gold (US$/oz)	1,801	1,809	1,861	1,774	1.2	0.5	2.9	–4.7
Base metals index#	**213**	**230**	**218**	**216**	**41.1**	**8.0**	**–5.2**	**–0.8**
copper (US$/t)	9,297	8,827	8,917	8,876	50.2	–5.1	1.0	–0.5
aluminium (US$/t)	2,477	2,711	2,396	2,421	44.0	9.5	–11.6	1.1
nickel (US$/t)	18,452	26,228	24,913	24,747	33.4	42.1	–5.0	–0.7
zinc (US$/t)	3,006	3,471	3,056	3,126	32.1	15.4	–11.9	2.3
lead (US$/t)	2,190	2,154	2,044	1,871	19.6	–1.6	–5.1	–8.4
Rural commodities index#	**150**	**171**	**147**	**153**	**28.0**	**14.0**	**–14.3**	**4.6**
NZ commodities index ##	**359**	**376**	**363**	**386**	**21.2**	**4.7**	**–3.4**	**6.1**
dairy price index ##	322	353	324	348	25.2	9.5	–8.2	7.3
whole milk powder US$/t	3,843	3,889	3,638	3,918	29.2	1.2	–6.5	7.7
skim milk powder US$/t	3,332	3,819	2,858	3,142	22.6	14.6	–25.2	9.9
lamb leg UKp/lb	599	624	505	565	18.4	4.3	–19.1	11.9
bull beef US¢/lb	279	280	276	283	19.0	0.5	–1.5	2.6
log price index ##	179	171	172	174	14.8	–4.3	0.2	1.4
strong wool US¢/kg	173	169	166	166	20.4	–2.7	–1.4	0.1

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

FORECASTS

United States

Interest rate forecasts

	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Fed Funds*	4.625	5.375	5.375	5.375	4.875	4.375	3.875	3.375
10 Year Bond	3.87	3.80	3.50	3.30	3.10	2.90	2.80	2.60

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

Currency forecasts

	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD vs								
DXY index	105.16	102.0	101.0	100.1	99.1	98.5	97.3	96.4
JPY	136.02	131	130	129	128	127	126	124
EUR	1.0591	1.09	1.10	1.11	1.12	1.13	1.14	1.15
AUD	0.6579	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD	0.6103	0.64	0.66	0.67	0.68	0.68	0.68	0.68
CAD	1.3833	1.33	1.31	1.29	1.28	1.27	1.26	1.26
GBP	1.1919	1.22	1.23	1.24	1.25	1.26	1.27	1.28
CHF	0.9325	0.92	0.91	0.91	0.90	0.90	0.89	0.89
ZAR	18.54	18.1	17.7	17.5	17.4	17.3	17.3	17.1
SGD	1.3543	1.32	1.32	1.31	1.31	1.31	1.31	1.31
HKD	7.8493	7.82	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.24	54.0	53.5	53.0	52.0	51.0	50.5	50.0
THB	35.03	33.0	32.5	32.0	31.5	31.0	30.5	30.5
MYR	4.5228	4.25	4.20	4.15	4.10	4.05	4.05	4.00
CNY	6.9652	6.70	6.60	6.50	6.40	6.30	6.20	6.10
IDR	15433	15000	14800	14600	14400	14200	14000	13800
TWD	30.89	29.9	29.7	29.5	29.3	29.2	29.1	29.0
KRW	1326	1250	1240	1220	1200	1180	1160	1150
INR	81.98	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	1.4	1.6	-0.8	-0.5	-0.3	8.3	2.8	0.8	0.8
Dwelling investment	-17.8	-27.1	-25.9	-3.9	-3.9	-3.9	-3.9	10.7	-10.7	-12.7	0.5
Business investment	0.1	6.2	3.3	4.9	3.0	2.9	3.0	6.9	4.3	3.7	4.3
Public demand	-1.6	3.7	3.6	2.0	-0.4	-0.4	-0.4	0.6	-0.6	1.4	-0.4
Domestic final demand	0.5	2.0	1.1	2.0	-0.3	-0.1	0.0	6.8	1.9	0.9	1.1
Inventories contribution ppt	-2.1	-1.4	1.9	-0.3	-0.6	-0.6	-0.4	0.2	0.7	-0.2	-0.1
Net exports contribution ppt	1.2	3.3	0.6	-0.1	-0.2	-0.3	-0.2	-1.7	-0.6	0.5	-0.1
GDP	-0.6	3.2	2.7	1.6	-1.1	-0.9	-0.6	5.9	2.1	0.9	1.0
%yr annual chg	1.8	1.9	0.9	1.7	1.6	0.6	-0.2				

Other macroeconomic variables

Non-farm payrolls mth avg	399	429	318	290	125	75	50	514	427	135	75
Unemployment rate %	3.6	3.6	3.6	3.5	3.7	4.0	4.3	5.4	3.7	4.8	5.5
CPI headline %yr	8.9	8.2	6.4	5.2	3.0	2.9	2.5	7.2	6.4	2.5	2.0
PCE deflator, core %yr	5.0	5.2	4.6	4.5	3.5	2.9	2.5	6.0	3.6	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

Europe & the United Kingdom

Interest rate forecasts

	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro area								
ECB Refi rate	3.00	4.00	4.00	4.00	3.50	3.00	2.50	2.00
10 Year Bund	2.64	2.55	2.30	2.15	2.00	1.85	1.80	1.60
10 Year Spread to US	-123	-125	-120	-115	-110	-105	-100	-100
United Kingdom								
BoE Bank Rate	4.00	4.25	4.25	4.00	3.75	3.50	3.25	3.00
10 Year Gilt	3.80	3.65	3.35	3.15	3.00	2.80	2.70	2.50
10 Year Spread to US	-8	-15	-15	-15	-10	-10	-10	-10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Mar)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
euro vs								
USD	1.0591	1.09	1.10	1.11	1.12	1.13	1.14	1.15
JPY	144.04	143	143	143	143	143	144	143
GBP	0.8886	0.89	0.89	0.90	0.90	0.89	0.90	0.90
CHF	0.9875	1.00	1.00	1.01	1.01	1.01	1.01	1.02
DKK	7.4419	7.44	7.44	7.44	7.44	7.44	7.44	7.44
SEK	11.3568	11.4	11.4	11.4	11.4	11.4	11.4	11.4
NOK	11.2931	11.3	11.3	11.3	11.3	11.3	11.3	11.3
sterling vs								
USD	1.1919	1.22	1.23	1.24	1.25	1.26	1.27	1.28
JPY	162.11	160	160	160	160	160	160	159
CHF	1.1114	1.12	1.12	1.13	1.13	1.13	1.13	1.14
AUD	0.5520	0.57	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

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 (10 Mar)	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
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 (10 Mar)	Jun–23	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
JPY	136.02	131	130	129	128	127	126	124
SGD	1.3543	1.32	1.32	1.31	1.31	1.31	1.31	1.31
HKD	7.8493	7.82	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.24	54.0	53.5	53.0	52.0	51.0	50.5	50.0
THB	35.03	33.0	32.5	32.0	31.5	31.0	30.5	30.5
MYR	4.5228	4.25	4.20	4.15	4.10	4.05	4.05	4.00
CNY	6.9652	6.70	6.60	6.50	6.40	6.30	6.20	6.10
IDR	15433	15000	14800	14600	14400	14200	14000	13800
TWD	30.89	29.9	29.7	29.5	29.3	29.2	29.1	29.0
KRW	1326	1250	1240	1220	1200	1180	1160	1150
INR	81.98	78.0	76.0	75.0	74.0	73.0	72.5	72.0

Source: Bloomberg, Westpac Economics.

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**	**1.1**
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	3.7	1.6	1.0
New Zealand	3.6	3.1	-1.4	6.1	2.8	1.7	-0.5
OECD total	**2.3**	**-0.8**	**-0.6**	**4.8**	**2.2**	**0.8**	**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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