WESTPAC MARKET OUTLOOK APRIL 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

The interest rate tightening cycle in response to the greatest inflation challenge in a generation, triggered by a once in a century global pandemic, is nearing an end. As we anticipated, the RBA paused in April and retained a tightening bias, having substantially increased interest rates from 0.1% to 3.6% since last May, thereby moving policy into restrictive territory. The decision to pause provides the RBA Board with "more time to assess the state of the economy and the outlook, in an environment of considerable uncertainty".

We continue to expect an additional and final rate hike by the RBA at its May Board meeting following the March quarter CPI update. This update will provide further confirmation that inflation is still too high and, on current forecasts, is not expected to return to the target band until mid–2025. Beyond May, we anticipate that the data flow will describe an economy slowing sufficiently to tame inflation, through the achievement of a more sustainable balance between demand and supply. We continue to expect the RBA to hold rates steady over the second half of 2023, then lower them by 1.0% during 2024, to be at 2.85% by year end.

The RBA's decision to pause in part reflected a more fragile international economic and financial backdrop in March with the emergence of several bank failures in the US and Switzerland. Heightened concern about financial fragility will see a tightening of financial conditions, representing another headwind for the global economy. Markets have been more volatile in the wake of these bank failures, with a repricing of risks to the US economic outlook. Notably, the US FOMC still decided to raise rates at their March meeting, opting for a 0.25% increase, rather than a 0.50% move, acknowledging the shift in financial conditions. With the fed funds rate currently at 4.875% the FOMC is expected to be on hold for the remainder of 2023, followed by an easing cycle from early 2024.

Australia: The Australian economy is slowing and is set to slow further as the intense headwinds of high inflation and sharply higher interest rates impact. Recall that the December quarter national accounts revealed that domestic demand stalled in the final months of 2022 as household incomes came under extraordinary pressure. Available partial indicators for the March quarter, notably retail sales data to February, suggest that the weaker tone of consumer spending has extended into the new year. We continue to expect output growth to slow to a well below trend 1% in 2023, moderating from a 2.7% outcome for 2022. Growth is expected to remain sluggish in 2024, lifting to a still sub–par 1.5% as official interest rates come off their highs from early in the year.

Commodities: OPEC+ recently grabbed the headlines as it flexed its market moving muscles. While these muscles may have strengthened with the retreat of US crude production, we think the announced cuts to production quotas has more to do with doubts about the outlook for crude demand than trying to push prices to a new high. Of more concern for Australia's terms of trade was the 19% fall in met coal.

Global FX markets: The US dollar has come under considerable pressure this month amid a crisis of confidence in regional banks and given better–than–expected momentum in Europe and the UK. While domestic risks have eased for the US, headwinds will linger. Meanwhile, there is good reason to remain optimistic for Europe and the UK and outright positive for Asia.

New Zealand: The Reserve Bank of New Zealand delivered a larger than expected 50bp rise in the Official Cash Rate at its April meeting and continued to talk tough on inflation. We've revised up our forecast for the cash rate, and now expect a peak of 5.50% (upgraded from 5.00%) with the next hike expected in May. Beyond that, continued strength in inflation means that the RBNZ is likely to maintain a tightening bias for some time yet.

United States: Multiple bank failures and ensuing uncertainty over financial conditions has materially altered the spectrum of risks the US economy faces on the run into 2024. The prudent course for the FOMC is to pause but hold off on cutting rates until 2024 when inflation risks have subsided. Tighter regulation of regional banks will have significant medium–term implications for growth.

China: The January/February data round made clear the scale of opportunities before China. Cyclical momentum released by the end of COVID–zero is the initial support for growth. But in 2024, new opportunities will show their potential, most notably productivity unleashed by new investment in capacity and logistics as well as Asia's structural development.

Europe: Global banking sector volatility hit European markets but left monetary policy largely unscathed. Risks around services inflation remain the chief focus from a policy perspective, but the potential consequences for growth from over–tightening are material. Hence, the ECB's tightening cycle should soon reach a conclusion, with one final 25bp rate hike expected to follow in May.

Summary of world GDP growth (year average)

Real GDP %ann*	2018	2019	2020	2021	2022	2023f	2024f
United States	2.9	2.3	–3.4	5.7	2.1	0.9	0.7
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	1.3	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	4.1	4.4
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	3.5	3.1	–1.5	6.0	2.4	1.1	–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 pauses in April, as anticipated …

The RBA paused rate hikes in April …

The Reserve Bank Board decided to leave the cash rate unchanged at 3.60% at its April meeting. This decision is in line with Westpac's forecast although we continue to expect to see one final increase of 0.25ppts at the May Board meeting.

… and maintained a clear tightening bias …

The decision is consistent with the classic approach that policy needs to move swiftly to push rates into the contractionary zone but, once there, a central bank that meets as frequently as the RBA can pause to assess the cumulative impact of the shift in policy stance.

… with a subtle change in guidance.

There was a subtle change in the Governor's guidance. In March he noted that: "further tightening of monetary policy will be needed". In April, this was changed to: "further tightening of monetary policy may well be needed". This is softer guideline than we saw in March but still qualifies as a clear tightening bias.

The decision to pause is justified by the need for "more time to assess the state of the economy and the outlook, in an environment of considerable uncertainty." The 'check list' going forward remains: "the global economy, trends in household spending, and the outlook for inflation and the labour market."

While the inflation challenge remains intense …

Of most importance will be the March quarter inflation report, due April 26, which Westpac expects to show a trimmed mean inflation print of 6.6% for the year. At the May meeting the Board will also receive a refreshed set of economic forecasts from the staff. We do not believe that the revised forecasts will bring forward the timing at which the staff expects to return to the 2–3% target zone – mid 2025!

Along with the economy still operating with a near 50-year low in the unemployment rate and the slow expected progress in achieving the inflation target, we continue to expect that the Board will see the need for one final 0.25ppt increase in the cash rate.

… policy tightening is clearly impacting the economy.

Apart from the key guidance and language, there were some less significant examples of a more cautious Board although the key themes around high inflation and tight labour markets continued to shine through. "There is further evidence that the combination of higher interest rates, cost of living pressures and a decline in housing prices is leading to a substantial slowing in household spending." This indicates that the slowdown that was apparent in the December quarter from the national accounts extended into the March quarter. Note that consistent with the slightly more dovish approach is no recognition in the statement of the recent stabilisation of house prices.

In March the Governor highlighted that "Services price inflation remains high". In April, there was no reference to services price inflation. Services inflation is accepted as the stickiest component of inflation so excluding a mention of services inflation may indicate less concern.

The RBA are cognisant of the risks at hand …

Recent disruptions to the US banking system are highlighted as "an additional headwind for the global economy" whereas this is contrasted with the strong Australian banking system.

On the other hand, there was an additional qualification to the assertion in March that "wages growth is still consistent with the inflation target" with the April statement noting "wages growth is still consistent with the inflation target, provided productivity holds up".

… but robust underlying inflation pressures …

The final paragraph is also pitched at the likely need for higher rates. The Board retained the assertion "In assessing when and how much further interest rates need to increase …". It could have qualified that sentence with "if interest rates need to increase" rather than maintaining "how much further."

… in the context of a strong labour market …

In the day after the Board meeting, Governor Lowe delivered a wide-ranging speech to the National Press Club, where he indicated he expected to raise rates again but was not 100% certain. He emphasised uncertainty, particularly around the impact of the unexpected surge in population due to the quick recovery in immigration; the disappointing weakness in productivity in the economy; and the recent recovery in house prices which he expects is related to the population story. He noted that the May Board meeting would benefit from updated forecasts and the March quarter Inflation Report. He indicated that the pause represented a return to the traditional approach of policy where the Board can afford to wait to assess new information before making the next move.

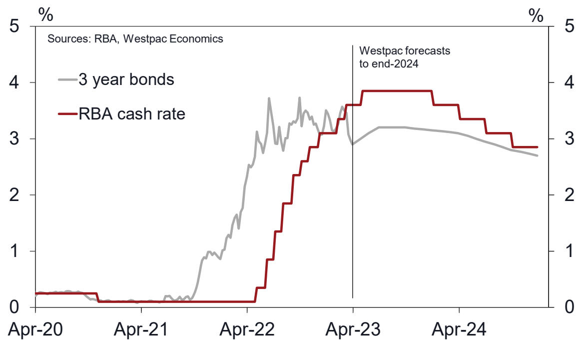
… warrants one final 25bp rate hike in May.

In conclusion, while the Board's tightening bias has been softened in parts, in the April decision statement, there is not sufficient evidence for Westpac to change its forecast that the Board will make one last 0.25ppt increase in the cash rate at the May Board meeting. That decision will be in the context of underlying inflation holding well above the target level, only slowing moderately, in an economy where the unemployment rate remains near 50-year lows and dismal productivity exacerbates the eventual impact of wages growth on inflation.

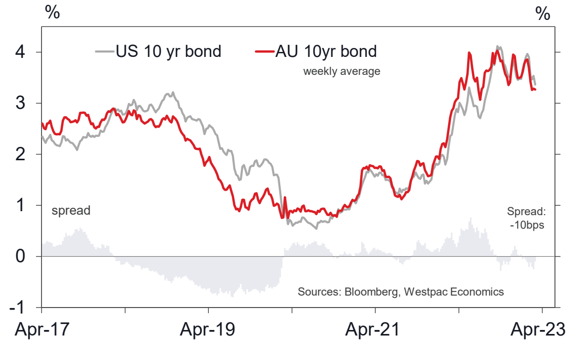
Bill Evans, Chief Economist

… a final rate hike in May, following key inflation update

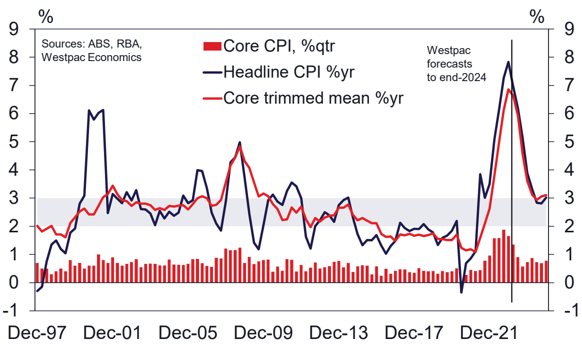
RBA cash rate and 3 year bonds



10 year bonds yields slip on banking concerns

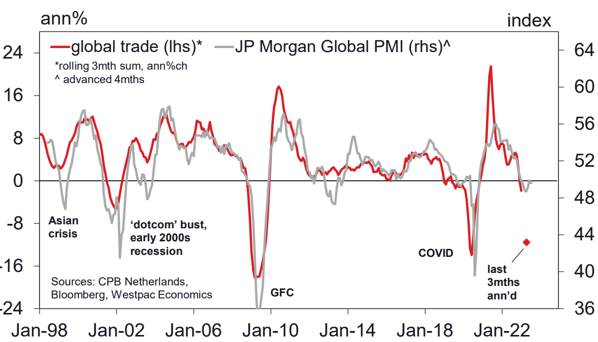


CPI inflation

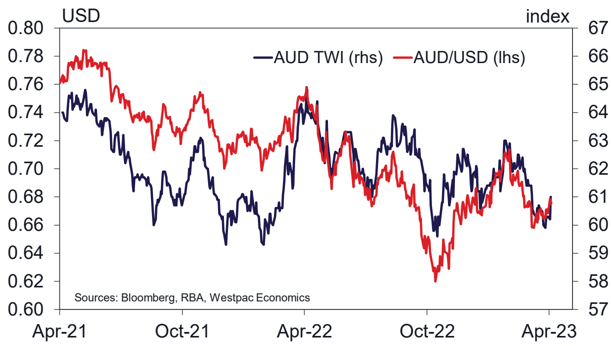


Wages growth: Australia vs US

Global trade contracting



AUD/USD & AUD TWI



Consumer spending weakness continues …

A slowing of the Australian economy is well underway …

Key updates on the Australian economy for the December and March quarters reveal that a slowdown in activity is underway as the intense headwinds from high inflation and higher interest rates impact. We continue to expect output growth to slow to a well below trend 1.0% in 2023, moderating from a 2.7% outcome for 2022.

… with a sharp downturn in prospect for 2023.

The December quarter national accounts reported that economic activity increased by a modest 0.5% in the period, compared to market forecasts of 0.8%. The accounts highlighted the pressures on household incomes and broad based weakness in spending. 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 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.

Intense headwinds from high inflation and higher interest rates …

The slowing of consumer spending growth reflected the extraordinary pressures faced by the household sector in the period and 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. 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 of $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).

… are impacting, with the full force to be felt in 2023.

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 the scale of the contraction in real incomes in the December quarter, the development was broadly consistent with our downbeat outlook for consumer spending.

Domestic demand stalled in Q4 2022 …

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 this year and another one expected in May. Rates are forecast to fall by 100bps in 2024.

… as households came under extraordinary pressures.

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. That draw-down persists while the savings rate holds below the "equilibrium of 6%" but the dramatic boost to spending from the fall in the savings rate from over 20% to the current 4.5% is behind us.

The softer tone of consumer spending has extended into Q1 2023.

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 will be: stability in real wages and the capacity to draw down on excess savings balances. Considering the December national accounts, our already very modest forecasts for consumer spending growth were trimmed from 1% to 0.7% for 2023 and from 2% to 1.5% in 2024.

With these adjustments, our GDP growth forecast held at 1% for 2023 and was trimmed from 2% 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 add to growth, 1.2ppts in 2023 (upgraded from 1ppt) and 0.1ppt in 2024.

We continue to expect output growth to slow in 2023 …

Key partial indicators for the March quarter indicate that softness in consumer spending has extended into 2023. Our central case forecast anticipates that economic activity will expand by a modest 0.4% in the March quarter, including a tepid 0.3% rise in consumer spending. Available retail spending data point to downside risks to this view on total consumer spending.

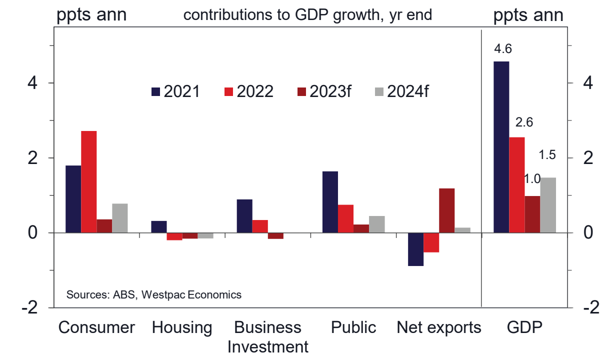
… to a well below par 1%.

Retail sales have stalled, with the level of spending in February unchanged from that last September (albeit with a bumpy profile over this period). For the March quarter, nominal retail turnover will potentially be down on that for the December quarter, by around –0.2% (assuming a flat outcome for the March month – with anecdotes suggesting subdued conditions). After allowing for rising prices, real retail sales may be down in the order of 1% for the quarter. That represents a deterioration on the December quarter outcome, a small fall of –0.2%. Outside of the COVID lockdowns (Q2 2020 and Q3 2021) and the introduction of the GST in mid-2000, a 1% fall in quarterly real retail sales would be weakest outcome since the recession of 1990 (Q4 that year).

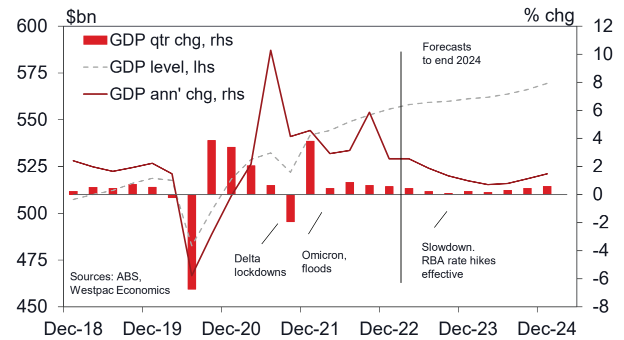
Bill Evans, Chief Economist

... evidence of unfolding sharp economic slowdown

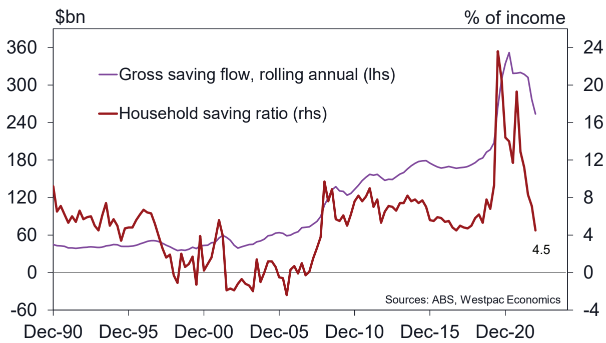
Australia: the growth mix



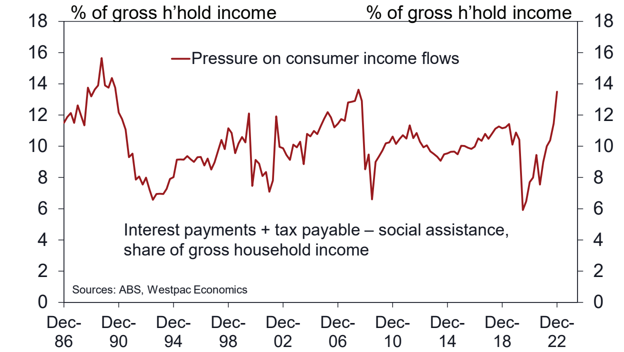
Australian economy: sharp slowdown in 2023



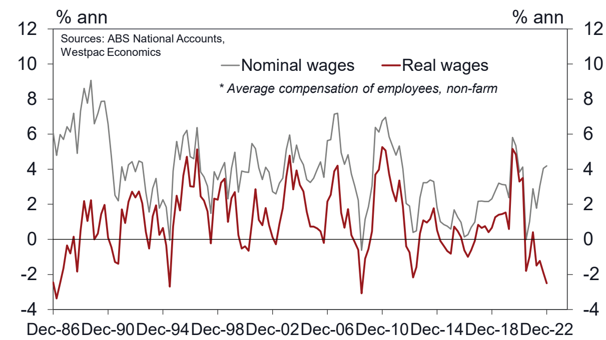
Household saving ratio and gross saving flow



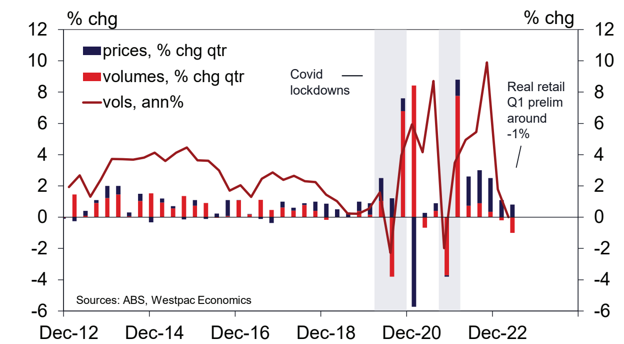
Pressure on consumer income flows



Wages – inflation squeeze



Real retail sales slump in 2023 Q1



OPEC+ has dominated the news ...

OPEC+ cuts to production quotas may have grabbed the headlines ...

Leading into the publication of this update, commodities news was dominated by the OPEC+ announcement of further cuts to production quotas staring in May. This drew attention to the fear of a renewed surge in crude oil prices which could underpin or even strengthen inflationary pressures. However, we need to put some context around this and, as explored further in this article, OPEC+ was responding to weaker than expected demand conditions and thus softer than forecast crude oil prices. At the date of our update, the weekly average Brent price was US$81/bbl, down 2% from our March publication. From US$83/bbl at the March publication, the daily spot prices fell to a low of US$73/bbl before lifting to range around US$77/bbl to US$80/bbl before the OPEC+ announcement saw prices lift to US$85/bbl. The market response suggests OPEC+ was more worried about the outlook for crude demand than it was letting on, as post the announcement prices are only just back around where they were in late February/early March.

... but for Australia the more significant event was the 18% fall in met coal prices.

Since our last report, of more significance for Australia has been the 18% fall in met coal prices to US$270/t. The recovery in Australian met coal exports have been the key driver in this meaningful correction as iron ore prices are almost flat at US$123/t (–2%) supported by ongoing constrained supply of iron ore in the seaborne trade, while at US$195/t, thermal coal lifted 3% in the month. Base metal prices are flat overall but individually, aluminium and lead gained around 2% while zinc shed about 2%. Copper lifted just 1% but as markets became more uncertain, the appeal of gold increased and lifted the precious metal by 7% in the month. Overall, Westpac's Export Price Index fell almost 3% in the month, highlighting the continuing correction to Australia's terms of trade.

We believe OPEC+ cut production quotas due to a deteriorating outlook for demand.

OPEC+ surprised many in the market by their decision to cut crude oil production from May and while this does emphasis something Westpac has been highlighting for some time, that with the decline in US crude production the power of the marginal producer was shifting back to OPEC+, it is likely to achieve two key things. The first is a short-term boost to prices (which started with the announcement, rather than with the implementation, of the reductions) while the second is the likely reassessment of medium-to-longer term demand forecasts. Prior to the announcement they were quite bullish. The recently announced cuts in OPEC+ crude production has brought the total amount of cuts, starting from May, up from 2.50mbpd to 3.66mbpd, now representing around 3.7% of global demand. The leading producer, Saudi Arabia, stated that the additional reduction in production was a precautionary move to achieve stability in the global crude market. Noting that prices were below US$80/bbl before the announcement, it would appear that a price above US$80/bbl is where the Saudis would define as stable and as such, the production cuts were aimed at lifting prices higher and supporting them at a higher level.

Crude prices had already fallen below our forecast profile...

Can crude maintain its current level? While our current expectation is for crude prices to continue to firm through this year is not clear that we can be definitively sure. Readers may remember that so far this year there has been a consistent downgrading of demand expectations by the analyst community and the global energy organisations. Thus, the OPEC+ production cuts may be a tacit admission by the group that they don't believe the outlook for crude demand is as robust as forecast. The IEA is currently expecting global crude demand to lift 2mbpd to 102mbpd on the back of surging Chinese demand. The OPEC+ decision to cut by a further 1.16mbpd is in stark contrast to this prediction. We should also remember that OPEC+ production is already running well behind target, with a current shortfall compared to the previous quotas of around 926,000bpd. It is not a long stretch to propose that, if OPEC+ was currently producing an additional 926,000bpd, the price would have been much closer to US$70/bbl, if not lower. Also, China appears to have been adding about 270kbpd to strategic/commercial inventories through January and February, further adding to the significant stockpile built up through 2022; Chinese refiners could dip into these stockpiles should they baulk at buying more expensive crude.

... so the recent rally has only lifted the spot price back up to our existing profile.

For iron ore, demand conditions remain robust with the NBS reporting Chinese steel production lifting +6%yr in January/February while pig iron production is up 7%yr. Since the last report, the iron ore price has fallen 2.3% to $125/t but during the month it hit a low of US$121/t due to reports that the Chinese administration is targeting a 2.5% reduction in crude steel production this year, which would be the third year of the government setting a target that is lower than the previous year. In addition, the NDRC has again issued a warning against 'speculation' in the iron ore market, while rising uncertainty in overseas markets on banking sector turmoil is against a backdrop in global steel production ex-China that is down 8% in the year to date. It is unclear if the Chinese administration will enforce the lower steel production target given its focus on economic growth and stability in 2023. It is more likely that Chinese steel production will be broadly flat in 2023 with the infrastructure demand offsetting weakness in property.

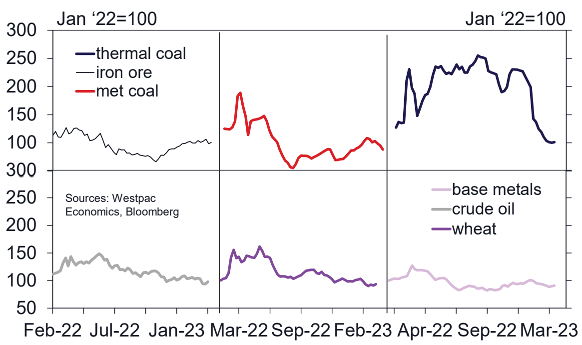
Iron ore being supported by tight supply and the Chinese recovery.

It is also worth highlighting the almost 20% fall in met coal prices in the last month is more about a rebalancing in that market following the earlier supply disruptions and the return of the Chinese market for Australian coal. Newcastle thermal coal prices rose around 5% in the month to US$200/t as energy demand from Asia remains quite robust.

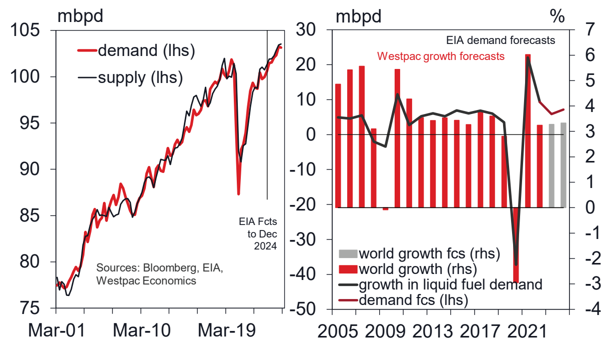
Justin Smirk, Senior Economist

... but there is more in play for commodities

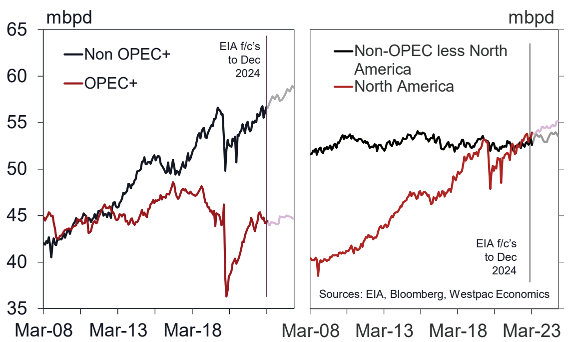
Commodities; met coal rally ends



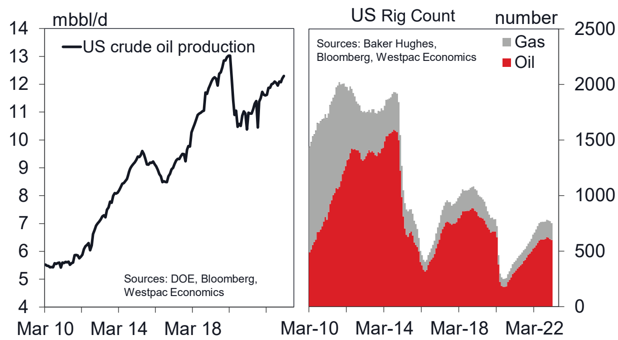
Crude demand continues to firm



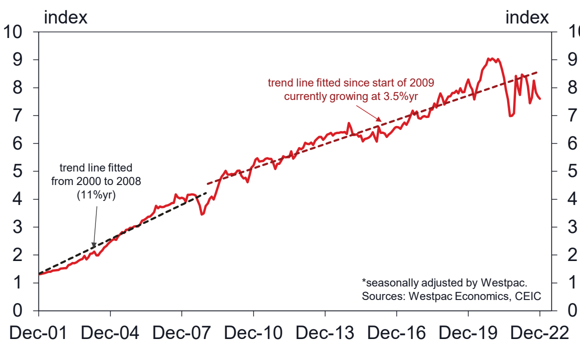
OPEC+ has tightened supply, non-OPEC on trend



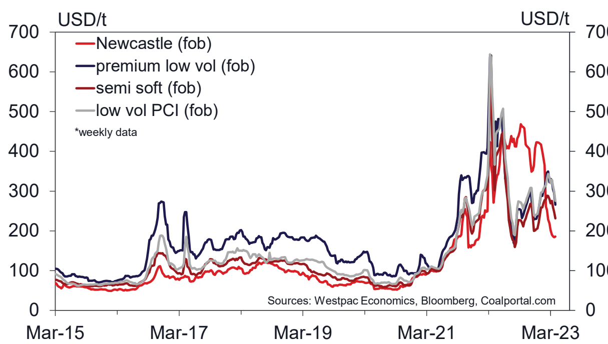
US crude oil production & rig count



Chinese steel production below trend



Coal searching for a new equilibrium



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.

Growth ambition to dwarf inflation …

The crisis of confidence apparent in US regional banks …

Two banks being closed by regulators (Silicon Valley Bank and Signature Bank) and the resulting crisis of confidence in the US regional banking sector led to an abrupt turn in federal funds rate pricing and the US dollar this month.

As March Market Outlook went to press, market participants saw the peak fed funds rate for this cycle around 5.50% at mid-2023, while little more than one 25bp rate cut was priced by January 2024. Now in early April, not only is the market's peak fed funds rate below 5.00%, but four cuts are priced before January 2024. This downtrend in rates is expected to persist into the medium-term, the 10-year yield currently trading near 3.30% compared to 4.00% in early-March.

… has weighed on rate expectations and the US dollar this month.

As detailed on page 14, recent developments in the US banking sector are not only expected to soften inflation and limit the FOMC's need to act but also to shock activity, with credit growth to decelerate sharply as a result of weaker confidence amongst both borrowers and lenders and given the need for increased supervision of banks with less than $250bn in assets.

Relative strength in Europe and the UK has amplified the effect.

For the US dollar, the weakness experienced over the past month and the downtrend we expect to follow is not solely due to the US' individual circumstances, it also stems from strength elsewhere. Most notable is the better-than-expected momentum apparent in Europe and the UK which the market sees as having consequences for policy.

Presently, the market anticipates that the Bank of England (BoE) is likely to action one further hike mid-2023 before going on hold. In stark contrast to US interest rate expectations, market pricing only views two cuts as probable by the Bank of England until March 2024, assuming the policy rate peaks at 4.50% in 2023. For the European Central Bank (ECB), two more hikes are priced by September 2023 and the profile only has a slight downtrend thereafter.

These expectations are not primarily due to inflation risks and central bank rhetoric -- indeed, the BoE have actually been dovish of late with two dissenters in March and the statement conveying a belief that inflation will turn down. Rather, core to recent Euro and Sterling strength is instead momentum in the economy. While marginal declines in GDP are likely through early and/or mid-2023, prior fears over deep recession in both jurisdictions are quickly receding. Moreover, available data also continues to point to resilience in their respective labour markets, laying the foundation for a robust rebound in activity during 2024 as interest rates are cut back toward neutral levels. Now and then, it seems Europe and the UK are set to outperform the US.

We expect the US dollar's downtrend to persist …

Looking at our forecasts in detail: we continue to expect Euro to remain on a steady but robust uptrend, from USD1.09 currently to USD1.12 end-2023 and USD1.16 end-2024; Sterling meanwhile is likely to mark time through the rest of 2023 given political and economic uncertainty and, in our view, as the BoE holds fire, but it will then rise from USD1.25 to USD1.29 end-2024.

For both currencies, risks arguably lay to the upside in both the short and medium-term. But the skew is most acute for Euro given Europe's exposure to global tourism's re-opening in 2023 and thereafter sustained strength in economic growth across Asia.

… with significant and sustained US Dollar depreciation against Asia …

Speaking of Asia, as outlined on page 16, available data out of China continues to build the case for strength throughout 2023 as well as sustained robust gains into the medium-term. Currently at CNY6.88, USD/CNY is yet to move materially away from its late-2022 peak levels circa CNY7.20. But Chinese equities are starting to show confidence in the nation's growth prospects. In time, this will also benefit the Renminbi.

… also anticipated. China's Renminbi & India's Rupee are likely to see the largest gains.

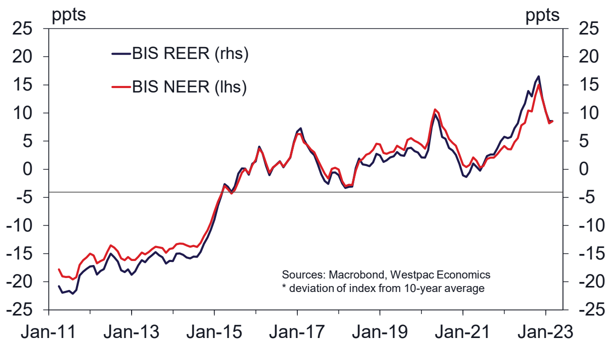
From CNY6.88 today, we look for USD/CNY to fall to CNY6.50 end-2023 and CNY6.10 end-2024. While a long way from current spot, this end level still provides scope for further gains, with Renminbi's appreciation on a trade-weighted basis marginal and China's productivity on the rise.

India's Rupee is likely to see a similarly sized gain over the forecast period, from INR82 currently to INR75 end-2023 and INR72 end-2024. At least for the next few years, India's opportunities are likely to be concentrated in its own domestic development compared to China's combined local/ global focus. Nonetheless, there is scope for great gain for India that will also position it for a broader expansion over the coming decade. Of the other nations across the region, we remain most constructive on the ASEAN economies who, like India, have much to gain from domestic economic development, but are also poised to benefit immediately from Chinese investment and consumer demand. Indonesia is an excellent example, the Rupiah to appreciate strongly, USD/IDR falling from IDR14,900 to IDR14,600 by end-2023 and IDR13,800 at end-2024.

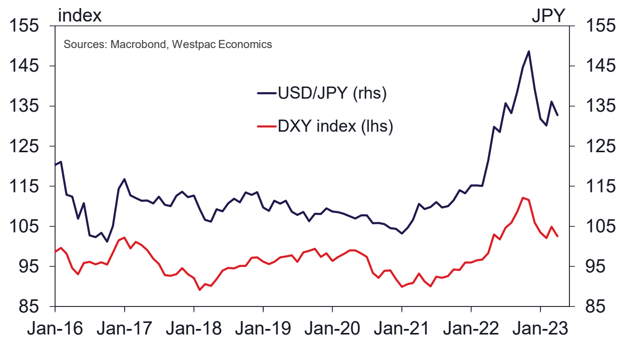
Elliot Clarke, CFA, Senior Economist

... risks as world runs to 2024

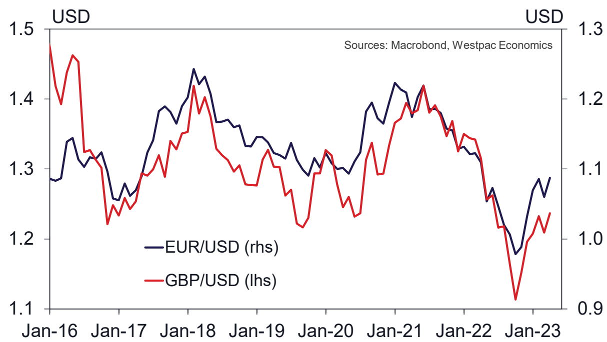
USD still historically elevated on broad basis



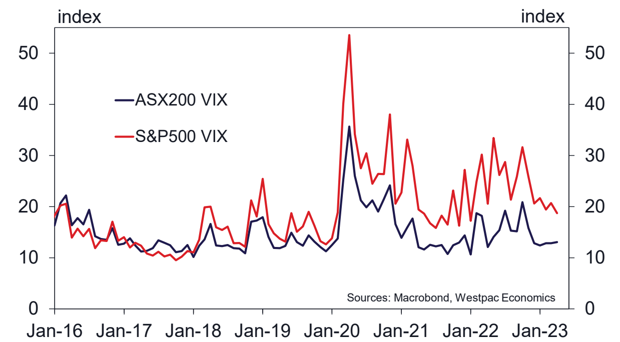
JPY continues to give DXY material support



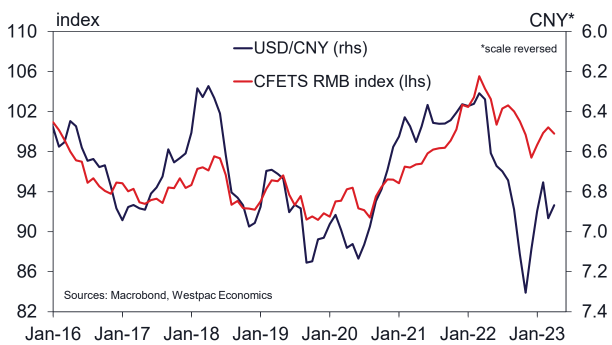
EUR & GBP negatives to fade through 2023



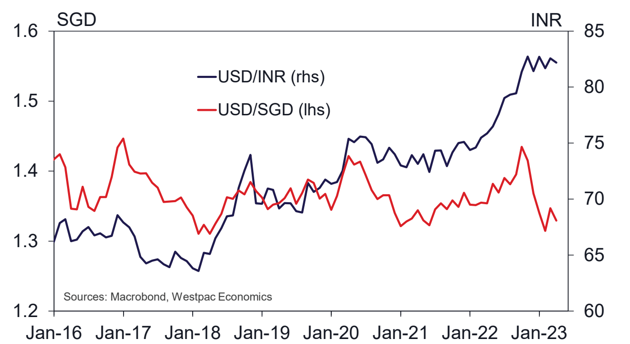
Distance from source of uncertainty a +'ve



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



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

The RBNZ has hiked rates by more than expected …

The RBNZ hiked the OCR by more than expected in April …

The Reserve Bank of New Zealand surprised markets at its April meeting by raising the Official Cash Rate by 50bps to a level of 5.25%. In contrast, Westpac and virtually every other analyst had expected that the RBNZ would only deliver a 25bp rise.

… and continued to talk tough on inflation.

Importantly, the tone of the policy statement that accompanied April's rate rise was very hawkish, highlighting the ongoing strength in inflation and the lingering upside risks. While the RBNZ did not release any updated forecasts, April's policy statement noted that *"the OCR needs to increase, as previously indicated, to return inflation to the 1–3 percent target range over the medium term."* The RBNZ's last set of published forecasts (released in February) showed the cash rate peaking at 5.50%.

We now expect another rate hike in May, with the cash rate to peak at 5.50%.

With the RBNZ appearing much more focused on taking the OCR higher than we had previously anticipated, we have revised up our forecast for the OCR. We now expect a further 25bp increase at the May policy statement, which would take the cash rate to a peak of 5.50% (upgraded from 5.0%).

The RBNZ continues to highlight the upside risks for inflation …

Even after the larger than expected April rate hike, a hawkish bias was clearly evident in the RBNZ's thinking. While the RBNZ did acknowledge that economic growth has been softer than they had expected, they remain concerned about the extent of inflation pressures. The Monetary Policy Committee noted that inflation was still too high and persistent, employment was beyond its maximum sustainable level, and interest rate hikes remained necessary to get inflation back within the target band.

… with fiscal spending and post-cyclone reconstruction key areas of concern.

The RBNZ also highlighted additional upside risks for growth and inflation that have had an important impact on their thinking. That includes an expectation that reconstruction following the recent severe storms will now add more to medium-term inflation than initially expected. The RBNZ also noted the inflation risks associated with fiscal spending were to the upside, especially given the ongoing demand for government spending at a time of rapid cost increases. Putting that all together has meant that, despite the recent softer than expected GDP result, the RBNZ's economic projections have remained largely unchanged from February when they highlighted the likelihood of the cash rate continuing to push higher from here.

The RBNZ has acted to dampen market expectations of earlier rate cuts.

The RBNZ noted a further increase in the OCR was needed to sustainably bring both inflation and inflation expectations down over time. However, the Monetary Policy Committee was also conscious of the sharp fall in wholesale interest rates that's occurred since February. Those falls could place downwards pressure on lending rates, risking a more drawn out and costly inflation cycle. Given that risk, the Committee wanted to steer markets away from what it regards as prematurely pricing in OCR cuts. April's large 50bp rise was in part aimed at ensuring that the current level of lending rates faced by borrowers are maintained.

The risks for the cash rate beyond May are to the upside.

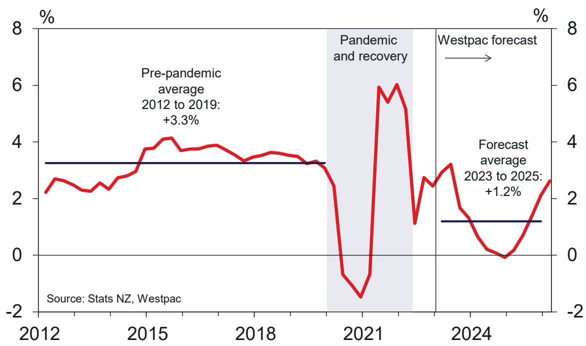
We see the balance of risks around the expected 5.50% peak in the OCR as being to the upside. That reflects the high starting point for inflation and the RBNZ's clearly stated concerns about inflation expectations. Consequently, it's likely that the RBNZ will retain a tightening bias after May 2023, with the discussions at each subsequent meeting likely to be between no change and a 25bp increase, depending on the incoming data. With this in mind, it will be increasingly important to think about the key risks that might push the RBNZ towards a higher (or lower) peak than we're forecasting. The key factors are likely to be:

- The RBNZ's assessment of the extent to which fiscal policy will add to inflation. That includes the extent of spending related to the cyclone rebuild, allowances for underlying cost pressures, as well as any potential election-year policy initiatives. The extent to which additional spending is financed through borrowing (as opposed to re-prioritisation or spending deferrals) will be key here. The next key update on such matters will be the 2023 Budget, due for release on 18 May, ahead of the RBNZ's May interest rate decision.
- The strength of net migration, which has risen strongly in recent months and which the RBNZ now identifies as adding to net demand and hence inflation pressures. This is actually how the RBNZ has traditionally viewed migration, but it's worth highlighting because the business community seems to be taking the opposite view at the moment – hoping that the return of migrant workers will ease labour shortages and bring wage inflation down.
- The evolution of global demand and offshore financial stability concerns and the extent of flow-through to domestic financial conditions and inflation.
- Finally, the RBNZ may change its assessment of the impact of previous OCR increases on medium-term inflation pressures as new data are released. The RBNZ has previously noted that much of the impact of rate hikes to date still lies ahead of us, and that there are uncertainties around how those hikes will affect economic conditions.

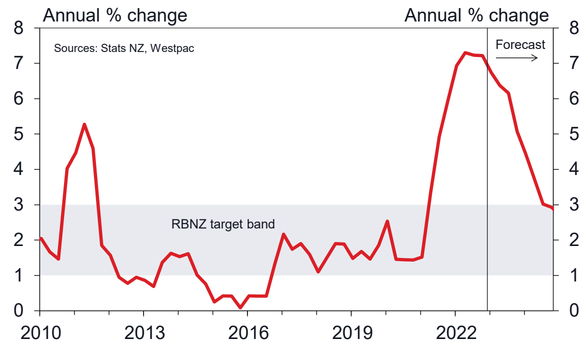
Satish Ranchhod, Senior Economist

… and a further rise is on the cards

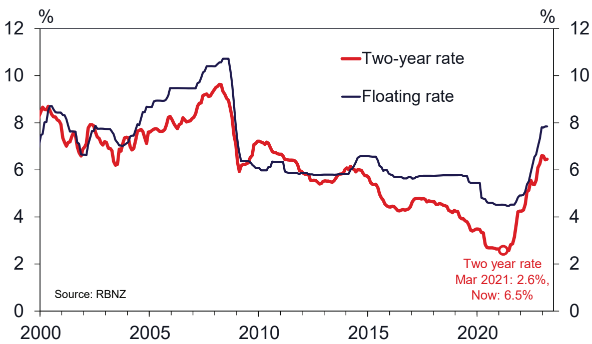
GDP growth (annual average)



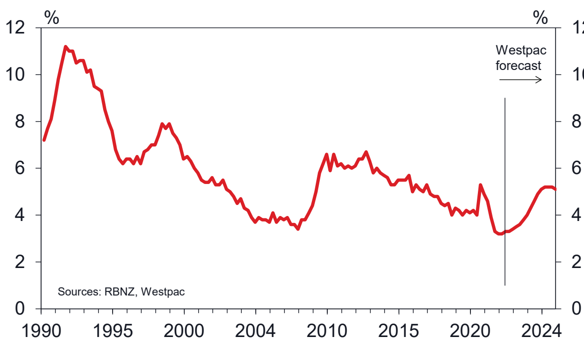
Consumer price inflation



Mortgage rates



Unemployment rate



	2022										2023	
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
REINZ house sales %mth	-2.6	-0.7	-2.4	-10.1	-0.7	3.4	-2.7	-4.2	-6.7	-7.2	3.6	-5.1
Residential building consents %mth	2.5	-8.1	-1.0	-2.7	4.4	-2.3	3.2	-11.1	6.4	-7.5	-5.2	-9.0
Electronic card transactions %mth	2.1	7.5	1.3	0.2	-0.2	0.8	2.2	0.8	-0.7	-1.2	3.4	-1.7
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	3.8
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	-1132	-821	-859	-1590	-1731	-1001	-775	-1650	-1672	-1050	-1604	-1240

Quarterly data	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**
Westpac McDermott Miller Consumer Confidence	105.2	107.1	102.7	99.1	92.1	78.7	87.6	75.6	77.7
Quarterly Survey of Business Opinion	5	22	10	-1	-6	-2	2	-14	-10
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	2.8	–
Current account balance % of GDP	-2.6	-3.4	-4.7	-6.0	-6.8	-7.7	-7.9	-7.6	–

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

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

The many facets of ...

Financial conditions are intricate and subjective to assess at the best of times.

For any given economy, financial conditions are typically determined by several factors. Specifically for the US, the focus tends to be on term interest rates and credit spreads; the strength of the US dollar; and, for some measures, the performance of equity markets. Whether the focus is on short term changes, or today in contrast against historical averages, matters a great deal in the assessment too.

From their recent peaks, 2 and 10-year yields have respectively fallen 130bps and 95bps. However, these rates' current levels are still respectively 2.5 and 1.5 times the average of the 5 years before the pandemic.

But in the midst of a credit shock, they become immensely complex.

The US dollar has also been supportive of financial conditions recently, the DXY index falling around 11% since its late-2022 peak. Though, compared to the 5 years prior to the pandemic, it is still more than 5% above average. Meanwhile, the S&P500 is 14% above its low but 15% off its 2021 peak. On all these measures, US financial conditions are materially tighter than pre-pandemic.

Of course, these are not normal times. After the failure of Silicon Valley Bank and Signature Bank and as the market speculates over the health of several other regional US financials, the US banking sector finds itself under duress, taking the contractionary stance of financial conditions to another level.

Smaller US banks are critical to growth across the economy ...

At the end of 2022, US banks outside the 25 largest were responsible for around 40% of the total credit supplied to the US economy by domestic banks. Moreover, the growth rate for credit provided by these smaller banks on a 6-month annualized basis was almost three times that for large banks; for commercial loans only, it was a factor of 10.

This rapid growth in credit made use of the strong pandemic deposit growth that peaked in late-2021. Since then, large bank deposit growth has turned negative while small banks' deposit book stalled. US bank credit growth was therefore already set to be a material headwind for the economy before the collapse of Silicon Valley Bank and Signature. Now it is an acute concern.

... and now they face uncertainty not only from impaired deposits growth ...

In the first three weeks of March alone, small bank deposits declined by $200bn, equivalent to 3.6% of their total deposits. Importantly, this was not offset by a pickup in large bank deposits which fell $100bn or 0.9%. Note, recent developments have also shaken confidence in large US banks given Silicon Valley bank was among the top 25 banks by assets in 2022 and Signature Bank just outside that group.

... but also tighter standards, more stringent regulation and, for now, cyclical risk.

With the US' future economic state increasingly uncertain and deposit growth impaired, a sharp deceleration in credit growth across the US economy seems almost certain. Arguably, the terms at which new lending occurs will also be tightened, particularly for pro-cyclical sectors such as commercial real estate which had already seen a tightening in standards into 2023.

While financial conditions analysis typically focuses on the price of capital and market liquidity, in this instance the FOMC and market participants must think more broadly, incorporating the flow of new credit and the terms at which it is lent into their decision making.

There is consequently cause for the FOMC to pause until they can cut in 2024 ...

Available data makes clear there is strong justification for caution and, in time, likely cause to ease policy. This is behind our view that the FOMC should remain on hold for now and increasingly become focused on the downside risks to growth through the second half of this year as inflation risks subside.

... once inflation risks abate; their initial change in rhetoric will ease conditions ...

By itself, the shift in FOMC rhetoric will ease financial conditions through term interest rates and the US dollar while also aiding confidence in the banks and economy. From early-2024, after inflation risks have abated, the FOMC will then be able to cut aggressively back towards a neutral level, supporting growth in the economy and, further aided by improved regulation of smaller banks, confidence in the banking system. Once all of these steps are complete, a full-fledged easing of financial conditions should proceed.

... and be amplified by the rate cuts as they arrive.

In conclusion, a point to ponder for the long-term. Our low for the coming rate cut cycle of 2.125% is expected around September 2025. Based on history, this is a neutral level for policy. The risk though is that the current and expected tightening in credit standards/pricing and more stringent small bank regulation will persist into the medium-term.

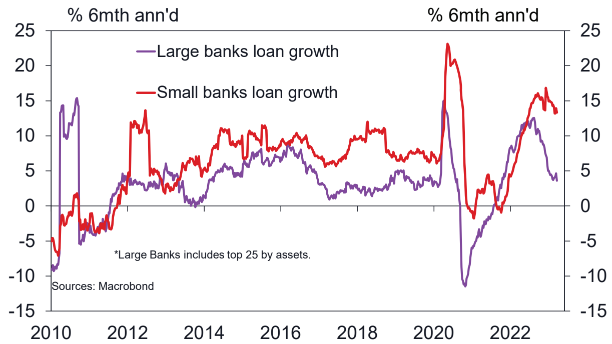
This would be a concern both for growth and capacity, given we forecast a significant output gap circa 3ppts by end-2024 which will only partly reverse from 2025, but consequently for inflation too. If investment remains weak, many of the domestic components that have proven sticky over the past year could re-assert in the medium-term, rent being the obvious example. Uncertainty related to inflation is therefore to remain skewed to the upside.

Elliot Clarke, CFA, Senior Economist

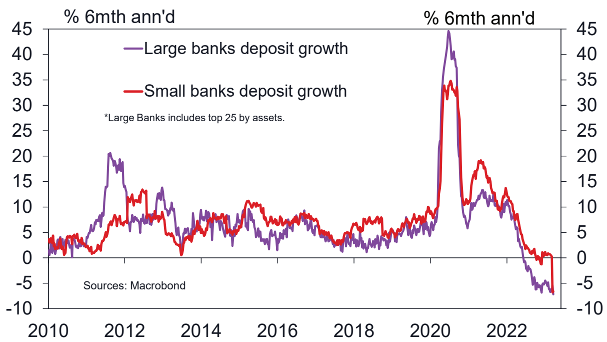
... US financial conditions

Yields off peak, but above pre-pandemic level

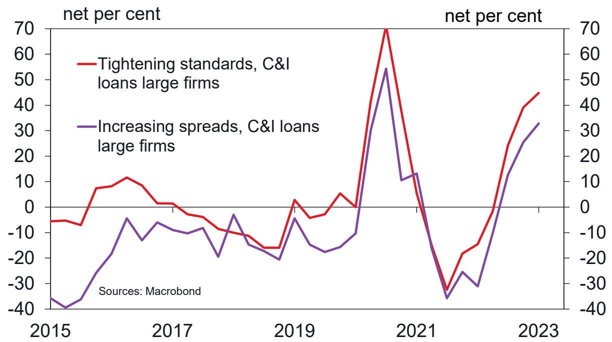
Small banks responsible for 40% of US credit



Bank failures have caused deposit flight



Loan officers reported tighter credit in Jan



	2022									2023		
Monthly data	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
PCE deflator %yr	6.4	6.5	7.0	6.4	6.3	6.3	6.1	5.7	5.3	5.3	5.0	–
Unemployment rate %	3.6	3.6	3.6	3.5	3.7	3.5	3.7	3.6	3.5	3.4	3.6	–
Non-farm payrolls chg '000	254	364	370	568	352	350	324	290	239	504	311	–
House prices* %yr	21.2	20.5	18.6	16.0	13.1	10.4	8.7	6.8	4.6	2.6	–	–
Durables orders core 3mth %saar	5.1	8.2	7.5	9.0	10.8	3.4	1.9	-2.4	-0.3	0.4	0.8	–
ISM manufacturing composite	55.9	56.1	53.1	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3
ISM non-manufacturing composite	57.5	56.4	56.0	56.4	56.1	55.9	54.5	55.5	49.2	55.2	55.1	51.2
Personal spending 3mth %saar	9.7	9.5	9.3	7.3	7.6	5.1	8.5	4.3	1.8	7.4	9.1	–
UoM Consumer Sentiment	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0
Trade balance USDbn	-86.0	-85.4	-80.8	-69.8	-64.6	-72.6	-77.2	-60.6	-67.2	-68.7	-70.5	–

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	-280.8	-237.2	-219.0	-206.8	–

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

China's rebound showing sustainable …

China's exit from COVID-zero is looking very promising, with …

The past month has provided the first clear read on China following the end of COVID-zero. And, as we anticipated, the economy is showing plenty of promise.

Beginning with the January/February activity data, of greatest significance was arguably the strength shown in investment. Relative to the first two months of 2022, investment has started 2023 5.5% higher. Utilities investment was the stand-out, but robust momentum was apparent across the sub-sectors.

… broad-based strength in investment across the economy …

Even residential construction surprised to the upside, year-to-date property investment growth improving from -8.5% in December to -5.7% at February as year-to-date growth in residential property sales snapped back from -28% at December to +3.5% in February. New home prices also rose for the first time in 18 months in February. A sustained rebound in housing is important for sentiment and activity in its own right, but also as it will put a floor under local authorities' finances giving them confidence to invest and employ into the medium-term.

… and promising first steps for household demand.

Retail sales were meanwhile only in line with expectations in February. Though, at 3.5% year-to-date, the result is still a significant turnaround from April 2022's low of -1.5%. Further, the March PMI detail points to this only being the start of the consumer rebound, the NBS services PMI rising from 41.6 in December to 58.2 in March, with new orders improving by a similar amount.

While the manufacturing PMI eased back to 51.9 in March from 52.6 in February, the current level is still expansionary. The components of the manufacturing PMI also make clear that the majority of March's deceleration was as a result of weakness offshore, the total new orders index down 0.5ppts against a 2ppt fall in export orders. The take home here is that China's economy is capable of generating robust momentum throughout 2023 despite entrenched weakness across developed markets.

This strength is likely to persist into 2024 and beyond with domestic …

Post the immediate rebound from COVID-zero, momentum will instead be fuelled by the accommodative stance of policy across the economy and the strong encouragement of authorities for both the public and private sector to make use of readily-available, attractively-priced capital to invest.

… investment and growing markets across Asia to provide lasting benefit.

Into the medium-term, the momentum and development possibilities apparent across Asia will also provide lasting opportunities for China to expand into given Asia's ongoing structural economic development and green transition as well as the cyclical gains that will come as a result of the region's full re-opening to China and the world.

Looking further out and considering the long-term, China's outlook will depend on the capacity and productivity created by investment as well as the success authorities have distributing these gains across the economy.

Household income growth will remain critical for growth throughout.

In short, the capacity of households to sustainably grow their consumption and residential investment depends on consistent and broad-based real income growth across the city tiers. The tax receipts of all levels of government are also heavily exposed to success or failure on this front. Versus the rest of the Asian region and many advanced economies, population growth and ageing will create a greater headwind for China. This speaks to a need for automation, efficiency and potentially the use of foreign labour to grow production. With respect to consumption and confidence, the development of effective social security and yielding investment strategies will also prove critical.

Elliot Clarke, CFA, Senior Economist

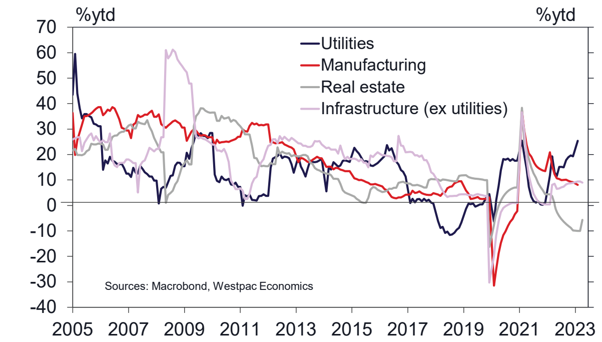
	2022									2023		
Monthly data %yr	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Consumer prices – headline	2.10	2.10	2.50	2.70	2.50	2.80	2.10	1.60	1.80	2.10	1.00	–
Money supply M2	10.5	11.1	11.4	12	12.2	12.1	11.8	12.4	11.8	12.6	12.9	–
Manufacturing PMI (official)	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9
Fixed asset investment %ytd	6.8	6.2	6.1	5.7	5.8	5.9	5.8	5.3	5.1	5.1	5.5	–
Industrial production (IVA)	-2.9	0.7	3.9	3.8	4.2	6.3	5.0	2.2	1.3	1.3	2.4	–
Exports	3.5	16.4	17.0	18.1	7.4	5.5	-0.4	-9.0	-10.0	-10.5	-1.3	–
Imports	0.1	3.5	-0.1	1.4	-0.3	0.1	-0.7	-10.6	-7.5	-21.4	4.2	–
Trade balance USDbn	49.5	78.4	97.3	102.6	80.8	84.1	84.8	68.9	77.6	100.1	16.8	–

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

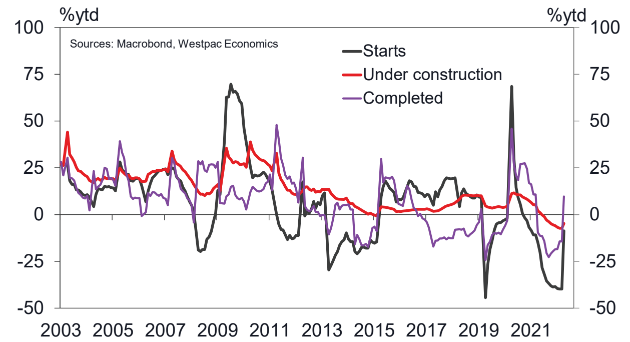
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

… promise

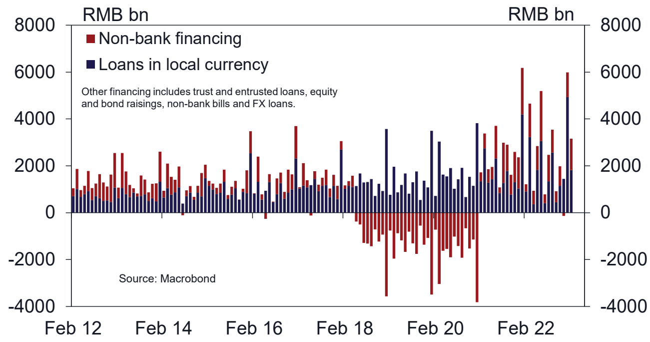
Investment promising for 2023 and beyond



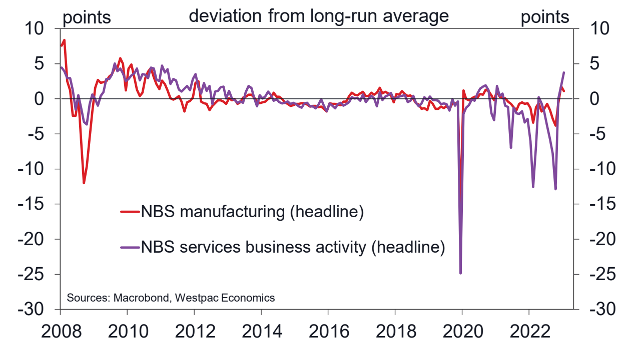
Starts and re-starts to aid housing



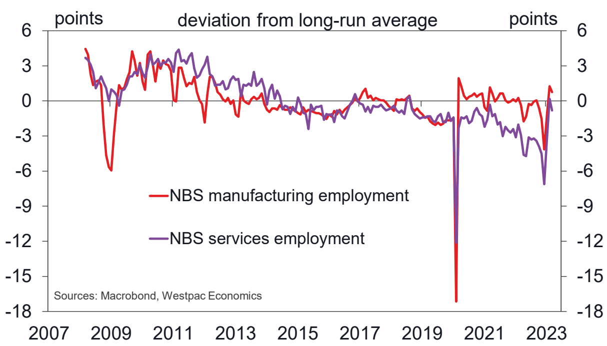
Authorities to make sure credit is available



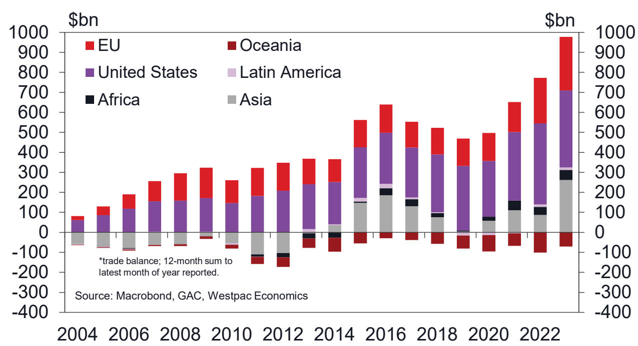
Production showing promising strength



Employment gains to persist; income to grow



China is diversifying its export markets



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ECB's path to end tightening …

Interest rate uncertainty was heightened upon banking sector volatility …

The most dramatic development over the last few weeks has certainly been the collapse of Silicon Valley Bank (SVB) in the US, volatility from which spilled over to Europe with fears over the health of Credit Suisse (leading to its sale to UBS) and the broader financial system. Despite the immense inflation challenge and prior hawkish guidance from the ECB, markets were undeniably circumspect in the lead-up to the March policy meeting, pricing for the peak in policy rates scaled back by an aggressive 85bps between March 9 (before SVB collapse) and March 15 (before ECB).

… but the ECB kept with prior guidance and lifted policy rates by 50bps.

In the event, the ECB highlighted their confidence in the financial system by delivering the well-telegraphed 50bp rate hike across all key policy rates. Justifying the decision, President Lagarde made clear that monetary policy and financial stability decisions can remain separate, reinforcing that the ECB were ready to provide support if necessary while highlighting that risks to the welfare of the economy from inflation were the primary focus of the Governing Council.

Inflation risks are back in the spotlight and are evolving broadly as anticipated …

Thankfully, developments around the European and US banking sector have been constructive since, allowing the policy focus to return back to the inflation outlook, which is evolving broadly as expected. Annual headline inflation fell sharply from 8.5% to 6.9% in March upon further monthly declines in energy prices (-11% since October) and the cycling out of prior energy prices spikes associated with the onset of the Russia-Ukraine conflict.

… with services inflation remaining uncomfortably sticky for now.

While it is also encouraging to see momentum in core goods inflation (excluding food, alcohol and energy) continue to moderate - the three-month average pace tracking -0.2% and the annual pace falling from 6.8%yr to 6.6%yr - underlying inflation pressures within services components remain robust. At 5.0%yr, services inflation is rising at a three-month average pace of 1.1% and is broadly-based across the basket, with prices for services related to hospitality, transport, recreation and housing all increasing in March. Consequently, core inflation continues to print fresh record highs, currently at 5.7%yr and well above the ECB's medium-term target of 2.0%yr.

The ECB views on inflation risks seem balanced …

In regards to the path for policy, recent speeches by Governing Council members provide a fairly balanced view. Generally speaking, the ECB are well aware of the near-term risks around underlying inflation, but also recognise that interest rates have risen a considerable amount over the last nine months. In our view, the chief risk now lies in over-tightening policy to an extent that limits the economy's ability to recover over the medium-term.

… but the risks to growth from over-tightening are clear …

Additionally, the ECB's staff projections - while not having incorporated recent developments around SVB and Credit Suisse - remain broadly constructive on the outlook, with inflation expected to return to target by late-2025. Even with global banking sector volatility gradually abating, markets also do not look eager to return to the pricing structure evident prior to SVB's collapse, with the expected peak in policy rates still 48bps lower as of April 4th.

… leaving room for only one more 25bp rate hike in the cycle.

We believe the most probable course is one further 25bp rate hike in May, seeing the deposit rate peak at 3.25%. Policy should then remain on hold to 2024 before a progressive return to neutral by mid-2025. Should services inflation prove to be stickier than anticipated, the balance between inflation and growth risks may become more difficult to manage, but the latter should prevail.

Ryan Wells, Economist

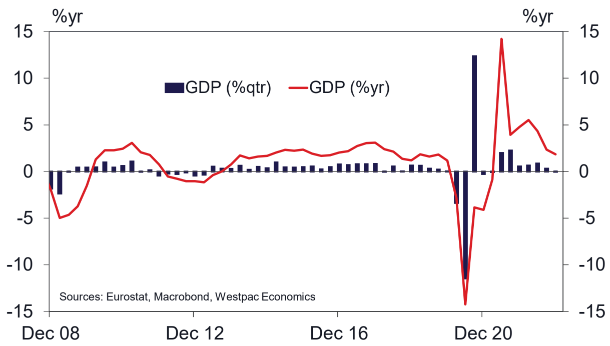
	2022								2023		
Europe	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Eur consumer prices %yr	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9
Eur unemployment rate %	6.7	6.7	6.7	6.7	6.7	6.7	6.6	6.7	6.7	6.6	6.6	–
Eur industrial production %yr	-0.9	3.1	4.0	-0.8	4.8	6.2	4.3	3.6	-3.2	0.9	–	–
Eur retail sales volumes %yr	5.1	1.2	-2.8	-0.8	-1.3	0.1	-2.5	-2.5	-2.8	-2.3	–	–
Eur consumer confidence	-22.4	-21.5	-24.0	-27.2	-25.0	-28.7	-27.4	-23.7	-22.0	-20.7	-19.1	-19.2
Eur current account balance €bn	-17.8	-16.0	-7.0	-26.4	-36.2	-30.2	1.1	10.2	13.3	17.1	–	–
United Kingdom												
UK consumer price index %yr	9.0	9.1	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	–
UK unemployment rate % (ILO)	3.8	3.8	3.8	3.6	3.5	3.6	3.7	3.7	3.7	3.7	–	–
UK industrial production %yr	-2.3	-3.7	-3.4	-4.3	-6.2	-5.3	-4.2	-4.3	-4.0	-4.3	–	–
UK retail sales volumes %yr	-6.4	-5.4	-6.6	-3.9	-5.7	-6.8	-5.4	-5.7	-6.3	-5.2	-3.5	–
UK consumer confidence	-38	-40	-41	-41	-44	-49	-47	-44	-42	-45	-38	-36

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	0.6/4.8	0.6/5.5	0.9/4.4	0.4/2.4	0.0/1.8
UK GDP %qtr/%yr	6.5/24.4	1.7/8.5	1.5/8.9	0.5/10.6	0.1/3.8	-0.1/2.0	0.1/0.6
UK current account balance £bn	-2.5	-19.1	-2.4	-50.5	-28.2	-12.7	-2.5

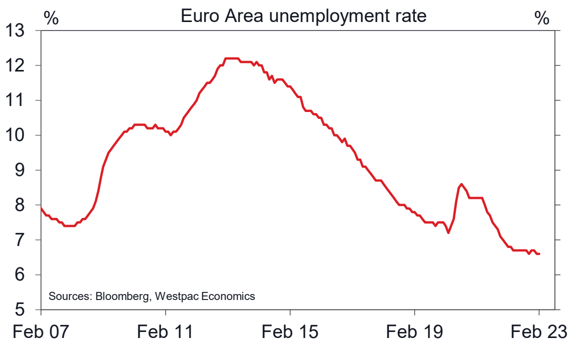
Source: Official agencies.

… depends on a fine balance between inflation and growth

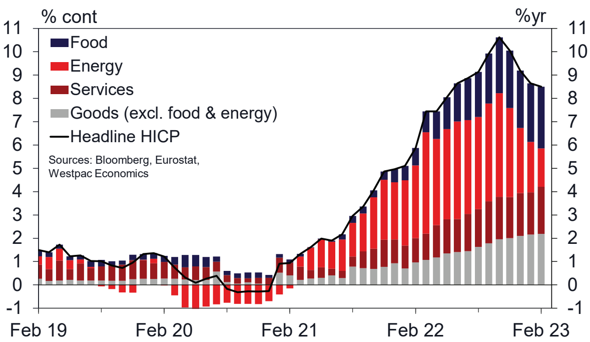
Growth stalled into year-end



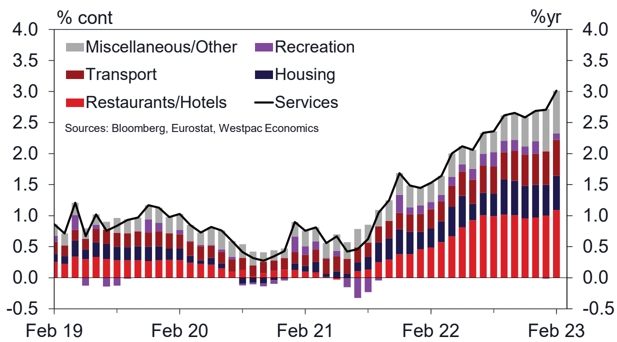
Labour market remains historically tight



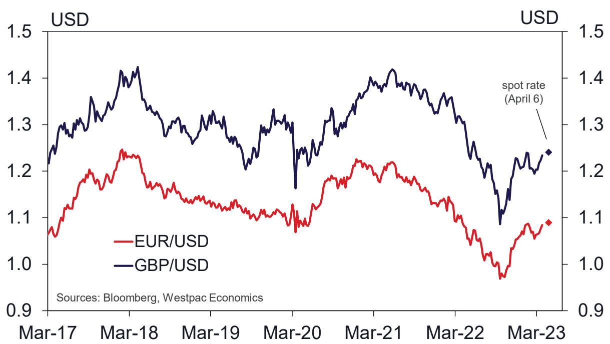
Energy inflation unwind materialising



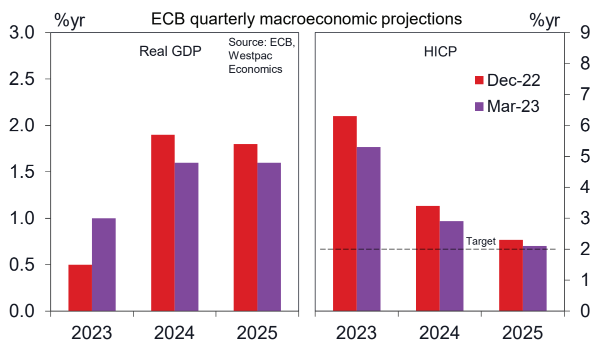
Services inflation continues to rise



European banking system concerns fading



Long-term inflation returning to target



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Australia

Interest rate forecasts

	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	3.64	3.95	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.25	3.65	3.60	3.50	3.40	3.20	3.00	2.90
3 Year Bond	2.85	3.30	3.25	3.15	3.10	2.95	2.80	2.70
10 Year Bond	3.22	3.40	3.30	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-8	-10	-10	-10	-10	-10	-10	-10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD vs								
USD	0.6714	0.69	0.72	0.74	0.75	0.76	0.76	0.77
JPY	87.95	89.7	92.9	94.7	95.3	95.8	95.0	95.5
EUR	0.6160	0.63	0.65	0.66	0.67	0.67	0.66	0.66
NZD	1.0640	1.08	1.09	1.10	1.11	1.13	1.13	1.13
CAD	0.9037	0.92	0.94	0.95	0.96	0.97	0.96	0.97
GBP	0.5390	0.56	0.58	0.59	0.60	0.60	0.59	0.60
CHF	0.6086	0.63	0.66	0.67	0.68	0.68	0.68	0.68
DKK	4.5898	4.67	4.83	4.92	4.97	4.97	4.92	4.95
SEK	6.9970	7.12	7.37	7.50	7.57	7.57	7.51	7.54
NOK	7.0252	7.15	7.40	7.53	7.60	7.60	7.53	7.57
ZAR	12.14	12.3	12.6	12.7	12.8	12.9	12.9	13.0
SGD	0.8918	0.91	0.95	0.97	0.98	1.00	0.99	1.00
HKD	5.2706	5.40	5.62	5.76	5.83	5.90	5.89	5.97
PHP	36.53	37.3	38.5	39.2	39.0	38.8	38.4	38.5
THB	22.82	22.8	23.4	23.7	23.6	23.6	23.2	23.5
MYR	2.9580	2.93	3.02	3.07	3.08	3.08	3.08	3.08
CNY	4.6233	4.62	4.75	4.81	4.80	4.79	4.71	4.70
IDR	10025	10281	10656	10804	10800	10792	10640	10626
TWD	20.47	20.6	21.4	21.8	22.0	22.2	22.1	22.3
KRW	885	863	893	903	900	897	882	886
INR	54.87	53.8	54.7	55.5	55.5	55.5	55.1	55.4

ECONOMIC FORECASTS

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	0.8	0.8	0.4	0.5	–0.2	–0.5	–	–	–	–
%yr	3.6	5.1	5.0	3.0	2.4	1.4	0.1	2.4	5.0	0.1	0.7
Unemployment rate % (2)	3.8	3.5	3.5	3.6	3.5	3.9	4.5	4.7	3.5	4.5	5.0
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	1.3	1.1	0.8	0.7	–	–	–	–
%yr	6.1	7.3	7.8	6.9	6.2	5.1	3.9	3.5	7.8	3.9	3.0
Core inflation trimmed mean	1.6	1.9	1.7	1.4	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	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Employment '000 chg	60	90	–18	53	13	44	58	–17	–11	65	–
Unemployment rate %	3.9	3.6	3.5	3.5	3.6	3.4	3.5	3.5	3.7	3.5	–
Westpac–MI Consumer Sentiment	90.4	86.4	83.8	81.2	84.4	83.7	78.0	80.3	84.3	78.5	78.5
Retail trade %mth	0.8	0.6	0.9	0.9	0.7	0.4	1.6	–3.9	1.8	0.2	–
Dwelling approvals %mth	8.7	0.1	–16.0	28.0	–9.3	–5.5	–4.6	14.3	–27.1	4.0	–
Credit, private sector %yr	9.1	9.1	9.1	9.3	9.5	9.5	8.9	8.3	8.0	7.6	–
Trade balance AUDbn	13.6	16.8	8.6	8.3	12.5	12.6	13.5	13.0	11.7	–	–

New Zealand

Interest rate forecasts

	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.25
90 Day Bill	5.49	5.60	5.60	5.60	5.50	5.05	4.55	4.25
2 Year Swap	5.05	5.10	4.80	4.50	4.20	3.90	3.70	3.50
10 Year Bond	4.01	4.20	4.10	4.00	3.85	3.70	3.60	3.50
10 Year Spread to US	71	70	70	70	75	80	80	90
10 Year Spread to Aust	79	80	80	80	85	90	90	100

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD vs								
USD	0.6310	0.64	0.66	0.67	0.68	0.68	0.68	0.68
JPY	82.66	83.2	85.1	85.8	85.7	85.1	84.4	84.3
EUR	0.5790	0.58	0.59	0.60	0.60	0.59	0.59	0.59
AUD	0.9398	0.93	0.92	0.91	0.90	0.89	0.89	0.88
CAD	0.8494	0.85	0.86	0.86	0.86	0.86	0.85	0.86
GBP	0.5066	0.52	0.53	0.54	0.54	0.53	0.53	0.53
CNY	4.3398	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**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	-3.1	0.2	0.0	-0.1	0.0	-0.1	-0.1	7.5	2.9	-0.9	0.7
Government consumption	0.5	-0.7	-2.4	-0.5	-0.5	-1.0	-0.6	8.2	4.5	-3.4	-1.1
Residential investment	0.3	3.8	-2.2	0.0	0.0	-1.0	-2.0	8.0	0.4	-0.8	-8.4
Business investment	-3.8	2.7	-1.5	0.2	0.7	-0.1	-0.9	14.6	4.9	-0.2	-3.1
Stocks (ppt contribution)	0.4	0.2	0.1	-0.2	-0.5	-0.1	0.1	1.3	-0.1	-0.3	-0.1
GNE	-0.6	0.3	0.2	-0.3	-0.3	-0.4	-0.3	10.1	3.4	-1.3	-0.9
Exports	16.9	8.0	-2.2	1.0	4.0	3.6	1.1	-2.6	-1.0	12.7	5.2
Imports	0.9	2.5	0.6	1.9	1.1	0.6	0.5	15.1	4.4	5.1	2.4
GDP (production)	**1.6**	**1.7**	**-0.6**	**0.2**	**0.2**	**0.2**	**-0.2**	**6.0**	**2.4**	**1.1**	**-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	-8.0	-8.5	-8.9	-8.5	-8.1	-7.6	-6.7	-6.0	-8.9	-6.7	-4.5
Terms of trade annual %	-2.2	-6.4	-3.9	-4.9	-0.5	5.1	4.6	2.8	-3.9	4.6	1.2

Sources: Statistics NZ, Westpac Economics.

FORECASTS

Commodity prices

End of period	Latest (6 Apr)***	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Australian commodities index#	340	336	328	315	310	**303**	**299**	**301**	**301**	**301**
Bulk commodities index#	**582**	**544**	**508**	**470**	**452**	**433**	**415**	**413**	**404**	**384**
iron ore finesTSI @ 62% US$/t	125	120	112	100	95	89	84	90	90	87
Qld coking coal index (US$/t)	267	265	266	263	262	257	253	244	220	206
Newcastle spot thermal coal (US$/t)	200	195	190	185	180	175	170	150	135	125
crude oil (US$/bbl) Brent ICE	83	85	82	85	87	88	92	95	105	110
LNG in Japan US$mmbtu	16.90	16.4	16.8	16.0	16.4	16.5	16.5	17.0	17.3	18.9
gold (US$/oz)	1,997	2,000	2,000	1,950	1,925	1,875	1,850	1,825	1,800	1,775
Base metals index#	**213**	**214**	**213**	**213**	**212**	**211**	**217**	**224**	**244**	**255**
copper (US$/t)	8,945	9,000	8,900	8,850	8,800	8,700	9,095	9,392	10,381	10,875
aluminium (US$/t)	2,378	2,375	2,375	2,400	2,400	2,375	2,445	2,497	2,668	2,750
nickel (US$/t)	23,340	23,500	23,600	23,700	23,800	23,900	24,823	25,511	27,794	28,919
zinc (US$/t)	2,918	2,930	2,950	2,970	2,990	3,000	3,000	3,073	3,316	3,434
lead (US$/t)	2,118	2,100	2,050	2,000	1,950	1,900	1,875	1,927	2,101	2,186
Rural commodities index#	**148**	**144**	**149**	**148**	**149**	**150**	**157**	**163**	**181**	**191**
NZ commodities index ##	**338**	**355**	**373**	**382**	**388**	**390**	**389**	**386**	**382**	**376**
dairy price index ^^	302	305	326	338	345	348	349	347	344	340
whole milk powder US$/t	3,228	3,600	3,747	3,900	3,925	3,950	3,912	3,875	3,799	3,725
skim milk powder US$/t	2,648	2,825	2,911	3,000	3,074	3,150	3,200	3,250	3,300	3,350
lamb leg UKp/lb	465	513	540	563	575	578	575	563	552	543
bull beef US¢/lb	273	287	291	293	293	290	287	281	275	269
log price index ##	166	179	182	184	185	184	181	178	175	172
strong wool US¢/kg	161	161	161	161	161	161	161	161	161	161

	levels				% change			
Annual averages	2021	2022	2023(f)	2024(f)	2021	2022	2023(f)	2024(f)
Australian commodities index#	**306**	**379**	**338**	**304**	**43.1**	**23.6**	**-10.8**	**-9.9**
Bulk commodities index#	**510**	**556**	**515**	**421**	**47.0**	**9.2**	**-7.5**	**-18.1**
iron ore fines @ 62% USD/t	159	120	117	90	46.6	-24.4	-2.9	-22.6
LNG in Japan $mmbtu	10.3	18.2	17	17	31.1	77.6	-7.7	-1.9
ave coking coal price (US$/t)	143	240	280	262	33.2	67.2	16.7	-6.2
ave thermal price (US$/t)	99	281	262	211	74.8	183.7	-7.1	-19.2
iron ore fines contracts (US¢ dltu)	239	174	164	144	72.8	-27.0	-6.0	-11.8
coal coking contracts (US$/t)	205	372	299	268	62.5	81.2	-19.5	-10.5
crude oil (US$/bbl) Brent ICE	70	97	83	90	60.2	38.4	-14.6	8.1
gold (US$/oz)	1,801	1,809	1,964	1,879	1.2	0.5	8.5	-4.3
Base metals index#	**213**	**230**	**216**	**216**	**41.1**	**8.0**	**-5.8**	**-0.3**
copper (US$/t)	9,297	8,827	8,926	8,952	50.2	-5.1	1.1	0.3
aluminium (US$/t)	2,477	2,711	2,387	2,421	44.0	9.5	-11.9	1.4
nickel (US$/t)	18,452	26,228	24,240	24,358	33.4	42.1	-7.6	0.5
zinc (US$/t)	3,006	3,471	2,991	3,007	32.1	15.4	-13.8	0.5
lead (US$/t)	2,190	2,154	2,080	1,919	19.6	-1.6	-3.5	-7.7
Rural commodities index#	**150**	**171**	**146**	**153**	**28.0**	**14.0**	**-14.9**	**4.6**
NZ commodities index ##	**359**	**376**	**362**	**388**	**21.2**	**4.7**	**-3.7**	**7.2**
dairy price index ##	322	353	317	347	25.2	9.5	-10.0	9.3
whole milk powder US$/t	3,843	3,889	3,556	3,918	29.2	1.2	-8.6	10.2
skim milk powder US$/t	3,332	3,819	2,832	3,142	22.6	14.6	-25.9	11.0
lamb leg UKp/lb	599	624	511	573	18.4	4.3	-18.2	12.2
bull beef US¢/lb	279	280	280	288	19.0	0.5	-0.1	2.9
log price index ##	179	171	178	182	14.8	-4.3	4.1	2.1
strong wool US¢/kg	173	169	162	161	20.4	-2.7	-4.0	-0.4

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

FORECASTS

United States

Interest rate forecasts

	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Fed Funds*	4.875	4.875	4.875	4.875	4.375	3.875	3.375	2.875
10 Year Bond	3.30	3.50	3.40	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 (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD vs								
DXY index	101.92	101.3	100.4	99.4	98.8	97.7	96.8	96.0
JPY	131.03	130	129	128	127	126	125	124
EUR	1.0899	1.10	1.11	1.12	1.13	1.14	1.15	1.16
AUD	0.6714	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD	0.6310	0.64	0.66	0.67	0.68	0.68	0.68	0.68
CAD	1.3461	1.33	1.31	1.29	1.28	1.27	1.26	1.26
GBP	1.2456	1.23	1.24	1.25	1.26	1.27	1.28	1.29
CHF	0.9065	0.91	0.91	0.90	0.90	0.89	0.89	0.88
ZAR	18.08	17.8	17.5	17.2	17.1	17.0	17.0	16.9
SGD	1.3284	1.32	1.32	1.31	1.31	1.31	1.31	1.31
HKD	7.8499	7.82	7.80	7.78	7.77	7.76	7.75	7.75
PHP	54.42	54.0	53.5	53.0	52.0	51.0	50.5	50.0
THB	34.00	33.0	32.5	32.0	31.5	31.0	30.5	30.5
MYR	4.4053	4.25	4.20	4.15	4.10	4.05	4.05	4.00
CNY	6.8795	6.70	6.60	6.50	6.40	6.30	6.20	6.10
IDR	14932	14900	14800	14600	14400	14200	14000	13800
TWD	30.49	29.9	29.7	29.5	29.3	29.2	29.1	29.0
KRW	1318	1250	1240	1220	1200	1180	1160	1150
INR	82.00	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	0.6
Dwelling investment	-17.8	-27.1	-25.9	-3.9	-3.9	-3.9	-3.9	10.7	-10.7	-12.7	-1.5
Business investment	0.1	6.2	3.3	4.9	3.0	2.9	3.0	6.9	4.3	3.7	4.1
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	0.9
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	0.7
%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	316	340	120	55	50	514	427	141	75
Unemployment rate %	3.6	3.6	3.6	3.5	3.6	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	3.6	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

FORECASTS

Europe & the United Kingdom

Interest rate forecasts

	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro area								
ECB Deposit rate	3.00	3.25	3.25	3.25	3.00	2.50	2.00	1.50
10 Year Bund	2.18	2.25	2.20	2.15	2.00	1.85	1.80	1.60
10 Year Spread to US	-112	-125	-120	-115	-110	-105	-100	-100
United Kingdom								
BoE Bank Rate	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.00
10 Year Gilt	3.43	3.55	3.45	3.35	3.10	2.90	2.80	2.60
10 Year Spread to US	13	5	5	5	0	0	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
euro vs								
USD	1.0899	1.10	1.11	1.12	1.13	1.14	1.15	1.16
JPY	142.76	143	143	143	143	144	144	144
GBP	0.8749	0.89	0.90	0.90	0.89	0.90	0.90	0.90
CHF	0.9879	1.00	1.01	1.01	1.01	1.01	1.02	1.02
DKK	7.4504	7.45	7.45	7.45	7.45	7.45	7.45	7.45
SEK	11.3582	11.4	11.4	11.4	11.4	11.4	11.4	11.4
NOK	11.4039	11.4	11.4	11.4	11.4	11.4	11.4	11.4
sterling vs								
USD	1.2456	1.23	1.24	1.25	1.26	1.27	1.28	1.29
JPY	163.16	160	160	160	160	160	160	160
CHF	1.1291	1.12	1.13	1.13	1.13	1.13	1.14	1.14
AUD	0.5390	0.56	0.58	0.59	0.60	0.60	0.59	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	0.5	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	8.5	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	–2.5	2.5
Imports %yr	–7.6	16.5	6.5	19.5	–7.5	0.5	4.0

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (6 Apr)	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 (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
JPY	131.03	130	129	128	127	126	125	124
SGD	1.3284	1.32	1.32	1.31	1.31	1.31	1.31	1.31
HKD	7.8499	7.82	7.80	7.78	7.77	7.76	7.75	7.75
PHP	54.42	54.0	53.5	53.0	52.0	51.0	50.5	50.0
THB	34.00	33.0	32.5	32.0	31.5	31.0	30.5	30.5
MYR	4.4053	4.25	4.20	4.15	4.10	4.05	4.05	4.00
CNY	6.8795	6.70	6.60	6.50	6.40	6.30	6.20	6.10
IDR	14932	14900	14800	14600	14400	14200	14000	13800
TWD	30.49	29.9	29.7	29.5	29.3	29.2	29.1	29.0
KRW	1318	1250	1240	1220	1200	1180	1160	1150
INR	82.00	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	2022	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	0.7
Japan	0.6	-0.4	-4.6	1.7	1.6	1.3	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**	**0.8**	**1.0**
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	0.9	2.0
Australia	2.8	1.9	-1.8	5.2	3.7	1.6	1.0
New Zealand	3.5	3.1	-1.5	6.0	2.4	1.1	-0.5
OECD total	**2.3**	**-0.8**	**-0.6**	**4.8**	**2.2**	**0.8**	**1.1**
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	1.8	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	3.0
Singapore	3.7	1.1	-4.1	7.6	3.8	2.5	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	6.2	6.8
East Asia	**5.9**	**5.2**	**0.7**	**7.0**	**3.5**	**5.5**	**5.1**
East Asia ex China	4.5	3.8	-2.3	4.2	4.6	4.1	4.4
NIEs*	**3.0**	**1.9**	**-0.5**	**5.5**	**2.2**	**2.1**	**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	-1.5	0.0
Brazil	1.8	1.2	-3.9	4.6	2.5	1.2	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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