WESTPAC MARKET OUTLOOK JULY 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

The Reserve Bank of Australia, having lifted the cash rate from a record low of 0.1% at the start of April 2022 to be at 4.1% currently, has slowed the pace of policy tightening in 2023. The Board paused at the July meeting, as they did in April, to provide some time to assess the outlook. The July decision statement (like that in June, but not the June Minutes) repeated the line that: "Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe". We asses that the fight against inflation has not yet been won. Underlying inflation remains sticky (which we expect to be confirmed in the upcoming June quarter CPI report), the labour market remains the tightest in 50 years and wage pressures are emerging. We expect the RBA cash rate to peak at 4.6%, with hikes in August and September. Given these pressures, the likely timing of the next RBA easing cycle has been pushed back from February 2024 to May 2024.

Globally, the themes are much the same – with central banks remaining focused on the need to tame inflation. US Federal Reserve Chair Powell confirmed these sentiments in comments at the ECB's 2023 Forum on Central Banking in Sintra Portugal. The FOMC, which paused in June, is expected to deliver a further, and final rate hike, in July – then hold rates at elevated levels into 2024.

In currency markets, the Australian dollar remains weak, currently trading below USD 0.67. Last month we lowered our forecast for the AUD from USD 0.74 to USD 0.69 by year's end. This reflected Australia remaining a "low yielder" and the likelihood that the global pressures which will emerge in 2023 will not see the Australian dollar as the "safe haven" choice. We see no reason to change that call following the events of the last month.

Australia: A sharp slowdown of the Australian economy in 2023 is underway. Output growth stepped down to 0.2% in the March quarter, from results of around 0.6% per quarter throughout 2022. Early in June, we lowered our already downbeat growth forecasts, anticipating annual growth of 0.6% for December 2023, slowing to only 0.3% for June 2024 – which includes an expected one–off contraction in the March quarter 2024, of –0.2%. Consumer spending leads the downturn, in the face of high inflation and rapid interest rate rises, with annual growth to slow from 3.5% currently to 0.3% by December 2023 and then –0.2% at June 2024. Against this weak demand backdrop, the current resilience in business investment evaporates, with spending forecast to contract by 5% in the year to June 2024, including an anticipated hefty 15% contraction in equipment investment. These developments will see the unemployment rate climb from the current historic low of 3.6% to 5.3% at end 2024, then to 5.5% in mid–2025.

Commodities: Fundamentals are stabilising as "weak" Chinese data and hawkish central banks are contrasted with expectations for Chinese stimulus and structurally strengthening demand for new energy metals. Crude oil markets tightened with OPEC+ production cuts and a maturing of US oil producers who are no longer a swing factor. Iron ore has stabilised but rising supply will suppress prices into year end.

Global FX markets: The US dollar DXY index has held to an almost single point range since mid–June as inflation and growth risks were assessed and debated. Into year end and then through 2024, inflation anxiety will fade and growth risks for the West come to the fore, particularly for the US. Asia is expected to show its resilience over the period and the region's currencies should gain as a result.

New Zealand: Following strong growth in recent years, the New Zealand economy is now cooling as mounting financial pressures weigh on household demand. Population gains and the continuing recovery in tourism exports are providing a base under activity. Even so, a period of subdued economic growth is on the cards. Against this backdrop, inflation pressures are easing, but only gradually.

United States: The FOMC remains attentive to immediate inflation risks. Increasingly though, it is uncertainty around medium–term growth that is becoming the bigger concern. Stagnation is a real risk for the US, a state that would be very difficult for break out of. Note, stagnation does not preclude persistent above–target inflation or sustained contractionary monetary policy.

China: Market participants continue to show concern over the economy's outlook. Context afforded by history and current data outcomes from other key nations instead signal resilience and opportunity ahead. This alternative view suggests policy makers do not need to panic and surge policy support. Rather targeted, multi–faceted engagement is what is required.

Europe: The Bank of England's surprise 50bp rate hike comes as the economy faces unique headwinds pushing policymakers to act more hawkishly. This can be best seen when comparing the UK's circumstances to that of Australia. Persistent inflation, a longer policy transmission lag and a diminished labour force are just some of the factors making the Bank of England's job tougher.

Summary of world GDP growth (year average)

Real GDP %ann*	2018	2019	2020	2021	2022f	2023f	2024f
United States	2.9	2.3	–2.8	5.9	2.1	1.6	0.3
China	6.8	6.0	2.2	8.4	3.0	5.7	5.5
Japan	0.6	–0.4	–4.3	2.1	1.1	1.2	1.0
India	6.5	3.9	–5.8	9.1	6.8	6.1	6.3
Other East Asia	4.5	3.8	–2.3	4.3	4.5	3.7	4.3
Europe	1.8	1.6	–6.1	5.4	3.5	0.6	1.2
Australia	2.8	1.9	–1.8	5.2	3.7	1.4	0.5
New Zealand	3.5	3.1	–1.5	6.0	2.7	1.2	0.5
World	**3.6**	**2.8**	**–2.8**	**6.3**	**3.4**	**3.0**	**3.0**

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 cash rate to peak at 4.60% …

RBA paused in July …

The Reserve Bank Board held the cash rate steady at 4.1% at its July meeting.

The reason given by the Governor was: "to provide some time to assess the impact of the increase in interest rates to date and the economic outlook."

… as it did in April, to provide some time to assess the outlook.

This is the same wording used following the decision to pause in April. Note the recent pattern: a taper in October (0.25% from the previous 0.5's); increases in November and December; a pause in January (when there was no meeting); increases in February and March; a pause in April; increases in May and June; and a pause again in July. The months of October; January; April and July are those immediately preceding the quarterly inflation report and the Statement on Monetary Policy, which sees the staff update its forecasts for the Board.

For the RBA, the concern is that upside risks to inflation remain …

Reference to "the economic outlook" in the July decision statement is related to the Board awaiting the staff's revised forecasts that will be available for the meeting in August. Of most interest in those forecasts will be the outlook for inflation and wages given that the Governor has already indicated his concerns that risks to the inflation outlook have moved to the upside; as wage pressures appear to be mounting in the enterprise bargaining sector. Furthermore, the link between wages and prices may be starting to reflect the 7.9% jump in unit labour costs we have seen in the last year.

… with underlying inflation proving to be sticky …

Westpac lifted its forecast for the terminal cash rate to 4.6% following what appeared to be a clear rebalancing of the Board's reaction function at the June Board meeting – placing central emphasis on containing inflation pressures and wage/price expectations and less on protecting the employment gains since the pandemic. This point continues to be emphasised in the Governor's decision statement, which abandoned the concept that had been used in previous statements – "The Board is seeking to keep the economy on an even keel …" – in favour of a more cautious: "The Board is still expecting the economy to grow …"

… as the labour market remains very tight …

Westpac had expected the Board to raise rates again in July, reflecting this assessed change in its reaction function and the data flow, which has included evidence of an ongoing tight labour market; emerging wage pressures; sticky underlying inflation; and a sustained upswing in the housing market. Of most significance was the Deputy Governor defining the Bank's measure of full employment as 4.5% – the rate required to achieve the inflation target – which is a long way from the 3.55% that printed in May.

… and wage pressures emerge.

The decision by the Board to pause pending further data does not change the assessment that further tightening is required, including our expectation that the terminal rate will need to reach 4.6%. Notably, the line that "Some further tightening of monetary policy may be required …" was repeated in the Governor's statement, having been omitted in the minutes to the June meeting but included in the June decision statement.

This guidance compared with the April Statement following that pause, "Some further tightening of monetary policy may well be needed…" – arguably a slightly more hawkish spin although, understandably, from a 3.6% base compared to the current 4.1%. And recall that the April Board meeting was followed by consecutive rate increases in May and June.

We expect the RBA cash rate to peak at 4.60% …

The language does not preclude rate increases of 0.25% in both August and September, which is now our call (adjusted slightly from July and August). But unlike the pattern we have seen so far this year we do not expect a follow-up hike in November after the pause we expect in October. Our forecasts suggest progress on bringing down inflation, and evidence of some easing in labour market conditions and of an economy which is stagnating the second half of 2023 will allow the Board to remain on hold after September. The opportunity to ease policy will eventually come once the Board is confident that a sustained return to low inflation has been achieved.

We confirm our call that, following the hikes in August and September, rates will remain on hold until May next year when conditions will allow the Board to begin easing.

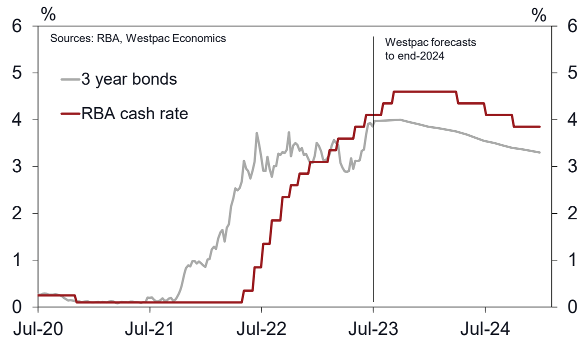
… with hikes anticipated in August and September.

Last month we lowered our forecast for the AUD from USD 0.74 to USD 0.69 by year's end. This reflected Australia remaining a "low yielder" and the likelihood that the global pressures which will emerge in 2023 will not see the Australian dollar as the "safe haven" choice. We see no reason to change that call following the events of the last month.

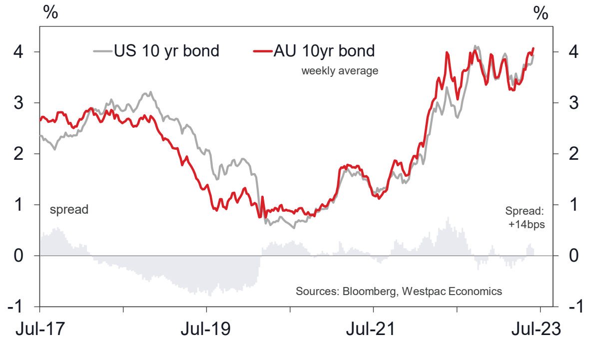
Bill Evans, Chief Economist

… with inflation battle yet to be won

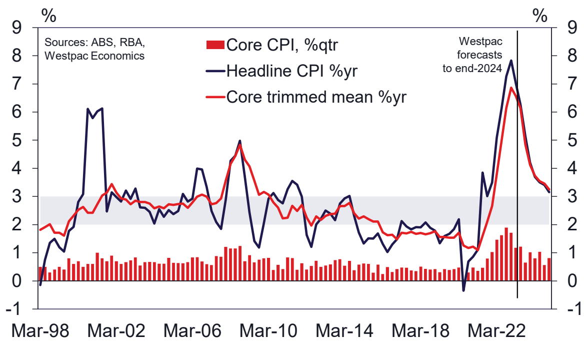
RBA cash rate and 3 year bonds



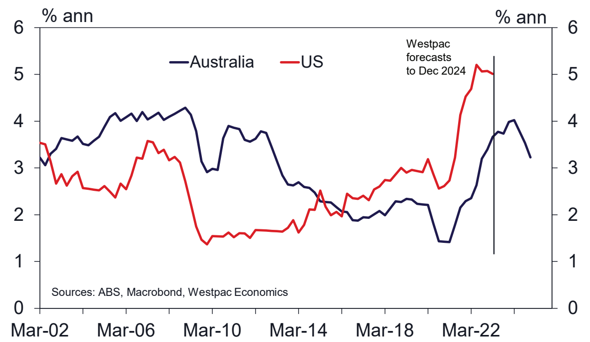
10 year bonds yields: climb to 4%



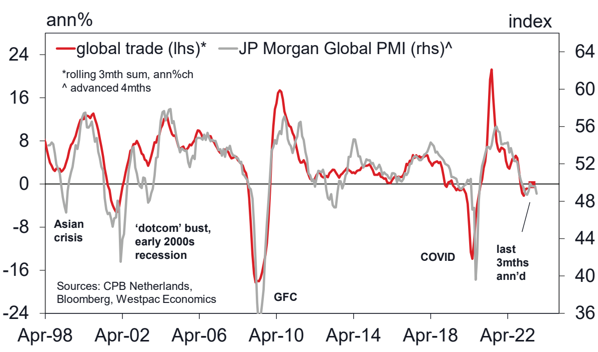
CPI inflation



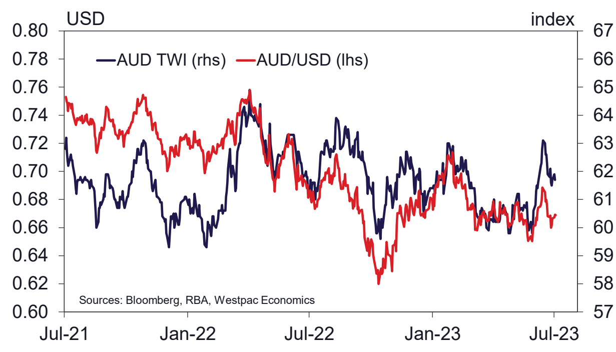
Wages growth: Australia vs US



Global trade contracting



AUD/USD & AUD TWI



Output growth to slow to sub 1% in 2023 ...

A downbeat outlook ...

In early June, following the release of the March quarter national accounts, we downgraded our output growth forecasts for Australia, from an already downbeat view as set-out three months earlier. We anticipate that economic growth in 2023 will slow to 0.6%, lowered from 1.0% previously, before edging higher in 2024 to a still weak 1.0%, moderated from 1.5%. The revised output profile is associated with an anticipated peak in the RBA cash rate of 4.6%, lifted from 4.1% in March, and an RBA easing cycle commencing in May 2024, pushed back from February 2024.

... with a sharp slowdown of the Australian economy underway.

The key driver of this insipid growth outlook is household consumption which we expect to grow by just 0.3% in 2023 and 0.6% in 2024 (the latter consisting of a –0.3% contraction in H1 and +0.9% lift in H2). This consumption profile is consistent with the very weak measures of Consumer Sentiment we have seen since the onset of high inflation and rising interest rates in 2022.

The forecasts mean per capita consumer spending recessions in both 2023 and 2024 of –1.5% in 2023 followed by –1.0% in 2024. It also implies GDP per capita recessions of –1.2% in 2023 and –0.6% in 2024. This consumption profile is decidedly weaker than consumption growth during the deep recession years of the early 1990s when annual growth remained positive (+1.2% in 1990 and +1.9% in 1991).

Output growth to slow to only 0.6% in 2023 ...

The main difference between the outlook for 2023–24 and the deep recession of 1990–91 is around business investment which contracted by 13.3% in 1990 and 16.7% in 1991 compared to our forecasts of +2.4% and –3.5% for 2023 and 2024 respectively. This difference is attributed mainly to forecasts of solid investment growth in infrastructure; renewables; and mining investment. However, we do expect businesses to respond to the weakening sales outlook, and the curtailment of generous tax concessions which expired in June 2023 with a 15% reduction in equipment investment in the year to June 2024.

... led by declining per capita consumer spending ...

The rationale behind the RBA's decision to raise the cash rate to 4.1% in June was a perception of rising inflation risks including a general spillover of high inflation to wages and wage/price expectations. That means a clear rebalancing of the Board's reaction function by prioritising inflation over the protection of the labour market gains which were made during the pandemic. We have lifted our forecast cash rate peak to 4.6% and retained that peak forecast despite the Board holding rates steady at the July meeting with hikes now expected in both August and September. This extension of the tightening cycle through the September quarter, with the ongoing evidence of a tight labour market, now indicates that the beginning of the easing cycle which we anticipated for February will be delayed to May.

... as high inflation and higher interest rates squeeze household incomes.

Next year, with labour markets remaining tight for longer than we expected back in March, the RBA Board will require further convincing that the inflation path will land within the 2–3% target zone by June 2025. They will have little choice but to hold-off on the much-needed rate relief by three months. Accordingly, we now expect 25 basis point rate cuts in May; August and November 2024 prior to further cuts in 2025 eventually bringing the cash rate below 3%, our estimate of 'neutral', by year-end.

Output is expected to contract in Q1 2024 ...

Given the higher interest rate path than expected in March, it is reasonable to have considered an even larger downside revision to our growth forecasts. But a number of offsetting factors are at play including: higher population growth than expected back in March; a much lower AUD (now forecast to be at USD0.69 by year's end compared to March forecast of USD0.74); stability in the housing market rather than a further year of house price falls; and upsides to household income growth as labour markets remain tighter for longer, wage setting arrangements are adjusted in favour of higher wage outcomes, and fiscal measures provide some additional support.

... as business investment falters ...

Consistent with our views in March, our forecasts are based on an additional gradual increase in average mortgage rates over the next year coming from 'fixed rate roll-offs' as up to 30% of fixed-rate loans transition to much higher floating rates (increases generally from 2% to 5.5–6.0%). With the RBA's rate increases from May, June, and (expected) August and September also being passed on, the average mortgage rate over the next year or so will rise by at least 150 basis points – nearly 40% of the current tightening cycle of 400 basis points.

This weaker growth profile has the unemployment rate rising from around 3.6% currently to be 5.3% at the end of 2024, up from 5.0% previously.

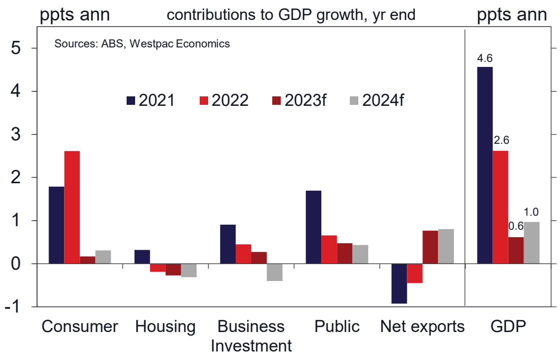
... raising the risks of a technical recession.

Do these growth adjustments constitute a recession? The standard definition of a 'technical recession' is two consecutive negative quarters of GDP growth. Our forecasts now contain one negative quarter – the March quarter of 2024 (–0.2%) while our forecasts for the adjacent quarters – December quarter 2023 (+0.1%) and June quarter 2024 (+0.2%) – are still positive although well within the range of forecast error. Consequently, on this definition, we are not forecasting a technical recession but recognise the high degree of uncertainty.

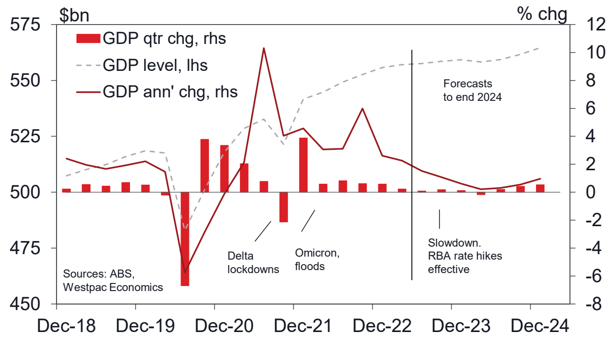
Bill Evans, Chief Economist

… led by declining per capita consumer spending

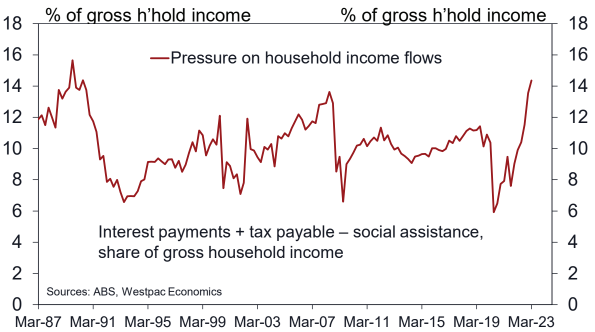
Australia: the growth mix



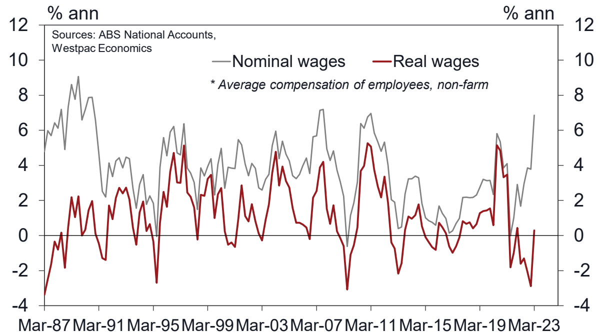
Australian economy: sharp slowdown underway



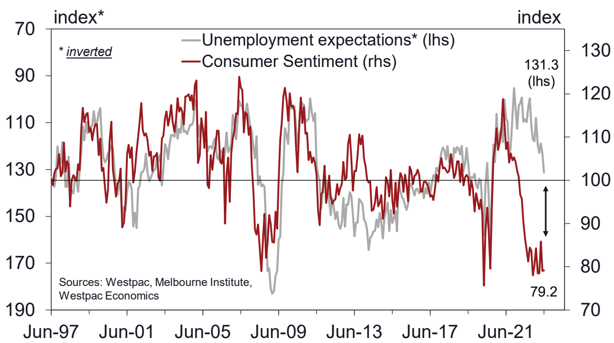
Pressure on household income flows



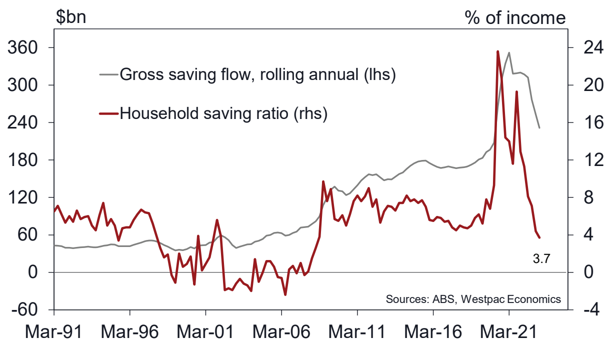
Wages – inflation squeeze



Consumers: Sentiment & unemploy' expectations



Household saving ratio and gross saving flow



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.

Price volatility has moderated as we near …

Commodity fundamentals have started to stabilise …

Commodity prices have been broadly steady through June. Fundamentals have started to stabilise and current volatility – driven by a market focus on recent weak Chinese data and an ongoing hawkish central bank narrative – is contrasted with some optimism for potential Chinese stimulus and rising structural demand for base metals in particular. We think the market's view of recent events in China is too pessimistic; the NBS PMI reading was not that weak compared to historical priors, nor its global comparisons. In addition, detail from the fixed asset investment survey suggests not only is China's manufacturing sector showing some resilience, but it also continues to grow. Chinese authorities are unlikely to deliver a 'big bang' stimulus targeting infrastructure and property as many seem to think. Doing so would be at odds with recent policy reform, potentially putting at risk the economic development the Party believes is necessary to achieve its economic and prosperity goals to 2035. We expect to see a multi-faceted but passive approach focusing on incentivising home buyers and investors; bringing forward and supporting infrastructure investment; with some modest incentives to spur household consumption.

… as markets focus on "weak" Chinese data and hawkish central banks …

Since our June report, the broad commodities index is down just 0.4% led by a 1.6% fall in iron ore and a 3% fall in base metals (due to a 4% fall in aluminium and nickel, while copper is down just 0.7%). Offsetting this was a 4.6% rise in thermal coal as crude lifted 1.2% with Brent trading around US$75/bbl as we go to press. We have made no significant changes to our commodities forecasts to end 2023 with iron ore still expected to be around US$100/t (currently US$112/t), met coal at US$190/t (currently US$201/t), thermal coal at US$125/t (currently US$147/t) while Brent is expected to firm to US$77/bbl (currently US$75/bbl) and LNG at US$13.4/mmbtu (currently US$14.01/mmbtu). Australian domestic gas prices spiked higher in May but moderated back to around $12/gigajoule through June.

… contrasted with expectations for Chinese stimulus …

So far in 2023, Chinese demand for iron ore has been stronger than expected. Crude steel production is up around 5% year-to-date, while the more critical pig iron production is up just over 1% over the same period of time. So, while there has been some strength in Chinese iron ore imports – up almost 8% year to date – inventories at Chinese ports are down almost 12% year-to-date. However, compared to steel production, inventories remain sound while demand for steel in China continues to lag expectations with rebar spreads depressed and steel exports lifting (net exports are at a 6-year high in May). Steel demand from the rest of the world remains weak while steel production from the rest of the world was down 2.3% in the year to May.

… and structurally strengthening demand for new energy metals.

Iron ore supply continues to recover with ore shipments from traditional markets up 5% year-to-date; Australia +6% year-to-date, South Africa +1% year-to-date and Brazil +3% year-to-date. China's imports from non-traditional markets (including India) as well as scrap steel consumption are also lifting. We remain cautious on the iron ore price as we expect demand to be broadly flat through this year while supply is set to lift.

Crude oil markets have tightened with OPEC+ production cuts …

For crude oil, the outlook for market balances is broadly unchanged for 2023 with upward revisions to Iranian supply countered by Saudi Arabia's additional voluntary July cut. Also, the extension of OPEC+ voluntary cuts through 2024 have tightened the outlook for crude and liquids balances, outweighing stronger Iranian production forecasts. Global crude stocks are at the start of a strong draw of the northern hemisphere summer with net balances set to return to January 2022 levels by September this year.

… and a maturing of US oil producers – who are no longer a swing factor for global supply.

The past three years has seen a marked shift in the North American oil producers – they have matured with a change in corporate strategies and capital allocation decisions with profound implications for the world oil market. Back in the 2010s, US was seen as "the new swing producer", responding quickly to price changes with an alteration in supply. Today, North American oil companies focus on stability with robust long-term plans that are resilient to fluctuations in commodity prices. We no longer think of the US as the swing producer in the crude oil market.

Iron ore prices have stabilised as demand has held up …

It is too early to say the European energy power crisis has been resolved with weak demand for coal and gas resulting in a rebuilding of inventories and materially lower prices. Inventories should moderate over the next few months as demand seasonally strengthens, as well as the return of hot weather in South East Asia. These factors, combined with a moderate pick up in Chinese demand, will result in a further correction to inventories and tighten the gas market (and in turn the coal market) as we head into year end. It is likely that EU power prices will remain elevated until 2025 when new LNG supply ramps up. It is worth remembering that high power costs can result in supply disruptions to power intensive commodities such as zinc and aluminium.

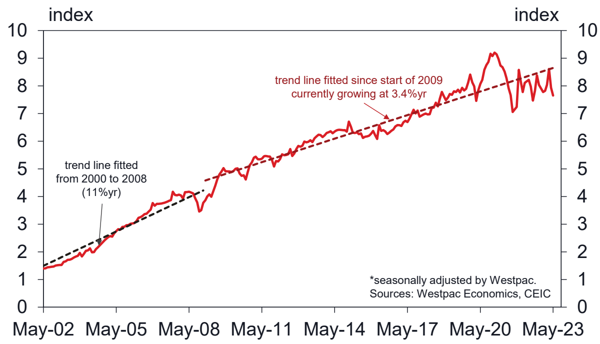
… but rising supply will suppress prices into year end.

Thermal and met coal prices have had a correction as demand softened and gas prices fell back with drier conditions leading to an increase in supply particularly from Australia. However, it does appear that prices are now finding a floor, and for the near-term, should track sideways.

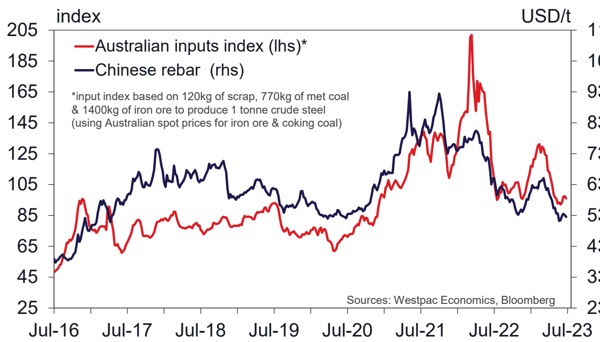
Justin Smirk, Senior Economist

… the forecast trough in crude & base metals

Chinese steel production has flattened



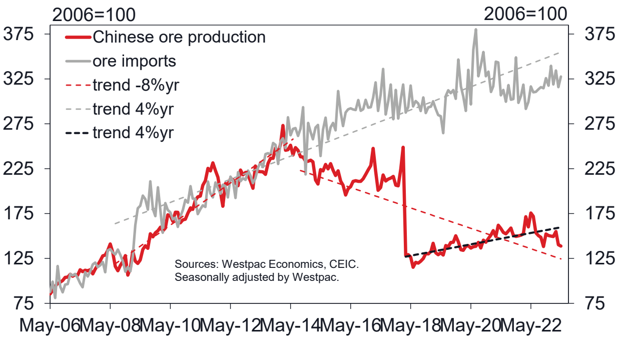
Chinese rebar & input costs



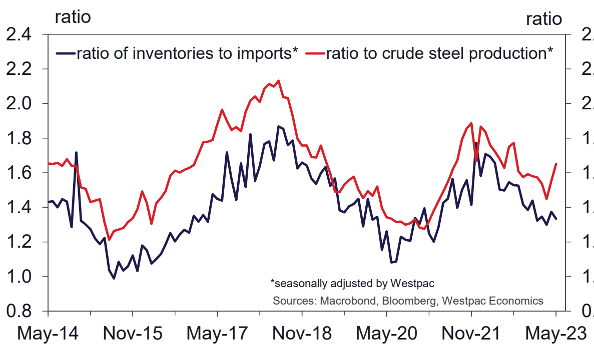
Growth in global steel production

Steel production -5%yr; rest of the world -2%yr, China -7%yr

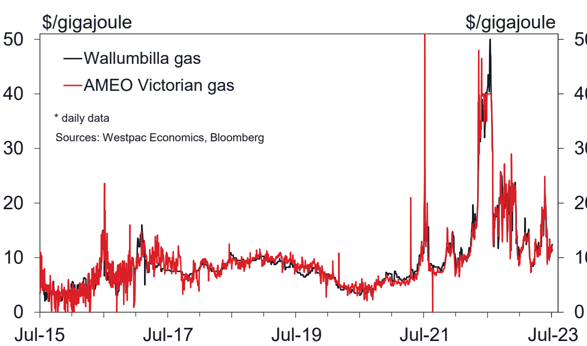
Chinese ore imports in a modest recovery



Chinese ore inventories at ports



Australian gas spiked again in May



US dollar downtrend to resume …

The tussle between inflation and growth risks has seen the US dollar hold steady of late.

In the short time between our June and July editions of Market Outlook, the US dollar has held station between 102.1 and 103.1 except for a single day where the currency edged higher to close at 103.3. The themes underlying trading this month are in line with those prior, with developed world inflation risks and growth uncertainties competing for attention from market participants.

As we look ahead to the end of the year and into 2024, slowly but surely we expect support for the US dollar from inflation risks to subside. Over the same period, growth in the Euro Area is likely to pick up as prospects for the US deteriorate. Expected rate differentials are therefore also set to aid the Euro and the UK's Sterling at the expense of the US dollar.

Slowly but surely though, support will fade, seeing a downtrend emerge.

While broad based, the scale of the initial move is likely to be limited, with DXY only expected to fall to around 101 by end-2023. The decline is expected to accelerate through 2024 however, with the index forecast to reach 97 at end-2024. Underlying the dollar index move is a rise in Euro from USD1.09 to USD1.11 at December 2023 and USD1.15 by December 2024. Having already outperformed, Sterling is anticipated to only hold at its current level of USD1.27 till year end then edge higher through 2024 to USD1.29.

By DXY pair, the downtrend is expected to be broad based …

Hurt by oil price weakness, the Canadian dollar continues to lag our prior expectations. But with the oil price now showing signs of stabilisation and the consensus growth outlook for the US and Canada broadly in line, a robust downtrend against the US dollar seems probable to end-2023, and again through 2024. From CAD1.34 currently, USD/CAD is expected to decline to CAD1.31 and CAD1.26 over the same time periods.

… though Yen appreciation may come through with a lag.

Where there remains considerable doubt amongst the DXY pairs is for Japan's Yen. Back in 2022, the depreciation of the Yen against the US dollar was primarily viewed as the result of two factors: (1) the high cost of oil, given Japan's energy importer status; and (2) the gaping rate differential with the rest of the developed world. However, the sharp move lower in the price of oil over the past year has done little to turn the tide in the Yen's favour, with USD/JPY currently at JPY145 – near 2022's high of JPY150, but a long way from its low circa JPY114.

We view the US rates story as more material than the BoJ's upcoming decisions.

Whether the Bank of Japan decides to loosen Yield Curve Control or raise the level of interest rates outright is arguably not the primary point to focus on for the Yen's outlook. In our view, instead it is the speed and scale of rate cuts in the US, accentuated by Japan's exposure to robust growth across the Asian region.

To the extent that we see 200bps of FOMC cuts in 2024 and, most likely, further easing through 2025, we anticipate USD/JPY will abruptly reverse course over the coming 12 months from JPY144 to JPY136 end-2023 and JPY128 end-2024. Timing the start of this downtrend is subject to considerable error, but the forecast for end-2024 level seems readily achievable given the Yen traded around JPY115 in early-2022.

The Yen is also likely to benefit from Asia's growth …

Upside for Yen from the growth of Asia is regarded as marginal versus the impact of changing rate differentials as, in the current era, Japanese firms face strong competition from Chinese and Korean firms, among others. The growth that these nations experience domestically and from their economic and political investment into key nations in the region such as Indonesia is therefore unlikely to be mirrored by Japan and the Yen.

… albeit nowhere near that seen elsewhere given regional competition.

For both China's Renminbi and Korea's Won, our base expectation is a circa 10% appreciation to end-2024 to CNY6.50 and KRW1180 as growth rebounds and investor sentiment resets. However, there is a strong possibly, at least initially, that sentiment proves difficult to turn resulting in more modest appreciation of Asian currencies against the US dollar.

Intriguingly, if the market is slow to price in the growth opportunity before the region, it will provide these nations with an offset to weak current demand from the West, aiding their position into the medium-term. While considerable uncertainty clouds the global outlook, the Asia uptrend is likely to show persistence beyond the end of our forecast horizon as economic development, productivity, and efficiency all provide support.

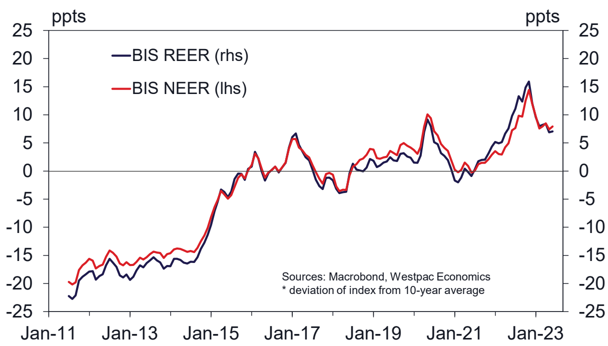
India's promise remains strong.

India's outlook also remains strong, albeit more as a result of its domestic economic development than that of the region around it. India arguably has the greatest innate growth potential of the region. Its deepening engagement with the US and Japan is also constructive, so too their access to cheap Russian energy supply. As the US dollar downtrend continues, their currency is therefore likely to outperform, USD/INR falling from INR83 to INR72 from today to end-2024, with further opportunities in 2025 and beyond.

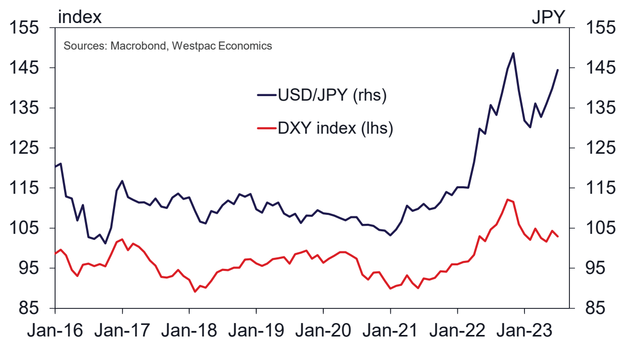
Elliot Clarke, CFA, CAIA, Senior Economist

… as inflation worries subside

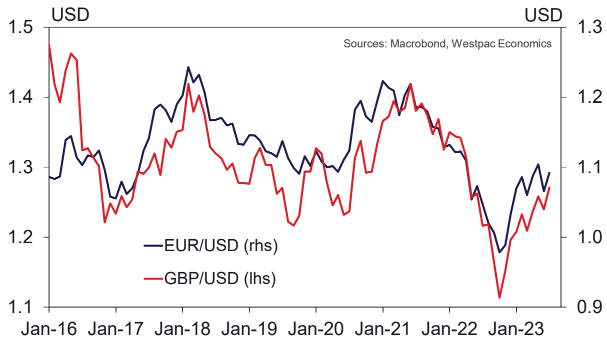
USD historically elevated on broad basis



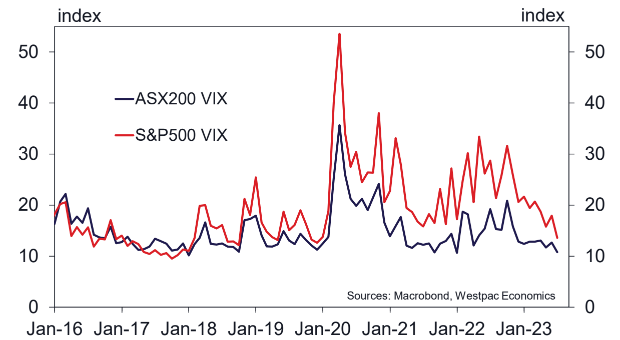
JPY continues to give DXY material support



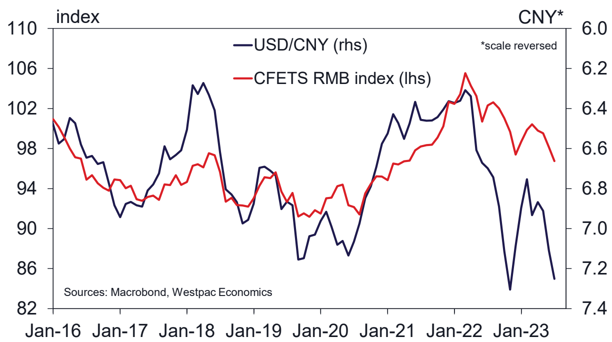
EUR & GBP negatives to fade into 2024



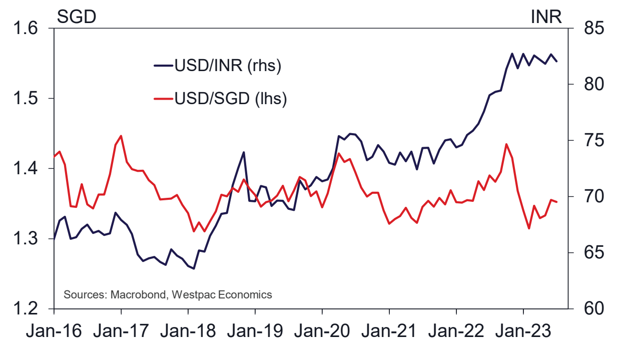
Participants view risks as dissipating



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



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Growth is slowing …

Following strong growth in recent years …

New Zealand's GDP dipped by 0.1% in the March quarter. That was the second consecutive fall in economic output, and has stoked questions about whether New Zealand's economy has tipped into recession. However, on their own, the GDP figures don't give us a complete picture of economic conditions. That's especially true when thinking about economic activity in recent months. During the early part of 2023, large swathes of the country were buffeted by severe storms. There were also a large number of strikes in the education sector.

… the wind is coming out of the economy's sails.

Taking a broader look at economic conditions, it seems more like the economy is losing steam, rather than slipping into a full-blown downturn. We are certainly seeing signs that demand is cooling. For instance, the volume of retail goods sold has been trending down since mid-2022, and the number of job advertisements has fallen by around 20% from its peak. However, that softening in activity has been from a high level. Importantly, the labour market remains in good shape, with unemployment currently sitting at just 3.4% and businesses continuing to take on staff. On balance, we're left with a picture of an economy that is still in good shape, even though some of the wind has come out of its sails.

Growth is set to slow further …

Given the economy's starting point, the fact that momentum is cooling is to be expected (and also necessary if the Reserve Bank is to achieve its inflation target). The Reserve Bank's tightening cycle started back in late 2021. And with the Official Cash Rate having risen by 525bps since then, it would have been extraordinary if we hadn't seen at least some softening in activity at this stage. The big question is how much further will the economy slow, and will that be sufficient to dampen inflation?

… as higher borrowing costs …

We expect to see further softness in domestic demand over the coming year. The full impact of the RBNZ's interest rate hikes has yet to be felt. With 90% of New Zealand mortgages fixed for a period, the pass through of rate hikes has been gradual. In fact, accounting for the extent of mortgage rate fixing, we estimate that the average mortgage rate households are actually paying has only risen by around 120bps to date. However, over the coming year around 50% of all mortgages will come up for repricing. And as increasing numbers of borrowers roll onto higher rates, the average mortgage rate that households are paying is set to rise by a further 150bps. That will see the average households' spending on debt servicing costs rising to around 10% of their disposable incomes – a level last seen in 2011.

… and increases in living costs …

In addition to higher interest rates, households are still grappling with large increases in living costs. That includes especially large increases in the costs of necessities – housing and utility costs were up 7% in the year to March and food prices were up 12% in the year to May. Those increases are hitting every family's pocket in the country.

… weigh on household spending.

Combined, those mounting financial pressures will see per capita household spending falling by around 2% over 2023 and 2024 combined. And with household spending accounting for around 60% of total economic activity, that will be a significant drag on economic growth.

The sharp rise in net migration …

Providing some offset to the tightening in financial conditions is the rapid turnaround in migration inflows. In the year to April, New Zealand recorded a net inflow of 72,000 people on a long-term basis, and at its current pace net inward migration will reach 100,000 by the end of this year. Those inflows will help to alleviate the shortages of skilled labour that many businesses have been struggling with. At the same time, the increase in population growth will result in a large boost to demand in the economy, helping to provide a floor under growth.

… will provide a floor under growth.

But while stronger population growth will help to moderate the downturn in activity, the economy is still on course for an extended period of subdued growth. We're forecasting GDP growth over the next few years will average 1.3%, well down on the rates of around 3.3% per annum seen in the years prior to the pandemic. Even so, for now, the economy continues to operate above trend, with very high levels of employment.

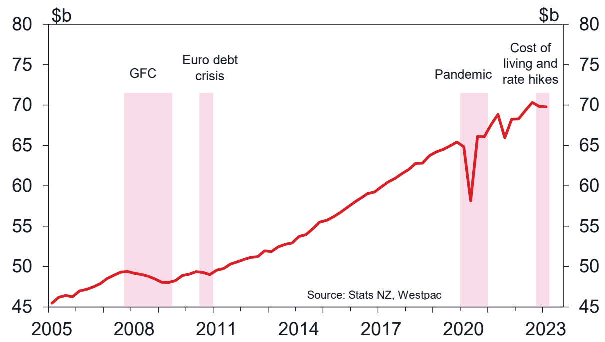
Inflation is easing, but only gradually.

That strong starting point has important implications for how quickly inflation pressures will dissipate. The coming year will see inflation drop back sharply from its current elevated level of 6.7%. That's mainly due to the fading impact of the supply disruptions which boosted costs in the early stages of the pandemic. But even as those supply side pressures continue to ease, inflation is set to remain well above the RBNZ's target band through the remainder of this year and most of 2024. That's because the current strength in inflation is not just due to supply side pressures; firm domestic economic activity in recent years has generated strong and widespread underlying inflation pressures. And even with economic growth now softening, those pressures will take time to abate. Notably, with unemployment still very low, wage growth is set to remain strong for some time yet, and that signals ongoing upward pressure in the prices for many domestic services.

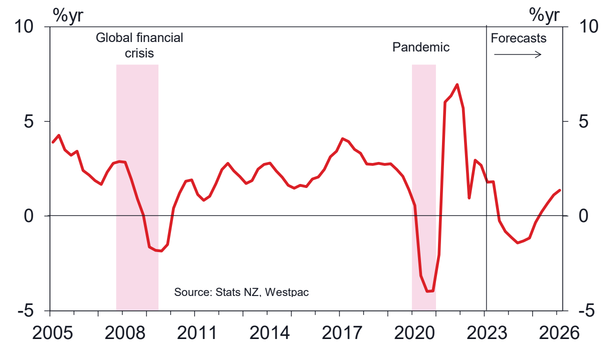
Satish Ranchhod, Senior Economist

... but inflation pressures are set to linger

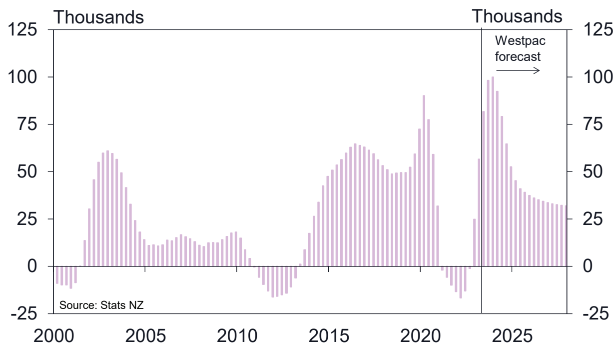
Real GDP – Recession vs loosing steam?



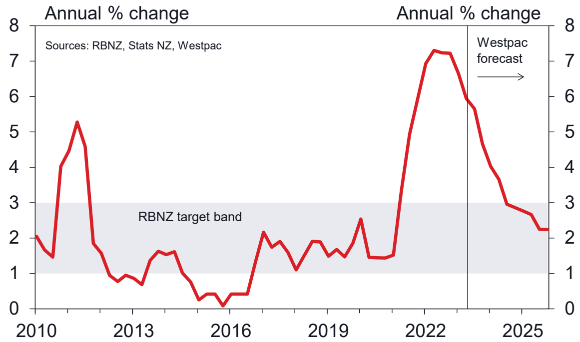
Per capita consumption spending



Net migration



Inflation



	2022							2023				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
REINZ house sales %mth	–10.0	–0.3	3.1	–3.4	–3.5	–6.8	–6.8	6.0	–1.6	12.6	7.5	2.5
Residential building consents %mth	–2.9	3.8	–2.0	3.1	–10.8	6.3	–7.6	–6.2	–7.1	6.6	–2.6	–2.2
Electronic card transactions %mth	–0.7	0.0	1.0	2.0	0.9	–0.6	–1.5	3.8	–1.5	2.4	0.5	–1.9
Private sector credit %yr	6.1	5.6	5.7	5.6	5.1	4.9	4.6	4.2	3.8	3.6	3.3	3.0
Commodity prices %mth	–0.4	–2.2	–3.4	–0.6	–3.4	–4.0	–0.2	–1.1	1.4	1.3	–1.7	0.3
Trade balance $m	–1633	–1764	–1024	–701	–1646	–1635	–1016	–1537	–1418	–1949	–1483	–969

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	4.0	3.3	3.2	3.2	3.3	3.3	3.4	3.4
CPI %yr	1.5	3.3	4.9	5.9	6.9	7.3	7.3	7.2	6.7
Real GDP %yr	–0.7	5.9	5.4	6.0	5.2	1.2	2.9	2.7	2.9
Current account balance % of GDP	–2.7	–3.4	–4.7	–6.0	–6.8	–8.0	–8.5	–9.0	–8.5

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

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Stagnation a greater concern ...

Chair Powell kept the focus on inflation at Sintra.

While appearing at the ECB's 2023 Forum on Central Banking in Sintra Portugal, Chair Powell made clear that the FOMC's fight against inflation is not yet won. In particular, he noted that the Committee's median expectation for core PCE inflation in 2025 is above the 2.0%yr medium-term target (2.2%yr), and that includes the effect of two further rate hikes in 2023 followed by only a modest reversal of policy tightening over 2024 and 2025 – 100bps and 120bps respectively, then another 90bps in the 'longer run' back to 2.5%.

However, available data continues to point to building activity risks.

Critical to this view on inflation is a sanguine expectation for GDP growth, with momentum through the forecast period below trend but comfortably above zero. Also relevant is the Committee's expectation that 2023's banking sector uncertainties will not materially affect financial conditions. In our view, near flat real consumption growth from February to May and a marked deterioration in forward indicators for business activity points to no growth being the more likely outcome over the 12 months to June 2024, including a small technical recession at the turn of the year. We perceive the key risks as being deeper losses late-2023 and early-2024 and/or that sustained tight policy and lending conditions delays a return to trend further out.

Of these two possibilities, economic stagnation is by far the bigger concern for the US. Assessed over the pandemic and recovery combined, US household consumption growth has kept pace with the 5-year pre-pandemic average despite inflation's hit to real disposable income.

Wage and job gains will slow materially, keeping household wealth under pressure.

Ahead, job creation will slow and slack in the labour market begin to build; the financial position for households will therefore remain a constraint and potentially bind tighter. The financial release valve provided by a second (or third) job will meanwhile increasingly become much harder to find.

Households who are well placed financially and keen to upgrade their housing situation also face financial challenges, with the cost of a marginal dollar of new debt to remain materially higher than prior to the pandemic and elevated build costs expected to persist. Indeed, with the US (and developed world) lacking housing capacity, the building-up of the multi-family pipeline may see construction costs rise further, particularly in areas experiencing strong migration.

Re-shoring is aiding manufacturing investment, but is marginal for demand.

The US' push to re-shore production in areas of strategic importance such as semiconductor manufacturing has led manufacturing capital expenditure to surge over the past year, with further strength to come. However, fuelled by Government tax credits, often owned by foreign interests and often highly automated once complete, the benefit to main street USA is marginal.

For the sector overall, the ISM survey suggests US manufacturing activity is currently contracting and the immediate demand outlook is weak; the regional Federal Reserve surveys tell a similar story, albeit with considerable regional disparity.

Stagnation is looking like a probable eventuality ...

The above trends are all slow-burn issues with no clear catalyst for a reset, particularly while the rest of the developed world faces their own challenges with respect to end demand and historically high costs of production and construction. Stagnation is therefore the critical risk for the US over deep recession or resilience in growth and inflation, not only because of its higher probability but also its potential duration.

... with no clear catalyst for a reset.

It is important to recognise for policy deliberations that stagnation does not have to produce a low inflation environment. An economy can get trapped with high interest rates and low growth. For an economy like the US which has an unsustainable fiscal position and limited population growth, getting out of such a predicament is harder still.

The FOMC has to keep the pressure on inflation, but once it relents ...

So what is the FOMC to do? In the near term, there is little to be achieved by taking a soft line on inflation. Real interest rates across the curve need to remain materially positive (as they are currently) to stamp out discretionary price pressures and moderate inflation expectations. However, the FOMC also needs to be mindful that they do not seek to control components of inflation they have little or no power over. Rent growth is the obvious example here: tightening to the point that individuals can no longer afford their rent would be disastrous for consumption and GDP, and could lead to a material rise in long-term unemployed and displaced people. It would also act as a disincentive for the new housing capacity the US needs to limit price pressures into the medium-term.

... growth must immediately become the focus.

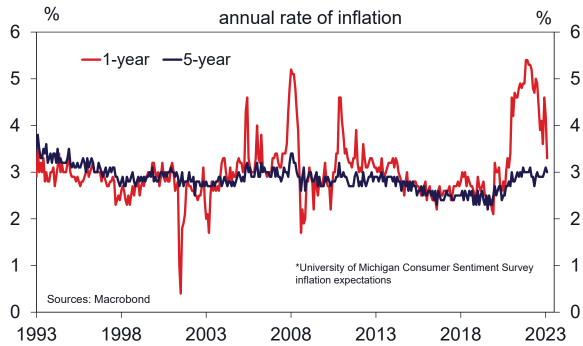
To limit the chances of stagnation and a sharp rise in unemployment, the FOMC also need to meaningfully ease policy once it becomes clear that discretionary inflation pressures are abating. We expect this by year end and so continue to forecast 200bps of easing through 2024 from a peak of 5.375% reached in July and held to end-2023. Our base case is that further rate cuts will be necessary in 2025, though this will depend on the global outlook and domestic price rigidities.

Elliot Clarke, CFA, CAIA, Senior Economist

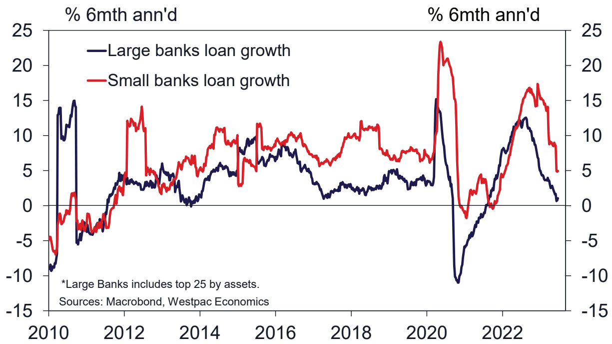
... than inflation

Elevated term interest rates necessary ...

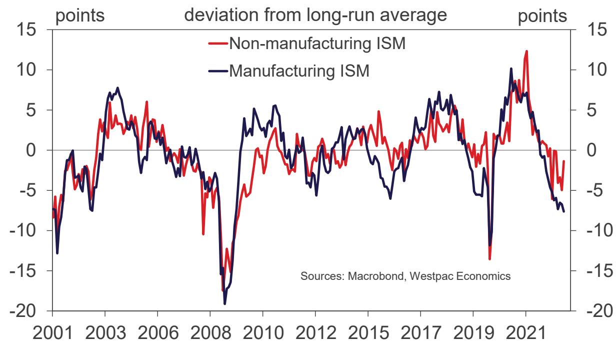
... to suppress inflation expectations



Credit deceleration a material headwind



US stagnation a real risk through 2023–2025



	2022						2023					
Monthly data	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
PCE deflator %yr	6.4	6.3	6.3	6.1	5.7	5.3	5.4	5.0	4.2	4.3	3.8	–
Unemployment rate %	3.5	3.7	3.5	3.7	3.6	3.5	3.4	3.6	3.5	3.4	3.7	–
Non-farm payrolls chg '000	568	352	350	324	290	239	472	248	217	294	339	–
House prices* %yr	16.0	13.1	10.4	8.7	6.8	4.6	2.6	0.4	-1.2	-1.7	–	–
Durables orders core 3mth %saar	4.6	7.0	0.1	2.0	-6.1	1.3	1.4	5.3	0.3	-0.2	3.5	–
ISM manufacturing composite	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0
ISM non-manufacturing composite	56.4	56.1	55.9	54.5	55.5	49.2	55.2	55.1	51.2	51.9	50.3	53.9
Personal spending 3mth %saar	7.3	7.6	5.1	8.5	4.3	1.8	6.9	9.1	9.4	3.8	3.2	–
UoM Consumer Sentiment	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5	59.2	64.4
Trade balance USDbn	-71.7	-67.3	-71.7	-78.3	-63.8	-71.4	-70.2	-70.2	-60.6	-74.6	–	–

Quarterly data	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23f
Real GDP % saar	-1.6	-0.6	3.2	2.6	2.0	1.6
Current account USDbn	-283.9	-248.8	-222.8	-216.2	-219.3	–

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

Investment detail shows glimpse of ...

Market participants remain downbeat on China.

China's official NBS manufacturing PMI met the market's expectation in June, reporting a third consecutive monthly contraction. The longer this trend persists, the more gloom pervades participants' central view for China and the risks are thought skewed.

Context from history and the US/Europe however tells of resilience ...

However, the market's premise conflicts with historical priors and the current global context. Domestically, June's NBS manufacturing PMI reading of 49 is just 1.5pts below the average of the series over the five years preceding the pandemic.

Comparing cross border, the decline in manufacturing activity reported for China through Q2 is a fraction of that seen in the US (ISM manufacturing survey) and Europe of late, with average prints of 49.0 for China versus 46.7 and 44.7 for the US and Euro Area. Also of note is that the US' ISM manufacturing index is 8ppts below its 5-year pre-pandemic average, a deviation five times that seen in China.

... and opportunity to strengthen income and (with confidence) consumption.

Looking back at the fixed asset investment detail from May, not only is China's manufacturing sector showing resilience, it actually continues to expand. While total private fixed asset investment has stalled as a result of the uncertainty surrounding consumption, investment in manufacturing continues to grow robustly, up 6.0%yr year-to-date in May.

China's industry is responding to growth emanating from ...

The sub-sector detail also points to burgeoning income opportunities, with 'high-tech' manufacturing investment up 15%yr year-to-date. While the NBS definition of 'high-tech' is not entirely clear, their detailed data points to several sub-industries performing strongly. In May, electrical machinery & equipment investment was up 39%yr year-to-date; automobile investment 18%; and chemical capital expenditure 16%. Each of these sub-sectors are tied to Asia's economic development and the global green transition.

... Asia's development and the global green transition ...

Anecdotes further point to the value add produced by assembly operations as well as legacy industry such as apparel growing via automation and the offshoring of production, key ways in which China is seeking to mitigate the impact of rising wage costs and declining population growth. Note, domestic investment that is lost offshore is made up for by repatriated profits as production remains under Chinese ownership.

... trends that have a long runway.

These structural trends offer considerable opportunity for economic growth and a more equitable distribution of income across the population. However, this will take time as a significant change in government taxation and spending is required as well as a shift in household investment away from residential property to financial instruments such as equities. China's authorities know that change of this scale takes time and is likely to prove bumpy, particularly while the developed world is weak. They also believe that structural reforms need to be preserved to bear fruit.

Authorities are therefore unlikely to see need to surge policy support.

While many in the market hope for quick and bold action by authorities, the reality is that to be sustainable spending must be justified by the agents undertaking it (including local government authorities), not purchased by the Central Government.

A multi-faceted but passive approach to support is therefore necessary, including: lower deposit requirements to incentivise home buyers and investors; a reduced Reserve Requirement Ratio and increased local government bond quota to bring forward and support infrastructure investment; as well as some modest incentives to spur household consumption. If successful, currency and equity markets will respond, righting the signs of stress that so concern the market today.

Elliot Clarke, CFA, CAIA, Senior Economist

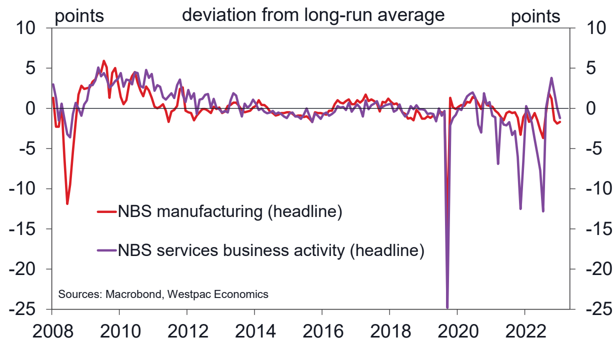
	2022						2023					
Monthly data %yr	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Consumer prices – headline	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	0.2	–
Money supply M2	12	12.2	12.1	11.8	12.4	11.8	12.6	12.9	12.7	12.4	11.6	–
Manufacturing PMI (official)	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0
Fixed asset investment %ytd	5.7	5.8	5.9	5.8	5.3	5.1	5.1	5.5	5.1	4.7	4.0	–
Industrial production (IVA)	3.8	4.2	6.3	5.0	2.2	1.3	1.3	2.4	3.9	5.6	3.5	–
Exports	18.1	7.4	5.5	-0.4	-9.1	-10.1	-10.4	-1.3	14.8	8.5	-7.5	–
Imports	1.4	-0.4	0.0	-0.8	-10.5	-7.1	-21.0	4.3	-1.4	-7.9	-4.5	–
Trade balance USDbn	102.7	81.0	84.3	84.9	68.4	76.6	99.0	16.3	88.2	90.2	65.8	–

Quarterly data	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**
Real GDP %yr	4.3	4.8	0.4	3.9	2.9	4.5
Nominal GDP %yr	10.2	9.0	3.9	6.2	2.9	5.0

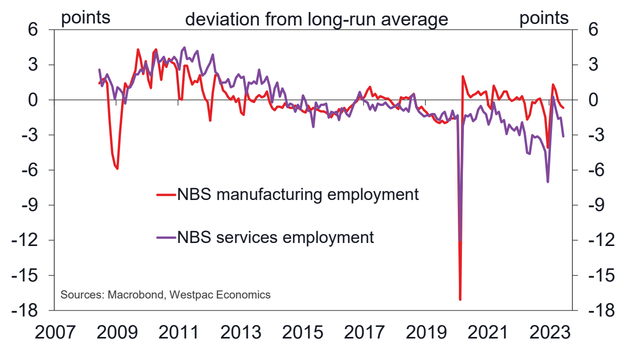
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

… China’s opportunity

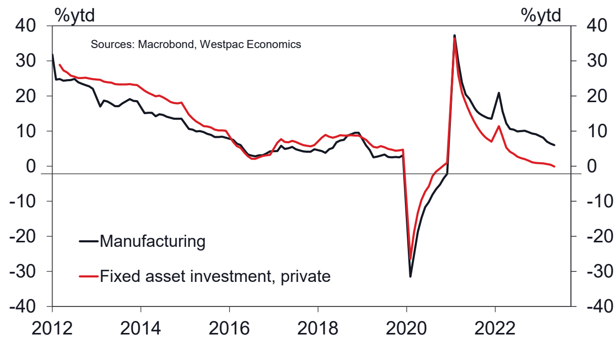
Chinese manufacturing PMI still near average



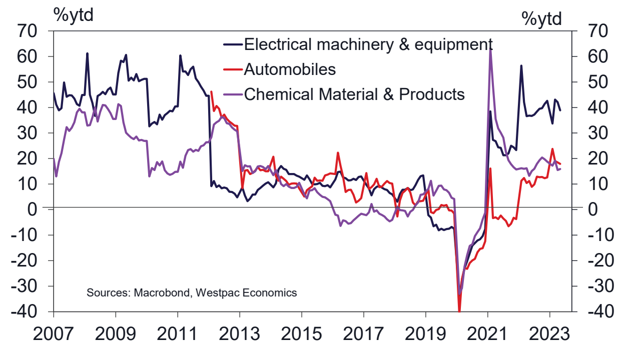
Manufacturers holding on to staff…



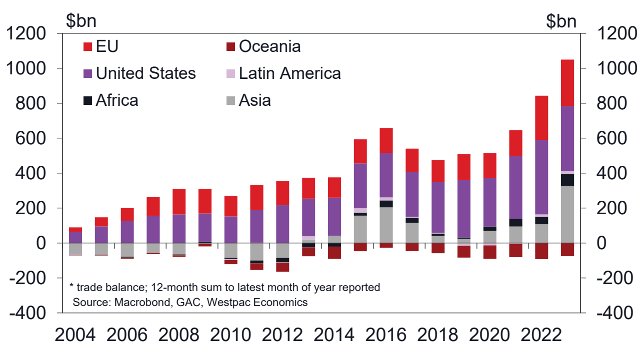
…. and seeking to expand capacity…



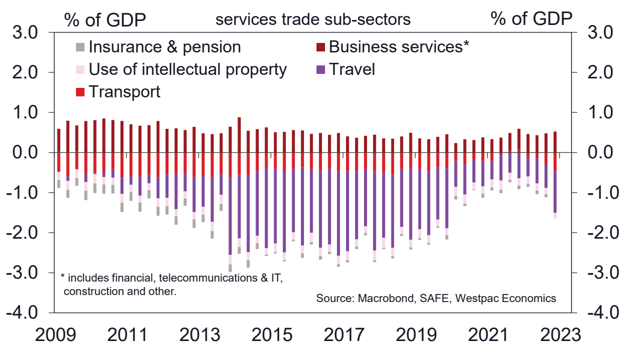
… particularly in high tech sectors



Asia offers considerable trade opportunities



Business income to partly net tourist outflow



A hazy path ahead for the BoE …

The BoE's surprise 50bp rate hike was due to "higher than expected data prints".

The Bank of England is becoming increasingly concerned over persistent inflation, prompting it to raise rates by an elevated 50bps in June. In its most recent statement, the BoE signalled that the step up to 50bps was due to "higher than expected data prints", with inflation and wages higher and the labour market tighter than previously expected. The scale of the challenge the nation faces is made clear by comparing UK policy transmission to that seen in Australia.

Inflation in the UK is also more broad-based …

In the UK, inflation has increased 14% since the first rate hike, a 10.6% annualised pace, mostly due to a spike in energy prices from Russia's invasion of Ukraine. This is a multiple of the 5.6% increase experienced in Australia over the twelve months since the first rate hike. Inflation in the UK is also more broad-based, with 89% of the CPI basket running above the BoE's 2.0%yr inflation target. In Australia, 84% of the basket is above 2%yr while 80% is above the 3%yr upper bound of the RBA's target range. Inflation breadth has been very stubborn in the UK, with 80% of their inflation basket above target since February 2022. Not only did this level of breadth emerge much later in Australia (September 2022), but clearer signs of deceleration are also beginning to emerge.

… with 89% of the CPI basket running above the BoE's 2.0%yr inflation target.

In controlling inflation, the BoE and RBA have aggressively raised key policy rates by 490bps and 400bps respectively, but their efforts have yielded divergent results. The effective mortgage rate (EMR) has only increased 82bps since rate hikes first came into effect in the UK, bringing the EMR to 2.8% in June. This is the result of around 87.5% of mortgages being on fixed rates, mainly for five years. This is a striking contrast to Australia where the much higher share of variable rate mortgages and shorter duration of fixed-rate mortgages has facilitated a 239bps rise in Australia's EMR since the RBA's first hike to around 5.3% (Westpac estimate). The impact on consumer spending power is clear with the household saving ratio down to 3.7% at March 2023 in Australia, while in the UK it is still above its pre-pandemic level of 8.7%.

The effective mortgage rate has only increased 82bps since rate hikes started.

Strong demand post re-opening is potentially a perfect storm for the UK …

Part of what concerns policymakers about the inflation outlook in both jurisdictions is the strong labour market and its potential to fuel wage growth. Both economies have unemployment running around a percentage point lower than their estimated NAIRU of 4.5%. In the UK, the size of the labour force shrank during the pandemic and has yet to recover. Early retirement accounts for a substantial part of this, the largest decline in employment was due to people aged 50 to 64. This lack of labour supply has put greater pressure on UK wages compared to Australia where participation recently hit a record high as population growth rebounded back above pre-pandemic levels. The combination of constrained labour supply, extreme policy lags and strong demand post re-opening is potentially a perfect storm for the UK which could see it remain an inflation outlier. Consider in particular the 7.3%yr pace of services inflation at May having accelerated the last four months.

… which could see it remain an inflation outlier.

All told, the BoE faces an immense challenge given its unique set of circumstances. This is true not only in the short term as it seeks to contain inflation, but also with respect to the medium term and beyond. Critical will be judging the management of expectations and the eventual impact of policy once it flows through to savings and demand, with future easing (once necessary) also to impact with long lags. How fiscal policy acts to aid consumers with cost of living pressures and/or to incentivise greater participation will also be critical for the outlook.

Illiana Jain, Economist

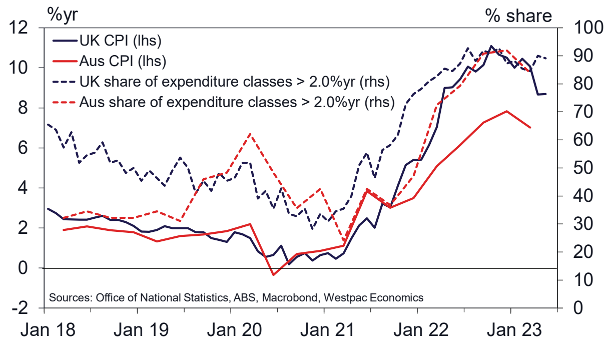
	2022						2023					
Europe	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Eur consumer prices %yr	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0	6.1	5.5
Eur unemployment rate %	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.6	6.6	6.5	6.5	–
Eur industrial production %yr	–0.8	4.9	6.3	4.4	3.9	–2.0	1.0	2.0	–1.4	0.2	–	–
Eur retail sales volumes %yr	–0.6	–1.2	0.3	–2.5	–2.4	–2.8	–1.8	–2.4	–3.3	–2.6	–	–
Eur consumer confidence	-27.2	-25.0	-28.7	-27.4	-23.7	-22.0	-20.6	-19.0	-19.1	-17.5	-17.4	-16.1
Eur current account balance €bn	-26.5	-36.2	-30.3	-14.2	-2.6	0.9	18.2	24.5	31.2	3.6	–	–
United Kingdom												
UK consumer prices %yr	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	8.7	8.7	–
UK unemployment rate % (ILO)	3.6	3.5	3.6	3.7	3.7	3.7	3.7	3.8	3.9	3.8	–	–
UK industrial production %yr	–3.3	–5.0	–4.0	–2.6	–2.9	–2.7	–3.0	–2.7	–2.0	–1.9	–	–
UK retail sales volumes %yr	–4.0	–5.8	–6.9	–5.5	–6.1	–6.7	–5.2	–3.7	–4.3	–3.4	–2.1	–
UK consumer confidence	–41	–44	–49	–47	–44	–42	–45	–38	–36	–30	-27	-24

Quarterly data	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**
Eur GDP %qtr/%yr	2.2/4.0	0.5/4.7	0.7/5.5	0.8/4.3	0.4/2.5	–0.1/1.8	–0.1/1.0
UK GDP %qtr/%yr	1.7/8.5	1.5/8.9	0.5/10.6	0.1/3.8	–0.1/2.0	0.1/0.6	0.1/0.2
UK current account balance £bn	-19.1	-2.4	-50.5	-28.2	-12.7	-2.5	-10.8

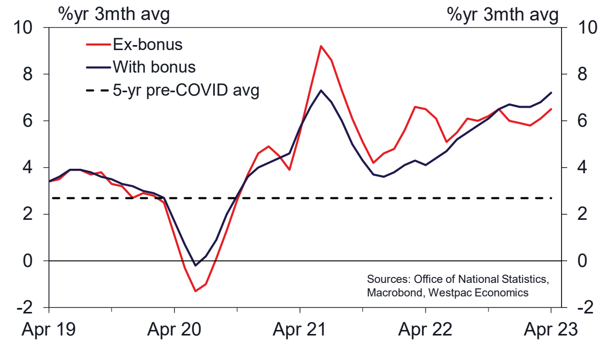
Source: Official agencies.

... while the RBA starts to see the clearing

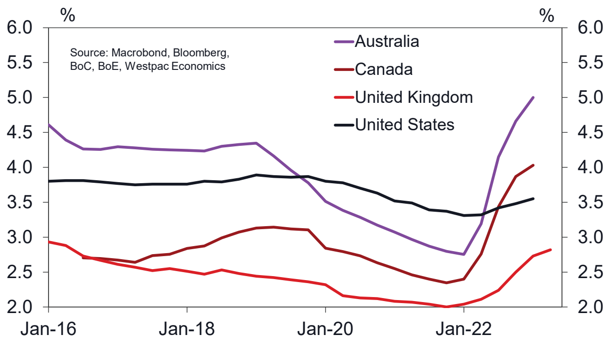
UK inflation remains broad-based



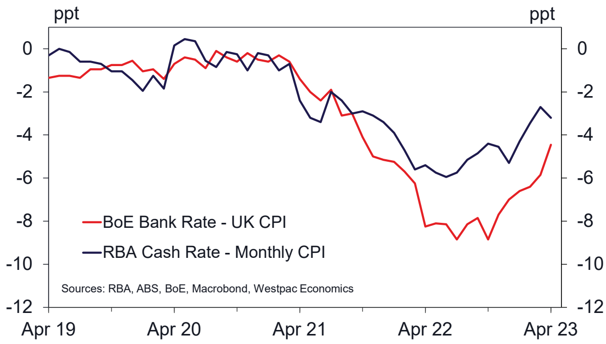
Wages of concern to the BoE



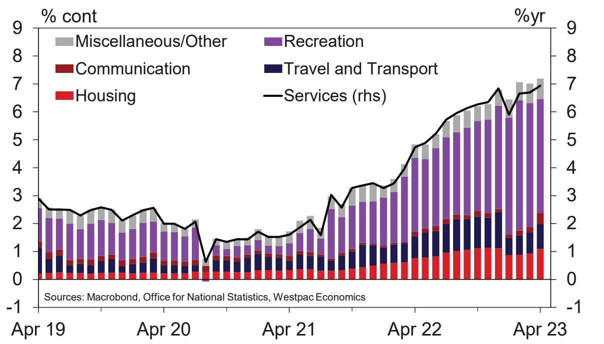
Effective mortgage rates



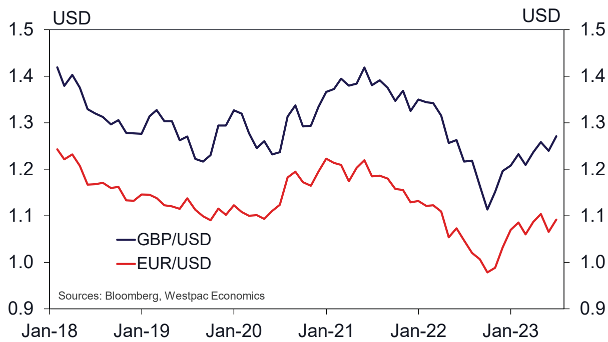
Real rates on their way up



UK services inflation is running hot



BoE hawkishness driving sterling strength



FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.10	4.60	4.60	4.60	4.35	4.10	3.85
90 Day BBSW	4.28	4.80	4.80	4.63	4.38	4.13	3.88
3 Year Swap	4.54	4.30	4.15	4.00	3.80	3.60	3.50
3 Year Bond	4.21	4.00	3.85	3.75	3.55	3.40	3.30
10 Year Bond	4.22	3.90	3.70	3.50	3.30	3.20	3.10
10 Year Spread to US (bps)	19	20	20	20	20	20	20

Currency forecasts

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD vs							
USD	0.6630	0.69	0.69	0.71	0.72	0.73	0.74
JPY	95.44	96.6	95.2	96.6	95.8	94.9	94.7
EUR	0.6087	0.63	0.62	0.63	0.64	0.64	0.64
NZD	1.0750	1.11	1.11	1.13	1.13	1.12	1.12
CAD	0.8861	0.91	0.90	0.92	0.92	0.93	0.93
GBP	0.5203	0.54	0.54	0.55	0.56	0.57	0.57
CHF	0.5936	0.61	0.61	0.62	0.63	0.64	0.64
DKK	4.5347	4.67	4.63	4.72	4.75	4.77	4.79
SEK	7.2473	7.47	7.40	7.55	7.59	7.62	7.66
NOK	7.1323	7.35	7.29	7.43	7.47	7.51	7.54
ZAR	12.66	12.9	12.9	13.1	13.2	13.3	13.4
SGD	0.8970	0.92	0.92	0.94	0.94	0.95	0.97
HKD	5.1858	5.38	5.37	5.52	5.59	5.66	5.74
PHP	37.05	38.0	37.3	37.6	37.4	37.2	37.4
THB	23.33	24.2	23.8	24.1	24.1	24.1	24.1
MYR	3.1053	3.17	3.11	3.12	3.10	3.07	3.03
CNY	4.8027	4.90	4.83	4.83	4.82	4.82	4.81
IDR	9982	10281	10212	10366	10368	10439	10434
TWD	20.71	21.4	21.3	21.7	21.7	21.8	21.9
KRW	863	883	869	880	878	876	873
INR	54.96	55.2	53.8	54.0	53.3	53.3	53.3

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.

ECONOMIC FORECASTS

Australia

Activity forecasts*

	2022	2023				2024		Calendar years			
%qtr / yr avg	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	0.3	0.2	0.0	0.1	0.0	–0.4	0.1	5.0	6.5	1.4	0.0
Dwelling investment	–0.8	–1.2	–0.2	–1.9	–2.5	–4.0	–3.1	9.9	–3.4	–4.0	–9.0
Business investment*	0.2	2.9	1.2	–0.6	–1.1	–1.9	–1.4	8.2	3.5	4.7	–4.0
Private demand *	0.1	0.5	0.2	–0.3	–0.4	–1.0	–0.4	6.5	4.8	1.1	–1.5
Public demand *	0.1	0.8	0.3	0.3	0.3	0.3	0.4	5.8	4.9	1.3	1.3
Domestic demand	0.1	0.6	0.2	–0.1	–0.2	–0.6	–0.2	6.3	4.9	1.4	0.0
Stock contribution	–0.5	0.0	–0.3	–0.1	–0.1	–0.3	0.2	0.4	0.5	–0.6	–0.2
GNE	–0.4	0.6	–0.1	–0.3	–0.3	–0.9	0.0	6.9	5.4	0.6	–0.9
Exports	1.4	1.8	2.0	1.9	1.5	1.2	0.9	–2.0	3.4	8.2	5.2
Imports	–4.0	3.2	1.5	0.0	–0.2	–2.0	0.0	5.4	12.7	3.7	–0.8
Net exports contribution	1.1	–0.2	0.2	0.4	0.4	0.7	0.2	–1.4	–1.5	1.1	1.4
Real GDP %qtr / yr avg	**0.6**	**0.2**	**0.1**	**0.2**	**0.1**	**–0.2**	**0.2**	5.2	3.7	1.4	0.5
%yr end	**2.6**	**2.3**	**1.5**	**1.1**	**0.6**	**0.2**	**0.3**	**4.6**	**2.6**	**0.6**	**1.0**
Nominal GDP %qtr	2.2	2.1	0.0	0.5	0.3	0.3	0.9				
%yr end	12.0	9.2	5.2	4.9	3.0	1.2	2.0	10.0	12.0	3.0	3.0

Other macroeconomic variables

	2022	2023				2024		Calendar years			
% change	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Employment (2)	0.7	0.7	0.9	0.5	–0.3	–0.5	0.0	–	–	–	–
%yr	5.1	3.4	3.2	2.8	1.8	0.6	–0.2	2.4	5.1	1.8	0.0
Unemployment rate % (2)	3.5	3.6	3.6	3.7	4.2	4.8	5.0	4.7	3.5	4.2	5.3
Wages (WPI) (2)	0.8	0.8	1.0	1.1	1.2	0.8	0.7	–	–	–	–
%yr	3.4	3.7	3.8	3.8	4.1	4.1	3.8	2.3	3.4	4.1	3.3
CPI Headline (2)	1.9	1.4	1.1	0.7	1.0	0.9	0.9	–	–	–	–
%yr	7.8	7.0	6.3	5.1	4.2	3.7	3.5	3.5	7.8	4.2	3.2
Core inflation trimmed mean	1.7	1.2	1.2	0.7	1.0	0.8	1.0	–	–	–	–
%yr (2)	6.9	6.6	6.1	4.8	4.1	3.7	3.5	2.7	6.9	4.1	3.2
Current account AUDbn	14.1	12.3	4.0	3.0	0.5	3.0	4.0	66.7	29.4	20.0	10.0
% of GDP	2.2	1.9	0.6	0.5	0.1	0.5	0.6	3.1	1.2	0.8	0.4
Terms of trade annual chg (1)	7.1	1.4	–8.3	–6.8	–9.7	–12.3	–7.7	17.3	5.9	–6.0	–7.2

Calendar year changes are (1) period average for GDP, terms of trade, unless otherwise stated (2) through the year for inflation, wages and employment. Unemployment is year end.
* GDP & component forecasts are reviewed following the release of quarterly national accounts.
** Business investment and government spending adjusted to exclude the effect of private sector purchases of public sector assets.

Macroeconomic variables – recent history

	2022					2023					
Monthly data	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Employment '000 chg	56	23	32	51	–4	15	62	71	–4	76	–
Unemployment rate %	3.5	3.6	3.4	3.5	3.5	3.7	3.5	3.5	3.7	3.6	–
Westpac–MI Consumer Sentiment	81.2	84.4	83.7	78.0	80.3	84.3	78.5	78.5	85.8	79.0	79.2
Retail trade %mth	0.8	0.7	0.4	1.7	–3.9	1.8	0.2	0.4	0.0	0.7	–
Dwelling approvals %mth	27.2	–8.1	–5.9	–3.9	12.2	–26.1	3.5	5.1	–6.8	20.6	–
Credit, private sector %yr	8.7	8.9	8.9	8.4	7.8	7.6	7.3	6.8	6.6	6.2	–
Trade balance AUDbn	8.8	12.4	12.1	13.4	12.3	11.0	14.1	15.0	10.5	11.8	–

New Zealand

Interest rate forecasts

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	5.50	5.75	5.75	5.75	5.75	5.25	4.75
90 Day Bill	5.70	5.85	5.85	5.85	5.55	5.05	4.75
2 Year Swap	5.69	5.30	5.00	4.70	4.40	4.20	4.00
10 Year Bond	4.81	4.60	4.40	4.20	4.00	3.90	3.80
10 Year Spread to US	78	90	90	90	90	90	90
10 Year Spread to Aust	58	70	70	70	70	70	70

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD vs							
USD	0.6167	0.62	0.62	0.63	0.64	0.65	0.66
JPY	88.78	86.8	85.6	85.7	85.1	84.5	84.5
EUR	0.5663	0.56	0.56	0.56	0.57	0.57	0.57
AUD	0.9302	0.90	0.90	0.89	0.89	0.89	0.89
CAD	0.8242	0.82	0.81	0.81	0.82	0.83	0.83
GBP	0.4840	0.49	0.49	0.49	0.50	0.50	0.51
CNY	4.4707	4.40	4.34	4.28	4.29	4.29	4.29

Sources: Bloomberg, Westpac Economics.

Activity forecasts*

	2022	2023				2024		Calendar years			
% change	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	0.0	2.4	-0.9	0.0	0.2	0.2	0.3	7.5	3.0	1.2	0.6
Government consumption	-2.4	0.1	-0.2	-1.0	-0.6	-0.2	0.2	8.2	4.5	-2.6	-0.7
Residential investment	-2.3	-0.4	0.6	-0.9	-2.5	-3.0	-3.0	8.0	1.1	-0.4	-8.8
Business investment	-0.1	2.8	-0.2	-0.3	-1.1	-1.1	-1.0	14.6	5.2	2.7	-3.1
Stocks (ppt contribution)	-0.1	-1.5	0.1	0.6	0.4	0.0	0.0	1.3	0.0	-1.0	0.7
GNE	-0.2	0.5	-0.4	0.2	0.1	-0.3	-0.1	10.2	3.5	-0.2	-0.3
Exports	-1.7	-2.5	6.8	2.7	1.5	1.7	1.1	-2.7	0.0	11.1	7.0
Imports	2.5	-1.6	0.7	1.0	0.9	0.4	0.6	15.1	5.3	2.6	2.9
GDP (production)	**-0.7**	**-0.1**	**0.5**	**0.5**	**0.1**	**0.0**	**0.0**	**6.0**	**2.7**	**1.2**	**0.5**
Employment annual %	1.6	2.4	2.9	1.7	1.2	0.2	-0.4	3.3	1.6	1.2	-0.4
Unemployment rate % s.a.	3.4	3.4	3.5	3.7	3.9	4.2	4.5	3.2	3.4	3.9	4.9
Labour cost index, all sect incl o/t, ann %	4.1	4.3	4.6	4.7	4.7	4.6	4.3	2.6	4.1	4.7	3.7
CPI annual %	**7.2**	**6.7**	**5.9**	**5.6**	**4.7**	**4.0**	**3.7**	**5.9**	**7.2**	**4.7**	**2.9**
Current account balance % of GDP	-9.0	-8.5	-8.2	-7.9	-6.8	-5.7	-4.9	-6.0	-9.0	-6.8	-4.0
Terms of trade annual %	-4.2	-8.4	-1.0	5.1	5.7	11.7	6.6	2.8	-4.2	5.7	2.7

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (7 Jul)***	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Australian commodities index#	295	281	277	278	280	**278**	**281**	**286**	**290**	**297**
Bulk commodities index#	**496**	**444**	**410**	**405**	**406**	**397**	**398**	**404**	**402**	**396**
iron ore finesTSI @ 62% US$/t	112	104	100	95	89	84	83	90	87	87
Qld coking coal index (US$/t)	201	190	190	201	211	217	222	223	213	208
Newcastle spot thermal coal (US$/t)	143	125	125	130	140	140	135	125	125	125
crude oil (US$/bbl) Brent ICE	76	75	77	83	85	88	92	95	105	110
LNG in Japan US$mmbtu	13.90	13.9	13.4	13.7	14.8	15.1	15.7	16.4	16.9	18.6
gold (US$/oz)	1,976	2,000	2,010	2,000	1,925	1,875	1,850	1,825	1,800	1,775
Base metals index#	**196**	**189**	**192**	**196**	**202**	**207**	**216**	**222**	**242**	**252**
copper (US$/t)	8,351	8,200	8,150	8,300	8,500	8,800	9,200	9,500	10,500	11,000
aluminium (US$/t)	2,225	2,100	2,240	2,275	2,300	2,353	2,422	2,474	2,643	2,725
nickel (US$/t)	21,074	20,700	20,800	21,000	21,500	22,145	23,001	23,638	25,753	26,795
zinc (US$/t)	2,393	2,230	2,250	2,500	2,750	2,823	2,919	2,990	3,227	3,342
lead (US$/t)	2,044	2,025	2,050	2,000	1,950	1,900	1,974	2,029	2,211	2,302
Rural commodities index#	**140**	**132**	**136**	**139**	**141**	**147**	**154**	**160**	**178**	**187**
NZ commodities index ##	**337**	**335**	**350**	**358**	**367**	**374**	**377**	**375**	**368**	**364**
dairy price index ^^	296	305	325	342	355	363	365	360	349	344
whole milk powder US$/t	3,173	3,379	3,600	3,699	3,800	3,850	3,900	3,811	3,725	3,753
skim milk powder US$/t	2,755	2,969	3,200	3,394	3,600	3,550	3,500	3,424	3,350	3,375
lamb leg UKp/lb	500	485	500	516	528	543	550	550	550	547
bull beef US¢/lb	285	265	272	278	281	279	272	261	249	242
log price index ##	157	152	153	156	159	162	165	167	168	169
strong wool US¢/kg	165	165	165	165	165	165	165	165	165	165

	levels				% change			
Annual averages	**2021**	**2022**	**2023(f)**	**2024(f)**	**2021**	**2022**	**2023(f)**	**2024(f)**
Australian commodities index#	**306**	**379**	**309**	**279**	**43.1**	**23.6**	**-18.5**	**-9.7**
Bulk commodities index#	**510**	**557**	**461**	**391**	**47.0**	**9.2**	**-17.1**	**-15.2**
iron ore fines @ 62% USD/t	159	120	111	89	46.6	-24.4	-7.8	-19.6
LNG in Japan $mmbtu	10.3	18.2	15	15	31.1	77.3	-18.4	-1.6
ave coking coal price (US$/t)	143	240	222	204	33.2	67.2	-7.3	-8.2
ave thermal price (US$/t)	99	281	236	200	74.8	183.7	-16.3	-14.9
iron ore fines contracts (US¢ dltu)	239	174	150	131	72.8	-27.0	-14.0	-12.7
coal coking contracts (US$/t)	205	372	267	205	62.5	81.2	-28.0	-23.4
crude oil (US$/bbl) Brent ICE	70	97	78	86	60.2	38.4	-19.8	10.1
gold (US$/oz)	1,801	1,809	1,978	1,926	1.2	0.5	9.3	-2.6
Base metals index#	**213**	**230**	**204**	**204**	**41.1**	**8.0**	**-11.4**	**0.2**
copper (US$/t)	9,297	8,827	8,464	8,613	50.2	-5.1	-4.1	1.8
aluminium (US$/t)	2,477	2,711	2,264	2,322	44.0	9.5	-16.5	2.6
nickel (US$/t)	18,452	26,228	22,544	21,728	33.4	42.1	-14.0	-3.6
zinc (US$/t)	3,006	3,471	2,551	2,692	32.1	15.4	-26.5	5.5
lead (US$/t)	2,190	2,154	2,073	1,962	19.6	-1.6	-3.8	-5.4
Rural commodities index#	**150**	**171**	**139**	**147**	**28.0**	**14.0**	**-18.7**	**5.2**
NZ commodities index ##	**359**	**376**	**339**	**369**	**21.2**	**4.7**	**-9.8**	**8.7**
dairy price index ##	322	353	306	356	25.2	9.5	-13.3	16.4
whole milk powder US$/t	3,843	3,889	3,303	3,781	30.7	1.2	-15.1	14.5
skim milk powder US$/t	3,332	3,819	2,874	3,479	40.6	14.6	-24.8	21.1
lamb leg UKp/lb	599	624	481	530	18.4	4.3	-23.0	10.2
bull beef US¢/lb	279	280	266	278	19.0	0.5	-5.0	4.3
log price index ##	179	171	157	160	14.8	-4.3	-8.4	2.0
strong wool US¢/kg	173	169	165	165	20.4	-2.7	-2.2	0.3

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 (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Fed Funds*	5.125	5.375	5.375	4.875	4.375	3.875	3.375
10 Year Bond	4.03	3.70	3.50	3.30	3.10	3.00	2.90

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

Currency forecasts

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD vs							
DXY index	103.17	102.1	101.2	100.1	99.2	98.1	97.2
JPY	143.95	140	138	136	133	130	128
EUR	1.0891	1.10	1.11	1.12	1.13	1.14	1.15
AUD	0.6630	0.69	0.69	0.71	0.72	0.73	0.74
NZD	0.6167	0.62	0.62	0.63	0.64	0.65	0.66
CAD	1.3364	1.32	1.31	1.29	1.28	1.27	1.26
GBP	1.2743	1.27	1.27	1.28	1.28	1.29	1.29
CHF	0.8953	0.89	0.88	0.87	0.87	0.87	0.86
ZAR	19.10	18.7	18.7	18.5	18.3	18.2	18.1
SGD	1.3530	1.34	1.33	1.32	1.31	1.31	1.31
HKD	7.8217	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.51	55.0	54.0	53.0	52.0	51.0	50.5
THB	35.19	35.0	34.5	34.0	33.5	33.0	32.5
MYR	4.6598	4.60	4.50	4.40	4.30	4.20	4.10
CNY	7.2490	7.10	7.00	6.80	6.70	6.60	6.50
IDR	15056	14900	14800	14600	14400	14300	14100
TWD	31.26	31.0	30.8	30.5	30.2	29.9	29.6
KRW	1301	1280	1260	1240	1220	1200	1180
INR	82.51	80.0	78.0	76.0	74.0	73.0	72.0

Activity forecasts*

	2022		2023				2024	Calendar years			
% annualised, s/adj	**Q3**	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	2.3	1.0	4.2	0.7	0.5	-0.5	-0.6	8.3	2.7	1.8	0.3
Dwelling investment	-27.1	-25.1	-4.0	-5.1	-2.0	-3.9	-3.9	10.7	-10.6	-12.5	-1.5
Business investment	6.2	4.0	0.6	1.3	2.3	0.8	0.5	6.9	4.3	2.0	2.1
Public demand	3.7	3.8	5.0	4.1	2.0	-0.4	-0.8	0.6	-0.6	3.3	0.1
Domestic final demand	2.0	1.0	3.6	1.2	0.9	-0.4	-0.6	6.8	1.9	1.6	0.4
Inventories contribution ppt	-1.4	2.0	-2.6	0.5	-0.2	-0.6	-0.2	0.2	0.7	-0.6	0.0
Net exports contribution ppt	3.3	0.6	0.6	-0.2	-0.2	-0.2	-0.1	-1.7	-0.6	0.7	-0.1
GDP	3.2	2.6	2.0	1.6	0.5	-1.2	-0.9	5.9	2.1	1.6	0.3
%yr annual chg	1.9	0.9	1.8	2.4	1.7	0.7	0.0				

Other macroeconomic variables

Non-farm payrolls mth avg	429	316	322	280	120	55	50	549	427	194	63
Unemployment rate %	3.6	3.6	3.5	3.5	3.6	4.0	4.3	5.4	3.6	3.6	4.5
CPI headline %yr	8.2	6.4	5.2	3.0	2.9	2.5	2.5	7.2	6.4	2.5	2.0
PCE deflator, core %yr	5.2	4.6	4.5	3.6	2.9	2.5	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

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.

Europe & the United Kingdom

Interest rate forecasts

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro area							
ECB Deposit rate	3.50	4.00	4.00	4.00	3.75	3.50	3.00
10 Year Bund	2.63	2.25	2.25	2.15	2.00	1.95	1.90
10 Year Spread to US	-140	-135	-125	-115	-110	-105	-100
United Kingdom							
BoE Bank Rate	5.00	6.00	6.00	6.00	5.50	5.00	4.50
10 Year Gilt	4.66	4.15	4.00	3.70	3.40	3.25	3.10
10 Year Spread to US	63	55	50	40	30	25	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
euro vs							
USD	1.0891	1.10	1.11	1.12	1.13	1.14	1.15
JPY	156.78	154	153	152	150	148	147
GBP	0.8547	0.87	0.87	0.88	0.88	0.88	0.89
CHF	0.9751	0.98	0.98	0.97	0.98	0.99	0.99
DKK	7.4493	7.45	7.45	7.45	7.45	7.45	7.45
SEK	11.9051	11.9	11.9	11.9	11.9	11.9	11.9
NOK	11.7205	11.7	11.7	11.7	11.7	11.7	11.7
sterling vs							
USD	1.2743	1.27	1.27	1.28	1.28	1.29	1.29
JPY	183.44	178	175	174	170	168	165
CHF	1.1408	1.13	1.12	1.11	1.11	1.12	1.11
AUD	0.5203	0.54	0.54	0.55	0.56	0.57	0.57

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	1.2
private consumption	1.3	-8.0	3.5	3.2	0.8	1.2
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	0.1	0.2
Germany GDP	1.1	-3.7	2.6	1.9	0.0	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	0.8	0.7
Spain GDP	2.1	-10.8	5.1	5.5	1.8	1.6
Netherlands GDP	2.0	-3.9	4.9	4.3	0.8	1.2
memo: United Kingdom GDP	1.7	-9.3	7.4	4.3	0.3	0.8

Asia

China

Calendar years	2018	2019	2020	2021	2022	2023f	2024f
Real GDP	6.8	6.0	2.2	8.4	3.0	5.7	5.5
Consumer prices	1.9	4.5	0.2	1.5	1.8	1.4	2.3
Producer prices	0.9	–0.5	–0.4	10.3	–0.7	–1.5	1.0
Industrial production (IVA)	6.2	5.7	2.8	9.6	3.6	5.0	5.0
Retail sales	9.0	8.0	–3.9	12.5	–0.2	9.5	8.0
Money supply M2	8.1	8.7	10.1	9.0	11.8	11.5	9.5
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	–0.8	2.5
Imports %yr	–7.6	16.5	6.5	19.5	–7.5	–0.5	3.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Required reserve ratio %*	10.75	10.50	10.25	10.25	10.25	10.25	10.25
Loan Prime Rate, 1-year	3.55	3.55	3.55	3.55	3.55	3.55	3.55

* For major banks.

Currency forecasts

	Latest (7 Jul)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
JPY	143.95	140	138	136	133	130	128
SGD	1.3530	1.34	1.33	1.32	1.31	1.31	1.31
HKD	7.8217	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.51	55.0	54.0	53.0	52.0	51.0	50.5
THB	35.19	35.0	34.5	34.0	33.5	33.0	32.5
MYR	4.6598	4.60	4.50	4.40	4.30	4.20	4.10
CNY	7.2490	7.10	7.00	6.80	6.70	6.60	6.50
IDR	15056	14900	14800	14600	14400	14300	14100
TWD	31.26	31.0	30.8	30.5	30.2	29.9	29.6
KRW	1301	1280	1260	1240	1220	1200	1180
INR	82.51	80.0	78.0	76.0	74.0	73.0	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**	**-2.8**	**6.3**	**3.4**	**3.0**	**3.0**
United States	2.9	2.3	-2.8	5.9	2.1	1.6	0.3
Japan	0.6	-0.4	-4.3	2.1	1.1	1.2	1.0
Euro zone	1.8	1.6	-6.1	5.4	3.5	0.6	1.2
Group of 3	**2.2**	**1.7**	**-4.2**	**5.3**	**2.5**	**1.2**	**0.7**
United Kingdom	1.7	1.6	-11.0	7.6	4.0	0.3	0.8
Canada	2.8	1.9	-5.1	5.0	3.4	1.1	1.0
Australia	2.8	1.9	-1.8	5.2	3.7	1.4	0.5
New Zealand	3.5	3.1	-1.5	6.0	2.7	1.2	0.5
OECD total	**2.3**	**1.8**	**-4.6**	**5.6**	**2.8**	**1.1**	**0.8**
China	6.8	6.0	2.2	8.4	3.0	5.7	5.5
Korea	2.9	2.2	-0.7	4.1	2.6	1.3	2.2
Taiwan	2.8	3.1	3.4	6.5	2.5	1.5	3.0
Hong Kong	2.8	-1.7	-6.5	6.4	-3.5	4.3	3.0
Singapore	3.6	1.3	-3.9	8.9	3.6	1.8	3.0
Indonesia	5.2	5.0	-2.1	3.7	5.3	5.2	5.5
Thailand	4.2	2.1	-6.2	1.6	2.6	3.4	3.6
Malaysia	4.8	4.4	-5.5	3.1	8.7	4.2	4.7
Philippines	6.3	6.1	-9.5	5.7	7.6	5.7	6.0
Vietnam	7.5	7.4	2.9	2.6	8.0	5.4	6.6
East Asia	**6.0**	**5.2**	**0.7**	**7.1**	**3.5**	**5.1**	**5.1**
East Asia ex China	4.5	3.8	-2.3	4.3	4.5	3.7	4.3
NIEs*	**3.0**	**2.0**	**-0.5**	**5.6**	**2.1**	**1.7**	**2.6**
India	6.5	3.9	-5.8	9.1	6.8	6.1	6.3
Russia	2.8	2.2	-2.7	5.6	-2.1	-1.0	0.0
Brazil	1.8	1.2	-3.3	5.0	2.9	2.0	2.0
South Africa	1.5	0.3	-6.3	4.9	2.0	0.1	1.2
Mexico	2.2	-0.2	-8.0	4.7	3.1	1.8	1.8
Argentina	-2.6	-2.0	-9.9	10.4	5.2	0.2	0.2
Chile	4.0	0.7	-6.1	11.7	2.4	-1.0	-0.9
CIS^	1.5	-1.7	0.3	12.6	4.2	3.5	3.4
Middle East	1.4	1.3	3.2	2.8	2.8	2.8	2.7
C & E Europe	0.4	-2.5	-4.9	8.7	5.4	2.9	2.0
Africa	3.2	3.3	-1.7	4.8	3.9	3.6	3.6
Emerging ex-East Asia	**2.9**	**1.6**	**-2.5**	**6.4**	**3.7**	**3.1**	**3.3**
Other countries	5.5	6.8	-3.6	6.3	3.9	5.4	4.0
World	**3.6**	**2.8**	**-2.8**	**6.3**	**3.4**	**3.0**	**3.0**

#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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