WESTPAC MARKET OUTLOOK AUGUST 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

Central banks again took centre stage this month - with policy makers and markets focused on analysing recent inflation developments and assessing inflation prospects into 2024 and beyond. The RBA extended its pause at the August Board meeting, asserting that: “recent data are consistent with inflation returning to the 2-3% target range over the forecast horizon”. By this, the RBA means inflation will be back within the band “in late 2025”. While the RBA understandably maintained a tightening bias and risks remain, with the unemployment rate still at a 50 year low, we now assess the RBA as on hold and believe the next move in rates will be a cut. With a lower than anticipated peak in the cash rate, at 4.10% rather than the 4.35% expected, we have pushed back the timing of the easing cycle by a quarter, with it now expected to commence in September quarter 2024. By then, inflation is likely to have been tamed as demand and supply in the labour market move more into balance.

Globally, other central banks embarked on another round of rate hikes, taking out some additional insurance at a time when inflation is still too high. The US FOMC hiked rates in July and shifted to a data dependent approach. We see the current fed funds rate of 5.375% as the peak for this cycle, with the next easing cycle commencing in March quarter 2024. This contrast in approach between the RBA and other central banks contributed to the Australian dollar slipping below US65.5¢. With a lower RBA peak cash rate, we now expect the AUD at end 2023 to be at US68¢ (trimmed by 1¢), rising through 2024 to US74¢ (an unchanged forecast).

Australia: We have marked up our Australian output growth forecast for 2023, to 1.0% from 0.6%, and for 2024, to 1.4% from 1.0%. This still describes a sharp economic slowdown, with growth moderating from 2.6% in 2022, led lower by consumers as household income flows are squeezed by high inflation, sharply higher interest payments and additional tax obligations. The revised growth profile recognises the stronger starting point for the June quarter 2023, as evident from recent robust jobs gains with demand for labour remaining elevated. The revisions also reflect the lower peak in the RBA cash rate.

Commodities: This month we step back from the month-to-month volatility in global prices to take a look at longer-term trends in commodities. We find that the rally of late 2022 has faded, with our broad commodities index down by 13% in the year to August. The focus of this correction has been thermal coal prices, which are down –66%yr, whereas met coal and iron ore are up for the year and crude oil broadly flat.

Global FX markets: The US dollar has once again held to a tight range between 101.5 and 102.6 this month. The exception was a sustained break to the downside below 100 around the time of the July FOMC meeting when Chair Powell made clear that, baring a material surprise, further rate hikes are likely to prove unnecessary. Inflation risks and rate differentials are expected to continue dominating FX valuations in the near term, but growth will come to the fore afterwards as investor risk appetite is freed.

New Zealand: We continue to see the RBNZ raising the cash rate to 5.75%, but now expect that to occur in November instead of August. While recent data have highlighted lingering strength in domestic inflation pressures, we doubt this will be enough to overcome the RBNZ’s strong bias to keep the OCR at 5.50% at this stage. Nevertheless, we think resilience in economic conditions and sticky inflation will eventually force the RBNZ to act.

United States: The federal funds rate likely reached its peak level for this cycle in July at 5.375%, with demand and supply coming into balance and the spectrum of risks increasingly symmetric. Financial conditions need to remain restrictive through the remainder of 2023; but by 2024, a rapid retreat of the policy stance back towards neutral is expected, assuming current trends persist.

China: Growth was modest in Q2 and a re-acceleration in momentum is likely to take some time. Critical to the outlook will be improving confidence amongst consumers who are currently concerned over the labour market and real estate. With real income growth positive and savings rates elevated, households certainly have the capacity to spend; but when a lift in activity growth will be triggered is open to debate.

Asia: The Bank of Japan tweaked its Yield Curve Control (YCC) framework last week. However, the change should not be taken as a hawkish move, with the fundamentals of the Japanese economy still pointing to a need for sustained accommodative policy in order to flame emerging inflationary pressures.

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	1.8	0.4
China	6.8	6.0	2.2	8.4	3.0	5.2	5.5
Japan	0.6	–0.4	–4.3	2.1	1.1	1.4	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	1.6	1.0
New Zealand	3.5	3.1	–1.5	6.0	2.7	1.1	0.4
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’.

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

RBA extends pause ...

RBA Board extends its pause at the August meeting ...

The Reserve Bank Board left the cash rate unchanged at 4.1% at the August Board meeting. The key explanation was a desire to take more time to assess the impact of the increase in rates to date and the economic outlook.

The Board also noted that "some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable time frame".

... while maintaining tightening bias.

There was a somewhat confusing signal from its assessment of the recent better-than-expected inflation print for the June quarter. The central forecast for inflation in 2024 held at 3¼% – unchanged from the May Statement on Monetary Policy, indicating that the June quarter report was not interpreted as signalling a flatter inflation trajectory.

On the other hand, we did see a more confident approach to the outlook for inflation. The Governor's statement noted that: "The recent data are consistent with inflation returning to the 2–3% target range over the forecast horizon" and that inflation will be "back within the 2–3% target range in late 2025." It appears that the Board is still comfortable to see inflation holding above the middle of the target range after more than four years above the target range.

Data seen is consistent with inflation returning to target band in late 2025.

While the Statement continued to emphasise the significant uncertainties around the persistence of services inflation it introduced a potentially profound new insight, likely drawn from the experience in the US and other countries, that: "There are also uncertainties regarding the lags in the operation of monetary policy and how firms' pricing decisions and wages respond to the slowing in the economy at a time when the labour market remains tight."

This observation may be disclosing that the Board is prepared to consider that, due to weak demand, firms are unable to pass on higher costs, including wages, holding down inflation and squeezing margins. This clearly raises questions about the nexus between tight labour markets and rising inflation, possibly explaining why the Board has not responded to the signs of further tightening in labour markets over the last two meetings.

Nexus between tight labour markets and rising inflation questioned.

The issues of weak productivity growth; strongly rising unit labour costs (up by 7.9% over the past year), and margin squeeze continue to get the attention of the Board: "At the aggregate level, wages growth is still consistent with the inflation target, provided that productivity growth picks up." They raise the issue but provide no reason why productivity growth is likely to pick up. Rather, the risk is that sizeable increases in unit labour costs continue. It is unlikely that this issue would have an immediate impact on policy. But, as we argued in last week's note, it could restrict the progress in bringing down inflation in 2024 – delaying the timing of rate relief.

Rising unit labour costs, on weak productivity, remains a risk – likely a 2024 story.

Westpac expected another rate increase – based on high services inflation; the 50 year low in the unemployment rate; the clear tightening bias; the unlikely prospect that the staff would lower its inflation or growth forecasts; and only very modest increases in the unemployment rate – was likely.

In not acting in those circumstances and indicating that "recent data are consistent with inflation returning to the 2–3% target range over the forecast horizon" it appears that the RBA is now on hold for an extended period.

RBA now likely on hold – but risks remain.

It is true that the Board maintains its tightening bias and the volatile monthly inflation indicator could lift sharply in July, just as it did in April. The Wage Price Index could surprise to the high side for the June quarter, so we certainly cannot rule another rate hike in September completely out of the picture.

Timing of next easing cycle delayed ...

Going into this meeting we assessed that the best approach would be to hike and maintain the tightening bias. As the evidence of weakening spending continues to build, the case for raising rates becomes progressively more difficult. We were never of the view that rate hikes would extend deep into the second half of 2023 and stand by that approach.

The Board's assessment of the risks associated with the competing forces of a very weak economy and a very tight labour market appears to be now favouring concerns about the weak economic outlook.

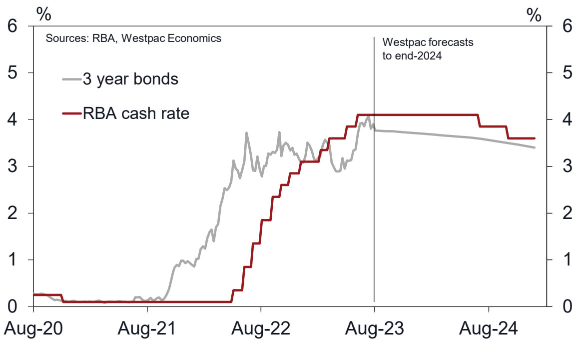
... pushed back a quarter, to Q3 2024.

The next challenge for the outlook should now be the timing for the beginning of the easing cycle. When Westpac was forecasting rate hikes in both August and September we were comfortable with the cycle beginning in the June quarter of 2024. That timing now looks more likely to be in the September quarter 2024 when we expect the unemployment rate to be around 4.5% and inflation around 3.2%.

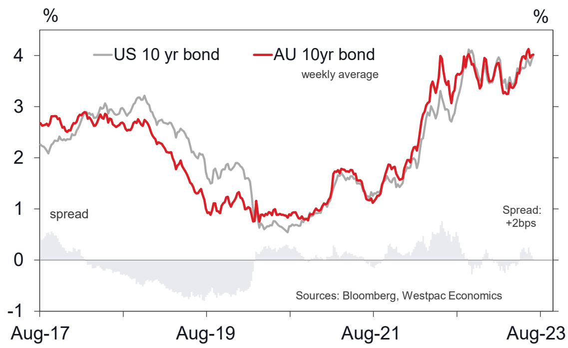
Bill Evans, Chief Economist

... rates on hold, ahead of rate cuts from 2024 Q3

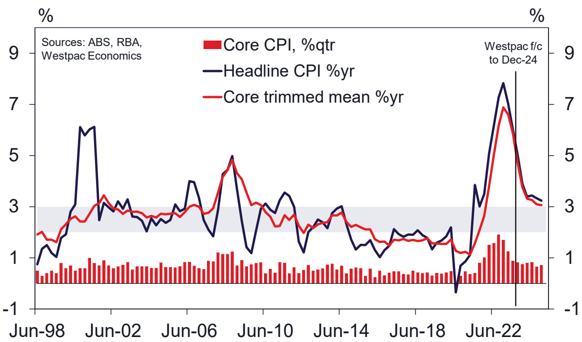
RBA cash rate and 3 year bonds



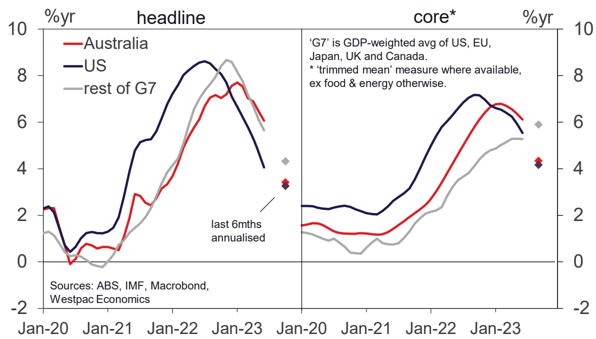
10 year bonds yields: climb to 4%



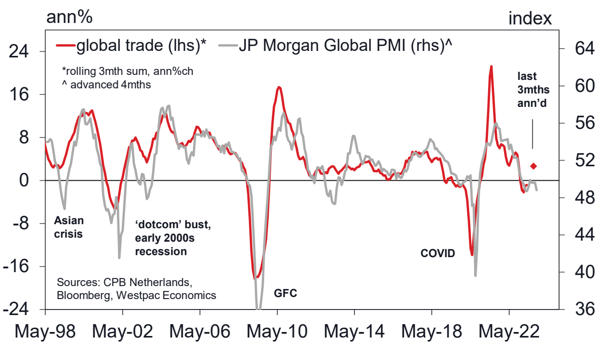
CPI inflation



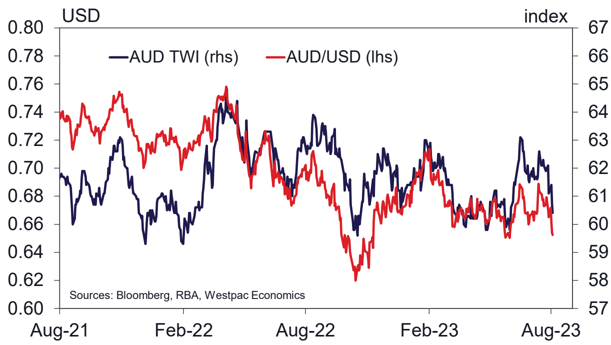
Global inflation showing signs of peaking



Global trade contracting



AUD/USD & AUD TWI



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Growth forecasts lifted for 2023 and 2024 …

Growth for 2023 lifted from 0.6% to 1.0% …

We have lifted our forecasts for growth in the Australian economy in 2023 and 2024 from 0.6% to 1.0% in 2023 and 1.0% to 1.4% in 2024.

These growth rates are still exceptionally low and consistent with negative GDP per capita growth in both 2023 and 2024 given our estimates of population growth in 2023 and 2024 of 1.8% and around 1.5% respectively.

The key change to our forecasts can be attributed to a lower terminal cash rate for the RBA and a more constructive outlook for the labour market.

… and 2024 growth view upgraded from 1.0% to 1.4%.

The lower terminal rate of 4.1% compared to our previous forecast of 4.35% reflects our assessment that the RBA Board is now comfortable that the policy mix is in place to achieve its modest objective of returning inflation to within the target band by the end of 2025.

Our inflation forecasts have been moderated somewhat in 2023 with trimmed mean inflation now expected to slow to 3.8% in 2023 from our previous forecast of 4.0% – however our higher growth forecast and lingering concerns around a potential impact of rising unit labour costs has not allowed us to lower our previous expectation that trimmed mean inflation will slow by around 0.7ppt's in 2024 to 3.1%.

That is still a very weak outlook, with declining per capita GDP …

We have been impressed with the resilience of the jobs market as job vacancies continue to hold up. The number of job vacancies to unemployed is sitting at around 0.85 compared to the long run average of 0.2. This overhang of labour shortages is likely to continue through 2023 boosting the number of new jobs added out over the second half of 2023 from our previous forecast of 42,000 to 75,000. In turn, faster jobs growth lifts household incomes, allowing a lift in household spending.

… centred on falling per capita consumer spending.

The unemployment rate for the December quarter 2023 has been revised down from 4.0% to 3.8%, while consumer spending growth for 2023 is lifted from 0.3% to 0.8%. This is still very weak growth in consumer spending as consumers continue to be challenged by negative real wages growth; rising interest costs; and increased tax payments. Additional pressures on households in the second half of 2023 include a sharp lift in the share of fixed rate loans (around 2% cost) that require refinancing at 5-6%; and only a very modest fall in the savings rate limiting the boost to disposable income from a lower savings rate.

The growth upgrades recognise the more favourable labour market …

Lower interest rates and faster growth in household incomes support consumer spending in 2024 with forecast growth lifting from 0.6% to 0.9%. The contraction in jobs, which we believe will eventuate in 2024 as businesses adjust to very soft sales, is delayed until the June quarter in 2024 lifting the unemployment rate to 4.5% in data available by September. We expect that by the September quarter, the Reserve Bank Board will react to the fall in inflation to around 3.2%; a rise in the unemployment rate to 4.5%; and a slowing in annual GDP growth to just 0.8% or around –1% in terms of GDP per capita.

… with an overhang of excess labour demand …

With the cash rate at 4.10% – arguably around 1ppt above neutral; the unemployment rate above the NAIRU; inflation close to the target range and continuing to slow, the RBA will be in a position to begin its easing cycle in the September quarter 2024. The lags in the system will see ongoing weak conditions in the labour market, sustaining the need for lower rates.

The combination of lower interest rates; positive real income growth; and the Stage 3 tax cuts (finally providing some tax relief for embattled households) are expected to lift consumer spending in the second half of 2024 to a modest annualised pace of about 1.5% compared to around 0.5% in the first half. Faster consumer spending will see GDP growth lift from an annualised 0.9% pace in the first half of 2024 to almost 2% annualised in the second half.

… and reflects a lower peak in the RBA cash rate.

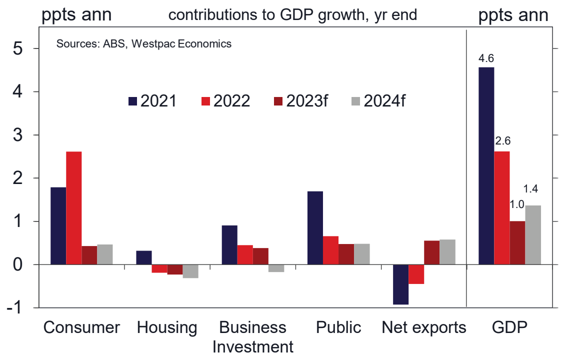
The risks to this growth outlook are pitched to the upside in 2023 and the downside in 2024.

We may still be overly cautious about our outlook for jobs growth. We are expecting job vacancies to eventually return to a sustainable equilibrium with that combination of increased supply; and slowing demand really biting over the next 12 months. But the jobs momentum may last even longer lifting spending and pressuring inflation through higher wages growth. Lower unemployment outcomes than forecast and higher inflation would delay the expected easing cycle and the likely lift in household spending. In turn, the boost to growth we envisage in the second half of 2024 may be delayed as the Board remains concerned at the prospect of a resurgence in inflation in 2024.

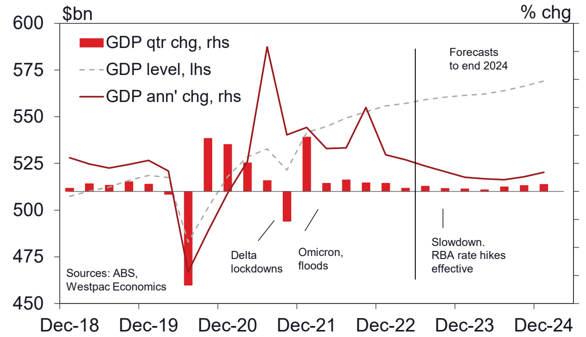
Bill Evans, Chief Economist

… but still anticipate falls in per capita activity

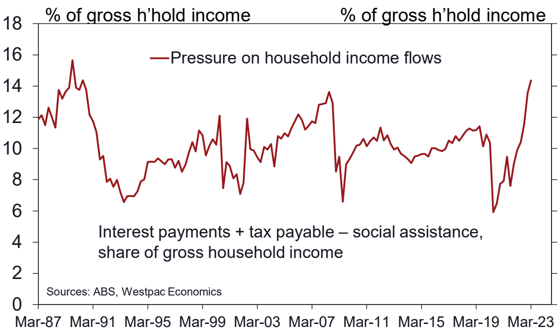
Australia: the growth mix



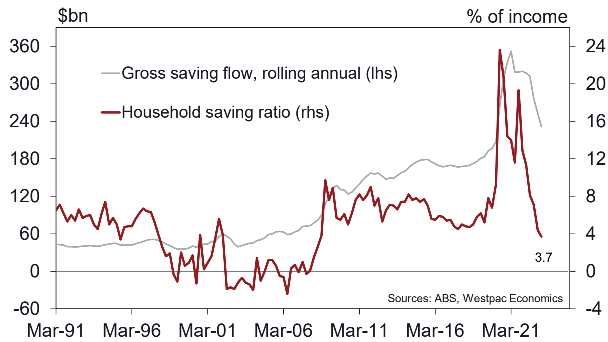
Australian economy: sharp slowdown underway



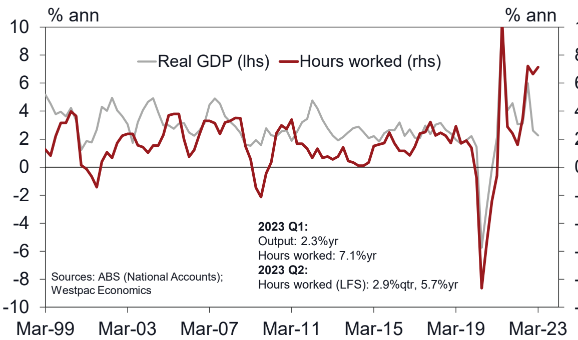
Pressure on household income flows



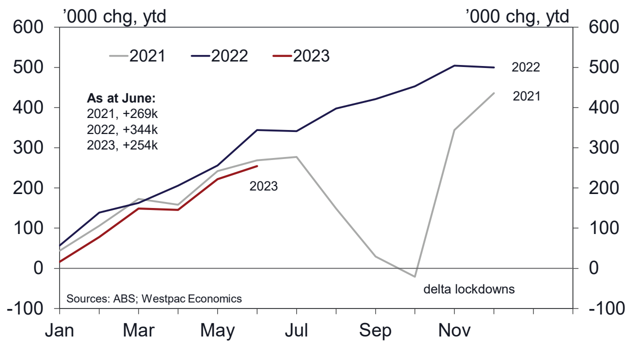
Household saving ratio and gross saving flow



Hours worked & output



Employment paths: strength in 2023 H1



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Thermal coal had a significant correction …

Stepping back from the monthly volatility …

Commodities can be very volatile month to month. As such, having a focus on developments over the last month can mask larger structural underlying trends at play. With that in mind, this month our commentary focuses on the change in prices so far this year to our current publication date, as well as changes in prices since August 5th 2022 (the date of our August 2022 Market Outlook). Our overall broad index shows a weakening in commodity prices over both periods of time, down almost 19% so far this year but a smaller 13% decline since last August highlighting there was some strength in commodities near the end of 2022. This pattern is very apparent in our bulk commodities index, down 9% since August but down 11% so far this year.

… we can see that the late 2022 rally has faded …

Diving into bulk commodities, we see that iron ore and met coal exhibit a similar pattern – iron ore is down 4% so far this year but is up almost 2% since August, while met coal is down 22% so far this year and up 18% since August. Thermal coal stands out as having the most significant and sustained correction, having fallen 66% both year-to-date and since August. The thermal coal market was one of the most disrupted, outside of the LNG market, by the embargoes on Russian energy to the EU; and through late 2022 and early 2023, these markets have normalised leading to a significant correction to thermal coal prices. As noted earlier, the big surprise was the recovery in met coal through the second half of 2022, for while prices are down 22% so far this year, they are still up 18% from last August as supply from Australia remain constrained. By comparison, LNG prices into Japan are down 26% so far this year and 25% since August, a similar pattern to thermal coal but a significantly smaller correction. Our other main energy export, crude oil, has been broadly flat so far this year (up less than 1%) but is down almost 12% since August, highlighting that the disruption to broader energy markets from the Russian embargoes was centred in 2022.

… with commodities now down 13% in the year.

Base metals have been on a softening trend this year but this follows on from a late 2022 rally, as while they are down almost 3% from last August they are down 9% so far this year. The most significant correction has come via nickel, down 26% so far this year but closer to flat since August (–2%) while zinc has been on a more general down trend (–15% so far this year and –26% since August) as has aluminium (–6% so far this year and –8% since August). The stand out for base metals has been copper which remains on a more sound uptrend, lifting 3% so far this year to be up 11% since August. Also of note, copper has avoided the weakness seen in other base metals so far this year.

The focus of the correction has been in bulks which are down 9%yr …

There has also been an improving trend for gold, having lifted 8% so far this year to be up 11% since August. We think in a period of global uncertainty and a weakening US dollar this trend out-performance in gold prices is likely to continue to at least into the first half of 2024.

Despite some near term marking-to-market, our commodity forecasts are broadly unchanged. Our forecasts for iron ore are US$100/t for end-2023 and US$83/t for end-2024 compared to a current price of US$110/t. Hard coking coal prices are also forecast to ease back to US$188/t for end-2023 and US$219/t for end-2024 (current prices is US$207/t) while thermal coal falls to US$130/t by end-2023 then holds around these levels through 2024 (US$135/t for end-2024 compare to a current price of US$142/t).

… led by a 66%yr fall in thermal coal prices …

While we expect some near term weakness for crude oil prices (our end-2023 forecast for Brent is US$77/bbl compared to the current price of US$85/bbl) we believe this will be the low point as a combination of tight supply conditions and improving demand will lift crude oil prices through 2024 (our end-2024 forecast for Brent is US$92/bbl). On the back of this we think the low for LNG prices will be seen towards the end of this year with prices firming as we move through 2024 (our end -024 forecast for Japanese LNG is US$15.7/mmbtu compared to a current price of US$14.3/mmbtu).

… while both met coal and iron ore are up on a year ago …

We expect base metals overall to weaken into the first half of 2024 before firming into the second half of that year; our base metals index is currently at 203 and it is forecast fall to a low of 194 in March 2024 before firming to 213 at end-2024. While there is some marginal differences in the various base metals forecast, we do expect them to broadly follow this trend.

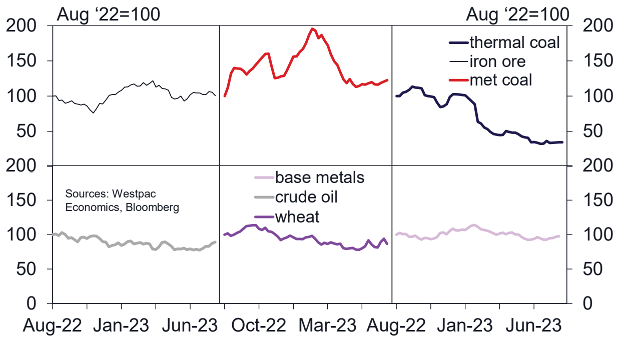
… crude is broadly flat in the year following a correction to the 2022 rally.

Westpac has long argued that the Chinese administration would focus on measures to boost household consumption and industry development over polices that focus on large scale construction oriented infrastructure and property. Over the past month, China's National Development & Reform Commission (NDRC) announced a slew of measures focused on boosting household consumption. This focus underscores belief that demand growth is shifting towards base metals, and those metals critical for battery production, over the bulk commodities; in particular iron ore and met coal. While tight supply conditions from Australian may offer some support for met coal we don't expect to see the same in the seaborne iron ore trade.

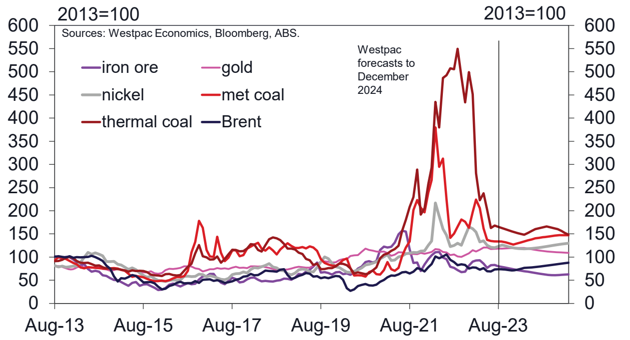
Justin Smirk, Senior Economist

... while met coal, iron ore, copper & crude are more robust

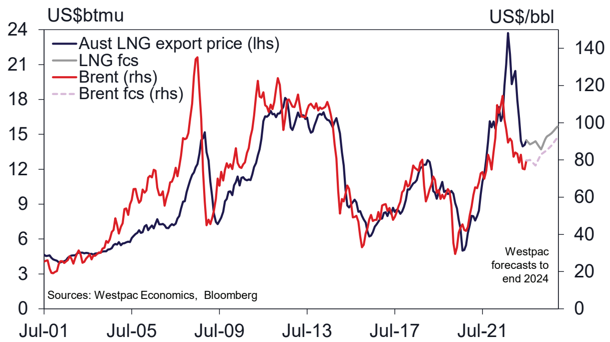
Commodities; volatility has been in coal



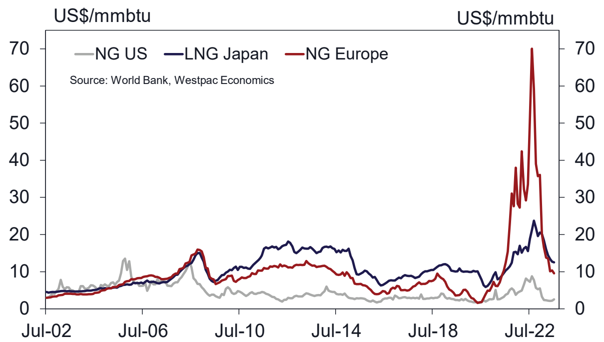
Australian commodities



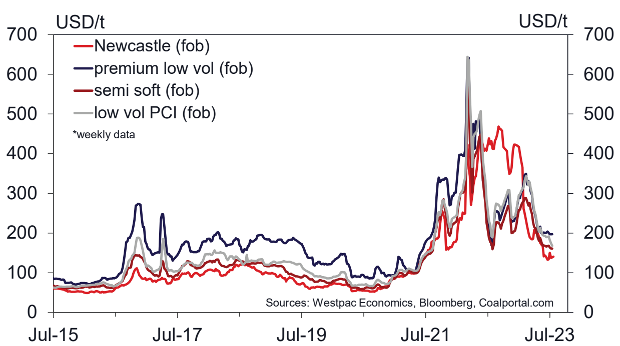
Japanese LNG & Brent crude oil



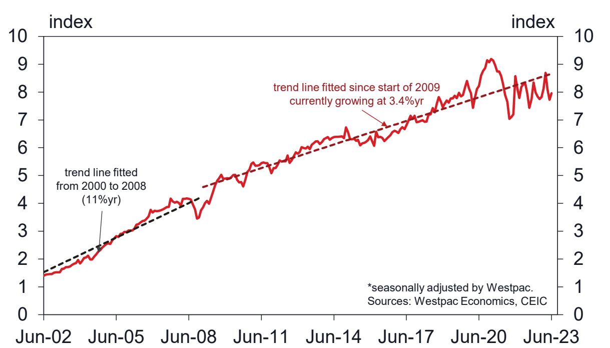
EU's prices are back below Asian prices



Coal price back to more normal relativities



Chinese steel production has flattened



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Almost, but not quite yet for phase 2 …

The market remains in a holding pattern …

For much of the past month, the US dollar again held to a tight range between 101.5 and 102.6. The exception was a test to the downside around the time of the July FOMC meeting as Chair Powell made clear that policy tightening was now data dependent and that downside risks for activity were becoming as significant as those to the upside for inflation, with the full impact of rate hikes yet to be felt. In a nutshell, Chair Powell's perspective points to the US tightening cycle being at an end, with a rate cut the most likely next move for the FOMC, albeit not until March 2024.

… while participants watch inflation risks recede.

Being in line with our prior expectation, this state of affairs leads us to retain our forecast for the US dollar DXY index to trend lower over the projection period, from 102.5 currently to 100 at December 2023, then 97 by December 2024 and 95 come December 2025. On these forecasts, at end-2025, the DXY index will be 17% below its cycle peak of 114, but still 8% above the average of the decade that preceded the pandemic.

The short-term outlook will remain inflation dependent …

Relative inflation dynamics and policy expectations remain the critical factors for near-term US dollar valuation. Since our previous edition, inflation has decelerated more in the US and Europe than the UK. The ECB and FOMC also held back on providing any firm guidance for their next meeting, with all future decisions to be 'data dependent' and peak rates very close, if not already achieved.

In terms of the risks, while the inflation detail for both the US and Europe is becoming more constructive for a steady return to target, in the UK the pace and trajectory of services inflation remains an acute concern having accelerated for four consecutive months. Further, with their labour market continuing to be held back by low participation, arguably UK employment has to weaken further than in the US and Europe if inflation and associated risks are to be quelled. For these reasons, we expect the BoE will have to tighten another 50bps by November while the FOMC hold fire and the ECB raise just once more, with a move in September.

… but in the medium-term, growth will assert.

Inflation continuing to abate is only part of the narrative for FX however. Growing in significance through 2024 and into 2025 will be the cyclical and structural opportunities before the developing world against which the low growth of developed nations, such as the US and UK, will be a stark contrast. In our view, Europe's prospects are less of a concern than the US and UK given the greater exposure Europe has to Asia, as well as the world's demand for high-value manufactured goods, a strength of the Continent. Admittedly the momentum we expect the market to give Euro is also partly justified by their weaker starting point – near recession over the nine months to June – and a lower potential growth rate, circa 1.2% against 1.7% for the US. Albeit at a much lower level, similar arguments can also be made for Japan and the Yen.

The US dollar index is likely to trend lower over the projection period.

Whereas we forecast the UK's sterling to appreciate by only 2% from USD1.27 to USD1.30 end-2024 and another 1% to USD1.31 end-2025, the Euro is projected to gain 5% from USD1.10 to USD1.15 end-2024 and another 2% to USD1.17 by end-2025. The Yen's profile is stronger still, the anticipated decline in USD/JPY from JPY143 to JPY128, a circa 10% move, and the subsequent decline to JPY120 end-2025, equivalent to a further 6% appreciation for Yen. Importantly though for Japan's competitiveness and their continued pursuit of sustainable inflation near 2.0%yr, at JPY120 the Yen will still be 19% weaker than the average of the decade prior to the pandemic.

We expect Sterling to be left behind by Euro and Yen – albeit for very different reasons.

Explaining the Yen's marked divergence from the pre-pandemic norm is our belief that the BoJ's latest actions are intent on preserving the effectiveness of yield curve control into the medium term, rather than heralding its end. In such circumstances, while the rate differential with Western developed nations will narrow materially to late-2025, the spread will remain historically wide. With a sanguine outlook for inflation, safe havens such as the Yen will hold less value as investors instead look for growth opportunities.

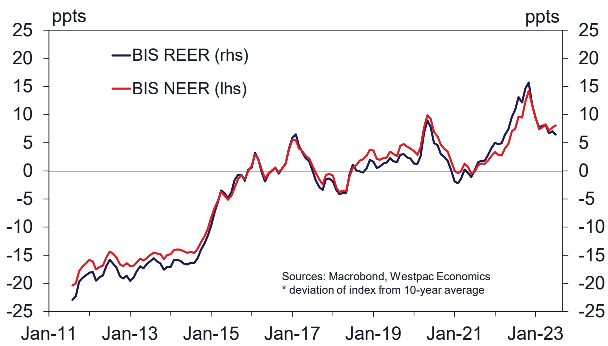
Asia is also likely to outperform.

Asia remains the region where opportunities for growth are strongest and most sustainable. The market continues to doubt both the timing and scale of growth in China, with broader effects for confidence in the region. However, now that the nation's authorities are acting in a concerted manner to support growth, assessed risks should begin to shift in the Renminbi's favour. If the announced stimulus proves effective, a move for USD/CNY from CNY7.17 to CNY7.00 by the turn of the year is probable. A larger move down to CNY6.50 by end-2024 should follow, and further gains to CNY6.10 await in 2025 as China's focus on developing its industry and export markets bears fruit, while the US struggles to maintain growth around trend after prolonged stagnation. We must make clear however that the above profile assumes no deterioration in political and trade relations. This is a big 'if' as we enter a US Presidential year.

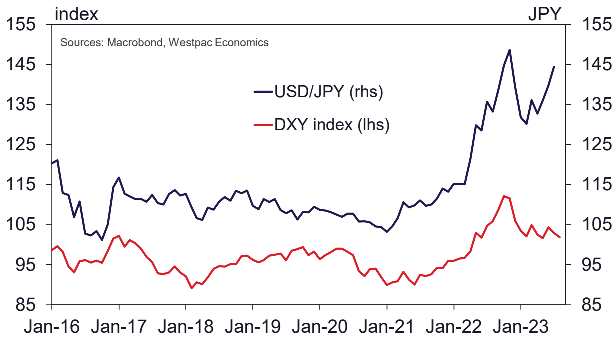
Elliot Clarke, CFA, CAIA, Senior Economist and **Illiana Jain, Economist**

... of the USD downtrend

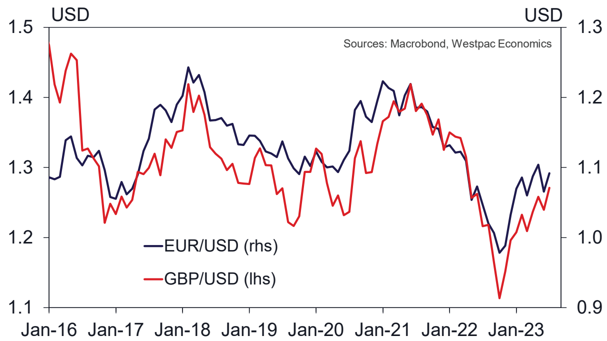
USD historically elevated on broad basis



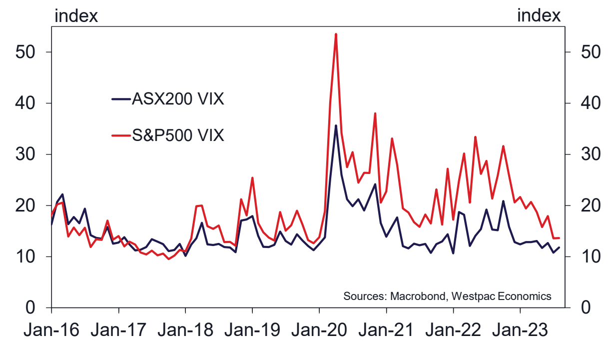
JPY continues to give DXY material support



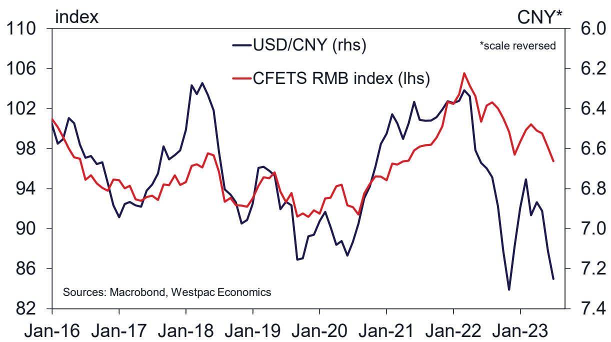
EUR negatives to fade into 2024



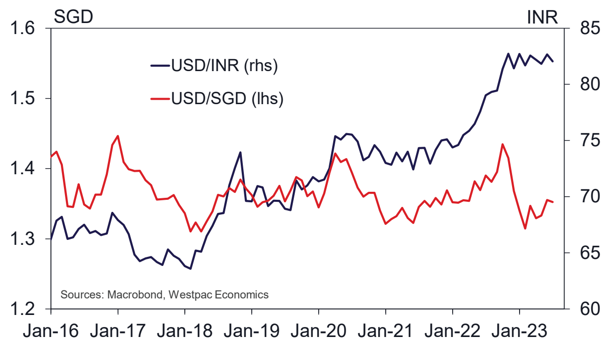
Participants view risks as dissipating



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



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RBNZ to hold in August …

We have pushed out our forecast for another rate hike from the RBNZ.

We have revised our forecast for the Official Cash Rate. We continue to expect that the Reserve Bank will raise the OCR to 5.75%. However, we now see that occurring in November instead of August, as previously assumed.

The risks towards inflation remain tilted to the upside.

Since May 2023, we have held the view that the RBNZ would need to tighten policy further to ensure a timely fall in inflation to within the 1-3% target range. This view was predicated on a sense that current very high rates of inflation would be slow to recede and that risks to the longer-term outlook were tilted towards a very protracted easing in inflation pressures. Strong net migration was seen as supporting both the housing market and the economy right at the time the RBNZ would have hoped that growth would be quickly slowing and providing much needed disinflationary impetus.

Net migration is providing a significant boost to domestic economic conditions.

In large part, the accumulated evidence has supported our view. While GDP in the March quarter was somewhat weaker than expected, we can see tangible signs that strong migration is supporting the economy. The housing market has exhibited strength compared to the relatively dire predictions of commentators earlier this year. Business and consumer confidence have bottomed out and are staging a tentative recovery, which is unusual if the end of the tightening cycle has been reached. The labour market has been a particular area of strength. Employment growth has remained strong in defiance of concerns of a recessionary economy. Large numbers of migrants have found jobs in a labour market that, while better balanced than a year ago, remains tight. The strong labour market has meant that household incomes have continue to grow strongly, leaning against the considerable disinflationary impact of the RBNZ's 525bps of interest rate increases delivered in recent years.

In addition, domestic inflation has proven to be sticky …

The June quarter CPI also provided a timely reminder of the upside risks to the inflation outlook. While annual headline inflation fell to 6% – in line with projections – inflation remains far north of the 1-3% target range. Digging under the surface, the details of the latest inflation report raised a number of red flags for the central bank. The most important of those was the continued strength in domestic inflation (aka non-tradable prices). The RBNZ pays particular attention to non-tradables inflation given its close connection to the strength of domestic economic conditions, and they had expected it to fall from 6.8% in the year to March to 6.3% now. But instead, non-tradables inflation has actually held at higher levels than the RBNZ expected, nudging down only slightly to a still strong level of 6.6% in the year to June. That's despite the sharp rise in interest rates since the RBNZ began raising the OCR more than 18 months ago.

… especially in the services sector.

Looking more closely at those domestic inflation pressures, there has been particular strength in the prices of services, which are up an average of 6.1% over the past year. That's consistent with the ongoing tightness in the labour market and related strength in wage growth (private sector wages were up 4.3% in the year to June). We expect those conditions will see domestic inflation remaining elevated well into the new year.

The RBNZ has signalled a bias towards remaining on hold in August …

However, while we are seeing strong and potentially concerning data, that probably won't be sufficient to budge the RBNZ's Monetary Policy Committee in August. The RBNZ has previously signalled its very strong bias to keep the OCR steady at 5.5% until the second half of next year, and that's a high hurdle to clear. So we must play the man (the MPC) as opposed to the ball on this one.

… however, we expect the evidence will support another hike before year's end.

We retain confidence that recent trends will persist: the economy will likely continue to be supported by ongoing strong migration, the housing market will continue to strengthen, and inflation will only ease gradually at current interest rates. In addition, we still doubt the economy will experience an outright recession in the second half of 2023 as forecast by the RBNZ (although risks from the concerning situation in China and weaker agricultural commodity prices warrant keeping a close eye on that element of the forecast).

And with inflation pressures likely to be enduring …

Against this backdrop, underlying inflation pressures will likely prove stickier than the RBNZ is expecting. While headline inflation is set to continue easing as earlier supply disruptions drop out of the annual calculations, we don't expect a return within the target band until late next year. And a return to the 2% target mid-point will likely take significantly longer.

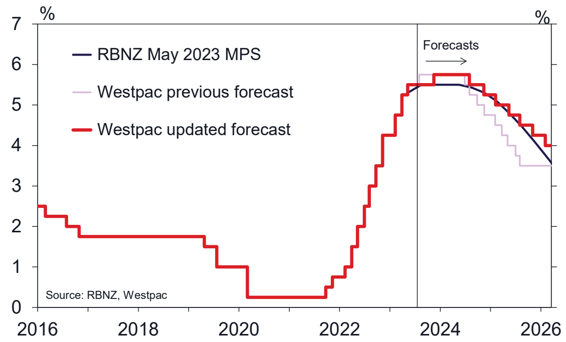
… rate cuts are also likely to be more gradual than previously anticipated.

Given those conditions, the interest rate reductions we had previously expected to occur in the second half of 2024 will likely now occur more slowly, consistent with the RBNZ only easing cautiously as inflation gradually eases. We suspect many other central banks will be taking a similarly cautious approach.

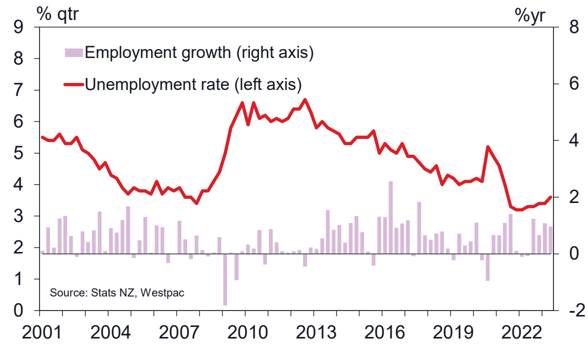
Kelly Eckhold, Chief Economist NZ

… but a hike is still likely before year end

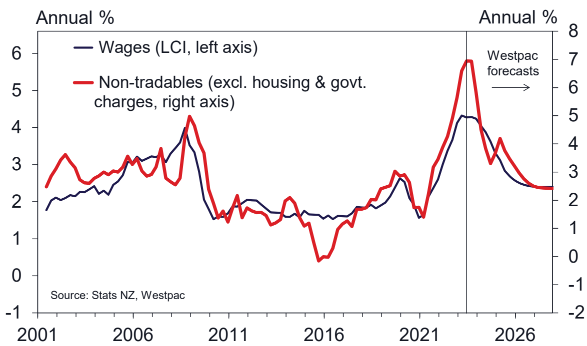
Official Cash Rate forecasts



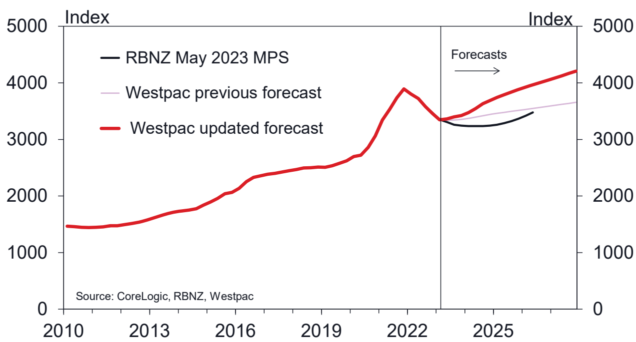
Unemployment rate and employment growth



Domestic inflation



House prices



	2022						2023					
Monthly data	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
REINZ house sales %mth	–0.8	3.2	–3.0	–3.4	–6.5	–6.8	6.2	–1.9	12.6	7.7	3.6	2.2
Residential building consents %mth	3.6	–2.0	3.0	–10.7	6.3	–7.6	–6.3	–7.0	6.7	–2.4	–2.3	3.5
Electronic card transactions %mth	0.1	1.0	2.0	0.9	–0.6	–1.4	3.7	–1.4	2.4	0.6	–2.1	1.3
Private sector credit %yr	5.6	5.7	5.6	5.1	4.9	4.6	4.2	3.8	3.6	3.3	3.0	3.0
Commodity prices %mth	–2.2	–3.4	–0.6	–3.4	–4.0	–0.2	–1.1	1.4	1.3	–1.7	0.4	–2.3
Trade balance $m	-1783	-1039	-718	-1665	-1659	-1037	-1549	-1417	-1892	-1324	-920	-574

Quarterly data	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**
Westpac McDermott Miller Consumer Confidence	107.1	102.7	99.1	92.1	78.7	87.6	75.6	77.7	83.1
Quarterly Survey of Business Opinion	22	10	–1	–6	–1	2	–14	–10	–13
Unemployment rate %	4.0	3.3	3.2	3.2	3.3	3.3	3.4	3.4	3.6
CPI %yr	3.3	4.9	5.9	6.9	7.3	7.2	7.2	6.7	6.0
Real GDP %yr	5.9	5.4	6.0	5.2	1.2	2.9	2.7	2.9	–
Current account balance % of GDP	–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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The FOMC to assess policy …

In our view, July's hike closed out this FOMC tightening cycle …

At their July meeting, the FOMC decided to raise the fed funds rate by 25bps, as expected, to a mid-point of 5.375%. Also in line with prior commentary and the market's expectations was the detail and tone of the post-meeting communications. The focus throughout was the robust health of the economy today, but also the scale of the tightening delivered-to-date and the lags with which policy impacts.

… with demand and supply coming back into balance …

Looking first at the guidance for activity, the assessment of GDP growth in the decision statement was strengthened ("modest" replaced by "moderate"). Job gains also continued to be characterised as robust; and, in the press conference, Chair Powell made clear the FOMC still view labour demand as greater than available supply, albeit less so than earlier in the cycle.

In terms of the risks, there was no evidence of concern over the outlook for activity or the labour market; however, Chair Powell emphasised that the full impact of monetary policy tightening is yet to be felt while the latest evidence on credit conditions (from the Senior Loan Officer Survey) point to already tight conditions tightening further.

… and risks to the baseline view becoming balanced.

On prices, Chair Powell sought to carefully balance the still "elevated" level of inflation with the material progress seen of late. Clearly one better-than-expected print on inflation should not be taken as an 'all clear' signal and momentum in the highly-weighted shelter component is still extraordinary and set to slow only at a moderate pace. However, we have now seen annual core goods inflation abate below the 2.0%yr headline target, from a peak above 12%yr, and core services ex-shelter or 'supercore' inflation retreat 2.5ppts from a peak of 6.5%yr to 4.0%yr, having averaged 1.4% annualised through Q2 with the full effect of rate hikes still yet to be seen.

Q2 GDP surprised to the upside, but principally because of investment …

Of note for activity and inflation following the July FOMC meeting was the Q2 GDP and Employment Cost Index (ECI) reports. While Q2 GDP surprised modestly to the upside, it was the result of much-needed capacity expansion via investment while consumption decelerated to a below-trend pace – a constructive outcome for the inflation outlook.

Moreover, both the personal consumption and total GDP deflators came in below expectations at Q2, the GDP deflator noticeably so. For consumption, particularly services, the gradual deceleration in nominal wage and total compensation growth being seen in the ECI detail also supports the view that the outlook for consumer inflation will become increasingly benign, particularly if job growth continues to slow and hours worked per worker is stable or falls, as they have the last 12 months.

… which, all else equal, should prove disinflationary.

Coming back to the FOMC's expectations, broadly speaking, the downside risks to activity are now believed to be as significant as upside uncertainty for inflation. Decisions in coming months are therefore set to be determined by incoming data, specifically how it confirms/conflicts with that already received.

Less clear, but also highly significant, is the state of financial conditions which need to remain restrictive at least through the end of 2023. Note, this does not mean the FOMC want to keep term interest rates at their current absolute level; instead, they desire for the decline in term interest rates to lag the deceleration in inflation, keeping real interest rates materially above zero.

Come 2024, rate cuts should commence in March and proceed rapidly until …

Worth reflecting on for early-2024 in particular are Chair Powell's comments late in the July press conference regarding the timing of fed fund rate decisions vis a vis the 2.0%yr target. In short, he made clear that policy lags have to be factored in, and hence that the Committee must stop hiking and start cutting before inflation reaches 2.0%yr. This perspective is entirely consistent with our expectation of a first cut in March 2024, with the annualised pace of inflation by that time likely 2.0%, but the annual rate still somewhat above (on our forecasts).

… a neutral level is reached late-2025.

Looking further ahead, also of note from the press conference is that Chair Powell believes a return to neutral, or potentially an expansionary policy setting, will be appropriate once inflation risks have abated. This points towards a large reduction in the fed funds rate to around 2.50% (the FOMC's 'longer run' expectation) in contrast to the current 3.4% end-2025 median expectation of the Committee. Having peaked at its current level of 5.375%, Westpac sees the fed funds rate down at 2.625% mid-2025 and the US 10 year yield stabilising around 2.70%.

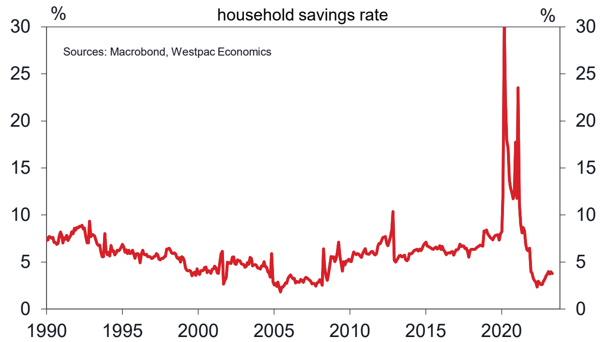
Capacity constraints are the key risk, particularly within the housing sector.

On the information to hand, the risk that the fed funds rate is increased further in the near term and/or the forecast decline in rates to mid-2025 proves much shallower than we currently forecast is set to be determined by capacity constraints across the US economy, particularly housing. Also critical will be how inflation expectations are affected. On the latter, the degree to which nominal wage growth exceeds inflation over the period will define the risk to inflation's persistence.

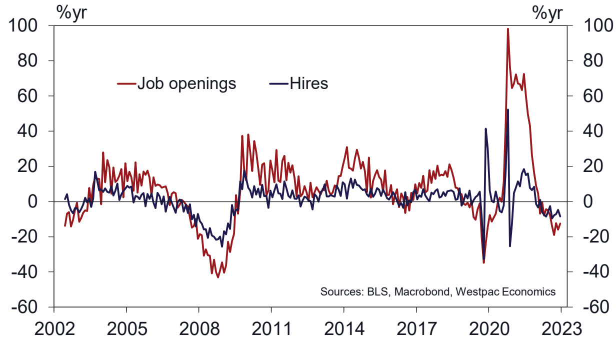
Elliot Clarke, CFA, CAIA, Senior Economist

... one meeting at a time

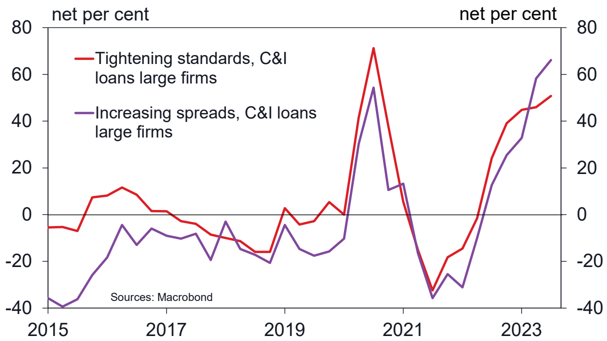
US household finances are under pressure ...



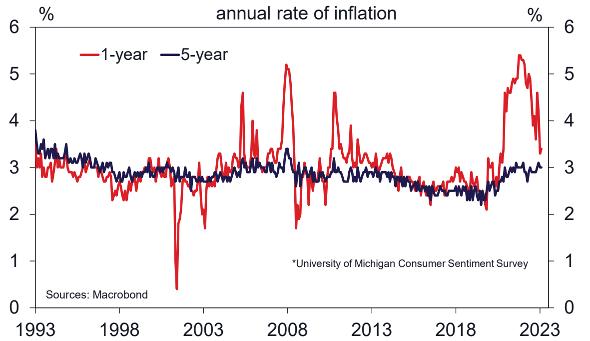
... and workers' bargaining power is waning



Tight credit standards being reported



Household inflation expectations normalising



	2022					2023						
Monthly data	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**
PCE deflator %yr	6.3	6.3	6.1	5.7	5.3	5.4	5.0	4.2	4.3	3.8	3.0	–
Unemployment rate %	3.7	3.5	3.7	3.6	3.5	3.4	3.6	3.5	3.4	3.7	3.6	–
Non-farm payrolls chg '000	352	350	324	290	239	472	248	217	217	306	209	–
House prices* %yr	13.1	10.4	8.7	6.8	4.6	2.6	0.4	–1.1	–1.7	–1.8	0.0	–
Durables orders core 3mth %saar	7.0	0.1	2.0	–6.1	1.3	1.4	5.3	0.3	–0.2	2.4	5.8	–
ISM manufacturing composite	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4
ISM non-manufacturing composite	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	7.6	5.1	8.5	4.3	1.8	6.9	9.1	9.4	3.9	3.6	5.5	–
UoM Consumer Sentiment	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5	59.2	64.4	71.6
Trade balance USDbn	–67.3	–71.7	–78.3	–63.8	–71.4	–70.2	–70.2	–60.6	–74.4	–69.0	–	–

Quarterly data	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23f**
Real GDP % saar	–0.6	3.2	2.6	2.0	2.4	1.0
Current account USDbn	–248.8	–222.8	–216.2	–219.3	–	–

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

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Q2 GDP highlights both China's ...

GDP growth was hit by uncertainty in Q2 ...

China GDP growth met the market's expectation in Q2, printing at 0.8%. However, there was a discrepancy in the annual rate, with the actual of 6.3% well below the 7.1% consensus forecast. Multiplying the last four quarterly prints instead gives an annual growth of 6.8%, much closer to the market's expectation. While there were no published revisions, the divergence between the quarterly and annual prints points to challenges with seasonal adjustment and/or a desire to smooth the growth path, with Q2's base effect highly favourable but Q3's adverse.

... and a re-acceleration is likely to take time.

Given the timing of growth through the year, a year-average growth rate of 5.5% or more is now highly unlikely absent an aggressive, immediate stimulus push. That said, with 3.0% growth to date in 2023, through-the-year, an outcome at December 2023 around that mark is still probable as long as domestic sentiment improves and trade's growth drag is contained. With respect to consumer and business sentiment, the partial data for June provided mixed messages.

Industrial production beat June's expectation and May's actual year-over-year and year-to-date, respectively 4.4%yr and 3.8%ytd (3.5%yr and 3.6%ytd in May). While in the near-term volatility will persist given global uncertainties, June's outcomes should provide business with confidence in China's resilience and the growth opportunities before it in Asia.

The property sector remains under considerable stress ...

At 3.8%ytd, fixed asset investment also beat the market's expectation in June but failed to improve on May's 4.0%ytd. Property investment weakened further in the month to –7.9%ytd, unsurprising given the pipeline of current projects has been whittled away and sales remain fickle – base effects and a recent turn down seeing year-to-date growth slow from 11.9%ytd in May to 3.7%ytd.

Elsewhere though, positive signs continue to be seen. Notably, manufacturing investment held at 6.0%ytd as investment in the high-tech sub-sector rose 11.8%ytd. High-tech services investment also reportedly experienced strong growth of 13.9%ytd. Released in mid-July, June's credit data is constructive for private investment's outlook, loan activity 15% higher than at this time in 2022.

... while other investment continues to improve efficiency and capacity.

Investment by the public sector meanwhile continues to be dominated by utilities spending, +27%ytd, although other infrastructure is also experiencing robust growth, +7.2%ytd. For the momentum in public spending to be sustained, additional borrowing by local authorities is required in scale given a recovery in property sales to developers is a long way off.

For sentiment, both the greatest opportunity (and risk) lay with consumer spending. Like investment, June's retail sales were soft but neutral versus expectations at 3.1%yr and 8.2%ytd. The similarity of the total and online retail outcomes in recent months implies the lack of follow through in spending stems from concerns over financials rather than a legacy from COVID-zero.

Household confidence must return before spending can accelerate.

The deposit data is consistent with this view, with households continuing to increase their stock of savings at a robust pace. Reducing anxiety over job prospects, the total unemployment rate for urban areas has retreated to average levels, printing at 5.2% through Q2. That said, for many households, the accumulation of precautionary savings is likely to continue until youth unemployment is in a downtrend. With a new high of 21.3% reached in June, this seems a way off.

The labour market and spending preferences will prove critical.

Concluding with trade. The Q1 current account showed a material widening of the services deficit related to tourism. While helpful in reconnecting China to the rest of the world, if the outflow of income and wealth for tourism and educational purposes outpaces growth in the broader economy, GDP is likely to disappoint. Whether it is developed countries like Australia and New Zealand or nations across Asia who benefit from the outturn will take time to assess.

Elliot Clarke, CFA, CAIA, Senior Economist

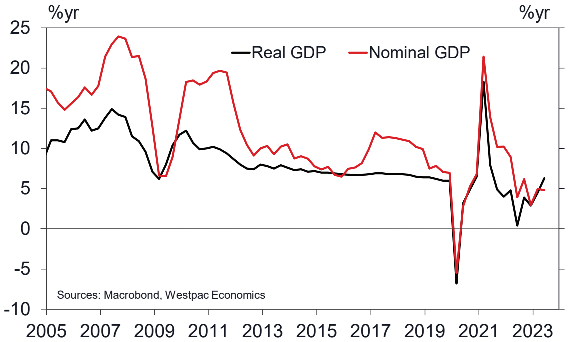
	2022					2023						
Monthly data %yr	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**
Consumer prices – headline	2.50	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	0.2	0.0	–
Money supply M2	12.2	12.1	11.8	12.4	11.8	12.6	12.9	12.7	12.4	11.6	11.3	–
Manufacturing PMI (official)	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3
Fixed asset investment %ytd	5.8	5.9	5.8	5.3	5.1	5.1	5.5	5.1	4.7	4.0	3.8	–
Industrial production (IVA)	4.2	6.3	5.0	2.2	1.3	1.3	2.4	3.9	5.6	3.5	4.4	–
Exports	6.5	4.9	–1.0	–9.7	–11.4	–11.6	–2.7	11.4	7.3	–7.1	–12.4	–
Imports	–0.5	–0.1	–0.9	–10.7	–7.2	–20.9	4.2	–1.6	–8.1	–4.5	–6.8	–
Trade balance USDbn	78.6	82.7	83.5	67.0	72.0	93.8	13.0	78.1	86.8	66.3	70.6	–

Quarterly data	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**
Real GDP %yr	4.8	0.4	3.9	2.9	4.5	6.3
Nominal GDP %yr	9.0	3.9	6.2	2.9	5.0	4.8

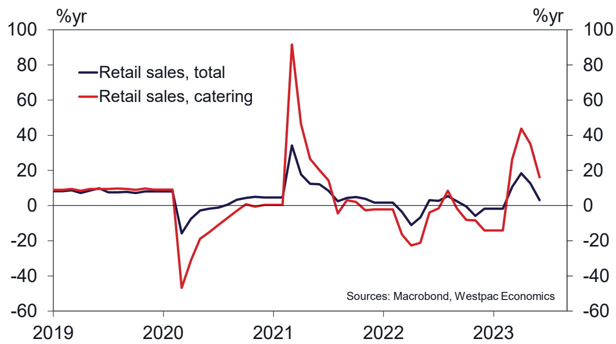
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

… fragility and opportunity

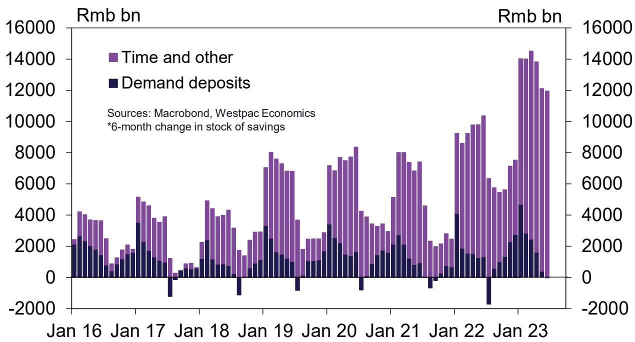
GDP still likely to beat 5.0% guidance



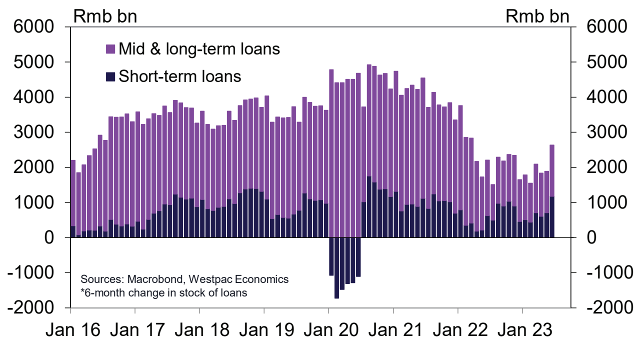
Consumer confidence a constraint



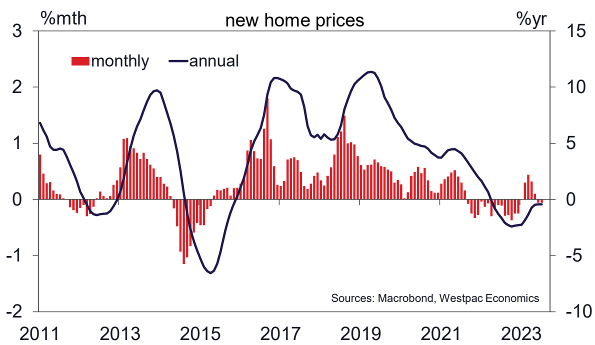
Households are precautionary saving …



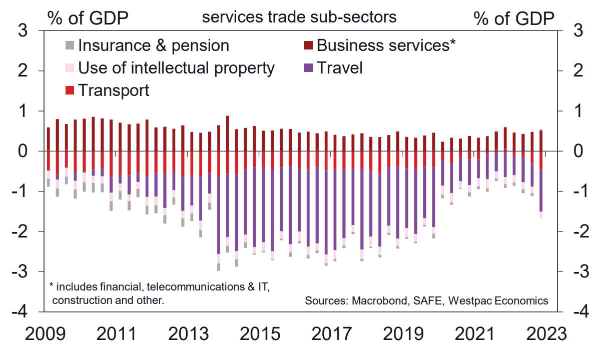
… and refraining from new debt



Existing homes holding new home prices back



Foreign travel a drag on trade position



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A long road ahead ...

Evidence of excess demand and associated price pressures ...

Over the past year, market participants have waited impatiently for the Bank of Japan (BoJ) to raise rates while justification remained scant. Governor Kazuo Ueda recently iterated that the BoJ did not expect their stance to change unless 'underlying' inflation picked up. Yet the BoJ then widened the corridor for the 10-year yield. How do we align these views and actions?

... are absent.

CPI inflation ex. fresh food and energy, one of the BoJ's preferred price gauges, is currently just above 4%yr, leaving prices only 4% higher than the pre-pandemic level. Regarding services – a clearer barometer of demand-side pressures – recent price growth is yet to even offset deflation through the pandemic. Recent increases in prices are therefore best considered the result of post-pandemic recovery and tourism inflows. Evidence of the excess demand and associated price pressures within other developed nations are, at least for now, absent.

Profits have outpaced investments

Businesses hoarding cash are partly to blame for years of strong money supply growth not translating into inflation. Japanese corporations' unwillingness to invest in scale is a remnant of the 1990s asset price collapse. Since then, growth in profits has outpaced investment much to the frustration of policymakers. But the tide may be turning. The June 2023 Tankan survey of all enterprises showed that investment is expected to increase by 11.8% in fiscal 2023-24, the second-highest result for a June survey following a record high in 2022. Corporate investment typically follows Tankan results. If this again proves to be the case, construction and equipment investment will take up resources and provide income to those employed by the process. In time, new capacity created should further bolster employment and hours worked and thereby incentivise sustainable strength in household consumption, compounding gains for inflation.

If pricing intentions remain strong, consumer prices will grow

Signalling growing pricing power amongst corporates, Tankan output prices are at levels not seen since the 1980s when inflation was materially higher. If corporations' pricing intentions remains strong, we can expect consumer prices to continue growing at a robust pace, particularly as corporations believe inflation will be higher than the 2% target in one-, three- and five-years' time. Corporates regularly raising their prices will provide scope to raise wages for workers more often. Combined with increases in the cost of other inputs, cost-push inflation may become entrenched.

On wages, Japan's largest trade union RENGO reported that in the 2023 Shunto negotiations, total pay rises equated to 3.58%, the most since 1993. Since 2010, RENGO wages have increased seven times from the previous negotiations. In the last five instances, inflation was above 0.5%yr. This, alongside reports that the cost of living was a major factor in unions pushing for higher wages, suggests inflation is behind these wage increases – not productivity or labour scarcity.

Inflation is behind wage increases

Note, total wage growth averaged 1.9% in the 10 years before COVID, during which time inflation was +0.5%yr on average. However, before 2023, wage increases were driven by an increase in negotiated wages which only benefits a small, higher-income portion of the labour market versus base increases. Wage inflation excluding negotiated increases instead looks to have been around 0.5%yr based on data available from 2015, in line with inflation. If they eventuate, broad-based wage increases ahead of aggregate inflation will put pressure on firms to pass on costs to consumers and, at the same time, support domestic consumption.

With this backdrop, what are we to make of the BoJ's decision to expand the 10-year yield corridor around zero from ±0.50% to ±1.00%? Is it a pre-emptive response to quell inflation risks as seen elsewhere in the developed world? Or a sign that the BoJ remain unsure of the sustainability of inflation and therefore needs Yield Curve Control (YCC) to remain effective for as long as possible? In our view, it is the latter.

The BoJ believes ultra-loose monetary policy needs to be maintained ...

Speaking of the change, Governor Ueda explained that "this was a step to heighten the chance of sustainably achieving our price target" and that if the "economy and prices overshoot, we'll allow long-term interest rates to move above 0.5% and up to 1%", but the BoJ "will not tolerate an increase in the 10-year bond yield above 1% and will step in if it does". Combined with their essentially unchanged, below-target inflation forecasts of 1.9%yr/1.6%yr at March 2024/March 2025 respectively, the BoJ's baseline expectation is that Japan needs to maintain ultra loose policy for the foreseeable future if near-target inflation is to be sustained into the medium term.

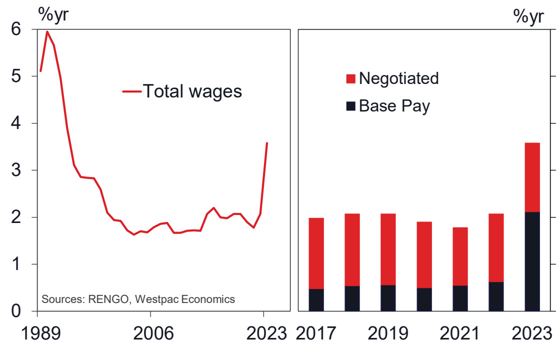
... to ensure a sustained return to inflation.

Many in the market are focused on this move being the first step towards the end of YCC. If true, the journey looks set to be very long. Since the meeting, the BoJ has intervened to keep the 10-year yield below 0.60%, a long way from 1.00%. This makes even a reduction in the duration of their guidance from 10 to 5 years seem distant let alone an exit from the policy altogether. In our view, a virtuous loop between wages, price-setting and expectations must be established for Japan to exit its low-inflation malaise. This will take years. In the meantime, the BoJ will need to keep policy extraordinarily accommodative.

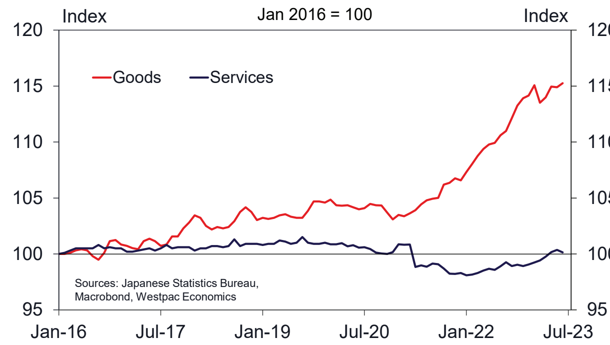
Illiana Jain, Economist

… for the Bank of Japan

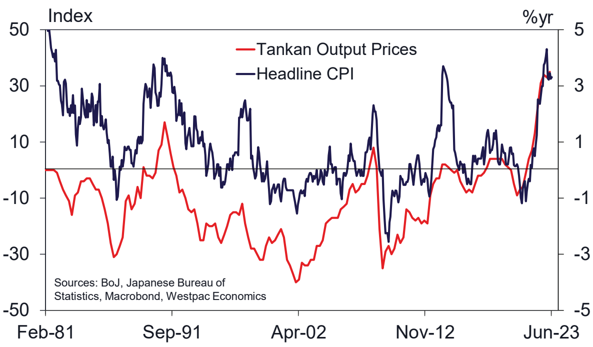
Japanese wages climbing higher



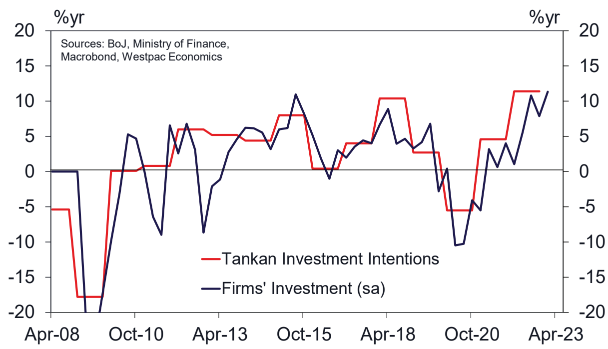
Services inflation is still recovering



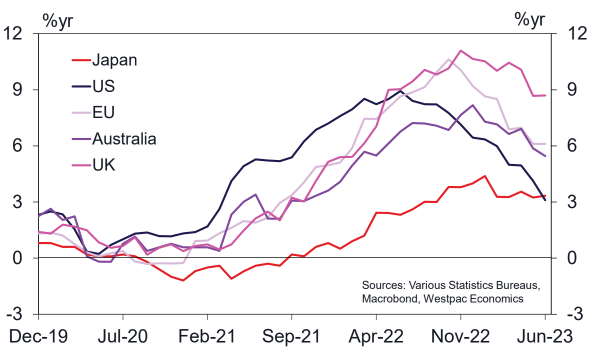
Output prices suggest inflation to persist



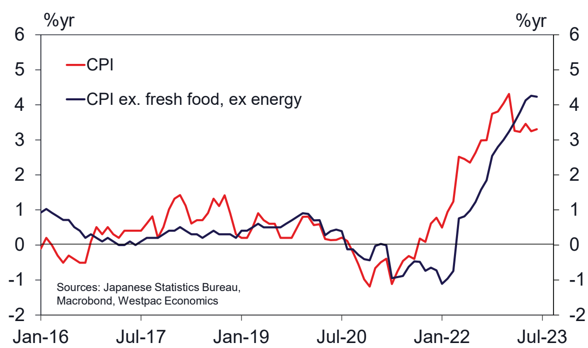
Firm's tease stronger investment



Japanese prices lag rest of the world



Price growth looks to have peaked



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Australia

Interest rate forecasts

	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.10	4.10	4.10	4.10	4.10	3.85	3.60
90 Day BBSW	4.18	4.30	4.30	4.30	4.22	3.97	3.72
3 Year Swap	4.08	4.00	3.95	3.90	3.80	3.70	3.60
3 Year Bond	3.81	3.75	3.70	3.65	3.60	3.50	3.40
10 Year Bond	4.17	3.75	3.55	3.45	3.30	3.25	3.20
10 Year Spread to US (bps)	-1	-5	-5	5	10	15	20

Currency forecasts

	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD vs							
USD	0.6558	0.67	0.68	0.69	0.71	0.73	0.74
JPY	93.53	93.8	93.8	93.2	93.7	94.9	94.7
EUR	0.5988	0.60	0.61	0.62	0.63	0.64	0.64
NZD	1.0787	1.07	1.08	1.09	1.10	1.12	1.12
CAD	0.8756	0.88	0.88	0.89	0.91	0.93	0.93
GBP	0.5158	0.52	0.53	0.53	0.55	0.56	0.57
CHF	0.5733	0.60	0.60	0.60	0.62	0.64	0.64
DKK	4.4616	4.50	4.52	4.59	4.68	4.77	4.79
SEK	7.0017	7.06	7.10	7.20	7.35	7.49	7.52
NOK	6.7117	6.77	6.81	6.91	7.04	7.18	7.21
ZAR	12.24	12.4	12.5	12.6	12.7	12.9	13.0
SGD	0.8794	0.90	0.90	0.91	0.93	0.95	0.97
HKD	5.1202	5.23	5.29	5.36	5.51	5.66	5.74
PHP	36.26	36.9	36.7	36.6	36.9	37.2	37.4
THB	22.68	23.1	23.3	23.5	23.8	24.1	24.1
MYR	2.9752	3.05	3.06	3.04	3.05	3.07	3.03
CNY	4.6946	4.76	4.76	4.69	4.76	4.82	4.81
IDR	9959	10050	10064	10074	10224	10439	10434
TWD	20.72	20.9	20.9	21.0	21.4	21.8	21.9
KRW	852	858	857	856	866	876	873
INR	54.05	54.3	53.7	53.1	53.3	53.3	53.3

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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	0.3	0.3	0.1	0.1	5.0	6.5	1.6	0.8
Dwelling investment	–0.8	–1.2	–0.2	–1.0	–2.5	–4.0	–3.1	9.9	–3.4	–3.4	-8.7
Business investment*	0.2	2.9	1.9	–0.5	–0.9	–1.0	–0.4	8.2	3.5	5.3	-2.0
Private demand *	0.1	0.5	0.4	0.1	–0.1	–0.3	–0.2	6.5	4.8	1.5	–0.2
Public demand *	0.1	0.8	0.3	0.3	0.3	0.3	0.4	5.8	4.9	1.3	1.4
Domestic demand	0.1	0.6	0.4	0.1	0.0	–0.2	0.0	6.3	4.9	1.6	0.8
Stock contribution	–0.5	0.0	–0.3	–0.1	–0.1	–0.3	0.1	0.4	0.5	–0.6	–0.2
GNE	–0.4	0.6	0.1	0.0	–0.1	–0.4	0.2	6.9	5.4	0.9	0.0
Exports	1.4	1.8	3.0	1.3	1.4	1.1	0.9	–2.0	3.4	8.7	5.0
Imports	-4.0	3.2	1.8	0.5	0.4	–1.4	0.2	5.4	12.7	4.4	0.8
Net exports contribution	1.1	–0.2	0.3	0.2	0.2	0.5	0.2	–1.4	–1.5	1.0	1.0
Real GDP %qtr / yr avg	**0.6**	**0.2**	**0.4**	**0.2**	**0.2**	**0.1**	**0.3**	5.2	3.7	1.6	1.0
%yr end	**2.6**	**2.3**	**1.8**	**1.4**	**1.0**	**0.9**	**0.8**	**4.6**	**2.6**	**1.0**	**1.4**
Nominal GDP %qtr	2.2	2.1	–0.1	1.0	0.4	0.4	0.9				
%yr end	12.0	9.2	5.0	5.3	3.4	1.7	2.7	10.0	12.0	3.4	3.2

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	0.6	0.2	0.1	–0.1	–	–	–	–
%yr	5.1	3.4	3.2	2.9	2.4	1.8	0.8	2.4	5.1	2.4	0.1
Unemployment rate % (2)	3.5	3.6	3.6	3.6	3.8	4.1	4.5	4.7	3.5	3.8	4.7
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	0.8	0.9	0.7	0.9	0.9	–	–	–	–
%yr	7.8	7.0	6.0	5.1	3.9	3.4	3.4	3.5	7.8	3.9	3.2
Core inflation trimmed mean	1.7	1.3	0.9	0.8	0.8	0.8	0.8	–	–	–	–
%yr (2)	6.9	6.6	5.9	4.7	3.8	3.3	3.3	2.6	6.9	3.8	3.1
Current account AUDbn	14.1	12.3	5.0	5.0	3.0	3.0	3.0	66.7	29.4	25.0	8.0
% of GDP	2.2	1.9	0.8	0.8	0.5	0.5	0.5	3.1	1.2	1.0	0.3
Terms of trade annual chg (1)	7.1	1.4	-9.8	-5.2	-8.4	-11.9	-5.9	17.3	5.9	-5.5	-7.0

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

Macroeconomic variables – recent history

	2022				2023						
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**
Employment '000 chg	23	32	51	–5	16	62	71	–4	77	33	–
Unemployment rate %	3.6	3.4	3.5	3.5	3.7	3.5	3.5	3.7	3.5	3.5	–
Westpac–MI Consumer Sentiment	84.4	83.7	78.0	80.3	84.3	78.5	78.5	85.8	79.0	79.2	81.3
Retail trade %mth	0.7	0.3	1.6	–3.9	1.8	0.1	0.3	–0.1	0.8	–0.8	–
Dwelling approvals %mth	–7.1	–6.7	–2.5	15.0	–28.6	6.0	3.1	–7.6	20.5	–7.7	–
Credit, private sector %yr	8.9	8.9	8.4	7.8	7.6	7.3	6.8	6.6	6.2	5.5	–
Trade balance AUDbn	12.4	12.1	13.4	12.2	10.8	14.0	14.6	10.3	10.5	11.3	–

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New Zealand

Interest rate forecasts

	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	5.50	5.50	5.75	5.75	5.75	5.50	5.25
90 Day Bill	5.64	5.70	5.85	5.85	5.85	5.60	5.35
2 Year Swap	5.50	5.64	5.49	5.29	5.06	4.81	4.58
10 Year Bond	4.82	4.50	4.45	4.30	4.15	4.05	3.95
10 Year Spread to US	64	70	85	90	95	95	95
10 Year Spread to Aust	65	75	90	85	85	80	75

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD vs							
USD	0.6080	0.62	0.63	0.63	0.64	0.65	0.66
JPY	86.72	87.4	86.9	85.6	85.0	85.0	84.5
EUR	0.5551	0.56	0.56	0.57	0.57	0.57	0.57
AUD	0.9269	0.93	0.93	0.92	0.91	0.90	0.89
CAD	0.8117	0.82	0.82	0.82	0.82	0.83	0.83
GBP	0.4782	0.49	0.49	0.49	0.50	0.50	0.51
CNY	4.3589	4.43	4.41	4.31	4.31	4.32	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	–1.1	0.5	0.4	0.4	0.3	7.5	3.0	1.3	1.3
Government consumption	–2.4	0.1	–0.2	–0.3	0.3	–0.5	–0.6	8.2	4.5	–2.0	–0.3
Residential investment	–2.3	–0.4	–0.5	–0.9	–2.5	–3.0	–2.5	8.0	1.1	–1.2	–8.7
Business investment	–0.1	2.8	3.7	0.1	–0.6	–1.0	–1.2	14.6	5.2	6.1	–2.1
Stocks (ppt contribution)	–0.1	–1.5	0.1	0.8	0.0	0.2	0.1	1.3	0.0	–1.0	0.6
GNE	–0.2	0.5	0.1	0.9	0.1	–0.1	–0.2	10.2	3.5	0.60	0.4
Exports	–1.7	–2.5	11.0	–2.4	1.3	1.9	1.9	–2.7	0.0	11.6	6.2
Imports	2.5	–1.6	–0.5	0.9	1.1	1.0	0.8	15.1	5.3	1.7	3.9
GDP (production)	**–0.7**	**–0.1**	**0.8**	**0.1**	**0.1**	**0.1**	**0.0**	**6.0**	**2.7**	**1.1**	**0.4**
Employment annual %	1.7	2.9	4.0	3.0	2.4	1.3	0.2	3.3	1.7	2.4	0.1
Unemployment rate % s.a.	3.4	3.4	3.6	3.8	4.3	4.7	5.0	3.2	3.4	4.3	5.2
Labour cost index, all sect incl o/t, ann %	4.1	4.3	4.3	4.3	4.2	4.0	3.9	2.6	4.1	4.2	3.3
CPI annual %	**7.2**	**6.7**	**6.0**	**5.9**	**4.9**	**4.4**	**3.7**	**5.9**	**7.2**	**4.9**	**2.9**
Current account balance % of GDP	–8.7	–8.2	–8.0	–8.2	–7.7	–7.2	–6.9	–5.7	–8.7	–7.7	–5.9
Terms of trade annual %	–4.2	–6.2	–6.4	–4.6	–4.5	–0.6	3.6	2.8	–4.2	–4.5	5.2

Sources: Statistics NZ, Westpac Economics.

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Commodity prices

End of period	Latest (4 Aug)***	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Australian commodities index#	298	290	285	279	281	**280**	**284**	**285**	**289**	**292**
Bulk commodities index#	**473**	**461**	**433**	**415**	**416**	**411**	**412**	**411**	**417**	**414**
iron ore finesTSI @ 62% US$/t	109	107	100	95	89	84	83	85	87	87
Premium low vol met coal (US$/t)	240	227	216	227	238	244	250	250	238	233
Newcastle spot thermal coal (US$/t)	142	137	130	125	135	140	135	125	125	125
crude oil (US$/bbl) Brent ICE	85	80	77	83	85	88	92	95	97	100
LNG in Japan US$mmbtu	14.47	14.1	14.4	13.7	14.8	15.1	15.7	16.4	16.9	17.2
gold (US$/oz)	1,973	1,980	2,000	2,000	1,925	1,875	1,850	1,825	1,841	1,856
Base metals index#	**203**	**199**	**194**	**194**	**197**	**204**	**213**	**219**	**224**	**230**
copper (US$/t)	8,670	8,550	8,400	8,300	8,500	8,900	9,373	9,731	9,971	10,331
aluminium (US$/t)	2,237	2,170	2,200	2,240	2,275	2,300	2,378	2,437	2,475	2,532
nickel (US$/t)	22,240	22,200	21,000	20,750	21,000	21,556	22,291	22,836	23,196	23,735
zinc (US$/t)	2,557	2,450	2,300	2,300	2,375	2,429	2,501	2,554	2,589	2,641
lead (US$/t)	2,152	2,100	2,050	2,000	2,000	2,025	2,104	2,162	2,201	2,259
Rural commodities index#	**144**	**144**	**139**	**137**	**138**	**143**	**150**	**156**	**159**	**165**
NZ commodities index ##	**330**	**314**	**317**	**330**	**342**	**353**	**361**	**367**	**372**	**376**
dairy price index ^^	297	283	286	305	323	336	345	351	355	358
whole milk powder US$/t	2,864	2,829	3,200	3,394	3,600	3,699	3,800	3,850	3,900	3,929
skim milk powder US$/t	2,454	2,429	2,700	2,893	3,100	3,198	3,300	3,350	3,400	3,426
lamb leg UKp/lb	426	416	431	458	467	473	479	485	491	497
bull beef US¢/lb	242	232	233	239	248	257	263	266	269	272
log price index ##	152	150	149	150	151	154	157	161	164	166

	levels				% change			
Annual averages	**2021**	**2022**	**2023(f)**	**2024(f)**	**2021**	**2022**	**2023(f)**	**2024(f)**
Australian commodities index#	**306**	**379**	**313**	**281**	**43.1**	**23.6**	**-17.4**	**-10.2**
Bulk commodities index#	**510**	**557**	**493**	**426**	**47.0**	**9.2**	**-11.4**	**-13.7**
iron ore fines @ 62% USD/t	159	120	112	89	46.6	-24.4	-6.7	-20.5
LNG in Japan $mmbtu	10.3	18.2	16	15	31.1	77.3	-13.6	-6.5
ave coking coal price (US$/t)	143	240	207	201	33.2	67.2	-13.5	-3.2
ave thermal price (US$/t)	99	281	234	185	74.8	183.7	-17.0	-20.9
iron ore fines contracts (US¢ dltu)	239	174	159	139	72.8	-27.0	-8.7	-12.5
Premium low vol met coal (US$/t)	224	365	261	237	77.3	63.3	-28.5	-9.3
crude oil (US$/bbl) Brent ICE	70	97	80	86	60.2	38.4	-17.4	6.8
gold (US$/oz)	1,801	1,809	1,967	1,925	1.2	0.5	8.7	-2.1
Base metals index#	**213**	**230**	**205**	**200**	**41.1**	**8.0**	**-10.8**	**-2.6**
copper (US$/t)	9,297	8,827	8,614	8,687	50.2	-5.1	-2.4	0.8
aluminium (US$/t)	2,477	2,711	2,275	2,283	44.0	9.5	-16.1	0.4
nickel (US$/t)	18,452	26,228	22,966	21,292	33.4	42.1	-12.4	-7.3
zinc (US$/t)	3,006	3,471	2,631	2,385	32.1	15.4	-24.2	-9.4
lead (US$/t)	2,190	2,154	2,110	2,028	19.6	-1.6	-2.1	-3.9
Rural commodities index#	**150**	**171**	**145**	**145**	**28.0**	**14.0**	**-15.6**	**0.0**
NZ commodities index ##	**359**	**376**	**326**	**347**	**21.2**	**4.7**	**-13.4**	**6.5**
dairy price index ##	322	353	291	327	25.2	9.5	-17.6	12.6
whole milk powder US$/t	3,843	3,889	3,083	3,560	29.2	1.2	-20.7	15.5
skim milk powder US$/t	3,332	3,819	2,629	3,060	22.6	14.6	-31.2	16.4
lamb leg UKp/lb	599	624	436	466	18.4	4.3	-30.2	6.8
bull beef US¢/lb	279	280	242	249	19.0	0.5	-13.6	2.9
log price index ##	179	171	155	153	14.8	-4.3	-9.3	-1.6

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

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United States

Interest rate forecasts

	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Fed Funds*	5.375	5.375	5.375	5.125	4.625	4.125	3.625
10 Year Bond	4.18	3.80	3.60	3.40	3.20	3.10	3.00

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

Currency forecasts

	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD vs							
DXY index	102.54	101.2	100.4	99.9	98.9	98.0	97.1
JPY	142.63	140	138	135	132	130	128
EUR	1.0952	1.11	1.12	1.12	1.13	1.14	1.15
AUD	0.6558	0.67	0.68	0.69	0.71	0.73	0.74
NZD	0.6080	0.62	0.63	0.63	0.64	0.65	0.66
CAD	1.3351	1.31	1.30	1.29	1.28	1.27	1.26
GBP	1.2715	1.28	1.28	1.29	1.29	1.30	1.30
CHF	0.8743	0.89	0.88	0.87	0.87	0.87	0.86
ZAR	18.66	18.5	18.3	18.2	17.9	17.7	17.6
SGD	1.3410	1.34	1.33	1.32	1.31	1.31	1.31
HKD	7.8076	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.54	55.0	54.0	53.0	52.0	51.0	50.5
THB	34.58	34.5	34.2	34.0	33.5	33.0	32.5
MYR	4.5558	4.55	4.50	4.40	4.30	4.20	4.10
CNY	7.1695	7.10	7.00	6.80	6.70	6.60	6.50
IDR	15186	15000	14800	14600	14400	14300	14100
TWD	31.63	31.2	30.8	30.5	30.2	29.9	29.6
KRW	1299	1280	1260	1240	1220	1200	1180
INR	82.73	81.0	79.0	77.0	75.0	73.0	72.0

Activity forecasts*

	2022	2023				2024		Calendar years			
% annualised, s/adj	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	1.0	4.2	1.6	0.5	-0.5	-0.6	0.8	8.3	2.7	2.0	0.3
Dwelling investment	-25.1	-4.0	-4.1	-2.0	-3.9	-3.9	0.0	10.7	-10.6	-12.4	-1.4
Business investment	4.0	0.6	7.7	2.3	0.8	0.5	3.3	6.9	4.3	3.1	2.4
Public demand	3.8	5.0	2.6	2.0	-0.4	-0.8	-0.4	0.6	-0.6	3.0	0.0
Domestic final demand	1.0	3.6	2.5	0.9	-0.4	-0.6	0.9	6.8	1.9	1.9	0.5
Inventories contribution ppt	2.0	-2.6	0.1	0.2	-0.6	-0.2	0.6	0.2	0.7	-0.6	0.0
Net exports contribution ppt	0.6	0.6	0.1	-0.2	-0.2	-0.1	-0.1	-1.7	-0.6	0.7	-0.1
GDP	2.6	2.0	2.4	1.0	-1.2	-0.9	1.5	5.9	2.1	1.8	0.4
%yr annual chg	0.9	1.8	2.6	2.0	1.0	0.3	0.1				

Other macroeconomic variables

Non-farm payrolls mth avg	316	322	239	280	120	55	50	549	427	194	63
Unemployment rate %	3.6	3.5	3.6	3.6	3.8	4.2	4.5	5.4	3.6	3.6	4.5
CPI headline %yr	6.4	5.2	3.0	2.9	2.5	2.5	2.5	7.2	6.4	2.5	2.0
PCE deflator, core %yr	4.6	4.5	3.6	2.9	2.5	2.5	2.5	6.0	3.6	2.3	2.1
Current account %GDP	-2.7	-2.7	-2.7	-2.6	-2.6	-2.5	-2.5	-2.4	-2.4	-2.4	-2.4

Sources: Official agencies, Factset, Westpac Economics

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Europe & the United Kingdom

Interest rate forecasts

	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro area							
ECB Deposit rate	3.75	4.00	4.00	4.00	3.75	3.50	3.00
10 Year Bund	2.61	2.35	2.25	2.15	2.05	2.05	2.00
10 Year Spread to US	–157	–145	–135	–125	–115	–105	–100
United Kingdom							
BoE Bank Rate	5.25	5.50	5.75	5.75	5.75	5.50	5.00
10 Year Gilt	4.47	4.15	4.00	3.80	3.50	3.35	3.20
10 Year Spread to US	29	35	40	40	30	25	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (4 Aug)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
euro vs							
USD	1.0952	1.11	1.12	1.12	1.13	1.14	1.15
JPY	156.22	155	155	151	149	148	147
GBP	0.8614	0.87	0.88	0.87	0.88	0.88	0.88
CHF	0.9576	0.99	0.99	0.97	0.98	0.99	0.99
DKK	7.4512	7.45	7.45	7.45	7.45	7.45	7.45
SEK	11.6937	11.7	11.7	11.7	11.7	11.7	11.7
NOK	11.2083	11.2	11.2	11.2	11.2	11.2	11.2
sterling vs							
USD	1.2715	1.28	1.28	1.29	1.29	1.30	1.30
JPY	181.36	179	177	174	170	169	166
CHF	1.1116	1.14	1.13	1.12	1.12	1.13	1.12
AUD	0.5158	0.52	0.53	0.53	0.55	0.56	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	–0.1	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	0.9	0.7
Spain GDP	2.1	-10.8	5.1	5.5	2.0	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	0.5

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FORECASTS

Asia

China

Calendar years	2018	2019	2020	2021	2022	2023f	2024f
Real GDP	6.8	6.0	2.2	8.4	3.0	5.2	5.5
Consumer prices	1.9	4.5	0.2	1.5	1.8	1.0	2.0
Producer prices	0.9	–0.5	–0.4	10.3	–0.7	–2.0	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	–1.2	2.5
Imports %yr	–7.6	16.5	6.5	19.5	–7.5	–1.5	3.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (4 Aug)	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 (4 Aug)	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
JPY	142.63	140	138	135	132	130	128
SGD	1.3410	1.34	1.33	1.32	1.31	1.31	1.31
HKD	7.8076	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.54	55.0	54.0	53.0	52.0	51.0	50.5
THB	34.58	34.5	34.2	34.0	33.5	33.0	32.5
MYR	4.5558	4.55	4.50	4.40	4.30	4.20	4.10
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Source: Bloomberg, Westpac Economics.

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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	1.8	0.4
Japan	0.6	-0.4	-4.3	2.1	1.1	1.4	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**	**1.3**	**0.8**
United Kingdom	1.7	1.6	-11.0	7.6	4.0	0.3	0.5
Canada	2.8	1.9	-5.1	5.0	3.4	1.4	0.9
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	2.7	1.1	0.4
OECD total	**2.3**	**1.8**	**-4.6**	**5.6**	**2.8**	**1.2**	**0.8**
China	6.8	6.0	2.2	8.4	3.0	5.2	5.5
Korea	2.9	2.2	-0.7	4.1	2.6	1.2	2.2
Taiwan	2.8	3.1	3.4	6.5	2.5	1.2	3.0
Hong Kong	2.8	-1.7	-6.5	6.4	-3.5	4.9	3.0
Singapore	3.6	1.3	-3.9	8.9	3.6	1.6	2.8
Indonesia	5.2	5.0	-2.1	3.7	5.3	5.2	5.4
Thailand	4.2	2.1	-6.2	1.6	2.6	3.6	3.6
Malaysia	4.8	4.4	-5.5	3.1	8.7	4.2	4.4
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	5.2	6.6
East Asia	**6.0**	**5.2**	**0.7**	**7.1**	**3.5**	**4.7**	**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**	**1.6**	**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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