WESTPAC MARKET OUTLOOK SEPTEMBER 2023.

AUSTRALIA AND THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

The peak in the interest rate tightening cycle now looks to be in, policy firmly on hold in Australia and the US and peaks imminent elsewhere. That should usher in a period of relative calm policy-wise, albeit with the full impact of tightening still flowing through to the real economy. For markets, attention is turning to the timing of and extent of prospective easing. This will naturally depend on, firstly, inflation developments, and beyond that, the growth profiles and degree of slack that emerges. Around inflation, progress has again been good, headline rates tracking towards targets in most economies. The news on growth has also been a little more positive than expected, especially in the US where the risk of recession now looks to be remote.

While returning inflation to target without damaging economic downturns would be a miraculous result given the scale of the inflation challenge and the degree of monetary tightening, it poses some challenges for central banks going forward. In particular, firmer than expected growth and tighter than expected labour markets will make it more difficult to achieve the 'last leg' of a sustained return to low inflation. It also means there will be both less scope – and less requirement for – policy easing. Reflecting these developments, we have significantly pared back our forecasts for the federal funds rate over the last month, with a much slower pace of policy easing now expected in 2024. Whether these same dynamics play out in Australia remains to be seen.

This shifting medium term profile also has implications for currencies, an improved interest rate spread set to be more supportive for the USD, delaying and dampening the expected lift in the AUD. Other factors are also in the mix, particularly the situation in China and uncertainty around both policy responses and knock-on effects for commodities. While we expect this to resolve favourably, noting that commentary on China underplays many significant strengths, this depends critically on ensuring support flows from strong to weak parts of its economy and that financial risks to do not get out of hand – achieving both outcomes will require timely and deft policy action.

Australia: A sharp slowdown of the Australian economy is underway, as confirmed by the June quarter national accounts. These show consumer spending broadly flat in the period, up only 0.1%, and the overall economy growing by a subdued 0.4%. Annual output growth is forecast to slow from 2.7% for 2022 to a well below trend 1.2% in 2023, marked up slightly from 1.0% previously reflecting an upward revision to the March quarter outcome. Household real disposable income contracted for a fifth consecutive quarter, despite current robust labour market conditions, squeezed by high inflation, rising interest rate payments and additional tax obligations. Conditions are likely to remain weak during the first half of 2024, as the labour market ultimately cools and unemployment rises. Then in the second half of 2024, the economy is forecast to strengthen to around a 2% annualised growth pace, supported by an emerging easing of both monetary and fiscal policy. On balance, we expect output growth of 1.6% for 2024.

Commodities: China's headlines have been very negative with declining exports and property troubles sparking fears of a hit to resources demand. The uncertainty impacted base metal prices but iron ore and coal were unscathed, posting solid gains, and crude oil and LNG were slightly firmer on tight supply.

Global FX markets: The US dollar has recently gone against the down-trend established since September 2022. This has been the result of absolute and relative outperformance for GDP growth and despite a continued reduction in inflation and rate risks. We remain of the view that the US dollar will commence the next leg of its down-trend in coming months, with Asia to see the largest gains.

New Zealand: The economy is in a much-needed rebalancing phase with growth slowing to a below-trend pace. However, whilst off their peaks, pricing indicators still have some way to go before reaching levels consistent with inflation returning to the RBNZ's target range. The outlook is subject to a number of uncertainties but we still think that the RBNZ will likely need to take further action if it is to bring inflation down quickly.

United States: The economy has recently shown strength, particularly around consumer spending and manufacturing investment. With rising household wealth and the labour market robust, even the small technical recession previously forecast seems improbable. Instead, 2024 and 2025 are now expected to see growth a bit below trend and inflation at or modestly-above target. In such an environment, prudent policy calls for the FOMC to maintain a restrictive stance, only slowly edging the fed funds rate down to be near neutral by end-2025.

China: Market headlines continue to highlight the West's concern and apprehension over China's outlook. While we remain impressed by the new economy's growing capacity and vitality, these gains have to filter through to the rest of the economy as well if they are to underwrite the outlook. To allow this to occur, authorities must take an active role in the economy to buoy confidence and guarantee the proper functioning of the financial and public sectors. If authorities do not take action in coming months, their long-term ambitions will likely slip out of reach.

Summary of world GDP growth (year average)

Real GDP %ann*	2018	2019	2020	2021	2022	2023f	2024f
United States	2.9	2.3	–2.8	5.9	2.1	2.2	1.4
China	6.8	6.0	2.2	8.4	3.0	5.0	5.5
Japan	0.6	–0.4	–4.3	2.1	1.1	1.6	1.0
India	6.5	3.9	–5.8	9.1	6.8	6.3	6.5
Other East Asia	4.5	3.8	–2.3	4.3	4.5	3.5	4.2
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	1.9	1.2
New Zealand	3.5	3.1	–1.5	6.0	2.7	1.1	0.3
World	**3.6**	**2.8**	**–2.8**	**6.3**	**3.4**	**3.0**	**3.1**

Sources: IMF, Westpac Economics. Aggregates weighted using purchasing power parity exchange rates.
***Year average growth estimates,** the profile of which can differ from that of the 'growth pulse'.

Medium term prospects …

Another widely expected RBA pause …

The decision by the Reserve Bank Board to hold the cash rate at 4.1% at the September Board meeting was seen as a near certainty by most market commentators.

Since the August Board meeting there has been: evidence of an easing in wage pressures; some softening in the labour market; and a further fall in inflation as measured by the monthly inflation indicator. Economic activity has also continued to slow.

Timely indicators, including the Westpac-Melbourne Institute Index of Consumer Sentiment point to ongoing weak consumer spending while the June quarter national accounts printed only 0.1% for growth in household spending in the June quarter. There has also been extensive coverage of the problems now being faced by the Chinese property sector with markets generally concerned about the outlook for the economy overall.

… the Governor sounding more confident on inflation …

The shifts in the Governor's September Statement from the August Statement broadly reflected those themes. He is increasingly more confident about the inflation trajectory, noting: "Inflation in Australia has passed its peak and the monthly indicator in July showed a further decline." Commentary on the labour market was a little more relaxed: "… conditions in the labour market remain tight" – softened a touch from last month's "very tight". He also made note of risks around the China story noting: "… there is increased uncertainty around the outlook for the Chinese economy due to ongoing stresses in the property market". After the August Board meeting Westpac confirmed its view that the cash rate had now peaked and the next move would be a fall in August 2024.

… but retaining a tightening bias …

As we predicted in our pre-meeting note, despite rising confidence that the inflation target will be achieved, the statement retained the warning that "Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe". The Board will be mindful of the volatile Australian dollar and any decision to drop its tightening bias would only add further downward pressure to the currency.

… mindful of downward pressures on the AUD.

It is already dealing with the uncertainties in China while many market participants, ourselves included, remain uncomfortable with the official forecast for inflation to only reach 2.8% by end 2025 – only just within the band nearly three and a half years after the tightening cycle began. Not aiming for the middle of the target band after such a long run of above-the-band inflation outcomes has drawn many critics. Westpac has recently lowered its trajectory for the AUD to take these issues into account.

We now see a slower rate cut path for the US FOMC …

We have also revised our view on the extent of the easing cycle for the Federal Reserve. We still expect it will begin in March next year and extend well into 2025. Due to some upward revisions to our growth forecasts for the US we now expect the FOMC to cut the federal funds rate by 100bps in 2024 compared to our previous expectation of 175bps.

… and a more favourable spread vs Australian rates …

We have not changed our forecast that the RBA will be cutting the cash rate by 50bps in 2024, meaning that the interest rate differential between US and Australia will favour the US by an additional 75bps relative to our previous forecast.

… that will delay and restrain the expected AUD rally – our Dec-2024 target lowered from USD0.74 to USD0.70.

We continue to expect a lift in the AUD in 2024 to mark a more constructive outlook for China; rate cuts from the Federal Reserve as it achieves its inflation target by mid year; and a more confident overall global growth outlook boosted by the Fed's rate cuts. But the lift in the AUD we expect in 2024 of US6¢ has been revised back to US4¢. We have also lowered our end 2023 target for AUD to USD0.66 from the previous USD0.68. Consequently our end 2024 target for the AUD has been lowered from USD0.74 to USD0.70.

US bond rates firmer but response to cuts uncertain …

To reflect the higher path for the federal funds rate we have lifted our forecast for US bond rates with the end 2024 target now 3.4% up from 3.0%. It is reasonable to expect support for the bond market during a Fed easing cycle. But the shape of the US yield curve poses genuine uncertainty at to how the US bond market might respond to these cuts.

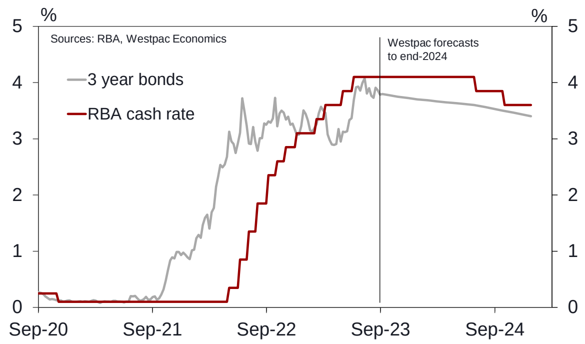
… risk that bond markets fail to rally despite easing cycle.

Historically, the peak in the federal funds rate broadly equates to the peak in the bond rate but in this cycle our expected peak is around 100bps below the cash rate. The risk to bond rates is that bond markets fail to rally even with the expectation and realisation of a Fed easing cycle. The stakes are high. Adopting this view would see US long bond rates above 4.6% by end 2024 compared to our forecast of 3.4%, which itself has been revised up from 3.0% to take account of a less aggressive easing cycle.

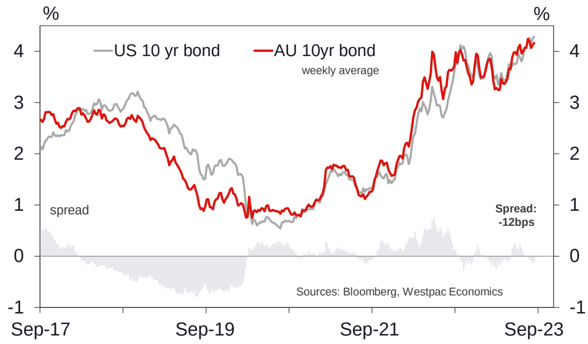
Bill Evans, Chief Economist

… shift as slower rate cut path looks likely for FOMC

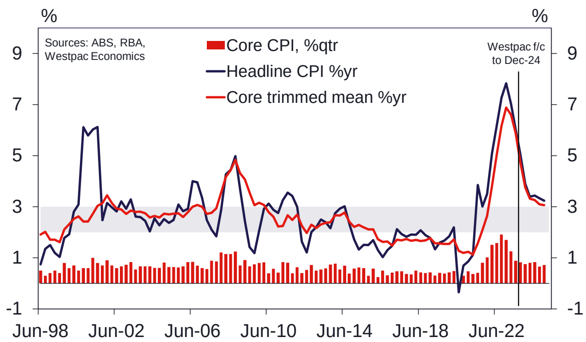
RBA cash rate and 3 year bonds



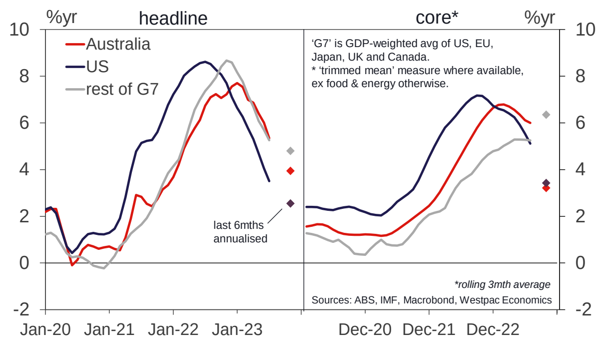
10 year bonds yields: a negative spread



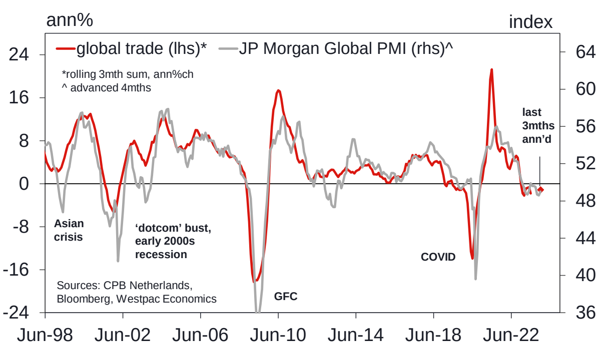
CPI inflation



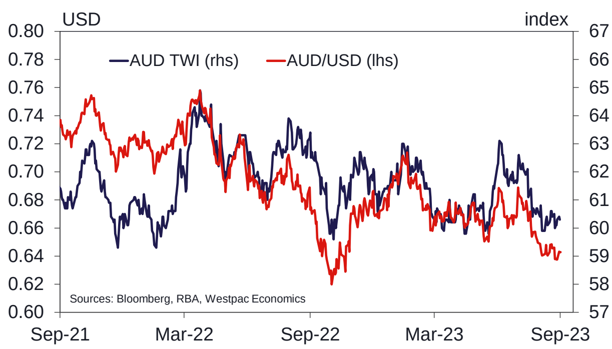
Global inflation showing signs of peaking



Global trade contracting



AUD/USD & AUD TWI



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

Growth slows to a crawl …

The economy grew by a subdued 0.4% in the June quarter …

The Australian economy expanded by 0.4% in the June quarter with annual growth slipping from 2.4% to 2.1%. That was in line with our expectations particularly in light of the partial data we had seen leading up to the announcement. However, the March quarter result was upgraded from 0.2% to 0.4%.

After reviewing our forecast for GDP growth in 2023 we have lifted our forecast for 2023 from 1% to 1.2%, mainly reflecting the March quarter upgrade.

… constrained by broadly flat consumer spending.

Apart from that we see no reason for any further changes to the GDP forecasts for 2023. Household consumption growth is set to print at 0.3% for both the September and December quarters. This ongoing insipid consumption growth reflects contracting real disposable income as the rising cost of living; an increasing tax burden and higher mortgage rates weigh on households.

Household real disposable income contracted again …

Over the course of the next year to June 2024 we expect consumer spending will grow by only 0.8% even as interest rates are expected to remain on hold. Average mortgage rates are set to rise further as cheap fixed rate loans mature and move on to much higher variable rates. While this profile reaches its highest intensity in the second half of 2023 there will still be more modest increases in average rates in the first half of 2024.

The RBA's recognition of this insipid growth over the year to June 2024 is one factor supporting our call that the first rate cut will come at the August meeting.

… declining for a fifth consecutive quarter, despite labour market resilience …

In recognition of the current resilience of the labour market we recently revised up our profile for employment growth in the second half of 2023, boosting household income growth and consumption. We saw no reason for any further upward revision and also maintain our expectation that the labour market will weaken in the first half of 2024 (–0.2% employment growth compared to 0.6% growth in the labour force and a rise in the unemployment rate from 3.7% to 4.5%).

… squeezed by high inflation, higher interest rates and additional tax obligations.

That expected deterioration in the labour market will also resolve some of the mismatch between hours worked and output as firms finally pare back employment in the face of weak productivity and profitability. That weakening will slow the growth in labour income weighing on consumer spending while the pressures from higher rates and rising tax burden will continue.

We have lifted our forecast for output growth in 2024 from 1.4% to 1.6% due to a modest uplift in growth in the second half.

Output growth is set to be well below trend in 2023 …

We confirm our expectation that consumer spending will slow to 0.1% per quarter in the first half of 2024, on an expectation that household incomes will remain under pressure. As we have seen in the US, a potential upside risk to this view is if the labour market holds up in 2024, thereby providing more support to incomes and consumption.

… expanding by a forecast 1.2%, including consumer spending up just 1.0%.

We assess that prospects for the second half of 2024 are likely to be more constructive, supported by policy easing and with the labour market expected to stabilise around an unemployment rate of 4.5%. We have revised up our forecast for household spending in the second half of 2024 from 0.7% to 0.9%, reflecting an upgraded view on the positive impact on consumption of the introduction of the Stage 3 income tax cuts; the beginning of the RBA's rate cut cycle; and some potential for further fiscal stimulus.

Emerging policy stimulus, from mid-2024, will drive a recovery …

For businesses, the June quarter national accounts revealed a significant deterioration in profitability. This was in the broader context of a downturn in national income. Recall that as global commodity prices climbed to record highs in mid-2022, Australia's annual nominal GDP growth accelerated to 12% in the June quarter 2022 and was still elevated at 9.5% in the March quarter 2023. However, with commodity prices receding from their highs, the terms of trade fell by 7.9% in the June quarter 2023 and nominal GDP contracted by 1.2% in the period, such that annual growth slowed to 3.6%. Company profits took a big hit, contracting by 8.6% in the June quarter, to be 6.8% below the level of a year ago. Falling company profits went beyond the mining sector, with non-mining profits reportedly down by around 5% in the latest quarter.

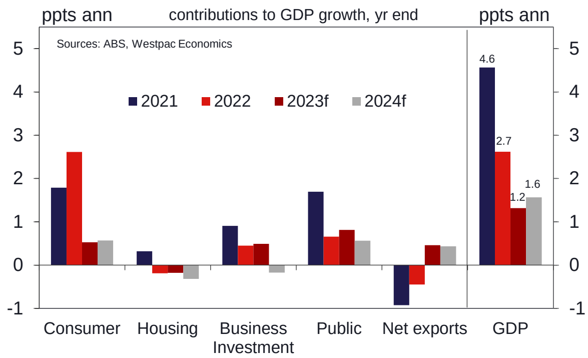
… with growth for 2024 forecast to be 1.6%.

Businesses are expected to respond to the ongoing soft demand conditions and deteriorating profitability with a substantial slowing in plant and equipment investment in the second half of 2023 and first half of 2024. Over the year to the June quarter 2024, plant and equipment investment is expected to contract by 13% following a lift of 6.3% in the year to June 2023. Overall, business investment is forecast to contract by 2.7% in the next four quarters, with the drag from equipment being partly offset by solid conditions in infrastructure (+5.4%) and commercial building (+3.3%).

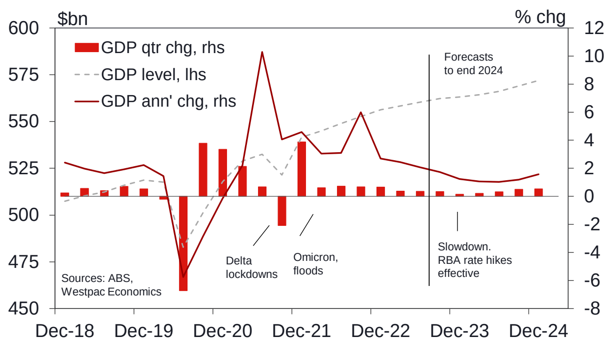
Bill Evans, Chief Economist

... as consumer spending stalls and company profits fall

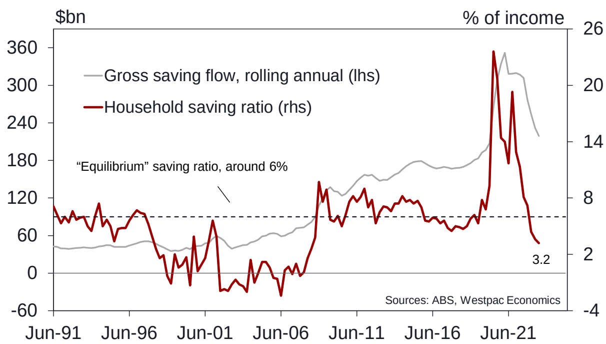
Australia: the growth mix



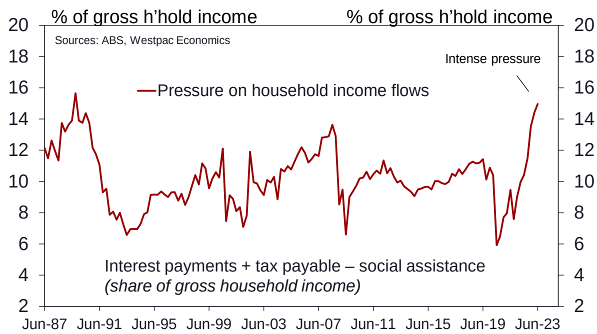
Australian economy: sharp slowdown underway



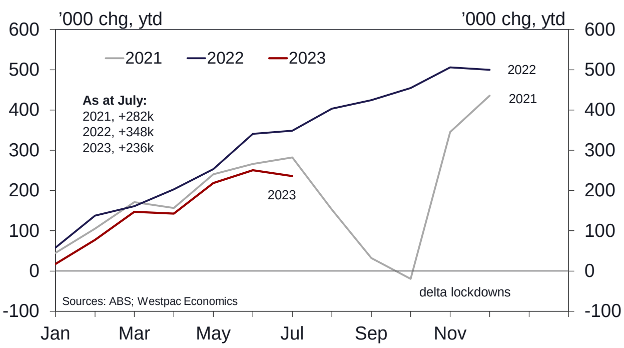
Household saving ratio and gross saving flow



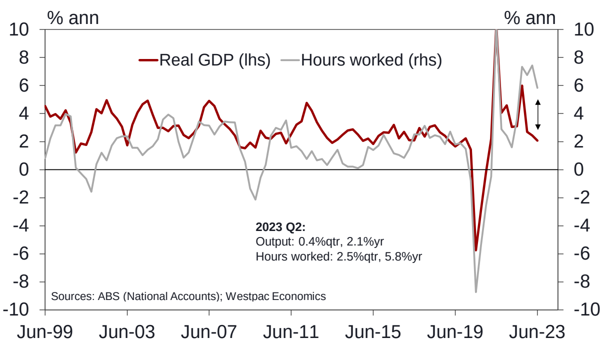
Pressure on household income flows



Employment paths: strength in 2023 H1



Output and hours worked: productivity hit



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RBA working to incorporate climate change ...

Climate change and the transition to net zero ...

The impact of climate change and the transition to net zero emissions raises many questions, not least of all about what both will ultimately cost and impact the economy. At the annual Melville Lecture in Canberra the RBA Governor-in-waiting, Michele Bullock outlined some thoughts on how these issues might influence the Australian economy and what considerations the RBA would give in responding to its effects (see Climate Change and Central Banks).

... will impact the economy, society and thus monetary policy.

In the following we summarise the main points as well as adding some thoughts of our own inspired by the speech. It was an important speech outlining the concerns of the RBA, the potential impacts of both climate change and the remedial action to limit the impact of climate change on: prices (including asset prices), economic activity, financial markets and monetary policy. It also covered current research being conducted by the RBA and the resources it is allocating for future research on these issues. What the speech did not address, which is perhaps the climate change elephant in the room, was the potential impact on government fiscal positions.

There will be the usual supply shocks, structural changes and uncertainty a central bank deals with ...

The main conclusion was that these issues have significant implications for monetary policy and financial stability. Some of these are the usual sort of economic issues the Bank encounters with supply shocks, structural change and uncertainty. But climate change also presents new issues such as heightened uncertainty about exactly how the climate will change and how this, and our responses, impact the economy and the financial system. In addition, climate change is occurring over a prolonged period, and there is significant uncertainty around the evolution of technology as well as the speed of adaptation by climate, economic and social systems.

... but also new challenges of heightened uncertainty ...

The global climate is already changing. Recent years have been warmer than any multi-year period on record. The frequency of extreme heat and intense rainfall events has also risen leaving many regions more susceptible to the risk of drought and flood. The projections are not promising either, suggesting that the frequency of these events will continue to increase. In response there is increasing global action to reduce greenhouse gas emissions and these actions are not independent of economic outcomes. Climate change, and the actions taken in response, have broad implications for economic activity, the stability of the financial system and our society. The speech identified two main categories of risk from climate change:

Physical risks – the direct impact of extreme weather events.

Transitional risks – the negative impact of the actions taken in response to climate change. These can be the actions taken as well as adaptive responses to climate change itself.

... about the form and nature of impacts and responses.

Many of the physical and transitional developments will, at least for the near term, affect the supply side of an economy and while monetary policy works by influencing demand and expectations, supply side developments will also need to be considered. Just as we saw during the pandemic, working through the demand side does not mean monetary policy does not have a role to play. In addition, it is not just the short-term effects on supply that matter, but also the possible longer-term impacts on potential output – policy measures that contain inflation near term may inhibit the investment required for both transition and expanding capacity more generally. This can also influence where the neutral real interest rate is seen, thus altering what could be considered an appropriate stance for monetary policy.

Many effects will have a bearing on inflation outcomes ...

The RBA expects that many of the **physical effects** of climate change can be treated as a negative supply shock, effects that are normally looked through, especially in the short-term. However, should these shocks become more frequent, severe or protracted, prices could become more volatile and rises sustained for longer. Prices could also push higher for longer if climate change affects productive capacity (e.g. through the loss of arable land). All of this could in turn affect inflation expectations which would also materially impact monetary policy formation.

Mitigating climate change presents significant **transition risks**. Policies to reduce emissions – and the huge investment that will be required – will inevitably impact prices both directly and via the structural changes that will see some economic activities become unviable in a low-carbon world while others rise to take their place. The RBA does not believe it has a role in driving the transition. Rather, it sees its role as a tool to maintain stable long-term inflation expectations. This can be done via the current process of setting policy based on an inflation target while not overreacting to short-lived price shocks.

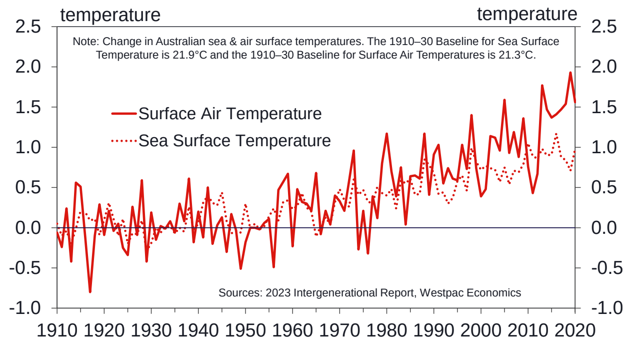
... and may shift both potential output and where the neutral interest rate sits.

Some of the biggest challenges relate to assessing how climate events and the transition to net zero affects potential output and where the 'neutral interest rate' sits. Climate change has the potential to affect both supply and demand drivers of inflation. Relative price changes due to mitigation policies could also render some of the capital stock obsolete, reducing supply until that capital stock is replaced. On the other hand, the investment in new capital stock associated with low emissions output is likely to see significant technological advances, boosting productivity and adding to potential output. For further discussion see "The RBA and Climate Change".

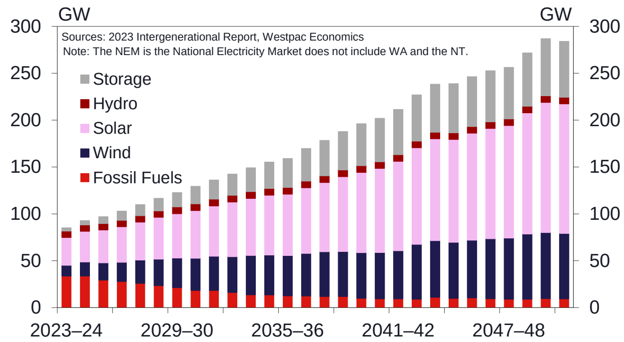
Justin Smirk, Senior Economist

… into its thinking

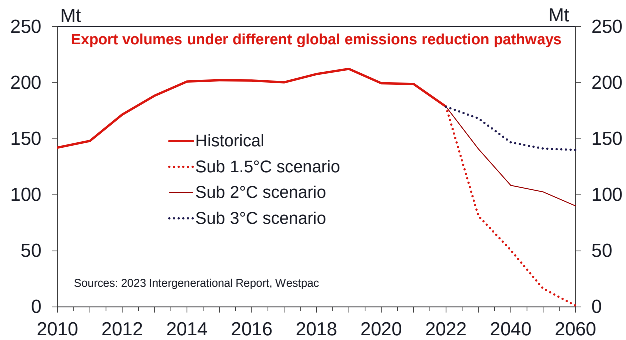
Average sea & air surface temperature



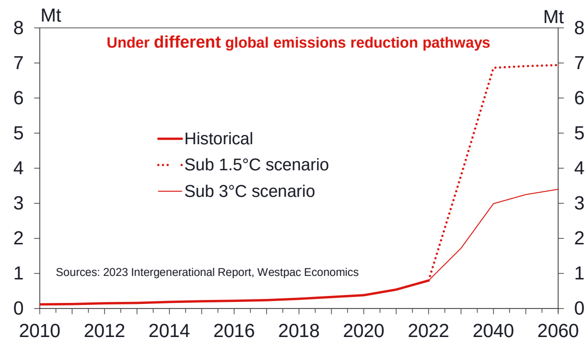
Generation Capacity in the NEM



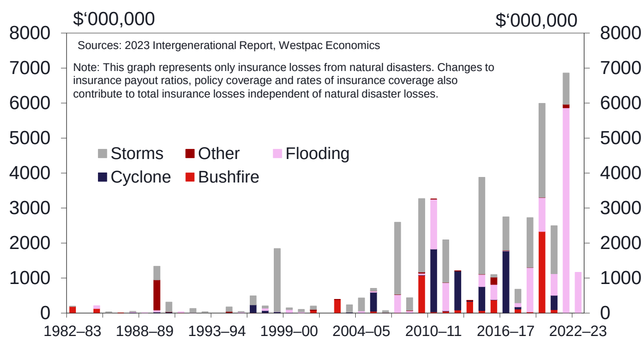
Potential demand for Australian thermal coal



Potential global demand for refined lithium



Normalised value of insured losses



Global scenarios

	Economic Transition Scenario (ETS)	Net Zero Scenario (NZS)
Description	**No concerted policy effort**, purely driven by changes in the cost-based competitiveness of technologies	**A concerted global policy response** designed to achieve net-zero emissions and under 2.0°C by 2050
Assumptions	Transition only occurs where it outcompetes existing technologies or lowers system cost	Neither historical responsibility nor availability of finance is taken into account
Temperature	2.6°C rise by 2050	1.77°C rise by 2050

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Chinese property may grab the headlines ...

China's headlines have been very negative with declining exports ...

There has been increasing concern about the Chinese economy and the negative impact this could have on commodities demand. As we note in this month's report (see p18), there is a crisis of confidence in China as exports to the US and EU weaken and the outlook for property remains a significant concern. However, as we have argued for some time, this needs to be assessed in the context of rise of the new economy which has huge potential to lift economic growth, and with it, the demand for commodities. We do not, however, want to downplay the risk the poor health of the financial sector poses to the broader Chinese economy or the need for the administration to respond fairly quickly.

... and property troubles sparking fears of a hit to resources demand ...

Given this assessment we are not that surprised by the ongoing strength in commodities markets. Our broadest index is up 5% in the last month led by a 10% rise in iron ore prices, an 11% rise in met coal and a 16% increase in thermal coal. And while base metals are softer, down around 3% with copper slightly softer, crude oil is up 6% while LNG has lifted 3%. As global risks subside, and the US dollar holds on to its strength, gold prices are down 1% in the month. The correction in softs/agricultural commodities post the Ukrainian invasion surge continues, with Australian softs down almost 6% in the month to be down a bit more than 16% over the year.

... with the resulting uncertainty impacting base metal prices ...

Chinese steel production has been trending down since the post-COVID surge drove production to a record peak in early 2021. However, through 2022 and into 2023 production can be best described as moving sideways with some volatility – the apparent down-trend since early 2021 having more to do with an unwind of the surge up to the record high peak rather than an on ongoing weakening trend since the correction.

... but iron ore and coal were unscathed, posting solid gains ...

In their latest update, BHP said it's seeing "solid demand from infrastructure, power machinery, autos and shipping, offsetting weakness in new housing starts and construction machinery." In addition, we know that while local governments have slowed spending due to increasing financial strains, the central government investment in infrastructure has continued. Investment in railways is up 25% year-on-year in the first seven months of this year, adding to the demand coming from machinery manufacturing (up 15%) and motor vehicle output (up 12%). So, while demand for long steel products (used predominately in construction) is expected to fall around 1.7% this year, demand for flat products (used predominately in manufacturing) is set to see a 3% increase. It has also been reported that demand for heavy plate, which is used in the manufacture of ships, bridges and wind turbines, is up more than 8% in the first five months of 2023.

... and crude oil and LNG were slightly firmer on tight supply.

Iron ore supply peaked in mid-2020 with a surge in imports driven by an increase in supply from Australia. Since then, total imports have fallen back to levels seen in late 2019/early 2020 and while they have been trending higher since the first half of 2022, they are still to exceed those earlier levels let alone the record peak. Meanwhile, the best we can say about Australian supply is that it is only just matching the 2%yr trend pace held since late 2014 while supply from elsewhere has disappointed and is well below trend. With the market matching soft demand growth with only modest gains in supply, there has not been a significant build up in iron ore inventories. Outside of January, inventories at Chinese ports have fallen every month this year and at July were down 6½% leaving the ratios of inventories to imports and to crude steel production at 1.4 and 1.5 respectively – cyclically low numbers that are more consistent with a market in balance rather than one that is oversupplied.

OPEC+ is back in the box seat and able to manage both supply and prices.

Saudi Arabia and Russia have announced that they will extend their voluntary production cuts (of 1mb/d and 0.3mb/d respectively) through year-end. The announcement went further than many in the market had expected, as demonstrated by the rally in the spot prices, and spreads, that it triggered. The decision to announce a three-month extension rather than just another one-month rollover does make it clear that Russia and the Kingdom remain committed to rebalancing the market. It is unlikely we will see any tapering of these cuts before early 2024, which means a tighter than expected market in the last quarter of 2023 and the first quarter of 2024. We think this action will stabilise the market rather than lead to a further sustained rally in crude prices, as while Saudi Arabia and Russia are keeping physical supply in check, this has not been showing up in falling inventories around the world. US crude inventories may be at their lows for the year, but this is just in line with a usual seasonal pattern rather than indicating a new trend lower. As such we have held to the view of volatile near-term moves before a more sustained, if gradual, rising trend emerges in the second half of 2024.

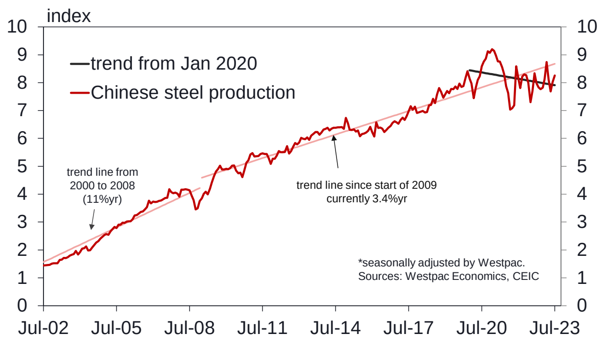
Domestic gas prices eased to around $10/gj from a peak of $50 in May.

The volatility in crude oil prices has been echoed in the LNG market with Australian LNG prices down around 42% since peaking in September 2022. The recent lift in crude oil prices had helped to provide a base for LNG and we expect prices to continue to firm heading into 2024. Australian domestic gas price peaked at $50/gj in May 2020 before easing back to low of around $7/gj in March this year. We did see a brief rally up to $20/gj in May, but this was not sustained with prices soon falling back to the $12/gj cap the Commonwealth Government has imposed on domestic gas prices. Australian domestic gas is currently trading at $10/gj.

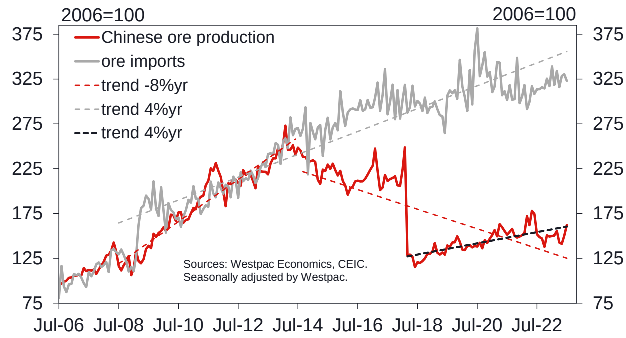
Justin Smirk, Senior Economist

... but there is more to China when it comes to commodities

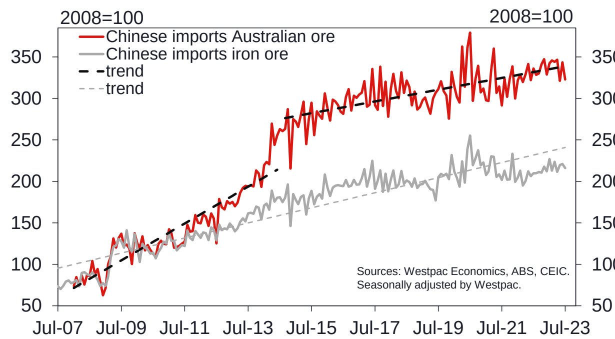
Chinese steel production has flattened



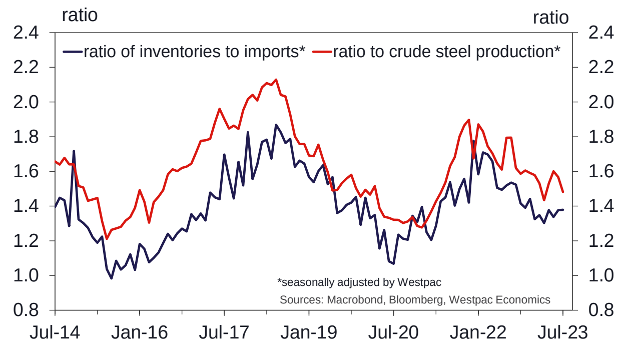
Chinese ore imports in a modest recovery



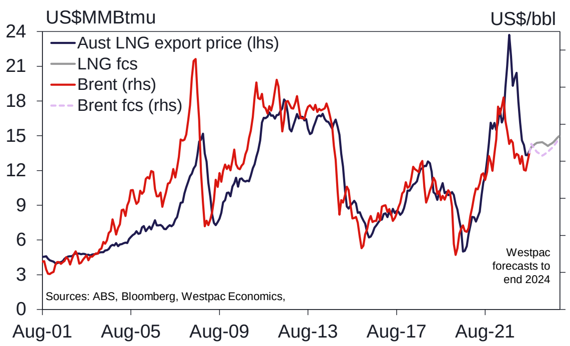
Chinese imports from Australia peaked in 2020



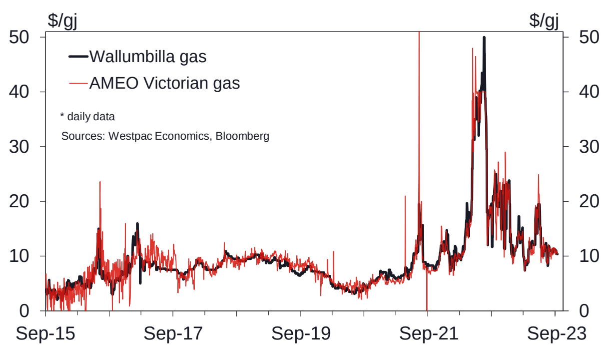
Chinese ore inventories at ports



Japanese LNG & Brent crude oil



Aus. gas spiked in May but holding ~$10 since



US economic resilience ...

The US dollar has moved against its established downtrend this month ...

Against the structural trend present since September 2022, the US dollar rallied over the past month, the DXY index rising from 102.5 as August's Market Outlook went to press to 105.1. Currently at 104.6, it is 8% below September 2022's peak but 10% above our end-2025 target.

Driving the recent move were expectations for the US. Like Westpac, increasingly the market is recognising diminishing downside risks for their economy. This is principally due to enduring labour market strength, the unemployment rate only rose in August because of higher participation, and households continuing to spend and invest robustly out of ordinary income.

... as data surprised on an absolute and relative basis.

Significant in its own right, these developments have held greater importance for FX markets as expectations for the US have firmed while those for Europe soured. Arguably, anxiety over China's economic outlook has eased slightly, but investor concern is still acute.

Also critical to the immediate outlook for the US dollar are relative price and interest rate dynamics. While US inflation continues to decelerate towards the FOMC's 2.0%yr target and market participants price a less than 50% chance of another 25bp hike before meaningful rate cuts in 2024, inflation is still arguably a supportive influence for the US dollar. This is because price pressures elsewhere are also abating, while capacity in the US remains tighter than key DXY jurisdictions including Europe, the UK and Japan. Indeed, the GDP path we now see as most probable for the US, growth modestly below trend through 2024 and 2025 and the absence of even a small technical recession, justifies a belief that inflation will be difficult to keep near 2.0%yr over the forecast horizon, requiring policy to remain restrictive for longer.

Absent recession, the FOMC is likely to ease slowly ...

From 5.375%, we see the first fed funds rate cut occurring in March 2024 (unchanged from the prior profile), but thereafter only a steady grind lower to 3.375% end-2025 compared to our previous forecast of 2.625%. Assuming US inflation stabilises around 2.5%yr in 2025, a nominal policy rate of 3.375% implies a real fed funds rate of 0.875% at the end of the forecast window, some 40bps higher than our and the FOMC's expectation of 'longer run' neutral. This speaks to modest downside risks to growth over 2024 and 2025 which we have incorporated into the interest rate profile via a negative cash/10-year spread at the end of the forecast period.

... although in time this should still see the US dollar fall materially.

Still, these end points for the real fed funds rate and 10-year yield are materially below current levels. And the change over the period is greater for the US than Europe, the UK and Japan. So it is appropriate to expect the US dollar to once again begin a slow descent in coming months, back to around 100 on a DXY index basis mid-2024 and 95 by end-2025 – a 10% depreciation in total.

From its very weak starting point, Yen is likely to appreciate the most ...

Of the DXY pairs, the Yen is likely to see the greatest appreciation versus the US dollar, circa 15% from today to end-2025 as the Bank of Japan takes the opportunity afforded by a benign global economic backdrop to slowly partially normalise monetary policy. Still, JPY125 at the end of the forecast horizon compared to an average of JPY112 over the 5 years before the pandemic signals that we expect Japan to remain an outlier vis a vis monetary policy and to also receive only a modest dividend from improved global growth.

... while domestic uncertainties hold back gains for Canada's dollar ...

Following the most recent Bank of Canada meeting, the CAD strengthened on a hawkish pause. However, uncertainty over the domestic drivers of GDP growth and the currency will likely restrict further gains, at least until the US also slows in 2024. That said, Canada's position as an oil exporter should aid its currency given elevated oil prices and output cuts by other producers.

... and the UK's Sterling.

Sterling appreciation is also likely to be held back by domestic factors, ending 2025 at USD1.31 against a pre-pandemic average of USD1.35 as an elongated hiking cycle to combat strong wage growth is offset by the side-effects for GDP growth of persistent elevated inflation. Europe should meanwhile find itself in a better position given its strong labour market, improved co-ordination amongst authorities, and an intent to build-up industry to leverage the global green transition. While the Euro averaged USD1.12 through 2015-2019, we see Euro at USD1.17 by end-2025. A 'higher for longer' narrative emerging in Europe as a result of sticky core inflation could also aid Euro, but only if the consequences for growth are minor.

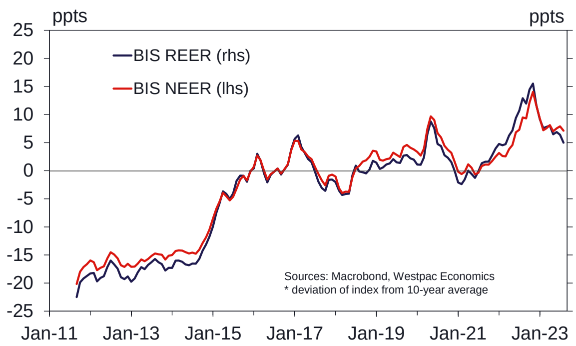
Renminbi is also set to gain, USD/CNY to align with the TWI –– eventually.

Finally, a lot has been made of the Renminbi's weakness over the past month, USD/CNY rising to CNY7.34. This move highlights the lack of western confidence in China's outlook, favour that will be hard to win back. But, as we consider the medium term, we must separate Renminbi weakness related to sentiment and the economy. Notably, at 97.8, the Renminbi TWI (the CFETS index) is only at the low end of the 97-104 range traded since mid-2021; it is also 3% above the CFETS average from 2016-2019. Sentiment aside, the Renminbi's economic foundation is resilient, if not on the rise. We expect this reality to be made clear in time.

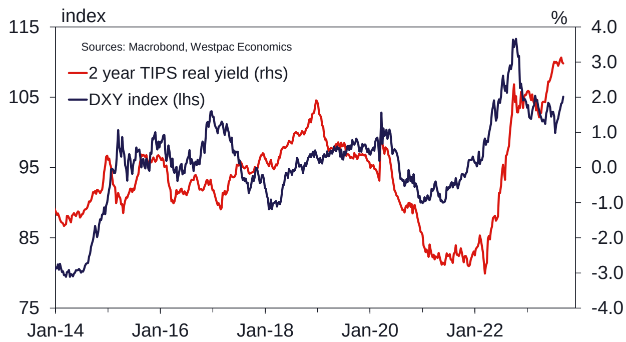
Elliot Clarke, CFA, CAIA, Senior Economist & **Illiana Jain, Economist**

… skews USD risks higher

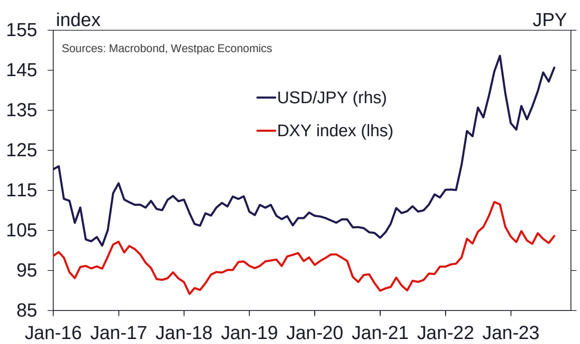
USD historically elevated on broad basis



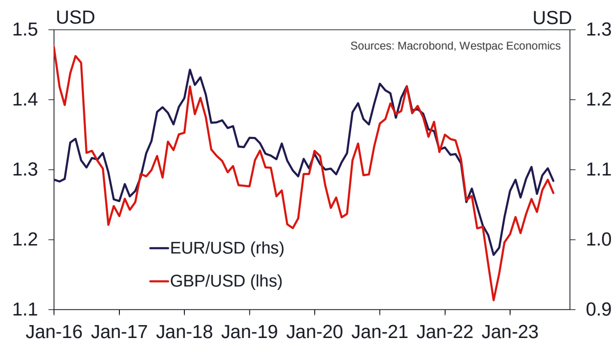
US real yields a strong support for USD



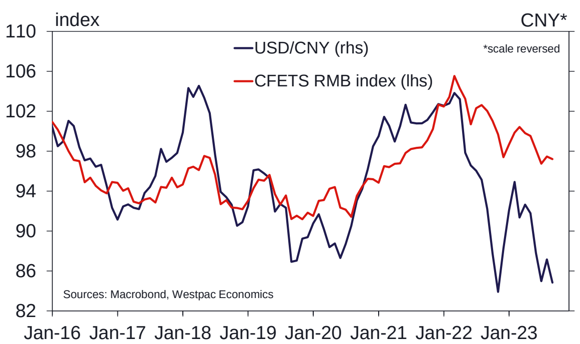
JPY weakness unlikely to fully reverse



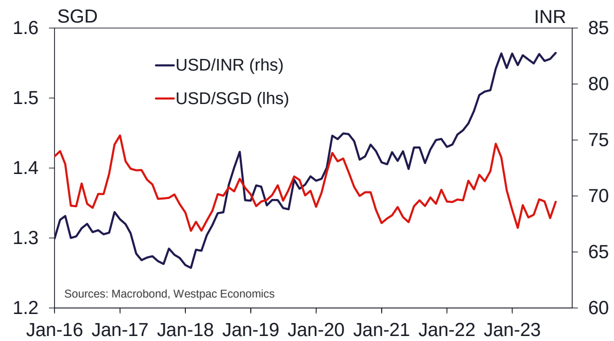
But EUR negatives should fade in 2024



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



RBNZ to hold again in October ...

The economy is beginning to rebalance...

Since the last **Market Outlook** we have published our updated outlook for the New Zealand economy. The themes in that report were quite similar to our previous quarterly update, and centre on the need for the economy to rebalance.

... but the road ahead could be bumpy.

Propelled by the lagged impact of substantial monetary and fiscal stimulus, and the reopening of the international border, the economy rebounded very strongly last year, with domestic demand far outstripping productive capacity and the unemployment rate falling to extreme lows. So with supply chain issues also in play, inflation rose to a three-decade high. Appropriately, the RBNZ responded with aggressive monetary policy tightening and the economy has since begun to slow. But the path ahead seems likely to be bumpy, especially given that fiscal policy consolidation is also likely to be a key theme over the years ahead.

Over the past month there have been further signs of a slowdown in the interest rate sensitive sectors of the economy. Retail sales have been especially soft, falling in both nominal and real terms over the first two quarters of this year despite strong growth in wage incomes and rapid population growth. With company profits under pressure – as evident in tax receipts – import data is now pointing to an impending decline in business capex. Dwelling consent issuance has also declined, although the slowdown has flattened of late and consents remains high by historical standards.

The housing market continues to show signs of life.

The latter follows clear signs of improvement in the housing market. With migrant inflows driving population growth towards its fastest pace in six decades, the number of monthly house sales have lifted decisively off last year's lows. Moreover, the prior steep downward correction in house prices also appears to have ended, with prices nudging modestly higher in recent months. And with migrant inflows also allowing employers to fill longstanding vacancies, employment has continued to grow despite the general slowdown in the economy.

Business sentiment indicators have been mixed.

The mixed performance of the economy is reflected in confidence and sentiment indicators. The BNZ-BusinessNZ composite index has fallen sharply and is pointing to an economy that is struggling to keep its head above water. By contrast, the ANZ's business survey has reported a pick-up in headline business confidence and key indicators of future activity. The latter may reflect a perception that the peak in the interest rate cycle has been seen. The pick-up in the housing market has clearly boosted sentiment in the construction sector. However, sentiment remains downbeat in the farm sector, reflecting very weak export commodity prices.

Consumer sentiment remains weak.

Consumer confidence remains down in the dumps, with the most closely watched indicators still sitting close to historic lows. While the labour market has remained resilient and incomes have grown, inflation has sapped spending power and mortgage refinancing is continuing to weigh on disposable incomes.

There are a number of uncertainties on the horizon.

There are a number of risks on the horizon. Notably, exporters – especially in the primary sector – face uncertainty about the outlook for demand and prices, with China's post-pandemic rebound continuing to disappoint expectations and restrictive monetary conditions restraining demand in other major trading partners. In the near term, the impending General Election on 14 October adds an additional source of uncertainty, with political polls indicating that the result is too close to call.

Inflation indicators are moderating ...

Various indicators of inflation pressures have generally continued to moderate over the past month. For example, the latest ANZ business survey reported that the proportion of firms expecting to raise selling prices had fallen to the lowest level since December 2020. However, this indicator – and many others – remains high by historical standards and continues to sit at levels that are not yet consistent with inflation moving back inside the RBNZ's inflation target. As a result, we remain concerned that inflation may not fall as quickly as the RBNZ has forecast, with the risk that elevated inflation becomes embedded in wage and price setting expectations.

... but further monetary tightening remains likely.

We think it is unlikely that the RBNZ will adjust policy settings at the next meeting on 4 October. But ahead of the subsequent release of key CPI and labour market reports, we continue to forecast that at its November meeting the RBNZ will feel compelled to act on the slight tightening bias indicated last month. And we continue to think that policy easing remains at least a year away, absent a very material weakening of both economic conditions and the inflation outlook.

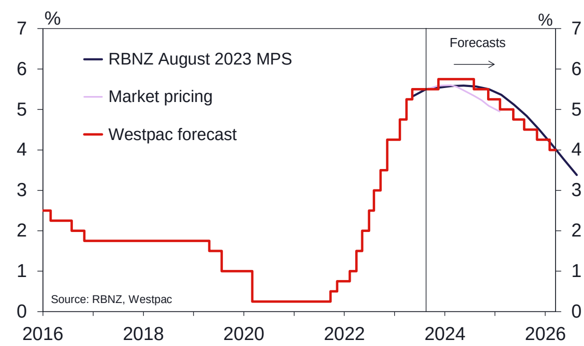
Local pressures pose downside risks to NZD, at least on the crosses.

While the medium-term outlook for the NZD hinges largely on the outlook for the US dollar – which we expect will weaken as the Fed's easing cycle moves closer into view – we think that the Kiwi remains vulnerable on the crosses. Indeed, we continue to expect that the NZ dollar will weaken against the Australian dollar over the next 12 months, as the RBNZ's easing cycle draws nearer – withdrawing some interest rate support – and as New Zealand's much less favourable current account position attracts greater attention.

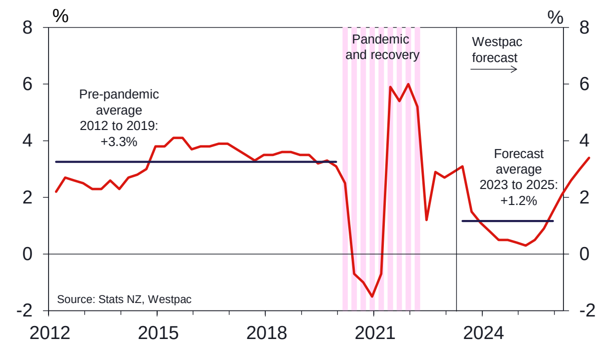
Darren Gibbs, Senior Economist

... but a hike is still likely before year end

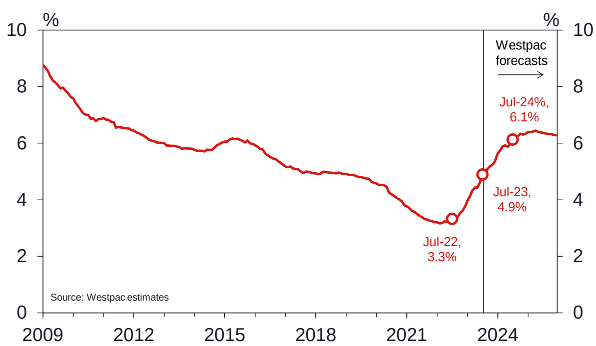
Official Cash Rate forecasts



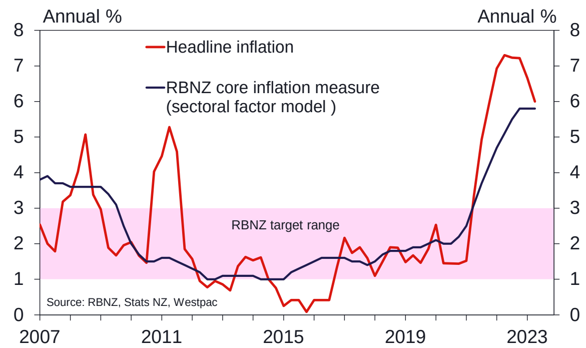
GDP growth (annual average)



Effective mortgage rate



Inflation



	2022				2023							
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
REINZ house sales %mth	–2.9	–3.1	–6.5	–6.6	6.4	–2.0	12.4	7.7	3.5	3.6	–7.6	–
Residential building consents %mth	3.0	–10.5	6.1	–7.6	–6.3	–7.2	6.5	–2.5	–2.4	3.4	0.0	–
Electronic card transactions %mth	2.0	1.0	–0.7	–1.4	3.5	–1.4	2.5	0.7	–2.2	1.2	–0.9	–
Private sector credit %yr	5.6	5.1	4.9	4.6	4.2	3.8	3.6	3.3	3.0	3.0	2.7	–
Commodity prices %mth	–0.6	–3.4	–4.0	–0.2	–1.1	1.4	1.3	–1.7	0.4	–1.7	–2.6	–2.9
Trade balance $m	-679	-1647	-1653	-1037	-1560	-1424	-1905	-1352	-966	-706	-1400	–

Quarterly data	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**
Westpac McDermott Miller Consumer Confidence	105.2	107.1	102.7	99.1	92.1	78.7	87.6	75.6	77.7	83.1
Quarterly Survey of Business Opinion	5	22	10	–1	–6	–1	2	–14	–10	–13
Unemployment rate %	4.6	4.0	3.3	3.2	3.2	3.3	3.3	3.4	3.4	3.6
CPI %yr	1.5	3.3	4.9	5.9	6.9	7.3	7.2	7.2	6.7	6.0
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	–2.5	–3.2	–4.5	–5.7	–6.5	–7.7	–8.2	–8.7	–8.2	–

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

Success with inflation to prove ...

Currently, US growth prospects are firming as inflation risks dissipate.

The US economy is producing conflicting signals. On the one hand, the labour market is cooling, and with it wage and consumer price inflation. Against this trend, consumer demand is experiencing a summer resurgence, household wealth is rising and, spurred on by the Inflation Reduction Act and manufacturing reshoring, businesses are investing in new capacity. For the FOMC, the case to raise interest rates further is dwindling, but the medium-term debate rages on.

We expect inflation to soften enough ...

We remain of the view that the rate hike cycle is complete and that the first cut will most likely come in March 2024. Thereafter, progress will be slow, with the fed funds rate likely to settle at 3.375% by end-2025, around 90bps above the FOMC's 'longer-run' expectation of 2.50%. This compares to our prior forecast which saw the fed funds rate at 3.625% by end-2024 and 2.625% by June 2025. The forecast decline in the 10-year yield now starts later and is shallower, the rate at end-2023, 2024 and 2025 now 4.10%, 3.40% and 3.10%, versus 3.60%, 3.00% and 2.70% previously.

Beginning with the immediate outlook. At an average of 150k in the three months to August, nonfarm payrolls growth is now close to the 100k pace the FOMC view as consistent with balance between labour demand and supply. We should also note that the household survey continues to point to a significant share of the population having two or more jobs, raising questions over whether the 100k guide is too low. And, as we have long anticipated, with the population now resigned to living with COVID-19, the participation rate continues to rise back to its pre-pandemic level, increasing the supply of labour ahead of population growth. This is why in August, the unemployment rate rose from 3.6% to 3.8%. And, on a 6-month annualised basis, hourly earnings growth has eased to 4.0%, just above the 3.0%-3.5% pace the FOMC desire.

... to justify a first rate cut in March 2024 ...

At 3.2%yr in July 2023, annual headline inflation is now roughly a third of its June 2022 peak of 9.1%yr. Moreover, at its current weight and pace, the shelter component is responsible for the equivalent of approximately 80% of current annual inflation. This is a critical point for two reasons: 1) shelter's leading indicators point to an abrupt reduction in its contribution in coming months; and 2) high interest rates are more likely to sustain shelter inflation than dampen it, with increased housing investment necessary to sustainably increase supply and restrict rents.

... but the balance of risks will limit the pace of cuts through to end-2025 ...

On our current forecasts, before their March 2024 meeting (when we expect the first cut) the FOMC is likely to be facing an economy with: annual inflation of 2.5%yr, on its way towards 2.0%yr; an unemployment rate circa 4.0%, albeit likely with annual wage growth still close to 4.0%yr; and GDP growth materially below trend, around 1.0% annualised both in Q4 2023 and Q1 2024.

... as cyclical momentum turns and capacity remains constrained.

Through late-2024 and into 2025 however, a different picture is set to emerge. With the unwinding of the pandemic supply chain shock over and the US re-shoring some of its global production chain, goods inflation is likely to begin to lift once again, even if we were to see a small technical recession. Limited commodity supply and the scale of investment required to support the global green transition will also assert as a structural support for consumer inflation. And, as noted above, restricted housing supply and a growing, gainfully employed population seems likely to yield above-average rent inflation into the medium-term. This is not to say that US inflation will once again surge away from the 2.0%yr target but rather that it will remain sticky between 2%yr and 3%yr – we assume a 2.5%yr pace from mid-2025 with upside risks.

At the same time, the labour market and GDP growth are likely to remain resilient. Our baseline expectation for the US labour market is an unemployment rate that lifts above full employment levels to around 5.0% by mid-2025 primarily because of a return of the participation rate to near pre-pandemic levels and population growth. Wage growth also seems likely to hold above average, with total real household income rising robustly as a result. For more than a decade, employment growth has driven the gains in real incomes. In coming years however, real wage growth is also likely to be a significant factor. Paired with continued growth in household wealth and as the majority of households remain insulated from higher mortgage rates, this benign outlook for the labour market should allow GDP growth to hold below but near trend.

The risks to activity are arguably to the downside, but are mild.

The risks to this fed funds profile feel skewed to the downside for activity. The above outcomes rest on households refraining from borrowing to fund consumption – a lift in leverage-driven spending would likely bring the risk of higher rates. There is also an underlying assumption that the investment undertaken by business is to expand capacity instead of reducing costs by lowering labour demand. The dramatic deceleration in credit growth across both small and large banks through 2023 and the significant tightening of standards reported by the Federal Reserve's Senior Loan Officers Survey in recent updates also highlights additional headwinds for growth.

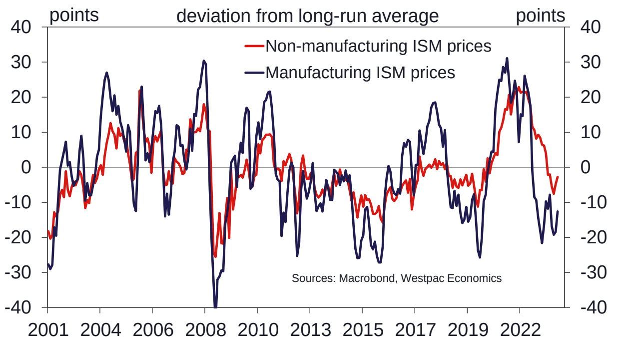
Inflation will remain a point of contention.

To the end of the forecast horizon then, there will remain a risk of growth deteriorating under the weight of inflation and contractionary policy. Hence we expect the US yield curve will remain modestly inverse at the end of our forecast horizon and the US dollar under pressure, with a return to near the long-run average likely – circa 95 on a DXY basis from 104 currently.

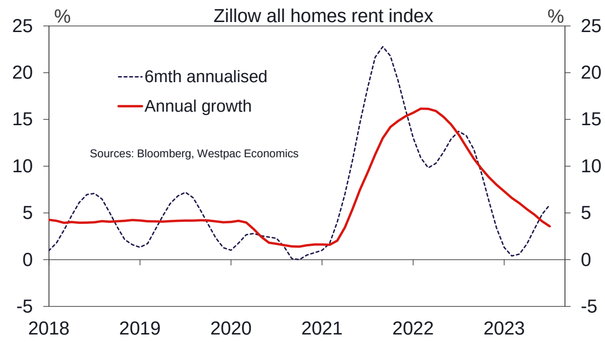
Elliot Clarke, CFA, CAIA, Senior Economist

... temporary

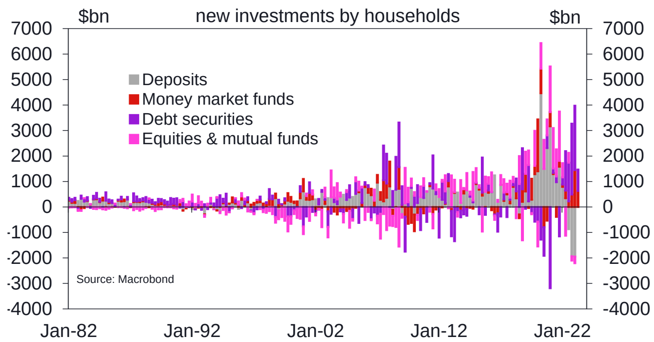
US ISMs point to goods deflation abating



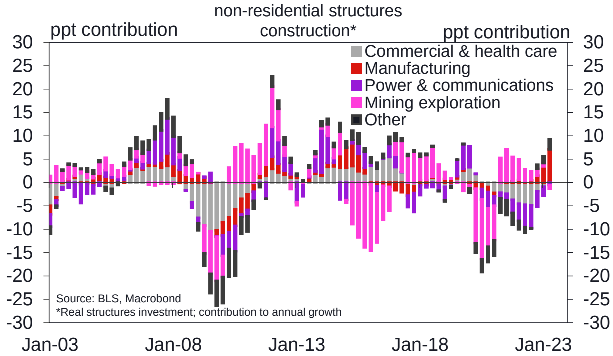
But shelter in downtrend, at least for now



Have US savings been used or invested?



Manufacturing investment likely inflationary



	2022				2023							
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
PCE deflator %yr	6.3	6.1	5.7	5.3	5.4	5.0	4.2	4.3	3.8	3.0	3.3	–
Unemployment rate %	3.5	3.7	3.6	3.5	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8
Non-farm payrolls chg '000	350	324	290	239	472	248	217	217	281	105	157	187
House prices* %yr	10.4	8.7	6.8	4.7	2.6	0.4	-1.2	-1.7	-1.8	-1.2	–	–
Durables orders core 3mth %saar	0.1	2.0	-6.1	1.3	1.4	5.3	0.3	-0.2	2.2	2.9	0.1	–
ISM manufacturing composite	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6
ISM non-manufacturing composite	55.9	54.5	55.5	49.2	55.2	55.1	51.2	51.9	50.3	53.9	52.7	54.5
Personal spending 3mth %saar	5.1	8.5	4.3	1.8	6.9	9.1	9.4	3.7	3.4	5.6	6.6	–
UoM Consumer Sentiment	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5	59.2	64.4	71.6	69.5
Trade balance USDbn	-71.7	-78.3	-63.8	-71.4	-70.8	-70.6	-60.4	-73.0	-66.8	-63.7	-65.0	–

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	2.1	3.0
Current account USDbn	-248.8	-222.8	-216.2	-219.3	–	–

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

Crisis of confidence ...

China is making headlines for all the wrong reasons ...

China's economy continues to make daily headlines for all the wrong reasons. Alternating between plunging exports; stagnant domestic demand; and the potential collapse of its shadow banking system, risks put forward in the press are wide-ranging and acute. Authorities meanwhile continue to focus on structural reform, largely remaining passive in their support for the economy. Why do authorities remain sanguine as the market roils? Are they justified in doing so?

... as exports to the US and Europe weaken ...

Exports to the west have built China's industrial capacity over decades. So the near 15% plunge in goods exports over the year to July justifiably raised significant concerns, particularly amid talk of foreign companies relocating production. However, what has been missed is that the recurring net trade surplus in goods is still roughly twice the average of 2018 and 2019. The geographic exposure of Chinese exports also continues to broaden, with increased take-up in Asia offsetting weakening US and European demand.

... while the outlook for property remains troubling.

The 12% decline in imports over the year to July also sparked fears over investment, but here the fixed asset investment data instead points to capacity renewal and expansion across the manufacturing sector. While residential property fixed asset investment was down 8.5% year-to-date as at July, investment in manufacturing was up 5.7% having averaged a similar pace between 2019 and 2022. Underlying this result, key high-tech sub-industries continue to grow investment at 10-40% year-to-date, propelled by demand related to Asia's development and the green transition.

However, this weakness has to be balanced against the new economy's rise ...

These outcomes are important to highlight because while many intently focus on the parts of China's old economy that are wilting under the weight of debt and structural reform, China's aggregate capacity and productivity are continuing to grow. Rising earnings for industry mean debt deflation and/or a balance sheet recession need not await China if gains flow to consumers.

This is the first of two critical issues that require careful assessment. Very little detail is provided on the state of China's labour market, particularly now the youth unemployment rate has been suspended. What we can see clearly from the NBS PMI detail however is that, while employment growth in the manufacturing sector is just below average, for services it is significantly below.

... which has huge potential, but only if it benefits the rest of the economy.

This is a major concern because services demand is the way in which trade gains filter through to the broader economy, building up household income and providing many University graduates an avenue to build fulfilling careers. But, in a developing economy, when momentum in manufacturing and investment does not flow to services, development is restricted. In such an environment, aggressive precautionary saving is an entirely rational response amongst consumers, as is avoiding risk taking with respect to career and investments.

The second critical concern for China is the structural state of China's housing market and financial system which is amplifying the effect of labour market weakness. Simply, an individual experiencing a decline in wealth with uncertain duration is unlikely to spend freely on discretionary items. Households desiring a property also refrain from committing to a purchase in circumstances like these.

The health of the financial sector is challenged ...

As we have seen this year, this is not only an issue for current momentum but also for the economy's structural health. Many private developers now find themselves with liquidity and reputational deficiencies, some even facing solvency concerns. Numerous local governments also lack the capacity to invest while land sales to property developers remain scarce. These developments are also putting mounting pressure on non-bank lenders whose liabilities are the assets of higher-income households.

... requiring careful attention for the sake of both households and business.

With financial risk having spread from private developers to local governments; non-bank lenders; and back to households, there is clearly an immediate need for authorities to act decisively to avoid all the good work by exports and investment being written off. To benefit both jobs and confidence, demand for new property and household consumption needs to be encouraged via easier financing terms and a further push in infrastructure spending. Financial system trust also needs to be restored. This will take liquidity for bank and non-bank lenders; the reorganisation of local government debt wherever it is inhibiting essential services and investment; and liberal support from the banking sector for both state-owned and private developers. This seems an immense and complex agenda. But with many components already in place and others used regularly in the past, once there is the will, quick implementation can follow.

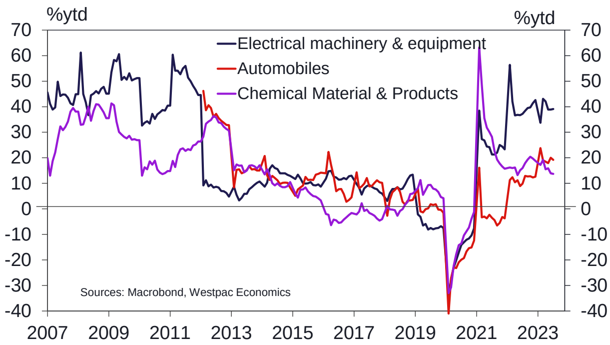
Decisions taken in coming months will determine China's long-term health.

To be clear, success will allow Chinese growth to sustain a circa 5% pace for a few more years before easing slowly to around 4% near decade's end. Failing to act risks growth instead jolting down to 4% or below in 2024 and 2025, with demographics and debt weighing further from there. The lower growth path would likely prevent authorities' medium-term prosperity goals from being reached and, with youth unemployment as high as it is, also risks political instability. Clearly then, there is now a political as well as economic imperative for China's central Government to act swiftly. The next few months will determine which path China takes.

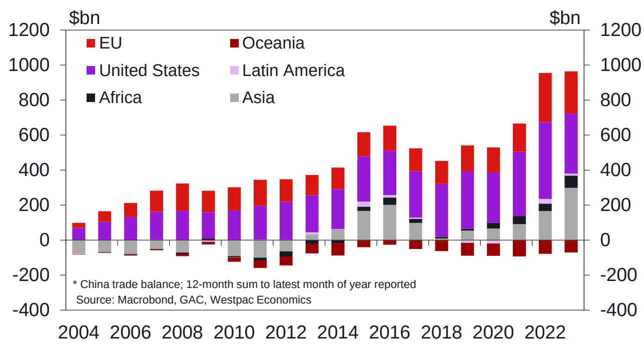
Elliot Clarke, CFA, CAIA, Senior Economist

… to define outlook

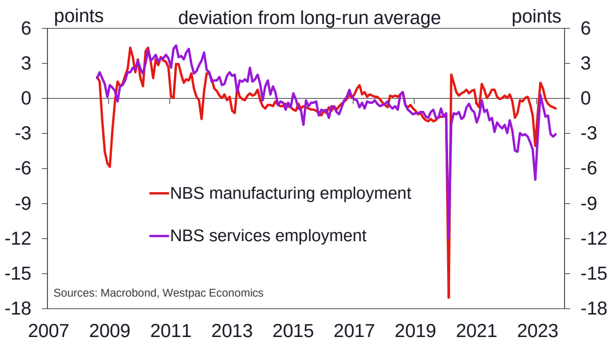
High-tech manufacturing growing rapidly



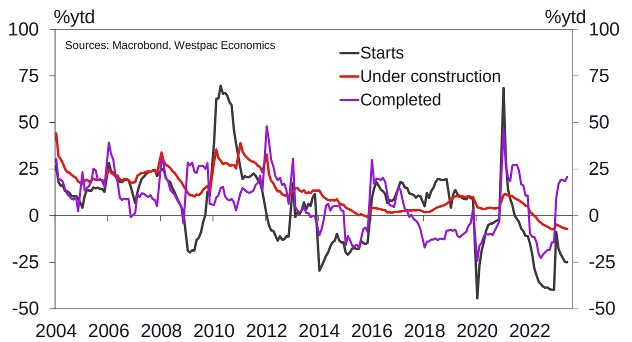
Asia offers considerable trade opportunities



Trade income has to benefit services



Housing pipeline rundown a solvency issue



	2022				2023							
Monthly data %yr	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
Consumer prices – headline	2.80	2.10	1.60	1.80	2.10	1.00	0.70	0.10	0.20	0.00	–0.30	0.10
Money supply M2	12.1	11.8	12.4	11.8	12.6	12.9	12.7	12.4	11.6	11.3	10.7	10.6
Manufacturing PMI (official)	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7
Fixed asset investment %ytd	5.9	5.8	5.3	5.1	5.1	5.5	5.1	4.7	4.0	3.8	3.4	–
Industrial production (IVA)	6.3	5.0	2.2	1.3	1.3	2.4	3.9	5.6	3.5	4.4	3.7	–
Exports	4.9	–1.0	–9.7	–11.4	–11.6	–2.7	11.4	7.3	–7.1	–12.4	–14.5	–8.8
Imports	–0.1	–1.0	–10.7	–7.1	–20.8	4.5	–1.7	–8.1	–4.6	–6.9	–12.4	–7.3
Trade balance USDbn	82.7	83.8	67.0	72.0	93.7	12.8	78.4	87.0	66.4	70.7	80.6	68.4

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

Asia's productivity and capacity …

In recent decades, the developed world has relied on Asian manufacturing.

Durable goods make up around 12.5% of the US CPI basket and have put significant downward pressure on the CPI over the past year. Around 25% of durable goods are imported; though, given the complexity of supply chains, many of the inputs into domestically produced and assembled durable goods are also likely to be imported. Circa 40% of US goods imports come from Asia. As such, the price of imports from Asia to the US play an important role in US durable goods pricing and consequently CPI inflation.

Supply chains are being reconfigured …

While the total share of imports from China to the US has declined since 2018, the rest of Asia's share has surged. Declines in Chinese imports have come about due to trade tensions that emerged during the Trump administration and concerns over supply chains sparked by the pandemic. But they also stem from the offshoring of low-value supply chain activities from China to regional players in ASEAN and South Asia as China focuses on component production with a high value add. This shift is reflected in the up-tick in Chinese exports to ASEAN countries, the new production facilities driving the lift in regional trade often remaining under the control of Chinese firms.

… but production is mostly remaining in the region.

The rising share of imports coming from Asia has seen US import prices move more closely in line with Asian prices, particularly those in a group the US Bureau of Labour Statistics dubs the Asian 'Newly Industrialised Countries' (NICs, comprising of Hong Kong, Singapore, South Korea and Taiwan). South Korea and Taiwan in particular have seen their share of total US goods imports rise as demand for key electronics, particularly semiconductors, grows. Total exports from the ASEAN nations and the NICs are offsetting reduced Chinese exports to the US.

Asia's long history of efficient production and cost management …

Changes in US import prices reflect producer prices in the exporting countries, among other variables. Producer price growth in Asia has been benign through the 2010s and 2020s especially compared to developed markets. This reflects various factors such as an expansion in capacity, improved efficiency, and currency management as well as changes in what the economies are producing.

… justifies this decision.

Capacity is very tight in developed Asian markets such as Japan and South Korea, where utilisation rates are routinely above 100% thanks to overtime, but it is much looser across emerging markets where capacity utilisation sits below 80%. This follows strong investment in the ASEAN nations widely reported in market commentary. For the NICs, expansion in semiconductor production over the last five years has been a critical driver of manufacturing production growth. Importantly, while capacity utilisation in the NICs is very high, so too is efficiency and technological advancement, keeping downward pressure on output prices.

Asia's structural reform has also often brought unexpected gains.

In China, excess capacity has prompted change. The steel industry is an excellent example, with the closure of old, inefficient and high-polluting production improving sector profitability. This success has also incentivised reform in other sectors as well.

Manufacturing is currently experiencing this dynamic, with unproductive enterprises wound down to make space for high-tech expansion. China's reforms are of significance to the region. Previous Chinese deflationary cycles saw declines in producer prices regionally with a 6-to-12-month lag. The current episode may prove to be even more important, as China is not only adding new effective capacity domestically but also elsewhere in the region in an effort to circumvent tariffs and take advantage of lower wages.

History and current developments argue for the world to leverage Asia's …

The fall in US import prices could also have been due to the stronger US dollar over the last year. However, Japan's experience shows this is unlikely to have been the case. Since the start of Russia's invasion of Ukraine, Japan's Yen has depreciated the most out of the major Asian currencies, falling around 30% against the US dollar at its low and currently sitting around 22% below the 24 February 2022 figure. However, during this time, the prices of Japanese imports to the US have lifted, in contrast to benign price growth for imports from the rest of Asia. The same phenomenon was also seen in Europe when the Euro depreciated in response to impacts from Russia's invasion of Ukraine.

Arguably, Japan is an outlier within Asia as it is one of the only countries with a constant risk of stagnation. According to the Tankan survey, producers have been less optimistic about manufacturing production capacity and pessimistic about the outlook. Manufacturing production followed suit, falling from the level set at the start of the 2010s through the decade.

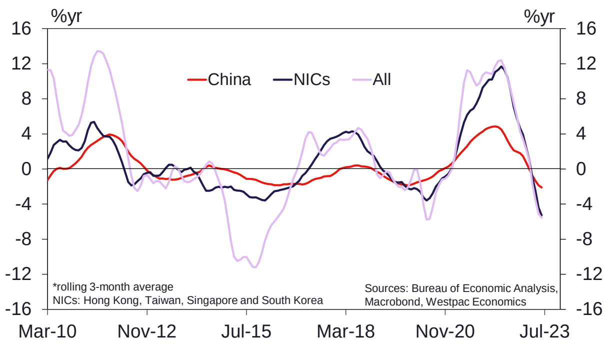
… capacity amid considerable uncertainty over the outlook for developed-world inflation.

Asia's excess capacity, which continues to expand to meet anticipated demand, should see import prices into developed markets like the US continue to post benign growth. As inflation risks emerge from the climate transition and constrained domestic supply post-pandemic, the developed world would do well to maintain their trade linkages with Asia to keep inflation contained.

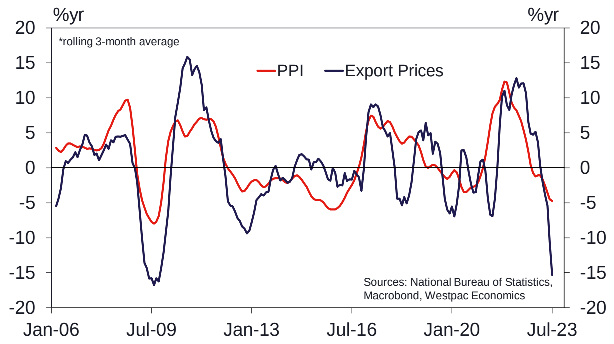
Illiana Jain, Economist

... key in fight against inflation

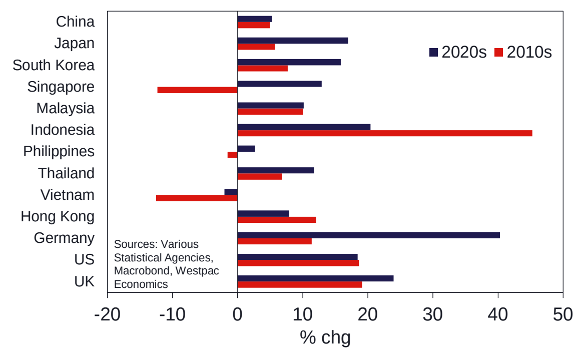
US import prices align more closely with NICs



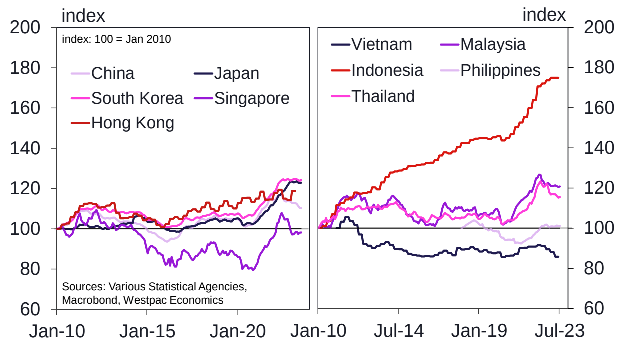
Chinese producer prices inform export prices



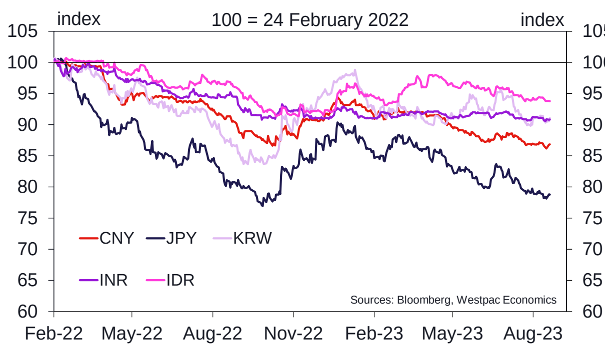
Asian PPIs benign compared to developed world



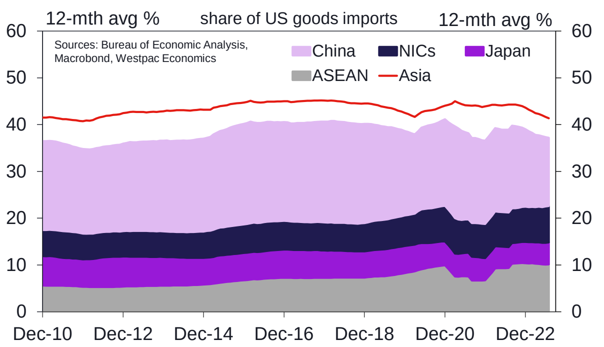
Producer prices slow for much of Asia



Yen weakens but no impact on US imports



Neighbours are making up for weaker China



FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	4.10	4.10	4.10	4.10	3.85	3.60	3.35	3.10
90 Day BBSW	4.12	4.30	4.30	4.22	3.97	3.72	3.47	3.22
3 Year Swap	4.09	3.95	3.90	3.80	3.70	3.60	3.50	3.40
3 Year Bond	3.86	3.70	3.65	3.60	3.50	3.40	3.30	3.20
10 Year Bond	4.17	4.00	3.80	3.60	3.40	3.30	3.22	3.12
10 Year Spread to US (bps)	-12	-10	-10	-10	-10	-10	-8	-8

Currency forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
AUD vs								
USD	0.6426	0.66	0.67	0.68	0.69	0.70	0.71	0.72
JPY	94.57	95.0	95.1	95.2	95.2	95.2	94.4	93.6
EUR	0.5971	0.60	0.60	0.61	0.61	0.61	0.62	0.62
NZD	1.0873	1.08	1.10	1.10	1.11	1.13	1.13	1.14
CAD	0.8708	0.88	0.88	0.88	0.88	0.89	0.89	0.90
GBP	0.5142	0.52	0.52	0.53	0.53	0.54	0.55	0.55
CHF	0.5725	0.58	0.59	0.59	0.60	0.60	0.61	0.62
DKK	4.4543	4.47	4.50	4.53	4.55	4.58	4.60	4.63
SEK	7.1294	7.16	7.21	7.25	7.29	7.33	7.37	7.41
NOK	6.8544	6.89	6.93	6.97	7.01	7.05	7.09	7.13
ZAR	12.15	12.3	12.4	12.5	12.6	12.7	12.8	12.9
SGD	0.8743	0.88	0.89	0.90	0.90	0.91	0.92	0.94
HKD	5.0296	5.16	5.23	5.30	5.38	5.45	5.51	5.58
PHP	36.42	36.3	36.2	36.0	35.9	35.7	35.9	36.0
THB	22.91	22.8	22.9	23.1	23.1	23.1	23.1	23.0
MYR	3.0032	3.00	3.02	2.99	2.97	2.94	2.91	2.88
CNY	4.6846	4.72	4.69	4.69	4.69	4.69	4.69	4.68
IDR	9858	9900	9916	9928	9936	10010	10011	10008
TWD	20.59	20.6	20.6	20.7	20.8	20.9	21.0	21.1
KRW	852	845	844	843	842	840	838	835
INR	53.29	52.8	51.6	51.0	50.4	50.4	51.1	51.5

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**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	0.3	0.3	0.1	0.3	0.3	0.1	0.1	5.0	6.5	1.8	0.9
Dwelling investment	-1.0	-0.7	-0.2	0.0	-2.5	-4.0	-3.1	9.9	-3.5	-2.7	-8.3
Business investment*	0.4	3.6	2.1	-0.7	-0.7	-0.8	-0.5	8.2	3.5	6.2	-1.7
Private demand *	0.1	0.7	0.5	0.1	0.0	-0.3	-0.2	6.5	4.8	1.9	0.0
Public demand *	0.3	0.9	1.2	0.2	0.3	0.4	0.5	5.9	5.1	2.2	1.8
Domestic demand	0.1	0.7	0.7	0.1	0.1	-0.1	0.0	6.4	4.9	1.8	0.9
Stock contribution	-0.5	0.1	-1.1	0.4	-0.1	-0.1	0.2	0.4	0.5	-0.8	0.0
GNE	-0.4	0.8	-0.4	0.6	0.0	-0.2	0.2	6.9	5.4	1.1	0.5
Exports	1.5	1.8	4.3	0.8	1.3	1.1	0.9	-2.0	3.4	9.4	5.0
Imports	-4.0	3.6	0.7	2.0	0.6	-0.8	0.3	5.4	12.9	4.8	2.2
Net exports contribution	1.1	-0.3	0.8	-0.2	0.2	0.4	0.2	-1.4	-1.6	1.1	0.7
Real GDP %qtr / yr avg	**0.7**	**0.4**	**0.4**	**0.3**	**0.2**	**0.2**	**0.3**	5.2	3.7	1.9	1.2
%yr end	**2.7**	**2.4**	**2.1**	**1.7**	**1.2**	**1.1**	**1.0**	**4.6**	**2.7**	**1.2**	**1.6**
Nominal GDP %qtr	2.1	2.2	-1.2	0.9	0.8	0.7	0.7				
%yr end	12.0	9.5	3.6	4.0	2.6	1.1	3.1	10.0	12.0	2.6	3.2

Other macroeconomic variables

	2022	2023				2024		Calendar years			
% change	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Employment (2)	0.7	0.7	0.9	0.5	0.3	0.1	-0.1	–	–	–	–
%yr	5.1	3.4	3.2	2.8	2.4	1.8	0.8	2.4	5.1	2.4	0.1
Unemployment rate % (2)	3.5	3.6	3.6	3.7	3.8	4.1	4.5	4.7	3.5	3.8	4.7
Wages (WPI) (2)	0.8	0.8	0.8	1.3	0.8	0.8	0.8	–	–	–	–
%yr	3.4	3.7	3.6	3.9	3.8	3.8	3.8	2.3	3.4	3.8	3.2
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	10.9	12.5	7.7	5.0	5.0	6.0	5.0	65.0	26.4	30.0	13.0
% of GDP	1.7	1.9	1.2	0.8	0.8	0.9	0.8	3.0	1.1	1.2	0.5
Terms of trade annual chg (1)	7.2	0.4	-12.7	-7.2	-7.4	-10.7	-4.5	16.9	6.4	-6.8	-6.2

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	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Employment '000 chg	51	-6	18	60	70	-5	76	32	-15	–	–
Unemployment rate %	3.5	3.5	3.7	3.6	3.5	3.7	3.6	3.5	3.7	–	–
Westpac-MI Consumer Sentiment	78.0	80.3	84.3	78.5	78.5	85.8	79.0	79.2	81.3	81.0	79.7
Retail trade %mth	1.6	-3.9	1.8	0.1	0.3	-0.1	0.8	-0.8	0.5	–	–
Dwelling approvals %mth	-2.1	14.7	-28.3	5.8	0.8	-5.3	20.1	-7.9	-8.1	–	–
Credit, private sector %yr	8.3	7.8	7.5	7.2	6.8	6.6	6.2	5.6	5.3	–	–
Trade balance AUDbn	13.5	12.2	10.7	14.0	14.5	10.1	10.5	10.3	8.0	–	–

New Zealand

Interest rate forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	5.50	5.75	5.75	5.75	5.50	5.25	5.00	4.75
90 Day Bill	5.67	5.85	5.85	5.85	5.60	5.35	5.10	4.85
2 Year Swap	5.51	5.49	5.29	5.06	4.80	4.55	4.33	4.14
10 Year Bond	4.99	4.85	4.65	4.45	4.25	4.10	3.95	3.85
10 Year Spread to US	70	75	75	75	75	70	65	65
10 Year Spread to Aust	82	85	85	85	85	80	73	73

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZD vsf								
USD	0.5910	0.61	0.61	0.62	0.62	0.62	0.63	0.63
JPY	86.98	87.8	86.6	86.8	85.6	84.3	83.8	81.9
EUR	0.5492	0.55	0.55	0.55	0.55	0.54	0.55	0.54
AUD	0.9196	0.92	0.91	0.91	0.90	0.89	0.89	0.88
CAD	0.8009	0.82	0.81	0.81	0.79	0.79	0.79	0.79
GBP	0.4729	0.48	0.48	0.48	0.48	0.48	0.48	0.48
CNY	4.309	4.36	4.27	4.28	4.22	4.15	4.16	4.10

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	0.3	0.3	7.5	3.0	1.3	1.2
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	-0.7	-1.1	-1.3	14.6	5.2	6.1	-2.2
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	0.59	0.3
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	3.8
GDP (production)	**-0.7**	**-0.1**	**0.8**	**0.1**	**0.0**	**0.0**	**0.0**	**6.0**	**2.7**	**1.1**	**0.3**
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	-7.8	-7.3	-7.0	-5.7	-8.7	-7.8	-6.0
Terms of trade annual %	-4.2	-6.2	-6.4	-4.6	-5.2	-1.3	2.9	2.8	-4.2	-5.2	5.2

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (13 Sep)***	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Australian commodities index#	308	295	291	283	279	**283**	**286**	**290**	**293**	**295**
Bulk commodities index#	**474**	**461**	**433**	**412**	**397**	**401**	**405**	**409**	**407**	**406**
iron ore finesTSI @ 62% US$/t	119	100	95	89	84	83	85	87	87	87
Premium low vol met coal (US$/t)	274	260	243	243	248	254	254	243	237	237
Newcastle spot thermal coal (US$/t)	165	145	140	135	130	130	125	125	125	125
crude oil (US$/bbl) Brent ICE	90	85	83	85	88	92	95	97	100	102
LNG in Japan US$mmbtu	13.69	14.4	14.5	14.1	14.5	15.0	15.6	16.2	16.5	17.0
gold (US$/oz)	1,944	1,970	2,000	1,925	1,875	1,850	1,825	1,841	1,856	1,872
Base metals index#	**195**	**194**	**192**	**196**	**203**	**212**	**218**	**223**	**229**	**234**
copper (US$/t)	8,341	8,400	8,300	8,500	8,900	9,373	9,731	9,971	10,331	10,573
aluminium (US$/t)	2,173	2,170	2,150	2,275	2,300	2,378	2,437	2,475	2,532	2,570
nickel (US$/t)	20,292	20,680	20,750	21,000	21,556	22,291	22,836	23,196	23,735	24,091
zinc (US$/t)	2,474	2,400	2,300	2,375	2,429	2,501	2,554	2,589	2,641	2,676
lead (US$/t)	2,258	2,200	2,100	2,000	2,025	2,104	2,162	2,201	2,259	2,298
Rural commodities index#	**132**	**132**	**130**	**130**	**135**	**141**	**146**	**150**	**155**	**158**
NZ commodities index ##	**330**	**317**	**330**	**342**	**353**	**361**	**367**	**372**	**376**	**379**
dairy price index ^^	297	286	305	323	336	345	351	355	358	361
whole milk powder US$/t	2,864	3,200	3,394	3,600	3,699	3,800	3,850	3,900	3,929	3,959
skim milk powder US$/t	2,454	2,700	2,893	3,100	3,198	3,300	3,350	3,400	3,426	3,451
lamb leg UKp/lb	426	431	458	467	473	479	485	491	497	503
bull beef US¢/lb	242	233	239	248	257	263	266	269	272	271
log price index ##	152	149	150	151	154	157	161	164	166	168

	levels				% change			
Annual averages	**2022**	**2023(e)**	**2024(f)**	**2025(f)**	**2022**	**2023(e)**	**2024(f)**	**2025(f)**
Australian commodities index#	**379**	**317**	**285**	**290**	**43.1**	**23.6**	**-16.4**	**-9.9**
Bulk commodities index#	**557**	**499**	**428**	**414**	**47.0**	**9.2**	**-10.4**	**-14.2**
iron ore fines @ 62% USD/t	120	113	89	86	46.6	-24.4	-5.9	-21.1
LNG in Japan $mmbtu	18.2	15.5	14	16	31.1	77.3	-15.0	-6.7
ave coking coal price (US$/t)	240	213	206	204	33.2	67.2	-11.1	-3.1
ave thermal price (US$/t)	281	239	182	169	74.8	183.7	-15.1	-24.0
iron ore fines contracts (US¢ dltu)	174	159	137	129	72.8	-27.0	-8.7	-14.0
Premium low vol met coal (US$/t)	365	276	247	215	62.5	78.1	-24.4	-10.4
crude oil (US$/bbl) Brent ICE	97	83	86	98	60.2	38.4	-14.8	4.4
gold (US$/oz)	1,809	1,954	1,923	1,847	1.2	0.5	8.0	-1.6
Base metals index#	**230**	**204**	**199**	**223**	**41.1**	**8.0**	**-11.5**	**-2.1**
copper (US$/t)	8,827	8,561	8,687	10,052	50.2	-5.1	-3.0	1.5
aluminium (US$/t)	2,711	2,260	2,258	2,488	44.0	9.5	-16.6	-0.1
nickel (US$/t)	26,228	22,465	21,265	23,314	33.4	42.1	-14.3	-5.3
zinc (US$/t)	3,471	2,629	2,393	2,601	32.1	15.4	-24.2	-9.0
lead (US$/t)	2,154	2,158	2,065	2,214	19.6	-1.6	0.2	-4.3
Rural commodities index#	**171**	**140**	**138**	**156**	**28.0**	**14.0**	**-18.0**	**-1.9**
NZ commodities index ##	**376**	**325**	**339**	**375**	**21.2**	**4.7**	**-13.5**	**4.3**
dairy price index ##	353	277	282	325	25.2	9.5	-21.4	1.6
whole milk powder US$/t	3,889	2,984	3,073	3,633	29.2	1.2	-23.3	3.0
skim milk powder US$/t	3,819	2,542	2,596	3,054	22.6	14.6	-33.4	2.1
lamb leg UKp/lb	624	428	438	474	18.4	4.3	-31.5	2.3
bull beef US¢/lb	280	254	267	281	19.0	0.5	-9.5	5.3
log price index ##	171	157	154	166	14.8	-4.3	-8.2	-2.1

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

FORECASTS

United States

Interest rate forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Fed Funds*	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875
10 Year Bond	4.29	4.10	3.90	3.70	3.50	3.40	3.30	3.20

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

Currency forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
USD vs								
DXY index	104.55	102.5	101.4	100.3	99.3	98.4	97.5	96.5
JPY	147.17	144	142	140	138	136	133	130
EUR	1.0761	1.10	1.11	1.12	1.13	1.14	1.15	1.16
AUD	0.6426	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD	0.5910	0.61	0.61	0.62	0.62	0.62	0.63	0.63
CAD	1.3552	1.34	1.32	1.30	1.28	1.27	1.26	1.25
GBP	1.2496	1.27	1.28	1.29	1.30	1.30	1.30	1.30
CHF	0.8909	0.88	0.88	0.87	0.87	0.86	0.86	0.86
ZAR	18.91	18.7	18.5	18.4	18.3	18.1	18.0	17.9
SGD	1.3607	1.34	1.33	1.32	1.31	1.31	1.30	1.30
HKD	7.8272	7.82	7.81	7.80	7.79	7.78	7.76	7.75
PHP	56.66	55.0	54.0	53.0	52.0	51.0	50.5	50.0
THB	35.65	34.5	34.2	34.0	33.5	33.0	32.5	32.0
MYR	4.6729	4.55	4.50	4.40	4.30	4.20	4.10	4.00
CNY	7.2924	7.15	7.00	6.90	6.80	6.70	6.60	6.50
IDR	15341	15000	14800	14600	14400	14300	14100	13900
TWD	32.05	31.2	30.8	30.5	30.2	29.9	29.6	29.3
KRW	1326	1280	1260	1240	1220	1200	1180	1160
INR	82.92	80.0	77.0	75.0	73.0	72.0	72.0	71.5

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	1.7	3.0	1.5	1.1	0.6	8.3	2.7	2.4	1.4
Dwelling investment	–25.1	–4.0	–3.6	0.0	–2.0	0.0	0.0	10.7	–10.6	–11.9	0.0
Business investment	4.0	0.6	6.2	5.0	2.5	2.2	3.6	6.9	4.3	3.3	3.5
Public demand	3.8	5.0	3.3	3.2	2.4	2.4	2.0	0.6	–0.6	3.5	2.3
Domestic final demand	1.0	3.6	2.4	3.2	1.7	1.5	1.3	6.8	1.9	2.3	1.8
Inventories contribution ppt	2.0	–2.6	–0.1	0.2	–0.4	–0.2	0.4	0.2	0.7	–0.6	0.0
Net exports contribution ppt	0.6	0.6	–0.1	–0.7	–0.4	–0.3	–0.6	–1.7	–0.6	0.6	–0.4
GDP	2.6	2.0	2.1	3.0	1.0	1.0	1.2	5.9	2.1	2.2	1.4
%yr annual chg	0.9	1.8	2.5	2.4	2.0	1.8	1.6				

Other macroeconomic variables

Non-farm payrolls mth avg	316	322	222	180	120	55	50	549	427	211	51
Unemployment rate %	3.6	3.5	3.6	3.8	4.0	4.4	4.7	5.4	3.6	3.7	4.7
CPI headline %yr	6.4	5.2	3.0	2.8	2.1	2.1	2.0	7.2	6.4	2.7	2.2
PCE deflator, core %yr	4.6	4.5	3.6	3.3	2.5	2.3	2.2	6.0	3.6	2.4	2.2
Current account %GDP	–2.6	–2.6	–2.6	–2.6	–2.6	–2.5	–2.5	–2.4	–2.4	–2.4	–2.4

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Euro area								
ECB Deposit rate	3.75	4.00	4.00	3.75	3.50	3.25	3.00	2.75
10 Year Bund	2.64	2.65	2.55	2.45	2.35	2.35	2.30	2.25
10 Year Spread to US	-165	-145	-135	-125	-115	-105	-100	-95
United Kingdom								
BoE Bank Rate	5.25	5.75	5.75	5.75	5.50	5.25	5.00	4.75
10 Year Gilt	4.42	4.25	4.05	3.80	3.60	3.45	3.35	3.25
10 Year Spread to US	13	15	15	10	10	5	5	5

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
euro vs								
USD	1.0761	1.10	1.11	1.12	1.13	1.14	1.15	1.16
JPY	158.38	158	158	157	156	155	153	151
GBP	0.8611	0.87	0.87	0.87	0.87	0.88	0.88	0.89
CHF	0.9588	0.97	0.97	0.97	0.98	0.98	0.99	1.00
DKK	7.4598	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.9404	11.9	11.9	11.9	11.9	11.9	11.9	11.9
NOK	11.4792	11.5	11.5	11.5	11.5	11.5	11.5	11.5
sterling vs								
USD	1.2496	1.27	1.28	1.29	1.30	1.30	1.30	1.30
JPY	183.91	183	182	181	179	177	173	169
CHF	1.1134	1.12	1.12	1.12	1.13	1.12	1.12	1.12
AUD	0.5142	0.52	0.52	0.53	0.53	0.54	0.55	0.55

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	-0.2	1.0fr
France GDP	1.8	-7.9	6.8	2.5	0.7	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	2.1	1.6
Netherlands GDP	2.0	-3.9	4.9	4.3	0.6	1.0
memo: United Kingdom GDP	1.7	-9.3	7.4	4.3	0.3	0.5

Asia

China

Calendar years	2018	2019	2020	2021	2022	2023f	2024f
Real GDP	6.8	6.0	2.2	8.4	3.0	5.0	5.5
Consumer prices	1.9	4.5	0.2	1.5	1.8	0.7	2.0
Producer prices	0.9	–0.5	–0.4	10.3	–0.7	–2.5	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	8.2	7.5
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	5.5	6.0
Exports %yr	–4.4	7.9	18.1	20.9	–9.9	–2.5	2.5
Imports %yr	–7.6	16.5	6.5	19.5	–7.5	–5.0	3.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Required reserve ratio %*	10.75	10.50	10.25	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	3.55

* For major banks.

Currency forecasts

	Latest (13 Sep)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
JPY	147.17	144	142	140	138	136	133	130
SGD	1.3607	1.34	1.33	1.32	1.31	1.31	1.30	1.30
HKD	7.8272	7.82	7.81	7.80	7.79	7.78	7.76	7.75
PHP	56.66	55.0	54.0	53.0	52.0	51.0	50.5	50.0
THB	35.65	34.5	34.2	34.0	33.5	33.0	32.5	32.0
MYR	4.6729	4.55	4.50	4.40	4.30	4.20	4.10	4.00
CNY	7.2924	7.15	7.00	6.90	6.80	6.70	6.60	6.50
IDR	15341	15000	14800	14600	14400	14300	14100	13900
TWD	32.05	31.2	30.8	30.5	30.2	29.9	29.6	29.3
KRW	1326	1280	1260	1240	1220	1200	1180	1160
INR	82.92	80.0	77.0	75.0	73.0	72.0	72.0	71.5

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**	**3.1**
United States	2.9	2.3	-2.8	5.9	2.1	2.2	1.4
Japan	0.6	-0.4	-4.3	2.1	1.1	1.6	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**	**1.5**	**1.3**
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	1.2
Australia	2.8	1.9	-1.8	5.2	3.7	1.9	1.2
New Zealand	3.5	3.1	-1.5	6.0	2.7	1.1	0.3
OECD total	**2.3**	**1.8**	**-4.6**	**5.6**	**2.8**	**1.4**	**1.2**
China	6.8	6.0	2.2	8.4	3.0	5.0	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	1.0	2.8
Hong Kong	2.8	-1.7	-6.5	6.4	-3.5	3.8	3.0
Singapore	3.6	1.3	-3.9	8.9	3.6	1.2	2.6
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	3.2	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	5.3	6.0
Vietnam	7.5	7.4	2.9	2.6	8.0	5.0	6.5
East Asia	**6.0**	**5.2**	**0.7**	**7.1**	**3.5**	**4.5**	**5.1**
East Asia ex China	4.5	3.8	-2.3	4.3	4.5	3.5	4.2
NIEs*	**3.0**	**2.0**	**-0.5**	**5.6**	**2.1**	**1.4**	**2.5**
India	6.5	3.9	-5.8	9.1	6.8	6.3	6.5
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	2.4	2.2
South Africa	1.5	0.3	-6.3	4.9	2.0	0.2	1.2
Mexico	2.2	-0.2	-8.0	4.7	3.1	2.8	2.2
Argentina	-2.6	-2.0	-9.9	10.4	5.2	-2.5	0.0
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**	**3.2**	**3.4**
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**	**3.1**

#Regional and global groupings are weighted using PPP exchange rates updated to reflect ICP 2011 benchmark revisions.* "NIEs" signifies "Newly Industrialised Economies" as defined by the IMF, viz; Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore. ^ CIS is the Commonwealth of Independent States, including Mongolia. Sources: IMF, Westpac Economics.

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