WESTPAC MARKET OUTLOOK OCTOBER 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

Incoming RBA Governor Bullock left interest rates unchanged at the October Board meeting and the associated Decision Statement was largely unchanged from that in September, delivered by former Governor Lowe. The November Board meeting is a more opportune time for the RBA to consider whether to recalibrate its messaging. That meeting will be informed by the upcoming September quarter Inflation Report and an updated set of RBA forecasts. We have lifted our near-term inflation forecast profile (on higher oil, a lower Australian dollar and sticky services inflation) but have retained our 2024 view. The RBA will similarly need to revise its inflation outlook profile, adjustments which are unlikely to be sufficient to warrant an interest rate hike. We continue to assess that rates will remain on hold ahead of an easing cycle commencing in the September quarter 2024.

On interest rate markets, US and Australian 10 year bond yields have climbed sharply over recent months. That has the US yield curve less inverted as risks of a US recession recede, reinforced by the impacts of rising US bond supply associated with large budget deficits. We have lifted our end 2024 US bond yield forecast from 4.0% to 4.4% and kept the end 2024 Australian/US 10 year spread at –20bps.

On currency markets, the US dollar strengthened over the past month, taking its cue from higher US bond yields, a stronger US growth story for 2023 and a dovish pivot by the ECB and BoE. We continue to expect that the US economic strength of 2023 will give way to below trend growth next year under the weight of increasingly tight financial conditions. Against that backdrop, the US FOMC will begin to ease rates in 2024, from the March quarter, and the Australian dollar will rally from current weakness, lifting to 70US¢ by end 2024.

Australia: The economy has decelerated to a well below trend pace as the intense headwinds of high inflation and higher interest rates impact. Output growth is expected to slow from 2.7% for 2022 to a forecast 1.2% for 2023, well below population growth, which is on track to be around 2.3% this year. Consumer spending is at the centre of the downturn, with households pressured by declining real disposable income. The labour market resilience evident through much of 2023, underpinned by pent-up demand for labour being met by an acceleration in labour supply, is faltering. Job vacancies, while still elevated, are falling and foreshadow weaker jobs growth in the first half of next year. The unemployment rate, having edged up from 3.5% to 3.7%, is expected to hit 4.7% by end 2024.

Commodities: September was a volatile month for many commodities but our broad commodities index was flat in the period. Falling thermal coal, gold, copper and nickel were offset by stronger met coal, LNG, aluminium and zinc. Iron ore prices have been held up by robust steel production while our crude oil forecasts have been lifted due to a sharper than expected rally over the last three months.

Global FX markets: The US dollar has shown renewed strength this month on expectations of ‘higher for longer’ US interest rates. While the market has extrapolated recent US economic strength to the horizon, we continue to have doubts over this momentum’s durability. Consequently, we remain of the view that the US dollar will undergo a material depreciation through 2024 and 2025, benefitting risk currencies across Asia as well as the Euro and Sterling. Japan’s Yen is likely to lag other major currencies.

New Zealand: We continue to expect a rate hike to 5.75% at the RBNZ’s November 2023 Monetary Policy Statement, but now don’t see OCR reductions until early 2025. The OCR should slowly decline from there to 4.0% in 2026 and 3.5% from 2027 onwards. Inflation remains persistent in New Zealand, requiring the RBNZ to keep interest rates high for a sustained period to return inflation to the target range.

United States: The FOMC believes it is making progress on inflation but also have confidence in the strength of the economy. The most likely near-term outcome is therefore an ‘on hold’ stance as risks to both the inflation and growth outlook continue to be assessed. If current trends persist, a return to target inflation by mid-2024 is probable, allowing rate cuts to begin in March. However, from late-2024, inflation is likely to re-accelerate as structural pressures assert, limiting the degree of easing the FOMC can undertake.

China: Recently, signs of a nascent recovery in confidence and activity have emerged. The manufacturing sector is in robust health; however, the service sector remains under pressure. If China’s economy is to outperform in 2024 (as we expect), investment has to accelerate and consumption rally in order to support broad-based employment gains. We see a need for additional support from authorities, financial aid for local governments and the property sector being the best and most probable option.

Asia: Southeast Asia is projected to grow rapidly over the coming decades which presents a unique opportunity for Australia. Infrastructure investment; exports of food, energy and education; and migration of labour are just some of the benefits greater trade relations with the region can reap.

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	6.4	6.4
Other East Asia	4.5	3.8	–2.3	4.3	4.5	3.5	4.3
Europe	1.8	1.6	–6.1	5.4	3.5	0.6	1.1
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	1.3	0.4
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’.

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

RBA extends pause, key messages retained ...

Incoming RBA Governor Bullock leaves rates unchanged in October ...

As expected, the Reserve Bank Board decided to leave the cash rate target unchanged at 4.1% at its October meeting.

While the decision was widely anticipated the issue for markets was whether new Governor Bullock would decide to send some different messages than had been signalled in previous Statements under Governor Lowe.

... and the Decision Statement is largely unchanged.

For instance, these messages may have indicated a greater concern around achieving the inflation target in the appropriate time frame; more concern about the underperforming Australian economy; the resilience of the labour market; or the surprise recovery in house prices.

There were no such changes in the Statement.

The inflation issue was the most likely "candidate" for a revised approach. However, as with the other key topics, the Governor chose to almost exactly stick to the script that had been established by Governor Lowe.

The November meeting is a more opportune time to reassess ...

The most contentious issue is around the implications of the August Monthly CPI Indicator for the September quarter Consumer Price Index. Westpac has lifted its forecast for Trimmed Mean Inflation for the September quarter from 0.8% to 1.1%, mainly due to higher inflation in the services sector for which the August report provides valuable information for the whole quarter.

The Governor's Statement refers to "the prices of many services are continuing to rise briskly". This is little changed from the September Statement "the prices of many services are rising briskly."

... the upcoming Q3 Inflation Report will be a key focus ...

As a result of raising our forecast for the September quarter we have lifted our 2023 forecast for annual Trimmed Mean inflation from 3.8% to 4.1%. Services plus higher fuel prices have lifted our September quarter forecast for headline inflation from 0.9% to 1.1% and annual inflation in 2023 from 3.9% to 4.3%.

The RBA is currently forecasting inflation by end 2023 at 3.9% (Trimmed Mean) and 4.1% (Headline). Presumably the RBA forecasters would also be revising their own forecasts on the basis of the August Inflation Indicator but there is no such indication in the Statement.

... so too, the updated RBA forecasts.

The October Statement retains the sentence, "The central forecast is for CPI inflation to continue to decline and to be back within the 2–3% range in late 2025". Despite our slightly higher profile for inflation in 2023 our forecasts are still in line with the RBA achieving its 2025 target.

The Governor chose not to react to those possible upgrades to the inflation forecasts – better to await the official September quarter CPI report, due October 25, which will be a key input into any forecast revisions. Governor Bullock has opted to maintain the status quo prior to reviewing her position once the staff's revised forecasts are available for the November meeting.

We have lifted our 2023 inflation forecast, but insufficient to trigger a hike.

On the basis of our revised inflation forecast we expect the September Inflation Report will provide grounds for the staff inflation forecasts for the end of 2023 to be revised a little higher but not threaten the key goal of reaching the inflation target by 2025.

We do not see such revisions to the inflation outlook as providing sufficient evidence for a rate hike at the November meeting.

US and Australian bond yields have climbed ...

We have substantially lifted our forecast profile for US and Australian 10 year bond rates. For end 2023, we have lifted US rates from 4.5% to 4.6%. For end 2024, US rates are marked higher from 4.0% to 4.4% – with Fed funds expected to be 4.375% at end 2024. The forecast spread of Australian bonds to US is unchanged, at –15bps end 2023 and –20bps at end 2024.

Despite the FOMC cutting rates next year, bonds may be even less attractive than we are expecting. With the US economy avoiding a recession and the FOMC cutting rates, the market may require a regular shaped yield curve much earlier than we are currently expecting.

... the US curve becoming less inverted as risks of a recession recede.

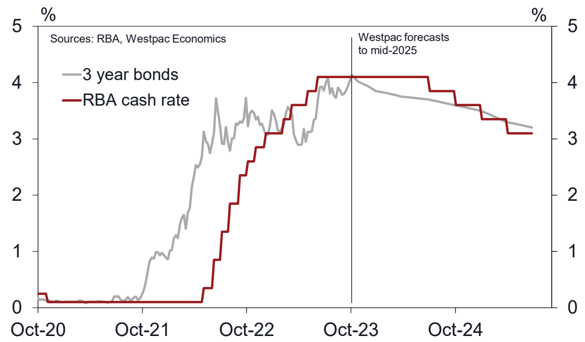
That need for a regular shaped curve signals a sharp rise in bond rates. A potential outcome would pressure the equity market. The issue here is that equity markets have been resilient despite the sharp tightening cycle from the FOMC – limiting the main channel through which FOMC policy can impact the US economy.

As we saw in 2018, a major negative outcome in the US equity market is likely to trigger an aggressive response from the FOMC. A much more rapid easing cycle from the FOMC in 2024 would take pressure off the AUD; and certainly, set the scene for the RBA to follow.

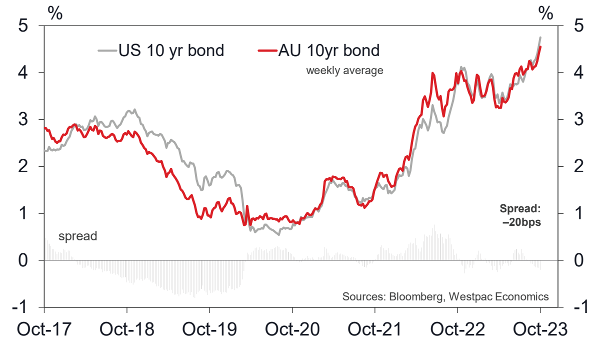
Bill Evans, Chief Economist

… CPI near-term upside likely insufficient to trigger hike

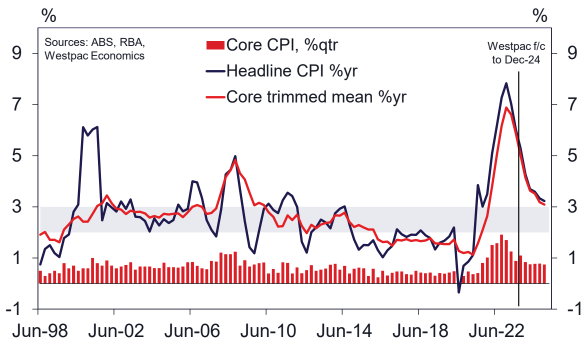
RBA cash rate and 3 year bonds



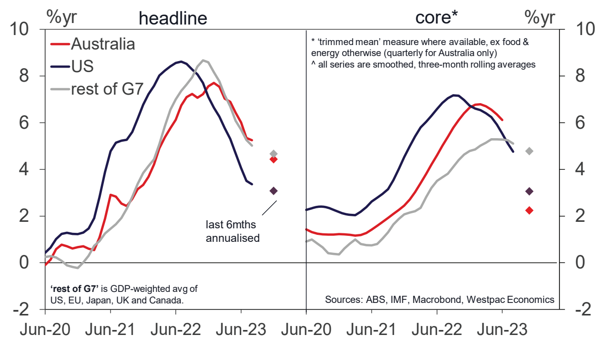
10 year bonds yields: climb through 4.5%



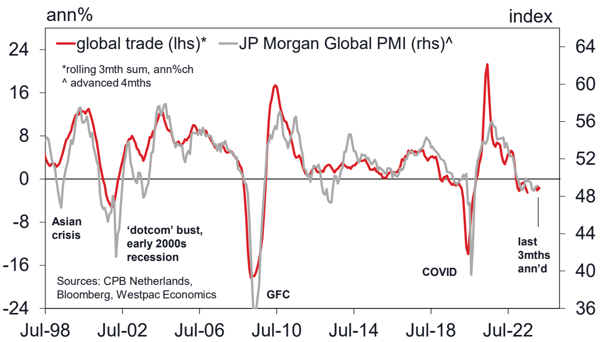
CPI inflation



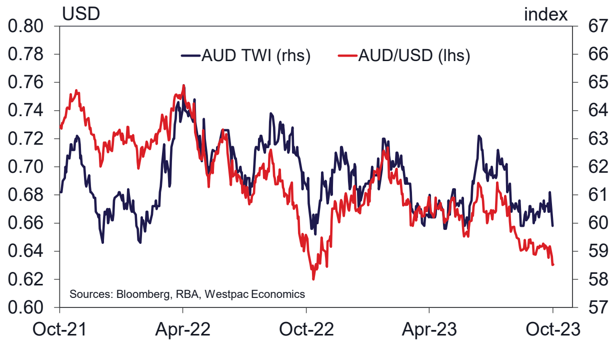
Global inflation showing signs of peaking



Global trade contracting



AUD/USD & AUD TWI



Growth in 2023 well below trend ...

Output growth slows from 2.7% for 2022 ...

A marked slowdown of the Australian economy is underway as the intense headwinds of high inflation and sharply higher interest rates impact. Output growth is moderating from 2.7% for 2022 to a forecast 1.2% for 2023. This is a well below trend pace, particularly with population growth on track to be around 2.3% this year.

... to a forecast 1.2% for 2023, a well below trend pace ...

The economic downturn is centred on consumer spending, which accounts for half of overall domestic demand. The June quarter national accounts confirmed weakness in consumer spending, which was broadly flat in the quarter, inching only 0.1% higher, following a 0.3% rise the period prior. We anticipate that household consumption growth will 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.

... and well below population growth, a likely 2.3% this year.

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.

The economic downturn is centred on consumer spending ...

As we have highlighted previously, in recognition of the current resilience of the labour market we revised up our profile for employment growth in the second half of 2023, boosting household income growth and consumption. We 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%). The recently released ABS jobs vacancy data added to the evidence of an emerging turning point in the labour market. Vacancies are easing from elevated levels, contracting by 8.9% between May and August.

... which was broadly flat in Q2 and is expected to slow to 0.8%yr in mid-2024.

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.

Following the June national accounts, we rounded up our forecast for output growth in 2024 from 1.4% to 1.6% due to a modest uplift in growth in the second half.

Real household disposable income is contracting ...

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.

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

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%. Household spending in the second half of 2024 is expected to expand by 0.9% (rounded up from our earlier forecast of 0.7%), reflecting the 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.

Labour market resilience is likely to falter moving into 2024 ...

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.

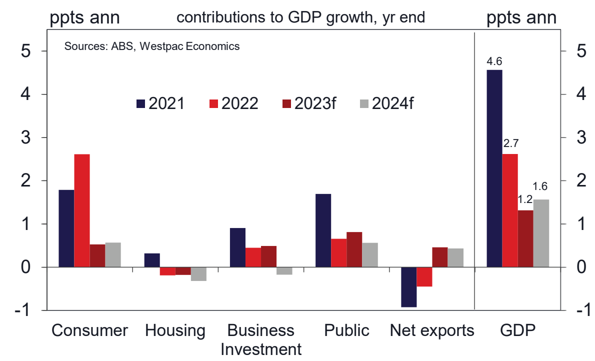
.. as foreshadowed by declining job vacancies, albeit from elevated levels.

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%).

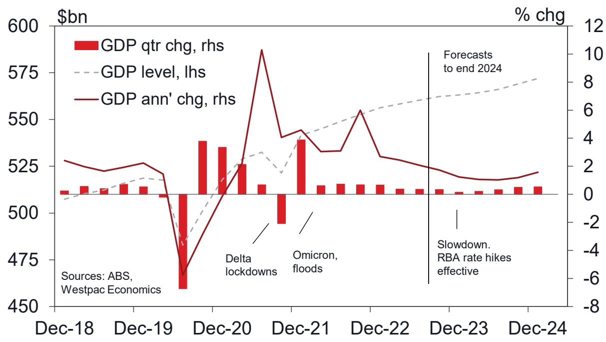
Bill Evans, Chief Economist

… as consumer spending weakens and company profits fall

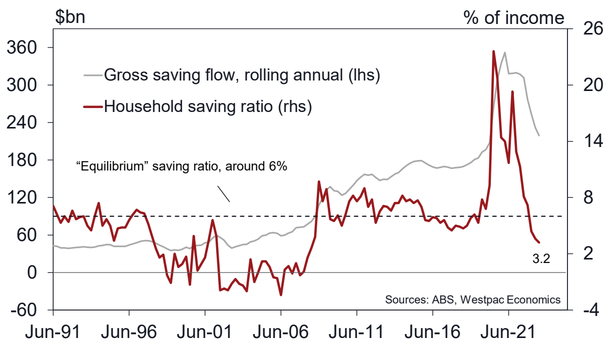
Australia: the growth mix



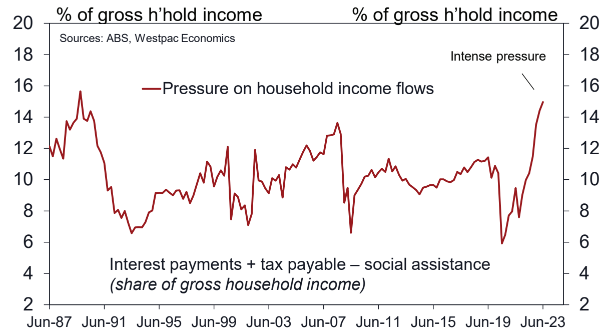
Australian economy: sharp slowdown underway



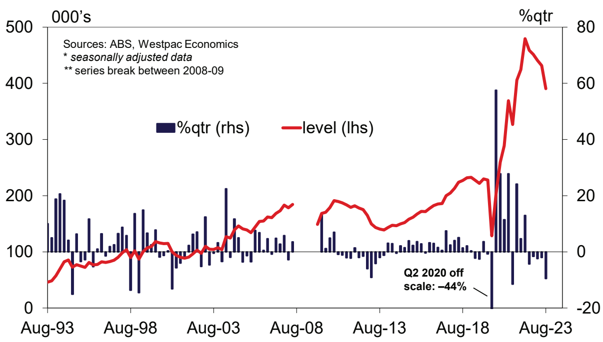
Household saving ratio and gross saving flow



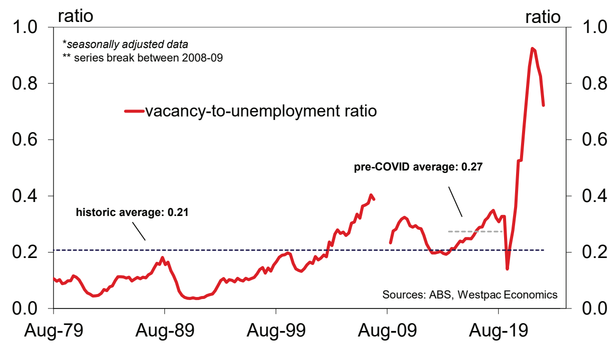
Pressure on household income flows



Job vacancies easing from elevated level



Vacancy-to-unemployment ratio



Iron ore, crude & met coal prices hold firm ...

A volatile month but our broad commodities index was flat in the month ...

It has again been a mixed, and somewhat volatile, month for commodities but in the end our broadest commodities index finished the month roughly where it started down just –0.1%. Brent rose from US$90/bbl to a peak just under US$95/bbl before falling back to US$90/bbl as we went to press. Iron ore prices are currently where they were in the last report at US$120/t despite hitting a peak of US$125/t and a low of US$117/t. Thermal coal has fallen 4% to US$160/t. On a positive note, since the September report, premium met coal has lifted 19% to US$337/t while LNG is up 2%. Base metals overall are down 2%, on the back of a 4% fall in copper offset to some extent by a 6% rise in aluminium and zinc lifting 3%. Overall, commodity prices have had a significant correction this year with the Westpac Commodities Export Price Index down 15% in the year to early October.

... as falling thermal coal, gold, copper & nickel prices ...

We have seen a modest improvement in seaborne iron ore supply this year so it may be somewhat surprising to see how robust iron ore prices have been. Iron ore supply grew more than expected with the traditional markets of Australia, Brazil and South Africa lifting shipments by around 3% this year while the non-traditional markets of India, West Africa (and others) surged 38% in the year to date; overall imports are up 7% in the year to August/11% through the year. However, this has been offset by: (1) a lift in China steel production which is up close to 3% in the year to August and through the year (driven by a material lift in steel exports); (2) a reduction in China's domestic iron ore production, which is down 8% in the year to August but up 7% through the year due to base effects; and (3) a decline in scrap steel consumption by Chinese steel mills. As a result, the market has been tight since February with China's port inventories falling outright; –11% year to September, –49% through the year.

... offset stronger met coal, LNG, aluminium & zinc prices.

The Chinese iron ore market is likely to remain tight into early 2024 as low inventories support prices through the fourth quarter – when traditionally, China starts to curtail iron ore production – and the seasonally weak supply situation eventuates in the first quarter. Looking further out, we see global supply continuing to lift, a further increase in scrap steel consumption as a carbon price will equalise the relative economics of scrap steel vs. pig iron. Domestic Chinese iron ore production is likely to hold steady until prices fall below US$100/t. **For now, our end 2023 forecast for spot iron ore is US$100/t falling to US$83/t by end 2024**. However, given just how tight the market continues to be, the risk to those forecasts lie to the upside.

Iron ore prices have been held up by robust steel production ...

In Asia, metallurgical coal prices have rallied on the back of firm demand amid tight spot liquidity with premium met lifting from US$284/t in the September report to US$337/t as we went to press. A lack of supply for November-loading of Australian premium hard coking coal is underpinning current prices. It has been reported that prime hard coals are facing an acute shortage in India, with robust demand from several end-users. We do expect the supply situation to improve and demand to ease as Chinese steel production moderates seeing **premium met coal easing back to US$315/t by end 2023 and US$238/t by end 2024**.

... which is expected to ease, just as the supply of iron ore improves.

Thermal coal prices peaked in mid September at US$170/t but have since eased back to around US$160/t. Thermal coal prices remain more exposed to a correction than met coal. It appears that Chinese demand has softened as even a fire in a mine in Guizhou, which has hit supply, could not lift domestic prices. As such, the fundamentals for thermal coal remains weak and it does appear that the continuing disconnect between high and low calorific coals may be due, at least in part, to market speculation. It is likely that China's coal supply will remain robust through the remainder of 2023 pushing prices lower into the year end and through 2024. We are forecasting **thermal coal to ease to US$150/t by end 2023 and US$130/t by end 2024 with downside risks to those forecasts**.

Crude oil forecasts have been lifted due to a sharper than expected rally.

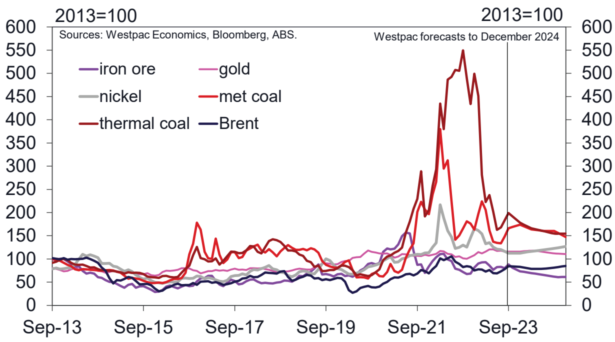
We have lifted our end 2023 forecast for Brent from US$85/bbl to US$90/bbl reflecting a much sharper than expected rally through the past three months. Last month we saw OPEC+ extended their production quotas with both Russia and Saudi Arabia agreeing to extend their current quota limits which has been due to expire. Due to the expectation of continued tight supply, crude prices did get a boost but this faded as the month progressed. However, due to limited potential supply increases from other producers, prices have held above US$90/bbl. Then in late September Russia announced a temporary ban on low-sulphur gasoil (diesel) and gasoline exports. The measure has been introduced to counteract recent spikes in wholesale fuel prices and a series of domestic shortages. While it is not expected to be in place for an extended period of time, it is expected to result in a reduction in exports to the EU. Russia has exported an average of 1.1 mb/d of diesel year to date. This has boosted gasoil futures which is something to watch for in regards to Australian inflation, as the recent surge in auto fuel prices in the CPI was driven in large part by an outsized surge in diesel fuel prices. Meanwhile, EU natural gas prices have extended the recent correction hitting a multi-year low as unusually warm weather crimped demand.

Through September we have seen a continuation of the sell-off for industrial metals with copper trading below US$8,000/t for the first time since late May.

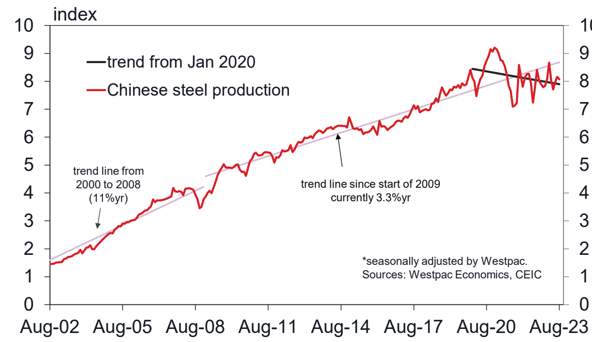
Justin Smirk, Senior Economist

... while the rest weaken on softer demand, rising supply

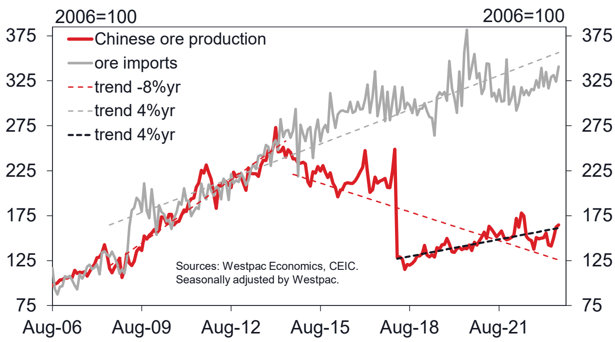
Australian commodities



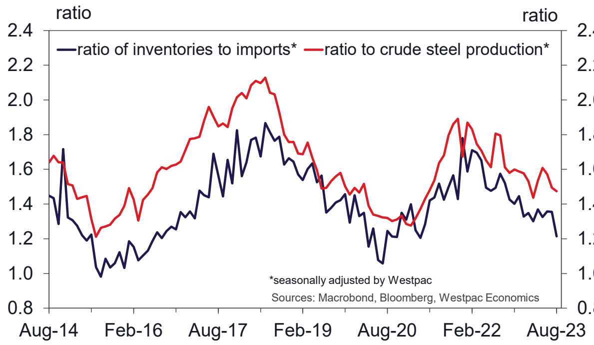
Chinese steel production has flattened



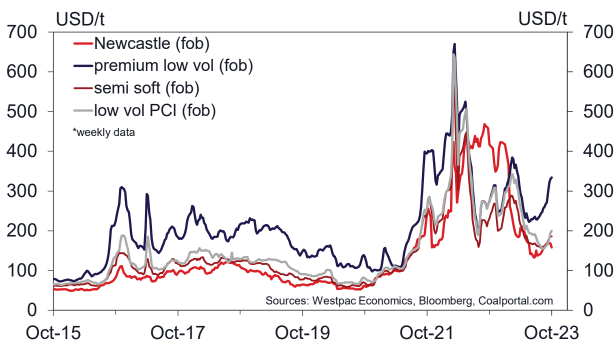
Chinese ore imports in a modest recovery



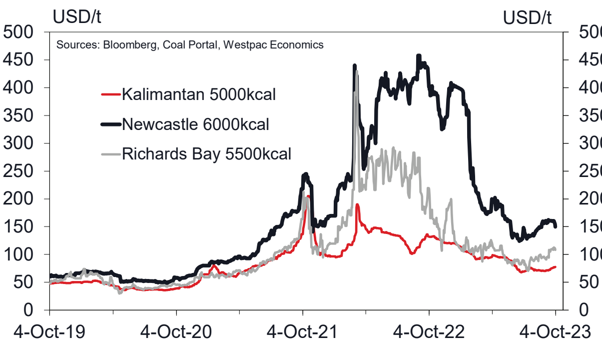
Chinese ore inventories at ports



Premium low vol holds on to its premia



Thermal coal prices



US dollar strength unlikely to last …

The US dollar has shown renewed strength the past month …

Since the September edition of Market Outlook, most G10 currencies have depreciated heavily against the USD. For each pair, this move has been driven by the market's assessment of near-term monetary policy risks and an extrapolation of the current strength of the US economy out to the horizon. US dollar strength at spot makes sense, but we continue to believe the currency will lose its way through 2024 and 2025 as the US economy feels the full effect of policy tightening to date and investment opportunities elsewhere prove their worth.

… on renewed optimism over the US and doubts …

Weakness in the Pound began ahead of the Bank of England's surprise decision to keep the Bank rate steady at 5%, their first 'on hold' decision since the start of the hiking cycle in December 2021. The peak in rates forecast by the market now sits just above the current level at 5.35%, more than 100bps below the market's peak expectation of early-July 2023. Broadly, the BoE now sees greater risks from overtightening, the statement noting the current stance was "restrictive" and that "Further tightening in monetary policy would be required [only] if there were evidence of more persistent inflationary pressures". Before the November meeting, two CPI prints and a wages reading may allay or fuel fears the pause has come too soon.

… over both Europe's and the UK's prospects.

While the European Central Bank raised its key policy rates by 25bps in September, they also signalled this was likely the last hike of the cycle, saying "the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target." The September flash inflation reading supported this decision as core inflation finally eased materially to 4.5%yr. The first ECB rate cut is priced for June 2024 and participants are clearly nervous over downside risks for the economy.

'Higher for longer' has become the consensus opinion …

In contrast, both the FOMC and market have grown in confidence over the US' prospects, warranting a belief in 'higher for longer interest rates'. Despite its higher level, a cut is not priced for the fed funds rate until July 2024. Of greater support for the US dollar at present though is the jump in term yields, the 10-year yield gaining around 30bps since just before the September meeting, reducing the inversion of the US curve.

… but we still believe it is too early to judge policy's full effects …

On page 14, we highlight our continued belief that the US economy will surprise the FOMC's expectations to the downside in 2024, both with respect to inflation and growth. Consequently, we continue to expect 100bps of easing in 2024 against the FOMC's 50bp forecast and market's 75bps. Come 2025, US growth is expected to still be below trend while, for both the Euro Area and UK, clear signs of a robust recovery should be evident.

… and evident downside risks to growth.

For DXY then, while recent market developments and current sentiment have led us to revise up our end-2023 forecast from 102 to 104, we remain confident in our existing end-2024 and 2025 views circa 98.5 and 95 respectively. In terms of the key North Atlantic pairs, the above DXY forecasts incorporate EUR/USD rising from USD1.05 to USD1.08 by end-2023, then USD1.14 and USD1.17. GBP/USD gains from USD1.22 at present to USD1.23 by end-2023 as downside risks abate. But gains thereafter for Sterling are expected to be more modest than for Euro, GBP/USD seen at USD1.27 and USD1.31 end-2024 and 2025.

For Yen, it is not just rates but also the oil price of that looms as a headwind.

Of course, the other key input into the US dollar DXY index is USD/JPY. For Yen, a much greater degree of uncertainty looms. This month, the Bank of Japan left policy settings unchanged despite Governor Kazuo Ueda's seemingly taking a hawkish view ahead of the meeting while being interviewed by a local newspaper. Market participants showed their disappointment by taking USD/JPY above JPY150. This test of the BoJ's key level proved fleeting however, the currency jolting back to around JPY148.

Since this first test, USD/JPY has risen back near JPY150 briefly, the market making clear their view on valuation risks given the gaping rate differential with the US and other key developed markets. This is not just a level judgement but also a consequence of recent momentum, Japan's 10-year yield up just 8bps since the September US FOMC meeting as the US yield rose 30bps.

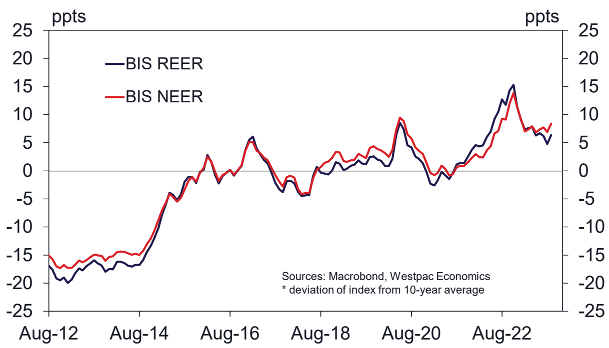
Only a partial retracement towards 2018-2020 levels is consequently anticipated.

The high cost of oil also stands against Japan, their status as an energy importer meaning the Yen shows a high sensitivity to the price of oil and gas. Indeed, on our forecasts oil is expected to prove a more persistent external headwind than rates: while developed-world interest rates fall through 2024 and 2025, we expect the price of oil to continue fluctuating between $85 and $102 per barrel. Offsetting support from Japanese rates is unlikely to be seen soon wither, with wage negotiation data and the current inflation pulse unlikely to signal the formation of a virtuous cycle between wages and inflation. It is for these reasons we expect the Yen to experience a very slow ascent through 2024 and 2025, USD/JPY falling from around JPY148 to JPY127 at end-2025, a materially higher level than the JPY110 averaged during 2018-2020.

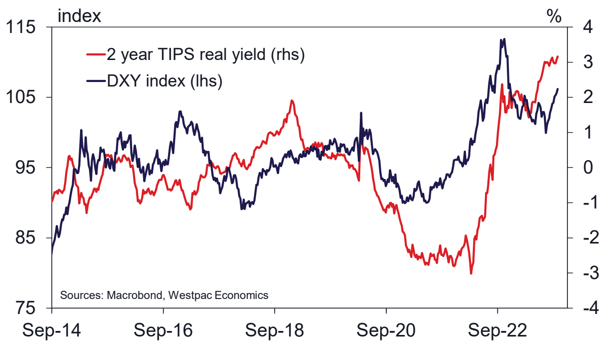
Elliot Clarke, CFA, CAIA, Senior Economist & **Illiana Jain, Economist**

... far beyond December 2023

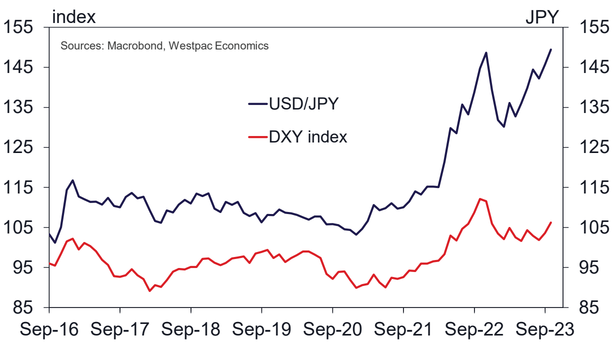
USD historically elevated on broad basis



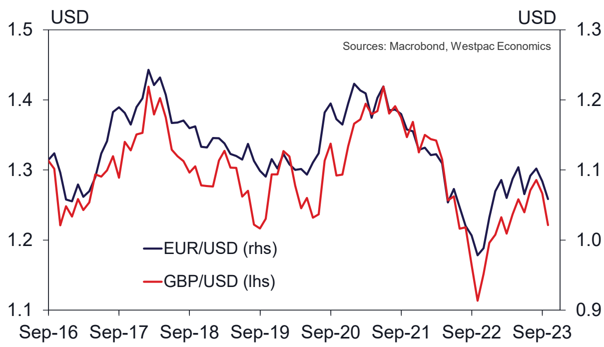
US real yields offer strong support for USD



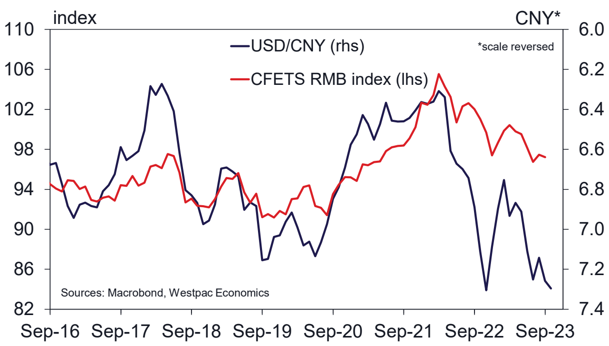
JPY weakness unlikely to fully reverse



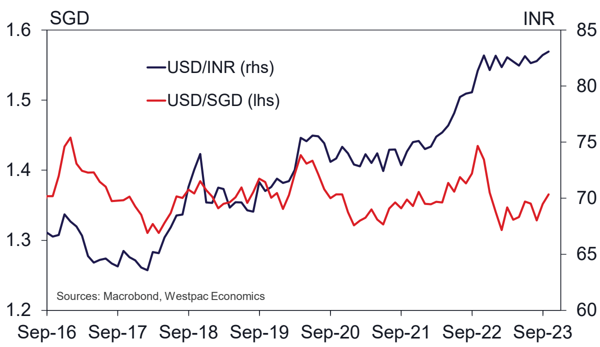
But EUR negatives should fade in 2024



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



RBNZ to hold rates high for longer ...

No OCR cuts expected in 2024 now despite ongoing tight financial conditions.

We are revising our forecasts for the Official Cash Rate (OCR). We still expect the RBNZ to increase the cash rate by 25bps to 5.75% in November, but now think that the OCR will remain at that level for longer. We now don't expect OCR cuts until early 2025. Since late 2022, the RBNZ has executed a consistent strategy to move the OCR relatively quickly to 5.5% and then hold the OCR steady at that level until inflation pressures subside. This strategy has been effective in significantly tightening financial conditions, especially in recent months as markets embraced the "high for longer" message.

Leveraged households are bearing the brunt of tightening so far.

The tightening has mainly been felt by leveraged households and businesses who are increasingly paying markedly higher financing costs. For households, a significant proportion of past rate increases is still to hit their budgets as borrowers roll onto higher rates. There has been less (indeed no) tightening in financial conditions coming from the exchange rate. This is unusual in a tightening cycle.

Monetary policy is working but has a big task ...

The challenge for the Reserve Bank is that the starting point from which financial conditions started to tighten was very stimulatory and the magnitude of the related inflation surge was unprecedented in the inflation targeting era. Interest rates and financial conditions needed to tighten – and by a very long way – to correct the significant imbalances that were created in the COVID-19 period.

... as a range of factors holds up growth and inflation ...

Nevertheless, inflation has proven to be resilient to tightening in the post COVID-19 period. Many factors have been at play including: a tougher geopolitical environment; ongoing frictions in global supply chains and volatility in oil prices; resilience among households and businesses that built-up significant buffers during COVID-19; the uneven impact of increased interest rates across different households and businesses; unusual strength in population growth and the housing market when the lift in interest rates should have really been gaining leverage on the economy; and ongoing fiscal stimulus as the government opted to deliver stimulus in the 2023/24 fiscal year (at around 2% GDP based on Treasury estimates).

... even in the first half of 2023.

The upshot of these factors has been persistent inflation in the face of monetary tightening. Aggregate supply and demand are being lifted by the explosion in population growth. This means that growth has continued to hold up in defiance of the usual cyclical indicators pointing to what should be recessionary conditions. We saw this with the most recent GDP report that showed growth in the year to June running at 1.8%, with the size of the economy about 0.5% larger than the RBNZ forecast as late as August 2023.

The labour market is easing but remains tight ...

Similarly, while high frequency data suggests that employment growth is now slowing, the labour market remains tight. Yes, the labour market is easing, as it has globally after the COVID-19 period, but the easing is gradual while inflation is still white hot and falling slowly. Furthermore, that firmness in the labour market is helping moderate the decline in households' spending appetites that might otherwise have occurred.

... raising risks that the RBNZ's 5.5 % OCR might not be enough to bring down inflation expeditiously.

We are concerned that the RBNZ's interest rate strategy may not have been sufficiently adjusted to accommodate these factors. Since late 2022, the RBNZ's growth forecasts have been significantly revised up and unemployment rate forecasts revised down, while the RBNZ's inflation forecasts have remained well anchored around the idea that inflation will return to the 1-3% target range by the end of 2024. While the RBNZ's assumptions might prove correct (for example if the growth potential of the economy has increased significantly with population growth), we are concerned that inflation might persist. It may be that an OCR of 5.5% is insufficient to bring inflation down fast enough without risking a rise in inflation expectations, which could compound the upward pressure on costs and wages.

We see the OCR remaining higher for longer ...

To account for these risks, we are adjusting our medium-term view for the OCR. We continue to think that the RBNZ will opt to raise the OCR further in the November MPS to 5.75%. However, we now do not see an easing in the OCR until 2025. After that, we see a slow 25bps per quarter adjustment down in the OCR, and it is likely to take some time to reach an assumed terminal OCR of 3.5%.

... helping manage upside inflation risks and bringing our OCR profile more in line with the rise in long term market rates.

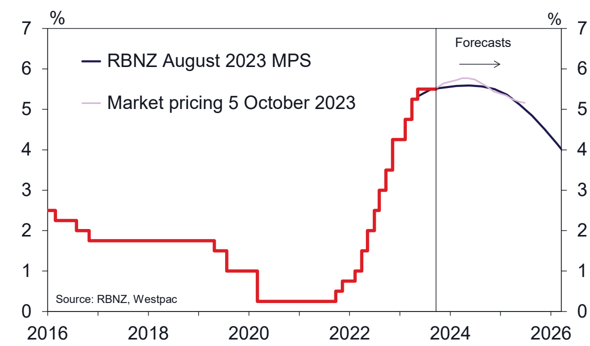
This revised profile is more consistent with the risks associated with the "high for longer" approach, compared to moving proactively to tighten earlier and by more to bring inflation down more quickly, and thus allowing earlier easing. This profile is also more consistent with the message coming from the yield curve and long-term interest rates which have steepened and significantly increased in recent months. At the least, the rise in long term interest rates may tell us that markets have scaled back recession concerns. At worst, higher long rates might be pointing to inflation risks. Either way, it is prudent to incorporate this information into our forecasts.

Kelly Eckhold, Chief Economist NZ

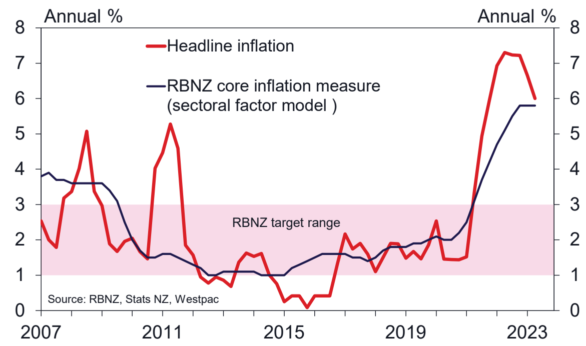
NEW ZEALAND

... probably still higher too

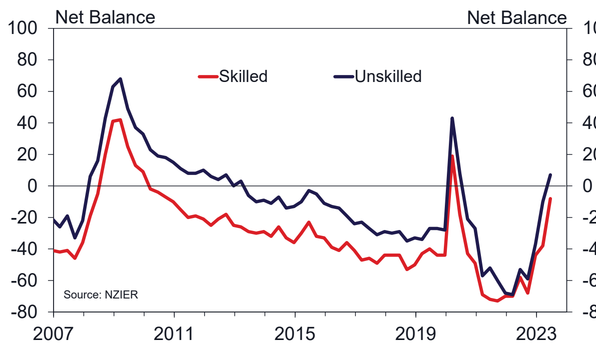
Official Cash Rate forecasts



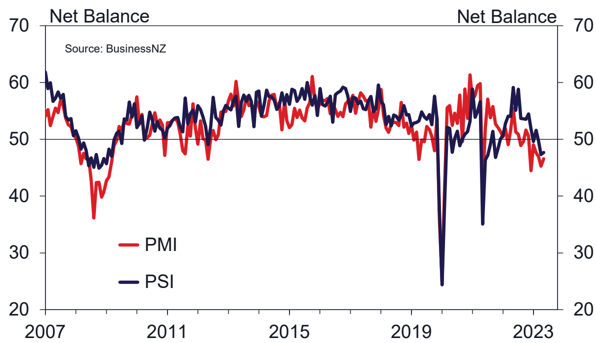
Inflation



Ease of finding labour



PMI and PSI



					2023							
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
REINZ house sales %mth	-3.5	-3.3	-6.2	-6.5	6.8	-2.0	12.4	7.5	3.3	4.0	-6.5	5.2
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	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	-100.0
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	2.6
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	-1082

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	6	20	11	-1	-5	-3	4	-15	-10	-15
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	3.2
Current account balance % of GDP	-2.6	-3.3	-4.6	-5.8	-6.6	-7.9	-8.3	-8.8	-8.2	-7.5

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

FOMC to keep policy tight ...

The FOMC showed comfort with inflation and growth risks ...

The FOMC held the line against price risks at their September meeting despite being pleased with inflation's recent progress. Recent activity data has meanwhile affirmed their sanguine view of the economy and labour market, with growth characterised by the Committee as "solid" and job gains having "slowed" but still "strong". With the economy now seen growing broadly at trend over the forecast period to end-2026, the chance of another hike in 2023 and the timing of cuts from 2024 are set to depend on the pace at which inflation decelerates to target. Further out, the stance of policy will be dictated by the effectiveness of policy in keeping inflation near target.

... in September. Current trends are being extrapolated into the 'longer run'.

Focusing first on economic growth, reflecting the latest data, the FOMC's median GDP growth forecast for 2023 has been doubled from 1.0% in June to 2.1% in September having previously been revised up from 0.4% in March. Given 2023's material outperformance, it is logical that the median forecasts of the Committee for 2024 and beyond are also constructive (1.5% from 1.1% in 2024 and an unrevised 1.8% in 2025, 2026 and the 'longer run'). To us, the skew of risks to the FOMC's growth view lay to the downside in 2024 and beyond. Westpac instead sees a lengthy period of below-trend growth, 1.3% in both 2024 and 2025.

Westpac sees growing downside risks as a result of tight financial conditions ...

Most critical of the headwinds faced by the US is the ongoing deceleration in credit growth and tight financial conditions and standards, the full effect of which is yet to be seen. The additional market supply of Treasuries required to fund a 5–6% of GDP Federal deficit absent QE is also set to support US term interest rates hence. On our forecasts, the combined effect of these factors is expected to keep real term interest rates for households and business materially above neutral levels for the entire forecast period – the 10-year real yield seen around 2.0% end-2024 and 1.5% end-2025 versus a 1.0% neutral estimate.

... and the susceptibility of employment and incomes to a further deterioration.

We are also less confident than the FOMC with respect to the labour market. Gains in labour supply have, to date, been behind improving balance, the participation rate's 1.1ppt rebound over the past 24 months netting out strong job creation. The FOMC see supply continuing to match demand, with only a small lift in the unemployment rate from 3.8% to 4.1% forecast for 2024 after which it is expected to remain unchanged into the 'longer run'.

However, consistent with our forecast for sub-trend growth and following the dramatic slowing in nonfarm payroll employment growth from 400k per month in 2022 to 150k in the 3 months to August 2023, Westpac instead sees a steady lift in the unemployment rate through 2024 to 5.0% as new labour supply sustainably exceeds demand.

Consumption is already showing signs of fatigue.

Such an outturn would, over time, increase the susceptibility of the economy to downside risks, requiring much greater care with the real stance of policy than the market expects. Note, while the FOMC and market continues to focus on the positives, consumption growth has actually been sporadic in 2023 to date, with strength in January, June and July countered by weak growth in the other months.

Despite our concerns over growth, inflation is unlikely to stay at target ...

On inflation, the FOMC's and our own forecasts are broadly in line for 2024 at 2.5%, although we see a low around 2.0% mid-2024 assuming current trends in core inflation persist. While we anticipate a rebound in inflation to 2.5% into 2025 against the FOMC's linear deceleration to 2.2% end-2025 and 2.0% end-2026, our expectation is the result of structural constraints against which tighter policy will, at best, have little impact and could make worse. The consequence for rents of a sustained imbalance between housing supply and demand is the obvious example. The push to re-shore and near-shore manufacturing is also likely to lead to higher US inflation relative to target than elsewhere in the developed world, with productivity and efficiency in the US unable to match that of Asia.

... with structural supports apparent from late-2024. We see an earlier start to cuts ...

Therefore, while a majority of FOMC members anticipate one more hike in 2023 and now only see 50bps of cuts in 2024, we believe 100bps of cuts should be delivered in 2024. Come 2025, with inflation back at 2.5% but the unemployment rate near 5.0%, we see need for another 100bps of cuts against the FOMC's 125bps.

Our forecast window does not currently extend to 2026. However, given the uncertainty around structural supports for inflation into the medium-term, the prime risk is arguably that the further decline in fed funds forecast by the FOMC to 2.9% end-2026 and 2.5% in the 'longer run' does not eventuate without a much greater degree of weakness in the economy.

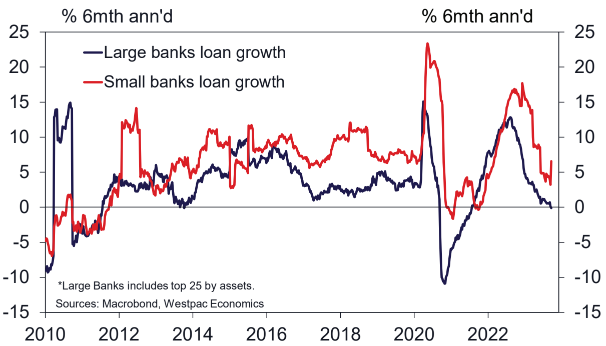
... but doubt fed funds will be cut down to the FOMC's 'longer run' 2.50%.

With these risks in mind, we currently have the rate cutting cycle troughing at 3.375%, some 90bps above the FOMC's 'longer run' view and also target a nominal 10-year yield at end-2025 of 4.00%, portraying an extended period of inflationary and policy uncertainty.

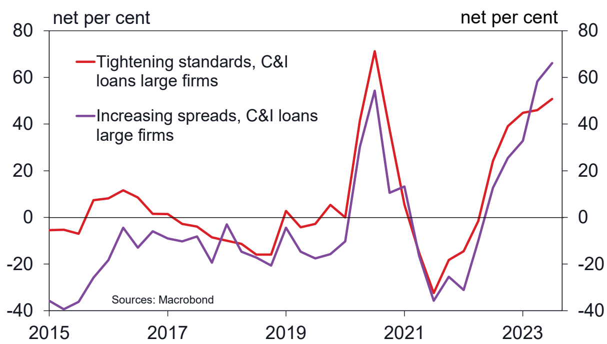
Elliot Clarke, CFA, CAIA, Senior Economist

... as long as necessary

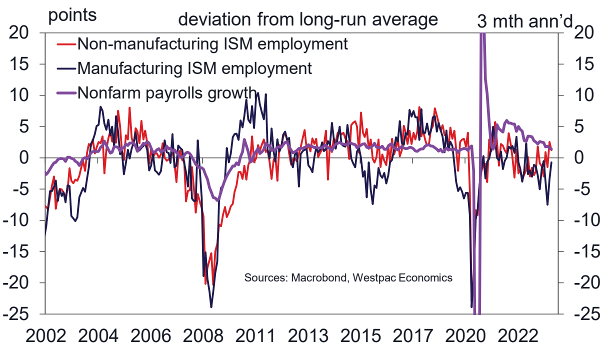
Credit deceleration a material headwind



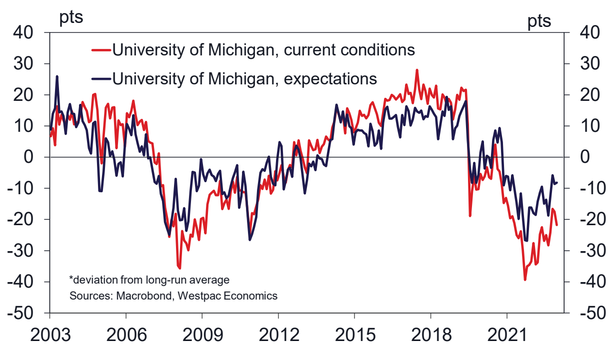
Tight credit standards also being reported



Surveys point to modest job creation



Consumer concern over outlook growing



				2023							
Monthly data	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
PCE deflator %yr	6.3	5.9	5.4	5.5	5.2	4.4	4.4	4.0	3.2	3.4	3.5	–
Unemployment rate %	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	324	290	239	472	248	217	217	281	105	157	187	–
House prices* %yr	8.8	7.0	4.8	2.8	0.6	-1.1	-1.7	-1.8	-1.3	0.1	–	–
Durables orders core 3mth %saar	2.0	-6.1	1.3	1.4	5.3	0.3	-0.2	2.2	2.9	-1.7	0.4	–
ISM manufacturing composite	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6	49.0
ISM non-manufacturing composite	54.5	55.5	49.2	55.2	55.1	51.2	51.9	50.3	53.9	52.7	54.5	53.6
Personal spending 3mth %saar	8.4	4.6	3.2	7.2	9.3	7.8	3.0	2.5	4.5	6.2	7.1	–
UoM Consumer Sentiment	59.9	56.8	59.7	64.9	67.0	62.0	63.5	59.2	64.4	71.6	69.5	68.1
Trade balance USDbn	-78.3	-63.8	-71.4	-70.8	-70.6	-60.4	-73.0	-66.8	-63.7	-64.7	-58.3	–

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	-214.5	-212.1	–

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

Green shoots beginning to appear …

Recently we have seen evidence of a nascent recovery in confidence.

China's economy has recently shown evidence of a nascent recovery in confidence and spending. Most notably, the official manufacturing PMI printed an expansionary outcome for the first time in six months in September, albeit just at 50.2. Meanwhile, the services measure accelerated modestly to 51.7 after having been in a downtrend since March's re-opening driven 58.2. The detail of the two surveys offer a more nuanced view of the state of the economy.

At 52.7, the production sub-index for the manufacturing sector is in line with the average of the five years before the pandemic, a period when annual GDP growth averaged 6.7% and investment in the sector was expanding by 6.4% per year (currently 5.4% and 6.4% year-to-date).

The manufacturing sector is as robust as it was pre-pandemic …

New manufacturing orders are a touch below par versus the five years pre-pandemic (50.5 versus 51.4), with both domestic and external demand similarly positioned (the September export orders reading was 47.8 against a 49.0 average). Pleasingly, the manufacturing survey points to a consistent degree of strength across small, medium and large enterprise. The forward view on production is also robust, broadly in line with the average of 2015 to 2019.

… while the service sector is clearly weak…

For services, while the September headline reading was stronger than manufacturing, relative to the pre-pandemic average, this result was materially weaker (51.7 compared to 54.1). Weakness in residential construction clearly remains a factor but is not the sole contributor, with the construction sub-sector detail showing a similar degree of weakness relative to the pre-pandemic period as services overall (respectively 3.5ppts and 2.4ppts below average).

… albeit improving.

The business expectations detail for headline services and construction are both constructive for the outlook, with a smaller deviation from the pre-pandemic average observable for each expectations series compared to current activity (1.6ppts and 2.6ppts for services/construction expectations respectively).

Employment is critical for the outlook.

For the economy overall, employment remains the primary concern. Though manufacturing employment has broadly been in line with the pre-pandemic average throughout 2023, job creation in the services sector has remained weak. This has to change if domestic demand is to return to health, and the downside risks the economy faces are to be removed.

Investment needs to accelerate broadly and consumption lift …

At 3.9% in August, year-to-date growth in total social financing is supportive of growth but, being below the pace of nominal GDP growth to June, hardly sufficient to reverse the recent weakness in services job creation. Instead, new investment funded by cash and credit as well as an acceleration of consumer demand are required to match labour demand to new supply.

This is a problem as it requires households to take a leap of faith and rundown savings before experiencing the benefit of robust income growth and/or a recovery in household wealth. As we have often highlighted, there is very good reason to have faith in China's productive capacity and its increasing value-add thanks to rapid growth in high-tech manufacturing and associated services. But the transmission of these gains to the broader economy is yet to be proven.

… if China's economy is to outperform in 2024, as we continue to expect.

We consequently believe there remains a need for the Government to do more with policy to encourage belief in broad-based job creation and sustainable gains in household wealth. This is best done by putting the local governments on a stronger foundation and removing financing risks for the property sector. If this occurs, GDP growth can surprise materially in 2024.

Elliot Clarke, CFA, CAIA, Senior Economist

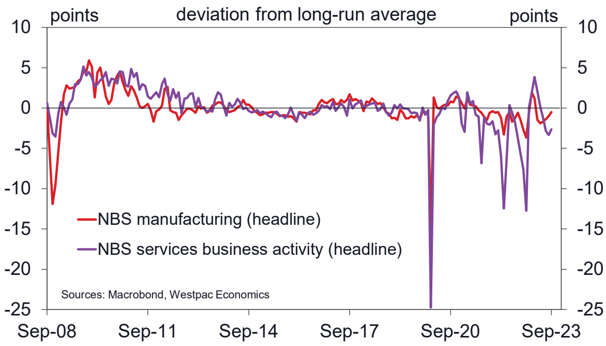
				2023								
Monthly data %yr	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Consumer prices – headline	2.10	1.60	1.80	2.10	1.00	0.70	0.10	0.20	0.00	–0.30	0.10	–
Money supply M2	11.8	12.4	11.8	12.6	12.9	12.7	12.4	11.6	11.3	10.7	10.6	–
Manufacturing PMI (official)	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2
Fixed asset investment %ytd	5.8	5.3	5.1	5.1	5.5	5.1	4.7	4.0	3.8	3.4	3.2	–
Industrial production (IVA)	5.0	2.2	1.3	1.3	2.4	3.9	5.6	3.5	4.4	3.7	4.5	–
Exports	–1.5	–10.0	–11.9	–12.0	–3.2	11.3	7.3	–7.3	–12.4	–14.3	–8.8	–
Imports	–1.2	–10.9	–7.3	–20.8	4.6	–1.9	–8.5	–4.8	–6.8	–12.3	–7.3	–
Trade balance USDbn	82.3	66.5	70.6	92.6	11.8	78.4	86.5	65.6	69.8	80.4	68.2	–

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

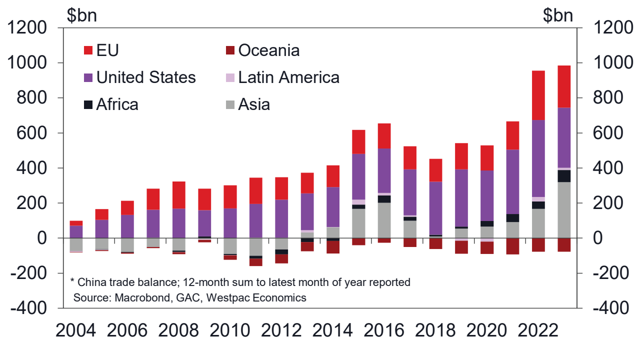
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

... in China's economy

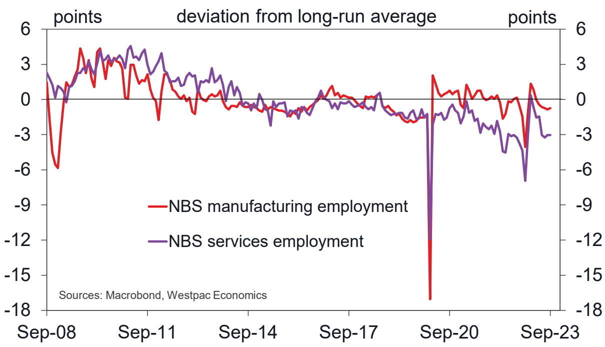
Chinese manufacturing PMI about average



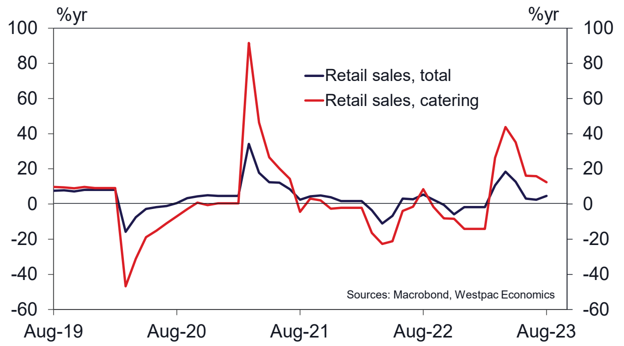
Asia offers considerable trade opportunities



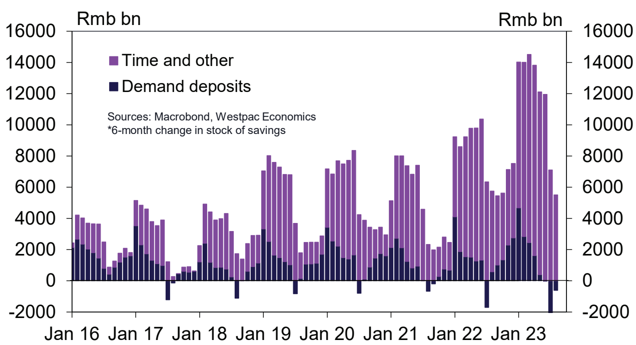
But trade income has to flow to services



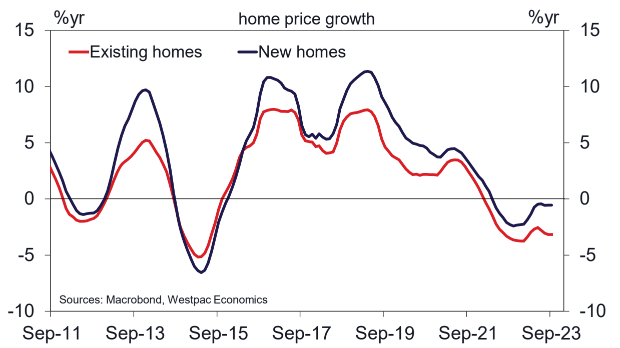
Households have been precautionary saving



But now look willing to spend more of income



Household wealth driven by house prices



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.

Opportunities for Australia ...

Rapid economic development and a strongly-growing youthful population will see Southeast Asia's[1] global importance increase dramatically over coming decades. To highlight how Australia can take advantage of this opportunity, the Federal Government commissioned Nicholas Moore, Special Envoy for Southeast Asia, to develop a Southeast Asia Economic Strategy to 2040. Through a range of recommendations, the final report sets out numerous ways in which Australia stands to benefit from two-way flows in people, goods and capital. In this piece, we explore what is driving ASEAN's growing prosperity and where the key opportunities lie for Australia.

Strong population growth in SEA will benefit ...

The Economist Intelligence Unit (EIU) projects a 4% annual compound growth rate for the region between 2022 and 2040. This would result in the region's economy growing larger than any single economy except the US, China and India. Indonesia's development is critical to the region's success given its rapidly growing population already makes up 40% of the region. A 5% annual compound economic growth for Indonesia to 2040 would leave it as the world's 5th largest individual economy, according to the EIU. Demographics are key. The Strategy's final report highlights that 55% of the region's 687mn population is currently under 35 and around 28% is considered middle class – a strong foundation for an adaptable and productive working-age population to 2040. Also supportive is rapid urbanisation, buoying investment and engagement-driven innovation.

... Australia's labour market and education sector.

A disproportionate share of young adults in a rapidly developing economy calls for upskilling at scale. For Indonesia alone, President Joko Widodo in 2019 called for the addition of 57mn skilled workers to their labour force by 2030, let alone 2040 and beyond. Australia's education sector can benefit in two ways. Students from ASEAN-5 nations currently make up around 14% of total commencements – a share that is growing as Chinese student numbers trend higher at a slower pace and is only outpaced by Indian students. The Strategy recommends increasing scholarship opportunities for Southeast Asian students and reviewing visa settings to make it easier for students to come to Australia. Additionally, Australian universities could expand facilities in Southeast Asia to meet demand for education locally.

The region's demographics also creates considerable opportunity for our labour market. As our population ages, Australia will need to continue to rely on migrants to maintain a skilled working-age population. Importantly, Australia's population is already connected to ASEAN: of the 30% of Australia's resident population born overseas, 10% of that segment are from ASEAN-5 nations.

Infrastructure demand is an opportunity ...

Outside of education, the ASEAN investment opportunity for Australia is broad and has scale. The Strategy final report highlights a $3trn infrastructure need across the region to 2040 (Global Infrastructure Hub), and a similar need for green investment (Boston Consulting Group). Supporting green investment, 8 of the 11 nations in Southeast Asia have announced a net zero target and anecdotes point to Indonesia currently receiving significant private investment by Chinese and South Korean firms looking to build battery and electric vehicle production chains for global markets. Similar industrial development is likely to follow in Thailand and Vietnam.

... for strong returns in funds management.

For Australia, the development of infrastructure and industry will support existing and emerging Australian commodity exports (including iron ore and lithium) and our professional services sectors (e.g. architecture and engineering) for decades. It is also set to provide cost-effective access to many of the inputs needed for the Australian green transition through renewable power generation and electrification. There is an opportunity for Australia's $3.5trn superannuation sector to deliver robust, healthy financial returns to Australian superannuates from investments in real assets as well as private/public equity.

Food exports will be of key significance.

With a growing population, rising household wealth and a need to electrify their economies, ASEAN nations will also experience sustained growth in demand for food and energy. In 2023, ASEAN received just over a quarter of Australia's exports of food and live animals, up from 19% in 2019. Over half of these exports were wheat, with the next biggest food commodity export being beef at around 10%. Demand for our meat exports has increased in recent years, reflecting our competitive position in the Asian market and an income-driven change in preferences amongst ASEAN consumers. Growth in GDP per capita and ASEAN's population should continue this trend.

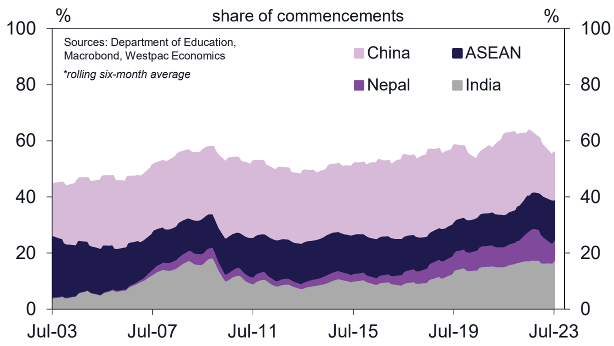
The Federal Government's Strategy to 2040 makes clear the diverse array of opportunities before Australia in Southeast Asia through migration, trade and investment. Importantly, these prospects are long-term, creating an opportunity to deepen commercial and social engagement and to, in time, include other parts of Asia and the Pacific region. If successful, the development of stronger trade linkages and collaboration may also alleviate geopolitical risk.

Illiana Jain, Economist

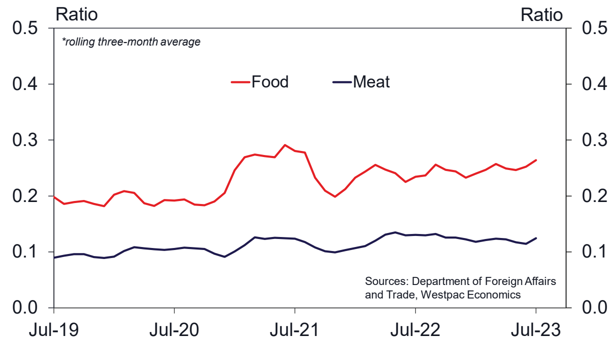
[1] Includes the ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore and Thailand; 73% of the population) as well as Vietnam, Brunei Darussalam, Burma, Cambodia, Laos and Timor-Leste.

... in Southeast Asia

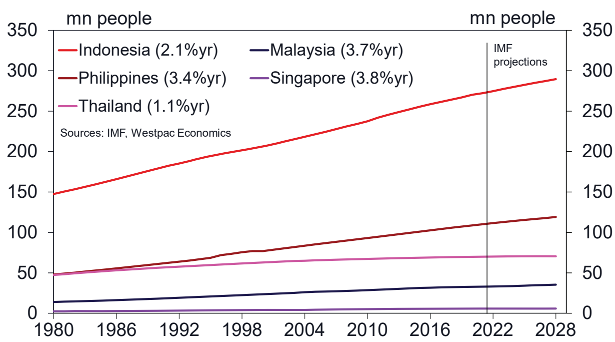
ASEAN students adding strength



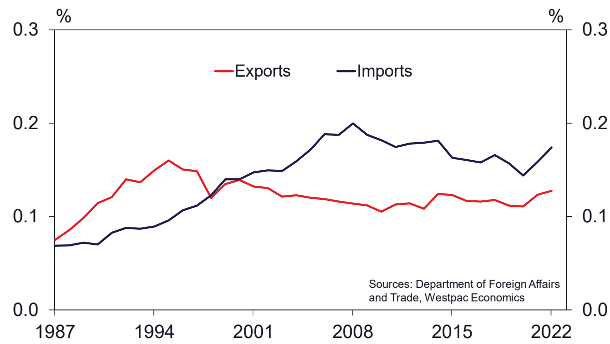
Australia's food export share to ASEAN strong



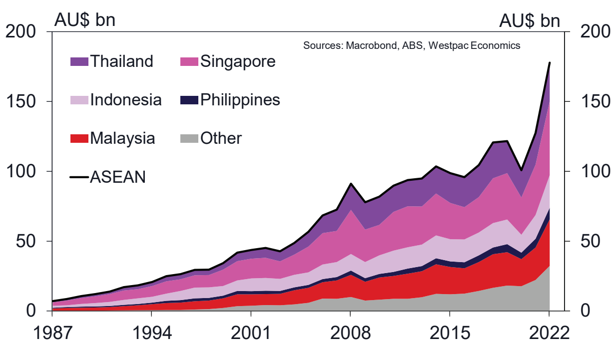
Population growth in ASEAN-5 nations



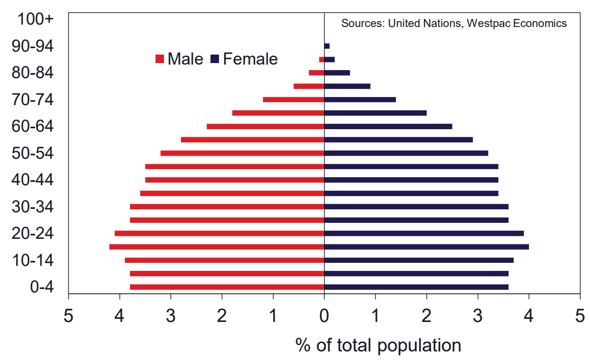
Australia's share of trade with ASEAN ticks up



Australia's total trade with ASEAN nations



Indonesia favourable demographics by 2030



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Australia

Interest rate forecasts

	Latest (6 Oct)	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	4.14	4.30	4.30	4.22	3.97	3.72	3.47	3.22
3 Year Swap	4.25	4.10	4.00	3.90	3.80	3.70	3.50	3.40
3 Year Bond	4.04	3.85	3.75	3.70	3.60	3.50	3.30	3.20
10 Year Bond	4.60	4.45	4.50	4.40	4.30	4.20	4.00	3.90
10 Year Spread to US (bps)	–12	–15	–15	–20	–20	–20	–20	–20

Currency forecasts

	Latest (6 Oct)	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25	Jun–25
AUD vs								
USD	0.6373	0.66	0.67	0.68	0.69	0.70	0.71	0.72
JPY	94.60	97.0	97.2	97.2	97.3	96.6	95.9	95.0
EUR	0.6041	0.61	0.61	0.61	0.61	0.61	0.62	0.62
NZD	1.0676	1.08	1.10	1.10	1.11	1.13	1.13	1.14
CAD	0.8736	0.88	0.88	0.88	0.88	0.89	0.89	0.90
GBP	0.5227	0.54	0.54	0.54	0.55	0.55	0.55	0.55
CHF	0.5815	0.60	0.60	0.61	0.61	0.61	0.61	0.62
DKK	4.5046	4.56	4.58	4.57	4.55	4.58	4.60	4.63
SEK	7.0170	7.10	7.14	7.12	7.09	7.13	7.17	7.21
NOK	6.9844	7.07	7.11	7.09	7.06	7.10	7.14	7.18
ZAR	12.44	12.7	12.8	12.8	12.9	13.0	13.1	13.2
SGD	0.8712	0.89	0.90	0.90	0.91	0.91	0.92	0.94
HKD	4.9902	5.16	5.23	5.30	5.38	5.45	5.51	5.58
PHP	35.95	37.0	37.2	37.4	37.6	37.8	38.0	38.2
THB	23.54	22.8	22.9	23.1	23.1	23.1	23.1	23.0
MYR	2.9950	3.07	3.05	3.03	3.04	3.05	3.05	3.06
CNY	4.6500	4.75	4.76	4.69	4.69	4.69	4.69	4.68
IDR	9953	10164	10184	10200	10212	10220	10295	10368
TWD	20.58	20.8	20.8	20.7	20.8	20.9	21.0	21.1
KRW	861	871	871	870	869	875	880	886
INR	52.74	54.1	53.6	53.0	52.4	52.5	52.9	53.3

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	1.2	0.9	0.5	0.6				
%yr end	12.0	9.5	3.6	4.3	3.0	1.4	3.2	10.0	12.0	3.0	2.8

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	0.7	0.4	0.1	–0.1	–	–	–	–
%yr	5.1	3.4	3.2	3.0	2.7	2.1	1.1	2.4	5.1	2.7	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	1.1	0.9	0.8	0.7	–	–	–	–
%yr	7.8	7.0	6.0	5.3	4.3	3.7	3.6	3.5	7.8	4.3	3.2
Core inflation trimmed mean	1.7	1.3	0.9	1.1	0.8	0.8	0.8	–	–	–	–
%yr (2)	6.9	6.6	5.9	5.0	4.1	3.6	3.5	2.6	6.9	4.1	3.1
Current account AUDbn	10.9	12.5	7.7	5.0	6.0	6.0	5.0	65.0	26.4	31.0	11.0
% of GDP	1.7	1.9	1.2	0.8	0.9	0.9	0.8	3.0	1.1	1.2	0.4
Terms of trade annual chg (1)	7.2	0.4	–12.7	–6.5	–6.3	–10.4	–4.5	16.9	6.4	–6.4	–6.9

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

			2023								
Monthly data	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Employment '000 chg	57	–7	16	59	69	–8	75	27	–1	65	–
Unemployment rate %	3.5	3.5	3.7	3.5	3.5	3.7	3.6	3.5	3.7	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	0.4	–0.2	0.9	–0.8	0.5	0.2	–
Dwelling approvals %mth	–2.2	14.5	–28.2	6.2	0.6	–5.3	20.9	–8.6	–7.4	7.0	–
Credit, private sector %yr	8.3	7.8	7.5	7.2	6.8	6.6	6.2	5.6	5.3	5.1	–
Trade balance AUDbn	13.4	12.1	10.3	13.8	14.5	10.0	10.4	9.9	7.3	9.6	–

New Zealand

Interest rate forecasts

	Latest (6 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	5.50	5.75	5.75	5.75	5.75	5.75	5.50	5.25
90 Day Bill	5.69	5.85	5.85	5.85	5.85	5.75	5.50	5.20
2 Year Swap	5.72	5.81	5.67	5.50	5.29	5.08	4.86	4.65
10 Year Bond	5.51	5.45	5.45	5.40	5.30	5.15	4.90	4.80
10 Year Spread to US	79	85	80	80	80	75	70	70
10 Year Spread to Aust	91	100	95	100	100	95	90	90

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (6 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZD vs								
USD	0.5969	0.61	0.61	0.62	0.62	0.62	0.63	0.63
JPY	88.61	89.7	88.5	88.7	87.4	85.6	85.1	83.2
EUR	0.5659	0.56	0.56	0.56	0.55	0.54	0.55	0.54
AUD	0.9367	0.92	0.91	0.91	0.90	0.89	0.89	0.88
CAD	0.8183	0.82	0.81	0.81	0.79	0.79	0.79	0.79
GBP	0.4896	0.50	0.49	0.50	0.49	0.49	0.49	0.48
CNY	4.3562	4.39	4.33	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	0.3	1.5	0.4	-0.5	0.1	0.1	0.3	7.4	3.2	1.5	0.6
Government consumption	-2.6	0.0	2.0	-1.7	-0.2	-0.3	-0.4	8.2	4.6	-1.4	-0.6
Residential investment	-2.2	-2.3	-0.8	-0.9	-2.0	-2.1	-2.1	8.0	1.1	-3.4	-7.0
Business investment	0.0	2.8	2.5	-1.1	-0.9	-1.1	-0.7	14.3	5.5	4.5	-2.6
Stocks (ppt contribution)	0.3	-1.2	-1.3	1.8	0.3	0.3	-0.1	1.4	-0.3	-1.1	1.0
GNE	0.2	0.5	-0.8	0.8	0.0	-0.1	-0.2	10.2	3.4	-0.3	0.2
Exports	-1.8	-1.7	5.0	-0.3	2.3	2.2	2.4	-2.7	-0.2	10.0	7.7
Imports	1.8	-0.1	-2.0	0.7	1.4	1.3	1.2	14.8	4.7	1.5	4.3
GDP (production)	**-0.5**	**0.0**	**0.9**	**-0.1**	**0.1**	**0.0**	**0.0**	**6.0**	**2.7**	**1.3**	**0.4**
Employment annual %	1.7	2.9	4.0	3.2	2.5	1.5	0.3	3.3	1.7	2.5	-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	-8.8	-8.2	-7.5	-7.5	-7.0	-6.3	-6.0	-5.8	-8.8	-7.0	-4.8
Terms of trade annual %	-4.2	-6.1	-3.6	-2.9	-3.5	0.4	3.1	2.8	-4.2	-3.5	7.8

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (6 Oct)***	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Australian commodities index#	309	298	296	286	281	**283**	**282**	**286**	**288**	**291**
Bulk commodities index#	**499**	**472**	**443**	**421**	**403**	**400**	**399**	**214**	**212**	**211**
iron ore finesTSI @ 62% US$/t	120	100	95	89	84	83	85	87	87	87
Premium low vol met coal (US$/t)	337	315	280	260	260	238	238	228	222	222
Newcastle spot thermal coal (US$/t)	160	150	140	135	130	130	125	125	125	125
crude oil (US$/bbl) Brent ICE	90	90	85	85	88	92	95	97	100	102
LNG in Japan US$mmbtu	14.17	14.1	15.1	14.2	14.2	14.5	15.2	15.7	16.0	16.5
gold (US$/oz)	1,846	1,940	1,975	1,925	1,875	1,850	1,825	1,841	1,856	1,872
Base metals index#	**190**	**191**	**190**	**202**	**205**	**214**	**221**	**225**	**231**	**236**
copper (US$/t)	8,041	8,075	8,100	8,150	8,300	8,741	9,075	9,298	9,635	9,860
aluminium (US$/t)	2,298	2,300	2,200	2,275	2,300	2,378	2,437	2,475	2,532	2,570
nickel (US$/t)	18,587	19,000	20,500	21,000	21,556	22,291	22,836	23,196	23,735	24,091
zinc (US$/t)	2,543	2,475	2,375	3,400	3,478	3,581	3,657	3,707	3,781	3,830
lead (US$/t)	2,135	2,175	2,100	2,000	2,025	2,104	2,162	2,201	2,259	2,298
Rural commodities index#	**131**	**131**	**126**	**124**	**128**	**135**	**139**	**143**	**147**	**150**
NZ commodities index ##	**318**	**326**	**330**	**333**	**341**	**352**	**361**	**370**	**375**	**378**
dairy price index ^^	263	272	276	280	288	300	312	324	332	334
whole milk powder US$/t	2,931	2,931	2,990	3,050	3,196	3,350	3,521	3,700	3,728	3,756
skim milk powder US$/t	2,558	2,558	2,604	2,650	2,748	2,850	2,972	3,100	3,123	3,147
lamb leg UKp/lb	375	403	427	445	457	466	472	478	484	490
bull beef US¢/lb	255	260	260	260	266	272	274	275	275	275
log price index ##	157	153	151	152	155	158	162	165	167	169

	levels				% change			
Annual averages	**2022**	**2023(e)**	**2024(f)**	**2025(f)**	**2022**	**2023(e)**	**2024(f)**	**2025(f)**
Australian commodities index#	**379**	**319**	**288**	**286**	**23.6**	**-15.8**	**-9.7**	**-0.7**
Bulk commodities index#	**557**	**506**	**440**	**289**	**9.2**	**-9.2**	**-13.1**	**-34.3**
iron ore fines @ 62% USD/t	120	116	94	86	-24.4	-3.5	-19.1	-7.8
LNG in Japan $mmbtu	18.2	15.4	14	16	77.3	-15.2	-6.2	8.3
ave coking coal price (US$/t)	240	225	229	201	67.2	-6.1	2.0	-12.3
ave thermal price (US$/t)	281	239	178	165	183.7	-14.9	-25.7	-7.4
iron ore fines contracts (US¢ dltu)	174	159	137	129	-27.0	-8.7	-14.0	-6.0
Premium low vol met coal (US$/t)	365	290	266	229	78.1	-20.6	-8.3	-14.0
crude oil (US$/bbl) Brent ICE	97	84	87	98	38.4	-13.7	4.2	11.8
gold (US$/oz)	1,809	1,948	1,914	1,847	0.5	7.6	-1.7	-3.5
Base metals index#	**230**	**202**	**200**	**223**	**8.0**	**-12.0**	**-1.4**	**12.0**
copper (US$/t)	8,827	8,493	8,267	9,374	-5.1	-3.8	-2.7	13.4
aluminium (US$/t)	2,711	2,286	2,282	2,488	9.5	-15.7	-0.2	9.0
nickel (US$/t)	26,228	22,080	21,062	23,314	42.1	-15.8	-4.6	10.7
zinc (US$/t)	3,471	2,645	3,116	3,723	15.4	-23.8	17.8	19.5
lead (US$/t)	2,154	2,148	2,063	2,214	-1.6	-0.3	-4.0	7.3
Rural commodities index#	**171**	**141**	**132**	**148**	**14.0**	**-17.9**	**-6.2**	**12.4**
NZ commodities index ##	**376**	**329**	**339**	**371**	**4.7**	**-12.5**	**2.9**	**9.5**
dairy price index ##	353	284	286	326	9.5	-19.5	0.7	13.8
whole milk powder US$/t	3,889	3,051	3,103	3,633	1.2	-21.5	1.7	17.1
skim milk powder US$/t	3,819	2,619	2,682	3,054	14.6	-31.4	2.4	13.9
lamb leg UKp/lb	624	429	443	479	4.3	-31.3	3.2	8.0
bull beef US¢/lb	280	257	264	274	0.5	-8.2	2.4	4.1
log price index ##	171	158	154	166	-4.3	-7.9	-2.3	7.6

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

FORECASTS

United States

Interest rate forecasts

	Latest (6 Oct)	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	4.72	4.60	4.65	4.60	4.50	4.40	4.20	4.10

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

Currency forecasts

	Latest (6 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
USD vs								
DXY index	106.33	104.3	103.2	101.5	99.8	98.6	97.5	96.3
JPY	148.46	147	145	143	141	138	135	132
EUR	1.0549	1.08	1.09	1.11	1.13	1.14	1.15	1.16
AUD	0.6373	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD	0.5969	0.61	0.61	0.62	0.62	0.62	0.63	0.63
CAD	1.3708	1.34	1.32	1.30	1.28	1.27	1.26	1.25
GBP	1.2191	1.23	1.24	1.25	1.26	1.27	1.28	1.30
CHF	0.9125	0.91	0.90	0.89	0.88	0.87	0.86	0.86
ZAR	19.52	19.2	19.0	18.9	18.8	18.6	18.5	18.4
SGD	1.3671	1.35	1.34	1.33	1.32	1.31	1.30	1.30
HKD	7.8309	7.82	7.81	7.80	7.79	7.78	7.76	7.75
PHP	56.68	56.0	55.5	55.0	54.5	54.0	53.5	53.0
THB	36.94	34.5	34.2	34.0	33.5	33.0	32.5	32.0
MYR	4.7281	4.65	4.55	4.45	4.40	4.35	4.30	4.25
CNY	7.2982	7.20	7.10	6.90	6.80	6.70	6.60	6.50
IDR	15618	15400	15200	15000	14800	14600	14500	14400
TWD	32.30	31.5	31.0	30.5	30.2	29.9	29.6	29.3
KRW	1350	1320	1300	1280	1260	1250	1240	1230
INR	83.26	82.0	80.0	78.0	76.0	75.0	74.5	74.0

Activity forecasts*

	2022	2023				2024		Calendar years			
% annualised, s/adj	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	1.0	4.2	1.7	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	4.9	4.7	3.8	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

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

Europe & the United Kingdom

Interest rate forecasts

	Latest (6 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Euro area								
ECB Deposit rate	4.00	4.00	4.00	3.75	3.50	3.25	3.00	2.75
10 Year Bund	2.88	2.90	2.90	2.85	2.80	2.75	2.55	2.50
10 Year Spread to US	–184	–170	–175	–175	–170	–165	–165	–160
United Kingdom								
BoE Bank Rate	5.25	5.50	5.50	5.50	5.25	5.00	4.75	4.50
10 Year Gilt	4.54	4.45	4.55	4.55	4.50	4.45	4.30	4.25
10 Year Spread to US	–18	–15	–10	–5	0	5	10	15

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (6 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
euro vs								
USD	1.0549	1.08	1.09	1.11	1.13	1.14	1.15	1.16
JPY	156.60	159	158	159	159	157	155	153
GBP	0.8653	0.88	0.88	0.89	0.90	0.90	0.90	0.89
CHF	0.9626	0.98	0.98	0.99	0.99	0.99	0.99	1.00
DKK	7.4571	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.6156	11.6	11.6	11.6	11.6	11.6	11.6	11.6
NOK	11.5612	11.6	11.6	11.6	11.6	11.6	11.6	11.6
sterling vs								
USD	1.2191	1.23	1.24	1.25	1.26	1.27	1.28	1.30
JPY	180.97	181	180	179	178	175	173	172
CHF	1.1124	1.12	1.12	1.11	1.11	1.10	1.10	1.12
AUD	0.5227	0.54	0.54	0.54	0.55	0.55	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	1.1
private consumption	1.3	–8.0	3.5	3.2	0.8	1.1
fixed investment	5.7	–8.4	3.6	2.9	2.0	4.4
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	1.0
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	–2.7	0.9
Industrial production (IVA)	6.2	5.7	2.8	9.6	3.6	4.6	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	4.5	5.5
Exports %yr	–4.4	7.9	18.1	20.9	–9.9	–2.5	2.5
Imports %yr	–7.6	16.5	6.5	19.5	–7.5	–5.0	3.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (6 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Required reserve ratio %*	10.50	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Loan Prime Rate, 1-year	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45

* For major banks.

Currency forecasts

	Latest (6 Oct)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
JPY	148.46	147	145	143	141	138	135	132
SGD	1.3671	1.35	1.34	1.33	1.32	1.31	1.30	1.30
HKD	7.8309	7.82	7.81	7.80	7.79	7.78	7.76	7.75
PHP	56.68	56.0	55.5	55.0	54.5	54.0	53.5	53.0
THB	36.94	34.5	34.2	34.0	33.5	33.0	32.5	32.0
MYR	4.7281	4.65	4.55	4.45	4.40	4.35	4.30	4.25
CNY	7.2982	7.20	7.10	6.90	6.80	6.70	6.60	6.50
IDR	15618	15400	15200	15000	14800	14600	14500	14400
TWD	32.30	31.5	31.0	30.5	30.2	29.9	29.6	29.3
KRW	1350	1320	1300	1280	1260	1250	1240	1230
INR	83.26	82.0	80.0	78.0	76.0	75.0	74.5	74.0

Source: Bloomberg, Westpac Economics.

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	1.1
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	1.0
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	1.3	0.4
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	3.0
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	3.0	3.6
Malaysia	4.8	4.4	-5.5	3.1	8.7	4.1	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	4.3
NIEs*	**3.0**	**2.0**	**-0.5**	**5.6**	**2.1**	**1.4**	**2.6**
India	6.5	3.9	-5.8	9.1	6.8	6.4	6.4
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	2.8	2.0
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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