WESTPAC MARKET OUTLOOK NOVEMBER 2023.

AUSTRALIA AND THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

Over the past month, central banks, inflation and volatile financial markets were once again key themes. The RBA Board hiked rates at the November meeting, ending a four month pause. Inflation is still too high, particularly given the up-tick in the September quarter. Whether further tightening is required, with the February Board meeting the next potential window, will depend on the data, most critically the next quarterly Consumer Price Index update. Our central case forecast is that core inflation will resume its deceleration from the December quarter and that the current cash rate of 4.35% will be the peak in this cycle. We anticipate that the next easing cycle will begin in the September quarter 2024, but that timing is contingent upon success in taming inflation.

It was a pivotal month for US markets. US FOMC Chair Powell hinted that the tightening cycle has come to an end. That view was reinforced days later by key labour market data, confirming that the economy is slowing. Bond yields fell in response to these developments, although they remain elevated relative to recent times. Our central case remains that the US easing cycle is likely to commence in March 2024, albeit with developments in overall financial conditions critical to the timing of the first cut.

With the US FOMC now likely done and the RBA still in play, the Australian dollar found some support, lifting a little from recent lows to be around US64¢. That gives us greater confidence that the Australian dollar will likely end 2023 broadly in line with our forecast of US66¢. We continue to expect that the Australian dollar will strengthen through 2024, lifting to US70¢ by year end, supported by the US easing cycle, a recovery in China and investor risk appetite broadening.

Australia: The real economy faces the ongoing headwinds of high inflation and sharply higher interest rates. Supportive of activity is the spike in population growth, to a brisk 2.4%, on the reopening of the national border. We continue to expect annual output growth of 1.2% over 2023, edging down to 1.0% for June 2024, then lifting to 1.6% for December 2024. The economic slowdown is centred on consumer spending and the interest rate sensitive housing sector. Consumer spending is contracting in per capita terms as real household disposable income declines – squeezed by high inflation, higher interest rates and additional tax obligations. The 2024 growth view is informed by a likely boost to activity in the second half of the year from an easing of policy.

Commodities: Westpac's export commodities index rallied 3% through October as the gains in iron ore, LNG and copper more than offset the fall in coal (both met and thermal) and crude oil. Crude oil inventories have declined, despite softening demand, as OPEC+ maintains production cuts but the risk premia for the Middle East conflict has faded. Chinese scrap steel consumption fell as economics continues to favour blast furnaces but the introduction of an ETS should turn this around in favour of electric arc furnaces in 2025/26.

Global FX markets: The US dollar wavered late in the month as the FOMC signalled their comfort with progress in the fight against inflation and the latest labour market data made clear US supply is beginning to exceed demand. Rate differentials remain the focus of markets; through 2024 and 2025, the extraordinary support given to the US dollar by this factor will fade as the FOMC lead a global rate cut cycle. Economic opportunity outside the US is also set to bolster the dollar downtrend.

New Zealand: New Zealand is on course for a period of subdued economic growth. However, surging migration and the related firming in the housing market is providing a floor under economic activity. As a result, we expect inflation to remain stubbornly high and for the next OCR move to be a hike in February 2024 and for policy to remain tight through until 2025.

United States: The labour market has taken a decisive turn over the past six months, with supply now outstripping demand. Indeed, household employment and the business surveys point to job creation stalling out. To stop the real stance of monetary policy tightening further as inflation returns near target, rate cuts from March 2024 are necessary. The FOMC may hold off until later in the year, but 200bps of rate cuts over 2024 and 2025 will be needed to limit downside risks to growth into the medium term.

China: Monthly momentum through Q3 indicates China's economy is likely to meet, or modestly exceed, authorities' 2023 growth expectation of 5.0%. Trade and business investment are constructive for 2024. But, for aggregate growth to perform, an upturn in employment across services is also necessary, as is growth in property investment and housing prices. Slowly but surely, authorities' policy response are gaining the strength they need to lay the foundation for success in achieving China's long-term ambitions.

Asia: The Bank of Japan will maintain its ultra-accommodative monetary policy despite recent above-target inflation and above-trend economic growth. The current inflationary environment provides an opportunity to buoy belief in sustainably achieving its inflation target. Risk of undershooting its inflation target if it were to tighten policy too soon, outweighs that of overshooting it.

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	2.4	1.5
China	6.8	6.0	2.2	8.4	3.0	5.3	5.3
Japan	0.6	–0.4	–4.3	2.1	1.1	1.8	1.1
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	3.4	4.3
Europe	1.8	1.6	–6.1	5.4	3.5	0.6	0.9
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	1.2	0.9
World	**3.6**	**2.8**	**–2.8**	**6.3**	**3.4**	**3.1**	**3.1**

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

RBA responds as expected to upside surprises

The Reserve Bank raised rates in November …

At its November meeting, the RBA Board raised the cash rate target by ¼ percentage point to 4.35%. This is a break from the run of meetings where it was comfortable to hold steady and monitor the evolving situation. Given its low tolerance for upside surprises, a stronger inflation outlook and some unexpected resilience in the real economy has induced the Board to act.

… in response to signs that inflation is coming down slower than it desires.

As we noted last month, the CPI release for the September quarter tipped the balance in favour of raising the cash rate further. The Governor's statement noted that inflation "is proving more persistent than expected a few months ago" and that "progress looks to be slower than earlier expected". The considerably rewritten statement was noteworthy for the detailed explanation of what the Board had previously believed, and how things have changed since the RBA's last forecast round in August.

Services inflation has remained sticky. The Governor's statement highlighted that many services prices "are continuing to rise briskly". There are also some concerning signs in housing-related inflation and the prices of some retail goods. The language of the statement shows that the Board is increasingly concerned that inflation will not decline on the trajectory it is aiming for, and so it has decided to take out more insurance to achieve the desired result.

The RBA's 2024 forecast for inflation have been revised up, as have our own.

The RBA's forecast for headline inflation over 2024 have been revised up, from 3.3% to 3½% now. More detail will be made available with the release of the November Statement on Monetary Policy. Our own forecasts have also been revised up over the past month.

The RBA has revised down its terminal forecast for the unemployment rate.

Also noteworthy is that the RBA's unemployment forecast for end-2025 has been revised down from 4.5% to 4¼%. We will know more when the Statement on Monetary Policy is released, but this seems like a nod to the signs of unexpected resilience in parts of the real economy. A related question is whether the RBA has revised down its view of the NAIRU, the unemployment rate below which wages growth starts to lift. The October minutes stated that the risk of a price-wage spiral had diminished. A lower estimate of the NAIRU could square this assessment with the downward revision to the unemployment forecast.

The real economy is soft, but not as soft as the RBA expected.

The unexpected resilience in some parts of the economy also affected the Board's decision more directly. As well as the ongoing rise in housing prices, the statement noted that GDP growth was stronger than expected in the first half of 2023, though it was below trend. This ties in with a change in the language of the last paragraph, substituting domestic demand for household spending as one of the things the Board is watching closely. The RBA remains very focused on the squeeze on household incomes coming from inflation and higher rates, and the implications of this for consumption. But the uncertainty around this outlook seems to have lessened. The uncertainty most relevant to the growth outlook now stems from other parts of the economy, including public demand and business investment.

A follow-up increase in December is unlikely.

We do not expect that the RBA will follow up with another rate increase in December. The last paragraph of the statement contained a shift in language from "Some further tightening of monetary policy may be required" used in the October media release to "Whether further tightening of monetary policy is required". This reads as the Board hoping not to have to raise rates again, but being very willing to do so if things change. There is not enough new information between now and the December meeting to drive a change in view. Given the upgraded inflation forecasts and lower unemployment forecast, though, they are likely to have even less tolerance for upside surprises than they indicated in recent communication. So while a December move is unlikely, it is more likely that February meeting would become 'live' if the inflation outlook continues to lift.

Starting next year, though, all RBA Board meetings could involve a shift in view.

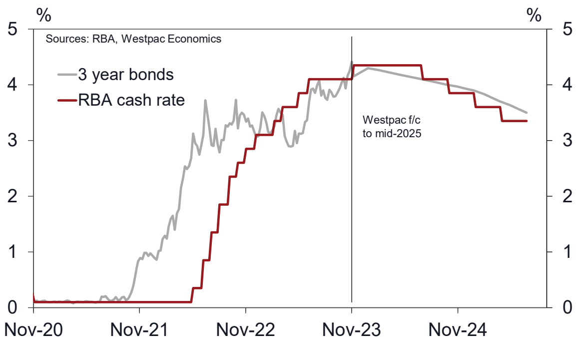
Next year the RBA Board moves to a timetable of eight meetings per year, rather than the traditional eleven. This means that all meetings will follow significant data releases, including either the quarterly CPI or the national accounts. Enough new information will be able to be accumulated between each meeting that the RBA's view of the outlook could shift. From the new year, all Board meetings should therefore be considered potentially 'live' in a way that was not the case in the past.

The RBA's decision stands in contrast to the recent decisions of the FOMC, ECB and Bank of England to hold rates at their recent meetings. At a deeper level, though, all these central banks are facing similar decisions. They have already raised policy rates a lot, and monetary policy is now restrictive in all these economies. Each central bank is watching the data unfold for signs that they need to do more. Countries such as the United States are further along the disinflation journey, just as they were earlier to experience the surge in inflation. They also would have more confidence in that the disinflation will unfold as expected. The RBA Board has not yet achieved that level of comfort.

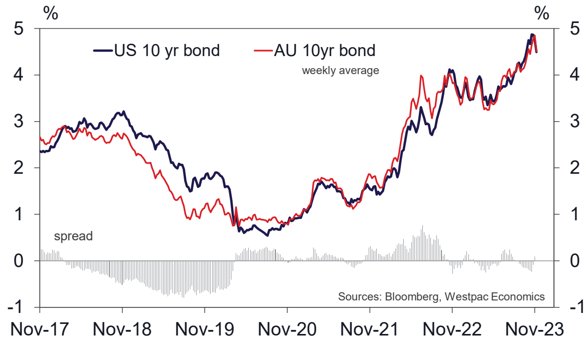
Luci Ellis, Chief Economist

… lifting the cash rate to 4.35%

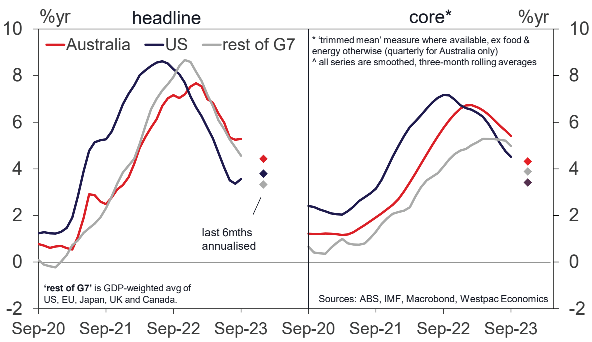
RBA cash rate and 3 year bonds



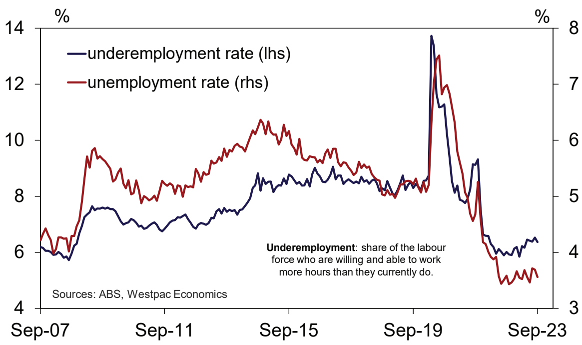
10 year bonds yields ease, Fed on hold



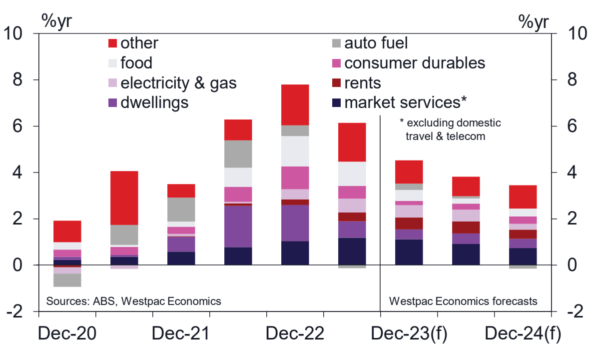
Pace of global disinflation: emerging risks



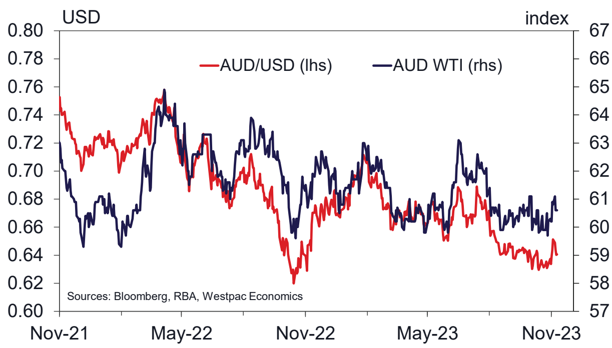
Underemployment is rising gradually



Contributions to annual inflation



AUD/USD & AUD TWI



Real economy faces ongoing headwinds ...

The economy faces ongoing intense headwinds ...

The Australian economy is navigating intense headwinds, notably high inflation, and sharply higher interest rates. Economic growth slowed to 2.1% for the year to June quarter 2023, including a 1.5% annualised pace over the first half of 2023. That pace is both below trend and below population growth, which is currently around 2.4%.

... with high inflation and interest rates up sharply.

We continue to expect annual output growth of 1.2% over 2023, edging down to 1.0% for June 2024, then lifting to 1.6% for December 2024. Policy tightening is having its usual effects with the usual lags. Further effects will be apparent through the second half of 2023 and into 2024, including ongoing slow economic growth. The 2024 growth view is informed by a likely boost to activity in the second half of the year from an easing of policy. The Stage 3 income tax cuts are legislated to begin from 1 July 2024, and we expect the RBA to begin easing policy from the September quarter 2024 (subject to successfully taming inflation pressures).

The September quarter National Accounts, to be published on December 6, will provide an important update on how the economy is tracking. Our forecast for Q3 GDP is currently a 0.3%, following outcomes of 0.4% for both the March and June quarters.

A spike in population growth is supportive of activity.

The economic slowdown is centred on consumer spending and the interest rate sensitive housing sector. Consumer spending is contracting in per capita terms as real household disposable income declines – squeezed by high inflation, higher interest rates and additional tax obligations. Home building activity is declining and is set to contract further. The renovations boom is deflating, having peaked in 2021. New home building is weak, impacted by capacity constraints, surging costs and higher interest rates – which will mean a lingering backlog of work (see chart).

We continue to expect annual economic growth to slip to 1.0% in mid-2024.

Consumer spending inched 0.1% higher in the June quarter to be 1.5% above a year ago – well below population growth of 2.4%. Real household disposable income declined a little further in the June quarter, down 0.1%, to be 3.0% below a year earlier. That weakness in real disposable income contrasts with strength in nominal gross income, which grew by 8.0% over the year, centred on a near 10% rise in wage incomes, with wages (average compensation) up 6%. However, 70% of that rise in income, in dollar terms, was offset by the impacts of additional tax obligations and higher interest rates. That lowered nominal disposable income growth to 3%, and with consumer prices up 6%, real disposable incomes contracted by 3%. To cushion the spending slowdown, households have been drawing down on the sizeable saving buffer accumulated during the pandemic.

The downturn is centred on consumer spending, as well as housing ...

A firmer read for consumer spending is in prospect for the September quarter, an expected rise of 0.5%. Real retail sales stabilised, edging 0.2% higher after three quarters of decline, to be 1.7% below a year earlier. We see this likely firmer reading on consumer spending in the context of a weak trend, with growth expected to be a subdued 1% over the year to June 2024. Labour income growth is set to moderate as the jobs market slows. This will more than offset the recent turnaround in household wealth coming from the rebound in established housing prices.

... as real household disposable income contracts.

The labour market has turned but is still tight. The unemployment rate is close to a 50-year low of 3.6%, and the share of the working-age population who have a job is around historic highs at 64.4%. Looking beyond the headline unemployment rate, evidence of a turning point is apparent. The underemployment rate is up 0.5% from the low and job ads are declining from historic highs (as discussed in the October Market Outlook). Hours worked declined in the September quarter, contracting a sizeable -0.8%. Employment numbers were up in the September quarter, but growth slowed, to 0.6% from 0.8% the quarter prior, with weakening momentum.

To date, business investment has been resilient ...

Business investment has been resilient, but soft demand and the end of some tax incentives mid-2023 mean that it should slow over the next year or so. In the June quarter, business investment grew by 2.1% to be 8.0% above a year earlier. Equipment spending jumped 9% over the first half of 2023, in part a catch-up (as supply constraints eased) and in part a bring forward (ahead of 1 July tax changes). Improved supply, stronger business balance sheets and limited spare capacity are positive fundamentals supporting investment in the near-term. Currently, business confidence is soft and fragile, and firms facing weak consumer spending and declining profits are likely to become increasingly cautious in their spending decisions. For the year to June 2024, we expect total business investment to contract by 2.7%, led lower by equipment spending but with some strength in business construction (including infrastructure, with a focus on renewable energy). Our forecasts have equipment spending moderating in Q3 2023, but with risks to the upside.

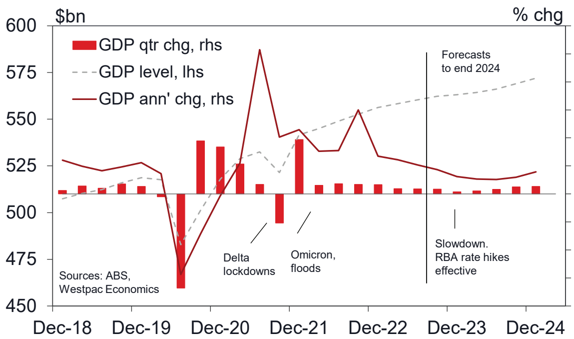
... but the outlook is challenging, with profits falling and demand weak.

For the public sector, the picture is mixed. Current strength in investment, centred on public transport infrastructure projects, contrasts with softness in the period ahead. Public consumption directly accounts for just over 80% of public demand. The picture on that front is soft, with annual growth at 1.4% over the year to June quarter 2023, as pandemic-related spending unwinds. Total public demand grew by a moderate 2.7% over the same period (including a 9.4% increase in volatile public investment), well down from annual growth of 6.4% in mid-2022.

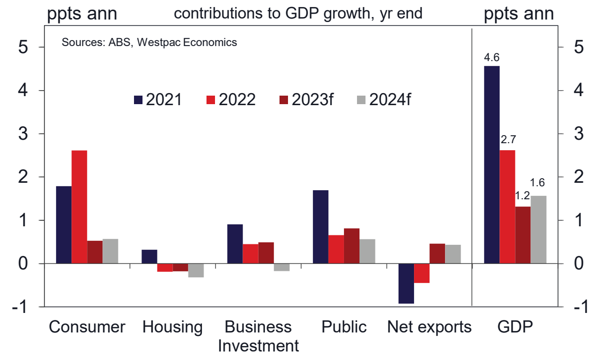
Andrew Hanlan, Senior Economist

… high inflation and higher interest rates

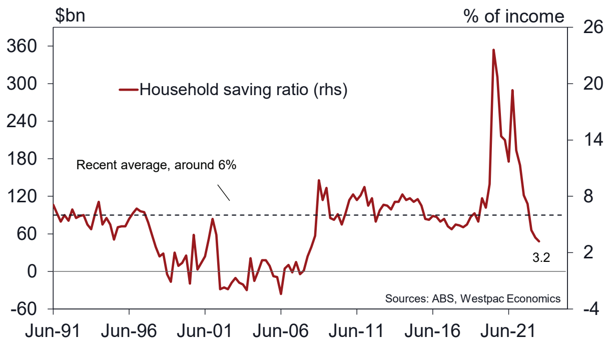
Australian economy: slowdown underway



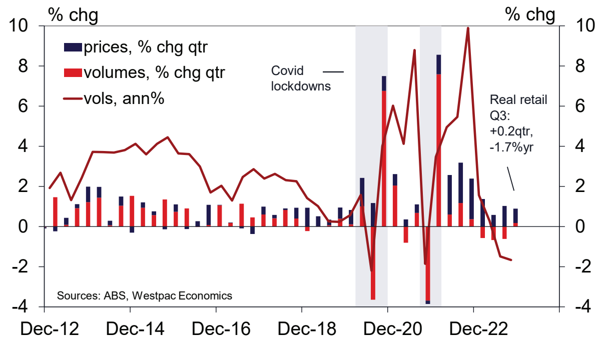
Australia: the growth mix



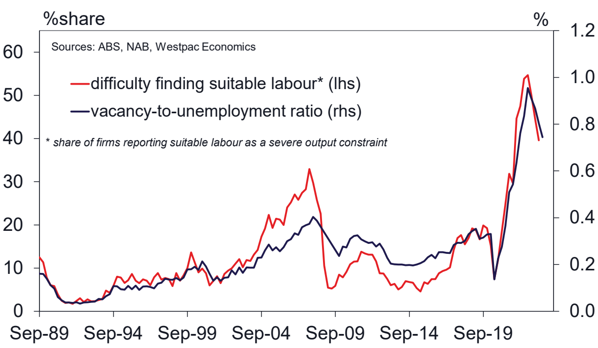
Household saving ratio: moves below average



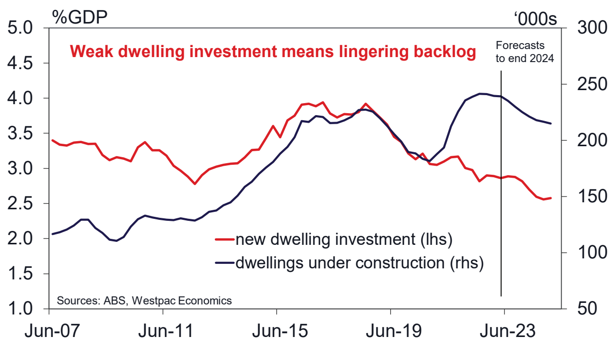
Real retail sales stabilise after 3 declines



Labour market has turned, but remains tight



Home building constrained by headwinds



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.

Iron ore rallies despite China growth fears …

The export commodities index rallied 3% in October …

Through October the broad commodities index for Australian exports lifted 3% (still down 11% in the year) but, as always, there was quite a bit of diversity in individual commodity performance. Iron ore prices lifted 7% (up over 50% in the year) to be trading a touch under US$130/t as we went to press. The other standout in the month was gold which lifted 8% in the month (up 20% in the year) while copper prices had a modest rally of 2¼% (up 6% in the year). Crude oil prices have eased back from the recent highs, down –4½% in the month to be 12¼% lower in the year; and while the week average as we publish is US$82/bbl, overnight Brent closed at US$79.9/bbl. As a result, we have lowered our end 2023 forecast to US$82/bbl and March forecast to US$83/bbl.

… as strength in iron ore, LNG and copper more than offset falling thermal coal prices.

Despite softer crude oil prices LNG landed in Japan firmed, lifting 6% in the month but this is still 38½% lower from last year's Ukrainian invasion boosted level. This unwinding of the Ukrainian energy shock is also being seen, quite dramatically, in thermal coal markets where prices fell –16½% in the month to be down –68¼% in the year. However, at around US$127/t, thermal coal prices remain elevated compared to longer run historical prices. Contrast this with met coal, which China has not been able to lift production of in the same way they boosted the production of thermal coal, fell –4% in the month and is down just –10½% in the year. At US$258/t, met coal is still trading at a historical premium associated with significant Chinese demand from blast furnaces and limited supply in the seaborne market.

Crude oil inventories have declined despite softer demand …

Westpac closely follows crude oil production, demand and inventories and observe that crude oil inventories have dropped sharply around the world because of the aggressive production cuts from Saudi Arabia and Russia. Our measure of OPEC+ production has dropped by 2.7mbpd over the last year with Saudi Arabia accounting for 2mbpd of that. If those production cuts by OPEC+ can be maintained into 2024, then this should underpin crude markets from an inventory perspective. However, demand for liquid fuels appears to be correcting. Diesel sales have fallen 13.4% in the year to September in France with the IEA noting that Europe's diesel fuel demand in 2023 is set to be down by about 380kbpd compared to the 2019 pre-pandemic levels. For naphtha the results are even more stark, with consumption set to be about three quarters of what it was in 2021; this would the lowest EU diesel demand in 48 years according to the IEA.

… as OPEC+ maintains production cuts.

China is providing something of an offset, importing the equivalent of 11.56mbpd of crude in October, up 13.5%yr and 13.4%ytd versus the 5 year average. However, Chinese exports of gasoline, diesel and other fuels fell to the lowest in four months as refineries came close to exhausting export licences. So, with chatter that the Chinese SPR has stopped refilling, private inventories are set to rise sharply, pointing to a likely significant slowdown in imports into the end of the year. As such, we have left our end 2023 forecast at US$90/bbl but note that recent events suggest the risk to that forecast lie to the downside. We feel that OPEC+ will do what it can to keep prices above US$80/bbl, hence our forecast for US$85/bbl through the first half of 2024, before the rate cuts in the US kick in to boost demand, plus weaken the US dollar, lifting Brent to US$92/bbl by end 2024.

Chinese scrap steel consumption fell as economics favour BF …

We also closely watch Chinese consumption of scrap steel as it is a substitute for iron ore. As the Chinese economy matures, more scrap becomes available as steel infrastructure and products age. Over the last three years, China has consumed less scrap steel and, as a result, more iron ore. This is somewhat surprising as we would expect the supply of scrap to be lifting and the resulting increase in iron ore demand has resulted in a tighter iron ore market. This has resulted in a greater reliance on blast furnaces (BF–BOF), compared to electric arc furnaces (EAF), which is at odds with President Xi's pledge in 2020 "to have CO^2 emissions peak before 2030" and with the announced targets in the steel industry's 14th 5Yr Plan. The Chinese steel industry accounts for around 15% of China's total emissions and EAFs (which consume far more scrap than BF) emit around 0.5t CO^2 per tonne of steel vs. BF–BOFs at around 2t of CO^2 per tonne of steel.

… but the introduction of an ETS should turn this around in favour of EAFs.

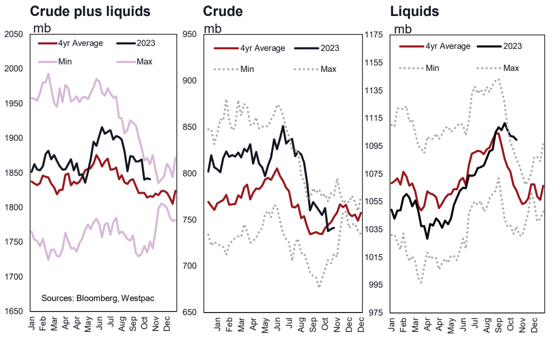
It appears to us that the driving force behind lower scrap steel consumption is mainly economics, as it is currently more efficient in China (where there is a modern fleet of BF–BOFs) to produce steel from iron ore and met coal than from scrap steel and electricity (EAFs have been negatively impacted by high power and scrap steel prices plus softer rebar demand). As such, we expect demand for scrap steel to lift materially when the relative economics improve; this is likely to happen after the steel industry joins China's Emission Trading System (ETS). When China set up its ETS in 2021 it indicated that the steel industry would join the ETS by the implementation of the 14th 5Yr Plan (expected by 2025). Is this likely to still happen? With the EU's CBAM (Carbon Border Adjustment Mechanism) coming into effect from 2026 there will be much greater pressure on the Chinese steel industry to lower the carbon content of the steel it exports to the EU. It is likely that on joining the ETS, China's steel industry would receive free allocations of carbon that, over time, would be reduced thus driving up the cost of carbon for BF–BOFs and increasing the appeal of EAFs. This would see the relative competitiveness of scrap steel improve. While scrap consumption is likely to be stable through 2024 it should start to lift around 2025/2026.

Justin Smirk, Senior Economist

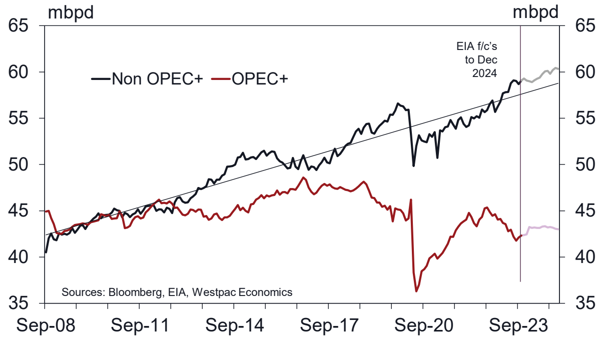
... while crude falls despite OPEC+ maintaining production cuts

Global crude + liquids inventories

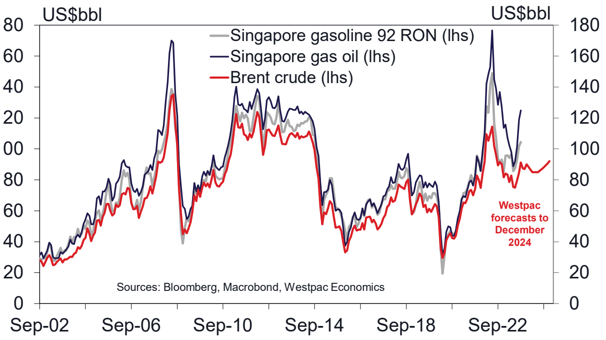
*Global proxy = US + Europe + Singapore + China + floating.



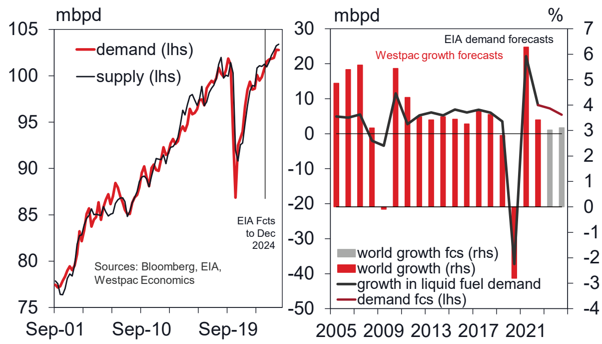
Non-OPEC+ to provide lift in supply



Gas oil (diesel) lifts with refinery limits

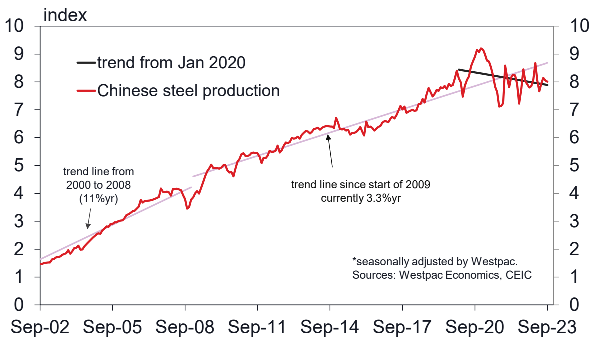


Crude demand has softened



Chinese scrap steel prices vs 65% fe

Chinese steel production down on 2020



The US dollar's outperformance …

The US dollar remains well above average despite growing downside risks …

For much of the past month, the US dollar DXY index has held near the top of the recent range around 106 as interest rate differentials and inflation risks continued to favour the US dollar. However, October's soft employment report surprised the market, resulting in a material fall in term interest rates and a step down in DXY to a mid-month low of 105; DXY has since traded between 105 and 106. We expect the past month's price action to prove the start of the next down leg for the US dollar, which we see persisting through 2024 and 2025.

… for the labour market, and with the fight against inflation well advanced.

Many in the market have taken the October US employment report as a single downside surprise. Yet in reality, it is part of a decisive turn in momentum in train for at least six months –– discussed in detail on page 14. Over the same period, inflation risks have also been subsiding, annual core PCE inflation having met the FOMC's year-end expectation of 3.7%yr by September, with further disinflation likely into year end and through early-2024.

While the number of fed funds rate cuts priced by the market for 2024 and 2025 is little changed over the month, at around 175bps the scale of expected easing is significant. The timing of the first cut is also being deliberated on, with June or July 2024 most likely according to the market. If both inflation and the labour market slow further into year end, as we expect, the market is likely to continue to incrementally adjust towards Westpac's view of a first cut in March and a combined 200bps of easing over 2024 and 2025.

Financial conditions and atmospherics will dictate the exact timing of US rate cuts …

The FOMC may choose to hold off on fed funds rate cuts until Q2 or Q3, but with the real stance of monetary policy becoming more restrictive as long as they remain on hold, participants are likely to price term interest rates lower over the period and, most likely, a growing risk of a downside surprise for activity. Just as global uncertainties supported the US dollar's rise through 2021 and 2022 and its strength since, economic opportunity outside the US should add to the justification for a weaker US dollar over 2024 and 2025.

… but policy easing in 2024 and 2025 will be material, weighing on USD.

From 105.9, we continue to expect the DXY index to decline to 104.5 (-1%) at end-2023, 98.8 (-7%) end-2024 and 95.3 (-10%) end-2025. The most significant contributor to this decline is expected to be Euro, with EUR/USD forecast to rise from USD1.07 to USD1.08 (+1%) end-2023, USD1.14 (+7%) end-2024 and USD1.17 (+10%) end-2025. Uncertainty around the UK economy is likely to see Sterling lag Euro in the near term; however, it should still gain through 2024 and 2025 to USD1.27 (+4%) and USD1.31 (+7%) respectively.

Canada's economic outlook is broadly in sync with that of the US, but the Canadian dollar is susceptible to weakness in the oil price. If, as we expect, the oil price rebounds and generally holds between $85 and $100 per barrel, USD/CAD should fall in line with the DXY trend. To end-2024 and end-2025, we forecast a decline from CAD1.38 to CAD1.27 (-8%) and CAD1.25 (-9%).

Euro is likely to see the strongest early gains, but other currencies will follow.

The Yen's outlook is highly uncertain, being heavily exposed to global rate differentials as well as the price of energy. Regarding policy and rate differentials, in our view there is little reason to expect domestic policy's support for Yen to change materially in the near term. Our analysis, detailed on page 18, leads us to believe that the Bank of Japan is acutely focused on sustainably achieving their 2%yr inflation target. This requires both a positive output gap and robust gains in wage growth and consequently ultra accommodative policy for as long as the risks of undershooting the inflation target outweigh the chance of overshooting it.

Despite ultra accommodative BoJ policy, Yen will also gain from extreme levels.

That said, USD/JPY is currently at extreme levels, and both the US interest rate outlook and Asia's growth story should slowly turn in the Yen's favour. Having held around the current level of JPY150 to end-2024, we see USD/JPY falling to JPY138 (-8%) and JPY127 (-15%) by end-2024 and end-2025 respectively. While these moves seem large compared to the DXY forecasts above, it is important to recognise that USD/JPY has risen 47% since its end-2020 low and come end-2025 would still be 13% above the average of the 5 years before the pandemic.

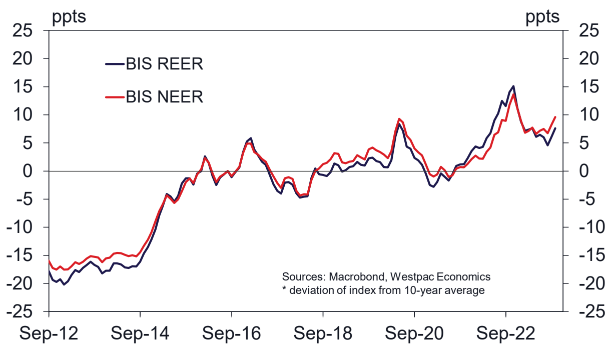
This is also the case for the rest of Asia where the growth outlook is very supportive.

The narrowing of interest rate differentials with the US and improved investor appetite is also set to benefit the rest of the Asian region. But more significant are the region's diverse growth opportunities. Countries like India and Indonesia have impressive demographic and industrial foundations able to support growth at a multiple of the world's pace into the medium term. Having already achieved much of the benefit associated with urbanisation, China's growth trajectory is tilted downward. Yet their investment in new high-tech capacity as well as efficient logistics and power generation puts them in a very strong position to continue growing their trade surplus. Meanwhile, targeted offshore investment is also improving their return on foreign investment. Each of these nation's currencies are likely to match or outperform the broad US dollar trend, with evidence of their economic success to justify further gains beyond 2025.

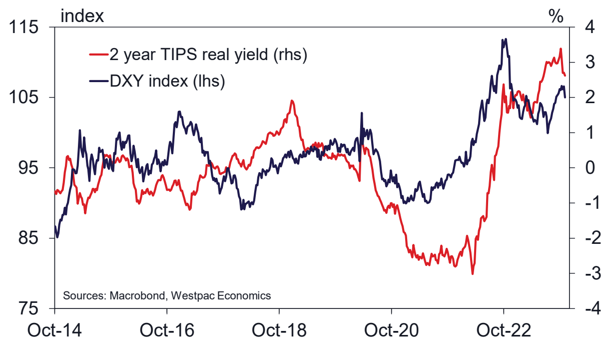
Elliot Clarke, CFA, CAIA, Senior Economist & **Illiana Jain, Economist**

... is coming to an end

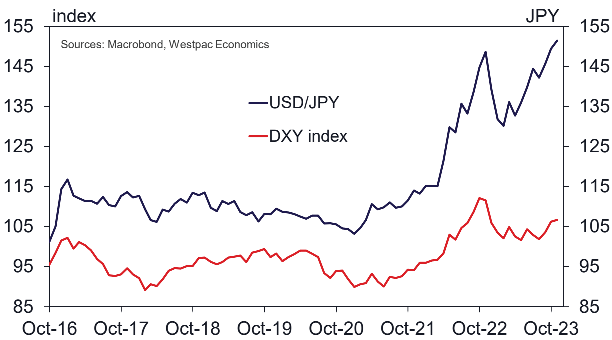
USD historically elevated on broad basis



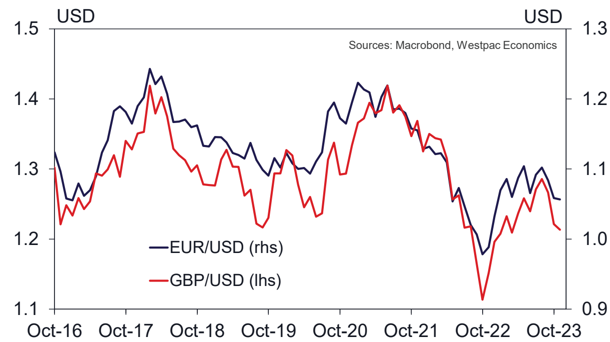
US real yields offer strong support for USD



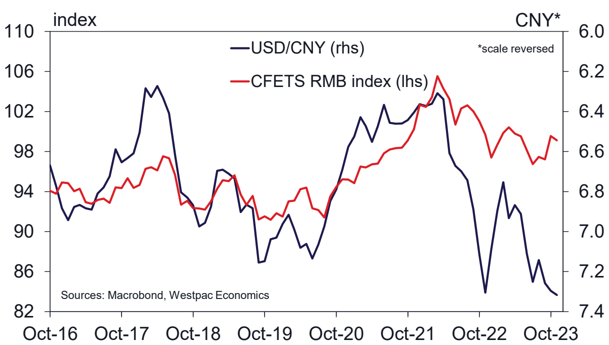
JPY weakness unlikely to fully reverse



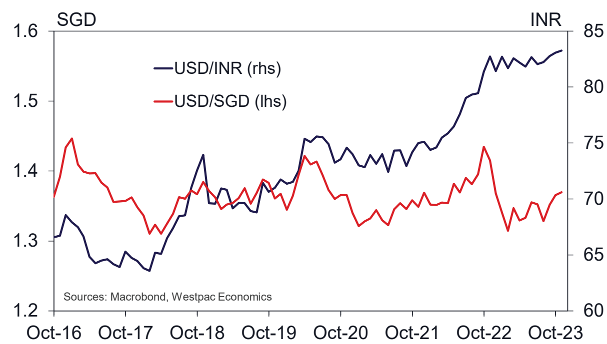
EUR negatives should fade in 2024



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



Migration surging ...

Subdued growth ahead ...

New Zealand is on course for a period of subdued economic growth. Tight financial conditions, along with ongoing rises in living costs, have seen households rein in spending, while businesses across the country are reporting increasingly tough trading conditions and related pressure on operating margins.

Against that backdrop, GDP growth is estimated to have slowed to 1.6% in the year to September. That's down from 2.9% in the year to September 2022. In per capita terms, the picture is even weaker with growth effectively stalling over the past year (compared to a rise of 2.7% a year earlier).

... however, surging migration is providing a floor under economic activity.

But while activity is set to be subdued over the next few years, growth now looks like it won't be as weak as we previously anticipated. That's because net migration is surging. In fact, in the year to August net migration hit a record high of 110,000. And there are more people to come – we expect annual net migration to eventually peak at 120,000.

The migration surge has been especially important for the housing market. The sharp downturn in house prices over the past few years has now been arrested, and prices in regions like Auckland have begun edging upwards again. Similarly, house sales have picked up. This firming in conditions is particularly notable as it's occurred at the same time as borrowing costs have been pushing higher.

From here, we expect the housing market to pick up further steam. For example, we expect house prices to climb 8% over 2024, after rising just 1% this year and falling 11% over 2022.

Inflation is lingering for longer ...

With the above in mind, we think that inflation pressures are likely to continue to linger. While headline inflation is trending lower, it remains uncomfortably high. Moreover, we don't expect it to be back in the RBNZ's target range until 2025.

... leaving the RBNZ with more work to do.

This leaves the RBNZ facing a tough balancing act. Two years since the start of the interest rate hiking cycle, core inflation pressures remain elevated. With economic activity now likely to soften more gradually than previously assumed, those price pressures could take even longer to dissipate. On this basis, we think the Official Cash Rate will need to rise again in February 2024, and that interest rates will need to remain at these restrictive levels until a gradual easing cycle can begin in 2025.

New government: small is beautiful.

The new government is likely to be a coalition of National, ACT and NZ First.

The formation of a new government moved a step closer with the release of the final results of this year's General Election, which was held on 14 October. As history had suggested, following the counting of special votes, the centre-right National Party has lost 2 seats since election night, finishing with 48 seats. As a result, the combined seat-holding of National and its preferred coalition partner ACT is 59 seats – insufficient to command a majority in what will ultimately become a 123-seat parliament after the upcoming by-election in Port Waikato. As a result, the New Zealand First party and its 8 seats will also be required to form a coalition government.

Coalition talks will now move beyond the preliminary discussions that have been held to date. Although it could still be a couple of weeks before a formal coalition agreement is signed, the respective parties have indicated a desire to move as fast as possible. Moreover, there is a reasonably high degree of commonality amongst the prospective coalition partners across key policy areas, but we can assume that the two minor parties will want some specific policy "wins" to demonstrate to their respective supporters.

The new government will reduce the size of government.

What is clear is that the new government will move to reduce the size of government. That includes the size and cost of the Wellington bureaucracy as well as the government's influence on the economy via regulations. Indeed, both National and ACT have indicated a clear preference to cut red tape, with ACT making its desire clear to lift the regulatory bar via the establishment of a Ministry and Minister of Regulation.

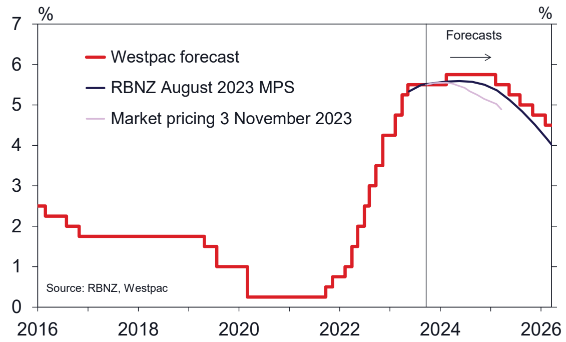
Businesses are welcoming this change in philosophy.

With that in mind, the new government is clearly signalling a more business-friendly or pro-growth approach to governing. And to date, businesses are already welcoming this change in philosophy. Indeed, business confidence has spiked in the wake of the election results.

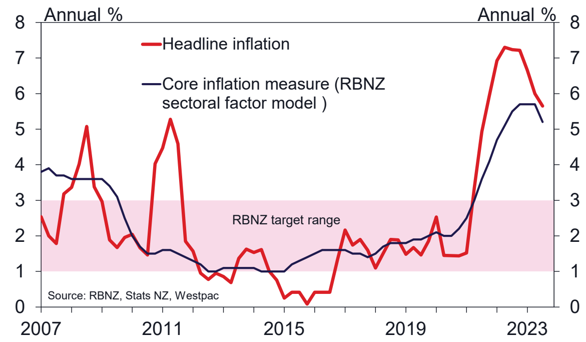
Nathan Penny, Senior Agri Economist

… and underpinning otherwise weak growth

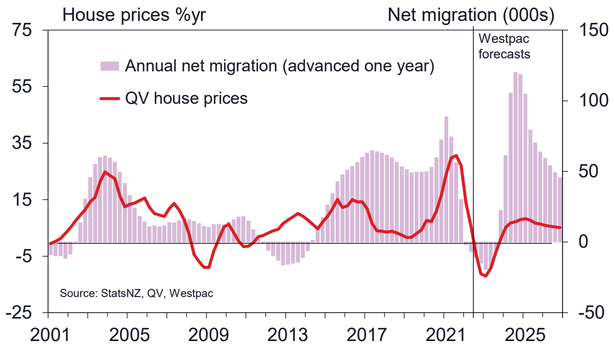
Official Cash Rate forecasts



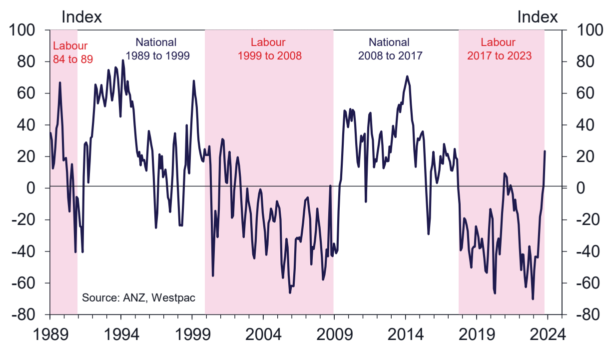
Inflation



House price growth and migration



Business Confidence



	2022		2023									
Monthly data	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
REINZ house sales %mth	–6.3	–6.4	6.7	–2.0	12.4	7.5	3.4	3.9	–6.2	6.4	–3.4	–
Residential building consents %mth	6.6	–7.7	–6.5	–7.2	6.2	–3.0	–2.8	2.8	–5.7	–7.0	–4.7	–
Electronic card transactions %mth	–0.9	–1.4	3.5	–1.3	2.5	0.6	–1.9	1.3	–0.9	0.8	–0.1	–
Private sector credit %yr	4.9	4.6	4.2	3.8	3.6	3.3	3.0	3.0	2.7	2.6	2.3	–
Commodity prices %mth	–4.0	–0.2	–1.1	1.4	1.3	–1.7	0.4	–1.7	–2.6	–2.9	1.4	2.9
Trade balance $m	–1653	–1034	–1557	–1403	–1888	–1329	–944	–683	–1519	–843	–843	–

Quarterly data	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23
Westpac McDermott Miller Consumer Confidence	107.1	102.7	99.1	92.1	78.7	87.6	75.6	77.7	83.1	80.2
Quarterly Survey of Business Opinion	20	11	–1	–5	–3	4	–15	–10	–15	–17
Unemployment rate %	4.0	3.3	3.2	3.2	3.3	3.2	3.4	3.4	3.6	3.9
CPI %yr	3.3	4.9	5.9	6.9	7.3	7.2	7.2	6.7	6.0	5.6
Real GDP %yr	5.9	5.4	6.0	5.2	1.2	2.9	2.7	2.9	3.2	–
Current account balance % of GDP	–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.

A decisive turn for the US ...

Expectations for the US labour market are turning quickly ...

The abrupt upturn in non-farm payrolls employment witnessed in September and Q3's (very) strong GDP print led the market to question whether the US economy was re-accelerating, warranting additional tightening by the FOMC. Just a month on however, a benign view for inflation has emerged. Indeed, there is now evidence of downside risks forming for both employment and consumption.

October's 150k payroll gain was half September's increase and also below August's 165k. More to the point, the 3-month average is now 204k, a long way short of the 342k average of the same period a year ago, and 667k a year before that (2021).

... as the establishment survey points to demand and supply being balanced ...

204k is still twice the 100k pace FOMC members have tabled as consistent with balance between labour demand and supply. But current population growth provides enough supply for 130k new jobs a month. And, if the trend rise in participation is also accounted for, supply has been sufficient over the past year for around 250k new jobs per month. Note as well that, during the past 12 months, total hours worked have declined 0.9%. As such, the creation of 105k new jobs has been required each month to offset hours lost by existing workers. The detail considered, to us the establishment survey is consistent with demand and supply being broadly balanced.

... while the household survey signals downside risks.

The household survey in contrast points to slack already building, the number of employed having risen just 32k per month May to October, including an average decline of 13k the past three months. This lack of employment growth – while the labour force has grown by around 170k per month – is behind the unemployment rate's 0.5ppt rise since April, and the U6 measure of underemployment's 0.6ppt gain.

At 3.9%, the unemployment rate is now above the year-end forecast of FOMC members at the time of their September meeting and just 0.2ppts below the peak rate the Committee expects through 2024 and 2025. Available detail from the business surveys points to a further deterioration in the current pace of employment, making a continuation of the six month uptrend in unemployment and underemployment likely.

Wage growth is also becoming consistent with the inflation target.

The consequences for wage growth of the resetting of demand and supply have already been significant, average hourly earnings growth decelerating from a recent peak of 5.9%yr in mid-2022 to 4.1%yr currently. With the current rate only marginally above core PCE inflation of 3.7%yr at September, the current nominal wage pulse points to a slow healing of real wages from their pandemic lows.

This is before the full effect of policy and tighter credit conditions is felt.

Overall, the US labour market is still in robust structural health, yet it is evident that the heat has come out and downside risks for employment and household incomes are forming. To be clear, this is not an assessment based on October's data alone, but rather the outcomes of the past six months, with the full effect of tight financial and credit conditions still to be felt.

Real yields are historically high and could increase further as inflation eases.

On market conditions, while the latest employment report and FOMC guidance have seen yields retrace, the decline to date is a fraction of the sharp rise that occurred between May and October 2023. Currently, the real 2-year yield stands at almost 2.70% and the real 10-year yield 2.20%, multiples of the average rates seen over the decade prior to the pandemic. Further, if nominal rates are unchanged over the year, FOMC, market consensus and Westpac's inflation forecasts would all point to a further tightening of the real stance of policy circa 100bps.

Lending standards and spreads are also becoming more restrictive.

It is not only real base rates that are at risk of tightening further. The latest Senior Loan Officers Survey from the Federal Reserve signals a majority of responding banks continues to increase spreads over their cost of funds for all firms regardless of size. Standards have also been tightened more for commercial and industrial loans over the past three months by around a third of lenders; and for commercial real estate, more than 60% of banks continue to make standards more restrictive. Justifying their decisions, respondents cite a less favourable economic outlook; reduced tolerance of risk; deteriorating credit quality; adverse effects of legislative and accounting standard changes or supervisory actions; and concerns about deposit outflows. This array of risks will not be resolved easily or quickly; and so caution amongst banks, business and households has to be expected for the foreseeable future, weighing on demand.

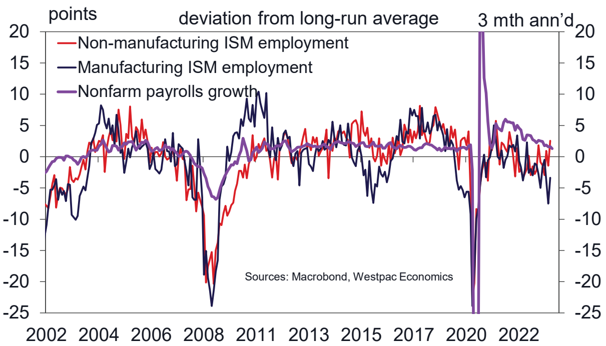
The FOMC will soon have to consider easing the nominal and real stance of policy.

We consequently remain of the view that the FOMC will soon have to shift to a much more balanced view of the outlook and begin making real-time assessments of the appropriate degree of policy restrictiveness. Through 2024, with growth below-trend, this will certainly lead to a lower level of nominal interest rates than today. As has been the case on the way up however, how the term premium and other elements of financial conditions evolve will dictate the precise scale and timing of adjustments to the fed funds rate by the FOMC.

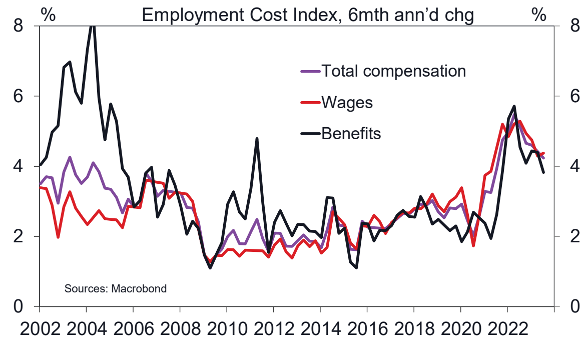
Elliot Clarke, CFA, CAIA, Senior Economist

... labour market

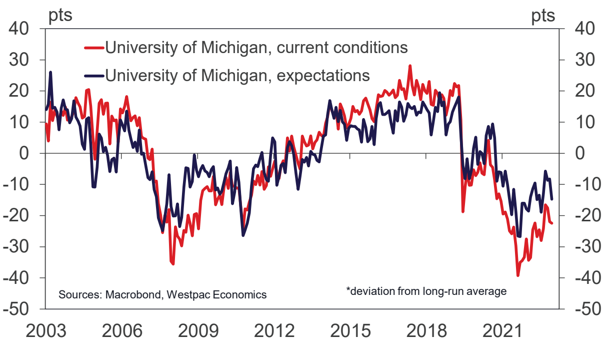
Surveys point to downside risks for jobs



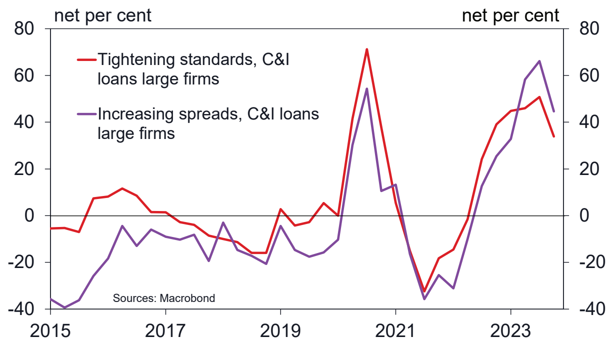
Wage growth tending to sustainable level



Consumers concerned over economy



Credit standards being tightened further



	2022		2023									
Monthly data	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
PCE deflator %yr	5.9	5.4	5.5	5.2	4.4	4.4	4.0	3.2	3.4	3.4	3.4	–
Unemployment rate %	3.6	3.5	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8	3.9
Non-farm payrolls chg '000	290	239	472	248	217	217	281	105	236	165	297	150
House prices* %yr	7.0	4.8	2.8	0.6	-1.0	-1.7	-1.8	-1.2	0.1	2.2	–	–
Durables orders core 3mth %saar	-6.1	1.3	1.4	5.3	0.3	-0.2	2.2	2.9	-1.7	0.4	4.0	–
ISM manufacturing composite	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6	49.0	46.7
ISM non-manufacturing composite	55.5	49.2	55.2	55.1	51.2	51.9	50.3	53.9	52.7	54.5	53.6	51.8
Personal spending 3mth %saar	4.6	3.2	7.2	9.3	7.8	3.0	2.5	4.5	6.0	6.8	8.2	–
UoM Consumer Sentiment	56.7	59.8	64.9	66.9	62.0	63.7	59.0	64.2	71.5	69.4	67.9	63.8
Trade balance USDbn	-63.8	-71.4	-70.8	-70.6	-60.4	-73.0	-66.8	-63.7	-64.7	-58.7	-61.5	–

Quarterly data	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23f**
Real GDP % saar	2.7	2.6	2.2	2.1	4.9	1.5
Current account USDbn	-222.8	-216.2	-214.5	-212.1	–	–

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

Balancing the risks ...

China's economy beat expectations in Q3 ...

China's economy surprised again in the September quarter, this time to the upside. Justifying authorities' policy restraint through 2023, momentum snapped back in the quarter, GDP growth accelerating from a downwardly revised 0.5% in the June quarter to 1.3%. The result leaves year-to-date growth at 5.2%, safely above the full-year target of 5.0%.

... and the monthly data is constructive for Q4 and 2024 ...

The monthly activity data is our best guide to momentum in key sectors and the risks China's economy faces into 2024. Retail sales are constructive, annual growth accelerating from a recent low of 2.5% in July to 5.5% at September. Underlying this result is strength in catering services, up almost 14% over the year to September. Discretionary spending on durable goods remains weak however, and the urban/rural split suggests households in major cities are financing higher spending on services by limiting or delaying discretionary spending on goods.

... albeit with some lingering uncertainties.

The imbalance between services and discretionary goods consumption is also likely a consequence of persistent weakness in housing construction. While the year-to-date decline in property investment has stabilised, activity is close to 20% below peak levels, and so therefore is associated demand for home appliances, furniture and fixings. Established households are also much less likely to upgrade their home or car while their wealth is going backwards.

Consumers are increasingly willing to spend out of recurring income ...

Thankfully, recent deposit data signals an abating of consumer anxiety over the outlook, with precautionary savings materially reduced even as the PMIs point to soft and uneven job prospects across the economy. If employment opportunities grow, the next step should be increased demand for housing which authorities could help along by providing additional policy support.

... and, outside of property, investment is growing strongly.

On investment more broadly, authorities' focus on productivity and efficiency is clear. Key sub-categories of high-tech investment continue to grow at between 10% and 40% even as their combined size nears that of property investment. Utilities investment is also up 25% year-to-date and other infrastructure around 6%. Unlike property, these sub-categories of investment are income and efficiency producing; their completion is just the start of their economic contribution. If China's trade success continues, robust investment growth can be sustained.

Ahead, households need to be willing to spend down savings ...

For this outlook to translate into sustainable job and wealth creation and healthy growth in consumption however, gains for high-tech manufacturing and infrastructure must be re-cycled back into the domestic economy, particularly the services sector. A housing uptrend meanwhile can only occur as new households form and existing households become wealthier and confident enough to trade up.

... and invest in property. Youth unemployment also needs to be reduced quickly.

Overall, Q3 GDP and the September monthly data imply current momentum in China's economy is stronger than the market had anticipated, and there is no obvious reason why it will fail immediately. But risks around the consumer remain, particularly for young workers. So, while we have revised up our 2023 forecast from 5.0% to 5.3%, we have also lowered our 2024 forecast from 5.5% to 5.3% after which a deceleration to around 5.0% is likely in 2025.

Looking to the long-term, given its existing capacity and willingness to invest, China has an opportunity to benefit from the global green transition and the developing world's need for affordable quality technology. Their logistic capabilities and trade linkages also remain second to none. That said, to meet their development goals, there must be a continued focus on improving the economy's financial health and strengthening all households' confidence and wealth.

Elliot Clarke, CFA, CAIA, Senior Economist

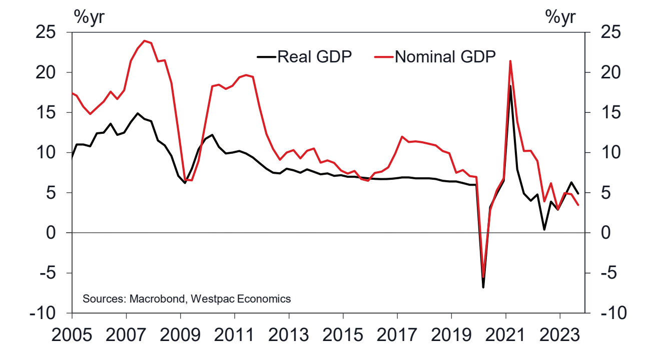
	2022		2023									
Monthly data %yr	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Consumer prices – headline	1.60	1.80	2.10	1.00	0.70	0.10	0.20	0.00	–0.30	0.10	0.00	–0.20
Money supply M2	12.4	11.8	12.6	12.9	12.7	12.4	11.6	11.3	10.7	10.6	10.3	–
Manufacturing PMI (official)	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5
Fixed asset investment %ytd	5.3	5.1	5.1	5.5	5.1	4.7	4.0	3.8	3.4	3.2	3.1	–
Industrial production (IVA)	2.2	1.3	1.3	2.4	3.9	5.6	3.5	4.4	3.7	4.5	4.5	–
Exports	-10.2	-12.3	-11.9	-3.0	11.2	7.1	-7.4	-12.3	-14.3	-8.7	-6.2	-6.6
Imports	-11.0	-7.5	-20.9	4.5	-1.8	-8.6	-4.9	-6.8	-12.2	-7.3	-6.3	3.0
Trade balance USDbn	66.0	69.9	92.5	11.9	78.2	86.3	65.5	69.7	80.2	68.3	77.8	56.5

Quarterly data	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**
Real GDP %yr	0.4	3.9	2.9	4.5	6.3	4.9
Nominal GDP %yr	3.9	6.2	2.9	5.0	4.8	3.5

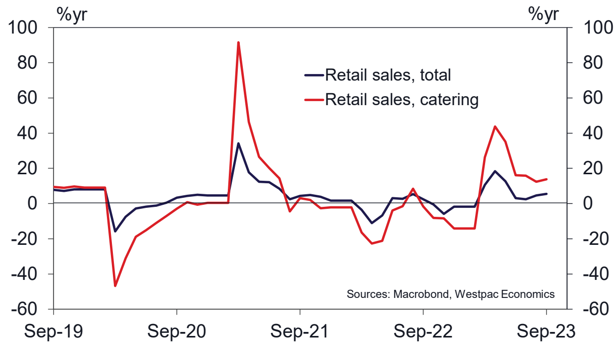
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

... with a view to the long-term

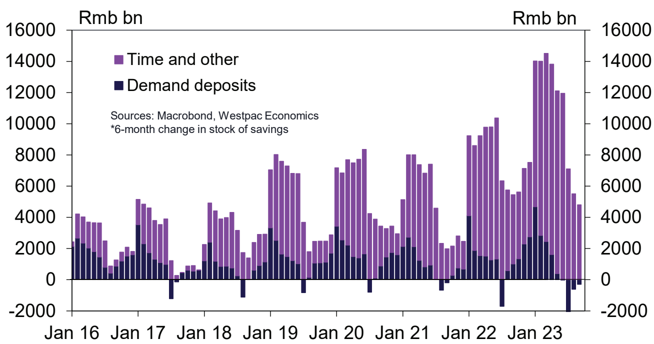
GDP expected to beat 5.0% 2023 guidance



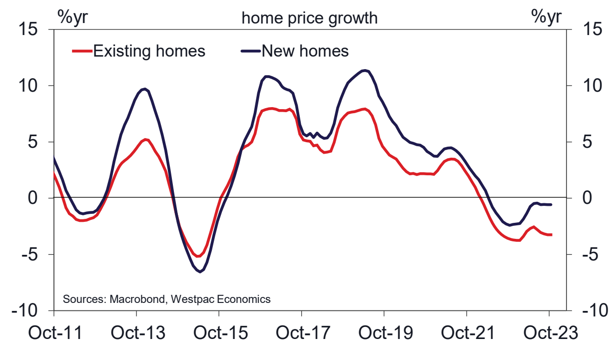
Retail sales trend constructive for outlook



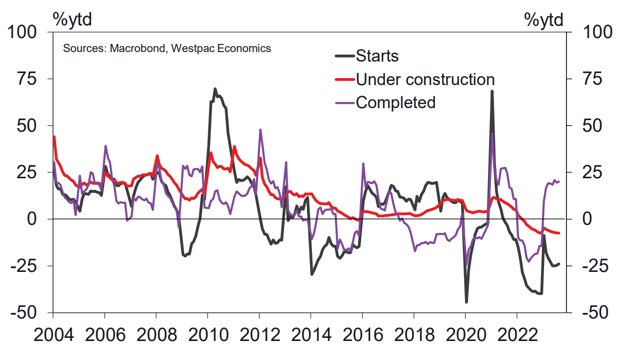
Household savings points to less risk aversion



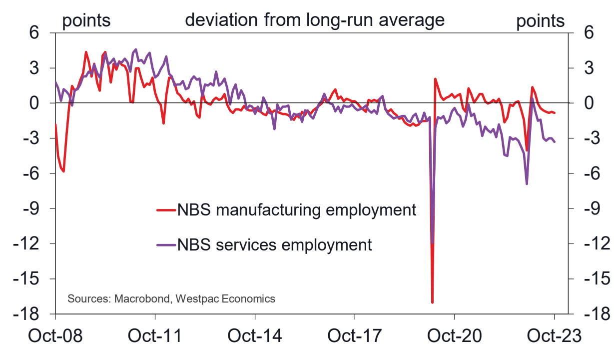
But household wealth still at risk



Housing pipeline in need of replenishment



Trade income must benefit services sector



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

The Bank of Japan is fuelling …

Monetary policy will remain accommodative to …

The Bank of Japan (BoJ) continues to keep monetary policy ultra accommodative as it attempts to use current above-target inflation and above-trend economic growth as a generational opportunity to buoy belief in sustainably achieving its inflation target. Contrary to market participants' views, we see the BoJ holding the line with policy. The deflationary psychology of the past 30 years is only beginning to turn, and a positive output gap is still needed to have confidence that consumer inflation will meet the 2.0%yr medium-term target.

… use above-target inflation to buoy expectations.

September's policy decision allowed the 10-year yield to rise as high as 1.0% (previously 0.50%) and October's language adjustment portends some further flexibility above that rate, with the upper bound now a reference rather than a hard ceiling. Yield Curve Control and the policy rates remain anchored to the lower bound, however. The BoJ also intends to continue expanding the monetary base until annual inflation (ex. fresh food) "exceeds 2 percent and stays above the target in a stable manner".

The BoJ is sceptical that momentum in wages growth …

Demand-driven inflation has been all but absent in Japan for decades. Low inflation expectations seem entrenched, despite recent stronger wages growth and even larger wage demands for 2024; trade union confederation RENGO is aiming for 'above 5%' for 2024, which is more than 2023's 4.5% claim. BoJ decision makers are sceptical that such momentum can be sustained and transmitted to inflation. BoJ Board member Asahi Noguchi recently stated that, for success with price stability, base pay needs to increase by not only 2% (as in 2023) but by at least 3%. This is a hefty goal in an economy where base pay growth averaged just 0.6% between 2015 and 2022.

… will sustain and transmit to inflation.

In our view, the BoJ is right to be cautious about whether current wage growth can be sustained. This year's strong wage demand was partly an attempt to offset the decline in real wages in 2022. With inflation softening, it will be much harder for unions to push for higher nominal wage gains from here. The labour market is also not as tight as it was in 2022, making it even harder to achieve above-average rates of wages growth. The job posting-to-applicant ratio is moderating from its earlier high rates. In addition, the excess of demand for high-skilled labour over supply, identified in BoJ research, has also narrowed as labour participation increased faster than trend.

Smaller firms have found it harder to pass on costs to consumers.

Another impediment to wage growth's persistence is firm profitability, particularly for small and medium-sized enterprises which employ around 70% of workers. Anecdotally, small and medium-sized firms responded to RENGO's statement with apprehension. Smaller firms have found it harder to pass on cost increases to prices than larger firms; the Tankan survey shows that more firms are facing cost increases than are raising their prices, but the difference between the two groups is greater for smaller firms. So smaller firms have already been dealing with margin compression and many may therefore expect that they would not be able to pass on the effects of higher wages. Any policy tightening would only make it harder for wages growth to sustain given higher interest costs and concerns over the outlook for end demand.

Headline inflation has exceeded 2% but much of it has been imported.

While headline inflation has exceeded 2% since April 2022, much of it has been imported. Given normalising supply chain tensions and commodity prices, price growth is expected to settle back below the 2% target by FY25 as import prices ease. This is not what the BoJ wants. Prolonged above-target inflation is needed to shift consumers' expectations and fuel stronger wage demands – the virtuous cycle Japanese policymakers have been attempting to foster most of their careers. The Tankan's output price gauge is now the highest it has been since the 1980s when inflation was strong. To sustain the inflationary pulse and keep businesses of the belief that they can increase prices, persistent strength in domestic demand is necessary.

Household spending has yet to recover to pre-pandemic levels.

Nominal household spending in worker households has yet to recover to pre-pandemic levels, despite stimulus measures and inflation pushing prices higher. This explains why services prices are only marginally higher than in 2018, a stark contrast to the experience of other developed economies which have seen services drive inflation and remain sticky. To date, Japanese services demand has also been supported by strong tourism inflows instead of domestic spending. However, there are signs this could change. The proportion of households expecting price rises of above 2% in the next year is near historic highs, since data became available in 2006, at 81.4% having reached a record of 88.1% in February 2023. Keeping policy ultra accommodative therefore opens up the possibility of buoying domestic demand and with it inflation and wage expectations.

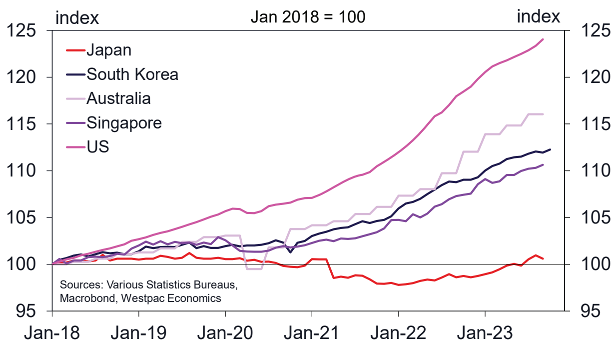
Risks of undershooting the target outweigh risks of overshooting.

Given the state of the economy, the BoJ is unlikely to shift monetary policy because of a few months of strong inflation or due to financial conditions elsewhere. The BoJ wants to be confident there is a structural shift in the economy and a lasting reset in the psychology of consumers and businesses. So it will wait patiently as long as the risks of undershooting the target outweigh the chance of overshooting it.

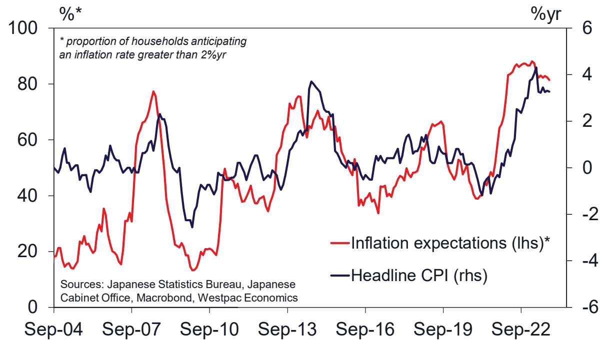
Illiana Jain, Economist

… the flames of inflation

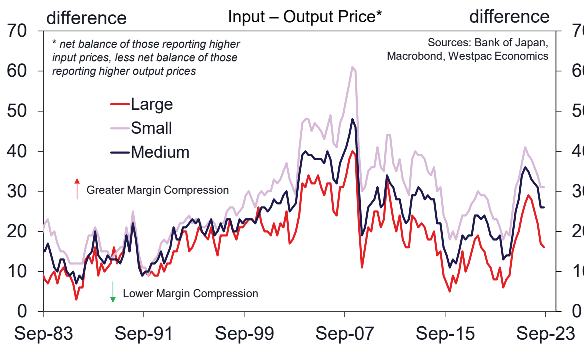
Japanese services inflation is barely afloat



Household inflation expectations holding up

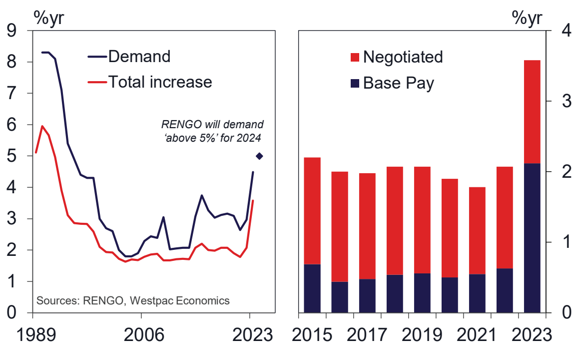


Smaller firms absorb more costs

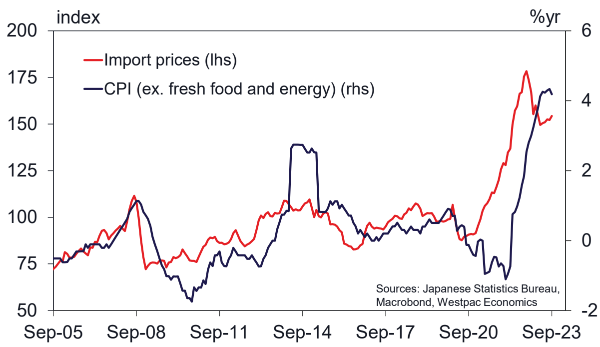


The labour market is starting to cool

Japanese wages climbing higher



Import prices are fueling inflation



Australia

Interest rate forecasts

	Latest (10 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	4.35	4.35	4.35	4.35	4.10	3.85	3.60	3.35
90 Day BBSW	4.40	4.55	4.55	4.47	4.22	3.97	3.72	3.47
3 Year Swap	4.44	4.50	4.40	4.30	4.20	4.10	3.90	3.70
3 Year Bond	4.24	4.30	4.20	4.10	4.00	3.90	3.70	3.50
10 Year Bond	4.64	4.70	4.60	4.50	4.40	4.30	4.15	4.05
10 Year Spread to US (bps)	2	-10	-10	-10	-10	-10	-5	-5

Currency forecasts

	Latest (10 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
AUD vs								
USD	0.6367	0.66	0.67	0.68	0.69	0.70	0.71	0.72
JPY	96.34	98	98	98	97	97	96	95
EUR	0.5966	0.61	0.61	0.61	0.61	0.61	0.62	0.62
NZD	1.0800	1.09	1.10	1.11	1.11	1.12	1.13	1.14
CAD	0.8789	0.88	0.88	0.88	0.88	0.89	0.89	0.90
GBP	0.5208	0.54	0.54	0.54	0.55	0.55	0.55	0.55
CHF	0.5750	0.60	0.60	0.61	0.61	0.61	0.61	0.62
DKK	4.4503	4.56	4.58	4.57	4.55	4.58	4.60	4.63
SEK	6.9586	7.12	7.17	7.14	7.12	7.16	7.20	7.24
NOK	7.1417	7.32	7.36	7.34	7.31	7.35	7.39	7.43
ZAR	11.88	12.1	12.2	12.3	12.4	12.5	12.6	12.6
SGD	0.8658	0.89	0.90	0.90	0.91	0.91	0.92	0.94
HKD	4.9719	5.15	5.23	5.30	5.38	5.45	5.51	5.58
PHP	35.83	36.8	37.2	37.4	37.6	37.8	38.0	38.2
THB	22.76	22.8	22.9	23.1	23.1	23.1	23.1	23.0
MYR	3.0068	3.07	3.05	3.03	3.04	3.05	3.05	3.06
CNY	4.6596	4.75	4.76	4.69	4.69	4.69	4.69	4.68
IDR	9968	10164	10184	10200	10212	10220	10295	10368
TWD	20.55	20.8	20.8	20.7	20.8	20.9	21.0	21.1
KRW	834	858	864	870	869	875	880	886
INR	53.36	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	0.5	0.3	0.1	0.1	5.0	6.5	1.9	1.0
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	0.3	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	0.2	0.1	-0.1	0.0	6.4	4.9	1.9	1.0
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	0.7	0.0	-0.2	0.2	6.9	5.4	1.2	0.6
Exports	1.5	1.8	4.3	1.0	1.3	1.1	0.9	-2.0	3.4	9.5	5.1
Imports	-4.0	3.6	0.7	3.0	0.6	-0.8	0.3	5.4	12.9	5.3	2.7
Net exports contribution	1.1	-0.3	0.8	-0.4	0.2	0.4	0.2	-1.4	-1.6	1.0	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	0.8	1.5	0.2	0.6				
%yr end	12.0	9.5	3.6	3.9	3.3	1.2	3.0	10.0	12.0	3.3	2.2

Other macroeconomic variables

	2022	2023				2024		Calendar years			
% change	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Employment (2)	0.8	0.7	0.8	0.6	0.4	0.1	-0.1	–	–	–	–
%yr	5.2	3.5	3.2	2.9	2.5	2.0	1.0	2.4	5.2	2.5	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	1.2	1.1	0.8	0.7	–	–	–	–
%yr	7.8	7.0	6.0	5.4	4.6	4.0	3.9	3.5	7.8	4.6	3.4
Core inflation trimmed mean	1.7	1.2	1.0	1.2	0.9	0.9	0.8	–	–	–	–
%yr (2)	6.8	6.6	5.9	5.2	4.4	4.0	3.8	2.6	6.8	4.4	3.3
Current account AUDbn	10.9	12.5	7.7	2.0	5.0	3.0	1.0	65.0	26.4	27.0	-5.0
% of GDP	1.7	1.9	1.2	0.3	0.8	0.5	0.1	3.0	1.1	1.1	-0.2
Terms of trade annual chg (1)	7.2	0.4	-12.7	-9.1	-6.4	-12.8	-7.5	16.9	6.4	-7.0	-9.3

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	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Employment '000 chg	-9	13	60	71	-11	74	26	-1	63	7	–
Unemployment rate %	3.5	3.7	3.5	3.5	3.7	3.6	3.5	3.7	3.7	3.6	–
Westpac–MI Consumer Sentiment	80.3	84.3	78.5	78.5	85.8	79.0	79.2	81.3	81.0	79.7	82.0
Retail trade %mth	-3.9	1.9	0.1	0.3	-0.1	0.7	-0.7	0.6	0.3	0.9	–
Dwelling approvals %mth	13.7	-27.8	5.8	1.3	-5.6	22.0	-9.7	-7.2	8.1	-4.6	–
Credit, private sector %yr	7.8	7.5	7.2	6.8	6.6	6.2	5.6	5.3	5.2	4.9	–
Trade in goods balance AUDbn	13.2	11.7	14.1	14.6	9.9	10.4	9.7	7.8	10.2	6.8	–

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.

New Zealand

Interest rate forecasts

	Latest (10 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Cash	5.50	5.50	5.75	5.75	5.75	5.75	5.50	5.25
90 Day Bill	5.62	5.85	5.85	5.85	5.85	5.75	5.50	5.20
2 Year Swap	5.33	5.79	5.67	5.50	5.29	5.08	4.86	4.65
10 Year Bond	5.12	5.45	5.45	5.40	5.30	5.15	4.90	4.80
10 Year Spread to US	50	65	75	80	80	75	70	70
10 Year Spread to Aust	48	75	85	90	90	85	75	75

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZD vs								
USD	0.5896	0.60	0.61	0.62	0.62	0.62	0.63	0.63
JPY	89.21	90	90	89	87	86	85	83
EUR	0.5526	0.56	0.56	0.55	0.55	0.55	0.55	0.54
AUD	0.9262	0.91	0.91	0.90	0.90	0.89	0.88	0.87
CAD	0.8139	0.81	0.81	0.80	0.79	0.79	0.79	0.79
GBP	0.4823	0.49	0.49	0.49	0.49	0.49	0.49	0.48
CNY	4.2951	4.34	4.33	4.24	4.22	4.18	4.14	4.09

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	-0.3	0.6	0.5	0.9	7.4	3.2	1.7	2.1
Government consumption	-2.6	0.0	2.0f	-1.7	-0.2	-0.3	-0.4	8.2	4.6	-1.4	-1.7
Residential investment	-2.2	-2.3	-0.8	-1.5	-2.0	-2.5	-3.0	8.0	1.1	-3.7	-8.4
Business investment	0.0	2.8	2.5	-0.8	-1.2	-1.4	-1.2	14.3	5.5	4.6	-3.5
Stocks (ppt contribution)	0.3	-1.2	-1.3	2.9	-0.4	0.1	0.4	1.4	-0.3	-0.7	1.2
GNE	0.2	0.5	-0.8	2.0	-0.4	-0.1	0.4	10.2	3.4	0.2	0.8
Exports	-1.8	-1.7	5.0	-1.3	3.6	3.1	0.8	-2.7	-0.2	9.8	7.9
Imports	1.8	-0.1	-2.0	0.9	1.1	1.4	1.4	14.8	4.7	1.5	3.7
GDP (production)	**-0.5**	**0.0**	**0.9**	**-0.1**	**0.1**	**0.2**	**0.2**	**6.0**	**2.7**	**1.2**	**0.9**
Employment annual %	1.7	2.9	4.1	2.4	1.9	0.9	0.0	3.3	1.7	1.9	0.2
Unemployment rate % s.a.	3.4	3.4	3.6	3.9	4.3	4.6	4.9	3.2	3.4	4.3	5.3
Labour cost index, all sect incl o/t, ann %	4.1	4.3	4.3	4.3	4.2	4.0	3.8	2.6	4.1	4.2	3.4
CPI annual %	**7.2**	**6.7**	**6.0**	**5.6**	**5.1**	**4.7**	**4.3**	**5.9**	**7.2**	**5.1**	**3.2**
Current account balance % of GDP	-8.8	-8.2	-7.5	-7.7	-7.3	-6.8	-6.8	-5.8	-8.8	-7.3	-5.6
Terms of trade annual %	-4.2	-6.1	-3.6	-4.5	-7.5	-3.4	-1.8	2.8	-4.2	-7.5	9.5

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (10 Nov)***	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Australian commodities index#	314	303	288	282	278	**271**	**273**	**277**	**278**	**281**
Bulk commodities index#	**506**	**483**	**440**	**417**	**397**	**371**	**375**	**380**	**375**	**375**
iron ore finesTSI @ 62% US$/t	127	110	105	99	94	83	85	87	87	87
Premium low vol met coal (US$/t)	329	325	280	260	260	249	249	237	232	232
Newcastle spot thermal coal (US$/t)	127	125	120	120	122	125	127	125	122	122
crude oil (US$/bbl) Brent ICE	82	82	83	85	88	92	95	97	100	102
LNG in Japan US$mmbtu	14.28	14.3	13.7	13.9	14.2	14.5	15.2	15.7	16.0	16.5
gold (US$/oz)	1,995	2,000	2,000	1,975	1,925	1,900	1,875	1,891	1,907	1,923
Base metals index#	**190**	**188**	**188**	**189**	**191**	**199**	**205**	**209**	**215**	**219**
copper (US$/t)	8,138	8,100	8,150	8,200	8,200	8,636	8,966	9,186	9,519	9,742
aluminium (US$/t)	2,255	2,200	2,200	2,275	2,300	2,378	2,437	2,475	2,532	2,570
nickel (US$/t)	18,017	18,000	18,000	18,150	18,630	19,266	19,737	20,048	20,513	20,821
zinc (US$/t)	2,575	2,500	2,400	2,400	2,450	2,522	2,576	2,611	2,664	2,698
lead (US$/t)	2,192	2,200	2,200	2,100	2,050	2,130	2,189	2,228	2,287	2,326
Rural commodities index#	**134**	**131**	**124**	**128**	**133**	**140**	**145**	**148**	**153**	**156**
NZ commodities index ##	**327**	**331**	**331**	**333**	**337**	**341**	**345**	**349**	**352**	**355**
dairy price index ^^	277	281	281	285	289	294	299	304	307	310
whole milk powder US$/t	3,059	3,000	3,050	3,100	3,150	3,200	3,250	3,300	3,325	3,350
skim milk powder US$/t	2,659	2,600	2,650	2,700	2,750	2,800	2,850	2,900	2,922	2,944
lamb leg UKp/lb	396	402	410	418	426	435	443	451	459	468
bull beef US¢/lb	256	256	256	256	256	256	256	256	256	256
log price index ##	156	156	156	156	157	158	158	159	160	161

	levels				% change			
Annual averages	**2022**	**2023(e)**	**2024(f)**	**2025(f)**	**2022**	**2023(e)**	**2024(f)**	**2025(f)**
Australian commodities index#	**379**	**320**	**282**	**277**	**76.9**	**-15.6**	**-11.7**	**-2.0**
Bulk commodities index#	**557**	**505**	**434**	**391**	**60.6**	**-9.3**	**-14.0**	**-9.9**
iron ore fines @ 62% USD/t	120	118	101	86	10.8	-2.1	-13.9	-14.7
LNG in Japan $mmbtu	18.2	15.5	14	16	132.5	-14.8	-9.3	11.3
ave coking coal price (US$/t)	240	221	218	201	122.8	-7.8	-1.4	-7.6
ave thermal price (US$/t)	281	238	142	126	395.8	-15.6	-40.2	-11.1
iron ore fines contracts (US¢ dltu)	174	160	145	129	26.2	-8.4	-9.1	-10.8
Premium low vol met coal (US$/t)	365	296	269	239	189.5	-19.0	-9.2	-11.1
crude oil (US$/bbl) Brent ICE	97	82	86	98	121.7	-15.5	5.0	13.3
gold (US$/oz)	1,809	1,956	1,958	1,897	1.7	8.1	0.1	-3.1
Base metals index#	**230**	**201**	**190**	**210**	**52.4**	**-12.4**	**-5.5**	**10.0**
copper (US$/t)	8,827	8,471	8,252	9,261	42.6	-4.0	-2.6	12.2
aluminium (US$/t)	2,711	2,274	2,273	2,488	57.6	-16.1	0.0	9.4
nickel (US$/t)	26,228	21,794	18,406	20,150	89.6	-16.9	-15.5	9.5
zinc (US$/t)	3,471	2,653	2,441	2,623	52.6	-23.6	-8.0	7.4
lead (US$/t)	2,154	2,141	2,126	2,241	17.6	-0.6	-0.7	5.4
Rural commodities index#	**171**	**140**	**132**	**151**	**45.9**	**-18.0**	**-5.9**	**14.0**
NZ commodities index ##	**359**	**376**	**331**	**335**	**21.2**	**4.7**	**-12.1**	**1.5**
dairy price index ##	322	353	286	287	25.2	9.5	-18.9	0.3
whole milk powder US$/t	3,843	3,889	3,072	3,104	29.2	1.2	-21.0	1.0
skim milk powder US$/t	3,332	3,819	2,633	2,704	22.6	14.6	-31.0	2.7
lamb leg UKp/lb	599	624	385	419	18.4	4.3	-38.4	9.0
bull beef US¢/lb	279	280	254	256	19.0	0.5	-9.3	0.9
log price index ##	179	171	159	157	14.8	-4.3	-7.4	-1.2

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

United States

Interest rate forecasts

	Latest (10 Nov)	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	4.62	4.80	4.70	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 (10 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
USD vs								
DXY index	105.90	104.5	103.5	101.7	99.9	98.8	97.7	96.5
JPY	151.33	149	147	144	141	138	135	132
EUR	1.0669	1.08	1.09	1.11	1.13	1.14	1.15	1.16
AUD	0.6367	0.66	0.67	0.68	0.69	0.70	0.71	0.72
NZD	0.5896	0.60	0.61	0.62	0.62	0.62	0.63	0.63
CAD	1.3805	1.34	1.32	1.30	1.28	1.27	1.26	1.25
GBP	1.2224	1.23	1.24	1.25	1.26	1.27	1.28	1.30
CHF	0.9031	0.91	0.90	0.89	0.88	0.87	0.86	0.86
ZAR	18.66	18.3	18.2	18.1	17.9	17.8	17.7	17.6
SGD	1.3598	1.35	1.34	1.33	1.32	1.31	1.30	1.30
HKD	7.8088	7.81	7.80	7.80	7.79	7.78	7.76	7.75
PHP	55.87	55.7	55.5	55.0	54.5	54.0	53.5	53.0
THB	35.76	34.5	34.2	34.0	33.5	33.0	32.5	32.0
MYR	4.6926	4.65	4.55	4.45	4.40	4.35	4.30	4.25
CNY	7.2849	7.20	7.10	6.90	6.80	6.70	6.60	6.50
IDR	15655	15400	15200	15000	14800	14600	14500	14400
TWD	32.27	31.5	31.0	30.5	30.2	29.9	29.6	29.3
KRW	1310	1300	1290	1280	1260	1250	1240	1230
INR	83.29	82.0	80.0	78.0	76.0	75.0	74.5	74.0

Activity forecasts*

	2023				2024			Calendar years			
% annualised, s/adj	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	3.8	0.8	4.0	1.8	1.2	0.7	1.2	8.4	2.5	2.2	1.5
Dwelling investment	-5.3	-2.2	3.9	-2.0	0.0	0.0	2.8	10.7	-9.0	-11.2	0.6
Business investment	5.7	7.4	-0.1	2.9	2.5	3.8	4.3	6.0	5.4	3.9	3.1
Public demand	4.8	3.3	4.6	2.4	2.4	2.0	1.6	-0.3	-0.9	3.8	2.5
Domestic final demand	3.9	2.0	3.5	2.0	1.5	1.3	1.8	6.6	1.9	2.2	1.9
Inventories contribution ppt	-2.3	-0.2	1.2	-0.2	-0.9	-0.4	0.0	0.2	0.5	-0.4	-0.2
Net exports contribution ppt	0.6	0.1	-0.2	-0.3	-0.2	-0.4	-0.4	-1.3	-0.5	0.5	-0.3
GDP	2.2	2.1	4.9	1.5	0.5	0.5	1.5	5.8	1.9	2.4	1.5
%yr annual chg	1.7	2.4	2.9	2.7	2.2	1.8	1.0				

Other macroeconomic variables

Non-farm payrolls mth avg	322	222	203	120	50	50	50	549	427	201	63
Unemployment rate %	3.5	3.6	3.7	3.8	3.9	4.3	4.6	5.4	3.6	3.8	4.8
CPI headline %yr	5.2	3.0	2.9	2.8	2.1	2.1	2.0	7.2	6.4	2.7	2.2
PCE deflator, core %yr	4.7	3.8	3.1	3.3	2.5	2.3	2.2	6.0	3.6	2.4	2.2
Current account %GDP	-2.7	-2.7	-2.7	-2.6	-2.6	-2.5	-2.5	-2.4	-2.4	-2.4	-2.4

Sources: Official agencies, Factset, Westpac Economics

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.

FORECASTS

Europe & the United Kingdom

Interest rate forecasts

	Latest (10 Nov)	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	2.65	2.90	2.85	2.85	2.80	2.75	2.55	2.50
10 Year Spread to US	–197	–190	–185	–175	–170	–165	–165	–160
United Kingdom								
BoE Bank Rate	5.25	5.25	5.25	5.25	5.25	5.00	4.75	4.50
10 Year Gilt	4.27	4.55	4.50	4.45	4.40	4.35	4.30	4.25
10 Year Spread to US	–35	–25	–20	–15	–10	–5	10	15

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Nov)	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
euro vs								
USD	1.0669	1.08	1.09	1.11	1.13	1.14	1.15	1.16
JPY	161.44	161	160	160	159	157	155	153
GBP	0.8727	0.88	0.88	0.89	0.90	0.90	0.90	0.89
CHF	0.9633	0.98	0.98	0.99	0.99	0.99	0.99	1.00
DKK	7.4577	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.6563	11.7	11.7	11.7	11.7	11.7	11.7	11.7
NOK	11.9687	12.0	12.0	12.0	12.0	12.0	12.0	12.0
sterling vs								
USD	1.2224	1.23	1.24	1.25	1.26	1.27	1.28	1.30
JPY	184.99	183	182	180	178	175	173	172
CHF	1.1039	1.12	1.12	1.11	1.11	1.10	1.10	1.12
AUD	0.5208	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	0.9
private consumption	1.3	–8.0	3.5	3.2	0.8	0.9
fixed investment	5.7	–8.4	3.6	2.9	2.0	4.3
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	0.8
France GDP	1.8	–7.9	6.8	2.5	0.7	0.9
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	5.3	5.3
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	7.0
Money supply M2	8.1	8.7	10.1	9.0	11.8	11.5	10.0
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	–3.2	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 (10 Nov)	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	3.35	3.35	3.35	3.35	3.35	3.35	3.35

* For major banks.

Currency forecasts

	Latest (10 Nov)	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25	Jun–25
JPY	151.33	149	147	144	141	138	135	132
SGD	1.3598	1.35	1.34	1.33	1.32	1.31	1.30	1.30
HKD	7.8088	7.81	7.80	7.80	7.79	7.78	7.76	7.75
PHP	55.87	55.7	55.5	55.0	54.5	54.0	53.5	53.0
THB	35.76	34.5	34.2	34.0	33.5	33.0	32.5	32.0
MYR	4.6926	4.65	4.55	4.45	4.40	4.35	4.30	4.25
CNY	7.2849	7.20	7.10	6.90	6.80	6.70	6.60	6.50
IDR	15655	15400	15200	15000	14800	14600	14500	14400
TWD	32.27	31.5	31.0	30.5	30.2	29.9	29.6	29.3
KRW	1310	1300	1290	1280	1260	1250	1240	1230
INR	83.29	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**	**3.1**	**3.1**
United States	2.9	2.3	–2.8	5.9	2.1	2.4	1.5
Japan	0.6	–0.4	–4.3	2.1	1.1	1.8	1.1
Euro zone	1.8	1.6	–6.1	5.4	3.5	0.6	0.9
Group of 3	**2.2**	**1.7**	**–4.2**	**5.3**	**2.5**	**1.7**	**1.2**
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	1.2	0.8
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	1.2	0.9
OECD total	**2.3**	**1.8**	**–4.6**	**5.6**	**2.8**	**1.5**	**1.2**
China	6.8	6.0	2.2	8.4	3.0	5.3	5.3
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	1.1	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	5.2	6.0
Vietnam	7.5	7.4	2.9	2.6	8.0	4.9	6.5
East Asia	**6.0**	**5.2**	**0.7**	**7.1**	**3.5**	**4.7**	**5.0**
East Asia ex China	4.5	3.8	–2.3	4.3	4.5	3.4	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	0.0	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**	**3.3**	**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**	**3.1**	**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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