WESTPAC MARKET OUTLOOK FEBRUARY 2024.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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Westpac Market Outlook is a monthly publication produced by Westpac Economics

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This issue was finalised on 9 February 2023

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EXECUTIVE SUMMARY

The inflation emergency which emerged post the pandemic has largely been tamed, as aggressively tighter monetary policy globally gains traction. The interest rate hikes of 2022 and 2023 are set to give way to interest rate cuts in 2024 and beyond, as central banks scale back restrictive policy settings. The speed and timing of these rate cuts is the focus of debate. For now, central banks are still prioritising suppressing any lingering inflation risks before declaring that the inflation battle has been won.

The RBA Board is keeping all options open, adopting a data dependent approach. While the recent December quarter CPI update surprised to the low side, with the key trimmed mean measure printing 0.8%qtr, 4.2%yr, the RBA will need reassurance that inflation will sustainably return to target. On our forecasts, we remain of the view that the RBA will have seen enough progress on inflation to begin the easing cycle in September, with two cuts likely this year. The US, which is more advanced in lowering inflation, will likely begin easing ahead of the RBA. We expect the US FOMC to deliver four rate cuts in 2024, now likely beginning in June, pushed back from March.

Currency markets remain in flux, awaiting greater clarity on the interest rate outlook. The pushing back of the initial rate cut by the US FOMC, as well as ongoing jitters around China's property market, has the Australian dollar on the back foot. We see this as temporary. Support for US dollar strength will diminish when the FOMC embarks on lowering rates, and a more risk–on mood takes sway. In this environment, the Australian dollar is forecast to trend higher, lifting to around USD0.70 by year end.

Australia: The Australian economy lost considerable momentum through 2023, with growth slowing to a crawl in the September quarter and beyond. Consumer spending has largely stalled as households face declining real household disposable income, dented by high inflation, higher interest rates and additional tax obligations. These themes and dynamics will extend into 2024, ahead of some relief from mid–year, with Stage 3 income tax cuts commencing on 1 July. Economic growth is expected to slow from 2.1% at September 2023 to 1.0% in mid–2024, then edge up to 1.6% at end–2024. Labour market conditions are cooling as firms respond to softer demand. Hours worked contracted in the September and December quarter 2023, and the unemployment rate is rising gradually from historic lows to a forecast 4.5% at end–2024. Softer economic conditions are translating into a moderation of CPI inflation, down significantly from 7.8% over 2022 to 4.1% at end–2023, ahead of a forecast 3.0% by end–2024, the top of the RBA's target band.

Commodities: Prices in aggregate moved lower over the past couple of months, but fortunes varied by commodity. Iron ore prices have been surprisingly resilient, as supply remains constrained. Crude prices have surprised by weakening of late, but as global conflict and tensions persist, risks remain to the upside.

Global FX markets: Aggressive FOMC rate cut expectations at the turn of the year saw the US dollar test lower, briefly. Strong growth in GDP and nonfarm payrolls and the FOMC's recognition of these results, however, subsequently saw the currency fully reverse back to its mid–December level. Still, with the US dollar well above long–run average levels and the balance of risks becoming less favourable, it seems only a matter of time before the downtrend recommences. Also supporting this trend is the prospective return of growth in Europe and the UK after a year of stagnation, aiding both Euro and Sterling. Lower global interest rates and robust growth should also aid Asia's currencies in time

New Zealand: Despite a resilient labour market, recent data has pointed to an economy with weaker momentum than had been expected, while headline inflation has continued to decline more quickly than the RBNZ had forecast. But some of the weakness in the economy reflects slower than previously estimated trend growth and domestic inflation remains elevated. As a result, we continue to forecast no policy easing until 2025.

United States: Our expectations of the past year for inflation continue to play out, with the annual rate on track to reach 2.0% mid–2024. That said, strength in GDP and nonfarm payrolls continues to focus the Committee's attention on remaining price risks, precluding a cut in March. By June, we expect the weakness in other labour market indicators to have affected payrolls too; and with inflation essentially at target, the FOMC will be free to deliver three consecutive cuts in June, July and September and another come December.

China: Authorities' ambitions were met in 2023 despite a deep decline in property investment and a material decline in household wealth and sentiment. Growth of around 5% is again attainable in 2024, but it will necessitate continued rapid growth in new industry and infrastructure and a broadening of consumption growth. Confidence remains the primary risk, as recognised by policy makers, who recently announced a package of measures to shore up confidence in the equity market.

Summary of world GDP growth (year average)

Real GDP %ann*	2019	2020	2021	2022	2023f	2024f	2025f
United States	2.3	–2.8	5.9	2.1	2.5	2.6	1.3
China	6.0	2.2	8.4	3.0	5.2	5.2	5.0
Japan	–0.4	–4.2	2.2	1.0	2.0	0.9	0.9
India	3.9	–5.8	9.1	7.2	7.0	6.3	6.5
Other East Asia	3.8	–2.3	4.3	4.5	3.4	4.1	4.2
Europe	1.6	–6.1	5.6	3.3	0.5	0.6	1.5
Australia	1.8	–2.1	5.6	3.8	2.0	1.3	2.2
New Zealand	3.1	–1.5	6.1	2.4	0.7	0.3	1.6
World	**2.8**	**–2.8**	**6.3**	**3.5**	**3.3**	**3.3**	**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'.

The RBA still wants reassurance ...

The RBA Board held rates steady in February ...

The RBA Board held rates steady at the February meeting, as expected by almost everyone. While the policy decision was well anticipated, it was something of a shift from the RBA's own views from three months ago. The language of the media release was softer than in December but still left open the possibility of another rate increase; the Board were not about to do a complete 180-degree turn in the space of three months. That said, in the subsequent media conference, Governor Bullock stated that the Board were "not ruling anything in or out".

... encouraged by further progress on reducing inflation.

The RBA still characterises inflation as high. Although goods price inflation has declined faster than forecast, the media release and Statement on Monetary Policy (SMP) emphasise that services inflation remains high and is only declining at the previously forecast pace. That said, the upgrade to the inflation forecast for calendar 2025 in the November forecast round has been taken back. The RBA now expects trimmed mean inflation to be 2.8% over calendar 2025, closer to their August forecast. The information from the RBA's liaison program suggested that costs are still rising but firms are finding it increasingly difficult to pass these increases on. The RBA also pointed to indicators of a broader moderation in wages growth in the period ahead.

Since the last Board meeting in December, essentially all the domestic data have been weaker than assumed in the RBA's November forecast round. Consumer spending, investment and especially inflation all ended 2023 weaker than the RBA forecast in November. The narrative that inflation had become increasingly home-grown and demand-driven has become harder to sustain.

Inflation is still above the band and the battle is not yet won.

In line with this softer data, the forecasts for consumption were reduced and the language around domestic demand has softened. The recovery in dwelling investment has also been pushed out. GDP growth is forecast to be lower across the whole horizon than in the November round, and unemployment higher.

The RBA is still of the view that the level of demand is too strong, even if the rate of growth "remains subdued". It characterises demand and supply as "moving towards a better balance" and credits higher interest rates as working to establish that better balance. It also believes that the labour market is too tight, if only in "pockets", as Governor Bullock said in the media conference.

Sticky services inflation remains a lingering concern.

The SMP has been revamped and is now released on the same day as the Board decision. It contains a new section showing an assessment of spare capacity, which shows estimates of labour market and output indicators being above capacity. There is a question about whether the model-based elements of this assessment adequately allow for the dynamics of supply shocks and the recovery from them. If inflation outcomes continue to surprise the RBA on the downside, this assessment would need to be – and would be – revised.

Inflation sustainably returning to target is the key.

The SMP now also contains more detail about the forecasts, including additional variables and an assessment of how the current state of the economy compares with the RBA's view of full employment. In particular, the implied path for productivity was shown for the first time. This shows the assumed solid bounce-back and reversion to a trend a little above 1% annual growth. It was pleasing to see the RBA's recognition in the text of the SMP that some of the weakness in productivity occurred because hours worked jumped too fast for the capital stock to keep up, and that this will unwind over time.

On our forecasts, further progress on inflation ...

As stated previously, we do not expect any further rate increases by the RBA this cycle. Rate cuts are still some way off, though. The RBA Board will need to be sufficiently comfortable that inflation will definitely decline into the 2–3% target band. It will also want to be confident in the recovery in productivity. We continue to expect the RBA to reach this level of comfort around September.

... will enable the RBA to begin lowering rates in September ...

We doubt that the Board are even thinking about thinking about rate cuts yet, though. In a slight departure from the language in the media release, the Governor stated that the Board are "not ruling anything in or out". Both a hike and a cut could be contemplated if the data pointed to it being necessary. She also emphasised that they do not need to see inflation actually inside the band, let alone at the midpoint of 2½%, to cut rates. But they do need to be confident that once it gets there, it will stay there.

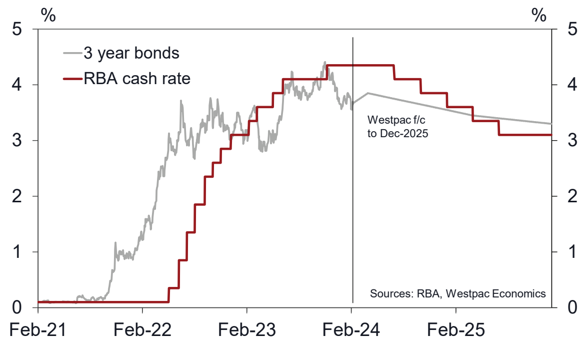
... with two moves likely this year, ahead of further cuts in 2025.

Over the period ahead, the RBA Board will be focused on the data flow. It will "continue to pay close attention to developments in the global economy, trends in domestic demand, and the outlook for inflation and the labour market." It will also be watching for signs that medium-term inflation expectations dislodge from their currently well-anchored state.

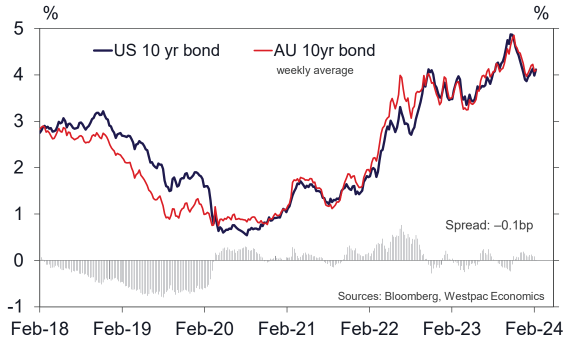
Luci Ellis, Chief Economist

... on lingering risks

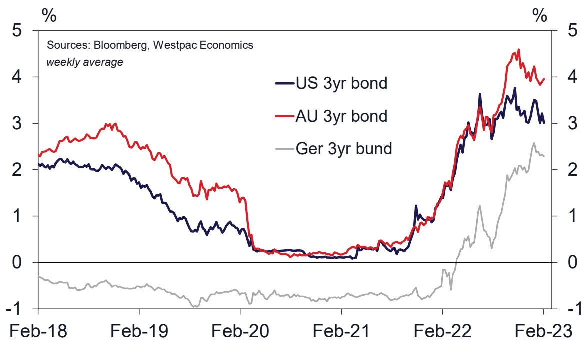
RBA cash rate and 3 year bonds



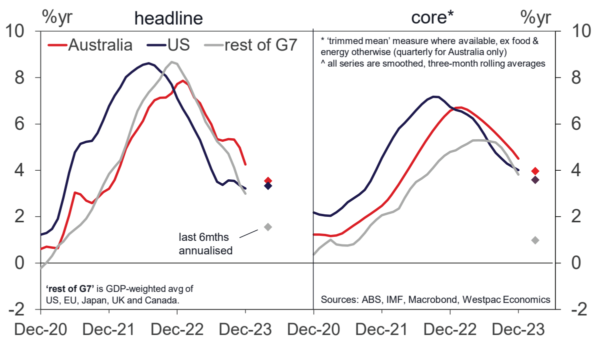
10 year bonds yields ease, ahead of rate cuts



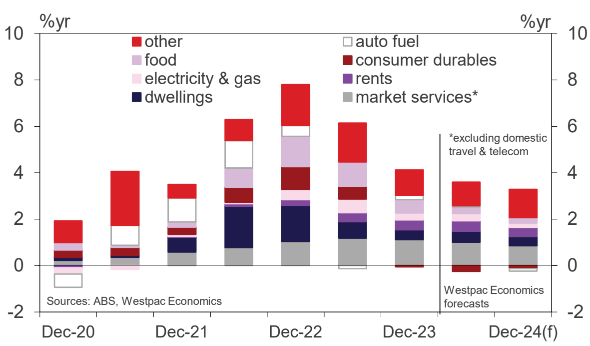
3 year bond yields



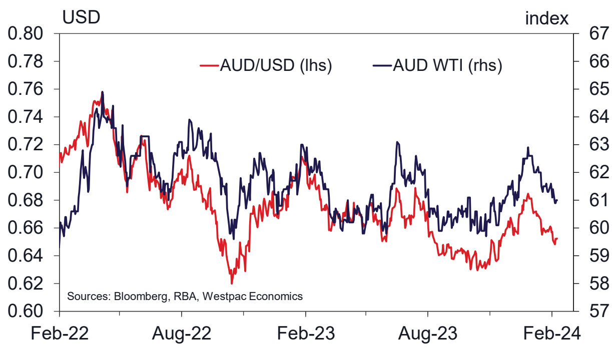
Pace of global disinflation



CPI: contributions to annual inflation



AUD/USD & AUD TWI



Inflation falling back towards target …

Consumer inflation moderates, falling back to 4.1% in 2023.

The Australian economy in 2023 confirmed that the effects of global supply shocks on inflation are receding. After peaking at the end of 2022, CPI inflation moderated significantly over 2023, from 7.8% over 2022 to 4.1% at year end. Because the rapid unwind in the effect of supply shocks on goods inflation is largely over, the next leg of the disinflation process requires a decline in services inflation, which is likely to be slower. Even so, a further moderation is in prospect for 2024. Westpac Economics forecasts CPI inflation to reach 3% by end-2024, the top of the target band.

Next leg to be slower, requiring a decline in sticky services inflation.

The domestic economy is stuck in the slow lane and is likely to remain so in the first half of 2024. Output growth cooled to 0.2% for the September quarter, associated with a 0.6% decline in hours worked. A soft reading for the December quarter is in prospect, with the Labour Force Survey reporting hours worked contracted by a further 0.4% in the period. We expect GDP growth to ease to 1% over the year to the June quarter 2024, and still be only 1.6% over calendar 2024. Domestic demand is forecast to be particularly weak in the first half of 2024, before picking up gradually from the September quarter.

CPI forecast to touch 3% at end 2024, the top of the target band.

Much of the weakness has been driven by consumption, and this too is likely to remain the case for a while yet. Real consumption was flat in the September quarter, with one-off effects from electricity subsidies and motor vehicle deliveries offsetting. We are forecasting slow growth from here, reaching 1.6% over calendar 2024. While the public sector is currently a source of growth in demand, we expect some of the momentum to ease over 2024. Likewise, we expect annual growth in total business investment to soften over the period ahead. Total machinery and equipment investment was not resilient to the expiry of tax incentives, and we expect this will largely offset the pulse from infrastructure activity and investment in energy transition.

Economic growth has slowed to a well below trend pace …

Unfortunately for households, the combined effects of higher taxation and interest rates has compounded the drag coming directly from high inflation. The expiry of the low and middle-income tax offset is part of this. Even more importantly, inflation (and a tight labour market) has pushed people into higher tax brackets. Real household disposable income declined significantly over the course of 2023 in Australia. We expect that this drag will continue into 2024. Over time, as inflation declines, so will the drag on household spending power from this source. The modified Stage 3 tax cuts, commencing on 1 July, will also help; indeed, the changes tilt more of the relief to lower-and-middle income earnings, which will ease more of the pressure even if it has no material effects on spending or the inflation outlook. And if we are right that the RBA is on hold from here, and starting to cut rates from later in 2024, then household budgets will start to see some relief. But for most of the year, households will continue to feel squeezed.

… centred on weak consumer spending, with pressure on households to continue …

The international border reopening in both Australia and China led to a catch-up surge in migration at the beginning of 2023, which has now peaked. Population growth is therefore set to recede in 2024. One aspect of that turnaround is that the surge in hours worked through to the June quarter 2023 and slump in measured productivity should reverse. We saw some of that reversal in the September quarter national accounts and expect this to continue.

… ahead of policy relief from mid-year.

The subsiding migration surge should also see some easing in the pressures it has induced in the housing market. Rents are likely to increase strongly for a while yet, though, and vacancy rates are likely to remain below average given the capacity issues in the housing construction industry. In the established market, housing price growth is already starting to roll over in Sydney and Melbourne. We are forecasting housing prices to continue increasing over 2024, but at a slower pace than seen through much of 2023, a shift that is now underway. Even so, the economics of housing construction remain difficult and, as noted, the industry is supply constrained. We are therefore forecasting dwelling investment to decline over the next year or so, before starting to turn around over 2025. This implies that the existing backlog of homes already approved will be worked down only slowly.

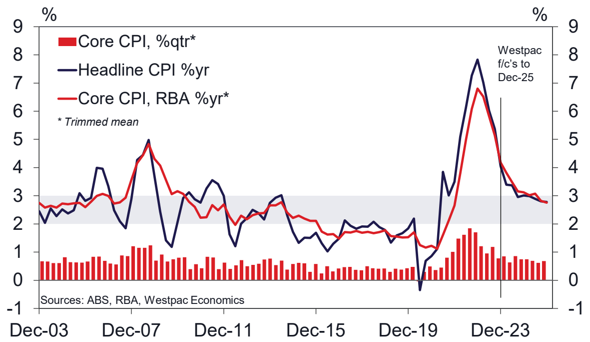
Both demand for and supply of labour will ease in 2024.

The tight labour market is easing, with a soft landing the most likely outcome. Unemployment has risen a little, broadly in line with the RBA's and our forecasts at the beginning of the year. Perhaps more noteworthy has been the strength in labour supply. The participation rate and hours worked reached record highs in 2023. Part of the story has been that people have been encouraged into (or to stay in) the labour force by the tight labour market and resulting job opportunities. Another part has been that people have sought more income as cost-of-living pressures mounted; the share of workers holding multiple jobs has increased significantly. With slow growth and declining inflation expected for 2024, both demand for and supply of labour will slow. The unemployment rate will increase – Westpac Economics is forecasting it to reach 4½% by end-2024. However, lower average hours worked and a softer trajectory for participation will also be part of the adjustment.

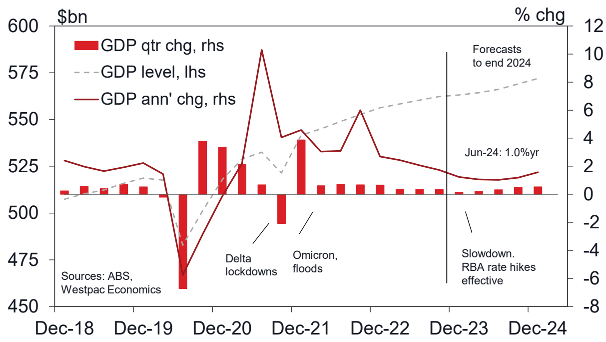
Luci Ellis, Chief Economist

... with squeeze on households extending into 2024

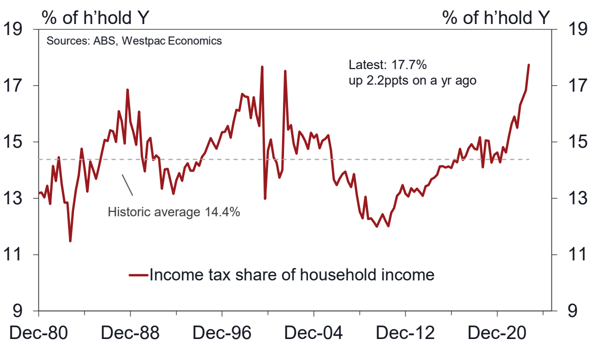
CPI inflation, trending back to target



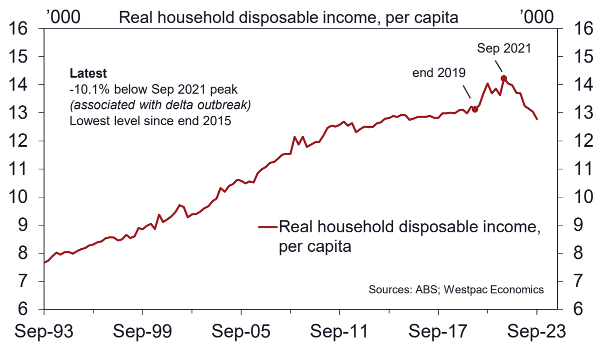
Australian economy, growth slows to a crawl



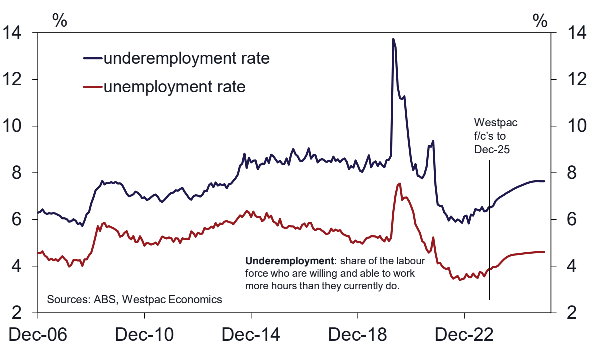
Household income tax climbs to historic high



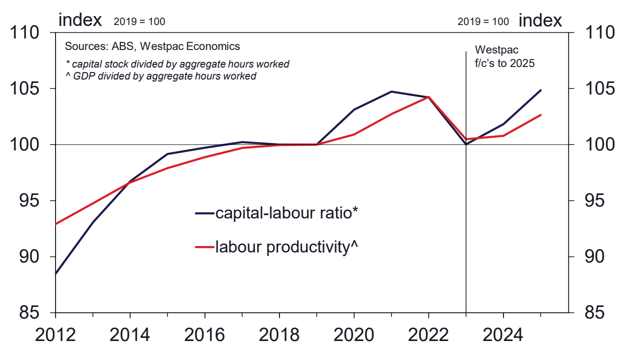
Household disposable income takes a hit



Unemployment turning higher



Productivity growth set to recover



Iron ore surprises with strength …

Commodities softened in the last two months …

Since our last commodities update in mid-December, there has been a broad weakening of commodity prices but, as always, not all commodities performed in the same way. Our broadest commodities index (Westpac Exports Price Index) is down close to 5% over the last two months with thermal coal leading the way, falling 20% over that period. LNG prices have fallen 12% while met coal is down 6%. But not all energy prices have fallen since December, Brent crude is up almost 7% on the back of the broadening conflict in the Middle East with Houthi attacks in the Red Sea disrupting shipping activity. Iron ore prices are also down 7% but at US$126/t are still surprisingly resilient compared to wide held expectations for prices to weaken though 2023. The base metals complex is broadly flat, but this was driven by a 5% rise in aluminium and lead contrasted with a 3% fall in nickel. Meanwhile gold has rallied 2%.

… but, as always, there is significant variation between commodities.

Given the ongoing troubles in the Chinese residential property market and construction industries, there is quite a bit of head scratching on why iron ore prices remain so robust. We have seen the number of foreclosed homes in China rise 43% in 2023 with 389,000 units impacted according to the China Index Academy. More recently, the Chinese administration had instructed heavily indebted local governments to delay or halt some state-funded projects as Beijing is trying to manage debt risks as it attempts to stimulate the economy. To top off 2023, the latest update on Chinese steel production was very disappointing with December output almost 11mt below our 'forecast' at just 67.44mt that was based on CISA data. We do note this is consistent with smaller, less efficient steel mills being shuttered, meaning the industry will hit the 'just over 1bnt' steel production cap that was imposed in 2023. Backing this up, the NDRC has noted that China will "continue to promote supply-side structural reform in the steel industry this year with a focus on high-end operations" and "will strictly control the increase in new steel capacity … (and) speed up a green transition" suggesting that this story should continue through 2024.

Iron ore prices have held up despite a significant drop in Chinese steel production.

On the 2024 outlook for iron ore, it does appear that China continues to focus on shutting down smaller, less efficient, higher polluting steel production. However, through the first half of 2023, steel production was well above forecast levels based on CISA data with inventory coming in modestly above the seasonal norm. Inventory levels dropped back towards seasonal norms through the end of last year which is not what you would expect to see if steel producers were indeed cutting back to meet official targets. Given this structural downward shift in steel production you must question why iron ore has been so robust.

The best way to square this circle is to turn to supply and note that, as has been the case for a number of years now, the major iron ore producers have been adept at matching the shift in demand with reduced output. This careful management of supply has, we think, build a foundation under iron ore pricing.

Conflict in the Middle East plus constrained supply and a cold snap in the US …

Turning to the crude oil market, we are somewhat surprised that prices dropped below US$80/bbl given the near term upside risks for refined fuels (and refining margins or cracks) and thus crude prices due to the extreme cold weather in the US, a series of Ukrainian drone attacks on Russian refinery capacity, Houthi attacks on vessels in the Red Sea and growing risks that Iran could be pulled into more direct conflict with the US.

Clearly, the latter two risks remain potent drivers for crude markets in the short term, given how important the Suez Canal and Red Sea are to crude supply. During 2022, the number of tankers transiting the critical pinch-point between Yemen and Djibouti, the Bab al-Mandab Strait, which aptly translates as the Gate of Grief or the Gate of Tears, surged as Russian crude and products were forced to travel south to Asia due to EU sanctions and bans while Middle Eastern crude travelled north through the Suez canal and Sumed pipeline to replace that lost crude.

… point to upside risks for crude oil prices …

Daily transit calls for tankers through the Bab al-Mandab Strait in December 2022 were up 44% versus the average of the previous 3 years. However, in January 2024, daily transit calls slumped by 50%yr. Meanwhile, at the Suez Canal daily transit calls for tankers in December 2022 were up 46% versus the average of the previous 3 years but in January 2024, daily transit calls fell by 40%yr. Meanwhile transit calls round the Cape of Good Hope were up 82%yr in January 2024 emphasising where that disrupted traffic was flowing.

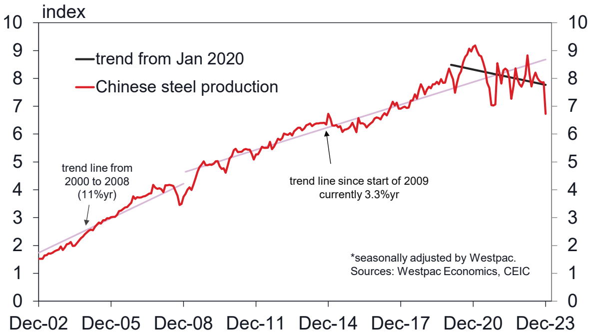
… so we are somewhat surprised crude remains below US$80/bbl.

The IMF Port Watch data used here doesn't allow us to differentiate between different types of tankers. However, Kpler notes that oil tanker transits through the Red Sea were down 23% in January compared with November, while the drop was much more pronounced for LPG and LNG which was down 65% and 73% respectively suggesting the impact has been more in fuels than crude markets. However, the longer the disruptions go on, the more structural the blockages become, and the more costs rise, and the greater the impact on crude plus liquids inventory. Hence our more positive near term view on cracks and fuels, which is thus supportive of crude oil prices.

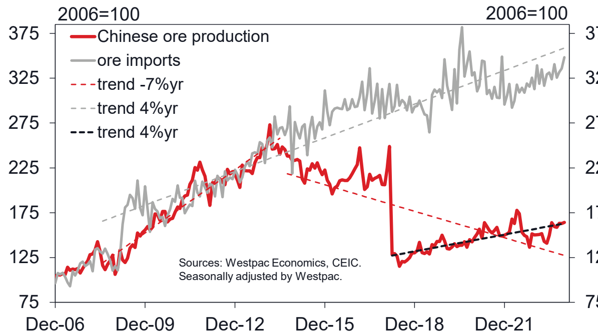
Justin Smirk, Senior Economist

… while crude is weaker despite meaningful supply risks

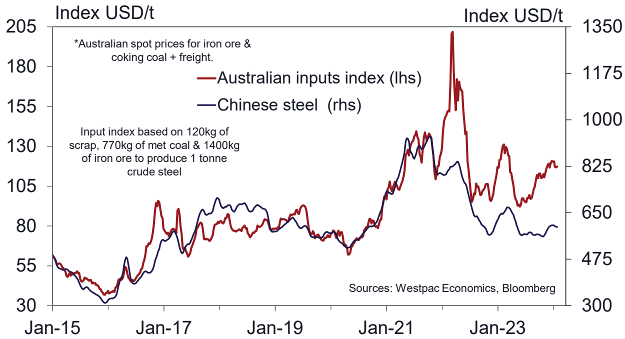
Chinese steel production drops in December



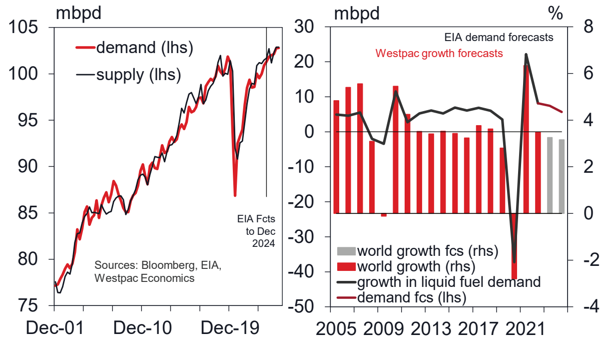
Chinese ore imports peaked in 2020



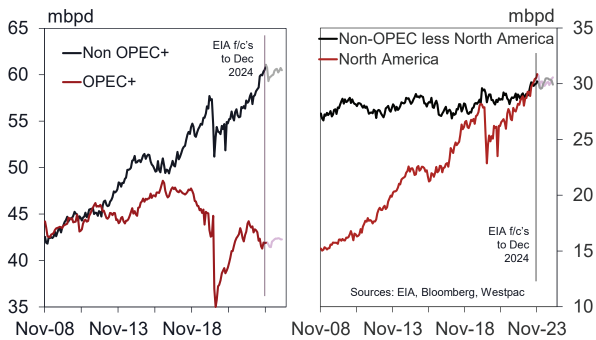
Steel inputs vs. Chinese steel prices



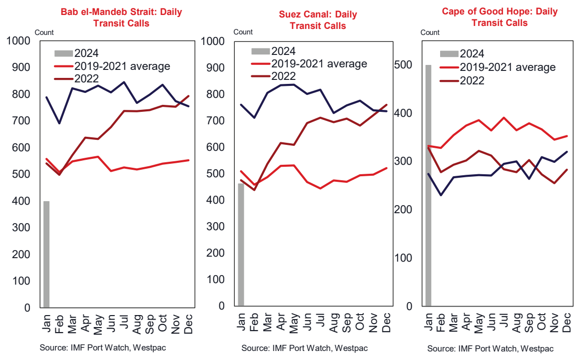
Crude demand growth has softened



OPEC+ has tightened supply, non-OPEC lifts



Trade choke points vs. alternate route



Markets wait on the FOMC before ...

Around the turn of the year, the USD tested lower, but has since reversed ...

Over the turn of the year, the US dollar has traversed a significant range, the DXY index testing 101 in late-December before reversing back through 102 and 103 during January and, this past week, 104, the level DXY traded mid-December. Shifting expectations around the timing and scale of the coming global rate cutting cycle are behind this dynamic.

... both moves came as a result of evolving interest rate expectations.

From a first cut in March and almost 160bps of easing priced for 2024, market expectations for the US FOMC have shifted back over the past month and a half to a first cut in May/ June and around 120bps for the year as a whole. This is not due to inflation's downtrend being questioned -- to the contrary PCE inflation has annualised at 2.0% the past six months -- but rather because a strong Q4 GDP print and January nonfarm payrolls estimate has given the FOMC licence to actively suppress lingering inflation risks without concern for the health of the economy.

The perceived balance of risks for the US and other nations favours USD ...

This is a different balance of risks to those faced by the ECB and Bank of England given GDP growth has been largely absent in the Euro Area and UK for over a year. If inflation was not trending down rapidly in these jurisdictions, they would be facing recession in late-2024 if not before. Thankfully, this is not the case and the ECB and BoE, along with the FOMC, are likely to begin cutting mid year and carry on through to end-2025.

We are more circumspect on the quantum of rate cuts to be delivered over 2024 and 2025 than the market. However, this divergence is proportional across the major markets with exuberance over rate cuts in one nation offset by the same sentiment elsewhere. To us, activity growth and political uncertainty are more likely to act as the swing variables in FX markets.

... but we expect the status quo to shift, with a low bar for growth in Europe ...

Activity growth has certainly been favourable for the US dollar the past two years, but ahead, the Euro Area and UK should outperform on a relative basis. Simply, both jurisdictions have a very low benchmark to outperform, and the constraints that have held growth back (principally high inflation and tight financial conditions) are dissipating. Meanwhile in the US, history suggests the probability of 2024 being as strong as 2023 is extremely low, particularly given the weakness now apparent in hours worked as well as the business surveys with respect to both employment and investment. A rising term premium is also likely to partly offset the benefit of FOMC easing.

... and politically uncertainty growing in the US.

Political uncertainty is typically higher as a new administration begins their term and determines their agenda. With fiscal sustainability also a pressing issue and deep division evident across the two parties and society, US political instability is a material concern for 2024 and 2025. In contrast, the cohesion required to respond to Russia's invasion of Ukraine and the ensuing energy crisis has provided lasting stability and purpose for Europe. It also helps that Europe has significant growth opportunities related to the green transition and an industrial base ready to take advantage. The UK looks to be on a surer footing than recent years, but risks remain.

Taking these factors into consideration, we continue to expect both Euro and Sterling to gain against the US dollar over our forecast horizon, EUR/USD to rise from USD1.08 currently to USD1.14 end-2024 (+5.5%) and USD1.17 end-2024 (+8.0% cumulative) as GBP/USD lifts from USD1.26 to USD1.29 end-2024 (2.5%) and USD1.31 end-2025 (+4.0% cumulative). Having already benefited from its safe-haven status, the Swiss Franc is expected to gain just 3.0% by end-2025.

Japan has robust growth opportunities before it, but rate differentials will weigh.

Japan's strong relationship with the US and Europe, combined with their technological and industrial capabilities offer considerable opportunity for economic growth in both the short and long-term. Arguably, Japanese consumers also have considerable pent up demand, potentially triggered if robust wage gains are sustained. That said, the Tokyo CPI halving from 3.2%yr to 1.6%yr October 2023 to January 2024 highlights the extent to which above-target inflation in Japan has been supported by imported inflation, particularly energy. It is yet to be seen if domestic price pressures can sustain inflation above 2.0%yr into the medium term. Under such conditions, the interest rate differential between Japan and the world is likely to principally depend on foreign interest rate movements, limiting gains in Yen. On our forecasts, USD/JPY ends 2024 and 2025 at JPY138 and JPY127 respectively from JPY148 currently, declines of 'only' 7% and 14% cumulative. We say 'only' because a near 27% decline is necessary to get USD/JPY back to the pre-pandemic level of 2019, JPY109.

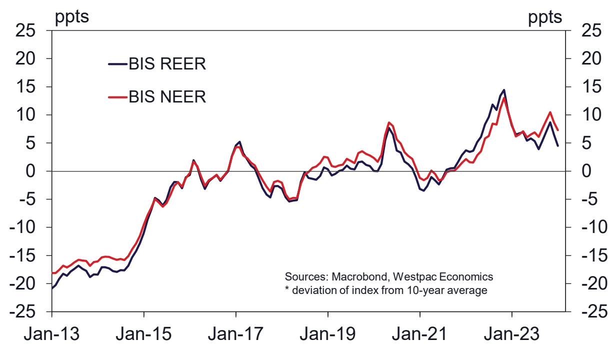
Productivity and efficiency are critical to Asia's competitiveness.

Finally on the rest of Asia. Risk sentiment and rate differentials remain against the region. This should change over the forecast period, however, albeit slowly. It is worth noting that key currencies such as China's Renminbi are only outright weak on a bilateral basis against the US dollar, the CFETS TWI instead broadly stable and above the average of the past 5 years. This speaks to a need for China and others in the region to maintain their drive for productivity and efficiency to keep their competitive advantage, particularly if US demand declines further.

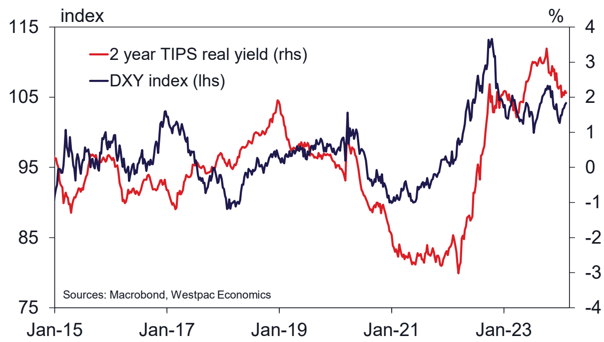
Elliot Clarke, CFA, CAIA, Senior Economist & Illiana Jain, Economist

... de-rating the US dollar

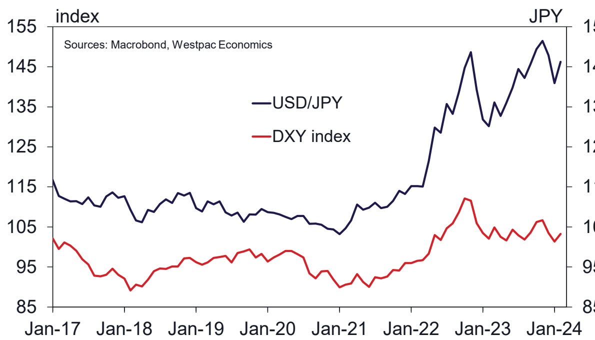
USD historically elevated on broad basis



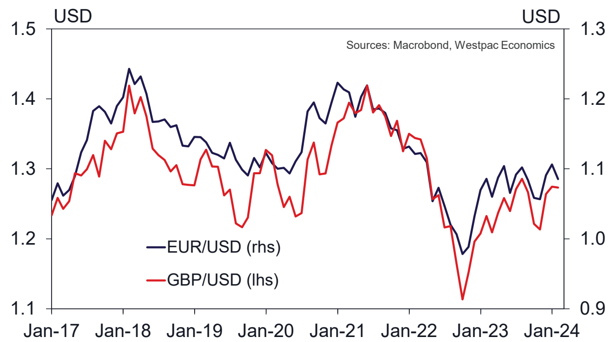
US real yields support for USD wavering



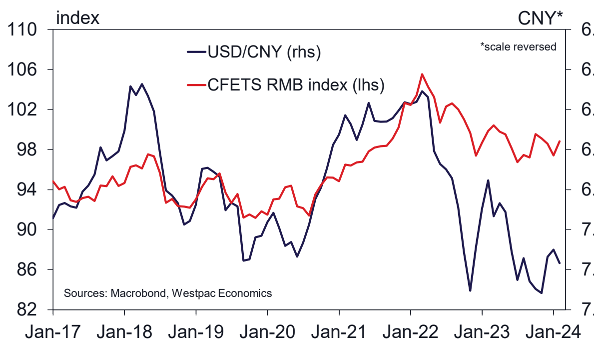
JPY weakness unlikely to fully reverse



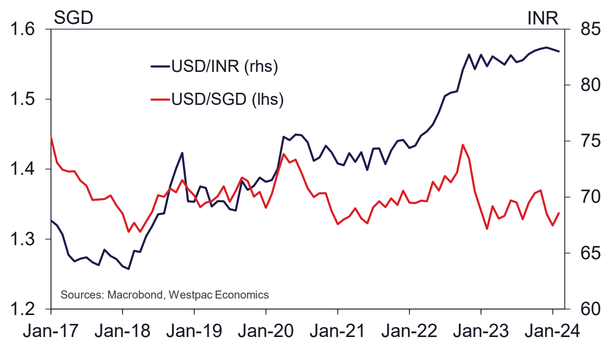
EUR negatives should fade in 2024



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



Monetary policy is working ...

Monetary policy easing remains a distant prospect.

Economic data released over the past couple of months caused the market to bring forward its pricing of monetary policy easing in New Zealand. While we agree that the need for further policy tightening has receded, we continue to think that policy easing remains a very distant prospect. In our view, the RBNZ is unlikely to throw caution to the wind. Rather, it will only begin to ease policy once it is very confident that inflation is on track to return to the target range and remain there.

While economic and headline inflation data has been softer of late ...

GDP figures revealed a surprising 0.3% decline in activity in the September quarter and growth in earlier quarters was revised lower too. Indeed, growth over the June and September quarters alone was 1.0ppts less than the RBNZ had expected, pointing to much weaker growth momentum than believed in November. But as suggested by the RBNZ's Chief Economist in a speech last month, some of the downward revision points to weaker trend (or "potential") growth, rather than necessarily indicating far greater slack in the economy than had been estimated. So while the RBNZ will likely revise down its forecast of pressures on overall capacity, the revision will likely be much smaller than the revision to GDP, especially with the unemployment rate rising by less than expected in the December quarter.

... this partly reflects weaker growth potential ...

More recent indicators suggest that activity remained subdued in the December quarter. For example, in December the Business NZ composite PMI remained at a contractionary level for a ninth consecutive month, while respondents to the ANZ's business survey continue to indicate that activity is running below year-earlier levels. Card spending data indicates a decline in consumer spending during the December quarter, even in nominal terms, despite continued strong migrant inflows. That said, employment rose modestly in the December quarter, at least according to the household measure, suggesting that the economy likely performed slightly better than in the September quarter.

... and domestic inflation remains sticky.

The December quarter CPI contributed to market optimism regarding the prospect of an early rate cut. The headline CPI increased just 0.5% – 0.3ppts less than the RBNZ had forecast – lowering annual inflation to 4.7%. The quarterly trimmed mean and weighted median measures of core inflation also posted their smallest increases in three years. However, non-tradables inflation surprised on the upside, declining only slightly to an annual pace of 5.9%. We think that the RBNZ will want to see substantial signs of moderation in this measure of domestic inflation before it will contemplate policy easing. This is especially given a larger than expected increase in private sector labour costs in the December quarter. While annual growth in wages maintained its gradual downward trend, the pace of growth remains elevated, especially in the context of weak growth in productivity.

Growth is likely to pick up modestly this year.

Looking ahead, we expect activity to pick up modestly as this year progresses. Activity will be supported by past substantial growth in population, which is likely to lift activity in the housing market and consumer spending. Later in the year, declines in fixed term mortgage rates in anticipation of future monetary policy easing should also be supportive, as will improved prices for New Zealand's key export commodities. On the other hand, fiscal policy is likely to exert a contractionary force on the economy as the new government seeks to gradually restore the operating balance to a modest surplus.

Inflation to decline but remain well above the target midpoint this year.

Growth is likely to remain at a sub-trend pace, with the unemployment rate rising to around 5%. This should maintain downward pressure on inflation, especially in the non-tradables sector. Even so, over the first half of this year we expect that annual inflation will remain well above the RBNZ's 1–3% target range. If disinflation in the tradables sector is not interrupted by events in the Middle East, headline inflation could slip just inside the target range during the second half of this year. However, we continue to see inflation remaining above the target midpoint until 2026.

We continue to expect the RBNZ's easing cycle to begin in 2025.

Given the inflation outlook, we expect the RBNZ to proceed very cautiously and so continue to think that the first monetary policy easing will occur in 2025. We can see scope for a slightly earlier easing if inflation were to continue to surprise on the downside in coming quarters, especially if also accompanied by greater weakness in the labour market than seen to date. But absent an event that leads to a significant weakening of the global outlook, even our most optimistic scenario would not justify a rate cut until the August meeting at the earliest.

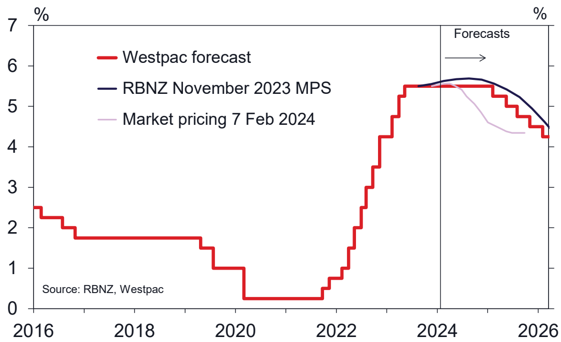
Inflation, migration, housing and fiscal developments to be followed closely in coming months.

Over coming months, the market will remain very sensitive to developments in direct indicators of inflation. We will also be closely watching migration and housing data to see whether upside risks to activity and inflation from these sources come to pass. And in May, the first Budget of the new Government will be very important to gain a sense of the scale and pace of fiscal consolidation that lies ahead.

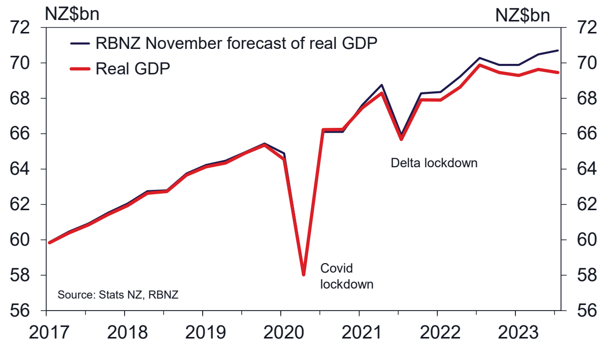
Darren Gibbs, Senior Economist, New Zealand

… but needs to stay the course

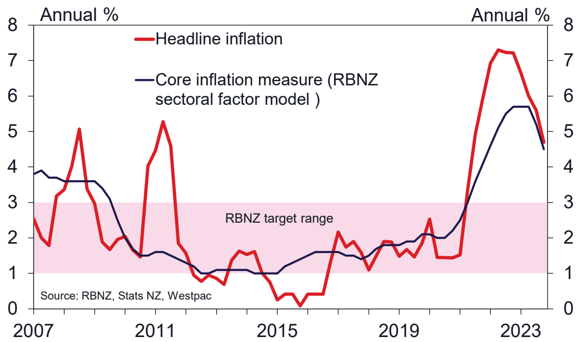
Official Cash Rate forecasts



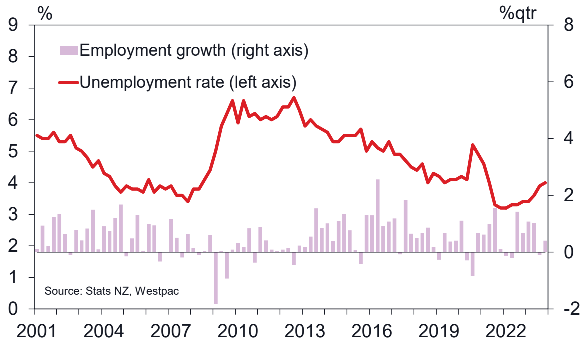
Level of quarterly GDP



Inflation



Unemployment rate and employment growth



	2023										2024
Monthly data	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
REINZ house sales %mth	-2.8	12.1	6.7	3.3	4.7	-6.6	7.8	-1.0	-11.7	2.3	-0.4	–
Residential building consents %mth	-6.8	5.9	-3.1	-2.8	2.6	-5.7	-7.0	-4.8	8.5	-10.6	3.7	–
Electronic card transactions %mth	-1.4	2.4	0.4	-1.9	1.6	-1.3	0.8	-0.2	-0.3	0.8	-0.6	–
Private sector credit %yr	3.8	3.6	3.3	3.0	3.0	2.7	2.6	2.4	2.5	2.1	2.3	–
Commodity prices %mth	1.4	1.3	-1.7	0.4	-1.7	-2.6	-2.9	1.4	2.8	-1.3	2.4	2.2
Trade balance $m	-1409	-1893	-1341	-959	-694	-1495	-825	-1091	-882	-900	-837	–

Quarterly data	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**
Westpac McDermott Miller Consumer Confidence	102.7	99.1	92.1	78.7	87.6	75.6	77.7	83.1	80.2	88.9
Quarterly Survey of Business Opinion	11	-2	-6	-1	4	-15	-10	-13	-17	6
Unemployment rate %	3.3	3.2	3.2	3.3	3.3	3.4	3.4	3.6	3.9	4.0
CPI %yr	4.9	5.9	6.9	7.3	7.2	7.2	6.7	6.0	5.6	4.7
Real GDP %yr	5.2	5.5	4.5	0.7	2.5	2.4	2.8	3.0	1.3	–
Current account balance % of GDP	-4.6	-5.8	-6.6	-7.9	-8.3	-8.8	-8.2	-7.6	0.7	–

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

FOMC risk management to see ...

Nonfarm payrolls surprised materially to the upside in January ...

Nonfarm payrolls always has the capacity to surprise. January 2024's result was a prime example, with 353,000 new jobs reported in the month and an additional 126,000 positions added to the combined count for November and December. Previously, the 3-month average was a moderate 160,000, but now it is closer to 290,000.

The FOMC will take this as another reason to be confident in the economy and hold upside inflation risks as more pressing than downside activity risks. Still, to assess the economy's likely path through all of 2024 and the FOMC's response, we must take the entire employment report into consideration and cross check this information against other available sources. What we find when we do so is a much more uncertain present situation and outlook that we believe will still result in 100bps of rate cuts from June (i.e. -25bps in June; July; September and December).

... continuing the strong trend post-pandemic.

At January 2024, the nonfarm payrolls count suggests the number of jobs in the US grew an impressive 2% over the prior 12 months. However, the same survey reports that average hours worked per worker fell 1.5% over the same period. Aggregate weekly hours for all workers were therefore just 0.3% higher in January 2024 than January 2023.

However, growth in hours worked is close to flat over the year ...

Reduced labour utilisation is also evident in the household survey, with the population of workers with more than one job back at a record high – a level only seen once before, just before the pandemic. This statistic highlights clearly the difference between the employment situation surveys: the establishment survey's nonfarm payrolls count references the number of jobs; the household survey's employment measure meanwhile counts the number of people employed.

... and household employment effectively stalled H2 2023.

In stark contrast to the rapid gain in the nonfarm payroll count but aligned to the hours estimate, the household survey implies employment growth was much weaker through 2023. While both month-average nonfarm payrolls and household employment growth decelerated by 100,000 jobs/ people employed respectively from 2022 to 2023, the average monthly count for household employment was 130,000 lower per month at a moderate 160k than non-farm payrolls. This month-average result was principally due to household employment growth stalling over the second half of 2023.

The business surveys are weaker still, pointing to job loss.

It is important to highlight that the US business surveys including the ISMs and NFIB small business surveys are also pointing to no or negative employment growth across the economy; this is consistent with household survey employment and hours worked from the establishment survey but in stark contrast to nonfarm payrolls' strength.

There is one final point to make about the establishment and household employment surveys: over the past decade, response rates have continued to trend down. The response rate for the household survey has fallen from 90% in October 2013 to 71% in October 2023. Payroll's establishment survey meanwhile had a response rate of only 62% at the beginning of the decade which has since dwindled to just 42% at October 2023. The sample instability and low response rate of recipients for the establishment survey is concerning, particularly given the weight placed on nonfarm payrolls by the FOMC and market participants. All the more so given 45% of the establishment survey sample are small businesses with less than 20 workers who are arguably less likely to respond when faced with challenging conditions.

Payrolls is the FOMC's employment benchmark, precluding a March cut.

Turning to the implications for the FOMC. Chair Powell and Committee members have made clear recently that nonfarm payrolls is their benchmark for employment. Until this indicator turns, they are unlikely to feel pressured to ease before they are ready to sound the all clear on inflation. One weak result does not make a trend, and so the March meeting is now too early for the first cut. By May we will have seen two additional employment reports, potentially creating circumstances materially different to today. Yet, if the Atlanta Fed's nowcast for GDP is even remotely accurate, it is more probable that nonfarm payrolls will hold up in Q1. Cutting first in May would also preclude the opportunity to guide the market on the likely scale of subsequent rate cuts and current balance of risks via revised Committee forecasts which are not due until June.

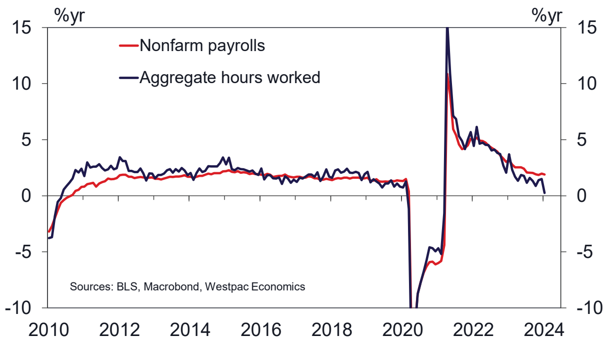
As payrolls revert and inflation abates, cuts will begin -- June is most likely.

On the data and risks to hand then, June is now the most probable meeting for the first cut in this cycle, likely followed by July and September. By that time, GDP growth is expected to have softened below trend, and nonfarm payrolls will likely have come more into line with the other labour market indicators discussed above and be signalling a steady uptrend in unemployment and underutilisation ahead. With 2.0%yr inflation in sight for mid year, our inflation thesis of the past year continues to play out; but from late-2024, we expect capacity constraints are likely to again lift inflation modestly above 2.0%yr. We therefore remain of the view that from Q4, rate cuts will settle back to a once per quarter pace, seeing fed funds trough at a modestly contractionary 3.375% at end-2025.

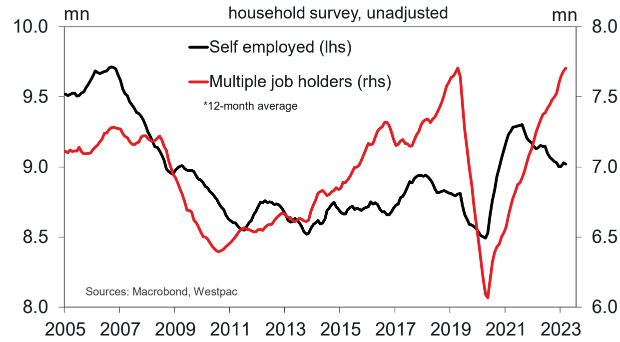
Elliot Clarke, CFA, CAIA, Senior Economist

... cuts from June 2024

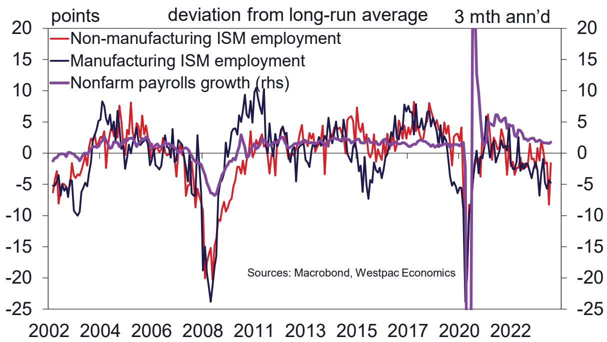
Payroll job creation conflicts with hours



Multiple jobs are a necessity for many



Surveys point to downside risks for jobs



Cost of living pressures limiting savings

	2023										2024
Monthly data	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
PCE deflator %yr	5.2	4.4	4.4	4.0	3.2	3.3	3.3	3.4	2.9	2.6	2.6	–
Unemployment rate %	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8	3.8	3.7	3.7	3.7
Non-farm payrolls chg '000	287	146	278	303	240	184	210	246	165	182	333	353
House prices* %yr	0.6	-1.0	-1.7	-1.8	-1.2	0.1	2.2	4.0	4.9	5.4	–	–
Durables orders core 3mth %saar	5.3	0.3	-0.2	2.2	2.9	-1.7	0.4	1.4	0.7	0.4	1.9	–
ISM manufacturing composite	47.7	46.5	47.0	46.6	46.4	46.5	47.6	48.6	46.9	46.6	47.1	49.1
ISM non-manufacturing composite	55.0	51.2	52.3	51.0	53.6	52.8	54.1	53.4	51.9	52.5	50.5	53.4
Personal spending 3mth %saar	9.3	7.8	3.0	2.5	4.5	5.1	5.4	6.8	4.4	4.7	4.6	–
UoM Consumer Sentiment	66.9	62.0	63.7	59.0	64.2	71.5	69.4	67.9	63.8	61.3	69.7	79.0
Trade balance USDbn	-70.1	-59.9	-72.3	-66.3	-63.5	-64.4	-58.1	-60.6	-63.9	-61.9	-62.2	–

Quarterly data	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24f
Real GDP % saar	2.6	2.2	2.1	4.9	3.3	2.4
Current account USDbn	-216.2	-214.5	-216.8	-200.3	–	–

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

Investment, income and confidence ...

2023 growth met authorities' target, albeit with disparate conditions by sector.

China Q4 GDP proved a win for authorities, a 1.0% gain in Q4 and upward revision to Q3 enough to land annual growth at 5.2%, ahead of authorities' 5.0% ambition. More important though, the GDP and monthly activity detail again highlighted the disparate conditions across sectors, offering both considerable long-term opportunities but also some risk for 2024 and 2025.

China's industrial policy is creating rapid growth in capacity ...

Investment in high-tech industries is continuing at a rapid rate. The NBS report high-tech investment grew 10% in 2023 compared to 3% for total fixed asset investment. Momentum in key sub-sectors was stronger still, with investment in chemical product, automobile and electrical machinery production up between 13% and 32%. For the past decade, China has aggressively focused on research & development into electric vehicles, batteries and other goods tied to the green transition. They are now commercialising this progress and scaling to meet burgeoning global demand.

... opening up opportunities in export markets across Asia and the world.

Markets have been quite pessimistic on the support from trade for Chinese growth, looking past the strength in Asian demand and focusing instead on exports to the US and Europe. Also missed by the market is that, at least some of the weakness in imports is the result of a growing share of domestic consumption and investment needs being met by Chinese firms. The net result is a trade surplus for 2023 double that recorded in 2019 prior to the pandemic. Considering the growth potential of south-east Asia, the scale of the global green transition and Chinese industry's successful drive for efficiency and productivity, prospects for trade are very promising.

Households are yet to receive material benefit from these developments, however.

But then we need to consider the consumer who remains burdened by uncertainty over the outlook for their income and wealth. Retail sales growth of over 7% is a healthy result for 2023, particularly as consumer deflation means the gain was entirely driven by stronger sales volumes. The service sub-components of retail and anecdotes on tourism also point to an increasing willingness to spend on discretionary items and experiences.

However, the PMI employment measures and other labour market data point to there still being considerable uncertainty over future gains for household income. Consumer wealth can also only be categorised as weak and confidence low, with new and existing home prices having declined for two consecutive years while equities trade at multi-year lows. These negatives are clearly impacting households' willingness to increase leverage, particularly with respect to housing.

Employment and sentiment across the entire economy is key ...

So, where do these divergent trends leave China's outlook for 2024 and 2025? While the rate of growth in investment in high-tech industries is unsustainable, the scale these sectors now have mean their contribution to aggregate growth will remain significant. As new capacity comes online, job creation should bolster household income and further strengthen China's position in global markets, justifying further investment. In addition, there remains a large pipeline of infrastructure investment across the economy to meet China's own needs with respect to the green transition and economic development. Further policy support should also be provided to sectors currently under pressure, most notably tech and property. Hence the drag from these sectors is likely to diminish while opportunity is delivered on by the new economy.

... and will require considered policy action throughout 2024 and 2025.

The market will remain doubtful, but the foundation for growth at or above 5% is in place for 2024 and 2025. The most important point to take away is that this growth will be led by new industries the world needs. Not only will this development create a strong income return for China and reduce their reliance on debt funding, but in time it should also beget confidence, at least within China's borders.

Elliot Clarke, CFA, CAIA, Senior Economist

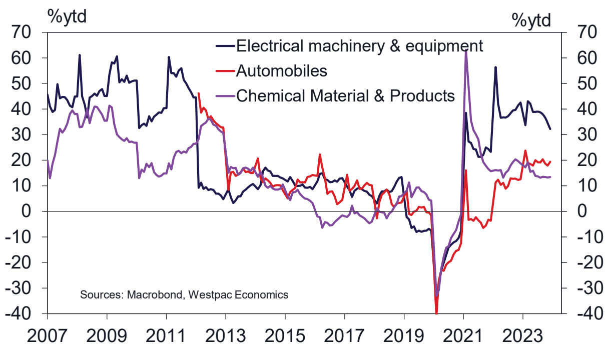
	2023										2024
Monthly data %yr	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
Consumer prices – headline	1.00	0.70	0.10	0.20	0.00	–0.30	0.10	0.00	–0.20	–0.50	–0.30	–0.80
Money supply M2	12.9	12.7	12.4	11.6	11.3	10.7	10.6	10.3	10.3	10	9.7	–
Manufacturing PMI (official)	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2
Fixed asset investment %ytd	5.5	5.1	4.7	4.0	3.8	3.4	3.2	3.1	2.9	2.9	3.0	–
Industrial production (IVA)	2.4	3.9	5.6	3.5	4.4	3.7	4.5	4.5	4.6	6.6	6.8	–
Exports	–2.8	10.9	7.1	–7.6	–12.4	–14.2	–8.5	–6.8	–6.6	0.7	2.3	–
Imports	4.3	–2.0	–8.8	–5.2	–7.0	–12.1	–7.2	–6.3	2.9	–0.7	0.2	–
Trade balance USDbn	12.0	77.1	85.0	64.9	69.5	79.4	67.3	75.3	56.1	69.5	75.3	–

Quarterly data	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**
Real GDP %yr	3.9	2.9	4.5	6.3	4.9	5.2
Nominal GDP %yr	5.7	2.5	5.2	5.4	3.9	4.2

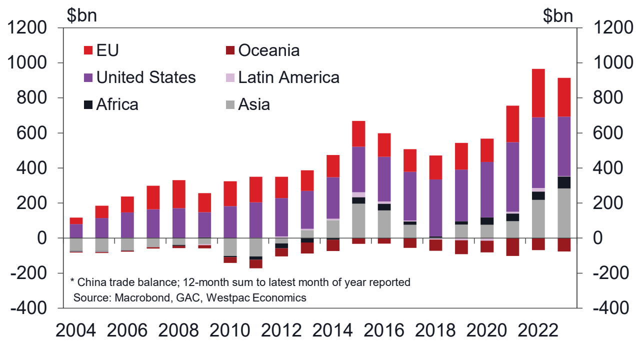
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

… critical to China's success

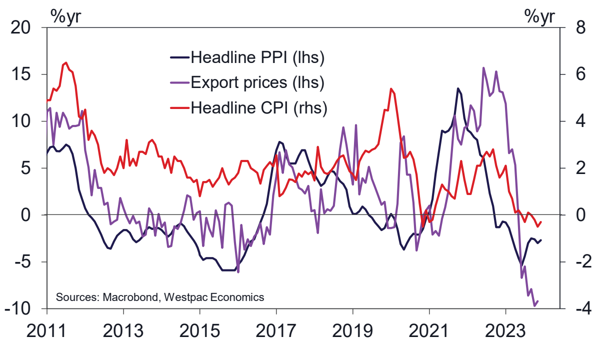
High-tech manufacturing gearing into…



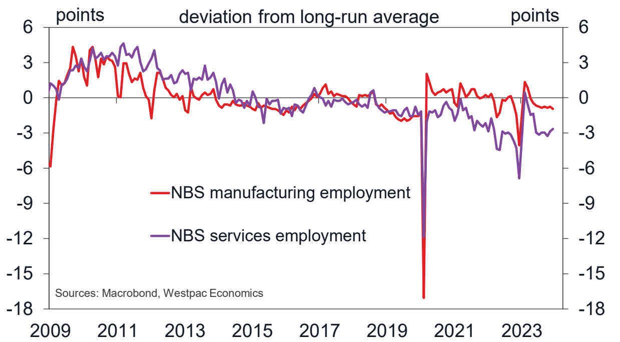
… Asian economic development



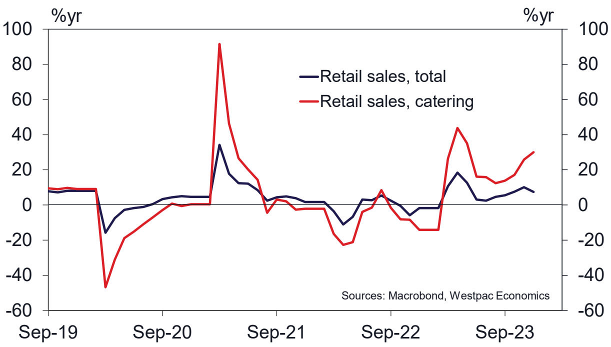
Productivity & capacity weighing on prices



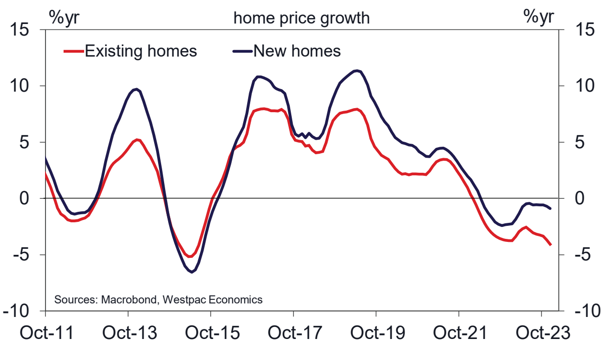
Employment situation stabilising but weak



Retail sales trend constructive for outlook



Household wealth a material risk



FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (9 Feb)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Cash	4.35	4.35	4.35	4.10	3.85	3.60	3.35	3.10	3.10
90 Day BBSW	4.34	4.40	4.37	4.12	3.92	3.67	3.47	3.30	3.30
3 Year Swap	3.89	4.05	3.95	3.85	3.75	3.65	3.60	3.55	3.50
3 Year Bond	3.69	3.85	3.75	3.65	3.55	3.45	3.40	3.35	3.30
10 Year Bond	4.13	4.20	4.05	3.95	3.85	3.90	3.90	3.95	4.00
10 Year Spread to US (bps)	-2	5	5	5	5	5	0	0	0

Currency forecasts

	Latest (9 Feb)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD vs									
USD	0.6493	0.66	0.68	0.69	0.70	0.71	0.72	0.72	0.73
JPY	96.94	97	97	97	97	96	95	94	93
EUR	0.6024	0.61	0.61	0.61	0.61	0.62	0.62	0.62	0.62
NZD	1.0649	1.06	1.07	1.08	1.09	1.11	1.13	1.11	1.12
CAD	0.8738	0.88	0.89	0.90	0.90	0.90	0.91	0.90	0.91
GBP	0.5147	0.52	0.53	0.54	0.54	0.55	0.55	0.55	0.56
CHF	0.5672	0.57	0.59	0.60	0.60	0.61	0.61	0.61	0.62
DKK	4.4907	4.51	4.53	4.55	4.58	4.60	4.63	4.59	4.65
SEK	6.8018	6.84	6.87	6.90	6.94	6.97	7.01	6.95	7.05
NOK	6.8943	6.93	6.96	6.99	7.03	7.06	7.10	7.04	7.14
ZAR	12.32	12.4	12.6	12.7	12.8	12.9	13.0	13.0	13.1
SGD	0.8748	0.88	0.90	0.91	0.91	0.92	0.94	0.94	0.95
HKD	5.0789	5.16	5.28	5.39	5.47	5.54	5.62	5.62	5.69
PHP	36.46	36.6	37.1	37.6	37.8	38.0	38.2	37.8	38.0
THB	23.28	23.1	23.3	23.5	23.5	23.4	23.4	23.0	23.0
MYR	3.1068	3.07	3.07	3.07	3.05	3.05	3.06	3.02	3.03
CNY	4.6718	4.75	4.79	4.83	4.83	4.83	4.82	4.82	4.75
IDR	10152	10230	10328	10419	10430	10366	10368	10296	10293
TWD	20.36	20.6	20.9	21.0	21.0	21.0	21.1	20.9	21.0
KRW	862	865	878	883	882	880	886	878	883
INR	54.00	54.1	54.7	54.5	54.6	54.7	54.7	54.0	54.0

ECONOMIC FORECASTS

Australia

Activity forecasts*

	2023			2024				Calendar years			
%qtr / yr avg	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023f**	**2024f**	**2025f**
Private consumption	0.1	0.0	0.1	0.1	0.1	0.4	0.4	6.6	1.2	0.6	2.1
Dwelling investment	0.5	0.2	–1.9	–1.9	–1.7	–1.0	–0.1	–4.0	–1.8	–4.8	2.0
Business investment*	2.5	0.6	0.3	–0.1	–0.3	–0.1	0.5	5.4	8.8	0.9	3.2
Private demand *	0.6	0.2	0.1	0.0	0.0	0.3	0.5	5.1	1.9	0.5	2.5
Public demand *	1.5	1.4	0.5	0.5	0.5	0.5	0.5	5.1	3.1	2.6	2.0
Domestic demand	0.9	0.5	0.2	0.1	0.1	0.3	0.5	5.1	2.2	1.1	2.3
Stock contribution	–1.2	0.4	–0.1	0.0	0.1	0.2	0.1	0.5	–0.8	–0.1	0.3
GNE	–0.4	0.9	0.0	0.1	0.2	0.5	0.6	5.6	1.4	1.0	2.6
Exports	4.5	–0.7	–0.9	1.1	0.9	0.9	1.0	2.5	6.5	2.6	4.0
Imports	1.8	2.1	–1.8	0.3	0.3	1.4	1.8	12.8	3.7	1.8	6.4
Net exports contribution	0.8	–0.6	0.1	0.2	0.2	-0.1	-0.1	–1.8	0.9	0.3	-0.3
Real GDP %qtr / yr avg	**0.4**	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.5**	3.8	2.0	1.3	2.2
%yr end	**2.0**	**2.1**	**1.4**	**1.2**	**1.0**	**1.3**	**1.6**	**2.3**	**1.4**	**1.6**	**2.5**
Nominal GDP %qtr	–0.7	1.2	1.7	1.0	–0.1	0.5	0.6	–	–	–	–
%yr end	3.9	4.5	4.5	3.1	3.8	3.0	2.0	12.0	4.5	2.0	4.8

Other macroeconomic variables

	2023			2024				Calendar years			
% change	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023f**	**2024f**	**2025f**
Employment (2)	0.9	0.7	0.7	0.2	0.1	0.0	0.3	–	–	–	–
%yr	3.4	3.1	3.0	2.4	1.6	1.0	0.6	5.3	3.0	0.6	1.7
Unemployment rate % (2)	3.6	3.7	3.8	4.0	4.2	4.4	4.5	3.4	3.8	4.5	4.6
Wages (WPI) (2)	0.9	1.3	0.9	0.9	0.8	0.8	0.7	–	–	–	–
%yr	3.6	4.0	4.1	4.1	4.0	3.5	3.2	3.3	4.1	3.2	3.0
CPI Headline (2)	0.8	1.2	0.6	0.7	0.6	0.9	0.8	–	–	–	–
%yr	6.0	5.4	4.1	3.4	3.1	2.8	3.0	7.8	4.1	3.0	2.7
Core inflation trimmed mean	1.0	1.2	0.8	0.8	0.6	0.9	0.7	–	–	–	–
%yr (2)	5.8	5.1	4.2	3.8	3.5	3.2	3.1	6.8	4.2	3.1	2.8
Current account AUDbn	7.7	–0.2	4.0	4.0	–2.0	-5.0	-9.0	26.4	24.0	-12.0	-50.0
% of GDP	1.2	0.0	0.6	0.6	–0.3	–0.7	–1.3	1.1	0.9	–0.4	–1.8
Terms of trade annual chg (1)	-11.7	-8.7	-2.8	-6.6	-4.9	-5.0	-10.4	7.2	-5.6	-6.7	-5.4

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										2024
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
Employment '000 chg	70	–4	80	32	–2	69	6	44	73	-65	–
Unemployment rate %	3.5	3.7	3.6	3.5	3.8	3.7	3.6	3.8	3.9	3.9	–
Westpac–MI Consumer Sentiment	78.5	85.8	79.0	79.2	81.3	81.0	79.7	82.0	79.9	82.1	81.0
Retail trade %mth	–0.1	–0.2	0.5	–0.7	0.4	0.3	0.7	–0.2	1.6	–2.7	–
Dwelling approvals %mth	0.2	–4.5	20.1	–9.0	–6.6	5.6	–2.2	7.2	1.6	–	–
Credit, private sector %yr	6.7	6.4	6.0	5.4	5.1	5.0	4.8	4.7	4.7	4.8	–
Trade in goods balance AUDbn	14.4	9.6	10.6	10.1	7.6	9.9	6.0	7.8	11.8	11.0	–

New Zealand

Interest rate forecasts

	Latest	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Cash	5.50	5.50	5.50	5.50	5.50	5.25	5.00	4.75	4.50
90 Day Bill	5.69	5.60	5.60	5.60	5.50	5.25	4.95	4.75	4.50
2 Year Swap	5.05	5.10	4.95	4.75	4.50	4.40	4.15	4.10	4.00
10 Year Bond	4.74	4.85	4.70	4.65	4.60	4.50	4.40	4.35	4.25
10 Year Spread to US	59	70	70	75	80	65	50	40	25
10 Year Spread to Aust	61	65	65	70	75	60	50	40	25

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD vs									
USD	0.6097	0.62	0.63	0.64	0.64	0.64	0.64	0.65	0.65
JPY	91.03	91	91	90	88	86	84	85	83
EUR	0.5656	0.57	0.57	0.57	0.56	0.56	0.55	0.56	0.56
AUD	0.9391	0.94	0.93	0.93	0.91	0.90	0.89	0.90	0.89
CAD	0.8206	0.83	0.83	0.83	0.82	0.81	0.81	0.81	0.81
GBP	0.4833	0.49	0.50	0.50	0.50	0.49	0.49	0.50	0.50
CNY	4.3882	4.46	4.47	4.48	4.42	4.35	4.29	4.36	4.23

Sources: Bloomberg, Westpac Economics.

Activity forecasts*

	2023			2024				Calendar years			
% change	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023f**	**2024f**	**2025f**
Private consumption	0.0	-0.6	0.6	0.5	0.9	0.8	0.7	3.3	1.0	1.8	2.8
Government consumption	3.4	-1.8	-0.2	-0.3	-0.4	0.0	-0.5	4.9	-1.2	-1.0	-0.1
Residential investment	1.3	-1.1	-2.0	-2.5	-3.0	-2.5	-1.0	-0.8	-4.0	-7.8	0.1
Business investment	0.8	-4.8	-0.9	-1.2	-1.1	-0.7	-0.2	5.4	-0.2	-5.2	0.9
Stocks (ppt contribution)	-1.3	2.7	-0.3	-0.1	0.0	0.0	0.0	-0.4	-0.6	0.7	-0.2
GNE	-0.7	0.2	-0.2	-0.3	0.1	0.2	0.2	3.4	-0.7	0.2	1.6
Exports	4.6	-2.6	4.1	3.0	0.7	1.7	0.8	-0.2	9.2	7.1	3.3
Imports	-0.8	-0.3	0.7	1.5	0.4	1.4	0.4	4.6	1.8	3.0	3.0
GDP (production)	**0.5**	**-0.3**	**0.1**	**0.0**	**0.1**	**0.2**	**0.3**	**2.4**	**0.7**	**0.3**	**1.6**
Employment annual %	4.3	2.7	2.4	1.3	0.4	0.6	0.3	1.7	2.4	0.3	1.0
Unemployment rate % s.a.	3.6	3.9	4.0	4.3	4.6	4.9	5.1	3.4	4.0	5.1	5.2
Labour cost index, all sect incl o/t, ann %	4.3	4.3	4.3	4.1	3.8	3.6	3.4	4.1	4.3	3.4	2.6
CPI annual %	**6.0**	**5.6**	**4.7**	**4.3**	**3.8**	**3.0**	**3.1**	**7.2**	**4.7**	**3.1**	**2.5**
Current account balance % of GDP	-7.6	-7.6	-7.1	-6.5	-6.1	-5.5	-4.8	-8.8	-7.1	-4.8	-3.7
Terms of trade annual %	-3.6	-0.3	-3.5	1.5	5.0	9.2	13.1	-4.2	-3.5	13.1	3.3

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (9 Feb)***	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Australian commodities index#	314	308	291	283	277	**277**	**277**	**280**	**283**	**285**
Bulk commodities index#	**514**	**502**	**465**	**426**	**400**	**390**	**381**	**378**	**376**	**384**
iron ore finesTSI @ 62% US$/t	126	120	109	99	88	87	88	89	90	90
Premium low vol met coal (US$/t)	314	320	305	293	281	269	257	251	245	244
Newcastle spot thermal coal (US$/t)	126	125	120	118	117	116	115	114	114	115
crude oil (US$/bbl) Brent ICE	79	77	80	82	85	87	90	92	95	97
LNG in Japan US$mmbtu	12.45	12.3	11.3	11.6	11.8	12.2	12.5	12.9	13.1	13.5
gold (US$/oz)	2,050	2,060	2,075	2,100	2,100	2,080	2,050	2,070	2,080	2,100
Base metals index#	**184**	**188**	**183**	**184**	**190**	**194**	**200**	**204**	**210**	**214**
copper (US$/t)	8,294	8,500	8,400	8,500	8,800	9,000	9,300	9,500	9,900	10,100
aluminium (US$/t)	2,205	2,250	2,100	2,100	2,160	2,200	2,250	2,290	2,350	2,380
nickel (US$/t)	15,853	16,000	15,800	15,800	16,200	16,500	16,900	17,100	17,500	17,800
zinc (US$/t)	2,403	2,450	2,450	2,450	2,510	2,550	2,600	2,640	2,700	2,730
lead (US$/t)	2,118	2,100	2,050	2,050	2,110	2,160	2,220	2,260	2,330	2,370
Rural commodities index#	**132**	**130**	**129**	**133**	**138**	**141**	**146**	**150**	**155**	**159**
NZ commodities index ##	**338**	**344**	**348**	**348**	**348**	**349**	**350**	**352**	**355**	**358**
dairy price index ^^	303	314	321	319	318	318	318	319	321	324
whole milk powder US$/t	3,463	3,475	3,500	3,500	3,500	3,500	3,500	3,526	3,553	3,580
skim milk powder US$/t	2,758	2,805	2,900	2,950	3,000	3,000	3,000	3,023	3,045	3,068
lamb leg UKp/lb	420	440	445	448	451	456	461	465	470	476
bull beef US¢/lb	242	243	243	244	245	246	248	249	251	252
log price index ##	165	165	166	166	166	167	168	169	170	171

	levels				% change			
Annual averages	**2022**	**2023**	**2024(f)**	**2025(f)**	**2022**	**2023(e)**	**2024(f)**	**2025(f)**
Australian commodities index#	**379**	**320**	**294**	**279**	**23.0**	**-15.6**	**-8.2**	**-5.2**
Bulk commodities index#	**557**	**500**	**468**	**389**	**9.2**	**-10.2**	**-6.3**	**-16.8**
iron ore fines @ 62% USD/t	120	120	108	88	-24.4	-0.5	-9.3	-18.4
LNG in Japan $mmbtu	18.6	14.9	11.9	12.6	69.8	-19.9	-20.2	5.9
ave coking coal price (US$/t)	240	215	253	222	67.2	-10.2	17.7	-12.5
ave thermal price (US$/t)	282	216	144	128	184.4	-23.6	-33.4	-11.0
iron ore fines contracts (US¢ dltu)	174	160	160	132	-27.0	-7.9	-0.3	-17.4
Premium low vol met coal (US$/t)	372	292	296	255	81.2	-21.5	1.5	-13.6
crude oil (US$/bbl) Brent ICE	97	82	81	90	38.4	-15.8	-1.5	11.9
gold (US$/oz)	1,809	1,962	2,079	2,071	0.5	8.4	6.0	-0.4
Base metals index#	**230**	**201**	**186**	**200**	**8.0**	**-12.4**	**-7.6**	**7.6**
copper (US$/t)	8,827	8,511	8,500	9,400	-5.1	-3.6	-0.1	10.6
aluminium (US$/t)	2,711	2,272	2,200	2,300	9.5	-16.2	-3.2	4.5
nickel (US$/t)	26,228	21,610	15,900	16,900	42.1	-17.6	-26.4	6.3
zinc (US$/t)	3,471	2,651	2,500	2,600	15.4	-23.6	-5.7	4.0
lead (US$/t)	2,154	2,130	2,100	2,200	-1.6	-1.1	-1.4	4.8
Rural commodities index#	**171**	**141**	**133**	**147**	**14.0**	**-17.9**	**-5.7**	**10.7**
NZ commodities index ##	**376**	**330**	**347**	**352**	**4.7**	**-12.4**	**5.3**	**1.4**
dairy price index ##	353	286	318	319	9.5	-18.8	11.1	0.2
whole milk powder US$/t	3,889	3,081	3,477	3,514	1.2	-20.8	12.9	1.1
skim milk powder US$/t	3,819	2,640	2,874	3,012	14.6	-30.9	8.9	4.8
lamb leg UKp/lb	624	431	442	461	4.3	-31.0	2.6	4.2
bull beef US¢/lb	280	256	244	248	0.5	-8.8	-4.7	1.8
log price index ##	171	160	166	168	-4.3	-6.9	3.8	1.6

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

FORECASTS

United States

Interest rate forecasts

	Latest (9 Feb)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Fed Funds*	5.375	5.375	5.125	4.625	4.375	4.125	3.875	3.625	3.375
10 Year Bond	4.15	4.15	4.00	3.90	3.80	3.85	3.90	3.95	4.00

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

Currency forecasts

	Latest (9 Feb)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USD vs									
DXY index	104.14	103.2	101.4	99.7	98.6	97.5	96.5	95.6	95.3
JPY	149.30	147	144	141	138	135	132	130	127
EUR	1.0779	1.09	1.11	1.13	1.14	1.15	1.16	1.17	1.17
AUD	0.6493	0.66	0.68	0.69	0.70	0.71	0.72	0.72	0.73
NZD	0.6097	0.62	0.63	0.64	0.64	0.64	0.64	0.65	0.65
CAD	1.3459	1.34	1.32	1.30	1.28	1.27	1.26	1.25	1.25
GBP	1.2616	1.26	1.27	1.28	1.29	1.30	1.30	1.31	1.31
CHF	0.8735	0.87	0.87	0.87	0.86	0.86	0.85	0.85	0.85
ZAR	18.97	18.8	18.6	18.4	18.3	18.1	18.0	18.0	17.9
SGD	1.3473	1.34	1.33	1.32	1.31	1.30	1.30	1.30	1.30
HKD	7.8211	7.82	7.82	7.81	7.81	7.80	7.80	7.80	7.80
PHP	55.92	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.0
THB	35.86	35.0	34.5	34.0	33.5	33.0	32.5	32.0	31.5
MYR	4.7733	4.65	4.55	4.45	4.35	4.30	4.25	4.20	4.15
CNY	7.1968	7.20	7.10	7.00	6.90	6.80	6.70	6.70	6.50
IDR	15635	15500	15300	15100	14900	14600	14400	14300	14100
TWD	31.36	31.2	30.9	30.5	30.0	29.6	29.3	29.0	28.8
KRW	1328	1310	1300	1280	1260	1240	1230	1220	1210
INR	82.95	82.0	81.0	79.0	78.0	77.0	76.0	75.0	74.0

Activity forecasts*

	2023			2024				Calendar years			
% annualised, s/adj	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023**	**2024f**	**2025f**
Private consumption	0.8	3.1	2.8	2.3	1.9	1.6	1.6	2.5	2.2	2.2	1.2
Dwelling investment	-2.2	6.7	1.0	1.6	0.8	2.8	4.1	-9.0	-10.7	2.0	1.1
Business investment	7.4	1.5	1.9	3.2	2.4	2.4	2.4	5.4	4.0	2.6	3.5
Public demand	3.3	5.8	3.3	2.8	1.6	1.2	1.2	-0.9	4.0	2.8	2.1
Domestic final demand	2.0	3.4	2.7	2.5	1.9	1.7	1.7	1.9	2.3	2.3	1.6
Inventories contribution ppt	-0.2	1.1	0.1	-0.2	-0.2	-0.2	-0.2	0.5	-0.4	0.0	-0.1
Net exports contribution ppt	0.1	0.0	0.4	0.1	-0.1	-0.1	0.0	-0.5	0.6	0.1	-0.3
GDP	2.1	4.9	3.3	2.4	1.7	1.5	1.6	1.9	2.5	2.6	1.3
%yr annual chg	2.4	2.9	3.1	3.2	3.1	2.2	1.8				

Other macroeconomic variables

Non-farm payrolls mth avg	251	222	210	190	120	60	50	412	246	105	75
Unemployment rate %	3.6	3.7	3.7	3.8	3.9	4.1	4.3	3.6	3.7	4.3	4.6
CPI headline %yr	3.0	2.9	2.5	2.3	2.2	2.1	2.0	6.4	2.7	2.2	2.5
PCE deflator, core %yr	3.8	3.1	2.5	2.4	2.3	2.3	2.2	3.6	2.4	2.2	2.5
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.

Europe & the United Kingdom

Interest rate forecasts

	Latest (9 Feb)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Euro area									
ECB Deposit rate	4.00	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
10 Year Bund	2.35	2.35	2.25	2.20	2.15	2.25	2.30	2.40	2.45
10 Year Spread to US	-180	-180	-175	-170	-165	-160	-160	-155	-155
United Kingdom									
BoE Bank Rate	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50
10 Year Gilt	4.05	4.00	3.90	3.80	3.75	3.80	3.85	3.95	4.00
10 Year Spread to US	-10	-15	-10	-10	-5	-5	-5	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (9 Feb)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
euro vs									
USD	1.0779	1.09	1.11	1.13	1.14	1.15	1.16	1.17	1.17
JPY	160.92	160	160	159	157	155	153	152	149
GBP	0.8543	0.87	0.87	0.88	0.88	0.88	0.89	0.89	0.89
CHF	0.9415	0.95	0.97	0.98	0.98	0.99	0.99	0.99	0.99
DKK	7.4547	7.45	7.45	7.45	7.45	7.45	7.45	7.45	7.45
SEK	11.2939	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
NOK	11.4446	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4
sterling vs									
USD	1.2616	1.26	1.27	1.28	1.29	1.30	1.30	1.31	1.31
JPY	188.34	185	183	180	178	176	172	170	166
CHF	1.1022	1.10	1.10	1.11	1.11	1.12	1.11	1.11	1.11
AUD	0.5147	0.52	0.53	0.54	0.54	0.55	0.55	0.55	0.56

Source: Bloomberg, Westpac Economics.

Activity forecasts*

Annual average % chg	2020	2021	2022	2023f	2024f	2025f
Eurozone GDP	-6.1	5.6	3.3	0.5	0.6	1.5
private consumption	-8.0	3.5	4.0	0.7	0.8	1.3
fixed investment	-8.4	3.6	3.5	1.0	1.5	2.0
government consumption	1.4	3.8	1.2	0.1	1.2	1.2
net exports contribution ppt	-0.7	1.0	0.3	0.1	0.2	0.3
Germany GDP	-3.8	3.2	1.8	-0.3	0.5	1.3
France GDP	-7.5	6.4	2.5	0.7	0.9	1.2
Italy GDP	-9.0	8.3	3.7	0.7	0.5	1.0
Spain GDP	-11.2	6.4	5.8	2.5	1.5	1.7
Netherlands GDP	-3.8	6.3	4.4	0.2	0.7	1.4
memo: United Kingdom GDP	-10.4	9.6	4.5	0.4	0.5	1.3

Asia

China

Calendar years	2019	2020	2021	2022	2023f	2024f	2025f
Real GDP	6.0	2.2	8.4	3.0	5.2	5.2	5.0
Consumer prices	4.5	0.2	1.5	1.8	–0.3	1.2	2.0
Producer prices	–0.5	–0.4	10.3	–0.7	–2.7	–0.5	1.5
Industrial production (IVA)	5.7	2.8	9.6	3.6	4.6	5.0	4.5
Retail sales	8.0	–3.9	12.5	–0.2	7.2	6.7	6.3
Money supply M2	8.7	10.1	9.0	11.8	9.7	10.0	9.0
Fixed asset investment	5.4	2.9	4.9	5.1	3.0	5.0	5.0
Exports %yr	7.9	18.1	20.9	–9.9	–5.2	3.0	4.0
Imports %yr	16.5	6.5	19.5	–7.5	–5.5	3.0	2.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (9 Feb)	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25	Jun–25	Sep–25	Dec–25
Required reserve ratio %*	10.00	10.00	9.75	9.75	9.50	9.50	9.50	9.50	9.50
Loan Prime Rate, 1–year	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45

* For major banks.

Currency forecasts

	Latest (9 Feb)	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25	Jun–25	Sep–25	Dec–25
JPY	149.30	147	144	141	138	135	132	130	127
SGD	1.3473	1.34	1.33	1.32	1.31	1.30	1.30	1.30	1.30
HKD	7.8211	7.82	7.82	7.81	7.81	7.80	7.80	7.80	7.80
PHP	55.92	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.0
THB	35.86	35.0	34.5	34.0	33.5	33.0	32.5	32.0	31.5
MYR	4.7733	4.65	4.55	4.45	4.35	4.30	4.25	4.20	4.15
CNY	7.1968	7.20	7.10	7.00	6.90	6.80	6.70	6.70	6.50
IDR	15635	15500	15300	15100	14900	14600	14400	14300	14100
TWD	31.36	31.2	30.9	30.5	30.0	29.6	29.3	29.0	28.8
KRW	1328	1310	1300	1280	1260	1240	1230	1220	1210
INR	82.95	82.0	81.0	79.0	78.0	77.0	76.0	75.0	74.0

Source: Bloomberg, Westpac Economics.

SUMMARY OF THE WORLD

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023f	2024f	2025f
World	**2.8**	**-2.8**	**6.3**	**3.5**	**3.3**	**3.3**	**3.1**
United States	2.3	-2.8	5.9	2.1	2.5	2.6	1.3
Japan	-0.4	-4.2	2.2	1.0	2.0	0.9	0.9
Euro zone	1.6	-6.1	5.6	3.3	0.5	0.6	1.5
Group of 3	**1.7**	**-4.2**	**5.4**	**2.4**	**1.7**	**1.6**	**1.3**
United Kingdom	1.6	-11.0	7.6	4.1	0.4	0.5	1.3
Canada	1.9	-5.1	5.0	3.4	1.2	0.8	2.0
Australia	1.8	-2.1	5.6	3.8	2.0	1.3	2.2
New Zealand	3.1	-1.5	6.1	2.4	0.7	0.3	1.6
OECD total	**1.8**	**-4.6**	**5.7**	**2.8**	**1.5**	**1.4**	**1.4**
China	6.0	2.2	8.4	3.0	5.2	5.2	5.0
Korea	2.2	-0.7	4.3	2.6	1.3	2.2	2.3
Taiwan	3.1	3.4	6.5	2.4	1.4	3.0	2.5
Hong Kong	-1.7	-6.5	6.4	-3.5	3.2	2.9	2.8
Singapore	1.3	-3.9	8.9	3.6	1.3	2.5	2.8
Indonesia	5.0	-2.1	3.7	5.3	5.1	5.2	5.2
Thailand	2.1	-6.1	1.5	2.6	2.4	3.5	3.5
Malaysia	4.4	-5.5	3.3	8.7	4.0	4.4	4.5
Philippines	6.1	-9.5	5.7	7.6	5.6	5.9	6.0
Vietnam	7.4	2.9	2.6	8.0	5.1	6.2	6.5
East Asia	**5.2**	**0.7**	**7.1**	**3.5**	**4.6**	**4.9**	**4.7**
East Asia ex China	3.8	-2.3	4.3	4.5	3.4	4.1	4.2
NIEs*	**2.0**	**-0.5**	**5.7**	**2.1**	**1.5**	**2.5**	**2.5**
India	3.9	-5.8	9.1	7.2	7.0	6.3	6.5
Russia	2.2	-2.7	5.6	-2.1	2.2	1.0	1.0
Brazil	1.2	-3.3	5.0	2.9	3.0	2.0	2.0
South Africa	0.3	-6.0	4.7	1.9	0.2	1.2	1.5
Mexico	-0.3	-8.7	5.8	3.9	2.8	2.2	2.1
Argentina	-2.0	-9.9	10.7	5.0	-2.5	0.0	2.0
Chile	0.7	-6.1	11.7	2.4	-0.5	-0.5	-0.5
CIS^	2.2	1.1	-1.7	0.6	12.8	12.6	12.3
Middle East	1.3	3.2	2.8	2.8	2.8	2.7	2.6
C & E Europe	-0.8	-7.7	4.8	6.0	3.8	2.0	2.0
Africa	3.2	-1.6	4.7	4.0	3.3	3.4	3.4
Emerging ex-East Asia	**1.9**	**-2.7**	**5.4**	**3.8**	**4.2**	**3.9**	**4.1**
Other countries	5.6	-1.0	10.5	2.9	2.7	4.0	0.9
World	**2.8**	**-2.8**	**6.3**	**3.5**	**3.3**	**3.3**	**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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