WESTPAC MARKET OUTLOOK MARCH 2024.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

Markets have remained in a holding pattern over the last month, the focus on exactly when major central banks may start to lower interest rates. Most money still favours the US FOMC leading off with cuts from mid–year, the ECB and other majors following a little later (the Bank of Japan an important exception), and the RBA towards the end of the third quarter. This is broadly in line with the Westpac view. However, mid–2024 is now barely three months away. And for markets, there is a growing tension between these policy expectations and both economic developments and central bank rhetoric, which has tended to move more slowly in the direction of easing.

In the US, inflation is closer to being back under control – most FOMC members expect key measures to be around 2.5%yr by year end, almost back to the 2% target – but the growth story has yet to show a decisive turn. US GDP growth is still above 3%yr, with the closely–watched nonfarm payrolls continuing to defy expectations of a softening (although, as we highlight in the month's report, a wide range of other measures suggest conditions are much weaker). In most other jurisdictions, including Australia, the growth piece has more clearly rolled over but inflation has yet to provide enough comfort for central banks to openly contemplate a policy pivot. Lurking behind this question about the timing of the first rate cut are much bigger and more difficult questions about the size of the easing cycle and where 'neutral' may now lie. Indeed, the sort of uncertainty we are seeing now may be a recurring theme in the next policy phase.

Australia: It was a soft end to the 2023 year as domestic demand all but stalled in the December quarter, representing a marked deceleration from the first half of the year. This was as expected. Much of 2023's weakness stemmed from the household sector. Household incomes have been squeezed by high inflation, a larger tax take and higher interest rates. Soft economic conditions are set to continue over the first half of 2024, with output growth expected to be around a 1.3% annualised pace over this period. However, there is light at the end of the tunnel. Inflation is moderating, which will help to lessen the pressure on households. Policy is set to pivot from mid–year, with the Stage 3 income tax cuts commencing from 1 July and the beginning of an RBA easing cycle, expected from September. Less restrictive policy will support an economic revival. We continue to expect economic growth to lift to around a trend pace in 2025, of 2.5%, up from 1.6% growth for 2024.

Commodities: Commodity prices moved lower through February led by a 10% fall in iron ore and a 4% fall in met coal but thermal coal had a solid 14% rally while nickel bounced 12%. Nickel has always been a boom–bust commodity with a memorable market collapse in 2007 associated with the emergence of Indonesian supplies. Nickel was seen as a critical mineral for the transition to a low carbon economy via its use in batteries but in 2024 surging Indonesian supplies have, again, burst a nickel boom.

Global FX markets: The US dollar is testing the lower end of the 2023–24 range thanks to growing confidence that rate cuts will be delivered this year. The timing and scale of each rate cut cycle is likely to be quite similar but the growth outlook for each economy is not. Of particular note, Euro Area growth is expected to rally back above trend in 2025 as US growth slips below. Conditions are also likely to be mixed in Asia, with enduring strength in China, India and Indonesia, but soft momentum in Japan.

New Zealand: The RBNZ left the OCR at 5.5% last month and expressed greater comfort with the inflation outlook. While risks are viewed as more balanced than in November, the policy reaction remains asymmetric given that inflation remains well above target. This message was consistent with our forecast that while the OCR has likely peaked for this cycle, policy easing is unlikely until 2025.

United States: For most market participants, nonfarm payrolls is the benchmark indicator of US labour market health. But the other detail from nonfarm payrolls establishment survey and the household survey are telling a very different story. In particular, the decline in the number of people employed according to the household survey is in stark contrast to the consistent strength of job creation according to nonfarm payrolls. What's more, the storied ISM surveys actually point to downside risks to the household survey results.

China: The 2024 National People's Congress met expectations with respect to key policy actions but disappointed in terms of sentiment – market participants clearly hopeful the new year would bring a more aggressive policy style. As was the case throughout 2023, the market and Chinese authorities have very different perspectives on the economy's current health and the long–term path to prosperity, with authorities still confident that trade and non–housing investment will deliver the best dividends.

Asia: The 'shunto' spring wage decision will be a reflection of cyclical factors rather than a sustained structural shift. These include still–high inflation and strong demand in the services sector – both of which are expected to dissipate. Despite arguments for stronger 2024 wage growth based on rising profitability, structural factors such as low job mobility and seniority–based wages are expected to hinder sustained growth. Overall, the Bank of Japan will have little reason to consider contractionary action.

Summary of world GDP growth (year average)

Real GDP %ann*	2019	2020	2021	2022	2023e	2024f	2025f
United States	2.3	–2.8	5.9	2.1	2.5	2.6	1.4
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	0.7	1.0
India	3.9	–5.8	9.1	7.2	7.7	6.5	6.4
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	0.4	0.5	1.5
Australia	1.8	–2.1	5.6	3.8	2.1	1.3	2.2
New Zealand	3.1	–1.5	6.1	2.4	0.7	0.5	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'.

Why September?

We continue to favour a September timing for an RBA pivot to cuts ...

Central banks are in data-dependent mode. Absent a new inflationary shock, we can be reasonably sure that the next move in rates will be down for most central banks across advanced economies. But the question of exactly when is harder to pin down. For Australia, we have pencilled in the first cut occurring at the late-September Board meeting, followed by another in November. Our thinking on the timing is as follows.

... with the economy tracking expectations ...

First, this expectation is predicated on the basis that things turn out broadly as we (and the RBA) expect. Inflation continues to decline, while growth remains soft in the first half of the year but does not fall away completely. Unemployment drifts up but does not rise steeply.

... current policy settings clearly restrictive ...

Second, we take as given that the current stance of monetary policy is restrictive. This aligns with the RBA's view and is supported by various indicators including credit growth, the drag from interest payments on household income and the wider softening in domestic demand evident in the latest national accounts update (see p4). If the RBA maintained restrictive policy on an ongoing basis, growth would slow so much that inflation would start to undershoot the RBA target and keep falling. The decision to reduce the restrictiveness of policy – and eventually normalise to a more neutral stance – is therefore a question of when, not if.

... and lags in the system.

Third, monetary policy operates with a lag, and the RBA knows this. They will not wait until inflation is already in the target range but will instead start moving ahead of this point, something Governor Bullock acknowledged in her recent Parliamentary testimony. But as the Governor also pointed out, the Board will want to wait until they are confident that inflation is declining on the desired trajectory, to be sustainably back inside the 2–3% target range by end-2025 and around the midpoint of the range by mid-2026.

Q4 national accounts emphasise soft demand ...

The RBA would be comfortable with the picture from the December quarter national accounts. They have been seeking to slow demand because they want to bring the level of demand back into balance with supply. The December quarter outcome certainly helps achieve that objective. It also supports our house view that the RBA will reach the point of being prepared to reduce some of the contractionary stance of policy late in the year, most likely starting from September.

... hinting at a turnaround in productivity ...

The RBA would also have been heartened by the ongoing turnaround in labour productivity, which increased as they – and we – expected. The second consecutive quarterly increase in this series does not make a trend. But it does lend weight to our view that much of the earlier slump was an artefact of the population surge. Over time, the capital stock will catch up – as long as investment does not decline precipitously.

... but highlight challenges around housing supply.

Where they might be less comfortable is on the housing front. The potential wealth effect of a renewed upsurge in housing prices is unlikely to be the main concern given any additional consumer demand needs to be set against the weak starting point. Rather, the issue at present is the low rate of new production of housing in the context of high construction costs and ongoing (if more moderate) population growth. New housing construction is one of the most important channels of the transmission of monetary policy, both here and overseas. The current low rate of dwelling investment is therefore an expected outcome of the RBA's policy actions. To the extent that higher interest rates have dampened dwelling investment, however, they exacerbate Australia's current housing affordability challenges in the medium term. These challenges also relate to some of the other headwinds affecting the industry, including the competing bid for resources from non-residential construction. The inflation-employment trade-off is therefore not the only short-term policy dilemma that policymakers must navigate.

Crucial wage and national accounts updates due just prior to RBA's September meeting.

We have landed on September as our preferred date for the first cut because some key data is released in the lead-up to that meeting. Employment and CPI inflation for the first half of 2024 will be available ahead of the August meeting, but not the crucial wages and national accounts data which comes just prior to the late-September meeting. We expect that these latter releases will show enough of a decline in input cost inflation, a turnaround in productivity and a slowing in growth in labour costs, to convince the RBA that disinflation is sustainably on track.

Risks in both directions ...

In thinking about the risks around this view on timing, the different sources of risk are pulling in opposite directions. The risks relating to the data are tending to pull the timing forward: domestic demand printing softer growth than the RBA's forecasts in February, consumer spending in particular; the unemployment rate tracking a little higher; and inflation remaining on track. However, pushing in the opposite direction is the Board's perception of policy risk. Put simply, the RBA Board has a very low tolerance for delays in returning inflation to target.

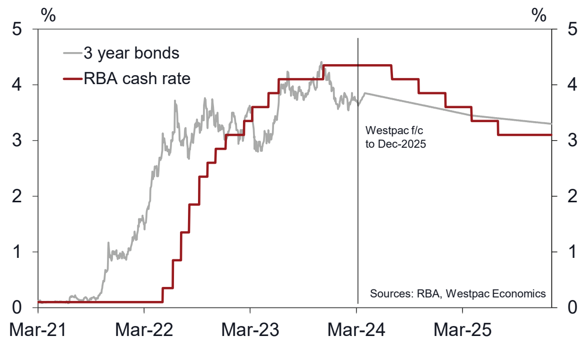
... and pace of easing expected to be gradual.

At this stage, we see the risks around the September call as balanced. We expect the Board to cut twice, in September and November – successive meetings under the new timetable. Beyond that it is likely to wait to see how these moves have impacted before embarking on further cuts. It will also want to see the effects of the tax cuts in the second half of 2024 on household spending. At this stage, though, we expect further cuts in 2025. However, the closer the cash rate returns to something like neutral, the more cautious the Board will become.

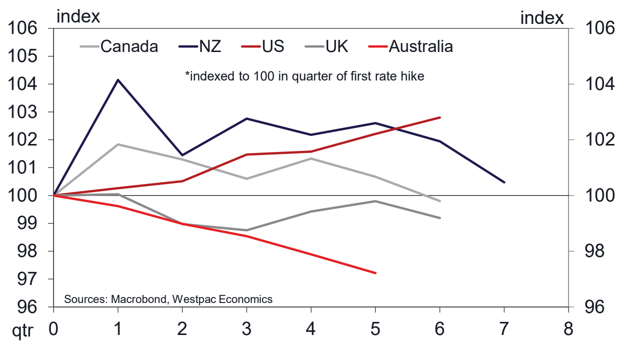
Luci Ellis, Chief Economist

RBA will still be wary of inflation despite comforting data

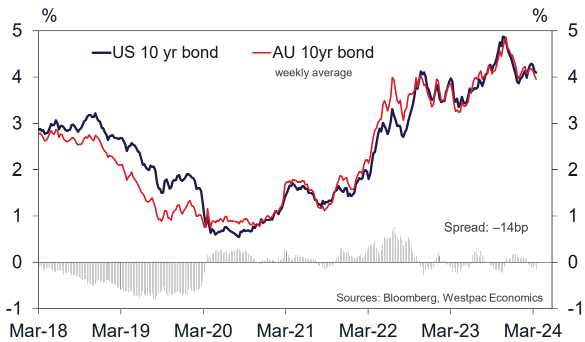
RBA cash rate and 3 year bonds



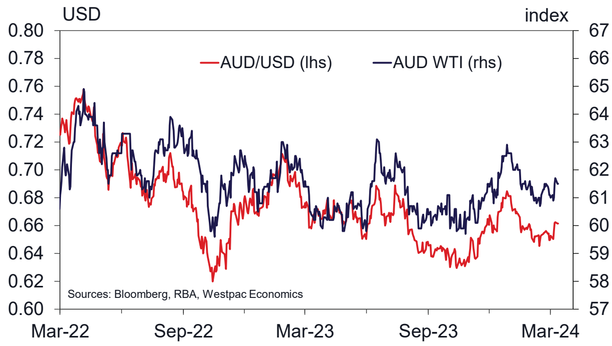
Consumption per capita: Australia vs peers



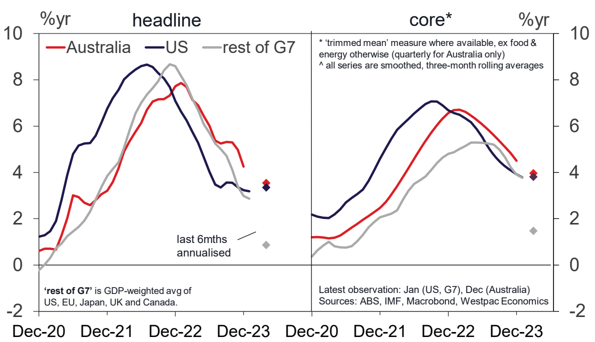
Aussie 10yrs slip below 4%, ahead of rate cuts



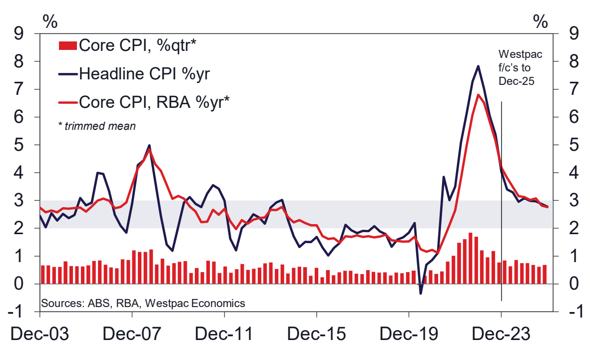
AUD/USD & AUD TWI



Pace of global disinflation



CPI inflation, trending back to target



The slow lane in the tunnel ...

It was a soft end to 2023 for the Australian economy ...

The big-picture themes from the national accounts for the December quarter were largely as expected. The Australian economy is soft, expanding just 0.2% in the quarter and 1.5% over 2023 as a whole. Domestic demand in the December quarter was weaker still, especially in the private sector. All of the 0.1% increase in domestic demand in the quarter came from the public sector.

Our forecast profile for output growth is unchanged. We expect economic growth to be 1.6% for 2024, then lift to an around-trend pace of 2.5% for 2025. Notably, growth slowed from a 2% annualised pace over the first half of 2023 to a tepid 1% pace over the second half. It is expected to inch up to a 1.3% pace over the first half of this year before recovering to a 2% pace over the second half of 2024, supported by less restrictive policy settings.

... as domestic demand growth all but stalled.

Much of 2023's weakness stemmed from the household sector. Consumption has been weak, and this remained the case in the December quarter, with growth of only 0.1%qtr, 0.1%yr. Discretionary spending continues to decline, with overseas holidays especially weak. Part of this might be the result of shifting seasonal patterns in spending and holidaying. Even so, households are objectively limiting their spending in the face of income pressures. Consumption per person has been falling in Australia, unlike in most peer economies. No wonder consumer sentiment has been so depressed.

We have been highlighting these income pressures for some time. The triple squeeze of a rising cost of living, increasing tax take and higher interest rates has required households to respond.

That was as expected.

It has been less recognised that the squeeze from rising taxation as a share of income has been greater than from rising net interest payments (indeed, the ABS revised down the interest flow series this week, relative to previous releases). This does not mean monetary policy has done little to slow the economy or combat inflation – there are other channels of monetary policy transmission beyond the immediate effect on household cash flows – but it does put the role of fiscal policy, and particularly bracket creep, into perspective.

Much of the weakness stems from the household sector ...

There is light at the end of the tunnel for households. As inflation has declined, the squeeze on real household incomes from this source has diminished. The drag from taxation and net interest payments has also eased a little, although some of the former might reflect timing effects for tax return lodgements rather than a sustained shift, and the latter has yet to fully capture the effects of the RBA's November cash rate on net payments.

... as incomes are squeezed by high inflation, a larger tax take and higher interest rates.

Notably, the net result saw real household disposable income increase in the December quarter. It was only barely above the level a year previously, though. And once growth in population over the same period is accounted for, real household disposable income is still going backwards – having now returned to around 2019 levels.

Inflation's grip on households' spending power will continue to ease over the course of 2024. That is the desired outcome. With tax cuts – and, we believe, some reductions in the cash rate – coming in the second half of the year, the 'triple squeeze' will truly begin to unwind.

Conditions will remain soft over the first half of 2024 ...

It would not be appropriate to interpret the coming turnaround in real incomes as an upside risk that threatens an upsurge in demand-driven inflation. Rather, it represents an extraordinary phase in the household sector's experience coming to a close. Two years of declining real incomes in the face of a tight labour market is not a combination that should be regarded as normal. Moreover there will be some offsets to this easing in inflation and policy pressures, especially from the labour market, which is expected to slow with a lag given current slow growth in activity. There are also some increases in net interest payments yet to come through.

... ahead of a policy pivot from mid-year to a less restrictive stance ...

Outside of the household sector, the accounts showed softness spreading to some other cyclically sensitive areas.

New home building activity contracted in the December quarter, down by –3.5%qtr, –1.2%yr. While other factors are also at play – sharp rises in building costs in particular – the softness is partly a response to the higher interest rate environment and, for the RBA, a clear sign that housing supply problems are set to continue (see discussion on page 4). The renovation segment of the housing sector also weakened in the December quarter, contracting by –4.2%qtr, –5.8%yr. Prospects are for some further softening of home building activity in 2024, ahead of an emerging recovery in 2025 as policy becomes less restrictive and supported by pent-up demand.

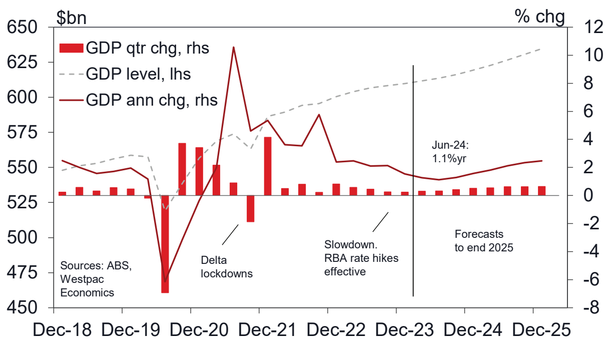
... which will support an emerging economic upswing into 2025.

Businesses have also adjusted to slow demand. Some of them have run down their inventories, while investment in new equipment also declined in the quarter. Consistent with our forecasts, the resilience that was believed to have prevailed in the first half of 2023 has not carried through into the second half. Activity in non-residential construction has held up, and opportunities in energy transition, resources and elsewhere remain. But with ongoing cost pressures and soft demand, many businesses would understandably seek to delay or rationalise their spending on new equipment. Moving through 2025, business investment is set to recover, as firms respond to the emerging economic upswing and supported by business balance sheet strength.

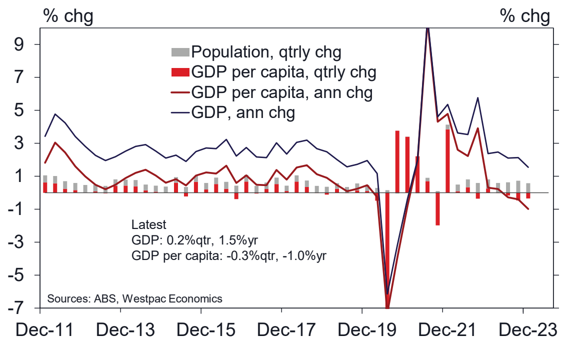
Luci Ellis, Chief Economist

... economic conditions weak, ahead of policy relief

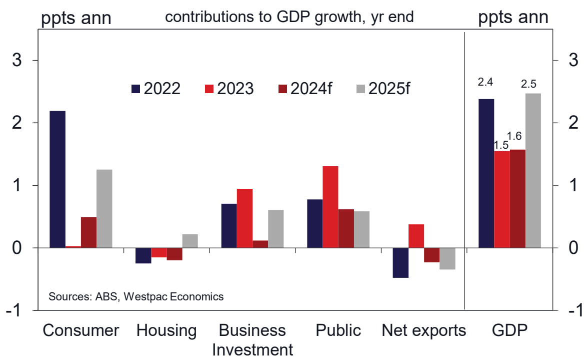
Australian economy, growth slows to a crawl



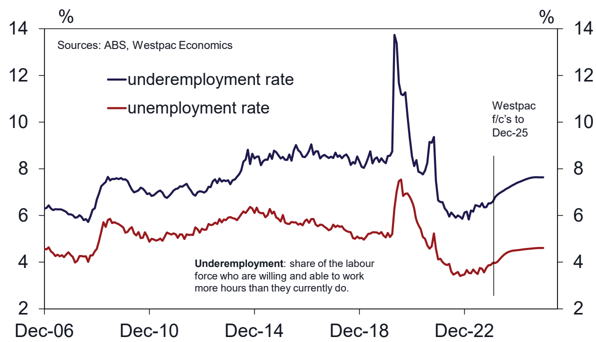
Australia: per capita output declines



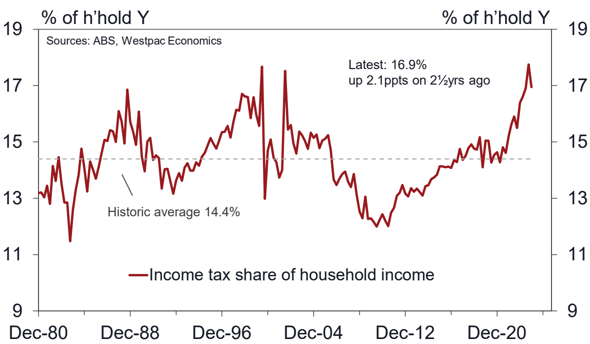
Australia: the growth mix



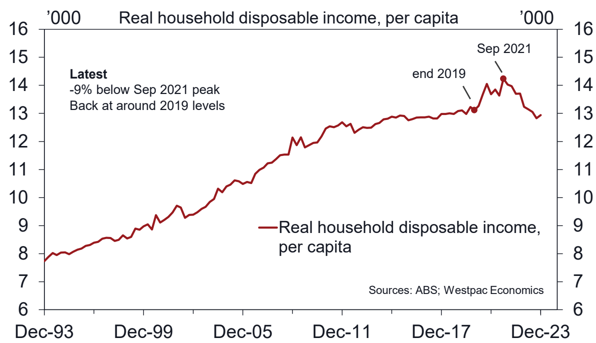
Unemployment turning higher



Household income tax climbs to historic high



Household disposable income takes a hit



Nickel has a history of booms and busts …

In broad terms commodity prices moved lower through February …

Commodity prices softened through February with our broad index falling almost 2% since the February report to be down around 7% in the year. Leading the correction was a decline in iron ore (–10%) while met coal lost –4% and LNG declined 2%. But as is often the case some commodities contrasted with strong rallies; thermal coal surging around 14% in the month while nickel bounced 12% and copper prices gained 4%. Gold lifted more than 6% in the month to hit a record high of US$2,172/oz as we go to press.

… led by a 10% fall in iron ore and a 4% fall in met coal …

The highlight through February was nickel prices finding a base around US$15,800/t in the first half of February, rallying 13% to around US$17,800/t as we go to press. Readers may remember that through February, when nickel prices collapsed –43% from the January 2023 peak of US$31,000/t, mining and political leaders were clamouring for government support, including tax incentives, to avoid the potential collapse of the Australian nickel industry. The reaction of miners, with mines being slated for mothballing, is understandable given the collapse in nickel prices has collided with rising costs to render most nickel mines unprofitable. However, those that have watched commodity markets for any length of time will know boom–bust cycles in nickel are nothing new. Two years ago nickel reached a high of US$48,000/t during a Ukraine–fuelled short squeeze only to correct –58% to around US$20,000/t in July 2022.

… but thermal coal had a solid 14% rally while nickel bounced 12%.

We can also look further back to 2007 when nickel surged to around US$53,000/t as it appeared China's appetite for stainless steel could not be sated, with insufficient supply of nickel due to years of low prices and under–investment in mines and refining capacity. At the time, it was the introduction of Indonesian nickel pig iron, made from the nickel–rich laterites that Indonesia is well–endowed with, that saw nickel prices halve to US$26,000. This time around, we have again seen a surge in Indonesian nickel supplies but the change has come from China developing a way to use lower–grade Indonesian nickel in batteries which has brought this supply into much closer competition with other, higher grade sources.

Nickel has always been a boom–bust commodity …

Another factor in the mix is shifting sentiment towards electric vehicles (EVs). Here, sales have slowed as moderating demand amongst 'early adopters' has combined with rising concerns around affordability with EVs becoming more expensive than an equivalent ICE vehicle. However, of perhaps greater concern for nickel is the continued lift in the production of lithium–iron–phosphate and lithium–manganese–iron–phosphate – LFP/LF(M)P – cathode batteries which have enjoyed a renaissance and increased their market share from around 15% to around 40% of cathode supply over the last three years. With battery demand representing around 15% of current nickel demand, and expected to grow around 17%yr to be around 30% of total demand by 2030, a potentially shrinking NCM(A) share presents a significant risk for long term nickel demand. Given that we believe some of the stalling in EV demand is due to affordability it's reasonable to assume that, as the focus shifts to price over performance, EV–driven demand for nickel may not be as robust as previously anticipated, especially if LFP/LF(M)P batteries continue to increase their market share.

… with the market collapsing in 2007 with the emergence of Indonesian supplies.

There are significant environmental concerns regarding the mining of Indonesian nickel. As long as these concerns remain secondary to battery makers' access to affordable supplies then nickel prices are set to remain depressed. Overlay this with the shift in demand for alternative cathodes and we see little upside for nickel and plenty of downside. As such, we have revised down out forecasts to a low of US$14,400/t in early 2025. Nickel has a volatile history of significant booms and busts. Recent events give us little reason to expect this to change any time soon.

Nickel was seen as a critical mineral for the transition to a low carbon economy …

The final highlight of the month occurred just as we were preparing this report. In early March iron ore prices started to weaken and on the 11th the spot price fell 7% to US$108/t. This correction appears to reflect the market's weak sentiment towards China plus an unwinding of net long positions. At US$108/t spot iron ore is at its lowest level since August 2023. Market sentiment deteriorated following China's 2024 National People's Congress for while it may have met expectations with respect to key policy actions, market participants were clearly hopeful the Congress would bring a more aggressive policy action (see page 14).

… via its use in batteries …

At the local government level there are also concerns about production controls, property market defaults and infrastructure funding while the economic data since the Lunar New Year has continued to be on the weak side of expectations. In addition, even with the recent fall in iron ore and met coal prices, Chinese steel margins and blast furnace utilisation rates remain quite weak while iron ore inventories at Chinese ports are now at the highest level since March 2023. Even with weak iron ore exports from Australia, Brazil has been more than offsetting this and thus iron ore shipments from traditional markets have started to recover and are up +3% year to date.

… but in 2024 surging Indonesian supplies have, again, burst a nickel boom.

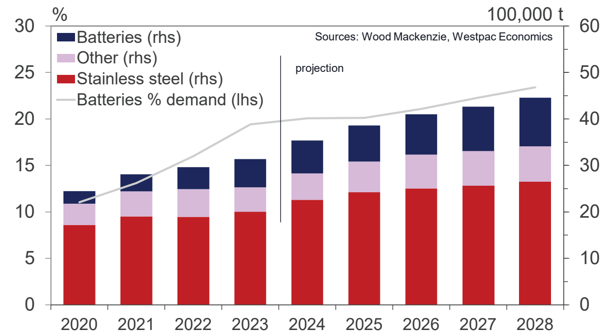
While recent trends in China remain a concern for iron ore, we expect the significant cuts in interest rates and deposit rates, plus an end to uncertainty over developers' finances, should quickly see a rebuilding of the investment pipeline with investment driven by households rather than direct Government support. As such, Chinese construction activity should pick up as we move into the second half of the year rebalancing the iron ore market.

Justin Smirk, Senior Economist

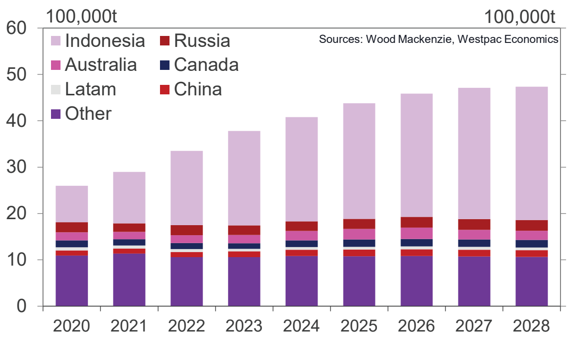
... and this volatility is expected to continue

Nickel volatility is greater than copper

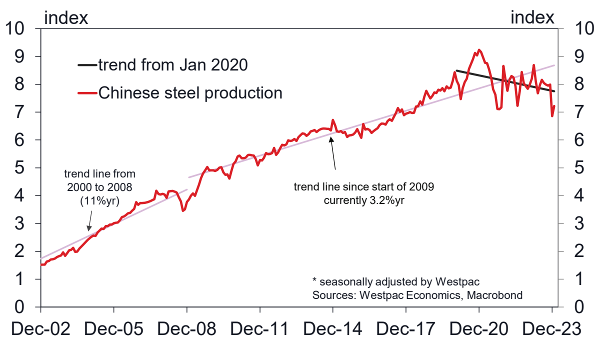
Nickel demand by end use



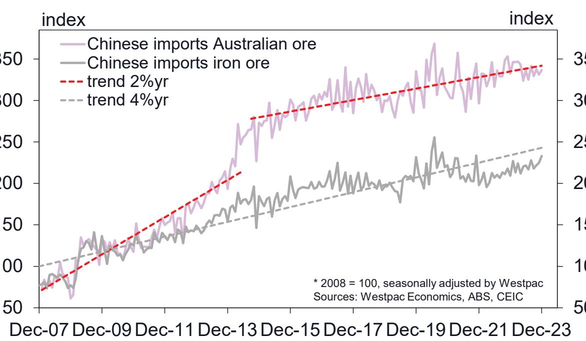
Nickel supply by region



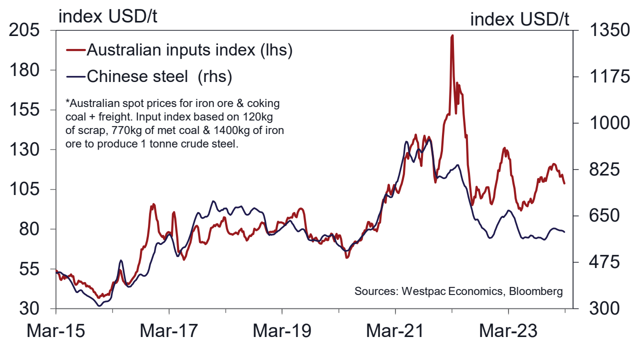
Chinese steel production flat in January 2024



Chinese imports from Australia peaked in 2020



Steel inputs vs. Chinese steel prices



US dollar to break lower ...

USD testing the lower end of the 2023-24 range ...

FX market developments have been modest in scale but filled with meaning this month, the US dollar DXY index breaking down from a mid-month high of 105 towards 102.5, a level not seen since the turn of the year, and before that only briefly traded through a few times in the first half of 2023.

... as confidence builds that rate cuts are on their way ...

Arguably, the principle driver behind the move is confidence amongst market participants that interest rates will be on the way down later this year, not only in the US but across the rest of the developed world. This limits downside risks to global growth for the year ahead, and consequently reduces the bid for safe-havens such as the US dollar.

... and downside risks to GDP growth are abating.

Breaking down DXY by its key bilaterals, the appreciation in Euro has been most significant. However, this is due to its near 58% weight, with Euro's appreciation broadly in line with other key currencies. Over the course of the last month, Euro has edged up from just below 1.08 to a touch above 1.09, a 1.3% gain. Sterling meanwhile has appreciated 1.3% from USD1.26 to USD1.28 and the Yen 1.1% from JPY149 to JPY148.

We continue to expect the USD to trend down ...

We expect further US dollar depreciation hence. From 103 today, the DXY index is forecast to decline to around 99 by end-2024 and close to 95 at end-2025 (a cumulative 4% and 7% decline). Unlike the recent market action however, we expect the underlying bilateral moves to be heterogeneous, reflecting the differing real economy dynamics in non-US jurisdictions.

... but each bilateral is likely to be more reflective of economic circumstances in the 'quote' currencies.

EUR/USD is expected to be mid pack, gaining 4% in 2024 and a further 3% in 2025 in line with DXY, to USD1.14 and USD1.17 respectively. Rate differentials are likely to prove neutral for the currency pair, with ECB policy decisions to track the FOMC cycle. But, over the course of the next year, Euro Area GDP growth is expected to rally back from near recession to an above-trend pace thanks to domestic demand as well as tourism and manufacturing exports. We anticipate this will occur as the US economy slows below trend and remains sub-par during 2025.

Euro will remain critical to the DXY downtrend; Sterling will be a marginal influence.

Sterling meanwhile is only seen appreciating at the margin, from its current level of USD1.28 to USD1.29 by end-2024 then USD1.31 at end-2025 (cumulative 1% and 2% gains). Admittedly, Sterling's spot price is above our expectation for the end of March quarter 2024, and so there is arguably some upside risk for GBP/USD. Yet uncertainty is rife for the UK. Not only is the Bank of England unsure about when inflation will sustainably return to target, with price pressures expected to re-accelerate in the second half of 2024 and wage growth still a threat, but GDP is signalling recession and the economic and political headwinds the UK faces are long lasting.

Yen will be hostage to FOMC actions ...

Over in Asia, we expect the Bank of Japan (BoJ) to disappoint the market's expectations, only edging policy rates into positive territory rather than moving them decisively higher. As discussed on page 18, cyclical support for wage inflation is dissipating and structural constraints are becoming evident - low labour mobility and costs pressures for small and medium-sized businesses are significant domestically. The BoJ's medium-term objective to sustainably achieve 2.0%yr inflation is therefore at risk, even if rates remain near the lower bound.

... as the BoJ (justifiably) treads a cautious path.

Yen is therefore forecast to appreciate only as the FOMC adjusts US interest rates down. From JPY148, we see USD/JPY declining to JPY138 and JPY127 end-2024 and end-2025 respectively, cumulative 6.5% and 14% declines. These gains may seem large, but will still leave USD/JPY approximately 14% above the JPY111 average of 2017-2019. This differential highlights the enduring inflation and policy disparity between Japan and the West. It also brings to mind the question of competitiveness, with Japanese industry facing burgeoning threats from China and Korea, particularly in manufacturing related to the green transition.

Sentiment will likely remain against Renminbi until the economy proves its capacity.

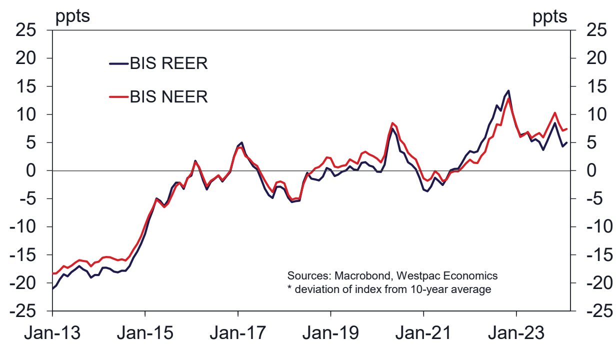
While sentiment is still clearly against China, substantial progress in developing high-tech industry and improving the efficiency and productivity of existing enterprise is clearly being made. Authorities there also recognise that developing capacity is only part of the solution; new markets also have to be found.

For China, these are close to home across Asia. The implications of this are two-fold: 1) the greater the share of China's exports going to Asia, the less of a reason there is to hold US dollar FX reserves; and 2) many of the Chinese goods finding a market in Asia are also displacing imports into China, further improving the trade position. We expect Renminbi to appreciate in line with Euro during 2024, USD/CNY falling from CNY7.18 to CNY6.90 (-4%). But in 2025, once China's economy has more fully shown its new-found capacity, the pace of appreciation should strengthen, USD/CNY falling to CNY6.50 (a cumulative -9.5% from spot). Importantly, there is scope for further Renminbi appreciation against the US dollar beyond 2025 without China's competitiveness being impaired. However, sentiment will be key.

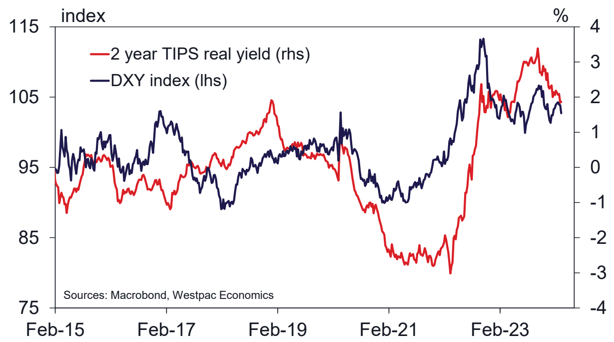
Elliot Clarke, CFA, CAIA, Senior Economist & Illiana Jain, Economist

... as balance of risks shift

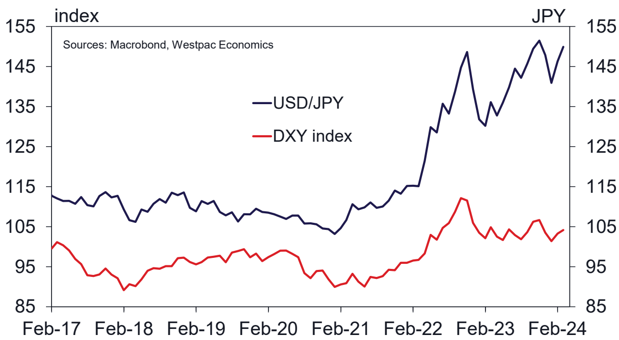
USD historically elevated on broad basis



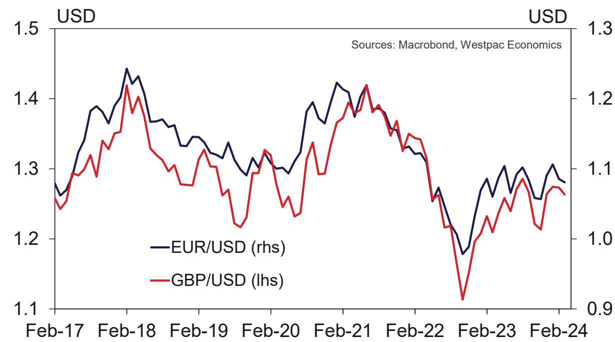
US real yields support for USD wavering



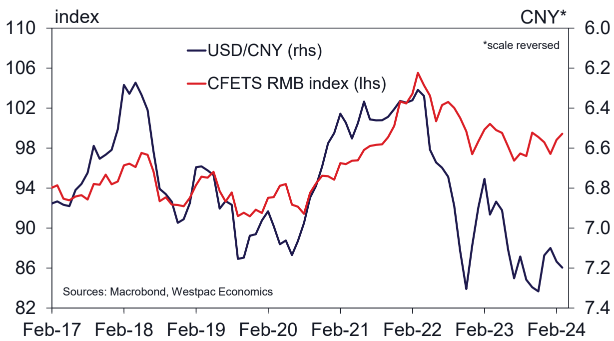
JPY weakness unlikely to fully reverse



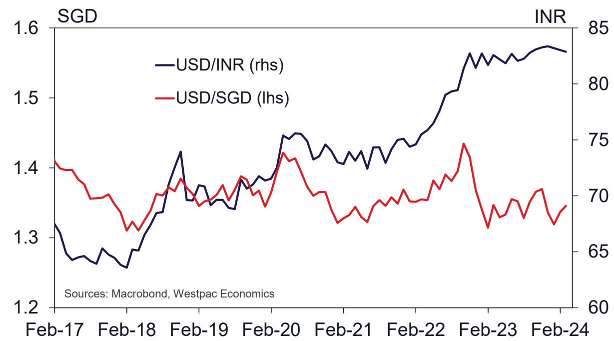
EUR negatives should fade in 2024



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



RBNZ feeling slightly more comfortable …

RBNZ left the OCR at 5.5% last month, as expected by almost all commentators …

Following a three-month hiatus, the RBNZ's Monetary Policy Committee (MPC) reconvened in late February to conduct its first policy review for 2024. Markets went into this review slightly on edge, especially after one of the big four local banks had abruptly reversed its outlook to forecast a 25bp rate hike at this meeting (and at the following meeting too). But as almost all other commentators – including Westpac – had expected, the MPC instead elected to leave the Official Cash Rate (OCR) at 5.5%.

… with a slightly less hawkish tightening bias.

As it turns out, the MPC's decision was reached by a "comfortable" consensus. Moreover, the revised projections revealed that the RBNZ had slightly lowered its forecast for the path of the OCR, implying less risk of a future rate hike than had been projected in November (about 40%, down from 75% previously). According to the RBNZ, the risks surrounding the inflation outlook had become "more balanced" than assessed previously. That said, it is important to emphasise that the policy reaction function remains asymmetric given the current high level of inflation. Put simply, the RBNZ has less capacity to absorb upside surprises to inflation than downside ones.

RBNZ more confident of achieving its inflation target this year.

A key driver of the RBNZ's revised outlook was the weaker than expected Q3 GDP report. Large downward revisions to growth in earlier quarters were attributed to a weaker rate of trend productivity growth. However, as we thought likely, the shock 0.3% decline in output in Q3 has led the RBNZ to revise down its estimate of how much the economy is pushing up against capacity limits (the positive "output gap" was revised down 0.5ppts to 0.3% of trend GDP). So while employment growth was slightly firmer than expected in Q4 – and the unemployment rate increased by less than expected – the RBNZ views aggregate demand and supply as now being in better balance than had been expected in November. The RBNZ has also taken comfort from the greater than expected decline in headline inflation in Q4 and from the subdued levels of activity in the housing market.

Hikes off the table for now but policy easing still a distant prospect.

In reaction to the RBNZ's projections and commentary, markets have all but priced out any chance of a rate hike at upcoming meetings and have returned to pricing about 50bps of rate cuts by the end of this year. Our forecast remains unchanged – we continue to expect that the OCR will remain at 5.5% for the balance of this year. Absent some very favourable downside surprises to inflation or a sharp deterioration in the global economic outlook, we continue to think that a rate cut is unlikely to be seriously on the table until early next year. This means that our forecast is very similar to the RBNZ's updated projection.

Domestic demand soft; housing very subdued.

On the data front, indicators of activity have remained weak. Domestic demand has been soft, with retail spending volumes declining for an eighth consecutive quarter in Q4, dwelling consent issuance declining to a near six-year low in January and recent import data pointing to a sharp pull-back in capex spending. Notwithstanding last year's record high migrant inflows, activity in the housing market has also remained very subdued, with total sales in January the second lowest for that month in the 32-year history of the survey – a remarkable result considering population growth over that period. Indicators of business confidence have improved since the new centre-right government was elected, but business indicators tied to current trading conditions – such as the PMI indexes – point to an economy that has likely tracked broadly sideways in recent months.

Inflation indicators moderating but most remain well above normal levels.

While inflation indicators are generally softening, at this stage most remain well above the levels that are likely to be consistent with achieving the 2% inflation target on a sustained basis. For example, ANZ's business survey reports a one-year ahead inflation expectation of 4.0% while the proportion of respondents planning to raise prices over the next three months also remains well-above pre-pandemic norms. However, the RBNZ's survey of businesses reported a decline in the two-year ahead inflation expectation to 2.5% in Q1 – closer to its historic average, and clearly of some comfort to the RBNZ's MPC.

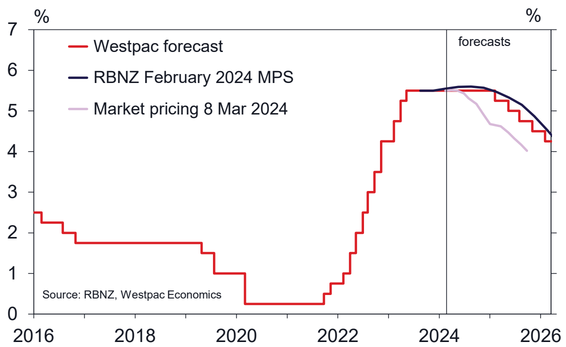
GDP, partial CPI, housing and consumer spending indicators lie ahead of the RBNZ's next meeting.

Looking out over the next month or so, there are several key economic data points to watch ahead of the RBNZ's next OCR review on 10 April. Perhaps of greatest interest will be the Q4 GDP report (due March 21). We presently estimate that the economy grew just 0.1% – not materially different to the flat outcome estimated by the RBNZ. The Selected Price Indexes for February, released on March 13, will provide some further information about the outlook for the Q1 CPI report (released on April 17). Other data points to keep an eye on include: migration and housing-related news; indicators of consumer spending; and the inflation indicators from the ANZ Business Outlook survey (March 27) and the NZIER's QSBO survey (April 9). Finally, the Government's first Budget Policy Statement (March 27) will also be a focus as markets look ahead to the release of Budget 2024 in late May.

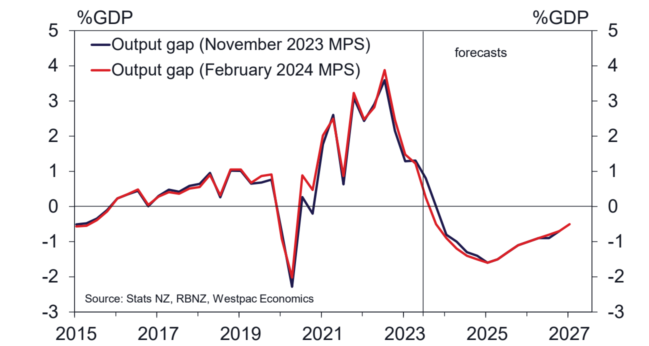
Darren Gibbs, Senior Economist, New Zealand

… but policy easing still a distant prospect

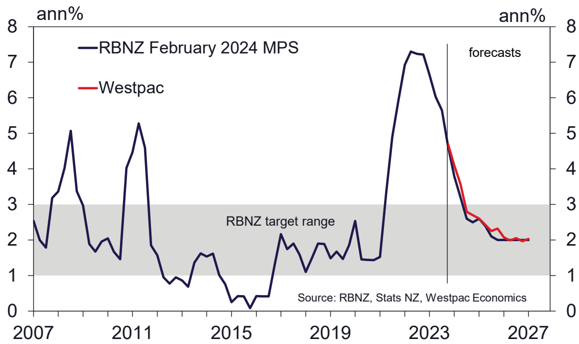
Official Cash Rate forecasts



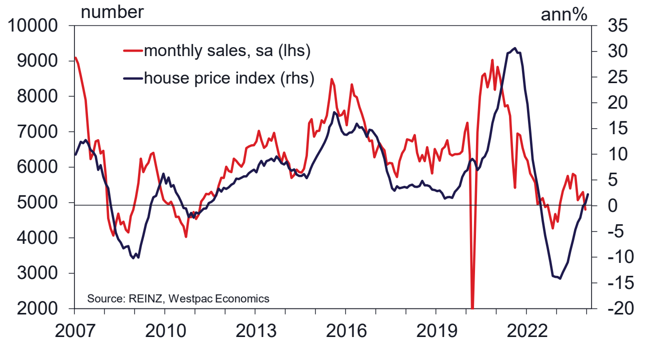
RBNZ estimates of the output gap



CPI inflation



House sales and prices



	2023										2024	
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
REINZ house sales %mth	11.8	7.0	3.6	4.2	–6.2	7.6	–0.8	–11.9	2.4	2.0	–9.2	–
Residential building consents %mth	5.8	–2.8	–2.9	2.2	–5.7	–7.3	–4.9	8.2	–10.7	3.6	–8.8	–
Electronic card transactions %mth	2.4	0.8	–2.2	1.5	–1.2	0.9	–0.2	–0.3	0.9	–0.7	2.0	–
Private sector credit %yr	3.6	3.3	3.0	3.0	2.8	2.6	2.4	2.5	2.1	2.2	2.4	–
Commodity prices %mth	1.3	–1.7	0.4	–1.7	–2.6	–2.9	1.4	2.8	–1.3	2.4	2.1	3.6
Trade balance $m	–1918	–1295	–966	–696	–1491	–819	–1079	–865	–883	–818	–345	–

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.

The US labour market: shifting risks ...

Markets continue to take their cues from nonfarm payrolls ...

Early 2024 has been a particularly interesting time for the US labour market. January's nonfarm payrolls result was extraordinary at 353k. February's print was also buoyant at 275k but came with a net –167k in back revisions to the prior two months, including a 124k downward revision (–35%) for January. Volatility of this scale makes relying on a single indicator dangerous, particularly at this point in the cycle.

... despite considerable volatility and a stark divergence from other data.

This is why we continue to encourage a broader view of the US labour market, taking in all the information from the establishment survey (which provides nonfarm payrolls, hours and hourly earnings), the household survey (employment and measures of utilisation) as well as other wage indicators and the business surveys.

Even after February's revisions are incorporated, nonfarm payrolls have averaged a gain of 265k the past three months – a strong outcome, modestly above the 229k average of the past 12 months. In stark contrast however, average weekly hours are down 0.6% over the year, leaving growth in aggregate hours worked at roughly half the payroll job gain (1.0%yr versus 1.8%yr).

Average hours point to reduced utilisation and household employment is declining ...

We also know from the household survey that the count of multiple job holders is now back at historic highs. This is important because it means that the number of people employed has not necessarily increased by 1.8%yr as purported by nonfarm payrolls (which is a count of the number of jobs not individuals employed). The household employment survey instead puts annual growth in the number employed at just 0.4%yr – below the pace of population growth. If we focus on a shorter time period, the household survey trend is much weaker, with essentially no net growth in employment from June 2023 to February 2024 and a 0.9% annualised *decline* since September 2023 – a period when nonfarm payrolls reported a 1.8% annualised *gain*.

... the ISMs pointing to downside risks.

With the establishment and household surveys offering such starkly different views, there is a need to assess each against other available data. We view the ISM survey employment measures as the best quantitative cross check. As at February, the manufacturing and service ISM employment series were, respectively, 6pts and 4pts below their 20-year averages. Compared to the history of nonfarm payrolls, the ISM data suggests a –200k per month pace is currently more likely than the above +200k pace payrolls has been averaging.

The NFIB's actual employment measure is more constructive than the ISM series as of January, but only broadly neutral versus history. This signal is consistent with the March Beige Book's overall assessment of employment across the Federal Reserve districts, with employment rising "at a slight to modest pace in most Districts" over the survey period. Anecdotes on labour supply similarly point to balance. From the Beige Book, businesses "generally found it easier to fill open positions and to find qualified applicants" while "several reports indicated a slower pace of increase" for wages.

Consistent with building slack, wage growth is slowing materially.

Hourly earnings growth from the establishment survey was also soft in February at 0.1%, but this followed a 0.5% gain in January. The 3-month average gain is 0.3% or 3.6% annualised, materially below the current annual pace of 4.3%yr. The 3-month average hourly earnings growth pace is also in line with December's quarterly total compensation pace from the Employment Cost Index (ECI). This is significant as the ECI does not suffer from the compositional changes that cause volatility in the hourly earnings measure.

Our baseline is that the rise in unemployment will be contained ...

Our overall take from all available information on the US labour market is that growth in the number of individuals employed has, most likely, slowed to a pace below population growth and the utilisation of established workers is under pressure. With stable participation, the unemployment rate is therefore set to trend higher to around 4.5% end-2025, a percentage point above its cycle low and 0.6ppts above February 2024's 3.9% but only marginally higher than estimates of 'full employment'.

... but there is clearly a risk that activity and labour demand will fall away.

Whether immediate or with a few months delay, such an outcome will see household consumption growth soften and businesses become increasingly wary about the scale and timing of investment. GDP growth is therefore likely to slow below trend in coming quarters and remain there through much of 2025. Rising slack in the economy will consequently suppress any lingering cyclical inflation risks, particularly given suggestions in the latest Beige Book that consumers are becoming "increasingly sensitive to price changes".

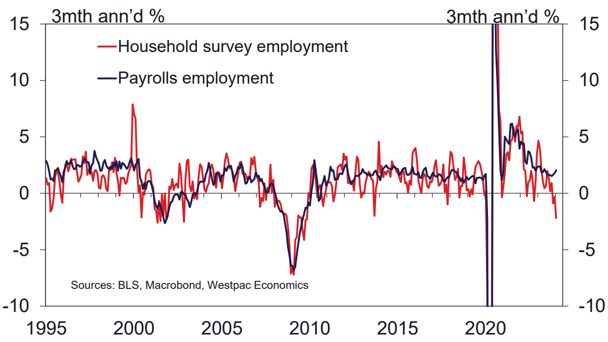
This is why the FOMC need to act from mid-2024.

The prime risk is that the ISM employment series prove to be an accurate lead and a sustained period of labour retrenchment is underway. If this occurs, not only will the unemployment rate peak well above the 'full employment' level, but the period of sub-trend GDP growth forecast would likely prove deeper and potentially more persistent. Lowering the fed funds rate at a measured pace from June will help to mitigate these risks.

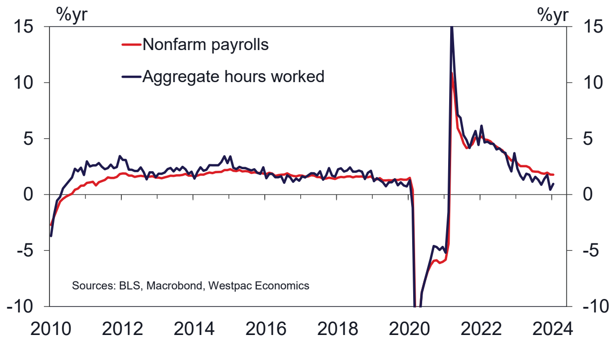
Elliot Clarke, CFA, CAIA, Senior Economist

… requires a broader view

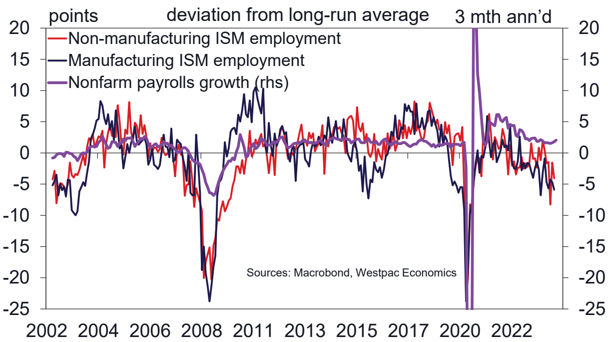
Employee and job count diverging



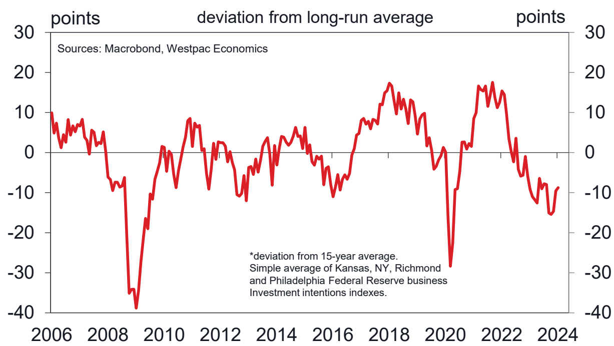
Labour utilsation also coming under pressure



ISMs point to downside risks



Investment at risk of sustained weakness



	2023										2024	
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
PCE deflator %yr	4.4	4.4	4.0	3.2	3.3	3.3	3.4	3.0	2.7	2.6	2.4	–
Unemployment rate %	3.5	3.4	3.7	3.6	3.5	3.8	3.8	3.8	3.7	3.7	3.7	3.9
Non-farm payrolls chg '000	146	278	303	240	184	210	246	165	182	290	229	275
House prices* %yr	-1.0	-1.7	-1.8	-1.2	0.1	2.2	4.0	4.9	5.5	6.2	–	–
Durables orders core 3mth %saar	0.3	-0.2	2.2	2.9	-1.7	0.4	1.4	0.7	0.4	-1.1	1.2	–
ISM manufacturing composite	46.5	47.0	46.6	46.4	46.5	47.6	48.6	46.9	46.6	47.1	49.1	47.8
ISM non-manufacturing composite	51.2	52.3	51.1	53.6	52.8	54.1	53.4	51.9	52.5	50.5	53.4	52.6
Personal spending 3mth %saar	7.8	3.0	2.5	4.5	5.1	5.4	6.8	4.7	5.1	4.7	5.3	–
UoM Consumer Sentiment	62.0	63.7	59.0	64.2	71.5	69.4	67.9	63.8	61.3	69.7	79.0	76.9
Trade balance USDbn	-59.6	-72.2	-66.2	-63.5	-65.0	-58.9	-61.9	-65.2	-62.7	-64.2	-67.4	–

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	3.2	2.5
Current account USDbn	-216.2	-214.5	-216.8	-200.3	–	–

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

Opposing perspectives on ...

China's 2024 NPC kept the focus on quality growth ...

China's 2024 National People's Congress met expectations with respect to key policy actions, but disappointed in terms of sentiment – market participants clearly hopeful the new year would bring a more aggressive policy style.

As was the case throughout 2023, the market and China's authorities currently have very different perspectives on the economy's immediate health and the long-term path to prosperity, with authorities' confidence in the dividend from trade and investment ex-housing intact but the market of the belief that housing must again take a leading role in China's growth story.

... expecting the overall pace to hold "around 5%".

According to the 2024 government work report delivered at the NPC, GDP growth of "around 5%" is expected to again be achieved in 2024 after a 5.2% gain in 2023. Year-over-year, direct support from the central government is little changed, 2024's deficit target of 3.0% the same as 2023's.

October's late revision of the 2023 deficit target to 3.8% will also support activity in 2024, as will an additional RMB1trn in sovereign special bonds – a stop-gap measure to shore-up infrastructure investment while local government funding through land sales is impaired. Still, there is no evidence of authorities believing their support for the economy must be dialled up.

Putting spare capacity to use will take time ...

Whereas the growth and fiscal targets are best considered hard targets, the official 3.0% CPI projection is more a symbol of intent. What the target speaks to is a plan to bolster household employment and incomes through trade and investment and, in time, justify a sustained rebound in consumer perceptions of their family finances and wealth. In doing so, authorities will encourage the use of existing and new capacity and thereby create a supportive environment for profitability, wage growth and consequently domestic inflation.

... and any consumer lift remains contingent on optimism over finances.

For consumer views of family finances to fully heal however, further targeted support for housing construction is also necessary. While this began in 2023, 2024 must see a material expansion through additional funding and liquidity being made available for developers and local governments as well as clear direction from the Central Government that their reform process is complete.

Housing for 'living in' should find demand as there remains a need ...

A core focus of the housing reforms has been the re-shaping of the construction pipeline to focus on the development of housing for low and middle-income households to 'live in' as opposed to products for investors. With interest rates and deposit rates having been cut significantly, an end to uncertainty over developers' finances should quickly see the investment pipeline refill and investment begin to grow on the basis of households demand rather than direct Government support.

... but success will not come overnight.

The property sector's healing is likely to take place over 2024 and 2025. In the meantime, there is cause to believe 2023's consumption momentum can be sustained throughout 2024, with Lunar New Year anecdotes suggesting a growing number of Chinese consumers are increasing their discretionary spend. Highlighting the potential scale of pent-up demand for 2024 and beyond, retail sales have only increased 4% annually over the past four years (2020–2023) having grown at closer to 10%yr between 2015 and 2019.

In our view, the above consumer narratives are sustainable trends which can help support GDP growth "around 5%" in both 2024 and 2025. The other foundation is business investment, itself dependent on trade.

Thankfully, the new economy continues to grow at a rapid pace ...

Throughout 2023, we detailed at length the strength anticipated then seen in high-tech manufacturing. For the year, fixed asset investment related to chemical products, automobiles and electrical machinery grew by 13%, 19% and 32% respectively. Utilities also grew 23%, and other infrastructure 6%.

High-tech manufacturing is unlikely to grow as fast in 2024 and 2025; but with the sector now on a similar scale to housing, its contribution to growth will remain large. Importantly, as the new capacity investment is creating comes online, the trade position will benefit, drawing and accumulating income from exports while also reducing lost wealth and income through imports.

... and its output is in demand across Asia and most of the rest of the world.

This recursive loop between investment and trade and the consequent scaling up of national income is the foundation for Chinese authorities' long-run prosperity ambitions. If these gains can be recycled into new jobs and wealth across the economy, this will not only deflate the significance of the nation's existing debt but also offer capital to fund sustainable growth in consumption and housing.

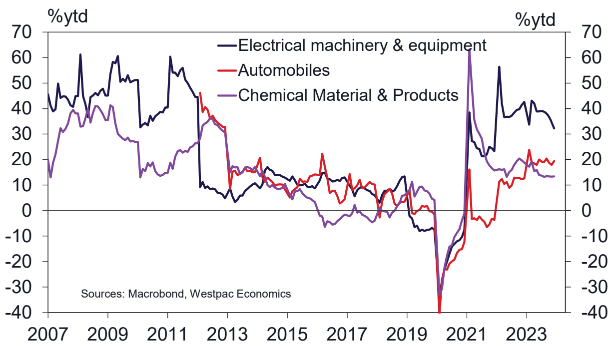
Income from trade will remain authorities' priority.

Income, not debt, is set to remain the focus of China's authorities, with risks related to the latter expected to resolve themselves as growth persists, and property investment to follow growth elsewhere in the economy.

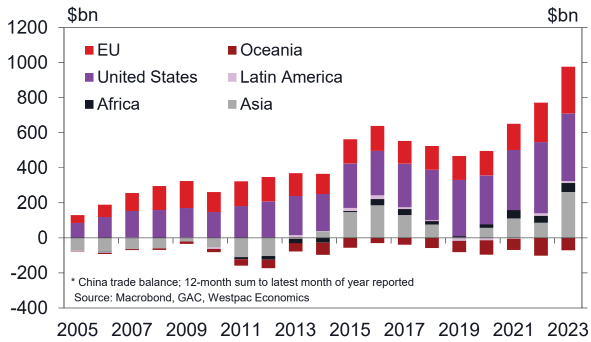
Elliot Clarke, CFA, CAIA, Senior Economist

… China's path to prosperity

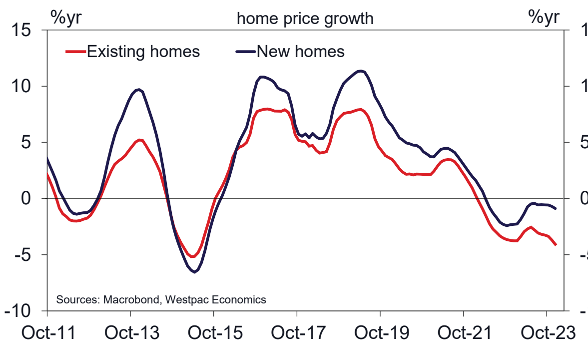
High-tech manufacturing gearing into…



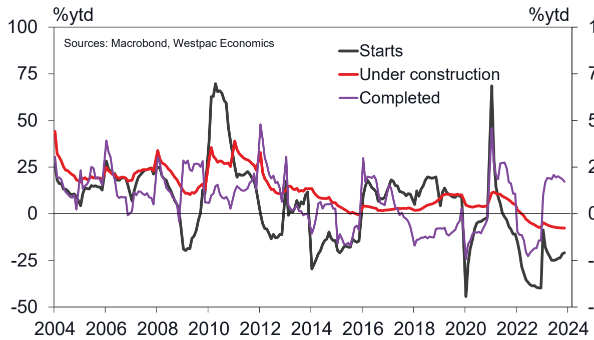
… Asian economic development



Household wealth remains a material risk



Housing pipeline in need of replenishment



	2024										2024	
Monthly data %yr	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
Consumer prices – headline	0.70	0.10	0.20	0.00	–0.30	0.10	0.00	–0.20	–0.50	–0.30	–0.80	0.70
Money supply M2	12.7	12.4	11.6	11.3	10.7	10.6	10.3	10.3	10	9.7	8.7	–
Manufacturing PMI (official)	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1
Fixed asset investment %ytd	5.1	4.7	4.0	3.8	3.4	3.2	3.1	2.9	2.9	3.0	–	–
Industrial production (IVA)	3.9	5.6	3.5	4.4	3.7	4.5	4.5	4.6	6.6	6.8	–	–
Exports	10.9	7.1	–7.6	–12.4	–14.2	–8.5	–6.8	–6.6	0.7	2.3	–	–
Imports	–2.0	–8.8	–5.2	–7.0	–12.1	–7.2	–6.3	2.9	–0.7	0.2	–	–
Trade balance USDbn	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

Eagerly-awaited wage decision …

Wage increases are cyclical rather than structural …

The Bank of Japan (BoJ) and financial markets are eagerly awaiting the 'shunto' spring wage decision due in late March. In our view, the result will likely be more of a reflection of near-term cyclicality than structural strength. As such, its unlikely to justify a material policy shift.

… with the main driver – inflation – now subsiding …

Recent strong wage growth reflects the lagged effect of cyclical momentum in the economy. RENGO, Japan's largest trade union conglomerate, negotiated wages to rise 3.6% in 2023 after averaging 2% gains between 2014 and 2022. Base pay, which goes to all employees, rose 2% trumping the average 0.6% rise since 2015. In justifying their claim, RENGO drew attention to the higher cost of living. Inflation rose 4% through 2022, well above the 0.5%yr average between 2010 and 2019. Inflation subsequently eased to 2.6%yr during 2023, following the global disinflationary pulse, and is expected to ease further going forward. As of 2023 Q4, firms' inflation outlook for 1, 3 and 5 years came in at 2.4%, 2.2% and 2.1% respectively. While this is above the 1% averages seen from 2014 to 2019, inflation expectations are down materially on last year. Any residual support for wage growth near-term will likely dissipate further as actual inflation weakens.

… and profits less impressive than they seem.

Rising profitability has also been used to argue for stronger wage growth in 2024 with a focus on strength in ordinary profits. However, operating profits are only slightly above the pre-COVID peak and below the 10-year pre-COVID trend. Operating profit as a share of sales are also relatively unimpressive, hovering around pre-COVID rates. The disparity between operating profits, which do not include investment-related income, and ordinary profits implies profitability is being flattered by financial investment returns not firms' underlying profitability. It is only the latter that would given businesses confidence to increase wages at or above the rate of inflation.

Looking ahead, structural factors will remain a constraint …

Rather than being a support for sustained wage growth, we expect structural factors to act as a headwind beyond 2024. Wage increases depend on seniority, so job mobility is low and companies typically find it unnecessary to raise wages to retain staff. This feature of Japan's labour market also disincentivises employees from re-skilling or making career changes into higher growth areas. In 2016, then BoJ Governor Kuroda outlined low job mobility as a key challenge for the labour market and the country's growth potential. Further, participation has recently been rising thanks to a growing cohort of part-time workers, primarily women and those aged 65 and above. Wage growth is slower for part-time workers, and the loss of tax and social benefits for secondary income earners dissuades many from seeking more pay or hours.

… just as labour shortage issues become less severe …

While some large companies such as Suntory and Nomura have publicly committed to raising salaries by 7-16% this year, many others will hold back believing the labour they require will remain available. According to the Tankan survey, manufacturing firms are reporting labour shortages as less severe than pre-COVID, with new openings to decline. Shortages in the services sector are persisting compared to the early 1990s, but the number of new job openings has settled back below its pre-COVID peak. Part of the mix reflects a structural decline in manufacturing jobs, with south-east Asia providing attractive alternative locations for facilities whilst automation also lowers labour demand. Given manufacturing employs around 15% of the labour force, weaker demand will act as a drag on aggregate wages. This points to a softening labour market overall, but also diverging outcomes for services and manufacturing.

… and small businesses are less keen on lifting wages.

Small businesses appear particularly resistent to raising wages. Responses to a survey by Johnan Shinkin Bank and the Tokyo Shimbun daily reported 72.8% of small and medium-sized businesses in the Tokyo metropolitan area "have no plans to raise wages this year". Smaller businesses tend to make up the bulk of employers, and so can have a big effect on aggregate outcomes. We suspect their reluctance is principally due to an inability to pass on higher costs to consumers, particularly when households are as price sensitive as they are now; but small businesses also have more limited options to scale up and benefit from efficiency and access to large markets.

Some pockets of skilled younger workers are getting higher wages.

While seniority is still the main pathway to higher remuneration, there are some pockets of the labour market – younger, higher-skilled workers – that are starting to command wages. Younger Japanese workers who have in-demand skills, particularly for high-skill work, and are also more likely to job hop early in their careers in pursuit of wage gains. BoJ research also shows that wages for high-skill workers are increasing. However, given Japan's demographic profile (about half of the population is aged over 50) and weak immigration program, young people make up a small fraction of the labour force. Wage gains in this cohort are unlikely to drive aggregate wage gains or consumption.

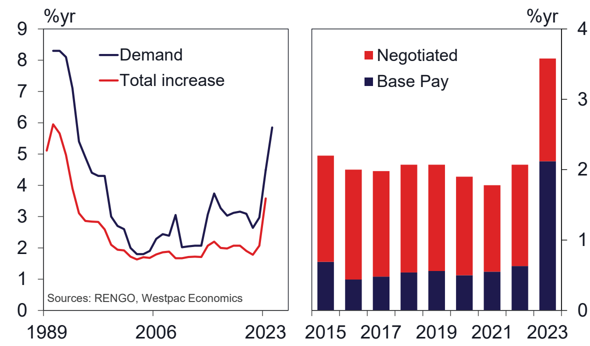
Bottom line: wage decision will not move the BoJ off its dovish stance.

Beyond 2024, cyclical and structural factors are likely to limit wage gains and keep a lid on inflation pressures. While Japan narrowly escaped a technical recession, the economy remains weak and at risk to global developments. All of this points to an absence of the demand-side inflation pressures that are necessary to justify a tightening cycle of scale. The BoJ can justify the end of negative rates in coming months, but moving policy materially above zero is unwarranted and could see the inflation target once again out of reach. All things considered, the Shunto wage outcome is unlikely to be the opportunity markets are looking to for a generational change in monetary policy.

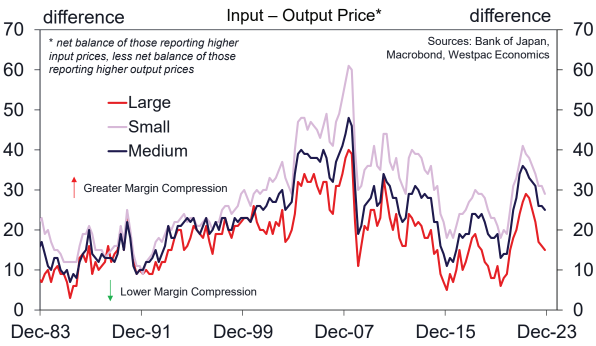
Illiana Jain, Economist

… unlikely to draw a response from the Bank of Japan

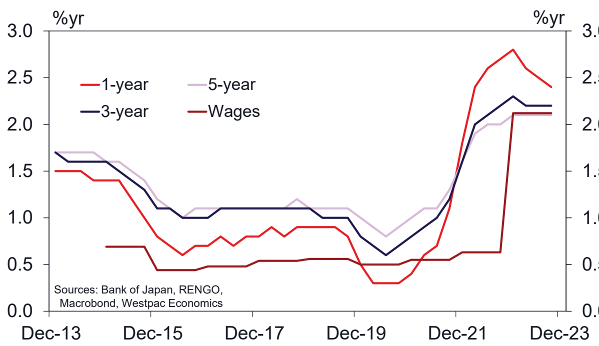
Japanese wages climbing higher



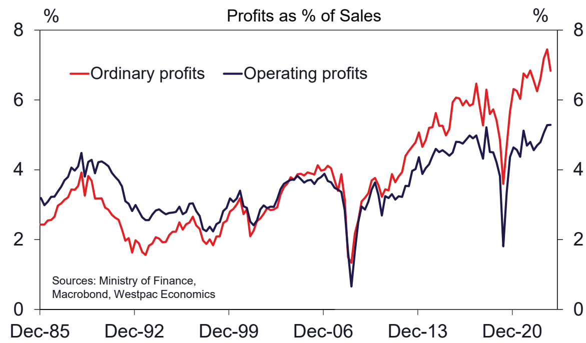
Smaller firms absorb more costs



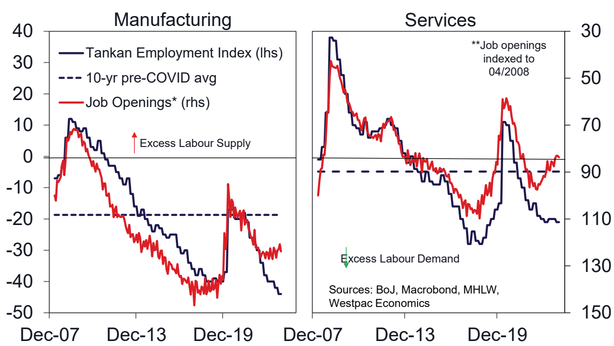
Firms' price expectations are lifted



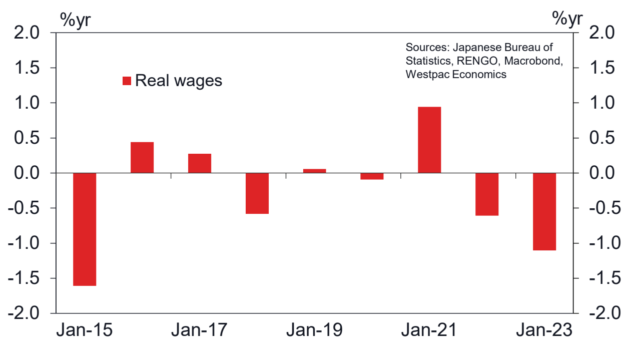
Profitability not as strong as it seems



Services labour demand stronger than mfg



Real base pay is still declining



FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (13 Mar)	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	4.35	4.40	4.37	4.12	3.92	3.67	3.47	3.30	3.30
3 Year Swap	3.84	4.05	3.95	3.85	3.75	3.65	3.60	3.55	3.50
3 Year Bond	3.64	3.85	3.75	3.65	3.55	3.45	3.40	3.35	3.30
10 Year Bond	4.00	4.20	4.05	3.95	3.85	3.90	3.90	3.95	4.00
10 Year Spread to US (bps)	-15	5	5	5	5	5	0	0	0

Currency forecasts

	Latest (13 Mar)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD vs									
USD	0.6606	0.66	0.68	0.69	0.70	0.71	0.72	0.72	0.73
JPY	97.49	97	97	97	97	96	95	94	93
EUR	0.6045	0.61	0.61	0.61	0.61	0.62	0.62	0.62	0.62
NZD	1.0744	1.06	1.07	1.08	1.09	1.11	1.11	1.11	1.12
CAD	0.8913	0.88	0.89	0.90	0.90	0.90	0.91	0.90	0.91
GBP	0.5164	0.52	0.53	0.54	0.54	0.55	0.55	0.55	0.56
CHF	0.5797	0.57	0.59	0.60	0.60	0.61	0.61	0.61	0.62
DKK	4.5077	4.52	4.54	4.55	4.58	4.61	4.63	4.59	4.65
SEK	6.7650	6.77	6.80	6.83	6.87	6.91	6.94	6.88	6.98
NOK	6.9489	6.96	6.99	7.02	7.06	7.09	7.13	7.07	7.17
ZAR	12.34	12.3	12.5	12.6	12.7	12.8	12.9	12.9	13.0
SGD	0.8801	0.88	0.89	0.91	0.91	0.92	0.94	0.94	0.95
HKD	5.1679	5.16	5.28	5.39	5.47	5.54	5.62	5.62	5.69
PHP	36.62	36.6	37.1	37.6	37.8	38.0	38.2	37.8	38.0
THB	23.62	23.1	23.3	23.5	23.5	23.4	23.4	23.0	23.0
MYR	3.0949	3.07	3.07	3.07	3.05	3.05	3.06	3.02	3.03
CNY	4.7430	4.75	4.79	4.83	4.83	4.83	4.82	4.82	4.75
IDR	10299	10230	10328	10419	10430	10366	10368	10296	10293
TWD	20.75	20.6	20.9	21.0	21.0	21.0	21.1	20.9	21.0
KRW	866	865	878	883	882	880	886	878	883
INR	54.76	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**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023**	**2024f**	**2025f**
Private consumption	0.1	–0.2	0.1	0.1	0.1	0.4	0.4	6.6	1.1	0.5	2.1
Dwelling investment	0.7	0.6	–3.8	–1.8	–1.5	–0.9	–0.1	–4.0	–2.0	–5.7	2.0
Business investment*	2.6	0.8	0.7	0.2	0.0	0.2	0.6	5.4	9.1	2.0	3.5
Private demand *	0.7	0.1	0.0	0.0	0.0	0.3	0.5	5.1	1.9	0.5	2.5
Public demand *	1.4	1.9	0.4	0.5	0.5	0.6	0.6	5.1	3.3	3.0	2.1
Domestic demand	0.9	0.6	0.1	0.1	0.1	0.4	0.5	5.1	2.3	1.2	2.4
Stock contribution	–1.2	0.3	–0.3	0.5	–0.1	0.2	0.1	0.5	–0.9	0.1	0.2
GNE	–0.4	1.0	–0.2	0.6	0.1	0.6	0.6	5.6	1.3	1.3	2.6
Exports	4.4	–0.2	–0.3	0.8	1.1	0.9	1.0	2.5	6.8	3.0	4.0
Imports	1.7	2.3	–3.4	2.3	0.3	1.7	1.7	12.8	3.3	2.8	6.4
Net exports contribution	0.8	–0.6	0.6	–0.3	0.2	–0.1	–0.1	–1.8	1.1	0.2	–0.3
Real GDP %qtr / yr avg	**0.5**	**0.3**	**0.2**	**0.3**	**0.3**	**0.4**	**0.5**	3.8	2.1	1.3	2.2
%yr end	**2.1**	**2.1**	**1.5**	**1.3**	**1.1**	**1.3**	**1.6**	**2.4**	**1.5**	**1.6**	**2.5**
Nominal GDP %qtr	–0.7	1.4	1.4	1.2	0.3	0.3	0.5				
%yr end	4.0	4.5	4.4	3.4	4.4	3.3	2.4	12.1	4.4	2.4	4.6

Other macroeconomic variables

	2023			2024				Calendar years			
% change	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023**	**2024f**	**2025f**
Employment (2)	0.9	0.7	0.7	0.1	0.2	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	3.9	4.0	4.2	4.4	4.5	3.5	3.9	4.5	4.6
Wages (WPI) (2)	1.0	1.3	0.9	0.9	0.9	0.8	0.5	–	–	–	–
%yr	3.7	4.1	4.2	4.2	4.2	3.7	3.2	3.3	4.2	3.2	3.1
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	8.3	1.3	11.8	13.0	7.0	0.0	–5.0	26.4	31.9	15.0	–35.0
% of GDP	1.3	0.2	1.8	1.9	1.0	0.0	–0.7	1.1	1.2	0.6	–1.2
Terms of trade annual chg (1)	–11.8	–9.0	–3.9	–5.8	–2.0	–3.5	–8.2	7.2	–5.9	–5.0	–6.0

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

Macroeconomic variables – recent history

	2023									2024	
Monthly data	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
Employment '000 chg	–5	80	31	–2	67	5	45	73	–63	1	–
Unemployment rate %	3.7	3.6	3.5	3.8	3.7	3.6	3.8	3.9	3.9	4.1	–
Westpac–MI Consumer Sentiment	85.8	79.0	79.2	81.3	81.0	79.7	82.0	79.9	82.1	81.0	86.0
Retail trade %mth	–0.2	0.5	–0.7	0.3	0.3	0.7	–0.2	1.5	–2.1	1.1	–
Dwelling approvals %mth	–5.0	21.2	–9.7	–6.4	5.4	–2.8	9.1	–0.2	–10.1	–1.0	–
Credit, private sector %yr	6.6	6.2	5.6	5.3	5.1	4.9	4.8	4.8	4.8	4.9	–
Trade in goods balance AUDbn	9.6	10.5	10.1	7.7	9.8	6.1	7.7	11.4	10.7	11.0	–

New Zealand

Interest rate forecasts

	Latest (13 Mar)	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	5.64	5.60	5.60	5.60	5.50	5.25	4.95	4.75	4.50
2 Year Swap	4.87	5.10	4.95	4.75	4.50	4.40	4.15	4.10	4.00
10 Year Bond	4.56	4.85	4.70	4.65	4.60	4.50	4.40	4.35	4.25
10 Year Spread to US	41	70	70	75	80	65	50	40	25
10 Year Spread to Aust	56	65	65	70	75	60	50	40	25

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Mar)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD vs									
USD	0.6149	0.62	0.63	0.64	0.64	0.64	0.65	0.65	0.65
JPY	90.74	91	91	90	88	86	86	85	83
EUR	0.5627	0.57	0.57	0.57	0.56	0.56	0.56	0.56	0.56
AUD	0.9308	0.94	0.93	0.93	0.91	0.90	0.90	0.90	0.89
CAD	0.8296	0.83	0.83	0.83	0.82	0.81	0.82	0.81	0.81
GBP	0.4806	0.49	0.50	0.50	0.50	0.49	0.50	0.50	0.50
CNY	4.4165	4.46	4.47	4.48	4.42	4.35	4.36	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	-0.2	0.7	0.6	1.0	0.6	3.3	0.8	1.3	3.1
Government consumption	3.4	-1.8	-0.5	-0.4	-0.5	-0.5	-0.5	4.9	-1.3	-1.7	-1.0
Residential investment	1.3	-1.1	-2.5	-3.0	-2.5	-2.5	-1.5	-0.8	-4.1	-8.4	-1.1
Business investment	0.8	-4.8	2.3	-2.0	-1.5	-1.2	-0.5	5.4	0.6	-4.3	0.3
Stocks (ppt contribution)	-1.3	2.7	-0.3	-0.3	-0.1	-0.1	0.0	-0.4	-0.6	0.5	-0.1
GNE	-0.7	0.2	-0.2	-0.4	-0.2	0.1	0.1	3.4	-0.7	-0.2	1.5
Exports	4.6	-2.6	1.5	3.3	1.9	1.2	0.9	-0.2	8.5	6.1	3.7
Imports	-0.8	-0.3	-1.9	0.4	0.2	0.6	0.5	4.6	1.1	-0.7	3.3
GDP (production)	**0.5**	**-0.3**	**0.0**	**0.2**	**0.2**	**0.2**	**0.2**	**2.4**	**0.7**	**0.5**	**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	2.5
CPI annual %	**6.0**	**5.6**	**4.7**	**4.1**	**3.6**	**2.8**	**2.7**	**7.2**	**4.7**	**2.7**	**2.3**
Current account balance % of GDP	-7.6	-7.6	-7.0	-6.4	-5.8	-5.1	-4.4	-8.8	-7.0	-4.4	-3.6
Terms of trade annual %	-3.6	-0.3	-1.5	2.0	3.7	5.6	6.1	-4.2	-1.5	6.1	3.4

Sources: Statistics NZ, 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.

Commodity prices

End of period	Latest (13 Mar)***	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Australian commodities index#	310	297	280	268	265	**264**	**266**	**269**	**276**	**276**
Bulk commodities index#	**482**	**452**	**408**	**382**	**373**	**364**	**361**	**359**	**374**	**370**
iron ore finesTSI @ 62% US$/t	112	104	93	82	81	82	83	84	90	87
Premium low vol met coal (US$/t)	299	300	290	275	265	250	244	238	237	236
Newcastle spot thermal coal (US$/t)	139	135	120	118	117	116	115	114	115	116
crude oil (US$/bbl) Brent ICE	82	82	80	78	78	80	82	85	87	90
LNG in Japan US$mmbtu	13.45	12.7	12.5	11.8	11.1	11.0	11.2	11.3	11.6	11.7
gold (US$/oz)	2,204	2,175	2,100	2,075	2,080	2,090	2,110	2,120	2,140	2,160
Base metals index#	**194**	**189**	**181**	**177**	**177**	**181**	**186**	**193**	**198**	**205**
copper (US$/t)	8,590	8,450	8,375	8,228	8,200	8,400	8,700	9,100	9,400	9,800
aluminium (US$/t)	2,228	2,150	2,050	1,999	2,000	2,050	2,110	2,200	2,260	2,350
nickel (US$/t)	18,101	17,500	15,000	14,500	14,400	14,500	14,700	14,700	14,800	15,000
zinc (US$/t)	2,538	2,425	2,350	2,294	2,290	2,340	2,400	2,500	2,540	2,610
lead (US$/t)	2,112	2,075	2,020	1,959	1,960	1,990	2,000	2,050	2,080	2,130
Rural commodities index#	**124**	**122**	**119**	**117**	**117**	**120**	**123**	**128**	**131**	**136**
NZ commodities index ##	**350**	**350**	**352**	**352**	**353**	**354**	**356**	**359**	**362**	**363**
dairy price index ^^	317	319	320	319	319	319	320	322	325	327
whole milk powder US$/t	3,286	3,500	3,500	3,500	3,500	3,500	3,530	3,550	3,580	3,610
skim milk powder US$/t	2,640	2,900	2,950	3,000	3,000	3,000	3,020	3,050	3,070	3,090
lamb leg UKp/lb	428	445	448	451	456	461	465	470	476	482
bull beef US¢/lb	244	243	244	245	246	248	249	251	252	254
log price index ##	166	165	166	166	167	168	169	170	171	172

	levels				% change			
Annual averages	**2023**	**2024(f)**	**2025(f)**	**2026(f)**	**2023**	**2024(f)**	**2025(f)**	**2026(f)**
Australian commodities index#	**320**	**294**	**266**	**275**	**-15.6**	**-8.1**	**-9.6**	**3.5**
Bulk commodities index#	**500**	**462**	**380**	**380**	**-10.2**	**-7.5**	**-17.8**	**0.0**
iron ore fines @ 62% USD/t	120	103	82	86	-0.5	-13.6	-20.3	4.9
LNG in Japan $mmbtu	14.8	12.9	11.2	11.8	-20.1	-13.4	-13.0	5.3
ave coking coal price (US$/t)	215	245	226	196	-10.2	13.6	-7.6	-13.3
ave thermal price (US$/t)	185	142	128	127	-45.1	-23.1	-10.4	-0.1
iron ore fines contracts (US¢ dltu)	160	154	123	127	-7.9	-4.0	-20.1	3.4
Premium low vol met coal (US$/t)	292	299	267	211	-21.5	2.7	-10.8	-20.9
crude oil (US$/bbl) Brent ICE	82	80	81	89	-15.8	-1.6	0.3	10.6
gold (US$/oz)	1,962	2,121	2,096	2,163	8.4	8.1	-1.2	3.2
Base metals index#	**201**	**185**	**181**	**200**	**-12.4**	**-8.3**	**-2.2**	**10.5**
copper (US$/t)	8,500	8,400	8,500	9,700	-3.7	-1.2	1.2	14.1
aluminium (US$/t)	2,300	2,100	2,100	2,300	-15.2	-8.7	0.0	9.5
nickel (US$/t)	21,600	16,300	14,600	15,000	-17.6	-24.5	-10.4	2.7
zinc (US$/t)	2,700	2,400	2,400	2,600	-22.2	-11.1	0.0	8.3
lead (US$/t)	2,100	2,100	2,000	2,100	-2.5	0.0	-4.8	5.0
Rural commodities index#	**141**	**125**	**123**	**137**	**-17.9**	**-11.5**	**-1.0**	**11.1**
NZ commodities index ##	**330**	**350**	**356**	**364**	**-12.4**	**6.2**	**1.7**	**2.4**
dairy price index ##	286	318	320	328	-18.8	11.0	0.6	2.6
whole milk powder US$/t	3,081	3,400	3,500	3,600	-20.8	10.3	2.9	2.9
skim milk powder US$/t	2,640	2,800	3,000	3,100	-30.9	6.1	7.1	3.3
lamb leg UKp/lb	431	442	461	483	-31.0	2.6	4.3	4.7
bull beef US¢/lb	256	244	248	254	-8.8	-4.7	1.7	2.4
log price index ##	160	166	169	172	-6.9	4.0	1.6	1.8

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 (13 Mar)	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 (13 Mar)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USD vs									
DXY index	102.96	103.1	101.5	99.8	98.6	97.6	96.6	95.7	95.4
JPY	147.58	147	144	141	138	135	132	130	127
EUR	1.0928	1.09	1.11	1.13	1.14	1.15	1.16	1.17	1.17
AUD	0.6606	0.66	0.68	0.69	0.70	0.71	0.72	0.72	0.73
NZD	0.6149	0.62	0.63	0.64	0.64	0.64	0.65	0.65	0.65
CAD	1.3493	1.34	1.32	1.30	1.28	1.27	1.26	1.25	1.25
GBP	1.2793	1.27	1.27	1.28	1.29	1.30	1.30	1.31	1.31
CHF	0.8776	0.87	0.87	0.87	0.86	0.86	0.85	0.85	0.85
ZAR	18.67	18.7	18.5	18.3	18.2	18.0	17.9	17.9	17.8
SGD	1.3323	1.33	1.32	1.32	1.31	1.30	1.30	1.30	1.30
HKD	7.8235	7.82	7.82	7.81	7.81	7.80	7.80	7.80	7.80
PHP	55.32	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.0
THB	35.76	35.0	34.5	34.0	33.5	33.0	32.5	32.0	31.5
MYR	4.6773	4.65	4.55	4.45	4.35	4.30	4.25	4.20	4.15
CNY	7.1824	7.20	7.10	7.00	6.90	6.80	6.70	6.70	6.50
IDR	15590	15500	15300	15100	14900	14600	14400	14300	14100
TWD	31.42	31.2	30.9	30.5	30.0	29.6	29.3	29.0	28.8
KRW	1311	1310	1300	1280	1260	1240	1230	1220	1210
INR	82.77	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	3.0	2.2	1.9	1.5	1.5	2.5	2.2	2.2	1.2
Dwelling investment	-2.2	6.7	2.9	1.6	0.8	2.8	4.1	-9.0	-10.6	2.4	1.1
Business investment	7.4	1.5	2.4	3.0	2.4	2.4	2.4	5.4	4.0	2.6	3.5
Public demand	3.3	5.8	4.2	2.8	1.6	1.2	1.2	-0.9	4.0	2.9	2.1
Domestic final demand	2.0	3.4	3.1	2.4	1.9	1.7	1.7	1.9	2.3	2.4	1.6
Inventories contribution ppt	-0.2	1.1	-0.2	-0.1	0.0	-0.2	-0.2	0.5	-0.4	0.0	-0.1
Net exports contribution ppt	0.1	0.0	0.3	0.1	-0.1	-0.1	-0.1	-0.5	0.6	0.1	-0.2
GDP	2.1	4.9	3.2	2.5	1.9	1.5	1.5	1.9	2.5	2.6	1.4
%yr annual chg	2.4	2.9	3.1	3.1	3.1	2.3	1.8				

Other macroeconomic variables

Non-farm payrolls mth avg	300	251	222	206	200	120	60	412	245	108	75
Unemployment rate %	3.5	3.6	3.7	3.7	3.8	3.9	4.1	3.6	3.7	4.3	4.6
CPI headline %yr	5.1	2.8	2.9	2.5	2.3	2.2	2.1	6.4	2.7	2.2	2.5
PCE deflator, core %yr	4.7	3.8	3.1	2.5	2.4	2.3	2.3	3.6	2.4	2.2	2.5
Current account %GDP	-2.7	-2.7	-2.7	-2.7	-2.6	-2.6	-2.5	-2.4	-2.4	-2.4	-2.4

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (13 Mar)	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	2.33	2.35	2.25	2.20	2.15	2.25	2.30	2.40	2.45
10 Year Spread to US	-182	-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	3.95	4.00	3.90	3.80	3.75	3.80	3.85	3.95	4.00
10 Year Spread to US	-20	-15	-10	-10	-5	-5	-5	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Mar)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
euro vs									
USD	1.0928	1.09	1.11	1.13	1.14	1.15	1.16	1.17	1.17
JPY	161.28	160	160	159	157	155	153	152	149
GBP	0.8542	0.86	0.87	0.88	0.88	0.88	0.89	0.89	0.89
CHF	0.9589	0.95	0.97	0.98	0.98	0.99	0.99	0.99	0.99
DKK	7.4566	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.1855	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
NOK	11.4955	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
sterling vs									
USD	1.2793	1.27	1.27	1.28	1.29	1.30	1.30	1.31	1.31
JPY	188.81	187	183	180	178	176	172	170	166
CHF	1.1227	1.10	1.10	1.11	1.11	1.12	1.11	1.11	1.11
AUD	0.5163	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	0.4	0.5	1.5
private consumption	-8.0	3.5	4.0	0.6	0.8	1.3
fixed investment	-8.4	3.6	3.5	1.0	1.3	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	0.3	1.2
France GDP	-7.5	6.4	2.5	0.7	0.8	1.2
Italy GDP	-9.0	8.3	3.7	0.9	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	0.1	0.6	1.5
memo: United Kingdom GDP	-10.4	9.6	4.5	0.4	0.5	1.3

Asia

China

Calendar years	2019	2020	2021	2022	2023	2024f	2025f
Real GDP	6.0	2.2	8.4	3.0	5.2	5.2	5.0
Consumer prices	2.9	2.5	0.9	2.0	–0.3	1.0	2.0
Producer prices	–0.5	–0.4	10.3	–0.7	–2.7	–0.2	1.5
Industrial production (IVA)	5.8	5.1	6.7	3.0	4.6	5.0	4.5
Retail sales	8.0	–3.9	12.5	–0.2	7.6	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	–4.6	3.0	4.0
Imports %yr	16.5	6.5	19.5	–7.5	–5.3	3.0	2.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (13 Mar)	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 (13 Mar)	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25	Jun–25	Sep–25	Dec–25
JPY	147.58	147	144	141	138	135	132	130	127
SGD	1.3323	1.33	1.32	1.32	1.31	1.30	1.30	1.30	1.30
HKD	7.8235	7.82	7.82	7.81	7.81	7.80	7.80	7.80	7.80
PHP	55.32	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.0
THB	35.76	35.0	34.5	34.0	33.5	33.0	32.5	32.0	31.5
MYR	4.6773	4.65	4.55	4.45	4.35	4.30	4.25	4.20	4.15
CNY	7.1824	7.20	7.10	7.00	6.90	6.80	6.70	6.70	6.50
IDR	15590	15500	15300	15100	14900	14600	14400	14300	14100
TWD	31.42	31.2	30.9	30.5	30.0	29.6	29.3	29.0	28.8
KRW	1311	1310	1300	1280	1260	1240	1230	1220	1210
INR	82.77	82.0	81.0	79.0	78.0	77.0	76.0	75.0	74.0

Source: Bloomberg, Westpac Economics.

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023e	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	1.4
Japan	-0.4	-4.2	2.2	1.0	2.0	0.7	1.0
Euro zone	1.6	-6.1	5.6	3.3	0.4	0.5	1.5
Group of 3	**1.7**	**-4.2**	**5.4**	**2.4**	**1.7**	**1.6**	**1.4**
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	2.1	1.3	2.2
New Zealand	3.1	-1.5	6.1	2.4	0.7	0.5	1.6
OECD total	**1.8**	**-4.6**	**5.7**	**2.8**	**1.5**	**1.4**	**1.5**
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	2.0	3.0	3.5
Malaysia	4.4	-5.5	3.3	8.7	3.7	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**	**4.8**	**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	7.7	6.5	6.4
Russia	2.2	-2.7	5.6	-2.1	3.0	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**	**4.5**	**4.0**	**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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