WESTPAC MARKET OUTLOOK MAY 2024.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

Markets have had an unsettled month, the data-flow sparking renewed doubts about the path of prospective monetary policy easing. In the US, persistent inflation and resilient growth – partly reflecting a more supportive fiscal backdrop – point to a delayed start for the FOMC easing cycle and a more measured initial pace. In Australia, a smaller than expected decline in inflation and a tighter starting point for the labour market have also shifted the policy outlook. While markets have flirted with pricing in additional tightening, the weak growth environment in Australia suggests its more a matter of 'time' than 'settings', i.e. policy is clearly restrictive but the RBA will need to see more evidence accumulate before it is confident enough about inflation to begin easing. The situation is more uncertain but, on balance, looks to be a bump in a slightly slower 'last leg' of the disinflation rather than a more fundamental shift in the trend. Developments in other advanced economies have been more in line with expectations. The ECB and Bank of England are facing fewer inflation impediments and poised to begin lowering rates next month. Meanwhile, China's first quarter data confirmed an improvement, with authorities focused on supporting growth momentum.

Australia: The economy is expected to expand by a subdued 1.6% this year, growth lifting to an around–trend pace of 2.5% in 2025. Much of 2023's weakness stemmed from the household sector and this remains the case in early 2024. Consumers have cut per capita spending in response to a 'triple squeeze' from rising living costs, higher interest rates and an increasing tax take. However, this extraordinary phase of declining real incomes is coming to a close, the drag from inflation already easing, interest rates steadying and fiscal relief on the way. There will be some offsets – from slowing population growth, a softer labour market and softer demand starting to show through in some other cyclically sensitive sectors – but a progressive easing in fiscal and monetary policy should see firmer spending pave the way for a gradual recovery in the second half of 2024 that carries into 2025.

Commodities: Prices rallied through April as iron ore lifted on speculation of further housing support in China while base metals continue to bounce back from their recent correction. There was a partial offset from a decline in crude oil prices as political tensions in the Middle East swing between escalation and de-escalation while there has been a more positive supply outlook and less constructive demand outlook.

Global FX markets: The US dollar continues to hold up against key crosses as inflation risks linger. While we anticipate rate cuts will commence before the end of 2024, supply-side inflation risks will linger, limiting the scale and pace of policy easing. The market's confidence in the US labour market and the success of US fiscal policy in driving private investment should also help to keep the US dollar above its long-run average level over the forecast period.

New Zealand: Economic growth has been soft, despite the boost from a lift in population growth. However, the locally-derived components of inflation have remained uncomfortably high with rising labour costs a major contributor. We expect a further rise in unemployment and a slowdown in wage growth this year. But while we wait for confirmation on this, the RBNZ will have little scope to offer the prospect of interest rate cuts.

United States: The April employment report was a welcome downside surprise for the market and the FOMC, not just because it supports the view that monetary policy remains effective but also because it points to a benign, 'soft landing' outlook for activity rather than recession. If, as we expect, this environment persists, the FOMC is likely to take its time in easing policy, holding off until September for the first cut, then continuing at a measured pace through 2025 and H1 2026. Inflation risks are likely to warrant policy remaining modestly restrictive.

China: Q1 GDP highlighted the success authorities have achieved through structural reforms targeting investment in high–tech manufacturing. Opportunities will continue to flow as the nation's new capacity is used to meet demand across fast-growing Asia and in domestic markets. If authorities are also successful in distributing the gains from trade across the nation then the growth pulse will become increasingly broad-based and resilient. This requires continued support however, with confidence amongst households and businesses critical to the short and long-term outlook.

Europe: The ECB highlighted the strength of monetary policy transmission as one factor contributing to their decision making process. Credit conditions are tight, especially for firms, resulting in weak loan demand. Inflation is meanwhile nearing target, prompting expectations for rate cuts starting in June and continuing until September 2025. The combined effect of easier monetary policy and a subsequent loosening of credit conditions should support an acceleration in activity growth from late-2024.

Summary of world GDP growth (year average)

Real GDP %ann*	2019	2020	2021	2022	2023	2024f	2025f
United States	2.3	–2.8	5.9	2.1	2.5	2.5	1.5
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	6.7
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	0.6	0.4	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'.

RBA on hold for longer …

RBA holds as expected …

As expected, the RBA Board left the cash rate target unchanged at 4.35% following its May meeting but strengthened its rhetoric around upside inflation risks. The statement highlighted that inflation is declining, but more slowly than expected. Services inflation is moderating only gradually, hampered by a labour market that the RBA now assesses to be tighter than previously thought. It is noteworthy that the more forward-looking indicators in the RBA's 'full employment suite' have eased more than lag indicators such as the unemployment rate.

… maintaining a restrictive policy stance.

Monetary policy is assessed as restrictive, and the current level of the cash rate is seen as supporting continued progress on getting inflation back into the 2–3% target. In the post-meeting media conference, the Governor confirmed that both a rate hike and holding rates unchanged were discussed at the meeting, with the Board ultimately deciding to hold.

RBA Board is not ruling anything in or out and is vigilant about upside risks …

The forward-looking parts of the press statement continue to emphasise that the Board is not ruling anything in or out in terms of future policy. While there have been upside surprises in recent inflation and labour market data, these occurred in a context of weak domestic demand and a trajectory for inflation that is still clearly downwards. It is noteworthy that the RBA commented in its May Statement on Monetary Policy that "recent data … suggest that economic growth since the start of the year has been a little softer than was expected at the time of the February Statement".

… which it already took some insurance against back in November.

The RBA Board would also be mindful that economic data can be noisy and it is important not to overreact to particular monthly or quarterly outcomes. Recall that an upside surprise on inflation in the September quarter was met with a rate hike at the November meeting, only for the December quarter data to surprise on the downside and forecast upgrades reversed out for the February 2024 round. In some respects, the Board had already taken out some insurance against upside surprises on inflation, and so did not need to do so again in May.

We expect the RBA Board to have seen enough to start cutting the cash rate from November …

Overall, we see the policy decision as poised. As the Governor noted in the media conference, it is hoped that rates will not need to raised further, but they will act if needed. Likewise, our house view is that the most likely outcome is unchanged rates until November. By that point, inflation should have declined enough for the Board to have comfort that a return to the 2–3% target range is in sight. This is a little later than our earlier view that the first rate cut would come at the September meeting. With the upside surprise in the March quarter, especially for trimmed mean inflation, it will take longer for inflation to decline far enough that the Board is confident enough of the disinflation trajectory to remove some of the current policy tightness.

… but further upside surprises would change the calculus.

Further upside surprises on inflation would change the calculus, however. While the outlook for inflation in the June quarter has been upgraded, mostly on higher petrol prices, further upside in that quarter and beyond would imply a different trajectory than the one the RBA Board is trying to achieve.

The economic context differs from that in the US …

Market pricing had recently been leaning towards the scenario that interest rates would need to increase in Australia. Recent upside surprises for US inflation lent weight to the idea that inflation, especially services inflation, would prove sticky and require further policy action to get under control. In our view, a straight-through read from the US situation to Australia's ignores some important distinctions between the two economies, including the weak consumer and more restrictive fiscal policy settings here.

… fiscal settings in particular.

With a fiscal situation in stark contrast to that in the United States, Australia's 10-year bond yield is likely to trade in line with the US 10-year over the forecast period and into the medium term, rather than at a premium as in the past. We therefore regard the 4.0% level as a floor for yields in Australia, even as policy rates fall.

Fiscal themes also part of higher rate structure medium term.

Our house view is that the global structure of interest rates will be somewhat higher in the period ahead than it was in the period between the Global Financial Crisis and the pandemic. Looser fiscal policy in the major economies – especially the United States – and the investment needs of the climate transition are reshaping the global balance of saving and investment in ways that the usual saving pools coming from Asia and elsewhere will not offset. Higher interest rates are the way these shifts will be equilibrated.

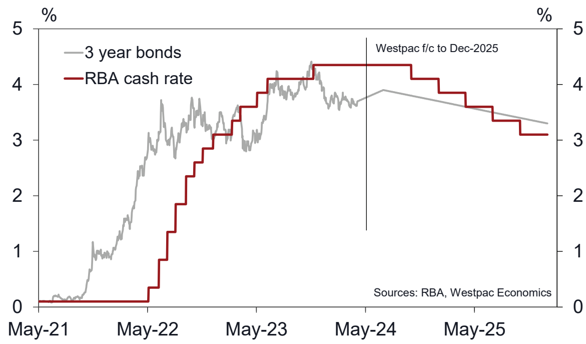
AUD steady, firming towards USD0.71 in 2025.

We also continue to expect the Australian dollar to largely track the US dollar, averaging USD0.66 through June and September quarters before beginning to edge higher from December quarter (USD0.67). Through 2025, a 4¢ appreciation is expected to USD0.71 and in 2026 there is reason to believe further modest appreciation will be seen. To this profile, risk appetite and the persistence of inflation are set to remain downside risks. Most of this is a USD story, though – the outlook for Australia's trade-weighted index remains a continuation of the broadly stable level it has been around for the past decade.

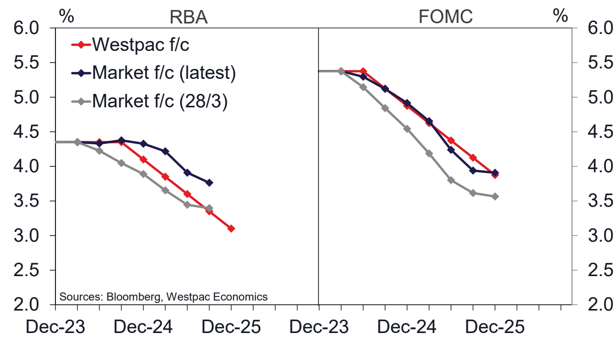
Luci Ellis, Chief Economist

... with policy restrictive but inflation taking longer to subside

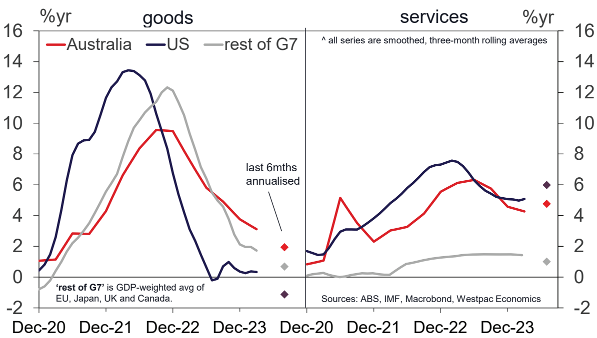
RBA cash rate and 3 year bonds



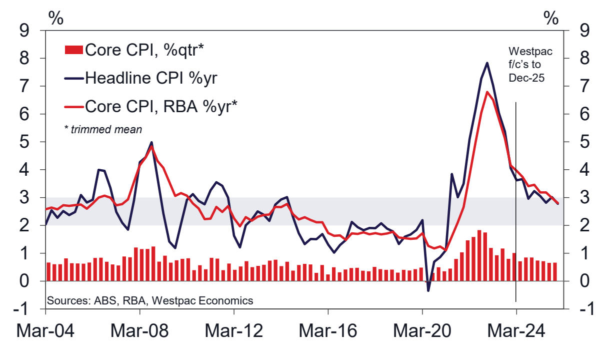
Market expectations for RBA & FOMC



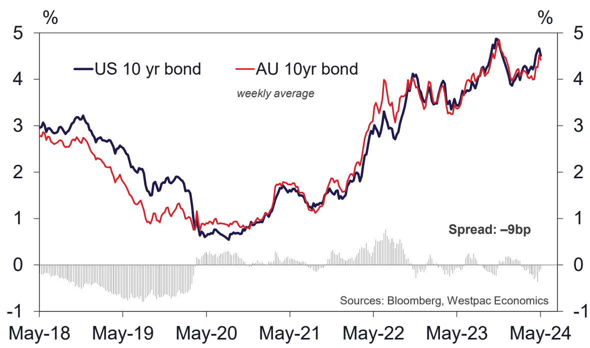
Pace of global disinflation



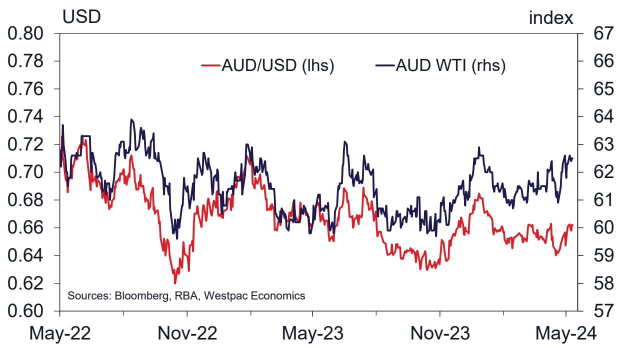
CPI inflation, trending back to target



Aussie 10 year bonds shadow US yields



AUD/USD & AUD TWI



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

Growth remains subdued ...

Australia's growth shifted to the slow lane in the second half of 2023 and remains there in 2024.

We continue to expect Australia's economy to expand by a subdued 1.6% over 2024, then recover to an around-trend pace of 2.5% over 2025. The weakness has been concentrated in domestic private demand and this has continued into the first half of 2024, with GDP growth expected to inch up to a 1.3% annual pace over this period. As fiscal and monetary policy become less restrictive over the second half of 2024, growth is expected to pick up a little further to a 2% annual pace.

Weakness stems from the household sector ...

Much of 2023's weakness stemmed from the household sector and this remains the case in early 2024. Consumption has been weak: after growth of only 0.1%qtr, 0.1%yr in the December quarter, indications for March quarter point to a similar result. Consumption per person has been falling in Australia, unlike in most peer economies – no wonder consumers are so downbeat.

For some time we have highlighted the income pressures faced by households. The triple squeeze of a rising cost of living, increasing tax take and higher interest rates has required them to respond by reining in consumption.

... extraordinary income pressures starting to ease, with more relief on the way ...

This extraordinary phase of declining real incomes in the face of a tight labour market is coming to a close. The drag from inflation has already started to ease, real household disposable income increasing marginally over calendar 2023. A further easing in inflation is expected through 2024. A period of steady rates will also help, although there is still some pass-through to come as remaining fixed-rate mortgages roll off (the current high level of interest rates also encouraging some households to save even more by making extra payments against their mortgages). More substantive relief for households will come from fiscal policy. To date, the squeeze from rising taxation as a share of income has been greater than from rising net interest payments. The Stage 3 tax cuts commencing on 1 July will go some way towards reversing this. Some other targeted cost-of-living support is also likely in the Federal Budget, due the week after we go to press.

... partly offset by a softer labour market.

Partly offsetting the relief from lower inflation and fiscal measures, the labour market is likely to soften from here, and wages growth has already peaked. Forward indicators of labour demand are softening, including job ads and business surveys. That said, the starting point for this slowdown is a little stronger than expected a few months ago, with the unemployment rate ticking up to just 3.8% in March and other lag indicators for the labour market also more resilient.

Home building down on a mix of weaker demand and disrupted supply ...

Outside of the household sector, signs of softer demand are also spreading to some other cyclically-sensitive areas. New home building contracted in the December quarter and we expect further weakness in 2024. As well as high interest rates, a high and rising cost base and ongoing uncertainty around delivery times are weighing on demand, even though the underlying need stemming from population growth has been high. The stock of dwellings under construction (starts that have yet to be completed) remained high at year-end and has been declining only slowly. This suggests much of the demand weakness has yet to play through to activity while also highlighting ongoing capacity constraints that will be difficult to address.

... a medium term recovery likely but uncertain.

Beyond 2024, the outlook for home building reflects the balance of competing forces. On the positive side, less restrictive monetary policy and rising housing prices in most cities are likely to support an emerging recovery in home building activity. Other arms of policy should also become more supportive as state and federal governments seek to achieve the ambitious targets agreed to in the Housing Accord. Against this, underlying demand pressures are likely to ease as the recent surge in population growth fades over this year and next. The net result is likely to be a gradual easing in rent inflation together with a recovery in building activity and moderately higher prices in the established housing market, but there is considerable uncertainty around this.

Businesses slowing investment and focusing on cost control and productivity ...

In contrast to the residential sector, activity in non-residential construction has held up, and opportunities in energy transition, resources, infrastructure and elsewhere remain. More broadly though, the business sector is adjusting to slower demand. Growth in investment has slowed, and indications from business surveys, the RBA's liaison program and Westpac's own customer data are that firms are increasingly focused on cost control as it becomes harder to pass on higher costs into prices.

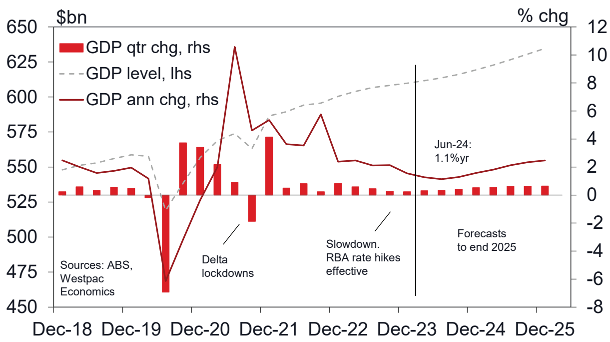
... easing some of the pressure on prices.

Weak consumer demand has already cooled inflation in some categories, particularly for discretionary spending. This has reinforced the decline in goods inflation as pandemic-related disruptions eased. Inflation remains high overall, though, and upstream cost inflation is still an issue for many firms. Business pricing decisions in response to soft demand will help achieve lower inflation, both directly and indirectly as cost control measures work to lift productivity from current low levels. Business investment should recover once policy relief takes hold and growth in domestic demand picks up through 2025, supported by business balance sheet strength.

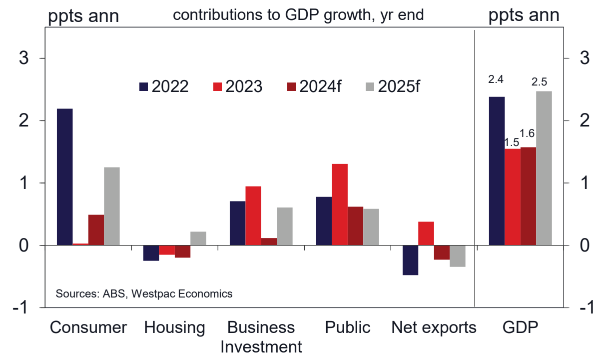
Luci Ellis, Chief Economist

... but will start to see a gradual recovery as policy eases

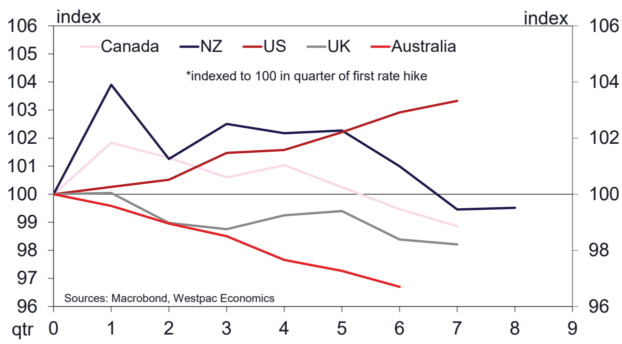
Australian economy, growth slows to a crawl



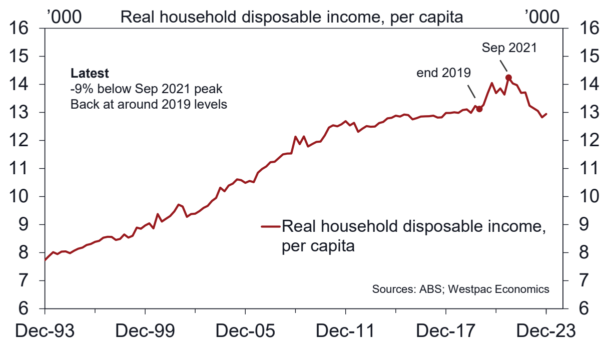
Australia: the growth mix



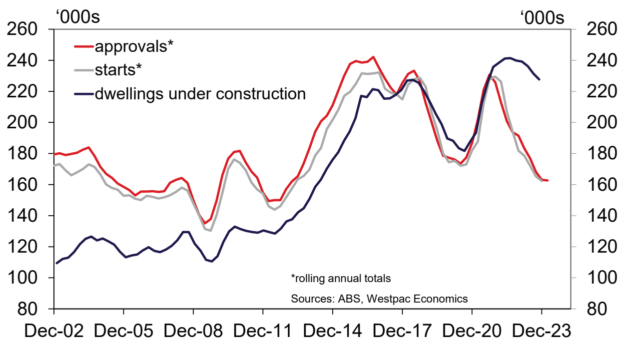
Consumption per capita: Australia vs peers



Household income steadies after big declines



Dwelling approvals, starts, pipeline



Policy influences: Australia vs peers

	Australia	US	Euro Area	UK	Canada	NZ
Inflation:						
– price rise, %*	16.5	18.7	18.4	21.0	15.9	20.2
Monetary tightening (ppts):						
– policy rate,	4.25	5.25	4.50	5.15	4.75	5.25
– avg mortgage rate^	3.30	0.49	n.a.	1.37	2.14	3.22
Fiscal policy, primary balance#:						
– %GDP 2023	+0.2	–5.8	–2.0	–3.6	–0.1	–2.3
– ppt chg, 2022-23	+1.6	–4.5	+0.2	–2.6	+0.2	+0.4

* over period when annual inflation > 4%; ^ average rate on outstanding loans (figure for US is up to Dec 2023)
# general government primary balance, including all levels of govt, excluding net interest payments.

Source: Macrobond, IMF, Westpac Economics

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Iron ore rallies despite robust supplies ...

Our commodity index rallied through April ...

Overall, April was a positive month for commodities with the Westpac Export Price Index rallying 7.1% since the last report. Iron ore is leading the charge with a solid 17.3% gain in the month supported by thermal coal (11.5%) and met coal (2%) that were only partially offset by a –6.5% fall in crude oil prices. There was also a solid rally in base metals with our Metals Index up 7.6% in the month with nickel (+14.6%) and zinc (+14.6%) leading the charge, all important copper not too far behind (+8.2%) while aluminium put in a solid performance (+5.7%). This month we have left our forecasts broadly unchanged with only minor marking-to-market for some near term forecasts.

... as iron ore lifted on speculation of further housing support in China ...

We continue to hold the view that near term geopolitical issues have been supporting crude oil prices. As supply continues to outpace demand (the IEA has forecast a soft global demand growth estimate for 2024 of 1.2 million bpd), we expect crude prices to soften back towards US$78/bbl in early 2025.

For the near-term, we see crude capped around US$85/bbl as geopolitical developments remain at the fore. Israel's war cabinet voted to "continue operations in Rafah to exert military pressure on Hamas in order to promote the release of our hostages and the other goals of war". Scenes of tanks rolling through the Rafah crossing would certainly add to risks of a wider conflagration. Against this, there have been signs that we are moving incrementally towards an agreement between Israel and Hamas. Around demand weakness, Wood Mackenzie is forecasting this year to see the slowest growth for gasoline demand since 2020 (+340k bpd vs. +700k bpd in 2023), as China nears peak transport fuel demand while the US has passed peak demand.

... while base metals continue to bounce back from their recent price correction.

OilChem (a provider of Chinese energy and chemical information and prices) reported that China was issuing a second quota for fuel exports as the nation faces a ballooning surplus amid faster adoption of clean energy vehicles. In addition, OilChem has also reported authorities had given permission to export 14 million tonnes of diesel, gasoline and jet fuel following the first batch of 19 million tonnes. That compares with 9 million tonnes for a second batch last year and 18.99 million tonnes for a first batch, representing a year-to-date rise of 18%. ADNOC (the Abu Dhabi energy group) confirmed it has 'officially' raised its production capacity from 4.65m bpd to 4.85m bpd (the by-product of a five year $150bn spending plan announced in 2022). This is in conflict with the current OPEC production quotas so there will be much in interest in the June 1 OPEC meeting in Vienna to see how this tension is reconciled.

Offsetting this in part has been the decline in crude oil prices ...

For base metals, we are still not convinced of the strength in the current rally, particularly for copper as it eye's a US$9,500-10,000/t range. Firstly, our 'rough' estimates suggests the combined raw copper production of the top three producers (Chile, Peru and the Democratic Republic of Congo) is up 2.5%yr over January-February with a 5% surge in February alone. This is a far more positive start to the year than had been expected. In terms of refined copper production, Chinese production was up 12.4% in the year to March and 35% higher in the first quarter compared to the Q1 average over the last five years. The Yangshan physical premium paid on imported refined copper into China briefly hit zero last week for the first time on daily data back to 2017, pointing to "extremely weak demand for imported cargoes". Further, Bloomberg reported that China's copper exports are set to hit the highest in two years as "beleaguered smelters ship out metals to benefit from a powerful rally in global prices".

... as geopolitical tensions swing between escalation and de-escalation ...

Turning to iron ore, we continue to expect any near-term strength to be capped around US$120/t though we see few reasons to expect a sudden reversal. Inventories of iron ore at Chinese ports are currently at a two year high and more than one standard deviation above seasonal averages. In March, Chinese steel exports surged 25% year on year to 9.88 million tonnes, the strongest seen since July 2016. The US, Brazil, Chile and Mexico have all announced tariffs and/or quotas on Chinese steel, putting Chinese 'dumping of surplus steel' firmly on the political agenda. However, it has been reported that at a recent Politburo meeting, it was suggested that officials are researching ways to deal with stock of unsold properties in China, further raising optimism of a turnaround in the construction industry and triggering a huge rise in mainland property stocks.

... with a more positive supply outlook and less constructive demand outlook.

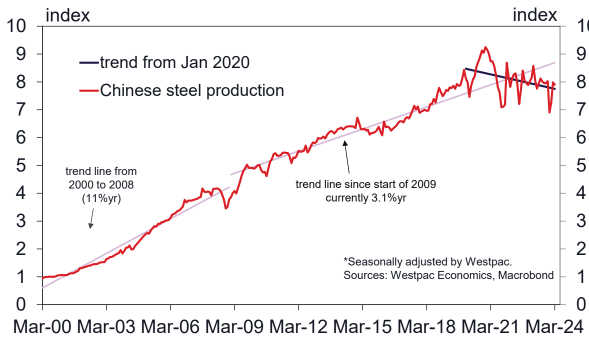
While all the above will be supportive of near term pricing, supply is rising and demand is softening. To March, imports of iron ore are up 5.4% year-to-date while Chinese ore production is up 20% year-to-date. We also note the very soft start to China's steel production with pig iron production down –2.4% year-to-date in March while crude steel production was down 3.5%. As such, we hold to the view that iron ore prices will soften in the second half of 2024 to US$85/t by the end of the year.

Thermal coal prices reached unprecedented levels in 2022 after Russia invaded Ukraine, due to materially higher gas prices, trade flow disruption and supply disruption in Australia, Colombia, South Africa and Russia. Despite the record high prices, coal capex remains depressed with the excess cash flows being used to deleverage or being returned to shareholders. Gas prices have eased, trade flows have largely adjusted and prices are back to pre-war levels.

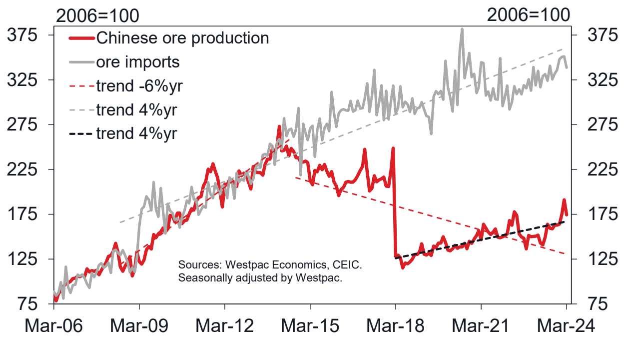
Justin Smirk, Senior Economist

... while crude softens on a more optimistic view of supply

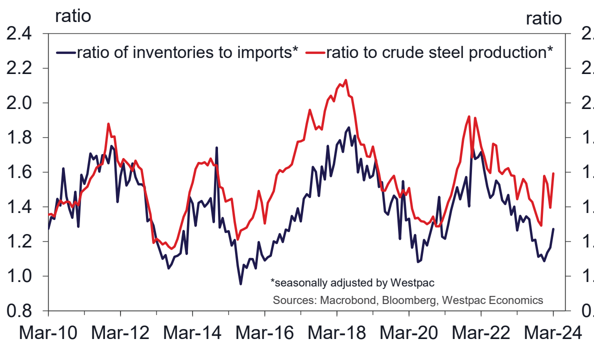
Chinese steel trend decline since 2020



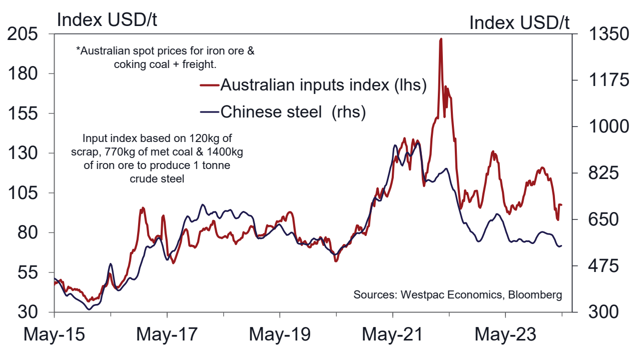
Chinese ore imports climbing back to 2020 peak



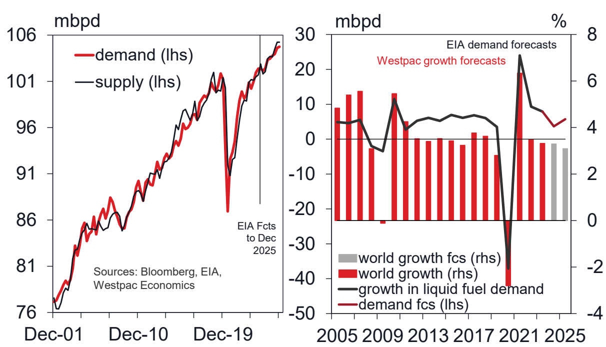
Chinese ore inventories at ports



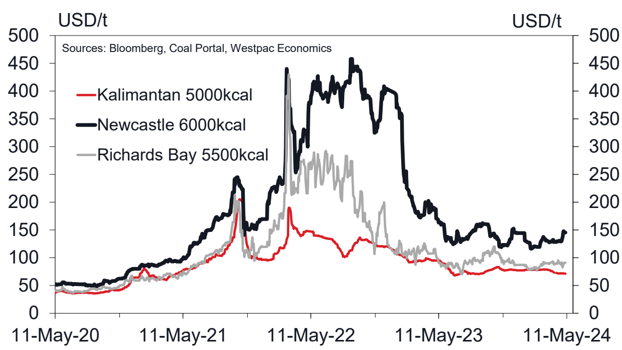
Steel inputs vs. Chinese steel prices



Crude market tightness set to fade into '25



Thermal coal prices



US dollar continues to benefit …

US dollar continues to tread water …

The US dollar has again kept to a very narrow trading range this month as the market holds on to the prospects of rate cuts before the end of 2024 despite lingering inflation risks. Chair Powell's soft guidance after the May FOMC meeting – that three or more months of good data was necessary to justify the first cut – sets the scene for a September decision, provided the data cooperates. However, in the lead-up to September and through the cutting cycle, supply-side inflation and structural strength in the US labour market are set to limit both the pace and scale of easing.

… as markets hold on to rate cut hopes despite inflation risks.

With the first cut pushed out from June to September and the FOMC expected to take their time thereafter, we have stretched out our US dollar profile, the DXY index now expected to only edge lower through mid-year to around 104.4 at September, then 103.3 by year-end. It is only in 2025, once the US rate cutting cycle is well underway and in sync with the ECB and Bank of England, that we see the US dollar consistently losing altitude.

US dollar to remain above average medium term as supply side pressures persist.

By mid-2025, the DXY index is seen at 101 and, come December, circa 99. Even as the FOMC's cutting cycle concludes at 3.375% in mid-2026, we still expect the US dollar to remain materially above long-run average levels.

The forecast end-point for the FOMC's cutting cycle explains why we anticipate the US dollar will tend towards but not trade through its long-run average. Simply put (and as detailed on p16), while policy has largely contained demand-driven inflation, supply side pressures are expected to persist.

Key are capacity constraints across the US economy …

US housing supply will remain tight, biasing up rental growth. And, while investment driven by the Inflation Reduction Act is in full swing, it is concentrated in manufacturing, with energy production and logistics lagging. These developments point to upside price risks for both intermediate and finished goods into the medium to long-term.

… and a relatively tight labour market.

It is also probable that the US labour market will remain relatively tight over the period, skewing wage and inflation expectations up and bolstering growth expectations for the economy overall. The large US Federal deficit is also unlikely to get in the way of government support for investment regardless of who wins November's presidential and congressional elections. The fiscal position and the confidence in growth it has fostered is a key point of difference for the US dollar versus other developed-world currencies.

Euro and Sterling are expected to lift …

The modest US dollar downtrend is associated with a similarly-paced rise in Euro and Sterling. EUR/USD and GBP/USD are expected to rise from USD1.08 to USD1.10, and from USD1.25 to USD1.28 respectively by end-2024, then to USD1.14 and USD1.31 respectively before end-2025.

… but be outpaced by Japan's Yen …

Against the circa 6% appreciation forecast for Sterling and Euro, the 10% appreciation expected for Japan's Yen seems large, particularly as Japanese growth and inflation are likely to trail developments in other key developed markets. Justification for the forecast instead comes from the scale of the decline seen in Yen in recent years.

… reflecting its extraordinarily weak starting point.

Having averaged JPY112 during the five years that preceded the pandemic, USD/JPY has recently traded between JPY150 and JPY160 and, at times, threatened to the top side of that range. A 10% decline from spot will only leave USD/JPY near JPY140, some 25% above its 2015-19 average. Such an out-turn is consistent with our expectation that Japanese wage growth will slow in coming years, putting at risk the BoJ's inflation target (to the downside) and likely limiting policy normalisation over this cycle to 0.0-0.5% versus 1.0% or more.

Asia continues to hold great promise, but its heterogeneity will …

Asia ex-Japan remains a region full of promise, yet it is unlikely to quickly show in FX given uncertainty over protectionism from the West and debate over the breadth and timing of government support for investment in each nation. Given its growth momentum, demographic opportunity and the positive sentiment flowing from recent equity market gains, India is expected to be the strongest performer in the region, USD/INR declining from INR83.5 currently to INR74 at end-2025, an 11% appreciation.

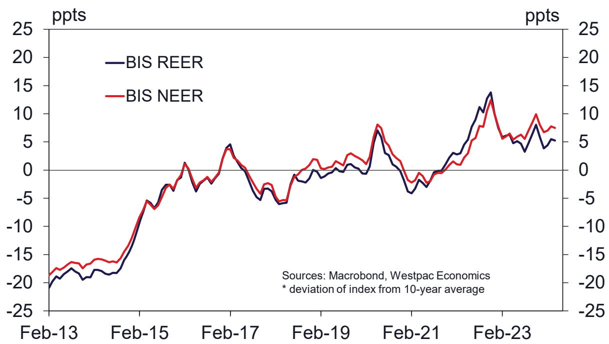
… remain a headwind for the region's currencies.

For China, angst over the health of its banking system and property sector will act as an additional headwind for the Renminbi for the foreseeable future, in addition to concerns around protectionism and fiscal policy. Bilateral gains for the Renminbi against the US dollar are likely to be capped by the broad dollar trend, circa 6%, USD/CNY moving lower from CNY7.22 today to CNY6.80. If we are right about USD/CNY tracking the US dollar index over 2024 and 2025, the Renminbi is likely to hold steady or depreciate marginally on a trade-weighted basis. This is a support China's industry does not need but will happily accept.

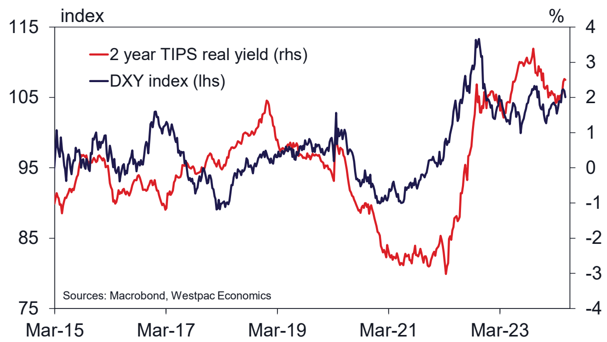
Elliot Clarke, CFA, CAIA, Senior Economist & **Illiana Jain, Economist**

… from lingering risks

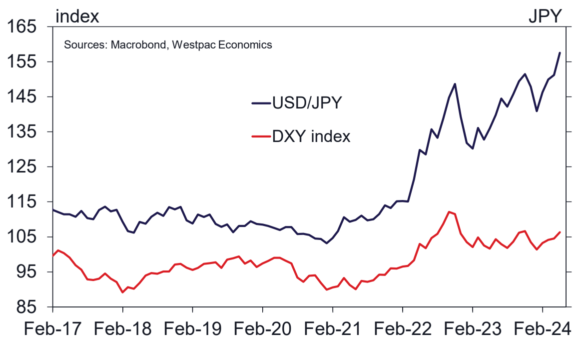
USD historically elevated on broad basis



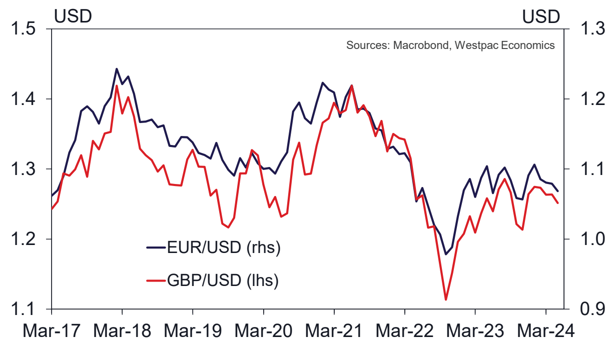
But US real yields support for USD wavering…



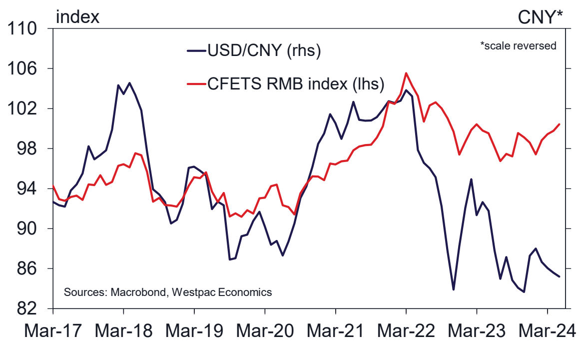
… except against Yen given BoJ's patience



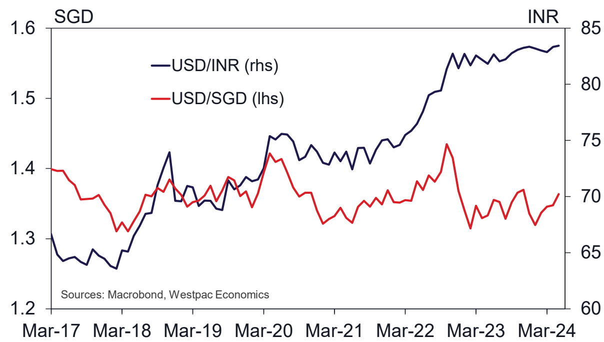
EUR negatives should fade in 2024



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



Locally-driven inflation remains high ...

Mood on the New Zealand economy has soured again.

The New Zealand economy is stuck in the doldrums, growth set to remain sluggish even with a strong population boost. While high-frequency indicators of business activity showed some signs of improvement in the early part of this year, the mood has clearly soured again since then. The manufacturing and services PMIs were both back below 50 in March, consistent with a contraction in output, and the ANZ business confidence survey fell for the third straight month in April, effectively giving back all the gains it had made since last year's election.

Despite the soft activity outlook, firms' inflation expectations and pricing intentions have stayed elevated. The perceived need to pass on cost increases is an ongoing feature of business confidence surveys and in our own discussions with customers.

Home-grown side of inflation has exceeded forecasts.

High inflation is now largely a product of local conditions. Last month we noted that the non-tradables component of the March quarter CPI was set to exceed the Reserve Bank's estimate. The outcome beat even our own forecast, rising 1.6% for the quarter, with the annual rate falling only slightly to 5.8%. A larger-than-expected fall in tradables prices helped to bring the overall inflation rate down from 4.7% to 4.0%, but this source of disinflation is not dependable over the longer run.

The non-tradables component of the CPI is weighted more towards services, where labour is often the major input cost. This highlights that an easing in labour market conditions is key to bringing overall inflation under control.

Labour market pressures are easing, albeit gradually.

That adjustment in the labour market is indeed happening, though only gradually to date. The unemployment rate rose to 4.3% in the March quarter, putting it a little more than a percentage point above the record lows reached two years ago. Employment has continued to rise in that time, but it is no longer keeping pace with the rapid migration-led growth in the working-age population.

Wage growth still elevated at this late stage of the cycle.

Despite this shift in the balance of labour demand and supply, wage inflation has stayed elevated. Part of this is due to public sector pay settlements, which were agreed last year and staggered over several periods. But the pressure on wages spreads well beyond that. The share of jobs experiencing a pay rise remains high (and in fact has picked up again in the last couple of quarters), and while the average size of those increases has moderated, they are still well above what has been historically consistent with the Reserve Bank's 2% inflation target.

We expect a more meaningful softening in the labour market over this year.

We expect the unemployment rate to rise further, reaching a peak of 5.4% next year. The labour market tends to be one of the more lagging aspects of the economic cycle, and high interest rates are likely to continue to suppress demand over the next year. Household budgets are still being squeezed as many roll on to higher mortgage rates, although the extent of the increases is slowing. We estimate that the effective average rate paid by borrowers will rise another 30bps over the next year, reaching a peak of 6.3%.

Softening domestic demand should in turn should see a more meaningful slowdown in wage growth in the year ahead. The government's influence on pay rates is also likely to veer more towards restraint this year (the minimum wage increase has already been set at 2%, well down from the 6–7% increases of previous years).

The prospect of interest rate cuts is still some way off.

While we wait for confirmation of an easing in those home-grown inflation pressures, the RBNZ will have little room to hold out the hope of interest rate cuts. We continue to expect the OCR to be held at its current level of 5.5% until early next year. Financial markets have moved somewhat closer to our view, with the first fully-priced rate cut coming in the October review this year (compared to the August review a month ago). That shift in market thinking has been prompted as much by overseas developments as by local ones – upside surprises for inflation in the US and Australia have also led to a reconsideration of how soon rate cuts will occur.

The shape of this year's Budget remains an unknown.

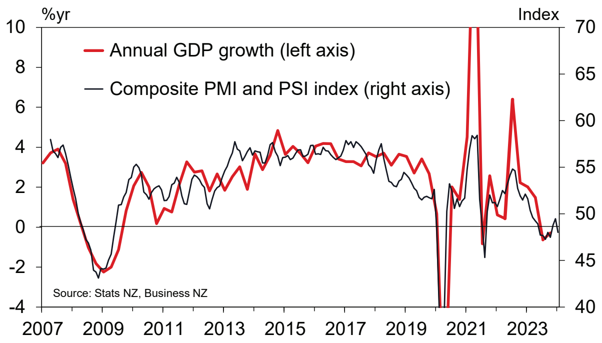
We expect the RBNZ to largely maintain its previous messaging in its Monetary Policy Statement later this month. One complication the RBNZ faces is that it will be deliberating just before the 2024 Budget, which will be unveiled on 30 May. The Government remains committed to delivering personal tax cuts, and funding them out of cost savings elsewhere. But the slowing economy means that tax revenue is now falling well below forecasts, and there is no clear path towards a return to operating surpluses in the years ahead.

Michael Gordon, Senior Economist

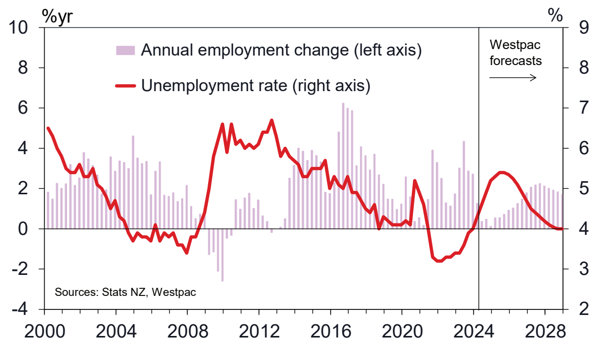
NEW ZEALAND

… awaiting a further adjustment in the labour market

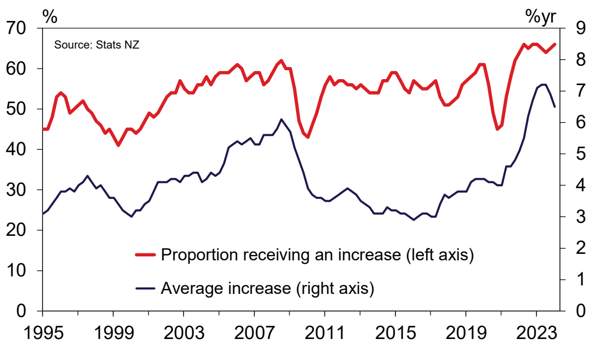
Real GDP vs activity indicator



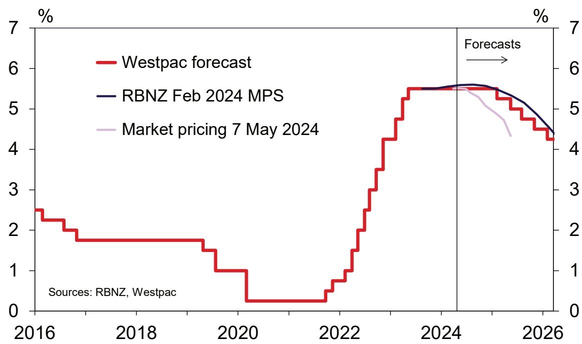
Labour market forecasts



Distribution of wage and salary increases



Official Cash Rate forecasts



	2023							2024			
Monthly data	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
REINZ house sales %mth	3.6	3.8	–6.4	7.2	–0.9	–11.6	3.3	4.4	–4.0	17.9	–2.1	–
Residential building consents %mth	–2.8	2.1	–5.1	–7.2	–4.5	8.5	–10.5	3.7	–9.3	16.0	–0.2	–
Electronic card transactions %mth	–2.3	1.5	–1.2	0.8	–0.3	–0.4	0.8	–0.6	2.0	–2.0	0.1	–
Private sector credit %yr	3.0	3.0	2.8	2.6	2.4	2.5	2.1	2.2	2.4	2.5	2.7	–
Commodity prices %mth	0.4	–1.7	–2.6	–2.9	1.4	2.8	–1.3	2.4	2.1	3.6	–1.3	0.5
Trade balance $m	–943	–674	–1473	–791	–1053	–825	–835	–789	–364	–861	–224	–

Quarterly data	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**
Westpac McDermott Miller Consumer Confidence	99.1	92.1	78.7	87.6	75.6	77.7	83.1	80.2	88.9	93.2
Quarterly Survey of Business Opinion	–2	–5	–1	2	–15	–9	–13	–19	7	–23
Unemployment rate %	3.2	3.2	3.3	3.3	3.4	3.4	3.6	3.9	4.0	4.3
CPI %yr	5.9	6.9	7.3	7.2	7.2	6.7	6.0	5.6	4.7	4.2
Real GDP %yr	5.6	4.6	0.7	2.5	2.4	2.7	3.0	1.3	0.6	–
Current account balance % of GDP	–5.8	–6.6	–7.9	–8.3	–8.8	–8.2	–7.6	–7.4	–6.9	–

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

First cut by the FOMC in September ...

FOMC's balanced response to recent upside surprises ...

Following a run of data pointing to inflation being more persistent, this month's updated views of Chair Powell and the FOMC were eagerly awaited. In the event, the May meeting guidance was balanced, the FOMC again emphasising it will decide meeting by meeting on the appropriate timing of rate cuts.

... recognises unwanted inflation and associated risks ...

Very clear in Chair Powell's remarks though is that FOMC members will need to see a number of months of good progress on inflation before considering a cut. Given recent momentum, the additional three months of data to come ahead of the July meeting are unlikely to be enough. Accordingly, we now see September as the most probable timing for the first cut, followed by one cut per quarter until June 2026, when the fed funds rate troughs at a modestly contractionary 3.375%.

... but shows continued belief in the effectiveness of policy.

The FOMC is not ignoring the recent momentum in inflation. In the statement, the Committee noted "in recent months, there has been a lack of further progress toward the Committee's 2 percent inflation objective". However, Chair Powell made clear in the press conference they still expect inflation to move down over the year and consider the stance of policy "sufficiently restrictive". It is evident that the Committee is focused on when to cut, not whether.

Cyclical momentum and risks favour measured approach to rate cuts ...

In gauging the most likely timing of a first cut and the pace thereafter, the persistence of activity and labour market momentum will prove key. Our baseline view is that momentum holds up around trend for activity and above zero for job growth. Wages growth will remain solid in such an environment and risks skewed upwards. Recall also that most US borrowers are insulated from rate hikes and household wealth is still rising. If this baseline plays out, the FOMC are likely to take its time easing policy.

... with careful and constant assessment of risks.

Conversely, if the labour market suddenly deteriorates, with employment not merely slowing but instead contracting and the unemployment rate rising materially above 4.0%, expectations for wages and demand will sour, justifying an earlier and potentially more rapid policy easing. While this should be seen only as a risk scenario, it cannot be ruled out completely. Surveys such as the ISMs have, on average, been pointing to net job losses for the past six months, and the services measure jolted lower in April to a historically weak level.

Caution to remain a feature of the easing cycle ...

Jumping ahead and considering our forecast end-point for this cycle of 3.375%, two points are worthy of note. First, we expect FOMC policy to be effective in bringing inflation back around target and hence expect a material easing over the period, a cumulative 200bps. But second, Westpac continues to see a need for restrictive policy into the medium-term, with 3.375% materially above the FOMC's longer run end point of 2.6%.

... as supply-side inflation pressures persist.

We anticipate modestly restrictive policy will prove necessary into the medium-term because the supply-side inflationary pressures evident across the economy, most notably in rents and house construction costs, are likely to persist. Further, with US fiscal policy to remain highly expansionary, regardless of which party wins in November, investment is also likely to be sustained across the economy, and with it demand for resources and financial capital.

Higher-for-longer rates and US fiscal reality to anchor the long-end ...

The latter point is important for both Treasury yields and the US dollar. Over the course of the next two years, we forecast the US 10-year yield will retreat to around 4.0% as inflation declines. But that level is expected, on average, to prove the low point. We then see the 10-year yield edging higher during 2026. The result is a swing in the cash/10-year spread from around -80bps to +60bps at end-2025 and rising. Underlying this view is the financial reality that the US Government faces. If fiscal policy remains expansionary and interest rates elevated, then a meaningful improvement in the US fiscal position is highly unlikely. Indeed, risks are likely to remain skewed towards a further deterioration.

... and support the US dollar to the end of the forecast horizon ...

For the US dollar, while the extraordinary support from actual and expected rate differentials has abated somewhat in 2024, with the ECB and Bank of England now expected to cut sooner than the FOMC and likely by a similar amount over two years, aid for the US dollar from this factor is expected to remain at or above-average over the period.

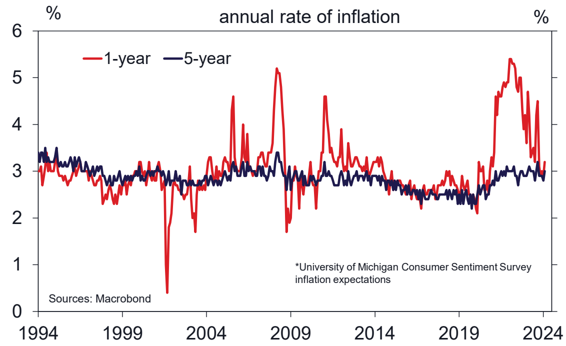
...taking it towards long-run average levels but not through.

Around the time of November's elections, policy expectations should also be constructive for US growth. Consequently, we have flattened out our US dollar profile, seeing DXY only edge lower from the 105-107 range recently traded to 103.3 end-2024 and 99.0 end-2025. Some further weakening is likely in 2026, but it is more probable that the US dollar will remain above long-run average levels than break through. It is inevitable that, from time to time, the US dollar will run ahead of the data to the downside as it did to the upside during the hiking cycle. But the underlying strength of the US economy and the dollar's position as a global safe-haven are likely to limit the duration of any abrupt shifts in pricing.

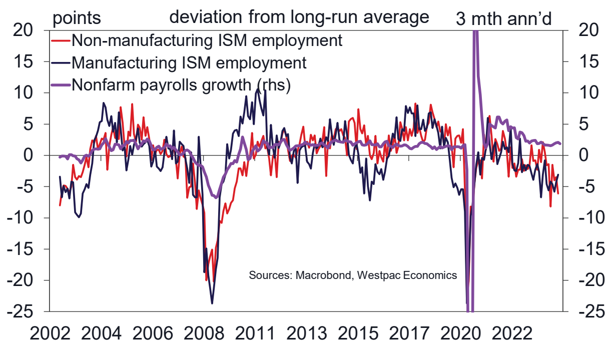
Luci Ellis, Chief Economist and Elliot Clarke, Senior Economist

… at the earliest, but focus still on when to cut not whether

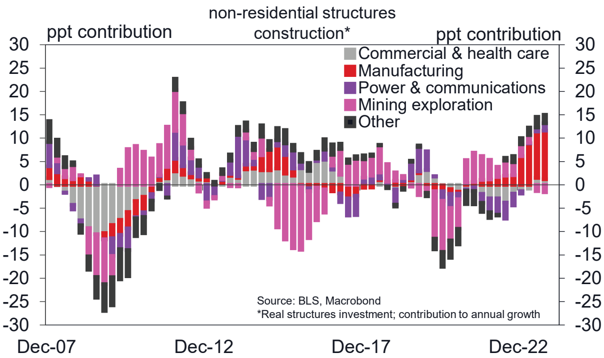
Inflation expectations coming into line



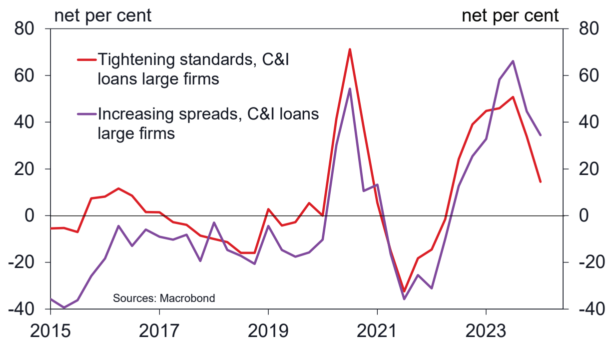
ISMs point to downside employment risks



Manufacturing receiving support from Gov't



Credit standards are being tightened



	2023								2024			
Monthly data	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
PCE deflator %yr	4.4	4.0	3.2	3.3	3.3	3.4	2.9	2.7	2.6	2.4	2.5	–
Unemployment rate %	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	278	303	240	184	210	246	165	182	290	229	275	–
House prices* %yr	-1.7	-1.8	-1.3	0.1	2.2	4.0	5.0	5.5	6.2	6.6	–	–
Durables orders core 3mth %saar	–0.2	2.2	2.9	-1.7	0.4	1.4	0.7	0.4	-1.1	0.1	–0.6	–
ISM manufacturing composite	47.0	46.6	46.4	46.5	47.6	48.6	46.9	46.6	47.1	49.1	47.8	50.3
ISM non-manufacturing composite	52.3	51.1	53.6	52.8	54.1	53.4	51.9	52.5	50.5	53.4	52.6	51.4
Personal spending 3mth %saar	3.0	2.5	4.5	5.1	5.4	6.8	5.1	5.5	4.8	4.7	6.2	–
UoM Consumer Sentiment	63.7	59.0	64.2	71.5	69.4	67.8	63.8	61.3	69.7	79.0	76.9	79.4
Trade balance USDbn	-72.2	-66.2	-63.5	-65.0	-58.9	-61.9	-65.2	-62.7	-64.2	-67.6	-68.9	–

Quarterly data	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24f**
Real GDP % saar	2.2	2.1	4.9	3.4	1.6	2.4
Current account USDbn	-212.7	-215.0	-196.4	-194.8	–	–

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

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.

China starting to show the benefits …

China's economy materially outperformed in Q1 …

China's economy outperformed the market's expectations in Q1 2024, its annual GDP growth rate accelerating from 5.2% to 5.3% against a consensus forecast of 4.8%. The quarterly growth estimate of 1.6% equates to an annualised gain of more than 6% and occurred despite an upward revision to the December quarter, from 1.0% to 1.2%.

… but many continue to doubt the sustainability of growth.

We remain of the view that the economy can modestly exceed the official 5.0% growth target in 2024. Most market participants, in contrast, continue to expect it to fall short with growth expected to deteriorate sharply from Q2.

The composition of growth, as indicated by the charts right and accompanying monthly activity data below, highlight why many continue to doubt the sustainability of China's growth. Property investment remains unquestionably weak, Q1 2024 down 9.5% on Q1 2023. An unfavourable base effect is at play, but the month-on-month detail for house prices is also not indicative of nascent growth in the sector – new and secondary house prices falling 0.3% and 0.5% respectively in March, broadly in line with the average monthly decline seen through the second half of 2023.

Weakness in property and uncertainty over the consumer …

The variable timing of lunar new year presents significant challenges in interpreting annual growth in retail sales and industrial production January through March, so it is best to focus on the year-to-date figures. At 4.7% and 6.1% respectively, both were below the market consensus and February's outcomes in March. Like property investment, base effects are at play, but at least as significant is lingering uncertainty over income and wealth prospects.

… are the cause for concern, while the promise of high-tech industry is still to be fully understood …

Where there is both immediate momentum and lasting opportunity however is in China's industrial capacity. Growth in high-tech manufacturing investment may have slowed to a fraction of it's 2023 pace, but with this sector now almost as large as property construction relatively and still growing at more than 11% year-to-date, it's ongoing contribution to aggregate growth is material. It is also worth emphasising that, compared to property investment, high-tech manufacturing investment tends to create more enduring income gains for both businesses and households.

… particularly the opportunities in Asia.

Critical to taking advantage of these capacity gains is trade. While China's trade surplus narrowed through 2023, as of Q1 2024 it remains more than twice as large as 2019 year-to-date, prior to the pandemic. Behind this uplift is Asia's economic development, which is both rapid and persistent.

China's authorities intend for this export income to permeate through the economy and, at the same time, for domestic production to take share from imports. The consequence is higher national income and the accumulation of wealth. The risk however is two-fold: 1) Chinese industry is susceptible to foreign competition and protectionism; and 2) if the proceeds from trade are not distributed equitably domestically, consumption and investment will disappoint.

Policymakers have significant capacity to manage risks.

As a nation, China has ample capital and policy instruments at its disposal to work through the adverse consequences of reform and weak foreign investor demand. Maintaining stability in the currency on a trade-weighted basis is one such instrument. Domestically, it is also the case that the Central Government and local authorities have the tools to manage and support liquidity and credit in all circumstances, and to clear the way for investment in priority sectors. This will help to mitigate the inevitable bumps and challenges structural reform creates and, over time, maximise growth opportunities.

Elliot Clarke, CFA, CAIA, Senior Economist

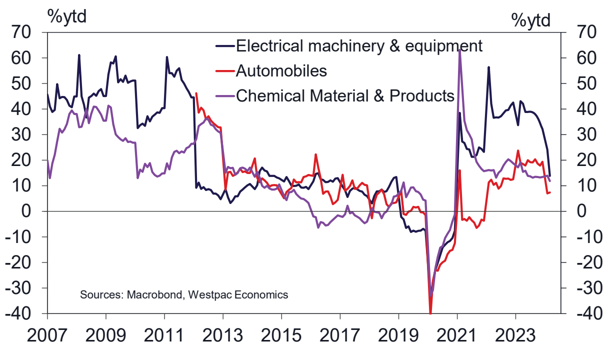
	2023								2024			
Monthly data %yr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Consumer prices – headline	0.20	0.00	–0.30	0.10	0.00	–0.20	–0.50	–0.30	–0.80	0.70	0.10	–
Money supply M2	11.6	11.3	10.7	10.6	10.3	10.3	10	9.7	8.7	8.7	8.3	–
Manufacturing PMI (official)	48.8	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1	50.8	50.4
Fixed asset investment %ytd	4.0	3.8	3.4	3.2	3.1	2.9	2.9	3.0	3.0	4.2	4.5	–
Industrial production (IVA)	3.5	4.4	3.7	4.5	4.5	4.6	6.6	6.8	6.8	7.0	4.5	–
Exports	–7.6	–12.4	–14.3	–8.5	–6.8	–6.6	0.7	2.2	8.2	5.5	–7.5	1.5
Imports	–5.3	–7.0	–12.1	–7.2	–6.3	3.0	–0.7	0.2	15.3	–8.1	–1.9	8.4
Trade balance USDbn	65.1	69.4	79.3	67.2	75.2	56.0	69.3	75.1	85.5	39.6	58.6	72.4

Quarterly data	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**
Real GDP %yr	2.9	4.5	6.3	4.9	5.2	5.3
Nominal GDP %yr	2.5	5.2	5.4	3.9	4.2	4.2

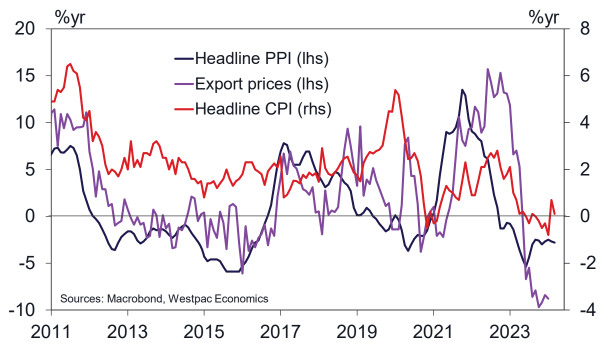
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

... of high-tech investment push

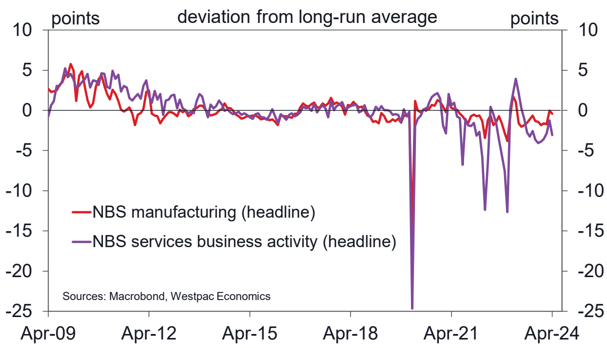
High-tech manufacturing now has scale



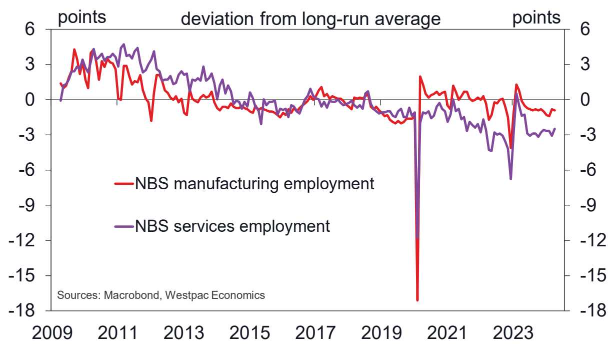
China is using capacity to take market share



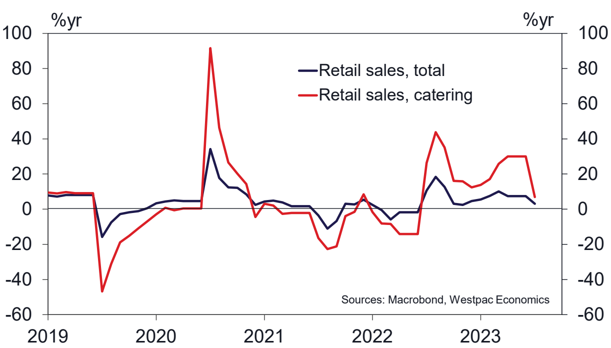
PMIs: manuf. consistent with robust growth



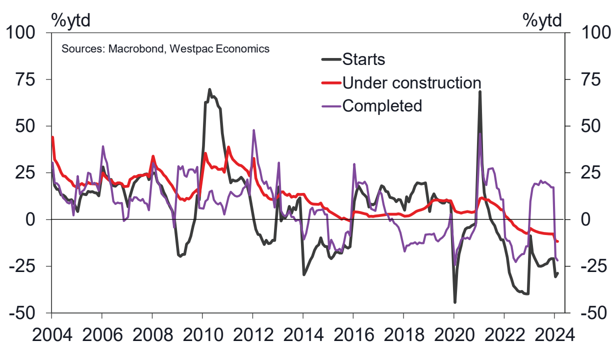
Employment situation stabilising



Income and wealth critical for consumer



Housing needs additional support



An imminent cut justified …

Monetary policy transmission is one out of three factors …

In its most recent statement, the European Central Bank outlined three factors guiding their decision around whether to cut rates: 1) the inflation outlook; 2) the dynamics of underlying inflation; and 3) the strength of monetary policy transmission. Credit conditions provide insight into the last element.

… guiding the ECB's decision making.

According to previous communications from the ECB, monetary policy transmission works through policy rate changes steering money market conditions and the consequent impact they have on interest rates and the availability of credit. Policy also works through asset prices and by encouraging saving. Together these factors restrain demand and bring inflation back into line.

Results from the Q1 2024 Bank Lending Survey show considerable weakness in loan demand from both households and firms and tight credit conditions.

Demand for loans from firms is low partly due to …

For firms, this weakness reflects high interest rates and downgraded investment intentions. Business credit growth is already negative for terms under five years, and only marginally positive for terms of more than five years. After peaking in October 2022, the total stock of business credit has stagnated. These outcomes suggest firms are being actively dissuaded from borrowing.

… tight conditions and an uncertain outlook.

Credit conditions for enterprises also continued to tighten in Q1 2024 and are expected to become more restrictive in the quarter ahead. The Bank Lending Survey suggests this reflects shifting risk perceptions rather than risk tolerance, competition, funding costs or other factors. Banks have good reason to be more concerned about lending to firms with industrial production still below its level at the end of 2023 and given elevated costs. Business surveys also show a solemn mood, with the 'business expectations' of the IFO business climate survey remaining well below long run average levels despite a slight recovery in recent months.

Credit standards for households are beginning to ease but are …

Household credit demand has also been weak of late, albeit with some optimism on the horizon. In Q1, credit standards eased for the first time since 2022 for house purchases (which make up a bulk of household credit), and are expected to be unchanged next quarter. That said, conditions were diverse across the region, with France driving the easing, conditions unchanged in Italy and Spain, and slightly tighter in Germany.

… still very tight by historical standards.

It should be noted that the latest changes follow a substantial tightening in credit conditions over the previous two years. Even after this quarter's slight easing, conditions remain historically tight. That said, the latest shift is coming from an increase in competition amongst banks and greater risk tolerance, suggesting that there is growing optimism about the outlook and reason to believe standards will be eased further over the coming year.

Lingering inflation risks will have to be balanced against those for activity.

Helpfully, inflation is also showing signs of returning to target, giving the ECB further justification to cut. The flash headline estimate showed inflation eased to 2.4%yr in April as services inflation moderated to 3.7%yr. This marks the first meaningful deceleration in five months, a period in which services inflation has been stuck at 4.0%yr. That said, part of this improvement is a base effect, with services inflation having been accelerating towards its July peak this time last year.

All told, the credit data indicates policy is highly restrictive and Inflation on its way to target. As a result, we expect the ECB to begin to cut at the June meeting. Thereafter we anticipate one cut per quarter until September 2025, when the ECB is expected to go on hold at 2.50% following 150bps of cuts. Throughout the easing cycle, the Bank will continue to pay close attention to underlying inflation and associated risks. While price risks will remain biased to the upside, those for credit and growth will be skewed down. The ECB will therefore have to balance a broad array of risks if a return to growth at trend with inflation sustainably around target is to be achieved.

Illiana Jain, Economist

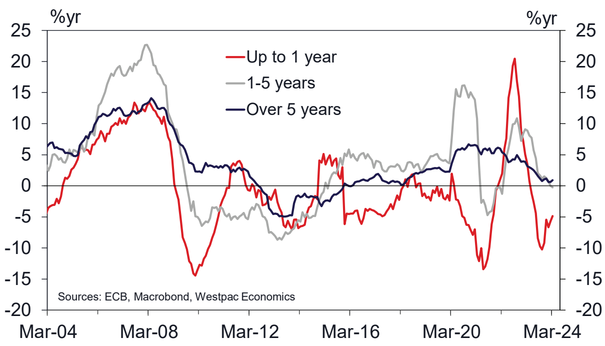
	2023								2024			
Europe	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Eur consumer prices %yr	6.1	5.5	5.3	5.2	4.3	2.9	2.4	2.9	2.8	2.6	2.4	2.4
Eur unemployment rate %	6.5	6.5	6.6	6.5	6.6	6.6	6.5	6.5	6.5	6.5	6.5	–
Eur industrial production %yr	–2.1	–0.7	–2.4	–5.0	–6.8	–6.2	–5.2	0.2	–6.6	–6.4	–	–
Eur retail sales volumes %yr	–2.5	–1.2	–1.1	–2.3	–3.4	–1.2	–0.6	–0.6	–0.7	–0.5	0.7	–
Eur consumer confidence	–17.4	–16.1	–15.2	–16.0	–17.7	–17.9	–16.9	–15.1	–16.1	–15.5	–14.9	–14.7
Eur current account balance €bn	16.5	30.9	26.9	24.1	23.7	17.0	23.4	31.9	39.3	29.5	–	–

Quarterly data	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**
Eur GDP %qtr/%yr	0.5/2.5	0.0/1.9	0.0/1.3	0.1/0.6	–0.1/0.1	–0.1/0.1	0.3/0.4

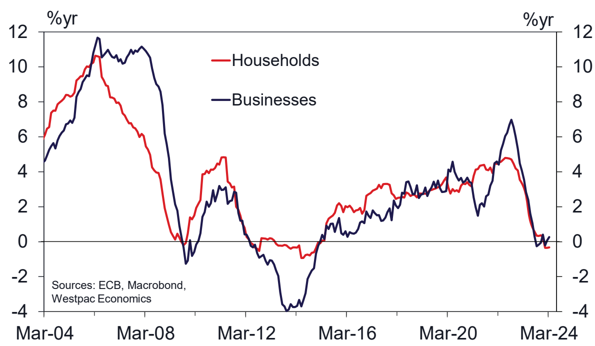
Source: Official agencies.

... by inflation and credit conditions

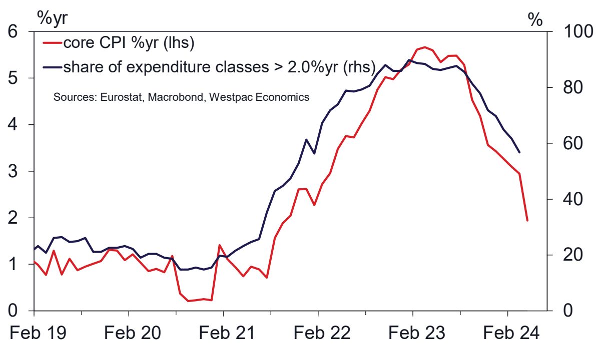
Firms' loan demand dwindles



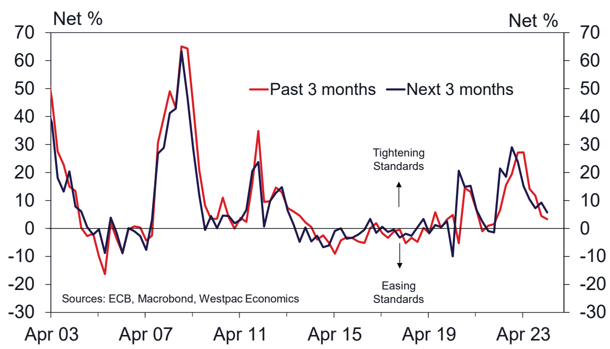
Weak demand for loans across the board



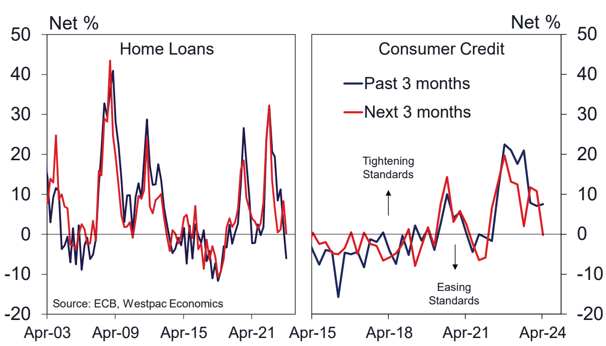
Underlying inflation is easing



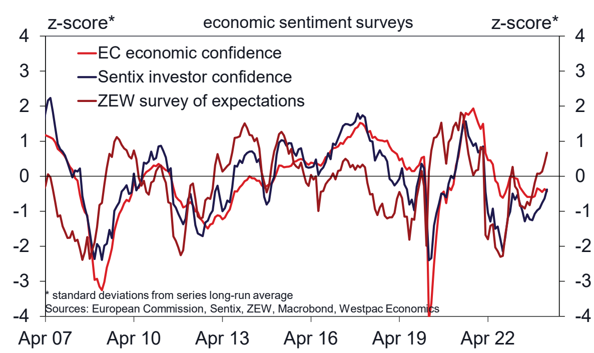
Credit conditions still tightening for firms



Credit conditions starting to ease for households



Confidence gradually starting to recover



Australia

Interest rate forecasts

	Latest (10 May)	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
90 Day BBSW	4.38	4.37	4.37	4.17	3.92	3.72	3.55	3.30
3 Year Swap	4.17	4.10	4.00	3.90	3.80	3.70	3.60	3.50
3 Year Bond	3.97	3.90	3.80	3.70	3.60	3.50	3.40	3.30
10 Year Bond	4.34	4.35	4.30	4.25	4.20	4.10	4.00	4.00
10 Year Spread to US (bps)	-12	-15	-10	-5	0	0	0	0

Currency forecasts

	Latest (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD vs								
USD	0.6623	0.66	0.66	0.67	0.68	0.69	0.70	0.71
JPY	102.88	103	102	103	102	101	100	99
EUR	0.6141	0.61	0.61	0.61	0.61	0.62	0.62	0.62
NZD	1.0965	1.10	1.10	1.10	1.10	1.10	1.09	1.09
CAD	0.9055	0.90	0.90	0.90	0.90	0.91	0.92	0.92
GBP	0.5286	0.52	0.52	0.52	0.53	0.53	0.53	0.54
CHF	0.5997	0.60	0.60	0.60	0.61	0.61	0.61	0.61
DKK	4.5807	4.56	4.52	4.54	4.57	4.59	4.61	4.64
SEK	7.1842	7.15	7.10	7.13	7.17	7.21	7.23	7.27
NOK	7.1837	7.15	7.10	7.12	7.17	7.21	7.23	7.27
ZAR	12.23	12.3	12.3	12.3	12.4	12.5	12.6	12.7
SGD	0.8955	0.89	0.89	0.90	0.90	0.91	0.92	0.92
HKD	5.1751	5.15	5.15	5.23	5.30	5.38	5.46	5.52
PHP	37.72	37.8	37.8	38.0	38.2	38.4	38.6	38.8
THB	24.32	24.1	23.8	23.8	23.8	23.8	23.8	23.8
MYR	3.1172	3.10	3.10	3.12	3.13	3.14	3.15	3.16
CNY	4.7788	4.75	4.72	4.76	4.79	4.83	4.83	4.83
IDR	10628	10560	10428	10385	10336	10281	10220	10153
TWD	21.48	21.3	21.1	21.1	21.1	21.0	21.0	20.9
KRW	907	898	891	898	904	911	917	923
INR	54.91	54.8	54.1	54.3	54.4	53.8	53.2	52.5

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	0.9	0.2	0.6	0.6				
%yr end	4.0	4.5	4.4	3.0	4.0	3.2	2.3	12.1	4.4	2.3	4.2

Other macroeconomic variables

	2023			2024				Calendar years			
% change	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023**	**2024f**	**2025f**
Employment (2)	0.9	0.6	0.7	0.5	0.5	0.2	0.2	–	–	–	–
%yr	3.5	3.1	3.0	2.7	2.3	1.8	1.3	5.4	3.0	1.3	1.5
Unemployment rate % (2)	3.6	3.7	3.9	3.9	4.0	4.2	4.3	3.5	3.9	4.3	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	1.0	0.9	0.6	0.8	–	–	–	–
%yr	6.0	5.4	4.1	3.6	3.7	3.0	3.2	7.8	4.1	3.2	2.8
Core inflation trimmed mean	0.9	1.2	0.8	1.0	0.7	0.8	0.8	–	–	–	–
%yr (2)	5.8	5.1	4.2	4.0	3.7	3.4	3.5	6.8	4.2	3.5	2.8
Current account AUDbn	8.3	1.3	11.8	10.0	5.0	1.0	–4.0	26.4	31.9	12.0	–40.0
% of GDP	1.3	0.2	1.8	1.5	0.7	0.2	–0.6	1.1	1.2	0.5	–1.5
Terms of trade annual chg (1)	–11.8	–9.0	–3.9	–7.4	–4.0	–4.1	–8.6	7.2	–5.9	–6.0	–6.5

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	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Employment '000 chg	20.6	–3.6	62.1	10.3	55.0	60.3	–62.3	11.2	117.6	–6.6	–
Unemployment rate %	3.5	3.8	3.7	3.6	3.8	3.9	3.9	4.1	3.7	3.8	–
Westpac–MI Consumer Sentiment	79.2	81.3	81.0	79.7	82.0	79.9	82.1	81.0	86.0	84.4	82.4
Retail trade %mth	–0.7	0.3	0.3	0.7	–0.3	1.5	–2.0	1.0	0.2	–0.4	–
Dwelling approvals %mth	–12.1	–6.3	5.1	–2.3	9.6	0.5	–10.5	–2.2	–0.9	1.9	–
Credit, private sector %yr	0.3	0.3	0.4	0.5	0.4	0.4	0.4	0.5	0.5	0.3	–
Trade in goods balance AUDbn	10.2	7.7	9.8	5.8	7.7	11.5	9.9	9.7	6.6	5.0	–

FORECASTS

New Zealand

Interest rate forecasts

	Latest (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Cash	5.50	5.50	5.50	5.50	5.25	5.00	4.75	4.50
90 Day Bill	5.63	5.60	5.60	5.50	5.25	4.95	4.75	4.50
2 Year Swap	5.02	5.10	5.00	4.75	4.55	4.30	4.15	4.00
10 Year Bond	4.73	4.80	4.70	4.60	4.50	4.40	4.35	4.25
10 Year Spread to US	27	30	30	30	30	30	35	25
10 Year Spread to Aust	39	45	40	35	30	30	35	25

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD vs								
USD	0.6040	0.60	0.60	0.61	0.62	0.63	0.64	0.65
JPY	93.82	94	93	94	93	92	92	91
EUR	0.5600	0.56	0.55	0.55	0.56	0.56	0.57	0.57
AUD	0.9119	0.91	0.91	0.91	0.91	0.91	0.91	0.92
CAD	0.8258	0.82	0.82	0.82	0.82	0.83	0.84	0.85
GBP	0.4821	0.48	0.47	0.48	0.48	0.48	0.49	0.50
CNY	4.3604	4.32	4.29	4.33	4.37	4.41	4.42	4.42

Sources: Bloomberg, Westpac Economics.

Activity forecasts*

	2023			2024				Calendar years			
% change	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023f**	**2024f**	**2025f**
Private consumption	-0.5	-0.9	0.5	0.2	0.6	1.1	0.7	3.3	0.3	1.2	3.3
Government consumption	3.4	-1.7	0.2	-1.2	-0.5	-0.5	-0.5	4.9	-1.1	-1.8	-1.0
Residential investment	0.9	-0.9	-1.7	-3.0	-2.5	-2.5	-1.5	-0.8	-4.3	-7.8	-1.1
Business investment	0.9	-4.7	0.6	-2.2	-2.2	-2.0	-0.6	5.4	0.5	-6.6	-0.4
Stocks (ppt contribution)	-1.7	2.7	-2.8	2.0	0.2	0.0	0.0	-0.4	-1.1	1.0	0.0
GNE	-1.1	0.1	-1.8	1.4	-0.1	0.1	0.1	3.4	-1.5	-0.2	1.6
Exports	5.4	-2.4	3.2	1.9	1.5	1.3	0.9	-0.2	10.0	6.4	3.7
Imports	-1.3	-0.5	-2.9	3.5	0.1	0.5	0.6	4.6	-0.3	1.2	3.3
GDP (production)	**0.5**	**-0.3**	**-0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**2.4**	**0.6**	**0.4**	**1.6**
Employment annual %	4.3	2.9	2.7	1.3	0.4	0.5	0.1	1.7	2.7	0.1	0.9
Unemployment rate % s.a.	3.6	3.9	4.0	4.3	4.6	4.9	5.2	3.4	4.0	5.1	5.4
Labour cost index, all sect incl o/t, ann %	4.3	4.3	4.3	4.1	3.9	3.6	3.4	4.1	4.3	3.4	2.5
CPI annual %	**6.0**	**5.6**	**4.7**	**4.0**	**3.6**	**2.8**	**2.7**	**7.2**	**4.7**	**2.7**	**2.3**
Current account balance % of GDP	-7.6	-7.4	-6.9	-6.3	-6.0	-5.5	-4.9	-8.8	-6.9	-4.9	-3.9
Terms of trade annual %	-5.0	-1.7	-10.6	-2.5	0.2	2.3	12.0	-4.2	-10.6	12.0	3.4

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (10 May)***	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Australian commodities index#	321	305	297	284	274	**272**	**273**	**276**	**276**	**278**
Bulk commodities index#	**446**	**441**	**402**	**377**	**367**	**358**	**355**	**353**	**355**	**347**
iron ore finesTSI @ 62% US$/t	117	102	93	85	85	85	86	87	84	83
Premium low vol met coal (US$/t)	240	240	240	240	230	220	210	205	205	204
Newcastle spot thermal coal (US$/t)	153	145	135	120	117	116	115	114	115	116
crude oil (US$/bbl) Brent ICE	83	85	85	80	78	80	82	85	87	90
LNG in Japan US$mmbtu	14.01	13.8	14.2	14.0	13.0	12.5	12.6	12.8	13.1	13.3
gold (US$/oz)	2,345	2,300	2,400	2,300	2,200	2,200	2,220	2,240	2,250	2,270
Base metals index#	**215**	**205**	**200**	**198**	**194**	**194**	**197**	**204**	**208**	**215**
copper (US$/t)	9,856	9,500	9,250	9,150	9,100	9,100	9,300	9,700	9,900	10,200
aluminium (US$/t)	2,525	2,450	2,370	2,390	2,400	2,410	2,460	2,530	2,580	2,650
nickel (US$/t)	18,930	18,000	17,500	17,000	16,000	15,000	14,700	14,700	15,100	15,700
zinc (US$/t)	2,898	2,500	2,475	2,425	2,350	2,340	2,400	2,500	2,540	2,610
lead (US$/t)	2,207	2,100	2,075	2,000	1,980	1,990	2,000	2,050	2,080	2,130
Rural commodities index#	**132**	**128**	**128**	**121**	**119**	**122**	**125**	**130**	**133**	**138**
NZ commodities index ##	**347**	**346**	**343**	**342**	**342**	**344**	**346**	**349**	**352**	**355**
dairy price index ^^	305	309	311	309	308	308	310	312	314	317
whole milk powder US$/t	3,350	3,500	3,500	3,500	3,500	3,500	3,526	3,553	3,580	3,607
skim milk powder US$/t	2,551	2,700	2,846	3,000	3,000	3,000	3,023	3,045	3,068	3,091
lamb leg UKp/lb	453	446	450	455	462	468	476	484	493	503
bull beef US¢/lb	291	261	261	262	262	263	264	265	267	268
log price index ##	151	154	157	160	161	161	162	164	165	167

	levels				% change			
Annual averages	2023	2024(f)	2025(f)	2026(f)	2023	2024(f)	2025(f)	2026(f)
Australian commodities index#	**323**	**302**	**273**	**279**	**-15.7**	**-6.5**	**-9.5**	**2.1**
Bulk commodities index#	**500**	**450**	**370**	**363**	**-10.2**	**-10.0**	**-17.8**	**-1.9**
iron ore fines @ 62% USD/t	120	102	83	83	-0.5	-14.5	-19.1	1.1
LNG in Japan $mmbtu	14.8	14.1	12.6	13.1	-20.1	-5.3	-10.2	4.1
ave coking coal price (US$/t)	215	226	200	169	-10.2	4.9	-11.6	-15.5
ave thermal price (US$/t)	185	142	128	127	-45.1	-23.1	-10.4	-0.1
iron ore fines contracts (US¢ dltu)	160	153	123	125	-7.9	-4.4	-19.5	1.1
Premium low vol met coal (US$/t)	296	263	219	204	-19.0	-10.9	-16.8	-7.0
crude oil (US$/bbl) Brent ICE	82	84	81	89	-15.8	3.2	-4.2	10.3
gold (US$/oz)	1,962	2,264	2,219	2,277	8.4	15.4	-2.0	2.6
Base metals index#	**201**	**193**	**194**	**210**	**-12.4**	**-4.3**	**0.6**	**8.2**
copper (US$/t)	8,500	8,800	9,200	10,100	-3.7	3.5	4.5	9.8
aluminium (US$/t)	2,300	2,300	2,400	2,600	-15.2	0.0	4.3	8.3
nickel (US$/t)	21,600	16,700	14,800	15,500	-17.6	-22.7	-11.4	4.7
zinc (US$/t)	2,700	2,500	2,400	2,600	-22.2	-7.4	-4.0	8.3
lead (US$/t)	2,100	2,000	2,000	2,100	-2.5	-4.8	0.0	5.0
Rural commodities index#	**141**	**123**	**114**	**126**	**-17.9**	**-12.7**	**-7.4**	**10.9**
NZ commodities index ##	**330**	**344**	**345**	**357**	**-12.4**	**4.3**	**0.4**	**3.5**
dairy price index ##	286	309	310	318	-18.8	8.0	0.1	2.7
whole milk powder US$/t	3081	3422	3514	3609	-20.8	11.1	2.7	2.7
skim milk powder US$/t	2640	2744	3012	3093	-30.9	4.0	9.8	2.7
lamb leg UKp/lb	431	449	470	506	-31.0	4.2	4.7	7.7
bull beef US¢/lb	256	267	263	268	-8.8	4.4	-1.3	1.9
log price index ##	160	158	162	167	-6.9	-0.8	2.2	3.4

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 (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Fed Funds*	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875
10 Year Bond	4.45	4.50	4.40	4.30	4.20	4.10	4.00	4.00

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

Currency forecasts

	Latest (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USD vs								
DXY index	105.23	105.1	104.4	103.3	102.1	101.0	99.8	98.8
JPY	155.33	156	155	154	150	146	143	140
EUR	1.0785	1.08	1.09	1.10	1.11	1.12	1.13	1.14
AUD	0.6623	0.66	0.66	0.67	0.68	0.69	0.70	0.71
NZD	0.6040	0.60	0.60	0.61	0.62	0.63	0.64	0.65
CAD	1.3674	1.36	1.36	1.34	1.33	1.32	1.31	1.30
GBP	1.2529	1.26	1.27	1.28	1.29	1.30	1.31	1.31
CHF	0.9056	0.91	0.91	0.90	0.89	0.88	0.87	0.86
ZAR	18.47	18.6	18.6	18.4	18.3	18.2	18.0	17.9
SGD	1.3521	1.35	1.35	1.34	1.33	1.32	1.31	1.30
HKD	7.8143	7.81	7.81	7.81	7.80	7.80	7.80	7.78
PHP	57.39	57.3	57.2	56.7	56.2	55.7	55.2	54.7
THB	36.72	36.5	36.0	35.5	35.0	34.5	34.0	33.5
MYR	4.7416	4.70	4.70	4.65	4.60	4.55	4.50	4.45
CNY	7.2197	7.20	7.15	7.10	7.05	7.00	6.90	6.80
IDR	16046	16000	15800	15500	15200	14900	14600	14300
TWD	32.44	32.2	32.0	31.5	31.0	30.5	30.0	29.5
KRW	1370	1360	1350	1340	1330	1320	1310	1300
INR	83.51	83.0	82.0	81.0	80.0	78.0	76.0	74.0

Activity forecasts*

	2023			2024				Calendar years			
% annualised, s/adj	**Q2**	**Q3**	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023**	**2024f**	**2025f**
Private consumption	0.8	3.1	3.3	2.5	1.9	1.8	1.5	2.5	2.2	2.3	1.2
Dwelling investment	-2.2	6.7	2.8	13.9	6.1	6.1	6.1	-9.0	-10.6	6.9	1.1
Business investment	7.4	1.5	3.8	2.9	2.4	2.4	2.4	5.4	4.1	2.9	3.5
Public demand	3.3	5.8	4.6	1.2	1.2	1.2	1.2	-0.9	4.1	2.5	2.1
Domestic final demand	2.0	3.4	3.6	2.7	2.0	1.9	1.8	1.9	2.3	2.6	1.6
Inventories contribution ppt	-0.2	1.1	-0.4	-0.3	0.4	-0.2	-0.2	0.5	-0.4	0.0	-0.1
Net exports contribution ppt	0.1	0.0	0.2	-1.0	-0.1	-0.1	-0.1	-0.5	0.6	-0.2	-0.2
GDP	2.1	4.9	3.4	1.6	2.4	1.8	1.6	1.9	2.5	2.5	1.4
%yr annual chg	2.4	2.9	3.1	3.0	3.1	2.3	1.8				

Other macroeconomic variables

Non-farm payrolls mth avg	251	222	206	257	175	120	60	412	245	153	65
Unemployment rate %	3.6	3.7	3.7	3.8	3.8	4.0	4.2	3.6	3.7	4.2	4.5
CPI headline %yr	2.8	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

Europe & the United Kingdom

Interest rate forecasts

	Latest (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Euro area								
ECB Deposit rate	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
10 Year Bund	2.50	2.45	2.40	2.40	2.40	2.40	2.40	2.45
10 Year Spread to US	–196	–205	–200	–190	–180	–170	–160	–155
United Kingdom								
BoE Bank Rate	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50
10 Year Gilt	4.14	4.25	4.20	4.15	4.10	4.05	4.00	4.00
10 Year Spread to US	–31	–25	–20	–15	–10	–5	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
euro vs								
USD	1.0785	1.08	1.09	1.10	1.11	1.12	1.13	1.14
JPY	167.53	168	169	169	167	164	162	160
GBP	0.8608	0.86	0.86	0.86	0.86	0.86	0.86	0.87
CHF	0.9766	0.98	0.99	0.99	0.99	0.99	0.99	0.99
DKK	7.4599	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.6989	11.7	11.7	11.7	11.7	11.7	11.7	11.7
NOK	11.6985	11.7	11.7	11.7	11.7	11.7	11.7	11.7
sterling vs								
USD	1.2529	1.26	1.27	1.28	1.29	1.30	1.31	1.31
JPY	194.62	197	197	197	194	190	187	183
CHF	1.1346	1.15	1.16	1.15	1.15	1.14	1.14	1.13
AUD	0.5286	0.52	0.52	0.52	0.53	0.53	0.53	0.54

Source: Bloomberg, Westpac Economics.

Activity forecasts*

Annual average % chg	2020	2021	2022	2023	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

FORECASTS

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	0.2	0.9	2.0
Producer prices	–0.5	–0.4	10.3	–0.7	–3.0	–0.5	1.5
Industrial production (IVA)	5.8	5.1	6.7	3.0	4.4	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	11.2	10.0	9.0
Fixed asset investment	5.4	2.9	4.9	5.1	3.5	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 (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Required reserve ratio %*	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

* For major banks.

Currency forecasts

	Latest (10 May)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
JPY	155.33	156	155	154	150	146	143	140
SGD	1.3521	1.35	1.35	1.34	1.33	1.32	1.31	1.30
HKD	7.8143	7.81	7.81	7.81	7.80	7.80	7.80	7.78
PHP	57.39	57.3	57.2	56.7	56.2	55.7	55.2	54.7
THB	36.72	36.5	36.0	35.5	35.0	34.5	34.0	33.5
MYR	4.7416	4.70	4.70	4.65	4.60	4.55	4.50	4.45
CNY	7.2197	7.20	7.15	7.10	7.05	7.00	6.90	6.80
IDR	16046	16000	15800	15500	15200	14900	14600	14300
TWD	32.44	32.2	32.0	31.5	31.0	30.5	30.0	29.5
KRW	1370	1360	1350	1340	1330	1320	1310	1300
INR	83.51	83.0	82.0	81.0	80.0	78.0	76.0	74.0

Source: Bloomberg, 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.

SUMMARY OF THE WORLD

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023	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	2.5	1.5
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	0.6	0.4	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	3.1	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	2.7
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	2.9	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**	**2.6**	**2.5**
India	3.9	-5.8	9.1	7.2	7.7	6.5	6.7
Russia	2.2	-2.7	5.6	-2.1	3.0	2.0	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**	**4.1**	**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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