



WESTPAC WAVE

Fiji Quarterly Economic Update

May 2024

2024: Slowdown to below average

EXECUTIVE SUMMARY

Fiji's economic outlook is expected to shift from high growth experienced last year to a slower pace, falling below the historical trend at 2.5 percent in 2024. Factors such as increased inflation, high outward migration, and subdued growth in trading partner economies are anticipated to pose considerable challenges to domestic demand. However, there are signs of resilience, notably from rising visitor arrivals and remittance inflows, offering some support amidst these challenges to the outlook.

The investment landscape presents a mixed picture, with encouraging signs of optimism from notable increase in domestic cement and domestic credit. However, there is some concern due to a slight decline in new investment lending to private individuals as well as building and construction sector, reflecting cautious sentiments.

Economic growth among some of Fiji's major trading partners is expected to moderate such as Australia, New Zealand, Japan, India and Eurozone, followed by a potential rebound next year as central banks consider easing monetary policy as inflation falls to the target range.

Fiji's tourism sector achieved full recovery in 2023, marked by a record number of visitor arrivals and increased earnings. Despite initial concerns about a slowdown in source markets like Australia, New Zealand, and the United States, the tourism sector has been surprisingly resilient coming into the first quarter of 2024 with significant increase in visitor numbers.

Domestically, since July 2023 rising prices attributed to VAT rate hikes, high global shipping costs rising commodity prices and recent floods, pose some challenges. Headline inflation in Fiji is expected to remain elevated for the first half of 2024, before it starts trending downward in later half of the year. Fiji's financial system remains stable, indicated by healthy and adequate foreign reserves and liquidity levels.

On fiscal side, in the first half of 2023-2024 financial year, Fiji Government experienced a net deficit of \$114.9 million, amounting to -0.9 percent of Gross Domestic Product (GDP), compared to the budgeted net deficit of -5.6 percent. Government debt stood at \$10,019.6 million or 75.9 percent of GDP as of January 2024, which is projected at 78.6 percent of GDP by fiscal year-end.

Fiji's economic outlook for 2024 holds promise amidst potential headwinds. External uncertainties include elevated commodity prices, restrictive monetary policies, Ukraine-Russian conflict, and Middle East crisis. As Fiji enters peak tourism, a potential drop in Australian visitors any further, lack of investment into accommodation alongside domestic risks like natural disasters and continued labour migration could hinder medium term growth outlook.

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Growth to slow despite pleasant surprises

In 2024, Fiji's economy is anticipated to experience a moderation, with growth projected at 2.5 percent, falling below its historical trend. High consumer prices, increased migration leading to declining population, and subdued growth amongst trading partner countries because of restrictive monetary policy is projected to pose significant challenges to domestic prospects. This is despite one of the most closely monitored indicators, the number of visitor arrivals, was up a cumulative 10.9 percent to March 2024, reaching 194,391 arrivals compared to 114,736 arrivals in the same period last year. During the first half of 2024, inflation is forecasted to stay high, gradually decreasing in the second half of the year due to base effects and expected disinflation in advanced and among trading partner countries.

Leading investment indicators domestically have been mixed coming into the new year. According to the Reserve Bank of Fiji (RBF), domestic cement sales have risen by 12.3 percent in the first quarter, painting an optimistic outlook. However, a -29.6 percent decline in new investment lending to private individuals along with building and construction shows pessimism. In 2023, both the public and private sectors contributed to a total of \$557.9 million worth in value of work in the construction sector, a 6.0 percent increase compared to 2022, with the issuance of a total of 1,728 new building permits and 691 completion certificates. If this trend continues, it will strengthen our growth outlook for 2024.

Heighted inflation will continue to affect disposable income; however, consumption activity has so far been resilient. Broad consumption indicators, new and second-hand vehicle registrations, were up by 13.3 percent and 26.1 percent, respectively during the first quarter of this year compared to same period last year. Aggregate consumption was further supported by 9.8 percent increase in personal remittances, 6.9 percent higher electricity consumption, 30.8 percent higher net VAT collection by Government and 13.7 percent higher new consumption lending during the first quarter of 2024.

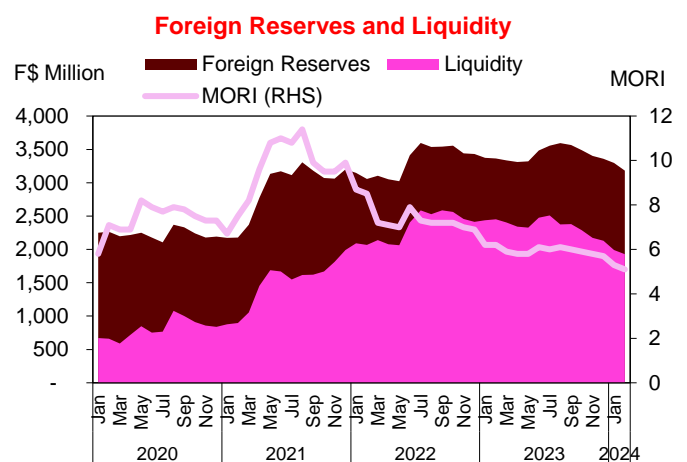
The partial indicators suggest that Fiji's economy grew by 10.7 percent in 2023. This is on top of the double-digit growth of 20.0 percent recorded in 2022. Last year's growth was driven strongly on the back of strong performers like record visitor arrivals in tourism sector, personal consumption, record inflow of personal remittances, higher uptake of consumption lending and low inflation despite high migration posing challenges to labour market. Further, a tight labour market at the onset of high emigration inflated the formal sector wage bill last year as private and public sector rushed to retain and lure workers as wages rose in alignment with faster price growth.

Global economic growth expected to moderate to below historical average. International Monetary Fund (IMF) in its April 2024 World Economic Outlook revised the global growth upward to 3.2 percent in 2024 which is also expected to stay steady at same level in 2025. Westpac economics is of similar view, with an expected modest 3.3 percent global growth this year and 3.1 percent for 2025. This year, the global economy will be driven by expected growth of 2.6 percent in the United States, 5.2 percent in China and 6.5 percent in India. This is despite most central banks in advanced countries closely keeping tab on interest rates to subdue consumer demand. Although inflation has shown signs of easing in recent months,

central banks across major advanced economies remain cautious towards any drastic cuts to interest rates and avoid the risk of lowering rates prematurely.

Subdued growth among Fiji's major trading partner countries affects Fiji's outlook. Westpac economics expects the Australian economy to likely grow by a subdued 1.3 percent in 2024, before recovering to around-trend pace of 2.2 percent for 2025. Since last year, Australian household consumption has been relatively weak amidst income pressures from rate hikes, inflation and an increasing tax take. Expectations of fewer restrictive policy settings in the second half of 2024 as inflation declines, along with a cut in tax rates, will provide much needed relief to Australian households and likely support discretionary spending. Further on south, the New Zealand economy re-entered into a technical recession in December 2023 quarter with latest GDP figures showing contraction of 0.1 percent, which was followed by earlier 0.3 percent fall in the September quarter. Westpac economics expects New Zealand's to only grow by 0.5 percent this year, as sluggish performance across all sectors was noted in early months of 2024 while growth is expected to pick up to 1.6 percent in 2025. China, on the other hand, has come up with an ambitious growth target of 5.0 percent in 2024, which seemed bullish. However, this thought was relinquished with the recorded 5.3 percent growth first quarter of 2024.

Domestically, Fiji's financial system is sound. Foreign reserves sit adequately at around \$3.1 billion (22-April), enough to cover 5.1 months of retained imports (MORI). Liquidity, denoted by banks' demand deposit (BDD), has been on a downward trajectory since July 2023 and currently sits at \$1.8 billion (22-April). RBF has said that both foreign reserves and liquidity are expected to pick up from the middle of this year, likely from middle of second quarter, as Government drawdowns on its planned external loans and foreign earnings begins to flow in during peak tourism season. However, in the medium-term outlook, high commodity prices and elevated trading partner country inflation will continue to pose significant challenges to Fiji's import bill, foreign reserves position and underlying balance of payment issues.



Source: Reserve Bank of Fiji

Domestic credit expands supported by lower rates. In February 2024, private sector credit grew by 8.2 percent, supported the broad expansion of domestic credit by the same rate. Domestic credit expansion has been supported by ample liquidity in the banking system, which has led to the weighted average lending rate dropping to 4.75 percent. Commercial banks' non-performing loans have been declining as a result of improved economic activity and income growth. However, with tightening liquidity in the banking system, which remains ample, newer lending rates have shown signs of surging.

Economic outlook

Fiji's economic growth is anticipated to moderate to 2.5 percent in 2024 before rebounding to 3.0 percent in 2025. The anticipated slowdown in growth is mainly due to reduced domestic consumption and investment activity, along with weaker net exports. These factors are influenced by high inflation and a decline in population due to increased migration. Additionally, the projection includes assumption of a modest 4.0 percent growth in visitor arrivals given expected growth moderation among Fiji's major trading partners and tourism source markets. Moreover, as stated in the Medium-Term Fiscal Strategy (MTFS) for 2024-2025, the government's consumption and investment spending are assumed to remain constant, resulting in a decline in real terms over the forecast horizon.

Indicators	2021	2022	2023e	2024f	2025f
Real GDP Growth (%)	-4.9	20.0	10.7	2.5	3.0
Inflation (%)	0.2	4.3	2.4	4.3	3.0
Visitor Arrivals Growth (%)	-78.5%	1,192.5%	46.1%	4.0%	4.0%
Real GDP per Capita (FJD)	9,313	11,211	12,592	12,992	13,341

Note: (e) indicates estimate and (f) is forecast

Source: Westpac Fiji forecast

However, there are both upside and downside risks to growth forecasts. External uncertainties emanate from elevated commodity prices, subdued demand in trading partner countries and further escalation of geopolitical tensions from the Ukraine-Russia war and Middle East conflicts.

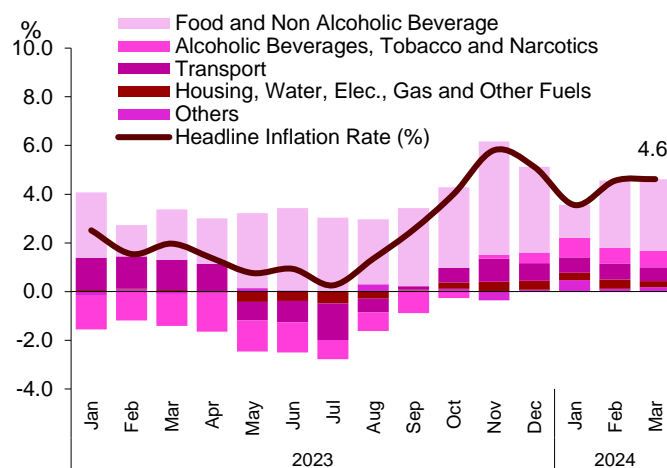
As Fiji heads into its busiest tourism period, any further drop in Australian visitors and lack of investments into hotel accommodation could potentially harm growth. Similarly, higher than expected growth in tourism activity and lower number of out-migration will require an upward revision to the growth outlook. Domestically, risks from natural disasters like floods and cyclones, climate change effects, and ongoing skilled labour emigration could hamper development prospects.

Consumer prices to remain elevated in first half of 2024

Fiji's headline inflation rate remained unchanged at 4.6 percent in the year March 2024 as higher prices were noted across all

major categories including food and non-alcoholic beverages (+7.3%), transport (+4.2%), housing, water, electricity, gas and other fuels (+2.3%), alcoholic beverages, tobacco and narcotics (+4.5%), household furnishings and routine maintenance (+2.2%), restaurant & hotels (+10.0%), and health (+7.6%). Lower prices were noted for clothing and footwear. The recent floods and adverse weather have been persistently pushing up food prices.

Major Contributors to Fiji's Headline Inflation

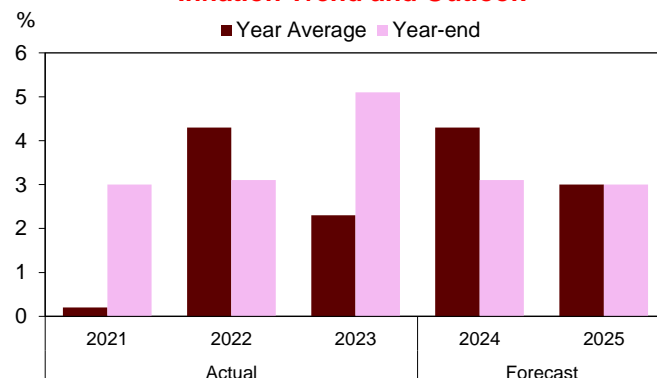


Source: Fiji Bureau of Statistics

Domestic prices have seen continuous surge since July 2023, on the back of VAT rate hikes from 9 percent to 15 percent on non-zero-rated items, rising global shipping costs due to the ongoing Red Sea conflict and commodity price hike led by OPEC production cut, geopolitical tensions, and the Middle East crisis. On the brighter side, shipping costs as indicated by Drewry's World Container Index, have partially receded to US\$2,929 per 40 Foot Box. However, shipping costs remain incredibly high compared to pre-pandemic levels preventing further much needed relief in inflationary pressure.

Current high inflation is expected to persist for most of first half of 2024 before starting to recede in the third quarter, getting down to 3.1 percent by year-end. Annual average headline inflation is estimated at 4.3 percent for 2024 due to persistent inflation in food and non-alcoholic beverages categories as well as rising oil prices and high trading partner country inflation.

Inflation Trend and Outlook



Source: Fiji Bureau of Statistics and Westpac Fiji estimates

We have larger than usual caveats around our inflation forecasts given the underlying methodological issues in the headline inflation numbers regarding non-additivity between category indexes. As such we are not surprised that the FBOS will be revising the consumer price index (CPI) basket to reflect the current consumption patterns by using the 2019-2020 Household Income and Expenditure Survey.

Other highlights include the producer price index, which captures broad price trends received by producers of domestic goods, rose by 4.4 percent during September quarter of 2023. On the other hand, the building material price index at the end of 2023 declined by 3.8 percent, mainly drive by lower prices in cement, iron and steel and related materials.

Global commodity prices

On the commodity market front, the Brent Crude oil price rose past the US\$85 per barrel mark in recent months to US\$87.48 per barrel at end of March 2024, an increase of US\$3.86 per barrel compared to previous month. Supply side factors remain the major contributors to recent hike in oil prices led by voluntary cut commitments to oil production by OPEC+ member nations, Mexican oil producer Pemex planning to cut exports, Red Sea conflict delaying shipment, Ukrainian drone attacks on Russia's oil refineries and ongoing conflict in the Middle East.

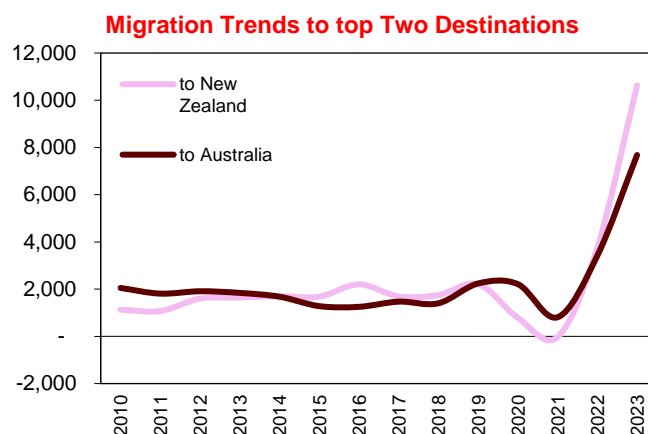
Further, gold prices are defying norms by reaching a historic record price of US\$2,238.40 per ounce in March in an environment when the US dollar is strengthening, and interest rates remain elevated. The likely contributor is the demand for gold by central banks as their favoured reserve asset as well as ramped up demand by consumers in the US. Fiji's gold mining sector is set to benefit wholly from the price hike as Tuvatu goldmine came on-board at the beginning of this year and as production rose by 41.4 percent in the first two months of 2024.

Raw sugar prices dropped by US1.49 cents per pound to US22.52 cents per pound in March 2024, led by increased output from world's top producer and exporter, Brazil. Sugar prices remain elevated compared to historical standards as more sugarcane is diverted towards ethanol production.

The FAO Food Price Index declined by 7.7 percent (year on year) to 118.3 points in March 2024, as the increase in sugar prices were offset by decreases in meat, dairy, cereals and vegetable oil prices. However, compared to February 2024, the FAO Food price index for March was up by 1.1 percent, with increases in meat, dairy and vegetable oil prices while declines were noted in cereal and sugar prices.

Migration trends

Fiji is currently grappling with a substantial exodus of both skilled and unskilled workers, a trend that intensified since the reopening of borders in December 2021. New Zealand and Australia emerge as the top two destinations for Fijian migrants. In 2023, New Zealand registered a record net migration gain of 126,000 individuals, with Fijian citizens ranking fourth highest at 10,630 individuals who migrated. Similarly, Australia witnessed a historic net migration gain of 518,000 during the 2022-2023 financial year, with Fijian migrants at 18th on the list at 7,680 individuals.

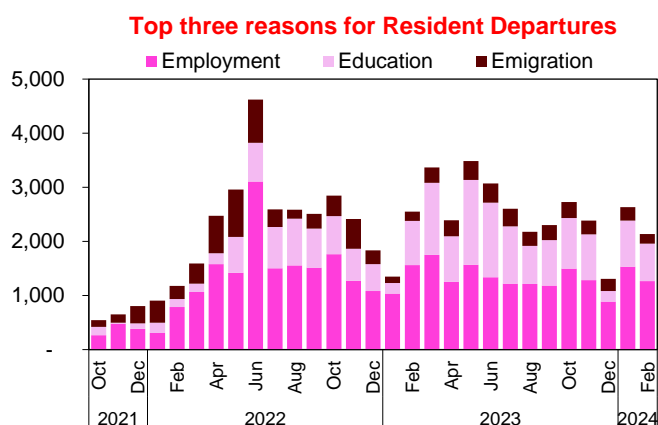


Source: Australian Bureau of Statistics and Stats New Zealand
Note: Net Migration numbers to Australia is in financial year ending June.

The widespread loss of human capital across both the private and public sectors in Fiji has become a focal discussion point in numerous forums, prompting calls for immediate action. Simultaneously, efforts are underway to explore alternative avenues for labour sourcing from other countries and streamlining immigration rules and regulations. However, the influx of foreign workers into Fiji will coincide with increased outflow of worker remittances in near term, a risk we need to be mindful of that will require oversight.

Overall, the appetite for permanent migration by Fijians remain quite elevated, evidenced by 8.9 percent increase in emigration reaching 624 individuals during the first quarter of 2024 compared to the same period last year. On the other hand, latest data released by Fiji Bureau of Statistics (FBOS) have indicated temporary resident departures for reasons relating to overseas employment and education have somewhat declined by 10 percent in first quarter.

The surge in emigration observed in early 2022 remained elevated on monthly terms through 2023 and into 2024 This has led to significant void in the domestic labour market, leading to logistical issues faced by local businesses on labour procurement. This wave of migration initially stemmed from a backlog following COVID-19 lockdowns in 2020-2021 and relaxed visa criteria on temporary residency in Australia and New Zealand.



Source: Fiji Bureau of Statistics

Noting a record gain in net migration last year, New Zealand has since said it is "unsustainable" and have implemented stricter visa regulations, particularly for low-skilled workers, including heightened English language proficiency requirements and a reduced maximum stay duration from 5 years to 3 years.

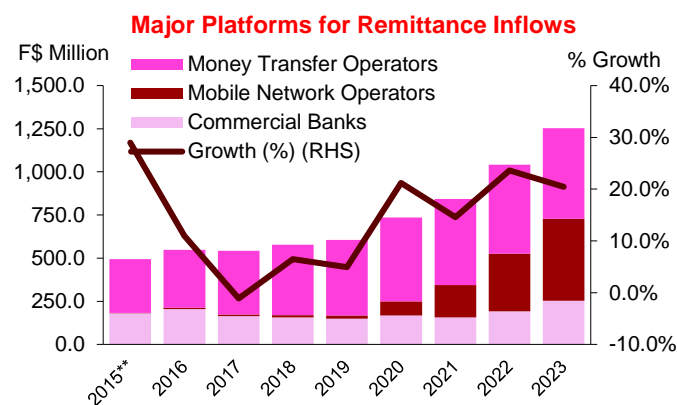
Australia, in December 2023, also pledged to halve immigration by imposing rigorous visa standards for international students and low-skilled labour. However, these short-term restrictions will be subject to reassessment periodically given dwindling fertility rates in both countries and irregular domestic labour supply posing challenges to the economy, an issue prevalent across most advanced economies.

Personal remittance hit record high in 2023

Personal remittances soared to a record high of \$1,253.4 million in 2023, marking a significant 20.4 percent increase. This growth is attributed to rising migration and support from the Fijian diaspora overseas. Remittances first surpassed the \$1 billion milestone in 2022, with a remarkable 23.6 percent growth, playing a crucial role in boosting domestic consumption and assisting low and middle-income households during the post-COVID-19 recovery phase.

To date in 2024, remittance inflows have already reached \$189.7 million, an increase of 9.8 percent compared to last year. We expect remittances to continue growing due to significant out-migration of the past couple of years.

Fijians also continue to embrace the mobile digital wallet technology and amongst Fijians living abroad, it has become one of the preferred platforms for sending money back home. Out of total remittance inflows in 2023, 38 percent was received through mobile digital wallets, a substantial increase from just 1.2 percent in 2016. In contrast, the share of remittances received through commercial banks, money transfer operators and foreign exchange dealer, has been declining in past decade. However, this group still accounts for a significant portion of receipts in nominal values.

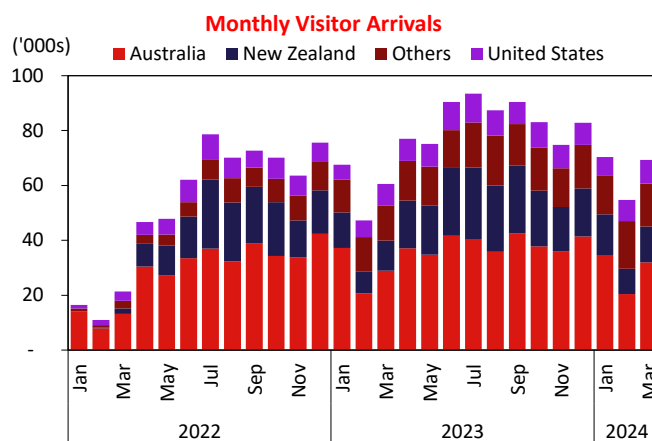


Source: Reserve Bank of Fiji

Resilient tourism sector shows glimpse of optimism

The tourism sector entered the new year with mixed expectations due to projections of subdued growth in major tourism source markets, Australia and New Zealand. However, the sector has shown incredible resilience by receiving a record number of 194,391 visitors within the first quarter of 2024, a 10.9

percent growth compared to the same period in 2022, which has rejuvenated excitement around the industry.



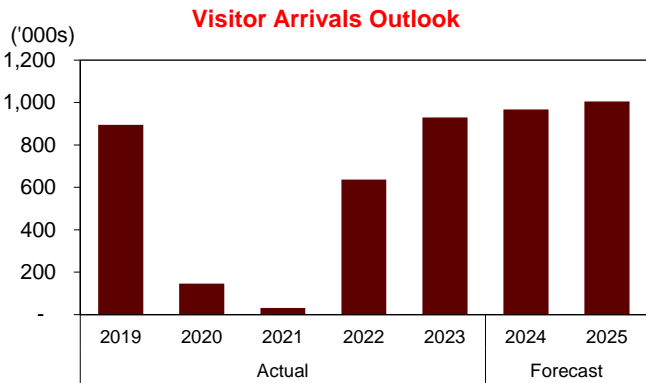
Source: Fiji Bureau of Statistics

Despite February being the slowest month for tourism activity, total visitor arrivals grew by 15.9 percent, mainly led by tourist arrivals from non-traditional source markets. Similarly, the month of March saw a 14.5 percent increase in arrivals. As Fiji moves into the peak tourism season in the coming months, we have yet to witness any major impact of the slowdown in our tourism source markets on the number of arrivals to our shores.

The declining number of Australian visitors during the previous three consecutive months (-2.1% in Dec 2023; -7.0% in Jan 2024; -1.3% in Feb 2024) was undone by a 10.5 percent growth in March 2024, resulting in a modest first quarter growth of 0.2 percent. During 2022 and the early months of 2023, Australian travellers had limited options to travel since restrictions were still being lifted in most countries, which helped Fiji being the first mover to capture a larger portion of Australian tourists. As full recovery has been completed, the share of visitor arrivals from Australia is expected to normalize to historical levels.

Fiji's tourism sector completed its recovery in 2023, with visitor arrivals reaching 929,740, marking a 46.1 percent increase compared to 2021 and 4.0 percent growth compared to 2019 (pre-pandemic). Consequently, tourism earnings reached \$2,367.7 million in 2023, which were up by 57.9 percent compared to 2022 and 14.6 percent compared to 2019 (pre-pandemic). The higher tourism earnings in 2023 were not only the result of a record number of arrivals but also the historical average per-diem spending reaching \$2,546.6 per tourist.

In 2024, we expect visitor arrivals grow by 4.0 percent, taking into factors such as arrivals to date and the anticipated slowdown in major tourism source markets. Based on the current trajectory, total visitor arrival is expected to reach a million mark by 2025. With a number of hotel and resort accommodation projects announced and growth in local Airbnb properties picking up, we think Fiji to be well positioned to receive and accommodate a million tourists in next two years.



Source: Fiji Bureau of Statistics and Westpac Fiji forecast

Source: Ministry of Finance, Medium Term Fiscal Strategy

IMF Staff completed the 2024 Article IV Mission to Fiji during March of this year, assessing the risk of debt distress to be moderate while noting Government has limited fiscal space to respond to large exogenous shocks. IMF Staff have urged fiscal policy to continue its fiscal consolidation path in the upcoming budget to build fiscal buffers while not compromising on the area of further improving efficiency on social safety net and prioritising capital spending.

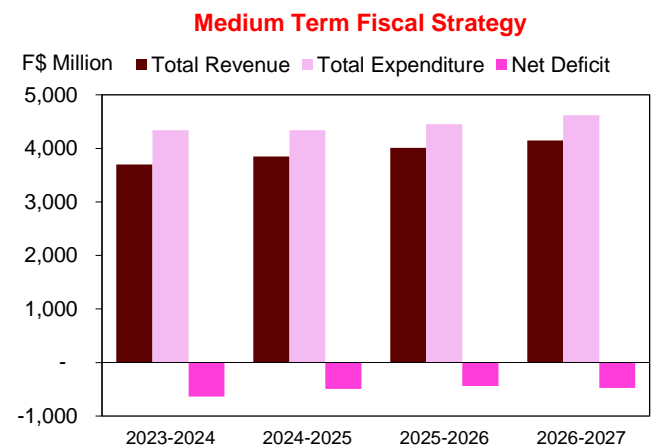
Furthermore, Fiji Government published the Medium-Term Fiscal Strategy (MTFS) for 2024-2025 fiscal year in March 2024. This strategy broadly serves as a blueprint for the upcoming national budget outlining a projection of underlying revenue, expenditure and debt policies towards an overall objective of supporting macroeconomic stability and promoting long-term economic growth. As outlined in the MTFS, Government overall intends to keep the tax regime relatively stable to avoid any major surprises to both consumers and investors alike and the focus will be on increasing tax collections by increasing the size of Fijian economy. Overall fiscal balance will be put on a downward path by capping expenditure levels and improving efficiency on expenditure implementation.

Fiscal Policy and Upcoming National Budget

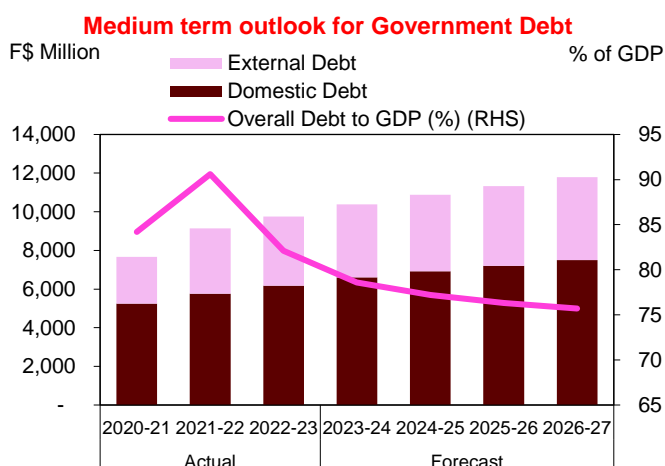
We are already 9 months into the 2023-2024 fiscal year and the announcement of the next national budget is just around the corner. As we move into the new budget cycle, Government is well aware of current domestic economic conditions and the calibration required to taxation and expenditure policies to stimulate the economy. The Fijian Government remains one of the major workhorses in driving domestic economic activity, with its consumption and investment expenditures representing over 25 percent of GDP. Any significant policy changes will have ripple effects across all sectors of the economy.

Looking at the performance during the first half of 2023-2024 financial year, Fiji Government's total revenue stood at \$1,798.4 million while total expenditure stood at \$1,913.3 million, a variance of \$694.3 million. As a result, net deficit of \$114.9 million or -0.9 percent of GDP, compared to the budgeted net deficit of -5.6 percent.

Government's total debt stood at \$10,019.6 million or 75.9 percent of GDP at the end of January 2024. Given this, the medium-term fiscal strategy projects debt to be at 78.6 percent of GDP by the end of July 2023-2024 and decline to 75.7 percent by 2026-2027 fiscal year. On the other hand, IMF Staff projects a much slower consolidation path to 78.6 percent of GDP by late 2029 if current fiscal policies continue. In term of the makeup of total Government debt, domestic debt stood at \$6,492.1 million as of January 2024, while external debt amounted to \$3,527.5 million.



Source: Ministry of Finance, Medium Term Fiscal Strategy



Economic & Financial Statistics and Forecasts

Economic Statistics

Fiji	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Visitor Arrivals (%)	55.3	51.0	46.1	4.2	9.0	10.9
Net VAT (%)	27.6	28.1	28.5	34.6	37.7	30.8
Personal Remittance (%)	18.8	20.9	9.7	0.1	9.8	n.a
Private Sector Credit (%)	5.8	6	7.6	8.5	8.2	9.3
Liquidity (F\$M)	2,287.20	2,173.90	2,128.40	1,991.60	1,929.20	1,896.10
Foreign Reserves (F\$M)	3,487.20	3,401.50	3,361.30	3,297.90	3,183.40	3,146.80
MORI	5.9	5.8	5.7	5.3	5.1	5.1
Inflation (%)	4.0	5.8	5.1	3.6	4.6	4.6
Overnight Policy Rate (OPR)	0.25	0.25	0.25	0.25	0.25	0.25

Source: Reserve Bank of Fiji, Fiji Bureau of Statistics and Ministry of Finance

Round-up on Fiji Financial Markets

Fiji Government Yields (%)	3 mths	6 mths	12 mths	10 yrs	15 yrs	20 yrs
Mar-24	0.10	0.15	0.25	3.90	4.15	4.78
Feb-24	0.05	0.10	0.20	3.90	4.15	4.75
Jan-24	0.03	0.08	0.17	3.90	4.15	4.75
Dec-23	0.03	0.08	0.16	3.90	4.15	4.69
Nov-23	0.03	0.07	0.15	3.90	4.15	4.67
Oct-23	0.03	0.07	0.15	3.90	4.17	4.65

Source: Reserve Bank of Fiji and Ministry of Finance

Exchange Rate Forecast

Cross	Latest	Jun-24	Sept-24	Dec-24	Dec-25	Dec-26
FJD-USD	0.4371	0.4484	0.4530	0.4564	0.4662	0.4710
FJD-AUD	0.6694	0.6644	0.6565	0.6519	0.6386	0.6280
FJD-EUR	0.4087	0.4040	0.4009	0.4003	0.3984	0.4060
FJD-JPY	69.0041	66.3702	65.6837	64.3473	59.2029	56.5190
FJD-NZD	0.7346	0.7130	0.7134	0.7131	0.7172	0.7246

Source: Reserve Bank of Fiji and Westpac Fiji Estimates

Interest Rate Forecast

Australia	Latest (5 Apr)	Jun-24	Sept-24	Dec-24	Mar-25	Jun-25	Sept-25	Dec-25
Cash	4.35	4.35	4.10	3.85	3.60	3.35	3.10	3.10
10 Year Bond	4.12	4.05	3.95	3.85	3.90	3.90	3.95	4.00
US								
Fed Funds	5.375	5.125	4.625	4.375	4.125	3.875	3.625	3.375
US 10 Year Bond	4.35	4.00	3.90	3.80	3.85	3.90	3.95	4.00
New Zealand								
Cash	5.50	5.50	5.50	5.50	5.25	5.00	4.75	4.50
10 Year Bond	4.58	4.70	4.65	4.60	4.50	4.40	4.35	4.25

Source: Westpac Economics

Global and Trading Partner Growth Forecast

Economies	2020	2021	2022	2023	2024f	2025f
World	-2.8	6.3	3.5	3.3	3.3	3.1
United States	-2.8	5.9	2.1	2.5	2.6	1.4
China	2.2	8.4	3.0	5.2	5.2	5.0
Japan	-4.2	2.2	1.0	2.0	0.7	1.0
India	-5.8	9.1	7.2	7.7	6.5	6.5
Europe	-6.1	5.6	3.3	0.4	0.5	1.5
Australia	-2.1	5.6	3.8	2.1	1.3	2.2
New Zealand	-1.5	6.1	2.4	0.7	0.5	1.6

Source: Westpac Economics

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