WESTPAC MARKET OUTLOOK JUNE 2024.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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EXECUTIVE SUMMARY

The global monetary easing cycle has finally begun, albeit in a fairly limited and tentative way. The last month has seen both the ECB and Bank of Canada reduce policy rates by 25bps. The FOMC is widely expected to follow in coming months albeit with lingering uncertainty around inflation and growth still making it hard to pinpoint the timing. Inflation is now fundamentally lower, the main question for policy being around the confidence central banks have that it will make a sustained move back to targets over reasonable time frames. Economies are showing varied impacts from policy tightening, most recording slower growth. The US is the main exception here, although we continue to note the wide divergence between different measures of labour market conditions. There are other variations on this general theme as well. In Japan, policy-makers are looking to use the recent inflation burst to end its multi-decade problems with recurring deflation and demand weakness. For China, inflation challenges are minimal compared to the housing and trade-related issues although we remain relatively comfortable that it can deal with these and maintain growth. Australia and New Zealand are still some way from having a more confident view on the move to lower inflation. Both are facing an uncertain situation around productivity that could add a domestic aspect to inflation that takes longer to address. However, both are still expected to be firmly in the easing cycle club by this time next year.

Australia: Updates over the last month confirm weak economic activity has carried into the new year but suggest a 'soft landing' still point to a 'soft landing'. GDP growth is expected to lift from 1.1%yr in Q1 to 1.6%yr by the end of 2024 and 2.3%yr by the end of 2025. Recent weakness continues to centre on the household sector, consumers having now cut per capita spending for five consecutive quarters in response to a 'triple squeeze' on disposable income from rising living costs, higher interest rates and an increasing tax take. Income dynamics are starting to improve as inflation subsides, and will get added support from fiscal relief in coming months an eventual easing in interest rates expected from November. However, the recovery is expected to be only gradual.

Commodities: The last month has seen a broad-based softening of commodities outside of met coal and LNG. This issue we continue our exploration of the base metals market, with a view to understanding their role in the transition to a low carbon economy. We focus more specficically on alumina, the raw material for aluminium (accounting for 30-40% of the primary cost of aluminium production). Here, constrained Chinese production, and rising demand look set to see prices remain elevated and volatile.

Global FX markets: The US dollar has held to an exceptionally tight range this month as multiple US rate cuts remain on the horizon, but are not yet imminent. Rate cuts have begun in the Euro Area and Canada, and are anticipated soon in the UK. They are also likely to be of a similar scale for the US cycle by end 2025. Growth in each jurisdiction is also expected to normalise around trend. So, while we see the US dollar trending lower over the forecast horizon, into 2026 the currency is set to remain above its pre-pandemic average.

New Zealand: The economy remains moribund despite the boost from population growth. Even so, following the March quarter inflation reading, the RBNZ has grown more pessimistic about the inflation outlook. With annual inflation now not expected to return to the target midpoint until 2026, the RBNZ has further pushed out the timing of when it expects to begin easing policy until the second half of next year. Meanwhile, the Budget confirmed that fiscal policy will be less restrictive in the near-term than signalled previously.

United States: Inflation risks continue to subside, albeit slowly. Thankfully for the FOMC, the economy remains in robust shape, allowing time for inflation to come back to target with little cost. We expect this status quo to remain in place in coming months, with the downside risks pointed to by some business surveys to be offset by easing from late-2024. Longer-term, supply-side capacity constraints and trade policy are expected to hold inflation modestly above target, requiring policy to remain restrictive, to a degree.

China: Concern over the nation's economic outlook continues to subside, yet market participants remain cautious on aggregate momentum, particularly the health of the consumer. The new tariffs introduced by the US this month will have a negligible impact on the current trade surplus with the US, but they do highlight (again) that China will have to look to offshore production and licensing arrangements to continue benefiting from US growth. These opportunities are secondary to those in Asia and emerging markets.

Japan: While cautious about rapid Yen depreciation, the Bank of Japan is less worried about sustained weakness. A weak Yen supports cost-push inflation and shifts inflation expectations. The normalisation of robust price increases also supports investment in capacity and wage gains. Only when expectations are fully reset and inflation consistently at or above target will the BoJ be justified in lifting the policy rate materially above the lower bound.

Summary of world GDP growth (year average)

Real GDP %ann*	2019	2020	2021	2022	2023	2024f	2025f
United States	2.5	–2.2	5.8	1.9	2.5	2.5	1.5
China	6.0	2.2	8.4	3.0	5.2	5.2	5.0
Japan	–0.4	–4.1	2.6	1.0	1.9	0.5	1.0
India	3.9	–5.8	9.7	7.0	7.8	6.9	6.7
Other East Asia	3.8	–2.3	4.3	4.5	3.3	4.2	4.2
Europe	1.6	–6.1	5.9	3.4	0.4	0.6	1.5
Australia	1.8	–2.1	5.6	3.9	2.0	1.3	2.2
New Zealand	3.1	–1.4	5.6	2.4	0.6	–0.2	1.8
World	**2.8**	**–2.7**	**6.5**	**3.5**	**3.2**	**3.2**	**3.0**

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'.

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.

RBA should be comfortable with disinflation …

‘Rebalancing’ on track …

At its May meeting, the RBA Board assessed that demand was coming back into line with supply quite quickly. Updates since then have continued to support this ‘rebalancing’ view.

… confirmed by weak March quarter national accounts …

Growth all but stalled in the first quarter of 2024, annual GDP gains slowing to just 1.1%yr with weakness centred on the consumer. The combination of sharp rises in the cost of living, higher interest rates and surging tax payments has continued to weigh heavily. While revisions suggest this weakness has not been as extreme as previously indicated, spending is weak nonetheless, having now recorded five consecutive quarters of per capita decline. The changes also show households have run down much more of the buffers accumulated during the pandemic than previously estimated, meaning they now have less scope to continue drawing on these funds to sustain spending.

… despite some notable revisions to history.

More importantly for the RBA, the revised spending profile relates to the past, so any price implications are already in the data. And the latest price data continues to show reasonable progress. Inflation is still tracking lower, despite upside surprises in the March quarter and April month (see here and here for more details).

Government’s cost-of-living measures may work to anchor inflation …

Federal and state government cost-of-living measures are set to accentuate the decline in headline inflation measures in the second half of the year. We now expect annual inflation to drop into the RBA’s 2-3% target range, ending the year at 2.9%yr. Much of this will reverse as temporary energy bill relief rolls off, and there is some risk of spill-over effects to wider demand slowing the pace of disinflation elsewhere. However, these risks look low given the consumer frame of mind, and likely to be offset by the anchoring effects of lower headline CPI reads.

… while labour cost pressures …

There are also clearer signs of a moderation in domestic labour cost pressures. Wages growth has peaked. The Wage Price Index rose 0.8% in the March quarter, coming in slightly below expectations with annual growth moderating a touch, from 4.2%yr to 4.1%yr. The Fair Work Commission’s decision to lift minimum wage and award rates by 3.75% this year – down from an average increase of 5.75% last year – also came in below our expectations and provides another source of moderation for wage growth (see here for more details).

… are more clearly moderating.

The more granular detail from the March quarter national accounts update was also quite promising on productivity adjusted measure of domestic labour costs. Annual growth in nominal unit labour costs (ULCs – effective cost of labour once both wage changes and productivity are taken into account) slowed from 6.6%yr to 5.7%yr and has been tracking a 3.8% annual pace over the last two quarters. This is broadly consistent with inflation in domestically driven segments like the market services sector slowing to around a 3.5% annual pace.

RBA’s policy easing should begin before inflation makes a full return to target …

With the RBA in data-dependent mode, surprises in the data flow could still change the timing of rate cuts, but they are unlikely to alter the underlying rationale. The RBA Board recognises that monetary policy is currently contractionary. At some point, it must reduce that restrictive stance and return to something closer to a level it considers to be ‘neutral’. Otherwise, persistent weakness in demand could see inflation decline below the target range. Because monetary policy works with a lag, rate cuts need to start before inflation has made a sustained return to target.

… but it will need to be confident about the trajectory.

The question the RBA Board will be asking itself is what it needs to see to be confident that inflation will return to target soon. The likely trajectory of disinflation from here precludes a rate cut much before November. The trimmed mean measure of inflation was still a full percentage point above the top of the target range over the year to the March quarter. The Bank will be watching this measure more closely as temporary factors buffet the headline measure in coming quarters. However, even with a further moderation in trimmed mean inflation, it will take time for enough evidence to accumulate to convince the Board that the disinflation is firmly on track to reach 2-3%yr on a sustained basis. But if things turn out as we expect, a forward-looking central bank would want to start reducing the restrictiveness of policy by about November.

A November start is still the most likely …

As always, there are risks to this outlook. These skew more towards a later rather than earlier policy easing. The main thing that would cause the RBA to push back the timing of its first rate cut is inflation remaining sticky above the target range. If domestic demand recovers more than expected and/or labour cost growth remains higher than expected then domestic inflation pressures would remain elevated and the RBA would want to delay cutting rates.

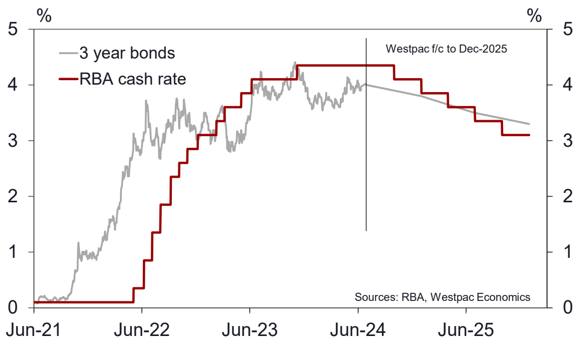
… but uncertainty could see delays and supply-side issues remain a risk.

A particularly uncomfortable scenario for the RBA would be one where domestic demand, and especially consumption, remains soft but supply side issues keep aggregate inflation too high. Recent increases in shipping costs also raise the spectre of another round of externally-driven supply shocks impacting inflation. Geopolitical risks, particularly around both hotspots in the Middle East and eastern Europe and around trade policy, could also produce more inflation flare-ups. Domestically, the key supply-side risks are around housing, insurance, health and energy.

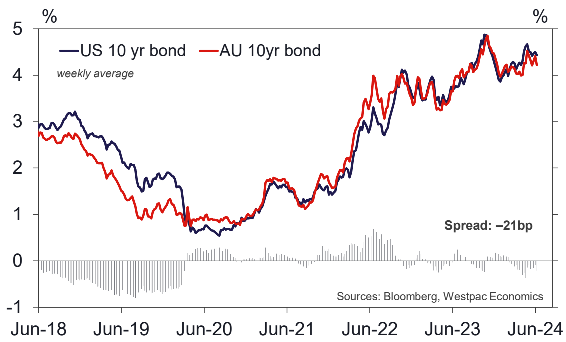
Luci Ellis, Chief Economist and Matthew Hassan, Senior Economist

… to date, but not yet confident enough to begin easing

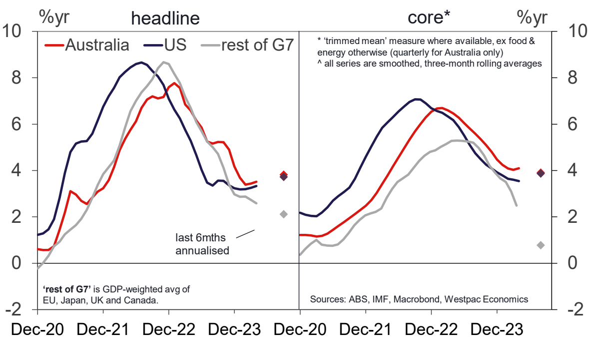
RBA cash rate and 3 year bonds



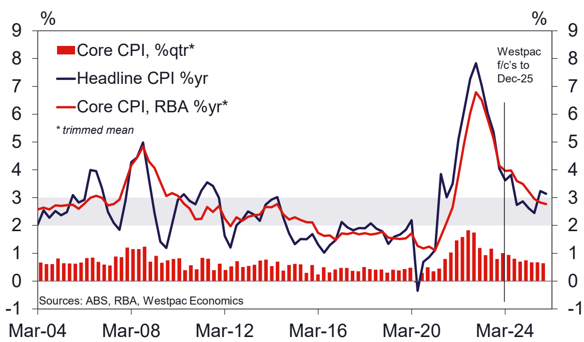
Aussie 10 year bonds shadow US yields



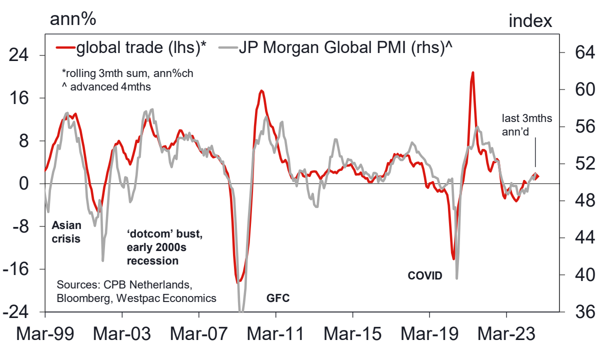
Pace of global disinflation



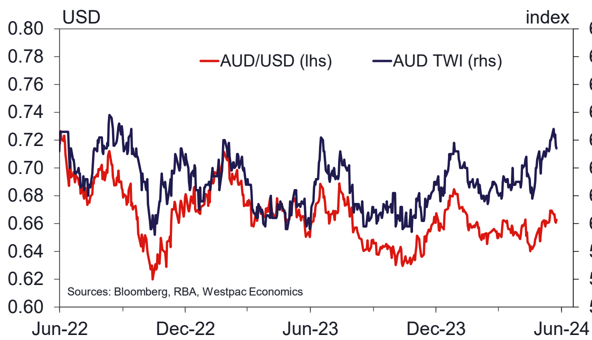
CPI inflation: Budget measures buffet headline



Global trade stabilises



AUD/USD & AUD TWI



Economy remains soft ...

Q1 national accounts ...

Growth in economic activity remains soft, driven by weak consumer spending. Beginning in the second half of the year, it will gradually pick up as the factors weighing on household income ease and consumer spending recovers – GDP growth expected to lift to 1.6%yr by end 2024 and to 2.3%yr in 2025.

... show the economy limping into the new year ...

The Australian economy limped into 2024, GDP rising just 0.1% in the first quarter and annual growth slowing to 1.1%yr. The annual pace is well below trend and the slowest outside of recessions and the major shocks of the pandemic and the GFC. It is particularly weak given the current strong pace of population growth, running at 2.4%yr. Australia has now recorded four consecutive quarters of declining per capita GDP.

Consumer spend a bit better than expected ...

The main surprise in the quarter was a larger-than-expected contribution from household consumption, up 0.4%qtr. Some of this looks to have been a temporary boost relating to one-off events – the Taylor Swift concerts and Formula 1 – which will drop out of the picture next quarter.

... but revisions suggest their finances are more depleted ...

Significant upward revisions to historical estimates of spending suggest consumers may be more cautious over the year ahead. These revisions relate to estimates of Australian tourism spending abroad. The total mark-up adds just over $22bn to the last five quarters of spending estimates and lifts the annual growth profile of total consumer spending by about 1ppt. However, it also implies a much larger run-down in reserves carried over from the pandemic. Nearly half of this aggregate buffer now looks to be gone. That suggests households may be less inclined to spend and more inclined to rebuild savings buffers as their incomes recover.

... and incomes still under pressure.

Meanwhile the recovery in incomes remains slow, real household disposable income flat in the quarter and up just 0.4%yr. The various headwinds to income – from the rising cost-of-living, higher interest rates and higher tax payments – are moderating but with only a muted recovery in incomes so far.

Public demand a key support but also looking stretched.

Overall, domestic demand edged 0.2% higher over the quarter with solid growth in public demand balancing near-flat private demand, which includes assistance to households in the form of subsidies. As a share of the economy, public demand reached 27.2% of GDP, eclipsing the pandemic peak of 27.1% and well above the pre-pandemic average of just over 22%, illustrating the scale of assistance governments are providing.

Investment fell but outllook mixed: weak for housing, stronger for business.

The near-flat result for total private demand reflected weakness in dwelling investment and business investment, the latter centred on construction activity. The forward view here remains mixed. Home-building is expected to remain weak near term, with dwelling approvals still around 12yr lows, backlogged work rolling off and a range of capacity and cost issues still weighing heavily on the sector. These issues are also having some impact on business investment. However, the project pipeline in this space remains elevated, with the March quarter Capex survey also showing non-mining businesses are planning solid increases in spending in 2024-25 (over and above rises that might come from higher costs, see here for more).

Net exports were a large 0.9ppt drag on activity in the quarter, again reflecting the strength of outbound tourism flows and some catch-up in imports more generally (also evident in a rise in inventories). Total import volumes surge 5.1%, far exceeding the 0.7%qtr gain exports. This pattern is expected to partially reverse in the June quarter.

Productivity slowly improving.

The national accounts also provided an update on closely-watched measures of productivity and the domestic cost base. These show both continuing to improve, albeit only very gradually. Hours worked tracked GDP in the quarter with labour productivity flat on a year ago (subdued but an improvement on outright declines). Growth in unit labour costs also slowed materially (see p4).

Labour market remains consistent with 'soft landing' for wider economy.

The latest labour market data continues to show a gradual slowdown. Looking through some residual seasonal volatility month to month (a positive in May), employment growth is tracking more subdued growth rate of around 2.6%yr, now basically in line with population growth. Unemployment has been tracking a slight up-trend. The muted rises look to be a mix of legacies from previously very tight conditions (making employers reluctant to shed workers) and businesses responding to slower demand through adjustments to hours worked rather than headcount (total hours worked have been about flat year to date). Underemployment and unemployment in more cyclically sensitive segments continue to show more of a softening.

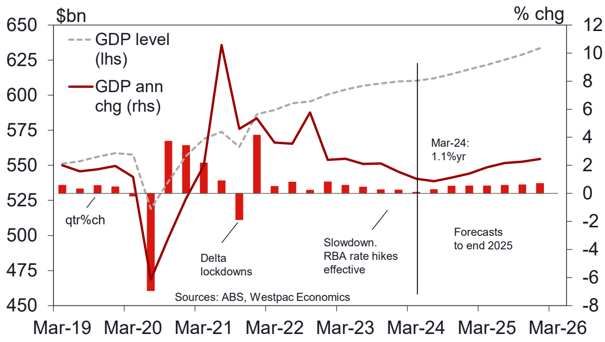
Consumer savings behaviour a key risk to recovery outlook.

Looking ahead, the economy is expected to see some improvement as consumer headwinds continue to subside and policy provides more support as tax cuts and fiscal support measures impact from July and an eventual easing in interest rates comes through from November. A key risk here is how consumer spending responds to this improvement with low savings rates and some survey responses (see here) suggesting they may favour rebuilding savings buffers.

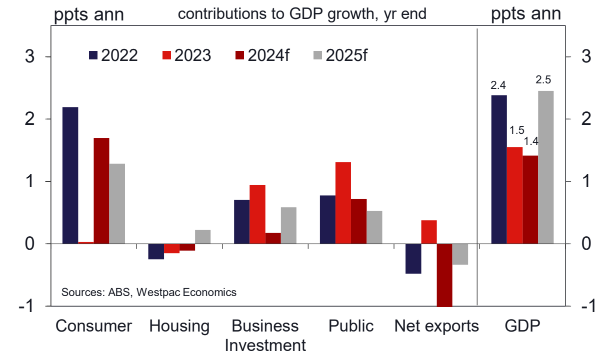
Matthew Hassan, Senior Economist

... consumer saving behaviour a key risk

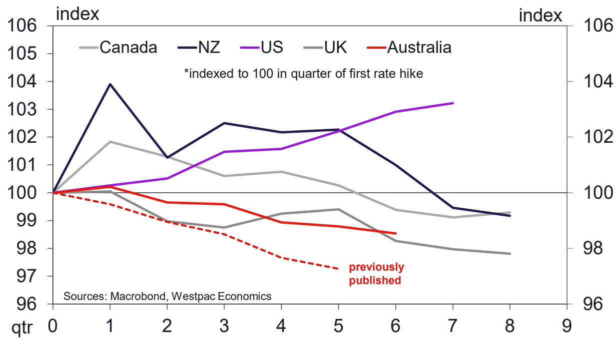
Australian economy stalls



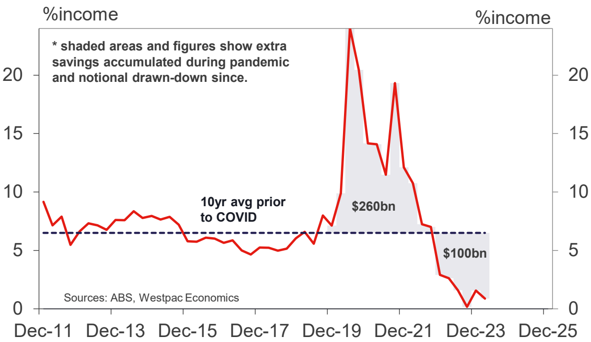
Australia: the growth mix



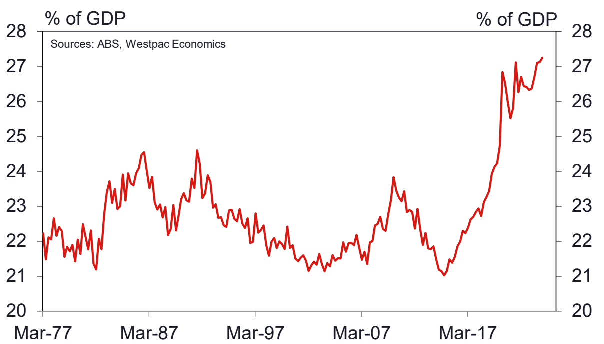
Consumption per capita: Australia vs peers



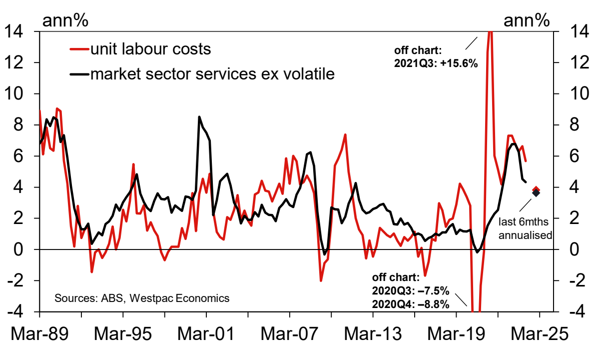
Household savings ratio



New public demand: fresh record high



Unit labour costs vs services inflation



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Iron ore, thermal coal & crude soften …

Broad based softening of commodities outside of met coal and LNG.

Our broad commodities index, the Westpac Export Price Index, (WEPI) soften in the month (-2%) as robust met coal and LNG prices were offset by softer iron ore, thermal coal, crude oil and most base metal prices. We have done a bit of 'marking-to-market' for our near term price forecasts but our long-held profile is broadly unchanged. We still expect iron ore prices to weaken this year, down to US$85/t by end 2024, 'ditto' for met coal (US$230/t by end 2024) and thermal coal ($120/t by end 2024). We are expecting crude oil to hold around current levels (US$80/bbl) through to late this year when lacklustre demand sees prices dip below US$80/bbl. While we hold a constructive medium-term view for metals associated with the transition to lower carbon emissions, we believe the current rally in base metals is overextended and expect a correction to take copper down to US$9,300 and nickel down to US$17,000/t by the end of the year. All-up we are looking for the WEPI to fall around 10% by the end of the year.

This month we continue our exploration of the base metals market…

Regular readers may have noticed that this year we have focused more on the base metals group than we have in the past. That is because we recognise the need to understand the longer-term dynamics for the critical minerals associated with the transition to net zero carbon emissions. (For further background the longer-term view see: **future prospects for Australia's transition minerals**). So far we have covered **copper,** and **aluminium** while back in March we took a look at the quintessential boom-bust mineral, **nickel**. The key theme unfolding from this research is that while the longer term outlook remains particularly bright for these minerals (e.g. recent research suggests that under a net-zero scenario the global energy sector's need for critical minerals will increase six-fold by 2040) that does not mean we have seen the end of two-way price volatility for this group. Overall, the transition to net-zero presents a positive outlook for Australia's resources sector given our strong leadership in mining technology and services.

…to understand their role in the transition to a low carbon economy.

Our colleague **Robert Rennie** has been pretty consistent with his view that copper is in a delivery squeeze/bubble. He saw prices being capped around $US12,000/t to US$15,000/t then once we pass this squeeze, prices should drop back through US$10,000 (our end-2024 forecast is US$9,300/t). As such, he was not surprised to see an around 10% slump over the last two weeks to below $10,000 as we went to press. The last week of May saw another huge rise in Shanghai copper inventories taking us to levels that have only ever been exceed three times before which set the market up for a break below US$10,000/t. However, Rob notes that, at least for the moment, technically if we see a bounce up from this level the up-trend will remain in place. As such US$10,000/t remains a key level to watch.

This month we focus on alumina, the raw material for aluminium…

As we noted last month there has also been a lot of action in the aluminium market and we expect this metal to continue to outperform after the Chinese government stated in a work plan for 2024/25 that it would cut CO_2 emissions by 3.9% and will implement far stricter limits for new aluminium output capacity.

This month we take a look at the recent spike in alumina prices and find reasons to believe higher prices can be sustained for longer than we had previously anticipated. Alumina typically accounts for 30-40% of primary aluminium production costs. While the majority of aluminium producers are vertically-integrated (in electricity and alumina), marginal smelters are more exposed to volatility in alumina and power prices.

…as it accounts for 30% to 40% of the primary cost of aluminium production.

Over the past decade or so the aluminium industry has seen significant overcapacity resulting in prices generally tracking the cost curve. Price spikes in alumina/power lift the marginal cost of production and are supportive for the aluminium price (which is why aluminium is often described as 'solid electricity'). Chinese overcapacity led to an oversupplied market with aluminium prices falling deep into the cost curve from 2021 to 2023. Then in early 2024 Alcoa curtailed output from the Kwinana refinery, removing around 1.4mtpa of alumina output. Combined with bauxite curtailments/shortages in China, this closure dragged alumina prices up out of the cost curve from around US$325/t at the end of 2023 to around US$375/t. This move was more likely due to the elimination of an oversupplied situation rather than the evolution of genuine tightness in the alumina market. Then a Rio Tinto declaration of *force majeure* on contracts with the Australian Yarwun & QAL refiners, due to fires affecting natural gas supplies, created market fears that real tightness would emerge in the alumina market. These refineries have a capacity of 7mtpa or around 4.5% global supply, 10% ex-China supply. The event saw prices push up through US$450/t.

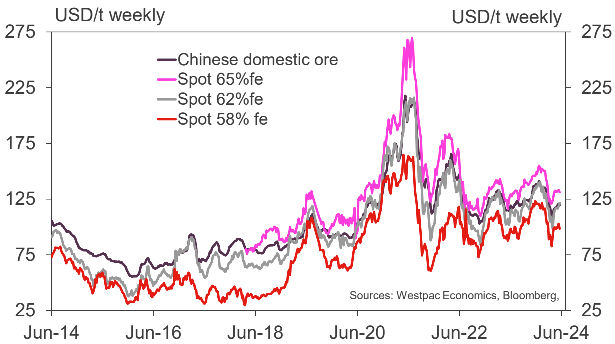
Constrained Chinese production, and rising demand, will see prices remain elevated.

China has excess alumina capacity (the industry is currently running at around 80% utilisation) and acts as the swing producer if seaborne prices are high enough. At least for the medium term, we expect this to remain the case. However, so far this year a series of safety stoppages have restricted the ability to lift alumina output and these issues appear unlikely to be resolved near term. Overall, for at least the medium term, a combination of constrained domestic alumina and increasing domestic alumina demand due to the resumption of smelter production in Yunnan are likely to limit China's ability to materially lift exports to address tightness in the seaborne alumina market. As such, alumina prices are likely to remain elevated and potentially volatile.

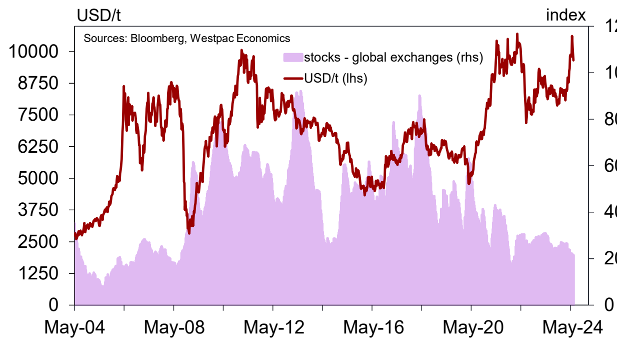
Justin Smirk, Senior Economist

… as met coal and LNG remain supported

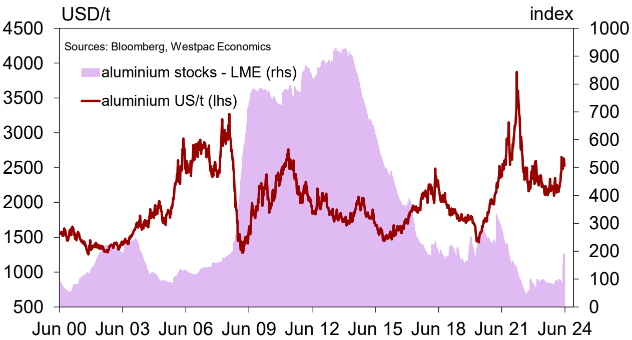
62% on par with Chinese ore



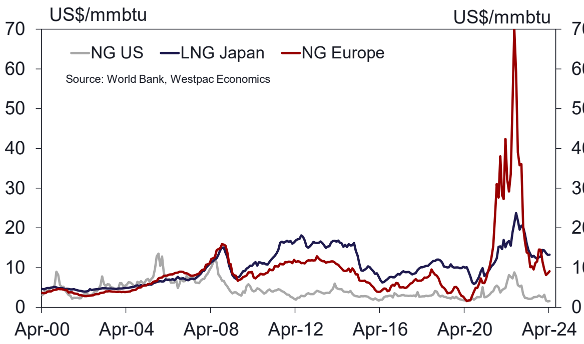
Global copper inventories & price



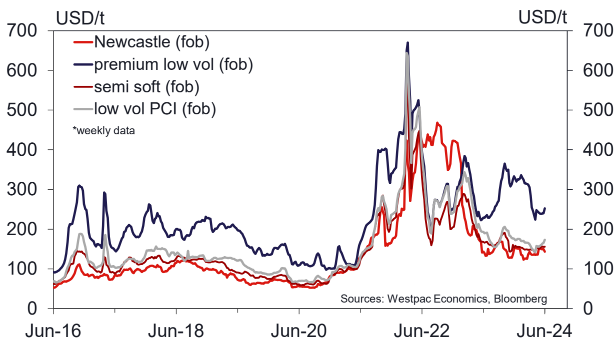
Aluminium prices and stocks



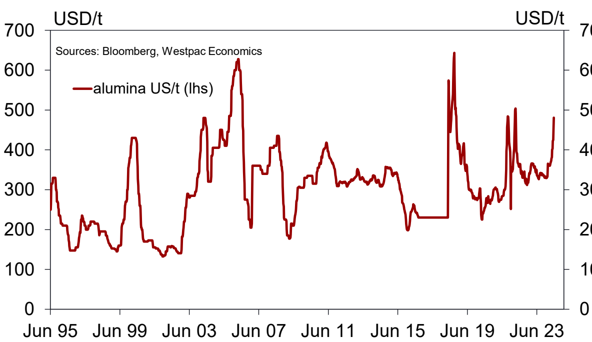
LNG remains supported in Asia



Premium low vol holds on to its premia



Alumina prices



The US dollar's resilience …

US dollar little changed this month …

Another month, another tight range for the US dollar. In this instance the range has been between 104.1 and 105.3 on a DXY basis. The narrative the market continues to work to is that a number of rate cuts are on the horizon but not imminent.

… as risks the US faces slowly shift …

As detailed on page 16, the balance of risks for the US has clearly shifted, but only from an upward skew to broadly neutral. This is a view we largely agree with, although arguably the market sees a greater chance of the US FOMC holding back on rate cuts until downside risks assert – a course that, to us, seems unnecessary and potentially dangerous.

… from upwardly skewed to broadly balanced.

For the US dollar to break down to, let alone move through, 2024's low of 102.2 (-2.4% from spot), either economic momentum will have to fall below trend or the Committee will have to make clear that it has seen enough evidence of inflation trending towards target to believe policy will, in time, complete the task.

There has been no definitive evidence of either catalyst this month. The past few months have instead seen US data mostly meet or outperform expectations, as has been the case throughout the past two years. Hence, we remain of the view that the US dollar will likely only edge lower through the end of Q3 2024, when we forecast 104.1 on a DXY basis.

Rest of 2024 likely to see a continuation of this trend …

If we are correct in our views on inflation and activity, the subsequent six months will see belief in a sustained, but measured, rate cut cycle grow in the US. Evidence of an end to US exceptionalism with respect to inflation and growth will then allow the DXY index to progressively step lower, to 103 by end-2024, then 101 by mid-2025 and 99 by end-2025. Even at end-2025 though, we see the US dollar materially above its historic average – the five years prior to the pandemic, it averaged 96.

… with the policy outlooks across Europe and North America broadly aligned …

Why is this the case? In part it comes down to the status quo in other nations. This month we have seen both the European Central Bank and Bank of Canada deliver rate cuts. In their post-meeting communications, both central banks made clear they believed these actions were the first of a series of rate cuts, assuming current data trends persist. At least early in this cycle, US interest rates will lag those in other comparable jurisdictions, aiding the US dollar. Of course, USD/JPY is a key constituent pair for DXY. For this bilateral, not only are rate differentials set to remain in the US dollar's favour in the near term, but for the entire cycle.

… and growth in each jurisdiction expected to converge to trend.

While we see US growth decelerating to trend as Europe, the UK and Canada recover, momentum in these other jurisdictions is only forecast to rally back to around trend, with downside risks. In such circumstances, the US outperformance over the past two years is likely to see many participants continue to bet on the US dollar until the growth realignment is complete. Even then, the case against the US dollar is likely to remain thin.

Fiscal policy is an area of considerable uncertainty …

The final factor in the US dollar's favour is fiscal policy. Following November's elections, we do not expect a material change in fiscal support for the US economy. So the market's current favourable view of the US dollar implications of the Inflation Reduction Act and implemented tariffs is likely to persist as long as the deficit does not balloon from its current 5.5% of GDP.

… but this is the case everywhere.

It is possible that investors will begin to see greater opportunity for Euro Area growth through regional political cohesion. But, as the recent disparate political debate at the country level highlights, this seems unlikely in the near term. Where there is a higher probability of fiscal policy being perceived and shown as supportive is across Asia, in particular in India and China.

Even in Asia, where there is considerable development opportunity …

Prime Minister Modi's success in forging a coalition for a third term offers the possibility of continued reform and development, domestically and via regional co-operation. In China, industry policy and political engagement with neighbouring less-developed nations has proven successful for Chinese exporters. Offsetting for the Renminbi however has been persistent distrust in Chinese authorities' handling of the property sector.

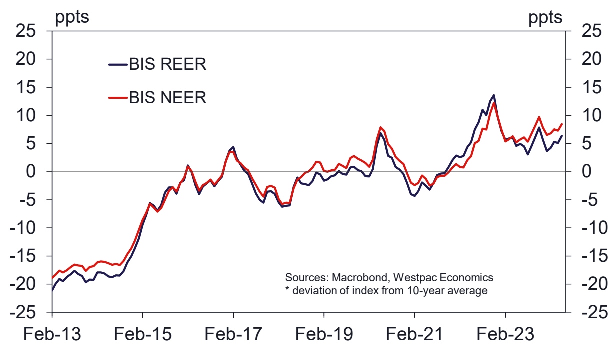
… enduring concerns remain over regulation and financial infrastructure.

This is an interesting lesson not only for the Renminbi, but the rest of the region's currencies. Economic performance, actual and perceived, is only one component of FX valuation. Participants' understanding of the array of risks an individual country and the world faces counts for as much, if not more, than the baseline expectation. So too, the ability of investors to hold investments in each currency with confidence. In these areas, Asia, particularly China, has considerable progress to make. This is why we expect that a sustained, broad-based outperformance against the US dollar for Asia is unlikely before 2025 – at the earliest.

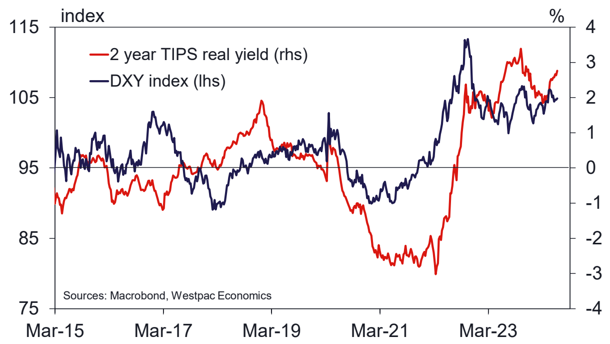
Elliot Clarke, CFA, CAIA, Senior Economist & **Illiana Jain, Economist**

… has a robust foundation

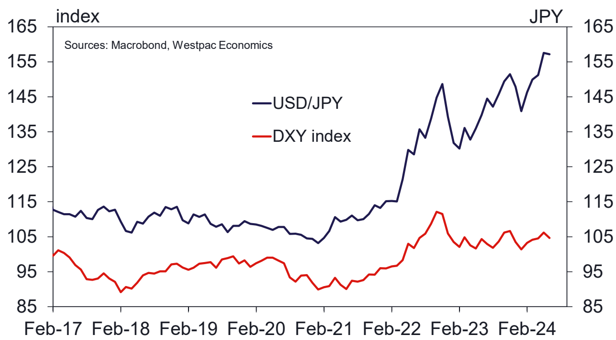
USD historically elevated on broad basis



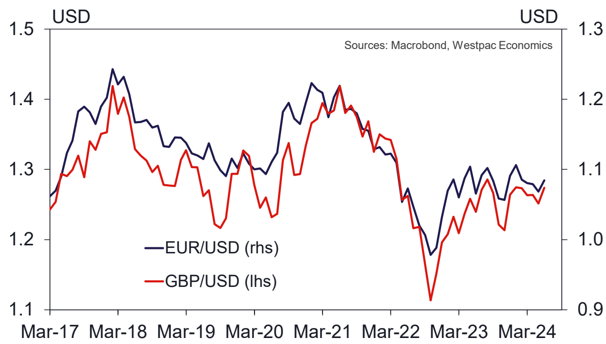
Yield support for USD should endure…



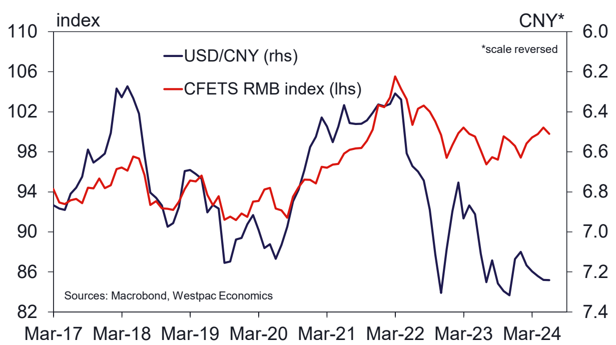
… particularly vs Yen given BoJ's patience



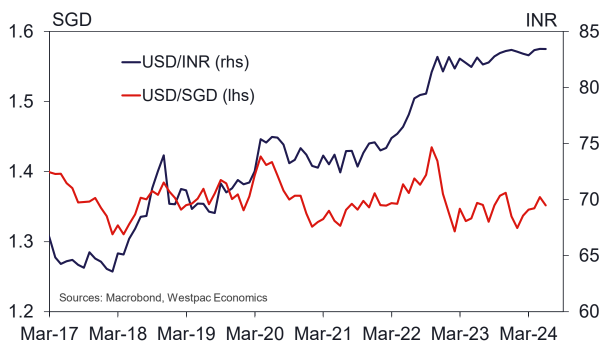
EUR negatives should fade in 2024/25



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



Monetary policy easing still unlikely this year …

RBNZ's May meeting saw a more hawkish stance …

While the New Zealand economy appears to be moribund the RBNZ has grown more pessimistic about the near-term outlook for inflation in the wake of the March quarter CPI report. As expected, last month saw the Bank leave the OCR unchanged at 5.5%. Of more surprise was its upwardly revised projection for the OCR which also pushed out the forecast timing of easings. Specifically: the projected OCR path now peaks at 5.65% (vs the peak of 5.60% assumed previously); and is consistent with a policy easing beginning around August 2025 (compared to mid-2025 previously).

… the Bank less optimistic about inflation …

Underlying the RBNZ's more hawkish stance is the lingering strength in inflation – in particular, domestic inflation. The RBNZ now forecasts that inflation will end 2024 at a rate of 2.9% – in line with our own forecast but considerably higher than the Bank's previous forecast of 2.5%. In addition, the RBNZ now expects it to take even longer to get inflation back to the 2% target mid-point – the May MPS forecasts don't have inflation back at 2% until mid-2026 (compared to late 2025 previously). That's even with the upward revision to its OCR track.

… trend productivity growth also assessed as lower.

Key to these revisions has been a reinterpretation of recent history – in particular, with regard to trend growth in the economy and the size of the output gap – given ongoing upside surprises to domestic inflation. The upshot is that despite significant downward revisions to the growth outlook, the RBNZ expects the disinflationary impact of slower economic growth to be less pronounced than previously assumed. Relatedly, it has also revised up its assessment of the long-run neutral OCR, by 25bps to 2.75%, a change that has some bearing on the Bank's longer-term OCR projections.

We continue to forecast a first policy easing in Feb 2025.

The broad thrust of the RBNZ's updated thinking is consistent with our recently updated Economic Overview – i.e. that there are still 'hard yards' to be done in bringing inflation down to the 2% target midpoint in a timely and sustainable manner. Our baseline view remains that the first 25bp policy easing will not occur until February next year and will be followed by a series of gradual (once a quarter) 25bp reductions that will eventually lower the OCR to around 3.75% in 2026. That's a later start to the easing cycle than implied by pricing in financial markets.

At the macro level, Budget 2024 will likely have disappointed the RBNZ.

Meanwhile, the macro details of Budget 2024 have likely come as a further disappointment to the RBNZ. The Government more-or-less delivered on all the spending and revenue initiatives that had been proposed in the coalition agreements, including raising income tax thresholds for low- to middle-income earners (beginning July 31). While the tax cuts were funded by significant savings, reprioritisations and revenue initiatives, a weaker profile for nominal GDP has led to a more than $18bn shortfall in tax revenue across the forecast period.

A return to surplus has been delayed until 2027/28 …

Indeed, in the near-term, the fiscal outlook was portrayed even more negatively than we had expected, with an operating balance before gains and losses (OBEGAL) deficit of 3.1% of GDP now expected in 2024/25 – more than double the forecast in December and larger than the 2.7% of GDP deficit now forecast for the current fiscal year. Thereafter, the Government has set itself very skinny annual operating allowances of just $2.4bn to fund new initiatives in subsequent budgets. On that basis, government spending as a share of GDP is forecast to decline by more than 2ppts, allowing the Government to forecast a tiny OBEGAL surplus of 0.3% of GDP in 2027/28.

… requiring more Government borrowing …

The weaker fiscal outlook has necessitated a lift in the Government's borrowing programme, with cumulative bond issuance now forecast to be $12bn greater than forecast in December. While this was a slightly smaller lift than we had expected, this was only possible due to a $4bn increase in short-term borrowings.

… and meaning fiscal policy is providing less help to monetary policy.

Importantly, the weaker near-term outlook for OBEGAL means that the Treasury's estimates now imply the fiscal stance is no longer contractionary in the 2024/25 year. We think this explains why the tone of the RBNZ's commentary around fiscal policy in the May MPS was notably more hawkish than what had been offered previously. Budget 2024 is not a game changer for the RBNZ, but a tighter fiscal stance would clearly have been welcomed.

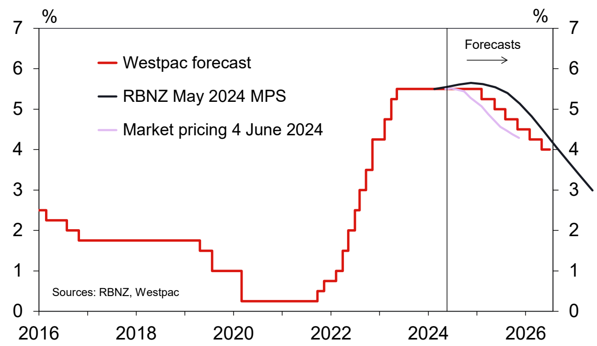
Risks to the fiscal outlook appear skewed to downside.

We think that the risks to the fiscal outlook still lie to the downside. Living within such tight spending allowances will be challenging for the Government, especially given rapid population growth. The Treasury's forecasts for inflation are more optimistic than our own, which leads it to forecast a more rapid rebound in the economy than we think is likely and lower financing costs than we expect. On the revenue side, should the remaining carbon auctions fail to clear – as would appear to be the risk – that would present an additional source of fiscal risk.

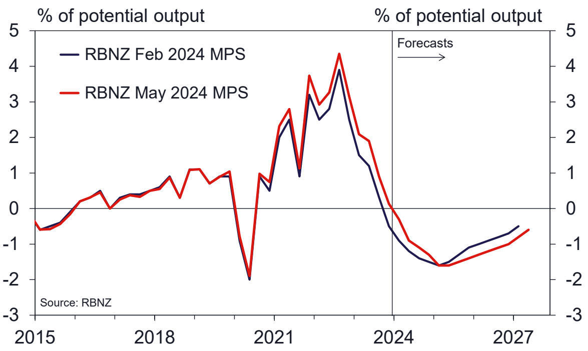
Darren Gibbs, Senior Economist

... with the fiscal stance providing less restraint than hoped

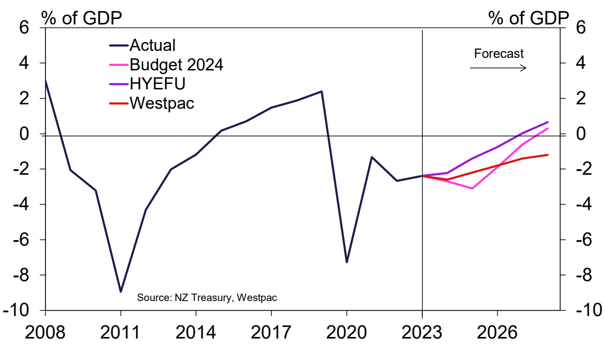
Official Cash Rate forecasts



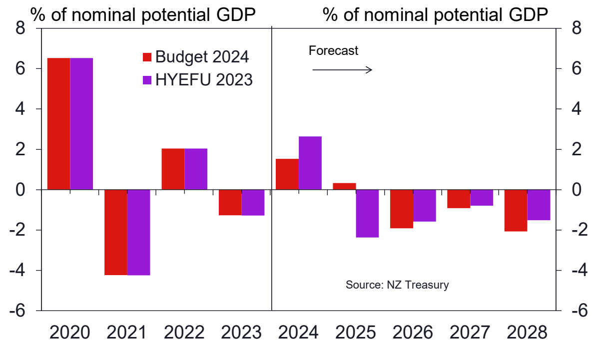
RBNZ output gap estimates



Government operating balance (OBEGAL)



Total fiscal impulse



	2023								2024		
Monthly data	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
REINZ house sales %mth	3.4	3.8	–6.3	7.5	–0.8	–11.5	3.2	4.2	–4.1	17.9	–0.6	–3.6
Residential building consents %mth	–2.6	2.1	–5.2	–7.2	–4.5	8.5	–10.4	3.7	–9.5	16.2	–0.2	–1.9
Electronic card transactions %mth	–2.1	2.1	–1.2	0.8	–0.7	–0.5	1.7	–0.5	1.1	–1.2	–0.9	0.9
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	2.5
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	–949	–684	–1486	–808	–1076	–853	–866	–849	–400	–878	–320	–890

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	4.0
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.

Market expectations firming, ...

Market participants becoming less concerned about an abrupt slowdown ...

Through May, market participants reduced the weight of downside risks to China's economic outlook. However, their baseline expectation remained cautious, the Bloomberg consensus being for growth of 4.9% in 2024 and 4.5% in 2025. While close to our own forecast for 2024 (5.2%), the market's expectation for 2025 is materially lower than ours at 5.0%.

... but still cautious on the sustainability of momentum.

The property market remains a pressing concern for most, with property investment 10% lower year-to-date in April and a significant wealth/sentiment effect apparent in consumer spending, retail sales surprising to the downside in April at 4.1% year-to-date, down from 4.7% in March.

Policymakers continue to take a reactive approach to the sector's health, moving to ward off the chances of a further deterioration in conditions but leaving the timing and scale of any recovery up to developers and consumers to work out. Admittedly recent reductions in deposit requirements across the major cities and support for local governments to buy up existing housing stock on market should provide some upward momentum, but many households are likely to remain on the sidelines until the trajectory of prices and health of developers becomes clearer.

Consumer will remain cautious and property weak ...

It is not a surprise to us that consumers remain cautious and their willingness to spend fragile. Dissipating weakness has to be expected through 2024 (at least) rather than burgeoning strength given the costs Chinese households have suffered from both the pandemic and real estate's structural reset.

... but significant growth opportunities await through investment and trade ...

Nonetheless, we remain optimistic on China's overall growth outlook, owing to continued strength in investment and trade which should, eventually, produce robust and lasting gains in employment, wages and household wealth.

At face value, the US decision this month to dramatically increase tariffs on key Chinese exports is a material threat to China's prospects. However, we do not believe this to be the case. The current round of US tariffs, most notably the 100% tariff on Chinese-made EVs, are being put in place to prevent China from gaining market position in emerging industries in the US, not to stop existing imports. Moreover, as written, the tariffs do not preclude Chinese technology from being licensed to US firms for use in the production of goods for the US market, or Chinese-owned firms from producing outside China and shipping to the US from these locations – Mexico, Europe and south-east Asia all potential options.

... aided by strong growth and development across Asia ...

The US actions therefore are unlikely to materially reduce China's current trade surplus with the US or reduce future growth opportunities elsewhere. For China, these are concentrated in Asia and across emerging markets.

... and active economic and political engagement with emerging markets.

It is notable that, over the 12 months to April, China's trade surplus with Asia was larger than that with Europe and almost on par with the US position. Further, this region is currently experiencing growth two to three times that of the US and is at a completely different point in its development journey. There is every reason for these countries to not only buy Chinese-made consumer and industrial goods but to also partner with Chinese firms to develop their capacity and infrastructure, particularly across mining and manufacturing. For these nations, China's know-how regarding industry and logistics is as appealing as the price of its goods.

In sustaining 4-5% growth beyond 2025, the chief risk for China's economy remains the recycling of the proceeds of trade to the broader population – a significant but surmountable challenge.

Elliot Clarke, CFA, CAIA, Senior Economist

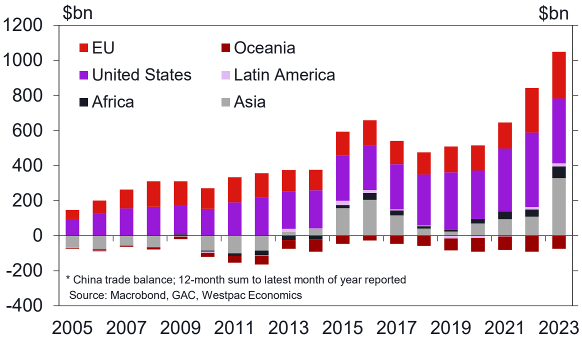
	2023							2024				
Monthly data %yr	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
Consumer prices – headline	0.0	–0.3	0.1	0.0	–0.2	–0.5	–0.3	–0.8	0.7	0.1	0.3	–
Money supply M2	11.3	10.7	10.6	10.3	10.3	10	9.7	8.7	8.7	8.3	7.2	–
Manufacturing PMI (official)	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5
Fixed asset investment %ytd	3.8	3.4	3.2	3.1	2.9	2.9	3.0	3.0	4.2	4.5	4.2	–
Industrial production (IVA)	4.4	3.7	4.5	4.5	4.6	6.6	6.8	6.8	7.0	4.5	6.7	–
Exports	–12.4	–14.3	–8.6	–6.8	–6.6	0.7	2.1	8.1	5.4	–7.5	1.5	7.6
Imports	–7.1	–12.1	–7.2	–6.3	3.0	–0.6	0.3	15.4	–8.1	–1.9	8.4	1.8
Trade balance USDbn	69.6	79.4	67.2	75.1	55.9	69.1	74.7	85.3	39.4	58.6	72.4	82.6

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

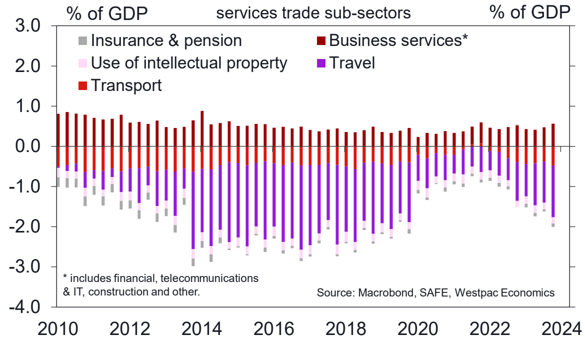
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

… though caution remains

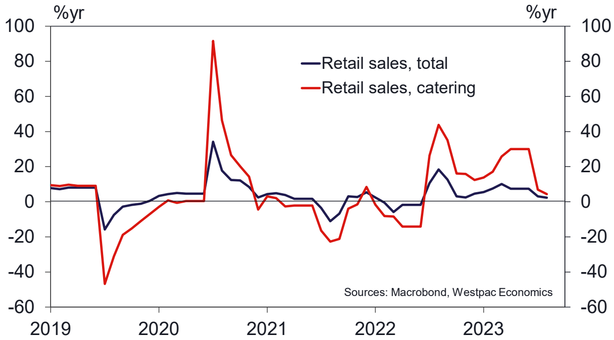
Asia critical to China's goods surplus



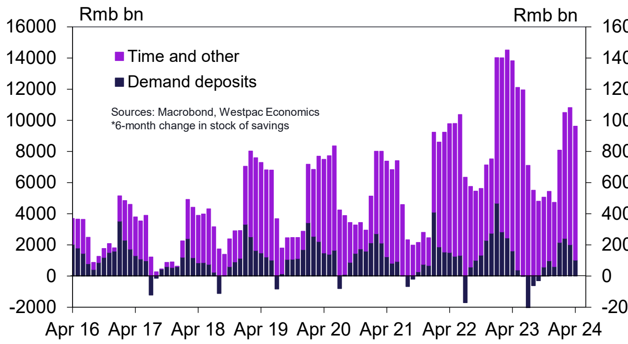
Chinese service demand benefits Asia



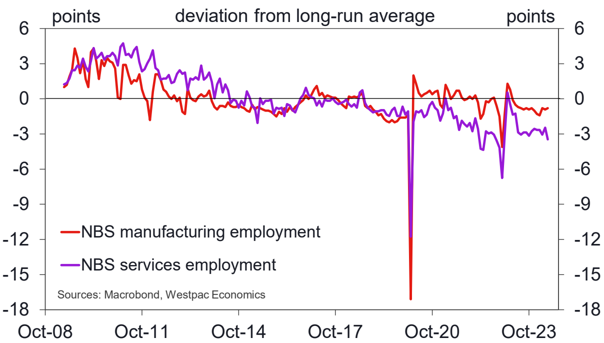
Consumer caution still evident in spending…



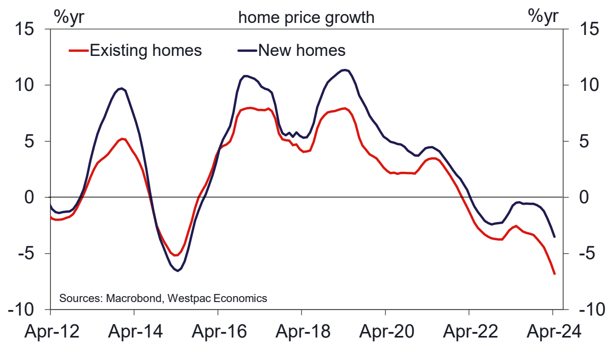
… and savings behaviour



Gains for employment should aid confidence…



… in late 2024, but wealth a lasting headwind



Considering the risks …

US inflation risks have been the chief concern …

Over the two years to March 2023, inflation was a multiple of the medium-term 2%yr target and risks to the policy outlook were heavily skewed to the upside. Even as supply-side inflation related to the pandemic abated, rising demand and population-driven domestic pressures gave reason to expect persistently tight policy. But since March 2023, these risks have slowly-but-surely abated and the prospect of achieving the FOMC's inflation objective has come into view. At the June meeting, the FOMC made clear they believe patience and caution remain paramount (the Committee now only seeing one cut in 2024), but equally are data dependent and determined to engineer a soft landing for the economy (which we expect will instead require two cuts in 2024).

… but questions are now being raised over growth as well …

The labour market is critical to the debate over the timing and scale of rate cuts. Month-to-month, the market has perceived strength and resilience in nonfarm payrolls. The three-month average gain of 249k and twelve-month average of 230k are both ahead of population growth. Yet, when assessed against the monthly average of the year to March 2023 and March 2022 – 320k and 591k respectively – this represents a substantial and sustained step-down in momentum. What's more, growth in aggregate weekly hours worked has decelerated in line with nonfarm payrolls, even as the number of multiple job holders has been rising at a robust pace, suggesting supply is sufficient for demand.

… as payrolls strength conflicts with the household survey's stalling out …

Payrolls may also not be telling the full story. We have highlighted this year that the other major US employment report, the household survey, has been materially weaker than nonfarm payrolls' establishment survey. This remains the case. In the past three months, the household survey has registered an average gain of just 38k, continuing the trend of the past 12 months which has seen a 31k average gain. That has led the unemployment rate (which derives from the household survey) to edge up from 3.4% in April 2023 to 4.0% in May, with broadly stable participation.

… the ISM services survey even pointing to a risk of outright job cuts.

Both surveys have weaknesses, so one employment count is not manifestly 'better' than the other. An, admittedly naive, average of the two seems the best compromise approach to gauging momentum. This would put the current pace of monthly job growth at around 150k, a solid support for activity but benign for inflation, particularly given wage growth is also decelerating. It is worth noting that some business surveys are weaker still, pointing to no job growth whatsoever (ISM manufacturing and NFIB small business opinion) or even outright job losses (ISM services).

Consumption growth is slowing …

Consumption is critical to aggregate activity and employment. While strong in 2023, nominal retail sales effectively stalled over the first four months of 2024. Resilience in service demand has helped offset the weakness in goods spending but, year-to-date, total consumption growth has still seen a material step-down from 2023. With the savings rate historically low and some evidence of stress evident in measures of delinquencies and late payments, a further deceleration in consumer spending growth is to be expected as employment and real wage growth remain subdued.

… but is not pointing to a 'sudden stop'.

Still, firms should remain confident enough in the level of demand to hold on to staff, keeping the risks apparent in the business surveys at bay for long enough to let the FOMC deploy a gradual policy easing as inflation nears the 2%yr target.

FOMC's unease about inflation will ebb but not disappear.

The FOMC's nervousness over inflation is unlikely to completely disappear, however. And so policy easing is likely to be measured in both pace and scale. We continue to expect a first cut in September followed by one cut per quarter from Q4 2024 through to Q2 2026, resulting in a terminal policy rate for this cycle of 3.375%. As above, the FOMC are more cautious on 2024, at June seeing only one cut by December; but four cuts are expected in 2025 and another four in 2026, leaving a terminal rate of 3.1% at end-2026.

Supply issues may endure …

The enduring risks for inflation are around supply.

… risks already evident around trade policy …

Recent US tariff decisions against Chinese goods will, all else equal, keep the price level for affected goods higher – short to medium-term scaling of US production unlikely to compensate. Anecdotes around other forms of high-tech manufacturing like semiconductors also point to cost overruns and difficulties in efficiently running new capacity, further pressuring prices.

… and housing …

A more critical point for consumer inflation though is that the production of new housing remains constrained not only by the cost of capital but also by the availability of inputs – labour and raw materials. As a consequence, the imbalance between demand and supply looks set to remain an issue over the medium to longer term. While we expect some of the weakness in leading indicators of rents to pass through to the shelter component of inflation, on a multi-year view, rent inflation is likely to remain above average, holding headline CPI inflation modestly above target even with policy remaining mildly contractionary and growth capped around trend.

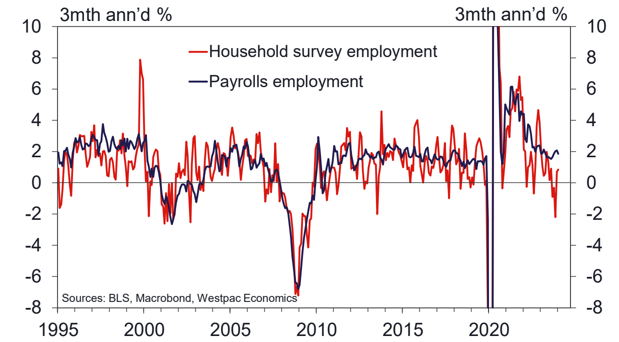
… with implications for growth and fragility over the medium to longer term.

This sort of imbalance between growth and inflation, if it endures, implies a slowdown in productivity growth that limits wider economic growth and points to a degree of fragility over the medium to longer term. In particular, it requires household dis-saving and/or debt accrual to accelerate spending, and puts additional pressure on the fiscal position.

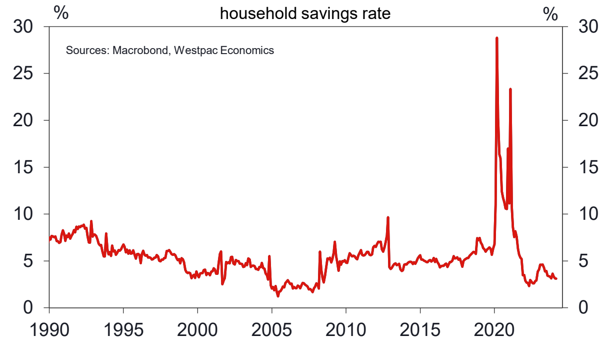
Elliot Clarke, CFA, CAIA, Senior Economist

… near and far

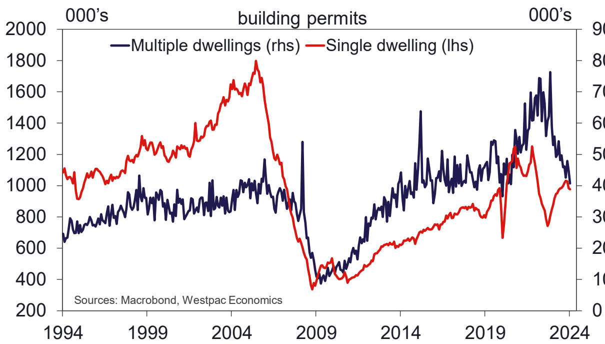
Employee and job count divergence persists



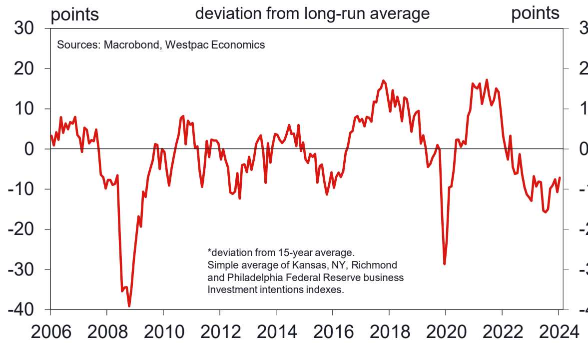
Household savings remain under pressure



Housing supply an enduring problem



Business investment intentions



	2023							2024				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
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	1.3	2.6
Current account USDbn	-212.7	-215.0	-196.4	-194.8	–	–

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

The long and challenging road ...

Cost-push inflation has been the primary driving force ...

The Bank of Japan (BoJ) raised rates at its March meeting. Since then, the Yen has held above USD/JPY150, a level traditionally regarded as a trigger for intervention. While there is evidence that the Ministry of Finance has intervened in recent months, its actions have come only as the spot rate threatened JPY160 and have also been limited in duration, leaving USD/JPY currently trading towards the top end of the recent range at JPY157.

... behind Japan's inflation lift

We take from this market activity that authorities are reticent to allow a further rapid depreciation in the Yen but are not overly concerned by sustained weakness in the currency. Arguably that is because a higher rate structure (and lower USD/JPY) can only be justified by the inflation target being sustainably achieved. The weak Yen fosters cost-push inflation, furthering the BoJ's inflation objective in two important ways: 1) via the pass-through of input inflation to consumer prices; and 2) the reshaping of inflation expectations amongst businesses and households.

High costs have forced firms to raise prices, dislodging the deflationary mindset ...

Historically, higher costs have prompted Japanese firms to cut costs by narrowing profit margins, bargaining with suppliers or reducing their wage bills. However, in this episode, the persistence of input price pressures, significant (largely co-incident) wage gains, and the global narrative around inflation have helped to dislodge the traditional mindset of Japanese firms. Normalising price increases is also proving to be the first step towards sustained real wage gains and businesses investing in future capacity, alleviating any lingering concerns amongst businesses that higher prices will sap demand.

... a significant positive for business investment.

Innovation in particular has taken a considerable hit in recent decades amongst businesses focused on the domestic economy as firms perceived an unwillingness on the part of households to pay for new or improved goods and services. However, this may finally be taking a turn. Investment in plant and equipment grew rapidly through 2023, beating the peak set in 2007 and second only to the record set in Q4 1991. The Tankan's surveyed investment intentions also peaked in Q3 2022 at the second highest level since 1989. Strong profits have certainly helped businesses invest, but so has the shifting inflation mindset. A survey conducted by the BoJ showed that participants in the corporate sector preferred moderate rises in prices and wages as it removed the 'need for cost cuts to avoid raising prices enabling active fixed investment and wage hikes'.

Above-target inflation has also lifted expectations.

Inflation above target for a sustained period has also lifted inflation expectations. Japan's inflation expectations are responsive to price shocks. This is supported by our analysis of historic shocks and financial market measures of inflation expectations. The BoJ also characterise price expectations as 'adaptive rather than forward-looking', evinced through history with inflation expectations settling close to 1% as headline inflation averaged 0.5% between 1990 and 2019.

Imported inflation and a weak yen have bought time ...

Recently, expectations have risen and settled around the 2% target according to both the outlook in general and output price expectations collected in the Tankan survey. High imported inflation from a weak Yen have clearly bought time for demand-pull inflation to build strength. For inflation to persist at target however, demand pressures must become dominant and sustainable, particularly with the Yen near the level authorities have recently intervened at, and with global rates now falling.

...for a healthier demand-driven inflation nexus to establish.

The demographic challenge in Japan means that savings will remain high, posing a risk to re-establishing a healthier demand-driven inflation. Whether there is a shift in consumption will be seen in the household spending data in the second half of 2024, when most wage increases will be received. While strong services inflation implies wages are already feeding through to inflation, assessment is difficult due to the surge in foreign tourist spending. A pick-up in household spending in late-2024 would signal that consumers are looking to make purchases sooner to avoid price increases – a deviation from the deflationary mindset of the past. Further robust increases in wages in the 2025 Shunto negotiations would provide additional support for consumer confidence and spending, and entrench a change in the consumer psychology around prices.

Businesses must focus on expansion and productivity over efficiency.

While this transition takes hold, it is also important that businesses focus on expansion and productivity over efficiency. In doing so, lasting weakness in the Yen can add to inflation as wages, consumption and investment continue to expand. Arguably, GDP growth sustainably at or above trend is a necessary prerequisite for households to feel as though the economy is fully employed and inflation at target is justified.

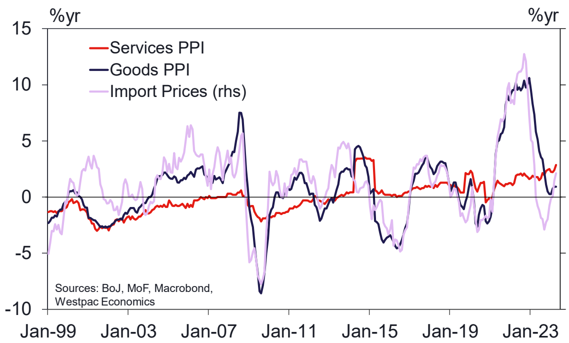
Expectations must be fully reset and inflation consistently above target.

It is only after expectations are fully reset and inflation consistently at or above target that the BoJ will be justified in lifting the policy rate materially above the lower bound. This is not to say they will not edge policy rates higher in coming months, but to emphasise that policy will need to be restrained if its to avoid jeopardising the years (indeed decades) of progress that have been required to get to this point.

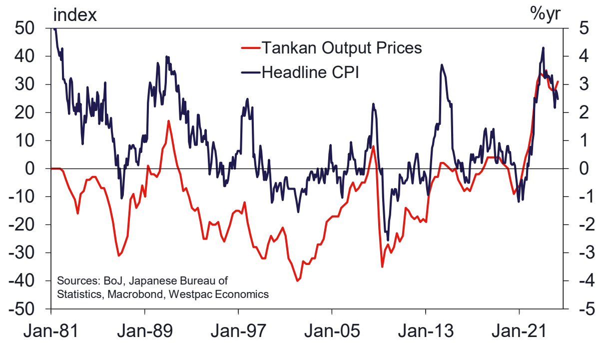
Illiana Jain, Economist

... to policy normalisation and Yen appreciation

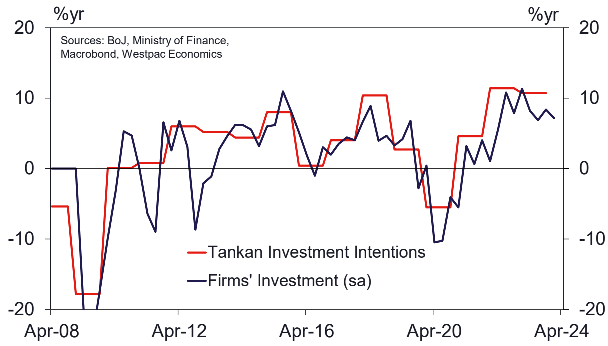
Import prices are adding to producer costs



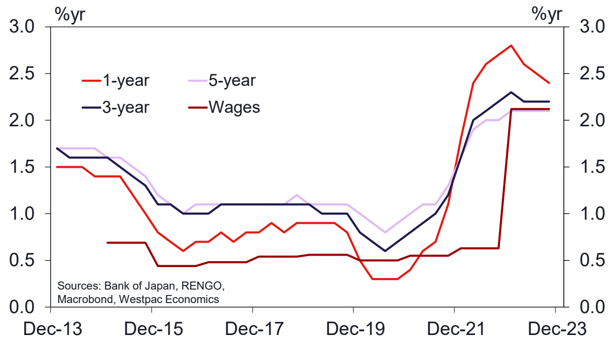
Output prices suggests inflation will persist



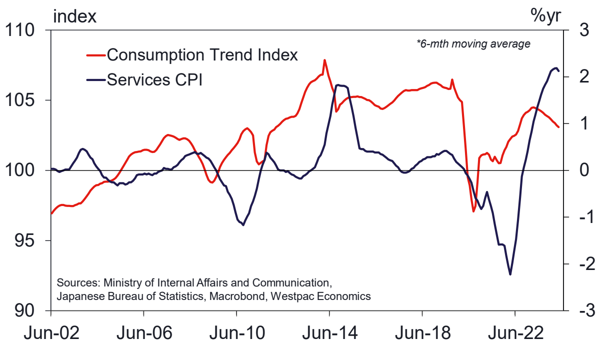
Stronger investment expected



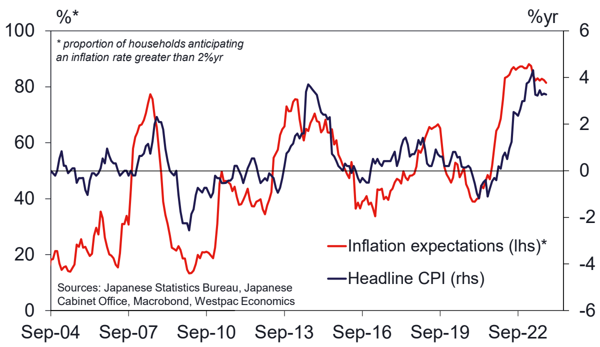
Firms' price expectations have lifted



Consumption needs to hold up for inflation



Household inflation expectations holding up



FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (13 Jun)	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	4.37	4.37	4.37	4.17	3.92	3.72	3.55	3.30
3 Year Swap	4.04	4.20	4.10	4.00	3.85	3.70	3.60	3.50
3 Year Bond	3.87	4.00	3.90	3.80	3.65	3.50	3.40	3.30
10 Year Bond	4.20	4.35	4.30	4.25	4.20	4.10	4.00	4.00
10 Year Spread to US (bps)	-11	-15	-10	-5	0	0	0	0

Currency forecasts

	Latest (13 Jun)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD vs								
USD	0.6661	0.66	0.66	0.67	0.68	0.69	0.70	0.71
JPY	104.42	103	102	103	102	101	100	99
EUR	0.6160	0.61	0.61	0.61	0.61	0.62	0.62	0.62
NZD	1.0773	1.10	1.10	1.10	1.10	1.10	1.10	1.10
CAD	0.9143	0.90	0.90	0.90	0.90	0.91	0.92	0.92
GBP	0.5206	0.52	0.52	0.52	0.53	0.53	0.53	0.54
CHF	0.5953	0.59	0.59	0.60	0.61	0.61	0.61	0.61
DKK	4.5956	4.56	4.53	4.55	4.57	4.60	4.61	4.64
SEK	6.9176	6.86	6.81	6.84	6.88	6.92	6.94	6.98
NOK	7.0458	6.99	6.94	6.97	7.01	7.05	7.08	7.11
ZAR	12.25	12.3	12.3	12.4	12.5	12.6	12.7	12.8
SGD	0.8979	0.89	0.89	0.90	0.90	0.91	0.92	0.92
HKD	5.2006	5.15	5.15	5.23	5.30	5.38	5.46	5.52
PHP	38.78	37.8	37.8	38.0	38.2	38.4	38.6	38.8
THB	24.34	24.1	23.8	23.8	23.8	23.8	23.8	23.8
MYR	3.1335	3.10	3.10	3.12	3.13	3.14	3.15	3.16
CNY	4.8327	4.75	4.72	4.76	4.79	4.83	4.83	4.83
IDR	10854	10692	10626	10720	10744	10764	10780	10792
TWD	21.56	21.3	21.1	21.3	21.4	21.4	21.4	21.4
KRW	912	898	891	898	904	911	910	916
INR	55.26	54.8	54.1	54.3	54.4	54.5	54.6	54.7

ECONOMIC FORECASTS

Australia

Activity forecasts*

	2023	2024				2025		Calendar years			
%qtr / yr avg	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2022**	**2023**	**2024f**	**2025f**
Private consumption	0.3	0.4	0.2	0.6	0.4	0.6	0.6	7.1	2.1	1.4	2.1
Dwelling investment	-3.6	-0.5	-0.9	-0.9	-0.1	1.1	1.1	-4.0	-1.9	-4.1	2.0
Business investment*	1.2	-0.7	0.6	0.6	0.5	0.8	1.0	5.5	9.2	2.1	3.6
Private demand *	0.3	0.1	0.2	0.5	0.4	0.7	0.7	5.5	2.6	1.2	2.5
Public demand *	0.4	0.6	0.4	1.0	0.6	0.5	0.4	5.1	3.3	3.1	2.2
Domestic demand	0.3	0.2	0.3	0.7	0.5	0.6	0.6	5.4	2.8	1.7	2.4
Stock contribution	-0.3	0.7	-0.4	0.2	0.1	0.0	0.0	0.5	-0.9	0.2	0.1
GNE	0.0	1.0	-0.2	0.9	0.6	0.6	0.6	5.9	1.9	2.0	2.5
Exports	-1.3	0.7	1.3	1.0	1.0	1.2	1.1	2.5	6.6	2.3	4.5
Imports	-3.5	5.1	-0.5	2.0	1.5	1.8	1.4	13.7	6.5	5.6	6.3
Net exports contribution	0.4	-0.9	0.5	-0.2	-0.1	-0.1	0.0	-2.0	0.3	-0.6	-0.2
Real GDP %qtr / yr avg	**0.3**	**0.1**	**0.3**	**0.6**	**0.5**	**0.5**	**0.6**	3.9	2.0	1.3	2.2
%yr end	**1.6**	**1.1**	**1.0**	**1.4**	**1.6**	**2.0**	**2.2**	**2.5**	**1.6**	**1.6**	**2.3**
Nominal GDP %qtr	1.6	1.4	0.2	0.9	0.5	0.7	0.9	–	–	–	–
%yr end	4.5	3.5	4.5	4.1	3.0	2.3	3.0	12.5	5.5	3.8	3.2

Other macroeconomic variables

	2023	2024				2025		Calendar years			
% change	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2022**	**2023**	**2024f**	**2025f**
Employment (2)	0.7	0.5	0.8	0.3	0.2	0.3	0.4	–	–	–	–
%yr	3.0	2.7	2.6	2.3	1.8	1.6	1.2	5.4	3.0	1.8	1.5
Unemployment rate % (2)	3.9	3.9	4.0	4.2	4.3	4.4	4.5	3.5	3.9	4.3	4.6
Wages (WPI) (2)	1.0	0.8	0.8	0.7	0.7	0.7	0.8	–	–	–	–
%yr	4.2	4.1	3.9	3.4	3.0	2.9	2.8	3.3	4.2	3.0	3.0
CPI Headline (2)	0.6	1.0	1.0	0.1	0.8	0.7	0.8	–	–	–	–
%yr	4.1	3.6	3.8	2.7	2.9	2.7	2.4	7.8	4.1	2.9	3.1
Core inflation trimmed mean	0.8	1.0	0.9	0.8	0.7	0.7	0.7	–	–	–	–
%yr (2)	4.2	4.0	4.0	3.6	3.5	3.2	3.0	6.8	4.2	3.5	2.8
Current account AUDbn	2.7	–4.9	n.a.	n.a.	n.a.	n.a.	n.a.	–	–	–	–
% of GDP	0.4	–0.7	n.a.	n.a.	n.a.	n.a.	n.a.	–	–	–	–
Terms of trade annual chg (1)	–12.1	–9.4	–4.1	–7.2	–4.0	n.a.	n.a.	–	–	–	–

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 (13 Jun)	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	5.62	5.60	5.60	5.50	5.25	4.95	4.75	4.50
2 Year Swap	5.00	5.10	5.00	4.80	4.55	4.40	4.25	4.15
10 Year Bond	4.67	5.00	4.90	4.80	4.70	4.65	4.55	4.50
10 Year Spread to US	37	50	50	50	50	55	55	50
10 Year Spread to Aust	48	65	60	55	50	55	55	50

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Jun)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD vs								
USD	0.6183	0.60	0.60	0.61	0.62	0.63	0.64	0.65
JPY	96.9260	93.29	93.31	93.94	92.70	91.54	91.09	90.58
EUR	0.5718	0.55	0.55	0.55	0.56	0.56	0.56	0.57
AUD	0.9282	0.91	0.91	0.91	0.91	0.91	0.91	0.91
CAD	0.8487	0.81	0.82	0.82	0.82	0.83	0.83	0.84
GBP	0.4832	0.47	0.47	0.48	0.48	0.48	0.49	0.49
CNY	4.4764	4.31	4.30	4.33	4.36	4.39	4.40	4.40

Sources: Bloomberg, Westpac Economics.

Activity forecasts*

	2023	2024				2025		Calendar years			
% change	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2022**	**2023**	**2024f**	**2025f**
Private consumption	0.5	0.3	0.4	1.0	0.8	0.9	0.8	3.3	0.3	1.1	3.3
Government consumption	0.2	-0.8	-0.8	-0.5	-0.5	-0.4	-0.2	4.9	-1.1	-1.7	-1.0
Residential investment	-1.7	-3.0	-2.5	-2.5	-1.5	-0.5	0.0	-0.8	-4.3	-7.8	-2.6
Business investment	0.6	-4.6	-1.5	-0.7	0.0	0.6	0.9	5.4	0.5	-7.6	1.5
Stocks (ppt contribution)	-2.8	2.0	0.0	0.0	0.1	0.1	0.0	-0.4	-1.1	0.9	0.1
GNE	-1.8	0.9	-0.3	0.3	0.4	0.6	0.6	3.4	-1.5	-0.7	2.0
Exports	3.2	3.3	1.0	1.0	0.8	0.8	0.7	-0.2	10.0	7.2	3.2
Imports	-2.9	0.4	0.0	0.7	0.7	0.9	1.0	4.6	-0.3	-1.7	3.6
GDP (production)	**-0.1**	**0.2**	**-0.1**	**0.3**	**0.3**	**0.5**	**0.5**	**2.4**	**0.6**	**-0.2**	**1.8**
Employment annual %	2.7	1.3	0.4	0.5	0.1	0.5	0.6	1.7	2.7	0.1	0.9
Unemployment rate % s.a.	4.0	4.3	4.6	4.9	5.2	5.3	5.4	3.4	4.0	5.2	5.4
Labour cost index, all sect incl o/t, ann %	4.3	4.1	3.9	3.6	3.4	3.2	2.9	4.1	4.3	3.4	2.5
CPI annual %	**4.7**	**4.0**	**3.7**	**3.0**	**2.9**	**2.8**	**2.3**	**7.2**	**4.7**	**2.9**	**2.2**
Current account balance % of GDP	-6.9	-6.2	-5.7	-5.1	-4.4	-4.1	-4.0	-8.8	-6.9	-4.4	-4.1
Terms of trade annual %	-10.6	-4.1	-2.3	-0.4	8.1	3.7	2.2	-4.2	-10.6	8.1	0.8

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (13 Jun)***	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Australian commodities index#	314	298	284	276	275	**276**	**278**	**279**	**280**	**282**
Bulk commodities index#	**461**	**420**	**380**	**370**	**360**	**360**	**360**	**360**	**350**	**350**
iron ore finesTSI @ 62% US$/t	106	98	85	85	85	86	87	84	83	83
Premium low vol met coal (US$/t)	256	235	230	225	220	210	205	205	204	200
Newcastle spot thermal coal (US$/t)	139	135	120	117	116	115	114	115	120	120
crude oil (US$/bbl) Brent ICE	81	80	78	78	80	82	85	87	90	91
LNG in Japan US$mmbtu	14.18	13.6	13.4	12.9	12.7	12.8	12.9	13.3	13.4	13.8
gold (US$/oz)	2,341	2,320	2,300	2,200	2,200	2,220	2,240	2,250	2,270	2,290
Base metals index#	**211**	**205**	**200**	**196**	**195**	**197**	**204**	**208**	**215**	**216**
copper (US$/t)	9,797	9,500	9,300	9,100	9,100	9,300	9,700	9,900	10,200	10,300
aluminium (US$/t)	2,541	2,480	2,430	2,400	2,410	2,460	2,530	2,580	2,650	2,660
nickel (US$/t)	17,883	17,300	17,000	16,500	16,000	15,000	14,700	15,100	15,700	15,800
zinc (US$/t)	2,778	2,580	2,480	2,430	2,350	2,400	2,500	2,540	2,610	2,620
lead (US$/t)	2,160	2,075	2,050	2,000	1,990	2,000	2,050	2,080	2,130	2,140
Rural commodities index#	**132**	**131**	**128**	**128**	**132**	**135**	**141**	**144**	**150**	**151**
NZ commodities index ##	**351**	**344**	**344**	**343**	**345**	**347**	**350**	**353**	**356**	**360**
dairy price index ^^	314	310	310	310	310	310	310	320	320	320
whole milk powder US$/t	3,478	3,500	3,500	3,500	3,500	3,526	3,550	3,580	3,610	3,630
skim milk powder US$/t	2,722	2,850	3,000	3,000	3,000	3,020	3,050	3,070	3,090	3,110
lamb leg UKp/lb	453	450	460	460	470	480	480	490	500	520
bull beef US¢/lb	285	260	260	260	260	260	270	270	270	270
log price index ##	153	160	160	160	160	160	160	170	170	170

	levels				% change			
Annual averages	2023	2024(f)	2025(f)	2026(f)	2023	2024(f)	2025(f)	2026(f)
Australian commodities index#	**323**	**307**	**277**	**281**	**-15.7**	**-5.1**	**-9.8**	**1.5**
Bulk commodities index#	**500**	**455**	**369**	**357**	**-10.1**	**-9.1**	**-18.8**	**-3.3**
iron ore fines @ 62% USD/t	120	107	86	84	-0.5	-10.6	-19.9	-2.2
LNG in Japan $mmbtu	14.8	13.7	12.9	13.5	-20.1	-7.7	-6.2	4.9
ave coking coal price (US$/t)	215	217	196	168	-10.2	1.0	-9.7	-14.6
ave thermal price (US$/t)	185	142	126	125	-45.0	-23.5	-11.4	-0.3
iron ore fines contracts (US¢ dltu)	160	159	126	126	-7.9	-1.2	-20.3	-0.6
Premium low vol met coal (US$/t)	296	254	217	204	-19.0	-14.0	-14.7	-6.1
crude oil (US$/bbl) Brent ICE	82	81	81	89	-15.8	-1.1	-0.2	10.6
gold (US$/oz)	1,962	2,271	2,219	2,277	8.4	15.7	-2.3	2.6
Base metals index#	**201**	**202**	**197**	**210**	**-12.4**	**0.4**	**-2.8**	**6.8**
copper (US$/t)	8,500	9,300	9,300	10,100	-3.7	9.4	0.0	8.6
aluminium (US$/t)	2,300	2,400	2,400	2,600	-15.2	4.3	0.0	8.3
nickel (US$/t)	21,600	17,400	15,700	15,500	-17.6	-19.4	-9.8	-1.3
zinc (US$/t)	2,700	2,600	2,400	2,600	-22.2	-3.7	-7.7	8.3
lead (US$/t)	2,100	2,100	2,000	2,100	-2.5	0.0	-4.8	5.0
Rural commodities index#	**141**	**129**	**131**	**146**	**-17.9**	**-8.3**	**1.6**	**11.2**
NZ commodities index ##	**330**	**345**	**346**	**358**	**-12.4**	**4.8**	**0.3**	**3.4**
dairy price index ##	286	311	312	320	-18.8	8.7	0.1	2.7
whole milk powder US$/t	3,081	3,400	3,500	3,600	-20.8	10.3	2.9	2.9
skim milk powder US$/t	2,640	2,700	3,000	3,100	-30.9	2.3	11.1	3.3
lamb leg UKp/lb	431	445	470	506	-31.0	3.2	5.7	7.7
bull beef US¢/lb	256	264	263	268	-8.8	3.4	-0.4	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

United States

Interest rate forecasts

	Latest (13 Jun)	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	4.31	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 (13 Jun)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USD vs								
DXY index	104.71	104.7	104.2	103.1	102.0	100.8	99.6	98.6
JPY	156.76	156	155	154	150	146	143	140
EUR	1.0813	1.08	1.09	1.10	1.11	1.12	1.13	1.14
AUD	0.6661	0.66	0.66	0.67	0.68	0.69	0.70	0.71
NZD	0.6183	0.60	0.60	0.61	0.62	0.63	0.64	0.65
CAD	1.3727	1.36	1.36	1.34	1.33	1.32	1.31	1.30
GBP	1.2795	1.27	1.27	1.28	1.29	1.30	1.31	1.31
CHF	0.8937	0.90	0.90	0.89	0.89	0.88	0.87	0.86
ZAR	18.38	18.64	18.64	18.50	18.36	18.23	18.10	17.97
SGD	1.3481	1.35	1.35	1.34	1.33	1.32	1.31	1.30
HKD	7.8076	7.81	7.81	7.81	7.80	7.80	7.80	7.78
PHP	58.70	57.30	57.20	56.70	56.20	55.70	55.20	54.70
THB	36.55	36.5	36.0	35.5	35.0	34.5	34.0	33.5
MYR	4.7037	4.70	4.70	4.65	4.60	4.55	4.50	4.45
CNY	7.2406	7.20	7.15	7.10	7.05	7.00	6.90	6.80
IDR	16295	16200	16100	16000	15800	15600	15400	15200
TWD	32.36	32.2	32.0	31.8	31.5	31.0	30.5	30.2
KRW	1368	1360	1350	1340	1330	1320	1300	1290
INR	83.55	83.00	82.00	81.00	80.00	79.00	78.00	77.00

Activity forecasts*

	2023		2024				2025	Calendar years			
% annualised, s/adj	**Q3**	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**2022**	**2023**	**2024f**	**2025f**
Private consumption	3.1	3.3	2.0	1.9	1.8	1.5	1.5	2.5	2.2	2.2	1.2
Dwelling investment	6.7	2.8	15.4	6.1	6.1	6.1	6.1	-9.0	-10.6	7.3	1.1
Business investment	1.5	3.8	3.3	2.4	2.4	2.4	2.4	5.4	4.1	3.0	3.5
Public demand	5.8	4.6	1.3	1.2	1.2	1.2	1.2	-0.9	4.1	2.6	2.1
Domestic final demand	3.4	3.6	2.5	2.0	1.9	1.8	1.8	1.9	2.3	2.5	1.6
Inventories contribution ppt	1.1	-0.4	-0.5	0.6	-0.2	-0.2	-0.2	0.5	-0.4	0.0	-0.1
Net exports contribution ppt	0.0	0.2	-1.0	-0.1	-0.1	-0.1	-0.1	-0.5	0.6	-0.2	-0.2
GDP	4.9	3.4	1.2	2.6	1.8	1.6	1.6	1.9	2.5	2.5	1.5
%yr annual chg	2.9	3.1	2.9	3.0	2.2	1.8	1.8				

Other macroeconomic variables

Non-farm payrolls mth avg	222	206	257	175	150	100	50	412	245	153	65
Unemployment rate %	3.7	3.7	3.8	4.0	4.1	4.3	4.5	3.6	3.7	4.2	4.5
CPI headline %yr	2.9	2.5	2.5	2.3	2.2	2.1	2.0	6.4	2.7	2.2	2.5
PCE deflator, core %yr	3.1	2.5	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 (13 Jun)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Euro area								
ECB Deposit rate	3.75	3.75	3.50	3.25	3.00	2.75	2.50	2.50
10 Year Bund	2.53	2.65	2.60	2.55	2.50	2.45	2.40	2.45
10 Year Spread to US	–178	–185	–180	–175	–170	–165	–160	–155
United Kingdom								
BoE Bank Rate	5.25	5.25	5.00	4.50	4.25	4.00	3.75	3.50
10 Year Gilt	4.13	4.30	4.20	4.15	4.10	4.05	4.00	4.00
10 Year Spread to US	–18	–20	–20	–15	–10	–5	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Jun)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
euro vs								
USD	1.0813	1.08	1.09	1.10	1.11	1.12	1.13	1.14
JPY	169.51	168	169	169	167	164	162	160
GBP	0.8451	0.85	0.86	0.86	0.86	0.86	0.86	0.87
CHF	0.9664	0.97	0.98	0.98	0.99	0.99	0.99	0.99
DKK	7.4601	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.2300	11.23	11.23	11.23	11.23	11.23	11.23	11.23
NOK	11.4377	11.44	11.44	11.44	11.44	11.44	11.44	11.44
sterling vs								
USD	1.2795	1.27	1.27	1.28	1.29	1.30	1.31	1.31
JPY	200.59	198	197	197	194	190	187	183
CHF	1.1436	1.14	1.14	1.14	1.15	1.14	1.14	1.13
AUD	0.5206	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	0.6	1.5
private consumption	–8.0	3.5	4.0	0.6	0.9	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	0.4	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	0.6	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

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

FORECASTS

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	6.0	6.3
Money supply M2	8.7	10.1	9.0	11.8	11.2	9.8	9.0
Fixed asset investment	5.4	2.9	4.9	5.1	3.5	4.9	4.7
Exports %yr	7.9	18.1	20.9	–9.9	–4.6	3.5	3.5
Imports %yr	16.5	6.5	19.5	–7.5	–5.3	3.0	2.7

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (13 Jun)	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 (13 Jun)	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
JPY	156.76	156	155	154	150	146	143	140
SGD	1.3481	1.35	1.35	1.34	1.33	1.32	1.31	1.30
HKD	7.8076	7.81	7.81	7.81	7.80	7.80	7.80	7.78
PHP	58.70	57.30	57.20	56.70	56.20	55.70	55.20	54.70
THB	36.55	36.5	36.0	35.5	35.0	34.5	34.0	33.5
MYR	4.7037	4.70	4.70	4.65	4.60	4.55	4.50	4.45
CNY	7.2406	7.20	7.15	7.10	7.05	7.00	6.90	6.80
IDR	16295	16200	16100	16000	15800	15600	15400	15200
TWD	32.36	32.2	32.0	31.8	31.5	31.0	30.5	30.2
KRW	1368	1360	1350	1340	1330	1320	1300	1290
INR	83.55	83.00	82.00	81.00	80.00	79.00	78.00	77.00

Source: Bloomberg, Westpac Economics.

SUMMARY OF THE WORLD

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023	2024f	2025f
World	**2.8**	**-2.7**	**6.5**	**3.5**	**3.2**	**3.2**	**3.0**
United States	2.5	-2.2	5.8	1.9	2.5	2.5	1.5
Japan	-0.4	-4.1	2.6	1.0	1.9	0.5	1.0
Euro zone	1.6	-6.1	5.9	3.4	0.4	0.6	1.5
Group of 3	**1.8**	**-3.9**	**5.5**	**2.4**	**1.7**	**1.5**	**1.4**
United Kingdom	1.6	-10.4	8.7	4.3	0.1	0.5	1.3
Canada	1.9	-5.0	5.3	3.8	1.1	0.9	2.0
Australia	1.8	-2.1	5.6	3.9	2.0	1.3	2.2
New Zealand	3.1	-1.4	5.6	2.4	0.6	-0.2	1.8
OECD total	**1.8**	**-4.3**	**5.8**	**2.8**	**1.7**	**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	1.4	2.6	2.3
Taiwan	3.1	3.4	6.6	2.6	1.4	3.5	2.7
Hong Kong	-1.7	-6.5	6.5	-3.7	3.2	2.7	2.8
Singapore	1.3	-3.9	9.7	3.8	1.1	2.5	2.7
Indonesia	5.0	-2.1	3.7	5.3	5.0	5.2	5.2
Thailand	2.1	-6.1	1.5	2.5	1.9	2.8	3.3
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	8.1	5.0	6.2	6.5
East Asia	**5.2**	**0.7**	**7.1**	**3.5**	**4.6**	**4.9**	**4.7**
East Asia ex China	3.8	-2.3	4.3	4.5	3.3	4.2	4.2
NIEs*	**2.0**	**-0.5**	**5.9**	**2.2**	**1.5**	**2.9**	**2.5**
India	3.9	-5.8	9.7	7.0	7.8	6.9	6.7
Russia	2.2	-2.7	6.0	-1.2	3.6	2.4	1.0
Brazil	1.2	-3.3	4.8	3.0	2.9	2.0	2.0
South Africa	0.3	-6.0	4.7	1.9	0.6	0.9	1.2
Mexico	-0.3	-8.6	5.7	3.9	3.2	2.4	1.4
Argentina	-2.0	-9.9	10.7	5.0	-1.6	-2.8	5.0
Chile	0.6	-6.1	11.3	2.1	0.2	2.0	2.5
CIS^	-1.4	0.1	10.4	-1.6	-0.6	0.0	0.0
Middle East	1.3	3.2	2.8	2.8	2.8	2.9	0.0
C & E Europe	-2.4	-4.8	9.0	4.3	3.2	0.0	0.0
Africa	3.2	-1.6	4.7	4.0	3.4	3.8	4.0
Emerging ex-East Asia	**1.6**	**-2.6**	**6.5**	**3.6**	**3.9**	**3.6**	**3.0**
Other countries	6.7	-2.9	6.9	3.4	4.9	4.0	3.5
World	**2.8**	**-2.7**	**6.5**	**3.5**	**3.2**	**3.2**	**3.0**

#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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