JULY 2024

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK – JULY 2024

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Markets mull lingering inflation & election uncertainty

In Australia, recent inflation data came as a surprise to many participants, seeing market expectations for year-end shift from a fully priced-in rate cut just over two months ago to a 50% chance of a rate hike. However, the RBA is unlikely to share the same viewpoint. Recent communications from the Bank have instead emphasised the restrictiveness of current policy settings and its commitment to the strategy of 'protecting the employment gains' set out by the previous Governor.

Globally, market circumspection has also emerged with the near-term focus shifting from policy to politics. While prospects vary, elections in the UK, France and the US look set to deliver some significant leadership changes. For Europe, this is highlighting high government debt levels which will require significant fiscal effort to rein in against what is an increasingly fractious political backdrop. For the US, the presidential election poses different challenges but the wider 'risk-off' mood is providing temporary support to the US dollar.

Market focus will soon return to the economic situation, particularly with respect to the US FOMC where officials' cautious optimism over disinflation and recognition of downside growth risks point to an imminent start to policy easing. That the RBA is unlikely to start until later in the year, and the RBNZ not until next year, highlights the variation in inflation experiences across developed economies and the distinct monetary policy approaches being taken.

Australia: The Australian economy is navigating a complex landscape of inflation and growth challenges. Recent data are unlikely to have materially shifted the outlook for interest rates, as the RBA aims to continue down its narrow path of balancing the risks between inflation and employment. Fiscal relief, and an eventual rate cutting cycle, are expected to support growth going forward. How consumers respond to fiscal measures will be critical to assessing the near-term outlook.

Commodities: Commodities remain mixed, forcing some market to market in different directions. Brent is 6% higher in the month, nickel is down 5% while iron ore responded to better news from China. However, our export commodities index was flat in the month and we have left our medium term forecasts unchanged.

Global FX markets: The US dollar has received additional support this month, not from inflation but politics. Uncertainty around Europe and the potential trade consequences of the US elections are both at play. Underlying economics meanwhile argue for a slow but sustained US dollar downtrend.

New Zealand: Data suggests New Zealand's economy continues to track sideways. Prospects for a return to low inflation are improving, although at this stage no sooner than we had anticipated. We expect the RBNZ will maintain its hawkish stance at the July policy review. Further ahead, CPI and labour market data will play a key role in driving any revisions that might have been contemplated at the next forecast update in August.

United States: An increasingly symmetric risk distribution is beginning to give FOMC members cause to discuss how much more confidence in disinflation is necessary before cuts commence. September is likely to see the first step of a moderate easing cycle to mid-2026 that will ward off emerging downside risks.

China: Opportunity continues to be found in investment (ex property) and trade, but residential property remains a heavy headwind for the consumer and domestic business. Active support that kick-starts the sales is necessary to reset the consumer mood. This is just the start of the supportive change households need.

Europe: Debt growth has accelerated since 2021, raising financial stability concerns. Despite low interest costs, reforms are necessary to control deficits. Without significant changes, only Germany might meet the 60% target in a reasonable time period, while other countries may take decades longer.

May inflation data unlikely to phase the RBA …

Luci Ellis
Chief Economist, Westpac Group

May's inflation data were not a surprise to the Westpac Economics team and so did not change our view of the outlook for interest rates.

As our Westpac Economics colleague Justin Smirk detailed prior to the release, we had expected that base effects would lead the monthly CPI indicator to print at 4% over the year to May. Clearly, the disinflation journey is becoming more difficult, and the RBA is becoming more nervous that its strategy may not work as planned. As our colleague Pat Bustamante also highlighted recently, some recent state government budgets are not helping.

The real question is not whether we were surprised by the May inflation data but whether the RBA was. We can assume that the staff know how to account for one-off factors like changes in electricity rebates, or noise factors such as fruit and vegetable prices. Given the above-market forecast for the June quarter headline CPI in the May Statement on Monetary Policy, we suspect that May's CPI indicator did not surprise the RBA either.

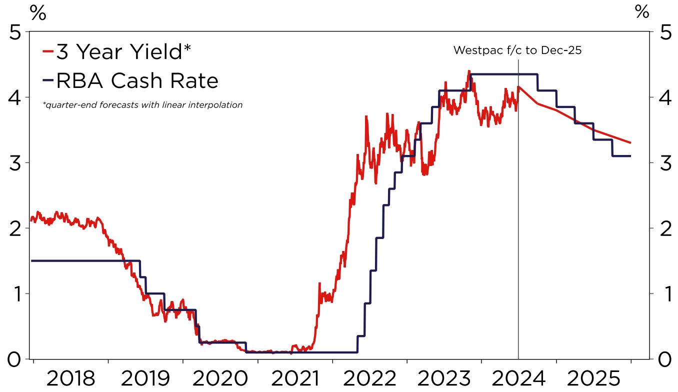
An ugly June quarter CPI release together with strong labour market data could tip the balance and force a rate hike, but this is not our base case and is not supported by currently available information.

In this context, Deputy Governor Hauser's speech on June 27 – the day after the May Monthly CPI Indicator was released – was an important steer on the Bank's view. While the speech itself was not about current developments, Deputy Governor Hauser reminded the audience that services inflation was in fact declining, and that 'it would be a bad mistake to set policy on the basis of one number'. As well as highlighting the quarterly CPI, Deputy Governor Hauser pointed to retail sales and the labour market as key pieces of information yet to come.

The speech was part of a sequence of public events introducing the new Deputy Governor to the Australian audience. A previous milestone in that sequence, an interview in the *Australian Financial Review* earlier last month, also ruled out a potential policy risk in a way that has perhaps not been fully appreciated.

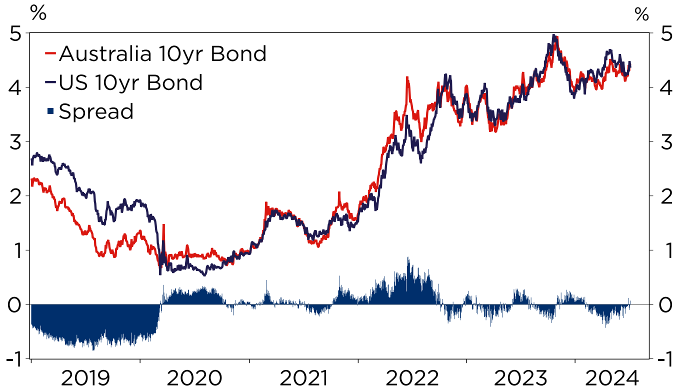
In that interview, Deputy Governor Hauser spoke of the importance of full employment, that the unemployment rate consistent with full employment could change, and that you needed to 'test' where it was.

RBA cash rate and 3 year yield



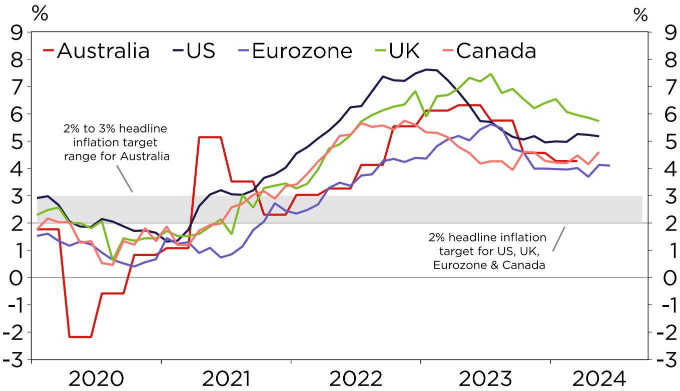
Source: Macrobond, RBA, Westpac Economics

Australia and US 10-year yield spread



Source: Macrobond, U.S. Treasury, Westpac Economics

Peer economies also see sticky services



Source: ABS, BLS, Eurostat, ONS, StatCan, Westpac Economics

... as it sticks to 'star' strategy set out in 2019

In other words, the RBA is continuing with the strategy articulated by the previous Governor to 'protect the employment gains' that were achieved in the aftermath of the pandemic. The refreshed Statement on the Conduct of Monetary Policy has solidified that strategy.

These insights are long-standing views of the Bank, first articulated before the pandemic in a pair of speeches in 2019 by the then Governor and the then chief economist. In the latter speech, I emphasised that 'the level of the NAIRU [the sustainable unemployment rate around which inflation is stable] is an emergent property of the system. It is not baked in.' Further evidence of this recognition can be seen in the Bulletin article articulating the RBA's approach to assessing full employment

Related to this, last week's speech by the Assistant Governor for Financial Markets highlighted that the RBA does still think that policy is currently tight. This speech was used as a vehicle to present updated estimates of the neutral nominal cash rate, noting that it, too, can and has changed. Again, we see a recognition at the RBA that these 'star' variables can shift.

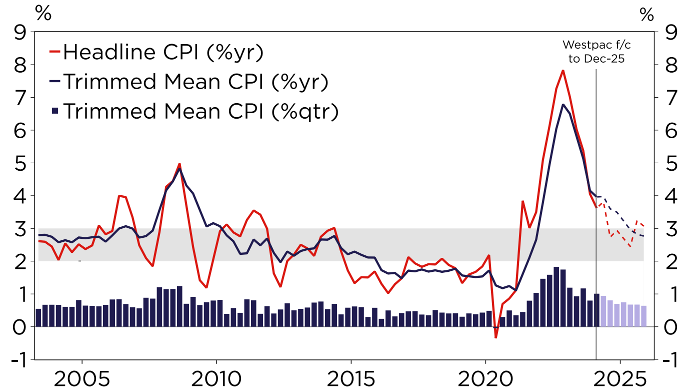
A similar view of the likely neutral level of the interest rate structure informs our own view of the medium-term outlook. As we noted back in March:

In this context, one can interpret the Westpac Economics forecast for the cash rate at the end of 2025 of 3.1% as either neutral, with a neutral real rate a bit below 1%, or slightly below neutral with a higher neutral real rate. Given the uncertainties around both the outlook and the level of the neutral rate in any one period, we are agnostic about which interpretation turns out to be the right one. It might be that one will never be able to tell the difference.

The difficulty, though, is that the full-employment rate of unemployment seems to have fallen in recent years, while the estimates of the neutral interest rate point to it being higher than before the pandemic.

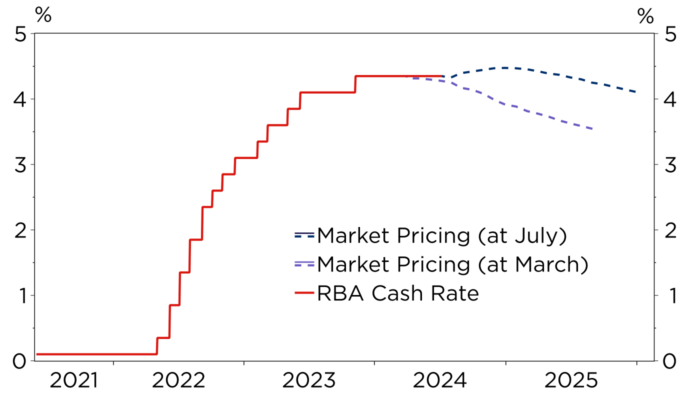
The RBA's recent commentary suggests that the former is more salient in the near term – consistent with wages growth already rolling over but contrary to some market commentary. But the latter limits the scope for rate cuts when they do eventually come. A particularly bad scenario would be if both invisible benchmarks end up being overestimated. In that case, the 'stars' would collide to produce a period of overly high rates and slow growth.

Rebates will bring volatility to inflation

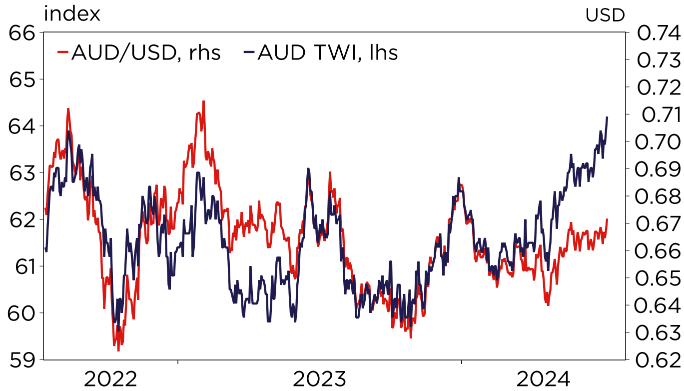


Source: ABS, Macrobond, Westpac Economics

Market expectations shift post May CPI



AUD/USD trading a tight range



Source: RBA, Macrobond, Westpac Economics

Slow start to the year …

Matthew Hassan & Pat Bustamante
Senior Economists, Westpac Group

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 is expected to lift to 1.6%yr by end 2024 and to 2.3%yr in 2025.

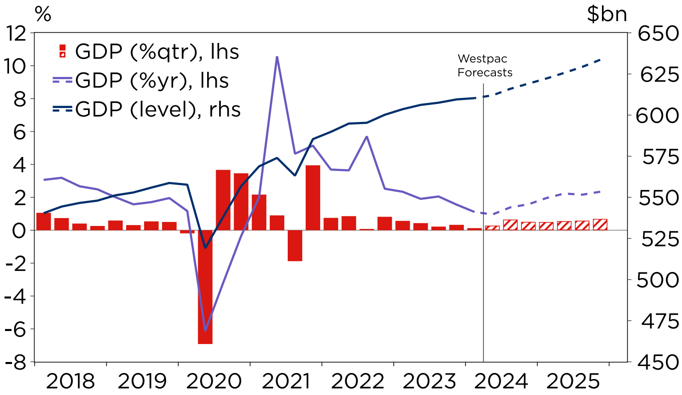
The Australian economy limped into 2024, GDP rising just 0.1% in the first quarter and annual growth slowing to 1.1%yr. The annual pace is well below trend and the slowest outside of recessions and the major shocks of the pandemic and the GFC. It is particularly weak given the current strong pace of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

The March quarter update included some striking upward revisions to historical estimates of consumer spending, relating to estimates of Australian tourism spending abroad. These lifted the annual growth profile of total consumer spending by about 1ppt but also significantly lowered estimates of household saving. The question is whether this should be seen as a firmer consumer that is more prepared to spend and less inclined to save (perhaps because of wealth gains associated with rising house prices) or whether it means household reserves have become more depleted, making it harder for consumers to sustain spending going forward.

Our take is very much the latter, albeit acknowledging that the spending picture points to diverging conditions across different consumer segments. Our estimates suggest the revised profile implies there has been a much larger run-down in reserves carried over from the pandemic. Nearly half of this aggregate buffer now looks to be gone. That should means households are less inclined to spend and more inclined to rebuild savings buffers as their incomes recover. How they respond to recent fiscal injections – the Stage 3 tax cuts rolled out on July 1 in particular – will provide a big clue on this.

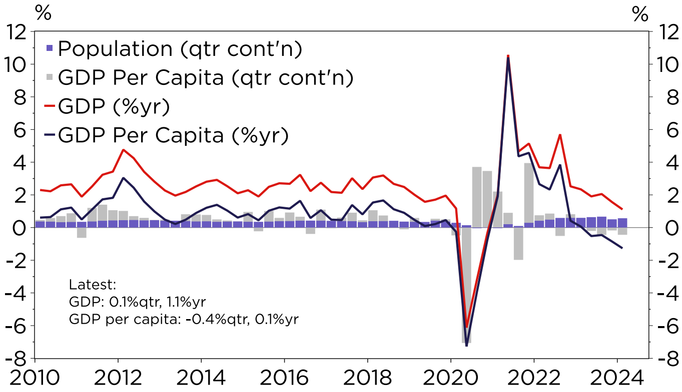
Wider domestic demand edged 0.2% higher over the March quarter with solid growth in public demand (which includes assistance to households in the form of subsidies) balancing near-flat private demand. Public demand reached 27.2% of GDP, eclipsing the pandemic peak of 27.1% and well above the pre-pandemic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

Economic growth set to recover in 2025



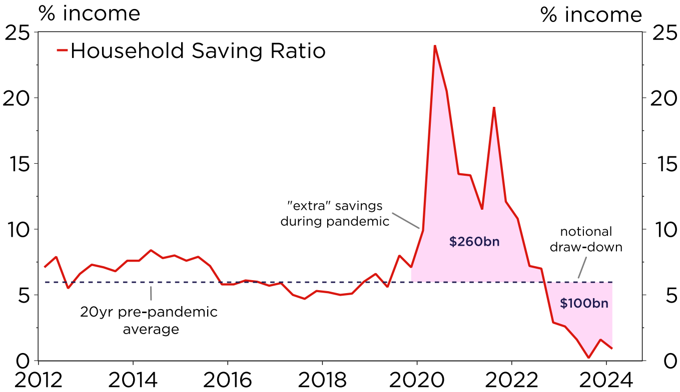
Source: ABS, Macrobond, Westpac Economics

Population prevents weaker outcomes



Source: ABS, Macrobond, Westpac Economics

Households are drawing down on savings



Source: ABS, Macrobond, Westpac Economics

... tax cuts set to be a litmus test for consumers

This is set to be a persistent theme over the period ahead. We estimate the total fiscal impulse (state and federal) will contribute around 2.2ppts to economic growth in 2024–25, similar to the GFC response in 2009–10.

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 stay weak near term, with dwelling approvals still around 12yr lows, backlogged work rolling off and a range of capacity and cost issues still weighing on the sector.

These issues are also having some impact on business investment. However, the project pipeline in this space looks steadier, with the March quarter Capex survey also showing non-mining businesses are planning solid increases in spending in 2024–25.

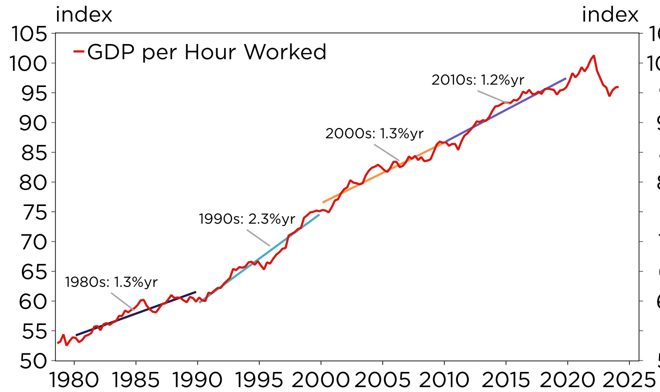
The national accounts also provided an update on closely-watched measures of the domestic cost base and productivity. Growth in nominal unit labour costs has slowed materially, currently at a 2.9% six-month annualised pace. That compares to an annual rate of 3.2% recorded over 2019 when underlying (trimmed mean) inflation was running at just 1.5%yr.

The moderation in labour costs has been more pronounced in the non-mining sector, particularly in the industries more exposed to the slowdown in household discretionary spending, where the focus is on reducing costs and improving productivity. While measures of labour productivity are relatively subdued on an annual basis, the 2.2% increase in GDP per hour worked over the past three quarters provides tentative signs that a productivity recovery is underway.

We expect growth in labour costs will continue to ease back to roughly 2.5% in annual terms by year-end, consistent with our view that underlying inflation will be running at around 3.5% by the end of 2024, dropping to 3.0% by mid-2025.

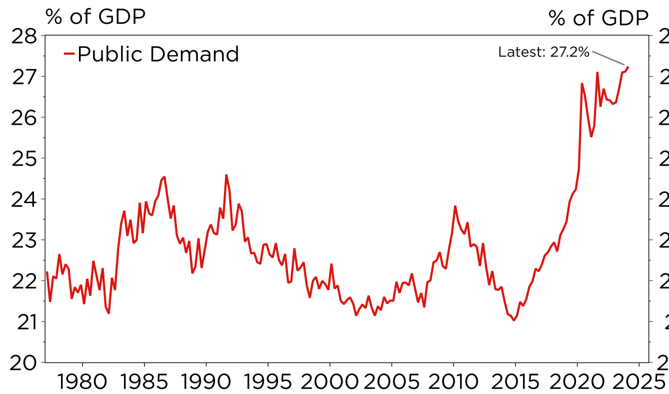
Looking ahead, the economy is expected to see some improvement as consumer headwinds continue to subside and policy provides more support as tax cuts and other fiscal support measures which started to flow from 1 July. An eventual easing in interest rates will also help as we move into 2025. Aside from inflation delaying this easing, the key risk for growth is around how consumer spending responds to these policy supports.

Productivity is beginning to recover

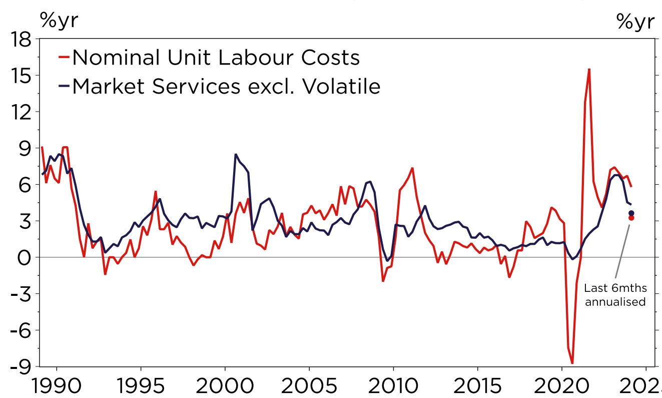


Source: ABS, Macrobond, Westpac Economics

Public demand at a record share of GDP



Pace of labour cost growth is easing



Source: ABS, Macrobond, Westpac Economics

Iron ore finds a base as met coal softens ...

Justin Smirk
Senior Economist, Westpac Group

Through June, commodity markets exhibited varied performances. Our broad commodities index, the Westpac Export Price Index (WEPI), held flat in the month since our last report, but there has been a wider variation in the performance of individual commodities from the 6% gain in crude oil (Brent) to the –5% correction in nickel. Iron ore also outperformed, gaining 2% in the month while zinc gained more than 3%. Offsetting these gains were met coal (–4%), copper (–3%) and aluminium (–2%).

Given this volatility, we have 'marked-to-market' our near-term forecasts, but our longer-term 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) and thermal coal ($120/t). We are expecting crude oil weaken from current levels through this year, wherein lacklustre demand will see 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 recent rally in base metals overextended the market, and hence expect the correction to continue. We expect copper will fall to US$9,300/t and nickel down to US$16,800/t by the end of the year. All-up we are looking for the WEPI to fall around 10% through to the end of the year.

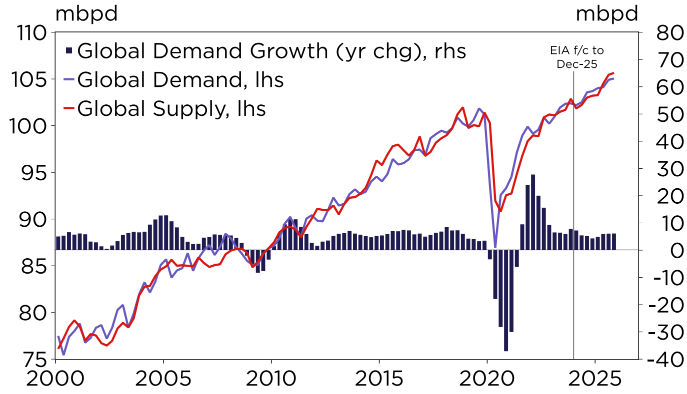
Crude oil

Our view on the crude oil market is little-changed from last month. We continue to expect inventories to rise as we move through the second half of the year. As Westpac colleague Robert Rennie noted, Brent above US$85/bbl is expensive but given the backdrop of Hezbollah and Israel strikes on each other, Hurricane Beryl being upgraded to category 5 event (the earliest and most violent storm to form in the Atlantic basin on records going back to 1851), CFTC positioning showing strong money manager demand, and the API reporting a 9.2mb slump in crude inventory last week, it is likely that Brent will remain well supported in the immediate near term. So, while we hold to the view that medium-term prices are likely to be capped by waning demand and rising supply, a near-term bounce is possible as we wait for the various storms to pass. Eventually, this would see Brent settle back under US$85/bbl.

Iron ore

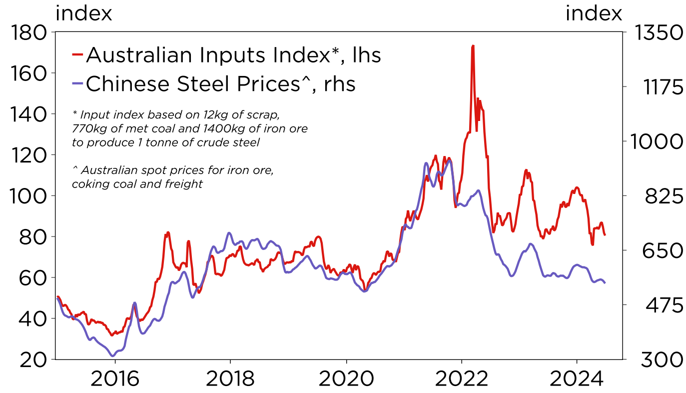
We see little reason to change our long-held view that rising supplies and softening demand will see iron ore

Crude market in surplus in 2025



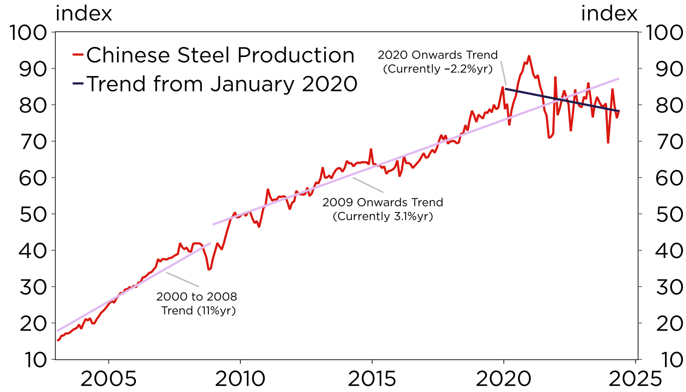
Source: Bloomberg, EIA, Macrobond, Westpac Economics

Chinese steel margins still under pressure



Source: Bloomberg, Macrobond, Westpac Economics

Chinese steel production in trend decline



Source: Macrobond, Westpac Economics

... while correction in base metals continues

prices move lower through the second half of this year. However, early June data suggests an incremental improvement in China's residential property sales following recent moves in Tier 1 cities to ease home-buying rules. This has provided a floor under iron ore prices at around US$101/t to US$102/t. Nevertheless, the market remains well supplied with a strong surplus position, so any move higher in price should be short lived and limited to the US$110/t to US$112/t range.

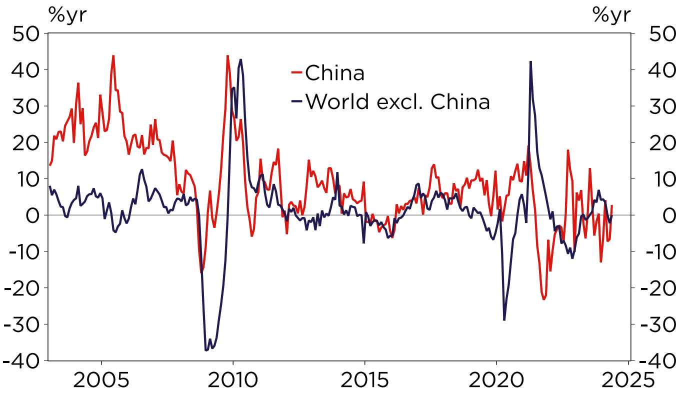
In late June, World Steel published its May crude steel and pig iron ore production data. It noted that global crude steel production lifted +1.5%yr; China's output is up +3%yr while production from the rest of the world (RoW) was flat. Given we expect greater use of electric arc furnaces (EAF) – as the supply of steel scrap improves and steel production moves to the lower carbon steel produced by EAFs – it is interesting that World Steel noted global pig iron production is down 2% in the year, suggesting an increasing use of scrap steel to maintain crude steel output.

In terms of momentum, World Steel reported that China's crude steel output is down –1% year to date (our data suggest around –3%) while output from the RoW is up +2% year to date, supported by strong output from India (+8% year to date) and Ukraine. Steel production remains weak in the EU and North America (–1% and –3% year to date respectively), and the summer likely to see lower demand which could prompt some blast furnace downtime. Overall, China's steel demand remains soft due to robust crude steel exports, rising steel inventories and the ongoing compression of steel margins as input costs rise in the face of falling steel prices. The record high level of steel exports from China is a concern to the RoW and points to an oversupplied Chinese market.

Base metals

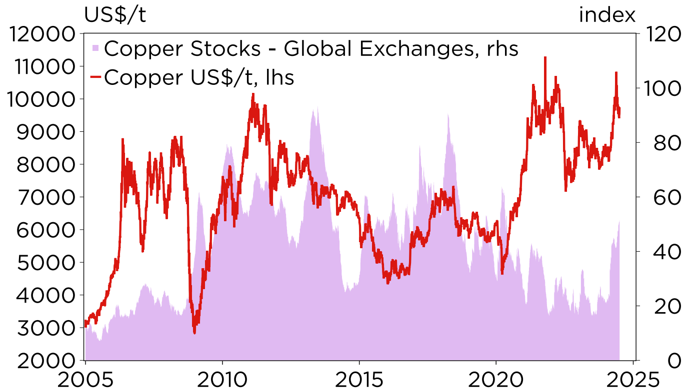
Our base metals index fell 2% in the month, weak copper and aluminium prices dominating the mix. Westpac colleague Robert Rennie noted the price action in both copper, towards US$9,500/t, and aluminium, to below US$2,500/t, suggests the market is entering a period of range bound price action until more information on supply and demand dynamics is available. Panama's new President vowed to undertake an environmental audit of the Cobre Panama mine, with its closure appearing as a 'poster child' for participants talking up an imminent copper shortage, which help drove prices up to record highs in May. However, with global copper inventory at a 4-year high and aluminium production at record highs, it is difficult to justify a firming of prices from here.

Global steel production remains weak

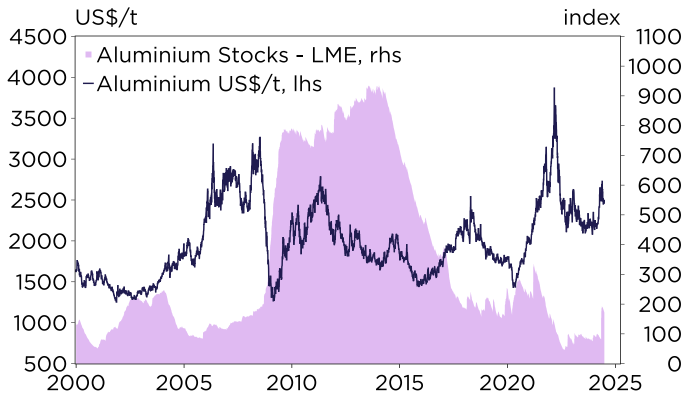


Source: Macrobond, Westpac Economics

Copper prices still near record highs



Aluminium prices ease as stocks lift



Source: Bloomberg, Macrobond, Westpac Economics

Risks near and far favour the US dollar …

Elliot Clarke
Head of International Economics, Westpac Group

In recent weeks, the US dollar has drifted higher, not because of concerns over inflation but politics. All the while, the real economic detail continues to point to a normalisation in inflation and growth across key developed markets over the coming year.

Taken together, these dynamics point to a volatile but tight range around a slow downtrend in the US dollar.

The politics affecting the US dollar are both domestic and foreign. A high degree of risk is perceived in the 2024 US elections, not to US growth but to global trade and investment – a positive for the US dollar.

A surprise, sudden election sequence in France at a time of disparate polling has coincidently raised questions over the likelihood of fiscal consolidation and growth initiatives across Europe (not just France).

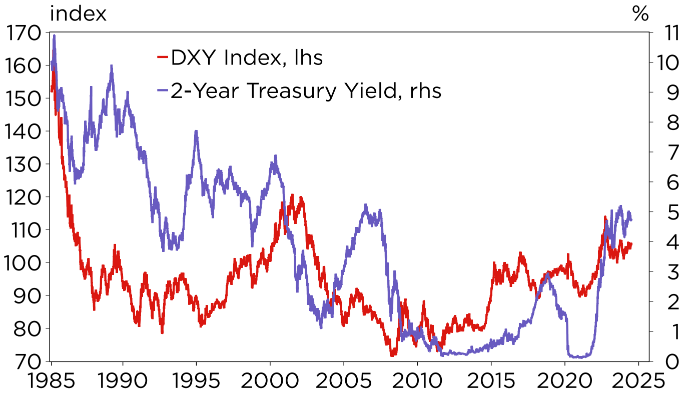
Intriguingly, while France's election is most likely to conclude in a political stalemate between the far left and right under a known centrist President (President Macron whose term does not end until mid-2027), the market is so perturbed on the outlook for Europe that Euro has weakened not only against the US dollar but also the UK's Sterling. This is just ahead of an expected change of Government in the UK, typically a source of considerable market uncertainty.

We expect this political anxiety to prove short lived and FX markets to focus back on monetary policy and cyclical economic momentum as the FOMC joins the major developed market cutting cycle begun last month by the European Central Bank and Bank of Canada.

As detailed on page 16, we are increasingly confident that the path to a September first cut by the FOMC is getting broader and less bumpy. The probability of a steady run of US rate cuts towards neutral over 2024-2026 is also rising.

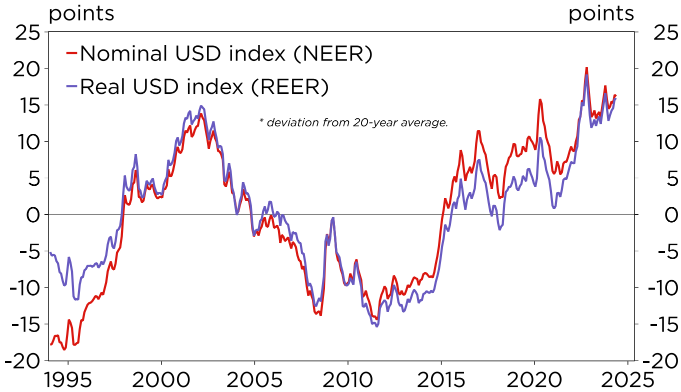
By and large, these will occur coincident and in similar scale to rate cuts in Europe, the UK and Canada and so current rate differentials will persist. Still, this turn in monetary policy will usher in market belief that inflation and growth risks have dissipated, allowing investors to focus more on medium and long-term growth opportunities, most of which lay outside the US.

Yield support for US dollar topping out



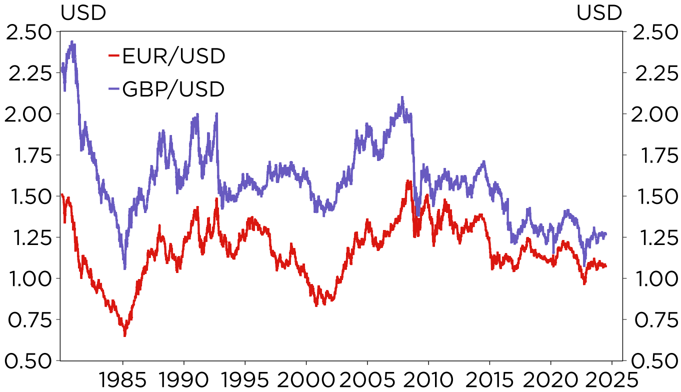
Source: Macrobond, Westpac Economics

Politics to aid above average USD



Source: BIS, Macrobond, Westpac Economics

Particularly against Euro and Sterling



Source: Macrobond, Westpac Economics

… but the market's concern should fade

So, over the course of the next two years, we look for the US dollar DXY index to slowly depreciate from 105 currently to 103 at end-2024, 99 by end-2025 and 98 come mid-2026.

For Euro and Sterling respectively, this is expected to result in a lift from USD1.0814 and USD1.2760 to USD1.10 and USD1.28 at end-2024 then USD1.14 and USD1.31 by end-2025, where we expect these currencies to plateau.

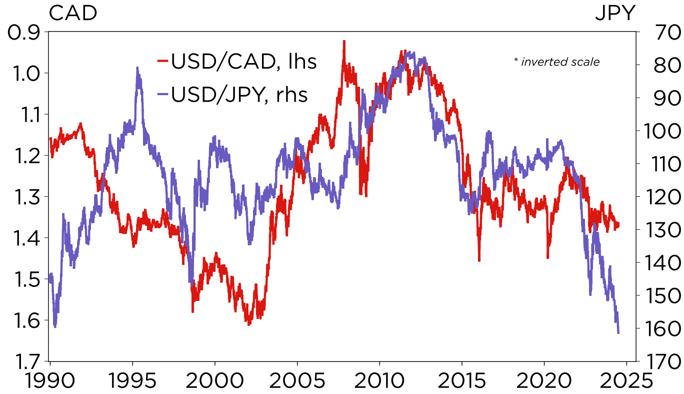
A similarly scaled appreciation is also expected in the Canadian dollar from CAD1.36 today to CAD1.34 end-2024 and CAD1.30 end-2025, though there is a greater chance of further gains for CAD in 2026 and beyond given global normalisation in growth and inflation, population dynamics as well as robust support for the price of oil.

The opposite is true of Japan's Yen, however. While we forecast a gradual appreciation for Yen against the US dollar over the next two years, from JPY161 currently to JPY158 end-2024 and JPY147 end-2025, there is considerable one-sided risk to this profile. It is also important to recognise that the Yen would still be more than 25% weaker than the average of the five years prior to the pandemic if this baseline forecast comes to pass. Underlying this weakness and the downside risks for Yen are Japan's population decline, dependence on energy imports as well as the substantial rate differentials that are currently the focus of market participants.

While the opportunity for Japan from robust global growth is limited given a lack of investment in new capacity and research & development, for the rest of Asia, there is considerable promise. In our view, geopolitics and questions over domestic finances are not going to be enough to forestall a marked appreciation in China's Renminbi and India's Rupee, at least consistent with the US dollar move but potentially less timely.

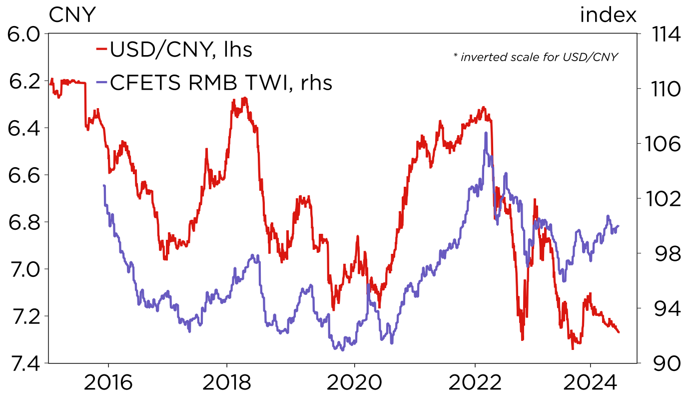
The Renminbi is expected to reach CNY6.60 and the Rupee INR75 mid-2026 from CNY7.27 and INR83.5 today. Importantly, being broadly in line with the US dollar trend and as China/India trade skews more to Asia and developing markets, it should not materially impact their competitiveness, strengthening the foundation for long-term economic development and further appreciation against the US dollar.

CAD to gain on growth; Yen remain weak

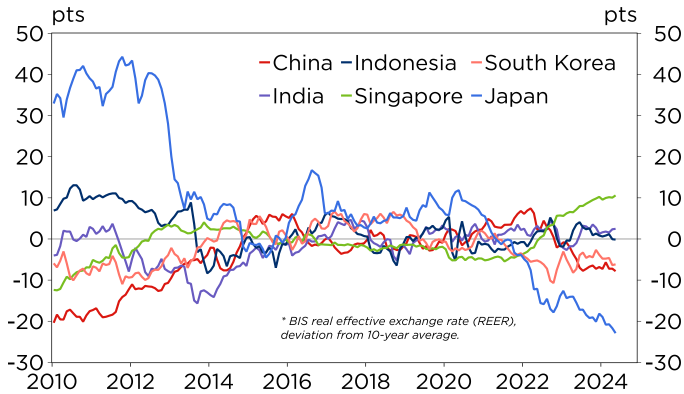


Source: Macrobond, Westpac Economics

CNY weak vs USD, but stable otherwise



Competitiveness key, but so is investment



Source: BIS, Macrobond, Westpac Economics

The rolling maul recession is continuing ...

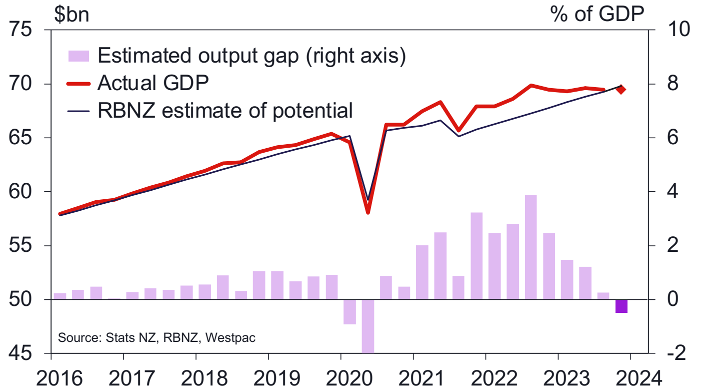
Kelly Eckhold
Chief Economist NZ

Last month's data shows the New Zealand economy remains in the "rolling maul recession" that it has been stuck in since late 2022. Growth has stagnated and is being slowly pushed backward by a Reserve Bank determined to engineer a shallow but long period of below trend activity to bring inflation down. Four of the last six quarters showed modestly negative growth (–0.1%qtr to –0.5%qtr) and the other two have been modestly positive (0.2%qtr and 0.5%qtr). It is a picture of one quarter of essentially zero growth seamlessly transitioning into another broadly flat overall trend.

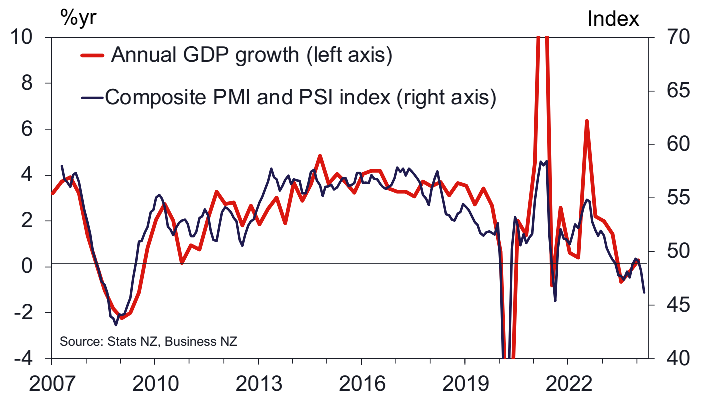
This rolling maul recession has slowly brought the economy from an unsustainably low level of excess capacity to the point where a better balance has been achieved. The unemployment rate has risen from generational lows to approach NZ's estimate of NAIRU at around 4.3% (4.6% in Q2 by Westpac's estimate). Similarly, the –0.5% decline in output since Q4 2022 – in the context of what appears to be low potential output growth – has left the output gap at an essentially balanced position, setting the economy up for a sustainably lower level of core inflation as we go through the next year.

The data this month has continued in this vein. Q1 GDP topped our estimates of –0.2% growth by coming in at 0.2%, but it did not deviate from the core flat trend and it was right in line with the RBNZ's forecast. We see Q2 GDP as being weaker at –0.2%, but this would be a continuation of the rolling maul steadily backwards towards the try line.

Economic output vs potential



Q2 GDP looks weak based on PMI indicators



What is more interesting is the outlook for the second half of 2024. We are in the period of "peak transmission" from the 525 basis points of OCR increases that ended in May 2024. Right now, we (and the RBNZ) expect growth to rise towards the upper end of the recent range (H2 2024 0.6%, RBNZ 0.7%) as tax cuts, government policy initiatives and the proximity of the monetary policy easing cycle (that is expected to occur in 2025) comes closer into view.

Markets have been paying attention to some of the recent growth indicators that might suggest downside risks to growth for the rest of 2024 and the labour market in 2024 and 2025. Business and consumer confidence, PMIs and retail trade were all weak as we went through Q2 2024, reflecting the shine coming off perceptions of the new government's policies in supporting the economy, at least in the short term. That is in addition to the RBNZ's "tough love" message in May that took away hopes that lower interest rates would be coming in 2024. The housing market has also remained in hibernation and has shown no sign of the H2 pickup that we had expected despite strong population growth from early 2023. We revised down our expectations for house prices for 2024 and now see only around 2% growth for the year – below the rate of inflation.

But it will be the fortunes of the CPI and the labour market that will be most important in driving the future path of interest rates. While there are plenty of anecdotes of a weak labour market, hard data is sparser.

... but the RBNZ will keep it tight until inflation recedes

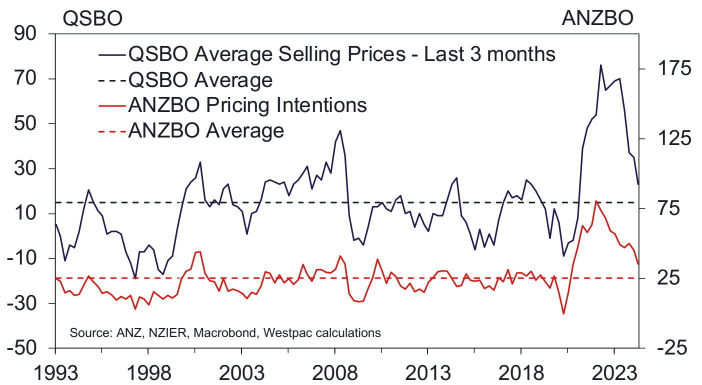
The monthly employment indicator confirmed that jobs growth is now flat-lining which will set the scene for the continued pick up in the unemployment rate by the end of the year. Migration data also confirmed slowing net inflows as we should expect if jobs are drying up. Employment indicators in the QSBO look consistent with a more strongly rising trend in unemployment and perhaps even some upside risks.

Inflation data for Q2 have not shifted the dial. May's selected price indices showed weakness in traded good prices and perhaps a hint of weakness in non-tradable inflation categories such as takeaway food and domestic airfares. The net impact was to remove the upside risk to the Q2 CPI we had seen after the April numbers compared to the RBNZ's 0.6%qtr (estimate 3.6%yr). More encouraging news has come from pricing intentions indicators from business surveys, which suggest that inflation pressures linger but are approaching historical norms.

The net impact of this for the RBNZ is likely to be one of little change in view in the July Review. The inflation outlook is broadly unchanged, reflecting the offsetting factors of the less contractionary than assumed Budget 2024 and those forward indicators suggesting still weak growth in the second half of 2024. We suspect the RBNZ will not be drawing early conclusions given key CPI and labour market is still to come ahead of the August Monetary Policy Statement. The RBNZ will say little as they likely have little to say.

Sales-listings vs house price growth

Pricing intentions are higher average



	2023						2024					
Monthly data	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
REINZ house sales %mth	-6.3	7.7	-0.6	-11.4	3.5	4.2	-4.2	17.7	-0.1	-1.7	-5.2	–
Residential building consents %mth	-5.2	-7.2	-4.5	8.5	-10.4	3.7	-9.5	16.1	-0.3	-2.0	-1.7	–
Electronic card transactions %mth	-1.2	0.7	-0.8	-0.5	1.6	-0.5	1.1	-1.3	-1.0	0.9	-0.9	–
Private sector credit %yr	2.8	2.6	2.4	2.5	2.1	2.2	2.4	2.5	2.7	2.5	3.0	–
Commodity prices %mth	-2.6	-2.9	1.4	2.8	-1.3	2.4	2.1	3.6	-1.3	0.5	1.1	1.5
Trade balance $mn	-1489	-814	-1076	-849	-857	-832	-385	-877	-313	-955	-923	–

Quarterly data	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24
Westpac McDermott Miller Consumer Confidence	92.1	78.7	87.6	75.6	77.7	83.1	80.2	88.9	93.2	82.2
Quarterly Survey of Business Opinion	-5	-1	3	-16	-10	-12	-18	6	-24	-28
Unemployment rate %	3.2	3.3	3.3	3.4	3.4	3.6	3.9	4.0	4.3	–
CPI %yr	6.9	7.3	7.2	7.2	6.7	6.0	5.6	4.7	4.0	–
Real GDP %yr	4.6	0.7	2.5	2.4	2.7	3.0	1.2	0.6	0.2	–
Current account balance % of GDP	-6.6	-7.9	-8.3	-8.8	-8.2	-7.6	-7.4	-6.9	-6.8	–

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

Manufacturing achieving strong returns ...

Elliot Clarke
Head of International Economics, Westpac Group

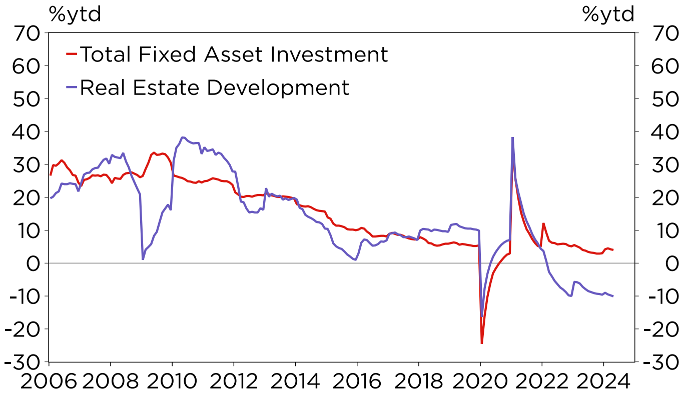
Data released over the past month has pointed to China's economy essentially marking time. This is true of their growth narrative and known risks. On the one hand, high-tech manufacturing continues to expand aggressively, responding to current and expected demand across Asia and the developed world. On the other, the property sector remains mired in uncertainty and financial disfunction, and consumers are stressed.

Fixed asset investment growth remained robust in May at 4.0% year-to-date even as the property sector continued to contract 10%. Driving aggregate growth were further gains for key sub-categories of high-tech manufacturing, investment in electrical machinery & equipment up 8.1% year-to-date and chemical material & products 9.9% year-to-date. Even as anecdotes and market pricing points to considerable spare capacity, investment in automobile production continued to outpace nominal GDP growth, gaining 5.8%.

Dominance in China's domestic market is only part of Chinese automotive and technology producers' business plan. Strong and growing market positions in a diverse array of markets from Asia to the West are also being achieved by final good and component manufacturers. For politically contentious goods like EVs, production chains are being managed to remove the effect of tariffs (Chinese owned car companies undertaking final assembly for Europe in Europe as an example). Though, in some instances, even with the tariffs levied, Chinese produced goods are still materially cheaper than the alternatives. Evident here is that there are ways and means for China to manage the economic and political relationships at play for all but the US market.

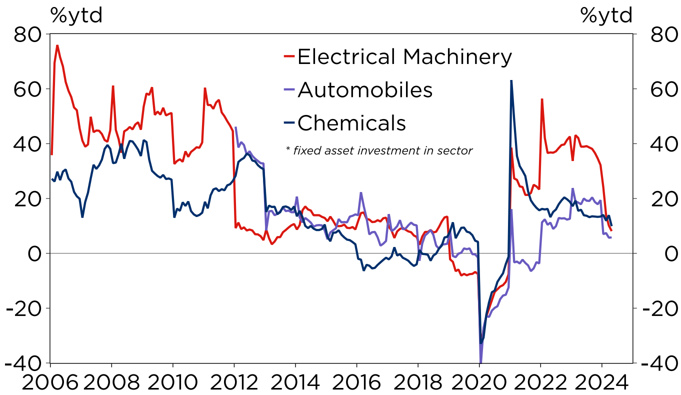
A decade ago the US and Europe were the dominant contributor to China's trade surplus, now Asia is almost as significant, as evinced by China's trade surplus with the region having grown 7-fold over that period compared to circa 50% for the US and Europe. This highlights China's success to date and their growing economic reach. For Asia, it is not only the price of China's goods that is attractive, but also the knowledge and skills gained by building out capacity to service a highly urbanised interconnected nation with an increasing focus on technology. This know-how will be helpful in employing and providing for the region's young, growing population.

Investment continuing at pace ex property



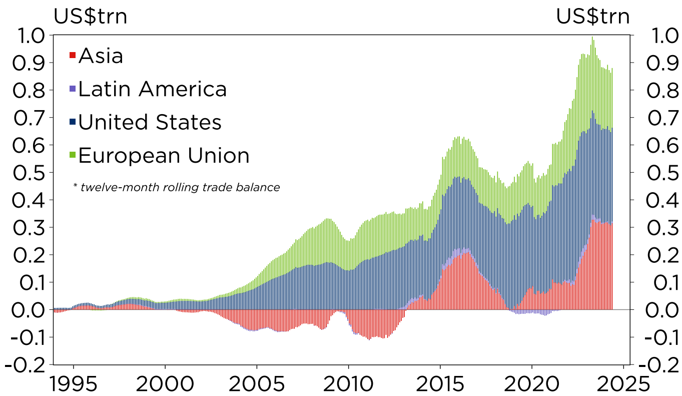
Source: NBS, Macrobond, Westpac Economics

High-tech capacity is large and growing



Source: NBS, Macrobond, Westpac Economics

Targeting needs of Asia and rest of world



Source: GAC, Macrobond, Westpac Economics

… but consumer risks to endure

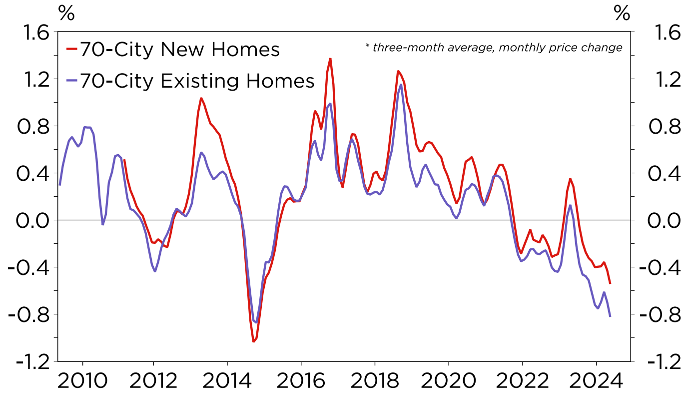
Speaking of the consumer, this sector remains the critical risk for China, now and into the medium term. With housing the 'average' consumer's almost sole avenue for wealth creation, it is unsurprising that the ongoing crisis in China's property market has hit household demand hard.

It is not enough for authorities to react to and extinguish downside risks one by one. For growth in consumer demand to strengthen sustainably, households need to know the downturn's nadir has past and growth has returned. Annualised double-digit price declines are not indicative of this being the case, neither is under-construction investment down 10% or housing starts trending lower.

Obviously, it is not just the impact on wealth that matters but also employment. When authorities turn activity in the sector around, job and income gains will provide considerable support to household demand, albeit likely with a significant lag. While we continue to expect additional support for the sector, we are still some months away from a decisive change in conditions and consequently consumption.

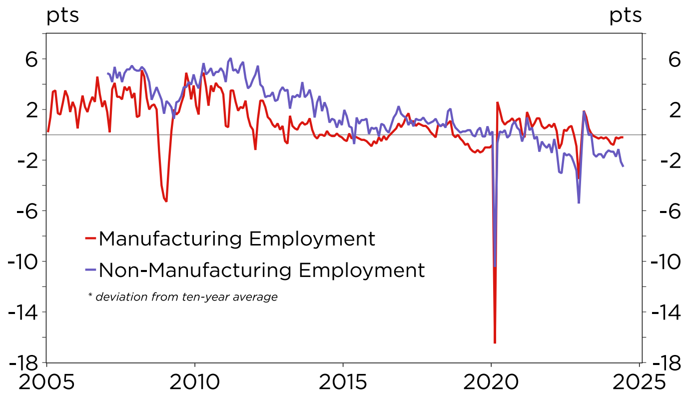
Even after the turn is in, uncertainty will remain over the medium-term durability of gains unless a bridge is built from the gains for industry through trade to household income, wealth and spending. This will require significant structural reform across markets, taxation, and the provision of welfare services. The success China has achieved in industry and trade over the past two decades is most certainly significant, but the next steps for policy will prove far more complex and challenging. Authorities' promised improvement in living standards requires success.

But for consumer confidence, housing key



Source: Bloomberg, Macrobond, Westpac Economics

Both with respect to wealth and jobs



	2023						2024					
Monthly data %yr	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Consumer prices – headline	–0.3	0.1	0	–0.2	–0.5	–0.3	–0.8	0.7	0.1	0.3	0.3	–
Money supply M2	10.7	10.6	10.3	10.3	10.0	9.7	8.7	8.7	8.3	7.2	7.0	–
Manufacturing PMI (official)	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5
Fixed asset investment %ytd	3.4	3.2	3.1	2.9	2.9	3.0	3.0	4.2	4.5	4.2	4.0	–
Industrial production (IVA)	3.7	4.5	4.5	4.6	6.6	6.8	6.8	7.0	4.5	6.7	5.6	–
Exports	–14.3	–8.6	–6.8	–6.6	0.7	2.1	7.9	5.4	–7.6	1.4	7.6	–
Imports	–12.1	–7.2	–6.3	3.0	–0.6	0.3	15.4	–8.1	–1.9	8.3	1.8	–
Trade balance USDbn	79.4	67.2	75.1	55.9	69.1	74.7	84.6	39.3	58.4	72.2	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

Risks are no longer one-sided for the US economy …

Elliot Clarke
Head of International Economics, Westpac Group

The June FOMC meeting provided clear evidence of both the members confidence in the US economy and their unwavering commitment to bringing inflation back to target. Commentary since has held to that line, although, to our mind, comments by San Francisco Fed President Daly, Chicago Fed President Goolsbee and Chair Powell speak to evidence of building downside risks which we expect to prove the catalyst for a September 2024 start to the next easing cycle.

To be clear, we are not foreshadowing recession. Instead, we see the economy as having slowed to an around trend pace with risk of a further deceleration towards zero. Central to this view is real personal consumption, year-to-date averaging a monthly gain of just 0.1%, 1.2% annualised. That rate is roughly a third the pace of 2023 and half the average of 2015-2019, prior to the pandemic.

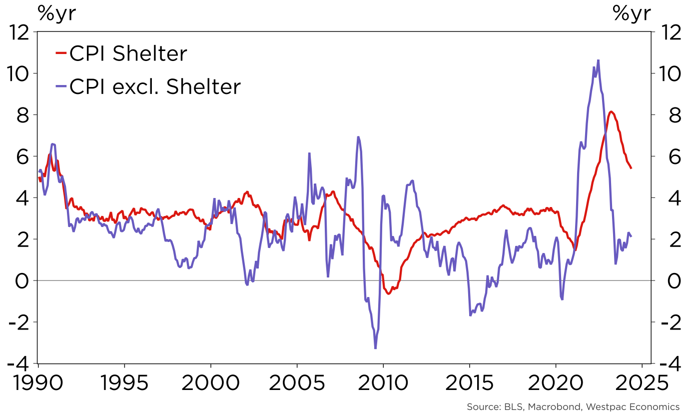
Intriguingly, the near flatlining of household consumption is coming as disposable income outpaces inflation and wealth continues to print new all-time highs. Admittedly, household savings are being accrued at a historically low pace, but many consumers still have a comfortable liquidity buffer from the pandemic with little-to-no risk to it, except job loss.

For the average household, this risk seems remote. Nonfarm payrolls continue to grow faster than the population; although household employment growth is much weaker, it is still positive, the unemployment rate's rise is more a consequence of labour supply. In aggregate, consumers therefore look to be making a choice to be prudent in case the economy experiences a shock, not because of a clear and present threat.

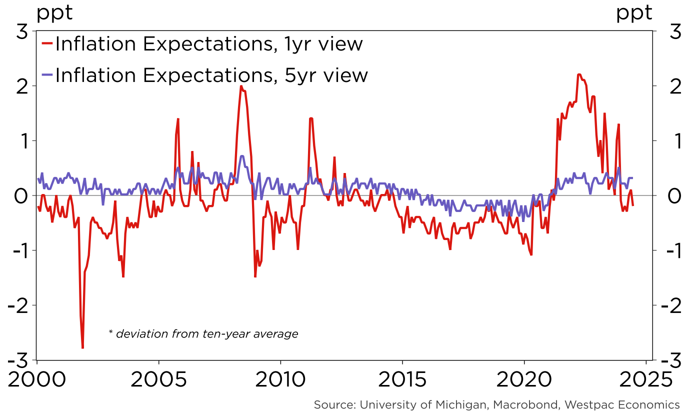
Businesses look to be of a similar mindset. Core durable goods orders and the regional fed business surveys point to little interest in expansion, yet they are not consistent with large, sustained cuts to capacity either. US business might be caught between uncertainty surrounding the consumer and the opportunity afforded by the Inflation Reduction Act; but with a growing population, the downside for investment seems relatively limited.

For the FOMC, the absence of recession risks argues for patience with policy. Further, if households and businesses are well placed, policy easing must be expected to stimulate stronger growth at the margin.

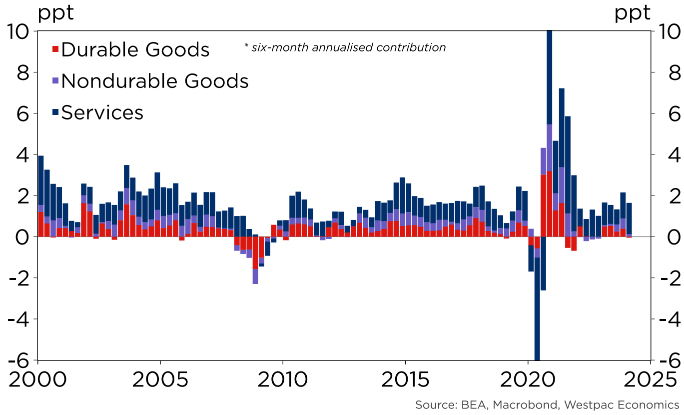
CPI ex shelter sustainably at target



And inflation expectations have settled



Meanwhile, growth has slowed



… and warrant FOMC rate cuts by end-2024

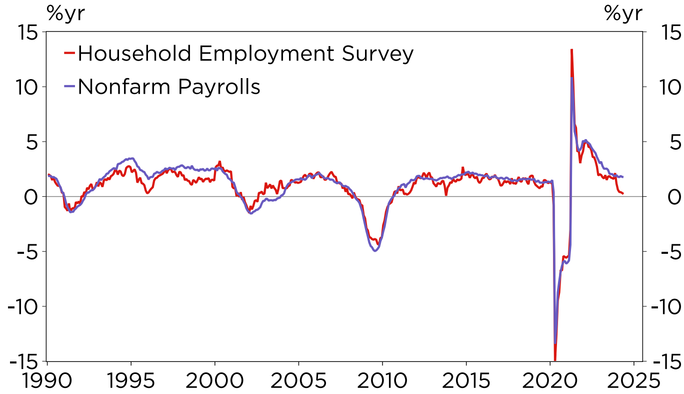
That said, the longer the economy is left to weather tight policy, the greater the uncertainty that will build over future growth, and the higher the chance of a difficult-to-manage shock.

Increasingly, the immediate outlook for inflation is also becoming a non-issue. Annual growth in CPI ex-shelter has averaged just 1.7% over the 12 months to May with a range between 0.7% and 2.3%. Shelter inflation has meanwhile decelerated from 8.0%yr in May 2023 to 5.4%yr at May 2024, and new rent inflation is close to zero. Measures of inflation expectations from the University of Michigan's Consumer Sentiment survey are, at June 2024, also now below the decade average for the 1-year view and only marginally above the decade average for 5-year expectations.

Critical for assessing the evolving balance of risks is that the US fed funds rate is a long way away from neutral. Per their June set of forecasts, the Committee's longer run view of fed funds was 2.8%, almost 260bps below the current level. As such, at a measured pace of easing like our one cut per quarter call from September 2024, it would take two years for policy to revert near neutral and another year to become accommodative. This situation offers the FOMC plenty of leeway to begin easing while continuing to assess current conditions and the risks and adapt accordingly.

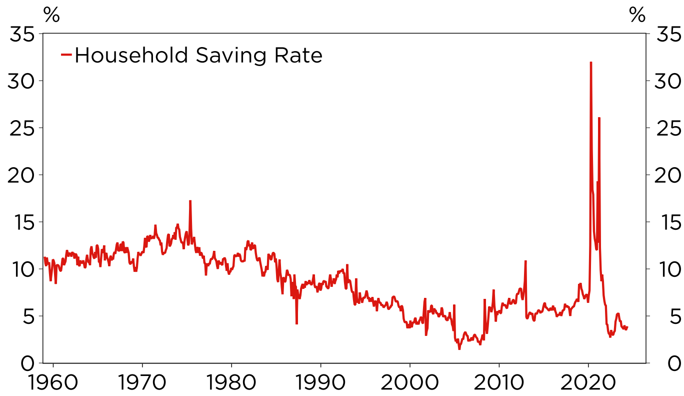
Our end-of-cycle low for the fed funds rate of 3.375% in June 2026 highlights that we believe there will be inflation risks to face further out. However, these are more to do with limits to supply than demand and consequently cannot be prevented by biding time now. Indeed, less investment over the forecast period due to tighter financial conditions could accentuate these risks.

And labour market risks have flipped



Source: BLS, Macrobond, Westpac Economics

Consumers are healthy but constrained



	2023						2024					
Monthly data	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
PCE deflator %yr	3.3	3.3	3.4	2.9	2.7	2.6	2.5	2.5	2.7	2.7	2.6	–
Unemployment rate %	3.5	3.8	3.8	3.8	3.7	3.7	3.7	3.9	3.8	3.9	4.0	–
Non-farm payrolls chg '000	184	210	246	165	182	290	256	236	310	165	272	–
House prices* %yr	0.1	2.2	4.0	5.0	5.6	6.3	6.8	7.5	7.5	7.2	–	–
Durables orders core 3mth %saar	-3.2	0.5	1.2	0.7	-1.3	0.2	1.7	2.2	-1.2	2.4	-2.0	–
ISM manufacturing composite	46.5	47.6	48.6	46.9	46.6	47.1	49.1	47.8	50.3	49.2	48.7	48.5
ISM non-manufacturing composite	52.8	54.1	53.4	51.9	52.5	50.5	53.4	52.6	51.4	49.4	53.8	–
Personal spending 3mth %saar	5.1	5.4	6.8	5.1	5.5	4.8	4.3	5.0	5.4	5.6	4.3	–
UoM Consumer Sentiment	**71.5**	**69.4**	**67.8**	**63.8**	**61.3**	**69.7**	**79.0**	**76.9**	**79.4**	**77.2**	**69.1**	**68.2**
Trade balance USDbn	**-64.6**	**-59.6**	**-62.2**	**-f64.3**	**-64.8**	**-64.9**	**-66.9**	**-69.0**	**-68.6**	**-74.6**	**–**	**–**

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	1.4	2.1
Current account USDbn	-230.3	-232.6	-220.7	-221.8	-237.6	–

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

European debt threatens to be …

Illiana Jain
Economist, Westpac Group

The potential trajectory of European debt is once again making investors anxious. While political uncertainty in France has been the trigger, the region's underlying budget dynamics also justify concern. The breaking away of deficits and debt from European Commission rules was most apparent during the pandemic. In 2020 and 2021, debt-to-GDP ratios for the 'Big 4' – Germany, France, Italy and Spain – grew substantially, leaving the 60% benchmark set by the European Commission in the dust.

But it is important to recognise that Europe's budgets were experiencing structural pressure long before the pandemic and the cyclical shocks associated with the Russia/Ukraine war. Between 2015 and 2019, growth in Spanish and French debt averaged 3.0% and 2.9% respectively, Italian debt averaged 2.0% and only Germany's debt was falling. Behind this trend, was social spending, particularly pension and health costs for an ageing population.

This is why, since peaking in early 2021, the ratio of debt to GDP has only inched down for most of the Big 4 as the Euro value of public debt continued to rise. Relative to GDP, Germany is the closest to the desired 60% target at 63.6%, and Italy the furthest from it at 137.3%.

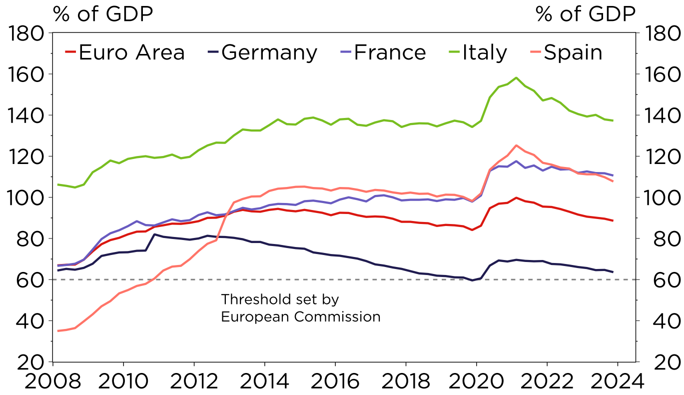
While GDP growth re-accelerating to trend will help cap debt relative to GDP hence, growth in the value of debt is still far too high. Since 2021, debt growth has accelerated substantially. Spain has lead the way at 5.9%, with France a close second at 5.5%, but Germany and Italy also not far behind; 4.7% and 3.8% respectively.

The cumulative increase in debt raises concerns around growth and financial stability, not just for the individual nations, but the EU as a whole owing to its interconnectedness. As we are seeing currently, the serviceability of debt also needs to be assessed.

Currently though, interest costs make up no more than 10% of government expenditure among the Big 4.

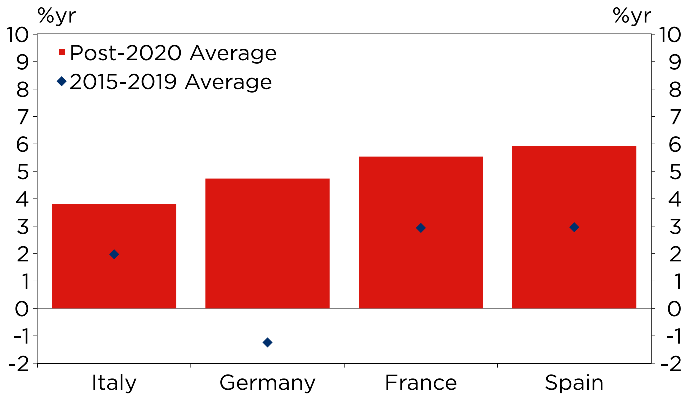
Further, spreads between the 5yr French OAT/German Bund and the 5yr US Treasury yield remain negative. This lower level of term funding costs offers European governments relief in terms of cost of funds, allowing more of their recurring budget to be directed to the economy. Note however, it also means that any benefit

Progress being made on debt-to-GDP



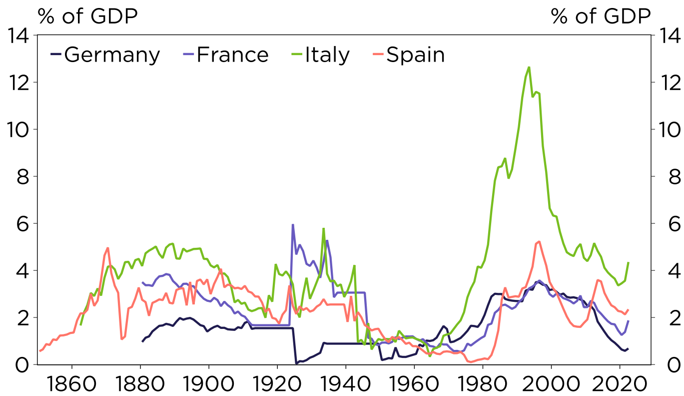
Source: Banque de France, Macrobond, Westpac Economics

Debts are rising faster than pre-pandemic



Source: INSEE, DESTATIS, Bank of Italy, BDE, Macrobond, Westpac Economics

Interest costs of minimal contribution



Source: IMF, Macrobond, Westpac Economics

… a political and economic impasse

from declining global rates will be marginal and that cuts to spending or higher revenue are necessary to reshape the deficit

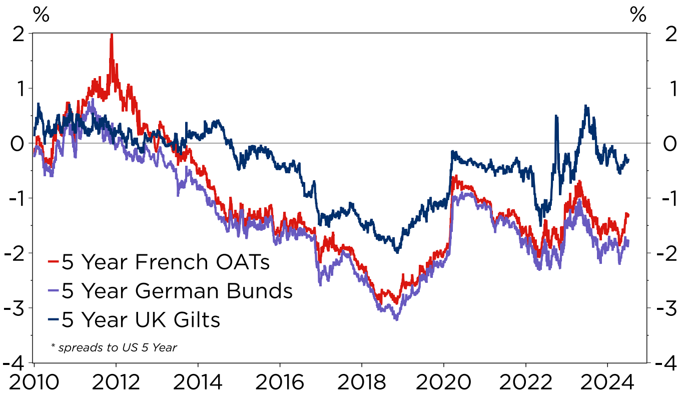
Clearly highlighting the need for considered but large-scale reform, if nominal debt remains at its projected 2024 level until the end of the IMF's projection period in 2029, Germany will have had come into line with the 60% debt-to-GDP ratio set by the European Commission in 2030. Assuming long-term annual GDP growth remains at its 2029 rate, it would instead take Italy until 2099, Spain until 2059 and France until 2068 for debt to reach 60% of GDP.

It goes without saying that the changes made must preserve or increase the strength of the labour market. The Euro Area currently has a very low unemployment rate versus history. Labour market tightness has been more pronounced in services-oriented economies like Italy and Spain over manufacturing-centred economies like France and Germany, but ageing and migration opportunities are constraints on supply for all.

Little further capacity is expected to be attained hence, with the ECB expecting the unemployment rate to only edge down to 6.3% by 2026 from 6.4% today even as growth recovers to trend and then sustains at that level. To increase the availability of labour, retirement ages must be raised (as France has contentiously done), productivity sought, and migration opportunities assessed and encouraged where appropriate.

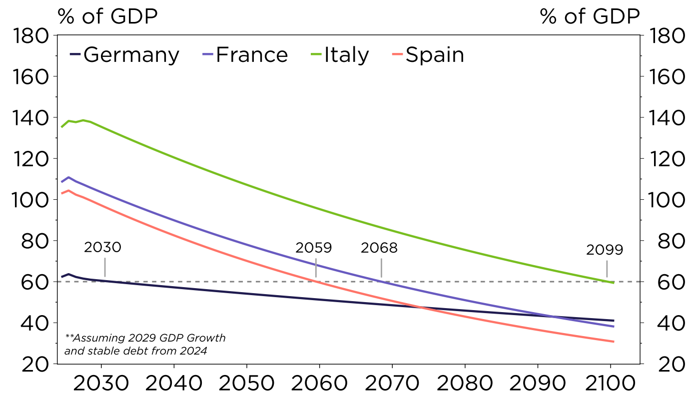
The degree of difficulty of the changes required and the fractured nature of politics currently on display highlights that debt is instead likely to grow across Europe year on year. The thresholds set by the European Commission are therefore likely to continue slipping further away, at least for the foreseeable future, with Germany a potential exception. Given their comparatively lower cost of borrowing and ample savings however, risks around debt servicing costs should remain benign. This should allow the region time to settle politically and start a new discourse over how to best save and invest to secure future growth opportunities while restricting the cost to the present and future of legacy debt liabilities.

Low yields keep funding costs low



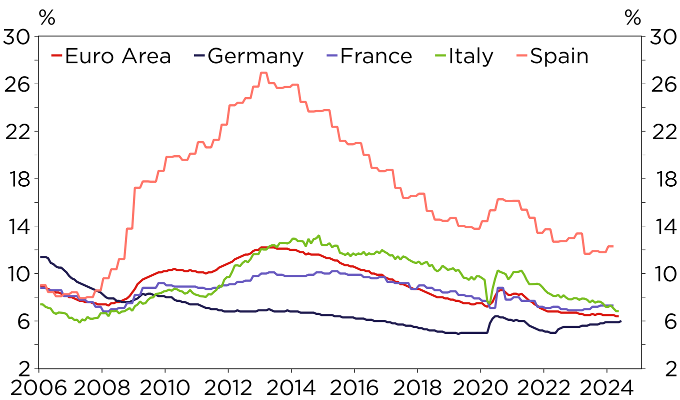
Source: Macrobond, Bloomberg, Westpac Economics

Large debts to remain in place for a while



Source: Macrobond, Westpac Economics

Unemployment likely to remain low



Source: Istat, Eurostat, INSEE, German Federal Employment Agency (Bundesagentur fuer Arbeit), INE, Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Cash	4.35	4.35	4.10	3.85	3.60	3.35	3.10	3.10	3.10	3.10	3.10
90 Day BBSW	4.46	4.42	4.19	3.96	3.75	3.55	3.30	3.30	3.30	3.30	3.30
3 Year Swap	4.28	4.10	4.00	3.85	3.70	3.60	3.50	3.50	3.50	3.55	3.60
3 Year Bond	4.16	3.90	3.80	3.65	3.50	3.40	3.30	3.30	3.30	3.35	3.40
10 Year Bond	4.41	4.30	4.25	4.20	4.10	4.00	4.00	4.00	4.05	4.10	4.15
10 Year Spread to US (bps)	5	-10	-5	0	0	0	0	0	0	5	5

Currency forecasts

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD vs											
USD	0.6730	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.72	0.73	0.73
JPY	108.46	105	106	106	106	105	104	104	102	101	99
EUR	0.6223	0.61	0.61	0.61	0.62	0.62	0.62	0.63	0.63	0.63	0.63
NZD	1.1005	1.10	1.10	1.10	1.10	1.10	1.10	1.11	1.11	1.12	1.12
CAD	0.9160	0.90	0.90	0.90	0.91	0.92	0.92	0.93	0.92	0.93	0.93
GBP	0.5274	0.52	0.52	0.53	0.53	0.53	0.54	0.55	0.55	0.56	0.56
CHF	0.6056	0.59	0.60	0.61	0.61	0.61	0.61	0.62	0.62	0.62	0.62
DKK	4.6415	4.52	4.54	4.57	4.59	4.61	4.64	4.71	4.71	4.73	4.73
SEK	7.0666	6.89	6.92	6.96	7.00	7.02	7.06	7.17	7.17	7.21	7.21
NOK	7.1102	6.93	6.96	7.00	7.04	7.07	7.11	7.22	7.22	7.26	7.26
ZAR	12.29	12.4	12.5	12.6	12.7	12.8	12.9	13.0	13.0	13.1	13.1
SGD	0.9092	0.89	0.90	0.90	0.91	0.92	0.92	0.93	0.92	0.93	0.92
HKD	5.2556	5.15	5.23	5.30	5.38	5.46	5.52	5.60	5.58	5.66	5.66
PHP	39.39	38.4	38.7	39.0	39.3	39.6	39.9	40.2	39.9	40.4	40.3
THB	24.64	24.1	24.1	24.1	24.2	24.2	24.1	24.1	23.8	24.1	24.0
MYR	3.1691	3.10	3.12	3.13	3.14	3.15	3.16	3.17	3.17	3.21	3.21
CNY	4.8897	4.75	4.76	4.79	4.83	4.83	4.83	4.82	4.75	4.78	4.75
IDR	10990	10692	10787	10880	10902	10920	10934	10944	10800	10919	10888
TWD	21.85	21.4	21.6	21.7	21.8	21.9	22.0	22.1	22.0	22.2	22.1
KRW	928	904	911	918	925	924	923	929	922	927	920
INR	56.13	54.1	54.3	54.4	54.5	54.6	54.7	54.7	54.0	54.0	53.3

Australia

Activity forecasts*

	2024				2025				Calendar years			
%qtr / %yr avg	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	0.4	0.2	0.6	0.4	0.6	0.6	0.6	0.7	2.1	1.4	2.1	2.9
Dwelling investment	–0.5	–0.9	–0.9	–0.1	1.1	1.1	1.2	1.2	–1.9	–4.1	2.1	5.7
Business investment *	–0.7	0.6	0.6	0.5	0.8	1.0	1.4	1.5	9.2	2.1	3.5	6.5
Private demand *	0.1	0.2	0.5	0.4	0.7	0.7	0.8	0.8	2.6	1.2	2.5	3.9
Public demand *	0.6	0.4	1.0	0.6	0.5	0.4	0.5	0.5	3.3	3.1	2.2	3.2
Domestic demand	0.2	0.3	0.7	0.5	0.6	0.6	0.7	0.7	2.8	1.7	2.4	3.7
Stock contribution	0.7	–0.4	0.2	0.1	0.0	0.0	0.0	0.0	–0.9	0.2	0.1	0.2
GNE	1.0	–0.2	0.9	0.6	0.6	0.6	0.7	0.8	1.9	2.0	2.5	3.9
Exports	0.7	1.3	1.0	1.0	1.2	1.1	1.2	1.0	6.6	2.4	4.5	4.2
Imports	5.1	–0.5	2.0	1.5	1.8	1.4	2.0	1.4	6.5	5.6	6.3	7.5
Net exports contribution	–0.9	0.5	–0.2	–0.1	–0.1	0.0	–0.1	–0.1	0.3	–0.6	–0.2	–0.6
Real GDP %qtr / yr avg	**0.1**	**0.3**	**0.6**	**0.5**	**0.5**	**0.6**	**0.6**	**0.7**	2.0	1.3	2.2	3.1
%yr end	**1.1**	**1.0**	**1.4**	**1.6**	**2.0**	**2.2**	**2.2**	**2.3**	**1.6**	**1.6**	**2.3**	**3.5**
Nominal GDP %qtr	1.4	0.6	0.7	0.6	0.6	0.8	1.2	1.2	–	–	–	–
%yr end	3.5	4.9	4.4	3.4	2.6	2.8	3.2	3.9	4.5	3.4	3.9	6.0

Other macroeconomic variables

	2024				2025				Calendar years			
% change	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Employment (2)	0.5	0.8	0.4	0.2	0.3	0.3	0.4	0.4	–	–	–	–
%yr	2.8	2.7	2.4	1.9	1.6	1.2	1.2	1.4	3.1	1.9	1.4	1.8
Unemployment rate % (2)	3.9	4.0	4.2	4.3	4.4	4.5	4.6	4.6	3.9	4.3	4.6	4.5
Wages (WPI) (2)	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.8	–	–	–	–
%yr	4.1	3.9	3.4	3.0	2.9	2.8	2.9	3.0	4.2	3.0	3.0	3.3
Headline CPI (2)	1.0	1.0	0.1	0.8	0.7	0.8	0.9	0.6	–	–	–	–
%yr	3.6	3.8	2.7	2.9	2.7	2.4	3.2	3.1	4.1	2.9	3.1	2.8
Trimmed Mean CPI	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.6	–	–	–	–
%yr (2)	4.0	4.0	3.6	3.5	3.2	3.0	2.8	2.8	4.2	3.5	2.8	2.6
Current account $bn	–4.9	–1.9	–4.5	–7.5	–9.6	–10.1	–11.6	–11.3	–	–	–	–
% of GDP	–0.7	–0.3	–0.7	–1.1	–1.4	–1.4	–1.6	–1.6	0.3	–0.7	–1.5	–2.3
Terms of trade annual chg (1)	–7.3	–0.2	1.2	–3.0	–4.1	–4.0	–3.2	–1.0	–6.2	–2.4	–3.1	–1.2

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	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Employment '000 chg	62.3	13.4	55.5	59.6	–58.9	11.9	120.4	–6.1	37.4	39.7	–
Unemployment rate %	3.7	3.6	3.8	3.9	3.9	4.1	3.7	3.9	4.1	4.0	–
Westpac–MI Consumer Sentiment	81.0	79.7	82.0	79.9	82.1	81.0	86.0	84.4	82.4	82.2	83.6
Retail trade %mth	0.3	0.6	–0.3	2.0	–2.4	0.9	0.4	–0.4	0.1	0.6	–
Dwelling approvals %mth	3.4	2.0	7.0	–0.5	–7.6	–4.1	1.0	0.7	1.9	5.5	–
Private sector credit %mth	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.4	0.5	0.4	–
Trade in goods balance AUDbn	10.1	5.9	7.8	11.3	9.7	9.6	6.7	4.3	6.0	5.8	–

New Zealand

Interest rate forecasts

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Cash	5.50	5.50	5.50	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.75
90 Day Bill	5.61	5.60	5.50	5.25	5.00	4.75	4.50	4.25	4.00	3.85	3.85
2 Year Swap	4.87	5.00	4.80	4.60	4.40	4.25	4.15	4.05	4.00	4.00	4.00
10 Year Bond	4.73	4.90	4.80	4.70	4.65	4.55	4.50	4.40	4.35	4.35	4.35
10 Year Spread to US	36	50	50	50	55	55	50	40	30	30	25
10 Year Spread to Aust	31	60	55	50	55	55	50	40	30	25	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
NZD vs											
USD	0.6115	0.60	0.61	0.62	0.63	0.64	0.65	0.65	0.65	0.65	0.65
JPY	98.5540	96	96	96	96	96	95	93	91	90	88
EUR	0.5655	0.55	0.55	0.56	0.56	0.56	0.57	0.57	0.57	0.56	0.57
AUD	0.9087	0.91	0.91	0.91	0.91	0.91	0.91	0.90	0.90	0.89	0.89
CAD	0.8323	0.82	0.82	0.82	0.83	0.83	0.84	0.84	0.83	0.82	0.83
GBP	0.4792	0.47	0.48	0.48	0.48	0.49	0.49	0.49	0.50	0.50	0.50
CNY	4.4441	4.33	4.33	4.36	4.39	4.40	4.40	4.34	4.28	4.25	4.23

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2024				2025				Calendar years			
% change	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	1.6	-0.5	1.0	0.8	0.9	0.8	0.8	0.8	0.6	2.1	3.0	3.5
Government consumption	-0.3	-0.8	-0.5	-0.5	-0.4	-0.2	0.4	0.6	-0.8	-1.2	-1.0	2.1
Residential investment	-3.7	-2.5	-2.5	-1.5	-0.5	0.0	1.0	1.5	-4.1	-8.1	-2.5	7.5
Business investment	-0.5	-1.6	-0.6	0.2	0.7	0.9	1.2	1.4	0.7	-3.6	1.8	6.3
Stocks (ppt contribution)	0.7	1.4	0.0	0.1	0.1	0.0	0.0	0.0	-1.4	0.7	0.4	0.0
GNE	1.4	0.4	0.3	0.4	0.6	0.6	0.8	0.9	-1.5	0.3	2.2	3.9
Exports	-0.4	4.3	1.0	0.7	0.7	0.7	0.7	0.7	9.8	5.6	4.3	2.8
Imports	6.1	-2.8	0.6	0.8	1.0	1.0	1.2	1.3	-0.5	1.4	3.2	5.4
GDP (production)	0.2	-0.2	0.0	0.3	0.5	1.0	0.7	0.7	0.6	0.3	1.8	3.2
Employment annual %	1.3	0.4	0.5	0.1	0.5	0.6	0.7	0.9	2.7	0.1	0.9	1.8
Unemployment rate % s.a.	4.3	4.6	4.9	5.2	5.3	5.4	5.4	5.4	4.0	5.2	5.4	4.7
LCI, all sect incl o/t, ann %	4.1	3.9	3.6	3.4	3.2	2.9	2.8	2.5	4.3	3.4	2.5	2.0
CPI annual %	4.0	3.6	2.9	2.8	2.7	2.4	2.2	2.2	4.7	2.8	2.2	2.2
Current account % of GDP	-6.8	-6.4	-5.9	-5.3	-4.7	-4.5	-4.6	-4.6	-6.9	-5.3	-4.6	-4.9
Terms of trade annual %	-3.7	0.2	3.0	12.3	7.1	3.3	1.2	0.7	-10.6	8.1	0.8	2.3

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (5 Jul)***	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Australian commodities index#	312	297	281	276	275	277	279	279	280	282	284
Bulk commodities index#	**438**	**420**	**380**	**370**	**360**	**360**	**360**	**360**	**340**	**340**	**350**
iron ore finesTSI @ 62% US$/t	110	98	85	85	85	86	87	84	83	83	84
Premium low vol met coal (US$/t)	254	235	230	225	220	210	205	205	204	200	200
Newcastle spot thermal coal (US$/t)	139	135	120	117	116	115	114	115	120	120	120
crude oil (US$/bbl) Brent ICE	86	80	78	78	80	82	85	87	90	91	91
LNG in Japan US$mmbtu	12.31	12.7	12.4	12.5	12.7	12.8	12.9	13.3	13.4	13.8	13.7
gold (US$/oz)	2,362	2,320	2,300	2,200	2,200	2,220	2,240	2,250	2,270	2,290	2,310
Base metals index#	**208**	**206**	**200**	**196**	**194**	**196**	**203**	**207**	**213**	**215**	**216**
copper (US$/t)	9,599	9,500	9,300	9,100	9,100	9,300	9,700	9,900	10,200	10,300	10,400
aluminium (US$/t)	2,497	2,480	2,430	2,400	2,410	2,460	2,530	2,580	2,650	2,660	2,680
nickel (US$/t)	16,949	17,000	16,800	16,500	16,000	15,000	14,700	15,100	15,700	15,800	15,900
zinc (US$/t)	2,896	2,800	2,600	2,450	2,350	2,400	2,500	2,540	2,610	2,620	2,640
lead (US$/t)	2,189	2,100	2,050	2,000	1,990	2,000	2,050	2,080	2,130	2,140	2,150
Rural commodities index#	**125**	**122**	**119**	**119**	**122**	**125**	**130**	**134**	**139**	**140**	**141**
NZ commodities index ##	**351**	**335**	**336**	**337**	**339**	**341**	**344**	**347**	**350**	**354**	**357**
dairy price index ^^	314	300	300	300	300	300	310	310	310	310	320
whole milk powder US$/t	3,394	3,300	3,400	3,450	3,500	3,526	3,550	3,580	3,610	3,630	3,650
skim milk powder US$/t	2,766	2,680	2,800	2,850	2,900	2,920	2,940	2,970	2,990	3,010	3,030
lamb leg UKp/lb	501	460	460	470	470	480	490	500	510	520	530
bull beef US¢/lb	284	270	270	270	270	270	270	270	280	280	280
log price index ##	156	160	160	160	160	160	170	170	170	170	180

	levels				%change			
Annual averages	2023	2024(f)	2025(f)	2026(f)	2023	2024(f)	2025(f)	2026(f)
Australian commodities index#	**323**	**305**	**277**	**281**	**-15.7**	**-5.7**	**-9.1**	**1.5**
Bulk commodities index#	**500**	**448**	**366**	**349**	**-10.1**	**-10.4**	**-18.4**	**-4.5**
iron ore fines @ 62% USD/t	120	107	86	84	-0.5	-10.8	-19.7	-2.2
LNG in Japan $mmbtu	14.9	12.8	12.7	13.5	-20.0	-13.8	-1.1	6.4
ave coking coal price (US$/t)	215	223	208	171	-10.2	3.5	-6.7	-17.8
ave thermal price (US$/t)	185	139	126	125	-45.0	-24.9	-9.7	-0.3
iron ore fines contracts (US¢ dltu)	160	155	123	123	-7.9	-3.3	-20.5	-0.6
Premium low vol met coal (US$/t)	296	255	217	204	-19.0	-13.7	-14.9	-6.1
crude oil (US$/bbl) Brent ICE	82	81	81	89	-15.8	-0.6	-0.7	10.6
gold (US$/oz)	1,962	2,272	2,219	2,277	8.4	15.8	-2.4	2.6
Base metals index#	**201**	**203**	**197**	**210**	**-12.4**	**0.8**	**-3.1**	**6.7**
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$/t)	21,600	17,300	15,700	15,500	-17.6	-19.9	-9.2	-1.3
zinc (US$/t)	2,700	2,700	2,400	2,600	-22.2	0.0	-11.1	8.3
lead (US$/t)	2,100	2,100	2,000	2,100	-2.5	0.0	-4.8	5.0
Rural commodities index#	**141**	**126**	**123**	**136**	**-17.9**	**-10.7**	**-2.4**	**11.2**
NZ commodities index ##	**330**	**342**	**340**	**352**	**-12.4**	**3.7**	**-0.5**	**3.5**
dairy price index ##	286	305	303	312	-18.8	6.5	-0.5	2.8
whole milk powder US$/t	3,081	3,300	3,500	3,600	-20.8	7.1	6.1	2.9
skim milk powder US$/t	2,640	2,700	2,900	3,000	-30.9	2.3	7.4	3.4
lamb leg UKp/lb	431	472	475	512	-31.0	9.4	0.7	7.7
bull beef US¢/lb	256	270	269	275	-8.8	5.5	-0.2	2.2
log price index ##	160	158	162	167	-6.9	-0.7	2.1	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 (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Fed Funds*	5.375	5.125	4.875	4.625	4.375	4.125	3.875	3.625	3.375	3.375	3.375
10 Year Bond	4.37	4.40	4.30	4.20	4.10	4.00	4.00	4.00	4.05	4.05	4.10

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

Currency forecasts

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USD vs											
DXY index	105.13	104.6	103.5	102.5	101.5	100.3	99.3	99.1	98.7	97.8	97.5
JPY	161.16	159	158	156	153	150	147	144	141	138	135
EUR	1.0814	1.09	1.10	1.11	1.12	1.13	1.14	1.14	1.14	1.15	1.15
AUD	0.6730	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.72	0.73	0.73
NZD	0.6115	0.60	0.61	0.62	0.63	0.64	0.65	0.65	0.65	0.65	0.65
CAD	1.3611	1.36	1.34	1.33	1.32	1.31	1.30	1.29	1.28	1.27	1.27
GBP	1.2760	1.27	1.28	1.29	1.30	1.31	1.31	1.31	1.31	1.31	1.31
CHF	0.8999	0.90	0.89	0.89	0.88	0.87	0.86	0.86	0.86	0.85	0.85
ZAR	18.26	18.80	18.66	18.52	18.39	18.26	18.13	18.00	18.00	17.88	17.88
SGD	1.3510	1.35	1.34	1.33	1.32	1.31	1.30	1.29	1.28	1.27	1.26
HKD	7.8094	7.81	7.81	7.80	7.80	7.80	7.78	7.78	7.75	7.75	7.75
PHP	58.58	58.20	57.80	57.40	57.00	56.60	56.20	55.80	55.40	55.28	55.17
THB	36.61	36.5	36.0	35.5	35.0	34.5	34.0	33.5	33.0	33.0	32.9
MYR	4.7081	4.70	4.65	4.60	4.55	4.50	4.45	4.40	4.40	4.40	4.39
CNY	7.2680	7.20	7.10	7.05	7.00	6.90	6.80	6.70	6.60	6.55	6.50
IDR	16330	16200	16100	16000	15800	15600	15400	15200	15000	14958	14915
TWD	32.48	32.4	32.2	31.9	31.6	31.3	31.0	30.7	30.5	30.4	30.3
KRW	1379	1370	1360	1350	1340	1320	1300	1290	1280	1270	1260
INR	83.50	82.00	81.00	80.00	79.00	78.00	77.00	76.00	75.00	74.00	73.00

Activity forecasts*

	2023		2024				2025	Calendar years			
% annualised, s/adj	**Q3**	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	3.1	3.3	1.5	1.4	1.8	1.5	1.5	2.2	2.0	1.2	1.5
Dwelling investment	6.7	2.8	16.0	8.2	8.2	6.1	6.1	-10.6	8.1	1.1	1.5
Business investment	1.5	3.8	4.4	3.2	2.4	2.4	2.4	4.1	3.4	3.5	3.2
Public demand	5.8	4.6	1.8	1.2	1.2	1.2	1.2	4.1	2.7	2.1	2.3
Domestic final demand	3.4	3.6	2.4	1.9	2.0	1.8	1.8	2.3	2.5	1.6	1.6
Inventories contribution ppt	1.1	-0.4	-0.5	0.2	0.0	0.0	0.0	-0.4	0.0	-0.1	-0.2
Net exports contribution ppt	0.0	0.2	-0.7	-0.1	-0.1	-0.1	-0.1	0.6	-0.2	-0.2	-0.1
GDP	4.9	3.4	1.4	2.1	2.0	1.8	1.8	2.5	2.5	1.5	1.6
%yr annual chg	2.9	3.1	2.9	2.9	2.2	1.8	1.8	–	–	–	–

Other macroeconomic varilables

Non-farm payrolls mth avg	**222**	**206**	**175**	**150**	**100**	**50**	**50**	**245**	**119**	**103**	**150**
Unemployment rate %	3.7	3.7	3.8	3.9	4.0	4.2	4.4	3.7	4.2	4.5	4.5
CPI headline %yr	2.9	2.5	2.5	2.3	2.2	2.1	2.0	2.7	2.2	2.2	2.5
PCE deflator, core %yr	3.1	2.5	2.5	2.4	2.3	2.3	2.2	2.4	2.2	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	-2.3	-2.3

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Euro Area											
ECB Deposit rate	3.75	3.50	3.25	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50
10 Year Bund	2.61	2.60	2.55	2.50	2.45	2.40	2.45	2.45	2.50	2.50	2.55
10 Year Spread to US	-176	-180	-175	-170	-165	-160	-155	-155	-155	-155	-155
United Kingdom											
BoE Bank Rate	5.25	5.00	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.20	4.20	4.15	4.10	4.05	4.00	4.00	4.00	4.05	4.05	4.10
10 Year Spread to US	-17	-20	-15	-10	-5	0	0	0	0	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
euro vs											
USD	1.0814	1.09	1.10	1.11	1.12	1.13	1.14	1.14	1.14	1.15	1.15
JPY	174.29	173	174	173	171	170	168	164	161	159	155
GBP	0.8475	0.86	0.86	0.86	0.86	0.86	0.87	0.87	0.87	0.88	0.88
CHF	0.9732	0.98	0.98	0.99	0.99	0.99	0.99	0.98	0.98	0.98	0.98
DKK	7.4589	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.3553	11.35	11.35	11.35	11.35	11.35	11.35	11.35	11.35	11.35	11.35
NOK	11.4255	11.43	11.43	11.43	11.43	11.43	11.43	11.43	11.43	11.43	11.43
sterling vs											
USD	1.2760	1.27	1.28	1.29	1.30	1.31	1.31	1.31	1.31	1.31	1.31
JPY	205.65	202	202	201	199	197	193	189	185	181	177
CHF	1.1484	1.14	1.14	1.15	1.14	1.14	1.13	1.13	1.13	1.11	1.11
AUD	0.5274	0.52	0.52	0.53	0.53	0.53	0.54	0.55	0.55	0.56	0.56

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2020	2021	2022	2023	2024f	2025f	2026f
Eurozone GDP	-6.1	5.6	3.3	0.4	0.6	1.5	1.3
private consumption	-8.0	3.5	4.0	0.6	0.9	1.3	1.2
fixed investment	-8.4	3.6	3.5	1.0	1.3	2.0	1.8
government consumption	1.4	3.8	1.2	0.1	1.2	1.2	1.0
net exports contribution ppt	-0.7	1.0	0.3	0.1	0.2	0.3	0.4
Germany GDP	-3.8	3.2	1.8	-0.3	0.4	1.2	1.2
France GDP	-7.5	6.4	2.5	0.7	0.8	1.2	1.2
Italy GDP	-9.0	8.3	3.7	0.9	0.8	1.0	1.0
Spain GDP	-11.2	6.4	5.8	2.5	2.0	1.7	1.6
Netherlands GDP	-3.8	6.3	4.4	0.1	0.4	1.5	1.5
memo: United Kingdom GDP	-10.4	9.6	4.5	0.4	0.6	1.3	1.3

Asia

China activity forecasts

Calendar years	2019	2020	2021	2022	2023	2024f	2025f	2026f
Real GDP	6.0	2.2	8.4	3.0	5.2	5.2	5.0	4.8
Consumer prices	2.9	2.5	0.9	2.0	0.2	0.9	2.0	2.2
Producer prices	-0.5	-0.4	10.3	-0.7	-3.0	-0.5	1.5	2.0
Industrial production (IVA)	5.8	5.1	6.7	3.0	4.4	5.0	4.5	4.5
Retail sales	8.0	-3.9	12.5	-0.2	7.6	6.0	6.3	5.5
Money supply M2	8.7	10.1	9.0	11.8	11.2	9.8	9.0	8.2
Fixed asset investment	5.4	2.9	4.9	5.1	3.5	4.9	4.7	4.4
Exports %yr	7.9	18.1	20.9	-9.9	-4.6	3.5	3.5	3.2
Imports %yr	16.5	6.5	19.5	-7.5	-5.3	3.0	2.7	2.8

Source: Macrobond

Chinese interest rates & monetary policy

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Required reserve ratio %*	10.00	9.75	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Loan Prime Rate, 1-year	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45

* For major banks.

Currency forecasts

	Latest (5 Jul)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
JPY	161.16	159	158	156	153	150	147	144	141	138	135
SGD	1.3510	1.35	1.34	1.33	1.32	1.31	1.30	1.29	1.28	1.27	1.26
HKD	7.8094	7.81	7.81	7.80	7.80	7.80	7.78	7.78	7.75	7.75	7.75
PHP	58.58	58.2	57.8	57.4	57.0	56.6	56.2	55.8	55.40	55.28	55.17
THB	36.61	36.5	36.0	35.5	35.0	34.5	34.0	33.5	33.0	33.0	32.9
MYR	4.7081	4.70	4.65	4.60	4.55	4.50	4.45	4.40	4.40	4.40	4.39
CNY	7.2680	7.20	7.10	7.05	7.00	6.90	6.80	6.70	6.60	6.55	6.50
IDR	16330	16200	16100	16000	15800	15600	15400	15200	15000	14958	14915
TWD	32.48	32.4	32.2	31.9	31.6	31.3	31.0	30.7	30.5	30.4	30.3
KRW	1379	1370	1360	1350	1340	1320	1300	1290	1280	1270	1260
INR	83.50	82.0	81.0	80.0	79.0	78.0	77.0	76.0	75.00	74.00	73.00

Source: Bloomberg, Westpac Economics.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023	2024f	2025f	2026f
World	**2.8**	**-2.7**	**6.5**	**3.5**	**3.2**	**3.3**	**3.3**	**3.2**
United States	2.5	-2.2	5.8	1.9	2.5	2.5	1.5	1.6
Japan	-0.4	-4.1	2.6	1.0	1.9	0.4	1.0	0.9
Euro zone	1.6	-6.1	5.9	3.4	0.4	0.6	1.5	1.3
Group of 3	**1.8**	**-3.9**	**5.5**	**2.4**	**1.7**	**1.5**	**1.4**	**1.4**
United Kingdom	1.6	-10.4	8.7	4.3	0.1	0.6	1.3	1.3
Canada	1.9	-5.0	5.3	3.8	1.1	0.9	2.0	1.9
Australia	1.8	-2.1	5.5	3.9	2.0	1.3	2.2	3.1
New Zealand	3.1	-1.4	5.6	2.4	0.6	-0.2	1.8	3.3
OECD total	**1.8**	**-4.3**	**5.8**	**2.8**	**1.7**	**1.4**	**1.5**	**1.6**
China	6.0	2.2	8.4	3.0	5.2	5.2	5.0	4.8
Korea	2.2	-0.7	4.3	2.6	1.4	2.6	2.3	2.3
Taiwan	3.1	3.4	6.6	2.6	1.4	3.5	2.7	2.7
Hong Kong	-1.7	-6.5	6.5	-3.7	3.2	2.7	2.8	2.5
Singapore	1.3	-3.9	9.7	3.8	1.1	2.5	2.7	2.5
Indonesia	5.0	-2.1	3.7	5.3	5.0	5.2	5.2	5.1
Thailand	2.1	-6.1	1.5	2.5	1.9	2.8	3.3	3.2
Malaysia	4.4	-5.5	3.3	8.7	3.7	4.4	4.5	4.5
Philippines	6.1	-9.5	5.7	7.6	5.6	5.9	6.0	5.9
Vietnam	7.4	2.9	2.6	8.1	5.0	6.2	6.5	6.5
East Asia	**5.2**	**0.7**	**7.1**	**3.5**	**4.6**	**4.9**	**4.7**	**4.6**
East Asia ex China	3.8	-2.3	4.3	4.5	3.3	4.2	4.2	4.1
NIEs*	**2.0**	**-0.5**	**5.9**	**2.2**	**1.5**	**2.9**	**2.5**	**2.5**
India	3.9	-5.8	9.7	7.0	7.8	6.9	6.7	6.5
Russia	2.2	-2.7	6.0	-1.2	3.6	2.4	1.0	0.5
Brazil	1.2	-3.3	4.8	3.0	2.9	2.5	2.0	1.4
South Africa	0.3	-6.0	4.7	1.9	0.6	0.9	1.2	1.4
Mexico	-0.3	-8.6	5.7	3.9	3.2	2.4	1.4	1.9
Argentina	-2.0	-9.9	10.7	5.0	-1.6	-2.8	5.0	4.5
Chile	0.6	-6.1	11.3	2.1	0.2	2.0	2.5	2.4
CIS^	-1.4	0.1	10.4	-1.6	-0.6	5.9	6.9	6.6
Middle East	1.3	3.2	2.8	2.8	2.8	2.9	2.9	2.9
C & E Europe	-2.4	-4.8	9.0	4.3	3.2	2.5	3.2	3.4
Africa	3.2	-1.6	4.7	4.0	3.4	3.8	4.0	4.0
Emerging ex-East Asia	**1.6**	**-2.6**	**6.5**	**3.6**	**3.9**	**4.0**	**4.0**	**3.9**
Other countries	**6.7**	**-2.9**	**6.9**	**3.4**	**4.9**	**4.0**	**3.5**	**3.5**
World	**2.8**	**-2.7**	**6.5**	**3.5**	**3.2**	**3.3**	**3.3**	**3.2**

#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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