



Week beginning 12 August, 2024

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: It will take more for the RBA to move.

The Week That Was: Varied assessments of risk.

Focus on New Zealand: Nearing the finish line but not quite there yet.

For the week ahead:

RBA: Senate appearance from RBA's top brass.

Australia: Q2 WPI, Westpac-MI Consumer Sentiment, labour force survey.

New Zealand: RBNZ Policy Decision, selected price indices, REINZ house and sales, net migration.

UK: Q2 GDP, CPI, wages data, retail sales.

China: retail sales, industrial production, fixed asset investment.

United States: CPI, PPI, retail sales, industrial production, UoM consumer sentiment, housing starts.

Information contained in this report current as at 9 August 2024

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.

It will take more for the RBA to move



Luci Ellis
Chief Economist, Westpac Group

At her post-meeting media conference, the RBA Governor all but ruled out cutting rates this year. We have therefore revised our view to an expectation that the RBA will first start cutting rates at the February 2025 meeting.

We had previously expected the first rate cut to be in November this year. Consistent with our earlier forecast still, the trajectory of rate cuts is expected to be tentative and conservative, at one 25 basis point cut per quarter.

As always, our view on rates is predicated on economic developments turning out broadly in line with our own forecasts. These can differ from the RBA's view, sometimes materially. Our forecasts for underlying inflation are the same as the RBA's August forecasts, but we are more pessimistic about consumption growth and less concerned over productivity.

We have also revised the end-point of the cutting phase to 3.35%, from 3.10% previously. [For some time, our view](#) has been that the global structure of interest rates will be higher than it was between the Global Financial Crisis and the pandemic. We have now also incorporated the fact that the RBA seems to be putting more weight on its own models of neutral than they did previously. The average of these models is a bit above 3.10%. We think this assessment will shape the Board's behaviour.

The underlying logic of our framework is that monetary policy works with a lag. If you wait until you are back at target before starting to cut rates from a restrictive point, you have waited too long. So the question is how much evidence policymakers need to see to be convinced that inflation is on track to return to target on the desired timetable.

While our baseline forecast of trimmed mean inflation is essentially identical to the RBA's, the RBA's conviction levels around these forecasts are evidently not high enough to consider moving in the short term. The policy logic remains the same, but a data-dependent central bank means that one must also revise the rates view if the data turn out even slightly different from earlier expectations. A similar consideration informed our shift in view back in April.

Another consideration that is specific to the RBA and to the current juncture is that the [RBA Review](#) mandated that the RBA adopt and emphasise analytical tools and approaches that it had previously not emphasised. The staff have undertaken a program of model and analytical development to address the Review recommendations, using resources not previously available, for example to assess [full employment](#) and the [output gap](#). But these new tools and approaches are new and untested, and it is understandable that, in that situation, the Board would have a higher bar for accumulated evidence before acting.

In particular, we note that all but one of the indicators in the RBA's full employment indicator [checklist](#) has eased between May and August. Yet the Statement on Monetary Policy noted that, "Our overall assessment is that the labour market and broader economy are tighter than previously thought." Though wages growth has slowed, and undershot the RBA's earlier forecasts, the RBA's new framework seems to be relating full employment – and the feasible rate of unemployment – to the difference between wages growth and current productivity growth. This is a departure from traditional models that focus on wages growth itself, or real wages growth.

“The first rate cut is now expected to be later, with a faster decline from there being a risk.”

If not this year, the next realistic opportunity for the RBA Board to begin the process of cutting is at the February meeting. Compared with now, the Board will have access to two more quarterly CPI readings. Importantly, it will also have two new national accounts releases that will confirm that demand growth remains soft and – we believe – that the RBA's pessimism around near-term productivity growth and unit labour costs is overblown.

It was always going to be the case that the RBA's strategy to raise rates a bit less than its peers would result in it being among the last to cut, even though disinflation trajectories have not been that different. The RBA is now likely to be even more of an outlier while its



peers cut past it. Ordinarily this would have implications for the exchange rate, especially against the United States dollar, given the shift in the rates outlook there. At this stage, though, we think geopolitical and global factors are likely to swamp these small shifts in the rate differential outlook, at least until the end of the year.

We cannot rule out that the RBA ends up keeping the cash rate at current levels for even longer than our revised view. That would occur if inflation surprised on the upside relative to our own forecasts in the lead-up to the February meeting. If that scenario did occur, it is likely that the RBA would end up having to cut a little quicker than we currently assume. In wanting to be sure, the RBA Board is risking getting too far behind the curve, with inflation undershooting the target and unemployment rising further than strictly necessary.

Likewise, we cannot completely rule out that the RBA ends up having to cut this year after all, but only if the economy weakens materially relative to the RBA's forecasts, and our own. The RBA's assessment of the real economy and aggregate demand are quite sanguine. Given the weaker US labour market news was released after the RBA's forecasts were finalised, there would appear to be some downside risks that were not accounted for in those forecasts.

Cliff Notes: varied assessments of risk

Elliot Clarke, Head of International Economics
Ryan Wells & Illiana Jain, Economists

Following a tumultuous start to the week for global markets after a disappointing US employment print (see below), the RBA made clear their views on the risks the Australian economy faces. The RBA's decision to leave the cash rate unchanged at 4.35% was not the focus for markets, even though the probability of such an outcome was being extensively debated not too long ago. Rather, participants quickly turned to the RBA's updated assessment of the economy, epitomised by the judgement that "there is more excess demand in the economy and the labour market than previously thought". Given the [RBA's forecasts](#) for economic growth, trimmed mean inflation and the unemployment rate were only revised at the margin, the foundation of the Board's reassessment is seemingly model-based estimates of the balance between the level of demand and supply which, in the RBA's words, have "considerable uncertainty".

The main takeaway from the RBA's perspective is that this imbalance is "resulting in persistent inflation", leading Governor Bullock in a [speech](#) the following day to assert that the Board "will not hesitate to raise rates" should there be upside risks around the inflation outlook. Regarding rate cuts, Governor Bullock's [press conference](#) following the decision was forthright, telegraphing that the scenario of a rate-cut by year-end, as per current market pricing, "does not align with [the Board's] thinking".

As detailed by [Chief Economist Luci Ellis](#) following these developments, we have revised our RBA view, with the first cash rate cut now expected in February 2025 instead of November 2024 - uncertainty around the narrow path to target pointing to a higher hurdle before the Board can be confident in inflation's deceleration. We still anticipate rate cuts to ensue at a measured pace of 25bps per quarter through to Q4 2025, albeit now to a slightly higher terminal rate of 3.35%.

In the US at the end of last week, non-farm payrolls disappointed, rising 114k (consensus 175k). The prior two months were also revised down by a cumulative 29k. Arguably more unnerving for markets, the unemployment rate rose 0.2ppts to 4.3%, triggering the 'Sahm Rule'. This indicator states that a recession has started once the three-month moving average of the unemployment rate is 0.5ppts above the lowest three-month average of the past 12 months. This evidence of deteriorating labour market conditions kept participants on guard throughout the week.

FOMC members Goolsbee and Barkin sought to steady sentiment by emphasising that one month's data does not constitute a trend. However, Goolsbee also made it clear he believed policy was materially restrictive and the longer it remains that way, the more policymakers' focus has to turn to the employment side of the mandate. Helping the FOMC's case by pointing to the resilience of the US economy, the ISM services PMI bounced in July to 51.4, supported by gains in all but two sub-indices in the month. Of particular note, the employment index rose 5pts, breaking a five-month run of contractionary reads. Cheered by the market late in the week, initial jobless claims fell last week and remain near historic lows, providing further support for the view that US employment might be stalling, but there is no evidence of significant aggregate job loss across the economy.

While not a focus for the market, responses to the July Senior Loan Officer Survey were cautious but benign for the growth trend, with "tighter standards and basically unchanged demand for commercial and industrial (C&I) loans" in Q2 and "tighter standards and weaker demand for all commercial real estate (CRE) loan categories". For households, banks reported "basically unchanged lending standards and weaker demand across all categories of residential real estate (RRE) loans and lending standards and demand unchanged for home-equity loans. Demand was unchanged for credit cards, but weakened for other forms of consumer credit.

As US inflation continues to come down and with downside risks growing, [there is reason for the FOMC to cut decisively](#) into year end and through early-2025. That said, we remain confident in the underlying health of the US economy and believe the FOMC will too, resulting in a more muted easing cycle than the market currently expects. We continue to expect the first cut to be 25bps in September, but now expect another 25bp cut at each of the meetings through November 2024 to March 2025. One cut per quarter from the June quarter 2025 will leave the fed funds rate at 3.375% end-2025. That is the same terminal rate as we had previously, but it will be reached six months earlier. As long as the labour market remains in good health, which we expect, lower interest rates will boost demand into 2025 and ease banks' concerns over the outlook.

Nearing the finish line – but not quite there yet



Paul Clark
Industry Economist NZ

We expect the RBNZ to leave the OCR at 5.5% in next week's Monetary Policy Statement, and instead will look to position itself to cut rates in the October and November meetings this year. Importantly, the RBNZ is likely to leave open the option to scale up rate reductions beyond 25bp from October onwards should conditions warrant, while at the same time looking to discourage markets from getting too far ahead of themselves. They are also likely to make significant downward revisions to the OCR track for 2025 and 2026.

This revised OCR track is based on a weaker outlook for both economic growth and inflation. The downside surprise in headline inflation posted for the June quarter will provide the starting point for the RBNZ's short term CPI forecasts. Further out, inflation is expected to fall more slowly – although it should still reach 2% earlier than forecast back in May.

That said, the RBNZ is likely to remain cautious when forecasting inflation given that non-tradable inflation remains stubbornly high and is yet to show signs of quickly normalising. The RBNZ will also be looking at upcoming data for signs of a lift in demand/sentiment either from tax cuts or the significant fall in interest rates (including fixed mortgage rates).

That is likely to mean that the revised forward OCR track will be significantly above what is currently being priced by the market. Even in a dovish scenario, we think that the RBNZ will still be looking for an OCR above 4% in 2025. The degree of adjustment we see will give us a good sense of what it meant by its July reference to “tempering” restriction.

Key developments since the May Monetary Policy Statement

When reviewing its OCR outlook, the RBNZ is likely to consider several developments since the *MPS* in May:

- A drop in inflation.** The CPI rose a less than expected 0.4%q/q in Q2, lowering annual inflation to 3.3% and making it likely that inflation will move back inside the target band in Q3. The RBNZ is likely to welcome the lower outcome, as the more favourable narrative will feed back into inflation expectations. However, it will still be concerned that all the downside surprise was due to lower-than-expected tradable inflation (mostly goods), whereas non-tradables (mostly services) inflation continues at a pace inconsistent with inflation returning to the midpoint of the target band.
- Falling inflation expectations/pricing indicators.** Survey measures of firms' intentions to raise prices have moved markedly lower in recent months and are now just a little above their historical ranges. Direct measures of business and consumer inflation expectations have also continued to move lower. Indeed, the RBNZ's own survey of expectations has moved back to 2% on both a 2-year ahead and 10-year ahead horizon – an outcome that in the past was only typically seen when actual inflation was below 2%.
- Weaker activity levels.** While Q1 GDP grew 0.2% in line with the RBNZ's expectations, more recent high-frequency indicators suggest that the economy contracted significantly in Q2. Indeed, Westpac estimates a 0.6% decline in GDP, in sharp contrast to the RBNZ's earlier forecast of modest growth. Furthermore, there is little to suggest that the economy is going to rebound in Q3. This means that the “output gap” – a key variable in the RBNZ's inflation forecast framework – is likely to be tracking more negatively than forecast, implying weaker medium-term inflation pressures.
- Softer labour market:** The Household Labour Force Survey for Q2, published this week, provided few surprises for the RBNZ. As expected, the unemployment rate increased to 4.6% and private sector labour costs rose 0.9%q/q. The survey did, however, show a surprising lift in employment, although this was most likely payback from the surprisingly weak result in Q1. Employment has risen by just 0.6% over the past year – growth more than explained by hiring in the government sector – which is far less than what is needed to absorb the 2.6% growth in the working-age population. A 1.2% q/q fall in hours worked may also have surprised and could add to the RBNZ's sense that GDP likely contracted in Q2.
- Softer housing market/population growth:** The housing market reflects the broader malaise in the economy and has remained weak in recent months with a surplus of listings causing house prices to nudge lower. Meanwhile, the migration cycle appears to be turning down more quickly than the RBNZ had forecast in May, and that is providing less support to the housing market than previously anticipated.
- On-par global growth:** We doubt the RBNZ's assumptions for the global growth outlook have

changed much in recent months. They may discuss some downside risks to growth in China, especially as far as consumer activity has concerned, and given recent equity market volatility. There has been some softening of activity indicators in Europe of late. The US economy has continued to grow at a steady pace, albeit not sufficient to prevent a gradual uptrend in the unemployment rate. Lower official interest rates offshore could be seen as a supportive factor.

- **Mixed commodity prices:** Dairy prices are little changed since May, while meat prices have ticked slightly higher on the back of stronger demand in traditional markets. Log prices have mostly moved sideways after falling sharply in April.
- **Easing financial conditions/exchange rate:** Financial conditions have eased markedly in recent months, as wholesale interest rates have moved to anticipate significant policy easing in both New Zealand and the US. In addition, the trade-weighted exchange rate currently sits at 70.2, versus the RBNZ's medium-term assumption of 71.0. However, the average level of the TWI over the past month or so sits close to the Bank's previous assumption.

The scenarios

Our baseline expectation is that the RBNZ will maintain the OCR at 5.5% at next week's Monetary Policy Statement and will look to position itself to cut rates in its October and November meetings. That said, given the significant uncertainties that exist, there are several other options that that RBNZ may be considering:

They include:

- **Baseline case (50% probability):** the RBNZ leaves the OCR unchanged but indicates at least one 25bp cut and a 50% chance of a further 25bp cut by year end (this would be represented by a Q4 OCR forecast in the 5.1-5.2% range). The forward profile will likely be revised down such that the OCR will be implied to be between 4.25% and 4.5% by end 2025.
- **Hawkish case (30% probability):** the RBNZ leaves the OCR unchanged, and the projection implies just one 25bp cut in November 2024 (i.e., a Q4 OCR forecast in the 5.35-5.45% range). The forward profile would be consistent with 2-3 cuts in 2025 leaving the OCR in the 4.5-4.75% range by the end of 2025.
- **Dovish case (15% probability):** the RBNZ cuts the OCR by 25bp and indicates two further 25bp cuts in 2024, taking the OCR to 4.75% by year end (i.e., a Q4 OCR forecast in the 4.9-5.0% range). The forward profile would be revised down to reach a short-run neutral rate of around 3.75-4% by end 2025.

- **A super dovish case (5% probability):** the RBNZ cuts the OCR by 25bp and indicates a total of 100bp by end 2024 including one 50-point cut – likely in November. This would see the Q4 OCR forecast in the 4.8-4.9% range. The RBNZ would indicate the possibility of cutting the OCR to their long-run neutral level of 2.75-3% by the end of 2025.

It is also worth noting that we can't rule out the possibility that the RBNZ's Monetary Policy Committee is unable to reach a consensus, and that a rate hold or rate cut is accompanied by one or more dissents. A rate hold contested by one or two members might dampen the sell-off that would otherwise have occurred, while a rate cut that is contested by one or two MPC members would likely dampen the market's enthusiasm to price additional easing into the curve.

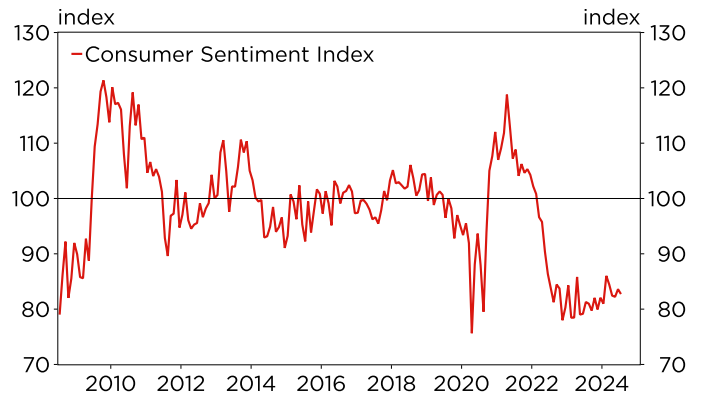
AUS: Aug Westpac-MI Consumer Sentiment (index)

Aug 13, Last: 82.7

Consumer sentiment dipped 1.1% in July, remaining in the deeply pessimistic range that has dominated for two years now. The latest month saw renewed inflation and rate rise concerns more than offset any boost from the arrival of 'stage 3' tax cuts and other fiscal supports.

August is likely to see the same themes, overlaid with a dash of financial market volatility. While the June quarter CPI did not deliver the upside surprise that had been feared, the RBA's decision to leave rates on hold at its August meeting came with a more hawkish than expected tone, the Governor essentially ruling out a near term easing in policy. Meanwhile, US growth concerns triggered a sell-off in equity markets, the ASX down 5% over the August month to date.

Consumer mood still weak despite tax cuts



Source: Westpac Economics, Melbourne Institute, Macrobond

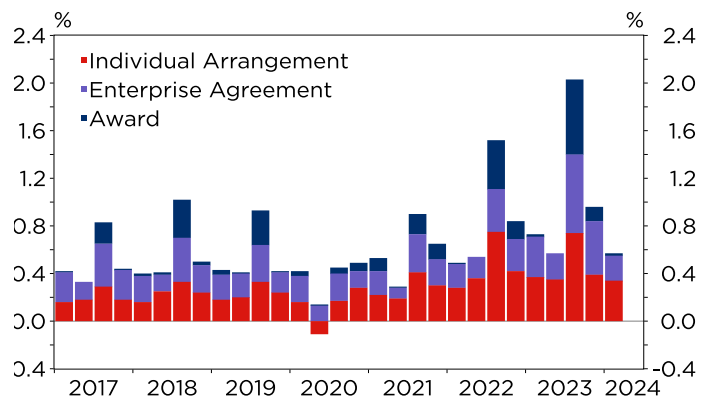
AUS: Q2 Wage Price Index (%qtr)

Aug 13, Last: 0.8, Westpac f/c: 0.8
Market f/c: 0.9, Range: 0.8 to 1.0

The Wage Price Index (WPI) rose 0.8% in March, a touch softer than Westpac's and market's forecast of 0.9%. The annual pace moderated to 4.1%yr from 4.2%yr, the first moderation since March 2022 as the public sector cycles out of last year's above average gains.

The ABS provides (in non-seasonally adjusted terms) the contributions to the WPI from various wage setting arrangements. Compared to March 2023, the contribution from Enterprise Bargaining moderated in line with the dynamics in the public sector (0.34ppt vs. 0.21ppt). Individual Arrangements also eased (0.37ppt to 0.34ppt) and we expect this moderation in individual arrangements to continue in Q2.

Quarterly contributions to WPI



Source: ABS, Macrobond, Westpac Economics

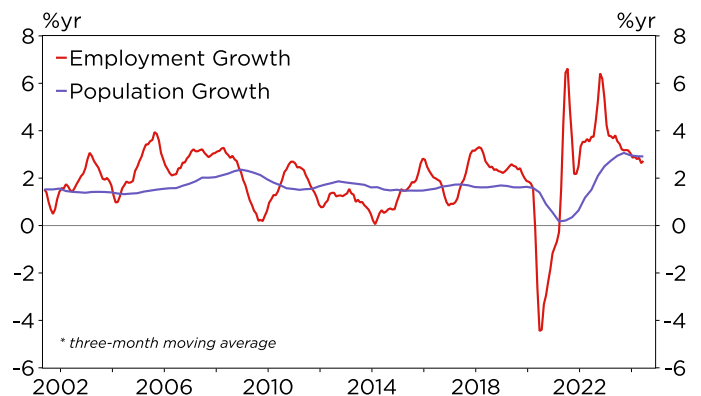
AUS: Jul Labour Force – Employment Change (000's)

Aug 15, Last: +50.2, Westpac f/c: +20
Market f/c: +20, Range: -5 to +50

Employment rose by a solid clip in June, lifting +50.2k, totalling a robust +254k gain over H1 2024, broadly similar in absolute terms to the +248k lift over H1 2023. On a growth basis however, the appetite for labour has clearly cooled from being well in excess of supply to now tracking broadly in line with population growth.

We expect employment growth to move more clearly below the pace of population growth over the period ahead, in line with recent evidence from business surveys. On our figuring, a +20k increase in employment is consistent with this, depending on the refreshed quarterly estimate of population growth from the ABS.

Labour market slowly moving into balance



Source: ABS, Macrobond, Westpac Economics

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

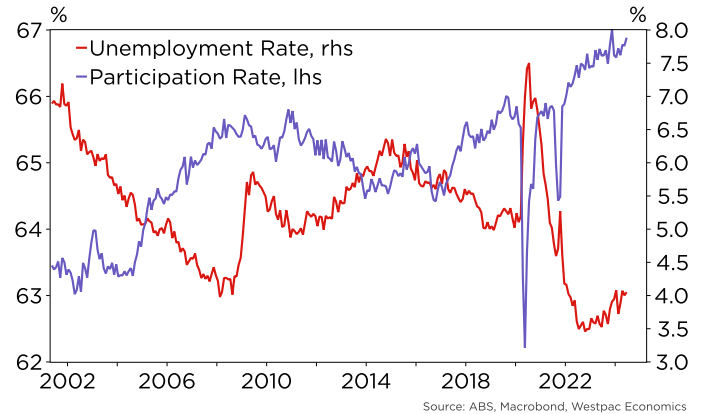
AUS: Jul Labour Force – Unemployment Rate (%)

Aug 15, Last: 4.1, Westpac f/c: 4.1
Market f/c: 4.1, Range: 4.0 to 4.2

The participation rate managed to lift to 66.9% in June, the second highest read on labour force participation in this cycle, only slightly below the 114-year high of 67.0% from November 2023. The +60k increase in the size of the labour force outstripped employment, seeing the unemployment rate round up from 4.0% to 4.1% (note that it printed 4.051% to three decimal places).

For July, we anticipate the participation rate to hold steady at 66.9%. Given our forecast for employment growth, the unemployment rate is expected to hold at its current level of 4.1%. Other indicators of emerging slack – including underemployment, average hours, and youth unemployment – will also be closely watched.

Robust participation making way for slack



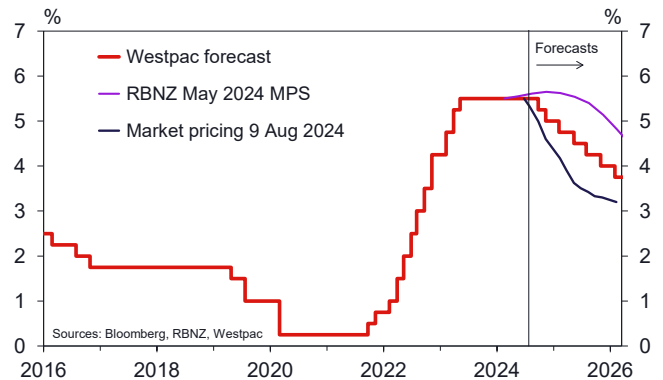
NZ: RBNZ Monetary Policy Statement

Aug 14, Last: 5.50%, Westpac: 5.50%,
Market f/c: 5.50, Range: 5.25% to 5.50%

We expect the RBNZ will leave the OCR at 5.5% at the August Monetary Policy Statement. We expect a significant revision in the forward view for the OCR, consistent with potential easing in October and November, leaving the year end OCR at 5%. We also expect significant downward revisions to the 2025 and 2026 OCR profiles.

The RBNZ is likely to make a significant downward revision to its growth projections for 2024. Their short-term CPI forecasts will also likely be reduced, consistent with the downside surprise seen in the June quarter CPI.

RBNZ Official cash rate



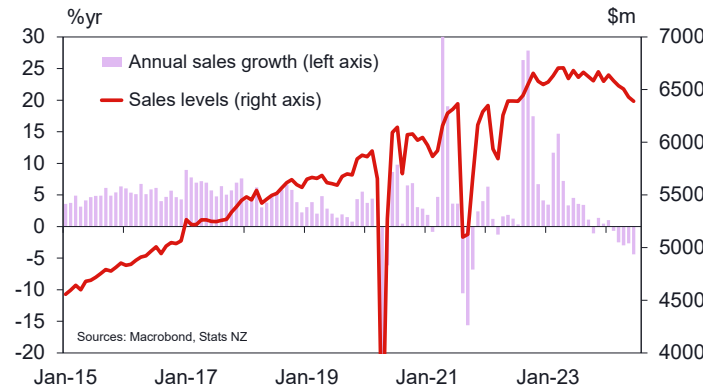
NZ: Jul Retail Card Spending (%mth)

Aug 15, Last: -0.6, Westpac f/c: -0.3

Total retail spending fell 0.6% in June, its fifth consecutive month of decline. Falls in spending have been widespread across categories other than groceries. That weakness has been a result of continued pressure on households' finances from cost-of-living increases and high interest rates.

We're forecasting another 0.3% fall in July. While spending on fuel is expected to be up (reflecting price rises over the month), spending in discretionary categories is expected to continue dropping back.

NZ monthly retail spending



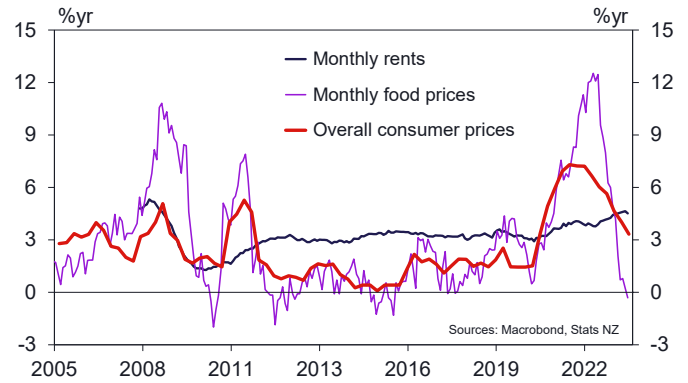
NZ: Jul Selected Price Indices (%_{mt})

Aug 15

Stats NZ's suite of monthly price data covers around 45% of the CPI. In terms of the big items, we're expecting a 2.4% rise in fuel prices and a 0.5% rise in food prices (related to the seasonal lift in fresh produce prices). On the domestic front, we expect a 0.3% rise in rents.

A key focus will be whether the cooling in inflation in discretionary spending areas (like holiday/travel costs) has continued. While those prices are not typically a focus for monetary policy, easing price pressures across a range of goods/services would reinforce expectations that overall inflation is trending back towards 2%.

NZ consumer prices



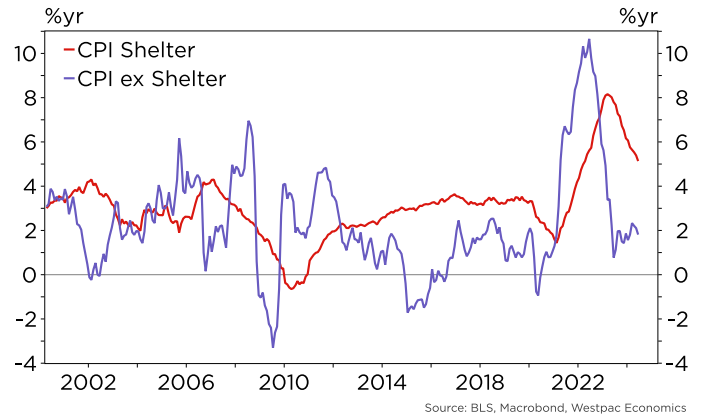
US: Jul CPI (%_{mt})

Aug 14, Last: -0.1, Westpac f/c: 0.2
Market f/c: 0.2, Range: flat to 0.3

The June CPI was decisive on the outlook. Goods inflation remained absent, services ex-shelter showed further evidence of dissipating, and the all-important shelter component finally proved it is locked into a robust downtrend.

Come July, another benign read is anticipated overall, with both headline and core prices expected to rise 0.2%. Now that it is steadily moving lower, there is a risk to the downside from the shelter component. A potential offset is firmer goods inflation, currently receiving a boost from transport costs, and potential volatility in other service components.

CPI ex-shelter dissipates further



What to watch

For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 12						
Aus	RBA Deputy Governor Hauser	-	-	-	-	Speaking at the ESA Business Lunch.
Tue 13						
Aus	Aug Westpac-MI Consumer Sentiment	pts	82.7	-	-	Inflation and rate rise concerns likely to linger.
	Q2 Wage Price Index	%qtr	0.8	0.9	0.8	Moderating individual bargaining points to downside risk.
	Jul NAB Business Conditions	pts	4	-	-	Employment and investment sub-indexes in focus.
NZ	Jun Net Migration	Number	1410	-	-	Net migration falling, arrivals slowing, departures rising.
UK	Aug Average Weekly Earnings	%yr	5.7	-	-	Easing points to positive signs for services inflation.
US	Jul NFIB Small Business Optimism	pts	91.5	91.7	-	Hiring intentions help inform on economy-wide demand.
	Jul PPI	%mth	0.2	0.2	-	Shipping costs could add pressure to goods inflation.
	Fedspeak	-	-	-	-	Bostic.
Wed 14						
NZ	Aug RBNZ Policy Decision	%	5.50	5.50	5.50	RBNZ projections to signal earlier rate cuts.
Eur	Q2 GDP	%qtr	0.3	0.3	-	Second estimate.
	Jun Industrial Production	%mth	-0.6	0.7	-	Auto struggles weighing on IP.
UK	Jul CPI	%yr	2.0	2.3	-	Services still too hot for comfort on outlook.
US	Jul CPI	%mth	-0.1	0.2	-	Easing rent inflation becoming a persistent weight on CPI.
Thu 15						
Aus	Jul Employment Change	000's	50.2	20	20	Employment growth slowly moving below population...
	Jul Unemployment Rate	%	4.1	4.1	4.1	... as balance returns to the labour market.
NZ	Jul REINZ House Prices	%yr	1.3	-	-	Prices have been nudging down, with listings rising...
	Jul REINZ House Sales	%yr	-25.6	-	-	... and sales still low.
	Jul Selected Price Indices - Food	%mth	0.9	-	0.5	Seasonal rise in food prices, fuel prices also up.
	Jul Selected Price Indices - Rents	%mth	0.3	-	0.3	Rent growth still firm.
	Jul Retail Card Spending	%mth	-0.5	-	-0.3	Discretionary spending remains weak.
Jpn	Q2 GDP	%qtr	-0.5	0.6	-	Weakness evident in household and export demand.
Chn	Jul Retail Sales	%yr ytd	3.7	3.5	-	Consumers are feeling uncertain given property woes...
	Jul Industrial Production	%yr ytd	6.0	5.9	-	... as manufacturers benefit from high-tech demand...
	Jul Fixed Asset Investment	%yr ytd	3.9	3.9	-	... keeping the outlook for investment upbeat.
UK	Q2 GDP	%qtr	0.7	-	-	Services-driven growth is more resilient than anticipated.
US	Jul Retail Sales	%mth	0.0	0.3	-	Consumer demand is slowing
	Jul Industrial Production	%mth	0.6	flat	-	Production continues to hold broadly flat year-on-year.
	Jul Import Price Index	%mth	0.0	-0.1	-	Renewed focus on rising shipping costs.
	Jun Business Inventories	%mth	0.5	0.3	-	Steady inv-to-sales points to order book management.
	Aug NAHB Housing Market Index	pts	42	42	-	Homebuilders have little cause for optimism.
	Initial Jobless Claims	000's	233k	-	-	To remain low, for now.
Fri 16						
Aus	RBA Policy Top Five Front Up	-	-	-	-	RBA's top brass appears before the House of Reps.
NZ	Jul Manufacturing PMI	pts	41.1	-	-	Likely to remain at contractionary levels.
Eur	Jun Trade Balance	€bn	12.3	-	-	Dull developed markets demand adding pressure.
UK	Jul Retail Sales	%mth	-1.2	-	-	Rate cut relief will flow through in time.
US	Jul Housing Starts	%mth	3.0	-0.9	-	Borrowing costs remain a headwind for builders...
	Jul Building Permits	%mth	3.9	-0.7	-	... as front-end risks around the pipeline linger.
	Aug Uni. of Michigan sentiment	pts	66.4	67.2	-	Inflation expectations of interest.
	Fedspeak	-	-	-	-	Goolsbee.

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.

Economic & financial forecasts

Interest rate forecasts

	Latest (9 Aug)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Australia											
Cash	4.35	4.35	4.35	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.39	4.42	4.42	4.19	3.96	3.73	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.73	3.75	3.70	3.65	3.60	3.55	3.50	3.50	3.50	3.55	3.60
3 Year Bond	3.67	3.70	3.65	3.55	3.50	3.40	3.35	3.30	3.30	3.35	3.40
10 Year Bond	4.08	4.00	3.90	3.90	3.90	4.00	4.05	4.05	4.10	4.10	4.15
10 Year Spread to US (bps)	10	15	15	15	10	10	5	5	5	5	5
United States											
Fed Funds	5.375	5.125	4.625	4.125	3.875	3.625	3.375	3.375	3.375	3.375	3.375
US 10 Year Bond	3.98	3.85	3.75	3.75	3.80	3.90	4.00	4.00	4.05	4.05	4.10
New Zealand											
Cash	5.50	5.50	5.00	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75
90 Day Bill	5.35	5.30	5.00	4.75	4.50	4.25	4.00	3.85	3.85	3.85	3.85
2 Year Swap	3.97	4.25	4.15	4.05	3.95	3.90	3.90	3.95	4.00	4.00	4.00
10 Year Bond	4.27	4.40	4.35	4.30	4.30	4.25	4.30	4.30	4.35	4.35	4.35
10 Year Spread to US	27	55	60	55	50	35	30	30	30	30	25

Exchange rate forecasts

	Latest (9 Aug)	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6582	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.72	0.73	0.73
NZD/USD	0.6002	0.60	0.61	0.62	0.62	0.63	0.63	0.63	0.63	0.64	0.64
USD/JPY	147.41	150	150	148	146	144	142	140	138	136	134
EUR/USD	1.0913	1.10	1.10	1.11	1.12	1.13	1.13	1.14	1.14	1.15	1.15
GBP/USD	1.2739	1.28	1.29	1.30	1.30	1.31	1.31	1.32	1.32	1.32	1.32
USD/CNY	7.1762	7.15	7.10	7.05	7.00	6.90	6.80	6.70	6.60	6.55	6.50
AUD/NZD	1.0966	1.10	1.10	1.10	1.11	1.12	1.13	1.14	1.14	1.14	1.14

Australian economic growth forecasts

% Change	2024				2025				Calendar years			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2023	2024f	2025f	2026f
GDP % qtr	0.1	0.3	0.6	0.5	0.5	0.6	0.6	0.7	-	-	-	-
%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
Unemployment rate %	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)	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.8	-	-	-	-
annual chg	4.1	3.9	3.4	3.0	2.9	2.8	2.9	3.0	4.2	3.0	3.0	3.3
CPI Headline	1.0	1.0	-0.1	0.8	0.7	0.9	0.9	0.6	-	-	-	-
annual chg	3.6	3.8	2.4	2.6	2.4	2.3	3.4	3.2	4.1	2.6	3.2	2.8
Trimmed mean	1.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7	-	-	-	-
annual chg	4.0	3.9	3.5	3.5	3.1	3.0	2.9	2.8	4.1	3.5	2.8	2.6

New Zealand economic growth forecasts

% Change	2024				2025				Calendar years			
	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2023	2024f	2025f	2026f
GDP % qtr	0.2	-0.6	-0.2	0.4	0.5	0.5	0.5	0.6	-	-	-	-
Annual avg change	0.2	-0.3	-0.3	-0.3	-0.3	0.1	0.8	1.3	0.6	-0.3	1.3	2.3
Unemployment rate %	4.4	4.6	5.0	5.3	5.5	5.6	5.6	5.6	4.0	5.3	5.6	4.9
CPI % qtr	0.6	0.4	1.1	0.4	0.5	0.4	0.8	0.5	-	-	-	-
Annual change	4.0	3.3	2.6	2.5	2.4	2.4	2.1	2.2	4.7	2.5	2.2	2.1

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.



Authors

Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan

Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke

Head of International Economics
E: eclarke@westpac.com.au

Justin Smirk

Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante

Senior Economist
E: pat.bustamante@westpac.com.au

Illiana Jain

Economist
E: illiana.jain@westpac.com.au

Ryan Wells

Economist
E: ryan.wells@westpac.com.au

Jameson Coombs

Economist
E: jameson.coombs@westpac.com.au

Westpac Economics / New Zealand

Auckland

Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ

Michael Gordon

Senior Economist

Darren Gibbs

Senior Economist

Satish Ranchhod

Senior Economist

Paul Clark

Industry Economist

Westpac Economics / Global

London

Camomile Court,
23 Camomile St,
London EC3A 7LL
United Kingdom

Singapore

12 Marina View
#27-00,
Asia Square Tower 2
Singapore, 018961

New York

39th Floor
575 Fifth Avenue
New York, 10017 USA



 westpaciq.com.au

©2024 Westpac Banking Corporation ABN 33 007 457 141 (including where acting under any of its Westpac, St George, Bank of Melbourne or BankSA brands, collectively, "Westpac"). References to the "Westpac Group" are to Westpac and its subsidiaries and includes the directors, employees and representatives of Westpac and its subsidiaries.

Things you should know

We respect your privacy: [You can view our privacy statement at Westpac.com.au](#). Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

This information, unless specifically indicated otherwise, is under copyright of the Westpac Group. None of the material, nor its contents, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without the prior written permission of the Westpac Group.

Disclaimer

This information has been prepared by Westpac and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

Conflicts of Interest: In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation

agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

Author(s) disclaimer and declaration: The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

Further important information regarding sustainability-related content: This material may contain statements relating to environmental, social and governance (ESG) topics. These are subject to known and unknown risks, and there are significant uncertainties, limitations, risks and assumptions in the metrics, modelling, data, scenarios, reporting and analysis on which the statements rely. In particular, these areas are rapidly evolving and maturing, and there are variations in approaches and common standards and practice, as well as uncertainty around future related policy and legislation. Some material may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. There is a risk that the analysis, estimates, judgements, assumptions, views, models, scenarios or projections used may turn out to be incorrect. These risks may cause actual outcomes to differ materially from those expressed or implied. The ESG-related statements in this material do not constitute advice, nor are they guarantees or predictions of future performance, and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of the statements). You should seek your own independent advice.

Additional country disclosures:

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). You can access [Westpac's Financial Services Guide here](#) or request a copy from your Westpac point of contact. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice.

New Zealand: In New Zealand, products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking

Disclaimer continues overleaf ▶

licence and is subject to supervision by the Monetary Authority of Singapore.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation (“FDIC”). Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

UK and EU: The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac’s London branch by the PRA are available from us on request.

Westpac Europe GmbH (“WEG”) is authorised in Germany by the Federal Financial Supervision Authority (‘BaFin’) and subject to its regulation. WEG’s supervisory authorities are BaFin and the German Federal Bank (‘Deutsche Bundesbank’). WEG is registered with the commercial register (‘Handelsregister’) of the local court of Frankfurt am Main under registration number HRB 118483. In accordance with APRA’s Prudential Standard 222 ‘Association with Related Entities’, Westpac does not stand behind WEG other than as provided for in certain legal agreements (a risk transfer, sub-participation and collateral agreement) between Westpac and WEG and obligations of WEG do not represent liabilities of Westpac.

This communication is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”)); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an ‘investment recommendation’ and/or ‘information recommending or suggesting an investment’, both as defined in Regulation (EU) No 596/2014 (including as applicable in the United Kingdom) (“MAR”). In accordance with the relevant provisions of MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest of the sender concerning the financial instruments to which that information relates have been disclosed.

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found [here](#). Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

To the extent this communication comprises an investment recommendation it is classified as non-independent research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and therefore constitutes a marketing communication. Further, this communication is not subject to any prohibition on dealing ahead of the dissemination of investment research.