October 2024

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK October 2024

IQ

westpaciq.com.au

Westpac Market Outlook is a monthly publication produced by Westpac Economics.

Internet: www.westpac.com.au
Email: economics@westpac.com.au

This issue was finalised on 10 October 2024.

Global policy normalisation shifts into a higher gear

Since our last Westpac Market Outlook, developments across the economic and geopolitical spectrum have certainly delivered.

While the global policy wheel has only just started to turn in recent months, it shifted into a higher gear over the last few weeks – epitomised by the US FOMC kick-starting its policy normalisation with a 50bp rate cut. While this marks a loud declaration of confidence about the return to low inflation, the market remains circumspect about the scale of policy relief put forward in the FOMC's forward projections. Downside risks to growth and the labour market have yet to crystallise, the labour market in particular showing continued resilience.

China has also unveiled a sweeping stimulus package from both its monetary and fiscal arms. The clear aim is to ensure a recovery in property, sentiment and spending. Measures should see growth ambitions comfortably met but downside risks will still linger in the medium-term. Policy easing is also set to accelerate a little in Europe with the ECB likely to 'front-load' monetary easing as it seeks to cushion a fiscal consolidation.

Meanwhile, the geopolitical backdrop has shown no signs of cooling. A year on from the Hamas attacks on Israel, conflict in the Middle East has broadened with escalating hostilities in Lebanon, Iran and Yemen. Any ceasefire looks a long way off. Developments have had little impact on commodities so far, which have instead keyed off the demand support coming from policy stimulus. Rising supply from other sources is offsetting the geopolitical risk somewhat as well. Ahead, the US Presidential election on November 5 looms as a potential wild-card.

In the current global setting, Australia is placed as a curious outlier with monetary policy unlikely to change course until next year. This is not to say that Australia is unaffected by the disinflation and growth dynamics playing out abroad, but rather that the timing and policy trajectory have been a little different.

Australia: The RBA has stuck to its view that rates will not fall in 2024. It has, however, softened its rhetoric around wages and productivity. We expect further shifts in its view once September quarter CPI, wages and national accounts data are available, paving the way for its first rate cut, which we still expect to be in February 2025. Around activity, the data flow continues to show private demand subdued but a resilient labour market.

Commodities: There has been a robust rally through September as markets shifted from growth fears to anticipating a demand-led recovery fuelled by US rate cuts and Chinese stimulus measures. Iron ore rallied 18% in the month, while met coal (12%) and crude oil (10%) also put in solid gains. Recent events have not shifted the fundamentals of improving ore supply just as demand continues to moderate, but our end-2024 forecast is now US$95/t with a low of US$83/t in the second half of 2025.

Global FX markets: Following the FOMC's September decision, the DXY index repeatedly test its lows for the year, trading between 100 and 103 since. In our view, while nascent, this trading pattern signals an end to the US inflation and monetary policy exceptionalism that has dominated markets in recent years. Ahead we see relative inflation and activity growth trends, and perceptions of political risk, becoming more important.

New Zealand: The RBNZ delivered a 50bp cut in October, in line with our expectations. Another 50bp cut is expected in November, taking the OCR to 4.25%. The RBNZ is confident that inflation will settle around 2%. However, the pace of easing should slow in 2025 as the OCR nears our assessed terminal rate of 3.75%.

United States: The FOMC kicked off its policy normalisation with a 50bp cut in September. Its communications highlighted that the decision was not a signal of concern but rather a response to inflation nearing target and the risks to achieving its employment and inflation goals now being "roughly in balance" – 25bp moves are likely from here, to 3.375% Q3 2025.

China: Authorities have finally delivered, exceeding expectations with reports of more support on the way. The announced stimulus should see the official 5.0% growth target easily met for 2024 and a similar outcome in 2025. However, downside risks remain in the medium term.

Europe: A need for fiscal consolidation across Europe points to a front-loaded ECB easing cycle. Providing monetary stimulus at a time when fiscal policy must be restrictive will help achieve a smooth glide path for growth. This will have implications for the AUD/EUR cross.

Global rates falling and RBA trails behind ...

Luci Ellis
Chief Economist, Westpac Group

The rate-cutting phase of the global interest rate cycle is now well underway. The path down has steepened for the US FOMC and RBNZ. With growth slowing and inflation rates approaching targets, the current restrictiveness of policy is no longer warranted in these economies. By contrast, the RBA has stuck to its view that rates will not fall in 2024. It has, however, softened its rhetoric around wages and productivity. We expect further shifts in its view once September quarter CPI, wages and national accounts data are available, paving the way for its first rate cut, which we still expect to be in February 2025.

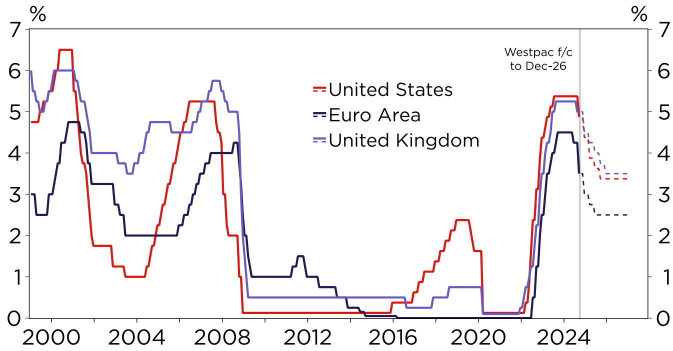
Economies have slowed but are not weakening drastically. We therefore continue to expect that policy rates are heading to levels consistent with a neutral rather than expansionary stance. The level of rates we think this implies reflects our longstanding view that the global structure of interest rates should be higher in future than it was between the GFC and the pandemic. Pressures for more public spending, trade fragmentation and the energy transition are all shifting investment relative to saving. Risk-free short-term interest rates will need to be higher on average to balance this. These same forces also imply that term and risk spreads will be less compressed than in the pre-pandemic period.

We also note recent research suggesting that the period between the GFC and the pandemic was a downside deviation from a very long run down-trend in long real rates, so some reversion is likely. Unconventional monetary policy probably helped drive the gap, so spreads of AUD to USD yields may also be narrower than pre-pandemic.

The implications of these shifts for FX markets are therefore likely to be that fundamentals reassert themselves. Our forecasting framework builds on ECB research showing that exchange rates tend to converge towards purchasing power parity, typically over a horizon of 3–5 years. Given our rates view, we have pulled the transition forward to see an earlier convergence. This implies that the AUD and most other currencies will tend to appreciate against the USD over the period ahead.

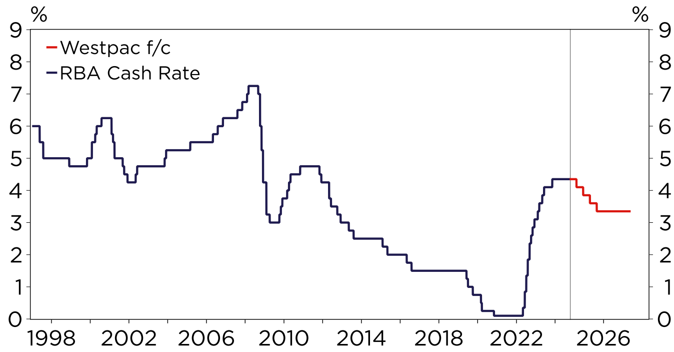
Ahead of these longer-term forces, markets face considerable event risk. The US election result could induce more volatility, if only as a repricing as one set of possible futures gets closed off. A contested election result, or further escalation of conflict in the Middle East, would add further volatility in the near term, and perhaps extend the period of USD strength.

Front-loaded rate cuts



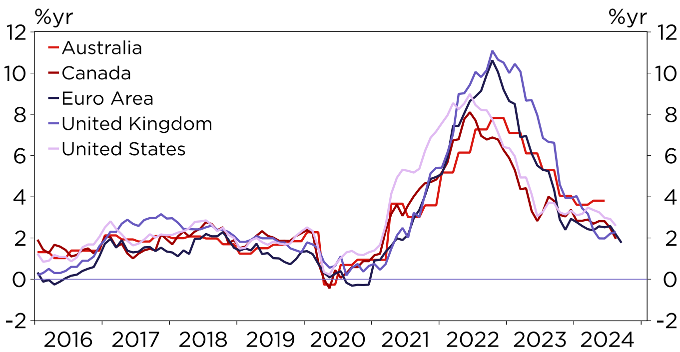
Source: BIS, Macrobond, Westpac Economics

RBA to cut later and slower than peers



Source: RBA, Macrobond, Westpac Economics

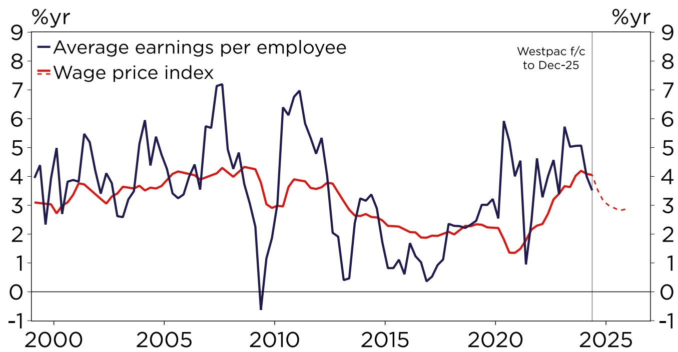
Majors headline inflation steps down again



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

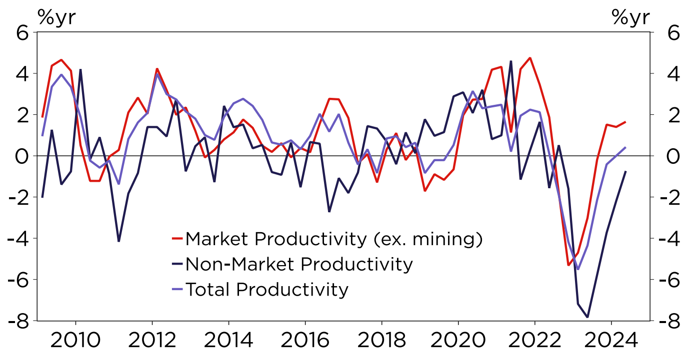
… while geopolitics could add some drama

Domestic cost inflation has peaked …



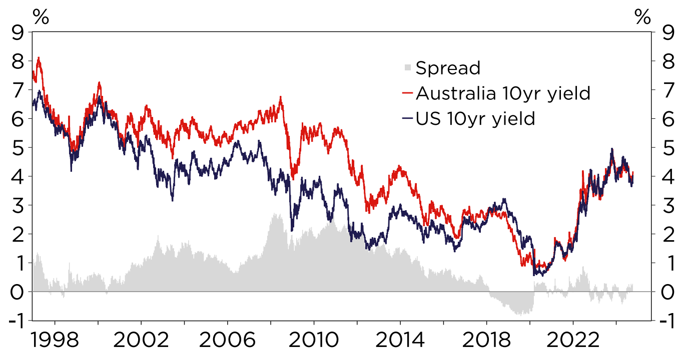
Source: ABS, Macrobond, Westpac Economics

… but RBA is wary on productivity



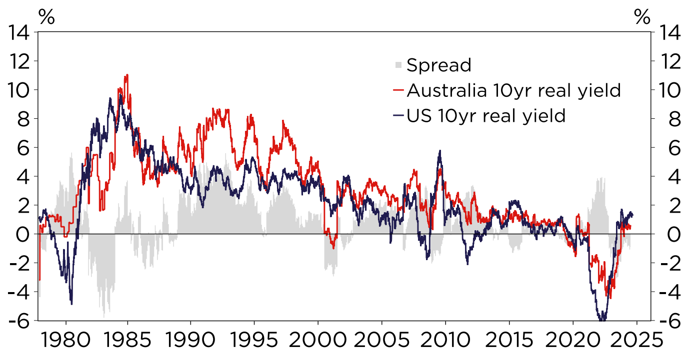
Source: ABS, Macrobond, Westpac Economics

Bond yields close to pre-GFC levels …



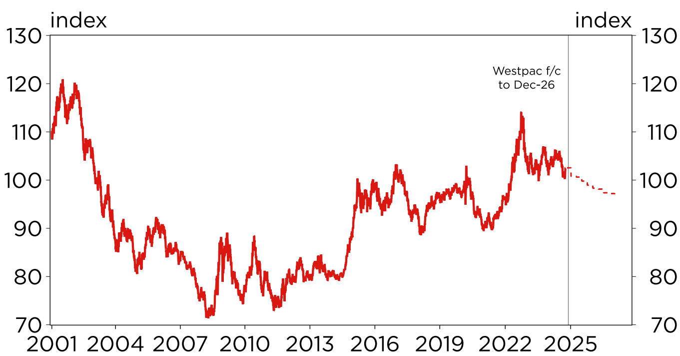
Source: Macrobond, U.S. Treasury, Macrobond, Westpac Economics

… consistent with trend in real yields



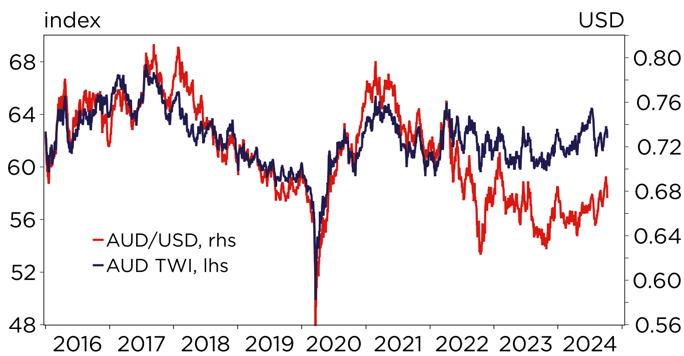
Source: Bloomberg, Macrobond, Westpac Economics

USD is a richly valued safe haven …



Source: ICE, Macrobond, Westpac Economics

… but fundamentals should return



Source: RBA, Macrobond, Westpac Economics

Private demand still looking subdued ...

Matthew Hassan, Head of Australian Macro-Forecasting
Pat Bustamante, Senior Economist

The updated forecasts presented in our September market outlook had a more gradual recovery in private sector activity. In the near term, this is expected to be offset by public spending leaving GDP forecasts unchanged in 2024 and 2025. In 2026, GDP growth was revised lower as the 'baton-change' from public to private sector drivers looks set to be much shakier.

While the official data flow has been limited since our September publication, the combination of customer feedback and internal banking data supports the view that the recovery in private demand, most notably household consumption, remains gradual.

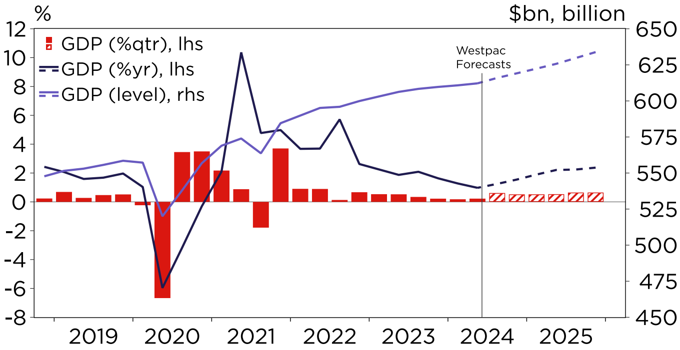
The ABS finance and wealth accounts – the financial flows and balance sheet counterpart to the quarterly GDP estimates – continue to point to a weak starting point. Household net lending is the surplus left over from total income after accounting for consumption, gross investment, depreciation and asset transfers. This was a sizeable negative in Q2 2024, the fourth quarterly decline since Q2 2023. This period marks the first time since the GFC that net lending has been negative, illustrating the squeeze on household income and the draw-down of some of the reserves accumulated during the pandemic.

Lead indicators of spending data have also been weak, showing signs of only a modest pickup post tax cuts. The ABS retail survey showed sales up just 0.1%mth in July and 0.7%mth in August. The August outcome was partially attributed to shifting seasonality and unusually warm weather, which is seeing households bring forward some purchases. The broader ABS household spending indicator has been weaker still with a fall of 0.5%mth in July and a flat outcome in August.

The signal from Westpac's internal data – some of which is available up to the first week of October – is a little better. The **Westpac Card Tracker** in particular shows consumer-related card activity gained a bit more traction through August-September to be up 1.1%qtr. That nominal gain is broadly consistent with a rise in real activity of around 0.8%qtr, depending on the inflation wash-up. The **Westpac Consumer Panel**, which gives a more detailed picture of household income, spending and saving flows, confirms the lacklustre flow through from tax cuts to consumer spending based on data for July and August.

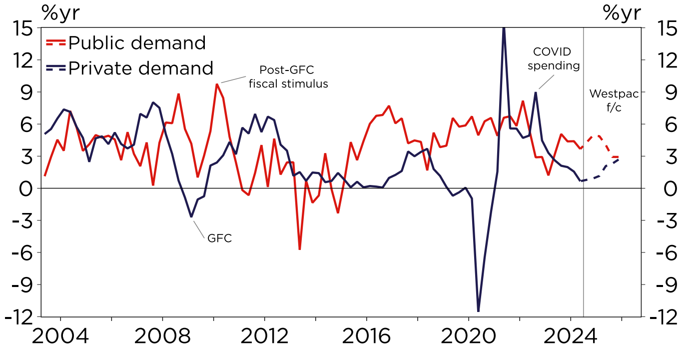
This is broadly consistent with signals from the **Westpac-Melbourne Institute Consumer Sentiment Survey** . Pessimism is showing some promising signs of easing but detailed responses suggest the pressure on family finances is only easing very gradually.

Growth slows to a crawl



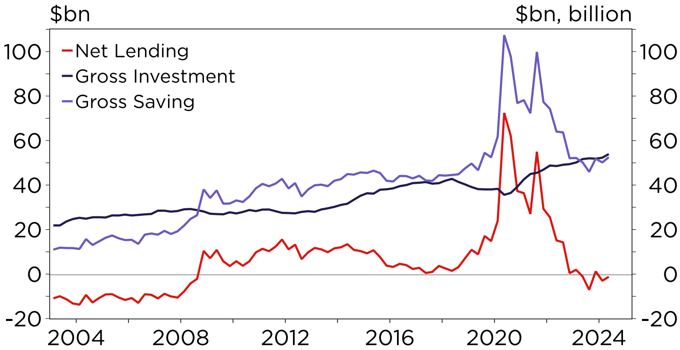
Source: ABS, Macrobond, Westpac Economics

Private demand looking fragile



Source: ABS, Macrobond, Westpac Economics

Weaker starting point for household net lending



Source: ABS, Macrobond, Westpac Economics

... but labour market remains resilient

The June quarter national accounts showed consumer weakness was starting to spill over into business investment, especially across industries at the coalface of the consumer-led slowdown. Partial economic data on this front remains patchy. Business surveys point to a pickup in underlying investment intentions. For example, the Q3 **ACCI–Westpac Survey of Industrial Trends** showed CAPEX intentions increasing to a fresh record high (dating back to 1966) for both plant & equipment and building activity. Intentions are strong in response to continued elevated capacity utilisation, and limited availability of labour in certain industries.

It remains to be seen whether these plans will be executed. While business credit continues to show resilience, the increase in capital imports since Q2 2024 appears to be driven by lumpy items such as aircraft rather than an underlying up-trend.

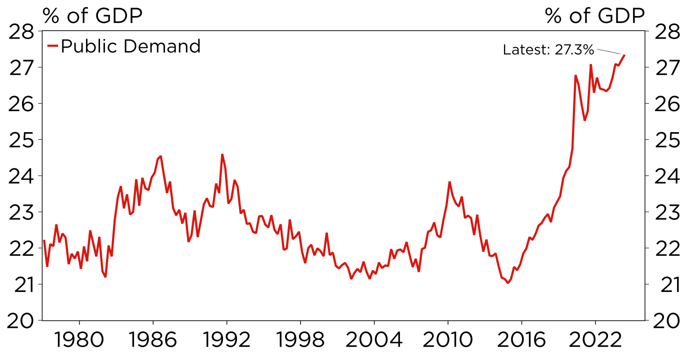
Partial indicators on government demand have been limited. The Federal government notched up its second consecutive surplus in 2023-24. The $15.8bn underlying cash surplus (0.6% of nominal GDP) was slightly down on the surplus of $22.1bn recorded in 2022-23, but $6.4bn better than what was expected back in the May budget. Payments came in $10.2bn lower than expected, with the majority of this driven by delays in outflows to the sates and in other government programs.

State and Federal government cost-of-living relief measures kicked in from July 1, helping headline inflation fall to within the RBA's 2-3% target for the first time since 2021. The monthly CPI indicator moderated to 2.7%yr in August from 3.5%yr in July. While most of the step down was driven by fiscal measures, there were positive signs in other areas as well. RBA communication suggest they will likely look through the headline fall and focus more on underlying inflationary pressures in the economy, particularly given labour market conditions.

The labour market continues to show resilience, employment gains keeping pace with still strong population growth. Job vacancies are tracking lower but still at a fairly moderate pace, down 5.2%qtr in August but still 40% above pre-COVID levels. Some of this resilience may reflect businesses keeping capacity on in case the stage 3 tax cuts start to generate a lift in demand (this would also be consistent with the slightly higher underemployment rate despite a flat unemployment rate).

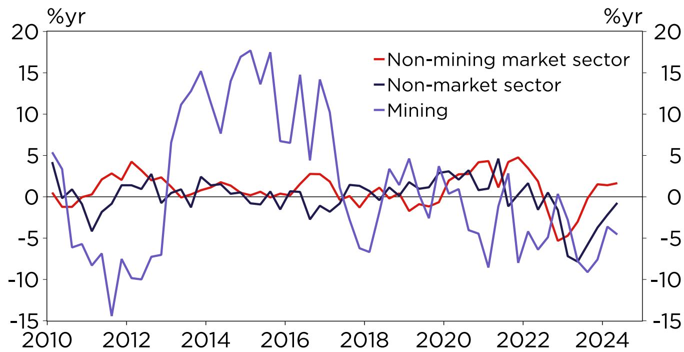
Overall, the flow of data would have done little to alter the RBA's assessment that labour market conditions are tighter than is consistent with full employment and are only gradually easing. This is likely to keep the RBA cautious going forward and, we think, on the sidelines until February next year.

Public demand at record highs



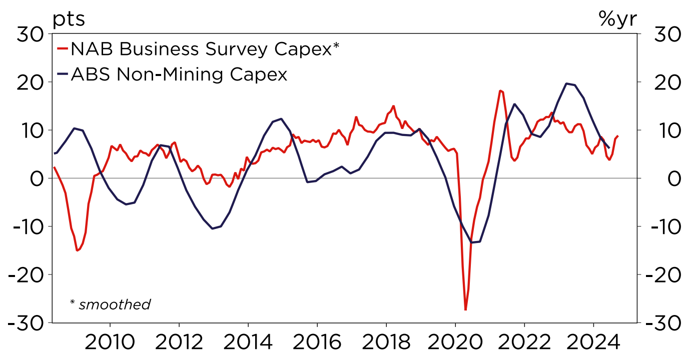
Source: ABS, Macrobond, Westpac Economics

Market sector productivity improving



Source: , Macrobond, Westpac Economics

Business investment weaker



Source: NAB, ABS, Macrobond, Westpac Economics

China stimulus and rate cuts boost prices ...

Justin Smirk
Senior Economist, Westpac Group

Commodities had a robust rally through September as markets shifted from fears of growth risks to anticipating a demand-led recovery fuelled by US rate cuts and Chinese stimulus. Leading the charge was iron ore which rallied 18% in the month, while met coal (12%) and crude oil (10%) also posted solid gains. Base metals also reported a strong month with copper lifting 10% while zinc (15%) and nickel (13%) also exhibited strong performances. This demand shift has come faster than expected and made us reassess the timing and magnitude of the forecast correction. We are still expecting a correction in iron ore prices, as recent events have not shifted the fundamentals of improving supply just as demand continues to moderate, but we now see an end-2024 level of US$95/t (was US$85/t) with a low of US$83/t in the second half of 2025. We have also upgraded our crude oil forecasts, from US$70/bbl to US$75/bbl for end-2024 with a low of US$70/bbl in the first half of 2025 (it was US$67/bbl).

Can Chinese steel demand improve?

As detailed on p15, Chinese authorities have finally delivered active, coordinated policy to aid economic activity and confidence with reports of further support coming. This should easily see the 5.0% GDP growth target met for 2024 and 2025. However, downside risks remain into the medium-term.

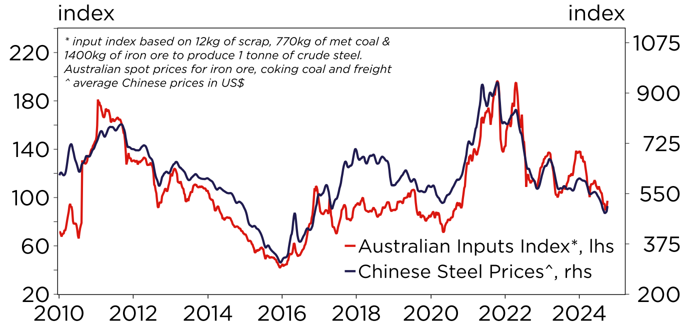
Overall for iron ore, demand remains soft, supply robust, and inventories continue to rise. Iron ore inventories at Chinese ports lifted this year and have stabilised over recent weeks at around 150Mt. Steel production remains weak in the year to date though we are seeing a seasonal lift with CISA production up in the second half of September while MySteel blast furnace utilisation rates are rising. China steel exports rose materially in August to 106Mtpa despite soft steel prices in key export markets, even if some regions are starting to pick up.

Seaborne supply of iron ore remains robust with shipments from traditional markets up around 3% year to date, while non-traditional suppliers are holding up at relatively elevated levels.

Looking forward, the main questions are: 1) will Chinese steel demand stabilise or improve?; and 2) if steel demand does improve, will it drive steel output higher and boost iron ore demand or will steel output instead remain flat with the adjustment coming via lower

Chinese Steel Input and Output Prices

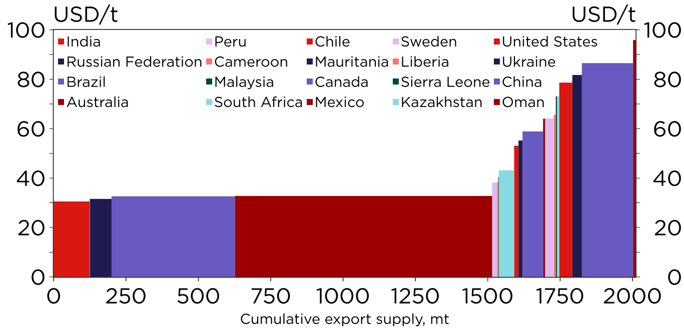
Input prices being dragged down by falling steel prices



Source: Bloomberg, Macrobond, Westpac Economics

Iron ore cash cost curve

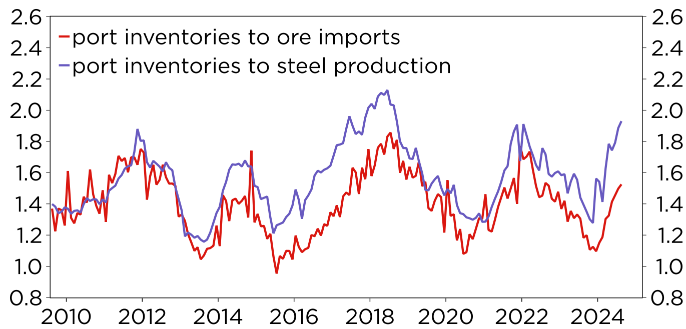
Chinese production remains at the top of the cost curve



Source: Wood McKenzie, Macrobond, Westpac Economics

China iron ore port inventories

Compared to demand inventories near cycle high



Source: Bloomberg, Macrobond, Westpac Economics

… but this is likely to fade as we head into 2025.

exports, resulting in improved Chinese steel prices? We remain structurally cautious on iron ore given we are well past Chinese peak steel and the outlook for supply continues to improve, hence the expectation for prices to fall back again as we move into 2025.

Coal has a mixed outlook

Met coal bounced from a low of US$180/t to US$205/t just as India is set to return to the market as the monsoon season fades. The medium term outlook for demand is gearing less towards China and more towards India and other Asian markets, presenting more support than what can be see for iron ore. However, if China's domestic production of met coal lifts, this presents a near-term downside risk to Chinese met coal imports and thus prices. Turning to thermal coal, we remain cautious as Chinese imports are elevated – just as we are observing domestic production expanding.

Crude oil lifts due to Middle East threats

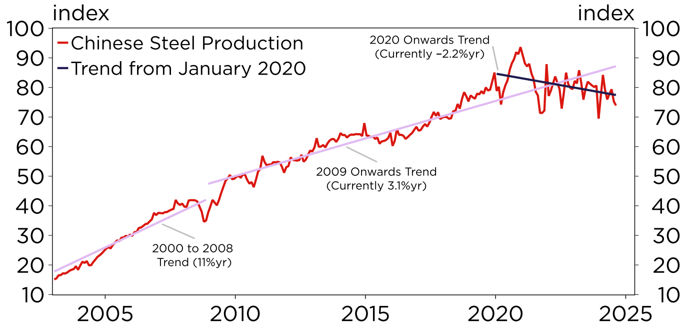
As the conflict in the Middle East has expanded from Gaza to Lebanon and Yemen, it has once again put a spotlight on the vulnerability of the world economy to disruptions in oil supplies. The rise of the US as a major oil producer has some arguing that it may be immune to those dangers because its oil industry can respond to such disruptions. However, we feel this is an oversimplification of the situation. It is true that US producers would respond to higher prices by accelerating output growth but as Wood Mackenzie noted in a recent report, they would be constrained by two factors: 1) investor demands for capital discipline, and 2) capacity in the supply chain. They estimated that a an increase in West Texas crude of US$10/bbl above a base case would lead to a 550,000bpd increase in production. This is not a trivial increase in output but it is neither as large, nor as rapid as the increase in supply that can be achieved by OPEC members or a potential release from the US Strategic Petroleum Reserve. This is why we have revised up our near term price profile for crude oil.

Gold likely to extend recent gains.

Gold is to maintain a structural safe-haven bid due to the ongoing, and expanding, conflict in the Middle East. We revised up our forecast to US$2750/oz as we head into 2025. Central bank and Chinese consumer demand might fade as gold hits new record highs while inflation-hedging demand could ease as inflation stabilises.

Chinese steel production peaked in 2020

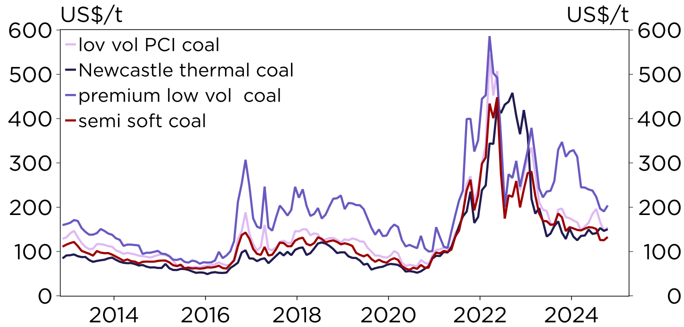
Since peaking steel production has been trending down



Source: World Steel Association, Macrobond, Westpac Economics

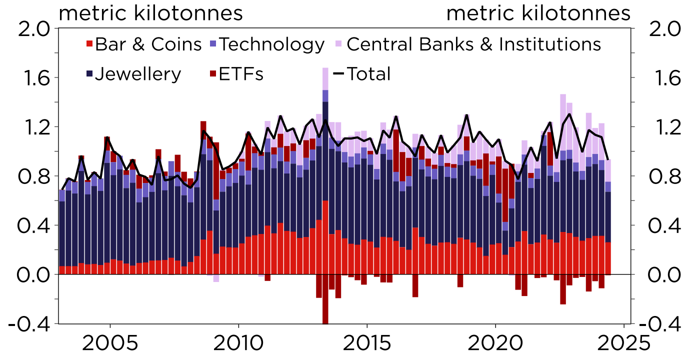
Australian coal prices

Sub premium coals are converging on price



Source: Bloomberg, Macrobond, Westpac Economics

Gold Consumption



Source: World Gold Council, Macrobond, Westpac Economics

US dollar downtrend set to slow …

Elliot Clarke
Head of International Economics

The FOMC's decision to begin this cutting cycle with a 50bp reduction has seen the DXY index repeatedly test its lows for the year, trading between 100 and 101.5, before moving up to around 103 recently. In our view, while nascent, this trading pattern signals an end to the US inflation and monetary policy exceptionalism that has dominated markets in recent years. Ahead we see a more open debate dictating market moves, with trading to depend on both relative inflation and activity growth trends as well as perceptions of political risk.

Over the past two years, the DXY index has declined from its cycle peak near 115 in mid-2022 to 103 today (a 10% fall). This has occurred as US inflation pressures and risks abated and the labour market softened. US activity growth remains above average, but expectations are generally for a slowing in the pulse towards trend – a view with which we broadly concur.

While developments in the US have dominated the minds of investors, outcomes in DXY pair economies have also been supportive of the US dollar downtrend, with growth risks in Europe and the UK abating, and evidence of success over inflation in Canada without too high a cost to the labour market.

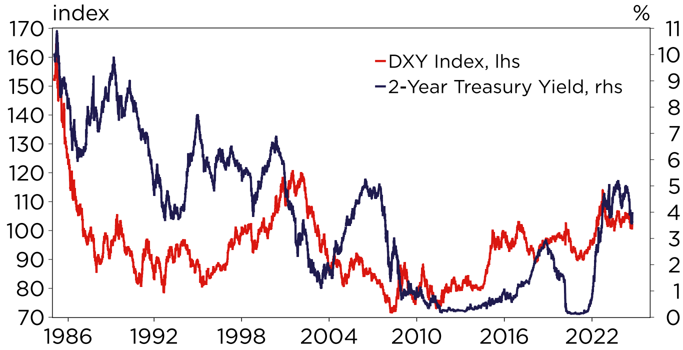
For each of these economies, including the US, the outlook is expected to be relatively benign, with the easing cycles already begun anticipated to ward off uncertainty and progressively alleviate financial pressures on households and businesses.

As a consequence, we expect confidence in the global economy to firm through 2025 and 2026, justifying further capital outflows from the US dollar to other developed-world currencies, albeit at a more measured pace than seen over the past two years.

The forecast movements in euro and the UK's Sterling are relatively similar, EUR/USD rising from USD1.09 today to USD1.15 mid-2026 as GBP/USD gains from USD1.31 to USD1.35.

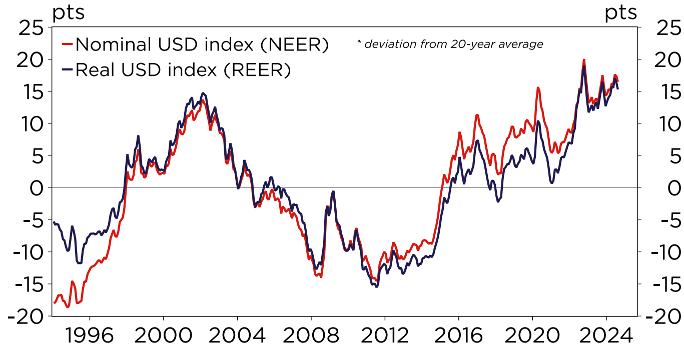
USD/CAD can arguably run further than either euro or sterling given the headwinds the Canadian dollar has recently experienced due to general economic uncertainty and oil price weakness. The decline in USD/CAD we forecast from CAD1.37 to CAD1.28 equates to a circa 7% appreciation in the Canadian dollar, in contrast to euro's 5.5% forecast gain and sterling's 3% rise.

USD CPI & rates support fading



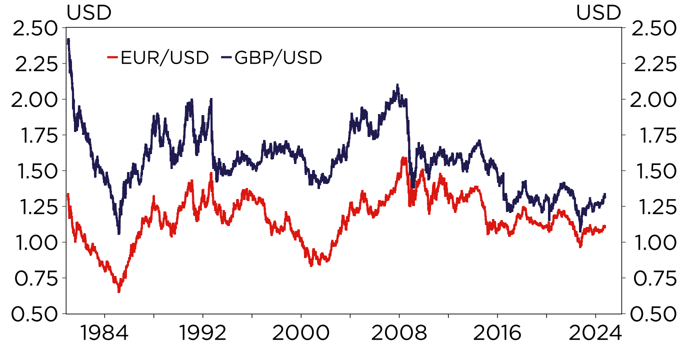
Source: Bloomberg, Macrobond, Westpac Economics

Data still supports robust USD



Source: BIS, Macrobond, Westpac Economics

Europe risks abating



Source: Bloomberg, Macrobond, Westpac Economics

… but persist

Upside risks from global growth related to Asian economic development and the global green transition matter more for euro and Canada's dollar given their manufacturing/commodity exposures versus the UK's sterling.

Speaking of Asia, two key trends are apparent. First, for yen, interest rate differentials remain paramount. Over the coming year, market participants expect 25bps of tightening from the Bank of Japan as the US FOMC cuts by 200bps. If realised these additional moves would effectively halve the rate differential seen as USD/JPY peaked at JPY161 mid-2024, taking the rates spread back to a level broadly consistent with the experience of 2018 and 2019, when USD/JPY instead averaged JPY110.

In that context, our end-2025 and end-2026 forecasts for USD/JPY of JPY138 and JPY134 look underdone, especially in the recent context of volatility. However, a straight historic comparison does not incorporate the uncertainty over growth and competitiveness for Japan relative to the rest of Asia, particularly as China turns to pro-active monetary and fiscal support and much of the rest of the region continues to pursue economic development at pace.

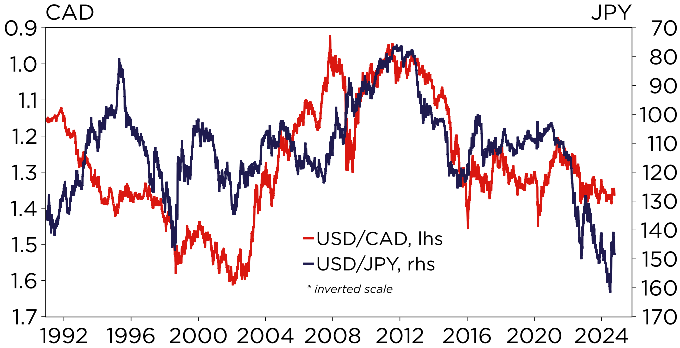
In contrast to USD/JPY, for USD/CNY we expect a reversal of 2022–2024's weakness by end-2026, from circa CNY7.10 today to CNY6.50, a rate also below the average of 2018 and 2019. If recent policy initiatives prove effective at stimulating growth and sentiment in China, then upside risks for the renminbi are likely to build over the period.

A similar narrative can be set out for much of the rest of the region, noting that Singapore's dollar is already back towards its decade high, USD/SGD having declined from almost SGD1.36 mid-2024 to SGD1.31 today, and that currencies of leading emerging economies in the region such as Thailand, Malaysia and Indonesia have received significant support in recent months.

Of course the key risk to this highly constructive view for the Asian region is geopolitics. Throughout the next US Presidential term, the potential for a further material escalation of trade tensions and investment restrictions for China and related entities will remain.

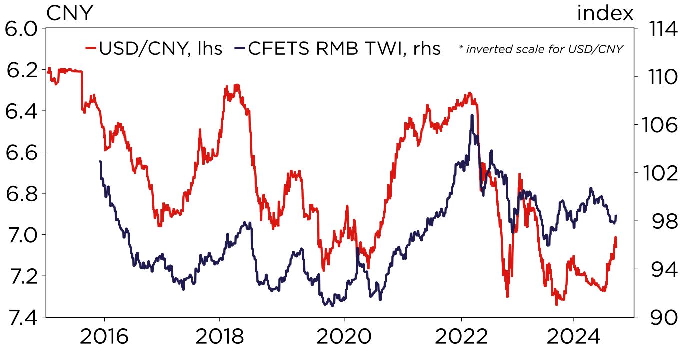
However, the key point to note here is that, while such a turn might impact the valuation of currencies and/or equity markets, with the passage of time the region's interconnectedness and economic development opportunities will mitigate the net cost of negative economic influences from the US or other parts of the developed world. Most likely then, depreciation and uncertainty for the region will prove a temporary phenomenon, with growth eventually winning out.

CAD to gain, JPY remain weak



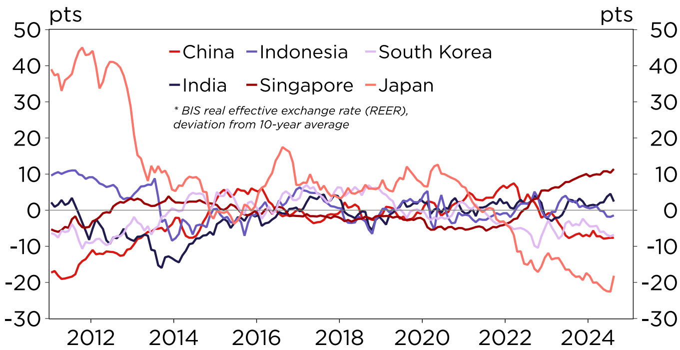
Source: Bloomberg, Macrobond, Westpac Economics

CNY up versus USD, but broadly stable



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



Source: BIS, Macrobond, Westpac Economics

Return to 2% inflation now clearly in sight ...

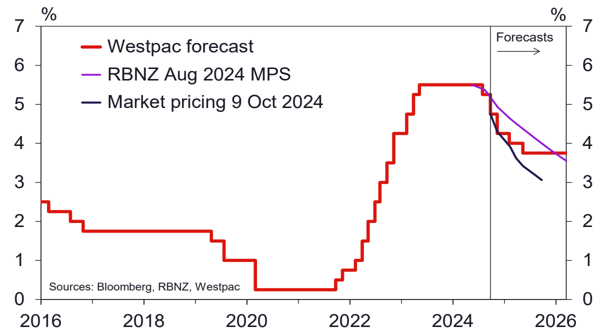
Kelly Eckhold
Chief Economist NZ

The RBNZ is picking up the pace of easing in line with our expectations. We expect a 50bp cut at the next meeting in November, which would take the OCR to 4.25%. The RBNZ MPC is now more confident that inflation will settle around 2% and thinks the economy is still flat. Hence further movement towards more neutral levels of the OCR should be expected. The pace of easing should slow in 2025 as the OCR should start the year only modestly above Westpac's assessment of the terminal rate of 3.75%.

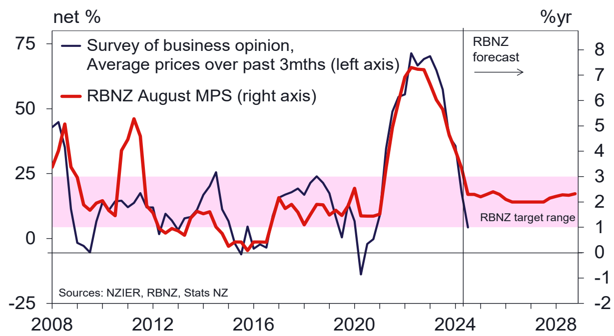
In our October Monetary Policy Review preview we made a case for the RBNZ to step up the pace of easing from that projected in the RBNZ's August Monetary Policy Statement. The case for a more front-loaded profile for OCR cuts primarily rested on signs that the forward inflation profile will be more benign than seen since 2021. We now see annual inflation falling to 2.4% in Q3 2024 and falling further to 2.2% by the end of 2024. This is markedly lower than has been forecast for quite some time and means that the mid-point of the RBNZ's target range is now tantalisingly close.

The Q3 Quarterly Survey of Business Opinion (QSBO) confirmed this relatively benign picture for short-term pricing pressures. The monthly Selected Price Indices had shown weaker tradeables inflation than our August Economic Overview forecasts had embodied. The QSBO is consistent with our sense that there may be more downside risks to our short-term CPI forecasts. It rather looked like the RBNZ would not see headline inflation or inflation expectations as an impediment to bringing the OCR to neutral levels relatively quickly (which we assess as being around 3.75% compared to the current 5.25% OCR).

RBNZ Official Cash Rate



Inflation pressures look contained



Another consideration is whether the economy will quickly pick up as the RBNZ eases. While June quarter GDP outperformed the worst fears of the pessimists (and the RBNZ) and some indicators have been relatively positive (such as business confidence, house sales, mortgage applications and the ANZ Truckometer), others have been more downbeat and indicate we still have a path to travel to achieve above trend growth.

This was most evident in the QSBO which showed economic momentum remains contractionary and that there are still disinflationary pressures in the pipeline. Non-traded inflation remains far too high, but the lag from currently weak activity and inflation means the RBNZ can take comfort that the progress made on headline inflation through lower tradeables inflation will be consolidated by lower non-tradeable inflation in the not-too-distant future.

Finally, the global interest rate cycle has decisively turned in recent months. The RBNZ fits well into the group of advanced economy central banks that have already eased significantly, and looks set to ease by a deal more by the end of Q1 2025. With inflation projected to be close to target and the economy operating a fair margin below its productive capacity, the case for reducing restriction is stronger here than most other jurisdictions, and the RBNZ has a long gap between meetings from November to February while it's peers will be moving.

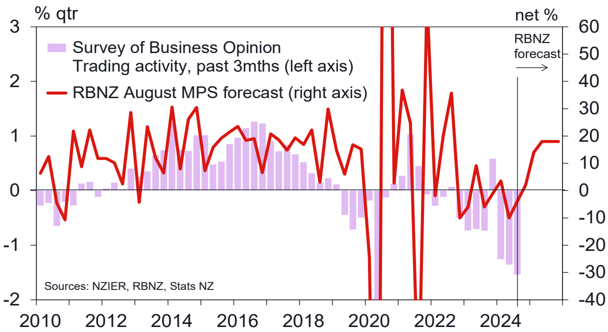
... allowing the RBNZ to pick up the pace of easing

The RBNZ MPC found these arguments compelling and delivered a 50bp cut at its October review. The Committee's brief statement did not push back on market pricing and views that another similarly-sized cut could follow in November. While MPC members discussed the merits of a 25 vs 50bp cut, they agreed that a 50bp cut "...at this time is most consistent with the Committee's mandate of maintaining low and stable inflation, while seeking to avoid unnecessary instability in output, employment, interest rates, and the exchange rate. The Committee noted that current short-term market pricing is consistent with this decision."

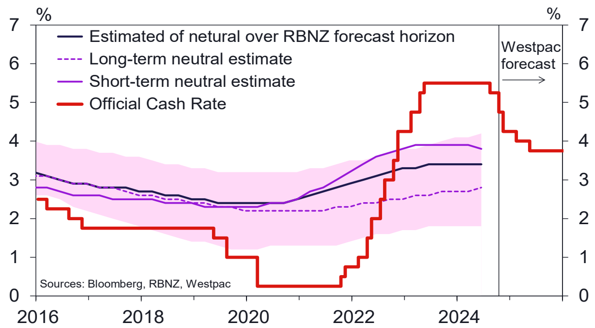
The RBNZ noted that they consider a 4.75% OCR as restrictive so the path ahead seems clear absent surprises with the Q3 CPI (16 October) and Q3 labour market data (6 November).

In 2025, the focus will be on the pace of easing. By the end of 2024, the OCR will have fallen by a relatively large 125bps in five months. This is a significant adjustment given we have no large global or domestic shock that policy is responding to. The performance of the economy in early 2025 (especially the housing market) and global events (which the RBNZ put some weight on in its October statement) will be key in determining whether the easing cycle starts to peter out by mid-2025 (as we forecast), or whether significant further easing occurs (as priced by markets).

GDP growth – QSBO points to still weak growth



Official Cash Rate and RBNZ estimates of neutral



	2023			2024							
Monthly data	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
REINZ house sales %mth	-11.1	3.7	4.5	-4.5	17.7	-0.4	-2.0	-3.2	-8.1	9.2	-3.3	-
Residential building consents %mth	7.6	-10.2	3.6	-9.7	16.2	-0.3	-2.2	-1.6	-17.0	26.2	-4.8	-
Electronic card transactions %mth	-0.6	1.6	-0.6	1.0	-1.3	-1.0	0.9	-1.0	-0.5	0.6	-0.2	-
Private sector credit %yr	2.5	2.1	2.2	2.4	2.5	2.7	2.5	3.0	2.7	2.6	2.8	-
Commodity prices %mth	2.8	-1.3	2.4	2.1	3.6	-1.3	0.5	1.1	1.5	-1.7	2.1	1.8
Trade balance $m	-850	-861	-889	-392	-831	-328	-950	-1017	-376	-835	-1009	-

Quarterly data	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**	**Q2:24**	**Q3:24**
Westpac McDermott Miller Consumer Confidence	78.7	87.6	75.6	77.7	83.1	80.2	88.9	93.2	82.2	90.8
Quarterly Survey of Business Opinion	-2	1	-10	-15	-14	-15	12	-25	-27	-31
Unemployment rate %	3.3	3.3	3.4	3.4	3.6	3.9	4.0	4.4	4.6	-
CPI %yr	7.3	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.3	-
Real GDP %yr	0.7	2.5	2.4	2.7	3.0	1.2	0.6	0.2	0.2	-
Current account balance % of GDP	-7.9	-8.3	-8.8	-8.2	-7.6	-7.4	-6.9	-6.8	-6.8	-
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

China ushers in a new era ...

Elliot Clarke
Head of International Economics

Throughout 2023 and 2024, we have continued to emphasise China's need for active, co-ordinated policy to aid activity and confidence. Authorities have finally delivered. Indeed, they have exceeded expectations, and there are reports further support is coming. The announced stimulus should easily see the official 5.0% growth target met for 2024, and a similar outcome in 2025. However, downside risks will remain into the medium-term.

The announced initiatives of the past month broadly fall into two categories: 1) fiscal and monetary support to reset the property market and reduce pressure on China's local governments; and 2) monetary initiatives to aid sentiment and discretionary spending.

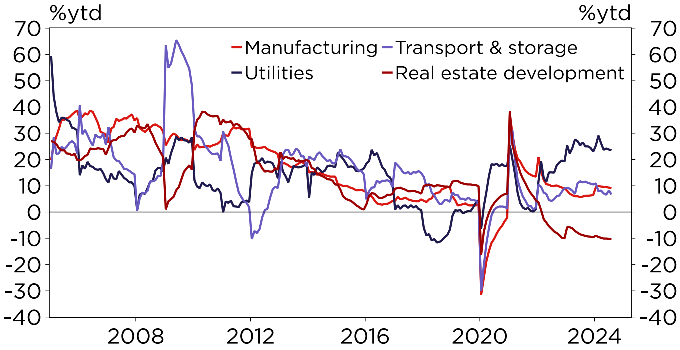
The intent around the property sector is clear, the Politburo pledging to make the market "stop declining". This edict looks to apply both to house prices and residential construction, benefitting both wealth and employment.

To reset the market, demand for housing will be encouraged through a reduction in the minimum deposit for property investors from 25% to 15%. State-owned firms will also be able to borrow from the People's Bank of China (PBoC), China's central bank, 100% of the principal required to purchase unsold homes. Both new and existing home buyers' capacity to enter the market and upgrade will meanwhile be improved by a 50bp reduction in mortgage interest rates to close to 3.0%. The largest lenders will also be given additional excess capital and have their reserve requirement reduced, which should materially increase the availability of credit at favourable terms.

To support sustainable house price growth, the priority for property developers will be the large pipeline of projects yet to be completed, which have largely already been sold. Prioritising these projects is important to rebuild confidence in the trajectory of prices and thus household wealth as well as trust in property developers. This focus on unfinished projects will require sustained financial aid for local governments given proceeds from land sales for new projects – a key revenue source – will only lift with a lag. This is why local governments are to be the prime beneficiaries of the mooted ¥2trn (US$280bn) in new special bond issuance by the Ministry of Finance.

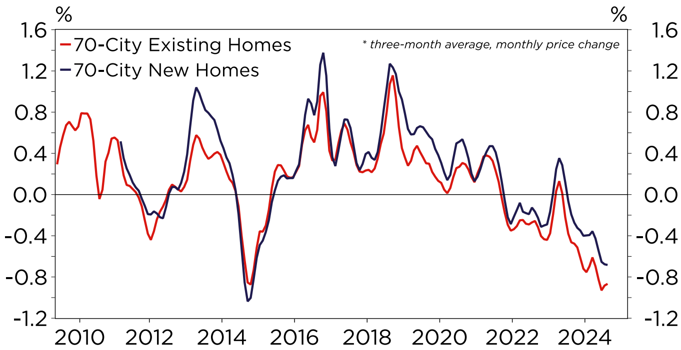
The equity market is also receiving substantial support, benefitting household wealth and promoting the use of market financing by mid and large-sized firms.

Authorities have pledged to stop construction ...



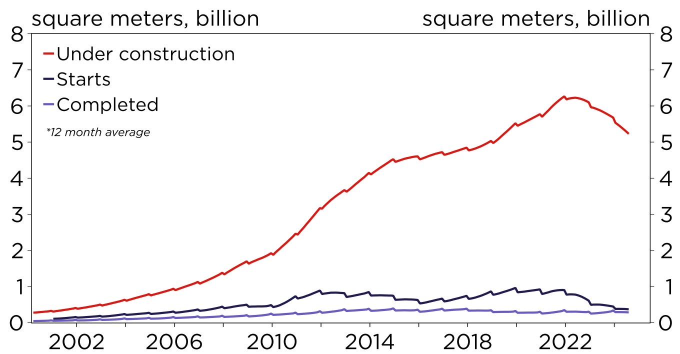
Source: NBS, Macrobond, Westpac Economics

... and house price declines



Source: Bloomberg, Macrobond, Westpac Economics

Existing housing projects to remain priority



Source: NBS, Macrobond, Westpac Economics

... for growth

Institutional investors will now be able to swap illiquid assets for high-quality assets at the PBoC then use those securities as collateral for loans to fund the purchase of equities. Corporates are also to receive financial support for share buy-backs and to increase cross holdings in other companies. Merger and acquisition activity is to be encouraged, promoting price discovery and the strengthening of corporate finances.

We have already seen a meaningful rally in equities following these announcements and, as capital flows in, the housing market is likely to follow suit.

Consumers should become more willing to spend on discretionary purchases into year-end, and businesses to expand capacity in related sectors. That in turn suggests 5% GDP growth, or very close to it, is readily achievable this year and next.

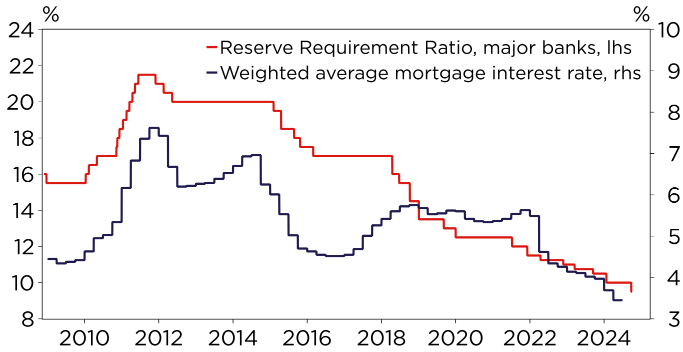
The composition of the support packages will see risks to growth linger into the medium term, however. This is because the announced stimulus is only an offer of potential return if acted upon, not Government mandated spending and employment.

The medium and long-term success of these policies therefore relies on state-linked and private entities taking up the opportunity to spend and invest and pursue growth. This is both an opportunity and a risk.

Those that engage pro-actively with the economy and markets and find success will grow in confidence and capacity, broadening and sustaining the growth pulse. But there is obviously a risk many will eschew this chance, betting that if they hold back, the Government will eventually do the spending for them.

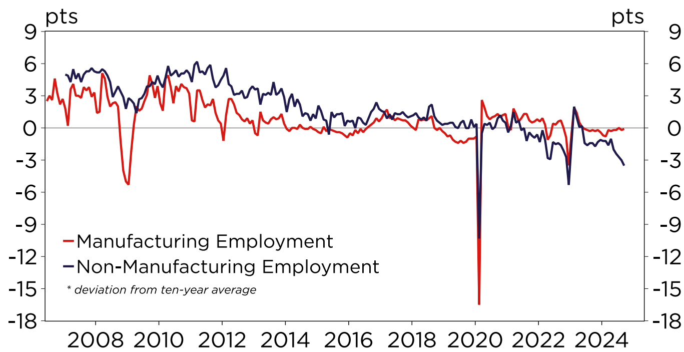
Our baseline expectation is therefore positive and hopeful, but we will remain on the lookout for downside risks to growth and sentiment.

Policy support significant, but ...



Source: PBC, Bloomberg, Macrobond, Westpac Economics

... inevitably success will come from jobs



Source: CFLP, Macrobond, Westpac Economics

	2023			2024								
Monthly data %yr	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Consumer prices – headline	–0.2	–0.5	–0.3	–0.8	0.7	0.1	0.3	0.3	0.2	0.5	0.6	–
Money supply M2	10.3	10	9.7	8.7	8.7	8.3	7.2	7	6.2	6.3	6.3	–
Manufacturing PMI (official)	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8
Fixed asset investment %ytd	2.9	2.9	3.0	3.0	4.2	4.5	4.2	4.0	3.9	3.6	3.4	–
Industrial production (IVA) %yr	4.6	6.6	6.8	6.8	7.0	4.5	6.7	5.6	5.3	5.1	4.5	–
Exports	–6.6	0.7	2.1	7.8	5.2	–7.9	1.2	7.5	8.6	7.0	8.7	–
Imports	3.0	–0.6	0.3	15.5	–8.0	–1.9	8.3	1.9	–2.3	7.2	0.5	–
Trade balance USDbn	55.9	69.1	74.7	84.1	38.7	57.4	71.6	82.2	98.8	84.7	91.0	–

Quarterly data	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**	**Q2:24**
Real GDP %yr	4.5	6.3	4.9	5.2	5.3	4.7
Nominal GDP %yr	5.2	5.4	3.9	4.2	4.2	4.0

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

The FOMC commit to timely ...

Elliot Clarke
Head of International Economics

At its September meeting, the FOMC decided to cut by 50bps to begin its policy normalisation cycle. The Committee projects another 50bps of cuts to end-2024 (over two meetings), a further 100bps of cuts in 2025, then a final 50bps in 2026, leaving the fed funds rate at 2.9%, which is also the Committee's upwardly-revised 'longer run' estimate of neutral.

The Committee's statement and Chair Powell's remarks in the press conference were worded carefully to highlight that the 50bp cut was not a signal of concern about the outlook but rather a response to inflation nearing target and the risks to achieving its employment and inflation goals now being "roughly in balance".

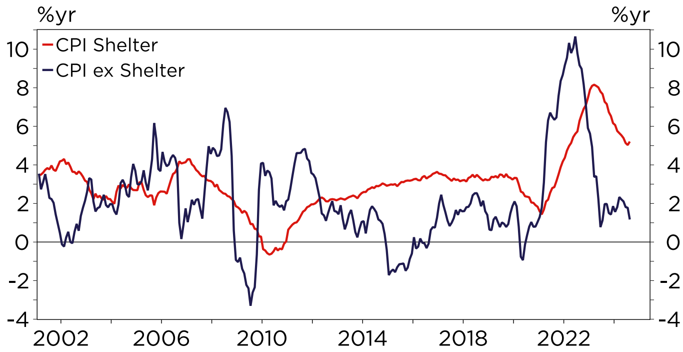
The revised forecasts provided by FOMC members also speak to confidence in the economy. GDP growth is forecast to be 2.0%yr in 2024-2027, above the estimated 'longer run' trend growth of 1.8%. The unemployment rate is consequently forecast to peak at 4.4% in 2024 then drift down to 4.2% through 2026 and 2027, where the unemployment rate is today. This implies little-to-no further deterioration in employment growth over the forecast period, in contrast to the marked deceleration in payrolls employment growth seen over the past two years – from 320k per month over the year to March 2023 to a 174k average over the 12 months to March 2024 (incorporating the initial annual revision guidance from the BLS) and now 116k in the three months to September.

Since the September meeting, historic revisions to GDP have provided more reason to have confidence in the activity outlook, in large part thanks to the good health of the US consumer. From Q2 2020 through 2023, GDP growth is now estimated to have averaged 5.5% annualised, up from 5.1% in the initial estimates, with two-thirds of the revision reportedly the result of stronger consumption. For 2022 and 2023 respectively, growth is now assessed as 2.5% (from 1.9%) and 2.9% (from 2.5%).

As has happened several times in this cycle, Gross Domestic Income was revised up materially for 2023 and the first half of 2024. In Q2 2024 alone, annualised GDI growth has been revised up 2ppts to 3.4%; and, in 2023, growth is now estimated at 1.7% versus 0.4% previously. These revisions have resulted in the household savings rate being lifted from 3.3% to 5.2%. It is unsurprising then that the FOMC continue expect both headline and core inflation to trough at 2.0%yr not materially below.

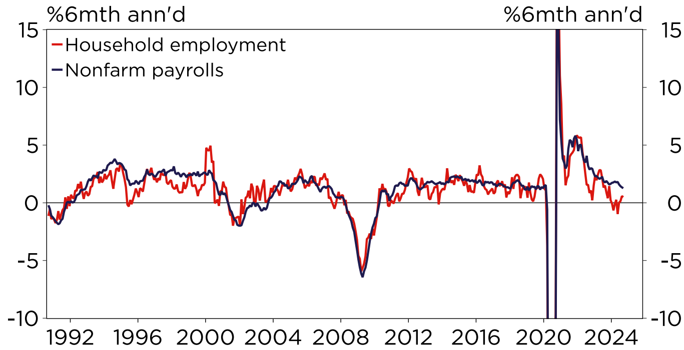
It is worth emphasising however, that while the ranges for

CPI pressures and risks contained



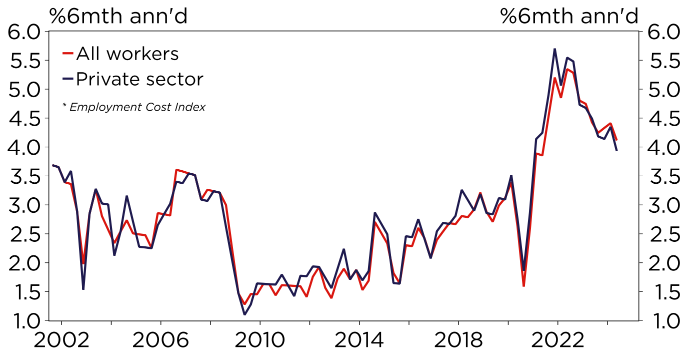
Source: BLS, Macrobond, Westpac Economics

Job growth still positive



Source: BLS, Macrobond, Westpac Economics

Wage growth to outpace CPI



Source: BLS, 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.

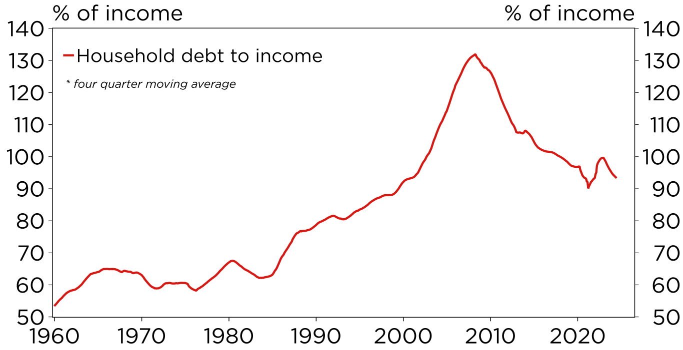
… action

activity and price forecasts are narrow, the Committee's views on the fed funds rate at end-2025, 2026 and 2027 are broad. Whereas most of the Committee see the fed funds rate only 25-50bps below the current level by end-2024, the December projections for 2025 through 2027 are spread across a much wider 150bp range.

In 2027, the FOMC's full range of estimates for the fed funds rate therefore stretches from 50bps below estimated neutral to 100bps above. To us, this speaks to considerable uncertainty over how the balance of risks will evolve and, as per Chair Powell's remarks, a commitment to take "timely" action and "not to get behind" with policy. The FOMC regard the current stance of policy as materially above neutral and expect to return to near neutral in time. How quickly they do so will be determined by incoming data and the perceived balance of risks.

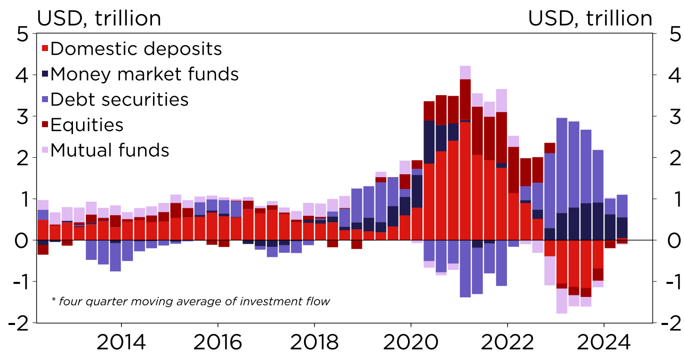
To us, there is reason to be wary over a further deterioration in conditions and associated risks. We expect lower GDP growth in 2025 and 2026 of 1.8%yr and 1.7%yr versus the FOMC's 2.0%yr. Westpac also expects a greater degree of weakness in the labour market, with the unemployment rate to rise to 4.7% in 2025 and hold there. Still, we also see inflation modestly above the FOMC's 2.0%yr expectation in 2025 and 2026 because of supply-side pressures which are not easily resolved but, for the sake of inflation expectations, must be managed by the Committee. The 3.375% we have forecast for the fed funds rate for late-2025 speaks to these diverging risks and their persistence. The flow of data in coming months will be critical to assessing these uncertainties and their implications for the policy outlook.

Household debt impost low



Source: Fed, BEA, Macrobond, Westpac Economics

Households continue to invest



Source: Fed, Macrobond, Westpac Economics

	2023			2024								
Monthly data	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
PCE deflator %yr	3.0	2.7	2.7	2.6	2.6	2.8	2.7	2.6	2.4	2.5	2.2	-
Unemployment rate %	3.8	3.7	3.7	3.7	3.9	3.8	3.9	4.0	4.1	4.3	4.2	4.1
Non-farm payrolls chg '000	165	182	290	256	236	310	108	216	118	144	159	254
House prices* %yr	5.1	5.6	6.4	6.8	7.5	7.5	7.2	6.8	6.5	5.9	-	-
Durables orders core 3mth %saar	0.7	-1.3	0.2	1.7	2.2	-1.2	2.3	-3.4	-0.5	-2.1	2.3	-
ISM manufacturing composite	46.9	46.6	47.1	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2
ISM non-manufacturing composite	51.9	52.5	50.5	53.4	52.6	51.4	49.4	53.8	48.8	51.4	51.5	54.9
Personal spending 3mth %saar	4.7	5.2	5.7	5.1	5.6	5.6	6.2	6.0	4.0	5.1	4.1	-
UoM Consumer Sentiment	63.8	61.3	69.7	79.0	76.9	79.4	77.2	69.1	68.2	66.4	67.9	70.1
Trade balance USDbn	-64.3	-64.8	-64.9	-66.4	-68.9	-68.0	-74.9	-75.3	-73.0	-78.9	-70.4	-

Quarterly data	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24(f)**
Real GDP % saar	2.1	4.9	3.4	1.4	2.8	2.5
Current account USDbn	-232.6	-220.7	-221.8	-241.0	-266.8	-

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

A front-loaded easing cycle by the ECB is needed …

Illiana Jain
Economist, Westpac Group

Recent expectations for a faster easing path by the European Central Bank (ECB) reflect strengthening growth headwinds that are adding to existing structural issues. Foremost amongst these is a need to take fiscal prudence more seriously. Efforts to rein in government deficits and debt mean front-loaded monetary easing will be needed to maintain growth. For Australian businesses, this will have implications for the AUD/EUR cross.

Europe is starting its fiscal consolidation journey. Countries like France and Italy are proposing plans to cut spending and raise revenue to meet the EU's government deficit and debt rules. The European Commission has set out that deficits must be under 3% of GDP or a plan must be put in place to achieve that by the end of a 4–7 year adjustment period.

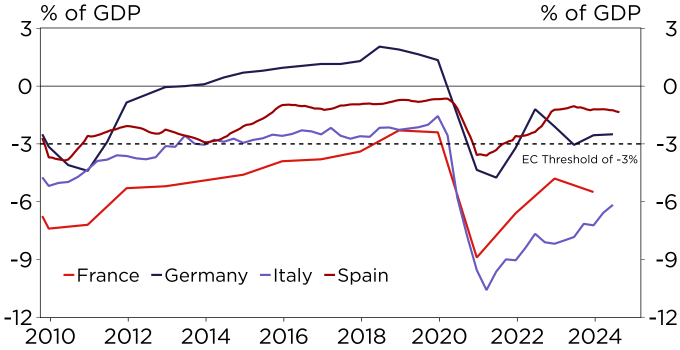
Across the four largest economies, France and Italy are the furthest from this threshold with government deficits of 5.5% and 6.7% of GDP as at December 2023. For these two countries, the arithmetic of returning to 3% implies an annual average fiscal drag of 0.4–0.6ppts of GDP over the next few years for France and 0.5–0.9ppts for Italy.

This feels all too familiar. After the GFC, government debt-to-GDP ratios skyrocketed across much of the EU leading to a series of sovereign debt crises that lasted the best part of a decade. At its worst, sharp rises in long-term yields threatened not only growth prospects but the financial stability of the bloc. The need for rapid fiscal consolidation complicated the situation for the ECB – a 50bp tightening in 2011 proving premature, with the crisis and the combined fiscal and monetary tightening resulting in a recession between 2011 and 2013 that proved to be far more scarring than the original GFC for many European economies.

With government debt having risen significantly through COVID, fiscal consolidation is again in sight. However, we expect the ECB to act differently this time, providing monetary easing in preparation for the tighter fiscal settings to come.

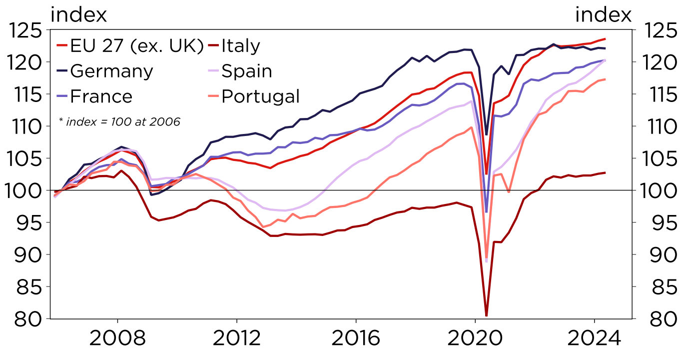
Fiscal consolidation will still prove tricky. After the debt crisis of the 2010s, Germany was the only economy among the four largest in the EU to dip below the 60% government-debt-to-GDP threshold set by the European Commission. Others struggled, both with reducing debt and achieving growth.

Deficits are again becoming a problem for some



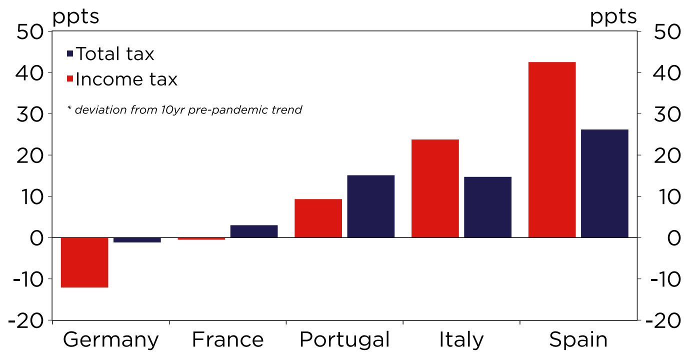
Source: INSEE, DESTATIS, Istat, IGAE, Macrobond, Westpac Economics

Debt crisis weighed on economic growth



Source: INSEE, Eurostat, DESTATIS, Istat, INE, Macrobond, Westpac Economics

Tax receipts sharply higher in S. Europe versus pre-COVID



Source: INSEE, German Ministry of Finance, Istat, BDE, DGO, Macrobond, Westpac Economics

... to cushion a sustained fiscal tightening

This time around, front-loaded rate cuts should provide more support for the economy, making it a little easier for countries to pursue fiscal targets. They will provide an important offset to the contractionary impacts of fiscal tightening, helping to maintain growth, and in turn allowing more of the fiscal consolidation to happen via growth rather than what might otherwise need to be more aggressive fiscal policy measures. That comes partly through the denominator of deficit and debt measures but also through the 'virtuous' dynamics growth generates, especially in labour markets where the combined effect of employment gains, boosting tax takes and lowering social spending, can provide a powerful uplift to government finances.

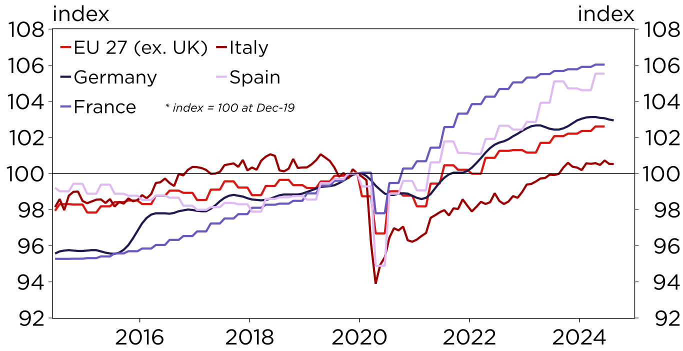
Strong demand for services has already seen employment soar across southern Europe. The unemployment rates in Spain, Italy and Portugal are sitting below or near the levels prevailing just prior to the pandemic. This comes at a time when labour forces have also expanded to be larger than pre-pandemic. Consequently, receipts from income and wealth taxes are now sitting above where they would have been expected to be based on trend growth from 2010 to 2019 for Italy and Spain, and at these levels for France.

With at-target inflation in sight, the ECB will increasingly consider the growth outlook in setting monetary policy. We expect the ECB to cut rates at its next two meetings and twice more in the first half of 2025 ending at 2.50%.

For Australian businesses, this will have implications for the AUD/EUR cross. Since 2019, trends in this pair have largely been driven by bilateral movements against the USD as opposed to key events in either Australia or Europe. At the onset of the pandemic, the Aussie weakened against the euro owing to its reputation as a risk-on currency and the euro's as a reserve. Since then, war in Ukraine and the ensuing energy crisis saw the euro weaken. In contrast, the AUD benefited from the strong gains in commodity prices through 2022.

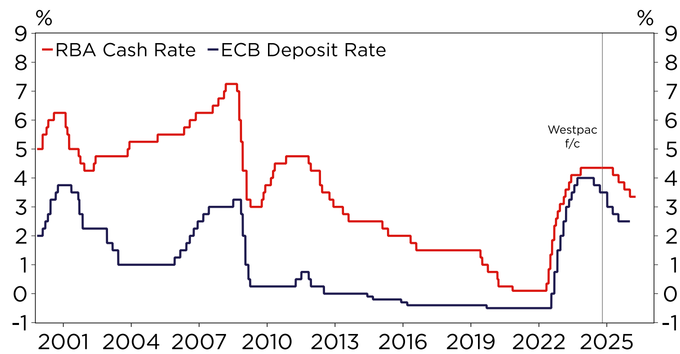
From here, the RBA's extended tightening bias compared to the ECB will see the Australian dollar benefit through the next year, with the somewhat more favourable growth outlook for Australia also providing support. Headwinds to European growth as fiscal consolidation takes centre stage alongside weakness in export markets will add pressure to the euro over the next couple of years. As such, we expect the cross to finish at 0.64 by end-2025 from 0.62 at present. This compares to a range of 0.60–0.64 seen through 2019.

Growing labour force provides support for tax receipts



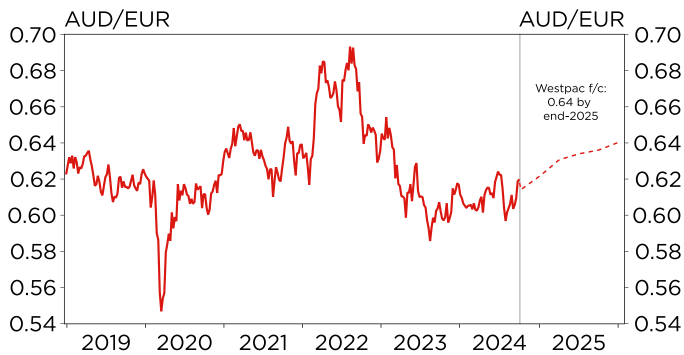
Source: DESTATIS, Eurostat, Istat, INE, INSEE, Macrobond, Westpac Economics

Policy rates to diverge between central banks



Source: RBA, ECB, Macrobond, Westpac Economics

Support ahead for the Aussie dollar



Source: Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (10 Oct)	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	3.35	3.35	3.35	3.35
90 Day BBSW	4.42	4.42	4.19	3.96	3.73	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.81	3.60	3.60	3.55	3.55	3.50	3.50	3.50	3.55	3.60
3 Year Bond	3.78	3.55	3.50	3.45	3.40	3.35	3.30	3.30	3.35	3.40
10 Year Bond	4.23	3.90	3.90	3.90	4.00	4.05	4.05	4.10	4.10	4.15
10 Year Spread to US (bps)	16	15	15	10	10	5	5	5	5	5

Currency forecasts

	Latest (10 Oct)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD vs										
USD	0.6719	0.69	0.70	0.71	0.72	0.73	0.73	0.73	0.74	0.74
JPY	100.23	98	99	99	100	101	100	99	100	99
EUR	0.6141	0.62	0.63	0.63	0.64	0.64	0.64	0.63	0.64	0.64
NZD	1.1063	1.11	1.11	1.13	1.15	1.14	1.14	1.14	1.16	1.16
CAD	0.9210	0.93	0.94	0.94	0.95	0.96	0.95	0.94	0.95	0.94
GBP	0.5141	0.52	0.53	0.53	0.54	0.54	0.54	0.54	0.55	0.55
CHF	0.5782	0.58	0.59	0.60	0.60	0.61	0.62	0.62	0.63	0.63
DKK	4.5803	4.64	4.70	4.73	4.74	4.78	4.78	4.73	4.80	4.80
SEK	6.9834	7.07	7.17	7.21	7.23	7.28	7.28	7.22	7.32	7.32
NOK	7.2420	7.33	7.44	7.47	7.50	7.55	7.55	7.48	7.59	7.59
ZAR	11.87	12.0	12.1	12.2	12.3	12.4	12.4	12.4	12.5	12.5
SGD	0.8784	0.89	0.90	0.91	0.92	0.93	0.93	0.93	0.93	0.93
HKD	5.2226	5.36	5.43	5.50	5.58	5.66	5.66	5.66	5.74	5.74
PHP	38.37	38.7	39.2	39.7	40.2	40.6	40.4	40.3	40.7	40.7
THB	22.52	22.5	22.8	23.0	23.2	23.4	23.0	22.6	22.6	22.6
MYR	2.8847	2.86	2.87	2.88	2.88	2.92	2.88	2.88	2.92	2.92
CNY	4.7527	4.83	4.87	4.90	4.90	4.89	4.85	4.82	4.85	4.81
IDR	10501	10488	10500	10508	10512	10512	10366	10293	10360	10360
TWD	21.64	21.9	22.2	22.4	22.5	22.6	22.4	22.2	22.3	22.3
KRW	905	911	917	923	929	934	927	920	932	932
INR	56.57	57.6	58.1	58.6	59.0	59.1	58.4	57.7	57.7	57.0

Australia

Activity forecasts*

	2024				2025				Calendar years			
%qtr / %yr avg	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	0.6	-0.2	0.6	0.3	0.5	0.5	0.5	0.6	2.0	1.1	1.7	2.2
Dwelling investment	-0.4	0.6	-1.5	-0.8	1.1	1.2	1.3	1.3	1.8	-2.5	1.8	6.4
Business investment *	-0.4	0.1	0.6	0.7	0.8	0.9	1.3	1.3	9.3	2.4	3.3	5.7
Private demand *	0.3	0.0	0.5	0.4	0.6	0.6	0.7	0.7	2.6	1.2	2.1	3.3
Public demand *	0.8	0.8	2.0	0.7	0.7	0.7	0.9	0.7	3.3	3.9	3.6	2.6
Domestic demand	0.5	0.2	0.9	0.4	0.6	0.6	0.8	0.7	2.8	1.9	2.5	3.1
Stock contribution	0.7	-0.3	-0.1	0.2	0.0	0.0	0.0	0.0	-0.9	0.3	0.0	0.2
GNE	1.2	-0.1	0.8	0.6	0.6	0.6	0.8	0.7	1.8	2.2	2.6	3.2
Exports	0.8	0.5	0.4	0.5	0.6	0.6	0.5	0.6	6.7	1.4	2.2	1.9
Imports	6.1	-0.2	1.2	1.0	1.0	1.0	1.1	1.0	6.4	6.2	3.9	5.3
Net exports contribution	-1.1	0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.4	-1.0	-0.3	-0.7
Real GDP %qtr / yr avg	**0.2**	**0.2**	**0.6**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**	2.0	1.3	2.2	2.4
%yr end	**1.3**	**1.0**	**1.2**	**1.5**	**1.9**	**2.2**	**2.2**	**2.4**	**1.6**	**1.5**	**2.4**	**2.4**
Nominal GDP %qtr	1.2	0.2	0.7	0.6	0.6	0.8	1.2	1.2	–	–	–	–
%yr end	3.7	4.4	3.7	2.6	2.1	2.7	3.2	3.9	5.5	3.6	3.0	4.8

Other macroeconomic variables

	2024				2025				Calendar years			
% change	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Employment (2)	0.4	0.7	1.0	0.5	0.2	0.0	0.1	0.1	–	–	–	–
%yr	2.6	2.4	2.8	2.5	2.3	1.6	0.7	0.4	3.0	2.5	0.4	1.6
Unemployment rate % (2)	3.9	4.1	4.2	4.3	4.4	4.5	4.5	4.6	3.9	4.3	4.6	4.6
Wages (WPI) (2)	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7	–	–	–	–
%yr	4.1	4.1	3.5	3.2	3.0	2.9	2.8	2.9	4.2	3.2	2.9	3.4
Headline CPI (2)	1.0	1.0	0.3	0.4	0.6	0.9	1.2	0.8	–	–	–	–
%yr	3.6	3.8	2.9	2.6	2.3	2.2	3.2	3.6	4.1	2.6	3.6	2.8
Trimmed Mean CPI	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.8	–	–	–	–
%yr (2)	4.0	3.9	3.5	3.3	3.0	2.9	2.8	2.9	4.1	3.3	2.9	2.6
Current account $bn	-6.3	-10.7	-13.9	-11.6	-9.3	-8.6	-8.2	-6.7	–	–	–	–
% of GDP	-0.9	-1.6	-2.0	-1.7	-1.4	-1.2	-1.2	-0.9	0.3	-1.6	-1.2	-1.3
Terms of trade annual chg (1)	-7.2	-3.8	-3.9	-6.1	-4.5	-1.6	1.0	0.9	-6.3	-5.3	-1.1	-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	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Employment '000 chg	-59.4	2.0	113.3	-10.0	29.0	33.4	46.7	48.9	47.5	–	–
Unemployment rate %	3.9	4.1	3.7	3.9	4.1	4.0	4.1	4.2	4.2	–	–
Westpac–MI Consumer Sentiment	82.1	81.0	86.0	84.4	82.4	82.2	83.6	82.7	85.0	84.6	89.8
Retail trade %mth	-1.9	1.0	0.3	-0.4	0.3	0.5	0.5	0.1	0.7	–	–
Dwelling approvals %mth	-7.0	-5.1	2.0	0.7	1.8	5.9	-6.3	11.0	-6.1	–	–
Private sector credit %mth	0.4	0.5	0.5	0.4	0.5	0.4	0.6	0.5	0.5	–	–
Trade in goods balance AUDbn	10.7	10.1	6.6	4.8	6.0	5.1	5.4	5.6	5.6	–	–

New Zealand

Interest rate forecasts

	Latest (10 Oct)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Cash	4.75	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
90 Day Bill	4.65	4.25	4.00	3.85	3.85	3.85	3.85	3.85	3.85	3.85
2 Year Swap	3.69	3.60	3.70	3.85	4.00	4.00	4.00	4.00	4.00	4.00
10 Year Bond	4.35	4.15	4.20	4.30	4.35	4.40	4.40	4.40	4.35	4.35
10 Year Spread to US	28	40	45	50	45	40	40	35	30	25
10 Year Spread to Aust	12	25	30	40	35	35	35	30	25	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Oct)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
NZD vs										
USD	0.6073	0.62	0.63	0.63	0.63	0.64	0.64	0.64	0.64	0.64
JPY	90.60	88	89	88	87	88	88	87	86	86
EUR	0.5551	0.56	0.57	0.56	0.55	0.56	0.56	0.56	0.56	0.56
AUD	0.9039	0.90	0.90	0.89	0.87	0.88	0.88	0.88	0.86	0.86
CAD	0.8325	0.84	0.84	0.84	0.83	0.84	0.84	0.83	0.82	0.81
GBP	0.4647	0.47	0.47	0.47	0.47	0.48	0.47	0.47	0.47	0.47
CNY	4.3005	4.34	4.38	4.35	4.25	4.29	4.26	4.22	4.19	4.16

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	0.5	0.4	0.0	0.5	0.4	0.6	0.7	0.8	0.4	0.9	1.9	3.5
Government consumption	0.2	0.6	-1.0	-0.5	0.0	0.0	0.4	0.6	-1.4	-0.1	-0.4	2.2
Residential investment	-1.6	-0.8	-2.3	-1.5	-1.2	-0.5	-0.1	0.2	-5.0	-5.9	-3.9	3.3
Business investment	-0.4	1.1	-2.9	-1.2	-0.9	0.0	0.9	1.2	0.7	-2.9	-2.2	5.5
Stocks (ppt contribution)	1.1	-0.1	1.2	0.3	0.4	0.2	0.0	-0.1	-1.3	0.7	1.3	-0.4
GNE	1.3	0.1	0.2	0.2	0.4	0.5	0.6	0.7	-1.8	0.1	1.6	3.2
Exports	0.6	-0.8	1.4	0.8	0.8	0.8	0.8	0.8	11.4	4.1	3.2	3.1
Imports	5.9	-2.0	-2.5	0.1	0.5	0.7	1.2	1.4	-0.6	0.1	0.6	5.9
GDP (production)	0.1	-0.2	-0.2	0.4	0.5	0.5	0.5	0.6	0.7	0.0	1.4	2.3
Employment annual %	1.3	0.6	0.3	-0.4	-0.3	-0.8	-0.4	-0.1	2.9	-0.4	-0.1	1.5
Unemployment rate % s.a.	4.4	4.6	5.0	5.3	5.5	5.6	5.6	5.6	4.0	5.3	5.6	4.9
LCI, all sect incl o/t, ann %	4.1	4.3	3.9	3.5	3.2	2.6	2.5	2.3	4.3	3.5	2.3	1.9
CPI annual %	4.0	3.3	2.4	2.2	2.1	2.0	2.0	2.2	4.7	2.2	2.2	2.1
Current account % of GDP	-6.7	-6.7	-6.3	-6.0	-5.7	-5.3	-5.2	-5.2	-7.1	-6.0	-5.2	-5.5
Terms of trade annual %	-3.7	-1.7	0.6	9.6	3.8	1.8	0.4	0.4	-10.7	9.6	0.4	2.4

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (10 Oct)***	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Australian commodities index#	314	303	292	283	278	280	285	291	295	298	300
Bulk commodities index#	**406**	**390**	**380**	**350**	**340**	**340**	**350**	**350**	**350**	**350**	**350**
iron ore finesTSI @ 62% US$/t	106	95	90	85	83	84	84	83	83	84	85
Premium low vol met coal (US$/t)	203	190	185	180	175	170	170	169	168	169	170
Newcastle spot thermal coal (US$/t)	154	140	130	125	120	120	121	122	122	123	124
crude oil (US$/bbl) Brent ICE	78	75	70	70	72	75	80	85	87	88	88
LNG in Japan US$mmbtu	12.61	12.1	11.6	10.7	10.6	10.8	11.2	11.8	12.5	12.8	12.9
gold (US$/oz)	2,658	2,750	2,730	2,700	2,650	2,670	2,690	2,720	2,740	2,760	2,780
Base metals index#	**221**	**222**	**224**	**225**	**223**	**222**	**235**	**248**	**254**	**255**	**257**
copper (US$/t)	9,766	9,860	9,950	10,000	9,900	9,890	10,550	11,210	11,470	11,550	11,630
aluminium (US$/t)	2,821	2,820	2,850	2,850	2,840	2,830	2,980	3,130	3,190	3,210	3,220
nickel (US$/t)	17,700	17,500	17,600	17,700	17,600	17,300	18,470	19,640	20,110	20,240	20,380
zinc (US$/t)	3,116	3,100	3,150	3,170	3,150	3,120	3,280	3,430	3,490	3,510	3,530
lead (US$/t)	2,104	2,100	2,130	2,150	2,100	1,980	2,060	2,150	2,180	2,190	2,200
Rural commodities index#	**130**	**129**	**126**	**125**	**125**	**125**	**134**	**143**	**147**	**148**	**149**
NZ commodities index ##	**364**	**353**	**348**	**348**	**349**	**351**	**355**	**358**	**362**	**366**	**371**
dairy price index ##	319	309	302	300	301	303	305	307	310	312	313
whole milk powder USD/t	3,396	3,350	3,370	3,400	3,430	3,450	3,480	3,500	3,530	3,550	3,580
skim milk powder USD/t	2,753	2,600	2,650	2,700	2,720	2,740	2,760	2,780	2,800	2,820	2,850
lamb price index ##	473	463	466	470	475	480	488	496	504	511	512
beef price index ##	301	284	284	284	284	285	286	286	287	288	308
forestry price index ##	158	159	160	162	164	166	168	170	173	176	171

	levels				%change			
Annual averages	2023	2024(f)	2025(f)	2026(f)	2023	2024(f)	2025(f)	2026(f)
Australian commodities index#	**323**	**310**	**285**	**291**	**-15.8**	**-4.2**	**-8.0**	**1.9**
Bulk commodities index#	**500**	**437**	**359**	**348**	**-10.2**	**-12.5**	**-17.8**	**-3.3**
iron ore fines @ 62% USD/t	120	108	86	84	-0.5	-9.5	-20.1	-3.3
LNG in Japan $mmbtu	14.9	12.9	11.0	11.9	-20.0	-13.3	-14.3	8.0
ave coking coal price (US$/t)	215	197	161	149	-10.2	-8.5	-18.1	-7.6
ave thermal price (US$/t)	184	133	121	117	-45.4	-27.6	-9.1	-2.9
iron ore fines contracts (US¢ dltu)	160	157	128	123	-7.9	-2.2	-18.5	-3.7
Premium low vol met coal (US$/t)	296	237	179	169	-19.0	-19.8	-24.4	-5.7
crude oil (US$/bbl) Brent ICE	80	79	72	84	-12.4	-1.4	-9.2	16.9
gold (US$/oz)	1,962	2,413	2,693	2,720	8.4	23.0	11.6	1.0
Base metals index#	**212**	**211**	**223**	**243**	**-16.5**	**-0.3**	**5.4**	**9.3**
copper (US$/t)	8,500	9,300	9,900	11,100	-3.7	9.4	6.5	12.1
aluminium (US$/t)	2,700	2,700	2,800	3,100	-30.3	0.0	3.7	10.7
nickel (US$/t)	21,600	17,200	17,600	19,400	-17.6	-20.4	2.3	10.2
zinc (US$/t)	2,700	2,800	3,100	3,400	-22.2	3.7	10.7	9.7
lead (US$/t)	2,100	2,100	2,100	2,100	-2.5	0.0	0.0	0.0
Rural commodities index#	**141**	**127**	**126**	**141**	**-17.9**	**-9.5**	**-1.1**	**11.7**
NZ commodities index ##	**330**	**351**	**349**	**360**	**-12.4**	**6.5**	**-0.5**	**3.2**
dairy price index ##	286	310	301	309	-18.8	8.4	-2.8	2.4
whole milk powder USD/t	3,081	3,300	3,400	3,500	-20.8	7.1	3.0	2.9
skim milk powder USD/t	2,640	2,600	2,700	2,800	-30.9	-1.5	3.8	3.7
lamb price index ##	461	452	473	500	-26.2	-1.8	4.6	5.7
beef price index ##	271	278	284	287	-3.2	2.4	2.2	1.0
forestry price index ##	160	159	163	172	-6.9	-0.6	2.7	5.5

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 (10 Oct)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Fed Funds*	4.875	4.375	3.875	3.625	3.375	3.375	3.375	3.375	3.375	3.375
10 Year Bond	4.07	3.75	3.75	3.80	3.90	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 (10 Oct)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USD vs										
DXY index	102.93	100.9	100.7	99.9	99.0	98.4	98.2	97.5	97.3	97.1
JPY	149.19	142	141	140	139	138	137	136	135	134
EUR	1.0941	1.11	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15
AUD	0.6719	0.69	0.70	0.71	0.72	0.73	0.73	0.73	0.74	0.74
NZD	0.6073	0.62	0.63	0.63	0.63	0.64	0.64	0.64	0.64	0.64
CAD	1.3708	1.35	1.34	1.33	1.32	1.31	1.30	1.29	1.28	1.27
GBP	1.3070	1.33	1.33	1.34	1.34	1.34	1.35	1.35	1.35	1.35
CHF	0.8606	0.84	0.84	0.84	0.84	0.84	0.85	0.85	0.85	0.85
ZAR	17.66	17.43	17.31	17.18	17.06	16.95	16.95	16.95	16.83	16.83
SGD	1.3074	1.29	1.29	1.28	1.28	1.28	1.27	1.27	1.26	1.26
HKD	7.7724	7.77	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
PHP	57.02	56.10	56.00	55.90	55.80	55.60	55.40	55.20	55.00	55.00
THB	33.52	32.6	32.5	32.4	32.2	32.0	31.5	31.0	30.5	30.5
MYR	4.2808	4.15	4.10	4.05	4.00	4.00	3.95	3.95	3.95	3.95
CNY	7.0811	7.00	6.95	6.90	6.80	6.70	6.65	6.60	6.55	6.50
IDR	15629	15200	15000	14800	14600	14400	14200	14100	14000	14000
TWD	32.21	31.8	31.7	31.5	31.3	31.0	30.7	30.4	30.1	30.1
KRW	1347	1320	1310	1300	1290	1280	1270	1260	1260	1260
INR	83.96	83.50	83.00	82.50	82.00	81.00	80.00	79.00	78.00	77.00

Activity forecasts

	2023	2024				2025		Calendar years			
% annualised, s/adj	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	3.5	1.9	2.8	2.4	1.8	1.5	1.8	2.5	2.5	1.8	1.9
Dwelling investment	2.6	13.7	-2.8	3.2	3.2	3.2	3.6	-8.3	5.1	3.2	3.0
Business investment	3.8	4.5	3.9	2.7	2.4	3.3	3.3	5.8	3.8	3.1	2.8
Public demand	3.6	1.8	3.0	2.0	1.2	1.2	1.2	3.9	2.9	1.4	1.1
Domestic final demand	3.5	2.6	2.8	2.4	1.8	1.8	2.0	2.8	2.8	2.0	2.1
Inventories contribution ppt	-0.4	-0.5	0.9	0.0	-0.3	-0.3	0.0	-0.4	0.1	0.0	-0.1
Net exports contribution ppt	0.0	-0.7	-1.0	0.0	-0.1	-0.2	-0.2	0.5	-0.4	-0.2	-0.2
GDP	3.2	1.6	3.0	2.5	1.6	1.4	1.9	2.9	2.7	1.8	1.7
%yr annual chg	3.2	2.9	3.0	2.6	2.2	2.1	1.8	–	–	–	–

Other macroeconomic variables

Non-farm payrolls mth avg	206	257	192	115	90	70	50	245	119	68	133
Unemployment rate %	3.7	3.8	4.0	4.1	4.3	4.5	4.7	3.7	4.2	4.7	4.7
CPI headline %yr	2.5	2.5	2.5	2.3	2.2	2.1	2.0	2.7	2.2	2.2	2.1
PCE deflator, core %yr	2.5	2.5	2.5	2.4	2.3	2.3	2.2	2.4	2.2	2.2	2.2
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 (10 Oct)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Euro Area										
ECB Deposit Rate	3.50	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50
10 Year Bund	2.26	2.15	2.15	2.20	2.25	2.30	2.35	2.40	2.45	2.50
10 Year Spread to US	-182	-160	-160	-160	-165	-170	-165	-165	-160	-160
United Kingdom										
BoE Bank Rate	5.00	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.18	3.85	3.80	3.80	3.90	4.00	4.00	4.05	4.05	4.10
10 Year Spread to US	11	10	5	0	0	0	0	0	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Oct)	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
euro vs										
USD	1.0941	1.11	1.11	1.12	1.13	1.14	1.14	1.15	1.15	1.15
JPY	163.22	158	157	157	157	157	156	156	155	154
GBP	0.8371	0.83	0.83	0.84	0.84	0.85	0.84	0.85	0.85	0.85
CHF	0.9416	0.93	0.93	0.94	0.95	0.96	0.97	0.98	0.98	0.98
DKK	7.4587	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.3717	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37	11.37
NOK	11.7932	11.79	11.79	11.79	11.79	11.79	11.79	11.79	11.79	11.79
sterling vs										
USD	1.3070	1.33	1.33	1.34	1.34	1.34	1.35	1.35	1.35	1.35
JPY	194.98	189	188	188	186	185	185	184	182	181
CHF	1.1248	1.12	1.12	1.13	1.13	1.13	1.15	1.15	1.15	1.15
AUD	0.5141	0.52	0.53	0.53	0.54	0.54	0.54	0.54	0.55	0.55

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2020	2021	2022	2023	2024f	2025f	2026f
Eurozone GDP	-6.1	5.9	3.4	0.4	0.6	1.5	1.5
private consumption	-8.0	3.5	4.0	0.6	0.9	1.3	1.4
fixed investment	-8.4	3.6	3.5	1.0	-0.2	1.5	1.5
government consumption	1.4	3.8	1.2	0.1	1.2	1.0	0.9
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	0.1	1.2	1.2
France GDP	-7.5	6.3	2.5	0.9	1.0	1.2	1.2
Italy GDP	-9.0	8.3	4.0	0.9	0.8	1.0	1.0
Spain GDP	-11.2	6.4	5.8	2.5	2.6	1.9	1.6
Netherlands GDP	-3.9	6.2	4.3	0.1	0.4	1.5	1.5
memo: United Kingdom GDP	-10.4	8.7	4.3	0.1	1.0	1.3	1.4

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	5.0	4.8	4.5
Consumer prices	2.9	2.5	0.9	2.0	0.2	0.7	1.6	1.9
Producer prices	–0.5	–0.4	10.3	–0.7	–3.0	–1.2	1.1	1.6
Industrial production (IVA)	5.8	5.1	6.7	3	4.4	5.2	4.5	4.5
Retail sales	8.0	–3.9	12.5	–0.2	7.6	4.2	5.0	5.0
Money supply M2	8.7	10.1	9.0	11.8	11.2	7.5	8.0	8.0
Fixed asset investment	5.4	2.9	4.9	5.1	3.5	4.2	4.5	4.5
Exports %yr	7.9	18.1	20.9	–9.9	–4.6	4.4	4.0	3.5
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 (10 Oct)	Dec–24	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Required reserve ratio %*	9.50	9.25	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Loan Prime Rate, 1–year	3.35	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25

* For major banks.

Currency forecasts

	Latest (10 Oct)	Dec–24	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
JPY	149.19	142	141	140	139	138	137	136	135	134
SGD	1.3074	1.29	1.29	1.28	1.28	1.28	1.27	1.27	1.26	1.26
HKD	7.7724	7.77	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
PHP	57.02	56.1	56.0	55.9	55.8	55.6	55.4	55.2	55.00	55.00
THB	33.52	32.6	32.5	32.4	32.2	32.0	31.5	31.0	30.5	30.5
MYR	4.2808	4.15	4.10	4.05	4.00	4.00	3.95	3.95	3.95	3.95
CNY	7.0811	7.00	6.95	6.90	6.80	6.70	6.65	6.60	6.55	6.50
IDR	15629	15200	15000	14800	14600	14400	14200	14100	14000	14000
TWD	32.21	31.8	31.7	31.5	31.3	31.0	30.7	30.4	30.1	30.1
KRW	1347	1320	1310	1300	1290	1280	1270	1260	1260	1260
INR	83.96	83.5	83.0	82.5	82.0	81.0	80.0	79.0	78.0	77.0

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	2.9	2.7	1.8	1.7
Japan	-0.4	-4.1	2.6	1.0	1.9	0.1	1.1	0.9
Euro zone	1.6	-6.1	5.9	3.4	0.4	0.6	1.5	1.5
Group of 3	**1.8**	**-3.9**	**5.5**	**2.4**	**1.9**	**1.6**	**1.6**	**1.5**
United Kingdom	1.6	-10.4	8.7	4.3	0.1	1.0	1.3	1.4
Canada	1.9	-5.0	5.3	3.8	1.1	1.1	1.9	2.0
Australia	1.8	-2.1	5.5	3.9	2.0	1.3	2.2	2.4
New Zealand	3.1	-1.4	5.6	2.4	0.7	0.0	1.4	2.3
OECD total	**1.8**	**-4.3**	**5.8**	**2.8**	**1.8**	**1.5**	**1.7**	**1.6**
China	6.0	2.2	8.4	3.0	5.2	5.0	4.8	4.5
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	4.0	2.7	2.7
Hong Kong	-1.7	-6.5	6.5	-3.7	3.2	2.9	2.6	2.5
Singapore	1.3	-3.9	9.7	3.8	1.1	2.7	2.7	2.6
Indonesia	5.0	-2.1	3.7	5.3	5.0	5.1	5.1	5.0
Thailand	2.1	-6.1	1.5	2.5	1.9	2.6	3.2	3.1
Malaysia	4.4	-5.5	3.3	8.7	3.7	4.9	4.7	4.5
Philippines	6.1	-9.5	5.7	7.6	5.6	5.9	6.0	6.0
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**	**4.8**	**4.6**	**4.4**
East Asia ex China	3.8	-2.3	4.3	4.5	3.3	4.2	4.1	4.1
NIEs*	**2.0**	**-0.5**	**5.9**	**2.2**	**1.5**	**3.0**	**2.5**	**2.5**
India	3.9	-5.8	9.7	7.0	7.8	7.0	6.8	6.5
Russia	2.2	-2.7	6.0	-1.2	3.6	3.0	1.5	1.5
Brazil	1.2	-3.3	4.8	3.0	2.9	2.6	2.0	2.0
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**	**4.1**	**4.1**	**4.0**
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.

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

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

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

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

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

Neha Sharma
Economist
E: neha.sharma1@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
E: kelly.eckhold@westpac.co.nz

Michael Gordon
Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs
Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand
Senior Economist
E: shamal.chand@westpac.com.au

westpaciq.com.au

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 of 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

Disclaimer continues overleaf ▶

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.

with, this material. Westpac Singapore Branch holds a wholesale banking 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.