



Week beginning 14 October, 2024

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: 700 reasons to expect higher real rates on average.

The Week That Was: Shifting views on the state of the economy.

Focus on New Zealand: The wait is over.

For the week ahead:

RBA: RBA Assistant Governor Hunter speech.

Australia: Westpac-MI Leading Index, labour force survey.

New Zealand: Q3 CPI, retail card spending, house prices and sales, services PMI.

China: Q3 GDP, retail sales, industrial production, fixed asset investment, trade balance.

Japan: CPI, core machinery orders.

Eurozone: ECB policy decision, industrial production, trade balance.

United Kingdom: CPI, unemployment rate, average weekly earnings, retail sales.

United States: Retail sales, industrial production, housing starts, regional surveys.

Information contained in this report current as at 11 October 2024

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700 reasons to expect higher real rates on average



Luci Ellis
Chief Economist, Westpac Group

Most peer central banks are already cutting rates and some are front loading the cuts. The Fed and the RBNZ have seemingly declared 50 to be the new 25, though it is not clear that the FOMC will continue at that pace. The ECB may also want to pick up the pace to offset fiscal consolidation, as Westpac economics colleague Illiana Jain points out in her piece in our latest Market Outlook report released this week.

Steep hiking phases followed by equally steep cutting phases may well be a general pattern when an inflation surge is largely driven by supply shocks that unwind of their own accord. Unlike the more organic sources of strong demand that central banks usually contend with, the demand component of the current inflation shock has also been partly self-correcting, driven as it was by pandemic-era stimulus. It should be no surprise then that the economies with some of the sharpest rate cycles – the United States and New Zealand – had ongoing fiscal stimulus after the pandemic.

While the need to reduce the restrictiveness of policy in these economies is clear, it is less obvious where policy might need to land to no longer be restrictive. The so-called neutral rate is uncertain. And as the FOMC ‘dot plot’ estimates for the long-run fed funds rate show, policy makers are even less sure about its level than in the past. While their views have diverged, all FOMC members are agreed that it is probably higher than was believed before the pandemic. This lines up with our long-standing house view that the global structure of interest rates is likely to be higher on average than it was between the GFC and the pandemic. The era of negative yields is over.

The rate that neither stimulates nor weighs on inflation at any point is also the rate that balances desired saving and investment. It will depend on whatever else is going on, including the drag or stimulus from fiscal policy. It is because of these other things that we expect a higher average rate structure. European governments need to consolidate, but as Illiana points out, by less and in a less abrupt manner than in the early 2010s. Western governments more generally are facing greater demands to spend on defence, energy transition and to meet the needs of an ageing population. The private sector, too, has more need to invest now, on energy transition and the energy demands of AI. It also has a bit more scope to do so given that Western banking systems are less constrained by the need to build up

capital to meet the requirements of the Basel 3 rules. Asian economies remain an important source of saving, but not more than they were in the first two decades of the century. They might even be less of a saving source, depending on how large the stimulus is in China.

All of this is a guide to what central banks need to do to achieve their desired policy stance in the moment. It says less about where the rate structure is likely to gravitate to in the long run, when all the current shocks have played out. The answer to that question is also often labelled the ‘neutral rate’, a little confusingly. (Some researchers attach an extra star to their notation distinguish between these concepts.) This longer-term version is less of a guide to central bank decision-making now, and more of an anchor for pricing very long-term debt securities.

A plague on all your 20th century trend estimates

This long-term anchor concept still boils down to the rate that balances global saving and investment on average. But now we must consider the deeper and more structural drivers of those forces, and whether there are structural trends. A large body of research notes the downward trend in both short-term and long-term real interest rates. So far, though, there has been no consensus on the reasons for this.

Crucially, though, the period between the GFC and the pandemic was in fact a downward deviation from that trend.

Some recent research by [Kenneth Rogoff, Barbara Rossi and Paul Schmelzing](#) might provide some insights. They have compiled data on real long-term bond yields going all the way back to the year 1311, more than 700 years. An achievement in itself, their dataset shows that there has indeed been a slight downward trend over this longer period. Crucially, though, the period between the GFC and the pandemic was in fact a downward deviation from that trend. The authors therefore expect some reversion to trend in coming years. This contrasts with papers using shorter data sets, where the downward trend is less precisely estimated.

It is important not to take this purely empirical observation as gospel. We do not yet know why there is a downward trend, or what might be the cause of the recent downward deviation. There are, however, some reasonable hypotheses. Recall that these are long-term real bond yields not the short-term rates used by central bankers to set policy. The market and policy apparatus the shorter rate applied to came in many centuries later than long-term sovereign bonds. It may be that the trend comes from a trend in the term premium or risk premium, rather than from the neutral short-term rate as we think of it now. For example, it could be that as experience with long-term debt markets increased, and governments became better at keeping their financial promises, investors among Europe's Early Modern elites became more trusting over time and demanded a smaller term/risk premium over the (unobserved) 'true' risk-free rate.

Some other suggestive possibilities can be inferred from the fact that there was a break upwards in the trend following the Black Death in the 1340s, when one-third to a half of the population of Europe perished. If the underlying trend in interest rates reflects people's willingness to wait until tomorrow, their need to be compensated for waiting will reflect their beliefs about how likely it is that they will even survive until tomorrow. Events like the Black Death surely shifted that subjective belief.

More broadly, rising longevity – or more precisely, greater certainty about your adult longevity – could be one of the reasons why people have seemingly become more patient and willing to accept less compensation for waiting, that is, a lower long-term interest rate. (The authors cite other research suggesting that elite males – the segment of the population who would have cared about yields on sovereign debt back then – were less likely to die in battle from the 1400s. That would have helped start the downtrend after the increase following the Black Death.) That is a reason to expect a slow downward trend, and to not assume that a lurch down after the GFC was permanent. There is a common thread here with other literature, including [work from the Bank of Canada](#) that focused on the need to save for longer (and more certain) retirements.

The academic debate remains unresolved. For anyone thinking about pricing bonds or planning fiscal policy, though, some of the latest research suggests it would be foolhardy to assume that the low-rates world of the GFC-to-pandemic period will continue.

Cliff Notes: shifting views on the state of the economy

Mantas Vanagas, Senior Economist

Ryan Wells, Economist

Illiana Jain, Economist

In Australia, there was finally a sigh of relief for consumers as October's [Westpac-MI Consumer Sentiment Survey](#) reported a 6.2% increase in the headline index to 89.8, a two-and-a-half year high. The chief culprit behind this improvement was a significant pull-back in interest rate hike fears, as consumers take the cue from lower measured inflation and the broader global economic backdrop, which has seen many other peer economies begin to lower interest rates.

This led consumers to have a much more positive view on the economy, with the sub-indexes tracking the 12mth and 5yr ahead view up 14.3% and 8.0% respectively in the month. Meanwhile, the progress on family finances remained relatively more subdued, highlighting the extent to which cost-of-living pressures have loomed over households. While pessimism still dominates overall, this marked one of the most constructive single-month reads since the RBA began raising interest rates.

This backdrop bodes relatively well for businesses too, given that both business and consumer confidence tend to move together over an economic cycle. On the conditions front, the latest [NAB business survey](#) also suggested that business conditions have found somewhat of a 'floor' over the course of this year. This is consistent with our view that economic activity is current around its nadir, having slowed to 1.0%yr in Q2 2024.

In a context of recent tax cuts and monetary policy easing on the horizon, there is certainly scope for further improvement in sentiment and, hence, consumer spending. We are forecasting a recovery in growth hereafter to a pace of 1.5%yr by year-end and 2.4%yr in 2025. For more detail behind our view and forecasts, please see our latest [Market Outlook](#) published on WestpacIQ.

The [RBA's September Minutes](#) provided another opportunity to digest the Board's views. There were two important developments on this front. Firstly, on the topic of the supply-demand balance, the RBA acknowledged that momentum in demand was weaker than initially expected. This, in effect, toned down some of their hawkishness on inflation from August, when the Board was telegraphing a more pessimistic view on supply potential. Secondly, there was a larger emphasis on assessments of financial conditions and the risk that they could turn out to be insufficiently restrictive to return inflation to target. We will continue to watch this discussion over the coming months.

But for now, the RBA's focus is clearly squared on the dynamics around underlying inflation

We continue to expect the RBA to deliver its first rate cut in February 2025, before reaching a terminal rate of 3.35%. In this week's essay, [Chief Economist Luci Ellis](#) details the longer-run trends guiding our thinking behind the global interest rate structure.

Offshore, the focus remained on US monetary policy.

Before jumping into this week's events, a quick note on the September non-farm payrolls print released late last week. Non-farm payrolls surprised to the upside rising 254k and exceeding the median market expectations of 150k. There was also an upward revision of 72k for the previous two months, attributed to a recalculation of seasonal factors. The unemployment rate inched down to 4.1%, 0.3ppt below the FOMC's forecast for Q4 2024. And the average hourly earnings rose by 0.4% mth with annual growth at 4.0%yr, up from 3.6% in July.

This week, minutes for the FOMC's September meeting were released. They showed that both 25 and 50bp cuts were on the table and the committee chose to go with the latter. Interestingly, several members argued that a 25bp cut was more consistent with a gradual path to easing as well as providing a degree of predictability. And the committee expressed concern about how the 50bp cut will be perceived with the minutes noting that "it was important to communicate that the recalibration of the stance of policy at this meeting should not be interpreted as evidence of a less favorable economic outlook or as a signal that the pace of policy easing would be more rapid than participants' assessments of the appropriate path".

With regards to the FOMC's assessment of the US economy, the labour market was perceived to be close to the long-run maximum employment, and less tight than prior to the pandemic. Risks of its further unwanted deterioration were assessed to have increased (this is before the release of the September jobs data). And the FOMC had greater confidence in inflation's return to 2.0% noting upside risk had 'diminished'.



On the face of it, this week's CPI data release for September was somewhat inconsistent with FOMC's assessment, with both the headline and core CPIs rising slightly more than expected, by 0.2%*mth* and 0.3%*mth* respectively. Both rates were unchanged from August and fully in line with the averages over the last twelve months suggesting that inflationary pressures in the US remained stable last month. But details suggested that the upside surprise was accounted mainly by higher inflation in the core goods category and quite volatile items in it. The shelter component, one of the key drivers of headline inflation, showed that prices increased by 0.2%*mth*, half the average pace seen in 2024 so far. Ex-shelter, the annual CPI growth rate was just 1.1%*yr*. Subsequent comments from the FOMC members downplayed the importance of the September CPI print suggesting they are continuing to focus on the longer-term decline in inflation.

Closer to home, the Reserve Bank of New Zealand cut the overnight cash rate by 50bp to 4.75% in line with expectations. The move was driven by an assessment that the economy has excess capacity which should facilitate lower price and wage-setting behaviours. "Subdued" economic activity and employment conditions which continue to "soften" were credited to the still-restrictive monetary policy stance. [Westpac expects](#) another 50bp cut to come in November and for the policy rate to fall to a low of 3.75% in 2025.

The wait is over.



Kelly Eckhold
Chief Economist NZ

Going into the October RBNZ policy review, the only question was the size of the OCR cut that the Bank would choose to deliver. As it turned out, the RBNZ chose to cut the OCR by 50bps to 4.75%, as we expected. Looking ahead, the brief policy statement and the record of meeting provided little guidance aside from a reference to a 4.75% OCR still being judged to be restrictive. The RBNZ indicated that the decision to be taken at the next meeting on 27 November would be data dependent.

“The RBNZ’s more dovish stance reflects greater confidence that inflation will be printing close to the middle of the target range very soon.”

The 50bp easing was a step up in the pace of easing compared to that forecast by the RBNZ in their August Monetary Policy Statement. The RBNZ motivated this shift in pace by taking a relatively dovish interpretation of the data flow since August. The table below shows some snippets comparing the language used by the RBNZ in August compared to October. We didn’t see many, if any, areas where the RBNZ took a more cautious or hawkish tone. This is perhaps remarkable given the extent to which financial conditions have eased since August, and the degree to which forecasts for the OCR by year end have been revised lower.

Key points from the RBNZ’s August and October policy statements

| | October review | August MPS |
|-----------------------------|---|---|
| Activity | <p>The Committee agreed that domestic activity is weak.</p> <p>Economic activity in New Zealand is subdued, in part due to restrictive monetary policy.</p> <p>Members agreed that increasing excess capacity is leading to lower inflationary pressure in the New Zealand economy.</p> | <p>The Committee noted that the weakening in domestic economic activity observed in the July Monetary Policy Review has become more pronounced and broad-based.</p> <p>The Committee discussed possible reasons for the current economic weakness. Alongside restrictive monetary policy, an earlier or larger impact of tighter fiscal policy could be constraining domestic demand. Falling net migration may also be playing a role.</p> |
| Labour | <p>Labour market conditions are expected to ease further...</p> | <p>The June quarter data suggest that employment growth has slowed...</p> |
| Financial conditions | <p>While wholesale and bank interest rates have declined, financial conditions remain restrictive.</p> | <p>While domestic financial conditions remain restrictive, they have loosened over recent months.</p> |
| Inflation | <p>The Committee assesses that annual consumer price inflation is within its 1 to 3 percent inflation target range and converging on the 2 percent midpoint.</p> | <p>New Zealand’s annual consumer price inflation is returning to within the Monetary Policy Committee’s 1 to 3 percent target band.</p> |
| Risk | <p>Members agreed that an OCR of 4.75 percent is still restrictive.</p> | <p>Members noted that monetary policy will need to remain restrictive for some time to ensure that domestic inflationary pressures continue to dissipate.</p> |

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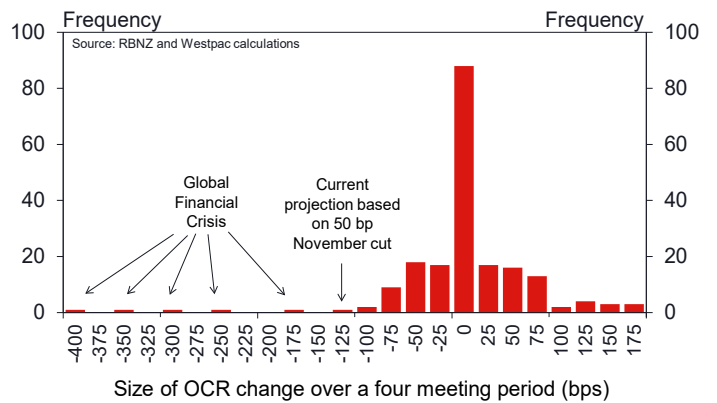
We think a key driver of the RBNZ's more dovish stance reflects their greater confidence that inflation will be printing close to the middle of the target range very soon. Indeed, this week's Selected Price Indices continued the tone seen since August of reducing aggregate CPI inflation pressures. We now see inflation at 0.7% quarterly and 2.2% annual when the September quarter CPI is released next week.

Another factor is the perceived restrictive level of the OCR compared to estimates of neutral. As the MPC's confidence that the level of inflation will soon settle around 2% has grown then so also has the discomfort with the level of the OCR relative to neutral. Hence the OCR is now being moved relatively quickly even as some indicators of an expected recovery in the domestic economy have started to perk up a bit.

The RBNZ has just one opportunity to review the level of the OCR between now and February 2025 whereas most of their advanced economy peers have 2-3 meeting opportunities. This gap in the schedule is likely also driving the increased easing pace right now.

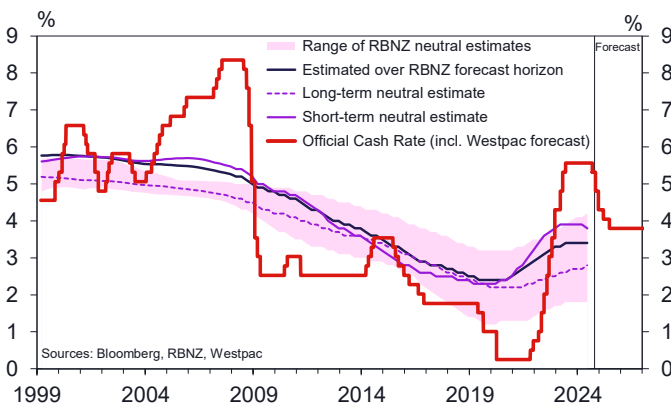
Covid or the Global Financial Crisis period) that we don't see right now. It's also the case that, assuming the OCR is cut by 50bp at the November meeting, the OCR will have been adjusted lower by a historically large amount in the 4-month period since August. It was only in the Global Financial Crisis period that the OCR moved down by more as quickly. And needless to say those were very different times.

Frequency of RBNZ OCR changes



Looking ahead, the data is likely to determine the ultimate size of the RBNZ's November adjustment. We see a high chance of the 50bp move currently forecast, with the next most likely option being a 25bp cut. Key releases include the Q3 CPI (16 October), RBNZ Assistant Governor Silk's speech on monetary policy transmission (16 October) and the Q3 labour market data (6 November). There may also be economic and financial markets implications of the outcomes of the US presidential election (5 November) and the 7 November FOMC meeting.

Official Cash Rate and RBNZ estimates of neutral



“There was no pushback on the expected 50bp cut in November.”

We saw no pushback on our expectation (and market pricing) for another 50bp easing at the November Monetary Policy Statement. Hence this remains the modal expected outcome. There has been some market discussion of the chances of a super-sized 75bp cut at the 27 November meeting. But we think that chance looks relatively low given cuts of that size or larger have been historically reserved for times of crisis (during

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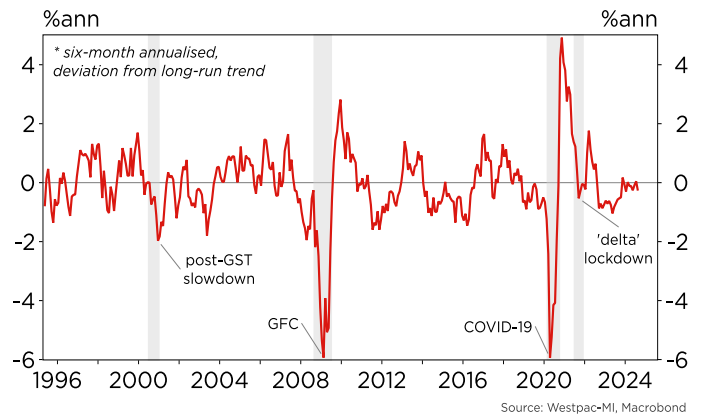
AUS: Sep Westpac-MI Leading Index (%)

Oct 16, Last: -0.27

The Leading Index declined from +0.04% in July to -0.27% in August, an eight-month low. Momentum has improved relative to 2022 and 2023 but is still clearly soft.

The September read will again see a fairly mixed bag of monthly component updates. Commodity prices – a key driver of recent softness – continued to move lower, down 2.6% in AUD terms. Dwelling approvals also fell back from a temporary spike in the previous month. Across financials, equity markets posted a small gain but the yield spread became a little more inverted as bond rates move lower. Sentiment has been more of a positive with a decent rally in expectations and labour market views in the latest month.

Westpac-MI Leading Index



AUS: Sep Labour Force – Employment Change (000s)

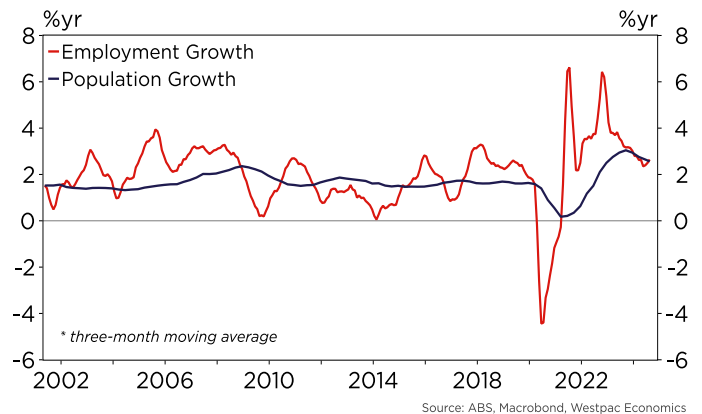
**Oct 17, Last: 47.5, Westpac f/c: 40.0
Market f/c: 22.3, Range: 10.0 to 45.0**

The level of employment increased by +47.5k in August. This marks yet another above-trend gain in employment, evinced by the employment-to-population ratio rising from 64.0% in March to 64.3% in August.

Rising employment-to-population alongside robust population growth and sustained highs in labour force participation implies that labour demand is still able to absorb increases in labour supply. That is consistent with a relatively tight labour market, albeit one that is gradually becoming more balanced.

For September, we anticipate a similar narrative, with a forecast +40k increase in the level of employment.

Employment growth tracking in line with population



AUS: Sep Labour Force – Unemployment Rate (%)

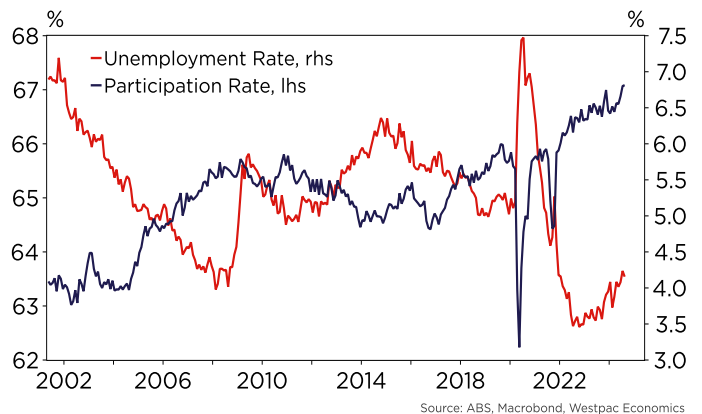
**Oct 17, Last: 4.2, Westpac f/c: 4.2
Market f/c: 4.2, Range: 4.1 to 4.3**

In August, the participation rate held at its record high of 67.1%, seeing the size of the labour force expand by 37k. The net effect was a 0.08ppt fall in the unemployment rate, although it managed to only just hold flat at 4.2% (4.16% to two decimal places).

The gradual uptrend in unemployment since late 2022 has mainly come via stronger growth in labour supply rather than a lift in firing. This is a desirable scenario from a policy perspective, serving almost the very definition of a 'soft landing'.

For September, we are forecasting both participation and the unemployment rate to hold flat at its current level, 67.1% and 4.2% respectively.

Participation pulls unemployment gradually higher



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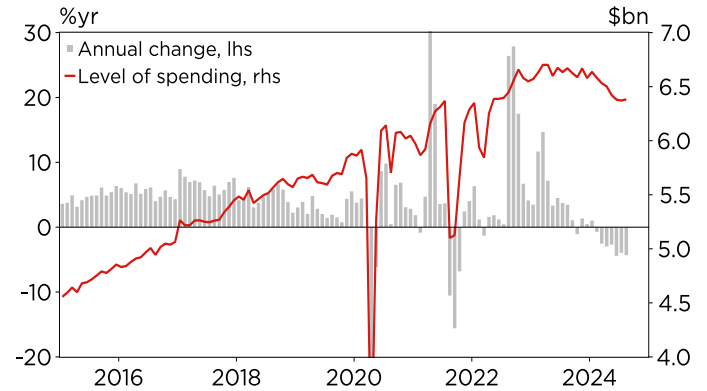
NZ: Sep Retail Card Spending (%mth)

Oct 14, Last: +0.2, Westpac f/c: +0.1

Retail spending levels rose 0.2% in August. That was the first rise in seven months. But while that rise will have been welcome news for retailers, August's gain was actually fairly modest, especially as tax cuts were rolled out from 31 July.

Spending has been weighed down in recent months by the combination of large increases in living costs and high borrowing costs. Those headwinds are easing, but haven't fully dissipated yet. As a result, we expect that spending growth will remain muted in September.

Income tax cuts could lift retail spending in August



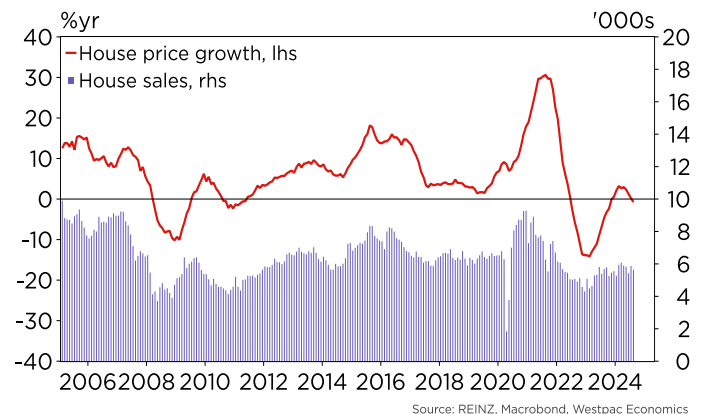
NZ: Sep REINZ House Prices and Sales (%yr)

Oct 15, Prices Last: -0.8; Sales Last: -0.7

Consistent with reports from real estate agencies, we expect the September housing market report will show that sales have increased, albeit from low levels. However, house price growth is expected to remain muted due to the sizeable inventory of unsold homes.

Mortgage rates have started to drop, and this will support the market over time. However, it will take time to fully pass through to housing market activity.

Housing market starting to stir as interest rates fall



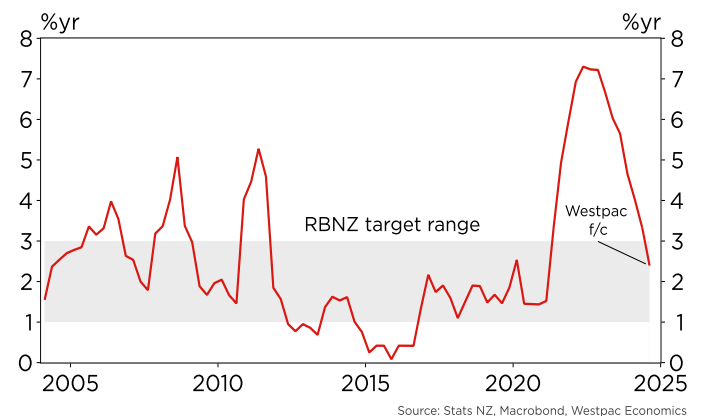
NZ: Q3 CPI (%)

Oct 16, Quarterly Last: +0.4, Westpac f/c: +0.7

Annual Last: +3.3, Westpac f/c: +2.2

We estimate that New Zealand consumer prices rose by 0.7% in the September quarter. That would see annual inflation dropping to 2.2% – the first time it's been below 3% since 2021. Adding to inflation in the September quarter are large increases in local council rates, insurance premiums and food prices. Those increases are balanced against lower prices for fuel and imported durable items. Our forecast is slightly below the RBNZ's forecast from their August Monetary Policy Statement, reflecting weaker fuel prices in recent months as the oil price has fallen.

Headline inflation to fall back within target range



What to watch

| | For | Data/Event | Unit | Last | Market f/c | Westpac f/c | Risk/Comment |
|---------------|-----|-------------------------------|---------|-------|------------|-------------|---|
| Mon 14 | | | | | | | |
| NZ | Sep | BusinessNZ PSI | index | 45.5 | - | - | Off its lows but still very weak in August. |
| | Sep | Retail Card Spending | %mth | 0.2 | - | 0.1 | Spending growth remains muted. |
| Chn | Sep | Trade Balance | US\$bn | 91.0 | 91.2 | - | Exports benefitting from firm demand in Asia. |
| US | | Columbus Day | - | - | - | - | Stock markets closed; bond markets remain open. |
| Tue 15 | | | | | | | |
| NZ | Sep | REINZ House Sales | %yr | -0.7 | - | - | Signs that buyer interest is lifting on lower mortgage rates... |
| | Sep | REINZ House Prices | %yr | -0.8 | - | - | ... but price gains likely to be limited for now. |
| Eur | Oct | ZEW Survey of Expectations | index | 9.3 | - | - | Euro area growth outlook worsening. |
| | Aug | Industrial Production | %mth | -0.3 | 1.2 | - | Remains subdued in the face of weak global demand. |
| UK | Aug | ILO Unemployment Rate | % | 4.1 | 4.1 | - | Likely to stabilise after a decrease in the last few months... |
| | Aug | Average Weekly Earnings | %yr | 4.0 | - | - | ... as wage growth continues to ease. |
| US | Oct | Fed Empire State | index | 11.5 | 0 | - | Manufacturers turning slightly more optimistic. |
| | | Fedspeak | - | - | - | - | Daly, Waller. |
| Wed 16 | | | | | | | |
| Aus | | RBA Assist' Gov. (Economic) | - | - | - | - | Hunter speaking at Citi Conference at 9:00am AEDT. |
| | Sep | Westpac-MI Leading Index | %ann'd | -0.27 | - | - | Points to below-trend growth. |
| NZ | Q3 | CPI | %qtr | 0.4 | 0.7 | 0.7 | Boost from rates, insurance and food prices. |
| | Q3 | CPI | %yr | 3.3 | 2.2 | 2.2 | Import prices weak, domestic prices easing but still firm. |
| Jpn | Aug | Core Machinery Orders | %mth | -0.1 | 0.3 | - | Unlikely to signal a bigger increase in investment. |
| UK | Sep | CPI | %yr | 2.2 | 1.9 | - | Focus on services inflation. |
| US | Sep | Import Price Index | %mth | -0.3 | -0.3 | - | Shipping costs a potential risk. |
| Thu 17 | | | | | | | |
| Aus | Sep | Employment Change | 000s | 47.5 | 22.3 | 40.0 | Employment tracking broadly in line with population... |
| | Sep | Unemployment Rate | % | 4.2 | 4.2 | 4.2 | ... as elevated population gradually lifts U/E higher. |
| Eur | Aug | Trade Balance | €bn | 15.5 | - | - | Exports suffer from weak external demand. |
| | Sep | CPI | %yr | 2.2 | 1.8 | - | Final estimate for September. |
| | Oct | ECB Policy Decision (Deposit) | % | 3.50 | 3.25 | - | Weaker economic backdrop warrants policy action. |
| US | Sep | Retail Sales | %mth | 0.1 | 0.2 | - | Consumer spending growth maintained firm in Q3. |
| | Oct | Philly Fed | index | 1.7 | 3.0 | - | Business conditions remain suboptimal. |
| | | Initial Jobless Claims | 000s | 258 | 230 | - | Effects of the hurricanes likely to skew the picture. |
| | Sep | Industrial Production | %mth | 0.8 | -0.1 | - | A broadly flat trend is set to continue. |
| | Aug | Business Inventories | %mth | 0.4 | 0.3 | - | Increased somewhat in recent months. |
| | Oct | NAHB Housing Market | index | 41 | 42 | - | Clues for effects of lower interest rates. |
| Fri 18 | | | | | | | |
| Jpn | Sep | CPI | %yr | 3.0 | 2.5 | - | Focus on the underlying inflationary pressures. |
| Chn | Q3 | GDP | %yr | 4.7 | 4.6 | - | GDP growth will remain below the 5% target... |
| | Sep | Retail Sales | %yr ytd | 3.4 | 3.3 | - | ... as consumer spending remains depressed.. |
| | Sep | Industrial Production | %yr ytd | 5.8 | 5.7 | - | ... and manufacturing struggles to regain momentum. |
| | Sep | Fixed Asset Investment | %yr ytd | 3.4 | 3.3 | - | Investment growth driven solely by state-owned entities. |
| UK | Sep | Retail Sales | %mth | 1.0 | - | - | Stronger consumer spending as inflation has come down. |
| US | Sep | Housing Starts | %mth | 9.6 | -0.5 | - | Lower borrowing costs should support more activity... |
| | Sep | Building Permits | %mth | 4.6 | -0.3 | - | ... but the effect will probably come with a lag. |
| | | Fedspeak | - | - | - | - | Kashkari. |

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Economic & financial forecasts

Interest rate forecasts

| Australia | Latest (11 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 | 4.22 | 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 |
| United States | | | | | | | | | | |
| Fed Funds | 4.875 | 4.375 | 3.875 | 3.625 | 3.375 | 3.375 | 3.375 | 3.375 | 3.375 | 3.375 |
| US 10 Year Bond | 4.06 | 3.75 | 3.75 | 3.80 | 3.90 | 4.00 | 4.00 | 4.05 | 4.05 | 4.10 |
| New Zealand | | | | | | | | | | |
| Cash | 4.75 | 4.25 | 4.00 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |
| 90 Day Bill | 4.64 | 4.25 | 4.00 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 |
| 2 Year Swap | 3.71 | 3.60 | 3.70 | 3.85 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| 10 Year Bond | 4.39 | 4.15 | 4.20 | 4.30 | 4.35 | 4.40 | 4.40 | 4.40 | 4.35 | 4.35 |
| 10 Year Spread to US (bps) | 34 | 40 | 45 | 50 | 45 | 40 | 40 | 35 | 30 | 25 |

Exchange rate forecasts

| | Latest (11 Oct) | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
|---------|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| AUD/USD | 0.6745 | 0.69 | 0.70 | 0.71 | 0.72 | 0.73 | 0.73 | 0.73 | 0.74 | 0.74 |
| NZD/USD | 0.6101 | 0.62 | 0.63 | 0.63 | 0.63 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 |
| USD/JPY | 148.66 | 142 | 141 | 140 | 139 | 138 | 137 | 136 | 135 | 134 |
| EUR/USD | 1.094 | 1.11 | 1.11 | 1.12 | 1.13 | 1.14 | 1.14 | 1.15 | 1.15 | 1.15 |
| GBP/USD | 1.3056 | 1.33 | 1.33 | 1.34 | 1.34 | 1.34 | 1.35 | 1.35 | 1.35 | 1.35 |
| USD/CNY | 7.0707 | 7.00 | 6.95 | 6.90 | 6.80 | 6.70 | 6.65 | 6.60 | 6.55 | 6.50 |
| AUD/NZD | 1.1055 | 1.11 | 1.11 | 1.13 | 1.15 | 1.14 | 1.14 | 1.14 | 1.16 | 1.16 |

Australian economic growth forecasts

| % Change | 2024 | | | | 2025 | | | | Calendar years | | | |
|-----------------------|------|-----|-----|-----|------|-----|-----|-----|----------------|-------|-------|-------|
| | Q1 | Q2 | Q3f | Q4f | Q1f | Q2f | Q3f | Q4f | 2023 | 2024f | 2025f | 2026f |
| GDP %qtr | 0.2 | 0.2 | 0.6 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | - | - | - | - |
| %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 |
| Unemployment rate % | 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) %qtr | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | - | - | - | - |
| %yr end | 4.1 | 4.1 | 3.5 | 3.2 | 3.0 | 2.9 | 2.8 | 2.9 | 4.2 | 3.2 | 2.9 | 3.4 |
| CPI Headline %qtr | 1.0 | 1.0 | 0.3 | 0.4 | 0.6 | 0.9 | 1.2 | 0.8 | - | - | - | - |
| %yr end | 3.6 | 3.8 | 2.9 | 2.6 | 2.3 | 2.2 | 3.2 | 3.6 | 4.1 | 2.6 | 3.6 | 2.8 |
| CPI Trimmed Mean %qtr | 1.0 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | - | - | - | - |
| %yr end | 4.0 | 3.9 | 3.5 | 3.3 | 3.0 | 2.9 | 2.8 | 2.9 | 4.1 | 3.3 | 2.9 | 2.6 |

New Zealand economic growth forecasts

| % Change | 2024 | | | | 2025 | | | | Calendar years | | | |
|---------------------|------|------|------|-----|------|-----|-----|-----|----------------|-------|-------|-------|
| | Q1 | Q2 | Q3f | Q4f | Q1f | Q2f | Q3f | Q4f | 2023 | 2024f | 2025f | 2026f |
| GDP %qtr | 0.1 | -0.2 | -0.2 | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 | - | - | - | - |
| Annual avg change | 0.3 | -0.2 | -0.1 | 0.0 | 0.0 | 0.4 | 0.9 | 1.4 | 0.7 | 0.0 | 1.4 | 2.3 |
| Unemployment rate % | 4.4 | 4.6 | 5.0 | 5.3 | 5.5 | 5.6 | 5.6 | 5.6 | 4.0 | 5.3 | 5.6 | 4.9 |
| CPI %qtr | 0.6 | 0.4 | 0.7 | 0.3 | 0.5 | 0.4 | 0.8 | 0.5 | - | - | - | - |
| Annual change | 4.0 | 3.3 | 2.2 | 2.1 | 2.0 | 2.0 | 2.1 | 2.3 | 4.7 | 2.1 | 2.3 | 2.1 |

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



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