Week beginning 2 December, 2024

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: An appreciation of the implications of depreciation.

The Week That Was: Mixed signals.

Focus on New Zealand: Frontloading.

For the week ahead:

Australia: Q3 GDP and partials, retail trade, household spending, house prices, dwelling approvals.

New Zealand: Q3 building work, building consents, terms of trade, commodity prices.

Japan: household spending.

China: Caixin PMIs.

Eurozone: unemployment rate, retail sales.

United States: ISMs, Beige Book, nonfarm payrolls, unemployment rate, factory orders, trade balance.

Information contained in this report current as at 29 November 2024

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An appreciation of the implications of depreciation

Luci Ellis
Chief Economist, Westpac Group

An important reason for our house view that the global structure of interest rates will be higher going forward than it was pre-pandemic relates to the balance between saving and investment. A range of forces are pointing in the direction of higher investment, without an obvious counterbalance to boost saving at the same time. Among these forces are the energy transition and energy-intensive new technologies, including AI with its high compute requirements.

In a note earlier this week, Westpac Economics Senior Economist Pat Bustamante highlighted that some of that shift to higher investment is already evident in the Australian data. The industries that are most involved in the energy transition and the adoption of leading technologies are already increasing new investment, especially in software and other so-called 'intangibles'.

As Pat also observed, there are two implications of these transitions that are not immediately obvious. First, the shift to a more services-based economy, away from traditionally capital-intensive industries such as manufacturing, does not necessarily mean that business investment is lower. Second, and relatedly, new investment is increasingly in the types of capital with higher rates of depreciation and obsolescence than traditional physical plant and machinery. Businesses must 'run harder to stay in place', lest their capital stock starts to diminish. Industries that are not obviously capital-intensive nonetheless may need to invest intensively. Pat's note shows that, as an economy, Australia's depreciation rate is rising, and has been for some decades.

To the extent that new investment adds to the capital stock and improves its quality, we can expect some payoff in the form of higher productivity and output growth. But the investment that is replacing existing capital is simply covering depreciation. While some of the new technologies may fall into the first category of productivity-enhancers, much of the investment into the energy transition is pure replacement of existing capital stock – effectively an accelerated depreciation.

There is a bigger payoff to investments that make other activities more efficient than to those simply replacing existing infrastructure.

Investing to replace depreciated capital or execute the energy transition is still worth doing. The costs of not doing so are large. But if the economy-wide depreciation rate on the capital stock has risen, this has other implications that are perhaps not widely understood.

To the investors go the spoils

If a higher depreciation rate partly occurs because of higher rates of technical obsolescence – as you'd expect with increased usage of software-based innovation, for example – then new investment introduces different types of capital. New skills may be expected of the workers using the newly-installed capital. More generally, if the optimal mix of labour skills and capital changes as new capital replaces old, then a faster rate of technical change and obsolescence means a faster rate of churn in the kinds of jobs available.

We saw the same thing happen in the first wave of the software revolution. The adoption of PCs and later the internet accelerated obsolescence rates, as did the increased integration of software elements into traditional physical capital. The result was increased physical churn in the capital stock, but also in the skills needed of workers. This lowered the bargaining power of workers and shifted some of the share of income from production away from wages towards profits, especially in countries where there were also barriers to entry for new firms.

Or at least, this is one of the possible explanations of the upward trend in the profit share (downward trend in the wage share) seen in a range of industrialised economies from about the mid-1980s to just before the Global Financial Crisis. And nearly two decades after proposing that explanation in a paper I wrote with former RBA colleague Kathryn Smith (partly based on prior work by Hornstein, Krusell and Violante, subsequently published here), it's still the explanation that I think makes most sense. To be fair, there are other hypotheses that also fit some aspects of the data, but the hypothesis in that paper explains the timing and cross-country pattern in the trends, in a way that some other explanations do not.

In particular, the nexus between capital obsolescence rates, labour market churn and income shares helps make sense of the end of that upward trend in the profit share in the mid-2000s. Across advanced economies, the post-GFC period was one of low private investment, low productivity growth – and little apparent trend in the profit and wage shares.

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In Australia, for example, [RBA analysis] shows that the profit share outside mining has been broadly flat for two decades. This fits in with the idea that the earlier upward trend in the profit share was at least partly explained by the wave of adoption of an earlier generation of IT products, and that by the mid 2000s, this wave had matured.

If we are indeed on the cusp of a period of faster replacement of existing capital, and some of that demands new skills of workers, it’s possible that we will see this trend increase in the profit share (decline in the wage share) resume. That might be good for productivity growth, but it is not guaranteed that real wages growth will keep pace.

At the least, it is a reason to be cautious about wages forecasts and avoid being too bullish. This is especially so in a country like Australia, where wages growth undershot official forecasts for years, even with a flat trend in the share of wages in national income.

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Cliff Notes: mixed signals

Elliot Clarke, Head of International Economics
Illiana Jain, Economist
Ryan Wells, Economist

In Australia, the latest Monthly CPI Indicator showed a divergence between headline and underlying inflation. Cost-of-living pressures have been a large and enduring concern for households, so the benefit provided by government energy rebates in recent months is both timely and significant, headline inflation was steady at 2.1%yr in October.

That said, developments in underlying inflation, the RBA's focus, were somewhat mixed, the benchmark 'trimmed mean' core measure rising from 3.2%yr to 3.5%yr as headline inflation excluding volatile items and holiday travel moved lower from 2.7%yr to 2.4%yr. Given the 'partial' nature of the monthly CPI indicator, the RBA focuses on multiple quarters of data not a single month. At this stage though, the risks for Q4 are tilted slightly to the downside for headline inflation but are broadly balanced for underlying inflation.

Two partial indicators of investment were also received ahead of next week's Q3 GDP release for which our preview is now available on WestpacIQ.

Construction activity surprised to the upside in Q3 gaining 1.6% (2.4%yr) and growth in Q2 was also revised up from 0.1% to 1.1%, pointing to an easing of capacity constraints and solid momentum in activity through mid-2024. Significant support continues to be provided by rising public infrastructure construction (+13%yr) and the still-sizeable pipeline of residential dwelling projects, allowing total construction activity to hold at an elevated level. Continued above-average population growth and the pipeline of work to be done warrant a further acceleration in activity into 2025, as capacity allows.

The Q3 CAPEX survey also came in above expectations in Q3, rising 1.1%. The headline result was a consequence of similar gains across both machinery/equipment and buildings/structures; and by sector, the decline in mining investment (–1.9%) was more than offset by non-mining strength (+2.3%), concentrated in sub-sectors at the forefront of structural and technological change. The fourth estimate for 2024/25 CAPEX plans was up 4.3% compared to the fourth estimate a year ago which, in our view, implies a 1.4% increase on an inflation-adjusted basis over 2024/25. Against a 3.25% third estimate three months ago, this represents a material downward adjustment to spending intentions across both mining and non-mining. In this week's essay, Chief Economist Luci Ellis explores sectoral divergences in activity and the potential implications for investment and profit shares.

Over in New Zealand, the RBNZ cut the OCR by 50bps to 4.25% as growth risks start to compound. In the press conference, Governor Orr noted that the path ahead will be front-loaded with another 50bp cut likely in February if current trends persist; the projected track for the OCR was also revised down, the OCR reaching 3.55% by end-2025, 30bps lower than August. This was accompanied by expectations for softer inflation in the near-term and a downward revision for GDP, growth of 2.3%yr now expected in 2025 versus 3.3%yr previously. At present, inflation has eased meaningfully towards the target band of 1-3% and concern remains around just a handful of components of the CPI. Excess capacity is meanwhile building across the economy. Westpac expects Governor Orr will follow up with another 50bp cut in February then another 25bp by mid-2025 leaving the cash rate at 3.5%, the top of the RBNZ's estimated neutral range.

Turning to the US, the FOMC released its November meeting minutes this week. Overall, the discussion showed confidence in disinflation's persistence and breadth, the minutes noting almost all participants judged that "though month-to-month movements would remain volatile, incoming data generally remained consistent with inflation returning sustainably to 2 percent" and that "in both the core goods and nonhousing services categories, prices were now increasing at rates close to those seen during earlier periods of price stability". This was coupled with a steady and balanced outlook for the labour market.

From here, the FOMC expects to ease policy 'gradually' as inflation moves down to 2.0% while the economy remains near maximum employment.

Later in the week, the October personal spending and income data affirmed Q4 begun on a solid footing. Income was up 0.6%mth, exceeding expectations, while spending decelerated to a still-robust 0.4%mth. Abstracting for inflation, real consumption grew just 0.1%mth compared to an average of 0.2% through 2024 and 0.3% in 2023. Westpac continues to expect a run of 25bp rate cuts through mid-2025 to a low in the fed funds rate of 3.375%. To this view, this week's announcement of 25% tariffs on imports from Mexico and Canada and an additional 10% on Chinese imports are a clear risk. Our baseline view includes two rate hikes in late 2026 back to 3.875% as supply-side inflation pressures build, in part due to tariffs. But, with tariffs set to increase on day 1 of President Trump's second term, there is a clear risk that inflation pressures build sooner than our baseline projects, potentially coming into their 2025 deliberations.

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Frontloading

Kelly Eckhold
Chief Economist NZ

This week the RBNZ cut the OCR by 50bps to 4.25%, as was widely expected. The Governor and his team have indicated this decision was made without a need to seriously consider alternatives, reflecting a strong consensus within the Monetary Policy Committee (MPC).

As discussed in our review of the meeting, the RBNZ's short-term OCR profile was revised downwards as expected. The RBNZ now projects the OCR to end 2025 at 3.55%, which was broadly in line with our pre-meeting expectation. The longer-term OCR profile has been adjusted upwards by around 10bp such that the OCR is now expected to bottom out closer to 3.1%. This adjustment reflects an upward revision to the RBNZ's estimate of the long-run neutral interest rate to 2.9% (other neutral rate estimates in the RBNZ's indicator suite were unchanged).

The RBNZ's very short-term OCR projection for the February meeting was lower than expected and implies a greater-than-even chance that it will cut the OCR by 50bp at the February 2025 meeting – an implication that the Governor (and other MPC members) have confirmed in their post-meeting interviews. Given the RBNZ expects to cut the OCR by a total of 75bp over all of 2025, this represents an unusual degree of front-loading of the remaining easing cycle.

The RBNZ's near-term macro forecasts for key variables such as non-tradable inflation, GDP, and the unemployment rate have been adjusted as expected and map closely to our own projections.

The RBNZ has significantly revised down its estimates of potential output by increasing emphasis on recent weaker trends in population and productivity growth. Consequently, the output gap has been revised upwards by more than what would be implied by the starting point error on Q2 GDP. Hence the RBNZ sees less spare capacity in the economy than previously which supports their view that non-tradable inflation will be stickier and the terminal OCR somewhat higher than thought in August.

Beyond 2025, further cuts in the OCR to 3-3.25% are implied for 2026/27, but these are further out and reflect technical assumptions on the evolution of inflation expectations. In practice, the easing cycle effectively ends by mid-2025.

The MPC justifies the front-loading strategy as it has confidence that pricing behaviour will quickly normalise and hence the MPC wants to push the OCR towards the neutral rate relatively quickly now that inflation is around 2%.

The RBNZ has been unusually explicit about the size of the next move and seems to be setting a high bar for any deviation from the expected 50bps cut in February.

The Governor indicated he saw the neutral OCR as likely in a 2.5-3.5% range, although the range implied by the RBNZ's indicator suite suggests a range of 2.9-3.6%. We suspect there are a range of views within the MPC on where the neutral OCR lies and the performance of the economy from here will be the deciding factor. Nevertheless, by indicating that after February, the OCR will be cut more slowly, they are acknowledging that the neutral rate may be close.

We see three key issues as relevant in determining the degree of front-loading of RBNZ easing in 2025. A key issue will be evidence on how quickly pricing behaviour is normalising. Relevant to this will be the Q4 CPI (22 January), pricing indicators in the QSBO (around 14 January), and wage data (5 February). A second issue will be the strength of the response of the economy to OCR cuts. Relevant here will be the QSBO and monthly housing, credit and consumer spending data. A third issue will be the performance of the labour market as this will give the cleanest read on the extent of spare capacity in the economy. Relevant data include monthly filled jobs, Q4 labour market reports (5 February), and the QSBO and ANZBO business surveys.

Kelly's take

I think the RBNZ's assessment of the neutral rate is too low and little further easing will be required after early 2025. I see significant downside risk to the exchange rate which will likely limit the scope for the RBNZ to ease too far in 2025 while global rates remain elevated. The RBNZ has a strong presumption of a 50bps cut in February which makes this the most likely outcome. Currently I assess the odds of a 25bp cut vs a 50bp cut as a 40:60 proposition. 75bp cuts are likely off the table. I expect the easing cycle to conclude by mid-2025, assuming no new economic shocks. If the RBNZ has underestimated the level of the neutral OCR significantly then there is a risk the RBNZ over-eases in 2025, potentially setting up the next tightening cycle in 2026.

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AUS: Nov CoreLogic Home Value Index (%mth)

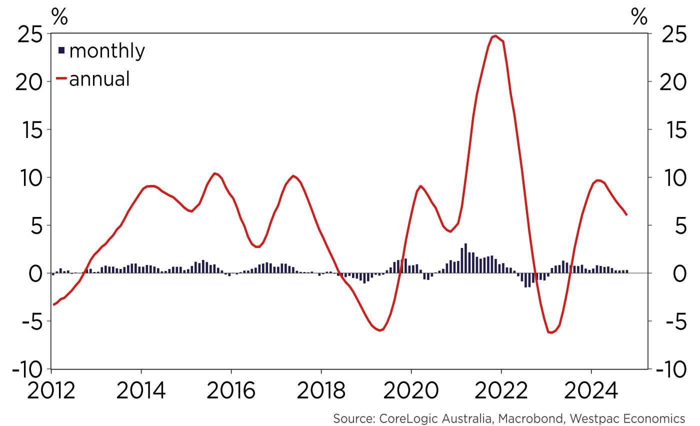
Dec 2, Last: 0.2, Westpac f/c: 0.1

The CoreLogic home value index rose 0.2% in October, the previous monthly gain also revised down a touch lower in September. Price growth on an annual basis has now dropped to 5.9%yr from a peak of 10.9%yr in February.

Slowdowns are becoming more apparent in several markets, with Sydney recording a dip in the latest month while the Brisbane and Perth markets are starting to cool from recent strength. Melbourne continues to record modest price slippage while momentum remains steady in Adelaide.

Based off the daily index, we anticipate the main capital city index to post a 0.1% increase in November, as the above dynamics continue to play out.

Price slowdown starting to spread



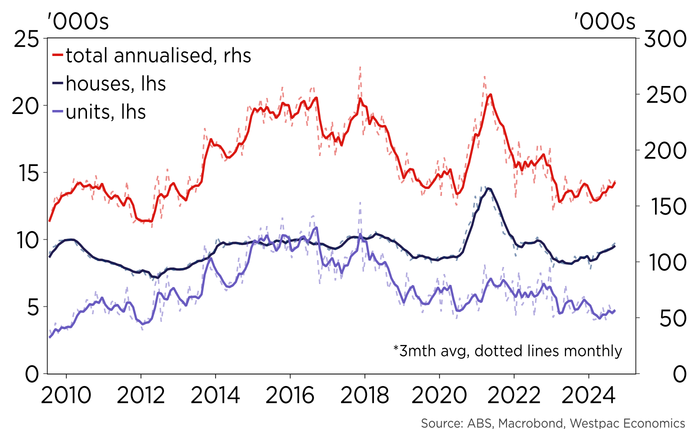
AUS: Oct Dwelling Approvals (%mth)

Dec 2, Last: 4.4, Westpac f/c: 2.0
Market f/c: 1.5, Range: –0.6 to 3.0

In September, total dwelling approvals rose 4.4% to be up 6.3% over the quarter, extending gains from a 4.7% rise over the June quarter. Approvals are now starting to show clearer signs of a modest uptrend forming, particularly in private detached house approvals – which tend to be a more 'stable' gauge than the often-volatile units segment.

Given the presence of some unit-related noise, we see a gain of 2.0% in October as being broadly consistent with a firming underlying trend. Whether more states start to show signs of strengthening will also be of interest, given the uptrend thus far has been concentrated in private detached house approvals in Queensland, Western Australia and South Australia.

Signs of a modest uptrend forming



AUS: Oct Retail Trade (%mth)

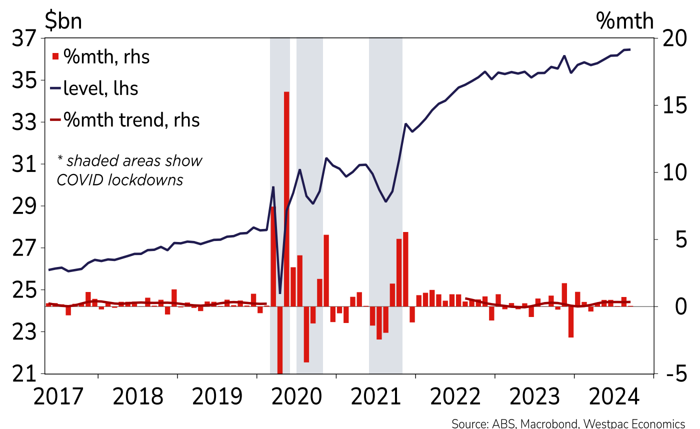
Dec 2, Last: 0.1, Westpac f/c: 0.5
Market f/c: 0.4, Range: flat to 0.9

Retail sales rose a muted 0.1%mth in September, following a 0.7%mth bounce in August and a flat result in July. Annual growth slowed noticeably from 3.1%yr to 2.3%yr, reflecting relatively soft consumer demand despite the introduction of tax cuts.

The retail segments of the [Westpac Card Tracker Index](#) continued to gather momentum heading into Q4. While much of this is a November story, the October month also recorded a slight gain over September.

In-line with this, we anticipate a 0.5%mth rise in retail sales for the October month. This nudges the rolling 3-month pace to 1.1%qtr from 1%qtr in Q3 and 0.6%qtr in Q2.

Tax cuts gaining a little traction, but not a lot



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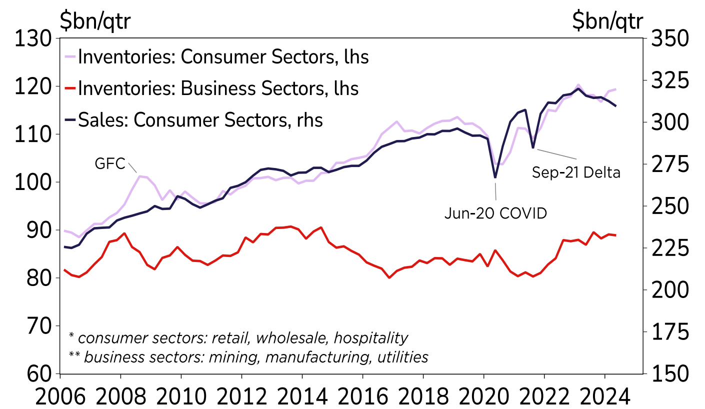
AUS: Q3 Inventories (%qtr)

Dec 2, Last: 0.1, Westpac f/c: –0.5 (–0.4ppt cont'n)
Market f/c: –0.1, Range: –1.3 to 0.5

Westpac expects inventories fell –0.5% in Q3, detracting around –0.4ppts from GDP growth.

Solid expectations for growth in domestic demand, coupled with two consecutive quarters of declining intermediate goods and consumer related imports, suggests inventories are being run down. We expect this dynamic played out across the consumer and business services sector. The mining industry is also likely to have drawn down on inventories, given the strong increase in exports volumes recorded in Q3.

Inventory run-down expected to persist



Source: ABS, Macrobond, Westpac Economics

AUS: Q3 Company Profits (%qtr)

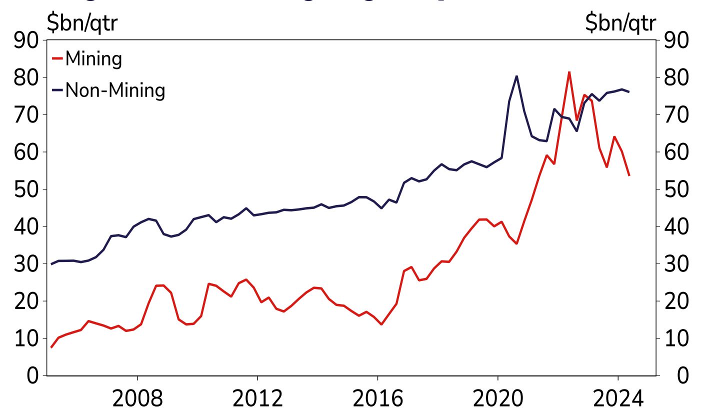
Dec 2, Last: –5.3, Westpac f/c: 0.7
Market f/c: 0.8, Range: –3.0 to 3.0

Company profits are anticipated to have partly retraced some of the decline in the previous quarter, up a forecast 0.7%.

The improvement is expected to have been driven by the non-mining sector of the economy. The Westpac business cashflow gauge showed an improvement of around 1¼% in the September quarter, consistent with a pickup in profits. A large share of this improvement was banked as deposits (see the Westpac Quarterly Business Snapshot).

On the other hand, the value of mining exports continued to fall even though volumes were up. This is consistent with a further fall in mining profits, which will partly offset some of the strength in the non-mining sector.

Mining to remain a drag on gross profits



Source: ABS, Macrobond, Westpac Economics

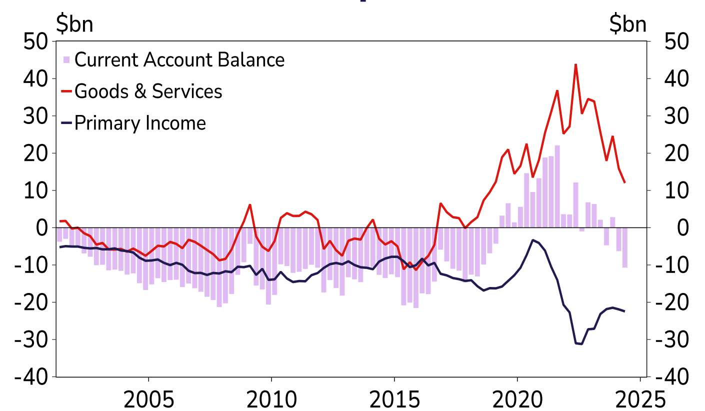
AUS: Q3 Current Account Balance ($bn)

Dec 3, Last: –10.7, Westpac f/c: –11.5
Market f/c: –10.8, Range: –12.3 to 7.7

The current account balance deteriorated in Q2 to $10.7bn, the biggest deficit in six years. The continuing deterioration in trade balance, particularly on the goods side, was the main driver, with the primary income balance also recording a deterioration.

For Q3, we forecast that the current account deficit will widen further to $11.5bn. This mostly captures continuing narrowing in trade surplus over the past three months, with the net income deficit remaining broadly unchanged in Q3. As always, swings in services trade could present as a surprise.

Current account deficit expected to widen



Source: ABS, Macrobond, Westpac Economics

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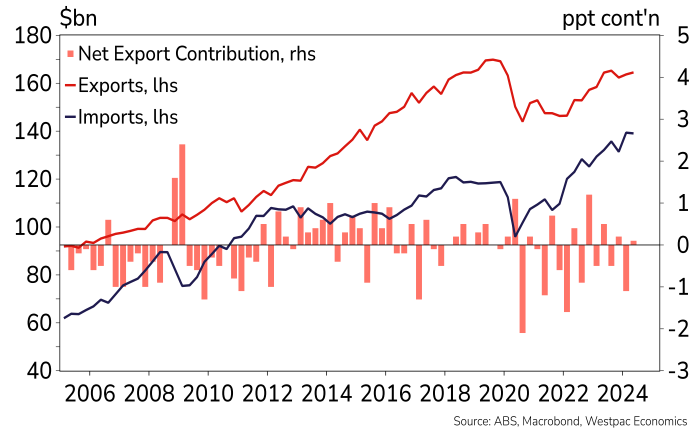
AUS: Q3 Net Exports (ppt contribution)

Dec 3, Last: 0.2, Westpac f/c: 0.1
Market f/c: 0.2, Range: –0.5 to 0.6

After a small positive contribution to GDP growth in Q2 (+0.2ppt), net exports are expected to remain positive in Q3.

Nominal goods exports and imports both declined in Q3, but after adjusting for price effects, in real terms good exports outperformed, growing more strongly than imports. The picture for services trade is less clear, but based on the short-term arrival and departure data, growth in services exports are expected to ease slightly after the large increase of +5.7% recorded in Q2, while services imports likely advanced. Overall, it should leave total exports growth slightly above that of imports. Therefore, we expect that net exports will add to GDP growth in Q3, but only very marginally.

Net exports to contribute marginally to growth



Source: ABS, Macrobond, Westpac Economics

AUS: Q3 GDP (%qtr)

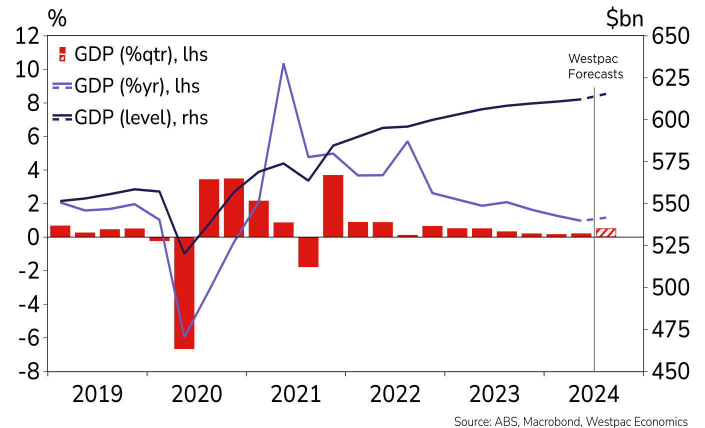
Dec 4, Last: 0.2, Westpac f/c: 0.5
Market f/c: 0.5, Range: 0.2 to 0.7

The Q3 National Accounts are likely to show that economic growth ticked higher after the recent run of sub-par outcomes. Cost of living measures and ongoing recurrent government spending will see public demand continuing to make an outsized contribution. Growth in private demand is also expected to be higher, following a flat read in Q2, on the back of modest increases in household and business spending.

Our arithmetic for domestic demand is: household consumption (0.2%qtr), dwelling investment (1.3%qtr), new business investment (0.7%qtr), public demand (1.9%qtr).

For more detail, see our Q3 GDP Preview.

Q3 GDP forecast: 0.5%qtr, 1.1%yr



Source: ABS, Macrobond, Westpac Economics

AUS: Oct Household Spending Indicator (%mth)

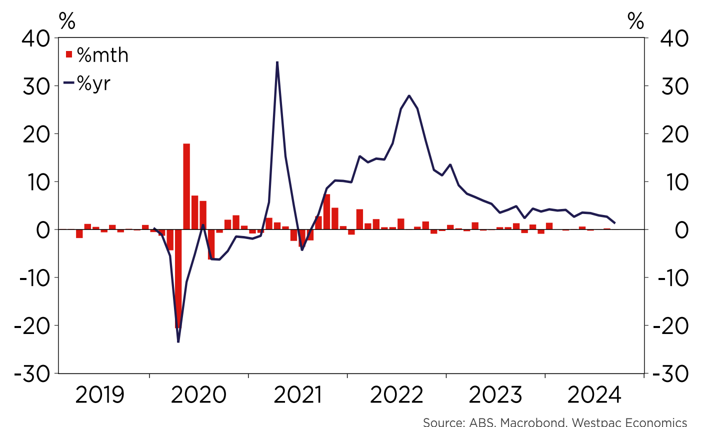
Dec 5, Last: –0.1, Westpac f/c: –0.1
Market f/c: 0.3 Range: –0.1 to 0.5

The Household Spending Indicator – based on card transaction activity – remained weak in September, slipping –0.1%, with the annual pace deteriorating to 1.3%yr from 2.7%yr in August.

The ABS is periodically enhancing this release before it supersedes the Retail Trade publication next year. October's update will introduce seasonally adjusted estimates for states and territories and re-benchmark historical estimates to the 2023/24 annual national accounts, likely leading to revisions.

For October, we expect another –0.1%mth fall, consistent with our Westpac Card Tracker Index, which draws on very similar information and recorded a drop in overall card activity for the month.

Re-benchmarking may lead to revisions



Source: ABS, Macrobond, Westpac Economics

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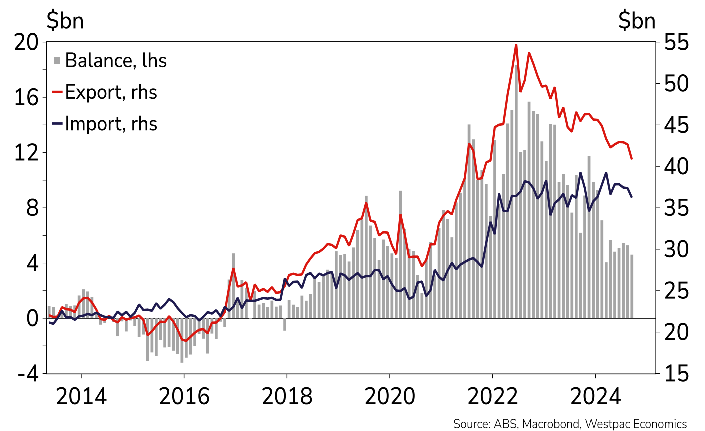
AUS: Oct Goods Trade Balance ($bn)

Dec 5, Last: 4.6, Westpac f/c: 4.4
Market f/c: 4.5, Range: 3.8 to 5.5

Goods trade data surprised on the downside in September, showing significant decline in trade flows. Exports were down 4.3%, mainly due to significantly lower exports of key commodities (metal ores, coal and LNG). Imports declined by 3.1%, leaving the goods trade surplus shrinking to the second lowest level since 2020.

Numbers from major ports are pointing to a strong increase in imports in October, however, some of it is probably accounted by seasonal factors. We think that exports of key commodities should recover too, but some negative impact could be expected from the rural goods category. On balance, we expect that trade surplus will remain little changed from September levels.

Surplus narrows as commodity prices ease

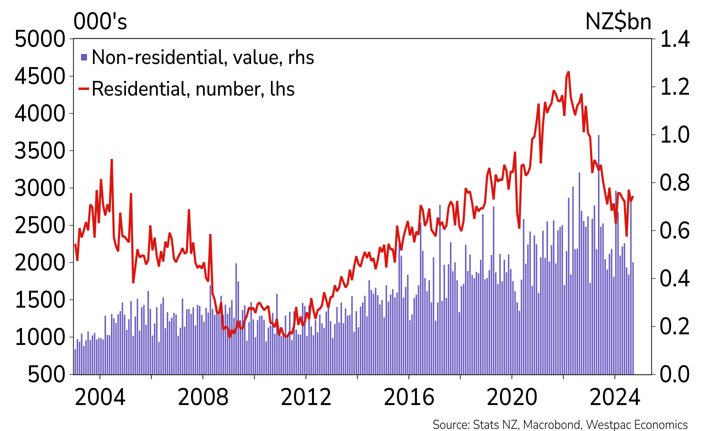


NZ: Oct Building Consents (%mth)

Dec 2, Last: 2.6, Westpac f/c: flat

We're forecasting that residential building consent numbers will remain broadly flat in October. While consent issuance is still well down from its post-pandemic highs, since the start of this year, monthly issuance has been tracking around 2,800 to 2,900 per month. We expect that consents will remain around current levels for the remainder of this year, with a pick-up likely from mid-2025 as the impact of lower interest rates ripple through the housing market. In the non-residential space, weak economic activity is expected to continue weighing on new developments.

Building consents appear to be flattening out

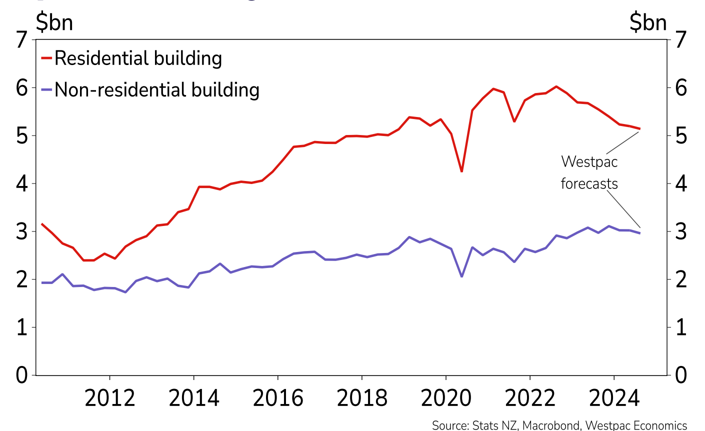


NZ: Q3 Building Work Put in Place (%qtr)

Dec 5, Last: –0.2, Westpac f/c: –1.2

Construction activity fell 0.2% in the June quarter, with small declines in both residential and commercial activity. We expect further declines in both areas in the September quarter. High interest rates, subdued economic activity and low confidence over the past few years have dampened development activity. The key area of uncertainty is non-residential construction which can be volatile on a quarter-to-quarter basis. But smoothing through such quarterly noise, the direction for building activity remains down for now.

Pipeline of building work continues to run down



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US: November Employment Report

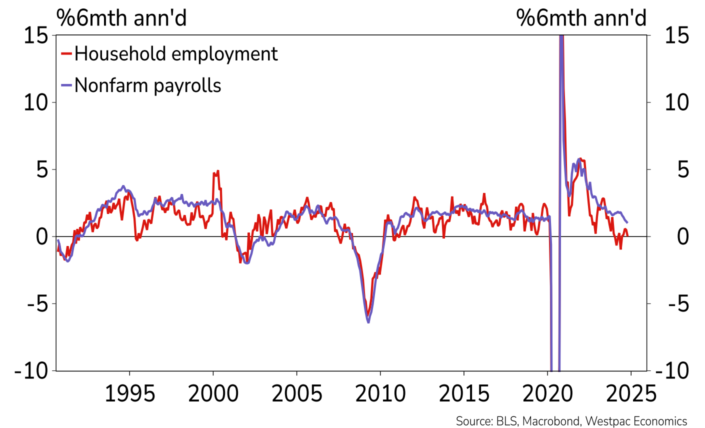
Dec 6, Nonfarm Payrolls, Last: 12k
Westpac f/c: 180k, Market f/c: 200k

Nonfarm payrolls disappointed in October, with a gain of just 12k in the month and –112k in revisions to the prior two months. October was weather affected, but the revisions to August and September left the two-month average at 150k, a material step down from 207k in the first half of 2024.

The household survey points to additional downside risks, its employment measure averaging growth of just 31k through all of 2024. Had the participation rate not edged lower in October, the unemployment rate would have lifted to 4.2%.

A bounce is expected in payrolls in November and revisions will likely be positive. But the overall message of a balanced labour market with downside risks is likely to remain.

Labour demand and supply in balance



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What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 02							
Aus	Nov	CoreLogic Home Value Index	%mth	0.2	–	0.1	Price slowdown starting to spread across capitals.
	Nov	MI Inflation Gauge	%ann	3.0	–	–	Provides a general view on risks to official gauge.
	Nov	ANZ-Indeed Job Ads	%mth	0.3	–	–	Labour demand remains robust, easing only marginally.
	Q3	Inventories	%qtr	0.1	–0.1	–0.5	Inventory run-down expected to persist.
	Q3	Company Profits	%qtr	–5.3	0.8	0.7	Mining to remain a drag on gross profits.
	Oct	Dwelling Approvals	%mth	4.4	1.5	2.0	Signs of a modest uptrend starting to form.
	Oct	Retail Sales	%mth	0.1	0.4	0.5	Starting to lift as consumer sentiment rises to over a 2-year high.
		RBA Head of Domestic Markets	–	–	–	–	Jacobs speaking at Australian Securitisation Conference.
NZ	Oct	Building Permits	%mth	2.6	–	flat	Residential consents look like they've found a base.
Chn	Nov	Caixin Manufacturing PMI	index	50.3	50.6	–	Policy driven improvement may not be long-lasting.
Eur	Oct	Unemployment Rate	%	6.3	–	–	Upside risks failing to materialise keeping unemployment low.
US	Oct	Construction Spending	%mth	0.1	0.2	–	Weather effects to be offset by impetus from rate cuts.
	Nov	ISM Manufacturing	index	46.5	47.6	–	Regional surveys pointing to improved manufacturing conditions.
		Fedspeak	–	–	–	–	Waller, Williams.
World	Nov	S&P Global Manufacturing PMI	index	–	–	–	Final estimate for Japan, Europe, UK and US.
Tue 03							
Aus	Q3	Net Exports (Cont'n)	ppts	0.2	0.2	0.1	Net exports to contribute marginally to GDP growth.
	Q3	Current Account Balance	$bn	–10.7	–10.8	–11.5	Deficit expected to widen, in line with monthly goods trade.
NZ	Q3	Terms Of Trade	%qtr	2.0	1.3	2.0	Boosted by firmer export commodity prices.
US	Oct	JOLTS Job Openings	000s	7443	7510	–	Job openings likely to tick-up despite growing downside risks.
Wed 04							
Aus	Q3	GDP	%qtr	0.2	0.5	0.5	Public sepdning to remain an outsized contribution to growth…
	Q3	GDP	%ann	1.0	1.1	1.1	… private demand set to lift on household and business spending.
NZ	Nov	ANZ Commodity Prices	%mth	1.4	–	2.0	Strong lift in world dairy prices.
Chn	Nov	Caixin Services PMI	index	52.0	52.5	–	Momentum may fail to build on the policy-induced bounce in Oct.
US	Oct	Factory Orders	%mth	–0.5	0.3	–	A slight recovery following the prior month's decline.
	Nov	ISM Non-Manufacturing	index	56	55.5	–	Services sector firmly within expansionary territory.
	Dec	Federal Reserve's Beige Book	–	–	–	–	An update on conditions across the regions.
		Fedspeak	–	–	–	–	Musalem.
World	Nov	S&P Global Services PMI	index	–	–	–	Final estimate for Japan, Europe, UK and US.
Thu 05							
Aus	Oct	Goods Trade Balance	$bn	4.6	4.5	4.4	Surplus narrows as commodity prices ease.
	Oct	Household Spending Indicator	%mth	–0.1	0.3	–0.1	Historical estimates to be revised following re-benchmarking.
NZ	Q3	Building Work Put in Place	%qtr	–0.2	–0.5	–1.2	Residential and commercial activity likely to ease.
Eur	Oct	Retail Sales	%mth	0.5	–	–	Lift in consumer mood flowing through to spending.
US	Oct	Trade Balance	$bn	–84.4	–75.0	–	Trade deficit expected to narrow.
		Initial Jobless Claims	000s	213	–	–	Holding steady.
Fri 06							
Jpn	Oct	Household Spending	%ann	–1.1	–2.5	–	Households pull-back as high prices deter consumption.
Eur	Q3	GDP	%qtr	0.4	0.4	–	Final estimate.
US	Nov	Non-Farm Payrolls	000s	12	200	180	A rebound in non-farm payrolls is anticipated…
	Nov	Unemployment Rate	%	4.1	4.2	–	… though insufficient to curb a rise in the unemployment rate…
	Nov	Average Hourly Earnings	%mth	0.4	0.3	–	… placing downward pressure on earnings.
	Dec	Uni. Of Michigan Sentiment	index	71.8	73.0	–	A fifth consecutive rise expected, but a political divide is evident.
		Fedspeak	–	–	–	–	Goolsbee, Hammack.

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Economic & financial forecasts

Interest rate forecasts

Australia	Latest (29 Nov)	Dec–24	Mar–25	Jun–25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Cash	4.35	4.35	4.35	4.10	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.43	4.43	4.43	4.20	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.92	4.00	3.90	3.90	3.80	3.80	3.85	3.90	3.90	4.00
3 Year Bond	3.94	3.95	3.80	3.80	3.65	3.65	3.65	3.70	3.70	3.80
10 Year Bond	4.36	4.50	4.45	4.45	4.50	4.55	4.65	4.75	4.85	4.85
10 Year Spread to US (bps)	12	20	15	15	10	5	5	5	5	5
United States										
Fed Funds	4.625	4.375	3.875	3.625	3.375	3.375	3.375	3.375	3.625	3.875
US 10 Year Bond	4.24	4.30	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.80
New Zealand										
Cash	4.25	4.25	3.75	3.50	3.50	3.50	3.50	3.75	3.75	3.75
90 Day Bill	4.36	4.15	3.75	3.60	3.60	3.60	3.70	3.85	3.85	3.85
2 Year Swap	3.71	3.75	3.80	3.80	3.85	3.95	4.00	4.00	4.00	4.00
10 Year Bond	4.39	4.55	4.50	4.60	4.60	4.70	4.75	4.80	4.85	4.85
10 Year Spread to US (bps)	15	25	20	30	20	20	15	10	5	5

Exchange rate forecasts

	Latest (29 Nov)	Dec–24	Mar–25	Jun–25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6518	0.67	0.67	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD/USD	0.5911	0.59	0.59	0.59	0.59	0.59	0.60	0.60	0.61	0.61
USD/JPY	149.48	152	151	150	149	148	146	144	142	141
EUR/USD	1.0569	1.08	1.09	1.09	1.10	1.10	1.11	1.11	1.11	1.11
GBP/USD	1.2709	1.30	1.31	1.31	1.32	1.32	1.33	1.33	1.33	1.33
USD/CNY	7.2320	7.10	7.05	7.00	6.95	6.90	6.85	6.80	6.75	6.70
AUD/NZD	1.1027	1.13	1.14	1.15	1.17	1.18	1.18	1.18	1.18	1.18

Australian economic growth forecasts

	2024				2025				Calendar years			
% Change	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2023	2024f	2025f	2026f
GDP %qtr	0.2	0.2	0.5	0.5	0.5	0.5	0.6	0.6	–	–	–	–
%yr end	1.3	1.0	1.1	1.4	1.8	2.1	2.2	2.3	1.6	1.4	2.3	2.4
Unemployment rate %	3.9	4.1	4.1	4.2	4.3	4.4	4.5	4.6	3.9	4.2	4.6	4.6
Wages (WPI) %qtr	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	–	–	–	–
%yr end	4.1	4.1	3.5	3.2	3.1	3.0	2.9	2.9	4.3	3.2	2.9	3.3
CPI Headline %qtr	1.0	1.0	0.2	0.3	0.6	0.9	1.1	0.7	–	–	–	–
%yr end	3.6	3.8	2.8	2.5	2.1	2.0	2.9	3.3	4.1	2.5	3.3	2.8
CPI Trimmed Mean %qtr	1.0	0.9	0.8	0.6	0.7	0.7	0.7	0.7	–	–	–	–
%yr end	4.0	4.0	3.5	3.3	3.0	2.8	2.6	2.8	4.2	3.3	2.8	2.6

New Zealand economic growth forecasts

	2024				2025				Calendar years			
% Change	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2023	2024f	2025f	2026f
GDP %qtr	0.1	-0.2	-0.2	0.3	0.4	0.6	0.6	0.7	–	–	–	–
Annual avg change	0.3	-0.2	-0.1	0.0	-0.1	0.3	0.9	1.5	0.7	0.0	1.5	2.8
Unemployment rate %	4.4	4.6	4.8	5.1	5.3	5.4	5.4	5.4	4.0	5.1	5.4	4.6
CPI %qtr	0.6	0.4	0.6	0.4	0.5	0.3	0.9	0.3	–	–	–	–
Annual change	4.0	3.3	2.2	2.1	1.9	1.8	2.1	2.0	4.7	2.1	2.0	2.1

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Corporate Directory

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

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

Neha Sharma
Economist
E: neha.sharma1@westpac.com.au

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

Ryan Wells
Economist
E: ryan.wells@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

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