December 2024 – January 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK
December 2024 – January 2025

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Finally, a return to normal, but which normal?

With another year coming to a close, we take a look back over the twelve months just passed and try to make an informed assessment of the twelve to come. As our Year in Review highlights, a lot has happened. For economies and policy, the main 'through-line' has been subsiding price pressures that have allowed restrictive monetary settings to ease – 2024 was the year the post-COVID inflation burst finally came back under control.

In many ways it marks the end of the major macro-economic disruptions from COVID more generally. Lockdowns may be long gone and supply chains flowing freely but the inflation set off by mismatched demand and supply coming out of the pandemic has been harder, and slower to deal with. Having largely done so and with central banks easing restrictive settings we can finally look forward to a return to more normal operations.

But what sort of normal? In some respects, we are heading back to the 'normal' that prevailed immediately prior to the pandemic. Globally, this was a period of uneven terrain dominated by pervasive but difficult-to-assess trade policy issues and set against a fractious and unsettled political backdrop (Trump tariff wars, Brexit etc). Compared to now, the sense of déjà vu is strongest when we go back to 2016 – our December/January report that year noting the big 'risk on' move following President Trump's election but that there would likely be "many twists and turns" as the detail, impact and responses to prospective policy changes in the US emerged.

That is more-or-less the message set out in our Year Ahead assessment in this report. Of course, there are differences – China's growth starting point is weaker; geopolitical tensions are more heightened, especially in Europe; and, in most instances, government finances are in poorer shape – but the broad narrative is very similar.

For Australia more specifically, a return to pre-COVID normal may see other issues resurface. The 2015-19 period was marked by slow productivity and persistently weak wages growth that made it difficult for policymakers to gauge where 'star' variables were and, in turn, how to calibrate policy. This may again become a problem.

Australia: The December 2024 RBA Board meeting revealed a significant change in view, raising the chances of the rate-cutting phase starting earlier than our current base-case of May 2025. The exchange rate and bond yields also declined on the change in view. Pricing is, however, sensitive to key data releases and a February or April move in the cash rate is by no means a forgone conclusion. Meanwhile the path ahead for GDP growth looks slightly softer and a bit shakier.

Commodities: Prices were broadly weaker through 2024 with the Westpac Export Price Index down –7% in the year to December. Gold was the exception rallying 30%. Leading the correction was met coal (-37%) and iron ore (-25%). Looking forward into 2025 Westpac is forecasting a further 9% decline in the export prices.

Global FX Markets: The past month has seen US dollar strength persist, although upward momentum looks to be waning, the DXY index having risen briefly to a mid-month peak of 107.6 but subsequently spending most of its time between 106 and 107. As the detail and timing of President-elect Trump policies become known, we expect further slippage.

New Zealand: The RBNZ seems set to continue front-loading easing in early 2025 as it grows more confident that pricing pressures will continue to normalise. After February the pace of easing looks set to slow as the economy responds to lower interest rates. We review the key issues that will guide NZ market developments in 2025.

United States: The economy is in strong health. Our baseline view is consistent with the market consensus but we place greater weight on the risks for both growth and inflation, which could manifest individually or in combination. Not yet in view for the market, we believe the FOMC and Congress will face a challenging outlook when it comes to maintaining growth and inflation while restraining the deficit.

China: Considerable headwinds await in 2025, with an additional 10% tariff from day one of President-elect Trump's next term already announced while the housing market and consumption remain in a weak state. That said, the nation's productive capacity and efficiency continues to expand. Authorities' rhetoric has also shifted markedly, suggesting there is more domestic stimulus to come.

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Monetary policy easing path slows abroad …

Luci Ellis
Chief Economist, Westpac Group

Global markets continue to shift with the reverberations of last month's US election result. An 'American Exceptionalism' tone has emerged as market participants focus on the tax and business-friendly regulatory elements of the incoming administration's likely policy agenda. US equity markets have generally outperformed their developed-economy peers, as has the US dollar. That said, some of the initial reaction has unwound, with 10-year US Treasury yields 15–20bps below the November peak. We expect further slippage as more policy detail becomes known.

Meanwhile, central banks in most developed economies continue easing monetary policy. As we have previously noted, after a period where policy rates declined briskly, central banks are looking to slow the pace. When you are a long way from your intended destination, you will want to move quickly at first, even if the exact destination is uncertain. But the closer you get to that uncertain destination, the more it pays to take it slower. Both Federal Reserve and Bank of Canada officials have recently signalled a more gradual pace from here.

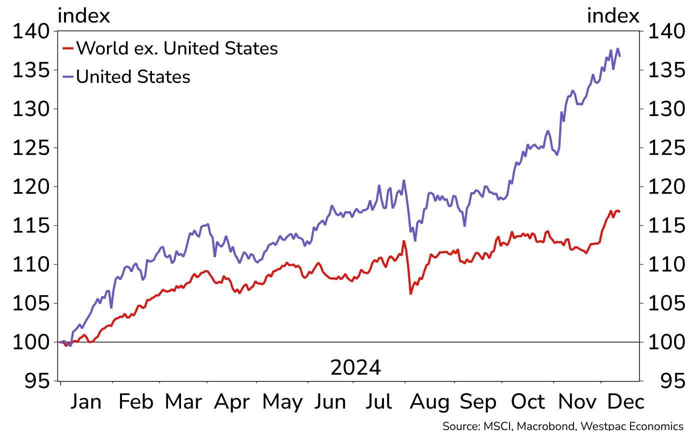
In Australian markets, the key event was the material pivot in the RBA's view of the economy, and thus the outlook for rates, following the December meeting.

At the time of the November meeting, the RBA Board had made it clear that inflation was too high and that it was not ruling out either an increase or a decrease in the cash rate. The minutes of the meeting highlighted that the Board "would need to observe more than one good quarterly inflation outcome" to warrant easing policy, with that language immediately following a discussion of scenarios where inflation turned out below current forecasts. Most market participants interpreted this to mean at least two quarters *from here*, and 'good' to mean 'lower than the RBA forecast in November'. The Governor has since clarified that this meant more than just inflation data, but rather other data as well, not necessarily multiple quarters of inflation data.

Both Governor Bullock and Deputy Governor Hauser noted following the December meeting that the closer you get to a point in time, the less uncertain your forecast for that period becomes. This is true, but there is a deeper point as well: the longer the data continue to come in broadly in line with your earlier forecasts, the more confident you can be in the overall narrative underlying those forecasts.

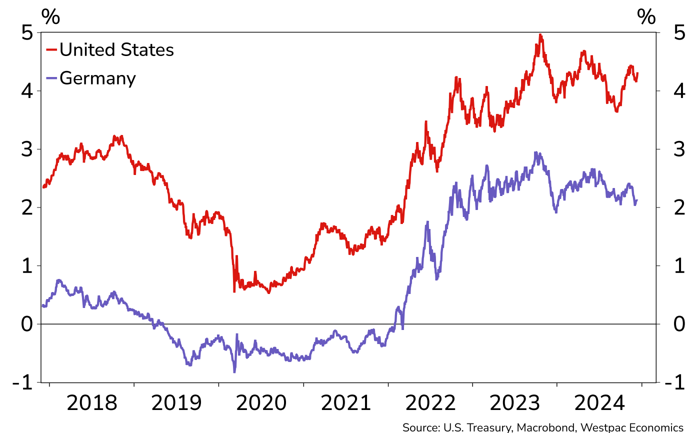
Part of the change of heart in the RBA therefore seems to stem simply from the ongoing failure of upside risks to emerge. And the closer (underlying) inflation gets to target, the greater the risk that further delay will mean that you have waited

'Exceptionalism' belief driving outperformance



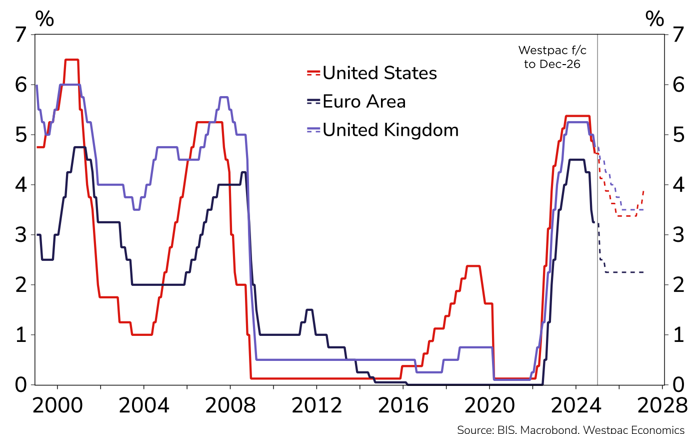
Source: MSCI, Macrobond, Westpac Economics

Short history of Europe and US 10yr yields



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

Central banks still on rate-cutting path



Source: BIS, Macrobond, Westpac Economics

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... while the RBA shifts its thinking

too long, noting that monetary policy works with a lag. We note that, if our forecast for December quarter proves accurate, trimmed mean inflation will have already been running at a sub-3% annualised rate over the second half of 2024. A lot would then hang on the RBA's assessment that monetary policy is less restrictive than in many peer economies even now.

The only inflation data released between the November and December meetings was the October CPI indicator, which was in line with expectations and (given the current limitations of the monthly indicator) would not have been view-changing in any case. The October labour market data were resilient and consumer sentiment picked up sharply. These latter developments prompted our mid-month change in view. As we noted at the time, though, things could pivot quickly and there was still a decent chance of an earlier start date to the rate-cutting phase.

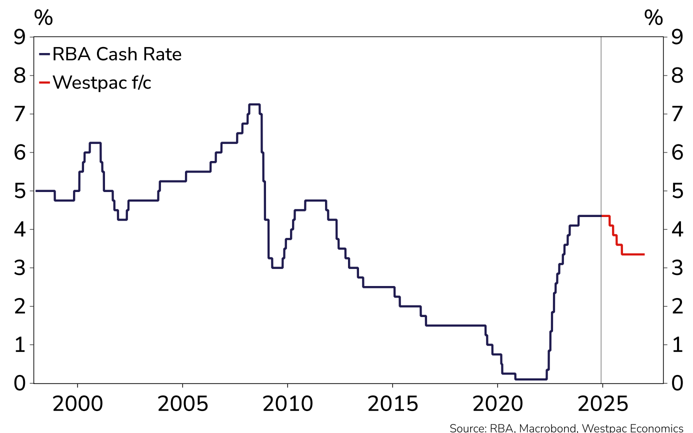
The RBA's November forecasts already envisaged that consumption would be flat in the September quarter, so this was not the surprise factor. Rather, soft GDP growth more broadly and wages data were the swing variables. Deputy Governor Hauser also pointed to a slowing in the pace of rental inflation and housing prices. More broadly, though, we suspect that the weaker wages data prompted at least a partial rethink of the location of 'full employment', which as we have previously noted, was possibly too hawkish.

The pivot in RBA language has shifted domestic market pricing, including longer-dated yields as well as the expectations of the cash rate itself. The spread to US Treasury yields has also flipped to negative, after being in the +20–30bps range in the first half of November. Part of this has reflected a larger fall in break-even inflation rates in Australian yields than in their US counterparts. We have lowered the near-term outlook for bond yields for Australia across the curve to reflect this shift, and narrowed the spread to US Treasuries.

The shifts in market views on rates has also weighed on the Australian dollar exchange rate, both on a trade-weighted basis and even more so against the US dollar, taking both measures to around the bottom of the ranges they have traded in for the past couple of years.

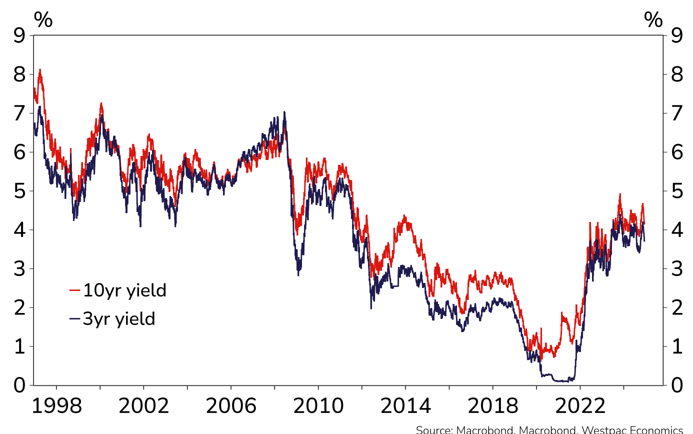
The change in the RBA's view and language increases the chance of an earlier (February or April) start date. It also makes a start date later than our (still) base-case of May very unlikely unless a new inflationary shock emerges. As we saw following the release of the unexpectedly low unemployment data for November, though, these views can pivot quickly. Should trimmed mean inflation come in materially below our near-cast for the December quarter, a February start date would be on the table. However, there are a lot of other things that could happen between then and now.

RBA not yet ready to cut



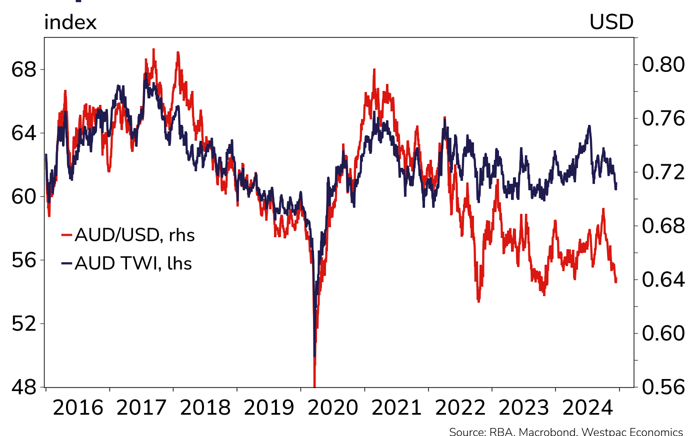
Source: RBA, Macrobond, Westpac Economics

Rate expectations fluid on shift in RBA rhetoric



Source: Macrobond, Macrobond, Westpac Economics

Trump win boosts USD, for a time



Source: RBA, Macrobond, Westpac Economics

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Soft growth ...

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

The overall picture for the Australian economy is soft, with very little momentum on the private side. The public sector remains the primary locus of growth. The 'handover' as this slows and private demand picks up looks likely to be shakier. Uncertainty is also higher than usual, with risks on both sides.

Growth in private demand disappoints

The Australian economy continued to tread water in the September quarter. At 0.3%qtr and 0.8%yr, growth in economic activity was below market expectations and in annual terms, is running at its slowest pace since the early 1990s recession (outside of the pandemic).

The tentative recovery in private sector spending many had pencilled in has not yet materialised. New private demand recorded virtually no growth over the quarter. Not even the Stage 3 tax cuts, which increased incomes by around $5.5bn in the quarter, were enough to boost consumer spending which remained flat, despite the still elevated population growth. New business investment was also a drag on growth in output.

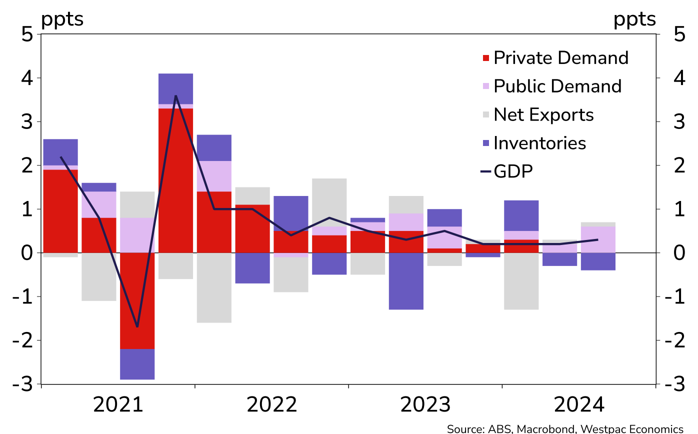
Increased spending by governments continued to drive growth in domestic demand. New public investment grew by a strong 6.1%qtr supported by spending on defence capital equipment and infrastructure. Public consumption, which includes the provision of subsidised goods and services, grew 1.4%qtr and 4.7%yr. The expansion of government programs, such as the NDIS, as well as higher public sector wages on the back of upgraded enterprise bargaining agreements, drove the increase.

Households save tax cuts

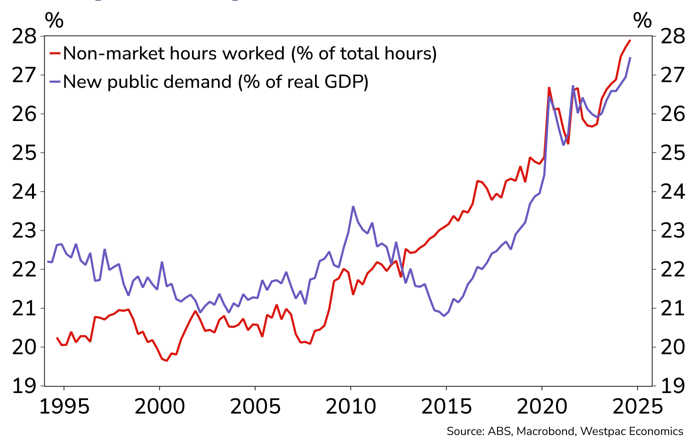
It was another difficult quarter for Australian households, despite welcome relief from tax cuts. Incomes posted a relatively subdued gain. While there was a clear tax boost, most of this looks to have been saved with consumer spending only just keeping up with inflation in the quarter, holding dead flat in real terms. Revisions have also changed the profile for spending and saving, with annual growth in spending notably lower, at just 0.4%yr, and average savings rates higher.

The quarterly result had been foreshadowed by more timely releases, **Westpac's Card Tracker** pointing to muted nominal spending growth and the **Westpac Consumer Panel** showing most of the tax cut boost to incomes had been saved. The same measures suggest there has been some relaxation in the December quarter. Our latest card activity data in particular shows a solid initial pick-up in response to Black Friday sales. While that suggests tax-cut-related spending has been held back, it will be important to see how sales evolve beyond these major events in order to gauge what the 'bottom-line' wash up will be for spending in the December quarter.

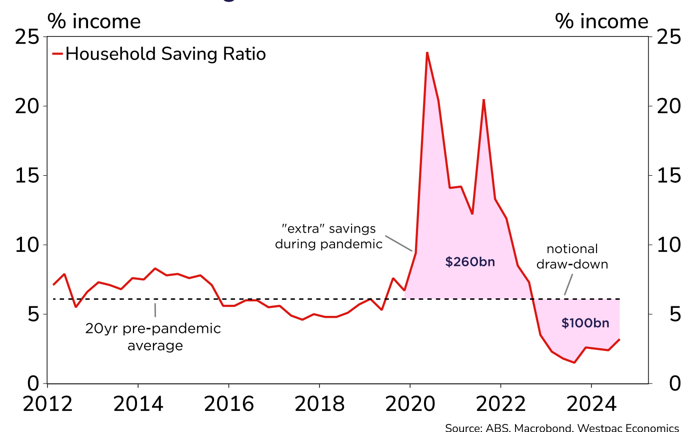
Contributions to quarterly GDP growth



The expansion in public demand



Household savings ratio



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... handover from public to private drivers ahead ...

Some supply constraints easing

We did see some positive signs in the September quarter, particularly around construction activity. Dwelling investment increased 1.2%qtr (the strongest result since the March quarter 2021), with total engineering construction also higher after falling in the June quarter. This suggests that capacity constraints may be easing, which could see the sector more quickly work through the still elevated construction pipeline. The Q3 Accounts also showed that domestic cost pressures continued to ease. Earnings per hour in six-month annualised terms are now running well below their pre pandemic average where underlying inflation was below the RBA's target.

The changing Okun coefficient: labour market and real economy conundrum

'Measured' productivity disappointed in the quarter with the weakness largely driven by the shift in activity to the non-market sector and the drag from mining. As a share of total hours worked, the non-market sector has reached a fresh record high of close to 30%. Outside of these sectors, productivity was close to 1%yr, easing from a strong 2.1%yr in Q2.

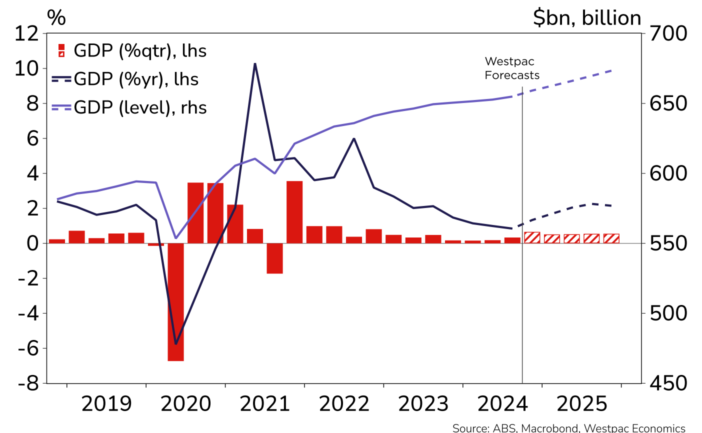
The weakness in measured productivity coincides with a resilient labour market despite the weakness in the real economy – in other words the Okun coefficient, which is used to map the relationship between growth in jobs and real activity, has changed. Our view is that this is only a temporary shift that reflects the expansion in public services. As this expansion plateaus, the Okun coefficient will return to more normal levels, and we could see the effect reverse – i.e. a pickup in economic growth and softer labour market outcomes. This adds to the risk that the 'handover' may not go smoothly, potentially locking in a longer period of sluggish growth.

The outlook

The expansion of public services to cater for a larger population will continue to drive growth in economic activity near term. As interest rates start to move lower private demand is expected to lift gradually and drive growth toward the end of 2025. Whether the private demand lift will be strong enough to cover the drag from easing public demand will determine how well the economy performs heading into 2026 and beyond.

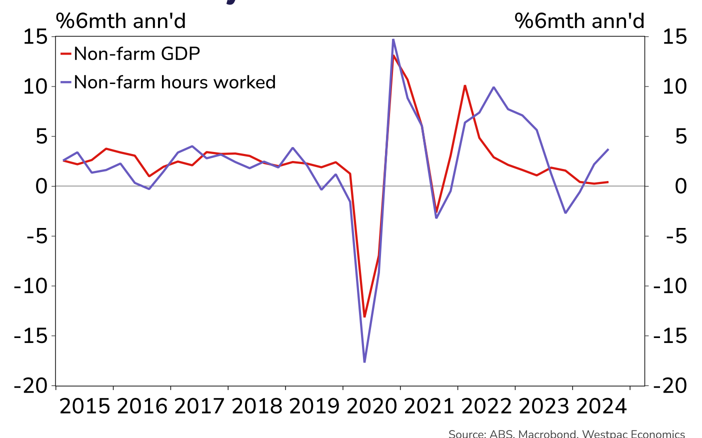
History shows that these 'handovers' can be bumpy affairs. Exhibit A is Australia's performance following the mining investment boom, which saw weak growth, subdued productivity and soft wages growth, with inflation undershooting the RBA's target. Our forecasts have been updated to reflect a 'shakier' handover in 2025, with the recovery in private demand taking a little longer than previously expected, consistent with the picture from the Q3 national accounts, other forward indicators such as capex plans.

Gradual recovery in economic growth anticipated



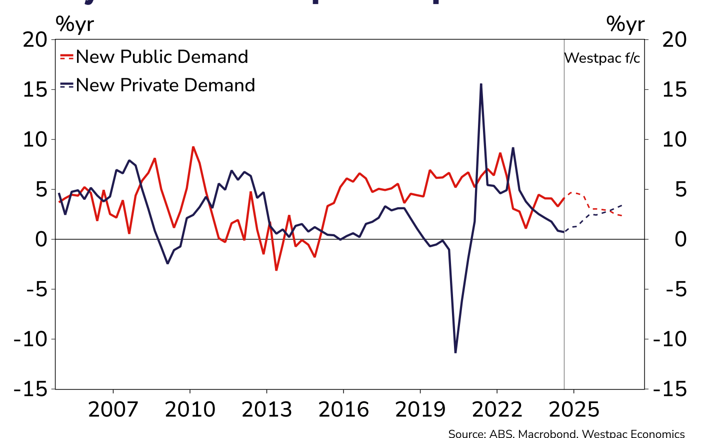
Source: ABS, Macrobond, Westpac Economics

Economic actvity and hours worked



Source: ABS, Macrobond, Westpac Economics

'Shaky handover' from public to private



Source: ABS, Macrobond, Westpac Economics

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... looks set to be shakier

Needless to say, uncertainty remains higher than usual, with risks on both sides. The expansion in public services could continue for longer which is consistent with recent announcements, including increased funding for childcare and what may be a slow turn for NDIS spending and public investment. On the flipside, the pick-up in household demand could disappoint, particularly as cost-of-living measures roll off next financial year and if households continue to prioritise saving over spending. Add to this, increased uncertainty over the global economy and rising geopolitical tensions could see investment projects shelved in the near term.

The detail

Our central case view has public demand still powering ahead next year. Based on Federal and state budget documents, the national fiscal impulse (the contribution to growth) is expected to be around 2¾ppts of nominal GDP in 2024-25, and ¼ppt in 2025-26, with a lot of this driven by increased recurrent spending on service and higher capital spending. We have revised up our forecast by 0.4ppts in 2024 to 4.7%yr, and left 2025 and 2026 broadly unchanged.

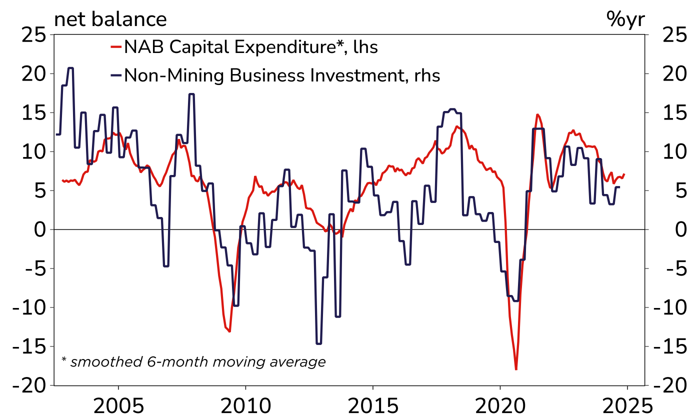
Consistent with the softer Q3 outcomes, we have revised growth in new private demand slightly lower across the forward profile, by 0.3pts in 2025, and 0.2pts in 2026. This has mainly been driven by households spending, which we expect will now grow by only 1.0%yr in 2024, compared with population growth of around 2%. Consumption growth is expected to pick up to 1.9%yr in 2025 as population growth slows to 1.6%. Per capita consumption lifts only slightly, having fallen significantly through 2023 and 2024.

We have trimmed our business investment forecasts on the back of the weaker consumer. Despite this, growth in investment over in 2025 and 2026 is still forecast to cover depreciation and expected increases in the labour force, as longer-term structural changes, such as the transition to net zero emissions and the adoption of new and emerging technologies, propel underlying investment.

Reflecting easing capacity constraints, expected dwelling construction has been upgraded by 0.7ppts in 2024, with this higher level of activity carrying forward across 2025 and 2026.

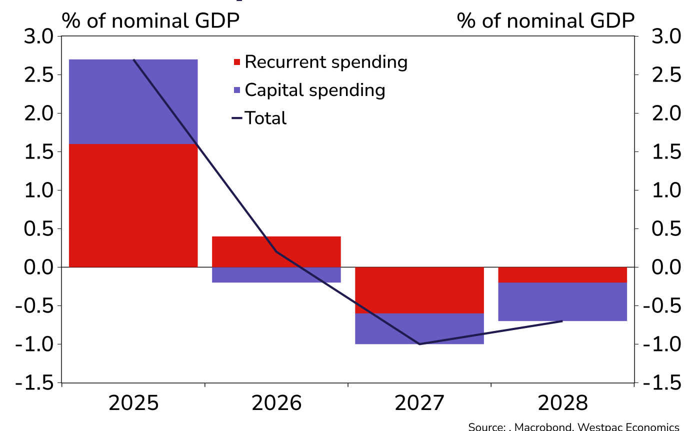
Putting this all together, our GDP forecasts have been revised 0.2ppts lower in 2024, 2025 and 2026, growth now lifting more gradually from 1.3%yr in 2024 to 2.2%yr in both 2025 and 2026. These changes have resulted in a slightly weaker profile for unemployment and employment growth and a slightly softer path for inflation and wages growth. Our revised profile means that by end-2026 Australia will have seen five years of below-trend growth with GDP essentially flat in per capita terms. While not a recession, that is a longer period of stagnation than was seen during the early 1990s recession.

NAB CAPEX sub-index and business investment



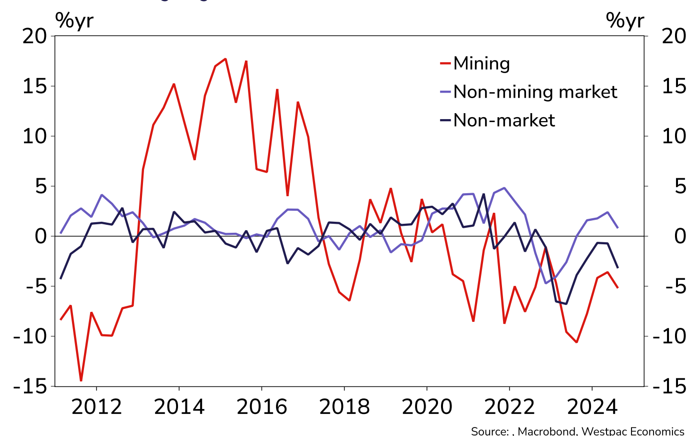
Source: NAB, ABS, Macrobond, Westpac Economics

National fiscal impulse



Source: , Macrobond, Westpac Economics

Productivity by sector



Source: , Macrobond, Westpac Economics

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Inflation subsides ...

Matthew Hassan
Head of Australian Macro Forecasting, with contributions from the global team

Our 22nd 'year in review' looks back on a relatively calm year, the central economic theme again being inflation but this time with subsiding price pressures allowing for some easing in restrictive monetary policy settings. Growth-wise, the performance globally has been 'stable but underwhelming' according to the IMF, albeit slightly better than expected. Perhaps of more note for the year ahead, pressures around the economy and cost-of-living look to have spilled over into the political space, elections globally recording a remarkable ground swell shift against incumbents. With the geopolitical situation deteriorating in Europe and the Middle East and a second Trump presidency set to commence in the US, the relative calm may not last long.

As per tradition, we start by recapping the lead-in to 2024. Needless to say, the decade to date has been tumultuous. Whereas growth in the 2010s was often fitful, impacted by legacy issues from the GFC and political uncertainty during the first Trump presidency in the US, this all looks benign compared to the COVID-related upheavals in the 2020s. Economies convulsed as countries entered hard lockdowns to contain the rapidly-spreading, deadly virus. Even now, when memory's are still quite fresh, its incredible to think that over half of the world's population were in some form of lockdown when the first wave of the virus hit.

COVID exacted a heavy toll through much of 2020, physically, socially and economically. Monetary and fiscal authorities moved to provide extraordinary support and limit the damage. The situation started to improve in 2021 as the emergence of effective vaccines and their mass roll-out reduced the incidence of severe illness. Even then it was far from plain sailing with several large waves of virus outbreaks still impacting many jurisdictions well into 2022. Indeed, the end of the pandemic was only formally declared by the WHO in May 2023.

As restrictions were lifted and economies started to recover, it quickly became apparent that all was not quite back to normal. Resurgent demand collided with still degraded production and supply chains to create a big surge in prices. This began in late-2021 and accelerated as Russia's invasion of Ukraine hit energy markets in early-2022. CPI inflation across the G7 lifted to 5.5%yr in 2021 and hit 8%yr in mid-2022, reaching double-digit rates in several countries.

Central banks scrambled to tighten policy in response, the FOMC leading the way with 425bps in hikes in just seven meetings, four of which involved super-sized 75bp moves. Most other central banks followed suit.

The heat started to come out of inflation in 2023, albeit with considerable uncertainty along the way. Across the G7, CPI inflation tracked back to 5% by mid-year and, more decisively, to 3% by year-end. The path made financial markets jumpy at times, particularly when the US saw a 'mini-bank-run' early in the year and, later, when persistent services inflation and resilient growth questioned there would be scope to lower interest rates. In the end, central banks delivered a little more tightening than had been expected but with policy proving effective in bringing inflation back under control.

And so to 2024. This was the year a line was finally drawn under the post-COVID inflation burst. The price data up to October has CPI inflation across the G7 down to 2.3%yr. Most major central banks have been easing restrictive policy settings since around mid-year. Growth-wise, the disinflation has so far come at a relatively low cost. Activity has slowed and unemployment rates have risen, but both have moved in a relatively benign manner, broadly consistent with soft landings. This is partly due to countervailing support from fiscal policy in some jurisdictions, the US in particular.

It should be noted that themes have varied. Most emerging markets have not faced the same inflation challenge. In China, the main issues have instead been around patchy growth and persistent weakness in the consumer and housing sectors. Japan has also run its own course with rate hikes marking an end to the deflation and zero interest rate policies that dominated for over 25 years – an associated wind-down in carry trade flows also jolting financial markets in August.

While inflation may have subsided, cost-of-living pressures still look to have been a common underlying contributor to political shifts in 2024. It has been a bad year for those in government – across the 80 countries conducting elections, over 80% saw incumbents lose support. This included leadership changes in the US, the UK, Mexico and Indonesia, and what might be deemed 'near misses' in France and India.

Our 'calendar of events' table highlights many other developments. Geopolitically, the temperature has continued to rise in Europe and the Middle East. Environmentally, the actual temperature has also mostly risen although there was at least some ever-so-slightly positive news on carbon emissions.

Looking ahead, the relatively simple inflation themes that have dominated in recent years are giving way to a more complex landscape in which trade and fiscal policy are more prominent (see p10). While aggregate outcomes may be similar, 2025 already looks unlikely to be a repeat of 2024's 'relative calm'.

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… with activity ‘stable but underwhelming’

January	February	March
Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and UAE join BRICS. US SEC approves Bitcoin ETFs. Australia’s Mary Donaldson becomes Queen of Denmark. Icon of the Seas, world’s largest cruise ship launched, capacity 7,600. Neuralink’s conducts first human brain chip implant. Calendar 2023 confirmed as hottest year on record. Iron ore US$143/t, 2024 high.	Odysseus becomes first commercial vehicle to land on the Moon. Houthi attacks in Red Sea spark doubling in European shipping rates. Apple Vision Pro released. Asbestos contamination leads to closure of ~60 sites across Sydney. EU approves €50bn financial support package for Ukraine. Russian dissident Navalny dies. Kansas City win Superbowl LVIII. Gold drops to US$2000/oz, 2024 low.	BoJ hikes 20bps, stops YCC and bond purchases, ending zero interest rate policy that has run for ~25yrs. Sweden joins NATO. EU passes Artificial Intelligence Act, first legal framework for AI. Container ship collision collapses bridge in Baltimore, US. Bankman-Fried sentenced to 25yrs prison for fraud linked to FTX. Baltic Dry Index of bulk shipping costs hits high for year.
April	**May**	**June**
Global CO_2 emissions +1.1%yr in 2023, but hit 50yr low in advanced economies. Israel conducts airstrike on Iranian embassy in Damascus. G7 agrees to phase out coal power by 2030-35. Coal demand across advanced economies at 120yr low. Iran’s President Raisi killed in helicopter crash. Crude oil US$88/bbl, US 10yr bond 4.7%, highs for year, AUD/USD 0.64 low for year.	Former US President Trump found guilty of falsifying business records. NASA’s JWST discovers most distant galaxy – if the universe were a year old it would have formed in week one. Taylor Swift release becomes most-streamed album in a single day. US FTC moves to ban ‘noncompete’ clauses from employment contracts. VIX drops to 11.86, low for 2024.	ECB cuts rates 25bps Indian election sees BJP lose outright majority but retain power via alliance. Macron calls snap election in France. WikiLeaks’ Assange returns to Aus after being freed from UK prison. China lands Chang’e 6 on dark side of moon, returns with samples. NVIDIA market cap surges to US$3.3trn.
July	**August**	**September**
‘Stage 3’ tax cuts begin in Australia. BoJ hikes rates 15bps. US Supreme Court rules presidents have immunity for official acts. Starmer becomes UK PM. Former US President Trump injured in assassination attempt at rally. Crowdstrike global IT outage hits estimated 8.5m devices. US President Biden withdraws from 2024 election.	BoE cuts 25bps, RBNZ cuts 25bps. Paris Olympics achieves ‘gender parity’ (same # of male and females). Antarctica sees record-breaking ‘heatwave’, up to 28°c > winter avg. Google found guilty of violating US anti-trust law with internet search monopoly. US payrolls revised down 818k. Yen carry trade unwind rocks markets, triggering 12% fall in Nikkei, 6% rise in JPY.	FOMC cuts 50bps; ECB cuts 60bps. Thousands of devices used by Hezbollah exploded remotely and group’s leader Nasrallah killed. China announces stimulus package with rates cuts, targeted support for struggling real estate sector. OpenAI releases ‘o1’ series of LLMs. Crude oil sinks to low of US$68/bbl. US DXY 100.2, US 10yr bond 3.6%, Aus 10yr bond 3.8%, iron ore US$89/t, all lows for 2024.
October	**November**	**December**
RBNZ cuts rates 50bps. Ishiba elected new PM of Japan. Israel kills Hamas leader Sinwar. Chinese EVs: EU imposes tariffs up to 45%; US raises tariff to 100%. Nobel prize in economics awarded to developmental economists Acemoglu, Johnson and Robinson. Scientists map entire brain of fruit-fly, 140k neurons with 50m connections. New largest known prime number discovered with over 41m digits.	FOMC cuts rates 25bps. Trump wins US Presidential election, Republican party securing majorities in both the House and Senate. RBNZ cuts rates 50bps. Australia introduces social media ban for children aged under 16. Israel-Lebanon ceasefire agreement. NZ Black Caps beat India 3-0 in India. Bitcoin surges past US$100k, US DXY hits 107.55 high; Aus 10yr yield reaches 4.69%.	S. Korea briefly declares martial law. France’s PM Barnier resigns. Syria’a Assad government overthrown. Rebuilt Notre Dame reopens in Paris. Year to date: S&P500 +27.7%; ASX +10.9%; Nikkei +16.8%; gold +25.7%; crude oil -5.8%; US 10yr bond +33bps; Aus 10yr bond +36bps; AUD/USD -6.0%; USD TWI +4.6%; Bitcoin/USD +140%.

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Newton's Third Law...

Luci Ellis, Chief Economist, Westpac Group
Illiana Jain, Economist, Westpac Group

In the physical world, for every action there is an equal and opposite reaction. For the economy, the opposing forces are rarely equal, but they are nonetheless important. Whenever we consider the effects of big shifts or policy actions on economic outcomes (or indeed political ones), we cannot ignore how others will react to those actions. Looking ahead to 2025 and beyond, the landscape – and especially the risks around the base case – will be shaped by both action and reaction.

Trump trade agenda meets reactions from China and others

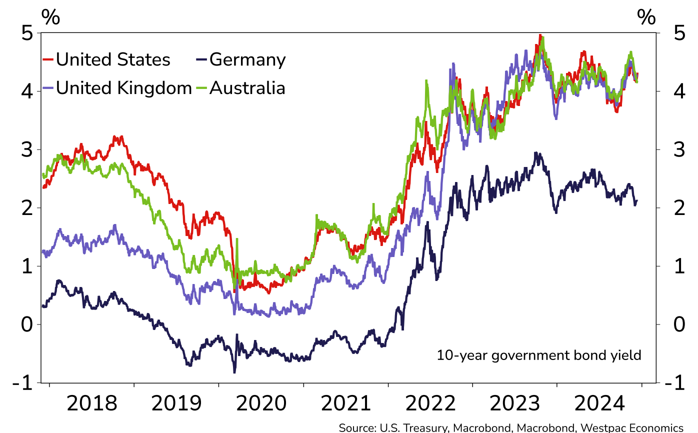
As inauguration day approaches, some of the incoming Trump administration's policy agenda is taking shape. Increased tariffs on Chinese imports are a given. The threat of tariffs on neighbouring countries has also been used to achieve other policy objectives. Corporate tax cuts and other business-friendly policies are also on the table, which has generated something of an 'American Exceptionalism' tone in asset markets, especially for equities and FX.

It is not clear how much of this agenda can be enacted. It *is* clear, though, that these policies cannot be viewed in isolation. The Chinese government has already announced several stimulus packages, as well as export bans for rare-earth minerals. More broadly, some reconfiguration of supply chains to put later stages of production outside China is already occurring, and more can be expected. The investment to achieve this will help offset the generally negative effect of trade restrictions and policy uncertainty on investment found by the IMF, stemming from delays to investment decisions.

For Australia, the effect of US tariffs will likely be mostly indirect, though there might be some minor impacts in third-country markets where Australian and US exports compete. To the extent that the net effect of trade measures and domestic policy responses slow activity in China, Australia's exports and terms of trade will weaken. Our base-case forecast of a 9% fall in commodity prices (see p13) reflects our assessment of the likely net effect of trade restrictions: relatively minor for growth, but visible in commodity prices and the exchange rate.

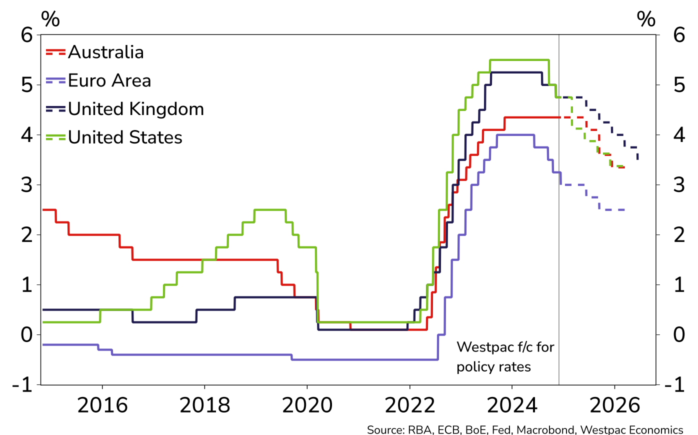
While a weaker exchange rate would add to imported inflation, a partial offset may occur to the extent Australia is the beneficiary of trade diversion. For example, we note that many of the countries that have not announced plans to impose or increase tariffs on Chinese electric vehicles are also right-hand-drive (left side of the road) countries such as Japan and India. Any redirection of Chinese vehicle exports to these markets will also work for Australia.

Yields to remain higher as debt concerns grow



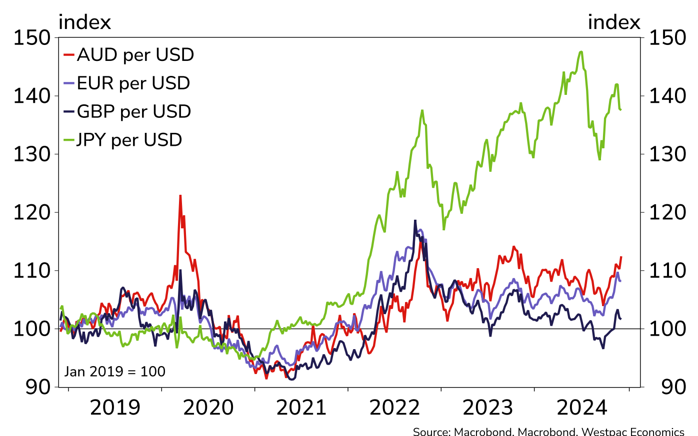
Source: U.S. Treasury, Macrobond, Macrobond, Westpac Economics

Higher ending point for short term rates



Source: RBA, ECB, BoE, Fed, Macrobond, Westpac Economics

Risk on environment sees currencies weaker



Source: Macrobond, Macrobond, Westpac Economics

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… applies in some form to economies

Policy support meets monetary policy (and FX) reaction

Policy rates across central banks are expected to end at a higher level than prior to the pandemic (see p4). While the question through 2024 was 'when?', in 2025 markets will be asking 'how much more?'. Where this higher end-point sits in relation to neutral differs widely. In developed markets, the fiscal support during the pandemic – some of which remains in the system – implies a higher end point than in emerging markets.

In Europe and Canada, the market's assessment of the terminal rate in 2025 is below neutral, reflecting risks to growth from an extended period of monetary tightening, a slowdown in global demand and – in some European economies such as France – the threat of fiscal consolidation.

For the United States and Australia, the objective is more likely for monetary policy settings to be at or above neutral, mindful of the risks of sticky inflation. Looking beyond 2025, policy rates could drift up as growth risks unwind, arguably rising to above neutral in the United States.

To the extent that 'American Exceptionalism' flows through to different growth trajectories – which is by no means certain – this will also flow through to short-term rates and exchange rates. This runs counter to the longer-term tendency for exchange rates to converge to fair value based on purchasing power parity – on that metric, the USD looks richly valued and is likely to remain so for a while yet. A sudden unwinding in this differentiation in views of growth prospects would affect market pricing for yields, FX and equities.

For emerging markets, less fiscal stimulus during the pandemic meant activity was often slower to come back to previous trends than in developed markets, if it did at all. Inflation was also a lot more benign and much of the tightening came in response to moves by the FOMC rather than risks to the domestic inflation outlook. This will mean policy rates end at a narrower spread to the fed funds rate than was historically typical. EMs will therefore need to attract capital through their growth prospects rather than through the carry trade, a task that may become harder given the potential disruptions to trade patterns. Maintaining higher spreads would weigh on domestic demand, but it would also support exchange rates. This trade-off will be especially difficult to navigate for countries where imported inflation remains an issue, such as India.

In Australia, the disinflation journey has been similar to its developed-economy peers, but on a later timetable. As the RBA has gained confidence in the inflation outlook, it has shifted away from the 'not ruling anything in or out' language it used for most of 2024, and it is now clearly contemplating cutting rates in the first half of 2025. As noted on p4, the exact timing still depends on the data flow from here.

Expansive fiscal policy meets rising bond yields

How far central banks ease depends on demand conditions and how they feed in to inflation pressures once the current pandemic-related surge in inflation unwinds. Fiscal policy is an important factor in this, and a range of actions and reactions are driving policy in an expansive direction in many developed economies. These include: increased defence spending as a reaction to geopolitical risks and the incoming Trump administration's expectations of its allies; increased health spending as a reaction to population ageing; and increased investment in energy infrastructure as a reaction to the challenges of climate change.

With the US federal deficit already at 6% of GDP for the past few years, US fiscal policy was always going to be adding to the level of demand regardless of who won the Presidential election. At the margin though, Trump's victory and the Republican clean sweep adds to the stimulatory stance, the mix set to favour lower taxes and lower government spending.

The reaction to looser fiscal policy – and a tilt towards investment versus saving more broadly – has been and will continue to be seen in yields. Bond yields in advanced economies are already noticeably higher than pre-pandemic and we expect that to continue.

Ultimately, the time will come to consider what the pace of growth in debt should be, taking into account inflation, GDP growth and higher interest rates. For the countries embarking on some fiscal consolidation, such as those in Europe, growth risks will be front and centre in 2025. Not just that, fiscal consolidation tends to be politically unpopular and will only further add to political risks in the region. These risks will be exacerbated if the consolidation is partly motivated by a need to make room for increased defence spending. And while the experience of the NDIS program in Australia shows that a sustained period of rapid expansion in fiscal spending can result in attempts to rein in that growth, the pace of consolidation is difficult to predict and rarely smooth.

These forces inform our longstanding house view that the global structure of interest rates will be higher going forward than it was in the period between the GFC and the pandemic. This includes a higher neutral policy rate; term and risk premia are also likely to be wider than the pre-pandemic 'search for yield' phase.

Because the overall global rate structure is driven by global forces, the rates structure in Australia will be affected even though the fiscal situation here is different to that in the United States. Policy rates will continue to be set according to local demand and inflation pressures, and country risk spreads can change over time. However, the average rate structure around which policy rates fluctuate is shaped by global forces.

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Our bulk exports prices weakened though 2024 ...

Justin Smirk
Senior Economist, Westpac Group

Commodity prices were broadly weaker through 2024 with the Westpac Export Price Index down –7% in the year to December. Of course there was one stand-out exception and that was gold which rallied an impressive 30% in the year. Leading the correction has been the inputs into steel as the Chinese construction industry languishes and China exports excess steel production into the global market. Met coal is down 37% in the year while iron ore has lost 25%. Robust supply has also been pressuring energy markets with crude oil down 7%yr while thermal coal is down 7½%yr. However, base metals have had a better year with copper rallying 6%yr while aluminium is up 8%yr.

Crude supplies keep the pressure on prices

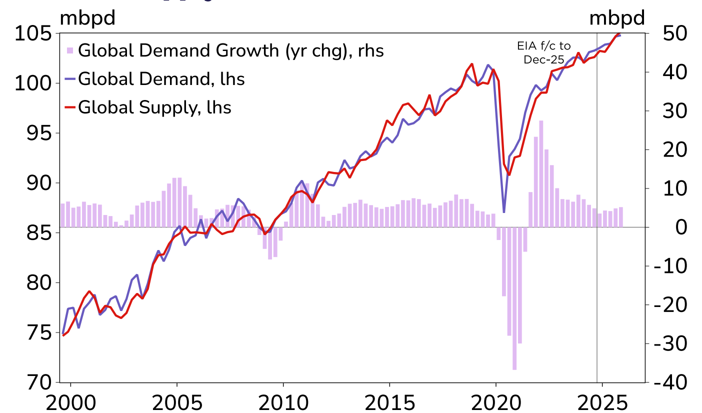
We have had to revise our crude oil price profile lower. At the start of 2024 our energy forecasts incorporated a view that with many Western financiers avoiding carbon-based energy investment, we would start to see reduced investment in petroleum extraction supply being less responsive to prices than it has been in the past. In the February 2024 Market Outlook we where forecasting crude prices rally to US$85/bbl by end 2024. It is currently trading around US$72/bbl.

While it is true that many banks/financiers have been avoiding crude oil investments, the data shows this has not been the hindrance to production we expected. In fact, even with the tighter environmental controls under the Biden administration US crude production hit a record high in 2024. We acknowledge that we are yet to see any real change in the economics of crude extraction and, as such, we have pushed back any emerging strength in crude oil prices due to a longer-term tightening in supply.

As Robert Rennie noted in his recent Energy Update, the US Treasury sanctioned 21 Iranian vessels and 14 ship owners involved in Iranian-China trade, crimping the number of vessels available for ship-to-ship transfers of Iranian crude, tightening supply and driving prices higher. He noted that China's independent refiners have been snapping up barrels from across the Middle East and Africa to replace lost Iranian crude supplies. It is likely that Trump's policies on Iran will further shrink the supply of Iranian crude. It is this near-term shock to supply, along with the ongoing conflicts in the Middle East, that we expect to see Brent trade in a US$70–75/bbl range to mid-2025.

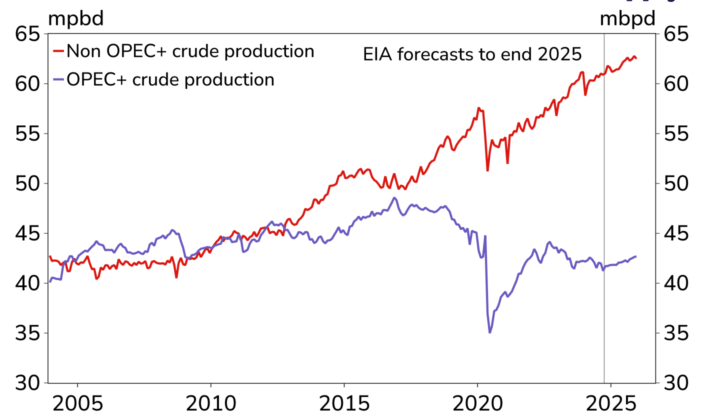
However, we expect supply to improve over the course of 2025. Back in mid-November, the IEA warned that "even if the OPEC+ cuts remain in place, global supply exceeds demand by more than 1 million barrels per day next year". That is before we even start to understand what Trump's 'drill baby drill'

Crude oil supply & demand



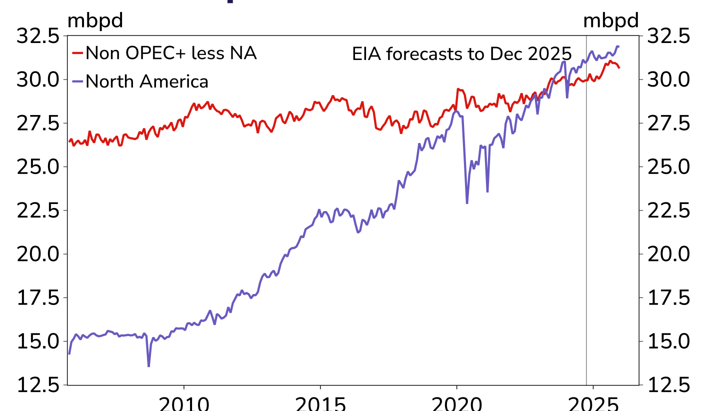
Source: Bloomberg, Macrobond, Westpac Economics

Non-OPEC continues to drive the lift in crude supply



Source: Bloomberg, Macrobond, Westpac Economics

Non-OPEC crude production less North America



Source: Bloomberg, Macrobond, Westpac Economics

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... while supply is likely to continue to pressure crude

energy policies might look like and how US producers will respond to prices holding above US$70/bbl. With production from the likes of Canada, Brazil and Guyana rising, markets are likely to remain predisposed to pricing in a surplus through 2025. It is for this reason we see the risks turning in the second half of 2025 with Brent breaking below $70/bbl.

Iron ore

Global demand for iron ore fell 1.6% in 2024 driven by a 42Mt, or 3.1%, decline in Chinese demand. We expect demand in China to continue to moderate through 2025 though increases from the rest of the world, most notably in Southeast Asia, will partially offset the loss. Total iron ore supply experienced positive, though marginal, growth of around 1% in 2024. Strong performances out of Brazil and South Africa and a recovery in Ukrainian mining was offset by an 11Mt decline in China while Australian output stagnated. As Chinese miners are expected to face greater competition from the seaborne trade in 2025 their output is expect to contract further, limiting growth in total supply. Then as we move into 2026 volumes are set to rise as we see the start-up, and ramp-up of production from Guinea (Simandou), Brazil, and Australia.

China iron ore imports lifted 101.86Mt in November with the total year to date up almost 9% versus the average for the last five years. This contrasts with China steel production, which is down almost 2% year to date, suggesting that the huge pile of inventories at Chinese ports is set to get even larger as we move into 2025 and the seaborne trade surplus expands. This should force prices lower and, as a result, high cost producers like China are likely to curtail production further. We remain of the view that iron ore prices should be capped in the US$105–110/t range as we move into 2025, and that prices will eventually start a slide towards US$90/bbl and lower as we move through the year.

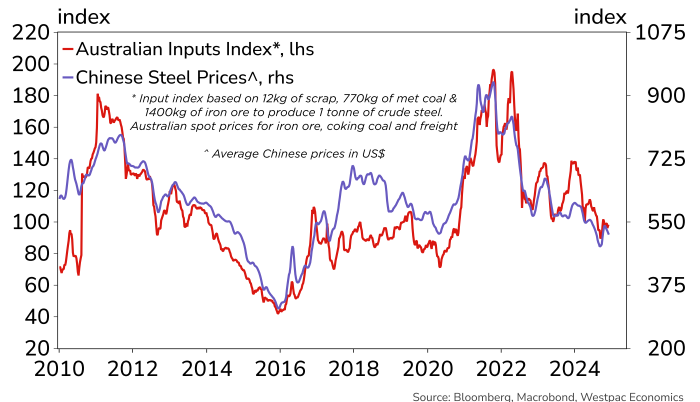
Gold continues to rally

As noted, gold had a strong rally but as the year ended it had entered a consolidation range of US$2550–2750/oz. If we saw a fourth consecutive 0.3%mth increase in the US CPI, that would likely cement a more cautious stance from the Fed and could place some downward pressure on gold.

However, at the same time we would argue that any downside for gold is ultimately contained by the ongoing conflict in the Middle East with the rapid fall of the Syrian government, alongside a very mature run up in Bitcoin. We also see a longer-term structural bid for gold with the PBOC adding bullion to its reserves for the first time in seven months. We have a medium-term target of around US$2,700/oz through 2025.

Chinese Steel Input and Output Prices

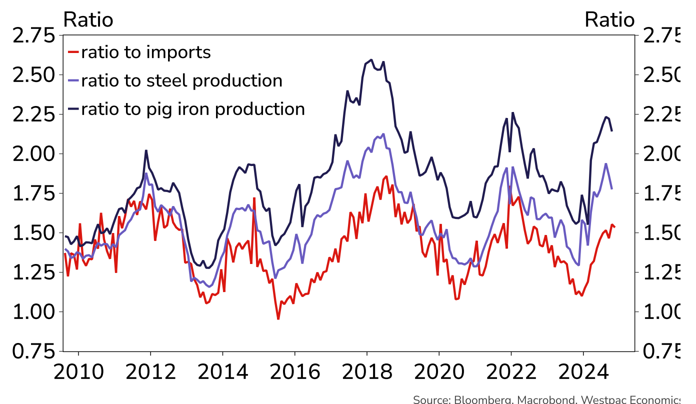
Input prices being dragged down by falling steel prices.



Source: Bloomberg, Macrobond, Westpac Economics

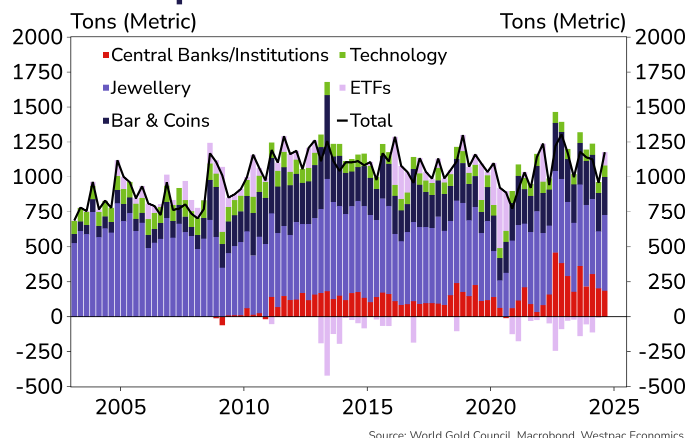
China iron ore port inventories

Compared to demand inventories near cycle high



Source: Bloomberg, Macrobond, Westpac Economics

Gold Consumption



Source: World Gold Council, Macrobond, Westpac Economics

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USD to slip lower as net effect ...

Elliot Clarke
Head of International Economics

The past month has seen US dollar strength persist, although upward momentum looks to be waning, the DXY index having risen briefly to a mid-month peak of 107.6 but subsequently spending most of its time between 106.0 and 107.0. As the detail and timing of President-elect Trump policies become known, we expect further slippage.

As the new year begins, it is important to highlight that we expect the US dollar to remain strong through 2025 and 2026. Against a 10-year average of 98 and a 20-year average of just 90, we see the DXY index ending 2025 at 103 (5% above the 10-year average) and 2026 at 101 (3% above the 10-year average). The dollar's strength is expected to be broad based.

EUR/USD and GBP/USD are forecast to only slowly rise from USD1.05 and USD1.27 to USD1.09 and USD1.31 respectively in 2025, then USD1.11 and USD1.33 respectively in 2026. A more pronounced decline in USD/JPY is anticipated over the next two years, from near JPY153 today to JPY148 at end-2025 and JPY141 in 2026. However, this 8% decline in USD/JPY versus the 6% fall in DXY over 2025 and 2026 will still leave the USD/JPY cross almost 30% above its 2019 average of JPY109 versus +4% for DXY.

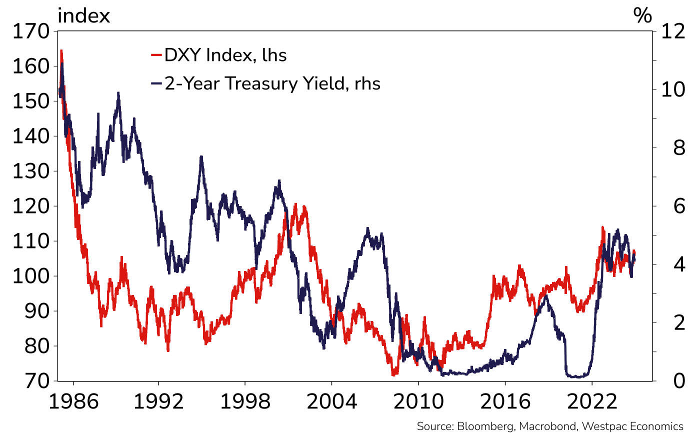
There is certainly room for Yen to appreciate further, though until such time as Japan's domestic conditions justify multiple rate hikes and/or an improved growth trend, further appreciation is likely to be constrained.

For the Canadian dollar, the risks are skewed the other way. Built into our forecast for 2025 and 2026 is a reversal of recent weakness from CAD1.42 to CAD1.38 in 2025 and CAD1.35 in 2026 against the 2019 average of CAD1.32 as the Bank of Canada's policy easing proves effective; ex-oil commodity prices provide support; and, at least for Canada's economy, the effect of President-elect Trump's 25% tariff on Canadian goods has less of a consequence than the market fears.

Still, we have to recognise that Canada has experienced a more marked labour market deterioration than other developed countries; the oil price is weak; and the recently-announced tariff could be just the start of a deterioration in US-Canada trade relations. Hence, risks are against the Canadian dollar on an absolute and relative basis.

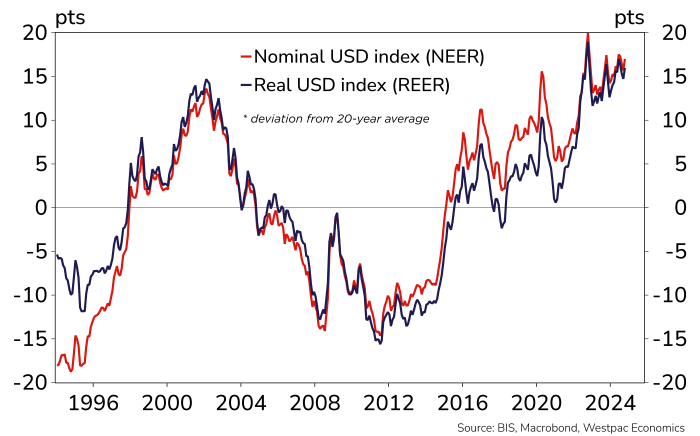
Just as in late-2024, the underlying drivers of the above out-turns are as much belief in the ongoing strength of the US economy as concern over what Trump's policies might mean for the rest of the world. For the US economy, there are downside risks too, although these are only likely to be factored into market pricing with a considerable lag.

USD CPI & rates support fading



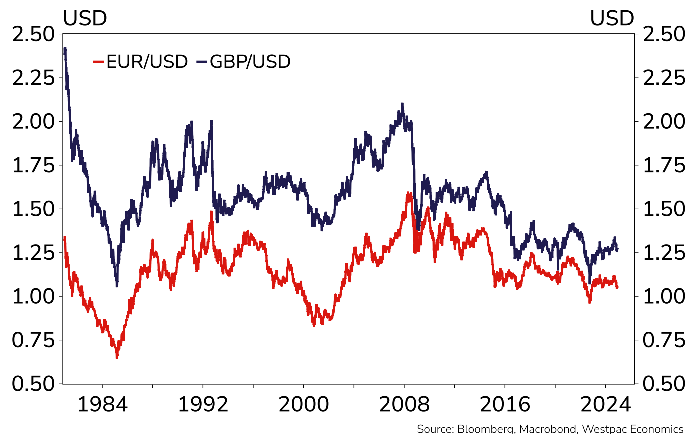
Source: Bloomberg, Macrobond, Westpac Economics

Data still supports robust USD



Source: BIS, Macrobond, Westpac Economics

Europe risks abating



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... of Trump policies is seen

Detailed on p21 is the loss of momentum that the US labour market is currently experiencing. Indeed, in recent months, both the household survey and qualitative measures such as the Beige Book have signalled a stalling out of employment growth following strong gains in recent years. Meanwhile, population growth slowed abruptly between 2023 and 2024 and faces clear downside risks for 2025 and 2026 given the probability of migration reform. Combined, these developments threaten continued robust gains in consumption, which accounts for the majority of US GDP growth.

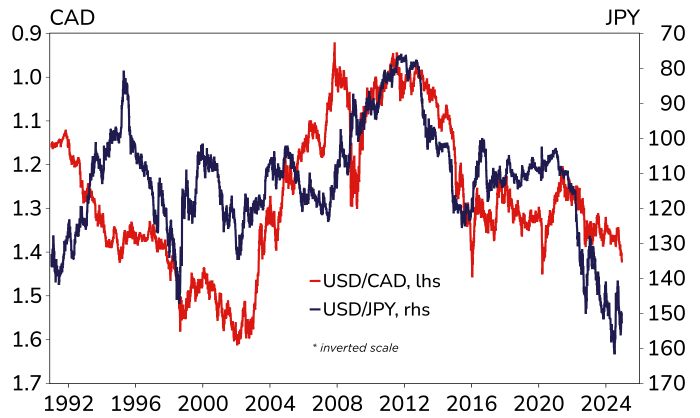
There are downside risks for businesses too. While tax reform may support investment eventually, for the foreseeable future capital expenditure instead faces a headwind owing to passing support from the Inflation Reduction Act. Through 2025 then, downside pressure and risks are likely to build for the US dollar. Currencies across Asia ex-Japan are well positioned to benefit from this, but each individual economy will likely have to outperform to turn sentiment.

China remains the focus within the region. While the initial announcement of a pro-active policy stance saw USD/CNY run towards CNY7.00, this move proved short-lived, USD/CNY since returning to its 2024 highs near CNY7.30. Fear of the unknown vis-à-vis trade policy is a critical factor here, President-elect Trump having set a high bar during the campaign by proposing a flat 60% tariff on Chinese imports. However, as his 10% tariff announcement this month highlights, the eventual policy action is likely to be less severe. More importantly, through loop holes, trade redirection and given the robust and persistent growth of Asia, China has considerable opportunity to offset the cost of US tariffs.

Paired with a recovery in property investment and consumption, authorities achieving their aims for growth in 2024 and 2025 amid uncertainty should then result in sustained gains for the Renminbi against the US dollar, the USD/CNY cross falling from close to CNY7.30 currently to CNY7.15 then CNY6.85 at end-2025 and end-2026.

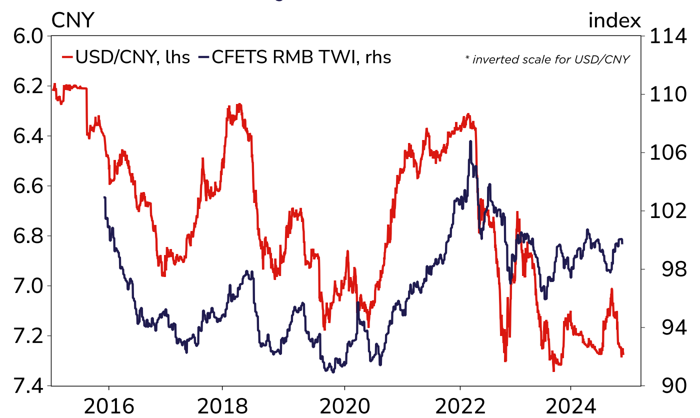
It is worth highlighting that the Renminbi trade-weighted index (CFETS) has been relatively steady through 2024 around 100, above its 5-year average of 98.3. We take from this that, for all the headlines, China's economy is actually in robust shape thanks to its exporters and infrastructure. Also, for the rest of the region's currencies, a more positive attitude towards China and/or a more balanced view regarding the US is likely to lift all boats. From a pure growth perspective, Asian appreciation is justified on the 2024 performance; and, setting aside some political uncertainty in a few nations, the economic outlook for each and every country remains bright, with valuations attractive, wage costs manageable and an appetite to invest. A full view of our expectations for each currency can be found in the accompanying forecast tables.

CAD and Yen may lag



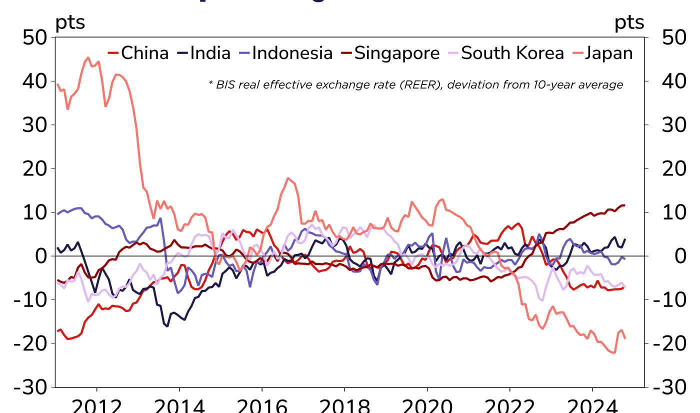
Source: Bloomberg, Macrobond, Westpac Economics

Renminbi TWI broadly stable



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



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RBNZ intent on frontloading the path to neutral ...

Kelly Eckhold
Chief Economist NZ

The RBNZ delivered another large cut in November and signalled a strong bias to deliver 50bps more in February. Confidence that inflation will remain around 2% and a desire to get the OCR closer to neutral levels are driving the RBNZ now. But in 2025 the pace of easing should slow as neutral nears, as the economy responds to the significant easing delivered, and as external drivers become clearer.

The RBNZ has continued the abrupt change of course it charted since July and cut the OCR another 50bps as expected to 4.25%. As we noted in our review, the most interesting aspect of the RBNZ's Monetary Policy Statement was its intent to continue to front-load policy easing and drive the OCR towards more neutral levels as quickly as possible. The RBNZ's guidance that a 50bps cut is most likely at the February meeting was as explicit as we could remember. Beyond February, uncertainty grows as the prospect of slower or perhaps even no action comes into the distribution of possible outcomes.

We see six key issues as being important in determining the RBNZ's course in 2025.

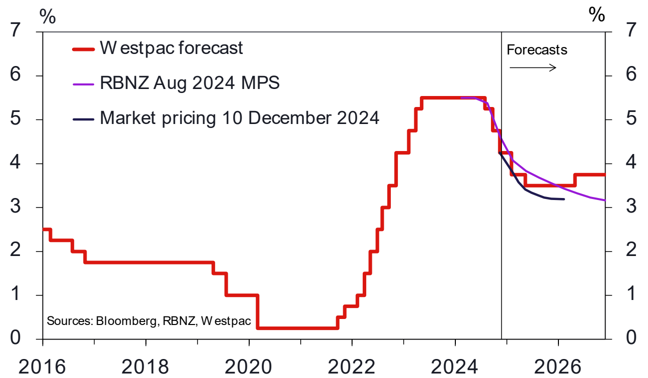
Issue #1 – the economic response to the significant easing that has already occurred.

The RBNZ has delivered a historic amount of easing over the past six months (at least outside of the Global Financial Crisis period). The RBNZ looks set to maintain the pace in February, but the critical question now is how quickly the economy will respond as this will determine what happens over the rest of 2025.

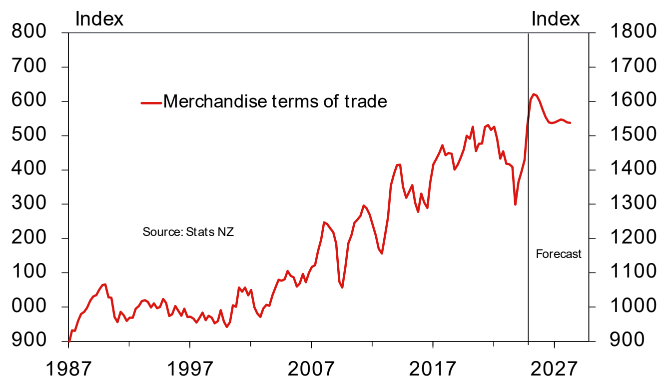
Leading indicators suggest that New Zealand's economy is set to recover. Business confidence has already rebounded sharply and consumer confidence has moved up off its lows. In addition, more forward-looking housing market indicators are at a three-year high. These positive signs point to a potential upswing in economic activity as the effects of the RBNZ's easing measures begin to take hold.

However, residual concerns remain about whether an OCR that troughs around 3.5% will prove to be sufficiently expansionary to encourage a durable pick-up in spending. Will the level of interest rates or the change in rates since mid-2024 have the more significant impact on economic behaviour? Data on the housing market, employment trends and retail spending released in the first few months of 2025 will be crucial in setting the tone for the RBNZ's policy trajectory in the first half of the year.

RBNZ policy headed back to the neutral zone



Will the boom in the terms of trade persist?



Issue #2 – will the RBNZ over-ease?

Despite the substantial easing already undertaken, the RBNZ intends to front-load the easing intended in 2025. The Governor has indicated a wide but also low range for its estimate of the neutral OCR. The lower end of the indicated range at 2.5% is notable given the global context of relatively higher interest rates. If the RBNZ moves the OCR quickly to the lower end of that range, and it turns out that the neutral rate lies at the top end of the range, then the RBNZ may over-ease in 2025.

Should the RBNZ ease too aggressively, this could prepare the ground for a tightening cycle in 2026. If overshooting is significant then an earlier and more pronounced tightening phase in 2026 could result.

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... but path beyond February will depend on events

Issue #3 – the global economic backdrop.

The global economic environment and geopolitical risks have been issues highlighted by the RBNZ as critical factors. In 2024, global growth has been generally subdued. But now many central banks have eased monetary policy significantly as inflation pressures have receded. This could bode well for global growth in 2025, barring any adverse shocks or underestimation of the lagged effects of previous policy tightening.

The policy agenda of US President-elect Trump, particularly in terms of fiscal spending and trade restrictions, adds another layer of uncertainty. While increased fiscal spending could support growth, trade restrictions and tariffs could create a more challenging trade environment. The balance between these opposing forces will be crucial in determining the overall impact on New Zealand's export prospects and economic performance.

Issue #4 – the durability of the recovery in the terms of trade.

One of the surprises of 2024 has been the strength in New Zealand's terms of trade, despite sluggish Chinese growth. Both demand and supply factors have supported export prices, while lower global inflation has helped keep import prices in check. This improvement in the terms of trade will boost national income by approximately 1% of GDP during the current dairy season, assisting the economic recovery and pushing growth back towards trend.

The key question is whether this recovery will extend in both magnitude and duration. A single good year can bring the economy back to trend, but two consecutive strong years could set the stage for the next up cycle (we expect that some of the current year's boost to dairy incomes will be used to retire debt rather than be recycled back into the economy). However, this optimism could be tempered if China's economic weakness persists or if global growth remains subdued.

Issue #5 – the labour market outlook.

With inflation now under control, the RBNZ may focus increasingly on ensuring that unemployment does not overshoot. While the central bank does not have an explicit employment mandate, it is required to mitigate unnecessary economic volatility. Current forecasts suggest that unemployment will peak between 5-5.5%. This is likely an acceptable outcome but watching labour market developments will be crucial to confirm whether these forecasts materialise.

Issue #6 – will the government pivot from fiscal austerity to a growth agenda?

With inflation well within the target range, the Government appears to be shifting its focus towards a growth agenda. Efforts at fiscal consolidation have managed to control spending growth this year, but the simultaneous granting of tax cuts means that there has been no improvement in the operating balance (especially with weak economic growth weighing on revenues).

Treasury forecasts assume austerity in spending that may prove unrealistic if the Government wants to encourage growth. Even if the Government is not the ultimate funder, it is keen to facilitate the deployment of private capital to help meet New Zealand's significant infrastructure needs.

	2023		2024										
Monthly data	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**
REINZ house sales %mth	4.3	1.7	–4.4	12.1	2.5	–2.9	–1.0	–7.2	10.3	0.1	1.7	0.6	–
Residential building consents %mth	–11.1	3.5	–9.5	16.1	–0.4	–2.2	–1.5	–16.8	26.5	–5.3	2.4	–5.2	–
Electronic card transactions %mth	1.7	–0.6	1.1	–1.3	–1.0	0.9	–1.1	–0.5	0.6	–0.2	0.3	0.4	–
Private sector credit %yr	2.1	2.2	2.4	2.5	2.7	2.5	3.0	2.7	2.6	2.8	2.8	2.6	–
Commodity prices %mth	–1.3	2.4	2.1	3.6	–1.3	0.5	1.1	1.5	–1.7	2.1	1.8	1.4	2.9
Trade balance $m	–872	–897	–401	–829	–333	–965	–1015	–379	–811	–1049	–816	–469	–

Quarterly data	**Jun–22**	**Sep–22**	**Dec–22**	**Mar–23**	**Jun–23**	**Sep–23**	**Dec–23**	**Mar–24**	**Jun–24**	**Sep–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	3.2	3.4	3.4	3.6	3.9	4.0	4.4	4.6	4.8
CPI %yr	7.3	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.3	2.2
Real GDP %yr	0.7	2.5	2.4	2.7	3.0	1.3	0.7	0.3	0.3	–
Current account balance % of GDP	–8.2	–8.8	–9.4	–8.7	–8.1	–7.8	–7.1	–6.7	–6.7	–

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

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Pro-active policy to see ...

Elliot Clarke
Head of International Economics

China faces considerable headwinds in 2025, with an additional 10% tariff from day one of President-elect Trump's next term already announced, while at home the housing market and consumption remain in a weak state. At the same time however, the nation's productive capacity and efficiency continues to expand, and new markets are being found. Authorities' rhetoric has also shifted markedly.

Importantly for growth, it is not just the tone of policymakers' messaging that has shifted: concrete action is now being taken as well. This started in September/October with a co-ordinated easing of monetary conditions through reserve requirement ratio and interest rate cuts as well as a reduction in deposit requirements for would-be home buyers. Corporates were also encouraged to purchase properties, an additional capital injection proposed for key banks, and a multi-year refinancing of local governments commenced – the latter critical as it will free up local government revenue to pay down wage debts and fund new investment.

Now, according to press reports from the official Xinhua news agency cited by Bloomberg, the Politburo has made clear that, for the first time since the GFC, 2025 will see "moderately loose" monetary policy as well as "more" pro-active fiscal policy.

Along with a pledge to "forcefully lift consumption" by, according to Premier Li Qiang, "every means possible", the focus on stabilising then growing housing and equity markets signals a clear intent to sustainably lift wealth, sentiment and spending.

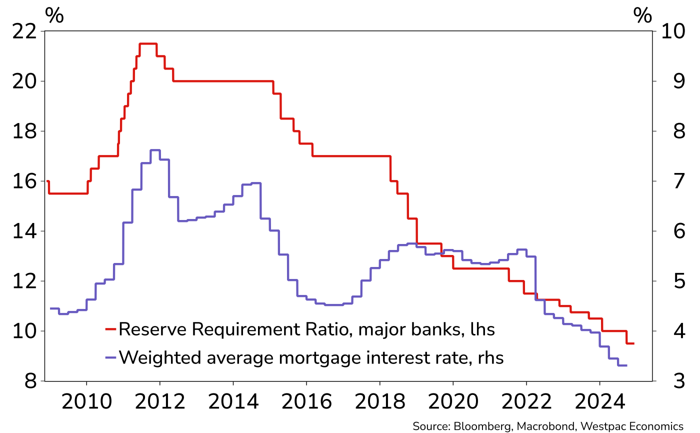
At the same time, the success achieved through infrastructure and industrial innovation is not being forgotten or put off. Instead, both strategic plans for growth are to be run in parallel.

If President-elect Trump further escalates trade and technology restrictions on China (remembering that a 60% additional tariff on all Chinese goods was put forward during the election campaign), additional pro-active and co-ordinated policy easing by Chinese authorities will prove necessary to combat the immediate hit to growth.

Still, there is no reason to fear these measures being deficient. Market participants in the West need to recognise that the Politburo are nowhere near their economic or political limits.

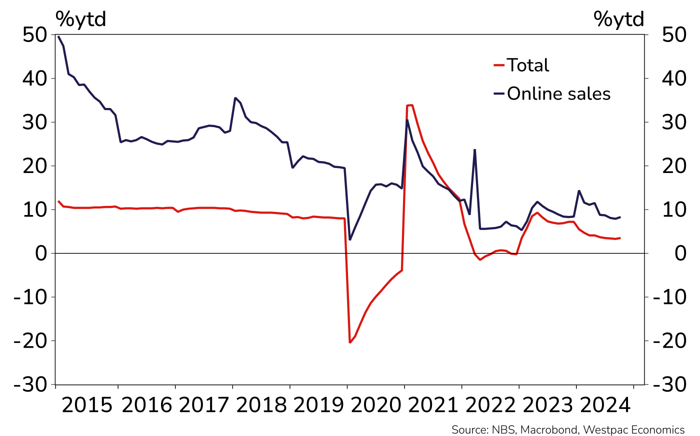
It bears remembering too that the ex-US markets China has expanded into have populations in excess of the US and are growing at a multiple of developed markets. While households there have much lower incomes, technology adoption and durable goods investment is a priority given their development status and deficient existing infrastructure.

Policy easing becoming broad and pro-active



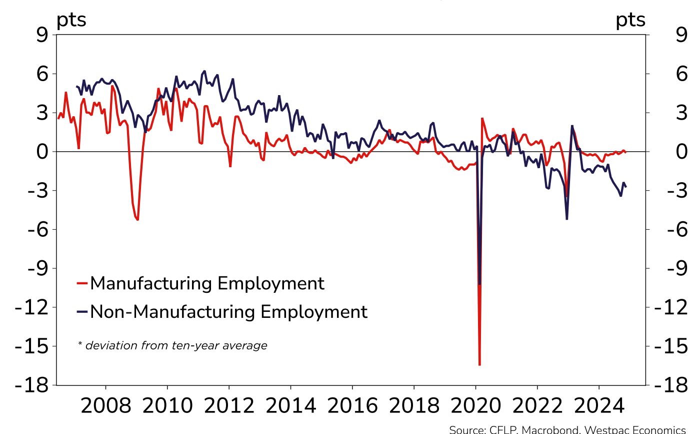
Source: Bloomberg, Macrobond, Westpac Economics

Pent up consumer demand needs trigger



Source: NBS, Macrobond, Westpac Economics

Stronger job prospects necessary



Source: CFLP, Macrobond, Westpac Economics

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... China live up to its promise

These markets' growth pathways are not at threat from US tariffs. Indeed, they may be helped by them, with some Chinese manufacturing firms off-shoring production to these neighbouring Asian nations to avoid US tariffs on China and now Mexico.

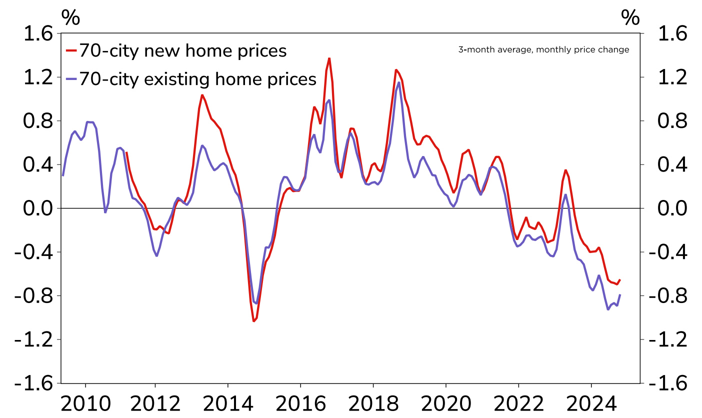
Further, while Europe has also imposed tariffs on key Chinese made goods such as electric vehicles, it has been through negotiation and has typically resulted in a very manageable financial arrangement for the companies involved. As such, it is really only direct trade between China and the US that is at risk, along with the flow of goods re-routed through Mexico.

Like the Politburo, we believe China is therefore comfortably able to achieve growth of around 5% in 2024 and 2025. The initiatives being readied currently by authorities should also lay a robust foundation for 2026, buoying confidence, income, wealth and, consequently, consumer spending. After such a long period of restraint and fear amongst consumers, pent-up demand is significant across Chinese households and should lead to a long tail for the anticipated lift in growth.

Looking further out, given China's demographics, a trend deceleration in growth is inevitable. However, the Central Government seems intent on making sure that this slowdown is managed and does not put at risk medium and long-term ambitions to build a vibrant domestic economy and integrated financial markets with the backing of income from large recurring trade surpluses and, eventually, additional income from China's intellectual property being used across the globe.

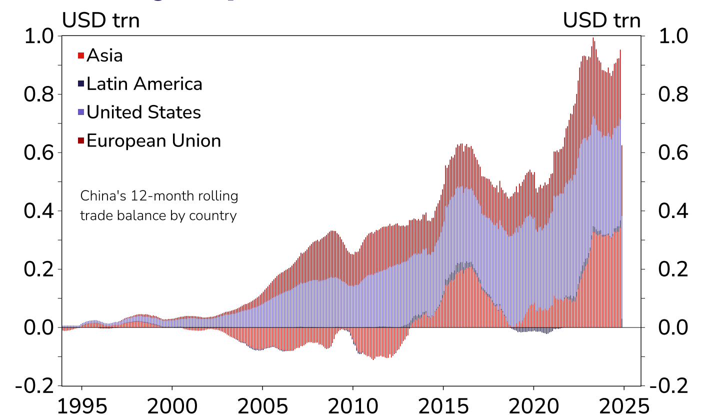
In so doing, China will continue to strengthen its economic and geopolitical position in Asia and the world, and the threat the US poses both the economy and Renminbi will recede.

House prices and equities turn to buoy wealth



Source: Bloomberg, Macrobond, Westpac Economics

Asia holds great potential for China



Source: GAC, Macrobond, Westpac Economics

	2023	2024										
Monthly data %yr	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Consumer prices – headline	–0.3	–0.8	0.7	0.1	0.3	0.3	0.2	0.5	0.6	0.4	0.3	0.2
Money supply M2	9.7	8.7	8.7	8.3	7.2	7	6.2	6.3	6.3	6.8	7.5	–
Manufacturing PMI (official)	49.0	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3
Fixed asset investment %ytd	3.0	3.0	4.2	4.5	4.2	4.0	3.9	3.6	3.4	3.4	3.4	–
Industrial production (IVA) %yr	6.8	6.8	7.0	4.5	6.7	5.6	5.3	5.1	4.5	5.4	5.3	–
Exports	2.1	7.8	5.2	–7.9	1.1	7.4	8.5	7.0	8.7	2.4	12.7	6.7
Imports	0.3	15.5	–8.0	–2.0	8.3	2.0	–2.4	7.0	0.4	0.3	–2.3	–3.9
Trade balance USDbn	74.7	84.0	38.6	57.5	71.3	81.7	98.7	84.9	91.0	81.7	95.7	97.4

Quarterly data	Jun–23	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24
Real GDP %yr	6.3	4.9	5.2	5.3	4.7	4.6
Nominal GDP %yr	5.4	3.9	4.2	4.2	4.0	4.0

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

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US optimism under threat ...

Elliot Clarke
Head of International Economics

Heading into 2025, the US economy is in strong health and expected to remain vibrant. While President-elect Trump's policy detail and priorities remain opaque prior to inauguration, the market has placed its faith in the growth potential of tax and regulatory reform while remaining sanguine on the threat to US activity from tariff increases and reduced immigration. Our baseline is broadly consistent with the market consensus, but we feel a need to emphasise that there is a material chance of activity and/or price risks asserting, potentially at the same time.

Beginning with our core view: GDP growth is expected to only slowly moderate from 2.7% in 2024 on a year–average basis to 2.0% in 2026, landing just above the FOMC's 'longer run' trend estimate of 1.9%. The foundation of this out-turn is the consumer, historically-low interest rates locked in during the pandemic and a robust recovery in real incomes over the past year continuing to offer support.

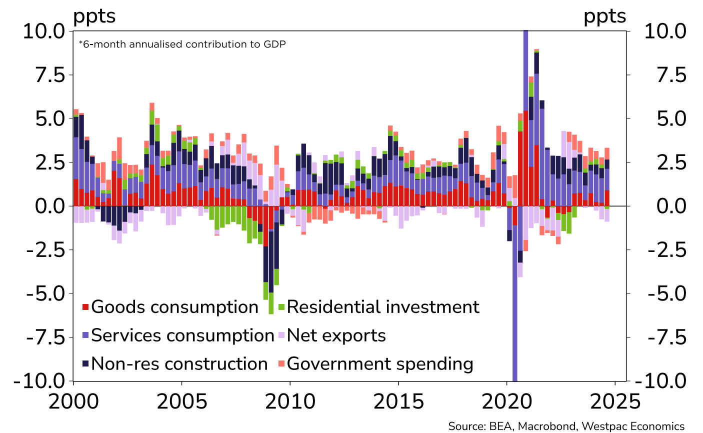
Business investment meanwhile has been, and is expected to remain, lacklustre overall. While a further cut to the corporate tax rate is in the offing, typically this benefits US shareholders more than the real economy. The end of support for manufacturing from the Inflation Reduction Act and the complexity and uncertainty protectionism fosters are further weights on capital expenditure intentions.

For public demand, it is hard to believe that dramatic reductions in Federal Government spending will ever occur, at least by choice. So, for our baseline, we assume modest support for growth from public demand across the forecast horizon, primarily due to state and local government spending. Net exports are assumed to be a small negative in 2025 and broadly neutral in 2026, as tariffs moderate import growth.

Of the key risks we see, most significant and probable is slack in the labour market. November payrolls were as expected at 227k. However, the six-month average shows a sequential deceleration, currently at 143k compared to 207k in the first half of 2024 and 251k throughout 2023. The household survey is more concerning, pointing to a hard stop for job growth in 2024, the loss of over 700k jobs in October and November leaving the month-average change for 2024 at –4k. Though qualitative, the Beige Book corroborates the household survey, with employment "flat or up only slightly across Districts". The ISM surveys are also consistent with employment stalling.

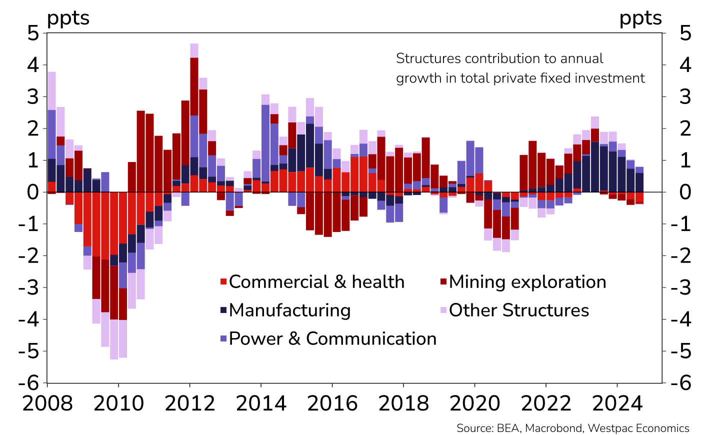
As consumption is responsible for over 70% of GDP, and with excess pandemic savings largely drawn down, a continuation of the household survey employment trend risks a sudden deterioration in consumer spending to a sub-par pace.

US growth depends on the consumer



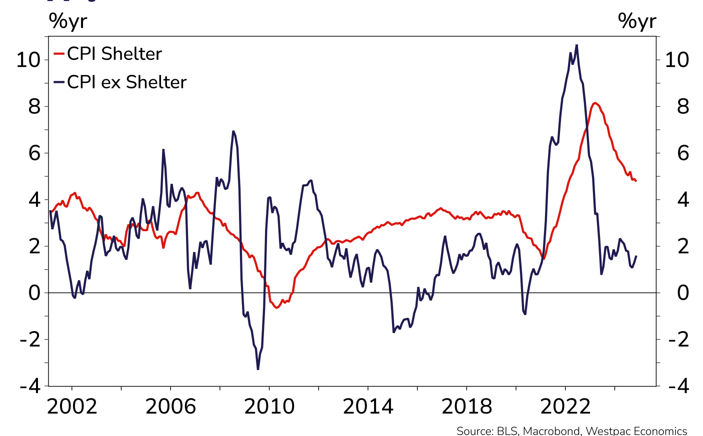
Source: BEA, Macrobond, Westpac Economics

US investment spending losing IRA aid



Source: BEA, Macrobond, Westpac Economics

Supply side to remain a concern



Source: BLS, Macrobond, Westpac Economics

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… from a myriad of risks

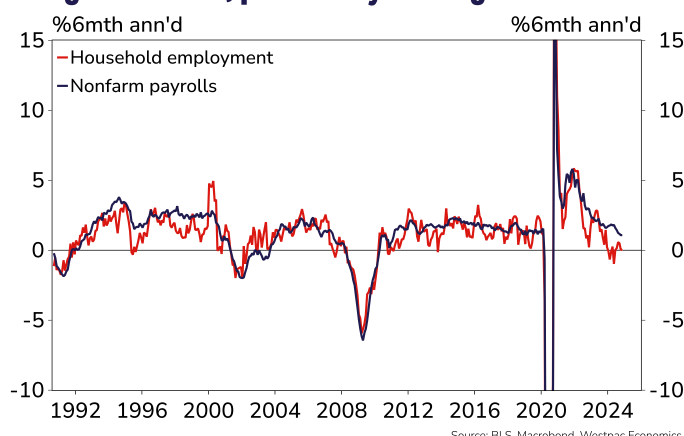
Such an out-turn would also have negative consequences for residential construction and, with a lag, spending by state and local governments. Meanwhile, businesses are, in aggregate, already letting the capital stock decay despite manufacturing investment having received considerable government support over the past five years. Facing growing uncertainty over the terms of trade, it is difficult to foresee business investment accelerating to offset a deterioration in consumer spending. Most likely, investment would also deteriorate.

While the risks to US growth are skewed to the downside, those for inflation remain biased upward. This month President-elect Trump made clear tariffs will be implemented from day one, purportedly to combat illegal migration and fentanyl supply from Mexico, Canada and China. Impacting not only the price of imported finished goods but also production inputs, the effect on consumer inflation will be broad and persistent, with little chance of domestic production replacing imports given years of underinvestment in the capital stock.

Tight US capacity is also likely to prove inflationary in other ways as well. A lack of investment in power generation/ supply, ports and logistics combined with a growing population has laid the foundation for rising energy and transport costs. Likewise, constrained housing supply will see shelter inflation hold above average over the forecast period, with upside risks. Uncertainty for public spending also skews to the upside but, given employment and housing, revenue optionality is limited. The net result is a growing imbalance between spending and savings and consequently a higher spread between the fed funds rate and term market interest rates.

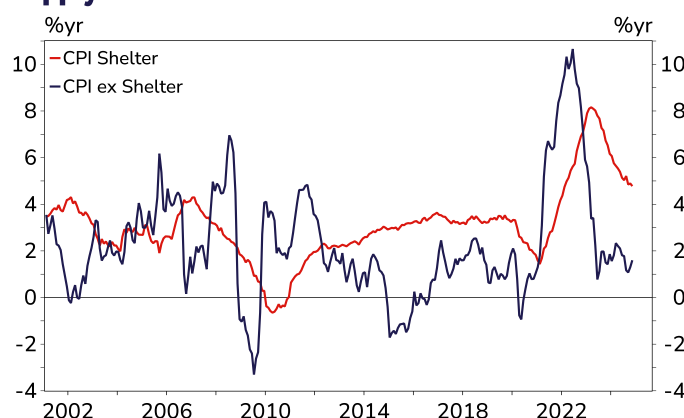
The above risks could play out individually or in combination. If realised, they will jar with the current belief of the market and President-elect Trump's stated ambition and constrain policy makers. The more the administration seeks to isolate the US, the higher the probability and impact of these risks.

Job growth slow, potentially stalling



Source: BLS, Macrobond, Westpac Economics

Supply side to remain a concern



Source: BLS, Macrobond, Westpac Economics

Monthly data	2023 Dec	2024 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
PCE deflator %yr	2.6	2.6	2.8	2.7	2.6	2.4	2.5	2.3	2.1	2.3	–	–
Unemployment rate %	3.7	3.9	3.8	3.9	4.0	4.1	4.3	4.2	4.1	4.1	4.2	–
Non–farm payrolls chg '000	256	236	310	108	216	118	144	78	255	36	227	–
House prices* %yr	6.8	7.5	7.5	7.2	6.8	6.5	5.9	5.2	4.6	–	–	–
Durables orders core 3mth %saar	1.7	2.2	–1.2	2.3	–3.4	–0.5	–2.5	1.9	0.9	1.4	–	–
ISM manufacturing composite	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2	46.5	48.4	–
ISM non–manufacturing composite	53.4	52.6	51.4	49.4	53.8	48.8	51.4	51.5	54.9	56.0	52.1	–
Personal spending 3mth %saar	5.1	5.6	5.6	6.2	6.0	4.0	5.3	4.1	5.8	4.9	–	–
UoM Consumer Sentiment	79.0	76.9	79.4	77.2	69.1	68.2	66.4	67.9	70.1	70.5	71.8	74.0
Trade balance USDbn	–66.4	–68.9	–68.0	–75.5	–76.2	–73.6	–79.2	–70.6	–83.8	–73.8	–	–

Quarterly data	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24(f)
Real GDP % saar	4.4	3.2	1.6	3.0	2.8	2.2
Current account USDbn	–220.7	–221.8	–241.0	–266.8	–	–

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

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Australia

Interest rate forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Cash	4.35	4.35	4.10	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.45	4.43	4.20	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.84	3.75	3.75	3.80	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.88	3.70	3.70	3.70	3.70	3.75	3.75	3.80	3.80
10 Year Bond	4.32	4.35	4.35	4.45	4.55	4.65	4.75	4.85	4.85
10 Year Spread to US (bps)	0	5	5	5	5	5	5	5	5

Currency forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
AUD vs									
USD	0.6368	0.65	0.65	0.66	0.66	0.67	0.68	0.69	0.70
JPY	97.17	98	98	98	98	98	98	98	98
EUR	0.6082	0.61	0.61	0.61	0.61	0.61	0.62	0.62	0.62
NZD	1.1041	1.12	1.12	1.15	1.16	1.16	1.17	1.17	1.16
CAD	0.9055	0.91	0.91	0.91	0.91	0.92	0.92	0.93	0.94
GBP	0.5024	0.50	0.50	0.51	0.51	0.51	0.51	0.52	0.52
CHF	0.5681	0.57	0.57	0.57	0.57	0.58	0.58	0.59	0.60
DKK	4.5359	4.56	4.51	4.54	4.52	4.54	4.61	4.64	4.66
SEK	7.0132	7.05	6.98	7.01	6.98	7.02	7.13	7.17	7.20
NOK	7.1148	7.15	7.08	7.12	7.08	7.13	7.23	7.27	7.31
ZAR	11.34	11.4	11.5	11.5	11.5	11.6	11.7	11.8	11.9
SGD	0.8576	0.87	0.86	0.87	0.86	0.87	0.88	0.89	0.90
HKD	4.9516	5.02	5.04	5.09	5.12	5.19	5.27	5.35	5.39
PHP	37.37	37.6	37.4	37.4	37.3	37.5	37.7	38.1	38.3
THB	21.61	22.0	21.8	21.7	21.5	21.4	21.4	21.4	21.2
MYR	2.8470	2.85	2.83	2.79	2.74	2.71	2.72	2.73	2.75
CNY	4.6315	4.73	4.71	4.73	4.72	4.76	4.79	4.80	4.77
IDR	10153	10109	9945	9921	9834	9849	9860	9867	9814
TWD	20.69	20.7	20.7	20.8	20.7	20.9	21.1	21.3	21.2
KRW	911	901	884	874	858	858	864	869	877
INR	54.43	54.4	54.0	53.9	53.5	53.6	53.7	53.8	53.6

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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	–0.3	0.0	0.7	0.5	0.5	0.5	0.5	1.1	1.0	1.9	2.4
Dwelling investment	1.0	0.7	1.2	0.8	1.1	1.1	1.2	1.2	–2.6	3.6	4.6	6.5
Business investment *	0.1	0.2	–0.2	0.7	0.7	0.8	0.9	0.9	8.7	0.7	3.4	5.1
Private demand *	0.5	0.0	0.1	0.7	0.6	0.6	0.6	0.6	2.1	1.2	2.4	3.4
Public demand *	0.8	0.8	2.2	0.7	0.8	0.7	0.9	0.7	4.1	4.7	3.0	2.4
Domestic demand	0.6	0.2	0.7	0.7	0.6	0.6	0.7	0.7	2.7	2.2	2.6	3.1
Stock contribution	0.7	–0.3	–0.4	0.1	0.0	0.0	0.0	0.0	–1.0	0.1	0.0	0.2
GNE	1.3	–0.1	0.2	0.8	0.6	0.6	0.7	0.7	1.6	2.3	2.6	3.3
Exports	0.1	0.6	0.2	0.4	0.6	0.6	0.5	0.6	3.7	1.3	2.3	1.7
Imports	5.6	0.2	–0.3	1.0	1.0	1.0	1.1	1.1	5.7	6.6	4.3	6.0
Net exports contribution	–1.3	0.1	0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.3	–1.1	–0.4	–1.0
Real GDP %qtr / yr avg	**0.2**	**0.2**	**0.3**	**0.7**	**0.5**	**0.5**	**0.5**	**0.6**	2.1	1.1	2.0	2.2
%yr end	**1.1**	**1.0**	**0.8**	**1.3**	**1.7**	**2.0**	**2.3**	**2.2**	**1.5**	**1.3**	**2.2**	**2.2**
Nominal GDP %qtr	1.3	0.2	0.4	2.3	0.6	0.9	0.7	0.9	–	–	–	–
%yr end	3.8	4.4	3.5	4.2	3.6	4.3	4.6	3.2	4.3	4.2	3.2	3.1

Other macroeconomic variables

	2024				2025				Calendar years			
% change	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2023	2024f	2025f	2026f
Employment (2)	0.4	0.6	0.9	0.7	0.3	0.0	0.0	0.0	–	–	–	–
%yr	2.6	2.2	2.7	2.6	2.5	2.0	1.0	0.3	3.0	2.6	0.3	1.8
Unemployment rate % (2)	3.9	4.1	4.1	4.0	4.2	4.4	4.6	4.6	3.9	4.0	4.6	4.5
Wages (WPI) (sa) (2)	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	–	–	–	–
annual chg	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 (2)	1.0	1.0	0.2	0.2	0.7	0.7	1.0	0.7	–	–	–	–
annual chg	3.6	3.8	2.8	2.4	2.2	1.9	2.7	3.2	4.1	2.4	3.2	2.7
Trimmed mean	1.0	0.9	0.8	0.6	0.7	0.7	0.7	0.7	–	–	–	–
annual chg	4.0	4.0	3.5	3.4	3.0	2.8	2.7	2.7	4.2	3.4	2.7	2.5
Current account $bn	–10.4	–16.4	–14.1	–4.4	–6.1	–5.3	–6.9	–6.5	–	–	–	–
% of GDP	–1.5	–2.4	–2.1	–0.6	–0.9	–0.7	–1.0	–0.9	–0.3	–1.7	–0.9	–1.9
Terms of trade annual chg (1)	–8.2	–6.3	–4.8	–4.1	–2.8	–1.4	0.4	0.3	–6.2	–4.1	0.3	–2.8

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

	2024										
Monthly data	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Employment '000 chg	0.6	113.4	–9.6	21.4	25.2	40.9	49.2	45.2	60.0	12.1	35.6
Unemployment rate %	4.1	3.7	3.9	4.1	4.0	4.1	4.2	4.1	4.1	4.1	3.9
Westpac–MI Consumer Sentiment	81.0	86.0	84.4	82.4	82.2	83.6	82.7	85.0	84.6	89.8	94.6
Retail trade %mth	0.9	0.4	–0.3	0.3	0.5	0.5	0.0	0.7	0.1	0.6	–
Dwelling approvals %mth	–5.7	2.5	0.9	2.0	5.3	–6.8	11.2	–5.3	5.8	4.2	–
Private sector credit %mth	0.5	0.5	0.4	0.5	0.4	0.6	0.5	0.5	0.5	0.6	–
Trade in goods balance AUDbn	10.1	6.6	4.8	6.0	5.1	5.4	5.6	5.3	4.5	6.0	–

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New Zealand

Interest rate forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Cash	4.25	3.75	3.50	3.50	3.50	3.50	3.75	3.75	3.75
90 Day Bill	4.29	3.75	3.60	3.60	3.60	3.70	3.85	3.85	3.85
2 Year Swap	3.59	3.80	3.80	3.85	3.95	4.00	4.00	4.00	4.00
10 Year Bond	4.41	4.50	4.60	4.60	4.70	4.75	4.80	4.85	4.85
10 Year Spread to US	9	20	30	20	20	15	10	5	5
10 Year Spread to Aust	9	15	25	15	15	10	5	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
NZD vs									
USD	0.5768	0.58	0.58	0.57	0.57	0.58	0.58	0.59	0.60
JPY	88.01	88	87	85	84	85	84	84	85
EUR	0.5509	0.55	0.54	0.53	0.52	0.53	0.53	0.53	0.54
AUD	0.9057	0.90	0.89	0.87	0.86	0.87	0.85	0.86	0.86
CAD	0.8201	0.82	0.81	0.79	0.79	0.79	0.79	0.80	0.81
GBP	0.4550	0.45	0.45	0.44	0.44	0.44	0.44	0.44	0.45
CNY	4.1925	4.23	4.21	4.10	4.08	4.12	4.09	4.10	4.11

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2024				2025				Calendar years			
% change	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	0.5	0.4	0.1	0.2	0.3	0.5	0.8	1.0	0.4	0.9	1.7	4.0
Government consumption	0.2	0.6	–1.0	–0.5	–0.5	0.0	0.4	0.4	–1.4	–0.1	–0.9	2.0
Residential investment	–1.6	–0.8	–3.5	–1.0	–0.5	0.3	1.0	1.1	–5.0	–6.3	–2.2	5.7
Business investment	–0.4	1.1	–2.9	–1.7	–0.9	0.6	1.2	1.5	0.7	–3.0	–2.0	5.5
Stocks (ppt contribution)	1.1	–0.1	1.2	0.3	0.2	0.2	0.0	0.0	–1.3	0.7	1.2	–0.3
GNE	1.3	0.1	0.2	0.0	0.2	0.6	0.8	0.9	–1.8	0.0	1.4	3.7
Exports	0.6	–0.8	–1.2	1.4	1.4	1.0	0.8	0.8	11.4	3.0	2.9	3.1
Imports	5.9	–2.0	–2.8	–0.2	0.4	0.9	1.4	1.5	–0.6	–0.1	0.4	6.1
GDP (production)	**0.1**	**–0.2**	**–0.4**	**0.3**	**0.4**	**0.6**	**0.6**	**0.7**	**0.7**	**–0.1**	**1.4**	**2.8**
Employment annual %	1.1	0.3	–0.4	–1.0	–0.7	–1.0	–0.4	0.2	2.8	–1.0	0.2	2.1
Unemployment rate % s.a.	4.4	4.6	4.8	5.1	5.3	5.4	5.4	5.4	4.0	5.1	5.4	4.6
LCI, all sect incl o/t, ann %	4.1	4.3	3.8	3.5	3.1	2.4	2.3	2.0	4.3	3.5	2.0	1.8
CPI annual %	4.0	3.3	2.2	2.1	1.9	1.8	2.1	2.0	4.7	2.1	2.0	2.1
Current account % of GDP	–6.7	–6.7	–6.5	–6.0	–5.2	–4.4	–4.0	–3.9	–7.1	–6.0	–3.9	–4.5
Terms of trade annual %	–3.7	–1.6	1.4	18.0	16.6	13.9	10.7	2.8	–10.7	18.0	2.8	–2.5

Sources: Statistics NZ, Westpac Economics.

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Commodity prices

End of period	Latest (12 Dec)***	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Australian commodities index#	315	302	298	291	287	283	280	282	284	286	288
Bulk commodities index#	**405**	**400**	**390**	**370**	**350**	**350**	**350**	**350**	**350**	**350**	**350**
iron ore finesTSI @ 62% US$/t	105	98	95	88	86	84	83	83	84	85	85
Premium low vol met coal (US$/t)	204	185	180	175	170	170	169	168	169	170	171
Newcastle spot thermal coal (US$/t)	140	140	140	137	125	123	120	121	122	122	123
crude oil (US$/bbl) Brent ICE	72	72	71	70	68	68	69	70	70	71	71
LNG in Japan US$mmbtu	13.22	11.6	11.5	11.3	11.1	10.2	9.5	9.5	9.5	9.5	9.6
gold (US$/oz)	2,715	2,700	2,700	2,700	2,720	2,740	2,770	2,790	2,810	2,840	2,860
Base metals index#	**212**	**209**	**209**	**211**	**217**	**217**	**220**	**223**	**224**	**225**	**227**
copper (US$/t)	9,126	8,750	8,900	9,100	9,500	9,500	9,640	9,780	9,850	9,910	9,980
aluminium (US$/t)	2,921	3,000	2,950	2,900	2,950	2,950	2,980	3,020	3,040	3,050	3,070
nickel (US$/t)	15,761	15,800	15,700	15,900	16,250	16,250	16,490	16,730	16,850	16,960	17,080
zinc (US$/t)	3,103	3,050	3,030	3,050	3,080	3,080	3,110	3,140	3,160	3,170	3,190
lead (US$/t)	2,044	2,050	2,040	2,050	2,060	2,060	2,080	2,100	2,110	2,120	2,130
Rural commodities index#	**121**	**122**	**123**	**123**	**122**	**122**	**124**	**126**	**126**	**127**	**128**
NZ commodities index ##	**364**	**348**	**348**	**349**	**351**	**355**	**358**	**362**	**366**	**371**	**371**
dairy price index ##	319	302	300	301	303	305	307	310	312	313	313
whole milk powder USD/t	3,396	3,370	3,400	3,430	3,450	3,480	3,500	3,530	3,550	3,580	3,580
skim milk powder USD/t	2,753	2,650	2,700	2,720	2,740	2,760	2,780	2,800	2,820	2,850	2,850
lamb price index ##	473	466	470	475	480	488	496	504	511	512	512
beef price index ##	301	284	284	284	285	286	286	287	288	308	308
forestry price index ##	158	160	162	164	166	168	170	173	176	171	171

	levels				% change			
Annual averages	**2023**	**2024(f)**	**2025(f)**	**2026(f)**	**2023**	**2024(f)**	**2025(f)**	**2026(f)**
Australian commodities index#	**323**	**312**	**297**	**282**	**–15.8**	**–3.5**	**–5.0**	**–4.7**
Bulk commodities index#	**500**	**442**	**382**	**351**	**–10.2**	**–11.5**	**–13.6**	**–8.2**
iron ore fines @ 62% USD/t	120	109	93	84	–0.5	–8.4	–15.2	–9.9
LNG in Japan $mmbtu	14.9	13.0	11.5	9.8	–20.0	–12.2	–11.5	–15.1
ave coking coal price (US$/t)	215	195	163	150	–10.2	–9.2	–16.6	–8.1
ave thermal price (US$/t)	184	136	144	128	–45.4	–26.0	5.6	–11.1
iron ore fines contracts (US¢ dltu)	160	155	135	124	–7.9	–3.6	–12.7	–8.4
Premium low vol met coal (US$/t)	296	241	180	169	–19.0	–18.6	–25.1	–6.3
crude oil (US$/bbl) Brent ICE	80	79	71	69	–12.4	–1.6	–10.2	–2.1
gold (US$/oz)	1,962	2,416	2,706	2,771	8.4	23.1	12.0	2.4
Base metals index#	**212**	**210**	**211**	**220**	**–16.5**	**–0.8**	**0.4**	**4.3**
copper (US$/t)	8,500	9,200	9,000	9,700	–3.7	8.2	–2.2	7.8
aluminium (US$/t)	2,700	2,700	2,900	3,000	–30.3	0.0	7.4	3.4
nickel (US$/t)	21,600	17,000	15,900	16,500	–17.6	–21.3	–6.5	3.8
zinc (US$/t)	2,700	2,800	3,100	3,100	–22.2	3.7	10.7	0.0
lead (US$/t)	2,100	2,100	2,000	2,100	–2.5	0.0	–4.8	5.0
Rural commodities index#	**141**	**127**	**123**	**125**	**–17.9**	**–10.1**	**–3.1**	**1.6**
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

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United States

Interest rate forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Fed Funds*	4.625	4.125	3.875	3.625	3.375	3.375	3.375	3.625	3.875
10 Year Bond	4.33	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.80

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

Currency forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
USD vs									
DXY index	106.98	105.7	104.5	103.9	103.1	102.0	101.6	100.8	100.3
JPY	152.58	151	150	149	148	146	144	142	141
EUR	1.0470	1.06	1.07	1.08	1.09	1.10	1.10	1.11	1.11
AUD	0.6368	0.65	0.65	0.66	0.66	0.67	0.68	0.69	0.70
NZD	0.5768	0.58	0.58	0.57	0.57	0.58	0.58	0.59	0.60
CAD	1.4219	1.41	1.40	1.39	1.38	1.37	1.36	1.35	1.35
GBP	1.2678	1.28	1.29	1.30	1.31	1.32	1.33	1.33	1.33
CHF	0.8920	0.88	0.87	0.87	0.87	0.86	0.86	0.86	0.86
ZAR	17.80	17.6	17.6	17.5	17.5	17.4	17.2	17.1	17.0
SGD	1.3468	1.34	1.33	1.32	1.31	1.30	1.30	1.29	1.29
HKD	7.7748	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
PHP	58.25	58.0	57.5	57.0	56.5	56.0	55.5	55.2	55.0
THB	33.94	34.0	33.5	33.0	32.5	32.0	31.5	31.0	30.5
MYR	4.4366	4.40	4.35	4.25	4.15	4.05	4.00	3.95	3.95
CNY	7.2690	7.30	7.25	7.20	7.15	7.10	7.05	6.95	6.85
IDR	15944	15600	15300	15100	14900	14700	14500	14300	14100
TWD	32.50	32.0	31.8	31.6	31.4	31.2	31.0	30.8	30.5
KRW	1430	1390	1360	1330	1300	1280	1270	1260	1260
INR	84.87	84.0	83.0	82.0	81.0	80.0	79.0	78.00	77.0

Activity forecasts

	2024				2025			Calendar years			
% annualised, s/adj	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	1.9	2.8	3.5	2.4	2.4	2.4	2.4	2.5	2.7	2.6	2.3
Dwelling investment	13.7	–2.8	–5.0	3.2	3.2	3.6	4.1	–8.3	4.0	2.0	2.5
Business investment	4.5	3.9	3.8	2.9	3.4	3.2	3.2	5.8	3.9	3.2	2.8
Public demand	1.8	3.0	5.0	2.0	2.0	2.0	2.0	3.9	3.3	2.3	2.0
Domestic final demand	2.6	2.8	3.5	2.5	2.5	2.5	2.5	2.8	3.0	2.6	2.3
Inventories contribution ppt	–0.5	0.9	–0.1	–0.2	–0.2	0.0	0.0	–0.4	0.1	0.0	0.0
Net exports contribution ppt	–0.7	–1.0	–0.7	–0.1	–0.3	–0.3	–0.2	0.5	–0.5	–0.2	–0.2
GDP	1.6	3.0	2.8	2.2	2.2	2.3	2.4	2.9	2.7	2.3	2.0
%yr annual chg	2.9	3.0	2.7	2.4	2.5	2.4	2.3	–	–	–	–

Other macroeconomic variables

	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	2023	2024f	2025f	2026f
Non–farm payrolls mth avg	257	192	144	141	110	90	70	245	184	85	130
Unemployment rate %	3.8	4.0	4.2	4.3	4.4	4.4	4.5	3.6	4.1	4.5	4.5
CPI headline %yr	2.5	2.5	2.5	2.3	2.2	2.1	2.0	2.7	2.2	2.3	2.5
PCE deflator, core %yr	2.5	2.5	2.5	2.4	2.3	2.3	2.2	2.4	2.2	2.3	2.4
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

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Europe & the United Kingdom

Interest rate forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Euro Area									
ECB Deposit Rate	3.00	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25
10 Year Bund	2.21	2.20	2.25	2.35	2.45	2.55	2.65	2.75	2.80
10 Year Spread to US	–212	–210	–205	–205	–205	–205	–205	–205	–200
United Kingdom									
BoE Bank Rate	4.75	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50
10 Year Gilt	4.36	4.40	4.40	4.45	4.50	4.60	4.70	4.80	4.80
10 Year Spread to US	3	10	10	5	0	0	0	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
euro vs									
USD	1.0470	1.06	1.07	1.08	1.09	1.10	1.10	1.11	1.11
JPY	159.76	160	161	161	161	161	158	158	157
GBP	0.8259	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.84
CHF	0.9338	0.93	0.93	0.94	0.95	0.95	0.95	0.95	0.96
DKK	7.4577	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.53	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
NOK	11.70	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
sterling vs									
USD	1.2678	1.28	1.29	1.30	1.31	1.32	1.33	1.33	1.33
JPY	193.43	194	194	194	193	193	192	189	188
CHF	1.1308	1.13	1.13	1.13	1.14	1.14	1.14	1.14	1.14
AUD	0.5023	0.50	0.50	0.51	0.51	0.51	0.51	0.52	0.52

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	0.8	1.3	1.5
private consumption	–8.0	3.5	4.0	0.6	0.8	1.3	1.4
fixed investment	–8.4	3.6	3.5	1.0	–1.9	1.2	1.9
government consumption	1.4	3.8	1.2	0.1	1.8	1.3	1.4
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	0.8	1.2
France GDP	–7.5	6.3	2.5	0.9	1.0	1.0	1.2
Italy GDP	–9.0	8.3	4.0	0.9	0.7	1.0	1.0
Spain GDP	–11.2	6.4	5.8	2.5	2.9	2.3	1.6
Netherlands GDP	–3.9	6.2	4.3	0.1	0.7	1.5	1.4
memo: United Kingdom GDP	–10.4	8.7	4.3	0.1	1.0	1.4	1.5

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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	1.4	1.7
Producer prices	–0.5	–0.4	10.3	–0.7	–3.0	–1.5	0.9	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	3.8	5.0	5.0
Money supply M2	8.7	10.1	9.0	11.8	11.2	7.2	8.0	8.0
Fixed asset investment	5.4	2.9	4.9	5.1	3.5	4.0	4.5	4.5
Exports %yr	7.9	18.1	20.9	–9.9	–4.6	4.6	3.5	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 (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Required reserve ratio %*	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Loan Prime Rate, 1–year	3.10	2.90	2.80	2.80	2.80	2.80	2.80	2.80	2.80

* For major banks.

Currency forecasts

	Latest (13 Dec)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
JPY	152.58	151	150	149	148	146	144	142	141
SGD	1.3468	1.34	1.33	1.32	1.31	1.30	1.30	1.29	1.29
HKD	7.7748	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
PHP	58.25	58.0	57.5	57.0	56.5	56.0	55.5	55.2	55.0
THB	33.94	34.0	33.5	33.0	32.5	32.0	31.5	31.0	30.5
MYR	4.4366	4.40	4.35	4.25	4.15	4.05	4.00	3.95	3.95
CNY	7.2690	7.30	7.25	7.20	7.15	7.10	7.05	6.95	6.85
IDR	15944	15600	15300	15100	14900	14700	14500	14300	14100
TWD	32.50	32.0	31.8	31.6	31.4	31.2	31.0	30.8	30.5
KRW	1430	1390	1360	1330	1300	1280	1270	1260	1260
INR	84.87	84.0	83.0	82.0	81.0	80.0	79.0	78.0	77.0

Source: Bloomberg, Westpac Economics.

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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**	**3.3**
United States	2.5	–2.2	5.8	1.9	2.9	2.8	2.4	2.0
Japan	–0.4	–4.1	2.6	1.0	1.9	–0.1	1.2	1.0
Euro zone	1.6	–6.1	5.9	3.4	0.4	0.8	1.3	1.5
Group of 3	**1.8**	**–3.9**	**5.5**	**2.4**	**1.9**	**1.7**	**1.9**	**1.7**
United Kingdom	1.6	–10.4	8.7	4.3	0.1	1.0	1.4	1.5
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	–0.1	1.4	2.8
OECD total	**1.8**	**–4.3**	**5.8**	**2.8**	**1.8**	**1.6**	**1.8**	**1.8**
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	2.3	2.0	2.3
Taiwan	3.1	3.4	6.6	2.6	1.4	4.0	2.8	2.7
Hong Kong	–1.7	–6.5	6.5	–3.7	3.2	2.6	2.4	2.4
Singapore	1.3	–3.9	9.7	3.8	1.1	3.2	2.8	2.6
Indonesia	5.0	–2.1	3.7	5.3	5.0	5.1	5.1	5.1
Thailand	2.1	–6.1	1.5	2.5	1.9	2.7	3.2	3.1
Malaysia	4.4	–5.5	3.3	8.7	3.7	5.2	4.9	4.6
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	6.6	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	4.3	4.1	4.1
NIEs*	**2.0**	**–0.5**	**5.9**	**2.2**	**1.5**	**2.9**	**2.4**	**2.5**
India	3.9	–5.8	9.7	7.0	7.8	6.8	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	3.0	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	5.0	6.6
Middle East	1.3	3.2	2.8	2.8	2.8	2.9	2.9	2.9
C & E Europe	–2.4	–4.8	9.0	4.3	3.2	2.5	3.2	3.4
Africa	3.2	–1.6	4.7	4.0	3.4	3.8	4.0	4.0
Emerging ex–East Asia	**1.6**	**–2.6**	**6.5**	**3.6**	**3.9**	**4.0**	**4.0**	**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**	**3.3**

#Regional and global groupings are weighted using PPP exchange rates updated to reflect ICP 2011 benchmark revisions.* "NIEs" signifies "Newly Industrialised Economies" as defined by the IMF, viz; Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore. ^ CIS is the Commonwealth of Independent States, including Mongolia. Sources: IMF, Westpac Economics.

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