Week beginning 9 December, 2024

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: The care economy slow lane.

The Week That Was: Growth headwinds.

Focus on New Zealand: Commercial property in focus.

For the week ahead:

RBA: RBA policy decision, speeches by Deputy Governor Hauser, Assistant Governors Hunter and Jones.

Australia: labour force survey, NAB business survey.

New Zealand: retail card spending, manufacturing PMI, net migration.

Japan: current account balance, Tankan survey, industrial production.

China: CPI, PPI, M2 money supply, new loans, trade balance.

Eurozone: ECB policy decision, Sentix investor confidence, industrial production.

United Kingdom: GfK consumer sentiment, monthly GDP estimate.

United States: CPI, wholesale inventories, NFIB small business survey, labour productivity, PPI.

Information contained in this report current as at 6 December 2024

The care economy slow lane

Luci Ellis
Chief Economist, Westpac Group

Australian households have been hit by the largest real income shock since the Great Depression. And, although tax cuts and declining inflation boosted real incomes in the September quarter, other sources of income were weak. No wonder the spending response to those tax cuts was so anaemic and private demand has shown essentially no growth in recent quarters.

The RBA has been sanguine about this weakness in private demand. It assesses that aggregate demand has been outstripping aggregate supply, implying that a period of weak demand is needed to close the gap. In our view, though, the output gap has largely closed. The further deceleration in wages growth, unit labour cost growth and output price inflation in the latest quarter are all consistent with this.

The difference is that the RBA's post-Review framework treats any deviation of inflation from target as a sign of a positive output gap. The Governor's latest speech framed the assessment in this way: "Elevated inflation indicates that the level of demand in the economy is above the ability of the economy to supply the goods and services demanded."

While this implicitly acknowledges that inflation expectations have been anchored, it does not adequately allow for lags in price adjustment or the fact that the usual year-ended calculation of inflation incorporates stale information. Nor does it make a distinction between stable above-target inflation and declining above-target inflation. While their models are more sophisticated than this, it seems something has been lost in an effort to simplify communications. Even more perplexing, the speech did not mention wages growth at all.

We also note that the concentration of growth in the public demand segment is part of a broader pattern where the non-market sector of the economy (health & social care, education and public administration – not all public sector) accounts for a larger share of the economy. Combined with growth in new public spending, at 2.2%qtr, outstripping the rest of the economy, these three industries accounted for the bulk of employment growth over the past year or so.

Baristas and care workers

This shift has several implications. First, strong growth in non-market sectors has only a weak link to overall price pressures, because their prices are not determined in markets.

Second, taken together, these sectors generate less GDP or output per hour worked (i.e. labour productivity) than the market sector does. Arithmetically, as the share of non-market sector activity rises, measured economy-wide labour productivity falls, as we have previously highlighted. This is about more than different growth rates in productivity. In the transition, where the non-market sector's share of the economy is rising, it is also a consequence of the differing productivity levels.

Third, measured aggregate productivity is further dragged down because measured labour productivity within the non-market sector has fallen, according to the annual national accounts. This is the result of the shifting mix of occupations within the 'care economy' towards relatively low-paid childcare and age & disability care workers – much like the 'barista phenomenon' we identified previously.

> **"This period of weak demand and an apparently strong labour market may well be a transition phase."**

In the Q&A following her recent speech, RBA Governor Michele Bullock acknowledged that many of these additional workers are doing important jobs with significant positive spillovers for the rest of the community – teaching, nursing, caring for small children and the elderly. What was not acknowledged was that this period of weak demand and an apparently strong labour market may well be a transition phase. Instead, it is being interpreted as a signal that the trend in supply capacity is even weaker than previously believed.

This means that, when the RBA Board leaves the cash rate unchanged next week, it is also likely to keep its messaging similar to recent RBA communications. While there is an argument to pivot the language to signal that they are getting closer to the point of cutting rates, we do not expect that they will.

When the ramp-up ends

Further out, there is the question of what happens when the non-market part of the economy is no longer increasing as a share of the overall economy, which will happen sooner or later. To maintain overall growth, the market sector would need to see faster growth than it has recorded recently. However, historical experience suggests that when one or a few sectors are expanding their share at the expense of all the others, it takes a while before those other sectors' growth rates bounce back.

The Australian economy could therefore be in for a period of even more subdued growth and much weaker employment than has occurred recently. And while we expect private investment to become a more prominent driver heading into 2026 – reflecting the need to expand capacity, transition to lower carbon emissions, and adopt new technologies – this may be slow to gain momentum.

It's unclear how long this relative expansion in public demand will continue. Although the ABS reported that growth in NDIS spending was subdued in the September quarter, this and other programs might not have completed their ramp-ups. There are also risks around next year's Federal election, both from additional boosts to public demand in the lead-in and potential changes flowing from the election outcome. In the short term, then, this shift might have further to run.

The risk is that a period of transition to a new economic configuration is misinterpreted as an ongoing trend. In that case, the shakeout once the transition ends could come as a shock.

Cliff Notes: growth headwinds

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

Australia's Q3 National Accounts disappointed expectations with GDP up just 0.3% (0.8%yr) as the gap between public and private demand widened – the latter now stalled for six months. While partly explained by the 'reallocation' of electricity spending by households to the government through energy rebates, the majority of the divergence comes as a consequence of prolonged weakness in real incomes, elevated interest rates and a historically-high tax burden. Highlighting the cumulative impact on the economy, Q3 marked the sixth consecutive quarterly decline in per capita GDP, the longest (but not deepest) contraction since the 1950s, when official records begin. In this week's essay, Chief Economist Luci Ellis considers the consequences for productivity and monetary policy.

Looking into the detail of the National Accounts, it is hardly surprising that the primary contributor to the Q3 surprise was household consumption, flatlining in Q3 to be up just 0.4% over the year. The underlying picture for real household disposable incomes was more constructive owing to the stage 3 tax cuts and disinflation, but the 0.8% gain was saved not spent – a result foreshadowed by the Westpac Consumer Panel. On current data, the latest updates on retail sales and experimental measures of household spending point to a solid lift in consumption in October, but our measure of card activity cautions that shifting seasonal patterns around end-of-year discounting are likely to distort affected monthly reads, as occurred last year.

> **"Looking to 2025, income and saving dynamics stand as significant headwinds for the recovery in consumption."**

The external sector also provided little support for GDP in Q3, the current account deficit narrowing slightly from a materially downwardly revised figure of –$16.4bn to –$14.1bn in Q3. The terms of trade are still elevated but have fallen back over the past year; export volumes are also struggling as import volumes gain steadily, albeit recently at a slower pace. While net exports have added 0.1ppts to growth in both Q2 and Q3, prior weakness saw the external account subtract a percentage point from GDP growth over the year.

Before moving offshore, it is worth noting that the latest CoreLogic data highlighted a broadening in the nascent slowdown in Australian house price growth. Affordability is increasingly a concern across the capitals – price growth slowing in Perth, Adelaide and Brisbane, as buyers lower their expectations, and in outright decline in Sydney and Melbourne, where many would be buyers have been priced out. Supply remains critical for the affordability outlook; encouragingly, the firming uptrend in dwelling approvals is coinciding with tentative evidence of easing supply constraints for construction, balancing the risks around the pipeline. For more detail on our views around the housing market, see our latest Housing Pulse on Westpac IQ.

Ahead of tonight's employment report, data received for the US continued to support a 25bp cut at the FOMC's December meeting.

JOLTS job openings rose from 7.4mn to 7.7mn in October, reversing September's decline. Looking through the monthly volatility, the trend remains consistent with a labour market that is slowly decelerating from a starting point broadly consistent with the pre-pandemic experience – when both wages and inflation were benign. The FOMC's December Beige Book provided further evidence of labour market balance with some glimpses of downside risks, employment characterised as "flat or up only slightly across Districts" and wage growth having "softened to a modest pace". Unsurprisingly, on inflation, prices were said to have risen "only at a modest pace… [and] Both consumer-oriented and business-oriented contacts reported greater difficulty passing costs on to customers".

The ISM services survey corroborated the above view, the headline PMI falling from 56.0 to 52.1 in November and employment weakening from 53.0 to 51.5, both outcomes well below their five-year pre-COVID averages but still expansionary. The ISM manufacturing survey in contrast shone the spotlight on downside risks, the headline and employment indexes well below average at outright contractionary levels. The prices paid measures meanwhile remained consistent with consumer inflation at target. Altogether, this week's data supports our expectation of a 25bp cut from the FOMC at their 17-18 December policy meeting. Tonight's employment report and the upcoming November CPI report will inform on the risks to this view and the outlook for policy in 2025. Chair Powell and other recent FOMC speakers have made clear their policy decisions will be made meeting-by-meeting in a data and risk dependent manner.

Commercial property in focus

Kelly Eckhold
Chief Economist NZ

Since peaking in 2021, the value of commercial property assets in New Zealand has fallen by around 10%. [1] That sharp decline followed the rise in interest rates and related weak economic activity in recent years. The number of commercial property transactions has also fallen to low levels, with the value of sales dropping below $6b over the 12 months to June 2024. That's the lowest in more than a decade and well down from the levels of around $10b per annum that we saw in the years prior to the pandemic.[2]

Conditions in the commercial property sector are expected to firm again over the coming years, with investor confidence already turning higher in recent months. Interest rates are now dropping, and GDP growth is expected to accelerate to 2.3% in 2025 and 2.7% in 2026. That strengthening in economic activity is likely to fuel increased occupier demand for space, and it will also boost investor appetites. However, with the recovery in economic growth to be gradual, the demand for commercial property is likely to remain subdued in the near term. We're also likely to see conditions remaining varied across market segments, as well as more space becoming available over the coming year. Those conditions will be reflected in rents and yields.

Office

Recent years have seen significant changes in businesses operating models that have impacted the demand for office space. Even before the pandemic, many businesses were reassessing the amount of space they needed and reducing their footprints. That trend accelerated significantly over the past few years with the increasing prevalence of work-from-home and flexible working models. Data from Seek show that around 9% of advertised jobs can now be done from home (up from only around 1% prior to the pandemic)[3] and a recent report from CBRE showed that office attendance for the average worker is now just over three days each week. [4] Working from home has been especially popular in Wellington, where around 13% of job ads include work from home options. It's also popular in Auckland.

Although there has been some reversal of work-from-home practices recently, the shift toward more flexible working policies means that many businesses now need less space. At the same time, the types of spaces occupiers are demanding have been changing. Occupiers are increasingly seeking higher quality premises that are close to amenities to help attract staff back into the workplace. They are also opting for premises that meet environmental and seismic concerns.

In response to those shifting preferences, there continues to be a significant amount of development and refurbishment work occurring, especially in Auckland. However, this is also resulting in a two-tier market, with strong demand for premium and A-grade space, and less demand for lower grade offerings. That split in occupier preference has resulted in a growing wedge in rents between higher grade properties (which are able to command higher rents) and lower grade ones. It's also resulted in increased vacancy rates among lower grade properties.

Retail

Occupier demand for retail space has fallen in recent years. In part, that's been because of tough economic conditions. Sharp rises in living costs and related increases in interest rates saw retail spending levels fall by close to 3% in the year to September. On top of that, the pandemic accelerated the shift to online purchases, with a related downturn in spending in traditional brick-and-mortar stores. There have been similar trends in the hospitality sector, with households winding back their spending in bars, cafes and restaurants in response to the squeeze on their finances.

In some areas, that downturn in both retail and hospitality spending has been compounded by changes in how and where we are working. The shift to work-from-home and hybrid working models has seen reduced foot traffic in city centres in metropolitan areas like Auckland and Wellington, and there have been related falls in spending in those areas. However, some of the spending lost from city centres has actually shifted to suburban areas. In addition, online delivery services have captured some of the spending that previously occurred in takeaway or sit-down restaurants.

We've also seen differing demand trends across store types. While strip-retail and central city locations have been out of favour, we've seen firmer sales and demand for space from big-box / large-format retailers. Similarly, demand in shopping malls has tended to be more resilient, with operators able to combine retail, dining and entertainment activities in one location to attract customers.

In the face of weaker consumer spending and shifts in spending patterns, here's been a sharp decline in the amount of new retail and hospitality space being developed. As with other segments, rental growth has also slowed over the past year.

[1] RBNZ *Financial Stability Report Special* topic August 2024, "Commercial Property in New Zealand"
[2] https://www.colliers.co.nz/en-nz/real-estate-research/new-zealand-research-report-november-2024
[3] https://www.seek.co.nz/about/news/article/economist-insight-jan24
[4] https://www.cbre.co.nz/insights/books/new-zealand-office-occupier-survey-2024/hybrid-working

We expect that retail spending growth will remain limited over the next few months. A more material lift is expected to take shape through the first half of next year as the effects of lower interest rates ripple through the economy.

Industrial space

A corollary of the shift away from traditional physical stores and towards online spending has been increased demand for warehouse and storage buildings. That demand for space has also been supported by a focus on more efficient inventory management by retailers.

While we're continuing to see firm occupier demand, some of the tightness in the industrial property space is now easing. While vacancy rates remain low in both Auckland and Christchurch, they have been nudging higher. And there is also a large amount of space currently in development. We've also seen rental growth slowing again over the past year.

Rents

With a downturn in economic growth, the past year saw the growth in commercial rents slowing across all segments.

Rental growth is expected to lift over the coming years as economic activity picks up again and fuels the demand for space. Even so, rental growth is likely to remain gradual for some time yet. That's because the recovery in activity is likely to remain gradual in the near term. In addition, inflation is expected to track close to 2% over the year ahead, meaning smaller CPI Indexation adjustments to rents than we saw over the past few years.

Increases in supply could also be a brake on rental growth. Vacancy rates have been rising (albeit from low levels in some cases), and there is a large amount of industrial and office space in development.

Yields

Commercial property yields firmed over the past couple of years as interest rates pushed higher and economic growth stalled. That reversed the declines seen in the preceding years, with yields now back around the levels we last saw in 2015/16.

For prime grade properties, average gross yields on industrial assets are now around 5.5%, office around 6% to 7%, and yields on retail properties have averaged around 7% to 7.5% (though there are sizeable differences across regions and asset classes).

Commercial property yields have flattened off in recent months. And with interest rates now dropping, some modest declines are expected over the coming year.

As a comparison:

- The Official Cash Rate has fallen to 4.25% and is expected to reach a low of 3.5% in mid-2025.
- Two-year swap rates have fallen to around 3.63% and are expected to rise to 3.95% over 2025.

Term deposit rates have fallen to around 5% or lower depending on the term.

AUS: RBA Policy Decision (%)

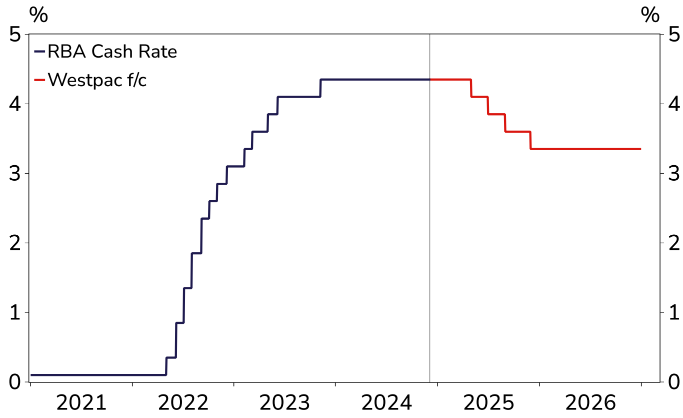
Dec 10, Last: 4.35, Westpac f/c: 4.35
Market f/c: 4.35, Range: 4.35 to 4.35

Westpac anticipates that the RBA Board will leave the cash rate unchanged at 4.35% at its upcoming policy meeting.

The Q3 National Accounts confirmed the domestic economy remains in a sluggish state. The widening gap between public and private demand has important implications for productivity and monetary policy, as explored in more detail on Page 2; however, we instead believe the RBA are likely to retain a familiar tone consistent with recent communications.

This will give the RBA more time to assess the sustainability of the deceleration in inflation over the coming months. We continue to expect the first rate cut to be delivered in May, with a 100bps of cumulative easing anticipated over 2025.

RBA to remain on hold in December



Source: RBA, Macrobond, Westpac Economics

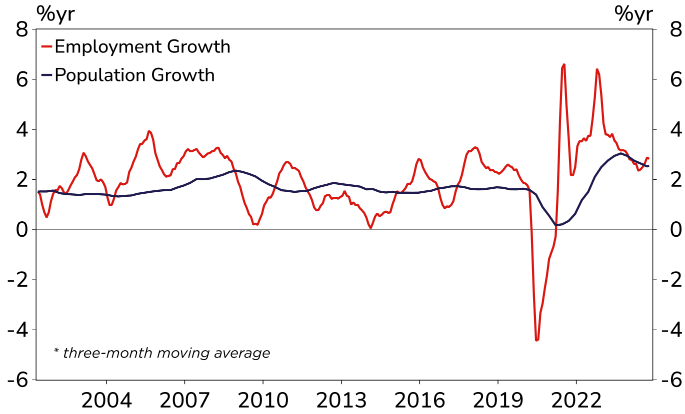
AUS: Nov Labour Force – Employment Change (000s)

Dec 12, Last: 15.9, Westpac f/c: 20
Market f/c: 25, Range: 15 to 50

In October, employment rose by +15.9k, slightly below our forecast of +20k and under the market consensus of +25k. This was the softest monthly increase since May, marking a departure from recent above-trend strength – an average of around +50k per month over the September quarter. That was enough to see the employment-to-population ratio ease marginally, albeit still rounding to a record high 64.4%.

For November, we anticipate a broadly similar story, with employment forecast to rise by 20k. Seasonality around Black Friday remains a potential wildcard, but we anticipate any strength to be associated with firmer hours rather than headcount. On a multi-month basis, this result would not materially change the broader narrative of a relatively solid labour market that is gradually becoming more balanced.

Employment growth broadly in line with population



Source: ABS, Macrobond, Westpac Economics

AUS: Nov Labour Force – Unemployment Rate (%)

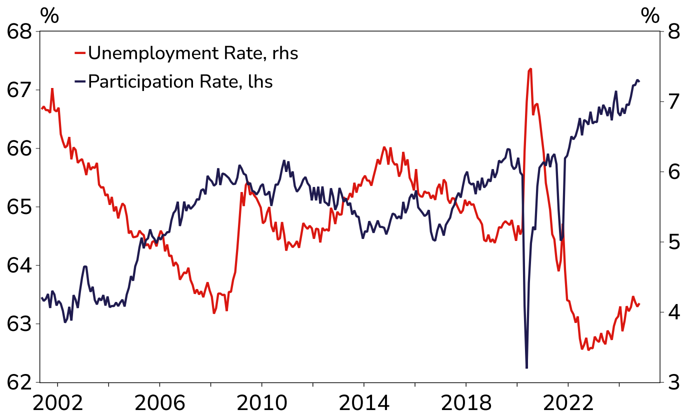
Dec 12, Last: 4.1, Westpac f/c: 4.2
Market f/c: 4.2, Range: 4.1 to 4.2

After reaching a peacetime record high in September, labour force participation eased marginally in October, from 67.18% to 67.14%. With the labour force outstripping employment only slightly, the unemployment rate managed to hold flat at 4.1% for a third consecutive month (currently 4.13%).

Other measures of underutilisation are also not ringing any alarm bells: the underemployment rate is at its lowest since April 2023, youth unemployment still well below pre-pandemic levels, and average hours are still yet to show clear signals of softening labour demand.

For November, we expect participation to ease marginally but hold at a rounded figure of 67.1%; this would be enough to see the unemployment rate round up to 4.2%.

Unemployment rate trending up very gradually



Source: ABS, Macrobond, Westpac Economics

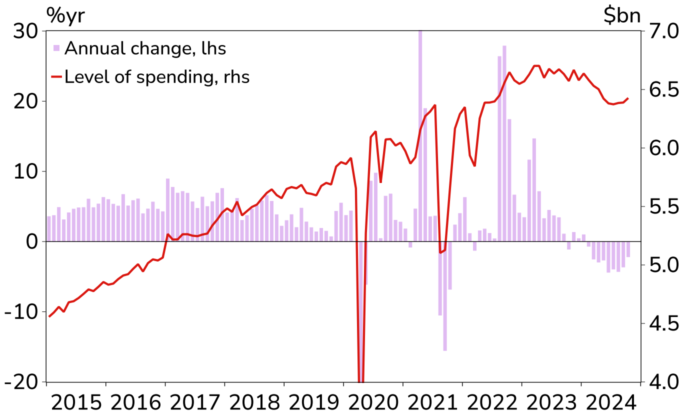
NZ: Nov Retail Card Spending (%mth)

Dec 12, Last: +0.6, Westpac f/c: +0.5

Retail spending levels rose 0.6% in October. That was the third increase in a row and comes on the back of tax cuts in late July, as well as the start of the RBNZ's rate cutting cycle in August. Gains have been centred on the hospitality sector.

We're forecasting another moderate rise of 0.5% in November. In addition to easing borrowing costs, spending is likely to be boosted by sales events like 'Black Friday' promotions. However, a rise in petrol prices will limit any increases in spending in other areas.

Retail downturn has been arrested



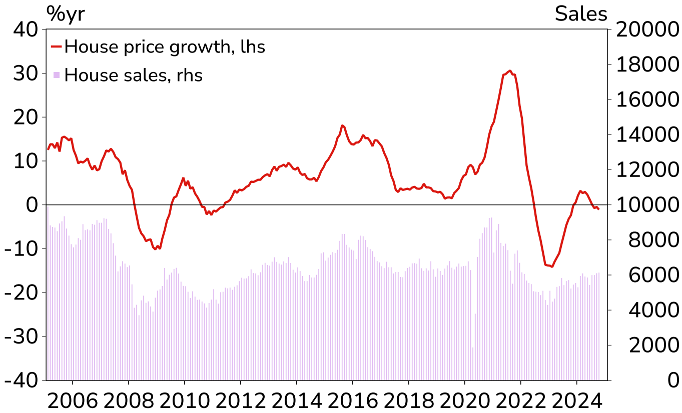
Source: Stats NZ, Macrobond, Westpac Economics

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

Dec 13 (TBC), Prices Last: –1.1; Sales Last: +20

As mortgage rates have fallen, we've seen clear signs of a revival in interest among potential buyers, with home loan applications well up on last year. However, that has yet to translate into a lift in activity – house sales have risen only modestly in recent months, and sale prices have remained subdued. The large number of listings on the market suggests that buyers are not under pressure to act. But as this backlog is worked through, we would expect to see a more meaningful lift in prices next year.

Housing market to benefit from lower interest rates



Source: REINZ, Macrobond, Westpac Economics

US: Nov CPI (%mth)

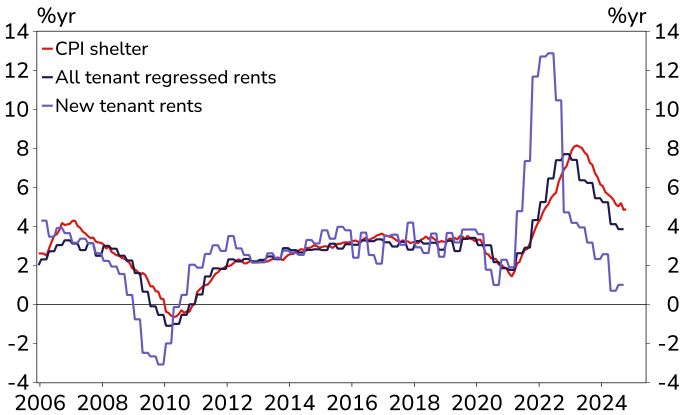
Dec 11, headline, Last: 0.2, Westpac f/c: 0.3
Market f/c: 0.3, Range: 0.2 to 0.3

October's US CPI was benign and is expected to remain so in November. While core inflation is up 3.3%yr versus a 2.6%yr headline gain and the FOMC's 2.0%yr medium-term objective, also excluding shelter core inflation is at target, 2.1%yr.

While best regarded as a risk for November, over the coming year the partial indicators for shelter suggest headline and core inflation will tend towards the current ex-shelter pace and medium-term policy target.

Come 2025, it will be important to gauge the impact of tariffs on goods inflation which has already moved out of deflation to be broadly flat. Risks will build through 2025, into 2026.

Shelter to decelerate, rent g'th flat



Source: BLS, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 09							
Jpn	Oct	Current Account Balance (SA)	¥trn	1.3	2.2	–	Stronger Yen points to a wider current account surplus in Oct.
	Q3	GDP	%qtr	0.2	0.3	–	Final estimate might show an upward revision to Q3 GDP.
Chn	Nov	CPI	%ann	0.3	0.4	–	Little or no recovery in Chinese inflation….
	Nov	PPI	%ann	–2.9	–2.9	–	…as producer price inflation remains well below zero.
	Nov	M2 Money Supply	%ann	7.5	7.5	–	Looser monetary conditions support money supply…
	Nov	New CNY Loans YTD	trn	16.5	17.5	–	… and lending growth. Note this data is due December 9-15.
Eur	Dec	Sentix Investor Confidence	index	–12.8	–13.2	–	Signs of higher uncertainty impacting confidence.
US	Oct	Wholesale Inventories	%mth	0.2	–	–	Final estimate.
Tue 10							
Aus	Nov	NAB Business Conditions	index	7	–	–	Stable business conditions and higher business confidence.
	Dec	RBA Policy Decision	%	4.35	4.35	4.35	Reaction to Q3 GDP will be the focus. See textbox.
Chn	Nov	Trade Balance	US$bn	95.7	92	–	Sep surplus close to record highs of June 2024.
US	Nov	NFIB Small Business Optimism	index	93.7	94.1	–	Small businesses feeling more confident after the US election.
	Q3	Labour Productivity	%qtr	2.2	2.2	–	Final estimate likely to confirm above-2%yr increase.
Wed 11							
Aus		RBA Deputy Governor	–	–	–	–	Hauser speaking at ABE Annual Dinner, 6:00pm AEDT.
US	Nov	CPI	%mth	0.2	0.3	0.3	Goods inflation trend critical through 2025 given tariffs.
Can		Bank of Canada Policy Decision	%	3.75	3.25	–	25bp or 50bp interest rate cut in Canada.
Thu 12							
Aus		RBA Assist' Governor (Fin Syst)	–	–	–	–	Jones speaking at AusPayNet Summit 2024, 9:15am AEDT.
	Nov	Employment Change	000s	15.9	25	20	Black Friday remains a potential wildcard, but on a multi-month…
	Nov	Unemployment Rate	%	4.1	4.2	4.2	… basis, the labour market remains solid, easing only gradually.
NZ	Nov	Retail Card Spending	%mth	0.6	–	0.5	Spending levels starting to push higher again.
Eur	Dec	ECB Policy Decision (Deposit Rate)	%	3.25	3.00	3.00	25bp interest rate cut is fully priced in.
US	Nov	PPI	%mth	0.2	0.3	–	Underlying inflationary pressures remain quite stable.
		Initial Jobless Claims	000s	224	–	–	Historically low, likely to remain so in coming months.
Fri 13							
Aus		RBA Assist' Governor (Economic)	–	–	–	–	Hunter speaking at University of Adelaide, 12:30pm AEDT.
NZ	Nov	REINZ House Sales	%yr	20.0	–	–	Lower mortgage rates are reviving buyer interest…
	Nov	REINZ House Prices	%yr	–1.1	–	–	… but sale prices have remained subdued.
	Nov	Manufacturing PMI	index	45.8	–	–	Current conditions remain soft.
	Oct	Net Migration	no.	2310	–	–	Net inflows easing as job prospects weaken.
Jpn	Q4	Tankan Large Manufacturers	index	13	13	–	Major business confidence survey from the BoJ.
	Oct	Industrial Production	%mth	3.0	–	–	Final estimate to confirm a steep increase in October.
Eur	Oct	Industrial Production	%mth	–2.0	0	–	Weakness in manufacturing to continue.
UK	Dec	GfK Consumer Sentiment	index	–18	–	–	Mood of UK consumers ahead of the holiday season.
	Oct	Monthly GDP	%mth	–0.1	–	–	Output growth at the start of Q4.
US	Nov	Import Price Index	%mth	0.3	-0.3	–	Likely to signal that imported inflation remained low.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (6 Dec)	Dec–24	Mar–25	Jun–25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Cash	4.35	4.35	4.35	4.10	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.43	4.43	4.43	4.20	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.82	4.00	3.90	3.90	3.80	3.80	3.85	3.90	3.90	4.00
3 Year Bond	3.82	3.95	3.80	3.80	3.65	3.65	3.65	3.70	3.70	3.80
10 Year Bond	4.23	4.50	4.45	4.45	4.50	4.55	4.65	4.75	4.85	4.85
10 Year Spread to US (bps)	6	20	15	15	10	5	5	5	5	5
United States										
Fed Funds	4.625	4.375	3.875	3.625	3.375	3.375	3.375	3.375	3.625	3.875
US 10 Year Bond	4.17	4.30	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.80
New Zealand										
Cash	4.25	4.25	3.75	3.50	3.50	3.50	3.50	3.75	3.75	3.75
90 Day Bill	4.325	4.15	3.75	3.60	3.60	3.60	3.70	3.85	3.85	3.85
2 Year Swap	3.62	3.75	3.80	3.80	3.85	3.95	4.00	4.00	4.00	4.00
10 Year Bond	4.38	4.55	4.50	4.60	4.60	4.70	4.75	4.80	4.85	4.85
10 Year Spread to US (bps)	20	25	20	30	20	20	15	10	5	5

Exchange rate forecasts*

	Latest (6 Dec)	Dec–24	Mar–25	Jun–25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6428	0.67	0.67	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD/USD	0.5859	0.59	0.59	0.59	0.59	0.59	0.60	0.60	0.61	0.61
USD/JPY	149.98	152	151	150	149	148	146	144	142	141
EUR/USD	1.0575	1.08	1.09	1.09	1.10	1.10	1.11	1.11	1.11	1.11
GBP/USD	1.2747	1.30	1.31	1.31	1.32	1.32	1.33	1.33	1.33	1.33
USD/CNY	7.256	7.10	7.05	7.00	6.95	6.90	6.85	6.80	6.75	6.70
AUD/NZD	1.0971	1.13	1.14	1.15	1.17	1.18	1.18	1.18	1.18	1.18

Australian economic growth forecasts*

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

* forecasts currently under review.

New Zealand economic growth forecasts

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

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