Week beginning 20 January, 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: The exchange rate and the big pivot.

The Week That Was: Continued labour market resilience.

Focus on New Zealand: Happier New Year?

For the week ahead:

Australia: Westpac-MI Leading Index.

New Zealand: Q4 CPI, retail card spending, house prices and sales, net migration.

Japan: BoJ policy decision, CPI, core machinery orders.

United Kingdom: unemployment rate, average weekly earnings, consumer sentiment.

United States: Martin Luther King Jr. Day, leading index, existing home sales.

Global: S&P Global PMIs.

Information contained in this report current as at 17 January 2025

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The exchange rate and the big pivot

Luci Ellis
Chief Economist, Westpac Group

Exchange rates are often seen as a judgement. A depreciating exchange rate gets interpreted as a 'vote of no confidence' in that economy or currency. People sometimes forget that an exchange rate necessarily involves two currencies. As we have already highlighted, the recent sell-off in the Australian dollar against the US dollar is more about the strength of the US dollar than anything specific to Australia. Likewise, on the days the sell-off has reversed, it has mostly been the result of US news.

We have, of course, seen these periods of 'American exceptionalism' – and a weak Australian dollar – before. The period around 2000 is a case in point. Back then, both the exchange rate against the US dollar and the TWI were around the 50 mark – much lower than even current levels. Indeed, the Australian dollar appeared to be undervalued relative to the fundamentals that were thought to drive exchange rate movements normally.

There were several reasons for this apparent undervaluation. The then RBA Governor, Ian Macfarlane, discussed this in a speech at the time. Market participants' expectations about interest rates played a role then as now. So did bullish expectations about new technologies and their implications for productivity. Australia compared poorly when the focus was on the producers of the new technology, rather than on how it was being adopted by users. We were seen as an 'old economy' that dug things out of the ground rather than manufacturing semiconductors as a 'new economy' would. Looking at developments in the relative price of iron ore to semiconductors since then, though, being an 'old economy' turned out to not be such a terrible thing.

There are some crucial differences between the turn of the century and now, though. Back then, Australia's productivity performance actually outstripped that of the United States, though many observers seemed to ignore this point at the time. Growth in private sector demand was strong, especially consumption; real household incomes were rising; and the housing market was booming. Perhaps more importantly, the turn of the century was just before the entry of China into the WTO, and the exceptional period of Chinese economic growth that followed. China's share of Australia's total trade more than tripled over the following decade.

The Australian dollar responded to these shifts. After hitting a low point soon after 9/11 in 2001, the TWI had by 2005 already appreciated by 25%. While the GFC induced some volatility, before too long, the AUD appreciated above parity with the USD for a time.

These outcomes highlight the floating exchange rate's role as a shock absorber. 'Risk off' events such as 9/11, the GFC and the pandemic lead market participants to sell the AUD. So do longer-run developments that are believed to weigh on Australia's prospects more than those of peer economies. But that sell-off does not last forever. It can also become a positive: Australian production becomes more price-competitive relative to foreign alternatives, which boosts domestic activity over time. The domestic-currency values and income of Australia's foreign assets (Australia has net foreign-currency assets) rise, so too the profits of externally-focused Australian firms such as our mining companies. These in turn boost tax revenue for the Australian government.

The Big Pivot ahead

Even with the exchange rate acting as a shock absorber, though, there are times when an economy needs to pivot in the face of shocks and shifting trends.

Back in the 1950s and 1960s, it was said that Australia rode on the sheep's back. Wool was the top export, with wheat coming in second. In the 1980s and 1990s, coal topped the export rankings, before iron ore took first place this century. Currently, the three next most important exports are coal, LNG and education-related travel services. LNG exports only came to prominence recently, with the volume exported more than doubling since the early 2010s. Meanwhile education exports increased steadily in importance through the 1990s and early 2000s, ramping up further in the mid-2010s to reach more than 8% of total exports. (On a current price basis, it's now a little below that share.)

> **"There is no crisis here, but any significant future growth in Australia's export volumes will have to come from some other sector."**

The prominence of iron ore is a direct result of the entry of China into the global trading system. China's demand for steel increased roughly eight-fold as it developed, and without much existing scrap to use in arc furnaces, most of that steel was made in blast furnaces using fresh iron ore. Australia was well-placed to supply the iron ore, less so the steel. This was a good outcome for Australia: starting from just about any date in the past, imported steel prices have increased by less than the price of the iron ore that went into it. This is part of the

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reason why Australia's terms of trade – the prices of exports divided by the prices of imports – has averaged a much higher level over the past fifteen years than in prior decades.

That incredible ramp-up is not going to be repeated, however. As we have highlighted previously, China has reached 'Peak Steel'. Even if additional iron ore supply weren't coming online in other countries, there is no material upside from here for Australia's iron ore export volumes.

Coal production, as we have previously noted, is already declining. This is by design: the climate-related energy transition implies that global demand for thermal coal will fade away at some point. Metallurgical coal may have longer to run, but this depends on how long China and other producers stick with blast furnaces.

Like iron ore, LNG exports expanded following a significant increase in Australian supply capacity. That investment has completed and there are no major plans to expand capacity further; most of the currently underway or planned projects fall into the category of 'sustaining investment', without which production volumes would fall. While gas is likely to remain part of the energy mix for longer than coal in most countries, existing capacity and investment plans imply little scope to expand Australia's LNG export volumes much from here.

Education services exports, as we have also learned recently, has its capacity limits, too. While global demand for university education in Australia could increase over time, the resulting population growth runs up against a housing stock that is inherently slow to react, being a stock of mostly already existing homes.

Australia's top four exports are therefore all more or less capped in volumes terms. There is no crisis here: the run of large trade surpluses Australia recorded in recent years were historically unusual, and partly driven by the effects of the pandemic and Russia's invasion of Ukraine on iron ore and energy prices. That said, it does mean that future growth in export volumes is mostly going to have to come from somewhere other than the current top four exports.

Australia is going to need to pivot. The good news is that history shows that it can, and the behaviour of the exchange rate will help it navigate that period of change.

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Cliff Notes: continued labour market resilience

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

January's Westpac-MI Consumer Sentiment survey suggests the Australian consumers' mood soured over the holiday period. Following a –2.0% dip in December, the headline index fell another 0.7% to 92.1 in January. That said, most of the constituent sub-indexes did not deteriorate during the month, including the one-year outlook for family finances (+1.1%), the one-year and five-year outlook for the economy (0.0% and +0.7%), and 'time to buy a major household item' (+1.8%).

January's headline decline instead stemmed from a 7.8% fall in households' assessment of their finances versus a year ago, reversing December's gains. Overall, the partial reversal of 2024's gains over December and January and the indexes' current sub-par level highlights the enduring impact of cost-of-living pressures, both on current spending and confidence.

It was somewhat surprising to see consumers' job loss fears worsen in January given the recent strength of official labour market data. December's Labour Force Survey confirmed our labour market finished the year on a strong footing having remained tight throughout 2024 – measures of slack little changed over the period. Given these developments, the next update for wages will be keenly assessed for risks to inflation. With demand matching the supply of labour, we anticipate wages growth will continue to track lower over 2025 in a manner consistent with inflation returning to target. We view May as the most likely starting point for the 100bps of RBA rate cuts forecast by year end, though risks are tilted towards an earlier start, depending on the strength of the next quarterly inflation print due at month end.

Westpac's Chief Economist Luci Ellis also investigated some key medium-term issues this week, including how Australia's floating exchange helps our nation navigate global shocks and productivity.

Offshore, market participants have been kept busy between New Year's and President Trump's inauguration – scheduled for next week.

Last Friday, December nonfarm payrolls 256k gain beat the market's expectation of 165k by a wide margin, even accounting for revisions to the prior two months (-8k). The unemployment rate meanwhile ticked down to 4.1% thanks to a striking 478k rebound in household employment. Note however, over 2024, the monthly gain for household employment averaged just 45k, a fraction of nonfarm payrolls 186k. There remains a significant discrepancy between the two labour market surveys which will only be partly addressed by the annual revision to nonfarm payrolls which will revise history up to March 2024.

Helpfully for the FOMC, the wage pulse remains benign, annual growth of 3.9%yr at December at the top of the range historically consistent with consumer inflation at target.

"December's CPI report was also constructive for a continuation of rate cuts through 2025."

Core inflation slowed from 0.3% to 0.2% in the month, and the annual rate edged down from 3.3%yr to 3.2%yr. Shelter inflation remains a multiple of the FOMC's 2.0% target on an annual and annualised basis; but ex-shelter, headline CPI has now been at or below 2.0% for 16 of the past 20 months – the remaining 4 prints were between 2.0%yr and 2.3%yr.

Still, like the labour market detail, retail sales suggests the FOMC has time on its side as it assesses current and potential inflation risks, headline sales rising 0.4%mth in December and the control group, which feeds into GDP, 0.7%. The control group's Q4 gain of 1.3% is in line with Q3's 1.4%, indicating support for aggregate activity from household demand persisted into year end.

Across the pond, the UK CPI also showed promise in December, headline inflation easing to 2.5%yr, in line with the Bank of England's forecast. Crucially, services inflation decelerated 0.6ppts to 4.4%yr. Bear in mind that a sharp drop in airfares contributed to December's decrease. Still, while that outcome may reverse, the overall trend in both services and goods inflation seem conducive to additional rate cuts in 2025, aiding activity growth's recovery.

China's Q4 GDP and partial data has just been released. As we expected, authorities' 5.0% target was achieved for the full year, thanks to an acceleration in annual growth from 4.6% to 5.4% Q3 to Q4. Also benefitting the year-to-date result was an upward revision to quarterly growth in Q3 from 0.9% to 1.3%, compared to 1.6% in Q4.

The detail underlying the result is still to come, but December's partial data was constructive for industrial production (growth accelerated from 5.4%yr to 6.2%yr) and retail sales (from 3.0%yr to 3.7%yr), and suggests a floor is being put in for fixed asset investment (year-to-date growth little changed at 3.2%). Although, on a year-to-date basis, industrial production and retail sales growth was also unchanged from Q3 to Q4 at 5.8%ytd and 3.5%ytd.

Focusing on property, policy support is only slowly impacting conditions, home price declines incrementally abating ▸

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month-on-month towards zero (-0.1% and -0.3% in December for new and existing homes), and new property sales still down 17.6%ytd in December, a slight improvement on November's -20.0%ytd.

These outcomes point to resilience in China's economy, but also a need for further significant policy support in coming months. The development of new industry and export markets outside the US are serving China well. But, to sustain growth near 5.0% in coming years and thereby deliver pledged welfare gains over the coming decade, the consumer and non-manufacturing investment must accelerate sustainably. Following lunar new year celebrations at the end of January, look for additional actions by policy makers targeting consumer income and sentiment as well as property and equity markets.

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Happier New Year?

Michael Gordon
Senior Economist

After some astonishingly weak updates on the New Zealand economy at the end of last year, we're hopeful of some better results over 2025, spurred on by lower interest rates in particular. Yet, as the new year's first batch of data shows, this recovery is likely to be a drawn-out process.

The key release this week was the NZIER's Quarterly Survey of Business Opinion, which often provides a strong early lead on quarterly GDP, along with a wealth of information about business activity and cost pressures. On the face of it, the December survey was encouraging, with a net 9% of firms expecting a pickup in their own activity in the months ahead. There were also modest improvements in their hiring and investment plans.

However, the backward-looking measures of the survey told a much weaker story. A net 26% of firms reported a drop in activity in the December quarter – not far from the net 30% in the previous quarter, and well short of what they were anticipating three months ago (indeed, this was one of the larger shortfalls in the history of the survey). So while businesses are very hopeful about the impact of lower interest rates, very few of them are seeing any benefit from them yet.

The backward-looking measure of the QSBO has a much closer correspondence with quarterly GDP, and the latest result presents a clear downside risk to our forecast of a return to growth in the December quarter. That was reinforced by the manufacturing PMI survey for the December month which rose just slightly to 45.9.

That said, there are plenty of quirks in the GDP data from quarter to quarter that are not well captured in things like business surveys, or even in more sophisticated measures like our GDP nowcast tool which we launched late last year. For example, a significant negative in the September quarter result was a sharp drop in renewable electricity generation due to low hydro lake levels; this situation has since been resolved, and is likely to make a sizeable positive contribution to Q4. We also have some questions about the current seasonal adjustment of the GDP data, which appears to be detracting from growth in June quarters and boosting it in December quarters in particular. So for now we're sticking with our forecast of a 0.3% rise in the official GDP figures for Q4, though the underlying picture was still weak on many fronts over that time.

It hasn't all been bad news to start the year though. We also had some emerging signs of stabilisation in the labour market towards the end of last year. There was a 0.3% lift in the number of filled jobs in November, the first monthly increase since March. (While this measure has tended to be revised down from its initial release, it's unlikely to turn into a minus.) We also saw a small lift in the Westpac-McDermott Miller Employment Confidence Index to 91.6 in December, led by an improvement in people's perceptions about the availability of jobs.

Finally, homebuilding consents rose by 5% in November, leaving them up slightly on the same time last year. Consents are down sharply from their 2022 highs, but they appear to have flattened out over the last year – and lower interest rates and easing regulatory requirements bode well for a pickup in the year ahead. The shrinking pipeline of already-consented work suggests that actual building activity will continue to shrink in the near term, but the outlook is starting to improve.

The continuing squeeze on households is also restraining inflation

The latter part of 2024 saw a continued squeeze on households' finances. Stats NZ's recent update has shown that there was essentially no growth in New Zealand households' before-tax incomes between the March and September quarters. Over that same period, we saw unemployment rise to 4.8% and the level of economic activity shrank by around 2%. Against that backdrop, it's no surprise that wage and salary earnings, as well as returns to business owners, stalled.

While incomes flatlined, living costs have continued to climb, rising by 1.7% just in the six months to September, with many lower income families facing even larger increases. As a result, many households will have seen their purchasing power going backwards.

A particular strain on households' purchasing power has been increases in housing costs. In addition to continued increases in rents, households' spending on debt servicing has continued to climb. We estimate that for households with mortgages, their spending on interest costs now risen to around 20% of their disposable incomes. In comparison, prior to the pandemic, households with mortgages were spending around 16% of their incomes on interest costs. And in recent years, that ratio got as low as 10%.

The increase in debt servicing costs has been despite the fall in the mortgage interest rates over the past year. That's because many borrowers fixed their mortgages for a period at very low rates in the wake of the pandemic, and they have now rolled on to the higher rates currently on offer. We've also seen many borrowers opting for shorter fixed terms or going on to

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floating rates for a time in anticipation of further interest rate reductions. However, floating and shorter-term mortgage rates are currently higher than those that are fixed for longer periods.

The good news for borrowers is that we are nearing the end of the re-fixing cycle when they were rolling on to higher rates. Over the coming six months, around half of all mortgages will come up for repricing, and many borrowers will be rolling on to lower rates. However, interest rates look like they are trending back towards average levels, rather than the very low ones that we saw in the wake of the pandemic. And while those reductions will help to support both economic growth and house prices, we expect the recovery to be gradual and simply lead to a return to trend rates of growth (rather than very elevated levels).

With slowing income growth and further increases in debt servicing costs, it's no surprise that per capita household spending fell around 1% over the past year. And while it's started to push higher again (as we discuss in our latest Westpac Retail Spending Pulse), retail spending is still looking soggy for now.

With weak demand, price and costs pressure have also dropping back. Annual consumer price inflation slowed to 2.2% in the year to September, well down from the rates of over 7% that we saw in recent years. And as discussed in our preview note, we expect that the Q4 Consumer Prices report (out on 22 January) will show that inflation has dipped further to 2.1%. That would be the lowest level since 2021 and would also be in line with the RBNZ's last published projection from November.

Although there are still some pockets of 'sticky' inflation pressures, those are mainly in areas like insurance premiums and local council rates, which tend to be less sensitive to the level of interest rates. More generally, the trend in inflation has been down, with high interest rates and subdued demand weighing on prices in other parts of the economy. Those conditions have seen core inflation trending down towards levels consistent with the RBNZ's target band in recent months, and we think that trend will have continued in the December quarter. Importantly, although there could be some surprises in the quarterly figures due to normal volatility, if underlying trend in prices continues to ease, then the RBNZ is likely to cut rates by another 50bp when it next meets in February.

The fiscal outlook remains weak

Ongoing sluggishness in the economy was responsible for a portion of the deterioration in the fiscal outlook that was revealed in the Half-Year Economic and Fiscal Update (HYEFU), released just ahead of the holiday break. But the degree of deterioration was much larger than we and the market had expected, in large part reflecting a downward revision to the Treasury's assessment of the expected average effective tax rate (i.e. the tax-to-GDP ratio).

Taking onboard the information from the HYEFU, this week we have published an interim update to our fiscal forecasts (a complete update will be released next month when we publish our first Economic Overview for 2025). Unless the Government can control spending as tightly as predicted in the HYEFU, further increases to the Government's borrowing programme seem likely over time. This will be especially so if interest rates follow the higher track that we have in our forecasts compared with that underpinning the HYEFU. We expect that the operating balance (both the OBEGAL and OBEGALx measures) will remain in deficit in 2028/29. And while a primary surplus (i.e. cash balance excluding financing costs) will likely be achieved from 2027/28, it will likely be insufficient to begin reducing net core Crown debt as a share of GDP until 2028/29.

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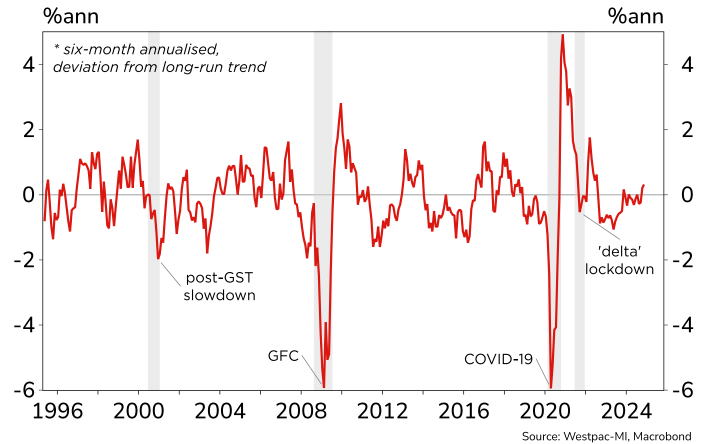
AUS: Dec Westpac-MI Leading Index (%ann)

Jan 22, Last: 0.32

The Leading Index recorded its first back-to-back positive read in November, with the six-month annualised growth rate lifting from 0.22% in October to 0.32% in November. Six of the eight Index components are now contributing positively to growth. Notably, the most positive signals are coming from 'domestic' components – covering the consumer, housing and labour market and 'financial market' components.

While the growth signal is not particularly strong by historical standards, it is broadly consistent with Westpac's view that activity will lift slowly over the next few quarters. While we expect GDP growth will lift to a slightly below-trend pace by year-end, the current slightly above-trend momentum in the Leading Index is expected to encounter a few more headwinds as the year unfolds.

Westpac-MI Leading Index



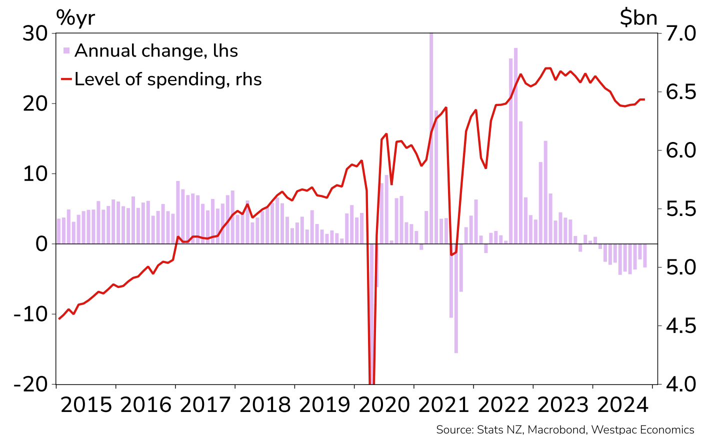
NZ: Dec Retail Card Spending (%mth)

Jan 21, Last: flat, Westpac f/c: 0.3

Retail spending levels were flat in November. However, that followed gains in previous months that were maintained. It's also notable that petrol prices were up about 2% over that month. Despite the drag from higher fuel prices, core spending (which excludes fuel purchases) managed to nudge 0.1% higher over the month.

We expect the recovery in spending levels will resume in December but is likely to remain gradual. We're forecasting a 0.3% rise in retail sales, underpinned by a 0.2% rise in the core categories.

Retail spending downturn has been arrested



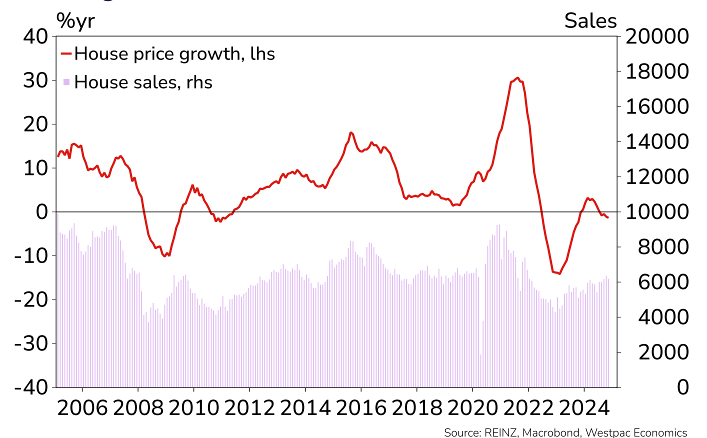
NZ: Dec REINZ House Prices and Sales (%ann)

Jan 22, Prices Last: –1.4, Sales Last: +10.8

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. As this backlog is worked through, we would expect to see a more meaningful lift in prices this year.

Housing market to benefit from lower interest rates



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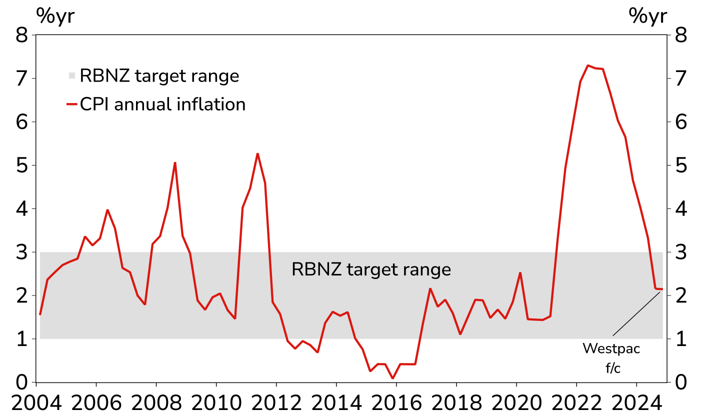
NZ: Q4 CPI

Jan 22, Qtrly Last: +0.6%, Westpac f/c: +0.5%, Mkt f/c: +0.5%
Annual Last: +2.2%, Westpac f/c: +2.1%

We estimate that New Zealand consumer prices rose by 0.5% in the December quarter. That would see the annual inflation rate slipping to 2.1% (down from 2.2% in the year to September). Our forecast for annual inflation is in line with the RBNZ's last published forecast, as is our forecast for non-tradables inflation. Importantly, the underlying trend in inflation is looking much better contained than it has in a long time, with measures of core inflation drifting back towards the 2% midpoint of the RBNZ's target band.

Headline inflation firmly within target range



Source: Stats NZ, Macrobond, Westpac Economics

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What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 20							
Jpn	Nov	Core Machinery Orders	%mth	2.1	–0.7	–	A pull-back anticipated following its first rise in three months.
	Nov	Industrial Production	%mth	–2.3	–	–	Final estimate.
UK	Jan	Rightmove House Prices	%mth	–1.7	–	–	UK house prices rose 1.4% in 2024.
US		Martin Luther King Jr. Day	–	–	–	–	Markets closed.
Tue 21							
NZ	Dec	BusinessNZ PSI	index	49.5	–	–	Improved in Nov but remains subdued.
	Dec	Retail Card Spending	%mth	flat	–	0.3	Spending levels continuing to rise, but gradually.
Eur	Jan	ZEW Survey Of Expectations	index	17.0	–	–	Sentiment remains weak amid a depressed industrials sector.
UK	Nov	ILO Unemployment Rate	%	4.3	–	–	Cooling labour demand should help to soften…
	Nov	Average Weekly Earnings	%yr	5.2	–	–	… wage growth towards 3%, consistent w/ the BoE target.
Wed 22							
Aus	Dec	Westpac-MI Leading Index	index	0.32	–	–	Consistent with a gradual lift in activity over 2025.
NZ	Dec	REINZ House Sales	%yr	10.8	–	–	Expected date. Signs of increased buyer interest…
	Dec	REINZ House Prices	%yr	–1.4	–	–	… but not yet putting upward pressure on prices.
	Q4	CPI	%qtr	0.6	0.5	0.5	Seasonal lift in transport prices…
	Q4	CPI	%ann	2.2	2.1	2.1	… but the underlying trend is softening.
UK	Dec	Public Sector Borrowing	£bn	11.2	–	–	Lowest November borrowing in 3 years.
US	Dec	Leading Index	%	0.3	–0.1	–	A fall expected following the first rise in 8 months in Nov.
Thu 23							
NZ	Nov	Net Migration	no.	2790	–	–	Net inflows stabilising at a low but positive level.
Jpn	Dec	Trade Balance	¥bn	–110.3	–43.4	–	A weak yen has helped exports but overall demand is weak.
Eur	Jan	Consumer Confidence	index	–14.5	–14.3	–	Confidence falling since October.
US	Jan	Kansas City Fed Manufacturing	index	–4.0	–	–	Remained in negative territory over 2024.
		Initial Jobless Claims	000s	–	–	–	May point to further post-holiday layoffs.
Fri 24							
Jpn	Dec	CPI	%yr	2.9	3.4	–	Anticipated to rise to highest level since April 2023.
	Jan	BoJ Policy Decision	%	0.25	0.50	–	Optimism around prices and wages is growing.
	Jan	Jibun Bank Manufacturing PMI	index	49.6	–	–	Manufacturing activity in contraction since last August…
	Jan	Jibun Bank Services PMI	index	50.9	–	–	… while services back in expansion.
Eur	Jan	HCOB Manufacturing PMI	index	45.1	46.0	–	Manufacturing activity has been contracting since mid-2022…
	Jan	HCOB Services PMI	index	51.6	51.5	–	… and a delayed recovery in services is stalling progress.
UK	Jan	Gfk Consumer Sentiment	index	–17.0	–	–	Fragile consumer confidence is seeing…
	Jan	S&P Global Services PMI	index	51.1	–	–	… the services sector PMI ease towards neutral.
	Jan	S&P Global Manufacturing PMI	index	47.0	–	–	Manufacturing PMI has fallen 4.5pts since September.
US	Jan	S&P Global Manufacturing PMI	index	49.4	–	–	A similar story of weakness for the US manufacturing sector…
	Jan	S&P Global Services PMI	index	56.8	–	–	… but services activity continues to gather momentum.
	Jan	Uni. Of Michigan Sentiment	index	73.2	–	–	Final estimate.
	Dec	Existing Home Sales	%mth	4.8	1.2	–	Sales to lift despite a rise in mortgage rates in Dec back half.

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Economic & financial forecasts

Interest rate forecasts

Australia	Latest (17 Jan)	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	4.33	4.43	4.20	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.93	3.75	3.75	3.80	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.96	3.70	3.70	3.70	3.70	3.75	3.75	3.80	3.80
10 Year Bond	4.50	4.35	4.35	4.45	4.55	4.65	4.75	4.85	4.85
10 Year Spread to US (bps)	–11	5	5	5	5	5	5	5	5
United States									
Fed Funds	4.375	4.125	3.875	3.625	3.375	3.375	3.375	3.625	3.875
US 10 Year Bond	4.61	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.80
New Zealand									
Cash	4.25	3.75	3.25	3.25	3.25	3.25	3.50	3.75	3.75
90 Day Bill	4.08	3.55	3.35	3.35	3.35	3.45	3.70	3.85	3.85
2 Year Swap	3.60	3.55	3.60	3.70	3.80	3.90	3.95	4.00	4.00
10 Year Bond	4.67	4.40	4.50	4.55	4.65	4.75	4.80	4.85	4.85
10 Year Spread to US (bps)	6	10	20	15	15	15	10	5	5

Exchange rate forecasts

	Latest (17 Jan)	Mar–25	Jun–25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6212	0.65	0.65	0.66	0.66	0.67	0.68	0.69	0.70
NZD/USD	0.5604	0.58	0.58	0.57	0.57	0.58	0.58	0.59	0.60
USD/JPY	155.46	151	150	149	148	146	144	142	141
EUR/USD	1.0301	1.06	1.07	1.08	1.09	1.10	1.10	1.11	1.11
GBP/USD	1.2232	1.28	1.29	1.30	1.31	1.32	1.33	1.33	1.33
USD/CNY	7.3273	7.30	7.25	7.20	7.15	7.10	7.05	6.95	6.85
AUD/NZD	1.1085	1.12	1.12	1.15	1.16	1.16	1.17	1.17	1.16

Australian economic growth forecasts

	2024				2025				Calendar years			
% Change	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
GDP %qtr	0.2	0.2	0.3	0.7	0.5	0.5	0.5	0.6	–	–	–	–
%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
Unemployment rate %	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) %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	0.2	0.7	0.7	1.0	0.7	–	–	–	–
%yr end	3.6	3.8	2.8	2.4	2.2	1.9	2.7	3.2	4.1	2.4	3.2	2.7
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	3.4	3.0	2.8	2.7	2.7	4.2	3.4	2.7	2.5

New Zealand economic growth forecasts

	2024				2025				Calendar years			
% Change	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
GDP %qtr	0.3	–1.1	–1.0	0.3	0.4	0.6	0.6	0.7	–	–	–	–
Annual avg change	1.4	0.6	0.1	–0.5	–1.2	–1.0	–0.2	0.8	1.8	–0.5	0.8	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	0.5	0.5	0.3	0.9	0.3	–	–	–	–
Annual change	4.0	3.3	2.2	2.1	2.1	2.0	2.3	2.1	4.7	2.1	2.1	2.1

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