Week beginning 27 January, 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

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For the week ahead:

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New Zealand: Trade balance, ANZ business conditions and consumer confidence, employment conditions.

Eurozone: ECB policy decision, Q4 GDP, unemployment rate, IFO business climate survey.

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United States: FOMC policy decision, Q4 GDP, Employment Cost Index, PCE deflator.

China: NBS PMIs, Lunar New Year.

Information contained in this report current as at 24 January 2025

Reality bites

Luci Ellis
Chief Economist, Westpac Group

If one ever needed confirmation that financial markets price things primarily based on beliefs about the future, this week gave it. Once it became clear that, no, President Trump was not going to enact sweeping tariffs by executive order on Day 1, the 'Trump trade' and 'American exceptionalism' drivers of pricing reversed somewhat. The US dollar depreciated, bond yields declined and US share prices slipped. The Australian dollar bounced about three-quarters of a cent against the US dollar in the space of a few hours. These moves did not entirely undo the shifts seen since the US election, but they highlighted just how overbought the Trump trade was. People trade the belief, and then reverse course when reality turns out differently. (And then reverse course again on some actual announcements, but that's another story.)

The deeper question of the future path of US interest rates remains.

Contrary to last year's recession worries, US economic growth remains well above past assessments of trend. Unemployment remains low and employment growth robust. Inflation has declined but remains sticky above the Federal Reserve's 2% target. Compared with other major advanced economies, the United States has been remarkably resilient to tight monetary policy. The US economy has powered along almost as if the fed funds rate had not been so high.

This resilience has been a bit of a puzzle. Low fixed-rate mortgages have long been a factor there, so they cannot fully explain this divergence. Macroeconomic statistics being what they are, one can never completely rule out 'it was all a mirage and will be revised away eventually' as an explanation. Stronger balance sheets in the wake of the policy support during the pandemic may be contributing. Also relevant, though, is the role of fiscal policy working in the opposite direction to monetary policy. This is a theme we have highlighted previously.

Conventional macro analysis tells you that it's the change in the fiscal deficit – sometimes called the 'fiscal impulse' – that contributes to economic growth. That said, the level of the deficit surely matters for the level of output, and thus any assessment of how demand and supply compare. And at more than 5% of GDP, the US federal deficit is helping to supercharge demand in an already fully employed US economy. By contrast, because burgeoning public spending in Australia is being more or less matched by rising taxation, the boost to the level of overall demand is smaller.

At this scale, differences in fiscal stance can influence the paths of monetary policy interest rates. In broad terms, the narrative for the last couple of years has been that central banks needed to set monetary policy to be restrictive to get inflation back down to target. Once they were reasonably sure that the disinflation was on track, central banks would start cutting interest rates back towards neutral, wherever that was. Because monetary policy works with a lag, this process needs to start before inflation has returned all the way back to target.

The idea that monetary policy needs to become less restrictive as inflation approaches target remains intact. Less clear, though, is whether interest rates need to converge to 'neutral' (r* in the economics jargon) in the short term, or to some other rate.

Where policy rates end up troughing in different economies over the next year or so therefore rests on the answer to two questions.

First, how does the (long-run) neutral rate relate to the central bank's estimates of it?

It has long been our house view that, wherever neutral is, it is higher than it used to be. The Federal Reserve and other central banks have seen the same developments and revised up their estimates of neutral over the past year or so. Based on the 'dot plot' of FOMC members' views on the 'long-run' level of rates, the Fed's estimates of neutral are centred on 3% or a touch below. This is still a little below our own view that this longer-run concept of neutral is likely to be somewhere in the low to mid 3s.

"… is there something (like fiscal policy) that monetary policy will end up needing to lean against to keep inflation at target?"

Depending on how quickly central banks pivot their thinking, it is therefore possible that some central banks will need to backtrack as they discover that the neutral rate they were aiming for is actually higher than they thought. This evolution, and the likely policy actions of the Trump administration, underpin our current forecast that the Fed will start raising rates again in 2026. Policymakers never forecast that they will end up backtracking, so the 'dot plot' shows a smoother convergence without a turning point. But it's also plausible that the smoother path implied by the 'dot plot' occurs because policymakers revise up their estimate of neutral further.

(We don't think the RBA is subject to the same risk of upward revision to their estimates of neutral in the near term. Their models already imply that the neutral nominal cash rate is in the mid 3s, and the recently adopted checklist approach to assessing broader monetary conditions will reduce the risk that statistical inertia in those models leads to underestimates of neutral.)

Second, is long-run 'neutral' where monetary policy needs to converge to, or is there something (like fiscal policy) that monetary policy will end up needing to lean against to keep inflation at target?

One could argue that this is making a distinction without a difference: those forces are just the things that cause 'true r*' to move around. The issue is that the standard models used by central banks to estimate the neutral rate do not include the impetus from fiscal policy or other factors over which monetary policy has no direct influence. The researchers in this field acknowledge that persistent changes in fiscal policy could affect the level of neutral. But because their models omit any fiscal variables, they cannot quantify the effect.

Despite these shortcomings in the models, FOMC members clearly recognise the issue. The 'dot plot' shows that they do not expect the fed funds rate to reach 'neutral' until after 2027. So even if their view on neutral is still too low, their recognition that other factors lean against a swift return to neutral will help counterbalance this.

Because other major economies have different fiscal (and growth) outlooks, the shifting market view on US rates has implied shifts in views on interest rate differentials, and so exchange rates. But this puts the US dollar even further above levels at which purchasing powers are at parity, an anchor point that exchange rates tend to gravitate towards over a run of years. Most published measures of the real effective US dollar exchange rate show it at levels surpassed only by the mid-1980s era that ended in the Plaza Accord.

Higher interest rates and a seemingly overvalued exchange rate. One can't help thinking that reality will bite the US exceptionalism narrative sooner or later.

Cliff Notes: a flurry of activity

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

Amid a relatively quiet week for domestic data, the Westpac-DataX Consumer Panel was published for Q4. Using an anonymised sample of over one million Westpac customers, the panel offers detailed insights on income, spending and saving. Over the past six months, it has proven well suited to tracing the impact of the Stage 3 tax cuts. On average, Australian consumers continue to save the vast majority of this income boost, an estimated marginal propensity to consume of 0.25, i.e. 25% of the increase in income, half the assumption used by the Federal Treasury and RBA ahead of time.

The marginal impact of the tax cuts on spending behaviour is also corroborated by Westpac's Card Tracker. Both sets of analyses imply that, having experienced one of the most severe and prolonged shocks to real disposable incomes in modern history, Australian households are firmly focused on rebuilding savings buffers. The longer this preference remains in place, the greater the likelihood that the rebound in consumer spending will take longer to eventuate, even as pressure eases on disposable income through 2025. With public sector support for GDP expected to moderate, a 'shaky handover' of the growth baton from the public to private sector is a distinct possibility.

The timing of interest rate cuts could prove pivotal in deciding the strength and stability of the growth trend. Thankfully, next week's official update on inflation will offer a clear indication of the near-term rates outlook. As per our preview, we anticipate headline inflation will print at 0.3% (2.5%yr) in Q4 and the trimmed mean at 0.6% (3.3%yr), with risks skewed modestly to the downside. The two key determinants underlying the Q4 results will be the degree to which cost-of-living assistance (including energy rebates and rental assistance) pulls headline inflation lower, and the persistence of the disinflationary trend in the housing group. Ahead of the Australian data, it is worth noting New Zealand's own Q4 CPI was favourable this week, with both core and domestic inflation continuing to ease, setting the scene for another 50bp cut by the RBNZ at their February meeting.

In the northern hemisphere, the inauguration of Donald Trump as the 47th President of the United States dominated headlines. Political priorities were made clear in speeches given after his inauguration in both Washington and, via video link, at the World Economic Forum in Davos, but policy detail and timing remains in question.

Cutting through the noise, the swath of executive orders largely focussed on reducing energy prices, removing protections for undocumented migrants and investing in AI. On energy, President Trump left the Paris Climate Agreement and abandoned the 'green new deal' while declaring an 'energy emergency' to help bypass regulatory impediments for US oil and gas exploration/ production. Safeguards for AI development were reduced, and Trump also announced an AI infrastructure deal with SoftBank, Open AI and Oracle. There was little clarity around tariffs, a formal directive for relevant government departments to study trade relationships and report back followed quickly by repeated references to the potential for tariffs against a number of nations within weeks. Intriguingly, it was Mexico, Canada and European countries who have trade surpluses with the US that were President Trump's focus, not China. The intent mentioned in his Davos speech, to use tariffs as a means to encourage US investment and jobs, arguably gives a sense as to why he may be taking this line. Chinese firms, and some from other Asian nations such as South Korea and Taiwan, have a far greater capacity to invest in production facilities in the US than European and Canadian firms – if allowed to and the terms deemed agreeable.

Westpac Chief Economist Luci Ellis this week considered the market's expectations for monetary policy and the US dollar following inauguration and how these factors, along with the stance of fiscal policy, are likely to impact the health of the US economy.

In China meanwhile, further measures were announced to support their equity market. Broadly, as reported by Bloomberg, the policy adjustments seek to promote equity investment by institutional investors and share buybacks by corporates, with help from the central bank's lending vehicle, while also attracting more retail investors into the equity market through new mutual fund issuance. These are medium-term initiatives, but the timing of the announcements indicates authorities are keen to promote stability in the near term and to take advantage of forthcoming stimulus initiatives to rebuild household wealth through 2025.

Elsewhere, employment data in the UK showed a further easing in the labour market in December. The payrolled employees count was down by 47k in December, while three-month growth in the official employment measure slowed to a seven-month low of 36k, leaving the headline three-month unemployment rate at 4.4%, 0.3ppts higher than three months ago. The ratio of vacancies-to-unemployment, an indicator of the overall labour market situation Bank of England officials follow closely, fell again and is now below pre-pandemic levels. Wages rose a steep 0.4ppts to 5.6%yr in November, however. This increase seems alarming, especially compared to the BoE's 5.1% forecast for Q4 2024, but it follows more-timely survey data pointing to decelerating pay growth. The BoE's MPC is therefore likely to look through this pick up in wage inflation and continue cutting interest rates at the next policy meeting, due early February.

Year of the Snake to see lower inflation

Satish Ranchhod
Senior Economist

The latest updates on the New Zealand economy were a green light for a further rate cut from the RBNZ in February, with inflation pressures well contained. We're forecasting another 50bp cut at the RBNZ's February meeting. That will support a recovery in economic activity over the year ahead, though for now conditions remain mixed.

New Zealand consumer prices rose 0.5% over the December quarter. That saw the annual inflation rate remaining unchanged at 2.2%.

December's inflation result was in line with our forecast and just slightly above the RBNZ's last published forecast. However, the RBNZ's forecast was finalised back in November, and the past few months saw some sharp moves in the prices for items like international airfares that they might not have anticipated. Those sorts of quarter-to-quarter swings in volatile items are not the focus for monetary policy, and we think the overall tone of the December inflation report will have been in line with the RBNZ's thinking. The key issue now is whether inflation dynamics will lead to inflation expectations stabilising around 2% - and this week's outcomes won't likely threaten that.

Smoothing through the quarter-to-quarter volatility, inflation is now much better contained than it has been for a long time. Not only is headline inflation close to 2%, but measures of core inflation have also been trending down and are back inside the RBNZ's target band. For instance, trimmed mean inflation has fallen to 2.4% in the year to December (down from 2.5% previously) and weighted median inflation fell to 2.6% (down from 2.8%).

That downtrend in overall inflation over the past year is in large part due to falls in tradables prices (mainly imported retail goods) which fell 1.1% over the past year. The decline in tradables inflation has been related to the reversal of the tight global supply conditions that saw import prices rise sharply in recent years, partially amplified by the pressures on household budgets and weak discretionary spending.

Of more importance for the RBNZ, the domestic components of inflation have also been easing back, though at 4.5% non-tradables inflation remains relatively high. However, that strength is masking some important detail under the surface. We're still seeing solid increases in costs such as local council rates and insurance premiums, which tend to be less sensitive to the level of interest rates. Services sector inflation remains relatively high albeit easing. Hence overall domestic inflation is moderating gradually as opposed to quickly.

We can see some areas where tight financial conditions have had more bite. For instance, weak demand over the past year has contributed to a slowdown in construction cost inflation and has restrained price increases in the hospitality sector.

Looking ahead, inflation looks set to remain close to 2% over 2025, with soft activity and a cooling labour market helping to further dampen domestic inflation pressure.

But even with domestic inflation continuing to ease, we don't think there is a risk of a material or protracted period of sub-2% inflation. In part, that's because domestically generated inflation is only gradually easing. But it's also because the sharp downturn in imported inflation over the past year looks like it is now coming to an end. The earlier tightness in global supply conditions has now eased and going forward we won't see the same sort of falls in import prices that we did over the past year. On top of that, oil prices have been pushing higher. We've also seen the NZ dollar dropping to its lowest level since 2022, and that could push up the prices of many imported goods.

Putting that altogether means that we see aggregate inflation remaining around 2% in 2025. The mix of inflation should change as domestic inflation continues to normalise while tradables sector disinflation abates and rises to more normal levels.

We expect the easing in inflation and interest rates will see economic activity gradually firming over the coming year. That follows some mixed economic conditions in recent months.

The latest BusinessNZ PSI added to the list of recent business surveys highlighting softness in activity through the final months of 2024, with sluggish sales and demand for new staff remaining limited. Consistent with those trends, we estimate that the economy grew by just 0.3% in the December quarter and that the unemployment rate will have risen to 5.1%.

While economic activity was soft over the past year, some more positive signs for the economy are emerging as we enter the Year of the Snake. In the household sector, we've already seen consumer confidence start to turn higher as inflation and borrowing costs have fallen. And it looks like that is flowing through to a lift in households' spending appetites. Retail sales rose by 2% in December. That was the largest monthly rise since early 2022 when Covid-related activity restrictions were eased. December's rise in spending was underpinned by a large increase in spending on household durables like furnishings.

While some of the strength in the December spending figures might prove to be temporary, it still points to a firming in households' spending appetites. Taking a longer-term perspective, the more general trend in retail spending over the past few months is to the upside, with spending levels having risen for the past five months.

We're expecting spending will continue to trend higher over 2025. The financial pressures that households have been wrestling with are easing, with inflation dropping back and interest rates falling.

We're also starting to see some more positive signs in the housing market, with prices up 0.2% in December. That small lift in prices came on the back of some particularly light activity in the housing market over the end of the year. However, adjusting for the normal monthly volatility, that was the third rise in the past four months. Setting aside the holiday period, lower mortgage rates have helped to revive interest among potential buyers in recent months, with evidence of a lift in loan applications and increasing open home attendance. We expect this to translate to more support for prices over 2025.

It's also important to remember that conditions are better in the regions compared to urban centres because 2024's strong rise in the terms of trade is being felt there first. We got a further reminder of this this week as dairy prices lifted again in the GDT auction as Chinese buyers returned to the auction. 2025 may well be one where the improvement begins on the farm and takes a while to reach the café dwellers of Lambton Quay and Queen St.

Lastly, while borrowing costs are dropping, they look set to return to 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 activity and house prices, we expect the recovery to be gradual and will lead to a return to trend rates of growth (rather than very elevated levels).

AUS: Consumer Price Index (%qtr)

Jan 29, Last: 0.3, Westpac f/c: 0.3
Market f/c: 0.4, Range: flat to 0.6

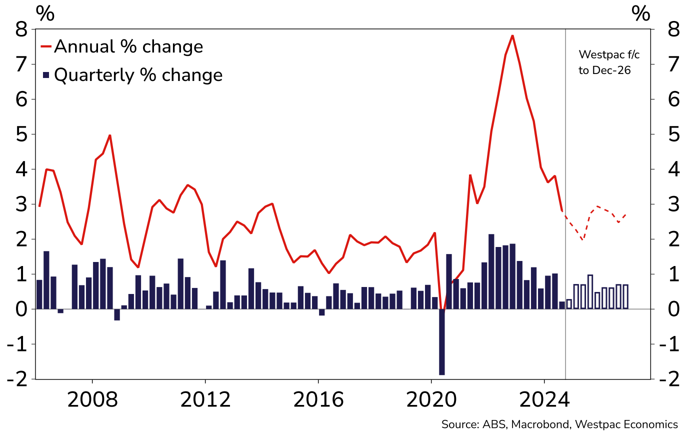
Westpac's December quarter CPI nearcast is 0.3%qtr/2.5%yr.

Various energy rebates and cost–of–living assistance have helped drive headline inflation to the mid-point of the RBA's target band. Westpac estimates that energy rebates, the increase in rental assistance plus public transport fare subsidies will shave 0.3ppt off the CPI in the December quarter and 0.7ppt off the annual pace.

The 0.3% is rounded up from two decimal places so is a soft print and thus there are downside risks to this estimate.

Please refer to our December Quarter CPI Preview for more information.

Headline CPI Inflation



AUS: Trimmed Mean (%qtr)

Jan 29, Last: 0.8, Westpac f/c: 0.6
Market f/c: 0.6, Range: 0.4 to 0.8

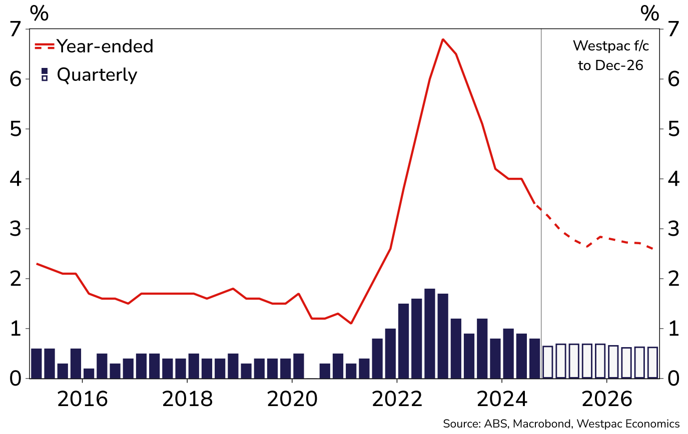
Westpac's Trimmed Mean estimate for the December quarter is 0.6%, the annual pace is anticipated to ease back to 3.3%yr from 3.5%yr while the two-quarter annualised pace drops to 2.7%yr.

Unlike the headline CPI, cost of living assistance will, at most, shave just 0.1% from the December quarter Trimmed Mean estimate and the annual pace to December. The decline in dwelling prices are far more important to the moderation in core inflation.

However, just like the CPI the 0.6% estimate for the Trimmed Mean is rounded up from two decimal places so is a soft print and thus there are downside risks to this estimate s well.

For more information see December Quarter CPI Preview.

Trimmed Mean Inflation



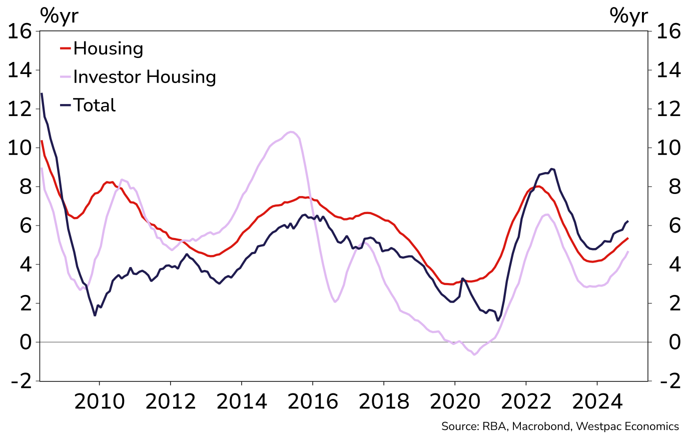
AUS: Dec Private Sector Credit (%mth)

Jan 31, Last: 0.5, Westpac f/c: 0.5
Mkt f/c: 0.5, Range: 0.4 to 0.6

In the first eleven months of 2024 private sector credit growth remained in a tight range of 0.4-0.6% deviating from 0.5%mth only four times. We expect that it will end the year on the same growth path rising 0.5%mth again and leaving the annual pace increasing to 6.4%yr.

Risks are skewed to the downside. Softness from the housing market might start to impact housing credit growth. And with the latest indicators suggesting that consumer spending remained unimpressive at the end of the year, consumer credit is likely to have remained subdued, having reported a month-on-month decline in November.

Maintaining a stable growth trend



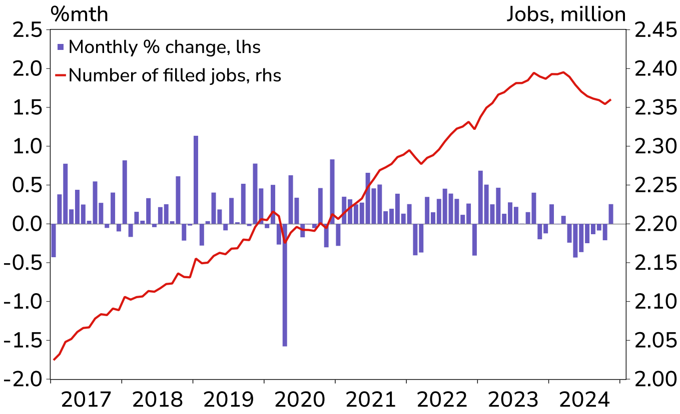
NZ: Dec Monthly Employment Indicator

Jan 28, Last: +0.3%, Westpac f/c: flat

The Monthly Employment Indicator (MEI) rose by 0.3% in November, its first increase since March. While this series tends to be revised down from its initial release, we think it's unlikely to turn into a minus.

The weekly snapshots provided by Stats NZ suggest a broadly flat result for December in seasonally adjusted terms – the lift in hiring ahead of the Christmas period was similar to the previous year. An emerging pickup in tourism-related sectors is balanced against ongoing weakness in areas such as manufacturing and construction.

Filled jobs may be stabilising



Source: Stats NZ, Macrobond, Westpac Economics

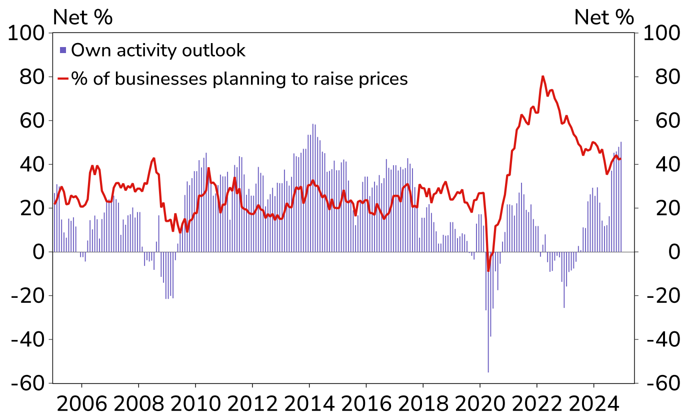
NZ: Jan ANZ Business Confidence

Jan 30, Last: 62.3

Business confidence surged over the second half of last year as the RBNZ began to ease interest rates. That optimism generally hasn't been matched by their performance to date, although there were some signs of stabilisation in the December survey.

The January survey comes after the reporting of a sharp fall in GDP in the last two quarters, which may have dented confidence in the forward outlook. Against this, the prospect of further OCR cuts in the coming months remains firmly on the cards.

Business sentiment up sharply since OCR cuts



Source: ANZ, Macrobond, Westpac Economics

US: January FOMC meeting

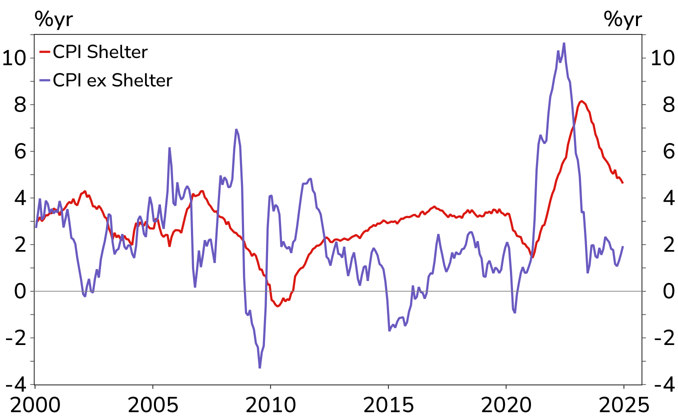
Jan 28-29, Last: 4.375%, WBC f/c: 4.375%, Mkt f/c: 4.375%

The December FOMC meeting saw a significant change in Committee expectations for 2025 and 2026, the year-end forecasts for the fed funds rate lifted 50bps on concerns over inflation -- the 2025 year-end PCE forecast increased to 2.5%.

At the same time, members remained positive on the growth outlook and labour market, with the unemployment rate forecast to peak at just 4.3%.

Since then, the labour market and demand indicators have remained robust. The market also remains of the view that the second Trump administration will prove stimulatory. We therefore expect the FOMC to guard against inflation risks at the January meeting while still asserting that, in time, continued progress will justify further rate cuts.

Capacity is the US' primary inflation concern



Source: BLS, Macrobond, Westpac Economics

US: Q4 GDP

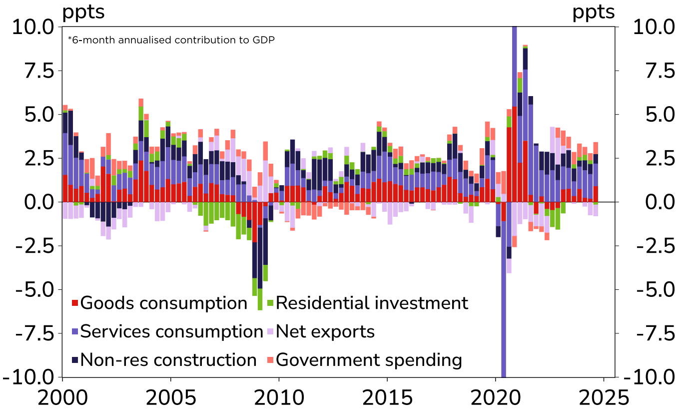
Jan 30, Last: ann'd 3.1%, WBC f/c: 2.8%, Mkt f/c: 2.6%

The US economy continues to experience strong momentum, primarily as a result of consumer demand, but with other key sectors frequently contributing materially.

Households have experienced a loss of purchasing power from cumulative inflation, but have largely been spared higher interest costs, are continuing to receive a wealth windfall from housing and equities, and increasingly are seeing real income gains. At the same time, job gains are supporting confidence.

Business is also comfortable with the outlook, though investment remains heavily skewed towards manufacturing, due to IRA tax incentives. In Q4 2024 and 2025, we look for a continuation of these trends, though at this point in the cycle a progressive modest deceleration in growth should be expected absent an exogenous boost from fiscal expansion.

US GDP consumer dependent



Source: BEA, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 27							
Aus		Australia Day Public Holiday	–	–	–	–	Markets closed.
Chn	Jan	NBS Manufacturing PMI	index	50.1	–	–	Lunar New Year to leave manufacturing marking time...
	Jan	NBS Non–Manufacturing PMI	index	52.2	–	–	... while tourism–related services receives a boost in activity.
Ger	Jan	IFO Business Climate Survey	index	84.7	–	–	Expectations shaky amid tariff and election uncertainty.
US	Dec	New Home Sales	%mth	5.9	6.6	–	Supply is gradually coming on line, but pressures linger.
	Jan	Dallas Fed	index	3.4	–	–	Broadly consistent with ISM around break–even territory.
Tue 28							
Aus	Dec	NAB Business Conditions	index	2	–	–	Conditions are at its lowest level since August 2020.
NZ	Dec	Employment Indicator	%mth	0.3	–	0.0	Jobs may be flattening out after declines in mid–2024.
US	Dec	Durable Goods Orders	%mth	–1.2	0.8	–	Evolution of orders to provide a clue on business sentiment.
	Jan	CB Consumer Confidence	index	104.7	105.6	–	Politics to remain a key driver near–term.
	Jan	Richmond Fed	index	–10	–	–	Broadly consistent with ISM around break–even territory.
Wed 29							
Aus	Q4	Headline CPI	%qtr	0.2	0.4	0.3	Cost–of–living assistance shaving 0.3ppt off the CPI in Q4...
	Q4	Headline CPI	%ann	2.8	2.5	2.5	... and 0.7ppt off the annual pace.
	Q4	Trimmed Mean CPI	%qtr	0.8	0.6	0.6	At most cost of living assistance only shaves 0.1ppt off the...
	Q4	Trimmed Mean CPI	%ann	3.5	3.3	3.3	... annual pace of core inflation. Falling dwellings more important.
	Dec	Monthly CPI Indicator	%ann	2.3	2.5	2.5	Holiday travel, fuel and garments behind the outsized rise.
NZ		RBNZ Chief Economist Speech	–	–	–	–	“Beyond the Cycle: Growth and Interest Rates in the Long Run”.
Chn		Lunar New Year	–	–	–	–	Stock markets closed until February 4th in HK and Shanghai.
US	Jan	FOMC Policy Decision	%	4.375	4.375	4.375	FOMC taking a patient approach to policy normalisation.
Can	Jan	BoC Policy Decision	%	3.25	3.00	–	Despite a lumpy print, inflation data supports another rate cut.
Thu 30							
Aus	Q4	Import Price Index	%qtr	–1.4	1.5	1.5	Weaker currency is set to have lifted import prices...
	Q4	Export Price Index	%qtr	–4.3	2.5	4.0	... while higher commodity prices suggest higher export prices.
		RBA Assist' Gov (Financial Systems)	–	–	–	–	Jones fireside chat at superannuation forum, 2:20pm AEDT.
NZ	Dec	Trade Balance	$mn	–437	–	340	Seasonal lift in exports to drive first surplus since June.
	Jan	ANZ Business Confidence	index	62.3	–	–	Activity and confidence indicators firming.
Eur	Q4	GDP	%qtr	0.4	1.1	–	Activity at risk of finishing the year on a soft note...
	Dec	Unemployment Rate	%	6.3	6.3	–	... and despite labour market remaining historically tight...
	Jan	ECB Policy Decision (Deposit Rate)	%	3.00	2.75	2.75	... moderating inflation paves the way for a 25bp cut in Jan.
US	Q4	GDP	%ann'd	3.1	2.6	2.8	Growth holding at a modestly above–trend pace.
		Initial Jobless Claims	000s	223	–	–	To remain at a relatively low level.
	Dec	Pending Home Sales	%mth	2.2	–1.0	–	Marginal buyers taking advantage of early emerging supply.
Fri 31							
Aus	Q4	PPI	%qtr	1.0	–	–	Rising energy prices set to boost the PPI in Q4.
	Dec	Private Sector Credit	%mth	0.5	0.5	0.5	Follows a stable trend, but with downside risks.
NZ	Jan	ANZ Consumer Confidence	index	100.2	–	–	Confidence trending higher as financial pressure ease.
Jpn	Dec	Jobless Rate	%	2.5	2.5	–	Prospects for policy adjustment remains constructive given...
	Jan	Tokyo CPI	%ann	3.0	3.0	–	... backdrop of tight labour market and sustainable inflation.
	Dec	Industrial Production	%mth	–2.2	–	–	Hovering more–or–less around flat on an annual basis.
Chn	Jan	Caixin Manufacturing PMI	index	50.5	–	–	Production to remain soft heading into Lunar New Year.
US	Q4	Employment Cost Index	%qtr	0.8	1.0	0.9	Labour income growth has eased somewhat over the past...
	Dec	Personal Income	%mth	0.3	0.4	0.4	... twelve months but remains relatively robust overall.
	Dec	Personal Spending	%mth	0.4	0.5	0.4	End–of–year discounting provided some support to spending...
	Dec	PCE Deflator	%mth	0.1	0.3	0.3	... but does not signal a material upside risk to inflation.
	Jan	Chicago PMI	index	36.9	39.7	–	Manufacturing particularly fragile in local region.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (24 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	4.3150	4.43	4.20	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.87	3.75	3.75	3.80	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.911	3.70	3.70	3.70	3.70	3.75	3.75	3.80	3.80
10 Year Bond	4.474	4.35	4.35	4.45	4.55	4.65	4.75	4.85	4.85
10 Year Spread to US (bps)	–16	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	4.63	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	4.01	3.55	3.35	3.35	3.35	3.45	3.70	3.85	3.85
2 Year Swap	3.54	3.55	3.60	3.70	3.80	3.90	3.95	4.00	4.00
10 Year Bond	4.57	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 (24 Jan)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
AUD/USD	0 .6319	0.65	0.65	0.66	0.66	0.67	0.68	0.69	0.70
NZD/USD	0.5675	0.58	0.58	0.57	0.57	0.58	0.58	0.59	0.60
USD/JPY	155.14	151	150	149	148	146	144	142	141
EUR/USD	1.0450	1.06	1.07	1.08	1.09	1.10	1.10	1.11	1.11
GBP/USD	1.2396	1.28	1.29	1.30	1.31	1.32	1.33	1.33	1.33
USD/CNY	7.2476	7.30	7.25	7.20	7.15	7.10	7.05	6.95	6.85
AUD/NZD	1.1074	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	2.2	2.1	2.0	2.3	2.1	4.7	2.2	2.1	2.1

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