Week beginning 3 February, 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: RBA rate call: 0.2 beats 0.3, it's on for February.

The Week That Was: Dealing with uncertainty.

Focus on New Zealand: The wait is nearly over.

For the week ahead:

Australia: House prices, retail sales, dwelling approvals, household spending indicator, trade balance.

New Zealand: Building permits, labour statistics, ANZ commodity prices.

China: Caixin PMIs.

Japan: Labour cash earnings, household spending.

Eurozone: Retail sales.

United Kingdom: BoE policy decision.

United States: Construction spending, ISM PMIs, factory orders, trade balance, nonfarm payrolls.

Global: S&P PMIs.

Information contained in this report current as at 31 January 2025

RBA rate call: 0.2 beats 0.3, it's on for February

Luci Ellis
Chief Economist, Westpac Group

Normally it should not come down to one number. This round, however, the CPI has been the deciding factor because the message from other available data has been so mixed. With trimmed mean inflation at 0.5% in the quarter (3.2%yr), we have just enough evidence to conclude that disinflation has proceeded faster than the RBA expected, so the Board will have the required confidence to start the rate-cutting phase in February.

When we changed our call back in November to a start date of May 2025, we nonetheless assessed that a February move could not be ruled out. It was a matter of what was the most likely outcome, not what the only possible outcome was. The better-than-expected inflation data tilts the balance of probabilities back in February's favour.

In addition to the trimmed mean outcome (Westpac had a 'skinny' 0.6%, while the actual outcome was 0.5%), we see encouraging signs in housing-related inflation suggesting that the momentum in domestic price pressures is fading a bit faster than the RBA feared. Both rents and home-building costs have decelerated noticeably in recent months, and not just because of government cost-of-living support.

As noted, the rest of the data flow had not provided a clear steer either way. Domestic demand growth has disappointed, with consumers spending less of the Stage 3 tax cuts than had been widely assumed. Wages growth and other measures of labour costs have also undershot the RBA's forecasts for late-2024 outcomes (though not our own).

Against that, the labour market has been more resilient than we or the RBA expected. At 4%, the unemployment rate in the December quarter was 0.3ppts below the RBA's November forecast. Other indicators such as job vacancies and business surveys implied that the labour market had not eased at all in second half of 2024. Average hours worked painted a somewhat softer picture, but this was matched by an unwind in hours offered as cost-of-living pressures eased. The number of people reporting being underemployed therefore fell. The RBA already viewed the labour market as being tighter than full employment, and the recent wages data would not have induced enough of a downward revision to its assessment of the unemployment rate consistent with full employment to bridge the gap.

While we do not regard recent exchange rate movements as particularly consequential for the RBA decision, the prospect of more volatility here and in financial markets more broadly could have been a reason to delay and wait for more information.

In the end though, the good news on inflation beats the stronger news on the labour market. Recall that the RBA's November forecasts had trimmed mean inflation at 3.4% and an unemployment rate of 4.3% for the December quarter of 2024. The 0.2ppt downside surprise on trimmed mean inflation outweighs the 0.3%pt surprise on the unemployment rate.

Finally, there is the question of timing and tactics. Contrary to the speculation seen occasionally, the RBA Board has historically set policy according to the demands of its mandate and its assessment of the economy without political considerations. Elections or other political events do not generally influence the timing of rate moves. This time, though, the forthcoming change of the make-up of the Board could create some awkward optics around timing. If the current Board held rates steady in February and then the revamped Board cut rates in April, it would look like the government 'stacked' the Board to get the desired result. This is one of the reasons why we focused on February and May in our assessments. So there is an argument that the current Board will opt to get on with it rather than get caught up in the politics of the situation.

> **"The better-than-expected inflation data tips the balance back to the February move we had previously expected."**

We are also mindful that moving now would represent a further pivot in the RBA's view of the economy, following the pivot at the December meeting. We therefore cannot completely rule out that the Board (and the staff) dig in on their assessment that the demand is still outstripping supply, and keep rates on hold. The run of inflation data of late makes such an assessment even harder to justify, though.

Looking beyond the next meeting, we see the RBA as remaining data-dependent from here and not in a hurry to move further. Conditional on further declines in inflation and some softening in the labour market, we see cuts in May, August and November, taking the terminal rate to 3.35%. This is in effect a reversion to our earlier call, now that it has become clearer that the economy is evolving broadly in line with our forecasts, and not the more hawkish view of domestic cost growth that would have led to further delays.

Cliff Notes: dealing with uncertainty

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

In Australia, the Q4 CPI printed modestly to the downside of Westpac's expectation and the market consensus, headline inflation rising 0.2% (2.4%yr). Cost-of-living measures, most notably the various state and federal government energy rebates, played an important role in suppressing headline inflation, with electricity prices falling –9.9% (–25.2%yr). That said, inflationary pressures are abating broadly across the consumer basket. Most notably in the housing group, including rents and homebuilding costs, but also across fuel, clothing/footwear and household contents/services. Price pressures are still showing persistence in a few sub groups though. While total services inflation ticked down at year-end (4.6%yr in Q3 to 4.3%yr in Q4), downward revisions to childcare costs were at play. The narrower market services inflation measure continues to hover just north of 4.0%yr, with increases in holiday travel and insurance costs primary supports.

Encouragingly though, the RBA's preferred gauge of underlying inflation, trimmed mean core inflation, eased from 3.6%yr to 3.2%yr Q3 to Q4, and is now tracking a six-month annualised pace of just 2.7%yr, inside the RBA's 2-3%yr target range. As outlined by Chief Economist Luci Ellis, this update shifts the balance of risks for policy. Although the full suite of economic data is giving mixed signals on the strength and capacity of the economy – consumer spending has disappointed following the Stage 3 tax cuts but we continue to observe a tight labour market and (modest) real income gains – on balance, we believe the inflation trend warrants an imminent start to rate cuts. We have now returned to our earlier view that, starting in February, the RBA will undertake a gradual easing cycle of 25bps per quarter through Q4 to a terminal rate of 3.35%.

Offshore, it was a busy week of central bank meetings and key data.

The FOMC kept rates steady in January having cut by 100bps through late-2024 to a fed funds rate of 4.375%. Meeting communications suggest the Committee remains constructive on the health of the economy and believe the disinflationary trend will persist, with the labour market seen as broadly in balance and an increase in slack judged unnecessary for inflation to continue to decelerate through 2025 as monetary policy remains restrictive.

Of the US data released this week, Q4 GDP stands out. Domestic final demand had another strong quarter, growing 3.0% annualised, in line with the average of the prior three quarters. Household consumption drove this result, backing up Q3's strong 3.7% annualised gain with a 4.2% result in Q4, principally on strength in services consumption though growth in goods consumption was also robust. Government spending meanwhile continued to contribute to GDP at both the Federal and state & local levels, and housing investment rebounded after six months of declines. Business investment was weak however, equipment investment falling at a 7.8% annualised pace (admittedly likely weighed down by industrial disputes) while structures activity declined 1.1% annualised.

The composition of growth matters greatly for the outlook. The labour market and the average US household's long-term fixed borrowing costs should continue to insulate discretionary consumption. But the sharp rise in long-term yields since last September owing to inflation risks from tariffs and immigration changes and a general expectation of persistence in fiscal expansion casts a long shadow over the housing sector – evincing the risk, pending home sales fell 5.5% in December. While President Trump intends to spark private investment across the US by imposing tariffs and through measures like the AI infrastructure initiative announced last week, this is not necessarily a given, particularly in the near term.

"On balance, inflation trend warrants an imminent start to rate cuts, despite tightness in labour market."

With President Trump today confirming that 25% tariffs will be imposed on imports from Canada and Mexico and that the administration is currently considering actions against China, the coming weeks and months will be a good test of the responsiveness of the US economy to these policies, in particular which way the risks for investment and employment will skew. For the FOMC, the implications of these policies for activity matter as much as for inflation.

For Canada, the balance of risks are certainly one sided, although their scale will depend on whether oil exports to the US escape the 25% tariff. The potential implications of US policy were certainly on the minds of the Bank of Canada as it cut its overnight rate by 25bps to 3.0% and called an end to quantitative tightening, the BoC believing that balance sheet normalisation is largely complete. Arguably the market was more intrigued by the absence of forward guidance for policy, the statement and Governor Macklem's remarks making clear January's projections were "subject to more-than-usual uncertainty" given the "rapidly evolving policy landscape". Cumulative rate cuts to date are providing support to Canada's economy, job growth and household demand are picking up, but with the labour market still soft overall, the announced tariffs put at risk the absorption of excess supply in Canada's economy anticipated by the BoC over the next two years while also threatening their ability to meet the inflation target, and arguably the ability of monetary policy to provide meaningful additional support to the economy.

The European Central Bank also cut rates by 25bps at their January meeting. The statement and press conference signalled greater concern over the persistence and breadth of the growth upturn, unsurprising given the just released Q4 GDP report suggests activity contracted in Germany and France into year end and stalled across the Euro Area overall – Spain providing an offset, growing 0.8% in Q4. It is also worth noting that the stance of policy and financial conditions were characterised as “restrictive” and “tight” respectively, pointing to additional downside risks for the Euro Area economy in addition to those emanating from US trade policy. To our expectation of two more cuts from here, the market sees downside risk. The policy outlook will depend on the extent to which the easing undertaken to date bolsters confidence amongst households and firms’ resolve to work through the considerable challenges they face.

The wait is nearly over

Michael Gordon
Senior Economist

The Reserve Bank's first policy review of the year is approaching, after an almost three-month gap since the November *Monetary Policy Statement.* The last major piece of data before then is the Q4 labour market surveys, released next Wednesday, though we're not expecting anything that would decisively change the RBNZ's thinking. Meanwhile, a speech by the RBNZ's Chief Economist mused about the country's longer-term productivity challenges, but provided little guidance on current conditions.

The December quarter labour market surveys are likely to show a continuation of the steady softening in New Zealand's jobs market. We expect the unemployment rate to rise to 5.0%, compared to 4.8% in the September quarter. That's a touch less than the 5.1% that both we and the RBNZ had previously forecast, reflecting the fact that recent jobs data has been slightly better than expected.

Our key indicator here is the Monthly Employment Indicator (MEI). While there are some conceptual differences between this measure and the Household Labour Force Survey (HLFS), the most likely cause of any divergence between the two is that the HLFS is subject to sampling error. In contrast, the MEI is taken from income tax data, making it a more or less complete record of paid employment.

The MEI showed a 0.1% rise in the number of filled jobs in December, following a 0.2% rise in November. These gains, while modest, point to some emerging stabilisation in the labour market, after a cumulative 1.8% fall in jobs between March and October. However, for the quarter as a whole, they were still down 0.2% compared to the September quarter.

We expect the drop in employment to be accompanied by a fall in the participation rate from 71.2% to 71.0%. Participation has played a significant buffering role over the last few years. In particular, young people were drawn into the workforce in 2021-22 when the labour market was tight and migrant workers weren't available; as those conditions have reversed, many of them are ending up back at school rather than continuing to look for work. The result is that the measured unemployment rate has risen at a slower pace than many of us (including the RBNZ) were expecting, and forecasts of where it will peak this year have been gradually revised down.

The softening jobs market, along with the easing in inflation, mean that we should also see a further slowdown in wage growth. We're expecting a 0.6% rise in the Labour Cost Index (LCI) for the private sector. The public sector measure may prove to be stronger – there was a 3.9% pay increase for teachers that took effect in December, the last stage of the collective pay agreements that were set by the previous government. However, it's not clear whether this will be captured in the Q4 or the Q1 figures, as the LCI is generally surveyed mid-quarter.

On an annual basis, we expect the private sector LCI to slow to 3.0%, which would be the lowest in three years. Slowing wage growth is not exactly something to celebrate, but it's an unfortunately necessary step in breaking the cycle of domestically-generated inflation while productivity growth remains anaemic. The RBNZ is going to need that in order to keep overall inflation on target, because tradables prices – the more globally-driven part – are likely to be less helpful going forward than they were over the last year.

Our forecasts for both employment and wages are slightly stronger than what the RBNZ expected in its November forecasts, though not meaningfully so. The RBNZ has been unusually explicit that the base case for its 19 February policy meeting will be a 50bp cut, so presumably it would take a substantial amount of accumulated evidence in one direction or the other to move them off that view. Given the generally mixed tone of the recent economic data, it would take a major surprise for the labour market surveys to tip the balance on their own.

The RBNZ's first comments for the new year came from a speech by Chief Economist Paul Conway, titled "Beyond the cycle: Growth and interest rates in the long run". As the name suggests, it was not intended to provide any guidance as to the policy committee's current thinking, though there were a few general points worth noting.

Conway noted that the 'neutral' level of interest rates has been falling over time, much of which appears to reflect New Zealand's relatively poor performance on productivity growth. One implication of this is that the economy's speed limit is relatively low, and that a period of recession was required to exert sufficient downward pressure on inflation (unlike in the US for instance). Certainly it didn't seem to be the case that the RBNZ was repentant on contributing to the sharp fall in output seen in mid 2024.

More recently, the RBNZ has been lifting its estimate of the neutral policy rate. Conway noted that it looks like the trend in the neutral rate is flattening off and currently lies in the range of 2.5-3.5%. This is the same range communicated by the RBNZ in its November Monetary Policy Statement. Conway also noted that as the OCR gets closer to the middle of the neutral range, it will be appropriate to move more incrementally. That doesn't preclude another sizeable OCR cut at next month's review, but moves beyond that are likely to be on a meeting-by-meeting basis.

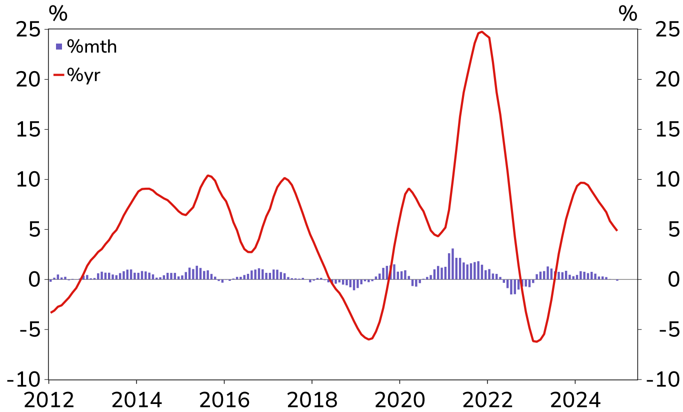
AUS: Jan CoreLogic Home Value Index (%mth)

Feb 3, Last: -0.2, Westpac f/c: -0.2

The CoreLogic home value index, which tracks the eight major capital cities, fell 0.2% in Dec. Annual growth continued to slow, easing to 4.5% in 2024. The monthly pace declined into year-end, led by falls in Sydney and Melbourne.

The CoreLogic daily index suggests another weak result in Jan, with prices across the major cities on track for a 0.2% fall for the month. However, housing data should be interpreted with extra caution during the Dec–Jan period as market activity is typically low. Activity tends to firm up from mid–Feb as auction markets reopen.

Offseason weakness to be evident



Source: CoreLogic Australia, Macrobond, Westpac Economics

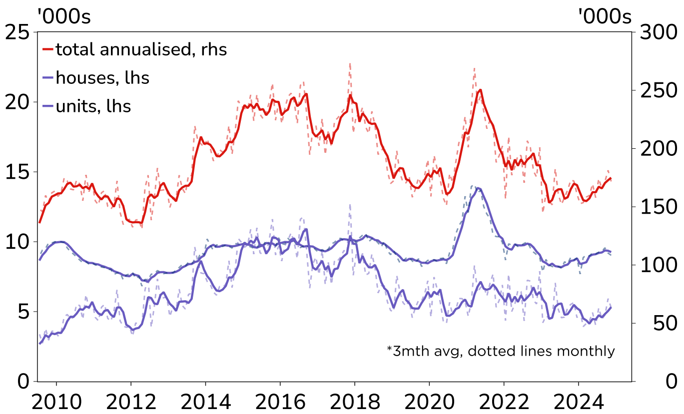
AUS: Dec Dwelling Approvals (%mth)

Feb 3, Last: -3.6, Westpac f/c: 1.0
Mkt f/c: 1.0, Range: -2.9 to 2.5

Dwelling approvals fell 3.6% in Nov partially reversing Oct's 5.2% jump. Despite the monthly volatility, the underlying trend continues to move higher, mainly driven by units – a typically volatile segment – with the more stable detached houses segment trailing behind at a more modest rate.

We expect total approvals to rise 1.0% in Dec, broadly consistent with the current up-trend. The strengthening to date has largely been centred on units in major states (excl. NSW) and detached houses in Qld, SA and WA. A key focus will be whether other segments start to firm up in 2025. As always, housing data should be viewed with more caution during the Dec–Jan period, given local government shutdowns.

Uptrend to remain on course



Source: ABS, Macrobond, Westpac Economics

AUS: Dec Retail Trade (%mth)

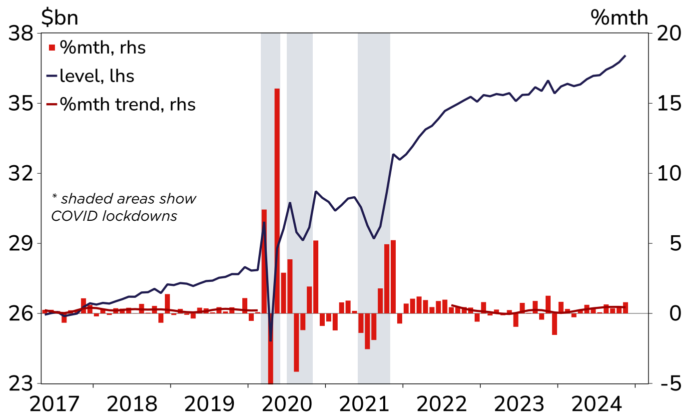
Feb 3, Last: 0.8, Westpac f/c: 0.5
Mkt f/c: -0.8, Range: -1.2 to 0.6

Retail spending growth was firm in the first two months of Q4, up 0.8% in Nov, following a 0.5% lift in Oct. Black Friday sales provided a boost, particularly for clothing and department stores.

The retail segment of the Westpac Card Tracker Index gained further traction in Dec. In-line with this, we anticipate a 0.5% rise in retail sales for the month.

Shifting seasonal patterns, the growing importance of Nov sales in particular, have posed challenges for the ABS in recent years, with seasonally adjusted estimates tending to show extra volatility in Nov-Dec that is revised down over time. This issue presents a downside risk to the Dec update.

Tax cuts gaining a little traction



Source: ABS, Macrobond, Westpac Economics

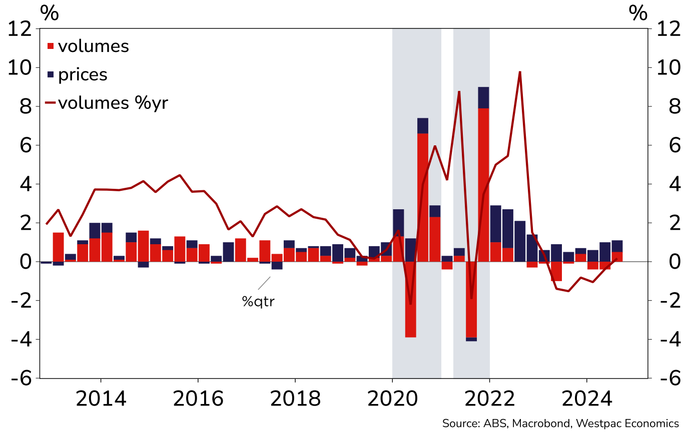
AUS: Q4 Real Retail Trade (%qtr)

Feb 3, Last: 0.5, Westpac f/c: 1.1
Mkt f/c: 0.8, Range: 0.5 to 1.5

Retail volumes rose 0.5% in Q3, to be 0.2% higher over the year. This marks only the second quarterly lift in volumes over the past two years and the first return to positive territory on an annual basis since Q1 2023. However, volumes continue to lag population growth, with per capita sales falling for a ninth consecutive quarter.

A 0.5% gain for nominal sales in Dec would translate to a 1.7% increase over Q4. The Q4 CPI detail suggests retail prices rose about 0.6%, leaving retail volumes 1.1% higher over Q4. Risks to prices appear balanced, with potential softness in clothing and department stores offset by reasonably solid recreational goods prices.

Volumes higher as disinflation continues



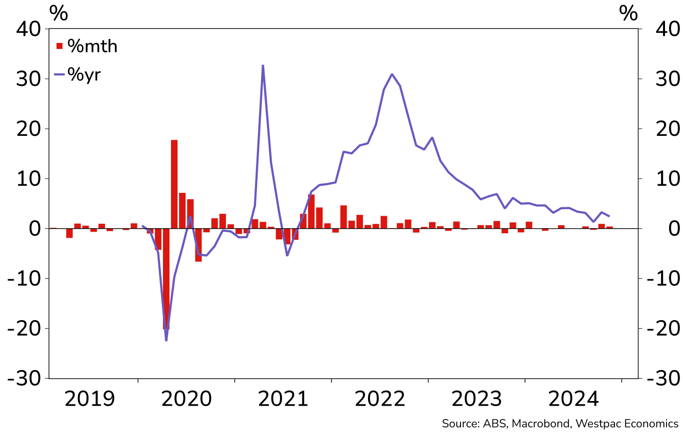
AUS: Dec Household Spending Indicator (%mth)

Feb 4, Last: 0.4, Westpac f/c: 0.6
Mkt f/c: 0.3, Range: -0.2 to 0.6

The household spending indicator rose 0.4% in Nov, slowing from 0.9% in Oct. Sales events boosted goods spending, which outpaced services for the first time since Jun, when similar discount-driven patterns emerged during EOFY sales.

We expect a slight pick-up in spending momentum to 0.6% in Dec, as the late timing of Black Friday sales shifts a larger-than-usual share of spending into the month. Additionally, estimated motor vehicle sales had a stronger showing in the month. Offsetting this, are results from [Wespac's Consumer Panel] which show tax cuts have had a subdued impact on spending in the second half of 2024, with only around 25¢ spent for every dollar of tax relief.

Rise in vehicle purchases to lift spending



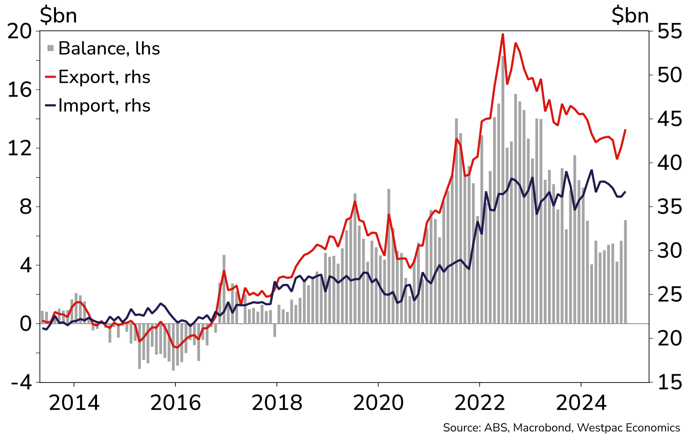
AUS: Dec Goods Trade Balance ($bn)

Feb 6, Last: 7.1, Westpac f/c: 6.3
Mkt f/c: 6.7, Range: 5.2 to 8.5

In Nov, a sharp increase in rural goods exports together with higher commodities exports drove a 4.8%mth increase in total exports. Imports growth was more modest 1.7%mth leaving trade surplus at $7.1bn, the highest level since the start of 2024.

Positive economic backdrop - weaker AUD and higher trade flows reported in China - should support Australian goods exports in Dec. On the other hand, strong rural goods exports from Nov might be reversed. And (noisy) data from key ports suggests that the seasonal end-of-year pick up in flows was relatively modest. Overall, we think that it should leave the trade surplus falling to around $6.3bn.

Goods trade surplus expected to narrow slightly



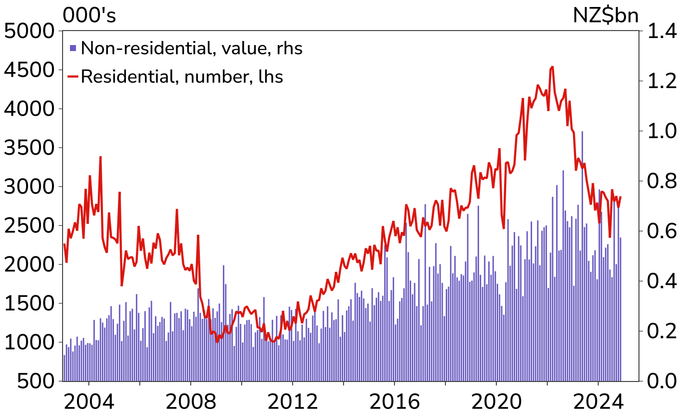
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

NZ: Dec Building Consents (%mth)

Feb 4, Last: +5.3, Westpac f/c: -5.0

We're forecasting that residential building consent numbers will fall modestly in December following a sharp rise in some of the 'lumpier' multi-unit categories last month. However, more important than the month-to-month swings, the longer-term trend looks like it has found a floor after earlier sharp declines. Annual consent issuance has been running at a little over 33,000 for several months now. We expect that consent issuance will remain around current levels for the next few months before beginning to turn higher through the latter part of year as the impact of lower interest rates ripples through the housing market. In the non-residential space, weak economic activity is expected to continue weighing on new developments.

Building consents appear to be flattening out



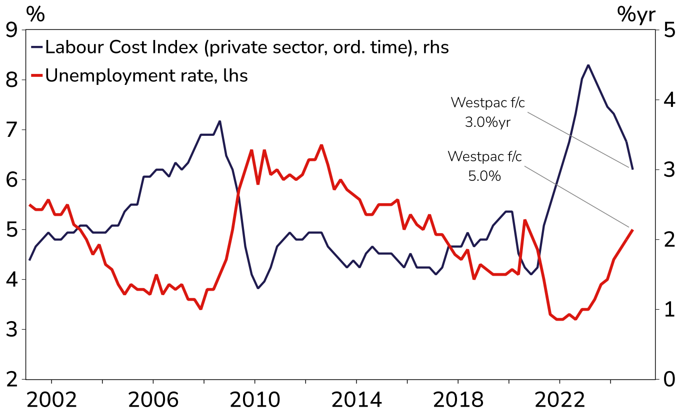
Source: Stats NZ, Macrobond, Westpac Economics

NZ: Q4 Labour Market Surveys

Feb 5, Unemployment rate – Last: 4.8%, Westpac f/c: 5.0%
Labour Cost Index, private sector – Last: +0.6%, Westpac f/c: +0.6%

The December quarter labour market surveys are expected to show that the unemployment rate has risen to 5.0%, compared to 4.8% in the September quarter. Monthly jobs figures were starting to tick up again at the end of the year, but they were down slightly for the quarter as a whole. The softening jobs market, along with the easing in inflation, mean that we should also see a further slowdown in wage growth. We expect a 0.6% rise in the Labour Cost Index for the private sector, taking the annual rate down to 3.0% (public sector wage growth may hold up for a bit longer). Our forecasts are only marginally better than what the RBNZ assumed – not enough to shake its strong conviction for another 50bp OCR cut in February.

Softening jobs market sees wage growth ease



Source: Stats NZ, Macrobond, Westpac Economics

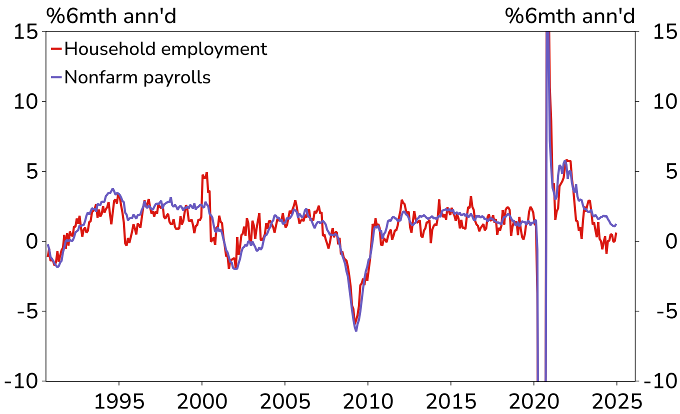
US: Jan employment report

Feb 7, payrolls, Last: 256k, WBC f/c: 170k, Mkt f/c: 150k
Feb 7, unemp rate, Last: 4.1%, WBC f/c: 4.1%, Mkt f/c: 4.1%

Nonfarm payrolls surprised to the upside in December, gaining 256k, leaving the month-average for 2024 at 186k, down from 251k in 2023. Household survey employment was stronger in December at 478k, but this result only partly reverses prior weakness, the month-average for 2024 reported at 45k versus 155k in 2023.

In January, a partial reversal of December's strength is possible, although equally as likely is that it might come in February and March -- volatility is often high over the turn of the year. Regardless, balance between labour demand and supply continues to be seen, and wage growth is responding, slowly returning to average rates.

US labour market broadly in balance



Source: BLS, Macrobond, Westpac Economics

What to watch

	For	Data/Event	Unit	Last	Mkt f/c	WBC f/c	Risk/Comment
Mon 03							
Aus	Jan	Corelogic Home Value Index	%mth	-0.2	–	-0.2	Falls in Syd and Melb extend, other major capitals soften.
	Jan	MI Inflation Gauge	%ann	2.6	–	–	December saw the strongest monthly increase in a year.
	Jan	ANZ Job Ads	%mth	0.3	–	–	Job ads finished 2024 16.5% lower than 2023.
	Dec	Retail Sales	%mth	0.8	–0.8	0.5	A decent Dec showing driven by non-food retail.
	Q4	Real Retail Sales	%qtr	0.5	0.8	1.1	Recovery in retail volumes continues.
	Dec	Dwelling Approvals	%mth	-3.6	1.0	1.0	Underlying up-trend to remain broadly on course.
World	Jan	S&P Global Manufacturing PMIs	index	48.8	–	–	Final estimate for US, UK, Europe and Japan.
Chn	Jan	Caixin Manufacturing PMI	index	50.5	50.6	–	Should remain consistent with modest growth in the sector.
Eur	Jan	Final HICP Inflation	%ann	2.4	–	–	Higher energy prices should lift headline inflation rate again.
US	Dec	Construction Spending	%mth	0.0	0.2	–	WIll be watched for signs of recovery in the housing sector.
	Jan	ISM Manufacturing PMI	index	49.2	49.3	–	Signals ongoing contraction in manufacturing production.
		Fedspeak	–	–	–	–	Fed's Bostic Speaks on Economic Outlook.
Tue 04							
Aus	Dec	Household Spending Indicator	%mth	0.4	0.3	0.6	Spending to strengthen amid late Black Friday and vehicle sales
NZ	Dec	Building Permits	%mth	5.3	–	-5.0	Trend in consent issuance has stabilised.
US	Dec	JOLTS Job Openings	000s	8098	–	–	Likely return to a gradual downward trend.
	Dec	Factory Orders	%mth	-0.4	0.5	–	Bounce back expected after November weakness.
	Dec	Final Durable Goods Orders	%mth	-2.2	–	–	Final estimate likely to confirm firm underlying growth in orders
		Fedspeak	–	–	–	–	Fed's Bostic Speaks in Moderated Conversation on Housing
Wed 05							
NZ	Q4	Unemployment Rate	%	4.8	5.1	5.0	The labour market is continuing to soften...
	Q4	Employment	%qtr	-0.5	-0.2	-0.2	... with a softening in jobs growth...
	Q4	LCI Wages (Pvte, Ord. Time)	%qtr	0.6	0.6	0.6	... and a cooling in annual wage growth.
	Jan	ANZ Commodity Prices	%mth	0.2	–	–	Month-to-month movements quite volatile.
Jpn	Dec	Labour Cash Earnings	%ann	3.9	3.9	–	Signs of increasing wage pressures.
Chn	Jan	Caixin China PMI Composite	index	51.4	–	–	Consistent with stronger momentum continuing in early 2025.
	Jan	Caixin China PMI Services	index	52.2	52.5	–	Suggest that services continues outperforming manufacturing.
World	Jan	S&P Composite Global PMIs	index	–	–	–	Final estimate for US, UK, Europe and Japan.
US	Jan	ADP Employment Change	000s	122	153	–	A noisy indicator of a monthly change in non-farm payrolls.
	Dec	Trade Balance	US$bn	-78.2	-80.4	–	A short term boost to imports set to drive deficit higher.
	Jan	ISM Services PMI	index	54.1	54.5	–	Will provide further evidence of services sector growth in Jan.
		Fedspeak	–	–	–	–	Fed's Goolsbee Gives Remarks at Auto Conference.
Thu 06							
Aus	Dec	Trade Balance	$bn	7.1	6.7	6.3	Weaker AUD and higher trade flows in China to help exports.
NZ		Waitangi Day	–	–	–	–	Public holiday, markets closed.
Eur	Dec	Retail Sales	%mth	0.1	0.0	–	Positive albeit modest growth to continue.
UK		BoE Policy Decision	%	4.75	4.50	4.50	25bp cut to Bank Rate is fully priced in.
US	Q4	Productivity	%ann	2.2	1.9	–	Productivity growth set to remain broadly stable around 2%yr.
		Initial Jobless Claims	000s	207k	–	–	To remain at benign levels.
Fri 07							
Jpn	Dec	Household Spending	%mth	-0.4	0.5	–	Growth has been below zero for the majority of 2024.
Chn	Jan	Foreign Reserves	US$bn	3.2	–	–	To remain elevated for now.
US	Jan	Non-Farm Payrolls	000s	256	150	170	Volatility is high at the turn of the year but...
	Jan	Unemployment Rate	%	4.1	4.1	4.1	...labour supply and demand is coming into better balance...
	Jan	Average Hourly Earnings	%mth	0.3	0.3	–	...causing wage growth to slowly return to average rates.
	Feb	Uni. Of Michigan Sentiment	index	71.1	–	–	Signs of consumer reactions to new policy announcements.

Economic & financial forecasts

Interest rate forecasts*

Australia	Latest (31 Jan)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Cash	4.35	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.25	4.43	4.20	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.79	3.75	3.75	3.80	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.82	3.70	3.70	3.70	3.70	3.75	3.75	3.80	3.80
10 Year Bond	4.42	4.35	4.35	4.45	4.55	4.65	4.75	4.85	4.85
10 Year Spread to US (bps)	-12	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	4.54	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	3.93	3.55	3.35	3.35	3.35	3.45	3.70	3.85	3.85
2 Year Swap	3.44	3.55	3.60	3.70	3.80	3.90	3.95	4.00	4.00
10 Year Bond	4.50	4.40	4.50	4.55	4.65	4.75	4.80	4.85	4.85
10 Year Spread to US (bps)	-4	10	20	15	15	15	10	5	5

Exchange rate forecasts*

	Latest (31 Jan)	Mar–25	Jun–25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6222	0.65	0.65	0.66	0.66	0.67	0.68	0.69	0.70
NZD/USD	0.5643	0.58	0.58	0.57	0.57	0.58	0.58	0.59	0.60
USD/JPY	154.24	151	150	149	148	146	144	142	141
EUR/USD	1.0389	1.06	1.07	1.08	1.09	1.10	1.10	1.11	1.11
GBP/USD	1.2422	1.28	1.29	1.30	1.31	1.32	1.33	1.33	1.33
USD/CNY	7.2446	7.30	7.25	7.20	7.15	7.10	7.05	6.95	6.85
AUD/NZD	1.1027	1.12	1.12	1.15	1.16	1.16	1.17	1.17	1.16

Australian financial forecasts under review.

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	0.5	0.7	0.9	0.8	–	–	–	–
%yr end	3.6	3.8	2.8	2.4	2.0	1.7	2.4	2.9	4.1	2.4	2.9	2.7
CPI Trimmed Mean %qtr	1.0	0.9	0.8	0.5	0.5	0.6	0.7	0.7	–	–	–	–
%yr end	4.0	4.0	3.6	3.2	2.7	2.4	2.3	2.4	4.2	3.2	2.4	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

Corporate Directory

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis
Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan
Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke
Head of International Economics
E: eclarke@westpac.com.au

Justin Smirk
Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante
Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

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

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

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

Ryan Wells
Economist
E: ryan.wells@westpac.com.au

Westpac Economics / New Zealand

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold
Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon
Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs
Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand
Senior Economist
E: shamal.chand@westpac.com.au

IQ

westpaciq.com.au

DISCLAIMER

Things you should know

We respect your privacy: You can view our privacy statement at Westpac.com.au. Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

Disclaimer

This information has been prepared by Westpac and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision.

This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words “believe”, “anticipate”, “expect”, “intend”, “plan”, “predict”, “continue”, “assume”, “positioned”, “may”, “will”, “should”, “shall”, “risk” and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

Conflicts of Interest: In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

Author(s) disclaimer and declaration: The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

Further important information regarding sustainability-related content: This material may contain statements relating to environmental, social and governance (ESG) topics. These are subject to known and unknown risks, and there are significant uncertainties, limitations, risks and assumptions in the metrics, modelling, data, scenarios, reporting and analysis on which the statements rely. In particular, these areas are rapidly evolving and maturing, and there are variations in approaches and common standards and practice, as well as uncertainty around future related policy and legislation. Some material may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. There is a risk that the analysis, estimates, judgements, assumptions, views, models, scenarios or projections used may turn out to be incorrect. These risks may cause actual outcomes to differ materially from those expressed or implied. The ESG-related statements in this material do not constitute advice, nor are they guarantees or predictions of future performance, and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of the statements). You should seek your own independent advice.

Additional country disclosures:

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). You can access Westpac’s Financial Services Guide here or request a copy from your Westpac point of contact. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice.

Note: Luci Ellis, Westpac Chief Economist is a member of the Australian Statistics Advisory Council (ASAC) which is a key advisory body to the Minister and the Australian Bureau of Statistics on statistical services. Luci does not have access to sensitive data/reports in her capacity as a member of ASAC.

New Zealand: In New Zealand, products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac (“WNZL”). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

Disclaimer continues overleaf ▶

DISCLAIMER

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation ("FDIC"). Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM.

If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

UK and EU: The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac's London branch by the PRA are available from us on request.

Westpac Europe GmbH ("WEG") is authorised in Germany by the Federal Financial Supervision Authority ('BaFin') and subject to its regulation. WEG's supervisory authorities are BaFin and the German Federal Bank ('Deutsche Bundesbank'). WEG is registered with the commercial register ('Handelsregister') of the local court of Frankfurt am Main under registration number HRB 118483. In accordance with APRA's Prudential Standard 222 'Association with Related Entities', Westpac does not stand behind WEG other than as provided for in certain legal agreements (a risk transfer, sub-participation and collateral agreement) between Westpac and WEG and obligations of WEG do not represent liabilities of Westpac.

This communication is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2)of the Order; (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an 'investment recommendation' and/or 'information recommending or suggesting an investment', both as defined in Regulation (EU) No 596/2014 (including as applicable in the United Kingdom) ("MAR"). In accordance with the relevant provisions of MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest of the sender concerning the financial instruments to which that information relates have been disclosed.

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found here. Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

To the extent this communication comprises an investment recommendation it is classified as non-independent research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and therefore constitutes a marketing communication. Further, this communication is not subject to any prohibition on dealing ahead of the dissemination of investment research.