February 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK February 2025

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'Buckle up'

In our previous edition of Market Outlook, released late last year, our main question was what kind of 'normal' the global economy was returning to, having finally dealt with the post-COVID inflation burst. Our assessment was that it would look like the 2016-19 period of the first Trump administration just prior to the pandemic. The past month has refined that view – it now looks like we are instead 'speedrunning' the back end of that period, when the US-China tariff wars were in full swing. The second Trump administration has launched straight into another, wider set of tariff wars that will clearly be a cornerstone of US policy in coming years. This is making for an even more unsettled global backdrop, characterised by asymmetric risks and divergent economic paths for growth, inflation, interest rates and exchange rates. The USD is already overvalued, and this could persist.

The whiplash associated with President Trump's tariff announcements has seen dramatic swings between 'risk-on' and 'risk-off' sentiment in markets, both the S&P500 and gold prices hitting fresh record highs in the space of weeks. As far as assessing the economic impacts of these policies goes, there remains a significant degree of uncertainty.

For the US, the chief concern is the extent to which uncertainty around the impact on growth and inflation influences policy easing. In our view, the FOMC will now hold off on delivering further policy relief until 2026. For Europe, likely tariffs coupled with a weaker starting point for growth should still see the ECB follow through with rate cuts to a slightly expansionary level. China's efforts to diversify its export base over recent years should help it ride out trade flow disruptions with authorities also well-positioned to deliver additional domestic stimulus.

Meanwhile, we see Australia as a small and unlikely target of trade wars. Any impact is likely to come indirectly via slower global growth and weaker sentiment that could see businesses put plans on hold and consumers lift precautionary savings. The RBA continues to navigate a more finely balanced growth and inflation outlook. Westpac now sees a first cut in February, but the pace and scale of easing is still expected to be modest. That should in turn allow for a continued gradual recovery in growth but with a Federal election due and the new 'normal' abroad, we will need to stay 'buckled up' for what could be a rough ride.

Australia: Diverging inflation and growth outlooks imply that advanced economy central banks are no longer following a common strategy in the face of a global inflation shock. The RBA will soon embark on rate cuts, following some good inflation data. The US rates outlook is materially above that of peer economies. This implies that bond yields are likely to remain in the 4s and even test 5%, and that US Treasury yields will tend to be higher relative to peer economies. It also implies that the US dollar could remain overvalued for a while yet.

Commodities: 2024 was a broadly negative year for Australian commodities, with our export price index falling more than 7%. It was not equal for all – met coal down 43%, iron ore lost 23%, while gold rallied 40% to new record highs. We doubt we will get much more clarity in 2025 with risks of trade wars, shifting priorities around the transition to a low carbon economy, while geopolitical uncertainties all at play.

Global FX Markets: At 108, the US dollar is 12% above the average of the five years prior to the pandemic. Moreover, the DXY index has been above average since early 2022. Only in one other period since 1990 has the US dollar experienced such a protracted outperformance. That was between 1998 and 2002 when a peak of 120, albeit a brief one, was achieved.

New Zealand: Easier financial conditions and an improvement in the terms of trade have begun to stabilise the economy following a deep downturn last year. With inflation now near the RBNZ's target midpoint, policy settings are likely to ease further in coming months. Together with a lower exchange rate, this should allow a sustained economic recovery to take hold this year assuming global tariffs do not bite NZ hard.

United States: The start of the year has offered a flurry of US data and political developments which hold significant implications for the world at large. The '30,000 foot view' points to continued US outperformance on an absolute and relative basis near-term, though the detail shows burgeoning evidence of fragility and growing risks of a lasting imbalance between US growth and inflation. We now expect the FOMC to remain on hold in 2025 and cut twice in 2026.

China: The nation begins 2025 amid considerable uncertainty, both of its own making and as a result of US trade policy. The market continues to doubt China's ability to weather the storm, but available data and authorities' resolve are promising for 2025 and beyond.

Japan: With the virtuous cycle of wages and prices now seemingly embedded, the Bank of Japan is positioned to raise rates twice more in 2025. However, there are risks this could unwind should household demand remain weak, labour market conditions shift, and high import prices crowd out the ability for firms to raise wages further.

Monetary policy pack breaks up …

Luci Ellis
Chief Economist, Westpac Group

For the past couple of years, advanced country central banks were tackling a common global inflation shock and thus adopting broadly similar strategies. This was to hold policy at a restrictive level until it was clear that inflation was on track to return to target. Because monetary policy works with a lag, policy rates needed to start declining ahead of inflation actually reaching the target. The path from there was then expected to be a glide towards neutral, wherever that is.

Policy paths did differ in the details. The demand impetus from pandemic-era fiscal support varied, and European economies faced a larger energy price shock than some others did after Russia's invasion of Ukraine. Meanwhile the RBA explicitly adopted a strategy of setting the peak policy rate not quite as high for longer, in order to hold onto the recent gains in the labour market. But the overall narrative was similar.

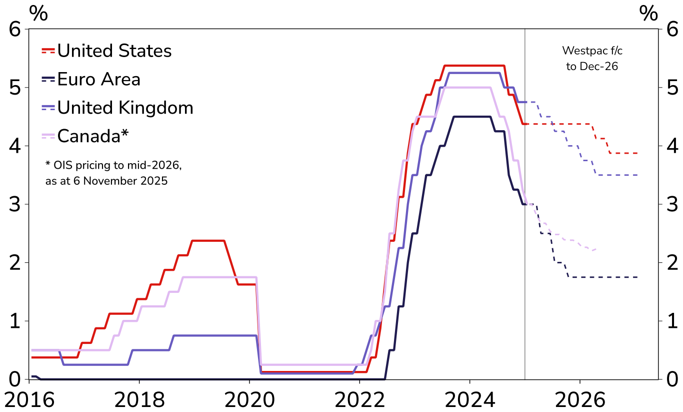
More recently, though, the landscape has shifted. A broadly neutral policy stance is no longer the appropriate anchor point in all cases. This divergence will in some cases be on top of the likely move higher in the level of 'neutral', which we have previously highlighted, and central banks' recognition of this.

The Trump administration is set to impose significant tariffs on a range of trading partners, leading to a more inflationary environment in the US than previously assumed. Reinforcing this, the Federal Reserve's mid-2024 concerns about the labour market are now fading. We therefore do not believe that the Fed is on a path to a broadly neutral stance of policy. While we still expect some further cuts and a similar end-2026 point as before, we no longer expect the Fed funds rate to touch neutral and then backtrack. The cuts that do come are now notably delayed relative to our pre-inauguration view.

The inflation and policy rates outlook also pushes up bond yields, both globally and for the US relative to peer economies. We now think it is likely that US 10-year Treasury yields will come to test the 5% level at times over the coming year. Yields for other countries' bonds will also average higher than they did pre-pandemic, but spreads to US Treasuries are likely to be narrower or disappear entirely. Indeed, our current view of yields on Australian 10-year government bonds through 2025 and 2026 is lower than that for US Treasuries.

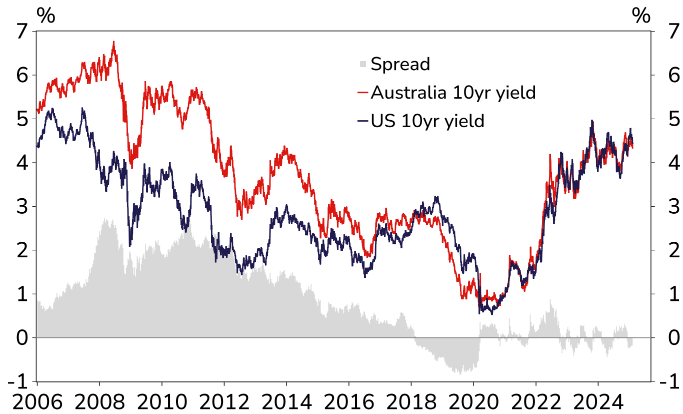
By contrast, a number of other advanced economies including the euro area, Canada and New Zealand are already facing weak growth prospects and, in the latter two cases, sharply rising unemployment. Central banks in these economies are likely to continue cutting policy rates to expansionary levels.

Policy rate outlooks diverging



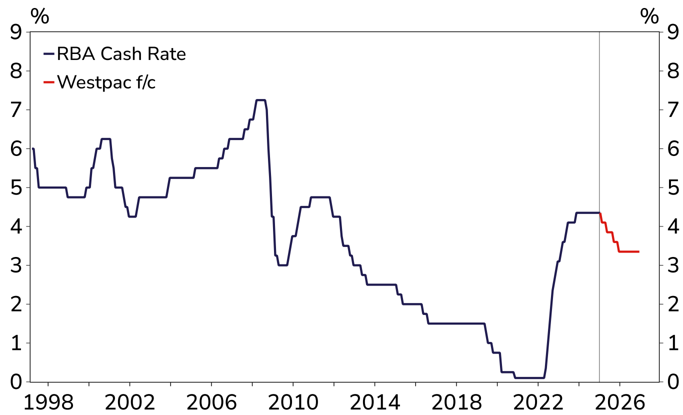
Source: BIS, Macrobond, Westpac Economics

Bonds yields higher, especially in US



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

RBA close to start of rate-cutting phase



Source: RBA, Macrobond, Westpac Economics

… while FX markets take the brunt

Australia (and the UK) sits somewhere in the middle of this distribution of experience. Australia is currently a small target for the Trump administration's tariff ambitions. As noted in the following pages, most of the impact on Australia will therefore come from second-round effects that will in turn depend on the policy responses of other trading partners, particularly China. Our current expectation is that the Chinese authorities will counter the growth-negative effects of US tariffs with its own domestic stimulus, limiting the backwash to third-country trading partners such as Australia.

A higher US cost base would raise the relative price of Australia's imports from the US, reinforced by exchange rate depreciation. However, the net effect on overall inflation in Australia is expected to be small, certainly not enough to materially delay a warranted withdrawal in monetary restrictiveness.

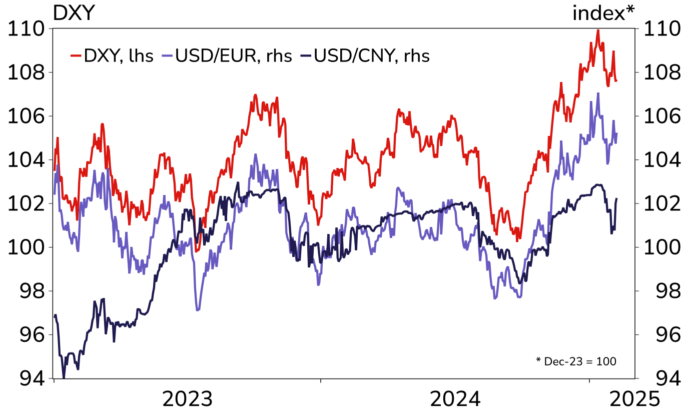
We therefore continue to expect the RBA to embark on the rate-cutting phase shortly. The good outcomes for December quarter inflation – and prospectively March quarter as well – shifted the balance of probabilities back to the upcoming February meeting as the most likely start date. Beyond that we continue to expect a relatively moderate pace for rate cuts.

As growth and policy rate paths diverge, exchange rates will price in those differences. Some of the recent strength in the USD reflects the change in market view on the rates outlook, along with some 'US exceptionalism' beliefs about relative growth prospects. Tariff increases also tend to be associated with the tariffing country's currency appreciating against that of the tariffed country. In addition, in the short term, markets have treated tariff announcements as 'risk off' events. As well as adding considerable day-to-day volatility into both rates and FX markets, this has also tended to result in the USD appreciating.

Some of the recent USD appreciation is 'risk-off' volatility and transitory reaction to news. But some is likely to be sustained and thus have lasting economic impact. The US dollar index is therefore likely to remain high for the time being. With further tariff announcements likely in coming weeks and months, the tendency will be for it to rise even further. The tension here, though, is that the US dollar is already overvalued. In real effective terms, it is higher than at any point since the 1985 Plaza Accord – making things harder for US exporters.

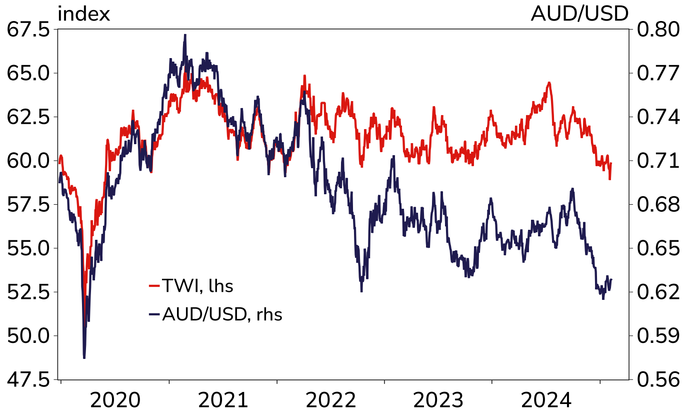
Over the longer term, relative purchasing power matters, and overvalued currencies tend to depreciate over time. But historical experience suggests that this convergence takes several years, so misalignments can persist for some time. Over the next year or so, then, other forces are likely to counteract any fundamentals-based tendency for the US dollar to depreciate to be closer to 'fair value'. Any USD depreciation is more likely to occur over the 3–5 year horizon.

USD leading FX movements



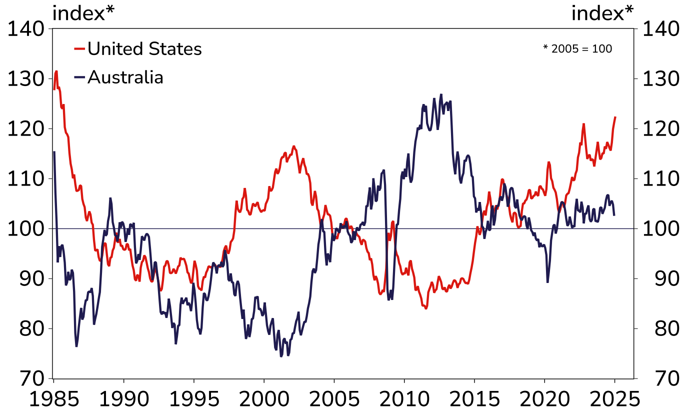
Source: Macrobond, Westpac Economics

AUD weaker against USD, less so versus others



Source: Bloomberg, Macrobond, Westpac Economics

Real Effective Exchange Rates



Source: IMF, RBA, Fed, Macrobond, Westpac Economics

Policy uncertainty is greater than usual …

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

Real-time indicators suggest private activity stabilised and moved into a gradual recovery in the second half of 2024. The private growth impulse will grow in importance as the economy rebalances away from public-demand-led growth. We continue to expect a slow recovery through 2025, with more support coming as the cash rate starts to move. However, policy risks to the outlook are greater than usual, on both domestic and global fronts.

On the domestic front, the Federal election is looking like a tight race, with polls currently pointing to some form of minority government as a likely result. There are clear differences between the two major parties around proposed energy policy but less detail across other areas. In general, a change of government is likely to see shifts around industrial relations, industry policy and overall spending. However, with independents potentially holding the balance of power, there may be less leeway for major initiatives. In this uncertain environment, businesses may take a wait-and-see approach to expansion and investment.

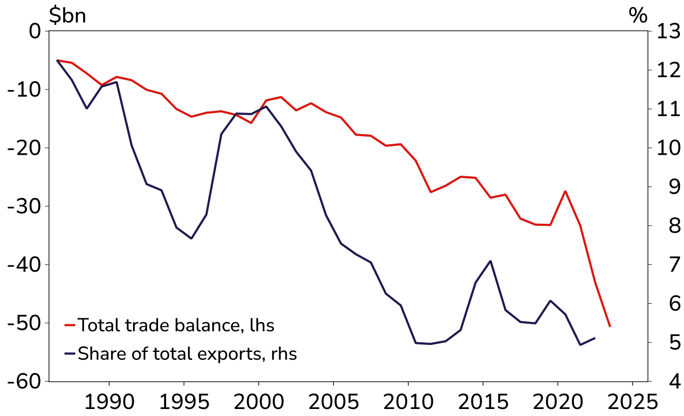
There is also a risk that the momentum around public demand could slow more abruptly. Fiscal space already looks more limited, particularly at the state level (see forthcoming note), and could pose a downside risk to growth over coming years.

The global backdrop has also become much more volatile following the commencement of the US Trump presidency, especially with respect to the emerging tariff war between the US and some of its major trading partners. It is difficult to know what measures will ultimately be put through or how other countries will respond. That said, it still is worth assessing some of the risks for Australia, including the main exposures, channels and considerations to keep in mind.

What do we know so far?

To recap, on 1 February 2025 the US President announced 25% tariffs on most goods imports from Canada and Mexico and an additional 10% tariff on all Chinese goods imports. All three countries announced retaliatory measures. Less than a week on, the proposed increases for Canada and Mexico have been postponed for a month. More measures are likely with the US President flagging probable tariffs for the EU; using the threat of tariffs to extract concessions from other countries; and, apparently committed to a phased roll-out of universal tariff for all imports starting at 2.5% and rising monthly. The President has also removed the 'de minimis' exemption that meant tariffs were not applied for shipments under US$800. Some of these and other executive orders have tested the boundaries of US Presidential powers and might not come to pass.

Direct export exposure to US is quite small



Source: DFAT, Macrobond, Westpac Economics

Sizing the impacts

Despite the scale of the changes, the direct impact on Australia's trade is likely to be very small. Only around 5% of Australia's exports go to the US. Moreover, our net trade position with the US is a deficit of around A$50bn (in 2023–24) rather than the bilateral surpluses that have been the focus of the Trump administration's policy attention. Indirect trade effects will be more substantive but are also likely to be small, albeit with this depending heavily on how impacted nations respond, China especially.

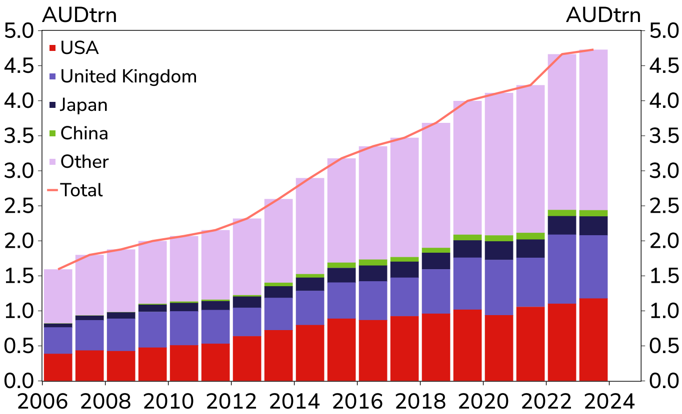
The tariff war will reduce global growth. Modelling by Warwick McKibbin from the ANU and Peterson Institute estimates that US GDP could be around 0.5ppts smaller than otherwise by the end of 2026 if differences are unresolved and tariffs (including retaliatory tariffs) are implemented. The trade war is estimated to take around 2ppts and 1.5ppts off GDP in Canada and Mexico respectively, and 0.2ppts off GDP in China (reflecting the smaller increase in tariffs but not incorporating the change to the 'de minimis' exemption).

A more elaborate IMF scenario – covering tariff increases, trade uncertainty, the extension of US business tax cuts and a moderate financial tightening – estimates world growth would be 0.8ppts lower in 2025 and 1.3ppts lower in 2026 (see pp24-27 here). For our part, we see US GDP growth holding at an above-trend 2.5% in 2025, slowing to a near-trend 1.7%yr in 2026, with risks to the downside (see page 16). The added inflation is also expected to constrain the US FOMC's interest rate easing this year.

Exactly how this flows through to Australia depends partly on how financial markets react, exchange rates in particular (see page 10) and the policy response from other governments.

… impacting the economy though various channels

International capital flows into Australia



Source: ABS, Macrobond, Westpac Economics

Governments have scope to use fiscal measures to cushion the external shock from a tariff war. This can go a long way towards dampening the effect, particularly as it flows through indirectly to Australia. Indeed, the US–China tariff war in 2018–20 saw Australia's net trade balance with China increase by around A$20bn, in part due to fiscal stimulus measures by the Chinese authorities. We expect stimulus measures in China again this time, though the trade effects are uncertain.

The impacts on Australian inflation and the potential path of RBA policy are also ambiguous. On the one hand, the measures may see 'trade diversion' that reduces the cost of some tradables in Australia, especially for Chinese manufactured goods. However, the imposition of tariffs on goods that are inputs to other products increases the tariffing country's cost base at any given level of production. This higher general cost base could imply higher prices paid by other countries such as Australia, even if they are not themselves imposing tariffs. There may also be some wider effects through a lift in inflation expectations.

All actual price movements will be mediated by exchange rate shifts. Indeed, during the first Trump presidency we saw the price of tradables in Australia increase but most of this was driven by a lower exchange rate, particularly when measured on a TWI basis.

Tariffs are the cornerstone of the US President's policy agenda but there are other policies that could also have spillover effects on Australia.

Further cuts to the US corporate tax rate and changes to the way taxes are applied to international entities could in principle see significant capital flows to the US. The US accounts for around 25% of investment (both direct and portfolio) into Australia, so there is some potential for disruption. However, this seems unlikely given that most of this investment tends to have long life spans. Studies examining the impacts of the President Trump's 2018 corporate tax cuts (from 35% to 21%) find little evidence of a redistribution of capital flows. Instead, the tax cuts seem to have increased retained earnings in the US.

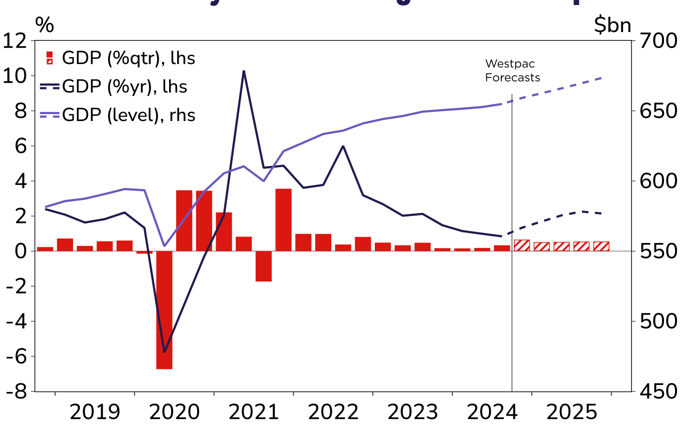
US measures may also trigger significant shifts in migration. While the focus is on illegal flows across US land borders, the heavy-handed and sometimes indiscriminate measures, coupled with a negative attitude towards migrants in general, could deter many planning to move and see some re-route to Australia.

All told, the potential impacts still look relatively small for Australia, suggesting the biggest risk may instead be the impact on sentiment. Uncertainty around US policy, the response from other countries and increased market turbulence may have a general 'paralysing' effect. Businesses may start to delay investment and consumers may start to lift precautionary savings. None of this looks to be happening so far – the consumer recovery is still tracking reasonably well and the feedback we are hearing suggests businesses are still moving ahead with plans. The sentiment impacts during the 2018 US–China tariff war were also negligible. However, it may be different this time around. IMF modelling suggests tariff-related uncertainty could take 1ppt off investment in the US. Consumers may also be a little more sensitive given the pressure their finances have come under over the last few years.

Where does this leave us?

Perhaps the clearest take-out is that the global environment is becoming both more uncertain and more complex. The supply chain disruptions of 2020–23 showed just how interwoven global trade flows are. Between this and the opaque nature of both trade policies and the way they are applied, assessing specific and general risks has become more difficult. That said, our sense is that these are still fairly limited for Australia, the most significant being around the policy response in China and sentiment impacts locally.

Gradual recovery in economic growth anticipated



Source: ABS, Macrobond, Westpac Economics

Trade 'storm clouds' threaten commodity markets ...

Justin Smirk
Senior Economist, Westpac Group

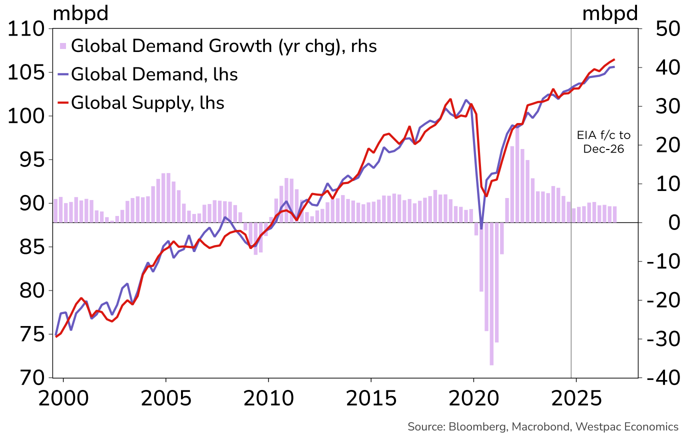
Commodities started 2025 on a soft note but, as we emphasise in almost every report, not all performances have been equal. Our broad commodity index has fallen –1.7% since our last report to be down –7.1% since January 2024. Since December, the largest fall has been recorded by thermal coal (–14.2%), while crude oil has increased 3.8% and gold by 5.1%. Since January 2024, the largest falls have been reported by met coal (–43.1%) and iron ore (–23.2%), while thermal coal and crude oil are both down –6.1%. Over the same period, gold has rallied an impressive 40% to fresh record highs. Meanwhile, copper and aluminium have gained 5.8% and 5.7% respectively.

As 2024 drew to a close, a positive outlook for commodities was building off the back of expectations for continued policy easing across most of the developed world, led by the US FOMC, while the supply of many commodities remained quite tight. The broader dynamics associated with the green transition were also a factor – a combination of stronger demand for key minerals used in low-carbon technologies and pressure on investment in carbon-intensive energy generation.

Move forward to the start of 2025, and the balance of risks has shifted. EV sales are running behind expectations across most of the world outside of China, and in the US, the new Trump administration is working to unwind as much of the Biden administration's "Green New Deal" as possible. Globally, investment in the green transition is running behind expectations. We have also seen investment in carbon energy, particularly crude oil, being restricted due to those expectations of the green transition. So, while OPEC+ is likely to follow through on it's plan to return production back to previous levels in 2025, the fact that crude oil demand is running ahead of expectations is working to support prices. President Trump may have been elected on a mantra of "drill baby drill" to lower gas prices but with US crude production already at a record high in 2024, US production is only likely to grow in a meaningful way if prices remain supportive. Any significant decline in crude oil prices would act as a dampener on US production from here.

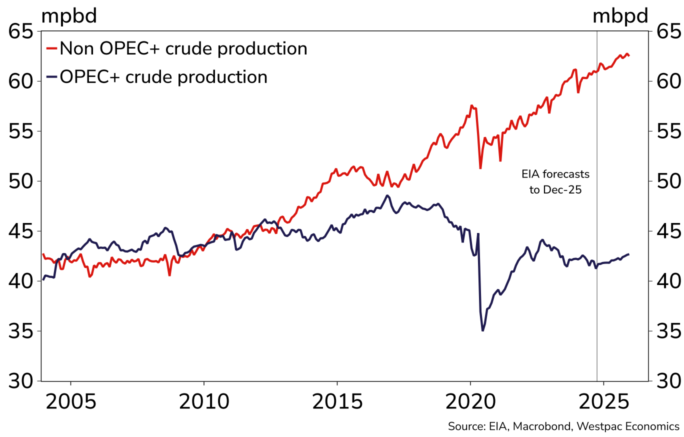
Into this mix comes new risks around a Trump tariff war – a situation that has been in a constant state of flux with little clarity since the Presidential inauguration. History tells us that commodities do not like trade wars, so the sell-off on the back of confirmed tariffs on Canada, Mexico and China alongside clear threats of tariffs on the EU was to be expected. There was a bit of a recovery when the tariffs on Mexico and Canada were deferred for a month, but it still leaves commodity markets in a heightened state of uncertainty.

Crude oil supply & demand



Source: Bloomberg, Macrobond, Westpac Economics

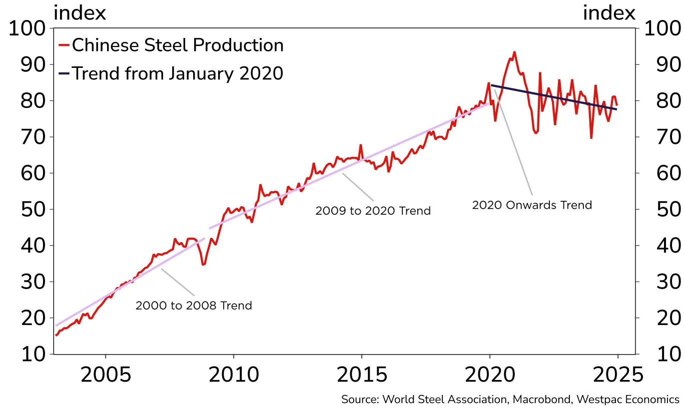
OPEC+ set to join the increase in supply in 2025



Source: EIA, Macrobond, Westpac Economics

Chinese steel production peaked in 2020

Since peaking steel production has been trending down



Source: World Steel Association, Macrobond, Westpac Economics

… with the risk averse seeking a safe-haven in gold

After marking our forecasts to current pricing, we are reassessing our medium-term outlook. But until we have greater clarity we are reluctant to make any significant changes. For now, we see some near-term downside risk from a tariff war while increasing OPEC+ supply will help to dampen crude oil prices. However, as we move towards 2026 and the prospect of further rate cuts from the US FOMC, demand is likely to recover and start bumping up against constrained supply again. This is like to be supportive of energy prices and base metals in particular.

We do not see a lot of near-term risk for iron ore given it is in the throes of a structural demand cycle since Chinese steel production peaked in 2020. However, with the massive Simandou projected due to come online in 2025, we continue to expect prices to fall to around US$85/t compared to current pricing levels still above US$100/t, which is better than we had expected a year ago.

Below we summarise some of our near term thoughts.

Crude oil remains range bound

Crude oil is likely to remain range bound until the market has more clarity on the size and duration of tariff increases plus the risk of a full blown trade war developing. An extended trade war could see crude prices plunge into the US$60s, but at least for now the market is likely to tighten as OPEC+ continues withholding barrels at a time when production normally rises.

In addition, more aggressive OFAC sanctions on Russian vessels could limit supplies to China and India while the fire at the Iraq Rumaila field and Ukrainian drone attacks on Russian refineries continue to see global inventories dropping from some of the lowest levels seen for this time of year.

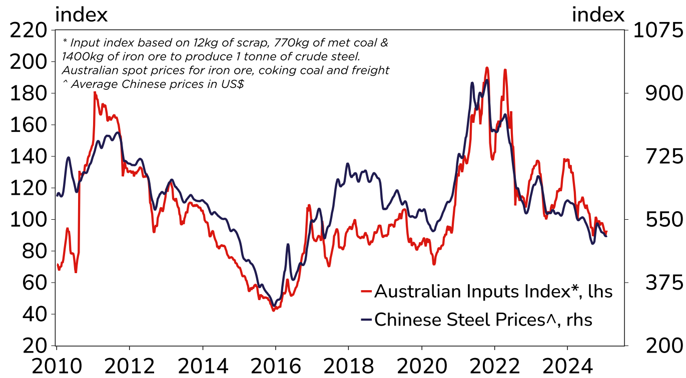
Gold, how high can it go?

As gold scales new heights there appears to be little standing in its way. As such, we expect it to press onward, possibly setting all-time highs in the first half of this year. From a fundamental point of view, it is hard to justify current pricing as gold appears overvalued compared to traditional longer-term drivers and, in particular, elevated US real yields.

However, we cannot expect current high risk premia to reverse any time soon. For while immediate tariff threats may have receded, an administration as unpredictable and disruptive as President Trump's – that is willing to threaten allies as well as adversaries – makes the safe-haven status of gold even more appealing. This is without considering the political tensions that would arise from any territorial disputes over Panama, Greenland and/or Gaza.

Chinese Steel Input and Output Prices

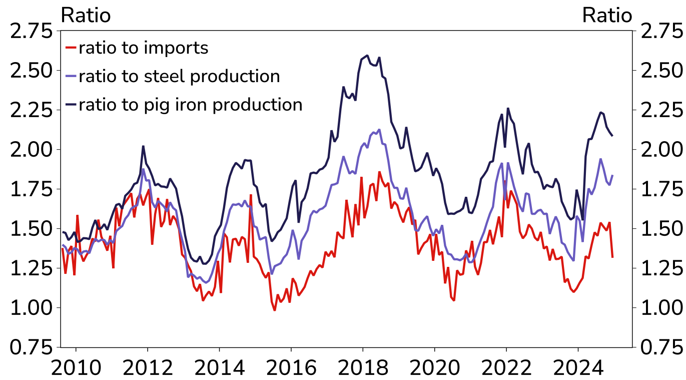
Input prices being dragged down by falling steel prices



Source: Bloomberg, Macrobond, Westpac Economics

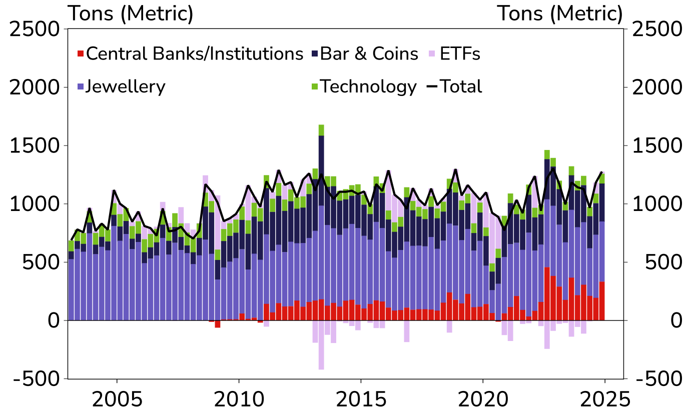
China iron ore port inventories

Compared to demand inventories near cycle high



Source: Bloomberg, Macrobond, Westpac Economics

Gold Consumption



Source: World Gold Council, Macrobond, Westpac Economics

USD historic strength to persist ...

Elliot Clarke
Head of International Economics

Presently at 108, the US dollar on a DXY basis is almost 12% above the average of the five years prior to the pandemic and around 20% higher than its 20-year average. Moreover, the DXY index has been above its five-year pre-pandemic average since early 2022. Only in one other period since 1990 has the US dollar experienced such a protracted period of outperformance – that was between 1998 and 2002 when a peak of 120, albeit a brief one, was achieved.

Both then and now, belief in the US economy's capacity and risks abroad drove and sustained the US dollar's gains. However, in this instance the risks abroad are not the result of actions by foreign powers but rather US trade policy.

It is not entirely clear as we go to press whether President Trump will enact tariffs as announced. Below we assume they are confirmed and come into effect by end-March.

In addition to the 25% tariffs on goods from Canada and Mexico and 10% increase in tariffs against China, we also factor in a 10% tariff for the Euro Area and another 10% increase for China following their retaliation against the US this week. In such circumstances, uncertainty has to be expected to lead to further dollar strength.

The inflation consequence of tariffs for the US, combined with capacity constraints evident in the economy (discussed in depth on page 16), are also expected to put the FOMC on hold for 2025 and limit rate cuts to two 25bp reductions in the first half of 2026. A controlled rise in the US term premium will offer additional support for the currency, particularly if, as we expect, inflation remains benign elsewhere.

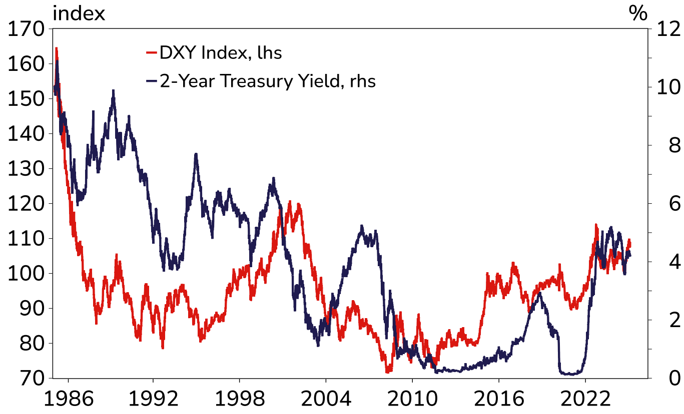
From 108 today, we look for the DXY index to top out around 111.0 in June 2025 then to slowly ease back to 110.0 at end-2025. It is not until Q2 2026 that we expect to see the DXY index sustainably below its current level.

In our view however, this strength in the US dollar and inflation will inevitably come at the cost of weaker growth for the US, seeing the currency retreat. To the projected 105 at end-2026 for DXY, there is meaningful downside risk.

Indeed, on growth differentials alone, by the end of the forecast period in December 2026, a DXY circa 96 would be warranted, in line with the five-year pre-pandemic average.

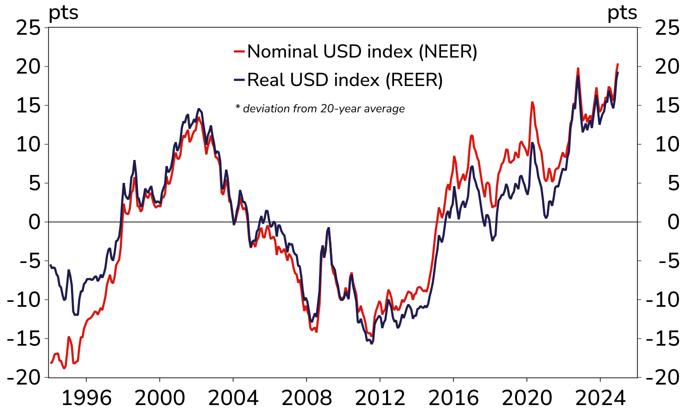
Breaking down the contributions of key currency pairs to the DXY index, the Canadian dollar has arguably been most adversely affected by President Trump's announcements, the USD/CAD jolting up from CAD1.44 to 1.48. The market is currently hopeful a deal can be reached.

US prime factor of global markets



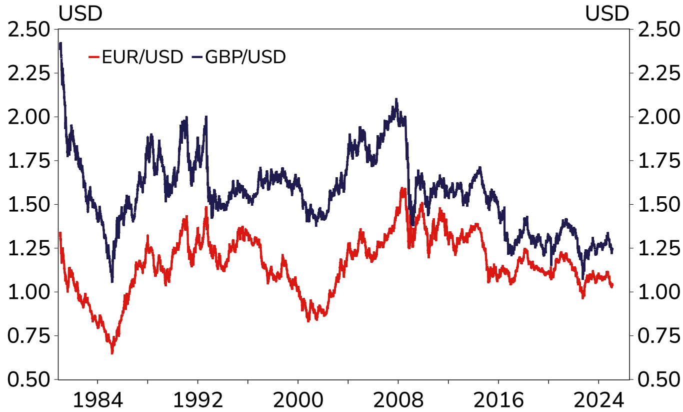
Source: Bloomberg, Macrobond, Westpac Economics

USD valuation abnormally rich



Source: BIS, Macrobond, Westpac Economics

Euro at risk, Sterling less so



Source: Bloomberg, Macrobond, Westpac Economics

... until the costs are borne out

Canada's retaliation will stand and President Trump has made clear he will increase the 25% tariff in response. A retest of the high in USD/CAD around 1.48 has to then be expected, particularly with the Canadian economy in a weak state and the Bank of Canada needing to be mindful of inflation risks. Without an agreement, we see USD/CAD holding above the current level until mid-2026, edging down thereafter.

The Euro was also briefly hit by the Canada/ Mexico announcement as prior threats against Europe by President Trump saw the market price in the administration's next steps. The mooted tariff for Europe is lower at 10%, and potentially only set to be imposed on countries in the region that have a trade surplus with the US. Action against the Euro Area should therefore have a much smaller impact than the tariffs on Canada and Mexico.

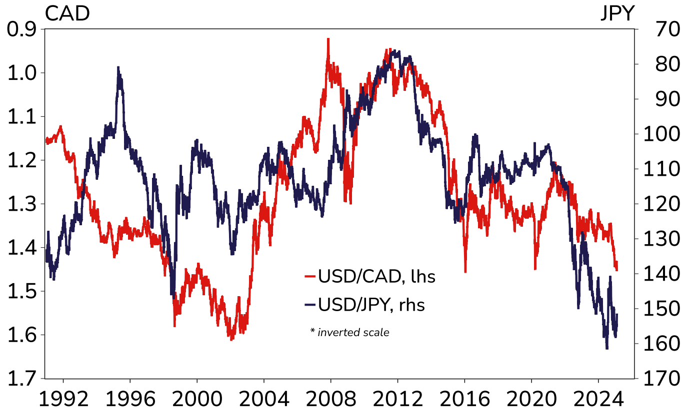
However, the concern for market participants is that such a shock could put an already weak Euro Area economy over the edge – growth in the region stalled in Q4. We have sympathy for this view, though expect the Continent will again prove resilient in time. That does not mean sentiment will not bite near term though. If tariffs are introduced, then we see Euro testing parity through Q1 to Q3, and potentially breaking through mid-year. Bearing in mind the starting point for the currency, recovery is likely to prove protracted, EUR/USD only back at USD1.06 at end-2026. As an aside, a shadow is likely to be cast over Sterling by Euro even though the UK has avoided US tariffs. GBP/USD is seen holding station around USD1.23 through most of 2025 before edging higher in 2026.

Then to Asia.

Like the UK, Japan has also been left out of US discussions of tariffs to date given its trade position. That leaves rate differentials as the primary driver of USD/JPY for the time being, which favours the Yen, albeit only at the margin given we now see the FOMC on hold through 2025. USD/JPY's downtrend is seen gaining traction in 2026, though at JPY144 at year end, the currency is still best considered weak by historical standards. In the five years prior to the pandemic, USD/JPY averaged JPY112, 22% lower.

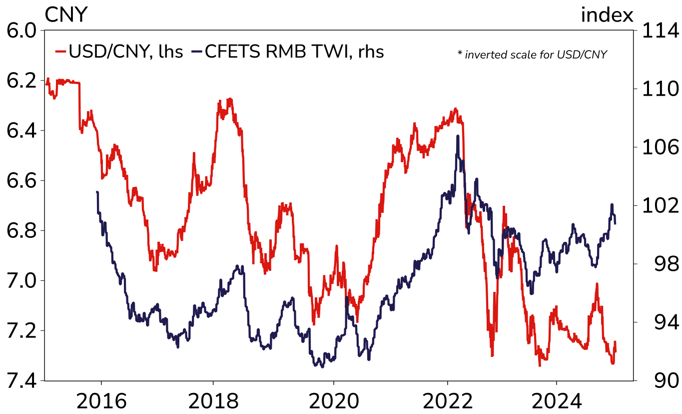
The more intriguing Asia/USD currency pair however is China's Renminbi. For all the talk of Renminbi weakness, on a trade-weighted basis, the currency is sitting near the top of its historic range. This implies China's authorities have the capacity to depreciate against the US dollar to avoid the cost of inputs while not losing purchasing power. That said, reports suggest China will promise to not depreciate against the US dollar as part of a deal to avoid harsh tariffs. For now we tend to believe these reports, while noting the risk bilateral Renminbi depreciation sees USD/CNY closer to CNY7.50 than the current CNY7.30.

CAD outlook highly uncertain



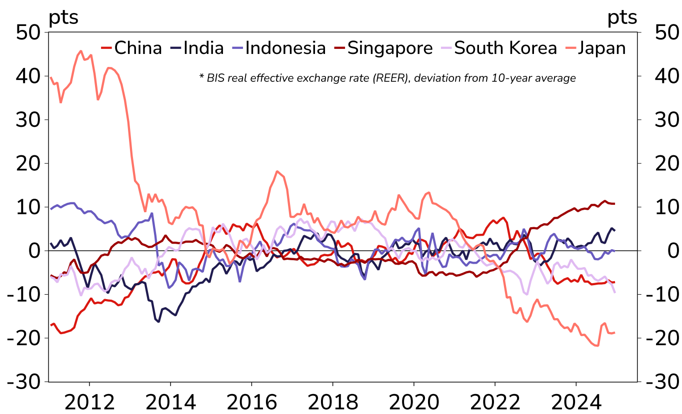
Source: Bloomberg, Macrobond, Westpac Economics

Renminbi TWI broadly stable



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



Source: BIS, Macrobond, Westpac Economics

Easing financial conditions and better export prices …

Darren Gibbs
Senior Economist

Since our last Market Outlook, the data flow indicates the NZ economy underwent a steeper downturn in 2024 than previously thought. However, the situation appears to have stabilised in recent months, supported by easier financial conditions and an improvement in the terms of trade. With inflation now back near the midpoint of the target range, we expect the RBNZ to ease policy further in coming months. Together with the impact of a lower exchange rate, this should help foster an economic recovery as the year progresses. The outlook is heavily contingent on recent US tariff measures having a modest impact on NZ. This is uncertain and will likely see the RBNZ moving more cautiously after February.

There have been several key data releases since we finalised our last **Market Outlook** in mid-December. The domestic news that perhaps captured most attention – and indeed caused us to tweak our assessment of the near-term outlook for monetary policy – was the release of the latest set of National Accounts. Not only did this report cast more light on developments during the September quarter; it also included some sizeable revisions to recent history.

Incorporating new annual benchmark surveys and other improvements, Stats NZ now estimates that the economy was firmer in 2022 and 2023 than previously thought. At least in part, this revision probably reflects better coverage of the impact associated with very strong migrant-driven population growth seen over those years. This characterisation of the economy also fits better with the strong domestic inflation pressures experienced over this period.

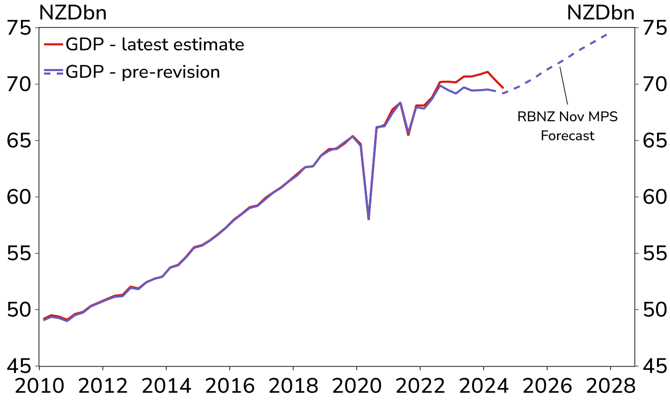
Less positively, the economy now appears to have undergone a much steeper downturn in the middle of last year, with activity shown to have contracted much more sharply in the September quarter, down –1.0% following a –1.1% contraction in the June quarter (revised from just –0.2% previously).

While further revisions are likely in the fullness of time, this new characterisation of the economy also fits better with the tone of high frequency indicators and anecdotal information received over the period, including developments observed in the labour market.

On balance, we think the RBNZ will conclude that the negative output gap at the end of last year might have been slightly larger than estimated in the November MPS. That said, we do not expect the revisions to have much impact on the RBNZ's assessment of the more recent performance of the economy or the outlook from here.

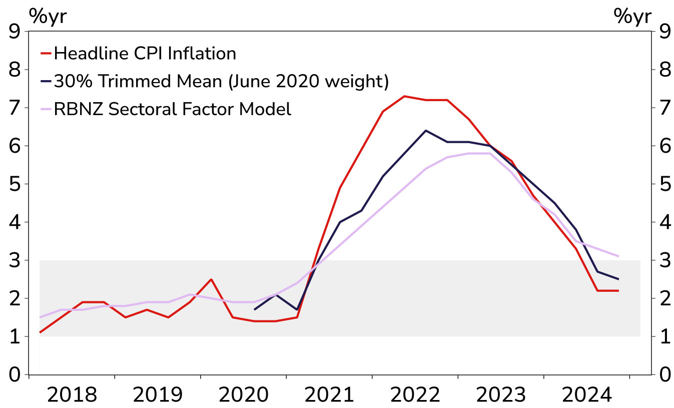
On that score, the good news is that underlying activity appears to have broadly stabilised in the December quarter.

GDP revisions point to a steeper downturn in 2024



Source: Stats NZ, RBNZ, Macrobond, Westpac Economics

CPI inflation is converging on the target midpoint



Source: Stats NZ, RBNZ, Macrobond, Westpac Economics

Retail spending has shown welcome signs of picking up in recent months, although perhaps in part helped by the continued gradual recovery of overseas visitor arrivals. Housing market activity has also shown signs of lifting in response to falling mortgage interest rates, even though house prices remain very subdued.

Less positively, the Business NZ PMIs have remained relatively soft in recent months and labour market indicators report that employment and hours worked fell modestly in the December quarter. However, with activity in the September quarter having been partly depressed by transitory weakness in the utility sector, we presently expect that overall GDP will record a modest positive rate of growth (about 0.3%qtr).

Recent developments in inflation have been largely as expected and suggest that the RBNZ's policy easing cycle has further to run. Headline CPI inflation remained steady at

... should see the economy strengthen over 2025

2.2%yr in the December quarter – close to the target midpoint – and key measures of core inflation continued to ease. For example, the trimmed mean inflation rate fell to 2.4%yr and the RBNZ's sectoral factor model estimate fell to 3.1%yr.

Given this outcome, and other developments since the November MPS meeting, we continue to expect that the RBNZ will cut the OCR by a further 50bps to 3.75% at the next policy review on February 19. Thereafter, we expect the RBNZ to take a more incremental and cautious approach, with another two 25bp rate cuts taking the OCR to a cycle low of 3.25%. Uncertainties associated with the impact of any developments in US tariff policy – which could either raise or lower the inflation outlook in New Zealand – will likely reinforce that patient approach, at least until greater clarity emerges.

We are presently finalising our first **NZ Economic Overview** for 2025, which will be released on February 12. That said, the economic outlook remains broadly as depicted in our current published forecasts. Supported by a further easing of monetary policy, the flow-through of improved incomes in the primary export sector, and a somewhat lower trade-weighted exchange rate, we expect GDP growth to gradually strengthen over the course of this year and into 2026.

In the near-term, growth is likely to remain insufficient to absorb new entrants into the labour force and so the unemployment rate is likely to edge up a little further from the 5.1% rate recorded in the December quarter. But as growth strengthens, the unemployment rate is expected to at first stabilise and then begin a downward trend.

A strengthening economic outlook will be welcome news for many – not least of all for the Government, given the disappointing fiscal update released at the end of last year. That update revealed a further cyclical and structural deterioration in the outlook for tax revenues, as well as higher than previously forecast spending outside of the core Crown sector. As a result, with a return to operating surplus pushed out by a further two years, the Treasury raised its forecast of the Government's borrowing requirement over the next four years by NZ$20bn – a much larger increase than the market had expected.

The Government has announced that Budget 2025 will be released on May 22, with the clear focus to be on measures to boost economic growth. But with so little left in the fiscal kitty, it seems likely that the emphasis will be on legislative and regulatory initiatives to boost productivity and support entrepreneurship, rather than driving growth through additional Government spending. However, there have been some recent hints that the Government is considering changes to corporate tax – not necessarily the headline corporate tax rate – to incentivise investment and growth.

	2024											2025
Monthly data	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
REINZ house sales %mth	9.5	2.3	–2.8	–1.1	–7.9	10.7	0.0	2.5	2.6	1.0	–9.3	–
Residential building consents %mth	19.1	0.0	–2.2	–1.6	–16.9	26.5	–5.4	2.4	–5.0	4.8	–5.6	–
Electronic card transactions %mth	–0.8	–0.7	–0.4	–1.1	–0.6	–0.1	0.2	0.1	0.8	0.1	2.0	–
Private sector credit %yr	2.5	2.7	2.5	3.0	2.7	2.6	2.8	2.8	2.6	3.1	3.1	–
Commodity prices %mth	3.6	–1.3	0.5	1.1	1.5	–1.7	2.1	1.8	1.4	2.9	0.1	1.8
Trade balance $m	–817	–346	–964	–1011	–362	–802	–1034	–804	–529	–316	–197	–

Quarterly data	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**	**Q2:24**	**Q3:24**	**Q4:24**
Westpac McDermott Miller Consumer Confidence	87.6	75.6	77.7	83.1	80.2	88.9	93.2	82.2	90.8	97.5
Quarterly Survey of Business Opinion	2	–12	–17	–11	–14	10	–26	–27	–30	–26
Unemployment rate %	3.3	3.4	3.4	3.6	3.9	4.0	4.4	4.6	4.8	5.1
CPI %yr	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.3	2.2	2.2
Real GDP %yr	2.7	2.9	3.5	4.0	2.4	1.8	1.4	0.6	0.1	–
Current account balance % of GDP	–8.7	–9.2	–8.6	–8.0	–7.7	–6.9	–6.6	–6.6	–6.4	–

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

Productivity and value-add ...

Elliot Clarke
Head of International Economics

China begins 2025 amid considerable uncertainty, both of its own making and as a result of US trade policy. The market continues to doubt the nation's ability to weather the storm, but available data and authorities' resolve are promising for 2025 and beyond.

With Lunar New Year holidays disrupting the data flow, Q4 GDP and the December partial data provide the most up-to-date view of China's health and momentum.

China achieved the official 5.0% GDP growth target for 2024, but more importantly, the result showed an acceleration in growth to closer to 6.0% in the second half of the year. China's Q3 quarterly growth was revised up from 0.9% to 1.3% and followed by a 1.6% gain in Q4.

Underlying the headline outcome was the forming of a base for retail sales and fixed asset investment, with respective growth on a year-to-date basis of 3.5%ytd and 3.2%ytd. This is despite domestic policy support only slowly impacting wealth and housing activity: home price declines incrementally abating 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 marginal improvement on November's –20.0%ytd.

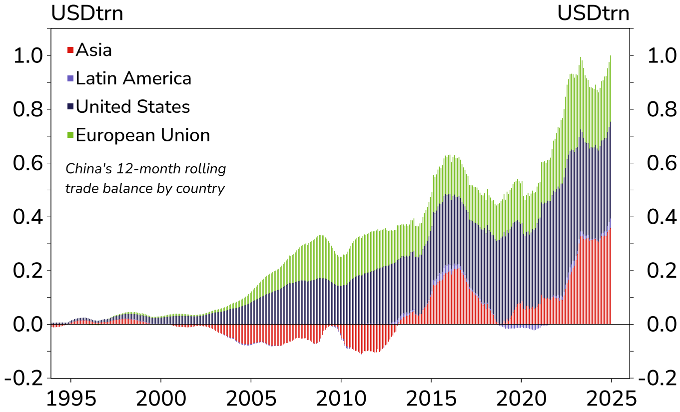
China's economic strength instead remains concentrated in the value-add of exporters. Over the year to December, Chinese exports jumped almost 11% as imports grew 1%. The trade surplus consequently ended the year at US$105bn, two and a half times the average of the five years prior to the pandemic. Critically, underlying these gains is strong demand for Chinese goods across Asia and Europe, not US demand.

Across Asia, the prospects for sustained long-term economic and financial development are strong, offering an offset against a likely persistent downtrend in direct exports to the US. China's trade-weighted index (the CFETS index) also points to equitable balance between China and its neighbours. Since 2021, the index has largely remained above the historic average going back to 2016. This is in contrast to the circa 14% bilateral depreciation in Renminbi against the US dollar since late-2021.

Despite the above, there are clear downside risks for China's trade and confidence ahead given: China is likely to retaliate against the US tariff rises; and indirect hits to demand for Chinese goods from both the announced US tariff measures against Canada and Mexico and similar measures reportedly in the works for Europe.

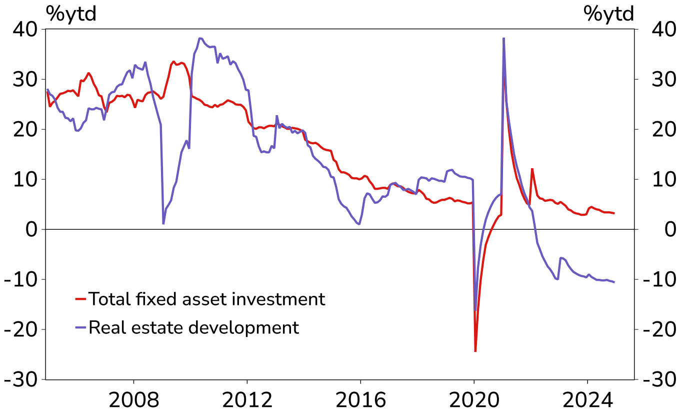
Also worthy of note, at the same time as President Trump announced the 10% tariff on Chinese goods, US Secretary of

Trade driving momentum in China



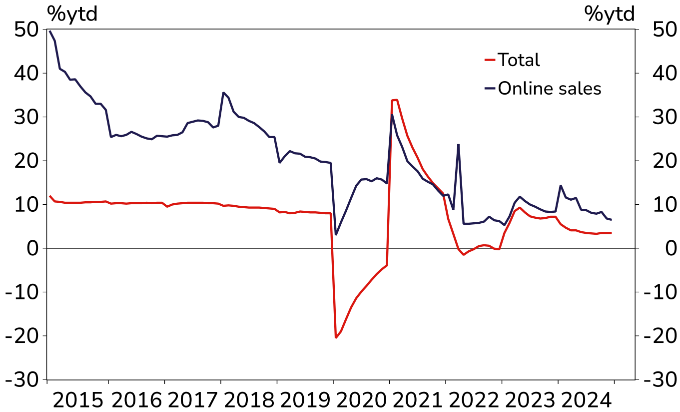
Source: GAC, Macrobond, Westpac Economics

Domestic investment building a base



Source: NBS, Macrobond, Westpac Economics

Pent up consumer demand needs trigger



Source: NBS, Macrobond, Westpac Economics

... to counter Trump tariffs

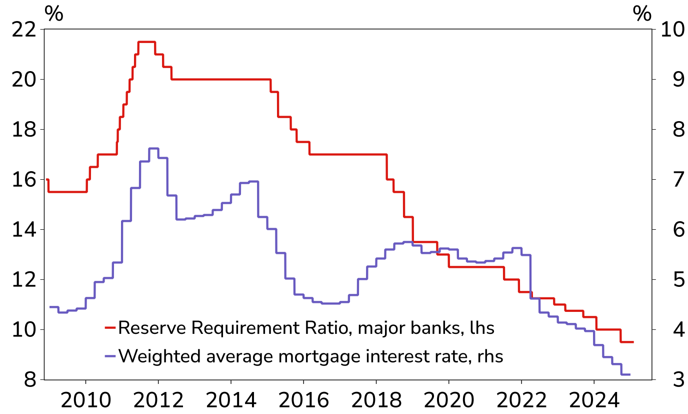
State Marco Rubio was in Panama labelling the operation of two port facilities adjacent to the Panama Canal by a private Hong Kong logistics firm, CK Hutchinson Holdings, as "unacceptable". At this stage, it is not clear if the US will take further action on this front, but, at a minimum, the comments will create lingering uncertainty over the terms on which Chinese firms will be able to access global trade routes and markets.

Over February and March, Chinese authorities are therefore likely to take a pro-active stance in the management of their economy, stoking domestic demand to compensate for greater risk offshore. Direct support for household consumption and housing investment is likely, with a secondary benefit to flow from improved expectations for house prices and equities – if achieved. It is also fair to expect additional promotion and capital for industries Chinese authorities are championing for the future.

While less in the headlines, a key part of China's response to the US actions will be to shore up other trade and diplomatic relationships. Strong ties have been developed across Asia and Latin America over the past 5-10 years, and a collective desire to push forward with the green transition and build out new industrial and technological capacity should see these relationships gain further strength. China is also likely to take any opportunity to better integrate trade and industry with Europe given by President Trump.

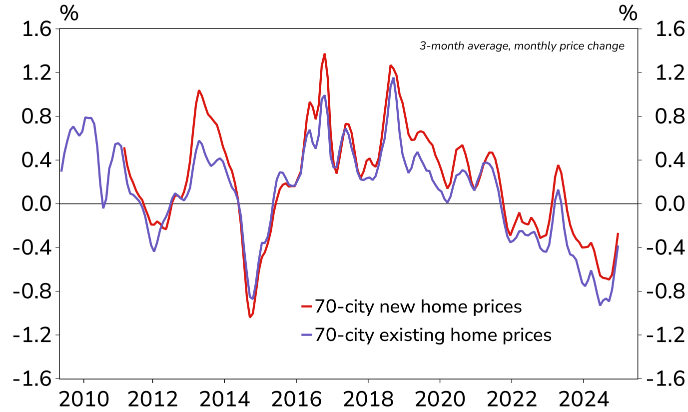
At this stage, in aggregate, we believe China can come close to repeating its 2024 performance in 2025, growing by circa 4.8%. A slow deceleration in GDP growth is likely thereafter, owing to population dynamics, but a focus on productivity and value add plus the relationships China has built across the world should allow momentum to remain strong enough to achieve official goals over the decade to come.

Policy easing becoming broad and pro-active



Source: Bloomberg, Macrobond, Westpac Economics

House prices and equities turn to buoy wealth



Source: Bloomberg, Macrobond, Westpac Economics

	2024											2025
Monthly data %yr	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Consumer prices – headline	0.7	0.1	0.3	0.3	0.2	0.5	0.6	0.4	0.3	0.2	0.1	–
Money supply M2	8.7	8.3	7.2	7	6.2	6.3	6.3	6.8	7.5	7.1	7.3	–
Manufacturing PMI (official)	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1
Fixed asset investment %ytd	4.2	4.5	4.2	4.0	3.9	3.6	3.4	3.4	3.4	3.3	3.2	–
Industrial production (IVA) %yr	7.0	4.5	6.7	5.6	5.3	5.1	4.5	5.4	5.3	5.4	6.2	–
Exports	6.3	–7.6	1.3	7.4	8.5	6.9	8.6	2.4	12.7	6.6	10.7	–
Imports	–8.0	–2.0	8.3	2.0	–2.5	6.8	0.2	0.2	–2.4	–4.0	1.0	–
Trade balance USDbn	40.9	58.6	72.0	81.7	98.9	85.3	91.3	81.7	95.7	97.3	104.8	–

Quarterly data	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
Real GDP %yr	5.0	5.3	5.3	4.7	4.6	5.4
Nominal GDP %yr	4.1	4.4	4.2	4.0	4.0	4.6

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

Developing strength …

Elliot Clarke
Head of International Economics

The start of the year has offered a flurry of US data and political developments that hold significant implications for both the US and the world at large. The '30,000 foot view' points to a continued US growth outperformance on an absolute and relative basis near term, though in the detail is burgeoning evidence of fragility and growing risks of a lasting imbalance between US growth and inflation.

In the December quarter, US domestic final demand grew 3.0% annualised, in line with the average of the prior three quarters and modestly above its long-term average.

However, the contribution of personal consumption in Q4 was 2.8ppts, or 90% of total growth. That is a striking contrast to the two years to September 2024 when personal consumption contributed roughly 60% of growth, i.e. 1.7ppts of the average 2.8% annual gain in domestic demand over the period.

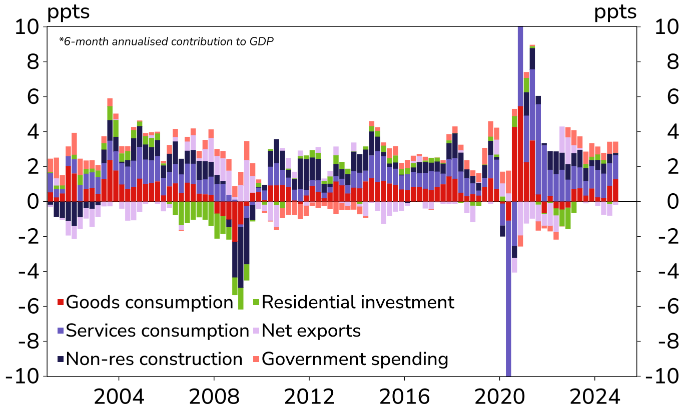
Behind this shift is a marked deceleration in growth in business investment, from 5.5%yr at September 2023, to 4.1%yr in September 2024, to 2.5%yr at December 2024. Momentum in public demand has also moderated from 4.8%yr at September 2023 to 3.1%yr at December. Dwelling investment meanwhile remains volatile and weak, having stalled for two years and, on average, grown just 2.0% annualised the past five years.

Looking ahead, President Trump's inauguration has ushered in a wave of private pledges for AI infrastructure spending. The administration also contends that new tariffs will elicit rapid growth in manufacturing investment. But this comes as Inflation-Reduction-Act-fuelled investment winds down. Delays in planning and construction will (most likely) see business investment growth remain modest overall, arguably with some downside risk amid tariff uncertainty.

Interest rates also pose a significant impediment to both business and residential investment going forward. US firms continue to benefit from low interest costs locked in during the pandemic. However, the duration of this funding is 3-5 years compared to the 30 year fixed rate terms for households, setting up a material rate reset over the next 12-18 months. The overall level of term interest rates is expected to remain unattractive for new housing, which is also facing additional cost and capacity challenges from migration and tariff changes.

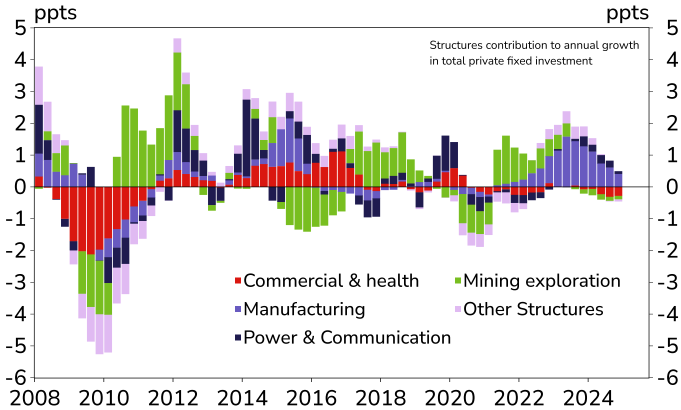
Highlighting the narrowing base for US domestic demand is not intended to cast doubt over the sustainability of GDP growth overall, at least in the near term. As long as households continue to experience a strong labour market and real income growth, the use of savings and wealth is likely to allow GDP growth to remain above trend. The focus for us in 2025 is instead the consequences for US inflation.

US GDP consumer dependent



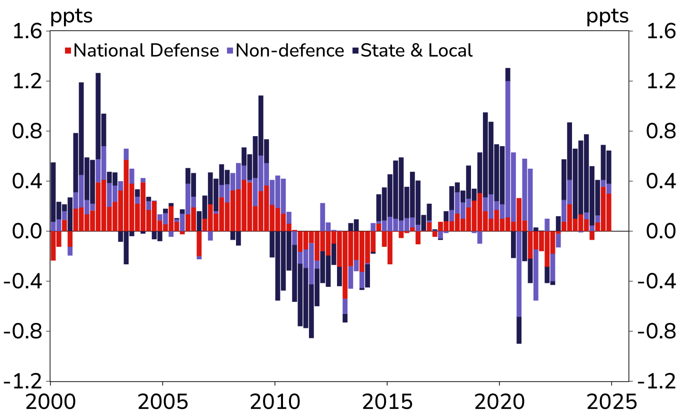
Source: BEA, Macrobond, Westpac Economics

US investment spending losing IRA aid



Source: BEA, Macrobond, Westpac Economics

State & local gov't spend cresting



Source: BEA, Macrobond, Westpac Economics

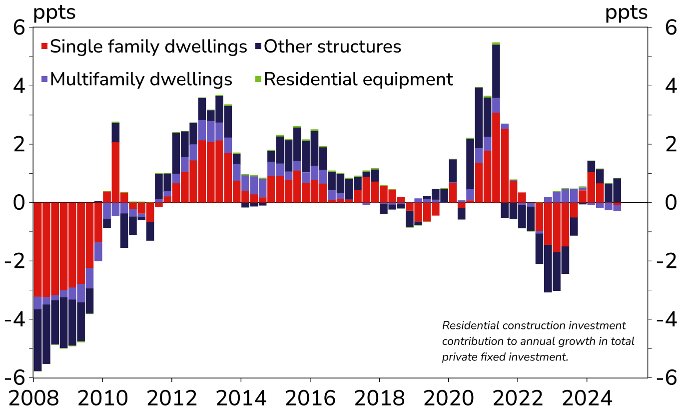
... or a source of fragility?

With respect to inflation, notable in the investment detail of the past five years is the low level of new spending on residential construction and on energy, communication and health infrastructure. As the population continues to grow and demand for energy in particular rises with the use of AI and other technology, prices will adjust to ration available supply, creating persistent above-average inflation in these essential categories, as has already occurred for shelter. Investment initiatives currently in planning are unlikely to provide relief to the supply side for years. The rebuild of areas of Los Angeles affected by recent fires could also see a slight boost to inflation over the coming few years.

Of course, we also need to factor in the just-announced 25% tariffs on good from Mexico and Canada (10% for energy) and an additional 10% for Chinese goods, with all tariffs now set to apply to all imports as well, following the removal of the 'de minimus' exemption that had applied for shipments below $800. There remains uncertainty over the timing and scale of actions but we are assuming they will be rolled out by the end of Q1 2025 and imposed indefinitely. We also expect a 10% tariff on the Euro Area and another 10% for China.

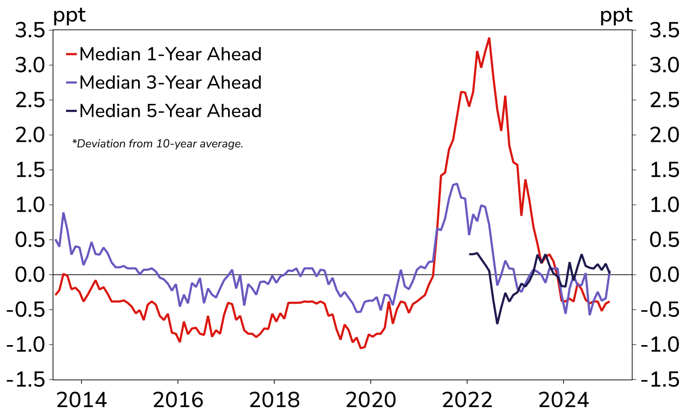
The implications of these developments for monetary policy, term interest rates and currencies are laid out on page 10. But on the economy, we have revised up our 2025 and 2026 forecasts for US CPI inflation by 0.6ppts and 0.1ppts to 2.9% and 2.6%, with delays in pass-through limiting the initial impact. While we expect the US consumer to be strong enough to hold growth at an above-trend 2.5% in 2025 we expect a slowing to near-trend 1.7%yr in 2026, with a risk of falling materially below. In such circumstances, it is most likely that the FOMC will remain on hold in 2025 then cut twice in 2026 to 3.875%, although an earlier deterioration could warrant additional modest easing in late-2025. The caveat here is that both capacity constraints and the lingering effects of tariffs will likely keep inflation away from target indefinitely, even if growth slips below trend, limiting the FOMC's options.

Rates and prices restrict new homes



Source: BEA, Macrobond, Westpac Economics

Expectations critical to inflation's persistence



Source: New York Fed, Macrobond, Westpac Economics

	2024											2025
Monthly data	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
PCE deflator %yr	2.6	2.8	2.7	2.6	2.4	2.5	2.3	2.1	2.3	2.4	2.6	–
Unemployment rate %	3.9	3.9	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	–
Non–farm payrolls chg '000	236	310	108	216	118	144	78	255	43	212	256	–
House prices* %yr	7.5	7.5	7.2	6.8	6.5	5.9	5.2	4.6	4.3	4.4	–	–
Durables orders core 3mth %saar	2.2	–1.2	2.3	–3.4	–0.5	–2.5	1.9	0.9	1.5	4.0	4.4	–
ISM manufacturing composite	47.6	49.8	48.8	48.5	48.3	47.0	47.5	47.5	46.9	48.4	49.2	50.9
ISM non–manufacturing composite	52.2	51.3	49.6	53.5	49.2	51.4	51.6	54.5	55.8	52.5	54.0	52.8
Personal spending 3mth %saar	5.6	5.6	6.2	6.0	4.0	5.5	4.3	6.1	5.5	7.2	7.0	–
UoM Consumer Sentiment	76.9	79.4	77.2	69.1	68.2	66.4	67.9	70.1	70.5	71.8	74.0	71.1
Trade balance USDbn	–69.4	–68.5	–76.0	–76.7	–74.1	–79.7	–71.2	–84.3	–74.2	–78.9	–98.4	–

Quarterly data	**Dec–23**	**Mar–24**	**Jun–24**	**Sep–24**	**Dec–24**	**Mar–25(f)**
Real GDP % saar	3.2	1.6	3.0	3.1	2.3	3.0
Current account USDbn	–221.8	–241.0	–275.0	–310.9	–	–

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

Now or never for the Bank of Japan ...

Illiana Jain
Economist, Westpac Group

The last few years have marked a watershed for the Bank of Japan: yield curve control ended after seven years and policy interest rates increased for the for the first time in almost two decades. Capitalising on rising nominal wages and above-target inflation, we expect the Bank will raise the target rate twice more this year to 1.0%, though there are risks on both sides.

On the surface, conditions are ripe for rate hikes. Core inflation (ex. fresh food and energy) has been above 2.0% since October 2022 (barring a single 1.9% read in July 2024) and is expected to remain around 2.0% until FY2026. Elevated inflation has allowed workers to bargain for higher nominal wage growth, helping dislodge the deflationary mindset. Businesses are now open to raising prices to pay for wage increases, creating scope for persistent gains in wages and inflation. To be clear, this represents a long-sought-after escape from persistent negatives rather than a concerning breakout.

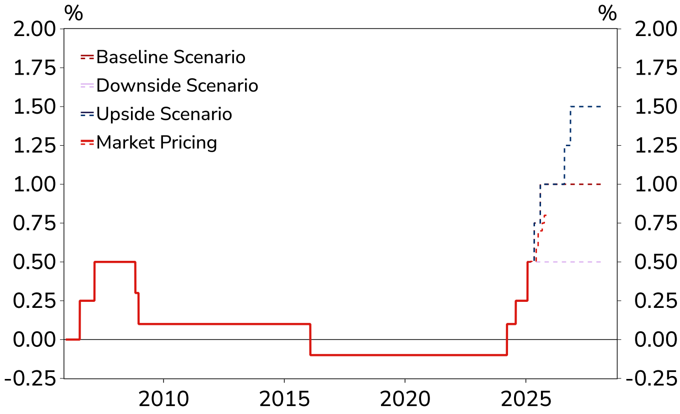
Our base case remains that the Bank of Japan will raise rates twice – first in Q2 after it receives the final negotiated wages for small and medium sized businesses from RENGO and once more in Q3, assuming conditions remain favourable. This will provide support to the currency as the rate differential between the BoJ and other developed market central banks narrows, allowing rates to reach a point where reductions are meaningfully stimulatory, returning a policy lever back to the BoJ.

That said, there is a risk scenario that could see policy remain where it is at 0.5%.

First, there is a risk that weak consumer confidence slows the virtuous cycle of wages and prices. While nominal household consumption is 7.1% above its 2019 peak, real spending is 2.4% below. In a recent survey by the BoJ, 43% of respondents said they intend to spend less in the next 12 months, even as 86% of respondents expect prices to increase. Households have also seen their real wages decline since 2022. If consumers start to pull back, it will once again signal to businesses a need to contain prices and therefore labour costs.

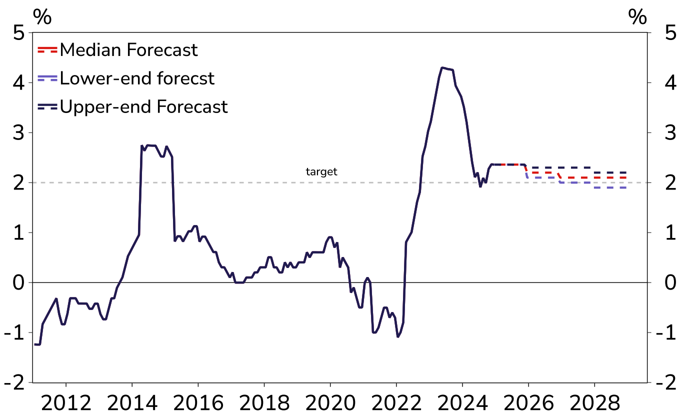
Secondly, much of the BoJ's confidence around wage growth is predicated on the assumption that while the labour market is tight, the right labour is still available. Looking at the Tankan employment sub-index however, businesses have reported that labour is scarce. If labour with the right skills is difficult to find, then businesses are as likely to pivot to capital investment to boost capacity as they are to drive up wages. This could be what is behind dwindling of job ads since mid-2022, even as labour is perceived as more difficult to find.

Risks skewed to both sides for the BoJ



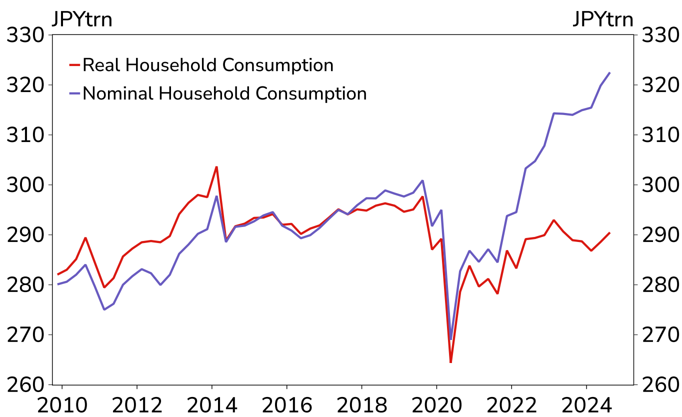
Source: BOJ, Macrobond, Westpac Economics

Inflation on track to hit target



Source: BoJ, Macrobond, Westpac Economics

Real consumption lags behind nominal



Source: CAO, Macrobond, Westpac Economics

... markets to guide progress

It is also worth noting that wages growth is primarily expected to come from small and medium-sized firms. However, with limited pricing power, non-wage input costs may also crowd out opportunities to increase wages, particularly if import costs remain high. This could be triggered by a deterioration in risk sentiment with respect to the domestic and/or global economy.

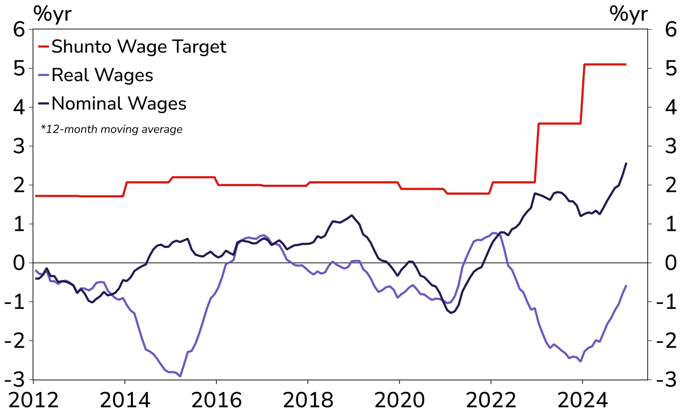
The risks for inflation and policy are not one sided – developments across the economy could also see potential growth lift and move the neutral rate higher.

In 2023, the Financial Services Agency pushed for corporate governance reform, part of which prompted firms to justify and disclose their crossholdings. The reduction of crossholdings since then has created positive sentiment around Japanese stocks and encouraged businesses to invest. It has also supported profitability which can aid further gains in wages. Investment will bolster capacity and aid productivity, countering the impacts of a declining population. A higher-than-zero policy rate should also favour productive investment. All told, this could see capacity expand and potential growth move higher, in time lifting neutral.

In addition to gains in the equity market, savings rates are critical to household financial wellbeing. Despite a 60bp increase in the policy rate, rates on new deposits have only increased by 15bps. But with deposits accounting for 53% of household assets, these moves have a disproportionate impact on household finances, acting as a buffer against the impacts of inflation. The savings rate of 3.9% exceeds that of the savings rate in the five years prior to the pandemic of 0.8%. Should interest rates rise further as expected and real wages continue to see gains then consumers may feel increasingly comfortably about lift their marginal propensity to consume, buoying demand-pull inflation.

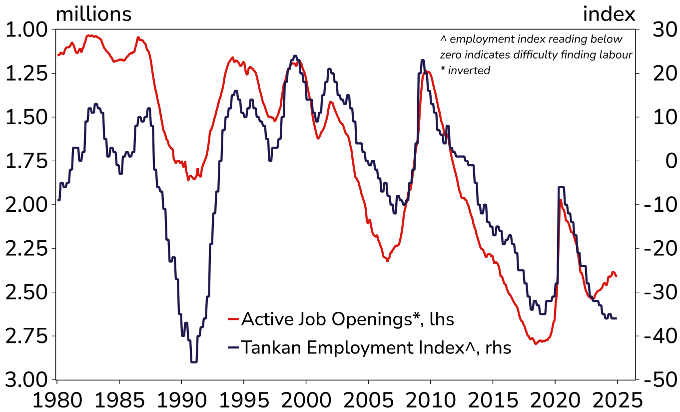
There is a considerable amount of uncertainty before the BoJ. As risks to either the upside or downside will build through time, the path the economy is on will become clearer over the next 12 months, for both activity and confidence. The BoJ and market are both sure to respond to these developments and so we will look to their guidance and pricing respectively as a cross-check of progress. That said, as detailed on page 10, the Yen arguably will have a biased response to developments in Japan's economy: upside risks domestically are likely to be at least partly offset by the extraordinary rate differential with the US, limiting Yen appreciation; while disappointments would likely fuel further weakness in the currency.

Real wages paint a more sombre story



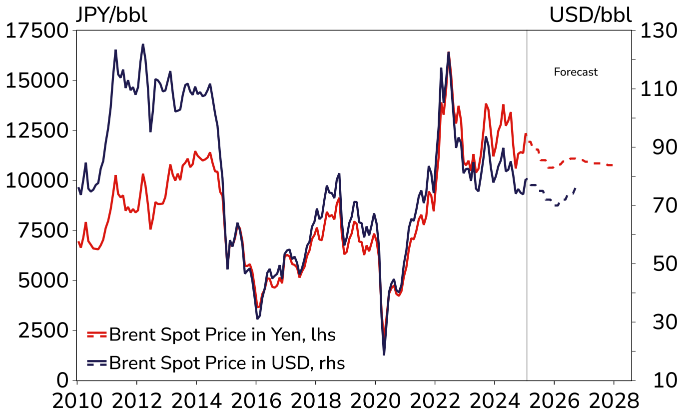
Source: RENGO, e-Stat, Macrobond, Westpac Economics

Hiring sentiment and job openings deviate



Source: BOJ, MHLW, Macrobond, Westpac Economics

A weak yen adds risk of high import prices



Source: EIA, Macrobond, Bloomberg, Westpac Economics

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.

Australia

Interest rate forecasts

	Latest (7 Feb)	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	4.21	4.20	3.95	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.72	3.75	3.75	3.80	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.75	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.85
10 Year Bond	4.33	4.45	4.60	4.75	4.70	4.70	4.65	4.65	4.65
10 Year Spread to US (bps)	–10	–15	–20	–25	–25	–20	–20	–15	–15

Currency forecasts

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
AUD vs									
USD	0.6282	0.60	0.60	0.61	0.62	0.63	0.64	0.66	0.68
JPY	95.00	94	92	93	94	95	95	96	98
EUR	0.6048	0.60	0.60	0.61	0.61	0.62	0.62	0.63	0.64
NZD	1.1071	1.11	1.11	1.14	1.15	1.15	1.15	1.15	1.15
CAD	0.8987	0.88	0.88	0.90	0.91	0.92	0.92	0.94	0.95
GBP	0.5051	0.49	0.49	0.50	0.50	0.50	0.51	0.52	0.53
CHF	0.5687	0.56	0.56	0.57	0.58	0.58	0.58	0.59	0.61
DKK	4.5132	4.47	4.48	4.55	4.58	4.61	4.64	4.73	4.79
SEK	6.8472	6.78	6.79	6.91	6.95	6.99	7.03	7.18	7.26
NOK	7.0437	6.98	6.99	7.10	7.15	7.19	7.23	7.39	7.47
ZAR	11.60	11.8	11.9	12.0	12.1	12.2	12.2	12.4	12.6
SGD	0.8482	0.83	0.82	0.83	0.84	0.85	0.86	0.88	0.90
HKD	4.8914	4.71	4.67	4.75	4.82	4.88	4.96	5.12	5.27
PHP	36.43	35.5	35.2	35.6	36.0	36.2	36.5	37.3	38.1
THB	21.22	20.5	20.3	20.4	20.5	20.5	20.5	20.8	21.1
MYR	2.7773	2.66	2.61	2.59	2.57	2.55	2.56	2.61	2.69
CNY	4.5788	4.41	4.38	4.42	4.50	4.54	4.58	4.69	4.76
IDR	10265	9966	9840	9882	9858	9828	9792	9900	9996
TWD	20.63	19.9	19.6	19.8	19.9	20.0	20.2	20.6	21.1
KRW	909	882	864	866	868	869	870	884	898
INR	54.83	53.2	52.2	52.5	52.7	52.9	53.1	54.1	55.1

Australia

Activity forecasts*

	2024				2025				Calendar years			
%qtr / %yr avg	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	0.6	–0.3	0.0	0.7	0.5	0.5	0.5	0.5	1.1	1.0	1.9	2.4
Dwelling investment	1.0	0.7	1.2	0.8	1.1	1.1	1.2	1.2	–2.6	3.6	4.6	6.5
Business investment *	0.1	0.2	–0.2	0.7	0.7	0.8	0.9	0.9	8.7	0.7	3.4	5.1
Private demand *	0.5	0.0	0.1	0.7	0.6	0.6	0.6	0.6	2.1	1.2	2.4	3.4
Public demand *	0.8	0.8	2.2	0.7	0.8	0.7	0.9	0.7	4.1	4.7	3.0	2.4
Domestic demand	0.6	0.2	0.7	0.7	0.6	0.6	0.7	0.7	2.7	2.2	2.6	3.1
Stock contribution	0.7	–0.3	–0.4	0.1	0.0	0.0	0.0	0.0	–1.0	0.1	0.0	0.2
GNE	1.3	–0.1	0.2	0.8	0.6	0.6	0.7	0.7	1.6	2.3	2.6	3.3
Exports	0.1	0.6	0.2	0.4	0.6	0.6	0.5	0.6	3.7	1.3	2.3	1.7
Imports	5.6	0.2	–0.3	1.0	1.0	1.0	1.1	1.1	5.7	6.6	4.3	6.0
Net exports contribution	–1.3	0.1	0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.3	–1.1	–0.4	–1.0
Real GDP %qtr / yr avg	**0.2**	**0.2**	**0.3**	**0.7**	**0.5**	**0.5**	**0.5**	**0.6**	2.1	1.1	2.0	2.2
%yr end	**1.1**	**1.0**	**0.8**	**1.3**	**1.7**	**2.0**	**2.3**	**2.2**	**1.5**	**1.3**	**2.2**	**2.2**
Nominal GDP %qtr	1.3	0.2	0.4	2.3	0.6	0.9	0.7	0.9	–	–	–	–
%yr end	3.8	4.4	3.5	4.2	3.6	4.3	4.6	3.2	4.3	4.2	3.2	3.1

Other macroeconomic variables

	2024				2025				Calendar years			
% change	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Employment (2)	0.4	0.6	0.9	0.7	0.6	0.1	0.1	0.1	–	–	–	–
%yr	2.6	2.2	2.7	2.7	2.9	2.3	1.4	0.8	3.0	2.6	0.3	1.8
Unemployment rate % (2)	3.9	4.1	4.1	4.0	4.1	4.2	4.4	4.5	3.9	4.0	4.5	4.5
Wages (WPI) (sa) (2)	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	–	–	–	–
annual chg	4.1	4.1	3.5	3.2	3.1	3.0	2.9	2.9	4.3	3.2	2.9	3.3
CPI Headline (2)	1.0	1.0	0.2	0.2	0.5	0.7	0.9	0.8	–	–	–	–
annual chg	3.6	3.8	2.8	2.4	2.0	1.7	2.4	2.9	4.1	2.4	2.9	2.7
Trimmed mean	1.0	0.9	0.8	0.5	0.5	0.6	0.7	0.7	–	–	–	–
annual chg	4.0	4.0	3.6	3.2	2.7	2.4	2.3	2.4	4.2	3.2	2.4	2.5
Current account $bn	–10.4	–16.4	–14.1	–7.1	–5.5	–4.5	–5.8	–5.9	–	–	–	–
% of GDP	–1.5	–2.4	–2.1	–1.0	–0.8	–0.6	–0.8	–0.8	–0.3	–1.8	–0.8	–1.8
Terms of trade annual chg (1)	–8.2	–6.3	–4.8	–4.5	–3.2	–1.7	0.2	1.0	–6.2	–4.5	1.0	–2.5

Calendar year changes are (1) period average for GDP, current account and terms of trade, unless otherwise stated (2) through the year for inflation, wages and employment. Unemployment is year end.
* GDP & component forecasts are reviewed following the release of quarterly national accounts.
** Business investment and government spending adjusted to exclude the effect of private sector purchases of public sector assets.

Macroeconomic variables – recent history

	2024										2025
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
Employment '000 chg	–8.7	22.9	22.5	41.2	50.8	43.5	59.2	12.4	28.2	56.3	–
Unemployment rate %	3.9	4.1	4.0	4.1	4.2	4.1	4.1	4.1	3.9	4.0	–
Westpac–MI Consumer Sentiment	84.4	82.4	82.2	83.6	82.7	85.0	84.6	89.8	94.6	92.8	92.1
Retail trade %mth	–0.2	0.2	0.6	0.5	0.0	0.7	0.3	0.5	0.7	–0.1	–
Dwelling approvals %mth	1.8	2.4	4.5	–6.1	10.9	–5.8	6.5	4.4	–3.4	0.7	–
Private sector credit %mth	0.4	0.5	0.4	0.6	0.5	0.5	0.6	0.6	0.6	0.6	–
Trade in goods balance AUDbn	4.0	5.7	4.9	5.1	5.4	5.5	4.4	5.5	6.8	5.1	–

New Zealand

Interest rate forecasts

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Cash	4.25	3.75	3.25	3.25	3.25	3.25	3.50	3.75	3.75
90 Day Bill	3.88	3.55	3.35	3.35	3.35	3.45	3.70	3.85	3.85
2 Year Swap	3.41	3.40	3.50	3.65	3.80	3.90	3.95	4.00	4.00
10 Year Bond	4.44	4.60	4.70	4.85	4.90	5.00	5.00	5.00	4.95
10 Year Spread to US	1	0	–10	–15	–5	10	15	20	15
10 Year Spread to Aust	11	15	10	10	20	30	35	35	30

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
NZD vs									
USD	0.5674	0.54	0.54	0.54	0.54	0.55	0.56	0.57	0.59
JPY	85.81	84	83	82	82	83	83	84	85
EUR	0.5463	0.54	0.54	0.54	0.53	0.54	0.54	0.55	0.56
AUD	0.9033	0.90	0.90	0.88	0.87	0.87	0.87	0.87	0.87
CAD	0.8118	0.79	0.79	0.79	0.79	0.80	0.81	0.81	0.83
GBP	0.4563	0.44	0.44	0.44	0.44	0.44	0.44	0.45	0.46
CNY	4.1336	3.96	3.94	3.89	3.92	3.96	3.99	4.06	4.13

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2024				2025				Calendar years			
% change	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	0.4	–0.1	–0.3	0.2	0.3	0.5	0.8	1.0	1.0	0.1	1.4	4.0
Government consumption	0.5	–0.4	–1.9	–0.5	–0.5	0.0	0.4	0.4	0.8	–0.4	–1.6	1.8
Residential investment	–2.7	–3.9	–2.0	–1.0	–0.5	0.3	1.0	1.1	–5.6	–9.0	–2.2	5.6
Business investment	–0.5	0.9	–2.5	–1.7	–0.9	0.6	1.2	1.5	1.9	–2.9	–1.8	5.5
Stocks (ppt contribution)	1.0	0.0	–0.4	1.3	0.2	0.2	0.0	0.0	–1.4	0.3	1.1	–0.2
GNE	0.6	0.2	–1.0	0.9	0.2	0.6	0.8	0.9	–0.9	–0.8	1.2	3.7
Exports	0.2	1.7	–2.1	3.5	1.4	0.9	0.8	0.8	11.4	4.3	4.4	3.0
Imports	5.8	–1.2	–0.4	–1.5	0.4	0.9	1.4	1.5	–0.6	1.4	0.5	6.0
GDP (production)	0.3	–1.1	–1.0	0.3	0.4	0.6	0.6	0.7	1.8	–0.5	0.8	2.8
Employment annual %	–0.4	0.2	–0.5	–0.3	–0.1	0.0	0.1	0.3	2.8	–1.0	0.2	2.1
Unemployment rate % s.a.	4.4	4.6	4.8	5.1	5.3	5.4	5.4	5.4	4.0	5.1	5.4	4.6
LCI, all sect incl o/t, ann %	4.1	4.3	3.8	3.5	3.1	2.4	2.3	2.0	4.3	3.5	2.0	1.8
CPI annual %	4.0	3.3	2.2	2.2	2.1	2.0	2.3	2.1	4.7	2.2	2.1	2.1
Current account % of GDP	–6.6	–6.6	–6.4	–5.9	–5.1	–4.3	–3.8	–3.7	–6.9	–5.9	–4.3	–4.5
Terms of trade annual %	–3.7	–1.6	1.4	17.4	15.6	12.9	9.9	2.8	–10.7	17.4	2.8	0.7

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (7 Feb)***	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Australian commodities index#	310	303	298	289	286	283	283	285	286	288	289
Bulk commodities index#	**403**	**390**	**370**	**350**	**340**	**340**	**340**	**340**	**340**	**350**	**350**
iron ore finesTSI @ 62% US$/t	105	99	95	88	86	84	83	83	84	85	85
Premium low vol met coal (US$/t)	187	185	180	175	170	170	169	168	169	170	171
Newcastle spot thermal coal (US$/t)	117	125	122	120	120	120	120	121	122	122	123
crude oil (US$/bbl) Brent ICE	75	77	75	72	70	72	74	76	77	77	78
LNG in Japan US$mmbtu	13.00	12.2	12.5	11.9	11.4	10.5	10.1	10.1	10.0	10.1	10.1
gold (US$/oz)	2,878	2,870	2,860	2,860	2,850	2,850	2,860	2,860	2,870	2,880	2,880
Base metals index#	**209**	**209**	**205**	**208**	**213**	**219**	**224**	**229**	**231**	**232**	**233**
copper (US$/t)	9,146	9,100	8,900	9,100	9,500	9,770	10,040	10,310	10,380	10,450	10,520
aluminium (US$/t)	2,989	2,990	2,950	2,980	3,000	3,060	3,120	3,180	3,190	3,210	3,220
nickel (US$/t)	15,413	15,400	15,200	15,000	15,100	15,540	15,970	16,410	16,520	16,640	16,750
zinc (US$/t)	2,780	2,780	2,700	2,750	2,800	2,860	2,920	2,980	2,990	3,010	3,020
lead (US$/t)	1,964	1,950	1,940	1,950	1,960	1,990	2,030	2,060	2,070	2,080	2,090
Rural commodities index#	**124**	**122**	**120**	**118**	**117**	**121**	**124**	**128**	**129**	**130**	**131**
NZ commodities index ##	**387**	**389**	**381**	**374**	**369**	**370**	**374**	**378**	**381**	**384**	**388**
dairy price index ##	346	347	332	319	310	309	314	318	322	325	328
whole milk powder USD/t	3,988	4,040	3,800	3,670	3,550	3,600	3,650	3,700	3,750	3,780	3,810
skim milk powder USD/t	2,729	2,750	2,600	2,520	2,450	2,500	2,550	2,600	2,650	2,670	2,690
lamb price index ##	535	489	493	498	504	512	520	528	536	544	553
beef price index ##	292	298	299	301	302	304	306	308	310	312	315
forestry price index ##	156	161	164	165	167	169	169	170	170	170	170

	levels				% change			
Annual averages	**2023**	**2024(f)**	**2025(f)**	**2026(f)**	**2023**	**2024(f)**	**2025(f)**	**2026(f)**
Australian commodities index#	**323**	**312**	**296**	**284**	**–15.8**	**–3.7**	**–5.1**	**–3.8**
Bulk commodities index#	**501**	**444**	**364**	**339**	**–10.2**	**–11.3**	**–18.0**	**–6.9**
iron ore fines @ 62% USD/t	120	109	93	84	–0.5	–8.5	–14.7	–10.2
LNG in Japan $mmbtu	14.9	13.0	12.2	10.3	–20.0	–12.4	–6.6	–15.5
ave coking coal price (US$/t)	215	195	149	138	–10.2	–9.3	–23.7	–7.5
ave thermal price (US$/t)	184	136	126	123	–45.4	–26.1	–7.4	–2.3
iron ore fines contracts (US¢ dltu)	160	155	137	124	–7.9	–3.6	–11.2	–9.9
Premium low vol met coal (US$/t)	296	241	179	169	–19.0	–18.6	–25.5	–5.8
crude oil (US$/bbl) Brent ICE	80	78	74	74	–12.4	–1.6	–5.3	–0.3
gold (US$/oz)	1,962	2,410	2,847	2,857	8.4	22.8	18.1	0.4
Base metals index#	**212**	**210**	**207**	**223**	**–16.5**	**–1.0**	**–1.2**	**7.5**
copper (US$/t)	8,500	9,200	9,100	10,100	–3.7	8.2	–1.1	11.0
aluminium (US$/t)	2,700	2,700	3,000	3,100	–30.3	0.0	11.1	3.3
nickel (US$/t)	21,600	16,900	15,200	16,000	–17.6	–21.8	–10.1	5.3
zinc (US$/t)	2,700	2,800	2,800	2,900	–22.2	3.7	0.0	3.6
lead (US$/t)	2,100	2,100	1,900	2,000	–2.5	0.0	–9.5	5.3
Rural commodities index#	**141**	**126**	**119**	**124**	**–17.9**	**–10.3**	**–5.6**	**4.0**
NZ commodities index ##	**330**	**357**	**378**	**376**	**–12.4**	**8.4**	**5.8**	**–0.6**
dairy price index ##	286	318	327	316	–18.8	10.9	3.0	–3.5
whole milk powder USD/t	3,081	3,400	3,800	3,700	–20.8	10.3	11.8	–2.6
skim milk powder USD/t	2,640	2,700	2,600	2,600	–30.9	2.3	–3.7	0.0
lamb price index ##	461	465	494	521	–26.2	0.9	6.4	5.4
beef price index ##	271	283	300	306	–3.2	4.4	5.8	2.1
forestry price index ##	160	159	164	169	–6.9	–0.1	2.8	3.2

Chain weighted index: weights are Australian export shares. * Australian export prices fob – ABS 5432.0 Merchandise Trade Exports. ** WCFI – Westpac commodities futures index. *** Weekly averages except for the Bulks Index. ^ AWEX market prices. Sources for all tables: Westpac Economics, Bloomberg ##ANZ NZ commodity price index ^^ GlobalDairyTrade

United States

Interest rate forecasts

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Fed Funds*	4.375	4.375	4.375	4.375	4.375	4.125	3.875	3.875	3.875
10 Year Bond	4.43	4.60	4.80	5.00	4.95	4.90	4.85	4.80	4.80

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

Currency forecasts

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
USD vs									
DXY index	107.69	110.4	111.0	111.0	110.0	109.0	107.9	106.7	105.0
JPY	151.22	155	154	153	152	150	148	146	144
EUR	1.0385	1.01	1.00	1.00	1.01	1.02	1.03	1.04	1.06
AUD	0.6282	0.60	0.60	0.61	0.62	0.63	0.64	0.66	0.68
NZD	0.5674	0.54	0.54	0.54	0.54	0.55	0.56	0.57	0.59
CAD	1.4306	1.45	1.47	1.48	1.47	1.46	1.44	1.42	1.40
GBP	1.2436	1.23	1.23	1.23	1.24	1.25	1.26	1.27	1.28
CHF	0.9052	0.93	0.94	0.94	0.93	0.92	0.91	0.90	0.90
ZAR	18.46	19.6	19.8	19.6	19.4	19.3	19.1	18.9	18.6
SGD	1.3503	1.37	1.36	1.36	1.35	1.35	1.34	1.33	1.32
HKD	7.7863	7.79	7.79	7.79	7.77	7.75	7.75	7.75	7.75
PHP	58.19	58.7	58.6	58.3	58.0	57.5	57.0	56.5	56.0
THB	33.78	34.0	33.8	33.5	33.0	32.5	32.0	31.5	31.0
MYR	4.4346	4.40	4.35	4.25	4.15	4.05	4.00	3.95	3.95
CNY	7.2849	7.30	7.30	7.25	7.25	7.20	7.15	7.10	7.00
IDR	16341	16500	16400	16200	15900	15600	15300	15000	14700
TWD	32.85	33.0	32.7	32.4	32.1	31.8	31.5	31.2	31.0
KRW	1447	1460	1440	1420	1400	1380	1360	1340	1320
INR	87.58	88.0	87.0	86.0	85.0	84.0	83.0	82.0	81.0

Activity forecasts

	2024			2025				Calendar years			
% annualised, s/adj	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024**	**2025f**	**2026f**
Private consumption	2.8	3.7	4.2	2.4	2.4	2.4	2.4	2.5	2.8	2.9	2.0
Dwelling investment	–2.8	–4.3	5.3	3.2	3.6	4.1	4.5	–7.8	4.2	2.5	3.6
Business investment	3.9	4.0	–2.2	3.4	3.2	3.2	3.0	6.0	3.7	2.3	2.9
Public demand	3.0	5.1	2.5	2.0	2.0	2.0	2.0	3.9	3.4	2.6	1.4
Domestic final demand	2.8	3.7	3.0	2.5	2.5	2.5	2.5	2.8	3.0	2.8	2.1
Inventories contribution ppt	0.9	–0.2	–0.9	0.6	0.0	0.0	0.0	–0.4	0.0	0.0	0.0
Net exports contribution ppt	–1.0	–0.6	0.0	–0.3	–0.3	–0.2	–0.2	0.5	–0.5	–0.3	–0.2
GDP	3.0	3.1	2.3	3.0	2.3	2.4	2.4	2.9	2.8	2.6	2.0
%yr annual chg	3.0	2.7	2.5	2.8	2.7	2.5	2.5	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	192	144	155	180	140	120	100	245	187	135	90
Unemployment rate %	4.0	4.2	4.1	4.2	4.2	4.3	4.3	3.6	4.1	4.3	4.5
CPI headline %yr	3.0	2.4	2.9	2.8	2.9	3.0	2.9	3.4	2.9	2.9	2.6
PCE deflator, core %yr	2.4	2.1	2.6	2.7	2.8	2.7	2.5	2.7	2.6	2.8	2.5
Current account %GDP	-3.3	-3.6	-3.8	-3.9	-3.9	-3.9	-3.9	–3.3	–3.7	–3.9	–3.7

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Euro Area									
ECB Deposit Rate	2.75	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.38	2.40	2.55	2.70	2.60	2.55	2.55	2.55	2.55
10 Year Spread to US	–205	–220	–225	–230	–235	–235	–230	–225	–225
United Kingdom									
BoE Bank Rate	4.50	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50
10 Year Gilt	4.49	4.55	4.75	4.90	4.85	4.80	4.75	4.75	4.75
10 Year Spread to US	5	–5	–5	–10	–10	–10	–10	–5	–5

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
euro vs									
USD	1.0385	1.01	1.00	1.00	1.01	1.02	1.03	1.04	1.06
JPY	157.05	156	154	153	154	153	152	152	153
GBP	0.8351	0.82	0.81	0.81	0.81	0.82	0.82	0.82	0.83
CHF	0.9401	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.95
DKK	7.4614	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.32	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
NOK	11.65	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
sterling vs									
USD	1.2436	1.23	1.23	1.23	1.24	1.25	1.26	1.27	1.28
JPY	188.06	191	189	188	188	188	186	185	184
CHF	1.1258	1.14	1.16	1.16	1.15	1.15	1.15	1.14	1.15
AUD	0.5051	0.49	0.49	0.50	0.50	0.50	0.51	0.52	0.53

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2020	2021	2022	2023	2024e	2025f	2026f
Eurozone GDP	–6.1	5.9	3.4	0.4	0.7	0.9	1.0
private consumption	–8.0	3.5	4.0	0.6	0.8	1.0	1.1
fixed investment	–8.4	3.6	3.5	1.0	–1.9	0.8	1.9
government consumption	1.4	3.8	1.2	0.1	1.6	1.2	1.3
net exports contribution ppt	–0.7	1.0	0.3	0.1	0.2	0.2	0.3
Germany GDP	–3.8	3.2	1.8	–0.3	–0.2	0.5	1.0
France GDP	–7.5	6.3	2.5	0.9	1.0	0.9	1.0
Italy GDP	–9.0	8.3	4.0	0.9	0.5	0.8	0.9
Spain GDP	–11.2	6.4	5.8	2.5	3.2	2.4	2.0
Netherlands GDP	–3.9	6.2	4.3	0.1	0.8	1.5	1.4
memo: United Kingdom GDP	–10.4	8.7	4.3	0.1	0.7	0.6	1.2

Asia

China activity forecasts

Calendar years	2019	2020	2021	2022	2023	2024	2025f	2026f
Real GDP	6.0	2.2	8.4	3.0	5.2	5.0	4.8	4.5
Consumer prices	2.9	2.5	0.9	2.0	0.2	0.7	1.0	1.7
Producer prices	–0.5	–0.4	10.3	–0.7	–3.0	–1.5	0.5	1.6
Industrial production (IVA)	5.8	5.1	6.7	3	4.4	5.2	5.0	4.5
Retail sales	8.0	–3.9	12.5	–0.2	7.6	3.8	5.0	5.2
Money supply M2	8.7	10.1	9.0	11.8	11.2	7.2	8.3	8.0
Fixed asset investment	5.4	2.9	4.9	5.1	3.5	4.0	4.7	4.5
Exports %yr	7.9	18.1	20.9	–9.9	–4.6	4.6	3.0	3.0
Imports %yr	16.5	6.5	19.5	–7.5	–5.3	3.0	2.2	2.7

Source: Macrobond

Chinese interest rates & monetary policy

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Required reserve ratio %*	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Loan Prime Rate, 1–year	3.10	2.90	2.80	2.80	2.80	2.80	2.80	2.80	2.80

* For major banks.

Currency forecasts

	Latest (7 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
JPY	151.22	155	154	153	152	150	148	146	144
SGD	1.3503	1.37	1.36	1.36	1.35	1.35	1.34	1.33	1.32
HKD	7.7863	7.79	7.79	7.79	7.77	7.75	7.75	7.75	7.75
PHP	58.19	58.7	58.6	58.3	58.0	57.5	57.0	56.5	56.00
THB	33.78	34.0	33.8	33.5	33.0	32.5	32.0	31.5	31.0
MYR	4.4346	4.40	4.35	4.25	4.15	4.05	4.00	3.95	3.95
CNY	7.2849	7.30	7.30	7.25	7.25	7.20	7.15	7.10	7.00
IDR	16341	16500	16400	16200	15900	15600	15300	15000	14700
TWD	32.85	33.0	32.7	32.4	32.1	31.8	31.5	31.2	31.0
KRW	1447	1460	1440	1420	1400	1380	1360	1340	1320
INR	87.58	88.0	87.0	86.0	85.0	84.0	83.0	82.0	81.0

Source: Bloomberg, Westpac Economics.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023	2024	2025f	2026f
World	2.8	–2.7	6.5	3.5	3.2	3.3	3.3	3.2
United States	2.5	–2.2	5.8	1.9	2.5	2.8	2.6	2.0
Japan	–0.4	–4.1	2.6	1.0	1.9	–0.1	1.2	1.0
Euro zone	1.6	–6.1	5.9	3.4	0.4	0.7	0.9	1.0
Group of 3	1.8	–3.9	5.5	2.4	1.7	1.7	1.8	1.5
United Kingdom	1.6	–10.4	8.7	4.3	0.1	0.7	0.6	1.2
Canada	1.9	–5.0	5.3	3.8	1.1	1.3	1.3	1.5
Australia	1.8	–2.1	5.5	3.9	2.1	1.1	2.0	2.2
New Zealand	3.1	–1.4	5.6	2.4	1.8	–0.5	0.8	2.8
OECD total	1.8	–4.3	5.8	2.8	1.7	1.5	1.7	1.6
China	6.0	2.2	8.4	3.0	5.2	5.0	4.8	4.5
Korea	2.2	–0.7	4.3	2.6	1.4	2.1	1.8	2.1
Taiwan	3.1	3.4	6.6	2.6	1.4	4.3	2.8	2.7
Hong Kong	–1.7	–6.5	6.5	–3.7	3.2	2.5	2.3	2.3
Singapore	1.3	–3.9	9.7	3.8	1.1	3.9	2.8	2.6
Indonesia	5.0	–2.1	3.7	5.3	5.0	5.0	5.1	5.1
Thailand	2.1	–6.1	1.5	2.5	1.9	2.7	3.0	3.0
Malaysia	4.4	–5.5	3.3	8.7	3.7	5.1	4.8	4.6
Philippines	6.1	–9.5	5.7	7.6	5.6	5.6	6.0	6.0
Vietnam	7.4	2.9	2.6	8.1	5.0	7.1	6.8	6.5
East Asia	5.2	0.7	7.1	3.5	4.6	4.8	4.6	4.4
East Asia ex China	3.8	–2.3	4.3	4.5	3.3	4.3	4.1	4.1
NIEs*	2.0	–0.5	5.9	2.2	1.5	3.0	2.3	2.4
India	3.9	–5.8	9.7	7.0	7.8	6.6	6.6	6.5
Russia	2.2	–2.7	6.0	–1.2	3.6	3.3	1.5	1.5
Brazil	1.2	–3.3	4.8	3.0	2.9	3.3	2.0	2.0
South Africa	0.3	–6.0	4.7	1.9	0.6	0.9	1.2	1.4
Mexico	–0.3	–8.6	5.7	3.9	3.2	2.4	0.4	1.5
Argentina	–2.0	–9.9	10.7	5.0	–1.6	–2.8	5.0	4.5
Chile	0.6	–6.1	11.3	2.1	0.2	2.0	2.5	2.4
CIS^	–1.4	0.1	10.4	–1.6	–0.6	5.9	5.0	6.6
Middle East	1.3	3.2	2.8	2.8	2.8	2.9	2.9	2.9
C & E Europe	–2.4	–4.8	9.0	4.3	3.2	2.5	3.2	3.4
Africa	3.2	–1.6	4.7	4.0	3.4	3.8	4.0	4.0
Emerging ex–East Asia	1.6	–2.6	6.5	3.6	3.9	4.0	3.8	4.0
Other countries	6.7	–2.9	6.9	3.4	4.9	4.0	3.5	3.5
World	2.8	–2.7	6.5	3.5	3.2	3.3	3.3	3.2

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

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