Week beginning 3 March 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: It matters that ChatGPT can't build houses.

The Week That Was: Caution appropriate, but a risk to growth.

Focus on New Zealand: On firmer footing.

For the week ahead:

RBA: Minutes from the February Board meeting.

Australia: Q4 GDP and partials, house prices, dwelling approvals, retail trade, household spending.

New Zealand: terms of trade, building work volumes, building permits.

China: Caixin PMIs.

Eurozone: ECB policy decision, CPI, unemployment rate, retail sales.

United States: nonfarm payrolls, unemployment rate, ISMs, Chair Powell speaking.

Information contained in this report current as at 28 February 2025

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It matters that ChatGPT can't build houses

Luci Ellis
Chief Economist, Westpac Group

One of the limitations of macroeconomics is that we tend to assume that everything is the same across the whole economy – it's a reflection of the 'macro' in the name. We talk about a single inflation rate, even though the CPI is comprised of the prices of a wide array of goods and services. We talk about a single unemployment rate, even though different people will experience that unemployment rate differently, depending on whether they are one of the unemployed. We treat each economy-wide phenomenon as a 'thing' and start our analysis from the models we learned at university that assume some amorphous 'representative agent'.

Better data availability has improved the situation and encouraged a more sectoral approach. And there are newer models that allow some variation between people or firms, or 'heterogeneous agents' in the economics jargon. But too often, people assume that company-level or industry-level shocks wash out in the overall outcome, even though the conditions for that to be true do not actually hold. Most of the time, this simplifying assumption doesn't matter – until it does.

As we have previously argued, when it comes to setting monetary policy, it is appropriate to focus on overall inflation and not pick and choose the bits of inflation you will focus on. But that is not the same as pretending that the divergences in the total do not exist. It is all very well to be alert to sectoral or regional differences. But if the models of inflation used to forecast implicitly assume a single-good economy, there is a risk your forecasts will go astray.

This issue is particularly salient because the shocks that have hit the Australian economy over the past quarter-century have, in essence, been sectoral shocks. First was the dot-com boom and bust, which rather obviously hit the tech sector hardest, though the longer-run boost to productivity was more widespread. The GFC was a crisis in the finance sector. The mining investment boom and bust was even more consequential for the Australian economy than the dot-com boom, and even more skewed to a few sectors and regions.

The pandemic was the quintessential sectoral shock. In-person services were shut down to reduce the spread of COVID-19. Demand for certain goods spiked as people set themselves up to work from home, at the same time as supply chains for these goods were disrupted by pandemic-related restrictions. Goods inflation and services inflation had completely different trajectories – though to be far, that is true most of the time.

One could reasonably object that in a well-functioning market, labour and other resources will move and we can treat the economy as a single goods market, or the labour market as one market. But in the real world, it takes time – and changes in relative prices – to get resources to shift.

In fact, a key lesson from the mining investment boom and bust was that, when a sector that had previously dominated growth and squeezed out all the other sectors eventually turns around and retrenches, it is hard for the rest of the economy to bounce back quickly and fill the gap. The other sectors just do not adjust as fast as the models assume, especially if that means people moving states as well as jobs.

This is why we are a little nervous about what happens when the incredible ramp-up in the care economy finally matures. The non-market sector (health & social care, education and public administration & defence) accounted for about 85% of all the jobs growth over 2023 and 2024 (we will have Q4 data for 2024 next week to confirm). This was despite this sector accounting for just 27% of total hours worked. It is probably a large part of the reason why the vacancy rate and business survey measures of labour market tightness remain elevated. While the market sector is not increasing employment much, firms in that sector are still having to replace workers who have left to take care economy jobs, and they are finding that difficult.

"Macroeconomics tends to treat the economy as a single thing. But most shocks and every new technology skews in some way towards particular industries or activities."

This outsized growth will eventually end, as we have previously flagged. Will the market sector bounce back quickly enough to fill the gap? Currently our forecasts assume that the handover is reasonably smooth and the overall labour market weakens only modestly. But we are mindful that a shaky handover between public demand and private demand, between non-market and market sector employment, is a risk scenario.

The expansion in the care economy has also led to some discussion about the implications for measured productivity growth. (Though possibly not actual productivity growth, as anyone who has benefited from keyhole surgery or moonboots can attest.) But there is another layer to the issue of productivity and sectoral differences.

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Productivity growth is not an economy-wide phenomenon. It is the product of many individual decisions about how we use our time (recall that labour productivity is just 'Stuff' Divided by Time). In particular, it is partly the result of decisions about whether and how to innovate – in particular by adopting new technologies. Productivity growth is not some trend that is bestowed from the heavens – it is kicked along by waves of new technologies.

The point is that every new technology – even the so-called 'General Purpose Technologies' – is tuned to different activities and thus industries. Steam power and electricity had general application, but they were more transformative to energy-intensive activities in manufacturing. Computers and the internet revolutionised information-intensive activities like finance far more than, say, the hospitality industry.

So it will also be for the AI revolution. Generative AI and related innovations leverage our ability to produce content or transform information. In the real 'meatspace' world of physical action, it has less to offer (though probably not nothing, to the extent that improved robotics are also part of the story). This means the impact will be greater, and faster, in some industries than others.

In particular, that very 'meatspace' physical industry of construction is likely to be less impacted. AI could improve scheduling and procurement for projects, and could simplify and speed up regulatory processes (something Vancouver is already doing). But there is a big difference between generating a realistic picture of a bricklayer and actually laying bricks.

As noted above, we do not regard the overall trend in (non-mining) market sector productivity growth as particularly alarming. But again, this is an area where it pays to dig below the surface total and examine the detail. In the construction industry, the story is far less benign. The Productivity Commission has recently released a report showing the long-run decline in construction productivity. The building part of the sector has seen an outright trend decline in the level of productivity for the past two decades. This is an international phenomenon, not Australia-specific. The volume and nature of regulation matters here, but so does the structure, culture and composition of the industry.

Even with population growth now rolling over, the imperative to house a growing population becomes all-the-more acute. Rising productivity will be a key enabler, and that means leveraging technological innovation. The problem is that the innovations we are currently in early-stage adoption of might not be the ones best tuned to that task.

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Cliff Notes: caution appropriate, but a risk to growth

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

The January Monthly CPI Indicator printed broadly as expected, with prices falling 0.2% in the month, leaving headline inflation up 2.5% over the year to January, the mid-point of the target range. In the monthly detail, there were surprises on both sides. On the one hand, the roll-off of Queensland's state government energy rebates saw electricity prices jump more than expected. However, dwelling price inflation continues to ease. The trimmed mean estimate printed at 2.8%yr, up slightly from 2.7%yr in December; but, like all other 'core' measures of inflation in the month, it remained within the 2-3% target band. One monthly result is not enough to shift expectations, especially as the monthly measure is only a 'partial' read on inflation. The next update for the quarterly series is not due until just before the RBA's May Board meeting.

In the lead-up to Q4 GDP due next week, two partial indicators of investment were also received.

Although construction activity was softer than expected in the quarter, up 0.5% in Q4, the trend over last year points to a solid recovery, up from an annualised pace of 1.3% in H1 to 5.0% in H2. Public infrastructure has played an important role in supporting construction activity; a nascent recovery in private activity has also started to form across both infrastructure and residential construction. Importantly, the price detail suggests capacity constraints are starting to ease.

Private CAPEX subsequently surprised to the downside, the –0.2% fall in Q4 bringing the annual pace down to a tepid 0.6%yr. Weakness was evident across the sectors but concentrated in mining (–0.6% versus -0.1% for non-mining). On investment intentions, 2025-26 CAPEX plans made clear the uncertainty present in both the domestic and global economy, the first estimate reflecting a pullback in firms' investment expectations.

However, it is important to recognise the variability seen in early estimates of CAPEX expectations for a given financial year and the emerging positives for business, discussed in depth in Westpac's latest Quarterly Business Snapshot.

Our preview for Q4 GDP will also be published later today on Westpac IQ.

It was a quiet week for international data. Of greatest significance, US consumer confidence data highlighted concern amongst households over the potential economic consequences of tariffs and immigration policy, particularly for inflation. Core durable goods orders meanwhile implied businesses are largely waiting to see how the economy evolves before committing to new capital expenditure, and home sales data the impact of higher mortgage rates on affordability – new and pending home sales down 10.5% and 4.6% respectively in January.

On tariffs, President Trump announced he is pushing ahead with the 25% tariff for all imports from Mexico and Canada (excluding energy) on 4 March. An additional 10% tax will added for China at the same time. European imports will also face a 25% tariff and, come April, reciprocal and product-specific tariffs will follow. Canadian Prime Minister Trudeau quickly vowed an immediate and strong response to the formal introduction of tariffs on Canada, which could elicit a further response from the US.

"It is unsurprising that the FOMC members who spoke through the week highlighted uncertainty for inflation and inflation expectations and a need for caution with policy."

Back in Asia, the Bank of Korea lowered its base rate by 25bp to 2.75%, the third cut since October 2024. Accompanying the decision was a downgrade to the 2025 growth forecasts, from 1.9% for 2025 to 1.5%, owing to the impact of tariffs and dwindling domestic demand. Tariffs are now expected to be imposed in Q1 2025, earlier than previously thought, and are also expected to be larger. Allowing policy to respond, core inflation is expected to be lower in 2025 at 1.8% (previously 1.9%). The Bank of Thailand also cut rates by 25bps to 2.0%, surprising markets. The cut came as structural problems in the manufacturing sector threaten growth. Tariffs and trade tensions in the region will only further exacerbate existing problems.

Without the inflation concerns of the US, emerging market economies in Asia have the capacity to take a proactive approach to managing the growth risks that will eventuate from geopolitical tensions and tariffs.

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On firmer footing

Satish Ranchhod
Senior Economist

The latest updates on the New Zealand economy have been encouraging. While we are still seeing softness in some areas, signs of recovery are building, and we expect conditions will continue to firm over the coming months.

Household spending appetites on the rise

Looking first at the household sector, consumer confidence has been trending higher since late last year, and that lift in sentiment has been accompanied by a recovery in spending appetites. The latest update from Stats NZ showed that retail spending was up a solid 0.9% in the December quarter, and our own tracker of spending on Westpac issued debit and credit cards indicates that spending has continued to rise in the early part of 2025. Underpinning the rise in sales has been increased spending in discretionary areas, like household furnishings and electronics.

We expect spending will continue trending higher over the coming year. Interest rates have been dropping back. Importantly, the full impact of those declines is yet to be felt, as many mortgages are still on the relatively high interest rates from recent years. However, over the next six months, around half of all mortgages will come up for re-fixing, and many borrowers will have the opportunity to re-fix at lower rates. That will give disposable incomes and spending a boost through the second half of the year.

Many households are still dealing with some significant pressures on their finances. Notably, we're continuing to see large increases in the costs of necessities, like food, rates, utilities and insurance. On top of that, the fall in the NZ dollar is likely to push up the price of some imported goods. But even with those pressures, household spending is likely to continue firming over 2025.

Business conditions have stabilised, with a lift on the horizon

Turning to the business sector, we've been speaking with businesses around the country over the past few weeks. The feedback we've received is that trading conditions have remained tough in the early part of 2025, especially in sectors like retail, hospitality and construction. Many businesses also told us that they expect conditions to remain soft in the near term, and as a result they remain hesitant about significant capital expenditure for now.

But while activity levels remained soft, most of the businesses we spoke to told us that conditions had stabilised in recent months (rather than continuing to weaken). That's been reflected in the latest monthly jobs figures, which have been gradually ticking up over the last three months, after having consistently fallen between April and October last year.

Businesses are also feeling more optimistic about the trajectory of the economy further ahead, with interest rate reductions expected to support a gradual recovery in demand. However, they were conscious that the recovery is likely to be gradual, with most not expecting a material lift in activity until the second half of the year.

Rural confidence continuing to improve

Confidence is also up in the agricultural sector. As we discuss in our latest Agri Bites report, a lot of that is due to the rise in soft commodity prices. Dairy prices especially have been on a tear lately, so much so, that we are now predicting a record high average farmgate milk price of $10.30/kgMS for the current season. Built into this forecast is an expectation that the rebuilding of whole milk powder inventories in China will come to an end. If it doesn't, we could see upward pressure on our milk price forecasts, particularly if Chinese restocking extends into the 2025/26 season.

But the gains in prices aren't just limited to dairy. Export meat prices are also on the up. In the case of beef much of that has to do with the strength in demand out of the US and production declines in most key beef producing countries. For lamb, rising export prices mostly reflect constrained supply out of Australia and New Zealand, the world's largest exporters of sheep meat. What's more, we expect these trends to continue in 2025, which suggests further price rises in the year ahead. The weaker New Zealand dollar over the coming year, is likely to add some impetus in this regard.

The good news on prices extends to the horticultural sector. Demand for kiwifruit in export markets, particularly in South-East Asia continues to grow and is easily able to keep pace with additional supply coming out of New Zealand. That is not only helping to keep prices at elevated levels, but also deliver better orchard gate returns. A bumper harvest projected for the coming year together with a weaker New Zealand dollar should ensure more of the same over 2025.

That strengthening outlook for commodity prices bodes well for incomes in agricultural regions over the year ahead. To date, farmers and other producers are taking a cautious approach, using the lift in returns to retire debt. Even so, spending in regional centres is already outpacing centres like Auckland and Wellington, and we expect that pattern will continue over 2025.

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Cost inflation has eased, but pressures haven't fully abated

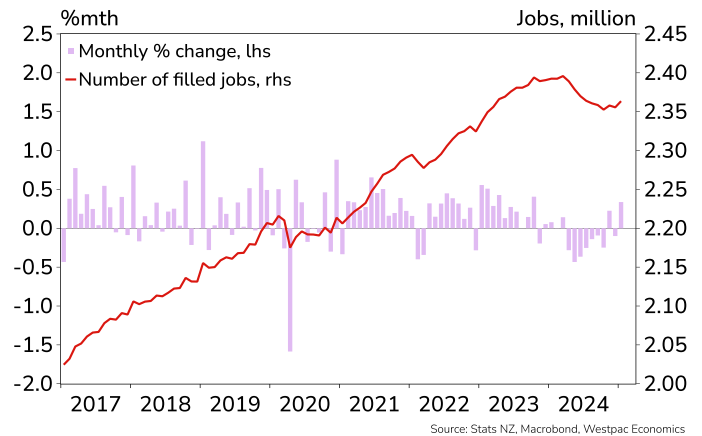
A particularly welcome development for businesses in both the agriculture sector and other parts of the economy has been the easing in input cost pressures over the past year. The big one has been the fall in interest rates. We've also seen falls in fuel costs, as well as a more general easing in cost pressures following the large increases over the past few years.

But even though costs aren't rising at the rapid pace we saw in the wake of the pandemic, we're still hearing reports of some strong cost pressures, including compliance costs. We've also seen the NZ dollar taking a step down since the start of this year, and that's likely to push up the cost of some imported goods over the coming months (though it is welcome news for our exporters). Consistent with those pressures, recent months have seen a lift in the number of businesses who are planning on raising their prices, after having trended down over the past couple of years.

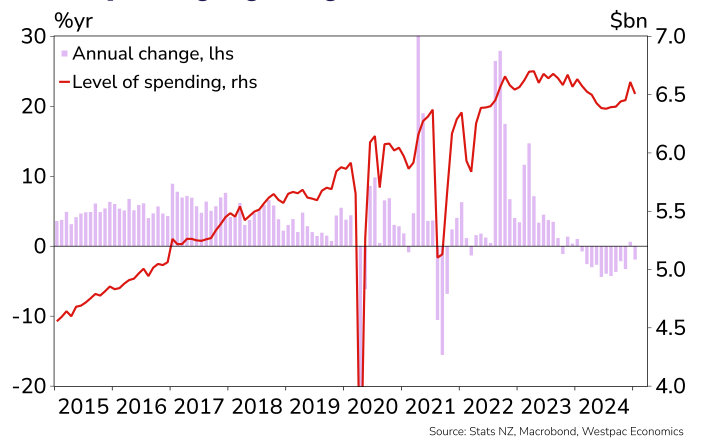
A brighter outlook, but there are still some clouds on the horizon

Putting this all together, recent economic news and the feedback we've received around the country is consistent with a pick-up in economic conditions over the year ahead. However, the recovery still looks like it will be gradual, with many businesses likely to face tough trading conditions over the next few months. In addition, economic conditions are likely to be uneven – parts of the country with a strong rural backbone are like to be stronger than centres like Auckland or (especially) Wellington. Finally, changes in global trade policy and simmering geopolitical tensions are a clear downside risk for demand and are adding to the uncertainty for many businesses.

Employment starting to stabilise



Retail spending regaining momentum



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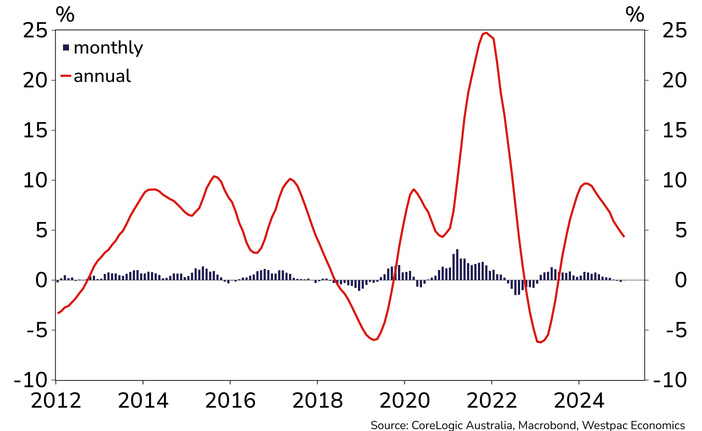
AUS: Feb CoreLogic Home Value Index (%mth)

Mar 3, Last: –0.2, Westpac f/c: 0.3

The CoreLogic home value index posted a soft start to the new year, recording another 0.2% dip in Jan, in line with the fall in Dec and marking a fourth consecutive monthly decline. Annual price growth dropped below 4%yr.

The picture brightened somewhat in Feb, the CoreLogic daily measure showing prices stabilising then lifting following the RBA's interest rate cut on Feb 18. Prices are tracking towards a 0.3% rise for the full month. The turnaround has been most pronounced in the Sydney and Melbourne markets, where prices had previously been slipping lower.

Housing prices to stabilise



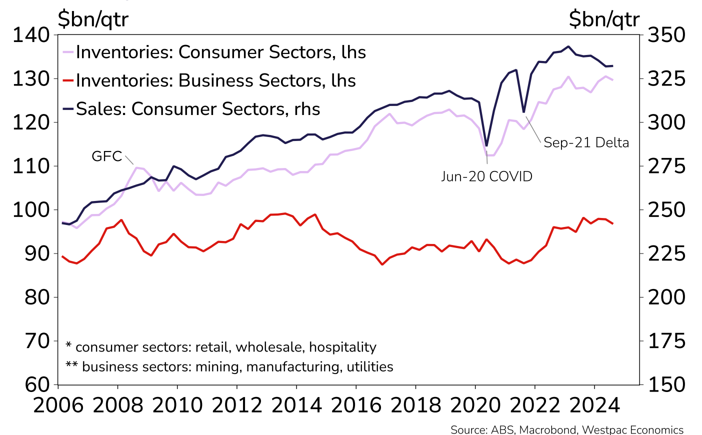
AUS: Q4 Inventories (%qtr)

Mar 3, Last: –0.9, Westpac f/c: –0.8 (0.0ppt cont'n)
Market f/c: flat, Range: –1.2 to 0.7

Westpac expects inventories fell –0.8% in Q4, making a flat contribution to growth in economic activity over the final quarter of 2024. This will come off the back of a 0.9%qtr decline in Q3, as businesses used the inventories built up over the first half of 2024 to meet business and consumer demand.

We expect this dynamic continued into Q4 with non-farm business inventories declining for a second consecutive quarter. In addition, we expect the change in public inventories to slow from the levels recorded last quarter, as the public sector runs down its stockpile of medicines, vaccines and other health products.

Inventory run-down expected to persist



AUS: Q4 Company Profits (%qtr)

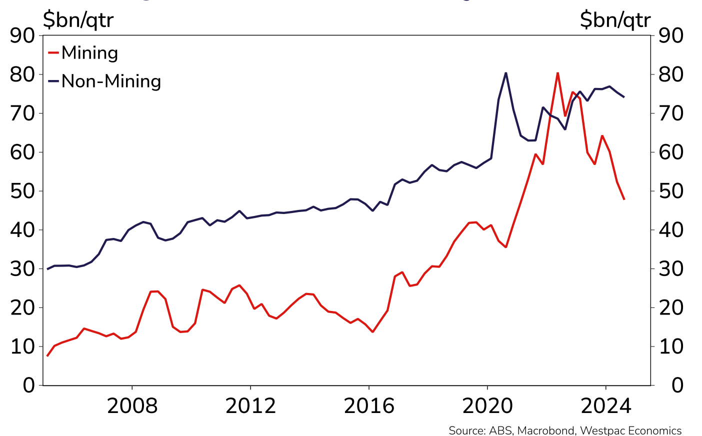
Mar 3, Last: –4.6, Westpac f/c: 1.0
Market f/c: 1.8, Range: –2.0 to 3.5

Company profits are expected to have retraced part of the decline in Q3, lifting 1.0%qtr to be 12.5% lower than last year.

The improvement is expected to be driven by the non-mining sector. The Westpac Business Cashflow Gauge showed an improvement of around 0.3% in Q4, to be up 1.7% over the past six months, consistent with a pickup in profits. A large share of this improvement was banked as deposits (see here).

In addition, the value of mining exports stabilised over the quarter after falling almost 9.0%qtr in Q3. Most of this was driven by a 3.2%qtr increase in the AUD price of our commodity exports over the quarter. This is consistent with the mining sector making a slight contribution to growth in corporate profits for the first time since Q4 2023.

Non-mining sector to drive recovery in profits



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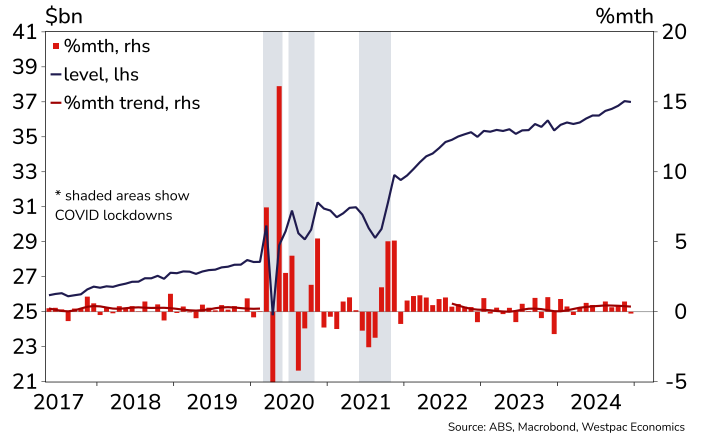
AUS: Jan Retail Trade (%mth)

Mar 4, Last: –0.1, Westpac f/c: 0.4
Market f/c: 0.3, Range: –0.8 to 0.6

Retail sales dipped 0.1% in Dec, following a relatively solid run over the previous four months, activity buoyed by the stage 3 tax cuts rolled out in July. Some of the Dec softness around basic food retail may have related to disruptions from industrial action in the month. Note also that estimates through Nov-Dec-Jan have been prone to revision in recent years (lower, higher and lower respectively) due to shifting seasonality around Black Friday and Christmas.

Westpac card data suggests the underlying momentum to demand remained firm through the Dec-Jan period, retail segments continuing to outperform slightly. As such we expect the retail sales to post a firmer 0.4%mth gain in the month, with some risk of an upward revision to the Dec estimate as well.

Underlying momentum to remain firm



Source: ABS, Macrobond, Westpac Economics

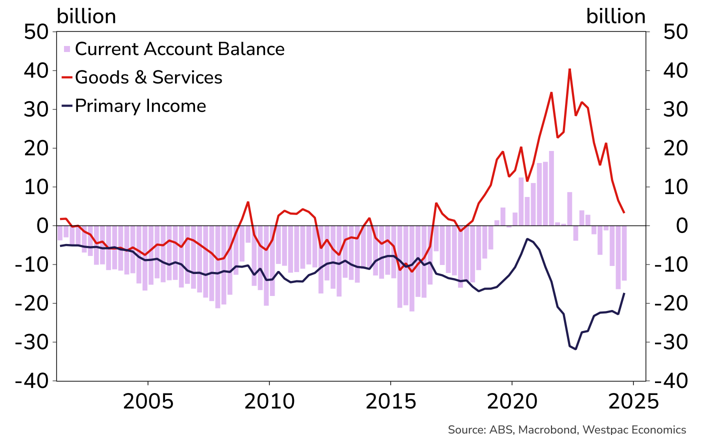
AUS: Q4 Current Account Balance ($bn)

Mar 4, Last: –14.1, Westpac f/c: –10.3
Market f/c: –12.0, Range: –8.3 to –16.5

Having hit the highest deficit in eight years in Q2, the current account deficit moderated to –$14.1bn in Q3 as the effect from a lower trade surplus was offset by an improving primary income balance.

We expect to see a further improvement in Q4 to a deficit of just over $10bn. Overall, the trade balance looks to have improved by around $2bn, as nominal exports, boosted by higher export prices, outpaced nominal imports. We think that primary income balance will also improve to a smaller deficit, mainly due to smaller outflows of income.

Deficit is anticipated to narrow slightly



Source: ABS, Macrobond, Westpac Economics

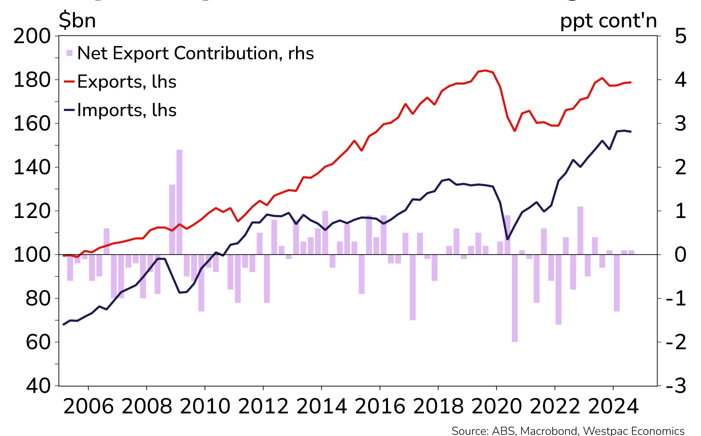
AUS: Q4 Net Exports (ppt cont'n)

Mar 4, Last: 0.1, Westpac f/c: –0.2
Market f/c: –0.1, Range: –0.4 to 0.3

Net exports are expected to provide a negative contribution to GDP growth in Q4. Both goods and services trade likely contributed negatively with similar magnitudes.

While the nominal goods trade balance improved over the quarter, prices effectively boosted nominal exports more than they supported imports. Correcting for that effect, the real goods trade balance looks to have deteriorated slightly. While the dynamic in services trade is less clear given a lack of available data, short-term travel flows provide a rough proxy which points to a larger increase in services imports than exports.

Net exports expected to detract from GDP growth



Source: ABS, Macrobond, Westpac Economics

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AUS: Q4 GDP (%qtr)

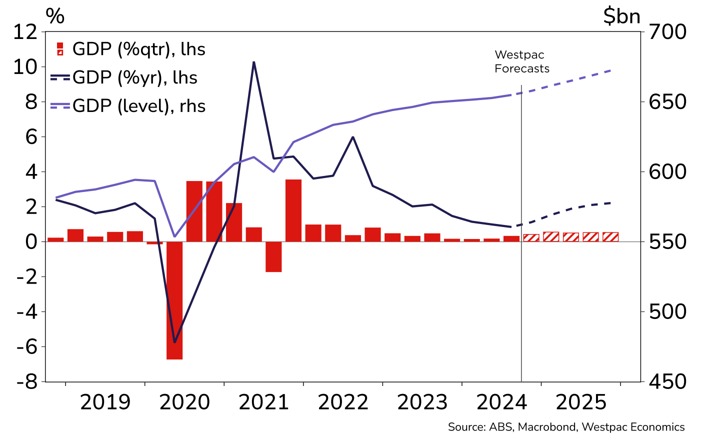
Mar 5, Last: 0.3, Westpac f/c: 0.4
Market f/c: 0.5, Range: 0.3 to 1.0

Westpac expects that the pace of economic growth improved slightly over the final months of the year, with Q4 GDP forecast to have grown by 0.4% (1.1%yr).

We are expecting to see some signs of a recovery in private demand, although the forecast 0.6% gain will see annual growth lift to a still-sluggish 1.1%yr. Moderating inflation and tax cuts are the key supports here, although the scale of their impact, particularly as it relates to household consumption, remains somewhat uncertain. At the same time, we continue to expect public demand to contribute solidly to growth, up a forecast 0.9% (4.8%yr).

For more detail behind our forecasts, please see our Q4 GDP Preview.

Q4 GDP Forecast: 0.4%qtr, 1.1%yr



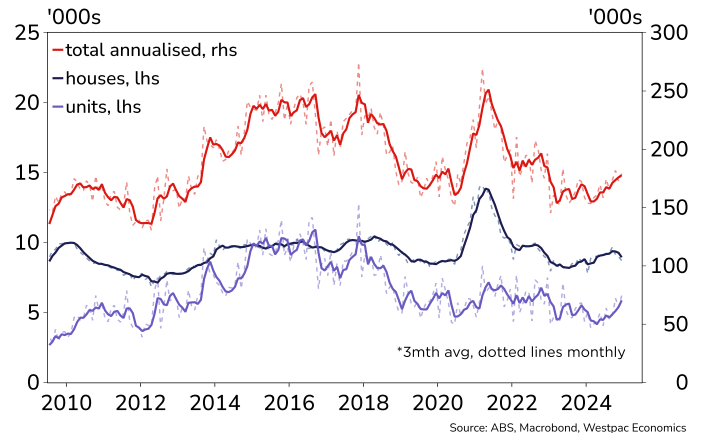
AUS: Jan Dwelling Approvals (%mth)

Mar 6, Last: 0.7, Westpac f/c: 0.5
Market f/c: flat, Range: –6.5 to 2.0

Dwelling approvals rose 0.7% in Dec following a 3.4% decline in Nov. While an underlying uptrend is still in place the composition has become more fragile with gains becoming centred on the volatile 'units' segment and approvals of detached houses softening.

HIA new home sales figures suggest some of the weakness in detached house approvals reversed in Jan. The picture around units is more uncertain, although the high rise component does not point to an obvious 'spike' set to unwind. On balance a 0.5%mth gain led by detached houses in Jan looks reasonable. As always, Jan housing data should be treated with extra caution as the 'summer low' means monthly noise can be greatly amplified by seasonal adjustment.

Uptrend to remain on course



AUS: Jan Goods Trade Balance ($bn)

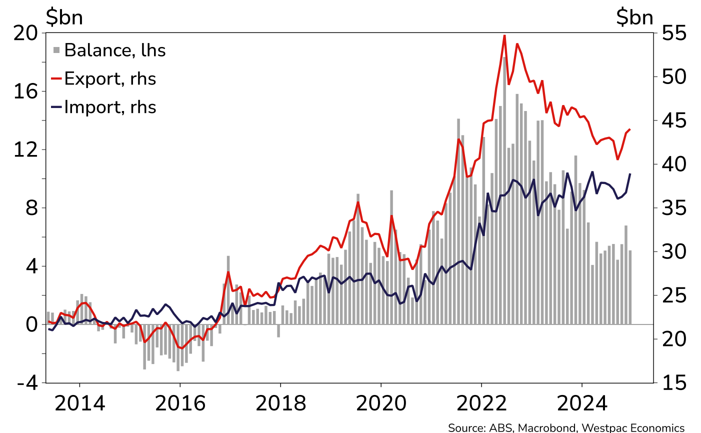
Mar 6, Last: 5.1, Westpac f/c: 6.2
Market f/c: 5.7, Range: 5.0 to 6.3

Following a sharp improvement in November, December saw trade surplus falling to $5.1bn as a 1.1%mth increase in goods outflows was outpaced by a 5.9%mth surge in goods inflows.

Export earnings are expected to expand at a similar scale in December, although the composition might change somewhat, with sharp increases in rural goods exports seen over the prior two months at risk of moderating. The growth rate will depend significantly on goods exports to the US which increased sharply at the end of 2024, likely in anticipation of an increase in the US import tariffs.

Meanwhile, data from major ports suggests that imports might be weaker. On balance, we think that export and imports will leave trade surplus rising to $6.2bn

Goods trade surplus expected to widen slightly



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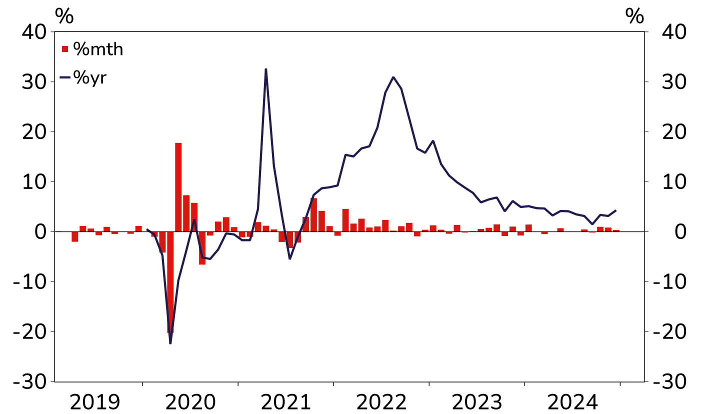
AUS: Jan Household Spending Indicator (%mth)

Mar 7, Last: 0.4, Westpac f/c: 0.3
Market f/c: 0.5, Range: –0.2 to 0.8

The household spending indicator slowed to 0.4%mth in Dec from upwardly-revised prints of 0.8%mth and 1.0%mth in November and October, respectively. Annual growth lifted to 4.3%yr. The indicator draws on card activity, supermarket transactions and new vehicle sales to generate an early estimate of total spending. The ABS currently labels these as 'experimental'.

Household spending looks to have had a mixed Jan. Our **Westpac Card Tracker** maintained decent momentum into the new year. However, vehicle sales look to have declined materially in the month, led by a sharp pull-back in EV sales. Even with this shaving a bit off, total spending should post a small 0.3% gain for the month.

Lower vehicle sales to dampen spending



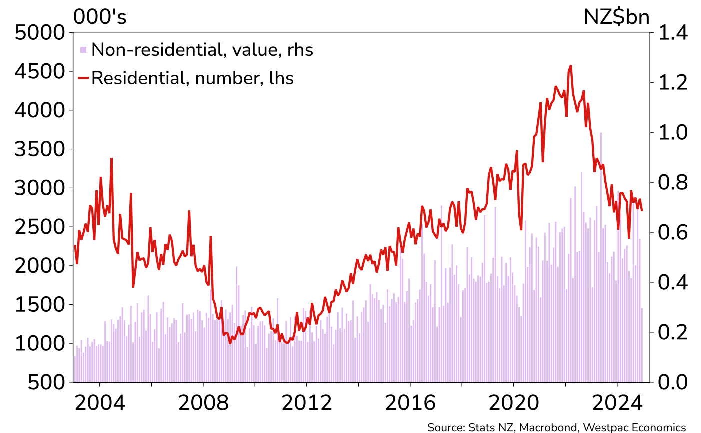
Source: ABS, Macrobond, Westpac Economics

NZ: Jan Building Consents (%mth)

Mar 4, Last: –5.6, Westpac f/c: 5.0

The number of residential building consents dropped 6% in December as earlier increases in the 'lumpy' multi-unit categories reversed. However, more important than the month-to-month swings, the longer-term trend in consent numbers looks 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 the year as the impact of lower interest rates ripples through the housing market. In the non-residential space, softness in economic activity is expected to continue weighing on new developments.

Building consents appear to be flattening out



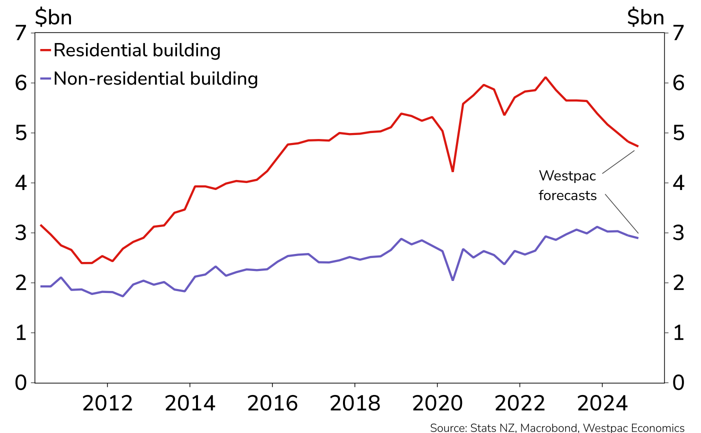
Source: Stats NZ, Macrobond, Westpac Economics

NZ: Q4 Building Work Put in Place (%qtr)

Mar 6, Last: –3.2, Westpac f/c: –2.0

Construction activity fell 3% in the September quarter, with falls in both residential and commercial activity. We expect further declines in both areas in the December quarter. Earlier high interest rates, as well as subdued economic activity and low confidence over the past few years have all dampened development activity. The key area of uncertainty is non-residential construction which can be volatile on a quarter-to-quarter basis. But smoothing through such quarterly noise, the direction for building activity remains down through the latter part of 2024, with a stabilisation expected over 2025.

Pipeline of building work continues to run down



Source: Stats NZ, Macrobond, Westpac Economics

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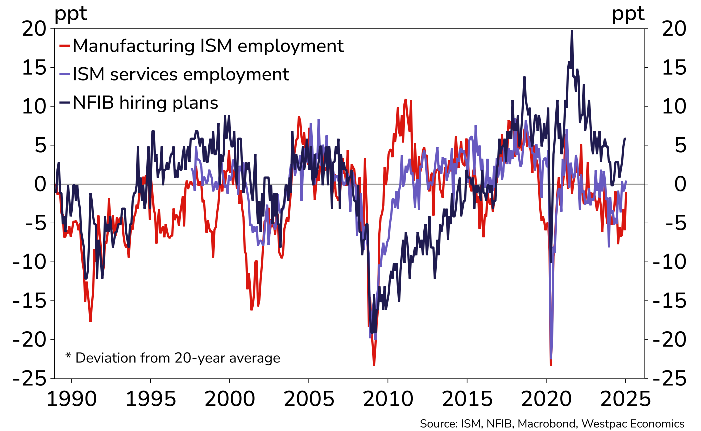
US: Feb Employment Report

Mar 7, Payrolls, Last: 143k, WBC f/c: 170k, Mkt f/c: 158k
Mar 7, U/E Rate, Last: 4.0%, WBC f/c 4.0%, Mkt f/c 4.0%

Nonfarm payrolls surprised to the upside in December then to the downside in January, continuing the volatility of 2024. Looking through the noise, the average pace since the beginning of 2024 is 165k per month, consistent with balance between labour demand and supply.

The unemployment rate is also indicative of a broadly stable labour market in robust health, having plateaued around 4.0%. The same can be said of the wages data, with the exception of January's hourly earnings result which surprised to the upside. As 2025 continues, we are likely to see a further measured moderation in job and wage growth. Given the uncertainty around government policy though, risks are skewed down.

Labour market robust, but risks apparent



Source: ISM, NFIB, Macrobond, Westpac Economics

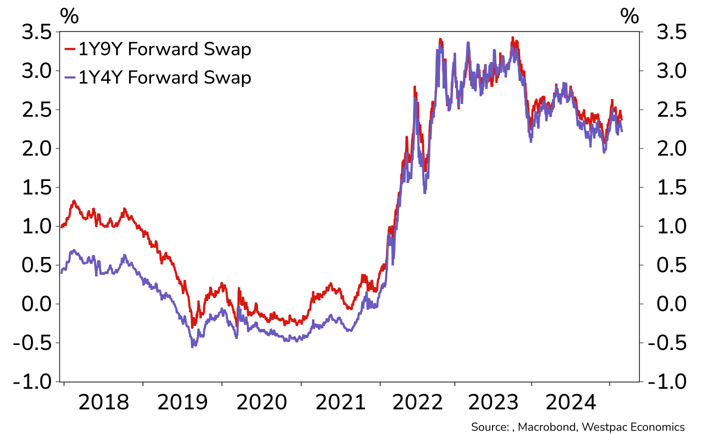
EUROPE: ECB Policy Decision (%)

Mar 7, Deposit Rate, Last: 2.75, WBC f/c: 2.50, Market f/c: 2.50

We expect the ECB to cut policy rates by 25bps. ECB members assess policy's current state as 'restrictive', and so the Committee will support further easing in policy without knocking disinflation off track. Global trade tension alongside US tariffs pose growth headwinds whilst fiscal space is constrained by already large deficits and plans to increase defence spending. As such, the ECB will seek to provide greater monetary support to help support domestic demand.

Committee member Schnabel outlined that a higher term structure is likely to be brought about, one that is not driven by better growth but by higher government bond yields brought about by increased supply and greater risk in holding these bonds.

Markets settle on a higher terminal rate



Source: , Macrobond, Westpac Economics

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What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 03							
Aus	Feb	Corelogic Home Value Index	%mth	–0.2	–	0.3	Daily measures point to a pick-up following Feb's rate cut.
	Feb	MI Inflation Gauge	%ann	2.3	–	–	Provides a general view of risks.
	Q4	Company Operating Profit	%qtr	–4.6	1.8	1.0	Non-mining sector to drive recovery in profits.
	Q4	Inventories	%qtr	–0.9	flat	–0.8	Businesses are using up inventories to meet demand.
NZ	Q4	Terms Of Trade	%qtr	2.4	–	6.5	Strong gains in meat and dairy export prices.
Chn	Feb	Caixin Manufacturing PMI	index	50.1	50.4	–	Sentiment is holding around a neutral level.
Eur	Feb	CPI	%ann	2.5	2.3	–	Likely to continue following an upward trend.
US	Jan	Construction Spending	%mth	0.5	–0.1	–	Weaker growth at the start of the year.
	Feb	ISM Manufacturing PMI	index	50.9	50.5	–	Returned to expansionary territory last month.
		Fedspeak	–	–	–	–	Musalem.
Tue 04							
Aus	Q4	Current Account Balance	$bn	–14.1	–12.0	–10.3	Improvements in trade and primary income balance expected.
	Q4	Net Exports Contribution	ppt	0.1	–0.1	–0.2	Both G&S likely detracted from growth at similar scale.
	Feb	RBA Minutes	–	–	–	–	To provide more colour around balance of risks.
	Jan	Retail Sales	%mth	–0.1	0.3	0.4	Westpac card data points to firm underlying trend.
NZ	Jan	Building Permits	%mth	–5.6	–	5.0	Annual issuance continuing to run at just over 33k.
Jpn	Jan	Unemployment Rate	%	2.4	2.4	–	Labour market to remain tight for foreseeable future.
Eur	Jan	Unemployment Rate	%	6.3	6.3	–	Ticked higher in December from a record low in November.
US		Fedspeak	–	–	–	–	Williams.
Wed 05							
Aus		RBA Deputy Governor Hauser	–	–	–	–	Speaking at the AFR Business Summit at 8:45am AEDT.
	Q4	GDP	%qtr	0.3	0.5	0.4	Moderating inflation and tax cuts to support gradual recovery.
NZ	Feb	ANZ Commodity Prices	%mth	1.8	–	1.0	World dairy prices up over the month.
Chn	Feb	Caixin Services PMI	index	51.0	50.8	–	Pointing to downside risk to China GDP this quarter.
		National People's Congress	–	–	–	–	To reiterate priorities for 2025.
US	Feb	ADP Employment Change	000s	183	148	–	Noisy indicator for non-farm payrolls.
	Jan	Factory Orders	%mth	–0.9	1.4	–	Includes durable and non-durable goods orders.
	Jan	Durable Goods Orders	%mth	3.1	–	–	Preliminary data showed a steep increase in headline growth
	Feb	ISM Services PMI	index	52.8	53.0	–	Expected to be little changed after a few volatile months.
Thu 06							
Aus	Jan	Dwelling Approvals	%mth	0.7	flat	0.5	Uptrend becoming more centred on high-rise units.
	Jan	Goods Trade Balance	$bn	5.1	5.7	6.2	Higher exports and weaker imports to see balance improve.
NZ	Q4	Building Work	%qtr	–3.2	–	–2.0	Softness in both residential and commercial building.
Eur	Jan	Retail Sales	%mth	–0.2	–	–	Has not grown for the past three months.
		ECB Policy Decision (Deposit Rate)	%	2.75	2.50	2.50	Another rate cut expected as growth outlook weakens.
US	Jan	Trade Balance	$bn	–98.4	–91.3	–	Latest insights into the US trade before new tariffs took effect.
		Initial Jobless Claims	000s	242	–	–	Will be watched closely after an increase in the prior week
		Fedspeak	–	–	–	–	Waller.
Fri 07							
Aus	Jan	Household Spending Indicator	%mth	0.4	0.5	0.3	Vehicle sales look to have weighed on spending.
Eur	Q4	GDP	%qtr	0.1	0.1	–	No change anticipated in the final estimate.
US	Feb	Non-Farm Payrolls	000s	143	158	170	Current pace of growth in payrolls...
	Feb	Average Hourly Earnings	%mth	0.5	0.3	–	... and stabilising wages growth is consistent with...
	Feb	Unemployment Rate	%	4.0	4.0	4.0	... labour demand and supply being in balance.
	Jan	Consumer Credit	$bn	40.8	–	–	WIll provide new insights into the state of the US consumers
		Fedspeak	–	–	–	–	Chair Powell, among various others.

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Economic & financial forecasts

Interest rate forecasts

Australia	Latest (28 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
Cash	4.10	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.12	4.20	3.95	3.72	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.71	3.75	3.75	3.80	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.74	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.85
10 Year Bond	4.29	4.45	4.60	4.75	4.70	4.70	4.65	4.65	4.65
10 Year Spread to US (bps)	6	–15	–20	–25	–25	–20	–20	–15	–15
United States									
Fed Funds	4.375	4.375	4.375	4.375	4.375	4.125	3.875	3.875	3.875
US 10 Year Bond	4.23	4.60	4.80	5.00	4.95	4.90	4.85	4.80	4.80
New Zealand									
Cash	3.75	3.75	3.25	3.25	3.25	3.25	3.50	3.75	3.75
90 Day Bill	3.76	3.55	3.35	3.35	3.35	3.45	3.70	3.85	3.85
2 Year Swap	3.43	3.40	3.50	3.65	3.80	3.90	3.95	4.00	4.00
10 Year Bond	4.43	4.60	4.70	4.85	4.90	5.00	5.00	5.00	4.95
10 Year Spread to US (bps)	20	0	-10	-15	-5	10	15	20	15

Exchange rate forecasts

	Latest (28 Feb)	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26
AUD/USD	0.6217	0.60	0.60	0.61	0.62	0.63	0.64	0.66	0.68
NZD/USD	0.5624	0.54	0.54	0.54	0.54	0.55	0.56	0.57	0.59
USD/JPY	149.85	155	154	153	152	150	148	146	144
EUR/USD	1.0390	1.01	1.00	1.00	1.01	1.02	1.03	1.04	1.06
GBP/USD	1.2586	1.23	1.23	1.23	1.24	1.25	1.26	1.27	1.28
USD/CNY	7.2870	7.30	7.30	7.25	7.25	7.20	7.15	7.10	7.00
AUD/NZD	1.1096	1.11	1.11	1.14	1.15	1.15	1.15	1.15	1.15

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	0.4	0.6	0.5	0.5	0.6	–	–	–	–
%yr end *	1.1	1.0	0.8	1.1	1.5	1.8	2.1	2.2	1.5	1.1	2.2	2.2
Unemployment rate %	3.9	4.1	4.1	4.1	4.1	4.2	4.4	4.5	3.9	4.1	4.5	4.5
Wages (WPI) %qtr	0.8	0.8	0.8	0.7	0.8	0.7	0.7	0.7	–	–	–	–
%yr end	4.1	4.1	3.5	3.2	3.2	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

***** *forecasts subject to change following the Q4 National Accounts due March 5.*

New Zealand economic growth forecasts

	2024				2025				Calendar years			
% Change	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
GDP %qtr	0.3	-1.1	-1.0	0.3	0.4	0.8	0.5	0.8	–	–	–	–
Annual avg change	1.4	0.6	0.1	-0.5	-1.2	-1.0	-0.1	0.9	1.8	-0.5	0.9	3.0
Unemployment rate %	4.4	4.6	4.8	5.1	5.3	5.4	5.4	5.3	4.0	5.1	5.3	4.6
CPI %qtr	0.6	0.4	0.6	0.5	0.6	0.5	1.0	0.5	–	–	–	–
Annual change	4.0	3.3	2.2	2.2	2.2	2.3	2.7	2.6	4.7	2.2	2.6	2.0

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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

Sian Fenner
Head of Business and Industry Economics
E: sian.fenner@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

westpaciq.com.au

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