Week beginning 24 March 2025

AUSTRALIA & NEW ZEALAND WEEKLY

Analysis and forecasts for this week's key releases.

In this week's edition:

Economic Insight: When it all unravels.

The Week That Was: Time to take stock.

Focus on New Zealand: Kiwi economy moves out of recession.

For the week ahead:

Australia: Monthly CPI indicator, 2025-26 Federal Budget, RBA Assistant Governor (Fin. Sys.) speaks.

New Zealand: Westpac-MM employment confidence, ANZ consumer confidence, employment indicator.

China: Industrial profits, current account balance.

United Kingdom: PMIs, CPI, retail sales, Q4 GDP (final estimate).

Japan: Tokyo CPI, PMIs.

United States: Personal income and spending, PCE deflator, consumer sentiment, new home sales, PMIs.

Information contained in this report current as at 21 March 2025

When it all unravels

Luci Ellis
Chief Economist, Westpac Group

When we commented back in January that 'Higher interest rates and a seemingly overvalued exchange rate. One can't help thinking that reality will bite the US exceptionalism narrative sooner or later.', we did not expect some of that reckoning to come so soon. The shift in sentiment – and its speed – illustrate two key features of a world shaped by evolving trends.

First, big trends win out in the end. The world changes, and anything that is not compatible with the evolving trend will eventually need to adjust to be in line with it.

Second, when the current reality rests in large part on people's beliefs and behaviour, then the timing of a shift to be compatible with the new reality will be hard to predict. But when it happens, it can happen quickly. The collapse of communism in a so–called 'preference falsification cascade' is the canonical example. The shifting US narrative is a double–bump version of the same mechanism. First came the 'vibe shift' break from the prevailing sociopolitical norms following the election, and then the break of the US exceptionalism narrative in recent weeks. We don't see that narrative coming back.

Moore's law galore

One of the elements of the US exceptionalism narrative had been a bullish view of US dominance in AI and crypto, spurred on by actual and expected policy announcements. The presumption had been that the US would have an unassailable first–mover advantage. Its deep capital markets and depth of engineering talent complemented the access to data advantages of a handful of US–headquartered firms. DeepSeek's release of its AI chatbot – particularly the decision to release the technology as open source – punctured that bubble. Yet an understanding of the economics of technological progress would tell you not to have believed in an unassailable advantage in the first place.

It is in the nature of technologies in the early, rapid phase of development that costs and prices decline quickly as technology advances. Compute–intensive technologies are especially vulnerable to this dynamic because of Moore's Law, the empirical regularity that chips' computing power doubles roughly every two years.

It is also in the nature of compute–intensive technologies that advances can sometimes occur in leaps. When your product is purely algorithmic, you are vulnerable to someone else coming along with a better algorithm, cutting costs and prices by an order of magnitude in the process.

Electricity shock treatment

This combination of rapid cost decline and occasional big leaps is not confined to obviously computer–oriented technologies. Genomics is another example: recall that the Human Genome Project cost about $US2.7 billion back in 2000 to sequence a single human genome. Nowadays, that cost is about $US1000, and people in the field talk about the $100 genome being not far off. Part of that cost decline lines up with Moore's Law, but there have clearly also been some big leaps along the way. While this might seem like an esoteric example, the potential implications for health outcomes are profound.

"The US dollar overvaluation could persist for a while, just not forever."

An example with more obviously pervasive implications comes from the energy sector. The relative cost of renewable generation technologies continues to decline. And while some of the costs of different energy sources are a policy choice – think approval processes and safety standards – the underlying driver of this relative cost shift is technological.

Relatedly, it is easy to forget that technological progress also improves the efficiency of energy consumption. If you do, you can end up overcooking your forecasts of future energy demand (see Figure 5.1 in the Finkel Report, for example). New appliances are typically more energy efficient: for example, a new washing machine typically consumes about half the electricity used by a 15–year–old model. Improvements in insulation, logistics planning and other activities also matter. Here, too, there are the occasional leaps, such as the switch from halogen to LED, lowering energy consumption for lighting by an order of magnitude.

The exponential trends that emerge from these technological drivers are among the underpinnings of the adage that people overestimate the change that will occur over the next couple of years but underestimate the change that will occur over the next ten years.

If, suddenly, there is an alternative

The dynamics of technological change should have led to more scepticism about the technological elements of the US exceptionalism narrative. The financial market context has a similar 'this can't last' flavour.

The US dollar is overvalued. That is the big trend that will win out. History would suggest that periods of exchange rate overvaluation eventually correct via depreciation, though it can take a few years. It is essentially impossible to say exactly when the next leg down will occur, especially as fiscal trends imply US rate differentials are likely to at least partly compensate for the growth risks. This overvaluation could therefore persist for a while, just not forever.

Another reason why the US dollar can stay overvalued for a while is that investors have a bit of a TINA problem: There Is No Alternative to US Treasuries. Investors feeling nervous about the prospect of a significant depreciation of USD–denominated assets over the next few years would need to invest in something else. So far, though, no other low–risk asset class has the size and depth of the US Treasury market that would allow it to be that alternative.

This is why some of the recent shifts in policy in Europe could have profound implications. European sovereign bonds are currently fragmented with different risks and circumstances. If that fragmentation were to diminish, European sovereign bonds would all be of comparable credit standing. Indeed, a structural shift in European debt dynamics could be underway already. Consider the growing issuance of pan–European bonds by the European Commission, the collective move to raise and co–ordinate defence spending across the continent, and success in narrowing fiscal divergences between member nations. If investors gain confidence in this longer–term evolution, we could see attitudes shift towards treating European bonds more like a single, deeper market – and thus a true alternative to Treasuries.

As recent weeks have shown, when human collective beliefs and decisions are involved, things can unravel much sooner and faster than you think.

Cliff Notes: time to take stock

Elliot Clarke, Head of International Economics
Ryan Wells, Economist

In Australia, the February Labour Force Survey provided a major surprise relative to market expectations. The main result was a significant contraction in the size of the labour force, seeing the participation rate fall from 67.2% to 66.8% – declines of this magnitude having only occurred in 11 out of the 564 months the survey has been conducted. This appeared as a –52.8k decline in the level of employment. Given these individuals left the labour market entirely, measures of labour market slack were broadly unchanged. Indeed, if anything, they tightened at the margin, the unemployment rate on the cusp of rounding down to 4.0% and the underemployment rate falling to 5.9%.

The ABS offered some more colour in the media release, stating that there were "[f]ewer older workers returning to work" and "higher levels of retirement in Australia over recent months"; while in contrast, "we continue to see growth in employment for people aged 15 to 54." With this context, falling participation can have a variety of interpretations. One prominent explanation is that, with cost–of–living pressures having moderated, older workers that were pulled into the labour market to support household incomes under pressure are now starting to leave. It could also be interpreted as a signal of easing labour demand, although elevated job vacancies cast doubt over this view.

Either way, the scale of the decline in the month suggests some one–off factors are at play; we will have to wait until next week for more data to confirm the outcomes across age brackets. Until then, the RBA are unlikely to read too much into the latest result. Given the key measures of labour market slack are still consistent with a tight labour market, the Board will remain focused on the inflation and wage trends.

With limited new data, Chief Economist Luci Ellis' essay this week investigates the evolution of structural trends and market psychology. Ahead of next Tuesday's Federal Budget 2025–26, Chief Economist Luci Ellis' video update focuses on the fiscal dynamics at play and likely policy priorities.

New Zealand GDP provided a detailed update of activity across the Tasman. The 0.7% gain was welcome following two quarters of decline. As discussed by our NZ economics team, arguably the result overstates growth in the quarter owing to some technical issues. Still, there were some genuine positives in the detail, and the economy is expected to continue growing through 2025, albeit most likely at a below–trend pace. This outlook supports NZ economics' view that the RBNZ cash rate will trough at 3.25% in coming months.

Moving further afield, policy makers' actions were again the focus as the FOMC, Bank of England and Bank of Japan met.

The FOMC kept the fed funds rate unchanged as expected at their March meeting while making the "technical" decision "to slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from $25 billion to $5 billion [from April]". Chair Powell noted in the press conference that this decision followed some evidence of "tightness in money markets" and has no implications for the stance of monetary policy. Changes to the forecasts were more telling on the policy outlook.

On GDP, the 2025 forecast has been revised from 2.1%yr at December to 1.7%yr in March. The range of Committee forecasts is also now heavily skewed to the downside. For 2025 and 2026, the low of the range has shifted from 1.6%yr in December to 1.0%yr and 1.4%yr to 0.6%yr respectively. The FOMC's initial take on the inflation effect of tariffs meanwhile suggests pressures will be contained and temporary, the core PCE forecast for 2025 revised up from 2.5%yr to 2.8%yr while projections for 2026 and 2027 were left unchanged at 2.2%yr and 2.0%yr. The range of Committee core PCE forecasts remain wide and biased up, however. The top end only edges lower from 3.5%yr in 2025 to 3.2%yr in 2026, then 2.9%yr in 2027.

"Older workers that were pulled into the labour market may be starting to leave."

Just as the FOMC must assess the net economic effect of policy change across trade, immigration and regulation, they also are intent on setting policy to suit the balance of risks across inflation, the labour market and demand. The unchanged fed funds rate projection from December – including 50bps of cuts forecast by end–2025, another 50bps in 2026 and one more cut come 2027 – suggests their view changes are largely offsetting. Our modestly weaker growth view for 2025 warrants the two cuts forecast by the FOMC in 2025, but we then expect the Committee to hold at 3.875% as tariff inflation effects linger and capacity constraints also buoy consumer inflation.

The Bank of England's decision to remain on hold in March was subsequently decided 8–to–1, the dissenter favouring a 25bp cut. "Domestic price and wage pressures are moderating, but remain somewhat elevated". "The Committee will continue to monitor closely the risks of inflation persistence and what the evidence may reveal about the balance between aggregate supply and demand in the economy. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further." Like the FOMC, the Bank of England clearly intends to determine policy meeting–by–meeting based on incoming data.

In the middle of a rate hiking cycle, in contrast to the FOMC and BoE, the Bank of Japan also held steady in March. Post–meeting communications highlighted concern over the implications of US tariffs for global economic activity; but the BoJ continued to show confidence in the domestic economy, recent activity data having been broadly in line with expectations and the wage data modestly above. Yen weakness on the BoJ decision was short lived, USD/JPY holding to a JPY148–150 range since, as has been the case for most of the past month. On the outlook for wages, trade confederation RENGO announced at the end of last week that it had secured a 5.46% wage increase against a 6.0% demand, exceeding the FY24 outcome of 5.28%. The caveat here is that the survey mostly reflects large businesses which have a greater capacity to fund wage increases. With inflation anticipated to remain elevated versus history, its important wage gains continue to be seen broadly across both big business and small. Such a trend will help shore up consumer confidence and sustain spending growth, allowing the BoJ to continue hiking to around 1.0%.

Economic data released outside of Australia and New Zealand this week was of little consequence for the outlook. The latest data round from China is worthy of study, however. The February data was the first major release for the calendar year, given the variable timing of lunar new year holidays year–to–year. On the consumer, the update was favourable, retail sales growth accelerating from 3.5%ytd in December to 4.0%ytd. Fixed asset investment also surpassed expectations, accelerating from 3.2%ytd in December to 4.1%ytd currently despite entrenched weakness in property investment, –9.8%ytd in February. Month–on–month price declines accelerated for new and existing homes in February, making clear the need for additional concerted action by authorities. Thankfully, this looks to be forthcoming, authorities making clear at the beginning of the week that new initiatives to strengthen employment, income and social security were being finalised for implementation in 2025. Additional aid for the housing sector is also progressing. 2025 therefore promises to be a much better year for Chinese consumer demand than 2024 or 2023, particularly with equities continuing to rally and key sub–sectors of private industry, such as technology, being encouraged to accelerate development and expansion. A full view of our outlook for China can be found in the recently released March Market Outlook.

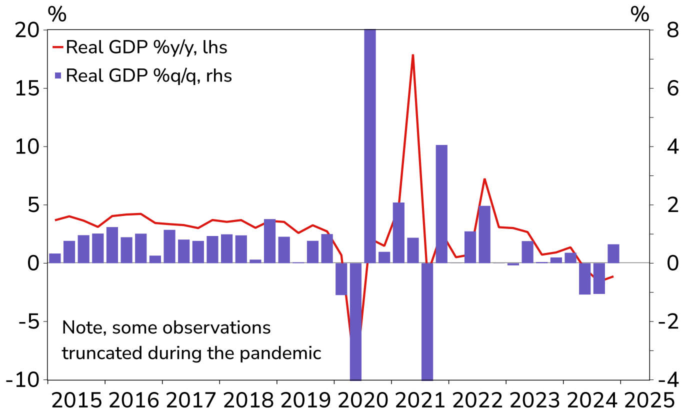
Kiwi economy moves out of recession

Darren Gibbs
Senior Economist

The past week has seen a relatively heavy data flow in New Zealand. The highlight was the release of the National Accounts for the December quarter – a report awaited with some trepidation considering the sizeable revisions and large negative surprise seen in the September data. As it turns out, the headline production–based measure of GDP expanded 0.7%q/q, slightly above our estimate of 0.5%q/q, while revisions were thankfully minor. Output was down 1.1%y/y, compared with a 1.6%y/y decline in September. As [Michael Gordon notes in his full review of the GDP data](), technical issues mean that the headline growth rate likely overstates the strength of the economy's rebound, just as it likely overstated the extent of the decline in the middle of last year. After all, measures of labour input were uniformly weak during the December quarter.

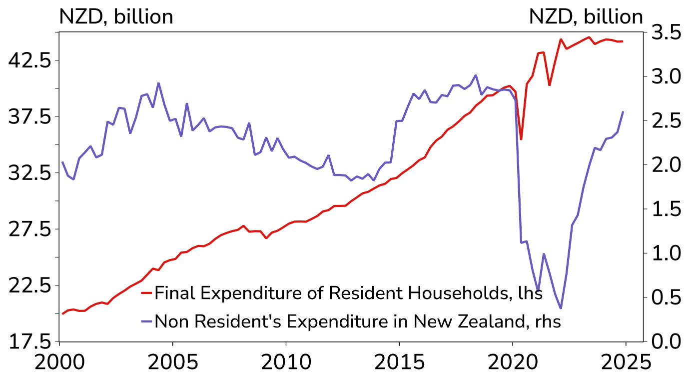
The expenditure measure of GDP grew a similar 0.8%q/q in the December quarter. In the detail, private consumption spending remained muted, rising just 0.1%q/q and so continuing to decline in per capita terms. This result was not too surprising considering that lower mortgage interest rates are yet to be experienced by most households (this will change in coming months as households refix their mortgages at lower interest rates). By contrast, a 10%q/q lift in spending by tourists helped drive a very strong 8.2%q/q increase in exports of services, which accounted for around half of the overall growth in GDP. It seems unlikely this contribution will be matched in the current quarter. Elsewhere in the accounts, despite a sharp fall in construction activity, a rebound in plant and machinery and intangibles spending led to a 1.5%q/q lift in overall business investment during the quarter.

NZ economy moves out of recession



Source: Stats NZ, Macrobond, Westpac Economics

Resident spending muted, but tourist spending lifting

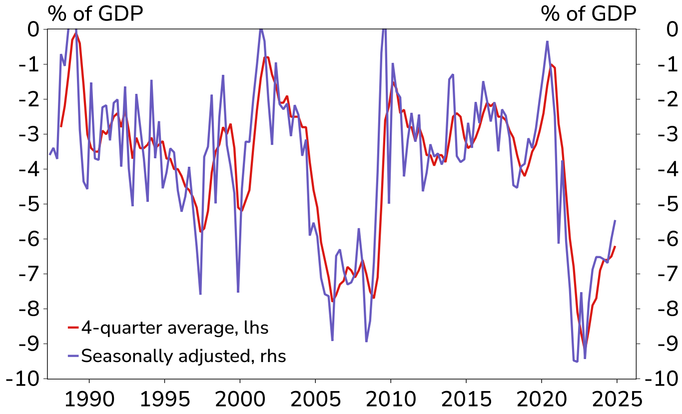


Source: Stats NZ, Macrobond, Westpac Economics

This outcome represented a larger upside surprise for the RBNZ, which had forecast growth of 0.3%q/q in the February Monetary Policy Statement (MPS). Given the RBNZ's normal approach, some of the surprise will likely be attributed to greater underlying productive potential in the economy, while some will flow through to a slightly less negative assessment of the output gap (estimated at –1.7% of GDP in the February MPS). But the RBNZ will likely continue to treat the GDP data with caution, and so we don't expect that this upside surprise will have much impact on the near–term policy outlook i.e., we continue to expect a 25bp cut in the OCR at the April and May meetings. However, the firmer outcome does increase the likelihood that the easing we expect in May proves to be the last for this cycle. If the post–Orr MPC is of a mind to slow down the pace of easing, then this is a piece of data they might point to.

Turning to the rest of this week's data, New Zealand's current account deficit narrowed to 6.2% of GDP in 2024, down from 6.9% of GDP in 2023. This outcome was slightly wider than expected, reflecting higher–than–forecast investment income outflows (these were revised higher for the for September quarter, with the higher level maintained in the December quarter). Almost all the narrowing of deficit over the year was explained by the goods balance, reflecting both slightly higher exports and slightly lower imports. Despite the sizeable deficit, New Zealand's net external liabilities ended the year at 49.4% of GDP – down from 51.3% of GDP a year earlier thanks to favourable changes in asset valuations.

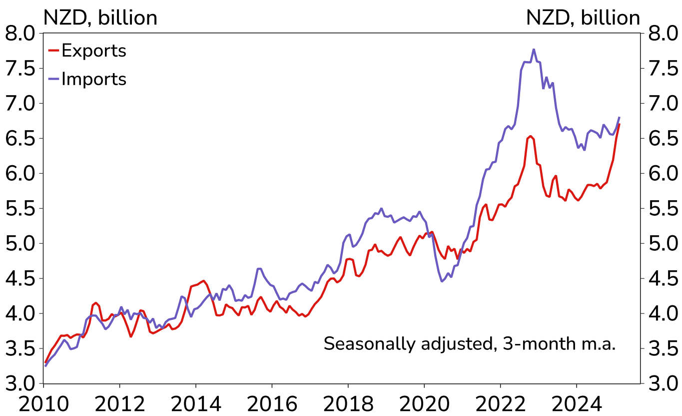
The current account deficit is narrowing



Source: Stats NZ, Macrobond, Westpac Economics

Looking ahead, we expect the deficit to narrow significantly this year as the recent sharp uplift in export commodity prices feeds through to export receipts. The seasonally–adjusted deficit fell to 5.5% of GDP in the December quarter. Since then, merchandise exports have continued to lift sharply, with annual growth rising to 17%y/y for the three months to February (including a 34%y/y lift in exports of milk powder, butter and cheese). This compares to a 7%y/y lift in imports over this period. The improving trade balance means that the seasonally–adjusted current account deficit is likely to decline to around 4% of GDP this quarter.

Rising export revenue is closing the trade deficit



Source: Stats NZ, Macrobond, Westpac Economics

Less positively, the Westpac–McDermott Miller Consumer Confidence Index fell 8pts to 89.2 in the March quarter. This movement unwound the improvement seen in the December quarter and leaves the index about 19pts below the long–term average. Both present conditions and expected future conditions weakened similarly in the March quarter. Considering the reduction in mortgage interest rates in recent months, developments offshore may have been a key driver of the pullback in sentiment. News coverage of US tariff policy and weaker equity markets – including in New Zealand – will have been noticed by households. That said, it is probable that there may also be lingering concerns about the labour market, with the unemployment rate having moved above 5% since the prior survey. And worries about potential inflation effects associated with a weaker exchange rate may also have been a factor. There has been a steady uptrend in retail spending in recent months so it will be interesting to see whether this has been interrupted when March spending data is released next month.

In a similar vein, last week's improvement in the BusinessNZ manufacturing PMI did not carry through to its service sector counterpart, with the headline services index falling 1.3pts to 49.1 in February. The largest decline was in the activity/sales index, which fell 4.6pts to 49.2. The PMI readings can be choppy from month to month, and so we think that service sector activity remains in an uptrend despite this month's softer reading. However, this outcome does emphasise the still patchy nature of the recovery at present, as reflected in other business surveys and general business sector anecdote.

The domestic dataflow is very light over the coming week. On Friday the ANZ will release its consumer confidence survey for March. The only notable official release is the Monthly Employment Indicator for February. Last month this pointed to a healthy 0.3%m/m increase in filled jobs, but there has been a persistent tendency for the first estimate to be revised down (e.g., last month the initially reported 0.1%m/m increase in December was revised to a 0.1%m/m decline). We will also release our Employment Confidence Survey for Q1, providing additional insight into recent labour market trends.

AUS: 2025/26 Federal Budget

Mar 25

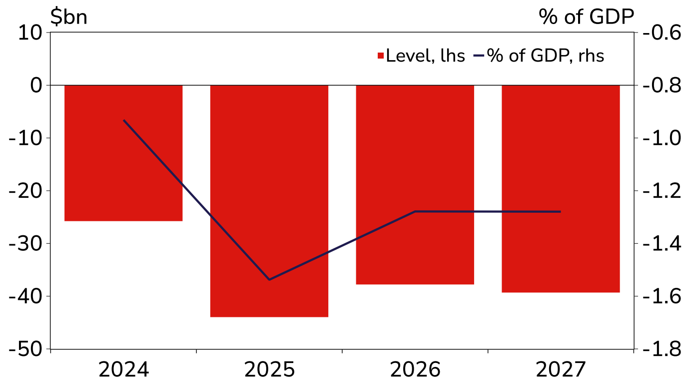
Next week's Federal Budget is shaping as an 'awkward' one. Until recently, election timing had been expected to see no Budget released. With the Budget now on again, there will be tactical considerations about which measures get incorporated, and which are held back for the campaign period in the run-up to an election that needs to be held by May 17.

More generally, there is still some tension between fiscal and monetary policy which will constrain the government's policy options. The RBA will take the Budget into account, but it is unlikely to shift the Bank's view on the outlook by much.

For more detail, please see our full preview, available on Westpac IQ.

Underlying Cash Balance

Westpac Forecasts



Source: Australian Department of the Treasury, Macrobond, Westpac Economics

AUS: Monthly CPI Indicator (%yr)

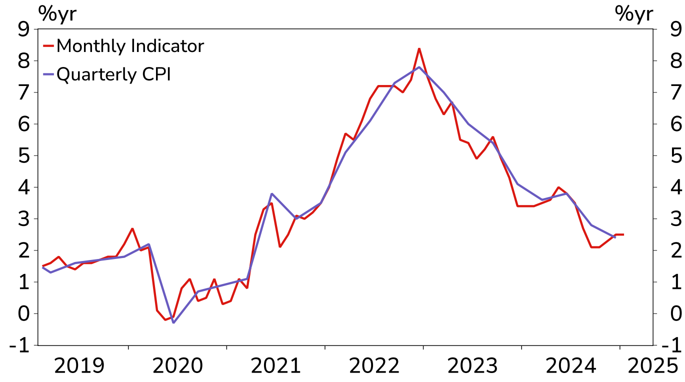
Mar 26, Last: 2.5, Westpac f/c: 2.5
Market f/c: 2.5, Range: 2.3 to 2.7

The CPI Indicator rose 2.5%yr in Jan, between Westpac's estimate of 2.4%yr and the market median of 2.6%yr. In the month the CPI Indicator fell by 0.2%. The Trimmed Mean CPI for Jan was 2.8%yr, up slightly from 2.7%yr in Dec. Electricity prices rose 8.9% in Jan as some Qld households exhausted their $1,000 state rebate. Despite the third instalment of the Commonwealth Energy Bill Relief Fund, except in WA, the rise in electricity highlights the impact the Qld rebate has had.

Our forecast for Feb is 0.0%mth/2.5%yr. Feb is typically a seasonally softer month with our forecast turning into a 0.2%mth increase seasonally adjusted. This year Feb is critical not just for updating the quarterly services prices released mid–month of a quarter but it will also will help define just how large the March quarter jump in electricity prices will be.

Consumer Price Index

Headline CPI



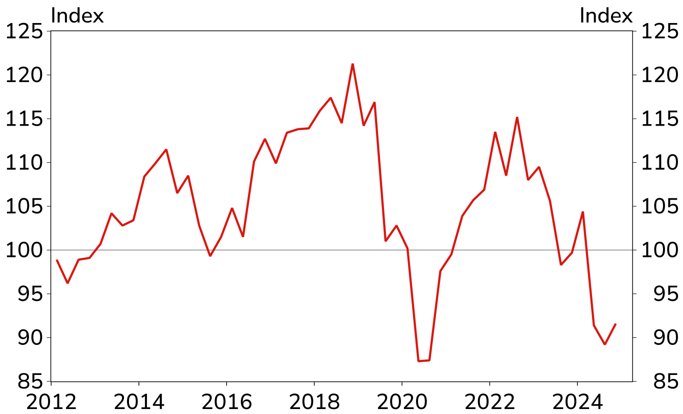
Source: ABS, Macrobond, Westpac Economics

NZ: Q1 Westpac–McDermott Miller Employment Confidence Index

Mar 25, Last: 91.6

The Employment Confidence Index rose slightly in December, after having fallen sharply in the previous two quarters. Perceptions about job availability improved for the first time in two years, suggesting that the rise in the unemployment rate could be nearing its peak. However, other measures relating to earnings growth and job security were softer. The latest survey was conducted in early March.

Employment confidence improved slightly in Q4



Source: Westpac New Zealand, Macrobond, Westpac Economics

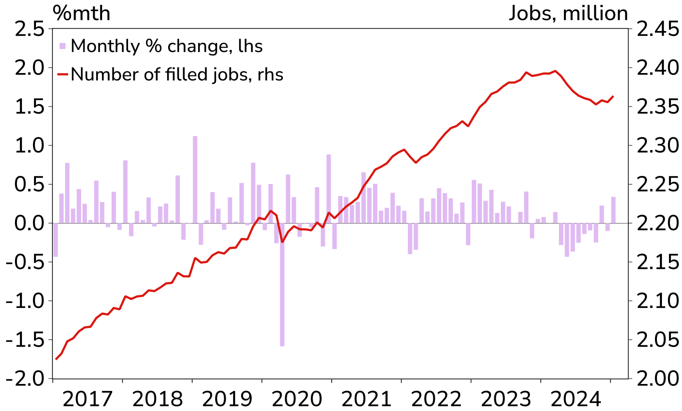
NZ: Feb Monthly Employment Indicator (%mth)

Mar 28, Last: +0.3, Westpac f/c: flat

The Monthly Employment Indicator (MEI) rose by 0.3% in January, adding to the sense that the jobs market is stabilising after a steep drop through the middle of 2024. This measure is typically revised down from its initial release, though we think it's unlikely to turn into a minus.

The weekly snapshots provided by Stats NZ suggest a broadly flat result for February. An emerging pickup in tourism–related sectors is balanced against ongoing weakness in areas such as manufacturing and construction.

Employment starting to stabilise



Source: Stats NZ, Macrobond, 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.

What to watch

	For	Data/Event	Unit	Last	Market f/c	Westpac f/c	Risk/Comment
Mon 24							
Jpn	Mar	Nikkei Manufacturing PMI	index	49.0	–	–	Manufacturing outlook shaky amid volatile trade landscape …
	Mar	Nikkei Services PMI	index	53.7	–	–	… but at least solid activity in services is providing a support.
Eur	Mar	HCOB Manufacturing PMI	index	47.6	–	–	European manufacturing in contraction since mid-2022 …
	Mar	HCOB Services PMI	index	50.6	–	–	… offsetting most of the gains in services to date.
UK	Mar	S&P Global Manufacturing PMI	index	46.9	–	–	Trading environment unfavourable on most fronts …
	Mar	S&P Global Services PMI	index	51.0	51.4	–	… uncertainty permeating across the broader economy.
US	Feb	Chicago Fed Activity Index	%mth	–0.03	–0.14	–	Fog of tariff war raises questions on where growth will land.
	Mar	S&P Global Manufacturing PMI	index	52.7	51.8	–	Manufacturers reactions to tariffs will be a focus …
	Mar	S&P Global Services PMI	index	51.0	51.2	–	… the slide in services activity is also a notable development.
Tue 25							
Aus		RBA Assist' Gov. (Fin System)	–	–	–	–	Jones participating in fireside chat at 10:10am AEDT.
		2025-26 Federal Budget	–	–	–	–	Some pre-election sweeteners but no lolly scramble.
NZ	Q1	Westpac-MM Empl. Confidence	index	91.6	–	–	Small lift in Q4 on improved job opportunities.
Ger	Mar	IFO Business Climate Survey	index	85.2	–	–	Reaction to election outcome will be of interest.
US	Jan	S&P/CS Home Price Index	%mth	0.5	–	–	Push-back in rate cuts keeps affordability front-of-mind.
	Feb	New Home Sales	%mth	–10.5	3.5	–	Sales gradually trending higher as supply comes online.
	Mar	CB Consumer Confidence	index	98.3	94.0	–	Consumers lose confidence as tariffs are delivered…
	Mar	Richmond Fed	index	6	–	–	… outlook for business is similarly uncertain.
Wed 26							
Aus	Feb	Monthly CPI Indicator	%ann	2.5	2.5	2.5	Critical update on services prices.
UK	Feb	CPI	%ann	3.0	2.9	–	Services inflation still a concern.
US	Feb	Durable Goods Orders	%mth	3.2	–0.7	–	Potential slowdown looms as firms delay investment plans.
Thu 27							
Chn	Feb	Industrial Profits	%yr ytd	–3.3	–	–	Lunar New Year and tariff front-loading at play.
US	Q4	GDP	%ann'd	2.3	2.4	–	Slight downward revision anticipated in final estimate.
	Feb	Wholesale Inventories	%mth	0.8	–	–	Tariff front-running sees inventories surge.
		Initial Jobless Claims	000s	223	–	–	Still low by historical standards.
	Mar	Kansas City Fed	index	–5	–	–	Fragile outlook, even before tariff announcements.
Fri 28							
NZ	Mar	ANZ Consumer Confidence	index	96.6	–	–	Global uncertainty and inflation dampening confidence.
	Feb	Employment Indicator	%mth	0.3	–	0.0	Jobs are flattening out after declines in mid-2024.
Jpn	Mar	Tokyo CPI	%ann	2.9	2.8	–	Authorities growing confident on sustainable inflation.
Chn	Q4	Current Account Balance	US$bn	180.7	–	–	Final estimate.
Eur	Mar	Economic Confidence	index	96.3	–	–	Confidence shaky across consumer and business.
UK	Q4	GDP	%yr	1.4	–	–	Final estimate.
	Feb	Retail Sales	%mth	1.7	–0.1	–	Recovery is slow but steady, cost-of-living still a concern.
US	Feb	Personal Income	%mth	0.9	0.4	–	Income growth has firmed over recent months but …
	Feb	Personal Spending	%mth	–0.2	0.6	–	… it has not driven a commensurate lift in spending …
	Feb	PCE Deflator	%mth	0.3	0.3	–	… suggesting little risk to inflation, at least from this front.
	Mar	Uni. Of Michigan Sentiment	index	57.9	–	–	All eyes on inflation expectations.

Economic & financial forecasts

Interest rate forecasts

Australia	Latest (21 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.11	3.90	3.70	3.45	3.50	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.67	3.75	3.80	3.80	3.85	3.90	3.95	4.00	4.00	4.00
3 Year Bond	3.76	3.85	3.90	3.90	3.90	3.95	4.00	4.05	4.00	4.00
10 Year Bond	4.40	4.65	4.70	4.75	4.80	4.80	4.80	4.80	4.90	4.90
10 Year Spread to US (bps)	15	15	10	5	0	0	0	0	0	0
United States										
Fed Funds	4.375	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875
US 10 Year Bond	4.25	4.50	4.60	4.70	4.80	4.80	4.80	4.80	4.90	4.90
New Zealand										
Cash	3.75	3.25	3.25	3.25	3.25	3.50	3.75	3.75	3.75	3.75
90 Day Bill	3.64	3.35	3.35	3.35	3.45	3.70	3.85	3.85	3.85	3.85
2 Year Swap	3.44	3.50	3.65	3.80	3.90	3.95	4.00	4.00	4.00	4.00
10 Year Bond	4.52	4.70	4.85	4.90	5.00	5.00	5.00	4.95	4.95	4.95
10 Year Spread to US (bps)	28	20	25	20	20	20	20	15	5	5

Exchange rate forecasts

	Latest (21 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
AUD/USD	0.6288	0.62	0.64	0.65	0.66	0.67	0.68	0.69	0.7	0.71
NZD/USD	0.5748	0.56	0.56	0.57	0.57	0.58	0.59	0.6	0.61	0.62
USD/JPY	149.43	147	143	140	138	137	136	135	134	133
EUR/USD	1.083	1.06	1.08	1.09	1.1	1.11	1.12	1.13	1.13	1.14
GBP/USD	1.294	1.27	1.29	1.3	1.31	1.32	1.33	1.34	1.35	1.35
USD/CNY	7.2506	7.25	7.25	7.2	7.2	7.15	7.1	7	6.9	6.8
AUD/NZD	1.094	1.12	1.14	1.15	1.15	1.15	1.15	1.15	1.15	1.15

Australian economic growth forecasts

	2024		2025				2026		Calendar years			
% Change	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2023	2024	2025f	2026f
GDP %qtr	0.3	0.6	0.5	0.6	0.6	0.5	0.5	0.5	–	–	–	–
%yr end	0.8	1.3	1.6	2.0	2.3	2.2	2.2	2.2	1.5	1.3	2.2	2.2
Unemployment rate %	4.1	4.0	4.1	4.2	4.4	4.5	4.5	4.5	3.9	4.0	4.5	4.5
Wages (WPI) %qtr	0.9	0.7	0.8	0.7	0.7	0.7	0.8	0.8	–	–	–	–
%yr end	3.6	3.2	3.2	3.0	2.9	2.9	3.0	3.1	4.2	3.2	2.9	3.3
CPI Headline %qtr	0.2	0.2	0.7	0.9	0.9	0.6	0.6	0.8	–	–	–	–
%yr end	2.8	2.4	2.2	2.0	2.7	3.2	3.1	3.0	4.1	2.4	3.2	2.7
CPI Trimmed Mean %qtr	0.8	0.5	0.5	0.6	0.7	0.7	0.6	0.6	–	–	–	–
%yr end	3.6	3.2	2.7	2.4	2.3	2.5	2.6	2.6	4.2	3.2	2.5	2.5

New Zealand economic growth forecasts

	2024		2025				2026		Calendar years			
% Change	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2023	2024	2025f	2026f
GDP %qtr	–1.1	0.7	0.4	0.7	0.5	0.8	0.8	0.7	–	–	–	–
Annual avg change	0.1	–0.5	–1.1	–0.8	0.2	1.1	2.1	2.7	1.8	–0.5	1.1	3.0
Unemployment rate %	4.8	5.1	5.3	5.4	5.4	5.3	5.2	5.0	4.0	5.1	5.3	4.6
CPI %qtr	0.6	0.5	0.6	0.5	1.0	0.5	0.5	0.3	–	–	–	–
Annual change	2.2	2.2	2.2	2.3	2.7	2.6	2.5	2.3	4.7	2.2	2.6	2.0

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

Disclaimer

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

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

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

Author(s) disclaimer and declaration: The author(s) confirms that (a) no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material; (b) this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate; (c) to the best of the author's knowledge, they are not in receipt of inside information and this material does not contain inside information; and (d) no other part of the Westpac Group has made any attempt to influence this material.

Author(s) disclaimer and declaration: The author(s) confirms that (a) no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material; (b) this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate; (c) to the best of the author's knowledge, they are not in receipt of inside information and this material does not contain inside information; and (d) no other part of the Westpac Group has made any attempt to influence this material.

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

Additional country disclosures:

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

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

Disclaimer continues overleaf ▶

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

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

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation ("FDIC"). Westpac Capital Markets, LLC ('WCM'), a wholly–owned subsidiary of Westpac, is a broker–dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). In accordance with APRA's Prudential Standard 222 'Association with Related Entities', Westpac does not stand behind WCM other than as provided for in certain legal agreements between Westpac and WCM and obligations of WCM do not represent liabilities of Westpac.

This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a–6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non–U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non–U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non–U.S. securities or related financial instruments may be limited. Non–U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

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

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

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

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

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

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

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