April 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK April 2025

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Tariff chaos intensifies

It's been a trying month for markets, and a portentous one for economies, the last two weeks in particular. Tariffs have again been the dominant theme with US President Trump's 'liberation day' announcement of 'reciprocal' tariffs on April 2 marking a major escalation in the chaos around global trade policy that has roiled financial markets since.

The situation remains extremely uncertain, swinging from tit-for-tat increases between the US and China to a 90-day pause for US tariffs over 10% for other countries and, as we go to press, a confusing partial back-track on US tariffs on a range of electronic goods. This has all been interspersed with extremely mixed messaging from the US, vowing tariffs would be a permanent measure to rebuild US manufacturing on the one hand while expressing a willingness to negotiate on the other.

The adverse reaction of financial markets, and an unsettling rise in US Treasury yields in particular, clearly contributed to the change of tack from US policymakers late in the week. The reaction may also discourage President Trump from re-escalating although there is no real prospect of an end to the more general chaos with 90-days of multiple bilateral negotiations to feed the news cycle now as well.

Needless to say the uncertainty makes compiling economic forecasts exceedingly difficult. Our April report sets out what we believe is the most likely baseline scenario, our working assumptions behind this and key risks. At a high level, we see the tariff war as primarily an act of self-harm that will leave the US teetering on the edge of recession with inflation constraints on the ability of the FOMC to provide support. Global growth will also be weaker but not to the same extent, with more scope for countervailing policy support. Most importantly, we expect a forceful policy response from China that will still see it achieve its 5% growth target for 2025.

With a low direct exposure to the US tariffs and China's response limiting the indirect effects, the shock to Australia looks likely to be relatively small and manageable. While that is comforting we should definitely not be complacent: there are still ways the external situation could become more troubling and challenging for Australia. The chaos is far from over and the situation will need to be monitored closely in the months ahead.

Australia: The economy entered 2025 with a tentative recovery that was expected to gradually gain momentum. The path is now looking less assured. We have trimmed our growth forecasts in response to the tariff shock with a weaker external environment and slower recovery in consumer demand now expected to see growth of 1.9% in 2025 vs 2.2% previously. We continue to expect three more 25bp rate cuts from the RBA this year but risks have tilted to the downside.

Commodities: Intense volatility around tariffs has been challenging for commodities excluding gold. Westpac's broad index fell –2.2% in the month with Brent down nearly 13% since April 2. Marking our forecasts to market has seen only a marginal change overall with stronger gold prices lifting our end-2025 target for the Westpac Export Price Index to 283.

Global FX Markets: President Trump's tariff policy has also made it a traumatic month for foreign exchange markets. Typically the safe-harbour in financial and economic storms, the US dollar DXY index quickly lost 3 points from 104.3 to 101.3; then, with considerable volatility along the way, continued down to a low of 99 as markets realised the immense uncertainty the US now faces. The euro has become the new safe-haven.

New Zealand: Developments in the past month have been very mixed. Domestic data continue to suggest the economy has turned the corner but the eruption of global trade tensions now threatens this nascent recovery. Downside risks have increased but their extent is unclear. We hope for further clarity in coming weeks as markets settle to the new reality.

United States: On April 2, US President Trump detailed his 'reciprocal' tariff plan. Since then, expectations for US growth have rapidly soured. In our view, the economy now teeters on the edge of recession. Worse still, the troubling outlook for inflation severely limits the ability of the FOMC to offset downside risks to growth if/when they materialise.

China: President Trump's treatment of China stands out against all other nations with a tariff of 145% now active. Retaliation has essentially closed off China's market to US goods. China's growth outlook remains resilient however, with the capacity for policy to stimulate second-to-none across the world. We continue to expect 5% growth in 2025.

Europe: Fiscal developments in Europe offer some lessons for Australia. The contrasting experiences of Germany and UK highlight that maintaining fiscal scope to respond to shocks is important but that this advantage should be used carefully.

Japan: Above-target inflation and relatively robust activity growth have allowed the Bank of Japan to slowly step away from the zero lower bound. But Japan now faces the challenge of negotiating a trade agreement with the US while trying to support the confidence that has been key to this success.

President Trump blinks ...

Luci Ellis
Chief Economist, Westpac Group

On April 2, the US announced a minimum 10% tariff on all countries including Australia, but much higher rates for many of Australia's major trading partners. The announced rates were much higher and more wide-ranging than expected. The US government subsequently delayed the introduction of higher rates for 90 days for countries that did not immediately retaliate, allowing for negotiations. But the blanket 10% rate is going ahead as announced. China stands out as the exception. Following rounds of retaliation and escalation, the effective tariff on Chinese goods stood at 134.7% as of April 11.

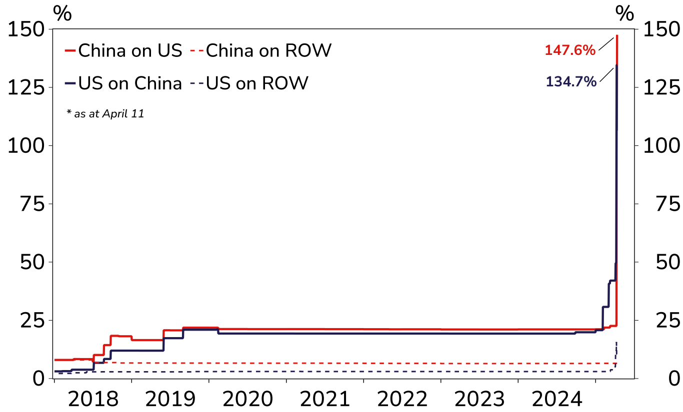
This can only be described as a monumental act of economic self-harm by the US. A 10% tariff is not enough to induce production to shift to the US, so all it does is operate as a tax on US consumers that boosts inflation and lowers growth. And once the 90 days is over, the average effective tariff rate in the US is estimated to reach just over 32%, levels not seen since the turn of the 20th century. A sharp growth slowdown is all but guaranteed with a growing risk that it will slip into recession.

The hit to US growth and broader disruption as trade patterns reconfigure are, on their own, enough to drag down global growth by around 0.3ppts this year. This falls short of a global recession, as we expect most other countries to be able to adjust through some combination of trade diversion, fiscal and/or monetary stimulus and other policy support. Exchange rate depreciation and spillovers from the higher cost base in the US to the price of US exports will lift some prices elsewhere a little, but slower growth and lower commodity prices will likely more than offset this.

In China, our working assumption is that the authorities will provide enough stimulus in a timely enough way to support confidence and reach their growth target. Given the scale of the task, there are downside risks to this assumption. That said, President Trump may well 'blink' again and reach a deal with the Chinese government soon (indeed some exceptions for smartphones, computers and other electronic goods already look to have been announced).

Overall, the impact of these new tariffs on Australia is expected to be modest. Our direct exposure to the US is small, with only 4.6% of total goods exports destined to the US and service exports unaffected. Exemptions, at least for now, on gold and pharmaceuticals, further limit the direct impact. Additionally, there is scope for most of these exports to be redirected to other markets, though possibly at a lower price. Australia's competitiveness will also improve against any economies facing an increased tariff after the 90-day pause.

Effective tariff rates



Source: PIIE, Macrobond, Westpac Economics

To date, the exchange rate's traditional role as a shock absorber during global demand shocks such as in the Asian Crisis and GFC has been stifled. While it initially depreciated against the USD, it has since retraced its losses. That said, on a TWI basis, which is important for competitiveness it is still 1.9% lower.

For these reasons, we believe that the outlook for RBA policy has not shifted as much as implied by markets which see the cash rate falling to 2.8% by end-2025. We do not expect an outsized 50bp cut in May, on the grounds that there is no need to panic in the Australian context. Certainly, this is the tone RBA Governor Bullock conveyed in her brief comments on tariffs last week, emphasising that it is too early to determine the overall impact of the tariffs. Nonetheless, a 25bp cut in May is now more assured.

We expect the RBA will look through the inflationary impact of the exchange rate depreciation, knowing that this is an appropriate response to the weaker outlook for global growth and associated downside risks. These imply that risks around RBA policy are also now tilted to the downside, contrary to the Bank's recent hawkishness.

Tariffs a major financial shock

The financial market response to the tariff announcements has been brutal, with wild intraday swings in equity prices, bond yields and exchange rates, as well as swap spreads and other financial pricing, as news about the tariffs unfolded. The VIX, a gauge of market volatility and investor fear, spiked above 50, to levels usually associated with panic in financial markets.

The most striking move was the lift in the US Treasury yields – up more than 30bps even as volatility spiked – suggesting that US status as a safe haven is cracking. That shift alone appears to have been enough to give Trump pause.

… but markets not out of danger

Markets rallied when the pause was announced but equities are still well down from their levels at the start of the month. The brief stability in the DXY was also upended by tariff announcements with FX volatility up sharply. As recession fears intensified, markets started pricing in more Fed rate cuts this year and the DXY tumbled to a six-month low with the CHF and JPY outperforming. The AUD has also regained ground from its 0.59 low vs the USD and it is back at levels recorded at the start of the month.

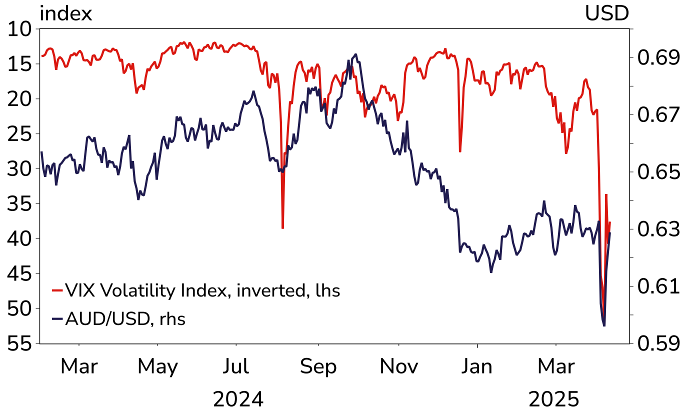
Markets have also unwound most of the large global monetary policy 'put' that was priced in following "Liberation Day". Still, markets continue to price in more cuts to the Fed funds rate than before the first round of Trump's tariff announcements in February. We concur with the market that the Fed will cut by more if the US were to sink into recession. However, this is not our base case and the inflationary consequences of the tariffs will more than likely constrain the extent to which the Fed can lower rates. Overall, we think it will stick to a projected 50bp easing over the second half of this year.

Consequently, 10-year yields are likely to continue to have a four handle, notably higher than at the start of the year and even edge higher given the projected US fiscal deficit in coming years. This is broadly consistent with our house view that yields are likely to average higher in future than they did pre-pandemic. However, the latest rise in yields may reflect that some market participants are seeing the chaotic nature of the trade announcements and obvious lack of economic logic in their substance as symptomatic of a broader policy malaise in the US. Some of the policy ideas floated by Trump administration officials, including converting Treasury bonds to non-marketable long-maturity paper and charging bondholders a fee have given investors pause and shaken confidence in the trustworthiness of the US financial policy architecture. Trust, once broken, is very hard to rebuild.

Thus, while many asset managers we speak to see no alternative to the US Treasury market for its size and liquidity, at least some wish there was one. In addition, given the USD was already well above estimates of fair value, these investors would also prefer their portfolios to be less concentrated in USD. This aligns with our view that the USD will revert to average on a real effective basis over time, and any such portfolio reallocation could be the trigger for that repricing. Normally that repricing would be expected to occur over a 3–5 year horizon. In the current environment though, policy announcements or other event risks could hasten the adjustment.

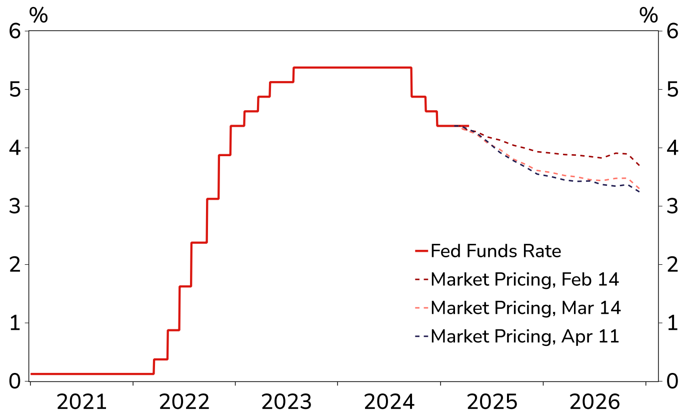
In the short-term, the AUD will remain hostage to global risk aversion. Its close correlation with the weakening CNY is yet another headwind and we could see more large swings to the downside if China does not succeed in reaching a deal with the US or inducing the US to concede, as it has done for countries that did not retaliate.

AUD/USD vs VIX Volatility



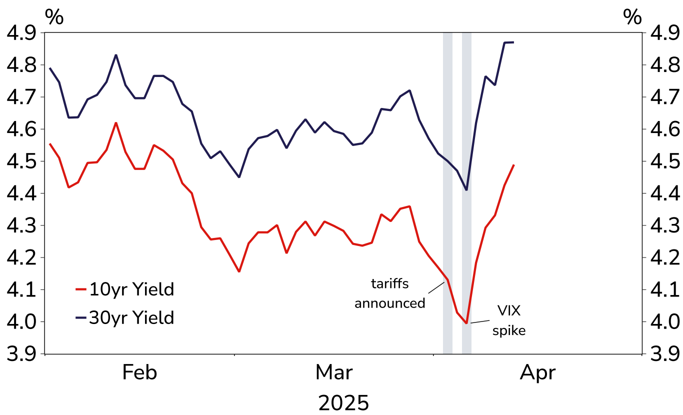
Source: Bloomberg, Macrobond, Westpac Economics

Markets have pulled back on Fed pricing



Source: Fed, Macrobond, Bloomberg, Westpac Economics

US Bond Yields



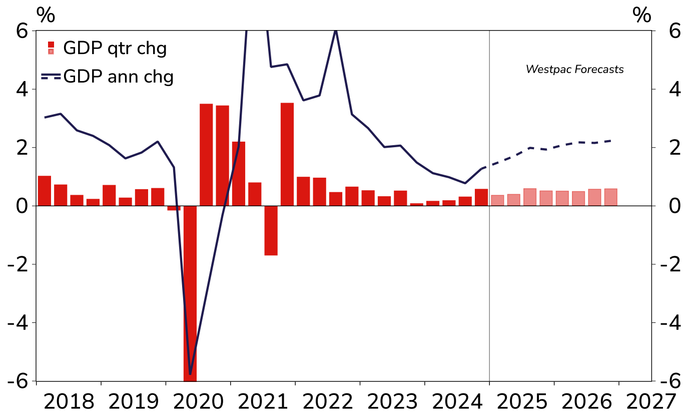
Source: Bloomberg, Macrobond, Westpac Economics

Sizing the tariff-war shock …

Matthew Hassan, Head of Australian Macro-Forecasting

The Australian economy entered 2025 with a tentative recovery that was expected to gradually gain momentum. That path is now looking less assured. While we remain relatively comfortable about Australia's trade exposures to the tariff war, there will be some impact. And there are clearly risks as well: around the course of the dispute from here, the policy response from China and the impact of a weaker global growth environment more generally. The turmoil has hit financial markets hard with signs that it is starting to weigh more heavily on confidence. On balance we have trimmed our forecasts for the Australian economy, but only marginally. The external environment and a slower recovery in private demand are expected to see growth reach 1.9% in 2025, lowered from 2.2% previously. While that still marks an improvement on the 1.3% gain in 2024 it is only slightly above population growth and below trend for Australia.

Gross Domestic Product



Source: ABS, Macrobond, Westpac Economics

State of play pre-tariff shocks

Economies are currently in the 'lag time' between when a shock occurs and when it becomes apparent in the data. Aside from a pull-forward in imports we have little 'hard data' to go on so far. 'Soft data' measures such as confidence are starting to capture some effects but trade, spending and price shifts will only become visible in coming months.

In terms of the pre-tariff-shock starting point, the Australian economy is coming into this with slightly improved but still relatively weak momentum. The December quarter national accounts showed a solid 0.6% rise in GDP, lifting annual growth to 1.3%yr, with gains tracking a 1.8% annual pace over the second half of 2024. The mix had some promising signs of a lift in private demand, up only 0.4%qtr but marking an improvement after six quarters of stagnation. A gain in consumer spending in particular suggests the income boost from 'stage 3' tax cuts was starting to generate a little more traction. Rising public demand was still the main driver of growth though, a 1.0% gain lifting annual growth to 5.5%yr.

It has been a similar picture domestically over the first few months of 2025. Indicators of consumer spending have continued to tick over at a moderate pace, albeit with some significant disruptions from Cyclone Alfred in the month of March (see here for more detail). Across businesses, turnover and employment have been trending higher, business surveys showing conditions stable at slightly positive levels but confidence a touch more downbeat in March (see here). The Federal budget in late March was a relatively minor affair, with some additional cost-of-living support measures and small tax cuts slated for the out-years (see here).

Channels

Sizing the real economy shock to Australia from the tariff war is exceedingly difficult, particularly given the ongoing instability around exactly what rates will ultimately be applied to what goods from where, and how countries will respond. This has shifted almost daily since the US tariffs were announced on April 2. Even with the 90-day pause for negotiation announced on April 9, there is almost certainly going to be more public 'back-and-forth' commentary in coming months. And the pause does not apply to US tariffs on China where we have seen tit-for-tat moves taking tariffs to extreme highs. Instability is likely here to stay.

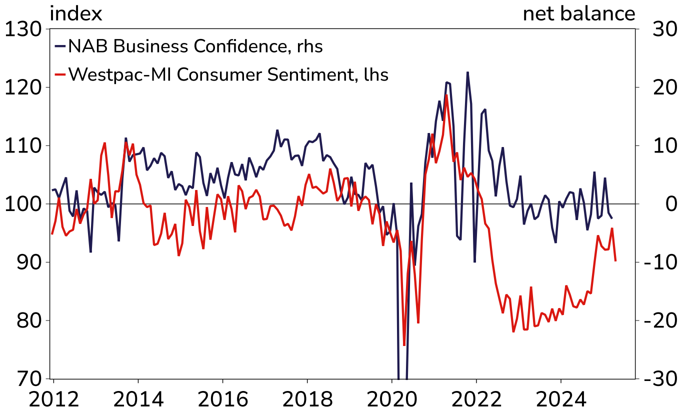
And the instability itself is a big part of the shock. The associated uncertainty is weighing heavily on confidence and will be paralysing decision-making. Business investment decisions are nigh-on impossible for those directly involved in the global supply chains currently facing tariff upheavals. While these influences difficult to size, IMF modelling suggests they are of the same order of magnitude as the direct impacts on prices and trade flows.

At the same time, we need to bear in mind that market economies have great capacity to adapt, often very quickly, and that policy changes can have complex and sometimes unintended consequences. Bilateral tariff changes may be the focus but changes in relativities will favour some countries that may see some benefits from trade diversion, both in the US and elsewhere. Currency moves and lower energy prices globally will also provide some cushioning effects.

In thinking about how all of this feeds through to Australia, we are guided by four basic propositions, discussed below.

... Australia's exposure looks small

Consumer vs Business Confidence



Source: NAB, Melbourne Institute of Applied Economic & Social Research, Macrobond, Westpac Economics

(1) Australia's exposure via direct trade links with the US – this is assessed as small. As set out on p9, the value-added portion of Australian exports to the US – the part of the gross export value that Australian production contributes – equates to around 1% of Australian GDP. These goods are now subject to a 10% tariff. This will lead to some loss of market share versus US producers, such as in beef and aluminium. But some of those lost exports will be redirected elsewhere. Australian exports will likely see some 'tariff advantage' compared to other countries exporting to the US and, where they are competing with US exports in other countries that impose retaliatory tariffs. Our sense is that the overall net effect will be relatively small.

(2) Australia's exposure via indirect trade links – this is also expected to be relatively small, albeit with significant risks. China is the critical 'bulwark' here, accounting for 35% of Australia's exports. While the tariff shock to China will be large we believe it has the capacity to cushion this through equally large domestic policy measures and trade redirection that will also be a support for East Asia (see p17). However, the wider slowdown in global growth will still be a small, indirect net drag for Australian exports.

(3) Indirect effects via financial markets – again this is likely to be marginal. Direct equity holdings account for less than 10% of Australian household wealth. Indirect holdings via super are about double that but do not tend to be perceived in the same way when it comes to 'wealth effect' influences on spending. The 10% correction in share markets wipes about $160bn off direct holdings for households, the equivalent of 10% of annual disposable income. Based on RBA estimates of wealth effects, this could take 1ppt off per capita spending over the longer term. The short term effect is much smaller though. It should also be read against solid gains in aggregate housing wealth – up about $450bn over 2024, which, on the same RBA estimates should be adding about 0.2ppts to per capita spend.

(4) Indirect effects via confidence – this is much harder to assess but also, so far, looks likely to be small. The April Westpac Consumer Sentiment survey recorded a 6% drop to 90.1, with responses collected after the US tariff announcement and market sell-off down closer to 10%. This is a sharp drop but not 'panic stations' for the consumer. Notably, consumer unemployment expectations remain around long run averages, indicating that the loss of confidence has not come with a spike in job loss concerns which can be an important trigger for big shifts in spending behaviour.

Bottom line: small impact, big risks

Our assessment at this stage is that the bottom line growth impact on Australia will be muted. We have lowered our export growth forecasts to reflect some minor impacts on volumes with some of the impact coming from lower prices. At the same time, we assess the financial market and confidence shocks will lead to a delay in the expected gradual lift in consumer spending, with consumers putting more of their income gains towards saving rather than spending. Our consumption growth forecast for 2025 has been lowered to 1.5%yr from 1.8%yr, while GDP growth comes in at 1.9%yr vs 2.2%yr previously.

With respect to consumption, our forecasts are now more than 1ppt below the RBA's forecast for a 2.6%yr growth set out in its February Statement on Monetary Policy. The bulk of that difference still comes down to our more downbeat forecast for employment growth and consumers maintaining a higher savings rate over the year.

This broadly aligns with the small net growth impacts found in modelled tariff war scenarios reported in the RBA Statement on Monetary Policy (here) and by Treasury in the Federal budget (here). It also informs our view that the RBA will not necessarily hasten its expected policy easing this year, which will also remain contingent on inflation. With respect to inflation, the sharp drop in oil prices shaves our year-ended headline CPI inflation forecast from 3.1%yr to 2.9%yr but has no impact on trimmed mean inflation which we still have slowing to 2.6%yr by mid-2025 and holding at or slightly below this pace through to year-end. Risks are also hard to assess here given sharp swings in the AUD but a softer profile for consumer demand.

Notwithstanding the small assessed shock to growth, the external situation still poses the biggest risk to the outlook. China's policy response has yet to be fully revealed. The tariff war may also escalate in more dangerous ways that could have more of a bearing on Australia, especially if financial market disruptions become more problematic. US Treasury markets are a particularly important area to watch given the intersection of market liquidity, large foreign holdings, trust in US institutions and potential policies some Trump administration advisors have suggested.

Talking about trade: impact from tariffs …

Elliot Clarke, Head of International Economics and
Mantas Vanagas, Senior Economist

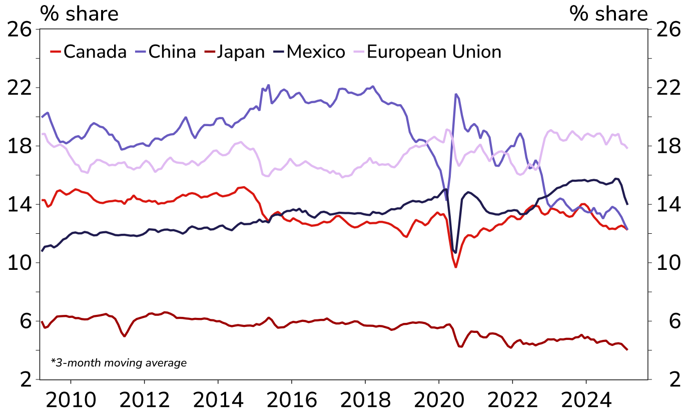
The latest round of tit-for-tat shots in the US-China trade war left the US tariff on Chinese imports at 145%, while China has imposed an 125% tariff on goods inflows from the US. These seep increases pose downside risks to the Chinese economy, but policy support from its authorities and expanding trade links within Asia are expected to negate much of the impact on growth. The tariff effect in Australia is expected to be small.

- China's economy is currently growing around 5%yr. Authorities have pivoted to an active policy stance in order to address structural challenges in the economy, while also continuing to broaden export markets and economic links across Asia. US import tariffs are expected to accelerate these processes. So, despite the hit from US protectionism, we continue to believe China can achieve 5%yr growth in 2025, with household consumption and investment providing more support.
- The US 10% tariff imposed on Australia should have only small impacts on the economy. The US is the fifth largest export market for Australia, accounting for around 1% of GDP. Modelling by the RBA points to a drag of up to 0.2ppts on Australia's GDP growth over twelve months from a 70% tariff on China. Treasury analysis, which assumes US tariffs on China of 25% with retaliation, implies a similar-sized hit over the longer term.

Australia was facing secular challenges in its key export markets before the US started raising tariffs.

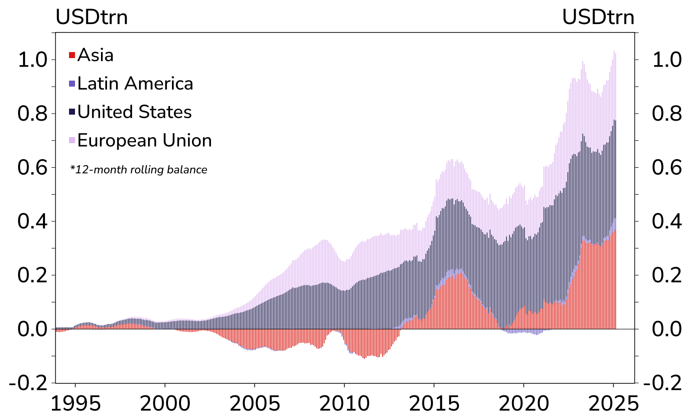
- In 2022, Australia reported its highest trade surplus on record, a surge in export prices after the pandemic the main driver. Since then, easing nominal exports and growing imports have driven the trade surplus back towards zero.
- In real terms, exports remain below pre-pandemic levels, while imports have been growing gradually. As a result, net exports have been consistently subtracting from GDP growth since 2021.
- After a recovery from the pandemic lows, services exports (real) have been stagnating. But the main story is on the goods side, which has not seen meaningful growth since before the pandemic. With demand from China waning, the 'Big 3' commodity exports have failed to grow over this period. Agricultural exports have instead been the success story of recent years.
- Australian exports to the US surged ahead of the tariff announcement, while exports to China were weaker. The pattern is likely to reverse after the US tariffs are imposed.

Composition of US imports



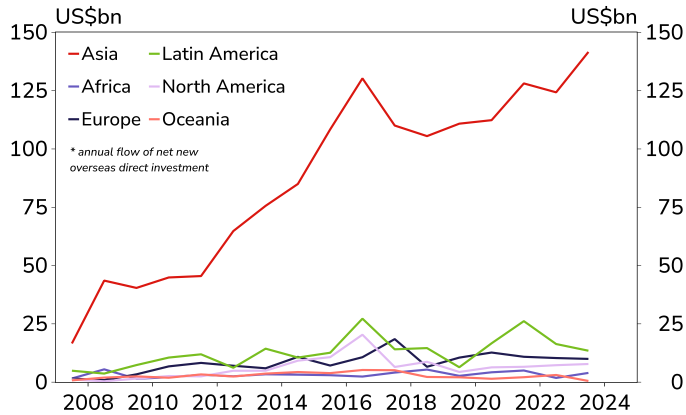
Source: USCB, Macrobond, Westpac Economics

Composition of China's trade balance



Source: GAC, Macrobond, Westpac Economics

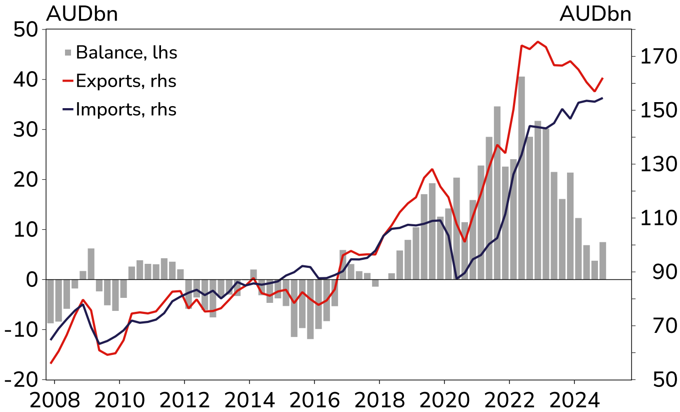
Chinese overseas investment



Source: MOFCOM, Macrobond, Westpac Economics

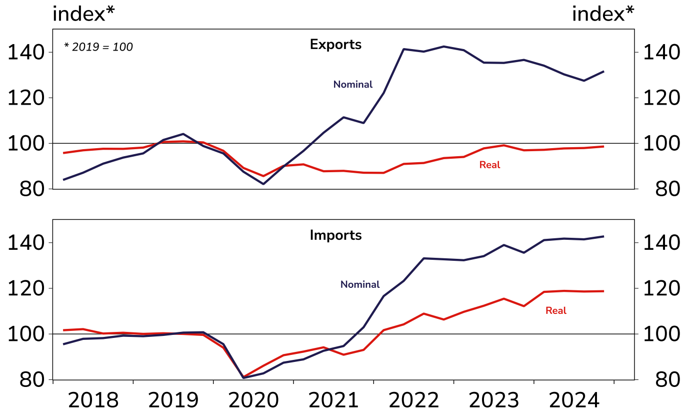
... and longer-term headwinds

Australia's goods trade balance



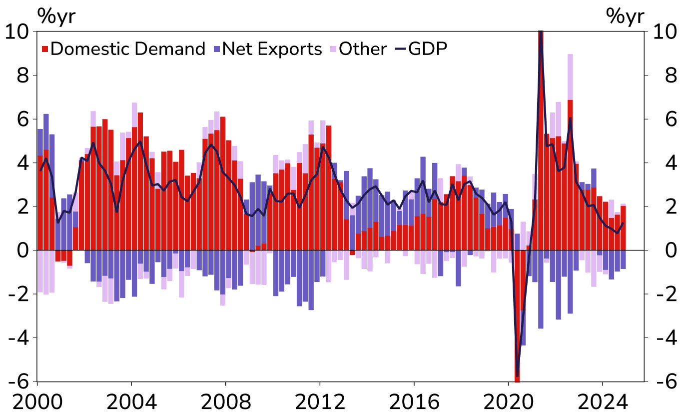
Source: ABS, Macrobond, Westpac Economics

Australian exports and imports – nominal vs real



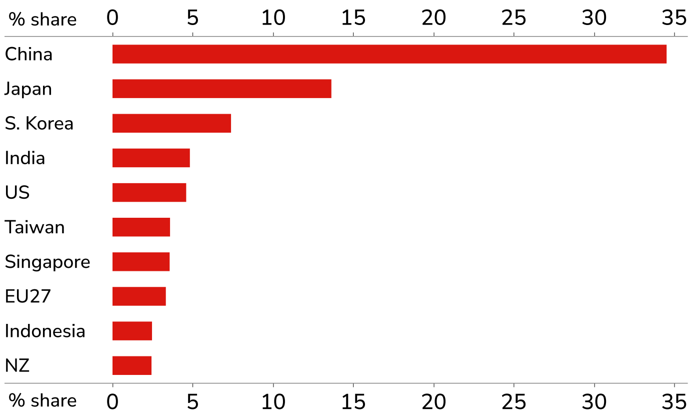
Source: ABS, Macrobond, Westpac Economics

Contributions to Australian GDP



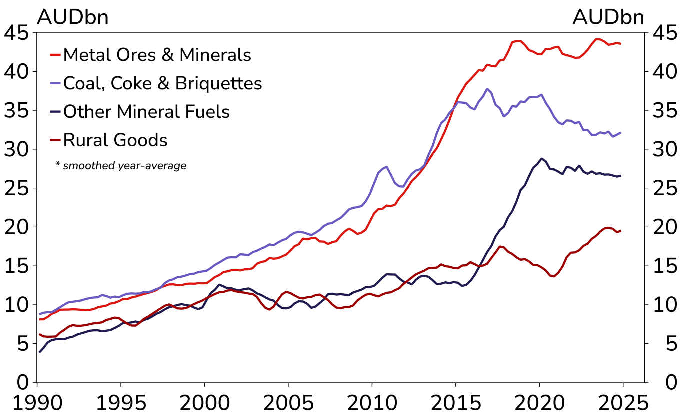
Source: ABS, Macrobond, Westpac Economics

Top 10 Australian goods export destinations



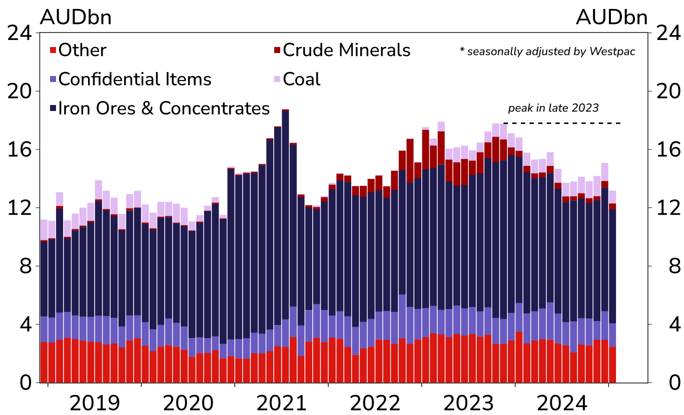
* based on 2024 averages

Australian Export Volumes: 'Big 3' & Rural Goods



Source: ABS, Macrobond, Westpac Economics

Australian goods exports to China



Source: ABS, DFAT, Macrobond, Westpac Economics

Trump tariff crisis hits crude prices ...

Justin Smirk
Senior Economist, Westpac Group

The past month has seen intense volatility in the global trade network. Against this backdrop, it has been a challenging period for commodities, outside of gold. Westpac's broad commodity price index fell –2.2% in the month, although this masks significant volatility week-to-week, early strength all but evaporating after US President Trump's 'Liberation Day' tariff announcement. Brent is down nearly 8% since early March but it has fallen 13% since April 2. Additionally, gold prices are up almost 2% over the same period but have lost almost 3% just in April to date while iron ore prices are down 6% on a month ago. Only two commodities in our index have shown any resilience, aluminium (flat) and mid-vol hard coking coal (+5%).

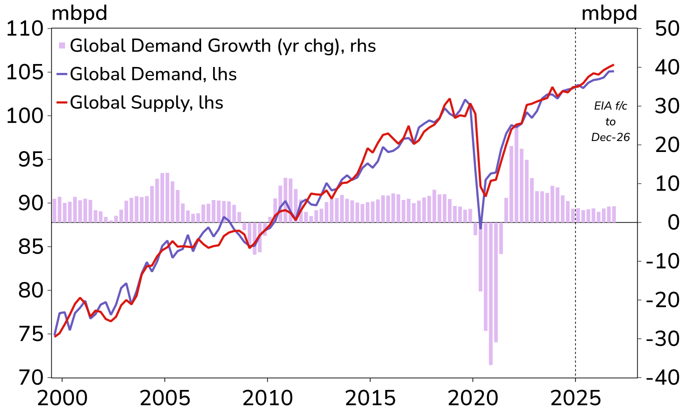
On economic fundamentals, we have slightly revised down our estimates for global growth in 2025, principally reflecting our expectation of for growth to stall in the US. This has direct implications for the commodity demand outlook. As such, we have adjusted our June quarter forecast for crude oil and copper to current market pricing (US$60/bbl and US$8,500/t respectively) while lifting gold a touch (US$3,200/oz). Overall, our changes are not material for the Westpac Export Price Index, now at a forecast 283 at December 2025 versus 281 prior, the difference reflecting the sustained rally in gold prices.

Crude oil testing US$60/bbl

The uncertainty surrounding US tariff policy and its possible impact on global trade has hit crude oil particularly hard, with some analysts taking as much as 1mbpd off estimated demand in 2025. We expect US$60/bbl to be the low point for Brent given the 90-day pause, but another round of tariff retaliation could see crude take another leg lower through $60. Diesel/gasoil demand was already under structural pressure due to transport de-carbonisation and electrification. The EIA slashed its forecast for global crude demand this week in its latest Short-Term Energy Outlook. Demand is now expected to grow by 900kbpd in 2025, about 400kbpd less than its estimate just a month earlier. This is a smaller hit to demand than some expected (up to 1mbpd as mentioned) but it still sees an increase in inventories, especially given OPEC+ agreed to increase the pace of crude production three-fold in May.

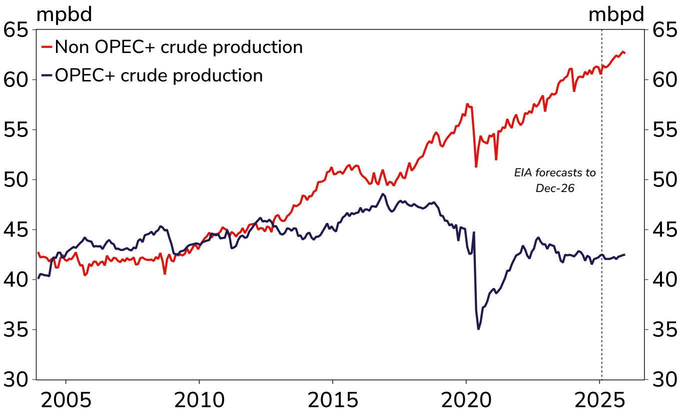
So why are we forecasting crude prices to find a base around US$60/bbl before rising again as we move into 2026? Prices at this level are likely to constrain US liquids production later this year as producer hedges roll over. The 'drill baby drill' mantra becomes much harder to sustain once crude prices dip below US$60/bbl, a level that the Federal Reserve Bank of Dallas has found to be the break-even price for US producers. The EIA reduced its estimate for US production in 2025 by 200kbpd.

Crude oil supply & demand



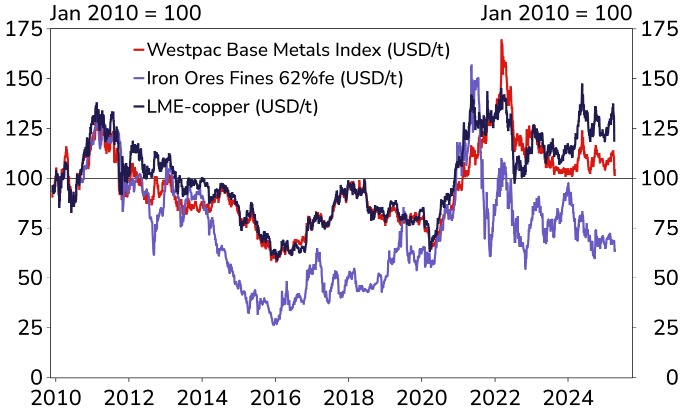
Source: EIA, Bloomberg, Macrobond, Westpac Economics

Crude oil supply outlook is very robust



Source: , Macrobond, Westpac Economics

Australian metal export prices



Source: Westpac Banking Corporation, Macrobond, Westpac Economics

... testing the 'drill baby drill' mantra

Tariffs distorting the copper market

Copper prices have fallen 11% since our March report with all of this occurring since April 2. We are looking for copper to find a base around US$8,500/t as any price below this is not seen to be sustainable, at least for the near term. Meanwhile, hundreds of thousands of tonnes are being shipped to the US ahead of the implementation of the 25% tariff on copper imports. Copper inventories at Comex warehouses jumped to a five year high as US purchasing managers rushed to secure supplies before the Section 232 report is concluded. At the same time, this wave of copper heading to the US is leaving Asia's physical market undersupplied, resulting in the Yangshan premium jumping to a 16-month high while the Shanghai Futures Exchange reported instances where the premium to LME hit almost US$1,000/t. It has been reported that Chinese buyers have "snapped up copper" to take advantage of the collapse below $8,500. Hence, we see a floor on copper at around US$8,500/t though any aggressive retaliation and counter-tariffing could result in a brief slump below US$8,000/t.

Iron ore on track to dip below US$90/t

We have been expecting iron ore prices test US$90/t for some time now. Admittedly, it has taken longer than we had anticipated as constrained supply helped hold up prices. Despite this, we still expect prices to be down to US$85/t by end 2025, due to the combination of: aggressive US tariffs on steel imports; countries taking action to protect local steel industries from Chinese 'dumping'; moves by China to tighten restrictions on non-VAT steel exports; China's rationing of steel production with a number of mills confirming a 10% cut in output. Add to this the additional iron ore supply coming out of Africa as Guinea's giant Simandou mine comes on stream later this year.

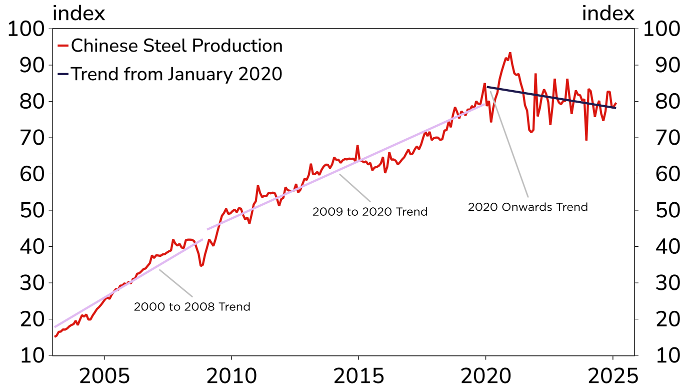
All of this suggests the odds have moved in favour of our price view. However, as we note in this report, China clearly has ways to respond to tariff-related growth risks and, as such, can provide some support to iron ore demand. We hold to our view that a sustained dip below US$90/t is more likely to occur in the second half of this year.

Gold continues to shine

Gold's run to fresh all-time highs has been relentless and yet reasonably calm. The move through US$3000/oz has been orderly, suggesting it was largely expected and that market participants are unlikely to be surprised by the climb higher from here given rising trade tensions, growing concerns about growth and persistent geopolitical risks. US dollar weakness has also been a tailwind. We currently see gold finding a ceiling of US$3,200/oz and continue to highlight near term upside risks.

Chinese steel production peaked in 2020

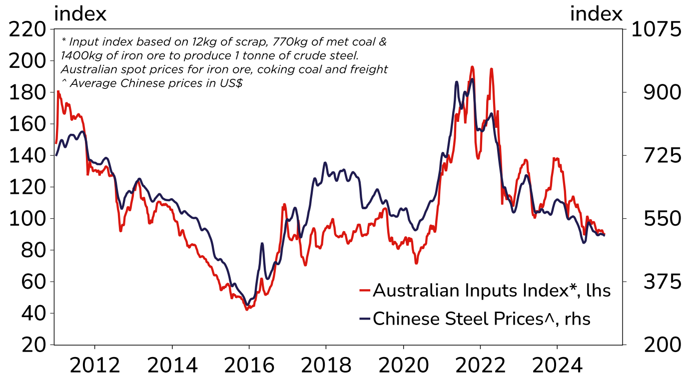
Since peaking steel production has been trending down



Source: World Steel Association, Macrobond, Westpac Economics

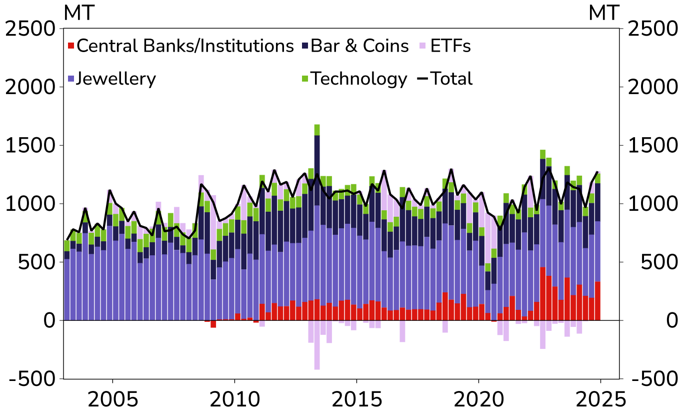
Chinese Steel Input and Output Prices

Prices appear to be finding a base



Source: Bloomberg, Macrobond, Westpac Economics

Gold Consumption



Source: World Gold Council, 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.

Losing faith ...

Elliot Clarke
Head of International Economics

It has been a traumatic month for FX markets as full detail on President Trump's tariff policy sparked panic over global growth and cohesion. Typically the safe-harbour in financial and economic squalls, the US dollar (on a DXY index basis) quickly lost three points from 104.3 to 101.3, then, with considerably volatility along the way, continued down to a low of 99.0 as financial markets realised the immense uncertainty the US now faces. The euro has become the new safe-haven, while investors fear for the health of emerging Asia given the disproportionate tariffs levied against the region. In time however, it will become clear that Asia has both the capacity and determination to stand on its own two feet.

It is not surprising that Euro has had a strong month, rallying from USD1.08 to as high as USD1.15. Europe received a reciprocal tariff of 'only' 20% and, as it did not retaliate the following week, had this dialled back to 10% – although the industry tariffs introduced early under Section 232 still apply.

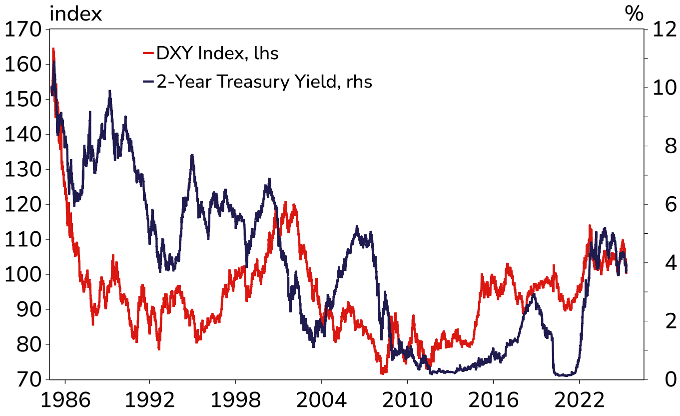
A number of key European manufacturers such as Airbus, and its service industry (tourism and education in particular) are likely to benefit from some formal retaliation measures that have yet to be implemented and from an informal retaliation against the US – an example of the latter being firms and households preferencing non-US goods and services in protest. Recent initiatives announced by the German Government vis-à-vis defence and infrastructure have also added both momentum and resilience to the region's growth profile.

Euro has since eased back to USD1.135; and, assuming negotiations between the US and other nations are successful, a further retracement seems likely near term. However, over 2025, EUR/USD is expected to remain above USD1.10; and come 2026, the currency should sustainably run to USD1.15. The US tipping into recession could see a more rapid trajectory to USD1.15 and thereafter a period of 'Euro exceptionalism' courted between USD1.15 and USD1.20.

Receiving the lowest possible tariff of 10%, the UK has largely been spared US ire to date. However, after initially rallying from USD1.29 to USD1.32 on the 'Liberation Day' announcement, sterling has experienced considerable volatility, reversing course to USD1.27 then back up to USD1.31.

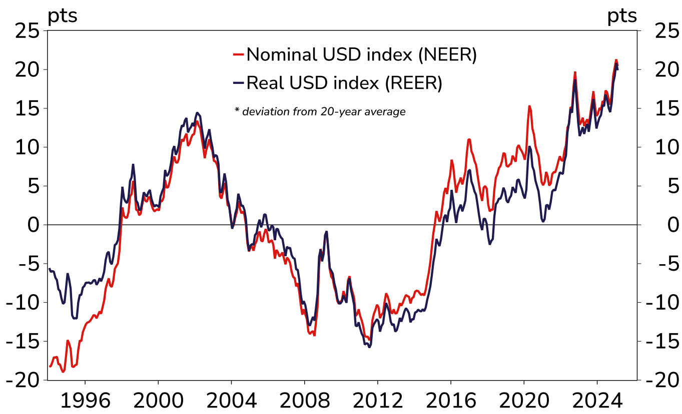
Principally, this is because, while least affected, the UK has little capacity to take advantage of the opportunity with its manufacturing sector lacking both diversity and momentum. The UK also does not have the same fiscal capacity as Europe, and its inflation outlook remains more challenging. We still see a run to at least USD1.35 as probable over the forecast period, but only slowly as inflation comes back to target, allowing the Bank of England to ease its restrictive stance.

US prime factor of global markets



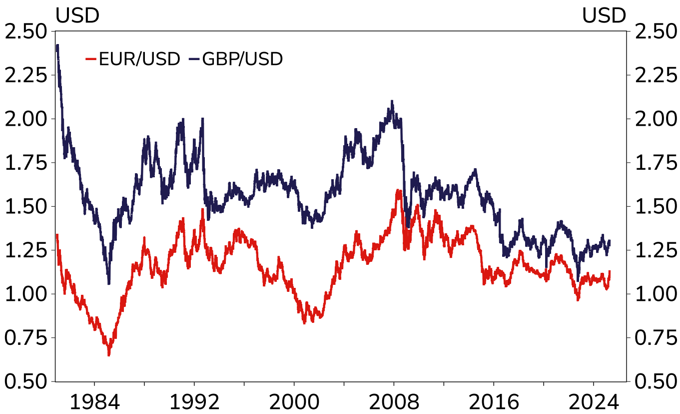
Source: Bloomberg, Macrobond, Westpac Economics

USD valuation abnormally rich



Source: BIS, Macrobond, Westpac Economics

Euro now in favour, Sterling also benefitting



Source: Bloomberg, Macrobond, Westpac Economics

... in US exceptionalism

Japan's yen meanwhile seems caught between opposing forces. The US tariff imposed on Japan was mid-range at 24% and has now been lowered to 10% for 90 days. But the market also has concerns over the consequences for Japan of growth risks for developing Asia and doubts whether the Bank of Japan will be able to increase its policy rate to 1%.

USD/JPY is likely to fluctuate through mid-year amid trade uncertainty but thereafter we expect USD/JPY to continue its steady downtrend to JPY140 end-2025 and JPY133 mid-2027.

If Japan is able to agree preferential treatment with the US and/or US downside risks assert there is considerable upside for yen against the US dollar seeing as USD/JPY averaged JPY110 during the two years before the pandemic, when Japan's monetary policy normalisation, which is now being realised, was but a distant dream.

For the rest of Asia, participants are likely to remain more circumspect on trade risks until domestic growth proves it is able to offset.

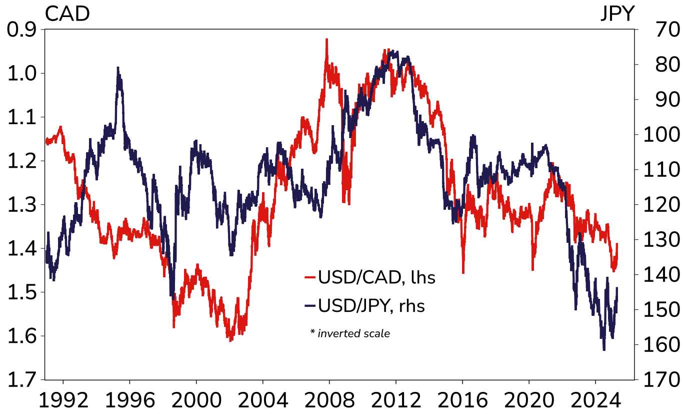
Chinese authorities holding growth near their 5% target through the second half of the year should begin to provide meaningful support, allowing the Renminbi to slowly appreciate against the US dollar, USD/CNY to trade down from CNY7.35 recently to CNY7.20 end-2025, then CNY6.80 mid-2027.

Those receiving investment and services flows from China should also gain over the period, Indonesia being a prime example. Despite recent weakness, here we see a modest appreciation of the rupiah against the US dollar, from IDR16,800 currently to IDR16,200 by end-2025, then a more substantial run to IDR15,000 and IDR14,700 by end-2026 and mid-2027 respectively.

The outlook for India's rupee is more likely to depend on negotiations with the US over tariff rates than its outright growth pace – although this should show resilience regardless. Success in negotiations would free USD/INR to decline from INR86.0 today to INR79.0 mid-2027.

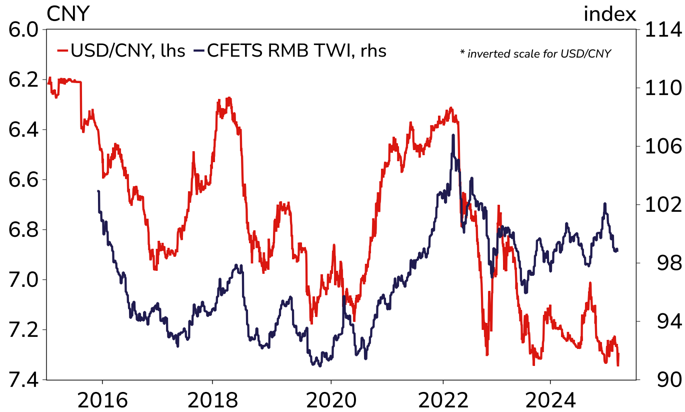
A similar expectation should also be held for more developed nations in the region. A prime example is South Korea, a nation that has benefited greatly over the past decade from developing US production facilities. A keen interest in expanding these interests further should provide good will in negotiations. The profits that will flow back to South Korea over time also supports a trend appreciation view, to around KRW1310 in mid-2027.

CAD outlook highly uncertain



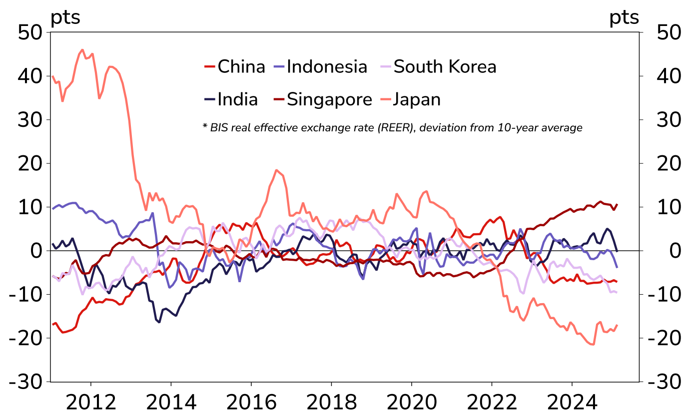
Source: Bloomberg, Macrobond, Westpac Economics

Renminbi TWI broadly stable



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



Source: BIS, Macrobond, Westpac Economics

The nascent recovery has continued …

Kelly Eckhold
Chief Economist NZ

Since our last Market Outlook, developments in the New Zealand economy have been both rough and smooth. For most of the period we saw further signs of an improving economy. However, the global outlook has darkened and become a lot more uncertain. Downside risks have increased but their extent remains unclear. A clearer assessment will hopefully be possible in May.

Up until 'Liberation Day' on April 2, developments in New Zealand had been taking a constructive tone. Much of the high frequency data covering the February and March period suggested that the nascent economic recovery was continuing. The twin pillars of significantly lower interest rates and strong export commodity prices seemed to be supporting the recovery. Some examples were: still-resilient business confidence which appeared to defy concerns that the nearing global trade uncertainties might pin back firms plans to eventually scale up and invest and hire more; housing market data that continued to adopt a better tone in that house prices continued to rise; and consumer spending, which rose in February.

A key positive sign came from the December 2024 GDP data which exceeded the expectations of all forecasters – even our own relatively optimistic 0.5% pick – by coming in at 0.7% for the quarter. There was plenty of statistical noise in that data, as to some extent the growth in the December quarter borrowed from the earlier very weak June 2024 quarter. But there was an underlying tone of economic growth – particularly emanating from industries most leveraged to better conditions in the export and tourism sectors. Indeed, an underlying tone of improvement in the country contrasted against a flat or even outright pessimistic view in urban areas has been a theme through much of the data covering the economy from mid-2024 to March 2025.

At the same time, we saw a tendency for the New Zealand dollar to maintain a weaker tone combined with still resilient export commodity prices. Together, these continued to emphasise the growing sense that the low point in inflation has passed for a while. In Westpac New Zealand's forecast update we noted that the near-term outlook for inflation was firmer than previously anticipated due to strength in food prices. However, we remained comfortable that the medium-term outlook still suggested inflation would remain comfortably within the RBNZ's target band.

This backdrop seemed to strongly suggest that the RBNZ would continue to be comfortable with continuing with the 25bp interest rate cuts it signalled back in the February Monetary Policy Statement. However, some chance of a pause in the easing cycle was noted given the ongoing economic recovery, inflation remaining in the top half of the RBNZ's 1-3% target range and increasing competition in the mortgage market. This latter factor seems to be delivering a bit more stimulus than we might otherwise have anticipated given markets continued to price a trough in the OCR in the 3–3.25% range.

We all expected some clarity with the announcement of the US administration's tariffs on April 2. Instead, what was delivered was further extreme uncertainty and a much worse outcome for the global trading system, and hence the global economy. While some base levels of tariffs were broadly expected, the package that was announced was very broad in scope and hit much of the world harder than anticipated. There seemed to be significant implications for New Zealand's key trading partners, some of whom were subject to very high tariffs.

> **"Direct impact of tariffs unwelcome but appear manageable. Indirect impacts of much greater concern"**

The resulting shock to global market sentiment and consequent financial market volatility has been significant. While the direct impact of the tariffs on New Zealand is unwelcome and unhelpful, the level of the tariff appears manageable at around 0.2% of GDP.

It's the indirect impacts that are of much greater concern. The RBNZ had suggested in its February Monetary Policy Statement that significant US tariffs, accompanied by retaliation, could lower trading partner growth by as much as 1%. It seemed possible that this was in the range of what could occur. And of course, weaker global demand would likely depress New Zealand's commodity export prices to at least some extent. There has been a range of experiences in periods of historical global economic weakness. In the Global Financial Crisis, New Zealand's terms of trade fell in lockstep with weaker global growth. However, in other episodes, New Zealand's terms of trade have been less impacted. On average it appears the terms of trade falls by about 40-60% of the decline in global industrial production or demand. That elasticity would imply a meaningful but not debilitating retracement of the gains in the terms of trade seen in the last year or so.

The potential for retaliation is also of concern – and the actions of the Chinese are of critical concern given that China and the US are our largest trading partners. Fortunately, retaliation has been limited to mainly China at this point. Indeed,

… but global trade tensions threaten the outlook

the announcement by the US authorities that the tariffs in excess of 10% would be suspended for three months while negotiations continue seems to have provided some breathing space and has helped support sentiment a bit.

The RBNZ took a measured approach to responding to the tariff announcements at its April 9 meeting. The OCR was cut by 25bps to 3.5% as expected and an intention to ease further was noted. However, there was no tone of undue urgency in the RBNZ's communications. There is an intention to wait and see how the outlook pans out. There is also a need to assess the extent to which these global developments hit the nascent domestic recovery.

Downside risks to the economic outlook remain prominent, including to our forecast trough of a 3.25% OCR at the May Monetary Policy Statement. One thing that seems clear is that uncertainty is likely to persist beyond May – not least because the US authorities have given a three-month stay of execution on their more punitive the tariff levels, as opposed to outright amnesty or acquittal. Hence the easing cycle may not conclude in May as previously thought, and the return of the OCR to neutral levels might be consequently delayed beyond the mid-2026 levels pencilled into our medium-term projections. We will refresh those views when hopefully more information is available at our May Economic Overview.

For now, downside risks on the exchange rate appear still prominent. New Zealand's floating exchange rate should be the primary buffer to the economy should the darker scenarios emerge. That's even though there has been some volatility and we dare say even dysfunction in financial market pricing in the very uncertain times of the last couple of weeks.

Looking ahead, we are watching for signs that the downside risks to global growth might intensify. For now, we are taking an optimistic view that our largest trading partner China can deliver sufficient policy stimulus to offset the trade shock. We also hope for the US and Chinese authorities to move to a more conciliatory stance.

Indications that the weaker global picture and uncertainty will translate into weaker NZ economic outcomes are central now. Key to that will be the performance of NZ's export commodity prices and consumer and business confidence in coming months.

On May 7 we will receive the March quarter labour market reports. These will of course be dated given global events, but they will give some of the best reads on the degree of excess capacity in the economy and the trajectory of the unemployment rate. Should this look to significantly overshoot expectations, then the case for further easing would grow stronger.

On a final note, government securities markets have been under pressure globally, including in New Zealand where longer-term rates have increased. The recent news on the fiscal position looks consistent with a still-strong supply of government securities in coming years. The Government announced an intention to significantly scale up defence spending in the next four years, and we think that could have consequences for the borrowing programme. While the fiscal accounts were running ahead of forecast up to February, we think those funds will be deployed to meet pressure on operational spending needs. The Finance Minister has indicated an intention to continue to consolidate the fiscal budget in the coming year, although we think there will be serious challenges there should a global slowdown occur.

	2024								2025		
Monthly data	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
REINZ house sales %mth	–2.6	–0.6	–7.4	10.7	0.4	2.8	3.5	2.2	–3.3	–1.7	6.3	–
Residential building consents %mth	–2.2	–1.7	–16.9	26.5	–5.4	2.5	–5.0	4.8	–5.7	2.6	0.7	–
Electronic card transactions %mth	–0.4	–1.1	–0.6	–0.1	0.2	0.1	0.7	0.2	2.4	–1.6	0.3	–
Private sector credit %yr	2.5	3.0	2.7	2.6	2.8	2.8	2.6	3.1	3.1	3.2	3.0	–
Commodity prices %mth	0.5	1.1	1.5	–1.7	2.1	1.8	1.4	2.9	0.1	1.8	3.0	–0.4
Trade balance $mn	–963	–1015	–357	–791	–1018	–779	–495	–289	–292	146	–138	–

Quarterly data	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:24
Westpac McDermott Miller Consumer Confidence	75.6	77.7	83.1	80.2	88.9	93.2	82.2	90.8	97.5	89.2
Quarterly Survey of Business Opinion	–14	–13	–11	–17	7	–27	–28	–28	–24	–21
Unemployment rate %	3.4	3.4	3.6	3.9	4.0	4.4	4.6	4.8	5.1	–
CPI %yr	7.2	6.7	6.0	5.6	4.7	4.0	3.3	2.2	2.2	–
Real GDP %yr	2.9	3.5	4.0	2.4	1.8	1.4	0.6	0.1	–0.5	–
Current account balance % of GDP	–9.2	–8.6	–7.9	–7.7	–6.9	–6.6	–6.6	–6.5	–6.2	–

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

China's strength and …

Elliot Clarke
Head of International Economics

The treatment of China by President Trump and his administration stands out against all other nations. Whereas Canada and Mexico were exempted from April 2's reciprocal tariff measures, having already been assigned country and industry-specific measures, an additional 34% tariff was imposed on China on top of the 20% tariff already in effect. Then, when most other nation's received a 90-day reprieve from tariffs above 10% with an offer to negotiate, President Trump doubled down twice, increasing China's tariff rate to 104% then to 145%.

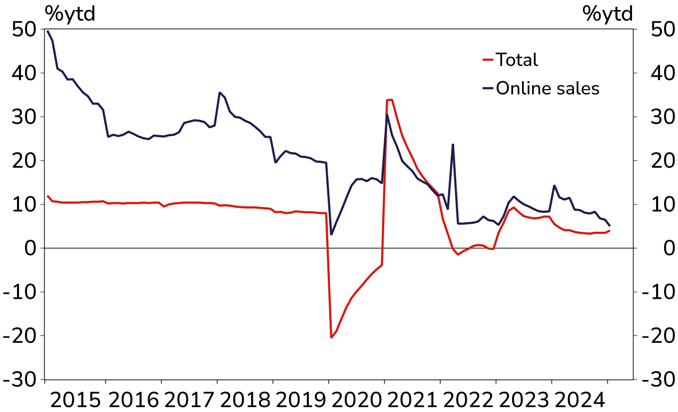
China's resolve and preparedness to respond has been clear at each stage. The centrepiece of its first retaliation was a matching 34% tariff on all US imports into China. To highlight the control it has over access to its economy, China also announced: restrictions on the exports of seven types of rare earths with immediate effect; an anti-dumping probe into medical CT X-ray tubes from the US and India; a halt on two US companies' poultry imports to China; the addition of 11 US defence companies to the unreliable entity list; export controls on 16 US firms; a stop on imports of sorghum through one US company; and an investigation of DuPont China for suspected antitrust violations.

US President Trump then announced another 50ppt increase in China's tariff rate to 104% which China responded to in kind. President Trump consequently took the final step to 125%, later clarified as being in addition to the initial 20% tariff imposed on China earlier in 2025, producing a headline rate of 145%, effective without delay. Interestingly, China's first response to this iteration of the trade war was to pivot to restricting the distribution of US movies in China, introducing a new front to this conflict – the service sector. China also raised the tariff rate for goods imports from the US to 125% and stated "American goods are no longer marketable in China under the current tariff rates", according to Bloomberg, so any further increase by the US will be disregarded. In stark contrast, many US buyers of Chinese goods have no alternative, regardless of cost.

While not part of China's official retaliation, the promotion of local firms by China's government, which has been occurring for some time, will also see US firms continue to lose market share for goods manufactured in China – consumers buying Chinese EVs over Teslas a simple example.

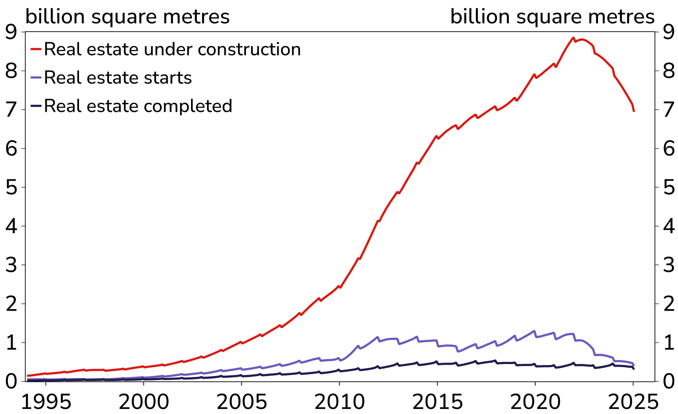
Still to come, likely very soon, are China's fiscal and market responses. The past 12 months has seen China take an increasingly active stance with economic policy. And the recent addition of extra capital to major bank balance sheets following an announced 1ppt increase in the deficit-to-GDP ratio

Pent up consumer demand needs trigger



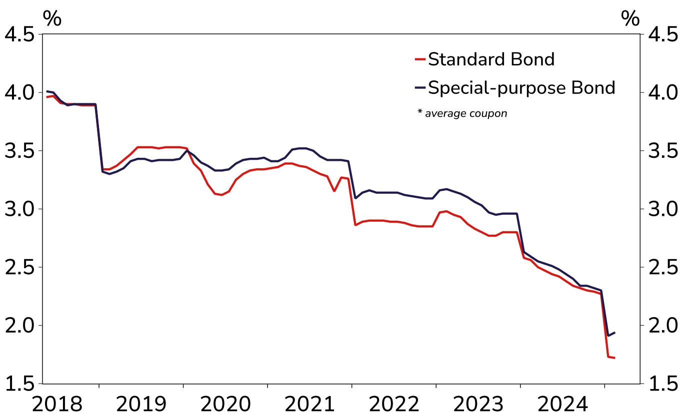
Source: NBS, Macrobond, Westpac Economics

Real estate pipeline must be replenished



Source: NBS, Macrobond, Westpac Economics

Decline in government yields freeing up cash flow



Source: MOF, Macrobond, Westpac Economics

... resolve clear

for 2025 suggests broad-based fiscal and monetary support is being readied. Corroborating this view, Premier Li Qiang stated last week that China has ample policy tools to "fully offset" external shocks. There were also reports of a high level meeting to assess stimulus options shortly thereafter.

This is fiscal and monetary capacity the US does not have which history suggests can be highly effective for growth, particularly as Chinese consumers and many businesses held back on spending coming out of the pandemic, and in doing so have accumulated cash for future expenditure.

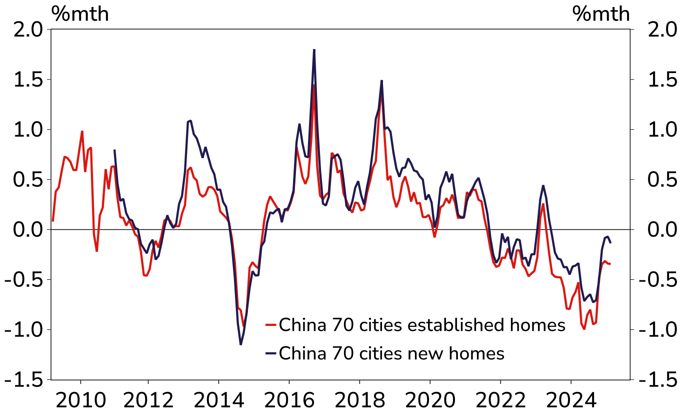
We therefore continue to believe China will achieve its 5% growth target in 2025, principally by accelerating domestic investment and consumption. Into the medium term, the hit to US relations with the rest of Asia from the 'reciprocal' tariff framework will give China much greater leeway to strengthen its economic and political relationships across the region and beyond.

In stark contrast to the aggressive implementation of tariffs by the US, China is offering financial capital and the know-how necessary for long-term economic development. This is an offer being taken up widely across ASEAN and Latin America which have a combined population similar to China's.

It must be noted though that China strengthening its position in the world is also likely to raise the ire of the US. All the more so if the US economy experiences a prolonged period of weak growth and domestic political uncertainty.

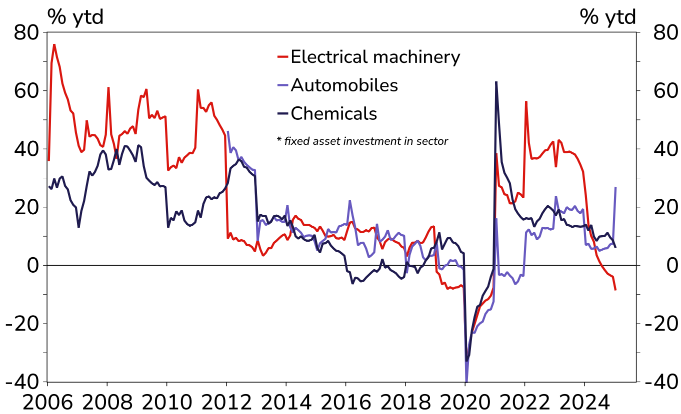
It goes without saying that, in addition to its economic and political position, China's dominance in global shipping, the global port infrastructure interests of Hong Kong and China as well as China's holdings of US Treasury securities are additional potential flash points with the US. These are wide-ranging risks which require regular, careful study.

Housing demand finding a base, aiding prices



Source: , Macrobond, Westpac Economics

Investment to remain a focus



Source: NBS, Macrobond, Westpac Economics

	2024									2025		
Monthly data %yr	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Consumer prices – headline	0.3	0.3	0.2	0.5	0.6	0.4	0.3	0.2	0.1	0.5	–0.7	–0.1
Money supply M2	7.2	7	6.2	6.3	6.3	6.8	7.5	7.1	7.3	7.0	7.0	–
Manufacturing PMI (official)	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5
Fixed asset investment %ytd	4.2	4.0	3.9	3.6	3.4	3.4	3.4	3.3	3.2	3.2	4.1	–
Industrial production (IVA) %yr	6.7	5.6	5.3	5.1	4.5	5.4	5.3	5.4	6.2	6.2	5.9	–
Exports	1.3	7.4	8.5	6.9	8.6	2.4	12.7	6.6	10.6	6.0	–3.0	–
Imports	8.3	2.1	–2.5	6.7	0.1	0.2	–2.3	–3.9	1.0	–16.5	1.5	–
Trade balance USDbn	72.0	81.5	99.0	85.4	91.5	81.7	95.8	97.2	104.6	138.8	31.7	–

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

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

Teetering on the edge ...

Elliot Clarke
Head of International Economics

On April 2, this year known as 'Liberation Day', US President Trump detailed his 'reciprocal' tariff plan. In his address, the tariff rates were described as being based on country-by-country estimates of the monetary and non-monetary barriers US firms face, including tariffs, subsidies, currency manipulation and value-added taxes such as Australia's GST. But economists were quick to spot the tariffs were simply half of the US bilateral goods trade deficit divided by total goods imports to the US from each country – with a 10% minimum. In most instances, this deficit measure has more to do with natural competitive advantages and/or decades of investment in capacity and productivity than protectionism.

Implemented without delay, the individual country rates varied greatly across major US trading partners, from 34% for China, to 26% for India, 20% for Europe, and 10% for the UK. The same 10% 'minimum' rate has been imposed on imports from Australia and New Zealand, and any other countries the US has a small goods trade deficit, or even a surplus, with.

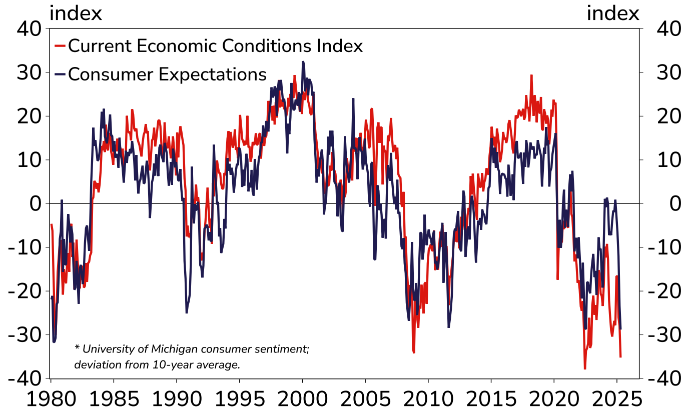
The 'reciprocal' tariff framework also hit many small developing markets particularly hard, including Cambodia (49%), Vietnam (46%) and Sri Lanka (44%). Subsequent comments by Treasury Secretary Bessent clarified that the 34% rate levied on Chinese imports to the US will be on top of the 20% already announced. This rate subsequently rose from 34% to 125% after a few rounds of retaliation for a headline rate of 145%. This occurred as President Trump agreed to a 10% rate for 90 days for all countries that had not retaliated to the April 2 tariffs.

Unsurprisingly and as detailed on page 17, China responded forcefully to US trade aggression with clear intent at every step.

As China has a far greater array of alternatives to US goods than the US has for Chinese goods, it is entirely possible that the US actions will see its bilateral goods trade position with China deteriorate instead of improve. The caveat here is that China may again find ways to minimise the cost of US tariffs by redirecting trade – flexibility the US does not have. US firms that produce in China are also likely to continue losing market share, reducing the flow of profits back to the US. This is also applicable to US firms selling services into China such as the entertainment industry.

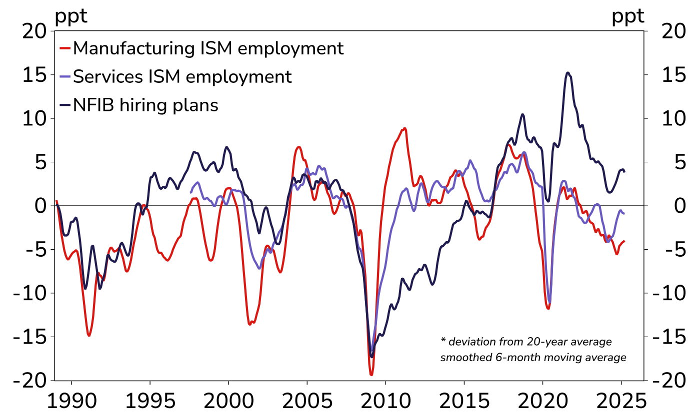
We remain of the view that the US is most at risk from its own policies. Already we have seen US consumer confidence fall sharply, led by expectations for the outlook. The personal consumption data suggests this turn in sentiment is holding back discretionary spending, while the sharp plunge observed in the employment measures of the ISM business surveys signal a growing risk of another material leg lower in job growth, potentially leading to outright retrenchment.

Uncertainty weighing on consumer confidence



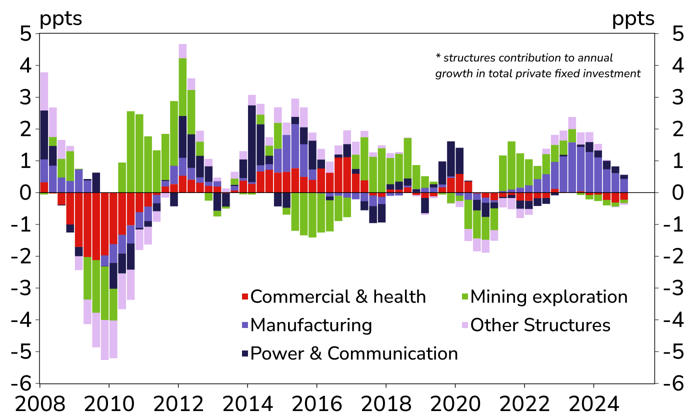
Source: University of Michigan, Macrobond, Westpac Economics

Risk of job loss yet to be factored in



Source: ISM, NFIB, Macrobond, Westpac Economics

US investment spending losing IRA aid



Source: BEA, Macrobond, Westpac Economics

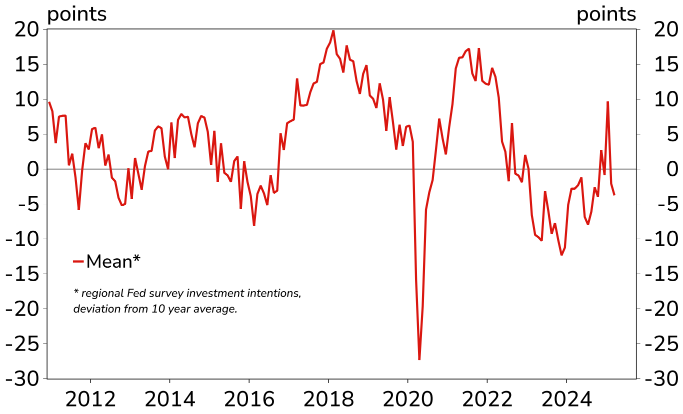
... of recession

US business surveys more broadly point to an unwillingness to invest economy wide. This is not to say that the many initiatives paraded by President Trump will not come to pass, but rather that they are but a subset of the activity necessary to drive growth forward. Bear in mind that, as we highlighted last month, equipment and structures investment has been very weak in the US over the last decade, averaging annual growth of just 2% and 1% respectively. The US fiscal position also leaves little-to-no room to fund capacity expansion or provide incentives. We cannot assume a near-term wave of productivity enhancement will offset the ill effects and risks of President Trump's tariffs.

So what to make of the US economic outlook? Given current trends, growth is set to stall at best, potentially for an extended period. Our decision to stop short of calling an outright recession at this juncture is as much about the uncertainty of how deep a recession might be as it is the probability of contraction. We are also mindful that this shock is self-imposed, and so could be recovered from by President Trump walking back his policies and instead seeking to improve the trade position via investment incentives and negotiations with other countries. However, if President Trump holds to his belligerent course then the 0.5%yr and 1.0%yr growth we now forecast for 2025 and 2026 will need to be marked down significantly.

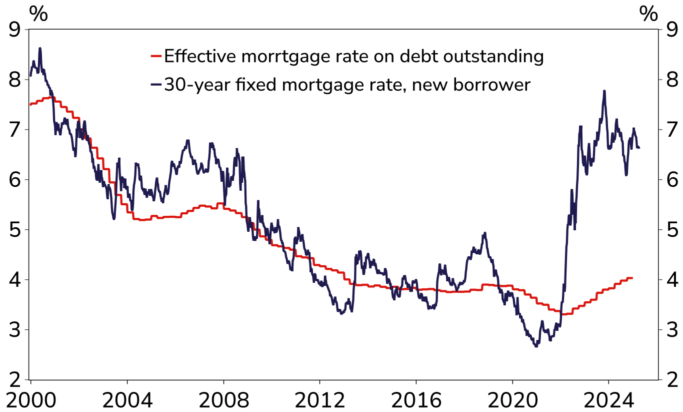
Underlying this base expectation for activity and our view on the risks is a belief that tariffs and the US economy's capacity constraints will result in elevated consumer inflation of at least 3.5%yr in 2025 and circa 3%yr in 2026. Such an inflation profile would limit the FOMC's willingness to ease aggressively. Despite the material revision to our growth view, our fed funds rate baseline is still only two 25bp cuts in 2025. We also suspect concerns over the Federal deficit will rise with the unemployment rate through 2025 and 2026, seeing a large term premium become entrenched in long-term yields. In contrast to the US exceptionalism thesis, which President Trump still believes in, the US economy is instead lost in a dense fog of economic and financial risk on the edge of recession.

Optimism over business investment reversing



Source: Dallas Fed, Kansas City Fed, New York Fed, Richmond Fed, Philadelphia Fed, Macrobond, Westpac Economics

Interest costs a big headwind for housing



Source: BEA, Freddie Mac, Macrobond, Westpac Economics

	2024								2025			
Monthly data	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
PCE deflator %yr	2.6	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.5	2.5	–	–
Unemployment rate %	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	–
Non–farm payrolls chg '000	193	87	88	71	240	44	261	323	111	117	228	–
House prices* %yr	6.8	6.5	5.9	5.2	4.6	4.3	4.4	4.6	4.7	–	–	–
Durables orders core 3mth %saar	–3.4	–0.5	–2.5	1.9	0.9	1.5	4.0	3.6	8.3	4.2	–	–
ISM manufacturing composite	48.5	48.3	47.0	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49.0	–
ISM non–manufacturing composite	53.5	49.2	51.4	51.6	54.5	55.8	52.5	54.1	52.8	53.5	50.8	–
Personal spending 3mth %saar	6.0	4.0	5.5	4.3	6.1	5.3	6.8	7.5	4.6	4.1	–	–
UoM Consumer Sentiment	69.1	68.2	66.4	67.9	70.1	70.5	71.8	74.0	71.7	64.7	57.0	50.8
Trade balance USDbn	–76.6	–74.2	–79.9	–71.4	–85.0	–73.7	–78.2	–98.1	–130.7	–122.7	–	–

Quarterly data	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25(f)	Jun–25(f)
Real GDP % saar	1.6	3.0	3.1	2.3	–0.2	0.2
Current account USDbn	–242.7	–276.7	–310.3	–303.9	–	–

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

Navigating Japan's new ...

Illiana Jain
Economist

The world has shifted monumentally since the Bank of Japan's last meeting. Above-target inflation and relatively robust activity growth has allowed the Bank to slowly step away from the zero lower bound. But Japanese authorities are now faced with the challenge of negotiating a trade agreement with the US while supporting the confidence that has been so critical to their success with inflation and growth. Success will be critical if the policy rate is to reach the 1.0% 'neutral' terminal rate as hoped.

In considering what is at stake for the Japanese economy, it is worth contextualising the US-Japan trade relationship and its links to the domestic economy. Just over 20% of Japan's goods exports go to the US, over 70% of which is machinery and transport equipment, an industry that accounts for 15% of GDP. The OECD estimates that the value added in exports to the US equate to 2% of Japan's GDP.

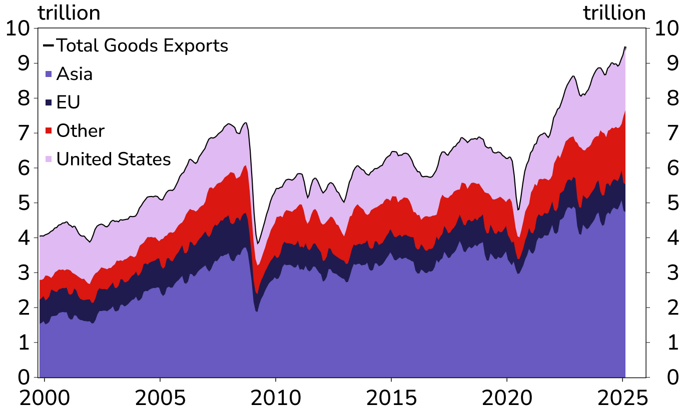
The US 'reciprocal' tariffs included a 24% tariff on Japanese goods. The 90-day pause has set that back to 10% with the whole tariff reportedly up for negotiation. Any Japanese deal is likely to see some of its manufacturing relocated to the US in exchange for softer tariffs.

At present, many Japanese companies have factories across Asia to capitalise on cheaper labour. We have previously argued this poses structural downward pressure on the yen as earnings from these subsidiaries are often reinvested back into offshore operations instead of being repatriated. Increased investment by Japan into US auto manufacturing is likely to be a key part of the expected agreement.

Japan comes to the negotiating table with its own strengths. Japan is the second largest holder of long-term US securities. US holdings of Japanese securities are about half that of Japanese holdings of US securities. Looking ahead, the US will need buyers for its Treasuries as deficits persist and if, as Westpac Head of Financial Markets Strategy Martin Whetton noted, US government bonds erode their status as a safe haven, this task will become increasingly difficult. Japan's status as an 'investor to the developed world' will likely hold significant weight in these negotiations, even if a pledge to continue investing in Treasuries is not explicitly made.

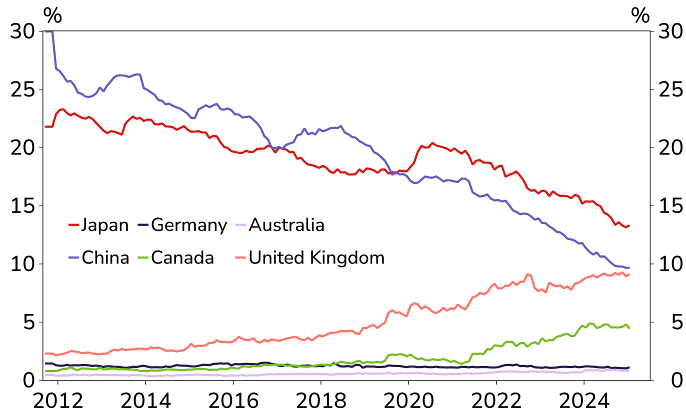
The manufacturing sector has been a bedrock of the Japanese economy for decades. Looking ahead, with a declining population, it is difficult to see output in the economy expanding on the back of services alone, which tends to be quite labour intensive with moderate-to-low marginal returns on capital. Investment into efficient manufacturing and strength in exports will be a key support of economic growth for years to come and is required for a neutral monetary

The US accounts for a fifth of total exports



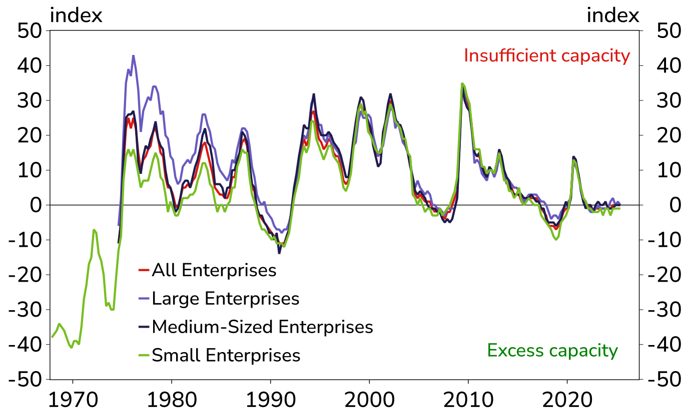
Source: MOF, Macrobond, Westpac Economics

Japan remains the largest holder of USTs



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

Manufacturing capacity is considered balanced



Source: BOJ, Macrobond, Westpac Economics

... economic reality

policy rate meaningfully above the zero-lower bound to be sustained.

While the fruits of productive expansion may seem like a thought for the distant future, the investment needed to yield those outcomes is required now.

Crucially, it is confidence amongst Japanese businesses that will help the nation realise its economic potential. The latest Tankan results, which were collected prior to recent trade developments, showed manufacturing firms expect a relatively higher degree of labour shortages versus history and a net neutral assessment of productive capacity in the future. That is, there is no expectation for excess capacity across the manufacturing sector.

Sentiment around investment, as reported in the annual survey in December, was near the pre-Asian financial crisis peak. Japanese businesses have also walked the walk – investment in plant and equipment has not been this high on a sustained basis since data collection began in 2010. The appetite for investment has certainly been there but it may have been lost in the chaos of the US tariff shock.

Maintaining business confidence through successful trade negotiation with the US will be crucial in determining how the path for policy evolves. Despite the enormity of the challenge, we anticipate Japan's strong position as an exporter of manufactured goods and net lender to the world will help secure favourable terms for Japan-US trade with limited concessions.

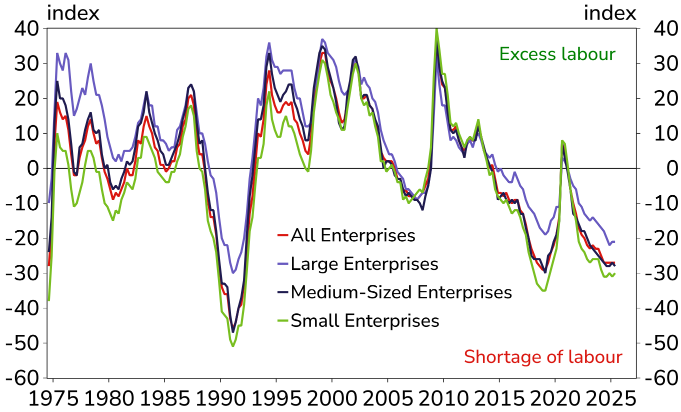
Our baseline view is that tariffs on Japanese goods remain capped at 10%, explicitly or implicitly in exchange for continued purchases of US Treasuries and further investment and collaboration between Japan and the US in the auto industry.

Change in view

We now anticipate that the Bank of Japan will raise rates once more in 2025 at the July meeting and again in March 2026 to a 1.0% terminal rate. By July, there should be greater clarity on trade policy in the US as well as Japanese domestic policy as it relates to the House of Councillors elections. From there, the outlook is predicated on how businesses adapt to a new world of tariffs and whether this hampers their ability to raise wages for FY2026. Another strong wage print will help justify the case for a final hike in 2026.

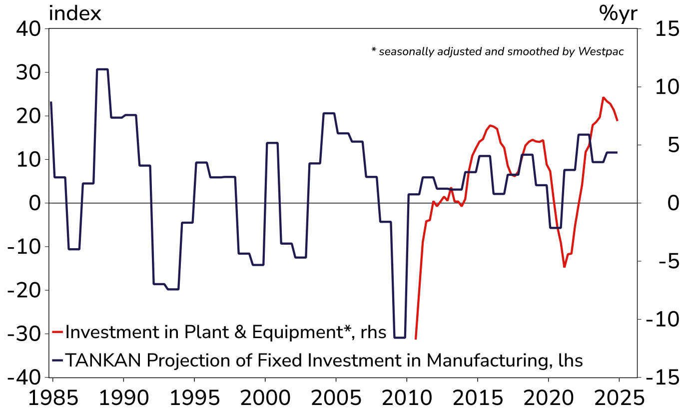
As the Bank of Japan pares backs its relative ownership of outstanding Japanese government bonds, making yields increasingly dictated by market forces, we are now reintroducing a forecast for the 10-year government bond yield. This can be found on page 31.

Manufacturing sector still starved for labour



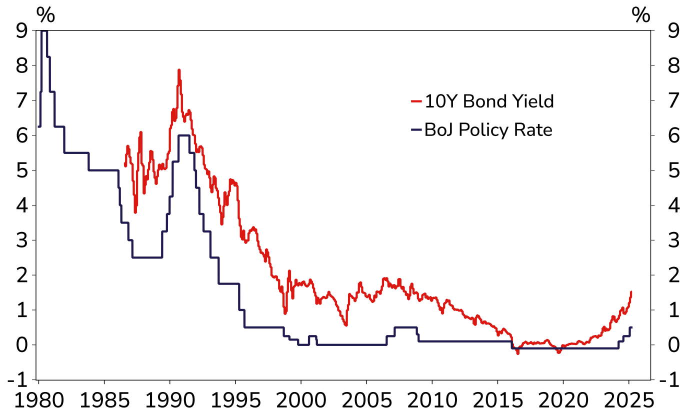
Source: BOJ, Macrobond, Westpac Economics

Intention to invest is still there



Source: BOJ, MOF, Macrobond, Westpac Economics

Yields and policy to drift up



Source: MOF, BOJ, Macrobond, Westpac Economics

Fiscal policy: using your dry powder

Mantas Vanagas
Senior Economist, Westpac Group

Public demand has been the main source of Australia's economic growth in recent quarters, providing a welcome support while private sector demand has been soft. But this sort of growth is not free. The Federal Government's budget update on March 25 highlighted this fact – budget surpluses during the post-pandemic recovery have turned to deficit that is expected to widen to 1.5% of GDP next financial year. Fiscal policy developments in Europe may offer some broader lessons for Australia.

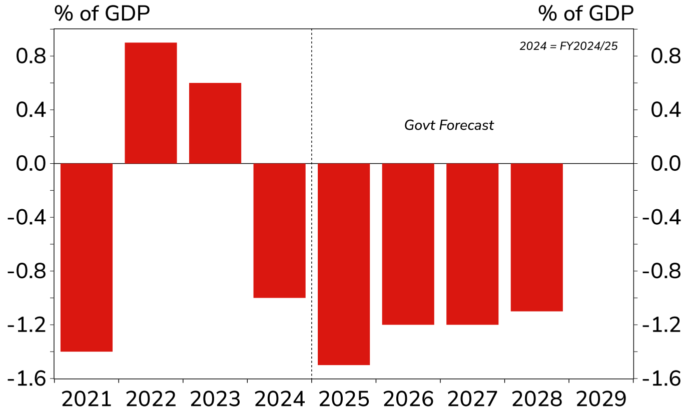
We have seen fiscal policy stances evolve rapidly in recent years. Government spending did the heavy lifting during the pandemic, cushioning the economic impact of lockdowns before the spike in global inflation saw a sharp tightening in monetary policy become more dominant. As aggregate demand eased in response to higher interest rates, the focus shifted back to providing fiscal policy support – both to the most vulnerable and to help avoid a sharper slowdown in economic growth.

However, further challenges for governments are mounting, particularly in Europe. Governments are now coming under pressure to respond to the blow from high import tariffs in the US. But before that, one of the most eye-catching developments in recent months was the announcement and subsequent approval of a sizeable fiscal package in Germany. This marked a very significant cultural shift in a country where hard fiscal discipline was deeply embedded in its constitution. The fiscal package has three major prongs: a €500bn off-budget fund for infrastructure investment; a move to exclude defence spending from the constitutional fiscal rule constraint; and leeway for Germany's states to borrow up to 0.35% of GDP.

The package aims to address the changing geopolitical landscape and structural issues in the German economy. The retreat of the US under President Trump from its role as a security guarantor for Western democracies and objections to NATO funding arrangements leaves large gaps in Europe's security architecture. Current defence funding in Germany, the biggest EU member state, is around 2% of GDP, in line with NATO's current target. But with the US support less assured and Russia posing a serious threat from the east this no longer seems adequate. The frontline NATO states are looking to increase defence spending to 5% with the whole alliance expected to agree to lift the official target to at least 3% this year. The new rules will give Germany flexibility to meet this goal and take a more active role in shaping European defence capability.

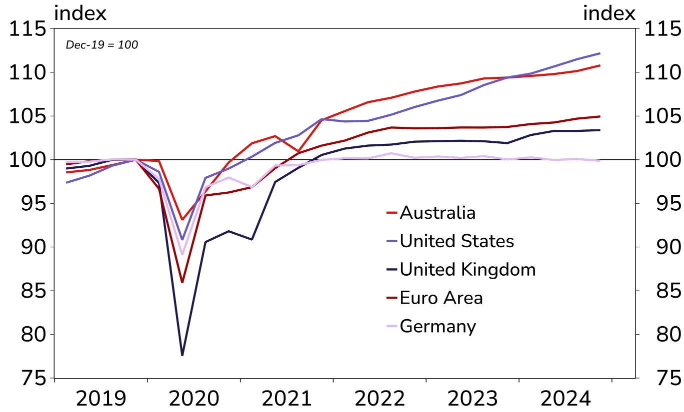
This is coming against a more difficult economic backdrop. A downturn in the global manufacturing cycle, big increases in energy prices, and a rapid shift in technologies in some key sectors such as auto manufacturing has seen particularly disappointing economic growth in Germany in recent years. At the end of 2024, German GDP was no higher than it had been

Australia - Underlying Cash Balance



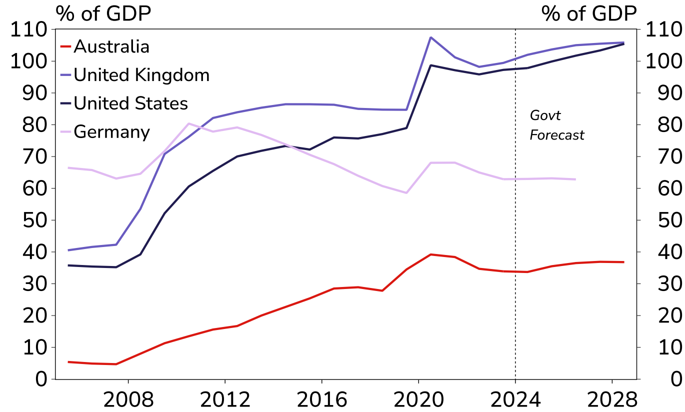
Source: Australian Department of the Treasury, Macrobond, Westpac Economics

GDP Comparison



Source: ABS, BEA, ONS, Eurostat, Stats NZ, DESTATIS, Macrobond, Westpac Economics

Government Debt



Source: OBR, CBO, Australian Department of the Treasury, DG ECFIN, Macrobond, Westpac Economics five years ago, just before the pandemic. The infrastructure fund, expected to run for twelve years, should give Germany around 1% of GDP per year in spending power, with the higher borrowing limit for states, if used, adding up to another 0.35%. European efforts to boost its defence industry will eventually help redirect defence spending back into the economy. But in the near term this effect might be relatively small, since a large chunk of military equipment will come from abroad.

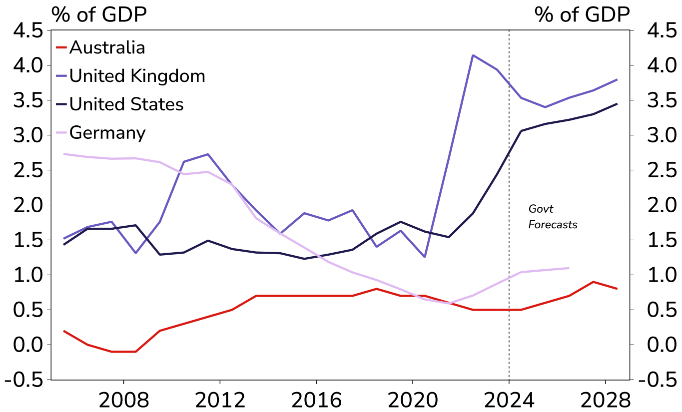
Overall, the fiscal package could eventually be worth around 1.5% of GDP before any multiplier effects on infrastructure investment are taken into account. However, given that most spending is likely to be on big projects with significant lead times, the effect is likely to build slowly and is unlikely to be meaningful before 2026.

The UK is facing very similar political and economic challenges. On the geopolitical front, reduced US support for Ukraine is seeing the UK step in and take more of a leadership role on a global scale, which aligns with ambitions put forward during the Brexit debate. But grand political objectives are challenged by the grim realities of not having enough fiscal power to plug the holes left by the US. As an example, the UK government has committed to increasing its own defence budget by just 0.2ppts to 2.5% of GDP.

The Chancellor's Spring Statement a couple of weeks ago also highlighted the challenges in making the UK's key fiscal aggregates add up while the economy continues to stagnate. Unlike Germany, where government debt has been trending lower since 2012, the UK has allowed its public debt to balloon towards 100% of GDP.

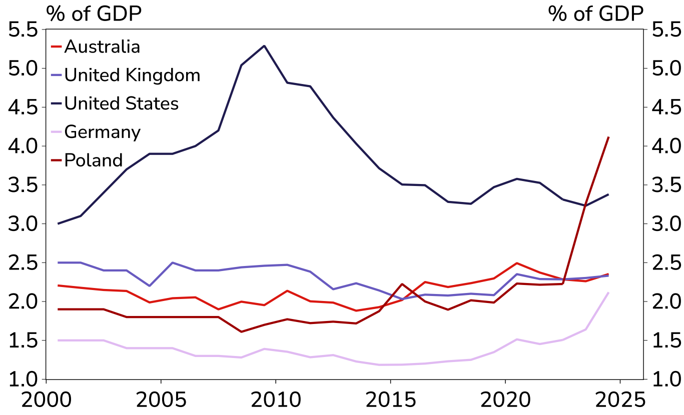
The FY2024-25 deficit will be close to 5% of GDP, around 3% of which is net interest payments to service debt. With the tax burden already heading to record highs, the fiscal consolidation required by fiscal rules to offset a worsening economic outlook leads to painful cuts to public services or welfare.

Government Net Interests



Source: OBR, DG ECFIN, Australian Department of the Treasury, CBO, Macrobond, Westpac Economics

Government Spending on Defence



Source: ABS, NATO, Macrobond, Westpac Economics

The Chancellor had to resort to those measures in the Spring Statement. And there is a high risk that she will have to do it again, flat-lining GDP and a fixed tax base mean the government can only find money by taking it away from somewhere else.

Is there anything Australia can learn from the experience of these major European countries? The obvious point is that prudent fiscal policy and keeping public finances in order can help to maintain the firepower to respond to economic shocks. In comparison to Europe, risks to Australia in the areas of trade and security seem much less acute. And Australia has maintained a strong fiscal position – despite falling into deficit, Australia's gross public debt is still less than 35% of GDP, well below that of most other advanced economies. The borrowing capacity this affords is an enormous advantage over other major countries, such as the UK, but not something that should be used without very good reasons and careful consideration.

Australia

Interest rate forecasts

	Latest (14 Apr)	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	4.08	3.90	3.70	3.45	3.50	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.36	3.35	3.40	3.50	3.65	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.37	3.40	3.45	3.55	3.70	3.85	3.90	3.95	3.95	4.00
10 Year Bond	4.44	4.35	4.40	4.45	4.50	4.55	4.60	4.70	4.80	4.80
10 Year Spread to US (bps)	–5	5	5	5	5	5	0	0	0	0

Currency forecasts

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
AUD vs										
USD	0.6292	0.62	0.63	0.65	0.66	0.67	0.68	0.69	0.70	0.71
JPY	90.49	90	90	92	92	92	92	93	94	94
EUR	0.5549	0.56	0.57	0.58	0.59	0.59	0.60	0.60	0.61	0.61
NZD	1.0785	1.12	1.12	1.15	1.15	1.15	1.15	1.15	1.15	1.15
CAD	0.8728	0.87	0.89	0.91	0.92	0.92	0.93	0.94	0.95	0.95
GBP	0.4810	0.48	0.49	0.50	0.50	0.51	0.51	0.51	0.52	0.52
CHF	0.5149	0.52	0.52	0.54	0.55	0.56	0.56	0.57	0.57	0.58
DKK	4.1427	4.21	4.27	4.36	4.40	4.43	4.45	4.48	4.54	4.59
SEK	6.1478	6.24	6.35	6.47	6.53	6.57	6.61	6.65	6.74	6.81
NOK	6.7212	6.83	6.94	7.07	7.14	7.18	7.23	7.27	7.37	7.45
ZAR	12.04	12.1	12.2	12.4	12.5	12.6	12.7	12.8	12.9	13.0
SGD	0.8306	0.83	0.84	0.86	0.87	0.88	0.89	0.90	0.91	0.92
HKD	4.8793	4.81	4.89	5.04	5.12	5.19	5.27	5.35	5.43	5.50
PHP	35.48	35.5	36.0	37.1	37.6	38.1	38.5	38.9	39.3	39.8
THB	21.09	21.1	21.3	21.8	21.8	21.8	21.8	21.7	21.7	22.0
MYR	2.7563	2.76	2.74	2.76	2.74	2.71	2.72	2.73	2.77	2.80
CNY	4.5820	4.56	4.60	4.71	4.75	4.79	4.83	4.83	4.83	4.83
IDR	10568	10292	10332	10530	10494	10452	10404	10350	10290	10408
TWD	20.40	20.3	20.5	21.1	21.3	21.4	21.5	21.6	21.7	21.9
KRW	894	899	907	923	924	925	925	925	924	930
INR	53.61	53.6	54.2	55.3	55.4	55.6	55.8	55.9	56.0	56.1

Australia

Activity forecasts*

	2024		2025				2026		Calendar years			
%qtr / %yr avg	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024**	**2025f**	**2026f**
Private consumption	–0.1	0.4	0.3	0.2	0.5	0.5	0.6	0.6	2.5	0.6	1.1	2.1
Dwelling investment	1.5	–0.4	1.5	1.5	1.2	1.2	1.3	1.6	–1.3	–0.4	4.2	5.8
Business investment **	–0.4	0.5	0.6	0.7	0.8	0.9	1.1	1.2	8.3	2.5	2.0	4.4
Private demand **	0.0	0.4	0.5	0.4	0.6	0.6	0.7	0.8	2.8	1.0	1.6	3.0
Public demand **	2.5	1.0	0.8	0.7	0.9	0.7	0.7	0.6	3.1	4.4	4.1	2.7
Domestic demand	0.7	0.5	0.5	0.5	0.7	0.6	0.7	0.7	2.9	1.9	2.3	2.9
Stock contribution	–0.3	0.1	0.0	0.0	0.0	0.0	0.1	0.1	–1.0	0.1	–0.2	0.2
GNE	0.4	0.6	0.5	0.5	0.7	0.7	0.8	0.8	1.9	2.0	2.1	3.0
Exports	0.2	0.7	0.1	0.0	0.3	0.4	0.4	0.4	6.9	0.9	1.1	1.4
Imports	–0.2	0.1	0.7	0.3	0.7	0.9	1.5	1.6	6.8	5.5	1.6	4.9
Net exports contribution	0.1	0.2	–0.1	–0.1	–0.1	–0.1	–0.3	–0.3	0.3	–1.0	–0.1	–0.8
Real GDP %qtr / yr avg	**0.3**	**0.6**	**0.4**	**0.4**	**0.6**	**0.5**	**0.5**	**0.5**	2.1	1.0	1.8	2.2
%yr end	**0.8**	**1.3**	**1.5**	**1.7**	**2.0**	**1.9**	**2.1**	**2.2**	**1.5**	**1.3**	**1.9**	**2.2**
Nominal GDP %qtr	0.5	1.6	0.2	0.9	1.0	0.7	0.9	0.9	–	–	–	–
%yr end	3.5	3.7	2.5	3.2	3.7	2.7	3.4	3.4	4.3	3.7	2.7	3.4

Other macroeconomic variables

	2024		2025				2026		Calendar years			
% change	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024**	**2025f**	**2026f**
Employment (2)	0.8	0.6	0.4	0.1	0.1	0.1	0.3	0.3	–	–	–	–
%yr end	2.4	2.4	2.4	1.9	1.1	0.7	0.6	0.9	3.0	2.4	0.7	1.5
Unemployment rate % (2)	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) (sa) (2)	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	3.0	4.2	3.2	2.9	3.3
Headline CPI (2)	0.2	0.2	0.7	0.6	0.8	0.8	0.8	0.8	–	–	–	–
%yr end	2.8	2.4	2.2	1.7	2.3	2.9	3.0	3.3	4.1	2.4	2.9	2.8
Trimmed Mean CPI (2)	0.8	0.5	0.6	0.6	0.7	0.7	0.6	0.6	–	–	–	–
%yr end	3.6	3.2	2.8	2.6	2.5	2.6	2.6	2.7	4.2	3.2	2.6	2.4
Current account $bn	-13.9	-12.5	-15.6	-14.6	-15.1	-16.3	-18.0	-19.3	–	–	–	–
% of GDP	-2.0	-1.8	-2.2	-2.1	-2.1	-2.3	-2.5	-2.7	-0.2	-1.8	-2.3	-3.2
Terms of trade annual chg (1)	-4.7	-4.8	-4.6	-4.5	-3.9	-3.7	-2.8	-2.9	-6.2	-4.8	-3.7	-2.8

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

Macroeconomic variables – recent history

	2024							2025			
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Employment '000 chg	37.9	40.9	34.2	48.5	5.4	23.5	59.8	30.5	–52.8	–	–
Unemployment rate %	4.1	4.2	4.1	4.1	4.1	3.9	4.0	4.1	4.1	–	–
Westpac–MI Consumer Sentiment	83.6	82.7	85.0	84.6	89.8	94.6	92.8	92.1	92.2	95.9	90.1
Retail trade %mth	0.5	0.0	0.7	0.3	0.4	0.7	–0.2	0.3	0.2	–	–
Dwelling approvals %mth	–6.2	11.1	–4.9	4.1	7.0	–2.8	1.5	6.9	–0.3	–	–
Private sector credit %mth	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.5	–	–
Trade in goods balance AUDbn	5.1	5.3	5.3	4.2	5.2	6.4	4.7	5.2	3.0	–	–

New Zealand

Interest rate forecasts

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	3.50	3.25	3.25	3.25	3.25	3.50	3.75	3.75	3.75	3.75
90 Day Bill	3.49	3.35	3.35	3.35	3.45	3.70	3.85	3.85	3.85	3.85
2 Year Swap	3.18	3.10	3.25	3.50	3.70	3.85	3.95	4.00	4.00	4.00
10 Year Bond	4.79	4.60	4.65	4.70	4.75	4.80	4.85	4.90	4.95	4.95
10 Year Spread to US	30	30	30	30	30	30	25	20	15	15
10 Year Spread to Aust	35	25	25	25	25	25	25	20	15	15

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
NZD vs										
USD	0.5834	0.56	0.56	0.57	0.57	0.58	0.59	0.60	0.61	0.62
JPY	83.90	81	81	80	80	80	81	81	81	82
EUR	0.5146	0.51	0.51	0.51	0.51	0.51	0.52	0.52	0.53	0.53
AUD	0.9272	0.90	0.89	0.87	0.87	0.87	0.87	0.87	0.87	0.87
CAD	0.8093	0.78	0.79	0.79	0.80	0.80	0.81	0.81	0.82	0.82
GBP	0.4460	0.43	0.44	0.44	0.44	0.44	0.45	0.45	0.45	0.45
CNY	4.2510	4.09	4.11	4.11	4.12	4.15	4.20	4.19	4.19	4.18

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2024		2025				2026		Calendar years			
% change	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024**	**2025f**	**2026f**
Private consumption	–0.3	0.1	0.4	0.7	1.2	1.0	1.1	1.2	1.0	0.2	1.7	4.5
Government consumption	–2.1	1.9	–0.5	0.0	0.4	0.4	0.5	0.5	0.8	0.0	0.1	1.8
Residential investment	–1.7	–3.9	0.0	0.0	0.8	1.8	2.0	2.0	–5.6	–10.2	–4.2	6.9
Business investment	–2.6	1.5	–0.4	0.6	1.1	1.3	1.4	1.3	2.6	–2.2	0.9	5.0
Stocks (ppt contribution)	–0.3	0.4	1.0	–0.1	0.0	0.2	0.0	–0.1	–1.4	0.2	1.2	–0.1
GNE	–1.0	0.6	1.0	0.4	1.0	1.2	1.1	1.0	–0.8	–0.8	2.0	4.1
Exports	–1.8	3.5	2.8	0.6	0.6	0.5	0.7	0.7	11.4	4.2	5.7	2.6
Imports	0.0	1.1	–0.2	0.5	1.4	1.4	1.6	1.5	–0.6	2.4	1.9	5.9
GDP (production)	**–1.1**	**0.7**	**0.4**	**0.4**	**0.8**	**1.0**	**0.8**	**0.7**	**1.8**	**–0.5**	**1.0**	**3.2**
Employment annual %	–0.6	–1.1	–0.6	–0.7	0.0	0.5	1.0	1.5	2.8	–1.1	0.5	2.1
Unemployment rate % s.a.	4.8	5.1	5.3	5.4	5.4	5.3	5.2	5.0	4.0	5.1	5.3	4.6
LCI, all sect incl o/t, ann %	3.8	3.3	3.0	2.4	2.3	2.2	1.9	1.8	4.3	3.3	2.2	1.8
CPI annual %	2.2	2.2	2.3	2.1	2.3	2.5	2.2	2.3	4.7	2.2	2.5	2.0
Current account % of GDP	–6.5	–6.2	–5.5	–4.6	–4.3	–4.0	–4.1	–4.3	–6.9	–6.2	–4.0	–4.5
Terms of trade annual %	1.6	13.6	15.8	16.1	12.1	8.0	0.7	–1.4	–10.7	13.6	8.0	1.4

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Jun–27
Australian commodities index#	302	299	285	283	282	283	285	286	285	284	285
Bulk commodities index#	**382**	**370**	**340**	**330**	**340**	**350**	**350**	**350**	**350**	**350**	**360**
iron ore finesTSI @ 62% US$/t	97	95	88	86	84	83	83	84	85	85	86
Premium low vol met coal (US$/t)	177	170	167	167	167	166	164	164	166	167	168
Newcastle spot thermal coal (US$/t)	103	100	100	105	107	110	111	111	112	113	114
crude oil (US$/bbl) Brent ICE	64	60	63	65	67	70	72	72	73	73	74
LNG in Japan US$mmbtu	12.34	12.4	9.8	10.0	10.3	10.2	10.5	10.6	10.5	10.4	10.3
gold (US$/oz)	3,086	3,200	3,200	3,100	3,050	3,000	2,980	2,950	2,900	2,850	2,860
Base metals index#	**200**	**194**	**193**	**193**	**199**	**206**	**212**	**213**	**214**	**216**	**217**
copper (US$/t)	8,790	8,550	8,400	8,400	8,900	9,320	9,600	9,670	9,730	9,800	9,870
aluminium (US$/t)	2,861	2,830	2,830	2,800	2,830	2,850	2,920	2,930	2,950	2,960	2,980
nickel (US$/t)	14,322	14,000	13,800	14,000	14,250	14,820	15,210	15,300	15,390	15,480	15,580
zinc (US$/t)	2,600	2,500	2,550	2,580	2,600	2,690	2,740	2,760	2,770	2,790	2,800
lead (US$/t)	1,859	1,850	1,840	1,840	1,850	1,910	1,950	1,960	1,970	1,980	1,990
Rural commodities index#	**120**	**118**	**118**	**118**	**122**	**128**	**132**	**133**	**134**	**135**	**136**
NZ commodities index ##	**397**	**396**	**387**	**384**	**384**	**387**	**391**	**394**	**397**	**399**	**400**
dairy price index ##	361	352	334	324	323	328	332	337	340	342	345
whole milk powder USD/t	4,062	3,800	3,670	3,550	3,600	3,650	3,700	3,750	3,780	3,810	3,840
skim milk powder USD/t	2,876	2,600	2,520	2,450	2,500	2,550	2,600	2,650	2,670	2,690	2,710
lamb price index ##	537	530	536	541	547	552	555	558	561	564	567
beef price index ##	311	312	314	315	317	319	321	323	325	328	330
forestry price index ##	156	164	165	167	169	169	170	170	170	170	171

	levels				%change			
Annual averages	**2024**	**2025(f)**	**2026(f)**	**2027(f)**	**2024**	**2025(f)**	**2026(f)**	**2027(f)**
Australian commodities index#	**312**	**296**	**284**	**285**	**–3.4**	**–5.3**	**–4.1**	**0.5**
Bulk commodities index#	**436**	**366**	**346**	**355**	**–13.0**	**–16.0**	**–5.4**	**2.5**
iron ore fines @ 62% USD/t	109	94	84	85	–8.5	–14.0	–11.0	1.9
LNG in Japan $mmbtu	13.3	11.4	10.3	10.4	–10.6	–13.9	–9.6	0.7
ave coking coal price (US$/t)	206	143	125	128	–4.1	–30.8	–12.6	2.6
ave thermal price (US$/t)	136	120	126	130	–26.1	–11.6	4.9	3.5
iron ore fines contracts (US¢ dltu)	162	152	137	137	1.3	–6.8	–9.8	0.5
Premium low vol met coal (US$/t)	241	173	166	167	–18.6	–28.0	–4.4	0.8
crude oil (US$/bbl) Brent ICE	78	66	70	74	–1.6	–16.0	6.1	5.5
gold (US$/oz)	2,410	3,101	3,006	2,875	22.8	28.7	–3.0	–4.4
Base metals index#	**210**	**199**	**206**	**216**	**–1.0**	**–5.1**	**3.4**	**4.8**
copper (US$/t)	9,200	8,800	9,300	9,800	8.1	–4.3	5.7	5.4
aluminium (US$/t)	2,700	2,800	2,900	3,000	–1.4	3.7	3.6	3.4
nickel (US$/t)	16,900	14,500	14,800	15,500	–21.8	–14.2	2.1	4.7
zinc (US$/t)	2,800	2,600	2,700	2,800	5.6	–7.1	3.8	3.7
lead (US$/t)	2,100	1,900	1,900	2,000	–1.4	–9.5	0.0	5.3
Rural commodities index#	**126**	**119**	**127**	**134**	**–10.3**	**–5.8**	**6.7**	**5.8**
NZ commodities index ##	**357**	**390**	**389**	**400**	**8.4**	**9.3**	**–0.4**	**2.7**
dairy price index ##	318	342	330	344	10.9	7.6	–3.5	4.2
whole milk powder USD/t	3,439	3,823	3,654	3,809	11.6	11.2	–4.4	4.2
skim milk powder USD/t	2,686	2,629	2,554	2,692	1.8	–2.1	–2.9	5.4
lamb price index ##	462	532	552	565	0.3	15.2	3.7	2.4
beef price index ##	283	311	319	328	4.4	9.9	2.4	2.8
forestry price index ##	159	163	169	171	–0.1	2.1	3.9	0.8

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

United States

Interest rate forecasts

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Fed Funds*	4.375	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875
10 Year Bond	4.49	4.30	4.35	4.40	4.45	4.50	4.60	4.70	4.80	4.80

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

Currency forecasts

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
USD vs										
DXY index	100.00	102.5	102.2	101.1	100.4	99.5	98.6	97.8	97.6	97.1
JPY	143.82	145	143	141	139	137	136	135	134	133
EUR	1.1338	1.10	1.10	1.11	1.12	1.13	1.14	1.15	1.15	1.15
AUD	0.6292	0.62	0.63	0.65	0.66	0.67	0.68	0.69	0.70	0.71
NZD	0.5834	0.56	0.56	0.57	0.57	0.58	0.59	0.60	0.61	0.62
CAD	1.3873	1.41	1.41	1.40	1.39	1.38	1.37	1.36	1.35	1.34
GBP	1.3080	1.28	1.29	1.30	1.31	1.32	1.33	1.34	1.35	1.35
CHF	0.8184	0.84	0.83	0.83	0.83	0.83	0.82	0.82	0.82	0.82
ZAR	19.14	19.6	19.4	19.1	19.0	18.8	18.7	18.6	18.4	18.3
SGD	1.3201	1.34	1.34	1.33	1.32	1.31	1.31	1.30	1.30	1.29
HKD	7.7555	7.76	7.76	7.76	7.75	7.75	7.75	7.75	7.75	7.75
PHP	56.98	57.2	57.1	57.0	56.9	56.8	56.6	56.4	56.2	56.1
THB	33.52	34.1	33.8	33.5	33.0	32.5	32.0	31.5	31.0	31.0
MYR	4.4228	4.45	4.35	4.25	4.15	4.05	4.00	3.95	3.95	3.95
CNY	7.2918	7.35	7.30	7.25	7.20	7.15	7.10	7.00	6.90	6.80
IDR	16795	16600	16400	16200	15900	15600	15300	15000	14700	14659
TWD	32.48	32.8	32.6	32.4	32.2	31.9	31.6	31.3	31.0	30.9
KRW	1420	1450	1440	1420	1400	1380	1360	1340	1320	1310
INR	86.05	86.5	86.0	85.0	84.0	83.0	82.0	81.0	80.0	79.0

Activity forecasts

	2024		2025				2026		Calendar years			
% annualised, s/adj	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024**	**2025f**	**2026f**
Private consumption	3.7	4.2	1.1	0.5	0.8	1.2	1.3	1.6	2.5	2.8	2.0	1.3
Dwelling investment	–4.3	5.3	3.2	3.2	2.4	0.0	1.6	1.6	–7.8	4.2	2.0	1.5
Business investment	4.0	–2.2	0.3	1.7	1.2	1.2	1.4	1.7	6.0	3.7	0.9	1.6
Public demand	5.1	2.5	2.0	2.0	1.6	1.2	0.8	0.4	3.9	3.4	2.5	0.9
Domestic final demand	3.7	3.0	1.2	1.0	1.0	1.1	1.2	1.4	2.8	3.0	1.9	1.3
Inventories contribution ppt	–0.2	–0.9	0.4	0.2	–0.3	0.1	0.0	0.1	–0.4	–0.2	0.1	0.0
Net exports contribution ppt	–0.6	0.0	–1.9	–1.0	–0.1	–0.1	–0.4	–0.4	0.0	–0.6	–0.8	–0.5
GDP	3.1	2.3	–0.2	0.2	0.6	1.2	0.9	1.1	2.9	2.8	1.1	0.9
%yr annual chg	2.7	2.5	2.0	1.3	0.7	0.5	0.7	1.0	–	–	–	–

Other macroeconomic variables

	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2023	2024	2025f	2026f
Non–farm payrolls mth avg	113	170	189	70	20	–30	20	50	213	161	62	68
Unemployment rate %	4.2	4.1	4.1	4.3	4.5	4.7	4.9	5.0	3.8	4.1	4.7	5.0
CPI headline %yr	2.4	2.9	2.4	2.7	3.0	3.5	3.4	3.3	3.4	2.9	3.5	3.0
PCE deflator, core %yr	2.7	2.9	2.5	2.7	3.0	3.5	3.4	3.3	2.7	2.6	3.5	3.0

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Euro Area										
ECB Deposit Rate	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.57	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.80	2.80
10 Year Spread to US	–192	–180	–180	–180	–180	–180	–185	–190	–200	–200
United Kingdom										
BoE Bank Rate	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.75	4.75	4.75	4.80	4.80	4.85	4.90	4.95	5.00	5.00
10 Year Spread to US	26	45	40	40	35	35	30	25	20	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
euro vs										
USD	1.1338	1.10	1.10	1.11	1.12	1.13	1.14	1.15	1.15	1.15
JPY	163.05	160	157	157	156	155	155	155	154	154
GBP	0.8667	0.86	0.85	0.86	0.85	0.86	0.86	0.86	0.85	0.85
CHF	0.9279	0.92	0.92	0.92	0.93	0.94	0.93	0.94	0.94	0.95
DKK	7.4648	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.08	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
NOK	12.11	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1
sterling vs										
USD	1.3080	1.28	1.29	1.30	1.31	1.32	1.33	1.34	1.35	1.35
JPY	188.12	186	184	183	182	181	181	181	181	180
CHF	1.0705	1.08	1.07	1.08	1.09	1.10	1.09	1.10	1.11	1.11
AUD	0.4810	0.48	0.49	0.50	0.50	0.51	0.51	0.51	0.52	0.52

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2020	2021	2022	2023	2024	2025f	2026f
Eurozone GDP	–6.1	5.9	3.4	0.4	0.7	0.7	1.2
private consumption	–8.0	3.5	4.0	0.6	0.8	0.7	1.3
fixed investment	–8.4	3.6	3.5	1.0	–1.9	0.9	1.9
government consumption	1.4	3.8	1.2	0.1	1.6	1.4	1.5
net exports contribution ppt	–0.7	1.0	0.3	0.1	0.2	0.0	0.1
Germany GDP	–3.8	3.2	1.8	–0.3	–0.2	0.2	1.2
France GDP	–7.5	6.3	2.5	0.9	1.0	0.6	0.9
Italy GDP	–9.0	8.3	4.0	0.9	0.5	0.6	0.9
Spain GDP	–11.2	6.4	5.8	2.5	3.2	2.3	2.3
Netherlands GDP	–3.9	6.2	4.3	0.1	0.8	1.5	1.3
memo: United Kingdom GDP	–10.4	8.7	4.3	0.1	0.7	0.6	1.1

Asia

China activity forecasts

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

Source: Macrobond

Chinese interest rates & monetary policy

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Required reserve ratio %*	9.50	9.00	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Loan Prime Rate, 1–year	3.10	2.90	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80

* For major banks.

Japanese interest rates & monetary policy

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Policy Rate	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
10 Year Bond Yield	1.32	1.10	1.40	1.45	1.75	1.75	1.75	1.75	1.75	1.75

Currency forecasts

	Latest (14 Apr)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
JPY	143.82	145	143	141	139	137	136	135	134	133
SGD	1.3201	1.34	1.34	1.33	1.32	1.31	1.31	1.30	1.30	1.29
HKD	7.7555	7.76	7.76	7.76	7.75	7.75	7.75	7.75	7.75	7.75
PHP	56.98	57.2	57.1	57.0	56.9	56.8	56.6	56.4	56.2	56.1
THB	33.52	34.1	33.8	33.5	33.0	32.5	32.0	31.5	31.0	31.0
MYR	4.4228	4.45	4.35	4.25	4.15	4.05	4.00	3.95	3.95	3.95
CNY	7.2918	7.35	7.30	7.25	7.20	7.15	7.10	7.00	6.90	6.80
IDR	16795	16600	16400	16200	15900	15600	15300	15000	14700	14659
TWD	32.48	32.8	32.6	32.4	32.2	31.9	31.6	31.3	31.0	30.9
KRW	1420	1450	1440	1420	1400	1380	1360	1340	1320	1310
INR	86.05	86.5	86.0	85.0	84.0	83.0	82.0	81.0	80.0	79.0

Source: Bloomberg, Westpac Economics.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023	2024	2025f	2026f
World	**2.8**	**–2.7**	**6.5**	**3.5**	**3.2**	**3.3**	**2.9**	**3.0**
United States	2.5	–2.2	5.8	1.9	2.5	2.8	1.1	0.9
Japan	–0.4	–4.1	2.6	1.0	1.9	–0.1	1.0	0.8
Euro zone	1.6	–6.1	5.9	3.4	0.4	0.7	0.7	1.2
Group of 3	**1.8**	**–3.9**	**5.5**	**2.4**	**1.7**	**1.7**	**0.9**	**1.0**
United Kingdom	1.6	–10.4	8.7	4.3	0.1	0.7	0.6	1.1
Canada	1.9	–5.0	5.3	3.8	1.1	1.3	1.2	1.2
Australia	1.8	–2.1	5.5	3.9	2.1	1.0	1.8	2.2
New Zealand	3.1	–1.4	5.6	2.4	1.8	–0.5	1.0	3.2
OECD total	**1.8**	**–4.3**	**5.8**	**2.8**	**1.7**	**1.5**	**1.0**	**1.2**
China	6.0	2.2	8.4	3.0	5.2	5.0	5.0	4.7
Korea	2.2	–0.7	4.3	2.6	1.4	2.1	1.4	1.8
Taiwan	3.1	3.4	6.6	2.6	1.4	4.3	2.8	2.6
Hong Kong	–1.7	–6.5	6.5	–3.7	3.2	2.5	2.3	2.2
Singapore	1.3	–3.9	9.7	3.8	1.1	3.9	2.4	2.2
Indonesia	5.0	–2.1	3.7	5.3	5.0	5.0	4.8	4.8
Thailand	2.1	–6.1	1.5	2.5	1.9	2.7	2.4	2.6
Malaysia	4.4	–5.5	3.3	8.7	3.7	5.1	4.5	4.4
Philippines	6.1	–9.5	5.7	7.6	5.6	5.6	5.5	5.5
Vietnam	7.4	2.9	2.6	8.1	5.0	7.1	5.8	6.0
East Asia	**5.2**	**0.7**	**7.1**	**3.5**	**4.6**	**4.8**	**4.6**	**4.4**
East Asia ex China	3.8	–2.3	4.3	4.5	3.3	4.3	3.7	3.8
NIEs*	**2.0**	**–0.5**	**5.9**	**2.2**	**1.5**	**3.0**	**2.0**	**2.1**
India	3.9	–5.8	9.7	7.0	7.8	6.6	6.2	6.2
Russia	2.2	–2.7	6.0	–1.2	3.6	3.3	1.5	1.5
Brazil	1.2	–3.3	4.8	3.0	2.9	3.3	1.5	1.5
South Africa	0.3	–6.0	4.7	1.9	0.6	0.9	1.2	1.4
Mexico	–0.3	–8.6	5.7	3.9	3.2	2.4	0.4	1.5
Argentina	–2.0	–9.9	10.7	5.0	–1.6	–2.8	5.0	4.5
Chile	0.6	–6.1	11.3	2.1	0.2	2.0	2.5	2.4
CIS^	–1.4	0.1	10.4	–1.6	–0.6	5.9	5.0	6.6
Middle East	1.3	3.2	2.8	2.8	2.8	2.9	2.9	2.9
C & E Europe	–2.4	–4.8	9.0	4.3	3.2	2.5	3.2	3.4
Africa	3.2	–1.6	4.7	4.0	3.4	3.8	4.0	4.0
Emerging ex–East Asia	**1.6**	**–2.6**	**6.5**	**3.6**	**3.9**	**4.0**	**3.7**	**3.9**
Other countries	**6.7**	**–2.9**	**6.9**	**3.4**	**4.9**	**4.0**	**3.0**	**3.0**
World	**2.8**	**–2.7**	**6.5**	**3.5**	**3.2**	**3.3**	**2.9**	**3.0**

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

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