July 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

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July 2025

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NB: Australian activity forecasts on page 24 now includes annual through-the-year percent changes.

Real economy to take centre stage

As we move into the second half of the year, there is no shortage of economic developments to digest. With the 90-day pause on US tariffs now expired, US President Trump has started to outline a range of tariff rates that will be imposed from August 1, with some countries receiving a higher rate than before and, just as we go to press, the possibility of a higher baseline rate of 15-20%. Meanwhile, US Congress has recently passed President Trump's 'One Big Beautiful Bill', once again raising questions about the sustainability of US fiscal deficits and debt.

However, after months of significant volatility, markets have become desensitised to the 'shock-and-awe' of US trade and fiscal policy developments: equity markets have returned to pre 'Liberation Day' highs; bond yields continue to trade within recent ranges, and the US dollar is still holding at overvalued levels on a real effective basis.

'TACO' remains the order of the day. However, the market's comfort around tail risks may be challenged by the hard economic data in coming weeks. This slower-moving information will start to more clearly capture the impacts of policy changes on trade, demand, activity and inflation.

Careful assessments of economic fundamentals remain difficult in the midst of elevated volatility and policy uncertainty. This is an issue for markets and central banks alike but most challenging for the FOMC, with the US economy facing into some mix of weak growth and tariff-induced inflation. This has necessitated a patient approach to near-term policy setting. As the economic dataflow starts to provide more clarity, we see scope for another 50bps of rate cuts into year-end. However, prospects of medium-term relief will be constrained by a backdrop of elevated inflation and capacity issues.

Closer to home, the RBA opted to keep the cash rate unchanged at 3.85% at its July meeting. In doing so, the Board has shown its preference to err on the side of caution and patience – clear signals from the full suite of economic data, especially for inflation, will be needed to justify further removal of policy restrictiveness.

Australia: The tentative growth recovery that began in the second half of 2024 has lost its way a little in the first half of 2025. Last year's tax cuts and this year's interest rate cuts have generated some traction but growth in private demand remains subdued. With public demand now clearly slowing, the handover from public to private led growth is already looking bumpy. How this plays out for the broader economy depends both on the trajectories and how the handover impacts labour markets.

Commodities: Markets settled down somewhat over the past month as the risk of extreme tariff scenarios receded in the run-up to the July 9 deadline. The Westpac Commodity Export Price Index was flat through the month. Gold fell around 1%, thermal coal rallied around 11%, Brent is up 12% while aluminium is down almost 8%. The most extreme move was copper, where after the announcement of a 50% tariff on copper imports into the US, COMEX futures rallied to be up 13%.

Global FX Markets: The US dollar continued to lose its lustre this month, dulled by uncertainty over US trade and fiscal policy and with downside risks to the US economy mounting disproportionately compared to the rest of the world. As this trend persists, opportunities will become evident elsewhere.

New Zealand: The economy regained some momentum in the first quarter but more recent activity indicators appear to have taken a softer turn again. Price pressures are still lingering with inflation expected to brush the top of the 1-3% target range later this year, keeping the RBNZ cautious about the extent and timing of further policy easing.

United States: The US economy is exhibiting resilience for now but risks remain heavily skewed to the downside. Not only is near-term growth susceptible, but also the strength of any subsequent recovery. Critical to both is the resilience of the labour market, sentiment and the capacity of policy makers.

China: The past month has been constructive for China's economy, with a lasting bilateral trade deal agreed with the US while the domestic consumer slowly warms to the opportunities ahead. That said, the foundation for growth remains fragile.

Japan: In addition to the impact of trade disruptions, Japan's wages outlook also faces domestic risks centred on small businesses. Poor productivity, reflecting a lack of investment, will add to margin compression across SMEs, making it difficult for the largest group of employers to raise wages. That could in turn dampen the outlook for further rate hikes.

Europe & UK: Persistent weak economic growth, high public debt, and limited fiscal room leaves the UK vulnerable to sharp market reactions whenever political divisions undermine fiscal discipline. Restoring investor confidence by addressing the UK's structural economic challenges is essential, but it is a tall order for a Labour government facing rising popularity of the right-wing Reform UK party.

Central banks hurry up and wait …

Luci Ellis
Chief Economist, Westpac Group

Major central banks have slowed the pace of policy easing, though for differing reasons. The Federal Reserve is pausing as it awaits information on how much the tariffs lift inflation, with an extended pause being possible. Some other central banks, including the ECB, are close to the end of an easing cycle, with inflation now much closer to target and policy rates in the ballpark of estimated neutral rates.

The One Big Beautiful Bill became law on July 4, significantly expanding future US fiscal deficits and debt. The near-term growth impact is smaller: some of the fiscal expansion is from extending tax cuts that would otherwise have expired.

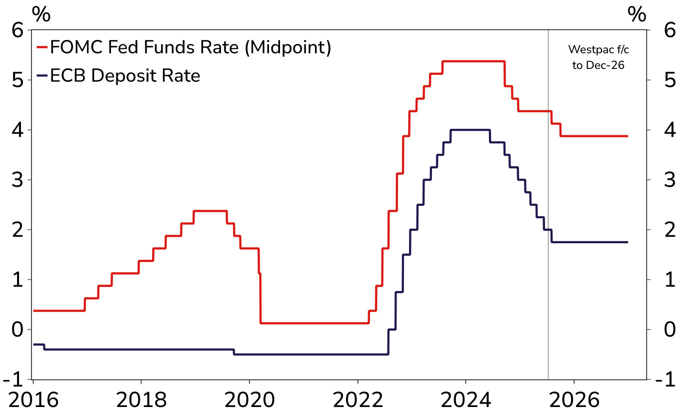
The previous 90-day pause on US tariffs has now expired. The Trump administration has extended the pause for some countries to allow negotiations to continue. Others have instead received letters informing them of the tariff rate they will face on exports not already covered by product-specific rates, such as cars, electronics and pharmaceuticals. In a few cases the latest announcements have represented a considerable escalation from the post-pause rates.

The fresh round of tariff news induced another bout of USD weakness, down around 1% on a DXY basis since mid-June. This has reduced the extent of its apparent overvaluation. On a real effective basis, the USD is now only about 13% above its long-run average, compared with a peak of more than 20% at the beginning of the year. The apparent improvement in competitiveness varies considerably by trading partner, however. Against the euro, the USD has depreciated nearly 13% since the beginning of the year. It has moved much less against CNY – just 2% – and is little changed on a real bilateral basis, noting that China is close to deflation while inflation in the US remains elevated. We continue to expect medium-term pressures for further US depreciation because of this overvaluation, but some of this divergence in bilateral rates could persist.

By contrast, equity markets have shrugged off the latest tariff news. Over the past month, US equity indices have surpassed the previous high reached in mid-February. This is still well short of the performance of European and other major equity market indices over the same period, however.

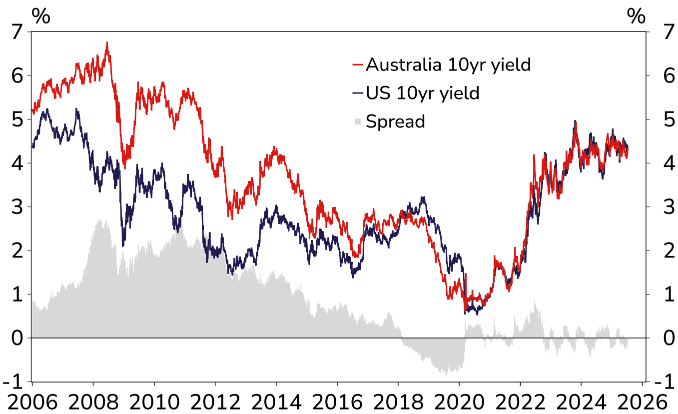
Bond markets have been much less affected by the latest round of policy developments, even though one of those represents a significant US fiscal expansion. Likewise, breakeven inflation rates implied by bond pricing are up only a few basis points since a month ago. Yields in most major markets were range-bound over the past month, but consistent with our medium-term view, are drifting higher over a longer horizon in some cases.

FOMC and ECB Policy Rates



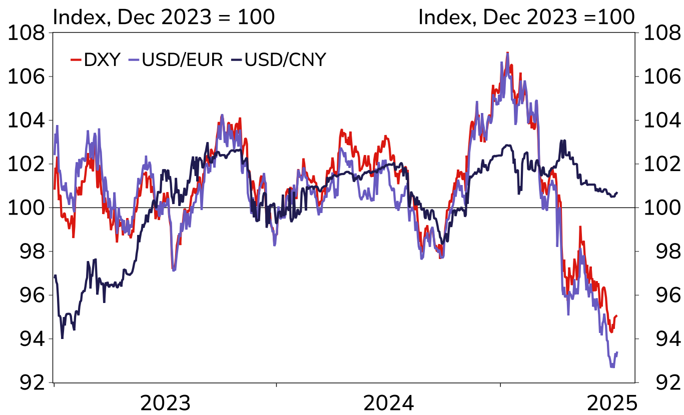
Source: BIS, ECB, Fed, Macrobond, Westpac Economics

10 Year Bond Yields



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

USD exchange rates



Source: Macrobond, Westpac Economics

… while RBA's caution makes 2026 cuts more likely

The RBA surprised the markets (and our own base-case, which we cautioned was not a shoo-in) by opting to keep the cash rate on hold in July. It was, however, a finely balanced decision with the Monetary Policy Board (MPB) split 6–3. The outcome makes it clear that RBA officials will not pre-empt the MPB's decisions by using inter-meeting speeches to steer market expectations towards its own view.

The RBA has taken a cautious approach to the rate-cutting phase. This is in line with the 'cautious and predictable' approach that the MPB has previously said it favoured. Adding to the cautious tone, though, the post-meeting communication highlighted relatively lagged information that implied that underlying inflation was still around the top of the 2–3% target range; the nearer-term pulse is closer to the midpoint, with important components still on a down-trend.

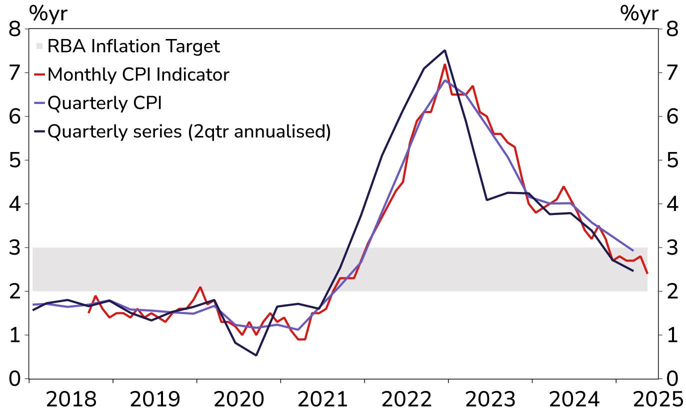
The post-meeting communication indicated that the split vote was a difference of timing, not direction. The majority preferred to wait for confirmation that the disinflation was on track via the quarterly CPI data and refreshed forecasts. This suggests the rate cut is still on for August, provided the trimmed mean inflation rate for June quarter does not surprise too much on the upside. We therefore reinstate the timing of the next cut to August and retain the spread-out timing (November, February, May) of subsequent cuts.

The spread-out timing creates a risk that the RBA will be surprised on the downside by inflation later this year and feel a need to catch up. This adds to the chance that our current base-case of a trough rate of 2.85% ends up being correct, rather than something higher. Markets have repriced since the MPB meeting and currently imply an expectation for the cash rate at around 3% by June next year.

There is a small risk that even August is too soon for the RBA though, if the CPI surprises on the upside. Our own current nowcast for June quarter is marginally above what the RBA's May SMP forecasts seem to imply. The Governor also mentioned that the data might come in slightly above their forecasts. Another element in the mix is the RBA's ongoing view that the labour market is tighter than is consistent with full employment, and its assessment that low economy-wide productivity growth adds to upside inflation risks. The timing of future rate cuts will be partly shaped by how its views on these issues evolve.

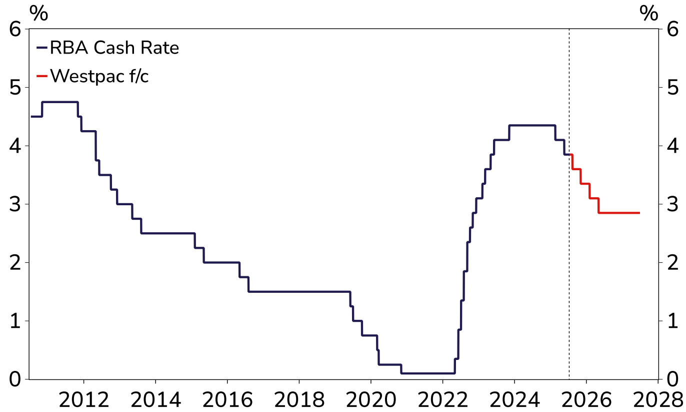
The AUD jumped roughly ½% on the RBA announcement both against the USD and on a TWI basis. In the scheme of things, this is a small movement. The AUD remains on the track it has been all year, appreciating against a still-overvalued USD but steady on a TWI basis. We continue to expect AUD/USD to appreciate as USD overvaluation unwinds. Given the potential for geopolitical shocks and evolving interest rate differentials, though, there could be some bumps along that path.

Trimmed Mean Inflation



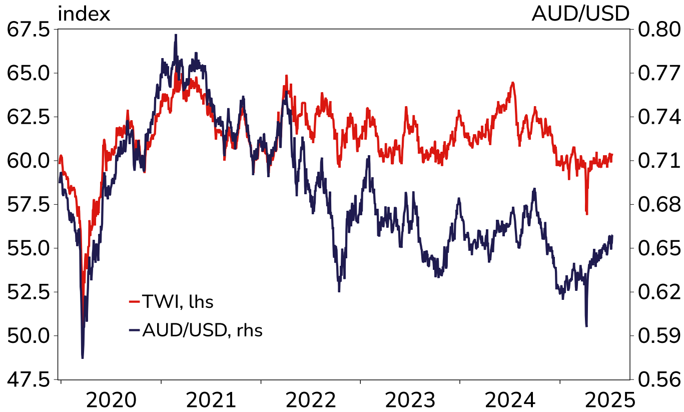
Source: ABS, Macrobond, Westpac Economics

RBA Cash Rate



Source: RBA, Macrobond, Westpac Economics

Australian Dollar – Spot vs TWI



Source: Bloomberg, Macrobond, Westpac Economics

Sluggish and lacking direction ...

Matt Hassan, Head of Australian Macro-Forecasting

The tentative growth recovery that began in the second half of 2024 has lost its way a little in the first half of 2025. Even allowing for tariff and weather-related shocks, underlying momentum appears to have slowed a touch from what was already an underwhelming starting point. Last year's tax cuts and this year's interest rate cuts have generated some traction but growth in private demand remains subdued, still trailing slightly behind population gains. With public demand – the main driver of gains in 2024 – now clearly slowing, the handover from public to private led growth is already looking bumpy. How this plays out for the broader economy depends both on the trajectories and how the handover impacts labour markets.

Updates over the last month show little change domestically.

Around private demand, indicators remain mixed at best. Consumer spending looks to be tracking another subdued gain for the June quarter, in line with the lacklustre 0.4%qtr gain in the March quarter. Certainly, that was the tone from May updates to retail sales, the household spending indicator, and the Westpac-DataX Card Tracker Index for the June quarter as a whole. Private sector business surveys, including the NAB business survey and the Westpac-ACCI survey, are showing a gradual improvement but are still 'lukewarm' overall.

Some private sector positives

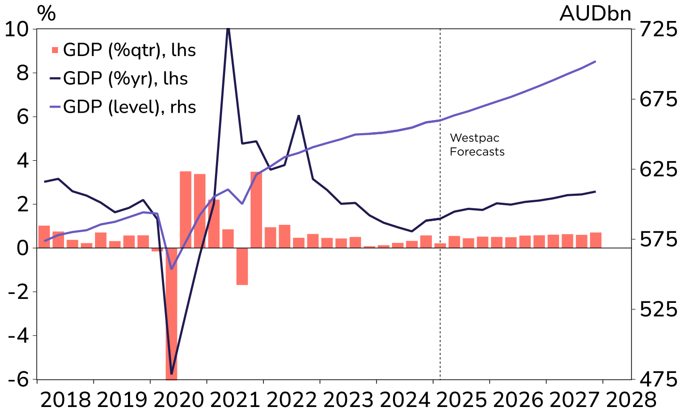
There are some bright spots.

The housing sector is showing some uplift both in response to recent interest rate moves and as it moves clear of a range of issues that have been hampering new building in recent years. In established markets, price growth has firmed and turnover has stabilised. Dwelling investment had a strong start to the year with a long-awaited recovery now clearly underway. With backlogs clearing, gains should sustain. However, weather disruptions will likely impact June quarter activity with a pull-back in dwelling approvals in recent months taking away some of the upside risk to the new-found positive momentum.

There has also been a further significant build-up in the pipeline of major investment projects. The latest Deloitte Access Investment Monitor has just under $1.2trn in identified projects, up 24%yr. About 45% of this is in 'definite' work, i.e. projects that are either underway or committed. As highlighted in the June edition of our quarterly **Coast to Coast** report, a distinguishing feature of the 'potential' work is a large pipeline in the utilities space, most of which relates to renewables investment.

Positive as this is, not all projects transition from 'potential' to 'definite' and even with those that do, it often takes a year

Gradual recovery in economic growth anticipated



Source: ABS, Macrobond, Westpac Economics

or more for a green light to be given. Ongoing uncertainties around domestic energy policy and an unstable global backdrop could also lengthen delays and see more prospective projects shelved.

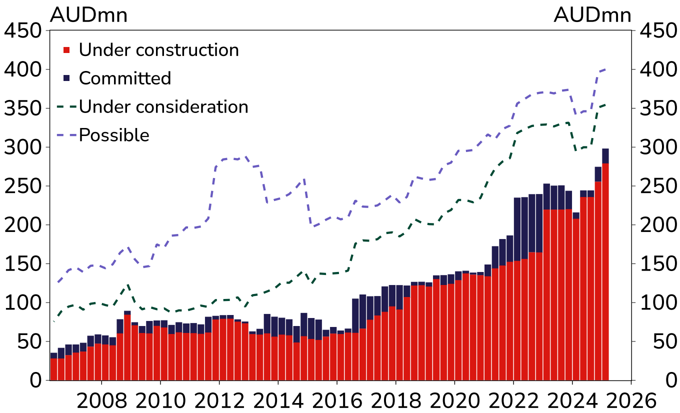
Fiscal impulse turning

This slow ramp-up will also be occurring at a time that a major round of public transport 'mega-projects' is rolling off. This includes Sydney's WestConnex (now largely complete), Metro (South West to open in 2026 with West completing by 2032), and Western Sydney Airport (due to complete in 2026). In Melbourne, the list includes the Metro Tunnel (expected to complete in 2025) and the Airport Rail Link (2029), with longer, and more uncertain timelines for the Suburban Rail Loop and Geelong Fast Rail projects. In Brisbane and southeast Queensland, the list includes Cross River Rail (2025-26) and Gold Coast Light Rail (2026) but with a significant round of transport and other infrastructure projects that will be supporting activity through to the Brisbane Olympics in 2032.

That is part of the picture around slowing public demand. More generally, fiscal pressures are clearly weighing on public investment plans. While major project roll-offs are gradual the point is that there is unlikely to be another round of mega projects beyond these, certainly not on the same scale. Indeed, recent state budget updates have underscored this picture with the combined state 'fiscal impulse' – the economic impact of changes in government fiscal balances – set to swing from positives in 2023-24 and 2024-25 to flat in 2025-26 with the potential for small negatives thereafter.

… themes clear but momentum hard to read

Transport project pipeline



Source: Deloitte Investment Monitor, Macrobond, Westpac Economics

Note that a significant part of this also relates to the wind down of 'cost of living' support measures deployed over the last three years. This is seeing even more pronounced swings at a Federal level (albeit with latest monthly figures showing finances are again coming from a better than expected starting point).

Externally, Australia's trade flows have been buffeted by volatility associated with US tariff policy changes and weather-related disruptions. Price-wise though, the picture has been somewhat more settled over the last month despite ongoing tariff-related uncertainty, and a notable exception for copper (see p8). Our assessment of prospects both globally and for China are broadly unchanged and continue to point to limited trade impacts for Australia. On the services side, monthly overseas travel flows have been a touch softer but are hard to interpret as seasonally adjusted estimates are still not available for post-COVID periods.

Labour market an important gauge

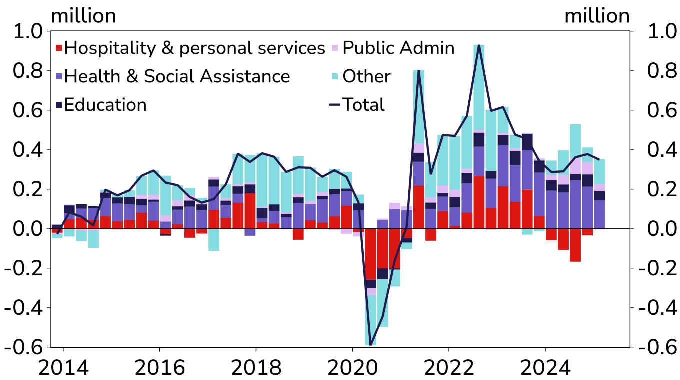
The labour market remains a key barometer for the Australian economy, both of the pace of growth and the balance of supply and demand pressures. Updates to May show little has changed with a monthly dip but in the context of a still solid uptrend, hours worked posting a notably stronger monthly gain and both unemployment and underemployment measures of slack essentially unchanged. Quarterly figures on job vacancies also held at relatively elevated levels, ticking up slightly over the three months to May.

The industry mix is of particular interest here. Recent growth in public demand has been very 'job-rich'. Indeed, growth in public sector employment has basically been one for one with growth in public demand through 2023 and 2024 (i.e. a 1ppt rise in public demand has been accompanied by a 1ppt rise in public employment). It was less than half that over the preceding decade. If we widen the definition to include the government-dominated 'care economy' sectors of education, health and social assistance, growth has been closer to one and a half to one. This is of course the flip side of the productivity story we have discussed at length over the last year – the decline in output per hour worked seen across 'government-dominated' sectors can be restated as stronger growth in hours worked (and by implication employment) for given growth in output.

The upturn in private demand is not expected to be as strong as the recent growth in public demand and is likely to be less 'job-rich'. Judging the extent to which the two offset is not straightforward. The latest quarterly data shows this transition is starting to come through although the 'lift' in employment across other sectors is mostly due to a stabilisation in the, previously contracting, hospitality & personal services sector. We keenly await the next batch of updates on this and the wider real economy picture through August-September.

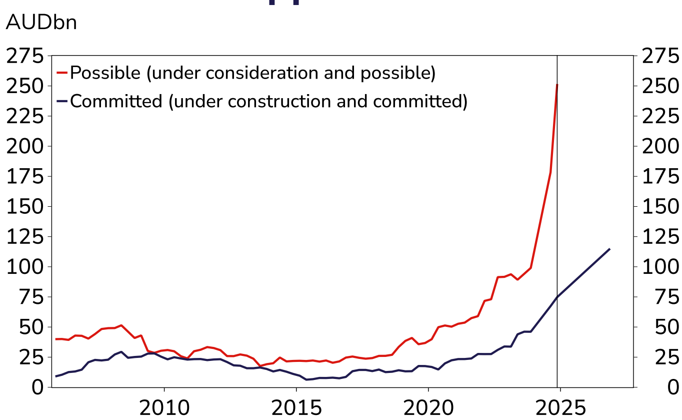
Change in Employment

By industry, year-ended contributions



Source: ABS, Macrobond, Westpac Economics

Utilities investment pipeline



Source: Deloitte Investment Monitor, Macrobond, Westpac Economics

Copper tariffs divide the market …

Justin Smirk
Senior Economist, Westpac Group

Over the past month, markets settled down somewhat as the risk of extreme tariff scenarios receded in the run-up to the July 9 deadline. The Westpac Commodity Export Price Index was flat through the month but this masks greater volatility in the various individual commodities. Gold fell around 1%, thermal coal rallied around 11%, Brent rose 12% while aluminium declined almost 8%. The most extreme move was copper, where after the announcement of a 50% tariff on copper imports into the US, COMEX futures rallied to be up 13% while LME futures are up just 3%. US buyers are stocking up ahead of the introduction to the copper tariff and COMEX futures have surged to a 25% premium over LME futures. Our commodity forecasts are unchanged.

Trump tariffs divide the copper market

Just as we are going to press, US President Trump made a surprise announcement that sent shockwaves through the copper market, stating: “We’re going to make [the tariff on copper] 50%.” In response, the COMEX copper contract surged 13% on the day, following a 17% rally compared to the previous day close. As a result, the COMEX futures trading premium over LME copper widened to ~25% from ~10% before the announcement. While this action also pulled LME prices higher, as inventories are shipped across the Atlantic, there still appears to be room for a further lift in the COMEX premium before the full impact of the tariff is priced in. Current indications suggest the tariff could be implemented as early as August 1.

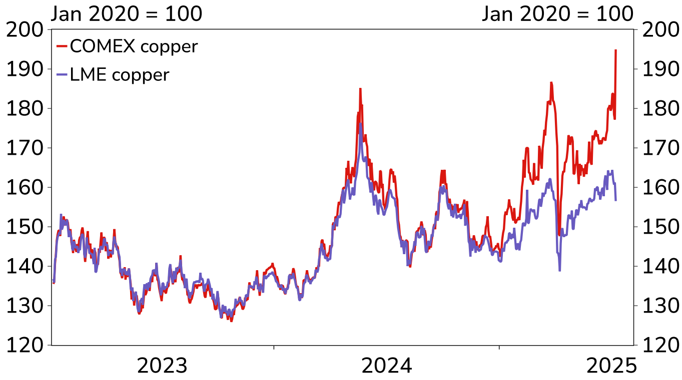
It remains unclear whether the tariff will apply solely to refined copper – as was the case with aluminium – or if it will extend to copper products and scrap. Notably, aluminium scrap was excluded from previous tariffs, leading to a surge in imports. With a 3-4 week window before implementation, a rush to import refined copper and copper products into the US is expected and is likely to drive prices even higher. However, once enacted, the tariff is expected to trigger a sharp drop in US demand, making the near-term outlook for copper highly uncertain. It is quite likely that prices will correct lower as we move to year end.

Gold appears to be running out of steam

With US President Trump’s ‘one big, beautiful bill’ now law, the size of the US fiscal deficit is set to rise, calling into question US debt sustainability. With the President again threatening steep ‘reciprocal’ tariffs even as he granted a three-week reprieve for countries to negotiate trade deals, it is easy to argue why you could expect gold to push up through US$3,400/oz. However, the flow into gold ETFs slowed into the end of June while early indications of central bank purchases suggest something similar is occurring in this

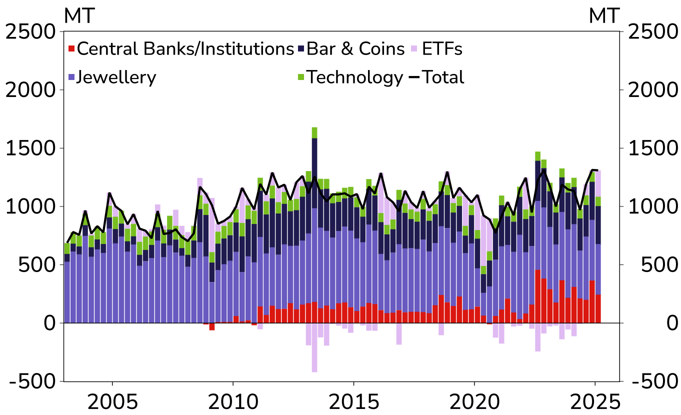
US vs. UK Copper Prices

US prices surged with the threat of tariffs



Source: CME Group, LME, Macrobond, Westpac Economics

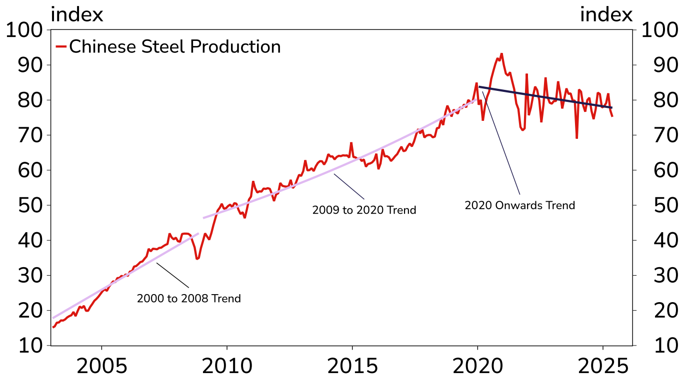
Gold Consumption



Source: World Gold Council, Macrobond, Westpac Economics

Chinese steel production peaked in 2020

Since peaking steel production has been trending down



Source: World Steel Association, 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.

... while iron ore and crude plot their own path

market. We also note there was little addition to speculative gold positioning, as you would normal expect, with an event such as the recent Israel/US-Iran conflict. As such, the risk to gold is not all one way and we expect gold to hold around current levels at least for the near term.

Iron ore has been incredibly stable

A good example of why to stay calm has been the relative lack of volatility in iron ore prices. This comes despite the ongoing uncertainty over tariff policies and their impact on global trade and economic growth. There is also uncertainty over the strength of China, which purchases about 75% of global seaborne iron ore volumes.

Overall, we are in a slightly surreal situation for iron ore where the demand fundamentals are clearly deteriorating but it appears that traders are waiting for additional policy stimulus at the next Politburo meeting, likely to be in the 3rd week of July.

Chinese steel production has been supported by a record amount of steel being exported to the rest of the world through the first five months of this year. Nevertheless, CISA data suggests the weakness seen in steel production in April and May has continued into June. When you also consider that steel production in the Hebei, Shanxi, Yunnan and Guizhou provinces is being actively curtailed, along with robust supply from the seaborne trade, we continue to expect the price of 62%fe to drop below US$90/t and be down to around US$86/t by year end.

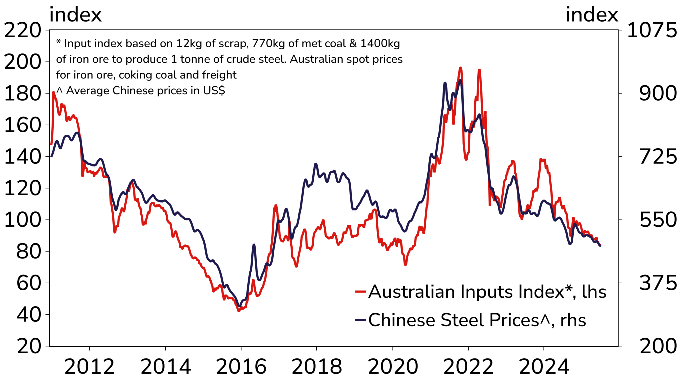
Crude oil finding its top side limit

Houthi rebels attacked two ships in the Red Sea with the IDF carrying out retaliatory air strikes but the US yet to respond. A US response seems inevitable, which would be why Brent jumped back above US$70/bbl. Given the permanent loss of Venezuelan crude, the temporary loss of Canadian supplies and the renewed tension in the Red Sea, a near term push higher is very likely. Add to this an increase in demand from soaring temperatures across the Americas, Europe, Asia and the Middle East driving up energy demand for cooling. So it is not surprising to see US exports of distillate close to 5yr seasonal highs while US distillate inventory is down to a 25yr seasonal low. This is why the market was able to absorb the additional OPEC+ barrels.

However, the approaching peak season for demand (northern hemisphere summer) will limit any near term move higher. As seasonal demand wanes an increase in OPEC production will hit the market and inventories are likely to start rising again. Already there are early signs of this happening with the API reporting a hefty build in US crude inventory last week. Hence, we hold that as we move through September increasing downside risks will see Brent falling back to US$60/bbl by year end.

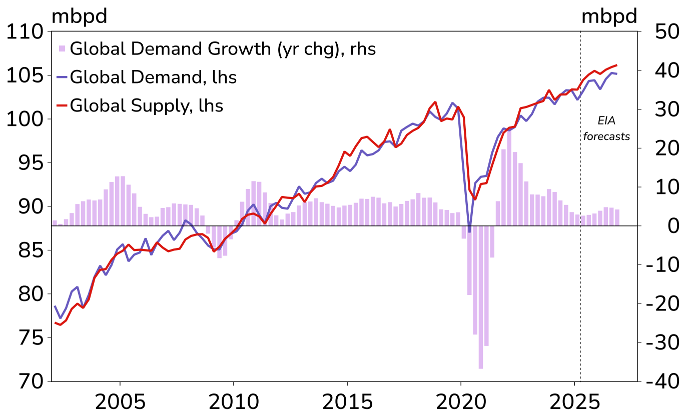
Chinese Steel Input and Output Prices

Prices had found a base looking weak again



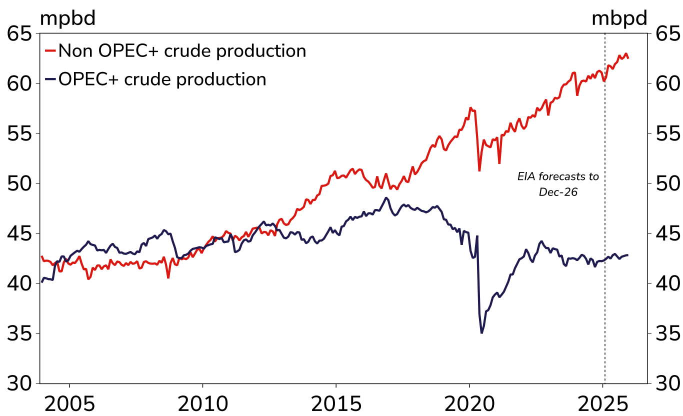
Source: Bloomberg, Macrobond, Westpac Economics

Crude oil supply & demand



Source: EIA, Bloomberg, Macrobond, Westpac Economics

Crude oil supply outlook is very robust



Source: EIA, Macrobond, Westpac Economics

USD dollar downtrend to create ...

Elliot Clarke
Head of International Economics

The US dollar has continued to lose its lustre in global markets this month, dulled by uncertainty over US trade and fiscal policy, and with downside risks to the US economy accumulating while those for the world remain broadly balanced by opportunities.

Having averaged 97.7 over the past month and now at 97.8, the DXY index has consistently traded below its 10-year average in recent weeks, breaking with its post-pandemic pattern of strong outperformance.

The successful passage of US President Trump's 'Big Beautiful Bill' and renewed threats to impose higher tariffs from 1 August have put a stop to further US dollar declines for now, the DXY index quickly bouncing off a brief mid-month low of 96.4. However, we expect further gradual declines over the forecast period, likely to around 94 by mid-2027. While lower than our US dollar profile last month, we continue to see downside risks to the baseline view, recognising that the 20-year average for DXY is 90.2, 8% below today's spot price.

Also, as detailed on page 16, risks to US economic activity continue to mount and increasingly are an issue not just for near-term growth but also the medium-term outlook. If all these risks were to crystallise, the US dollar's 20-year average may not hold as a floor.

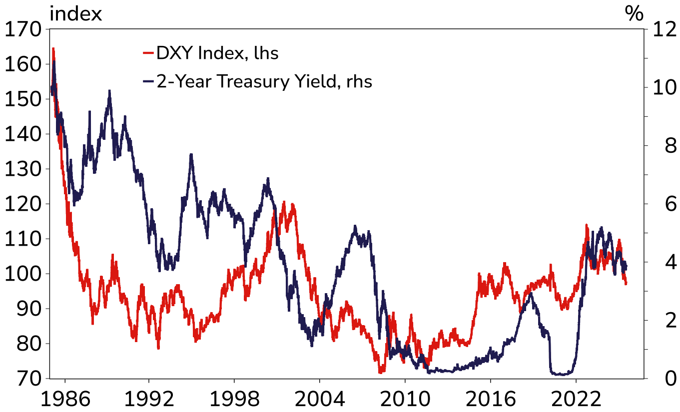
On a bilateral basis, Euro continues to receive the greatest benefit from the US dollar's descent, EUR/USD rallying from USD1.1555 at the time of our June Market Outlook to around USD1.17. While USD1.20 has rarely been seen since 2014, we expect this level to be tested by mid-2026, potentially much sooner if US downside risks escalate.

As for the broader DXY view, EUR/USD's 20-year average of USD1.2248 points to additional modest downside for the US dollar against Euro if conditions support. To the extent that many of the positives for Europe are set to build over the forecast period – particularly around government spending on essential infrastructure and defence – the probability of EUR/USD being at or above USD1.20 is likely to rise as time passes.

Sterling is similarly positioned on a bilateral basis against the US dollar, having rallied in line with Euro in recent months. However, with EUR/GBP now around its decade average and economic expectations favouring Europe over the UK, Sterling is likely to underperform Euro through the forecast horizon. While the UK is likely to experience a higher interest rate structure going forward, this will come at a cost for growth and the fiscal position, and, in turn, the currency.

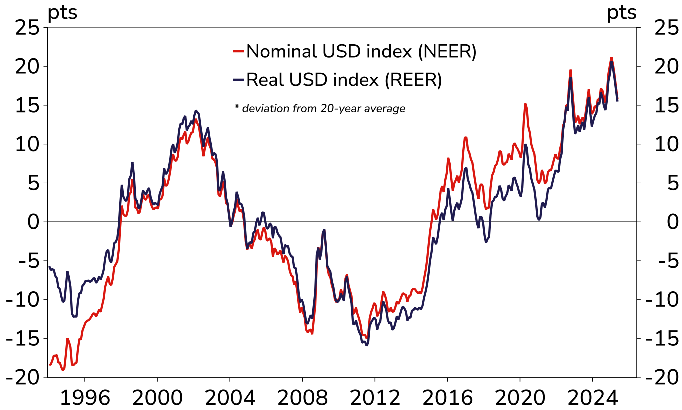
We therefore see a return to above USD1.40 for GBP/USD and meaningfully below USD0.86 for EUR/GBP as unlikely

US prime factor of global markets



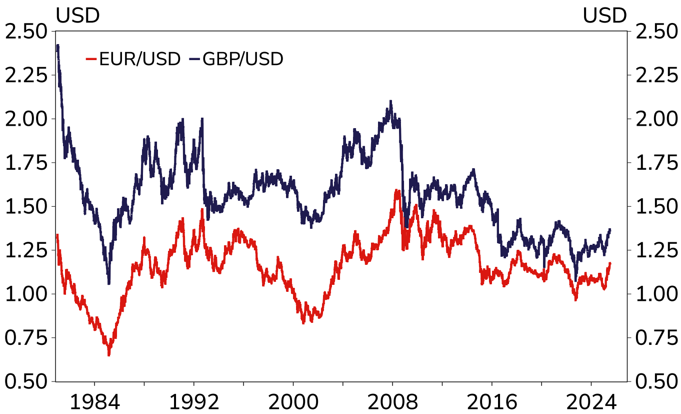
Source: Bloomberg, Macrobond, Westpac Economics

USD valuation experiencing a reset



Source: BIS, Macrobond, Westpac Economics

Euro now in favour, Sterling also benefitting



Source: Bloomberg, Macrobond, Westpac Economics

... opportunity for many

absent significant economic reform.

For Asia, the economic backdrop continues to brighten, though on trade it remains a case of the haves and the have nots. Against the odds, China is arguably best placed versus the US dollar. The agreement reached with the US over tariffs is manageable financially and, if the nations China is expanding its production footprint into receive US trade deals consistent with Vietnam's terms, there is considerable upside for Chinese firm profit repatriation. All the while, record shipments of mid-to-high value add goods direct from China to the world will continue to support the currency through trade receipts.

Given current sentiment, gains for the Renminbi are unlikely to be dramatic, but should see the currency trend towards levels last seen in mid-2022 amid the promise of pandemic recovery but as inflation was shown to be a global concern. From CNY7.18 today, we expect USD/CNY to decline to CNY6.90 end-2026 and CNY6.70 mid-2027. To the extent that USD/CNY traded around CNY6.40 in 2021 and 2022, to this baseline view there is upside opportunity for the Renminbi.

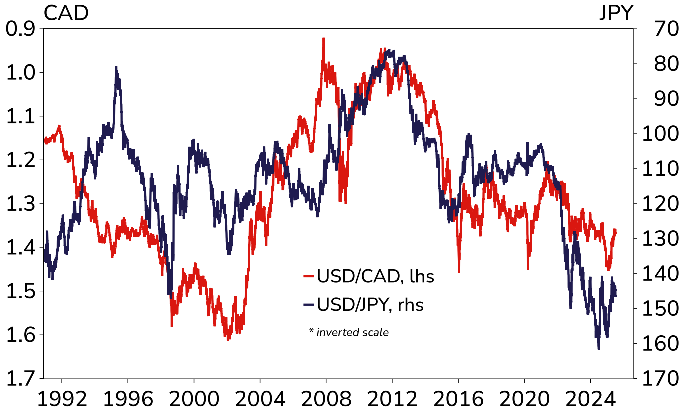
It is worth noting though that we expect the Renminbi to remain broadly stable against its other major trading partners as it has since 2021, the CFETS index generally holding to a 96–102 range over the period versus the current spot level of 95. Inevitably the strength already evident in the Singaporean dollar, USD/SGD declining from SGD1.35 in April to SGD1.28 today, and nascent for the Renminbi will flow through to the other emerging currencies of the region. The strong domestic economic development dynamics of many of these nations, Indonesia and Vietnam being prime examples, should offer further support.

In contrast, the more developed nations of the region stand to lose out. As we go to press, Japan and South Korea face US tariffs of 25% from 1 August, just below China's 30% rate and above Vietnam's 20%. Admittedly, exemptions should lower Japan and South Korea's rate to close to 20%, but Japan and South Korea also do not have the geopolitical strength of China nor its rapidly growing and diversifying production base to offset the tariff cost to business. Domestic demand in both nations is also considerably weaker than in China and the region's up-and-coming nations.

It is for these reasons that we expect the Yen and Won to underperform in the medium to long-run. Over the forecast period, we see USD/JPY and USD/KRW only trending down from JPY146 and KRW1375 to JPY133 and KRW1320 respectively.

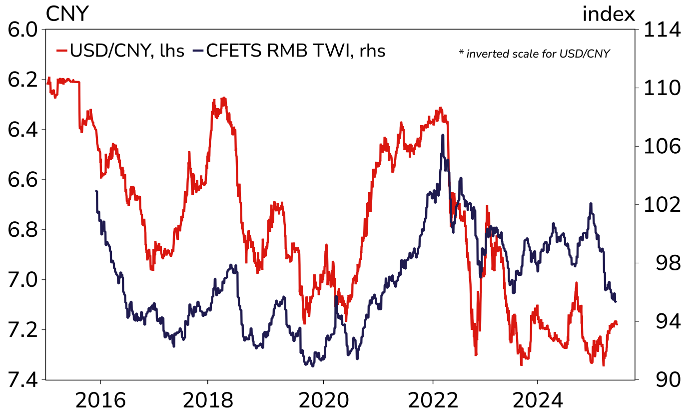
Outcomes for the rest of the region are likely to be mixed and, at times, volatile as investors seek to ascertain and profit from both economic opportunity and political uncertainty.

Concern over CAD to slowly abate



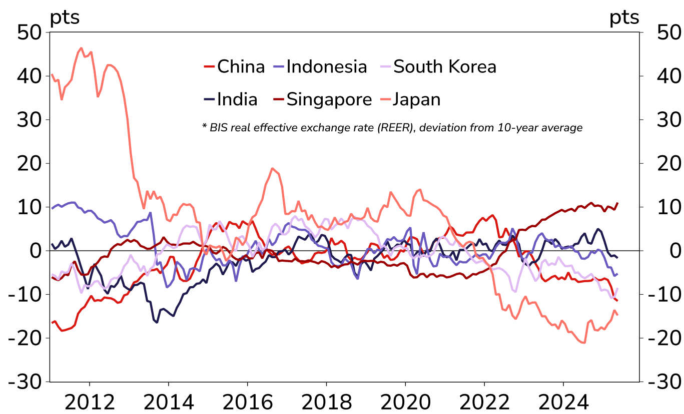
Source: Bloomberg, Macrobond, Westpac Economics

Renminbi to sustain rally



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



Source: BIS, Macrobond, Westpac Economics

Recent activity data has softened ...

Michael Gordon
Senior Economist

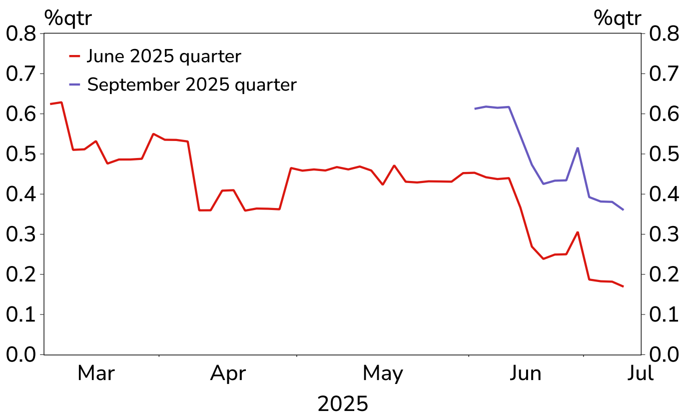
New Zealand remains in an environment of better, albeit still bumpy, growth and rising inflation that is testing the limits of the RBNZ's 1–3% inflation target range. Those competing forces, along with the uncertainty around how global conditions will pan out, prompted the RBNZ to stand pat at its July policy review, with an eye to easing in August if upcoming data performs as expected.

On the positive side, March quarter GDP proved to be stronger than the market and the RBNZ expected, rising by 0.8%. The increase in the December quarter was revised down from 0.7% to 0.5% (bringing it in line with what we had forecast at the time) but the sharp falls in the June and September quarters were revised to be slightly less weak than before. Those recessionary quarters in mid-2024 mean that activity is still languishing 0.7% lower than a year ago, but the momentum is improving.

While overall growth was above our forecast, it was less broad-based than we were expecting. The largest contribution came from professional services, with a 2.7% rise for the quarter, led by computing services. There were also concentrated gains in machinery manufacturing (up 6.4%) and healthcare (up 1.4%). Against this, there were some surprising declines across a range of services such as communications, finance, real estate, and arts and recreation. It's possible that some of these larger moves could be unwound in the next quarter, but since they go in both directions there are no obvious implications for our overall forecast.

The usual criticism levelled at GDP is that it's quite dated by the time it's published. And indeed, the more recent flow of data hasn't been faring as well – as encapsulated in our GDP nowcast, which is now tracking at around 0.2% for the June quarter. The RBNZ's own recently-launched nowcast has actually turned slightly negative.

New Zealand GDP nowcast



Source: Macrobond, Westpac Economics

The flow of softer data began with the manufacturing and services PMIs, which both took a sharp step backwards in May. The housing market's upturn also stalled in May, with prices up only 0.1% on a seasonally adjusted basis and a rise in the median time to sell a home. The Monthly Employment Indicator points to renewed job shedding in the last couple of months, after having stabilised in the early part of the year, and job advertisements remain at very low levels. Business confidence fell in the wake of the US tariff announcement, though it has partly recovered since then.

It's unclear to what extent this simply reflects near-term volatility in the data, given the ongoing sources of support for growth. Homeowners are continuing to move on to lower mortgage rates as they come up for their next reset period, and rural regions are receiving an income boost from rising meat export prices and a second year of strong dairy returns.

The mixed messages about the current position of the economy are evident in business surveys. The June NZIER Quarterly Survey of Business Opinion found that firms again reported weak activity in Q2, but had become even more optimistic about the months ahead, with the gap between the two measures reaching record highs. It's very much in the eye of the beholder as to which of these indicators best represents the underlying story – although recent experience suggests that the more positive forward-looking indicator has been closer to the mark.

On the whole, though, we've taken the recent soft data on board and have revised down our Q2 GDP growth forecast 0.3% from 0.6% previously. We're also aware that June quarters are currently being biased downward by some residual seasonality that has crept into the GDP figures lately. This is simply a timing shift (the flipside is that December quarters are biased upward), and it may be eliminated by future rounds of data revisions, but for now we have to go with what's likely to be reported. We note that the RBNZ has made similar adjustments to its growth forecasts for the next few quarters.

From the RBNZ's point of view, concerns about softer growth will need to be balanced against signs of inflation rearing its head again in the near term, with uncertainty around how this might flow through into medium-term pricing behaviour. We now expect annual inflation to rise to 2.8% in the June quarter, from 2.5% in March, and to reach 3.0% in September.

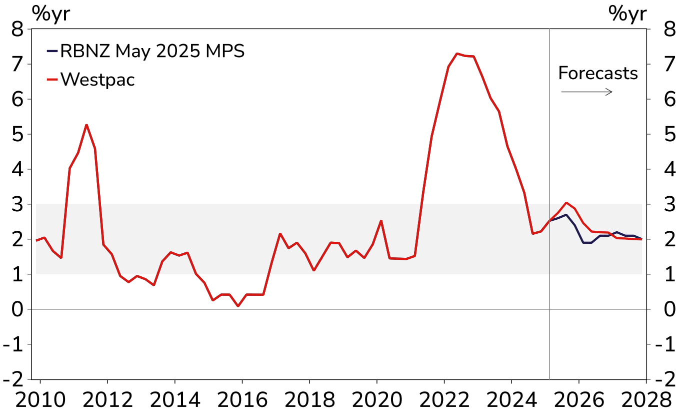
While the current strength in food prices is boosting inflation, underlying inflation pressures also aren't especially weak. Core inflation (ex food and energy) is set to remain around 2.7%–2.8% through to the end of this year. Notably, non-

… but stubborn inflation keeps the RBNZ cautious

tradables inflation is easing only gradually and is likely to remain above average over the coming year. Although rents and the more interest rate-sensitive parts of the domestic economy have cooled significantly, there continue to be strong increases in utilities prices like household energy. We're also facing another large increase in local council rates in Q3.

Faced with these competing concerns between inflation and growth, the RBNZ left the OCR unchanged at 3.25% at its July policy review, as the market had widely expected. While the decision was not taken to a vote, the record of the meeting clearly showed a split in views among the Committee members. The 'no change' view seems to have won out on the understanding that it would only be a pause until August, when more information about the economy would be available.

Annual CPI forecasts - RBNZ vs Westpac



Source: RBNZ, Macrobond, Westpac Economics

We continue to expect one further 25bp cut in this cycle, delivered at the 20 August Monetary Policy Statement. The key factors to watch ahead of that review will be the strength of core inflation in the CPI (21 July), and any pickup in surveyed inflation expectations (first half of August). We expect the unemployment rate (6 August) to rise a bit more than the RBNZ was forecasting in May, though this softness has already been foreshadowed by the higher-frequency data.

Aside from domestic economic data, developments in US tariff policy and any clarity regarding how this is impacting the outlook for trading partner growth and inflation will also have an impact on the RBNZ's deliberations. (The Committee seems not to recognise any reduction in global risks right now.) Movements in prices for New Zealand's commodity exports will be important in gauging the extent to which less favourable international conditions are beginning to impact the economy.

	2024					2025					
Monthly data	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
REINZ house sales %mth	9.1	0.5	2.7	3.5	2.2	–3.4	–0.6	7.1	1.5	0.5	–4.9	–
Residential building consents %mth	27.8	–6.1	2.7	–4.8	5.0	–5.4	3.1	0.5	9.7	–14.6	10.4	–
Electronic card transactions %mth	–0.1	0.2	0.0	0.7	0.1	2.3	–1.7	0.3	–0.8	0.0	–0.2	–
Private sector credit %yr	2.6	2.8	2.8	2.6	3.1	3.1	3.2	3.0	2.9	3.0	3.0	–
Commodity prices %mth	–1.7	2.1	1.8	1.4	2.9	0.1	1.8	3.0	–0.4	0.0	1.9	–2.3
Trade balance $m	–797	–1028	–793	–511	–299	–301	148	–173	–128	125	–144	–

Quarterly data	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**	**Q2:24**	**Q3:24**	**Q4:24**	**Q1:25**	**Q2:25**
Westpac McDermott Miller Consumer Confidence	77.7	83.1	80.2	88.9	93.2	82.2	90.8	97.5	89.2	91.2
Quarterly Survey of Business Opinion	–13	–11	–17	7	–28	–27	–28	–24	–21	–23
Unemployment rate %	3.4	3.6	3.9	4.0	4.4	4.6	4.8	5.1	5.1	–
CPI %yr	6.7	6.0	5.6	4.7	4.0	3.3	2.2	2.2	2.5	–
Real GDP %yr	3.5	4.0	2.4	1.8	1.4	0.6	0.0	–0.6	–1.1	–
Current account balance % of GDP	–8.6	–7.9	–7.7	–6.9	–6.6	–6.6	–6.5	–6.1	–5.7	–

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

The world needs China …

Elliot Clarke
Head of International Economics

The past month has been constructive for Chinese authorities and their economy. Regarding external demand, press reports sourcing the Trump administration suggest a lasting bilateral trade deal has been reached, while rest-of-world demand for China's exports remains at record highs. Domestically, the consumer is slowly warming to the opportunities ahead, although this nascent positivity still rests on fragile foundations.

On June 27, US Commerce Secretary Lutnick announced on Bloomberg that the terms laid out during trade talks between the two nations had now been codified and a formal agreement signed.

As alluded to in prior comments and press, guaranteed supply of rare earths was the main prize for the US, not balancing global competition or increasing foreign investment in the US. Highlighting this, in the interview, Commerce Secretary Lutnick stated "They're going to deliver rare earths to us… [and then] we'll take down our countermeasures".

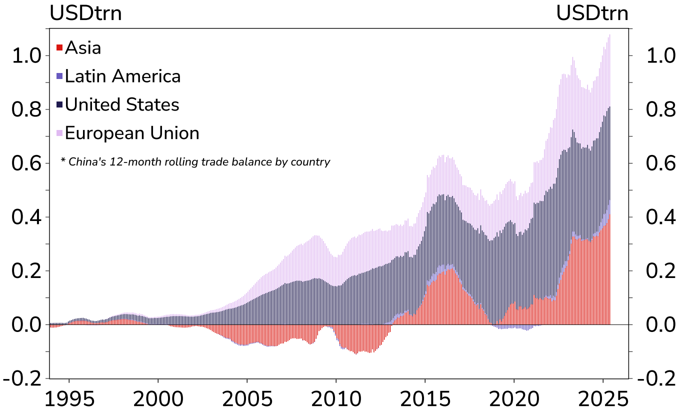
This agreement does not mean the US economy will overnight welcome supply of the mid and high-tech goods and components China is rapidly becoming a dominant global producer of. But it does mean that the downtrend in Chinese exports to the US should stabilise and, in time, begin to grow again.

That China has achieved a deal with the US while others struggle – most notably Japan and South Korea who this week have been told by President Trump they face a 25% tariff effective August 1 compared to China's 30% – highlights not only the strength of the hand China holds vis-à-vis global refined rare earth supply but also, more broadly, its role as a source of everyday items US consumers and businesses cannot do without.

For developing Asia, this deal provides reason to be optimistic about their own growth outlooks and bilateral relationships with China. Clear in China's actions over the past decade is that it does not intend to limit the opportunities of its neighbours. Rather it sees benefit in developing production and infrastructure across the region, with nations such as Vietnam and Indonesia prime examples, and even as far away as Europe and Latin America.

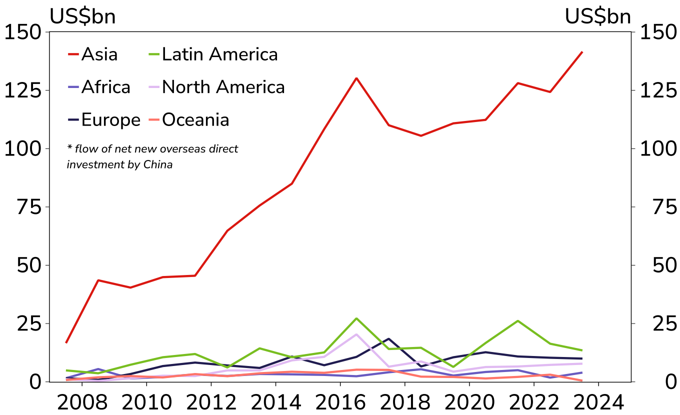
By doing so, Chinese firms' cost-of-production can be minimised (including the impact of tariffs and other trade/industry measures) and their competitive position in a diverse array of regional markets maximised, both to the benefit of China's national income. Mutual success is at the heart of China's long-term ambitions with a belief this strength will give China the best opportunity to maximise not only its economic development but also its geopolitical strength. (As an aside, China's global stance on production and development has the additional benefit of undermining US efforts to force

Trade opportunities plentiful



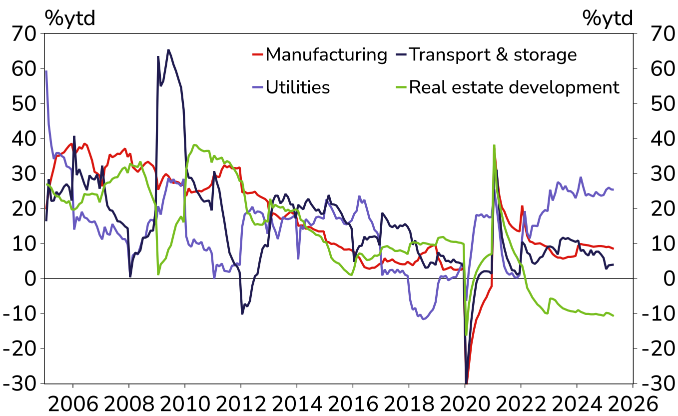
Source: GAC, Macrobond, Westpac Economics

China to continue investing in Asia



Source: MOFCOM, Macrobond, Westpac Economics

Domestic investment needs to broaden



Source: NBS, Macrobond, Westpac Economics

… and China the world

other nations to pressure China in order to receive preferential treatment for their own exports to the US – as evidenced by the US deal with Vietnam).

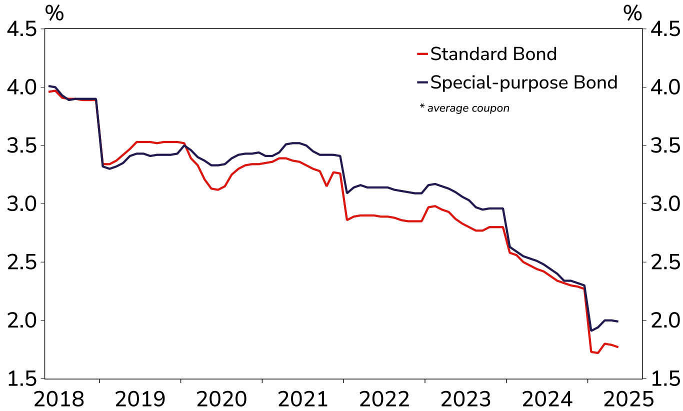
Switching to China's domestic scene, the most notable recent development was the jump in annual retail sales growth to 6.4% in May from 5.1% in April. This is certainly a strong result. But to prove a meaningful change, the growth acceleration must be sustained. Year-to-date, retail sales growth is a more modest at 5.0% while credit growth remains historically subdued. Also signalling cause for caution, home prices continue to decline (by 0.2%mth and 3.5%yr in May), and property investment is still down close to 11% year-to-date.

For both the immediate and medium-term outlook, it is critical that authorities do not rest on their success with investment, trade and the nascent turn in momentum for consumer spending. Now is the time for concerted action to build resilient confidence in the outlook for housing and discretionary spending, thereby incentivising state owned enterprises and the private sector to expand capacity for domestic demand as they have done for international markets.

There is no single measure that will do the trick. Measures and guidance that provide a path to robust growth in wealth and real income are necessary to spur greater household demand. A strengthening of the social safety net and greater flexibility for workers to seek the best employment opportunities across the country would also be of great benefit. Into the medium term, if discretionary spending and related investment does not strengthen materially, it will be almost impossible for China to achieve its development ambitions as the growth contribution from trade subsides and China's declining population weighs on aggregate essential spending.

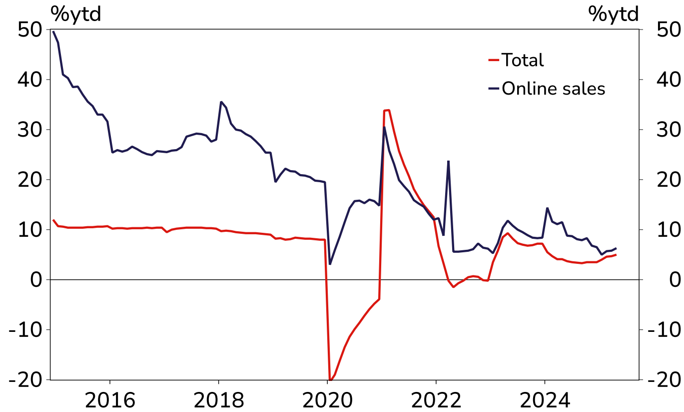
In short, China's future rests on strength in productivity, efficiency and confidence enticing demand both locally and globally. One contributor is not enough.

Low yields should aid the case for investment



Source: MOF, Macrobond, Westpac Economics

Consumer recovery nascent and fragile



Source: NBS, Macrobond, Westpac Economics

	2024						2025					
Monthly data %yr	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Headline CPI %yr	0.5	0.6	0.4	0.3	0.2	0.1	0.5	–0.7	–0.1	–0.1	–0.1	0.1
M2 money supply %yr	6.3	6.3	6.8	7.5	7.1	7.3	7.0	7.0	7.0	8.0	7.9	–
Manufacturing PMI (official)	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49.0	49.5	49.7
Fixed asset investment ytd %yr	3.6	3.4	3.4	3.4	3.3	3.2	3.2	4.1	4.2	4.0	3.7	–
Industrial production %yr	5.1	4.5	5.4	5.3	5.4	6.2	6.2	5.9	7.7	6.1	5.8	–
Exports %yr	6.9	8.6	2.3	12.6	6.6	10.7	6.0	–3.0	12.3	8.1	4.8	–
Imports %yr	6.7	0.1	0.2	–2.3	–3.9	0.9	–16.4	1.5	–4.4	–0.3	–3.4	–
Trade balance USDbn	85.4	91.5	81.7	95.6	97.0	105.1	138.4	31.6	102.4	96.2	103.2	–

Quarterly data	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25
Real GDP %yr	5.3	5.3	4.7	4.6	5.4	5.4
Nominal GDP %yr	4.4	4.2	4.0	4.0	4.6	4.6

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

Downside risks becoming entrenched ...

Elliot Clarke
Head of International Economics

The US economy is so far exhibiting resilience but the risks remain heavily skewed to the downside and are becoming entrenched. Not only is near-term growth susceptible but so is the strength of a prospective recovery from 2026. Critical to both stages are the resilience of the labour market, sentiment, and the capacity and intent of policy makers.

US nonfarm payrolls marginally beat expectations in June with 147k new jobs reported in the month and 16k added to the count for April and May. The three-month average change remained around 150k, consistent with balance between labour demand and supply. The household survey employment measure has been weaker, rising just 93k in June and averaging declines of 47k over the past three months. Indeed, had the participation rate not fallen 0.1ppt in June and 0.2ppts in May, the unemployment rate would be 4.4% compared to the 4.1% reported.

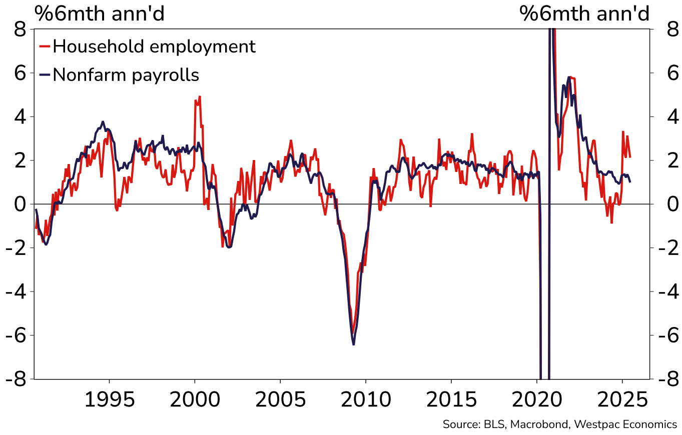
The ISM surveys meanwhile continue to signal downside risks for job growth, the ISM manufacturing employment index back near its recent low of 45 and the services employment index also well below its 5yr average at 47.2 despite production and services activity remaining in robust health. That said, initial jobless claims remain near historic lows, suggesting the downside risks are most likely limited to reduced (or no) job creation rather than active labour-shedding.

A cyclical lull in job creation is seen time-to-time in all economies and generally easily resolved through an exogenous boost to demand via a turn in sentiment (often supported by wealth gains), policy easing and/or improved net exports. At present though, none of these recovery triggers look to be available in the US.

Consumer confidence, as measured by the University of Michigan, remains roughly 25% below its decade average despite the 90-day tariff reprieve to 9 July. And this pessimism is clearly impacting consumer spending, real personal consumption down 0.3% in May and by a similar amount year-to-date even as nominal wage and wealth gains exceed inflation. Further weakness in the labour market, the implementation of additional tariffs post 9 July (which are currently being announced and effective from 1 August), and concerns over poor housing affordability all risk this weakness in confidence and discretionary demand becoming entrenched.

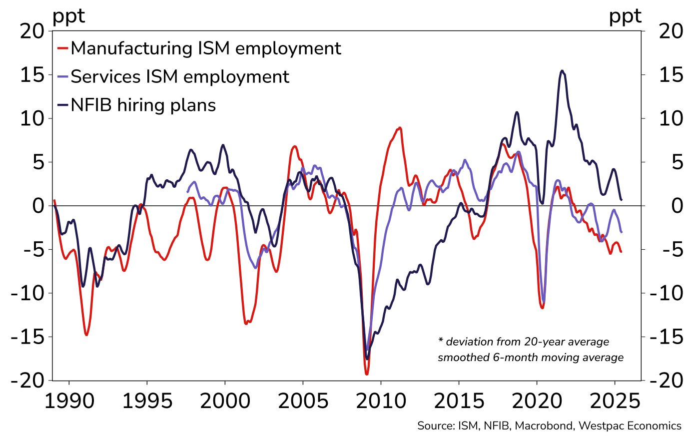
Policy also seems unlikely to trigger an upturn, at least in the near term. While Chair Powell noted at the ECB's Sintra Conference that the FOMC would decide the appropriate stance of policy meeting-by-meeting, it was clear in his remarks that the threat of persistent above-trend inflation, sparked by President Trump's tariffs and immigration reform, was expected to limit options for monetary easing near term. We share these near term concerns and also expect current

Jobs growth slowing but positive



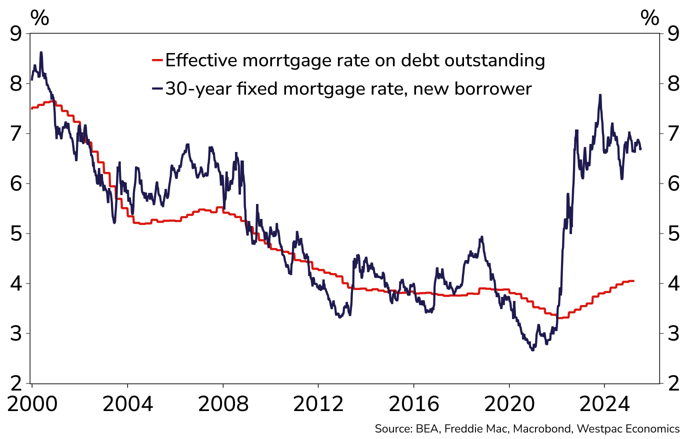
Source: BLS, Macrobond, Westpac Economics

Risks to labour market clear



Source: ISM, NFIB, Macrobond, Westpac Economics

Interest costs a big headwind for housing



Source: BEA, Freddie Mac, Macrobond, Westpac Economics

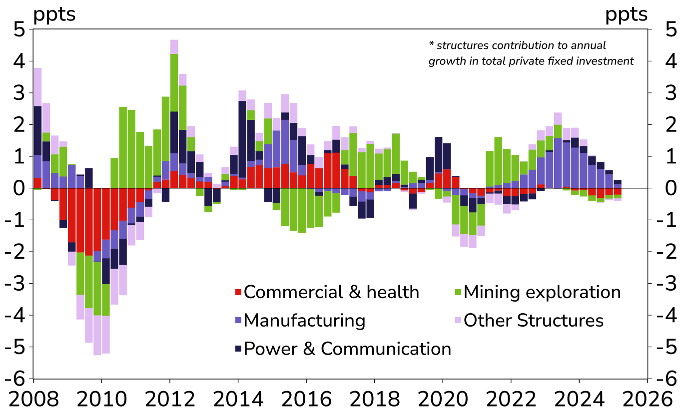
… putting medium term at risk

developments to cause capacity issues that constrain policy medium term. As such, we believe just 50bps of additional easing is likely in this cycle, to a still-restrictive 3.875%. Additionally, over the remainder of 2025 and through 2026, a grinding deterioration in the US fiscal position and little-to-no interest within Congress to improve US budget dynamics is, in our view, likely to support an uptrend in the US 10-year yield, offsetting at the long end of the curve the FOMC's short-end reprieve.

In assessing the outlook for activity growth and the labour market, it has to be remembered that this outlook for funding costs will come without any additional fiscal stimulus. The core tax measures of President Trump's 'Big Beautiful Bill' are neutral versus current policy while additional tax measures are limited in scale and offset by cuts to essential spending. It is also important to recognise that state and local governments are unlikely to be able to add to domestic demand growth as they have over the past five years, assuming interest rates continue to restrict house price growth and new construction activity and, consequently, the funding base of these authorities.

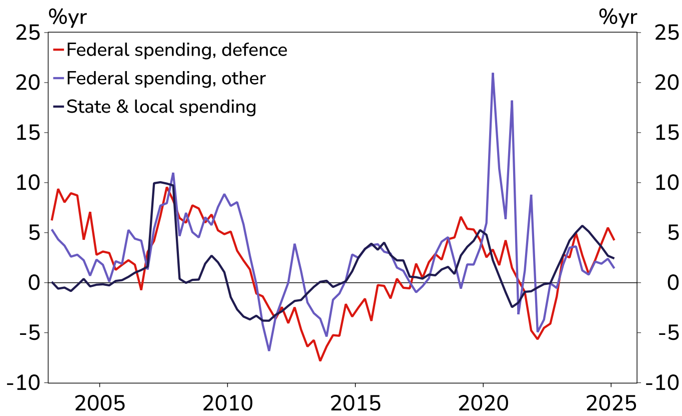
That then leaves net exports as a potential trigger for a cyclical upturn. While the financial impost created by tariffs should promote some additions to productive capacity in the US this is unlikely to be planned, let alone constructed, until the end-state of President Trump's reforms are known. Also, as we have often highlighted, the US does not have the logistic, power or trade infrastructure to compete with Asia and even some parts of Europe. This too can change through investment but only with significant public-private engagement which is not evident or expected. For the foreseeable future then, the most probable path forward for the US is a lengthy period of sub-par growth and economic fragility, but with upside risks for inflation and interest rates. This is most certainly not an environment conducive for market confidence, particularly in the US dollar.

US investment in downtrend



Source: BEA, Macrobond, Westpac Economics

Government support also fading



Source: BEA, Macrobond, Westpac Economics

	2024						2025					
Monthly data	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
PCE deflator %yr	2.5	2.3	2.1	2.3	2.5	2.6	2.6	2.7	2.3	2.2	2.3	–
Unemployment rate %	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2	4.1
Nonfarm payrolls chg '000	88	71	240	44	261	323	111	102	120	158	144	147
House prices* %yr	5.9	5.2	4.6	4.3	4.4	4.6	4.8	4.5	4.1	3.4	–	–
Durables orders core 3mth %saar	–3.3	3.3	5.2	0.1	3.1	0.6	14.5	6.9	6.5	–6.9	1.9	–
ISM manufacturing composite	47.0	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49.0	48.7	48.5	49.0
ISM non–manufacturing composite	51.4	51.6	54.5	55.8	52.5	54.1	52.8	53.5	50.8	51.6	49.9	50.8
Personal spending 3mth %saar	5.5	4.3	6.1	5.3	6.8	7.5	5.0	4.0	3.4	5.0	3.1	–
UoM Consumer Sentiment	66.4	67.9	70.1	70.5	71.8	74.0	71.7	64.7	57.0	52.2	52.2	60.7
Trade balance USDbn	–78.6	–71.2	–81.5	–74.3	–79.8	–96.9	–130.3	–122.0	–138.3	–60.3	–71.5	–

Quarterly data	**Mar–24**	**Jun–24**	**Sep–24**	**Dec–24**	**Mar–25**	**Jun–25(f)**
Real GDP % saar	1.6	3.0	3.1	2.4	–0.2	2.8
Current account USDbn	–260.9	–286.3	–326.2	–312.0	–450.2	–

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

When small firms stall …

Illiana Jain
Economist

Domestic risks – not just external shocks – are undermining the Bank of Japan's (BoJ) efforts to generate a 'virtuous cycle of wage and price rises', a key to its quest for a sustainable return to 2% inflation. While nominal wages have increased, real cash earnings remain historically weak, declining by 2.9%yr in May, underscoring the ongoing challenge of achieving persistent inflation-adjusted gains. Much of the policy debate has focused on external threats to the outlook such as global trade tensions, but the latest Tankan survey points to an uncomfortable truth: the biggest risk to wage-led inflation may be homegrown.

From a whole-economy perspective, dampened expectations for business conditions may see firms become more hesitant to raise wages. Previously, expectations of profitability have been supportive of wage growth. But the results from the recent Tankan survey show expectations of profitability have recently turned, with firms now expecting FY2025 (ending March 2026) to bring a 5.7% decline in profits. This is at the lower end of estimates through the 2010s, a period when firms were reluctant to invest or increase wages.

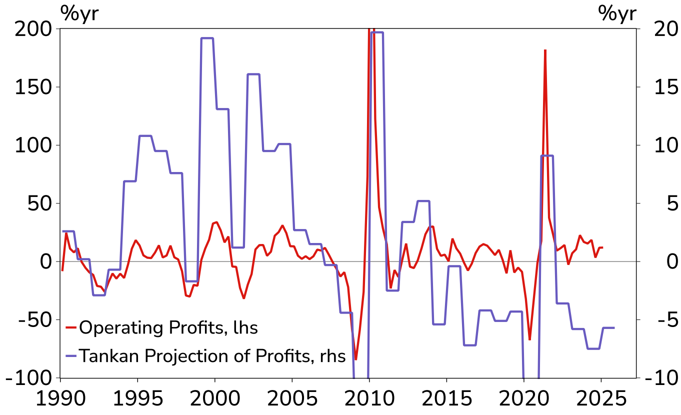
The weaker profit outlook is already feeding through to hiring decisions. Despite firms reporting that they expect shortages, employment intentions are skirting the record lows last seen in the early 1990s. Hiring intentions for new graduates also saw a notable downward revision – firms now expect to increase graduate hiring by 2.5% in FY2025, down from 3.5% in FY2024. This signal, alongside the weaker outlook for business conditions for the year ahead, indicates a more cautious approach to managing expenses, which has to be expected to restrict future wage increases.

Small businesses are key to all of this

Around 50% of labour in the manufacturing sector and 70% in the non-manufacturing sector is employed by a business with capital of less than ¥100mn, according to the MoF's Financial Statement data. Given their importance to the economy, the wage decisions of small and medium-sized businesses (SMEs) are paramount to whether the BoJ achieves its aggregate target. However, negotiated wages by RENGO for businesses with 99 or fewer employees rose a more modest 4.7% compared to 5.35% for all businesses for FY2025.

This is hardly surprising as smaller businesses have experienced a sharp compression in margins, with limited ability to negotiate with suppliers or fully pass on increased production costs. Operating profit margins, i.e. operating profits divided by sales, stood at just 4.3% in Q1 2025, a far cry from the 7.4% of large businesses and 5.8% for all businesses outside finance and insurance.

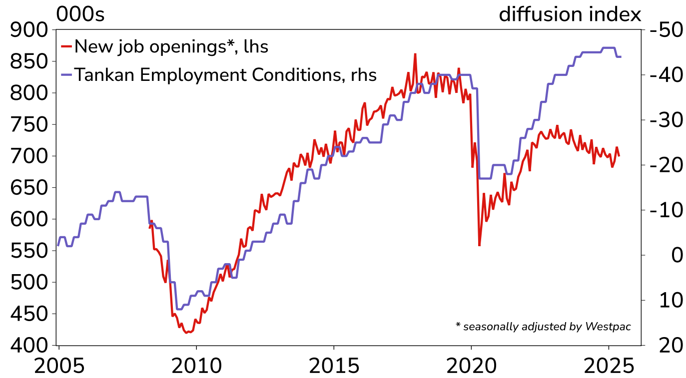
Firms expect weaker profits to March 2026



Source: MOF, BOJ, Macrobond, Westpac Economics

Firms note continued labour shortages …

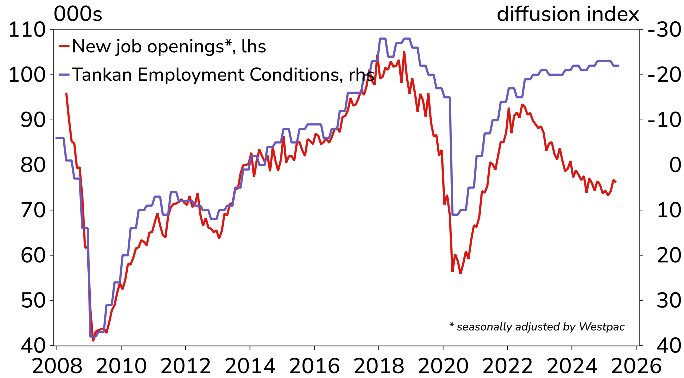
Services Industries



Source: BOJ, MHLW, Macrobond, Westpac Economics

… but job ads dwindle

Manufacturing Industries



Source: BOJ, MHLW, Macrobond, Westpac Economics

... so does the Bank of Japan

Wage increases are also, over an extended period, tied to productivity growth. Labour productivity across SMEs is generally lower than at large firms. One reason is a slower pace of capital deepening, the process of increasing capital per worker.

In its April meeting minutes, the BoJ expressed concern that for small and medium-sized firms, "business fixed investment per employee had decreased for two consecutive years, suggesting that it remained difficult for them to both raise wages and maintain business fixed investment."

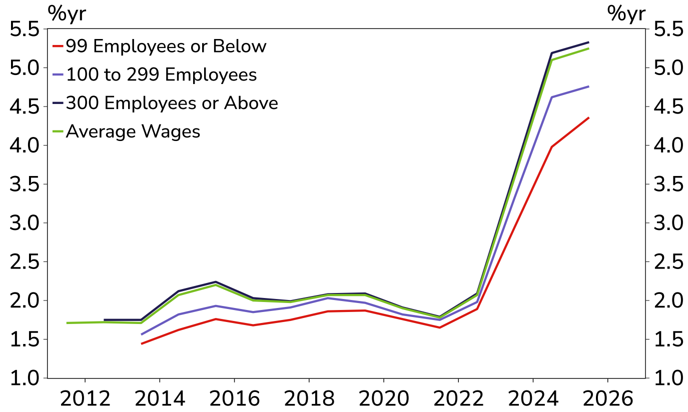
Indeed, fixed asset investment per employee across SMEs has underperformed large business outcomes since COVID. Of course, one caveat may be that smaller businesses, or at least those with assets between ¥10-100mn, tend to hire more part time workers which would suggest investment per employee (rather than per hour worked) should be less. However, even if you assume all employees work part time, the ratio of investment per employee doubles but is still well below that of larger businesses.

There are underlying structural issues involved here. Japan is home to many small business that, in key sectors, are significantly less productive than those in other countries. That is partly because of factors inhibiting struggling small businesses from being wound up or consolidated with other business. This is for a variety of reasons according to an IMF paper including credit guarantee systems that allow poor performing firms to continue operating while financing constraints remain for those that want to invest. These, among other reasons, were found to contribute to lower exit rates of firms in Japan compared to other advanced economies.

The bottom line is that Japanese small firms struggle to invest effectively to improve productivity but can still remain afloat. This in turn has held back capital deepening, which has in turn inhibited productivity gains and wage growth.

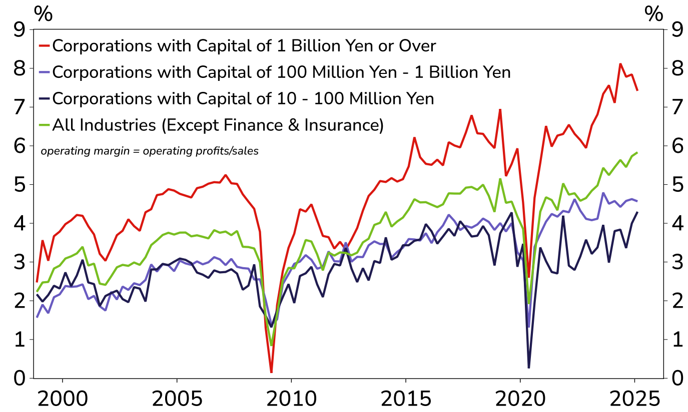
With aggregate economic momentum also at risk of dissipating, we expect the BoJ to hold off on further tightening until real aggregate wage gains show resilience despite the aforementioned headwinds. In our view, this is likely to delay further policy actions until May 2026.

RENGO wages for small businesses lag behind rest



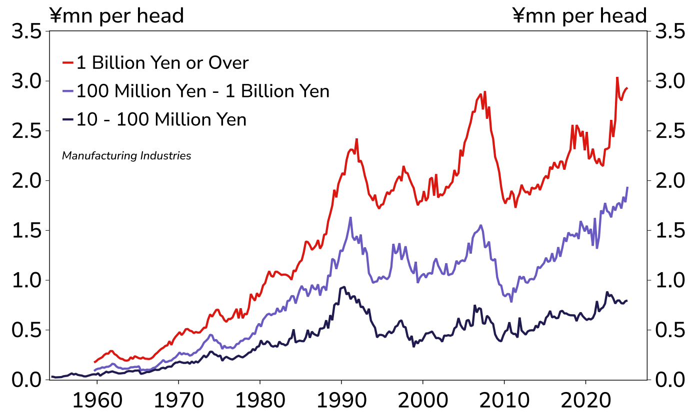
Source: RENGO, Macrobond, Westpac Economics

Margins are narrower for small businesses



Source: MOF, Macrobond, Westpac Economics

Small biz lag behind on investment per headcount



Source: MOF, Macrobond, Westpac Economics

The UK government vs financial markets …

Mantas Vanagas
Senior Economist, Westpac Group

The UK remains a prime example of how, in an environment of deteriorating public finances, fiscal missteps can provoke a swift and dramatic market reaction. This was made abundantly clear on July 3, when the 10-year Gilt yield jumped 16bps in response to political turmoil in Westminster. The episode echoed the notorious 2022 'mini-budget' under then-PM Truss, which, at the height of the cost-of-living crisis, proposed unfunded tax cuts that predominantly benefited high income earners.

At the heart of the latest upheaval was a contentious welfare bill and the Government's proposal to tighten eligibility criteria for Personal Independence Payments, which support around 3.7 million people in the UK with long-term physical or mental health conditions. Facing pressure from factions within his own party, Prime Minister Starmer was compelled to water down these reforms – originally projected to save £5bn annually – before presenting the legislation for a vote in the House of Commons. Following a similar retreat on changes to Winter Fuel Payments, which help pensioners with heating costs, this led market participants to question whether Starmer retained sufficient authority to implement the tough measures necessary for UK fiscal sustainability.

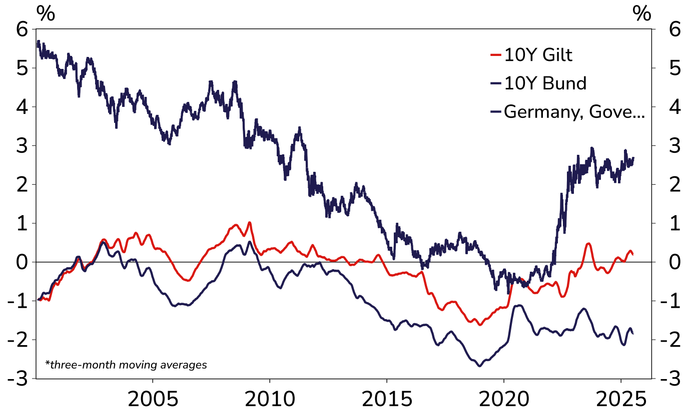
Speculation further intensified when it was suggested that Chancellor Reeves – an ex-Bank of England economist renowned as a fiscal hawk within Labour – might have lost Starmer's confidence.

The Prime Minister notably refused to confirm Reeves' future in her role in Prime Minister's Questions, during which she appeared visibly distressed. But Starmer later offered his full endorsement, affirming that Reeves would continue as Chancellor "into the next election and for many years after," helping calm tensions in the Gilts market. Nevertheless, the market's sharp response underscored investors' limited tolerance for any perceived loss of fiscal discipline.

Politically, Keir Starmer faces a daunting landscape. After labelling the UK "a country in decline" under the previous Conservative government, progress on reversing this trend has been frustratingly slow.

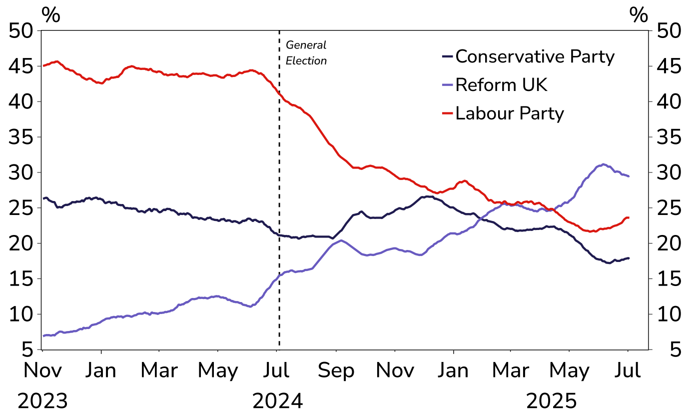
Despite leading Labour to a landslide victory just a year ago, Starmer appears to be struggling to unify his party behind difficult but necessary decisions. Many Labour MPs remain very reluctant to support measures that could cost them votes, as pressure mounts from the Reform UK party. And while right-wing populists secured only a handful of parliamentary seats at the general election, they are now leading opinion polls by a comfortable margin, targeting voters in traditional Labour heartlands.

10Y Gilt vs Bund spreads to US Treasuries



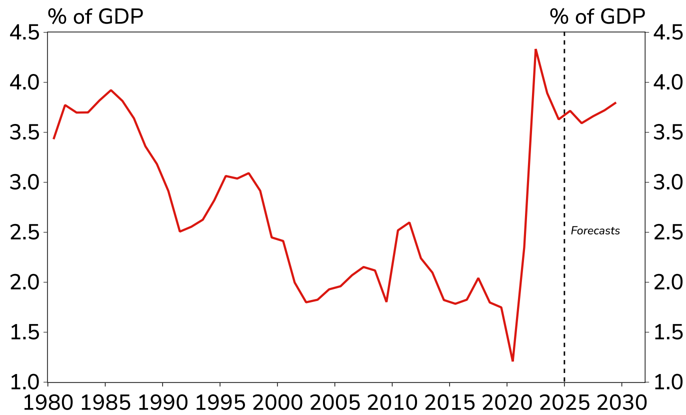
Source: Macrobond, U.S. Treasury, Macrobond, Westpac Economics

Political support of major UK parties



Source: Europe Elects, Macrobond, Westpac Economics

UK Central government net interest payments



Source: OBR, Macrobond, Westpac Economics

... episode 2 unlikely to be finale

Yet, tough choices are unavoidable. The UK's public finances are governed by self-imposed fiscal rules, and the main one – the fiscal mandate – requires balancing the current budget by the end of the five-year forecast horizon, currently 2029/30, with borrowing thereafter permitted only for investment.

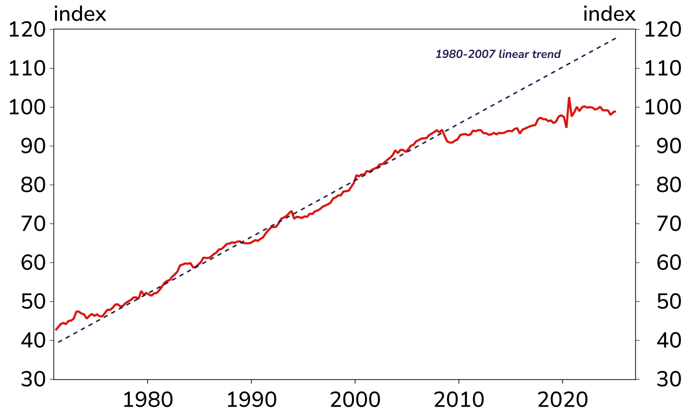
The latest official forecasts from March showed that the government had just £10bn of headroom against those rules – a buffer that could quickly evaporate, particularly as it relies on the optimistic assumption of nearly 2% GDP growth next year and thereafter. In contrast, the current market consensus expects GDP to rise by little more than 1% this year and next.

The Chancellor will likely have to consider further tax hikes in the Autumn budget, yet the tax burden – as a share of the economy – is already on course to reach its highest level on record. Raising taxes further would also see Labour break its election promise to not increase income or corporate taxes.

This situation highlights the difficult fiscal arithmetic that emerges when economic growth is stubbornly weak. For years, successive governments have tried to address this, but UK GDP growth continues to disappoint. GDP is only 4.1% higher than its pre-pandemic level with growth hampered by deep-rooted structural issues that have seen sluggish productivity gains since the global financial crisis. Living standards, as measured by real disposable income per capita, are lagging far behind where they would have been if pre-crisis trends had continued.

On a cyclical level, while high inflation has bolstered government revenues via fiscal drag, it has also fuelled cost pressures for government services. Pay, including in the public sector, is rising at an annual rate above 5%. High interest rates combined with public debt close to 100% of GDP also means the government is spending more than 3.5% of GDP annually on interest payments, further straining the public purse.

UK output per hour

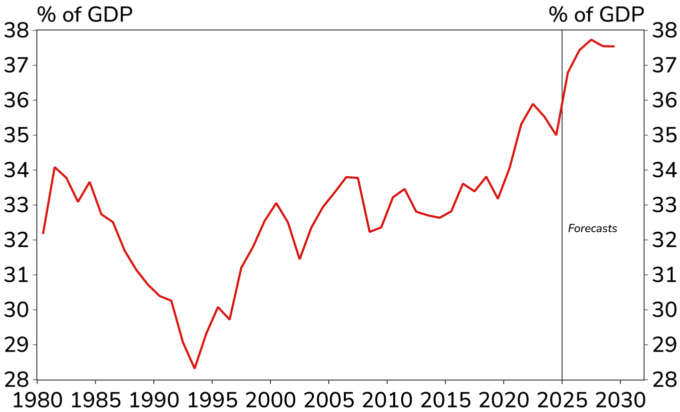


Source: ONS, Macrobond, Westpac Economics

While drawing a direct parallel between the current government and the ill-fated Truss government may be unwarranted, the key lesson remains: an open clash with financial markets is never a good idea. Starmer's prompt response to the rise in Gilt yields showed a clear recognition of this reality. Whether this is understood more broadly across the upper echelons of UK politics, however, is less certain.

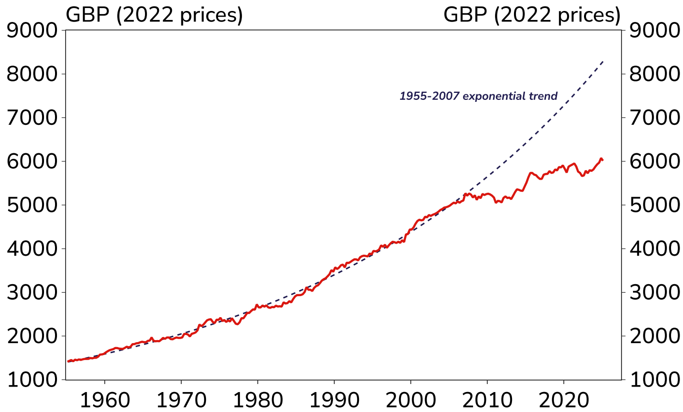
On its current course, further episodes of market volatility seem very likely, unless UK creditors begin to see tangible progress in resolving the country's long-term economic challenges. Should the Labour Party continue prove unable to make difficult but essential economic choices, it may soon discover that the judgement of financial markets are a bigger enemy than the right-wing populists.

UK Government tax revenue



Source: OBR, Macrobond, Westpac Economics

UK Real household disposable income per head



Source: ONS, Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	3.85	3.60	3.35	3.10	2.85	2.85	2.85	2.85	2.85
90 Day BBSW	3.74	3.55	3.30	3.05	2.95	2.95	2.95	2.95	2.95
3 Year Swap	3.36	3.35	3.45	3.60	3.75	3.80	3.85	3.90	3.95
3 Year Bond	3.46	3.40	3.50	3.65	3.80	3.85	3.90	3.95	3.95
10 Year Bond	4.32	4.35	4.40	4.40	4.45	4.50	4.55	4.60	4.65
10 Year Spread to US (bps)	–3	–15	–15	–20	–20	–20	–20	–20	–20

Currency forecasts

	Latest (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
AUD vs									
USD	0.6567	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
JPY	96.16	94	96	96	96	97	96	96	96
EUR	0.5626	0.56	0.57	0.58	0.59	0.59	0.59	0.60	0.60
NZD	1.0917	1.10	1.12	1.13	1.13	1.14	1.14	1.14	1.14
CAD	0.9005	0.90	0.91	0.92	0.93	0.93	0.93	0.94	0.94
GBP	0.4846	0.48	0.50	0.51	0.51	0.52	0.52	0.52	0.52
CHF	0.5235	0.53	0.54	0.55	0.56	0.56	0.56	0.57	0.57
DKK	4.1976	4.17	4.28	4.32	4.37	4.39	4.39	4.44	4.44
SEK	6.2576	6.22	6.38	6.45	6.52	6.55	6.55	6.62	6.62
NOK	6.6387	6.60	6.77	6.84	6.91	6.95	6.95	7.02	7.02
ZAR	11.68	11.7	11.9	12.0	12.1	12.1	12.1	12.2	12.2
SGD	0.8414	0.84	0.87	0.88	0.90	0.90	0.90	0.91	0.91
HKD	5.1546	5.17	5.32	5.38	5.46	5.50	5.50	5.58	5.58
PHP	37.01	36.6	37.4	37.6	37.8	38.0	37.6	37.8	37.4
THB	21.43	21.4	21.9	22.1	22.3	22.3	22.0	22.0	21.7
MYR	2.7943	2.81	2.86	2.86	2.87	2.88	2.84	2.84	2.81
CNY	4.7258	4.72	4.83	4.86	4.90	4.93	4.90	4.90	4.82
IDR	10654	10692	10880	10902	10920	10934	10792	10800	10656
TWD	19.20	19.5	20.0	20.1	20.3	20.5	20.4	20.7	20.7
KRW	903	904	925	932	938	948	944	954	950
INR	56.19	56.1	57.5	58.0	58.1	58.2	57.5	57.6	56.9

Australia

Activity forecasts

	2025				2026				Calendar years			
%qtr / %yr end	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Household consumption	0.4	0.3	0.6	0.5	0.6	0.6	0.6	0.7	0.9	1.8	2.4	2.8
Dwelling investment	2.6	1.0	1.2	1.2	1.3	1.6	1.7	1.7	3.5	6.0	6.5	5.5
Business investment *	0.4	0.7	0.8	0.8	0.9	1.1	1.2	1.3	0.4	2.7	4.7	4.9
Private demand *	0.5	0.5	0.7	0.6	0.7	0.8	0.9	0.9	1.0	2.3	3.3	3.5
Public demand *	–0.6	1.0	0.9	0.8	0.8	0.6	0.5	0.6	5.2	2.1	2.5	2.3
Domestic demand	0.2	0.6	0.8	0.7	0.7	0.7	0.8	0.8	2.2	2.2	3.1	3.2
Stock contribution	0.1	0.0	–0.1	0.0	0.0	0.1	0.0	0.0	0.2	0.0	0.2	0.0
GNE	0.3	0.6	0.6	0.7	0.8	0.8	0.8	0.8	2.3	2.2	3.2	3.2
Exports	–0.8	0.5	0.1	0.3	0.4	0.4	0.4	0.5	1.3	0.1	1.7	2.5
Imports	–0.4	0.7	0.7	0.9	1.5	1.6	1.3	1.5	6.4	1.9	6.0	4.8
Net exports contribution	–0.1	0.0	–0.1	–0.1	–0.3	–0.3	–0.2	–0.2	–1.1	–0.4	–1.0	–0.5
Real GDP %qtr / %yr avg	**0.2**	**0.6**	**0.4**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**	**1.0**	**1.6**	**2.1**	**2.4**
%yr end	**1.3**	**1.7**	**1.8**	**1.7**	**2.0**	**2.0**	**2.1**	**2.2**	**1.3**	**1.7**	**2.2**	**2.6**
Nominal GDP %qtr / %yr avg	1.4	1.3	1.0	0.9	0.8	0.8	1.0	1.1	3.8	4.6	3.7	4.3
%yr end	3.7	4.7	5.3	4.6	4.1	3.6	3.6	3.7	3.7	4.6	3.7	4.5
Real household disp. income	1.7	1.5	0.1	0.0	0.9	1.4	1.0	–0.5	2.0	3.3	2.9	2.3

Other macroeconomic variables

	2025				2026				Calendar years			
% change	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Employment %qtr **	0.4	0.7	0.2	0.1	0.2	0.2	0.4	0.4	–	–	–	–
%yr end **	2.3	2.4	1.7	1.3	1.1	0.7	0.9	1.2	2.3	1.3	1.2	1.8
Unemployment rate % **	4.1	4.1	4.3	4.4	4.4	4.5	4.5	4.5	4.0	4.4	4.5	4.3
Wages (WPI) (sa) %qtr	0.9	0.8	0.7	0.6	0.8	0.8	0.7	0.7	–	–	–	–
%yr end	3.4	3.4	3.2	3.1	3.0	2.9	2.9	3.0	3.2	3.1	3.0	3.0
Headline CPI %qtr	0.9	0.9	0.9	0.6	0.6	0.8	0.7	0.5	–	–	–	–
%yr end	2.4	2.3	3.0	3.4	3.1	2.9	2.7	2.6	2.4	3.4	2.6	2.6
Trimmed Mean CPI %qtr	0.7	0.7	0.7	0.6	0.5	0.6	0.6	0.6	–	–	–	–
%yr end	2.9	2.7	2.6	2.6	2.5	2.4	2.3	2.3	3.3	2.6	2.3	2.6
Current account $bn, qtr	–14.7	–14.3	–13.3	–12.9	–14.7	–15.8	–17.3	–17.5	–	–	–	–
% of GDP	–2.1	–2.0	–1.9	–1.8	–2.0	–2.2	–2.3	–2.3	–2.4	–1.8	–2.3	–2.6
Terms of trade %yr avg	–4.0	–3.3	–1.9	–0.7	0.2	0.0	–0.8	–1.2	–4.8	–0.7	–1.2	0.1
Population %yr end	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.7	1.4	1.4	1.3

Calendar year changes are annual through–the–year percentage changes unless otherwise specified.
* Business investment, private and public demand are adjusted to exclude the effect of private sector purchases of public sector assets. ** Quarter–averages.

Macroeconomic variables – recent history

	2024					2025					
Monthly data	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Employment '000 chg	37.1	44.2	1.4	20.1	60.0	34.9	–54.2	25.5	87.6	–2.5	–
Unemployment rate %	4.1	4.1	4.1	3.9	4.0	4.1	4.1	4.1	4.1	4.1	–
Westpac–MI Consumer Sentiment	85.0	84.6	89.8	94.6	92.8	92.1	92.2	95.9	90.1	92.1	92.6
Retail trade %mth	0.6	0.3	0.5	0.6	–0.1	0.5	0.2	0.2	0.0	0.2	–
Dwelling approvals %mth	–3.9	6.0	4.7	–2.4	1.0	7.6	–1.2	–7.1	–4.1	3.2	–
Private sector credit %mth	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.7	0.5	–
Trade in goods balance AUDbn	5.4	4.2	5.1	6.4	4.2	4.5	2.6	6.2	4.9	2.2	–

New Zealand

Interest rate forecasts

	Latest (11 July)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	3.25	3.00	3.00	3.00	3.00	3.00	3.25	3.50	3.75
90 Day Bill	3.29	3.10	3.10	3.10	3.10	3.20	3.45	3.70	3.85
2 Year Swap	3.18	3.30	3.35	3.50	3.65	3.80	3.90	3.95	4.00
10 Year Bond	4.55	4.65	4.70	4.75	4.80	4.85	4.90	4.95	4.95
10 Year Spread to US	20	15	15	15	15	15	15	15	10
10 Year Spread to Aust	23	30	30	35	35	35	35	35	30

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (11 July)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
NZD vs									
USD	0.6016	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
JPY	88.09	86	86	85	85	85	84	85	84
EUR	0.5153	0.51	0.51	0.51	0.52	0.52	0.52	0.52	0.52
AUD	0.9160	0.91	0.89	0.89	0.88	0.88	0.88	0.88	0.88
CAD	0.8250	0.81	0.81	0.82	0.82	0.82	0.82	0.83	0.82
GBP	0.4439	0.44	0.45	0.45	0.45	0.45	0.45	0.46	0.46
CNY	4.3314	4.29	4.32	4.31	4.33	4.32	4.29	4.30	4.23

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2025				2026				Calendar years			
% change	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2024**	**2025f**	**2026f**	**2027f**
Private consumption	1.3	0.6	1.0	1.0	1.1	1.1	1.0	1.0	0.0	2.4	4.1	3.8
Government consumption	1.1	–0.7	0.0	0.0	0.0	0.0	0.5	0.5	–0.1	0.6	0.2	1.9
Residential investment	2.0	–0.5	0.0	1.5	2.0	2.0	2.5	2.5	–11.4	–4.6	6.6	9.0
Business investment	–0.1	0.9	1.4	1.6	1.8	1.6	1.5	1.3	–2.3	1.3	6.3	4.6
Stocks (ppt contribution)	–0.3	0.0	0.1	0.2	0.0	–0.1	–0.2	–0.1	0.2	0.1	0.1	–0.3
GNE	0.3	1.0	0.9	1.2	1.1	0.9	0.9	0.9	–1.1	1.5	4.0	3.5
Exports	0.1	1.0	0.4	0.4	0.6	0.6	0.7	0.7	4.1	3.1	2.4	2.7
Imports	0.4	–0.9	1.2	1.4	1.6	1.4	1.5	1.4	1.9	1.1	5.3	5.4
GDP (production)	0.8	0.3	0.7	0.9	0.8	0.7	0.7	0.7	–0.6	1.3	2.9	2.8
Employment annual %	–0.7	–0.8	0.0	0.7	1.2	1.8	2.2	2.3	–1.2	0.7	2.3	1.9
Unemployment rate % s.a.	5.1	5.3	5.3	5.2	5.0	4.8	4.6	4.4	5.1	5.2	4.4	4.1
LCI, all sect incl o/t, ann %	2.9	2.2	2.1	2.0	2.0	2.0	2.1	2.2	3.3	2.0	2.2	2.2
CPI annual %	2.5	2.8	3.0	2.9	2.5	2.2	2.3	2.2	2.2	2.9	2.2	2.0
Current account % of GDP	–5.7	–4.4	–3.8	–3.3	–3.2	–3.5	–3.8	–3.9	–6.1	–3.3	–3.9	–3.8
Terms of trade annual %	10.3	19.1	15.8	10.6	7.3	–3.0	–2.4	–0.9	13.7	10.6	–0.9	–0.1

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27
Australian commodities index#	314	305	298	292	291	291	293	296	298	299
Bulk commodities index#	**360**	**350**	**340**	**340**	**340**	**340**	**340**	**340**	**350**	**350**
iron ore finesTSI @ 62% US$/t	95	88	86	84	83	83	84	85	85	86
Premium low vol met coal (US$/t)	179	175	170	170	169	167	167	169	170	171
Newcastle spot thermal coal (US$/t)	115	110	105	107	110	111	111	112	113	113
crude oil (US$/bbl) Brent ICE	69	65	60	60	62	65	67	70	71	72
LNG in Japan US$mmbtu	12.43	11.2	10.7	9.6	9.3	9.3	9.8	10.1	10.5	10.7
gold (US$/oz)	3,359	3,400	3,400	3,350	3,300	3,280	3,250	3,230	3,200	3,180
Base metals index#	**210**	**211**	**208**	**205**	**203**	**203**	**209**	**218**	**221**	**224**
copper (US$/t)	9,774	9,800	9,600	9,400	9,250	9,250	9,580	10,070	10,240	10,400
aluminium (US$/t)	2,754	2,830	2,830	2,830	2,800	2,750	2,820	2,940	2,970	3,010
nickel (US$/t)	14,983	14,900	14,750	14,500	14,100	14,640	14,990	15,520	15,700	15,870
zinc (US$/t)	2,718	2,700	2,600	2,600	2,610	2,670	2,720	2,790	2,810	2,830
lead (US$/t)	2,043	1,980	1,950	1,930	1,900	1,960	2,010	2,070	2,090	2,110
Rural commodities index#	**119**	**120**	**121**	**123**	**127**	**130**	**127**	**126**	**128**	**130**
NZ commodities index ##	**395**	**385**	**380**	**379**	**383**	**387**	**391**	**394**	**396**	**397**
dairy price index ##	368	347	336	334	339	345	351	355	357	360
whole milk powder USD/t	3,859	3,790	3,700	3,770	3,850	3,920	4,000	4,030	4,060	4,090
skim milk powder USD/t	2,718	2,640	2,550	2,570	2,600	2,650	2,700	2,720	2,740	2,760
lamb price index ##	564	585	587	583	577	571	565	561	557	553
beef price index ##	338	316	317	320	322	324	326	328	331	333
forestry price index ##	147	147	147	148	149	151	152	154	155	156

	levels				% change			
Annual averages	**2024**	**2025(f)**	**2026(f)**	**2027(f)**	**2024**	**2025(f)**	**2026(f)**	**2027(f)**
Australian commodities index#	**312**	**307**	**292**	**297**	**–3.4**	**–1.6**	**–5.0**	**1.9**
Bulk commodities index#	**436**	**371**	**343**	**351**	**–13.0**	**–14.8**	**–7.5**	**2.2**
iron ore fines @ 62% USD/t	109	95	84	85	–8.5	–13.4	–11.6	1.9
LNG in Japan $mmbtu	13.3	11.9	9.6	10.4	–10.6	–10.5	–19.5	8.8
ave coking coal price (US$/t)	206	141	125	128	–4.1	–31.7	–11.2	2.5
ave thermal price (US$/t)	136	119	118	122	–26.1	–12.2	–1.1	3.2
iron ore fines contracts (US¢ dltu)	163	140	123	124	1.3	–13.7	–12.4	0.6
Premium low vol met coal (US$/t)	241	180	169	170	–18.6	–25.4	–6.1	0.8
crude oil (US$/bbl) Brent ICE	78	67	63	71	–1.6	–13.9	–6.4	12.7
gold (US$/oz)	2,410	3,245	3,306	3,202	22.8	34.7	1.9	–3.2
Base metals index#	**210**	**210**	**205**	**221**	**–1.0**	**0.2**	**–2.3**	**7.8**
copper (US$/t)	9,200	9,600	9,400	10,200	8.1	4.3	–2.1	8.5
aluminium (US$/t)	2,700	2,800	2,800	3,000	–1.4	3.7	0.0	7.1
nickel (US$/t)	16,900	15,200	14,500	15,700	–21.8	–10.1	–4.6	8.3
zinc (US$/t)	2,800	2,700	2,600	2,800	5.6	–3.6	–3.7	7.7
lead (US$/t)	2,100	2,000	1,900	2,100	–1.4	–4.8	–5.0	10.5
Rural commodities index#	**126**	**120**	**125**	**127**	**–10.3**	**–5.0**	**4.5**	**1.6**
NZ commodities index ##	**357**	**389**	**385**	**396**	**8.4**	**9.0**	**–1.1**	**2.9**
dairy price index ##	318	353	342	359	10.9	11.2	–3.1	4.8
whole milk powder USD/t	3,439	3,949	3,856	4,063	11.6	14.8	–2.4	5.4
skim milk powder USD/t	2,686	2,707	2,615	2,743	1.8	0.8	–3.4	4.9
lamb price index ##	439	557	576	556	–4.6	26.7	3.5	–3.5
beef price index ##	283	289	322	331	4.4	2.1	11.4	2.8
forestry price index ##	159	150	150	155	–0.1	–6.2	0.3	3.4

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 (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Fed Funds*	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875
10 Year Bond	4.35	4.50	4.55	4.60	4.65	4.70	4.75	4.80	4.85

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

Currency forecasts

	Latest (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
USD vs									
DXY index	97.80	96.7	96.1	95.6	95.1	94.4	94.3	93.9	93.7
JPY	146.43	143	141	139	137	136	135	134	133
EUR	1.1673	1.18	1.19	1.19	1.20	1.21	1.21	1.21	1.21
AUD	0.6567	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD	0.6016	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
CAD	1.3714	1.36	1.34	1.34	1.33	1.32	1.32	1.31	1.30
GBP	1.3552	1.37	1.37	1.37	1.37	1.37	1.37	1.38	1.38
CHF	0.7972	0.80	0.80	0.80	0.80	0.79	0.79	0.79	0.79
ZAR	17.79	17.7	17.5	17.4	17.2	17.1	17.1	17.0	17.0
SGD	1.2814	1.28	1.28	1.28	1.28	1.27	1.27	1.27	1.27
HKD	7.8499	7.84	7.82	7.80	7.80	7.75	7.75	7.75	7.75
PHP	56.46	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.0
THB	32.63	32.4	32.2	32.0	31.8	31.4	31.0	30.6	30.2
MYR	4.2553	4.25	4.20	4.15	4.10	4.05	4.00	3.95	3.90
CNY	7.1782	7.15	7.10	7.05	7.00	6.95	6.90	6.80	6.70
IDR	16224	16200	16000	15800	15600	15400	15200	15000	14800
TWD	29.24	29.6	29.4	29.2	29.0	28.9	28.8	28.7	28.7
KRW	1375	1370	1360	1350	1340	1335	1330	1325	1320
INR	85.65	85.0	84.5	84.0	83.0	82.0	81.0	80.0	79.0

Activity forecasts

	2025				2026				Calendar years			
% annualised, s/adj	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2024**	**2025f**	**2026f**	**2027f**
Private consumption	1.2	1.3	1.1	1.2	1.3	1.6	1.6	1.8	2.8	2.1	1.3	2.3
Dwelling investment	–0.6	2.4	1.6	0.0	0.8	1.2	1.6	1.6	4.3	0.6	1.0	2.5
Business investment	10.4	3.3	1.7	1.5	1.2	1.6	2.3	2.7	3.6	3.6	1.7	4.0
Public demand	–0.7	1.2	0.8	0.8	0.8	0.4	0.4	0.4	3.4	1.6	0.7	1.5
Domestic final demand	2.1	1.6	1.1	1.1	1.2	1.4	1.5	1.7	3.0	2.1	1.3	1.6
Inventories contribution ppt	2.6	–0.4	–0.8	–0.3	0.0	–0.1	0.0	0.0	0.0	0.4	–0.2	0.0
Net exports contribution ppt	–5.5	1.8	–0.4	–0.4	–0.6	–0.3	–0.4	–0.4	–0.4	–1.2	–0.3	–0.1
GDP	–0.2	3.2	0.1	0.5	0.6	0.9	1.2	1.5	2.8	1.5	0.8	1.5
%yr annual chg	2.1	2.1	1.4	0.9	1.1	0.5	0.8	1.0	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	174	139	70	20	0	50	90	110	161	101	60	115
Unemployment rate %	4.1	4.2	4.3	4.5	4.7	4.8	4.9	4.9	4.0	4.3	4.8	4.9
CPI headline %yr	2.7	2.6	2.9	3.1	3.1	2.9	2.7	2.5	3.0	2.9	2.8	2.4
PCE deflator, core %yr	2.8	2.7	2.9	3.0	3.0	2.8	2.6	2.4	2.8	2.9	2.7	2.2

Sources: Official agencies, Factset, Westpac Economics.

Europe & the United Kingdom

Interest rate forecasts

	Latest (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Euro Area									
ECB Deposit Rate	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.71	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.05
10 Year Spread to US	–164	–180	–180	–180	–180	–180	–180	–180	–180
United Kingdom									
BoE Bank Rate	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.60	4.70	4.75	4.80	4.80	4.85	4.85	4.90	4.95
10 Year Spread to US	25	20	20	20	15	15	10	10	10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
euro vs									
USD	1.1673	1.18	1.19	1.19	1.20	1.21	1.21	1.21	1.21
JPY	170.93	169	167	165	164	164	163	162	161
GBP	0.8613	0.86	0.87	0.87	0.87	0.88	0.88	0.88	0.88
CHF	0.9306	0.94	0.94	0.95	0.96	0.96	0.96	0.95	0.95
DKK	7.4611	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.12	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
NOK	11.80	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8
sterling vs									
USD	1.3552	1.37	1.37	1.37	1.37	1.37	1.37	1.38	1.38
JPY	198.45	195	192	190	188	186	185	184	183
CHF	1.0804	1.09	1.09	1.09	1.10	1.09	1.09	1.08	1.08
AUD	0.4846	0.48	0.50	0.51	0.51	0.52	0.52	0.52	0.52

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2021	2022	2023	2024	2025f	2026f	2027f
Eurozone GDP	6.3	3.6	0.6	0.8	1.3	1.2	1.6
private consumption	4.7	5.0	0.6	1.1	1.2	1.3	1.4
fixed investment	3.7	2.1	1.8	–1.8	2.5	1.4	2.4
government consumption	4.3	1.2	1.5	2.5	1.5	1.9	2.5
net exports contribution ppt	1.4	0.0	0.3	0.4	–0.4	–0.2	–0.2
Germany GDP	3.6	1.4	–0.1	–0.2	0.4	1.3	1.9
France GDP	6.8	2.8	1.6	1.1	0.3	0.9	1.4
Italy GDP	8.8	5.0	0.8	0.5	0.7	0.9	1.0
Spain GDP	6.7	6.2	2.7	3.2	2.4	2.0	1.8
Netherlands GDP	6.2	5.0	0.1	1.0	1.2	1.2	1.6
memo: United Kingdom GDP	8.6	4.8	0.4	1.1	1.2	1.2	1.5

Asia

China activity forecasts

Calendar years	2020	2021	2022	2023	2024	2025f	2026f	2027f
Real GDP	2.3	8.6	3.1	5.4	5.0	5.0	4.6	4.5
Consumer prices %yr	0.2	1.5	1.8	–0.3	0.1	0.5	1.3	1.6
Producer prices %yr	–0.4	10.3	–0.7	–2.7	–2.3	–1.2	1.0	1.5
Industrial production (IVA)	2.8	9.6	3.6	4.6	5.8	5.2	4.5	4.2
Retail sales	–3.9	12.5	–0.2	7.2	3.5	5.0	5.2	5.5
Money supply M2 %yr	10.1	9.0	11.8	9.7	7.3	8.3	8.0	8.0
Fixed asset investment	2.9	4.9	5.1	3.0	3.2	4.7	4.5	4.2
Exports %yr	18.1	20.9	–9.9	–2.3	10.7	2.0	3.0	2.5
Imports %yr	6.5	19.5	–7.5	0.2	0.9	1.5	2.5	2.0

Source: Macrobond, Bloomberg. Year–to–date growth unless otherwise noted.

Chinese interest rates & monetary policy

	Latest (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Required reserve ratio %*	9.00	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Loan Prime Rate, 1–year	3.00	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 (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Policy Rate	0.50	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00
10 Year Bond Yield	1.50	1.40	1.35	1.40	1.50	1.50	1.50	1.50	1.50

Currency forecasts

	Latest (11 Jul)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
JPY	146.43	143	141	139	137	136	135	134	133
SGD	1.2814	1.28	1.28	1.28	1.28	1.27	1.27	1.27	1.27
HKD	7.8499	7.84	7.82	7.80	7.80	7.75	7.75	7.75	7.75
PHP	56.46	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.00
THB	32.63	32.4	32.2	32.0	31.8	31.4	31.0	30.6	30.2
MYR	4.2553	4.25	4.20	4.15	4.10	4.05	4.00	3.95	3.90
CNY	7.1782	7.15	7.10	7.05	7.00	6.95	6.90	6.80	6.70
IDR	16224	16200	16000	15800	15600	15400	15200	15000	14800
TWD	29.24	29.6	29.4	29.2	29.0	28.9	28.8	28.7	28.7
KRW	1375	1370	1360	1350	1340	1335	1330	1325	1320
INR	85.65	85.0	84.5	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	2020	2021	2022	2023	2024	2025f	2026f	2027f
World	–2.7	6.6	3.6	3.5	3.3	3.0	3.0	3.2
United States	–2.2	6.1	2.5	2.9	2.8	1.5	0.8	1.5
Japan	–4.2	2.7	0.9	1.5	0.1	0.8	0.8	0.8
Euro zone	–6.0	6.3	3.5	0.4	0.9	1.3	1.2	1.6
Group of 3	–3.9	**5.8**	2.7	1.8	1.8	1.3	0.9	1.4
United Kingdom	–10.3	8.6	4.8	0.4	1.1	1.2	1.2	1.5
Canada	–5.0	6.0	4.2	1.5	1.5	1.3	1.2	1.8
Australia	–2.0	5.4	4.1	2.1	1.0	1.6	2.1	2.4
New Zealand	–1.3	5.7	2.9	1.8	–0.6	1.3	2.9	2.8
OECD total	–4.2	**6.1**	3.1	1.9	1.7	1.3	1.1	1.5
China	2.3	8.4	3.1	5.4	5.0	5.0	4.6	4.5
Korea	–0.7	4.6	2.7	1.4	2.0	1.1	1.8	1.9
Taiwan	3.4	6.7	2.7	1.1	4.3	2.8	2.6	2.8
Hong Kong	–6.5	6.5	–3.7	3.2	2.5	2.2	2.2	2.2
Singapore	–3.8	9.8	4.1	1.8	4.4	1.9	2.0	2.4
Indonesia	–2.1	3.7	5.3	5.0	5.0	4.8	5.0	5.2
Thailand	–6.1	1.5	2.6	2.0	2.5	2.1	2.3	2.5
Malaysia	–5.5	3.3	8.9	3.6	5.1	4.2	4.4	4.6
Philippines	–9.5	5.7	7.6	5.5	5.7	5.6	5.7	5.8
Vietnam	2.9	2.6	8.5	5.1	7.1	6.3	6.4	6.5
East Asia	0.9	7.1	3.6	4.7	4.8	4.6	4.4	4.4
East Asia ex China	–2.2	4.4	4.6	3.3	4.3	3.6	3.8	4.0
NIEs*	–0.5	**6.0**	2.3	1.5	3.0	1.8	2.1	2.3
India	–5.8	9.7	7.6	9.2	6.5	6.3	6.4	6.3
Russia	–2.7	5.9	–1.4	4.1	4.1	1.2	1.1	1.1
Brazil	–3.3	4.8	3.0	3.2	3.4	2.0	1.8	2.3
South Africa	–6.2	5.0	1.9	0.7	0.6	1.0	1.3	1.6
Mexico	–8.4	6.0	3.7	3.3	1.5	–0.3	1.4	2.1
Argentina	–9.9	10.4	5.3	–1.6	–1.7	5.5	4.5	4.0
Chile	–6.1	11.3	2.2	0.5	2.6	2.0	2.2	2.3
CIS^	–34.0	23.0	–6.4	–8.4	10.0	11.0	11.0	11.0
Middle East	3.2	2.8	2.8	2.8	2.9	2.9	2.9	2.9
C & E Europe	–5.5	9.0	4.2	3.2	2.9	2.5	3.0	3.4
Africa	–1.5	4.7	4.1	3.6	4.0	3.8	4.2	4.3
Emerging ex–East Asia	–3.7	6.9	3.7	4.3	4.2	3.8	4.0	4.1
Other countries	1.4	**5.9**	4.3	3.6	2.9	2.4	3.0	3.3
World	–2.7	**6.6**	3.6	3.5	3.3	3.0	3.0	3.2

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

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