



November 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK

November 2025

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Focus shifts from global to local



Geopolitical developments have delivered more relief than ruckus over the past month, with trade threats continuing to recede a little. US President Trump's tour of Asia culminated in a notable de-escalation of US–China tensions following the 'flare-up' in early October centred on rare earths and export controls. Continued stability is by no means guaranteed but market-wise, the muted reaction to previous threats is looking more justified. Bond yields have more-or-less done a round trip back to their levels from a month ago while the USD has traded in a relatively tight range. While 'uneasy calm' is still the dominant mood, the edginess is focused less on attention-seeking announcements and more on how underlying economic and policy narratives are unfolding.

Against this backdrop, the major economies are increasingly facing their own distinct domestic challenges. In the US, an uncomfortable mix of persistent above-average inflation and downside risks to jobs is colliding with an extended Federal government shutdown, leaving the FOMC with a tough balancing act – we now see another 50bps of rate cuts to insure against deteriorating activity outcomes but the inflation outlook is still expected to be a binding constraint to further easing. In China, a resilient trade and production performance has given authorities some breathing room to address a fragile consumer, which is set to be a key focus of the latest government's five-year plan outlined late last month. While Europe has effectively slain its inflation dragon, restoring growth has proven to be a more difficult task than elsewhere.

Locally, inflation concerns have resurfaced, the RBA's easing cycle, which has been slower and milder than most, now looks set for an extended pause. Multiple quarterly readings on inflation will likely be needed before the Bank is confident enough on that front to consider further moves. As such, we now anticipate the hold continuing through to mid-2026, with the next 25bp rate cuts coming in May and August. The chief risk, in our view, is that any further delay will see the cash rate having to be cut by more than 50bps. Despite the changes in our near-term views for Australian and US policy rates, this is not enough to offset a more positive US dollar narrative.

Australia: The flow of data is starting to pick up as we approach the Q3 National Accounts. Partial data thus far shows that the impulse from improving real incomes continues to support consumer spending, helping offset the sharp decline in public infrastructure spending. Despite this, the September jobs report showed that risks remain as we rebalance away from 'jobs-rich' public demand toward private sources of growth.

Commodities: Commodity prices were steady in October, with gains in coal, oil, aluminium, and copper offset by declines in gold and iron ore. Forecast changes are minimal but include a lower near-term gold price and a delayed correction in oil and iron. Elevated Chinese port inventories, and subdued pig iron output, suggests robust demand from coastal mills and/or unreported "dark ore" may be supporting iron ore prices.

Global FX Markets: The US dollar DXY index has marked time over the past month, trading a very tight range between 98.3 and 100.4, now 99.7. Economic data for the US and the rest of world warrants the downtrend in the US dollar evident through 2025 recommencing in coming months, though political and geopolitical uncertainty may stand in the way.

New Zealand: Our recent New Zealand Economic Overview saw us downgrade our forecast for GDP growth this year. However, with the RBNZ now pushing harder on the gas pedal and export commodity prices remaining firm, we remain confident that the economy will attain above-trend growth next year.

United States: In October, the FOMC cut the fed funds rate by 25bps. The cut was billed as a risk management decision. The uncertainty being responded to was not the economic impact of the government shutdown, but the deceleration in employment growth prior. We now expect two further rate cuts in H1 2026 as the FOMC seek to balance activity and price risks.

China: The 2025 growth target of 5.0% is within reach. But to achieve a similar outcome in 2026 and beyond, active support for the consumer and real estate sector is required. The initial guidance from October's Plenum was constructive, but we are yet to see any policy detail. Policy's effectiveness is likely to be dependent on its timeliness and ability to stoke sentiment.

Japan: The Japanese yen has depreciated dramatically since 2019, falling 40% against the US dollar. This weakness is expected to persist due to three main factors: large net investment outflows as Japanese firms reinvest profits overseas; wide interest rate differentials that encourage carry trades; and the benefits of a weaker yen for Japan's export competitiveness.

Europe & UK: Industrial production struggled to grow in most advanced economies, but Germany has felt the pinch especially hard due to lack of innovation, high energy costs, competition from China, and new barriers in global trade. Fiscal support and lower interest rates may help but growth remains modest. Manufacturing is crucial for broader economic revival. ►

Central banks go their separate ways ...

Luci Ellis

Chief Economist, Westpac Group

After several years where central banks globally were contending with a common global inflation shock, country-specific factors are now more in play. It now looks more likely that the Federal Reserve will ease further in 2026. ECB policy looks to be on hold for the time being, but downside risks to the inflation outlook point to room for further cuts next year. The Bank of England also has scope to cut rates provided inflation has genuinely peaked.

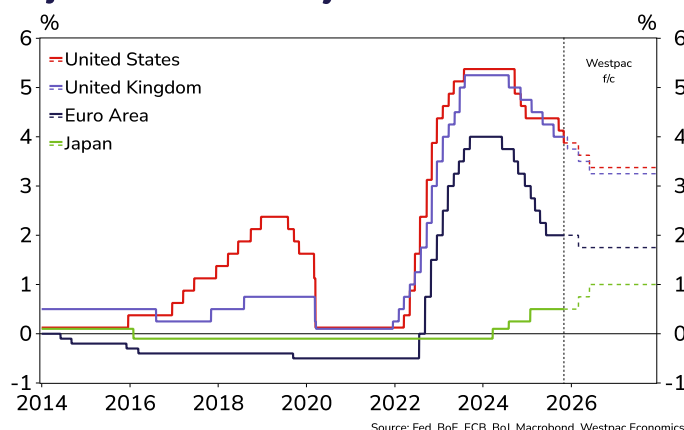
Federal Reserve policy continues to be complicated by the cross-cutting influences of tariff policy raising domestic prices over time, at the same time that downside risks in the labour market are receiving attention. The government shutdown has dragged on. Key inflation data for September were nonetheless published, showing that headline and core inflation remained elevated. Potential confidence effects from the shutdown add to the downside risks already evident in the private-sector economy outside the tech sector. While FOMC Chair Powell showed little appetite to follow up the late-October cut in the Fed funds rate with another in December, we now see enough downside risks to the outlook to incorporate two further cuts in first half of 2026. In line with this, US yields across the curve have in recent weeks tended to decline relative to Australian and European yields.

The ECB is in a different situation, having much less of an underlying inflation issue than the US, but also having already cut policy rates by more. Most ECB officials are signalling that policy is on hold and decisions will be data-driven from here. We nonetheless see the inflation risks, and so the policy path, being tilted to the downside. Further illustrations of the current country-specific nature of monetary policy setting can be seen in the Bank of Canada's decision to cut its policy rate in late October, to a level that is clearly supportive given the structural adjustment being imposed on the Canadian economy by the current trade conflict. By contrast, the question in Japan is when the Bank of Japan will next raise rates.

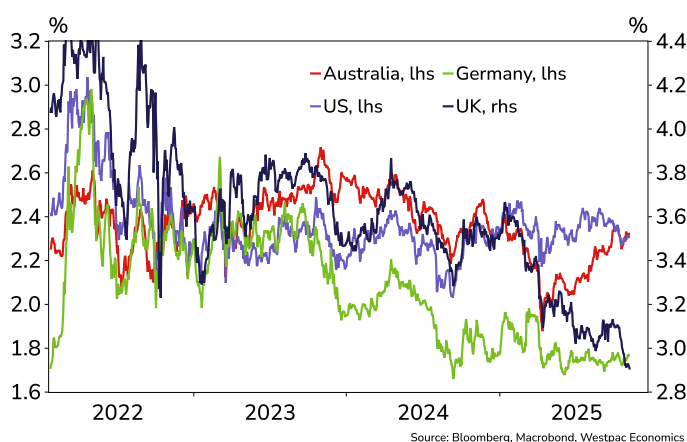
Exchange rate pivot in fits and starts

The USD remains 10–15% overvalued on most metrics. In recent months, though, it has shown some resilience. Market participants have been more inclined to focus on positive news, including recent trade deals and the current AI-centred strength in US business investment. Global investors continue to seek opportunities to hedge or diversify concentrated USD exposures, but not materially sell down positions; the earlier sell-off was never truly 'de-dollarisation'. We continue to expect that the USD's overvaluation will unwind over time, with DXY below 95 by the second half of 2027. Some short-term depreciation is likely but this is likely to occur in fits and starts in reaction to trade developments and as market views evolve.

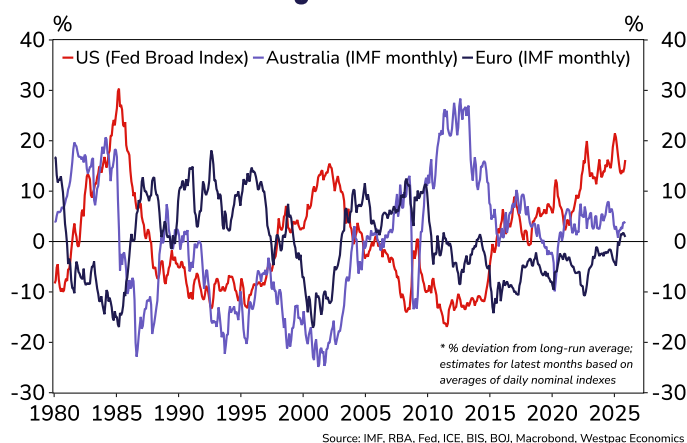
Major Central Bank Policy Rates



10-Year Breakeven Inflation



Real Effective Exchange Rate Indices



... while RBA remains cautious, not totally spooked

Inflation surprise lengthens RBA's time on hold

The RBA Monetary Policy Board (MPB) surprised no-one by keeping the cash rate on hold at 3.6% following its November meeting. The September quarter inflation print was materially higher than it had expected in August. Some of the result was judged to have been due to temporary factors, but the RBA did take some signal from the outcome. It therefore scaled up its near-term forecasts for underlying inflation.

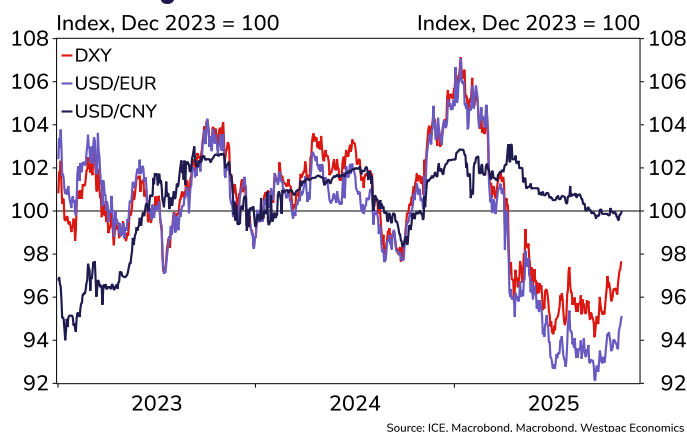
Recent labour market outcomes were, by contrast, softer than the RBA earlier expected, although it still assesses the labour market to be a little tight despite that recent easing. Together with a higher assumed path for interest rates built into the November forecasts relative to the August round, this implies some downward momentum in the inflation outlook. The RBA's forecasts for underlying inflation incorporated these shifts, being higher in the near term than the August forecasts, but declining towards the middle of the 2–3% target range further out. The net change left forecast trimmed mean inflation slightly above the midpoint of the target range in 2027.

Monetary policy is still assessed to be a little restrictive, though there is less certainty on this point the closer one is to a broadly 'neutral' stance. Broader measures of financial conditions give a mixed picture. The MPB judged that it was appropriate to keep policy slightly restrictive given that inflation is above the midpoint of the target range and demand growth is expected to keep recovering. In the post-meeting communication, Governor Bullock contemplated future outcomes that would be consistent with a further easing in policy, and others that would involve the cash rate remaining on hold for an extended period.

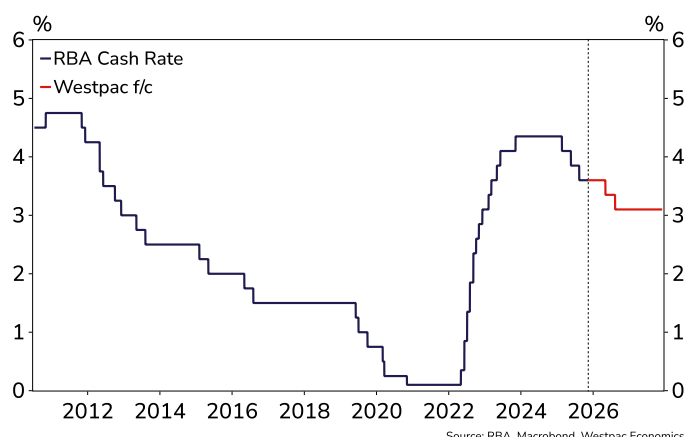
Westpac's inflation forecasts are a little lower late next year than the RBA's, even though we have also taken some signal from the recent upside surprise. By late next year, we see trimmed mean inflation declining below the target midpoint. Our forecasts for the unemployment rate are also a touch higher. If things turn out as we expect, the RBA would be in a position to cut the cash rate further: on this basis we expect two further cuts, in May 2026 and August 2026. An outcome more like the RBA's near-term forecasts would see it keep the cash rate on hold for even longer. This would, however, hold the risk that the current upswing in demand falters without further rate relief. In that scenario, inflation could remain below the target midpoint for even longer and the labour market would be weaker, and at least one more rate cut could be expected.

In line with our view that the USD is overvalued, we remain constructive on the AUD against the USD in the medium term. The latest changes to our rates views do imply a narrowing spread between US and Australian rates at the short end. However, this is not a material enough change in view on rates differentials to entirely offset the other, more positive, recent narratives on the USD.

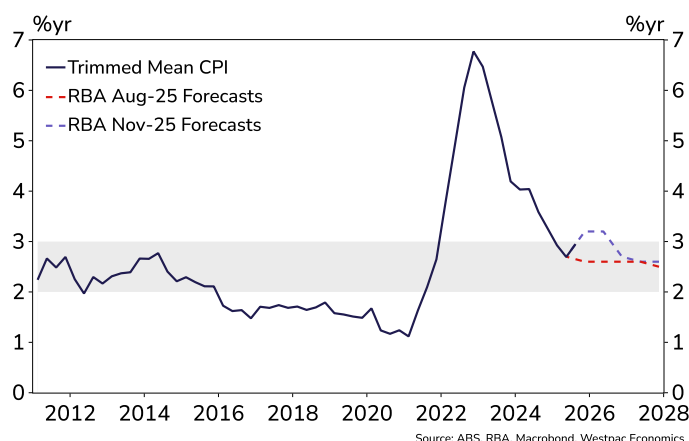
USD Exchange Rates



RBA Cash Rate



RBA Forecast Revisions to Trimmed Mean Inflation



Investment likely to firm as economy rebalances ...

Pat Bustamante
Senior Economist

The flow of data is starting to pick up as we approach the release of the September quarter National Accounts in early December. The partial data thus far shows that the impulse from improving real incomes continues to support consumer spending, helping to offset the sharp decline in public infrastructure spending. Despite this, the September jobs report showed that risks remain as we rebalance away from 'jobs-rich' public demand toward private sources of growth.

The early signs from our **Westpac Card Tracker** suggest that, as at mid-October, the solid gains in household spending recorded in Q2 carried over into the second half of 2025. While the upturn in consumer spending has been broad based across consumer segments, our **Westpac Consumer Panel** suggests it has been more pronounced for those with a mortgage. Rate cuts and expected future cuts are a key driving factor for this cohort of consumers. Note that some other measures of spending have not been quite as firm. In particular, the ABS household spending indicator (HSI) surprised on the downside, tracking real quarterly growth of 0.25%qtr in Q3. It is worth noting that the HSI undershot the Q2 consumption outcome and was subsequently revised higher. This may be the case again for Q3.

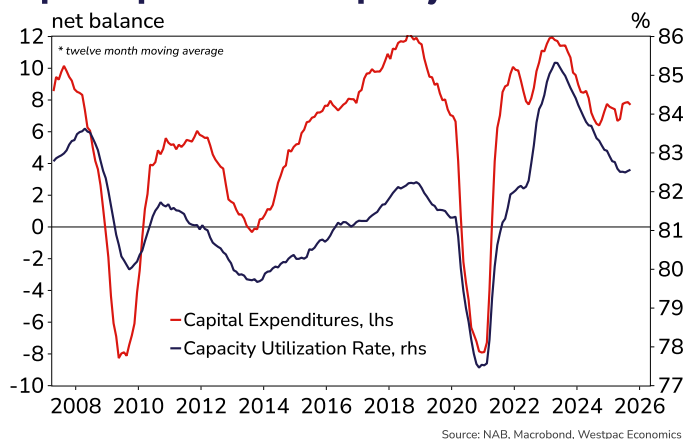
The firmer Aussie consumer is also having an impact elsewhere in the economy. **Business conditions** have stabilised and improved to be back around long-run average levels, while confidence moved above its long-run average level. We are also seeing survey measures of capital expenditure improve as capacity utilisation remains elevated. Furthermore, business credit growth continues to track at an above average pace of close to 10%yr – the strongest growth since the mid-2000s outside of the COVID period. Despite this improving backdrop, business investment remains soft, with recently published annual benchmarks showing total private business investment down 0.2% in 2025FY – investment in intangibles (mainly computer software) was the only category to post a gain.

Why is investment so soft?

We have seen an unprecedented expansion in the non-market sector (including public administration, health care and education and training) over the past decade which accelerated in the post pandemic period. This has had implications for how 'jobs intensive' economic growth has been ([see here](#)); for labour productivity ([see here](#)); and – as the Annual National Accounts (or Annuals) make clear – for growth in total investment.

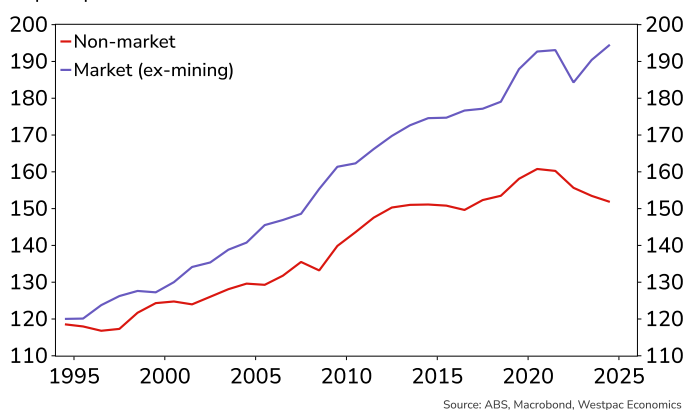
The Annuals show growth in total investment (private and public) across all industries over the past year has been decidedly soft, which has flowed through to growth in our capital stock (or the economy's productive base, which includes infrastructure,

Capital expenditure and capacity utilisation



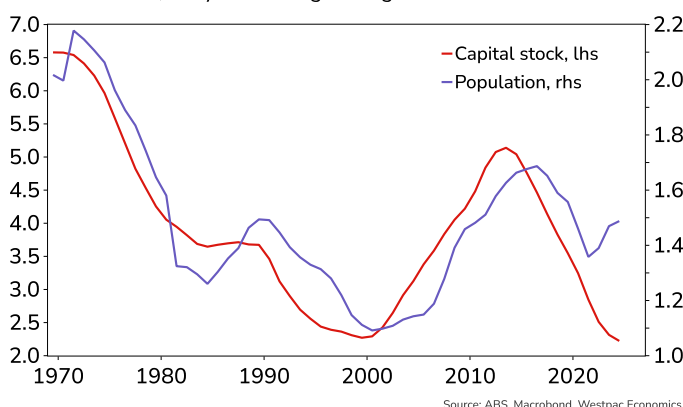
Capital to labour ratio by sector

Capital per hour worked



Population and the capital stock

Annual Growth, 10-year moving average



... adding another layer ...

machines, buildings, IT systems etc). Growth in our capital base has slowed and is running a touch over 2.0%yr. Looking at a longer-term trend, the rolling ten-year average growth rate shows that the economy's capital base **is expanding at its slowest rate on record**. Weak private investment (which declined in the 2025FY) is likely to be the main driver of this sluggish performance: this could be one reason businesses are reporting elevated capacity utilisation at a time when business conditions are sitting at around average levels. When compared with population growth a disconnect has emerged: we are seeing population growth that has not been matched by growth in our capital base. At least part of this disconnect seems to be explained by the expansion in the non-market sector.

The flipside of public demand being 'jobs-rich' is that it's not as capital intensive as the market sector. In fact, the amount of capital (machines, equipment, infrastructure) used per hour of work in the non-market sector is 1.1% below its pre pandemic level (2019FY) and is almost 30% below that of the market (ex-mining) sector. This helps explain why the share of non-market employment has increased by around 10ppts over the past 15 years, while the non-market sector's share of the economy wide capital stock has only increased by around 3ppts.

As we move away from the non-market sector being the engine of growth in the economy, capital will become more important and growth in investment should pick up by a little more than what we have become accustomed to.

The capital to labour ratio in the market (ex-mining) sector is around 10% higher than its pre pandemic levels and, in fact, it's above its pre-pandemic decade trend. Judging by the industry composition, this capital deepening has been driven by several factors including the transition to net zero carbon emissions and the emergence of new technologies, such as AI and machine learning.

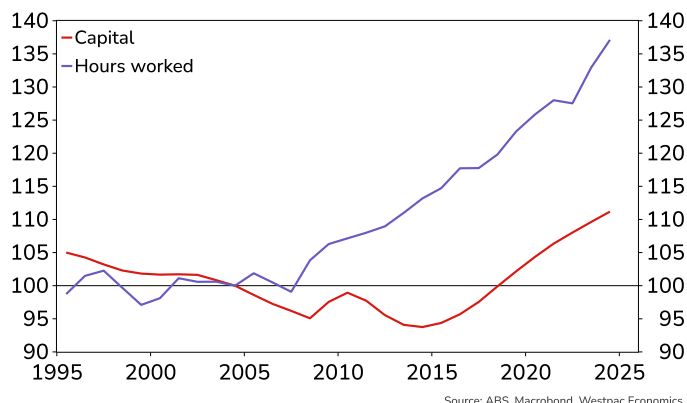
Their adoption is clearly boosting investment. Businesses that were squeezed as demand eased have invested in cost-cutting technology. In fact, computer software alone (which includes software platforms, cloud storage, upgraded mainframes, cybersecurity) has more than doubled as a share of the market (ex-mining) sector's capital stock over the past decade and today sits at more than \$75bn a year.

What does this all mean?

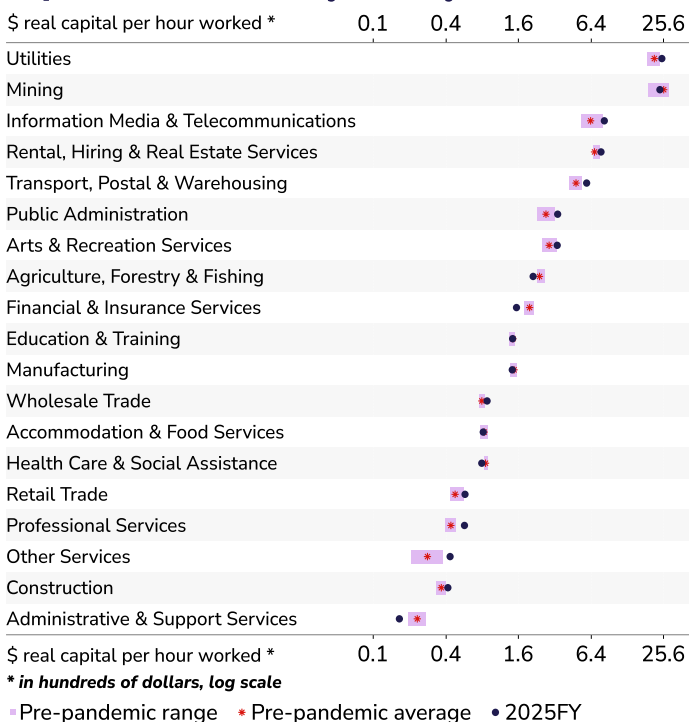
Aggregate investment has been weak. As the non-market sector expanded, growth was less investment intensive. Now, as the expansion matures and the economy rebalances there will be a pick-up in activity in the market (ex-mining) sector, which in turn has become more capital intensive over the past five years. Even if this process of capital deepening slows, the shift to the more capital-intensive market sector will increase investment and add to the economy's capacity.

Expansion in the non-market sector

% share of total, Index 2004 = 100



Capital to labour ratio, by industry



... to a more uncertain growth mix

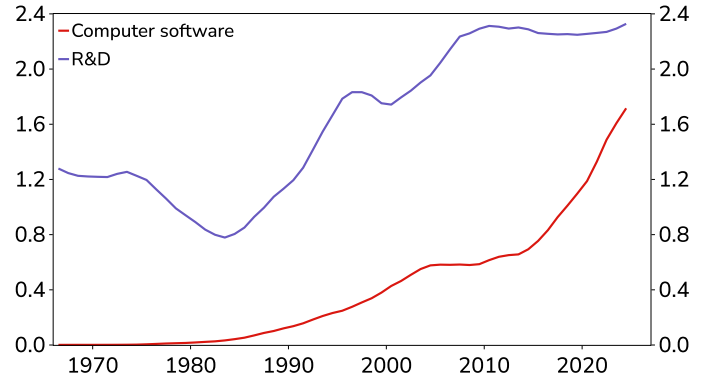
Exactly how the balance resolves for the labour market is unclear. On the one hand, private demand should become even less labour intensive over time. But at the same time the 'build phase' for much of this investment has an initial labour requirement – the AI data centres and transformation of business operations will require additional humans to begin with.

However, the wider themes are clear: the shift from jobs-rich, investment-light public-demand-led growth to a jobs-light, more investment-focused private-demand-led growth phase may be an unsettling one.

The last three years has seen the longest sustained period in which employment growth has outstripped GDP growth in Australia (previously this was only really seen when the GDP side was slowing sharply or entering a recession). The pattern is now reversing and while we do not expect an extended period of 'jobless growth,' the rebalancing means gains will be generating less impetus for household incomes and consumer demand over the medium term.

Intangibles as a share of the capital stock

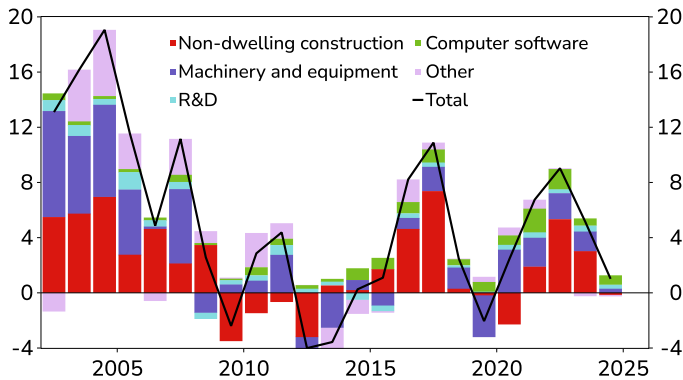
% of total, market (ex-mining) sector



Source: ABS, Macrobond, Westpac Economics

Market (ex-mining) sector investment

Contribution to year average % growth



Source: ABS, Macrobond, Westpac Economics

Crude supply is adjusting in way that supports pricing ...

Justin Smirk

Senior Economist, Westpac Group

Commodity prices were broadly flat through October, masking notable strength in some commodities. Metallurgical coal, crude oil, and aluminium each posted solid gains of around 5%, while copper rose a more modest 2%. These advances were offset by declines in gold (down 3%) and iron ore (down 1%), resulting in minimal net movement across the broader commodity complex. Consequently, changes to our forecasts this month are limited, with the Westpac Export Price Index for December 2026 revised slightly to 328 from 330 in the September report. The key adjustments include a downgrade to our gold forecast, now US\$4,180/oz, and a delay in the expected correction in crude oil, with the December 2026 estimate revised to US\$58/bbl from US\$65/bbl.

Gold rally runs out of steam, at least for now

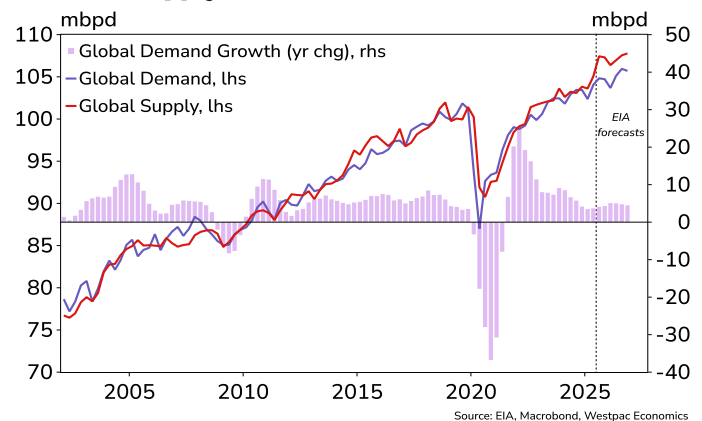
While it is always difficult to pinpoint a top for gold, recent developments suggest we may have seen a near-term peak. After surging past US\$4,000/oz earlier in October, gold has since eased, and we now expect prices to track sideways through to year-end, albeit within a volatile and wide range. A key factor reinforcing this view is the recent policy shift in China, where major banks suspended parts of their gold savings businesses following the introduction of new VAT rules on gold transactions. The changes, aimed at curbing short-term speculation and tightening oversight of the physical gold supply chain, are likely to dampen retail demand. Given the significant role Chinese ETFs and physical buying played in the recent rally, this development supports the notion that near-term demand has softened and the push higher has ended, at least for now. As such, we have marked down our gold price estimate for end 2026 to US\$4,180/oz.

Correction in crude now in 2026

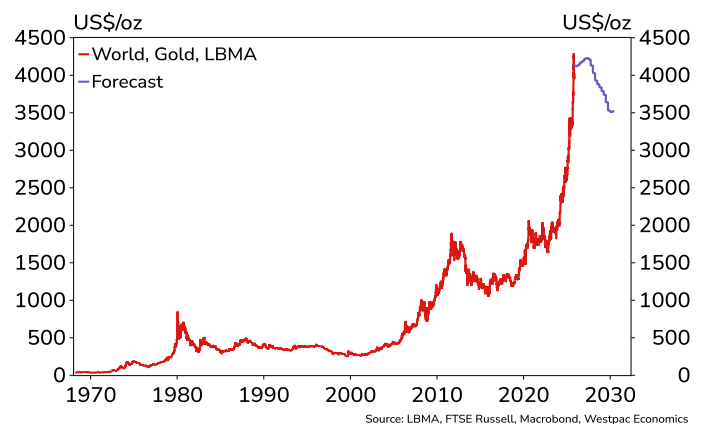
The anticipated shift toward excess crude oil supply, driven by rising production and softening demand, has yet to materialise as expected. While global output has increased by 4mbpd over the past six months, including a 2mbpd lift from OPEC+, demand growth has been subdued, averaging just under 1mbpd compared to last year. What has prevented this surplus from accumulating in inventories is China's aggressive build-up of its Strategic Petroleum Reserve (SPR), which may have absorbed as much as 1mbpd since March. Estimates suggest China now holds between 1.2 and 1.3 billion barrels in strategic and commercial reserves.

Meanwhile, Russian crude held in floating storage has surged, with Bloomberg estimating volumes exceeding 380 million barrels. While the timing of China's SPR slowdown and the potential release of Russian oil into the market remain

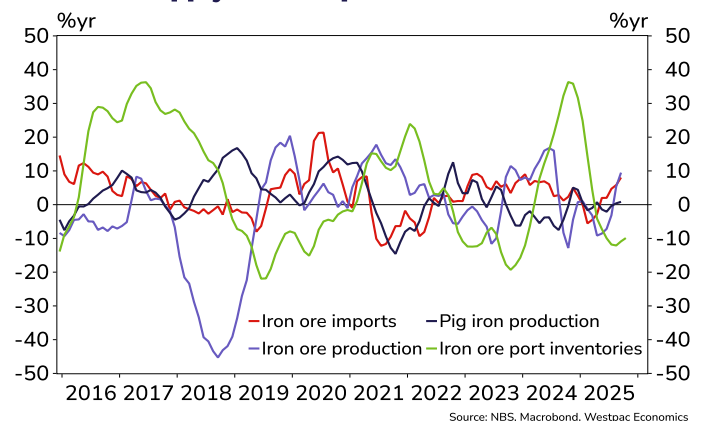
Crude oil supply & demand



Gold rallies from 2024



China ore supply, consumption & inventories



... while iron ore may be supported by “dark ore”

uncertain, we assume that at the right price, these barrels will find buyers, posing a downside risk to prices. However, this is counterbalanced by ongoing Ukrainian drone strikes on Russian refineries, which have disrupted up to 20% of Russia's refining capacity, and geopolitical uncertainty surrounding U.S. policy in Venezuela, where potential regime change efforts could further constrain supply.

Given these dynamics, we continue to see near-term upside risk to crude prices from potential supply shocks. As such, we have pushed back our forecast correction to crude oil and now expect prices to break below US\$60/bbl in the second half of 2026. Accordingly, our December 2026 forecast is now US\$58/bbl, down from US\$65/bbl in the September report.

Are “dark ore” inventories supporting prices?

Iron ore prices drifted lower through October but have held up more robustly than anticipated. Reports indicate that Chinese steel mills are facing mounting losses, with steel prices falling below production costs. This has prompted several mills to announce maintenance plans for November, following aggressive production cuts in late October driven by environmental controls and blast furnace shutdowns.

At the same time, Chinese port inventories of iron ore have risen noticeably, climbing to around 135.6 million tonnes by the end of October and noticeably stronger than the current level of pig iron production. Steel and steel product inventories are also elevated, defying seasonal norms. Given the current volume of pig iron being produced (−1.7% year to date) and the supply of iron ore (Chinese ore production down 1.6% year to date, imports almost flat at −0.1%) suggests two possibilities we have observed before that would help explain the more robust than expected iron ore price:

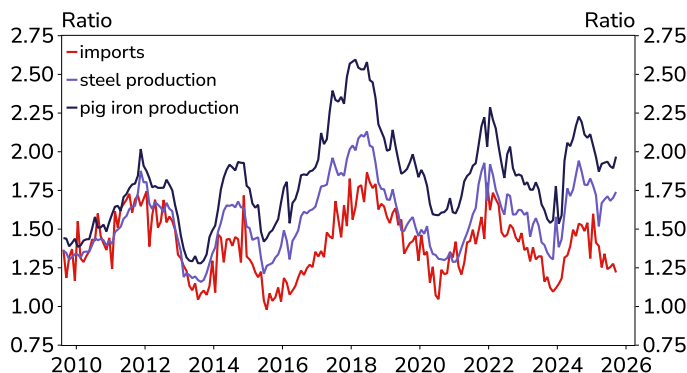
- The larger fall in domestic production vs. ore imports could point to a larger adjustment in steel production from the smaller inland mills that are often integrated with a local mines. As such the large coastal mills, that are more dependent on imported ore, adjust less and thus the demand for imported ore remains more robust.
- The current level of port ore inventories looks to be relatively low given the rate of domestic ore production and imports compared to the rate of pig iron production suggesting the presence of “dark ore”; material that has entered the market but not accounted for in the official inventory data.

Adding to the supply outlook the Morébya Port in Guinea, developed as part of the Simandou iron ore project, is set to be inaugurated on November 11, with first exports expected shortly thereafter. This marks the beginning of a significant new supply stream that should weigh on prices into 2026.

Given these dynamics, we continue to expect iron ore prices to

China iron ore port inventories

Inventories are holding up compared to demand



Source: Bloomberg, Macrobond, Westpac Economics

weaken into year-end, though the pace of decline is now more moderate. Our December 2025 forecast has been revised to US\$102/t, up from US\$97/t in the September report.

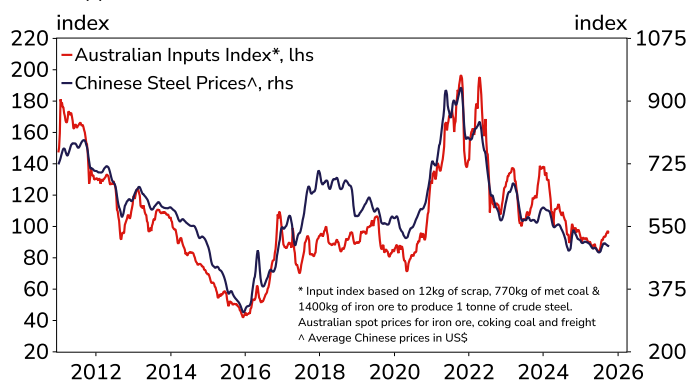
Copper fundamentals continue to firm

Despite last week's surge in copper prices, we remain cautious on the near-term outlook. Inventories continue to climb at Comex and are trending higher in Shanghai. With Chinese copper premiums declining and LME prices at record highs, we expect Chinese exports of refined copper to rise, capitalising on the arbitrage opportunity.

Aluminium remains volatile but continues to trend upward. The recent correction from above US\$2,900/t mirrors previous pull backs at US\$2,700/t and US\$2,800/t, suggesting this dip may to prove to be temporary. We still see potential for a near-term high of US\$3,000/t. In a local point of interest the Tasmanian government offered to extend the power supply for Rio Tinto's Bell Bay smelter, easing concerns about its viability beyond 2026.

Chinese Steel Input and Output Prices

Prices appear to have found a base for now



Source: Macrobond, Westpac Economics

Marking time as ...

Elliot Clarke

Head of International Economics

The US dollar DXY index has marked time over the past month, trading a tight range between 98.3 and 100.4, now 99.7. Economic data for the US and the rest of world warrants the downtrend in the US dollar evident through 2025 recommencing in coming months, though political and geopolitical uncertainty may stand in the way.

Official data received since 1 October for the US has been extremely limited owing to the Government shutdown. But the information that has come to market points to an economy that is stagnating. The Federal Reserve's October Beige Book reported that economic activity had "changed little on balance" since the previous report and that "employment levels were largely stable".

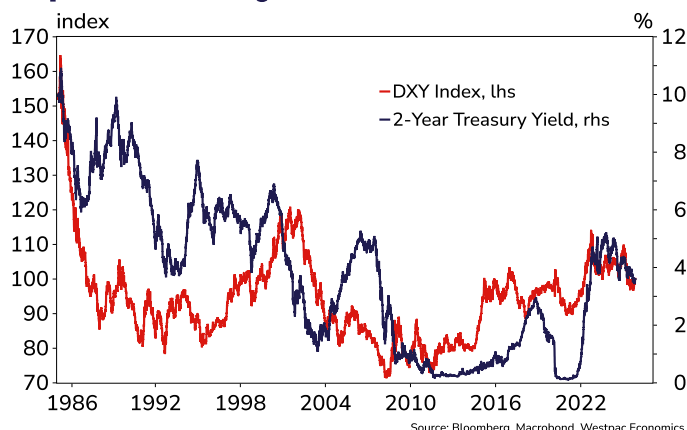
Based on history, there is an expectation that the shutdown will soon end and, as per Chair Powell's comments at the October FOMC meeting, that the economy will bounce back without delay. For financial market participants and the FOMC, there is therefore little reason to be concerned over the impact of the shutdown, either from an economic or monetary policy perspective.

Across the rest of the world, meanwhile, growth is continuing at a robust pace. Most notably, Europe is expanding at a near-trend pace with full employment, China is on track to meet its 5.0% GDP growth target for 2025, other developed markets are getting on top of downside risks and showing promise, while emerging Asian nations continue to make the best of their development opportunities.

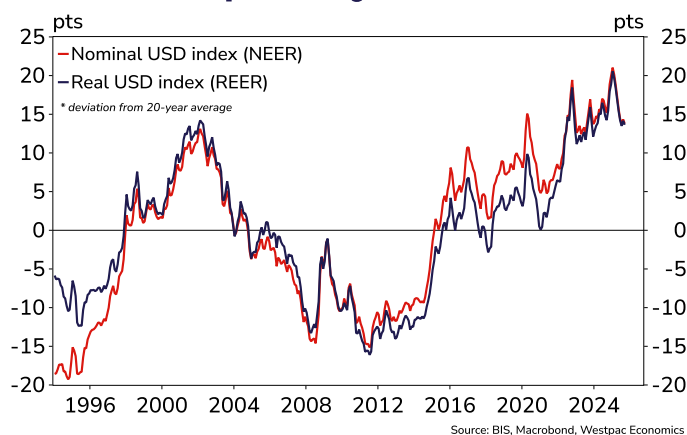
The US might not end up in recession, but as the shutdown fog lifts, the US facing a prolonged period of below-trend growth while the rest of the world is gaining, if not sustaining, robust momentum should put the US dollar under pressure again. Despite the FOMC's sanguine view, we also need to keep in mind that the government shutdown is entering unprecedented territory – now the longest on record and affecting the entire Federal workforce – and so there is a growing possibility that it could have a lasting impact. For sentiment in particular, across both consumers and businesses, the risks are heavily skewed to the downside -- a reality that could quickly filter through to activity and the US dollar if the shutdown continues for a second month, or is only resolved briefly.

Our baseline expectation therefore remains for the US dollar to edge lower over the next two years. From 99.7 today, we expect the DXY index to end 2025 at 99.2, 2026 at 96.4 and 2027 around 94.4. As the 20-year average for the DXY index is 90.5, there is clearly a risk that further weakness will present.

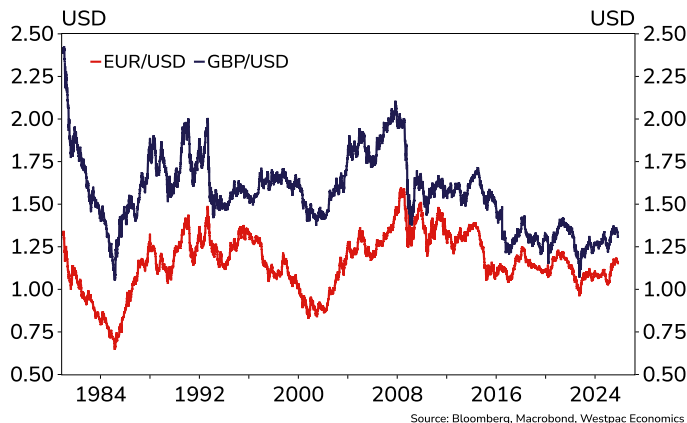
US prime factor of global markets



USD valuation experiencing a reset



Euro and Sterling to benefit



... risks play out

We look for the Euro to be the main contributor to this US dollar weakness owing to its high weight in the DXY index and the cross' modest starting level. Although Europe is also experiencing a degree of fiscal uncertainty, it is nothing compared to the US' state. The ECB also continues to exude confidence and coordination, justified by the tone of recent data and accommodative financial conditions. EUR/USD is seen trending up from USD1.15 today to USD1.16 at December, then USD1.19 at end-2026 and USD1.21 by end-2027.

Compared to Europe, the UK continues to experience a higher degree of uncertainty with respect to both growth and inflation. Still, a gradual uptrend against the US dollar is most probable as risks recede, from USD1.31 to USD1.33 at end-2025, then USD1.36 and USD1.38 by end-2026 and end-2027 respectively.

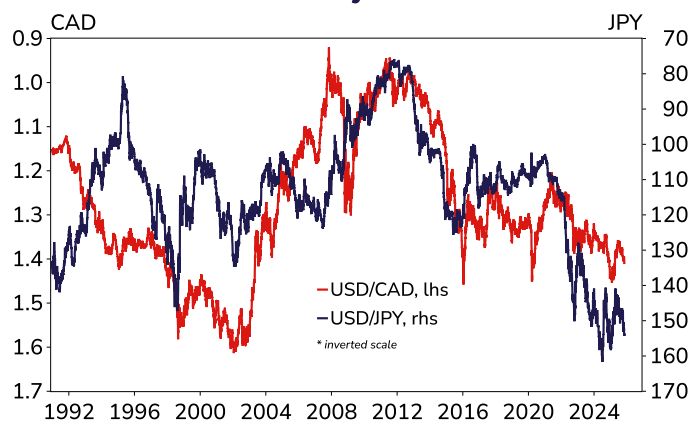
Although the atmospherics around Canada have soured this month as the US levied a 10% tariff increase, this measure only pertains to goods that are not covered by the USMCA, limiting its impact on Canada's economy. Meanwhile, the Bank of Canada have eased the stance of monetary policy to a broadly neutral rate, removing impediments to growth. With the tariffs against Canada narrowly based, the currency near its cycle lows and domestic conditions set to improve, Canada may well begin to attract a significant flow of capital from the US to finance new production.

While we see a potential for additional upside, for now our baseline appreciation in the Canadian dollar has been kept modest, USD/CAD forecast to edge down from CAD1.41 today to CAD1.36 then CAD1.32 at end-2026 and end-2027.

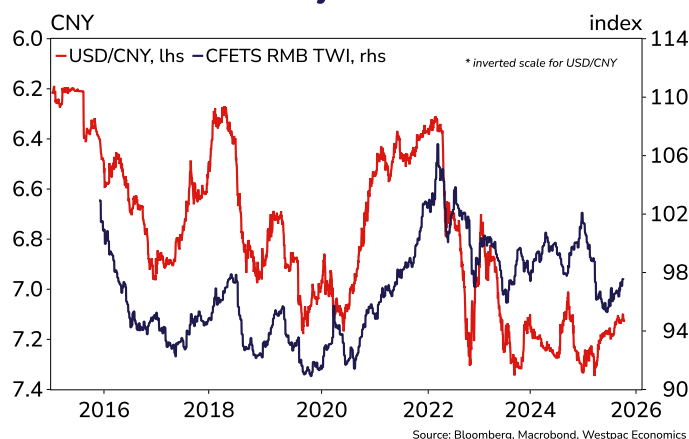
Japan's Yen has remained under pressure over the past month following the confirmation of Sanai Takaichi as the next Prime Minister. Yet the currency has also not made a run towards the prior lows near JPY158-160 against the US dollar, seen back in mid-2024 and again at the beginning of this year. Arguably, the market has begun to recognise the policy constraints on Prime Minister Takaichi and also the degree of weakness already priced into the Yen as a result of a number of cyclical and structural factors discussed in depth on page 19.

While we expect these themes to remain headwinds for the Yen, the reality is that the currency is almost 40% below its 2019 level versus the US dollar. Other Asian nations might have cost and logistic advantages, but Japan's technological capacity and political links with the West are sure to incentivise a partial recovery, in addition to the narrow of the US/Japan interest rate differential. Between now and end-2027, we forecast USD/JPY to fall from JPY153 to JPY 140.

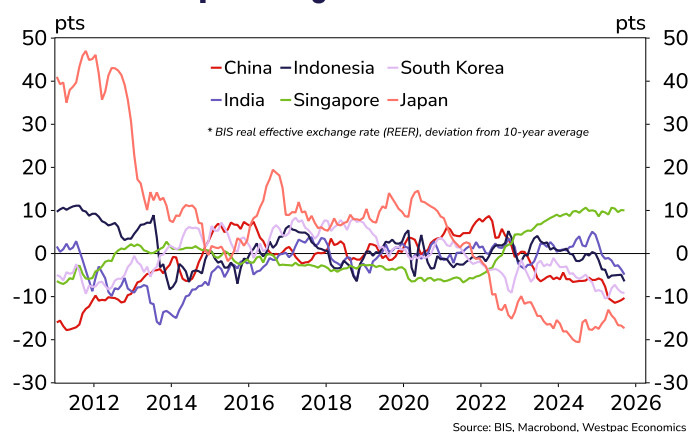
Concern over CAD to slowly abate



Renminbi to sustain rally



Asia's outlook promising



While 2025 has disappointed ...

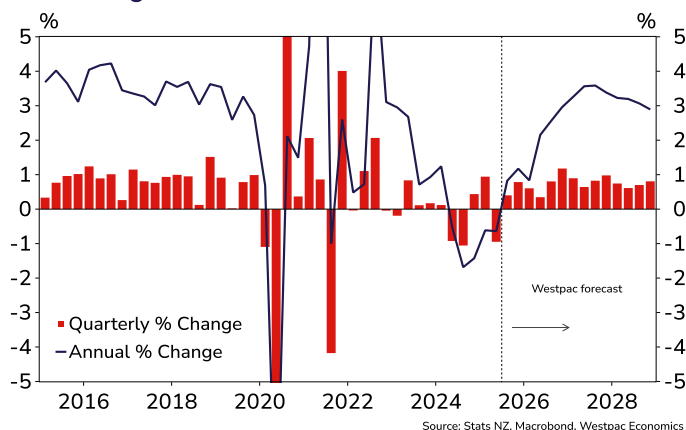
Darren Gibbs
Senior Economist

Late last month we released our final New Zealand [Economic Overview](#) for this year. In that report, titled “Running Rough”, we noted that the economy is yet to fire on all cylinders, necessitating a downgrade to our view on GDP growth in 2025. But we also noted that we remain confident that better times lie ahead for the economy in 2026 and beyond, especially with the RBNZ now pressing harder on the gas pedal and with key export commodity prices remaining resilient in the face of this year’s tariff shock.

The performance of the economy during the first half of this year was disappointing. When we launched our first *Economic Overview* for 2025, we had anticipated that the economy would grow by around 1.2% over the first half of the year and 2.5% over the full year. However, as currently estimated by Stats NZ, there was no growth in the first half of the year, with growth in Q1 wiped out by a similar sized contraction in Q2. Even if we allow for statistical quirks and certain one-off factors, in a recent report we concluded that [underlying GDP growth was just 0.3%](#) across this period.

Uncertainty related to US tariff policy may have contributed to this outcome. However, the underperformance relative to expectations mostly seems to reflect the lags from the tight monetary conditions that prevailed in 2024, even as the RBNZ began to aggressively ease monetary policy. The willingness of mortgage holders to fix short at higher interest rates in anticipation of more attractive longer-term fixing options in the future has probably contributed to the muted recovery, as has the sluggishness seen in the housing market which has remained flat in 2025.

Real GDP growth



Reflecting the lack of underlying momentum, and the latest high frequency indicators, in our latest *Economic Overview*

we revised down our expectations for GDP growth over the second half of this year. We now expect the economy will grow 1.2% over this period – growth that is slightly exaggerated due to the same seasonal quirks that weighed over the first half of the year. But as we look further ahead, we retain optimism that the building blocks are now in place to encourage a more vigorous recovery to take hold, and so we forecast GDP growth of 3.0% next year and 3.4% in 2027.

One source of our optimism remains the performance of exports. Prices commanded by New Zealand’s key commodities – dairy, meat and horticultural products – have remained elevated, allowing farmers to rebuild their balance sheets after the more difficult conditions faced in 2023. And in the case of dairy farmers, they are also set to receive a capital return of \$3.2bn next year if Fonterra’s sale of its main consumer business is approved by regulators, as is expected. These factors should see more of the current high export returns filter beyond the farmgate, supporting rural regions directly and the broader economy over time.

Another cause for optimism is the continued passthrough of the RBNZ’s OCR reductions into mortgage interest rates, which will strengthen the cash flow channel of monetary policy transmission. After peaking at 6.39% in October 2024, RBNZ data suggests that the average interest rate paid on mortgage loans had declined to 5.45% in August. We estimate that it is probably close to 5.20% today. And looking ahead, with interest rates for newly fixed one- and two-year mortgages currently 70bps lower at around 4.5% (for low LVR loans), the average paid interest rate will continue to decline over coming months as mortgage holders progressively refix. While as usual, some households will maintain their mortgage payments and pay off their loans faster, for some these interest savings will help drive growth in spending. Meanwhile, the weaker New Zealand dollar that has been associated with lower domestic interest rates will further support exporters and those firms competing with imports (including the domestic tourism industry). We expect that the New Zealand dollar will remain weak for the foreseeable future, especially on the crosses.

Even with growth returning, for the coming year the economy will likely continue to operate with significant spare capacity. In the September quarter the unemployment rate rose modestly to 5.3% – a nine-year high – with employment stable and so failing to keep pace with even slow growth in the labour force. The increase in slack has led to a marked deceleration in wage growth, with private sector labour cost inflation now running at just 2.1%yr – less than half of its recent cyclical peak. While we expect GDP growth to gradually strengthen, given the

... 2026 should be a much better year

usual lags it will likely be around the middle of next year before growth in hiring is sufficient to place the unemployment rate on a clear downward trajectory.

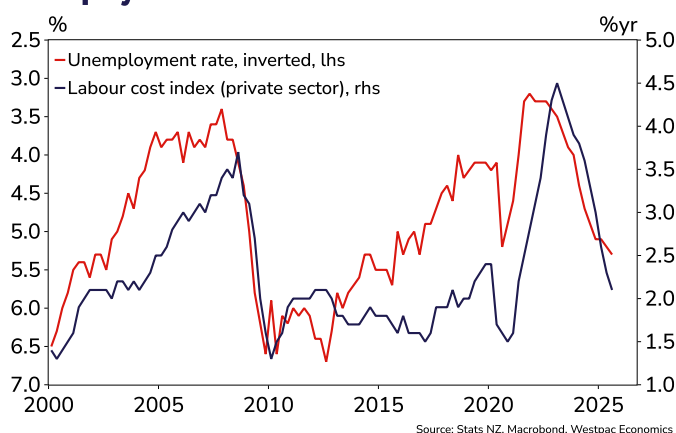
The spare capacity that has been created in the labour market should continue to exert downward pressure on domestic inflation (at least in those parts of the economy where

stabilising (or declining in some cases), the upward impetus to food prices now also appears to be peaking.

So how does this leave the RBNZ placed? The RBNZ abruptly pivoted to supporting growth at its August and October meetings. While current high headline inflation remains a risk for inflation expectations, given the level of spare capacity in the economy, the Monetary Policy Committee (MPC) seems comfortable looking through that inflation. Rather, the focus of the MPC is trying to ensure a return to above-trend economic growth in 2026. Looking ahead to the 26 November meeting, we expect that the data flow between now and then will leave the RBNZ content to cut the OCR by a further (and likely final) 25bps to 2.25%. This will lock in the current structure of mortgage interest rates and provide greater assurance that the economy gathers forward momentum over the important summer holiday trading period.

The outlook for monetary policy in 2026 will depend on whether the global economy and key export prices retain their current resilience and the extent to which consumers and businesses respond to the low interest rates that are now on offer. We suspect that the performance of the housing market, especially house prices, will also be important. Of course, for an inflation-targeting central bank like the RBNZ the evolution of inflation will also be crucial. If inflation were not to fall back towards the middle of the target band next year as currently anticipated, the RBNZ may be forced to tighten policy sooner than the market currently expects. Finally, later in the year, attention will turn to the General Election – likely to be held around October or November – and whether this seems likely to return a government with policies significantly different to those of the current government.

Unemployment rate and labour cost inflation



competitive forces ensure pricing discipline). So, while annual CPI inflation rose to the top of the RBNZ's 1–3% target band in the September quarter and will likely remain near the top of the band in the December quarter, we continue to expect that it will track back down towards the middle of the band in 2026. Contributing to this decline will be an easing of food price inflation, which had run up to 5% this year as increases in global commodity prices were passed through into domestic prices. With those prices now

	2024		2025									
Monthly data	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
REINZ house sales %mth	1.8	-3.5	-1.0	7.4	1.6	1.2	-2.5	-2.2	0.3	-3.5	-3.1	-
Residential building consents %mth	4.9	-5.5	3.3	0.9	10.2	-14.3	10.9	-5.3	5.5	6.1	7.2	-
Electronic card transactions %mth	-0.1	2.9	-1.9	0.1	-1.4	-0.1	-0.1	0.5	0.2	0.6	-0.5	-
Private sector credit %yr	3.1	3.1	3.2	3.0	2.9	3.0	3.0	3.2	3.5	3.8	4.2	-
Commodity prices %mth	2.9	0.1	1.8	3.0	-0.4	0.0	1.9	-2.4	-1.8	0.7	-1.1	-0.3
Trade balance \$m	-314	-321	112	-248	-172	19	-249	-506	-316	13	392	-
Quarterly data			Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25
Westpac McDermott Miller Consumer Confidence			83.1	80.2	88.9	93.2	82.2	90.8	97.5	89.2	91.2	90.9
Quarterly Survey of Business Opinion			-10	-16	6	-28	-26	-28	-25	-22	-22	-14
Unemployment rate %			3.7	3.9	4.0	4.4	4.7	4.9	5.1	5.1	5.2	5.3
CPI %yr			6.0	5.6	4.7	4.0	3.3	2.2	2.2	2.5	2.7	3.0
Real GDP %yr			4.0	2.3	1.8	1.4	0.6	0.0	-0.6	-1.1	-1.1	-
Current account balance % of GDP			-7.5	-7.1	-6.3	-5.7	-5.5	-5.2	-4.7	-4.2	-3.7	-

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

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China's key economic risks ...

Elliot Clarke

Head of International Economics

China's economy met our expectations in the September quarter, year-to-date growth in GDP edging down from 5.3% to 5.2%, a touch above the 5.0% target for 2025. Quarter-on-quarter, growth also showed persistence; though in 2025, it has averaged 4.5% annualised, not 5.0%.

The partial data for September again made clear production and trade have driven these gains. In September, annual growth in industrial production materially beat market expectations, accelerating to 6.5%yr as exports recorded an 8.3% gain.

Growth in fixed asset investment turned negative, however. By sub-sector, property investment remained the most significant drag; but investment in key high-tech sub-sectors also retreated after surging through 2021 to 2024. Automobile, transport and utility related capacity expansion is also now occurring at a much slower pace, providing less of an offset to the deterioration being experienced in the aforementioned sub-sectors.

The pull back seen in China's key high-tech sub-sectors was inevitable given authorities growing focus on return on investment and sustainable profit margins. It is a sign of growing maturity and strength for the economy overall. However, the timing of the slowdown risks a material step down in GDP growth in 2026, if property investment and household consumption do not pick up quickly.

It is not surprising then that the initial communications from the recent Central Committee Plenum on the 5-year plan to 2030 had a strong focus on the consumer and domestic investment. Specifically, press reports reference "increased efforts to guarantee and improve people's livelihoods" and to "improve the social security system".

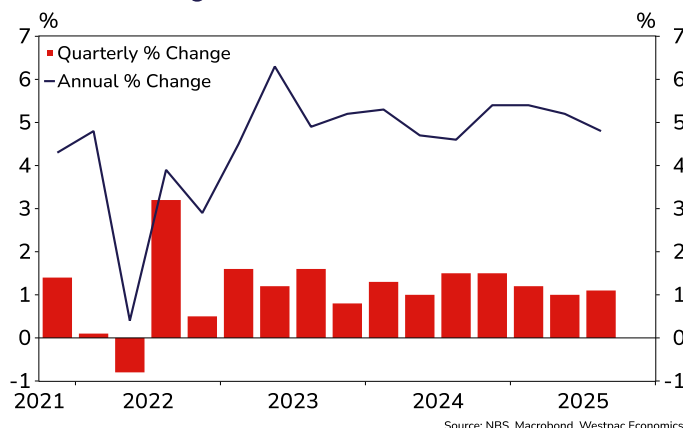
The call to "promote the high-quality development of the real estate sector" arguably highlights that households not only need more quality housing and community infrastructure to build lives in, but also the ability to accrue wealth sustainably throughout their lifetime.

From the telegraphed outcomes of the plenum, it was also clear the Government intend to continue pushing forward with economic and technological development, looking to become self-reliant as well as to continue growing their share of global markets, particularly in high-tech goods.

Achieving this aim will further boost trade income over time. However, at this juncture, it is not necessarily the quantum of additional income that is most important but rather the breadth of its distribution.

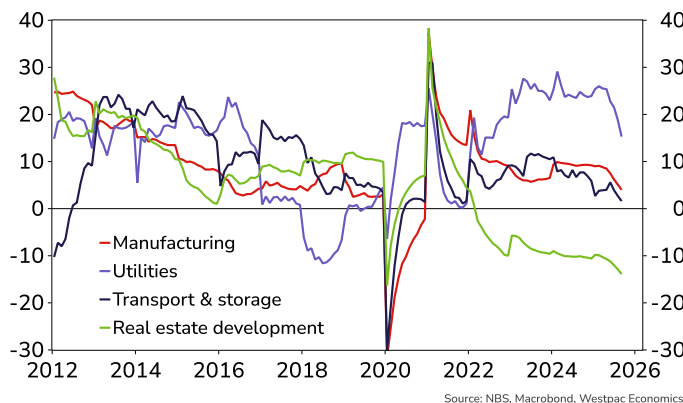
In aggregate, Chinese households have excess cash and high savings rates. But the hit to wealth experienced because of the

Growth on target for 2025 but 2026 at risk



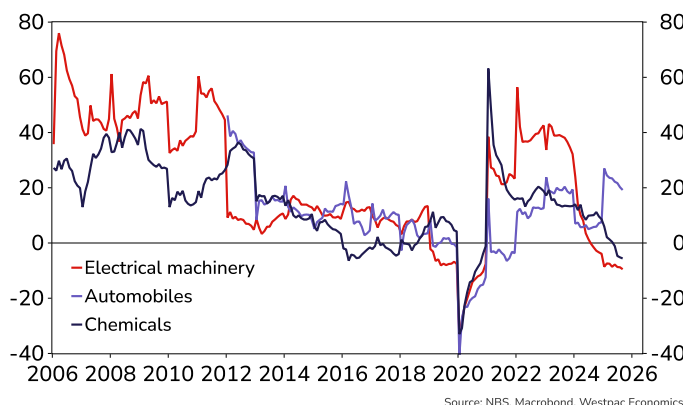
Investment must rotate

Fixed Asset Investment by Industry (%ytd)



More high-tech capex to come

Fixed Asset Investment by Sector (%ytd)



... are domestic not foreign

substantial decline in house prices in recent years and a poorly performing equity market are restraining discretionary spending.

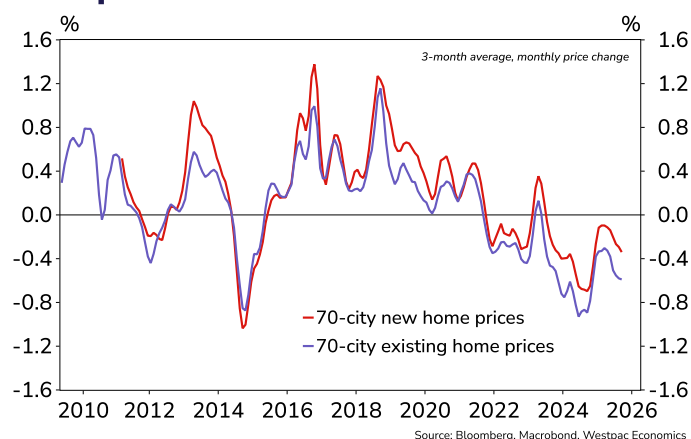
Concerns over employment and wage prospects have also been a material hindrance to the average household. To change this narrative and facilitate the intended structural uptrend in consumption's share of the economy, households must have confidence in the outlook for wealth and the labour market and believe that, where necessary, the Government will support them.

The full detail of the next 5-year plan is unlikely to be received before March of next year. In our view, this will be too late for an uplift in stimulus if authorities' desire to achieve a similar growth rate in 2026 as 2025. If we do not see a meaningful lift in direct support for the consumer and an end to housing's price and activity declines soon, Chinese GDP growth is likely to be nearer 4.0% in 2026 than the 4.5% annualised pace of recent quarters, let alone the 5.0% full-year outcome expected for 2025.

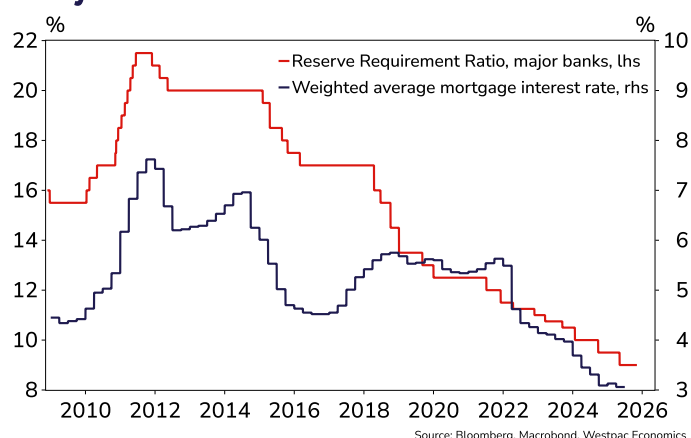
Note, the Chinese consumer does not have to achieve a growth reset on their own, but they are integral to it. If local governments become confident in the outlook, they will step in to increase investment in their regions, taking advantage of the reduced cost of funds and capital now on offer. Progress is also recursive, consumption incentivising investment and capital expenditure begetting additional jobs, income and, in time, household spending.

The primary risks to China's economic outlook are therefore not from outside its borders but within. Whether China can achieve its ambitions for development a decade from today may well depend on their willingness to usher in active support for consumer sentiment and wealth in the next few months.

House prices declines have to end



Policy must be active



2025

Monthly data %yr	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Headline CPI %yr	0.2	0.1	0.5	-0.7	-0.1	-0.1	-0.1	0.1	0.0	-0.4	-0.3	-
M2 money supply %yr	7.1	7.3	7.0	7.0	7.0	8.0	7.9	8.3	8.8	8.8	8.4	-
Manufacturing PMI (official)	50.3	50.1	49.1	50.2	50.5	49	49.5	49.7	49.3	49.4	49.8	49.0
Fixed asset investment ytd %yr	3.3	3.2	3.2	4.1	4.2	4.0	3.7	2.8	1.6	0.5	-0.5	-
Industrial production %yr	5.4	6.2	6.2	5.9	7.7	6.1	5.8	6.8	5.7	5.2	6.5	-
Exports %yr	6.6	10.7	5.9	-3.1	12.2	8.0	4.7	5.8	7.1	4.3	8.3	-
Imports %yr	-4.0	0.9	-16.3	1.6	-4.3	-0.3	-3.4	1.1	4.1	1.2	7.4	-
Trade balance USDbn	97.3	105.2	138.0	31.2	102.0	95.9	102.9	114.4	97.9	102.3	90.4	-

Quarterly data	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Real GDP %yr	4.7	4.6	5.4	5.4	5.2	4.8
Nominal GDP %yr	4.0	4.1	4.6	4.6	3.9	3.7

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

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FOMC risk management ...

Elliot Clarke

Head of International Economics

At their October meeting, the FOMC cut the fed funds rate by 25bps to a mid-point of 3.875%. The cut was billed as a risk management decision. Notably, the uncertainty being responded to was not the economic impact of the now month-long Government shutdown, which Committee members expect to reverse quickly once resolved, nor a fear that the absence of granular data during the shutdown might preclude the Committee from recognising a material shift in conditions. Instead, the rate cut was a consequence of the deceleration in employment growth prior to the shutdown.

In the data and anecdotes available to the Committee at the time of the meeting, there was not any evidence of a further acceleration in the employment downtrend through October – the latest Beige Book instead pointing to stability.

With US households aggregate wealth also at record highs, the FOMC therefore made clear they are not in a hurry to provide additional easing. Chair Powell stated in the press conference that a rate cut in December is “far from a foregone conclusion” given “strongly differing views”. Later he also added that a “growing chorus feels like maybe [the] Fed should wait a [meeting] cycle” to assess conditions. Since then, a number of FOMC members have echoed these views.

This cautious approach from the FOMC is not only built on confidence in the underlying health of the labour market and household demand, but also recognition that inflation is still materially above target and price risks skewed to the upside.

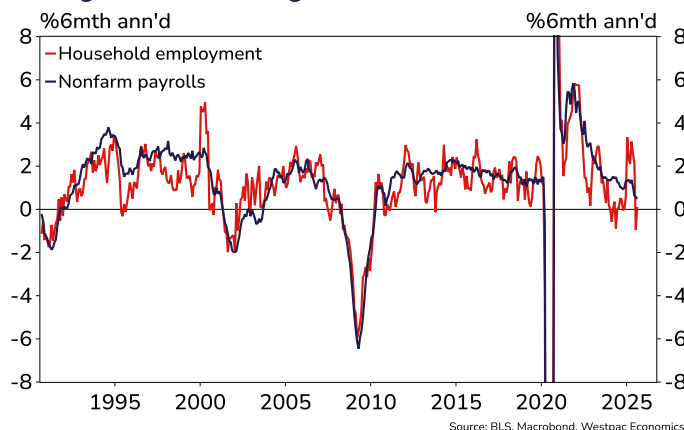
Annual headline inflation stood at 3.0%yr at September; and, while the monthly price gain was a touch below expectations, this was only as a result of businesses delaying tariff passthrough. In the absence of a Supreme Court ruling against the tariffs, upward pressure on the cost of production will inevitably be borne by US households.

While not front of mind for the FOMC currently, we also believe structural inflation will hold annual inflation above the FOMC’s 2.0%yr target through 2026 and into 2027 as the impact of tariffs recede. We see these supply-side factors as being multi-faceted and entrenched, a consequence of migration policy having reduced labour supply and limited investment in logistic, energy and infrastructure capital for many years.

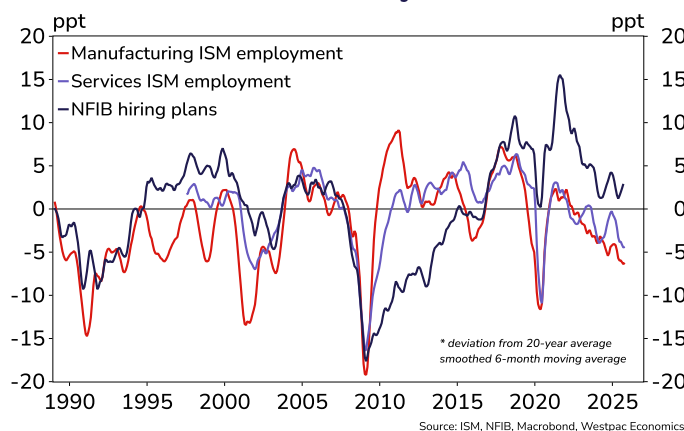
Housing inflation has recently returned near to average levels, but here too there is upside risk beyond the next 6-12 months. Mortgage rates remain elevated, constraining new home sales and incentivising rent increases. The cost of construction is also at historic highs and continuing to rise.

Taken together, these trends points to an unsettling medium-term reality: below-trend GDP growth and above-target

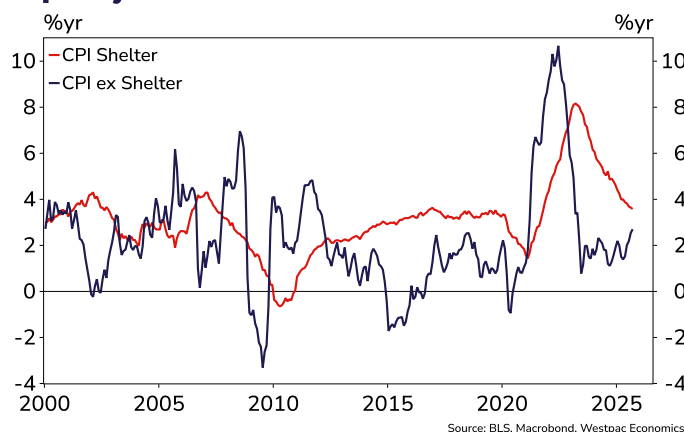
Jobs growth is stalling out



Risks to labour market one way



Capacity and tariffs a concern for the US



... has limits

inflation could well become the US' new normal.

How can these risks be averted? To do so, the focus needs to be on productivity that creates broad-based income growth for US households. This will require investment in capacity across the real economy and sustained improvement in efficiency for logistics and power supply.

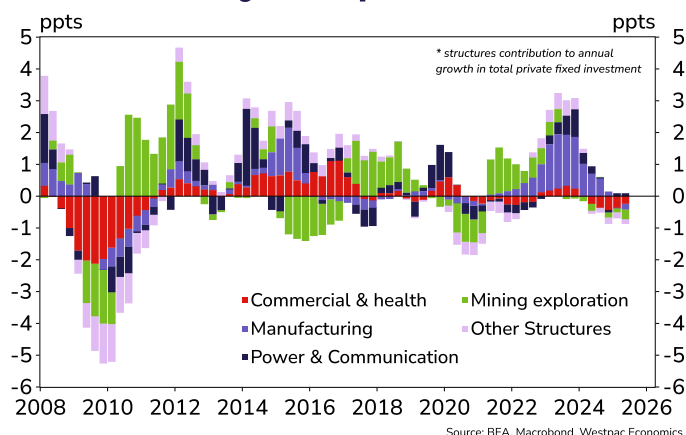
With the US' history of entrepreneurialism, such an outturn is certainly possible, but it jars against the status quo of protectionist trade policy and a high concentration of investment in AI-related infrastructure. A sustained real asset investment cycle is also years in the making. So, for the foreseeable future, the risks to growth and inflation will stand against the FOMC and the US economy.

Prior to the shutdown, we had anticipated the current fed funds rate was an appropriate level for the policy cycle to plateau at given our concerns over structural inflation pressures in addition to the impact of tariffs. However, now a month in, we believe the downside risks for activity and confidence are becoming as great a risk for policy, and there is seemingly no end in sight to this uncertainty.

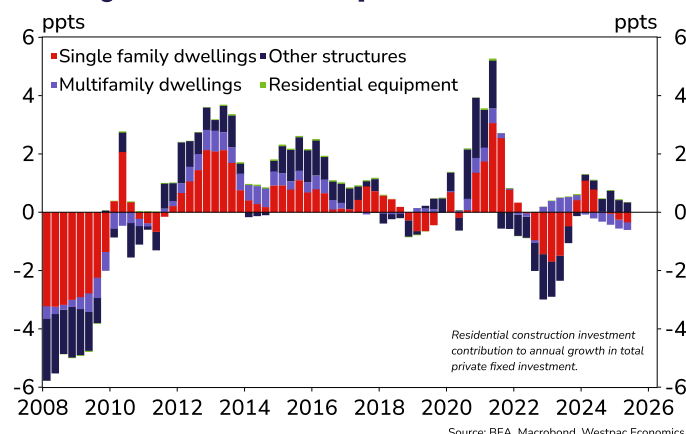
We now believe the balance of risks requires a lower trough fed funds rate; so we are forecasting two more 25bp cuts in the first half of 2026 to 3.375%. This end-point is still a cut and a half above the market's estimate, but halves the gap to the FOMC's current estimate of 'longer run' neutral (3.00%).

If we were to give a view on the most likely direction of a surprise to our baseline view, it would be a further deterioration in the labour market. Policy easing would then come quicker, although its scale would still be constrained by the inflation outlook.

US firms refraining from expansion



Housing investment under pressure



	2024		2025									
Monthly data	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
PCE deflator %yr	2.6	2.7	2.6	2.7	2.4	2.3	2.5	2.6	2.6	2.7	–	–
Unemployment rate %	4.2	4.1	4	4.1	4.2	4.2	4.2	4.1	4.2	4.3	–	–
Nonfarm payrolls chg '000	261	323	111	102	120	158	19	–13	79	22	–	–
House prices* %yr	4.3	4.5	4.7	4.5	4.1	3.4	2.8	2.2	1.8	1.6	–	–
Durables orders core 3mth %saar	3.1	0.6	14.5	6.9	6.5	–6.9	2.6	–0.9	8.9	3.5	–	–
ISM manufacturing composite	48.4	49.2	50.9	50.3	49.0	48.7	48.5	49.0	48.0	48.7	49.1	48.7
ISM non-manufacturing composite	52.5	54.1	52.8	53.5	50.8	51.6	49.9	50.8	50.1	52.0	50.0	52.4
Personal spending 3mth %saar	6.4	7.5	4.8	4.1	3.3	5.7	4.7	3.6	4.6	7.1	–	–
UoM Consumer Sentiment	71.8	74.0	71.7	64.7	57.0	52.2	52.2	60.7	61.7	58.2	55.1	53.6
Trade balance USDbn	–79.8	–96.9	–128.8	–120.3	–136.4	–60.2	–71.1	–59.1	–78.3	–	–	–
Quarterly data	Jun–24		Sep–24		Dec–24		Mar–25		Jun–25		Sep–25(f)	
Real GDP % saar	3.0		3.1		2.5		–0.5		3.3		3.1	
Current account USDbn	–286.3		–326.2		–312.0		–450.2		–		–	

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

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Why the yen is so weak ...

Illiana Jain
Economist

The yen has experienced a sharp depreciation against the USD since 2019, falling 40%. Weakness has also been seen against other major Asian nations and the G10. We anticipate this weakness is likely to persist even as other countries in these two groups appreciate back near levels prior to the pandemic against the US dollar. Driving this is a mixture of Japan's net investment position, interest rate differentials and the tried and tested benefits of a weak yen for the nation's export competitiveness.

As we have previously argued, a net outflow of investment from Japan to the rest of the world is a structural negative for the yen, all else equal. Much of the net capital flow behind Japan's current account surplus is 'reinvested earnings', i.e. profits earned by foreign subsidiaries reinvested into the firm's offshore operations. Japanese firms have historically invested heavily in new enterprises offshore and then, as they proved successful, sought to scale these operations.

This has resulted in an initial outflow from yen and subsequent returns not being repatriated back. While the published current account surplus for Q2 2025 was JPY7.4trn, we estimate it was just JPY3.9trn excluding reinvested income and a deficit of JPY2.5trn when dividends and interest income are also omitted. Published accrual accounting surpluses can and do mask underlying cash outflows, which weaken the yen.

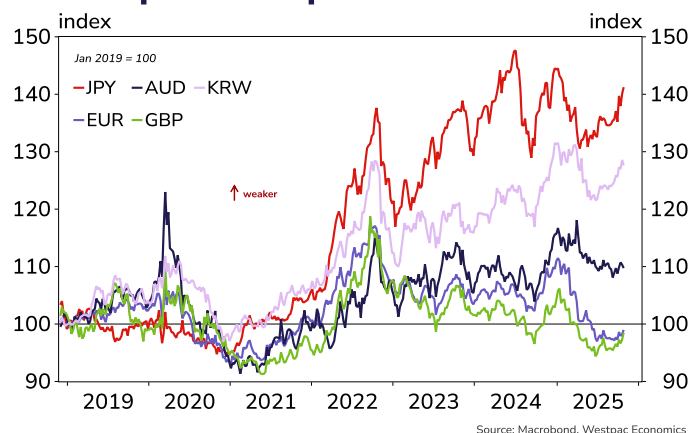
We expect Japanese firms will continue to invest in new and expanded operations offshore given the lower cost of production across South and Southeast Asia. This is a result of the significant investment by Japanese firms, and other like-minded global companies, into these countries over decades.

Notably, these nations comparatively young workforces counteract Japan's (and similarly China's) ageing populations, providing a demographic dividend in addition to a cost advantage. For these firms, building a brand in these markets also provides an opportunity over time to grow new markets for their products.

Rate differentials are also likely to continue to add pressure on the yen. At their 2019 peak, the spread between the policy rate between Japan and the US stood at 247.5bps (against the fed funds midpoint), Europe at -30bps (based on ECB deposit rate) and the UK at 85bps (bank rate).

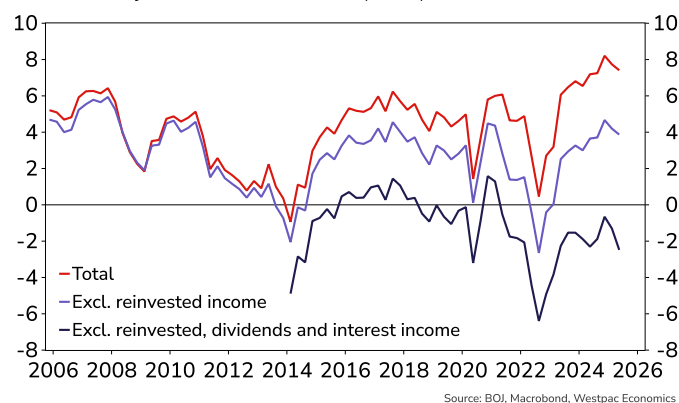
Even with the BoJ exiting its zero-lower bound and raising the policy rate to 1.0%, we expect an overnight rate spread of 237.5bps with the US, 75bps with the ECB and 250bps with the UK. Other major nations globally are also expected to have higher policy rates than Japan, so the pressure the yen faces from rate differentials will be broad.

Yen underperforms its peers



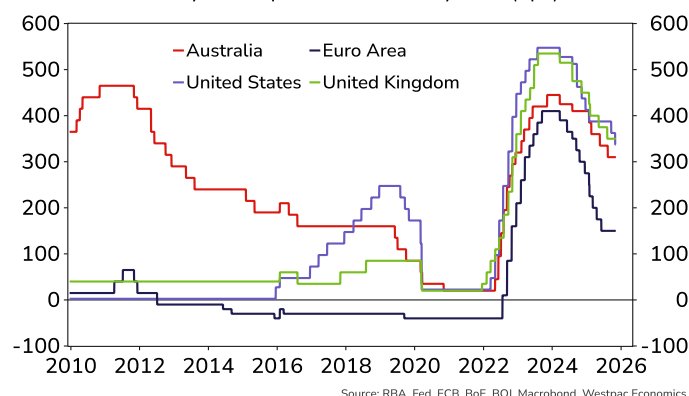
Investment outflows weighing on yen

Cashflow Adjusted Current Account (JPYtn)



Policy stance favours carry trade

Central Bank Policy Rate Spread to BoJ Policy Rate (bps)



... and poised to underperform

A common carry trade destination for Japanese investors is Australia. With the spread between the RBA and BoJ's policy rates hitting 210bps, where we expect it to stabilise as current rate cycles conclude, versus a peak of 160bps in 2019, conditions will remain favourable for this type of trade on an unhedged basis.

Data from the Financial Futures Association of Japan shows turnover in AUD/JPY futures remains high compared to the pre-pandemic period, even as Japanese investors increase their domestic exposures. This points to continued interest in the AUD/JPY carry trade.

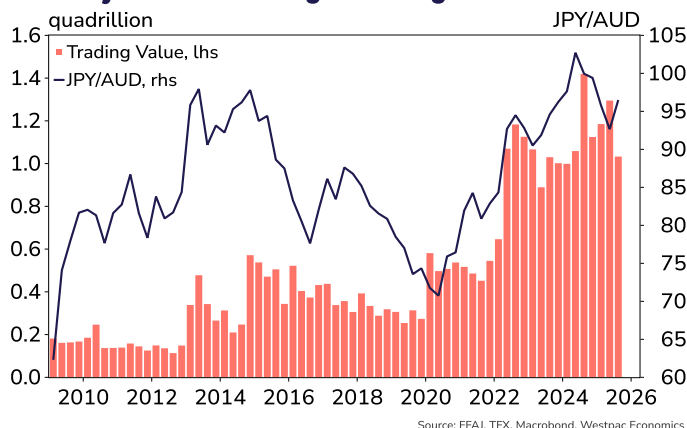
Some argue that a weaker yen may prompt the Ministry of Finance to intervene. However, a weak yen has aided Japan's export competitiveness over several decades. Not only has the yen weakened against the US dollar, but it also remains historically weak on a real effective exchange rate basis, continuing the trend in place since the 1990s. This weakness in the yen has helped domestic producers remain profitable even as investment lagged over the period.

Not only is the yen's weakness advantageous for trade, but also the Bank of Japan's domestic objectives. Yen weakness continues to aid domestic profitability, and consequently nominal wage gains and domestic inflation.

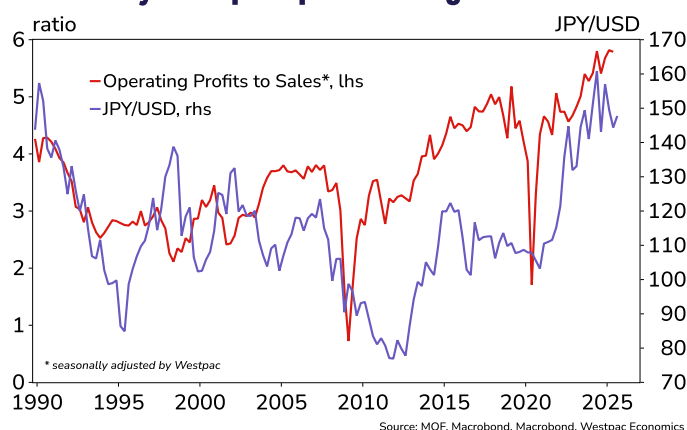
Since 2021, Japanese firms have seen a steep increase in the operating profits to sales ratio, now 6.3, the highest since 1960. This has come despite rising nominal labour costs and an increase in import costs associated with a weaker yen. Stronger profitability, even if it is facilitated by a weaker currency, will allow firms to continue to raise wages for their Japan-based workers and buoy domestic inflation.

The combined force of structural investment outflows, interest rate differentials and the benefits for export competitiveness are likely to limit the yen's recovery to USD/JPY 140 by the end of the forecast period. This modest recovery will leave the yen historically weak relative to its peers whom we expect to largely appreciate back near pre-pandemic levels, more in keeping with purchasing power parity equivalents.

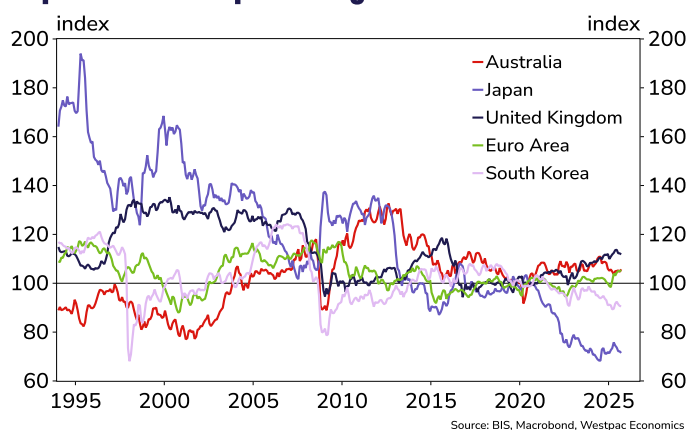
Monthly volume in margin trading in AUD



A weaker yen helps export earnings



Japan's REER keeps moving lower



Manufacturing woes ...

Mantas Vanagas
Senior Economist

One of the defining features of the global economy after the initial pandemic phase was a sharp surge in demand for goods worldwide. Despite manufacturers' best efforts, labour shortages and disruptions to supply chains made it impossible to keep up, delivering the spark for the post-COVID inflationary shock that central banks are wrestling with to this day.

As pandemic restrictions eased, spending shifted back towards services, while higher interest rates dampened overall demand. Against this backdrop, industrial production growth in major advanced economies has struggled to gain momentum. In the US, industrial output over the past five years has been hardly any better than flat. Unfortunately, both the UK and the euro area have fared even worse, with production levels holding to a downward trend in recent years.

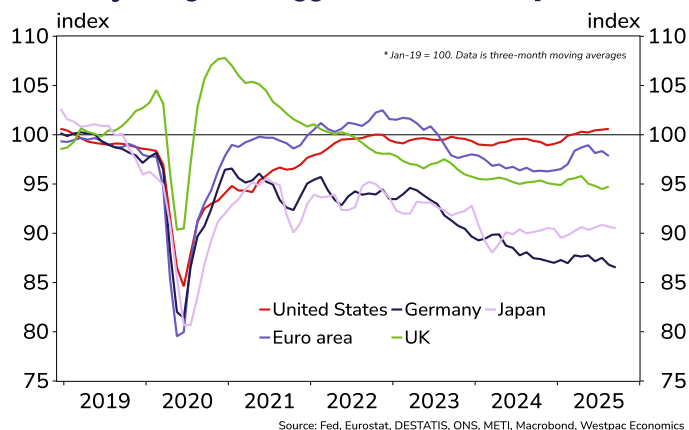
There is substantial variation among EU member states in their industrial production performance. Some countries, like Denmark and Poland, have seen growth of more than 25% or even 30% since before the pandemic. But the real headaches are at the other end of the spectrum. Germany, the powerhouse of European manufacturing growth in the decade leading up to the pandemic, has gone through the biggest industrial sector contraction, with negative effects rippling across the region.

Within German manufacturing, most sub-sectors have seen output shrink. High-value-added industries, such as computer and electronic equipment, have weathered the storm somewhat better. The automotive sector – Germany's industrial juggernaut – has attracted the most attention, with production down about 15% since 2019, and about 25% since its 2017 peak.

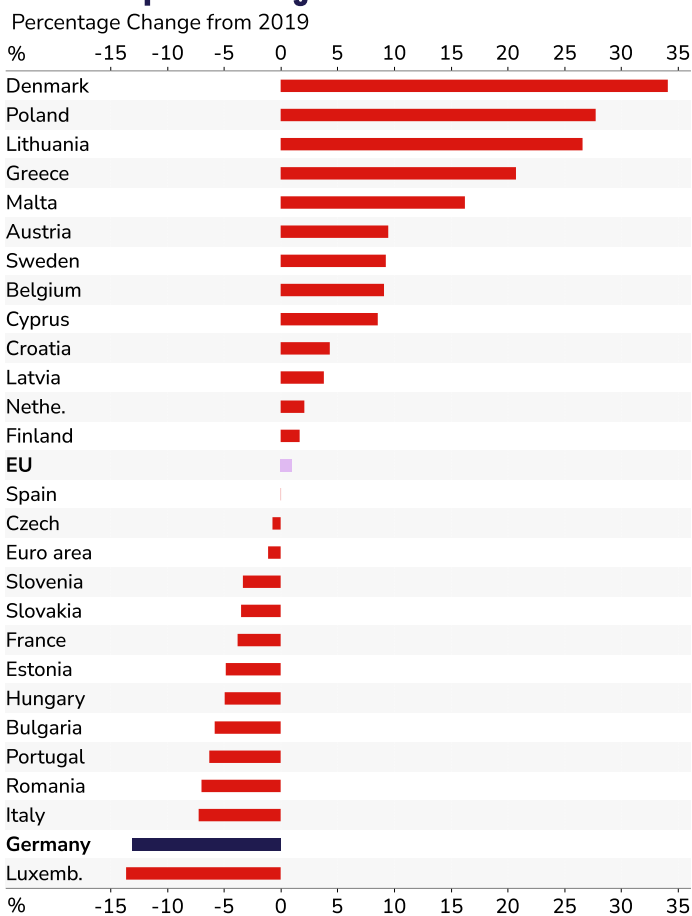
There is no shortage of reasons for Germany's manufacturing woes. For starters, its longstanding focus on automotive and mechanical engineering left it overly reliant on established technologies, with little incentive to innovate or pivot towards emerging fields. Electric vehicle production is a case in point. Plus, Germany's fragmented financial system has struggled to channel capital into funding new business ideas. While the country survived the initial energy price shock following Russia's invasion of Ukraine in early 2022, energy costs remain higher than in many other EU nations. And that is not the only major cost pressure. Add a tight labour market and persistent skill shortages to the mix, and you get significant pressure on labour costs. In recent years, German unit labour cost growth has outpaced other major economies in the region.

Beyond domestic factors, global forces have turned against manufacturers in most advanced economies, with Germany feeling the pinch particularly hard. The fracturing of the global trading system has challenged its export-oriented model, while China's move up the value chain into higher-value

Germany is a global laggard in industrial production



Industrial production growth in EU



... at the heart of Germany's growth problem

manufacturing has brought about fierce competition for German exports. China's industrial production has also continued its steady upward climb after the pandemic, unlike most other countries. US import tariffs have thrown up additional hurdles, with the 15% levy imposed on imports from the EU costing German manufacturers, including major car brands, billions.

Looking ahead, German industrial production appears to be on somewhat firmer footing. Business sentiment is gradually recovering from the lows seen late last year. The European Commission survey pointed to some potential drivers – the proportion of German manufacturers reporting labour shortages have eased, and weak demand is less of a drag on production.

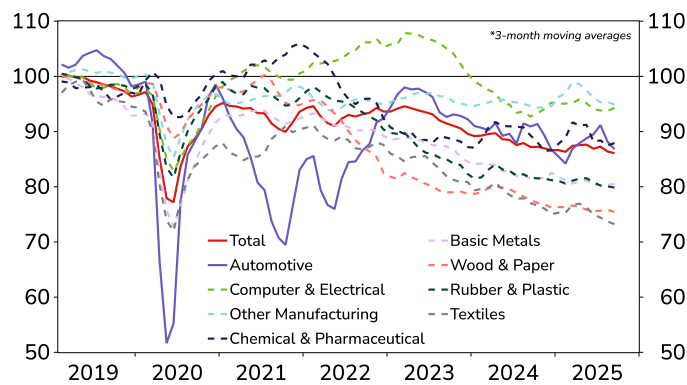
But the main impetus is coming from the government. Following the relaxation of the debt brake rules earlier this year, the outlook for German manufacturers and the broader economy hinges on fiscal support. The industrial sector should benefit directly from higher infrastructure and defence spending and, reportedly, the government may channel additional funds towards other levers, such as lower energy costs. The cost of such measures, however, will widen of the government deficit to 4.75% of GDP next year, which would be the second highest since German unification.

Boosting manufacturing output growth is crucial for German expansion and the recovery in the euro area as a whole. [ECB analysis](#) suggests that growth in euro area manufacturing leads the expansion in services and is more responsive to monetary policy shocks – meaning post-pandemic policy tightening likely contributed to the sector's subdued performance. Lower interest rates could provide a welcome tailwind for a gradual recovery.

German GDP has stagnated since before the pandemic, with the latest data for Q3 showing zero growth. While 2025 is unlikely to be much better, we anticipate an acceleration to 1.1% next year, as increased fiscal spending starts to make a meaningful impact, before further accelerating to 1.7% in 2027.

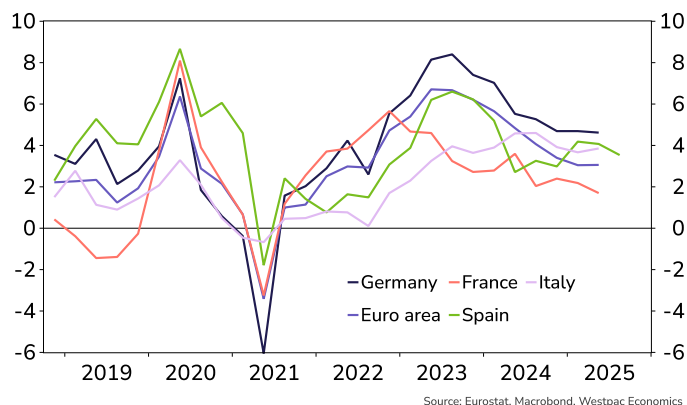
German manufacturing subsectors

Index: Jan-19 = 100



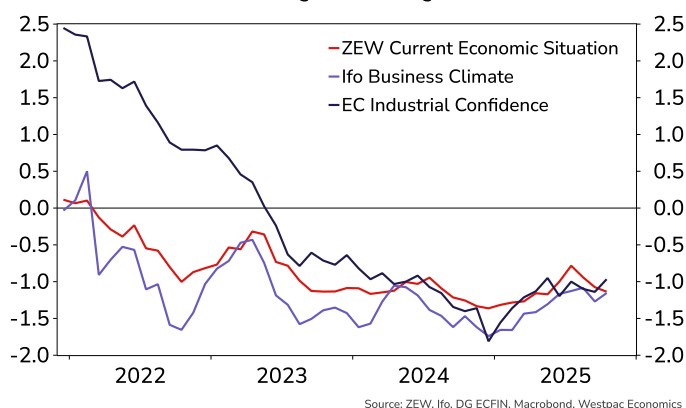
Labour costs in Germany outpace others

Growth in Unit Labour Costs (%yr)



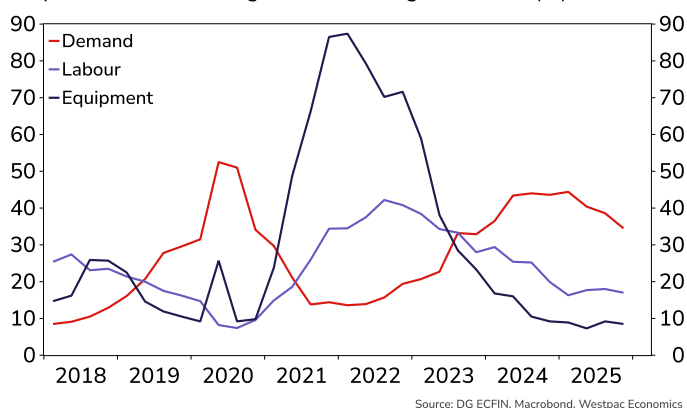
German business sentiment recovering gradually

Standard Deviations from Long-Run Average



Labour shortages have eased in Germany

Proportion of Firms Citing Factors Limiting Production (%)



Australia

Interest rate forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Cash	3.60	3.60	3.60	3.35	3.10	3.10	3.10	3.10	3.10	3.10
90 Day BBSW	3.64	3.65	3.50	3.25	3.15	3.15	3.20	3.20	3.20	3.20
3 Year Swap	3.60	3.55	3.50	3.50	3.60	3.70	3.80	3.90	3.95	4.00
3 Year Bond	3.62	3.60	3.55	3.55	3.65	3.75	3.85	3.90	3.95	4.00
10 Year Bond	4.33	4.35	4.35	4.40	4.45	4.50	4.55	4.60	4.60	4.60
10 Year Spread to US (bps)	25	20	20	20	15	10	10	10	5	0

Currency forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
AUD vs										
USD	0.6480	0.66	0.67	0.69	0.70	0.71	0.72	0.72	0.73	0.73
JPY	99.15	101	102	103	104	104	104	104	103	102
EUR	0.5612	0.57	0.57	0.58	0.59	0.59	0.60	0.60	0.60	0.60
NZD	1.1499	1.16	1.17	1.16	1.16	1.16	1.15	1.14	1.13	1.12
CAD	0.9147	0.92	0.93	0.95	0.95	0.96	0.96	0.96	0.96	0.96
GBP	0.4933	0.50	0.50	0.51	0.51	0.52	0.52	0.52	0.53	0.53
CHF	0.5225	0.53	0.53	0.55	0.55	0.56	0.56	0.57	0.57	0.57
DKK	4.1899	4.25	4.28	4.33	4.37	4.41	4.46	4.47	4.49	4.50
SEK	6.2007	6.29	6.33	6.42	6.47	6.53	6.60	6.62	6.64	6.67
NOK	6.6073	6.70	6.74	6.83	6.89	6.96	7.03	7.05	7.08	7.10
ZAR	11.26	11.4	11.5	11.6	11.7	11.7	11.8	11.9	11.9	12.0
SGD	0.8453	0.86	0.86	0.88	0.88	0.90	0.91	0.91	0.91	0.92
HKD	5.0387	5.14	5.21	5.32	5.39	5.46	5.54	5.58	5.62	5.66
PHP	38.41	38.4	38.5	38.9	38.9	38.8	38.6	38.2	38.1	38.3
THB	21.00	21.1	21.2	21.4	21.5	21.7	21.9	21.7	21.8	22.0
MYR	2.7246	2.77	2.78	2.81	2.81	2.82	2.82	2.81	2.79	2.81
CNY	4.6140	4.69	4.72	4.80	4.83	4.86	4.86	4.82	4.79	4.75
IDR	10822	10890	10921	10960	10912	10857	10797	10656	10585	10658
TWD	20.05	20.1	20.0	20.1	20.2	20.3	20.5	20.6	20.7	20.8
KRW	939	937	938	945	945	945	951	950	953	960
INR	57.73	58.1	58.3	58.9	59.1	58.5	57.9	56.9	56.6	56.2

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Australia

Activity forecasts

	2025				2026				Calendar years			
%qtr / %yr end	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Household consumption	0.4	0.9	0.7	0.5	0.7	0.7	0.7	0.7	0.9	2.5	2.6	2.8
Dwelling investment	2.1	0.4	1.4	1.2	1.3	1.6	1.7	1.7	3.5	5.1	6.5	5.5
Business investment *	0.3	-0.4	0.9	0.9	0.8	0.9	1.2	1.2	0.4	1.6	4.1	4.7
Private demand *	0.5	0.6	0.8	0.6	0.8	0.8	0.9	0.9	1.0	2.6	3.4	3.4
Public demand *	-0.3	0.2	0.7	0.7	0.8	0.7	0.5	0.6	5.4	1.3	2.6	2.5
Domestic demand	0.3	0.5	0.8	0.7	0.8	0.8	0.8	0.8	2.3	2.2	3.2	3.2
Stock contribution	0.3	-0.1	-0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.0
GNE	0.5	0.4	0.7	0.6	0.8	0.8	0.8	0.8	2.4	2.3	3.3	3.2
Exports	-0.7	1.7	0.1	0.3	0.4	0.4	0.4	0.5	1.4	1.5	1.7	2.5
Imports	0.1	1.4	0.5	0.5	1.3	1.3	1.3	1.3	6.2	2.5	5.3	4.9
Net exports contribution	-0.2	0.1	-0.1	0.0	-0.2	-0.2	-0.2	-0.2	-1.0	-0.2	-0.8	-0.5
Real GDP %qtr / %yr avg	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	1.0	1.8	2.4	2.5
%yr end	1.4	1.8	2.1	2.1	2.4	2.4	2.4	2.4	1.3	2.1	2.4	2.6
Nominal GDP %qtr / %yr avg	1.4	0.7	2.0	1.6	1.0	0.9	1.0	0.9	3.8	4.8	4.9	4.0
%yr end	3.7	4.1	5.8	5.8	5.4	5.7	4.6	3.9	3.6	5.8	3.9	4.4
Real household disp. income	1.5	0.0	0.5	0.5	0.9	0.6	1.8	-0.5	2.2	2.5	2.8	2.5

Other macroeconomic variables

	2025				2026				Calendar years			
% change	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Employment %qtr **	0.3	0.6	0.2	0.2	0.4	0.2	0.3	0.4	-	-	-	-
%yr end **	2.2	2.2	1.5	1.3	1.4	1.1	1.2	1.3	2.2	1.3	1.3	2.1
Unemployment rate % **	4.1	4.2	4.3	4.5	4.5	4.5	4.6	4.6	4.0	4.5	4.6	4.4
Wages (WPI) (sa) %qtr	0.9	0.8	0.7	0.7	0.8	0.8	0.6	0.8	-	-	-	-
%yr end	3.4	3.4	3.3	3.2	3.0	3.0	2.9	3.0	3.2	3.2	3.0	3.1
Headline CPI %qtr	0.9	0.7	1.3	0.6	0.9	0.8	0.7	0.5	-	-	-	-
%yr end	2.4	2.1	3.2	3.6	3.6	3.6	2.9	2.8	2.4	3.6	2.8	2.6
Trimmed Mean CPI %qtr	0.7	0.7	1.0	0.7	0.6	0.6	0.5	0.6	-	-	-	-
%yr end	2.9	2.7	3.0	3.1	3.0	2.9	2.4	2.3	3.3	3.1	2.3	2.6
Current account \$bn, qtr	-14.1	-13.7	-9.6	-5.0	-6.5	-8.1	-9.0	-9.7	-	-	-	-
% of GDP	-2.0	-1.9	-1.3	-0.7	-0.9	-1.1	-1.2	-1.3	-2.3	-0.7	-1.3	-1.7
Terms of trade %yr avg	-4.1	-3.8	-2.3	-0.4	1.3	2.6	2.2	1.0	-4.8	-0.4	1.0	-0.9
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	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Employment '000 chg	13.2	61.4	29.2	-62.0	19.8	91.4	-0.5	1.3	33.8	-11.9	14.9	-
Unemployment rate %	3.9	4.0	4.1	4.1	4.1	4.1	4.1	4.3	4.3	4.3	4.5	-
Westpac-MI Consumer Sentiment	94.6	92.8	92.1	92.2	95.9	90.1	92.1	92.6	93.1	98.5	95.4	92.1
Household spending %mth	0.6	0.2	0.6	0.2	0.2	-0.1	1.1	0.5	0.4	0.0	0.2	-
Dwelling approvals %mth	-3.2	1.0	8.1	-0.6	-6.4	-4.5	2.5	14.4	-10.3	-3.6	12.0	-
Private sector credit %mth	0.6	0.6	0.5	0.5	0.5	0.7	0.6	0.6	0.7	0.6	0.6	-
Trade in goods balance AUDbn	6.1	4.1	4.6	2.9	6.2	4.4	1.7	4.5	6.4	1.1	3.9	-

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New Zealand

Interest rate forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Cash	2.50	2.25	2.25	2.25	2.25	2.50	2.75	3.00	3.25	3.50
90 Day Bill	2.48	2.35	2.35	2.35	2.40	2.70	2.95	3.20	3.40	3.70
2 Year Swap	2.54	2.65	2.90	3.10	3.35	3.55	3.70	3.85	3.95	4.00
10 Year Bond	4.09	4.15	4.30	4.45	4.55	4.70	4.85	4.90	4.95	4.95
10 Year Spread to US	0	0	15	25	25	30	40	40	40	35
10 Year Spread to Aust	-25	-20	-5	5	10	20	30	30	35	35

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
NZD vs										
USD	0.5635	0.57	0.57	0.59	0.60	0.61	0.62	0.63	0.64	0.65
JPY	86.22	87	87	89	90	90	91	91	91	91
EUR	0.4880	0.49	0.49	0.50	0.51	0.51	0.52	0.52	0.53	0.54
AUD	0.8697	0.87	0.86	0.86	0.86	0.87	0.87	0.88	0.88	0.89
CAD	0.7954	0.80	0.80	0.81	0.82	0.83	0.84	0.84	0.85	0.86
GBP	0.4290	0.43	0.43	0.44	0.44	0.45	0.45	0.46	0.46	0.47
CNY	4.0125	4.05	4.04	4.13	4.17	4.21	4.22	4.22	4.22	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	0.4	0.4	0.7	0.9	1.0	1.0	1.0	-0.3	2.0	3.4	3.8
Government consumption	1.5	0.1	0.0	0.0	0.0	0.0	0.5	0.5	0.4	2.1	0.3	2.1
Residential investment	3.3	-1.9	0.0	0.2	0.8	1.5	2.3	2.8	-11.5	-4.8	3.5	10.6
Business investment	0.6	-0.9	1.5	2.0	2.2	2.0	1.8	1.7	-2.2	0.8	7.2	6.0
Stocks (ppt contribution)	-0.3	0.5	0.5	0.3	-0.1	-0.4	-0.1	0.3	0.2	0.4	0.2	-0.1
GNE	0.6	0.5	0.9	1.0	0.9	0.7	1.0	1.4	-1.2	1.5	3.6	4.1
Exports	-0.4	-1.2	1.0	0.9	0.7	0.6	0.7	0.7	4.7	1.6	2.8	2.7
Imports	0.5	0.6	0.5	1.8	1.6	1.7	1.4	1.5	1.6	2.3	5.7	5.0
GDP (production)	0.9	-0.9	0.4	0.8	0.6	0.3	0.8	1.2	-0.6	0.3	2.1	3.4
Employment annual %	-0.9	-1.2	-0.6	-0.1	0.4	1.1	1.8	2.3	-1.2	-0.1	2.3	2.2
Unemployment rate % s.a.	5.1	5.2	5.3	5.4	5.4	5.3	5.1	4.9	5.1	5.4	4.9	4.3
LCI, all sect incl o/t, ann %	2.9	2.4	2.1	2.1	2.1	2.0	2.2	2.3	3.3	2.1	2.3	2.2
CPI annual %	2.5	2.7	3.0	2.9	2.3	2.3	2.1	2.3	2.2	2.9	2.3	2.1
Current account % of GDP	-4.2	-3.7	-3.5	-3.5	-3.6	-3.9	-4.1	-4.2	-4.7	-3.5	-4.2	-4.0
Terms of trade annual %	10.3	12.2	10.5	6.2	4.6	1.2	1.3	3.2	13.7	6.2	3.2	2.3

Sources: Statistics NZ, Westpac Economics.

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Commodity prices

End of period	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Australian commodities index#	344	343	336	331	330	328	328	330	335	339
Bulk commodities index#	394	390	370	350	350	350	350	350	350	350
iron ore finesTSI @ 62% US\$/t	104	102	95	87	85	83	84	85	85	86
Premium low vol met coal (US\$/t)	197	190	192	192	196	198	199	201	202	203
Newcastle spot thermal coal (US\$/t)	115	110	107	107	108	108	109	110	110	111
crude oil (US\$/bbl) Brent ICE	64	63	61	60	59	58	59	60	65	70
LNG in Japan US\$mmbtu	11.15	11.3	10.5	10.2	9.9	9.4	9.0	8.9	8.7	9.1
gold (US\$/oz)	4,023	4,000	4,050	4,100	4,150	4,180	4,200	4,230	4,250	4,180
Base metals index#	220	223	223	221	220	219	221	224	243	261
copper (US\$/t)	10,706	10,800	10,700	10,650	10,700	10,800	11,010	11,230	12,300	13,390
aluminium (US\$/t)	2,855	2,900	3,000	3,000	2,950	2,880	2,920	2,960	3,180	3,390
nickel (US\$/t)	14,959	15,000	14,980	14,950	14,900	14,800	15,000	15,200	16,200	17,180
zinc (US\$/t)	3,120	3,100	3,000	2,950	2,850	2,750	2,700	2,670	2,800	2,920
lead (US\$/t)	2,017	2,000	1,980	1,960	1,940	1,930	1,920	1,940	2,060	2,170
Rural commodities index#	121	122	121	122	124	124	122	124	135	146
NZ commodities index ##	386	380	378	382	386	391	396	401	404	406
dairy price index ##	342	326	320	325	331	339	346	353	358	361
whole milk powder USD/t	3,790	3,550	3,600	3,650	3,750	3,850	3,950	4,050	4,080	4,110
skim milk powder USD/t	2,615	2,450	2,500	2,550	2,600	2,650	2,700	2,750	2,770	2,790
lamb price index ##	597	619	619	617	611	606	601	598	595	593
beef price index ##	334	333	335	337	338	340	340	341	340	340
forestry price index ##	150	155	156	157	158	160	162	164	167	169

	levels				%change			
Annual averages	2024	2025(f)	2026(f)	2027(f)	2024	2025(f)	2026(f)	2027(f)
Australian commodities index#	311	321	332	332	-3.4	3.3	3.5	-0.1
Bulk commodities index#	433	383	361	355	-13.4	-11.5	-5.7	-1.8
iron ore fines @ 62% USD/t	109	102	89	85	-8.5	-7.1	-12.2	-5.1
LNG in Japan \$mmbtu	13.0	11.6	10.2	8.9	-10.7	-10.9	-12.5	-11.9
ave coking coal price (US\$/t)	206	164	162	166	-4.1	-20.5	-1.5	2.7
ave thermal price (US\$/t)	136	119	110	112	-27.6	-12.8	-7.4	1.9
iron ore fines contracts (US¢ dltu)	163	142	130	122	1.3	-12.4	-8.5	-6.4
Premium low vol met coal (US\$/t)	241	186	194	201	-18.6	-22.7	4.2	3.7
crude oil (US\$/bbl) Brent ICE	78	67	60	63	-1.7	-13.2	-11.2	4.3
gold (US\$/oz)	2,410	3,430	4,100	4,210	22.8	42.3	19.5	2.7
Base metals index#	202	208	220	233	0.3	2.7	6.1	5.9
copper (US\$/t)	9,200	9,900	10,700	11,800	8.1	7.6	8.1	10.3
aluminium (US\$/t)	2,400	2,600	3,000	3,100	5.6	8.3	15.4	3.3
nickel (US\$/t)	16,900	15,300	14,900	15,700	-21.8	-9.5	-2.6	5.4
zinc (US\$/t)	2,800	2,900	2,900	2,800	5.6	3.6	0.0	-3.4
lead (US\$/t)	2,100	2,000	2,000	2,000	-1.4	-4.8	0.0	0.0
Rural commodities index#	126	120	122	129	-10.3	-5.0	1.6	6.1
NZ commodities index ##	357	390	384	402	8.4	9.3	-1.6	4.6
dairy price index ##	318	351	329	355	10.9	10.5	-6.4	7.9
whole milk powder USD/t	3,439	3,936	3,681	4,020	11.6	14.4	-6.5	9.2
skim milk powder USD/t	2,686	2,700	2,554	2,738	1.8	0.5	-5.4	7.2
lamb price index ##	462	587	614	598	0.3	27.0	4.7	-2.7
beef price index ##	283	332	337	340	4.4	17.3	1.3	1.0
forestry price index ##	159	152	158	166	-0.1	-4.4	3.4	5.1

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

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United States

Interest rate forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Fed Funds*	3.875	3.875	3.625	3.375	3.375	3.375	3.375	3.375	3.375	3.375
10 Year Bond	4.08	4.15	4.15	4.20	4.30	4.40	4.45	4.50	4.55	4.60

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

Currency forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
USD vs										
DXI index	99.72	99.2	98.5	97.7	97.0	96.4	95.8	95.3	94.8	94.4
JPY	153.00	153	152	151	150	148	146	144	142	140
EUR	1.1549	1.16	1.17	1.18	1.19	1.19	1.20	1.20	1.21	1.21
AUD	0.6480	0.66	0.67	0.69	0.70	0.71	0.72	0.72	0.73	0.73
NZD	0.5635	0.57	0.57	0.59	0.60	0.61	0.62	0.63	0.64	0.65
CAD	1.4116	1.40	1.39	1.38	1.37	1.36	1.35	1.34	1.33	1.32
GBP	1.3135	1.33	1.33	1.34	1.35	1.36	1.37	1.37	1.38	1.38
CHF	0.8063	0.80	0.80	0.80	0.79	0.79	0.79	0.79	0.79	0.79
ZAR	17.38	17.2	17.1	16.9	16.8	16.7	16.5	16.5	16.4	16.4
SGD	1.3043	1.30	1.29	1.28	1.27	1.27	1.27	1.27	1.26	1.26
HKD	7.7754	7.79	7.78	7.77	7.76	7.75	7.75	7.75	7.75	7.75
PHP	58.97	58.2	57.5	56.8	56.0	55.0	54.0	53.0	52.5	52.5
THB	32.41	32.0	31.6	31.2	31.0	30.8	30.6	30.2	30.1	30.1
MYR	4.1841	4.19	4.15	4.10	4.05	4.00	3.95	3.90	3.85	3.85
CNY	7.1195	7.10	7.05	7.00	6.95	6.90	6.80	6.70	6.60	6.50
IDR	16701	16500	16300	16000	15700	15400	15100	14800	14600	14600
TWD	30.94	30.4	29.9	29.4	29.0	28.8	28.7	28.6	28.5	28.5
KRW	1449	1420	1400	1380	1360	1340	1330	1320	1315	1315
INR	88.62	88.0	87.0	86.0	85.0	83.0	81.0	79.0	78.0	77.0

Activity forecasts

	2025				2026				Calendar years			
% annualised, s/adj	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Private consumption	0.5	1.6	1.1	1.2	1.3	1.6	1.6	1.8	2.8	2.0	1.4	1.8
Dwelling investment	-1.3	-4.7	1.6	0.0	0.8	1.2	1.6	1.6	4.2	-0.8	0.6	1.6
Business investment	10.3	5.7	1.7	1.5	1.2	1.6	2.3	2.7	3.6	4.1	1.9	2.6
Public demand	-0.6	-0.2	0.8	0.8	0.8	0.4	0.4	0.4	3.4	1.4	0.6	0.4
Domestic final demand	1.6	1.7	1.1	1.1	1.2	1.4	1.5	1.7	3.0	2.1	1.3	1.7
Inventories contribution ppt	2.6	-3.3	2.2	-0.3	0.0	-0.2	0.0	0.0	-0.2	0.3	0.0	0.1
Net exports contribution ppt	-5.2	5.6	-0.3	-0.3	-0.6	-0.3	-0.4	-0.3	-0.5	-0.1	-0.4	-0.1
GDP	-0.5	3.3	3.1	0.5	0.6	1.0	1.2	1.5	2.8	1.9	1.3	1.6
%yr annual chg	2.0	2.1	2.1	1.6	1.9	1.3	0.8	1.1	-	-	-	-

Other macroeconomic variables

Non-farm payrolls mth avg	174	93	25	15	0	40	70	90	161	101	60	115
Unemployment rate %	4.1	4.2	4.4	4.6	4.8	4.9	5.0	5.0	4.0	4.3	4.8	4.9
CPI headline %yr	2.7	2.6	3.0	3.2	3.2	3.0	2.8	2.5	3.0	2.9	2.9	2.5
PCE deflator, core %yr	2.8	2.7	3.0	3.1	3.1	2.9	2.7	2.4	2.8	2.9	2.8	2.3

Sources: Official agencies, Factset, Westpac Economics.

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Europe & the United Kingdom

Interest rate forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Euro Area										
ECB Deposit Rate	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.65	2.65	2.65	2.65	2.70	2.75	2.75	2.75	2.80	2.85
10 Year Spread to US	-143	-150	-150	-155	-160	-165	-170	-175	-175	-175
United Kingdom										
BoE Bank Rate	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
10 Year Gilt	4.43	4.50	4.50	4.55	4.60	4.65	4.70	4.70	4.70	4.70
10 Year Spread to US	35	35	35	35	30	25	25	20	15	10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
euro vs										
USD	1.1549	1.16	1.17	1.18	1.19	1.19	1.20	1.20	1.21	1.21
JPY	176.70	177	178	178	178	177	175	173	171	169
GBP	0.8792	0.87	0.88	0.88	0.88	0.88	0.87	0.87	0.88	0.88
CHF	0.9312	0.93	0.93	0.94	0.94	0.95	0.94	0.95	0.95	0.95
DKK	7.4672	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47
SEK	11.05	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
NOK	11.78	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8
sterling vs										
USD	1.3135	1.33	1.33	1.34	1.35	1.36	1.37	1.37	1.38	1.38
JPY	200.98	203	202	202	203	201	200	198	196	193
CHF	1.0591	1.06	1.06	1.07	1.07	1.08	1.08	1.08	1.08	1.09
AUD	0.4933	0.50	0.50	0.51	0.51	0.52	0.52	0.52	0.53	0.53

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2021	2022	2023	2024	2025f	2026f	2027f
Euro area GDP	6.4	3.7	0.6	0.8	1.4	1.1	1.4
<i>private consumption</i>	4.6	5.3	0.5	1.2	1.3	1.3	1.4
<i>fixed investment</i>	3.7	2.1	2.0	-2.1	2.1	1.1	2.4
<i>government consumption</i>	4.3	1.3	1.5	2.3	1.6	1.9	2.1
<i>net exports contribution ppt</i>	1.4	0.0	0.3	0.4	-0.3	0.0	-0.2
Germany GDP	3.9	1.9	-0.7	-0.5	0.3	1.1	1.7
France GDP	6.8	2.8	1.6	1.1	0.8	1.0	1.2
Italy GDP	8.8	5.0	1.1	0.5	0.5	0.8	0.9
Spain GDP	6.7	6.4	2.5	3.5	2.9	2.0	1.8
Netherlands GDP	6.2	5.0	-0.6	1.1	1.7	1.2	1.4
United Kingdom GDP	8.5	5.1	0.3	1.1	1.5	1.1	1.5

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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	0.2	1.1	1.5
Producer prices %yr	-0.4	10.3	-0.7	-2.7	-2.3	-2.2	0.4	1.0
Industrial production (IVA)	2.8	9.6	3.6	4.6	5.8	5.4	4.5	4.2
Retail sales	-3.9	12.5	-0.2	7.2	3.5	5.0	5.2	5.0
Money supply M2 %yr	10.1	9.0	11.8	9.7	7.3	8.3	7.7	7.5
Fixed asset investment	2.9	4.9	5.1	3.0	3.2	3.0	4.5	4.5
Exports %yr	18.1	20.9	-9.9	-2.3	10.7	4.0	2.0	2.5
Imports %yr	6.5	19.5	-7.5	0.2	0.9	0.0	1.0	1.5

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

Chinese interest rates & monetary policy

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Required reserve ratio %*	9.00	8.75	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Loan Prime Rate, 1-year	3.00	2.80	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60

* For major banks.

Japanese interest rates & monetary policy

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Policy Rate	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10 Year Bond Yield	1.69	1.65	1.65	1.65	1.70	1.75	1.75	1.80	1.80	1.80

Currency forecasts

	Latest (7 Nov)	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
JPY	153.00	153	152	151	150	148	146	144	142	140
SGD	1.3043	1.30	1.29	1.28	1.27	1.27	1.27	1.27	1.26	1.26
HKD	7.7754	7.79	7.78	7.77	7.76	7.75	7.75	7.75	7.75	7.75
PHP	58.97	58.2	57.5	56.8	56.0	55.0	54.0	53.0	52.50	52.50
THB	32.41	32.0	31.6	31.2	31.0	30.8	30.6	30.2	30.1	30.1
MYR	4.1841	4.19	4.15	4.10	4.05	4.00	3.95	3.90	3.85	3.85
CNY	7.1195	7.10	7.05	7.00	6.95	6.90	6.80	6.70	6.60	6.50
IDR	16701	16500	16300	16000	15700	15400	15100	14800	14600	14600
TWD	30.94	30.4	29.9	29.4	29.0	28.8	28.7	28.6	28.5	28.5
KRW	1449	1420	1400	1380	1360	1340	1330	1320	1315	1315
INR	88.62	88.0	87.0	86.0	85.0	83.0	81.0	79.0	78.0	77.0

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	3.8	3.5	3.3	3.2	3.1	3.2
United States	-2.1	6.2	2.5	2.9	2.8	1.9	1.3	1.6
Japan	-4.2	2.7	1.0	1.2	0.1	1.1	0.8	0.8
Euro zone	-6.2	6.4	3.7	0.6	0.8	1.4	1.1	1.4
Group of 3	-3.9	5.8	2.8	1.9	1.7	1.6	1.2	1.4
United Kingdom	-10.0	8.5	5.1	0.3	1.1	1.5	1.1	1.5
Canada	-5.0	6.0	4.2	1.5	1.6	1.2	1.2	1.8
Australia	-2.0	5.4	4.1	2.1	1.0	1.8	2.4	2.5
New Zealand	-1.3	5.7	2.9	1.8	-0.6	0.3	2.1	3.4
OECD total	-4.2	6.1	3.2	1.9	1.8	1.5	1.3	1.5
China	2.3	8.4	3.1	5.4	5.0	4.8	4.6	4.5
Korea	-0.7	4.6	2.7	1.6	2.0	0.9	1.8	1.9
Taiwan	3.4	6.7	2.7	1.1	4.8	3.7	2.5	2.7
Hong Kong	-6.5	6.5	-3.7	3.2	2.5	2.4	2.2	2.2
Singapore	-3.8	9.8	4.1	1.8	4.4	2.2	2.0	2.5
Indonesia	-2.1	3.7	5.3	5.0	5.0	4.9	4.9	5.2
Thailand	-6.1	1.5	2.6	2.0	2.5	2.0	2.1	2.5
Malaysia	-5.5	3.3	9.0	3.5	5.1	4.5	4.2	4.4
Philippines	-9.5	5.7	7.6	5.5	5.7	5.4	5.7	5.8
Vietnam	2.9	2.6	8.5	5.1	7.1	6.5	6.5	6.4
East Asia	0.9	7.1	3.6	4.7	4.8	4.5	4.3	4.3
East Asia ex China	-2.2	4.4	4.6	3.4	4.3	3.7	3.8	4.0
NIEs*	-0.5	6.0	2.3	1.6	3.2	2.0	2.1	2.2
India	-5.8	9.7	7.6	9.2	6.5	6.6	6.4	6.3
Russia	-2.7	5.9	-1.4	4.1	4.3	0.6	1.2	1.2
Brazil	-3.3	4.8	3.0	3.2	3.4	2.4	1.8	2.2
South Africa	-6.2	4.9	2.1	0.8	0.5	1.1	1.2	1.5
Mexico	-8.4	6.0	3.7	3.4	1.4	1.0	1.5	2.0
Argentina	-9.9	10.4	6.0	-1.9	-1.3	4.5	4.0	4.0
Chile	-6.1	11.3	2.2	0.5	2.6	2.5	2.0	2.3
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	3.0	2.9	2.8	2.9	3.1
Africa	-3.1	3.8	4.4	3.7	4.1	4.1	4.4	4.5
Emerging ex-East Asia	-3.8	6.7	3.7	4.3	4.5	4.1	4.1	4.1
Other countries	2.4	6.7	4.8	4.7	1.6	3.3	3.0	3.3
World	-2.7	6.6	3.8	3.5	3.3	3.2	3.1	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.

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