August 2026

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK August 2026

Australia 3

Financial markets:
Energy shock convergence, Fed-speak divergence 4

Australian economy:
Growth stabilises as demand holds up 6

The World

El Niño:
A declaration is not a drought 9

Commodities:
Commodities whipsawed again in July 11

Global FX:
US struggling to make ground 13

New Zealand:
There's plenty of slack in the labour market 15

China:
Stimulus required 17

United States:
Market uncertainty 19

Asia
Asia refocuses AI demand 21

Europe & UK
Markets expect further tightening 23

Summary forecast tables

Australia – financial 25

Australia – economic 26

New Zealand 27

Commodity prices 28

United States 29

Europe 30

Asia 31

Global growth 32

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Westpac Market Outlook is a monthly publication produced by Westpac Economics.

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This issue was finalised on 14 August 2026.

NB: Quarterly forecasts for commodities on page X are now reported on a quarter-average basis. Forecasts on an end-of-quarter basis will be made available the week after Market Outlook is published.

Vale Bill Evans, Westpac Chief Economist

The Westpac Economics team is deeply saddened by the passing of William 'Bill' Evans, whose contribution to the team, the wider Westpac bank, the economics profession and the Australian community leaves an enduring legacy.

For more than three decades, Bill was a trusted colleague, mentor and friend. He helped Australians understand the economy through periods of uncertainty, always with clarity, insight and conviction.

As some of Bill's closest colleagues, we remember him for his energy, his high standards as an economist, his commitment to customers and the generosity and humility he brought as a leader. He had a rare ability to connect with people from all walks of life and make complex issues easy to understand.

Bill has had an enormous impact on the Economics team and its members, past and present. We are grateful for his guidance, friendship and leadership and extend our heartfelt condolences to his family and friends. He will be missed.

For those interested, this interview with Bill, from 2023 provides a fascinating look back on his time as Westpac's Chief Economist.

At sea

The influence of the Middle East conflict on markets is continuing to fade, allowing policymakers to refocus on domestic inflation and growth dynamics. The latest data suggests the pass-through from higher energy prices is proving to be less persistent than initially feared. In Australia, softer-than-expected Q2 inflation has prompted us to move from hikes to an 'on hold' view for the RBA. But central banks generally remain cautious, with most reluctant to move away from mildly restrictive policy while also emphasising a willingness to respond to upside inflation surprises.

The last month has seen some notable developments around central bank communication. In particular, incoming Fed Chair Warsh has made an explicit move to provide much less forward guidance on policy. The market volatility following his most recent post-FOMC press conference, when this approach became enacted, shows markets were unsettled by the change and may struggle with the loss of this important anchor. While the FOMC may be comfortable with this now, the real test will come if and when the next unexpected shock arrives. The Bank of England, by contrast, continues to use hawkish rhetoric to keep financial conditions restrictive even as the domestic economy softens, in our view highlighting the value clear communication can have as a tool in its own right. Closer to home, the RBA's recent shift in language suggests they are a little more comfortable that current policy settings are sufficiently restrictive but unwilling to give forward guidance.

Around AI, the theme looks to be evolving from a cyclical equity market feature to a broader growth and productivity story. Across Asia, governments and corporates are seeking to turn AI-related investment into a lasting source of productivity gains, industrial upgrading and stronger trend growth. Northeast Asia looks best-placed to broaden gains across their economies, while China may require additional policy support to ensure industrial strength flows through to households and domestic demand. In Australia, the rapid expansion of data-centre investment is becoming a more prominent source of growth although policymakers seem more focused on the potential for this to intensify near term capacity constraints than the potential uplift to productivity growth.

Australia: The economy appears to be on a firmer footing after slowing sharply in late 2025 and early 2026. Looking ahead, a more material correction in Australia's housing markets is set to be a slightly bigger drag but is balanced by a less restrictive outlook for monetary policy, with the RBA no longer expected to raise rates. Overall, the environment is a little less challenging but growth will still be subdued in 2026, with a gradual pickup coming through in 2027 and 2028 as policy becomes less restrictive and the investment gains traction.

El Niño: El Niño is strengthening but drought is not inevitable. While winter crops and livestock are exposed, our central case outlook remains for a manageable and regionally concentrated impact rather than a material shock to growth.

Commodities: Most commodities fell in July as the geopolitical risk premium that had built through much of the year continued to unwind. However, renewed hostilities, which we had highlighted as a key risk, briefly pushed oil back above US$100/bbl in late July. Our broadest commodities index declined 1.8%mth.

Global FX Markets: The US dollar has struggled to make headway this month, ranging 0.5ppts higher than its 10 July level on several occasions only to falter and eventually settle 0.9ppts lower for the month at 100.0.

New Zealand: New Zealand's economy appears to have weathered the Iran war reasonably well but has not been unscathed. The labour market has excess capacity which suggests the OCR path beyond September remains unclear. Inflation remains too high and will take some time to subside. The RBNZ will likely need to tighten more than they currently indicate, as markets suggest. A stronger tone to the exchange rate may be in prospect.

United States: Participants continue to believe inflation is the bigger threat despite a clear turn in the labour market and term interest rates which are a constraint for all but tech.

China: Q2 GDP and the June data highlight China's economic resilience and offer a degree of hope that domestic demand will strengthen over the coming year(s), if authorities provide aid.

Asia: A defining feature of Asia's growth story is AI investment. The key question for markets is whether this wave of investment will be narrow and transitory, or can be sustained and broaden across economies.

Europe & UK: Europe's policy outlook is diverging, with the ECB still focused on inflation risks while softer UK inflation and labour market conditions challenge the case for further BoE tightening.

Energy shock convergence, Fed-speak divergence ...

Luci Ellis
Chief Economist, Westpac Group

As the conflict in the Middle East drags on and periodically flares up, markets have needed to continuously re-rate their assessments of the implications for inflation, and so central bank policy. Daily fluctuations in expectations for end-2026 policy rates have tended to move with oil prices.

Policy expectations have been most sensitive to oil prices – and so developments in the conflict – for energy-importing economies such as the UK and euro area. That difference conveys a view about central banks' responses to short-term inflation developments in the spirit of risk management, more so than a fundamental view of differing outlooks. The cumulative increase in expectations for policy rates at end-2026 since the outbreak of the war has in fact converged to the 30–40bps range for all three of the Fed, ECB and Bank of England, which maps to a bit more than one hike between now and the end of the year. Our own view is that the ECB and Fed are more likely to hike than the Bank of England.

Market-based inflation expectations beyond the current year have been less affected by energy price developments than current-year forecasts. While daily movements in 1-year–1-year forward expectations of inflation from swaps have been moderately correlated with oil price moves, the net increase since the conflict started has been small. This suggests that market participants expect the energy shock will not induce lingering material second-round pass-through to other prices or lasting effects on inflation expectations, including in Australia.

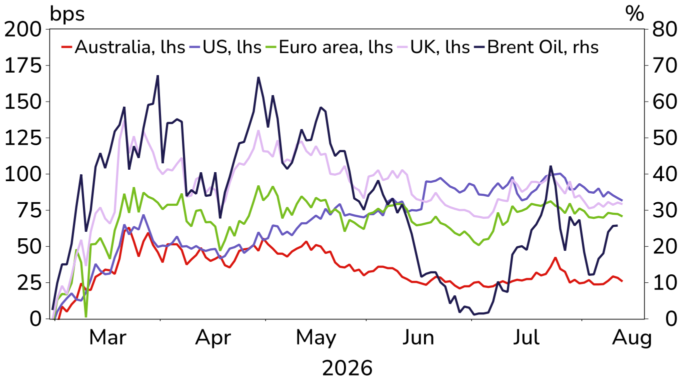
More broadly, though, longer-term yields have lifted since the beginning of the year, including in recent days, with US long-end yields increasing more than other for major economies. The larger rise for US Treasuries has less to do with expected impacts of energy prices, given the US is an energy exporter, and more to do with concerns about the Federal Reserve's strategy. Changes in Fed communication policy since FOMC Chair Warsh took over have reduced market participants' confidence that the Fed will respond to inflation pressures.

We continue to expect that structural constraints in US labour supply will keep inflation pressures to the fore. In the near term, though, the Fed is likely to remain on hold as it balances the signals from the labour market and inflation. The risks are to the upside given the views of some FOMC members.

Our house view is that Japan has broken out of its deflation era and its neutral rate has risen, as it has elsewhere. The BoJ is therefore also on a rate-hiking journey not seen for decades there. Further hikes would narrow rate differentials and support the exchange rate. The authorities have recently instead opted to intervene in FX markets in concert with the Fed, an unusual move historically.

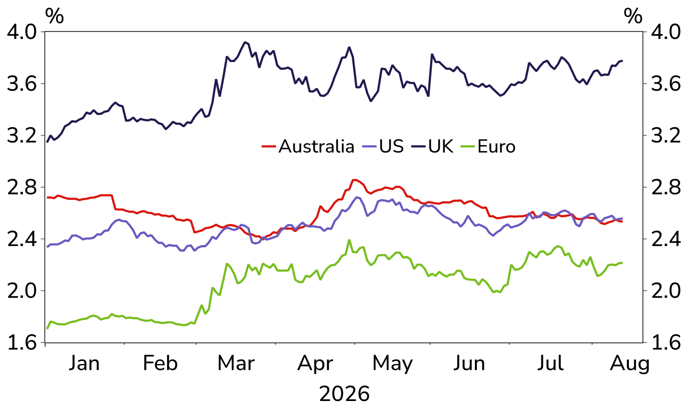
Market policy expectations and Brent oil price

Change since 28 February



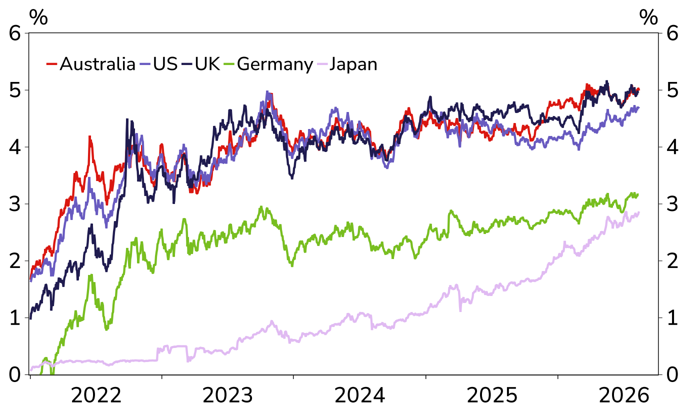
Source: RBA, ECB, CME Group, Macrobond, Westpac Economics

1-year-1-year fwd Inflation Expectations (Swaps)



Source: Bloomberg, Macrobond, Westpac Economics

Global 10-Year Bond Yields



Source: Bloomberg, Macrobond, Westpac Economics

... while RBA still wary of upside inflation risks

As widely expected, the RBA Monetary Policy Board (MPB) kept the cash rate on hold at 4.35% at its August meeting. The accompanying statement highlighted that the MPB is prepared to increase the cash rate further, if upside risks to inflation materialise. This is more specific and narrower language than in May, when it was stated that the cash rate would be increased "if needed".

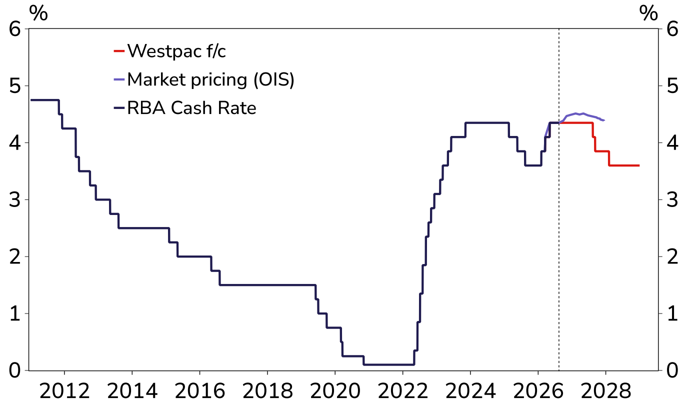
The RBA has evidently concluded that the base case is that rates are on hold. Monetary policy is assessed as being restrictive, and the language in August suggests the MPB seem more convinced on this point than was the case at the previous two meetings. Headline and trimmed mean inflation have both come in lower than the RBA expected in May, and the labour market and housing market are both weaker than it expected. Pass-through of higher energy prices came in quickly and in size – as we flagged at the time. But this pass-through has since tapered off, undershooting the RBA's (and our) expectations.

The MPB is not yet ready to rule out rate hikes, however, because it assesses that inflation risks are skewed to the upside. It is particularly concerned that pass-through from energy prices to other prices might continue, even though it has eased off a bit sooner than originally expected. Specifically, further escalation in the Middle East conflict might result in higher energy prices than forecast, and/or more pass-through. The RBA also highlighted the inflationary risks posed by the AI boom pressuring construction capacity at home and semiconductor-related inflation globally, a narrative that has received less emphasis overseas. More broadly, the MPB's emphasis of the upside risks to inflation stands in contrast to the relatively benign market view of 1-year forward inflation shown on the previous page.

The RBA's underlying analysis that capacity pressures are boosting inflation and restraining output growth remains in place. It still assesses the labour market to be somewhat tight, although it has eased recently. The RBA's evolving assessment of labour market conditions will be a key driver of its inflation outlook, arguably more so than the housing market, which is also being affected by changes to taxation arrangements. In a related vein, data centre construction was seen as pressuring capacity and crowding out other construction rather than boosting GDP. The RBA's forecasts implicitly assume that any productivity benefits of AI do not show up in the data until after the end-2028 forecast horizon.

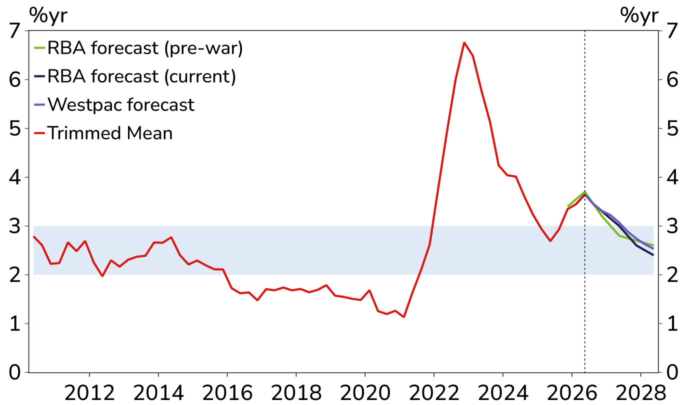
We continue to expect the RBA to remain on hold through to mid next year, before a rate-cut phase starting August 2027. However, it will be a "hawkish hold" with the MPB slow to relax given its view that upside inflation risks predominate. While we believe that investors should allow for some risk of a hike later this year, it is not our base case. There are clearly upside risks to inflation, as the RBA has highlighted, but in our view, downside risks as well.

RBA Cash Rate



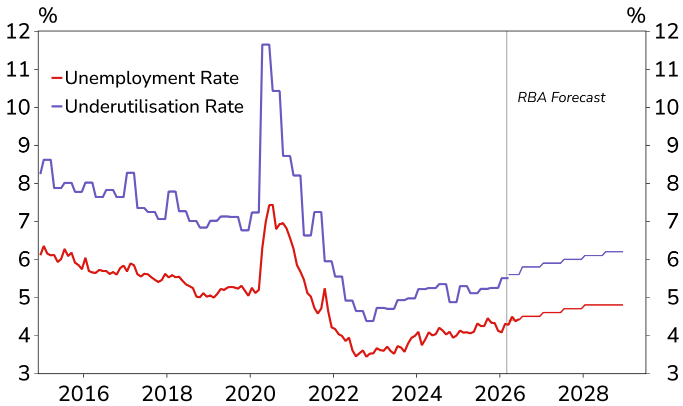
Source: RBA, Macrobond, Westpac Economics

Trimmed Mean Inflation



Source: ABS, RBA, Macrobond, Westpac Economics

Measures of labour underutilisation



Source: RBA, ABS, Macrobond, Westpac Economics

Growth stablises as demand holds up ...

Matthew Hassan, Head of Australian Macro-Forecasting
Pat Bustamante, Senior Economist

The economy appears to be on a firmer footing after slowing sharply in late 2025 and early 2026. Our Westpac-Now indicator was the first to detect this stabilisation which has been corroborated by recent updates on consumer spending and business investment. Looking ahead, a more material correction in Australia's housing markets is set to be a slightly bigger drag but is balanced by a less restrictive outlook for monetary policy, with the RBA no longer expected to raise rates. Overall, the environment is a little less challenging but growth will still be subdued in 2026, with a gradual pickup coming through in 2027 and 2028 as policy becomes less restrictive and the investment upturns gain traction.

Consumers stabilise as rates peak

Our near-term outlook has improved slightly on the back of a firmer profile for consumer spending. The flow of data suggests demand has held up better than expected with the ABS Household Spending Indicator recording a 0.7%qtr lift in Q2 (vs an expectation of around 0.2%qtr). Motor vehicles have driven much of this upside, with industry figures showing a robust 6.5%qtr rise in Q2, led by a 30%qtr surge in EV and hybrid vehicle sales. Instead of a flat June quarter, we now expect spending to show a small 0.2%qtr rise. The September quarter is also expected to be little firmer now that interest rates are on hold. All up, we have revised our forecast for spending growth in calendar 2026 up from 1.2%yr to 1.6%yr.

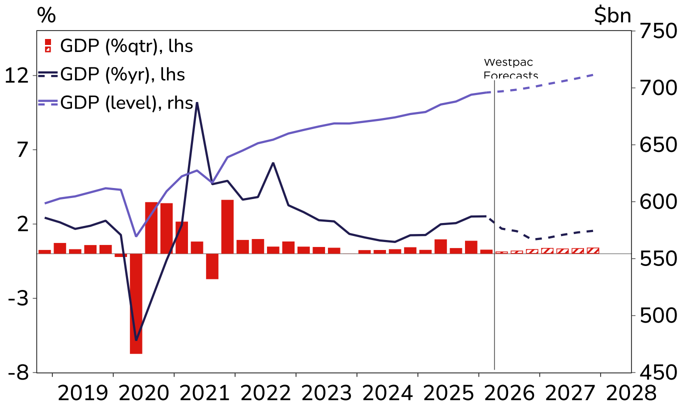
Note that we continue to see a significant disconnect between spending growth, which has been soft but not weak, and extremely pessimistic reads on consumer sentiment. As discussed in our latest Red Book, the disconnect likely reflects high inflation. This is something we have been aware of for some time and have allowed for in our forecasts. However, the flip side of this is that as inflation moderates, and this disconnect unwinds, we are likely to see the associated recovery in sentiment run well ahead of any meaningful lift in spending growth.

Investment boom gathers momentum

Forward indicators for business investment continue to suggest that we are at the start of an upturn. Approvals for non-residential commercial buildings surged 28%qtr in Q2 in value terms, driven by an 80% rise in data centre projects. The latest Deloitte Access Economics Investment Monitor shows the pipeline of major investment projects (those costed at over $250m) posted a solid 5.7%qtr increase in Q2, with growth recorded across all major states. New data centre, defence and energy-transition-related projects drove the gain with the monitor now putting the total pipeline of data centre projects alone at around $100bn – our estimates suggest it's closer to $155bn, which would account for around 15% of the total pipeline of major projects. The need to power data centres is also a key aspect that is boosting the more general renewables focused pipeline of electricity generation and distribution projects, which continues to sit at record levels of around $220bn.

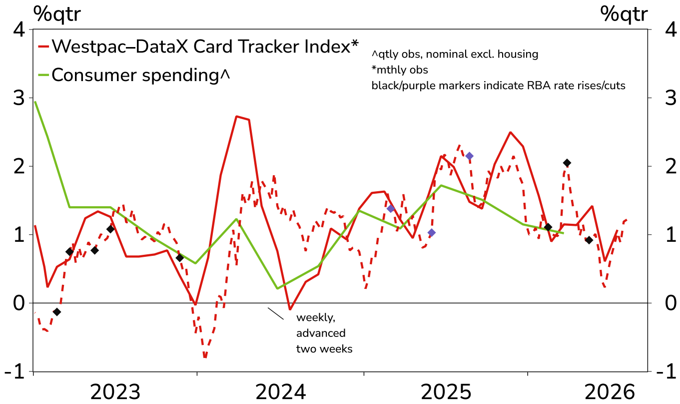
As discussed on p4, the Q2 inflation report was a touch softer than both we and the RBA were expecting. This suggests there has been a more muted pass-through of energy-related cost increases to broader prices. There are also some tentative signs that capacity constraints may be easing, in the labour market in particular. Overall, we expect this softer price momentum to carry forward through 2026, with trimmed mean inflation expected to slow to 3.3%yr by year-end, a

GDP Growth



Source: ABS, Macrobond, Westpac Economics

Westpac–DataX Card Tracker



Source: Westpac-DataX, Macrobond

… housing headwinds, lower rate risks

much less threatening pace than our previous forecast of 3.6%yr. We continue to expect trimmed mean inflation to make a gradual return to the RBA's target band easing to 2.7%yr by December 2027 and 2.4%yr in 2028.

Housing downturn accelerates

Activity-wise, the main downside surprise over the last month has been around housing markets.

While the pull-back in turnover is tracking expectations, the correction in established house prices has been more material. The downturn has spread across most capital cities, including the previously resilient Brisbane and Adelaide markets. The combination of higher interest rates and housing-related tax changes announced in the May Budget has seen investors vacate the market, with home loan credit enquiries showing a 20% decline.

Consistent with this, we are revising down our calendar 2026 forecast for dwelling prices nationally, from flat growth to a decline of 3%. This assumes a further fall of 2% from current levels between now and year-end, resulting in a peak-to-trough decline of 5%. The peak-to-trough decline is expected to be somewhat larger in Sydney and Melbourne, at closer to 7%.

We continue to expect a pull-back in on-market supply and an otherwise tight physical supply-demand balance to limit price declines. While demand is clearly receding, we do not expect to see the sort of sell-side pressures – from urgent sellers and/or a market with a large overhang of unsold stock – that tend to drive large declines. Prices are instead expected to gradually stabilise as we head into year-end, firming slightly over the course of 2027, with interest rate cuts providing key support.

Importantly, as we have previously shown (see July's Market Outlook), lower dwelling prices are likely to weigh on growth in household consumption through the 'wealth channel'. This is expected to offset much of the additional support coming from a lower inflation and interest rate profile.

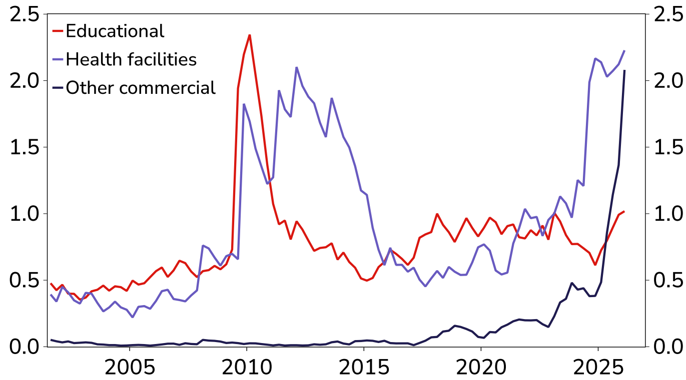
Dwelling price forecasts

	avg^	2023	2024	2025	2026f	2027f
Sydney	4.1	11.3	2.8	6.5	–7	2
Melbourne	2.6	4.2	–2	5.2	–6	5
Brisbane	8	13.5	11.4	14.9	4	3
Perth	7.6	16.2	18.4	17.6	5	5
Adelaide	7.7	8.8	13.6	8.6	5	4
Australia	5	10.1	5.1	8.3	–3	3

^ avg last 10yrs

Source: Cotality, Westpac Economics

Non-residential building pipeline

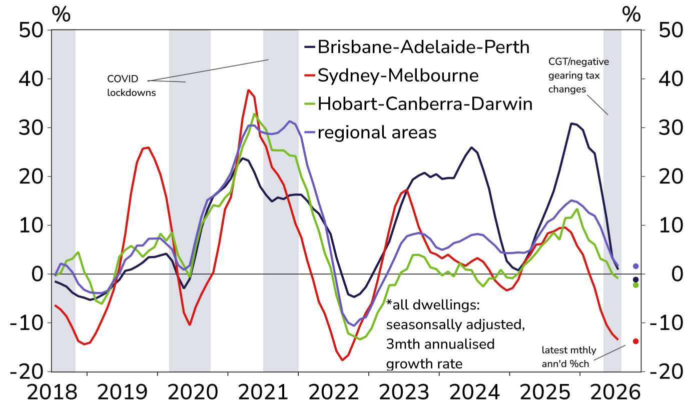


Source: ABS, Macrobond, Westpac Economics

We now expect the RBA to remain on hold until August 2027, when it will begin easing rates in response to trimmed mean inflation falling back to target. Beyond that, our forecasts for 2027 and 2028 remain broadly unchanged, with growth expected to run at 1.5%yr and 2.5%yr.

Aside from a lower pass-through of higher oil prices, the recent downside surprise on trimmed mean inflation may also be an early sign that capacity constraints are starting to ease. Around labour supply, we expect participation rates to remain elevated as higher interest rates and cost-of-living pressures draw more people into the labour market. There are also reasons to expect productivity will improve as the drag from the non-market and mining sectors dissipates and a cyclical upswing in market sector productivity gains traction. There should also be a medium-term tailwind from AI, which has the potential to lift productivity growth both here and abroad.

Dwelling prices: city groups and regional areas

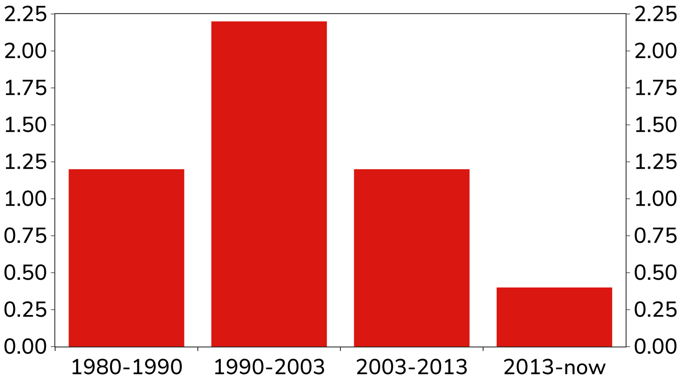


Source: Cotality, Macrobond, Westpac Economics

… AI could be the next productivity boost

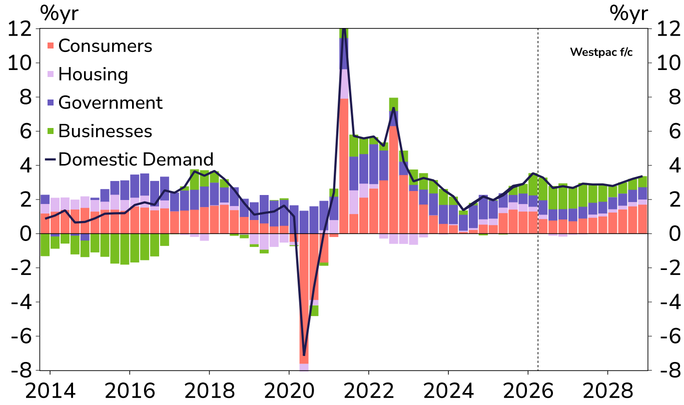
Productivity growth

Annual average % change, total ex agriculture



Source: ASEANstats, Macrobond, Westpac Economics

Contributions to Domestic Demand



Source: ABS, Macrobond, Westpac Economics

Productivity upside from AI

Internal Westpac data suggests spending on AI subscriptions by SMEs remains low but is increasing rapidly, with a near doubling in Q2 2026 according to some metrics. As this technology is adopted and businesses uplift their work processes there should be a 'productivity dividend' in the form of increased production and/or lower costs to end users. The timing and magnitude of these shifts are highly uncertain, but given the pace of AI adoption, it could arrive quite quickly. ABS data, for example, show the share of businesses using AI rose from 1% to 12% over the three years to 2024-25, a figure that has almost certainly jumped again since then.

How big could the payoff be? This is even harder to quantify, not least of all because of the new goods and services this technology will make available. AI will not only affect existing jobs but will very likely create entirely new ones as well.

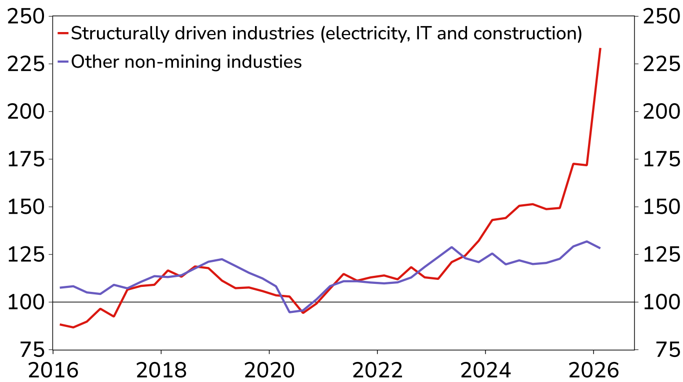
Past experience suggests there is significant upside. While there were other contributors (including significant micro-economic reforms and a sustained shift to low inflation and interest rates) Australia's 'golden era' of productivity growth – the 2.2% pace sustained during the 1990s – also related to IT-driven technological changes. Dramatic changes in computing power, use and, with the advent of the internet, connectivity transformed many industries, allowing for significant increases in what could be produced for a given set of inputs.

If AI follows anything like the path seen when previous general-purpose technologies have emerged (computing, the internet, electricity etc), Australia should experience some sustained improvements in productivity growth.

We will have more to say on the potential scale of this effect in the coming weeks, but needless to say there is considerable potential here, which could have implications for both our forecasts and the broader economy sooner than previously thought.

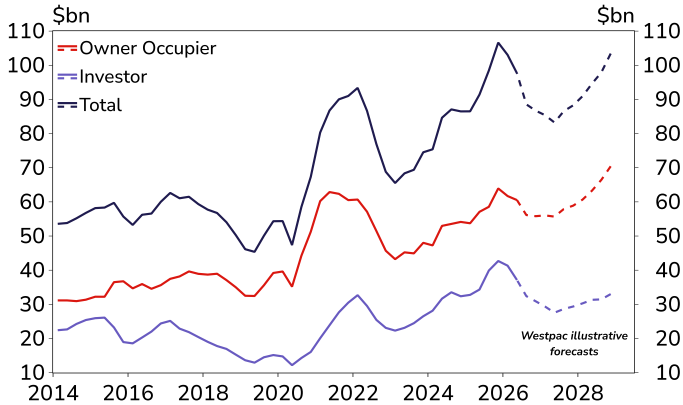
CAPEX by sector

Index 2020 = 100, Chain volume measures



Source: ABS, Macrobond, Westpac Economics

New housing finance



Source: ABS, Macrobond, Westpac Economics

A declaration is not a drought...

Sian Fenner, Head of Business, Industry & Economics
Luka Belobrajdic, Economist

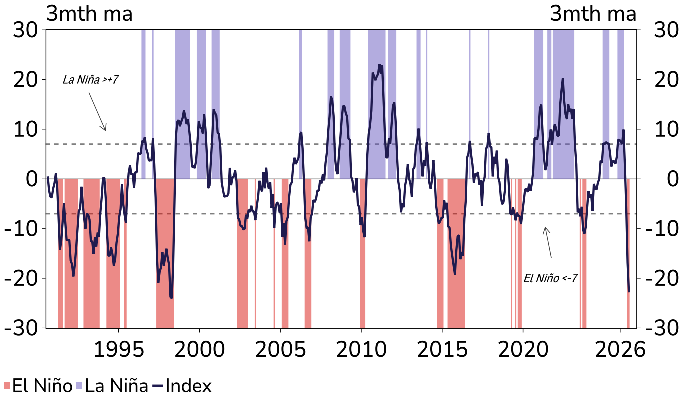
El Niño is strengthening but this does not guarantee a drought and even where it does turn dry the impact will be uneven. Soil moisture, water availability and the Indian Ocean Dipole (IOD) matter as much as El Niño's strength. Australian winter crops and livestock are most exposed, particularly in eastern and northern NSW as well as southern QLD. In New Zealand, dairy is the key channel. We see the macroeconomic impact as manageable under our central case, though a more severe event would add to inflation pressures in Australia and weigh on incomes in New Zealand. For now, we treat that more severe outcome as a risk to watch rather than our base case.

A strong El Niño event has been declared by the World Meteorological Organisation, the Australian Bureau of Meteorology (BOM) and New Zealand's National Meteorological Service. All agencies expect it to strengthen over the next three months and persist into mid 2027. For Australia, the declaration tilts the odds towards a drier, warmer winter and spring across the east and south, with the BOM forecasting below-average rainfall across parts of southern and eastern Australia. In New Zealand, the event strengthens the westerlies, drying the north and east while the southwest turns wetter.

An El Niño event raises the risk of drought but does not make one inevitable. Since 1900, around two-thirds of events have coincided with widespread drought, but the most recent, in 2023-24, delivered a wetter than average eastern summer despite a strong signal. The strength of an event is also not a reliable guide to its impact. The weak 2002 event hit eastern Australia hard, while the very strong 1997-98 event proved relatively benign in Australia (although it was severe in New Zealand). What matters is whether a number of reinforcing conditions fall into place.

Southern Oscillation Index

Indicator of the development and intensity of El Niño or La Niña events



Source: BOM, Macrobond, Westpac Economics

For Australia, the Indian Ocean Dipole is important. A positive IOD develops in winter and peaks in September and October, squarely inside the winter grain-growing season. It is currently neutral, but models point to a positive event developing over winter, which would reinforce the dry signal from El Niño. How much damage follows will also depend on soil moisture and water storage entering the season.

In Australia, the risk is regional. WA, SA and VIC began the year with average to above average sub-soil moisture, but levels were lower in NSW and southern QLD. Water availability has also eased more broadly, with Murray-Darling Basin storages at 58%, down from around 63% a year ago. New Zealand enters from a stronger position with soil moisture, river flows and feed availability broadly favourable, though forecasts point to drier conditions across northern and eastern regions as the event builds towards a possible summer peak.

On the sum of these conditions, our central case remains that an extreme drought in Australia is avoided. That said, farm activity is still expected to contract this year. A drier and warmer season, combined with elevated diesel and fertiliser costs, will see some growers scale back planting area and fertiliser applications, leading to lower yields.

Commodity impacts are uneven

Still, even without an extreme drought, the impact of drier conditions will vary across commodities. In Australia, winter crops are the most exposed. ABARES already expects the combination of El Niño dryness and higher input costs will see the national winter crop drop to around 54.5Mt, 21% below last year. However, this would still be the seventh-largest on record and above the ten-year average. Growers are accounting for this shift by favouring barley over wheat given its lower fertiliser need and better dry-tolerance. Because Australia has a meaningful share of world wheat trade, a domestic shortfall tends to firm global prices and cushion sector revenue even as volumes fall.

The other key exposure in Australia is livestock. We still expect meat prices to remain elevated, supported by tight supply and firm external demand, although they are likely to drift lower through the year. In a more severe scenario, we would expect meat to move through two stages. First, lower rainfall will slow pasture growth and lift feed costs. This will drive higher turnoff and slaughter, weighing on prices, before a smaller herd and flock tighten supply and lift prices later. A

... but a risk to watch

key risk is that producers respond to the El Niño declaration rather than actual weather conditions. In 2023, early destocking increased supply and weighed on livestock prices, only for prices to rebound as rainfall conditions proved more favourable than anticipated.

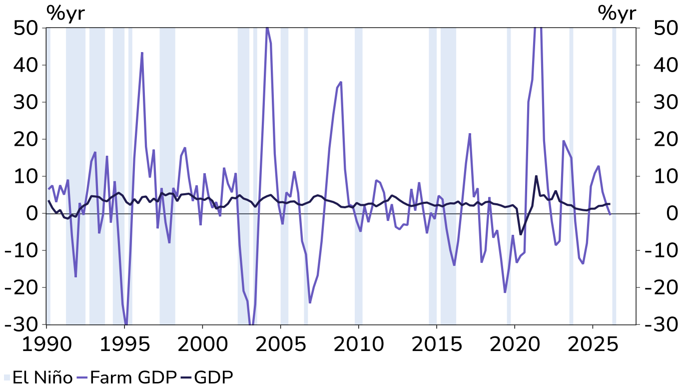
Beyond grains and livestock, water availability matters most for Australia's rice and cotton. Other sectors, such as Queensland sugar, are largely insulated because the crop is well advanced and the El Niño-rainfall link is weaker in the key growing regions. On balance, we expect El Niño's impact to be limited and largely concentrated in the eastern dryland belt.

For New Zealand, dairy matters most, given its weight in the export base at around 3.5% of GDP. A poor season cuts milk-solids volumes, but the income hit is partly offset by price. New Zealand is a large enough share of traded dairy globally that tighter supply tends to firm global prices, even though its share of world production is small. Indeed, the RBNZ found the 2012-13 drought lifted global dairy prices by around 10%. A softer NZD in dry years adds a further cushion, so dairy can be a smaller drag on national income than a poor season implies. Kiwifruit and apples are more resilient given irrigation, though prolonged dry and heat still cut fruit size and quality.

Limited hit to growth

Agriculture accounts for around 1.8% of gross value added in Australia and 3.8% in New Zealand, so a poor season barely registers in headline output. But the weight runs beyond the farm gate through to exports, regional incomes and supply chains. The RBA has estimated that previous major El Niño droughts cut annual GDP growth by around 0.5 percentage points, and up to a full point in the worst cases. The impact today may be smaller. Agricultural production is less exposed to drought than in previous decades, reflecting improvements in water management, crop selection and farming practices. Australia's eastern electricity generation is also less dependent on rainfall-sensitive generation than during earlier droughts, reducing one channel through which dry conditions can affect prices and activity.

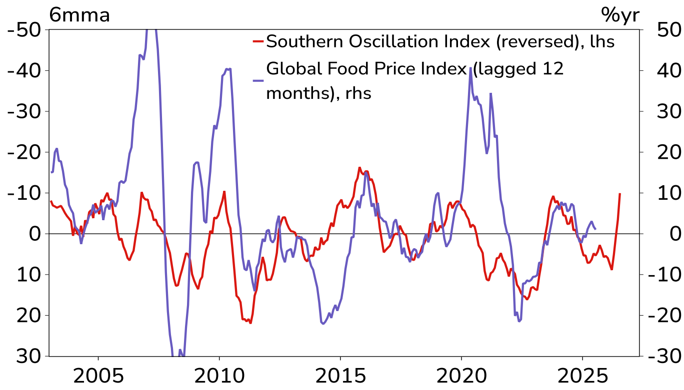
El Niño impact on Australia



Source: BOM, ABS, Stats NZ, Macrobond, Westpac Economics

On the inflation front, our current forecasts already carry some rise in fruit and vegetable prices from August, although this reflects not just drier conditions but also the impact of higher fertiliser costs leading to lower yields. Still, a more severe scenario would add to an already above-target inflation problem.

El Niño event a growing risk to global food prices



Source: BOM, Our World in Data, FAO, NOAA, Macrobond, Westpac Economics

For policy, both the RBA and RBNZ treat weather-driven food-price moves as temporary and look through them, so absent a broader shock we would not expect El Niño to feature in either bank's rate path. But there comes a point where a central bank can no longer ignore the inflation shock. For the RBA, the room to discount a food-price rise is narrower while it is still fighting an above-target problem. The RBNZ faces this issue to a lesser degree, with core inflation on the higher side but still within the target range.

What we are watching

Overall, we see this as a manageable and regionally concentrated risk rather than a national shock. The 2026-27 El Niño raises the odds of a difficult season, but strong signals have delivered benign outcomes before. The sector is in a good place to manage risks -- balance sheets are healthier than in past droughts and the role of the IOD means it could still turn either way. Nor is the global effect large, with losses in Australia and South-East Asia frequently offset by better South American harvests. A genuine food-price spike tends to require a coincident shock, such as an export ban, energy price spike or conflict, rather than El Niño on its own. Historically, the largest food-price shocks have occurred when weather disruptions coincide with broader supply shocks, amplifying what would otherwise be a manageable production shortfall. So, for now, we treat this as a risk to watch rather than a base case.

Commodities whipsawed again in July …

Justin Smirk, Senior Economist
Luka Belobrajdic, Economist

Most commodities fell in July as the geopolitical risk premium that had built through much of 2025 continued to unwind. The resurgence in hostilities highlighted the fragility of any ceasefire and saw oil briefly surpass US$100/bbl late in the month. Our broadest commodities index declined 1.8%mth, led by thermal coal (-10.2%), which unwound June's gains as supply improved and energy security concerns receded. Aluminium declined 8.2%, lithium (spodumene) fell 6.3% and coking coal eased 4.7%mth. Renewed conflict heightened inflation concerns and expectations of further global rate rises saw gold soften 3.7%mth. Brent averaged 1.5%mth lower over the month, while copper was broadly unchanged (-0.1%mth). LNG bucked the broader trend, rising 10.1%mth on ongoing market tightness.

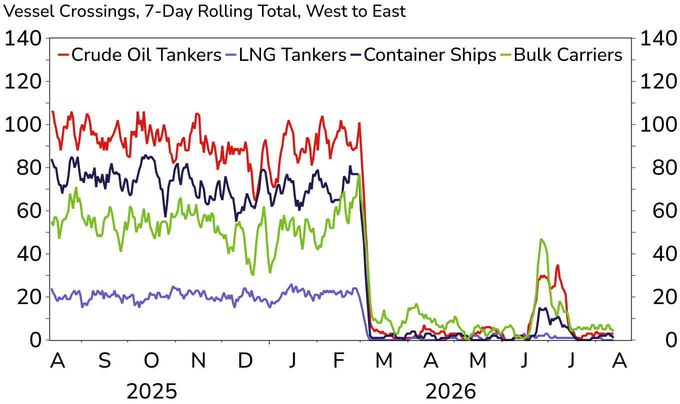
Oil prices experience a volatile month

Brent prices saw sharp volatility over the past month. Prices entered July at pre-conflict levels as the MoU held, which saw a surge of vessels exit the Strait and the risk premia unwind. Renewed conflict, which we had previously flagged as a key risk, later constrained traffic through the Strait once again. Houthi attacks on Saudi crude exports in the Red Sea added to market concerns. As a result, Brent briefly rose above US$100/bbl for the first time since May in late July. On net, Brent averaged 1.5%mth lower in July at US$83.0/bbl - in line with our forecast. Prices have since oscillated around this level. We continue to expect volatility, as key differences between the US and Iran remain unresolved. While flare-ups are likely to be short-lived, we expect supply and demand fundamentals to increasingly reassert themselves as the primary drivers of prices over the coming months.

Notably, inventories remain very low. The decline in OECD government stocks by a further 44mb in June will see greater demand for oil as depleted reserves are rebuilt. Further, the lower prices will entice China to replenish their stock reversing some of the weakness seen in Chinese imports through July. China accounted for just 13% of seaborne crude imports in July, down from 19% a year earlier, while independent refinery operating rates remain historically low at just above 50%. Refiners will be further motivated to buy oil in Q4 ahead of the Chinese New Year holiday. While lower Chinese imports have been a key buffer against the gobal supply shock, this support is unlikely to persist.

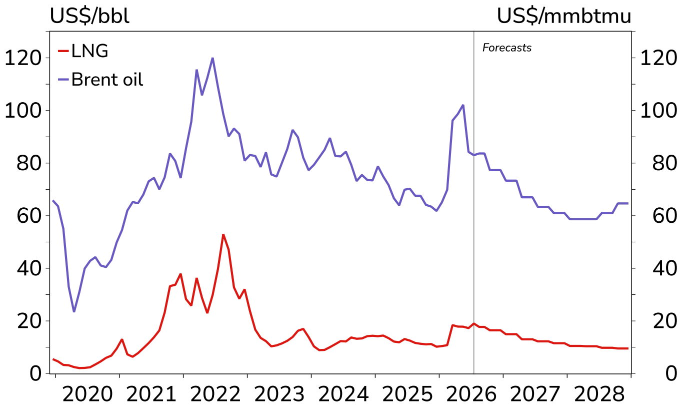
Overall, we expect Brent to average US$83/bbl in Q3 before softening slightly to US$81/bbl in Q4 - a US$3/bbl downgrade to our previous publication, reflecting the continued unwinding of the geopolitical risk premium. Volatility will remain a feature, with much depending on the durability of the ceasefire and the pace of normalisation in shipping through the Strait. These

Strait of Hormuz, Outbound Vessels



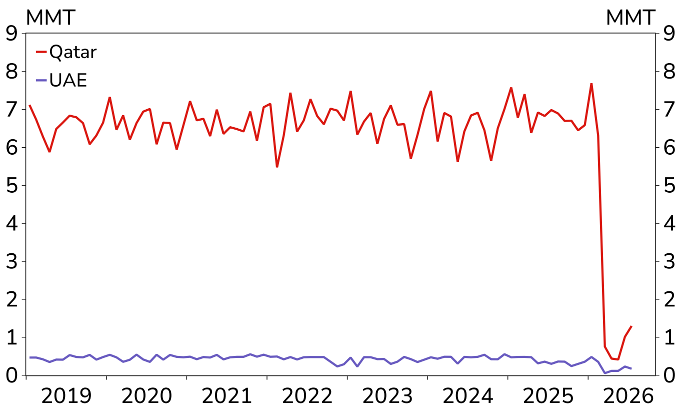
Source: Bloomberg, Macrobond, Westpac Economics

Oil and LNG forecasts



Source: Bloomberg, Macrobond, Westpac Economics

Monthly LNG Exports



Source: Bloomberg, Macrobond, Westpac Economics

...with the geopolitical risk premium yet to settle

figures reflect assumptions captured in the two scenarios we published in June.

LNG markets remain tight

LNG prices, unlike oil, continue to hold near recent highs. Damage to the world's largest LNG export complex at Ras Laffan in Qatar, closure of the Strait of Hormuz, limited vessel availability and constrained spare liquefaction capacity continue to weigh on supply. Coupled with strong demand for energy from a hot summer across Northeast Asia, Japanese LNG prices rose 10.1%mth in July, with average prices reaching US$19.0/mmbtu — around 75% above pre-conflict levels.

We continue to expect Japanese LNG prices will peak at an average of US$18.5/mmbtu in the September quarter. With a recovery in supply improbable, prices are unlikely to return to pre-conflict levels until 2028. For Australians, domestic supply is unlikely to be hampered supported by the FY2027 Federal Budget's domestic gas reservation scheme, which requires exporters to supply the equivalent of 20% of gas exports to the Australian market.

Copper bouyed by COMEX inventory building

Copper prices continued to track sideways in July, falling just 0.1%mth. A resurgence in the Middle East conflict reduced appetite for the copper-linked AI trade. However there were other supportive factors for the metal by July-end including severe winter storms in Chile which caused disruptions across several copper mines and continued delays to the planned announcement of changes to the US' Section 232 tariffs which drove a further build in COMEX inventories in the US (+5.9%mth in July) from already record highs. Structural support continues to come from ongoing investment in electricity networks, renewable energy capacity, AI and data centres.

That said, headwinds are building. Large US stockpiles suggest the market remains well supplied in the near term, while falling sulphuric acid prices have removed a key source of recent support, and Chinese demand remains subdued. Against this backdrop, we expect copper to average US$13,800/t in Q3, and soften to an average fo US$13,110/t in Q4. In the medium-term, incremental mine supply is expected to place downward pressure on prices.

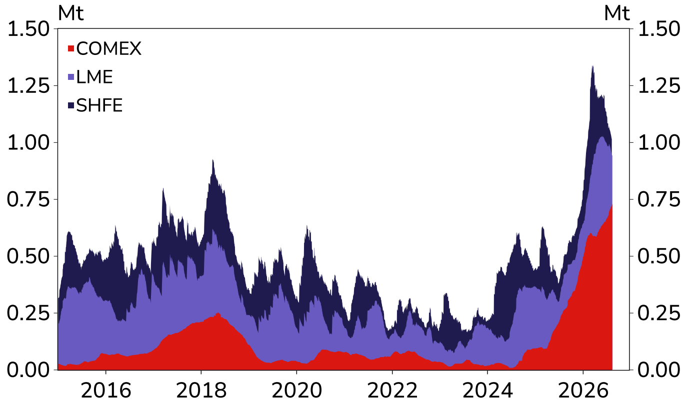
However, structural electrification trends and manufacturing localisation should provide a floor under prices in the long-term, with a trough of around US$11,500/t expected by end-2028. Beyond this point, prices are expected to strengthen as net-zero targets approach, EV uptake gathers momentum, and expanding data-centre investment drives additional demand for energy infrastructure.

Recent energy shock to support lithium

Lithium prices continued to soften from their May highs, falling 6.3%mth in July as markets responded to easing geopolitical tensions, while a more stable price environment has encouraged mine restarts helping boost global supply. Despite this, the outlook remains constructive. Near-term support is expected to persist as downstream users maintain lean inventory positions amid historic price volatility, while recent fuel insecurity continues to encourage investment in energy storage solutions. Additional support is likely to come from accelerating global EV adoption, with electric vehicles projected by the IEA to account for 28% of global sales in 2026.

Over the medium to longer term, lithium demand is expected to remain underpinned by structural electrification trends. EVs will continue to be the primary source of demand, while growth in battery energy storage systems is expected to accelerate alongside expanding renewable generation. The increasing prevalence of data centres is also expected to support demand for storage solutions as operators seek to alleviate transmission constraints and enable peak shaving. On the supply side, expanding production, particularly from Australia, should position the country to capitalise on growing global demand though this benefit will be felt through volumes rather than prices.

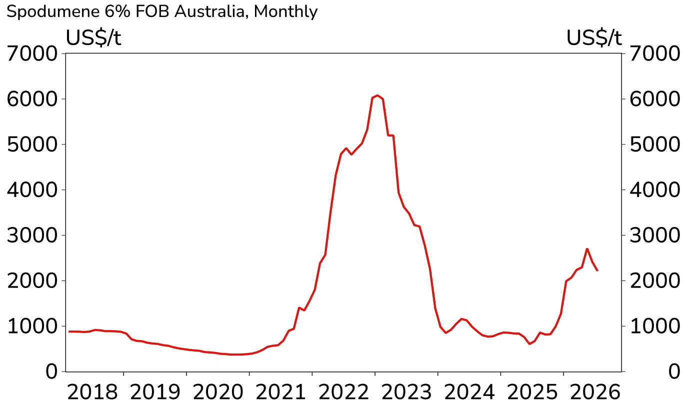
Visible Copper Inventories



Source: Bloomberg, Macrobond, Westpac Economics

Lithium Price

Spodumene 6% FOB Australia, Monthly



Source: Bloomberg, Macrobond, Westpac Economics

USD struggling to make ground ...

Elliot Clarke
Head of International Economics

The US dollar has struggled to make headway this month, ranging 0.5ppts higher than its 10 July level, when our last Market Outlook was released, on several occasions only to falter and eventually settle 0.9ppts lower for the month at 100.0. This is despite a deal between the US and Iran remaining elusive and with market participants remaining optimistic on US growth but concerned over inflation, and consequently expecting the FOMC to hike into year end.

As has been the case over the past year, the primary contributors to movements in the US dollar DXY index over the past 30 days were Euro and Sterling, both appreciating around 1 cent to USD1.15 and USD1.35 respectively. Compared to history, these are not challenging levels for either currency; and the balance of risks faced by each nation are becoming more favourable with respect to growth and inflation.

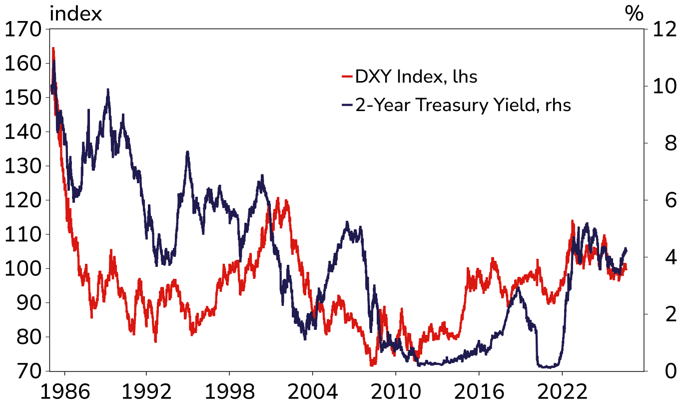
To end-2027, we look for a continuation of this trend, leaving EUR/USD and GBP/USD at USD1.21 and USD1.39 respectively, after which each currency is likely to plateau.

The more time passes, the greater the likelihood of the balance of risks shifting against the US and in favour of Europe and the UK. In part, this is because the US economy has experienced an extended period of outperformance that is coming across an increasingly narrow base, suggesting the run may not last. But it also pertains to the political status quo; the degree of common purpose over defence and economic development in Europe is a striking contrast with the US' partisan turbulence. Government debt is an issue for all three jurisdictions, but the structural imbalance in the US budget position, the ratcheting higher of US debt service and the market's unease over dwindling forward guidance by the FOMC all point to a much greater financial headwind for the US dollar than Euro or Sterling.

It is worth remembering that, while the 10-year average for DXY is around 1.0% below spot, the 20-year average is almost 9.0% lower. If risks crystallise against the US, there is a material chance of an outsized market move.

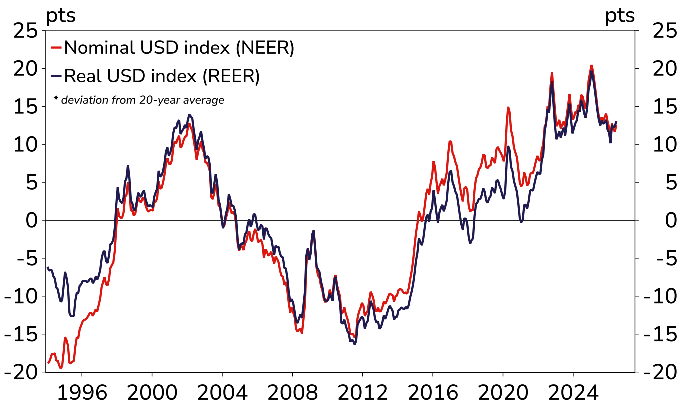
As we write, the big story of the month is slowly fading into obscurity. After numerous failed attempts to turn the yen around, and with USD/JPY threatening to go through JPY165, Japanese authorities this month sought the aid of the US government. Buying of the yen by both counter-parties, aided by an active PR campaign, initially saw USD/JPY drop from a recent peak of JPY164 to a low of JPY155. However, despite warnings of additional actions, USD/JPY reversed course within days, trading back above JPY159. Without further intervention by both Japan and the US, the yen is likely to

USD demand at limit?



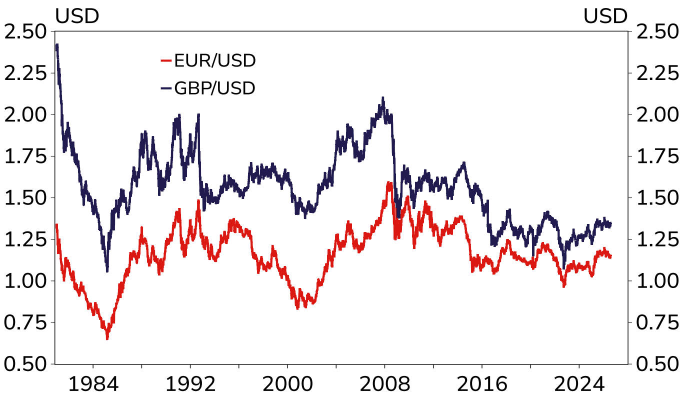
Source: Bloomberg, Macrobond, Westpac Economics

Valuation remains stretched



Source: BIS, Macrobond, Westpac Economics

Euro and UK risks to recede



Source: Bloomberg, Macrobond, Westpac Economics

… despite global risks

weaken further as participants search for authorities' limit. Still, a return to JPY165 seems unlikely absent a marked deterioration in Japan's economy; USD/JPY holding around JPY160 for the foreseeable future is much more probable.

In our view, the yen is unlikely to begin a lasting uptrend until expectations for tighter US monetary policy recede, which we do not see occurring until late-2026. Thereafter, progress is likely to be slow, as participants continue to doubt the Bank of Japan's resolve and given Japan has less exposure to the global tech expansion than South Korea, Taiwan and China. We expect USD/JPY to only decline to JPY154 by end-2027, then to JPY146 come end-2028. At that level, USD/JPY will still be 32% above the 30-year average of 1990–2019 – a truly historic divergence.

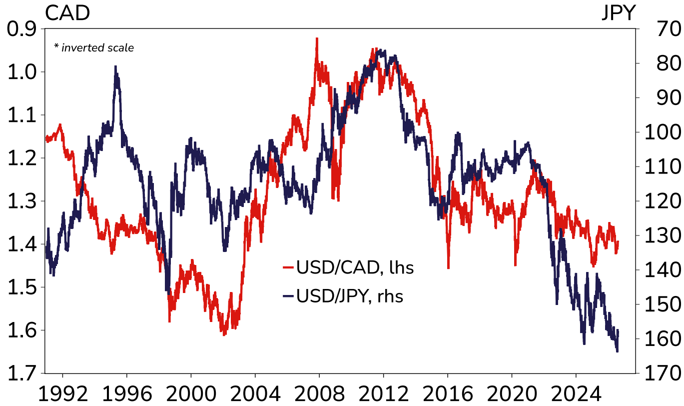
For the rest of Asia's currencies, the direction of travel is likely to be up, albeit proportional to each nation's exposure to technology and starting valuation.

Benefiting not only from exposure to high-end technology expansion but also pharmaceuticals, engineering, finance and tourism, at SGD1.28 Singapore's dollar is within a cent of its lowest level in a decade, and also within reach of the historic low of SGD1.22 seen in 2012. We expect the cross to settle between current spot and the 2012 low by end-2028, targeting SGD1.25 at that time. That said, a downside surprise for the US economy could see the 2012 low reached in the interim.

The softer starting point for China's renminbi provides it with a little more room to rally over the forecast period. To end-2027 then end-2028, we see USD/CNY falling from CNY6.75 today to CNY6.40 and CNY6.30 respectively. A run towards CNY6.00 is certainly possible, although it would arguably require a marked change in domestic conditions as well as continued strength in trade and financial net inflows.

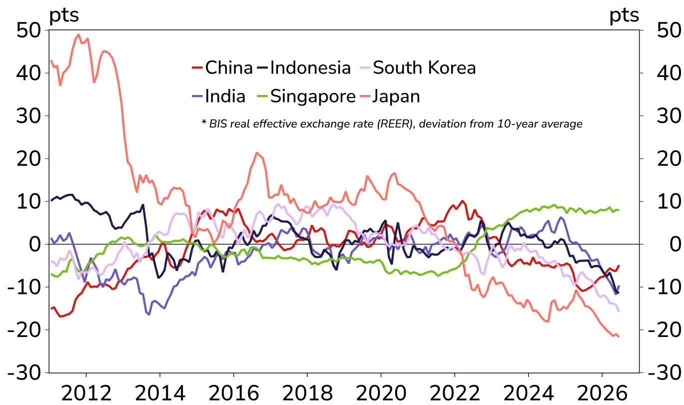
India's rupee is an interesting comparison to the above Asian currencies. While India offers the world considerable capacity for technology and professional services as well as low-value-add manufacturing, it lacks the intellectual property rights of the US, China, Taiwan and South Korea. It also does not have the efficient process, depth of knowledge, financial capital and transport infrastructure that holds Singapore in such great stead. Concerted structural change is necessary if the rupee is going to materially reverse the declines of recent years. This is despite the nation's considerable advantage in terms of its population. To end-2028, we see USD/INR only falling from INR95 to INR87 against a 20-year average of INR64. To this view, there is clearly downside risk for the rupee, particularly if energy prices remain elevated.

JPY challenged short and long-term



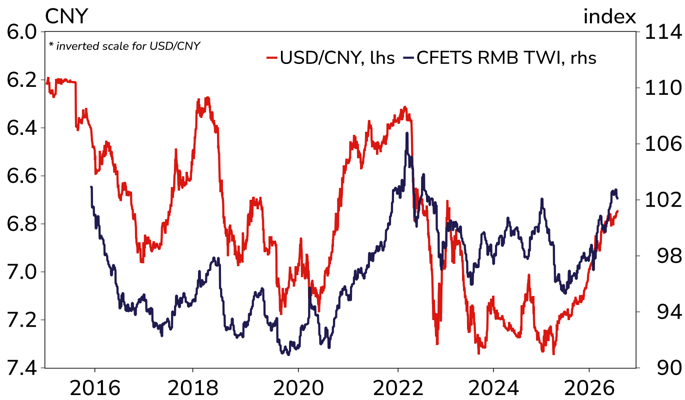
Source: , Macrobond, Westpac Economics

Asia's outlook still promising



Source: BIS, Macrobond, Westpac Economics

Renminbi to sustain rally



Source: Bloomberg, Macrobond, Westpac Economics

There's plenty of slack in the labour market ...

Kelly Eckhold
NZ Chief Economist

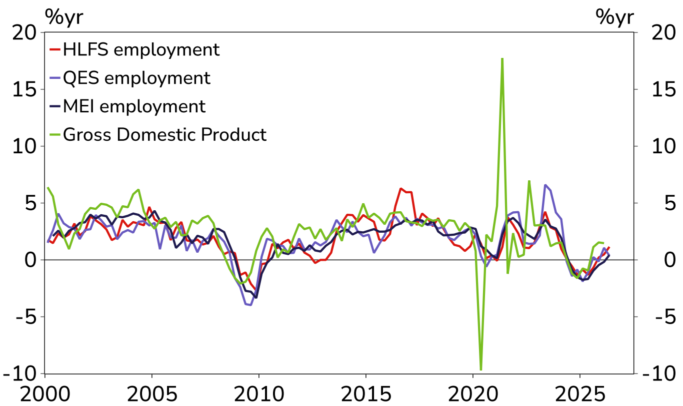
It's been a rough few months for the New Zealand economy. A recovery in activity had taken hold from the September quarter of 2025 and delivered three above-trend quarters on average before the Iran war interrupted progress. The war hit consumer and business sentiment, weighed on spending and lifted volatility. Given uncertainty around energy supply, it was reasonable that households and firms retreated into their shells while the shooting continued.

GDP Nowcasts and high-frequency activity indicators are consistent with a flat to negative June quarter growth outcome. Even so, this is better than feared early in the war, when very high fuel costs and potential supply disruptions loomed. Early indicators for the September quarter look noticeably stronger and point to a return to growth.

Whether September quarter growth is above trend remains to be seen. Uncertainty remains high as we move into the sixth month of the recent Middle East conflict. The Strait of Hormuz remains effectively closed, and the entry of the Yemen Houthis is disrupting alternative Red Sea supply routes. Deals are reportedly on the table, but at the time of writing the shooting continues and oil prices have moved back into the high US$80s.

Recent strength in consumer and business confidence therefore looks fragile. Its sustainability will depend heavily on whether some kind of stability in the Middle East can be found, but prospects remain murky. The Government extended the fuel relief package first introduced in March to help lower income households. Technically, the threshold to withdraw the scheme had been met, but rising fuel costs and ongoing uncertainty made it pragmatic to maintain the support for now.

NZ employment measures



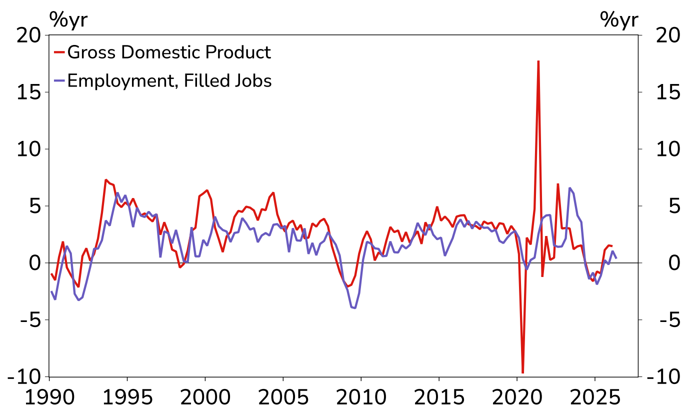
Source: Stats NZ, Macrobond, Westpac Economics

Data has confirmed that significant slack remains in the labour market. The key signal came from the unemployment rate, which rose more than expected to a new cycle high of 5.6%. The RBNZ will likely put the most weight on this when judging how much downward pressure excess capacity is exerting on inflation, which remains far too elevated.

That said, the labour market details were messy and not uniformly consistent with a weak economy. Household employment growth and labour force participation surpassed expectations, although the strength may have been exaggerated by survey sample error given what other employment measures show. At face value, the rise in slack reflected labour supply growing faster than expected labour demand could absorb. That is not fundamentally a weak economic story. Employment growth is firmly positive, in a 0.4–1.2%yr range, consistent with the lift in GDP growth since the middle of last year.

Significant regional differences remain as South Island unemployment, supported by strong agricultural and tourism sectors, fell to around its 10-year average. In contrast, the more service-sector dominated North Island urban centres remain weak and unemployment is almost two standard deviations above its 10-year average.

NZ annual GDP growth versus filled jobs growth



Source: Stats NZ, Macrobond, Westpac Economics

Interestingly, wage growth slightly surpassed expectations and looks sticky at 3.1% on an unadjusted Labour Cost Index basis. The headline productivity-adjusted LCI growth rate of 2% – less than half its pandemic peak – is consistent with achieving 2% inflation over the medium term. But labour market slack has not yet produced sub-2% wage growth. That raises questions over the future direction of wages as inflation

… but the RBNZ still has plenty to do

expectations remain elevated and slack diminishes through the recovery. Firms report a rising share of wage demands linked to cost-of-living pressures. This tells us that the public regards inflation as persistent enough to include in wage bargaining. That could be a headwind for the RBNZ if it wants inflation back at 2% in any reasonable timeframe.

The RBNZ Governor Breman commented on policy and the economy. She understandably reiterated the goal of returning inflation to 2%. However, the strategy remains unclear, with the policy message limited to “taking away a little bit of the stimulus”. The RBNZ’s forecasts have the OCR returning to long-term neutral, rather than restrictive, levels. It is therefore unclear how this will push core inflation down from 2.5–3% to 2% as the economy recovers. Disinflation may happen, but it may not happen quickly and could easily be knocked off course by future inflation shocks, including El Niño-related food price risks.

In all likelihood, more work will be required. Historically, this has been the RBNZ’s behaviour. Early in the cycle, forecasts often show a modest tightening cycle that is scaled up as the cycle progresses. Hence, we remain comfortable with the idea that the OCR reaches 4% sometime in 2027.

In the immediate period, however, increased labour market slack raises questions about the cadence of OCR increases through late 2026. A September tightening remains a strong possibility, as we currently forecast. The elevated headline inflation outlook also points strongly to a September OCR increase. But the case for an October hike is less clear, given unemployment has risen by more than the RBNZ forecast in May. The MPC can still reach a year-end OCR of 3% without moving in October. We simply do not have enough clarity on the MPC’s strategy to be sure how meetings beyond September will progress.

There has been a global shift away from forward guidance. Both the US and Australian central bank governors have recently shied away from it. Even so, the policy reaction function and strategy still need to be clear. Doubts have emerged in the US about the FOMC’s reaction function and strategy to return inflation to 2%, affecting long-term interest rates and some measures of policy credibility. It will be important that the RBNZ does not slip into the same trap. At some point it should clarify exactly how inflation will be returned to target. Hope is not a strategy, but raising the OCR to restrictive levels is credible. The RBNZ will ultimately need to move beyond the “removing stimulus” line and be upfront on the OCR path through 2027. Perhaps we will hear more in the September Monetary Policy Statement.

Lastly, the election campaign is now upon us, and the race looks very close. For much of the year, the polls pointed to a right-leaning coalition being returned, with NZ First the kingmaker. That is now changing. The Opportunity Party is gaining ground and increasingly looks likely to breach the 5% threshold. These developments have shifted the calculus, made a left-leaning coalition more likely, and positioned Opportunity as the deciding factor. Political uncertainty is therefore rising and the future policy mix is in flux. Watch this space!

	2025					2026						
Monthly data	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**
REINZ house sales %mth	–2.9	–1.9	6.3	0.3	0.8	–5.1	4.2	–2.2	–1.0	–4.0	–1.2	–
Residential building consents %mth	6.3	7.8	–1.1	3.0	–4.2	2.3	2.7	–0.6	12.2	–4.9	–3.6	–
Electronic card transactions %mth	0.6	–0.4	0.2	1.2	–0.1	–1.1	1.4	0.7	–1.2	1.6	–1.4	–
Private sector credit %yr	3.8	4.2	4.6	4.4	4.6	4.6	4.7	4.9	4.7	4.8	4.9	–
Commodity prices %mth	0.7	–1.1	–0.3	–1.6	–2.1	2.0	4.2	4.2	–0.8	0.8	–1.1	–3.9
Trade balance $m	–117	253	–262	–358	–203	–334	–890	–360	191	–1087	–541	–

Quarterly data	**Q1:24**	**Q2:24**	**Q3:24**	**Q4:24**	**Q1:25**	**Q2:25**	**Q3:25**	**Q4:25**	**Q1:26**	**Q2:26**
Westpac McDermott Miller Consumer Confidence	93.2	82.2	90.8	97.5	89.2	91.2	90.9	96.5	94.7	80.4
Quarterly Survey of Business Opinion	–27	–26	–29	–27	–22	–21	–15	–3	0	1
Unemployment rate %	4.4	4.7	4.9	5.1	5.2	5.2	5.3	5.4	5.4	5.6
CPI %yr	4.0	3.3	2.2	2.2	2.5	2.7	3.0	3.1	3.1	4.1
Real GDP %yr	1.8	1.1	0.5	–0.3	–0.9	–1.1	–0.6	0.3	0.8	–
Current account balance % of GDP	–5.7	–5.5	–5.2	–4.7	–4.2	–3.7	–3.5	–3.6	–3.6	–

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

Stimulus required …

Elliot Clarke
Head of International Economics

The Q2 GDP and the June activity data provided a mixed read on China's economy. Q2 GDP met expectations in the quarter at 0.9%qtr, but the annual rate disappointed, coming in at 4.3%yr. Year-to-date, growth is on track to meet our expectation of 4.7%ytd. However, that is towards the bottom of authorities' 4.5%–5.0% full-year guidance.

Delving into the detail, it is evident that the industrial sector continues to drive aggregate momentum. Having dipped nearly 4.0%yr in April and May, growth in industrial production rebounded to 5.3%yr in June, keeping the year-to-date pulse at 5.4%. High-tech manufacturing categories such as integrated circuits (18.8%yr) and industrial robots (28.1%yr) have supported recent gains, while motor vehicle production is unchanged over the year (-0.2%yr). That said, within the vehicle category, production of new-energy vehicles is up 29.4%yr. Mobile phone production was down 13.5%yr in June.

This rotation towards high-tech manufacturing will weigh on employment given the level of automation used in new factories as is the relocation of assembly work to neighbouring nations.

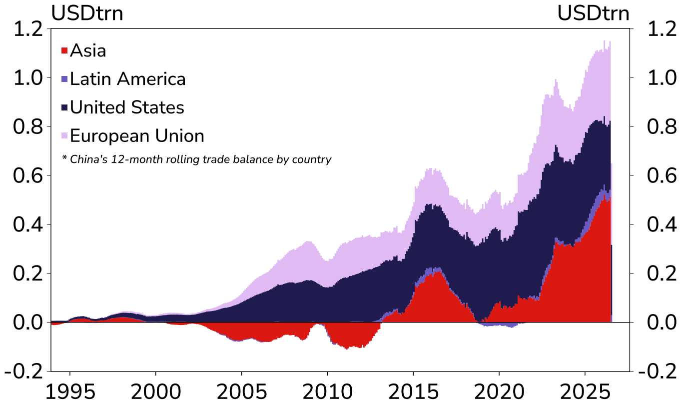
For aggregate activity though, the integration of Asian production and trade combined with rapid technological development continues to produce significant net gains for the trade position, 24%yr growth in exports and a 28%yr gain for imports leaving the monthly trade surplus at USD112.5bn in July – just inside January 2025's record high and a multiple of the surplus prior to the pandemic.

The domestic growth story, however, remains downbeat overall primarily due to declining investment. Fixed asset investment's contraction accelerated in June to -5.7%ytd from -4.1%ytd in May. Mining and transport-related investment have grown year-to-date, but manufacturing and utilities investment remain in a lull after years of rapid growth; healthcare, education, recreation and property investment meanwhile continue to decline at a rapid rate.

Of these sectors, property investment's 18.0%ytd fall is most notable, coming after declines of 11.2%ytd, 10.1%ytd and 7.9%ytd in June 2025, 2024 and 2023 respectively and despite significant support from authorities over the period. Further material losses are likely given sales of residential property were down 13.7%ytd in June and as prices are yet to stabilise. New and existing home prices fell another 0.15% and 0.32% respectively in the month after almost five consecutive years of price falls.

For the consumer though, there are some emerging positives. Having disappointed earlier in 2026, annual growth

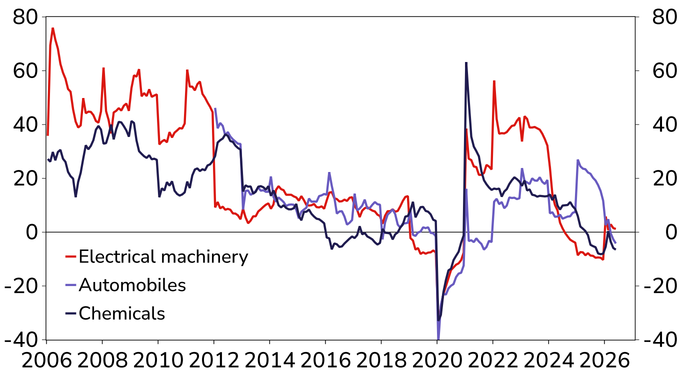
Trade surplus riding high...



Source: GAC, Macrobond, Westpac Economics

... and will spur additional investment

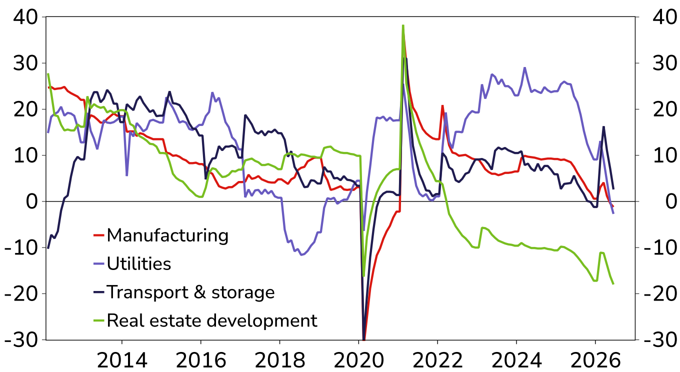
Fixed Asset Investment by Sector (%ytd)



Source: NBS, Macrobond, Westpac Economics

Property remains in a terrible state

Fixed Asset Investment by Industry (%ytd)



Source: NBS, Macrobond, Westpac Economics

… to meet full-year guidance

rebounded from -0.6%yr to +1.0%yr in June, leaving sales 1.3% higher year-to-date.

Spending by category was mixed, in part due to volatility created by several past incentive programs. The property sector's decline also continues to weigh heavily on demand for construction goods and appliances. Note though, there was some evidence of accelerating discretionary spending, likely aided by equity market gains over the past 18 months and broadly stable labour markets across the major cities and surrounding regions.

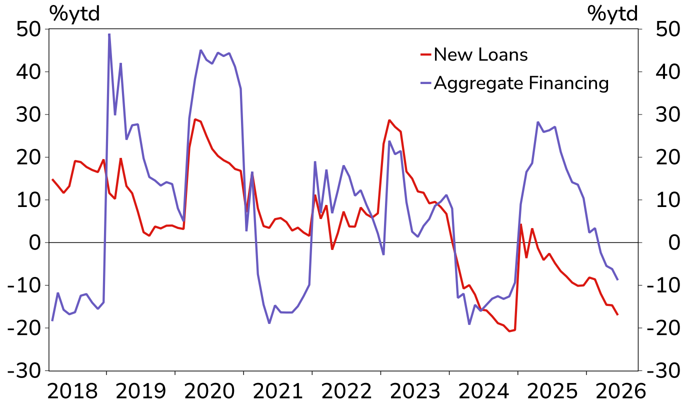
All told, Q2 GDP and the June partial data highlight China's economic resilience and offer a degree of hope that domestic demand will strengthen over the coming year(s), as authorities intend.

That said, there remains a clear disconnect between the income generated by China's major exporters and the financial prospects of the average Chinese household. Until the returns of trade are distributed more equitably to households, through wages, taxes and wealth gains, Chinese authorities need to fill the gap.

Following such significant declines across essential local infrastructure and with confidence impaired, today there is little risk of wide-spread capital misallocation or speculative excess. Pro-active support in scale via the local governments and state-owned entities is therefore the best means of accelerating the recovery.

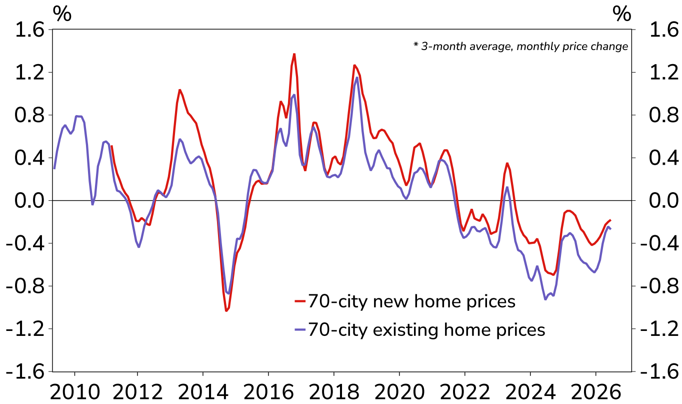
As the property sector stabilises and businesses recognise a broadening uptrend across the domestic economy, the private sector will start contributing towards growth. Our 4.7%ytd expectation for 2026 remains in place but, in the absence of immediate stimulus, it is likely to become a stretch target.

Credit impulse negative



Source: Bloomberg, Macrobond, Westpac Economics

Wealth needs support



Source: Bloomberg, Macrobond, Westpac Economics

	2025					2026						
Monthly data %yr	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Headline CPI %yr	–0.4	–0.3	0.2	0.7	0.8	0.2	1.3	1.0	1.2	1.2	1.0	0.5
M2 money supply %yr	8.8	8.4	8.2	8.0	8.5	9.0	9.0	8.5	8.6	8.6	8.0	–
Manufacturing PMI (official)	49.4	49.8	49.0	49.2	50.1	49.3	49.0	50.4	50.3	50.0	50.3	49.2
Fixed asset investment ytd %yr	0.5	–0.5	–1.7	–2.6	–3.8	–3.8	1.8	1.7	–1.6	–4.1	–5.7	–
Industrial production %yr	5.2	6.5	4.9	4.8	5.2	5.2	6.3	5.7	4.1	4.5	5.3	–
Exports %yr	4.2	8.2	–1.3	5.8	6.4	10.0	39.6	2.5	14.0	19.3	27.0	23.9
Imports %yr	1.7	8.0	1.8	2.6	6.4	26.6	14.3	28.3	25.2	27.4	36.0	27.5
Trade balance USDbn	101.0	88.7	88.0	109.9	111.9	120.6	89.9	50.0	84.6	105.2	125.6	112.5

Quarterly data	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26
Real GDP %yr	5.4	5.2	4.8	4.5	5.0	4.3
Nominal GDP %yr	4.6	3.9	3.7	3.9	4.9	5.9

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

Market uncertainty …

Elliot Clarke
Head of International Economics

Market participants continue to believe inflation is the bigger threat for the US despite a clear turn in the labour market and term interest rates that are restrictive for all but the tech sector. In our view, the greater risk comes from already-tight financial conditions whose effects are likely to compound.

The July payrolls read was a material disappointment: 23k jobs were lost in the month, against the market's expectation for an 80k gain. More telling for the underlying health of the labour market were the back revisions to May and June, which delivered a cumulative 103k downgrade after June's –74k revision. These are not one-off outcomes: over the past 18 months, revisions have been negative.

There is also a growing divergence between the establishment and household surveys. Over the past six months, the establishment survey has reported average job gains of 44k per month, while the household survey implies an average increase of 153k unemployed workers

Although the published unemployment rate has essentially remained unchanged since the beginning of 2025, this stability owes to a 1.2ppt fall in the participation rate. Had participation remained at its early 2025 level, the unemployment rate would be above 5.0%.

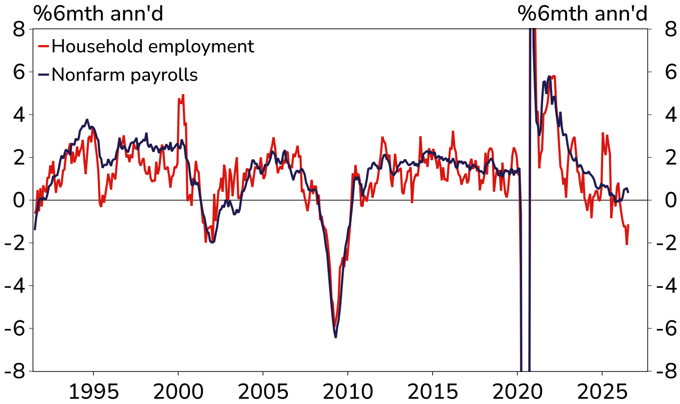
Household demand and sentiment look to be responding to underlying labour market weakness, despite historically high wealth and low debt burdens. Consumption growth has been choppy and below trend year-to-date, at around 1.9% annualised. Residential investment gained modestly in Q2, but only partly offset Q1's decline, let alone a cumulative loss of around 4% in 2025.

Businesses are also increasingly feeling households' financial constraints as reports of margin compression indicate upstream price increases can't be fully passed on. Core goods inflation has averaged 0%mth since December 2025 while core services prices have gained 0.3%mth on average, though the shelter component has contributed to half of that growth.

In the short term, policy cannot do anything about housing supply. In the medium-to-long run, investment to build more capacity will soften housing inflation, not higher interest rates. Six-month annualised inflation excluding food, energy and shelter decelerated to just 1.6% in July. Paired with a labour market that is softening, underlying inflation signals downside risks for policy in late 2026 or 2027, not justification for near-term hike(s), as participants have priced.

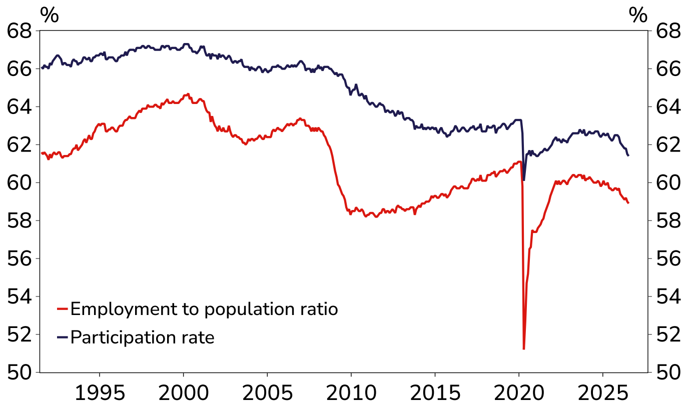
In our view, real yields give additional reason for the FOMC to take a cautious approach with policy. Since the lows of 2022,

Jobs measures differ markedly



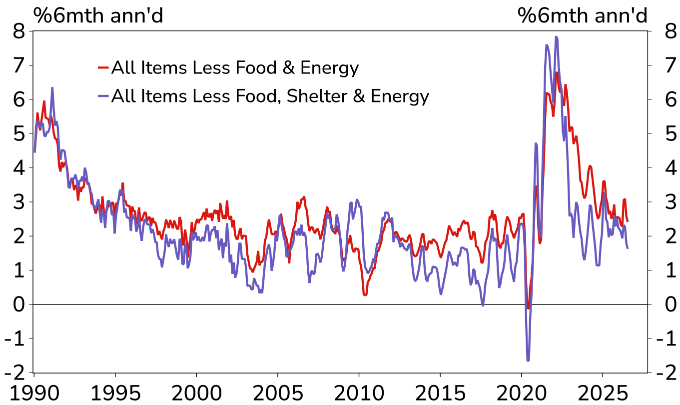
Source: BLS, Macrobond, Westpac Economics

Participation masking emerging slack



Source: BLS, Macrobond, Westpac Economics

Ex shelter, core inflation below target



Source: BLS, Macrobond, Westpac Economics

... to continue testing the FOMC

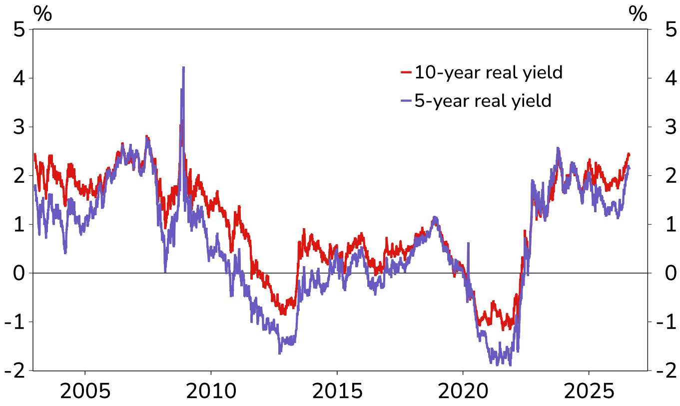
5-year and 10-year real yields have risen by more than 400bps and 300bps respectively, to levels not seen consistently since 2006 and 2007. By end-2028, we expect nominal yields to edge higher on US fiscal concerns and inflation to slip near 2.0%yr. This could lift the 10-year real yield another 50bps to near 3.0%, a rate not seen on a sustained basis since the early 2000s. The hyperscalers' investment plans are unlikely to be impacted by these developments given the sector's growth and available profit margins; but for non-tech businesses and households, term interest rates are now a material constraint.

A key area of uncertainty is whether nominal yields will fall as inflation moves towards 2.0%yr, or if inflation must undershoot the policy target for yields to correct sufficiently. If inflation risks linger alongside fiscal concerns, nominal and real yields could rise further still, creating an even larger barrier to investment into building capacity outside the AI expansion over the medium-to-long run.

For the FOMC, a definitive answer on inflation and capacity is likely to take time. In the interim, there is a need for confidence and stability.

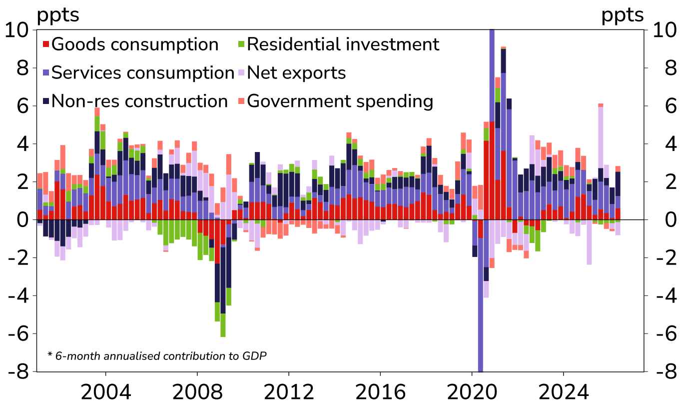
If they instead continue to eschew guidance and leave the market to find its own level, there is a non-material risk of a hike becoming necessary in late-2026 and/or early-2027, even with underlying inflation at or below target and growth sub-trend, to calm market anxiety and restore confidence. The instability and uncertainty caused by such a chain of events could compound, and both monetary and fiscal authorities have limited capacity to respond. The best course of action for the FOMC is to provide the market with the guidance it is used to on both the economy and policy decision making, at least until uncertainty abates.

Real cost of borrowing a material constraint



Source: , Macrobond, Westpac Economics

Consumer demand brittle



Source: BEA, Macrobond, Westpac Economics

	2025				2026							
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
PCE deflator %yr	2.7	2.8	2.7	2.8	2.9	2.9	2.9	3.5	3.8	4.1	3.7	–
Unemployment rate %	4.3	4.4	4.5	4.5	4.4	4.3	4.4	4.3	4.3	4.3	4.2	4.1
Nonfarm payrolls chg '000	–70	76	–140	41	–17	160	–156	214	148	63	20	–23
House prices* %yr	1.6	1.4	1.4	1.5	1.5	1.3	1.0	0.9	1.2	1.6	–	–
Durables orders core 3mth %saar	4.0	10.9	9.8	9.8	8.9	5.5	8.5	22.0	20.6	22.2	10.5	–
ISM manufacturing composite	48.9	48.9	48.8	48.0	47.9	52.6	52.4	52.7	52.7	54.0	53.3	55.6
ISM non–manufacturing composite	51.9	50.4	52.0	52.4	53.8	53.8	56.1	54.0	53.6	54.5	54.0	54.1
Personal spending 3mth %saar	7.3	6.6	5.5	4.5	4.7	3.6	4.9	7.1	8.7	9.7	6.9	–
UoM Consumer Sentiment	58.2	55.1	53.6	51.0	52.9	56.4	56.6	53.3	49.8	44.8	49.5	55.2
Trade balance USDbn	–59.6	–59.4	–37.4	–63.9	–76.1	–54.2	–55.0	–56.6	–54.6	–77.6	–73.3	–

Quarterly data	**Jun–25**	**Sep–25**	**Dec–25**	**Mar–26**	**Jun–26**	**Sep–26(f)**
Real GDP % saar	3.8	4.4	0.5	2.1	1.5	2.2
Current account USDbn	–254.9	–262.9	–221.1	–226.8	–	–

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

Asia refocuses from AI demand ...

Illiana Jain
Economist

A defining feature of Asia's growth story over the past two years has been the global build-out of AI infrastructure. Firms and governments across the region are seeking to rapidly scale their supply to meet global demand, taking advantage of decades of experience as developers and suppliers of semiconductors, electronics and capital equipment. The key question for markets is whether this wave of investment will be narrow and transitory, or can it be sustained and broaden across the economy, generating productivity and aggregate growth in the medium and long term as well as today.

South Korea provides the clearest example of this transition. Korea's technology sector is no longer a passive beneficiary of rising global demand. Corporates and the government are actively committing capital to accelerate growth. Announced investment plans from Samsung, SK Hynix and other firms total around US$500bn, while the Government's KRW105trn (US$74bn) National Growth Fund provides an additional source of support for AI-related industries. The scale of planned investment suggests the current cycle remains in its early stages rather than approaching an end.

Output already reflects success to date and the burgeoning strength of global demand. Semiconductor exports have surged nearly 200% over the past year. Capital goods imports have also risen sharply, pointing to a strong pipeline.

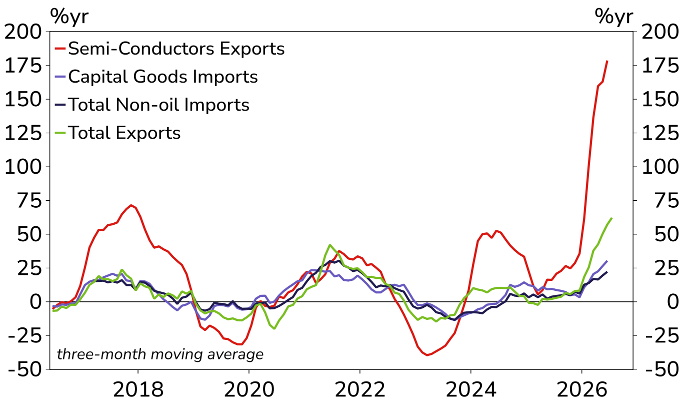
Policymakers increasingly appear to view this as a structural growth opportunity. The Bank of Korea recently revised up its 2026 growth forecast from 2.0% to 2.6%, reflecting confidence that investment in AI infrastructure will spill out to the wider economy. If sustained, the current cycle could foster an enduring increase in Korea's productive capacity and trend growth. Progress-to-date and the opportunity ahead help explain why policymakers have shown a greater willingness to maintain tighter monetary settings despite softness elsewhere in the economy.

The Japanese experience differs in construction but offers a similar conclusion.

Japan's investment cycle is increasingly being driven by necessity. Structural labour shortages remain widespread despite rising participation among women and older workers, forcing firms to invest more heavily in labour-saving and productivity-enhancing technologies. While the Tankan survey showed some moderation in manufacturing R&D spending in Q2, investment intentions among service firms continued to strengthen.

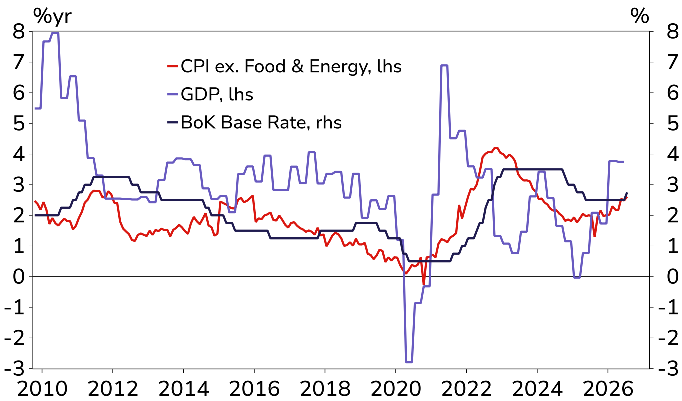
The return of inflation adds another dimension. For much of the past three decades, firms operated in an environment

South Korea is just getting started



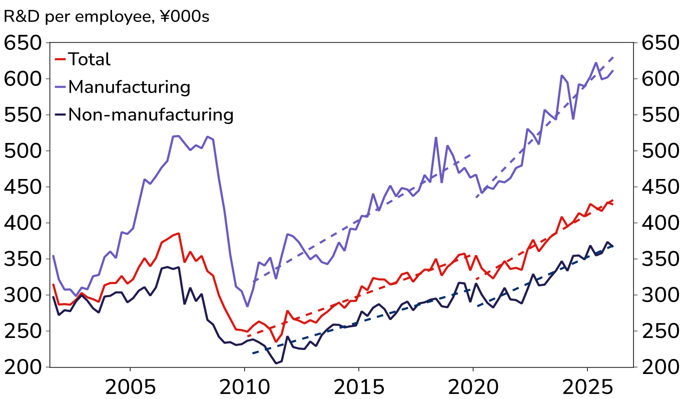
Source: KCS, Macrobond, Westpac Economics

Tech is turbocharging Korean growth



Source: MODS, BOK, Macrobond, Westpac Economics

Labour saving investment is accelerating



Source: MOF, Macrobond, Westpac Economics

... to AI investment

where raising prices was difficult, limiting the incentive to invest. Today, businesses can be more confident that productivity-enhancing investment will generate future returns through both higher sales volumes and prices. This is particularly important for an economy that is unlikely to compete on labour costs and must increasingly rely on productivity gains to sustain growth as the population shrinks.

Corporate profitability is currently strong, providing firms with significant capacity to invest and raise wages. The missing piece for households has been real income growth which, until recently, lagged nominal wage gains. Encouragingly, this is beginning to change, with real wages rising 1.4%yr in June.

For the Bank of Japan, this is an important distinction. Inflation driven by temporary cost pressures is unlikely to justify a sustained normalisation cycle. Inflation underpinned by productivity growth, stronger wages and consumption is fundamentally different. The combination of profits, investment and labour market tightness therefore provides greater confidence that Japan's economic transformation still has further to run, and that the policy rate can edge up over time. We anticipate 1.50% by the end of 2027.

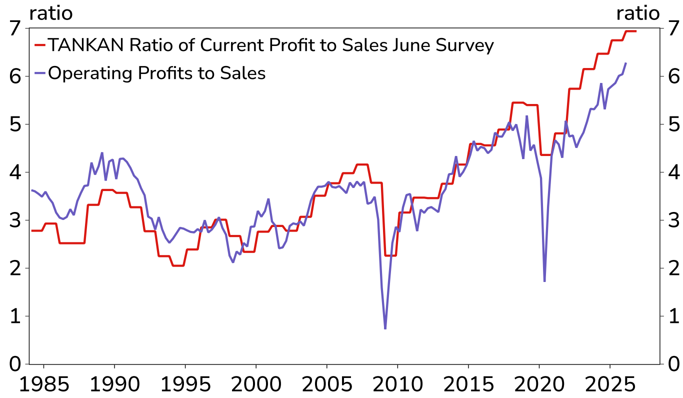
China, in contrast, highlights the trap inherent with successful investment-led growth.

Industrial activity remains strong, and production is increasingly concentrated in technologically-advanced, industries with growing margins such as integrated circuits, industrial robots and new energy vehicles. These sectors continue to drive output growth and export performance, helping maintain China's position in global manufacturing.

But these industries are far more capital intensive and automated than the sectors which powered previous industrial expansions. Stronger production therefore generates fewer opportunities for employment and household income today than in the past. This helps explain the divergence between China's industrial sector and household demand. China still has plenty of scope to profit from technological innovation and trade, but the rest of the economy must benefit as well if production's windfall is to endure.

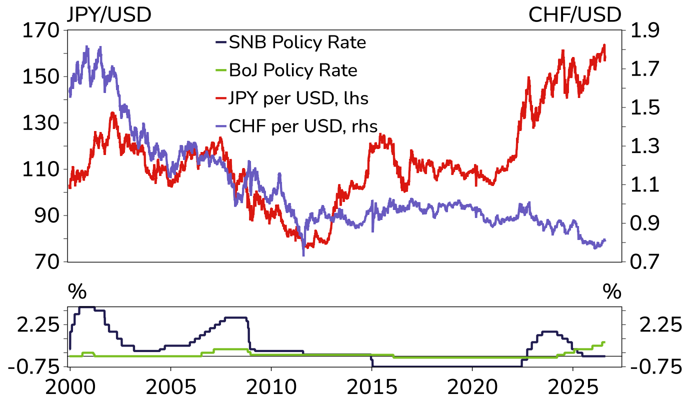
The primary implication then is that Asia is becoming increasingly differentiated. Some economies are successfully translating investment into broader productivity gains and household incomes, while others remain reliant on simply expanding production and exports. Those able to translate industrial investment into economy-wide productivity gains and stronger incomes will see markedly improved standards of living in the long run. Those who continue to rely on a narrow growth base risk a fleeting boom.

Stronger profit to support wage growth



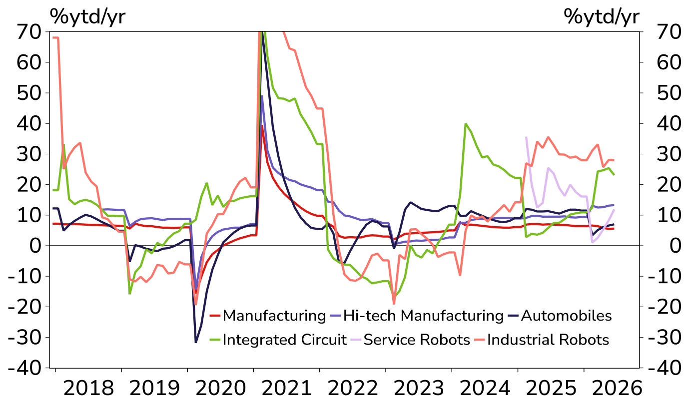
Source: BOJ, MOF, Macrobond, Westpac Economics

Lower policy rates aren't the whole story



Source: Macrobond, SNB, BOJ, Macrobond, Westpac Economics

Chinese manufacturers are going dark



Source: NBS, Macrobond, Westpac Economics

Markets expect further tightening ...

Mantas Vanagas
Senior Economist

The US-Iran conflict continues to disrupt energy supplies from the Middle East, posing upside risks to the inflation outlook across most major advanced economies. Against this backdrop, the latest policy announcements from the European Central Bank (ECB) and the Bank of England (BoE) maintained a hawkish tone, emphasising both their readiness to act and vigilance around second-round inflation effects. Financial markets also appear convinced that modest further tightening of monetary policy will be required before year-end across the major advanced economies.

Interestingly, market expectations have converged around one additional rate hike not only in the euro area and the UK, but also in the US, Canada, Japan and Australia. This degree of uniformity is striking given the very different policy positions before the conflict began in February. For example, prior to the conflict, the BoE was expected to cut twice more in 2026 following a cumulative 150bps of easing through 2024-25.

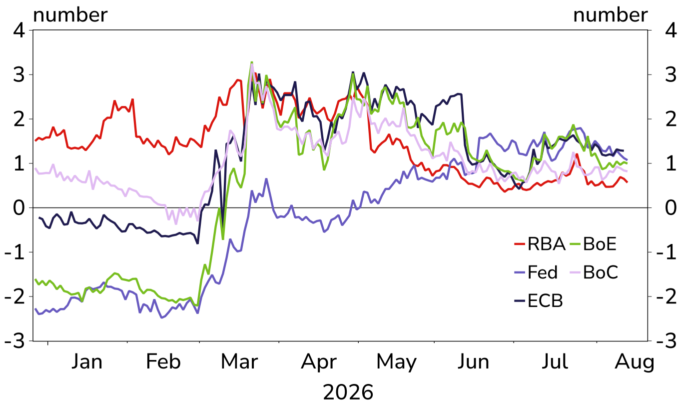
The ECB, however, appeared comfortable leaving policy unchanged this year having eased rates to its estimate of neutral in the first half of 2025. President Lagarde famously stated that the ECB was in a "good place", with inflation expected to remain at or very close to the 2% target over the medium term.

That assessment changed in June, when the Governing Council raised policy rates by 25bps, taking the Deposit Rate to 2.25%. The accompanying communication made it clear that the decision was a response to the energy price shock and its potential second-round impacts. Following the latest policy meeting in July, the ECB maintained that stance, emphasising that "the full inflationary impact of the energy shock has yet to play out" and that risks to the inflation outlook remain skewed to the upside.

With no end to the Middle East conflict in sight, we think those risks are likely to remain too elevated for the Governing Council to tolerate. As a result, we anticipate another rate hike at the September meeting, pushing monetary policy more decisively into restrictive territory to offset any lingering inflation risks stemming from the conflict. While it is not our base case, additional tightening beyond September cannot be ruled out to maintain inflation at 2% over the medium term.

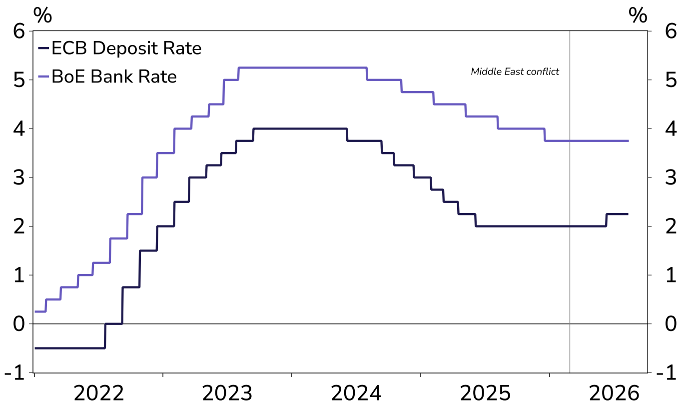
The BoE, however, finds itself in a very different position. The latest meeting at the end of July concluded with three of the nine Monetary Policy Committee members voting for a rate hike. The communication remained hawkish, continuing to focus on developments in the Middle East and emphasising that the future policy stance will depend on the scale, duration and

Number of rate hikes expected by end-2026



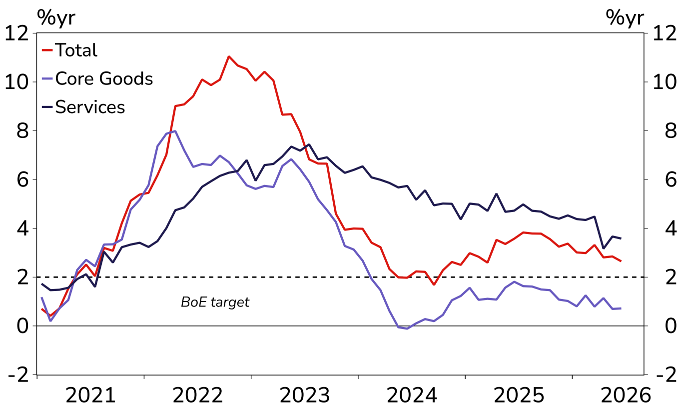
Source: RBA, ECB, Macrobond, Westpac Economics

Central bank policy rates



Source: RBA, ECB, BoE, Macrobond, Westpac Economics

UK CPI Components



Source: ONS, Macrobond, Westpac Economics

... but will the BoE walk the talk?

economic impact of the conflict. The concluding line of the statement – "the Committee stands ready to act as necessary to meet the 2% target" – again underscored that further tightening remains a live option.

However, the underlying economic picture is becoming increasingly inconsistent with a higher Bank Rate. Most notably, the latest UK CPI data surprised significantly to the downside, with annual inflation slowing from 2.8%yr to 2.6%yr, well below the 3%yr pace seen at the start of the year. Food and energy prices were the main contributors, but services inflation also eased by 0.1ppt to 3.6%yr, leaving it 0.9ppts below its March peak. Higher energy prices are still expected to push headline inflation back above 3% in Q4. However, according to the BoE's latest projections, inflation should then fall to 1.7% in H1 2028 and, crucially for monetary policy, remain below the 2% target over the medium term.

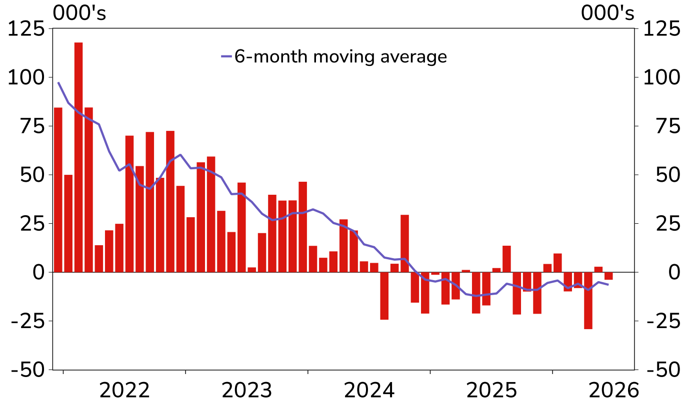
A significant part of the disinflationary trend reflects weakness in the labour market, where the BoE sees "a degree of spare capacity". While headline three-month average weekly earnings growth has generally held above 4.0%yr this year, much of the momentum is being driven by the public sector, partly due to pay rises in healthcare. Growth in private-sector regular wages has meanwhile slowed to just 2.9%yr in May, down 2ppts from a year earlier and well below the BoE's estimate of the target-consistent pace of 3¼%.

The latest UK GDP reading – a 0.4%qtr increase in Q2 following a 0.6%qtr rise in Q1 – gives the impression of a notable acceleration from the 0.1%qtr average growth seen in the second half of 2025. However, the BoE believes underlying momentum in the economy is much softer, and well below the 0.3-0.4%qtr potential growth rate.

With regards to the implications for policy, Governor Bailey previously characterised the current stance as an "active hold", with the shift in market expectations helping dampen inflationary pressures. We expect the BoE will use hawkish communication in the near term to keep financial conditions restrictive.

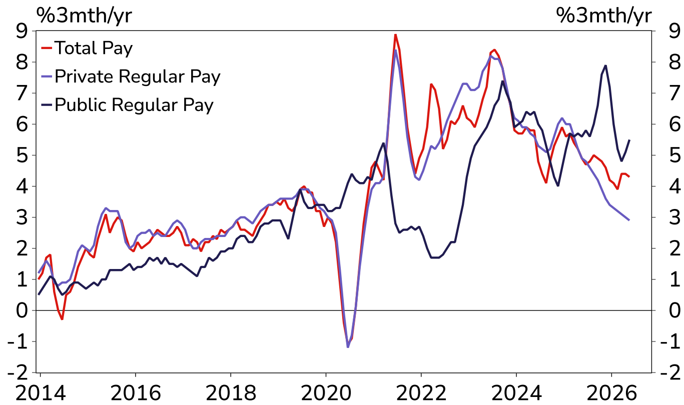
That said, absent a further inflationary impulse from higher energy prices, the domestic disinflation is likely to become harder to reconcile with this stance. With the Bank Rate at 3.75%, policy remains well above neutral and should be sufficient to offset the risk of second-round effects. Once that becomes evident, we may see the MPC favour a cut over markets' expectation of a hike.

UK Payroll employees - monthly change



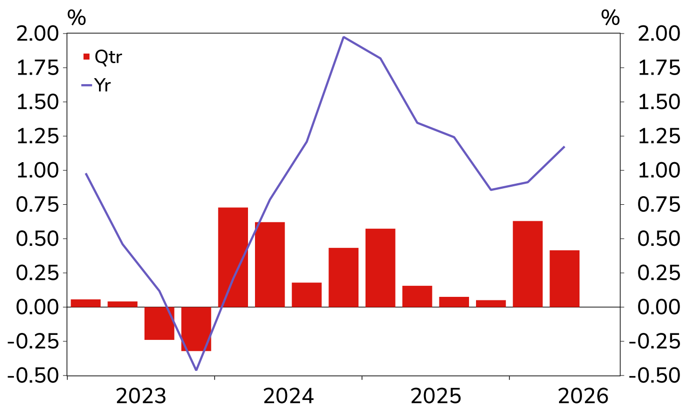
Source: ONS, Macrobond, Westpac Economics

UK Average Weekly Earnings



Source: ONS, Macrobond, Westpac Economics

UK GDP



Source: ONS, Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Cash	4.35	4.35	4.35	4.35	4.35	4.10	3.85	3.60	3.60	3.60	3.60
90 Day BBSW	4.51	4.46	4.46	4.46	4.26	4.01	3.76	3.61	3.71	3.70	3.70
3 Year Swap	4.49	4.50	4.45	4.40	4.30	4.20	4.10	4.05	4.00	3.95	3.90
3 Year Bond	4.49	4.50	4.45	4.40	4.30	4.20	4.10	4.05	4.00	3.95	3.90
10 Year Bond	4.98	4.95	4.85	4.75	4.65	4.65	4.65	4.65	4.65	4.65	4.65
10 Year Spread to US (bps)	34	30	25	20	10	5	0	–5	–10	–15	–20

Currency forecasts

	Latest (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
AUD vs											
USD	0.7062	0.71	0.72	0.72	0.73	0.73	0.73	0.73	0.72	0.72	0.72
JPY	112.63	115	115	115	115	114	112	110	109	107	106
EUR	0.6124	0.61	0.61	0.61	0.61	0.61	0.60	0.60	0.60	0.60	0.60
NZD	1.2069	1.20	1.19	1.16	1.14	1.12	1.11	1.10	1.10	1.10	1.10
CAD	0.9836	0.99	0.99	0.99	0.99	0.99	0.98	0.97	0.96	0.96	0.96
GBP	0.5236	0.53	0.53	0.53	0.53	0.53	0.53	0.52	0.52	0.52	0.52
CHF	0.5749	0.57	0.57	0.56	0.56	0.55	0.55	0.54	0.54	0.54	0.54
DKK	4.5778	4.57	4.57	4.56	4.59	4.55	4.51	4.47	4.45	4.46	4.48
SEK	6.7539	6.77	6.80	6.81	6.87	6.84	6.82	6.76	6.75	6.77	6.80
NOK	6.7138	6.73	6.76	6.77	6.83	6.80	6.77	6.72	6.71	6.73	6.76
ZAR	11.43	11.5	11.5	11.5	11.6	11.6	11.6	11.7	11.7	11.7	11.7
SGD	0.9043	0.91	0.91	0.91	0.92	0.92	0.92	0.91	0.91	0.91	0.91
HKD	5.5421	5.56	5.60	5.62	5.69	5.69	5.68	5.64	5.62	5.61	5.61
PHP	43.25	43.1	43.0	42.5	42.3	41.6	40.9	39.9	39.1	39.1	39.1
THB	23.43	23.1	22.9	22.7	22.6	22.4	22.2	21.9	21.7	21.7	21.7
MYR	2.8840	2.84	2.83	2.81	2.85	2.81	2.81	2.80	2.75	2.75	2.75
CNY	4.7597	4.79	4.80	4.75	4.75	4.71	4.67	4.61	4.60	4.56	4.56
IDR	12625	12496	12387	12240	12191	11972	11899	11761	11656	11636	11636
TWD	22.71	22.4	22.2	22.0	21.9	21.5	21.2	20.7	20.4	20.4	20.4
KRW	1002	1008	1010	1008	1015	1007	1000	987	970	967	967
INR	67.36	67.5	67.7	67.7	67.9	67.2	66.4	65.3	64.4	63.7	63.0

Australia

Activity forecasts

	2026				2027				Calendar years			
%qtr / %yr end	Q1	Q2(f)	Q3(f)	Q4(f)	Q1(f)	Q2(f)	Q3(f)	Q4(f)	2025	2026(f)	2027(f)	2028(f)
Household consumption	0.6	0.2	0.4	0.4	0.4	0.5	0.5	0.6	2.4	1.6	2.0	3.3
Dwelling investment	0.5	1.3	1.0	0.9	0.8	0.8	0.9	0.7	5.5	3.8	3.2	5.5
Business investment *	5.9	0.3	3.8	1.5	3.7	1.1	1.3	1.1	4.4	11.9	7.3	4.5
Private demand *	1.4	0.2	0.7	0.6	1.1	0.6	0.7	0.7	3.2	3.0	3.1	3.7
Public demand *	0.1	0.8	0.6	0.6	0.6	0.6	0.6	0.6	2.1	2.1	2.4	2.6
Domestic demand	1.0	0.4	0.7	0.6	0.9	0.6	0.7	0.6	2.9	2.8	2.9	3.4
Stock contribution	0.0	–0.1	–0.1	0.0	0.0	–0.1	0.0	0.0	0.1	–0.2	–0.1	0.1
GNE	1.0	0.3	0.6	0.6	0.9	0.6	0.6	0.7	3.0	2.6	2.8	3.4
Exports	–1.1	0.7	0.4	0.4	0.6	0.7	0.6	0.6	5.2	0.4	2.5	2.4
Imports	1.8	1.2	2.2	1.9	2.6	1.7	1.6	1.5	6.7	7.2	7.6	5.8
Net exports contribution	–0.7	–0.1	–0.4	–0.4	–0.5	–0.3	–0.3	–0.2	–0.3	–1.6	–1.3	–0.9
Real GDP %qtr / %yr avg	**0.3**	**0.2**	**0.2**	**0.3**	**0.4**	**0.4**	**0.4**	**0.4**	**2.0**	**1.7**	**1.3**	**2.2**
%yr end	**2.4**	**1.7**	**1.5**	**1.0**	**1.1**	**1.3**	**1.4**	**1.5**	**2.6**	**1.0**	**1.5**	**2.5**
Nominal GDP %qtr / %yr avg	0.6	0.1	1.2	1.1	0.5	0.8	0.7	0.8	4.7	4.2	3.1	4.3
%yr end	5.3	4.6	3.9	3.0	2.9	3.6	3.2	2.9	6.1	3.0	2.9	5.1
Real household disp. income	–0.2	–0.1	1.8	–1.5	0.7	0.6	1.5	0.0	3.8	0.0	2.8	2.8

Other macroeconomic variables

	2026				2027				Calendar years			
% change	Q1	Q2(f)	Q3(f)	Q4(f)	Q1(f)	Q2(f)	Q3(f)	Q4(f)	2025	2026(f)	2027(f)	2028(f)
Employment %qtr **	0.6	0.3	0.6	0.3	0.4	0.5	0.6	0.5	–	–	–	–
%yr end **	1.5	1.1	1.7	1.8	1.6	1.9	1.8	2.0	1.1	1.8	2.0	2.6
Unemployment rate % **	4.2	4.4	4.6	4.8	4.9	4.9	4.8	4.8	4.3	4.8	4.8	4.5
Wages (WPI) %qtr	0.8	0.8	1.0	0.8	0.8	0.8	0.8	0.8	–	–	–	–
%yr end	3.3	3.2	3.4	3.4	3.4	3.4	3.2	3.2	3.4	3.4	3.2	3.4
Headline CPI %qtr	1.4	0.6	1.1	0.8	0.6	0.6	0.8	0.5	–	–	–	–
%yr end	4.1	3.9	3.7	3.9	3.1	3.2	2.9	2.6	3.6	3.9	2.6	2.4
Trimmed Mean CPI %qtr	0.8	0.8	0.8	0.8	0.8	0.7	0.6	0.6	–	–	–	–
%yr end	3.5	3.6	3.5	3.3	3.2	3.1	2.9	2.7	3.3	3.3	2.7	2.4
Current account $bn, qtr	–27.1	–33.5	–30.8	–33.3	–37.6	–39.0	–42.4	–42.6	–	–	–	–
% of GDP	–3.7	–4.5	–4.1	–4.4	–5.0	–5.1	–5.5	–5.5	–3.1	–4.4	–5.5	–5.1
Terms of trade %yr avg	–1.2	–0.7	–0.8	–0.7	–1.8	–2.1	–3.0	–4.1	–2.5	–0.7	–4.1	–1.8
Population growth %yr end	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.5	1.5	1.4	1.4

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

	2025					2026						
Monthly data	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CPI %yr	3.2	3.6	3.8	3.4	3.8	3.8	3.7	4.6	4.2	4.0	3.8	–
Employment '000 chg	–13.1	9.9	33.6	–38.1	57.7	36.4	22.9	20.3	–38.6	44.0	76.3	–
Unemployment rate %	4.2	4.5	4.3	4.3	4.1	4.1	4.3	4.3	4.5	4.4	4.4	–
Westpac–MI Consumer Sentiment	98.5	95.4	92.1	103.8	94.5	92.9	90.5	91.6	80.2	83.0	80.6	83.9
Household spending %mth	–0.1	0.3	1.4	0.9	–0.4	0.2	0.3	1.7	–1.0	1.2	0.8	–
Dwelling approvals %mth	–4.3	18.4	–10.2	15.9	–15.8	–13.3	44.2	–13.1	0.5	–1.6	7.2	–
Private sector credit %mth	0.6	0.6	0.7	0.7	0.8	0.5	0.7	0.7	0.7	0.7	0.8	–
Trade in goods balance AUDbn	0.9	3.4	4.4	2.3	3.5	2.4	5.1	–1.7	1.6	–2.4	1.9	–

New Zealand

Interest rate forecasts

	Latest	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Cash	2.50	2.75	3.00	3.50	3.75	4.00	4.00	4.00	4.00	3.75	3.75
90 Day Bill	2.95	3.00	3.40	3.75	4.00	4.20	4.20	4.20	4.15	3.95	3.95
2 Year Swap	3.60	3.70	3.95	4.10	4.25	4.20	4.20	4.15	4.15	4.10	4.10
10 Year Bond	4.65	4.65	4.65	4.80	5.00	5.05	5.05	5.05	5.05	5.05	5.05
10 Year Spread to US	1	0	5	25	45	45	40	35	30	25	20
10 Year Spread to Aust	–33	–30	–20	5	35	40	40	40	40	40	40

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
NZD vs											
USD	0.5852	0.59	0.60	0.62	0.64	0.65	0.66	0.66	0.66	0.66	0.66
JPY	93.32	96	96	99	101	101	102	100	99	98	96
EUR	0.5074	0.51	0.51	0.53	0.54	0.54	0.55	0.54	0.54	0.54	0.55
AUD	0.8286	0.83	0.84	0.86	0.88	0.89	0.90	0.91	0.91	0.91	0.91
CAD	0.8150	0.82	0.83	0.85	0.87	0.88	0.88	0.88	0.87	0.87	0.87
GBP	0.4338	0.44	0.44	0.46	0.47	0.47	0.47	0.47	0.47	0.47	0.47
CNY	3.9464	3.98	4.02	4.09	4.16	4.19	4.22	4.19	4.19	4.16	4.16

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2026				2027				Calendar years			
% change	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2025**	**2026f**	**2027f**	**2028f**
Private consumption	0.5	0.0	0.6	0.8	0.9	1.0	1.0	1.0	1.4	1.0	3.3	4.0
Government consumption	1.5	0.2	0.3	0.3	0.3	0.3	0.6	0.5	2.5	4.3	1.4	2.2
Residential investment	–3.1	3.0	3.0	1.0	1.3	1.8	2.3	2.5	–5.4	1.5	7.5	9.2
Business investment	3.7	1.0	0.8	1.5	1.6	1.4	1.1	0.9	0.5	4.5	5.3	4.0
Stocks (ppt contribution)	0.0	0.0	0.0	–0.1	0.2	0.0	0.1	–0.1	–0.1	0.5	0.1	–0.1
GNE	0.9	0.3	0.7	0.7	1.1	0.9	1.0	0.9	0.9	2.9	3.6	3.8
Exports	3.1	–0.5	–0.4	0.5	1.0	1.1	0.9	0.8	2.8	4.0	2.5	3.1
Imports	4.2	–0.4	0.2	0.7	1.3	2.3	2.1	1.4	3.3	5.2	4.8	4.9
GDP (production)	0.8	–0.1	0.6	0.7	1.0	0.5	0.6	0.7	0.3	1.9	2.6	3.2
Employment annual %	0.5	1.2	1.7	1.8	2.3	2.5	2.6	2.6	0.2	1.8	2.6	2.3
Unemployment rate % s.a.	5.4	5.6	5.5	5.4	5.3	5.2	5.1	4.9	5.4	5.4	4.9	4.4
LCI, all sect incl o/t, ann %	2.0	2.0	2.2	2.4	2.5	2.4	2.4	2.4	2.0	2.4	2.4	2.3
CPI annual %	3.1	4.1	3.7	3.5	3.1	1.8	1.9	1.9	3.1	3.5	1.9	2.0
Current account % of GDP	–3.6	–3.7	–3.9	–3.9	–3.8	–3.9	–3.9	–3.9	–3.6	–3.9	–3.9	–3.6
Terms of trade annual %	2.0	–0.5	1.1	0.6	3.3	2.4	2.6	3.9	3.4	0.6	3.9	2.5

Sources: Statistics NZ, Westpac Economics.

Commodity prices

Quarter average	Latest (7 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Australian commodities index#	386	395	389	375	364	359	351	348	346	344	344
Bulk commodities index#	**372**	**377**	**364**	**344**	**329**	**329**	**331**	**333**	**335**	**337**	**339**
iron ore finesTSI @ 62% US$/t	96	100	97	89	83	83	83	84	84	85	86
Premium low vol met coal (US$/t)	214	205	197	188	184	186	187	189	190	191	192
Newcastle spot thermal coal (US$/t)	130	130	126	124	122	122	122	123	124	124	125
crude oil (US$/bbl) Brent	81	83	81	80	77	74	69	65	62	60	59
LNG in Japan US$mmbtu	21.1	18.5	17.9	16.8	15.7	15.0	13.0	12.4	11.6	10.8	10.5
gold (US$/oz)	4,193	4,350	4,510	4,460	4,440	4,420	4,390	4,420	4,450	4,480	4,510
Base metals index#	**271**	**265**	**259**	**248**	**244**	**241**	**237**	**233**	**229**	**227**	**226**
copper (US$/t)	14,148	13,800	13,110	12,060	11,820	11,700	11,640	11,580	11,520	11,490	11,470
aluminium (US$/t)	3,245	3,310	3,380	3,400	3,360	3,290	3,200	3,080	3,000	2,940	2,910
nickel (US$/t)	16,863	17,070	16,980	17,150	17,280	17,370	17,450	17,540	17,630	17,720	17,800
zinc (US$/t)	3,765	3,590	3,540	3,470	3,360	3,240	3,110	2,940	2,810	2,730	2,680
lead (US$/t)	1,847	1,900	1,900	1,910	1,930	1,940	1,960	1,910	1,880	1,850	1,840
Rural commodities index#	**149**	**142**	**145**	**144**	**140**	**134**	**128**	**122**	**117**	**114**	**112**
NZ commodities index ##	**390**	**395**	**401**	**404**	**407**	**410**	**414**	**415**	**416**	**416**	**417**
dairy price index ##	312	317	320	325	331	337	344	347	349	351	352
whole milk powder USD/t	3,425	3,480	3,500	3,530	3,580	3,640	3,720	3,770	3,810	3,850	3,890
skim milk powder USD/t	3,135	3,220	3,140	3,110	3,140	3,180	3,230	3,270	3,300	3,330	3,370
lamb price index ##	677	681	683	681	677	673	669	662	654	646	638
beef price index ##	394	389	408	407	408	408	408	407	405	402	400
forestry price index ##	164	161	159	160	160	160	161	161	162	163	164

	levels				% change			
Annual averages	**2025**	**2026(f)**	**2027(f)**	**2028(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Australian commodities index#	**324**	**397**	**362**	**346**	**4.1**	**22.9**	**–8.9**	**–4.6**
Bulk commodities index#	**378**	**386**	**333**	**336**	**–12.7**	**2.3**	**–13.8**	**0.8**
iron ore finesTSI @ 62% US$/t	102	102	85	85	-6.8	0.5	–17.1	0.0
Premium low vol met coal (US$/t)	189	218	186	190	–22.5	15.6	–14.5	2.3
Newcastle spot thermal coal (US$/t)	106	128	123	124	–21.6	20.5	-4.1	0.8
crude oil (US$/bbl) Brent	68	84	75	62	–14.6	22.8	–10.7	–18.0
LNG in Japan US$mmbtu	12.3	16.8	15.1	11.3	3.1	37.2	–10.0	–25.2
gold (US$/oz)	3,440	4,560	4,430	4,470	43.9	32.6	–2.9	0.9
Base metals index#	**208**	**260**	**243**	**229**	**3.0**	**25.1**	**–6.8**	**–5.8**
copper (US$/t)	9,960	13,280	11,810	11,510	8.6	33.3	–11.1	–2.5
aluminium (US$/t)	2,630	3,360	3,310	2,980	8.2	27.8	–1.5	–10.0
nickel (US$/t)	15,200	17,390	17,310	17,670	–9.9	14.4	–0.5	2.1
zinc (US$/t)	2,860	3,460	3,300	2,790	2.5	21.0	–4.6	–15.5
lead (US$/t)	1,970	1,920	1,930	1,870	–5.3	–2.5	0.5	–3.1
Rural commodities index#	**120**	**141**	**136**	**116**	**-4.9**	**17.4**	**-3.2**	**-14.6**
NZ commodities index ##	**390**	**400**	**409**	**416**	**9.2**	**2.4**	**2.3**	**1.8**
dairy price index ##	348	326	334	350	9.7	–6.4	2.5	4.6
whole milk powder USD/t	3902	3572	3617	3829	13.5	–8.4	1.3	5.9
skim milk powder USD/t	2702	3192	3165	3319	0.6	18.1	–0.8	4.8
lamb price index ##	587	669	675	650	27.0	13.9	0.9	–3.6
beef price index ##	337	396	408	403	19.1	17.3	3.1	–1.1
forestry price index ##	152	159	160	162	–4.9	4.7	0.9	1.4

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

United States

Interest rate forecasts

	Latest (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Fed Funds*	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625
10 Year Bond	4.64	4.65	4.60	4.55	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 (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
USD vs											
DXY index	99.96	99.8	98.9	98.2	97.3	96.5	95.6	95.0	94.7	94.7	94.7
JPY	159.46	162	160	160	158	156	154	152	150	148	146
EUR	1.1533	1.16	1.17	1.18	1.19	1.20	1.21	1.22	1.22	1.21	1.21
AUD	0.7062	0.71	0.72	0.72	0.73	0.73	0.73	0.73	0.72	0.72	0.72
NZD	0.5852	0.59	0.60	0.62	0.64	0.65	0.66	0.66	0.66	0.66	0.66
CAD	1.3928	1.39	1.38	1.37	1.36	1.35	1.34	1.33	1.32	1.32	1.32
GBP	1.3489	1.35	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.40
CHF	0.8141	0.80	0.79	0.78	0.77	0.76	0.75	0.75	0.75	0.75	0.75
ZAR	16.19	16.1	16.1	16.0	15.9	15.9	15.9	16.1	16.1	16.1	16.1
SGD	1.2804	1.28	1.27	1.27	1.26	1.26	1.25	1.25	1.25	1.25	1.25
HKD	7.8474	7.83	7.82	7.81	7.80	7.79	7.78	7.77	7.76	7.75	7.75
PHP	61.35	60.7	60.0	59.0	58.0	57.0	56.0	55.0	54.0	54.0	54.0
THB	33.18	32.6	32.0	31.5	31.0	30.7	30.4	30.2	30.0	30.0	30.0
MYR	4.0866	4.00	3.95	3.90	3.90	3.85	3.85	3.85	3.80	3.80	3.80
CNY	6.7449	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35	6.30	6.30
IDR	17877	17600	17300	17000	16700	16400	16300	16200	16100	16072	16072
TWD	32.16	31.5	31.0	30.5	30.0	29.5	29.0	28.5	28.2	28.2	28.2
KRW	1418	1420	1410	1400	1390	1380	1370	1360	1340	1336	1336
INR	95.45	95.0	94.5	94.0	93.0	92.0	91.0	90.0	89.0	88.0	87.0

Activity forecasts

	2026				2027				Calendar years			
% annualised, s/adj	**Q1**	**Q2**	**Q3(f)**	**Q4(f)**	**Q1(f)**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Private consumption	0.5	3.2	1.2	1.3	1.9	2.0	2.1	2.1	2.6	1.9	1.8	2.1
Dwelling investment	–7.8	1.5	0.0	0.8	0.8	1.2	1.6	2.0	–2.2	–3.2	1.0	2.0
Business investment	10.6	8.4	6.6	5.7	5.3	4.8	4.7	4.7	4.1	6.7	5.5	4.7
Public demand	4.4	–0.8	0.4	0.4	0.4	0.4	0.4	0.4	1.1	0.2	0.3	0.4
Domestic final demand	2.3	3.3	1.8	1.8	2.2	2.2	2.2	2.2	2.4	2.2	2.1	2.2
Inventories contribution ppt	–0.8	–0.1	0.1	0.1	0.1	0.2	0.0	0.0	–0.1	0.1	0.0	0.1
Net exports contribution ppt	1.6	–0.1	–0.6	–0.7	–0.7	–0.5	–0.4	–0.5	0.4	–0.7	–0.5	–0.5
GDP	2.1	1.5	2.2	1.5	1.9	1.9	1.8	1.8	2.1	2.0	1.8	1.9
%yr annual chg	2.7	2.1	1.6	1.8	1.8	1.9	1.8	1.8	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	43	96	90	80	90	100	105	110	26	98	108	120
Unemployment rate %	4.3	4.3	4.4	4.4	4.5	4.5	4.6	4.6	4.3	4.4	4.6	4.5
CPI headline %yr	2.7	3.9	3.5	3.2	2.9	2.3	2.3	2.2	2.7	3.4	2.4	2.2
PCE deflator, core %yr	3.1	3.3	3.1	3.0	2.7	2.4	2.3	2.2	2.8	3.1	2.4	2.2

Sources: Official agencies, Factset, Westpac Economics.

Europe & the United Kingdom

Interest rate forecasts

	Latest (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Euro Area											
ECB Deposit Rate	2.25	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.00
10 Year Bund	3.13	3.15	3.10	3.00	2.95	2.95	2.95	2.95	2.95	2.95	2.95
10 Year Spread to US	–151	–150	–150	–155	–160	–165	–170	–175	–180	–185	–190
United Kingdom											
BoE Bank Rate	3.75	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.95	5.00	4.95	4.85	4.80	4.80	4.80	4.80	4.80	4.80	4.80
10 Year Spread to US	31	35	35	30	25	20	15	10	5	0	–5

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
euro vs											
USD	1.1533	1.16	1.17	1.18	1.19	1.20	1.21	1.22	1.22	1.21	1.21
JPY	183.92	188	187	189	188	187	186	185	182	179	177
GBP	0.8550	0.86	0.87	0.87	0.87	0.87	0.87	0.87	0.86	0.86	0.86
CHF	0.9388	0.92	0.92	0.92	0.92	0.91	0.91	0.91	0.91	0.91	0.91
DKK	7.4755	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47
SEK	11.03	11.1	11.1	11.2	11.2	11.3	11.3	11.3	11.3	11.3	11.3
NOK	10.96	11.0	11.0	11.1	11.1	11.2	11.2	11.3	11.3	11.3	11.3
sterling vs											
USD	1.3489	1.35	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.40
JPY	215.11	218	216	218	216	215	214	213	211	208	204
CHF	1.0981	1.07	1.07	1.06	1.05	1.05	1.04	1.04	1.05	1.05	1.05
AUD	0.5236	0.53	0.53	0.53	0.53	0.53	0.53	0.52	0.52	0.52	0.52

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2022	2023	2024	2025	2026(f)	2027(f)	2028(f)
Euro area GDP	3.7	0.6	1.0	1.3	0.8	1.2	1.5
private consumption	5.3	0.6	1.3	1.4	1.1	1.1	1.4
fixed investment	2.3	2.8	–2.3	3.0	1.1	1.9	2.3
government consumption	1.3	1.5	2.3	1.4	2.3	2.1	2.0
net exports contribution ppt	–0.1	0.3	0.3	–0.6	–0.3	0.0	–0.3
Germany GDP	2.0	–0.8	0.0	0.3	0.9	1.1	1.7
France GDP	2.8	1.8	1.4	0.9	0.6	0.9	1.2
Italy GDP	5.0	1.0	0.6	0.7	0.9	0.7	1.0
Spain GDP	6.4	2.5	3.5	2.8	2.5	2.0	2.1
Netherlands GDP	5.0	–0.6	1.1	1.6	1.3	1.2	1.6
United Kingdom GDP	5.1	0.3	1.0	1.3	1.2	1.1	1.5

Asia

China activity forecasts

Calendar years	2021	2022	2023	2024	2025	2026(f)	2027(f)	2028(f)
Real GDP	8.6	3.1	5.4	5.0	5.0	4.7	4.6	4.4
Consumer prices %yr	1.5	1.8	–0.3	0.1	0.1	1.2	1.3	1.6
Producer prices %yr	10.3	–0.7	–2.7	–2.3	–2.6	2.0	1.2	1.5
Industrial production (IVA)	9.6	3.6	4.6	5.8	5.9	5.5	5.0	4.8
Retail sales	12.5	–0.2	7.2	3.5	3.7	2.3	4.2	4.4
Money supply M2 %yr	9.0	11.8	9.7	7.3	8.0	7.8	7.6	7.4
Fixed asset investment	4.9	5.1	3.0	3.2	–1.4	1.5	4.0	4.5
Exports %yr	20.9	–9.9	–2.3	10.7	5.2	9.5	4.5	3.5
Imports %yr	19.5	–7.5	0.2	0.9	–0.1	10.0	4.0	3.0

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

Chinese interest rates & monetary policy

	Latest (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Required reserve ratio %*	9.00	8.50	8.50	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	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80

* For major banks.

Japanese interest rates & monetary policy

	Latest (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Policy Rate	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.50	1.50
10 Year Bond Yield	2.89	2.85	2.90	2.95	2.70	2.60	2.50	2.45	2.40	2.35	2.30

Currency forecasts

	Latest (14 Aug)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
JPY	159.46	162	160	160	158	156	154	152	150	148	146
SGD	1.2804	1.28	1.27	1.27	1.26	1.26	1.25	1.25	1.25	1.25	1.25
HKD	7.8474	7.83	7.82	7.81	7.80	7.79	7.78	7.77	7.76	7.75	7.75
PHP	61.35	60.7	60.0	59.0	58.0	57.0	56.00	55.00	54.00	53.95	53.95
THB	33.18	32.6	32.0	31.5	31.0	30.7	30.4	30.2	30.0	30.0	30.0
MYR	4.0866	4.00	3.95	3.90	3.90	3.85	3.85	3.85	3.80	3.80	3.80
CNY	6.7449	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35	6.30	6.30
IDR	17877	17600	17300	17000	16700	16400	16300	16200	16100	16072	16072
TWD	32.16	31.5	31.0	30.5	30.0	29.5	29.0	28.5	28.2	28.2	28.2
KRW	1418	1420	1410	1400	1390	1380	1370	1360	1340	1336	1336
INR	95.45	95.0	94.5	94.0	93.0	92.0	91.0	90.0	89.0	88.0	87.0

Source: Bloomberg, Westpac Economics.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2021	2022	2023	2024	2025	2026(f)	2027(f)	2028(f)
World	**6.7**	**3.8**	**3.3**	**3.4**	**3.4**	**3.3**	**3.3**	**3.3**
United States	6.2	2.5	2.9	2.8	2.1	2.0	1.8	1.9
Japan	3.6	1.3	0.7	–0.2	1.1	0.6	0.8	0.9
Euro zone	6.4	3.7	0.5	0.9	1.3	0.8	1.2	1.5
Group of 3	**5.9**	**2.8**	**1.8**	**1.7**	**1.7**	**1.4**	**1.5**	**1.6**
United Kingdom	8.5	5.1	0.3	1.0	1.3	1.2	1.1	1.5
Canada	6.0	4.7	2.0	2.0	1.9	0.9	1.6	1.8
Australia	5.4	4.2	2.1	1.0	2.0	1.7	1.3	2.2
New Zealand	5.5	2.6	2.2	–0.3	0.3	1.9	2.6	3.2
OECD total	**6.2**	**3.2**	**1.9**	**1.8**	**1.7**	**1.5**	**1.5**	**1.7**
China	8.4	3.1	5.4	5.0	5.0	4.7	4.6	4.4
Korea	4.6	2.7	1.6	2.0	1.0	3.1	2.5	2.4
Taiwan	6.7	2.7	1.1	5.3	8.8	10.0	5.0	4.0
Hong Kong	6.5	–3.7	3.2	2.6	3.6	3.8	3.0	2.6
Singapore	10.1	4.0	1.5	5.3	5.0	4.7	3.0	2.5
Indonesia	3.7	5.3	5.0	5.0	5.1	5.0	5.1	5.2
Thailand	1.6	2.7	2.2	2.9	2.4	1.8	2.0	2.4
Malaysia	3.3	9.0	3.5	5.1	5.2	4.4	4.5	4.5
Philippines	5.7	7.6	5.5	5.7	4.4	4.0	4.8	5.5
Vietnam	2.6	8.5	5.1	7.0	8.0	8.0	7.5	7.2
East Asia	**7.1**	**3.6**	**4.7**	**4.8**	**4.9**	**4.8**	**4.5**	**4.4**
East Asia ex China	4.4	4.6	3.4	4.5	4.7	5.1	4.4	4.3
NIEs*	**6.1**	**2.3**	**1.6**	**3.4**	**4.1**	**5.5**	**3.4**	**2.9**
India	9.7	7.6	7.2	7.1	7.6	6.7	6.7	6.6
Russia	5.9	–1.4	4.1	4.9	1.0	0.6	0.9	1.1
Brazil	4.8	3.0	3.2	3.4	2.3	1.9	1.9	2.1
South Africa	4.9	2.1	0.8	0.5	1.1	1.0	1.3	1.5
Mexico	6.0	3.7	3.1	1.4	0.6	1.6	2.2	2.1
Argentina	10.4	6.0	–1.9	–1.3	4.4	3.5	4.0	3.8
Chile	11.3	2.2	0.5	2.6	2.3	2.4	2.6	2.3
Middle East	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9
C & E Europe	9.1	4.3	3.0	3.2	3.0	3.1	3.5	3.7
Africa	3.9	4.4	3.8	4.2	4.5	4.3	4.4	4.5
Emerging ex–East Asia	**6.8**	3.7	**3.7**	**4.7**	**4.4**	**4.1**	**4.3**	**4.3**
Other countries	**6.7**	**5.2**	**4.9**	**2.0**	**2.3**	**2.8**	**3.0**	**3.1**
World	**6.7**	**3.8**	**3.3**	**3.4**	**3.4**	**3.3**	**3.3**	**3.3**

#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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