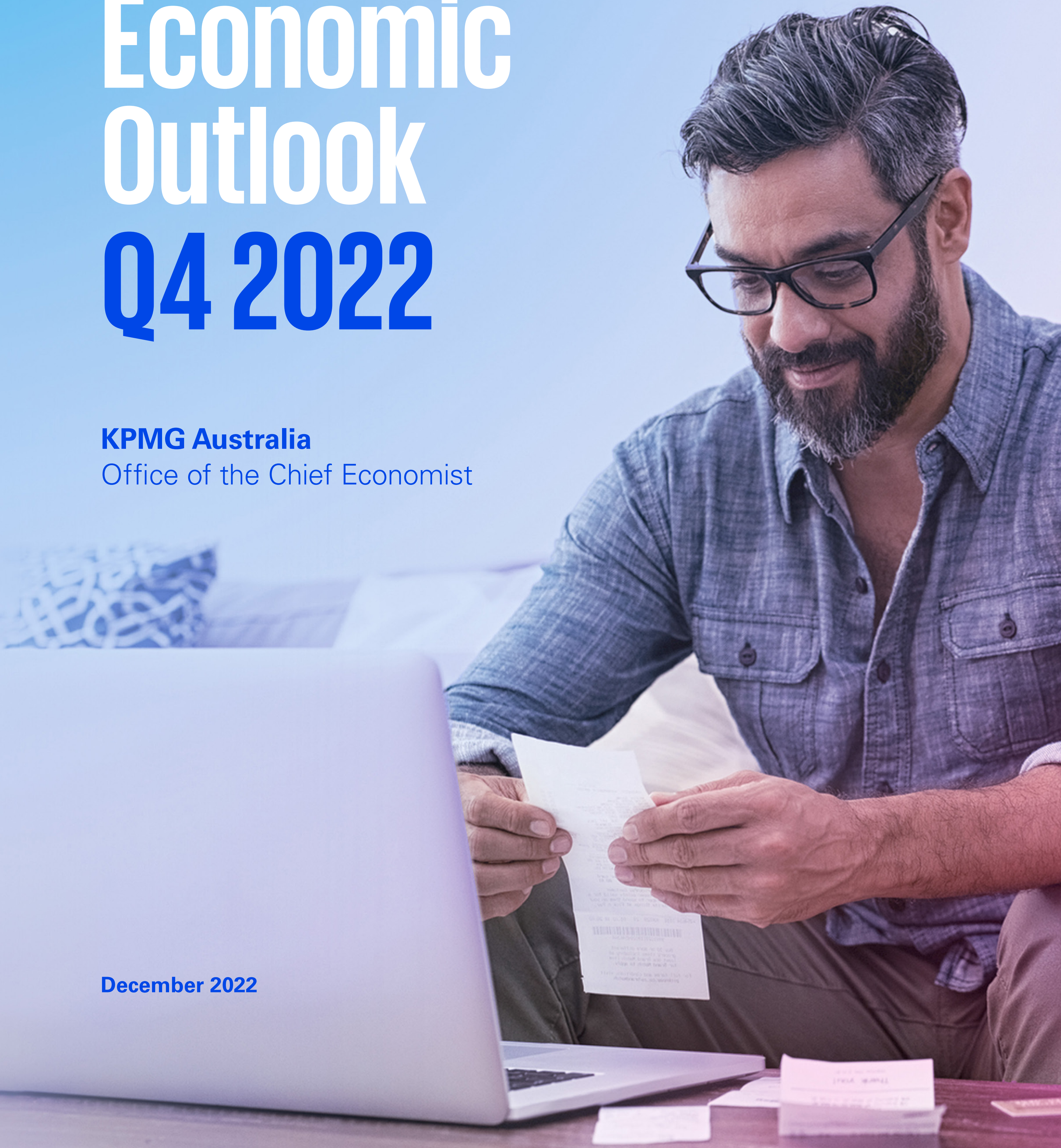
Australia Economic Outlook Q4 2022

KPMG Australia
Office of the Chief Economist



December 2022

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EXECUTIVE SUMMARY

The global economic landscape is less positive at the end of 2022 than it was at the beginning of the year. The high degree of optimism that the end of the COVID-19 pandemic was near and the global economy would bounce strongly back after a tough couple of years has now been displaced by high inflation, tightening monetary policy, rising energy costs and declining consumer confidence.

The dramatic rise in inflation across many economies and the subsequent response by Central Banks of rapidly raising policy rates has been the impetus for the deterioration of economic conditions.

There is a view that global inflation may now have peaked, notwithstanding the energy crisis that was initiated by the Russia/Ukraine conflict and that is still ongoing, but the return to target inflation levels is expected to be slow and protracted, requiring economic activity to be slowed by tighter policy settings.

The pace of policy rate tightening is easing but it is not yet over, and given the lags associated with monetary policy the full effects of the increased interest rates are unlikely to be felt until well into 2023.

The Australian economy has continued to show incredible resilience during 2022 – consumption activity has remained buoyant despite a significant drop off in consumer sentiment.

Inflation has surprised on the upside during the September quarter, with annual headline and core inflation now running at 7.1 percent and 6.0 percent respectively, the highest levels since the early 1980s.

Australia's labour market is arguably operating at levels beyond full capacity with an unemployment rate of 3.4 percent, with the unique situation not seen for decades where there is almost a job available for every person that is looking for one. The tight labour market conditions are helping wages growth to pick up.

The latest WPI revealed nominal wages grew by 1.0 percent over the September quarter and 3.1 percent over the year.

The new Albanese Government also handed down their first Budget in early October, with Treasurer Chalmers at pains to ensure any new spending initiatives were largely offset by savings measures to ensure fiscal policy was not stoking inflation.

The RBA has ratcheted up the cash rate by 300 basis points over eight consecutive months with it now sitting at 3.1 percent. Our expectation is that the RBA will lift the cash rate by 25 bp in the first quarter of 2023.

Our cash rate profile is consistent with a 'Goldilocks' scenario where wage growth remains contained and the economy slows without entering recession territory. To the extent a wages breakout occurs beyond what we have forecast then the RBA may find itself in the position of needing to push the cash rate higher in order to pull back aggregate demand more aggressively.

At this stage KPMG's central macroeconomic forecast is for Australia to experience a slowdown in economic activity, but we are not expecting the economy to enter a recession over the forecast period. The risks of higher interest rates and recession have increased in recent months.

	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25
GDP (Real)	3.7%	3.6%	2.8%	1.4%	1.5%	1.8%	2.1%
Inflation (1)	6.2%	7.8%	6.1%	4.4%	3.4%	2.9%	2.9%
Unemployment, % (1)	3.5%	3.4%	3.8%	4.2%	4.5%	4.5%	4.4%
A/US (1)	0.71	0.69	0.71	0.73	0.73	0.72	0.71

* (1) = Value at end of the year

Source: KPMG

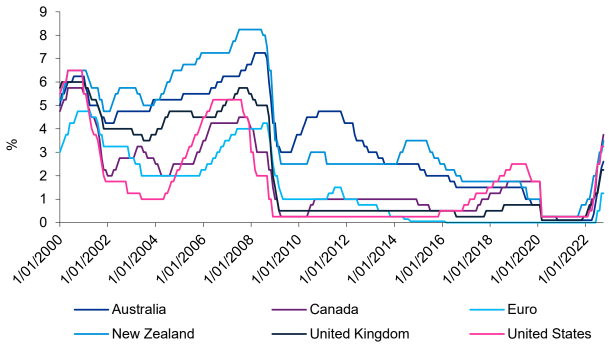
Global landscape

Slowdown gathering pace while inflation appears to have peaked.

The price surge that has occurred through most of this year, following the cumulative impacts of supply chain disruptions caused by COVID-19, the stimulus in aggregate demand following the fiscal and monetary supports put in place during the pandemic and the subsequent (and ongoing) conflict between Russia and Ukraine, has pushed the inflation peak higher and further out than what was generally thought at the beginning of this year.

In response to this, Central Banks have adopted an aggressive path to normalise interest rates following a prolonged period of extraordinarily accommodative policy rates (that were pulled down to emergency levels during the pandemic).

Central Bank Policy Rates



Soruce: RBA, KPMG

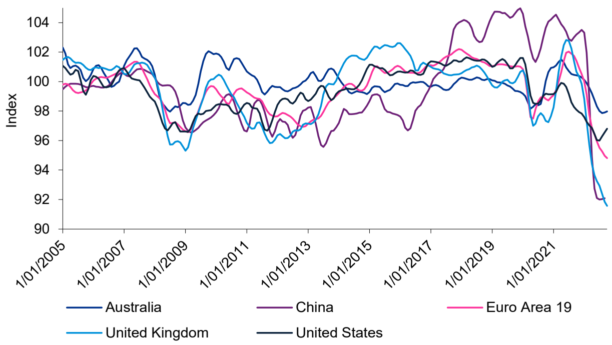
Importantly, this policy rate response to rising inflation has not just been confined to developed economies. Emerging economies, such as Brazil, Mexico and South Africa, have also seen their central banks sharply raise interest rates in an attempt to curb inflation, only to see their currencies depreciate significantly in the face of an appreciating USD resulting in even higher imported goods inflation.

What has become apparent though is that the pathway back to target inflation rates is now likely to be longer than first thought as inflationary expectations start to lift and wages growth has quickened as workers try to claw back some of the loss in their real purchasing power. The consequence of higher inflation and interest rates has been a tightening in consumer and investment spending, which is expected to continue next year and into the year after.

Consumer confidence has fallen markedly since the beginning of 2022 to levels either equivalent or worse than what was recorded during the depths of the GFC. What is surprising is that this plunge in confidence is occurring while most economies are operating at (or beyond) full employment.

Understandably, specific factors are likely to be negatively impacting the population within individual countries, such as the war in the Ukraine and the associated energy crisis plaguing Europe and the UK and the increase of COVID lockdowns in China. While still deep in negative territory it appears consumer confidence might be lifting in the US, most likely due to rising expectations that the Federal Reserve is starting to adopt a less aggressive response to monetary policy tightening and that interest rates might be reaching their peak sooner than previously anticipated.

Consumer confidence index



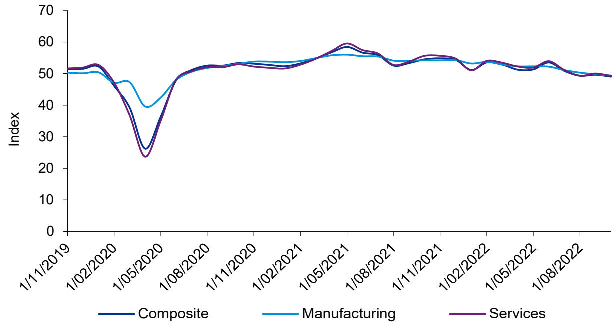
Source: Macrobond, KPMG

Global economic growth is now forecast to slow to 2.3 percent and 2.8 percent respectively over the next two years largely because of anticipated weak performances of developed economies. The major economies of US, EU and UK are all expected to see growth soften during 2023, with real GDP growth now forecast to be -0.2 percent, 0.6 percent and -0.4 percent respectively; whereas China is likely to see their growth lift to around 4 percent (a level well below recent history but a growth target consistent with the NDRC's 14th five-year plan) as COVID related disruptions dissipate and President Xi adopts pro-growth policies to lift the domestic economy up from current doldrums.

The continuation of the conflict between Russia and Ukraine has caused both countries to enter recession this year which is expected to continue into the next even if the conflict stopped today. Germany is now also expected to follow Russia and Ukraine into recession.

The composite Purchasing Managers' Index (PMI) has been steadily falling from about May 2021, although the pace of this decline has accelerated since the middle of 2022 with both manufacturing and services PMI's now turned negative (i.e. below 50).

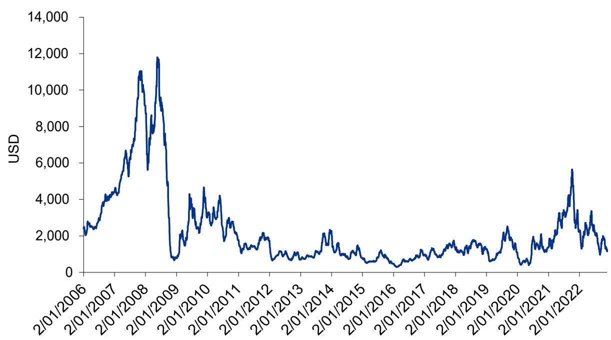
IHS Markit Purchasing Managers Index, World, Seasonally Adjusted



Source: Macrobond, KPMG

Softening world trade is expected on the back of slowing global economic activity, worsened recently because of market disruptions caused by the Russia / Ukraine conflict. Shipping costs jumped over the past quarter after returning to near pre-pandemic levels at the end of August 2022. These costs have since fallen by nearly 40 percent from the October peak, with shipping costs now just about 10 percent higher than what they were at the start of 2020. There is the potential that the continuation (and possible expansion) of COVID lockdowns in China will interrupt global trade, further weakening the already tepid latest WTO global merchandise trade forecast of only 1.0 percent growth in 2023.

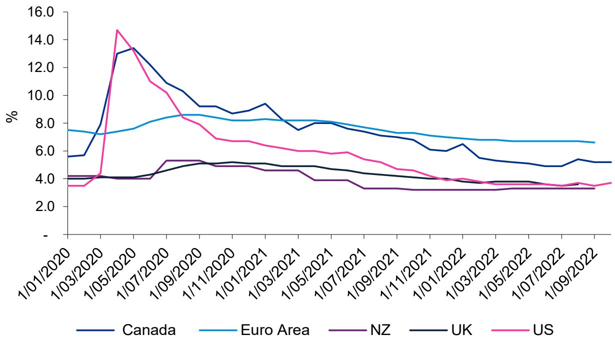
Baltic Dry Index (USD)



Source: Macrobond, KPMG

Unemployment rates have tightened across most developed economies over the past year, with the US, UK, NZ and Australia all now operating with labour markets at less than 4 percent unemployment rates, while Japan, South Korea, Thailand, Norway and Iceland have unemployment rates at less than 3 percent. Given the economic slowdown expected to occur over the next 12 to 24 months unemployment rates are at risk of trending upwards in the near term.

Unemployment Rate



Source: Macrobond, KPMG

While the global growth momentum is expected to slow next year as inflation and higher interest rates bite, it is anticipated that the world economy will reset and start to recover in 2024.

World GDP is expected to decline from around 2 percent in 2023 and then lifting to closer to 3 percent in 2024. This forecast aggregate growth profile hides a stark difference between developed economies and emerging and developing economies. The slowdown is expected to be much more pronounced in developed economies, with GDP growth forecast to be around 1 percent and recessions now expected in (at least) the UK and US.

In contrast, while most emerging economies are also forecast to see some slowdown in economic growth the expected lifting in activity in China next year will likely result in aggregated GDP growth for emerging and developing economies as a whole to be relatively flat in 2023.

Australia overview

Economic outlook is for slowing growth in 2023 after a strong consumption-led recovery in 2022.

The Australian economy continues to show resilience in the face of mounting pressures, although KPMG expects the domestic outlook to progressively weaken over the next 12 to 18 months.

Consumption activity has remained buoyant despite there being a significant drop off in consumer sentiment during that time. Aggregate spending is being held up by a combination of factors, including high levels of employment, a drawing down of savings, and the remnants of catch-up spending associated with the pandemic.

Inflation has surprised on the upside during the quarter, with annual headline and core inflation now running at 7.1 percent and 6.0 percent respectively, the highest levels since the early 1980s. In response the RBA has ratcheted up the cash rate by 300 basis points over eight consecutive months with it now sitting at 3.1 percent. Our expectation is that the cash rate is close to peaking, with one more 25 bp move upwards by the RBA expected in the first quarter of 2023.

Australia's labour market is operating at full capacity, or possibly beyond full capacity, the relatively unique situation not seen in Australia for decades where there is nearly a job available for every person that is looking for one. The uplift in immigration, combined with slowing aggregate demand, is expected to see a weakening in the labour market in the near term, with KPMG forecasting the unemployment rate to tick upwards to be around 4.2 percent by the end of 2023.

We are now starting to see wages growth pick up because of the imbalance of supply and demand in the labour market. The latest WPI revealed nominal wages grew by 1.0 percent over the September quarter and 3.1 percent over the year; albeit with a noticeable difference between private sector (1.2 percent q/q) and public sector (0.6 percent q/q) outcomes.

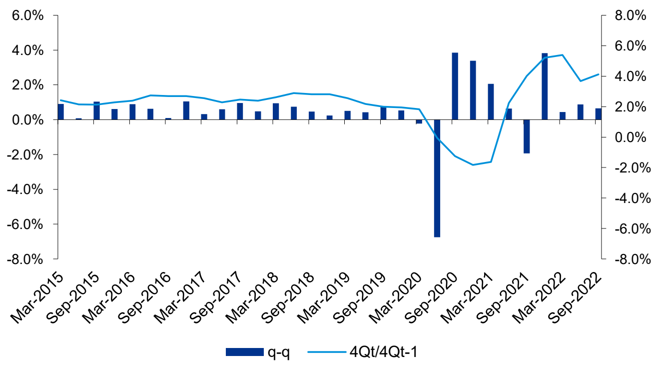
The new Albanese Government also handed down their first Budget in early October, with Treasurer Chalmers at pains to ensure any new spending initiatives were largely offset by savings measures to ensure fiscal policy was not adding to inflation.

The underlying strength in the Australian economy over the past year significantly helped claw back the Budget deficit for 2021-22 by around 70 percent compared to what was originally forecast in May 2021, while a lower deficit and higher inflation has also resulted in the nation's net debt position at the end of last financial year being only about two-thirds of initial expectations.

From a National Accounts perspective the growth momentum decelerated in the September quarter to 0.6 percent q/q from 0.9 percent in the June quarter. Households continued to be the engine of growth, with spending rising 1.1 percent over the quarter. Private sector investment was also a positive contributer, up 0.8 percent over the quarter.

Better weather and an easing of supply chain disruption helped the construction sector do more work, but a strong lift in imports (+3.9 percent) resulted in net exports being a drag. The strength in imports was driven by overseas travel, which were up 58 percent on the quarter; the recovery in locals holidaying overseas has been stronger and more rapid than international tourists coming to Australia, making net overseas travel a drag on GDP.

Real GDP Growth, Australia



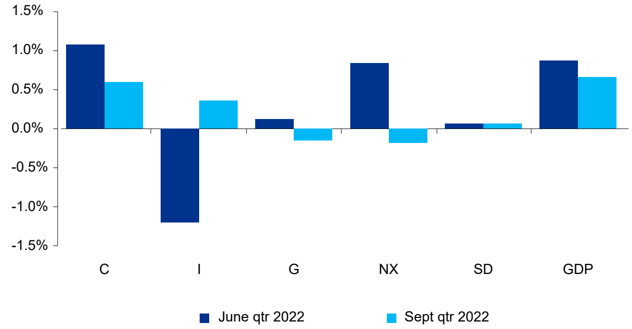
Source: ABS, KPMG

Spending in services was the main driver of household consumption growth during the September quarter, with spending on hospitality (+5.5 percent) and travel (+13.9 percent) standouts. The easing of supply chain pressures also helped, with vehicle purchases up 10.1 percent on the quarter.

The post-lockdown rebound in household spending drove the savings rate down to 6.9 percent despite a very healthy 3.2 percent increase in earnings from employment. The savings rate is now only marginally above its pre-COVID level (it is broadly the same as the December quarter 2019), and while a further decline is possible in the coming months it is clear that increases in consumption going forward will be linked to growing disposable income.

The acceleration in wages growth (and for some workers increased hours of work) and inflation indexation of social security payments will work to lift incomes going forward, but rising mortgage rates and still-elevated inflation will be a drag overall, the momentum in household spending is set to ease sharply next year and into the following year, with KPMG forecasting real consumption growth in 2023 and 2024 of around 1.5 percent.

Contribution to GDP Growth by Component



Source: ABS, KPMG

The impact of higher interest rates on the property market is also clear, with ownership transfer costs (the category that captures real estate agents, conveyancers and other services related to buying or selling a property) falling 11.2 percent during the quarter. Looking ahead, this category is likely to dip again in the December quarter, but the high frequency data suggests that activity is holding up relatively well, with the volume of sales still comfortably above pre-COVID levels.

Growth momentum is likely to fall again in the December quarter and beyond. The end of the post-lockdown rebound in household spending coupled with a moderation in government spending are inevitable. These pull-backs are being reinforced by rising interest rates, elevated inflation and the slowdown in the global economy.

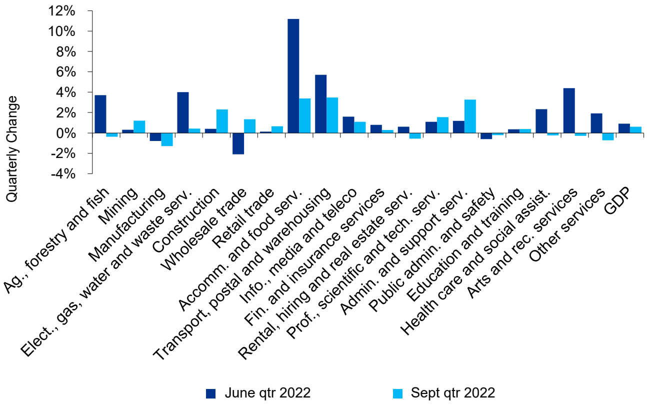
Indeed, the RBA are looking for the growth momentum to cool as this will lead to a slowing of local inflationary pressures.

At this stage KPMG's central macroeconomic forecast is for Australia to experience a slowdown in economic activity, but we are not expecting the economy to enter a recession over the forecast period.

Production

2022 has so far proved to be a much stronger year for most industry sectors in Australia. The bounce back in activity following the full reopening of the economy after periods of lockdown has helped most industries see their trading patterns normalise to a large degree. Some industries, however, have still recorded mixed results, either because of trailing issues associated with the pandemic and/or trade related shocks stemming from the fall-out of the Russia/Ukraine conflict and the COVID-zero policy adopted in China.

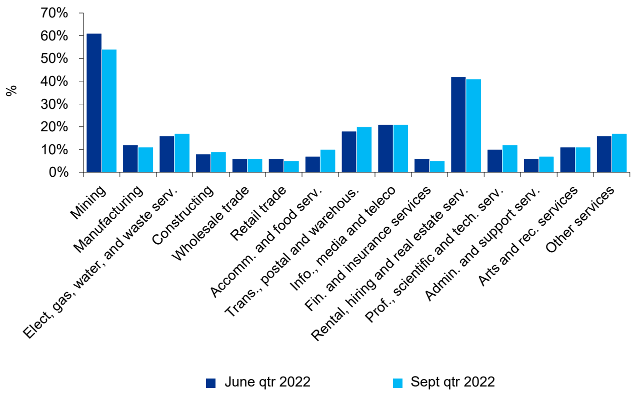
Industry Gross Value Added, Quarterly Growth



Source: ABS, KPMG

Unsurprisingly front-line service sectors, such as Air transportation, Food services, Accommodation and Arts and recreation and Other services – those sectors that were effectively closed down during the lockdown periods of COVID – experienced the largest growth in industry gross value added (IGVA) over the 12 months to September 2022. While the Air transportation sector has achieved dramatic growth in IGVA in the year to the end of September it is still operating at levels around half of what it was prior to the onset of COVID.

Gross operating profit to sales ratio



Source: ABS, KPMG

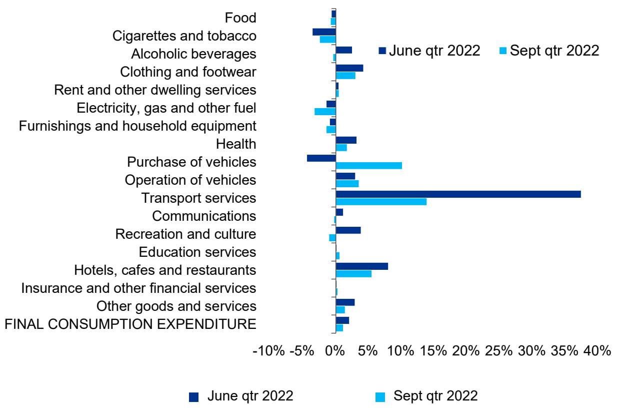
Gross operating margins have started to normalise over the past 12 months, with two-thirds of the market sector industry's now recording annual average gross operating profit to sales ratios either equal to, or slightly higher, than pre-pandemic.

While the Mining sector tends to achieve relatively high gross operating margins compared to other industries the recent commodity price spikes caused by the Russia/Ukraine conflict has resulted in average gross operating profit to sales ratios around 13 percent higher than pre-pandemic levels.

Consumption

Consumption continued to underpin the Australian economy during the September quarter, growing 1.1 percent compared to 2.2 percent in the June quarter. Despite household incomes growing strongly during the September quarter we are now starting to see signs that the lift in interest rates and inflation are causing households to re-evaluate their spending patterns. This is on top of the fact that the post-COVID spending bounce has also likely run its course.

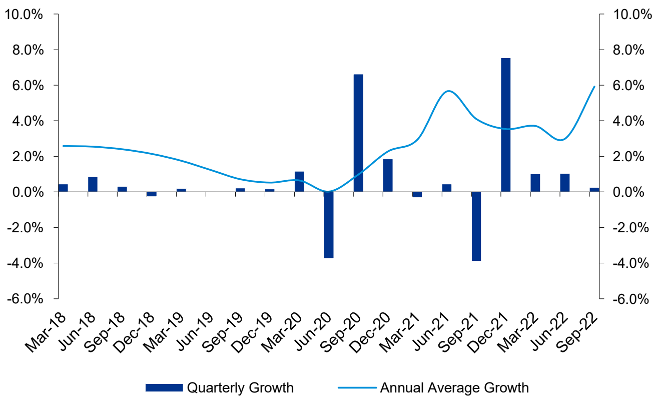
Household Final Consumption Expenditure, Quarterly Growth



Source: ABS, KPMG

Total retail sales in the September quarter continued to experience reasonable growth in nominal terms (+2.3 percent) although sales volumes slowed considerably, down from 1.0 percent in June quarter to 0.2 percent. Arguably, the growth in retail sales over the year is largely being driven by the 700,000 additional workers employed in Australia at the end of September 2022 compared to the same time a year ago.

Retail Sales, $ real, Quarterly & Annual, Australia



Source: ABS, KPMG

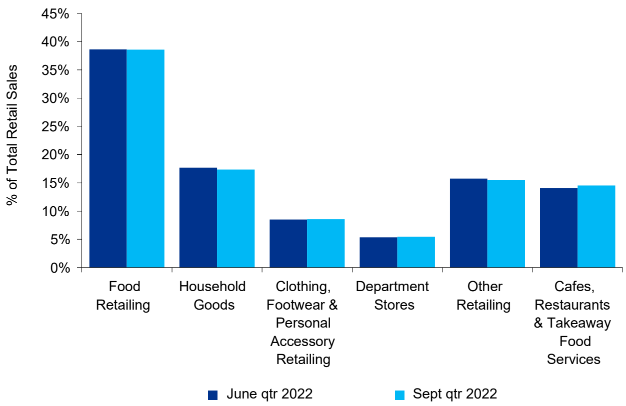
The latest monthly data reaffirms this assessment. Retail turnover fell slightly (0.2 percent on the month) in October, indicating that once inflation is considered, the fall in the volume of turnover in the September quarter has continued into October. The headwinds that households have been facing for some months are catching up with spending.

Looking at activity over the last six months it's clear that in volume terms households have continued to shift their spending back to services and away from goods. In volumes terms spending on household goods has declined markedly this year, and the catch-all Other Retailing category is also showing signs of weakness.

A slight reallocation in consumption patterns occurred during the September quarter, with small increases in spending on Cafes, restaurants and takeaway food services and Clothing, footwear and personal accessories, while Food retailing, Household goods, Department stores and Other retailing experienced a slight decline in relative importance.

The fall seen in the October data was led by Department stores, which fell 2.4 percent, and with the exception of Food, all categories recorded declines, even Cafes, restaurants and takeaways, suggesting the post-lockdown rebound has now come to an end.

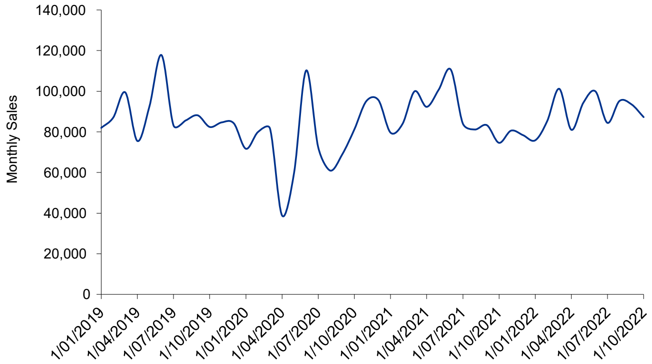
Proportion of Nominal Retail Sales by Category



Source: ABS, KPMG

Motor vehicles sales have been highly volatile during the pandemic; influenced initially by a decline in demand due to consumer uncertainty, and then due to disruptions to global production. Supply shortfalls continue to hamper market activity, although it also seems that higher interest costs are now starting to dampen demand.

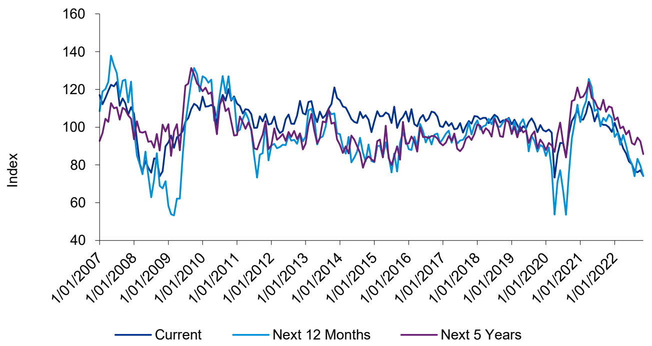
Total Motor Vehicle Sales



Source: Macrobond, KPMG

Consumer sentiment has fallen dramatically during 2022, with sentiment now at levels similar to like those experienced in the early period of the GFC. What is surprising is that this decline in sentiment has occurred while Australia's unemployment rate has fallen to levels not seen since the early 1970s.

Melbourne Institute Consumer Sentiment Index, Australia



Source: Melbourne Institute, Macrobond, KPMG

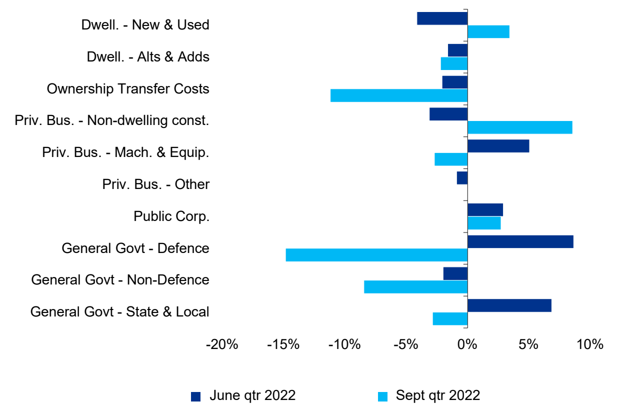
Investment

Aggregate gross fixed capital formation fell slightly in real terms between the June and September quarters, down -0.2 percent seasonally adjusted.

Looking on a more disaggregated basis, private dwelling investment increased 1.0 percent q/q, while private business investment increased 2.5 percent q/q, driven primarily by spending on new non-dwelling and engineering construction activity (up 3.8 percent q/q and 4.8 percent q/q respectively).

Capital spending by public corporations was up 2.7 percent q/q, while general government defence and non-defence investment spending was down significantly by 14.9 percent q/q and 8.9 percent q/q respectively. Inventories increased by 72 percent over the three months to the end of September 2022, which represented about one-third of real GDP growth for the quarter.

Investment Activity by Type, Quarterly Growth

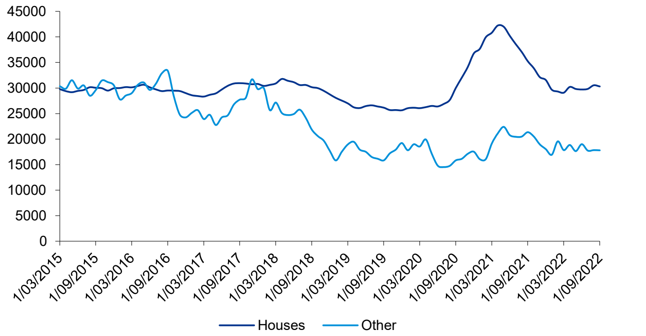


Source: ABS, KPMG

Private sector expectations of new capital expenditure spend on new buildings and equipment for the remainder of FY23 remains solid. The latest estimate from the ABS survey shows respondents expect to spend about $156 billion during the year, which if the recent realisation rate is maintained, total new capex for the year could be slightly more than $160 billion – a 14 percent increase over private capex spend of FY22.

Aggregate project data from Infrastructure Partnerships Australia shows the broader infrastructure pipeline continues to be robust out into the medium term with the peak spending looking like occurring in the June quarter 2024. The spending profile is weighted towards road and rail infrastructure projects till the middle of this decade, with energy projects then dominating the expenditure outlook for the remainder of the decade.

Building Approvals, rolling 3-months, Australia

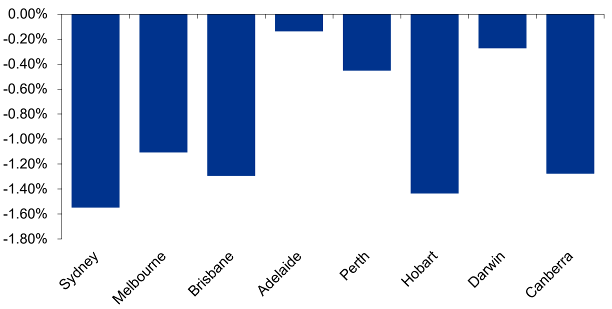


Source: ABS, KPMG

The influence of the JobBuilder program in bringing forward future demand is still impacting housing investment today. The number of dwelling approvals fell by 1.3 percent between the June and September quarters across Australia; the 2 percent increase in housing approvals (equivalent to about 930 houses) was overshadowed by the 6.3 percent fall in multi-dwelling residential (about 2,100 multi-residential dwellings). New South Wales recorded the strongest growth of all the States during the quarter, driven again by approvals of multi-dwelling residential property, while every other state saw residential dwelling approvals fall.

The property market continues to soften, with every jurisdiction now recording falls in average prices for residential dwellings. Sydney and Hobart experienced the sharpest falls in residential property prices of all jurisdictions in the three months to October 2022, off 1.6 percent and 1.4 percent respectively in nominal terms over the last three months. This weakness in the property market caused by rising interest rates was also evident in the September quarter national accounts where Ownership Transfer Costs, which is a measure of turnover in the property sector, fell by a dramatic 11.2 percent, the equivalent of 0.2 percent GDP growth.

Change in PropTrack Dwelling Prices Index, 3 months to October 2022



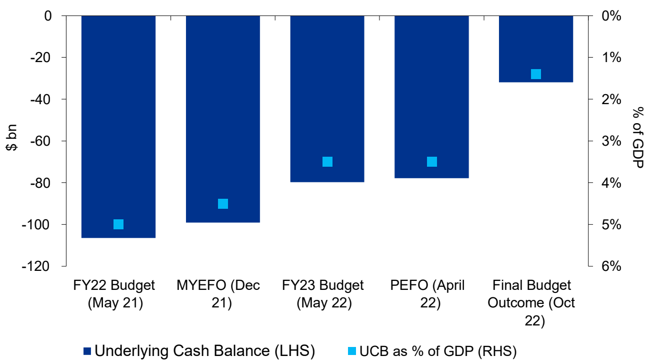
Source: Macrobond, KPMG

Government

The latest national accounts showed that General Government consumption activity stayed flat over the September quarter, with the slight fall in spending at the Commonwealth level offset by a slight rise in spending at the State and Local government level. This is unsurprising given the Commonwealth Treasurer has been at pains to point out that fiscal policy needs to be acting in lockstep with (contractionary) monetary policy settings in order to help fight off inflation.

Ahead of the October FY23 Federal Budget it was announced that the budget deficit for FY22 had dropped to $32 bn (or 1.4 percent of GDP); significantly lower than the original forecast of $106.6 bn presented in May 2021, and most surprisingly nearly $50 bn lower than forecast contained in the April Pre-election Economic and Fiscal Outlook (PEFO).

Commonwealth Budget Deficit FY22

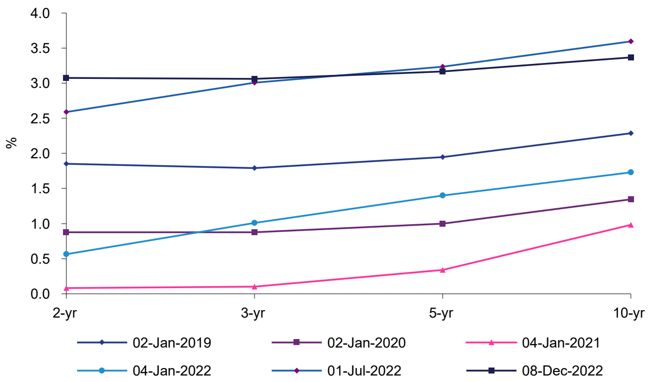


Source: Commonwealth Treasury, KPMG

While the starting position for the FY23 budget is materially better than where Treasury thought it would be following the extraordinary spending associated with the COVID pandemic, the short-term outlook for the economy over the forward estimate period looks weak. That being said taxation receipts across all levels of government were $160.5 bn in the September quarter, down from $192.5 bn in the June quarter essentially due to timing associated with recognising company profits.

While there has been this notional drop off in the first quarter of the new financial year tax receipts are up 12.7 percent and 10.5 percent for the Commonwealth and State and Local Government respectively compared to the September quarter 2021.

Yield Curve on Commonwealth Government Bonds



Source: RBA, KPMG

The latest monthly financial statement released by the Commonwealth Department of Finance shows income tax receipts already up $20 bn and indirect tax receipts up $3.3 bn compared to the March Budget estimates. Actual commonwealth government expenditures to date also look relatively modest compared to total anticipated spend, with only about 32.5 percent of budgeted expenditure spent in the first four months of this financial year compared to an equivalent of 35.4 percent in FY22 and 38.1 percent in FY21.

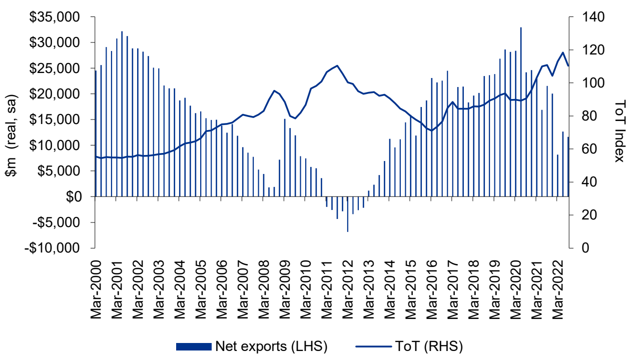
The October FY23 Commonwealth budget forecast a slightly higher deficit than last year at $36.9 bn, representing 1.5 percent of GDP, which is then expected to widen modestly across the forward years: to $44.0 bn in FY24 (1.8 percent of GDP); $51.3 bn in FY25 (2.0 percent of GDP); and $49.6 bn in FY26 (1.8 percent of GDP).

The revised profile sees near-term upside on revenue due to stronger income growth, but over time, expenditure pressure is more pronounced than previously anticipated. Payments as a share of GDP lifts and becomes entrenched at around 27.1 percent of GDP, well above the historic average.

Net Exports

While net exports still contributed nearly $11.7bn towards GDP over the September quarter import volumes grew by 3.9 percent compared to only 2.7 percent for export volumes.

Quarterly net exports and Terms of Trade



Source: RBA, KPMG

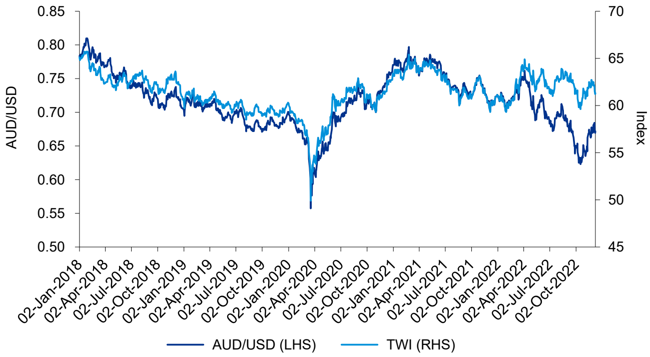
The current account fell into deficit for the first time since the March quarter 2019. The main driver was a sharp deterioration in the trade balance, to $31.2 bn. Net export volumes declined, and the terms of trade worsened over the quarter as coal and iron ore prices fell back from their recent record highs. The worsening of the terms of trade was also due to a robust increase in import prices (+4.1 percent q/q), driven by the depreciation of the AUD and continued elevated price for oil.

The shift into deficit was also driven by a worsening of net primary income flows, to a record net outflow of $33.2 bn. This shift primarily reflects the high level of profits in the mining sector; while some of this gain flows into the domestic economy via domestic shareholders, incomes to workers in the sector and government revenues, offshore shareholders also see an increase in their dividend payments which are captured as primary income outflows.

While the headline data highlights that trade has become a drag there was some good news in the detail, with the volume of rural exports rising 9.8 percent on the quarter – the end of the drought and rebuilding of herd stocks in recent years is now resulting in strong harvests and output growth (notwithstanding the impact of this year's floods on the east coast). There was also good news for services, with export volumes up 10.6 percent on the quarter.

The re-opening of the border is enabling a recovery in both tourism and higher education, and the leading visa data for next year suggests that this will continue, although there is some way to go before a full recovery.

Exchange Rates



Source: RBA, KPMG

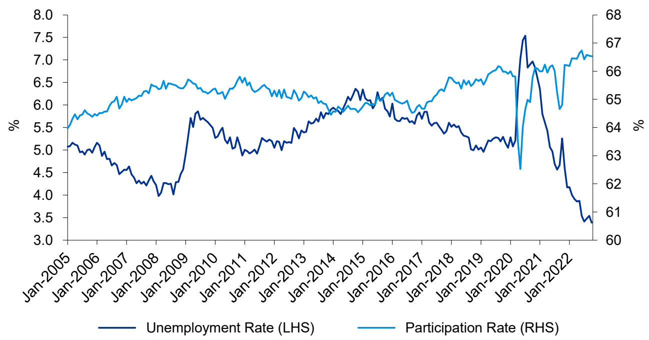
The Australian dollar has depreciated by 7.2 percent against the US dollar since the beginning of 2022 and is currently trading at around USD 0.68c. On a trade-weighted basis, the Australian dollar is actually marginally higher (+0.1 percent) over the same time period. This small appreciation on a TWI basis reinforces the point that the softer AUD/USD exchange rate more so reflects the major appreciation in the USD as opposed to a major depreciation in the AUD.

Demand for Australian exports are expected to remain strong over the next quarter supported by the weaker exchange rate. The RBA's Index of Commodity Prices decreased by 5.0 percent (SDR terms) over the month of November 2022 and is now 13 percent lower than its peak in April 2022. The decline is predominately due to falls in Base Metals and Bulk Commodities, down 22 percent and 21 percent respectively from their highs achieved earlier this year (March 2022 and April 2022 respectively).

Labour Market

The labour market in Australia continues to show incredible resilience. Over the 12 months to October 2022 employment has increased by 762,000 (seasonally adjusted) persons, bringing the total number of employed persons to just over 13.6 million.

Unemployment and Participation Rates, Australia



Source: ABS, KPMG

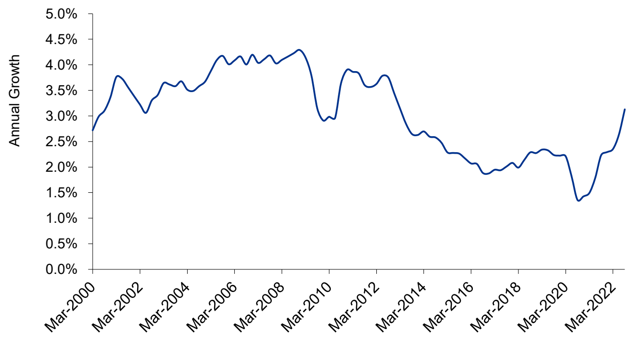
Importantly there has been a clear reversal in the trend towards part time employment, with the proportion of full-time employed persons increasing over the past two years up from a low of 67.7 percent in October 2020 to now be 70.0 percent of the total employed labour force; a full-time employment ratio not seen since April 2013.

The unemployment rate returned to 3.4 percent (seasonally adjusted) in October 2022 even with a near record high participation rate of 66.5 percent. The number of unemployed persons looking for full-time work fell by 143,500 over the past 12 months to be 320,300 as at October 2022, while the number of unemployed persons only looking for part-time work increased by 92,500 to 157,300. Monthly hours worked in all jobs also increased by 2.4 percent over the month of October 2022 to 1,897.5 million hours, which is also 9.7 percent higher than the same month last year.

Wages and salaries have now started to accelerate following anaemic growth over the past few years. The Wage Price Index rose by 1.0 percent over the September quarter 2022 and 3.1 percent y/y (seasonally adjusted). Wages in the private sector grew by a much stronger 1.2 percent q/q compared to those in the public sector (0.6 percent q/q).

The latest national accounts data shows a much stronger aggregate wage and salary outcome compared to the WPI, with compensation of employees (COE) increasing by 3.2 percent during the September quarter – the strongest rise

Wage Price Index - Total hourly rates of pay excluding bonuses Australia ; Private and Public



Source: ABS, KPMG

since December quarter 2006. This significant rise in COE has occurred due to a range of factors including businesses paying more to attract and retain staff in the face of on-going labour shortages, the Fair Work Commission's 5.2 percent increase in the minimum wage, and the increase in the superannuation guarantee (up from 10.0 percent to 10.5 percent).

The ANZ Job Advertisements series has averaged around 240,000 unfilled positions between February and September 2022, a noticeable step-up of around 45,000 available jobs compared to the same period in 2021.

It seems there has been a stabilisation in Australia's labour market since the middle of the year with limited new employment, job ads and people looking for work, suggesting that the labour market is operating at capacity and likely beyond full employment levels. If the domestic economy starts to slow down as forecast, we would firstly expect to see job vacancies contract, then hours worked fall, under employment rise and eventually unemployment tick up.

Over the past few years because of the policies implemented to manage the risk associated with the COVID-19 pandemic, including the adoption of international border restrictions, Australia's population has experienced a mix of growth outcomes, from slightly positive growth in the first year of the pandemic (+0.2 percent in FY21) to moderate growth in FY22 (+0.7 percent) to accelerating growth in FY23 of +1.1 percent. This acceleration in population growth is directly related to the additional intake of 35,000 permanent migrants for this year.

The October 2022 Commonwealth Budget incorporated population projections that revealed Australia's population was estimated to be 25,961,000 at the start of FY22, and in the absence of any other policy intervention(s), is expected to grow by further 3.6 million over the next 10 years.

Forecasts

[1.] GDP growth calculated as (GDP q1-q4 t / GDP q1-q4 t -1). [2.] Estimated unemployment rate at end of year.
[3.] Estimated average inflation though the year.

GLOBAL	Annual GDP Growth[1]			Unemployment Rate[2]			Av. Annual Inflation[3]		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
World	3.0	2.3	2.8	-	-	-	11.2	8.3	6.4
Euro Area	3.2	0.6	1.6	6.7	7.1	7.1	9.0	6.3	3.5
UK	4.6	-0.4	1.7	3.7	4.4	4.8	9.0	6.7	3.9
US	1.9	-0.2	2.2	3.7	-	-	8.1	4.0	2.3
Brazil	2.8	1.1	1.5	11.8	12.1	11.8	8.9	9.7	4.5
China	3.1	4.4	4.6	4.5	4.4	4.2	2.2	2.7	2.5
India	6.8	6.2	7.0	-	-	-	6.8	5.5	4.3
Indonesia	5.3	4.9	5.3	6.5	6.4	6.3	4.3	4.1	2.5
Japan	1.7	1.5	1.3	2.6	2.3	2.1	2.1	1.6	1.0
Singapore	3.1	2.3	2.1	2.4	2.4	2.4	5.5	3.5	3.3
South Korea	2.6	2.1	2.4	2.8	3.3	3.2	5.5	3.8	2.3
Taiwan	3.3	2.9	3.4	3.7	3.7	3.7	3.3	2.6	2.4
Vietnam	7.0	6.4	6.5	3.8	3.3	3.2	3.8	4.3	3.1
Australia	3.6	1.4	1.8	3.4	4.2	4.5	7.0	5.2	3.1
New Zealand	3.1	0.0	1.2	3.6	4.8	5.1	6.4	3.5	2.5

AUSTRALIA	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25
Consumption	1.0%	5.0%	3.7%	6.6%	5.5%	1.5%	0.9%	1.6%	2.1%
Business Investment	-0.7%	13.2%	7.7%	7.6%	5.2%	1.7%	2.2%	3.3%	4.6%
Housing investment	8.3%	15.9%	5.9%	-4.1%	-5.2%	-2.5%	-1.6%	-1.1%	0.4%
Government	5.7%	5.6%	6.4%	5.0%	1.7%	0.9%	1.6%	2.0%	2.0%
Exports	-8.4%	-2.0%	-0.1%	4.1%	9.2%	7.5%	4.1%	2.8%	2.7%
Imports	-2.7%	5.4%	7.0%	14.4%	12.2%	4.0%	2.0%	2.8%	3.5%
GDP	1.6%	5.1%	3.7%	3.6%	2.8%	1.4%	1.5%	1.8%	2.1%
Headline CPI	3.7%	3.6%	6.2%	7.8%	6.1%	4.4%	3.4%	2.9%	2.9%
WPI	1.8%	2.3%	2.6%	3.2%	3.8%	4.0%	3.6%	3.3%	3.0%
Real WPI	-1.8%	-1.2%	-3.4%	-4.3%	-2.1%	-0.3%	0.2%	0.4%	0.1%
Current account balance *	4.1%	3.1%	2.2%	1.8%	1.2%	1.0%	0.6%	-0.1%	-0.6%
Government budget *	-3.1%	-5.5%	-1.4%	-1.5%	-1.6%	-1.8%	-2.0%	-2.2%	-2.2%
RBA Cash Rate *	0.1%	0.1%	0.9%	2.9%	3.3%	3.4%	3.4%	3.2%	2.9%
10-government bond *	1.6%	1.7%	3.7%	3.2%	3.1%	3.0%	2.9%	2.8%	2.8%
AUD/USD *	0.77	0.73	0.71	0.69	0.71	0.73	0.73	0.72	0.71
Terms of trade	23.5%	10.0%	7.5%	-4.6%	-15.3%	-6.8%	-5.6%	-4.9%	-3.8%
Employment	6.5%	3.4%	3.3%	2.5%	0.9%	0.8%	0.9%	1.2%	1.6%
Unemployment rate *	6.0%	4.2%	3.5%	3.4%	3.8%	4.2%	4.5%	4.5%	4.4%
Dwelling price	19.8%	27.5%	9.5%	-6.3%	-8.7%	-2.6%	2.1%	3.6%	4.6%

* = values at end of period

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