Australia Economic Outlook Q3 2023

KPMG Australia

October 2023

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Executive summary

The world continues to face a range of challenges that cloud the short term economic outlook and interrupt the pathway to more stabilised inflation. Domestically, while the Australian economy has shown signs of weakening as the year progresses, it still demonstrates notable resilience.

The Australian economy continues to show surprising strength and resilience in a world of growing geopolitical tensions and unrest. This concerning global overlay is primarily manifesting itself domestically through international trade mechanisms, although price and demand disruptions (at the time of writing this report) are still only occurring at the margin, with the notable exception of oil.

A key socio-economic factor influencing the domestic economy at the present is population growth. Net overseas migration is running at the highest levels ever recorded; while it is helping employers resolve staffing shortages that emanated as a result of closing borders during the COVID pandemic, it is also adding to inflationary pressures, including through driving up residential rental costs.

The RBA continues to be cautious about the inflation outlook for Australia, with the new Governor recently noting that its return to the target band within a reasonable timeframe is likely to be difficult given the swathe of external shocks that continue to pepper our economy. Services inflation remaining high and sticky; house prices recovering sooner than anticipated; and labour market buoyancy all have Governor Bullock rightly questioning whether inflationary expectations will remain anchored.

KPMG believes the arguments for and against another cash rate rise are evenly balanced, and given the lag in monetary policy impacts – especially with a ‘two-tier’ mortgage market with many fixed low-rate deals ending – increasing the rate again to tame domestic inflation may not be necessary. But it is still likely to happen in the November RBA meeting.

The forecasts in this edition of the Australia Economic Outlook are based on a maximum cash rate of 4.35% throughout 2024.

A lower cash rate, a more aggressive return to the inflation band than the RBA is forecasting, and higher population growth has resulted in a slight revision upwards in KPMG’s macroeconomic forecasts compared to the previous edition of the QEO.

GDP growth is now forecast to bottom out at 1.4 percent y/y in the December quarter 2023, and then gradually rise to around mid-2 percent by the end of 2024 and stabilise at this rate of growth during 2025. On a per capita basis, however, GDP growth is expected to remain negative until the end of this calendar year but will then swing around to record low positive growth during the remainder of the forecast period.

Household consumption is expected to remain below historic trend growth rates until the end of 2024 and then gradually lift as the real cost of living falls. Government spending will underpin economic activity in the near term, while both business and housing investment activity is forecast to remain subdued until early 2025. Net exports remains a positive contributor to economic growth, although the contribution narrows in line with weakening terms of trade.

The AUD is trading at very low rates against the USD, having depreciated about 8 percent since the start of this year. Over the same time period the AUD has depreciated about 2 percent against the Trade Weighted Index (TWI) suggesting the substantial movement against the USD must be interpreted as more a case of the USD strengthening rather than the AUD falling.

	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25
GDP (Real)	3.7%	3.3%	1.9%	1.7%	2.2%	2.5%	2.5%
Inflation*	7.8%	6.1%	5.1%	3.9%	2.5%	3.0%	3.2%
Unemployment*	3.5%	3.6%	3.7%	4.1%	4.4%	4.4%	4.5%
AUD/USD*	0.66	0.66	0.65	0.69	0.69	0.70	0.70

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Global landscape

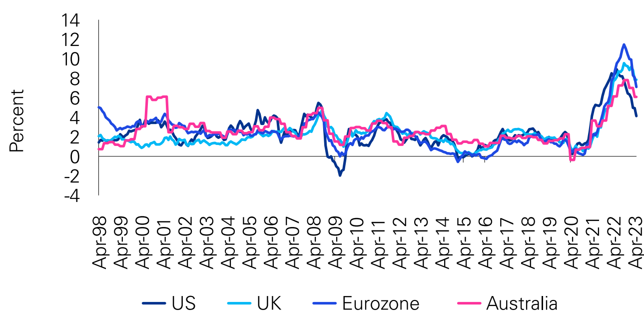
Inflation may have peaked but upside risks remain, which could make the monetary policy tightening task more challenging.

Monetary policy biting

The tightening of monetary policy across most developed countries over the past year aimed at containing inflation is now resulting in the global economy growing at below-trend levels. Importantly, this monetary tightening appears to be achieving its desired outcome with headline inflation now falling across most economies where a spike in price levels occurred as a consequence of global demand and supply side disorder associated with policy responses surrounding the COVID pandemic.

The world economy is expected to grow over the next two years at the slowest levels since the Global Financial Crisis, excluding the pandemic years themselves. Uncertainty surrounding major global reforms, including those associated with Climate Change; reorganising trade patterns along geopolitical allegiances; the increasing applications of digital technologies; and their centralisation amongst global dominant players, all have markets questioning whether the current flux in economic conditions represent something more than just short-term cyclical gyrations.

Chart 1 – Annual inflation in advanced economies



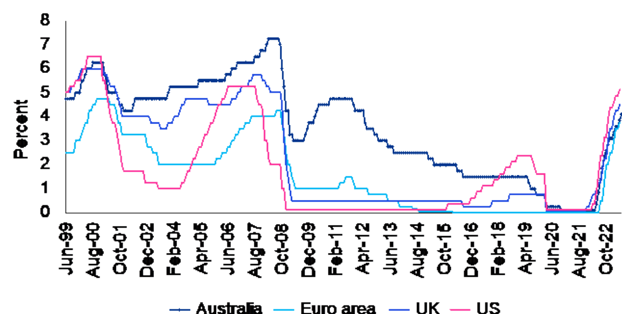
Source: ECB, ONS, ABS, BLS, Haver, KPMG

In addition to these concerns has been the continuation of conflicts between and within states, including the Russia-Ukraine conflict, the power struggle in Sudan, and a coup d'état in Niger. With the recent escalation of fighting between Israel and Hamas, the risk of these conflicts damaging global trade is rising.

Below pre-pandemic growth expectations

The impact of these cyclical and conflict factors means the world economy is unlikely to return to pre-pandemic economic growth trends in the near term. Global growth is now expected to be around 3 percent in 2023, then dropping slightly to be in the high-2 percent range in 2024.

Chart 2 – Policy rates in advanced economies



Source: BoE, ECB, FRB, RBA, Haver, KPMG

Global headline inflation remains well above target levels, but is on a downward trajectory. It is expected to fall from the peak of 11.6 percent recorded in the middle of 2022 to about 6 percent at the end of this year and to below 5 percent by the end of next year. Core inflation has also dropped, but not by as much – as food and energy price reductions have been the primary drivers of the fall in headline inflation.

Labour market stickiness

Labour markets have remained surprisingly robust, with most advanced economies still experiencing very low unemployment rates relative to pre-pandemic levels, although job vacancy levels look to be cooling.

This stickiness in employment is likely to be reflecting a combination of factors. These include concerns about finding staff again if companies let them go and the economy rebounds sooner than expected; a belief that economic conditions will not decline materially; and expectations among businesses that price levels may return to normal patterns faster than economic forecasters are suggesting.

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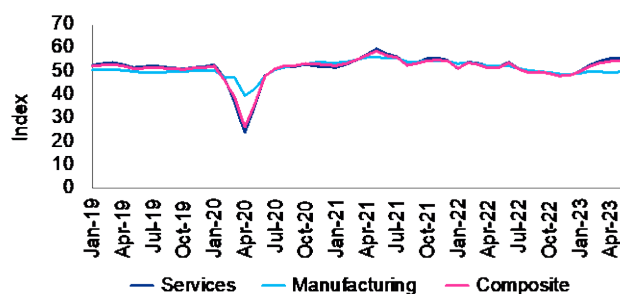
Most of the discussion around policy rates continues to focus on whether the current tightening cycle has peaked or whether additional interest rate hikes by Central Banks will be required to further tame inflation. The recent oil price rises since mid-2023 have caused increased concerns regarding stronger-than-anticipated inflation re-emerging over the remainder of the year.

Notwithstanding these concerns about fluctuations in commodity prices directly influencing inflation, recent comments by US Federal Reserve representatives suggest rising bond rates may enable policy rates to be maintained as retail mortgage rates are now being driven upwards by market adjustments rather than monetary policy effects alone.

Chart 3 – IHS Markit Purchasing Managers' Index™ (PMI™), World



Source: JP Morgan, S&P Global, Haver, KPMG

While it is likely that the cost of finance is still on the rise – either through higher bond rates or higher policy rates – consumers and businesses are continuing to adjust their spending patterns accordingly. As shown in Chart 3 the post-lockdown redirection of spending towards services – in essence those elements of consumption that were most impacted by the pandemic – has now run its course.

The pulse in services demand, as seen through the Purchasing Managers Index, has slowed – most likely not because pent-up demand has been satisfied but rather because increases in the cost of living have caused consumers to refocus expenditures away from discretionary to non-discretionary categories.

Higher borrowing costs, and expectations that interest rates will remain higher for longer, are also having an impact on house values with some markets, including Germany and Canada seeing a reversal of the price gains achieved during COVID. China has also experienced falling property prices although these trends are more reflective of consumer concerns regarding the financial stability of developers.

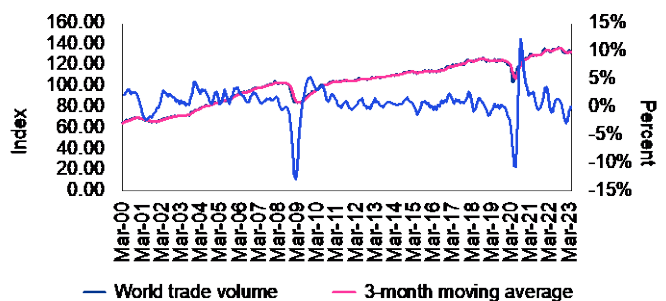
World trade forecasts revised down by half

The World Trade Organisation (WTO) has revised down their forecasts for world trade in 2023 from 1.7 percent to 0.8 percent, although the outlook for 2024 remains robust. The slowdown in trade has been broad-based across a wide range of countries and goods – suggesting the deterioration is reflecting the impacts of the global tightening in monetary policy rather than country specific factors.

There has been a noticeable change in trade patterns, including a smaller proportion of intermediate goods being traded, and fewer intermediate goods being sourced from Asia. A continued rise in geopolitical tensions and a drive towards reshoring production for essential goods are key reasons for this trade fragmentation.

Global trade will be stifled further should more countries follow the US and adopt industrial policies like those contained within the *Inflation Reduction Act* that incentivise businesses, especially manufacturing businesses, to reshore operations that have previously been offshored.

Chart 4 – World trade



Source: CPB, Haver, KPMG

Outlook for global economic growth

The expectation amongst international institutions like the IMF, OECD and World Bank is that the world economy will continue to experience mediocre aggregate growth for the remainder of this year and slow further into 2024.

Growth will remain uneven with advanced economies expected to grow at half to one-third of the rates forecast to occur in Emerging Market and Developing Economies (EMDEs). The US is now expected to see growth rates this year similar to those recorded last year, while China is forecast to perform below targeted levels of growth for this year, but notably higher than growth in 2022. The European Union is forecast to grow at less than a quarter of the 2022 rate, largely due to a forecast contraction in Germany this year.

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Australia overview

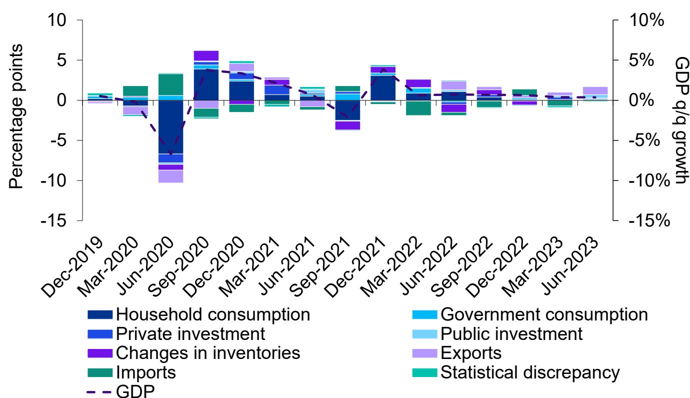
Massive population growth staves off economic contraction

Economic activity in Australia continues to weaken as the year progresses, with growth in domestic demand during the June quarter 2023 largely being driven by public sector investment, while Gross National Expenditure (GNE) fell once the wind down in inventories was accounted for by the Statistician.

Real GDP on a per capita basis has fallen over the first half of 2023 and is now at the same level as that recorded in March 2022. While economic activity has been weak, this fall in GDP per capita is reflecting the extraordinary levels of population growth via overseas migration that has been happening.

Australia's population is estimated to have increased by nearly 630,000 people over the year to 30 June 2023; an increase of 2.4 percent. This population growth has underpinned consumption and investment, and has provided the government large volumes of unplanned tax revenues allowing a reversal of fortunes in budget outcomes.

Chart 5 – Contribution to quarterly GDP growth



Source: ABS, Haver, KPMG

While inflation has been tracking down since its peak in the December quarter 2022, it remains too high and continues to be at the forefront of the RBA's decision making, leading to a divided market expectation regarding the RBA's next move.

Part of the market consideration with respect to future increases in the cash rate has been the role that recent increases in bond rates and the roll-off of the Term Funding Facility (TFF) will have on banks' wholesale borrowing costs going forward. That is, the transfer of funding sources away from low cost to higher cost sources (i.e., TFF to 10-year Commonwealth Bonds) will add about 0.2 percent alone to the weighted average wholesale funding cost to the banking sector – the equivalent of nearly a 25bp adjustment to the cash rate. Further, there has also been a notable increase in 10-year bond yields, up by nearly 100bp since the middle of last year, which itself is adding to retail borrowing costs for households and businesses.

The RBA's recent Financial Stability Review highlighted the financial pressure many households are now facing given the dual struggle of higher cost of living and higher mortgage costs. The RBA analysis concludes that on average around 5 percent of households with a variable mortgage are now in a position where their essential expenses exceed their incomes, which increases to 13 percent if a wider definition of essential expenses (to include private health insurance and private school fees) is applied.

This measure of household financial stress worsens considerably once income distribution is factored in. The disaggregated RBA analysis shows that nearly 20 percent households in the first quintile income distribution, and who also have a variable interest rate mortgage, are now in the position where their more-widely defined essential expenses are greater than their income. The RBA has also shown that as at July 2023 more than 40 percent of households in this cohort were characterised as borrowers with high loan-service ratios. This measure has increased substantially over the past 18 months – about 10 percent of households in April 2022 (the last month the cash rate remained at the pandemic emergency setting of 0.1 percent) recorded loan-servicing ratios exceeding 30 percent.

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Production

The June quarter of 2023 continued to see uneven growth across industries, with four out of 19 industries recording negative growth in real GVA.

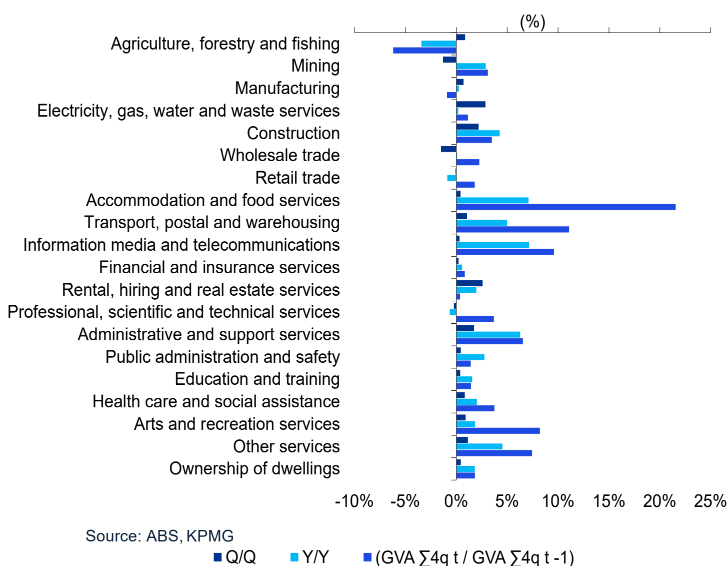
The top three with the largest q/q reduction included:

- *Wholesale Trade* (-1.5 percent) due to falls in wholesaling of basic material, grocery, liquor and tobacco, and machinery and equipment. Commissioned-wholesaling also declined.
- *Mining* (-1.3 percent) owing to a reduction in iron ore mining, oil and gas extraction, other mining, and exploration and mining services. On the other hand, coal mining recovered in this quarter.
- *Professional, Scientific & Technical Services* (-0.3 percent) driven by lower demand for research and consulting services, which partly offset the rise in computer system design and related services.

In contrast, those recording the largest q/q growth were:

- *Electricity, Gas, Water & Waste Services* (+2.9 percent), driven most by rises in electricity and gas supply in line with more household demand due to cooler weather.
- *Rental, Hiring and Real Estate Services* (+2.6 percent) due to improving commercial and residential market conditions, as well as a rise in machinery hire.
- *Construction* (+2.2 percent) due to increases in trades, and land development and sub-division services; infrastructure project activity; and non-residential construction.

Chart 6 – Industry Gross Value Added, 2023 Q2



Source: ABS, KPMG

Q/Q Y/Y (GVA ∑4q t / GVA ∑4q t -1)

Real GVA in *Agriculture, Forestry & Fishing* increased by 0.9 percent, with a rise in agriculture production driven by grains and declining input costs. Agricultural production is expected to fall in 2023–24 as a result of drier climate conditions that will reduce crop yields. As global prices for most commodities moderate, domestic prices received by producers are also forecast to decline.

NAB surveys show business confidence in August was mixed across industries, with a sharp fall in mining and continued weakness in retail, finance, business, and property services. Forward orders edged up but remained below average, also weighed down by retail.

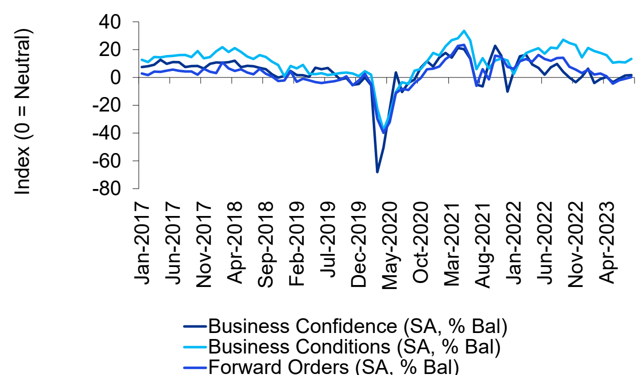
Price and cost growth were also mixed as labour cost growth fell, while purchase cost growth remained steady, with large increases in construction and wholesale. Output price growth saw a slight fall due to a weakening in price growth of retail, recreation and personal services.

Our production outlook does not change significantly from the previous publication, with growth expected to be weak across most industries through 2023. Industries more dependent on household discretionary spending such as *Retail Trade, Accommodation & Food Services, Arts & Recreational Services,* are expected to experience subdued growth as households tighten their belts.

Construction activity is anticipated to remain soft over the coming months due to challenges related to input and financing costs. High input costs, although supply chain easing is expected to resume, will continue to weigh on growth in *Wholesale Trade* and *Manufacturing* in 2023.

Forecasts for exports in *Mining* by the Department of Industry, Science and Resources in Q2 2023 were broadly unchanged from the previous quarter. Resources and energy export values are forecast to decline significantly in 2023-24 driven by price falls, especially prices of LNG and thermal coal, while volumes will remain unchanged.

Chart 7 – Business sentiment indicators



Source: NAB, Haver, KPMG

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Household Consumption

The interest rate hikes are starting to bite. Real household consumption continued to be flat in Q2 2023, growing marginally by 0.1 percent from Q1.

Quarterly growth was supported by rises observed in *purchases of vehicles* (+5.8 percent), *rent and other dwelling services* (+0.5 percent), *transport services* (+3.2 percent), and *electricity, gas, and other fuels* (+2.2 percent), with the rise in the last category driven by stronger demand for heating following a cooler than usual autumn.

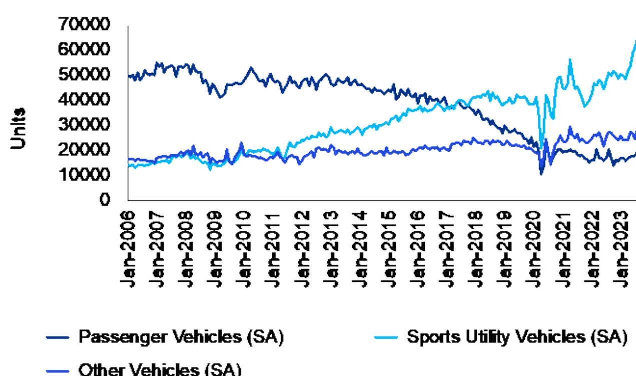
Offsetting these increases were reductions in discretionary spending in *recreation and culture* (-2.5 percent), *furnishings and household equipment* (-2.5 percent), *cigarettes and tobacco* (-1.6 percent), and *alcoholic beverages* (-0.6 percent).

Purchases of vehicles is expected to remain strong going into Q3 as seasonally adjusted motor vehicle sales in July and August continued to expand steadily, reflecting high demand and improved supply of vehicles. The first two months of Q3 also saw growth in sales of battery electric, hybrid and plug-in hybrid models, showing increasing consumer demand for low emissions technologies.

The household saving ratio continued to decline, down from 3.6 percent to 3.2 percent as the increase in household spending due to higher cost of living eclipsed a milder rise in gross disposable income. In addition, the rate hikes since Q2 2022 have led to a significant increase in mortgage payments. Dwelling interest payable as a share of total income payable has increased by 7 percentage points over the year.

Higher frequency data suggests most discretionary spending will continue to weaken in Q3. The nominal calendar-adjusted monthly household spending index increased by 4.8 percent through the year to August 2023, driven by a rise in non-discretionary expenditure (+9.1 percent), while discretionary expenditure was flat. Higher petrol prices were one of the major contributors to higher spending in August.

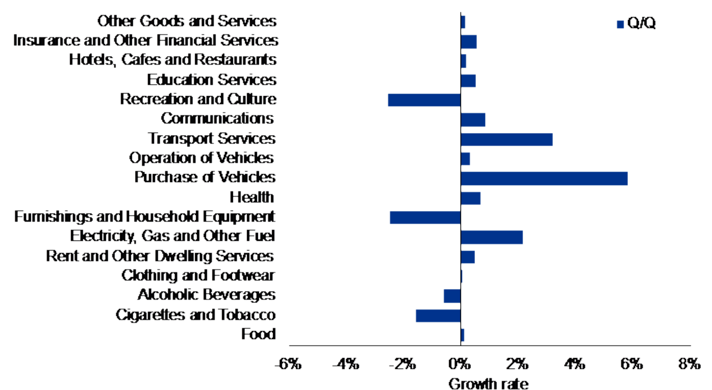
Chart 8 – Passenger vehicles and SUV sales



Source: Federal Chamber of Automotive Industries, Haver, KPMG

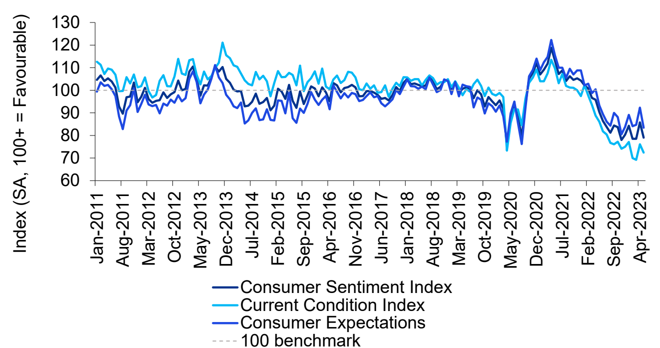
Consumer sentiment has been at sustained pessimistic levels for more than a year amid high inflation, although the sentiment index lifted slightly by 2.9 percent in October as the RBA continued to pause on rate rises. Nonetheless, consumers remained concerned due to the surprise jump of the monthly CPI in August. On the other hand, resilient labour market conditions continued to provide support for consumer confidence.

Chart 9 – Household final consumption expenditure, Q2 2023



Source: ABS, KPMG

Chart 10 – Consumer sentiment index



Source: Westpac, Haver, KPMG

Looking ahead, household consumption is expected to weaken further in the second half of 2023 as high costs of living and interest rates continue to bite, while households draw down their saving buffers. Upside risks to consumption outlook include a strong increase in population and a historically-low unemployment rate, although unemployment is expected to rise through the year.

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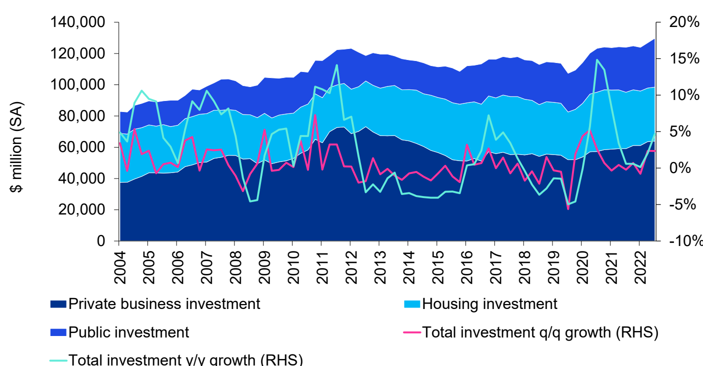
Investment

Real investment increased by 2.4 percent q/q in 2023 Q2, driven by private investment (+0.6 percent) and government investment (+8.2 percent). The increase in private investment was partly driven by a 4.2 percent uplift in purchases of machinery and equipment thanks to improved availability of motor vehicles and other equipment. Private investment in non-dwelling construction dropped by 2.9 percent q/q.

Chart 11 – Real public and private investment

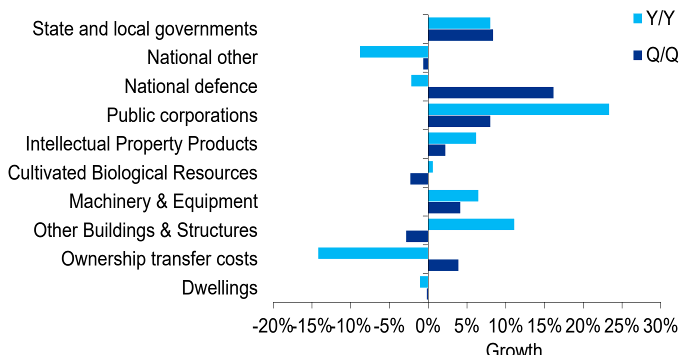


Source: ABS, KPMG

Total housing investment increased slightly by 0.7 percent q/q, driven primarily by a 3.9 percent increase in ownership transfer costs following the recent recovery in the housing market. This was partly offset by a 0.2 percent decline in dwelling investment due to a continued decrease in demand for renovations and house construction activity, despite increased activity in the construction of apartments and townhouses.

The property market continues to recover amid high population growth, recent pauses in interest rates, and homebuyers' anticipation of a peak of the tightening cycle.

Chart 12 – Investment growth, Q2 2023



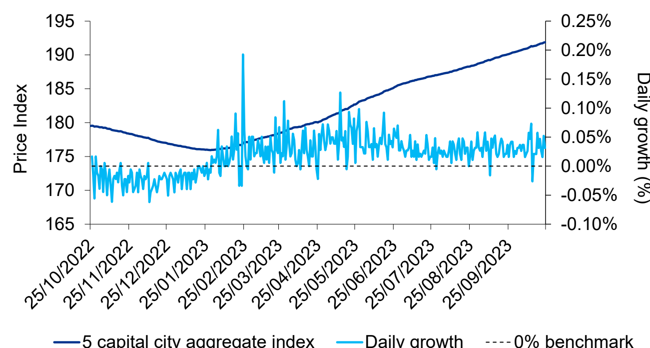
Source: ABS, KPMG

The CoreLogic price index for combined dwellings in five capital cities aggregate averaged over October 2023 was 8.3 percent higher than its trough in February 2023 and up by 6.5 percent from the levels in October 2022.

Looking forward, housing investment is expected to remain subdued in 2023 and potentially 2024 as signalled through the number of dwelling units approvals that has been on a downward trend. In addition, builders continue to experience capacity constraints, high construction and financing costs.

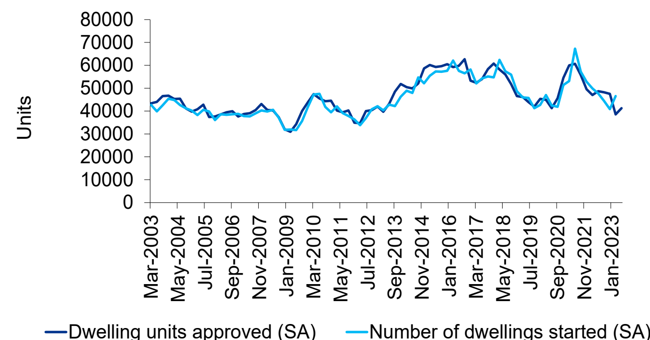
Into 2025, strong population growth, anticipated lower interest rates, along with government initiatives to boost supply and the easing in construction input costs, are expected to drive a rebound in dwelling investment.

Chart 13 – Daily home value index



Source: CoreLogic, KPMG

Chart 14 – Dwelling units approved and started



Source: ABS, KPMG

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Public investment saw a strong quarterly growth of 8.2 percent in Q2 2023, driven by ongoing work on large-scale transport, health and education projects across several states. This was further boosted by second-hand asset transfers from the private sector.

Public investment rose over the quarter across most categories, except for investments by federal public corporations (-3.6 percent q/q).

Infrastructure Partnerships Australia Pipeline Forecast shows quarterly spending on major infrastructure projects will peak at just under $20 billion in Q4 2024 and then stay elevated at between $18 billion and $20 billion per quarter until the end of 2025.

The Australian Government has announced its plan to review and streamline its $120 billion public sector infrastructure project pipeline. The progress and delivery of projects are expected to be affected by labour shortages, supply chain issues, and the financial challenges faced by several builders. These factors are likely to hinder the growth of public investment in the last quarter of 2023.

The June 2023 quarter survey of private new capital expenditure shows robust investment in FY23 and strong forward momentum for FY24. Estimate 7 in current prices for FY23 ($165 billion in actual spend) was 15.9 percent higher than FY22 Estimate 7. Businesses were investing more in new equipment and machinery as supply constraints eased. This was further boosted by some businesses bringing investment plans forward before the end of the temporary full expensing tax incentive on 30 June. New investments in buildings and structures also rose due to mining projects for resources used in clean technologies and commencement of some previously delayed non-mining projects.

The latest survey also provides the third estimate of expected private new capital expenditure for FY24 at $157.8 billion, which is about 7.1 percent higher than Estimate 3 for FY23 and approximately 14.5 percent higher than Estimate 2 for FY24.

Nonetheless, headwinds to business investment continue to gather strength, with weakening consumer demand for goods and services. Costs of non-residential building construction and heavy and civil engineering construction remain high, and elevated interest rates are placing pressures on financing costs.

Investment activity rose by 2.4 percent in Q2 2023

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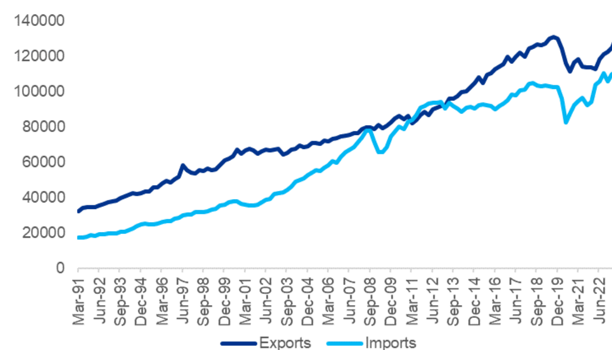
Net exports

Net trade contributed 0.8 percentage points to real GDP growth in Q2 2023, with a 4.3 percent increase in exports outweighing the 0.7 percent increase in imports.

Chart 15 – Imports and exports of goods and services (SA, $ million)

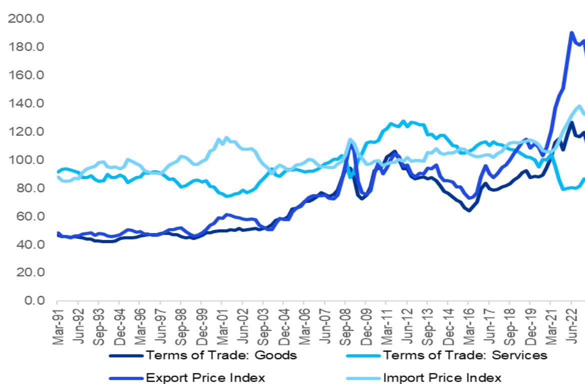


Source: ABS, Haver, KPMG

Exports of goods and services continued to grow by 4.3 percent q/q with international students and visitors (+18.5 percent q/q) and coal exports (+11 percent q/q) the key contributors.

Goods and services imports increased by a smaller amount – by just 0.7 percent q/q. The imports of goods and services were mostly driven by an 11.2 percent q/q increase in travel services and partly offset by a 20.9 percent q/q fall in telecommunication equipment.

Chart 16 – Terms of trade (index)

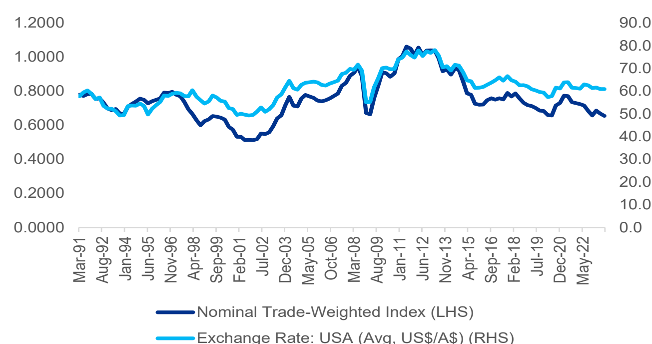


Source: ABS, Haver, KPMG

The terms of trade dropped by 7.9 percent because export prices fell by 8.2 percent. This decline was primarily driven by a warmer northern hemisphere winter, resulting in high European inventories of coal and liquefied natural gas, which reduced demand and prices for these commodities. Furthermore, lower demand from China's construction and manufacturing industries led to a slight decrease in iron ore prices. Import prices also experienced a slight decline of 0.3 percent.

The Australian dollar has been depreciating since the last QEO, particularly against the US dollar. The RBA has left its cash rate unchanged at 4.1 percent since June, which led to a wider difference between the US and Australian interest rates. The other big influence is China's weaker than expected economic rebound from its severe COVID lockdowns.

Chart 17 – Australian dollar exchange rates



Source: ABS, KPMG, Haver

Stricter monetary policies in major economies, a slower pace of global economic growth, and the deceleration of China's post-pandemic recovery, are all putting downward pressure on metal demand and prices.

In addition, while experts remain optimistic about China's long-term demand for iron ore, concerns exist about potential medium-term challenges, including government plans to cap steel production.

However, for now, government support for the property sector and strong steel production is likely to continue supporting iron ore demand. China's steel mills continue to purchase Australian iron ore, driven by demand for steel in electric vehicles, wind farms, ships, bridges, and infrastructure projects, which offsets the decline in residential construction.

External demand assumptions

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1
Exchange rate: Australian dollar/US dollar	0.68	0.68	0.68	0.68	0.68
Thermal coal price (US$/tonne)	240	168	146	153	157
Semi soft coking coal price (US$/tonne)	249	229	230	243	255
Gold price (US$/oz)	1,889	1,976	1,917	1,963	2,119
Dalian Iron Ore 62% Futures	109	105	110	108	103
Brent Spot Average (US$/barrel)	81	79	79	80	83
West Texas Intermediate Spot Average (US$/barrel)	76	74	73	75	77

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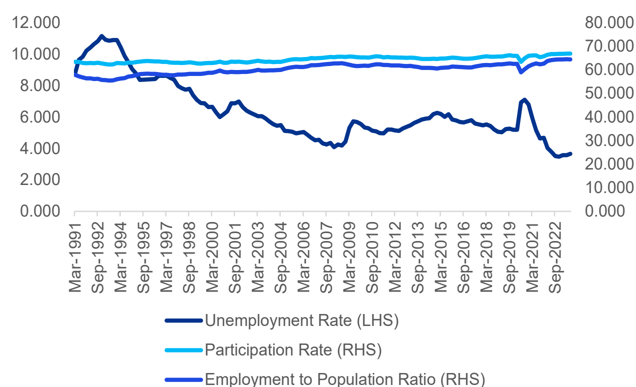
Labour market

The labour market has eased relative to market expectations and is showing more signs of being at a turning point, although the unemployment rate edged downwards to 3.6 percent in September 2023 from 3.7 percent in August 2023. The balance between labour demand and supply has continued to improve as more immigrants arrived in Australia.

Over the past 3 months employment growth has averaged around 23,100 people per month and appears to be trending down from the average employment growth figures of the past 12 months.

Chart 18 – Labour market condition



The participation rate decreased by 0.3 ppt to 66.7 percent in September, driven by the decrease in participation for men, which deceased significantly to 71 percent from 71.6 percent.

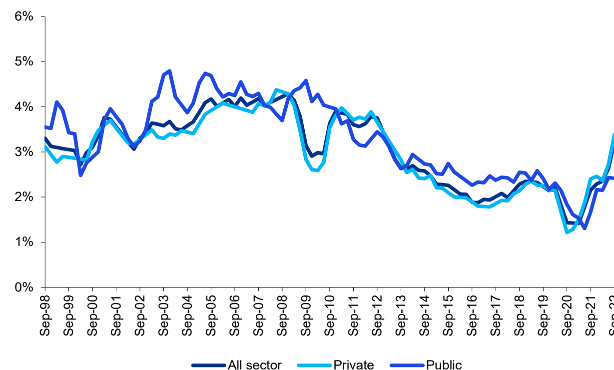
The WPI has remained largely unchanged, rising by 3.6 percent y/y in the June quarter 2023 and is slightly lower than the 3.7 percent figure recorded in the March quarter 2023.

Wages growth in the private sector was little changed from the previous quarter, at 3.8 percent y/y, remaining at the highest level since June 2012.

Public sector wage growth increased to 3.1 percent y/y from 3 percent, marking the highest annual growth since March 2013. The increase in public sector wages was driven by enterprise agreement bargaining outcomes, together with regular scheduled rises.

Significant upward risks to wage growth persist, particularly with the impending impact of the Fair Work Commission's announcement on minimum wages and awards in Q3. Moreover, certain states and territories are poised for a 4 percent increase in public sector wages.

Chart 19 – Wages growth (y/y)



Source: ABS, KPMG

The strength of the labour market is expected to gradually weaken until the end of the year. Leading labour market indicators, such as SEEK's jobs ad index, indicate a decrease in labour demand pressure, with a 20.5 percent decline in year-on-year terms as of August 2023. Furthermore, the increase in migration would continue to help to address some of the tightness in the labour market. As a result, we expect the unemployment rate to gradually rise from its current low levels to reach the natural rate of unemployment by mid-2024.

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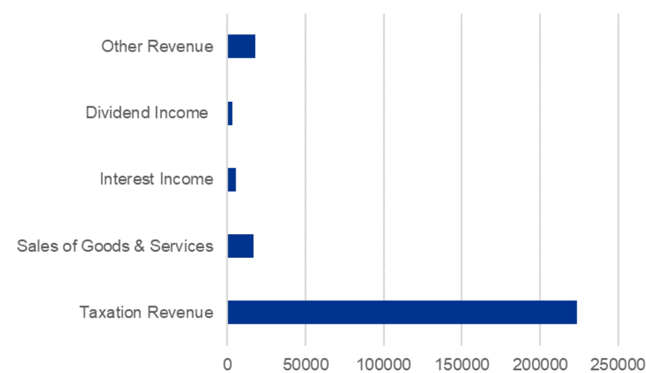
Government

Public demand contributed 0.5 ppt to the quarterly change in GDP in the June quarter. The contribution was primarily driven by a 8.2 percent increase in public investment. Government consumption expenditure grew more modestly at 0.4 percent.

The growth in public investment was driven by health and transport infrastructure investment. National defence investment also contributed to growth, rising by 16.2 per cent.

Chart 20 – Taxation revenue sources (NSA, $ million)



Source: ABS, Haver, KPMG

In the June quarter of 2023, the Commonwealth Net Operating Balance (NOB) stood at $34.3 billion, marking a significant increase of $102.1 billion compared to the same quarter in 2020. This uptick was primarily driven by higher company and personal income tax revenues, along with reduced expenses due to the conclusion of major COVID-19 and natural disaster programs in previous quarters.

The 32.1 percent year-on-year increase in company income tax revenue in the June quarter of 2023 was primarily driven by two key factors. Firstly, there was a notable surge in company profitability, particularly in the mining and resources sectors, thanks to elevated prices for energy commodities. Secondly, this growth was bolstered by generally robust economic conditions, coupled with a rise in inflation.

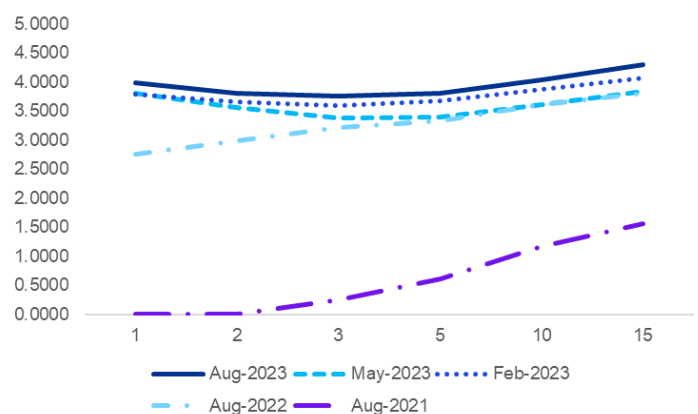
On the other hand, Total State NOB for the June quarter 2023 was -$4.7 billion, which also saw an increase of $12.5 billion compared to the June quarter of 2020. The surge in state NOB was attributed to higher revenues from payroll, stamp duties on conveyances, royalties, grant receipts from the Commonwealth, and sales of goods and services, alongside reduced expenses related to subsidies for businesses impacted by COVID-19 and natural disasters.

Chart 21 – Government balances (NSA, $ million)

Source: ABS, Haver, KPMG

The yield curve remains inverted in the short-term, but the degree of inversion has decreased compared to three months ago. Particularly noteworthy is the fact that the spread between yields on 10-year and 1-year government bonds has returned to positive territory. This comes after it had dipped to a negative 20 basis points three months ago.

Chart 22 – Yields on Commonwealth Government bonds (Bid yield, %)



Source: Tullett Prebon, Haver, KPMG

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Forecast

GLOBAL[4]	Annual GDP Growth[1]			Unemployment Rate[2]			Average Annual Inflation[3]		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
World	2.7	2.8	3.3				10.2	9.9	3.0
Euro Area	0.9	1.4	1.9	6.8	6.7	6.7	5.6	2.6	2.7
UK	0.4	0.3	0.6	4.3	4.9	5.1	7.4	4.4	2.5
US	1.0	1.4	1.9	3.7	4.2	4.1	3.6	2.4	2.1
Brazil	1.4	1.2	1.9	8.8	7.4	6.9	5.0	4.0	3.8
China	5.1	4.9	5.1	5.4	5.4	5.5	0.6	2.8	2.6
India	6.2	6.4	7.2				5.0	4.9	4.4
Indonesia	4.8	5.2	5.5	6.2	6.6	6.6	3.9	3.0	2.8
Japan	1.3	1.1	1.4	2.5	2.2	1.9	2.6	1.7	1.3
Singapore	1.6	1.7	3.6	2.0	2.4	1.9	5.0	2.3	2.3
South Korea	1.3	2.0	2.6	2.3	3.0	3.0	3.4	2.9	2.8
Taiwan	1.0	3.1	2.4	3.7	4.1	3.9	2.2	1.4	1.4
Vietnam	5.8	4.6	4.2	3.1	2.9	3.3	2.4	2.3	1.9
Australia	1.9	2.2	2.5	3.7	4.4	4.5	5.7	3.2	3.1
New Zealand	1.1	1.3	1.4	3.3	3.5	3.4	5.6	3.7	2.9

[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. [4] Source: NIESR

AUSTRALIA	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Consumption	6.5%	5.3%	1.6%	0.8%	1.6%	2.3%	2.6%	2.9%
Business Investment	3.9%	6.1%	6.4%	3.0%	0.9%	1.4%	3.0%	3.0%
Housing investment	-4.6%	-7.2%	-4.1%	0.3%	2.3%	2.9%	3.3%	4.6%
Government	4.8%	2.3%	2.7%	3.8%	3.9%	3.7%	3.4%	1.1%
Exports	3.4%	8.8%	7.8%	2.9%	0.7%	1.4%	2.3%	3.4%
Imports	12.7%	10.2%	2.7%	0.4%	2.5%	5.0%	5.4%	3.5%
GDP	3.7%	3.3%	1.9%	1.7%	2.2%	2.5%	2.5%	2.0%
Headline CPI	7.8%	6.1%	5.1%	3.9%	3.1%	3.0%	3.2%	2.9%
WPI	3.4%	3.6%	4.0%	4.1%	3.5%	3.0%	2.2%	2.3%
Real WPI	-4.1%	-2.3%	-1.1%	0.2%	0.4%	0.0%	-0.9%	-0.5%
Current account balance*	2.2%	1.0%	2.3%	0.6%	-0.5%	-1.3%	-2.0%	-1.3%
Government budget*	-2.2%	-1.0%	-1.5%	-2.2%	-2.0%	-1.9%	-1.7%	-0.8%
RBA Cash Rate*	3.1%	4.1%	4.35%	4.35%	3.85%	3.35%	3.1%	3.1%
10-government bond*	3.7%	3.6%	4.0%	3.7%	3.5%	3.4%	3.4%	3.3%
AUD/USD*	0.66	0.658	0.654	0.690	0.693	0.697	0.700	0.702
Terms of trade	6.9%	-12.7%	-4.6%	-4.0%	-7.5%	-5.1%	-3.9%	-2.8%
Employment	5.1%	3.2%	1.7%	0.5%	0.8%	0.9%	0.9%	0.8%
Unemployment rate*	3.5%	3.6%	3.7%	4.1%	4.4%	4.4%	4.5%	4.6%
Dwelling price	-1.9%	-1.2%	0.7%	1.2%	1.7%	2.1%	2.8%	3.2%

*=values at end of period

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Contacts

Dr Brendan Rynne
Chief Economist & Partner
T: +61 3 9288 5780
E: bjrynne@kpmg.com.au

Dr Michael Malakellis
Senior Economist & Principal Director
KPMG Australia
T: +61 7 3233 9592
E: mmalakellis@kpmg.com.au

KPMG.com.au

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