Australia Economic Outlook

Q1 2024

KPMG Australia

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Contents

Executive summary

The global economy is still recovering but inflation proves to be sticky. Domestically, inflation continues to move down towards the target band, but the progress is slower than expected. Domestic outlook remains positive, but weaker growth is expected for 2024.

The global economy is still recovering but inflation continues plaguing countries, creating uncertainty as to whether the current policy prescription is sufficient to bring pricing pressure under control. Seemingly, there has been a disconnect between monetary and fiscal policy, with governments universally thinking higher interest rates will be enough to bring inflation down. Fiscal policy has arguably been looser than it should have been under this period of inflation repair – it is no surprise that inflation in the United States has turned back up given the pressure coming through government reforms like the perversely named *Inflation Reduction Act*.

This looseness has held up employment, kept aggregate demand higher and pushed its way through to stronger property markets – all signals that the global economy is stronger than what central banks hoped it to be. This has created a conundrum for the central banks who previously thought they would be on the precipice of loosening the interest rates – now they are at best having to hold them 'higher for longer', or at worst, looking to tighten them further.

However, the bar for another rate hike is very high. The Federal Reserve held interest rates in May and signalled rates are likely to stay 'higher for longer', while dismissing the possibility of a rate rise this year. Rate cuts will potentially be held off until the Bank gains greater confidence that sufficient progress has been made on taming inflation.

While the latest domestic inflation rate surprised, on the upside it was because of health and education – two categories that always have a price surge in the March quarter and will be out of the inflation equation for the rest of the year. The downward trajectory in services demand has been maintained but at a slower pace. Importantly, the annual trimmed mean inflation measure has also continued to fall.

Although domestic inflation may be sticky like in the United States, the predominance of variable rate mortgages in Australia represents a stronger transmission channel of monetary policy than in many other countries. Research by the RBA has shown that since interest rates began rising, the average mortgage rate that Australians pay has increased more quickly than average mortgage rates paid in other countries.

Population growth is a mixed blessing as it helps with (apparently) skills shortages but adds to aggregate demand (albeit per capita spending falling) and housing pressures. Still, the housing market continues to face constraints in increasing supply to meet demand, which drives up rent inflation – and there is no easy solution to housing problems.

The domestic outlook is still positive, although we expect 2024 to be weaker – prolonged contractionary interest rate settings will eventually pull spending down, and unemployment starts to lift as demand weakens, with employers consolidating jobs, which is reflected in the fall in hours worked. Housing supply remains problematic and is not going to catch up with high demand, which will continue to place upwards pressure on rents. We expect 2025 to be better but growth is likely to remain below the long-term trend.

	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
GDP (Real)	3.2%	2.1%	1.4%	1.7%	2.0%	2.3%	2.4%
Inflation*	6.0%	4.1%	3.8%	3.5%	3.2%	2.7%	2.6%
Unemployment*	3.6%	3.9%	4.2%	4.5%	4.7%	4.6%	4.5%
AUD/USD*	0.67	0.66	0.68	0.69	0.70	0.71	0.73

Global landscape

Headline inflation has peaked across most advanced economies, but persistent core inflation has continued to cause headaches for monetary policymakers.

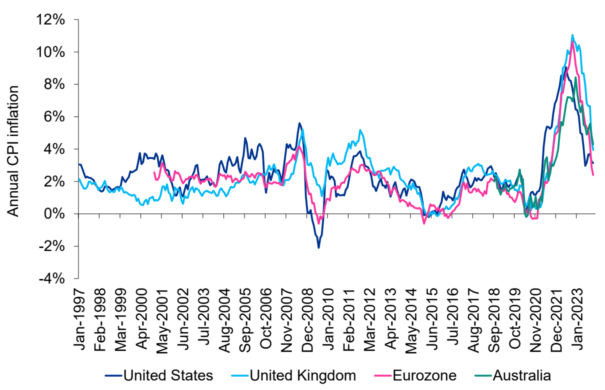
Headline inflation falling

Inflation has dropped to be closer to central banks' targets in many advanced economies. Nonetheless, it has remained uneven by component as energy and goods price inflation has eased, while housing and core services inflation has stayed elevated, leading to sticky non-tradables inflationary pressures. Some economies – particularly the United States – saw a slight increase in inflation in their most recent data.

The rapid monetary policy tightening cycle has been playing a role in disinflation and the slowing down of global output growth, but the risk of a major recession has been lowered in major economies.

The underlying inflation is expected to continue falling gradually, giving central banks more confidence to cut their policy rates. Upside risks to inflation, however, remain due to ongoing uncertainty around the Russia–Ukraine war and recent developments in Israel and Gaza and the Red Sea.

Chart 1 – Annual inflation in advanced economies

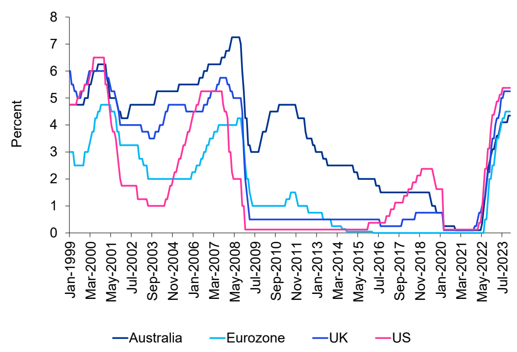


Source: ECB, ONS, ABS, BLS, Haver, KPMG

Headline inflation has also eased substantially in emerging economies, except for Argentina and Türkiye. However, similar to advanced economies, core inflation in emerging economies remains elevated, albeit trending downwards gradually.

Global headline inflation is expected to continue falling to about 5% at the end of 2024 from 6.9% in 2023 to 3.4% by the end of 2025, as a result of easing supply chain disruptions and slower economic activity.

Chart 2 – Policy rates in advanced economies



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

Below-trend economic growth

The impact of monetary tightening and conflict factors means the world economy is unlikely to return to pre-pandemic economic growth trends in the near term. However, a large contraction is likely to be avoided by major economies. There have been hopes that rate cuts can occur later in the year in some economies as inflation is now closer to central banks' targets.

The Swiss National Bank became the first major central bank to lower its key lending rate, marking the start of a rate-cutting cycle in advanced economies. The Federal Reserve Bank has signalled they expect to slash their policy rate three times in 2024.

Since the costs of servicing debt have increased due to higher interest rates, tighter fiscal policies are also expected in advanced economies.

The expectation amongst international institutions like the IMF, OECD and World Bank, is that the world economy will continue to experience further slowdown in 2024.

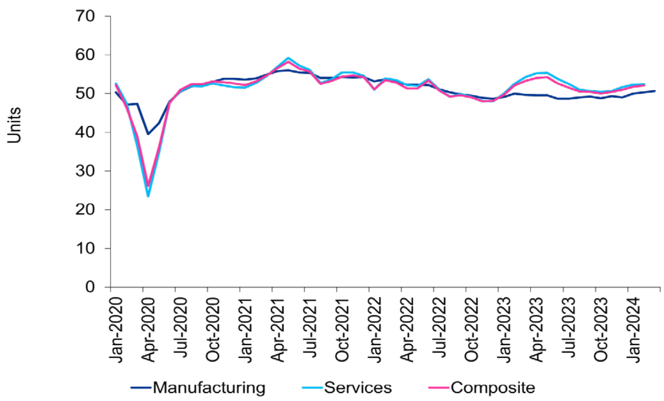
We expect global growth to drop slightly to be in the high-2% range in 2024. The United States is expected to see growth rates softening to mid-1% in 2024. The Chinese economy is expected to perform below targeted levels of growth at 4.7% for 2024 and 4.5% for 2025. The eurozone barely avoided a recession in 2023 and is expected to grow at a subdued rate of 0.9% in 2024 and 1.5% in 2025.

International labour market and skill shortages

Despite weak economic growth, labour markets have remained remarkably strong, with the global unemployment rate declining to the pre-pandemic levels of 5.1%. The OECD and IMF expect unemployment rates in the United States, United Kingdom, Canada and Australia to climb, but remain low and near to current levels in Japan and the eurozone.

According to the OECD, vacancy rates in numerous OECD nations have continued to reduce since their peak in 2022. Despite the decline in vacancy rates, global skill shortages remained severe. The ILO believes that ongoing skill disparities between labour-rich nations and those with declining labour forces may have contributed to increased international migration flows.

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



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

Global economic growth hits eight-month high

The IHS Markit Composite Purchasing Managers' Index (PMI) in February 2024 shows the global economic expansion accelerated for a fourth straight month in February as both manufacturing output and services activity grew at faster rates.

For the first time since June 2022, demand conditions improved broadly across the manufacturing and service sectors.

Japan, the United States, China, the United Kingdom, and Russia were among the IHS Markit PMI survey countries to report positive output growth, while the eurozone and Canada experienced contractions.

In February, input costs and output prices rose more, with the service sector experiencing faster rises than manufacturing.

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.

WTO forecasts rebound in global trade but warns of downside risks

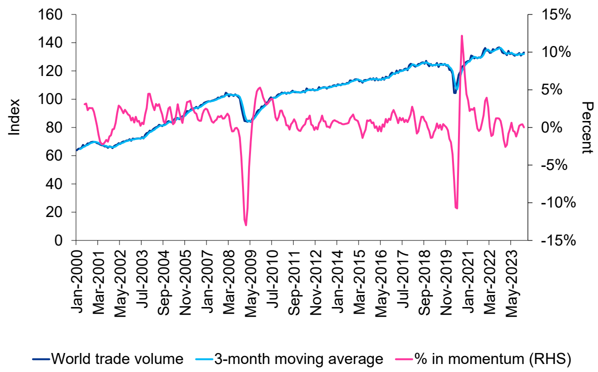
Global trade fell 3% to $31 trillion in 2023, following a peak in 2022. The slowdown was fuelled by lower demand in industrialised nations and weaker trade in East Asia and Latin America. The slowdown was fuelled by a 5% drop in merchandise trade. Meanwhile, trade in services rose by 8%, defying the declining trend. Tourism and travel-related services increased by over 40%, driving growth in the sector.

Developing countries experienced a sharper decline in trade, with their imports and exports falling by 5% and 7% respectively, compared to a 4% drop in imports and 3% in exports for developed nations.

The exception was a significant increase in intra-regional trade in Africa.

The World Trade Organization's (WTO) trade forecast for 2024 remains strong at 3.3%.The forecast for 2024 is positive, but geopolitical tensions and shipping interruptions increase the uncertainty around the forecast. Logistics challenges such as shipping interruptions in the Red Sea, Black Sea, and Panama Canal put doubt on the positive outlook, threatening to raise costs and disrupt supply chains. Ongoing geopolitical tensions and regional wars may also cause volatility in the energy and agricultural markets. Furthermore, the increased need to secure access to minerals important to the energy transition may impact pricing and increase market volatility for these commodities.

Chart 4 – World trade



Source: CPB, Haver, KPMG

Australia overview

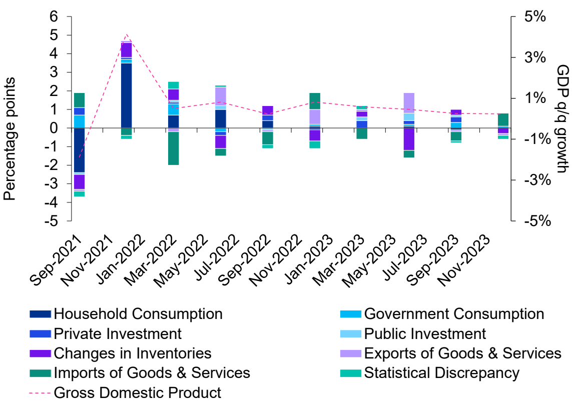
Economic growth continues to weaken as the year progresses.

Economic activity in Australia continues to weaken as the year progresses, with GDP growth during the December quarter 2023 slowing down to 0.2% from 0.3% in the preceding quarter. The largest contribution to that growth can be attributed to the pullback in imports, which itself is a further indicator of economic weakness as consumers and businesses required fewer overseas goods and services, consistent with the overall fall in aggregate demand.

With extraordinary levels of population growth, real GDP on a per capita basis has fallen for three consecutive quarters and is now 1% lower than where it was a year ago.

The latest national accounts also revealed that both compensation of employees (COE) (+1.4%) and gross operating surplus (+2.6%) both increased over the quarter. Private sector COE rose across 12 of 16 market sector industries, with growth softening slightly in the wake of the strong increase in Q3, although it remained elevated. In contrast, strong growth in public sector COE was driven by industrial reforms and new EBAs as several states and territories lifted wage caps.

Chart 5 – Contribution to quarterly GDP growth



Source: ABS, Haver, KPMG

More encouragingly, labour productivity continued to improve in Q4 with GDP per hour worked rising by 0.5% over the quarter as an increase in labour supply allows better skill matching with employers' demand. Through the year, labour productivity remained 0.5% lower than it had been the year before, suggesting the adjustment process is occurring gradually. Real unit labour cost therefore grew more modestly (+0.1%).

Household final consumption expenditure flatlined (0% q/q) with rises observed in *electricity, gas and other fuel* (+6.9%), *rent and other dwelling services* (+0.4%), *food* (+0.9%), *health* (+0.9%), and *furnishings and household equipment* (+1.1%). Those increases offset a fall in discretionary spending, including *hotels, cafes and restaurants* (-2.8%), *purchase of vehicles* (-3.6%), *clothing and footwear* (-2.5%), and *cigarettes and tobacco* (-6.2%).

Large falls in dwelling investment, inventories, machinery and equipment, and government-fixed capital investment across all tiers dulled down a couple of rays of economic sunshine, including non-dwelling construction and investment by state government corporations.

These very weak numbers – noting that if imports had stayed flat during the quarter, GDP growth would have been -0.2% instead of +0.2% – are likely to continue into this year.

Government spending held up this quarter's figures but remains too high, with government spending to GDP ratio becoming entrenched at nearly 27%, rather than the 22–23% pre-Covid levels.

The softening in economic demand is not yet translated into weaker labour market conditions, with the latest labour market data in February showing strong employment growth and a low unemployment rate. As this translation is likely to occur with a lag, we continue to expect the unemployment rate to gradually rise through the year.

Production

The December quarter of 2023 saw contractions of Gross Value Added (GVA) over the quarter in 7 out of 19 industries, with the largest drop recorded in *Agriculture, forestry and fishing* (-3.4%) due to drier weather.

Some others recording the largest q/q reduction included:

– *Accommodation and food services* (-3.2%) owing to softening demand for food services (cafes, restaurants, etc.) and accommodation services driven by weak domestic tourism.
– *Manufacturing* (-1.2%) driven by falls in manufacturing activity in food, beverage and tobacco products, other manufacturing, and machinery and equipment.

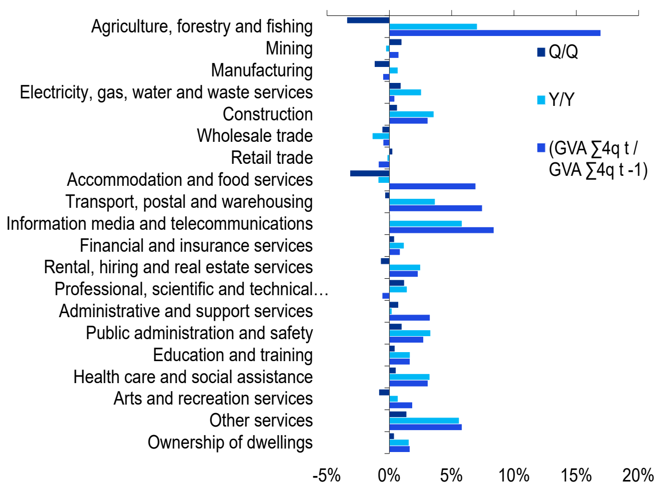
In contrast, the top three with the largest q/q growth were:

– *Other services* (+1.4%), driven by personal and other services.
– *Professional, scientific and technical services* (+1.2%) driven by increased demand for engineering services, which partly offset the decline in computer system design and related services.
– *Public administration and safety* (+1%) due to activities relating to the Voice referendum.

Considering the size of contribution, *Mining* (1%) added most to GDP growth this quarter. Rising production and a large drawdown in mining inventories helped meet international demand for iron ore and coal exports.

NAB monthly business surveys continue to show a resilient economy with trading conditions and employment being broadly steady in March. Confidence and forward orders rose slightly but remained low, with both indicators being very weak compared to trend in retail. Capacity utilisation continued to ease in March.

Chart 6 – Industry Gross Value Added, 2023 Q2



Source: ABS, KPMG

Cost and price growth remained heightened in March but eased slightly. Growth in labour and purchase costs both dropped by 0.4 ppt in quarterly terms. Final output price growth declined from 1.2% the previous month to 0.7%.

In 2024, 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.

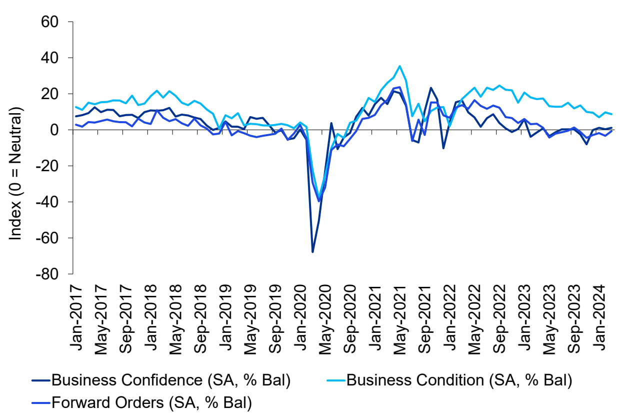
Business conditions have been on a downward trend for *Retail Trade* and *Wholesale Trade* over recent months as shown in NAB monthly business surveys.

Construction activity is anticipated to remain soft in the near term primarily due to capacity constraints caused by shortages and costs of labour, particularly for finishing trades, as well as large increases in construction costs.

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) forecasts real gross production value of farm, fisheries and forestry products to fall by 17% in 2023–24 as a result of drier climate conditions. However, production is expected to recover in 2024–25 and 2025–26 before declining in 2026–27 and 2027–28, predominantly driven by assumed climatic conditions.

Forecasts for exports in *Mining* by the Department of Industry, Science and Resources in Q1 2024 were broadly consistent with those in the previous quarter. Resources and energy export values are forecast to decline from $466 billion in 2022–23 to $417 billion in 2023–24 as weaker demand and fewer supply disruptions will lower prices. Export earnings are projected to fall further in 2024–25 due to further declines in bulk commodity prices and an increase in the AUD/USD.

Chart 7 – Business sentiment indicators



Source: NAB, Haver, KPMG

Household consumption

Household final consumption expenditure in Q4 2023 rose marginally by 0.1% over the quarter, following a slight reduction of 0.2% (revised) in Q3. Rises were observed in spending on *electricity, gas and other fuel* (+6.9%), *rent and other dwelling services* (+0.4%), *food* (+0.9%), *health* (+0.9%), and *furnishings and household equipment* (+1.1%).

Those increases offset a fall in discretionary spending, including *hotels, cafes and restaurants* (-2.8%), *purchase of vehicles* (-3.6%), *clothing and footwear* (-2.5%), and *cigarettes and tobacco* (-6.2%).

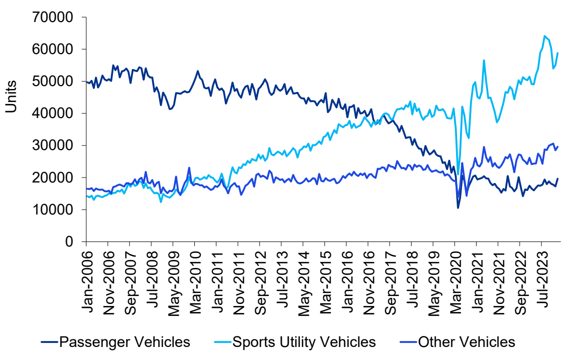
Over the year, household consumption also increased marginally by 0.1% despite strong growth in population, indicating consumption per capita has gone backwards.

Purchases of vehicles fell 3.6% in Q4 after a strong surge of 13.2% in Q3. Nonetheless, the seasonally adjusted total new motor vehicle sales in Q4 was 323,418, up by 0.4% from Q3, with growth supported by sales of commercial vehicles. New sales of passenger and sports utility vehicles in seasonally adjusted terms dropped by 0.9% and 5.7% respectively. Monthly new sales data had a solid comeback in February (7.4% m/m) despite a sluggish start in January (-1.4% m/m), as passenger vehicles saw the strongest growth.

An increase in gross disposable income (driven by a rise in compensation of employees, social assistance benefits and interest received) and a decline in income tax paid boosted the household savings ratio from 1.9% to 3.2%. Dwelling interest payable continued to increase (+5%) – this is the softest growth in dwelling interest payable since June 2022 as interest rates have plateaued.

Retail trade in March fell by 0.4% over the month after the increases in January and February as consumers pulled back on spending due to high costs of living. The Taylor Swift effect on spending in February has proved to be temporary. The underlying trend that excludes one-off and seasonal factors has been flat for six months.

Chart 8 – Passenger vehicles and SUV sales

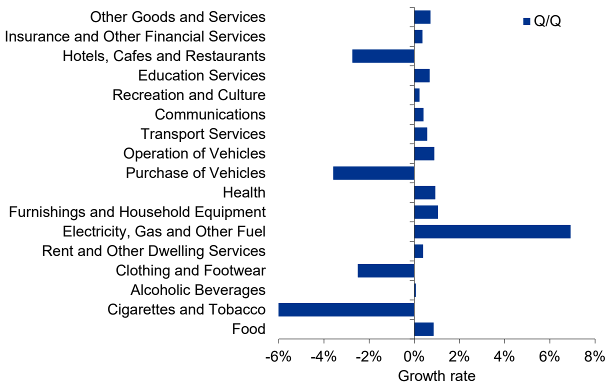


Source: Federal Chamber of Automotive Industries, Haver, KPMG

The fall in discretionary spending continues to be evident in the latest nominal calendar-adjusted monthly household spending index in February, which was up by 3.6% over the year due a rise in non-discretionary expenditure (+6.9%), while discretionary expenditure fell by 0.2%.

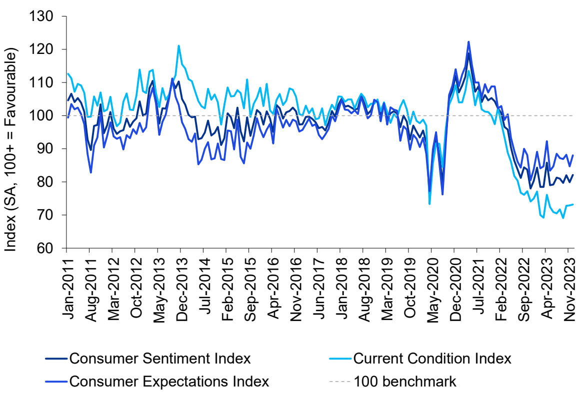
Consumer sentiment in April dipped further by 2.4% to 82.4, well below the neutral level of 100, reflecting high concerns over the inflation challenge. Confidence has remained deeply in the pessimism zone since mid-2022, with worries about inflation and interest rate rises easing very slowly.

Chart 9 – Household final consumption expenditure, Q4 2023



Source: ABS, KPMG

Chart 10 – Consumer sentiment index



Source: Westpac, Haver, KPMG

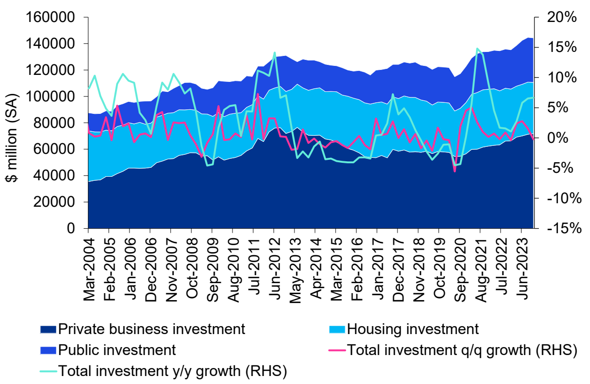
Headwinds to household consumption are expected to persist in 2024 as interest rates could stay higher for longer and inflation remains sticky, while households draw down their savings buffers. The slowdown in economic growth is anticipated to flow through to the labour market, albeit with a delay, which will reinforce downwards pressure on household consumption. One ray of light on the horizon for retailers is the revised Stage 3 tax cuts from July, which should give a boost to consumer spending.

Investment

Real investment dropped by 0.2% q/q in Q4 2023, driven by decreases in both private investment and government investment.

Private investment declined by 0.2% over the quarter primarily driven by a fall in dwellings, as approvals and new dwelling commencements were weak as a consequence of high interest rates. Renovation activity, and investment in machinery and equipment also dropped in Q4.

Chart 11 – Real public and private investment

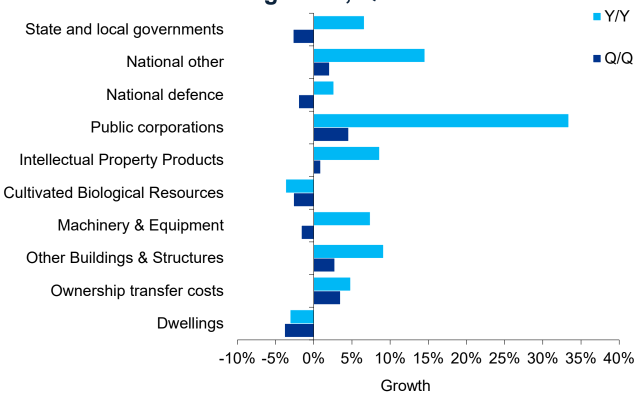


Source: ABS, KPMG

In contrast, non-dwelling construction rose by 2.7% due to work on data centres and warehouses during Q4. Ownership transfer costs expanded by 3.5% as the residential property market across most states continued to be active.

The pace of residential property price growth in April continued to be diverse across capital cities due to differences in affordability, population growth and housing supply. Significantly stronger gains were observed in Perth, Adelaide and Brisbane, while at the other end of the spectrum, Melbourne recorded a slight drop of 0.1%.

Chart 12 – Investment growth, Q4 2023



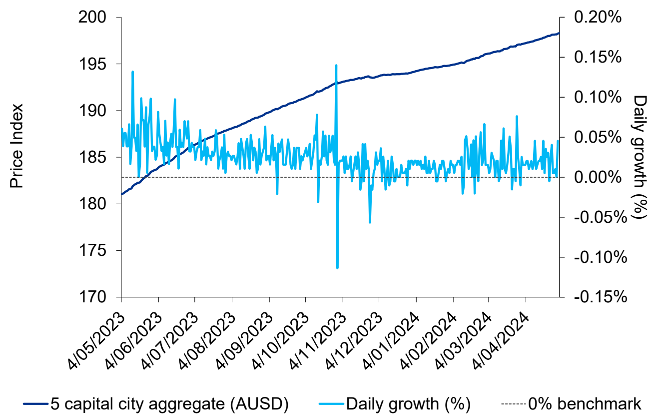
Source: ABS, KPMG

Looking ahead, we expect price growth will be slower in 2024 than in 2023. In saying that, we are anticipating persistent strong demand for housing and limited new housing construction – these factors will likely lead to further price gains. Nonetheless, the existing high house prices will impact affordability, consequently exerting a cooling effect on the market and partly offsetting the gains.

Housing investment is expected to remain subdued in 2024 as signalled through the lacklustre number of dwelling approvals, which has been on a downward trend since mid-2022, reflecting the effects of higher building costs.

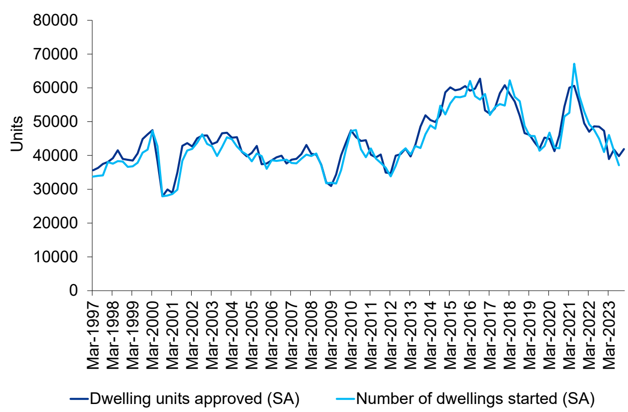
Into 2025, anticipated lower interest rates, government initiatives to boost supply, and improved conditions for builders, are expected to drive a rebound in dwelling investment.

Chart 13 – Daily home value index



Source: CoreLogic, KPMG

Chart 14 – Dwelling units approved and started



Source: ABS, KPMG

The December 2023 quarter survey of private capital expenditure shows robust actual investment in the first half of FY24, as well as strong forward momentum for the remainder of the financial year and FY25. Estimate 5 in current prices for FY24 ($91.3 billion in actual spend) was revised up by 4% compared to Estimate 4 for the same year. Estimate 1 for FY25 is $145.6 billion, which is 12.6% higher than Estimate 1 for FY24.

Real private new capital expenditure rose 0.8% in the December quarter 2023, with business investment growing in both mining (+1.1%) and non-mining (+0.6%) industries. The quarterly growth slowed from the strong levels seen in late 2022 and early 2023.

Electricity, gas, water, and waste services witnessed the strongest growth due to increased investment in renewable energy infrastructure, which also led to an increase in building and structure investments. Capex for the *Information media and telecommunications* industry also rose strongly due to ongoing investment in data centres.

Headwinds to business investment continue to gather strength, with weakening consumer demand for goods and services weighing on retail and its upstream industries. Growth of credit to the business sector has also slowed since late 2022. We expect overall business investment will grow at a slower rate in 2024.

Public investment declined by 0.2% over the quarter in Q4 due to a fall in general government, which was offset by a rise in public corporations' investment.

Investment made by Commonwealth and state public corporations combined increased by 4.6%. Non-defence investment made by the Federal Government expanded by 2%. In contrast, defence investment dropped by 2%, and investment by state and local governments declined by 2.7%.

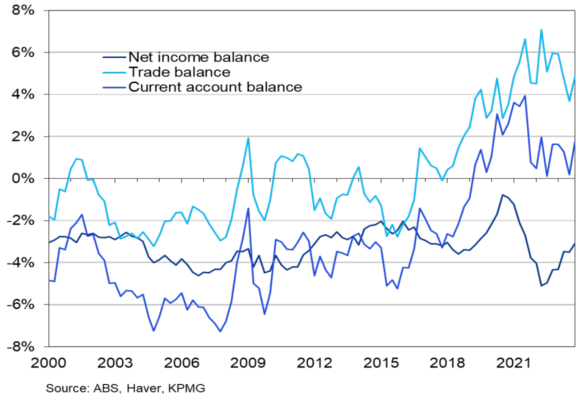
Infrastructure Partnerships Australia Pipeline Forecast shows quarterly spending on major infrastructure projects will stay elevated at between $18 billion and $20 billion per quarter until the end of 2025.

However, the Australian Government has released the list of 50 infrastructure projects, totalling around $7 billion in Commonwealth funding, to be slashed from its $120 billion infrastructure pipeline. This decision followed an independent review that found the $120 billion pipeline was facing $33 billion in cost blowouts and delays. Along with issues relating to capacity constraints faced by the construction industry, growth of public investment in 2024 is therefore likely to ease significantly.

Net exports

Net trade contributed 0.6 percentage points to real GDP growth in Q4 2023, after detracting 0.6 percentage points from real GDP in Q3 2023, with a 3.1% q/q fall in imports and a 0.3% q/q fall in exports.

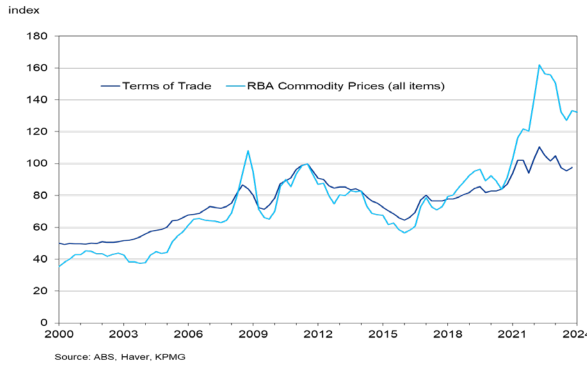
Chart 15 – Current account balance (percent of nominal GDP)



Exports of goods and services fell by 0.3% q/q, driven by a fall in exports of goods. Goods exports fell by 0.3% as the global demand for Australian commodities continued to weaken. Exports of services increased by 0.5% as the number of incoming travellers and international students experienced sustained growth.

Fall in imports drove net trade. Imports of goods and services fell much greater, by 3.4%, driven by falls in imports of both consumption and capital goods. Imports of services also fell as Australians spent less money overseas.

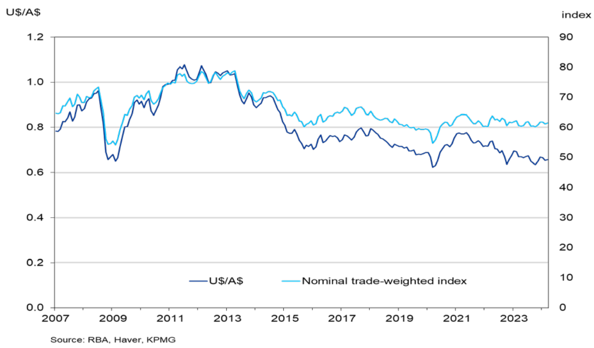
Chart 16 – Terms of trade and commodity prices (Index 2011 = 100)



The terms of trade increased by 2.2%, driven by a rise in export prices as demand from export markets for iron ore and coal increased. Imports prices rose by less, driven by a weaker Australian dollar.

The Australian dollar remains relatively weak, falling to USD 0.656 at the end of February from USD 0.668 at the end of December. Market views regarding the timing and extent of policy rate cuts during 2024 and beyond seems to have been revised down since the end of last year, resulting in a weakening of the Australian dollar. The weakening of the Australian dollar can also be seen on a trade-weighted basis. The trade-weighted index has depreciated by 0.4 index points between December 2023 and March 2024, to 61.4.

Chart 17 – Australian exchange rate (non-seasonally adjusted, average of period)



The World Bank commodity price index rose slightly between December 2023 and March 2024, driven by a surge in energy prices. Metal prices weakened during the same period as metal supply remained ample and China's heavy industry and housing construction sectors remained weak.

Commodity price is expected to fall 4% in 2024. The forecasts assume that the conflict in the Middle East will have a limited impact on commodity prices, though geopolitical risks remain high. Energy prices are expected to decline by almost 5% in 2024. Metal prices are set to fall in 2024. However, they are expected to recover in 2025 as global activity improves and the demand for metals in renewable energy technologies accelerates.

External demand assumptions

	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Exchange rate: Australian dollar/US dollar	0.66	0.65	0.68	0.69	0.69
Thermal coal price (US$/tonne)	147	129	151	148	150
Semi soft coking coal price (US$/tonne)	278	342	256	269	273
Gold price (US$/oz)	2,045	2,178	2,306	2,350	2,371
Dalian Iron Ore 62% Futures	141	100	117	114	111
Brent Spot Average (US$/barrel)	79	82	84	83	81
West Texas Intermediate Spot Average (US$/barrel)	74	78	79	78	76

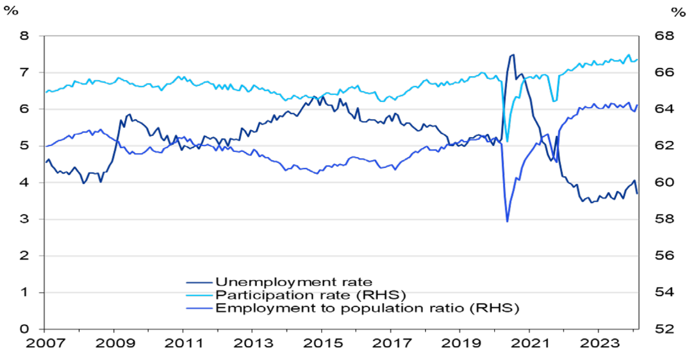
Labour market

The seasonally adjusted unemployment rate increased slightly to 3.8% in March 2024 from 3.7% in February, and roughly similar to the levels recorded in October 2023.

The employment outcome in March followed a larger-than-usual flow of people entering employment in February and smaller-than-usual flows in December and January. The flows have returned to a more usual pattern in March.

Looking over the past three months, the average employment growth is around 40,800 people, softer than the momentum seen during 2023.

Chart 18 – Labour market condition



Source: ABS, Haver, KPMG

The participation rate in March 2024 in seasonally adjusted terms also fell slightly by 0.1 ppt to 66.6%, with the participation rates for males and females decreasing by 0.1 ppt and 0.2 ppt. Given the small decline in employment, the seasonally adjusted employment-to-population ratio dropped by 0.2 ppt to 64%.

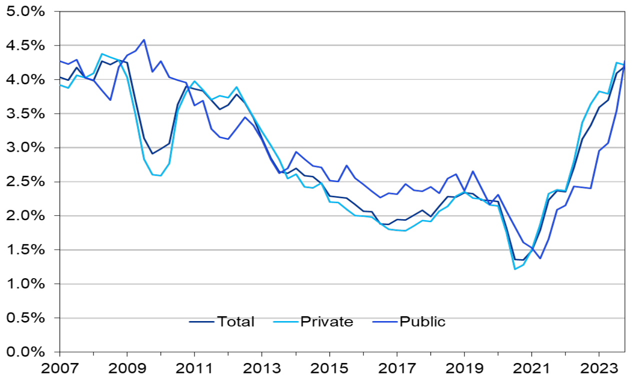
Over the year, WPI rose by 4.2%, increasing from 4.1% in the September quarter to be the highest recorded annual growth since the March quarter 2009.

Wages growth in both the public and private sectors were driven by organisation-wide annual wage and salary reviews. While annual wages growth in the private sector softened slightly to 4.2% from 4.3% in the September quarter, wages in the public sector rose 4.3% through the year, up from 3.5% in the previous quarter.

The strong annual growth in public sector WPI was mainly due to newly implemented EBAs for essential workers in the health care and education industries following changes to state-based wages policies.

The decomposition of wages increases in the public sector reveals 38% of public sector jobs saw a wage increase, up from 29% in the corresponding period the previous year. For jobs that received a wage growth, the average hourly wage growth went up to 4.3% from 2.8% in the December quarter 2022.

Chart 19 – Wages growth (y/y)



Source: ABS, Haver, KPMG

Jobs covered by EBAs were the main drivers of the quarterly growth in the December quarter, contributing 0.45 ppt, as opposed to 0.39 by individual agreements and 0.12 by awards. This strong contribution by jobs covered by EBAs is not typical for a December quarter, but is not surprising given the significant pressure coming through EBA negotiations that occurred at the end of last year. Aggressive wage negotiations by unions for construction workers and public sector employees across various sectors – including nearly 70,000 public sector employees coming off Covid-related wage restraint arrangements – added to WPI outcomes.

The strength of the labour market is expected to gradually weaken until the end of the year given there is a lag between economic slowdown and labour market conditions. Leading labour market indicators, such as SEEK's jobs ad index, indicate a softening in labour demand.

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.

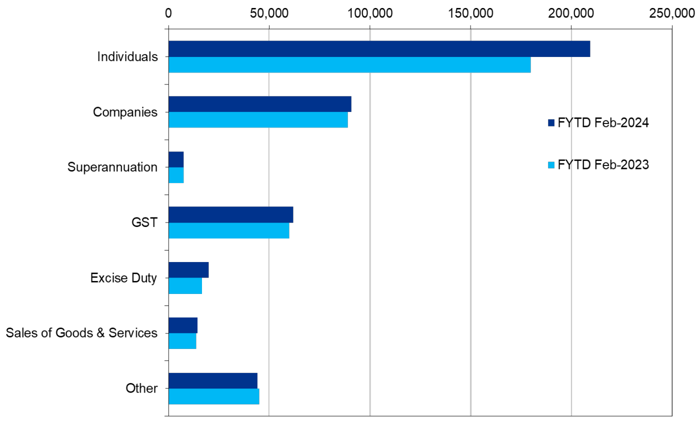
Government

Public demand contributed 0.1 ppt to the quarterly change in GDP in the December quarter. The contribution was primarily driven by government consumption expenditure.

Government consumption rose 0.6% to be 2.7% higher through the year as a result of State and Federal Government social benefit schemes to households, including Medicare and the Pharmaceutical Benefits Scheme, and the increase in employee expenses.

Public investment (-0.2%) had a small fall driven by a fall in general government, offset by a rise in public corporations investment. Despite the fall in the current quarter, the series remains at elevated levels.

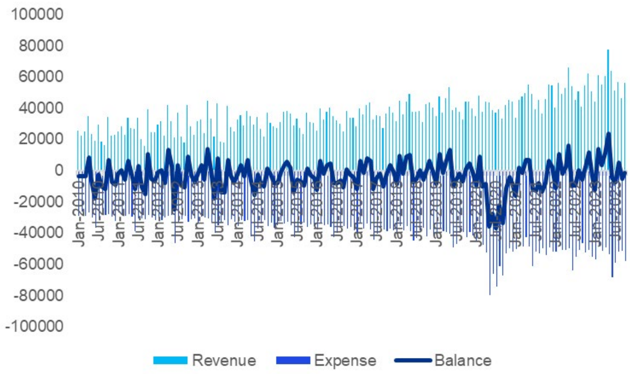
Chart 21 – Taxation revenue sources (NSA, $million)



Source: AOFM, Haver, KPMG

In April 2024, the Australian Government general government sector operating statement shows the fiscal balance for the 2023–24 financial year to 31 March 2024 was a deficit of $0.4 billion, and the underlying cash balance was a deficit of $1.8 million. Relative to the same time last financial year, there was a noticeable increase in Individual taxes as a result of a tight labour market and wages growth. Company taxes also increased thanks to higher commodity prices.

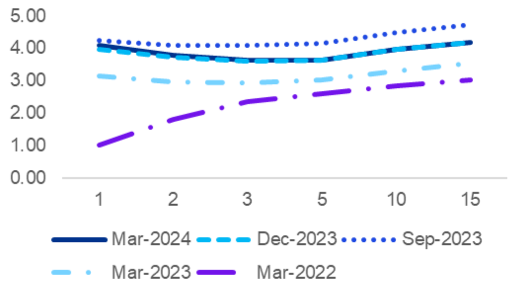
Chart 22 – Government balances (NSA, $million)



Source: ABS, Haver, KPMG

The yield curve remains inverted in the medium term. The short-term bond yields in March 2024 were relatively higher than the levels three months ago as the RBA held rates unchanged for the second time, and inflation appeared to be sticky, moderating the expectations for rate cuts. In contrast, medium and longer-term bond yields have settled relative to the levels three months ago.

Chart 23 – Yields on Commonwealth Government bonds (bid yield, %)



Source: Tullett Prebon, Haver, KPMG

Forecast

GLOBAL[4]	Annual GDP Growth[1]			Unemployment Rate[2]			Average Annual Inflation[3]		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
World	3.1	2.8	3.0				6.9	5.0	3.4
Euro Area	0.6	0.9	1.5	6.6	6.8	6.8	6.1	2.6	2.1
UK	0.3	0.9	1.2	4.4	4.7	4.9	7.0	2.2	2.4
US	2.5	1.5	1.7	3.8	4.0	3.9	3.8	2.4	2.1
Brazil	3.0	1.6	2.0	7.6	7.1	7.0	4.7	3.5	3.5
China	5.2	4.7	4.5	5.6	5.8	6.0	0.3	0.7	1.5
India	7.3	6.1	6.5	7.5	8.1	7.6	5.7	5.4	4.4
Indonesia	4.8	5.3	5.0	6.7	6.7	6.6	3.6	2.4	2.1
Japan	1.9	1.0	1.2	2.5	2.3	2.0	3.1	2.6	1.9
Singapore	1.0	2.3	2.8	2.0	2.3	2.1	5.0	2.6	1.8
South Korea	1.3	2.3	2.5	2.7	3.1	3.1	3.7	3.1	2.4
Taiwan	1.1	2.6	2.7	3.5	4.0	3.8	2.1	1.3	1.3
Vietnam	5.0	3.8	3.8	3.1	3.1	3.4	3.3	3.6	2.6
Australia	2.1	1.5	2.3	3.9	4.6	4.8	5.7	3.5	2.8
New Zealand	0.5	1.5	1.8	3.8	4.0	3.4	5.9	4.3	3.1

[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	6.6%	5.0%	1.1%	0.4%	1.1%	1.7%	1.9%	2.0%
Business investment	6.2%	8.6%	9.1%	2.1%	1.5%	1.7%	2.6%	3.0%
Housing investment	-4.8%	-7.9%	-4.3%	-1.9%	-1.4%	-0.8%	2.3%	4.3%
Government	4.8%	2.4%	3.4%	4.1%	2.8%	2.1%	2.3%	2.3%
Exports	2.5%	6.7%	6.8%	4.0%	2.9%	3.7%	3.8%	3.4%
Imports	12.8%	9.2%	3.3%	2.9%	3.0%	3.4%	3.5%	3.4%
GDP	3.8%	3.2%	2.1%	1.4%	1.7%	2.0%	2.3%	2.4%
Headline CPI	7.8%	6.0%	4.1%	3.8%	3.5%	3.2%	2.7%	2.6%
WPI	3.3%	3.7%	4.2%	4.1%	3.9%	3.5%	3.3%	3.0%
Real WPI	-4.2%	-2.2%	0.1%	0.2%	0.4%	0.3%	0.6%	0.4%
Current account balance*	1.6%	1.3%	1.8%	3.7%	3.0%	2.3%	1.9%	1.7%
Government budget*	-1.1%	-1.8%	-2.2%	-2.3%	-2.2%	-2.1%	-2.0%	-1.9%
RBA cash rate*	3.1%	4.1%	4.4%	4.4%	4.1%	3.9%	3.4%	3.2%
10-year government bond*	3.6%	3.9%	4.2%	3.9%	3.7%	3.5%	3.4%	3.4%
AUD/USD*	0.66	0.67	0.66	0.68	0.69	0.70	0.71	0.73
Terms of trade	8.0%	-11.7%	-3.9%	-4.6%	-7.2%	-5.3%	-3.8%	-2.5%
Employment	5.4%	3.5%	3.0%	0.4%	-0.2%	0.1%	0.4%	0.5%
Unemployment rate*	3.5%	3.6%	3.9%	4.2%	4.5%	4.7%	4.6%	4.5%
Dwelling price	-2.1%	1.1%	6.4%	1.2%	1.7%	2.1%	2.8%	3.2%

*=values at end of period

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