Australia Economic Outlook Q2 2024

KPMG Australia

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Contents

Executive summary

The global economy has proven resilient to the post-pandemic monetary policy tightening cycle and geopolitical tensions and conflicts that have been disrupting the free-flowing of international trade. This resilience has also extended itself into prices, with the 'final mile' of disinflation showing a stubbornness across many jurisdictions. Central banks are now starting to loosen policy rates ahead of absolute success with the recapturing of the inflation genie in an attempt to maintain positive economic growth and keep employment gains.

Global economic growth is expected to remain weak over the near term as tight monetary conditions continue to weigh on households and businesses. Inflation has continued to fall, on the back of weakening price growth for goods - however, services inflation remains problematic, due to higher wages growth. This has resulted in core inflation often being higher and stickier than headline inflation.

Since the last edition of KPMG's quarterly *Australia Economic Outlook,* several central banks have started easing their policy rates during the first half of 2024, such as the Swiss National Bank, Bank of Canada, and European Central Bank.

The US Federal Reserve (the Fed) sent more hawkish signals, predicting only one cut in 2024 – a significant shift from the expectation of three in March. Further, the Fed Chair Jerome Powell has just completed testimony to the US Congress stating the United States is 'no longer an overheated economy', noting the jobs market has cooled from its pandemic-era extremes and is now close to being back where it was prior to the onset of the pandemic. The implication of this assessment was that the Fed Chair believed the case for interest rate cuts in the US is now becoming stronger.

When considering interest rates from an inflation-adjusted perspective, Australia's real policy rate is notably lower than those in the US, UK, Canada and Europe, essentially because those markets are further down the disinflation pathway than we are. However, the current inflation cycle in Australia lagged other advanced countries (by around six to nine months), so it would be expected any policy rate cuts occur with a similar lag.

Australia's economic performance since the start of the year can best be described as meagre, with just 0.1% real growth over the first quarter of 2024 and only 1.1% over the previous 12 months.

The latest national accounts data shows an economy in aggregate that is struggling to maintain a forward momentum, while the downward trajectory associated with Australia's standard of living has continued with six out of the last quarters recording negative or flat GDP per capita growth.

Households are continuing to struggle with increases in the general cost of living, while those with mortgages have the additional burden of managing much higher loan repayments. These factors suggest the headwinds to household consumption are expected to persist in 2024 as interest rates are now expected to stay higher for longer and inflation remains sticky, while households draw down their savings buffers. The gradual slackening in the labour market will reinforce downwards pressure on household consumption. Some relief to households will come through from July with the onset of the Stage 3 tax cuts and various cost of living relief packages being offered by the Commonwealth and state governments.

To what extent these fiscal initiatives will flow through to the real economy remains uncertain. However, while many of these packages have been designed to mechanically reduce headline inflation, the RBA has already acknowledged that with respect to any policy rate decisions it will look through the effects of these policies and focus on underlying price pressures still existing in the economy.

	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
GDP (Real)	3.1%	2.0%	1.4%	1.4%	2.0%	2.4%	2.2%
Inflation*	6.2%	4.0%	3.8%	3.3%	3.0%	2.7%	2.8%
Unemployment*	3.6%	3.7%	4.2%	4.3%	4.5%	4.6%	4.7%
AUD/USD*	0.66	0.65	0.67	0.69	0.70	0.71	0.73

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Global landscape

Central banks in some advanced economies have eased their policy amid slow growth. However, core services price inflation has remained sticky, stalling the disinflation progress.

Disinflation progress stalled

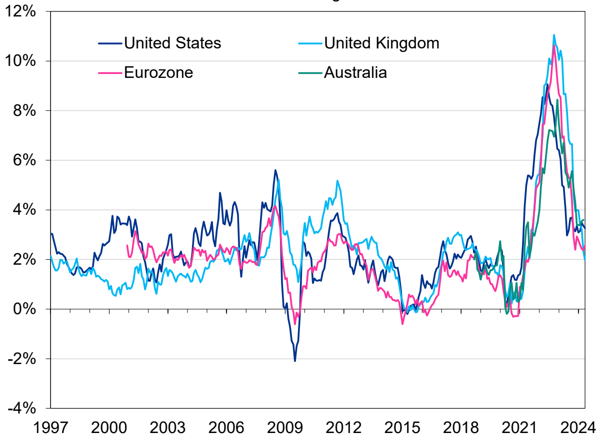
Inflation has dropped substantially in many advanced economies, but it remained above most central banks' targets. However, with slowing growth and record high real interest rates, several major central banks have eased their policy, albeit remaining alert to the risk of sticky inflation.

Inflation has proven to be more stubborn in the United States. While both headline and core inflation in May eased more than consensus expectations despite a string of unfavourable readings in previous months, they did not provide the Federal Reserve with greater confidence.

The last mile is proving to be difficult for advanced economies as progress has stalled – core services price inflation has remained persistently high, while the disinflation process in core goods prices appears to have been completed. Upside risks to inflation remain due to ongoing uncertainty around the Russia–Ukraine war and tensions in the Middle East.

Chart 1: Inflation in Selected Advanced Economies

Year-ended growth



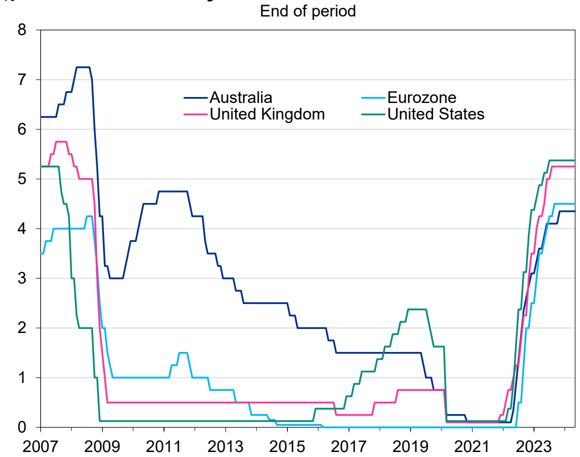
Source: National sources, Haver, KPMG

Headline inflation has also dropped substantially in emerging economies, except for Argentina, Egypt, 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 and to 3.5% by the end of 2025, as a result of easing supply constraints and slower economic activity.

Chart 2: Policy Rates in Advanced Economies

End of period



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

Below-trend economic growth

The global economy has been resilient to restrictive financial conditions and geopolitical uncertainty, yet 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.

Despite slow growth across most advanced economies, the United States still grew at over 2% last year, which arguably resulted from its much more expansive fiscal stance.

Some major central banks have started easing their policy rates during the first half of 2024, such as the Swiss National Bank, Bank of Canada, and European Central Bank. Meanwhile, the Federal Reserve sent more hawkish signals, predicting only one cut in 2024 – a significant shift from the expectation of three in March.

Since the costs of servicing debt have increased due to higher interest rates, the fiscal position of many governments in advanced economies have been under pressure.

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 (on a PPP-weighted basis) to drop slightly to be in the low-3% range in 2024. The United States is expected to see growth rates softening to low-1% in 2024. The Chinese economy is expected to perform below targeted levels of growth at 5% for 2024 and 4.7% for 2025. The eurozone barely avoided a recession in 2023 and is expected to grow at a subdued rate of 0.7% in 2024 and 1.6% in 2025.

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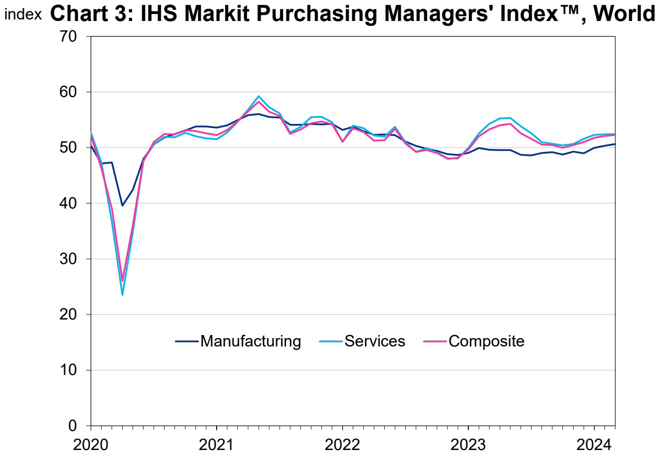
Labour market remains resilient

Despite weak economic growth, labour markets have remained surprisingly strong, with those in advanced economies being the tightest in two decades. 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 (International Labour Organisation) 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™, World



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

Fastest growth in global PMI in 12 months

The Global Purchasing Managers' Index (PMI) Composite Output Index grew at an annualised rate of 3.4% in May, the fastest pace in 12 months – driven by improvements in both manufacturing and service sectors. Growth was also broad-based across developed and emerging market economies.

The PMI survey data also shows forward-looking indicators, including new orders and future output indices, have edged up. This suggests sustained growth in the near term.

Nonetheless, news is not too good on the inflation front as inflationary pressures mounted, with growth in average global selling prices and input costs accelerated. Rising prices were led by services inflation, yet manufacturing costs also started to increase more noticeably.

China's General Manufacturing PMI in May pointed to improved business conditions and the fastest output growth in nearly two years. Chinese manufacturers showed positive sentiment, hoping market demand would improve locally and overseas.

Global trade recovery expected to continue

World merchandise trade volume decreased by 1.2% in 2023 as import demand declined substantially in Europe, North America, and remained flat in Asia. On the other hand, the increase in major fuel-exporting economies partly offset the fall.

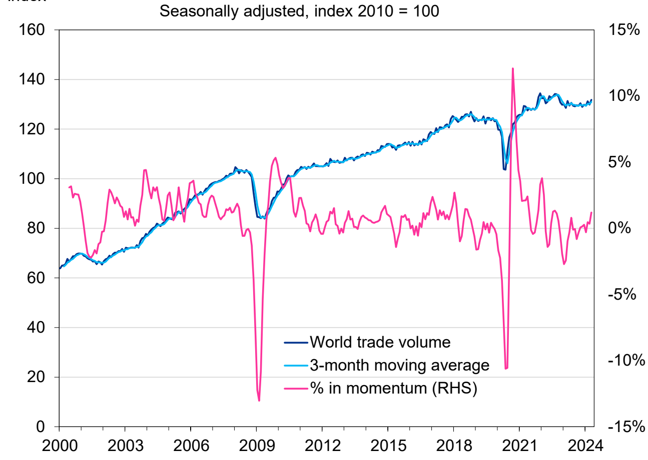
By contrast, the US dollar value of world trade in commercial services increased by 9% in 2023, driven by recovery in travel and other services.

Trade growth has turned positive in 2024, with more recent CPB (Centraal Planbureau – CPB Netherlands Bureau for Economic Policy Analysis) data showing world merchandise trade volume increased by 1.5% over the month in April 2024, following a 1.1% decline in March. Service export orders have also strengthened.

The World Trade Organization's (WTO) trade forecast for 2024 was downgraded from 3.3% to 2.6%. Growth in trade volume is expected to accelerate to 3.3% in 2025. However, downside risks could limit the recovery as 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 Volume

Seasonally adjusted, index 2010 = 100



Source: CPB, Haver, KPMG

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Australia overview

The Australian economy staggered into 2024, with the first quarter edging up by just 0.1% – a heartbeat away from a recession.

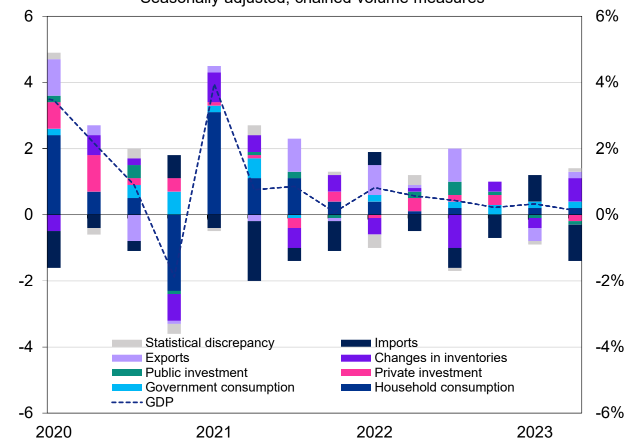
The Australian economy grew by a meagre 0.1% over the first quarter of 2024 and just 1.1% over the previous 12 months. The national accounts show an economy in aggregate that is struggling to maintain forward momentum, while the downward trajectory associated with our standard of living has continued (with six out of the last quarters recording negative or flat growth in GDP per capita).

From an expenditure perspective, the latest data shows:

- Household consumption growing by 0.4% during the quarter, slightly higher than what occurred in the December quarter 2023.
- Dwelling investment and costs associated with buying existing residential property still falling (by -0.5% over the quarter and -2.2% over the year respectively).
- Private sector investment falling by -0.8% during the first quarter of 2024, with the largest declines coming in engineering construction activity (-4.8%) and non-residential construction (-3.1%).

Chart 5: Contribution to Quarterly GDP Growth

Seasonally adjusted, chained volume measures



Source: ABS, Haver, KPMG

- The $335 million in capital investment by the Commonwealth Government was not enough to offset the $645 million fall in capex by state governments (either directly or through state-owned corporations).
- The near $4.5 billion swing in inventories was more than offset by the -$5.5 billion fall in net exports (largely driven by the $6.7 billion increase in imports).

Other important elements of recently-released data that confirms the idea that the Australian economy has been moving sideways for the past six months include:

- Household saving ratio fell from 1.6% to 0.9% in the March quarter as the growth in gross disposable income (1.1%) could not catch up with the rise in nominal household consumption (1.5%) due to the rising cost of living.
- Labour productivity, measured as GDP per hour worked, flatlined over the quarter and through the year as hours worked grew in line with GDP. With wages growth softening during the quarter, real unit labour costs declined by 0.7%, but remained 3.4% higher in the corresponding period in 2023. For real unit labour costs to drop significantly, it is vital that labour productivity growth exceeds wages growth.
- The GDP implicit price deflator increased by 1.3% due to increased domestic prices. Services inflation remained high as a consequence of elevated labour costs despite easing in labour market conditions. On the other hand, prices for consumption and capital goods continued to soften in line with easing domestic demand.
- Even though the latest data revises upwards the GDP growth estimates for the December quarter 2023 from 0.2% originally to now 0.3%, when this result is combined with data for the March quarter 2024, it is clear that the Australian economy has barely grown over the past six months and has been ‘a heartbeat away from a recession’.

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Production

The first quarter of 2024 saw contractions of Gross Value Added (GVA) over the quarter in 7 out of 19 industries, with the largest drop recorded in *Construction* (-2.6% q/q), driven by falls in construction services, building construction, and heavy and civil engineering construction – in line with the decline in investment activity.

Some others recording the largest q/q reduction included:

– *Wholesale trade* (-2%) owing to declines in Motor Vehicle and Motor Vehicle Parts Wholesaling and Grocery, Liquor, and Tobacco Product Wholesaling. This partly reflects the softening in household consumption on discretionary goods.

– *Accommodation and food services* (-1.5%) driven by falls in food and beverage services amid weak demand for takeaways, and hotels and clubs. Accommodation services also fell due to weather events in Queensland.

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

– *Arts and recreation services* (+2.7%), driven by activities in major sporting and recreation events, as well as lottery draws.

– *Health care and social assistance* (+1.4%) due to increases in allied health services and GP attendances.

Considering the size of contribution, *Health care and social assistance* added most to GDP growth this quarter (0.1 ppt), while *Construction* detracted the most from GDP growth (-0.2 ppt).

NAB monthly business surveys show business confidence and conditions both eased in May, with softening trading conditions and profitability. Conditions fell across most consumer-facing sectors, while forward orders remained deep in the negative zone in retail, wholesale, and construction. However, capital utilisation stayed above average, suggesting the rebalancing process of supply and demand is not complete yet.

Cost and price growth rose in May, raising concerns that the disinflation process will be only gradual. Growth in labour and purchase costs increased by 0.8 ppt and 0.6 ppt respectively in quarterly terms. Final output price growth rose from 0.8% the previous month to 1.1%.

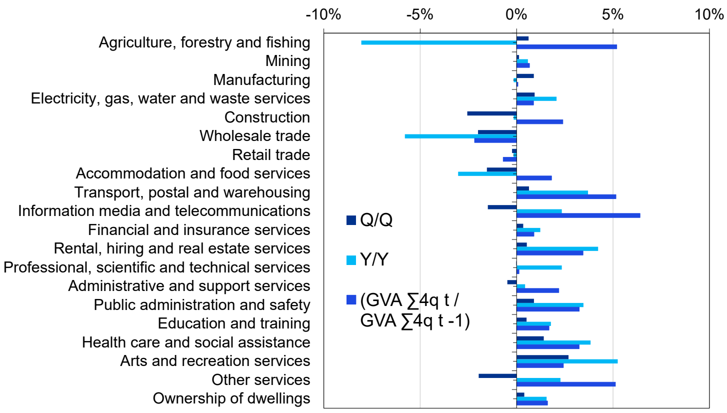
In 2024, industries more dependent on household discretionary spending such as *Retail Trade, Accommodation & Food Services, Arts & Recreational Services,* are expected to experience subdued growth as households tighten their belts. In addition, industries that are in the supply chain of household discretionary goods are likely to be most impacted. Business conditions have been on a downward trend for *Retail Trade* and *Wholesale Trade* since late 2022 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 gross value of agricultural production to increase by 2% in 2024–25, driven by higher livestock and livestock product values due to rising slaughter and prices. Crop production is also expected to rise due to positive winter rainfall outlook for crops.

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.

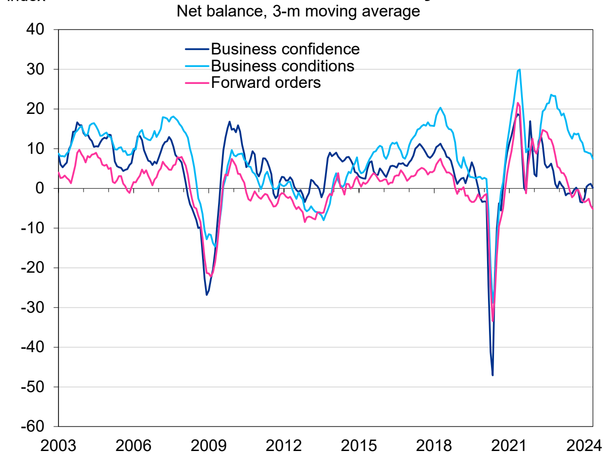
Chart 6: Industry Gross Value Added, Mar-24



Source: ABS, Haver, KPMG

Chart 7: Business Survey

Net balance, 3-m moving average



Source: NAB, Haver, KPMG

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Household consumption

Household final consumption expenditure in Q1 2024 rose marginally by 0.4% over the quarter, following a slight reduction of 0.3% (revised) in the previous quarter, with this revised figure coming as an upside risk to the RBA. This quarter's growth was driven by spending on essential items, including *electricity, gas and other fuels* (+4.9%), *health* (+1.2%), and *rent and other dwelling services* (+0.4%). Some discretionary services, including *transport services* (+3.3%) and *recreation and culture* (+0.6%), also saw a boost due to overseas travel and spending on gambling, sporting, and musical events.

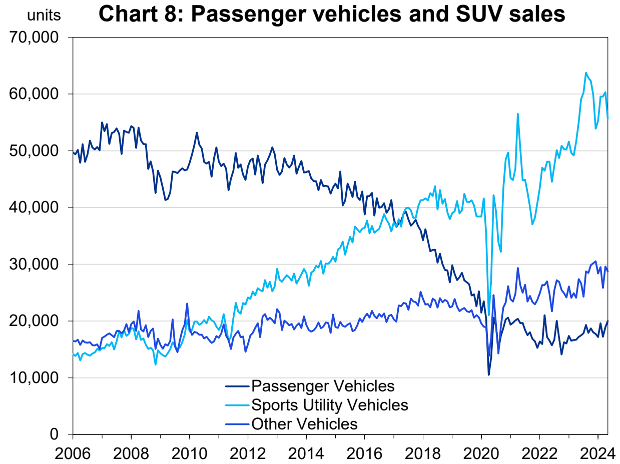
Those increases offset a fall in spending on *purchase of vehicles* (-2.4%), *cigarettes and tobacco* (-4.8%), *education services* (-0.6%), and *furnishings and household equipment* (-0.5%).

While falling for two consecutive quarters, *Purchases of vehicles* remained 12.3% higher than a year ago and well above the usual level before the pandemic. The total new motor vehicle sales in three-month moving average terms has also come off its peak of around 330,000 units in October 2023 and stabilised at around 311,000–320,000 since January 2024. The sales volume over the three months to May 2024 remained 11.7% higher than the corresponding period the previous year.

The increase in gross disposable income (+1.1%) (as income receivable outpaced income payable) could not catch up with the rise in nominal household consumption (+1.5%) caused by high price inflation. Consequently, the household saving to income ratio dropped from 1.6% to 0.9%, well below the average of 5.8% in the three years before the pandemic.

Going into Q2, more frequent data points to a weak trend in household consumption. Retail trade in April barely rose (+0.1%) following a 0.4% fall in March. The underlying trend that excludes one-off and seasonal factors continues to be flat as consumers cut back on their discretionary spending, with weakness being pervasive across most parts of the retail industry.

Chart 8: Passenger vehicles and SUV sales

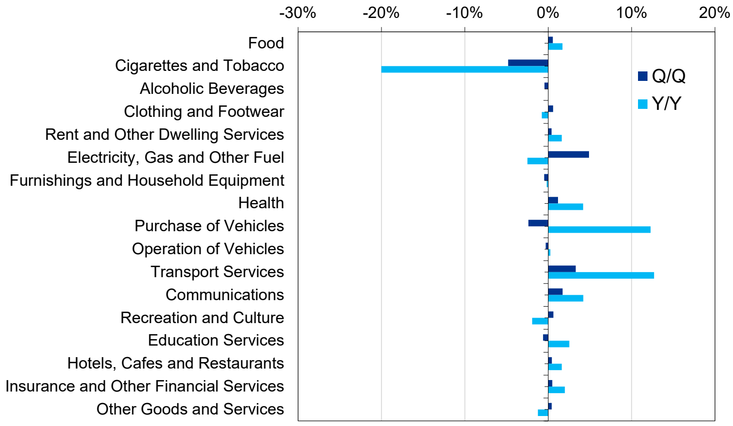


Source: Federal Chamber of Automotive Industries, Haver, KPMG

Similarly, the nominal calendar-adjusted monthly household spending index in April shows discretionary spending rose sluggishly by 0.6% y/y, implying a negative growth in volume terms amid high inflation. Spending increased by 6.9% y/y for services, while falling by 0.7% y/y for goods. This pattern of spending, along with the national accounts data, suggests the category most impacted has been discretionary goods.

Consumer sentiment in June improved by 1.7%, reflecting consumers welcoming the Federal Budget, but it remains deeply in the pessimistic zone. The survey was conducted before the monthly inflation outcome for May, which is very likely to have a dampening effect on sentiment in July.

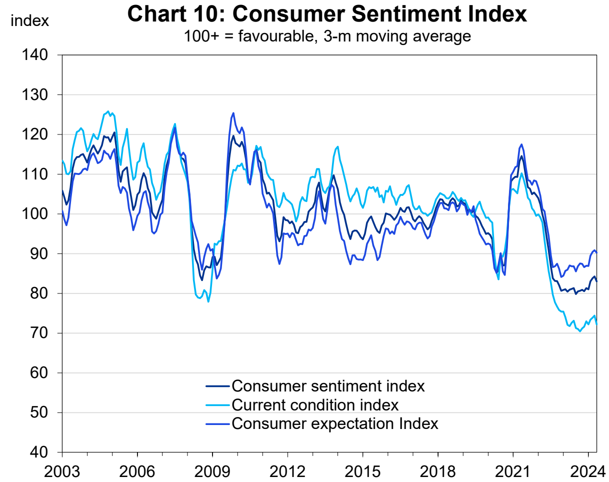
Chart 9: Household Final Consumption Expenditure, Mar-2024



Source: ABS, Haver, KPMG

Chart 10: Consumer Sentiment Index

100+ = favourable, 3-m moving average



Source: Westpac - Melbourne Institute, Haver, KPMG

Headwinds to household consumption are expected to persist in 2024 as interest rates are now expected to stay higher for longer and inflation remains sticky, while households draw down their savings buffers. The gradual slackening in the labour market will reinforce downwards pressure on household consumption. In contrast, the Stage 3 tax cuts from July and the recent recovery in housing prices are expected to support consumption growth.

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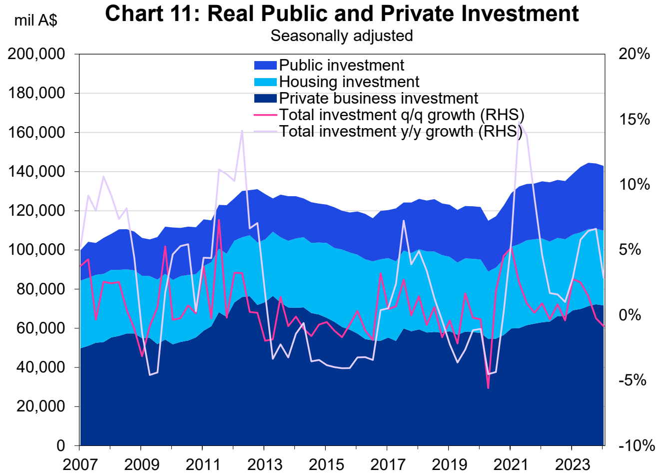
Investment

Real investment declined by 0.9% q/q in Q1 2024, driven by decreases in both private and public investment. However, it remains at an elevated level.

Private investment declined by 0.9% over the quarter, led by a fall in non-dwelling construction as work on mining projects declined from its high in the previous quarter. Dwelling construction and ownership transfer costs also dropped, by 0.5% and 2.2% respectively, due to the ongoing slowdown in building approvals and slow activity in the property market.

Chart 11: Real Public and Private Investment

Seasonally adjusted

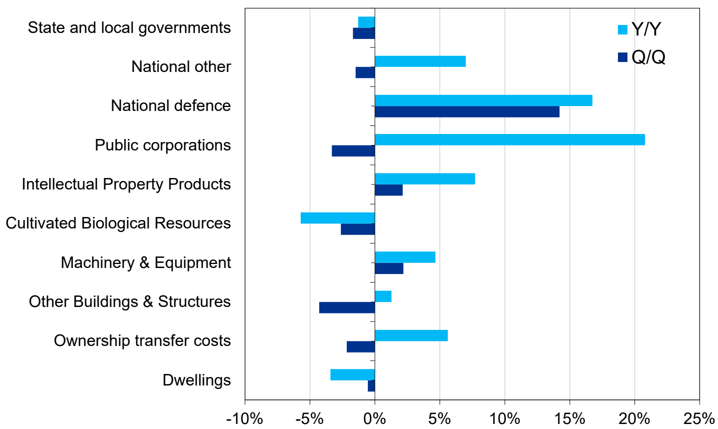


Source: ABS, Haver, KPMG

In contrast, investment in machinery and equipment rose by 2.2%, offsetting the fall, due to increased investment on equipment for recently completed data centres and increased purchases of motor vehicles.

The residential property market in May continued to advance (+0.8% m/m) and witness a divergence in price growth across capital cities due to differences in affordability, population growth and housing supply. Significantly stronger gains were again observed in Perth (+2%), Adelaide (+1.8%) and Brisbane (+1.4%), while prices dropped in Hobart (-0.5%) and Darwin (-0.3%).

Chart 12: Investment growth, Mar-24



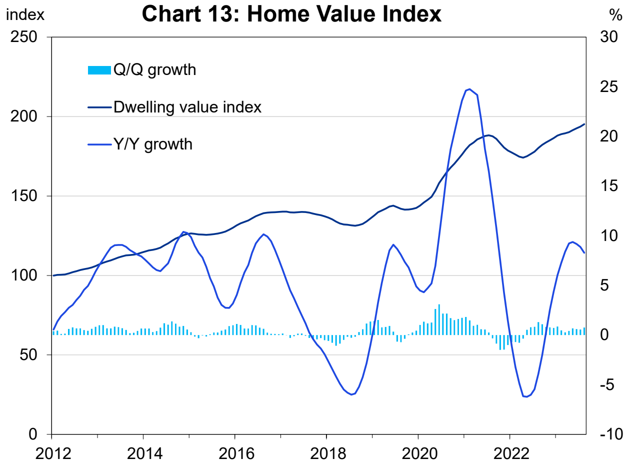
Source: ABS, Haver, KPMG

Looking ahead, we expect the pace of dwelling price growth will slow down gradually over the rest of 2024 as the market adjusts. While limited new housing construction will lead to further price gains, the prolonged contractionary interest rates and a more balanced population growth are expected to exert a cooling effect on the market and partly offset the gains, resulting in a more tempered growth trajectory for dwelling prices.

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.

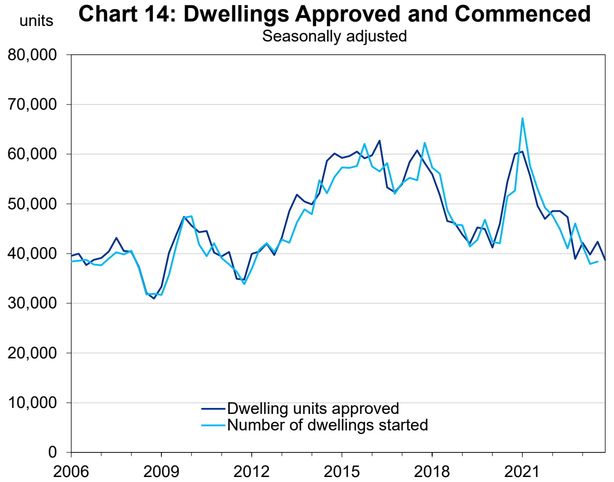
Chart 13: Home Value Index



Source: CoreLogic, KPMG

Chart 14: Dwellings Approved and Commenced

Seasonally adjusted



Source: ABS, KPMG

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The March 2024 quarter survey of private capital expenditure shows robust actual investment in the first nine months of FY24, as well as strong forward momentum for the remainder of the financial year and FY25. Estimate 6 in current prices for FY24 ($131.8 billion in actual spend) was revised up by 2.5% compared to Estimate 5 for the same year. Estimate 2 for FY25 is $155.4 billion, which is 6.8% higher than firms' previous expectation for the year.

Real private new capital expenditure rose 1% in the March quarter 2024, with business investment growing in non-mining industries (+3.3%) – which was offset by a 4.7% fall in mining capex. The quarterly growth slowed from the strong levels seen in late 2022 and early 2023.

Transport, postal and warehousing witnessed the strongest growth due to increased investment in vehicles and ongoing investment related to large infrastructure projects. Similar to the previous quarter, equipment and machinery 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 during the rest of 2024.

Public investment declined by 0.9% over the quarter as state and local government education projects approached completion and work slowed on health projects.

Combined investment made by Commonwealth and state public corporations dropped by 3.3%. State and local government and non-defence Commonwealth investment declined by 1.7% and 1.5% respectively. In contrast, defence investment rose by 14.2% in line with increased defence activity during the quarter.

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 has eased as expected and will continue softening towards the end of the year.

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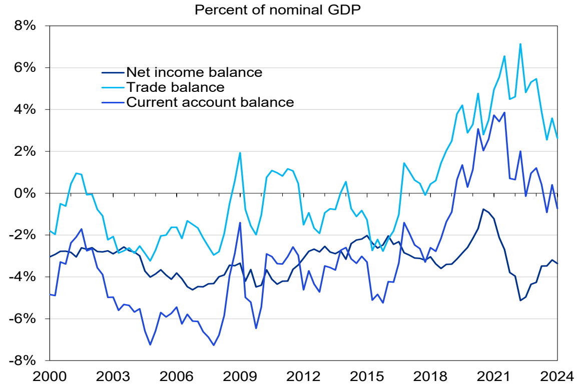
Net exports

Net trade cut 0.9 percentage points from real GDP growth in Q1 2024, after contributing 0.4 percentage points from real GDP in Q4 2023, with a 5.1% q/q increase in imports and a 0.7% q/q increase in exports.

Chart 15: Current Account Balance

Percent of nominal GDP

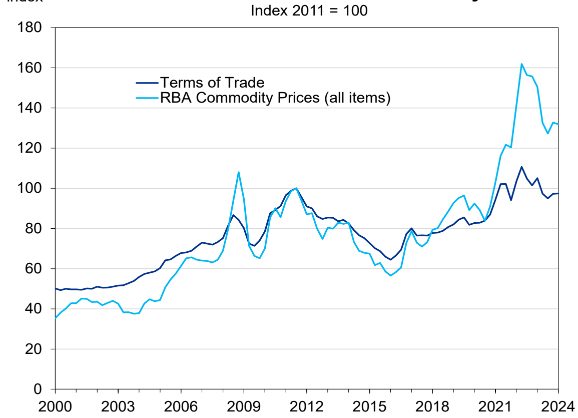


Source: ABS, Haver, KPMG

The growth in exports was driven by an increase in exports of merchandise goods. Exports of liquefied natural gas achieved the highest increase in trade revenue driven largely by a softening in price which stimulated sales by foreign purchasers in the spot market. Service sector exports fell during the quarter reflecting softer demand for higher education services by international students. The deterioration in Australia's overall net trade position was largely the result of a jump in imports (rather than a fall in exports). Imports rose by 5.1% following a 3.5% decline in the December quarter, with imports of goods driving most of the growth as businesses sought to restock following strong trading in the December quarter. Conversely service imports fell during the quarter largely because of fewer Australians travelling and holidaying overseas.

Chart 16: Terms of Trade and Commodity Prices

Index 2011 = 100



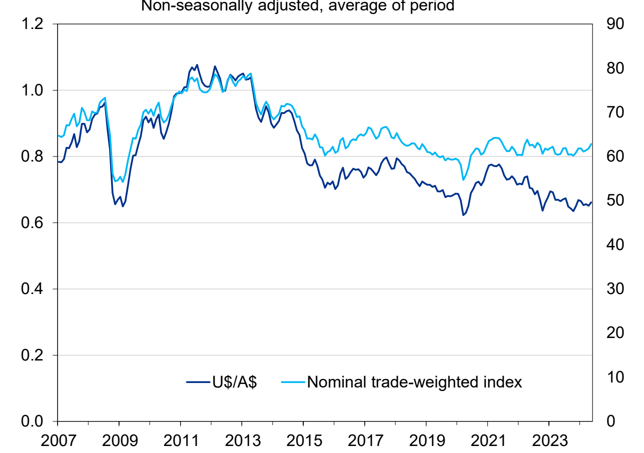
Source: ABS, Haver, KPMG

The terms of trade softened, increasing by only 0.2% after a 2.2% increase in the previous quarter. The increase in the terms of trade occurred as the 1.8% decrease in export prices were offset by larger falls in import prices, falling by 2%. Lower mining commodity prices, driven by reduced global demand, caused the fall in export prices. The drop in import prices resulted from lower oil prices and a stronger Australian dollar.

The Australian dollar remains relatively weak, however, showing some improvement in the past three months, edging from 0.653 to 0.662 between February and May 2024. 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; therefore, providing some support for the dollar. The trade-weighted index has also appreciated by 1.7 index points between February 2023 and May 2024, to 62.8.

Chart 17: Australian Exchange Rate

Non-seasonally adjusted, average of period



Source: RBA, Haver, KPMG

The World Bank commodity price index rose slightly between February 2024 and May 2024, driven by a surge in non-energy prices. The surge in base metal prices was primarily driven in part by speculative demand in the futures market.

Commodity prices in 2024 are expected to fall 3% relative to last year's levels. 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 2.8% in 2024. Non-energy prices are expected to fall a bit less, by 2.1%. 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

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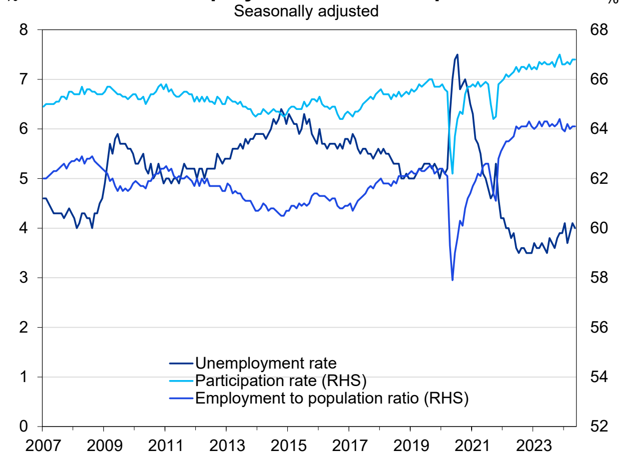
Labour market

The seasonally adjusted unemployment rate fell slightly to 4.0% in May 2024 from 4.1% in April. Despite the minor fall, there are signs that the labour market is easing, as the unemployment rate has remained in the 4% range for two consecutive months. Additionally, monthly hours worked have declined for two consecutive months since March, further indicating a softening in the labour market.

Employment rose by 40,000, stronger than the consensus prediction of 30,000, while the number of unemployed declined by 9,000.

The employment-to-population ratio remained stable at 64.1% as employment growth has continued to catch up with population growth.

Chart 18: Unemployment and Participation Rates
Seasonally adjusted



Source: ABS, Haver, KPMG

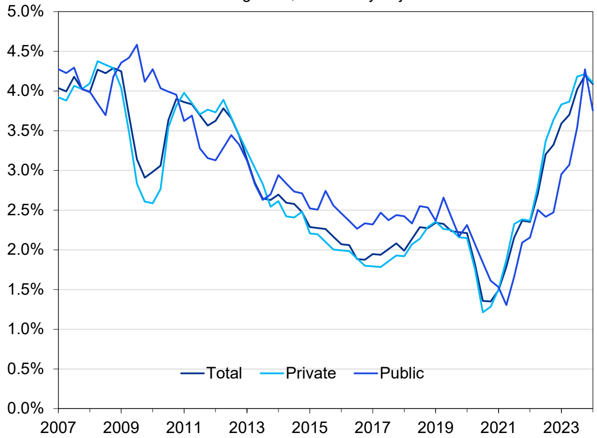
The participation rate in May 2024 in seasonally adjusted terms also fell slightly by 0.1 ppt to 66.6%, with the participation rates for males and females at 70.8% for men and 62.7% for women.

Wages growth appeared to have peaked in the December quarter 2023. The recent data for the March quarter show that WPI was 4.1%, decreasing from 4.2% in the December quarter. This is also the first time that annual wage growth has fallen since March 2021.

Wages growth in both the public and private sectors softened this quarter. Through the year, private sector wages growth of 4.1% was slightly lower than the peak of 4.2% recorded over the last two quarters of 2023. Public sector wages rose 3.8% in the March quarter 2024, much lower than the 4.3% annual rise in December quarter 2023.

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: Wage Price Index by Sector
Year-ended growth, seasonally adjusted



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 H2 2024.

While unemployment rates have increased from their recent lows, wage growth has not yet declined significantly from its peaks, most likely due to the cyclical pattern of enterprise bargaining in the public sector, where 38% of public sector jobs saw a wage rise. As such, KPMG expects that nominal wages growth has peaked but will stay elevated before declining gradually in line with the easing in the labour market.

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Government

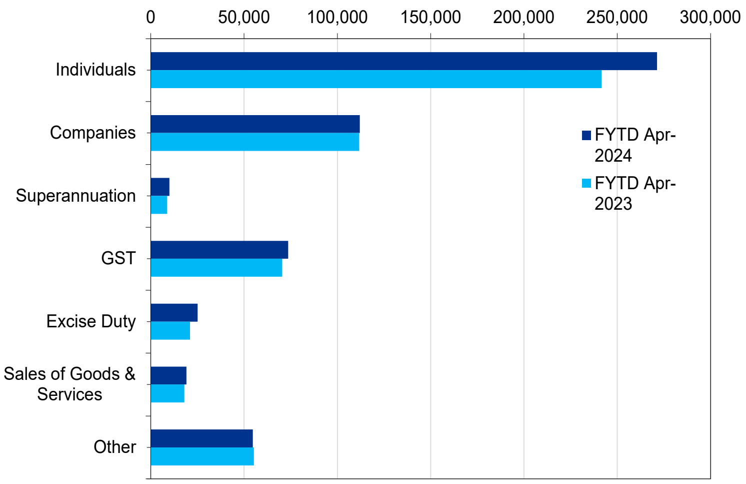
Public demand contributed 0.1 ppt to the quarterly change in GDP in the March 2024 quarter. The contribution was primarily driven by government consumption expenditure.

Government consumption rose 1.0% over the first three months of 2024, to be 4.1% 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 fell -0.9% q/q driven by the large decreases in state and local public corporations, and state and local general government.

Chart 20: Australian Government Tax Receipts by Type

Non-seasonally adjusted, mil A$



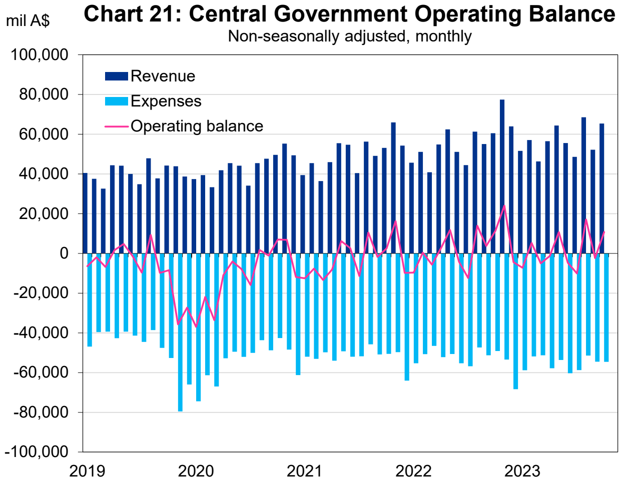
Source: AOFM, Haver, KPMG

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.

The Budget this year nevertheless shows an expected surplus in the underlying cash balance for 2023–24 of $9.3 billion, a $10.4 billion positive turnaround from the 2023–24 mid-year forecast. Higher commodity prices and personal income tax receipts contributed heavily to the outcome. Federal Government net debt is expected to remain reasonably stable as a percentage of GDP at between 20% and 22% over the forward estimates.

Chart 21: Central Government Operating Balance

Non-seasonally adjusted, monthly



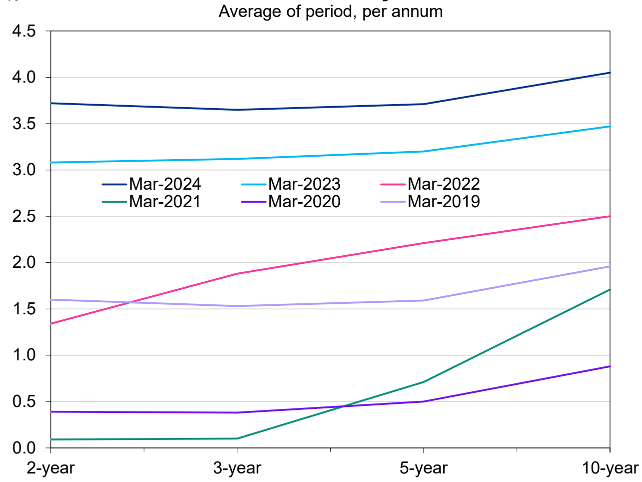
Source: AOFM, Haver, KPMG

The Budget contains a range of measures that fit into three themes: tax relief for everyone; cost of living support in the form of energy bill relief and an increase in rent assistance; and the introduction of the Future Made in Australia program aimed at encouraging domestic private investment to support the transition to achieve net zero emissions.

The yield curve in March 2024 shifted up considerably relative to the levels 12 months ago as inflation appeared to be sticky, and the financial market is moderating the expectations for rate cuts. The 10-year bond in the March quarter 2024 offers a yield of 4.05%, with 10-year and 2-year spread of 33 basis points. In contrast, the yield curve is relatively flat between two and five years.

Chart 22: Australian Treasury Bond Yield Curve

Average of period, per annum



Source: ABS, 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[5]	3.2	3.1	3.2				5.9	3.8	1.8
Euro Area	0.5	0.7	1.6	6.5	6.5	6.4	6.2	2.9	2.0
UK	0.1	0.5	0.9	4.0	4.5	4.9	6.9	2.3	2.0
US	3.4	1.2	2.1	3.8	4.4	4.3	3.8	2.4	2.0
Brazil	2.9	1.8	2.2	7.5	6.9	6.9	4.6	4.0	3.8
China	5.2	5.0	4.7	5.1	5.2	4.9	0.2	1.0	1.6
India	7.7	6.6	6.7	7.5	7.5	7.4	5.6	5.3	4.9
Indonesia	5.0	5.1	5.2	5.3	6.4	6.6	3.6	2.7	2.4
Japan	1.9	0.9	1.1	2.5	2.4	2.3	3.0	2.4	1.8
Singapore	1.1	2.3	2.9	2.0	2.3	2.0	4.8	2.9	2.5
South Korea	1.3	2.3	2.5	2.8	3.2	3.1	3.6	2.7	2.0
Taiwan	1.3	3.1	2.6	3.4	4.0	3.9	2.1	2.3	1.8
Vietnam	5.0	5.8	4.1	2.4	3.1	3.3	3.3	3.2	4.0
Australia	2.0	1.4	2.4	3.7	4.3	4.6	5.1	3.3	2.9
New Zealand	0.6	1.2	2.4	4.0	4.1	3.2	5.8	3.9	3.5

[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

[5] Growth calculated on PPP-weighted basis

AUSTRALIA	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Consumption	7.1%	5.9%	2.1%	1.1%	0.8%	0.3%	0.2%	0.6%
Business investment	6.2%	8.5%	9.1%	5.5%	1.4%	0.8%	2.1%	2.4%
Housing investment	-4.8%	-7.8%	-4.4%	-1.6%	-1.4%	0.6%	2.9%	3.3%
Government	4.8%	2.5%	3.4%	4.2%	2.6%	1.7%	1.6%	1.6%
Exports	2.5%	6.7%	6.6%	3.3%	2.0%	4.2%	5.5%	4.9%
Imports	13.7%	12.0%	6.5%	5.5%	3.5%	0.7%	0.5%	1.6%
GDP	3.9%	3.1%	2.0%	1.4%	1.4%	2.0%	2.4%	2.2%
Headline CPI	7.8%	6.2%	4.0%	3.8%	3.3%	3.0%	2.7%	2.8%
WPI	3.4%	3.6%	4.1%	4.1%	3.5%	3.4%	3.3%	3.3%
Real WPI	-4.1%	-2.4%	0.0%	0.3%	0.1%	0.4%	0.5%	0.6%
Current account balance*	1.6%	1.3%	1.8%	0.1%	0.7%	0.4%	0.1%	0.0%
Government budget*	-1.0%	-2.0%	-1.7%	-2.2%	-2.3%	-2.2%	-2.0%	-1.9%
RBA cash rate*	3.10%	4.10%	4.35%	4.35%	4.35%	3.85%	3.28%	3.25%
10-year government bond*	3.7%	3.6%	4.5%	4.1%	3.8%	3.6%	3.5%	3.4%
AUD/USD*	0.66	0.66	0.65	0.67	0.69	0.70	0.71	0.73
Terms of trade	7.2%	-12.7%	-3.1%	1.0%	-4.1%	-6.2%	-6.4%	-4.7%
Employment	5.4%	3.6%	3.1%	2.5%	1.0%	0.3%	0.7%	0.6%
Unemployment rate*	3.5%	3.6%	3.7%	4.2%	4.3%	4.5%	4.6%	4.7%
Dwelling price	-1.5%	-0.5%	-0.2%	0.0%	0.8%	2.0%	2.6%	2.9%

*=values at end of period

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