Global Overview & Australia

High inflation for longer and increased wage pressures. The impact of higher rates. Serious slowdown underway - but how deep?

Alan Oster, Group Chief Economist, March 2024

Global macroeconomic summary

Problems ahead

There are a number of areas of concern on the global economy:

- **Russian responses to Ukraine war (effectively closed off gas supplies to Europe) saw commodity prices spike**. Getting over that fear, but **now worried about the middle East – and oil prices.**

- **In the US (and globally) Central Banks have been aggressive.** Lags are important and suggest that the weakness will be based in late 2023 and into 2024.

- **Manufacturing economies are suffering now- eg China and Germany.** And service sectors may now be slowing.

- **China has seen a big slowing in momentum post vaccine changes.** Property market also an issue. We are at 4.5% in 2024. Relatively quite weak.

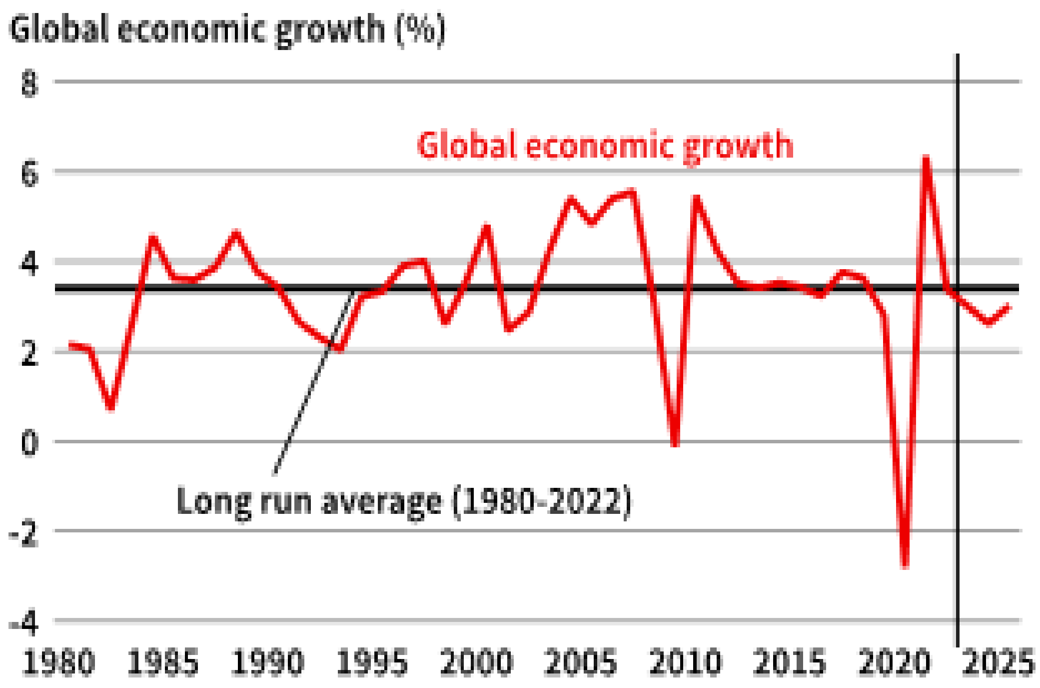
- **Globally, outside of COVID and GFC, 2024 looks like being the worst year since 2002.** So global economy outlook is tough.

- **Markets are turning to the view that central banks are finished hiking and the next move is cuts.** Timing depends on the slowing:
  - Most economies will see cuts by mid-year – including Euro, US and Canada;
  - UK a touch later;
  - Australia and NZ late in 2024.

Global economic forecasts

2023 was soft at 3.1% and slowing during the year. Shows up most in 2024 year averages. At 2.8% the slowest growth rate outside COVID and GFC since 2002. Big slowing in US and major economies. China under pressure. More normal in 2025 but still not great.

	2022	2023	2024	2025
US	1.9	2.5	2.1	1.4
Euro-zone	3.4	0.5	0.4	1.0
Japan	1.5	1.9	0.1	0.5
UK	4.3	0.1	0.0	0.7
Canada	3.8	1.1	1.0	1.3
China	3.0	5.2	4.5	4.8
India	6.7	7.0	5.8	6.2
Latin America	4.1	2.3	1.4	1.9
Other East Asia	4.2	3.2	3.4	3.9
Australia	3.8	2.0	1.4	2.1
NZ	2.4	0.7	-0.1	2.7
Global	**3.4**	**3.2**	**2.8**	**3.0**



Australia macroeconomic summary

Economy slowing a lot. Rates and global softness driving a serious slowdown. How deep?

- **GDP growth has slowed to around 1½% during 2023 and around 1¾% in 2024 - was 2.7% through 2022.**
  - Key drivers, slower global growth and rate rises (including fixed loan maturities in mid/late 2023).
  - Growth in 2025 back to around trend (2.4%). And similar beyond that.

- **Unemployment still very low at around 4%.**
  - Shortage of skilled labour at record highs. Too hard to fire and expensive to replace.
  - Unemployment at around 4% now, 4.5% by late 2024, and a touch lower beyond that.
  - **Unemployment path critical.**

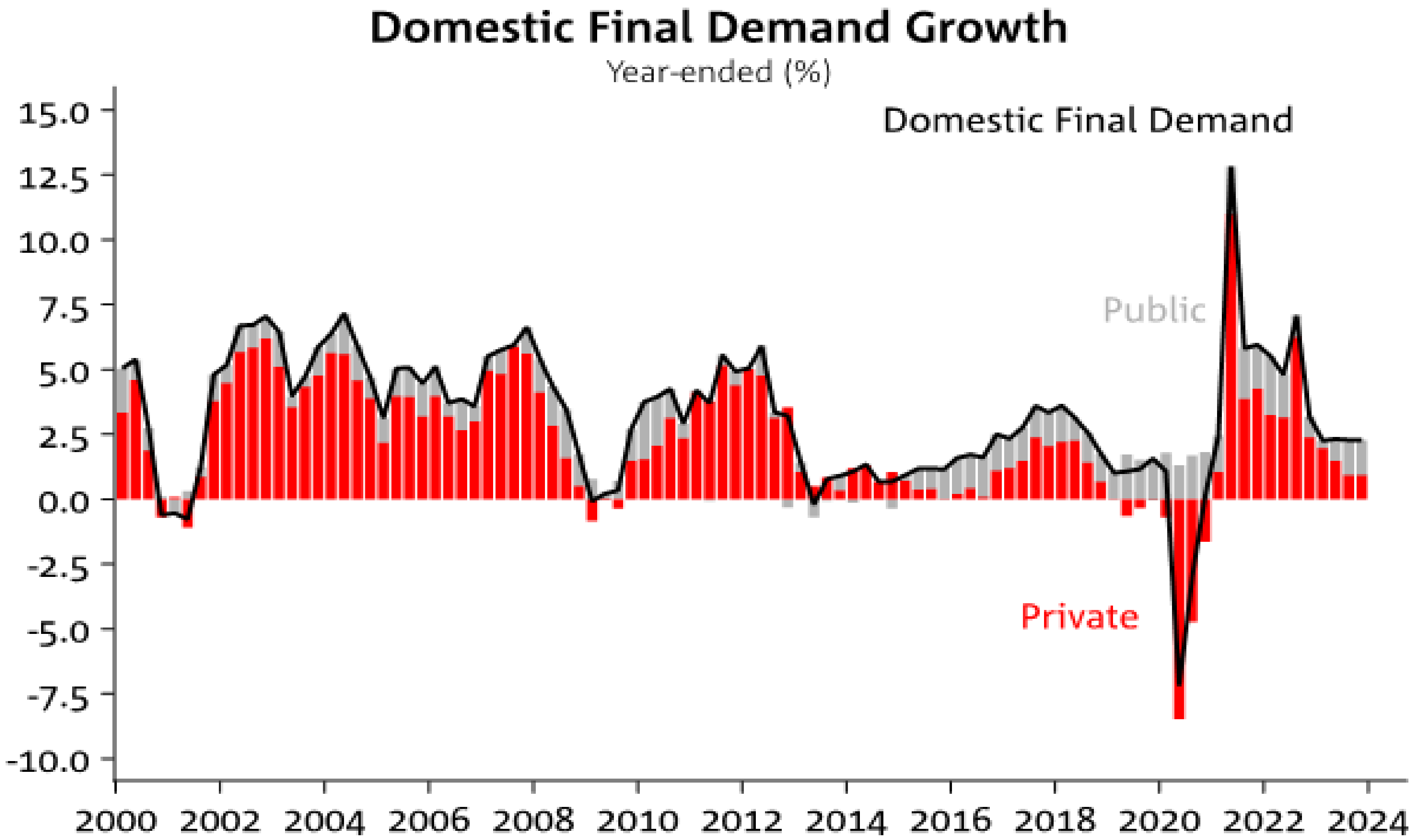
- **Price inflation has peaked but will stay high for a while.**
  - Purchase costs still high and so is wages growth. Service inflation still elevated.
  - But inflation in late 2023 appears to have slowed more than expected.
  - Headline and core around 3% by late 2024 and 2.5% by end 2025.

- **Wages growth to accelerate a touch further from here (currently 4%).**
  - National wages case has added to wage pressures but looks like a spike. Not spreading re expectations.
  - Cyclical productivity after bottoming, now improving a touch - which reduces unit labour cost increases.
  - Expect wages to peak at around 4.3% in 2024. But lower in the medium term.

- **RBA now data watching. At the peak and late this year to start cutting.**
  - RBA in data watching mode.
  - **Phase 3 tax cut changes have no macro impact. But will help consumption.**
  - **RBA to sit at 4.35% for most of 2024.**
  - **We see cuts starting in late 2024 and gradual loosening cycle. Down to 3% by late 2025.**
  - **Markets have cuts by mid year. That is too early.**

The key point from Q4 GDP numbers

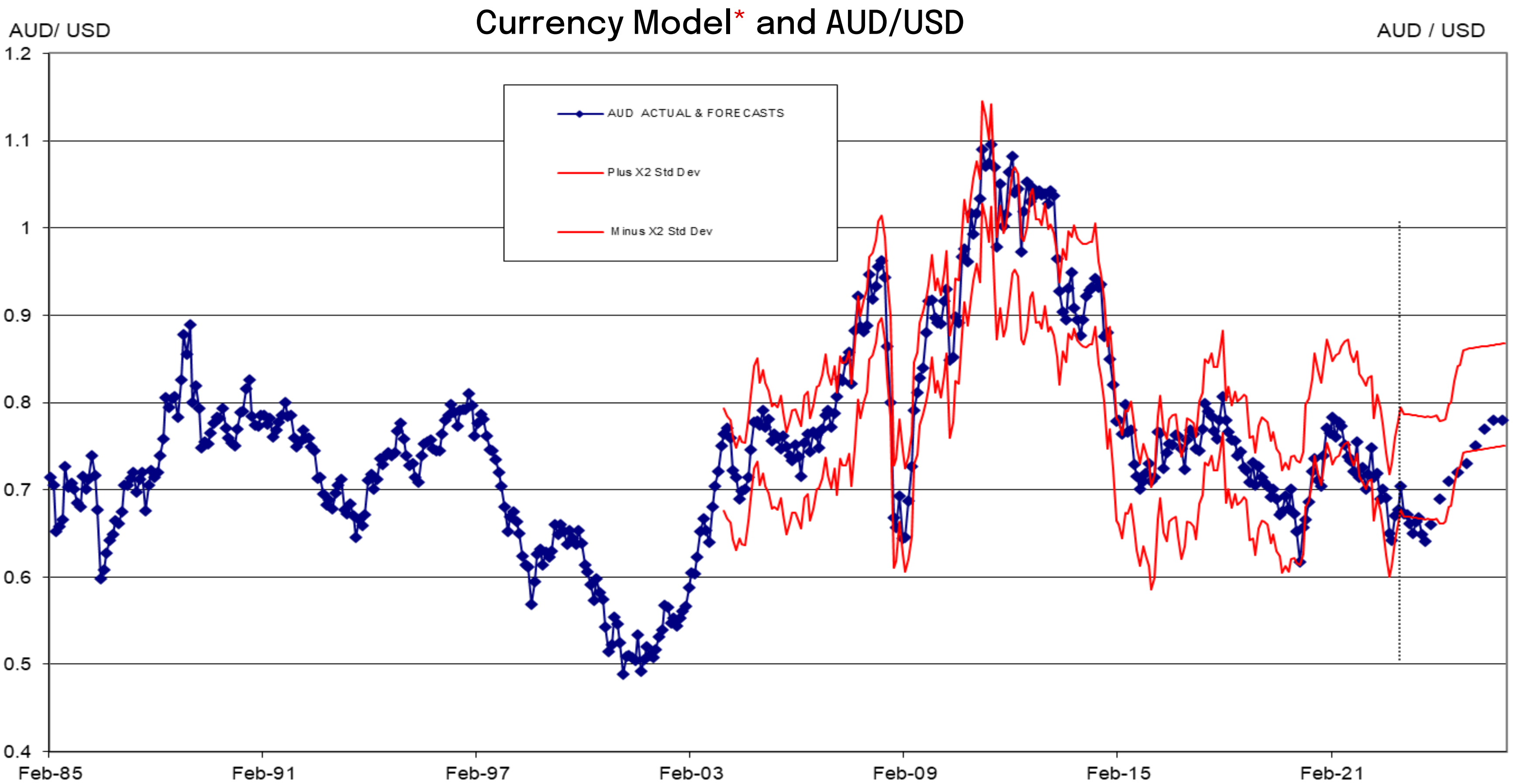
Fundamentally private demand continues to weaken even as public spending increases



Source: National Australia Bank, Macrobond

Currency model USD 0.68+/- 5c

Recent movements very much reflecting strength of the USD. Australia a proxy for risk in uncertain world and China fears. Model seriously under valuing AUD at present. But expect it will recover



- Model driven by: commodity prices; US TWI – as measure of USD strength; long and short run rates; relative unemployment; relative equity markets and VIX

Forecasts:

End 2024= 72c AUD/ USD

End 2025= 78c AUD/ USD

Data Insights

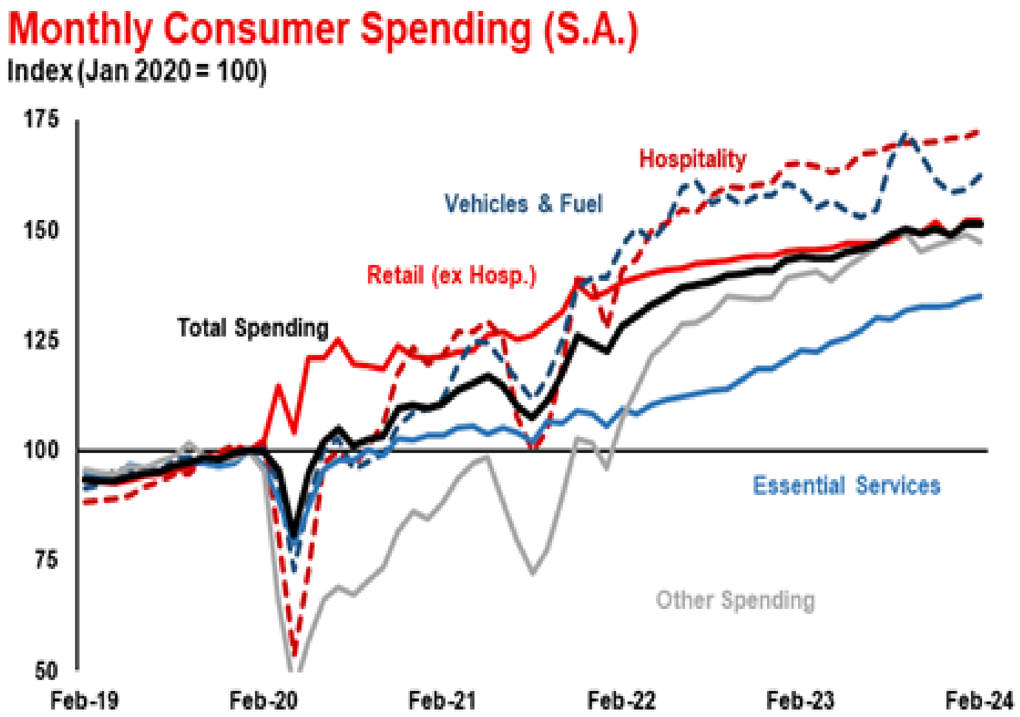
- NAB Data
- Business Survey

After a good January, retail and total consumption look flat in February

Very volatile seasonal changes recently but retail only up 0.2% in February and total consumption 0.1%. **In short still a struggle.**

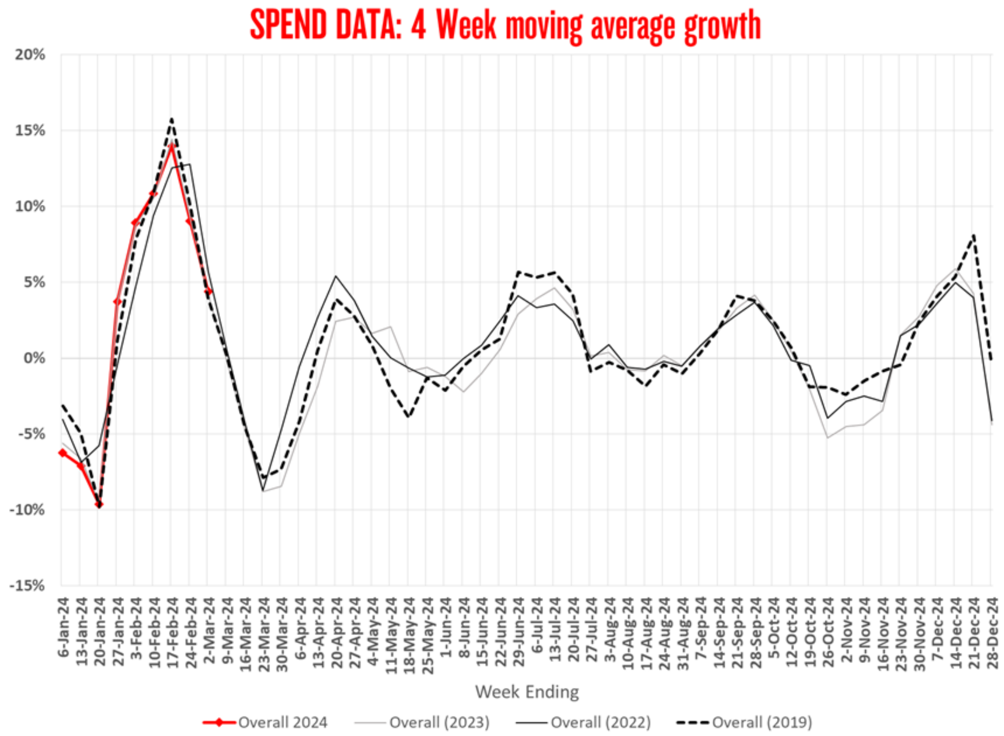
	Dec-23	Jan-24	Feb-24		
	m/m	m/m	m/m	3m/3m	y/y
Goods Retail	-2.3	2.6	0.0	0.6	4.6
Hospitality	0.5	0.2	0.8	1.0	4.3
Total Retail	**-1.8**	**2.1**	**0.2**	**0.6**	**4.5**
Vehicles & Fuel	-1.6	0.5	1.8	-4.1	2.0
Essential Services	0.3	1.0	0.6	1.3	10.1
Other Spending	0.7	1.0	-1.2	0.7	5.3
Total Spending	**-1.0**	**1.6**	**0.1**	**0.4**	**5.2**
Goods	-2.2	2.3	0.3	-0.2	4.2
Services	0.5	0.8	-0.2	1.0	6.4
Discretionary	-0.9	1.6	-0.3	0.7	5.0
Non-Discretionary	-1.1	1.6	0.6	-0.3	5.5
Total ex Fuel	-0.9	1.7	-0.1	0.8	5.4

Excludes taxes, rent, mortgages, gambling, finance, insurance, and other non-consumer transactions. Data are seasonally adjusted and subject to revision.



Weekly data patterns for consumption in February/early March same as this time last year.

After seasonal adjustment suggests a flat ABS read for retail sales in February



	17/02/2024	24/02/2024	2/03/2024	4/03/2023
Total Spending (4wma, s.a.)				
4-week Growth	14.0	9.0	4.4	4.2
Sector Growth (4wma, s.a.)				
Retail	12.4	8.5	5.0	4.3
Hospitality	4.6	4.3	8.9	7.3
Essential Services	28.6	15.6	1.2	0.8
Other Services	15.5	9.4	2.7	3.9
State Growth (4wma, s.a.)				
NSW	14.4	9.0	3.8	3.4
VIC	13.7	9.0	4.0	4.0
QLD	13.4	8.6	5.0	4.3
WA	13.7	9.3	4.8	6.3
Other	13.7	9.6	4.8	4.1

Essential services includes health, education, utilities and communications. Other spending includes arts & rec, transport, construction, and other services. All data seasonally adjusted using monthly factors and subject to revisions.

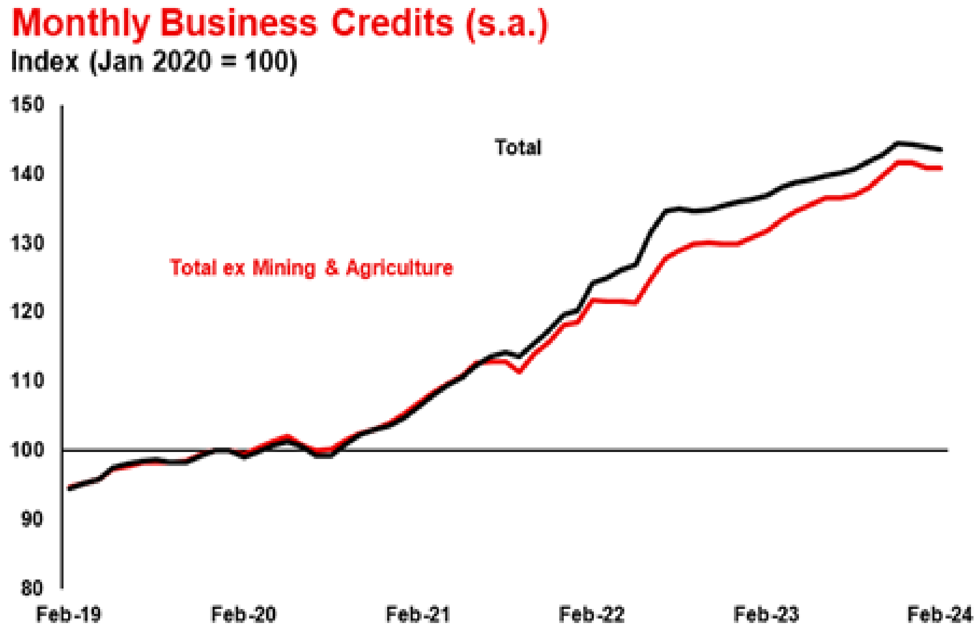
Inward credit still weak in January/February

Looks like broad based falls. Transport and postal very hard hit. But down just about everywhere – including retail accom & food. Total ex mining and agri also down a touch. Total inward credits up around 5.5% over the year. Ex mining & agri up around 7.8% in the year.

	Dec-23	Jan-24	Feb-24		
	m/m	m/m	m/m	3m/3m	y/y
Total	**-0.2**	**-0.3**	**-0.2**	**0.6**	**5.5**
Total ex Mining & Agri	*-0.1*	*-0.5*	*-0.1*	*0.9*	*7.8*
Accom & Food	0.9	-1.7	-3.7	3.8	17.6
Admin & Support	0.6	-0.1	-0.3	1.3	14.8
Agriculture	-4.9	-2.7	2.3	-7.0	-9.1
Arts & Rec.	2.5	1.2	2.4	3.9	3.3
Construction	-0.2	-1.3	0.4	0.6	14.4
Education	2.8	-1.2	0.8	1.7	11.3
Utilities	2.1	5.1	1.1	9.9	-5.4

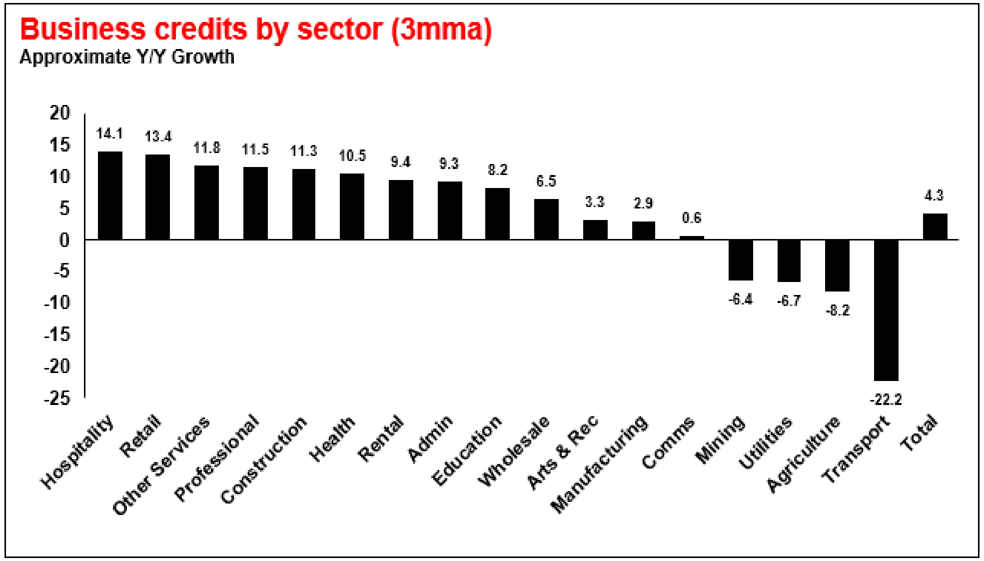
	Dec-23	Jan-24	Feb-24		
	m/m	m/m	m/m	3m/3m	y/y
Health	-3.0	0.9	0.5	-1.4	15.2
Info & Media	-1.2	6.3	1.0	2.2	-1.4
Manufacturing	-0.7	0.0	-1.0	0.2	5.7
Mining	1.1	2.8	-2.9	0.2	-9.9
Other Services	1.2	4.5	0.3	3.4	15.4
Professional Services	1.9	0.0	-0.4	4.4	10.6
Rental & Real Estate	2.0	0.6	2.8	3.6	9.4
Retail Trade	-1.0	-0.8	-0.3	1.6	13.2
Transport & Postal	-3.7	-6.3	-4.2	-10.2	-16.1
Wholesale Trade	-0.1	-1.2	0.5	0.7	5.6

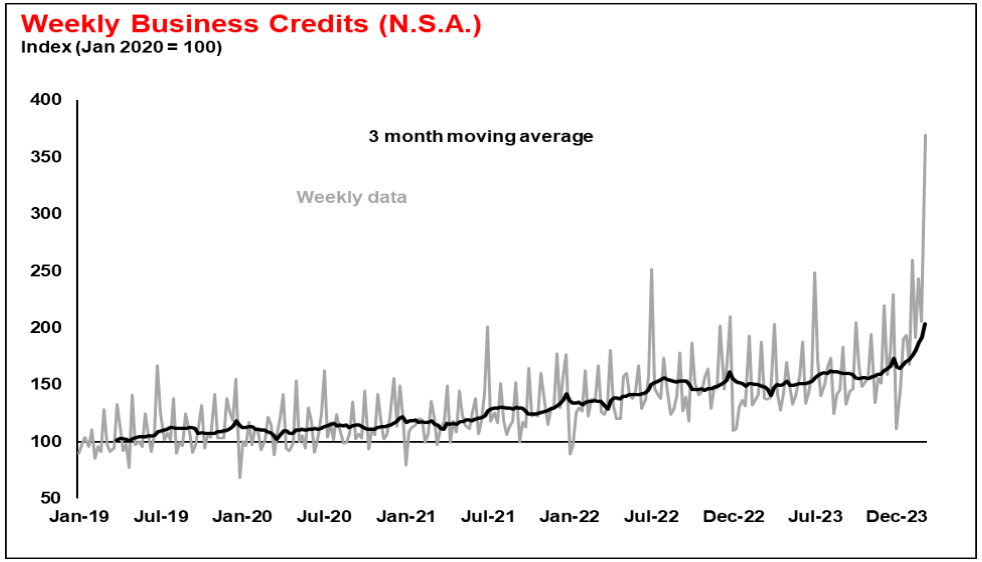
All data calculated as a three month moving average of seasonally adjusted monthly data.

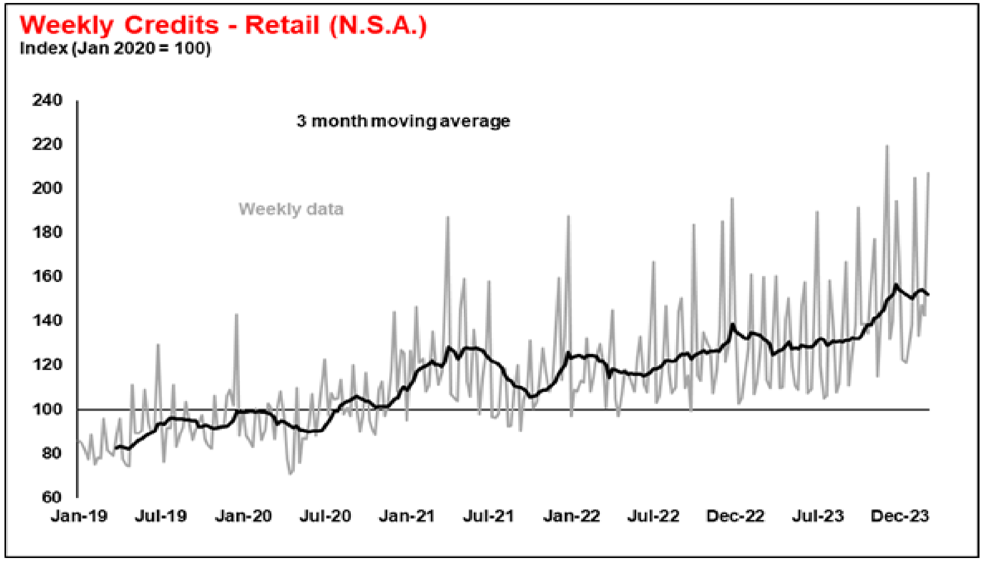


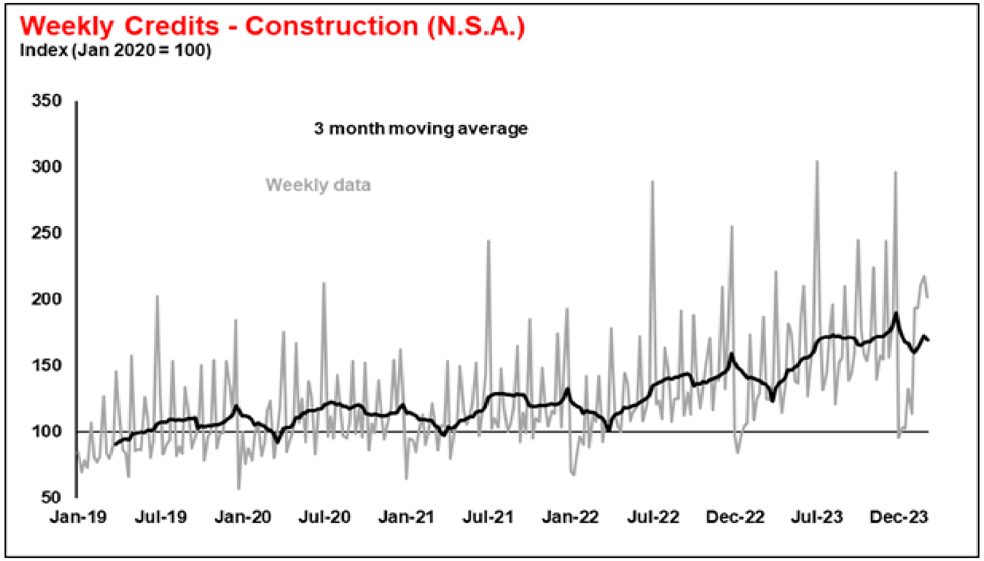
Business inward credit basically sideways in late February, after seasonal adjustment.

Strength in hospitality and retail. This probably reflects less discounting in January/February and Taylor Swift impacts. Mining, agri and especially transport still suffering. But most other sectors ok (including construction).



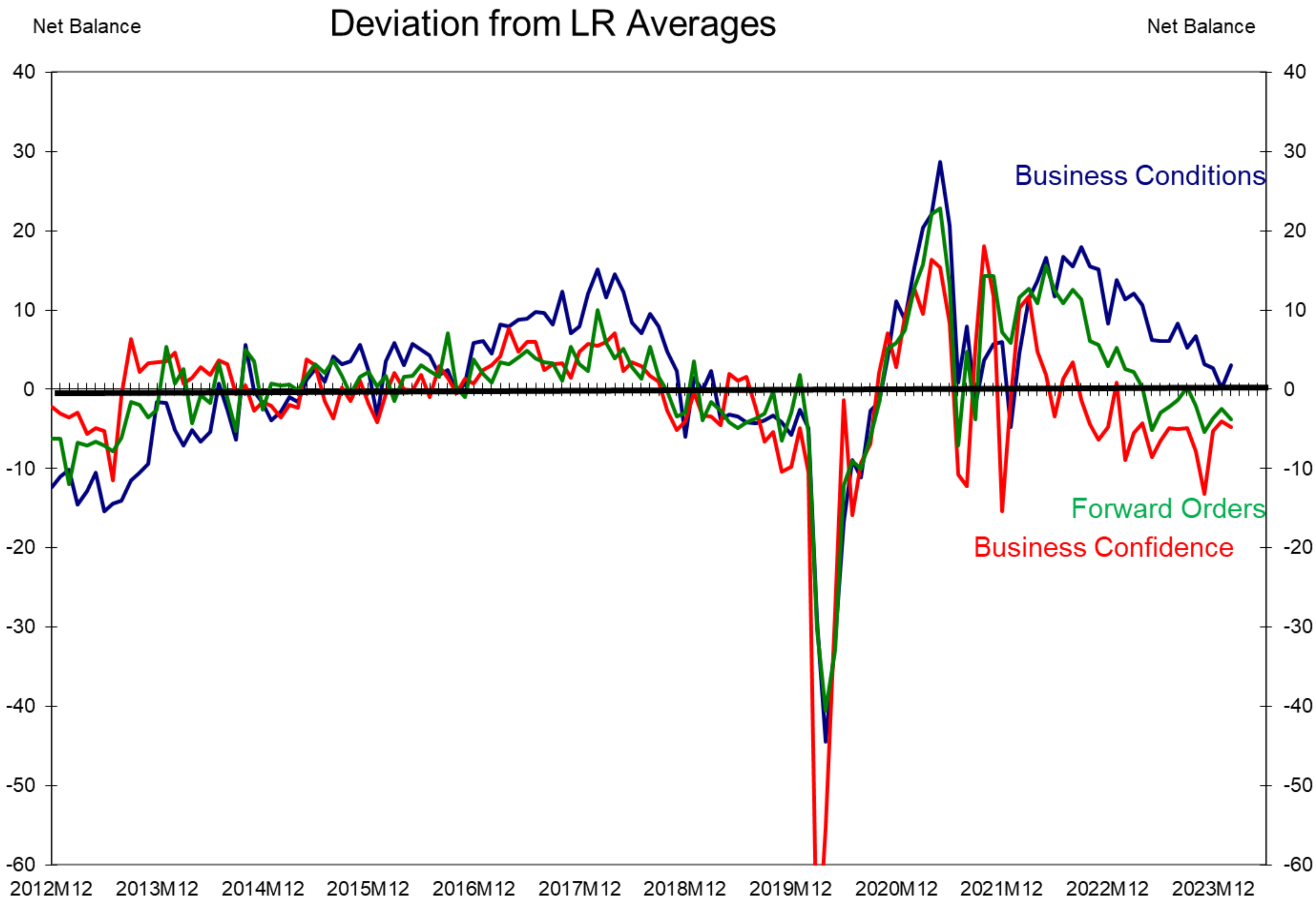






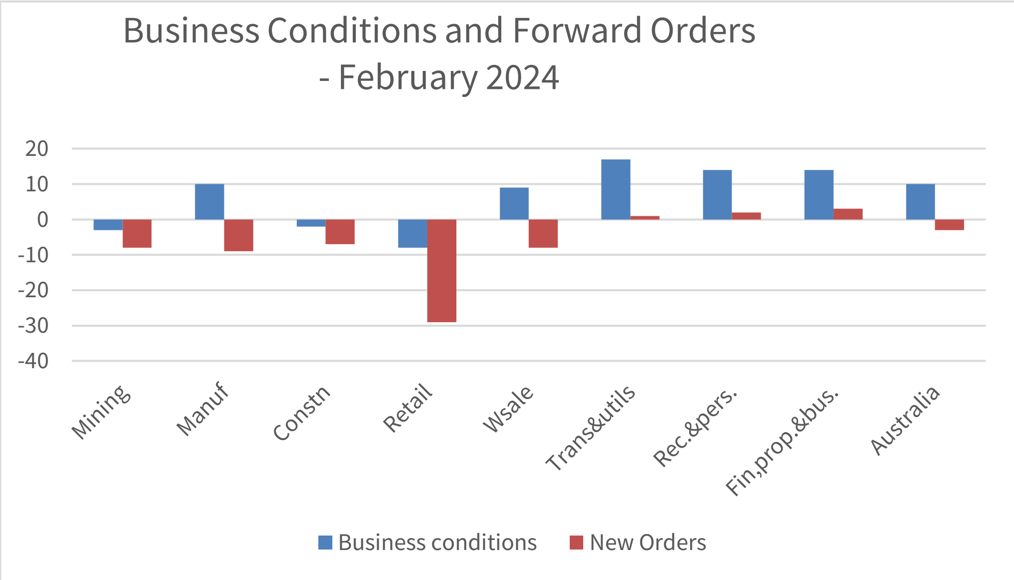
Business Survey shows momentum slowing a lot recently.

February Survey was a touch better in business conditions. But orders and confidence still significantly below trend. Overall ok - with growth momentum going sideways really, with some areas of stress.

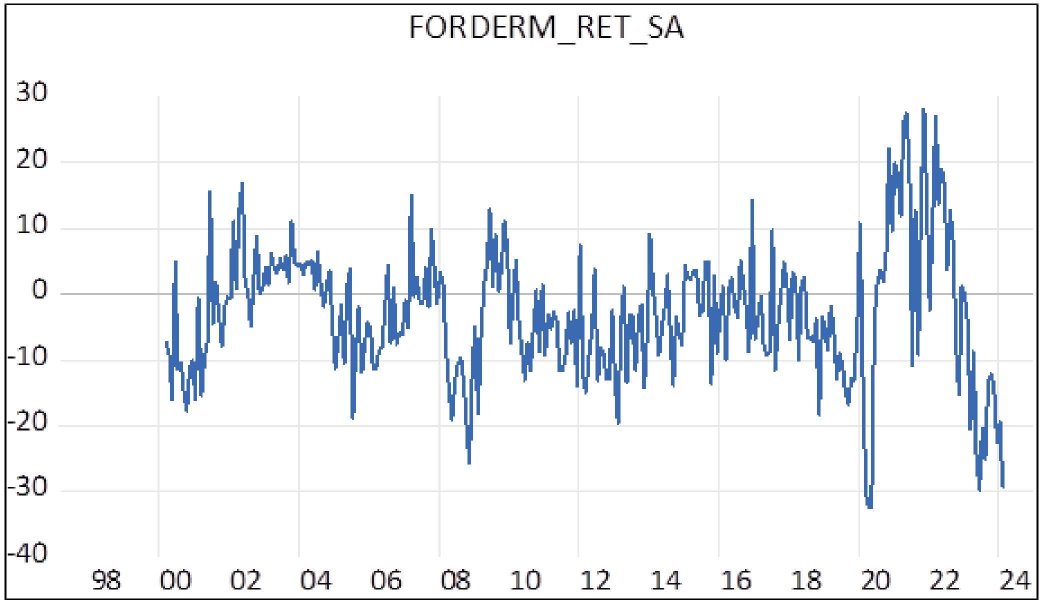


Interesting split for orders across industries

Orders still very weak for retail. Wholesale orders also a concern. Also, some weakness in construction and manufacturing orders.



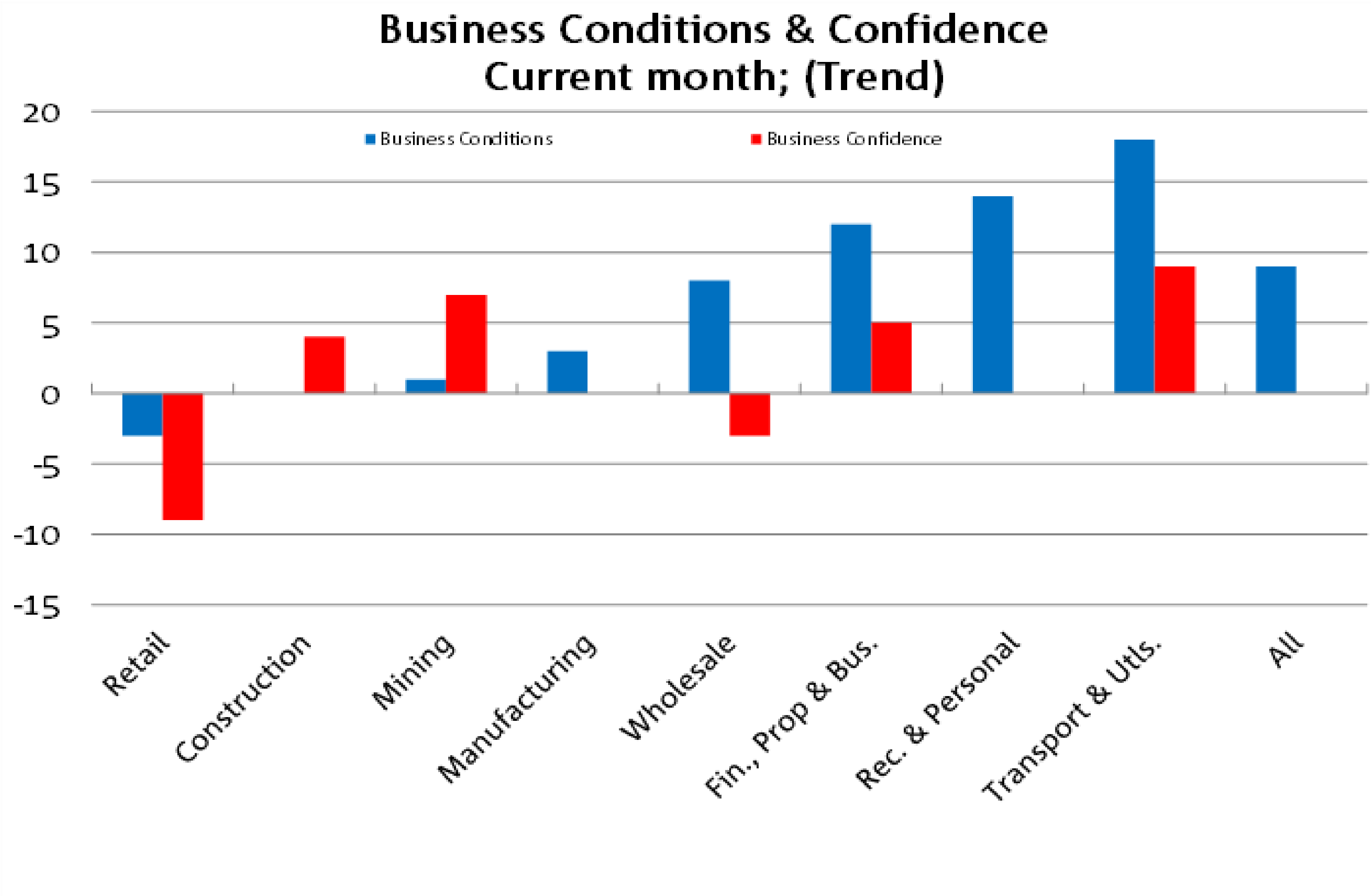
Forward Orders Retail – SA



By industry

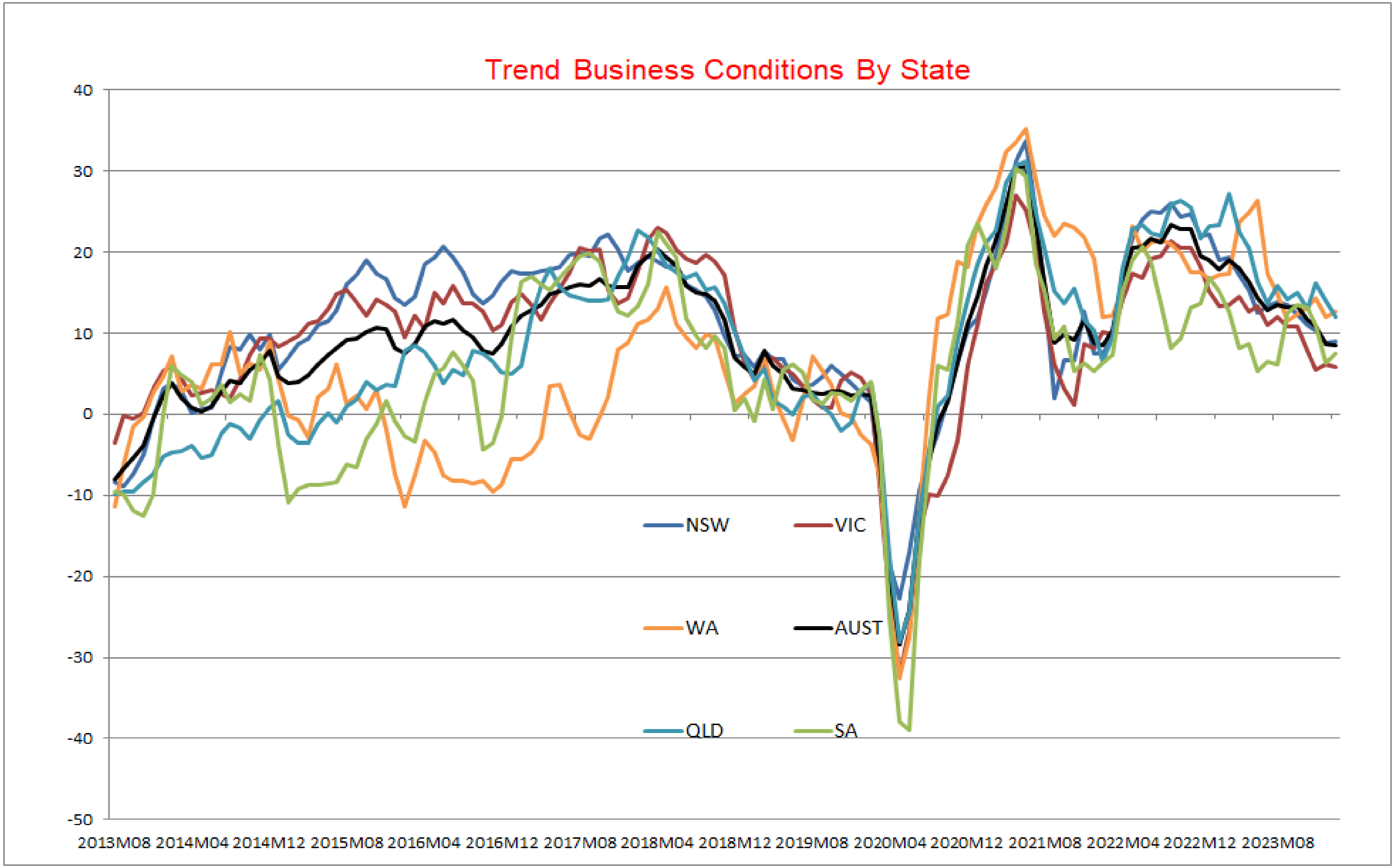
Overall big differences between confidence and actual conditions outcomes. Transport, recreation and finance & bus services conditions still very strong. Mining less so. But big difference from conditions to confidence in retail/wholesale and manufacturing. Wholesale can be a leading indicator so needs to be watched.

February 2024



Most states are slowing.

Qld and WA the strongest. While Vic and SA marginally the weakest.

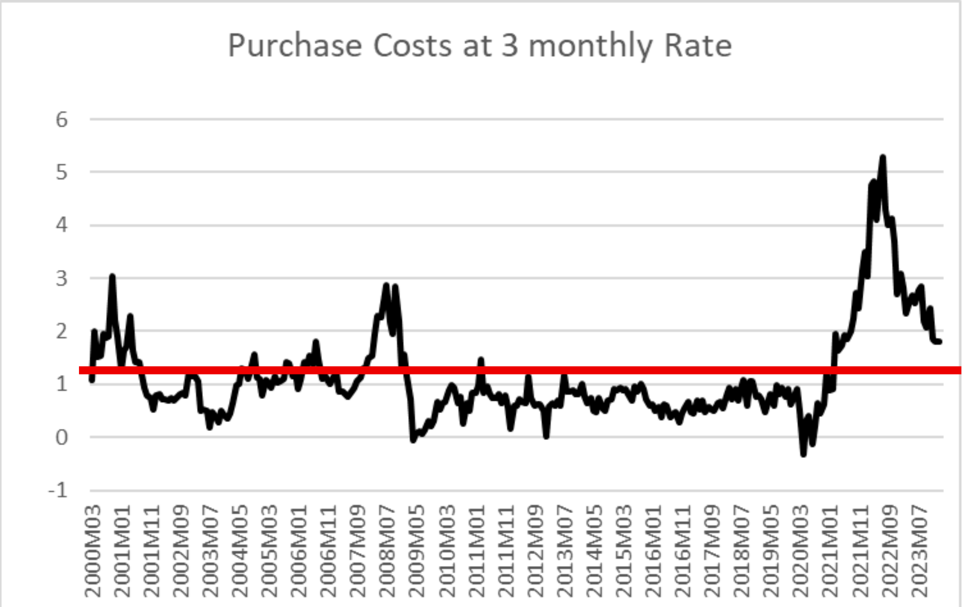


NAB Business Survey

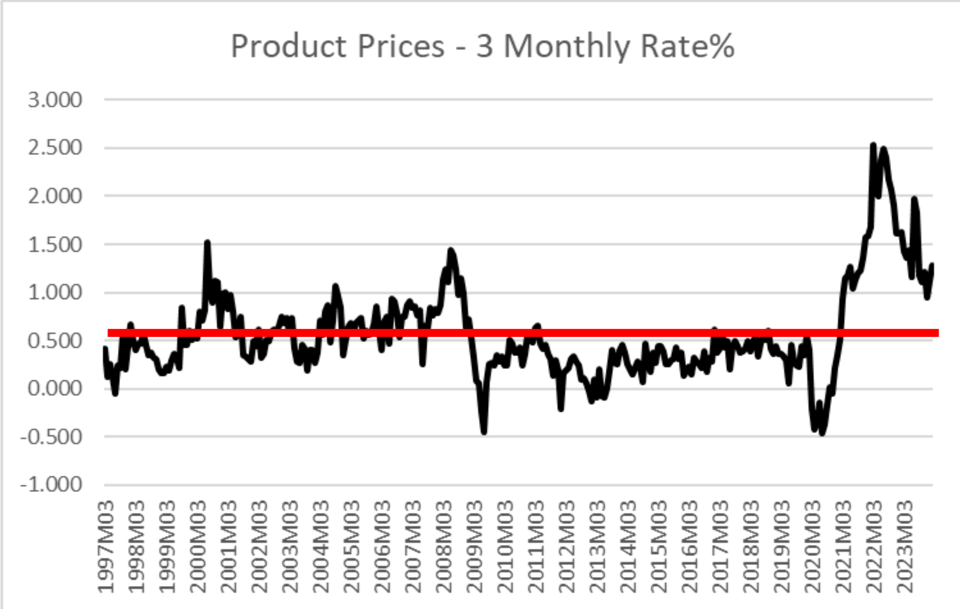
Business Survey pointed to much discounting at the end of 2023.

January/February purchase costs flattish but prices – especially retail – up.

Purchase Costs – February NAB Survey



Total Economy wide prices – February NAB Survey

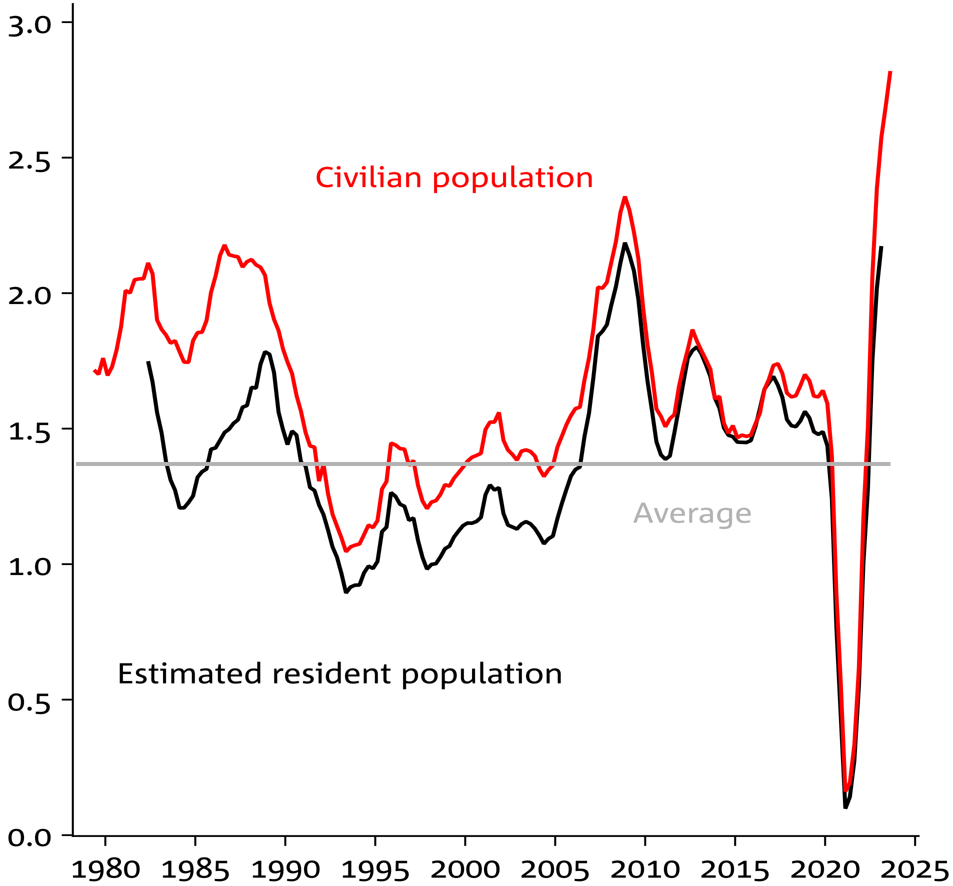


Population growth has rebounded sharply

Across all states except Tasmania…

Population Growth

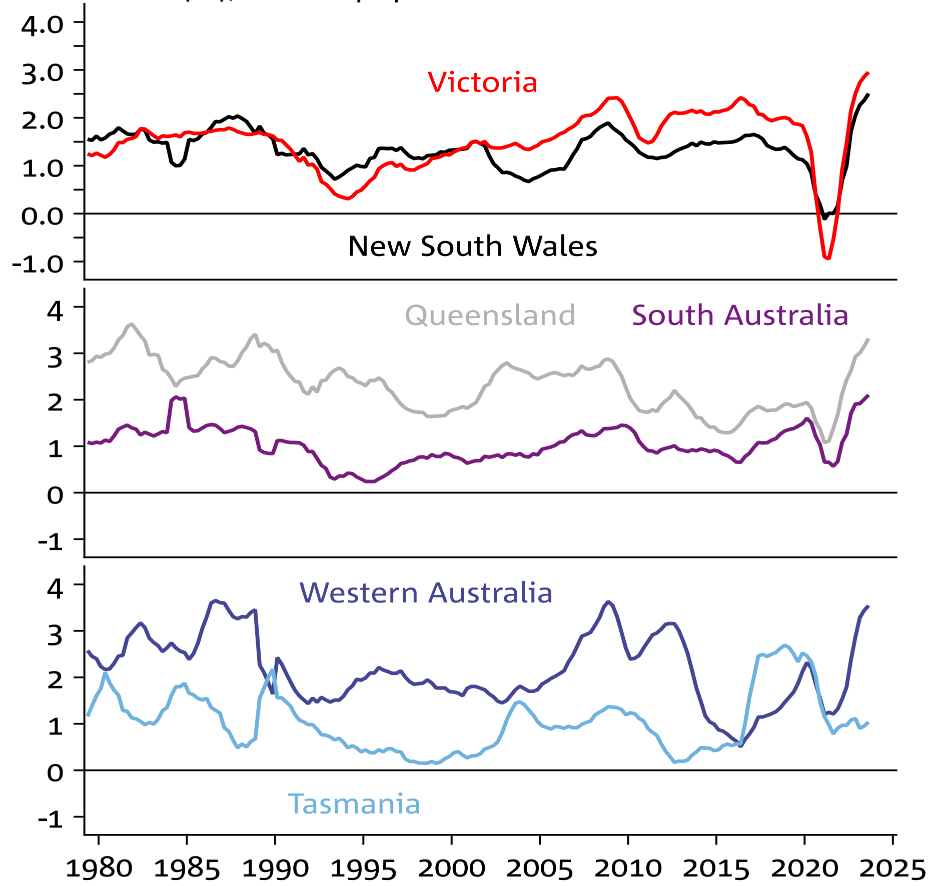
Year-ended



Source: National Australia Bank, Australian Bureau of Statistics

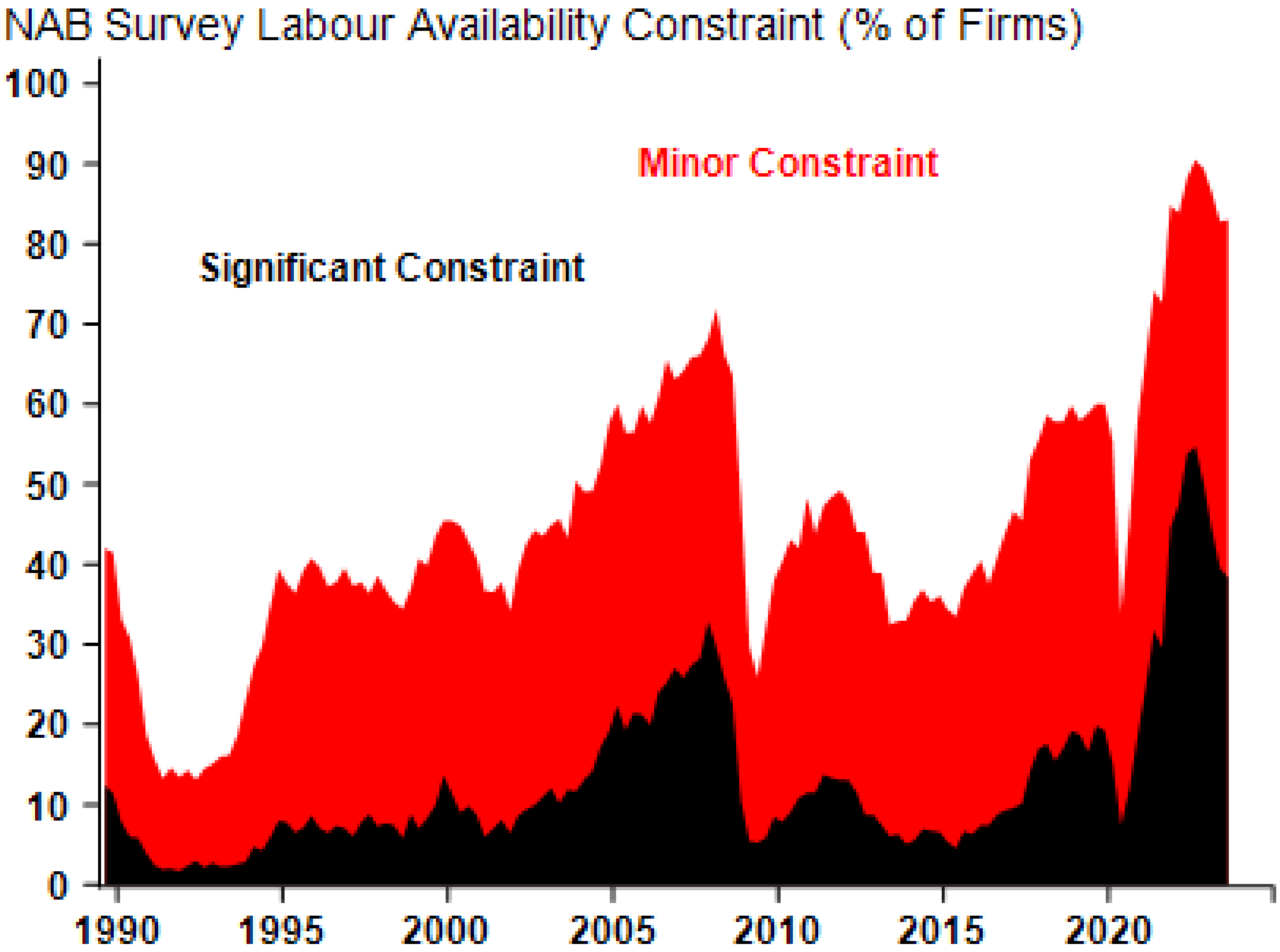
Population Growth by State

Year-ended (%), civilian population



Source: National Australia Bank, Australian Bureau of Statistics

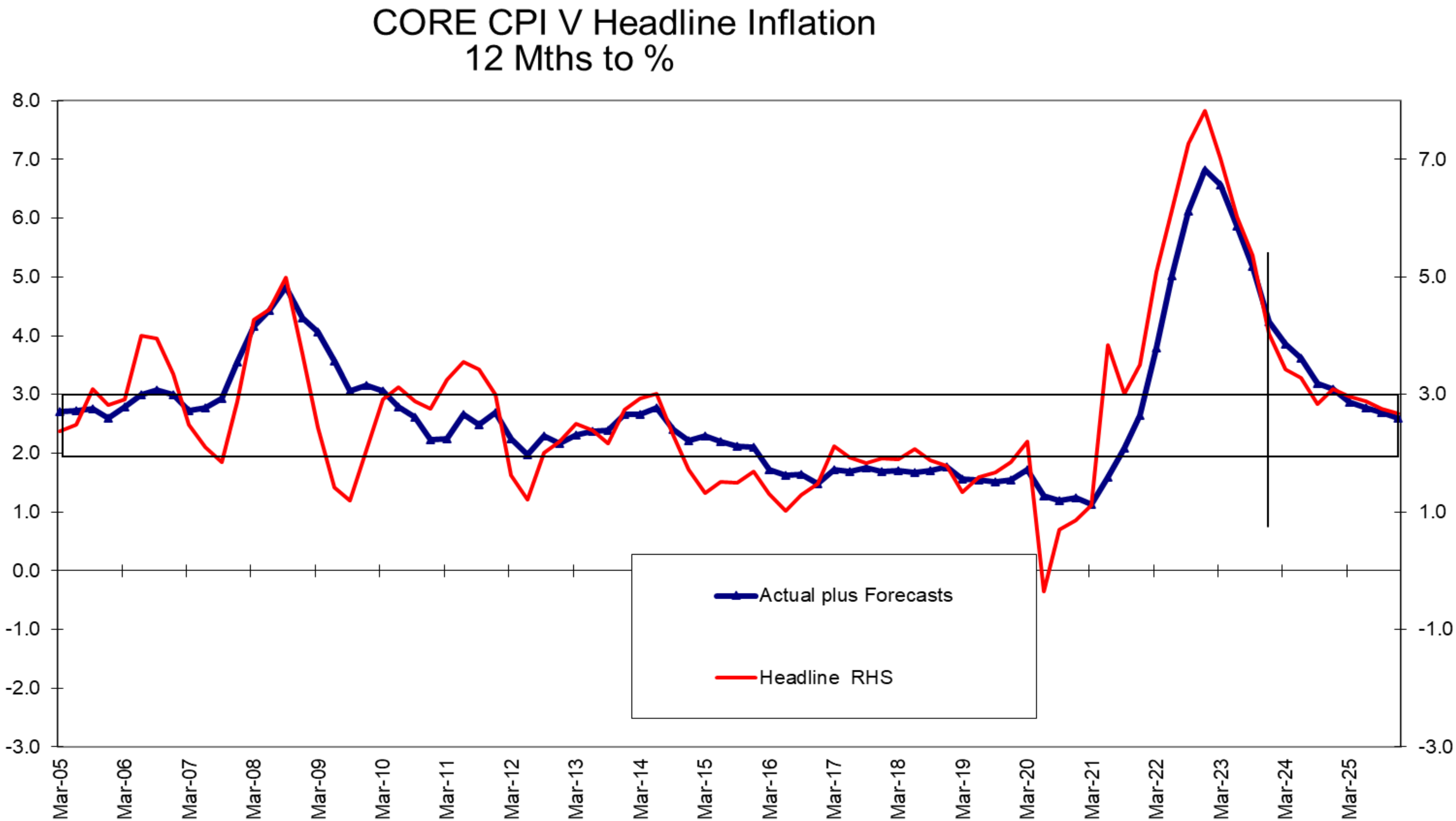
Obviously labour shortages are still a significant constraint but have eased a touch recently



Source: Macrobond, NAB Economics

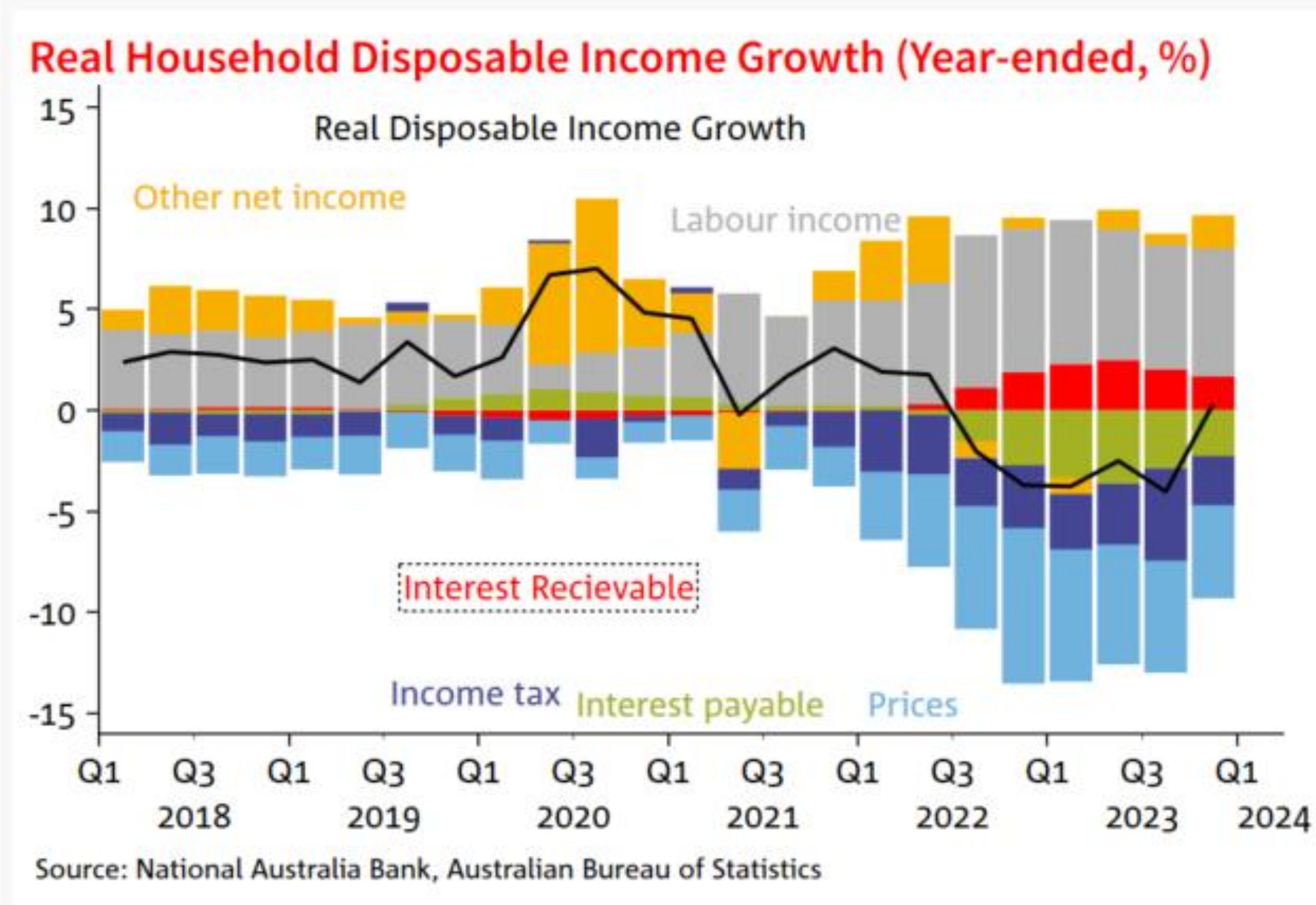
Core inflation

Hit by supply side problems and higher commodity prices (Russia) in 2023. Trimmed mean core inflation now at 4.3%, headline at 4.1%. While early 2024 core might edge higher as rents subsidies withdraw, core at 3.1% by end 2024 and 2.6% by end 2025.



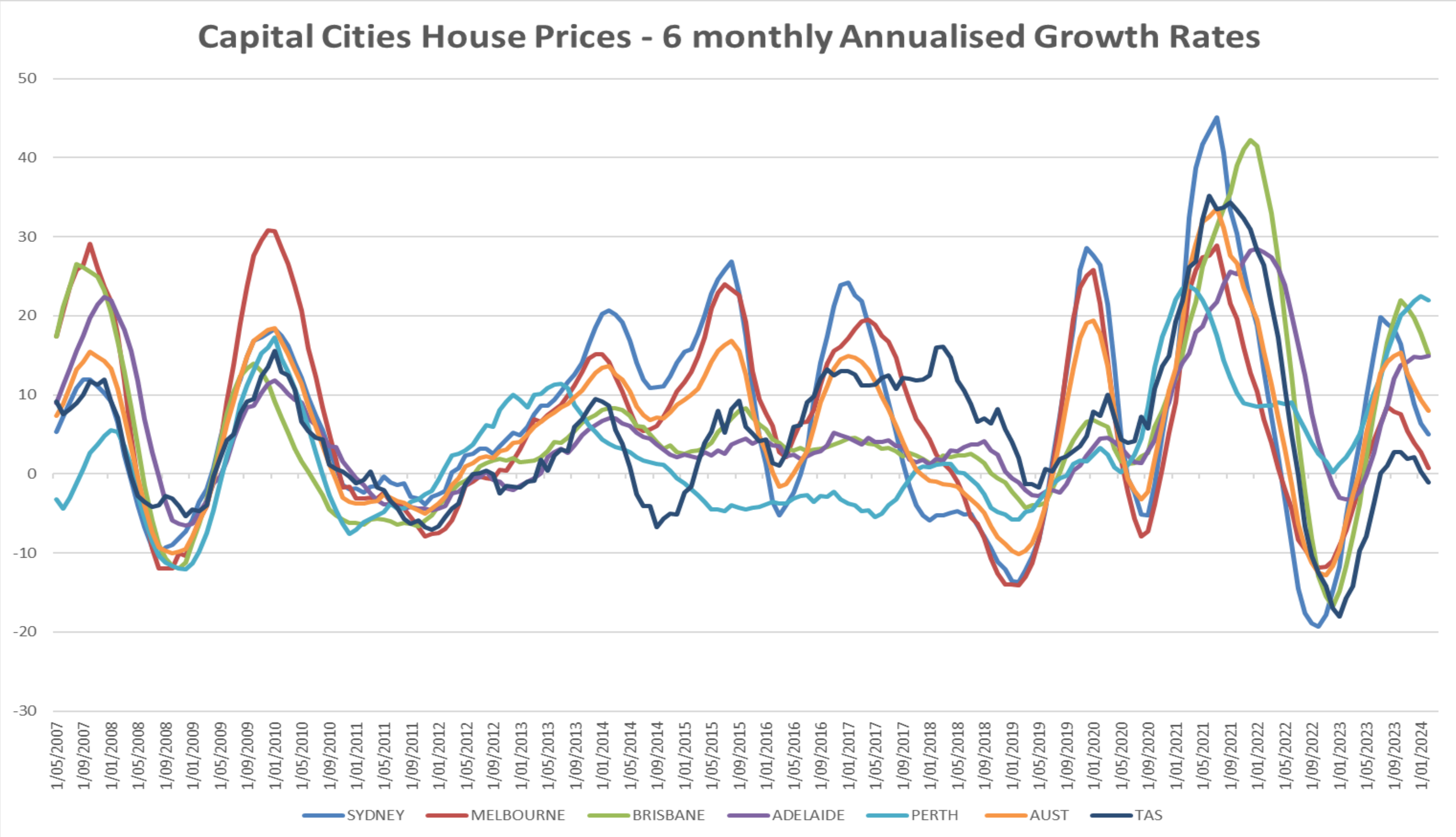
Inflation has been hurting incomes even as wages move up

Interest rates have positive and negative impacts. But real household disposable incomes stabilise as price growth slows.



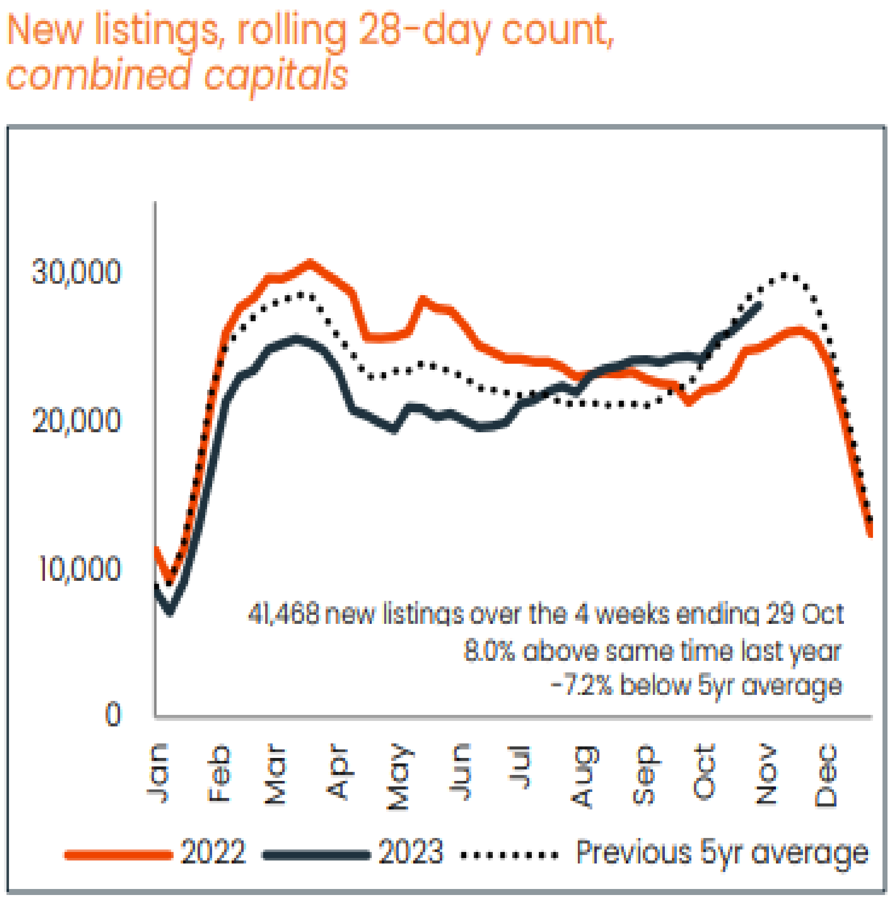
House prices

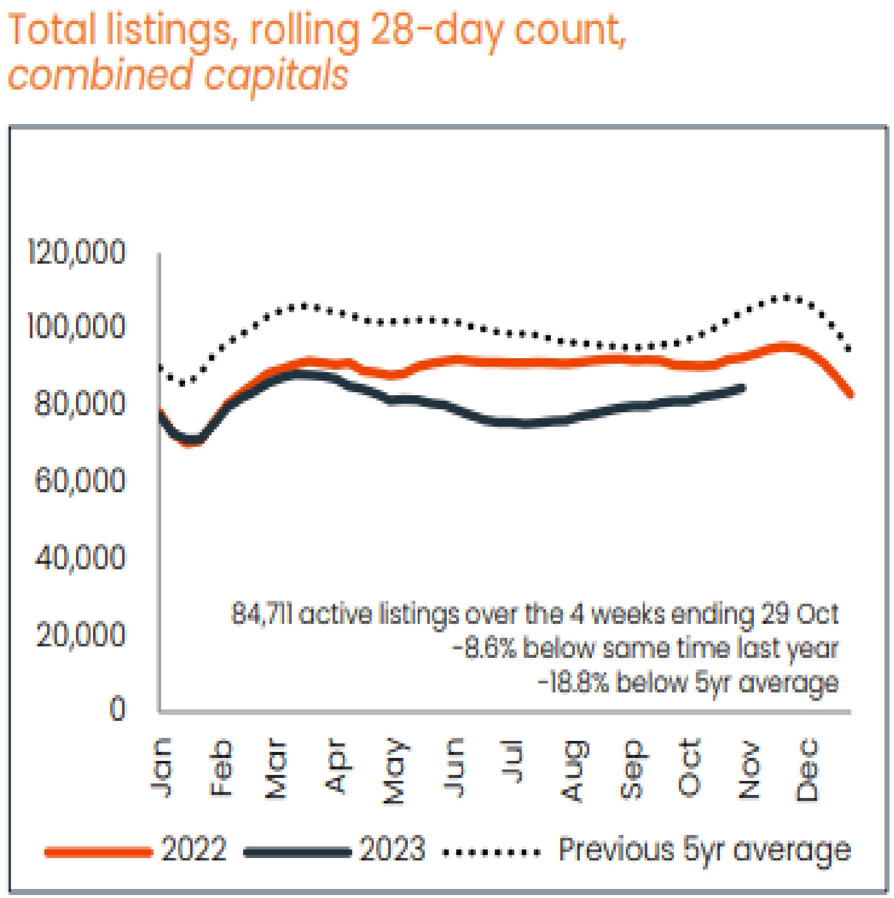
We are seeing a flattening out in previously very robust housing growth. But big differences are opening up across capitals. Perth still growing at around 20% per annum. Adelaide and Brisbane around 15%. Sydney now growing around 5% annualised – similar to the Australian average (at 8%). Melbourne weaker at around flat and Hobart edging down.



But be aware turnover has changed a lot recently – especially new listings

Could be signs of distressed sales

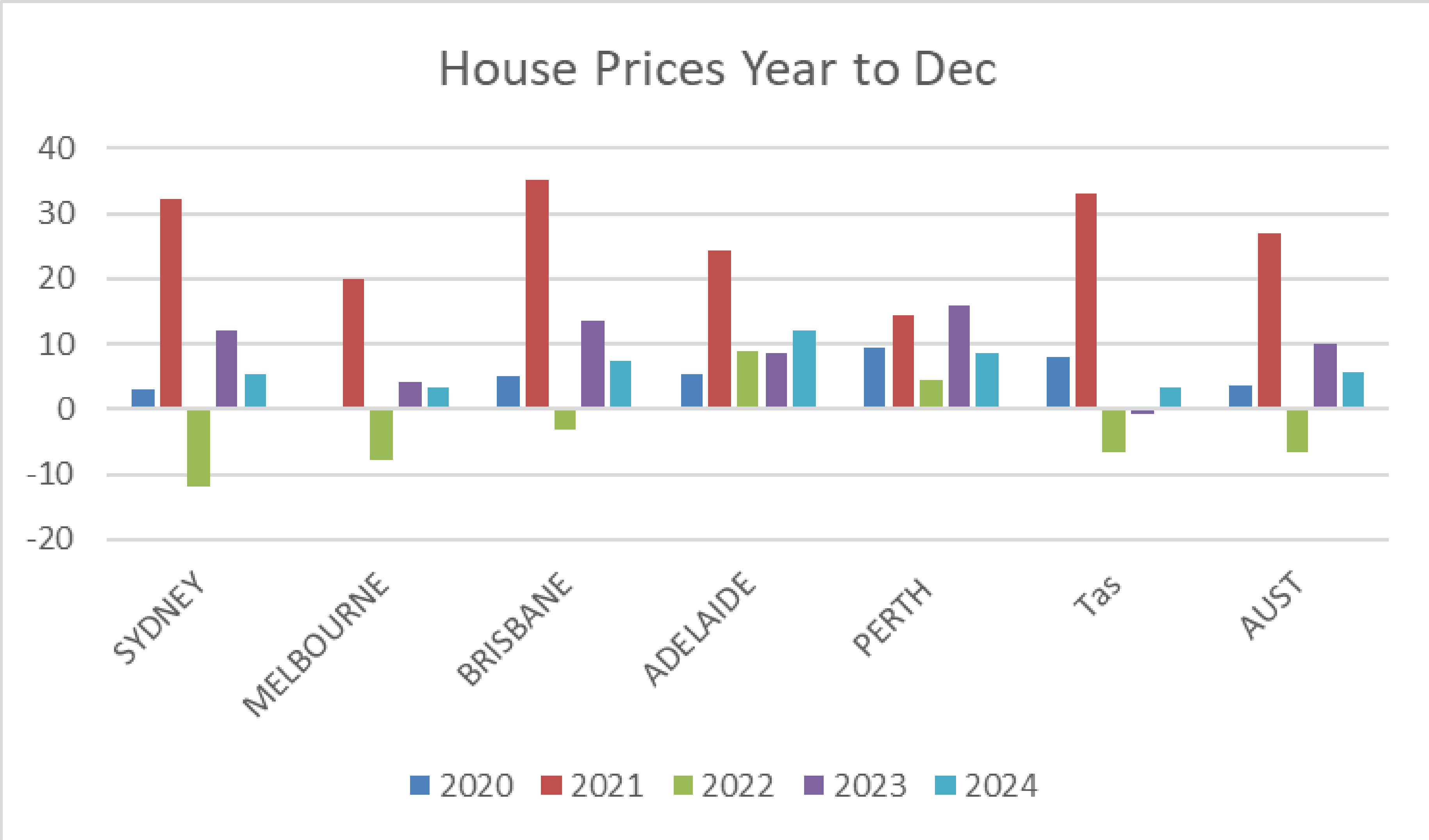




Source CoreLogic

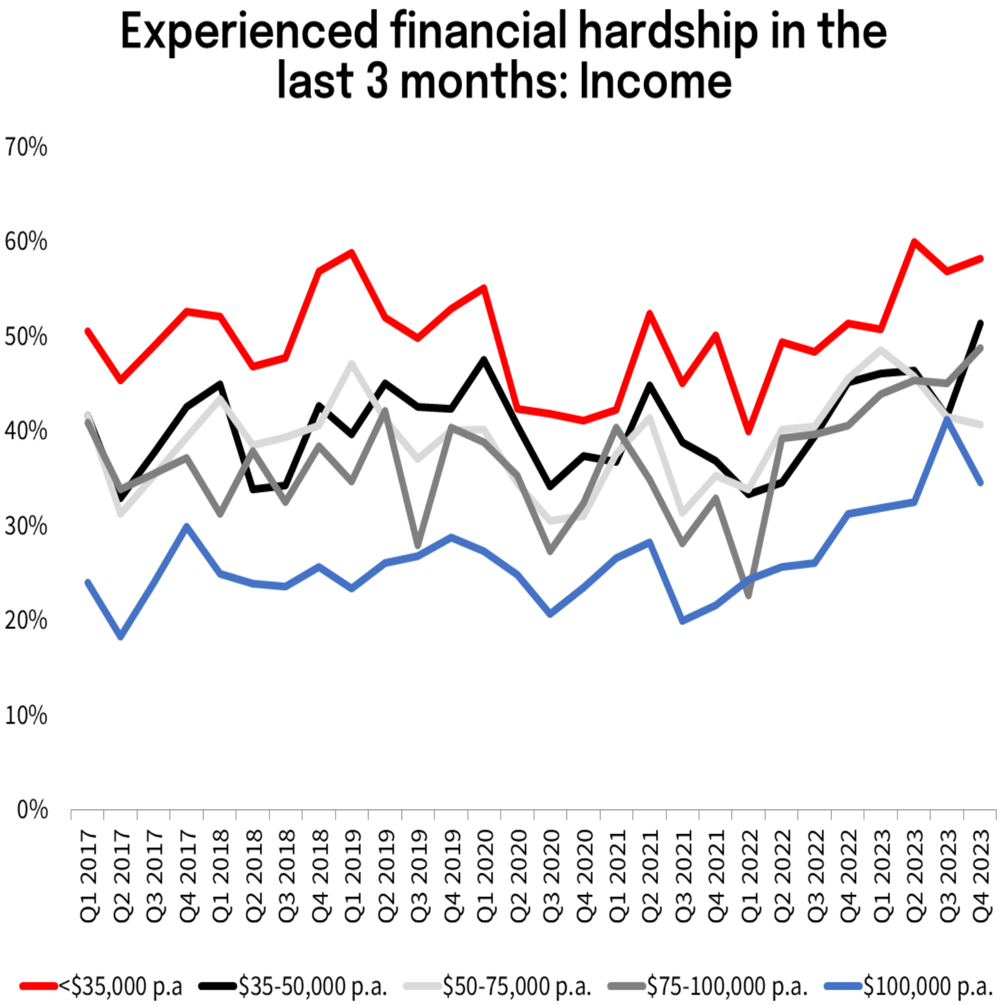
House price forecasts

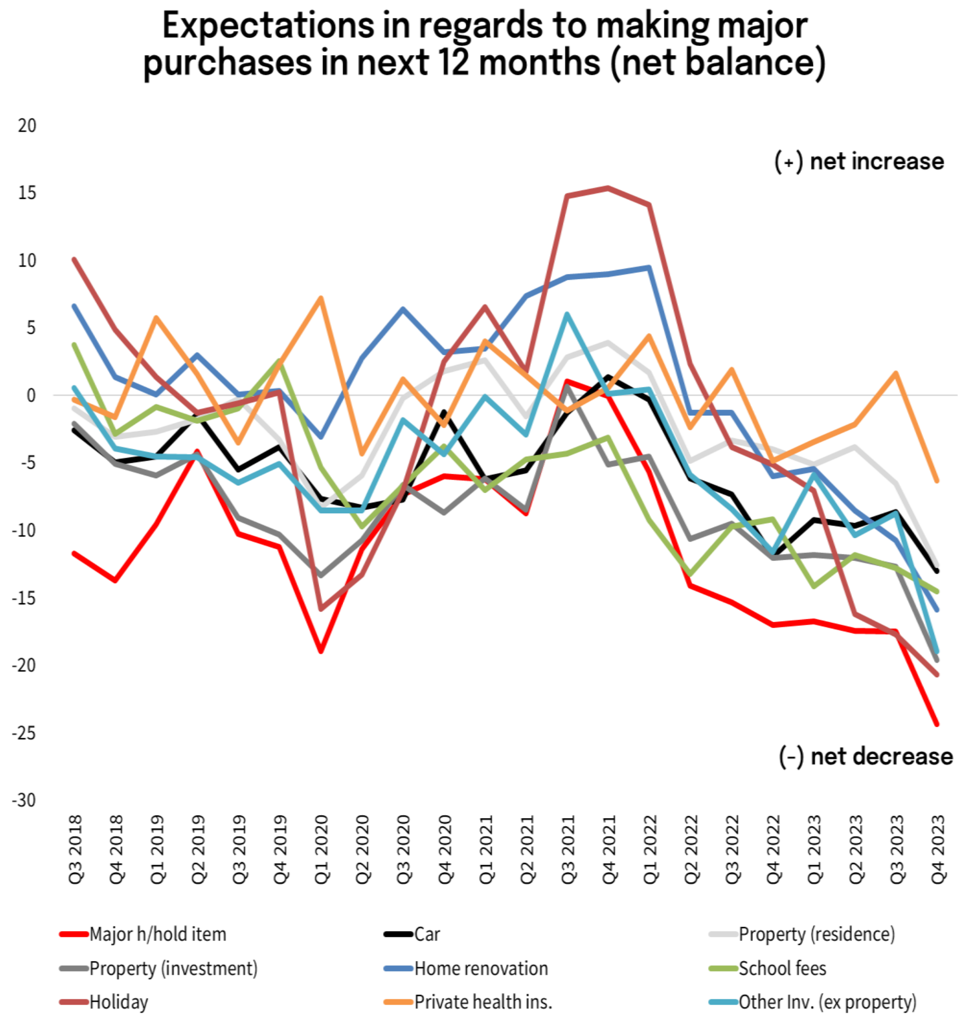
After increasing by around 27% house prices during 2021 (now revised higher), down around 6.6% during 2022. For 2023 was up 10.2% (led by Sydney) and we expect Australian prices up around 5% in 2024



Consumers also tell us that they are adjusting their spending plans

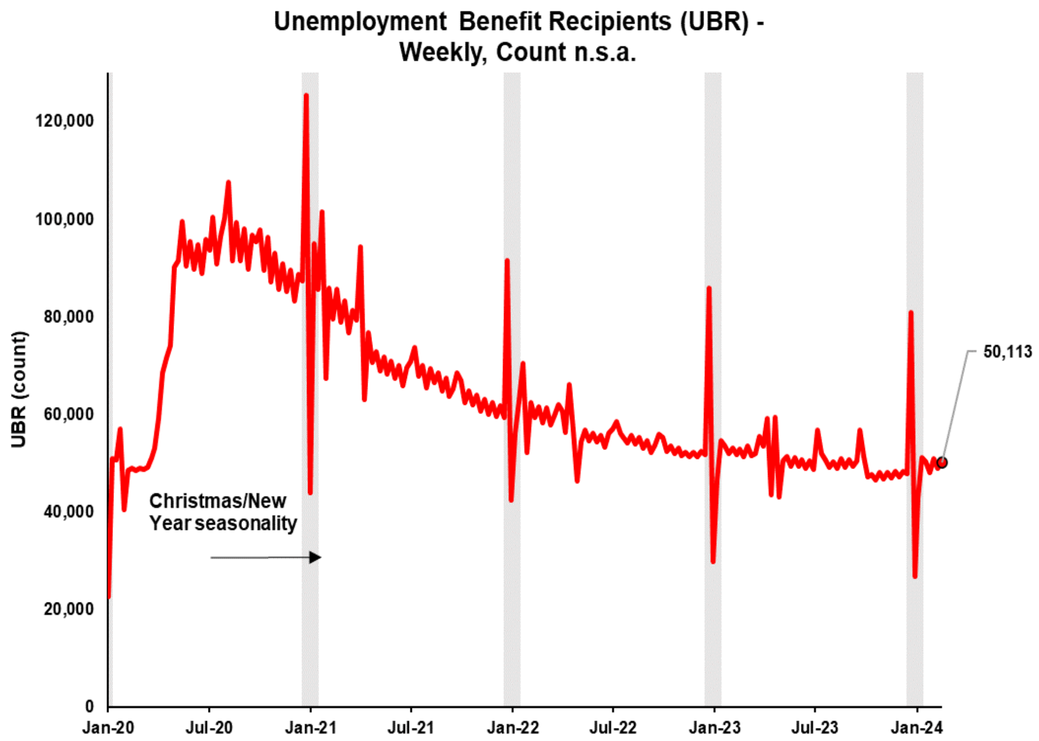
Stress most at lower to mid incomes (and youth to middle age). Liquidity impact from rate rises hit spending intentions from late 2023. Especially household goods, school fees and holidays. Health insurance least likely to suffer.

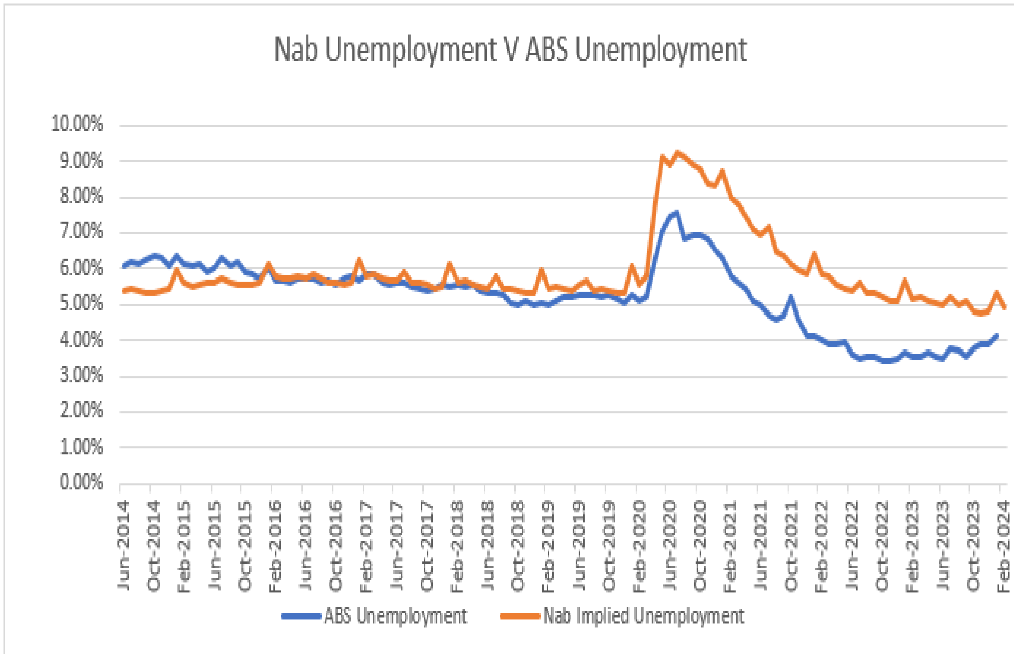




NAB data on the Claimant Count

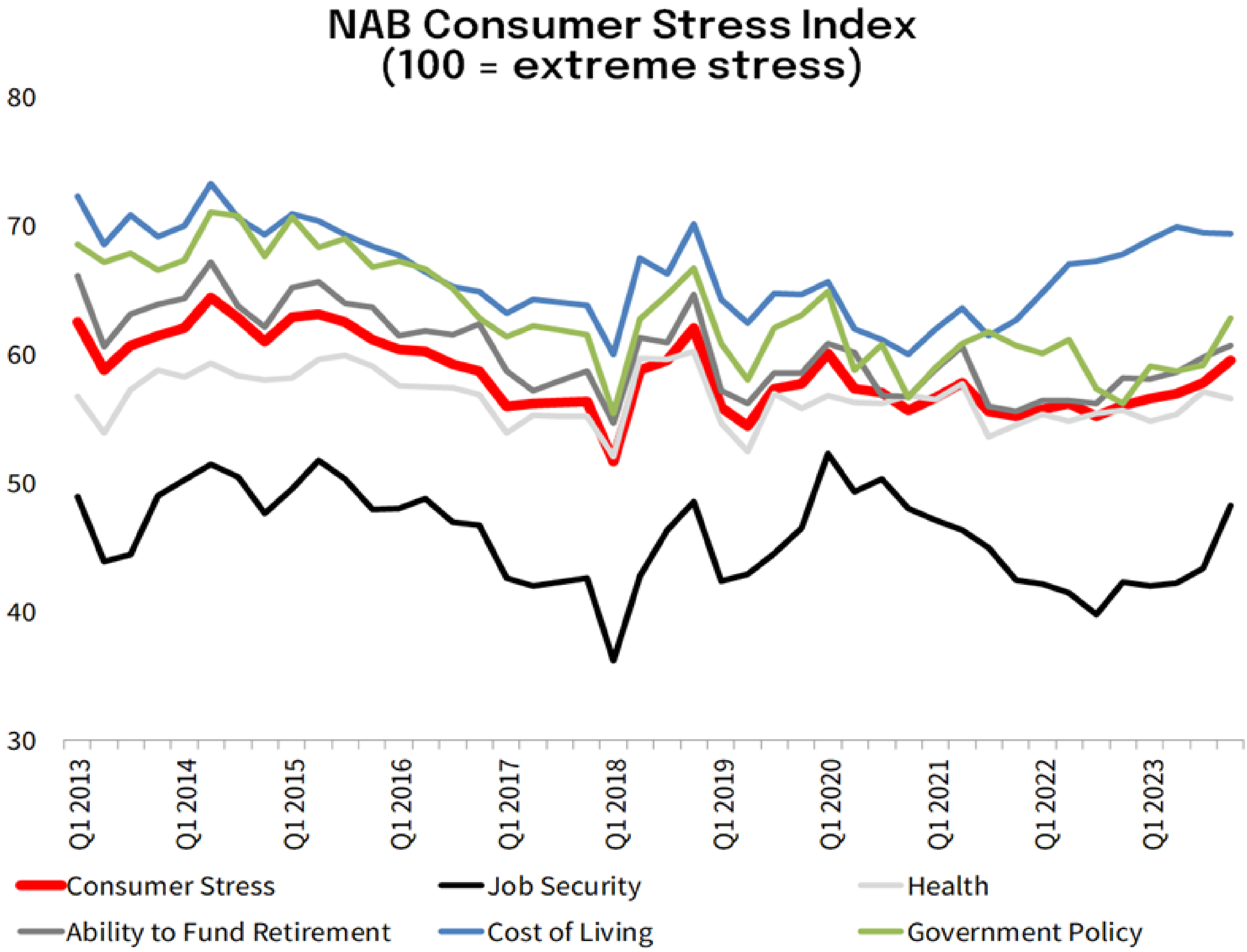
(NAB customers receiving JobSeeker). Data has been volatile. Up significantly in January but down somewhat in February. Albeit still above December. Suggests unemployment might edge down a touch in February (or at least not accelerate further). NAB data (LHS) and implied economy wide movements (RHS).





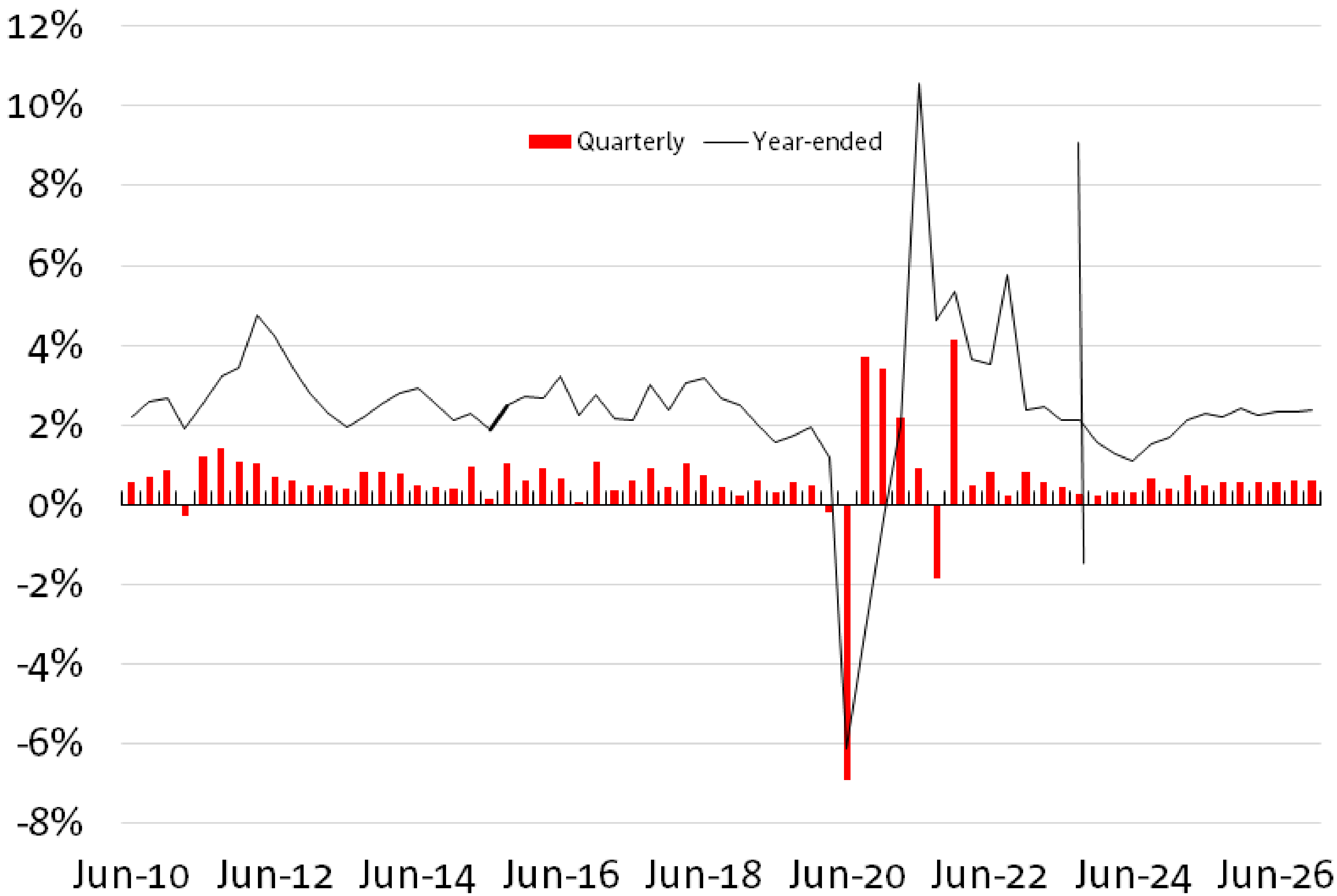
But while cost of living still a big issue

Worries about the labour market are up significantly recently



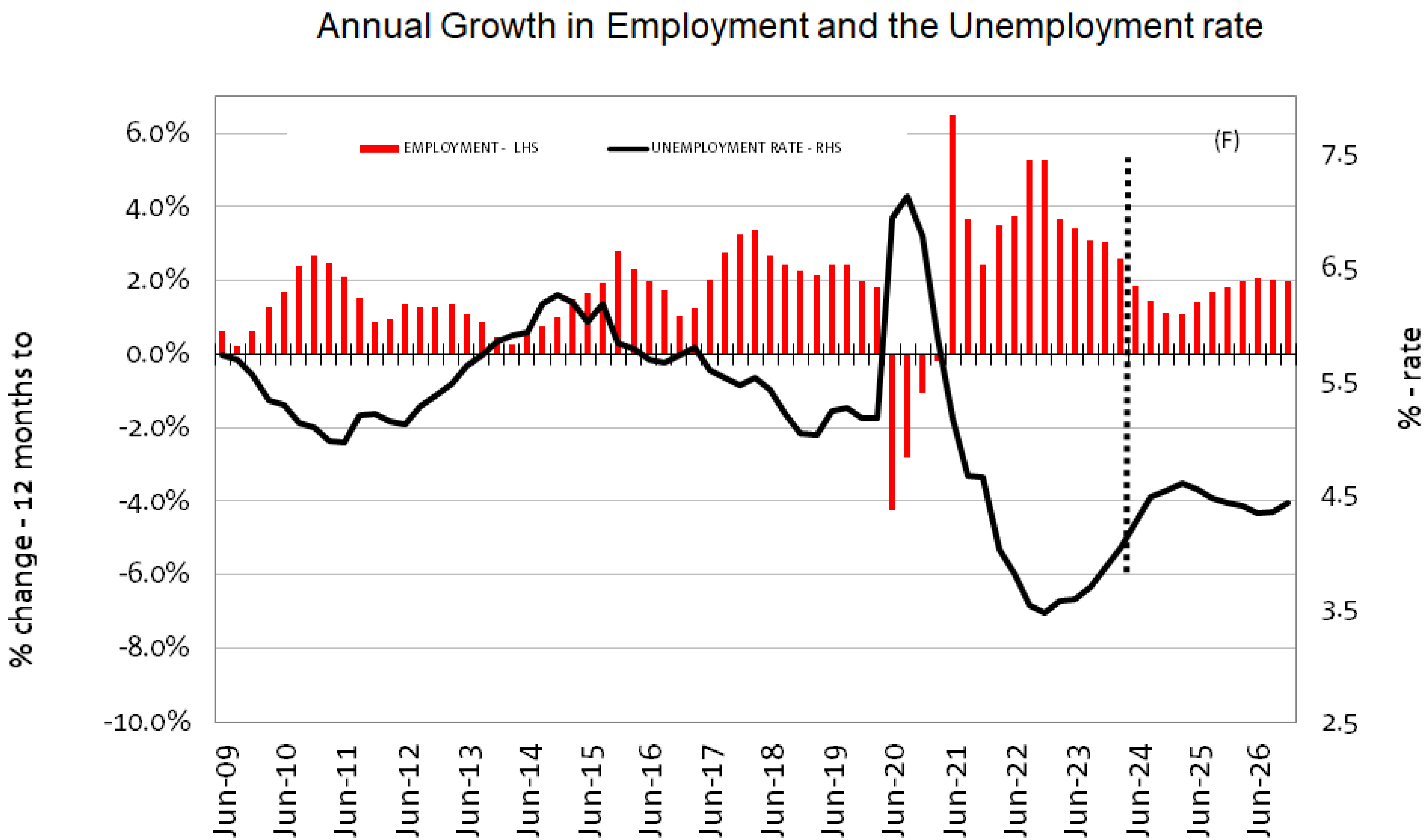
Our growth expectations.

We see slower growth in late 2023. Economy very flat by late 2023/early 2024. Better in 2025. Not a recession but no room for error. Around 1.4% through 2023 and 1.7% through 2024. For 2025 (and beyond) we are back to trend at around 2.3%



Labour market weakening a touch but still good.

Unemployment now around 4% - up from 3.5%, 6 months ago. We expect employment growth to continue but not enough to stabilise unemployment. By around 4.6% by year end Then to edge down in the out years (to around 4.3%).



On RBA

national australia bank

- RBA has focussed a lot on inflation but as the economy slows and unemployment rises the weights are changing.

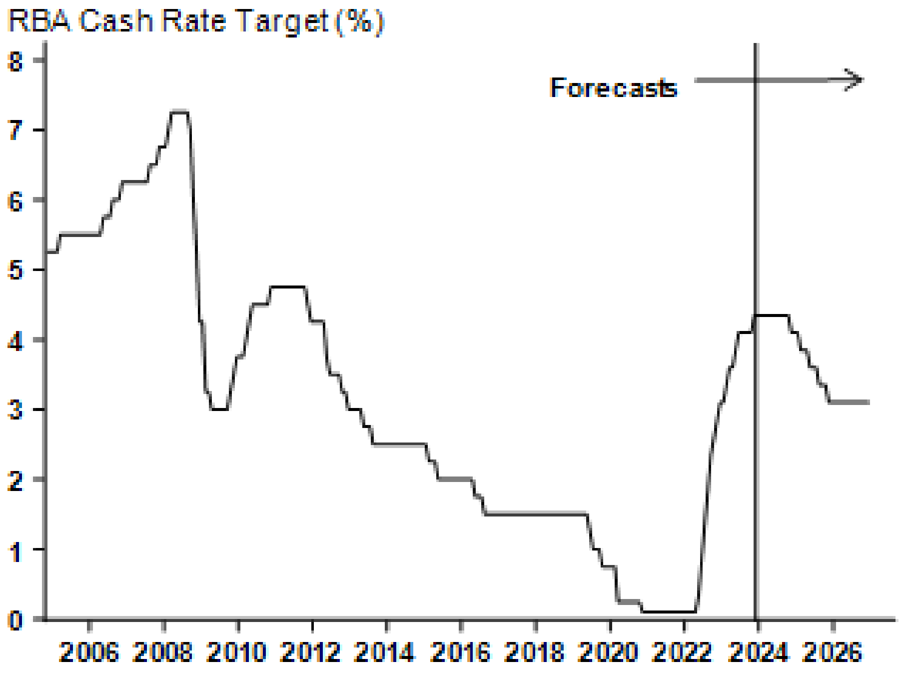
- **And in late 2023 inflation appears to have slowed more than expected. Clearly the key drivers for the near-term outlook are both inflation and unemployment. Inflation prospects have improved recently.**

- **That, together with the RBA's approach of being a reluctant hiker, now saw us reverse our previous expectation of a final hike in February. So staying at 4.35% through most of 2024.**

- **We still see rate cuts starting from late 2024 – and a very gradually loosening cycle.**

- Basically, we are in the camp of higher for longer. We see cuts of around one per quarter meaning that the RBA will not be back to a neutral (around 3%) till late 2025

- Medium term outlook much better but tough times (well below trend growth) inevitable in the next 12 months.



Source: Macrobond, NAB Economics