

Is the Australian economy out of the woods?

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AUSTRALIAN MACRO OUTLOOK

Sean Langcake – Head of Macroeconomic
Forecasting, Australia



Key themes

- Policy mismatch – fiscal & monetary policy working in opposing directions

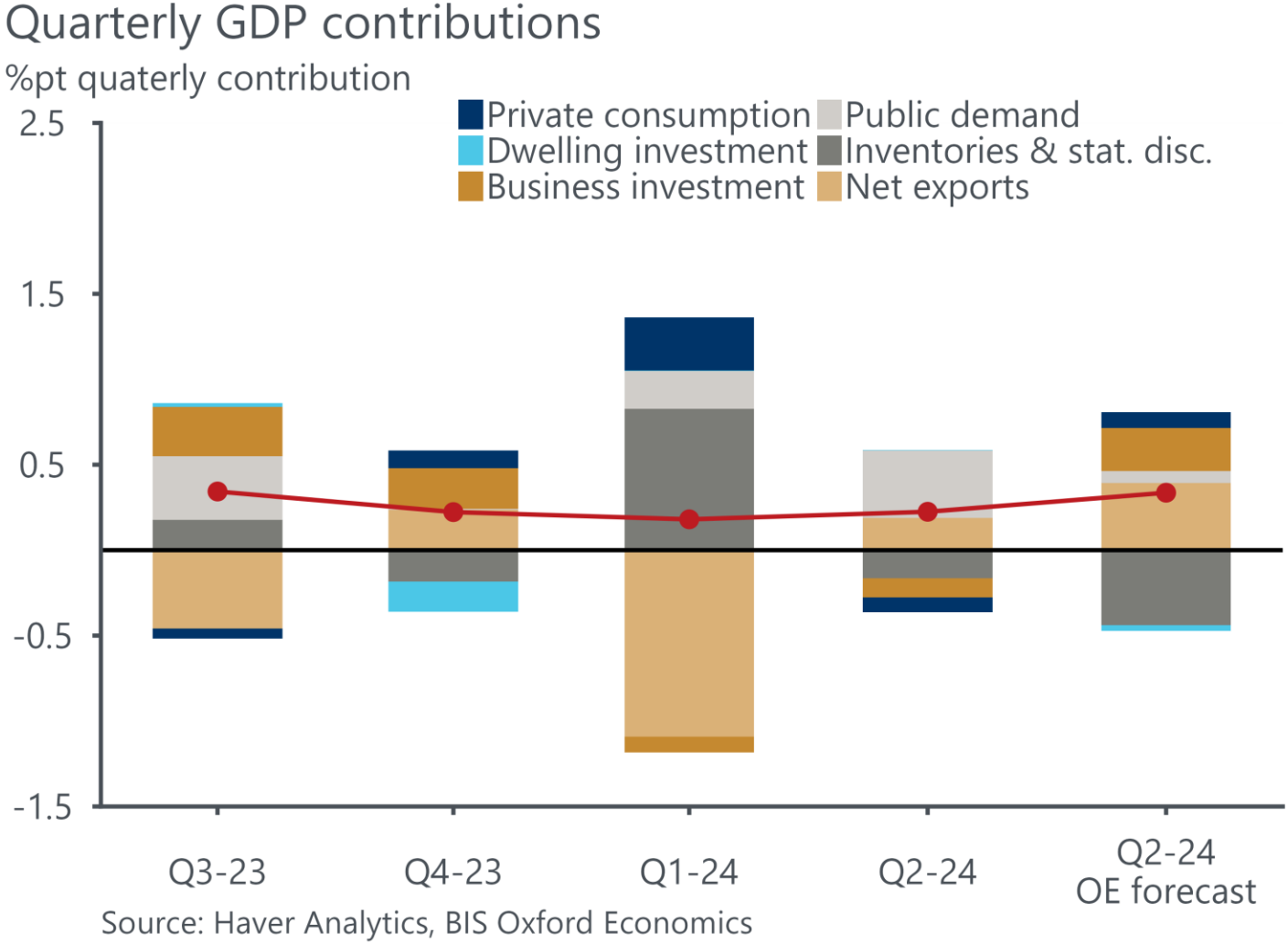
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- Productivity malaise keeping inflation pressures elevated

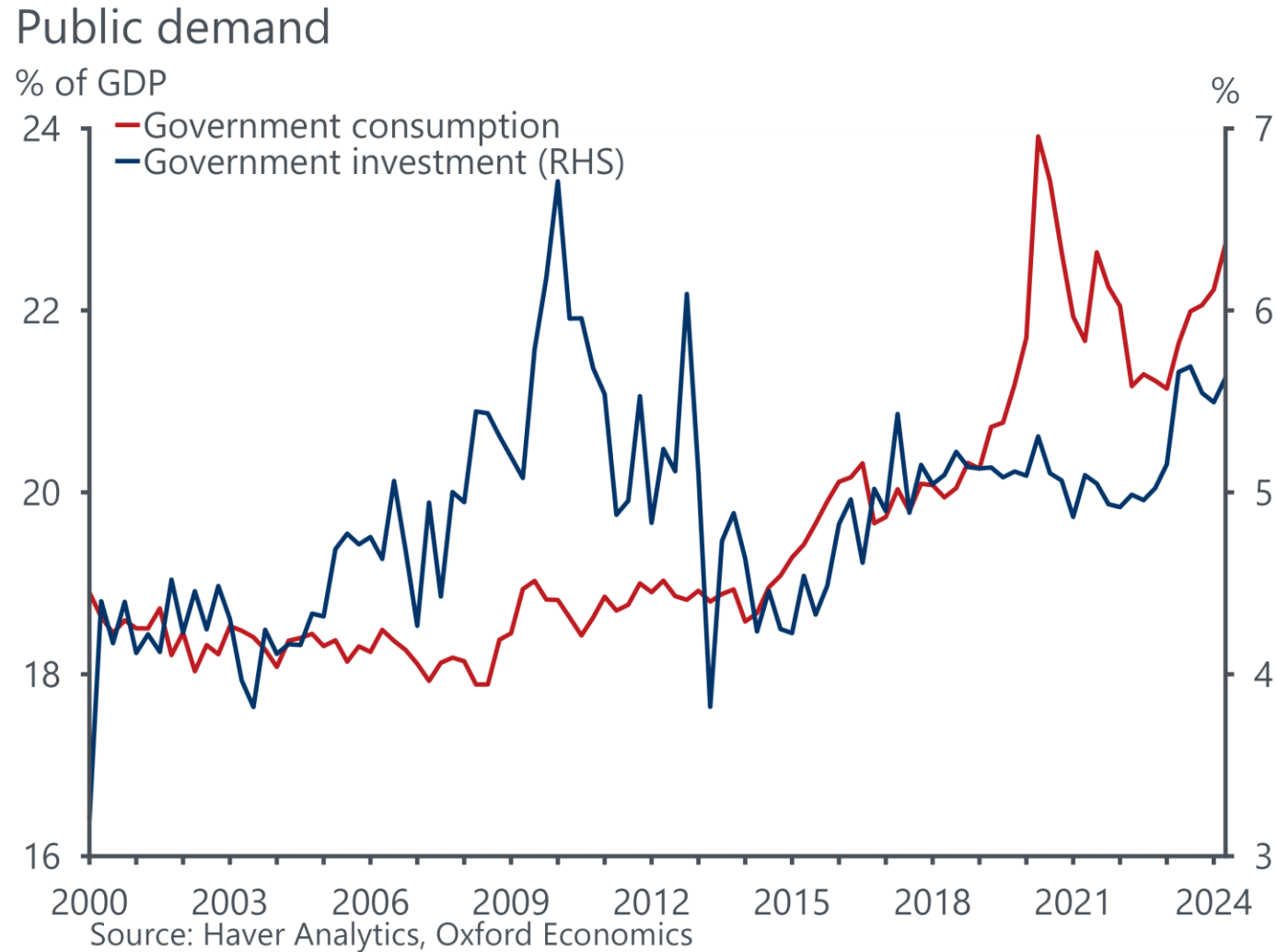
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- No recession, but lower expectations for the recovery

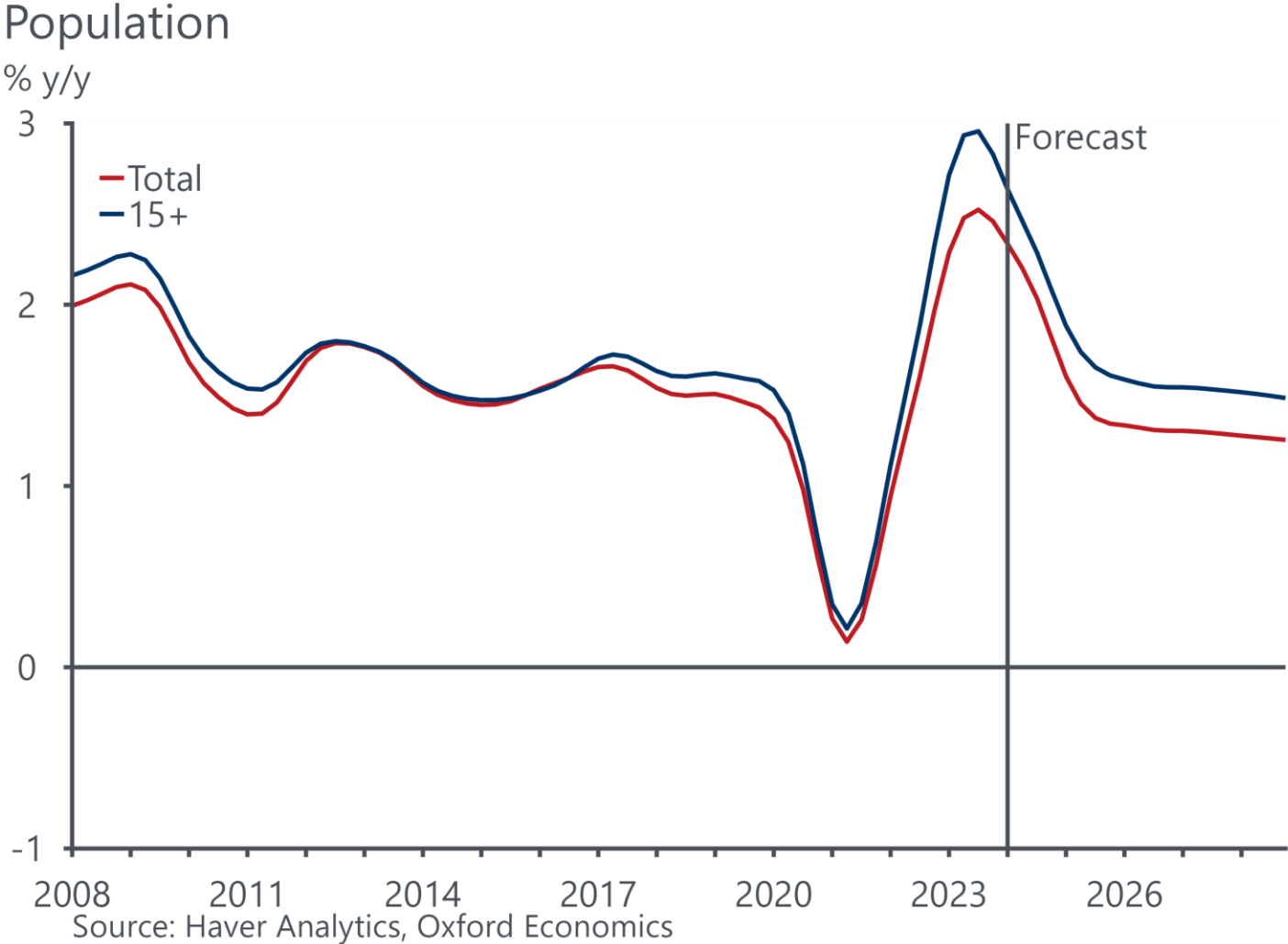
Growth was weaker than expected in Q2



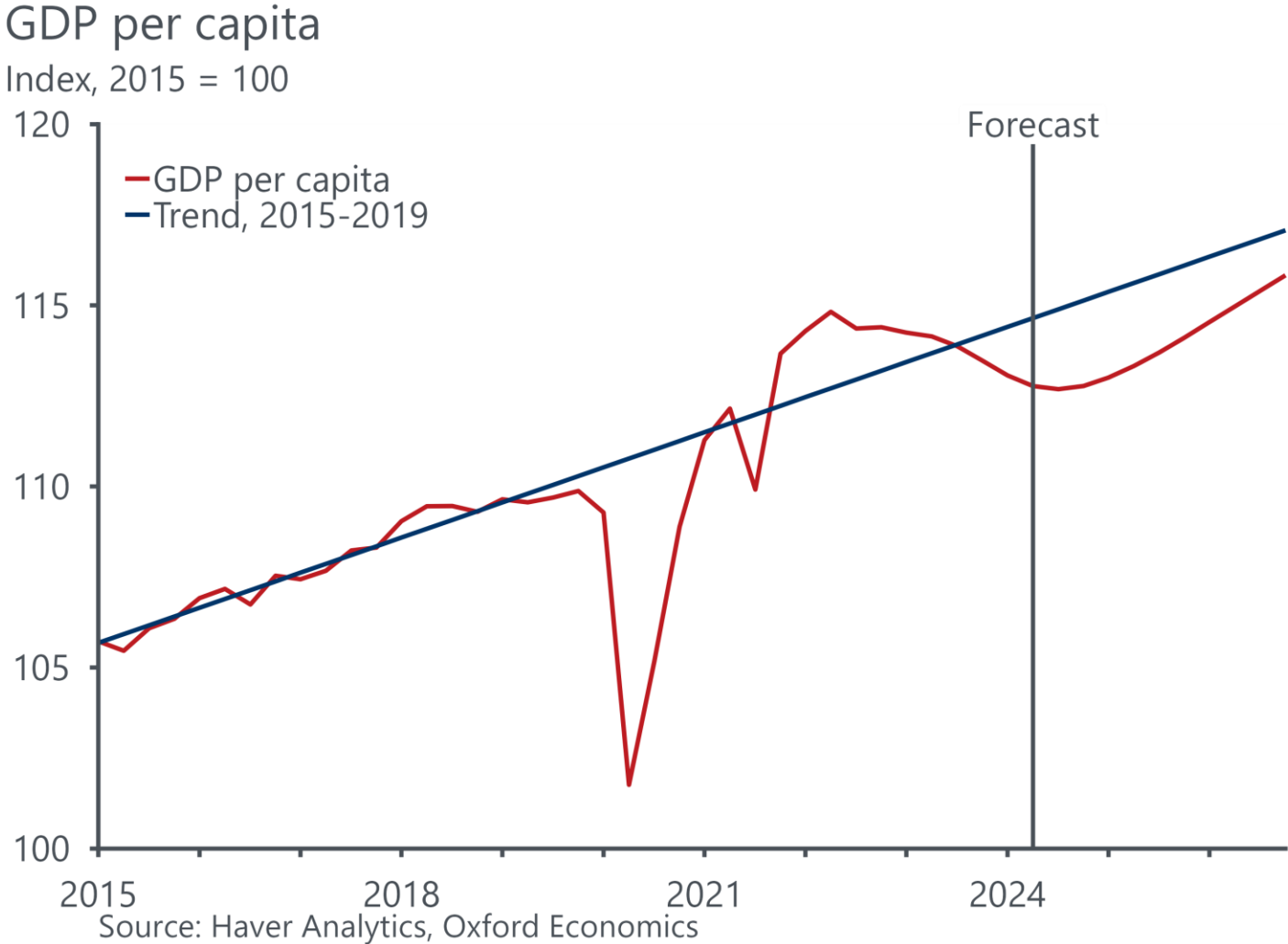
Expanded role for public demand in driving growth



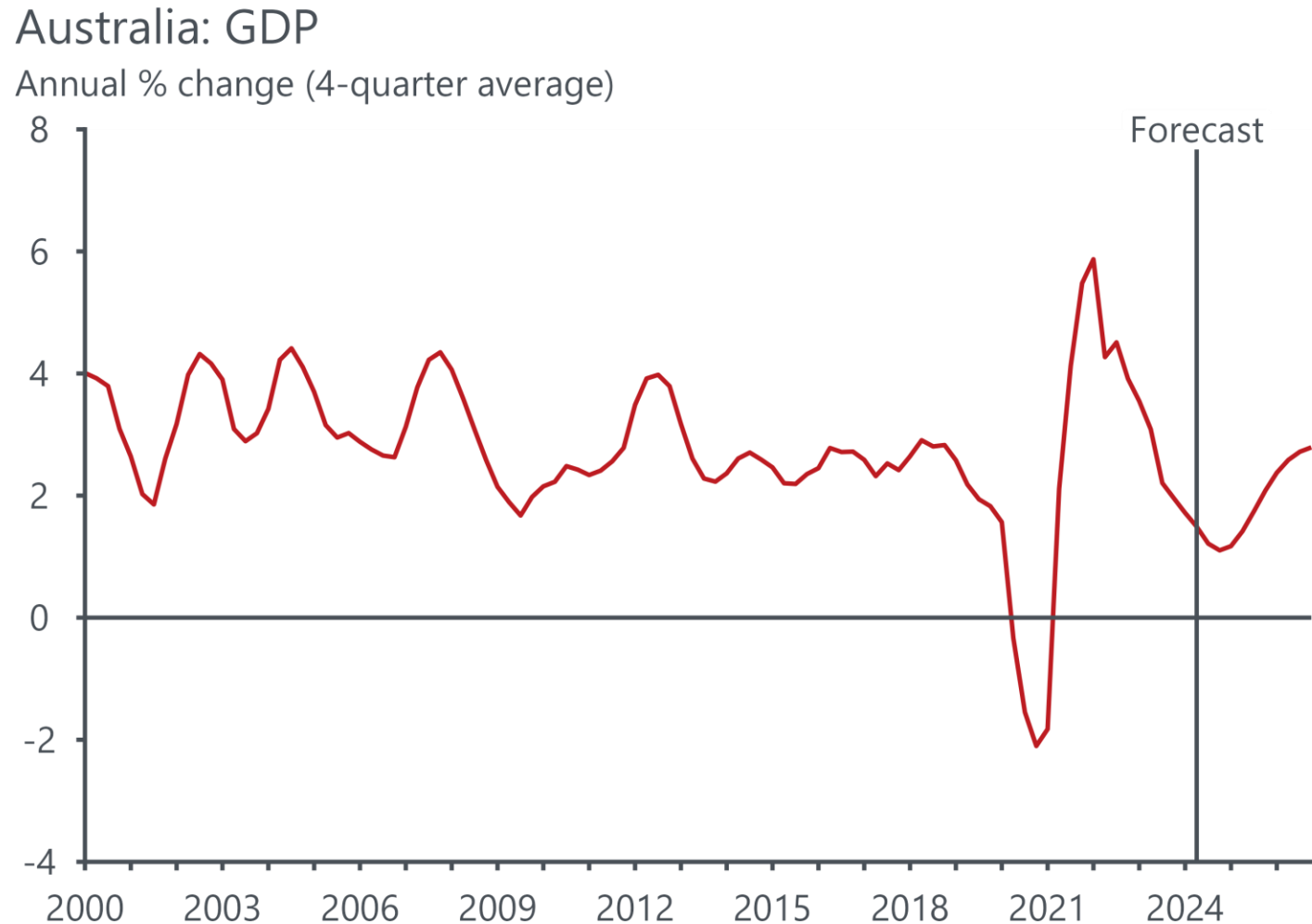
Population growth strong enough to keep Australia out of recession



Very weak outcomes in per capita terms

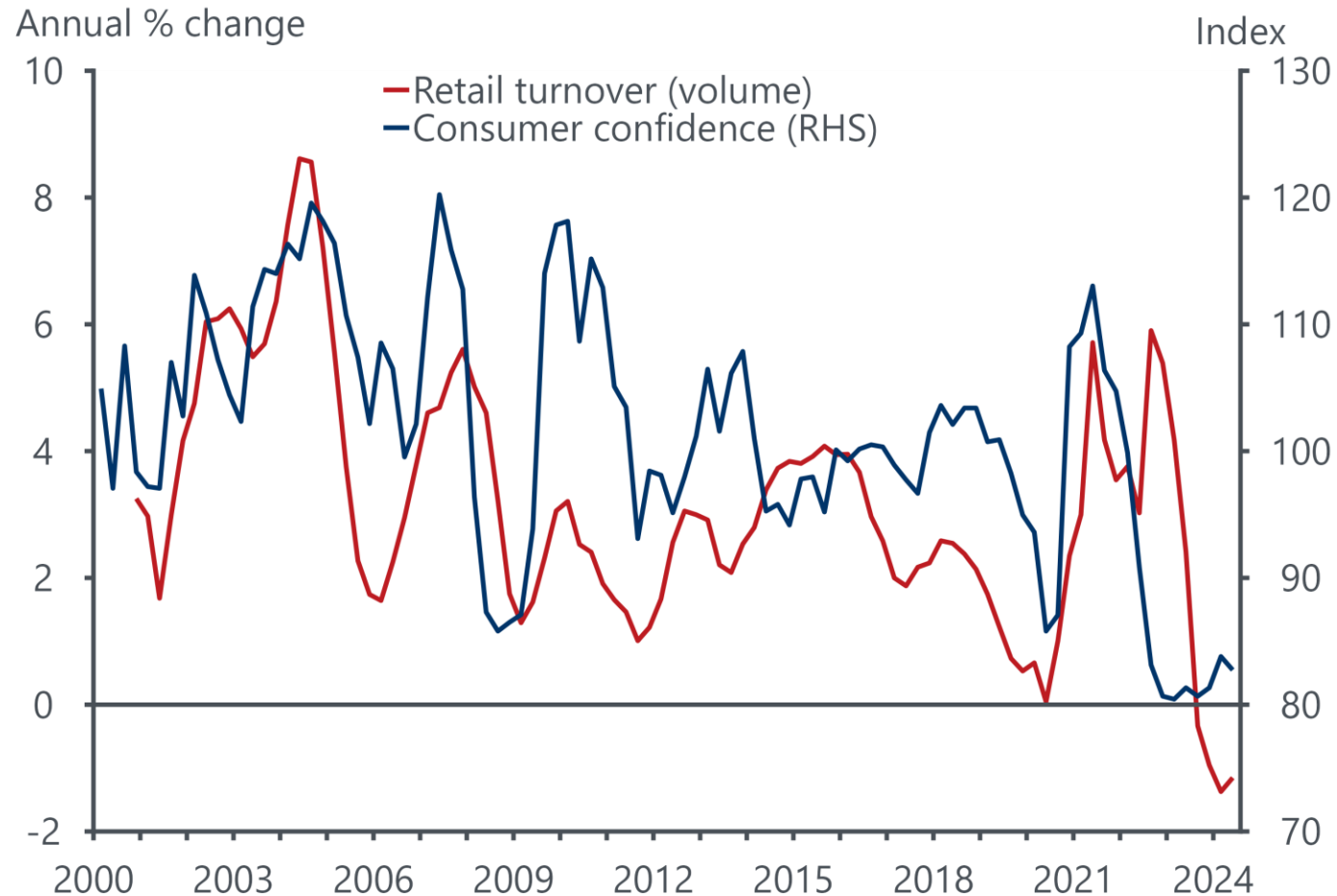


Forecast for growth in 2024 downgraded to 1.1%

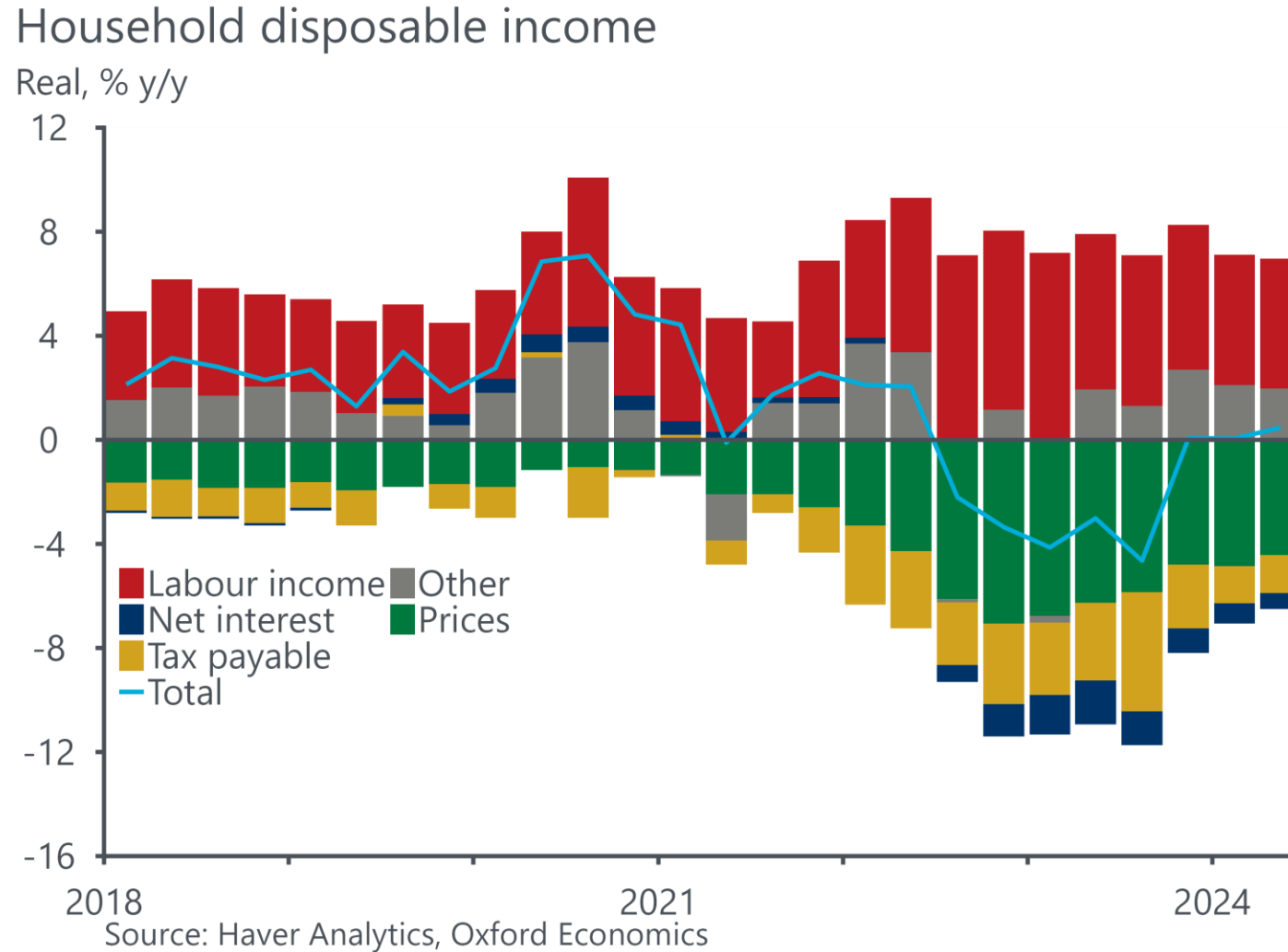


Retail sales and confidence are very weak

Retail Turnover & Consumer Confidence



Drag on incomes from inflation is waning – policy to follow

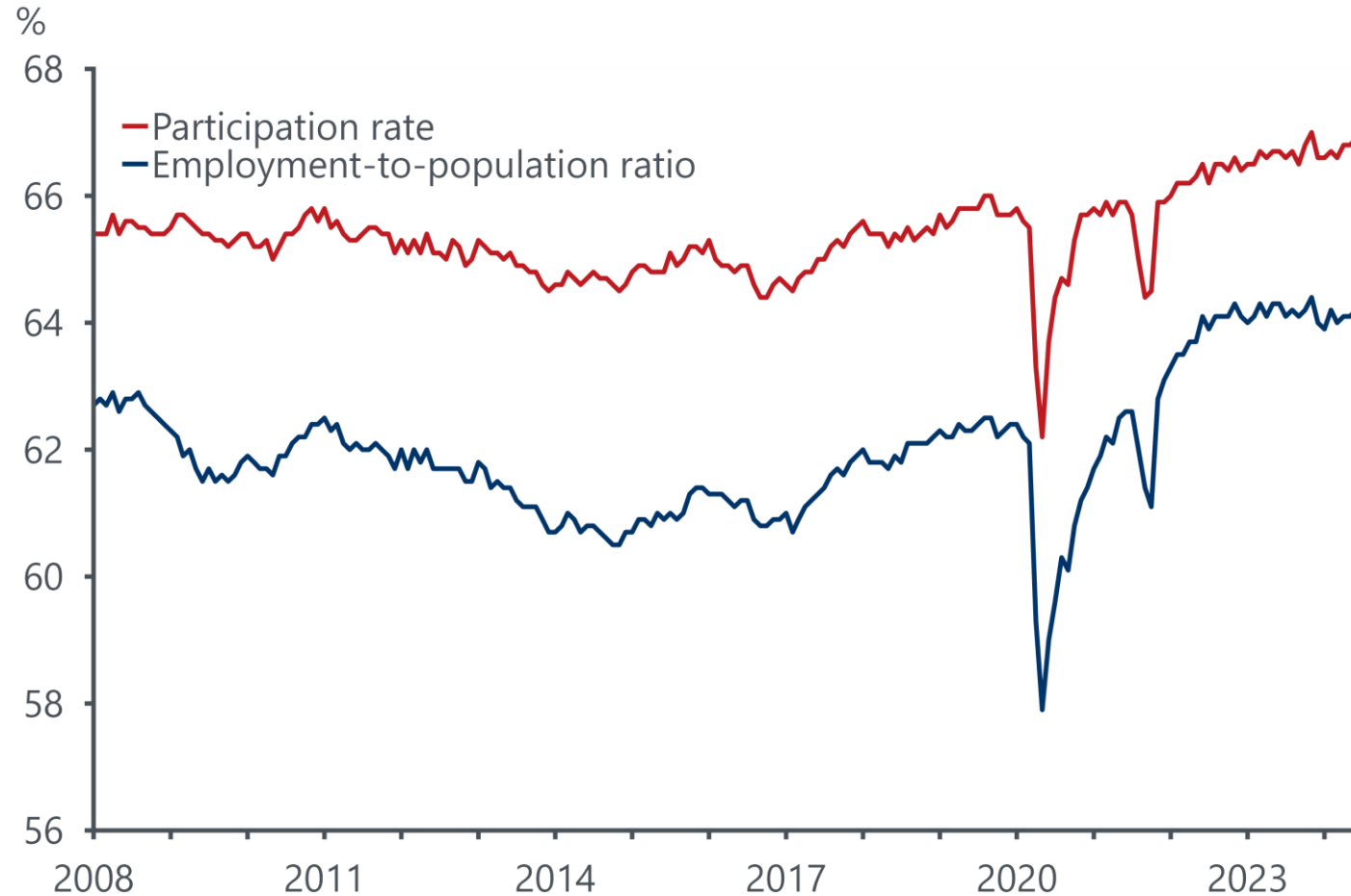


Labour market cooling, but still tight



Demand keeping up with increasing supply

Labour market indicators

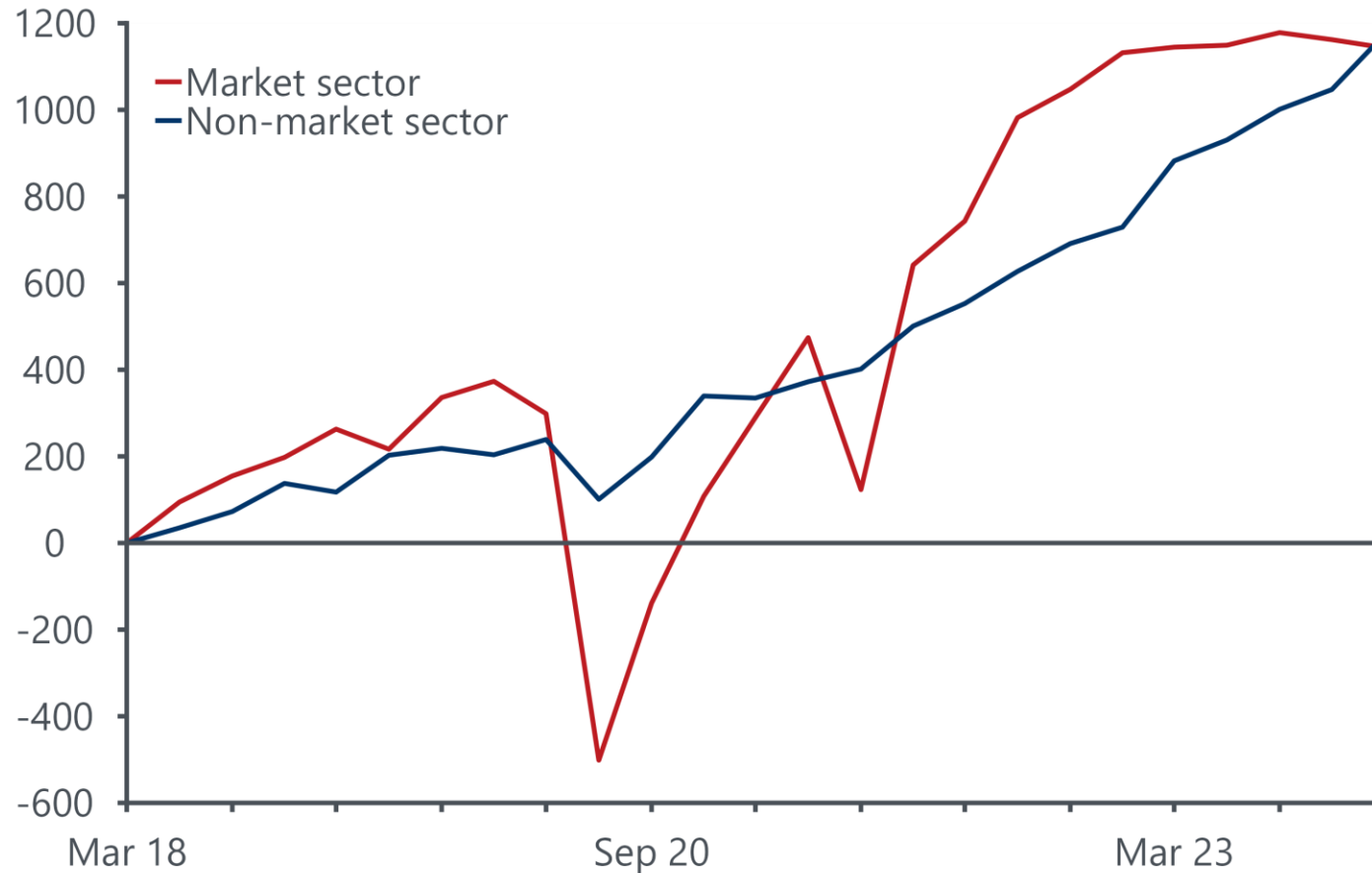


Source: Haver Analytics, Oxford Economics

Public sector keeping labour market ticking along

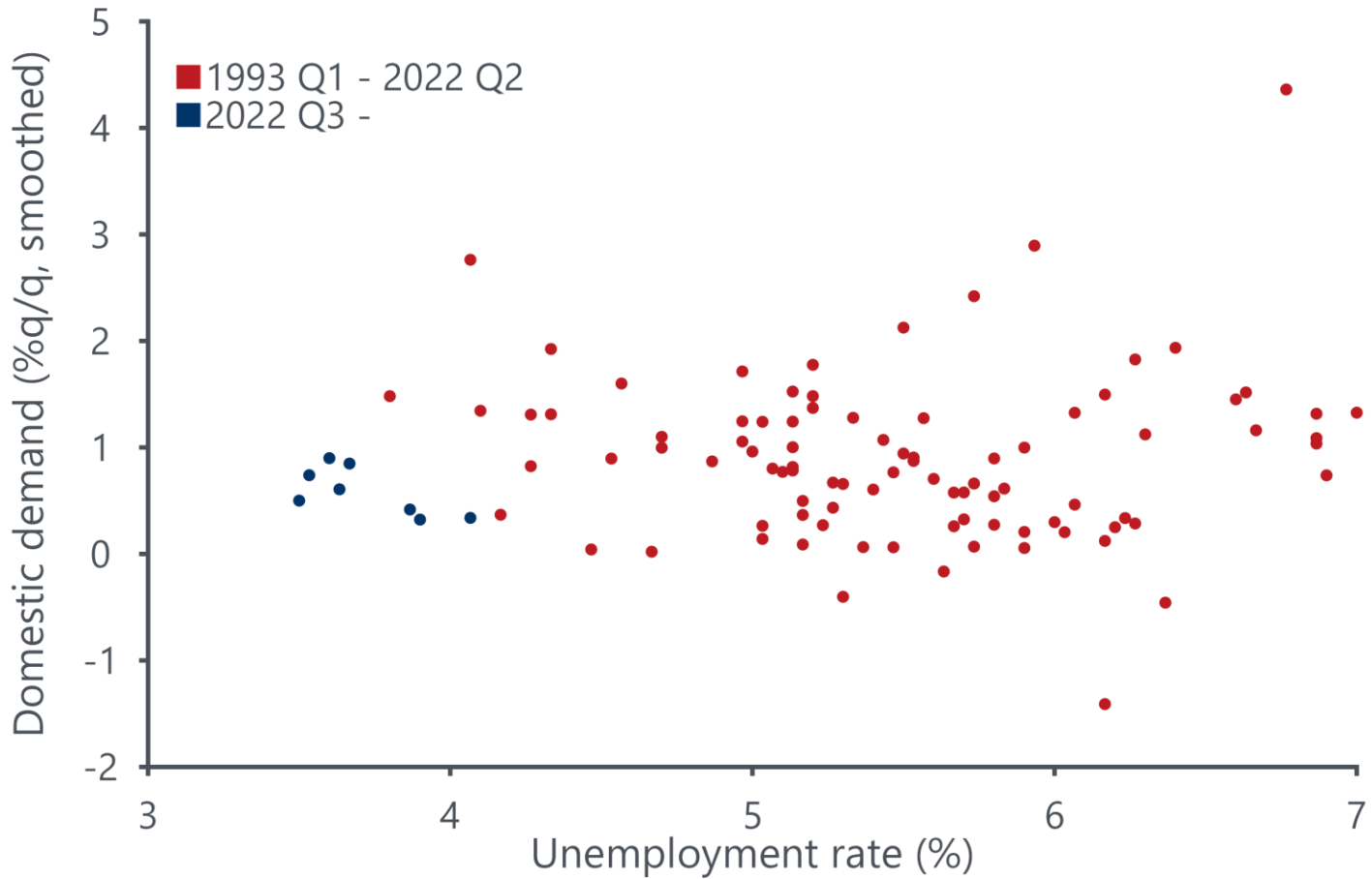
Filled jobs & vacancies

Change since 2018



Remarkably resilient labour market given weakness in growth

Domestic demand and unemployment



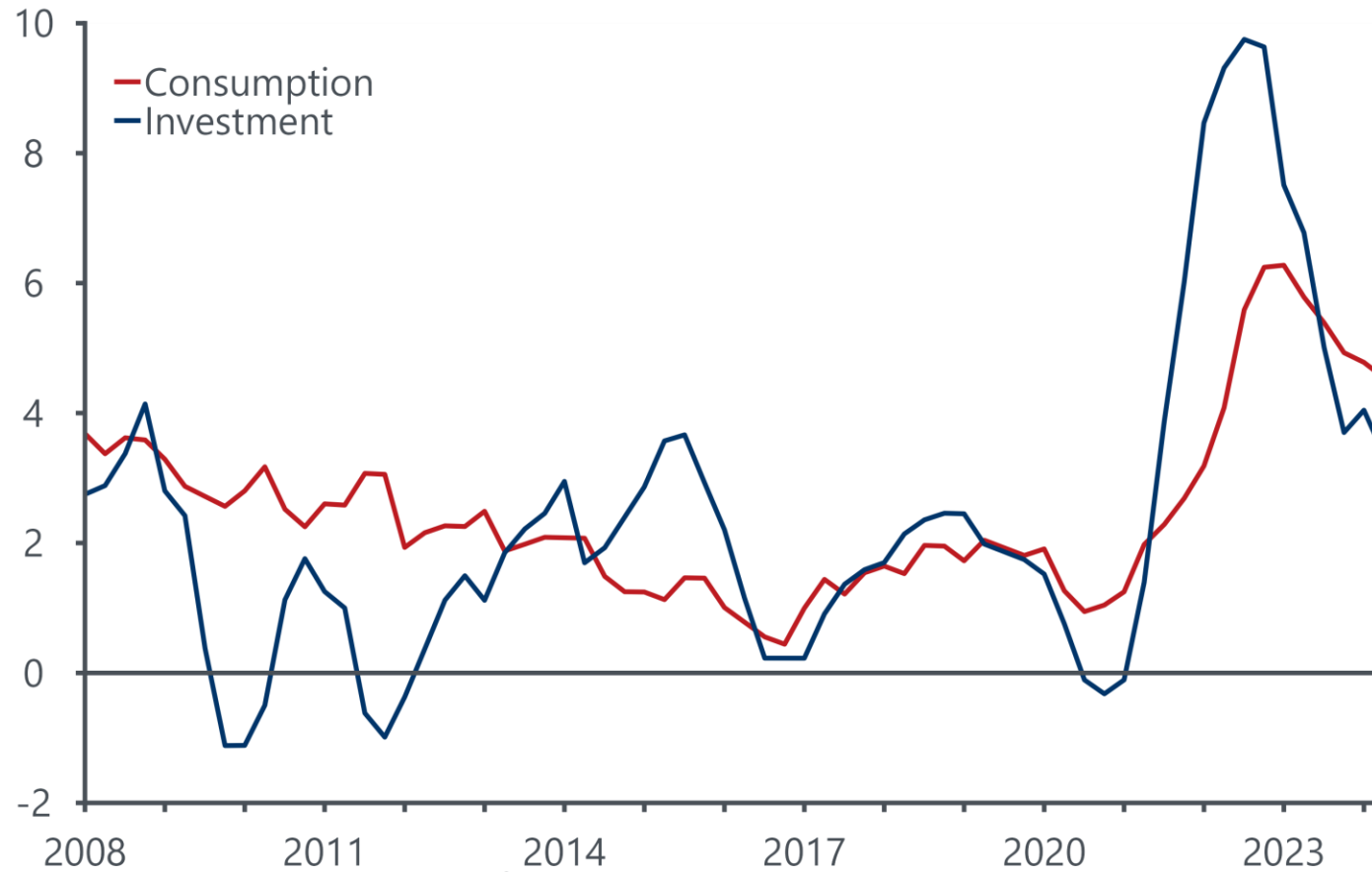
Labour cost growth on the way down



Investment costs still elevated...

Price deflators

% y/y

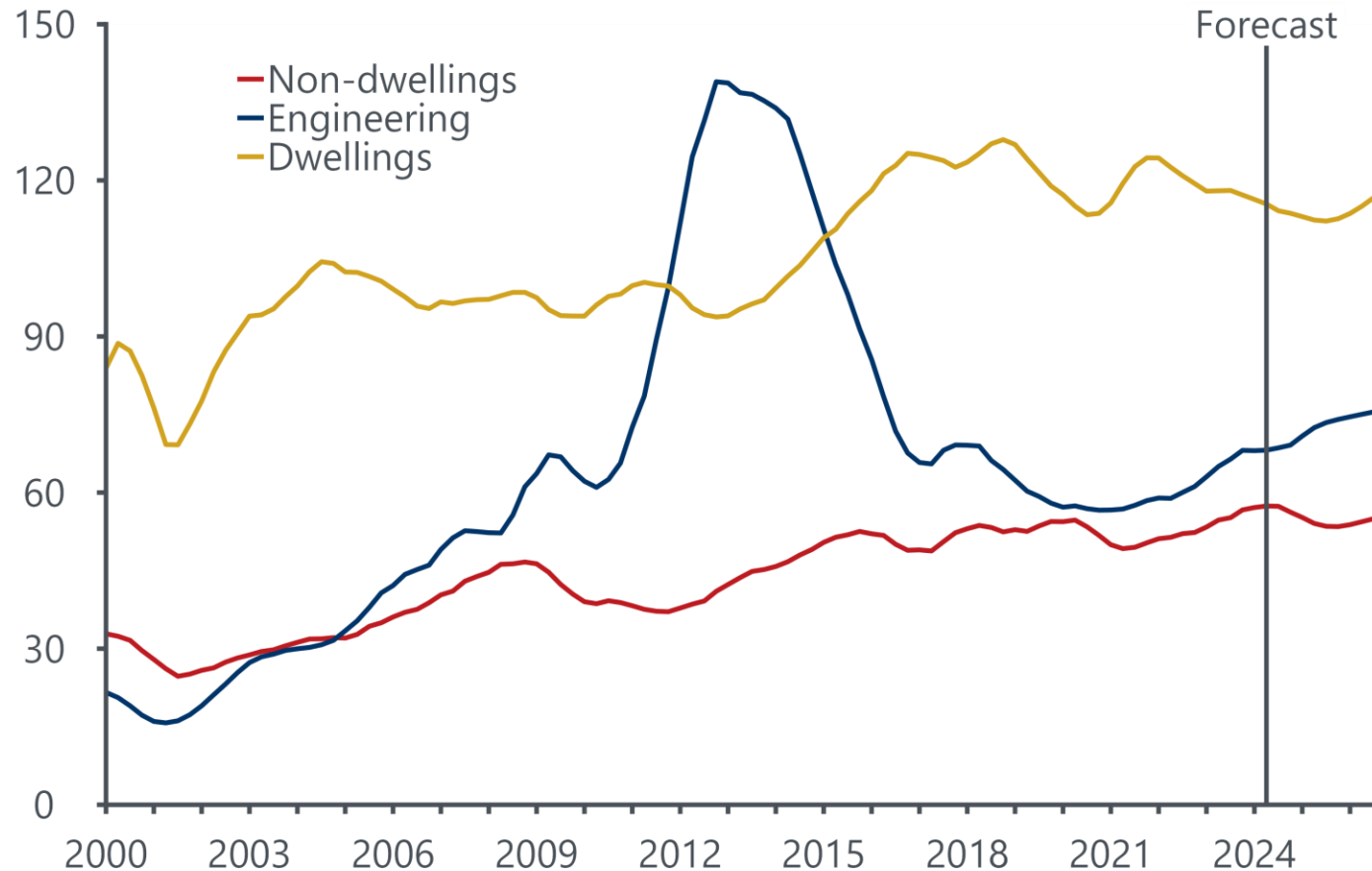


Source: Haver Analytics, Oxford Economics

...making for a subdued outlook

Australia: Private Sector Investment

\$bn, moving annual total



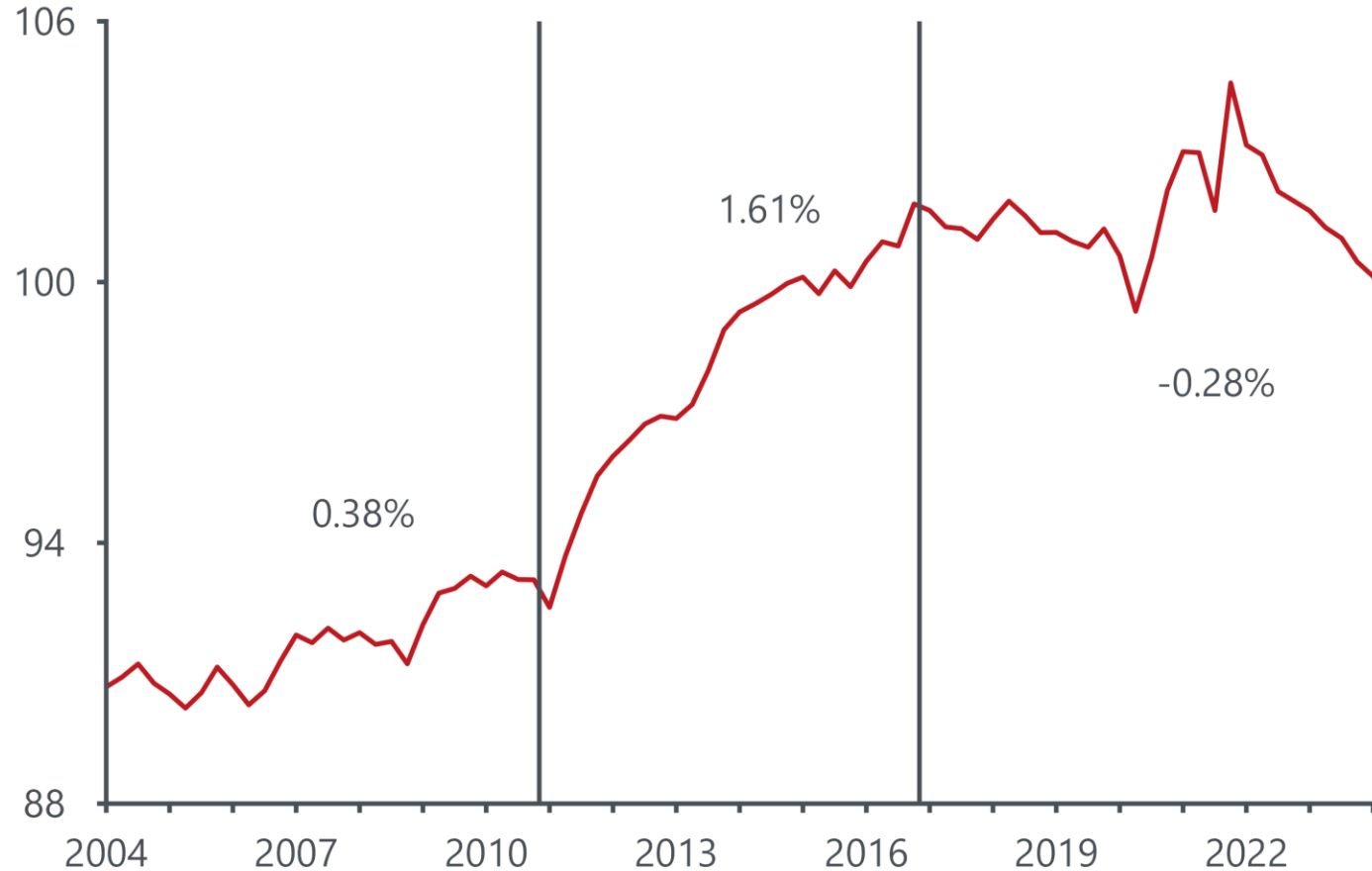
Accounting for productivity, labour cost growth is still very strong



Australia has entered another fallow period for productivity growth

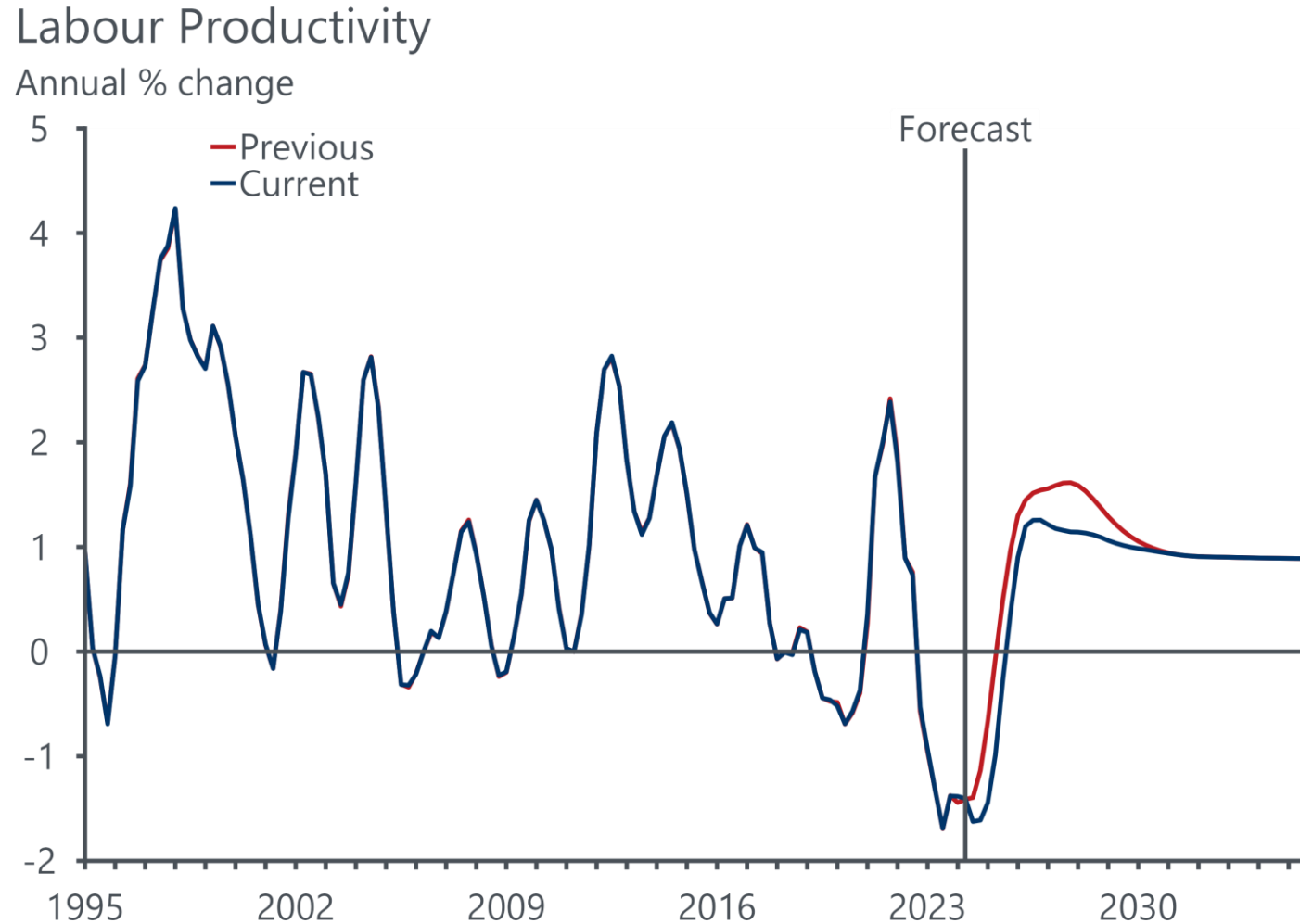
Labour Productivity

Index, 2015=100*



*Figures are compound annual growth rates

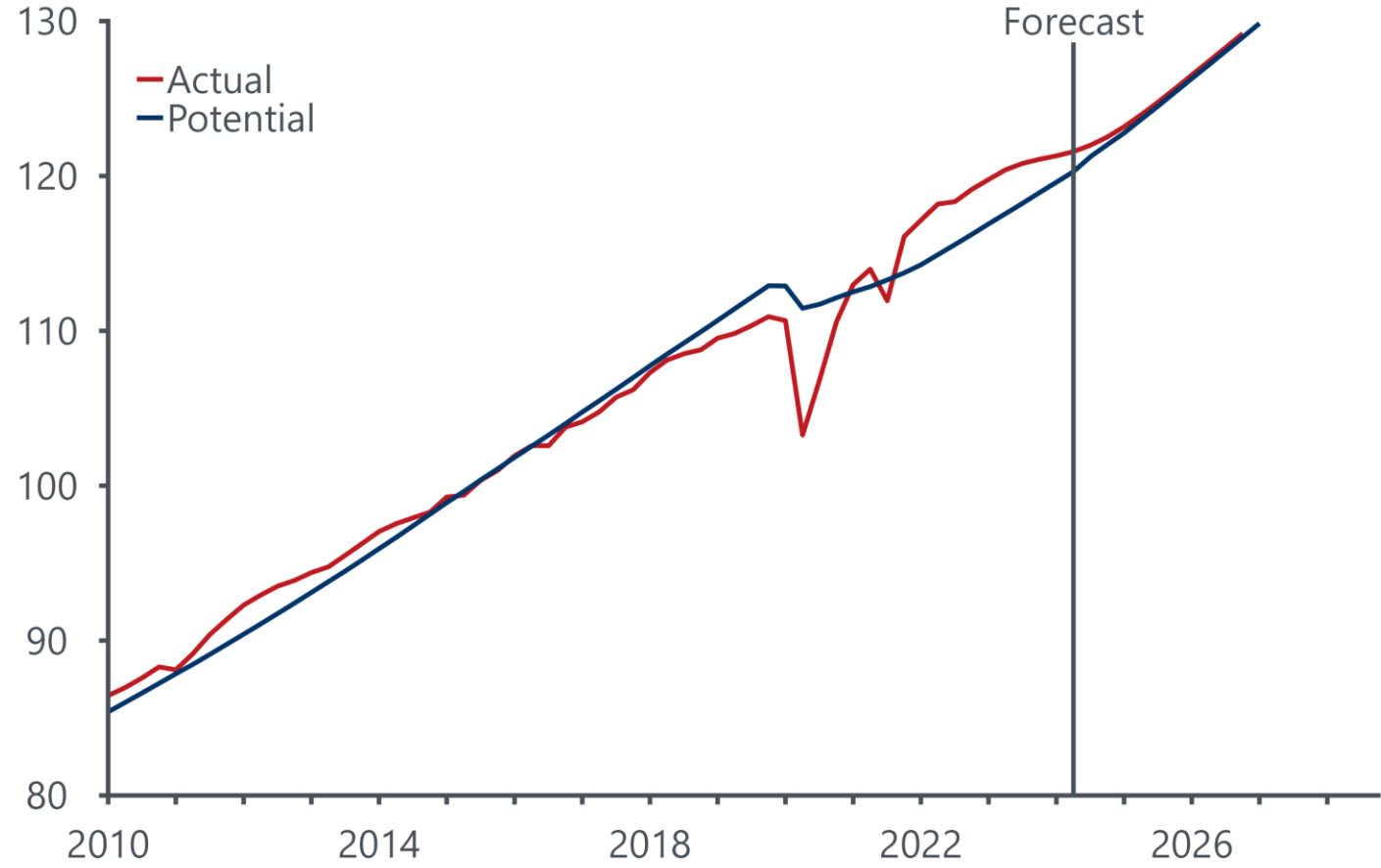
We have revised down our outlook for productivity growth



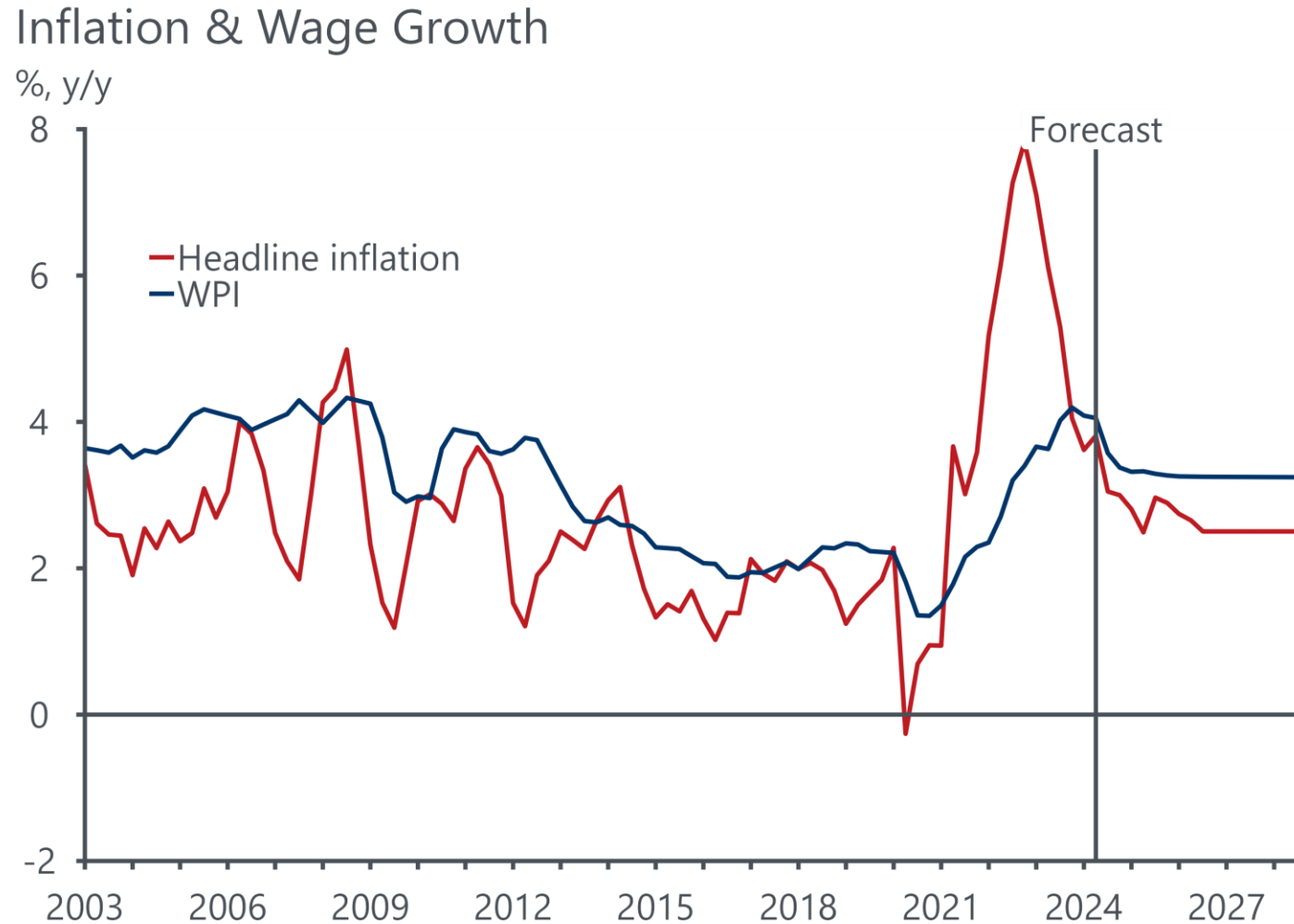
Slow productivity growth and an economy with limited capacity...

Actual and Potential Output

Index = 2015

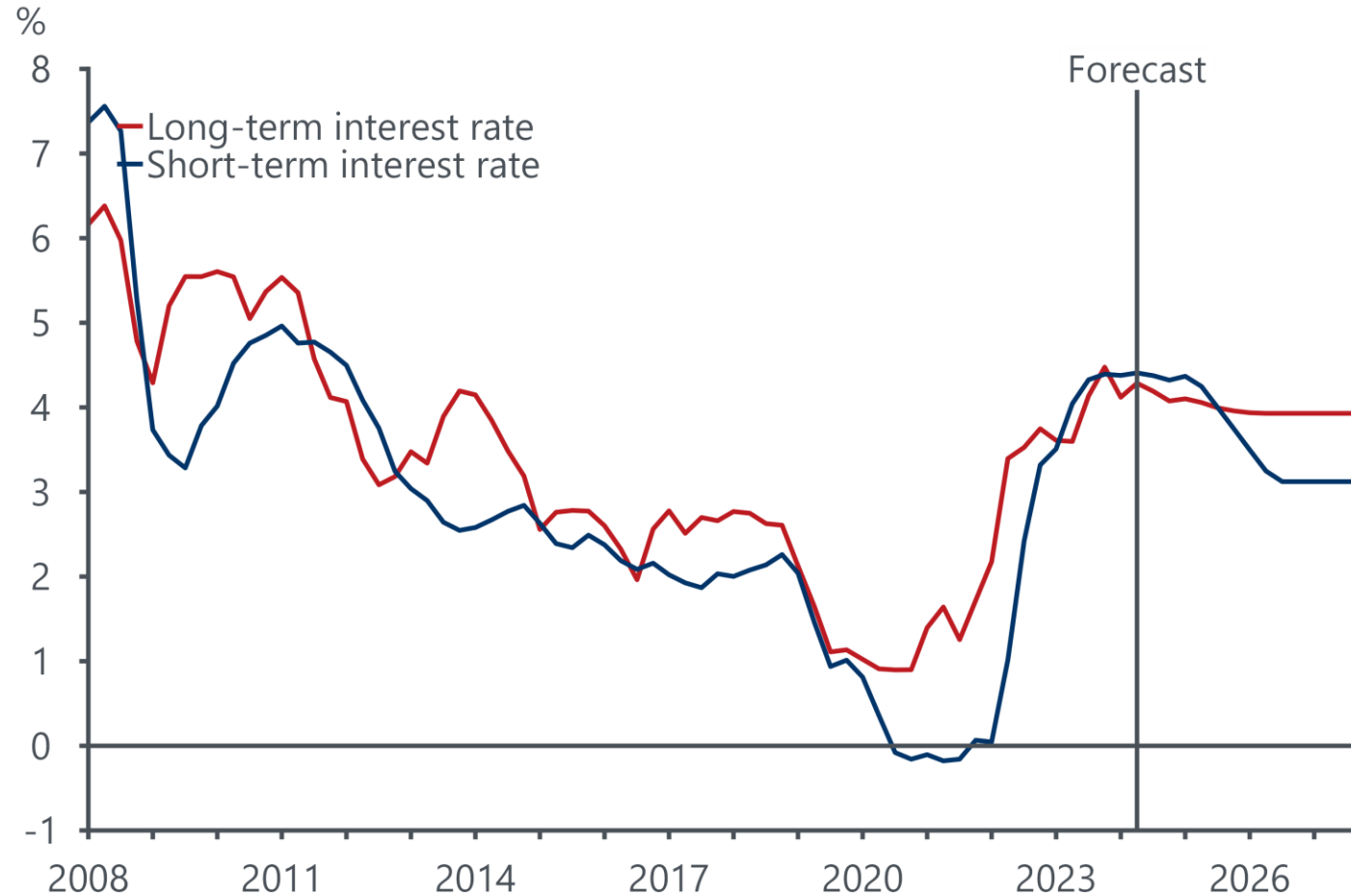


...making for a slow disinflation cycle

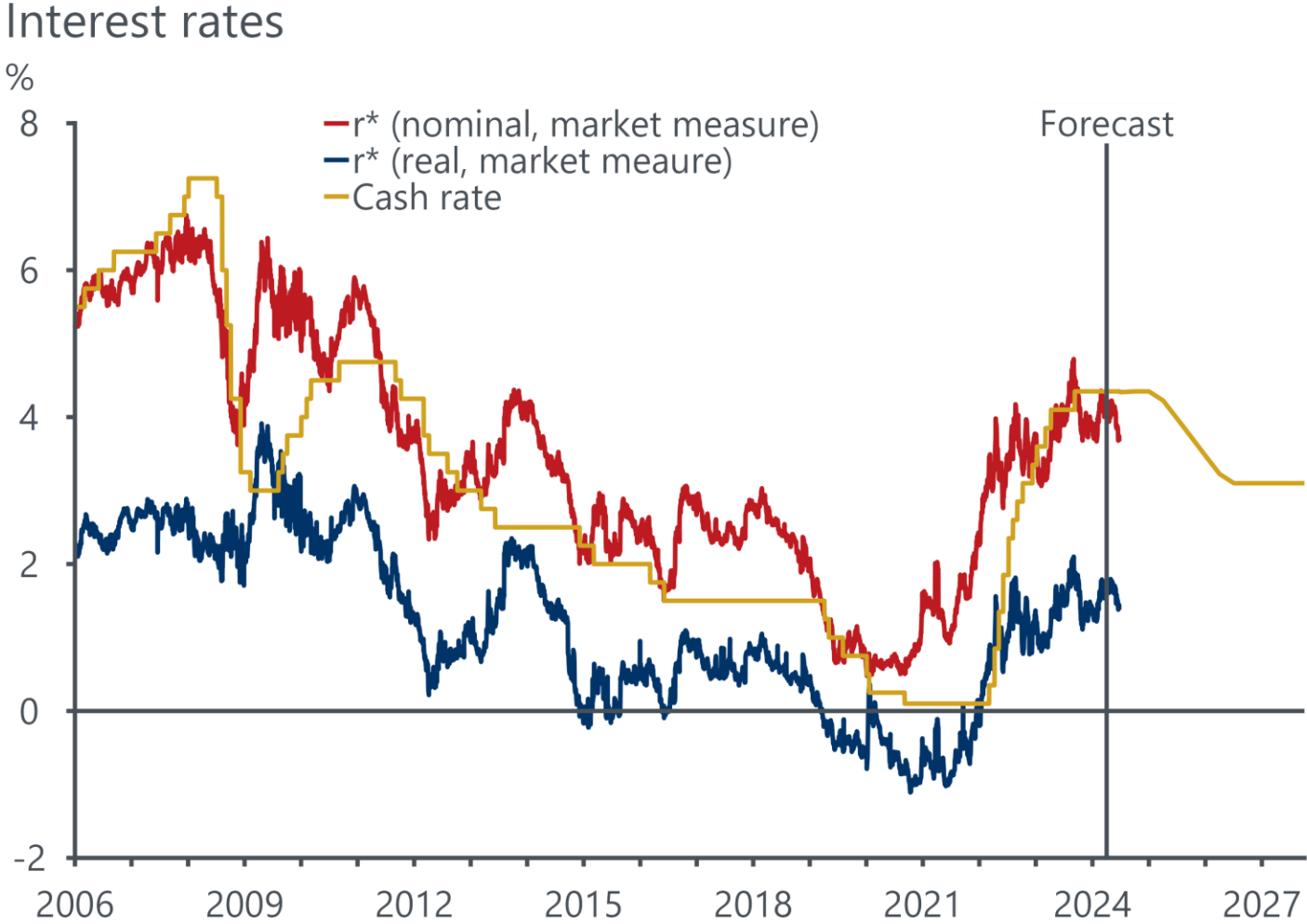


RBA on hold until Q2 2025

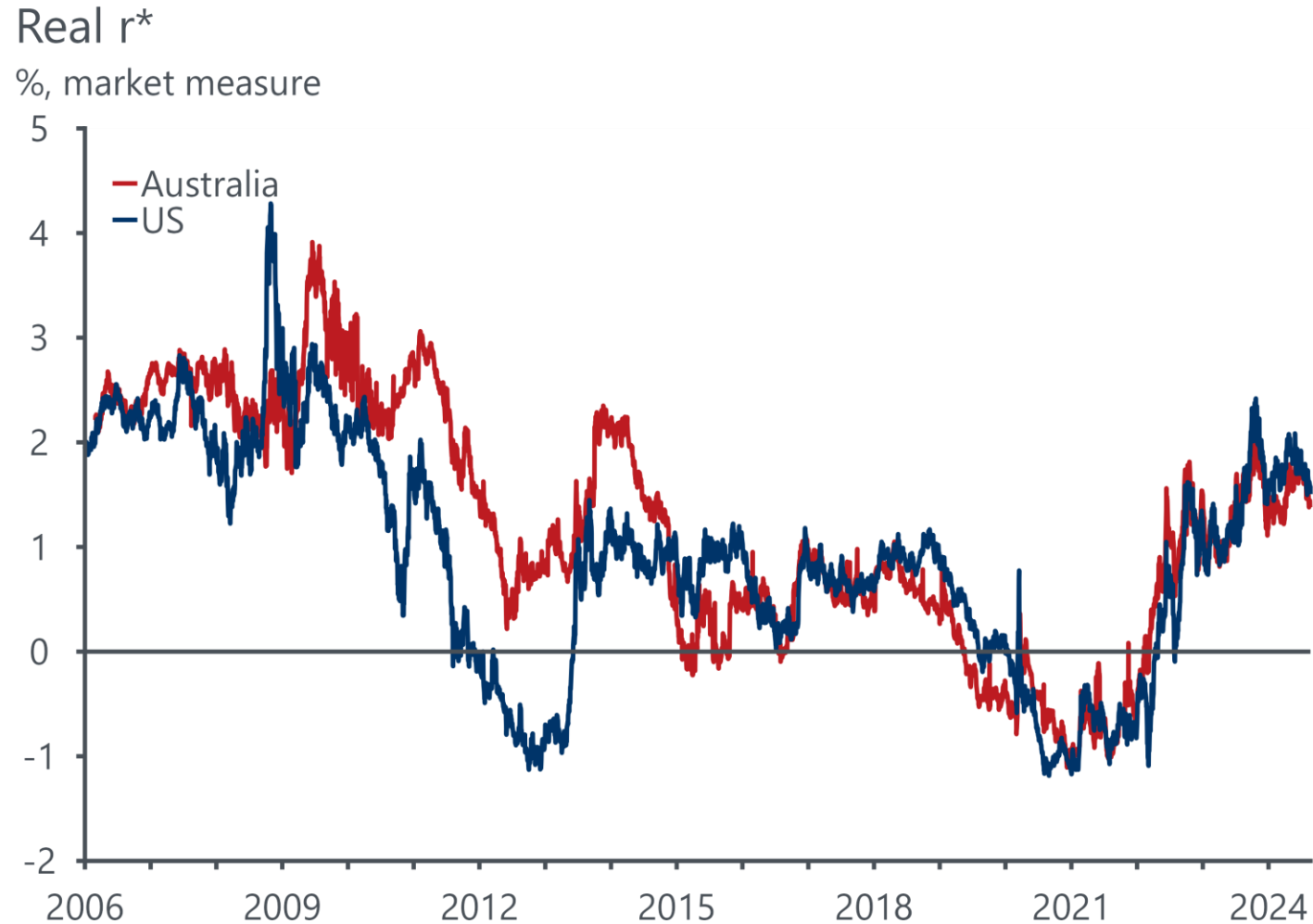
Australia: Monetary conditions



Market measures of neutral have risen considerably



Australian long-run outlook for rates upgraded alongside the US



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Real income growth to improve as inflation cools

Australia: Consumption & Income Growth

Annual % change (4-quarter average)

