

# The key global trends shaping Australia's future.

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Forecasting



# Key questions & themes

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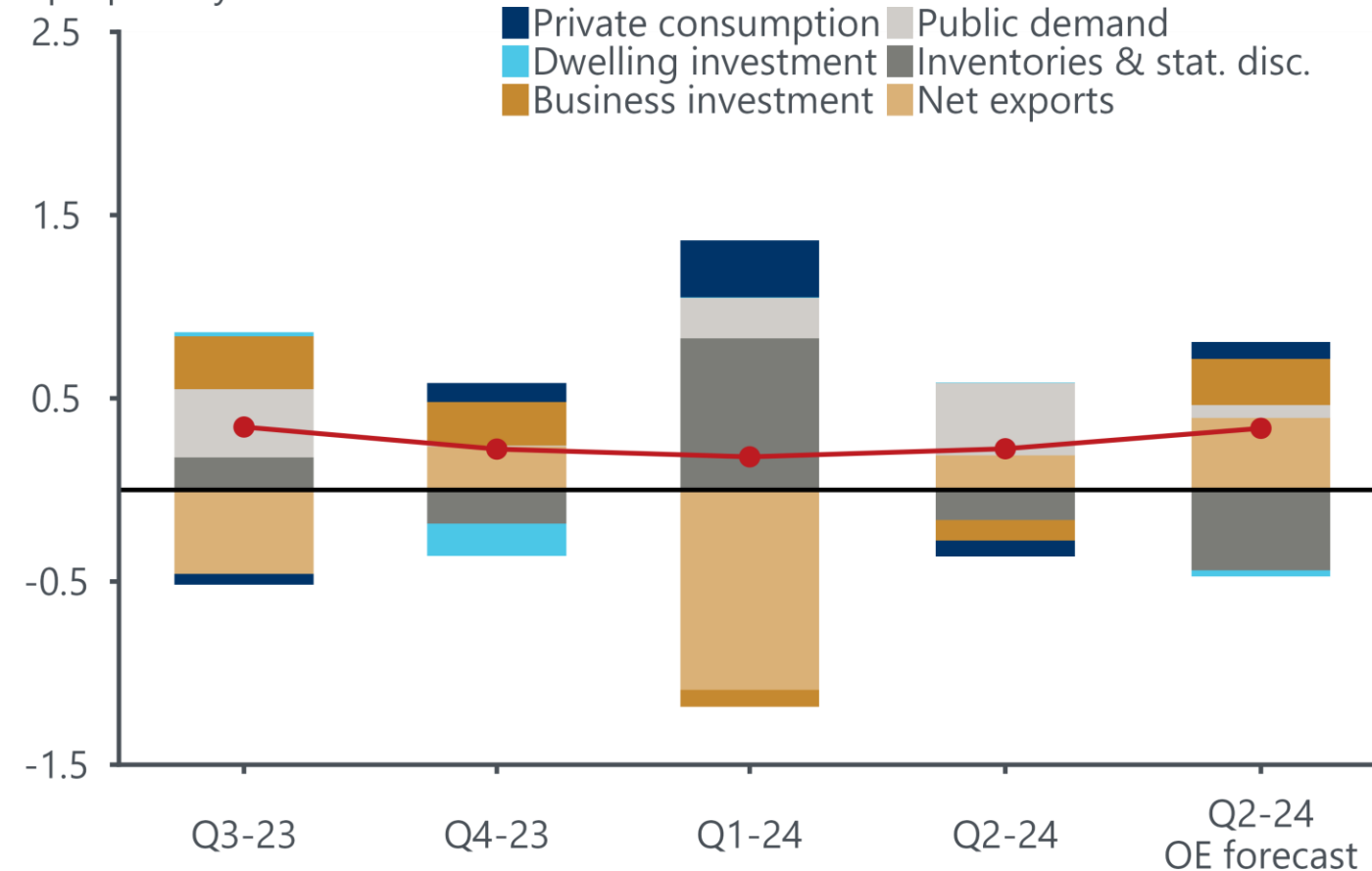
# Key questions & themes

- Global recession fears are overblown, but expectations for next year are muted
- What does the US election mean for the outlook?
- How big is the upside from AI?
- Policy mismatch – fiscal & monetary policy working in opposing directions

# ...and was weaker than expected in Australia in Q2

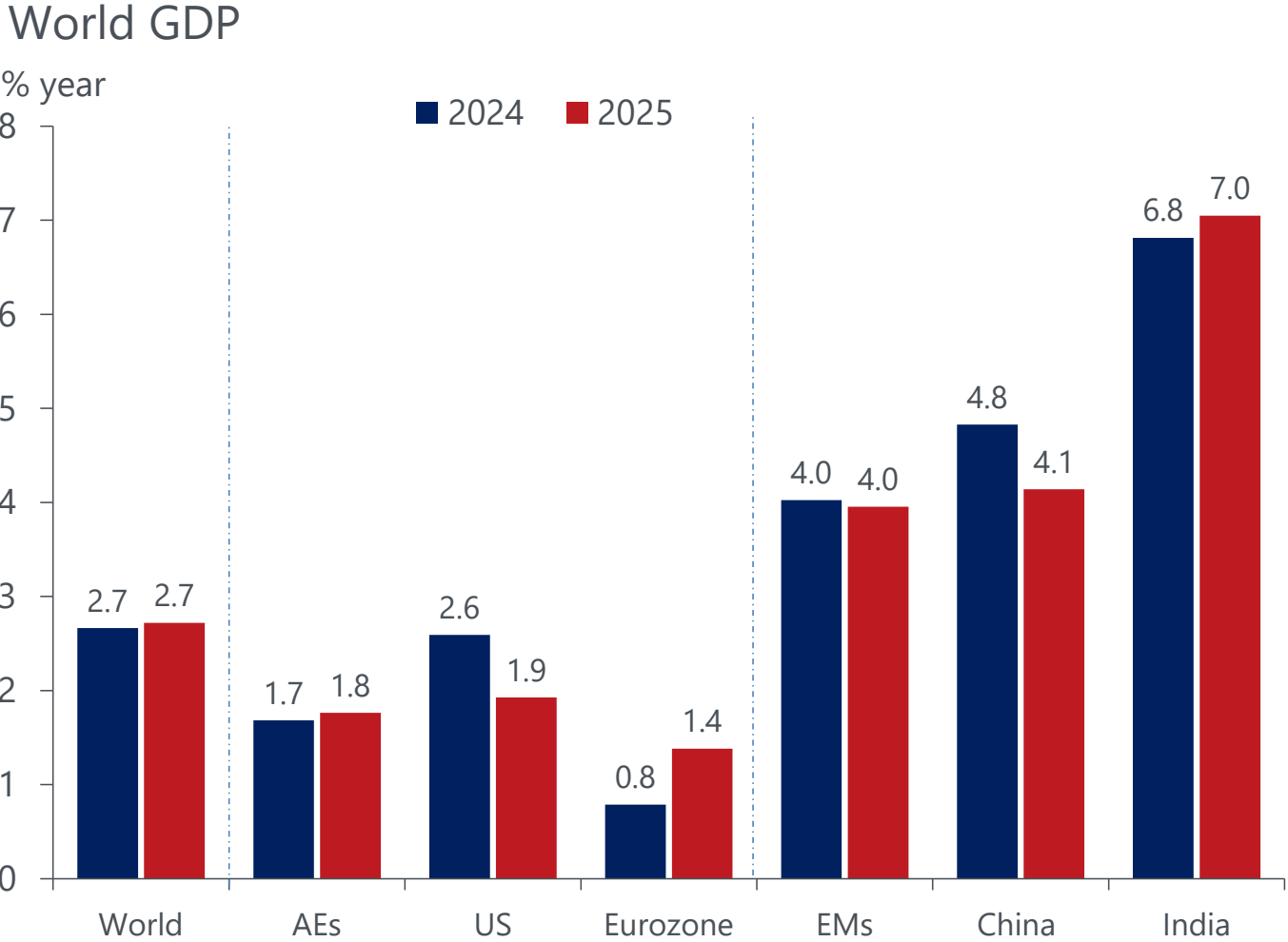
## Quarterly GDP contributions

%pt quarterly contribution



Source: Haver Analytics, BIS Oxford Economics

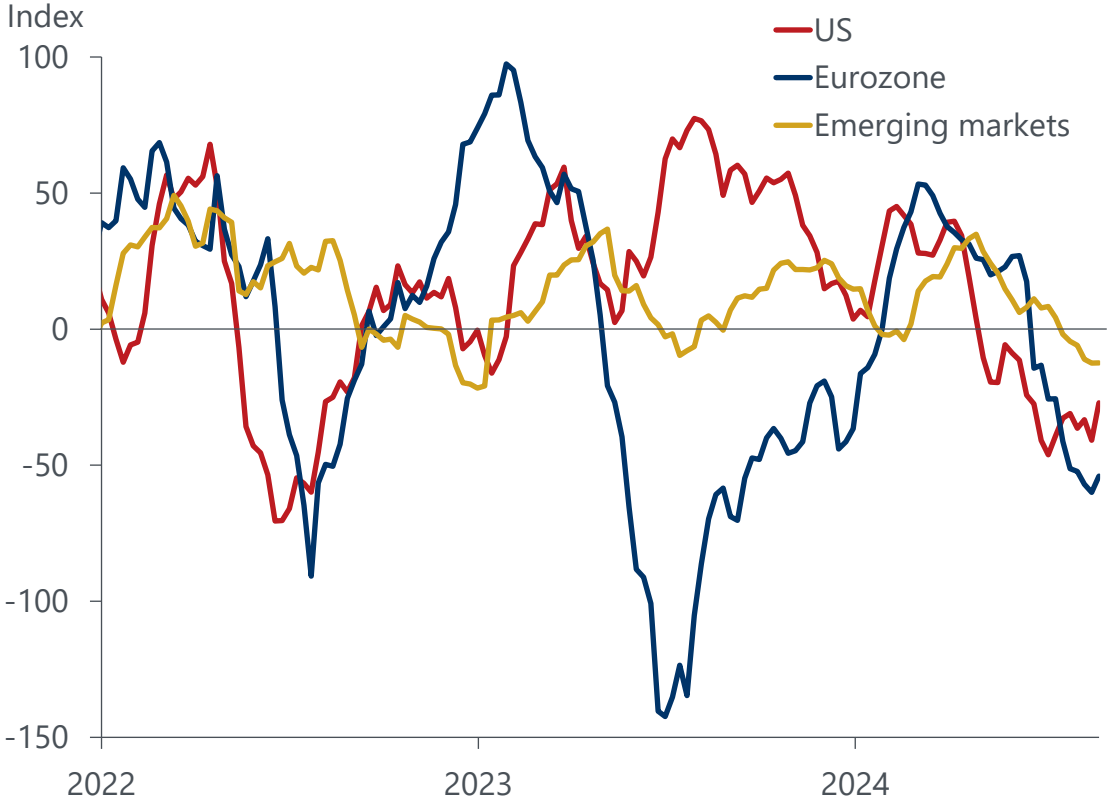
# Weakness is set to continue in 2025



Source: Oxford Economics/Haver Analytics

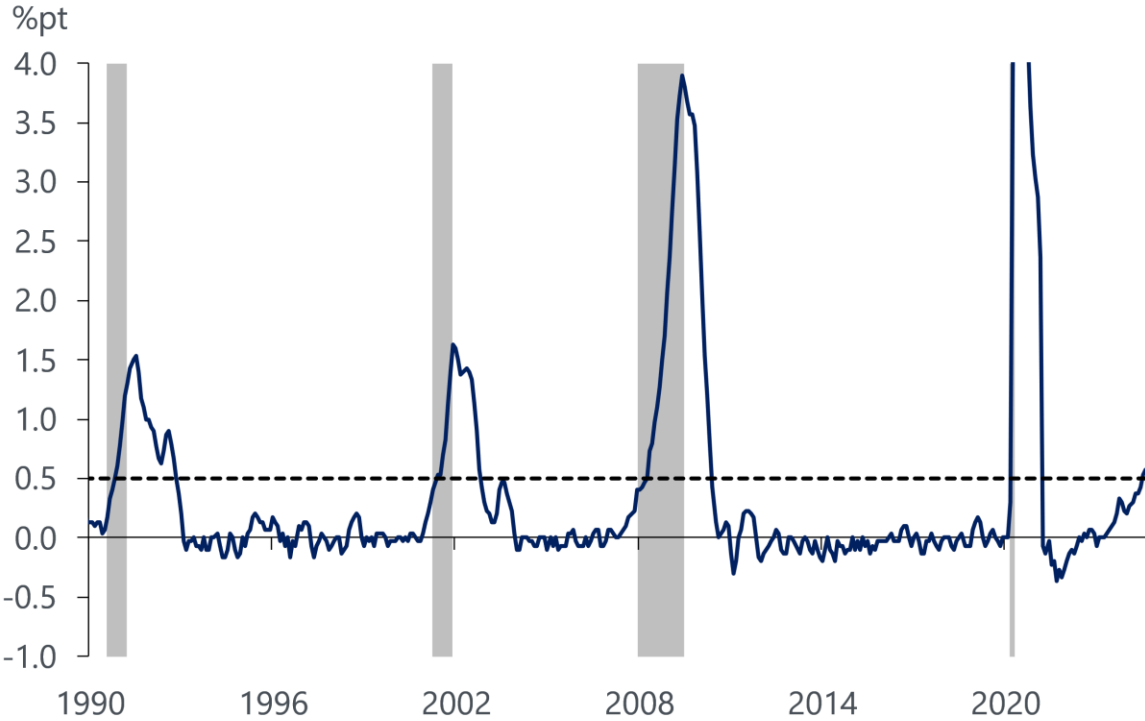
# Recent data have been disappointing, sending some recession signals

World: Economic surprise indices



Source : Oxford Economics/Haver Analytics

US: Sahm rule



Note: Difference between the 3mma of the unemployment rate (U3) and the lowest 3mma of U3 during the previous 12 months

Source: Oxford Economics/Haver Analytics



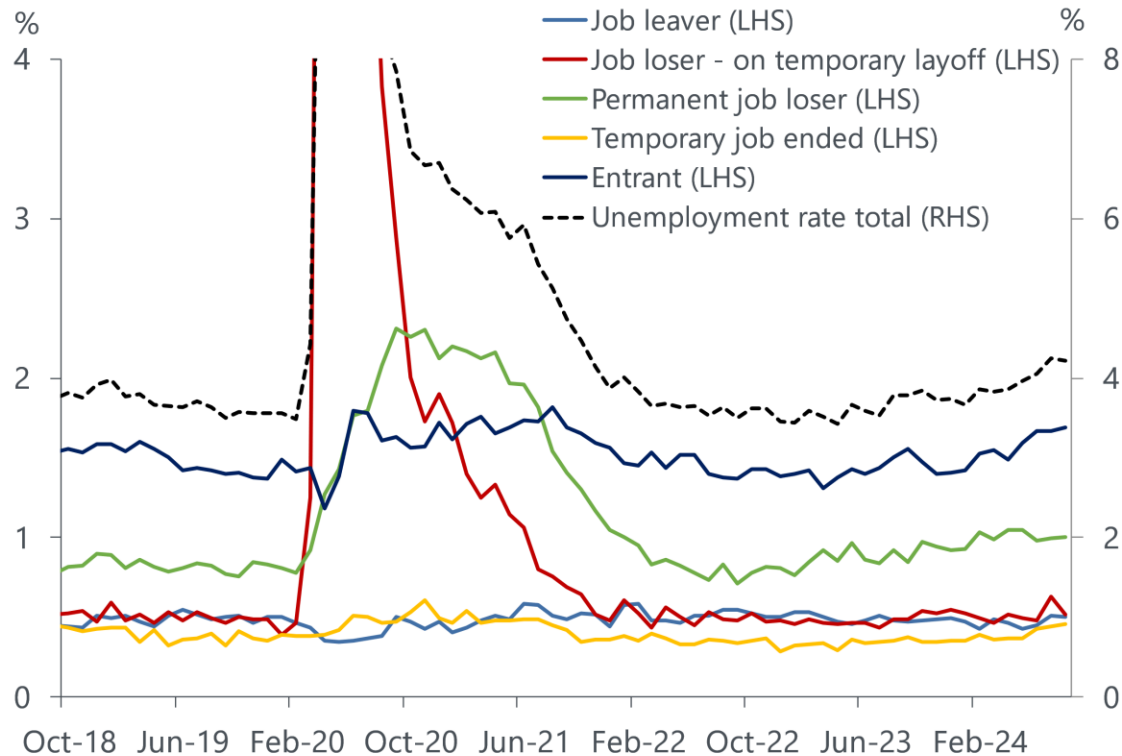
# Globally, surveys some way from recession



Source : Oxford Economics/Haver Analytics/S&P Global/JP Morgan

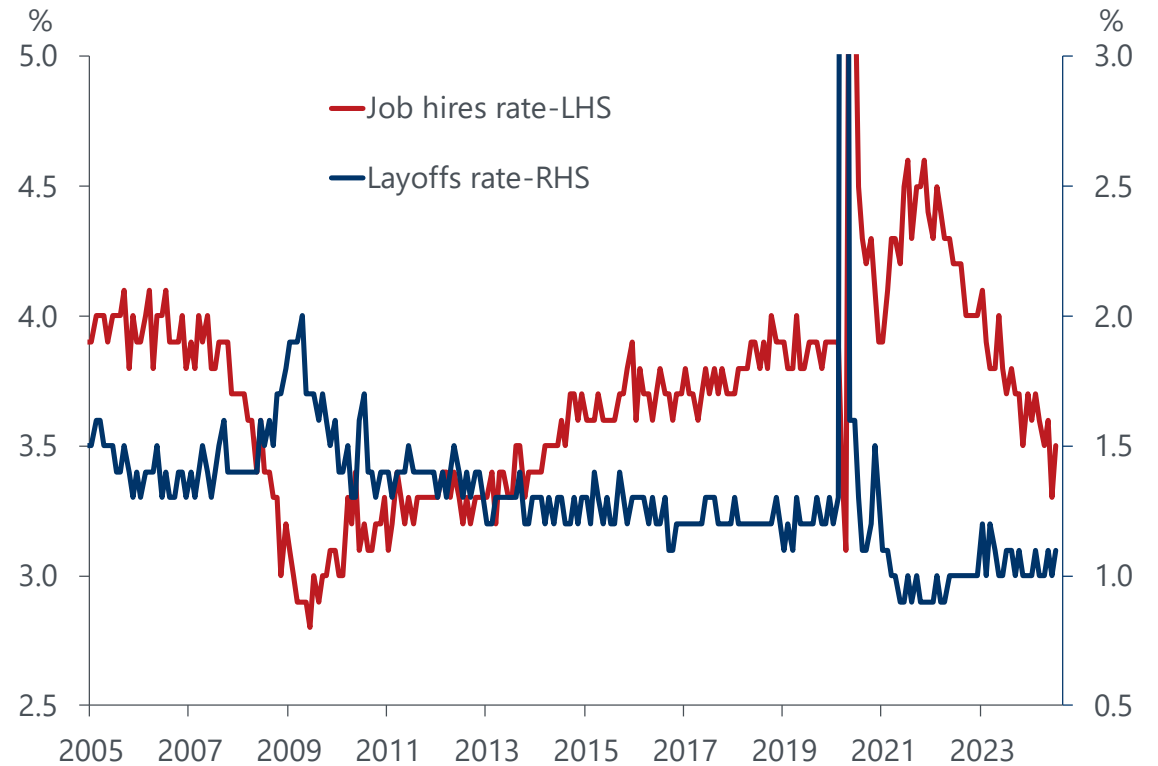
# In the US, it matters why the unemployment rate is rising

US: Unemployment rate decomposed



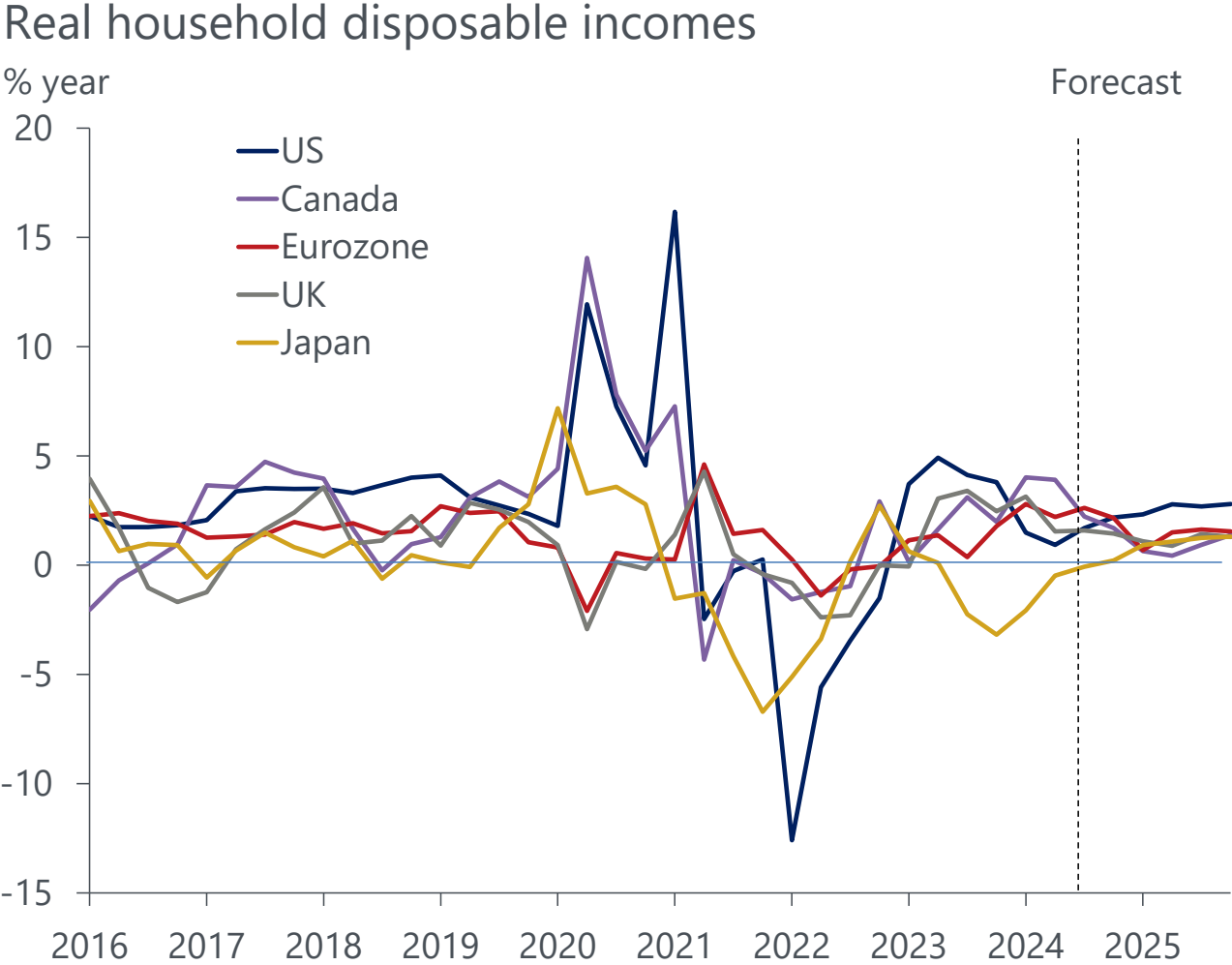
Source: Oxford Economics/Haver Analytics

US: Job hires & layoffs



Source: Oxford Economics/Haver Analytics

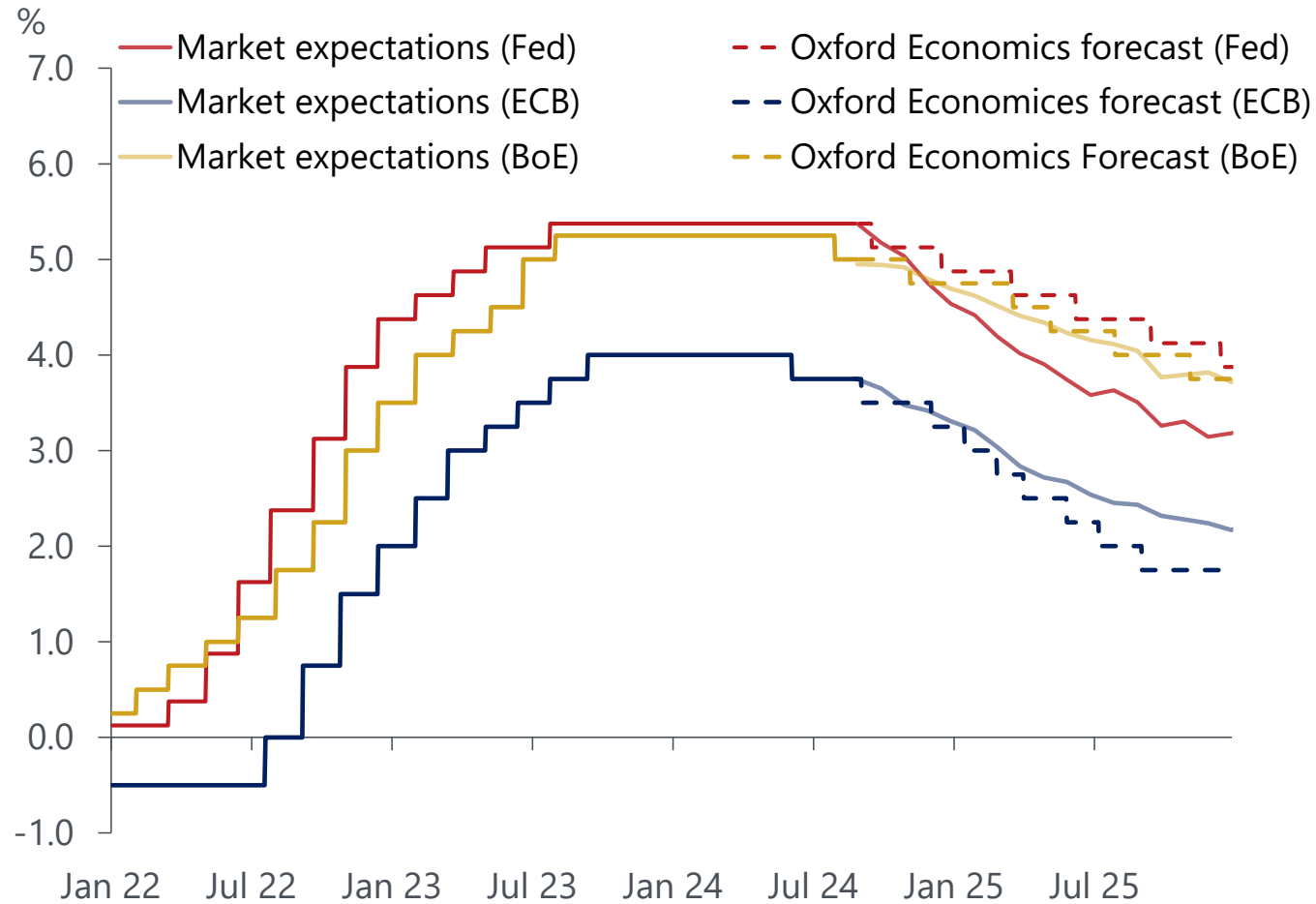
# Improving household real incomes the main global growth driver...



Source : Oxford Economics/Haver Analytics

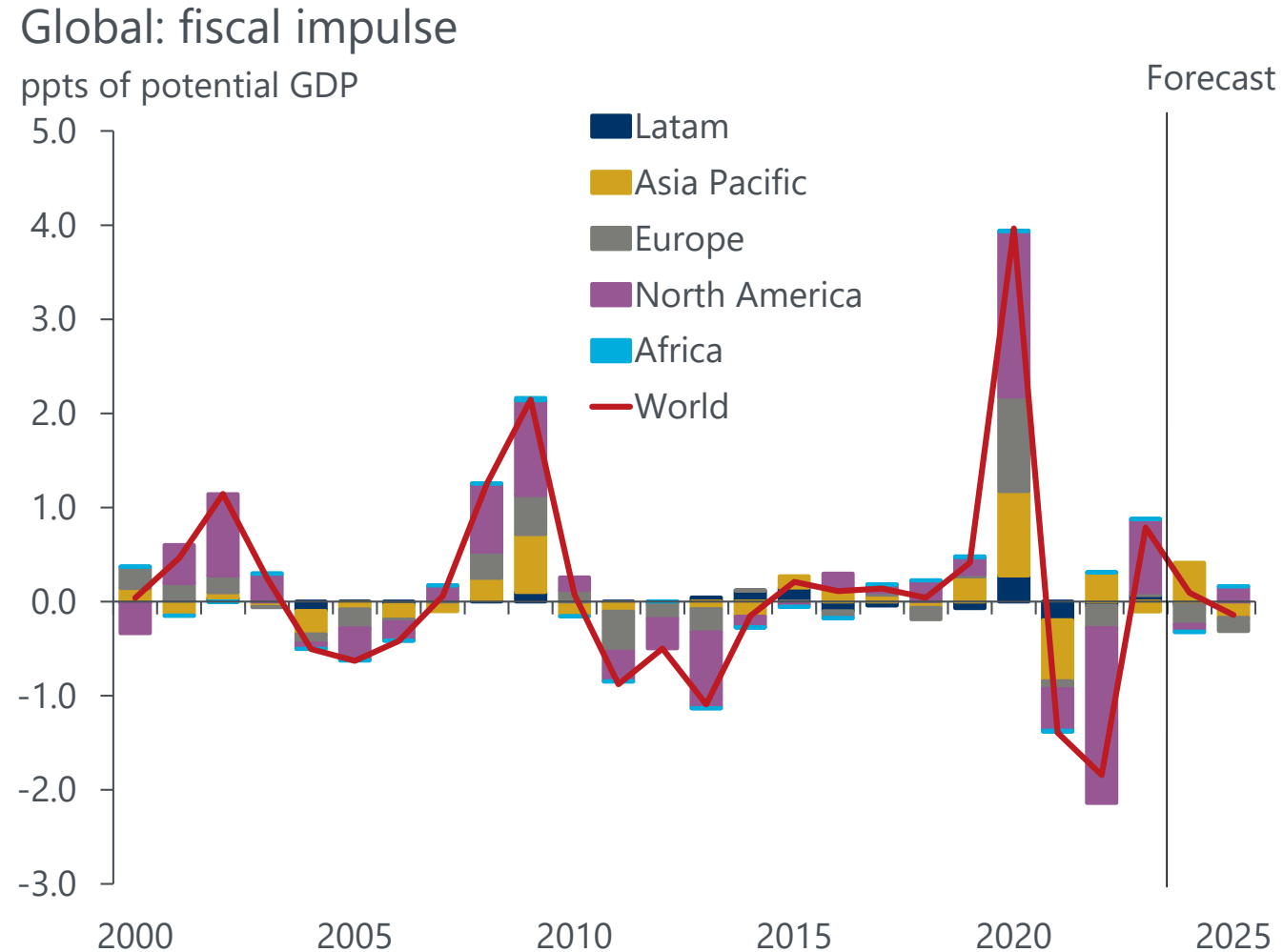
# ...along with falling interest rates

Advanced Economy: Policy rate forecasts



Source : Oxford Economics/Haver Analytics/Refinitiv

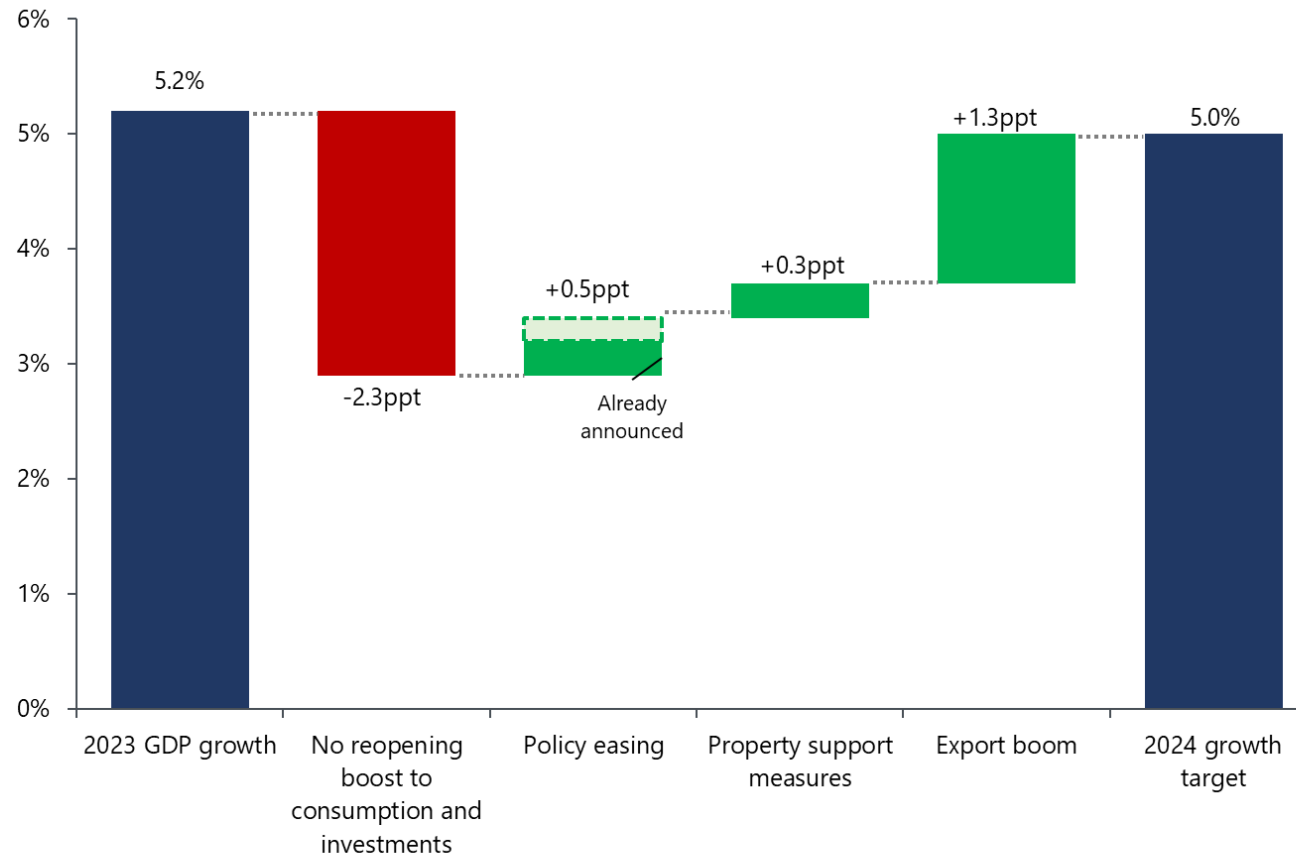
# At a global level, fiscal policy is set to be relatively neutral in 2025



Source : Oxford Economics/Haver Analytics

# China likely to continue to be an exception

How to achieve the official growth target  
%-pt contributions to annual growth

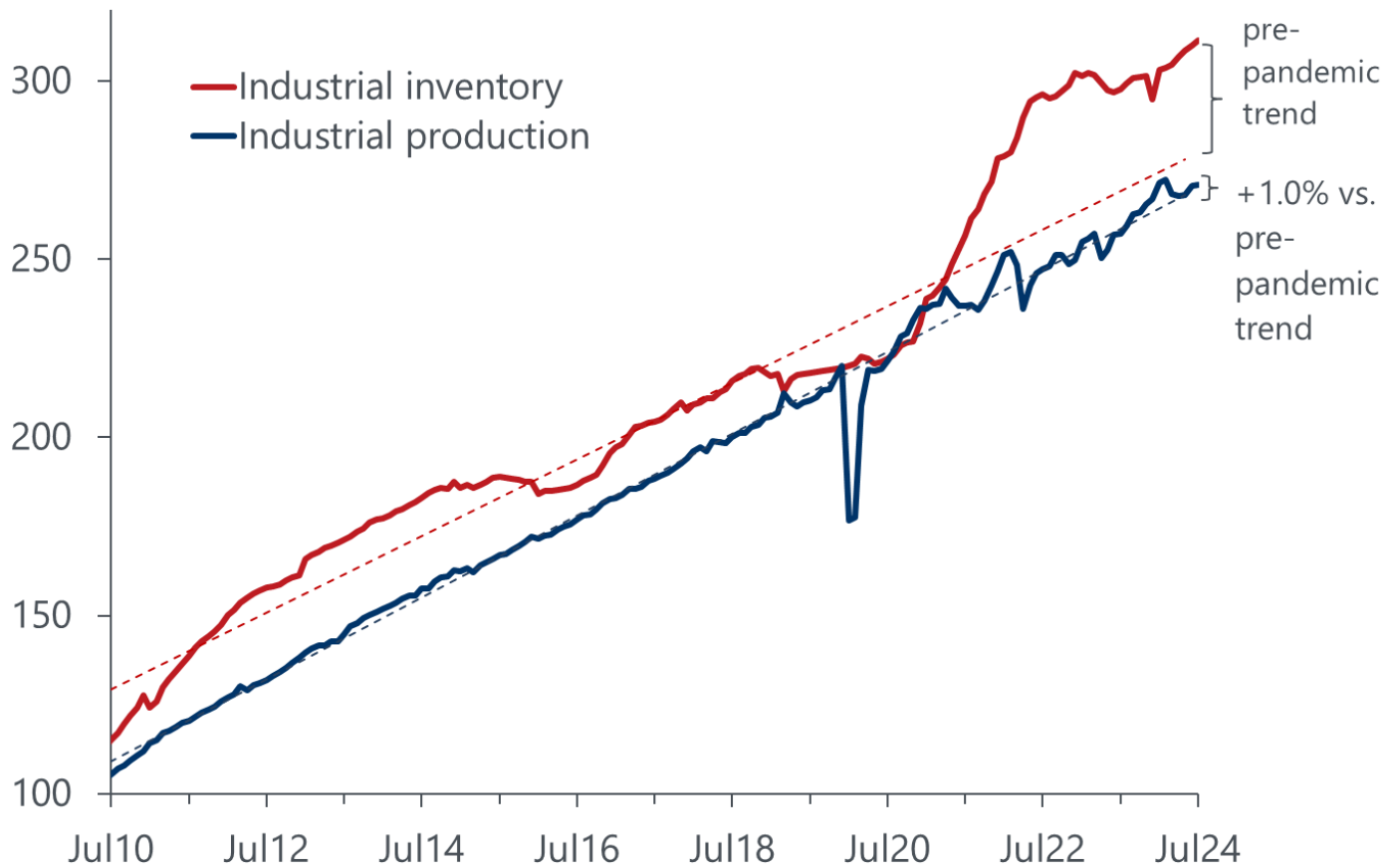


Source: Oxford Economics. Note: Announced policy easing measures as of August 20. Assumptions around property support and export boom are OE's.

# China's problem is weak demand, their solution is overcapacity

China: Industrial production vs. inventory accumulation

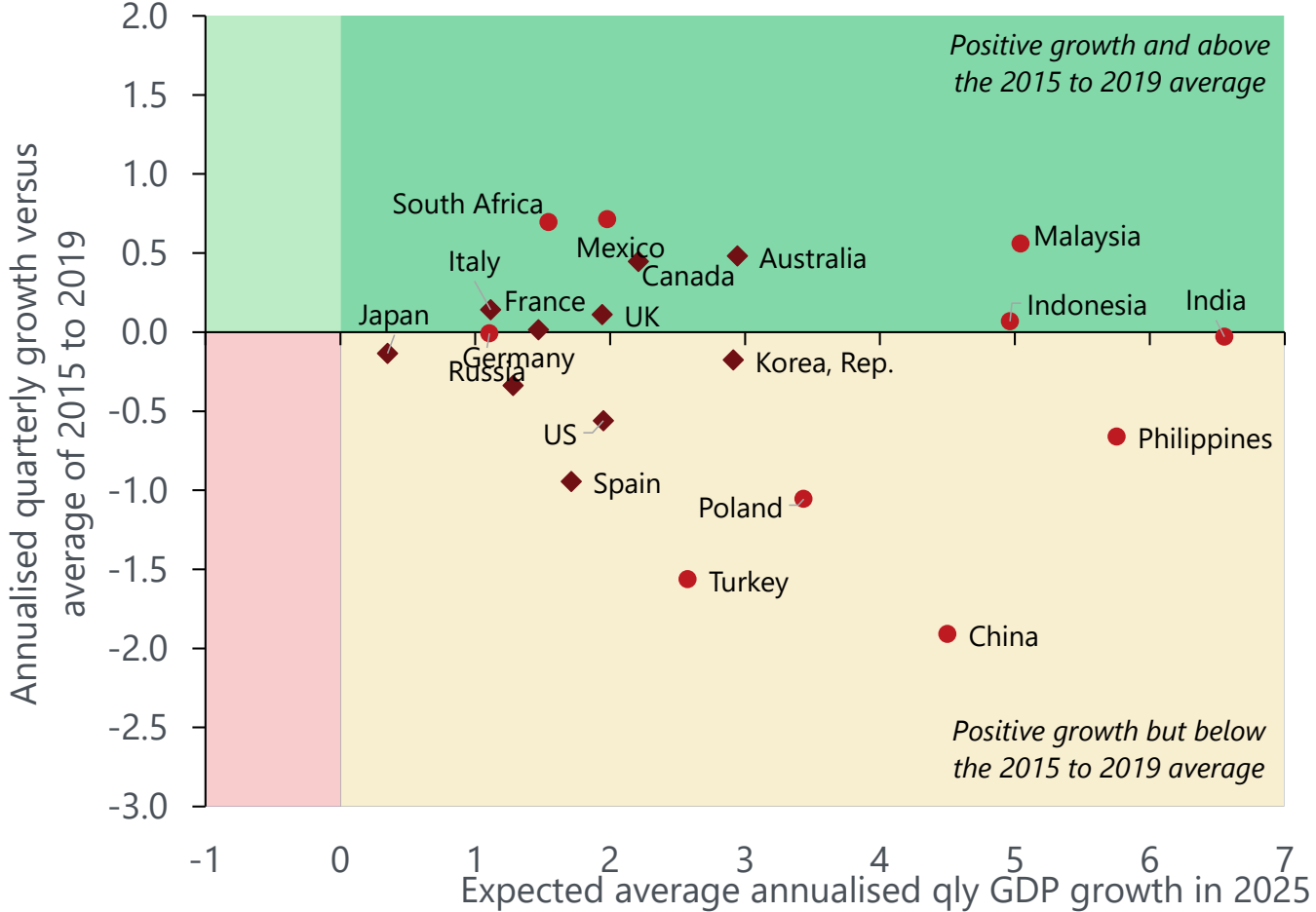
Jan 2010=100, sa



Source: Oxford Economics/NBS

# Where might growth out-perform through 2025?

World: Growth momentum

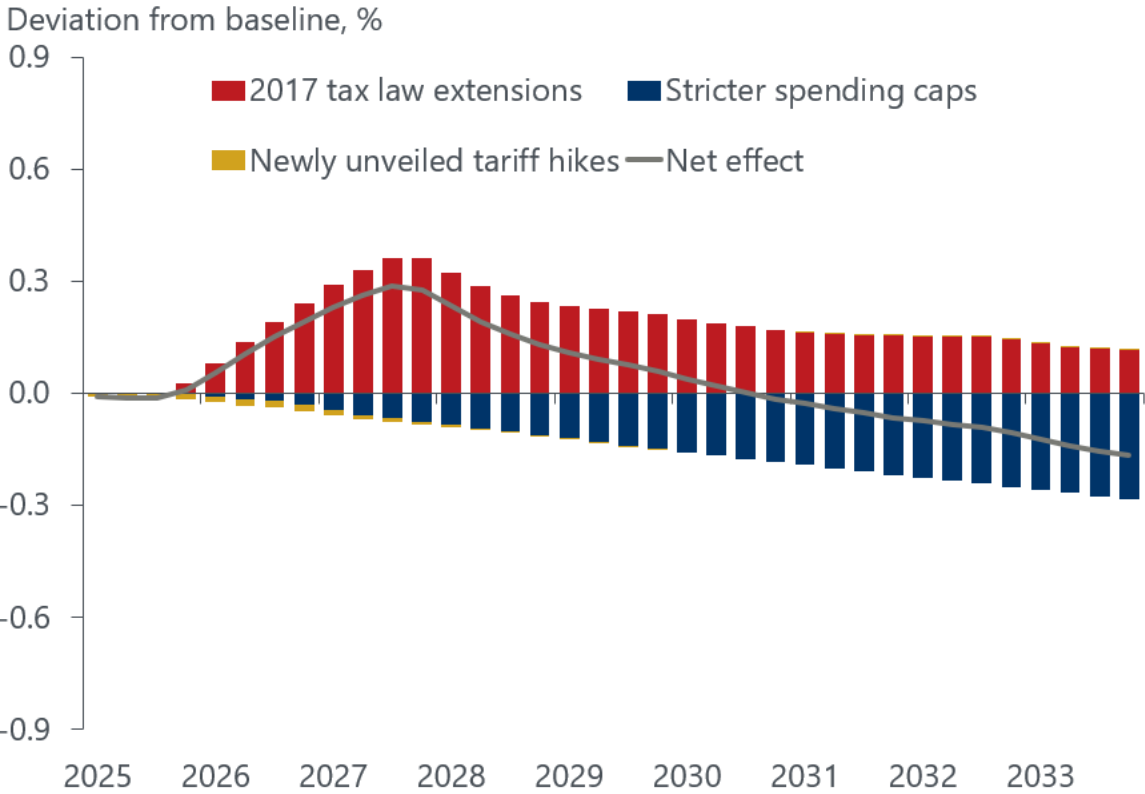


Source : Oxford Economics/Haver Analytics



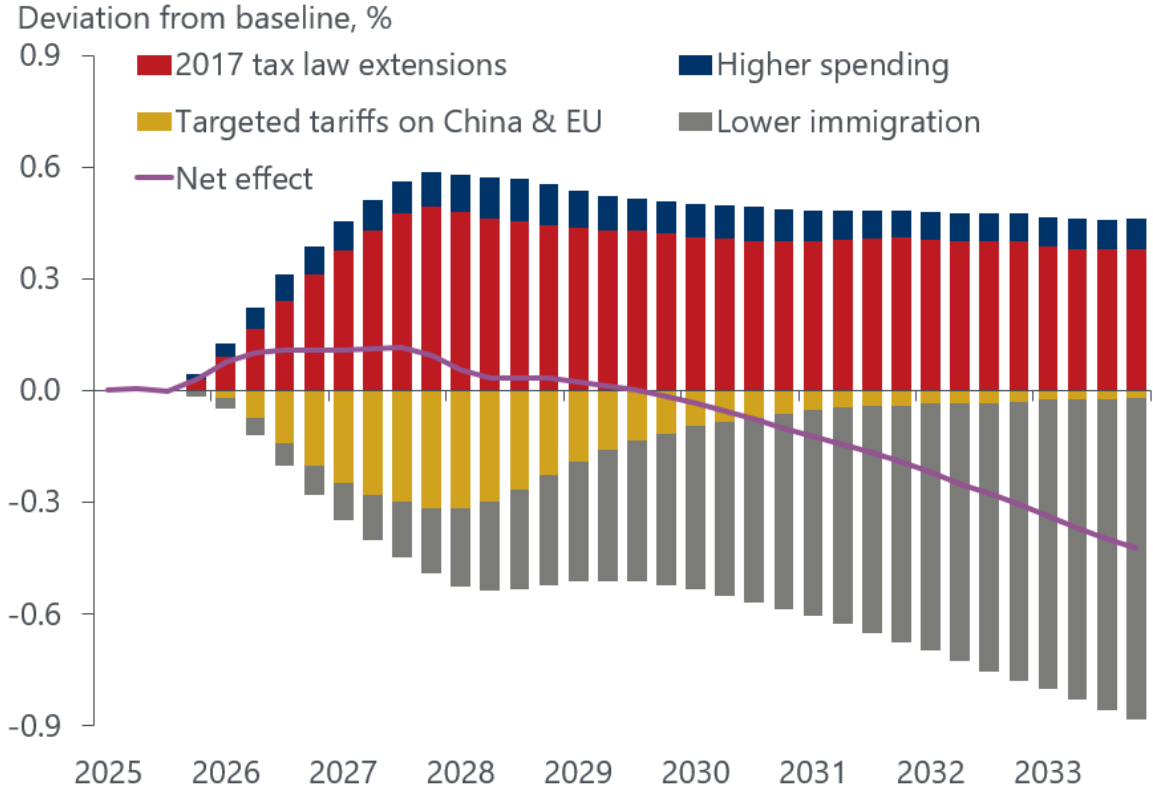
# Varying economic outcomes under divided government

US: Real GDP under Harris & divided government



Source: Oxford Economics

US: Real GDP under Trump & divided government

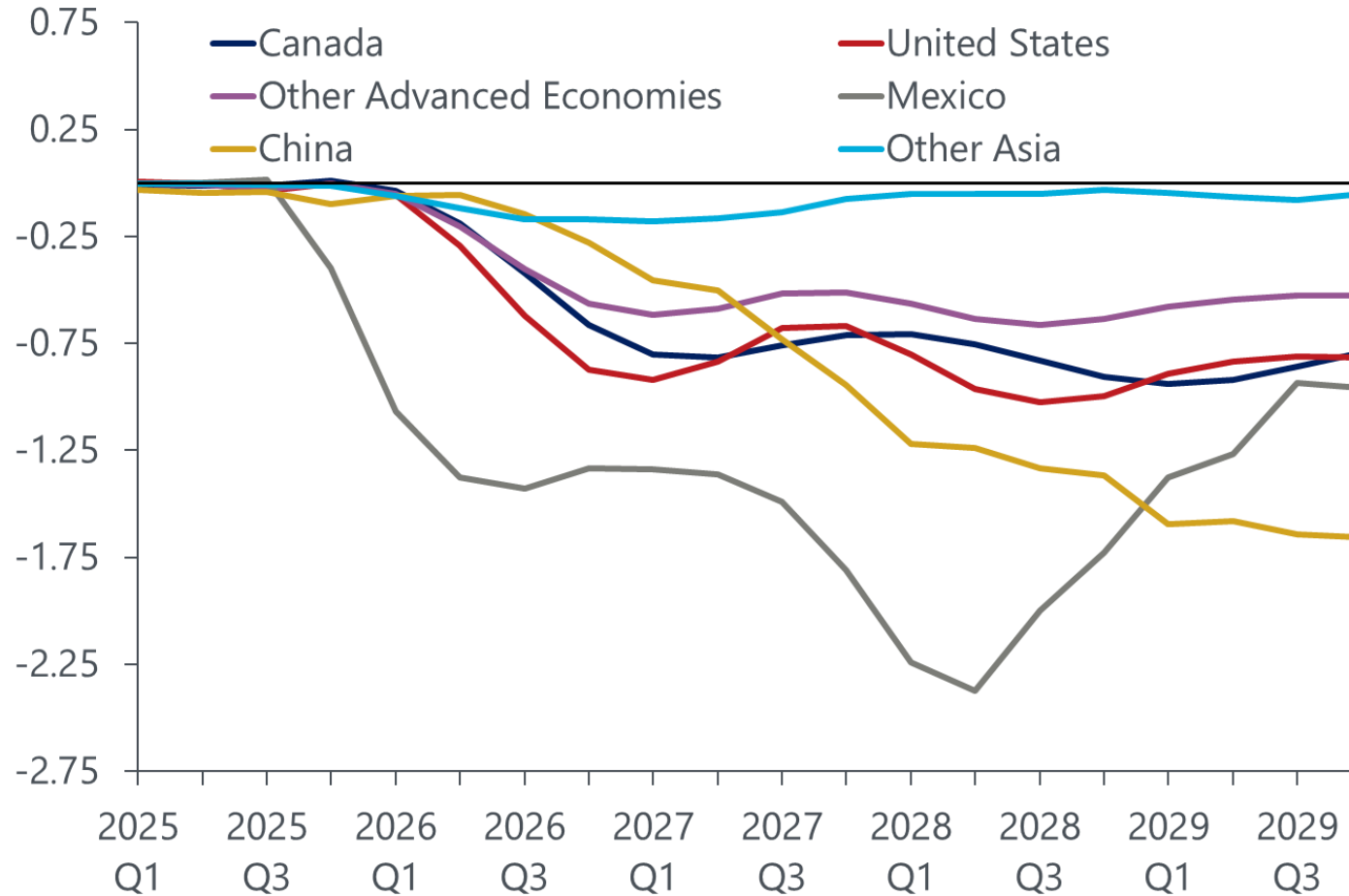


Source: Oxford Economics

# Full-blown Trump trade policies will hit world economy hard

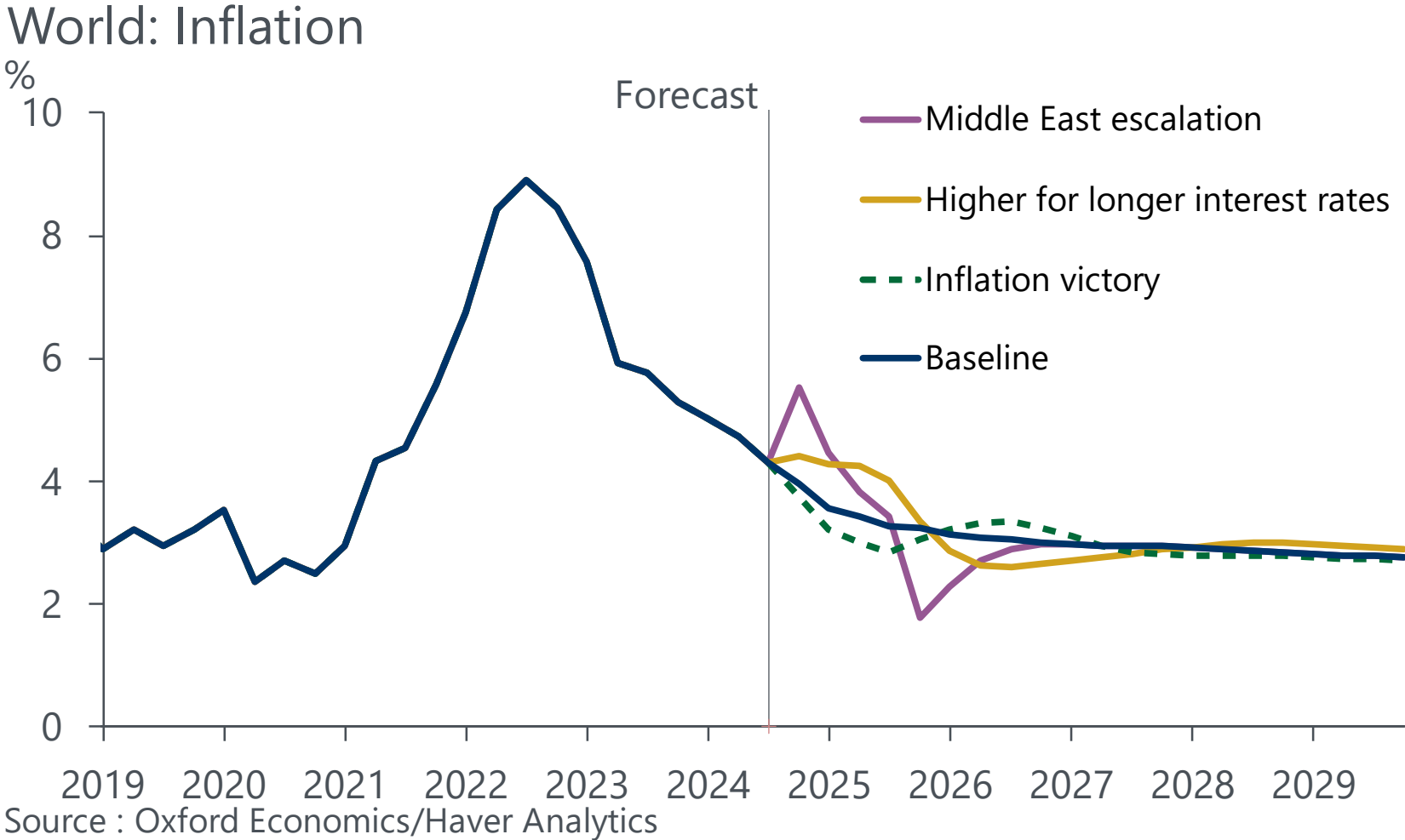
World: GDP by region under full-blown Trump presidency

% difference from baseline



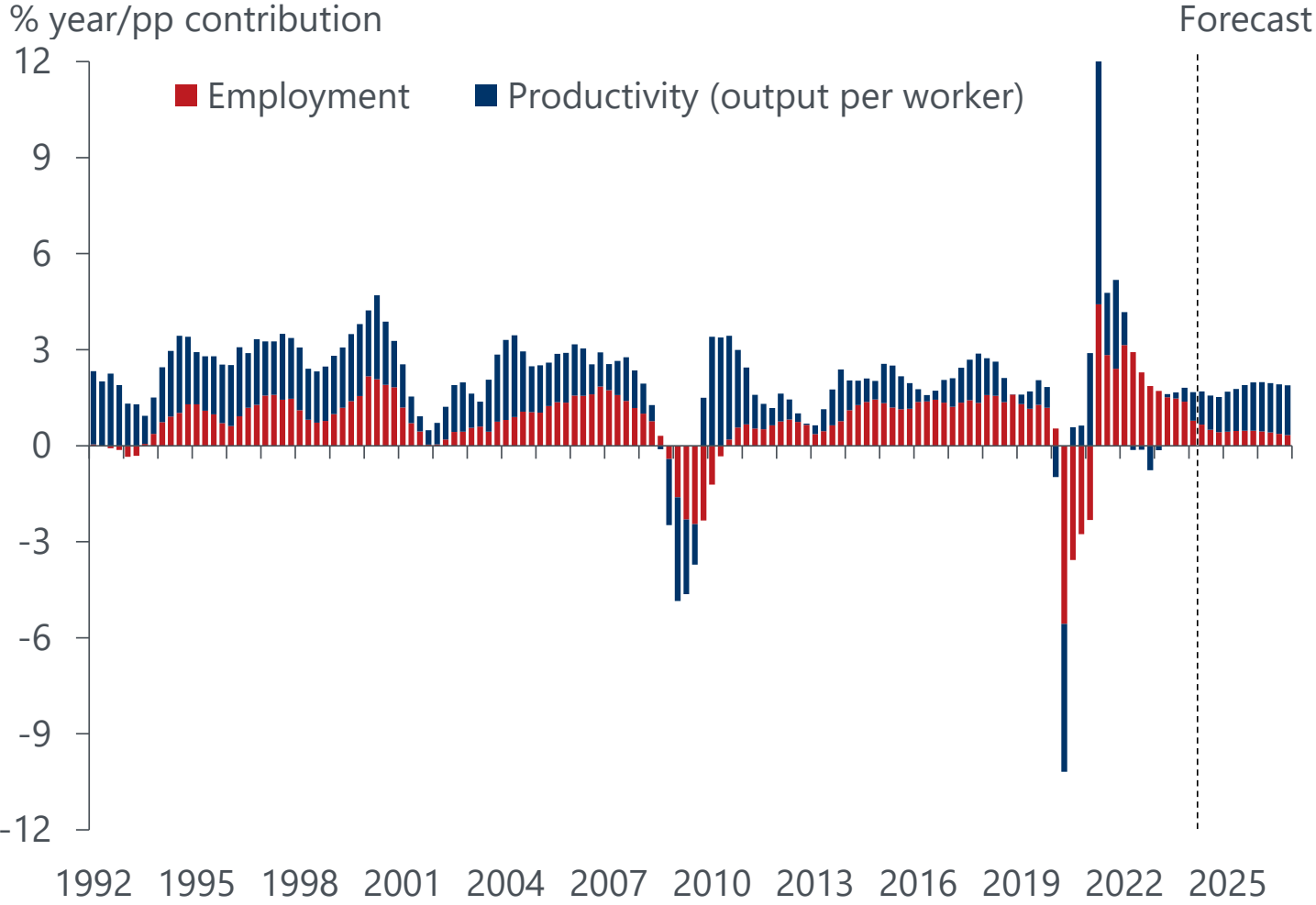
Source: Oxford Economics

# Inflation risks still lie to the upside in the very near term



# Productivity is becoming ever more vital to growth prospects

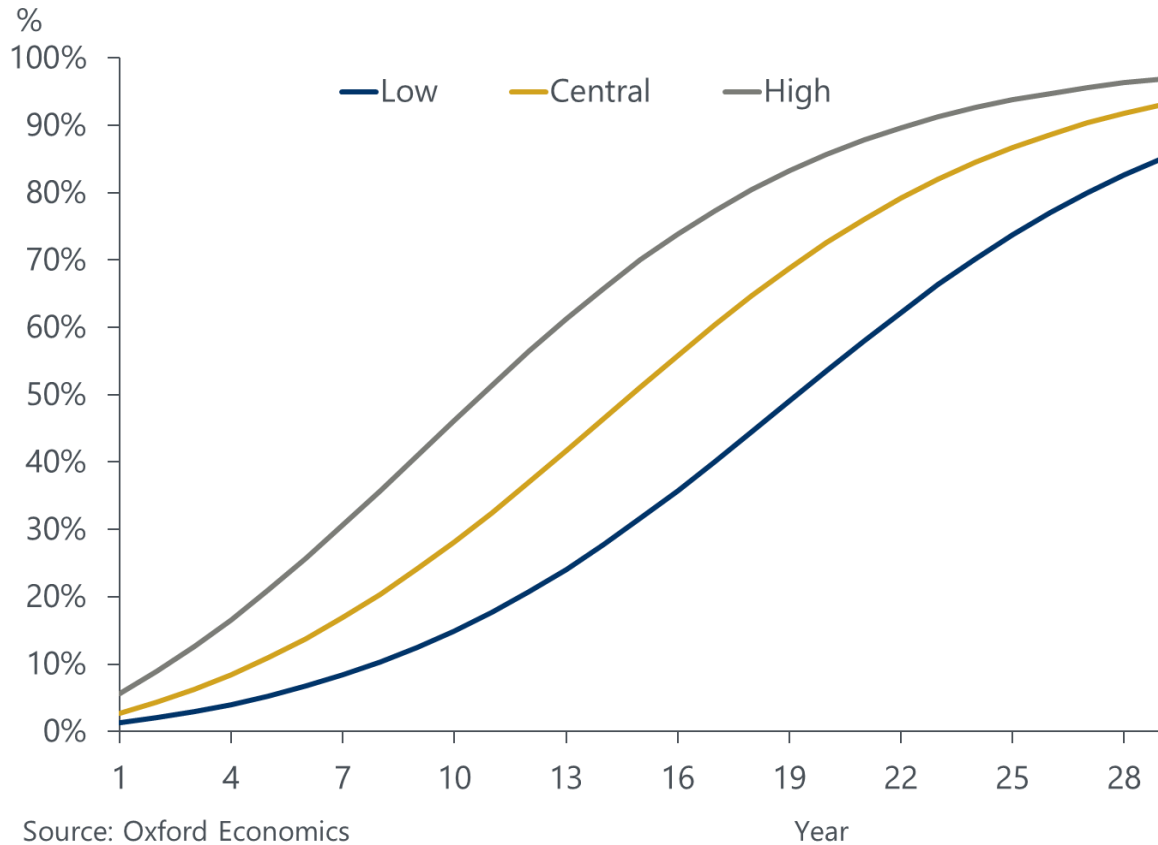
Advanced economies: GDP decomposition



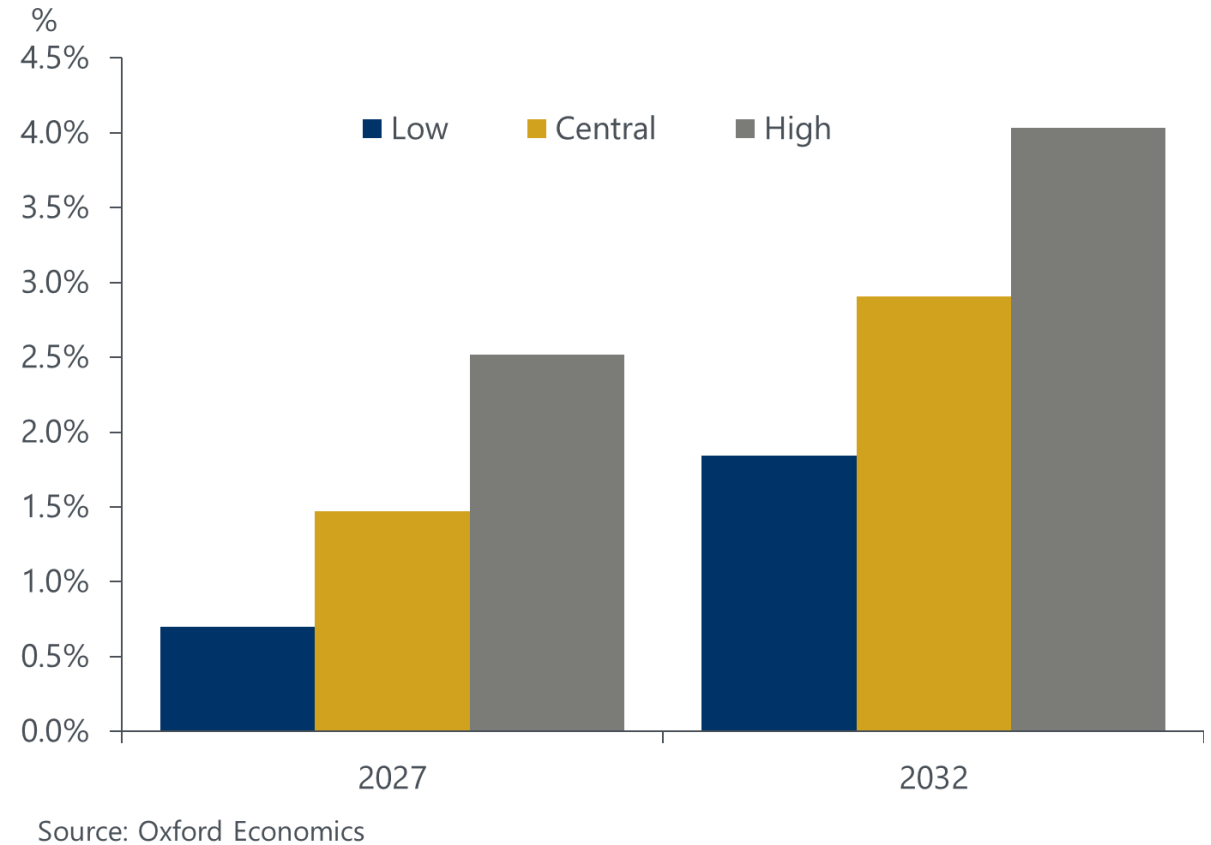
Source: Oxford Economics/Haver Analytics

# AI could provide a long run productivity boost

US: rate of generative AI adoption



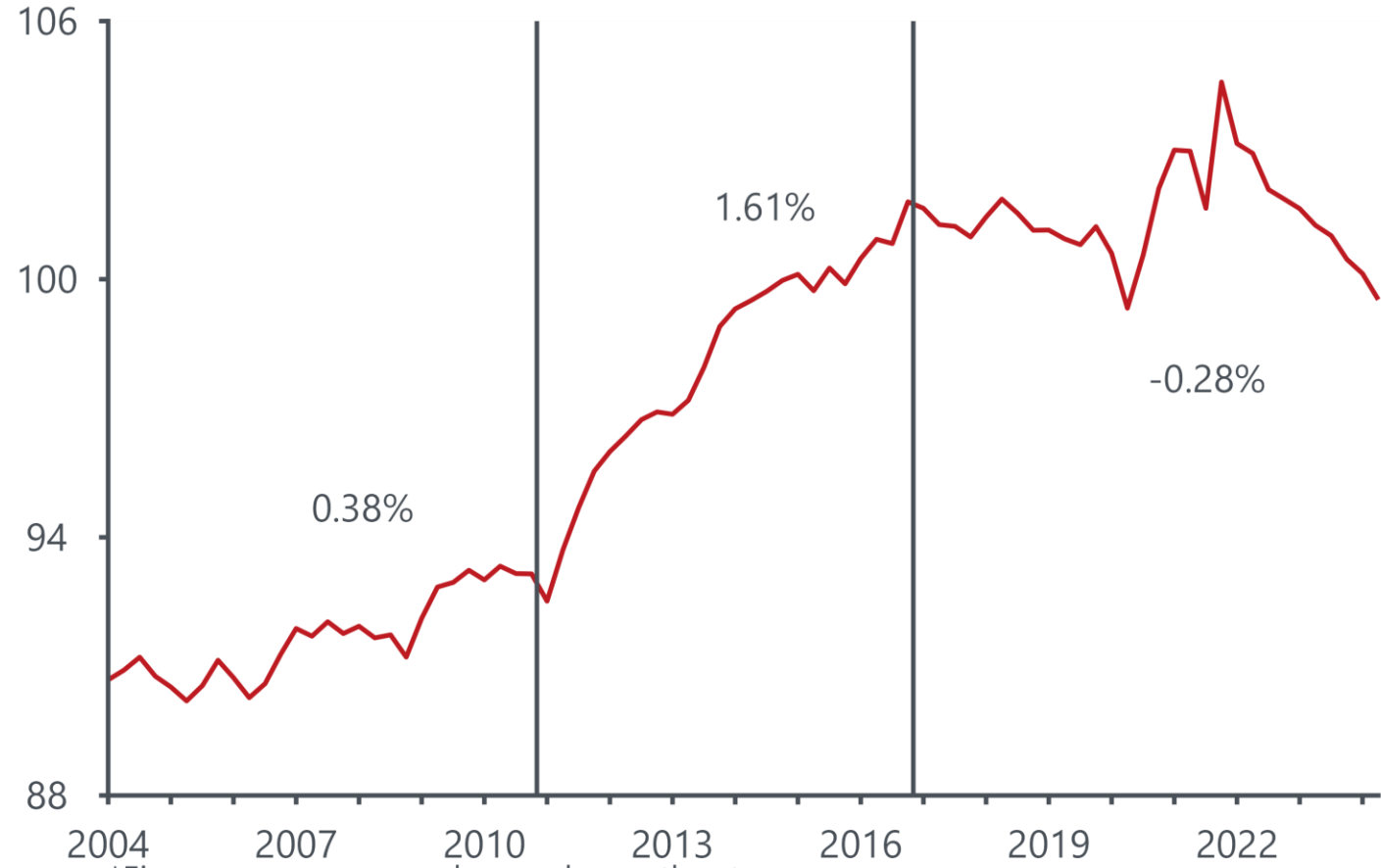
US: impact on real GDP levels





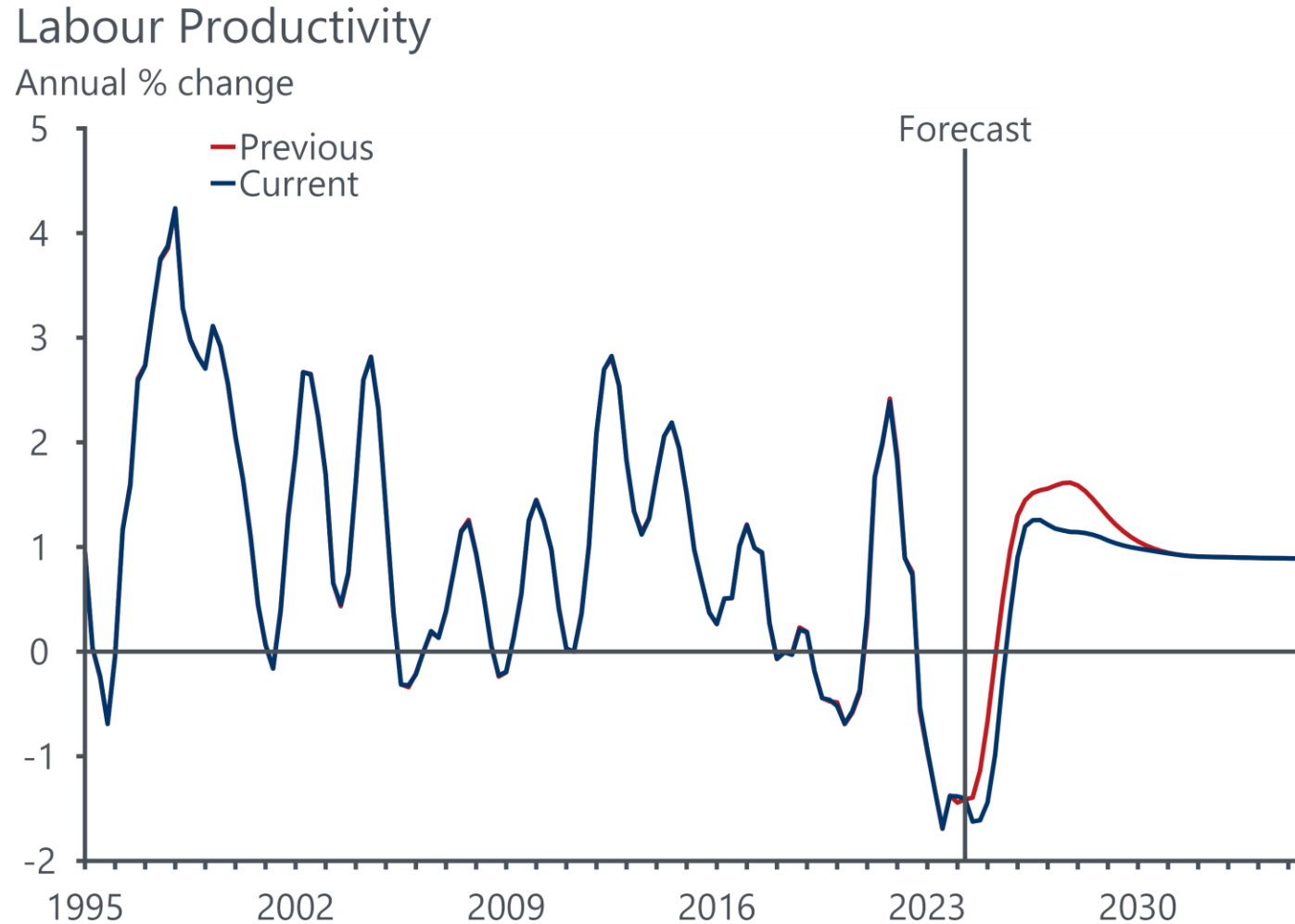
# Australia has entered another fallow period for productivity growth

Labour Productivity  
Index, 2015=100\*



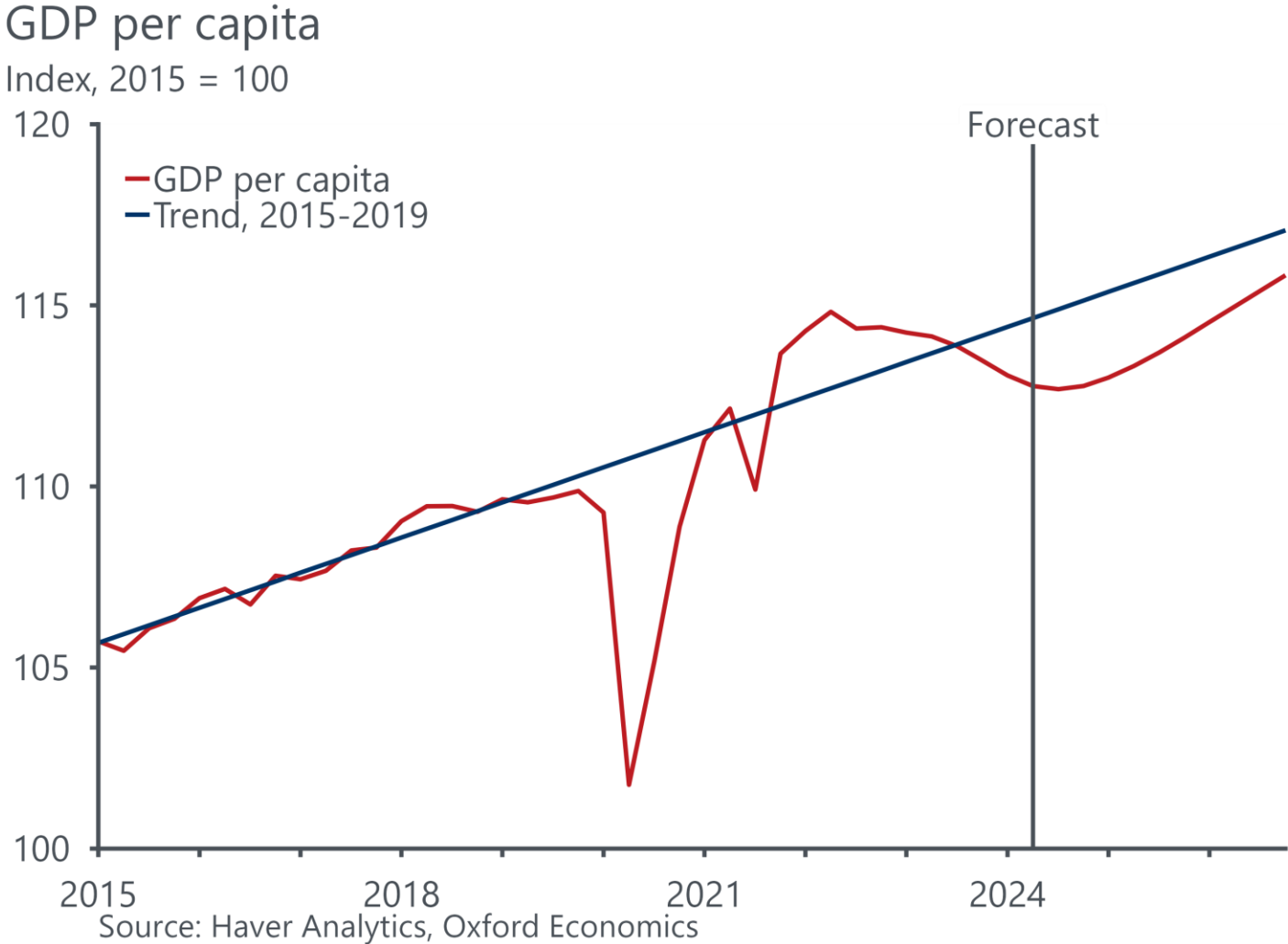
\*Figures are compound annual growth rates

# We have revised down our outlook for productivity growth

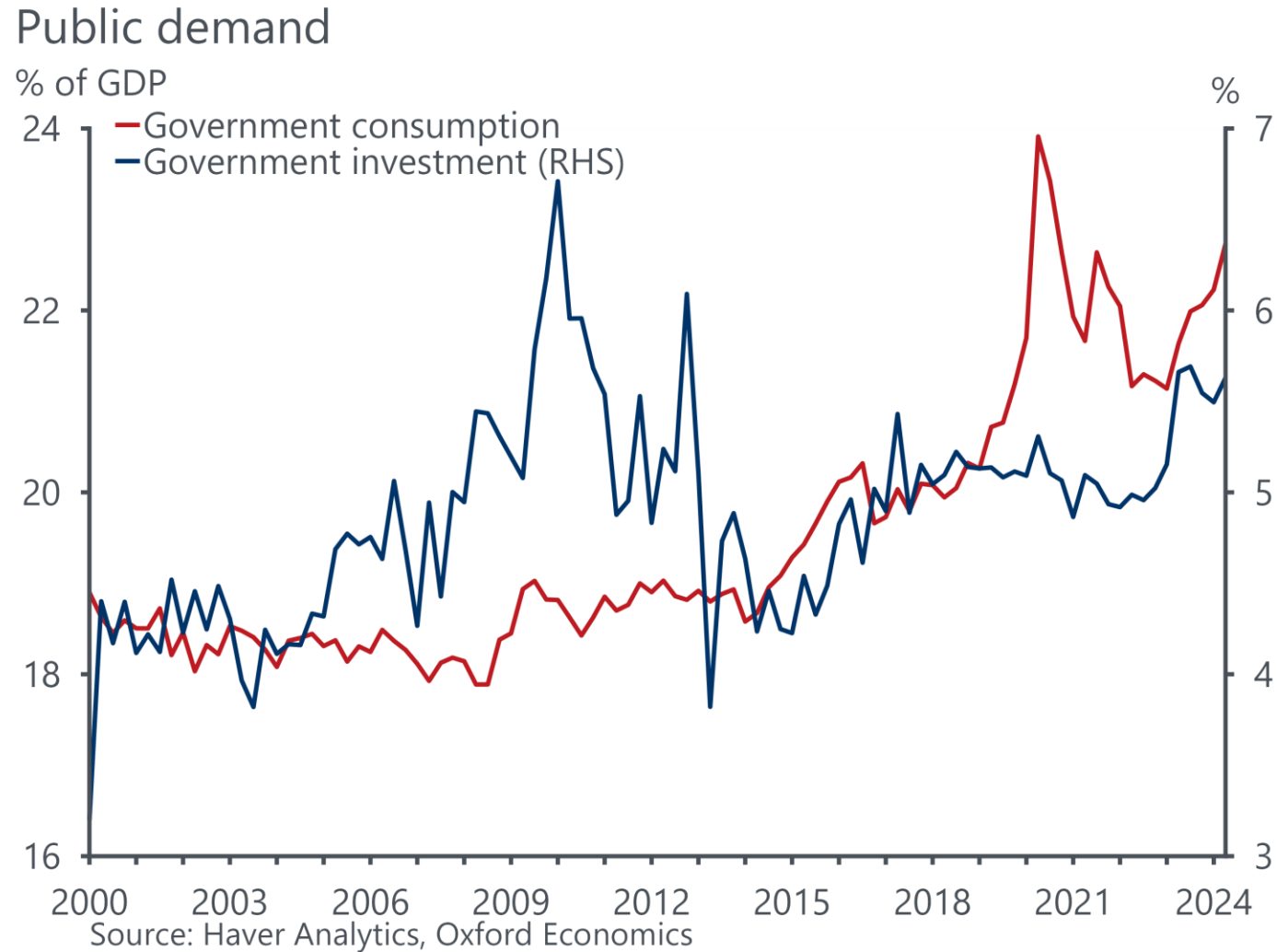




# Very weak outcomes in per capita terms



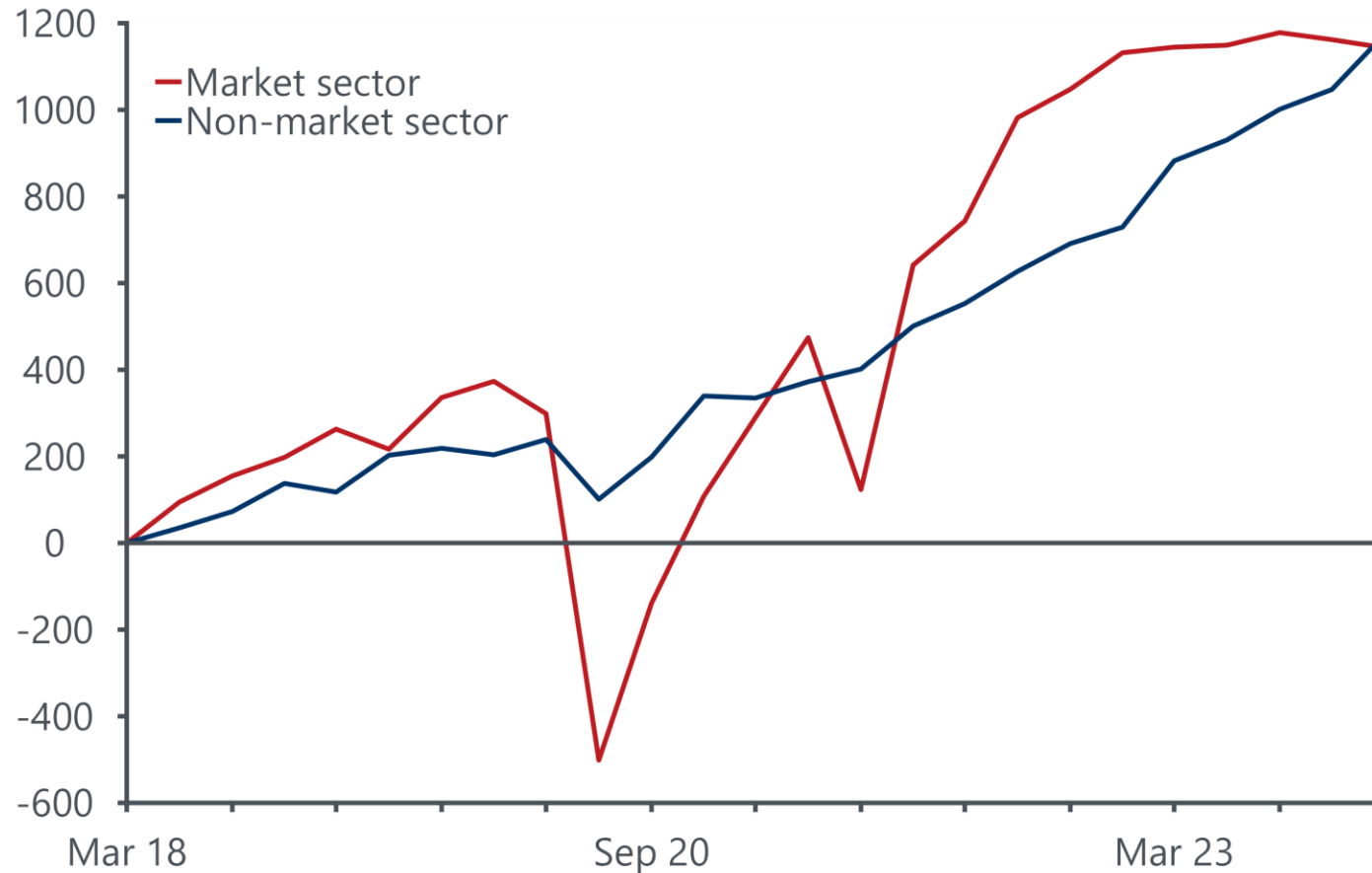
# Expanded role for public demand in driving growth



# Public sector keeping labour market ticking along

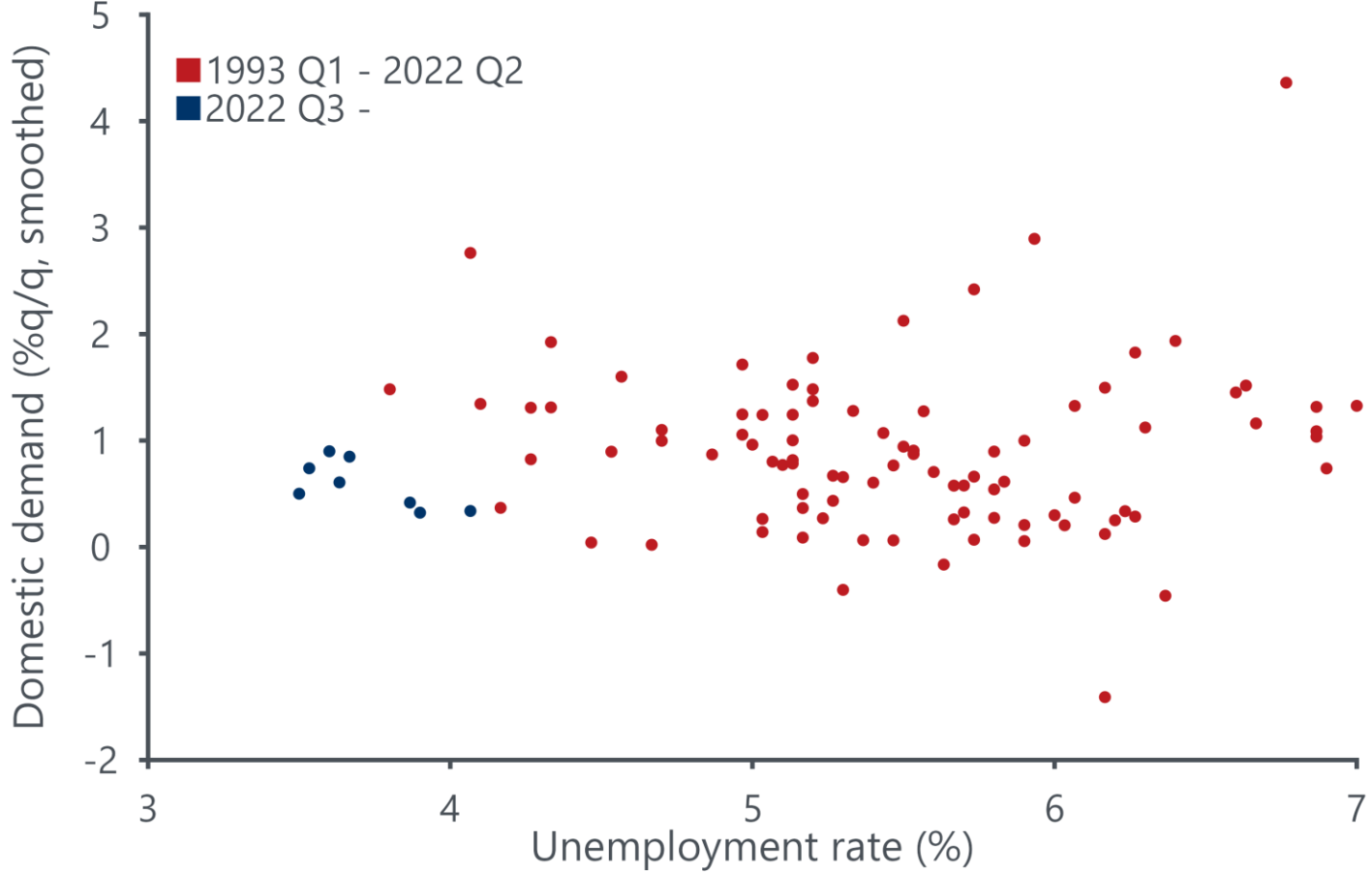
## Filled jobs & vacancies

Change since 2018



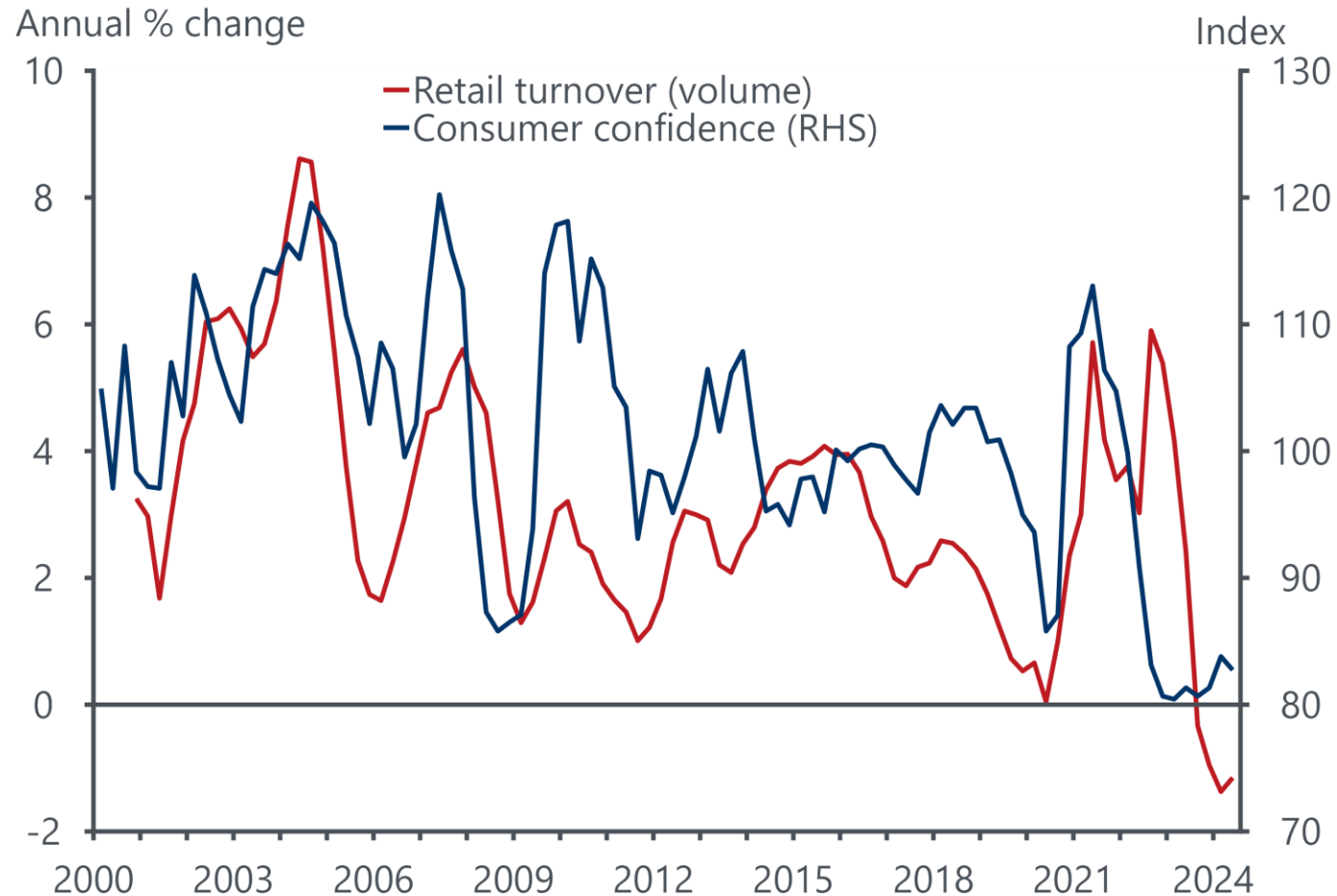
# Remarkably resilient labour market given weakness in growth

Domestic demand and unemployment

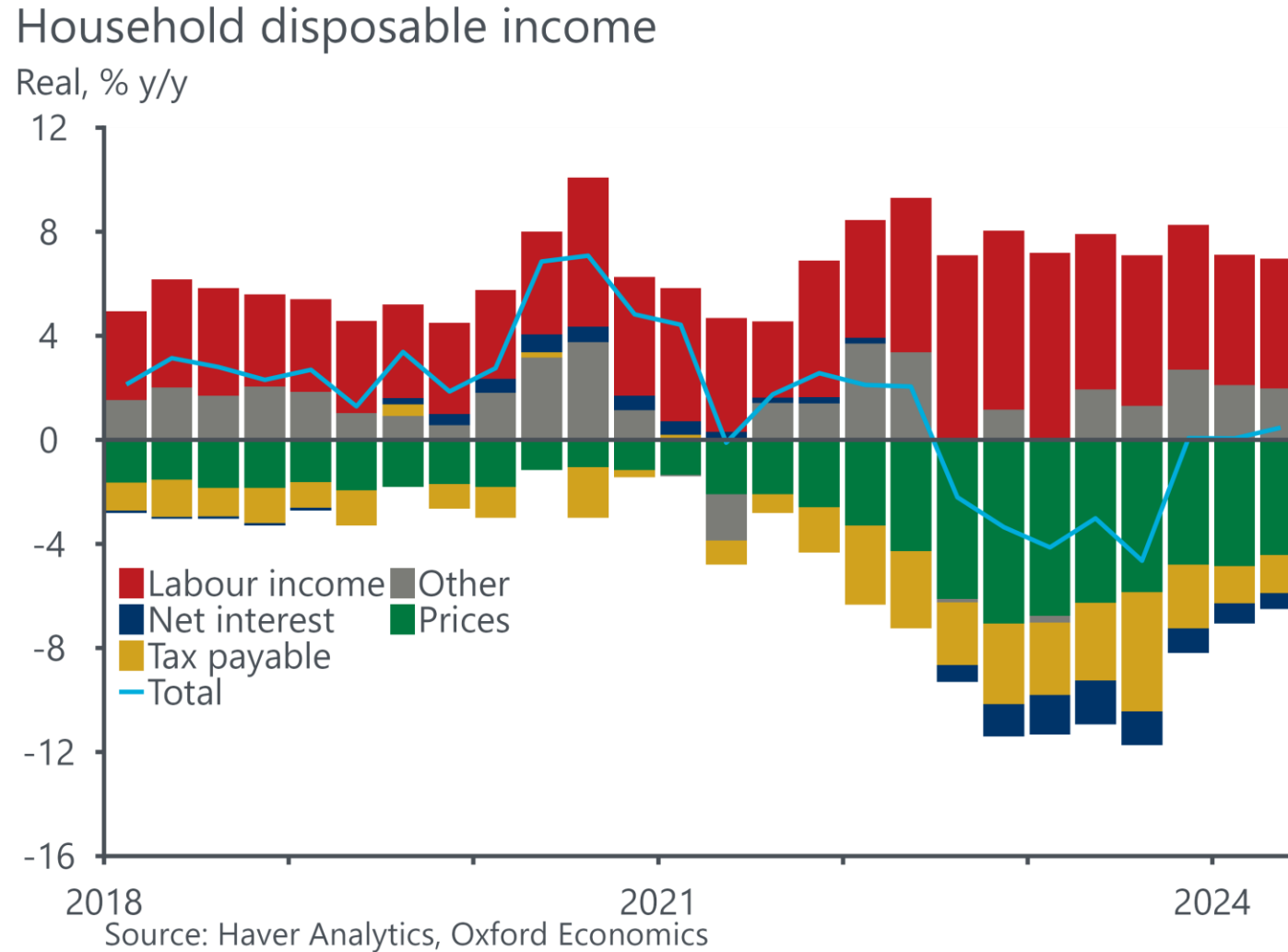


# Retail sales and confidence are very weak

Retail Turnover & Consumer Confidence



# Drag on incomes from inflation is waning – policy to follow



# Labour market cooling, but still tight



# Labour cost growth on the way down

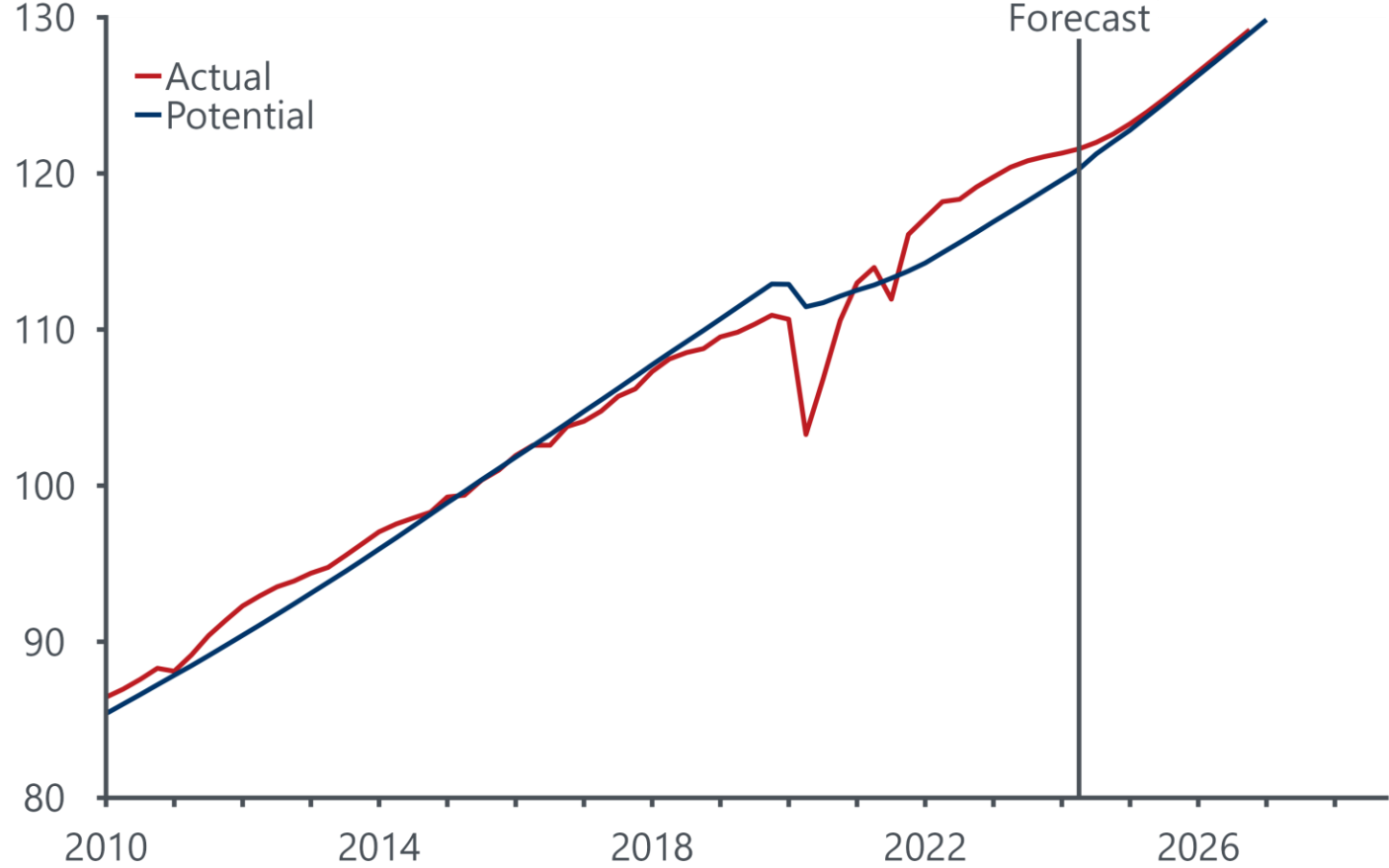




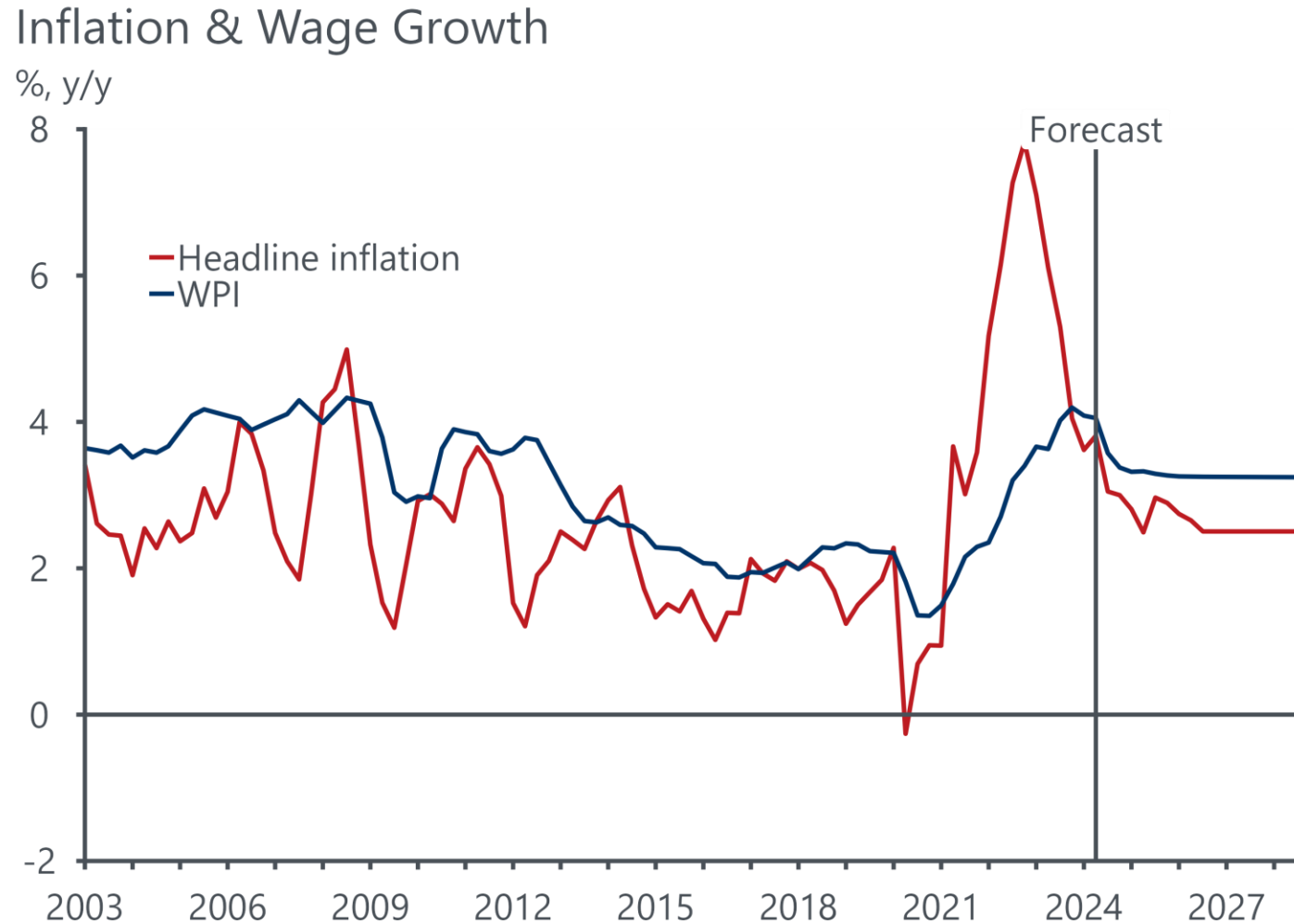
# Slow productivity growth and an economy with limited capacity...

Actual and Potential Output

Index = 2015

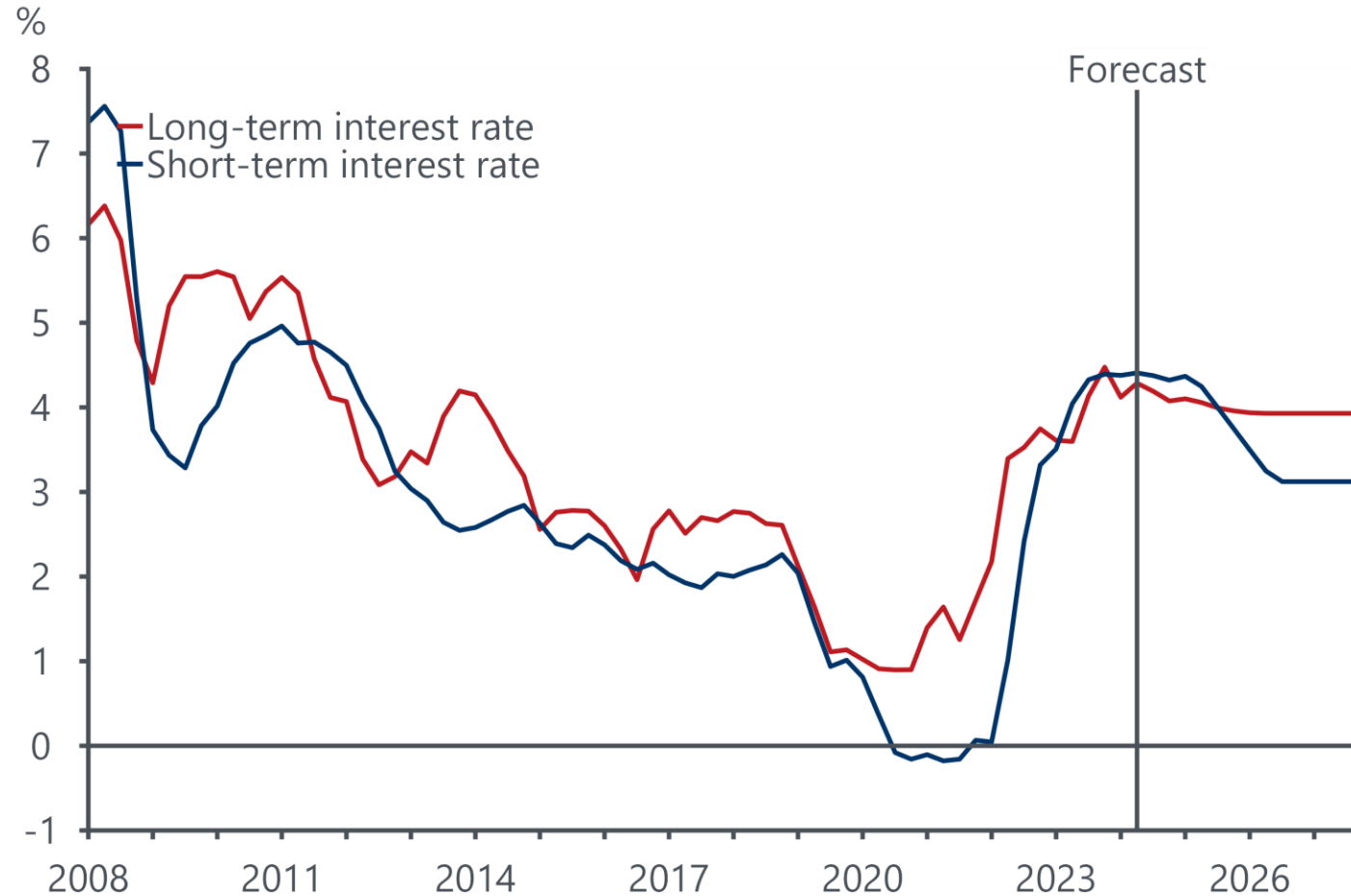


# ...making for a slow disinflation cycle

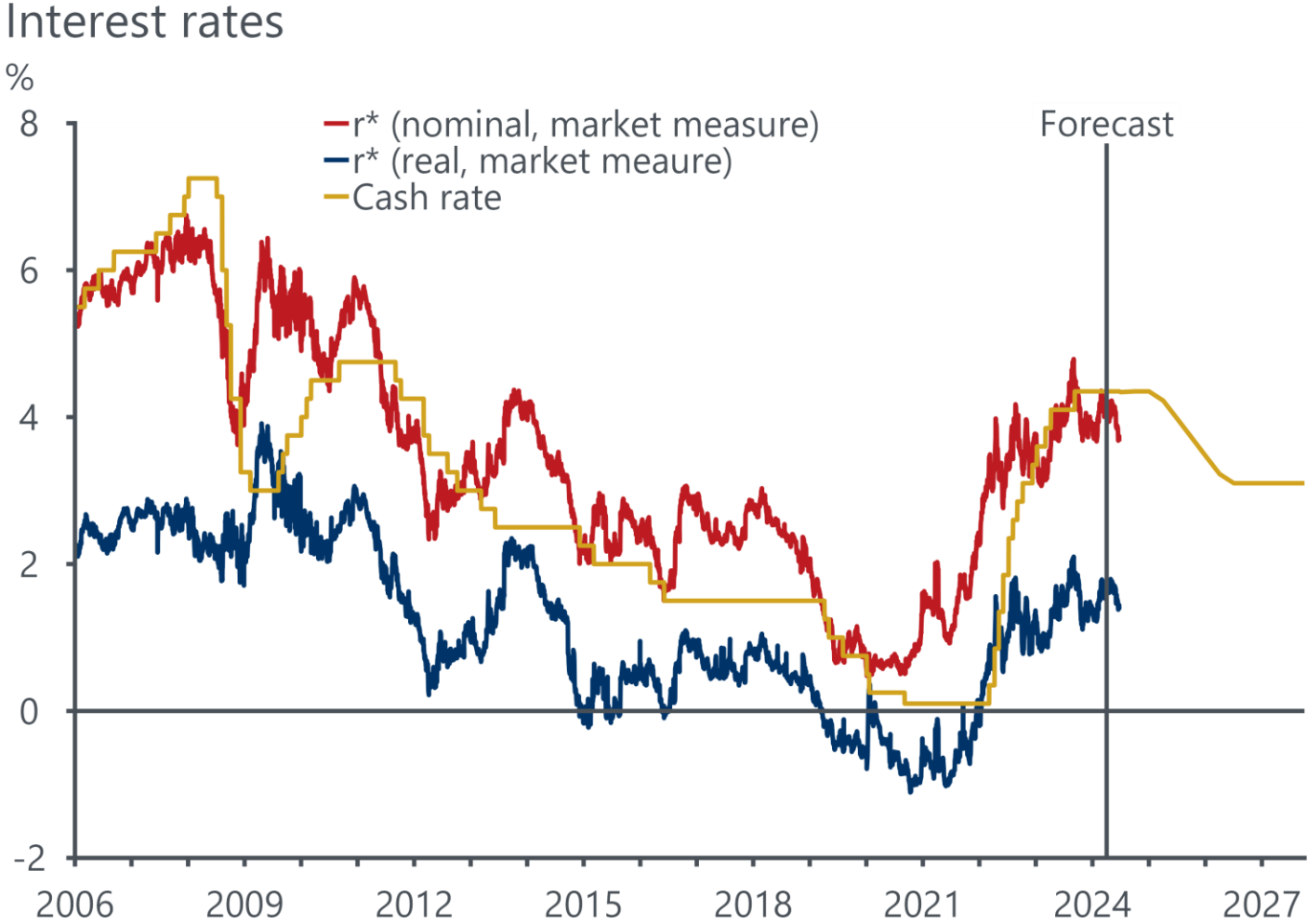


# RBA on hold until Q2 2025

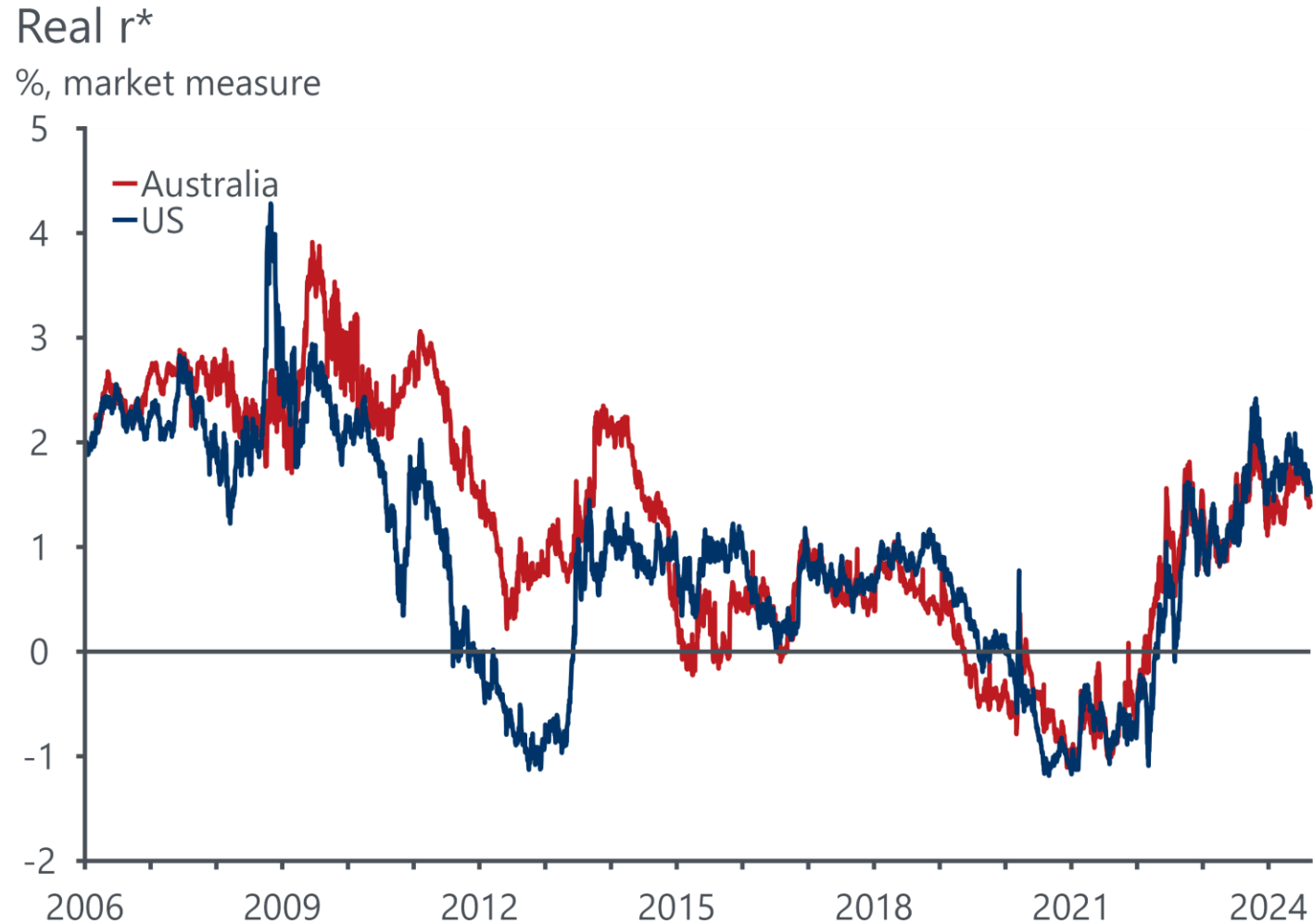
Australia: Monetary conditions



# Market measures of neutral have risen considerably



# Australian long-run outlook for rates upgraded alongside the US



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# Forecast for growth in 2024 downgraded to 1.1%

