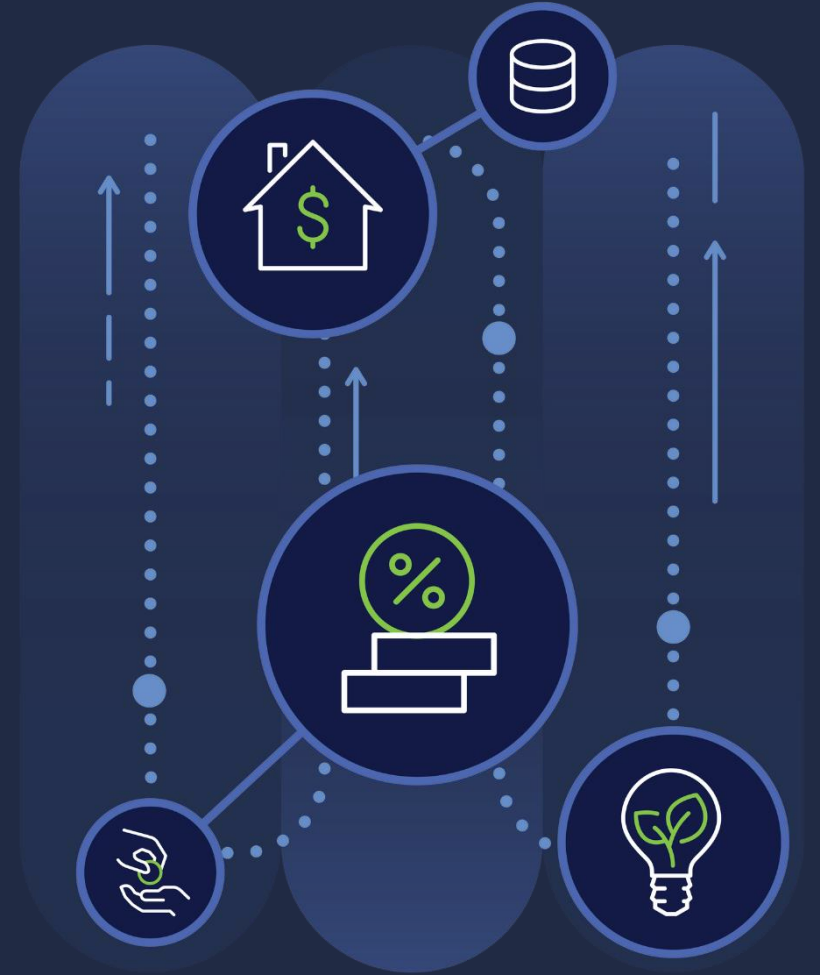


Economic Update

20 June 2024

Warren Hogan, Economic Advisor



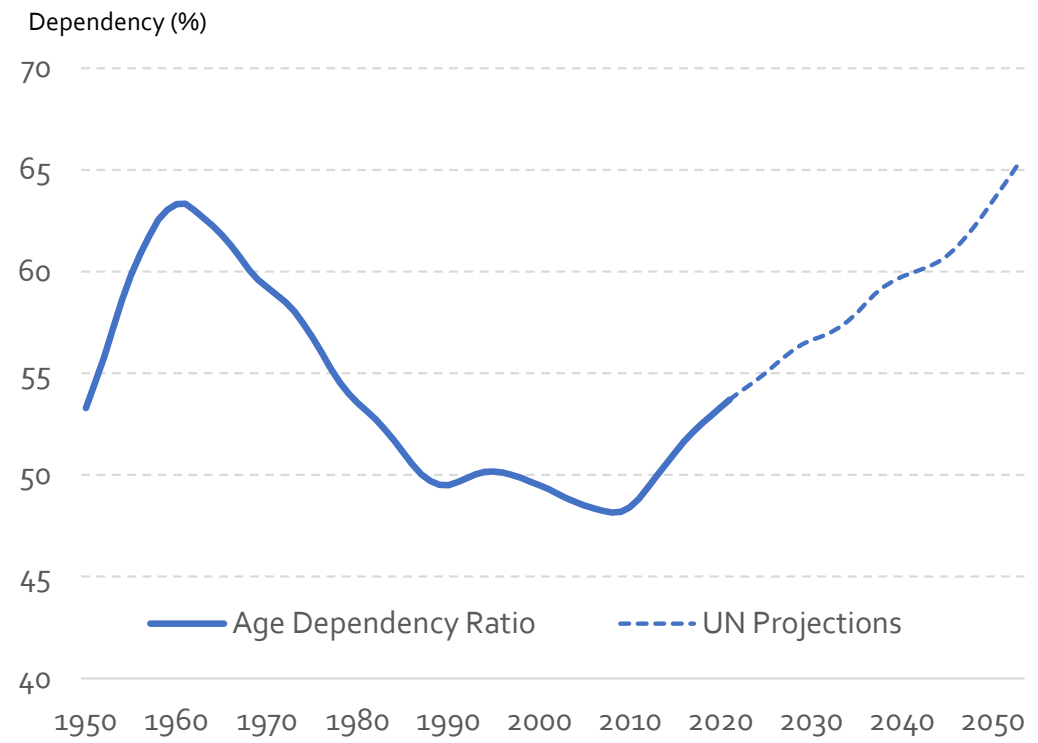
A very different economy.

Demographic change will drive a new economy.

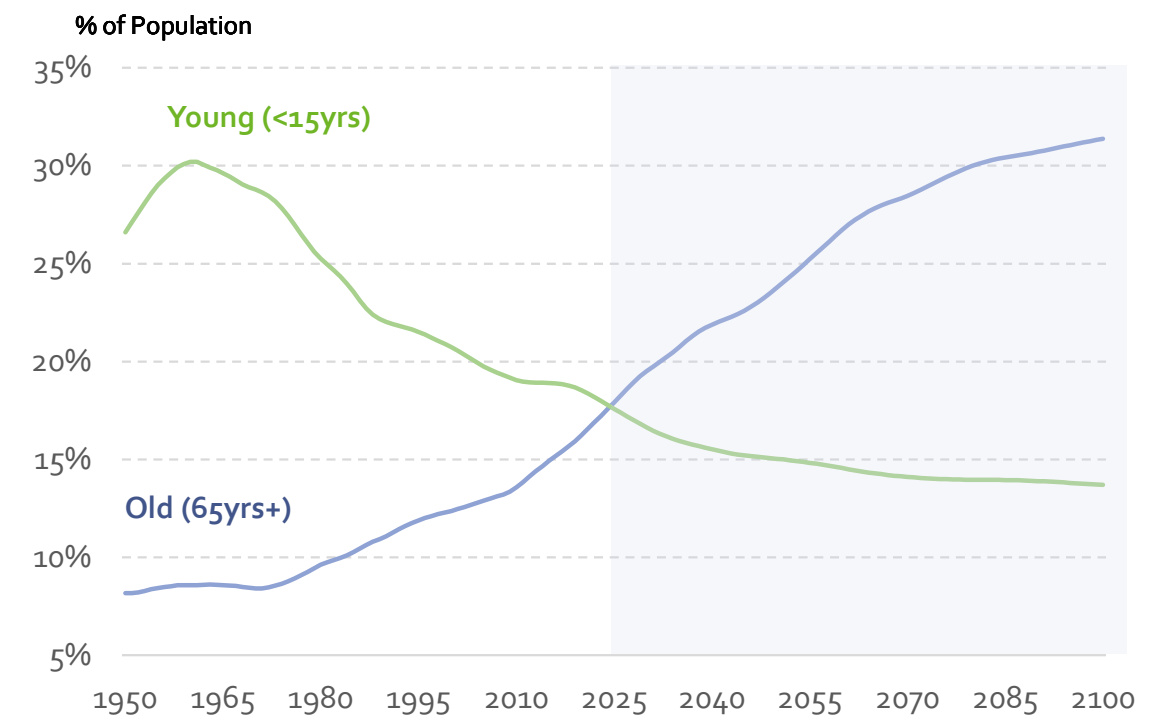
Rising dependency will reshape our economy

- We have passed through the turning point in a 50 year demographic (dependency) cycle which will transform our economy
- Unlike the elevated dependency ratio of the 1950s and 1960s, the current rising trend is driven by old age dependency

Australia's Dependency Ratio



Dependency Ratio: Australia (Old and Young)

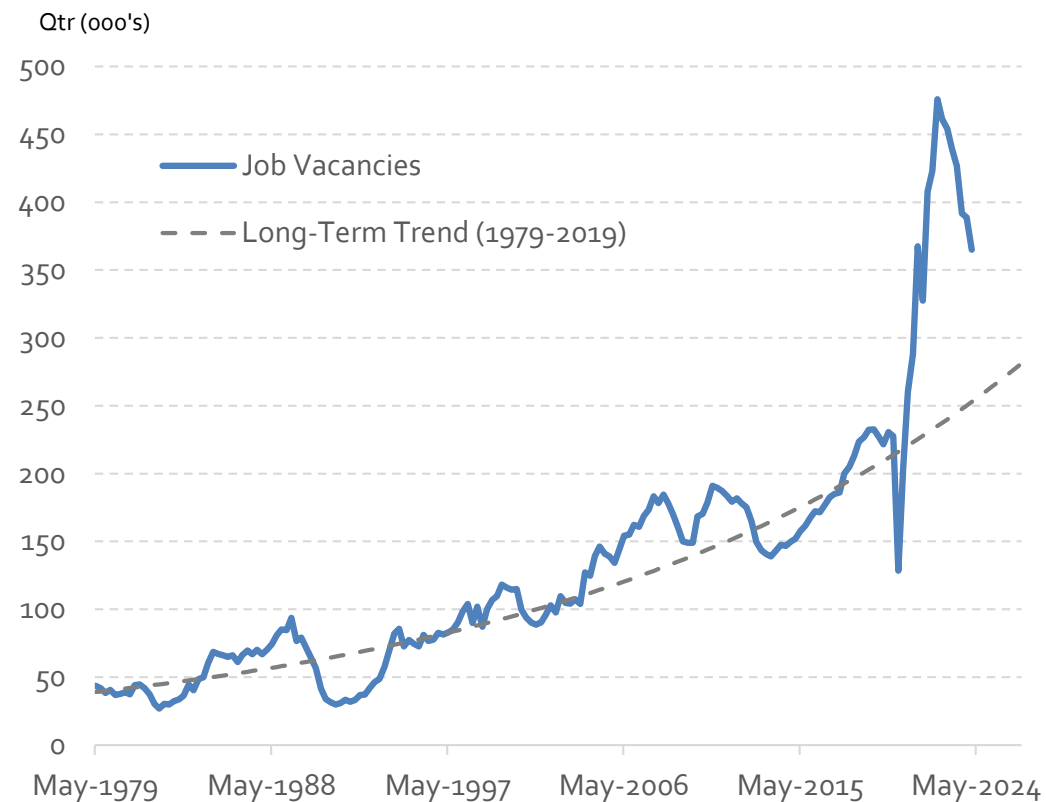


- Economic implications of rising dependency.

- Excess demand for labour will put upward pressure on real wages and inflation.
- Business can address labour shortages with two broad strategies:
 1. Accessing new pools of labour,
 2. Investing in labour saving technology.
- The turn in the demographic cycle (dependency) will shift the balance between saving and investment putting upward pressure on real interest rates.

Australian Job Vacancies

Labour shortages are already an acute problem in our economy

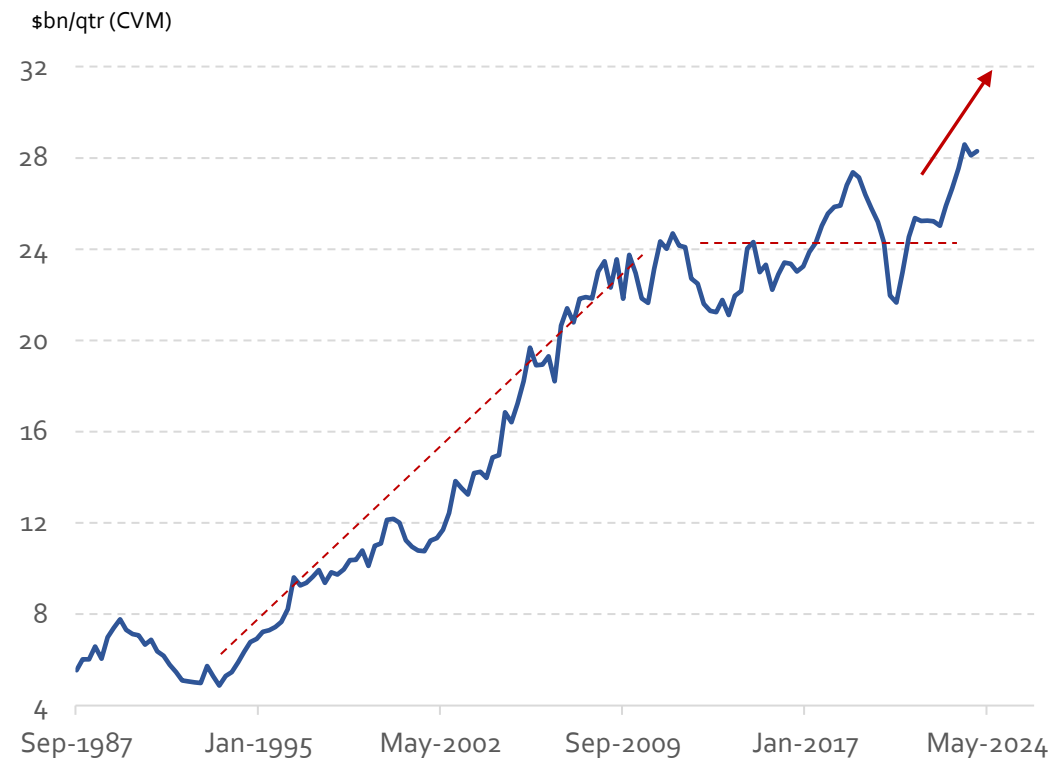


Source: ABS, EQ Economics

Supply Side Transformation.

- **A business investment led economy?** Labour shortages, rising insolvencies, the energy transition and new technology are all factors expected to drive a sustained lift in business investment.
- **Consumer consolidation:** The era of sustained household debt accumulation appears to have run its course in most advanced economies.
- **Rising business insolvencies:** Far from the economic disaster that a wave of business failures implies, removing 'zombie' companies from our economy will free up labour and create market space for stronger businesses which will then be more inclined to invest.
- **Deglobalisation:** or at least a pause in the process of globalisation will change investment flows and supply chains as international tensions introduce more uncertainty into a highly connected global economy.

Non-Mining Business Investment



Source: ABS, EQ Economics

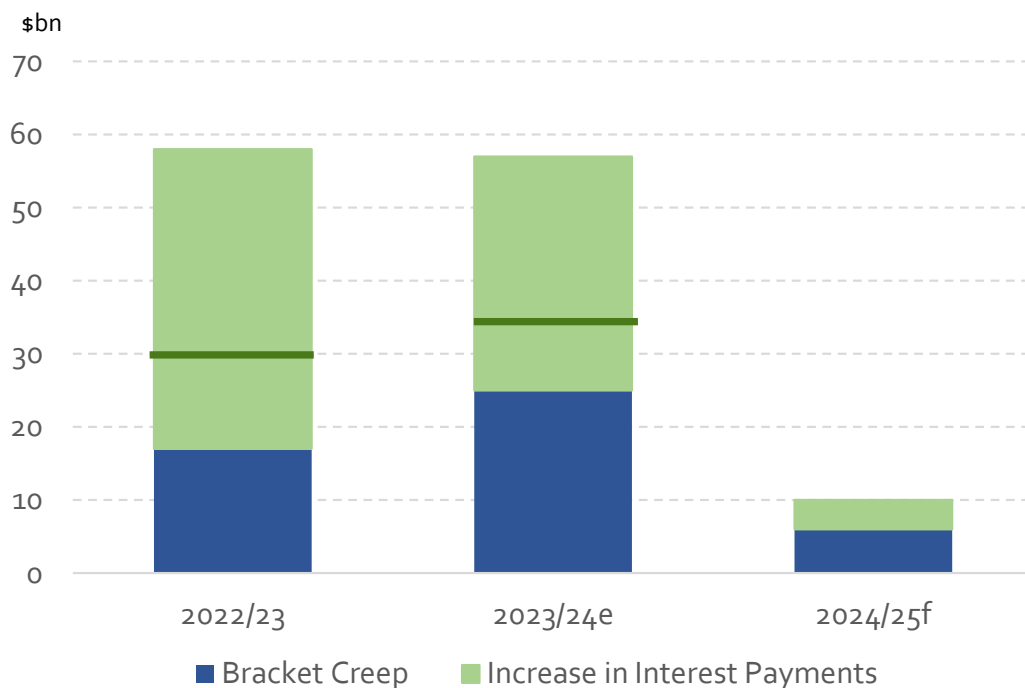
The Economic Outlook.

Will Australia remain on the 'narrow path'?

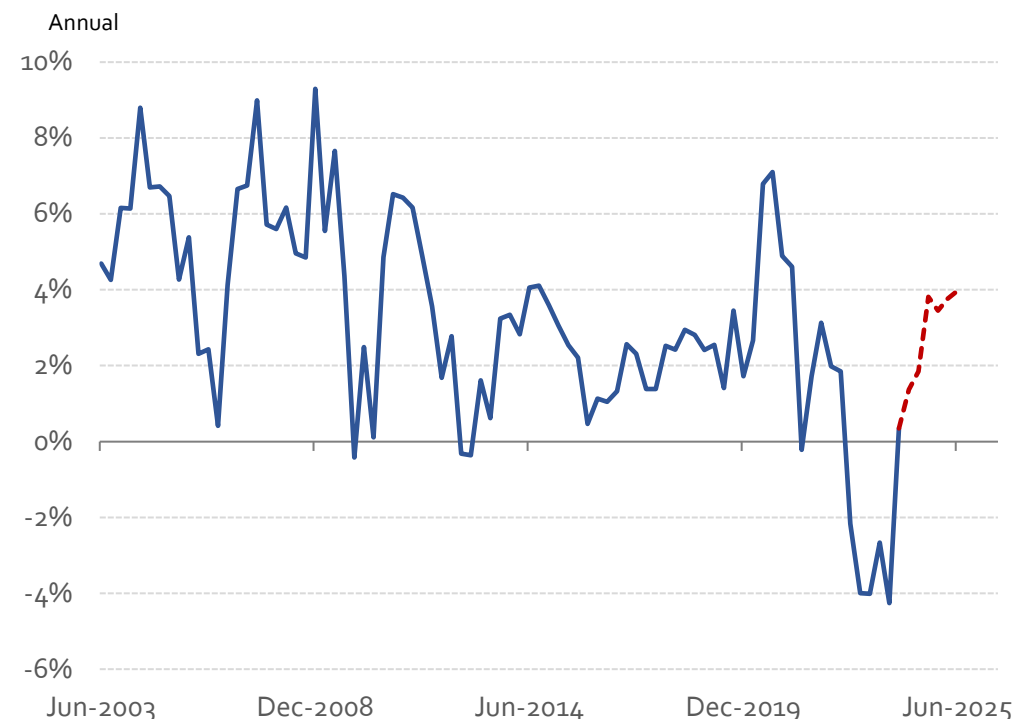
Household income growth is expected to recover in 2024/25

- The increase in mortgage interest payments and bracket creep have had a big impact on household incomes over the last two years
- Both these factors will ease back considerably (even without rate cuts) in the coming financial year

**Household Cashflow Impact:
Bracket Creep and Household Interest Payments**



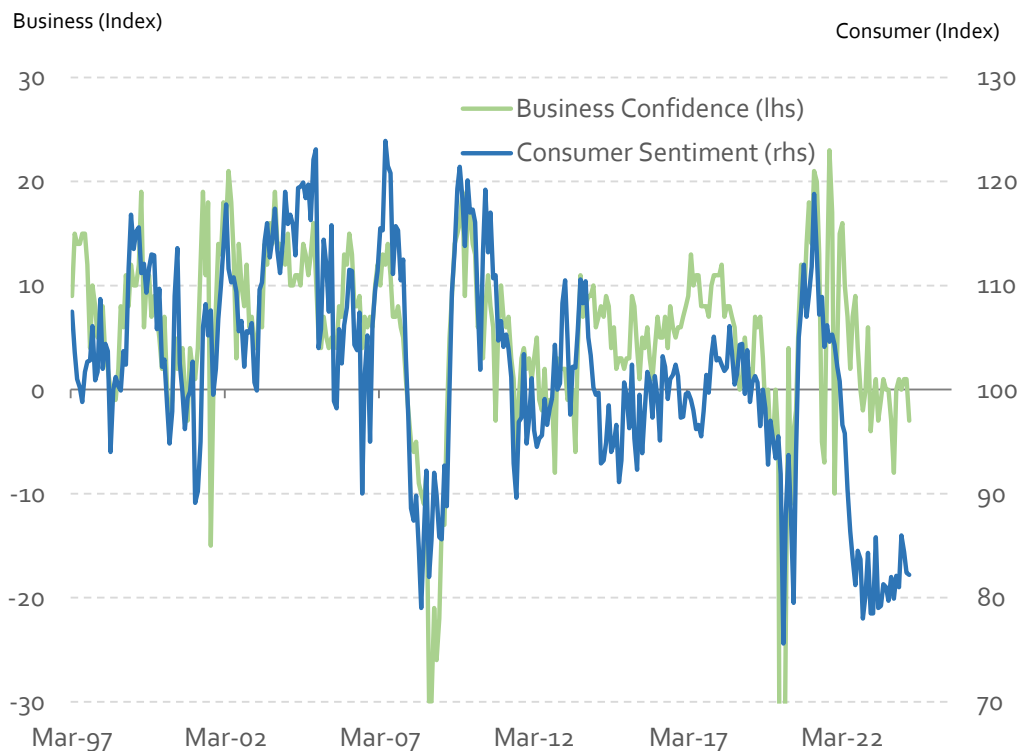
Household Real Disposable Income Growth



Business led economy?

- Business confidence is at 'neutral' levels, in stark contrast to consumer sentiment, which remains mired near recession levels
- Surveys point to another solid gain in non-mining business investment in 2024/25.

Business and Consumer Confidence



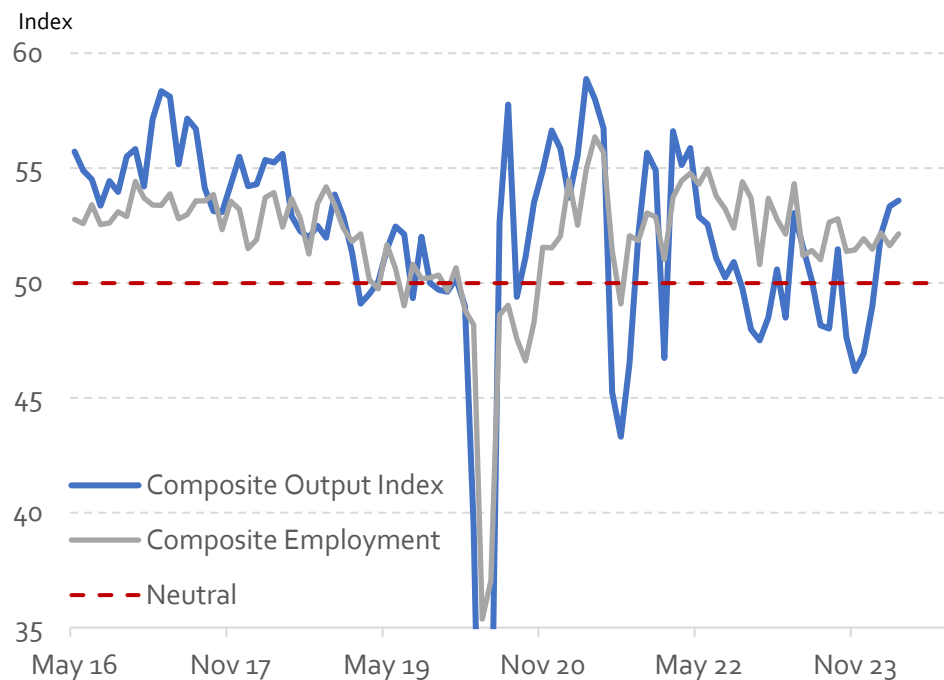
Non-Mining Business Investment (\$bn/qtr)



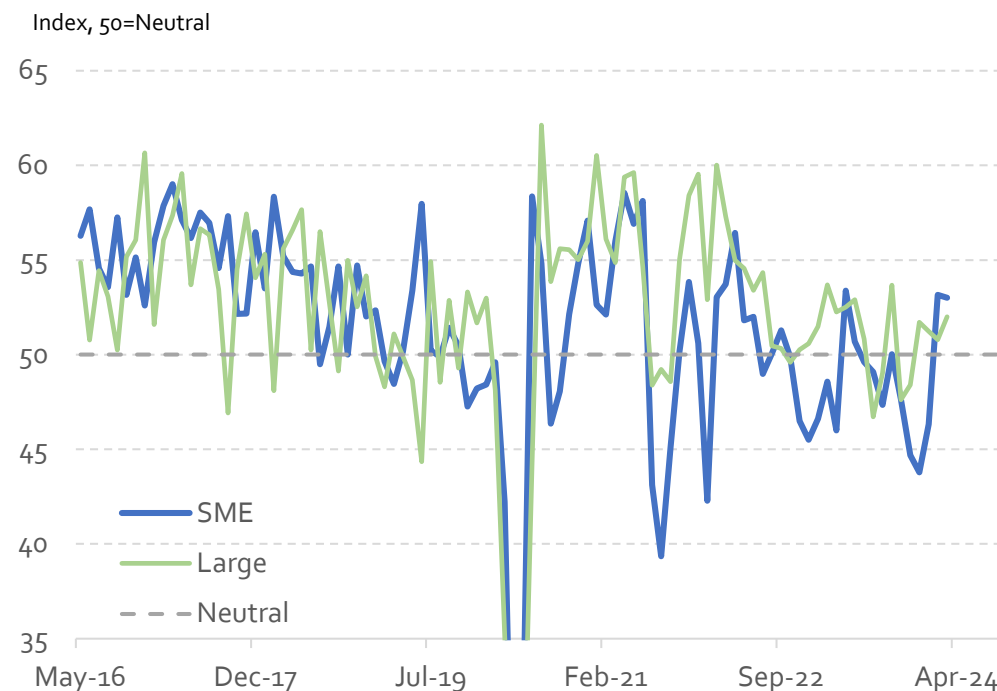
Business activity has moved higher in 2024

- The output index has increased five months in a row from a cyclical low point in November 2023 to a two year high in April 2024
- SME activity has led the way in 2024 after a difficult 2023.

Judo Bank PMI: Output and Employment



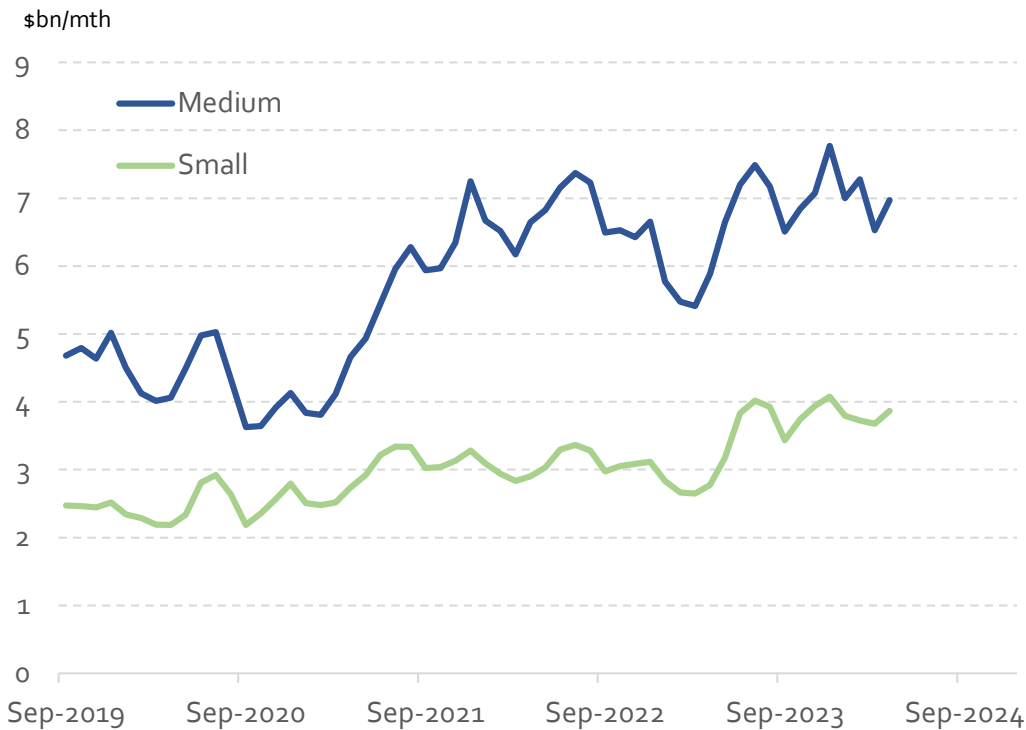
Judo Bank PMI Output: SME vs Large



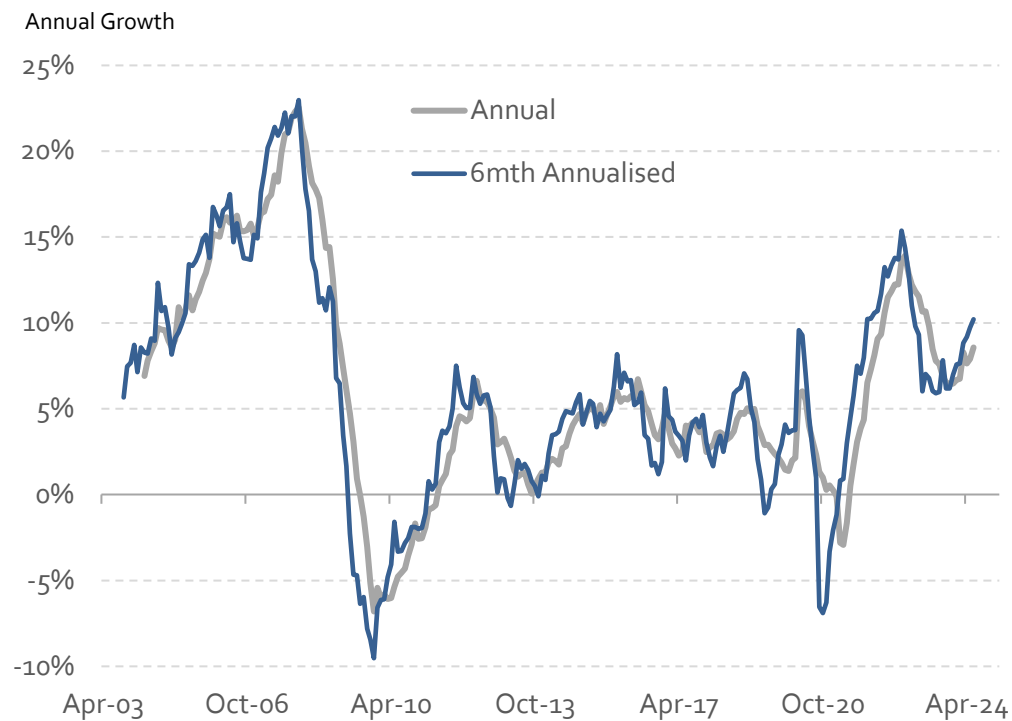
● Demand for credit picking up in 2024

- SME fixed term loan approvals stepped up last year and have been averaging over \$10bn a month in 2024
- Overall business credit growth has exceeded even the most bullish expectations from a year ago

SME Business Loan Approvals (\$bn/mth)



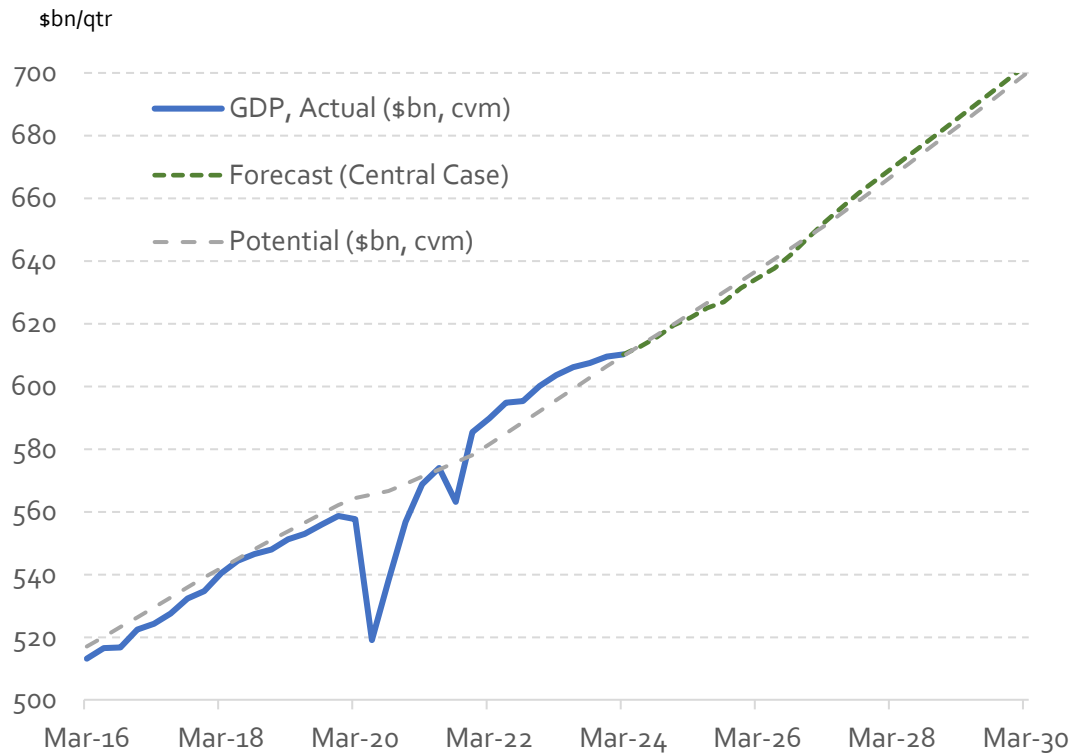
Business Credit Growth



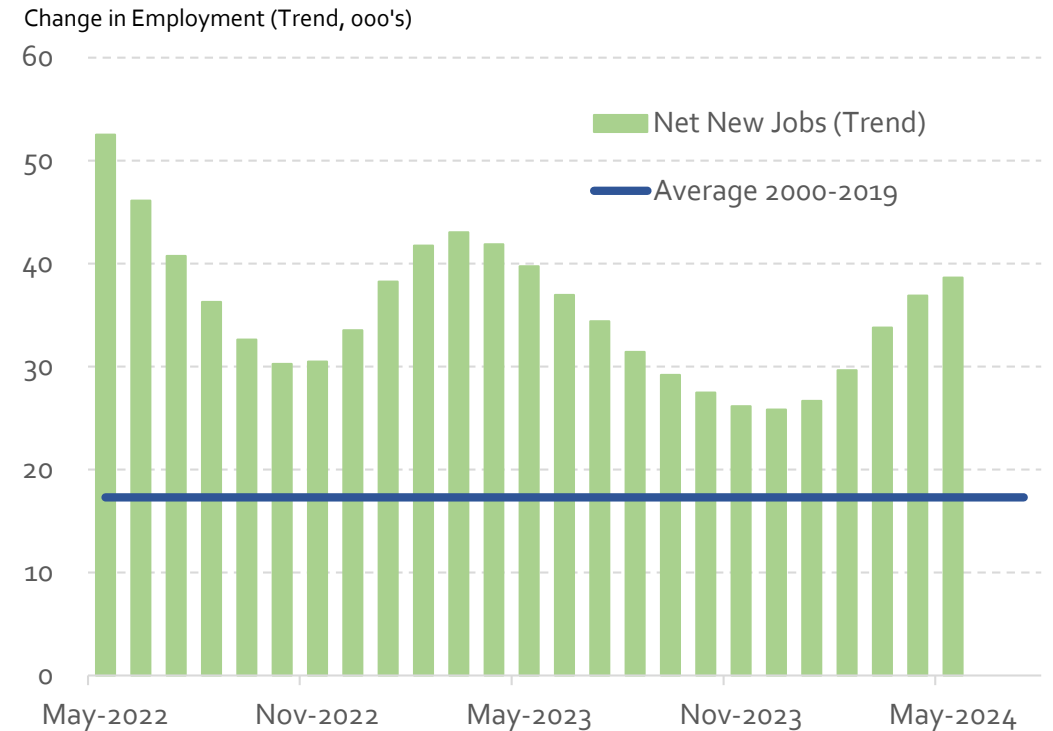
Australia's economy has been operating beyond its capacity

- The Q1 2024 GDP figures confirm that we remain on the RBA's 'narrow path' – a gradual rebalancing of demand and supply over an extended period
- Surging employment in 2024 suggests demand in the economy might be too strong.

Economic Output (GDP) vs Potential (Capacity)



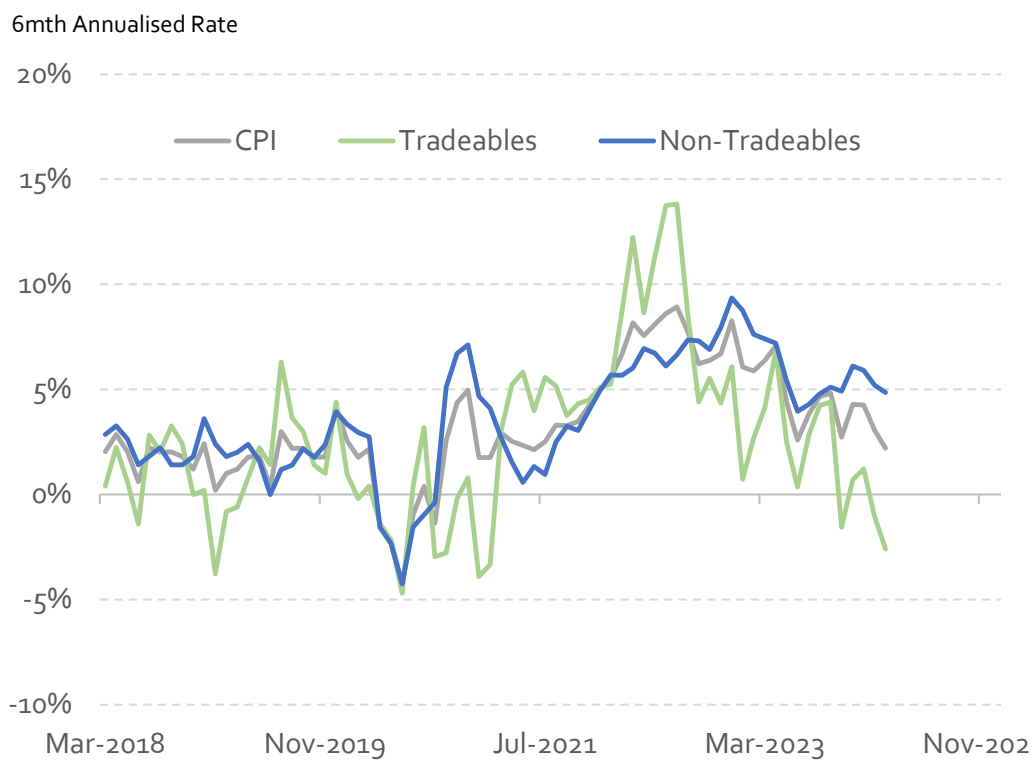
Employment Growth (Trend)



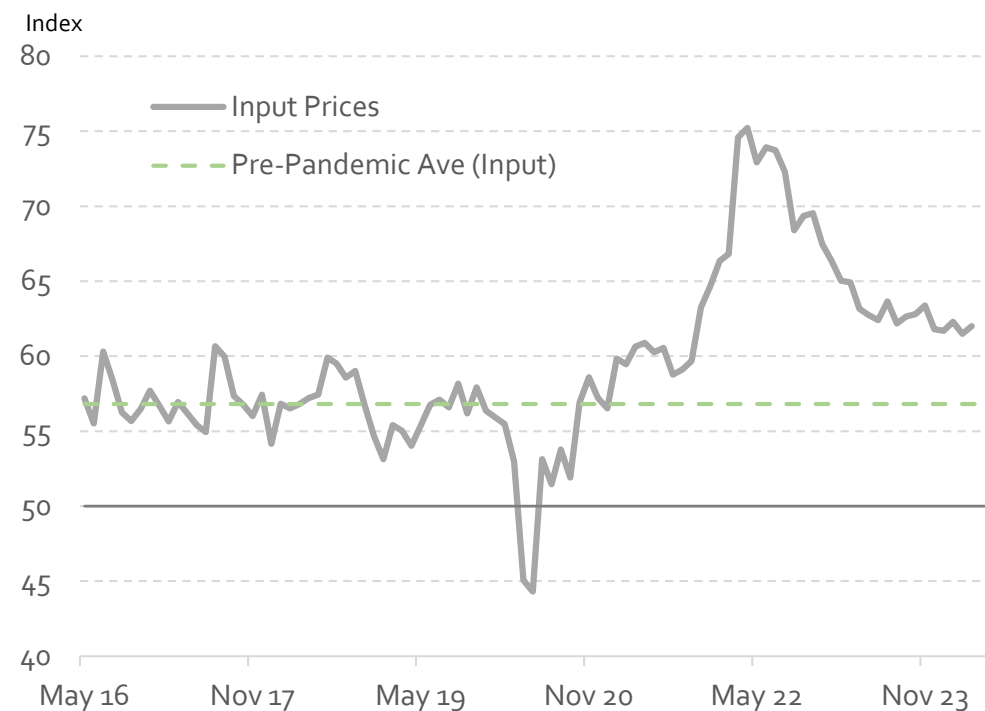
• Inflation pressures are not easing in 2024

- Global goods price disinflation has been the main driver of lower inflation in Australia over the last six months
- Domestic inflation indicators have come down but remain above 4% (annualised) over the second half of 2023 – business cost pressures are elevated

Domestic vs Global Inflation



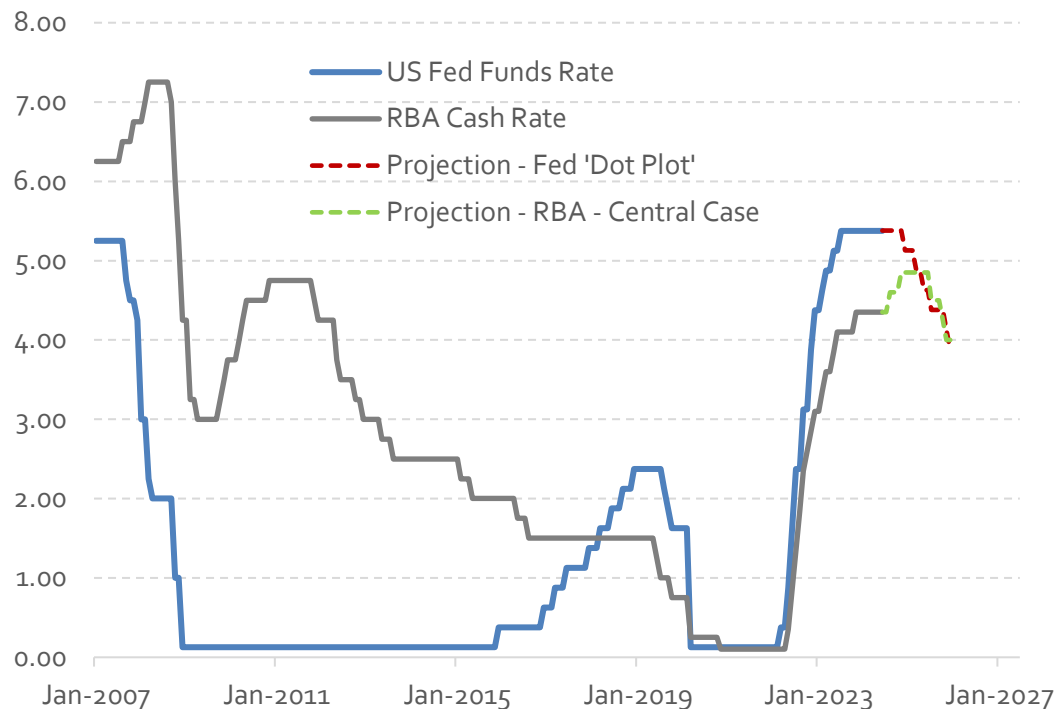
Judo Bank PMI Input Prices



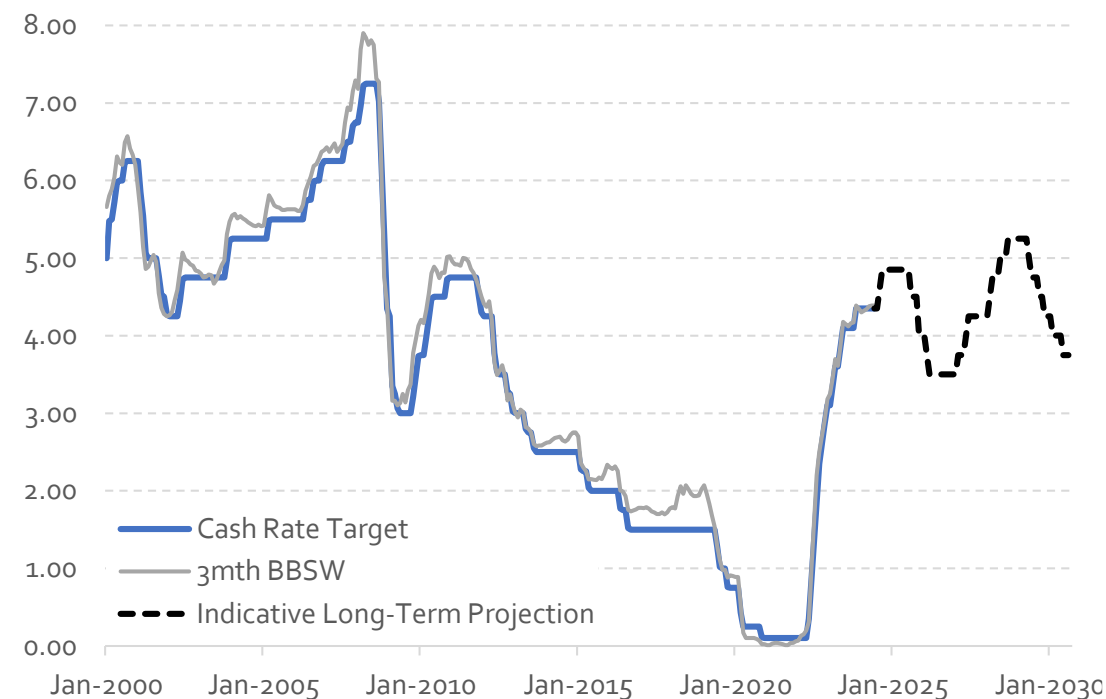
Markets expect the next move to be a rate cut

- Despite RBA concerns financial markets continue to price in a rate cut as the next move from the RBA
- The higher-for-longer interest rate theme continues to play out - interest rates are expected to cycle around the current level of the cash rate

Interest Rate Outlook



Long-Term Interest Rate Projection





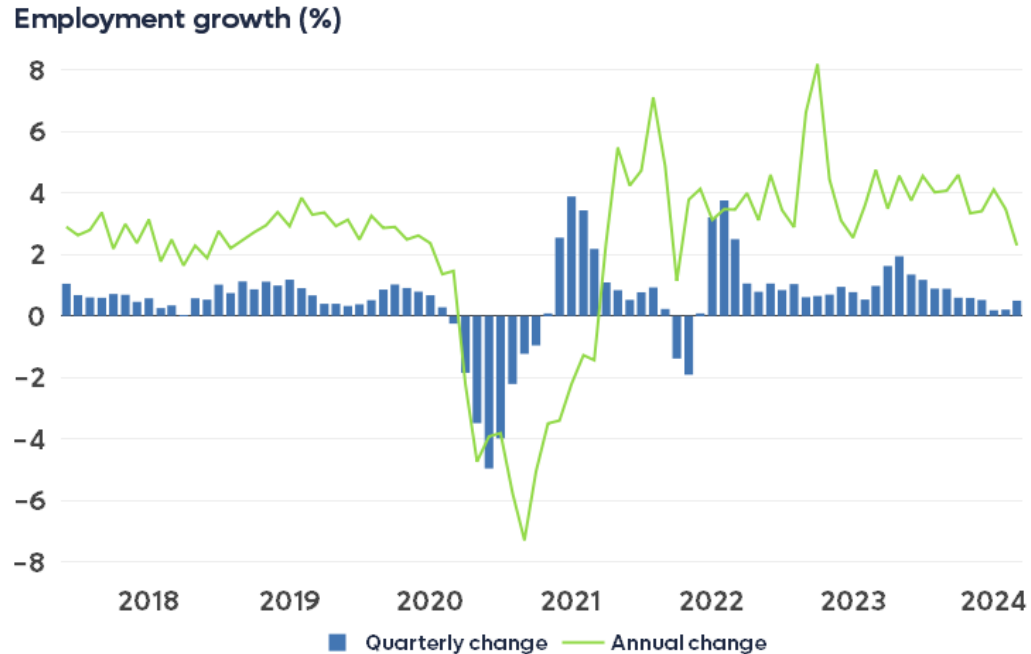
Victoria.

Positive activity signs heading into 2024,
but debt woes remain.

Labour demand easing more rapidly than other states.

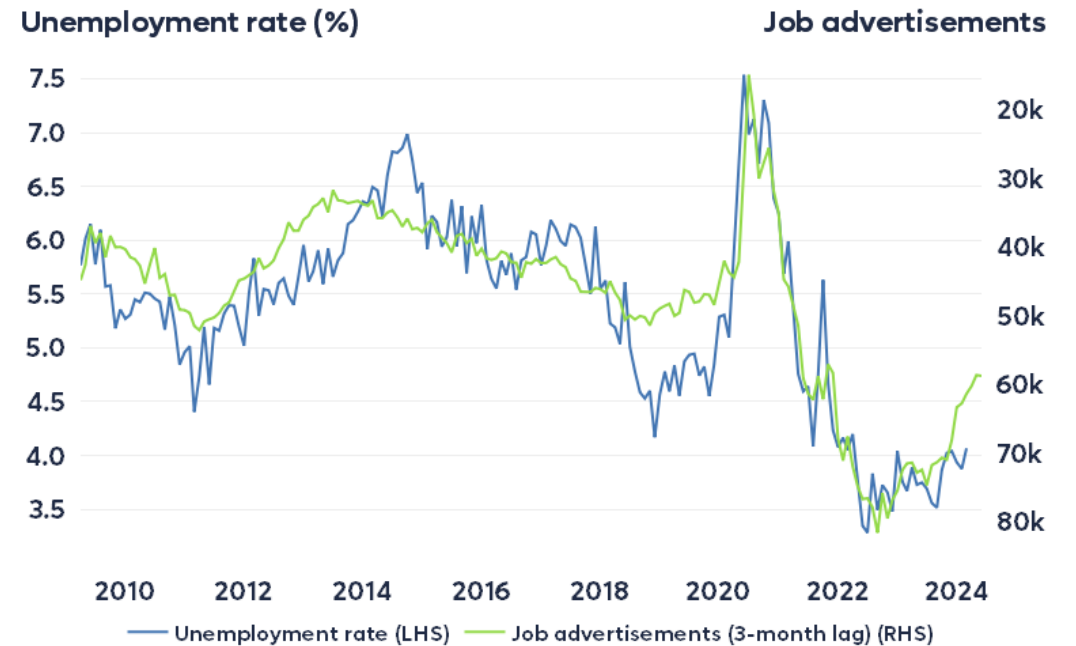
- The more significant slowdown in consumer activity has seen the demand for labour ease more significantly in Vic than other states
- Despite easing, certain areas of the labour market (healthcare, education) remain tight, showing little signs of easing.

VIC employment growth – annual and rolling quarterly



Source: ABS 6202.0, Judo Bank

VIC job advertisements vs. unemployment rate

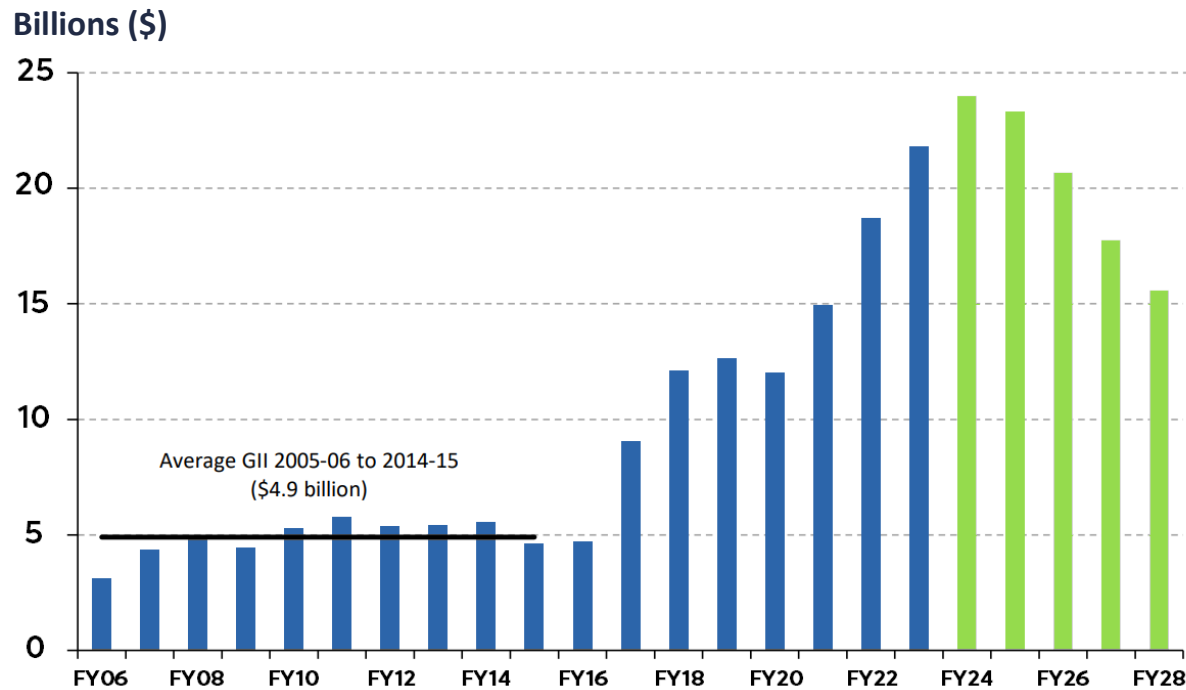


Source: ABS 6202.0, Jobs & Skills Australia (3/24), Judo Bank

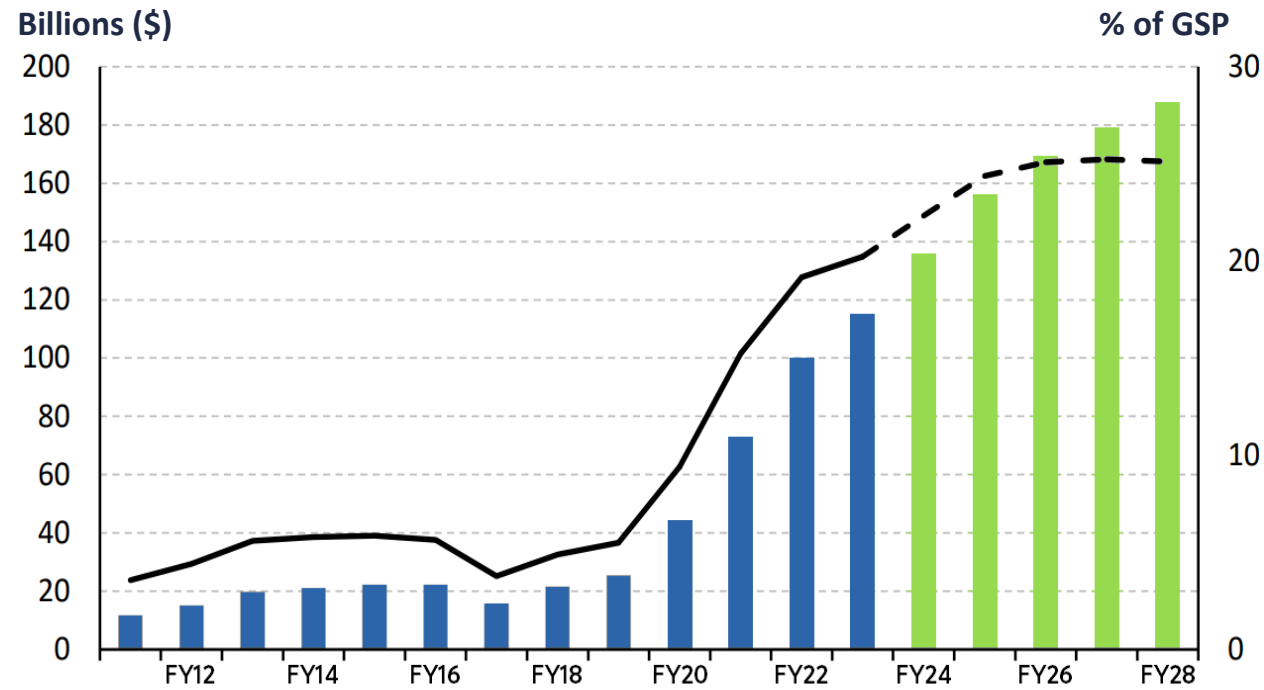
Budget fails to address the size of public debt in VIC.

- Despite indefinite delays for promised projects, Victoria’s public planned infrastructure investment remains well above pre-pandemic levels.
- The Victorian governments debt situation is the weakest of any government in Australia

Vic Government annual infrastructure investment



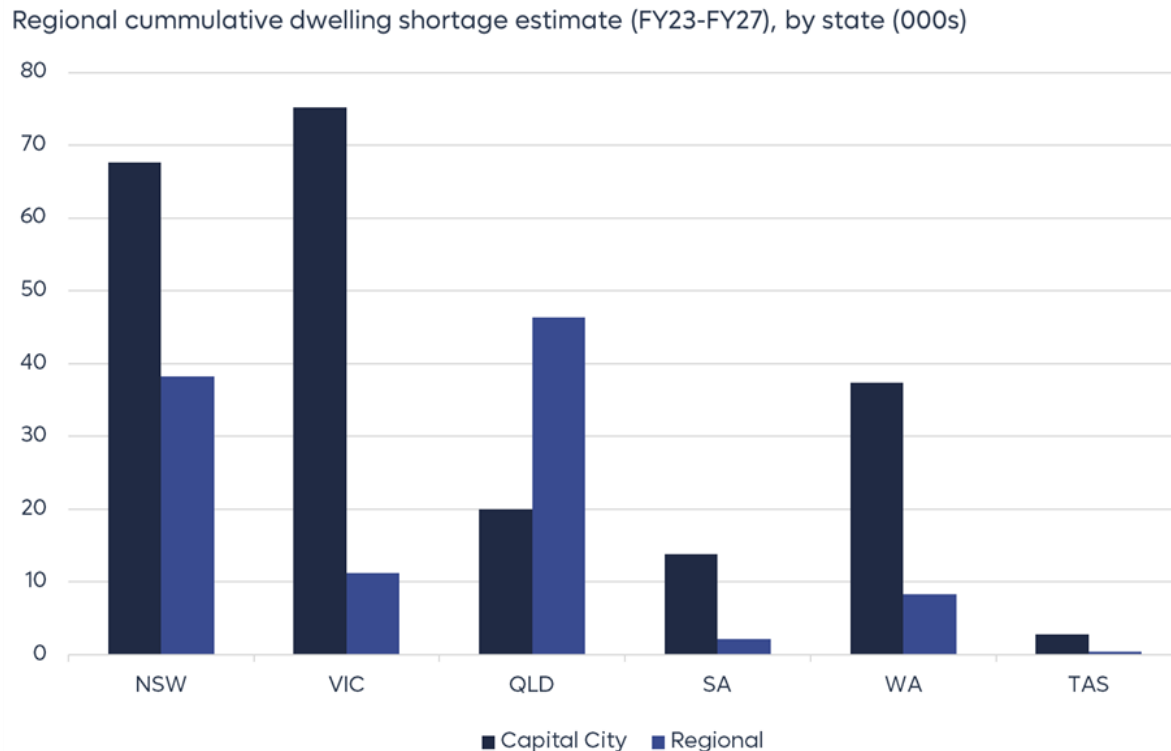
Net Debt as a % of Victorian Gross State Product



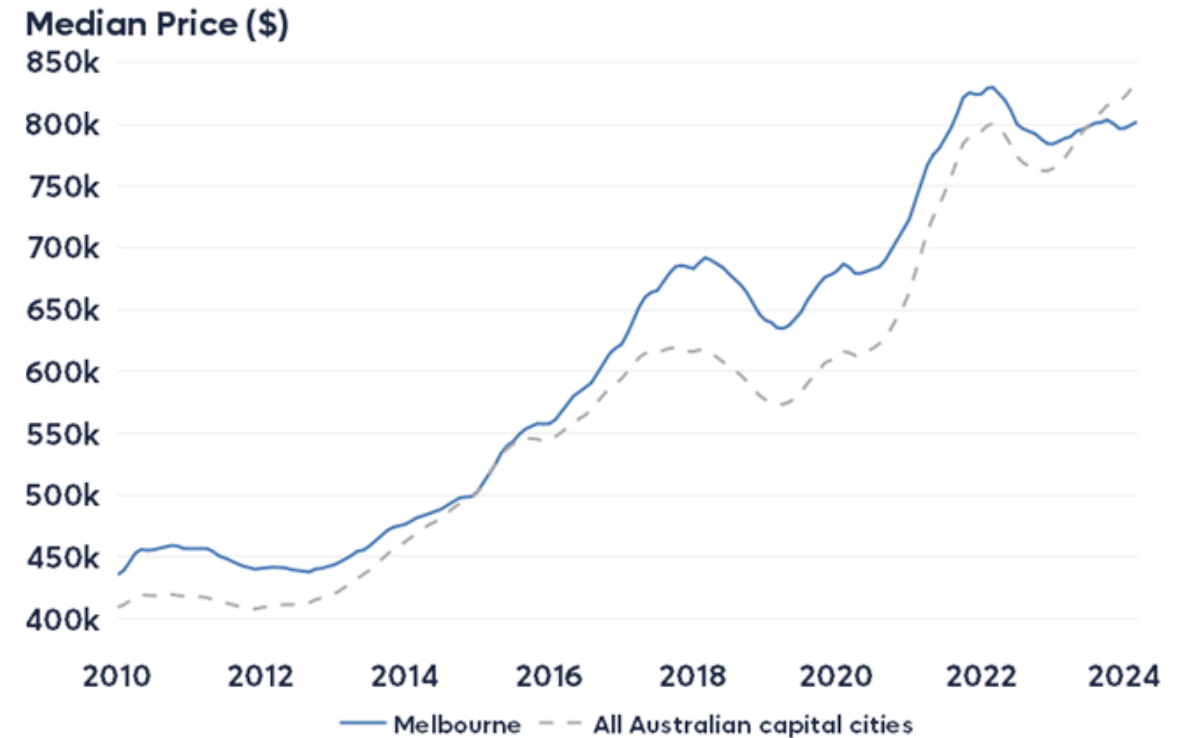
Dwelling crisis to persist through 2024-25.

- Melbourne rent prices have been climbing in early 2024, outpacing the rest of the nation through Q1 (5.3% vs. 2.7%)
- While the rental market is spurred on by high levels of migration, supply side issues remain as investors look elsewhere

Estimated dwelling shortage by state and region



Residential Property Prices



Source: REA Proptrack, Judo Bank