

The State of the Nation

Where are we and where are we going?

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Surfers Paradise: July / August 2019

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Market Economics

Where are we? And what went wrong?

- **Economic growth:**
 - stuck at 1.75 to 2.25% - IT SHOULD BE 3%
- **Inflation:**
 - stuck at 1.5 to 2% - IT SHOULD BE 2 to 3%
- **Unemployment rate:**
 - stuck at 5 to 5.5% - IT SHOULD BE 4%
- **Underemployment rate:**
 - stuck at 8 to 8.5% - IT SHOULD BE 6%

The global economy is slowing – it is a worry?

- In the decade since the GFC, global economic growth (and Australia's major trading partner growth) has been strong
- Current forecasts for 2020 remain solid, albeit off the recent peak



* Weighted using Australian export shares

** PPP-weighted; accounts for 85 per cent of world GDP

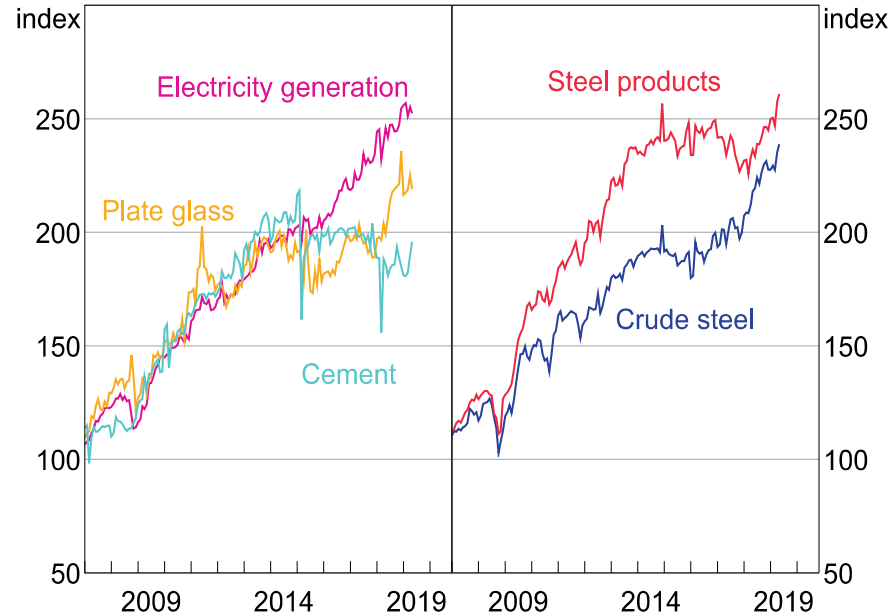
Sources: ABS; CEIC Data; IMF; RBA; Refinitiv

What is happening in China?

- The Chinese economy is slowing, but key output indicators are generally positive
- The authorities are easing policy to put a floor under the slowdown
- This is good news for commodity prices & Australia to have its major export market continuing to expand

China – Gross Output of Selected Products*

2006 average = 100

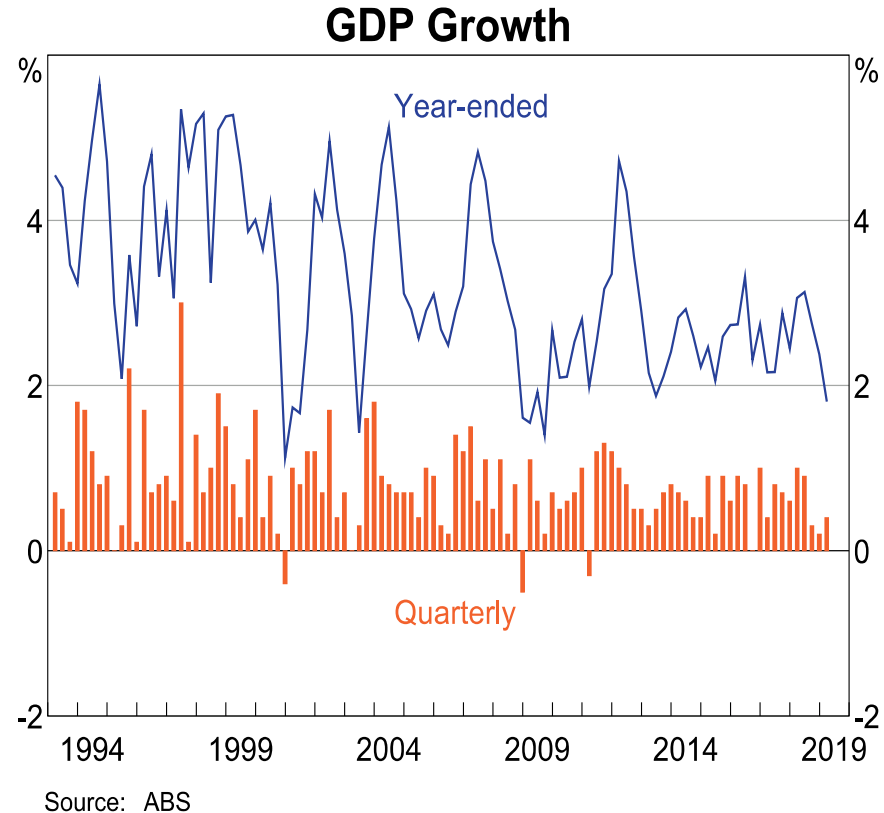


* Seasonally adjusted by RBA

Sources: CEIC Data; RBA

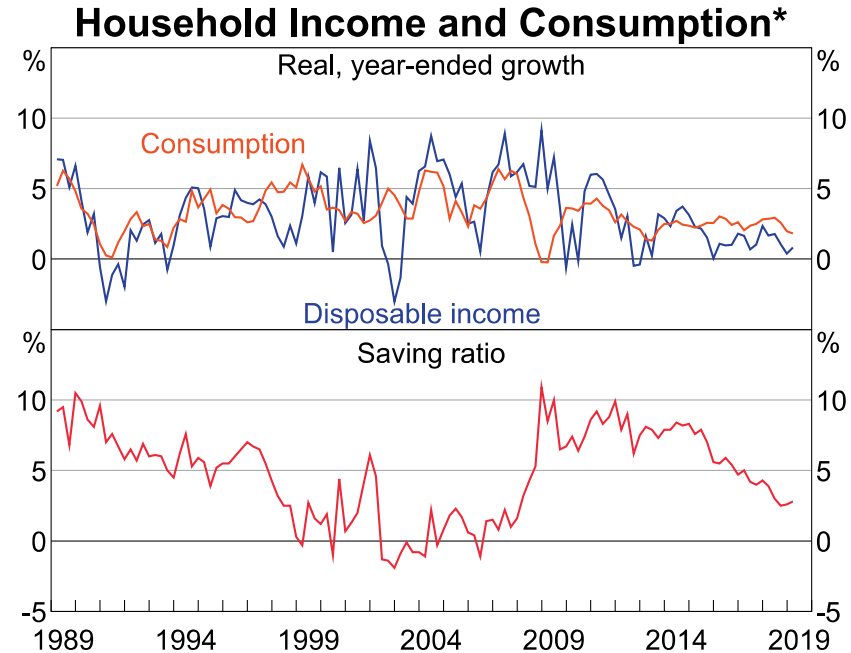
In Australia: The big picture not so pretty

- GDP growth has slumped:
Currently 1.8% on track to 1.5% before a probable 2020 recovery
- Current conditions are driving an unpleasant mix of falling inflation & rising unemployment
- Recall – GDP growth should be 3% for the economy to be fully employed



Consumer demand will remain sluggish

- Household spending growth is weak & is being held back by slow income growth, low savings, high debt and falling wealth
- The most vital issue for a recovery is higher wages & incomes growth

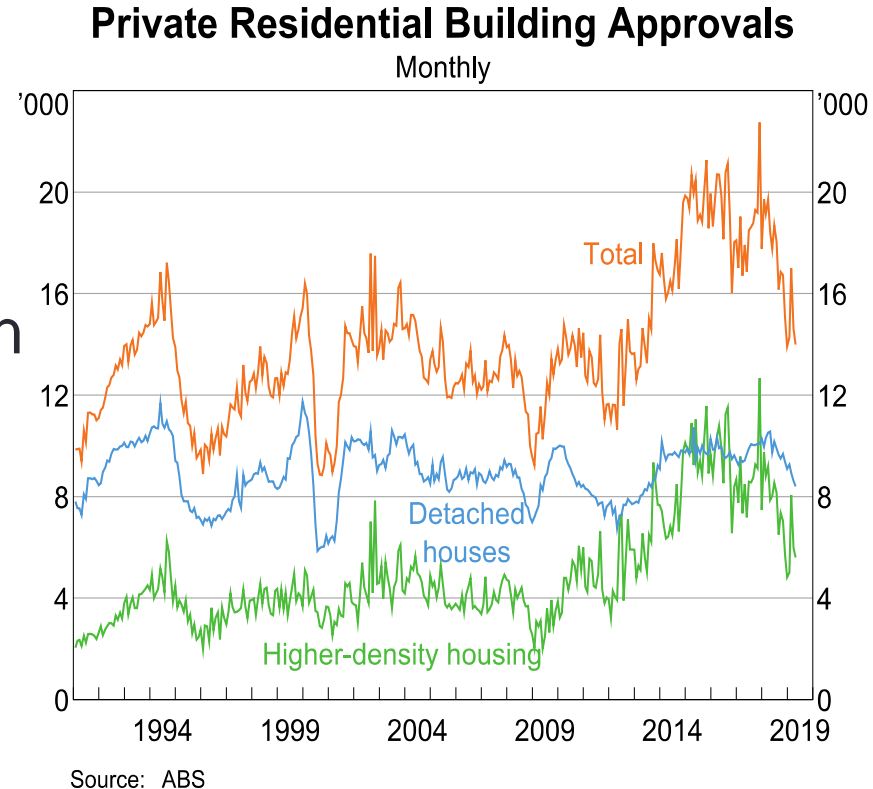


* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; saving ratio is net of depreciation

Sources: ABS; RBA

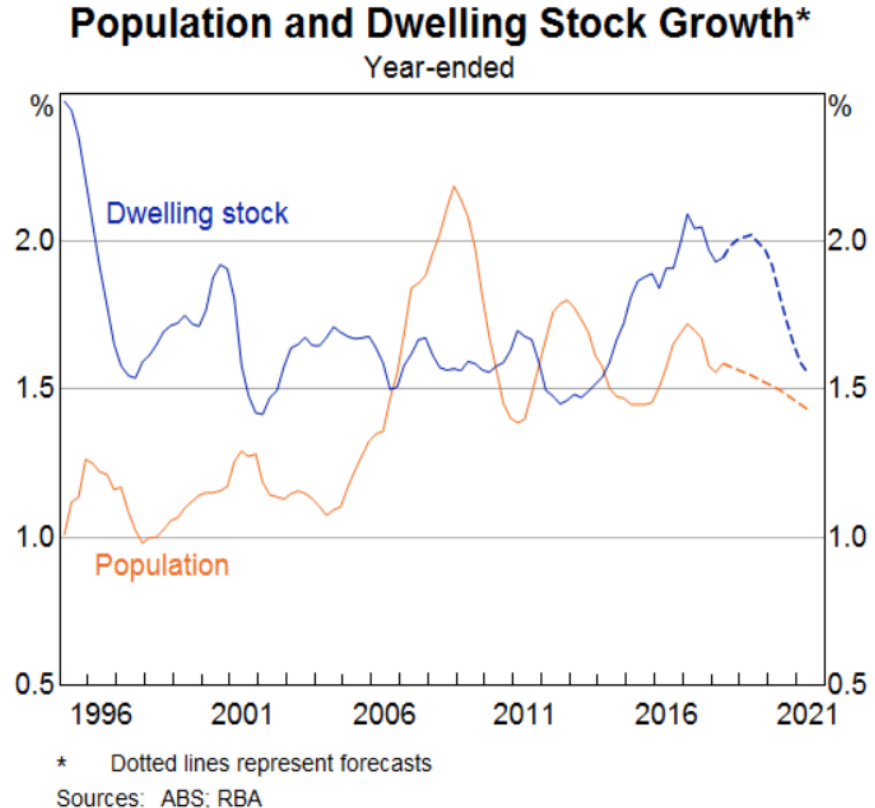
Dwelling investment has slumped

- After the 2014-17 boom in new dwelling construction, approvals have slumped
- The boom saw record construction levels in high-density housing which lead to an oversupply
- The fall will end in 2020 – positive demographics & favourable affordability will rekindle demand



Housing supply & demand

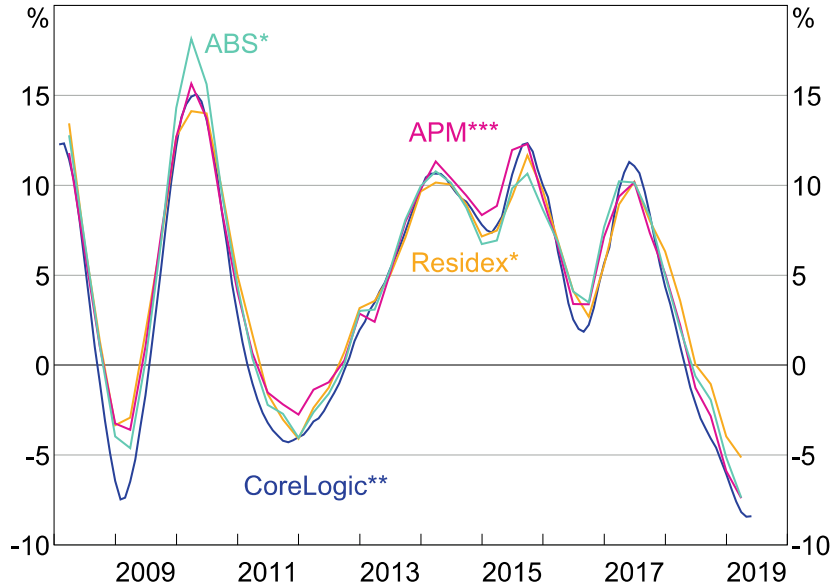
- Supply & demand determine growth in house prices
- In recent years, there has been a construction boom well above population growth & prices have fallen
- The outlook point to supply coming back to meet demand



Wealth “destruction” is not too serious

Housing Prices

Year-ended growth, seasonally adjusted



* ABS is a quarterly stratified median price index; Residex is a quarterly repeat sales price index

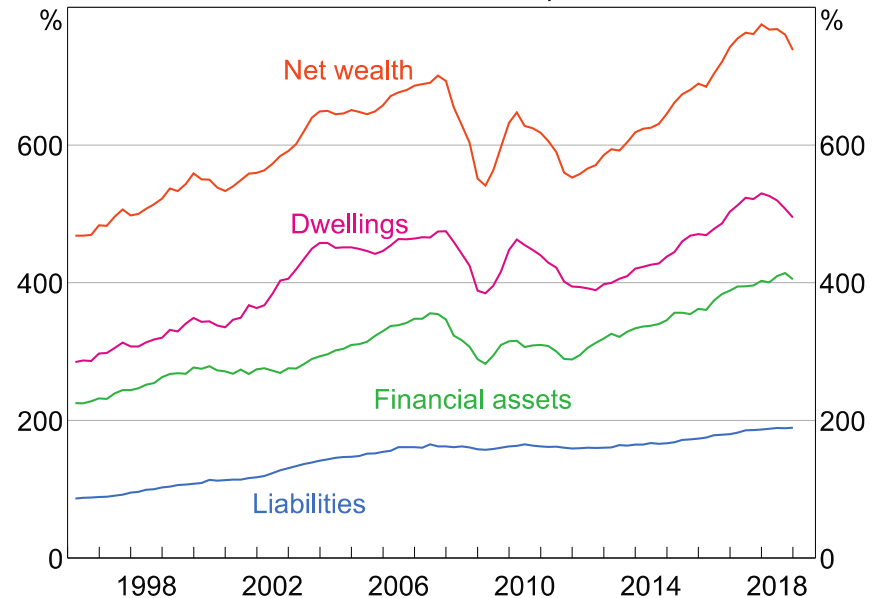
** Monthly hedonic price index; non-seasonally adjusted

*** Quarterly stratified median price index

Sources: ABS; APM; CoreLogic; RBA; Residex

Household Wealth and Liabilities*

Per cent of annual household disposable income

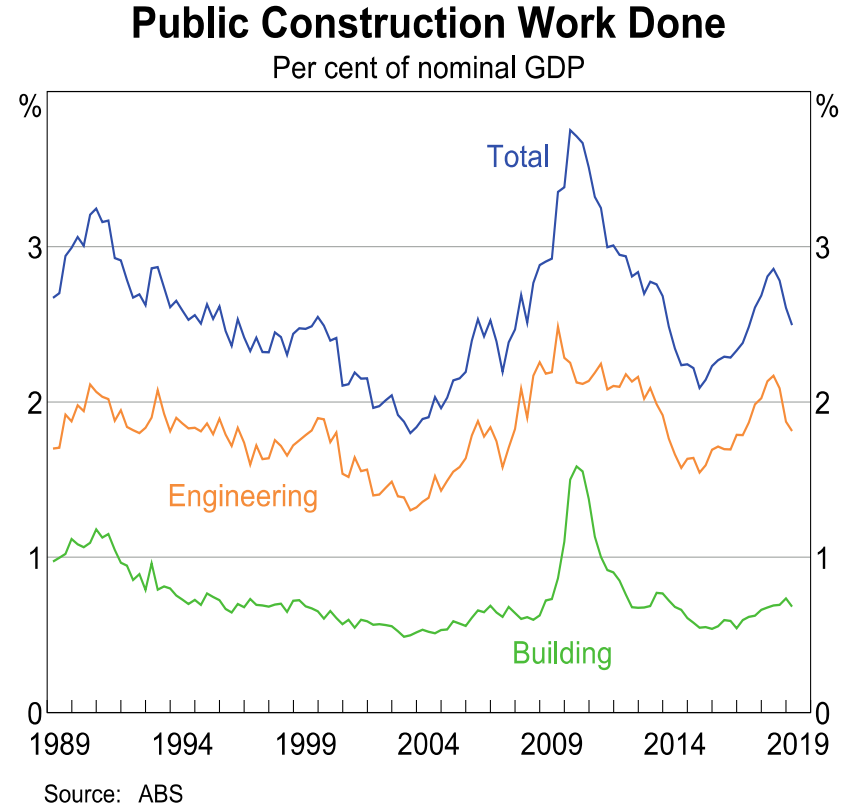


* Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises

Sources: ABS; RBA

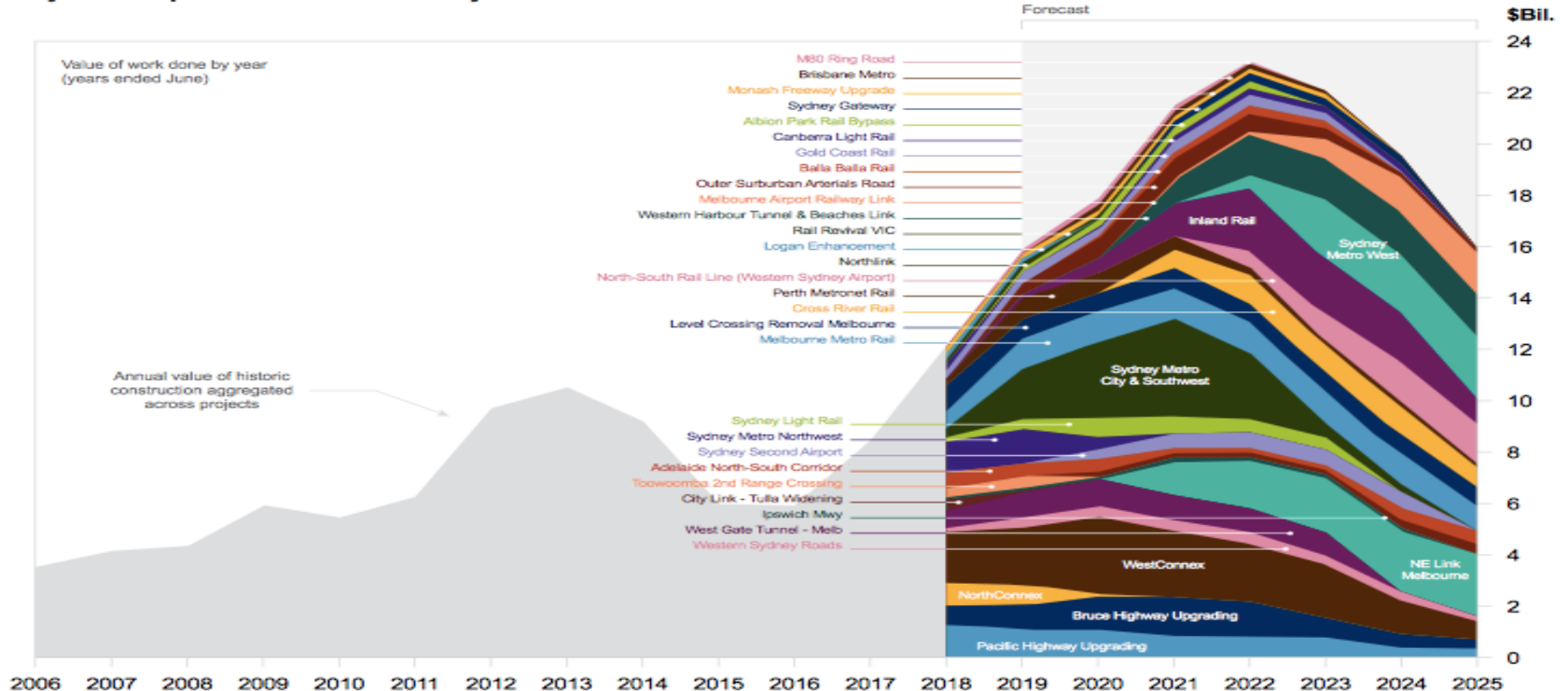
Government infrastructure spending is weakening

- An area of clear strength in the economy was public infrastructure spending
- As projects are completed, overall activity is turning lower
- There needs to be a lift in new projects for there to be a positive contribution to the economy in 2020 & beyond



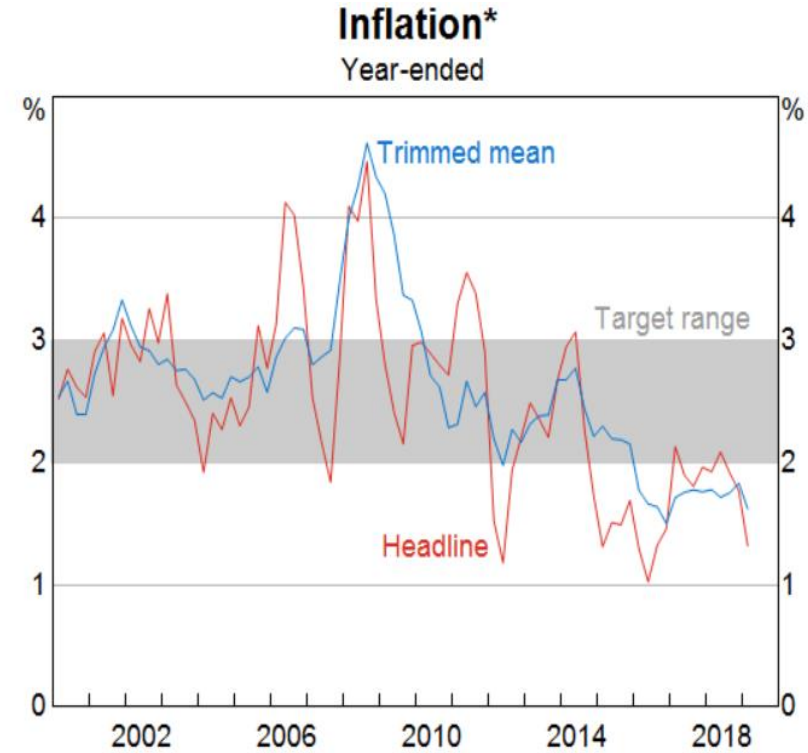
Pipeline of new infrastructure remains solid

Major Transport Infrastructure Projects - Australia



The RBA keeps on missing its inflation target

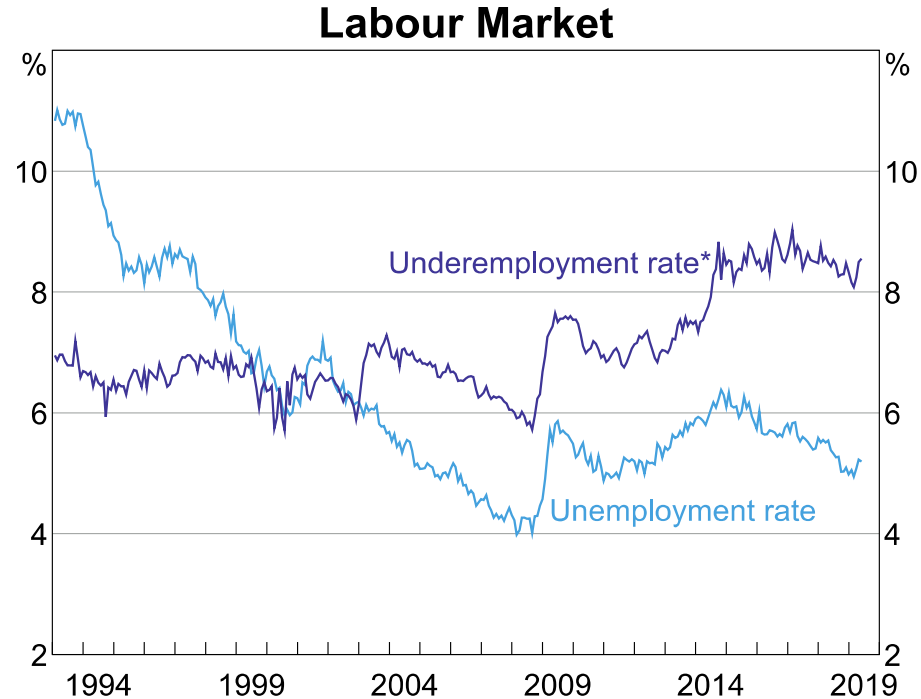
- A weak economy means uncomfortably low inflation which has been below the bottom of RBA 2-3% target range for over 3 years
- Low inflation remains the simple reason why interest rates are low both in Australia & globally



* Excludes indirect deposit & loan facilities; adjusted for the tax changes of 1999–2000

The labour market is soft

- “Labour underutilisation” is the current catch-cry for the economy
- The level of both unemployment & underemployment are rising & are at elevated levels
- While ever there are a lot of people seeking more work, wages growth & hence inflation will remain weak



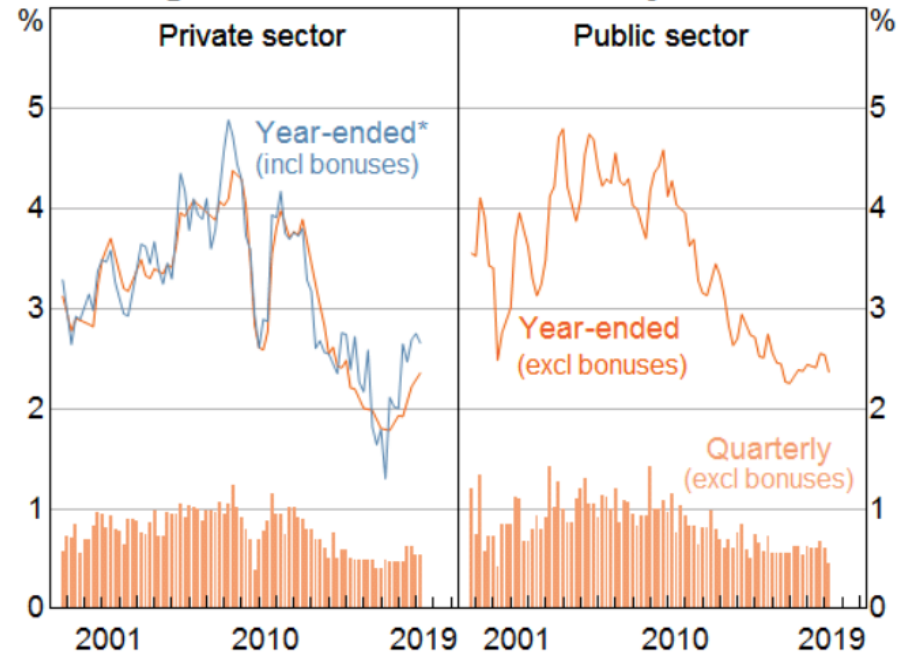
* Full-time workers on reduced hours for economic reasons and part-time workers who would like, and are available, to work more hours

Source: ABS

Wages growth edging up

- High underutilisation in the labour market means soft wages growth
- There has been a mild pick up in the past year, but at 2.3%, wages growth wont provide consumers with extra purchasing power
- It also means inflation will not pick up any time soon

Wage Price Index Growth by Sector

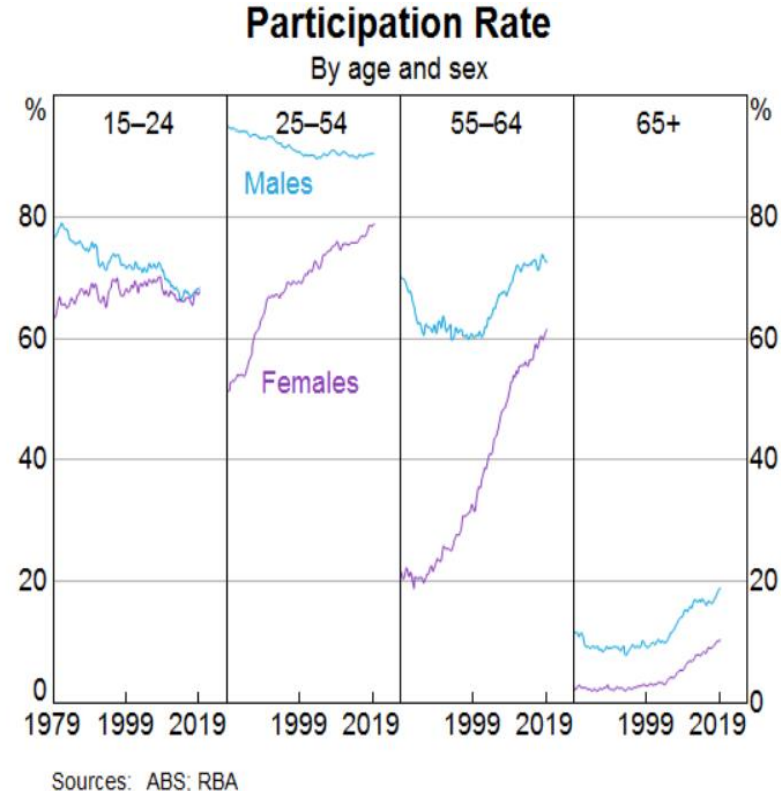


* Not seasonally adjusted; bonuses include commissions

Source: ABS

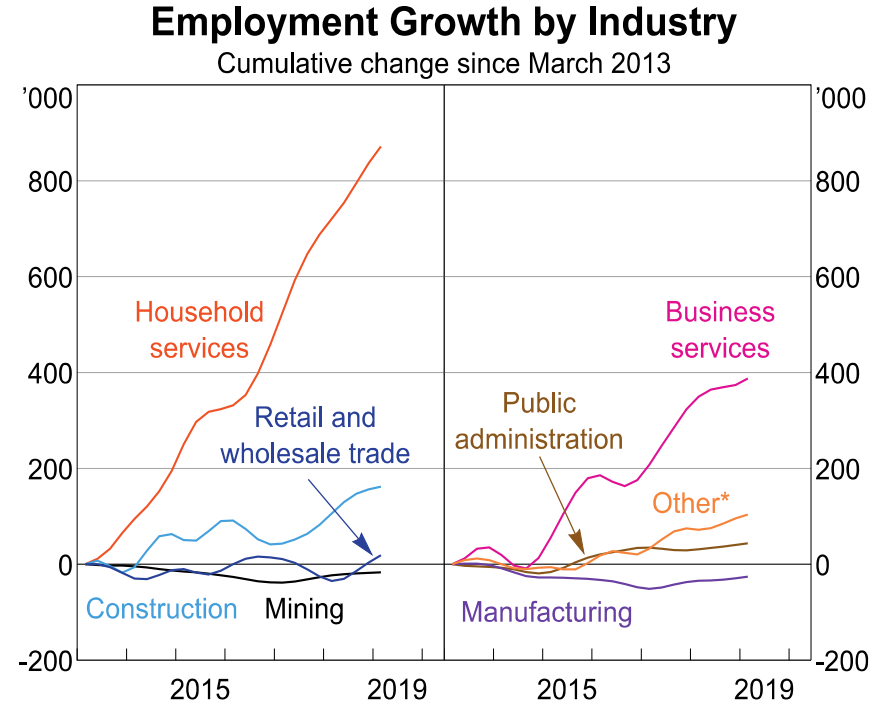
More older people are in the workforce

- There's been a massive structural shift in workforce participation underway over the past 40 years
- Female participation has been growing markedly
- Older people are staying in paid employment in record numbers
- Expect these trends to continue



Where have the jobs come from?

- Household services have dominated jobs growth over the past decade: Carers in health, NDIS, education
- Business services – bankers, lawyers, real estate - and construction have been solid
- Other sectors have seen little change in employment

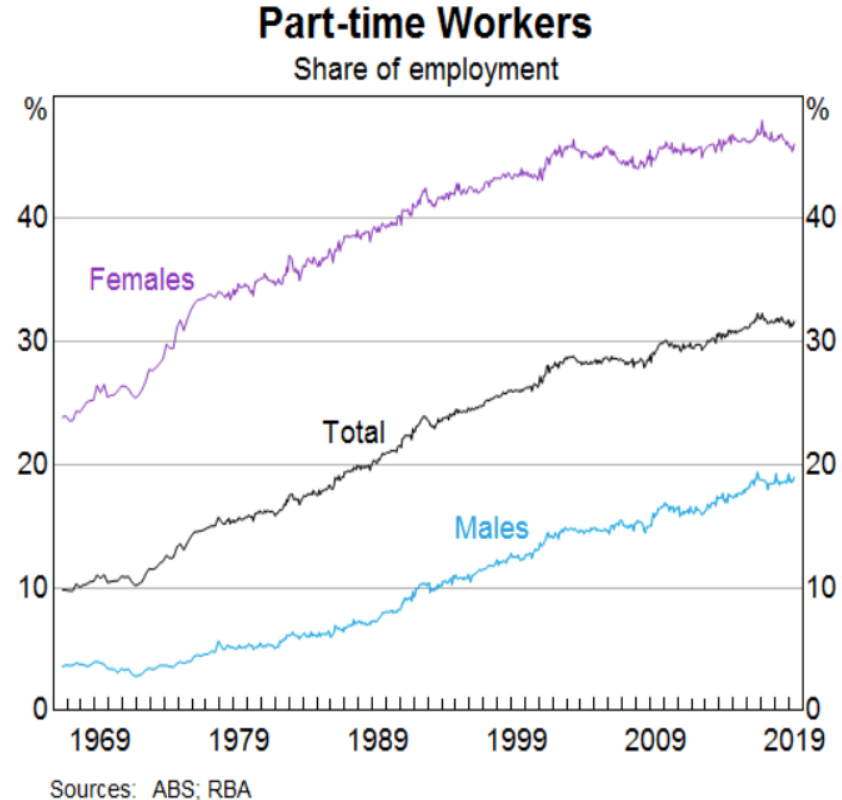


* Includes agriculture, forestry & fishing; transport, postal & warehousing; and electricity, gas, water & waste services

Source: ABS

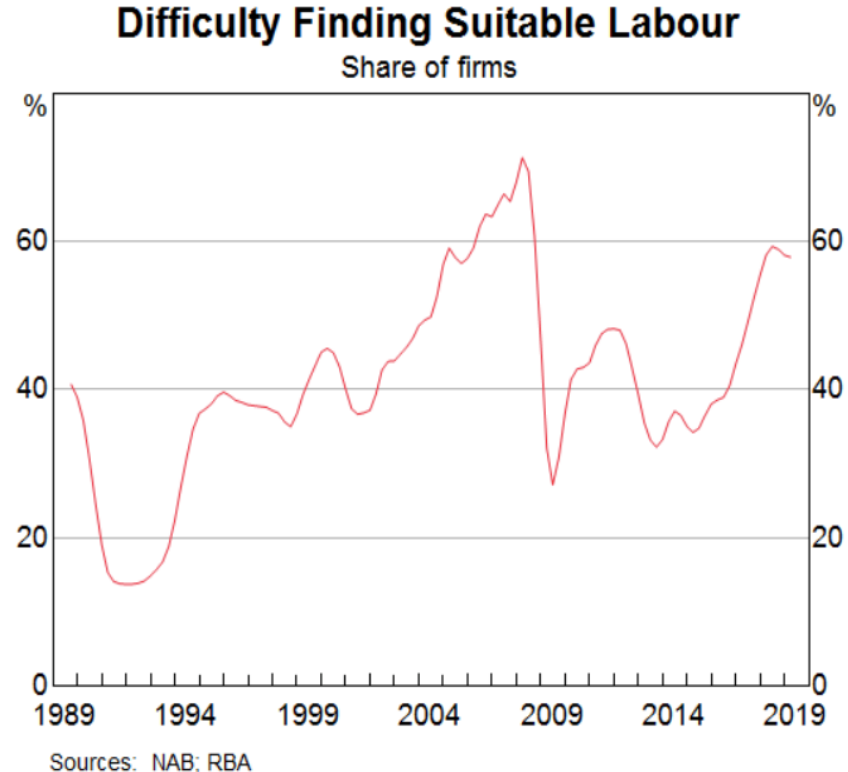
More and more part-time workers

- One-third of all workers are now part-timers, up from 10% in the early 1970s
- Female part-time employment has stabilised at around 45% while male part-time employment continues to trend higher



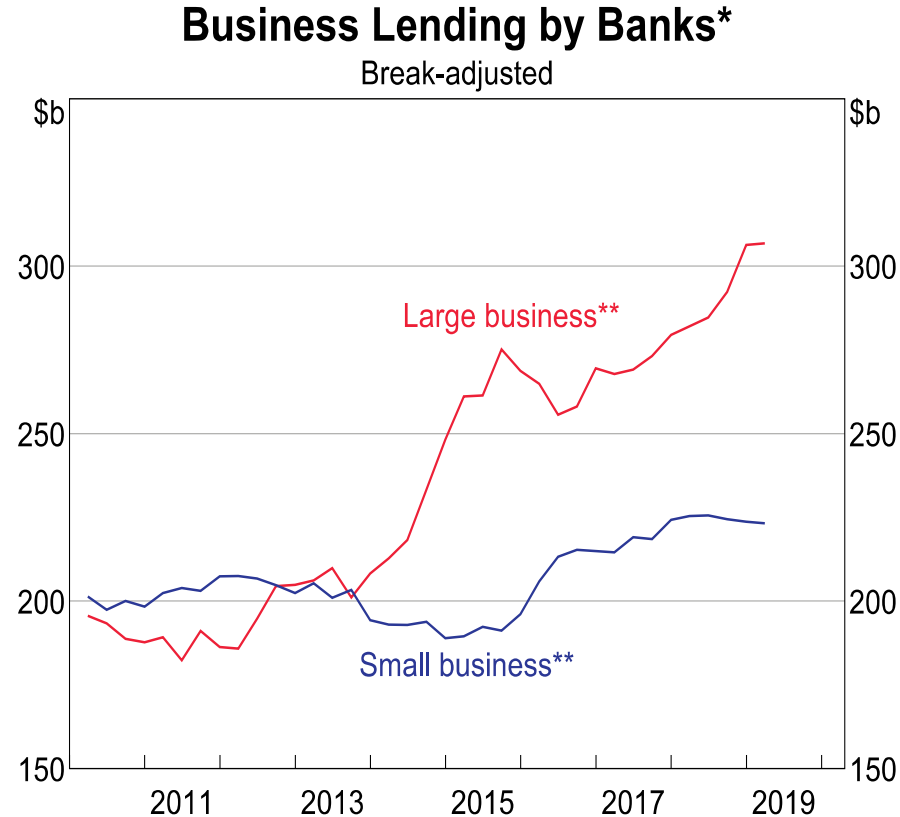
Is there a skills shortage?

- Around 60% of firms are finding it difficult to find suitably skilled workers
- With unemployment above 5% & underemployment above 8%, this suggests training and education standards have fallen short of firm's needs



The small business credit crunch?

- Big business borrowing is growing strongly which bodes well for capital expenditure over the near term
- Small business borrowing remains flat, hampered by tighter lending from the banks & an uncertain economic outlook



The forecasts into 2020

- Global conditions will remain weak-ish over the remainder of 2019, but nothing too concerning
- Central banks will ride to the rescue with easier monetary policy
- Easy monetary policy means asset prices do well, and this may eventually spill over to broader inflation rates
- In Australia, some poor data in the near term but with housing close to a bottom, with interest rate AND tax cuts impacting incomes and spending, 2020 should see a stronger economy

QUESTIONS

