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ECONOMICS
AUSTRALIA

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Forecasting



Growth or Stagnation: The Key Questions for Australia in 2025

Key themes

- Staring down global turbulence

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- Domestic outlook is getting better

Key themes

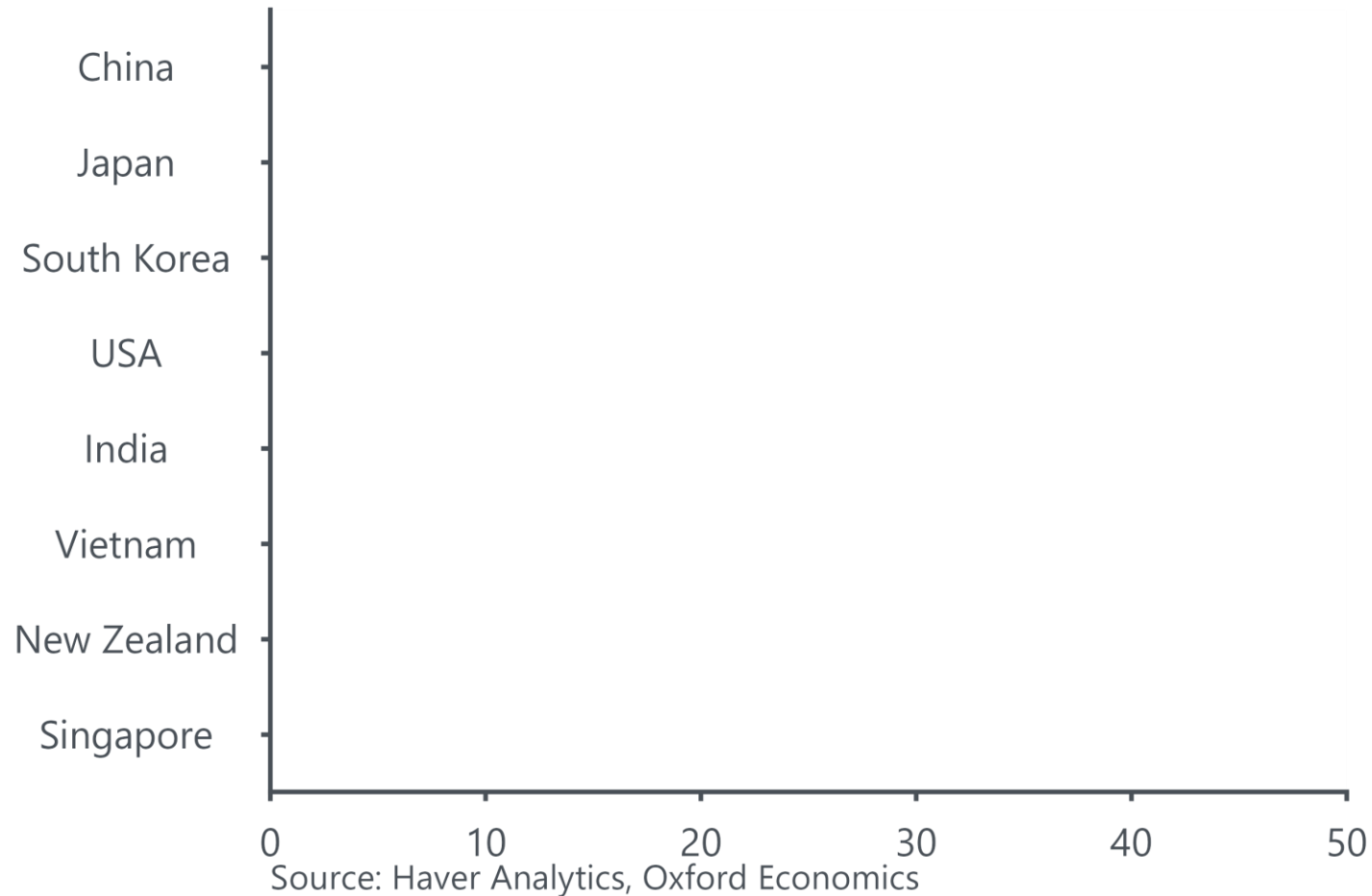
- Staring down global turbulence
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- Limited support to come from policy changes

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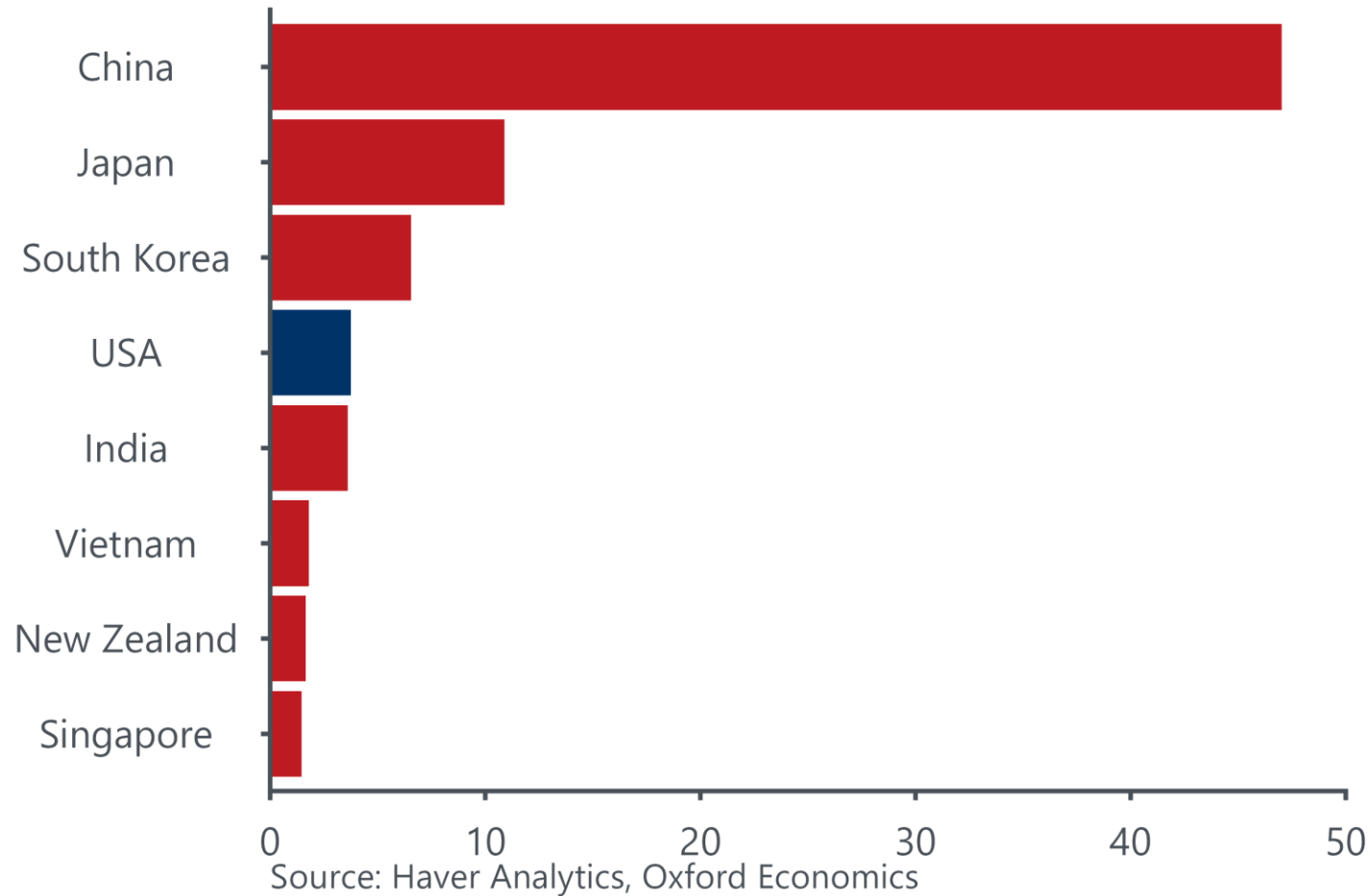
US is Australia's 4th largest export destination...

Australian goods exports by destination
%, 2022



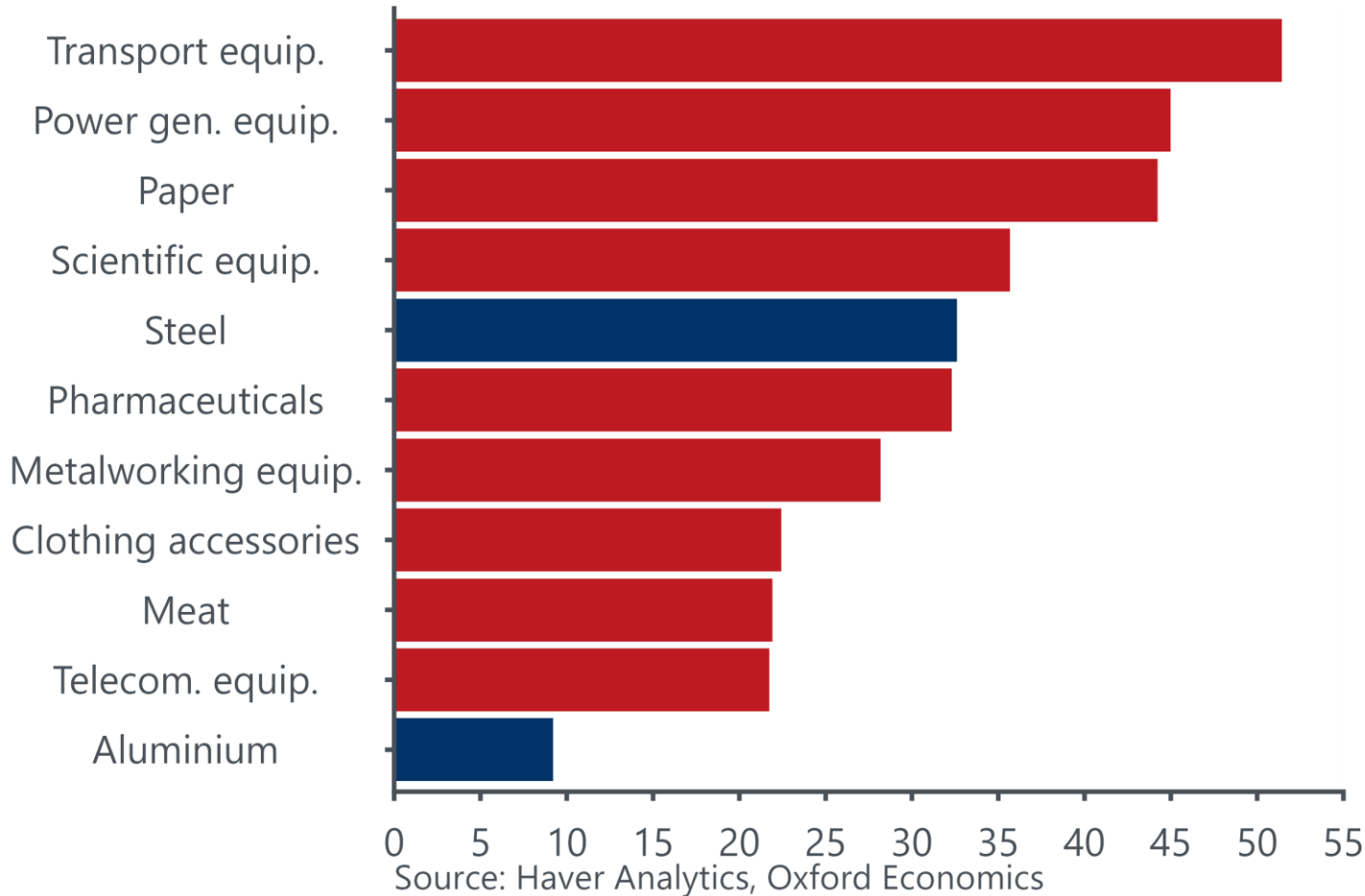
....but takes a small share of exports

Australian goods exports by destination
%, 2022

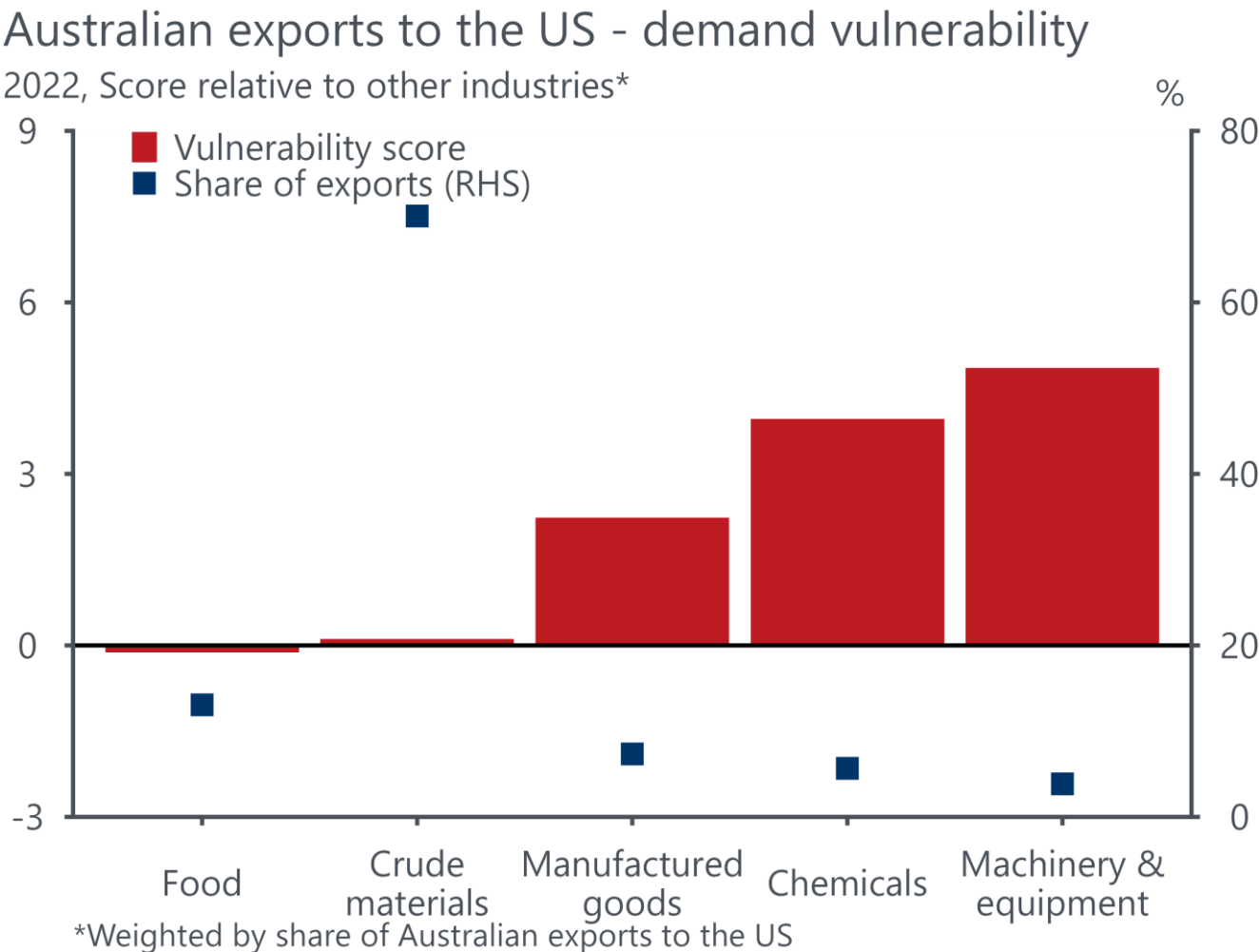


But it's still an important destination for some goods

US share of Australian exports by good
%, 2022



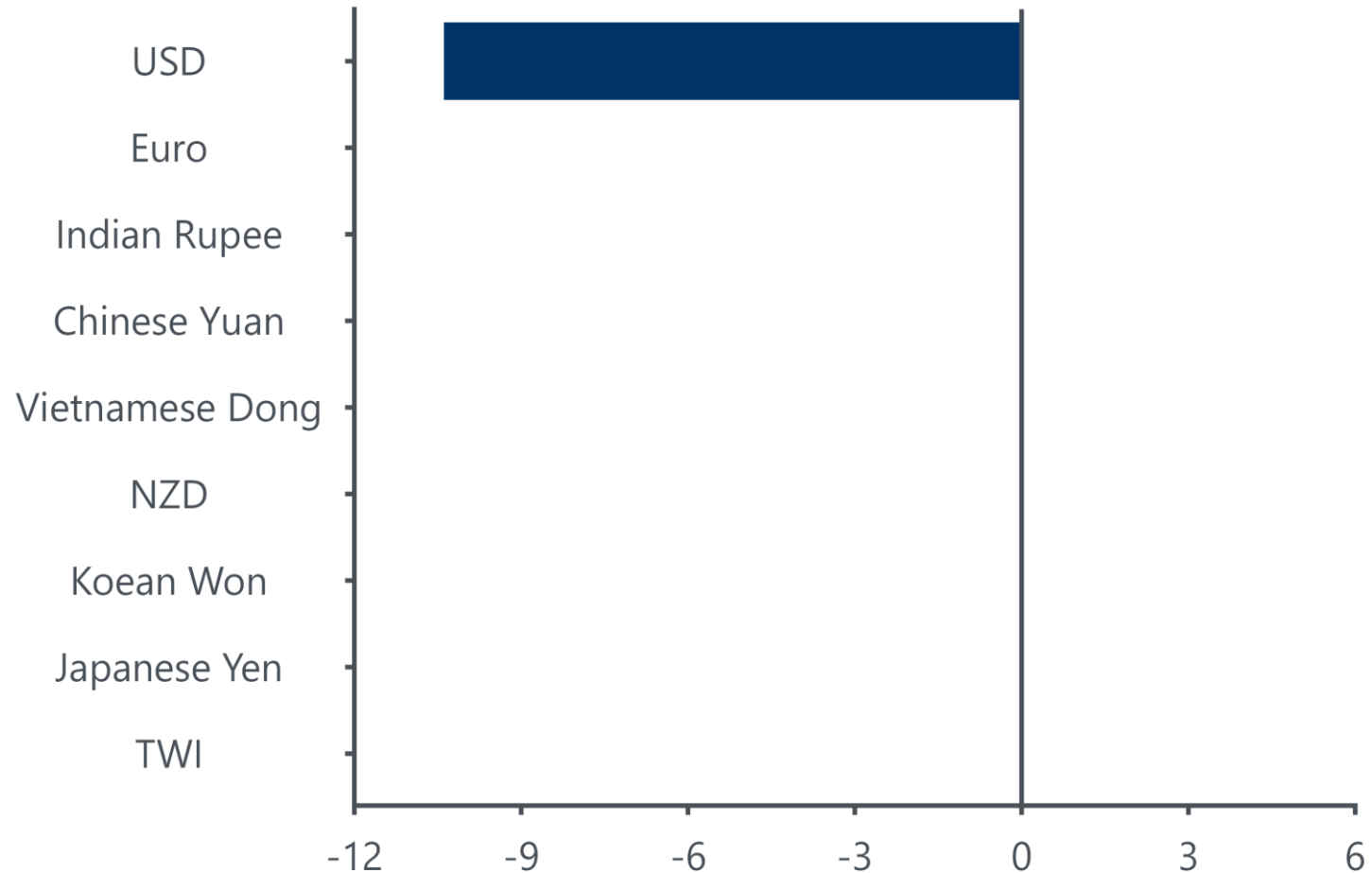
Most exposed goods are a small share of exports



AUD under pressure against the USD

Australian dollar

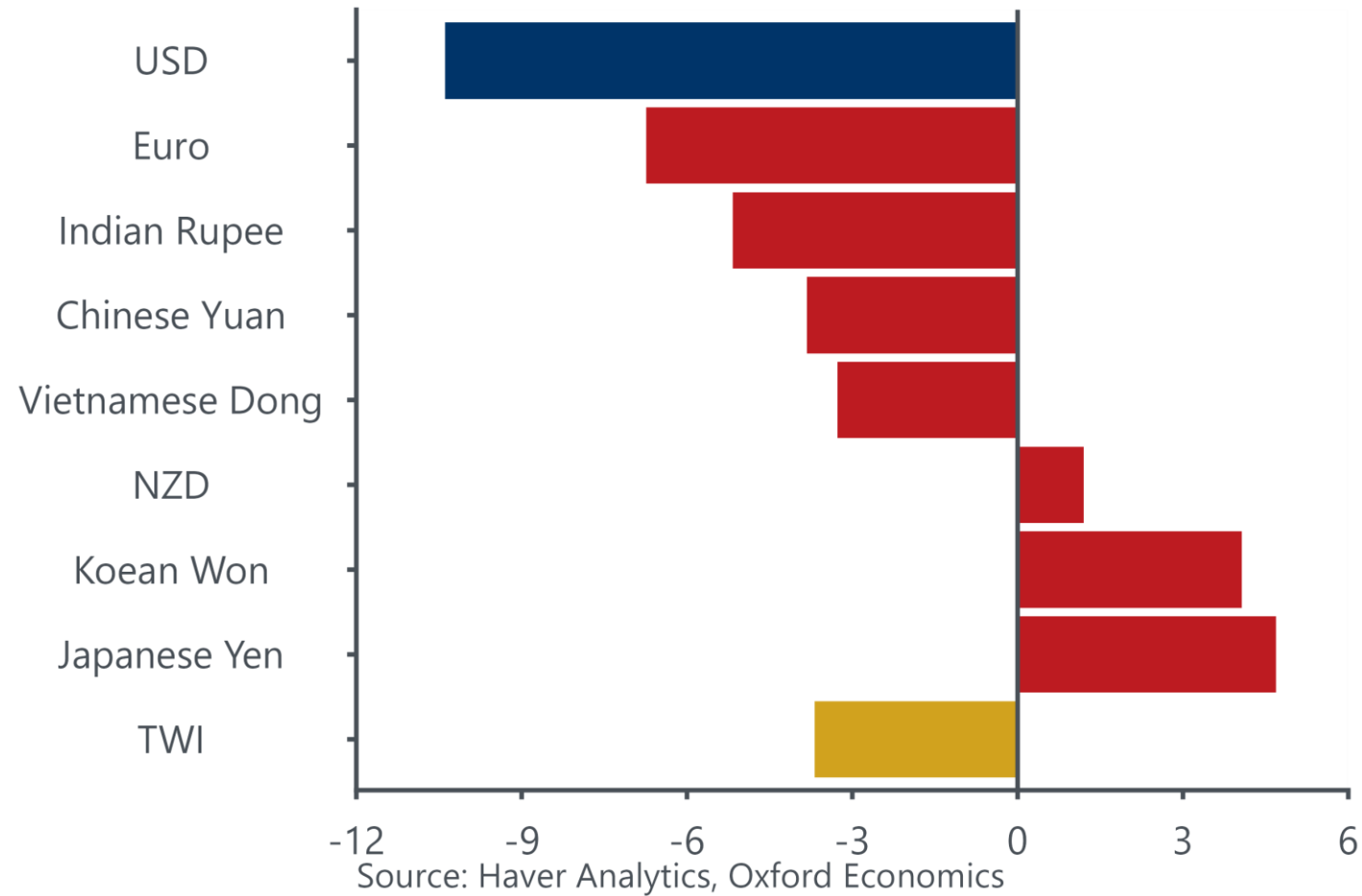
% change since Feb 2023



Source: Haver Analytics, Oxford Economics

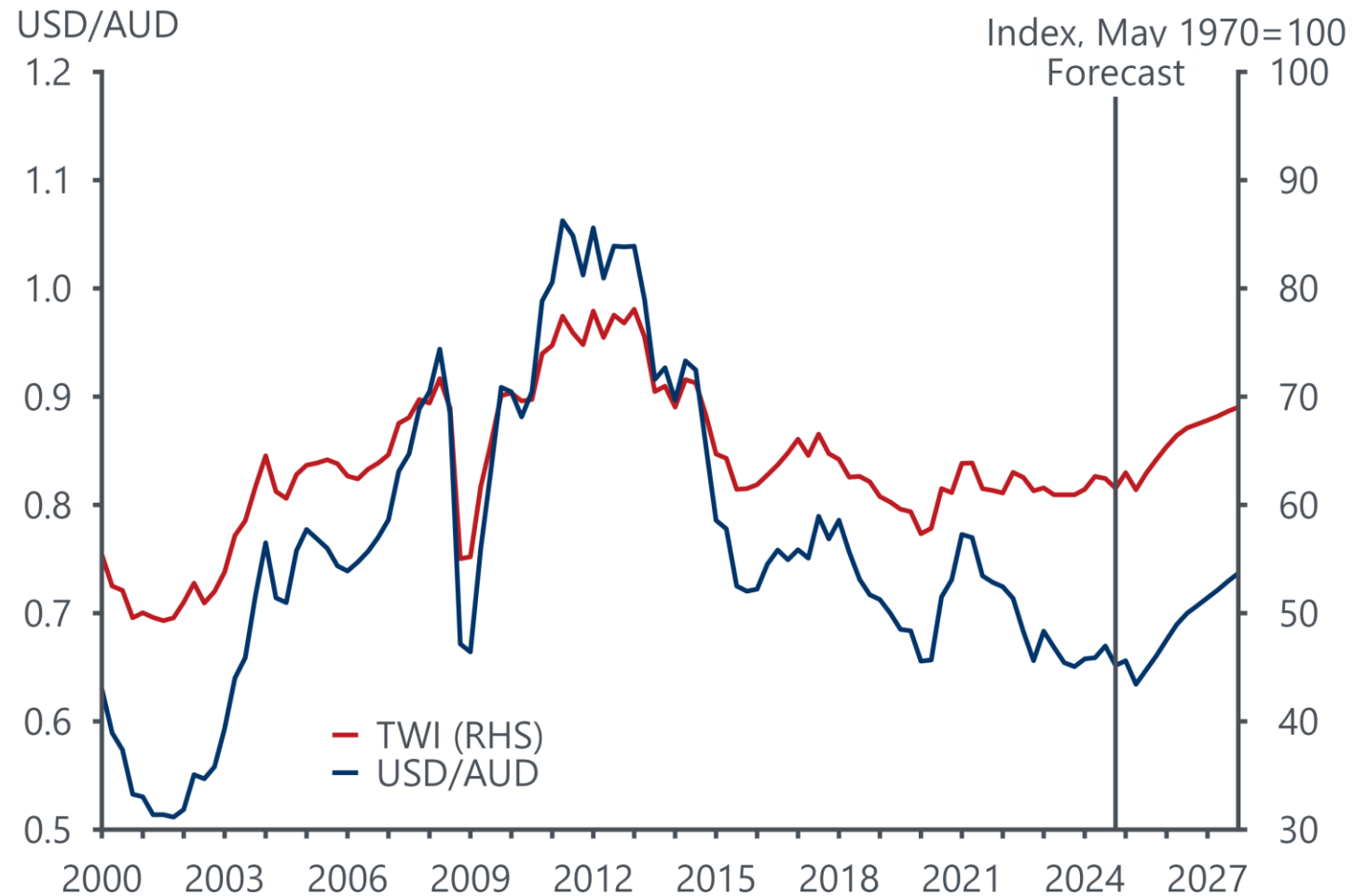
AUD under pressure against the USD, but TWI is stronger

Australian dollar
% change since Feb 2023



Dollar is near its floor, risk is appreciation takes longer

Australia: Exchange Rate



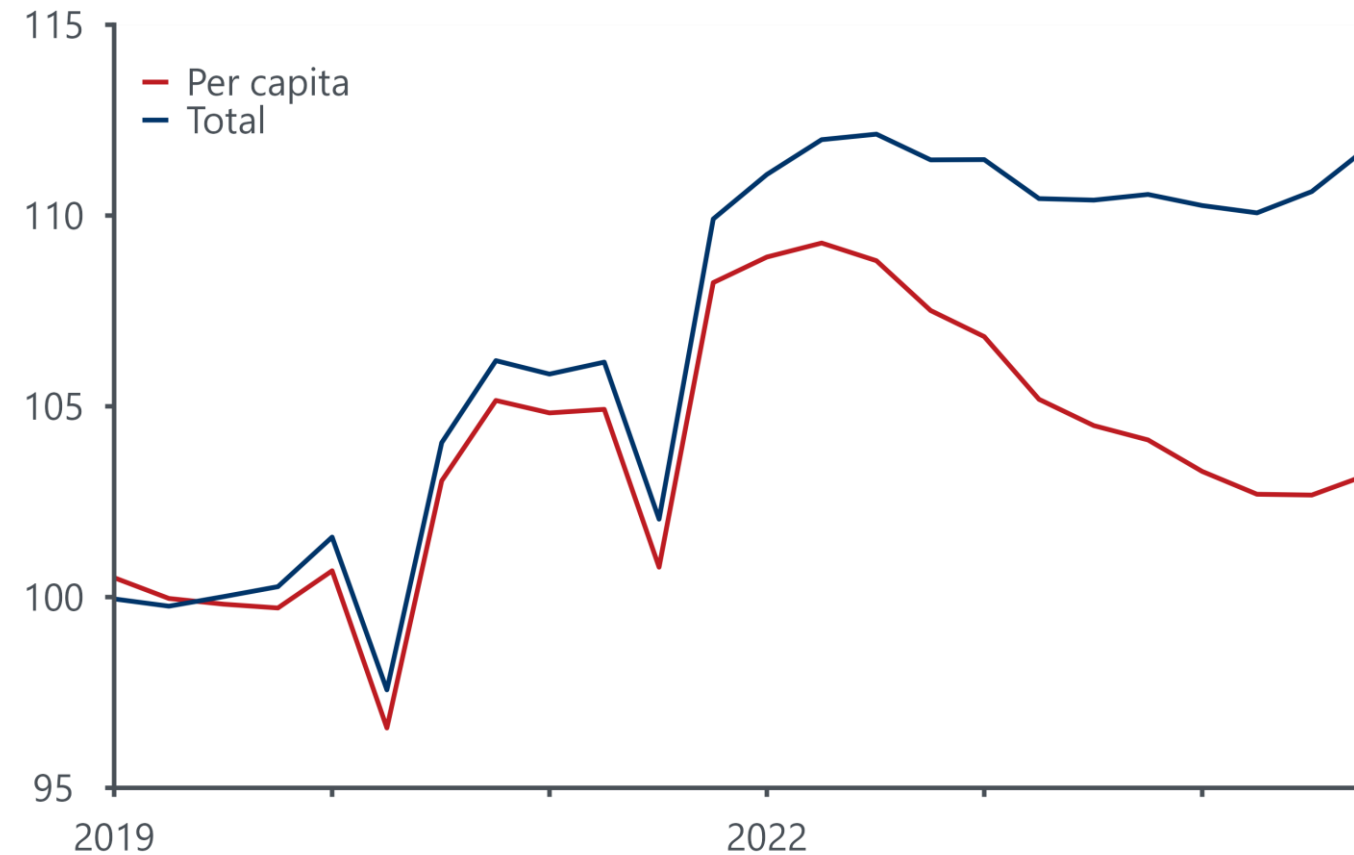
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Momentum in consumer spending is improving

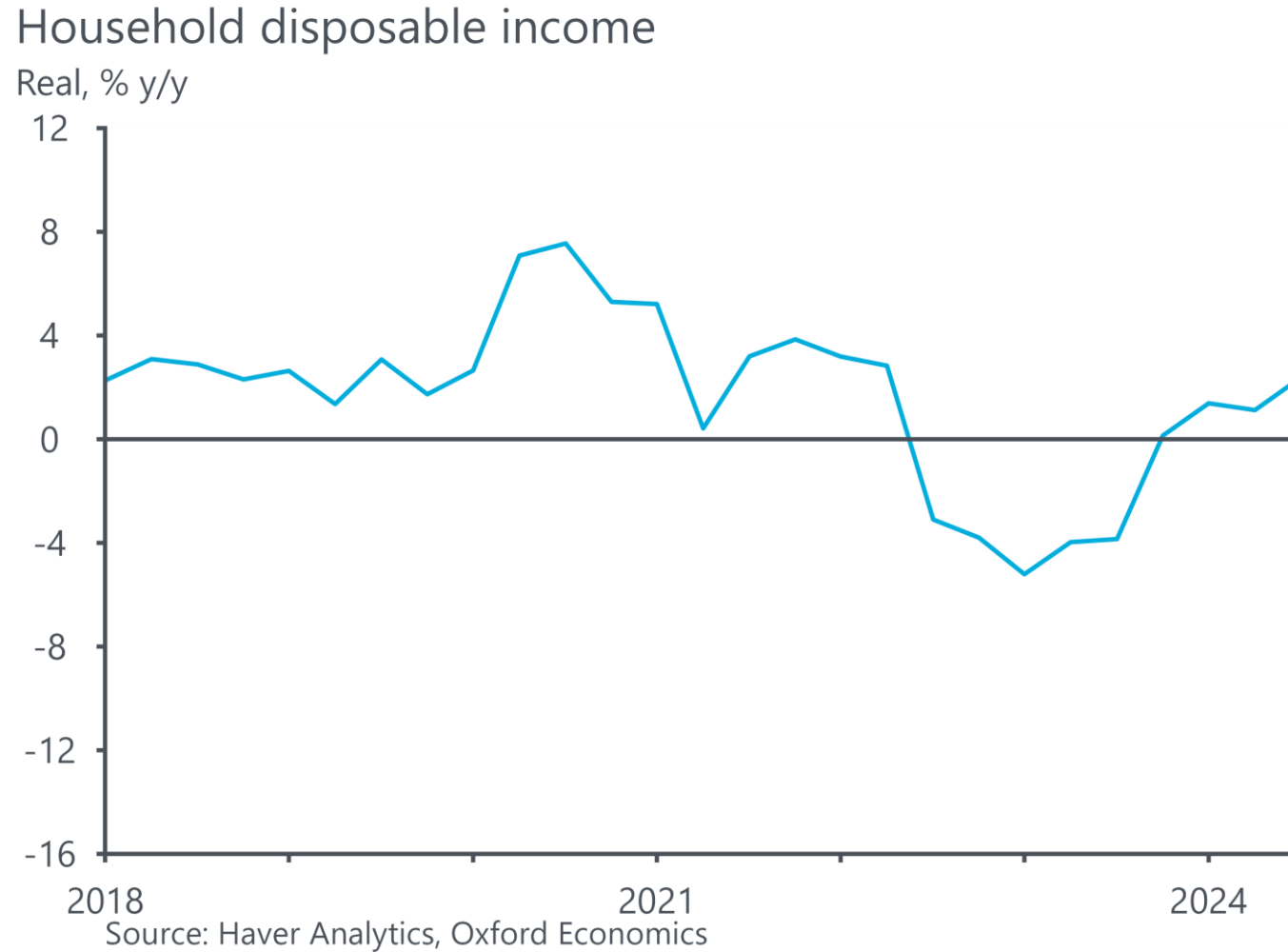
Retail sales volumes

Index, 2019 = 100

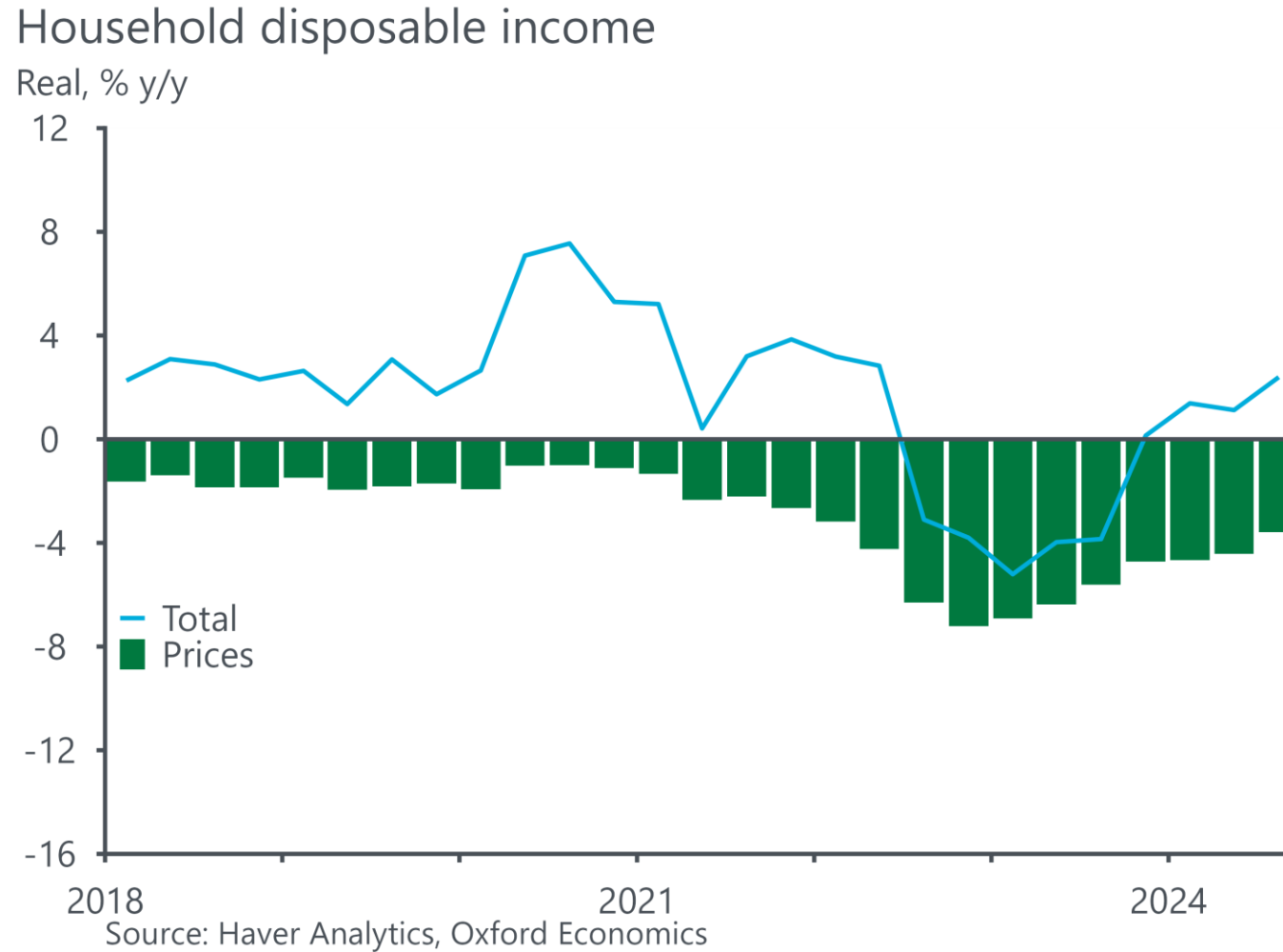


Source: Haver Analytics, Oxford Economics

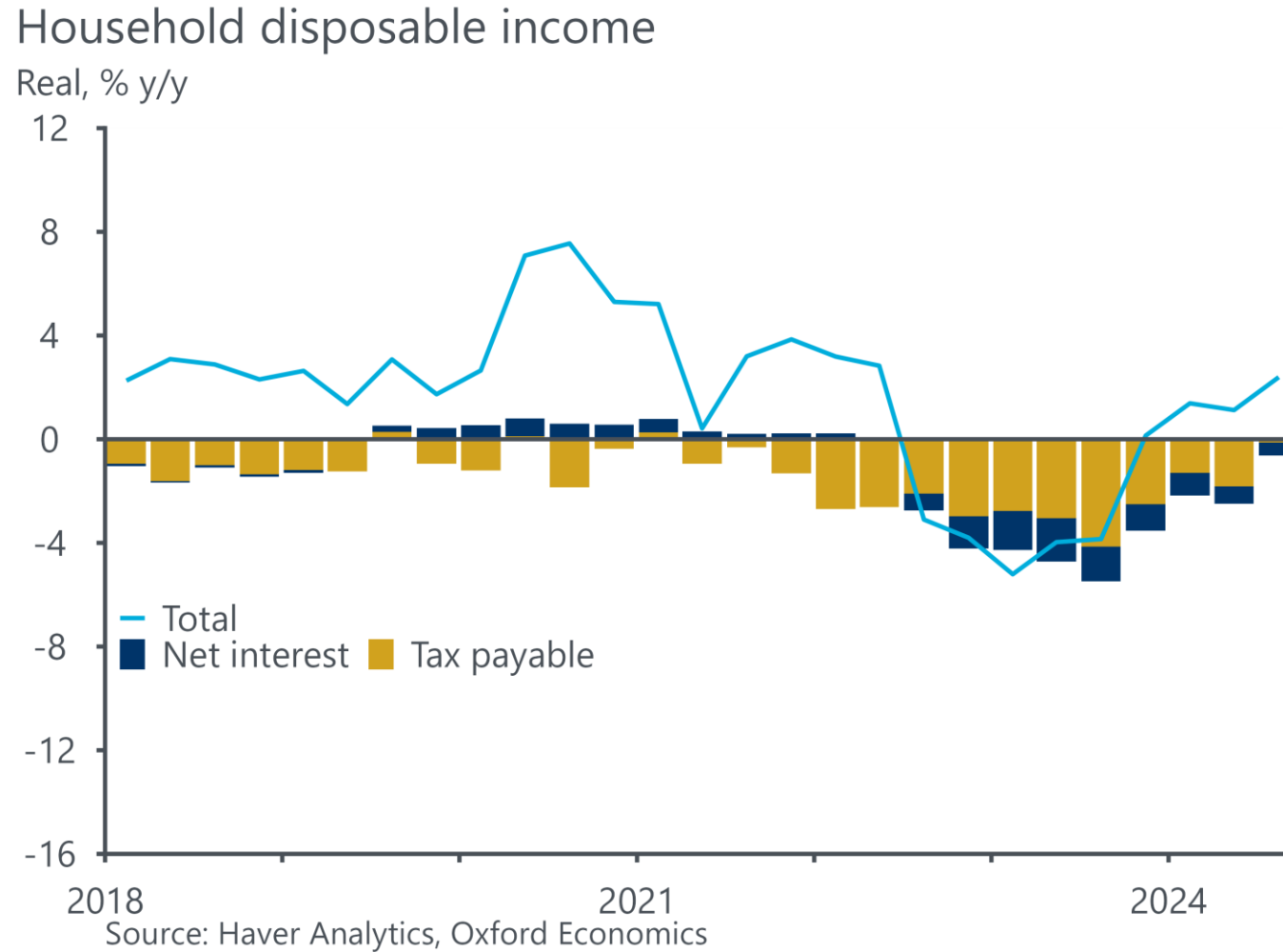
Real income growth is improving due to...



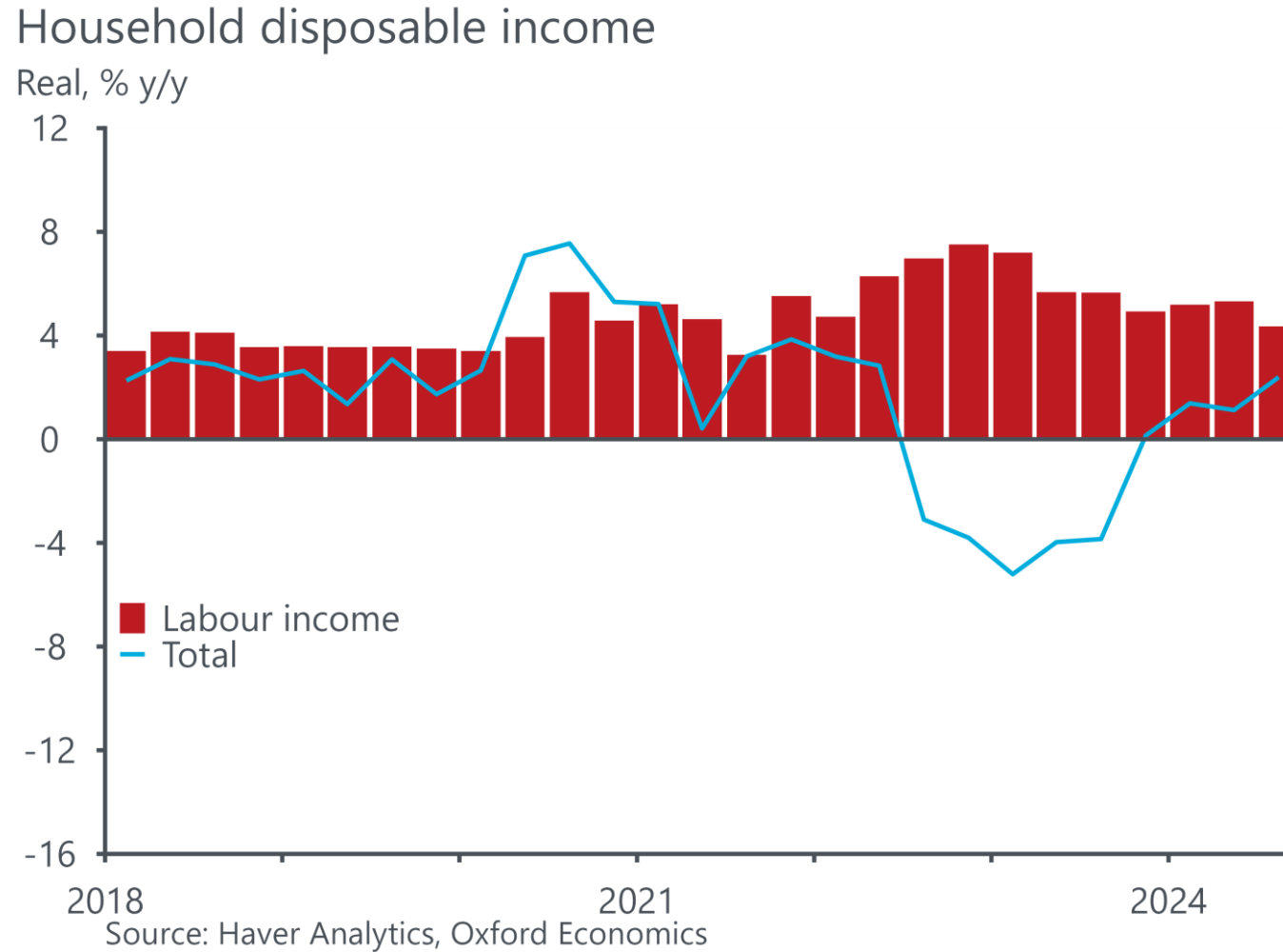
...a smaller drag from inflation...



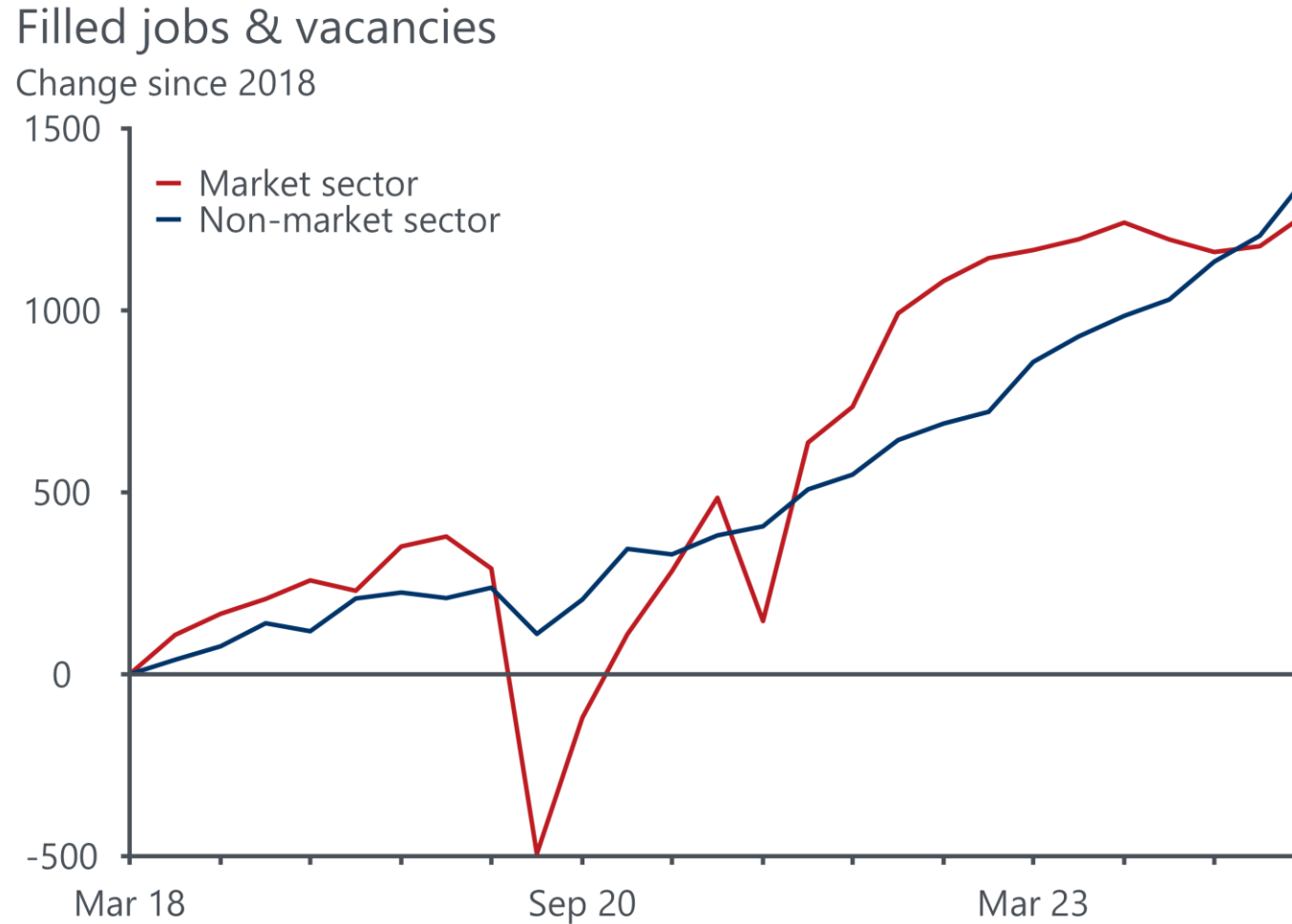
...less of a drag from policy settings...



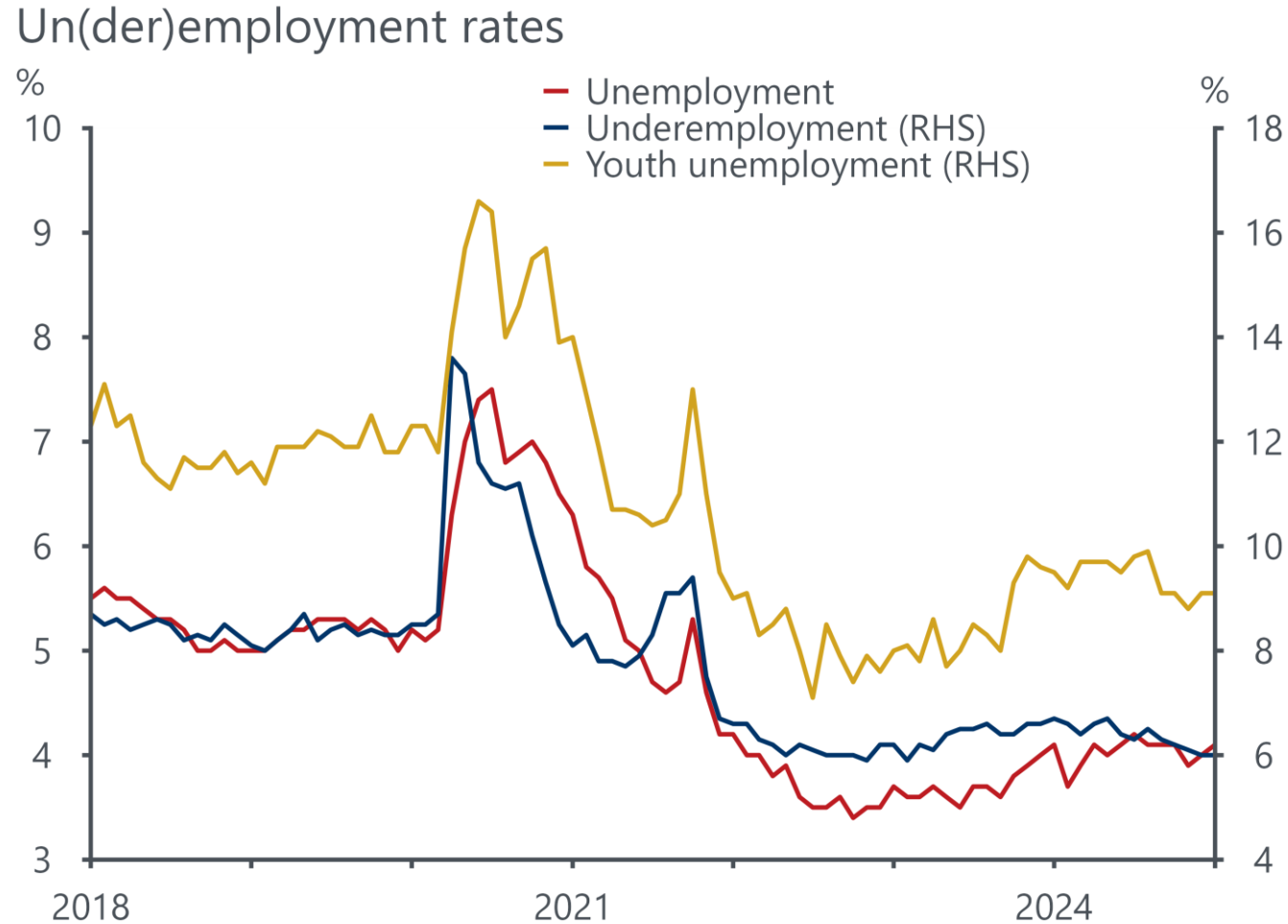
...and steady labour income growth



Non-market jobs still keeping the labour market ticking along



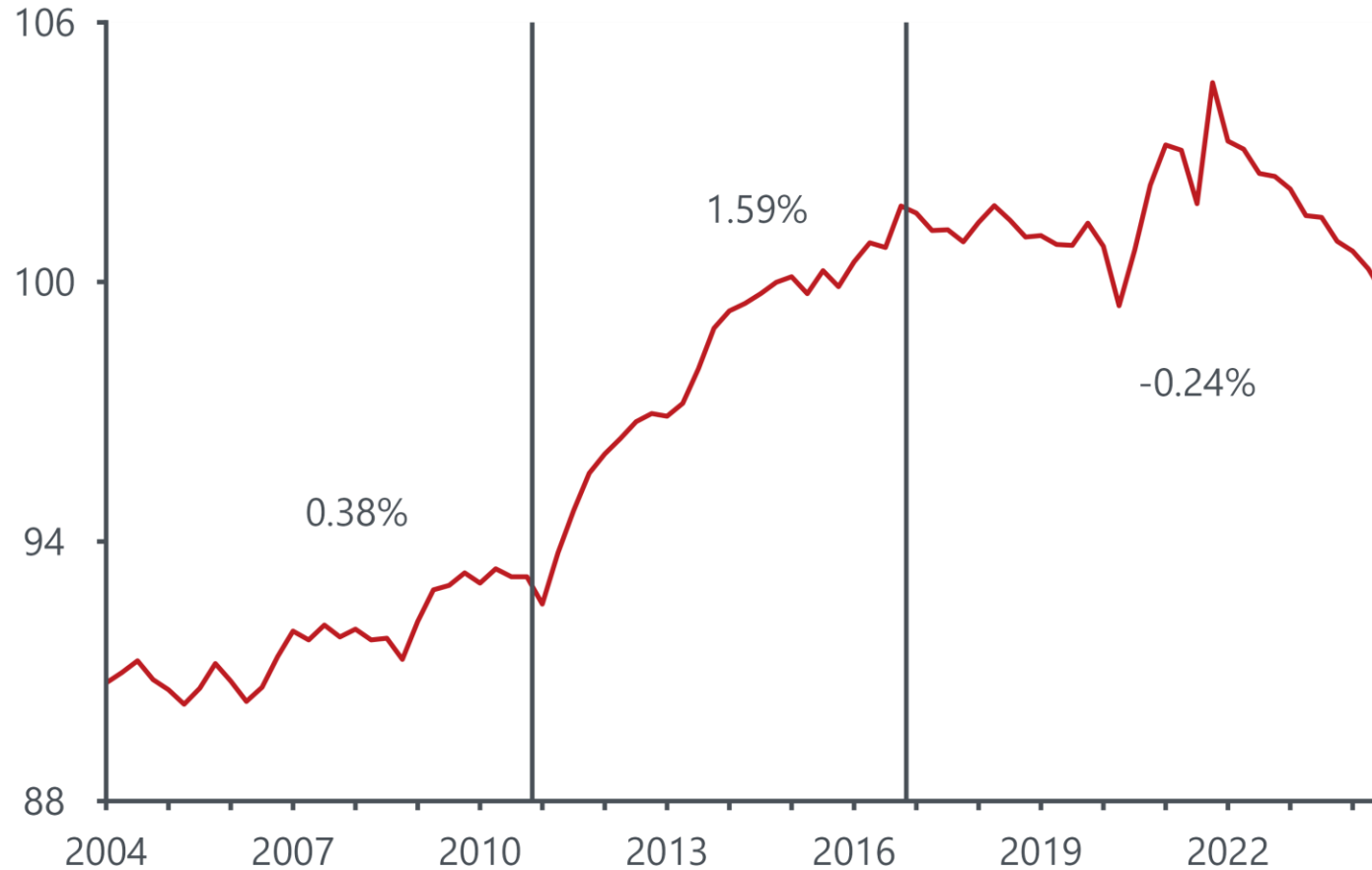
No material signs of easing in the labour market



Productivity is on an alarming trend

Labour Productivity

Index, 2015=100*



*Figures are compound annual growth rates

An election year – a good time to tackle productivity challenges

Policy proposals

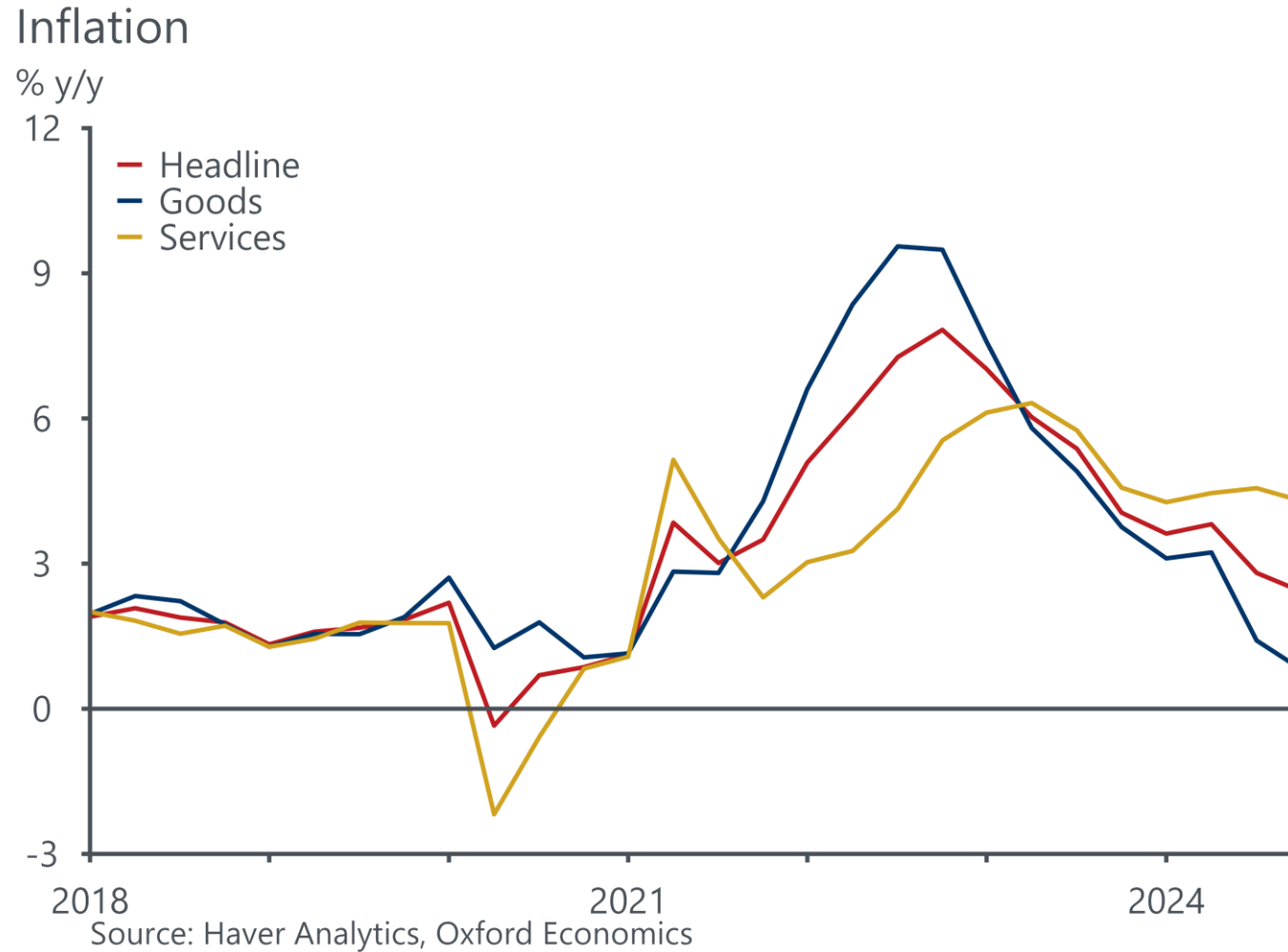
Labor

Coalition

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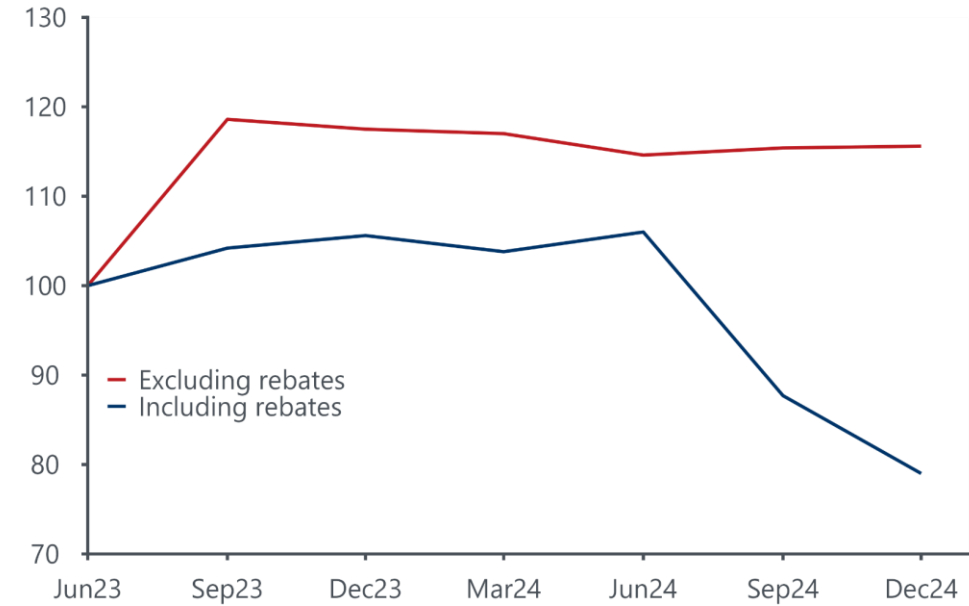
Inflation decline is largely about goods...



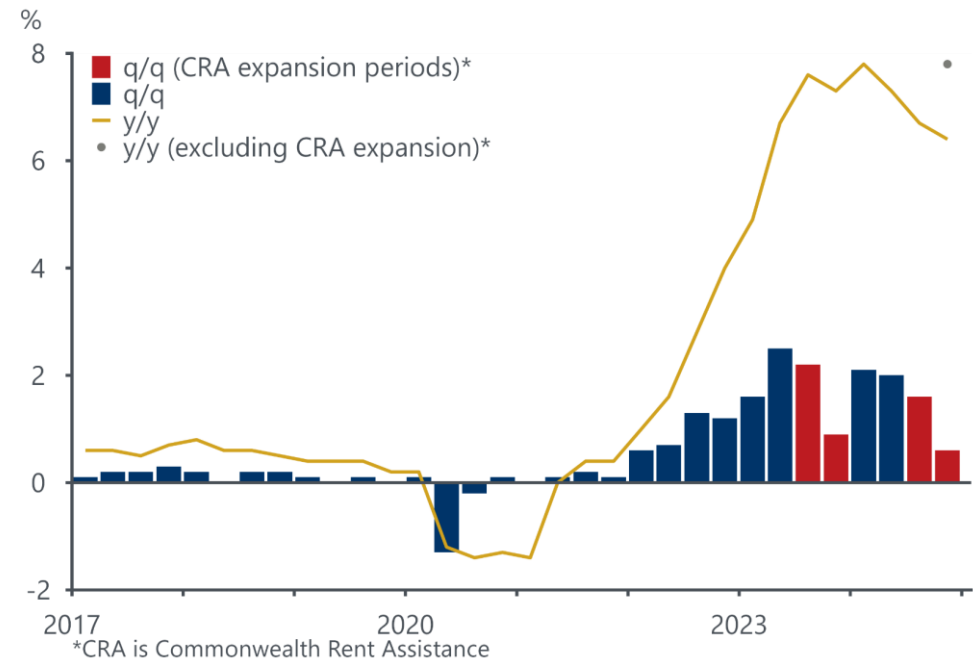
...and subsidies

Electricity Prices

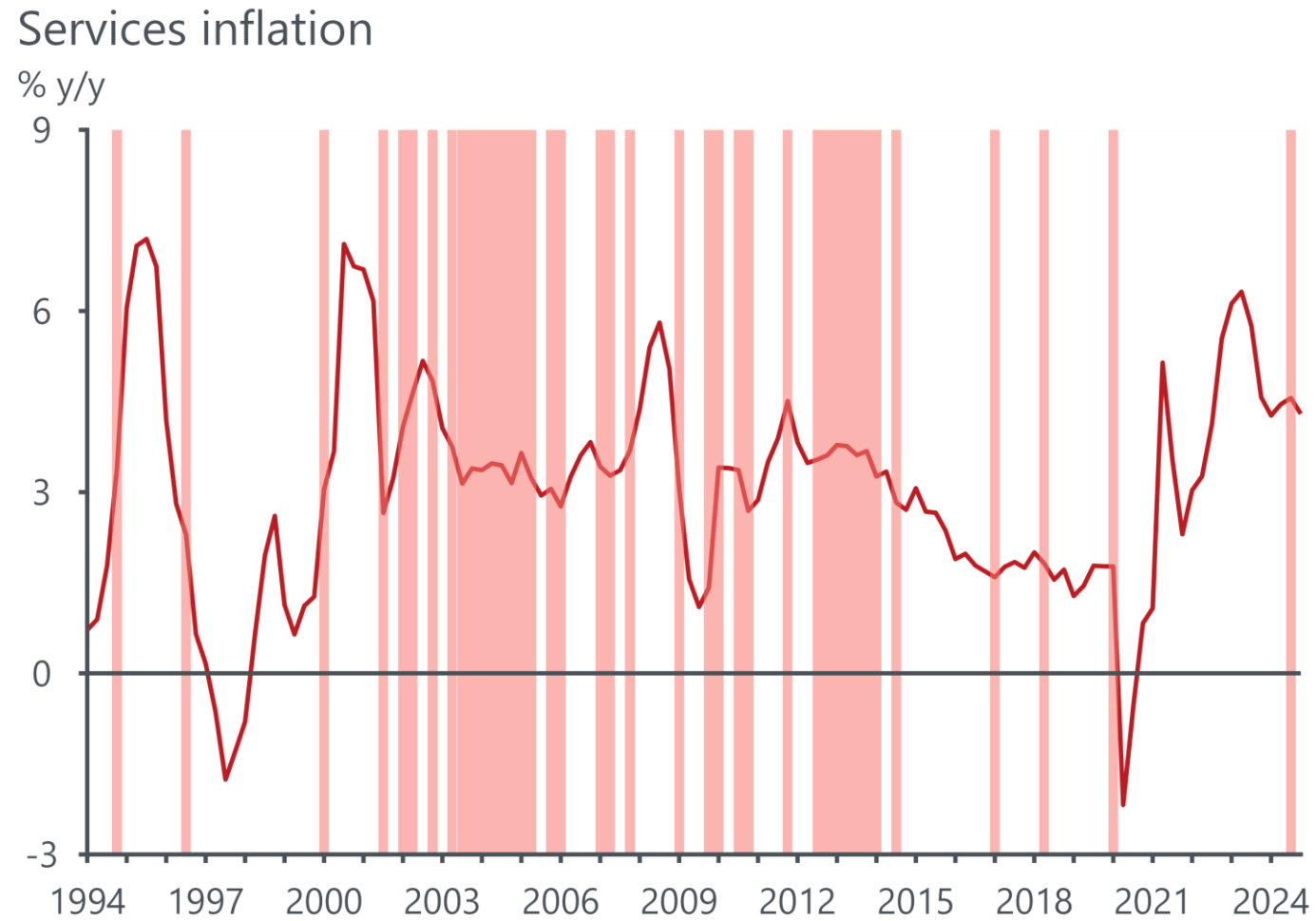
Index, Q2 2023=100



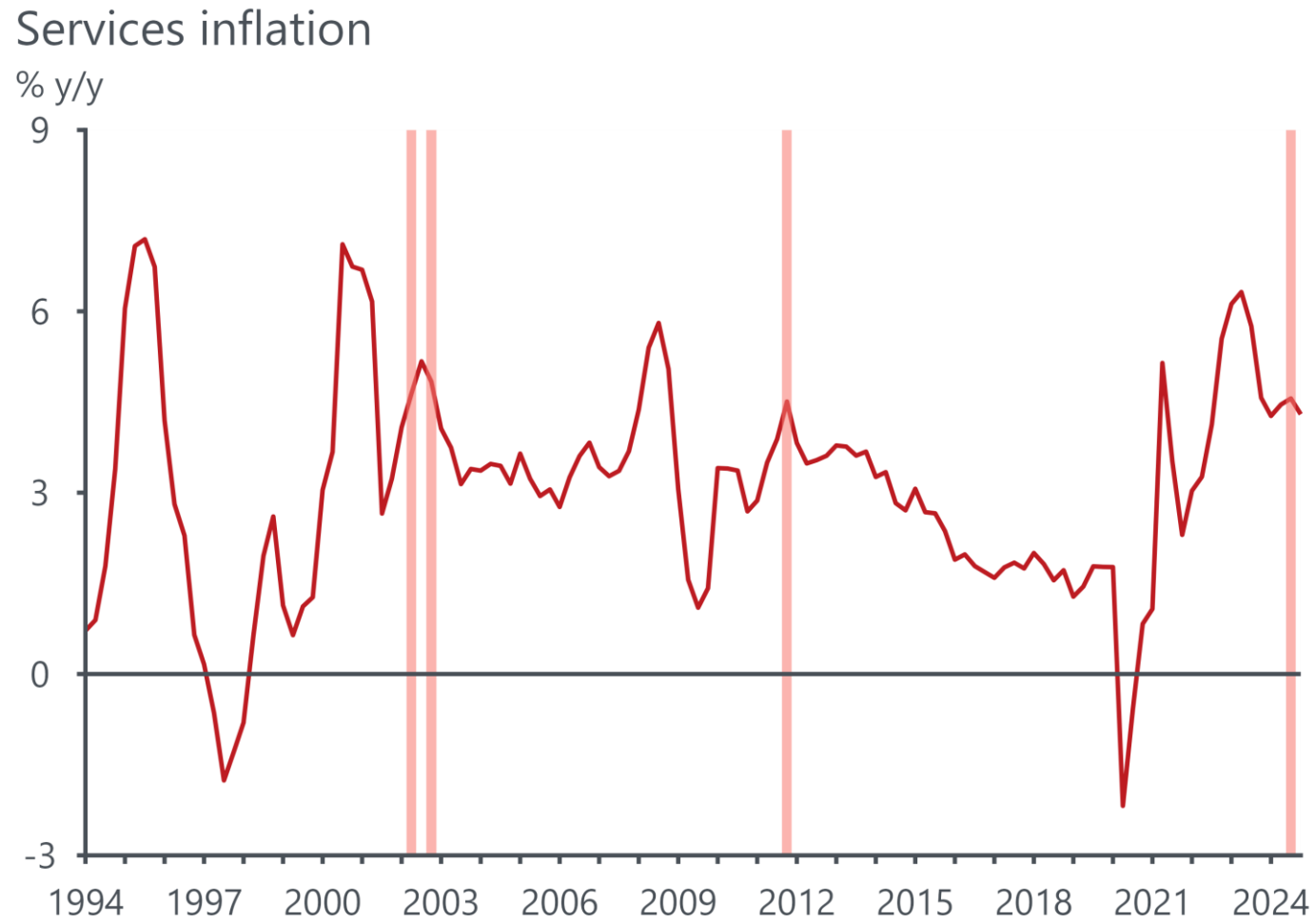
Rents inflation



Services inflation is elevated...

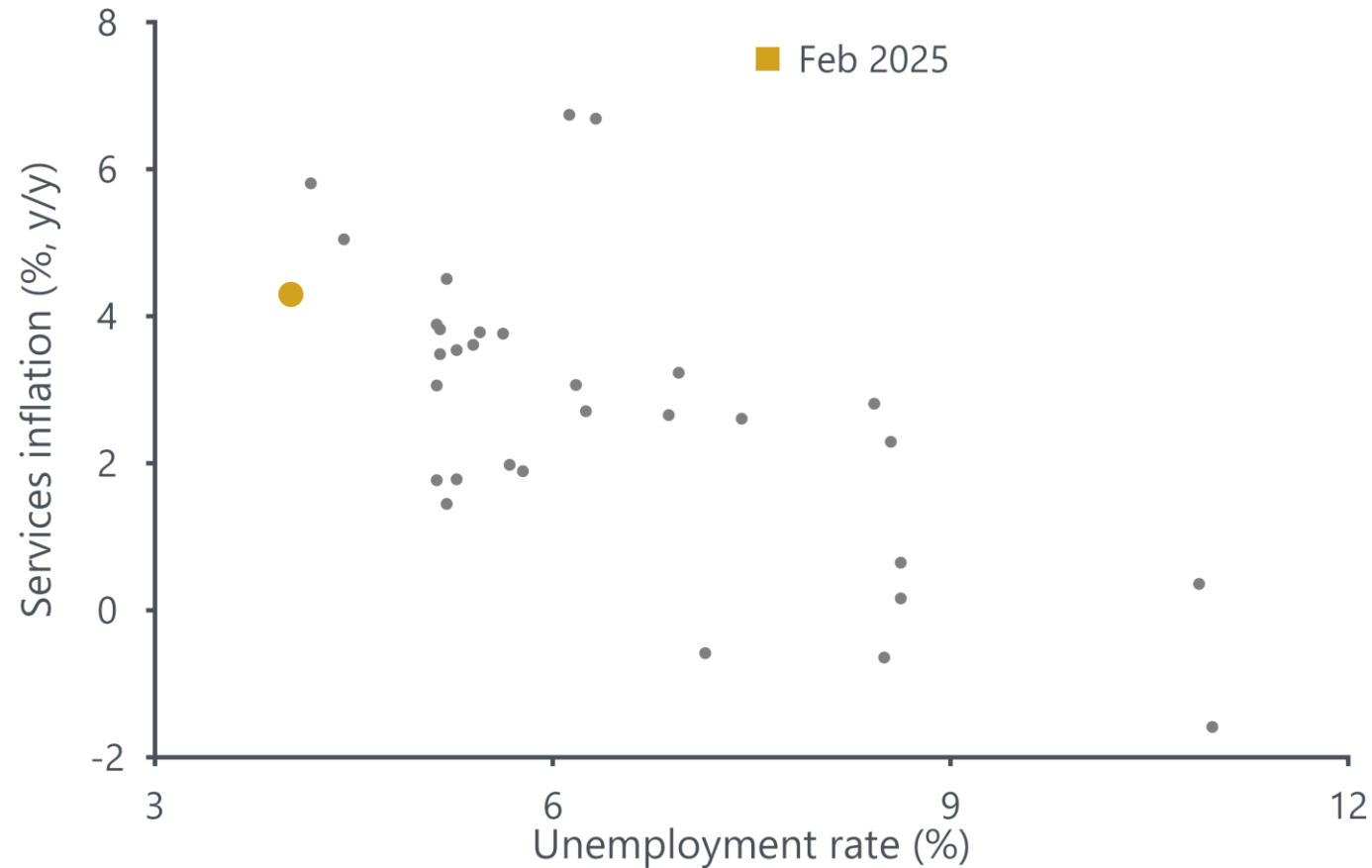


...unsustainably so



February was a strange rate cut

Unemployment & services inflation, when rates are cut



Source: Haver Analytics, Oxford Economics

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Unemployment & services inflation, when rates are cut



Source: Haver Analytics, Oxford Economics

February was a strange rate cut

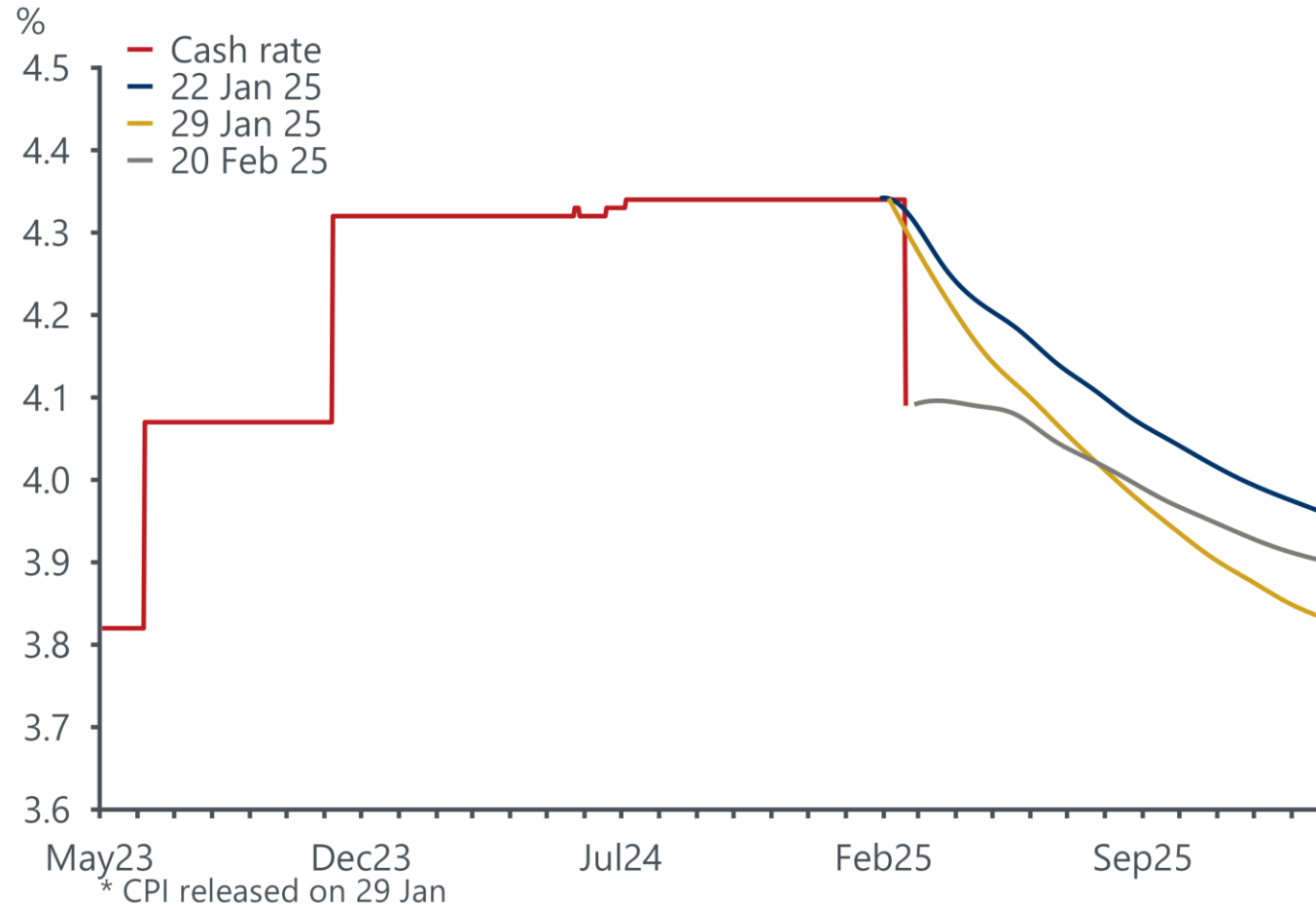
Unemployment & services inflation, when rates are cut



Source: Haver Analytics, Oxford Economics

Have markets got the RBA's message?

Cash rate expectations - OIS curve



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Thank You



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Feedback

