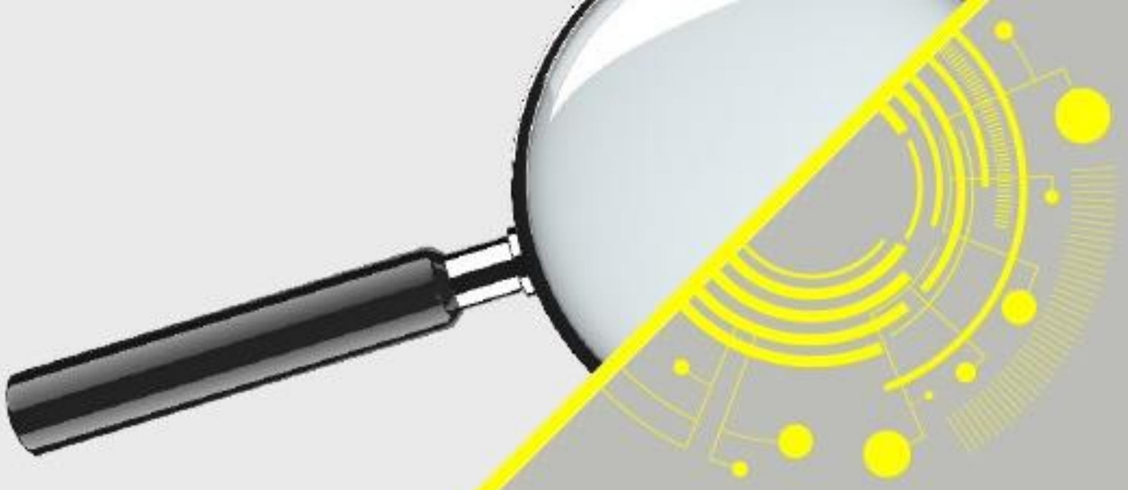

Global and Australian Economic & Market Outlook

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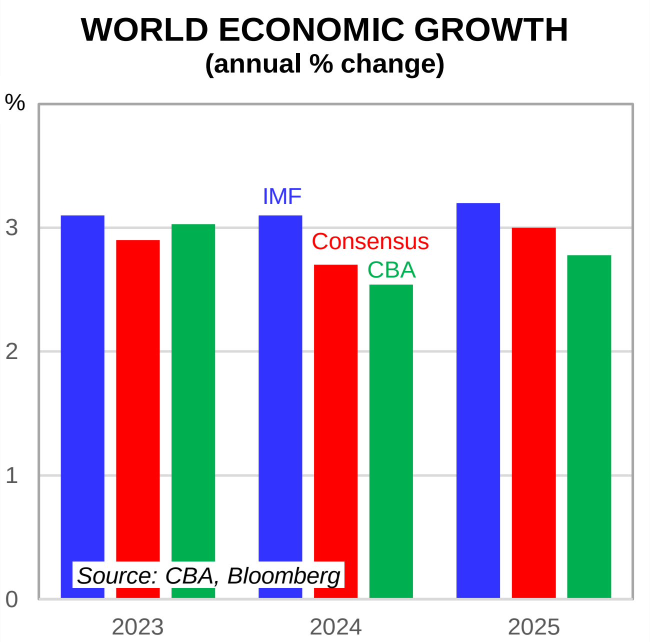
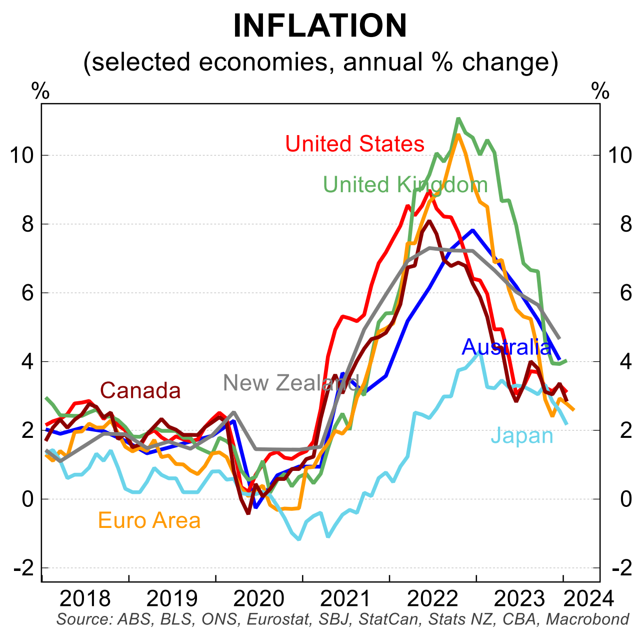
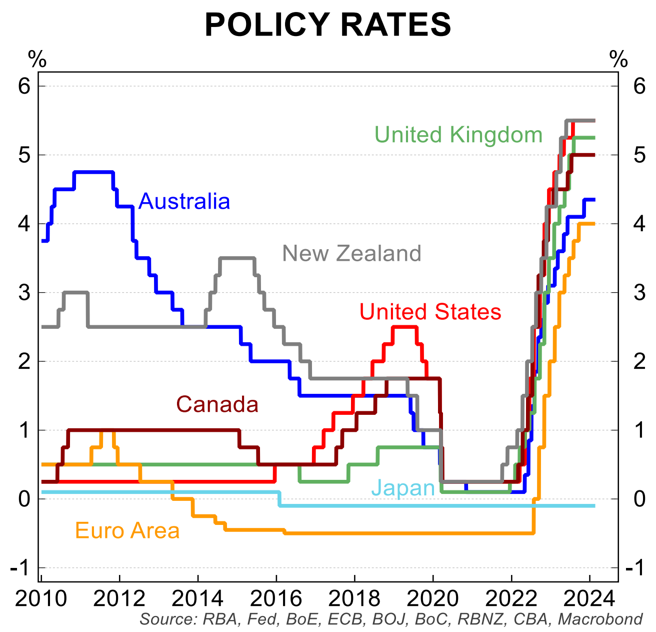
Prepared on 4 March 2024

Global Outlook

Global economic slowdown in 2024 as rate hikes bite







- Global economy is forecast to have grown by 3.0% in 2023. The US economy proved more resilient that expected in 2023.
- Global growth is expected to moderate 2.5% in 2024 on the lagged impact of higher interest rates.
- We expect slow growth in the UK, EU, Japan, Canada and NZ.
- China's economy is growing close to 5% target – but with clear imbalances, especially in the property sector.
- A peaking in inflation means that Central banks can ease monetary policy through 2024.
- Global growth to improve to 2.8% in 2025 on lower interest rates.

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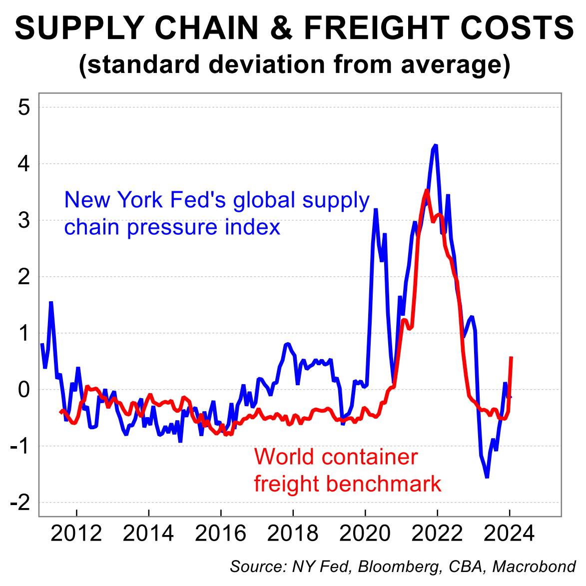
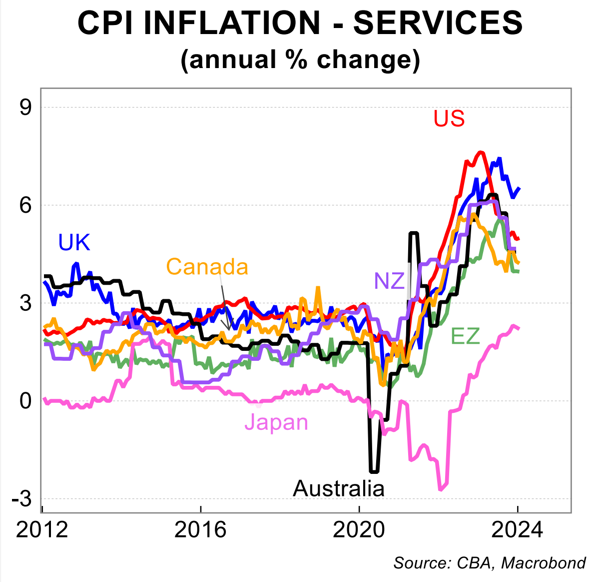
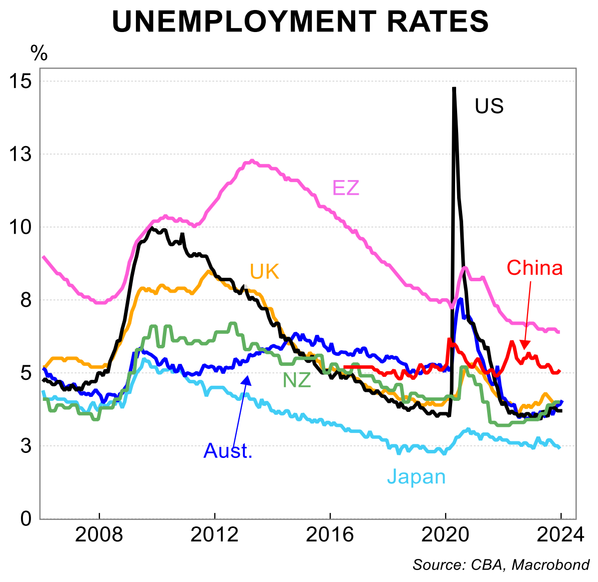
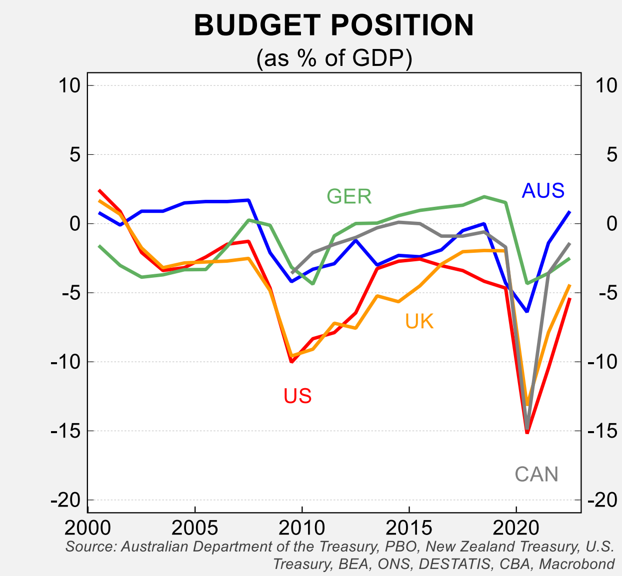
Supply chains, inflation, employment and fiscal policy



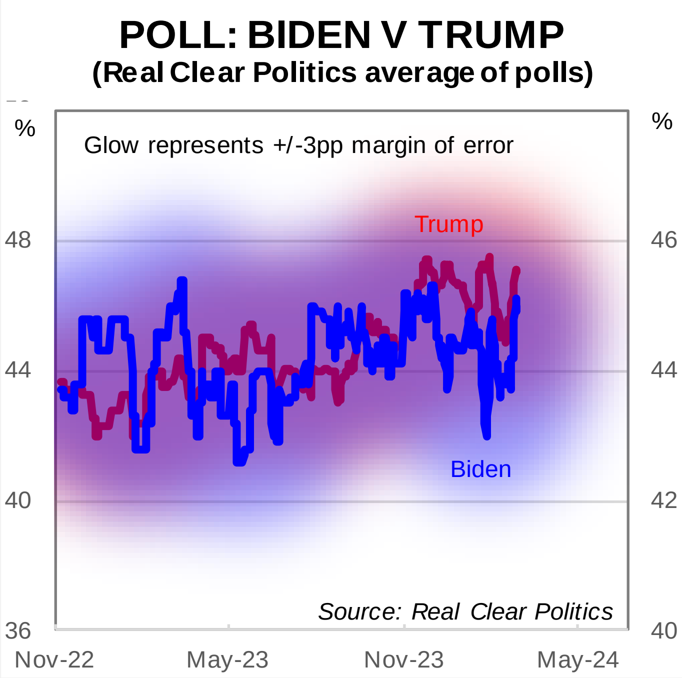


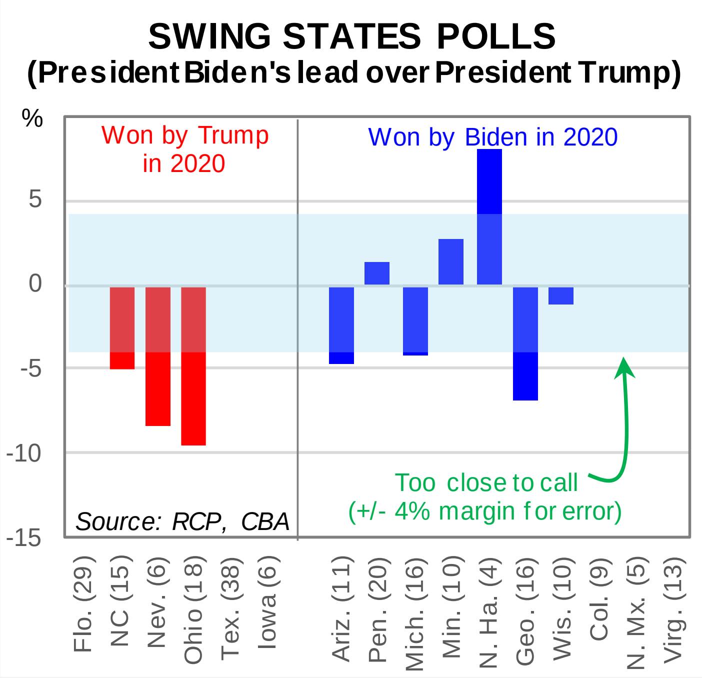




- Global supply-chains had improved and helped global inflation decelerate. The recent increase in shipping costs is related to developments in the Middle East and Red Sea – worth keeping an eye on.
- Services inflation is moderating. But has been more sticky.
- Labour markets remain tight almost everywhere.
- It would be a great economic outcome if inflation could return to central bank target ranges *without* seeing too much of the gains in the labour market damaged.
- Global fiscal policy remains stimulative across most major economies – with the notable exception of Australia.

US politics a source of uncertainty





- National polls show a dead heat between Presidents Biden and Trump.
- Polls of the ‘swing states’ show a close race.
- A win by President Trump should have less impact than in 2016.

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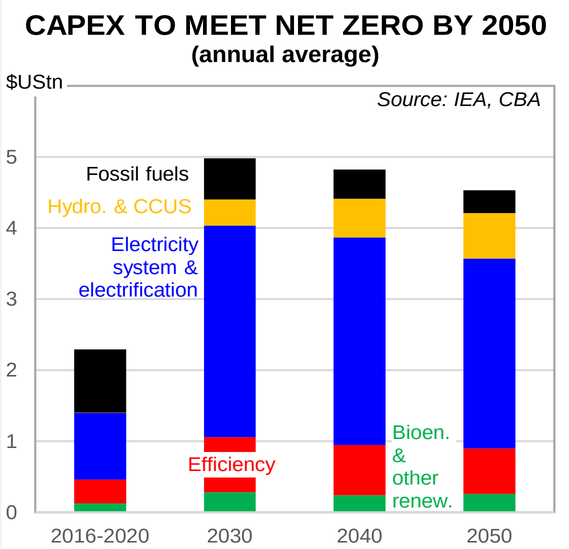
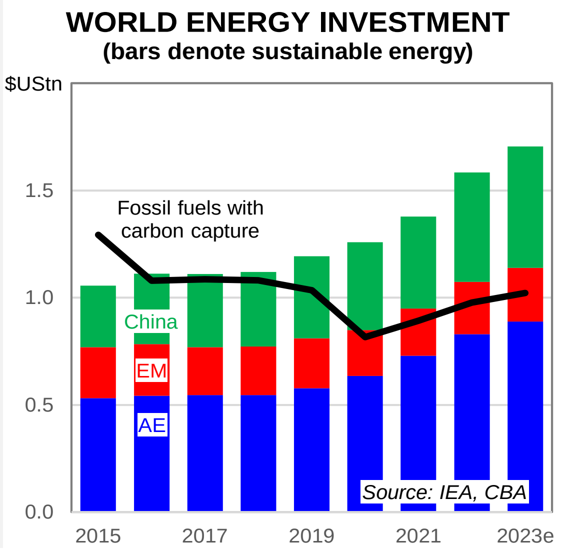
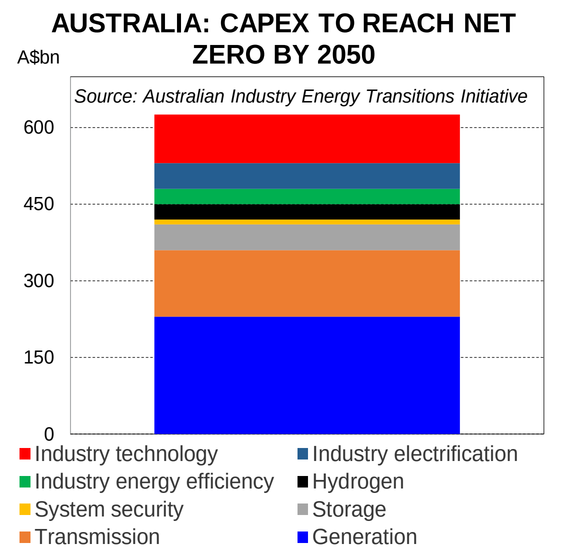
Capital is flowing to meet the global transition challenge







- The world will need to double annual capex in new sources of energy, transport, buildings and infrastructure
- From $US2¼tn/yr to ~$US5tn/yr for the next three decades to meet the target of net zero emissions
- Australia may need to spend over $A100bn per year until 2050 to decarbonise energy and transport
- China dominates the output of key metals and minerals needed for the carbon transition
- But Australia has exposure to a number of metals and minerals needed to build sustainable assets
- Significant opportunity for Australia to help the world transition

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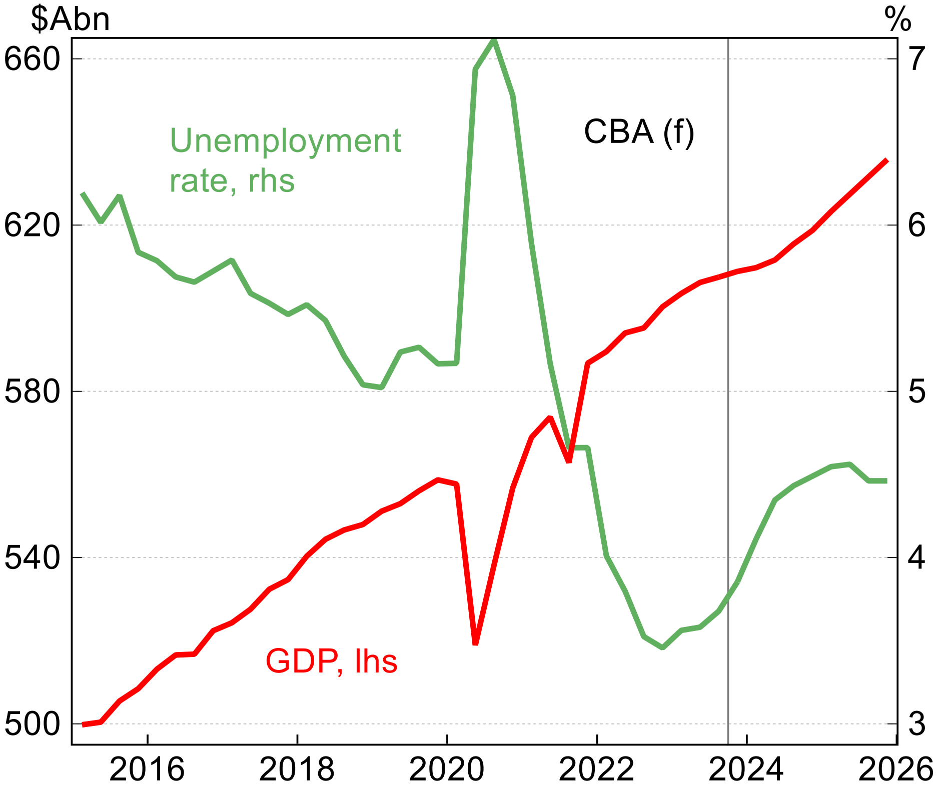
Australian Outlook

Australian economy losing momentum as higher interest rates impact

REAL GDP & UNEMPLOYMENT
(quarterly)



Source: CBA, Macrobond

The Australian economy grew by 2.1%/yr in Q3 CY23, down from 3.8%/yr in CY22.

Growth is forecast to have slowed to 1.4%/yr as at Q4 CY23 and just 1.2%/yr in CY24.

The unemployment rate stands at 4.1% in January 24, up from the cyclical low of 3.4% in October 22.

Forecast ~4.5% end-2024, as labour supply exceeds jobs growth.

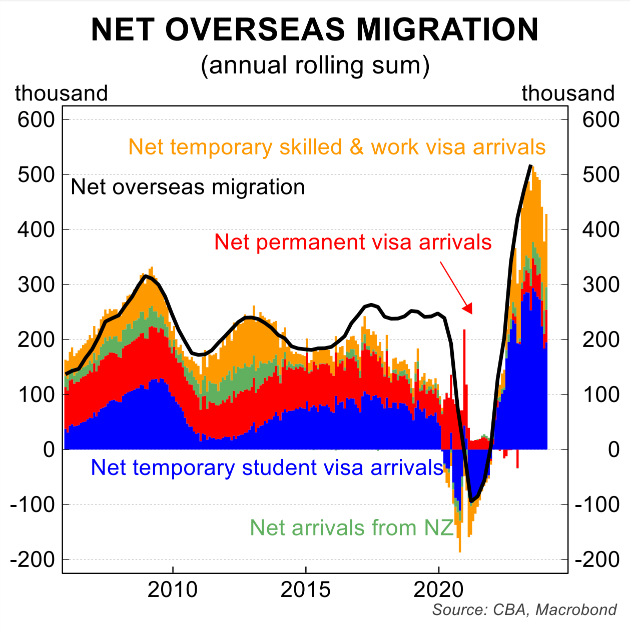
Key themes and forecasts in 2024

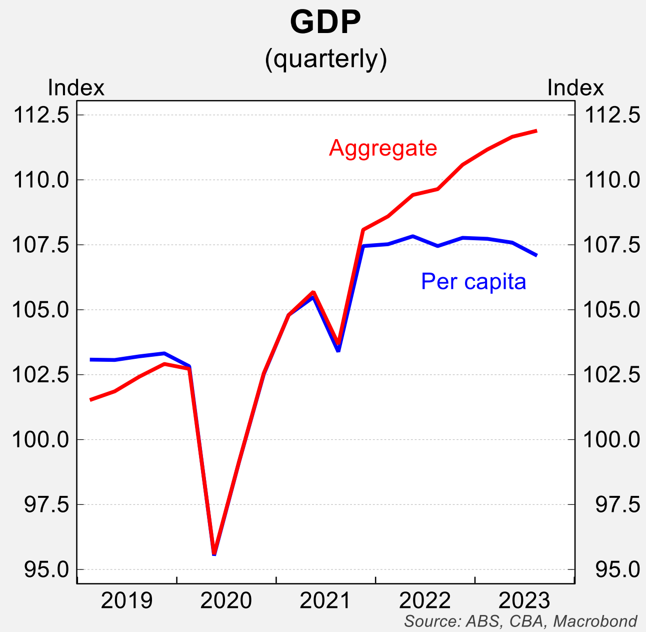
- H1 2024 to look a lot like 2023, but improvement expected in H2 2024
- Unemployment rate to continue to gradually lift
- Inflation to continue to fall – back in target range late 24/early 25
- Wages growth to moderate
- Dwelling prices to rise by a further 5.0% in 2024
- Circuit breakers to arrive in H2 24 – income tax cuts, lower inflation and lower interest rates
- RBA base case - 75bp rate cuts in H2 24 and 75bp in H1 25 – taking cash rate to 2.85%
- Key domestic risks are housing market and fiscal policy
- Global risks: China, US politics and supply chain

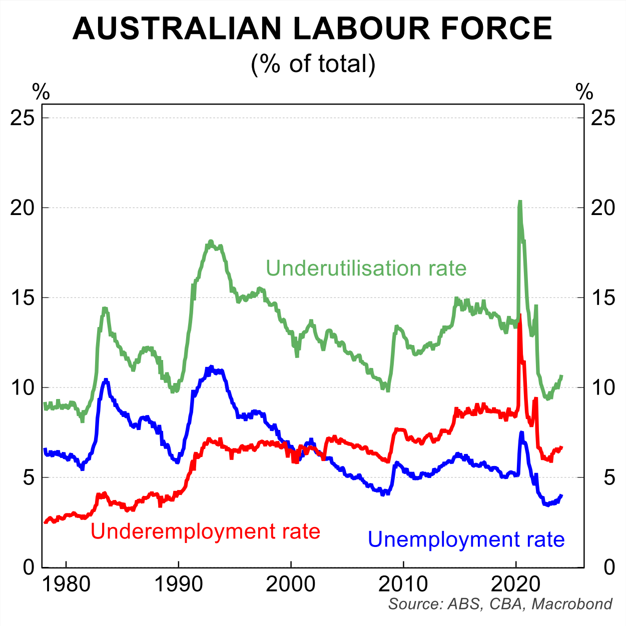
End-2024 forecasts (%)		
	CBA	Consensus
GDP (y/y)	1.6	1.6
GDP (annual average)	1.2	1.4
Unemployment rate	4.5	4.3
CPI (headline)	3.0	3.4
CPI (trimmed mean)	2.9	N/A
Wage price index	3.5	3.8
RBA Cash rate	3.6	3.95
10yr Bond yield	3.4	3.9
AUD/USD	0.71	0.70

Source: CBA, ABS and Bloomberg

2023 growth dominated by population surge

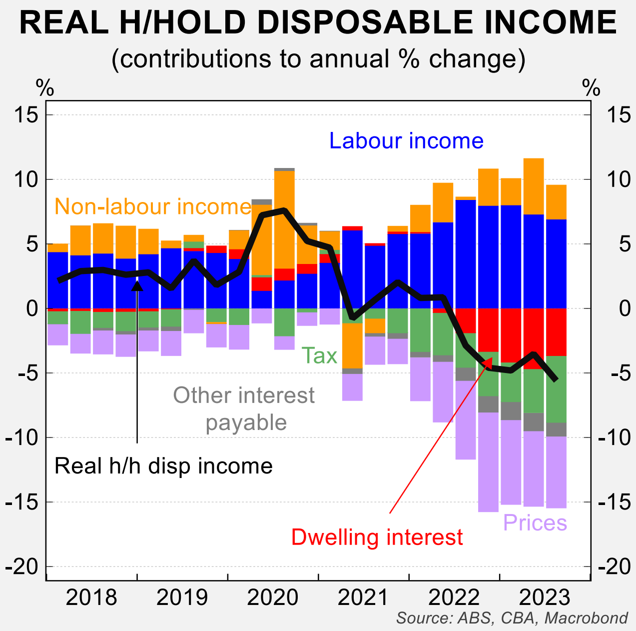


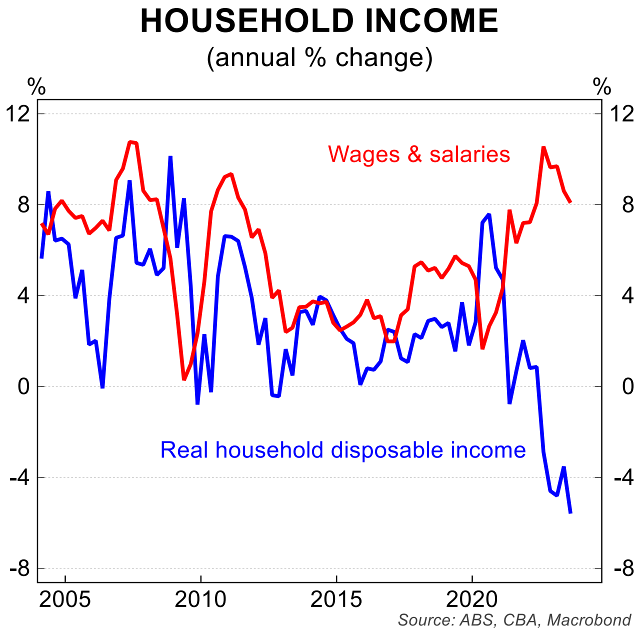


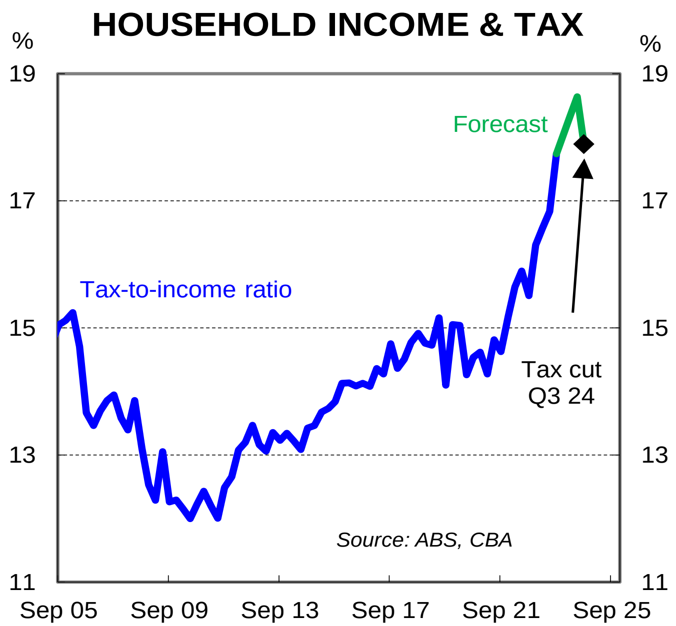


- The economy on aggregate continues to grow - but only due to strong population growth
- Net migration was ~500k in FY23 and forecast at 375k in FY24 and 250k in FY25 – well up on pre-Covid levels of 235k per year. Half of the net migration has been foreign students
- Real GDP per-capita declined across Q1-Q3 2023. Further decline expected in Q4 23
- The labour market has been very tight – but there are clear signs of some softening underway
- Unemployment rate has risen 0.5%/pts in the 6 months to January, further increase expected to end 2024
- Employment growth will be outstripped by labour force growth

A tough time for many households







- While nominal income growth has been strong – real disposable income growth has collapsed
- Strong labour income (wages & salaries) and non-labour income (govt benefits and return on savings) is being more than offset by higher prices (inflation), a surge in taxes paid and higher interest costs
- Real household disposable income was smashed in Q3 23, down by -1.7%/qtr to be -5.6% lower through the year
- Q4 23 GDP data on 6 March likely to show ongoing weakness

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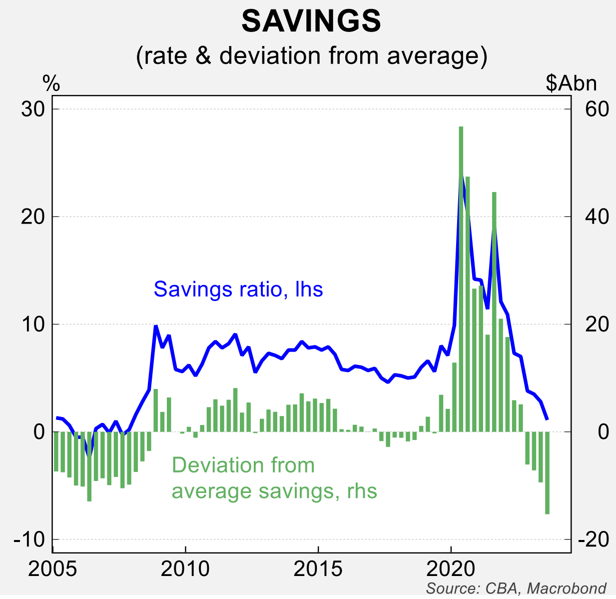
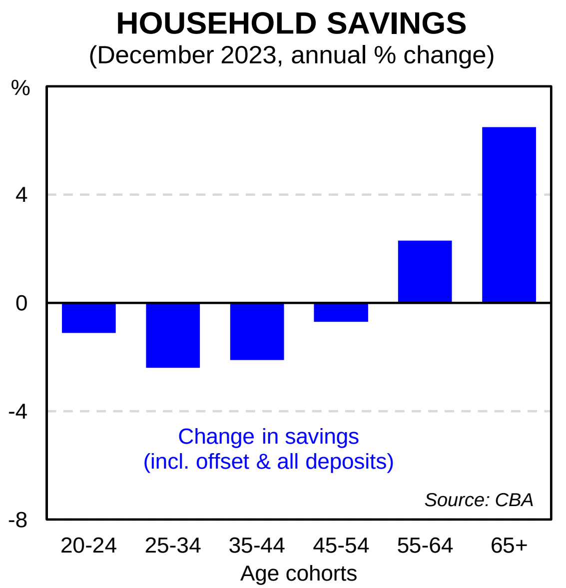
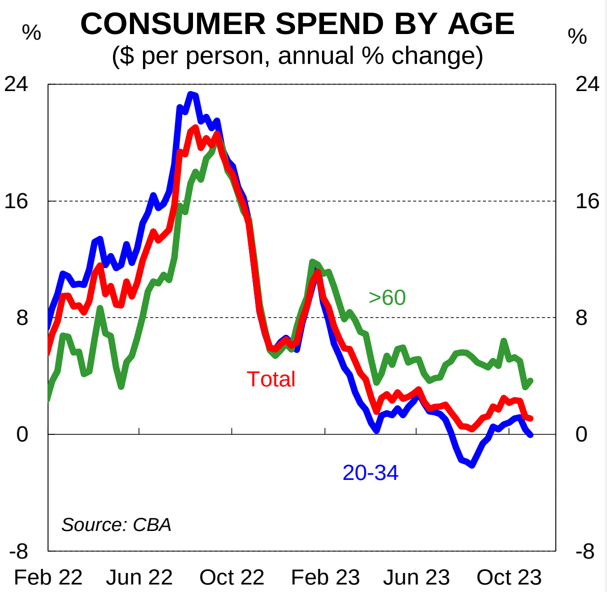
Household savings have increased – but not evenly







- Australians significantly increased their savings during Covid, as the savings rate jumped higher and government payments boosted income
- But the Household savings ratio has collapsed back to just 1.1% in Q3 23, well down from the pre-Covid range around 5%-10% and the Covid high of 23.5%
- The largest increase in savings has been amongst 'older' Australians – with a strong skew to the over 65yrs, while savings of the 18-54 age groups is declining
- This has also been reflected in spending, with 60yrs+ spending holding up much stronger than 20-34yrs

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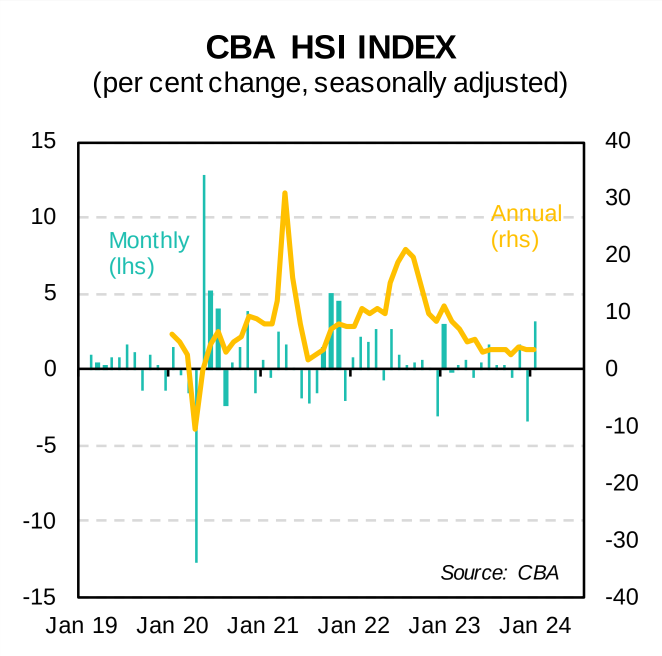
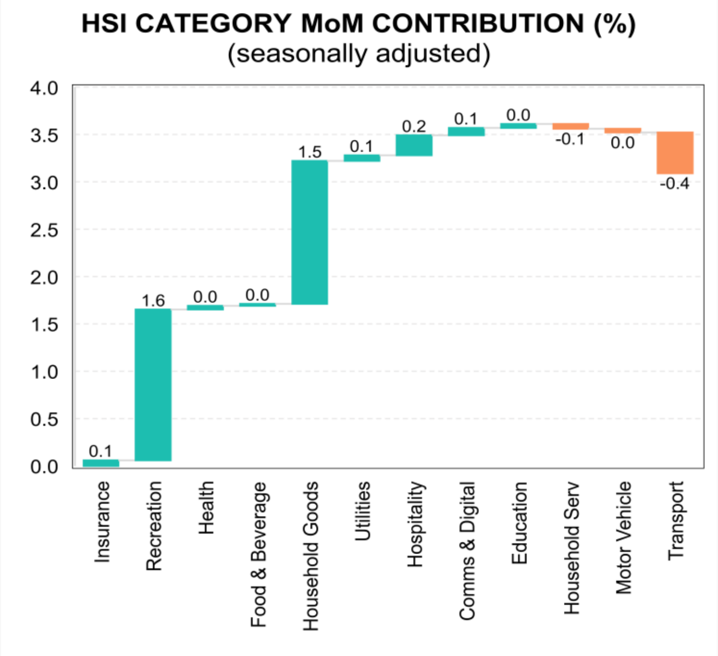
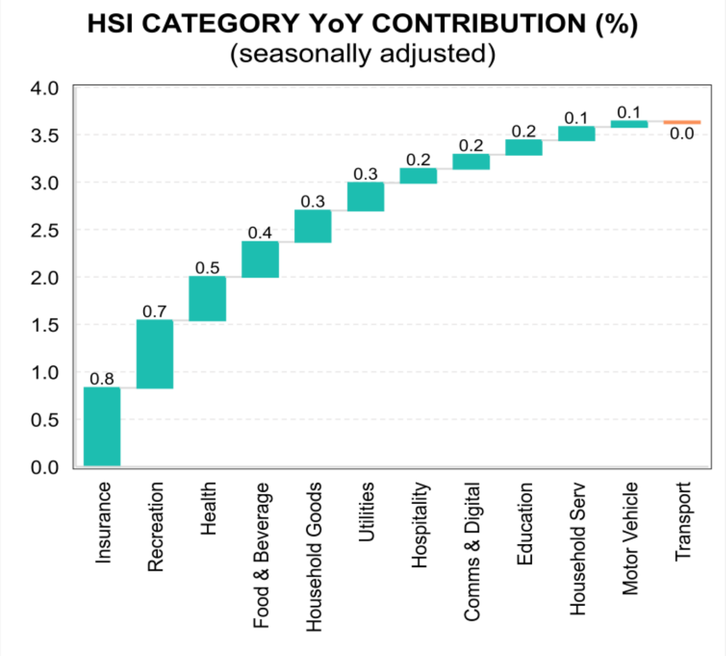
CommBank Household Spending Insights (HSI) – January 2024







- HSI index was up 3.1%/mth in January 2024 – but this failed to fully offset the -3.5%/mth decline of December 2023
- Spending in January was led by Recreation (summer activities and Australian Open) and Household goods, up 10.5%/mth – but this was less than the -15%/mth fall in December
- Year to January spending was up 3.6% - close to zero in real terms
- Spending increases in year to January dominated by Insurance, Recreation, Health and Food & Bev
- February data will be out 13 March – Taylor Swift effect?

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HSI Index by State

All states and territories experienced gains over the month of January 2024, after all states and territories bar the NT fell in December 2023.

The largest gains in the month were in Vic (2.8%), SA (2.4%) and NSW (2.3%). Both Qld and WA recorded a 2.2% lift. The ACT (1.8%) and the NT (1.4%) recorded more modest gains.

In the year to Jan, the strongest Household Spending gain has been in WA, recording a strong 4.7% lift. Tas and SA also recorded gains of above 4% at 4.2%. Qld recorded a 4% lift through the year.

Softer growth has been seen in NSW (3.1%), with Vic the real laggard with growth over the past year sitting at just 1.6%.

WA

WA remains the strongest state for Household Spending in the year to January.

+2.2%/month

+4.7%/year

NT

Spending was up 1.4%/mth in NT in Jan, with the annual rate sitting at 3.5%.

+1.4%/month

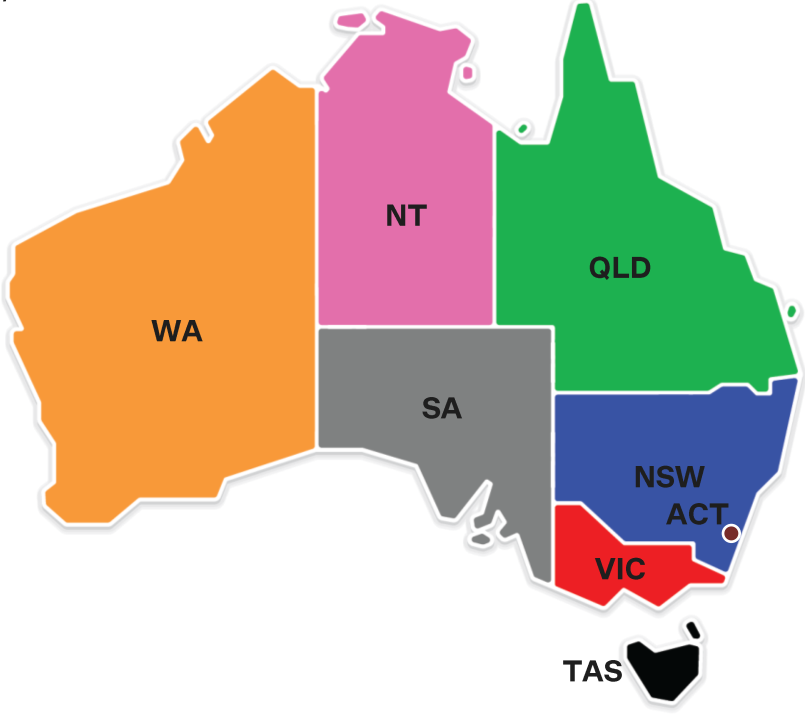
+3.5%/year

QLD

Qld saw a large gain in the month at 2.2% and remains one of the strongest performers over the year.

+2.2%/month

+4.0%/year



NSW

NSW spending rose by 2.3% in Jan, but remains on the softer side over the past year.

+2.3%/month

+3.1%/year

ACT

Spending in the ACT is running below some of the smaller states in both monthly and annual terms.

+1.8%/month

+1.9%/year

SA

SA rose by 2.4% in Jan and at 4.2%/yr is sitting just behind WA as the top performer.

+2.4%/month

+4.2%/year

TAS

Tas saw a large lift in spending over the month and is one of the top performers over the past year.

+2.3%/month

+4.2%/year

VIC

Vic saw the largest lift in Jan at +2.8%/mth (likely partly due to the Aust Open), after falling the most in Dec. Vic is lagging over the year.

+2.8%/month

+1.6%/year

ation has been developed by the Global Economic & Markets Research team

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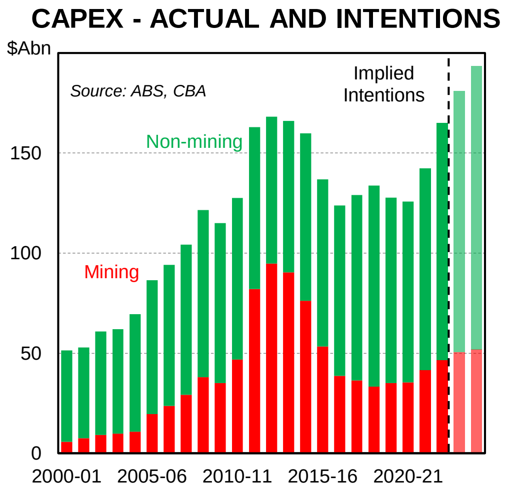
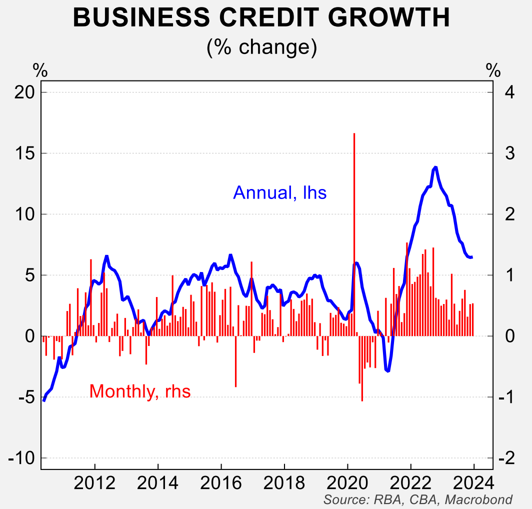
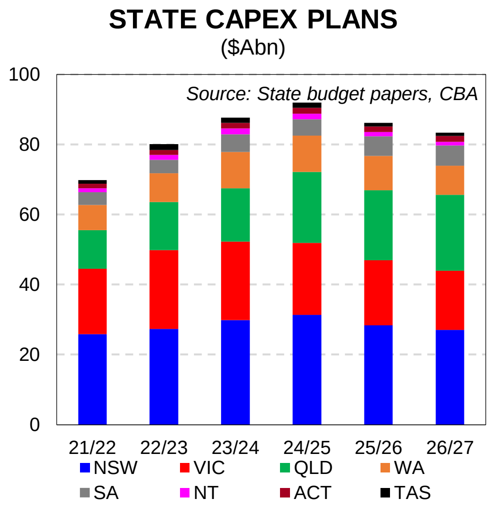
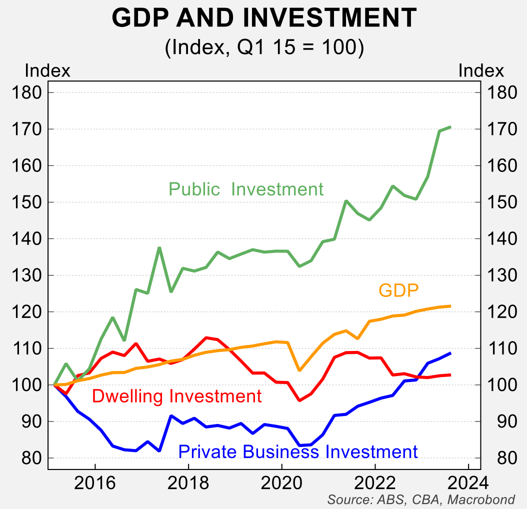
Business investment looking solid









- Business investment rose by 0.8%/qtr in Q4 23. Mining investment rose 1.1%/qtr, with non-mining up 0.6%/qtr.
- For all of 2022/23 private sector capex rose by over 10%/yr. Investment intentions have held up well given the growing economic headwinds over recent months.
- Investment intentions for 2023/24 imply a marginally softer gain of 8.8%/yr, and then ~6.5%/yr in 2024/25.
- Business credit growth was strong in 2022, but the annual growth rate has slowed through 2023 as the RBA hikes interest rates.
- State infrastructure (capex) plans remain high – but with cost and time-frame blow-outs.

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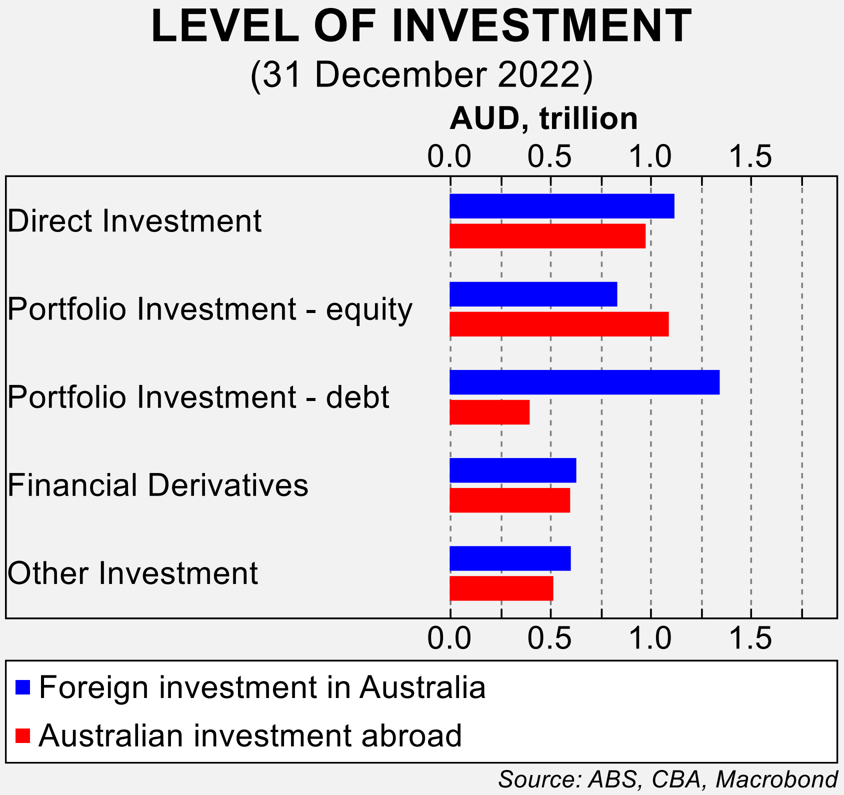
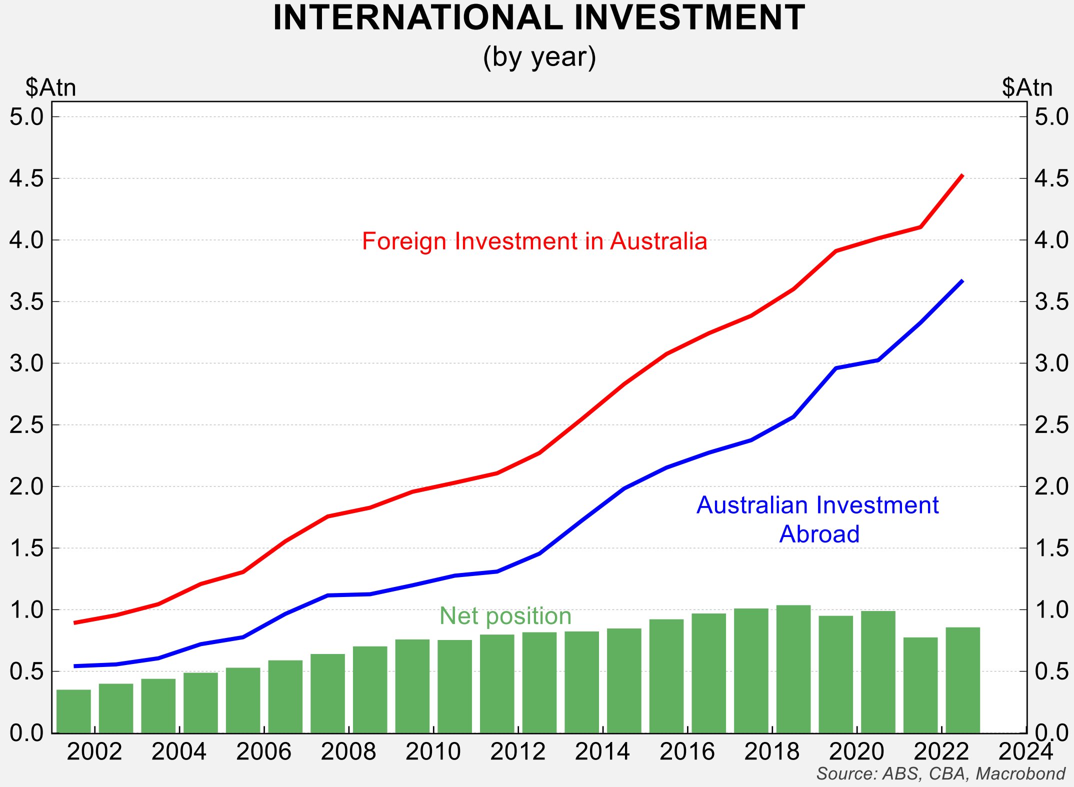
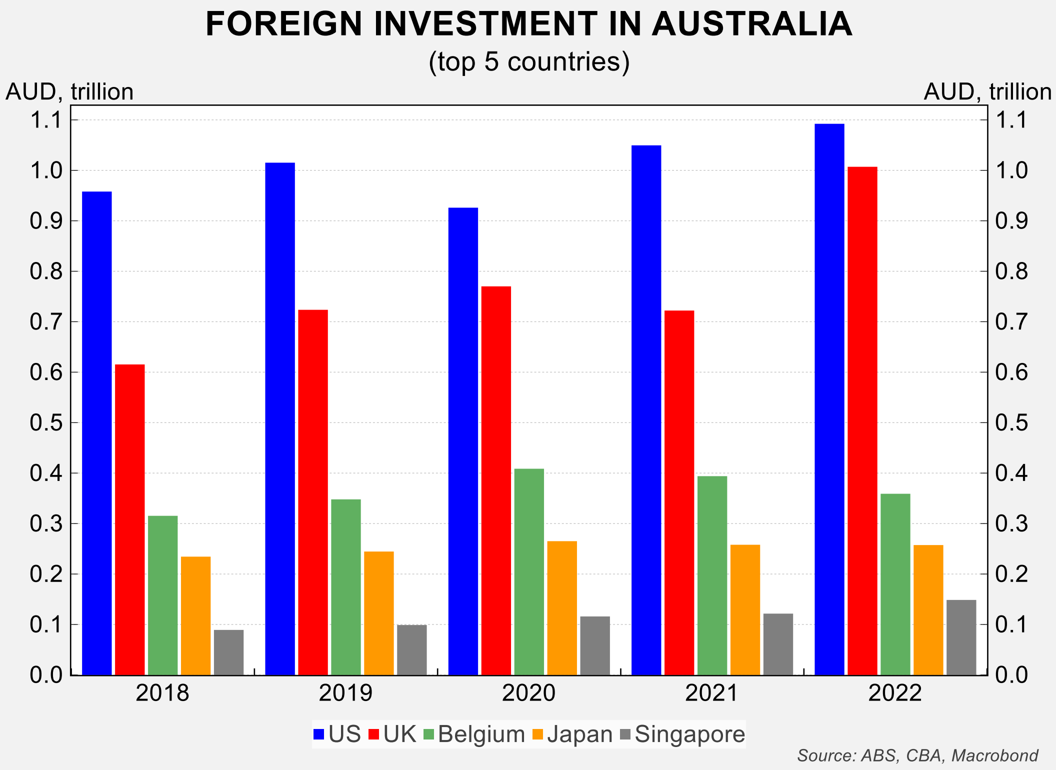
Strong two-way capital flows into Australia and the world

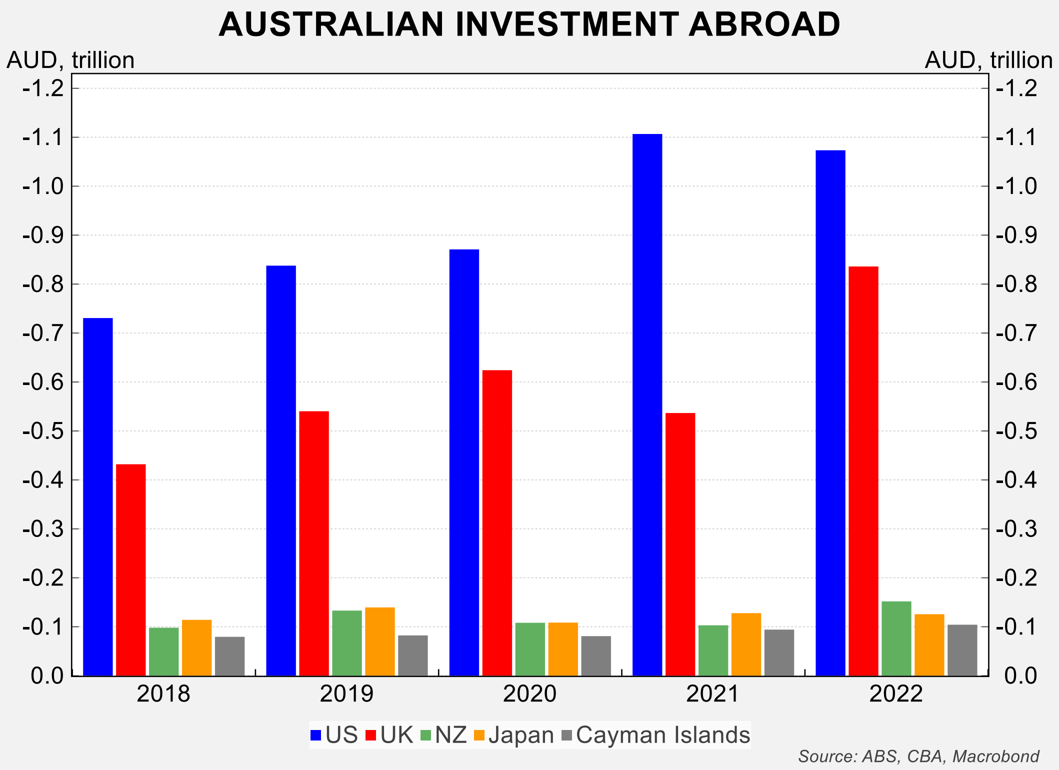




- Australian investors prefer to send capital to global equity markets and direct investments.
- Global investors prefer Australian debt markets, followed by direct investment and then equity markets.
- Capital investments into and out of Australia have been strong, but with the net position softening through Covid.

US and UK still dominate in investment flows





- The US and UK still dominate both inbound and outbound investment flows.
- EU and Japan also represented.

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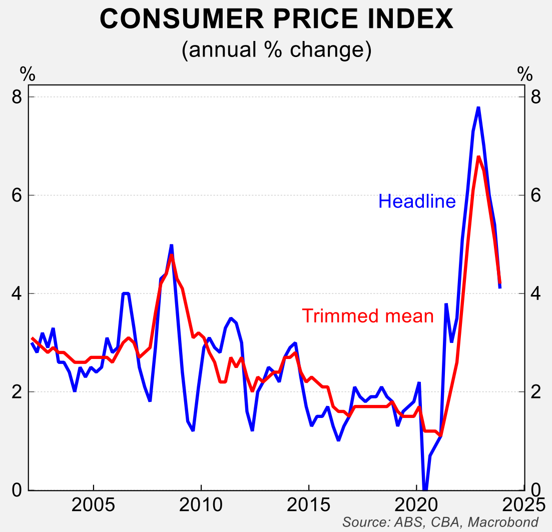
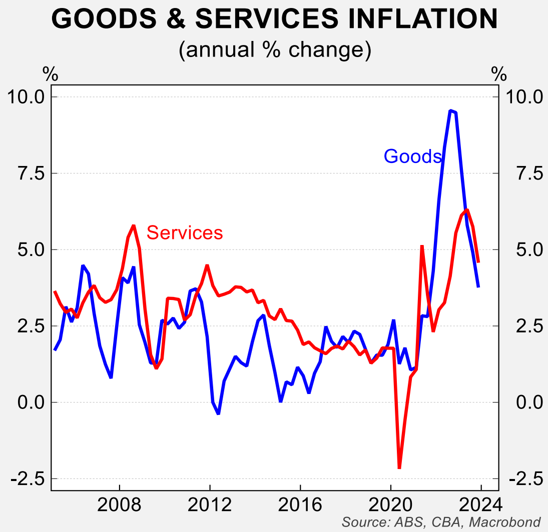
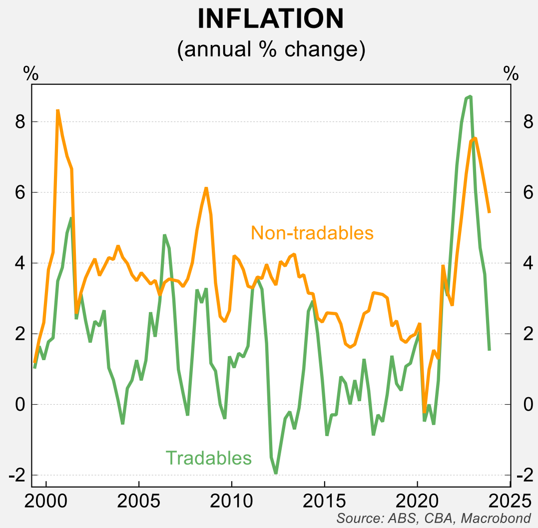
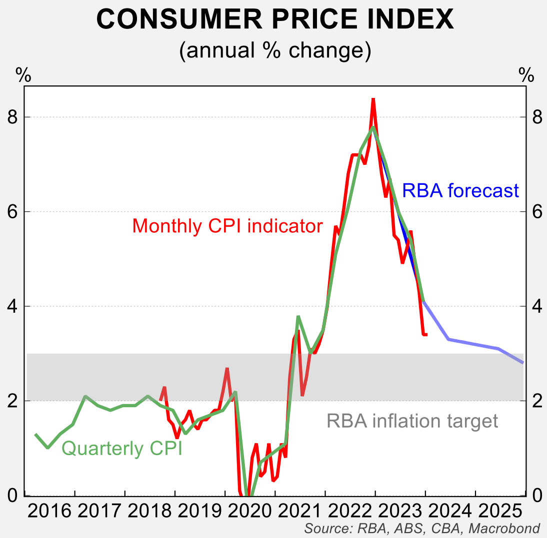
Inflation now moderating – will slow further in 2024









- The annual rate of Headline inflation moderated further to 4.1% in Q4 CY23, down from 5.4% in Q3 CY23 and a peak of 7.8% in Q4 CY22. Trimmed mean (underlying) inflation decelerated to 4.2%/yr from 5.1%/yr in Q3 CY23.
- Both the annual rate of Goods and Services price inflation decelerated at the end of 2023.
- The monthly CPI Indicator for January 2024 was steady at 3.4%/yr.
- Headline inflation is forecast to continue to ease to ~3.0% in Q4 2024 and then to ~2.5% in mid-2025.
- Both headline and underlying inflation forecast close to the RBA's 2%-3% target by year-end 2024.
- This will help allow the RBA to begin a monetary policy easing cycle in late 2024 and into early 2025.

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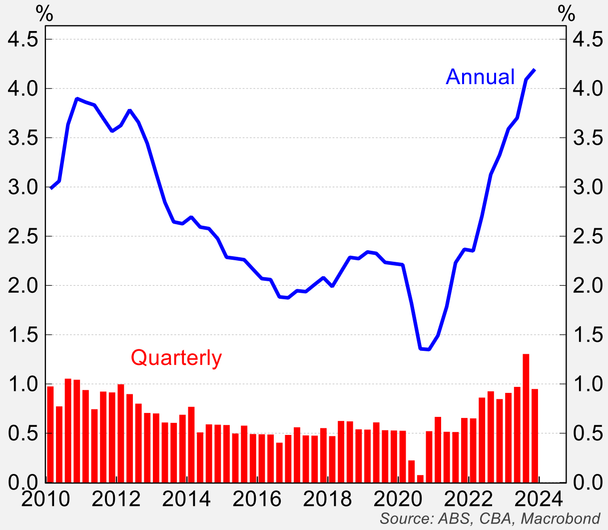
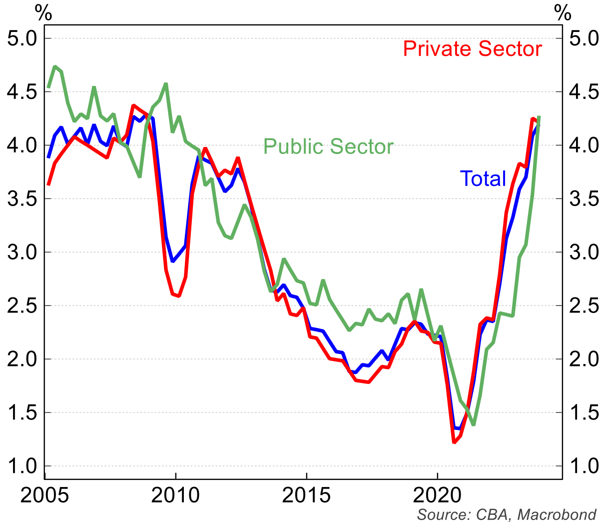
Wages growth on the move – Productivity is poor

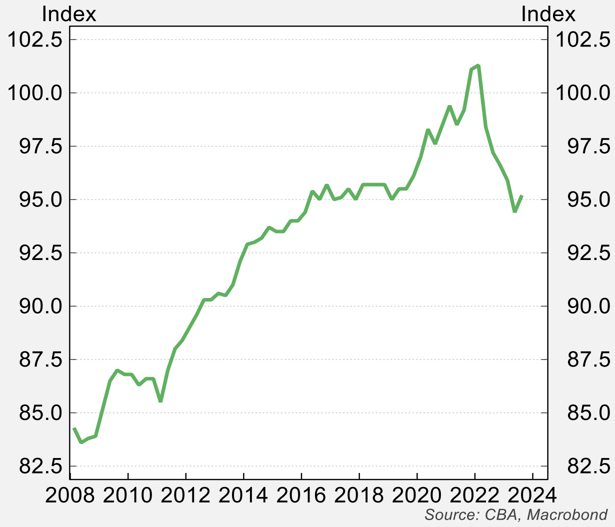
WAGE PRICE INDEX
(% change)



WAGE PRICE INDEX
(annual % change)



LABOUR PRODUCTIVITY
(GDP per hour worked)



- Wages rose by 0.9%/qtr and 4.2%/yr in Q4 23, with the pace of annual growth the strongest since Q2 2008.
- Private sector wages growth was 4.2%/yr, while public sector wages growth was 4.3%/yr.
- The ABS noted most of the wages growth in Q4 23 was driven by enterprise agreements setting higher in the public sector - particularly for essential workers. Wages growth in the private sector, and those for individual agreements, which are more tied to the demand for labour slowed
- Labour productivity rose by a modest 0.8%/qtr in Q3 23, but is 6% lower than the high of Q1 22. On this broad measure, labour productivity is back to where it was in 2019.

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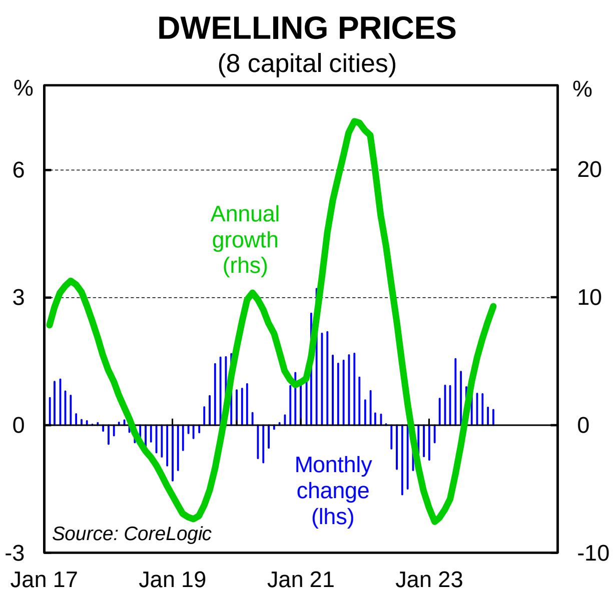
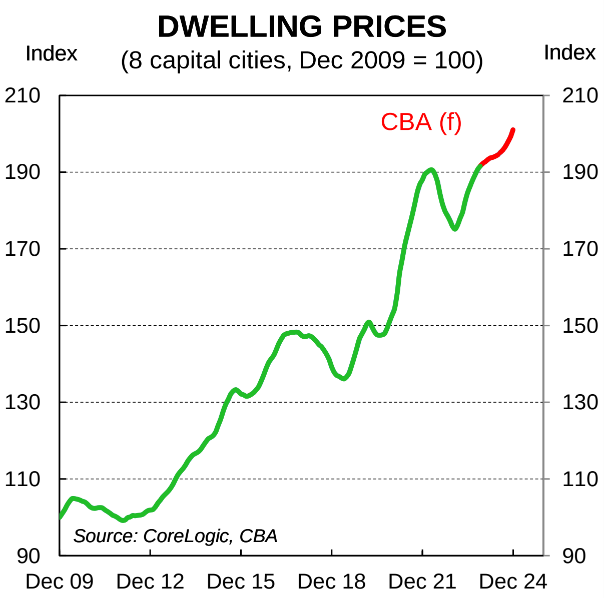
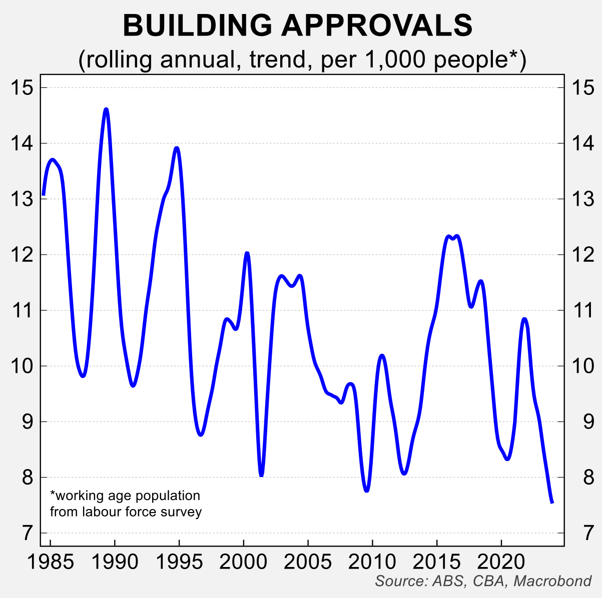
Home prices now rising – with more to come!







- Dwelling prices are now up 11% since the trough in February 2023 – led by Perth, Adelaide and Brisbane
- We expect dwelling prices to rise by a further 5% in 2024
- The biggest concern is the sharp drop in new dwellings being approved and constructed. This will create long-term issues in the housing market
- Dwelling approvals per 1,000 people are at historic lows
- We estimate building commencements totalled 164,000 in 2023 and are f/c at 166,000 in 2024....well short of the ~240k per year required to reach the governments objective of 1.2m new dwellings over 5 years

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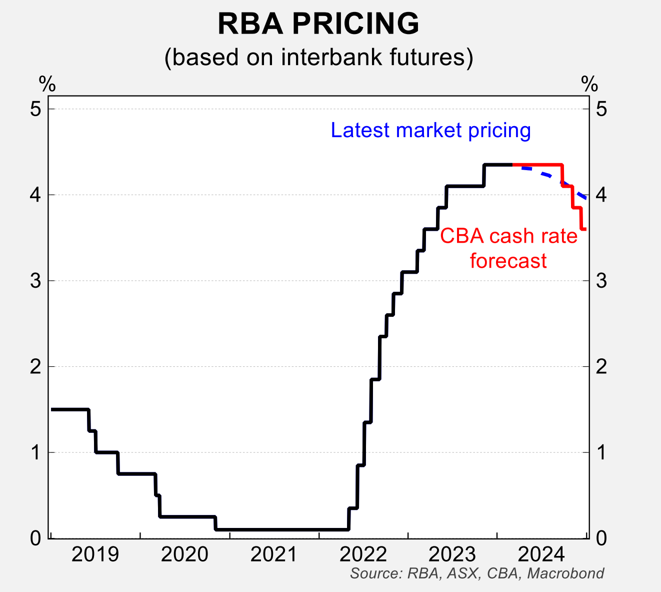
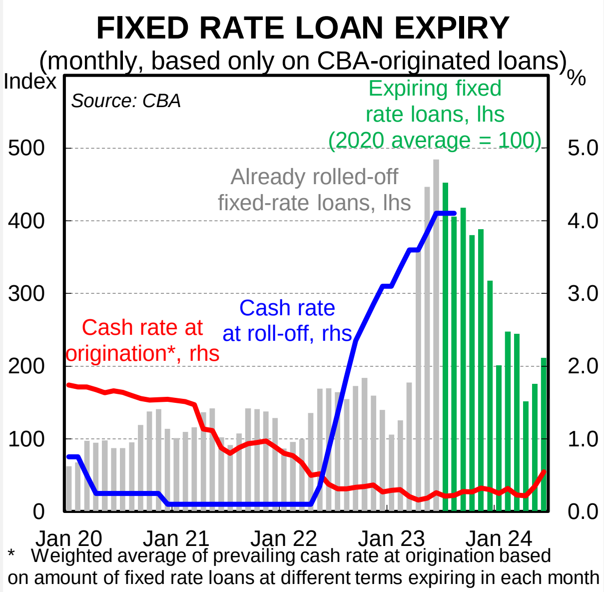
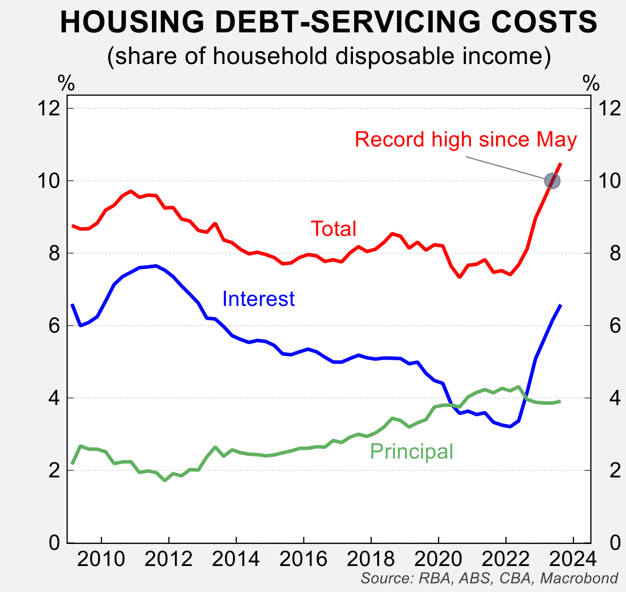
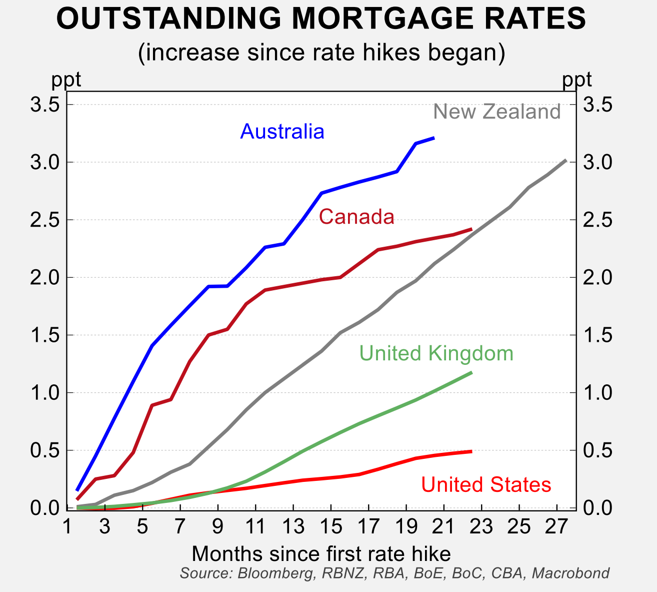
RBA – Monetary policy to turn in 2024





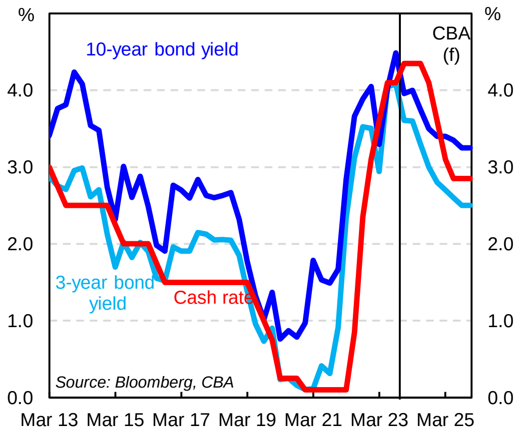




- The RBA has been part of the global monetary policy tightening cycle starting since May 2022, with a hike to 4.35% in November 2023.
- The new RBA Governor (and Board) held rates unchanged at 4.35% in December 2023 and February 2024 – as widely expected, but retained a tightening bias.
- Financial conditions will continue to tighten in early 2024 on the lagged impact on variable mortgages and a large fixed rate mortgage refinancing task.
- Our base case is for no further rates hikes from the RBA in this cycle. We expect rate cuts to get underway from September 2024, with the cash rate to be lowered 150bp to 2.85% by mid-2025.

Bond yield and Swap forecasts - Rally to continue in 2024 and 2025

AUSTRALIAN INTEREST RATES



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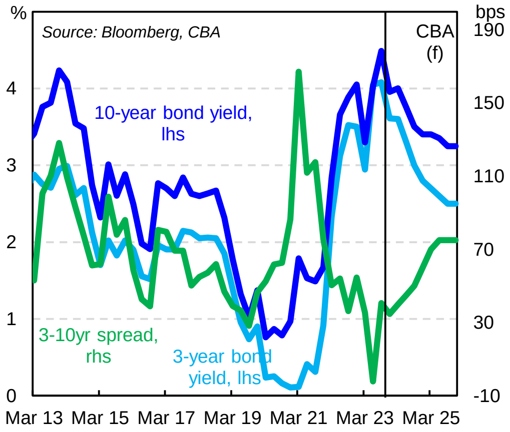
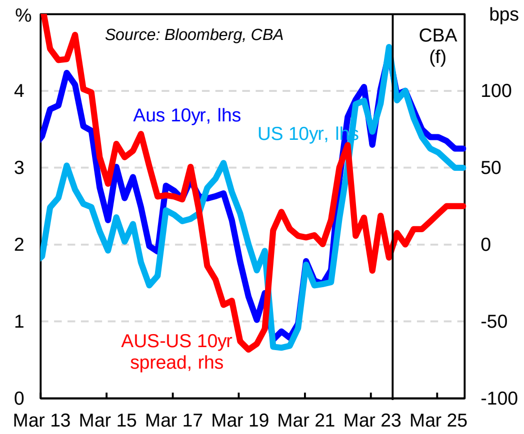
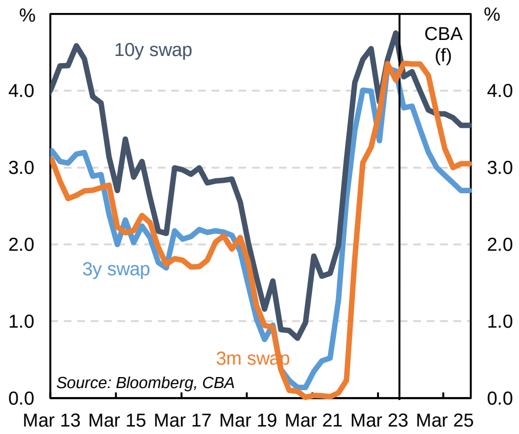


AUSTRALIAN & US BOND YIELDS



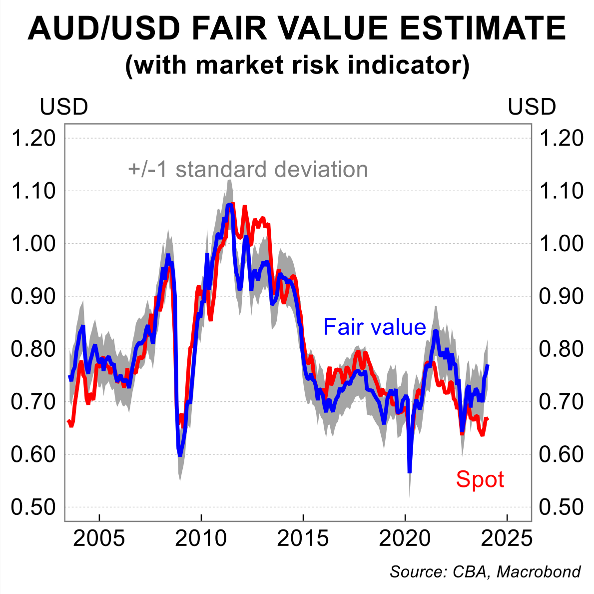
AUSTRALIAN SWAP RATES

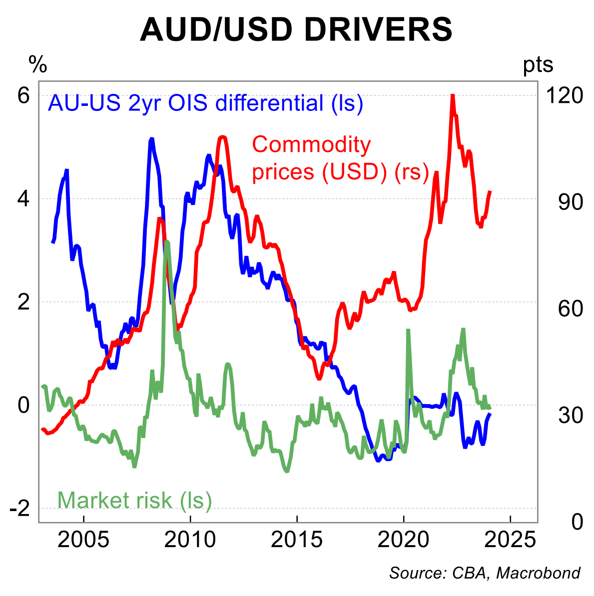


- The pivot to monetary policy easing from major Central Banks, including the RBA, an ongoing deceleration in inflation and slower global economic growth;
- All point to lower bond yields and swap rates over the course of 2024
- But the path lower is never linier, expect ongoing volatility along the way
- Australia 3yr yields f/c 2.8% at year-end 2024 (now 3.73%), with 10yr yields f/c at 3.4% (now 4.15%)
- Steeper curve and a small widening in Aust/US10yr spread

Source: RBA, US Federal Reserve and CBA Global Economic & Markets Research

AUD higher in coming year as global rate cuts help economy





- AUD f/c $US0.64 March 24, $US0.66 June 24, $US0.71 Dec 24, $US0.75 June 25 and $US0.77 Dec 25
- AUD fair value is driven by: key commodity prices, Aust-US two-year swap spreads and global volatility measures
- We expect AUD to be volatile in early 2024, but push lower in the very near-term as commodity prices moderate and rates spreads narrow
- But a better global economic outlook in H2 2024 (as interest rate cuts get underway) should see USD weaken and would push AUD higher

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