

The Economy: Perception & Reality

Gareth Aird

Senior Economist (Director)

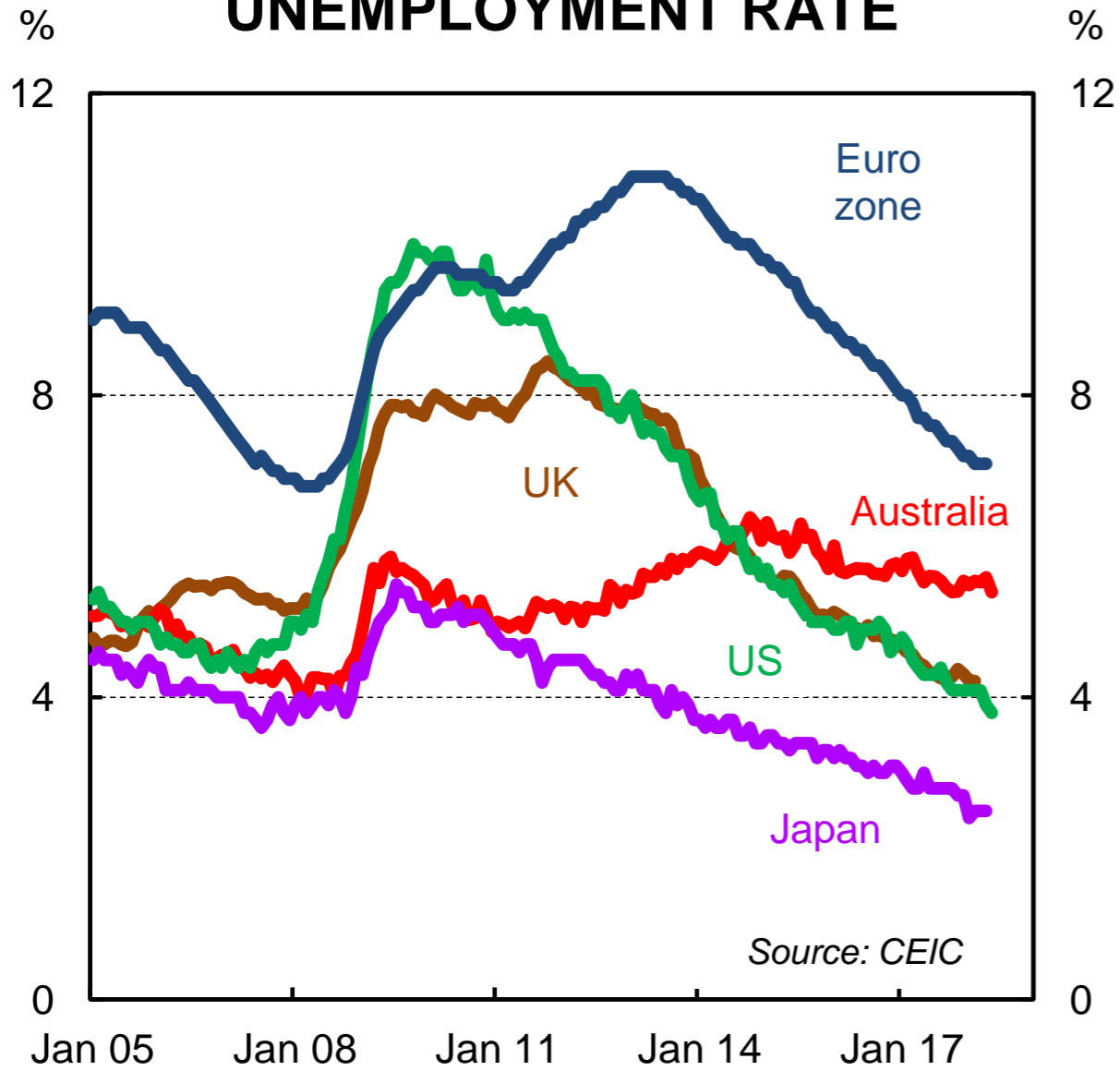
+612 9118 1100

March 2019

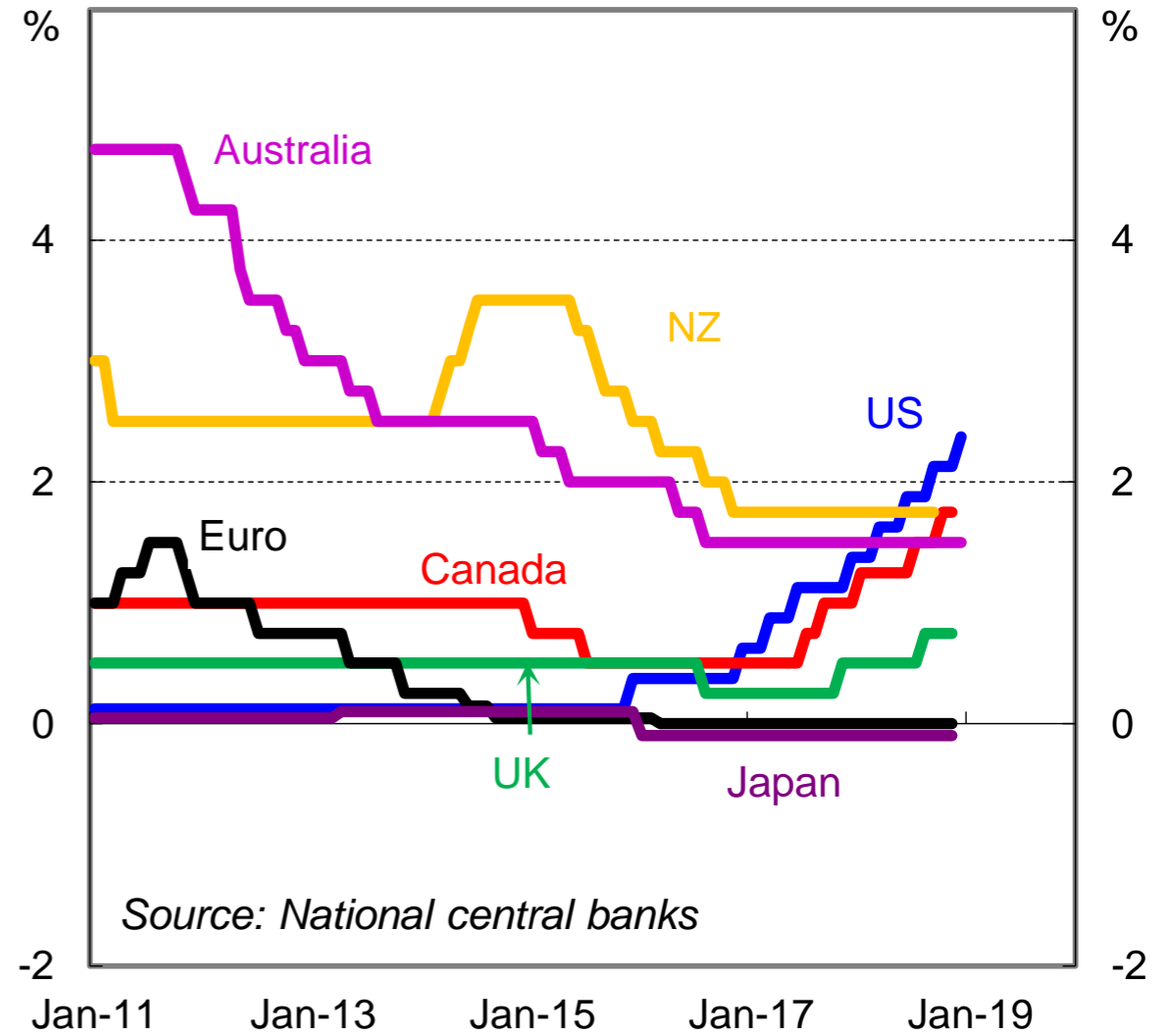
Commonwealth Bank
of Australia



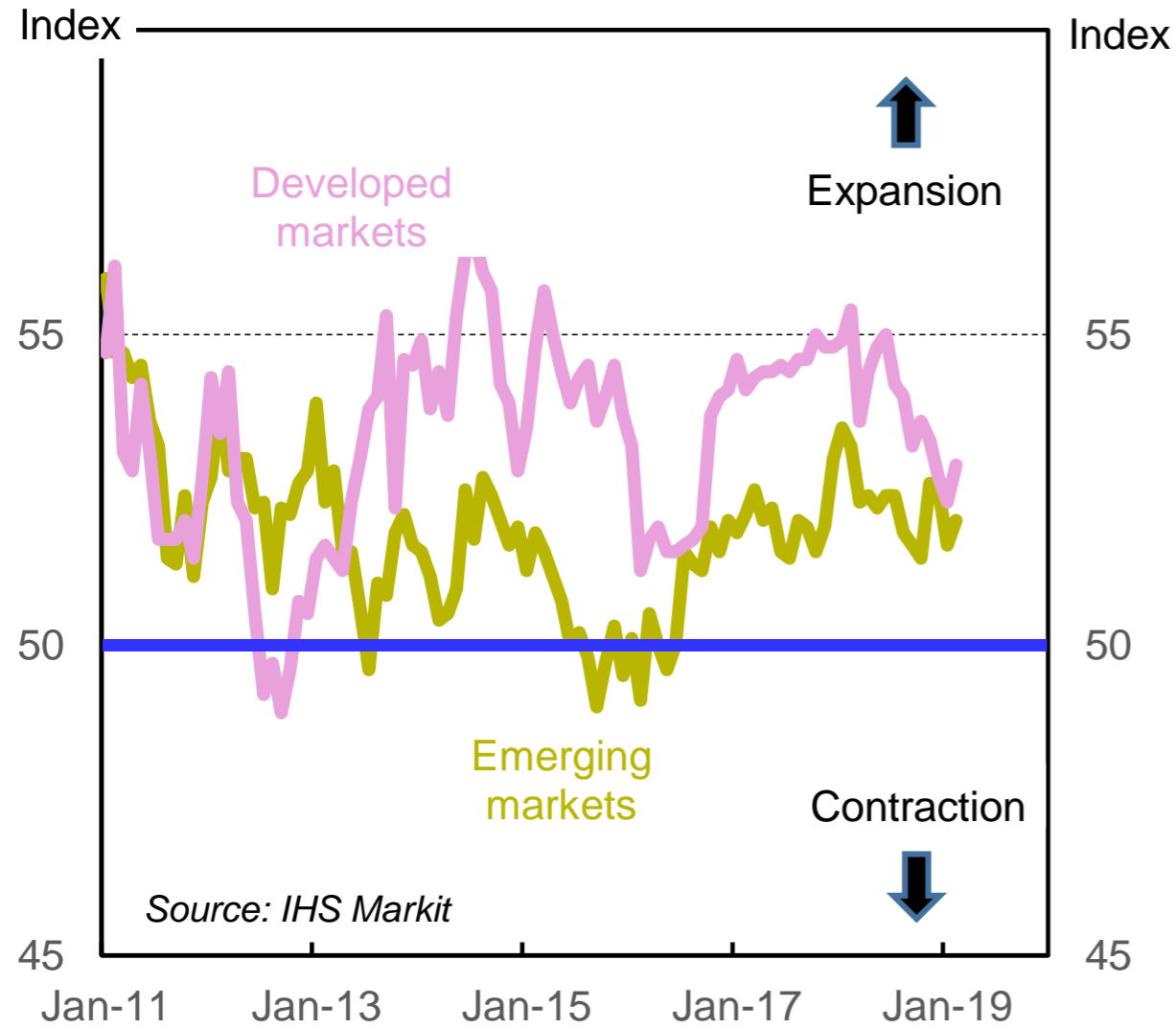
UNEMPLOYMENT RATE



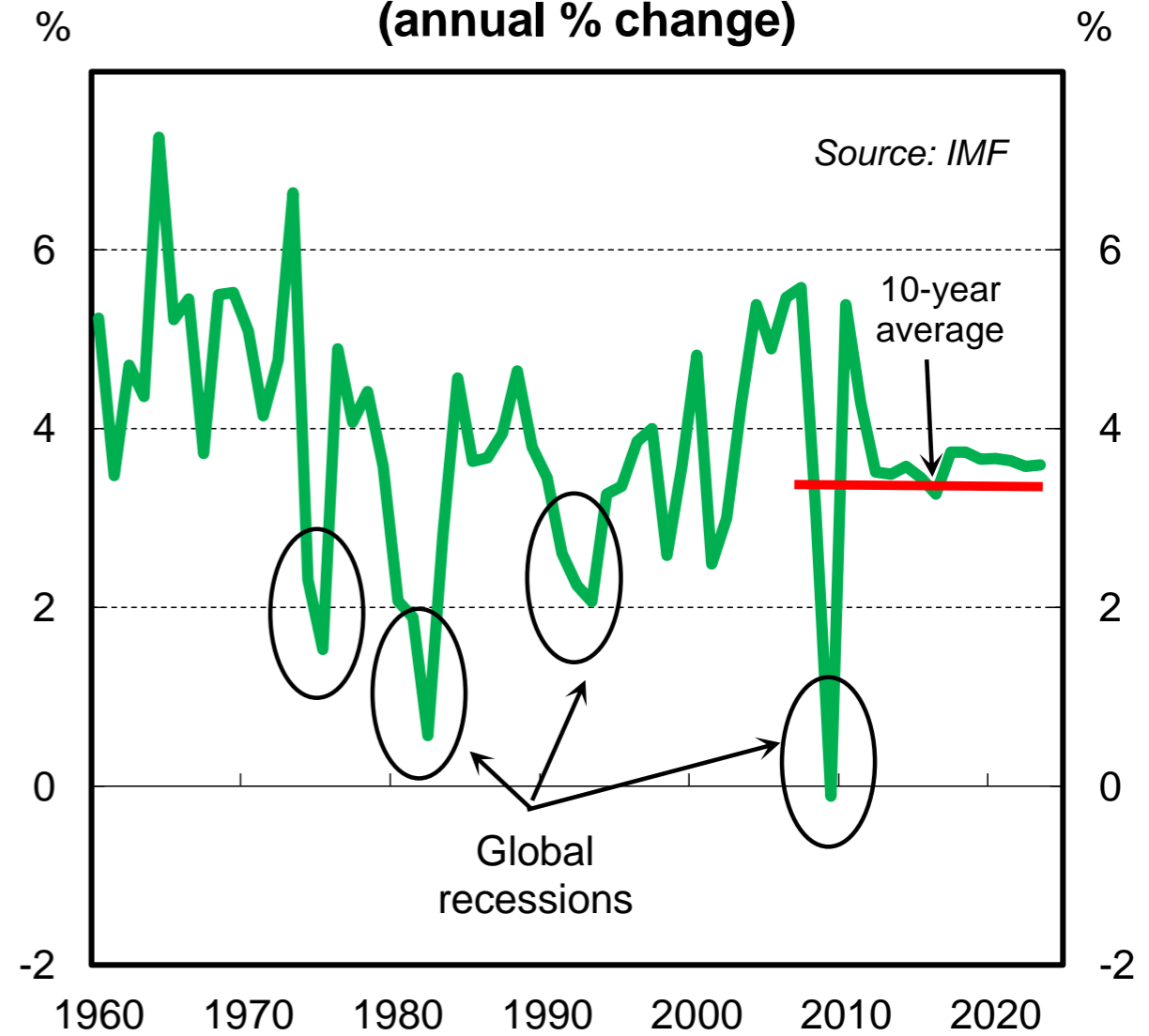
OFFICIAL INTEREST RATES

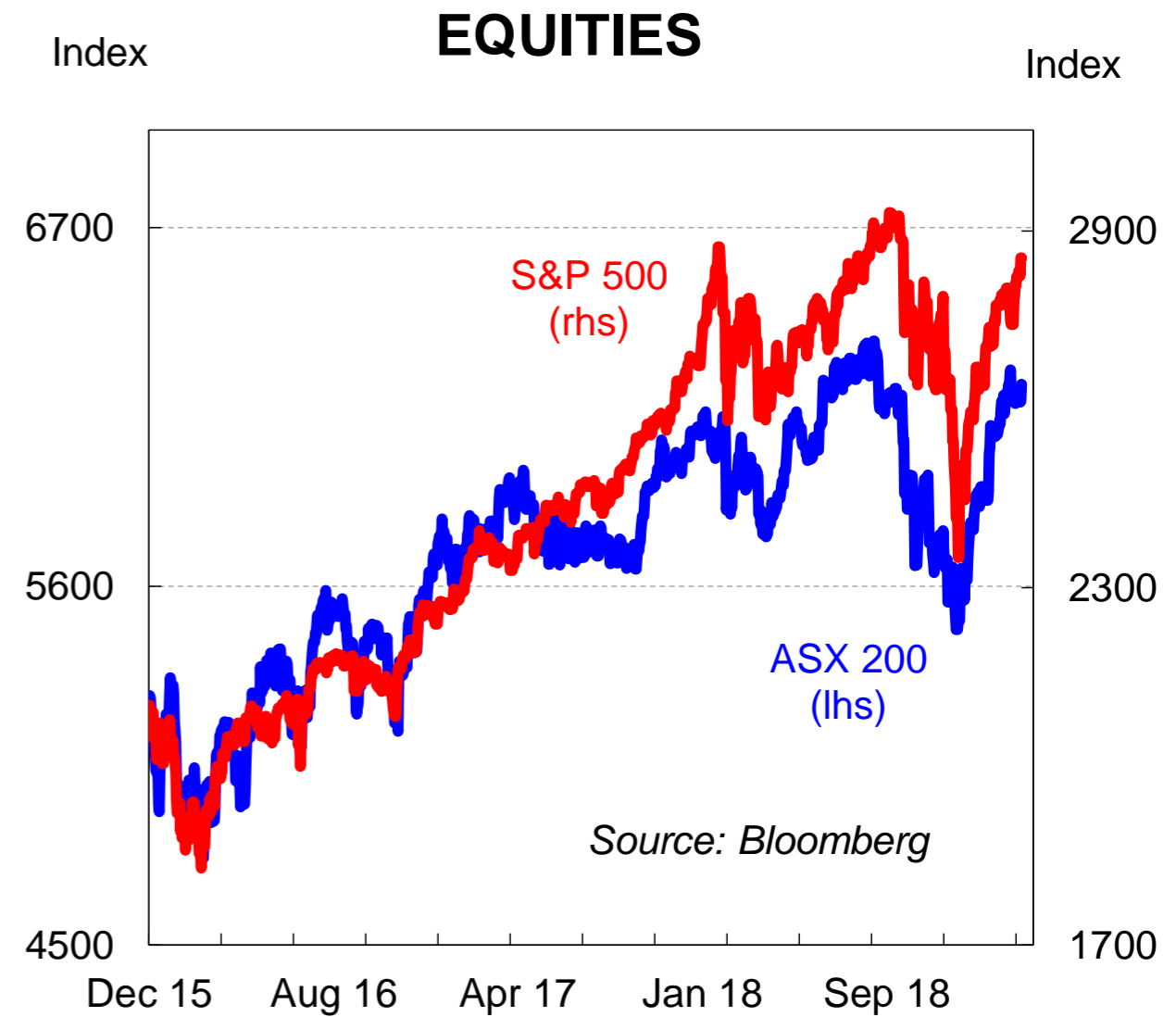
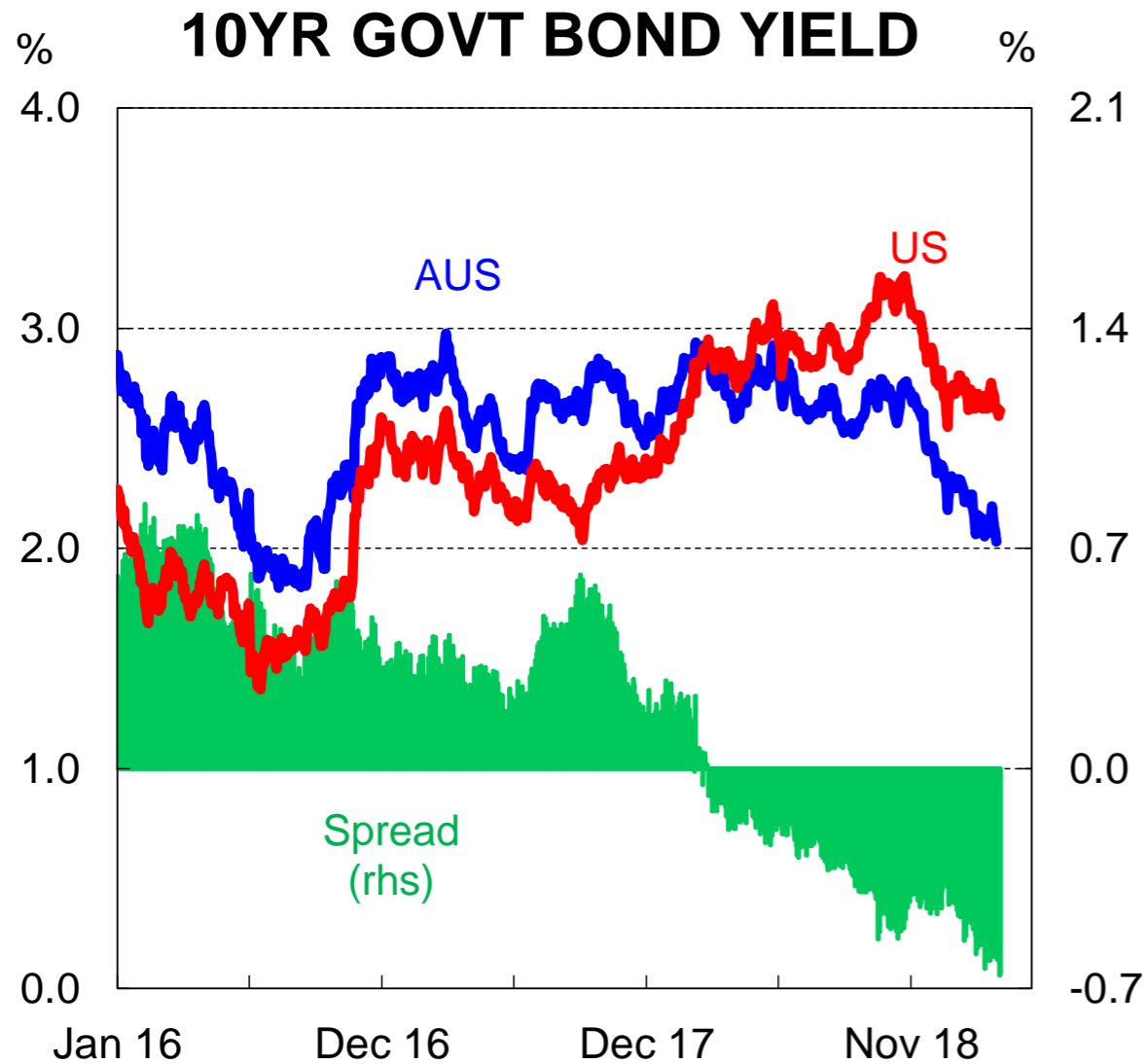


GLOBAL COMPOSITE PMI



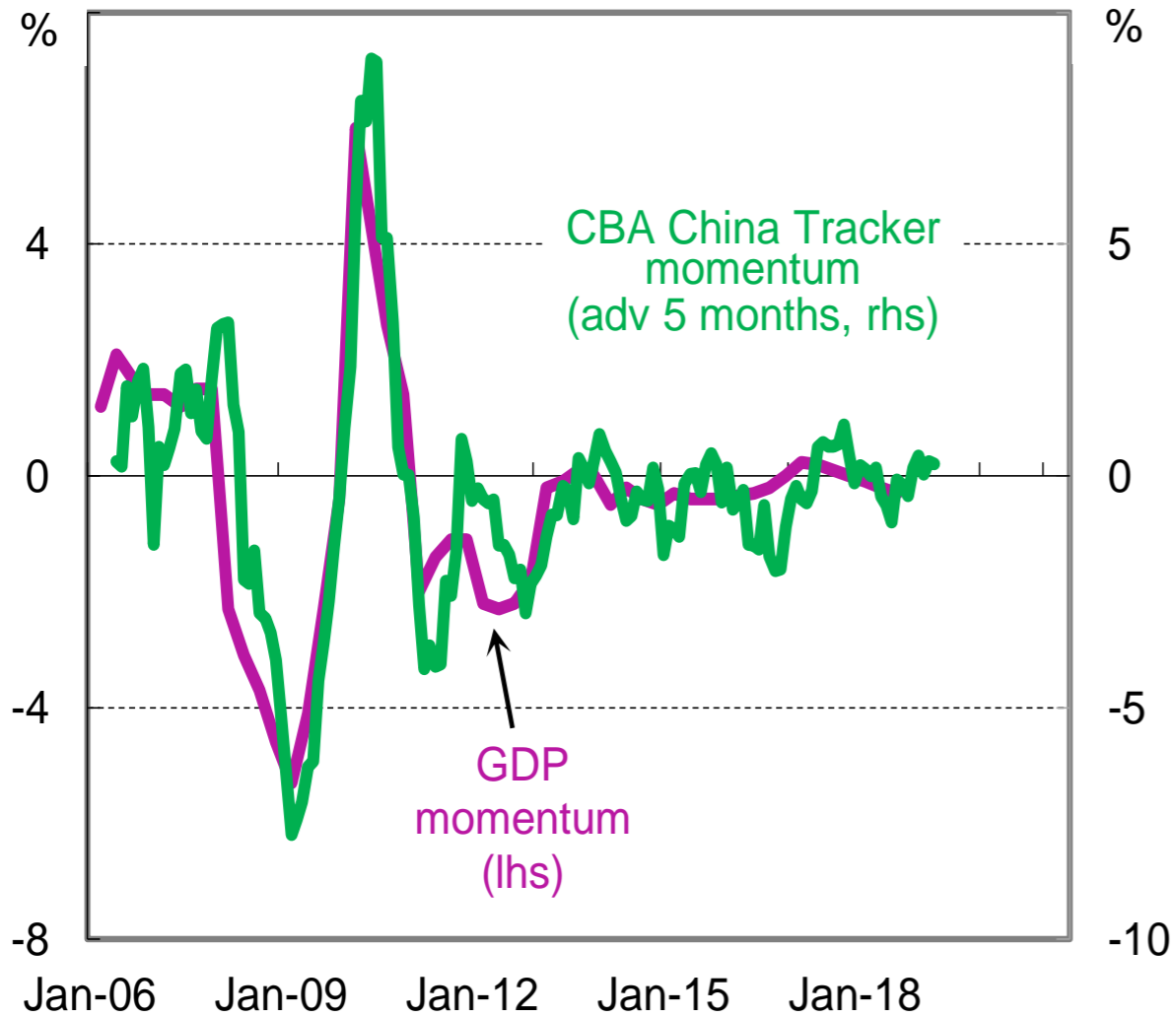
WORLD GROWTH (annual % change)





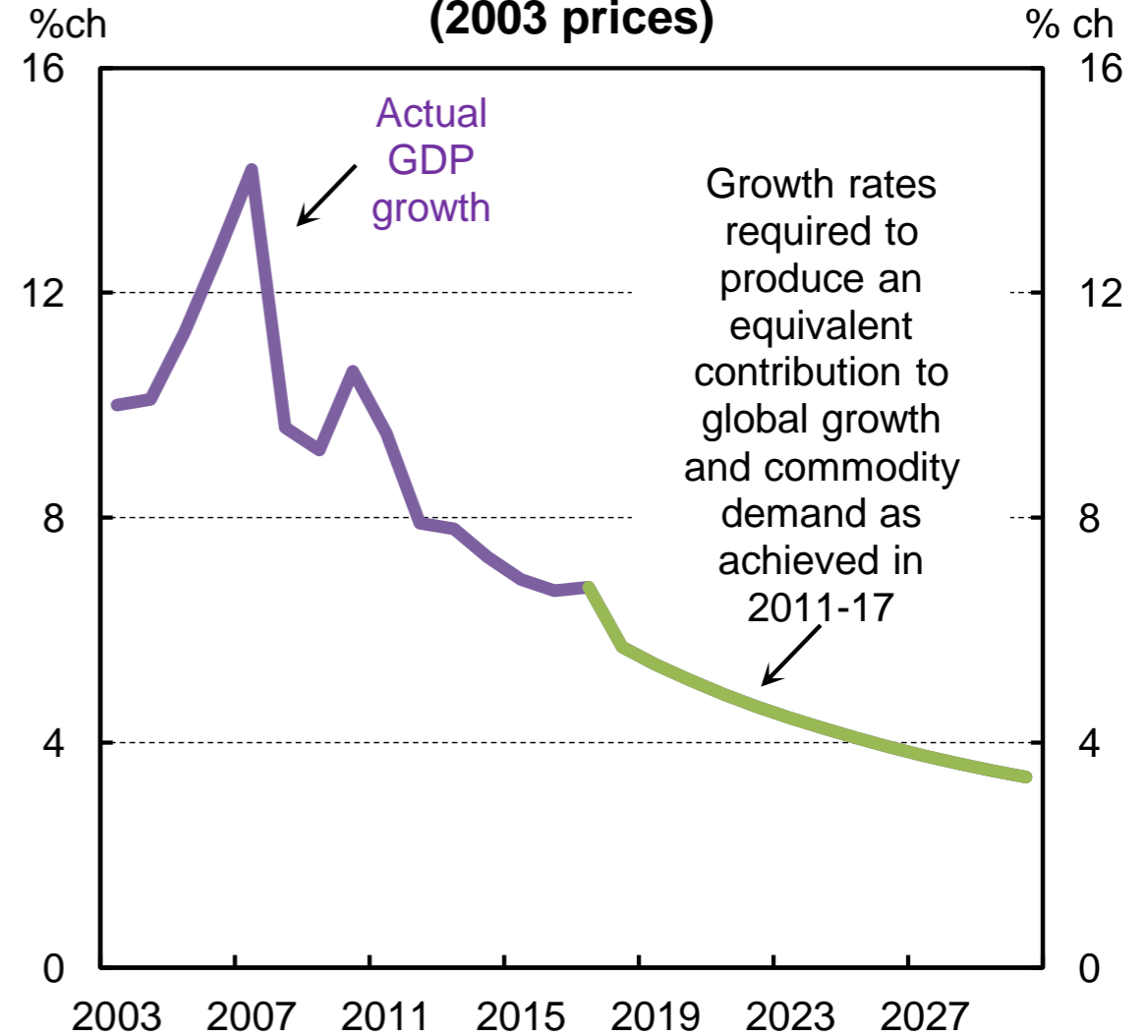
CBA CHINA TRACKER

(momentum - change in annual growth rate)

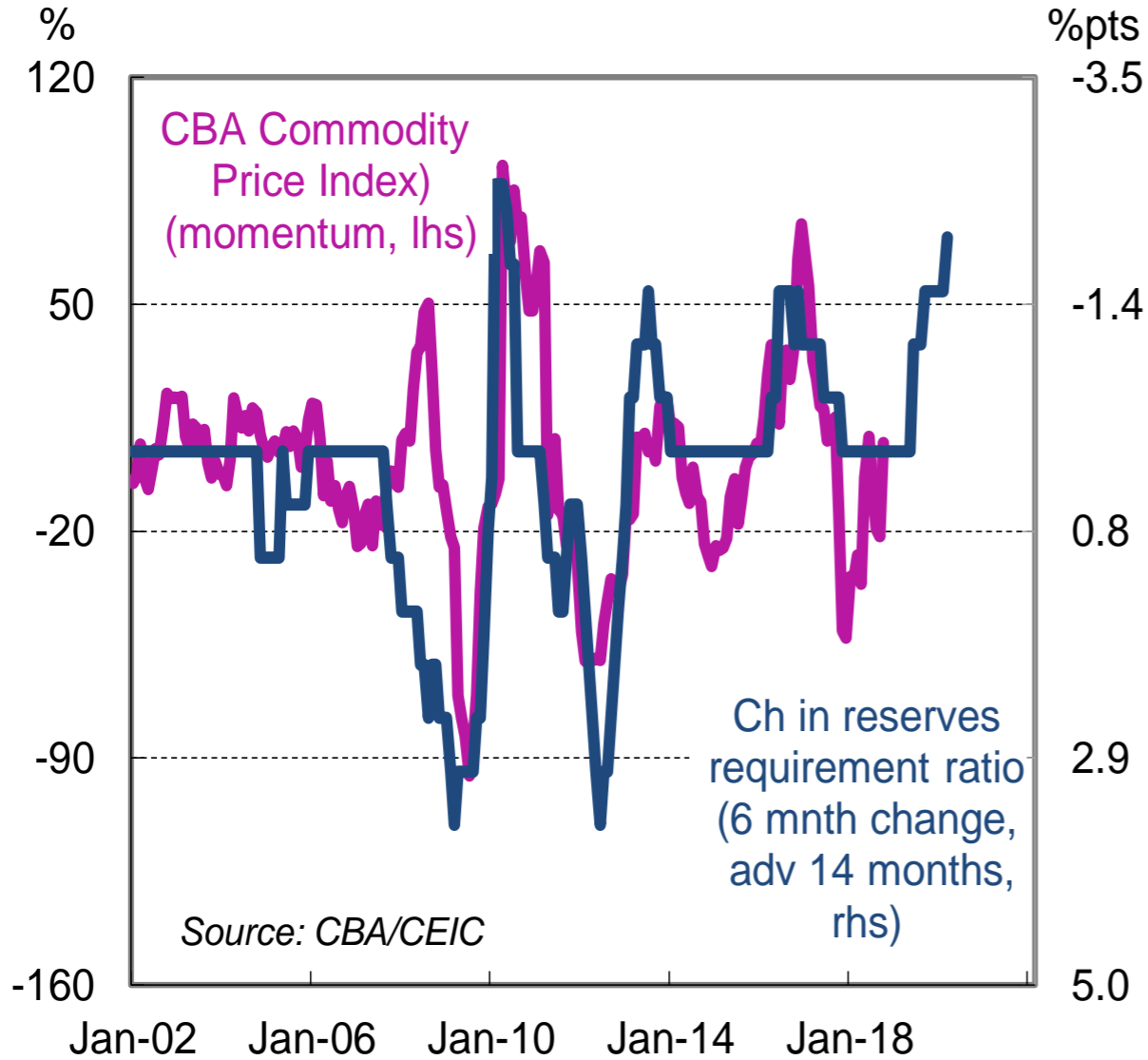


CHINA: GDP GROWTH

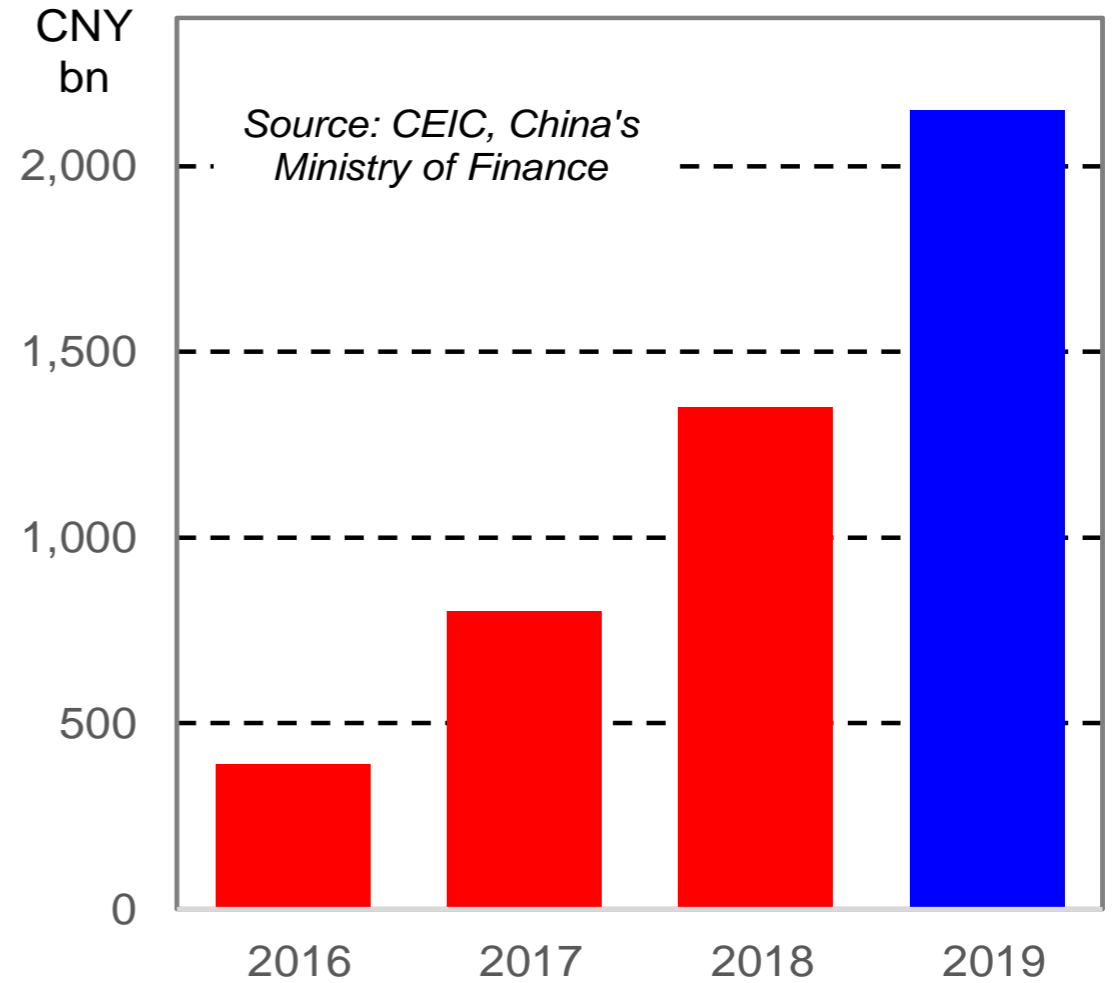
(2003 prices)



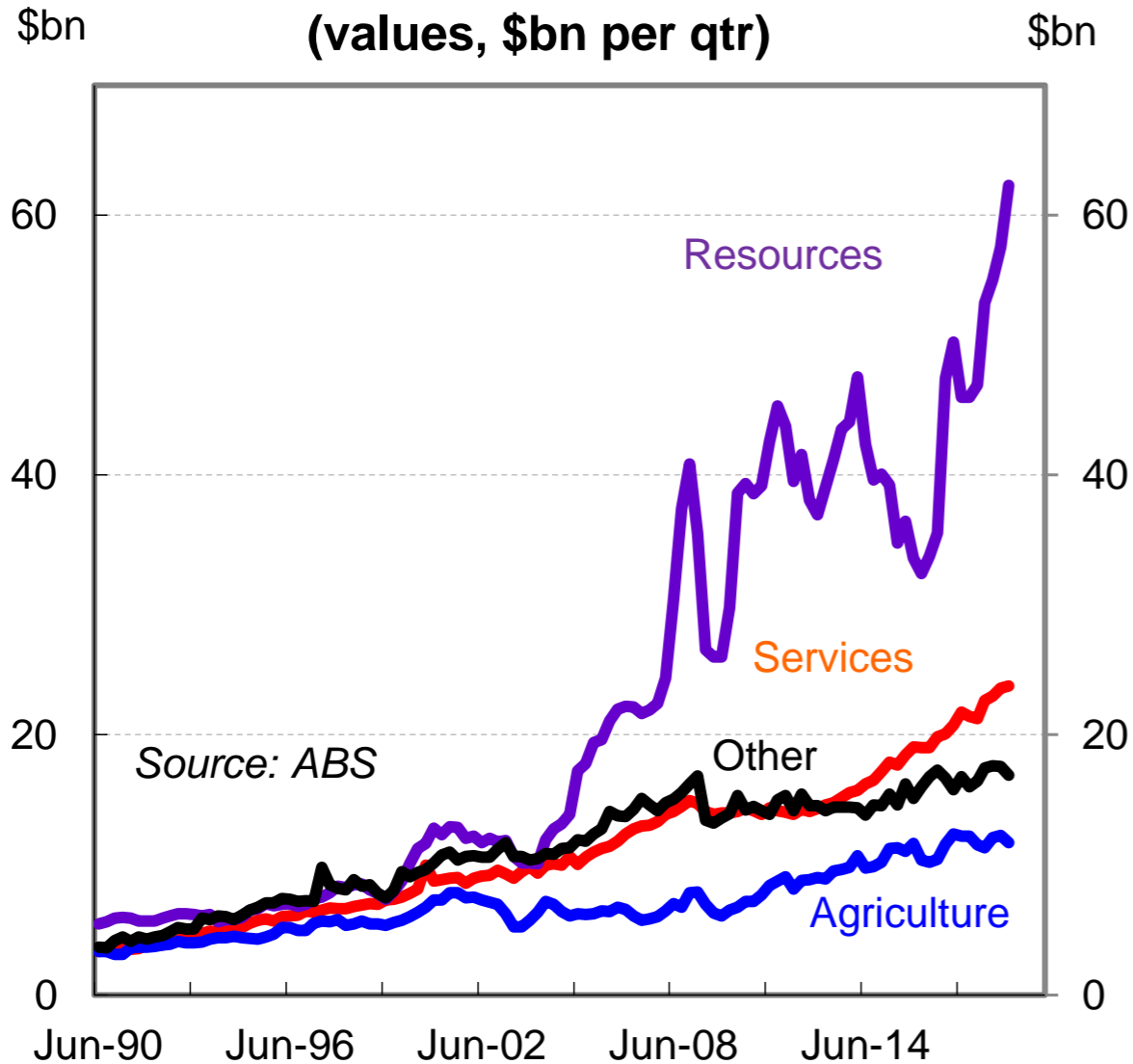
CHINA: COMMODITIES & POLICY



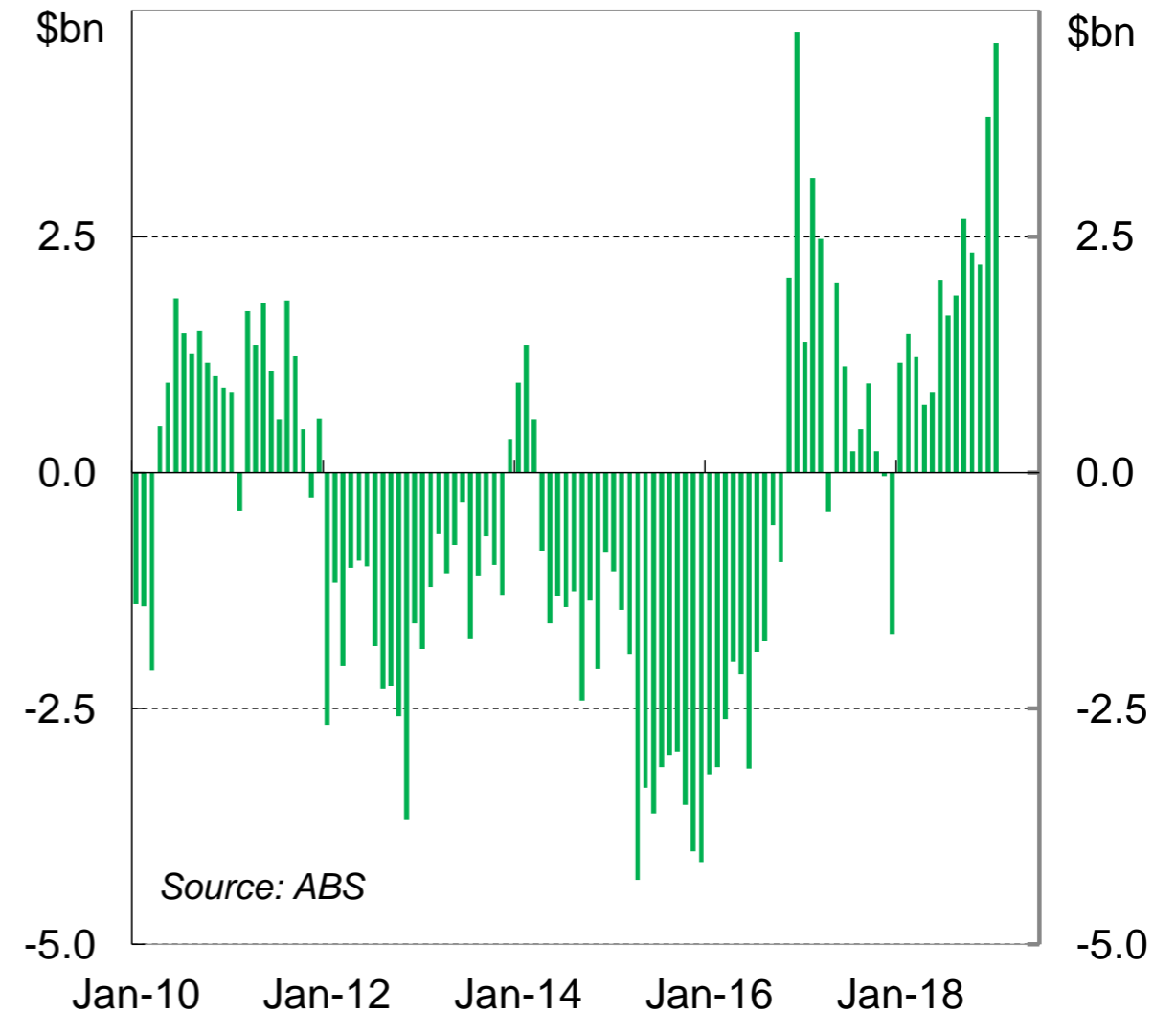
SPECIAL DEBT ISSUANCE (by local government)



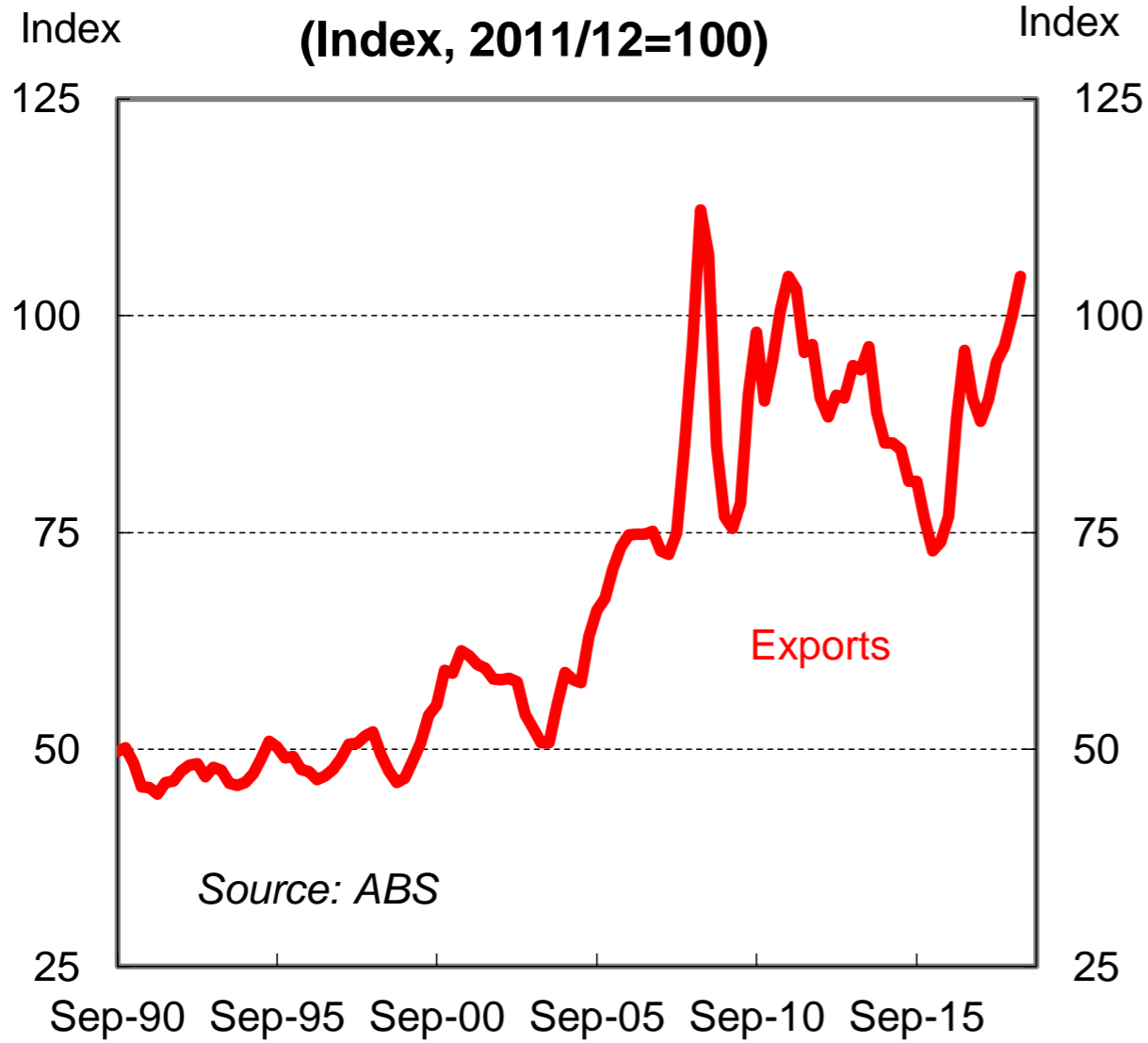
EXPORTS (values, \$bn per qtr)



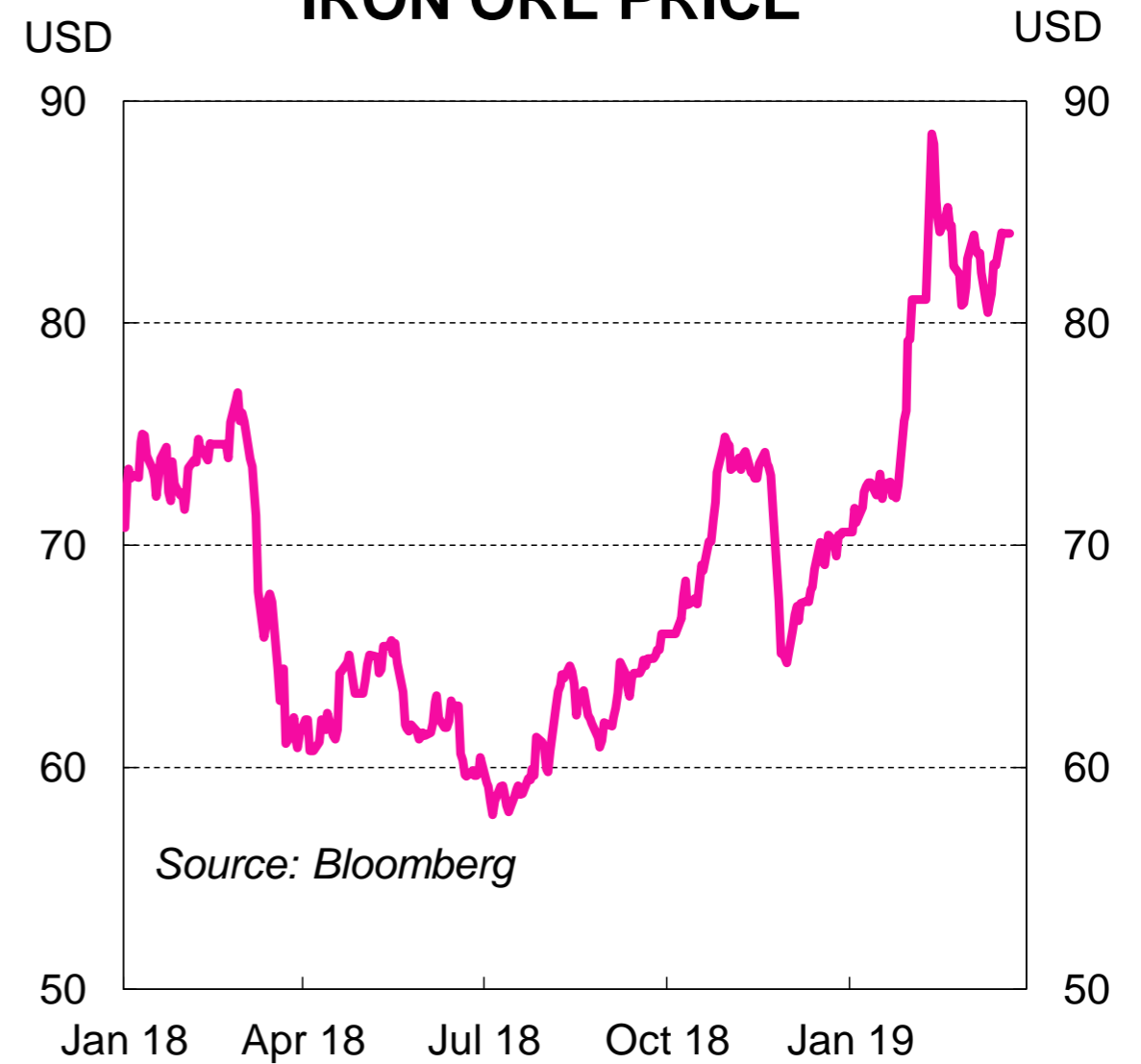
TRADE BALANCE



AUST EXPORT PRICES (Index, 2011/12=100)

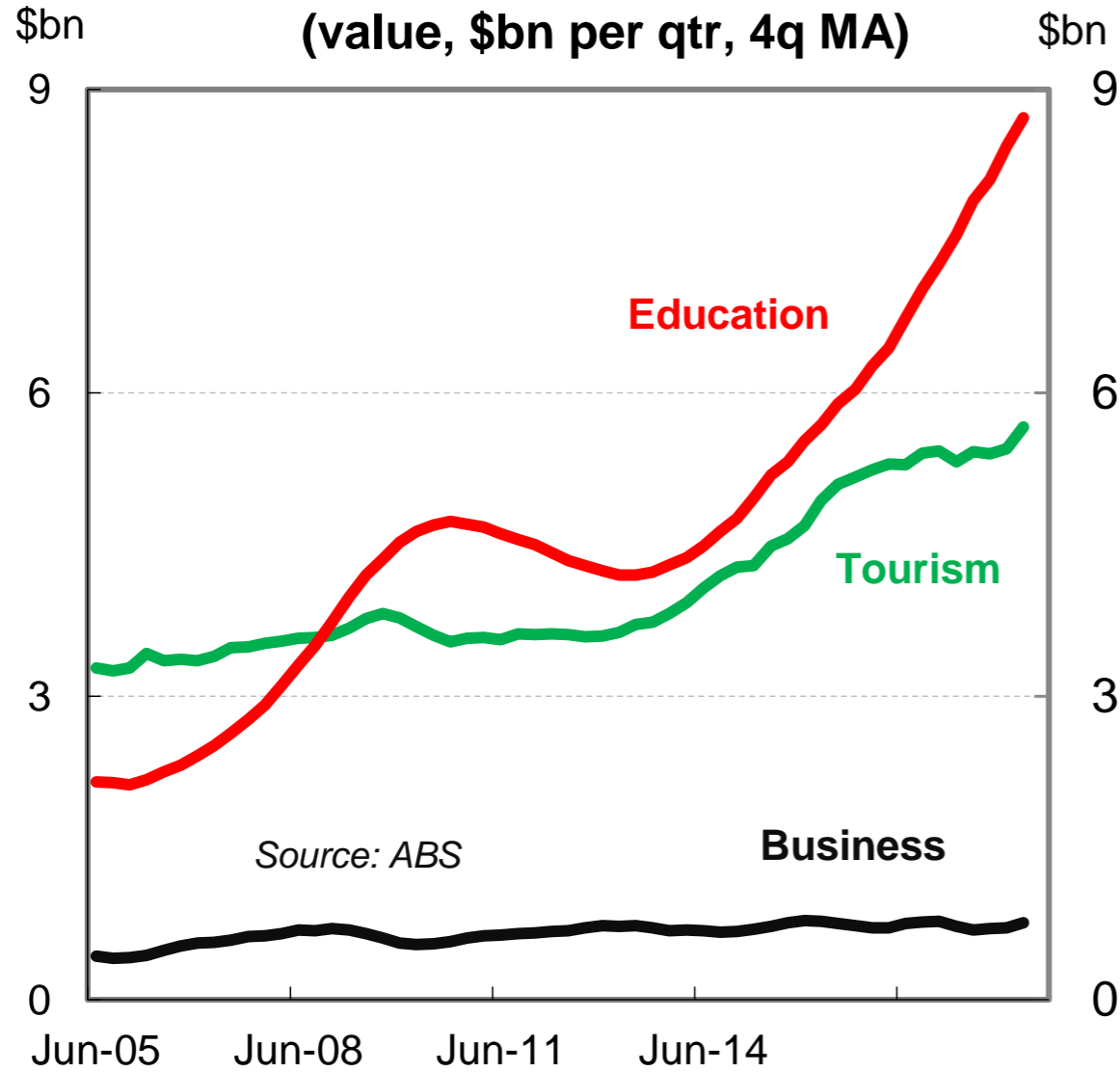


IRON ORE PRICE



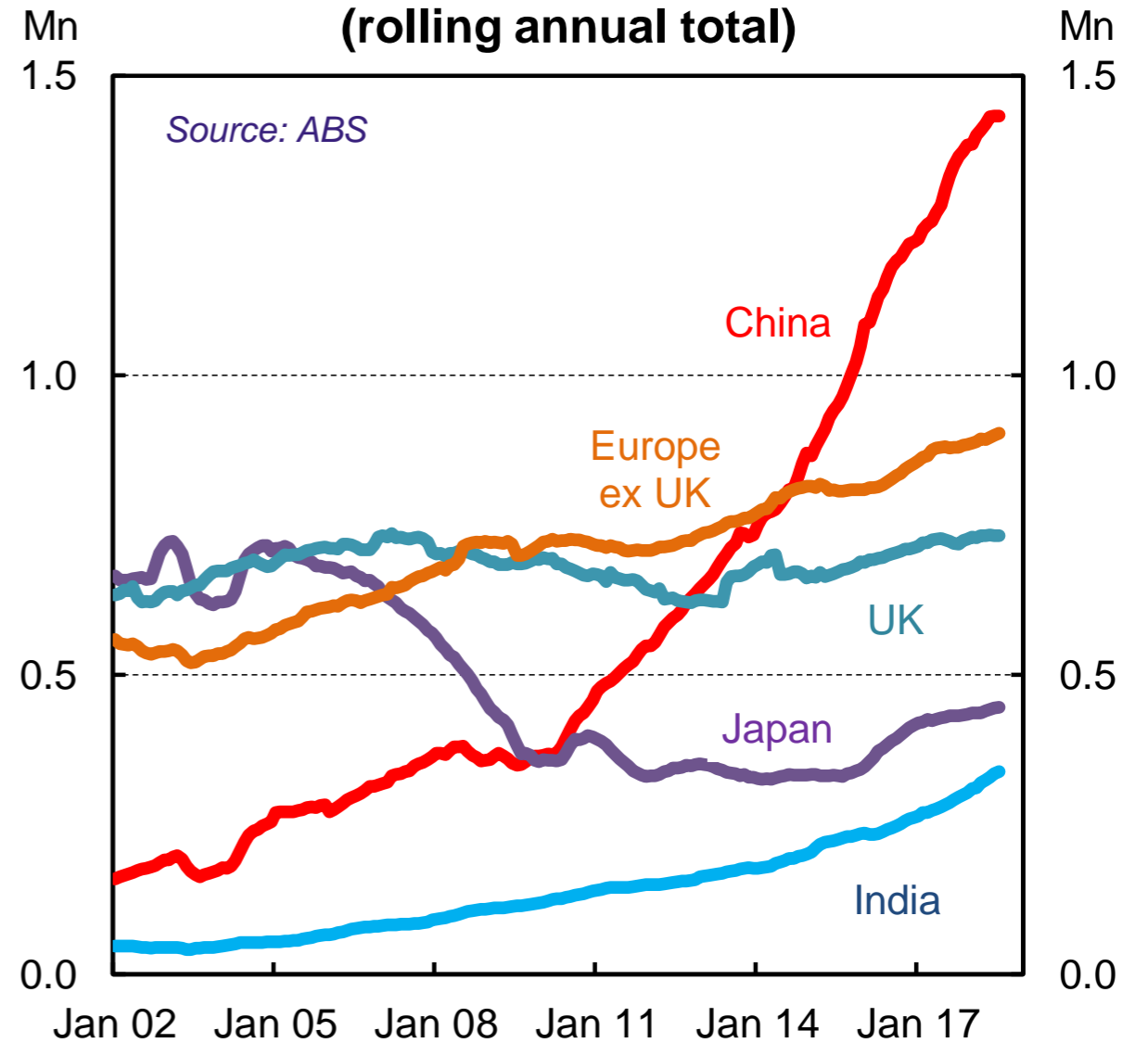
TRAVEL SERVICES EXPORTS

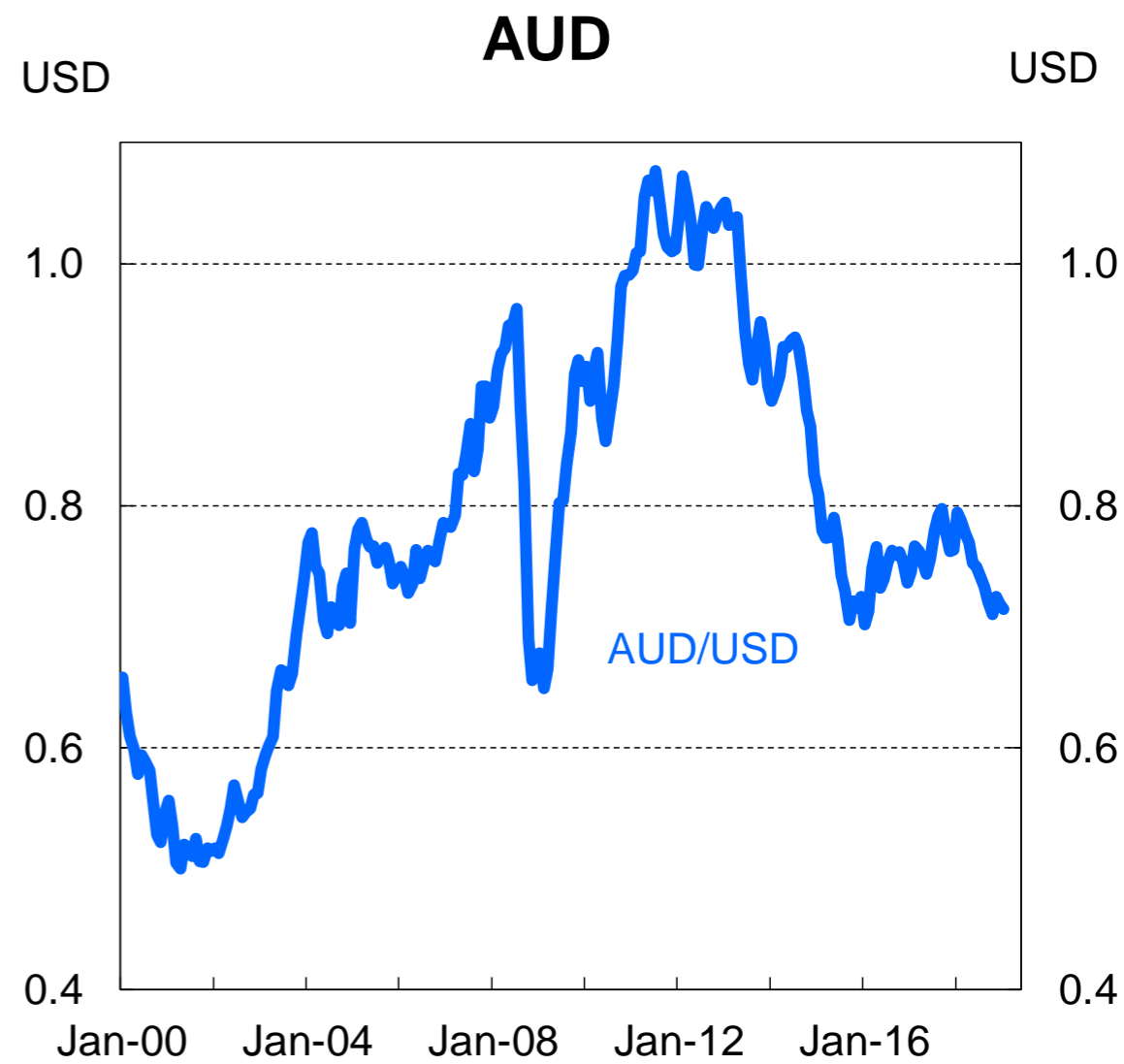
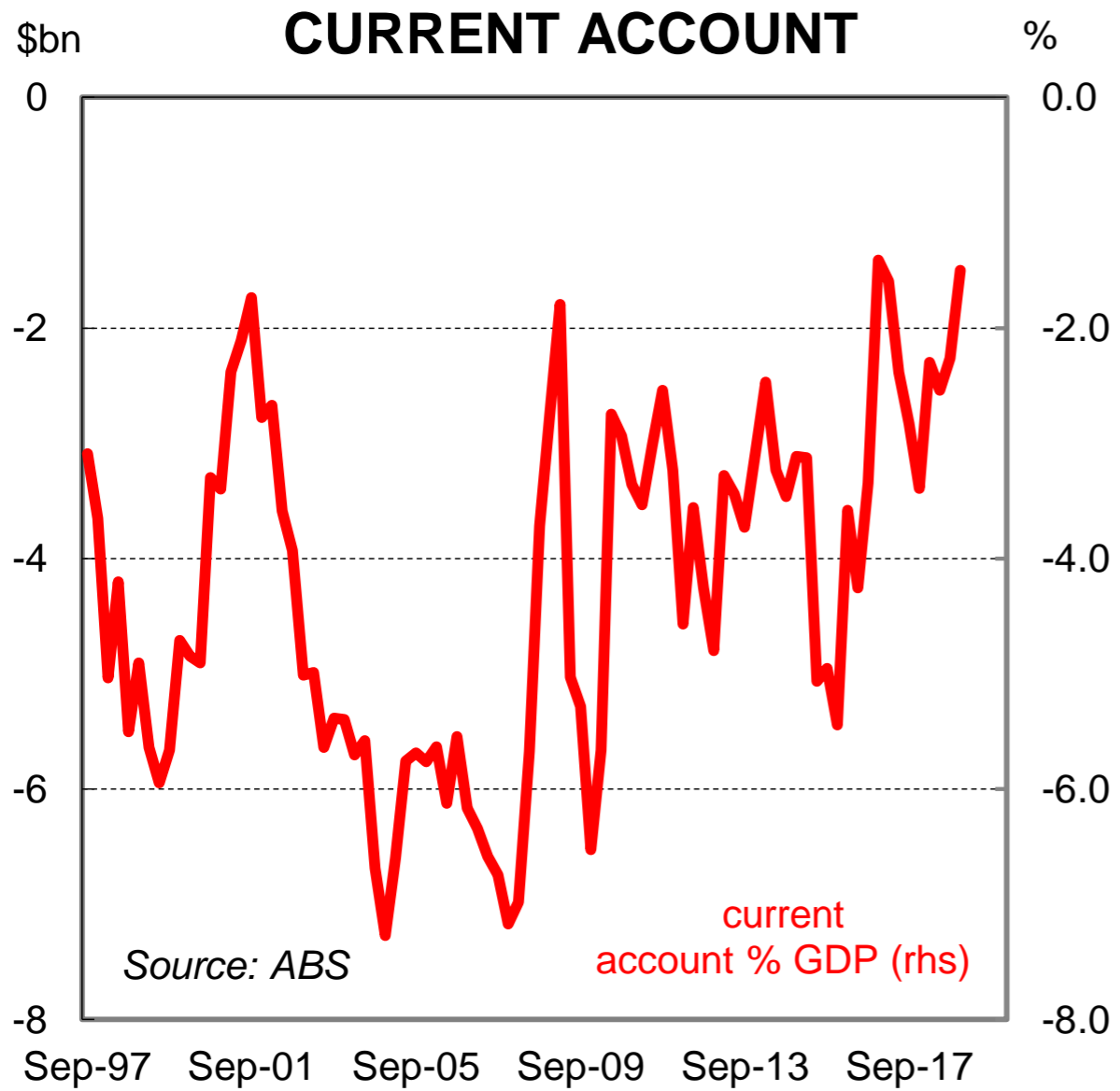
(value, \$bn per qtr, 4q MA)



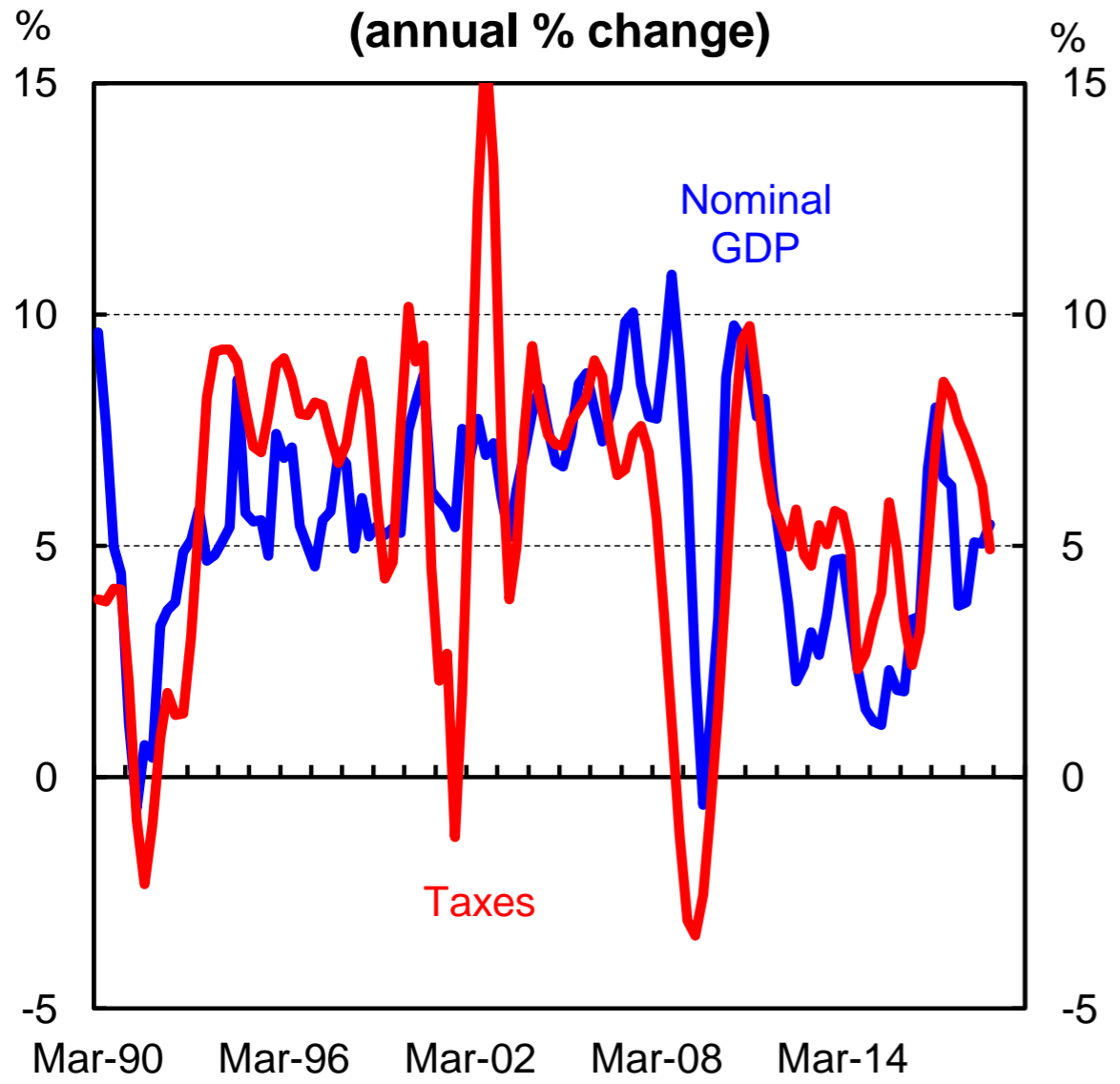
SHORT TERM OVERSEAS ARRIVALS

(rolling annual total)

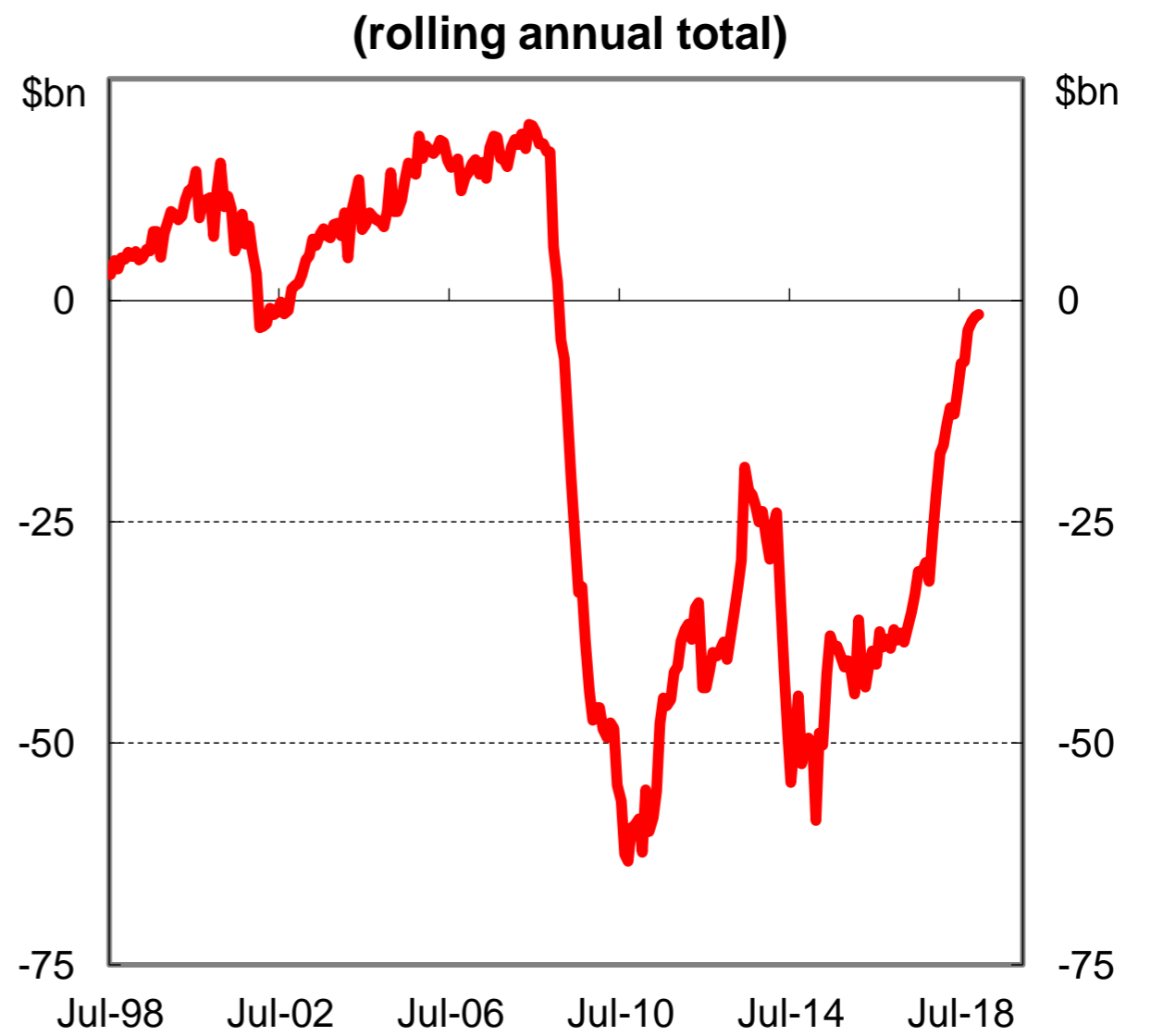




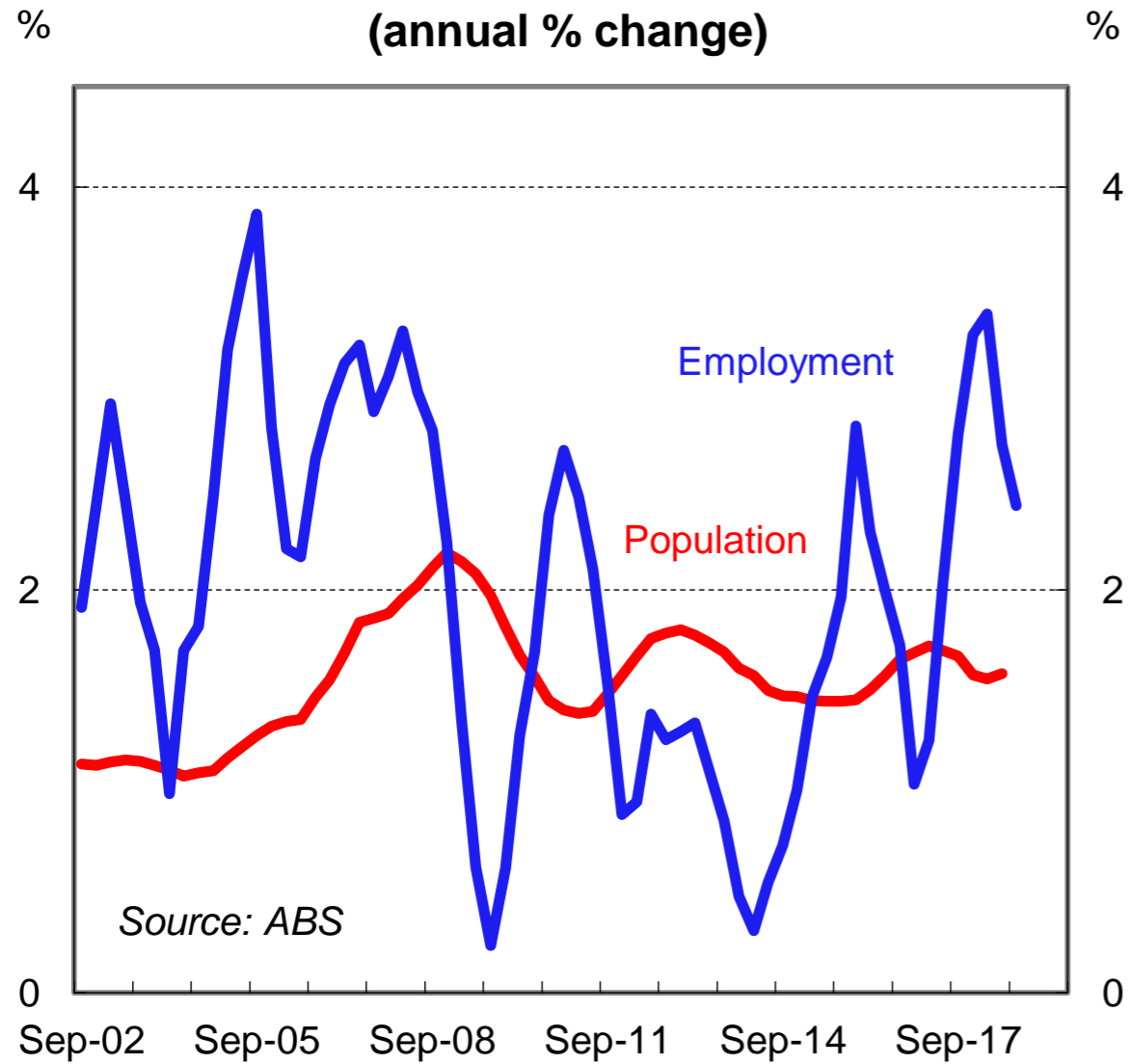
NOMINAL GDP & TAXES (annual % change)



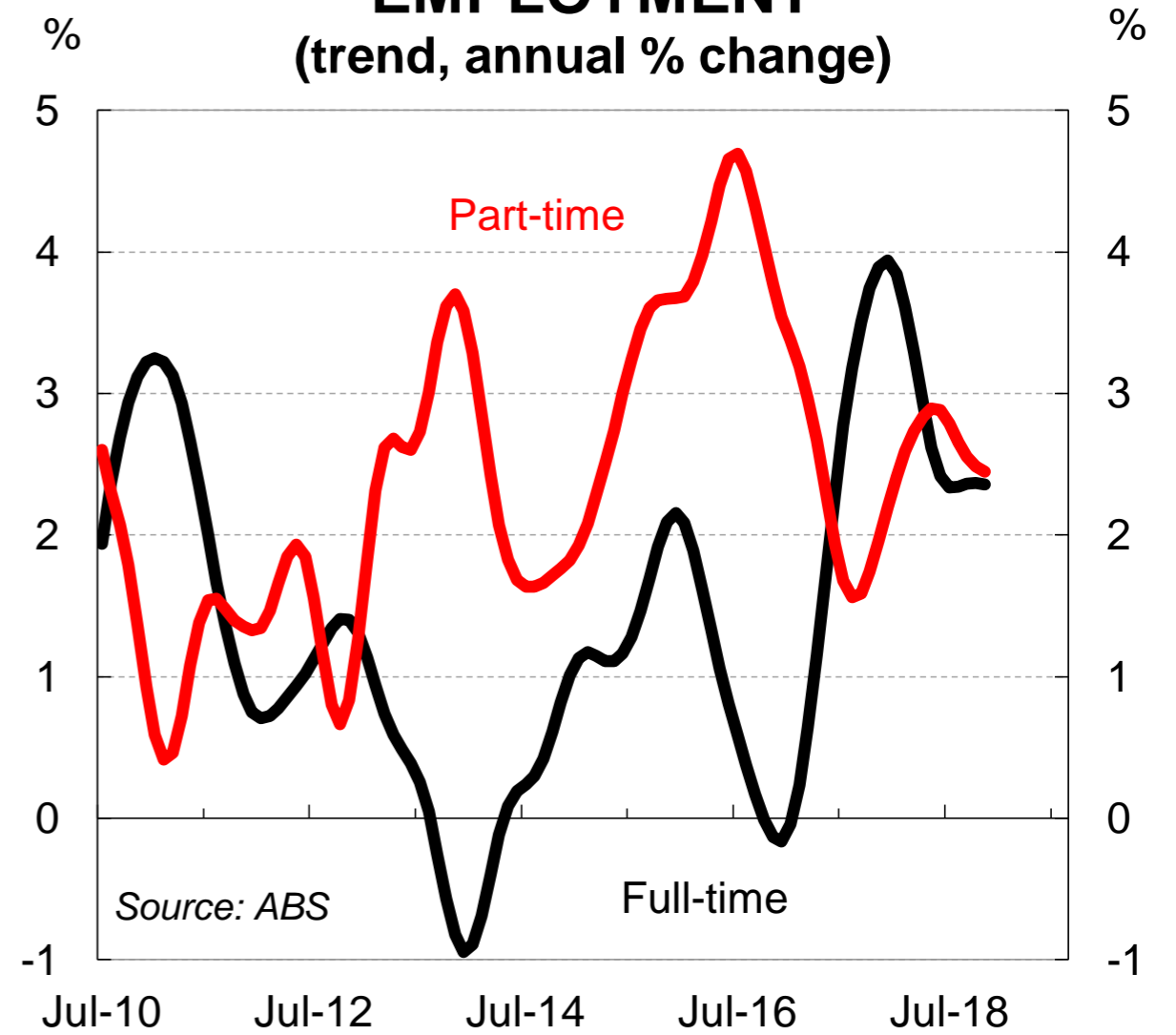
UNDERLYING BUDGET BALANCE (rolling annual total)



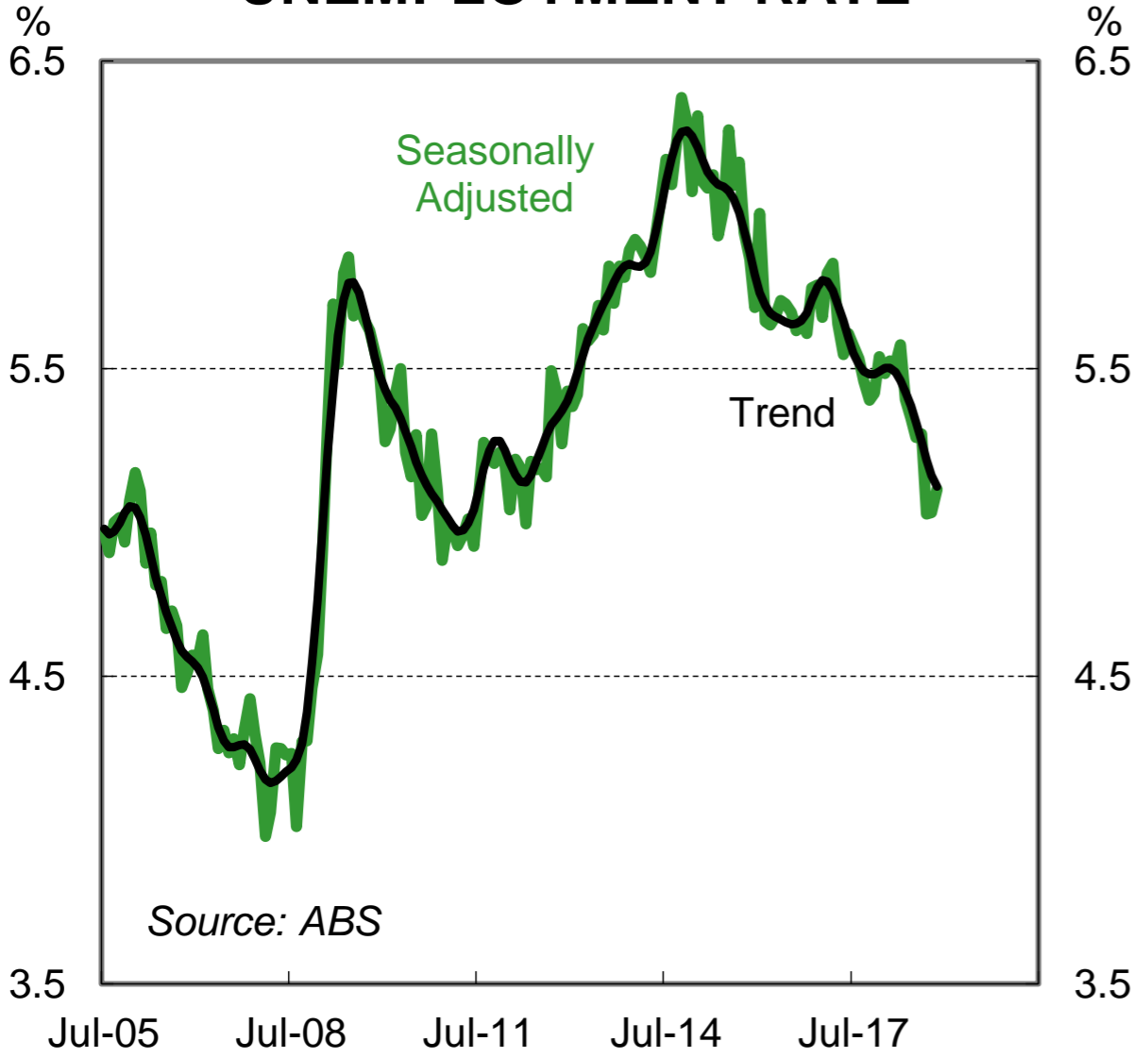
JOBS & POPULATION (annual % change)



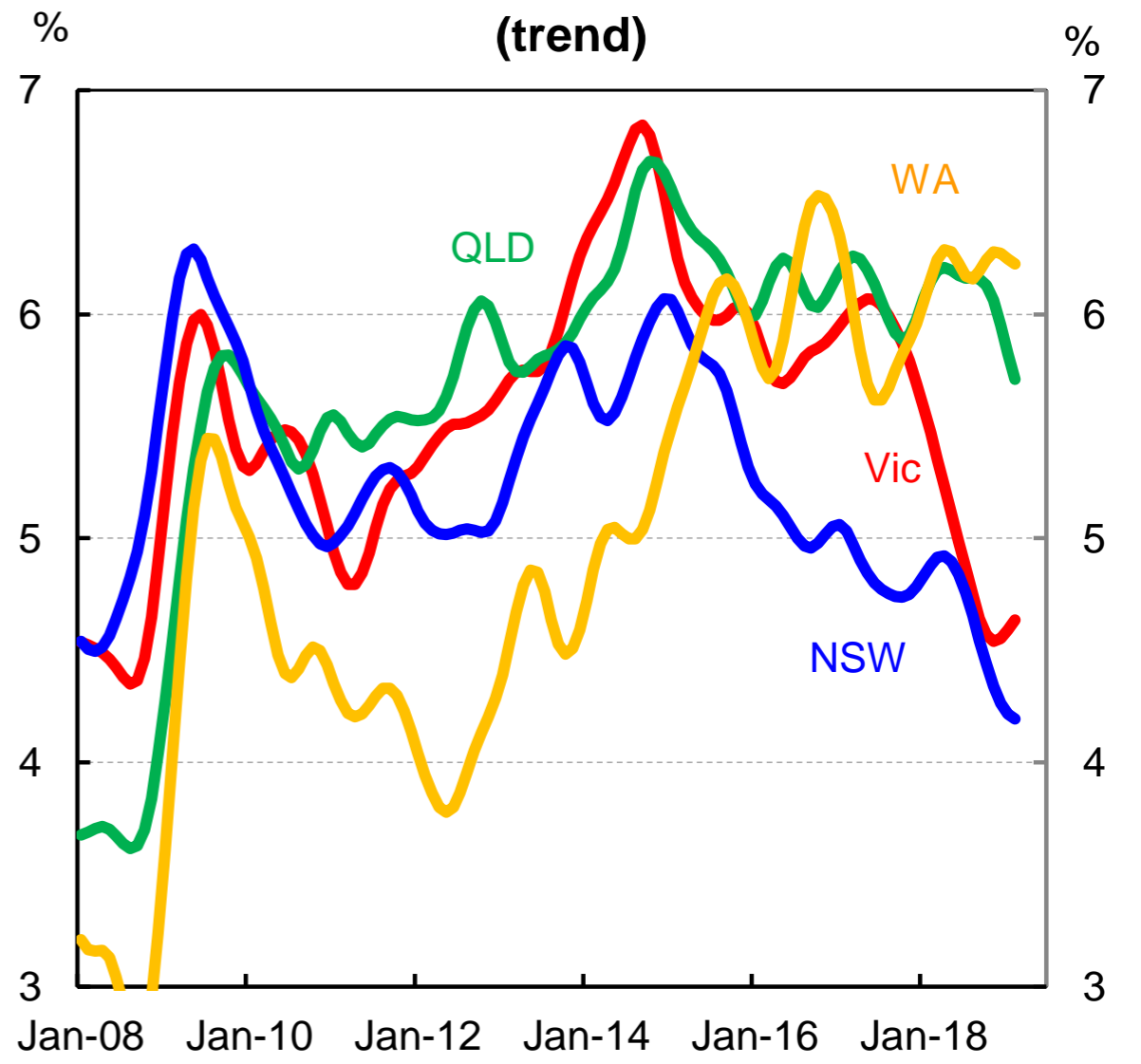
EMPLOYMENT (trend, annual % change)



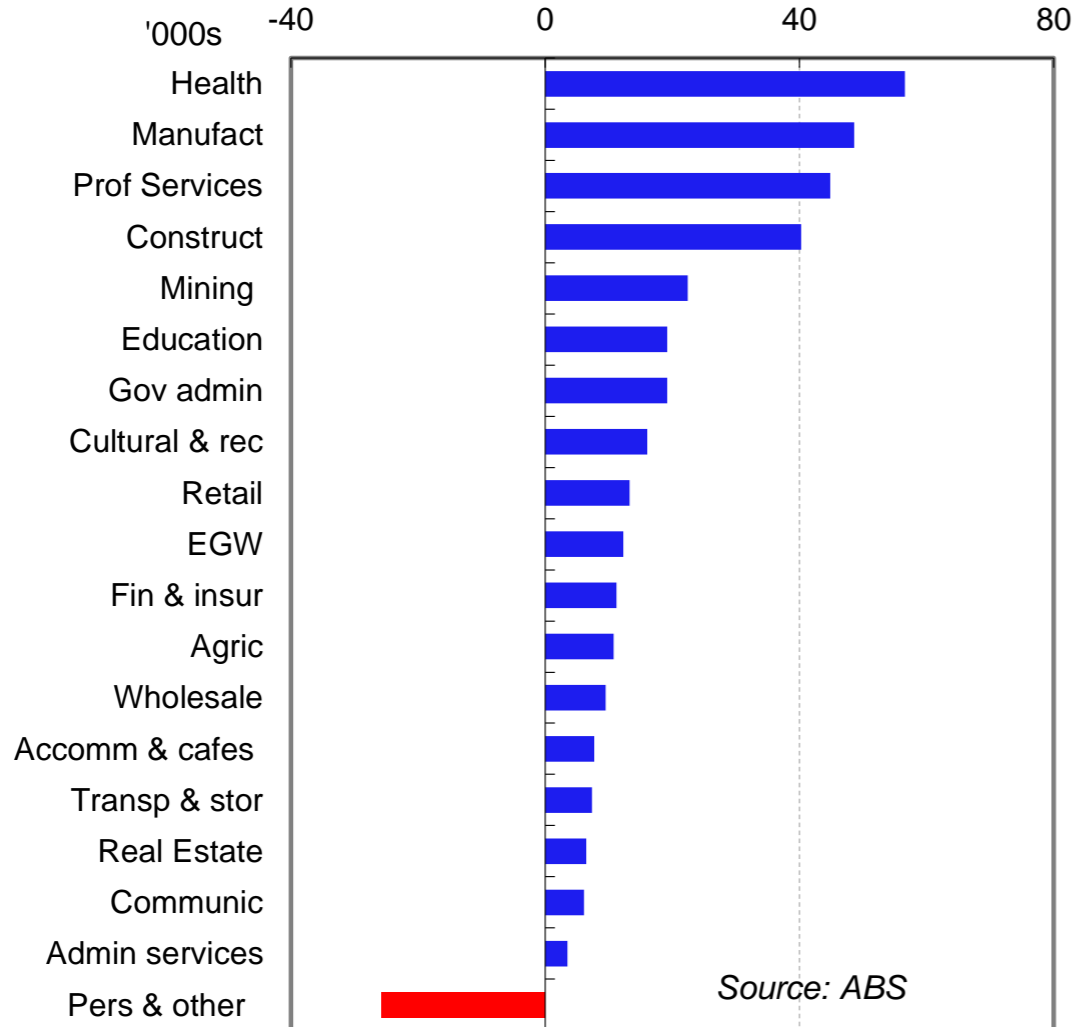
UNEMPLOYMENT RATE



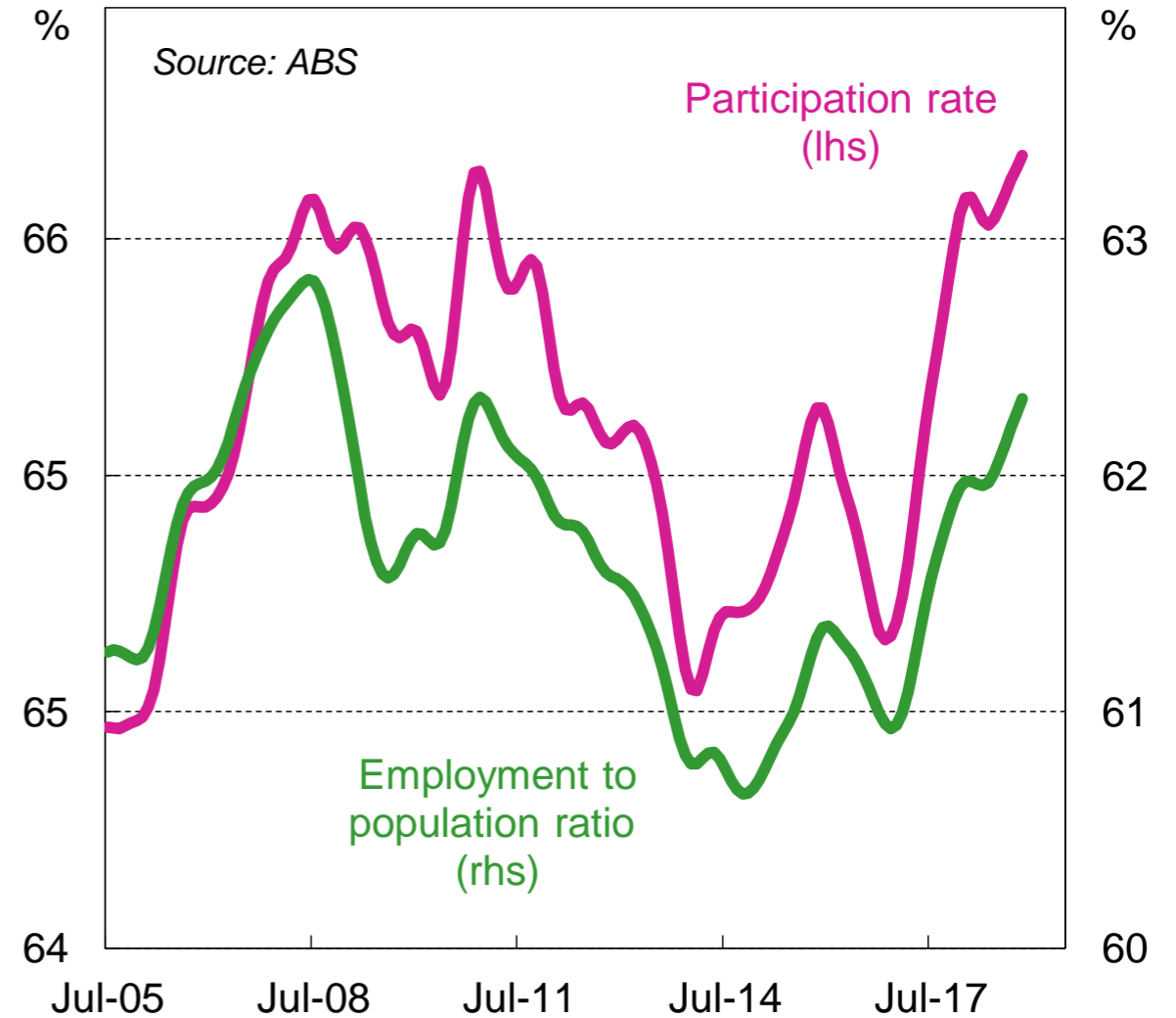
UNEMPLOYMENT RATES (trend)



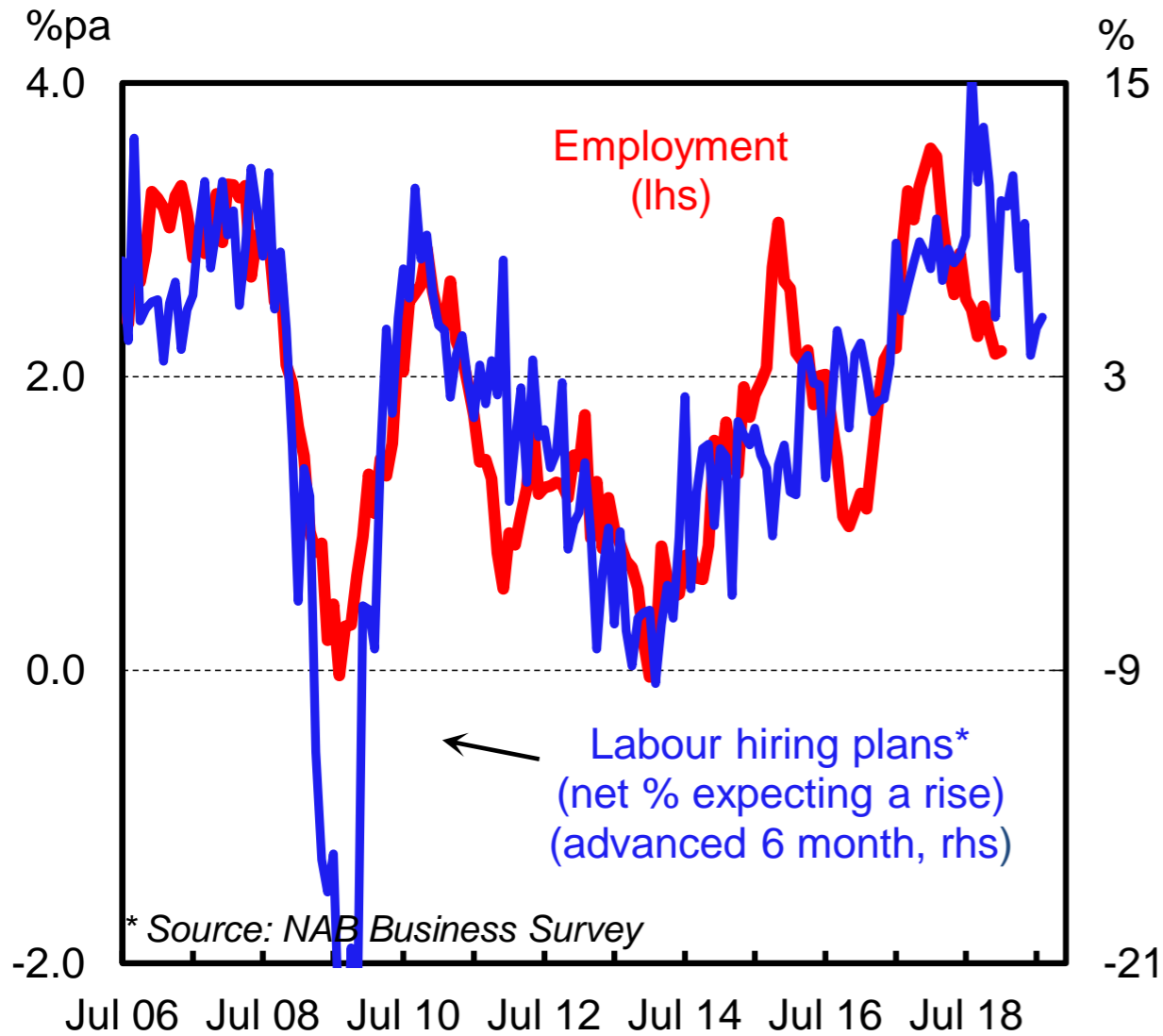
JOBS GROWTH BY SECTOR (annual avg change, yr to Nov 2018)



LABOUR FORCE (trend)

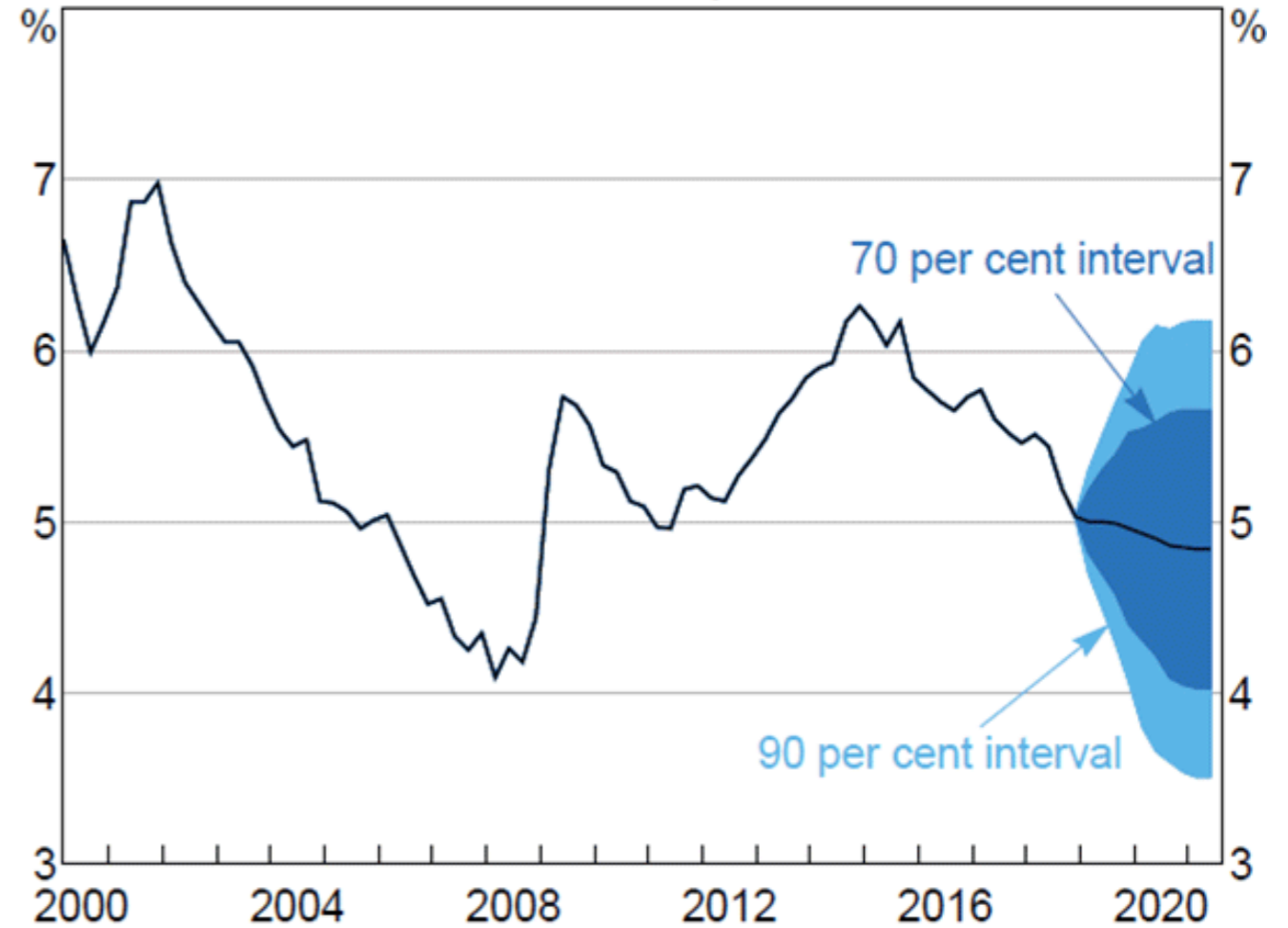


EMPLOYMENT & JOB PLANS



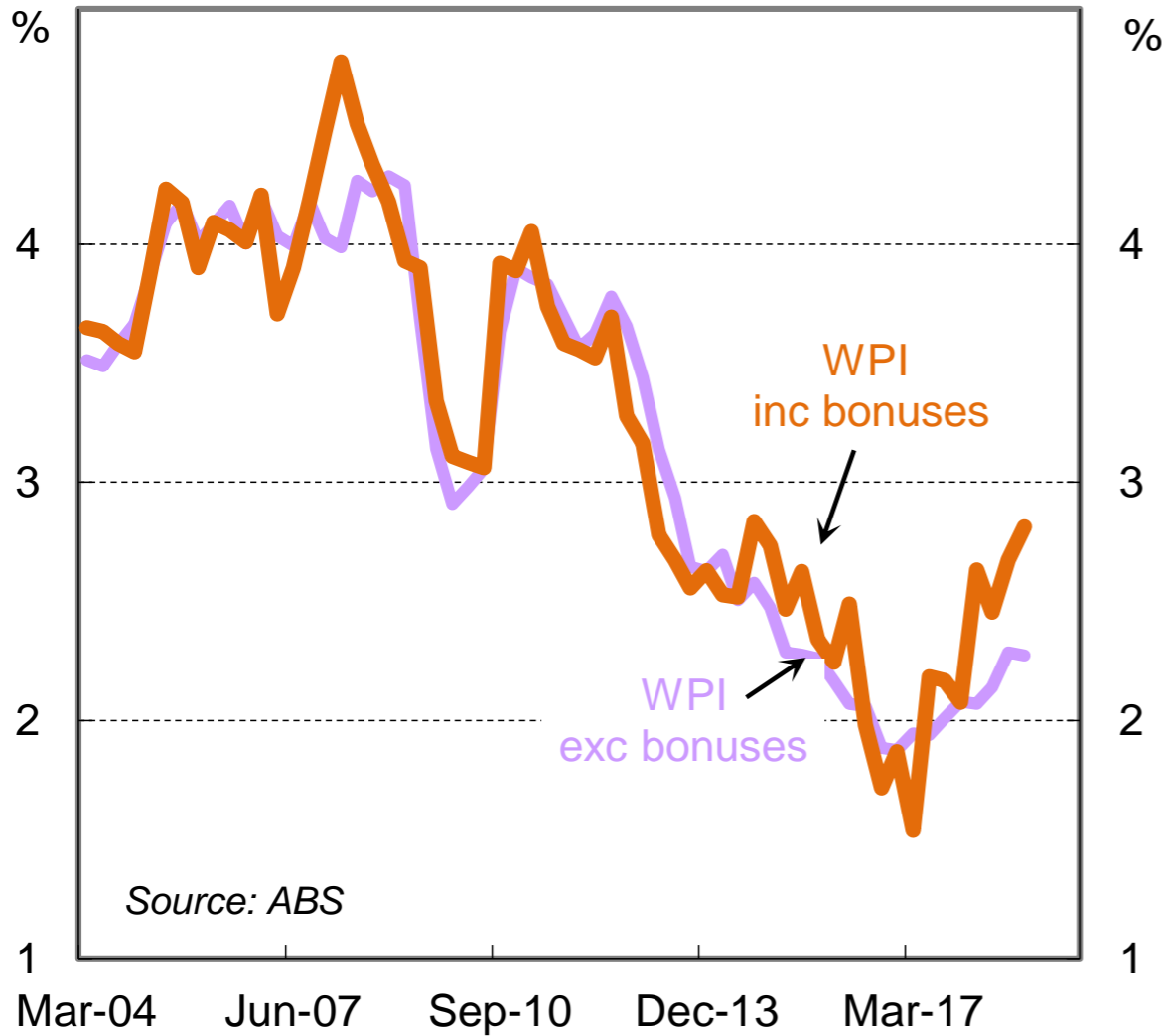
Unemployment Rate Forecast*

Quarterly

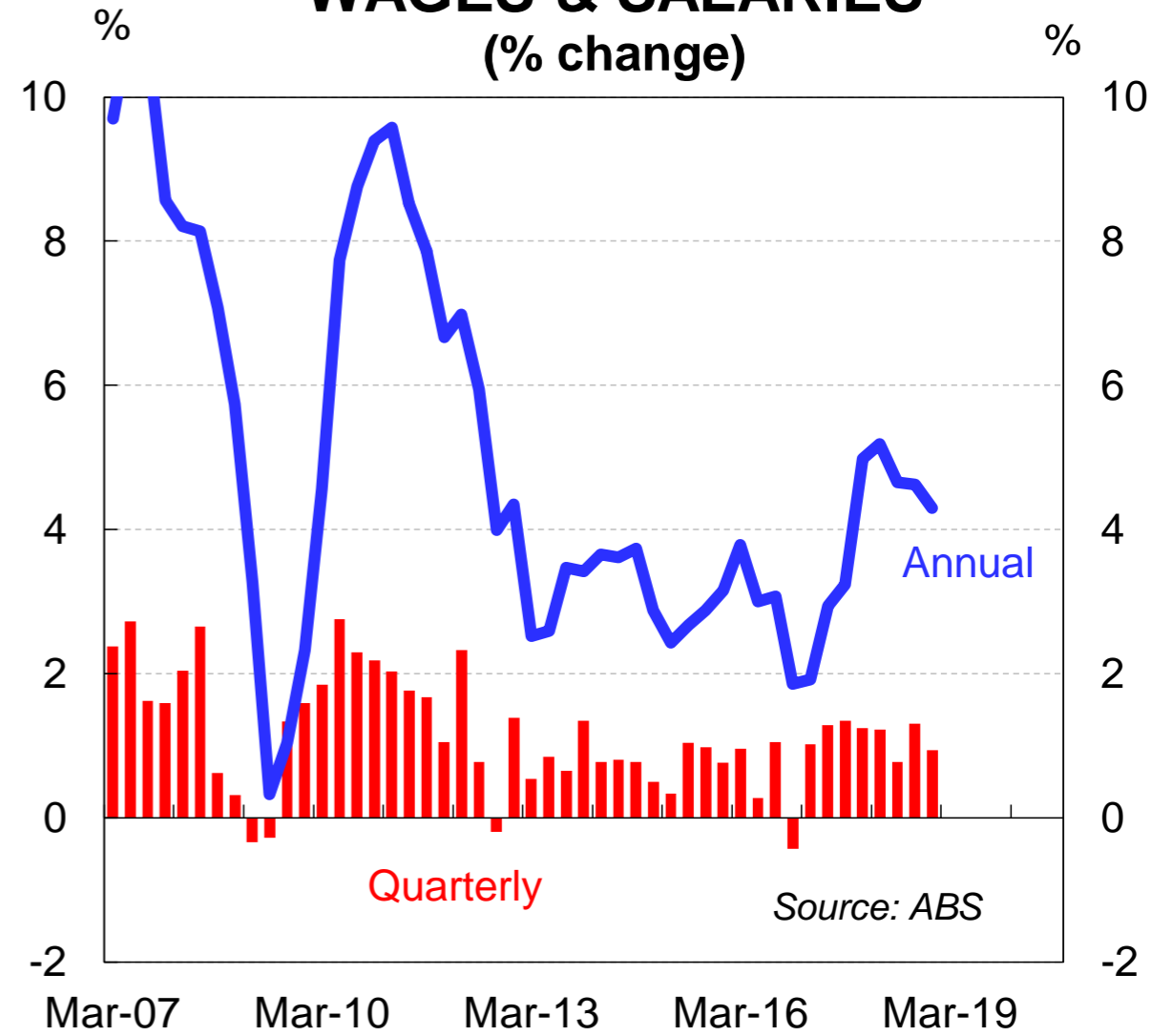


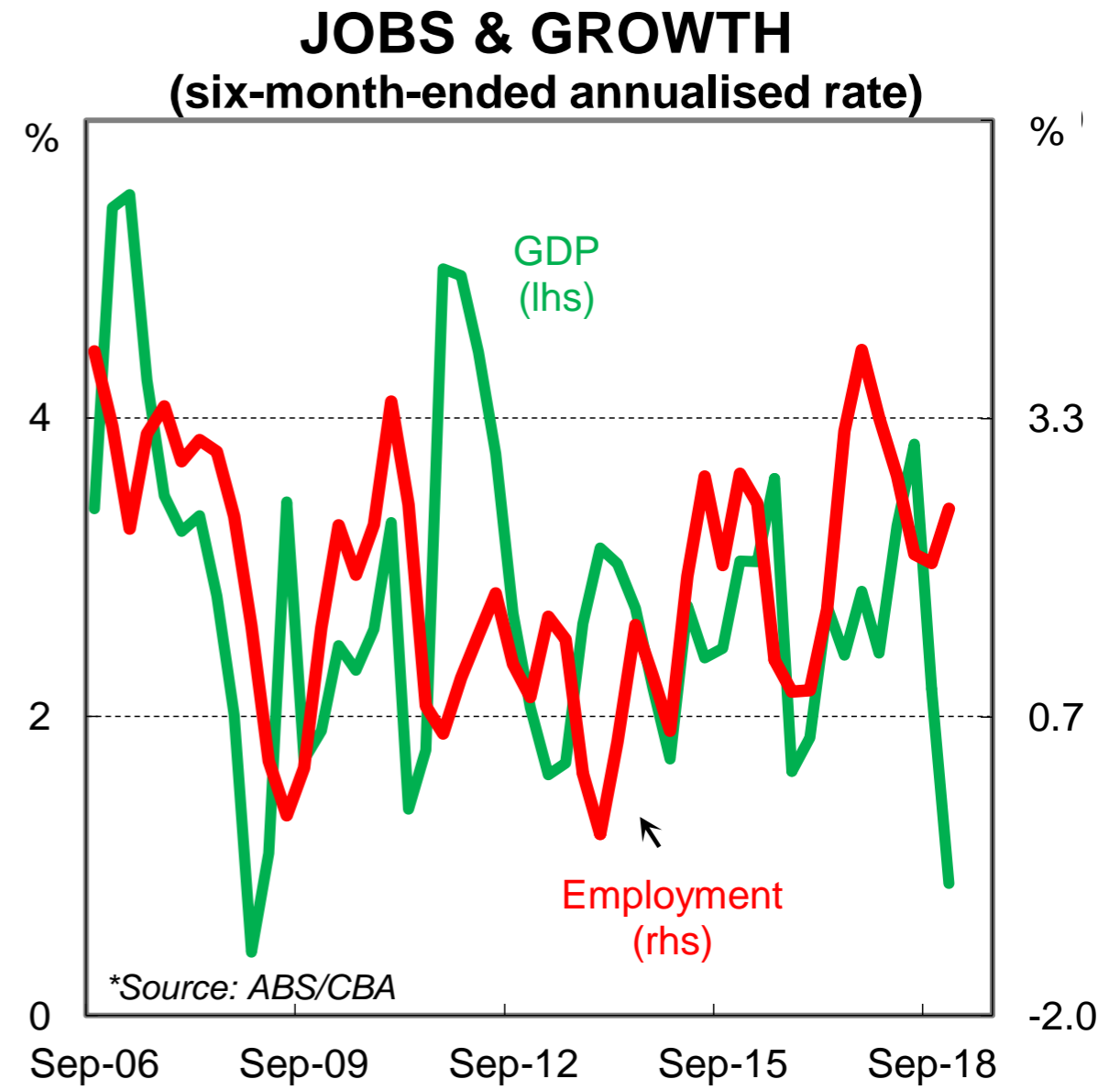
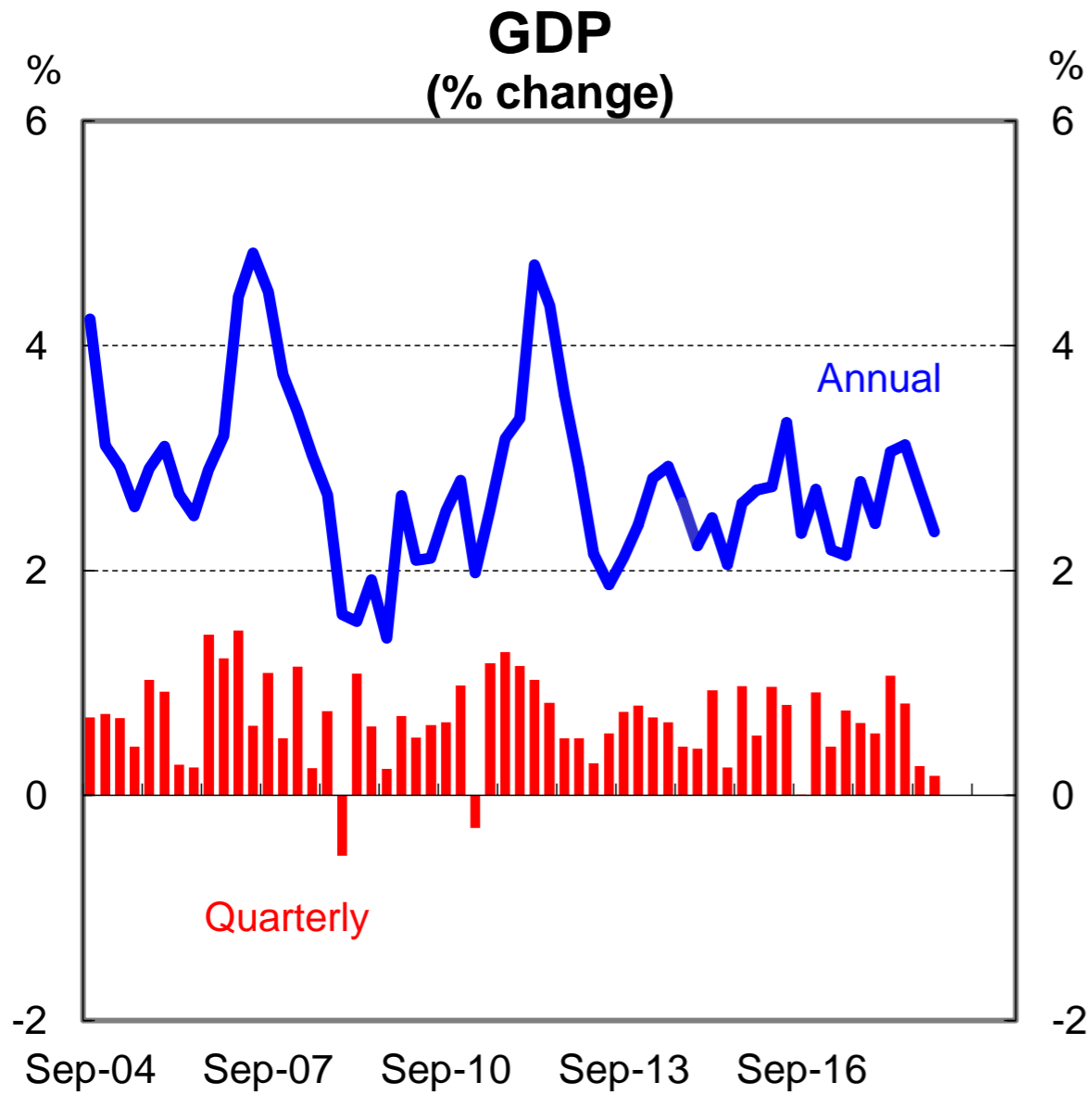
* Confidence intervals reflect RBA forecast errors since 1993
Sources: ABS; RBA

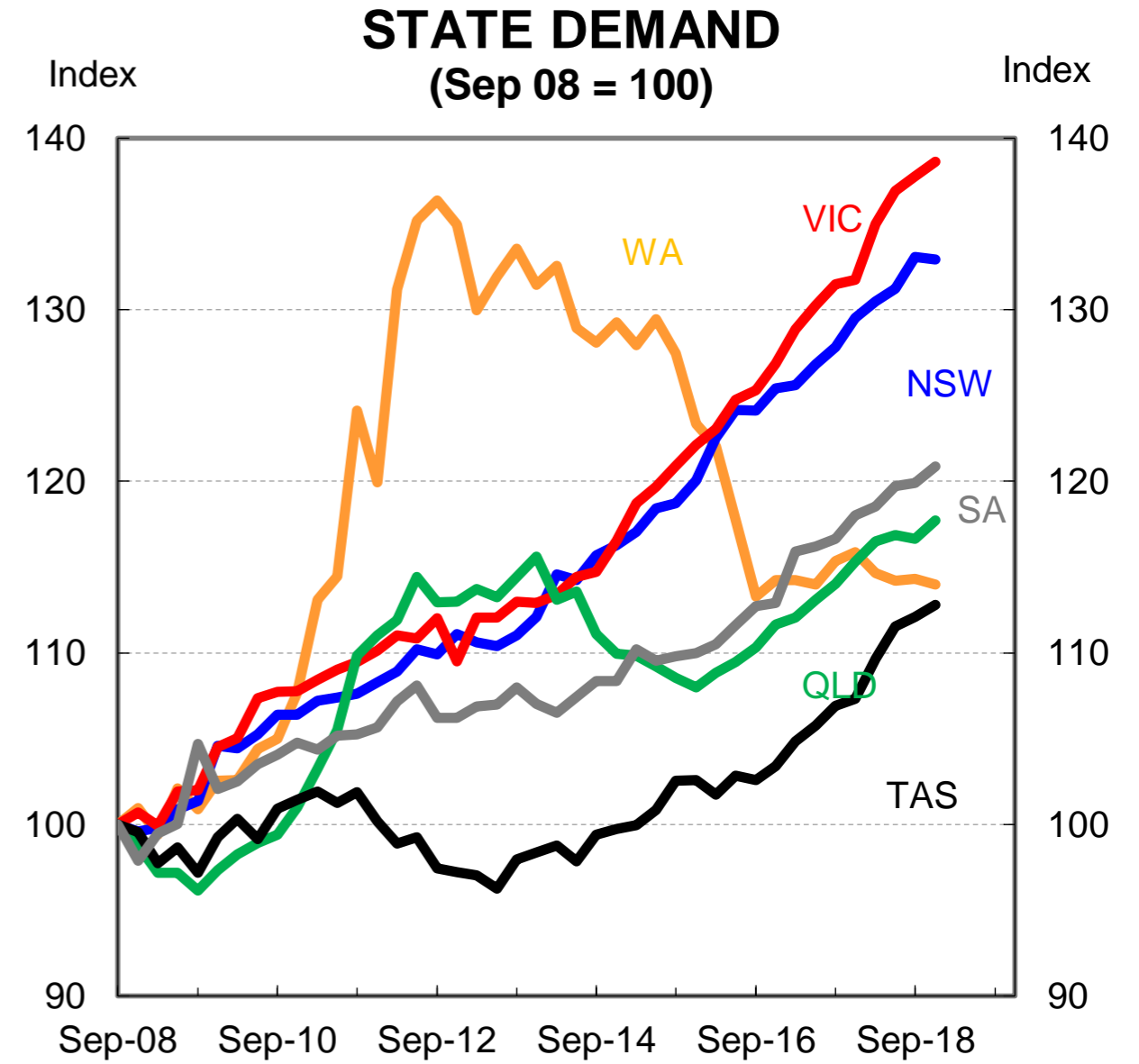
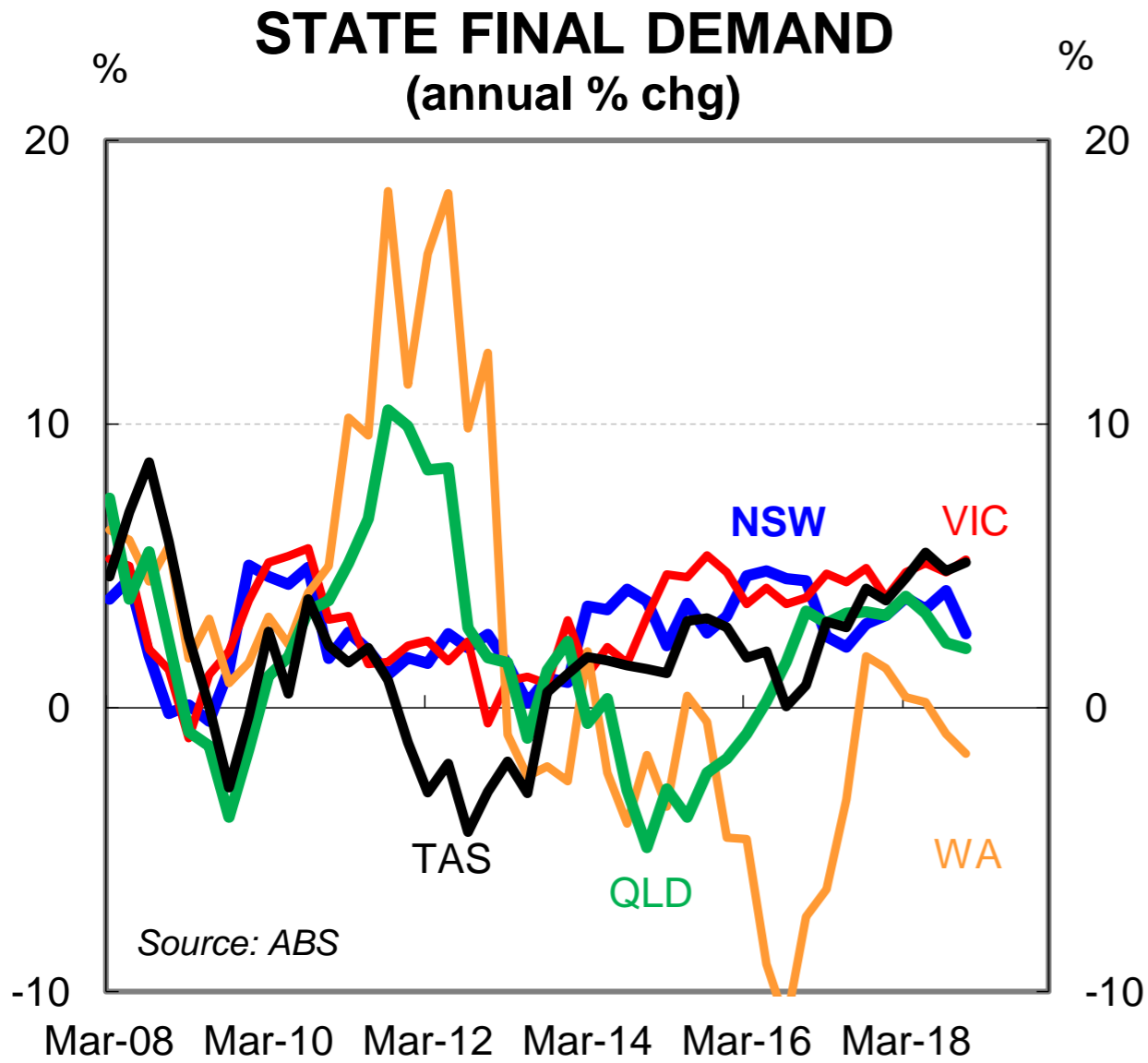
WAGE PRICE INDEX (inc bonuses annual % change)



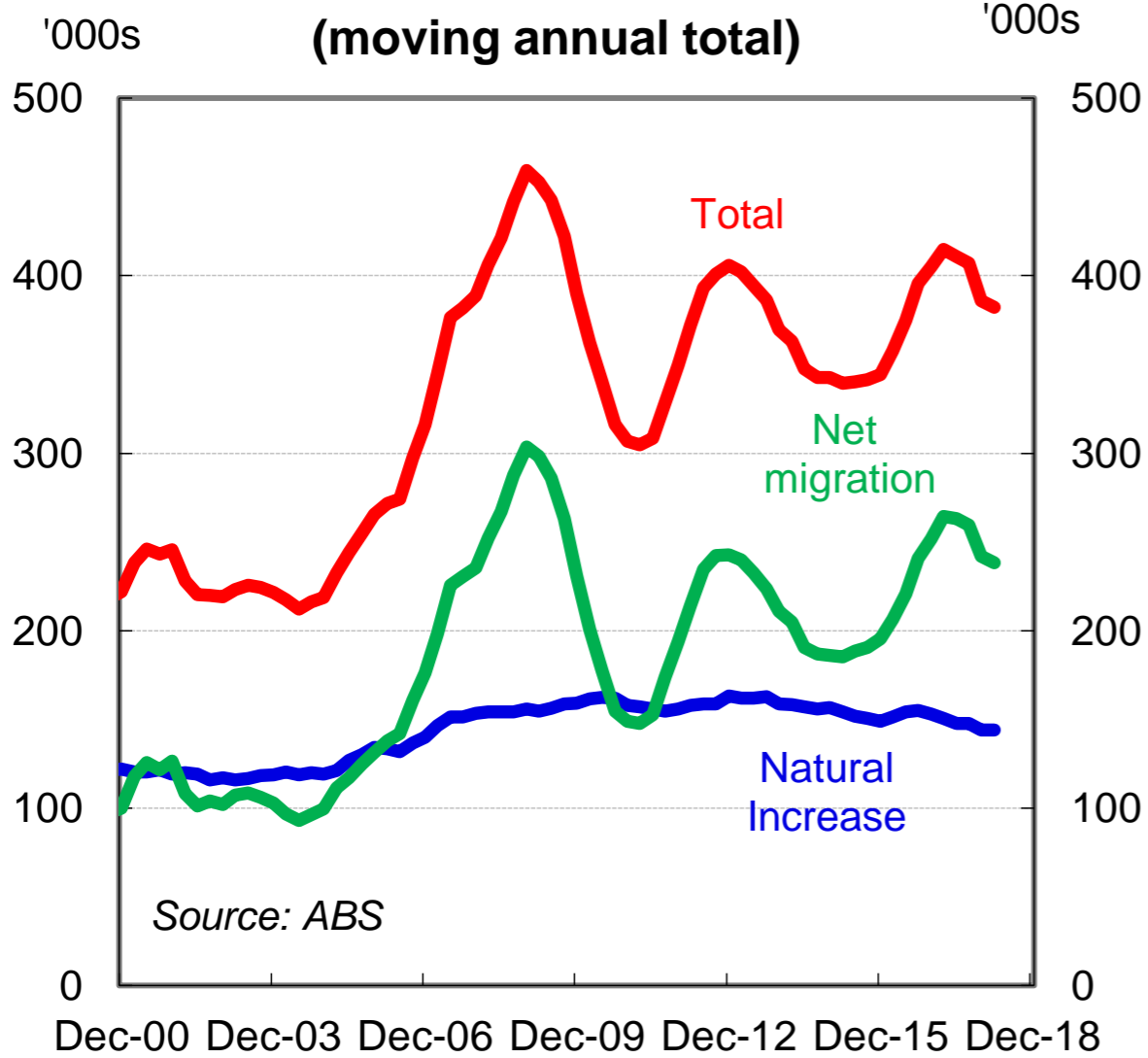
WAGES & SALARIES (% change)



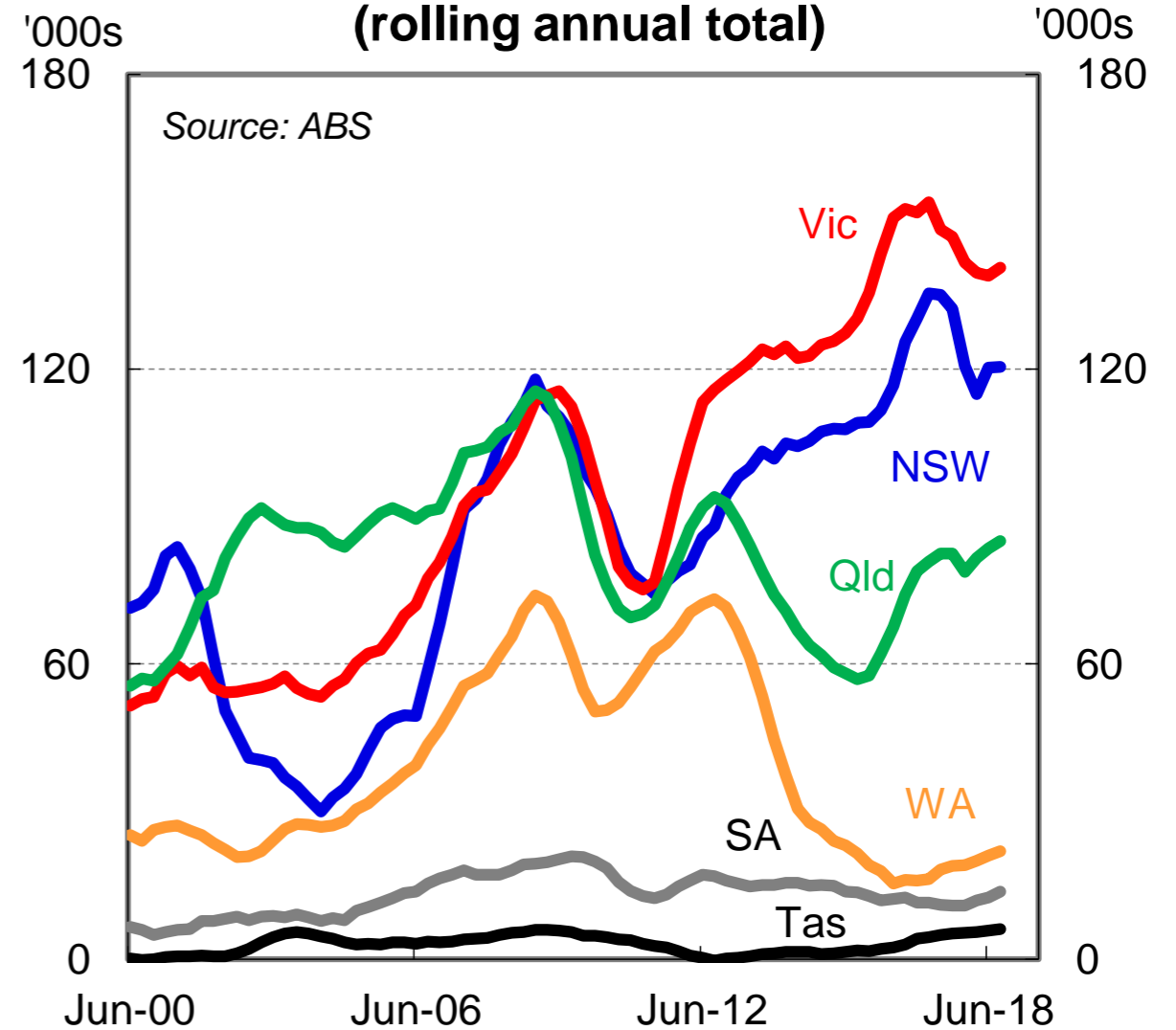




POPULATION GROWTH (moving annual total)

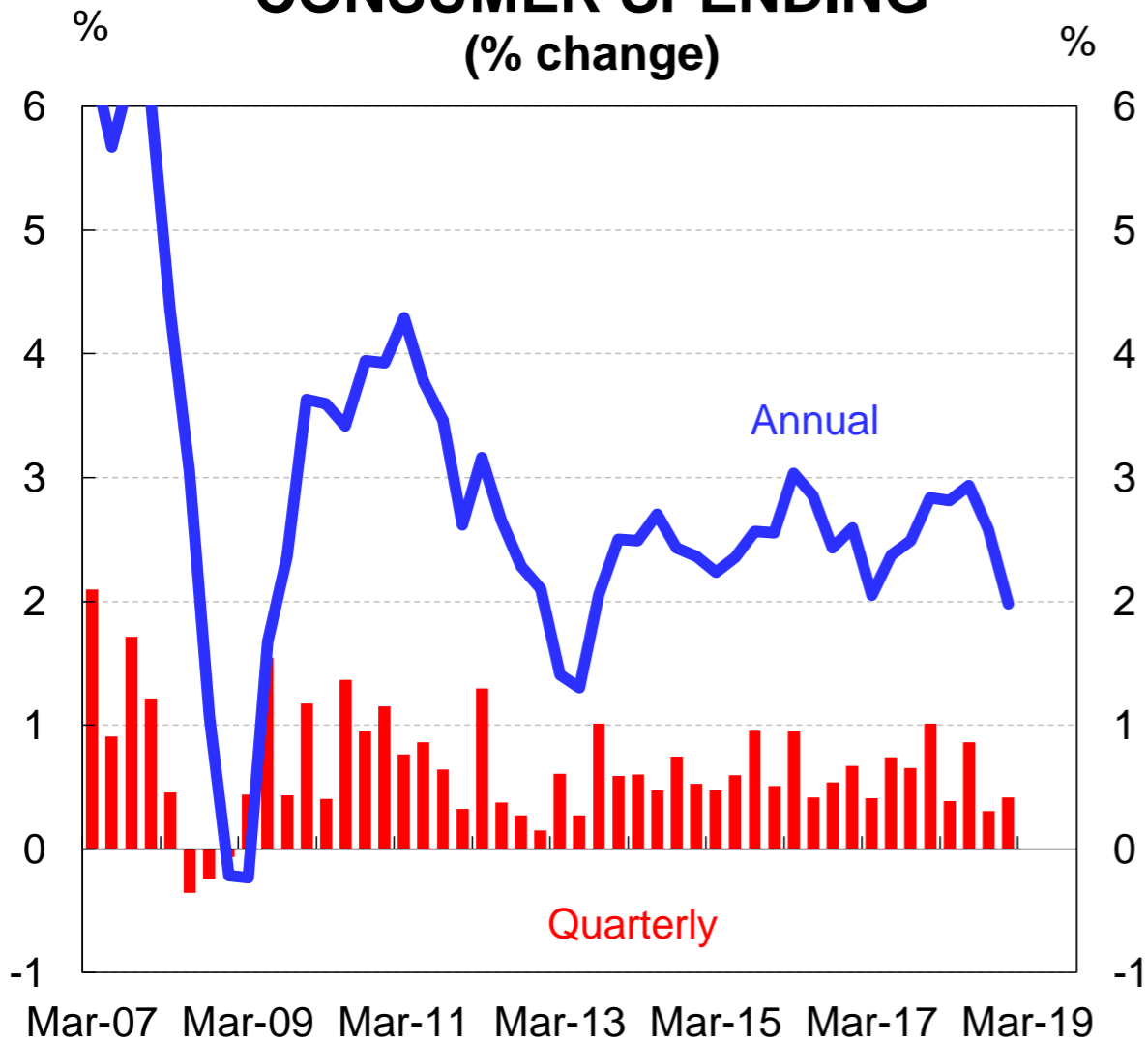


POPULATION GROWTH (rolling annual total)



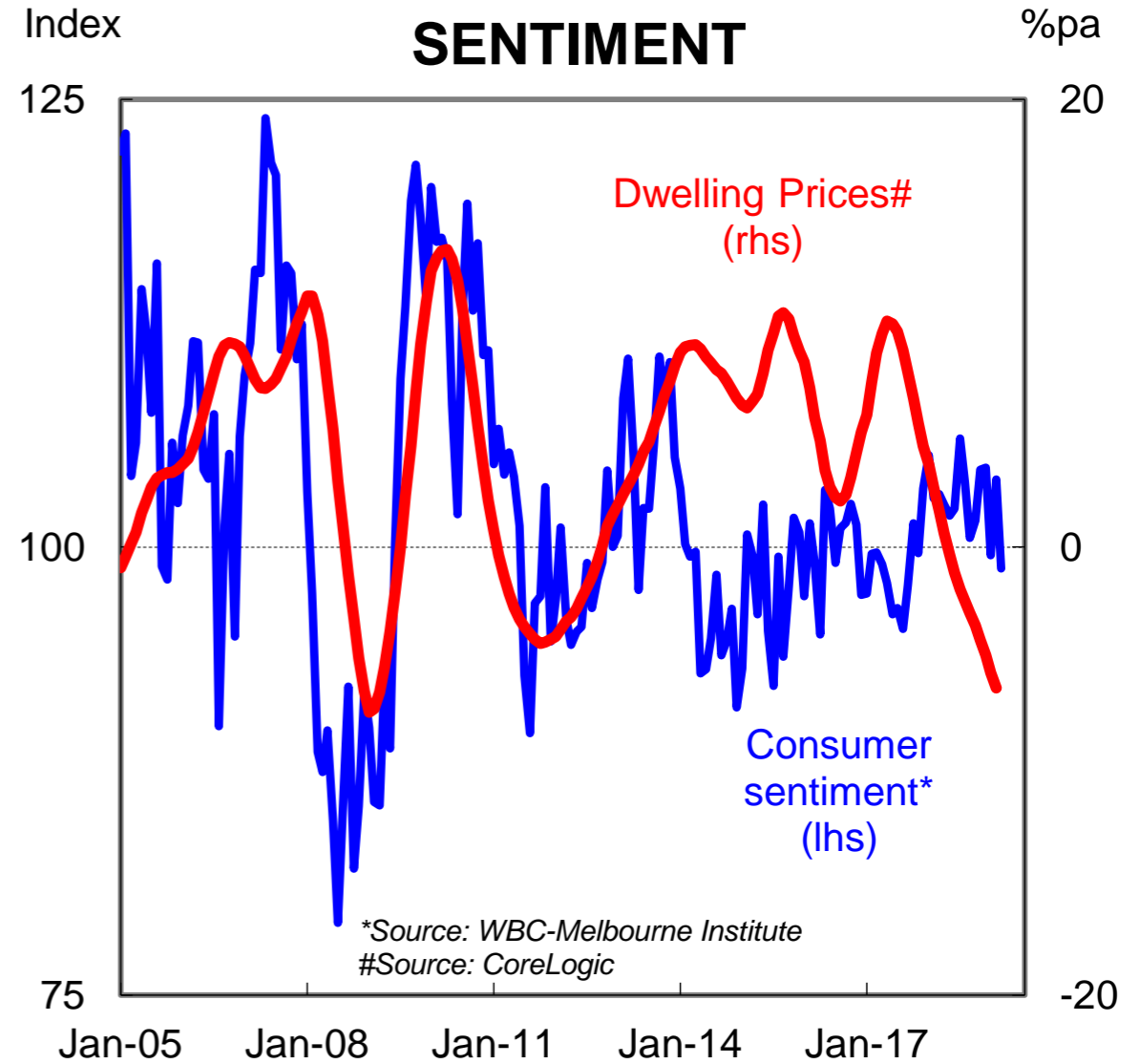
CONSUMER SPENDING

(% change)



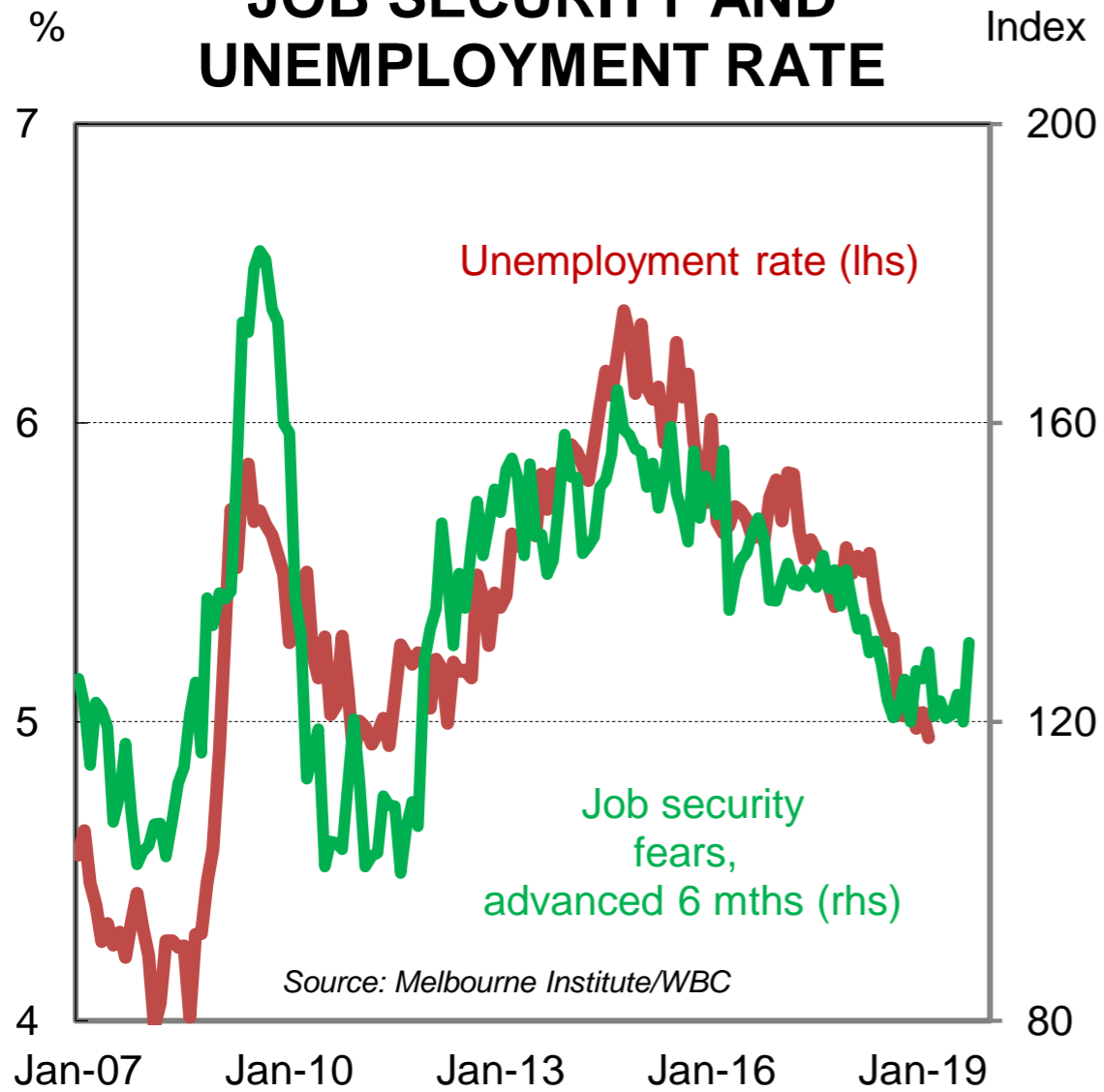
Source: ABS

DWELLING PRICES & CONSUMER SENTIMENT

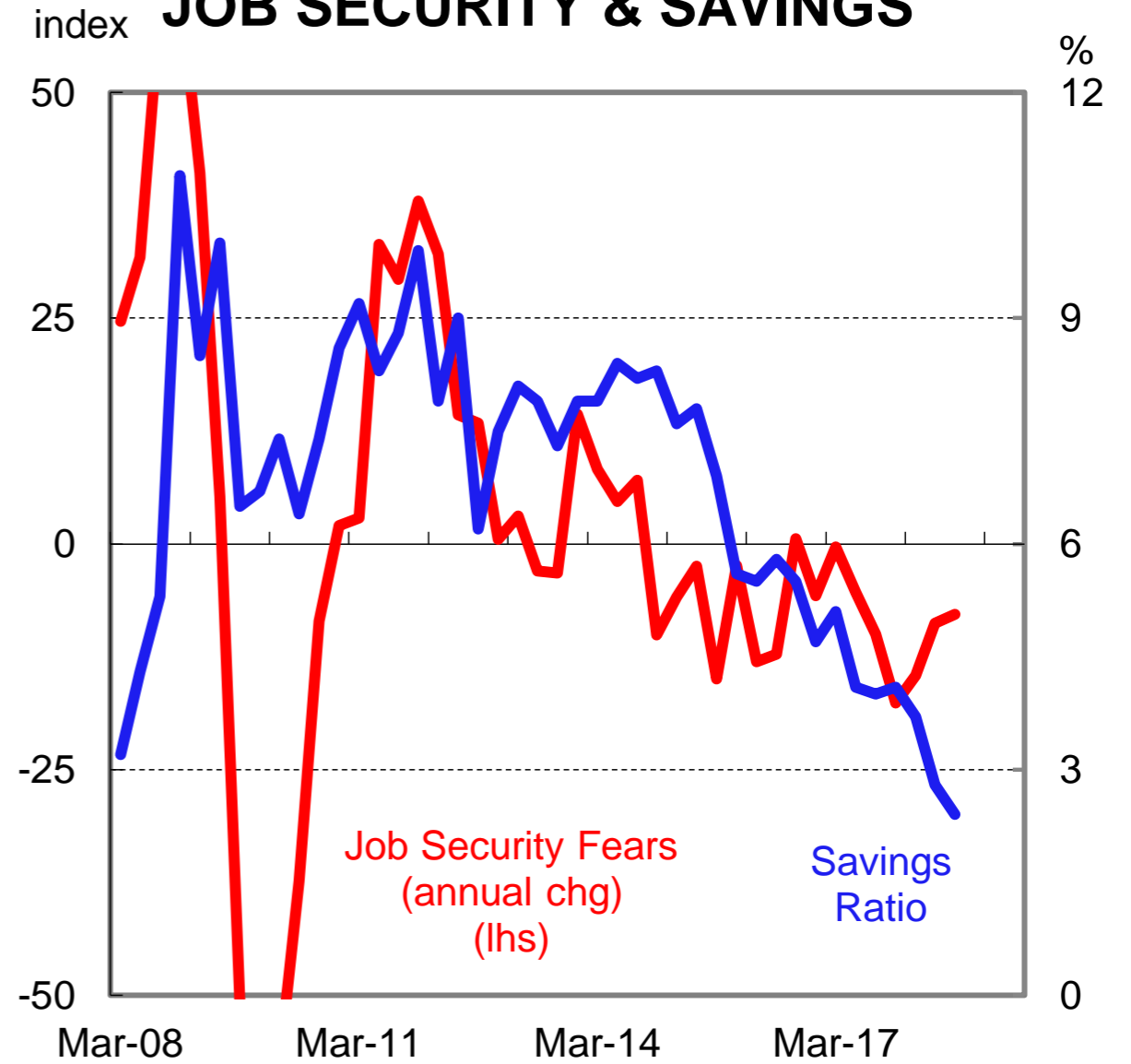


*Source: WBC-Melbourne Institute
#Source: CoreLogic

JOB SECURITY AND UNEMPLOYMENT RATE

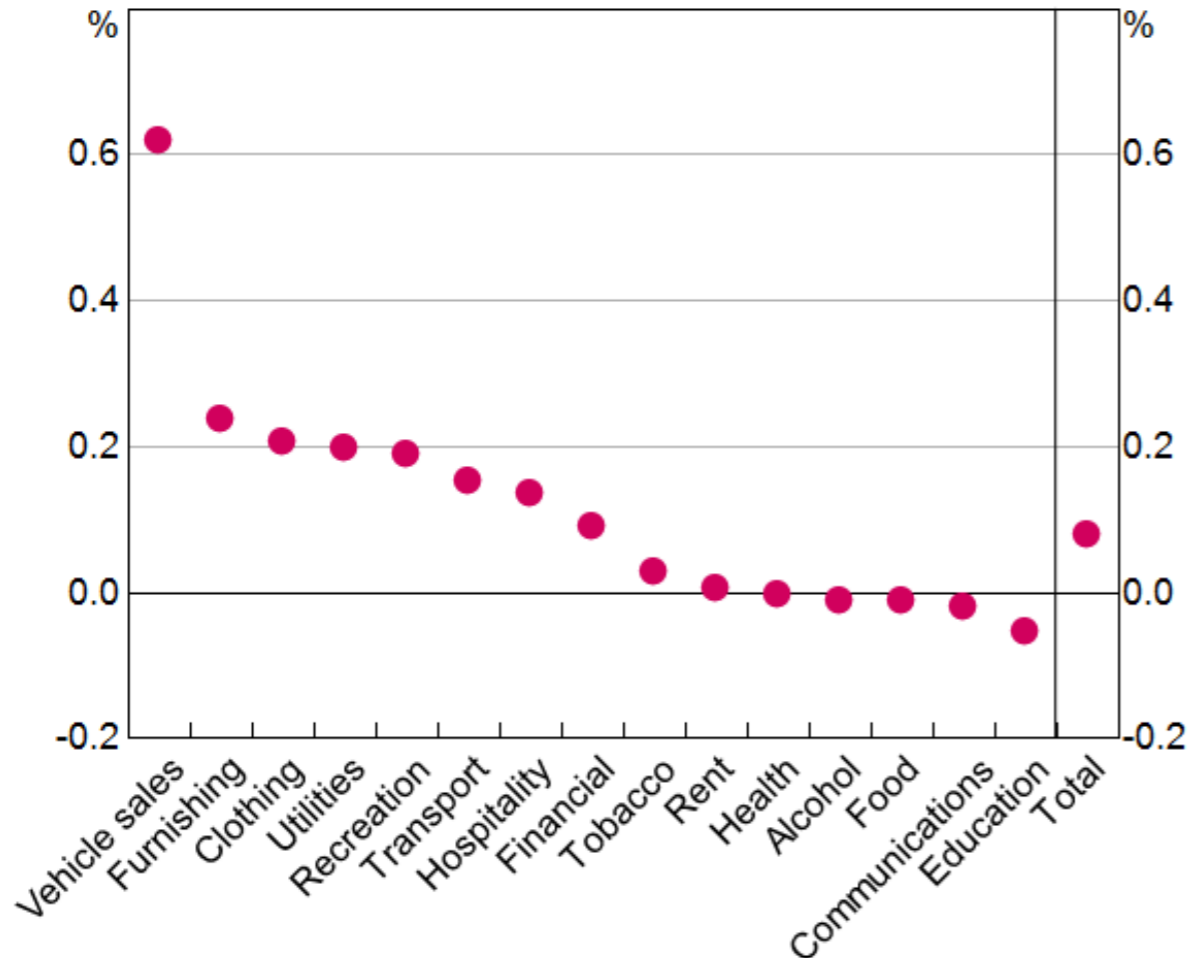


JOB SECURITY & SAVINGS



Wealth Effects by Consumption Category*

Short-run elasticities

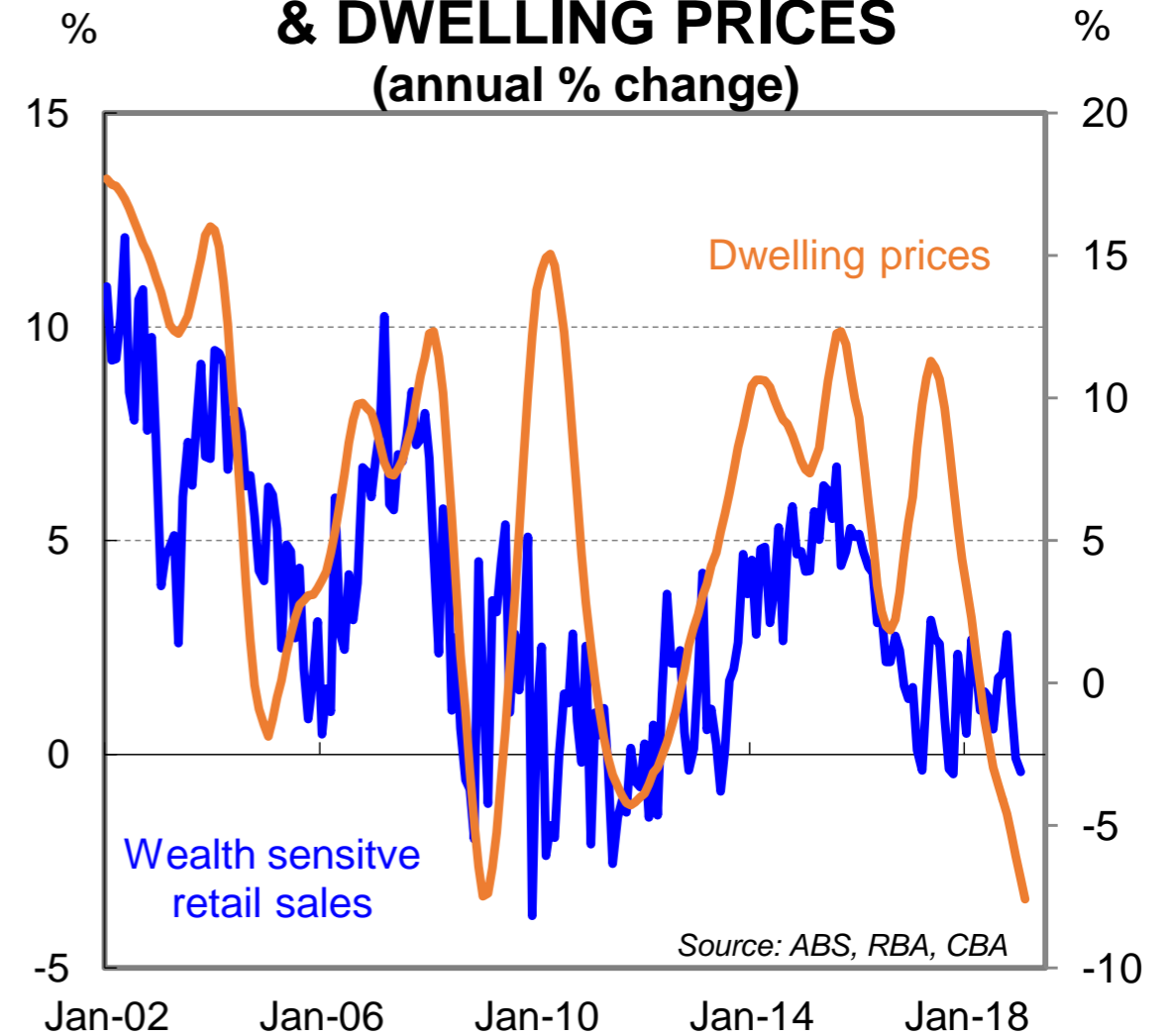


* Effect of a 1 per cent increase in per capita housing wealth over six months

Sources: ABS; Corelogic; RBA

WEALTH SENSITIVE SALES & DWELLING PRICES

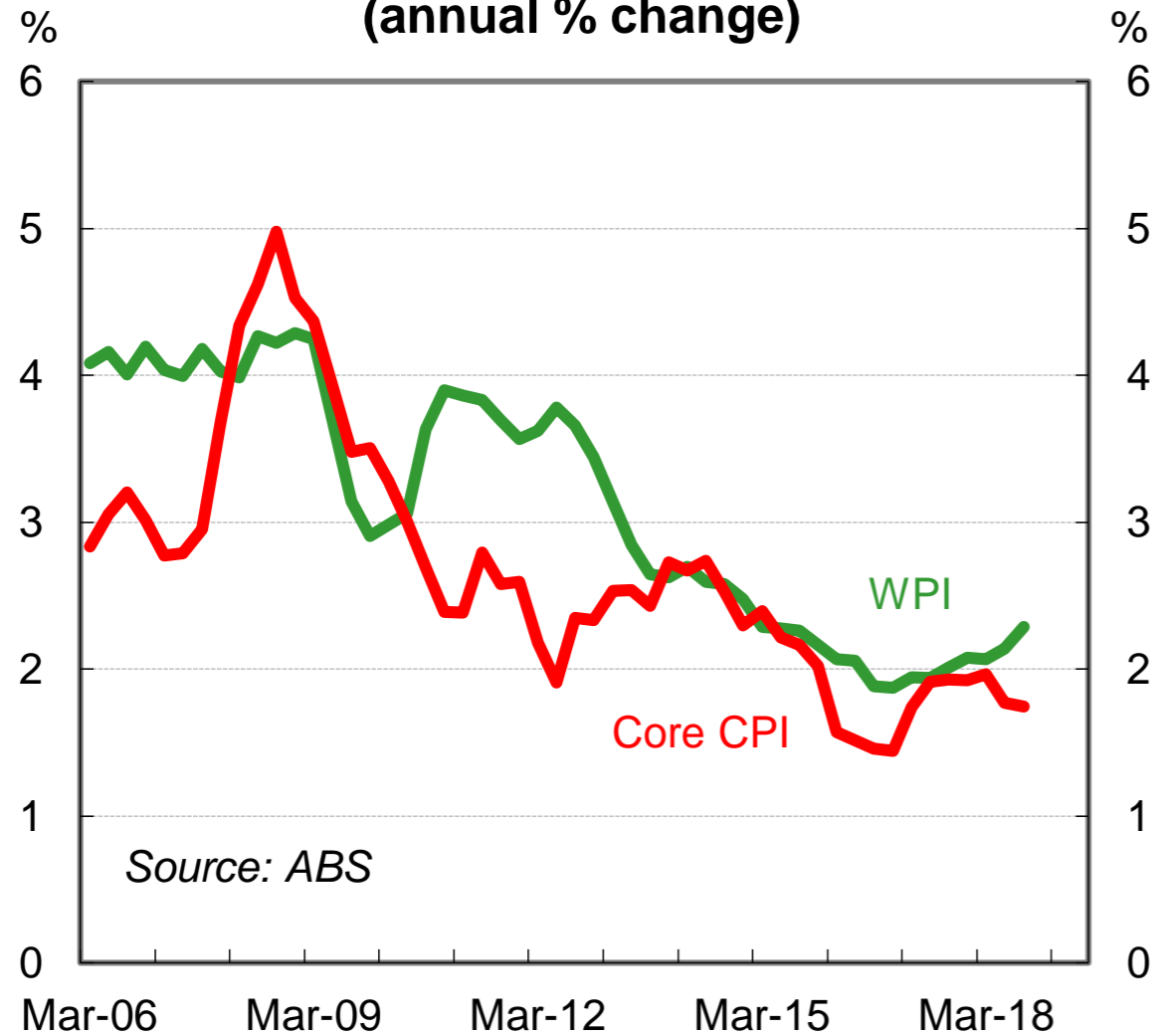
(annual % change)



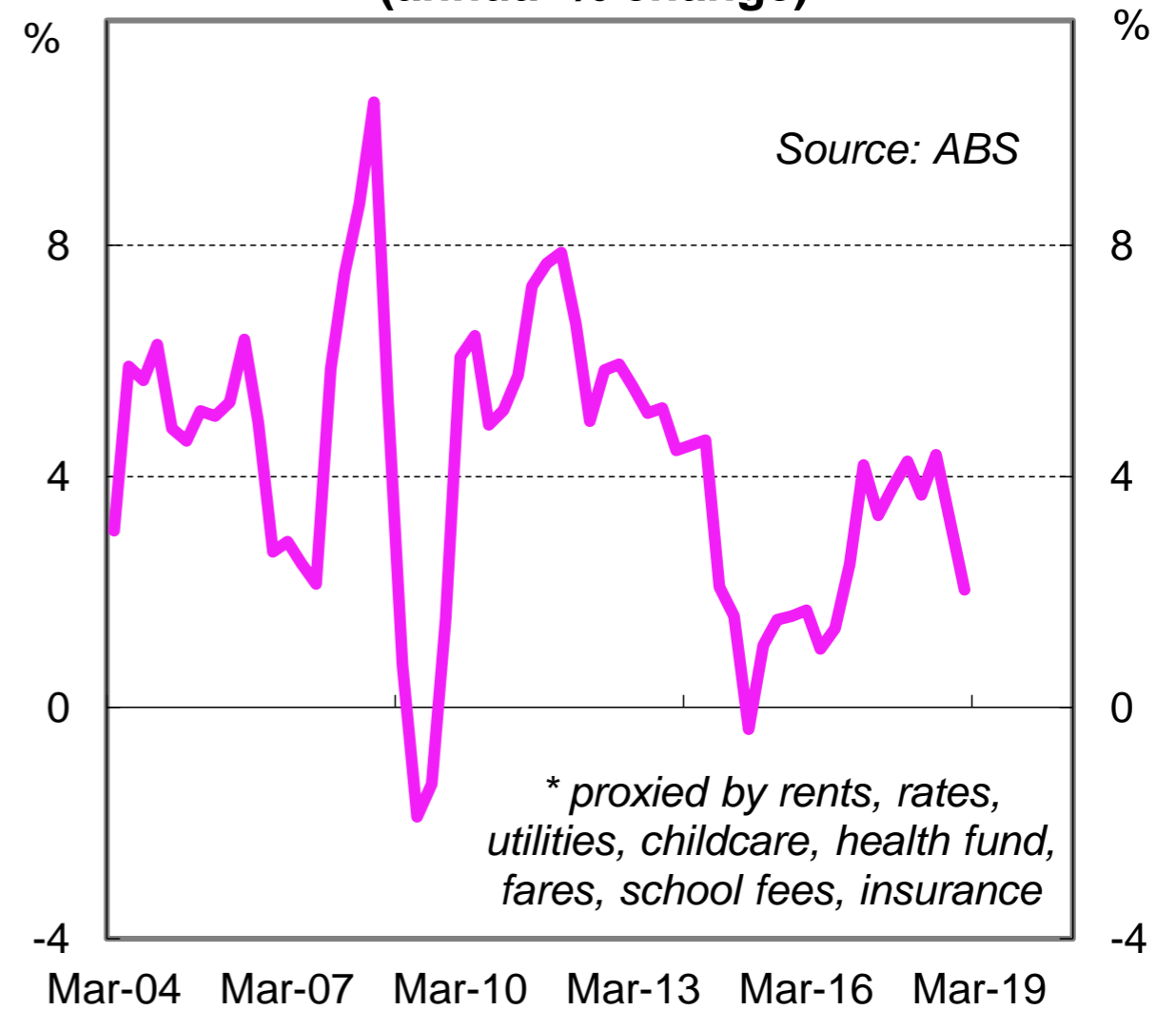
Source: ABS, RBA, CBA

Wealth sensitive Dept stores, Clothing, household goods, newspapers, books and other recreation

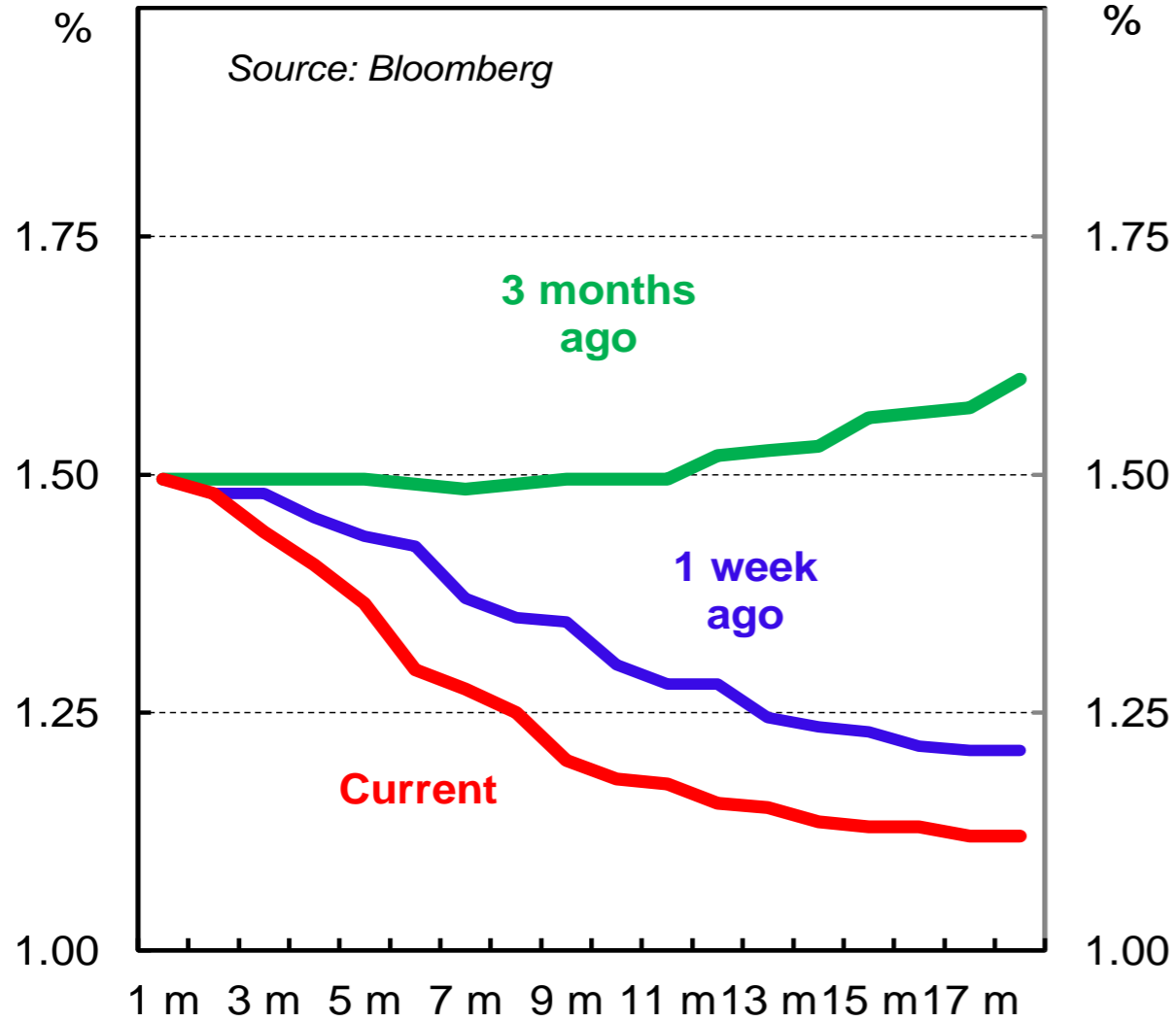
WAGES & CPI (annual % change)



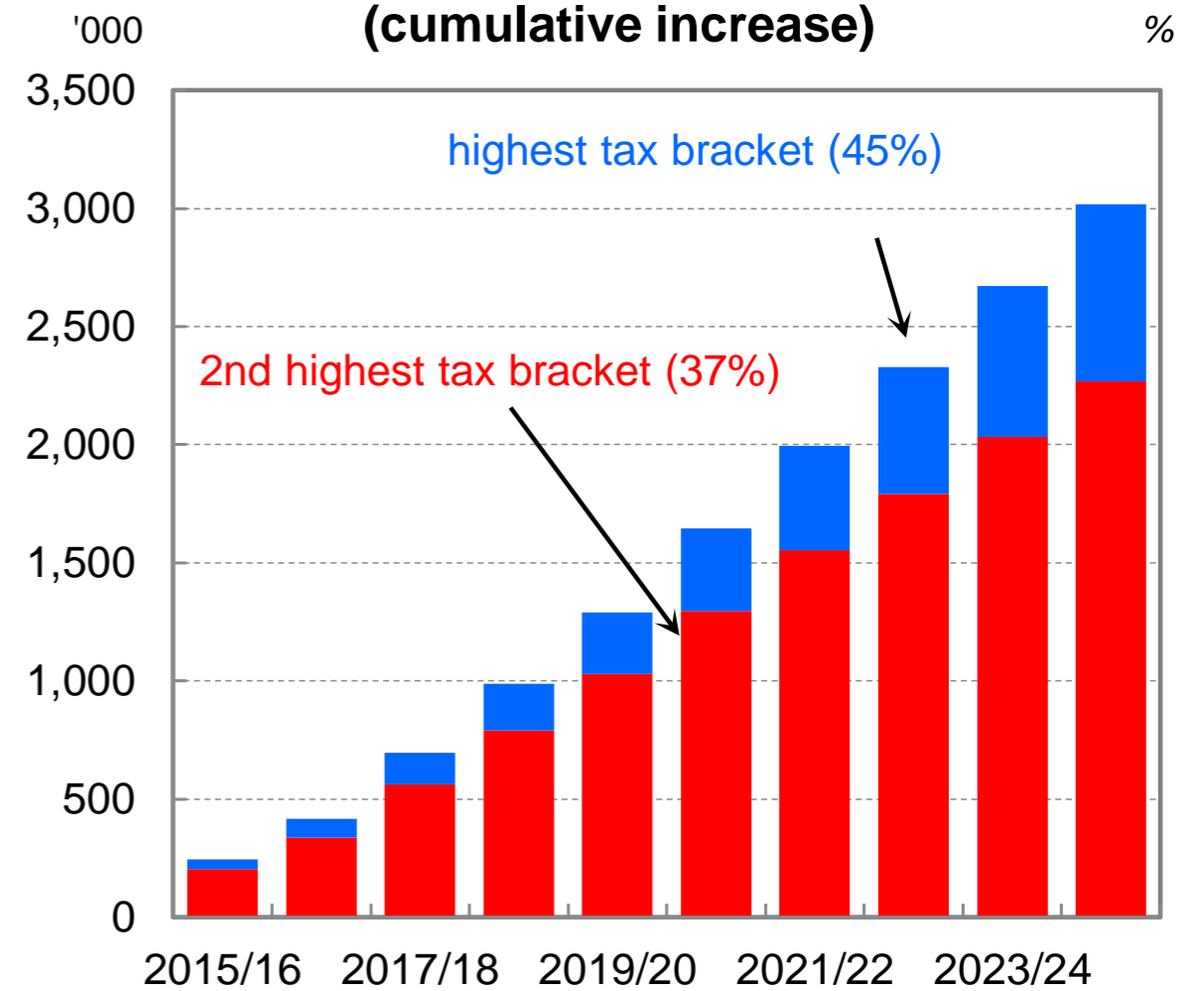
THE PAIN SPEND* (annual % change)



OIS CASH RATE PRICING

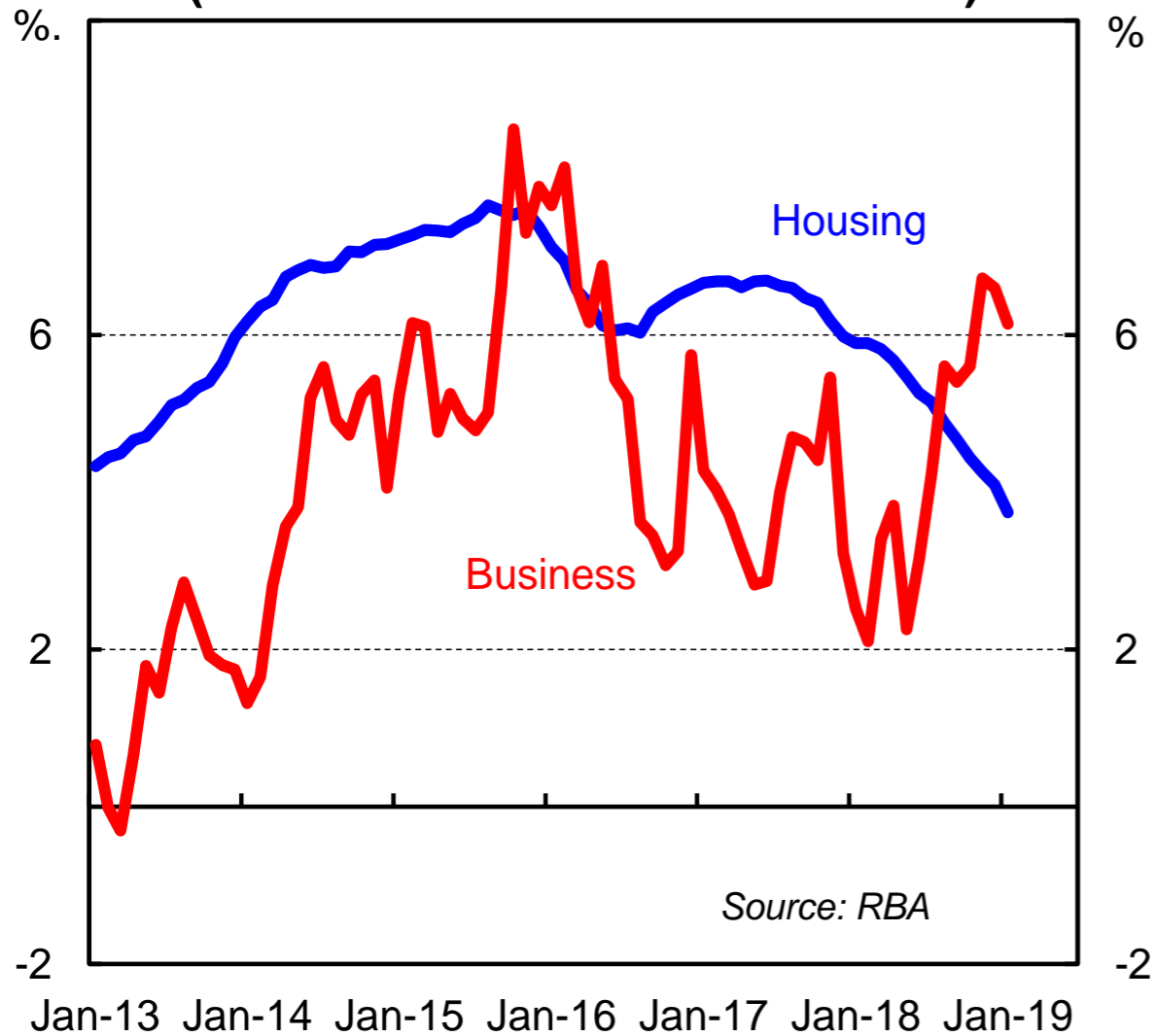


TAXPAYERS IN TOP TWO BRACKETS

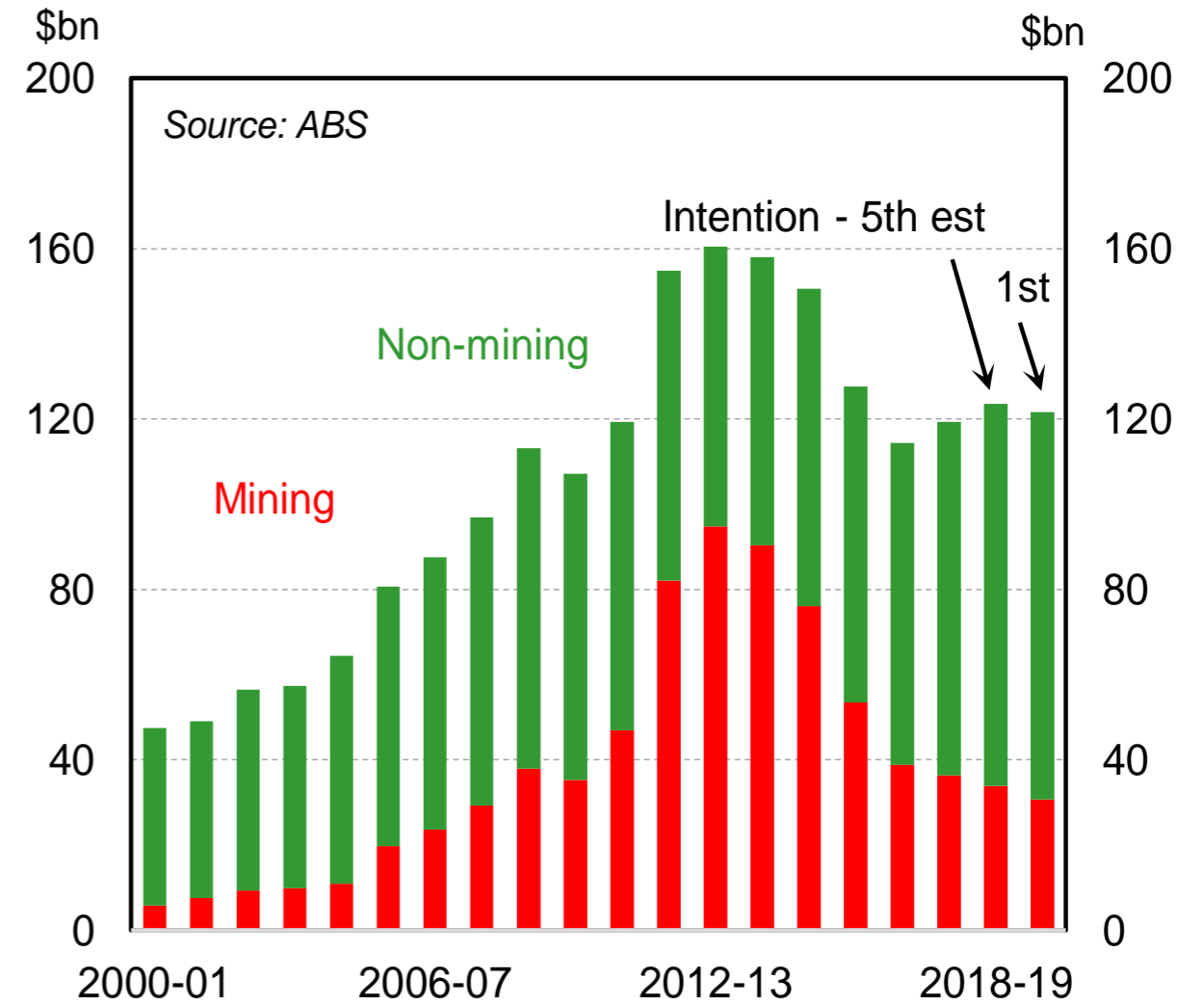


Source: Australian Government

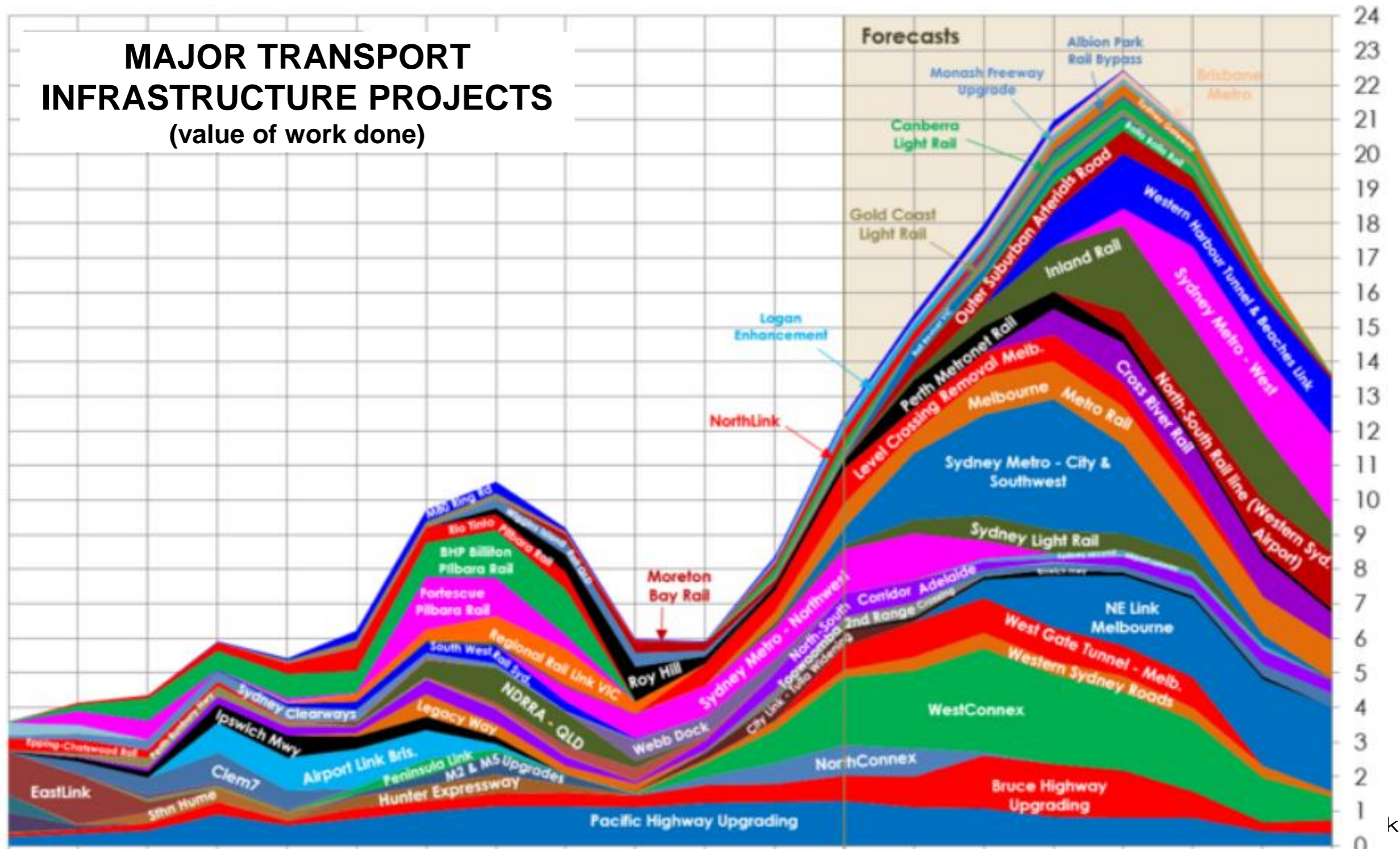
CREDIT GROWTH (six-month-ended annualised rate)



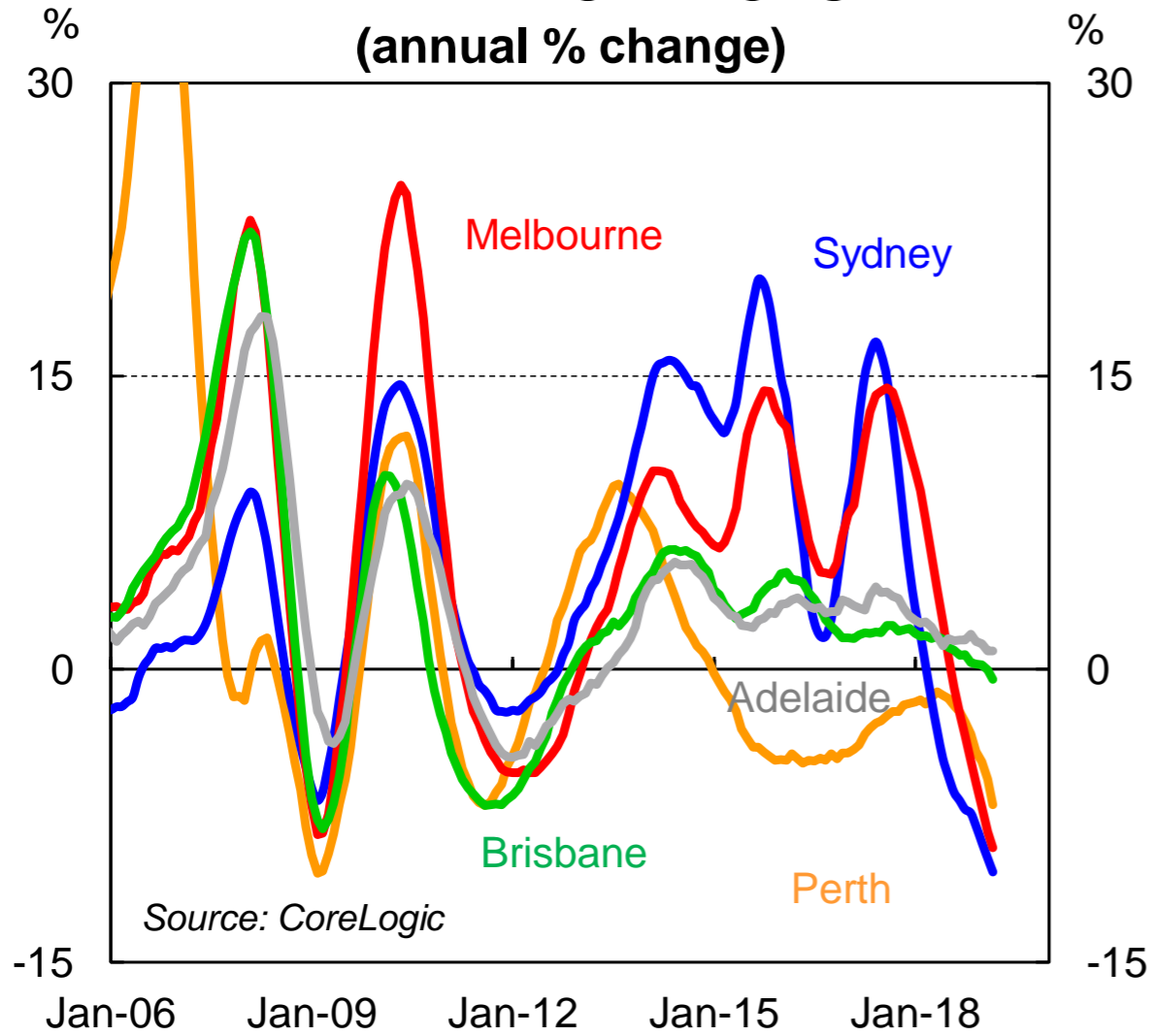
CAPEX - ACTUAL AND INTENTIONS



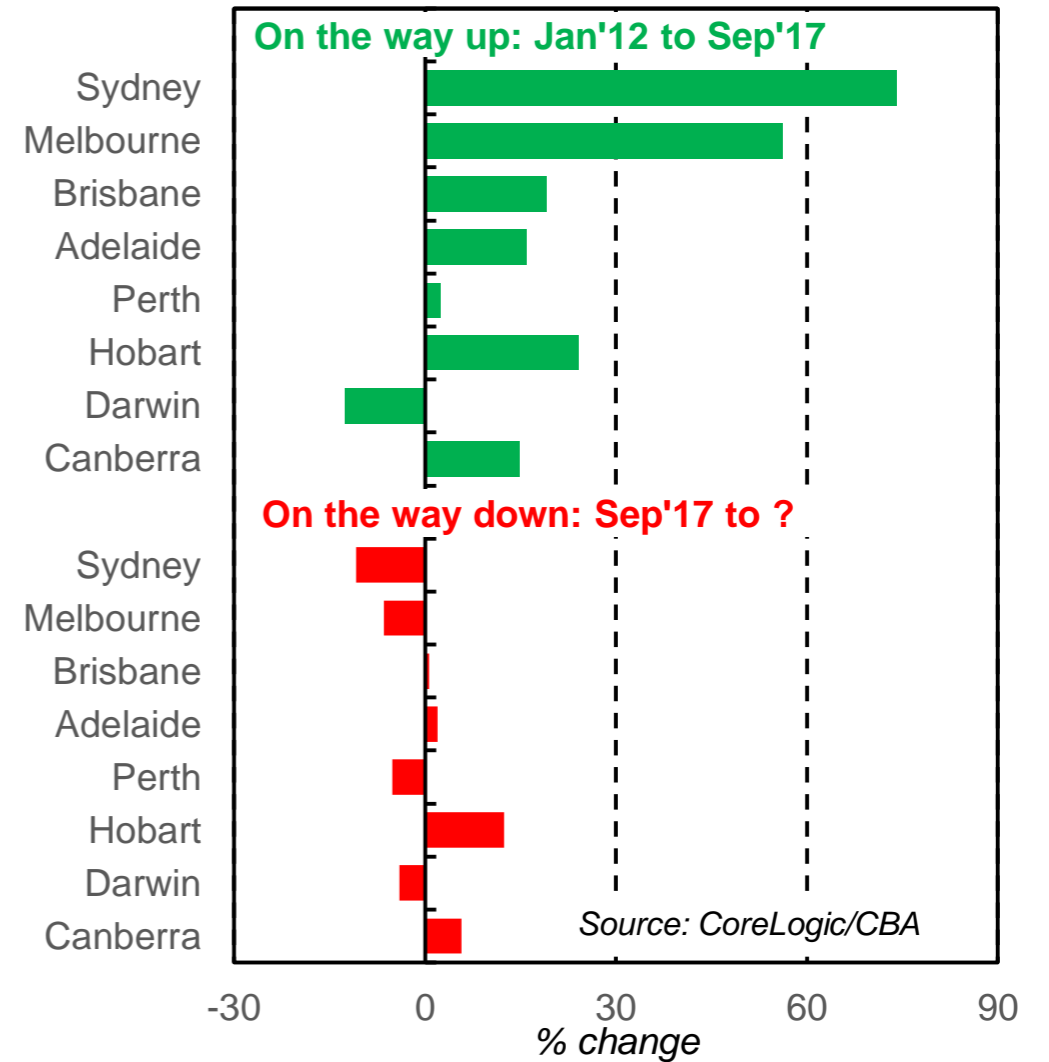
MAJOR TRANSPORT INFRASTRUCTURE PROJECTS (value of work done)



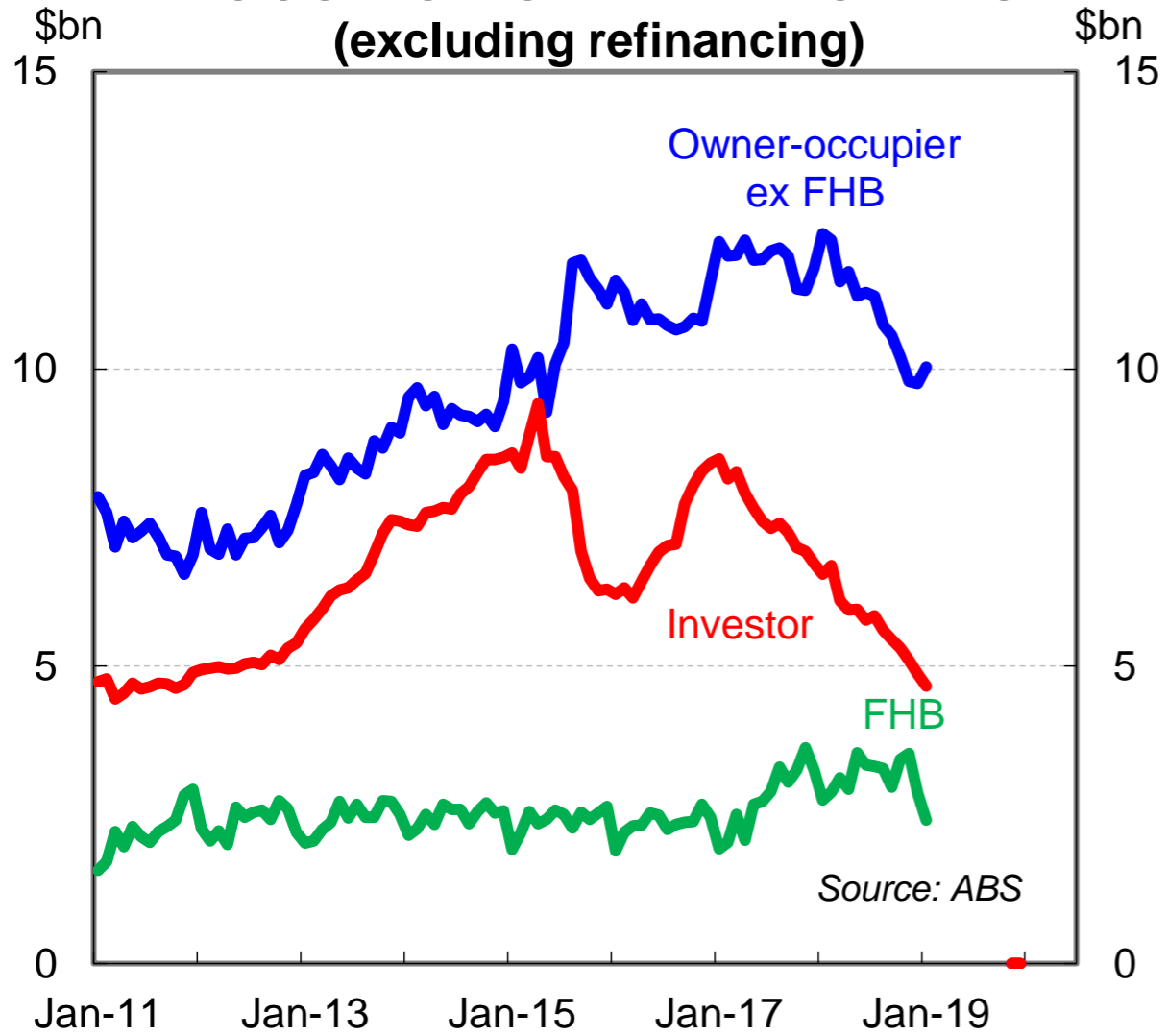
DWELLING PRICES (annual % change)



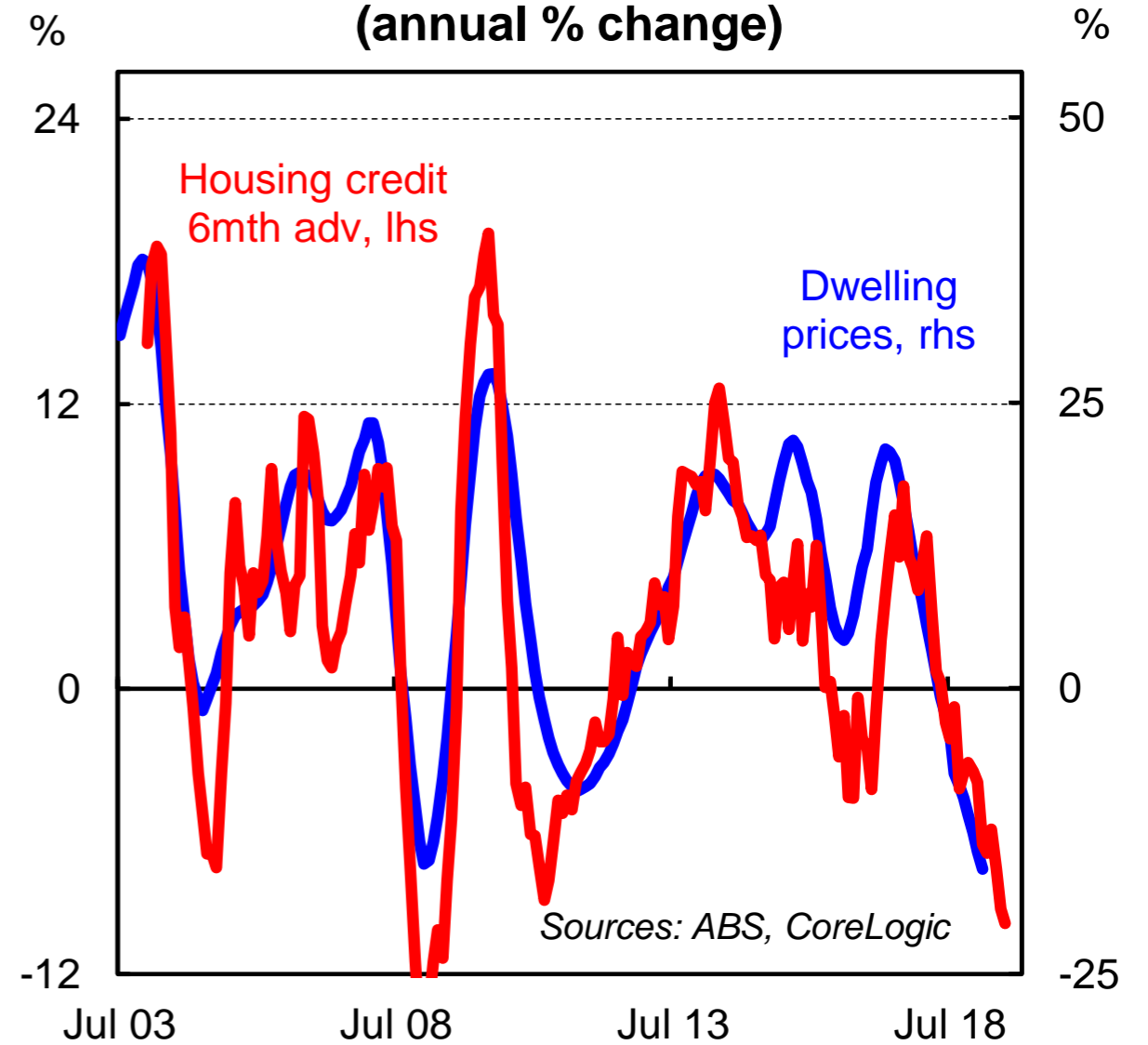
DWELLING PRICE CYCLES: 2012-? (peak/trough based on 8 capital city average)



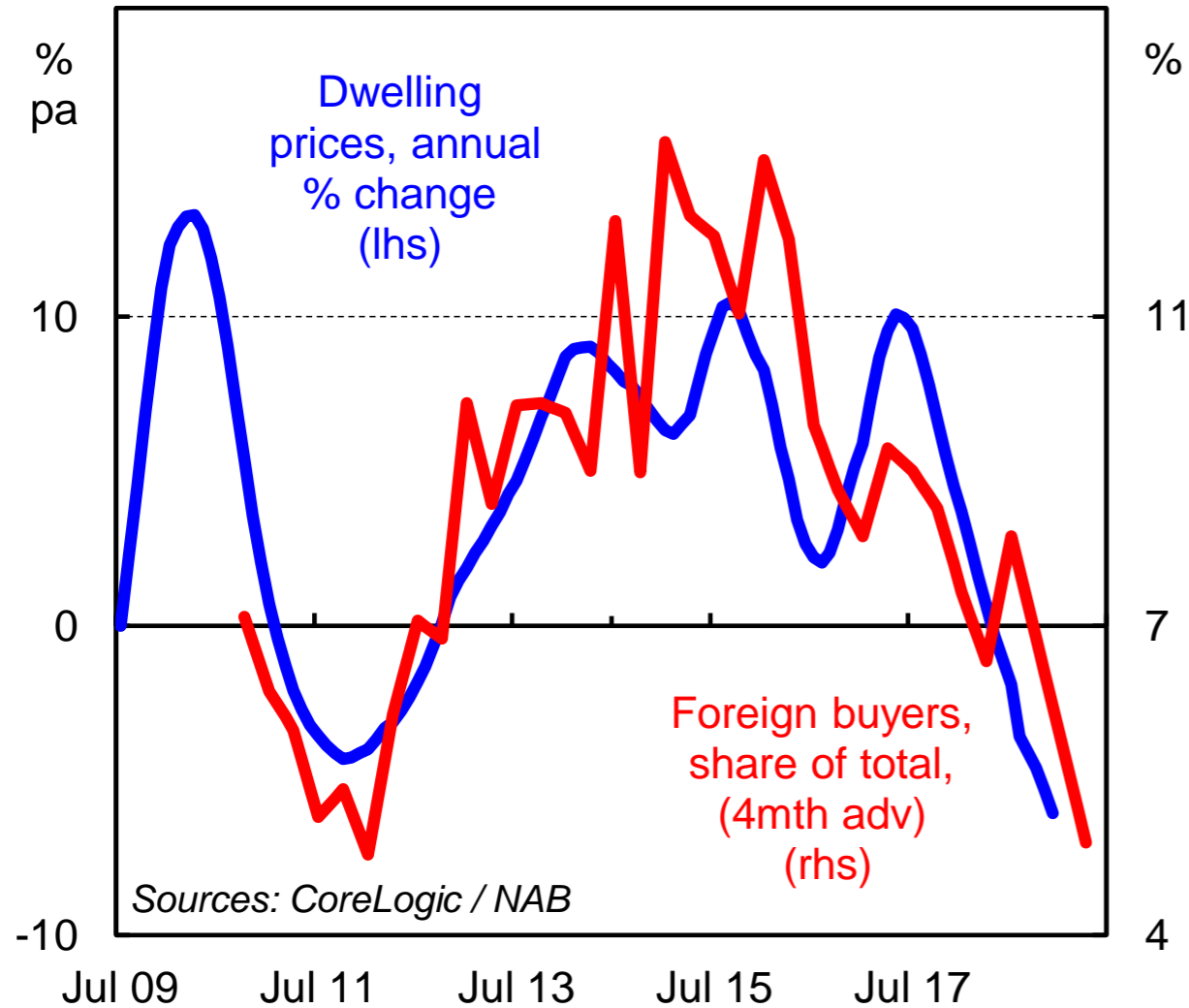
HOUSING LOAN APPROVALS (excluding refinancing)



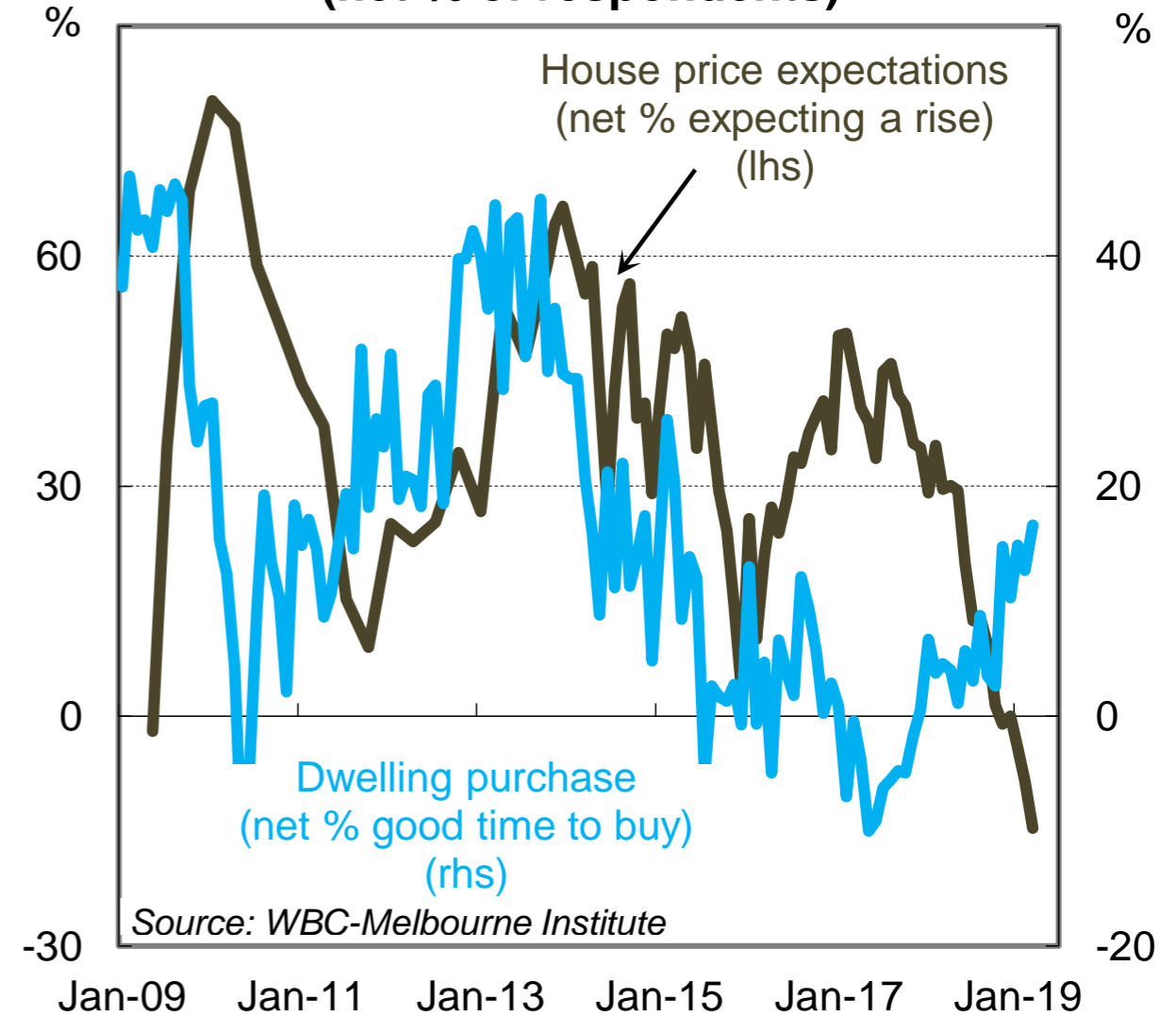
HOUSING CREDIT & PRICES (annual % change)



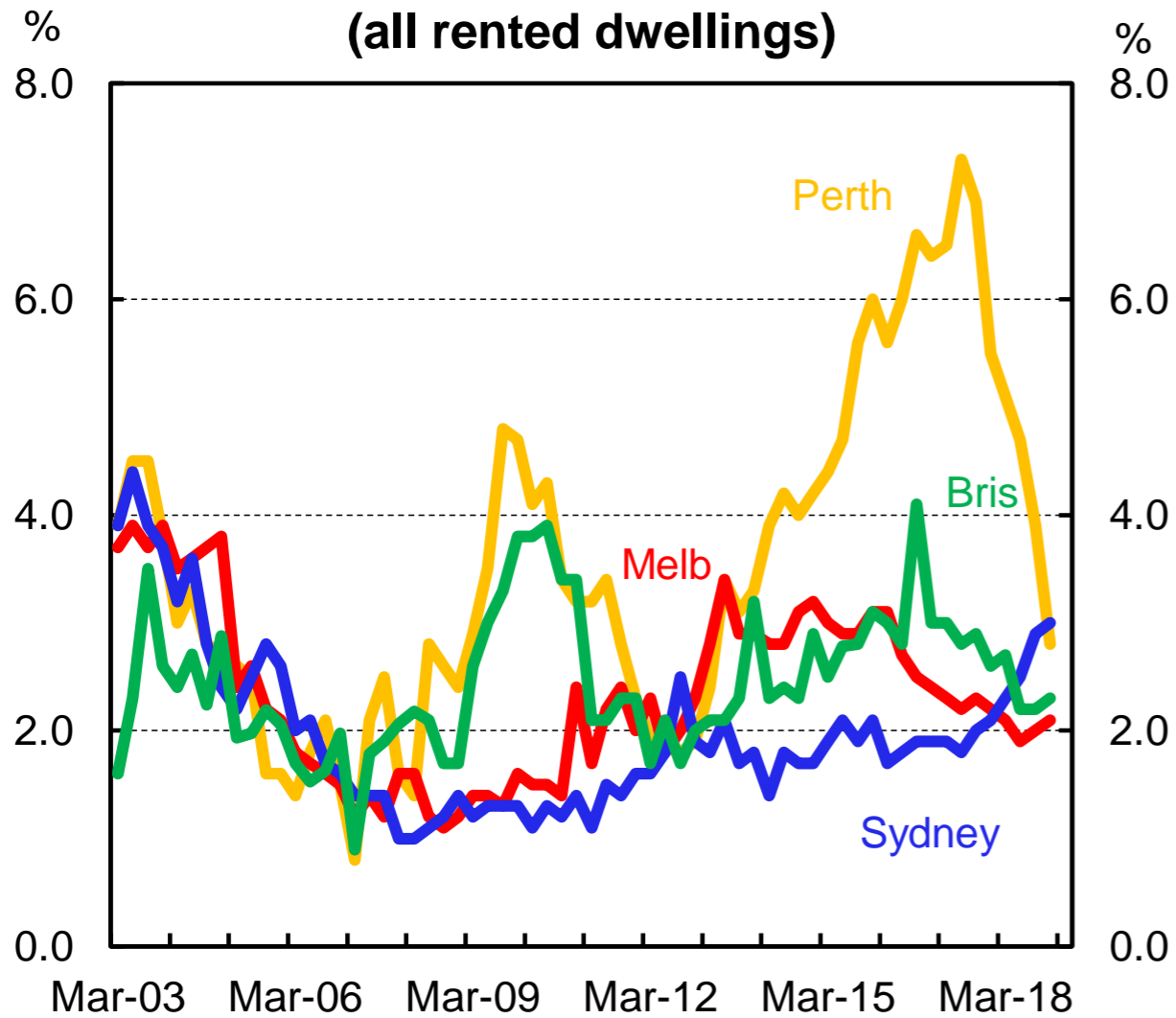
FOREIGN BUYERS & DWELLING PRICES



EXPECTATIONS & SENTIMENT (net % of respondents)

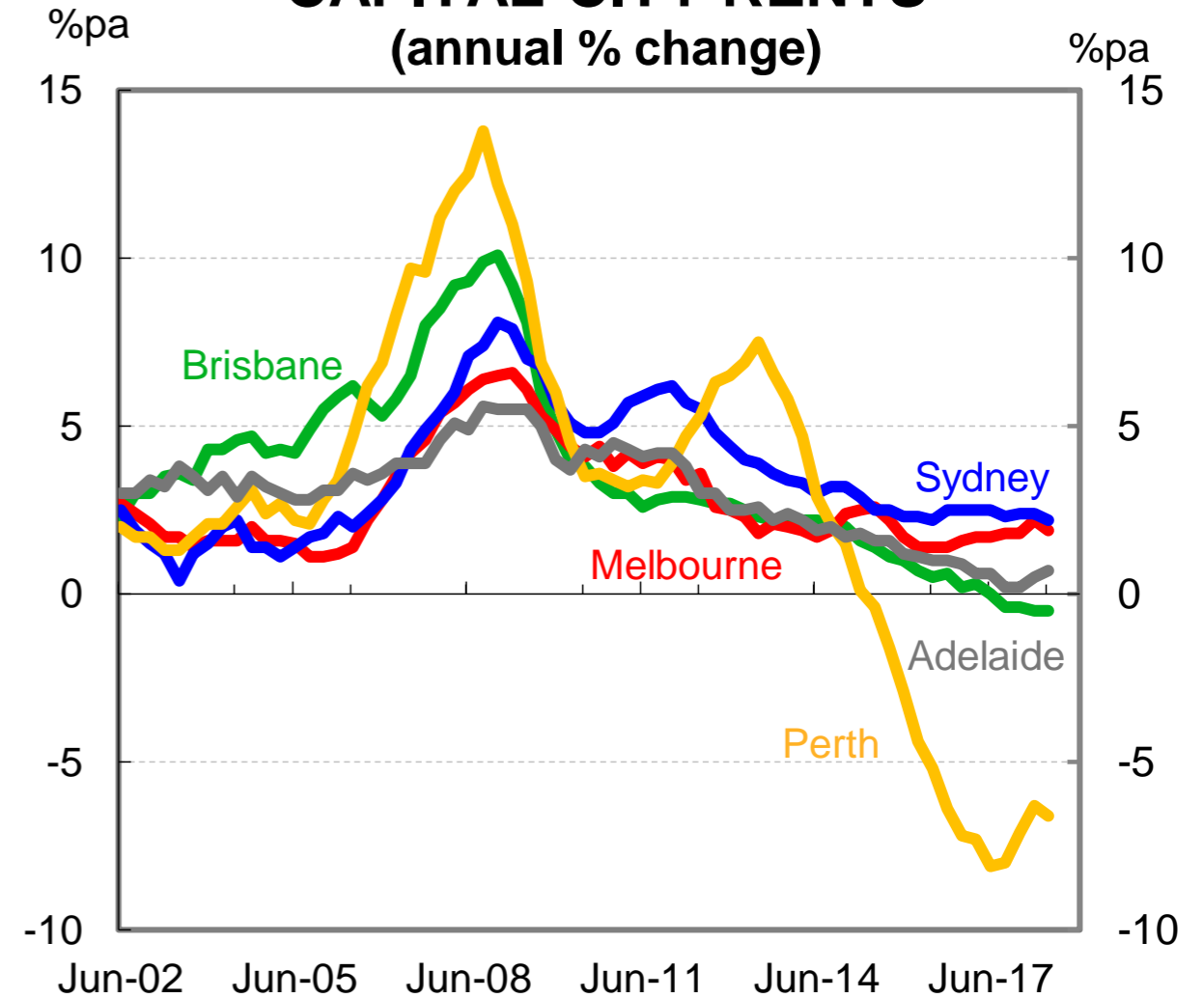


RESI. VACANCY RATES (all rented dwellings)



Source: REIA

CAPITAL CITY RENTS (annual % change)



Source: ABS



■ **Downside**

- **A material cut to immigration**
- **Policy changes to negative gearing and capital gains tax**
- **A further tightening in lending standards**
- **Higher mortgage rates**
- **Rising unemployment**

■ **Upside**

- **Lower mortgage rates**
- **Cuts to stamp duty (particularly to foreign investors)**
- **A sharper fall in dwelling construction**
- **Any first home buyer assistance packages**

- **Global backdrop looks reasonable but momentum likely to slow.**
- **Commodity prices to remain well supported.**
- **Australian economic growth to be reasonable – 2½%- 2¾%pa.**
- **Unemployment rate to stay around 5% (potentially a little lower).**
- **Income and wages growth to be constrained due to spare capacity in the labour market.**
- **Interest rates to stay low – cash rate on hold at 1.5% (risk over the next year to a cut).**
- **Dwelling prices to continue to correct lower against a reasonable economic backdrop.**
- **Election may change the fiscal backdrop.**



CBA AUSTRALIAN ECONOMIC FORECASTS

Commonwealth Research



Fiscal Years

Calendar Years

2015/16 (a) 2016/17 (a) 2017/18 (a) 2018/19 (f) 2019/20 (f) 2020/21 (f)

2015 (a) 2016 (a) 2017 (a) 2018 (a) 2019 (f) 2020 (f)

Economic Activity

Private final demand	0.6	0.9	3.4	1.4	2.3	3.0	0.7	0.5	2.2	2.7	1.5	2.7
<i>Of which:</i> Household spending	2.8	2.4	2.8	2.1	2.5	3.0	2.4	2.7	2.4	2.6	2.2	2.8
Dwelling investment	9.5	2.5	0.2	0.7	-2.8	-4.0	9.0	7.9	-2.4	4.4	-3.5	-2.5
Business investment	-11.7	-7.1	9.2	0.3	4.6	6.1	-9.6	-11.8	3.1	4.3	2.4	5.3
Public final demand	4.6	6.5	3.3	5.5	3.2	2.3	3.2	6.4	5.0	4.0	4.5	2.7
Domestic final demand	1.4	2.2	3.4	2.4	2.5	2.8	1.2	1.8	2.9	3.0	2.2	2.7
Inventories (contrib to GDP)	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	-0.1	0.1	0.0	0.0
GNE	1.4	2.2	3.4	2.3	2.6	2.8	1.3	1.9	2.7	3.2	2.2	2.8
Exports	6.8	5.5	4.1	3.3	5.5	3.9	6.5	6.8	3.4	5.0	3.7	5.1
Imports	-0.1	4.7	7.1	1.2	4.4	5.1	2.0	0.1	7.7	4.1	2.1	5.1
<i>Net exports (contrib to GDP)</i>	<i>1.4</i>	<i>0.2</i>	<i>-0.6</i>	<i>0.5</i>	<i>0.3</i>	<i>-0.2</i>	<i>0.9</i>	<i>1.3</i>	<i>-0.8</i>	<i>0.2</i>	<i>0.4</i>	<i>0.0</i>
GDP	2.8	2.3	2.8	2.3	3.0	2.5	2.5	2.8	2.4	2.8	2.5	2.8

Prices & Incomes

CPI	1.4	1.7	1.9	1.7	2.3	2.5	1.5	1.3	1.9	1.9	1.7	2.6
Underlying CPI	1.8	1.6	1.9	1.7	2.2	2.7	2.2	1.5	1.9	1.8	1.8	2.6
WPI	2.1	1.9	2.1	2.4	2.9	3.0	2.2	2.0	2.0	2.2	2.6	3.0
Nominal GDP	2.4	6.2	4.7	4.9	5.4	4.9	1.6	3.9	6.1	4.9	5.1	5.1
Real h/hold disposable income	0.6	1.2	1.6	0.7	2.5	3.1	1.1	1.0	1.3	1.1	1.6	2.9

Labour Market

Employment	2.3	1.5	3.0	2.3	2.0	1.8	2.0	1.8	2.3	2.7	2.1	1.9
Unemployment rate	5.9	5.7	5.5	5.0	4.7	4.6	6.1	5.7	5.6	5.3	4.8	4.6

External Accounts

Current Account: \$bn	-75.7	-38.3	-51.0	-34.3	-27.4	-29.3	-76.3	-53.3	-46.2	-40.7	-30.1	-27.6
% of GDP	-4.6	-2.2	-2.8	-1.8	-1.3	-1.4	-4.6	-3.1	-2.6	-2.1	-1.5	-1.3

Commonwealth Bank of Australia





Commonwealth Bank
of Australia

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