

Uncertainty still abounds

Victorian economic update and outlook

Presentation for FinPro - 3 June 2022

Presented by Keenan Jackson

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Global Outlook

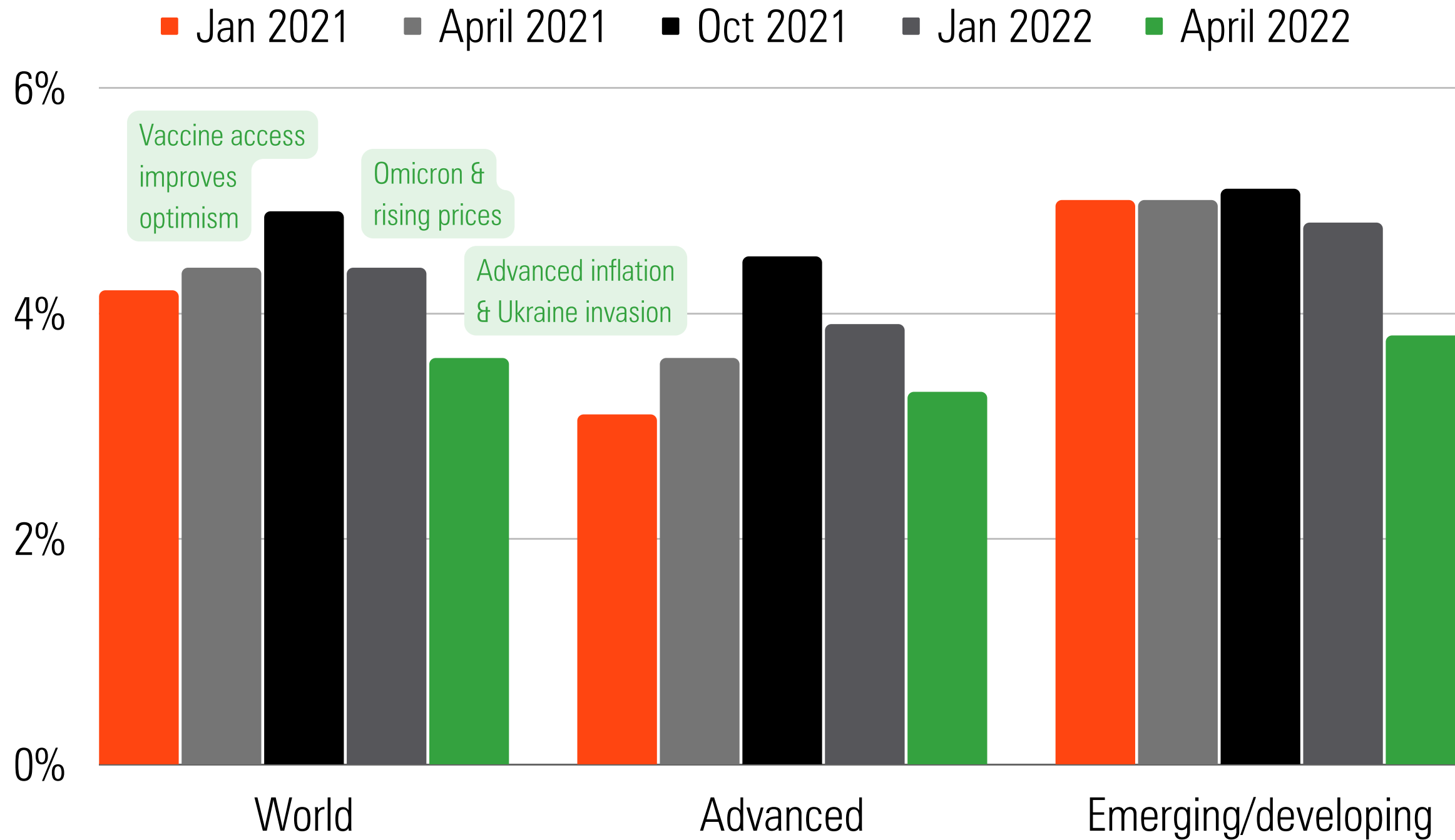
Inflation and rate rises, fear of recessions



Global forecasts have been downgraded again

Omicron variant slowed recovery and inflationary pressures weakening demand

IMF World Outlook, 2022



- Forecasts for global growth increased as 2021 went on, before falling in 2022.
- Effects of omicron caused delays to recovery in many markets
- China's strict zero COVID strategy having large impacts
- Inflation keeps surging due to supply pressures
- Ukraine crisis impacting European output and exacerbating price increases

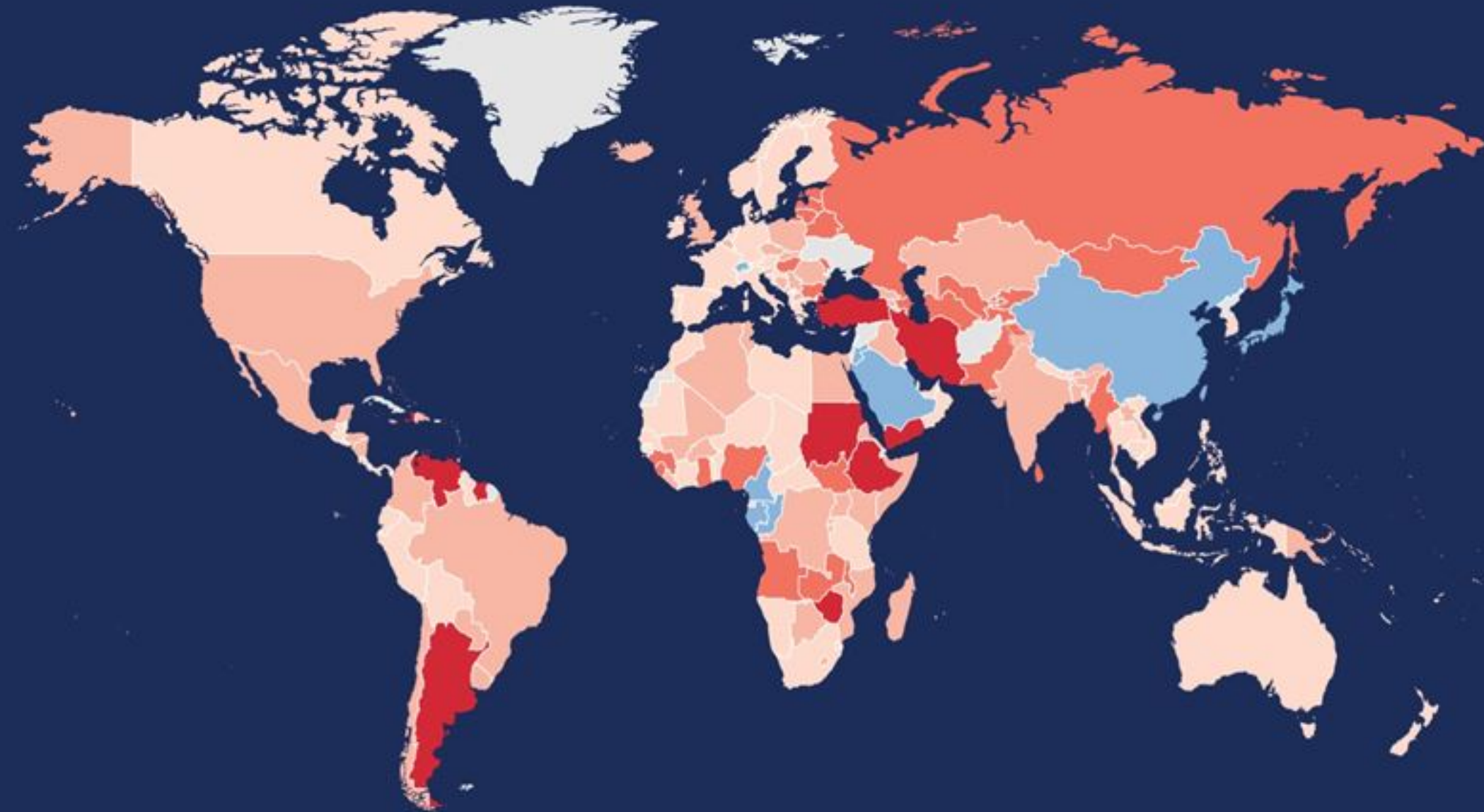
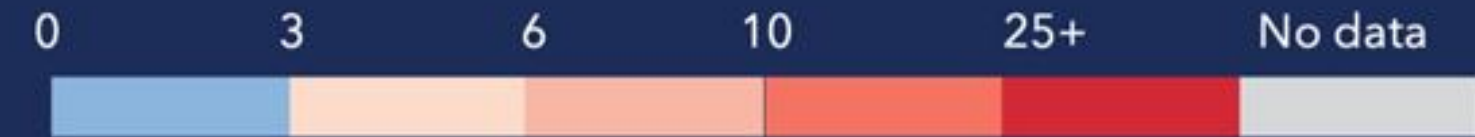
Source: IMF World Economic Outlook, April 2022

Inflation obviously the largest factor

- The majority of countries expected to exceed 3%
- Japan the only developed country expected to have inflation below 3%, however its >2% rate in April was a 7 year high and rising

Price pressures

The war in Ukraine and a broadening of price pressures are expected to elevate inflation for longer than previously forecast.
(Inflation projections 2022, average consumer prices, annual percent change)



Sources: IMF, *World Economic Outlook*.

IMF

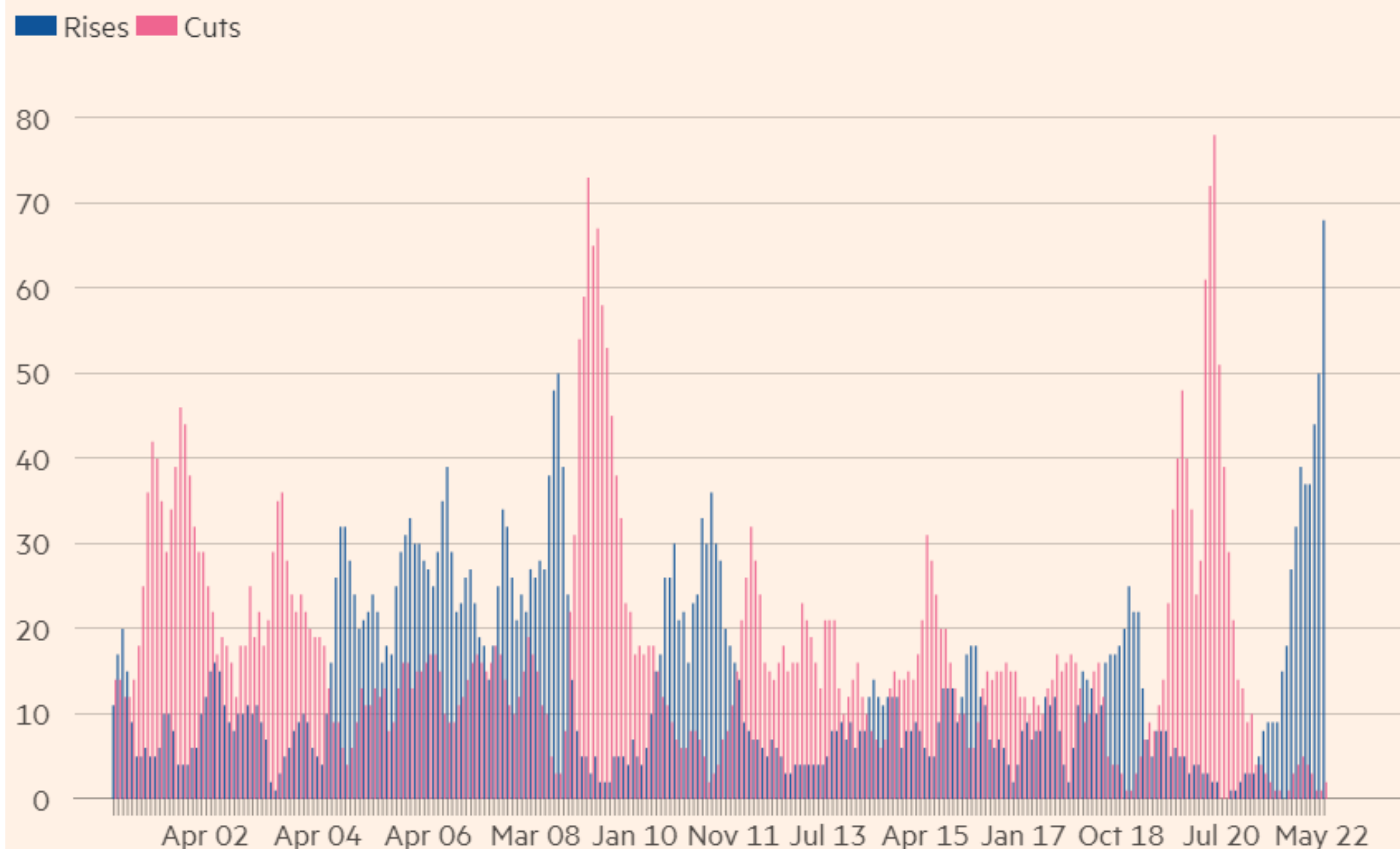
Cash rate rises in many countries also playing their part

- More than 60 increases in key interest rates in the past three months — the largest number since at least the start of 2000

(Source: Financial Times)

The number of policy rate rises has jumped

Number of key policy rate rises/cuts over the month, 3-rolling month sum. FT analysis among 55 countries tracking latest target rate

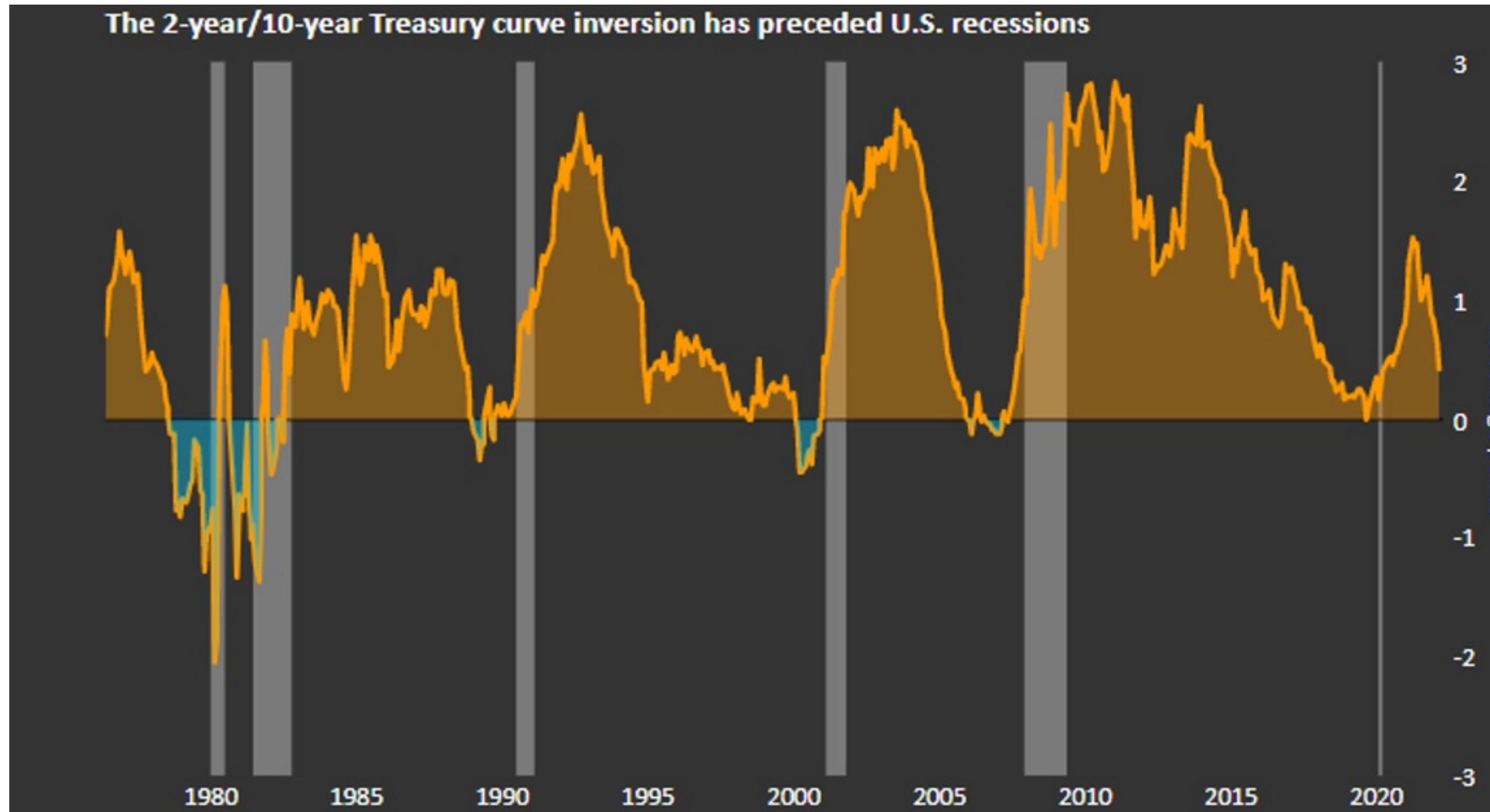


FINANCIAL TIMES

Source: Refinitiv

Recessionary fears are growing in the US

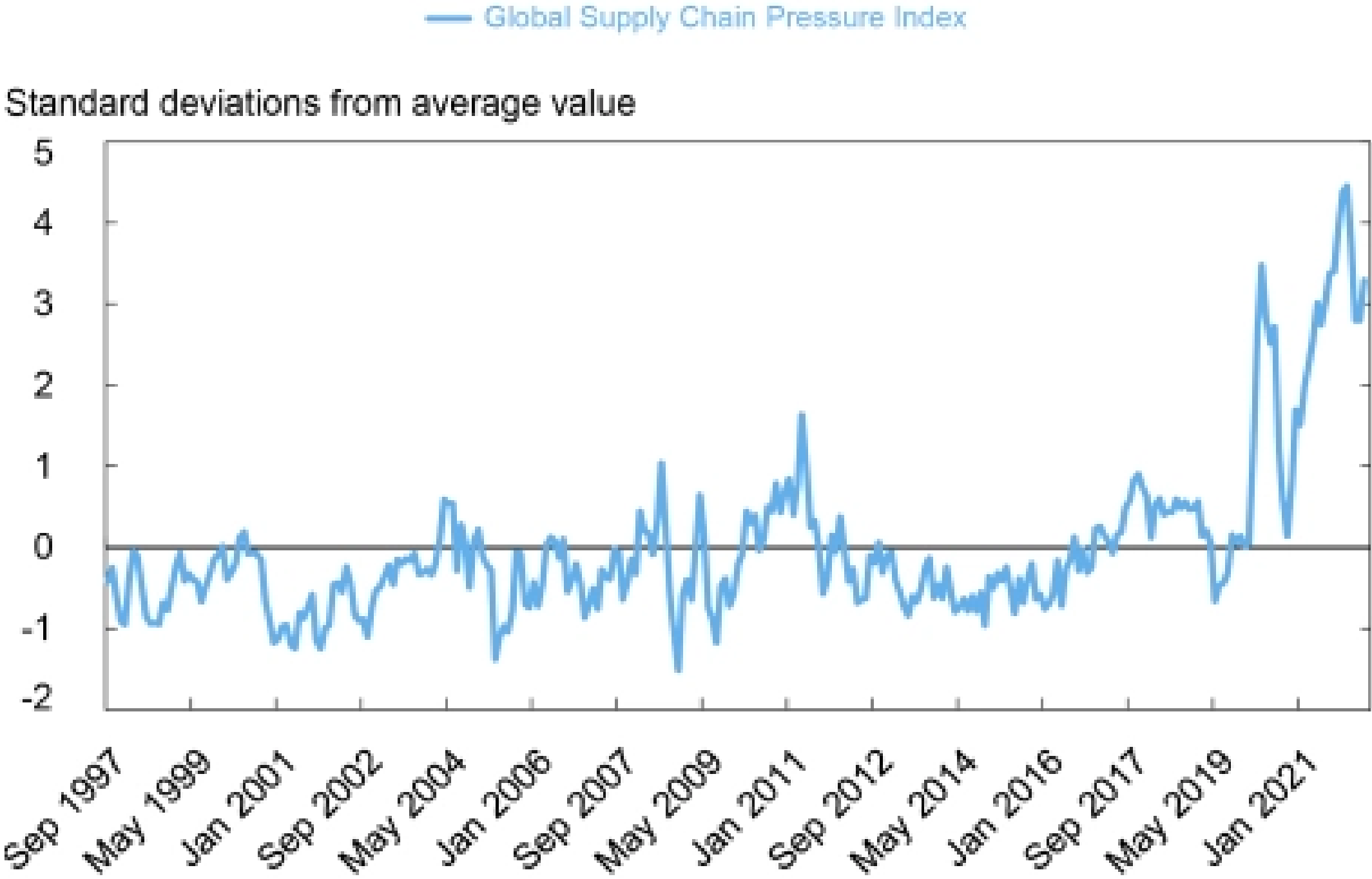
- Some banks, economists and leading indicators are suggesting a downturn is coming in the next year



Source: Refinitiv via ABC News

Supply chain pressures still high

- Delivery times and costs in Euro and China still elevated



Source: Federal reserve Bank of NY, 2022

National Picture

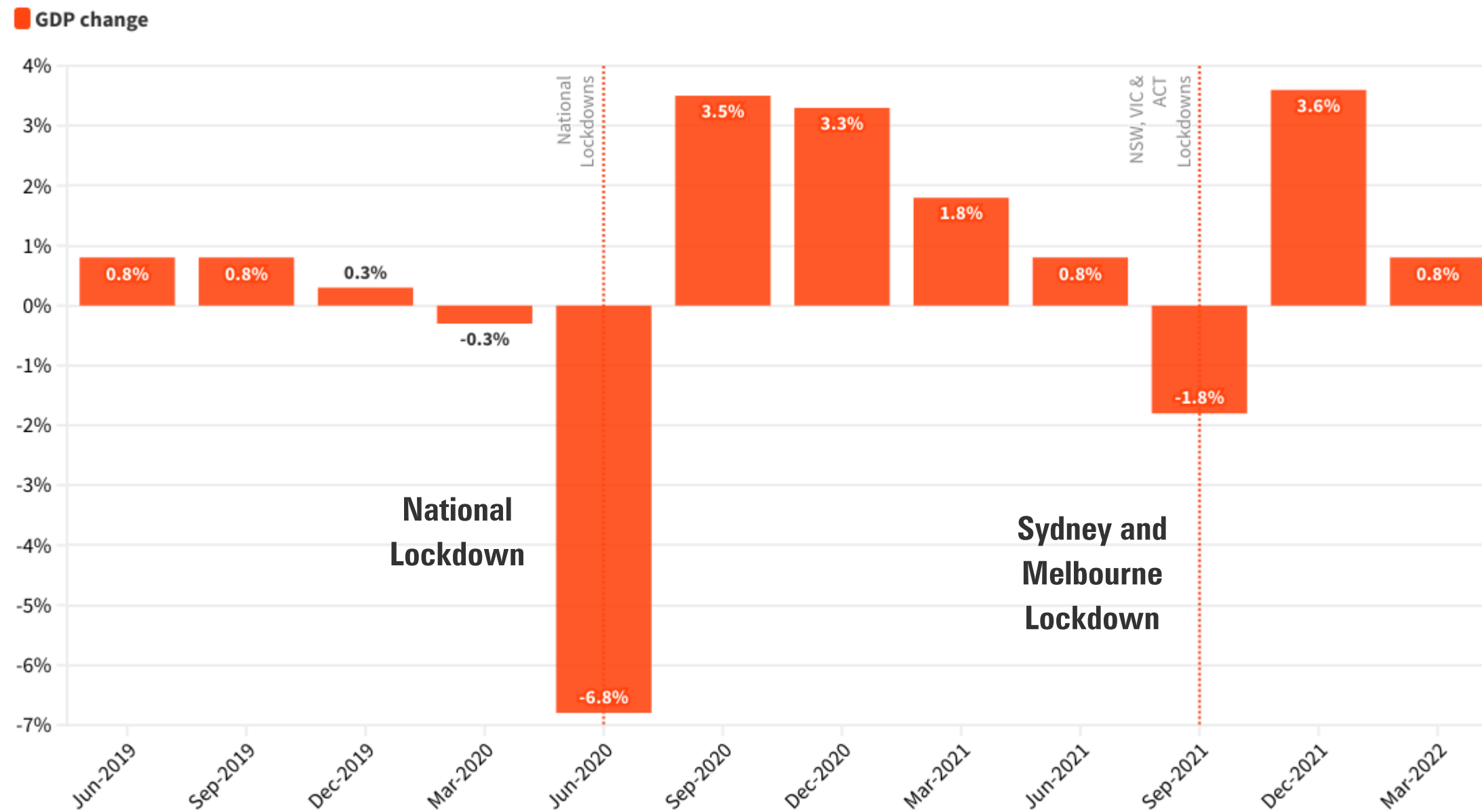
Weaker growth reappears



National growth slowed in March Quarter

Victoria was strong but other states battled

Gross Domestic Product - Quarterly Change



Source: [ABS, 2022](#)

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- Household spending growth was much lower in many states and in Tasmania actually declined
- Victoria actually led the country with 2.4% growth in state final demand

Weather played havoc in primary industries but many of us returned to travel

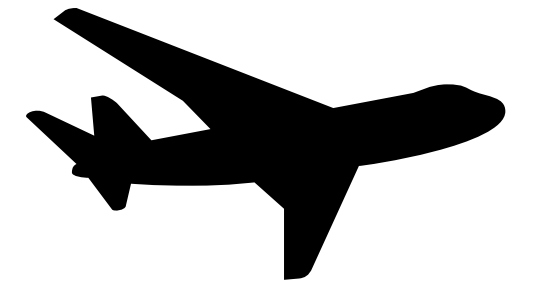
Strongest production growth in March Quarter

- Arts and Recreation +4.4%
- Transport, Postal and Warehousing +4.3%
- Accommodation and Food Services +3.7%

Declines in production in March Quarter

- Agriculture, Forestry and Fishing -5.8%
- Mining -1.5%
- Healthcare and Social Assistance Services -0.9%

101.3% rise in Air and Space Transport



East coast storms and floods hit many sectors

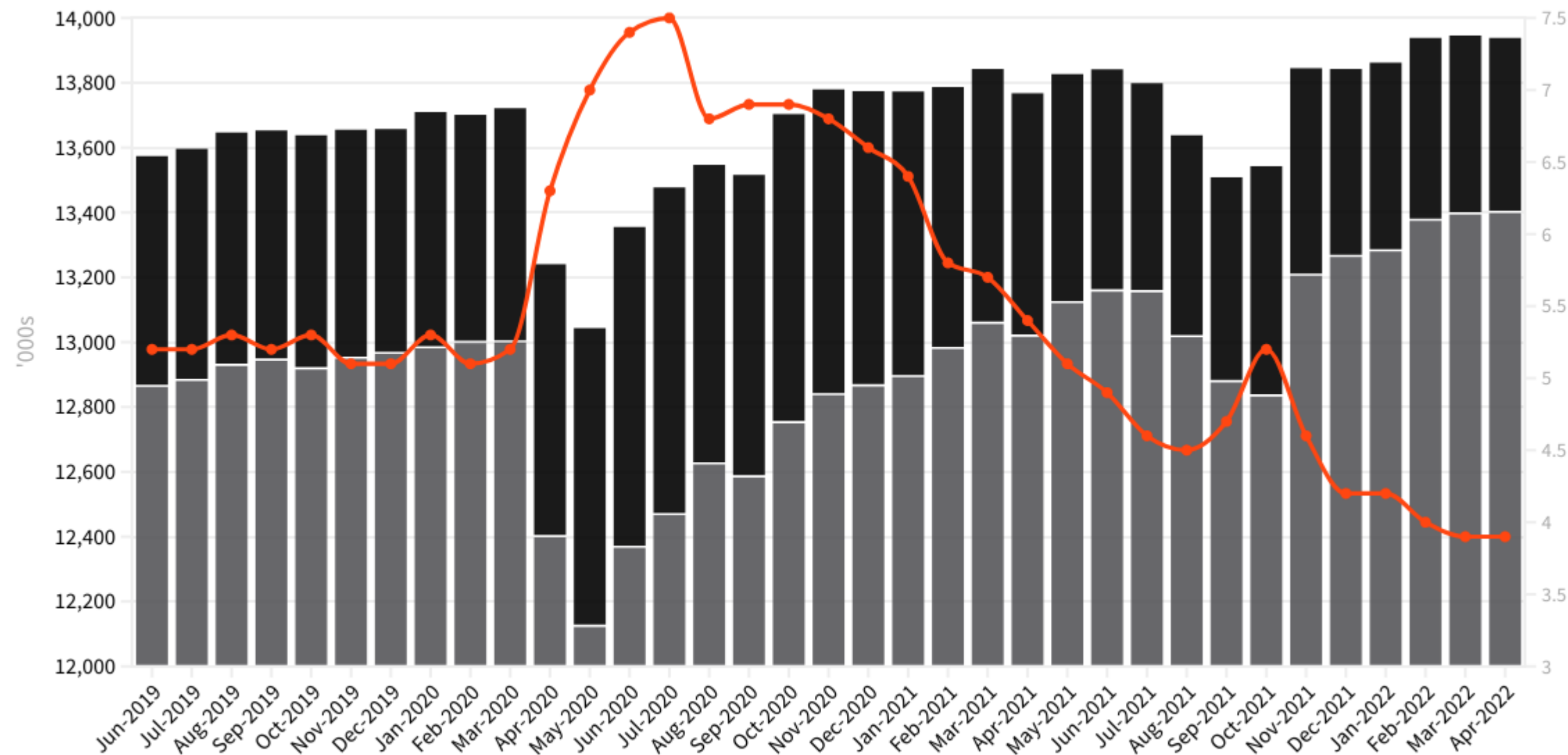


Unemployment Rate still low but signs of flattening out

Number employed did not change between March and April

Labour Force Status - Australia

Unemployment Rate Employed Unemployed



Source: ABS 2022

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Our low unemployment rate is largely due to our borders being shut.

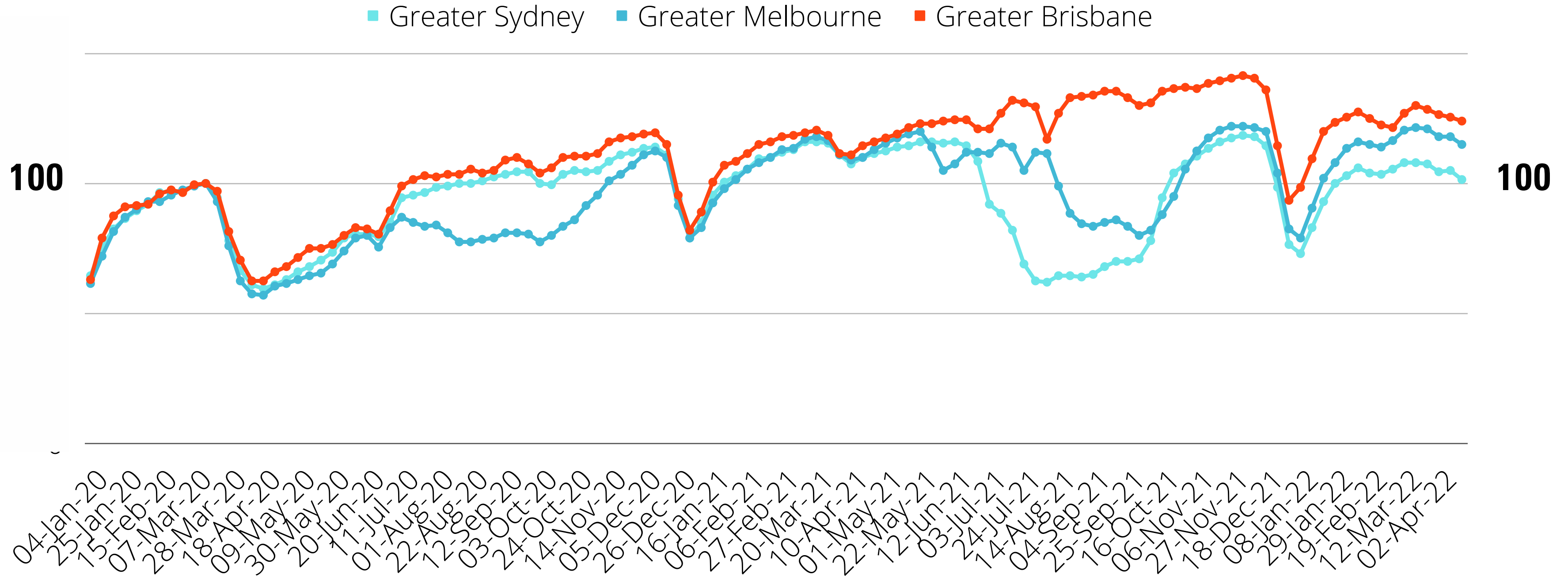
In 2 years to Dec 2021, the number employed increased by 300K.

In 2 years to Dec 2019, it increased by 524K.

Payroll jobs have also dipped recently

Sydney is lagging quite a bit

Weekly Payroll Jobs, Indexed, March 2020:100



Source: ABS, 2022, Weekly Payroll Jobs and Wages, Australia

Hospitality still facing extraordinary challenges even as revenue conditions increase

In April:



64%

Accom & Food businesses experienced increase in operating expenses

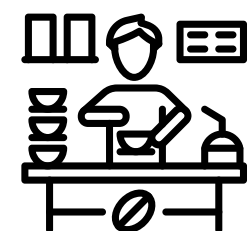
Highest out of all industries



67%

Accom & Food businesses experienced supply chain disruptions

Highest change since 2021 +29%



-7.6%

payroll jobs change last month in food & beverage services

Largest decline out of all industries

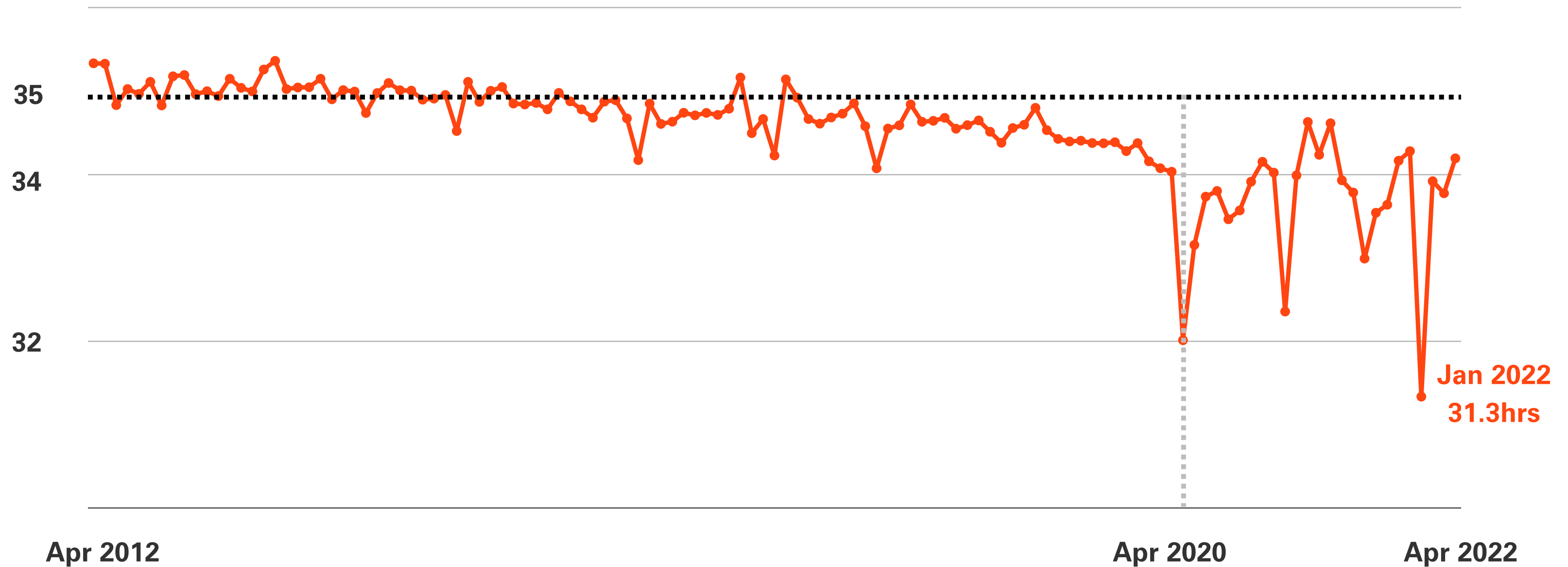
Source: Accommodation & Food Services - ABS Business Conditions and Sentiments; ABS Weekly Payroll Jobs and Wages, Australia



Unemployment still low but average hours below pre-pandemic levels

Inflation has eroded any wage growth gains in the last year

Average Weekly Hours Employed, Australia, Seasonally Adjusted



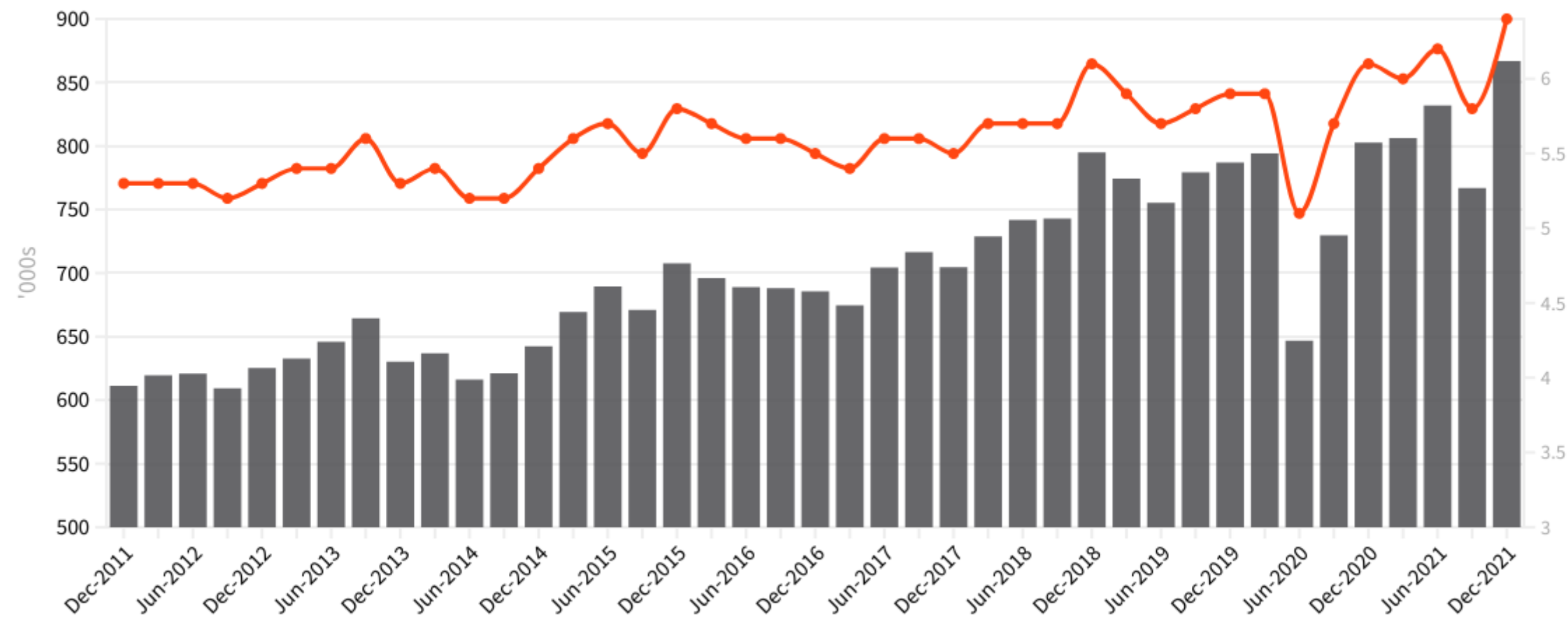
Source: Derived from ABS Labour Force, Australia

Number of multiple job holders has risen

2 out of every 5 extra people employed since COVID began are holding multiple jobs

Labour Force Status - Australia

Multiple holders/Employed Multiple Job Holders



Source: ABS 2022

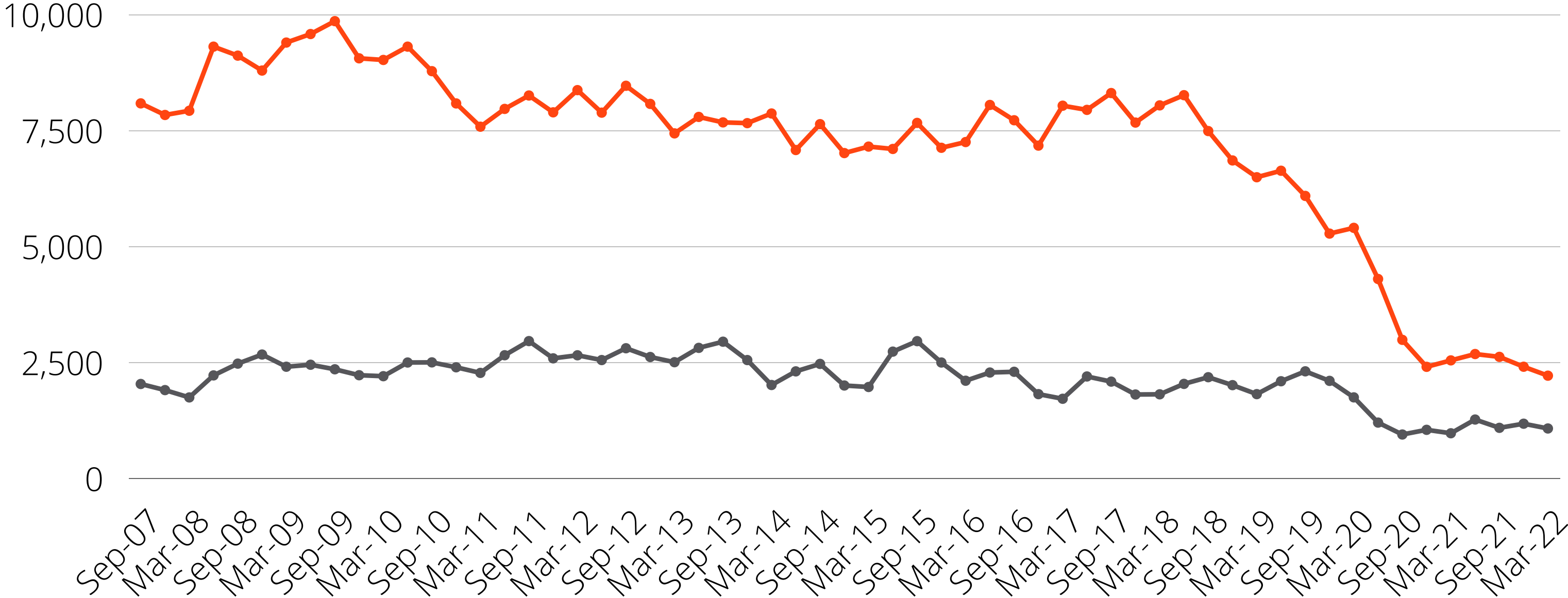
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40% of increase in employed in the 2 years to Dec 2021 were multiple job holders. In 2 years to Dec 2019, it was 15%.

The expected rise in insolvencies still hasn't occurred

Changes to regulation played a crucial role in preventing a surge in insolvencies. Creditors and debt collectors have also changed practices. The ATO previously recommenced wind ups at the end of 2021 after an 18-month hiatus, however, have since paused again following Omicron. (St George bank, 2022)

Number of Insolvencies, Quarterly, Australia

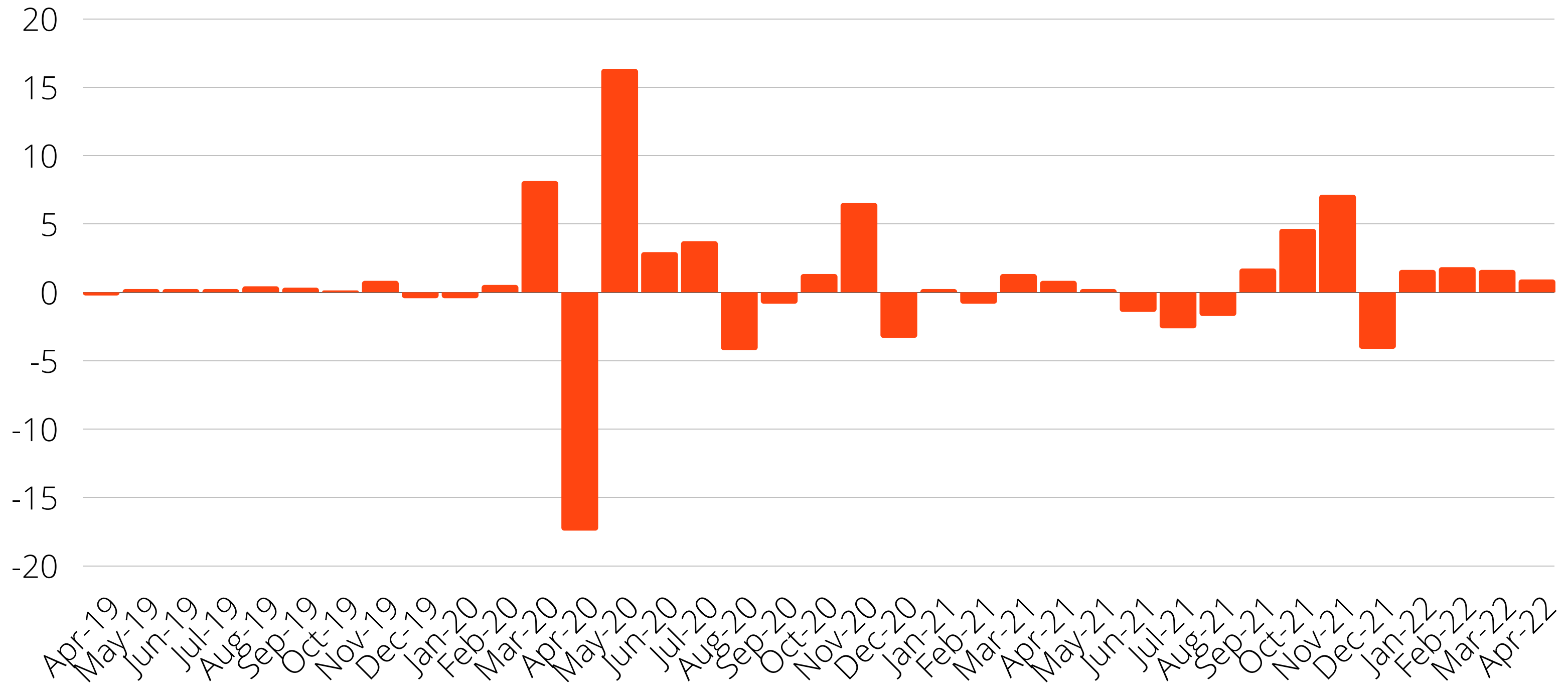


Source: ASIC & AFSA, 2022, Australia

Retail sales have kept growing

Sales growth in the last four months have been led by Cafes, restaurants and takeaway food services - up 15% (\$612M)

Monthly Retail Sales, Australia, Seasonally Adjusted % change

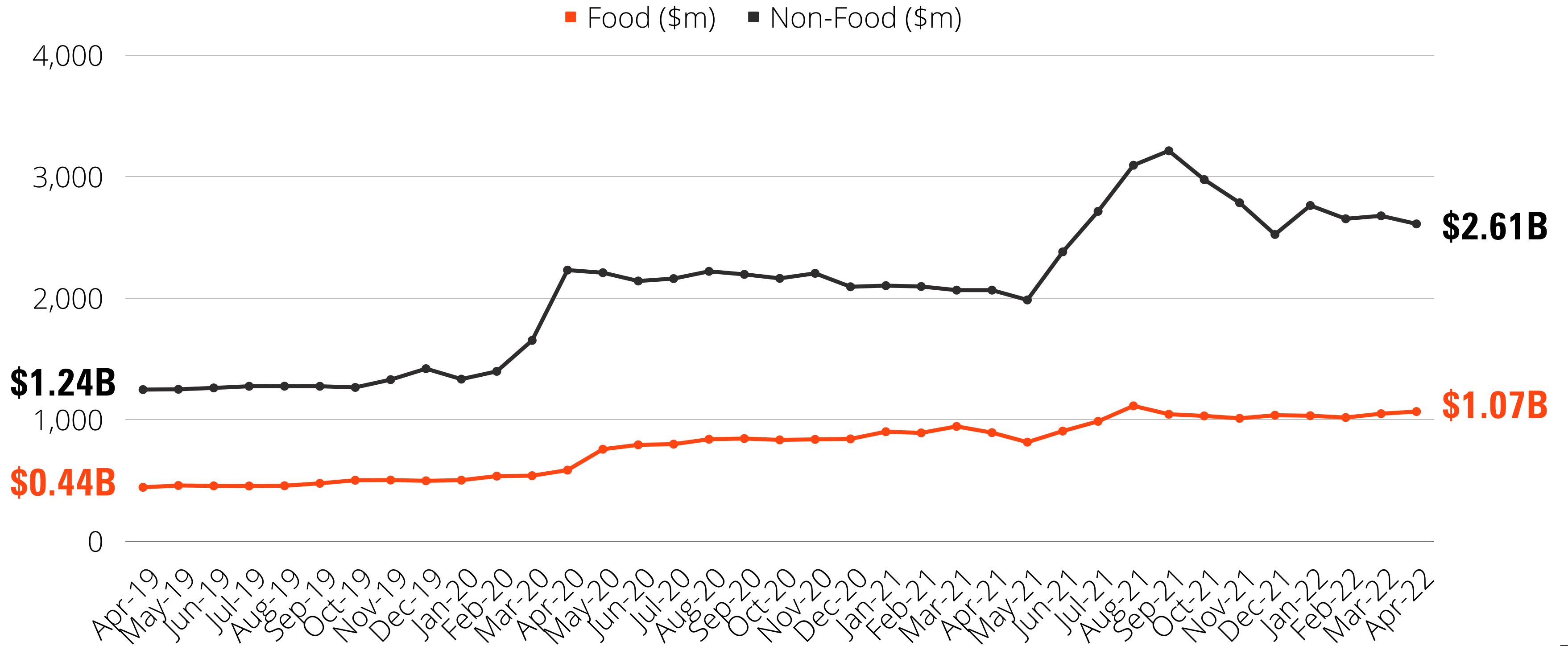


Source: ABS, 2022, Retail Trade, Australia

Non-food online sales have fallen from peak

However, values are still more than double pre-COVID times

Monthly Online Retail Sales, Australia, Seasonally Adjusted



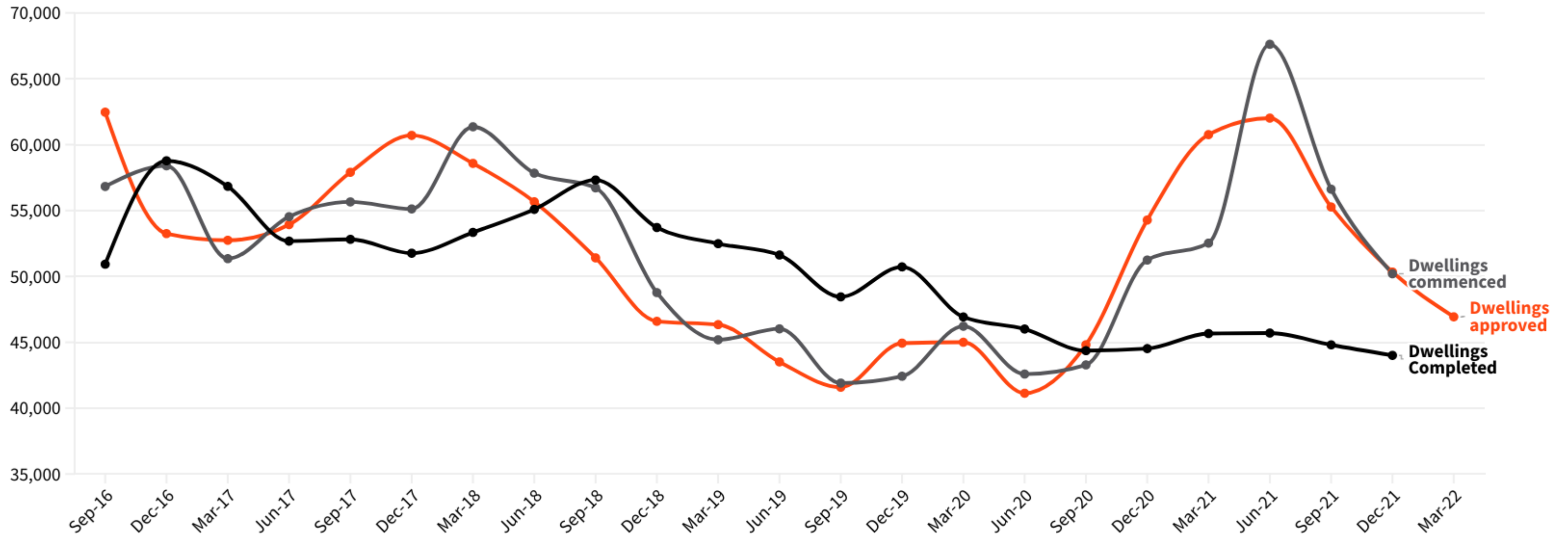
Source: ABS, 2022, Retail Trade, Australia

Dwelling commencements slowing and completions not keeping up

The backlog of dwellings uncompleted is building up

Residential Building Approvals, Commencements and Completions

Seasonally Adjusted, Australia

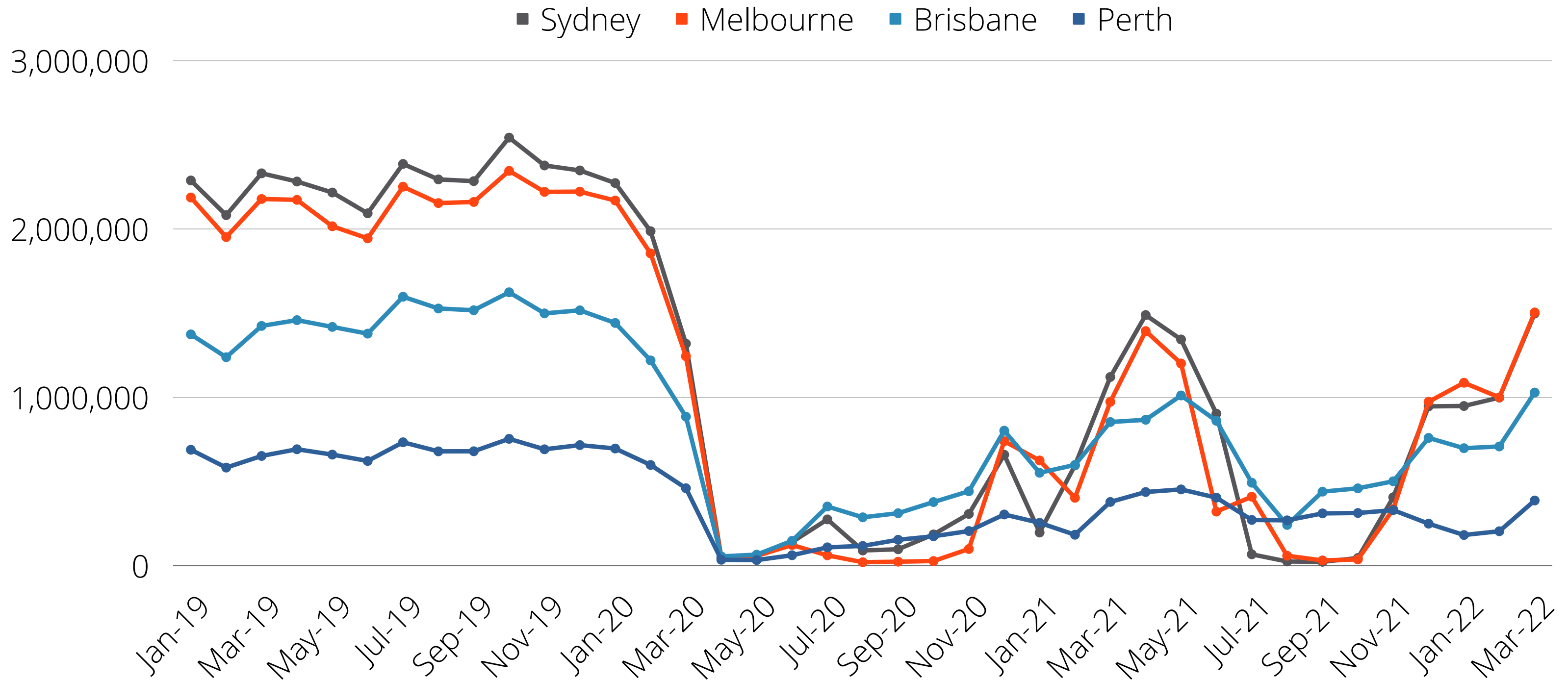


Source: [ABS 2022](#)

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Domestic travel coming back

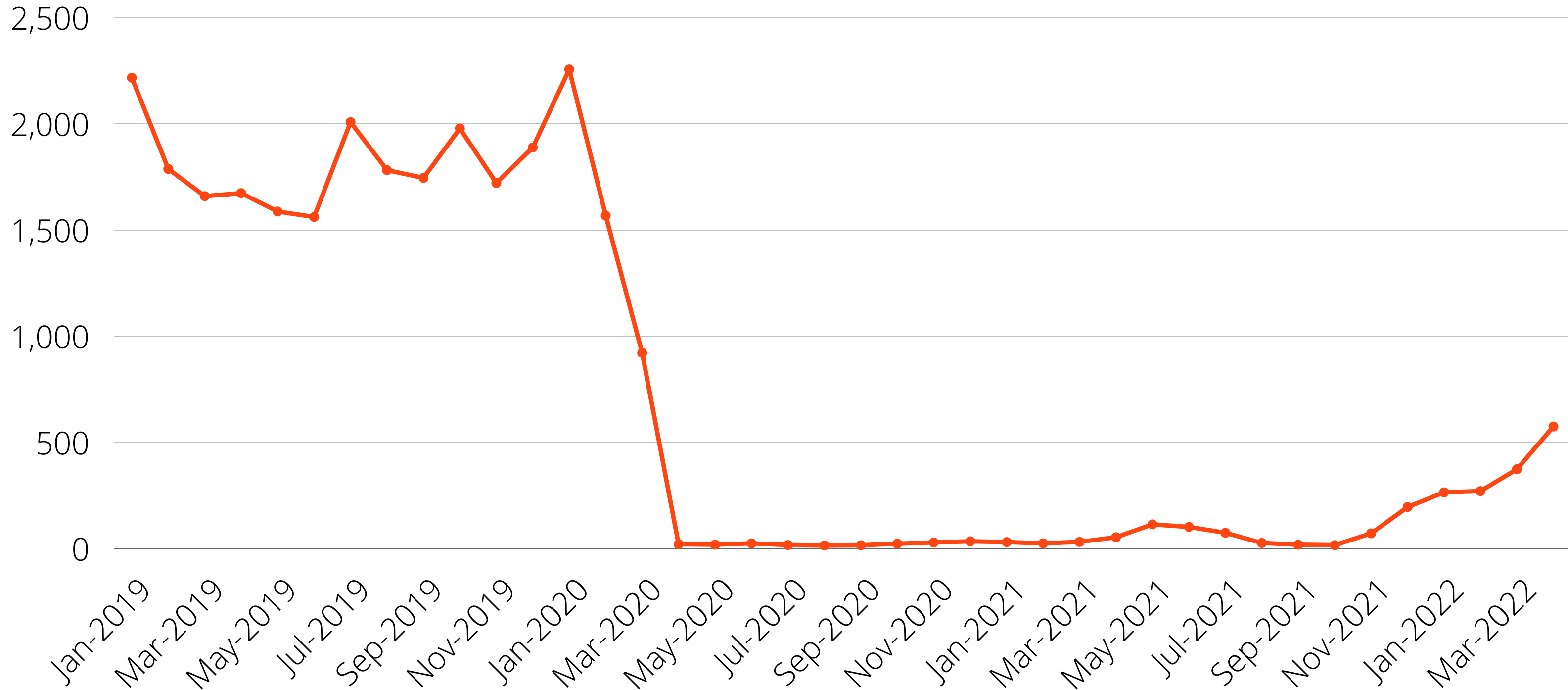
Passenger movements in Melbourne in March 2022 were 69% of March 2019 levels



Source: BITRE, 2022, Airport Traffic Data

International travel has a long way to go

Overseas arrivals still a third of pre-COVID levels but rising

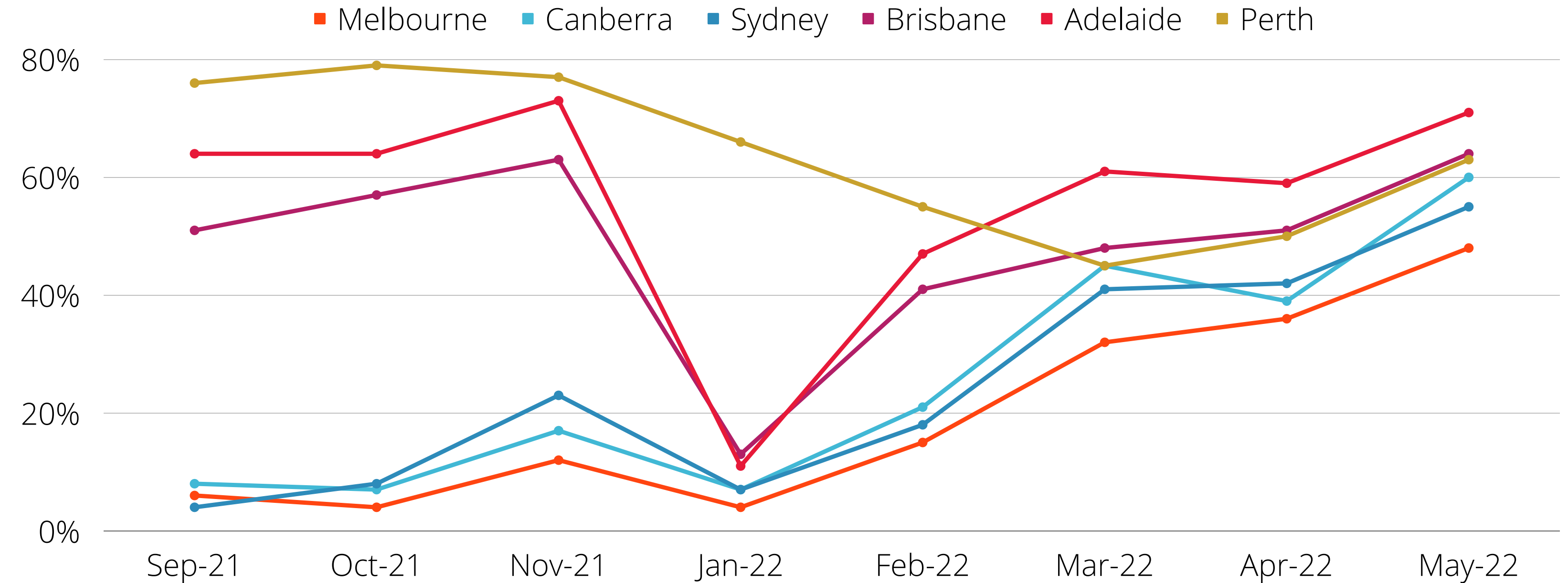


Source: ABS, 2022, Overseas Arrivals and Departures, Australia

People returning to the CBD....slowly

Melbourne CBD occupancy 48% of pre-COVID levels. Peak days at 57%, low days 27%

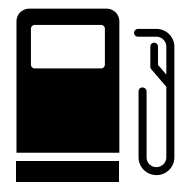
Office occupancy as a percentage of pre-COVID levels by CBD



Source: Property Council of Australia, 2022

Inflation still rising led by non-discretionary items

% change YoY to Mar Qtr 2022



Automotive Fuel +35%



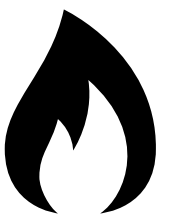
New Dwellings +14%



Vegetables +13%

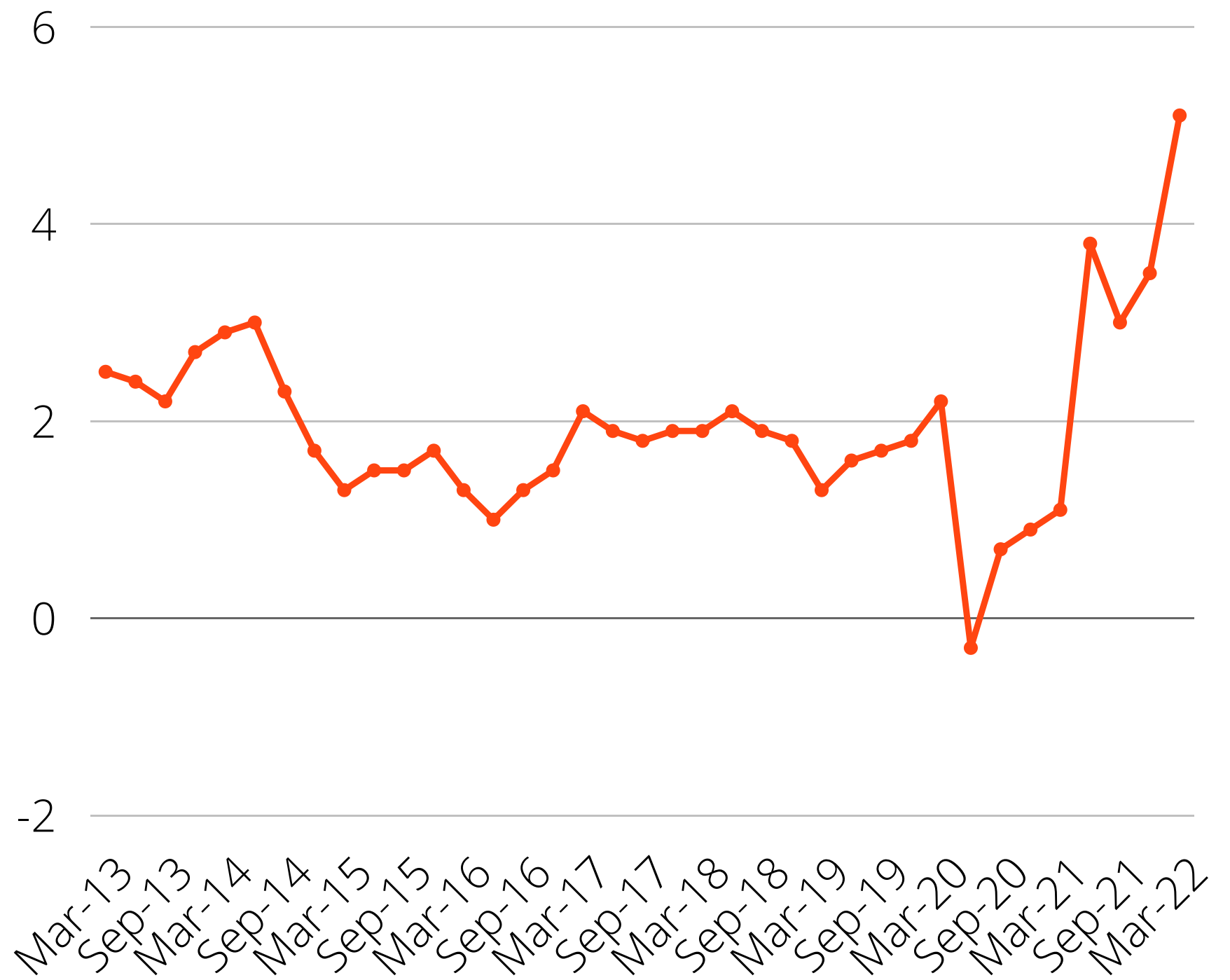


Beef and Veal +12%



Gas & other household fuels +7%

Inflation, Australia, YoY % change

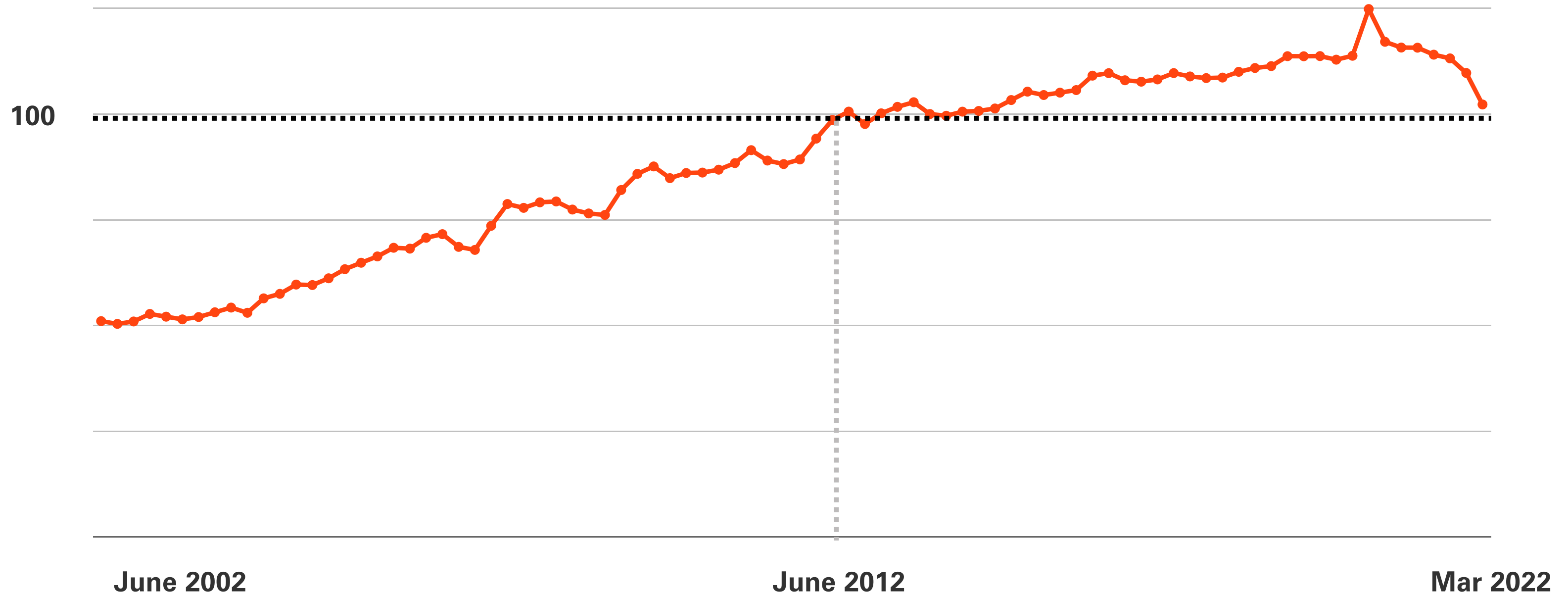


Source: ABS, 2022, Consumer Price Index, Australia

Real wages are back at levels seen a decade ago

Inflation has eroded any wage growth gains in the last year

Index of Real Wages, Australia, Sept 2013: 100



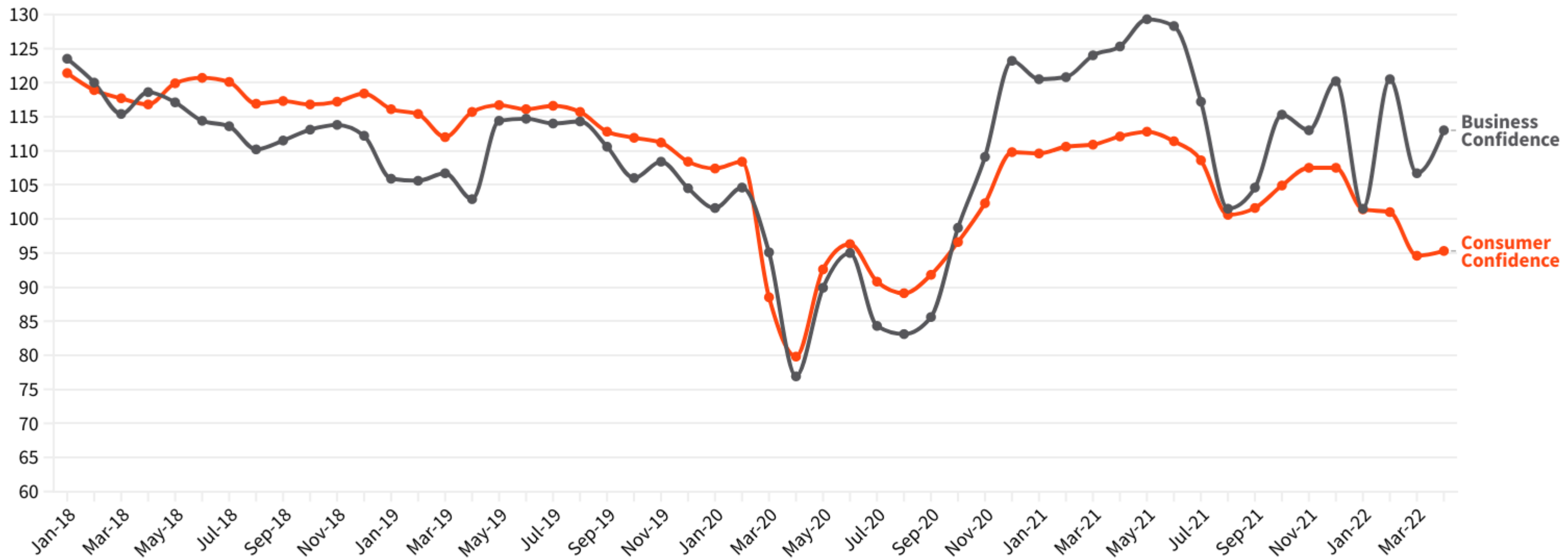
Source: Greg Jericho, Guardian, 2022, derived from ABS Wage Price Index, Australia

Consumer confidence is waning as business confidence holds up

Inflation and rate rises obviously having impacts

Business and Consumer Confidence Rating - Australia

Rating < 100: mostly not confident; >100: mostly confident



Source: [ANZ-Roy Morgan, 2022](#)

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State Focus

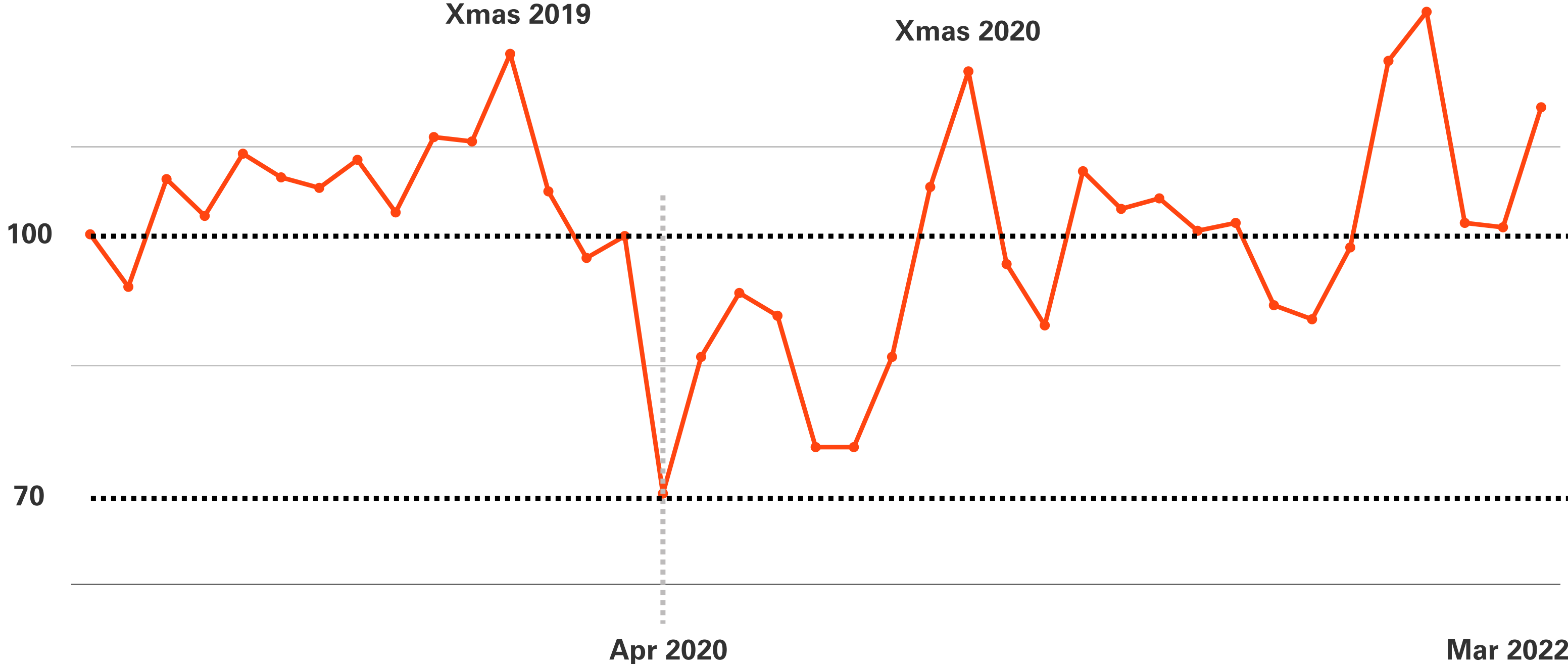
Confidence has returned



Spending has held up, but still more spent on goods than services

Monthly household spending, Victoria, Index, 100:Jan 2019

Big spikes in clothing and footwear and recreation and culture in Dec 2021

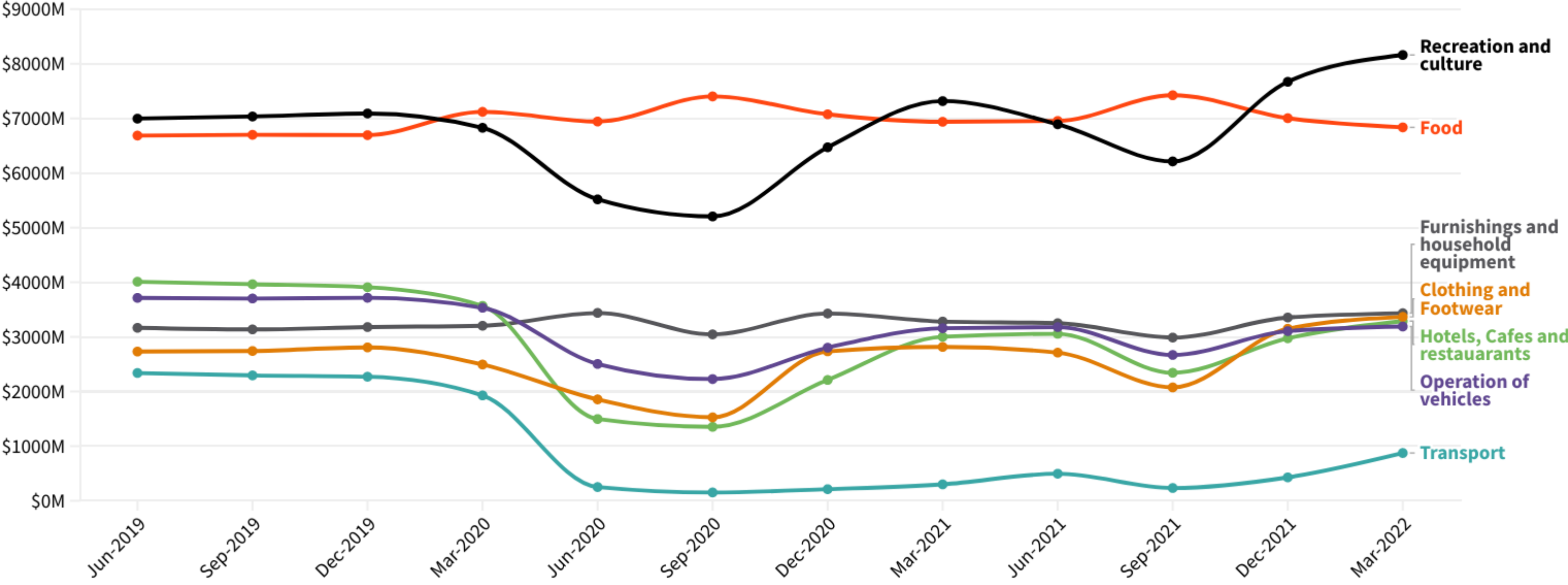


Source: ABS, 2022, Experimental estimates of Household Spending, Victoria

We are back going out for dinner, going to the footy...so we need new clothes

Households Consumption Expenditure - Victoria

Selected items



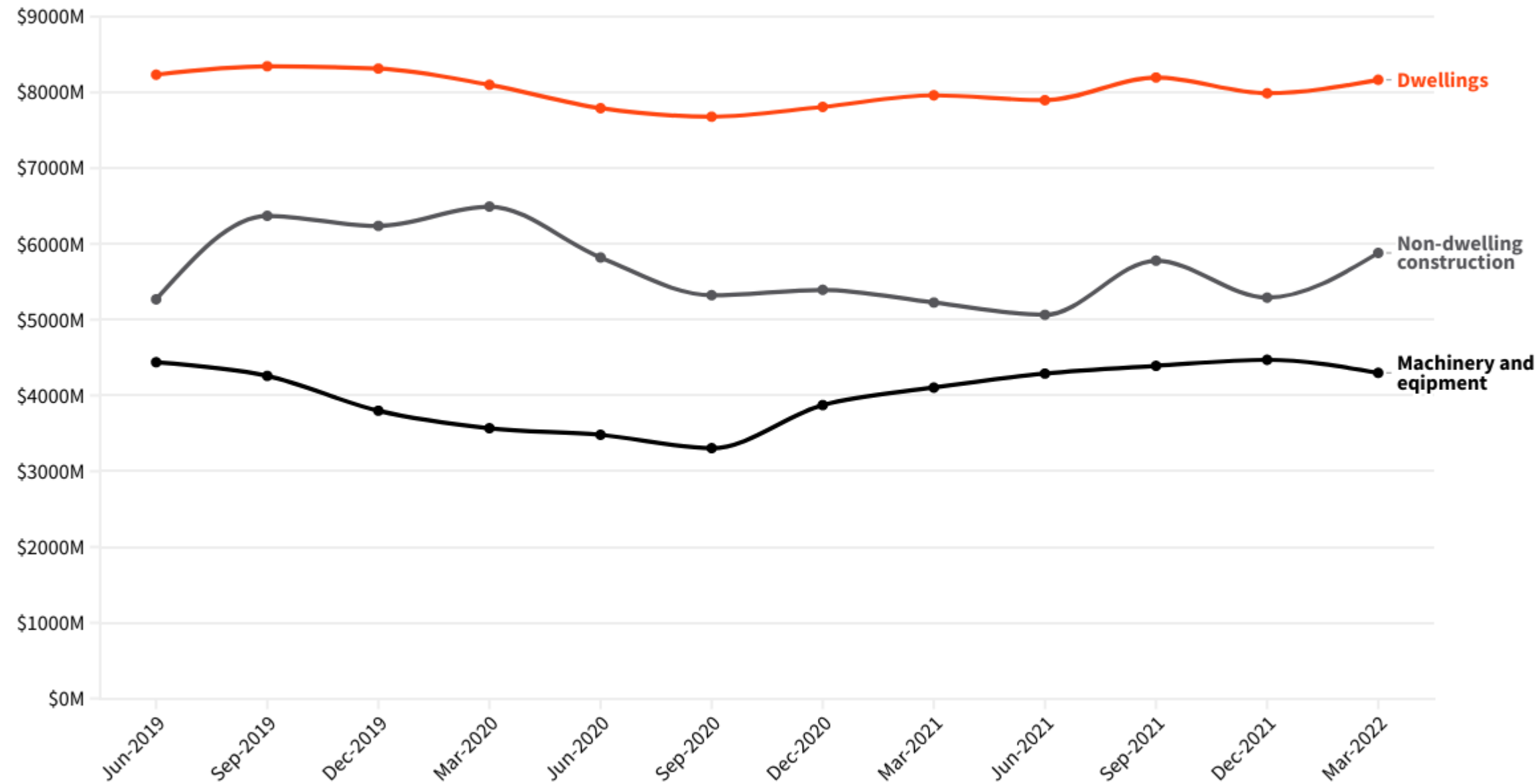
Source: ABS 2022

Business investment holding up

Incentives and better outlook supporting confidence

Private Investment - Victoria

Selected items



Source: ABS 2022

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- Number and value of dwellings is still holding up
- Government incentives drove machinery and equipment investment but it hasn't fallen away dramatically
- Non-dwelling construction rebounded again

Construction pipeline coming back in inner Melbourne

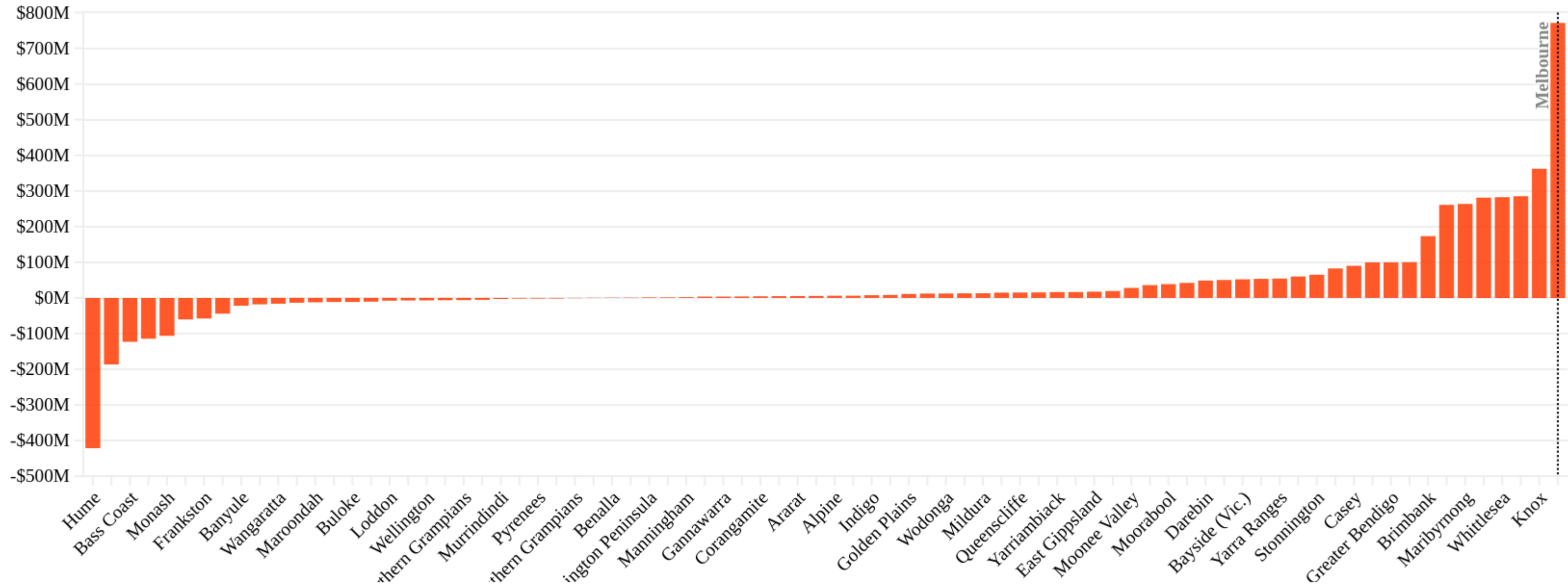
City of Melbourne residential approvals up 186%! Apartment approvals coming back +38%; houses only +2.5%

Construction pipeline coming back in inner Melbourne

City of Melbourne non-residential approvals up 51%

Non-residential Building Approvals Change from previous year - Victoria

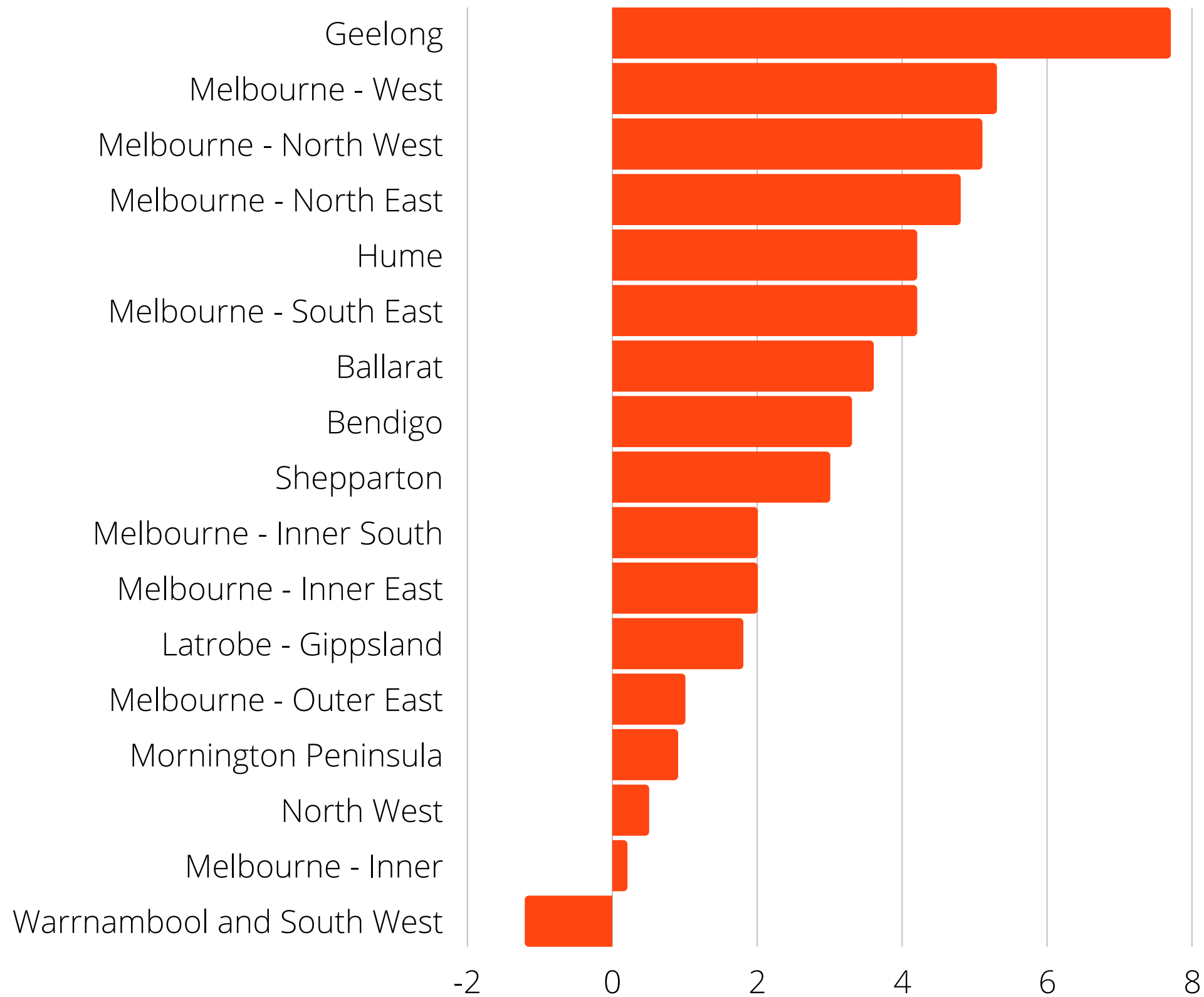
FY to March



Source: [ABS, 2022](#)

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Payroll Jobs, Victoria SA3s, % change April 2022 compared to March 2020



Most places employment above pre-COVID

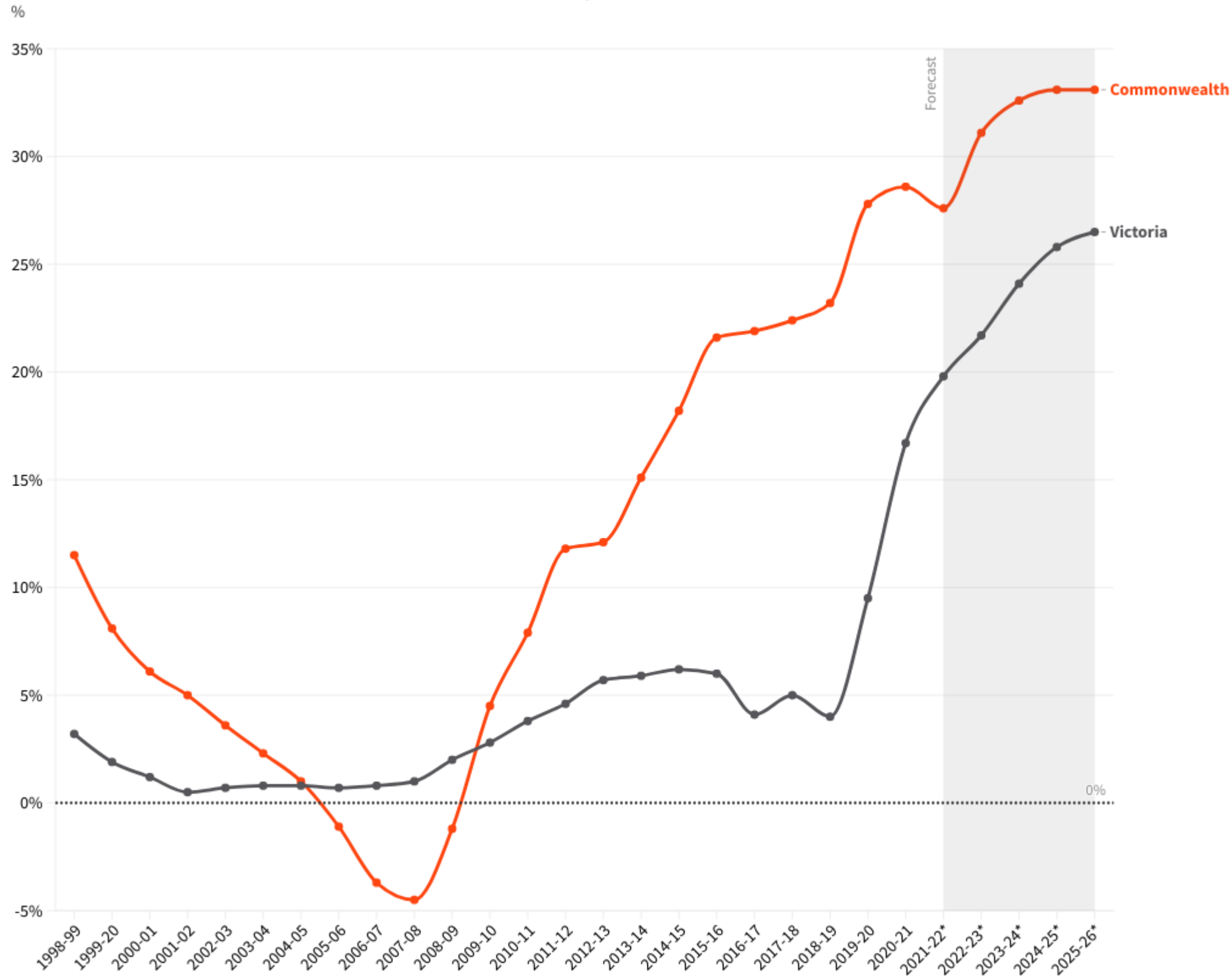
- Geelong leading the pack
- Date is place of residence so areas of high population growth would expect to see higher jobs
- Melbourne inner expected to be lower as loss of international students

Looking forward

Some answers but still multiple pathways



Federal and State Government - Net Debt to GDP/GSP



Source: ABS, 2022, Federal Mid-Year Outlook, Victoria State Government Budget Outlook



Tightening govt. purse strings?

Doesnt look like it

- Debt forecasts to continue to rise as a % of GSP and GDP
- However, even with interest rises estimated, Victoria interest servicing to govt revenue will be less than half the early 1990s, when the cost of servicing the government's debt peaked at 13.9 per cent of revenue
- Victoria spending big on health and education and social housing
- Essentially playing catchup
- Federal government big spending on Defence, some targeted regional funds (e.g. \$2B Regional Accelerator Program), \$3.1B Melbourne Intermodal Terminal Package, \$2.1b Financial Assistance Grants brought forward from the 2022-23 estimate

Interest rates?

"The Board judged that it is too early to conclude that inflation is sustainably in the target range. Underlying inflation has just reached the midpoint of the target range for the first time in over seven years. Consequently, the Board is prepared to be patient as it monitors how the various factors affecting inflation in Australia evolve."

Continued rate rises expected

'We expect the cash rate to rise to **1.5%** by year-end and to **2%** by mid next year.'

~ AMP Capital

'ANZ Research expects the RBA to lift the cash rate to **1.25** per cent by the end of 2022 and **2.25** per cent by May 2023'

~ ANZ

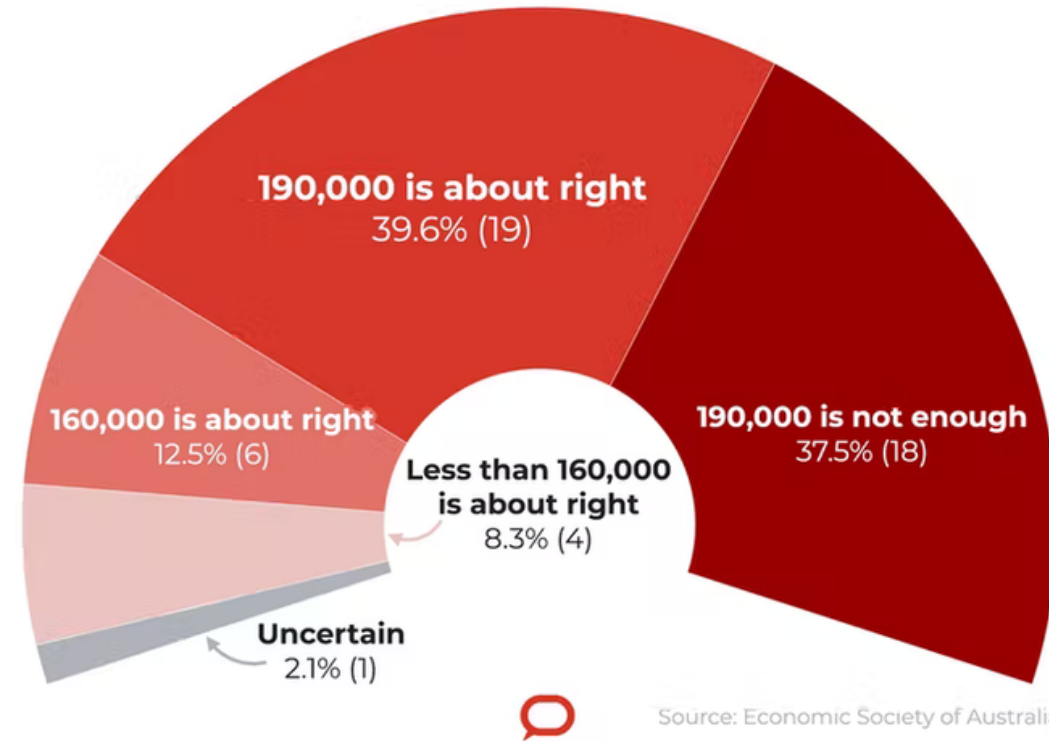
'The bank predicts the cash rate will reach **1.35%** by December and level out around **1.60%** in mid-2023.'

~ CBA

For the first time in 11 years, the RBA raised the cash rate by 25 basis points to 0.35%

Responses from 49 economists to the question:

"What do you think the intake of permanent migrants should be in coming years?"



Source: The Conversation, 2022, *When we open up, let's open up big: top economists say we need more migrants*

A return to 'Big Australia'?

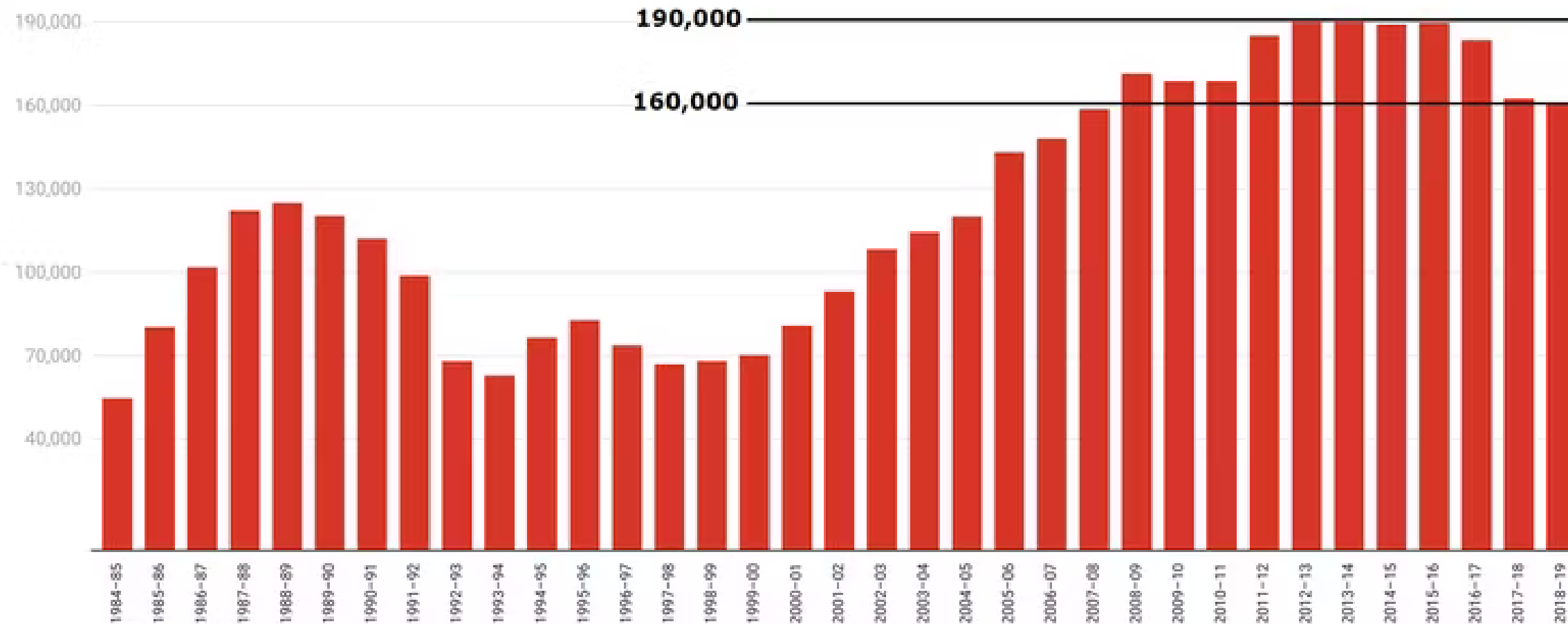
Do we boost migration intakes?

Appears so

- Victoria aiming for 1.7% p.a. by 2023-24 onwards

'NOM is now forecast to increase to a net inflow of 41,000 people in 2021-22, 180,000 in 2022-23, and 213,000 in 2023-24. From 2024-25 onwards, NOM is forecast to return to pre-COVID-19 trends and remain steady at 235,000 people for the remaining projections period.'

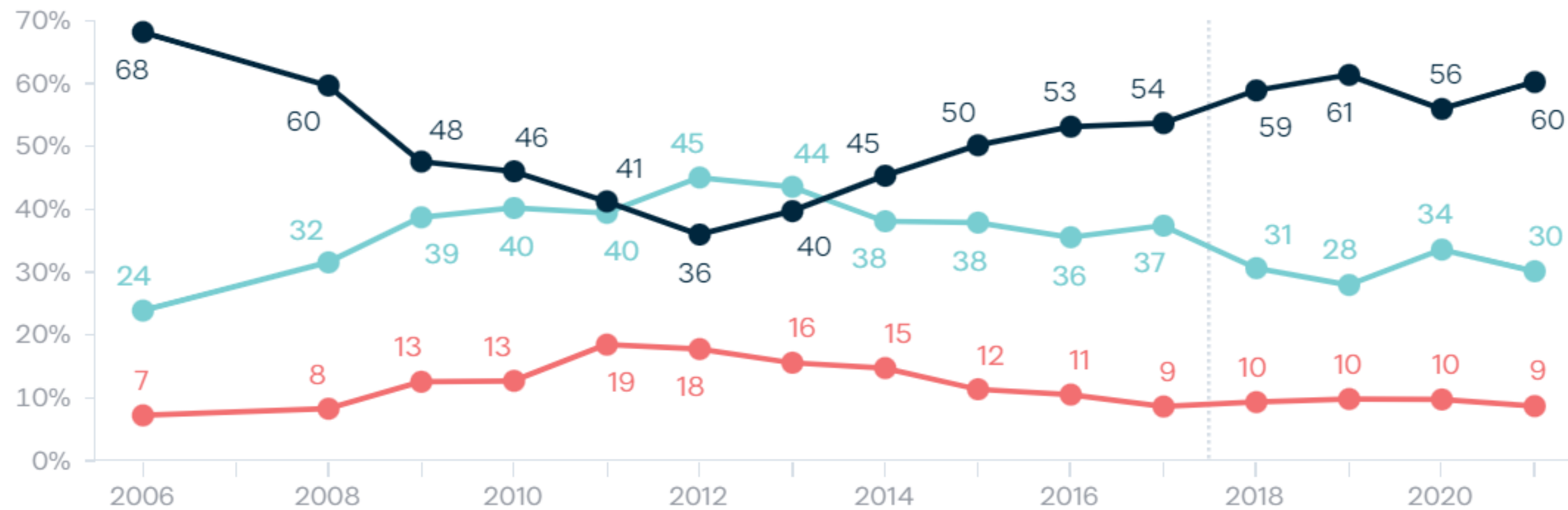
2022-23 Budget: AUSTRALIA'S FUTURE POPULATION



ATTITUDES TO GLOBAL WARMING

LOWY INSTITUTE
POLL 2021

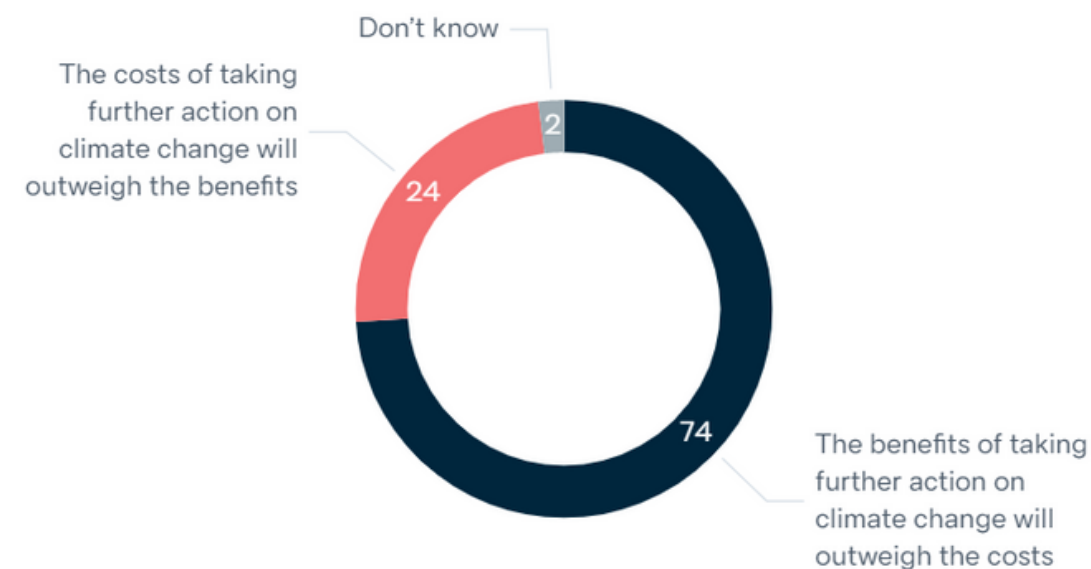
There is a controversy over what the countries of the world, including Australia, should do about the problem of global warming. Please tell me which statement comes closest to your own point of view?



COSTS AND BENEFITS OF CLIMATE CHANGE ACTION

Which statement is closest to your personal view on further action on climate change?

LOWY INSTITUTE
POLL 2021



What is Australia's emissions reduction position?

- COP26 saw pledges and targets that could limit the global temperature rise to 1.8 degrees
- Federal Government's statements have been long term targets without any details

"Under my government, Australia will set a new target to reduce emissions by 43 per cent by 2030, putting us on track for net zero by 2050."
- Anthony Albanese

Upside potential

- **COVID moves into endemic phase and is relatively manageable in most countries with vaccines and new medicines**
- **Government stimulus wanes, but households tap into savings from last two years to drive consumption**
- **A return of immigration into Australia fills skills gaps and drives increased demand**
- **Opening borders leads to increases transport movements and lowering costs of supply chains**

Downside risks

- **New variant emerges that proves as contagious as Omicron and damaging as Delta**
- **Inflation continues to increase and spreads across multiple regions leading to broad tightening of monetary policy**
- **Increase in geopolitical tensions creates investment uncertainty**
- **Severe and prolonged downturn in the real estate sector in China impacts broader economy**
- **Overheating of US leads to a downturn/recession**

Final Words

- Still a lot of uncertainty. Supply constraints and higher costs will not go away in the short term.
- For Australia, macroforces could drive us into weakened growth, but increased immigration could/should ease labour constraints and drive consumption expenditure.
- For governments of all persuasions, a winding back of debt levels seems hard. Rising costs (labour, fuel materials supply etc), continued backlog of keeping up with infrastructure and service demands, frequent natural disasters requiring large expenditure.
- Governments need to re-evaluate revenue base. Calls for another tax review. FinPro, in partnership with the MAV, has commenced a project on the financial state of the sector.
- Energy transition and security will continue to be a big topic.
- Balancing population growth and sustainability outcomes needs to be done better
- Evaluation of productivity under new hybrid working models would be beneficial.
- How can we integrate the flexibility and adaptiveness we have seen in the last two years into our normal practices

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Economic and population forecasts



Housing needs and affordability analysis



Community liveability insights



Economic and population forecast monitoring



Industry analysis



Economic impact analysis and benefit cost assessment



Economic health checks

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