



GLOBAL ECONOMIC OUTLOOK

QIC ECONOMICS & RESEARCH
January 2025

We acknowledge and respect the traditional lands and cultures of First Nations peoples in Australia and globally and pay our respects to Elders past and present. We recognise First Nations peoples' longstanding and ongoing spiritual connections to land, sea, community, and country.



Australian Outlook

JANUARY 2025



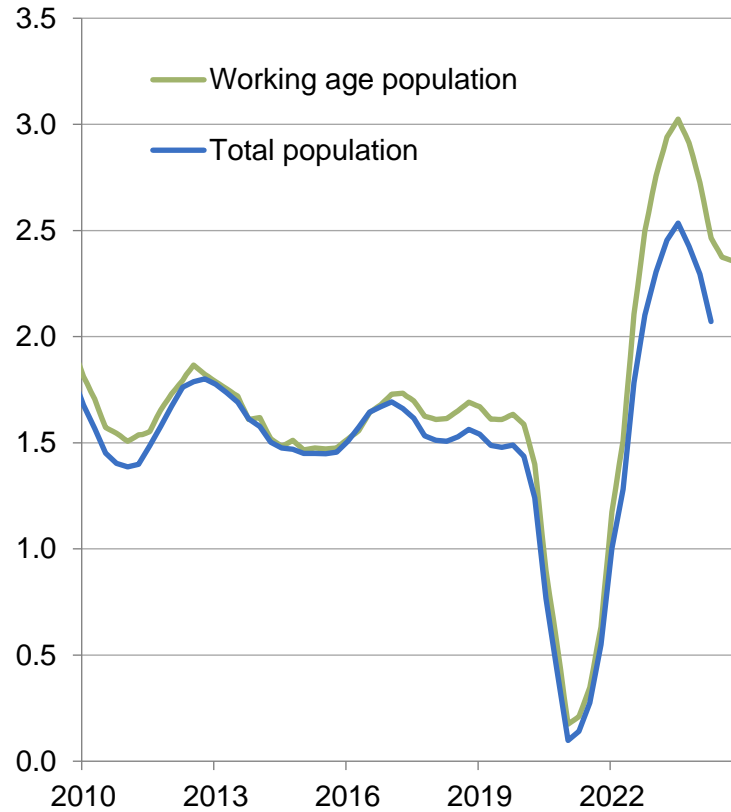
Australia Current Conditions

JANUARY 2025

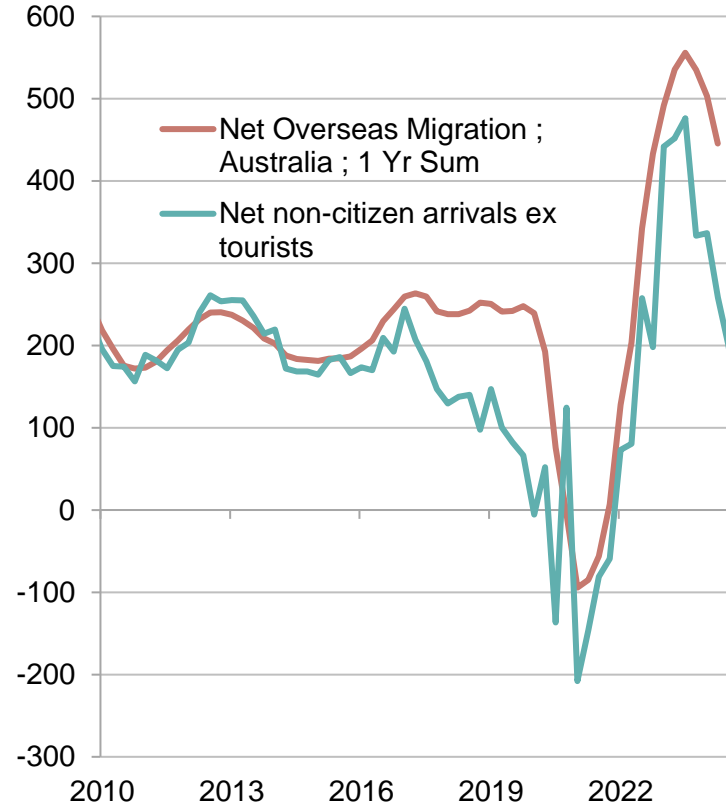
Population growth peaked in late 2023 and is slowing toward pre-COVID rates as migration eases

Commodity prices are trending lower, but still remain above pre-COVID levels

Australia - Population growth (% y/y)



Australia - International flows (000s)



RBA Commodity Price Index (SDR, 2022/23=100)

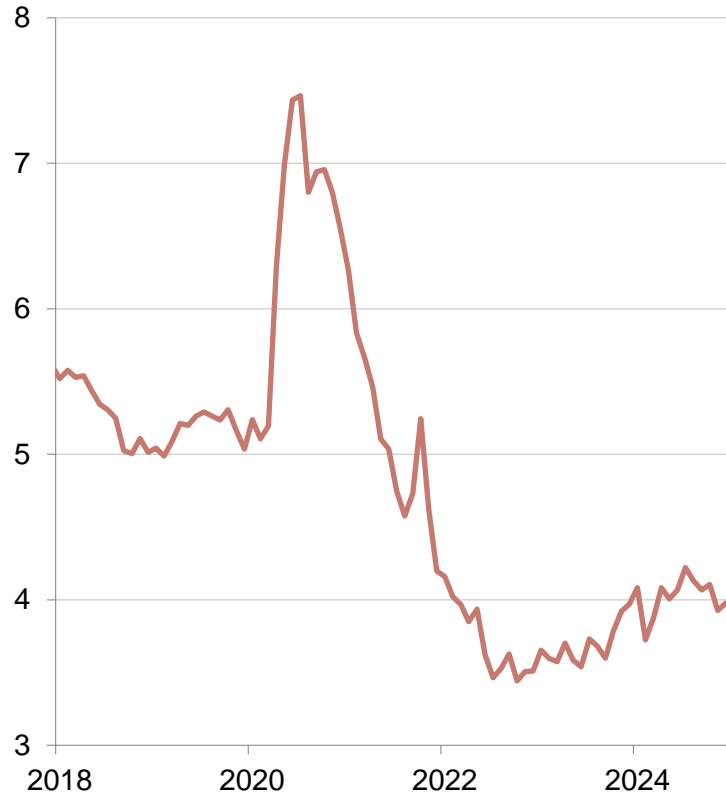


Source: RBA, ABS, QIC

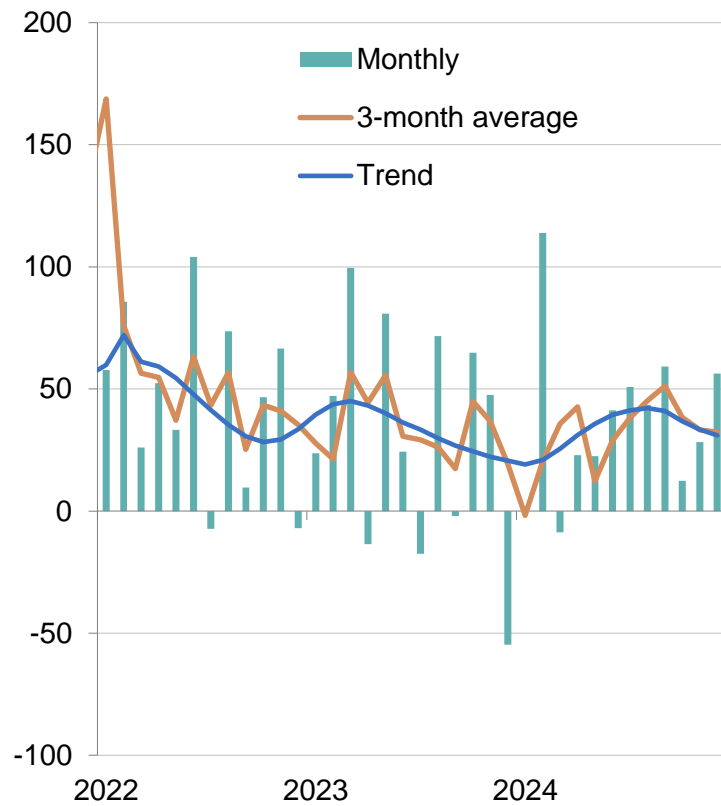
Mixed signals on the tightness of the labour market, with supply & demand stronger than expected

Employment growth remains positive, supported by non-market sector jobs

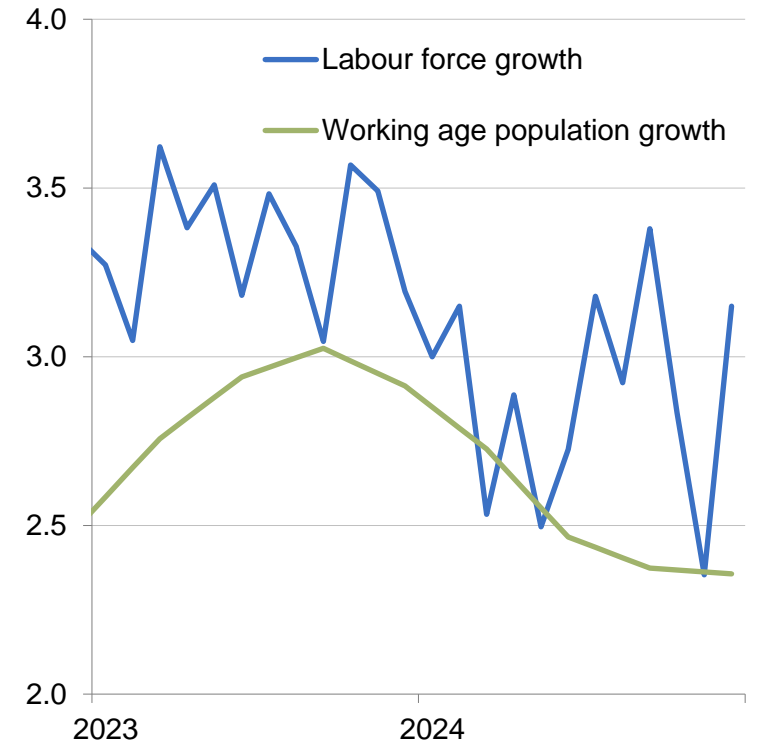
Australia - Unemployment rate (sa, %)



Australia - Change in employment (sa, 000s)



Australia - Working age population and labour force growth (% y/y)

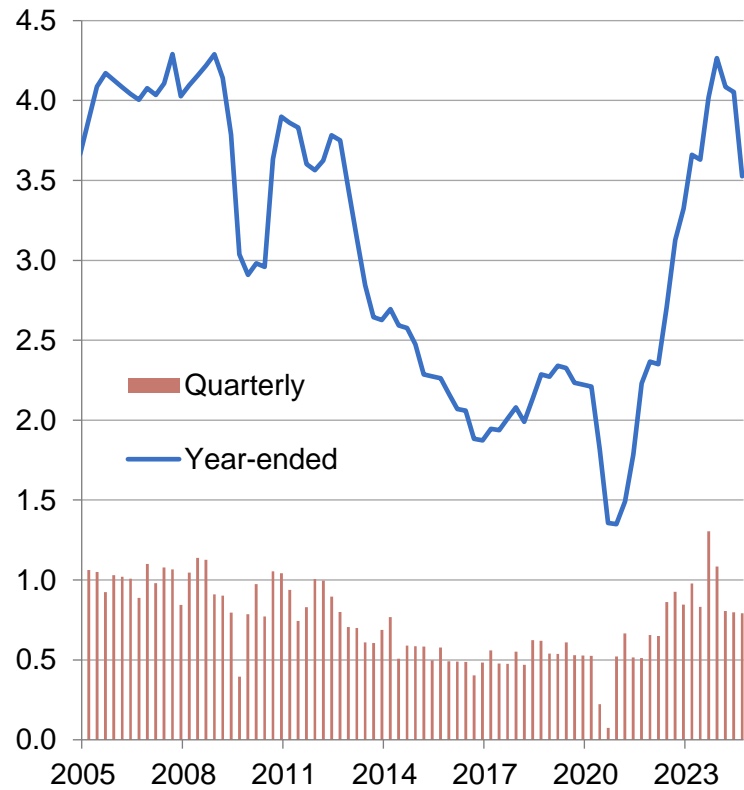


Source: ABS, QIC

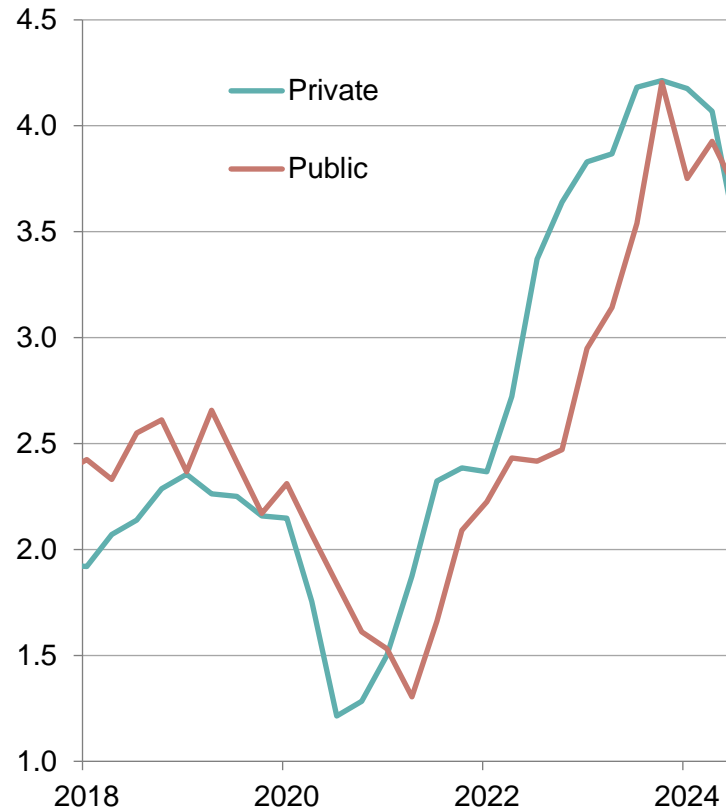
Private sector wage growth has slowed sharply

Smaller gains in the FWC annual wage review, combined with rising unemployment, slows wage growth

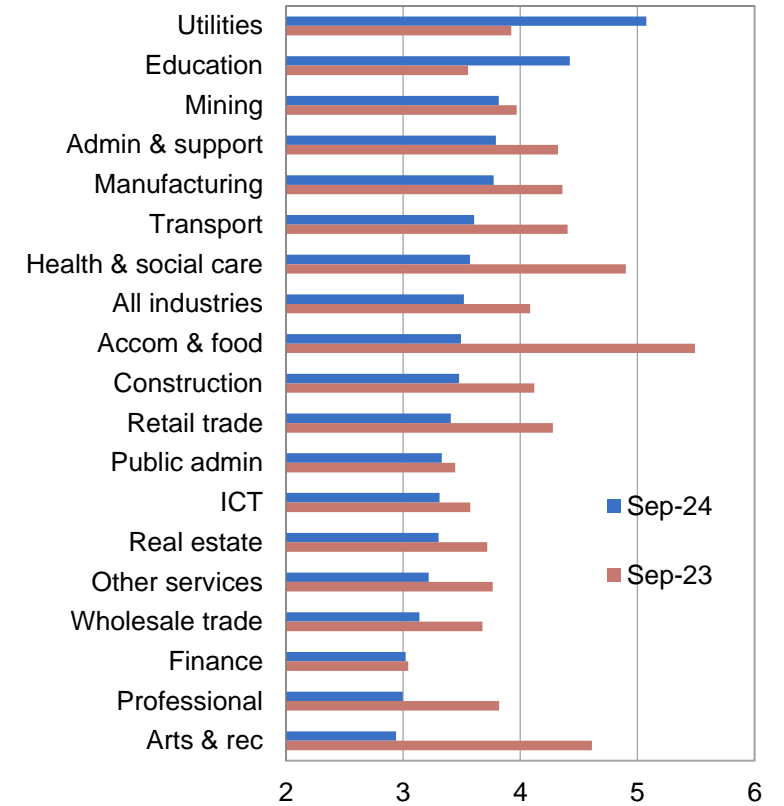
Australia - Wage price index (% growth)



Australia - Wage price index (% y/y)



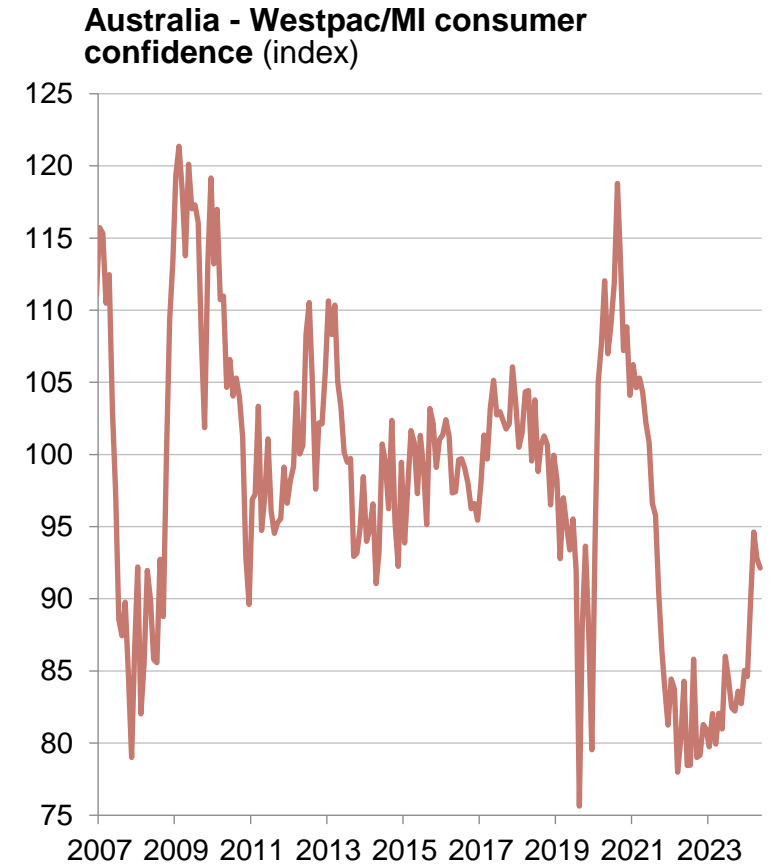
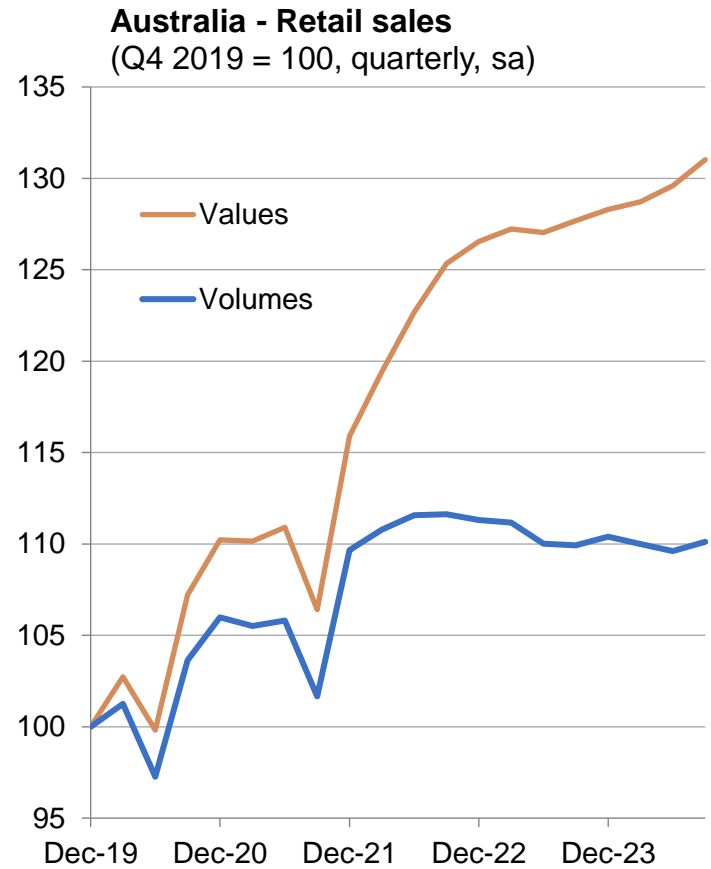
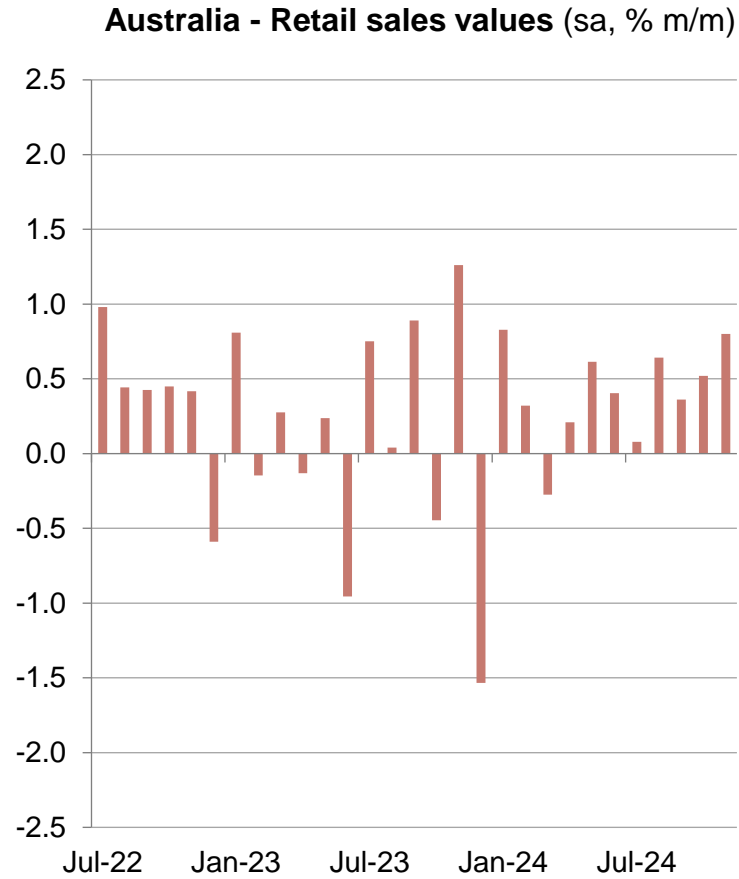
Australia - Wage Price Index (% y/y)



Source: ABS, QIC

Post tax cut recovery in consumer spending remains on track

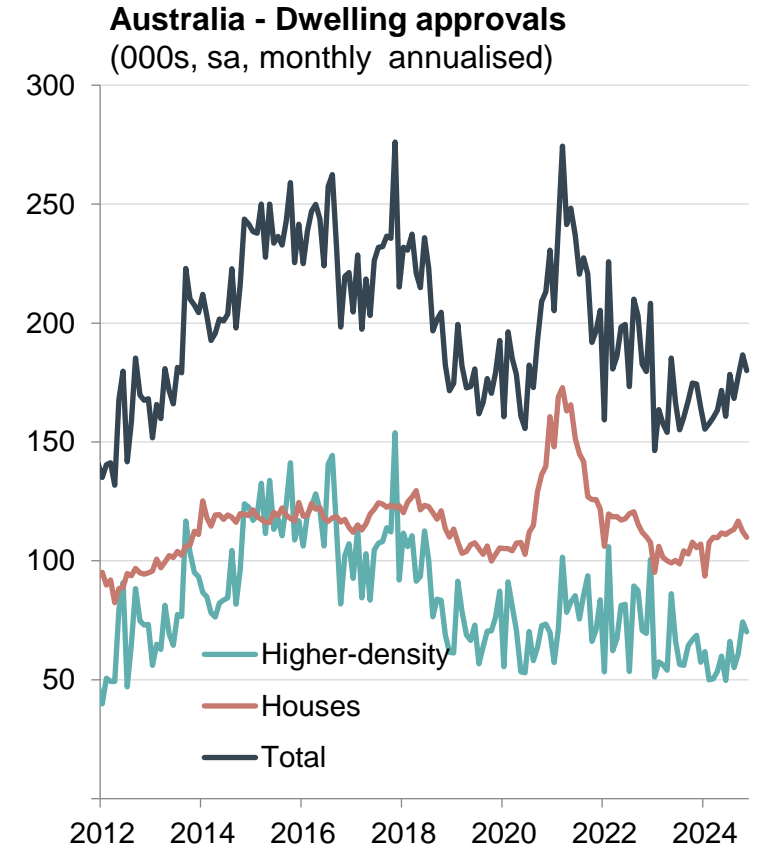
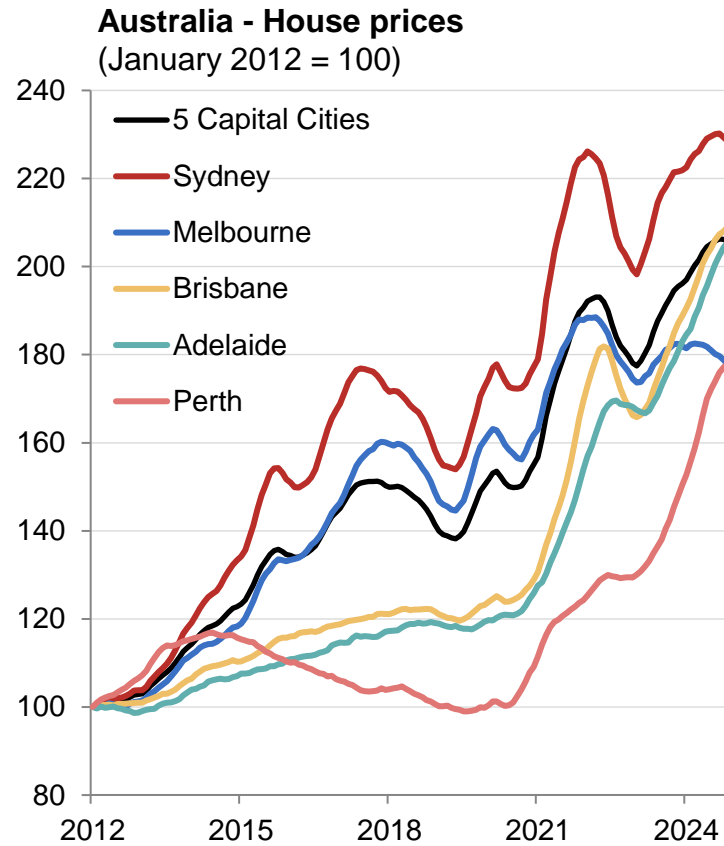
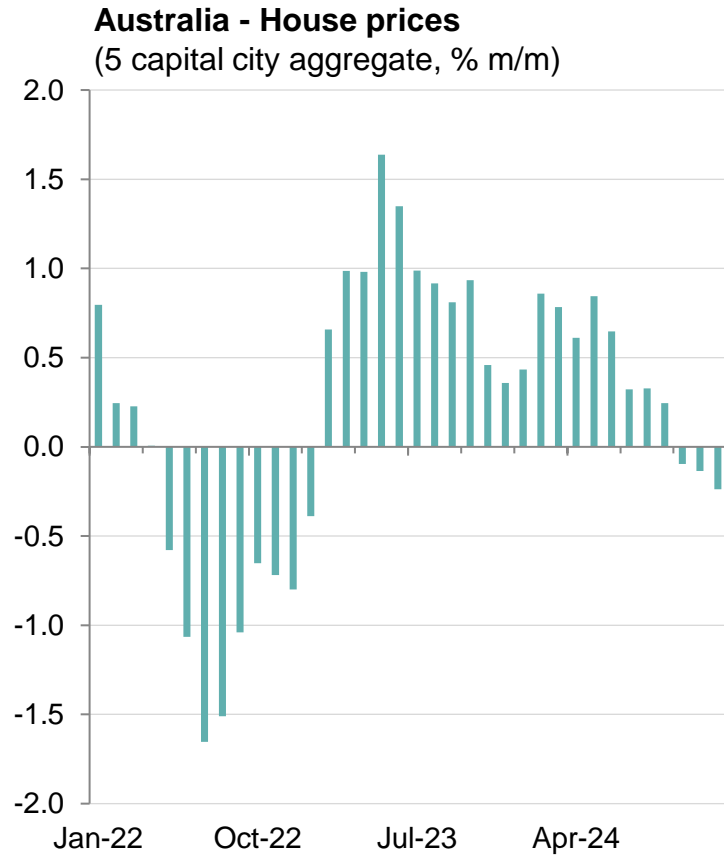
Retail volumes rose in Q3 and confidence spiked higher suggesting the H2'2024 recovery is underway



Source: ABS, Refinitiv, QIC

House prices have started to ease as affordability is stretched

Approvals for new housing have started a modest trend higher, but the recovery will be slow

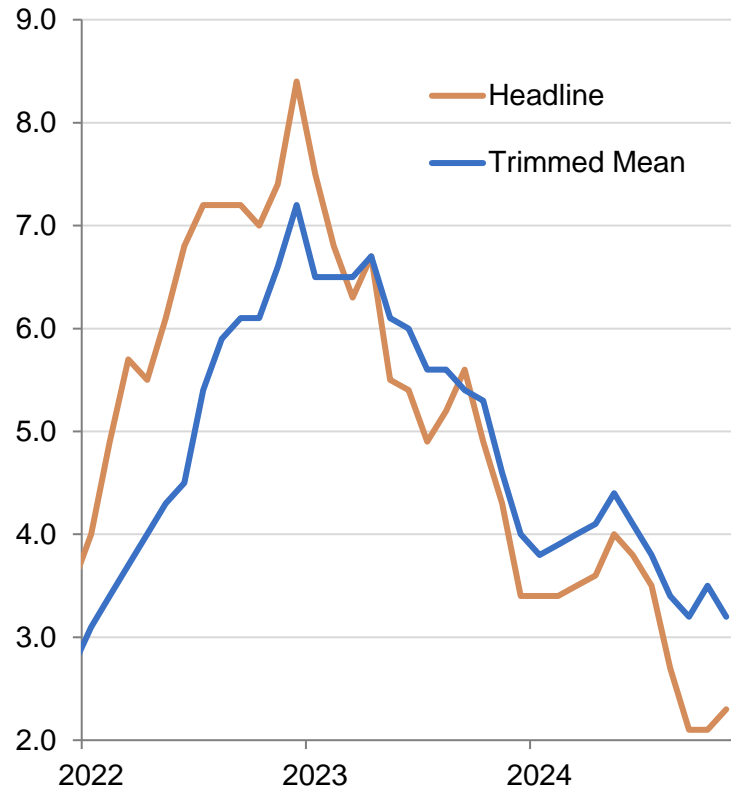


Source: ABS, Refinitiv, QIC

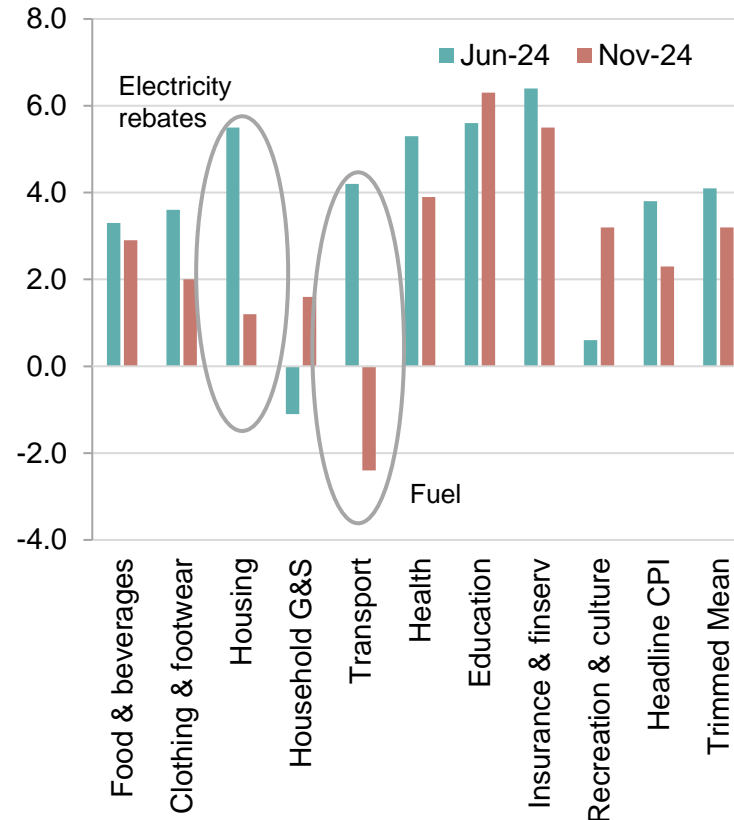
Headline inflation has slowed sharply since midyear; core is also slowing but more gradually

Markets have shifted towards our forecast following a dovish pivot at the RBA's December meeting

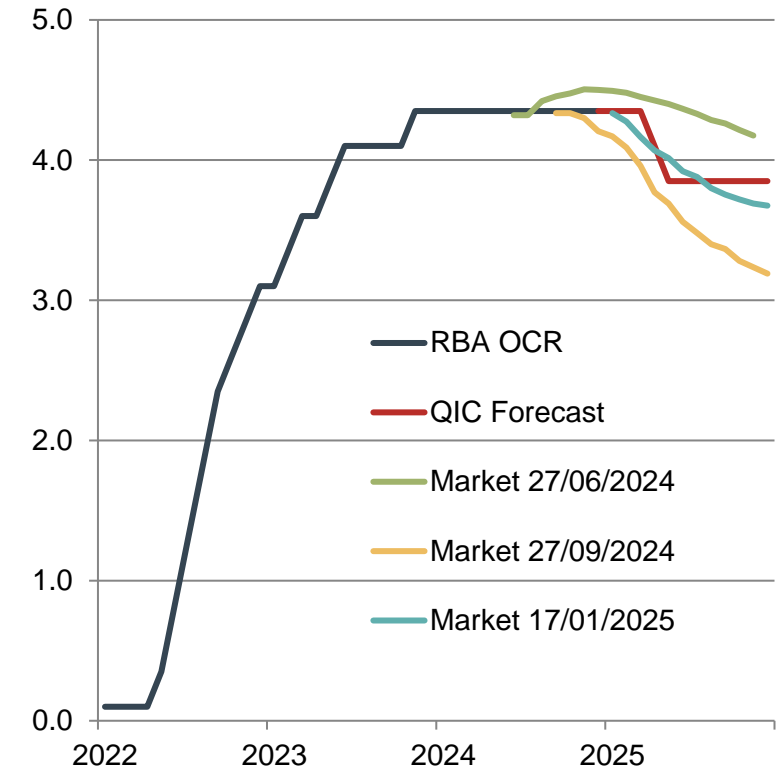
Australia - Monthly CPI (% y/y)



Australia - CPI inflation rates (% y/y)



Australia - RBA official cash rate (%)



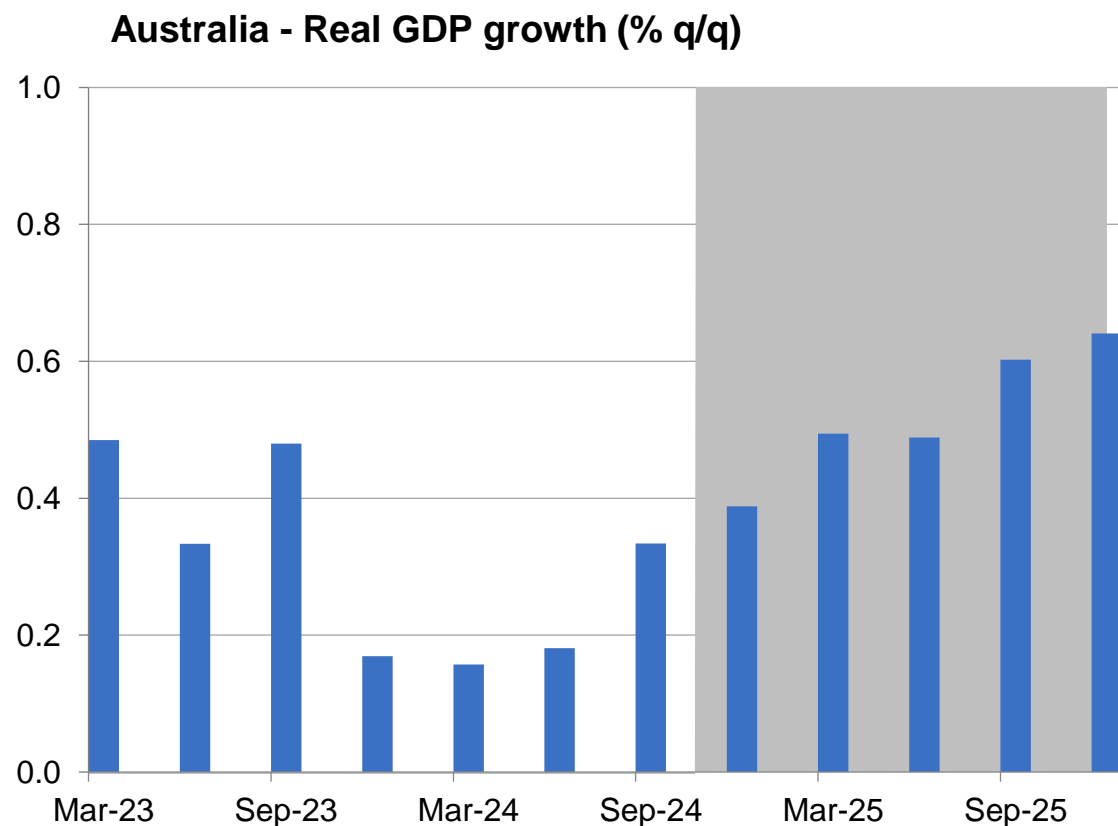
Source: ABS, Refinitiv, Bloomberg, QIC



Australia Economic Outlook

JANUARY 2025

After weakness in 2023/24, a modest cyclical upswing is underway in Australia Led by an improvement in household spending as cost-of-living pressures start to ease



Source: ABS, QIC
Note: Grey shading represents QIC forecasts

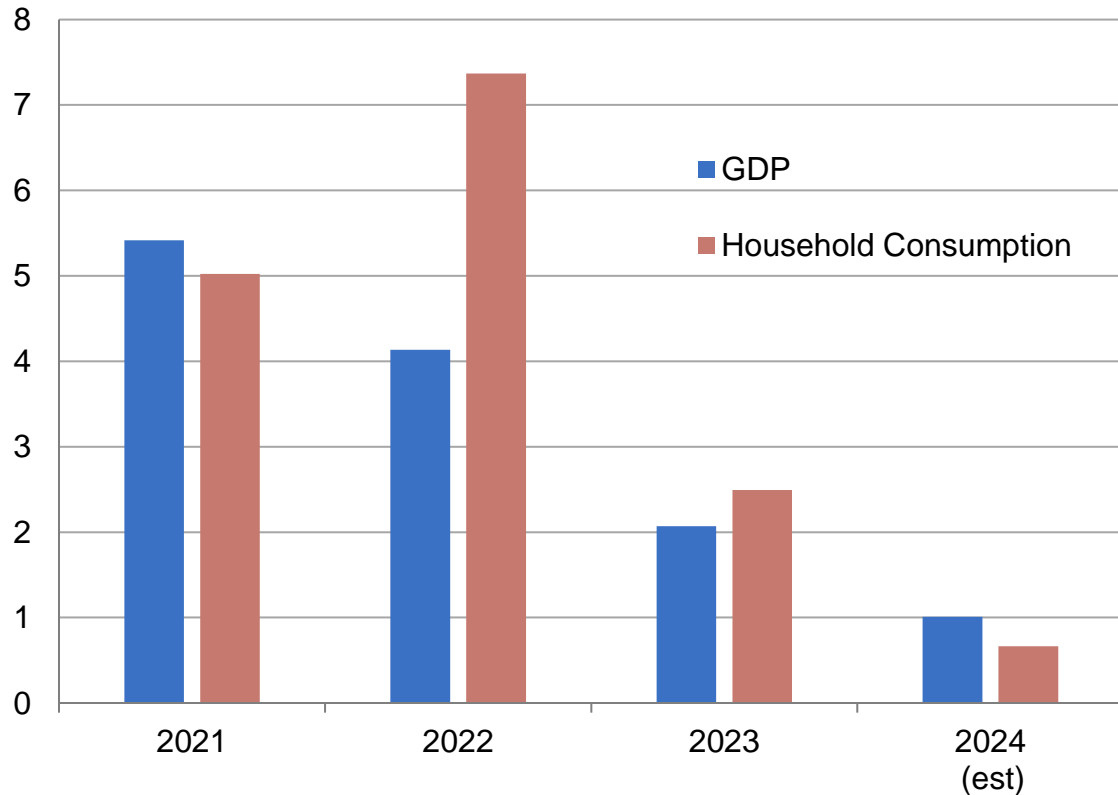
Australia Economic Forecast Summary	Annual average			
% growth (unless otherwise stated)	2023	2024	2025	2026
Real GDP	2.1	1.0	1.8	2.6
Consumption	2.5	0.7	2.0	2.8
Business investment	8.1	2.1	0.9	3.4
Housing investment	-3.4	1.3	1.9	2.8
Government consumption & investment	3.3	4.2	2.4	1.9
Government consumption	1.9	4.7	2.3	1.8
Government investment	9.0	2.2	2.9	2.2
Change in stocks (ppt contribution)	-1.0	0.1	-0.2	0.0
Net exports (ppt contribution)	0.3	-1.1	0.2	0.1
Exports	6.9	0.8	2.1	2.4
Imports	6.8	5.7	1.8	2.4
Residual (ppt contribution)	0.0	0.2	0.0	0.0

Household spending has been the main driver of the weakness in the economy

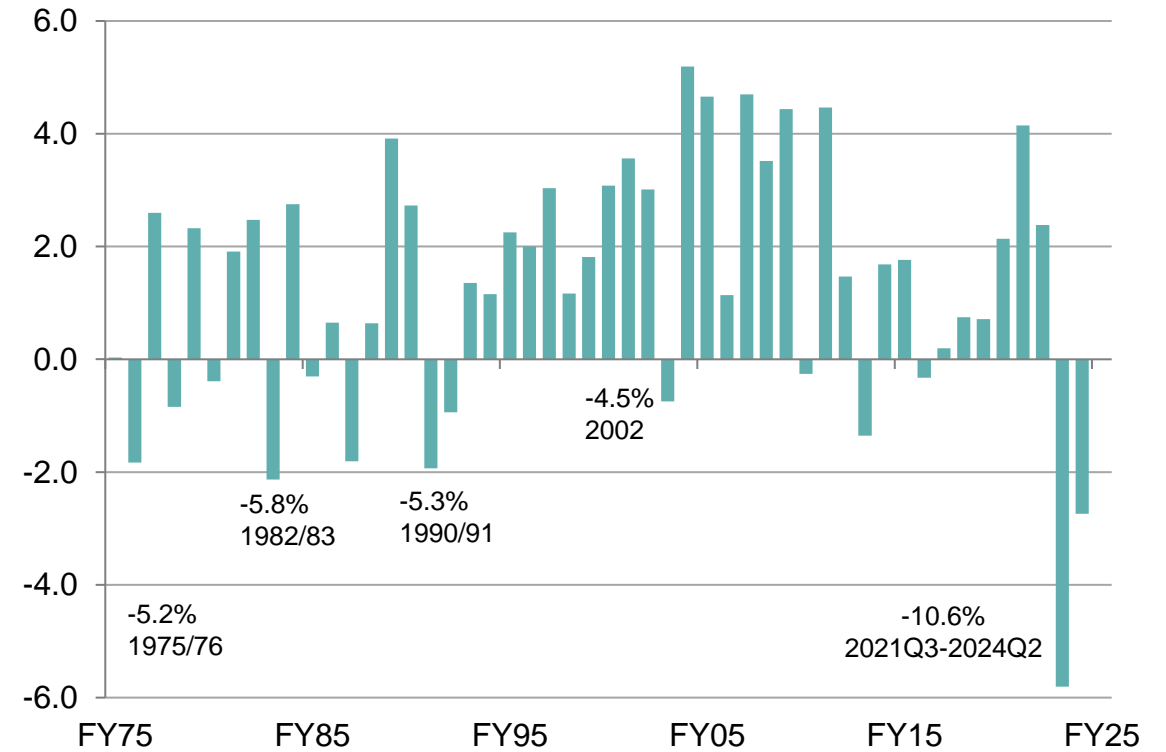
Real consumer spending likely grew by less than 1% in 2024, and has fallen in per capita terms ...

... as real disposable income per person fell at an unprecedented pace

Australia - GDP and Consumption Growth (annual %)



Australia - Real disposable income per person (FY, % y/y)*



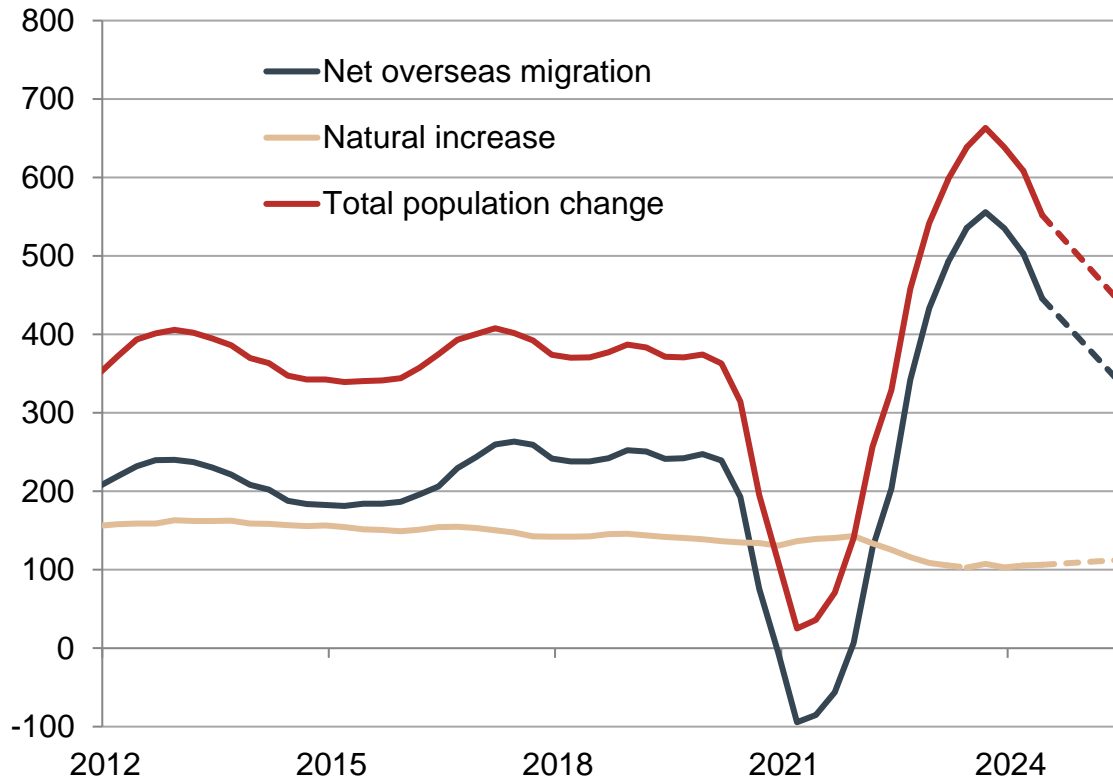
* Quarterly peak to trough declines shown in text

Unlike typical recessionary periods, real disposable incomes fell despite solid nominal income growth

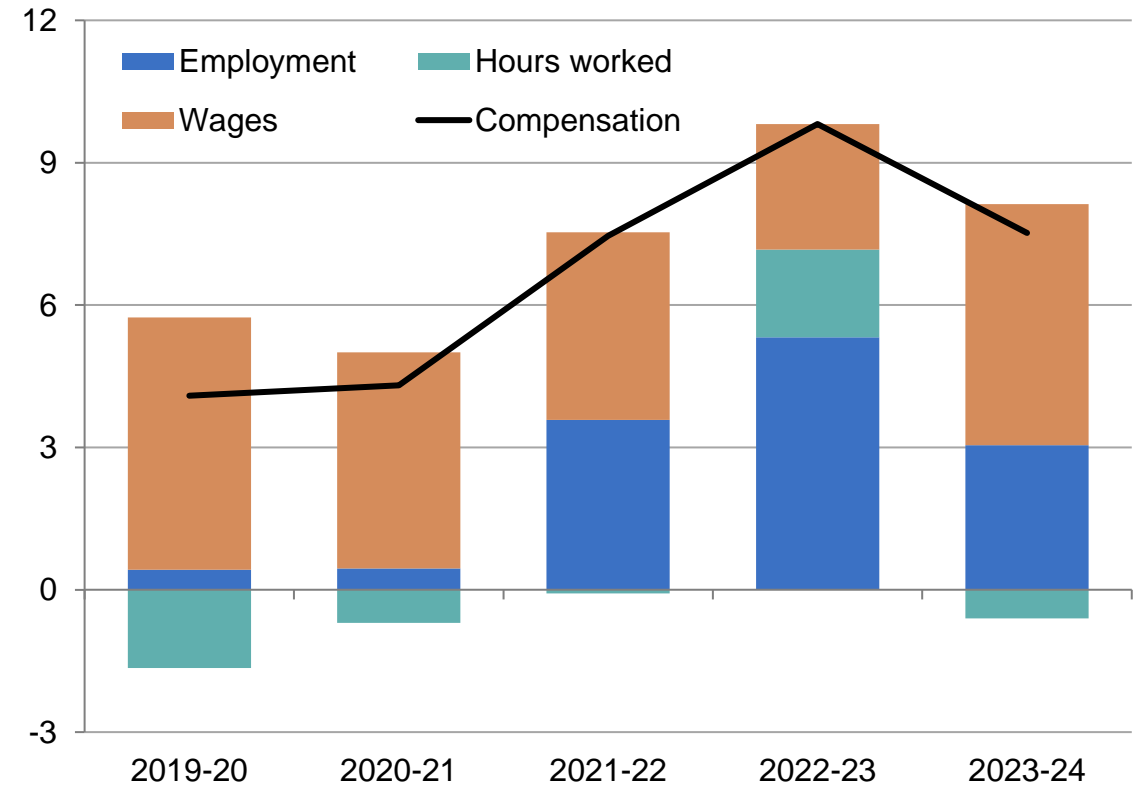
As migration underpinned strong population growth

And the labour market remained supportive with positive employment and wage gains

Australia - Change in population (000s of people, rolling annual change over prior four quarters)



Australia - Nominal labour income (FY ann avg %, by contribution)



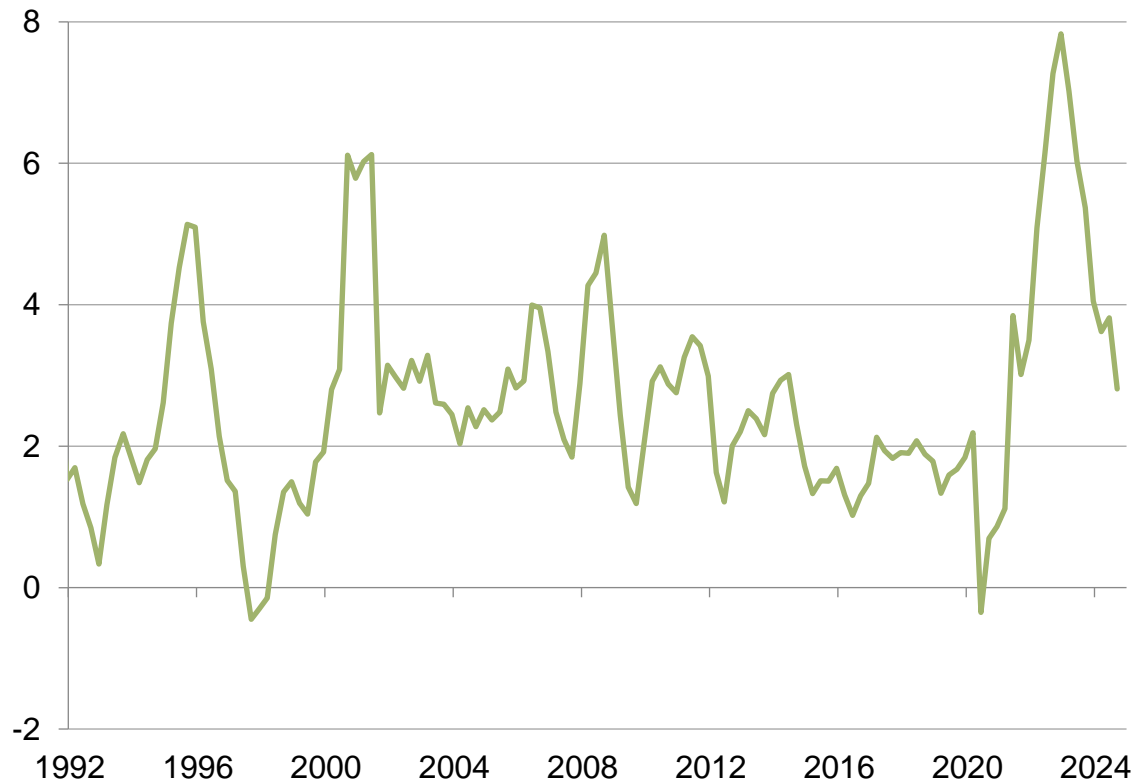
Source: ABS, Centre for Population, QIC
Note: dashed lines represent forecasts

High inflation was the main driver of the fall in real disposable incomes

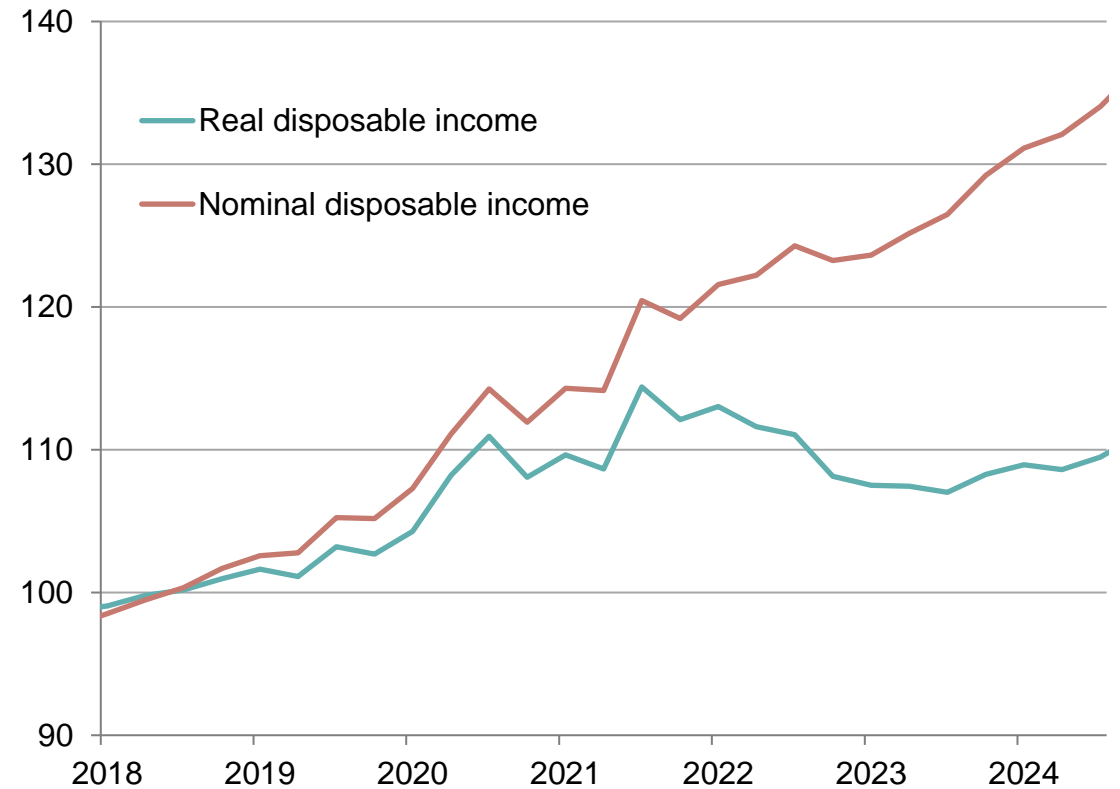
Inflation rose to levels not seen in the era of inflation targeting by the RBA

Nominal incomes have continued to rise but high inflation opened a gap to real disposable incomes

Australia - Headline inflation (% y/y)



Australia - Disposable income (index, 2018=100)



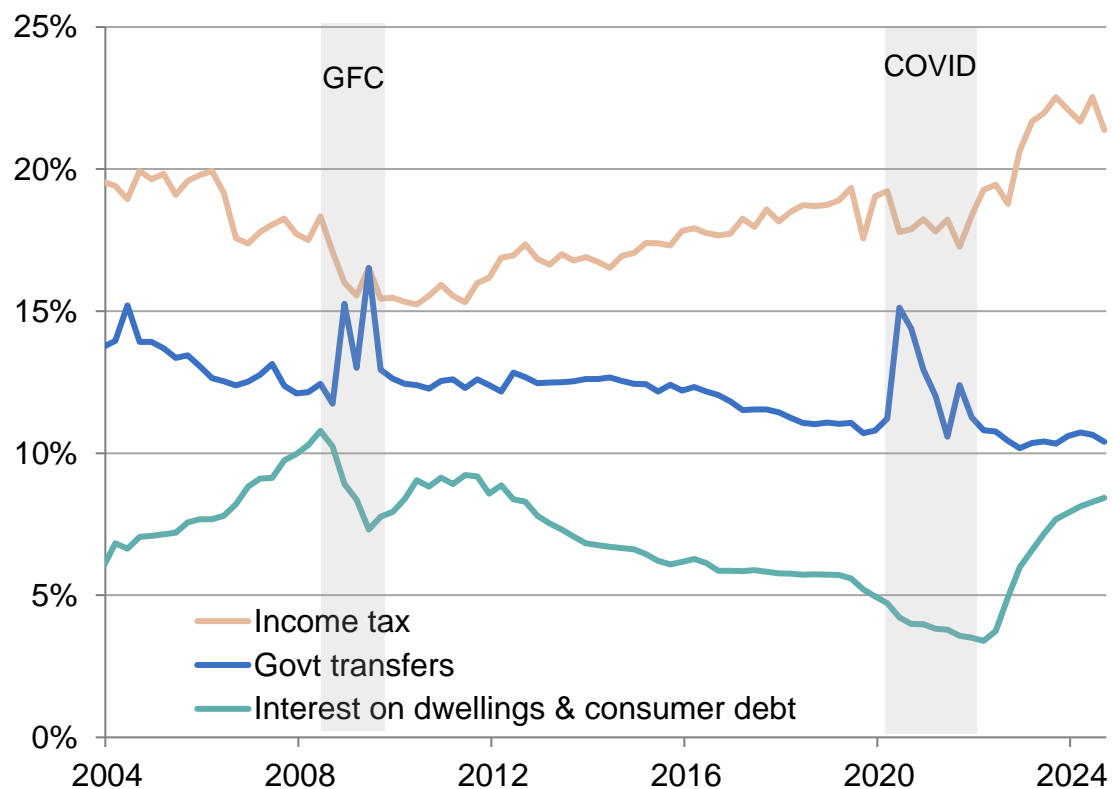
Source: ABS, QIC

Tighter monetary policy and bracket creep have also reduced disposable incomes since 2022

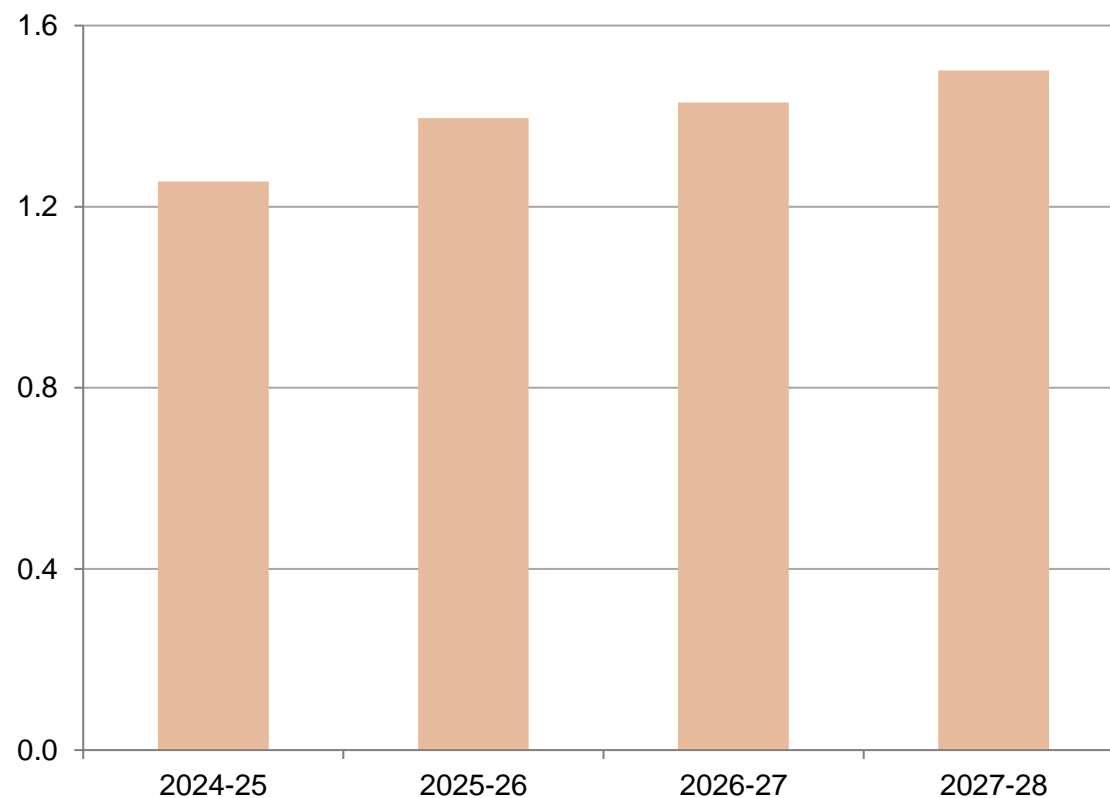
High inflation pushed people into higher tax brackets and forced the RBA to raise rates

But the Stage 3 tax cuts are providing a modest boost to disposable incomes from 2024/25

Australia - Household payments (% of gross disposable income)



Australia - Stage 3 tax cuts (% of disposable income)



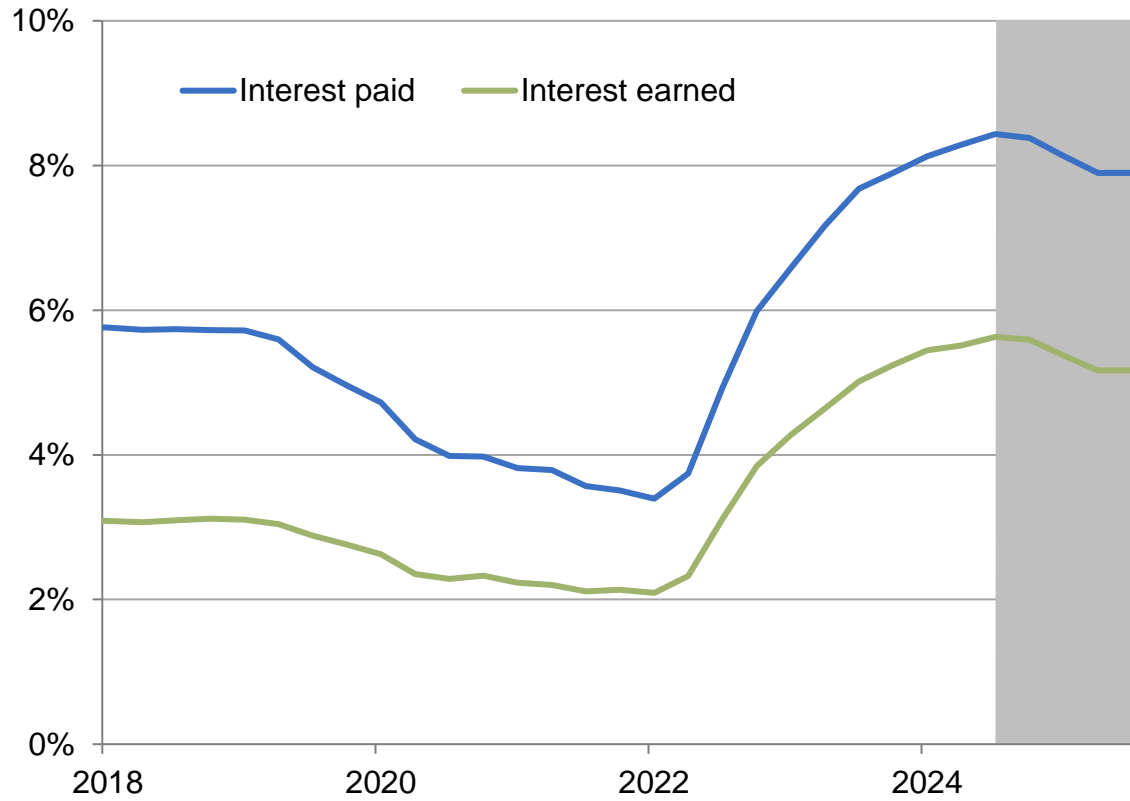
Source: ABS, QIC

Policy settings are more supportive for disposable incomes from 2024/25

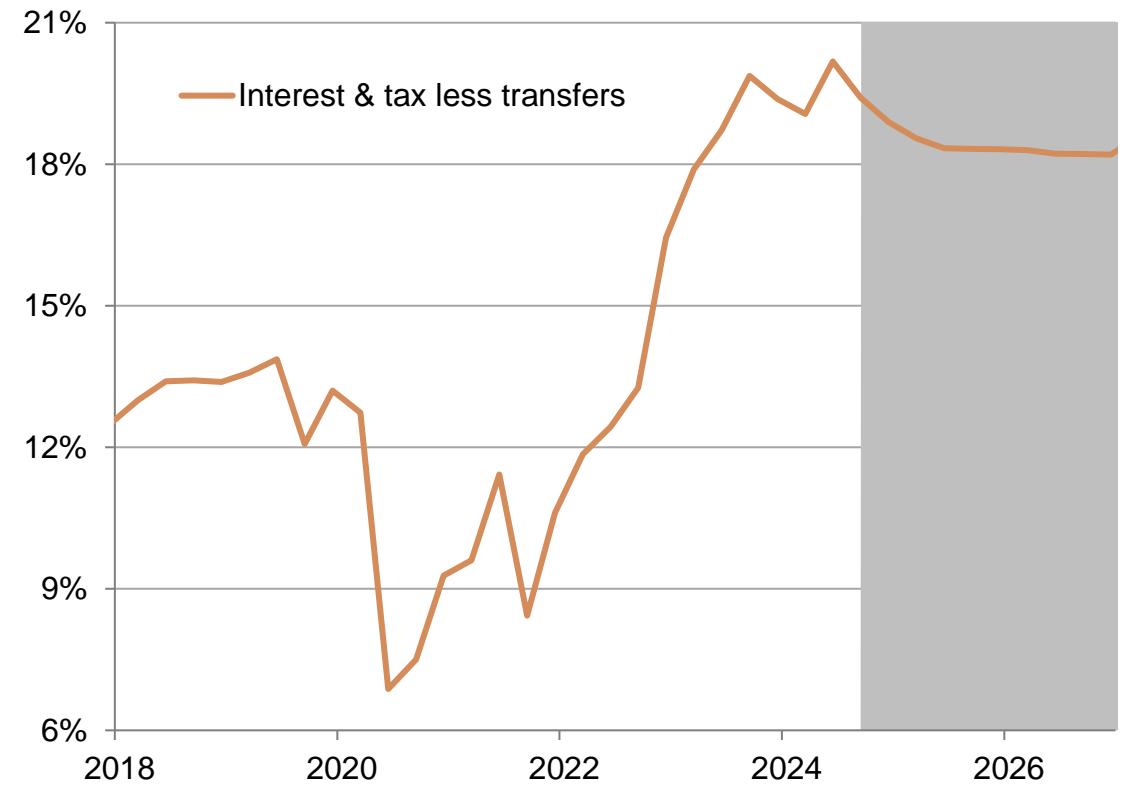
Monetary policy easing from 2025 will reduce interest payable on debt by households

This means policy settings will boost disposable incomes from 2024/25 after being a drag since 2022

Australia – Household interest (% of gross disposable income)



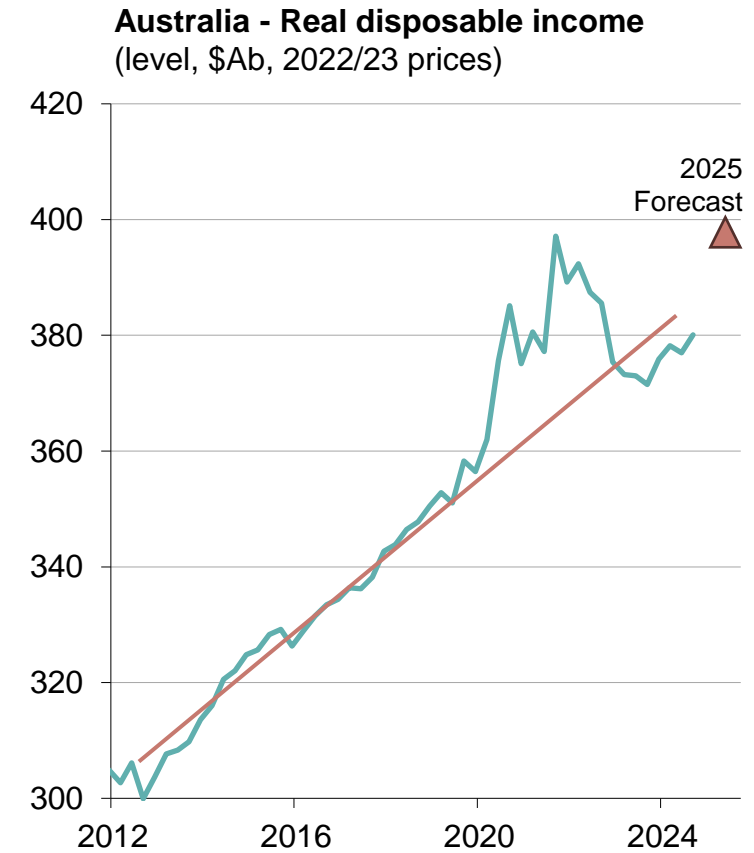
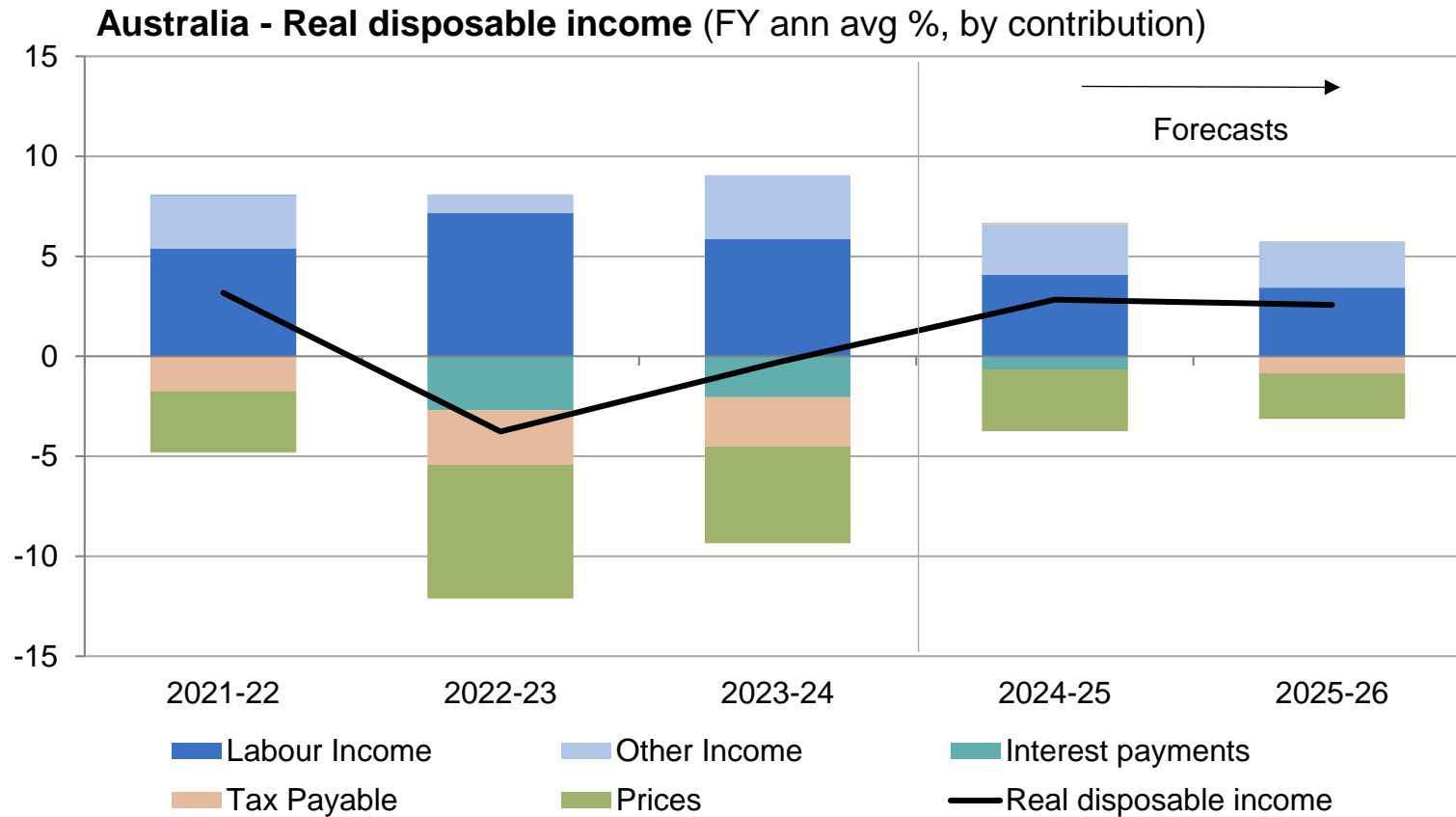
Australia - Household payments (% of gross disposable income)



Source: ABS, QIC
 Note: Grey shading represents QIC forecasts

The long-awaited recovery in real disposable incomes is already underway

Nominal labour incomes remain supportive, while slowing inflation, tax cuts & lower interest rates boost real disposable incomes from 2024-25



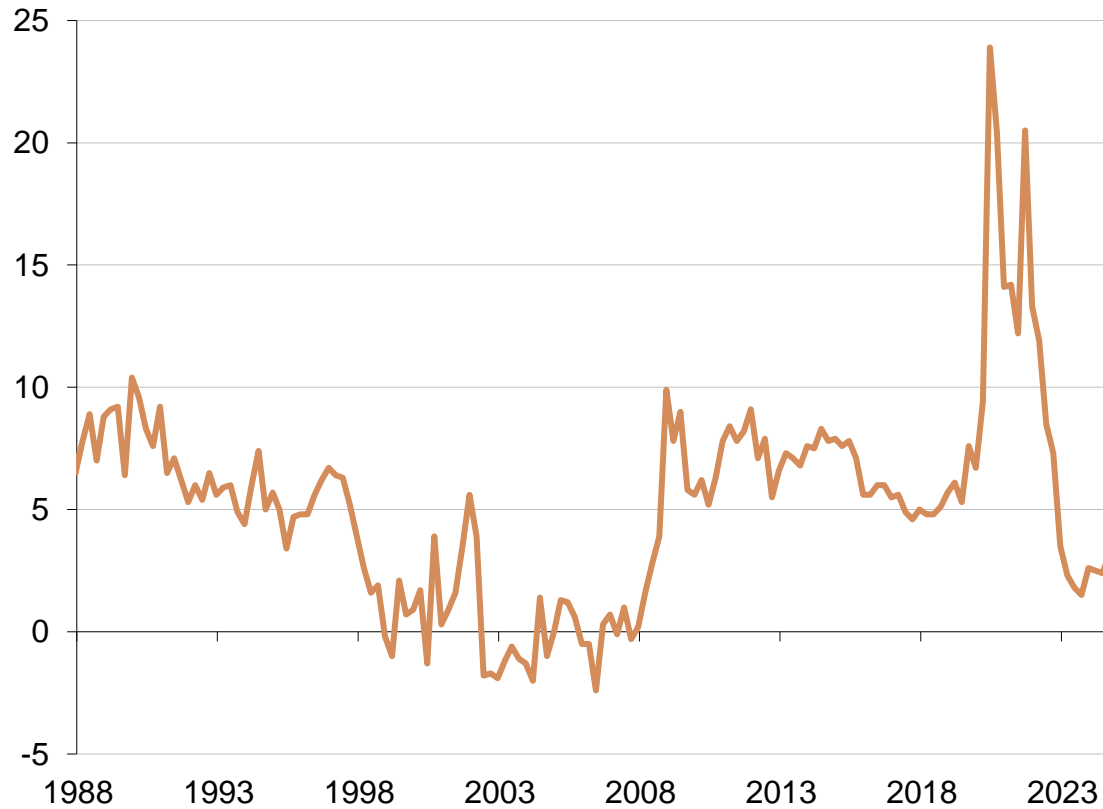
Source: ABS, QIC
 Note: 2024/25 and 2025/26 are QIC forecasts

Higher incomes will boost consumption, but the recovery will be gradual

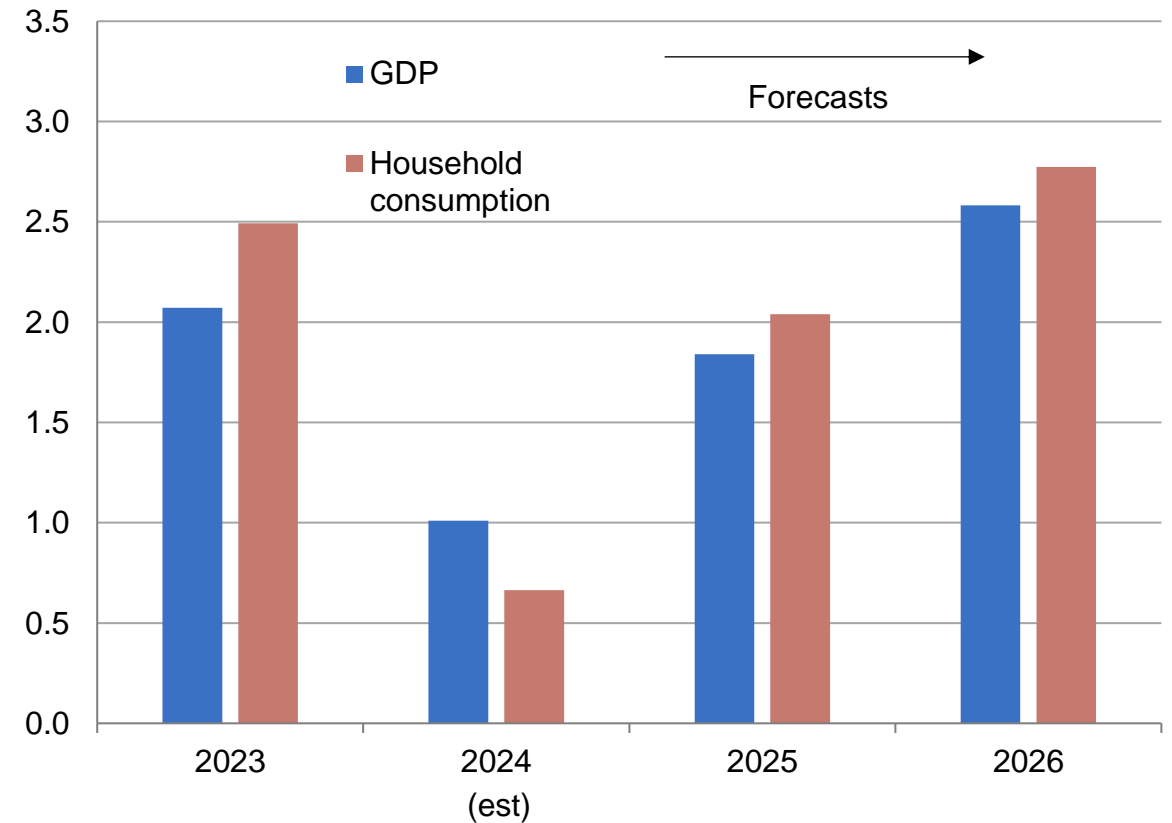
Household savings have fallen and will need to be rebuilt as incomes recover

Tepid consumer spending growth will keep GDP growth below trend in 2025

Australia - Household savings rate (%)



Australia - GDP and Consumption Growth (annual %)



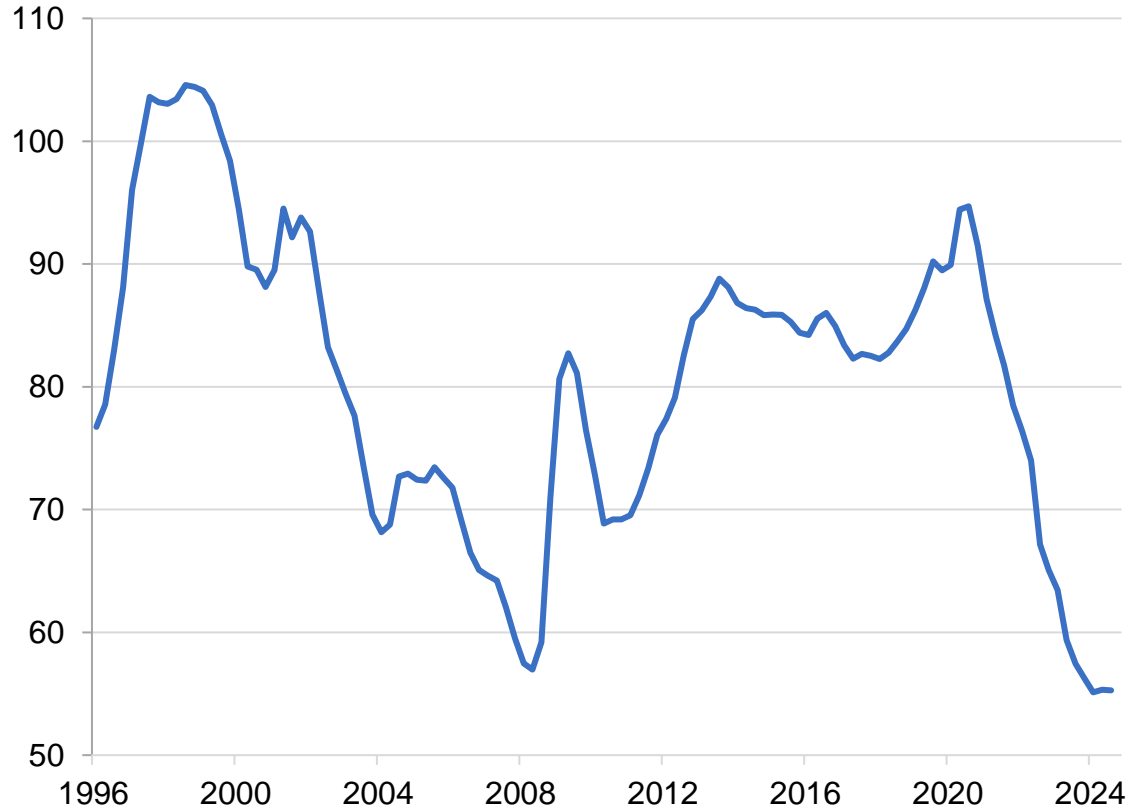
Source: ABS, QIC
Note: 2024-26 are QIC forecasts

The weakness in real incomes has weighed on housing affordability

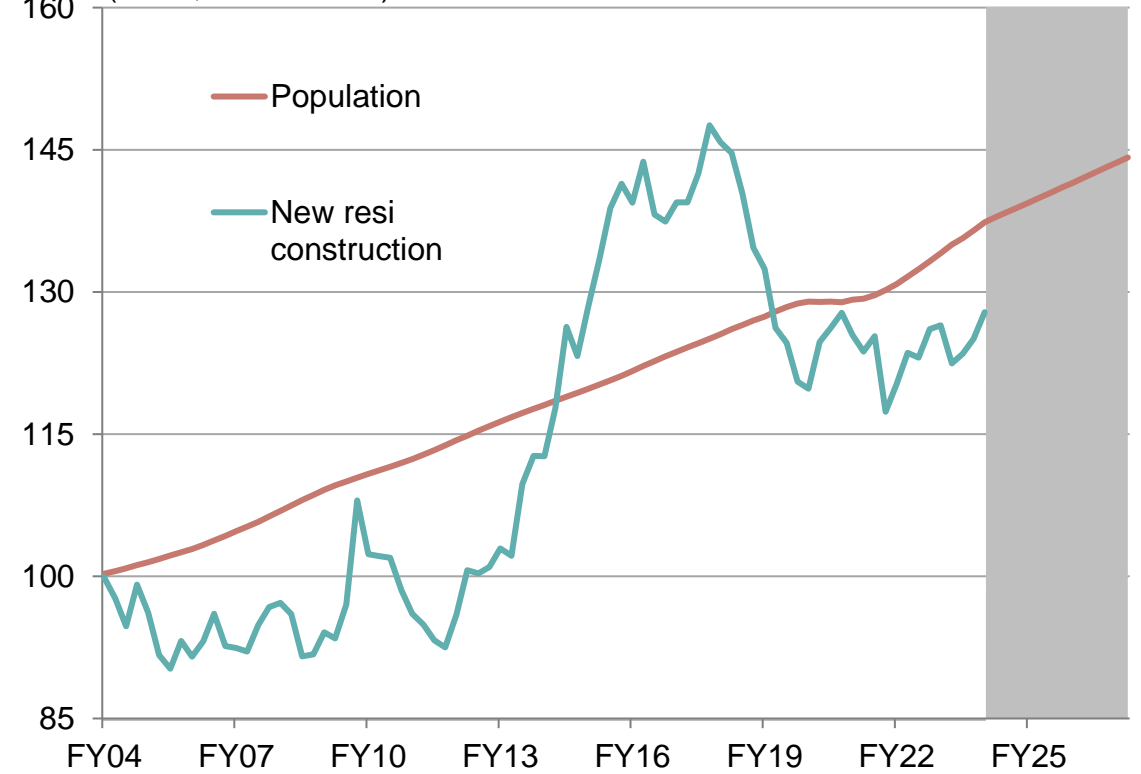
Weak disposable incomes and high borrowing costs have pushed affordability to record lows

This is holding back new home construction activity, despite the expansion in the population

Australia - HIA Housing Affordability Index



Australia - New residential construction and population
(Level, Jun-04=100)



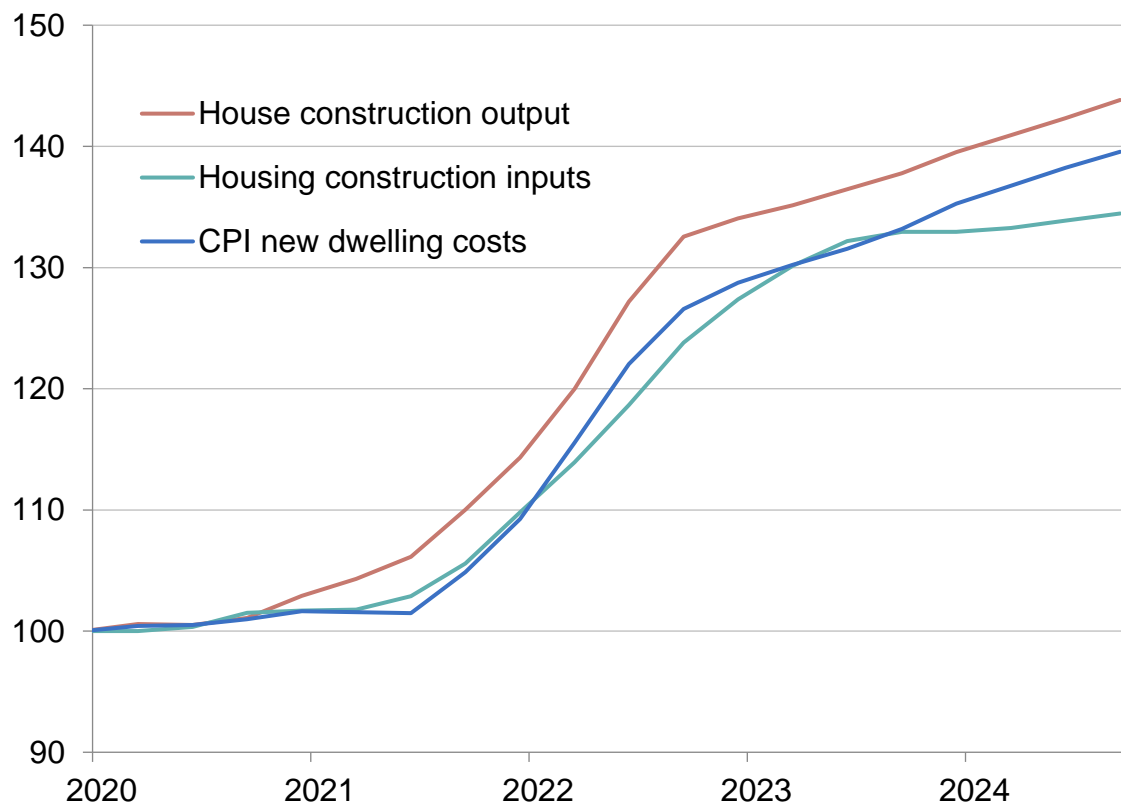
Source: Refinitiv, ABS, Centre for Population, QIC
Note: Grey shading represents QIC forecasts

New housing supply is needed to satisfy demand, but it is expensive to build

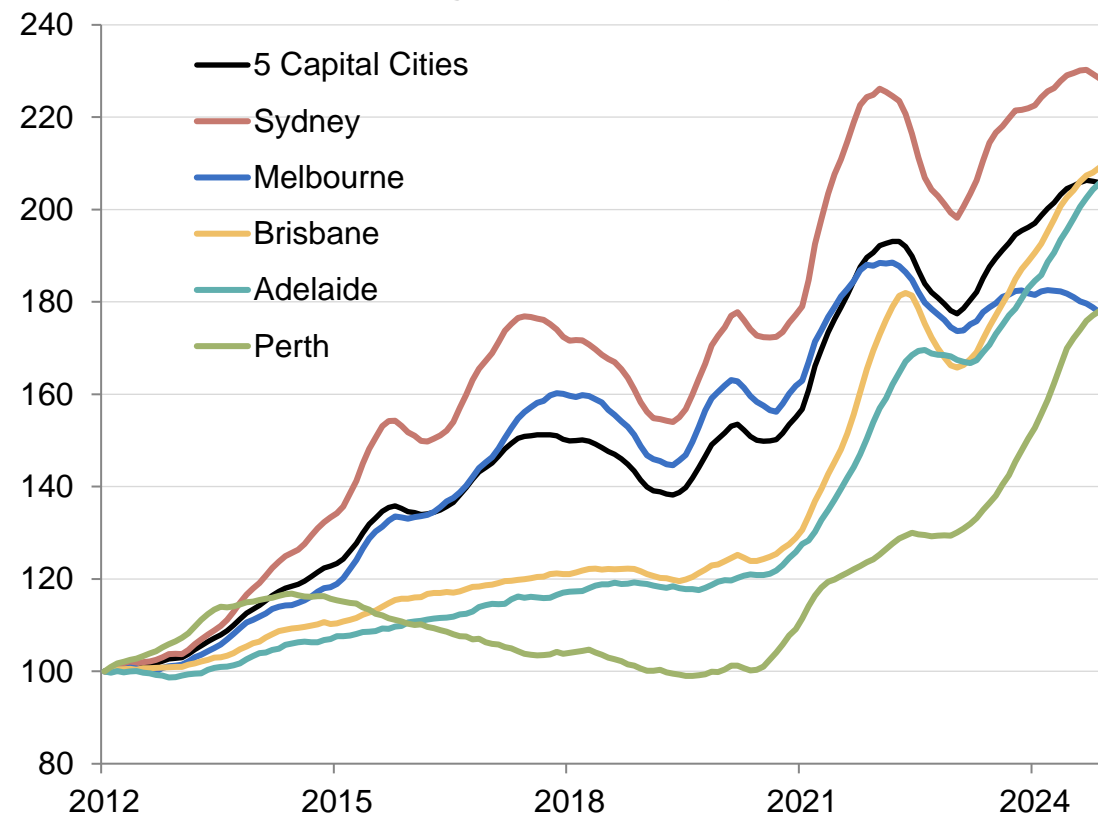
Rising construction costs, longer build times and higher interest rates deterred residential investment

But as house prices push higher, the existing housing stock is also getting more expensive

Australia - House construction cost (index, 2019Q4=100)



Australia – Dwelling prices (January 2012 = 100)



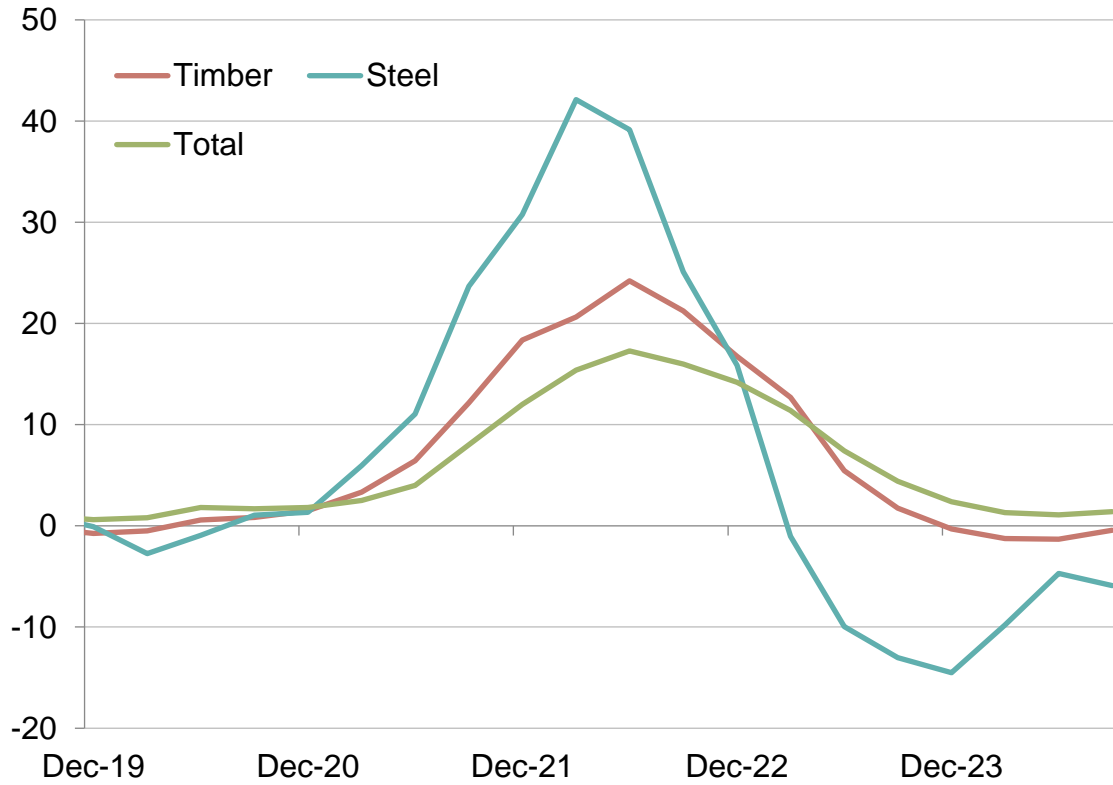
Source: ABS, Refinitiv, QIC

Housing construction cost inflation is easing

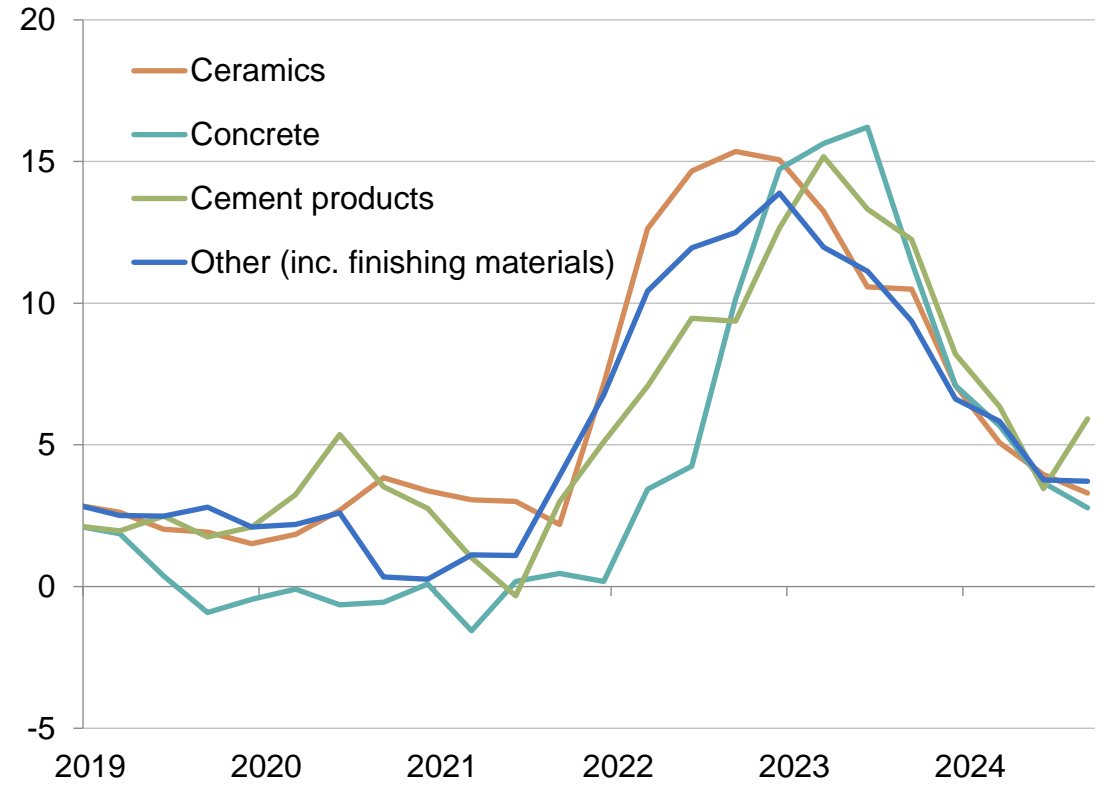
Timber and steel prices have fallen from their peaks

Other input costs continue to increase but at a slower rate

Australia - Housing construction input costs (% y/y)



Australia - Housing construction input costs (% y/y)



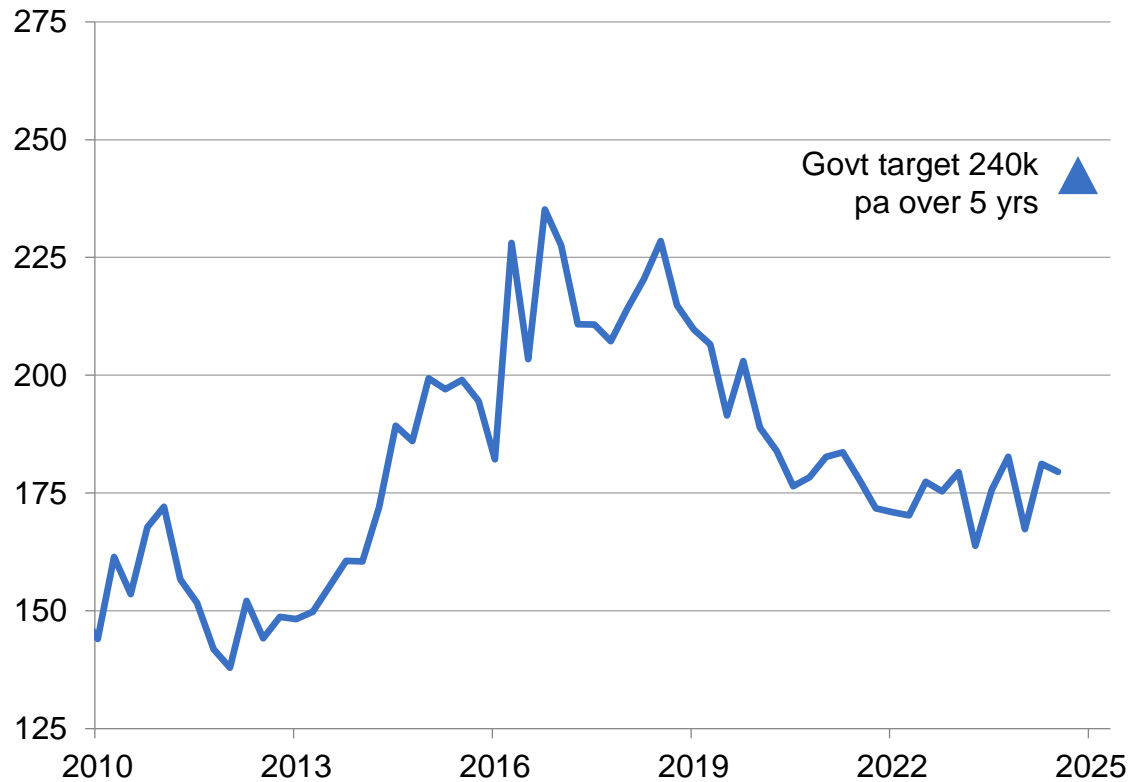
Source: ABS, QIC

Slowing cost inflation is leading to early signs of a recovery in new homebuilding

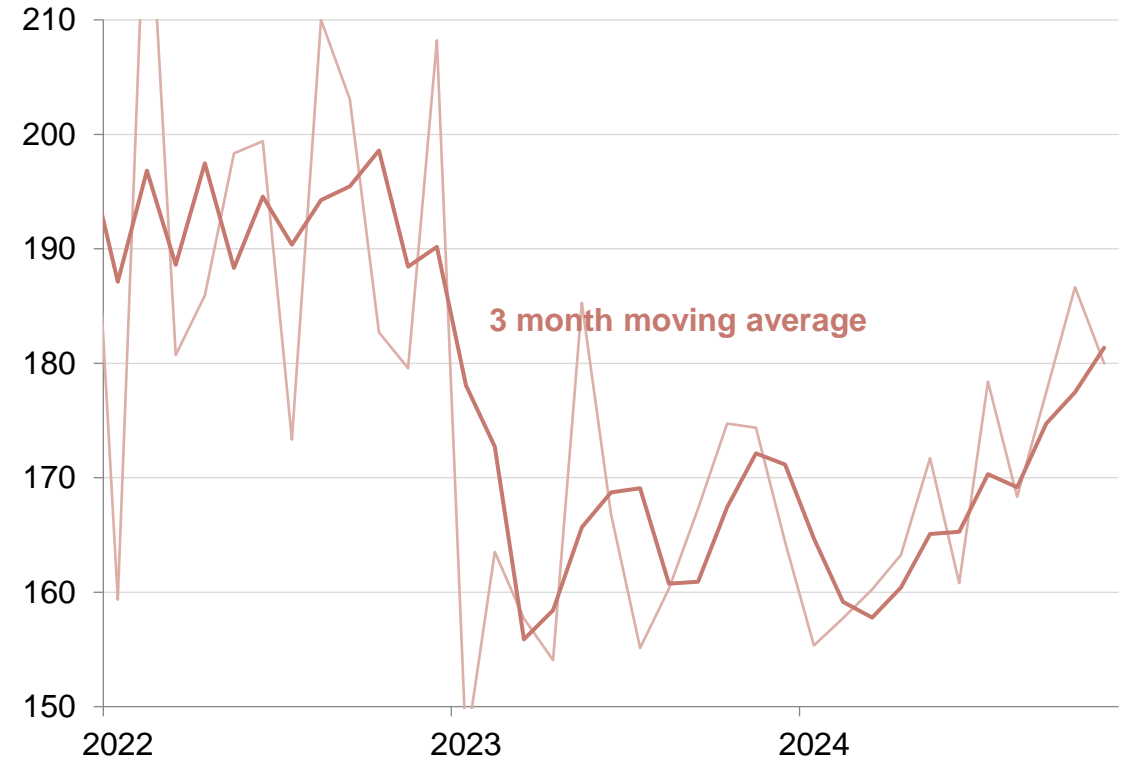
The supply of new dwellings is currently constrained and well below government targets

But rising building approvals suggests residential construction should start to improve

Australia - Dwellings completed (000s, sa, annualised)



Australia - Dwelling approvals (000s, sa, monthly annualised)



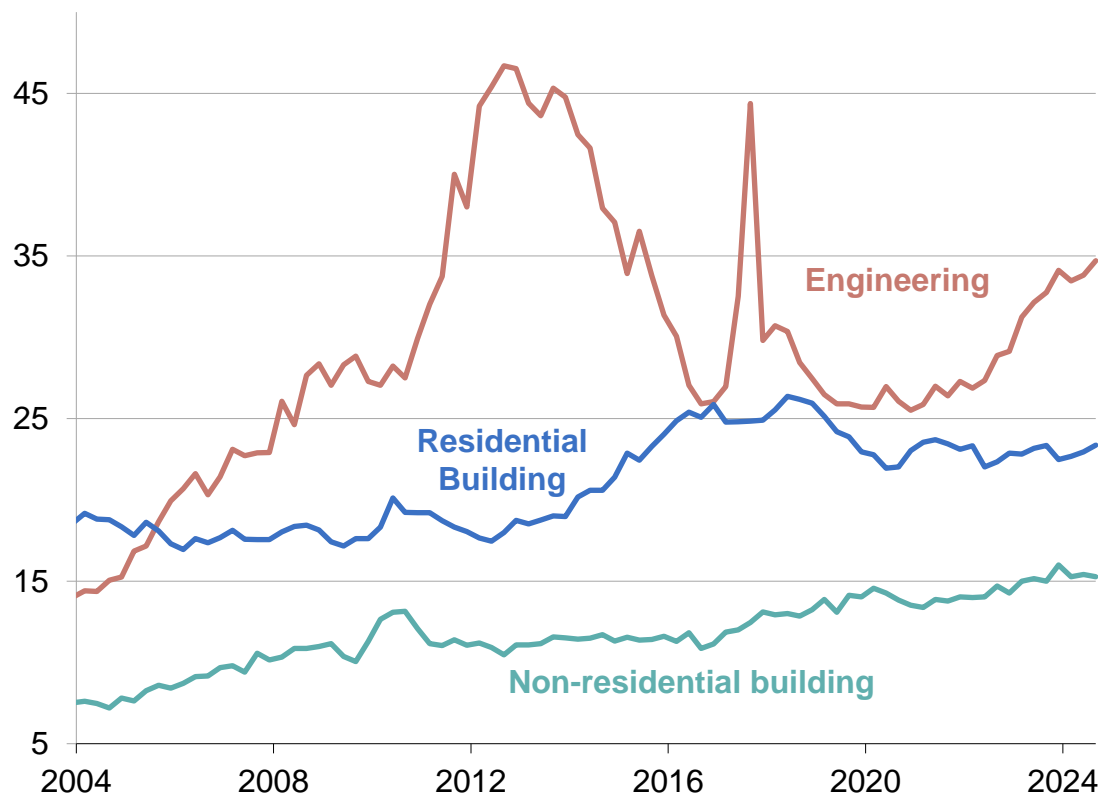
Source: ABS, QIC

Can investment hold up while the consumer is in the doldrums?

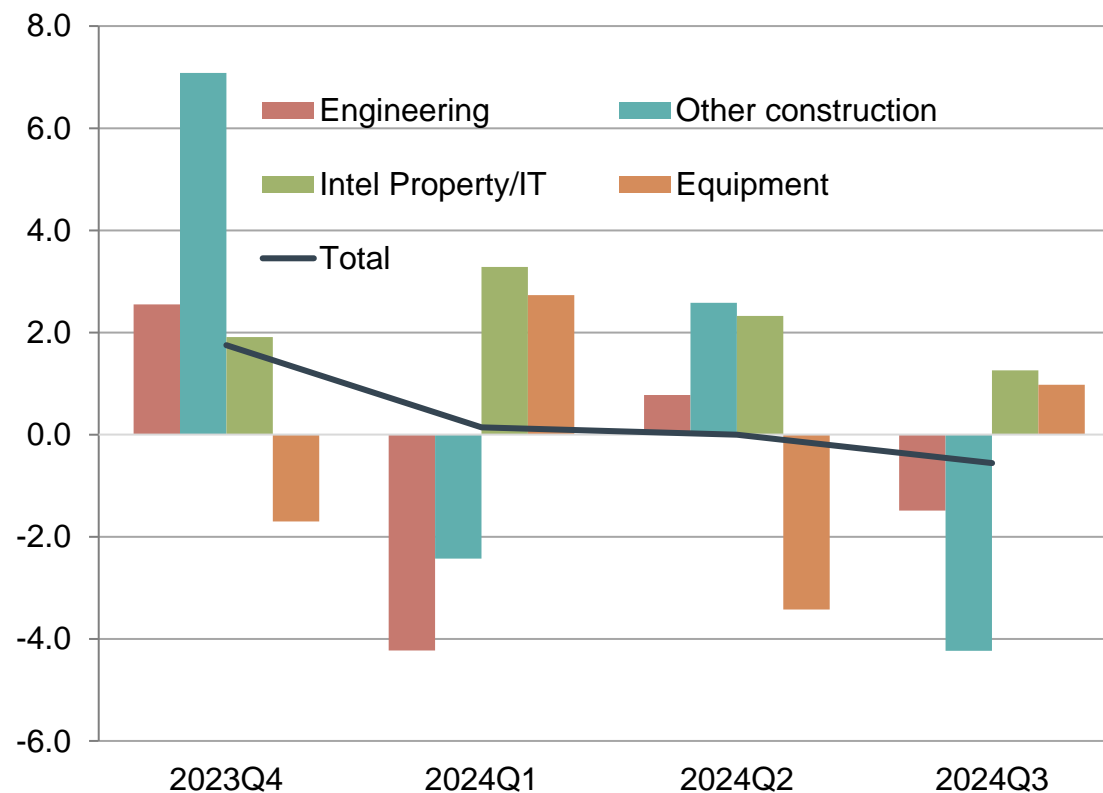
Construction activity started to improve in the September quarter with engineering leading the way

But this is being driven by the public sector, while private investment is weak

Australia - Construction work done (\$b, 2022/23 prices)



Australia - Real private gross fixed capital formation (% q/q)



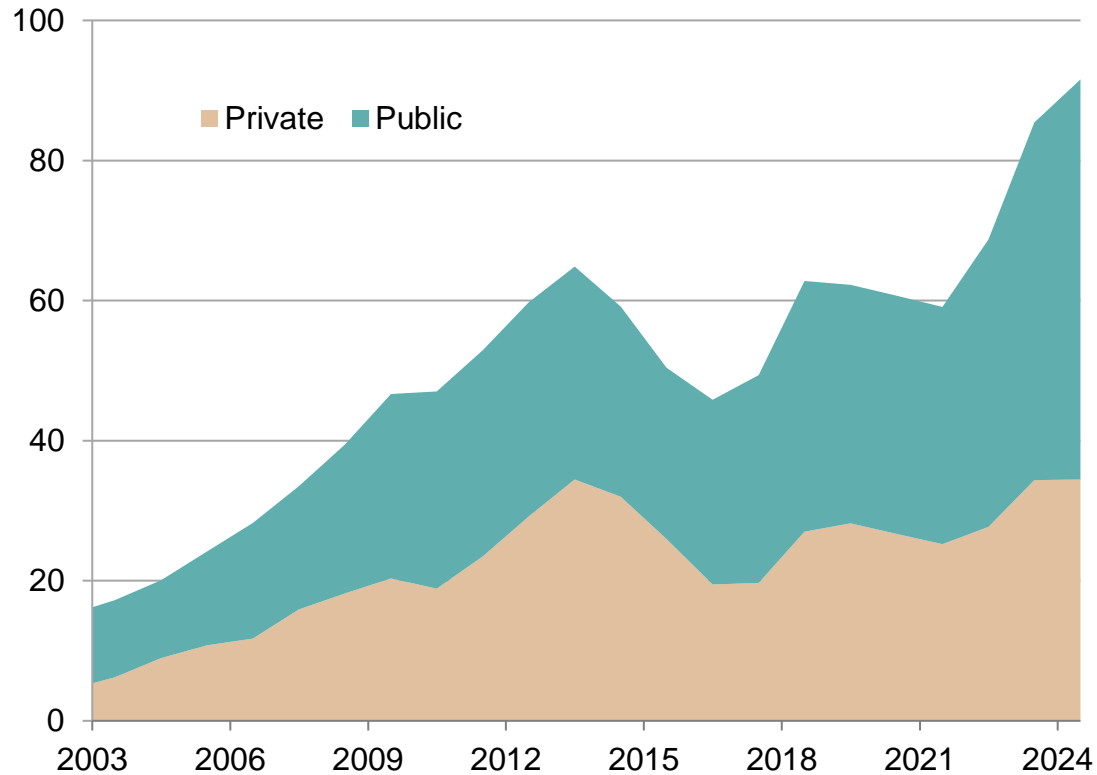
Source: ABS, QIC

Public infrastructure spending has been the driver of growth and continues to compete for resources

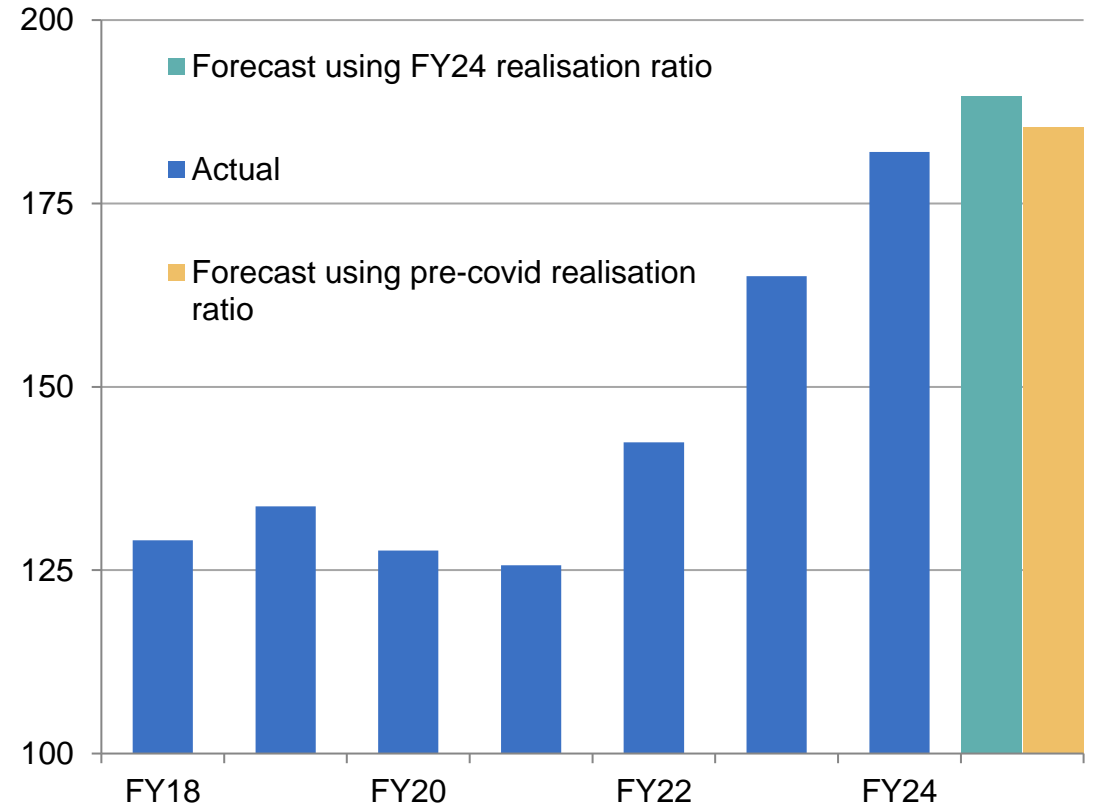
Infrastructure spending continues to be driven by strong growth in government sector

Capex intentions suggest only modest growth in private business investment over the coming year

Australia - Infrastructure construction (\$b, FY)



Australia - Total capex (current prices, \$b)



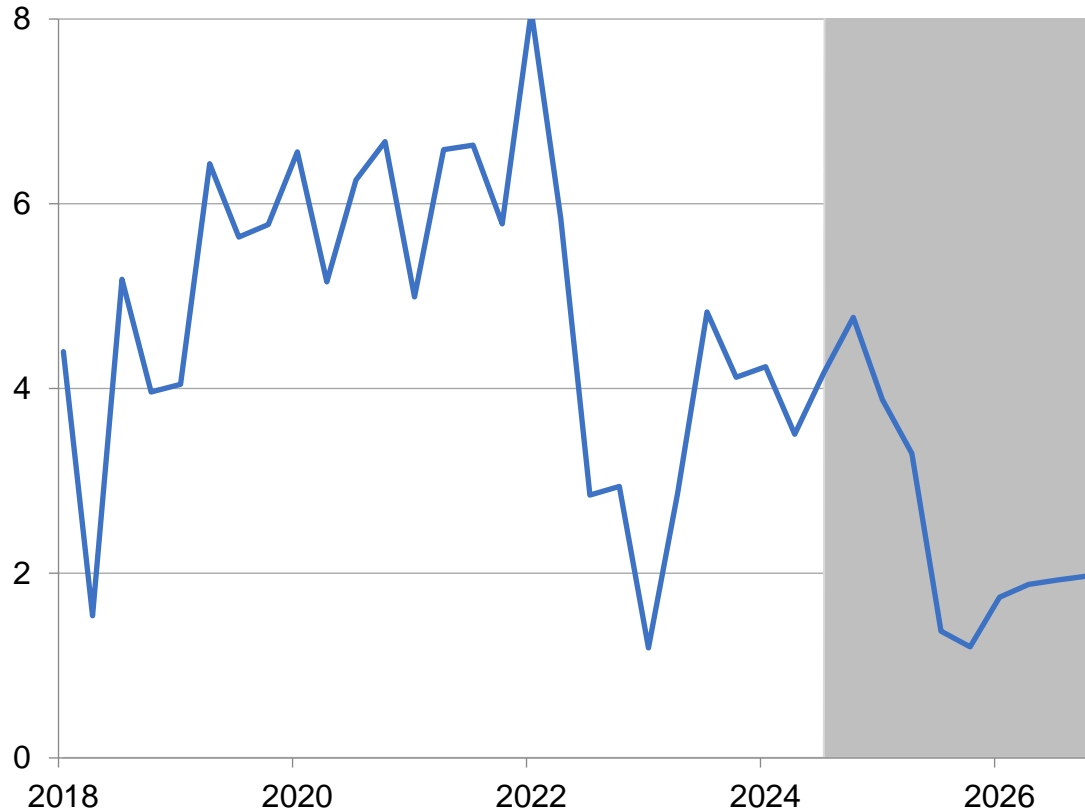
Source: ABS, QIC

Government spending has supported the economy in 2024

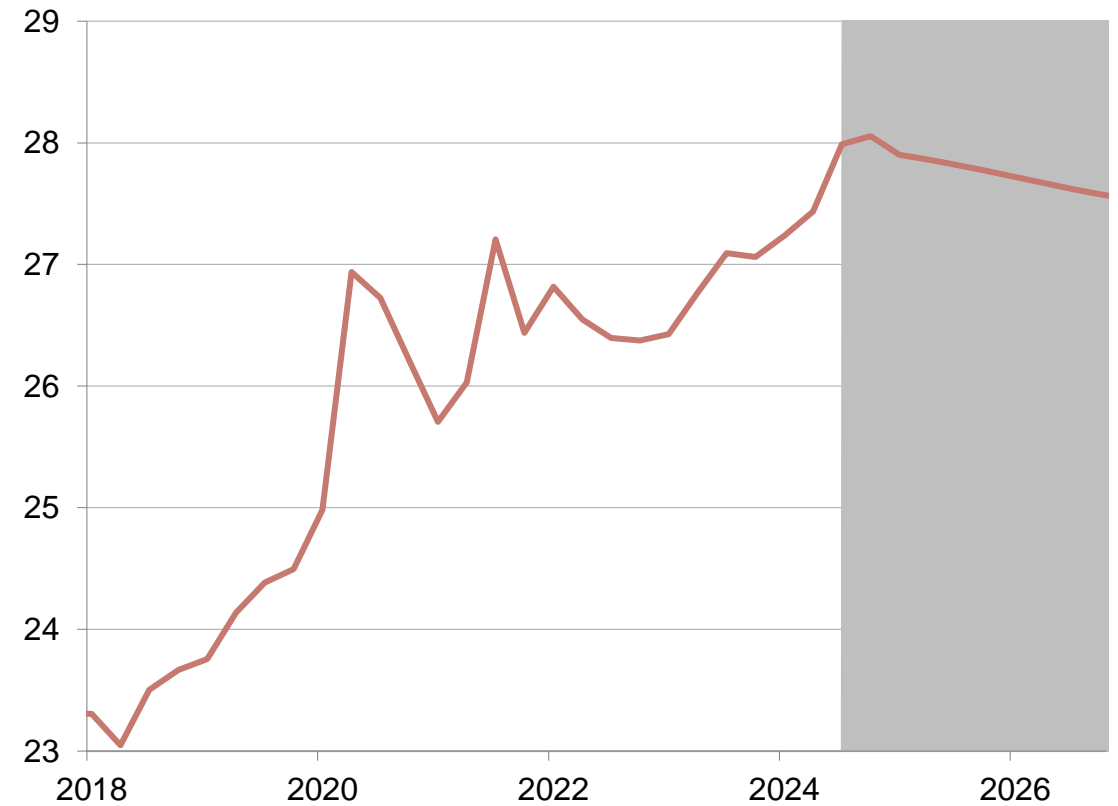
Strong government spending is in direct contrast to weak private spending

The boost to spending has been particularly sharp in the second half of the year

Australia - Public demand (% y/y)



Australia - Real public spending (% of GDP)

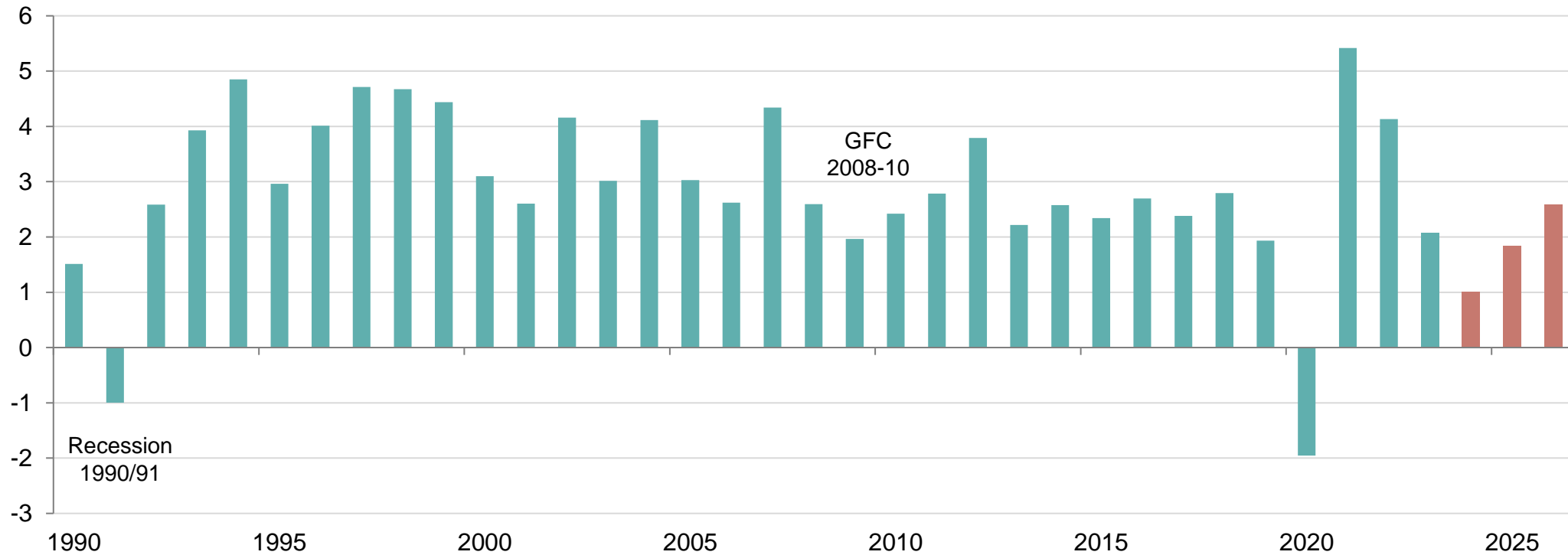


Source: ABS, QIC
 Note: Grey shading denotes QIC forecasts

After weakness in 2023/24, a modest cyclical upswing is underway in Australia

The slowdown has been more similar to the GFC than the 1990/91 recession

Australia - Real GDP growth (% annual average)



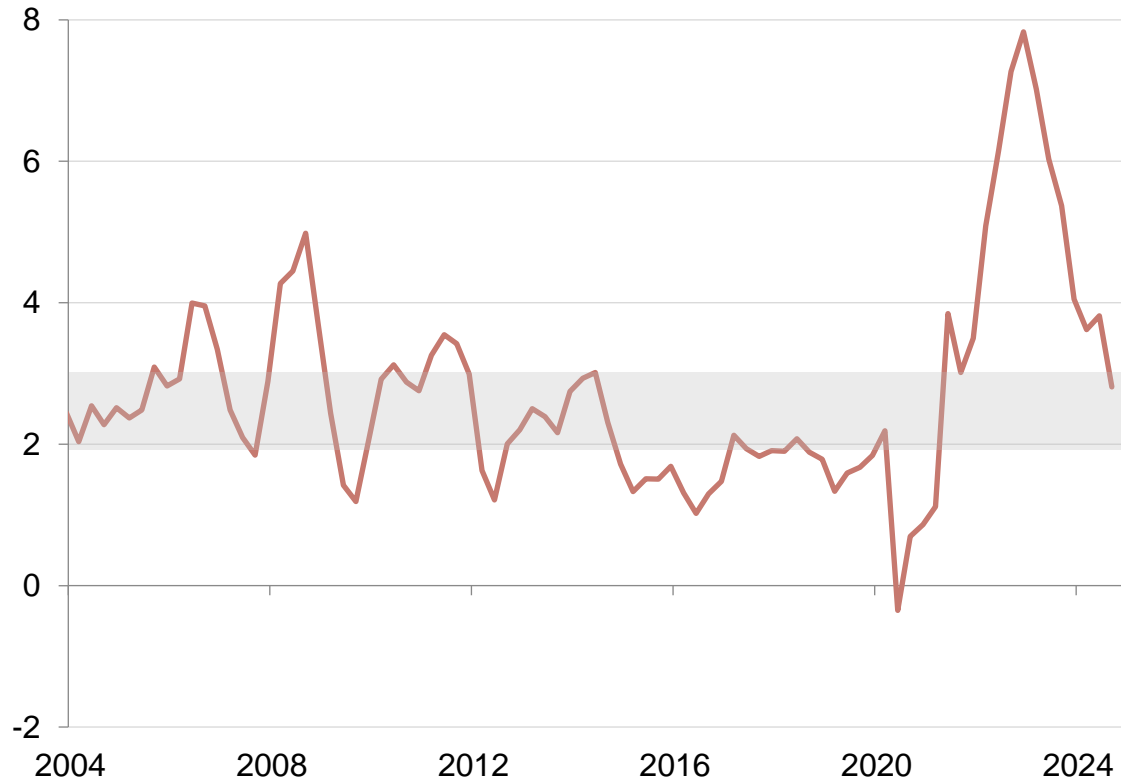
Source: Refinitiv, QIC
 Note: Red bars represent QIC forecasts

Headline inflation has slowed sharply, moving within the RBA target band in the September quarter

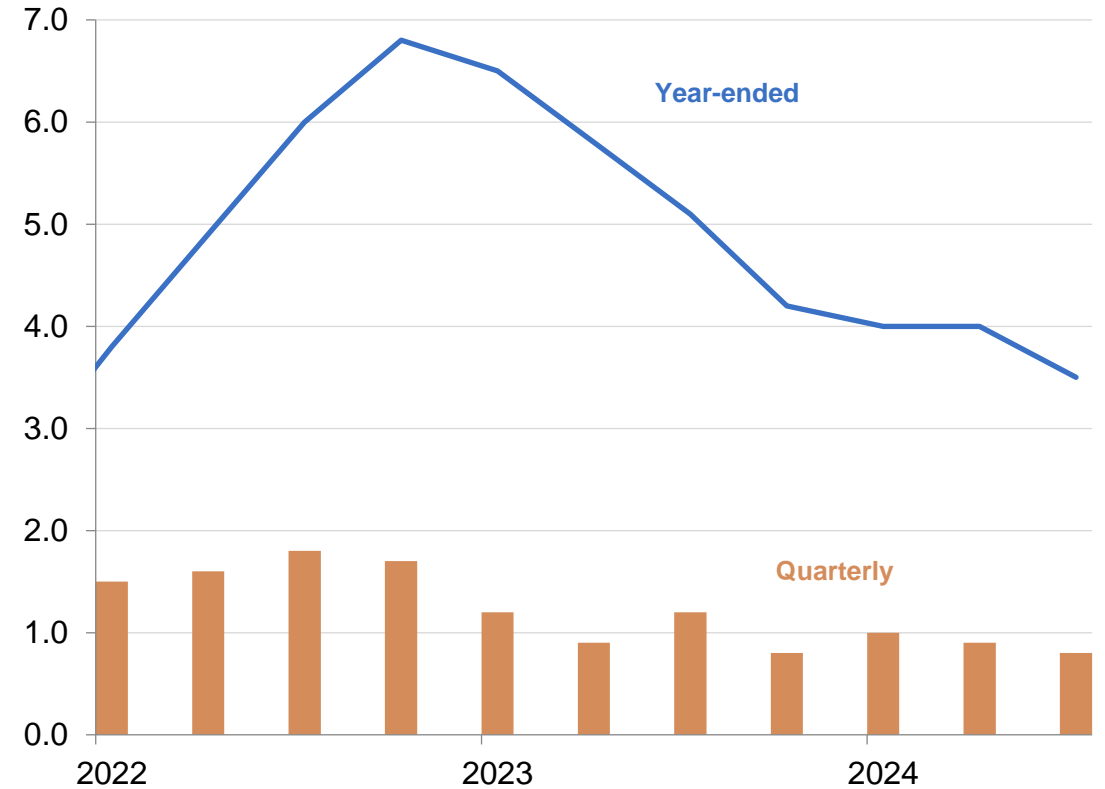
Inflation has spent almost twice as much time outside the band as inside the band in the last 20 years

But it is underlying inflation that matters for monetary policy and while slowing, it is still too high

Australia - Headline inflation (% y/y)



Australia - Trimmed mean CPI inflation (%)

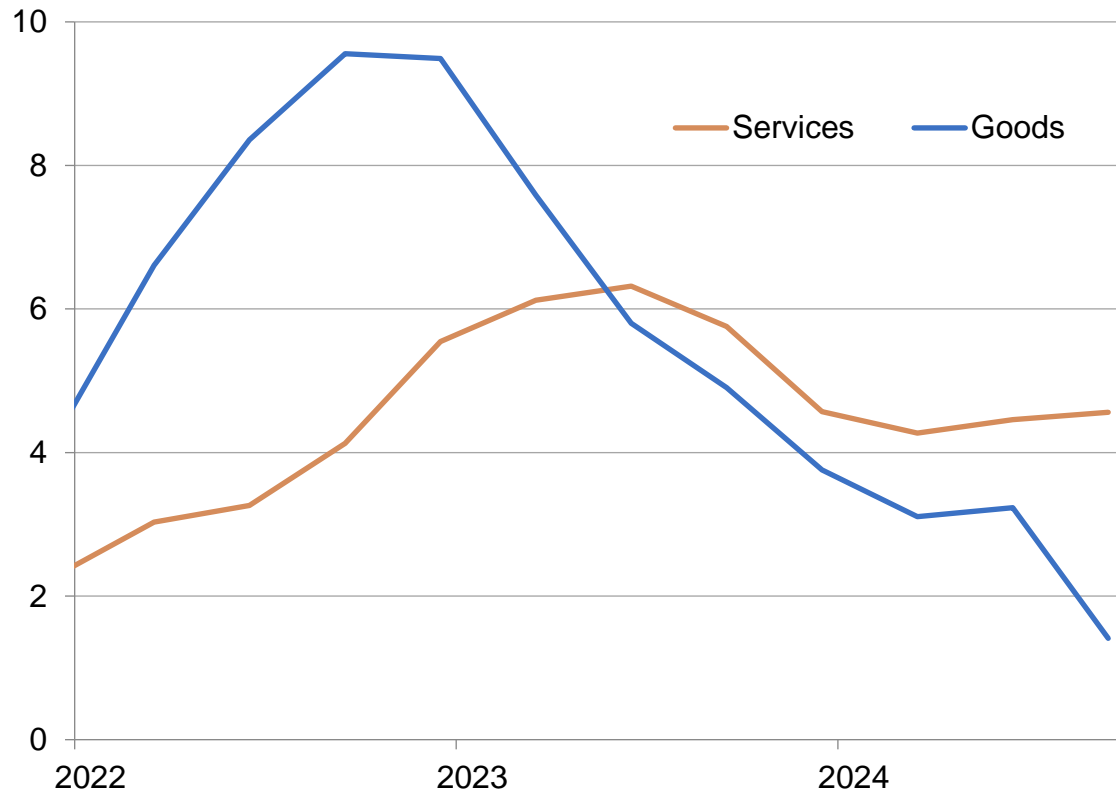


Source: ABS, QIC

Goods prices are driving the fall in the inflation rate

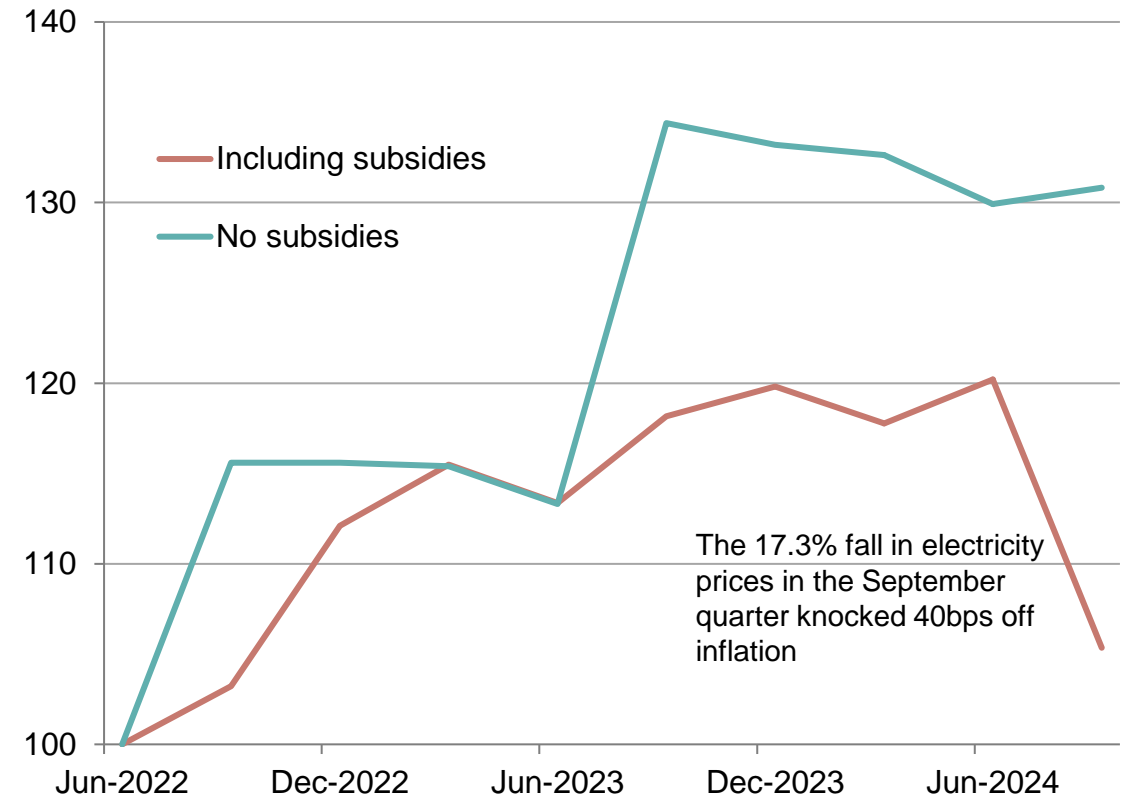
Slowing goods inflation has driven the fall in headline, while services inflation remains elevated

Australia - Consumer price inflation (% y/y)



Electricity prices fell sharply due to government subsidies, while fuel prices have also dropped

Australia - Electricity price index (Jun22 = 100)



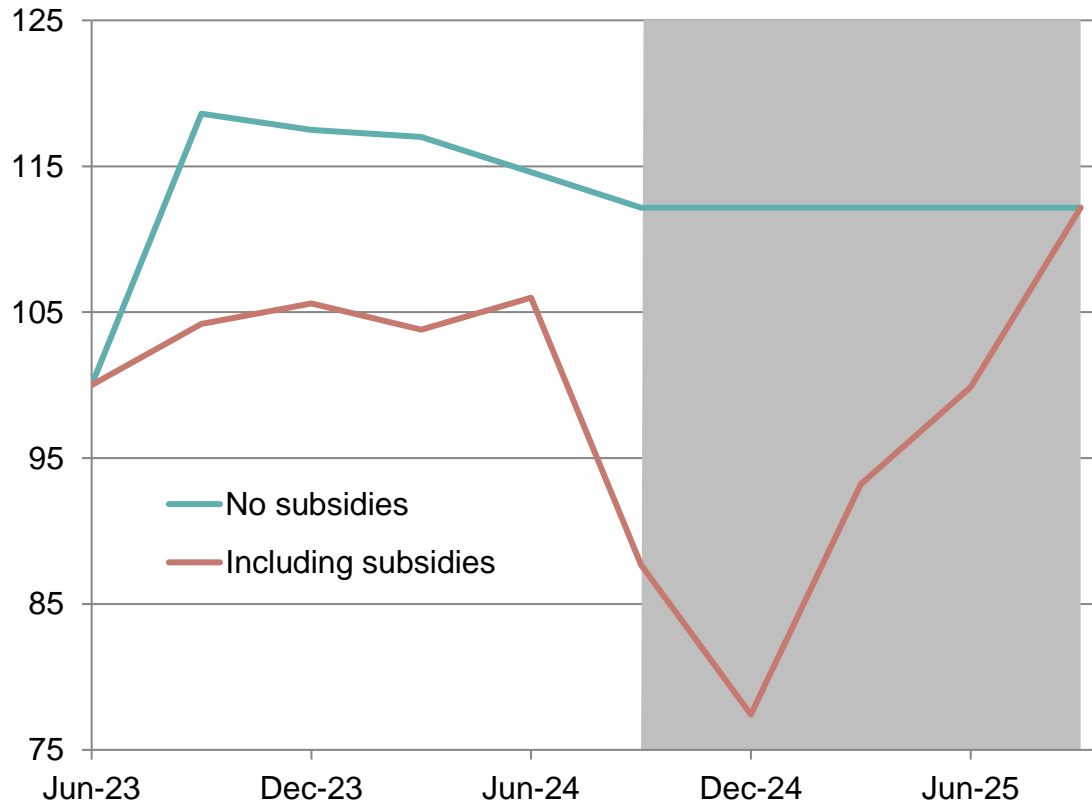
Source: ABS, QIC

Electricity prices have fallen due to Federal and State government subsidies

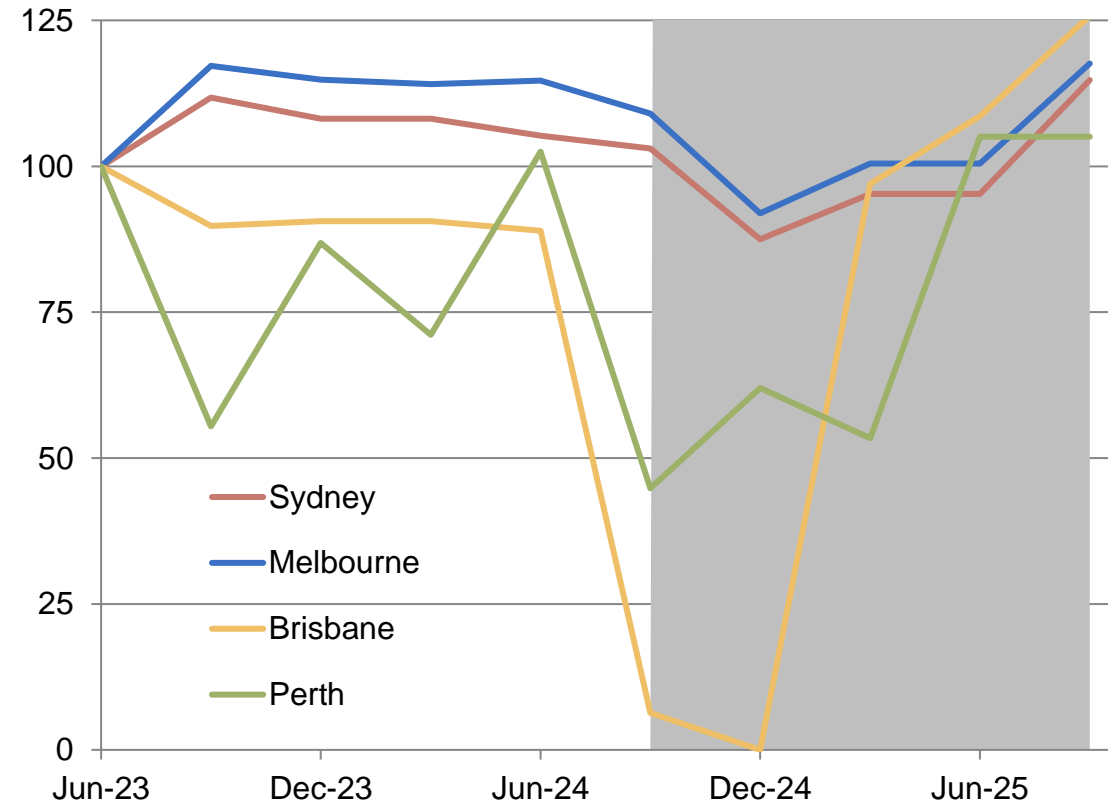
Electricity prices will be suppressed by subsidies for the next year

Significant falls in H2'2024 are driven by additional subsidies in Qld and WA

Australia - Electricity price index (Index, Jun-23 = 100)



Australia - Electricity price index (Index, Jun-23 = 100)



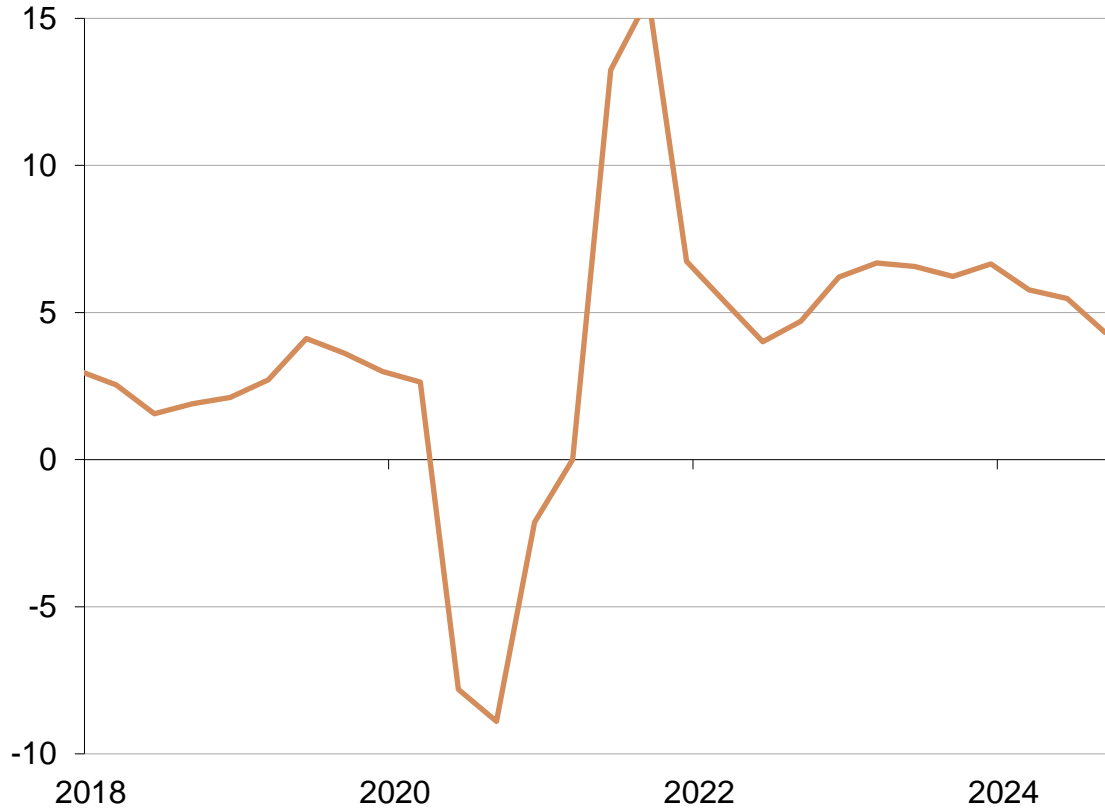
Source: ABS, QIC
 Note: Grey shading denotes QIC forecasts

Slower growth in unit labour costs will reduce pressure on services inflation

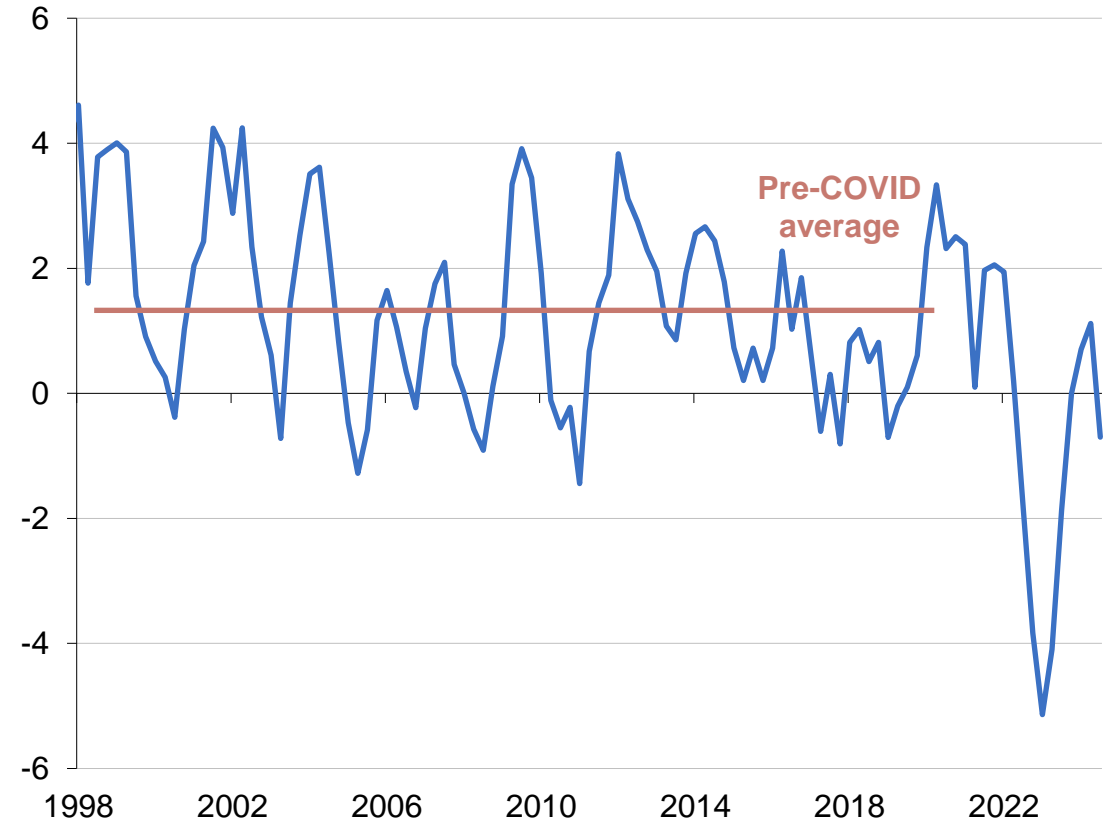
After remaining uncomfortably elevated, unit labour costs have finally started to show signs of easing

Productivity has been weak as the post-COVID recovery drove a shift into the services sector

Australia - Nominal unit labour costs (% y/y)



Australia - GDP per hour worked (% y/y)



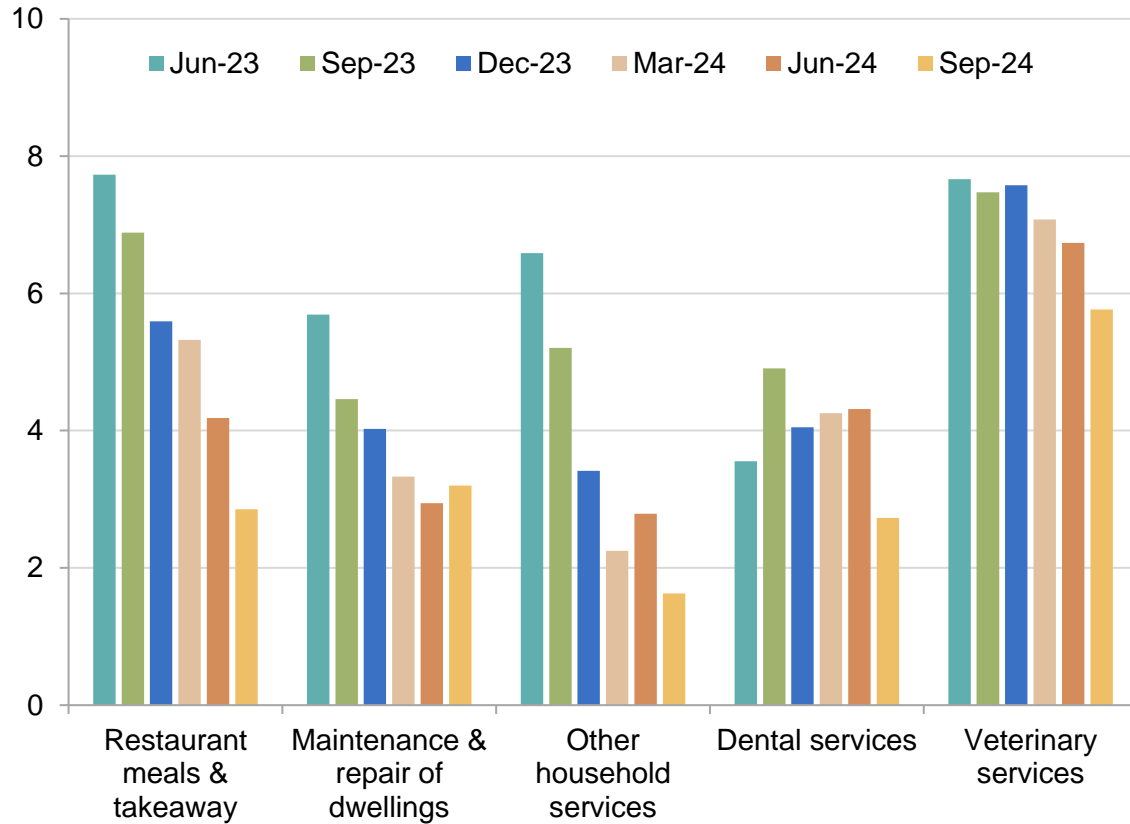
Source: ABS, QIC

There are divergences across service sector inflation, with progress in some areas but not others

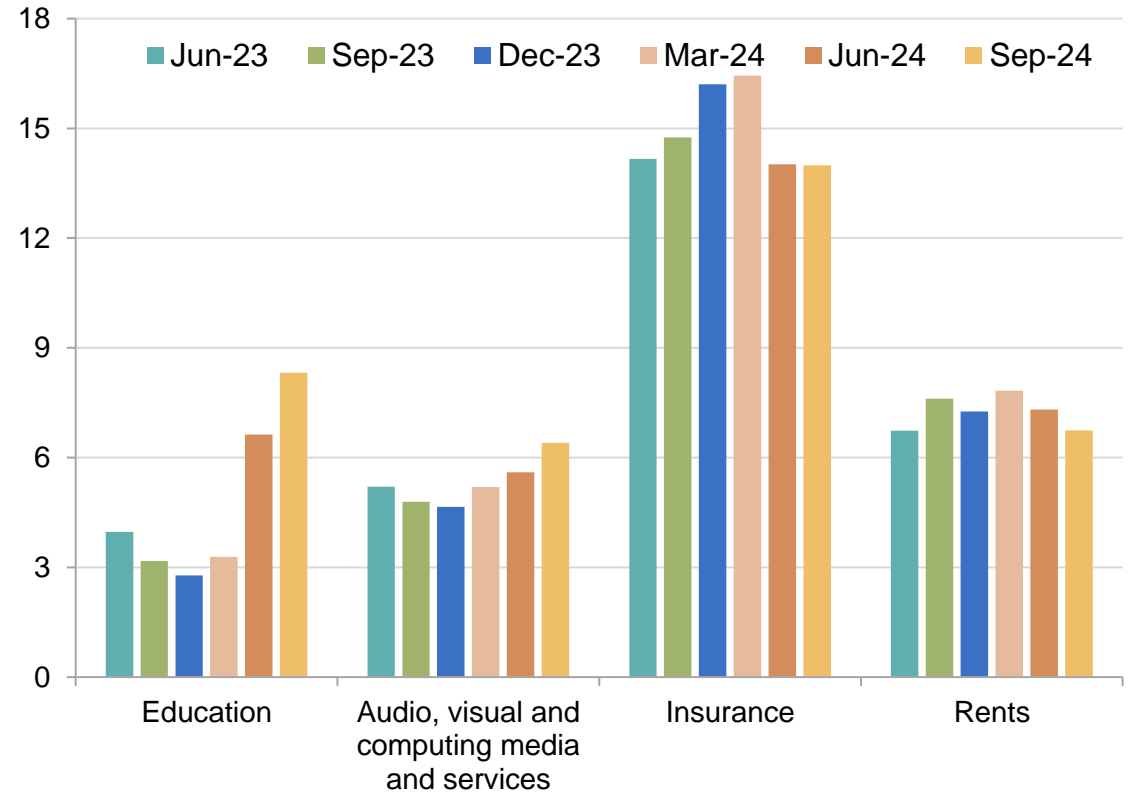
Inflation is easing as growth in unit labour costs slow

But some areas are still sticky

Australia - Selected CPI services (% y/y)



Australia - Selected CPI services (% y/y)



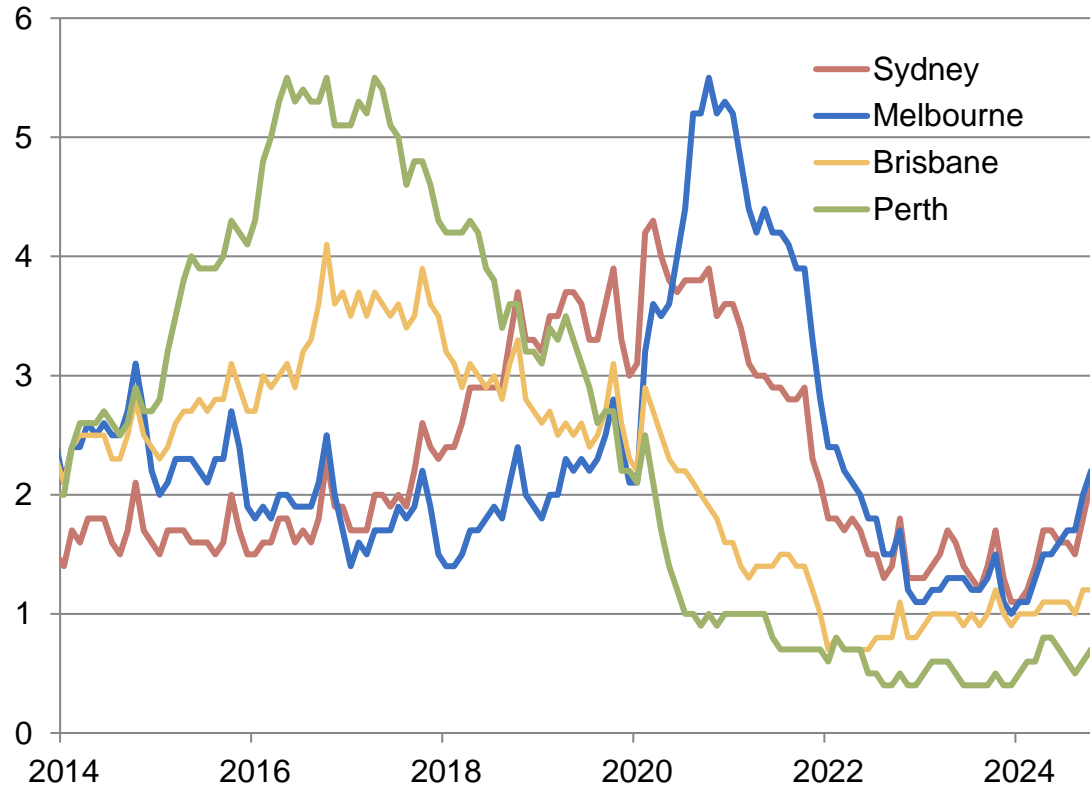
Source: ABS, QIC

The housing market is tight, but vacancies are off their lows & rental inflation has peaked

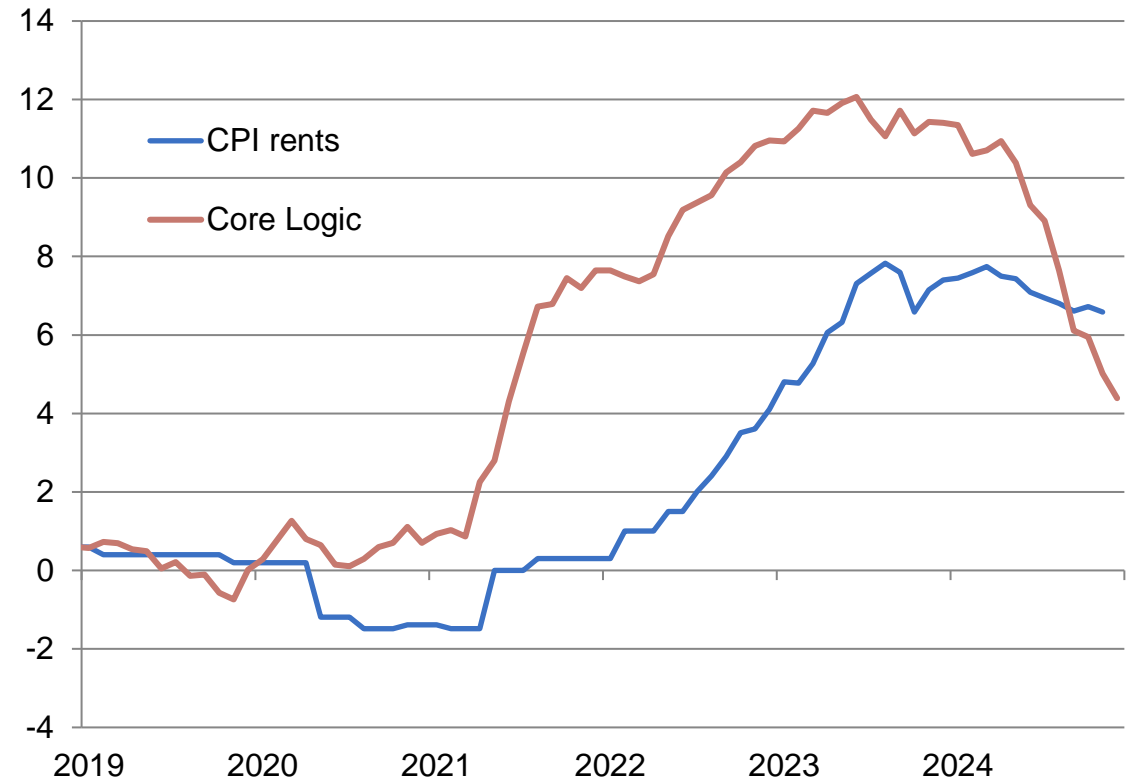
Vacancy rates have eased in Sydney and Melbourne

Rental growth has clearly peaked but remains elevated

Australia - Capital city vacancy rate (%)



Australia - Capital city rent growth (% y/y)



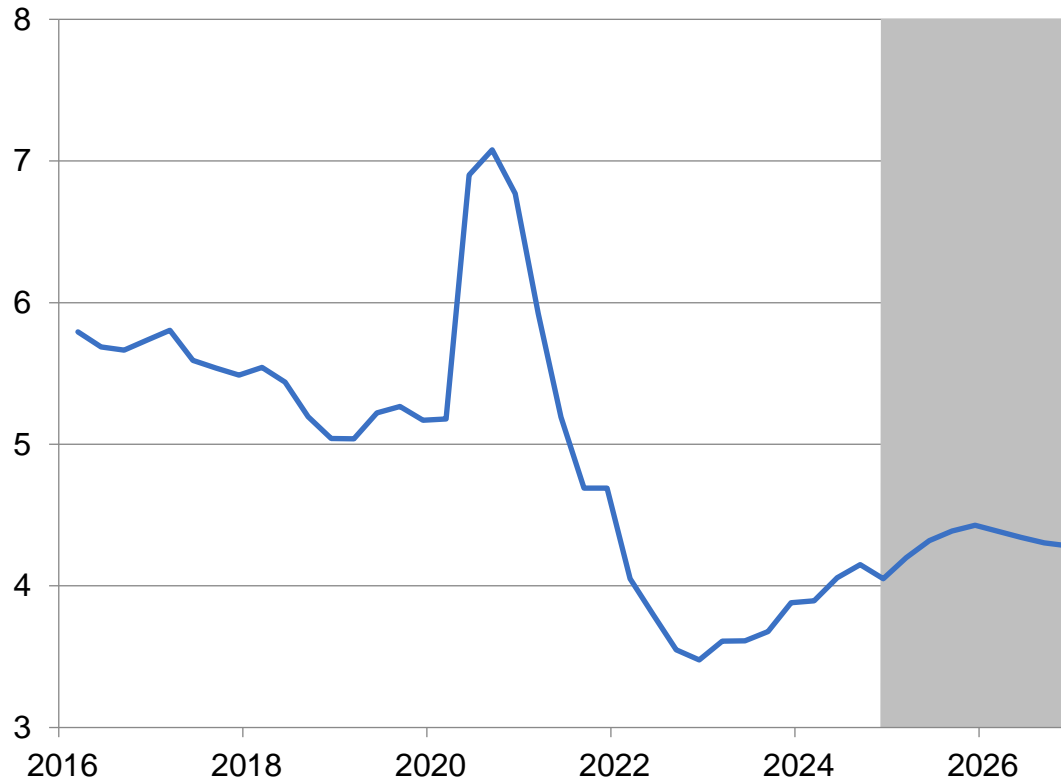
Source: SQM Research, Core Logic, ABS, QIC

The underlying inflation outlook is improving as wage growth slows

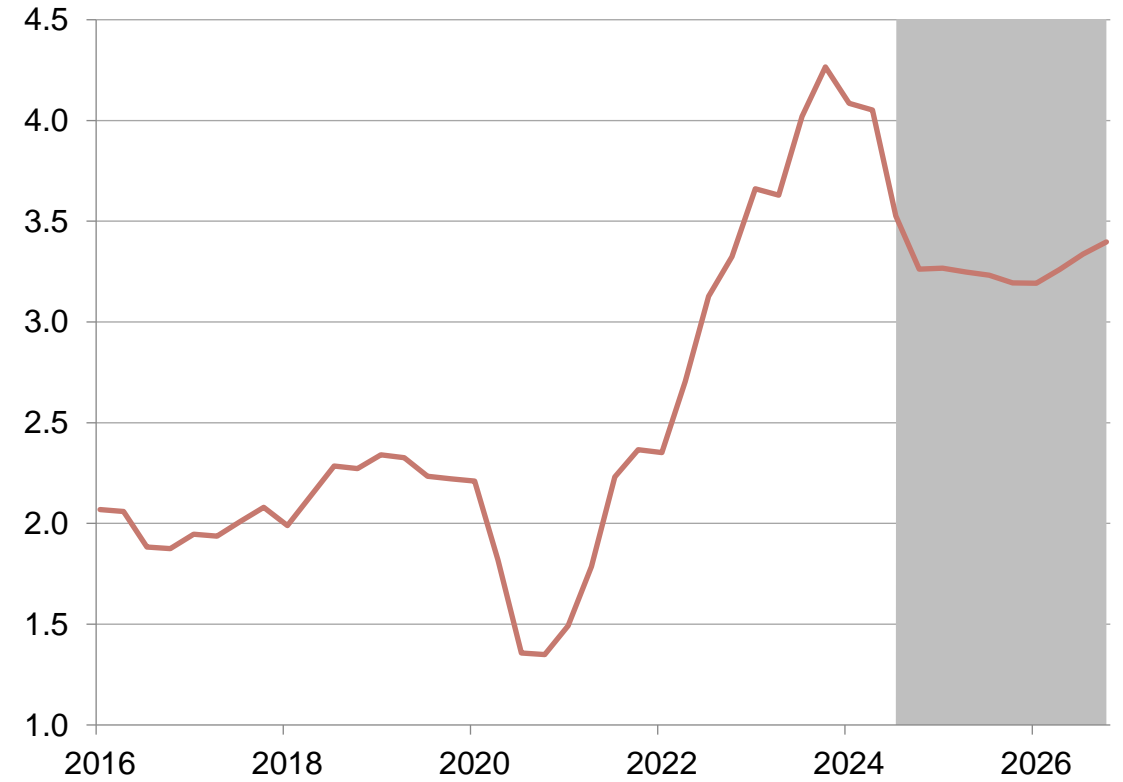
Capacity constraints in the labour market should continue to ease as the unemployment rate rises

And wage growth will slow more meaningfully

Australia - Unemployment rate (%)



Australia - Wage price index (quarterly, % y/y)



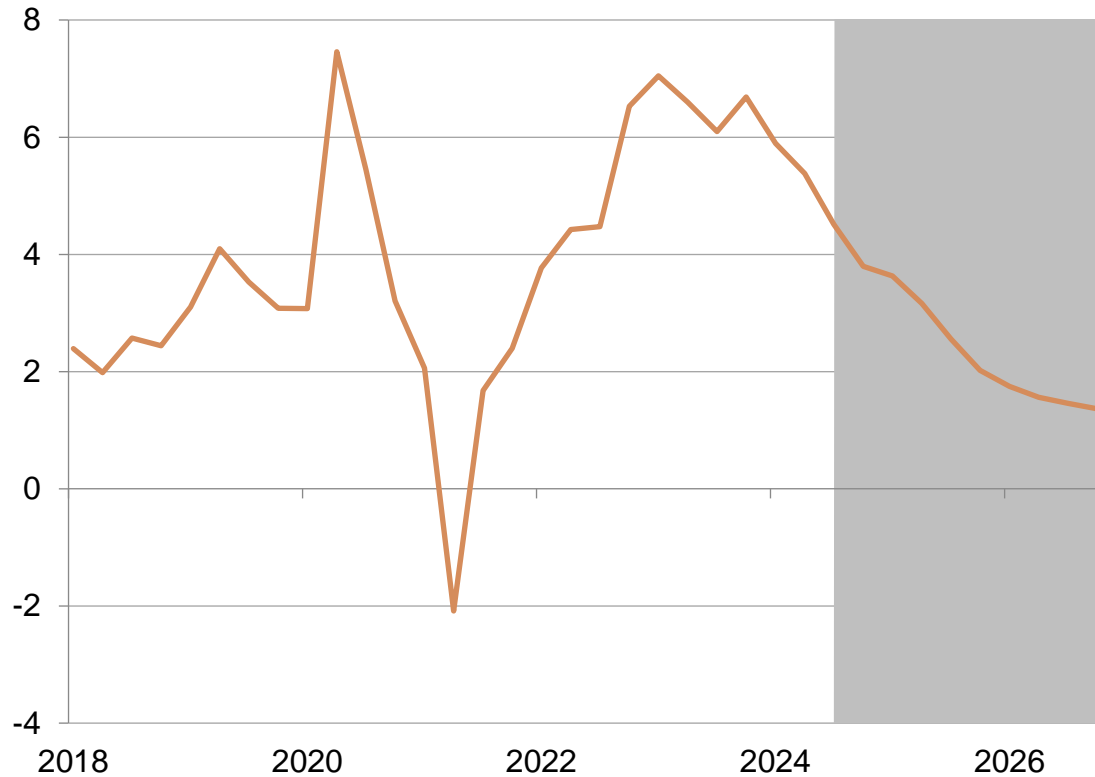
Source: ABS, QIC
 Note: Grey shading denotes QIC forecasts

Slower wage growth reduces unit labour cost inflation

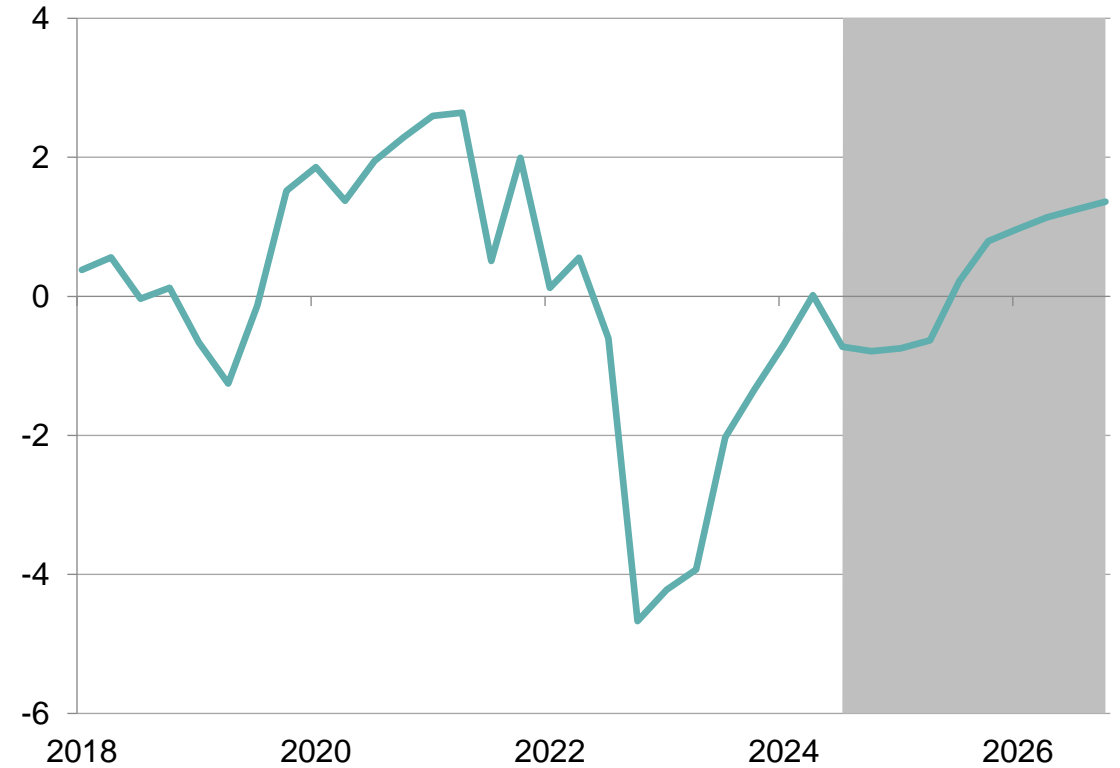
Unit labour costs will slow to a rate consistent with the inflation target over the coming year

We are expecting a modest improvement in the productivity growth trend

Australia - Trend nominal unit labour costs (% y/y)



Australia - Trend productivity growth (% y/y)



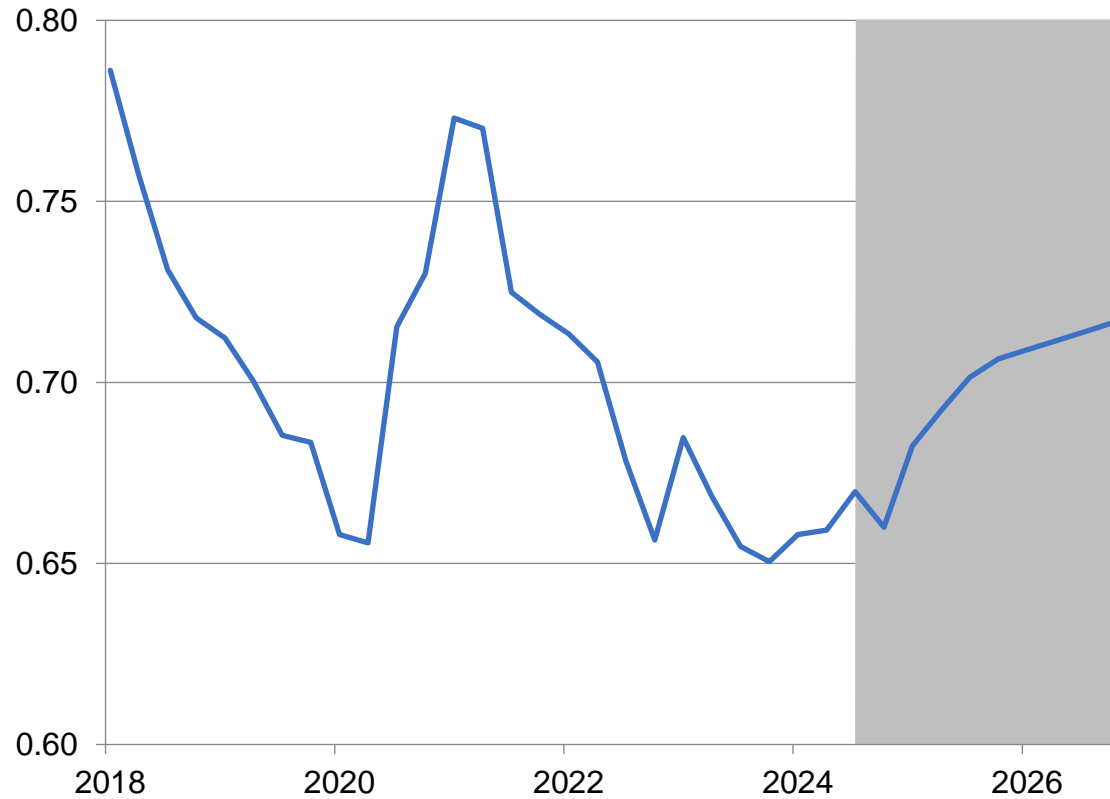
Source: ABS, QIC
 Note: Grey shading denotes QIC forecasts

Imported inflation should also ease over the coming year

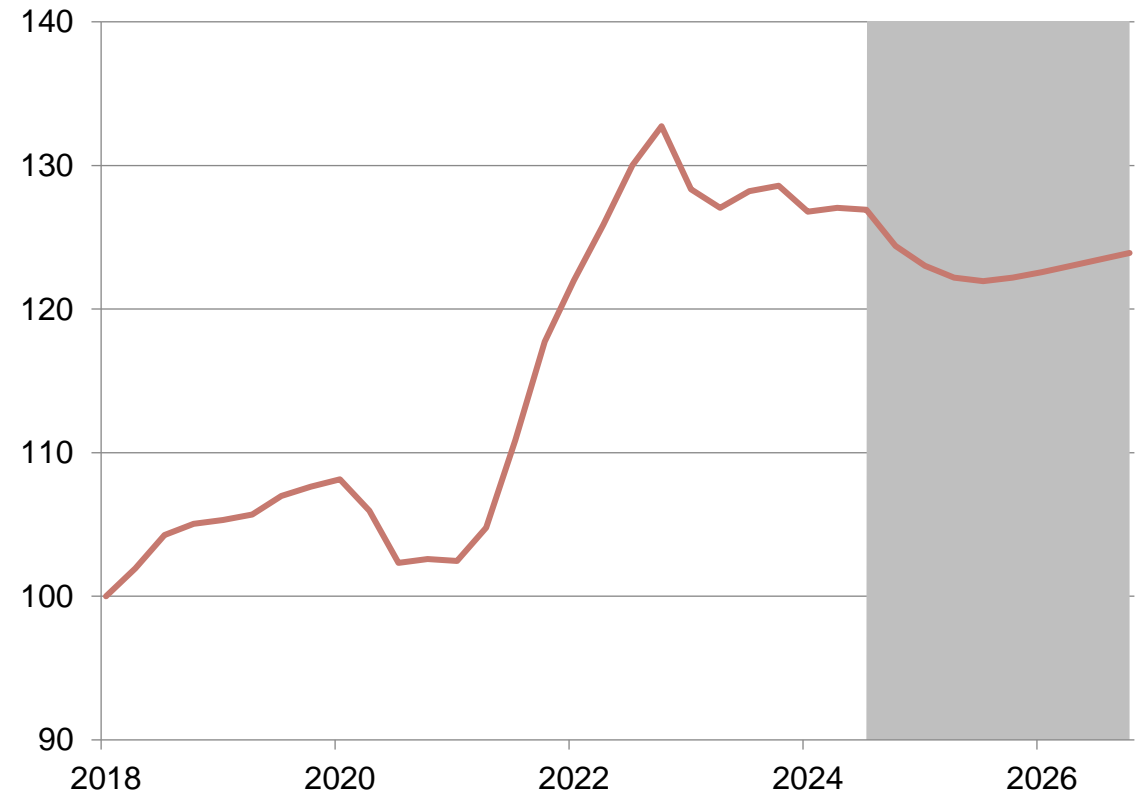
Interest rate differentials and valuations support an appreciation of the Australian dollar

Slower global inflation and a stronger \$A puts downward pressure on import prices

Australia - Exchange Rate (USD per AUD)



Australia - Import Price Index (2018Q1 = 100)

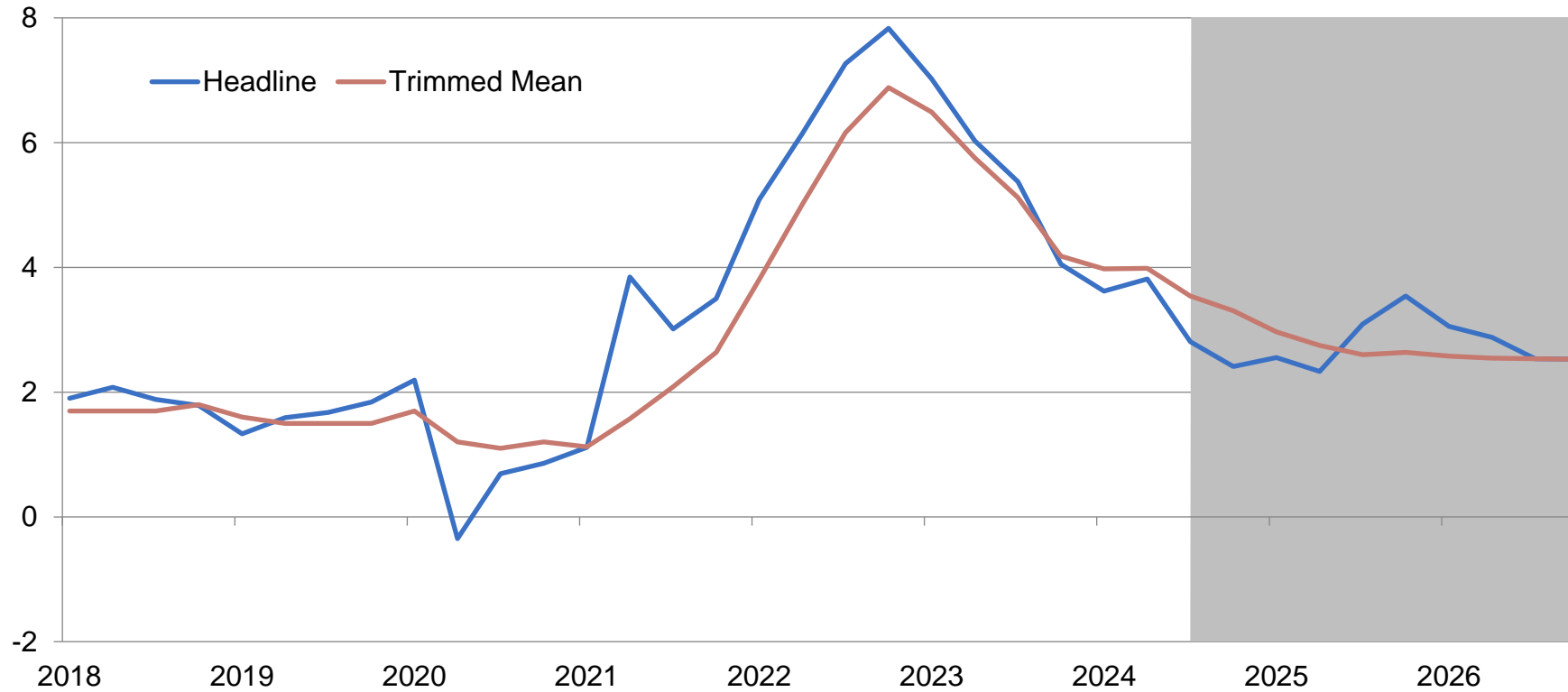


Source: ABS, Refinitiv, QIC
 Note: Grey shading denotes QIC forecasts

Core inflation is expected to move into the RBA target band by mid'25

Headline inflation is lower in the near term but higher when subsidies expire in H2'25

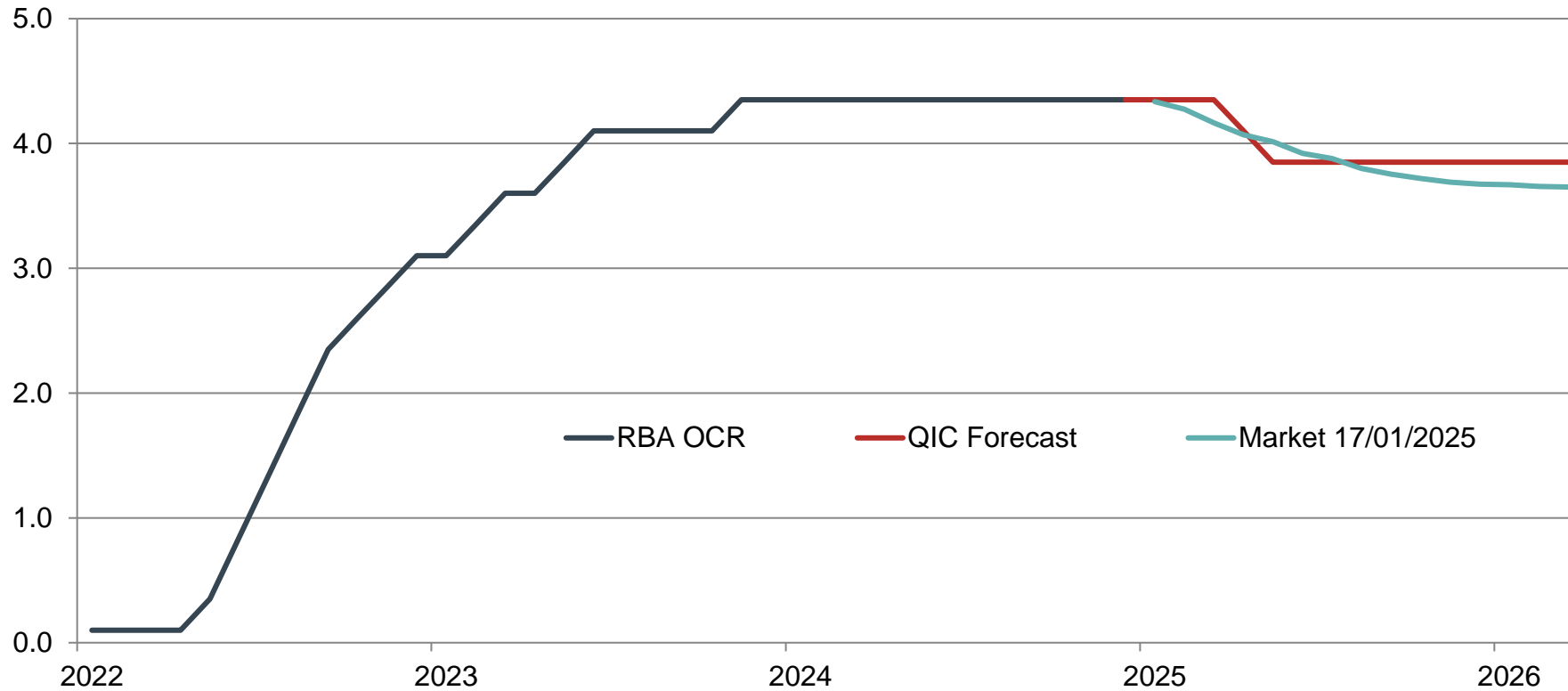
Australia - CPI Inflation (% y/y)



Source: ABS, QIC
 Note: Grey shading represents QIC forecasts

Monetary policy easing is on the cards in 2025, but the easing cycle will only be shallow
 Rates will be cut toward neutral as inflation slows toward target and growth recovers toward trend

Australia - RBA official cash rate (%)



Source: Refinitiv, Bloomberg, QIC
 Note: Red line represents QIC forecasts

Summary of Australian Outlook



GROWTH

- The Australian economy has been weak, growing well below trend in 2024
- Consumers cut back spending as they faced intense budgetary pressures, with per person real disposable incomes falling by over 10%; double the rate of the 1990/91 recession
- But we are now likely past the trough
- The economy will pick up gradually over 2025, with the recovery gaining traction to around a trend pace by 2026
- Solid population growth, income tax cuts and cost-of-living relief will support the economic recovery



INFLATION

- Inflation has slowed significantly since its peak in 2022
- Underlying inflation remains above the RBA's target band, but is slowing, assisted by slower growth in wages and input costs
- By the middle of 2025, underlying inflation should ease back within the RBA's target range, though it will take longer to reach the midpoint of the target band



MONETARY POLICY

- Despite the weak economy, the RBA held the cash rate at 4.35% as inflation remained elevated
- The fall in inflation will allow the RBA to deliver two 25bps rate cuts in the first half of 2025
- The easing cycle in Australia will be modest compared to developed market economies

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