

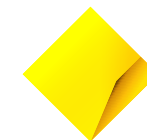
2023 outlook

Global Economic & Markets Research

Belinda Allen– Senior Economist

ballen@cba.com.au

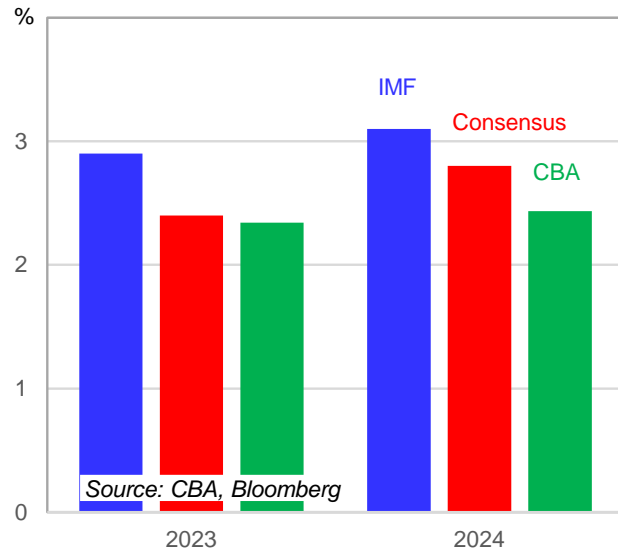
June 2023



**Commonwealth Bank
of Australia**

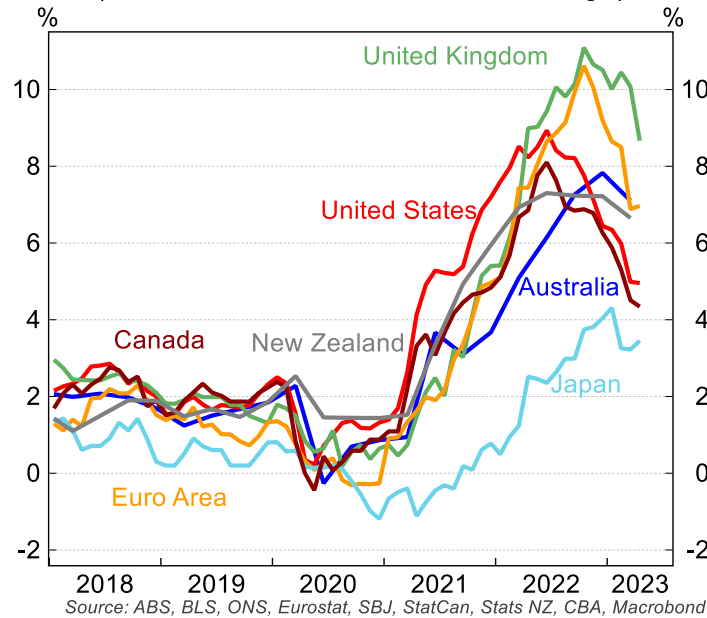
Global economic slowdown in 2023 as rate hikes bite

WORLD ECONOMIC GROWTH
(annual % change)

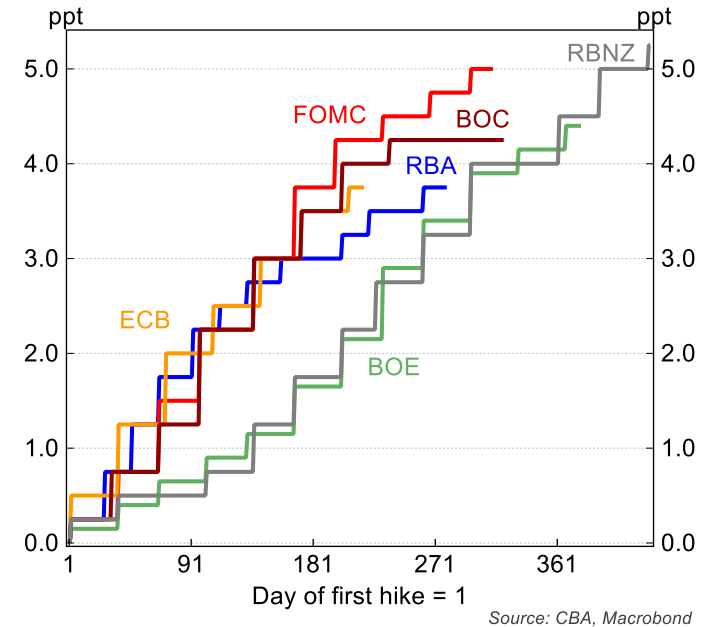


INFLATION

(selected economies, annual % change)

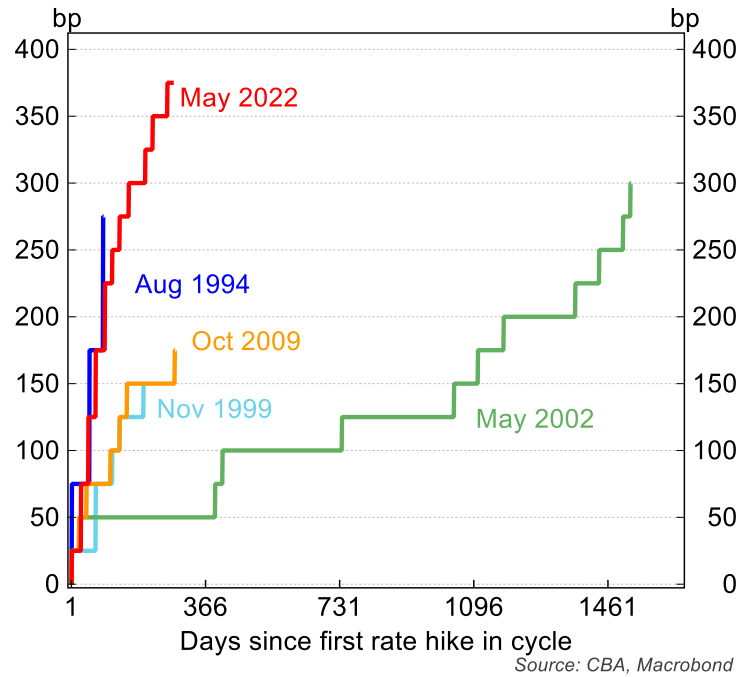


MONETARY POLICY TIGHTENING

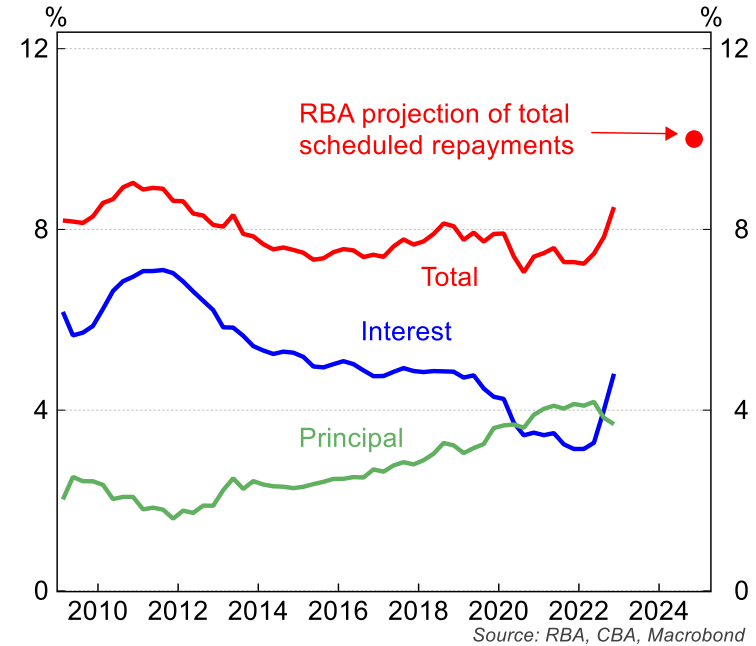


Rate hikes have been material

RBA RATE HIKE CYCLES

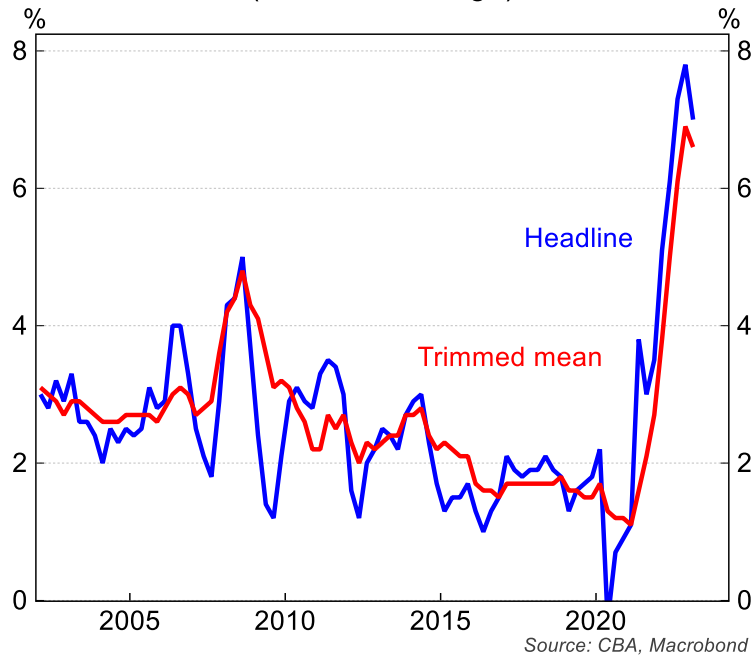


HOUSING DEBT-SERVICING COSTS (share of household disposable income)

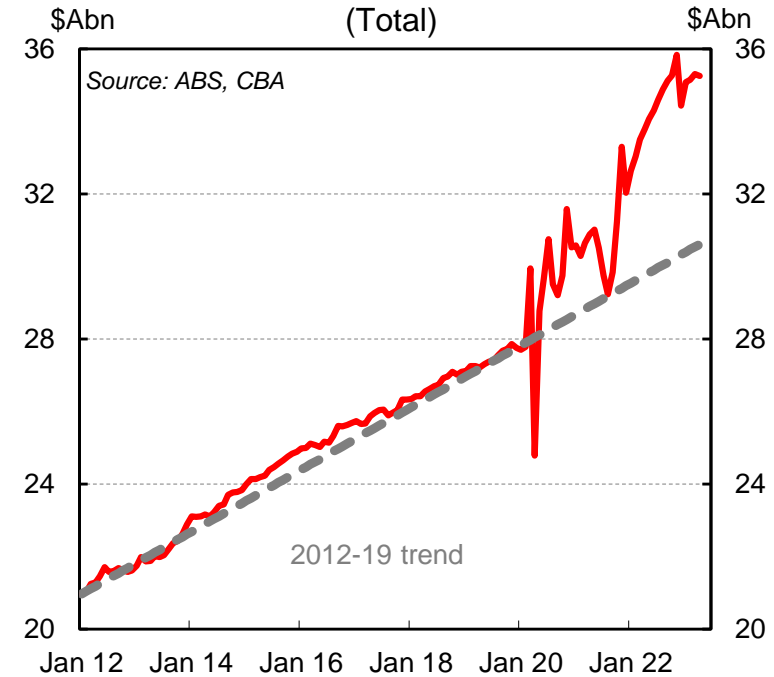


Rate hikes have been material due to...

CONSUMER PRICE INDEX (annual % change)

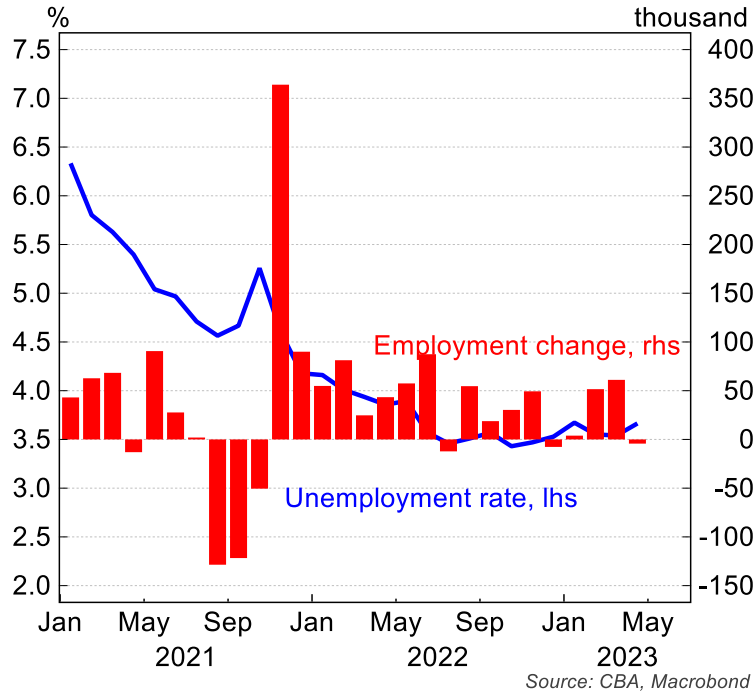


RETAIL TRADE (Total)



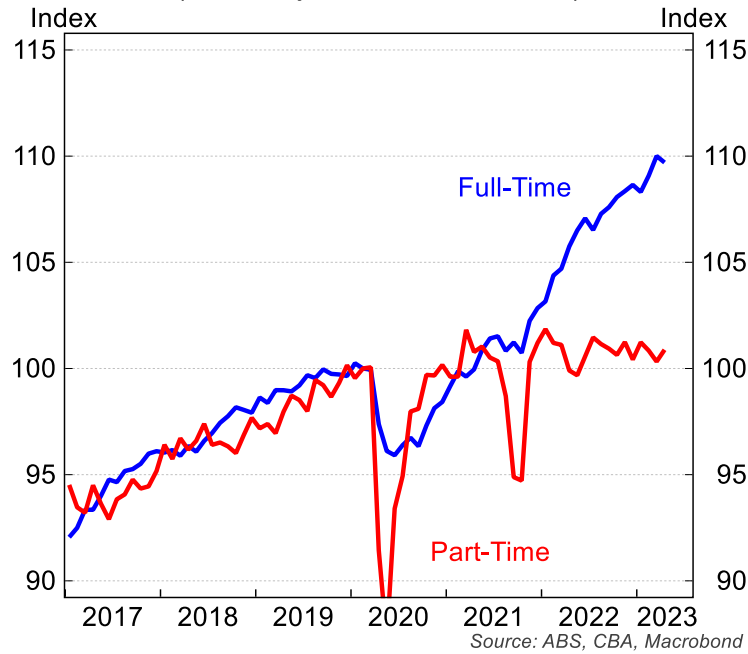
RBA is watching the labour market data

LABOUR FORCE

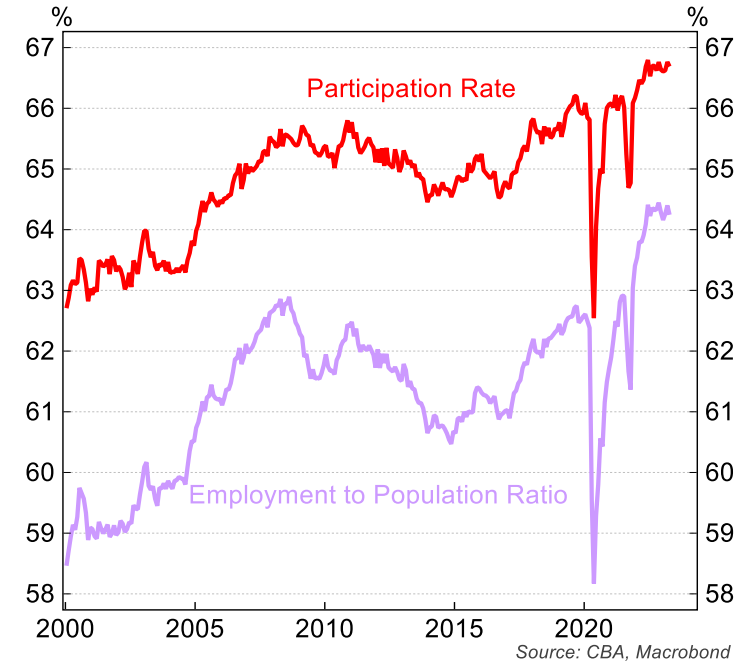


EMPLOYMENT

(February 2020 = 100, index)

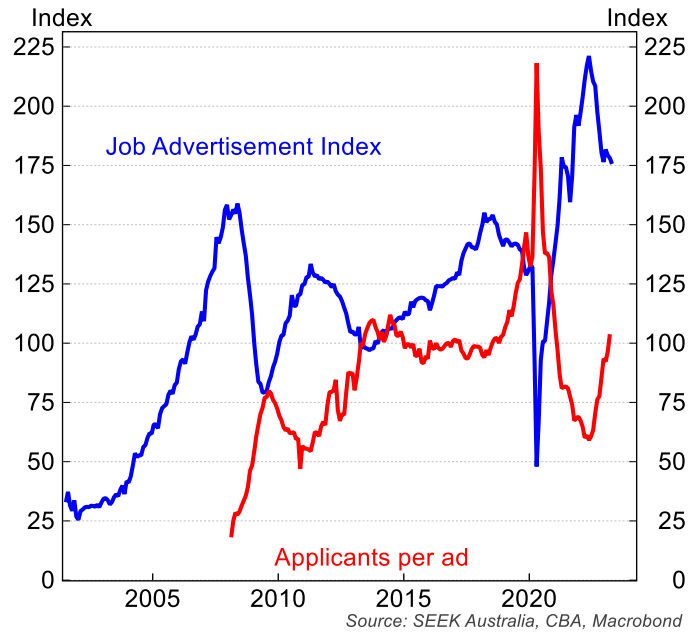


AUSTRALIAN LABOUR FORCE

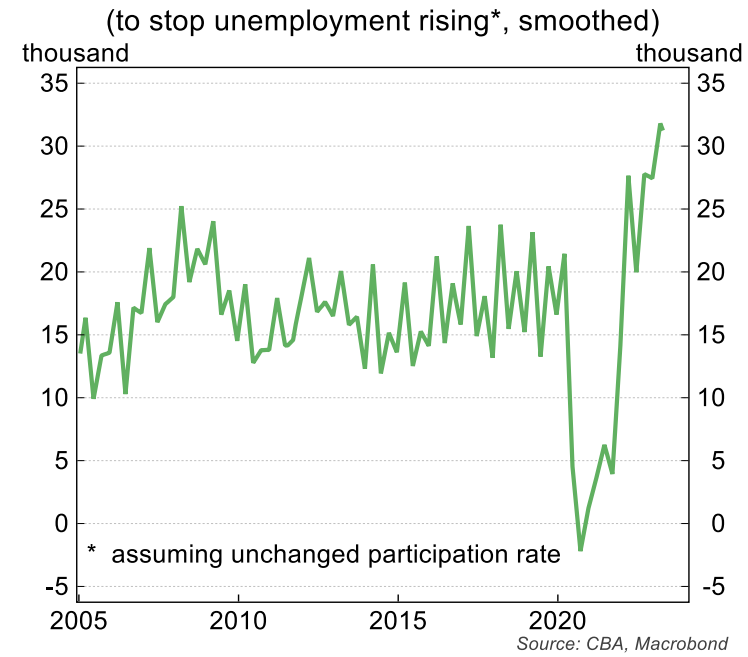


RBA is watching the labour market data

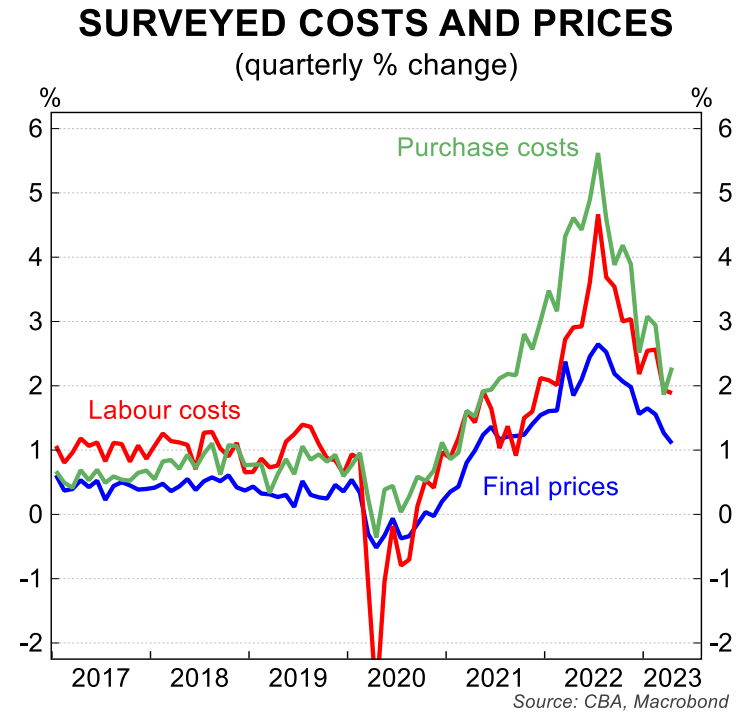
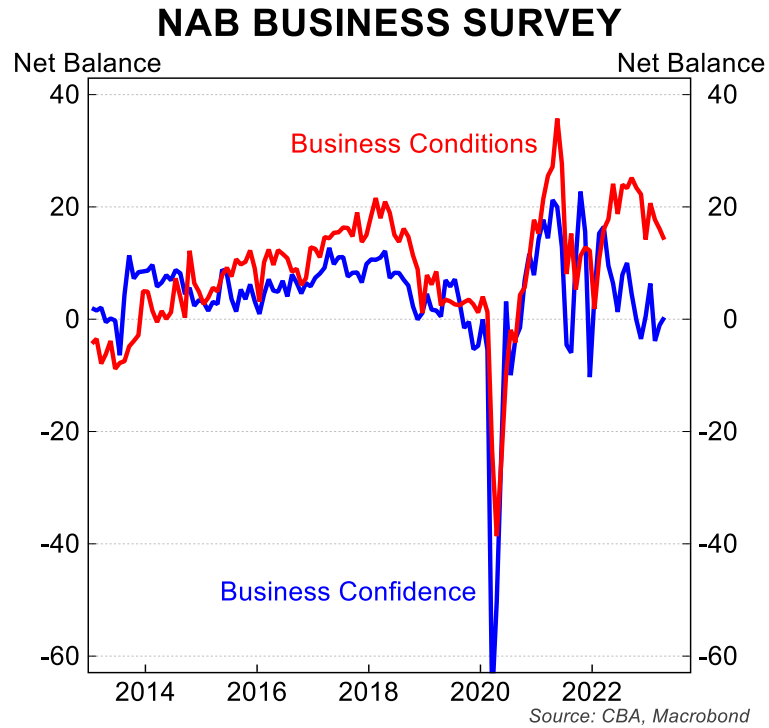
LABOUR DEMAND



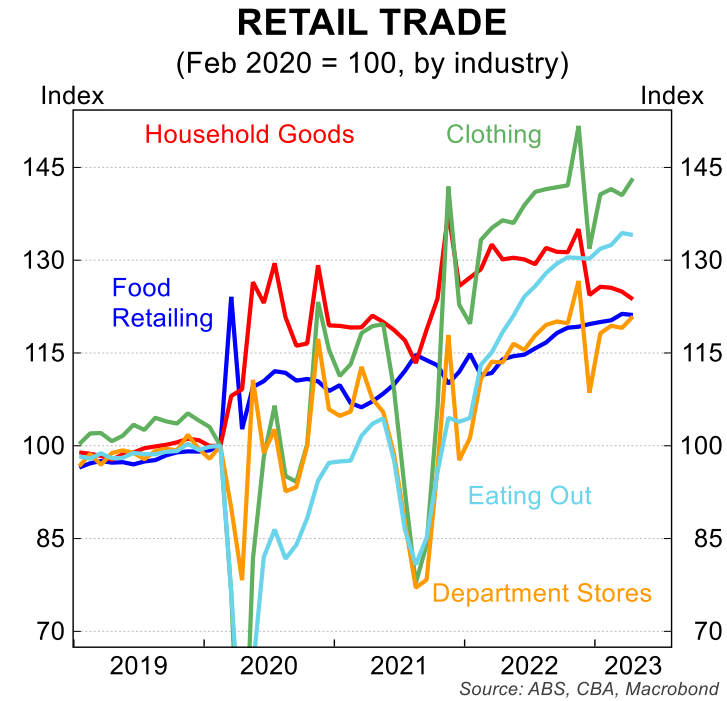
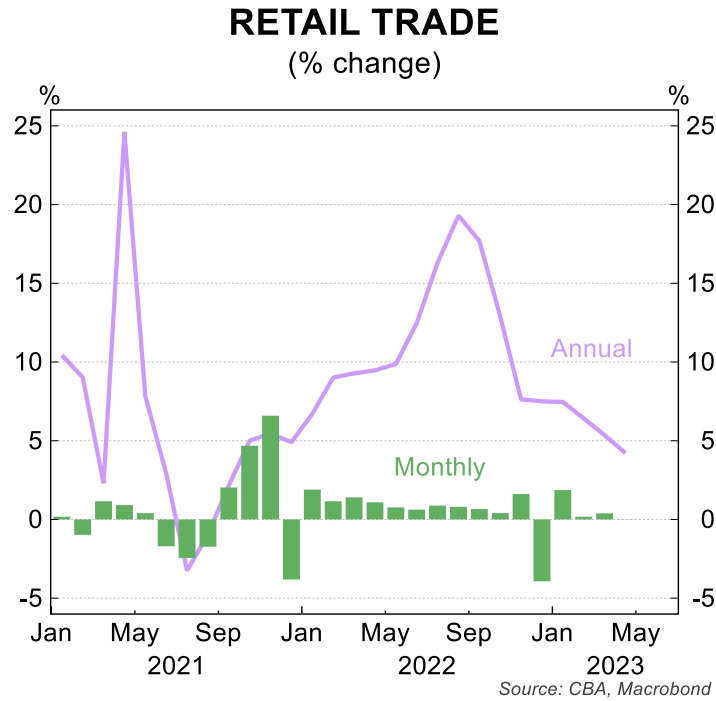
REQUIRED JOBS GROWTH



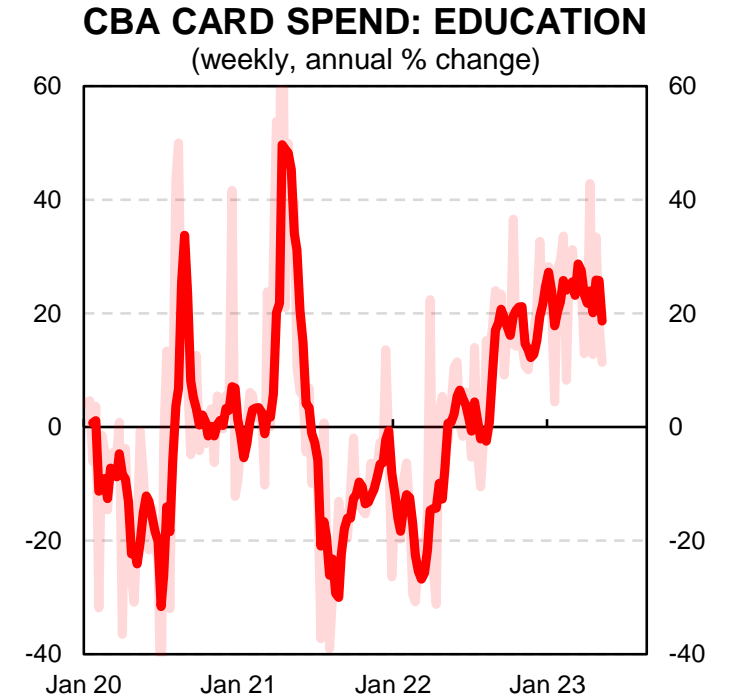
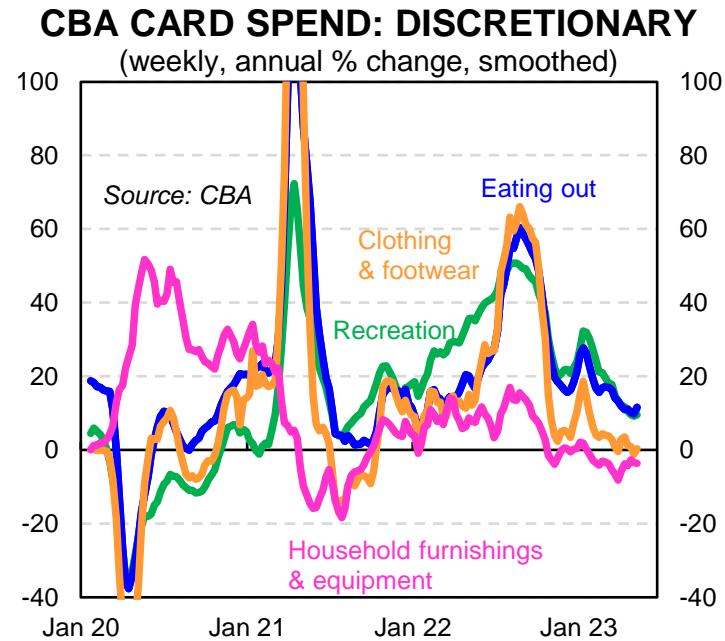
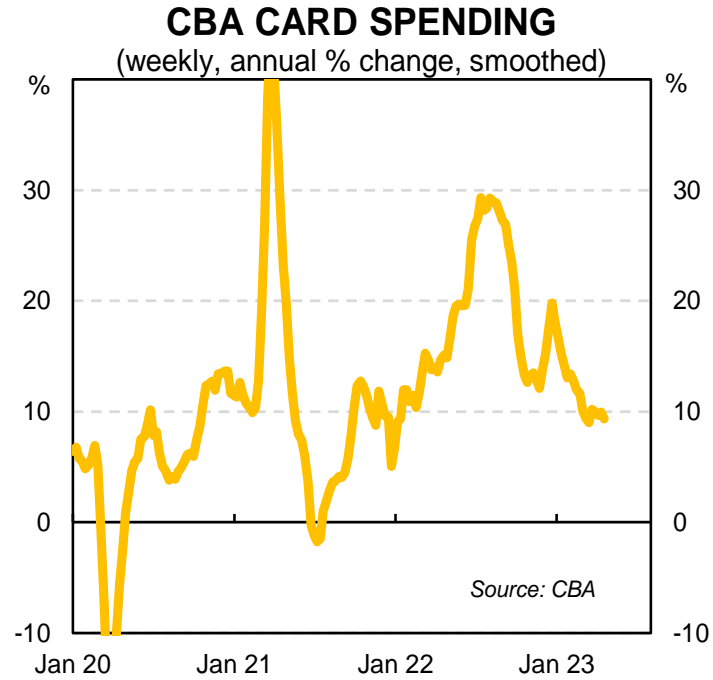
RBA watching the business data closely



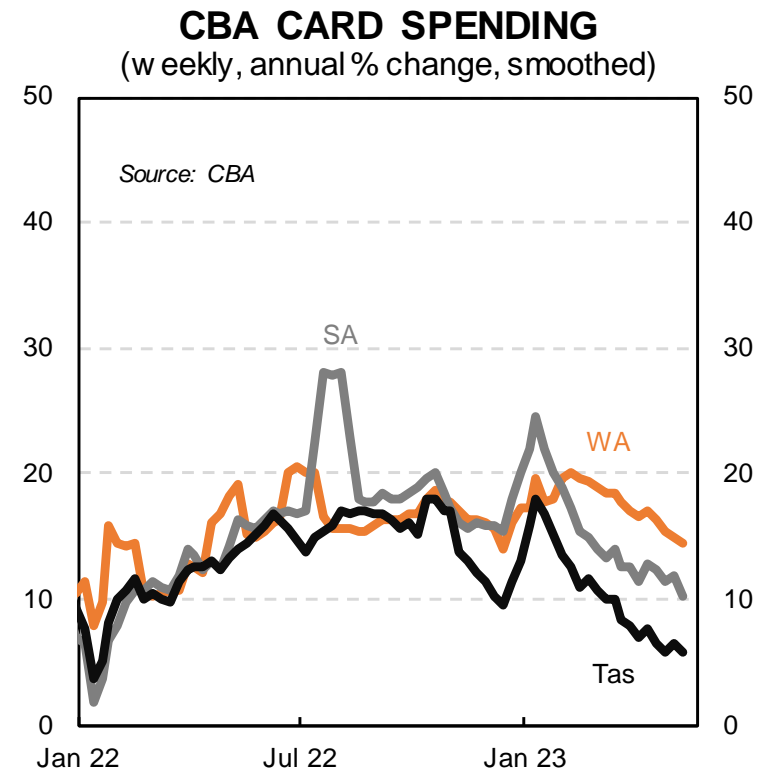
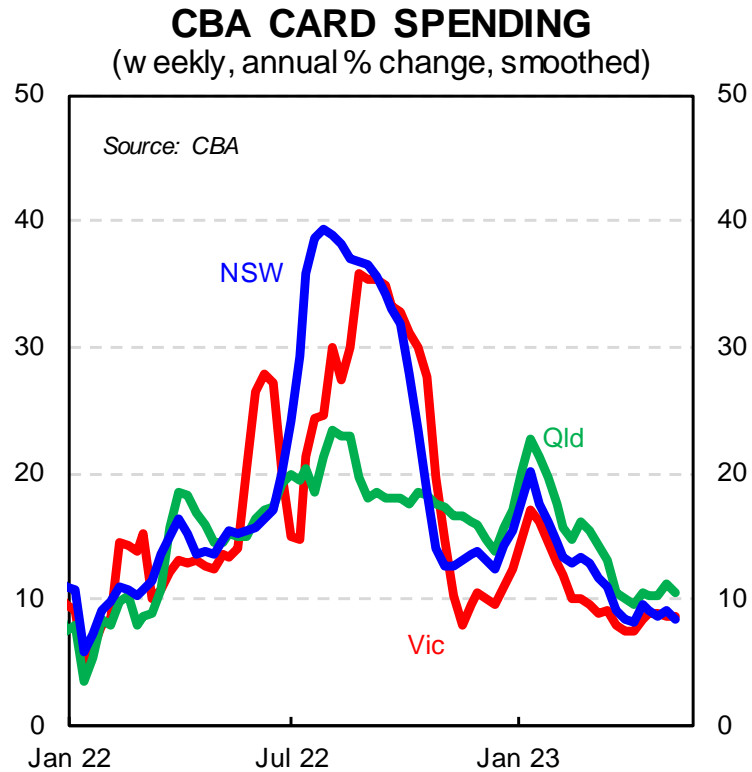
RBA watching the consumer data closely



RBA watching the consumer data closely

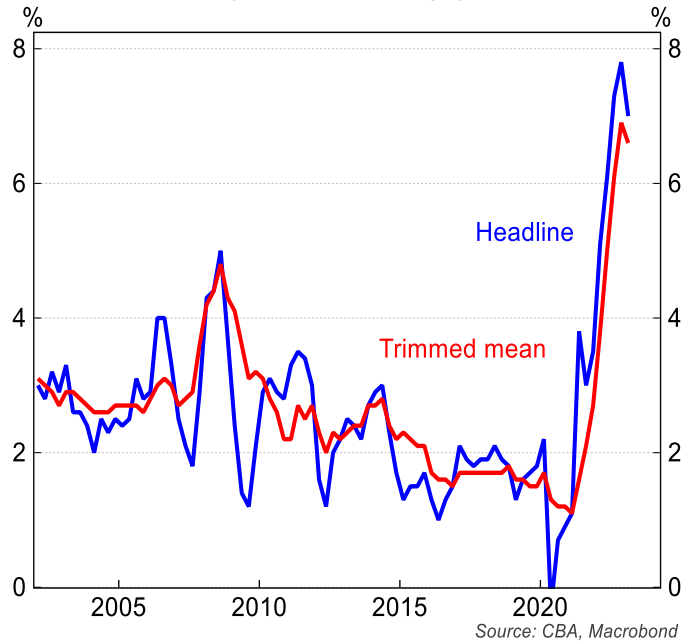


RBA watching the consumer data closely

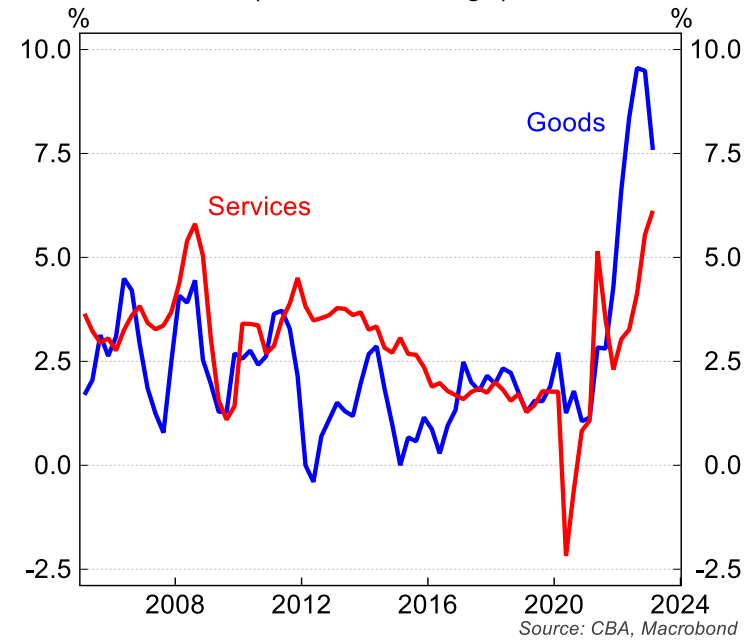


RBA watching the inflation data closely

CONSUMER PRICE INDEX (annual % change)

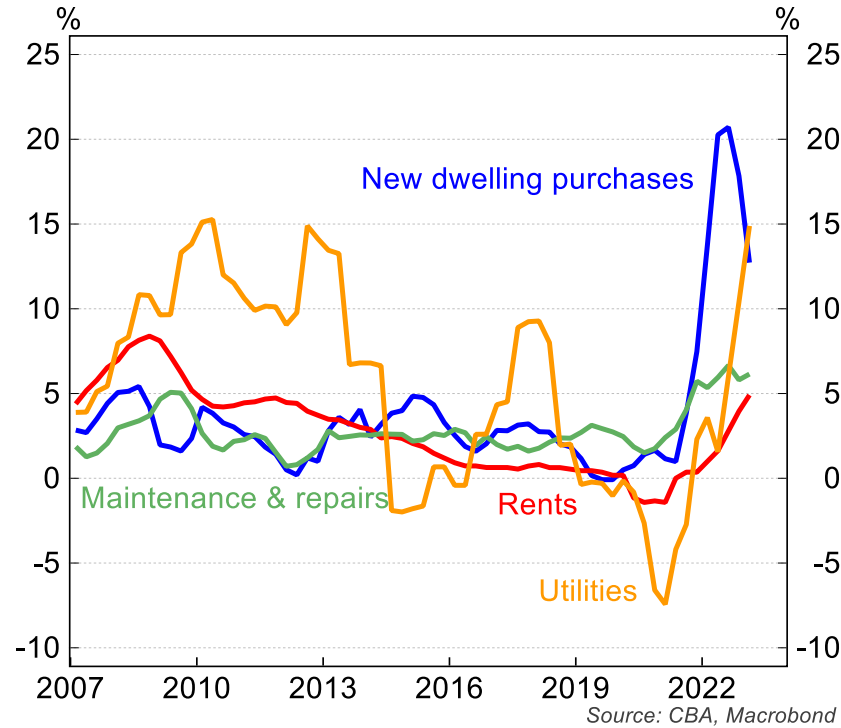


GOODS & SERVICES INFLATION (annual % change)

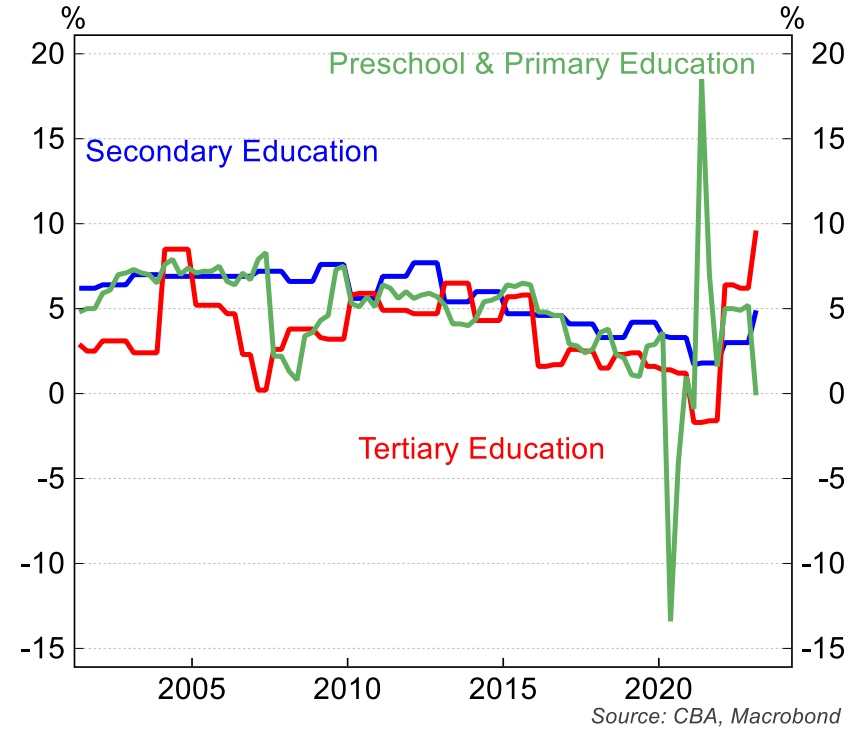


RBA watching the inflation data closely

HOUSING IN THE CPI (annual % change)

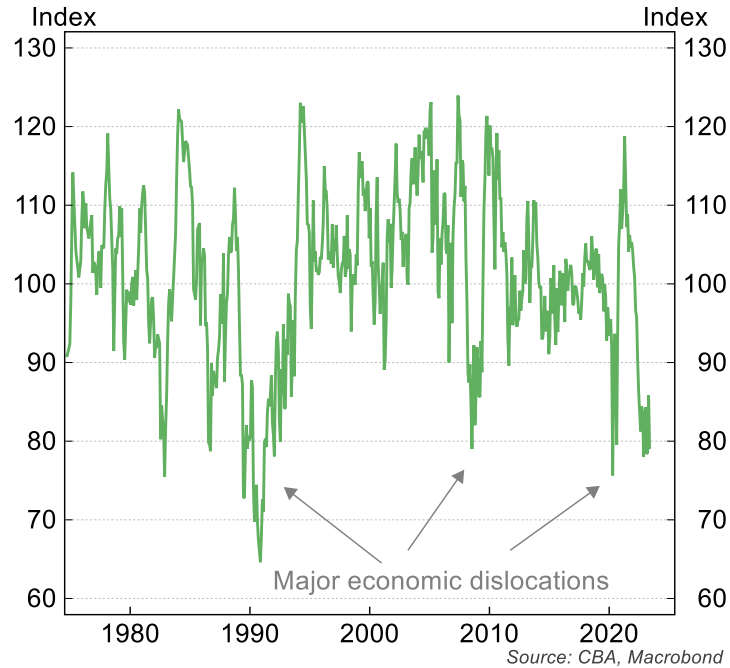


CPI Education (annual % change)



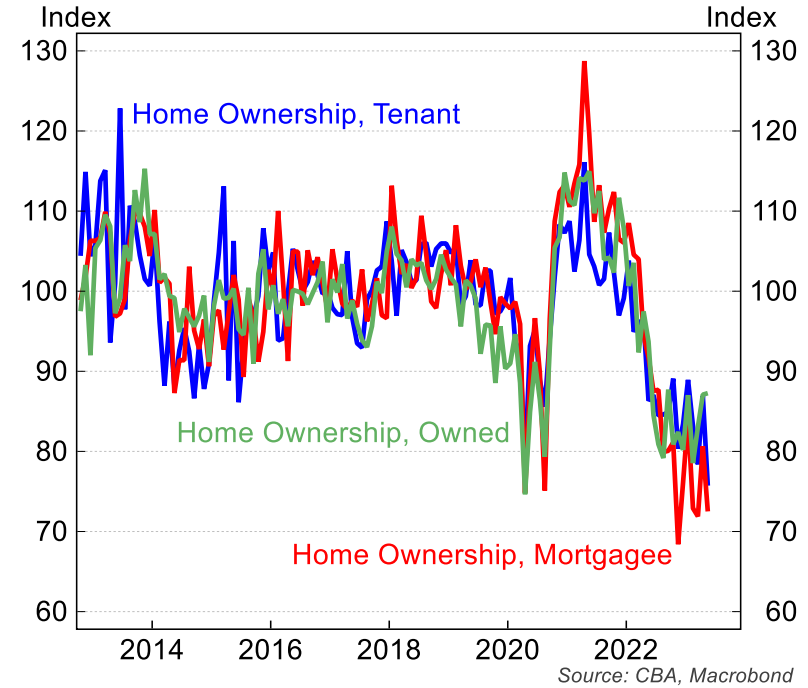
Other data is mixed

CONSUMER SENTIMENT



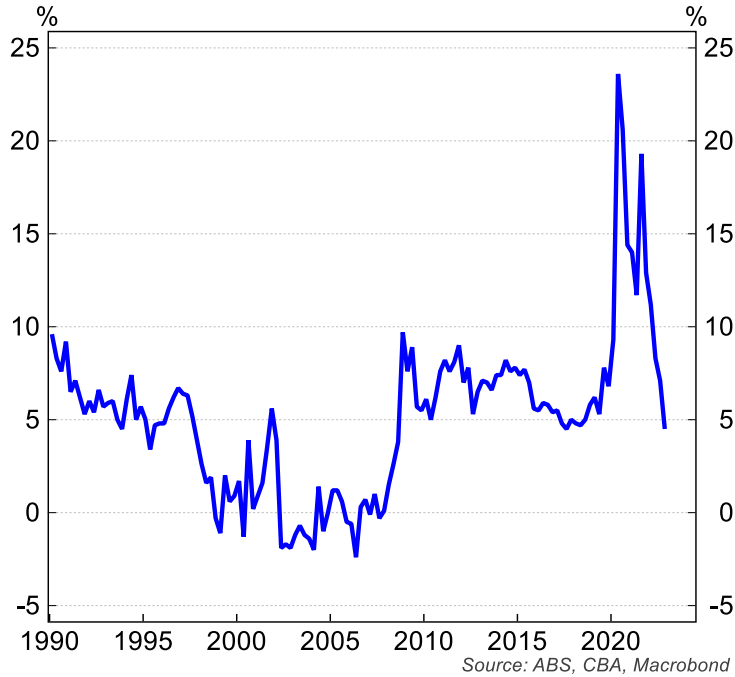
CONSUMER SENTIMENT

(by home ownership)



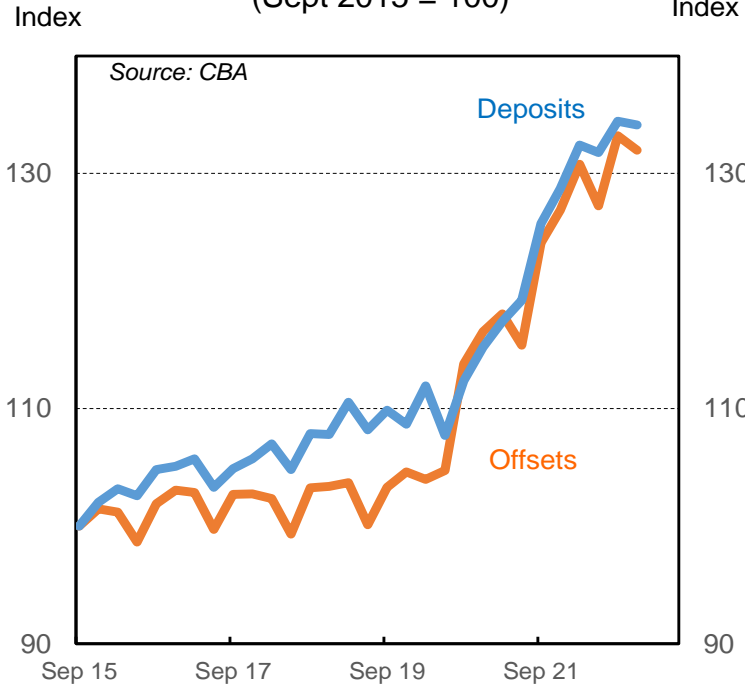
Spending helped by high savings, but rates are falling quickly

HOUSEHOLD SAVINGS RATIO



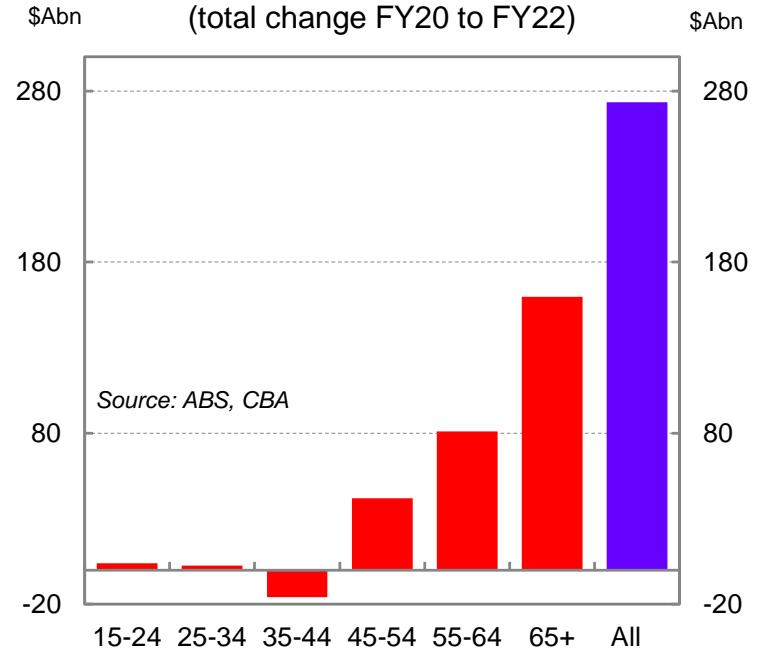
CBA: AVERAGE BALANCE

(Sept 2015 = 100)

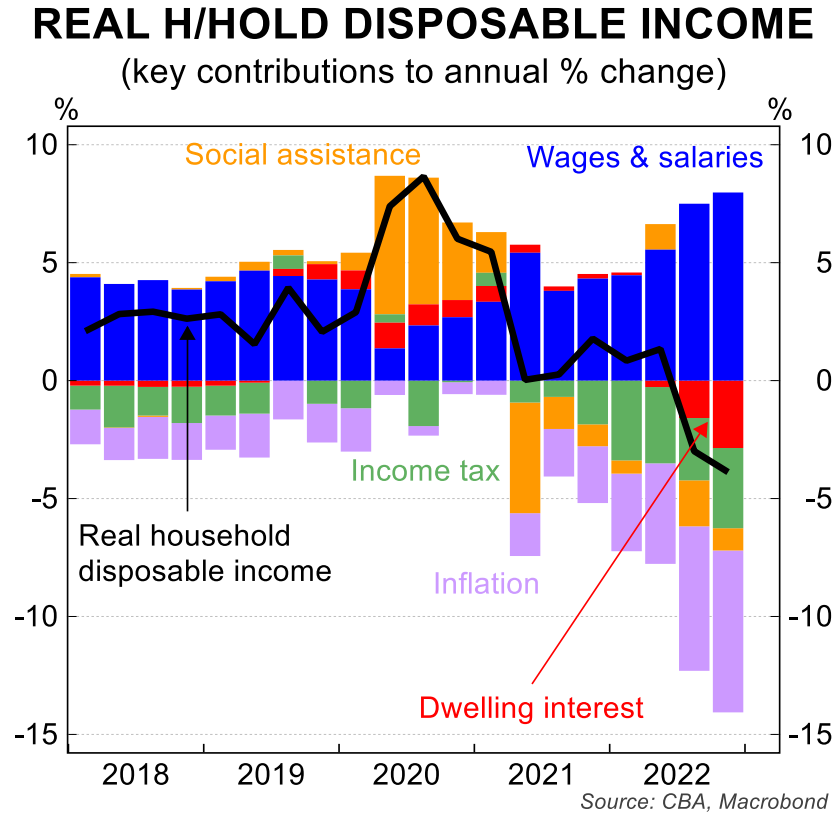
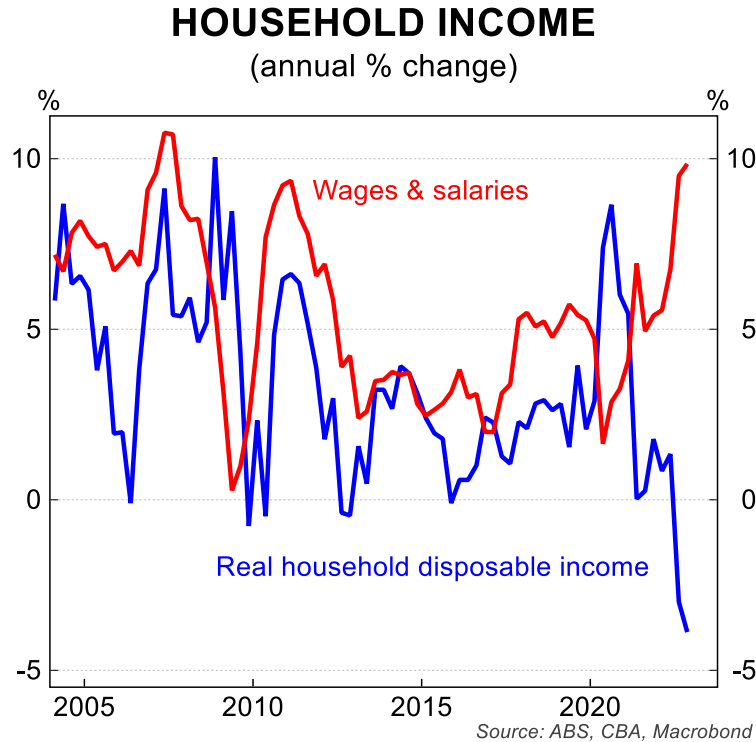


DEPOSITS

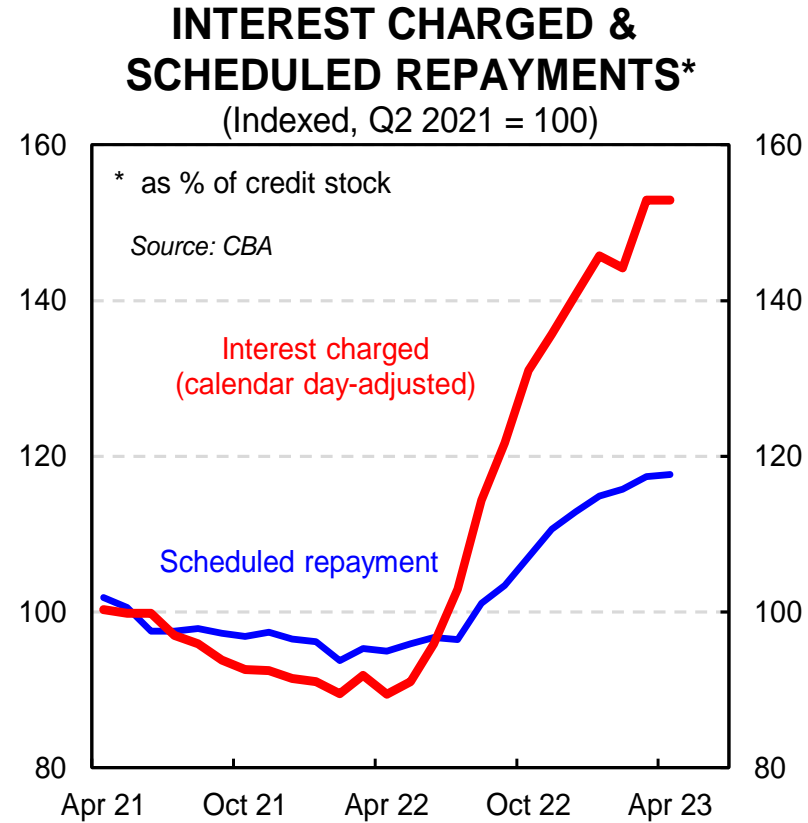
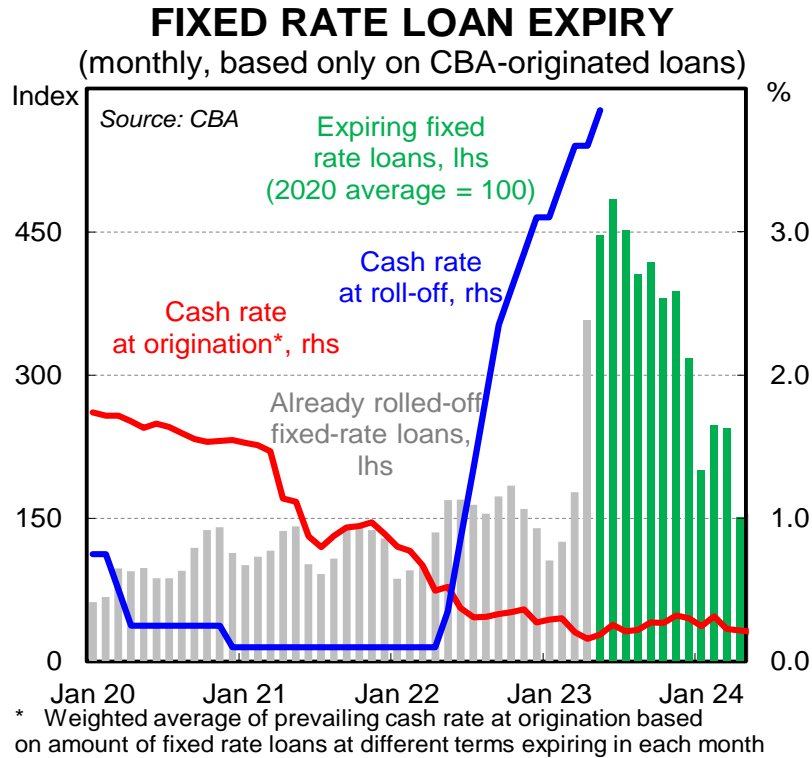
(total change FY20 to FY22)



And incomes not keeping pace with inflation, tax, interest costs

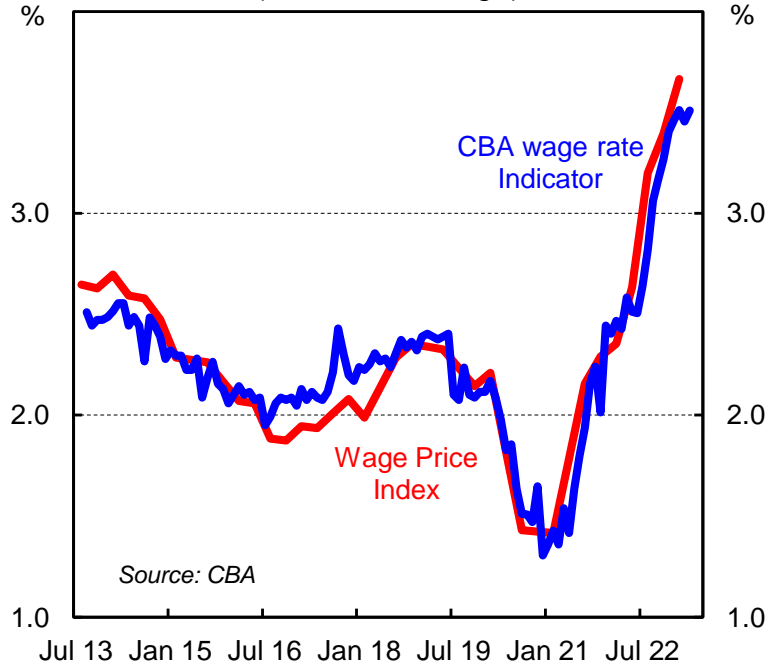


And incomes not keeping pace with inflation, tax, interest costs

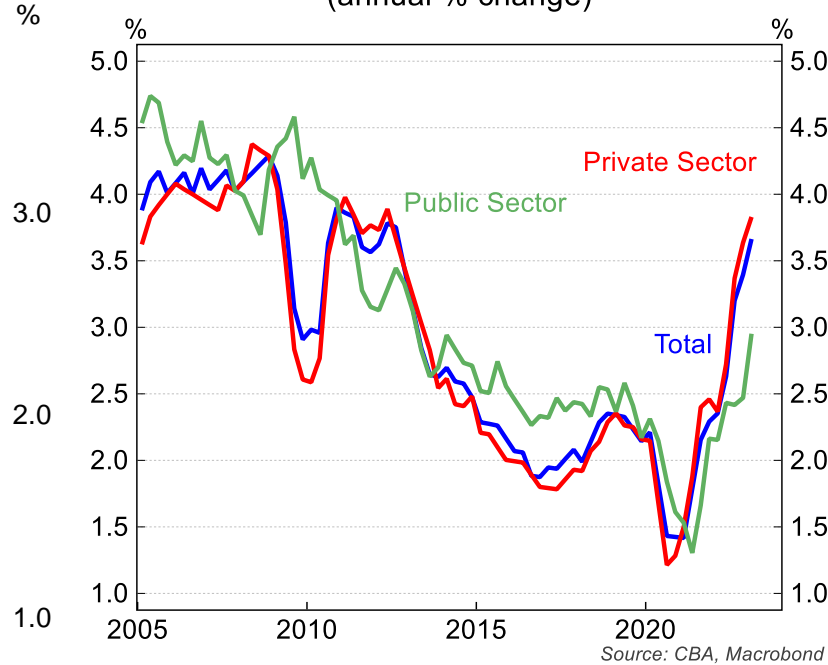


Wages growth rising, but not showing upside risks

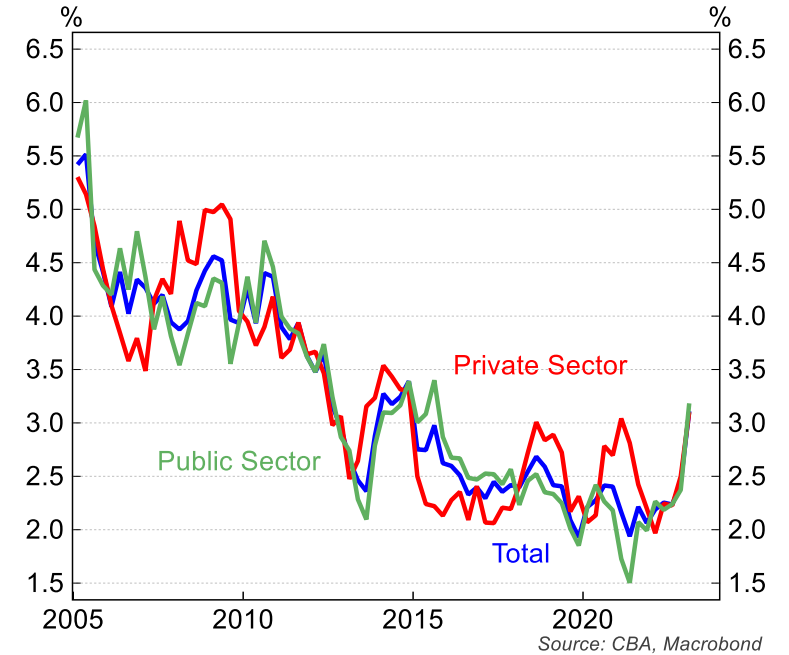
CBA WAGE INDICATOR
(annual % change)



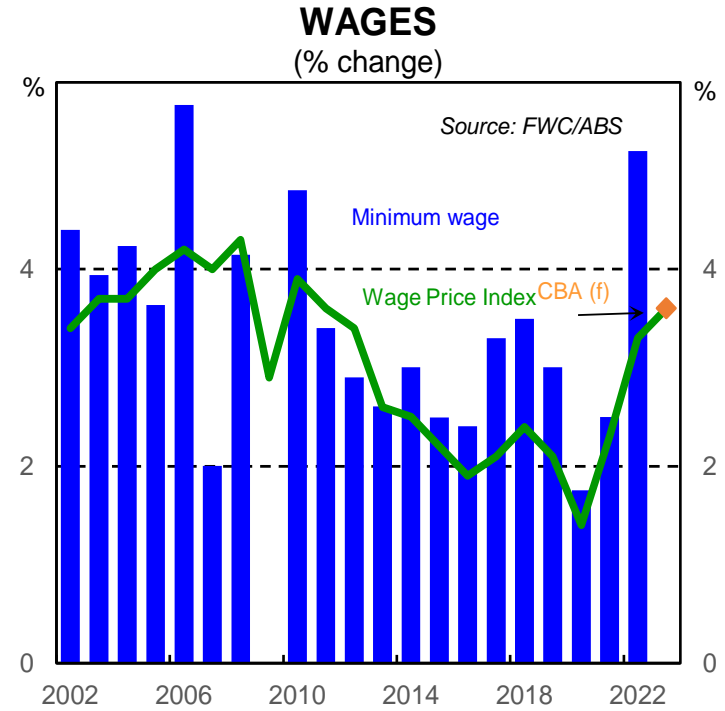
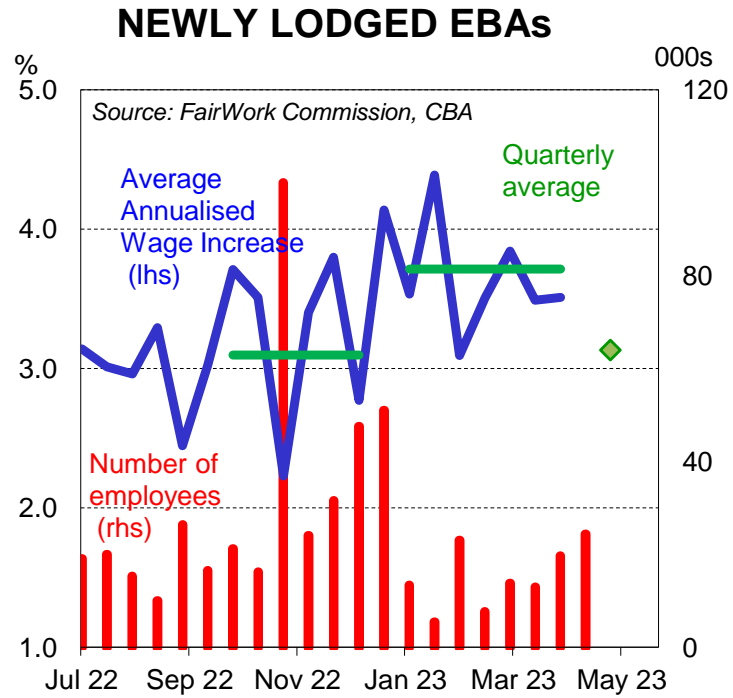
WAGE PRICE INDEX
(annual % change)



WPI - Education
(annual % change)

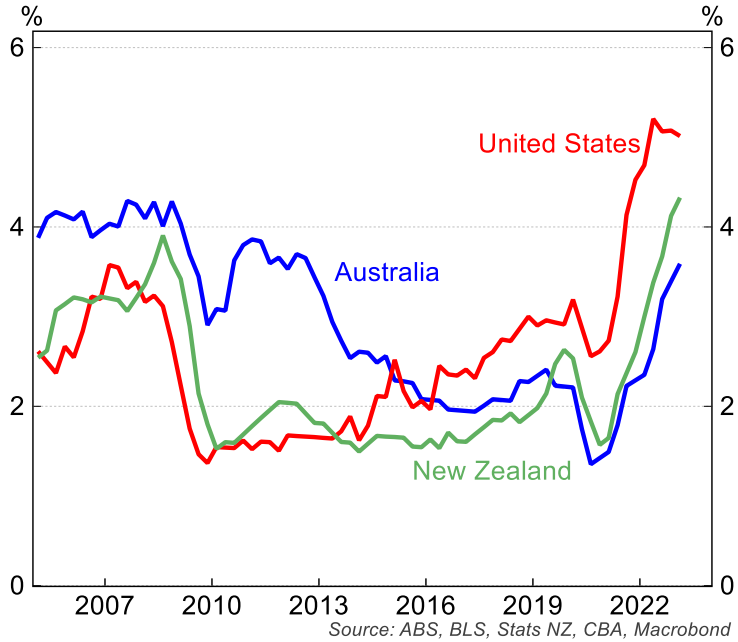


Wages outlook important

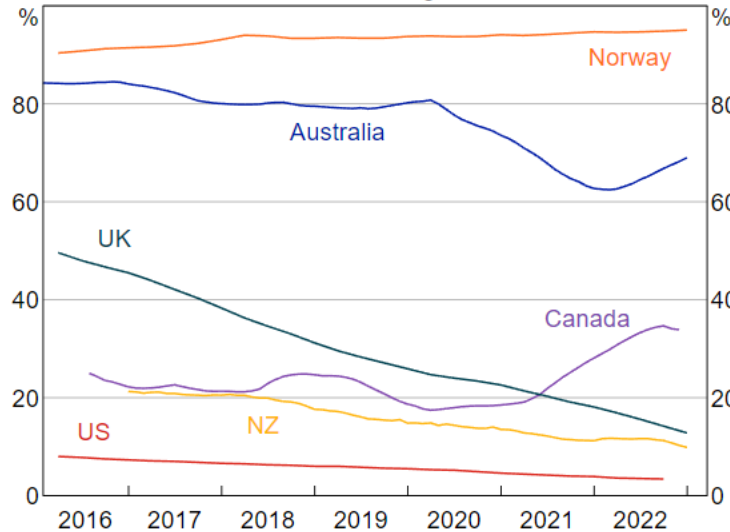


Wages and mortgage market differences

WAGES GROWTH
(annual % change)

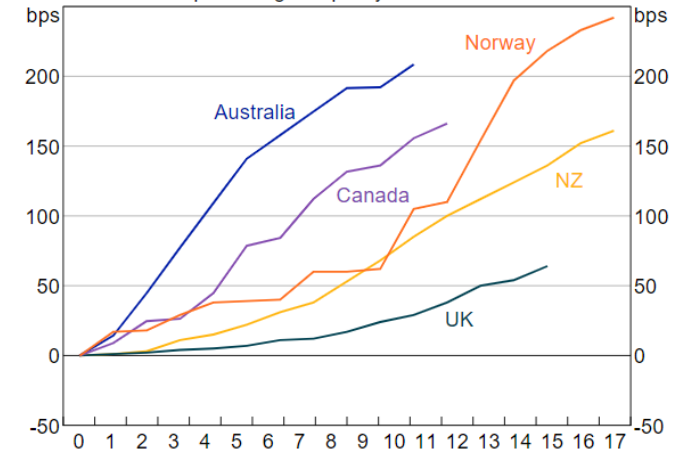


Variable-rate Mortgages
Share of outstanding balances



Sources: APRA; central banks; Federal Housing Finance Agency; RBA

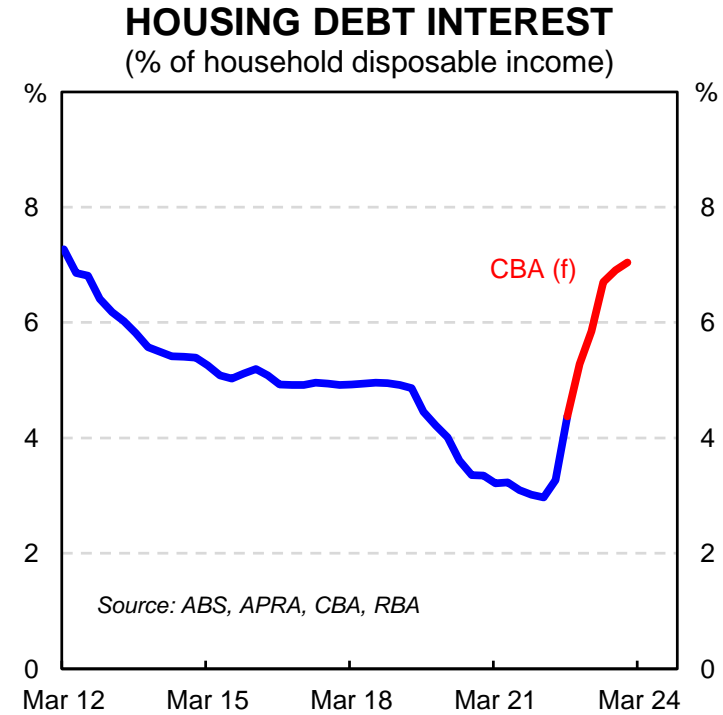
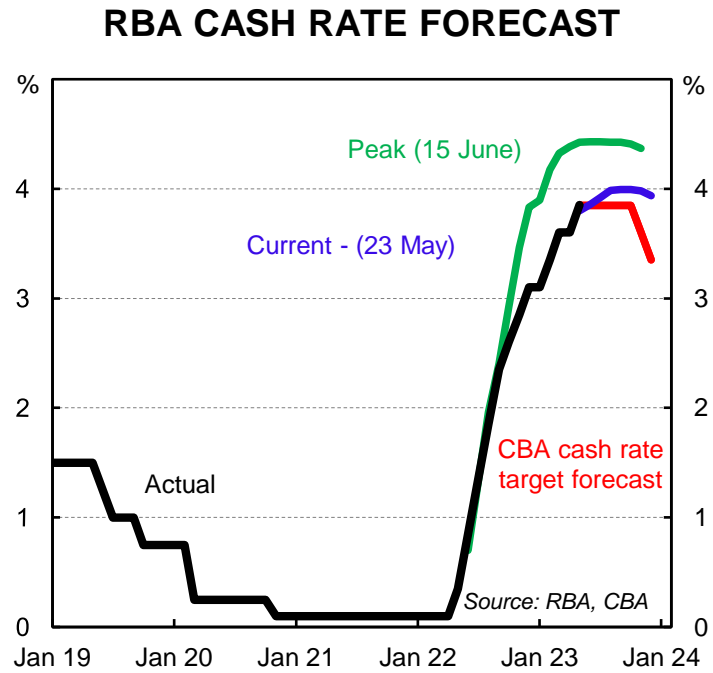
Changes in Outstanding Mortgage Rates*
Month preceding first policy rate increase = 0**



* Data for Canada and NZ to January, remainder to February.
** Cumulative basis point increase in the average outstanding mortgage rate relative to the month immediately preceding first policy rate increase since the onset of the pandemic.

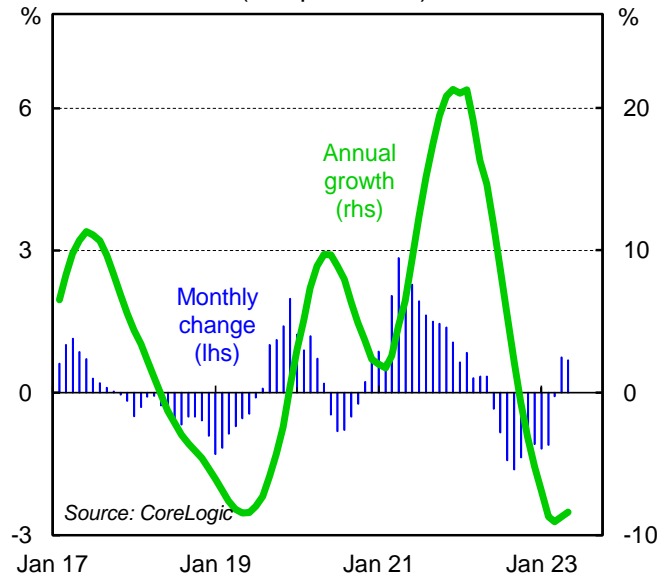
Sources: APRA; central banks; RBA

Cash rate has reached its peak, most likely

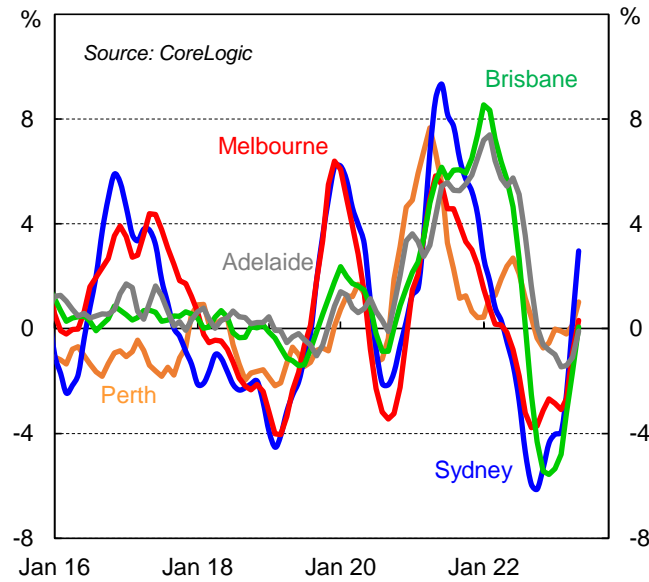


Housing market has shifted to recovery quickly

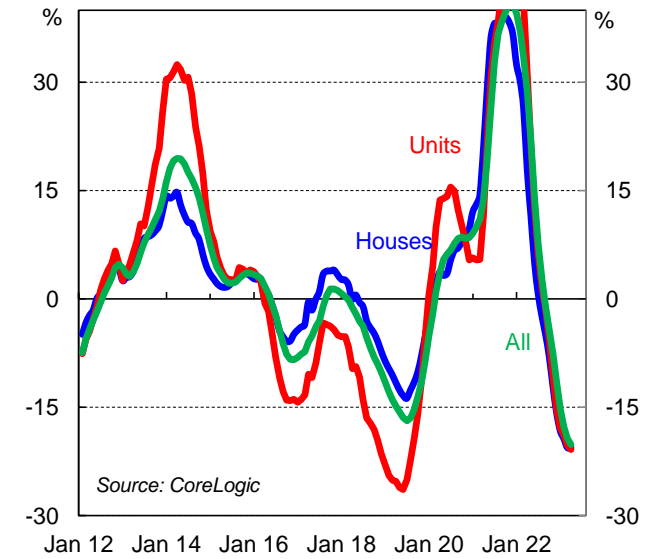
DWELLING PRICES
(8 capital cities)



DWELLING PRICES
(3 month % change)



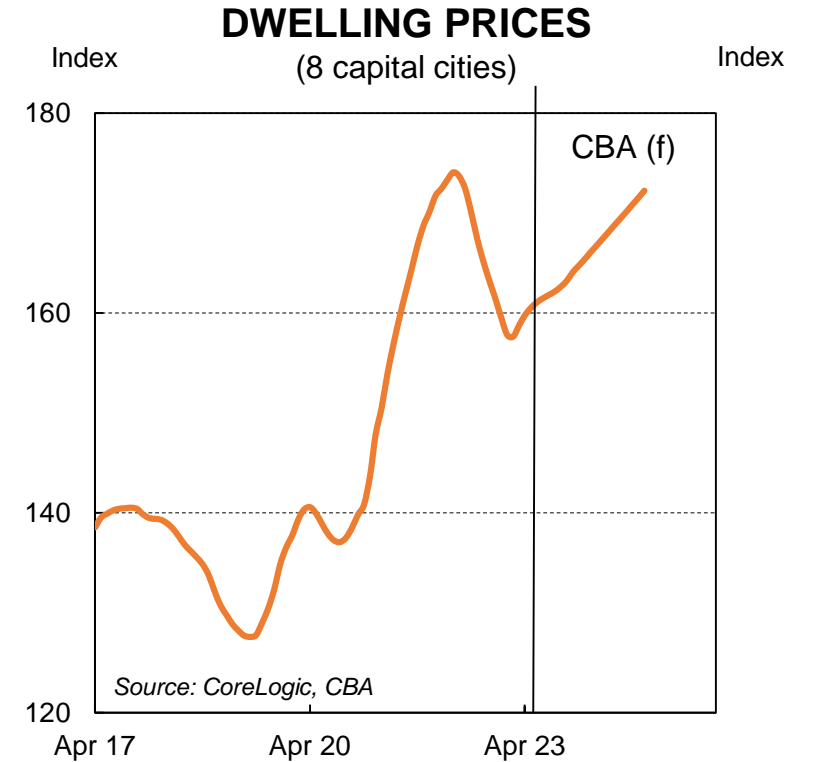
DWELLING SALES VOLUMES
(annual % change, smoothed)



Housing market has shifted to recovery quickly

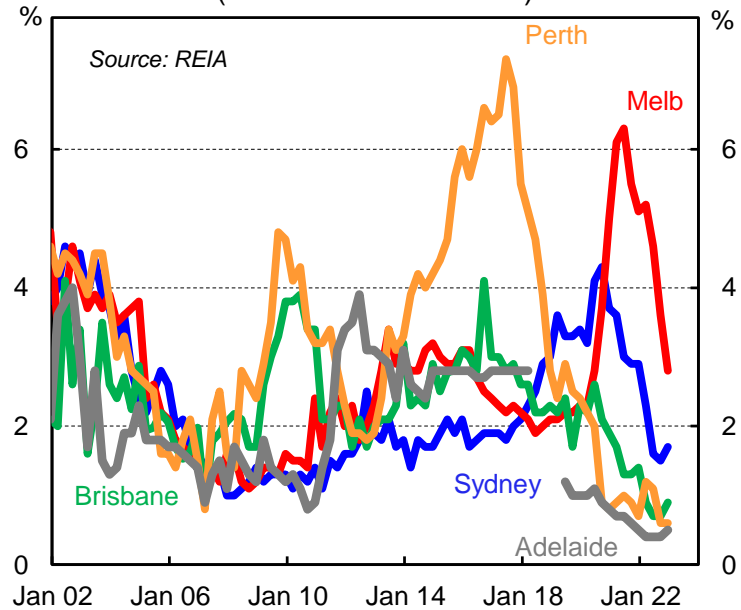
	2021	2022	2023	2024	Peak to trough
	(a)	(a)	(f)	(f)	
Sydney	25	-12	5	4	-14
Melbourne	15	-8	2	6	-10
Brisbane	27	-1	2	7	-11
Adelaide	23	10	0	1	-2
Perth	13	4	2	6	-1
Australia*	21	-7	3	5	-10

* 8 capital city average; source: CBA, Corelogic

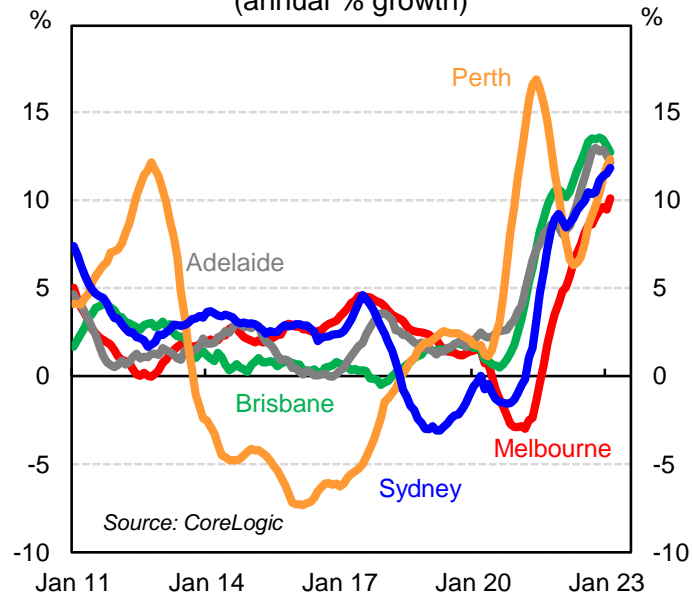


Housing supply starting to really hurt

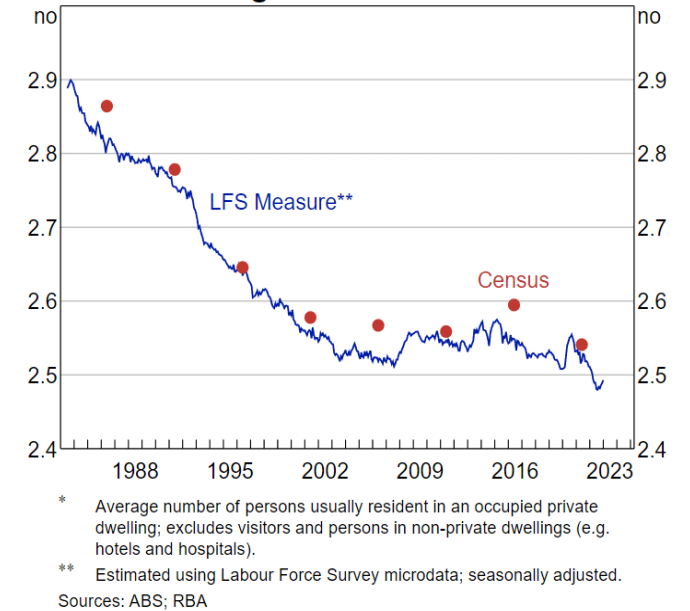
RESI. VACANCY RATES
(all rented residencies)



CAPITAL CITY RENTS
(annual % growth)

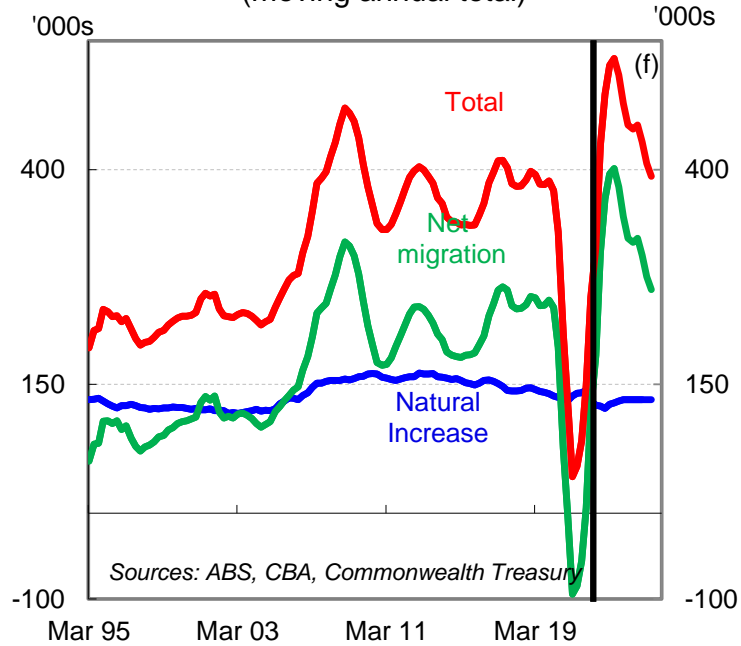


Graph 7
Average Household Size*

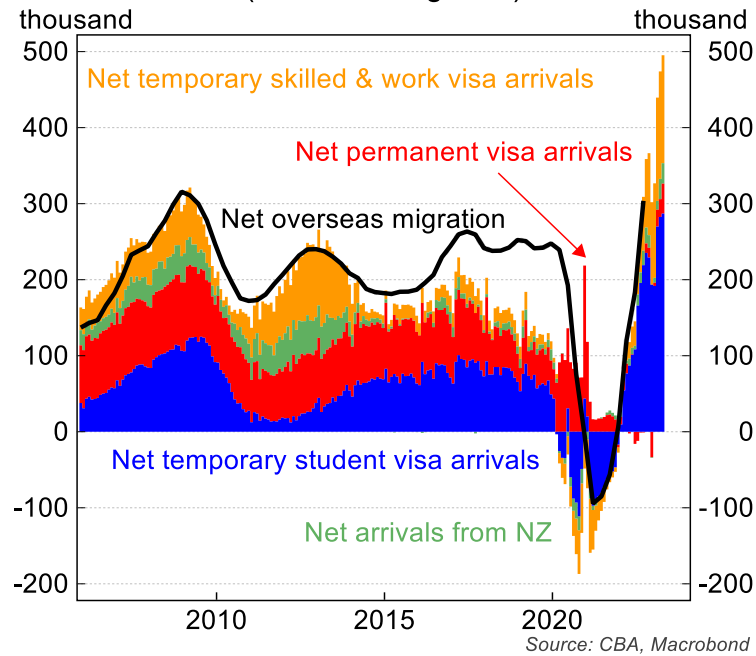


Population growth

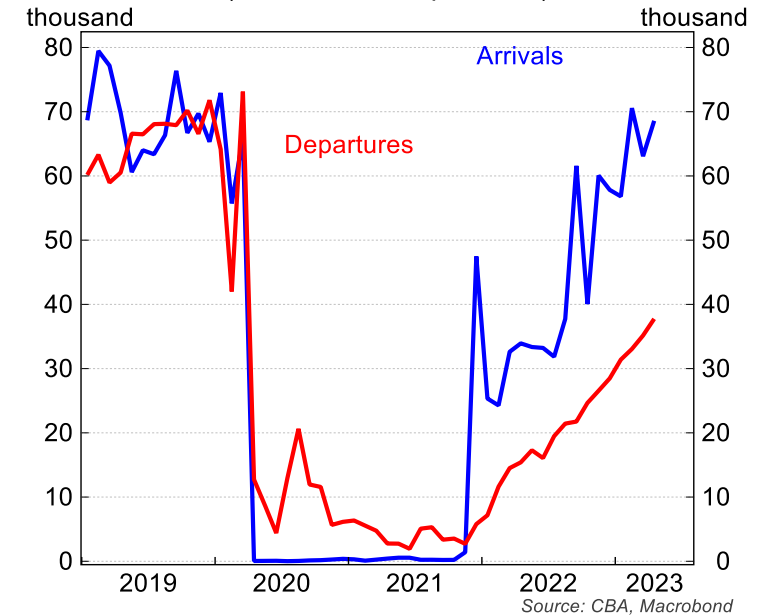
AUST. POPULATION GROWTH
(moving annual total)



NET OVERSEAS MIGRATION
(annual rolling sum)

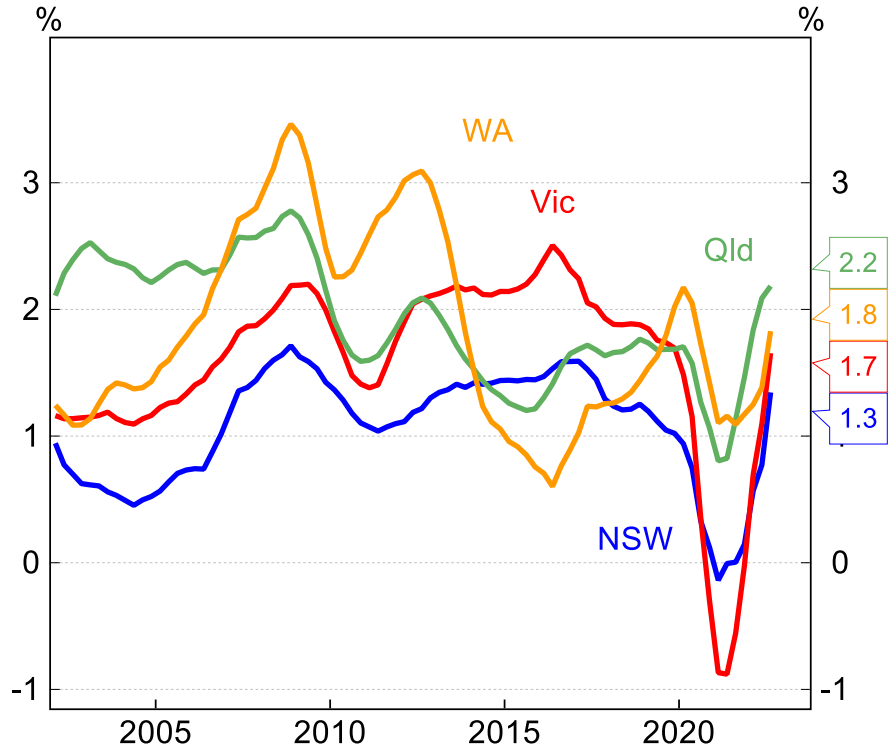


INTERNATIONAL STUDENTS
(arrivals and departures)

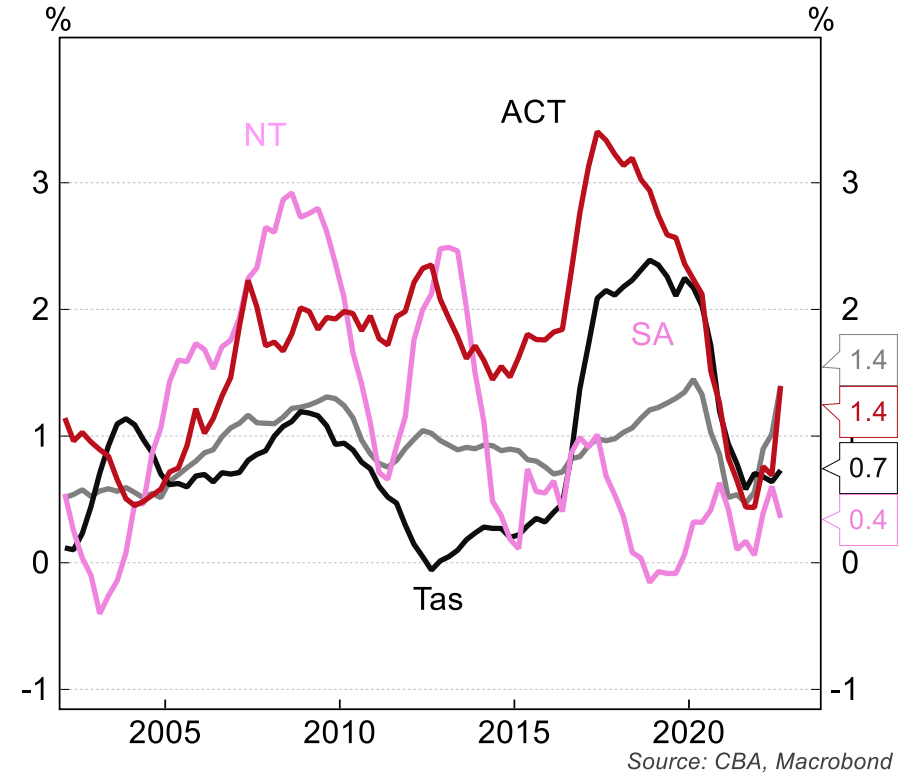


Demographics

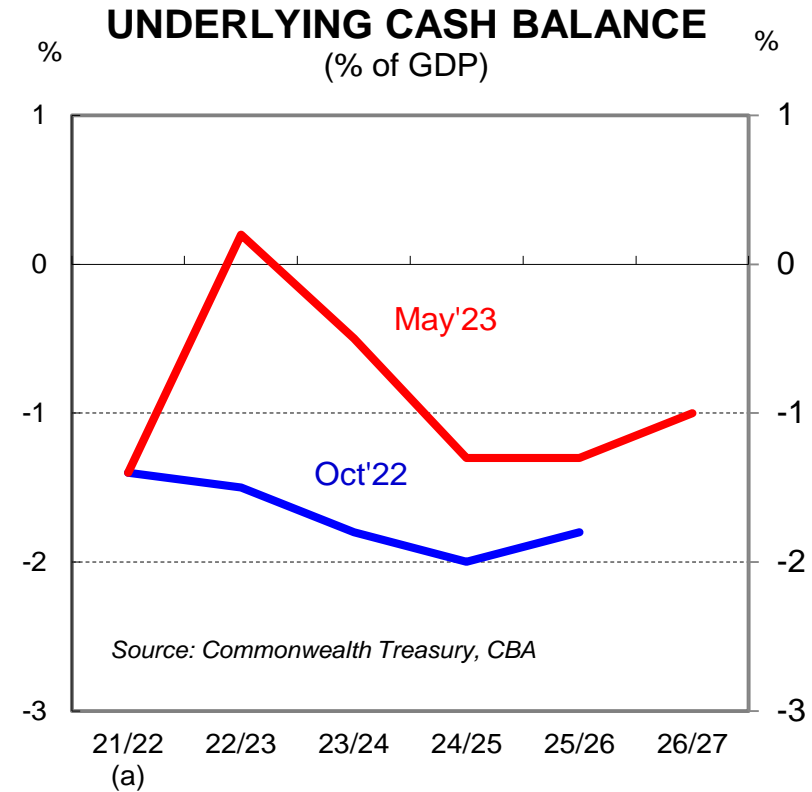
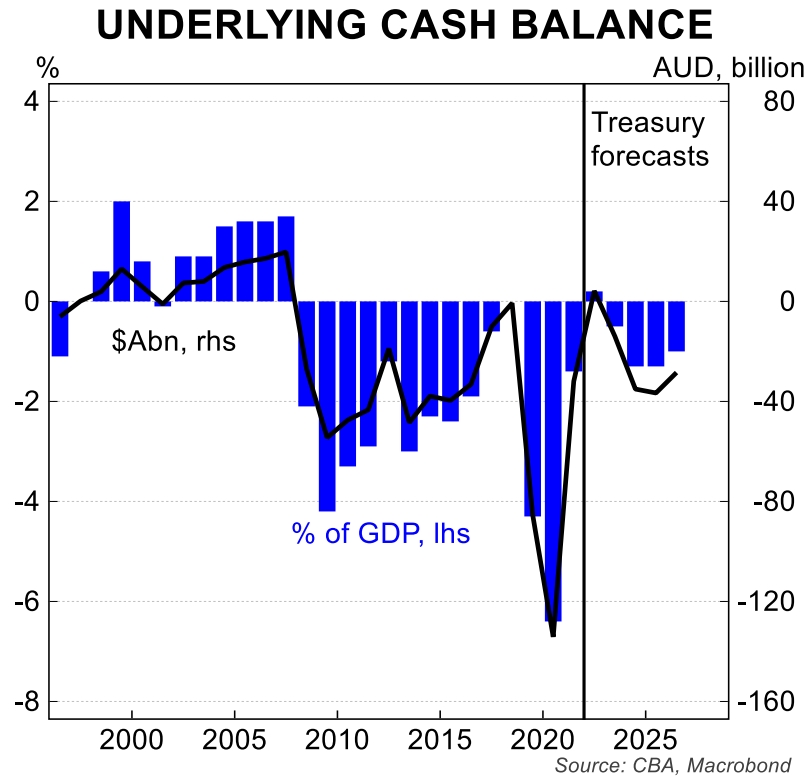
POPULATION GROWTH (annual % change)



POPULATION GROWTH (annual % change)

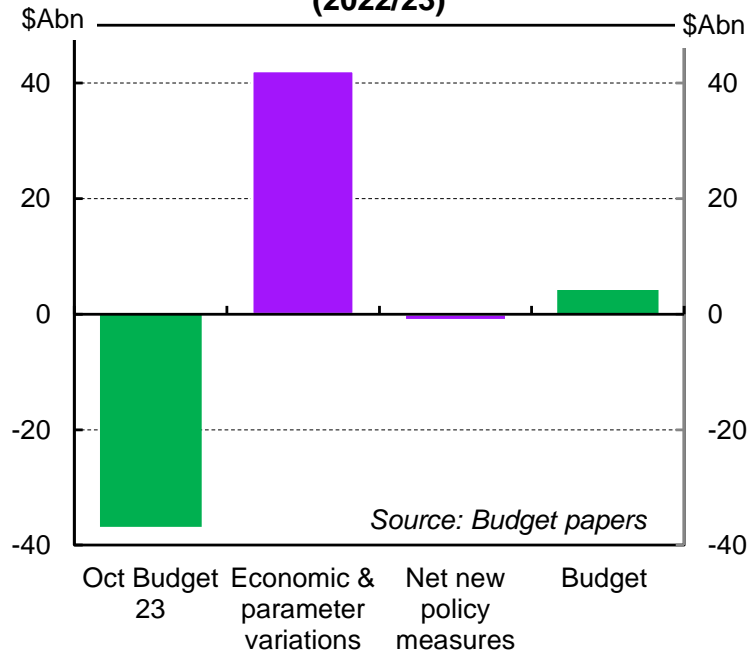


Budget 2023/24 – inflationary or not?

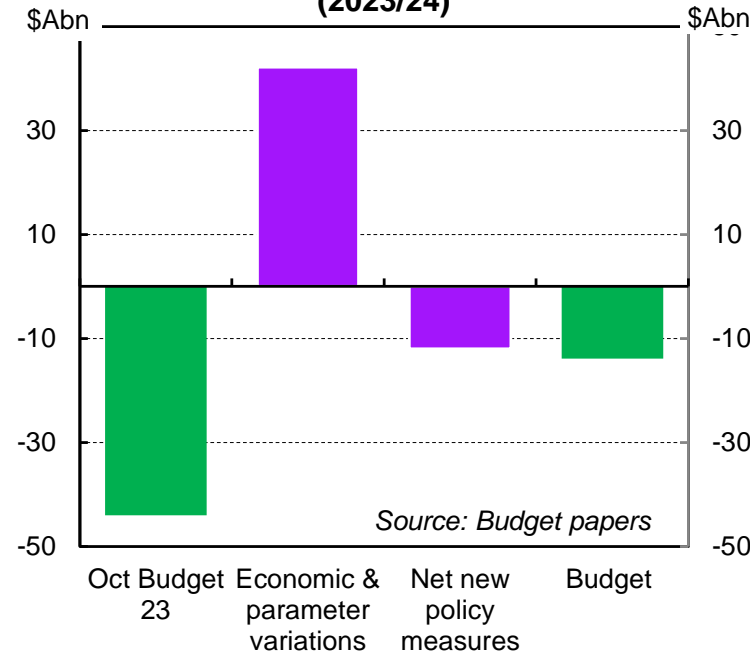


Budget 2023/24 – inflationary or not?

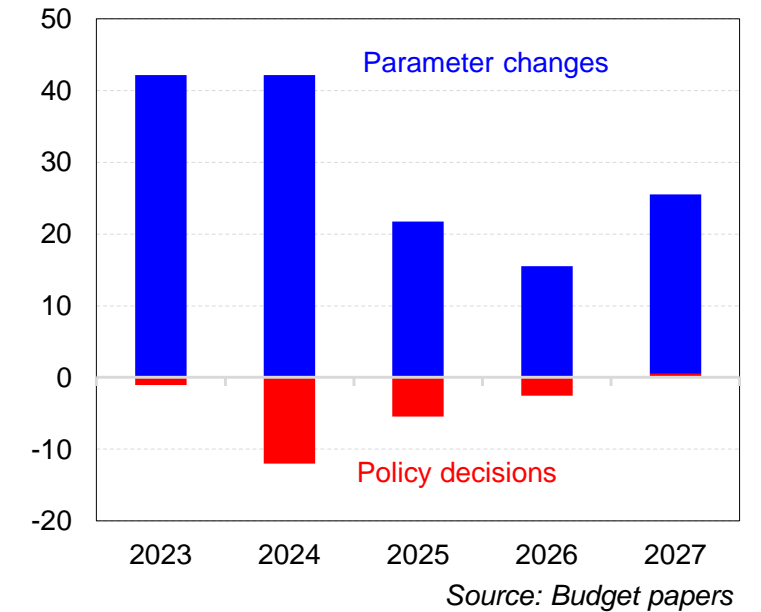
**BUDGET ARITHMETIC
(2022/23)**



**BUDGET ARITHMETIC
(2023/24)**



**CHANGES SINCE OCTOBER
BUDGET \$Abn**



The CBA view – central scenario; soft landing is possible

- Australian economic growth significantly below-trend growth in 2023.
- GDP growth of 0.9%/yr at Q4 23 (1.4% year average) and 2.1% in Q4 24 (1.6% year average).
- Unemployment rate 4.3% Q4 23.
- Headline inflation 3.7% in Q4 23 and 3.0% in Q2 24.
- Underling inflation 3.5% in Q4 23 and 2.8% in Q2 24.
- Wages growth peak at 3.8%/yr by mid-2023 (as measured by the wage price index).
- National home prices to rise 3.0% in 2023 and 5.0% in 2024.
- 3.85% terminal rate - significantly contractionary. Risk of another 25bp rate rise over coming months. Rate *cuts* in late 2023 and 2024 (two 25bp cuts in Q4 23, 75bp of cuts in 2024). Risk is cuts start in Q1 24.
- **The Australian economy is in the RBA's hands – the RBA will largely determine economic outcomes.**

Economic Forecasts

CBA AUSTRALIAN ECONOMIC FORECASTS

	Financial Years					Calendar Years				
	2019/20 (a)	2020/21 (a)	2021/22 (a)	2022/23 (f)	2023/24 (f)	2020 (a)	2021 (a)	2022 (a)	2023 (f)	2024 (f)
Economic Activity										
Private final demand	-3.4	1.5	4.4	3.9	1.0	-5.6	6.6	4.9	1.3	1.6
<i>Of which:</i> Household spending	-3.4	0.8	3.7	5.5	1.0	-6.4	5.0	6.5	1.8	1.4
Dwelling investment	-8.1	3.4	2.9	-3.3	-2.1	-5.6	9.9	-3.4	-2.7	-0.3
Business investment	-1.3	0.7	7.2	3.9	2.7	-4.0	8.9	3.7	3.3	2.5
Public final demand	5.5	6.0	6.4	1.8	2.5	6.1	5.6	4.8	1.7	2.5
Domestic final demand	-1.1	2.8	5.0	3.3	1.4	-2.5	6.3	4.9	1.4	1.8
Inventories (contrib to GDP)	-0.5	0.9	0.1	0.1	-0.4	-0.2	0.8	0.3	-0.4	-0.3
GNE	-1.6	3.7	5.1	3.3	1.0	-2.8	7.2	5.2	1.1	1.5
Exports	-1.7	-8.4	-0.3	6.7	2.5	-9.7	-2.0	3.3	4.2	2.7
Imports	-7.0	-3.4	6.9	8.7	2.1	-12.8	5.4	12.6	2.0	2.7
<i>Net exports (contrib to GDP)</i>	1.0	-1.4	-1.3	-0.2	0.0	0.1	-1.4	-1.5	0.5	0.0
GDP	-0.1	2.2	3.7	3.1	1.1	-1.8	5.2	3.7	1.4	1.6
Prices & Incomes										
CPI*	-0.3	3.8	6.1	6.1	3.1	0.9	3.5	7.8	3.8	3.0
Trimmed mean CPI*	1.3	1.6	5.0	5.9	2.9	1.2	2.7	6.9	3.6	2.9
WPI*	1.8	1.8	2.6	3.7	3.4	1.3	2.4	3.3	3.6	3.4
Nominal GDP	1.7	5.2	11.0	9.6	2.4	-1.1	11.1	11.8	5.2	1.9
Real h/hold disposable income	4.1	5.0	1.0	-3.7	-1.6	6.2	1.8	-1.2	-3.6	1.9
Savings ratio	11.9	15.2	12.9	3.4	3.0	17.0	14.5	7.8	2.7	3.3
Labour Market										
Employment	0.5	0.5	3.3	3.9	1.3	-1.6	3.0	4.3	2.1	1.3
Unemployment rate**	6.9	5.1	3.8	3.8	4.5	6.8	4.7	3.5	4.2	4.4
External Accounts										
Current Account: \$bn	28.2	61.6	44.2	36.4	50.7	43.3	66.7	29.4	50.6	24.9
<i>% of GDP</i>	1.4	3.0	1.9	1.4	2.0	2.2	3.0	1.2	2.0	0.9

Percentage change on preceding year unless otherwise indicated.

*Through the year growth rate to June qtr for fiscal year and Dec qtr for calendar year.

** Rate at the June qtr for fiscal year and Dec qtr for calendar year.

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