

Economic flux

A state of constant change or is it the agent to create something new?

Westpac Institutional Bank

Presentation to PFA Conference Hobart

By: Justin Smirk May 2019



The Budget/Election

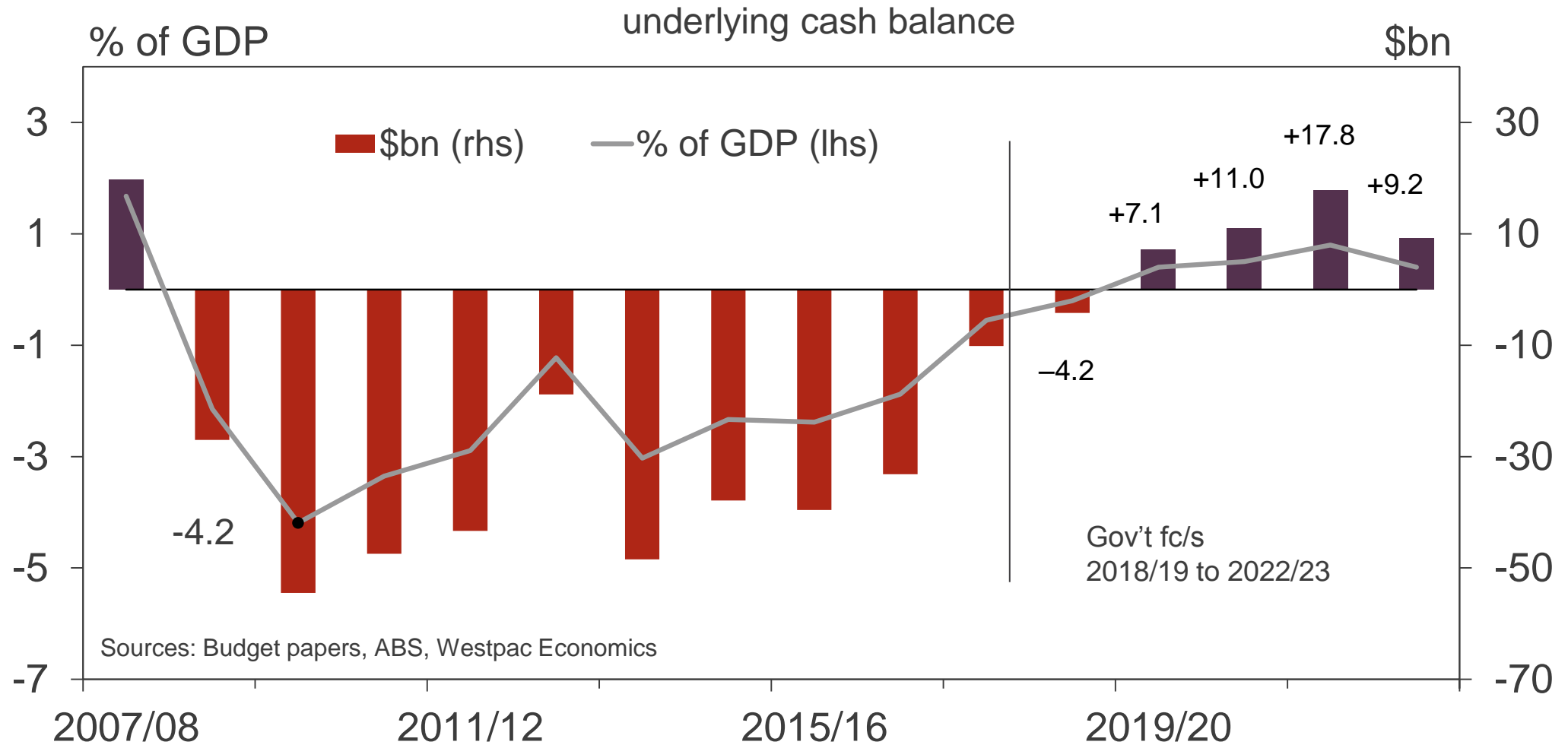
The Global Economy

The Australian Economy

Property/Markets/Forecasts

The Budget

Federal budget: \$7.1bn surplus in 2019/20



Australian GDP growth outlook

% year	2018	2019(f)	2020(f)
GDP – RBA (Feb)	2.75 (f)	3.0	2.75
GDP – Westpac	2.3 (a)	2.2	2.2
Consumer – RBA	2.1 (f)	2.5	2.7
Consumer – Westpac	2.0 (a)	2.2	2.2

* Westpac estimate of likely RBA forecasts in February update.

Source: ABS, RBA November Statement on Monetary Policy, Westpac Economics



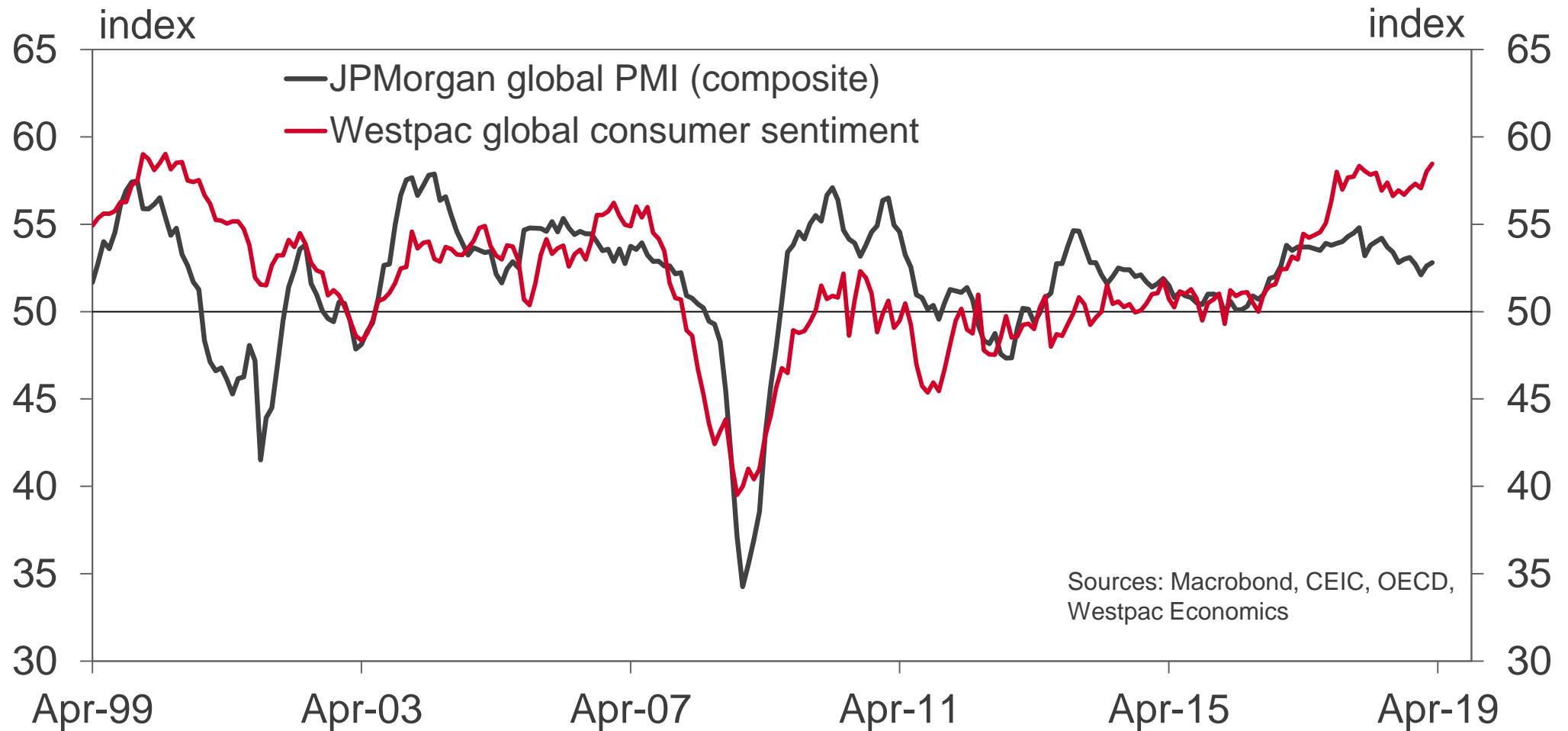
The Global Economy

Global PMI & global trade orders

50 = long run average



Overall business conditions held up by consumers



World growth set to slow

A big three slowdown will see a broad spread moderation

	2015	2016	2017	2018	2019(f)	2020(f)
Australia	2.5	2.8	2.4	2.8	1.8	2.2
New Zealand	3.6	4.0	3.1	2.7	2.6	2.8
US	2.9	1.6	2.2	2.9	2.4	2.1
Euro	2.1	1.9	2.4	1.8	1.2	1.4
Japan	1.4	1.0	1.7	1.1	0.8	0.7
China	6.9	6.7	6.9	6.6	6.1	6.0
India	8.2	7.1	6.7	7.2	7.1	7.0
NIE's*	2.1	2.3	3.2	2.9	2.6	2.7
World	3.5	3.3	3.7	3.7	3.5	3.5

*NIE are Newly Industrialised Economies – Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore.

^Forecasts for PNG GDP are from Bank PNG.

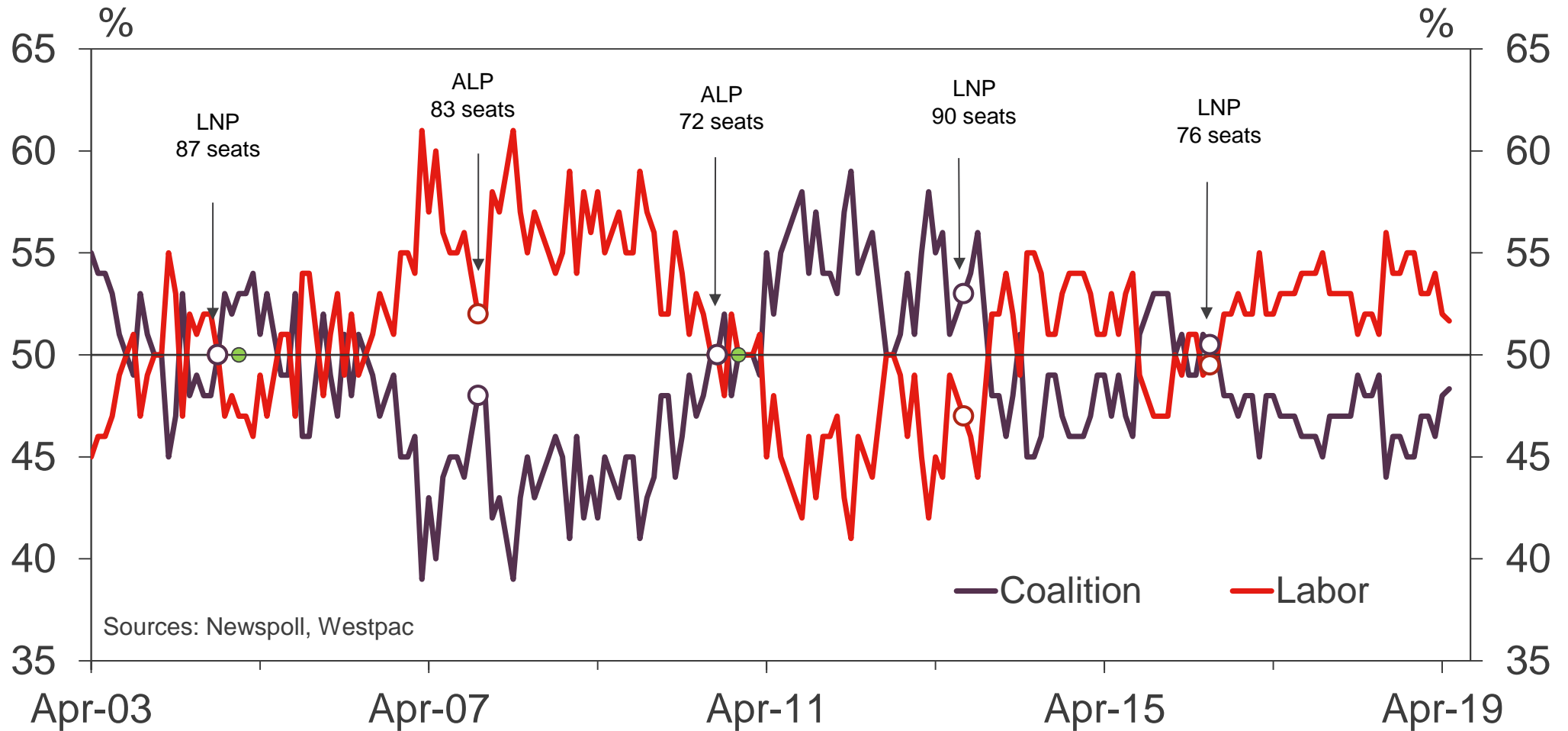


The Australian Economy

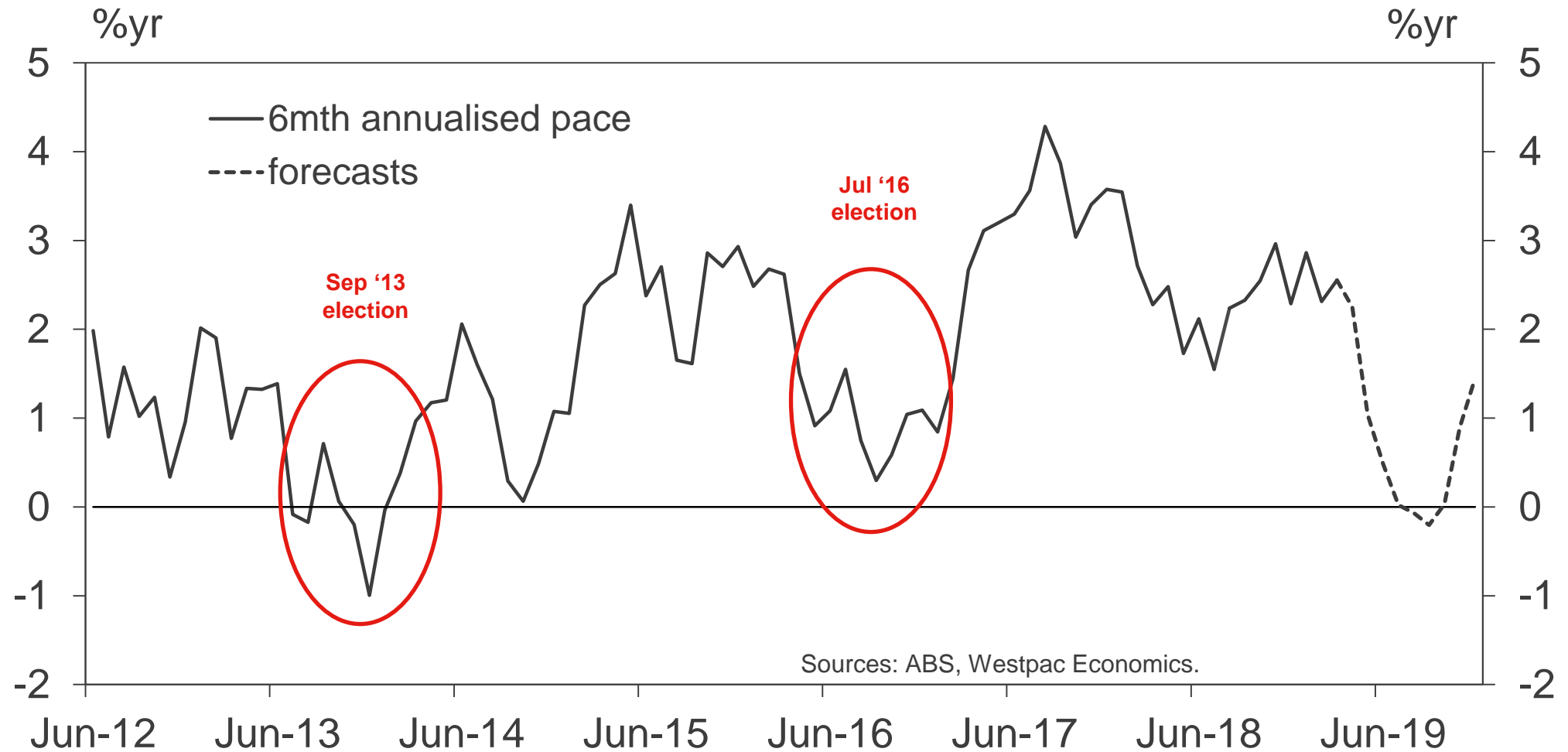
Key points in the Australian economy

- Labor currently in line to win the Federal election – but who is brave enough to confidently call elections anymore?
- The lead up to an election can generate significant uncertainty resulting in a pause in economic growth.
- Housing activity correction is underway, house prices are falling, business confidence has fallen & household incomes growth in anaemic to spending.
- Population growth has been a key driver of economic growth.
- Australian economy has slowed to a below trend rate of growth.

Newspoll continues to have Labor ahead



Election uncertainty & employment

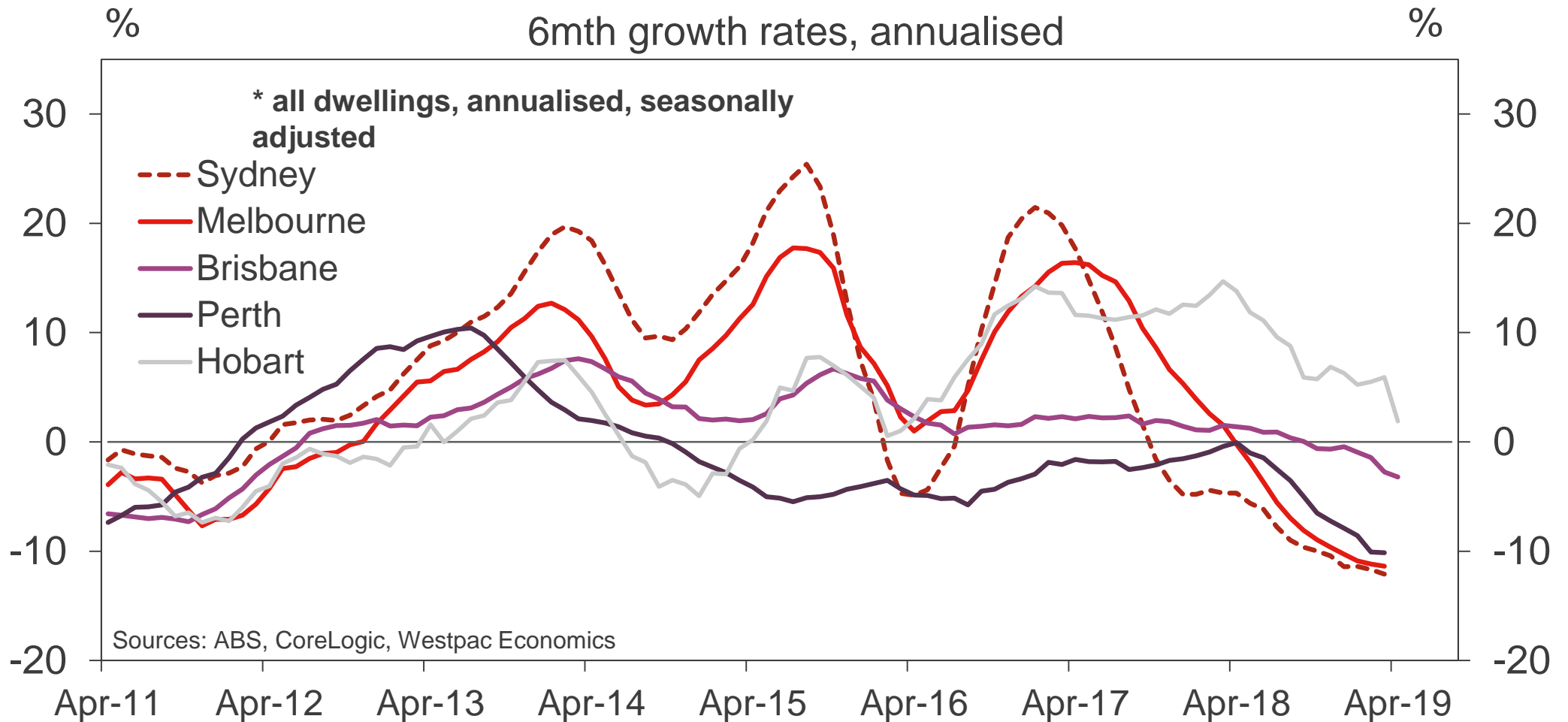


Employment has been in white collar

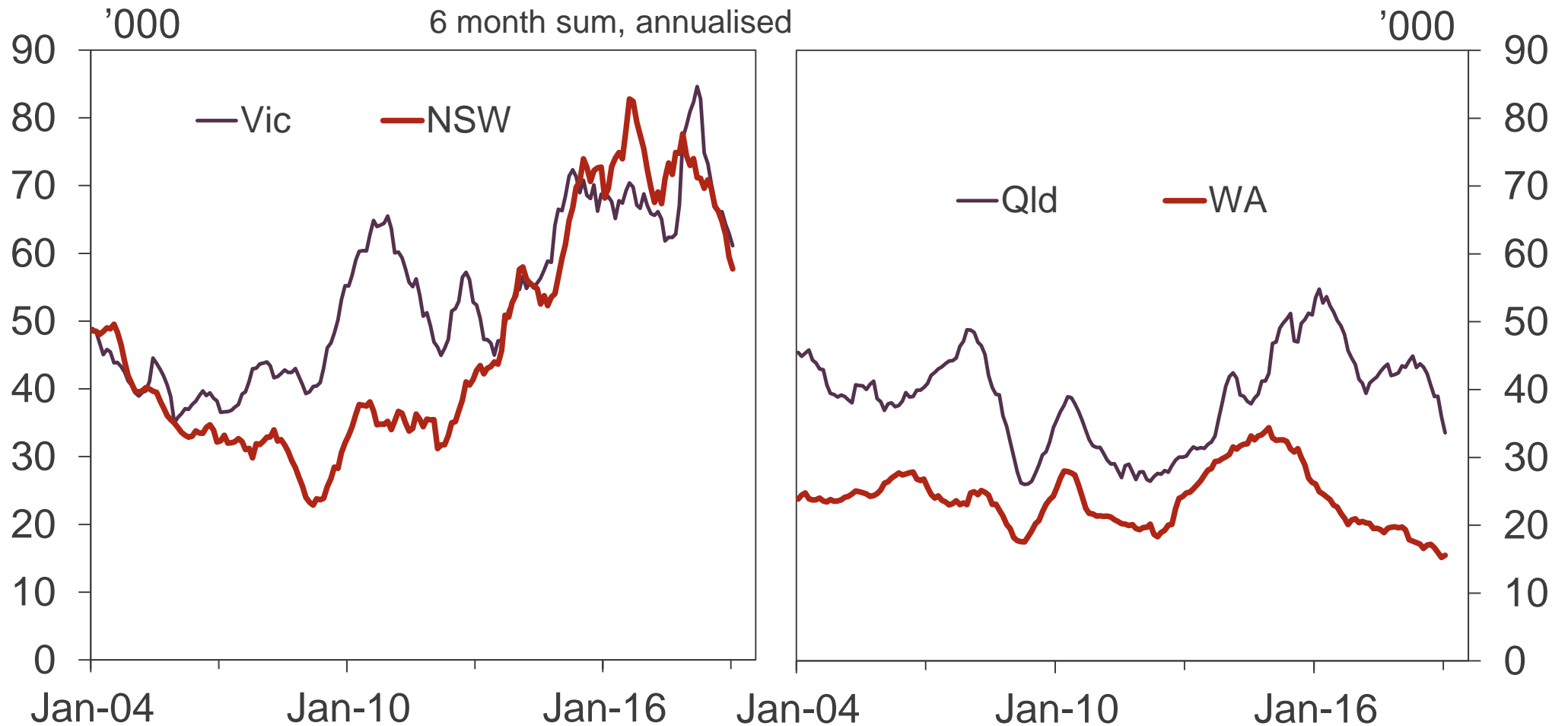
Sectors & states, year to Feb 2019 '000							
	Education & health	Leisure & hospitality	Construction	Retail & wholesale distribution	Production	White collar	Total
NSW	-35.9	60.6	-35.4	17.9	-14.8	128.0	120.3
Vic	44.5	-0.7	-8.1	-3.7	-0.5	101.3	132.7
Qld	30.9	17.4	7.9	-26.8	-25.7	19.5	23.2
WA	-31.5	-1.3	-18.2	30.8	-2.2	29.5	7.1
SA	-5.4	-0.4	8.8	-0.7	2.8	-5.0	0.1
Tas	1.7	-1.0	-3.8	-2.0	1.9	3.6	0.5
Australia (sa)	1.5	71.8	-49.2	16.1	-41.6	283.6	282.1

- Government +164.2k
- Prof & technical +104.7k
- **Leisure & hospitality +71.8k**
- **Wholesale & transport +40.8k**
- **Mining & utilities +20.9k**
- **Finance +13.5k**
- Other business services +4.3k
- Education & health +1.5k
- **Real estate -3.2k**
- **Retail -24.7k**
- **Construction -49.2k**
- **Manufacturing -62.5k**

Decline in house prices accelerating

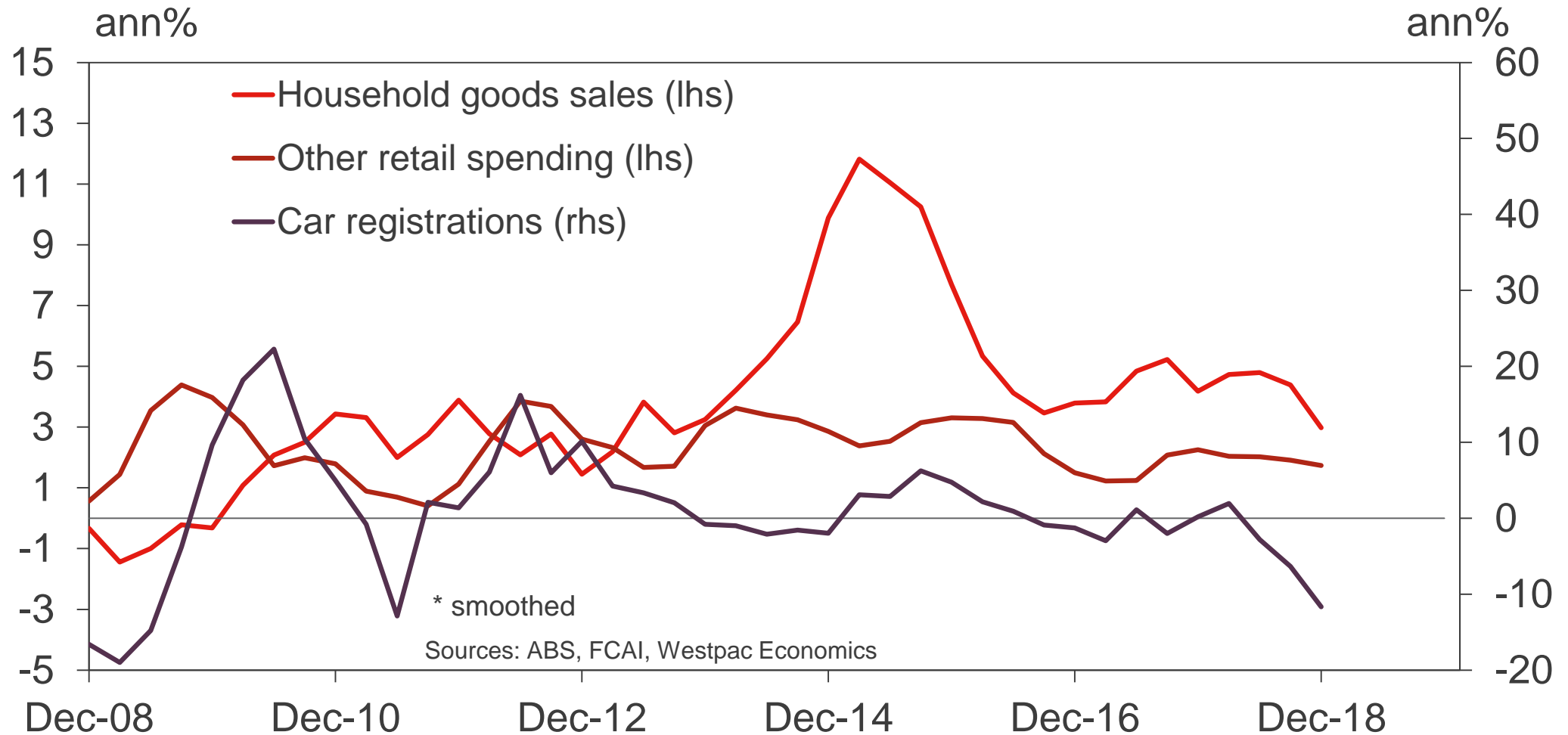


Dwelling approvals: downtrend across states

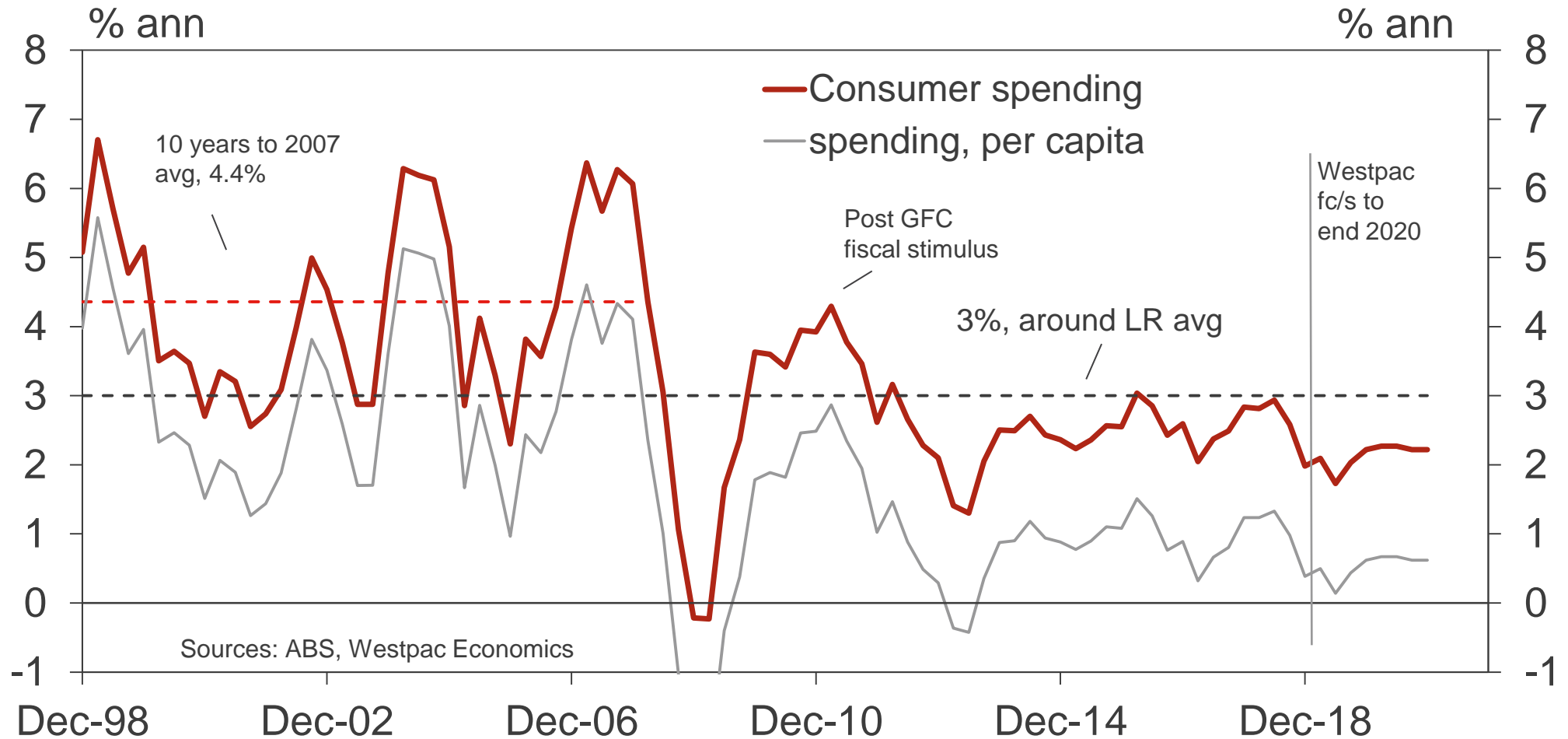


Sources: ABS, Westpac Economics

Consumer spending- goods; cars weakest

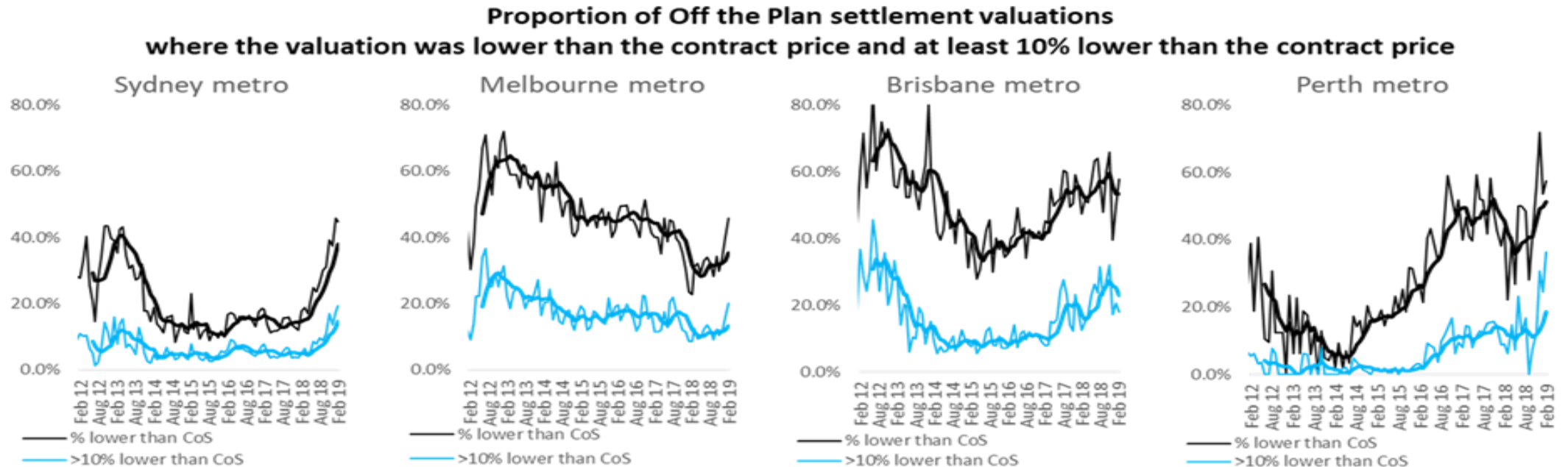


Consumer spending: stuck in the slow lane



Property

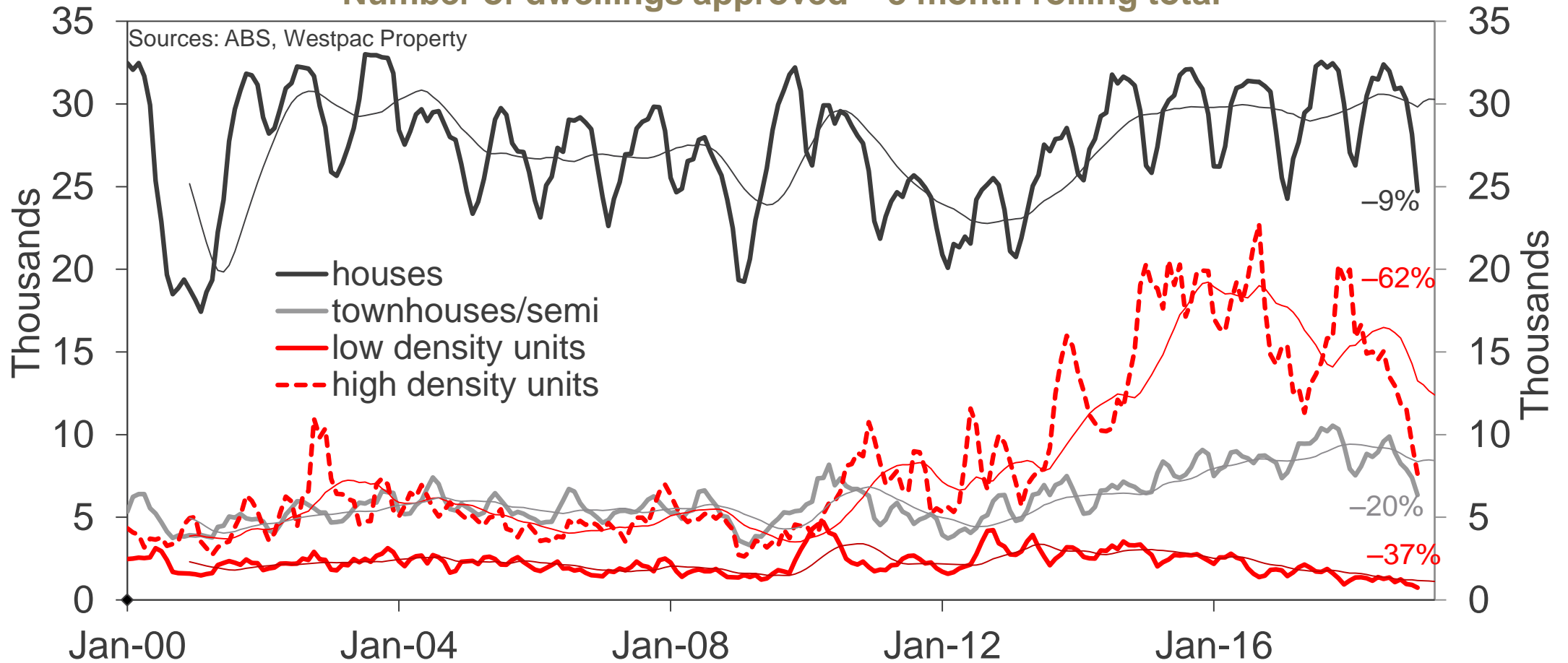
Settlement risk elevated by falling values



Sources: Core Logic March 2019, Westpac Property

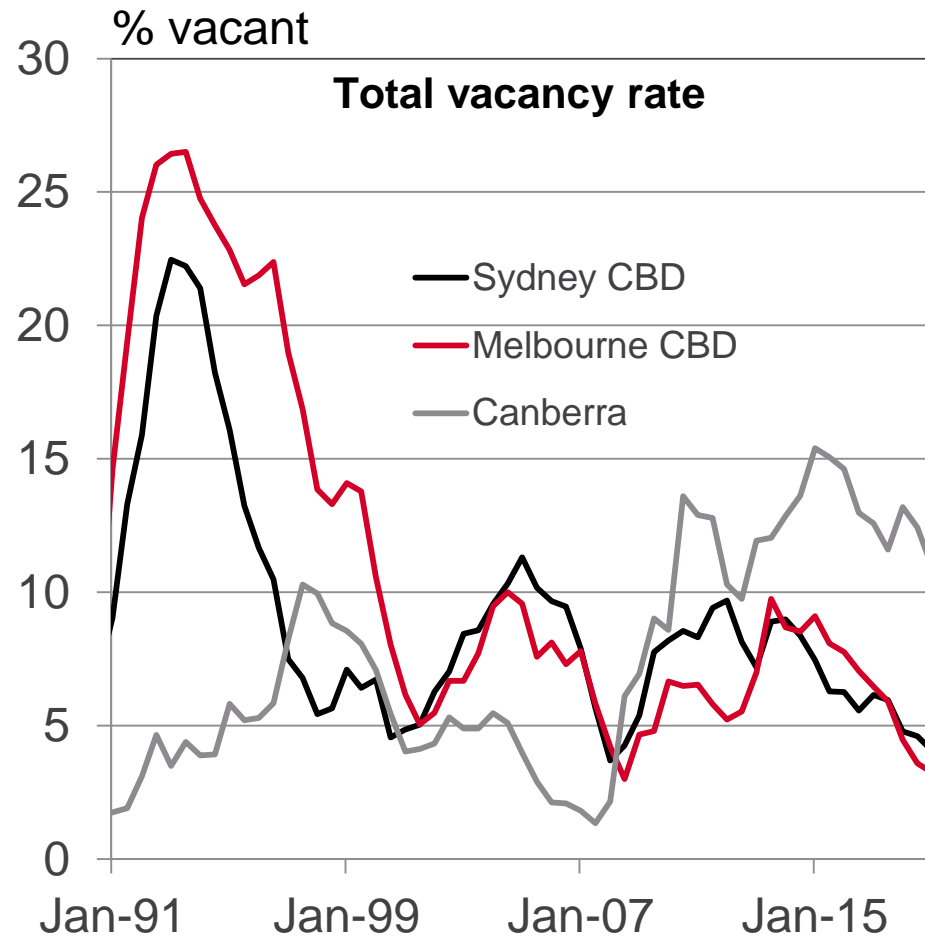
High density approvals back to 2013 levels

Number of dwellings approved – 3 month rolling total

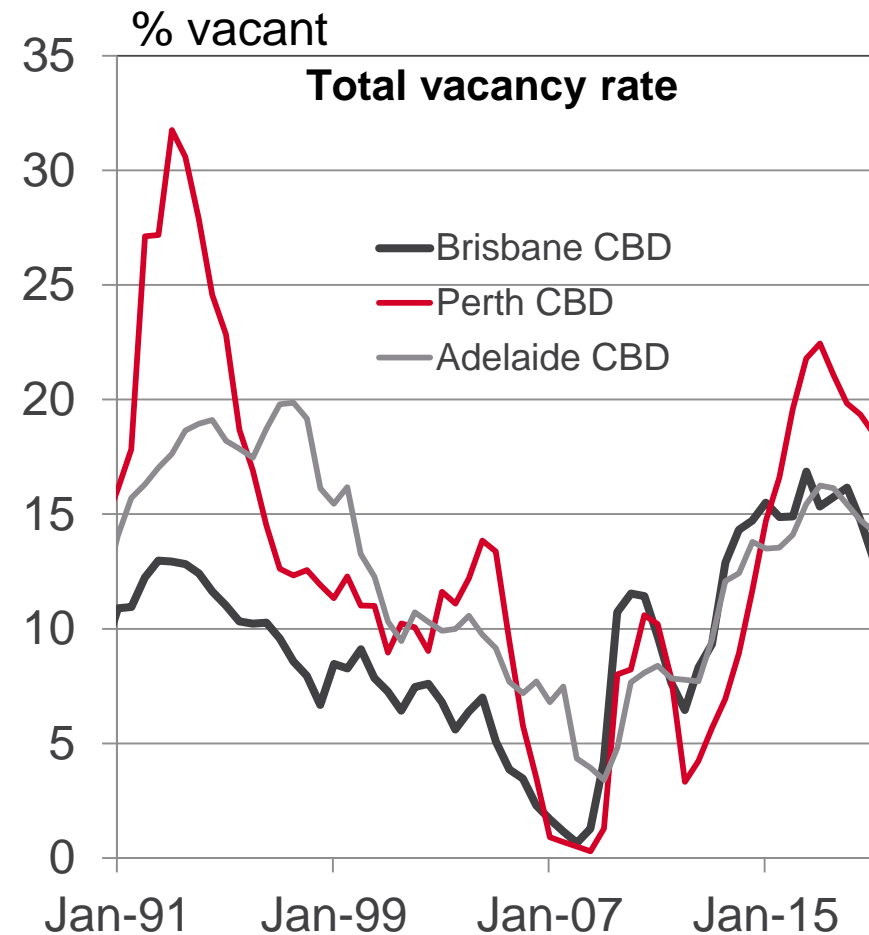


All CBD office markets are improving

but total vacancy reflects economic diversity



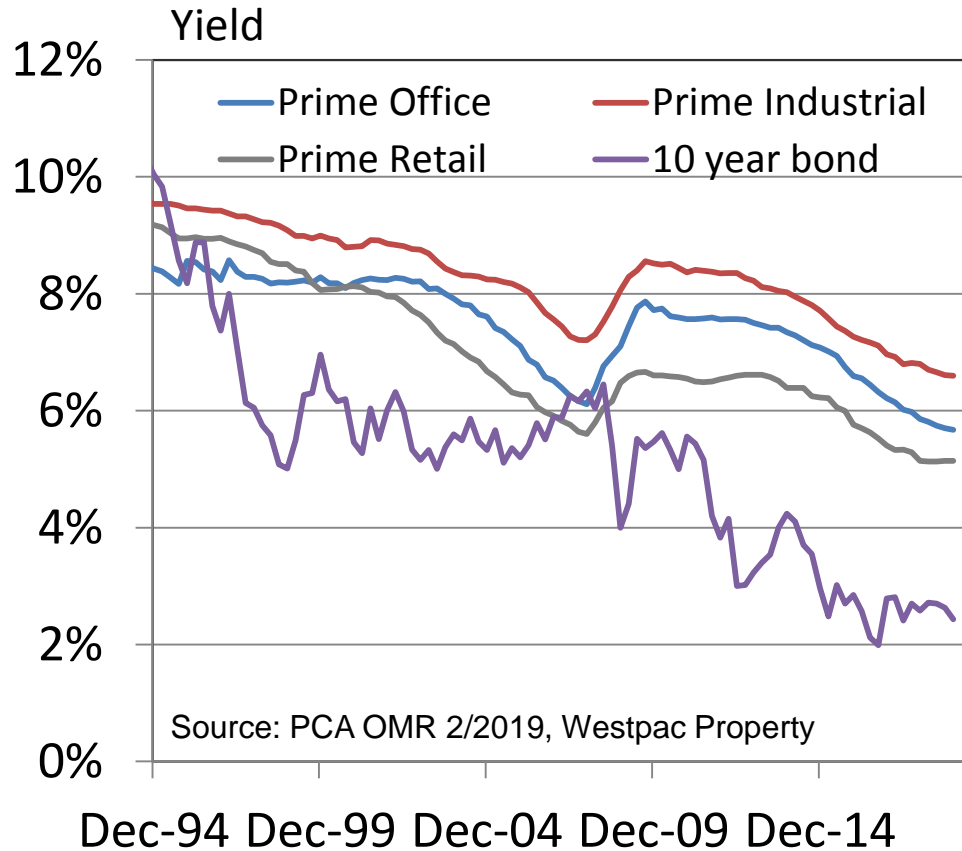
Source: PCA OMR 2/2019, Westpac Property



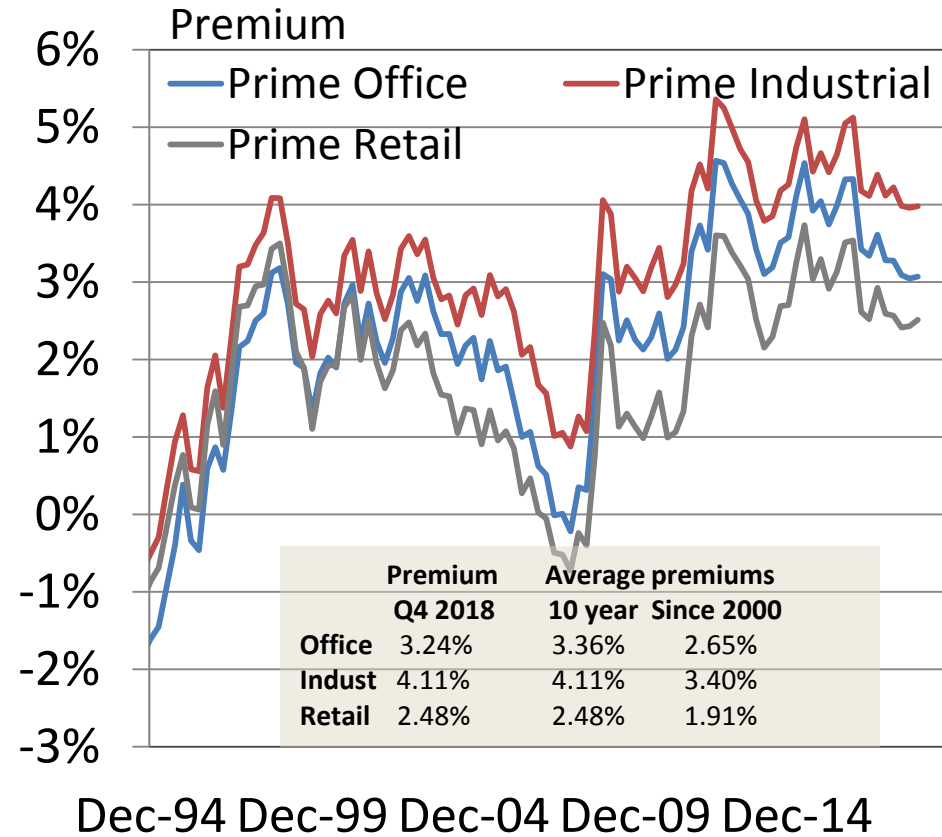
Activity driven yields lower and unlikely to reverse

but falling yields are OK as long as bond rates also decline

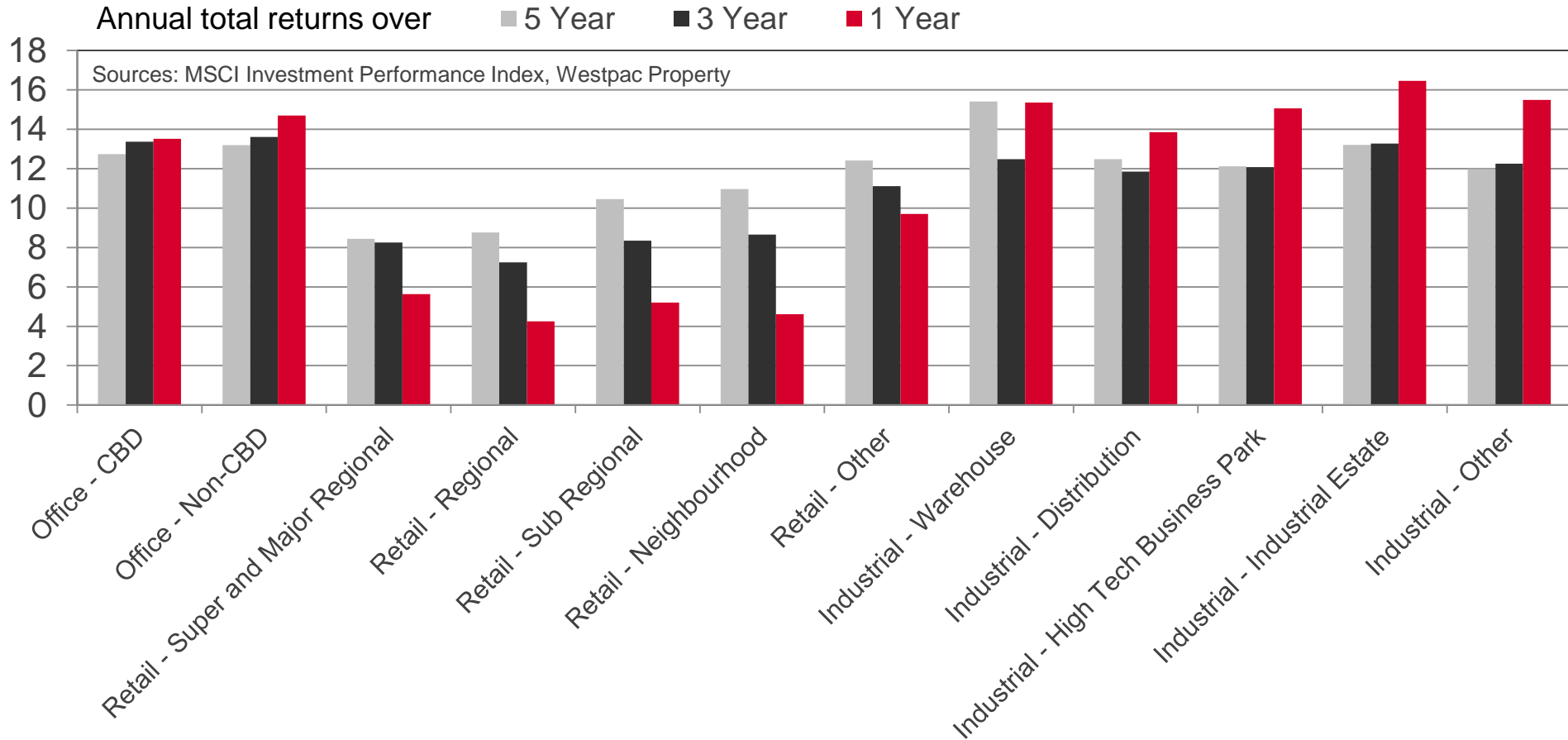
As bond yields fell so to did property, but property yields won't necessarily rise just because bonds do unless...



Premium are falling to around average but are still well above pre-GFC levels.

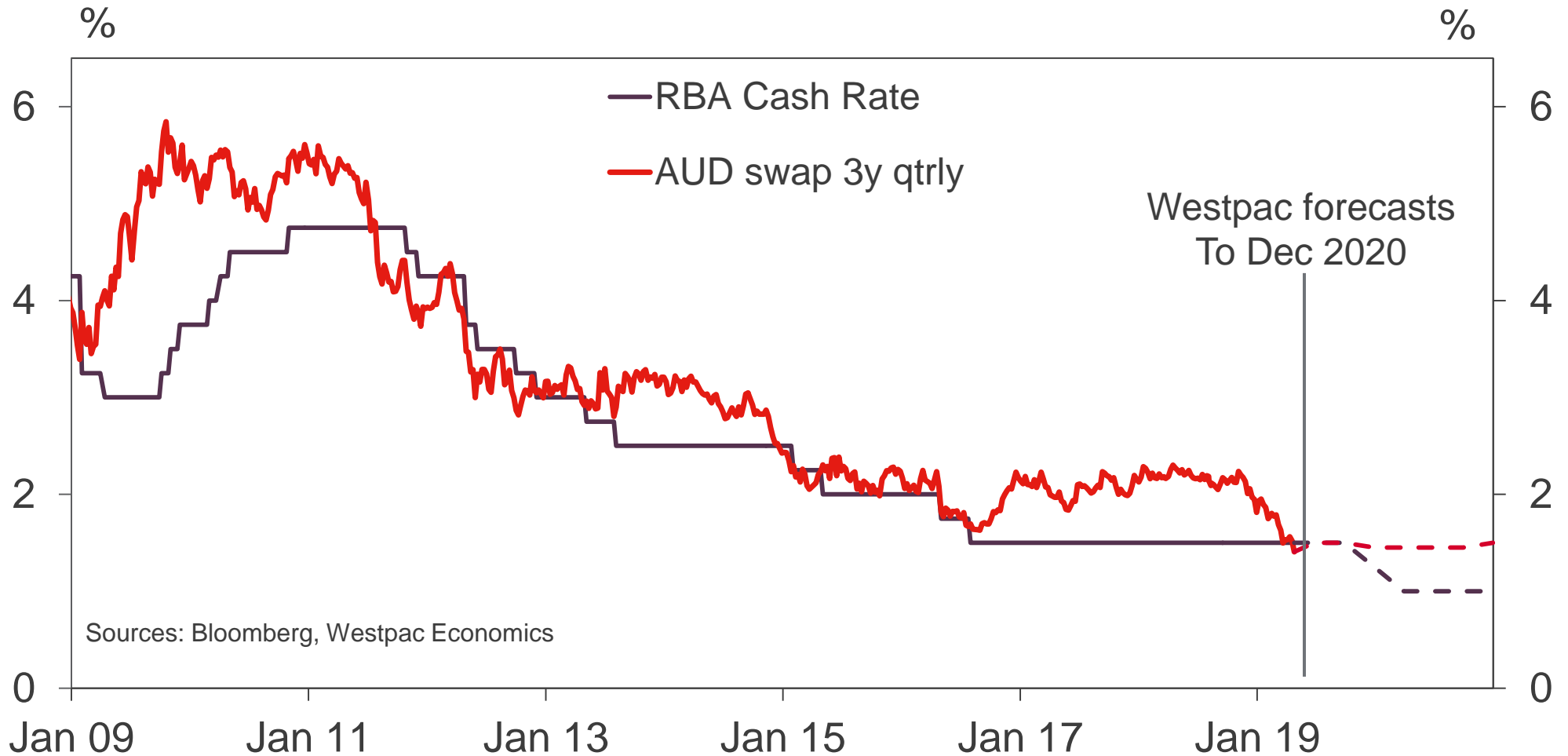


Retail returns slowing, industrial lifting



The Markets

Cash rate and 3y swap

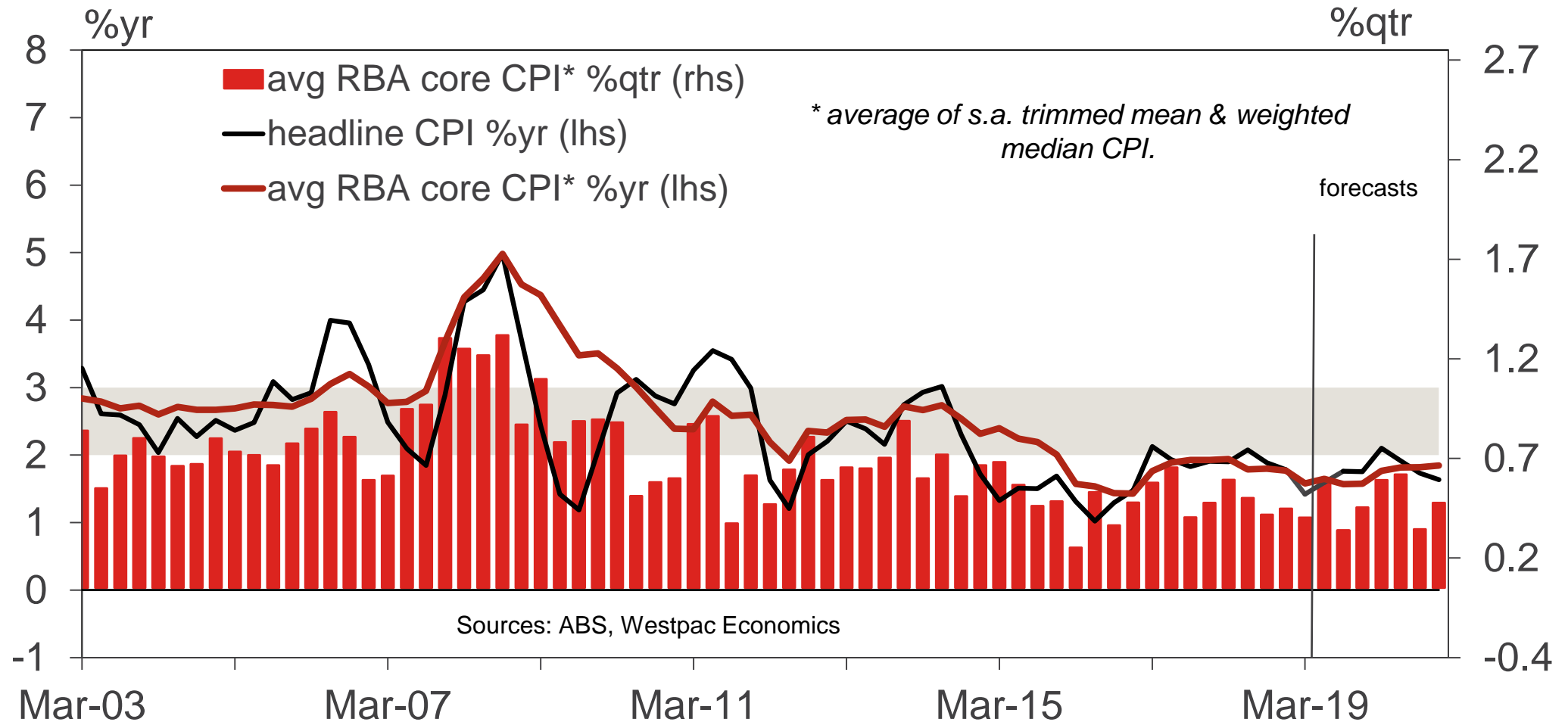


Westpac forecasting two rate cuts from the RBA



Forecasts

Inflation can't sustain a return to the band



Current Forecasts – April 2019

	At time of forecast	Jun-19	Dec-19	Jun-20	Dec-20
RBA Cash	1.50	1.50	1.00	1.00	1.00
Aus 10yr	1.90	1.85	1.80	1.80	1.90
3yr swap	1.43	1.50	1.45	1.45	1.50
Fed Funds	2.375	2.375	2.375	2.375	2.375
US 10yr	2.50	2.60	2.70	2.60	2.55
AUD/USD	0.712	0.70	0.68	0.69	0.70

Source: Westpac Economics

Summary, things are changing towards a new state

- China, US, EU & Japan are all slowing. US consumer remains robust but investment is slow and inflation is low. US Federal Reserve on hold this year as growth slows. China is slowing but fiscal & monetary policy offsetting trade war.
- Official forecasts are way too optimistic for Australian growth, Westpac expects growth to slow below trend & inflation to remain well contained.
- House prices will fall 10–15% further in Sydney and Melbourne – negative wealth effect to hit consumption.
- Weakening business confidence and election uncertainty to slow investment and employment. RBA to cut rates twice in 2019.
- As consumption & activity remains lacklustre yield compression will continue. If bond yields don't fall as well then prices come under pressure to improve yields. Drift to core, higher yielding assets to continue.
- Low inflation, slower growth is here to stay (for a while at least).
- Foreign investors remain interested in Australia.

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Justin Smirk
June 30, 2017

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