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Tasmania

State Economic Download.

October 2023



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Contents.

Overview and Summary 2

Section 1 Business and Economic Outlook 3



SMEs and the Australian Economy	4
Global Economy	5
Australian Economy	6
Australian Consumers	7
Australian Businesses	8
Infrastructure Boom	10
Manufacturing Revival	11
Interest Rate Outlook	12
Australian Dollar Outlook	13

Section 2 Tasmanian Economy 14



Economic Performance	15
Population Trends	16
Labour Market	17
Consumer Trends	18
Housing Market	19
Construction Activity	20
Business Conditions	21

Section 3 State Comparisons and Forecasts



Summary	23
State Economic Performance	24
Workforce Comparison	25
What is the Misery Index?	26
Forecast Tables	27

Section 1

Business and Economic Outlook.

Empower yourself with local and global economic insights.

Pictured Judo Customer

David Wardle | Quik Corp



Section 1

The Economic Outlook and Australia's SMEs.

- Australia's economy is slowing led by a squeeze on consumer spending from the rising cost of living and higher interest rates. While the inflation squeezes households, Australia is in the midst of a full-scale construction boom lead by the strongest infrastructure investment in a decade, rising commercial construction and still solid pipeline of house building.
- Australia's SMEs faces a two-speed economy. As 2023 progresses some businesses are doing exceptionally well, particularly those connected to the construction boom, manufacturing or other industries continuing to invest in new production and facilities.
- But for businesses that face the Australian consumer, the operating environment is getting tougher and tougher. Consumers are tightening their belts; discretionary spending is falling and business cost pressures have not abated despite headline inflation easing.
- The chronic labour shortages of the post-pandemic economy of 2022 are becoming skill shortages as hundreds of thousands of new overseas arrivals fill the strong demand for low and semi-skilled workers. But the demand for specific skills remains unmet in many industries, not least the construction sector.
- The economy ahead is very different from what we have seen in the past 20 years. The supply side of the economy will be where all the action is. From investing in new technologies to combat labour scarcity, to refitting for the energy transition, it will be business and investment that drives the next economic expansion. SMEs must keep up with this dynamic business environment where cost management through investment will become a competitive necessity.



SMEs account for around half of total Australian output and almost two-thirds of business sector employment



The SME Business Activity Index is usually more volatile than for large businesses, but employment is more stable



SME Business Activity index was 50 in September compared to 53.7 for larger businesses.

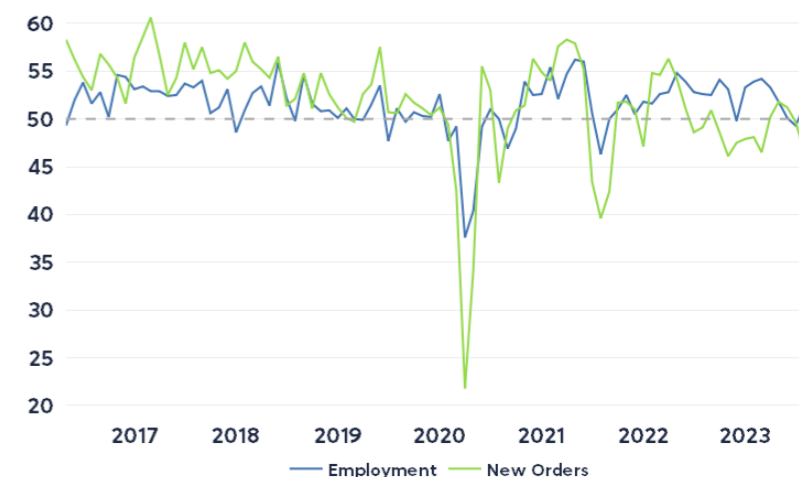


SME profitability has grown in a similar fashion to bigger businesses despite pandemic and post-pandemic challenges

What to watch

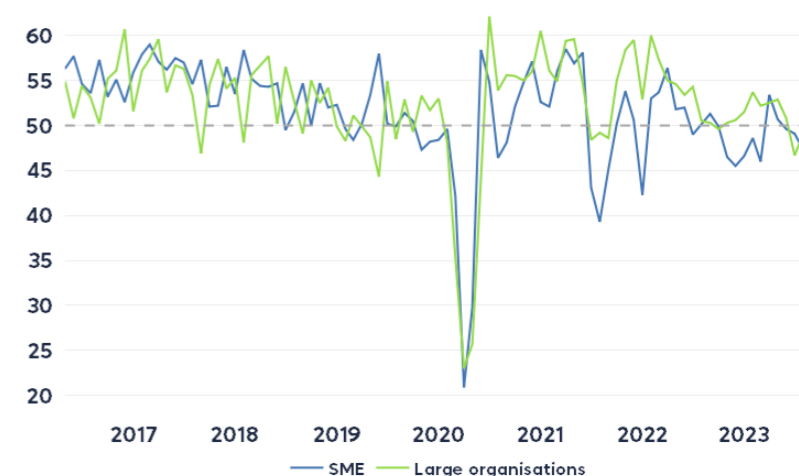
- SMEs are at risk of a further margin squeeze as the economy slows into 2024. Cost pressures are not going away quickly but as the economy slows SMEs are finding it harder to pass on costs to final customers compared to larger businesses.
- Cost cutting is the new black for Australian business in the next phase of the economic cycle. As margin pressures intensify and the economy slows, business must look to remove costs to maintain profitability.
- These pricing and profitability dynamics will determine the extent to which SME's will pull back on investment and hiring and hence the trajectory for the economy over the next two years.

Judo Bank SME PMIs – Employment and new orders
Index (neutral = 50)



Source: S&P Global, Judo Bank

Judo Bank Output PMI – SME and large organisations
Index (neutral = 50)



Source: S&P Global, Judo Bank

Global Economic Slowdown Underway.

- Fears of a global recession are falling away as the world's largest economies have proved resilient to higher interest rates and inflation.
- We're not out of the woods yet. Inflation remains well above desired rates, and the full effect of past interest rate increases is still to be felt.
- China's economy is a major concern as authorities navigate a deflating housing bubble, weak exports and soft domestic demand.

For much of the last 12 months, economists and financial markets have been preoccupied with the impending global recession in the wake of aggressive interest rate increases worldwide.

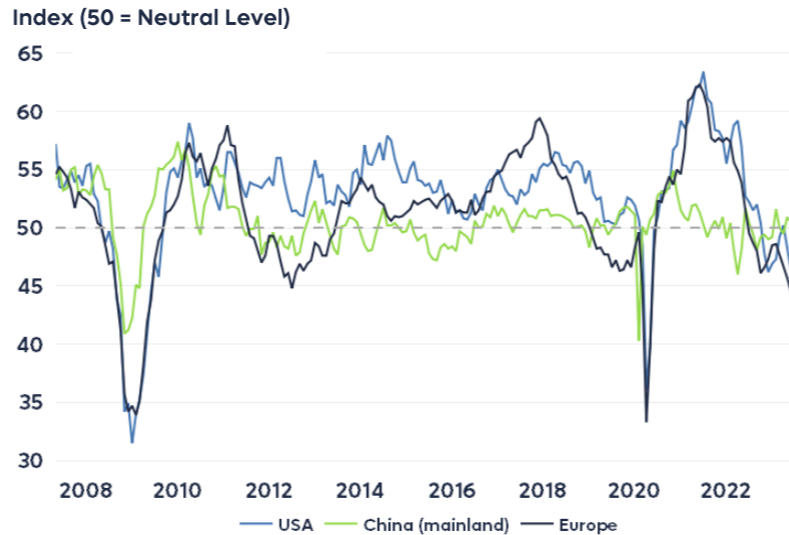
These fears have not materialised – the global economy has performed better than expected as activity has slowed, while business activity has held up. Labour shortages across many advanced economies have supported employment growth and household incomes.

The European economy is experiencing the weakest activity of the large economies. This shouldn't be a surprise given the proximity to the war in Ukraine and resulting energy shock from Russian gas supply being cut off. Germany's industrial economy has been particularly exposed to the energy market disruptions.

The European Central Bank appears fiercely committed to eliminating inflation, even if the cost is recession and job losses. We should be expecting weak economic growth in Europe right through 2024.

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Global Business Activity – S&P PMIs



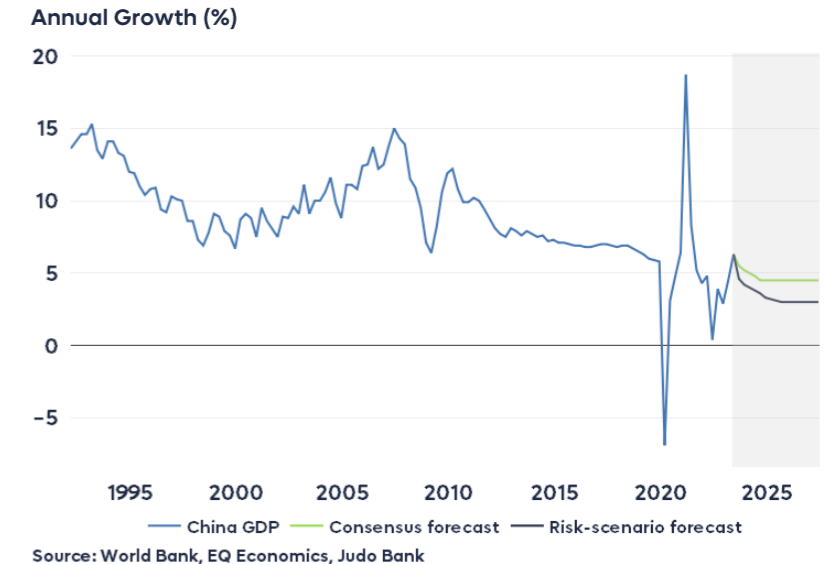
The US economy continues to defy expectations of a slump. The fear of a credit crunch in the wake of bank failures earlier this year haven't played out. The banking system has continued to provide credit to the economy, and business continues to generate new jobs.

A slowdown in the US economy is underway, but it's looking increasingly like a soft landing. Small business confidence has been very weak, at levels historically consistent with recession in the US. This needs to be watched.

Inflation is coming down, and wage growth is moderating. This should limit further rate hikes from the Federal Reserve and keep the US interest rate below 6%. If the US economy does experience a recession, it should be mild and short-lived.

The Chinese economy is of greatest concern as the initial bounce out of lockdowns in early 2023 petered out quickly. The economy faces a prolonged property market adjustment and a slump in exports as the demand for consumer goods weakens worldwide.

Chinese Economic Growth and Projections



The Chinese Government is reluctant to use the standard economic stimulus playbook, given stretched government finances and questions about the efficiency of more investment in infrastructure and heavy industry.

There's been some minor policy measures, including rate cuts, to help stimulate domestic demand. China is experiencing deflation as excess capacity in the domestic economy meets weak demand.

The Chinese economy is no longer the high-growth economy it has been for the past 40 years. Ageing and slowing population growth, as well as significant structural issues within the economic system mean that Chinese economic growth is expected to weaken more over the years ahead than we've seen in the past.



A key risk to the global economy is a much higher oil price due to tensions in the Middle East

Is Australia in for a Rough Landing?

- The economy remains on the RBA’s ‘narrow path’, which will hopefully allow us to return to the RBA target without inducing a recession.
- After an extended period of low interest rates, we should expect to see an increased financial distress in some parts of the economy.
- Strong labour demand and high population growth will support the economy through this soft patch. A recovery is just around the corner.

The Australian economy is experiencing an economic slowdown in 2023 due to tighter monetary policy, real wage declines and a higher income tax burden. This is squeezing household sector cashflows and putting downward pressure on discretionary spending.

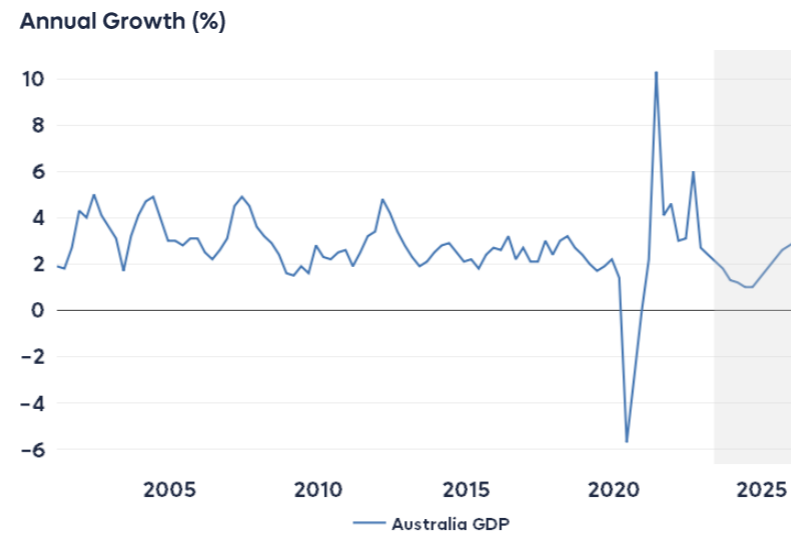
Essential consumption is being supported by strong population and employment growth.

Economic growth increased at an 1.7% annualised pace over the first six months of 2023, registering annual GDP growth of 2.1% over the year to June 2023.

This is a mild economic slowdown with few signs of genuine economic recession. The Australian economy remains on track for a soft landing in 2023/24.

The ‘rough’ element of Australia’s economic slowdown will be a rise in financial distress at the margins, driven by unsustainable activities amid historically low-interest rates over the past decade. Financial distress will not be widespread. Most household and business balance sheets have never been stronger.

GDP Growth – A Recovery is Around the Corner



Source: ABS, EQ Economics, Judo Bank

The challenge for many households is inflation, the rise in the cost of living not being matched by wage rises.

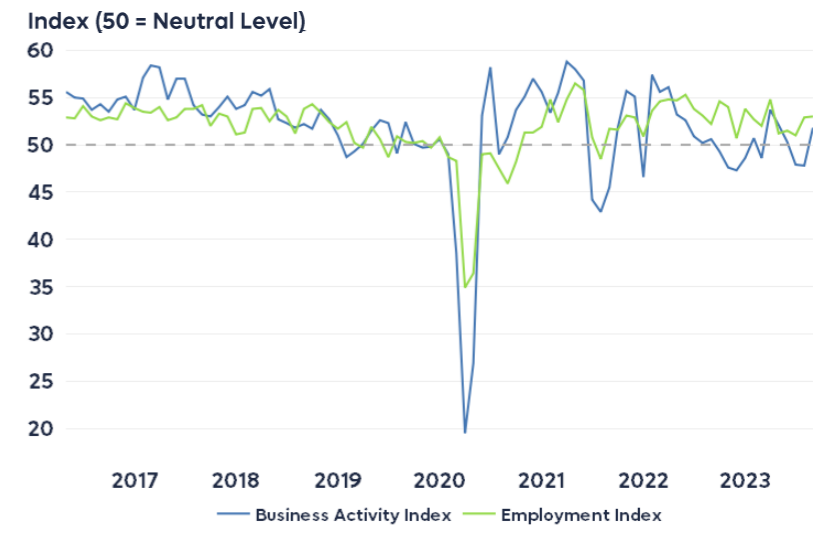
While consumer spending is weak, business investment is still strong. Mining investment is rising, while non-mining investment is up almost 10% over the year when adjusted for inflation.

Strong business profitability in recent years has played a big role in expanding business investment. Over the first half of 2023, we saw the first signs of weaker profitability.

The slowdown in consumer spending since the final quarter of 2022 is starting to impact business activity levels. Although most business surveys depict a positive backdrop, output and new orders have slowed over the last six months.

A unique feature of the post-pandemic economy is chronic labour shortages. They’re evident across industry and geography, likely reflecting

Judo Bank Services PMI



Source: S&P Global, Judo Bank

the retirement of the baby boomer generation and strong labour demand across the economy.

This may limit the extent of the downturn in economic activity as excess demand for labour will support employment growth even through a period of weak demand.

The other feature of the current environment that will support economic activity is low real interest rates. Even as inflation falls back towards the RBA’s 2% to 3% target over the next two years, real interest rates are expected to remain at low levels.

Strong population growth is supporting demand across the economy and helping to alleviate labour shortages. This too will support the economy through this period of adjustment.

We’re in the eye of the storm for Australian households. The next 12 months will be tough, but a recovery looks to be just around the corner.

Consumer Recession?

- Consumption growth has slowed from the high rates of 2022, but strong employment and population growth is keeping overall consumer spending growing.
- The focus of consumer belt tightening has been on discretionary items, particularly consumer goods.
- Another step down in spending in 2023/24 cannot be ruled out, particularly if employment weakens.

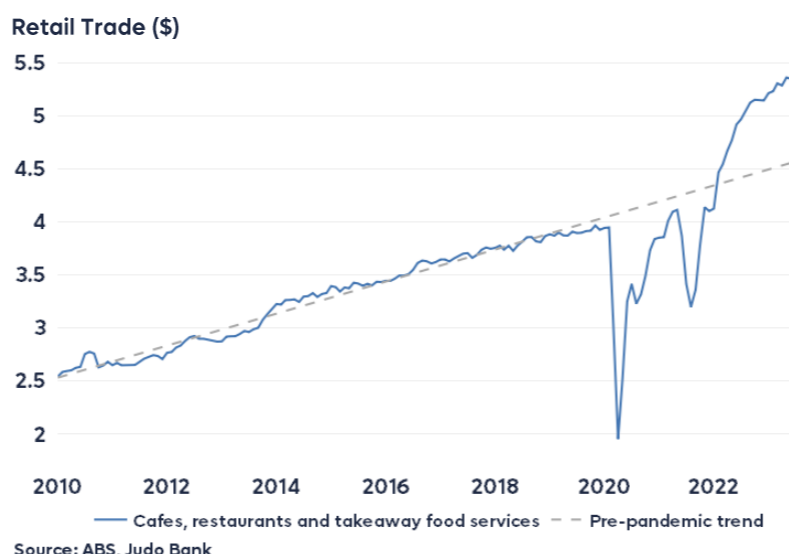
Over the past year, the weak point in the Australian economy has been a rapid slowdown in consumer spending growth. Rising interest rates, a higher income tax burden and falling real wages are squeezing household cashflows forcing widespread belt-tightening.

This has resulted in a drop in discretionary spending, which has fallen by about 1% in real terms from the high point in 2022. The latest retail sales data points to continued growth in people eating out, while goods spending is bearing the brunt of consumer belt tightening.

So far, we've avoided a consumer recession over the first six months of 2023 with modest growth in overall consumption. Even so, this is the weakest growth in real consumption since the Global Financial Crisis.

Consumer spending on essential items is being supported by strong population and employment growth right through to September. Unemployment is rising gradually, driven by high rates of workforce growth, not job losses.

Restaurants, Cafes and Takeaway Spend



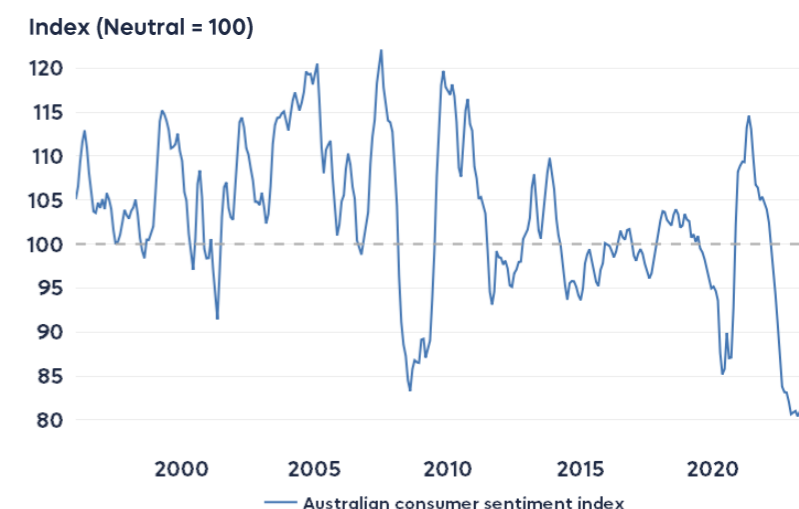
Consumer sentiment has been at recession levels for more than a year. The only time consumer sentiment has been weaker for such a prolonged period was in the early 1990s recession, when high interest rates crashed the economy and unemployment surged past 10%.

The contrast with the economy of 2023 couldn't be starker. Unemployment is at near 50-year lows with employment growing by an average of 40,000 net new jobs a month in 2023.

Weak consumer sentiment is being driven by the cost of living squeeze on household finances. For most Australians, higher wages have not matched rising prices.

The average real wage has gone back to where it was a decade ago. More than a decade of gradual improvement in real wages has been given back in the space of two years. Rising interest rates are often seen as the culprit in this story. Higher rates are just one part of the cost of living squeeze but are the main solution to high inflation.

National Consumer Sentiment



People are not only cutting back on discretionary spending, but they're also working multiple jobs to make ends meet.

Higher mortgage payments and rising rents are a part of this story, adding further pressure to budgets and worries about how long people can manage through this difficult period.

With the full effect of higher interest rates yet to work its way through the economy, another leg down in consumer spending can't be ruled out, particularly if employment growth falters.

The good news is that inflation pressures are gradually decreasing, and wage growth is gradually rising. This should help alleviate some of these financial strains.

The key will be employment. A period of lay-offs and business failures could trigger another step down in spending.

Section 1

Business: Resilience.

- The strength of the business sector is at the heart of the resilience of the Australian economy in 2023.
- Profit growth has eased back in 2023 but is still at very healthy levels.
- Business investment has been strong in the non-mining economy, supported by high levels of construction activity, solid business profitability and optimism about Australia's future.

The economic slowdown is underway, and the good news is that it looks like it will be a soft landing for most SMEs.

The Australian business community has navigated the pandemic and rising inflation pressures very well. Most Australian businesses, including SMEs, have strong balance sheets, bolstered by pandemic-era stimulus payments and the recent strength in the domestic economy.

A strong economy has allowed businesses to pass on most of the rising cost pressures, although this is uneven across industries and margins continue to be pressured.

Business profitability has been strong over the past three years, although it has eased back in early 2023 as economic activity slows and margin pressures persist.

Total business profits were about \$150bn in the June quarter almost 40% above the pre-pandemic period.

The profitability story extends to SMEs, with a key subset of this segment (unincorporated enterprises) showing strong profit levels as well over the past three years.

Strong balance sheets and healthy profits are a key driver of investment.

Australian businesses have undertaken record capital expenditure programs in 2023 with non-mining investment rising by more than 10% in 2022/23. And this is in inflation-adjusted terms.

In actual dollar spend, business investment rose to a record \$32bn in the June quarter, 23% higher over the year to June.

There are many reasons driving business investment. A growing economy with solid population growth requires more productive capacity.

Specifically, businesses are employing new technology, upgrading facilities and expanding production as the economy bounces back to normal following the disruptions of the pandemic.

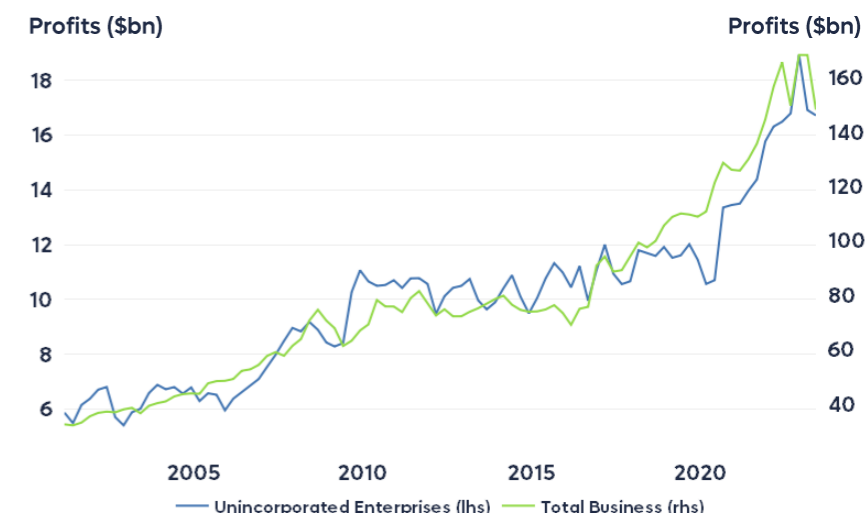
Construction activity is strong outside of the residential sector with both infrastructure spending and commercial activity still solid.

A critical issue for business is labour and skills shortages. While there has been some easing of shortages, this is the new normal, not just in Australia but around the world.

Businesses have been and will continue to invest in labour-saving technology, whether that be in better facilities with more automation, better machinery or new software programs.

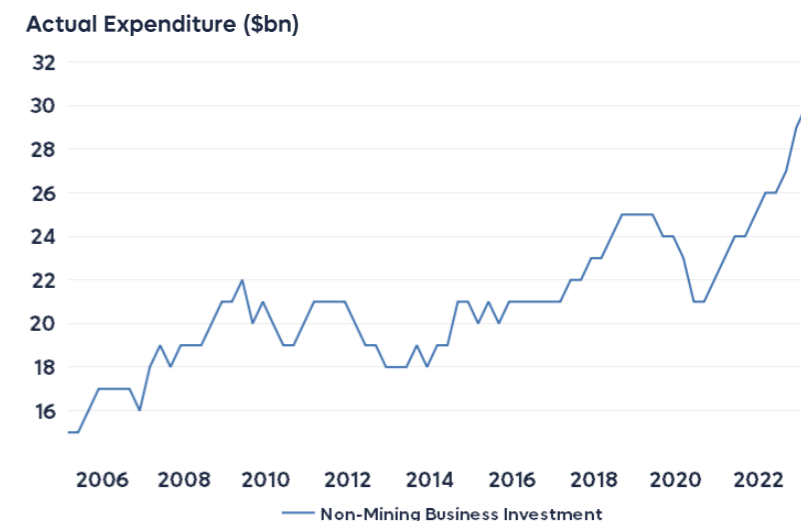
Australian businesses are also tackling the challenge of climate change, playing their part in the energy transition. From new energy sources to more energy-efficient production.

SME Profit Indicators



Source: ABS, Judo Bank

Non-Mining Business Investment



Source: ABS, Judo Bank



Non-mining investment rose by more than 20% in FY23

Business Warning Signs.

- **Cracks are appearing at the margins of the business community, which could impact profitability and investment over FY24.**
- **Insolvency rates are rising as interest rates increase and competitive conditions intensify.**
- **Evidence that SMEs are finding it harder to pass on cost increases as the economy slows in 2023 is emerging, which could hurt profitability and investment plans.**

Insolvencies reached a low point in the pandemic and have started to push higher in FY23 as higher interest rates put pressure on weak companies that have remained in business because of low interest rates and government support packages in recent years.

Over the past year, the number of business insolvencies has doubled to be back at the level seen prior to the pandemic. The construction industry has seen the biggest rise, but it is broader than that with most industries seeing an increase in business failures.

Leading up to the pandemic, historically low interest rates saw business insolvencies decline from the high point of 2013. In mid-2023 insolvencies remained 2/3 of the 2013 level.

Ultimately insolvency is the result of a business that is no longer competitive. Insolvency is a normal part of a market economy and is central to innovation and growth. A business that fails frees up labour and capital for more productive uses.

Insolvencies are likely to continue rising in FY24 and could play a role in the current economic downturn. It has been over a decade since we have seen a meaningful rise in business failures.

While cost and inflation pressures have eased over the past 12 months, they have not disappeared. Cost pressures across the business community remain higher than seen before the pandemic, with signs of a pickup in domestic business costs since the start of the new financial year on 1 July.

For much of this inflationary episode, these cost pressures have been felt equally by businesses large and small. And until this year, SMEs have been as successful as larger companies at passing on some of these cost pressures to final customers.

The Judo Bank Purchasing Managers Index suggests that through 2023, SMEs have had less success passing on cost pressures than larger companies. While it is early days, this is evidence that SMEs are experiencing a further intensification of margin pressures.

This will directly impact profitability and eventually could see hiring intentions cut, and investment plans shelved.

SMEs may just be the start of a more general margin pressure across the business sector that signals the start of the next stage of the economic downturn. This will likely involve a wave of cost-cutting as business seeks to offset margin pressure as the economy slows.

In the initial stages of an economic downturn, businesses will hoard labour for a period. Once business leaders are convinced the slowdown will be sustained, they look to reduce the size of their workforce.

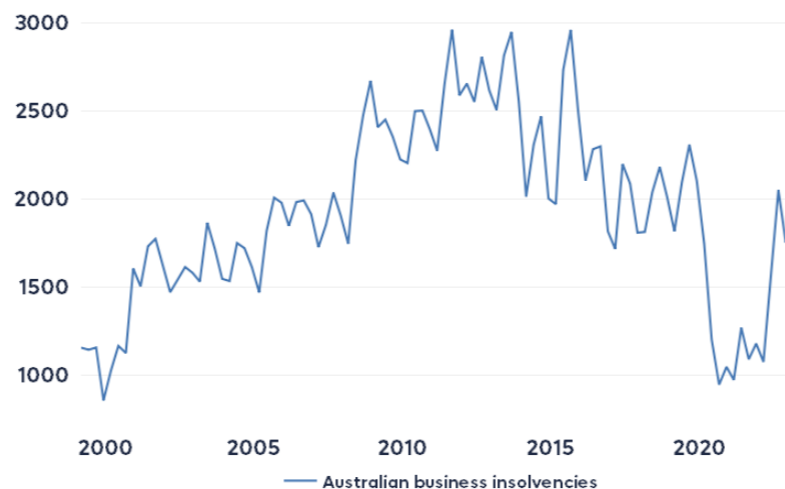
Labour hoarding exists because of substantial costs in hiring and firing people, particularly in a highly regulated labour market like Australia's.

Chronic labour shortages across the economy may raise the hurdle for businesses to shed labour. While the cost of firing staff may not have changed, labour shortages imply a higher cost of finding good employees.

Excess labour demand and labour hoarding could put a floor under employment, likely ensuring any economic slowdown we experience through 2024 is shallow and short.

Business Insolvencies

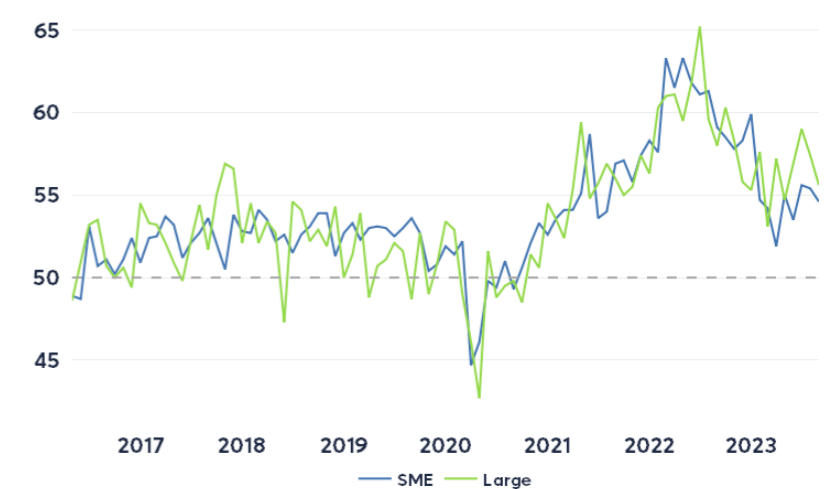
Quarterly Number of Insolvencies



Source: ASIC, Judo Bank

Judo Bank Prices Charged Index

Index (50 = Neutral Level)



Source: S&P Global, Judo Bank

Infrastructure Boom.

- Infrastructure investment is surging with a pipeline that stands at close to \$250bn, it is the strongest infrastructure construction environment in a decade.
- An infrastructure boom is diverting resources away from residential construction, potentially delaying the much-needed increase in dwelling completions.
- Infrastructure investment is critical to a fast-growing economy like Australia's. The policy should focus on encouraging more capacity in the construction industry.

Infrastructure spending is rising strongly across Australia, led by a raft of major projects in NSW and Victoria. While Queensland numbers remain relatively low, a big increase is expected ahead of the 2032 Olympics and a big hospital investment program. The official chart numbers do not include the \$13bn plus transport program the Queensland Government is planning.

The infrastructure spending in the smaller states has shown a gentler increase, although Tasmania has seen a doubling of the infrastructure pipeline since the pandemic.

It should be noted the Western Australian figures from the Bureau of Statistics exclude private-sector investment. The chart in the data probably understates activity in WA, given the upswing in mining investment which usually includes a significant private sector infrastructure component.

This is great news for the long-term economic outlook. Australia has a history of taking too long to put infrastructure in place for a growing economy. A growing economy underpinned by a rapidly expanding population needs infrastructure investment to fulfil its potential.

The upswing in infrastructure investment is broad-based across a range of sectors. Most of the infrastructure projects currently underway are in transport, although new renewable energy projects are getting underway.

According to Infrastructure Australia, the total infrastructure pipeline is almost \$1 trillion, with about half underway and the other half under consideration but likely to proceed.

The biggest challenge is labour shortages which Infrastructure Australia estimates at 214,000 workers in 2023, which could rise to more than 400,00 over the next two years.

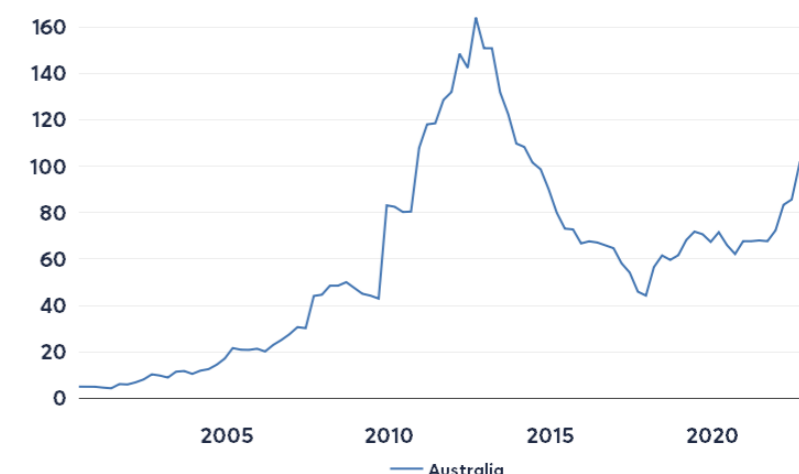
Infrastructure plans underway are estimated to total \$237bn, the highest in more than a decade, with 84% of this happening across the three big east coast states.



Total infrastructure projects under consideration and in progress are worth almost \$1trn

Infrastructure Pipeline (Private Sector)

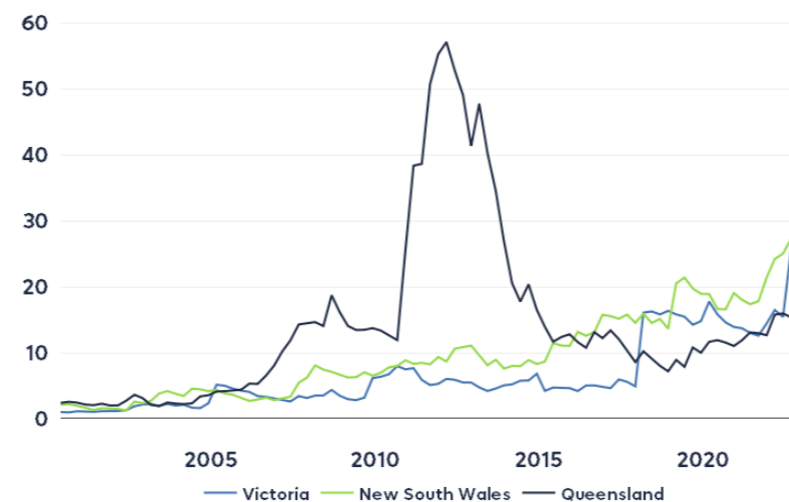
Work yet to be done (\$bn)



Source: ABS, Judo Bank

Infrastructure Pipeline by State

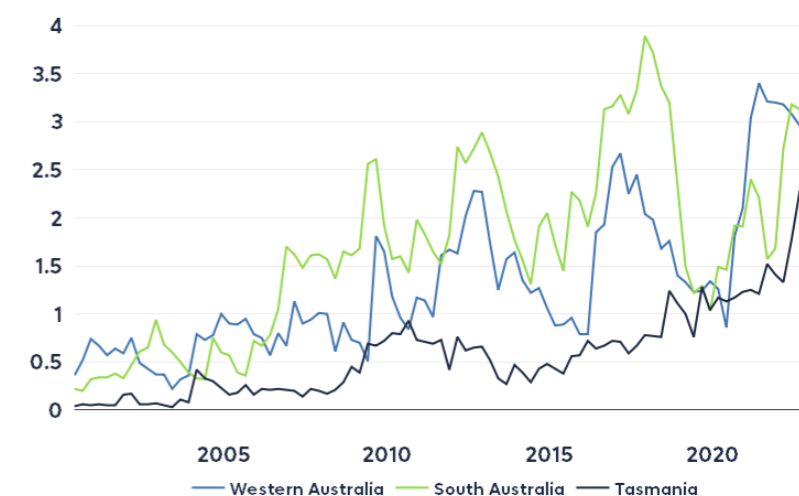
Work Yet to be Done (\$bn)



Source: ABS, Judo Bank

Infrastructure Pipeline by State*

Work Yet to be Done (\$bn)

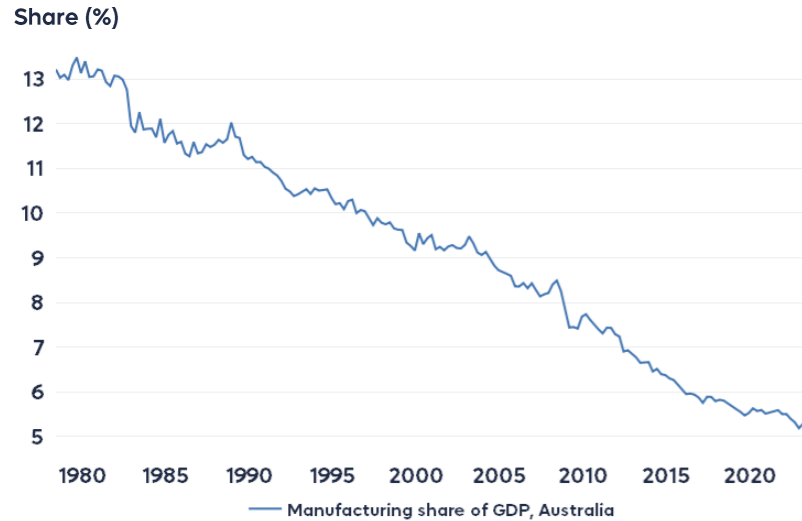


Source: ABS, Judo Bank

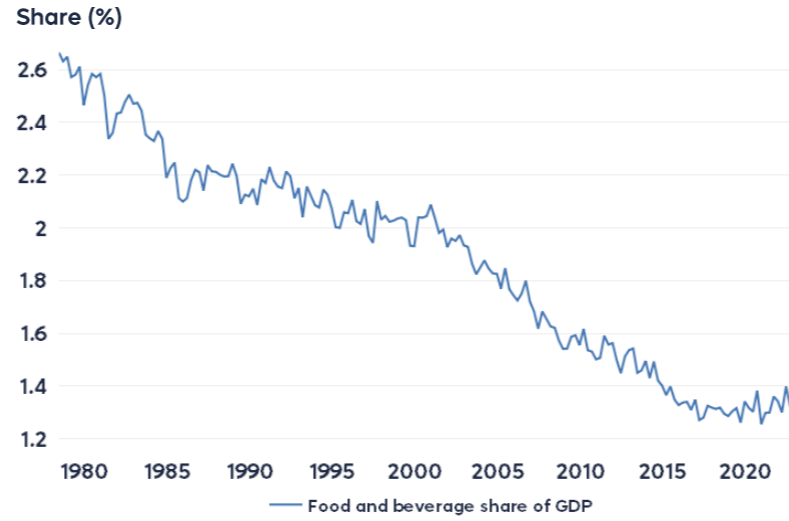
*Western Australia reflects private sector infrastructure only. Mining infrastructure is mostly put in place by the private sector.

Manufacturing Revival?

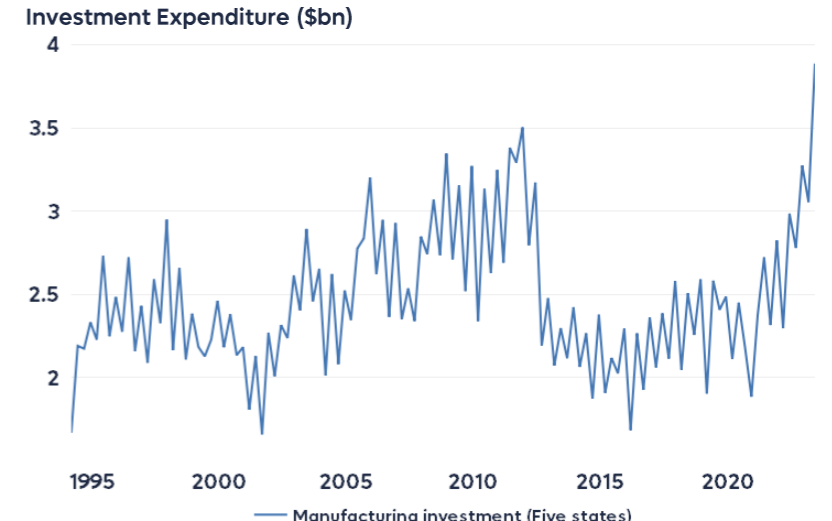
Manufacturing Share of Production



Food and Beverage Share of Total Output



Manufacturing Investment (Five States, \$bn)



- There are some tentative signs of a revival of Australia’s manufacturing sector after decades of decline.
- Manufacturing investment is rising across all states, led by Victoria and NSW. It is too early to be confident that we will arrest the decline of manufacturing in Australia
- Building supply chain resilience, a low \$A, and industry policies are all supporting Australia’s manufacturing sector; but can it be sustained?

Manufacturing has been falling as a share of production for 50 years. The slide has been persistent right up to 2023. This is a trend observed in most advanced economies around the world that mainly reflects the growing importance of the service sector as well as the rise of emerging market manufacturing over the past 30 years.

The decline of manufacturing has been even more evident in Australia where a resources

boom has made it even more difficult for Australian manufacturers to compete on a global stage. The strong Australian dollar through the period from 2006 to 2014 was the final nail in the coffin for many domestic manufacturers.

There have been widespread concerns about Australia’s loss of manufacturing capacity for a decade. Even before the pandemic the government was concerned about critical industry capacity and supply chain resilience. These concerns were realised in the pandemic.

The new government is also focused on reviving Australia’s industrial base across various industries. A modern industry policy is far more nuanced and complex than subsidies and tariff protection, the traditional tools of the interventionist.

Prompting supply chain clusters, research and development while attracting foreign investment

are all key components of a modern industry policy. While it is early days, we might be starting to see some evidence emerge of a revival of Australia’s manufacturing capacity, at the very least, the process of decline is being arrested.

Manufacturing investment, the first wave of any revival, is picking up across the five largest states. Although inflation is impacting the data, manufacturing investment was just under \$4bn in the June quarter, the highest on record and almost double the average of the pre-pandemic era.

While the overall manufacturing share continues to fall, one of the government’s critical industries, food and beverage, appears to be stabilising and even picking up its share a little in the past two years.

It is early days, but we might be at the start of a manufacturing revival in Australia, the first in more than 50 years.

Interest Rate Outlook.

- **The RBA has normalised monetary policy with a cash rate of 4.1% and is now in watch-and-wait mode.**
- **Further rate hikes cannot be ruled out and in the absence of a major economic downturn, rate cuts are a long way off.**
- **Interest rates around current levels are the new normal. Rate cuts will be limited over the years ahead and the next tightening cycle could see a new high for the RBA cash rate.**

Inflation is moderating from the 2022 high point of 7.8% but remains well above the RBA’s 2% to 3% target at 5% in August. The underlying inflation rate is a little higher than this with most measures around 5.5%.

Inflation is expected to moderate further and finish 2023 between 4% and 4.5% on most measures. The objective is for inflation to be within the target band by the middle of 2025.

The RBA has publicly said they could return inflation to target in 2024, but that would mean taking the cash rate above 5%. They are actively making a short-run trade-off between unemployment and inflation.

It is way too early to pop the champagne corks in the battle against inflation. After a soft inflation outcome in the June quarter, pricing conditions in the September quarter have been less favourable.

Global commodity prices are rising once again. The biggest impact will be from oil prices which, combined with a soft currency, is pushing retail petrol prices to record highs well above \$2 per litre.

Business surveys are showing higher domestic costs at the start of the 2024 financial year.

Australia’s approach contrasts with many other central banks, which have much less patience and are seeking to rid their economies of high inflation as quickly as possible.

Australia’s labour market, despite its ‘tightness’ (low unemployment) is not generating a rapid rise in wages growth. There are differing views on why this is the case, but the highly regulated industrial relations system, with a high incidence of 2 and 3 year enterprise wage agreements, is clearly playing a role.

With many workers’ wage outcomes locked in for multiple years the RBA is confident that we will not see an unsustainable rise in wages above their ‘soft target’ of 3% to 4% (wage growth they believe is consistent with their target assuming productivity growth of around 1% per year).

Indeed, the RBA’s current set of forecasts have wages growth ‘peaking’ at 4% in 2023 before falling back to 3.5% over the following two years.

This is the biggest risk to Australian interest rates over the next 2 years. If wage growth continues to creep up above 4% in 2024 it will be hard to see the RBA keeping the cash rate below 5%.

4.1%

The RBA cash rate in October 2023, the highest in over a decade



The household sector is feeling the pinch from higher interest rates, evidenced by consumption growth slowing

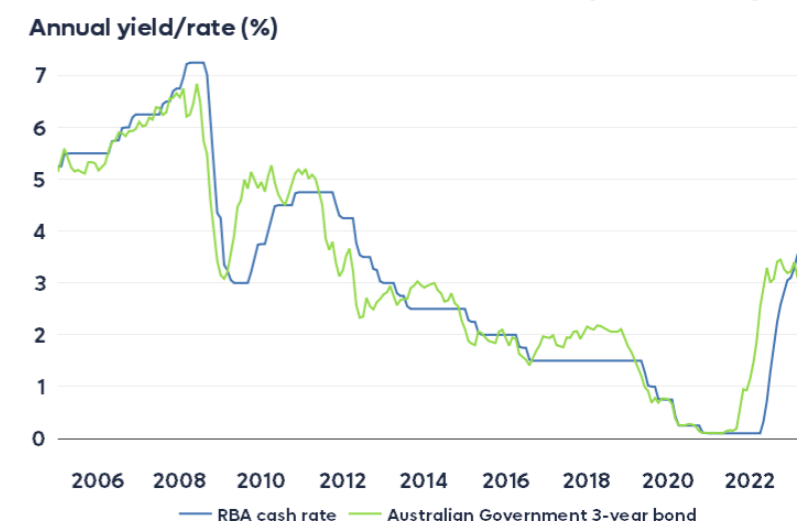
The RBA thinks they have interest rates at about the right level to get the economy to slow sufficiently to remove the inflation from the economy. They have not increased rates since June, a genuine pause.

High interest rates are clearly having the desired effect by reducing free cashflow within the household sector and slowing down the growth of consumer spending.

Slower consumer spending and higher interest rates are yet to have a big impact on Australian business sector. Hiring intentions and investment plans are strong while investment continues to grow.

The RBA needs the economy to continue to slow and inflation to fall if interest rates are to remain on hold. For the time being, the risk to interest rates is for hikes, rather than cuts.

RBA Cash Rate and 3 Year Bond Yield (2000-2023)



Source: ABS, Judo Bank

The \$A is on Shaky Ground.

- **The RBA is the laggard in the global rate hiking cycle putting downward pressure on the \$A. We expect to see the negative interest rate differential working against the \$A for FY24.**
- **Commodity prices remain elevated, supporting the currency, although the recent rally in the iron ore prices has had little impact on the \$A.**
- **It is hard to envisage a scenario where the \$A rises on a sustained basis over the next two years. The currency looks set to remain soft for the foreseeable future.**

The Australian dollar has performed poorly amongst most other currencies since the start of the financial year. The RBA has kept the cash rate at 4.1% since June, while many other central banks around the world have continued to hike.

While the RBA has increased rates by 4 percentage points since May 2022, many other central banks have done more.

The benchmark global interest rate is the US Fed funds rate; the US equivalent of the RBA cash rate. It increased to 5.5% in July, the highest level for US interest rates since 2008 and 1.4 percentage points (140 basis points) above the Australian cash rate.

It isn't that often that Australian interest rates are below those in the US. At 140bp, the current differential is the highest on record.

When the RBA passed up the opportunity to hike in August, the penny dropped for the financial markets. Any chance that the RBA would keep pace with interest rate hikes in other economies disappeared.

There is a good chance the RBA is forced to increase rate by more than other central banks over the 6-12 months ahead, narrowing the rate differential and providing some support to the currency.

Over the months ahead the risk to the \$A appears to be from a weaker Chinese economy and a big fall in our commodity export prices. Nervousness is building about the Chinese economy and with-it, Australia's exports. China is by far Australia's largest export market. The exports are concentrated in primary commodities, the price of which are largely determined in global markets.

Despite concerns about the Chinese economy, commodity prices are holding up at high levels even if down from the high point seen in the wake of the Ukraine war. Historically commodity prices have had a big impact on the \$A but this correlation has broken down over the past 3 years as the interest rate differential has gone in the other direction.

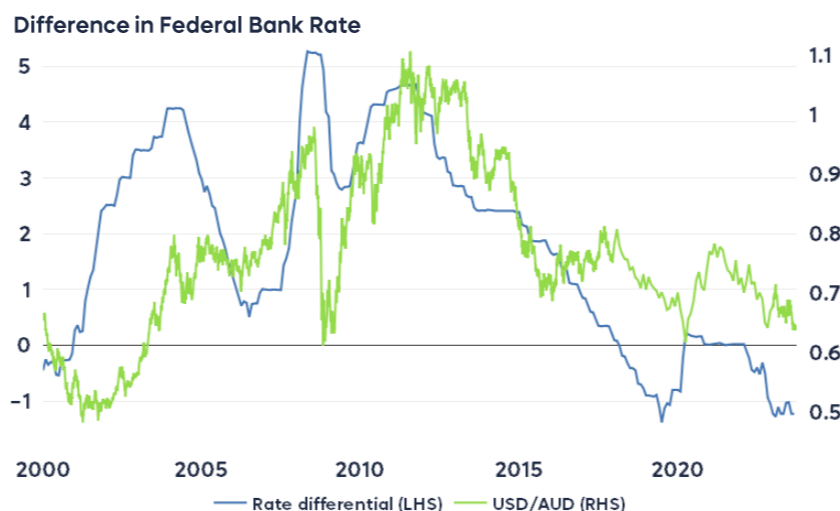
If commodity prices were the only factor determining the level of the \$A, it would be at parity with the \$US. By contrast, if the interest rate differential was the only factor determining the level of the \$A, it would be at US50c.

What we are seeing is a tug of war between these two influences, the result is the \$A is struck in the middle.

If the RBA continues to hold interest rates steady (or only hikes a final time to 4.35%) the significant risk for the \$A is commodity prices. Concerns about the Chinese economy and the demand for commodities could see commodity prices fall and drag the \$A lower.

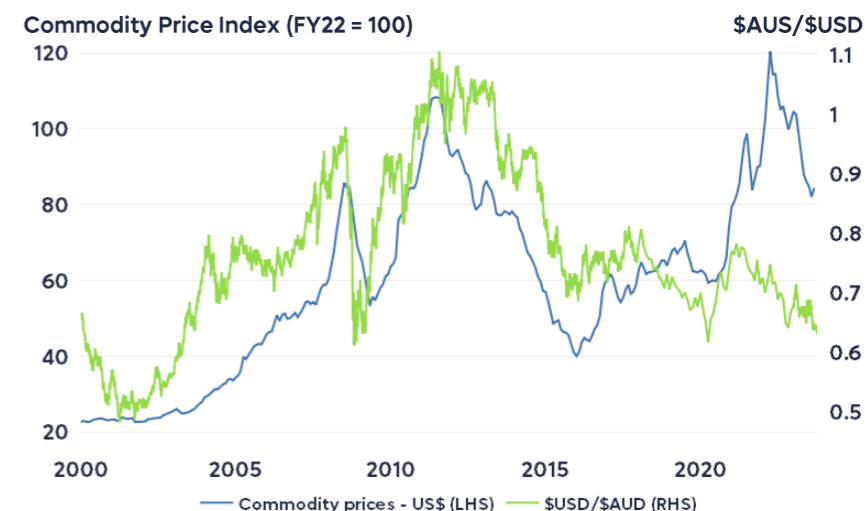
One of the unknowns is the role of LNG prices. Australia is a major exporter of LNG following the significant expansion of capacity in the past 15 years. Rising energy prices could support the \$A as LNG export values rise.

\$A and the Interest Rate Differential



Source: RBA, Judo Bank

\$A and Commodity Prices



Source: RBA, Judo Bank

Section 2

Tasmania.


Will favourable population dynamics return?



Tasmania Economic Summary.


- Tasmania is experiencing a construction boom with a lift in building and construction activity across residential, commercial and infrastructure. The pipeline of dwellings under construction is above 3000, almost double the pre-pandemic annual average pipeline.
- Strong residential construction activity follows one of the biggest bursts in population growth in decades over the five years to 2021. The population boom has come to an end over the past year despite a lift in net overseas immigration.
- Tasmania’s population dynamics have been volatile for decades and the recent past is no different. Government projections have a return of strong population growth over the next four years.
- The infrastructure investment upswing will bring jobs and new business opportunities across the state for many years to come.
- Weaker growth in population since 2021 has kept consumer spending soft for an extended period. Cost of living and higher interest rates have put even more pressure on overall spending in the Tasmania economy in the past year.
- The weak population dynamics in recent years also appears to be playing a role in pushing dwelling values down in 2023 even as other mainland markets have started experiencing prices gain in 2023.




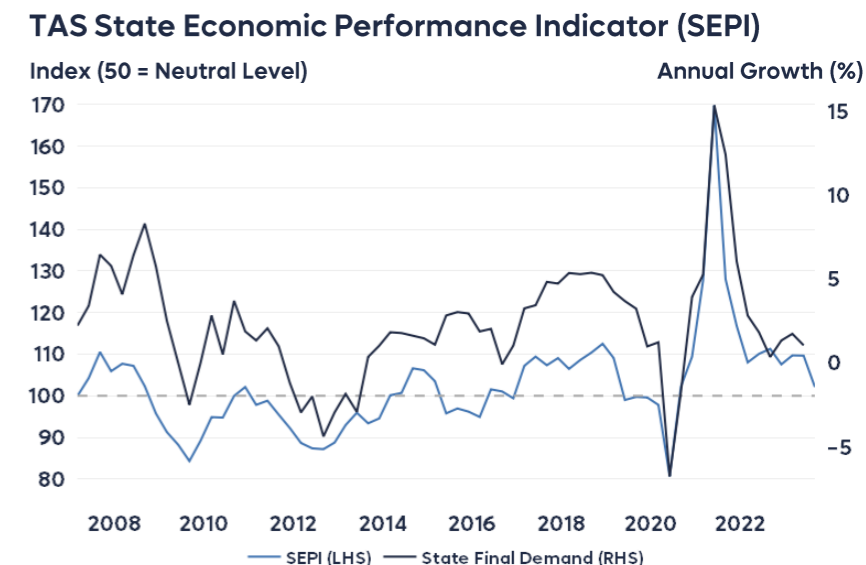
 **Tasmania is the weakest performing economy at the start of FY24, with activity slowing further through the September quarter.**

 **Historically high overseas migration levels projected for FY24-FY27.**

 **Tasmania house prices have not increased in 2023.**

 **The residential construction pipeline is strong with 3,100 dwellings under construction, double pre-pandemic levels.**

 **Job advertisements in August are still at the high level of 3,900, more than double the number in August 2019**



According to the Judo Bank State Economic Performance Indicator (SEPI) the Tasmanian economy has experienced modest growth in 2023.

The September reading has turned sharply lower, leaving Tasmania at the bottom of the state economy’s performance league table.

A number of factors are pointing to a soft patch in Tasmanian economic activity heading into the final months of 2023 including weak employment and hours worked and a drop in job advertising.

Population dynamics are critical to Tasmania’s outlook. Without strong growth, the economy will struggle to grow vigorously.

Population Outlook Critical.

- **Population boom ahead – Tasmania’s population is projected to increase more in the next 4 years than ever before.**
- **Tasmania saw the most significant increase in population on record in FY23, driven by an unusually high level of overseas migration.**
- **Interstate migration out of Tasmania might not return to pre-pandemic levels as anticipated.**

Tasmania has a history of population volatility, with big swings in population growth driven by changes in interstate and international people flows. Throughout the last 30 years, Tasmania’s population growth has been much lower than the national average and has experienced a declining population at the turn of the century and very briefly in 2012.

A population boom commenced in the middle of the last decade, continuing into the initial stages of the pandemic. For the first time in generations, Tasmanian population growth exceeded the national rate between 2017 and 2021 because of strong net inflows of people from the rest of Australia and overseas.

The boom has busted in the past two years despite the opening of international borders driving Australia’s population growth to record highs. The big swing factor has been interstate migration, which peaked mid-2021 and has declined since. Over the year to March 2023, almost 2,000 residents left Tasmania for another state.

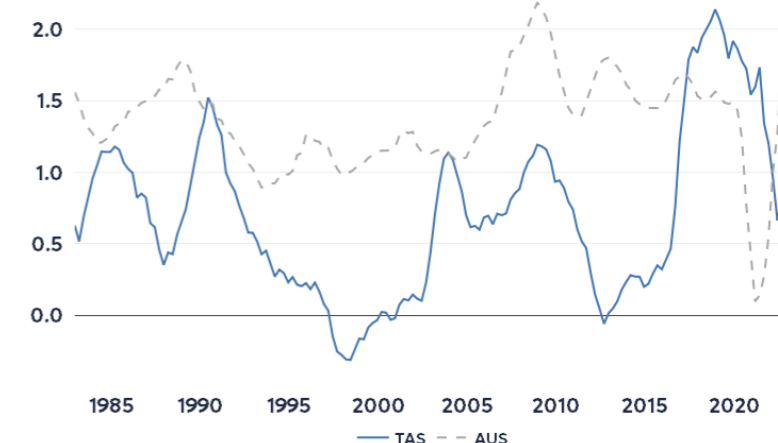
Tasmania has seen a rebound in net overseas migration over the past year after a net loss of people overseas briefly in the pandemic. This has never happened before. Over the year to March 2023 net overseas migration jumped to 3,900, about the level seen immediately before the pandemic. Government projections anticipate that net overseas migration into Tasmania will rise even further over the next 4 years.

The Government projections also anticipate a return to strong net interstate migration, resulting in the strongest four years of population growth recorded in Tasmania. Tasmania’s population was 573,000 in March 2023 and is forecast to rise by 21,700 over the next three years, an annual growth rate of 1.2%, in line with the national average.

This appears to be a bold forecast given Tasmania’s history of population growth volatility and the government’s tendency to use ‘mean reversion’ as a forecasting tool. Tasmania’s tight labour market and strong construction pipeline suggest the extra population is needed. If indeed it does occur, Tasmania should have a period of strong economic growth.

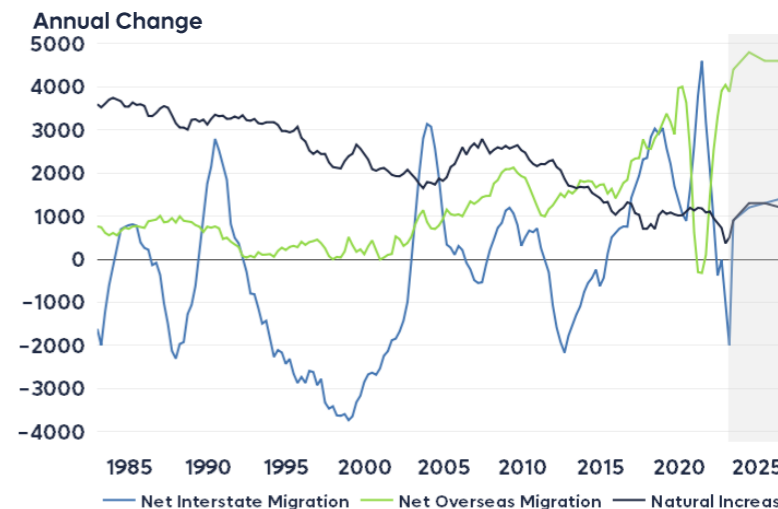
Tasmania has experienced a common pandemic population dynamic with a net outflow of people from Hobart to the rest of the state. While this shift to regional Tasmania ceased in FY23, it does not appear to be reversing.

Tasmania Population Growth
Annual growth (%)



Source: ABS 3101.0, Judo Bank

Components of Tasmania Population Change
Annual Change



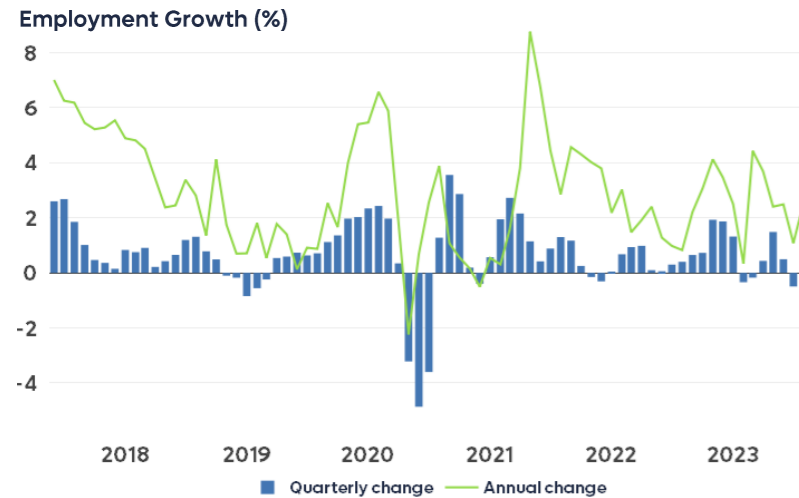
Source: ABS 3101.0, Federal Budget 2023-24, Judo Bank



Population growth is anticipated to remain at record-high levels over the next 3 years.

A 'Super' Tight Labour market.

Tasmania Employment Growth



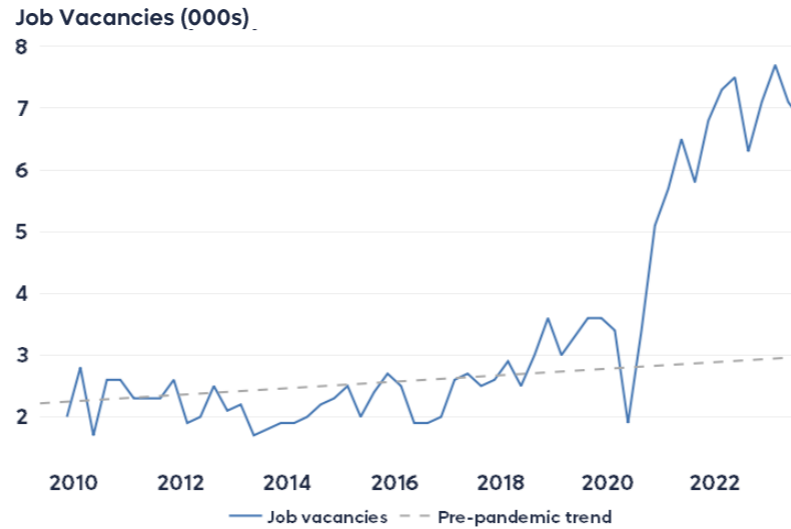
Source: ABS 6202.0, Judo Bank

- **Despite consumer demand slowing and confidence at record lows, the labour market remains historically tight, with job vacancies still over double the pre-pandemic trend.**
- **There are signs of the labour market starting to cool in FY24, with employment growth slowing and job ads trending downwards.**

Employment growth has slowed in 2023 after a strong performance coming out of the pandemic years, with a net loss of jobs in July and August. It is too early to be confident in the recent trend with monthly data, particularly in the small state economies, volatile and subject to revision.

The Tasmanian labour market remains strong, despite the slowdown in employment growth. Labour market tightness reached new heights in Tasmania over the past year, with the ratio of unemployed persons to job vacancies at 1.9 in August 2023 is a historically low point compared to the November 2019 level of 4.7. That's a fall from five unemployed persons

Job Vacancies vs. Pre-Pandemic Trend



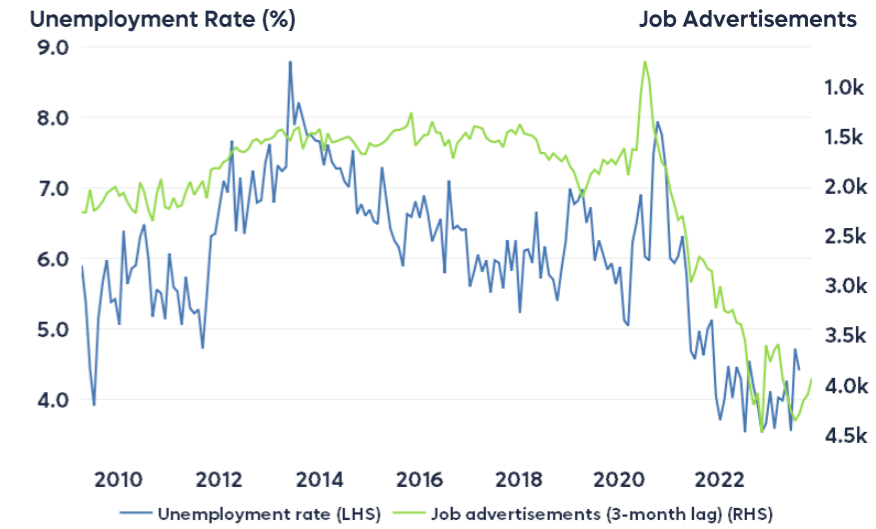
Source: ABS 6354.0, Judo Bank

per vacant position to almost two unemployed persons per vacant position. While this ratio is higher in Tasmania than other states, by local standards, a labour market this tight has not been seen for generations.

The level of job vacancies in Tasmania, at 6,800 in August, is more than twice the pre-pandemic trend level. With such a tight labour market Tasmania appears to be handling the large migration inflows well, with hours worked continuing to grow strongly, up 4.1% in the year to August quarter 2023. The unemployment rate has also been maintaining its record low level for the most part, bar a volatile jump up to 4.7% in July 2023.

We are however seeing signs of the labour market cooling through a range of indicators. Despite being at record 'tight' levels, hours worked growth and the unemployment rate appear to have hit their respective peaks/troughs and

Unemployment Rate vs. Job Advertisements



Source: ABS 6202.0, National Skills Commission (8/23), Judo Bank

are showing signs that a potential labour market cooling is set to occur over the year ahead. With large inflows of migration tied with cooling consumption demand, the demand and supply balance for workers will improve across a range of industries. Labour market cooling is also evident in job advertisements, with the SEEK reporting that the decline in applications per job ad bottomed out in mid-2022, along with the growth in job ads.

Further cooling is anticipated over the year ahead with increased labour through migration and a continued cooling in economic activity. This, however, will not be equal across industries, with those in the construction industry facing a sizeable pipeline of projects that will keep demand for labour high for a number of years to come.

Consumer Demand is Weakening.

- Consumers are facing worse conditions than in any other state with consumer sentiment at record low levels in 2023.
- Weak population growth over the past 3 years has been a handbrake for consumer spending which has contracted in real terms since 2020.
- The story for goods and services is starkly different, as Tasmanians pull back on goods consumption sharply through 2023, while continuing to grow their services and hospitality spending.

Despite a sharp recovery through September and October, consumer sentiment among Tasmanians has sat at record lows through 2023, averaging a level of 76.4 since the year commenced. This was primarily driven by family finances being low over the year and a sharp decline in consumer perceptions about economic conditions over the year ahead in the year to June 2023.

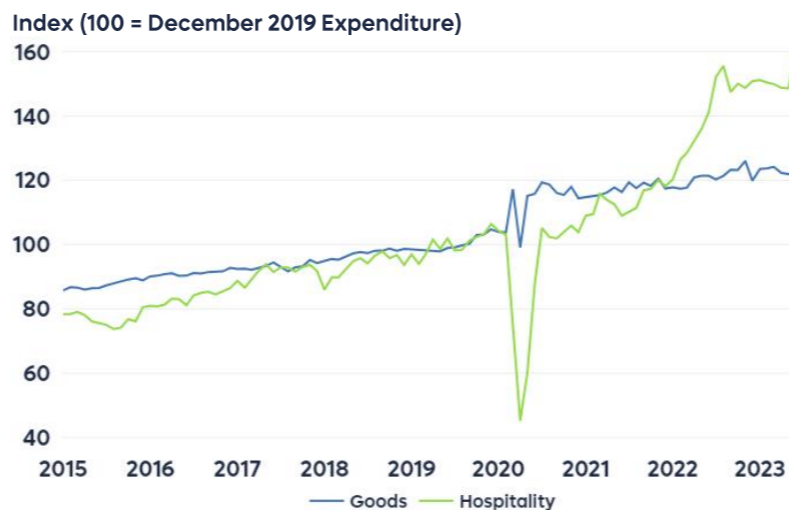
Negative perceptions about the future economic landscape, along with a weak household financial position, are translating into the weakest retail trade growth across the states. Retail trade growth has slowed down drastically in 2023 as consumers feel the pain of higher rates, cost of living and falling dwelling prices.

This slowdown in growth in nominal terms is a decline in consumption in real terms, as the growth seen through FY23 in consumer spending can be attributed primarily to higher prices. While there has been a slowdown in

consumption volumes, inflation-adjusted retail trade levels remain 4.8% above where they were pre-pandemic, which is weaker growth since 2019 than all other states. This reflects relatively weak population growth in contrast to the states. After adjusting for inflation, consumer spending in Tasmania has not grown for the past three years.

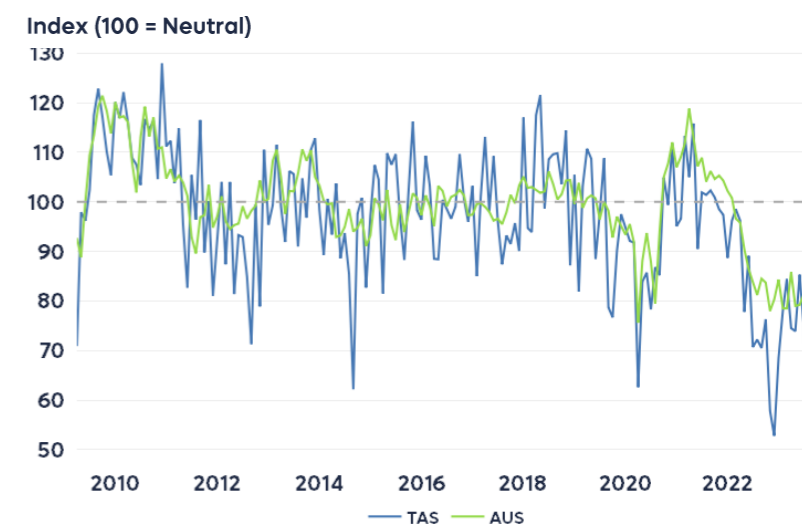
Tasmanians cut back spending on goods in the year to June quarter 2023, with the amount of goods consumed down by 5.1% over the year to June quarter 2023, while prices rose 6.0% leaving retail good sales up 0.6%. While clearly cutting back on goods to manage the increased costs of living, consumers are still increasing hospitality spending and consumption at above pre-covid rates. Despite a 6.2% increase in inflation, Tasmanians consumed approximately 4.9% more in June 2023 as opposed to the year prior, resulting in 11.4% uplift in eating-out and take-away revenue.

Retail Turnover – Goods and hospitality



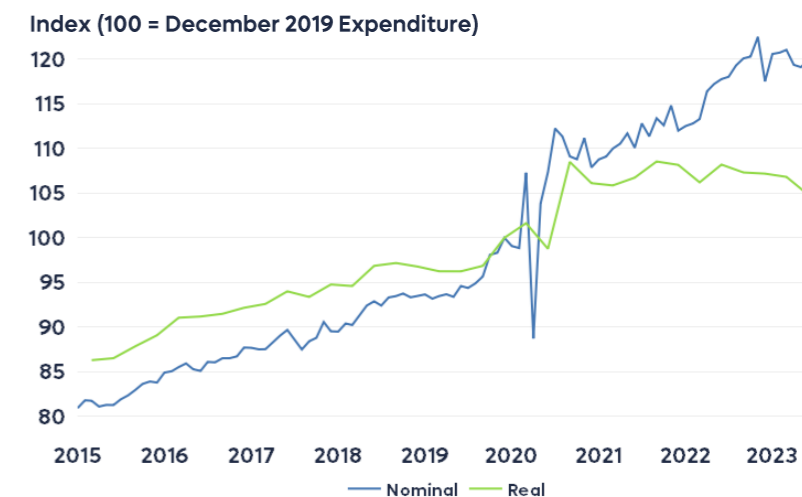
Source: ABS 8501.0, Judo Bank

Consumer Sentiment versus National



Source: Westpac - Melbourne Insititute, Judo Bank

Retail Turnover Growth – Nominal and real



Source: ABS 8501.0, Judo Bank

Managing Director Comments

"The most prevalent challenge we're noticing for customers is finding and retaining skilled staff"

— Ben Tuszyński

The Housing Market is Struggling to Keep Up.

- Tasmanian house prices matched the national increase through the pandemic.
- Through 2023, Tasmania has performed worst of all the states, failing to see the rebound in house price growth being experienced across the mainland states.
- Projected population growth will prevent a significant downturn in prices through 2024.

While most capital cities have seen house price growth through 2023, property prices in Tasmania continue to fall. Dwelling prices in Australian capital cities experienced no change in median dwelling price in the year to June 2023, driven by a dwelling price recovery through the first half of 2023. This is not something Hobart experienced, with dwelling prices down 3.8% in the year to September 2023. A combination of comparatively lower investor interest through the first half of 2023 tied with a migration of Hobart residents to regional Tasmania has put a dampener on the recovery of Hobart house prices.

Loan activity has cooled through over the past year, driven disproportionately by investors activity slowing down, likely in response to the very high price growth experienced over the past four years.

In the August quarter 2023, the total number of new property loan commitments was down 21.4% on the year. A disproportionately large component of this was the fall seen in investor demand, down 26.0% over the year.

Owner-occupier activity slowed to a lesser degree, down 19.4% over the same period. Activity is anticipated to pick up again in the coming year with positive interstate and overseas migration flows through FY24 boosting state demand for housing.

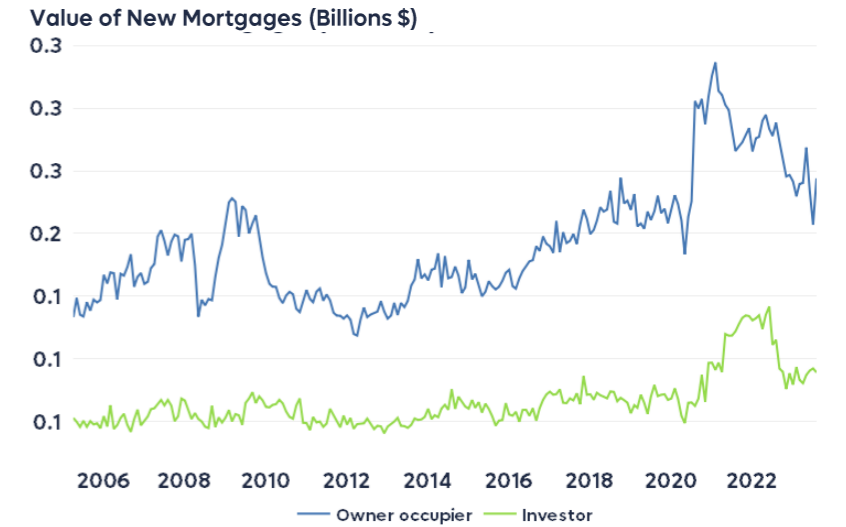
Regional Tasmania outperformed regional Australian city median prices and has maintained price gains through the pandemic. Since the pandemic commenced, house prices in regional Tasmania have risen 54.0%, with the median property price at \$501k in August 2023, \$9,000 lower than the pandemic boom peak of \$510k in June 2022. With the persisting cost of living pressure over the next year and rising intrastate/interstate/overseas migration flows, it's possible that regional Tasmania will be able to maintain the post-pandemic price gains.

The housing construction pipeline in Tasmania is strong, about 50% higher than the average of the decade prior to the pandemic. If the government's high population projections prove correct, this new housing supply will be needed. This new supply should help ease housing shortage concerns and take pressure off historically high prices.



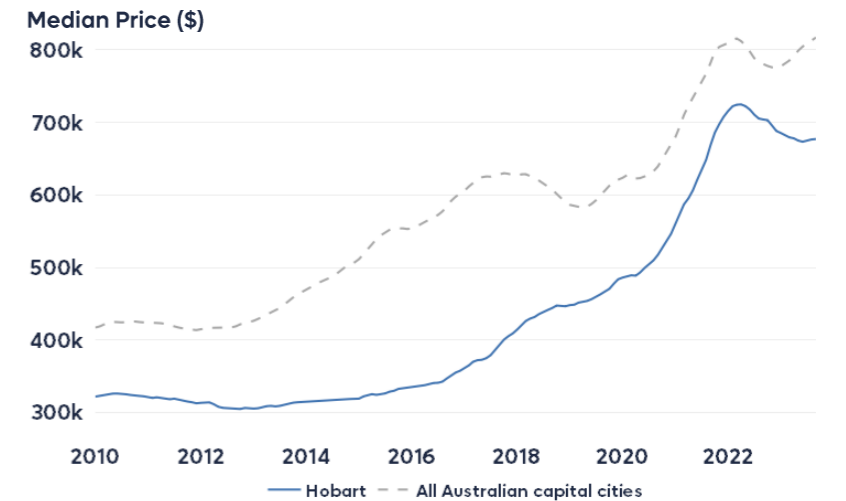
Median dwelling price in Hobart fell 3.8% in the year to September, while the nation's median dwelling price grew 3.7%.

New Mortgage Commitments – Owner Occ. and Investors



Source: ABS 5601.0, Judo Bank

Median Capital City Dwelling Price – TAS and AUS



Source: REA Proptrack, Judo Bank

MD Comments

"In the longer term we would hope that increased housing supply works in tandem with forecast population growth to reduce volatility in house prices."

— Ben Tuszynski

Construction Activity.

- Tasmania is in the midst of a construction boom with high activity levels across residential commercial and infrastructure.
- Similar to other states, construction of dwellings in Hobart is predicted to fall short of new demand.
- The Tasmanian government is keeping labour demand high in the construction industry, with large amounts of non-residential construction in building and health planned for the next two years.

Dwelling approvals have slowed through FY23 and early FY24, with the number of approvals in August quarter 2023 at 679, down 25.5% on the year prior. A reflection of lower investor and owner-occupier demand.

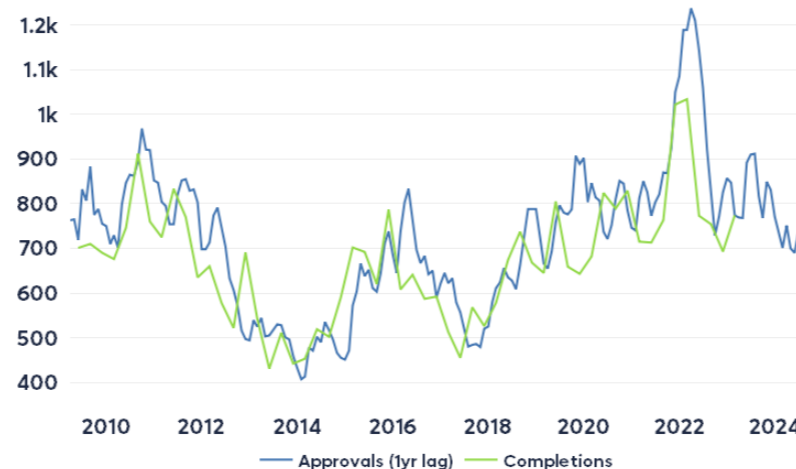
Despite the slowdown, the stock of dwellings in the pipeline remains historically high at approximately 3,100 dwellings in June 2023, almost double the pipeline in the decade prior to the pandemic.

Even with the strong pipeline, the National Housing Finance and Investment Corporation predicts that dwelling construction in Hobart will fall short of the required amount to account for household growth by approximately 1,900 homes over the next two years. Given the ambitious population projections outlined in the 2023-24 Federal Budget, this is likely an underestimate.

Education building activity continues to hold the largest share of commercial construction activity in 2023, with \$166m in completed school upgrades and redevelopments through the year to March 2023.

Tasmania Residential Construction Activity

Number of Approvals/Completions per Quarter



Source: ABS 8752.0, Judo Bank

Going forward, the government plans to maintain this level of spending on education facility upgrades in FY24 and FY25, announcing \$221.9m of planned expenditure over these years. There is also a projected uplift on the horizon in hospital and healthcare facility construction activity, with the 2023-24 state budget outlining planned health infrastructure expenditure of \$201.3m over FY24 and \$195.8m in FY25.

Private work on industrial building construction has continued to climb in FY23, a trend that commenced in FY18. This is likely a reflection of growth in the digital economy and an increasing number of industrial firms choosing to locate in Tasmania, amid rising cost pressures and comparatively lower land prices in the state.

The 2023-24 budget saw the Tasmanian government pledge approximately \$375m for the development of the Macquarie Point stadium, which if it passes the planning

Tasmania Infrastructure Pipeline

Value Projects in Pipeline (\$ Billions)



Source: ABS 8762.0, Judo Bank

stage, is expected to generate thousands of construction jobs.

The pipeline of infrastructure projects is well elevated on pre-pandemic levels, at \$2.2bn in June 2023, driven by the commencement of Tasmania's largest-ever transport infrastructure project on record, the construction of the new Bridgewater Bridge. The project, which is expected to be completed and ready for use by the end of 2024, will draw down on 200 full-time equivalent positions and has a budget of \$786m. The bridge will improve the accessibility of Bridgewater and surrounding suburbs accessibility to Hobart as the state continues to grow with migration.

With a sizeable pipeline of expected and potential projects in the non-residential and infrastructure space, demand for labour in the residential housing industry may not easily be met in the near term, despite federal and state government initiatives to spur on dwelling investment.

Business Conditions.



Wages in Tasmania grew at **3.9%** through FY23, down slightly from the March high of 4.1%.

- **Business conditions mixed despite strong construction activity.**
- **The sharp increase in capex since the pandemic has come to a halt, with big declines in investment over the past year.**

Post-pandemic, capital expenditure had been increasing sharply, reaching \$617m in September 2022, 80% above the average level seen through 2019. This was primarily driven by the amount of equipment and plant investment by businesses increasing 93% over the same period.

This, however, appears to have come to a halt, with annual investment levels moderating through the March and June quarters. With a strong construction pipeline, business investment is expected to increase over the next two years.

While seeing a higher growth rate than the rest of the nation through the post-pandemic boom, investment growth in Tasmania has softened through FY23, while Australia's has continued to climb.

The tight labour market through FY23 has brought wage growth to Tasmania in line with the rest of the nation. Annual wage growth in June 2023 was 3.9% and equal between the private and public sectors. Despite Tasmania's historically tight labour market, it does not appear to be translating into excessive wage growth. This could change quickly if the demand for labour picks up.



Investment growth in Tasmania appears to have come to a halt with growth slowing to **2.3%** over FY23.

Tasmania has a relatively small workforce and will rely on attracting workers from interstate or overseas.

Based on data from Xero Small Business Insights, sales growth for small businesses has been decreasing in line with the national trend. In June 2023, the growth rate was lowest across all states at 2.7%, dropping from its peak of 23.1% growth in the year leading up to April 2021 during the pandemic.

Small business wage growth is still high relative to other states, even though performance is weaker in terms of sales growth with wages growing 3.3% in the year to June, slightly lower than the official data for all organisations.

The Xero Small Business Insights Team has reported that small businesses in Tasmania are downsizing more than those in other states. From June 2022 to June 2023, there was no change in headcounts in Tasmania, whereas all other states experienced growth. In addition, the percentage of businesses increasing their workforce is declining, currently at 30.4%, which is 7.6 points below the pre-pandemic average. On the other hand, the share of businesses that are downsizing is increasing, reaching 25.5% in June 2023, which is 1.9 points higher than the pre-pandemic average. Compared to other states, Tasmania has experienced the most significant drop in hiring businesses and the most significant increase in downsizing businesses.

Investment in Plant and Equipment – Nominal and real

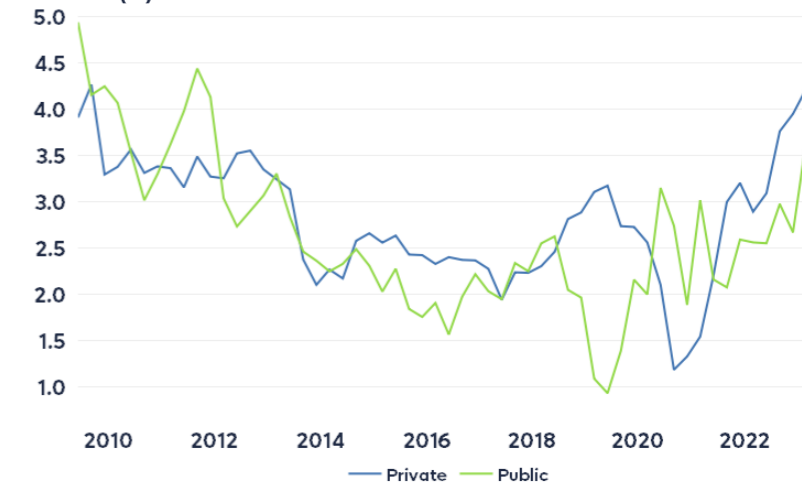
Expenditure (\$ Billions)



Source: ABS 5625.0, Judo Bank

Wage Growth – Private and public sector

Growth (%)



Source: ABS 6345.0, Judo Bank

Managing Director Comments

"Over the past year, many customers have moved away from investment in favour of limiting costs and generating efficiency."

- Ben Tuszynski

Section 3

Comparisons and Forecasts, October 2023.

A review of the business and economic conditions between the six States.

Pictured Judo Customer

Hamish Coates | Rocky Ridge Brewing Co.



South Australia: Strongest Performing State Economy.

Despite all states using the same currency, facing the same interest rates, and falling under the umbrella of federal fiscal policy, the six states of Australia could almost be viewed as six separate economies, each facing a unique set of problems and opportunities.

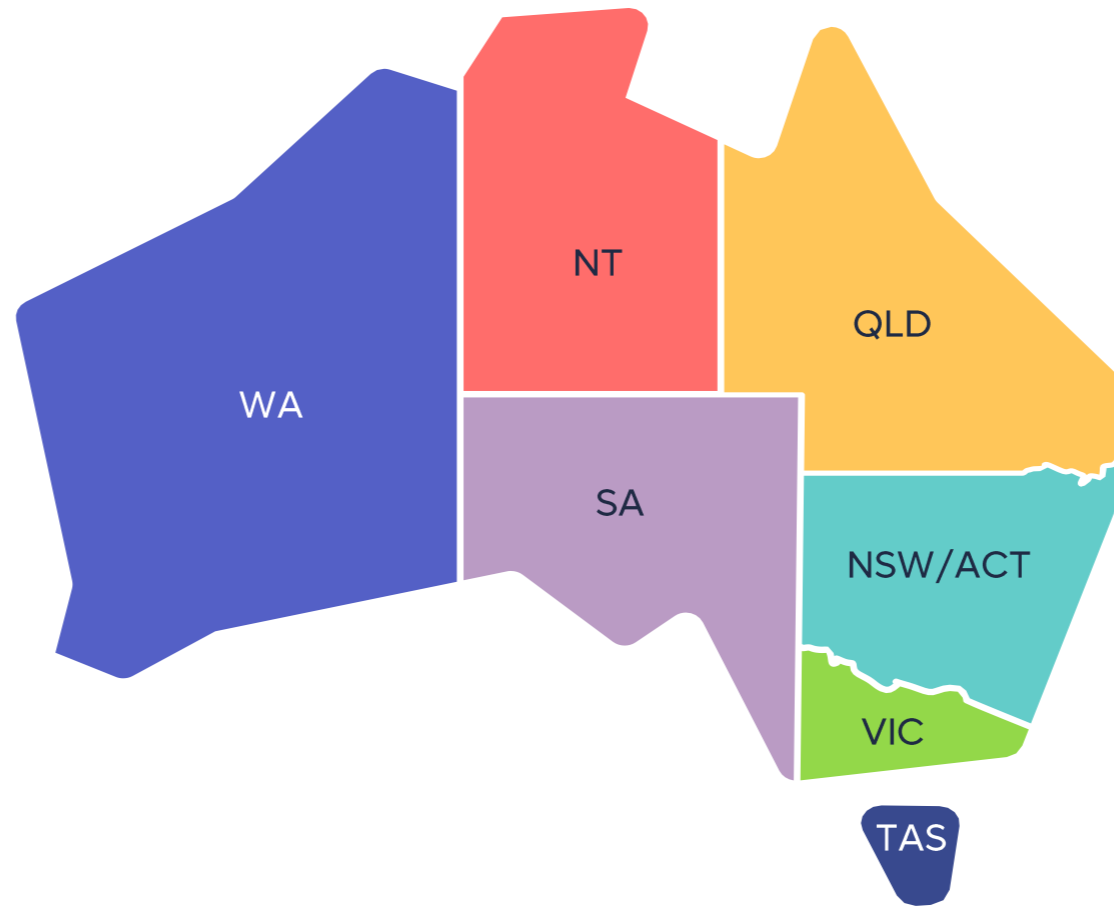
Infrastructure is in focus for NSW and QLD, but for different reasons. The NSW government has bolstered infrastructure to accommodate the growth of Western Sydney, with projects such as the Western Sydney International Airport opening the door to even faster economic growth and investment in western Sydney and regional NSW.

Similar to what has been seen around the world, when a country holds the Olympics, there is a significant ramp-up in infrastructure spending. QLD is at the beginning of this infrastructure boom.

Victoria is in a difficult position, particularly regarding housing shortages. With the highest debt-to-GSP ratio, the Victorian Government has begun taxing its way out of a deep fiscal hole, which we fear will have adverse impacts on business and dwelling investment in the future.

Western Australia and South Australia are seeing growth while others slow, particularly in the housing sector. Relative affordability of both states tied with improved employment opportunities are expected to drive more migration to the State than currently anticipated.

For Tasmania's economy population dynamics are critical. A population boom over the years leading up to the pandemic has fallen away in recent years. The Federal Government is expecting a strong rebound in Tasmania's population growth over the next 5 years which will be supported by the current wave of investment in housing and infrastructure.



106.9

South Australia
Following two difficult decades, SA's economy could be at the start of a renaissance

106.3

Victoria
A high share of national immigration and softening dwelling approval rates could cause trouble ahead.

104.4

New South Wales
While consumer demand slows through FY24, NSW's infrastructure boom will keep the economy moving.

104.0

Western Australia
On the cusp of another mining boom?

102.4

Queensland
The starters gun has fired, with Queensland anticipated to experience a sustained construction boom leading up to the Brisbane Olympics

102.1

Tasmania
To continue its pre-pandemic boom, the Federal Government's ambitious population projections need to come to fruition

State Economic Performance League Table (Sept' 2023)

1. South Australia	106.9
2. Victoria	106.3
3. New South Wales	104.4
4. Western Australia	104.0
5. Queensland	102.4
6. Tasmania	102.1

State Economic Performance.

South Australia scores highest SEPI through September 2023

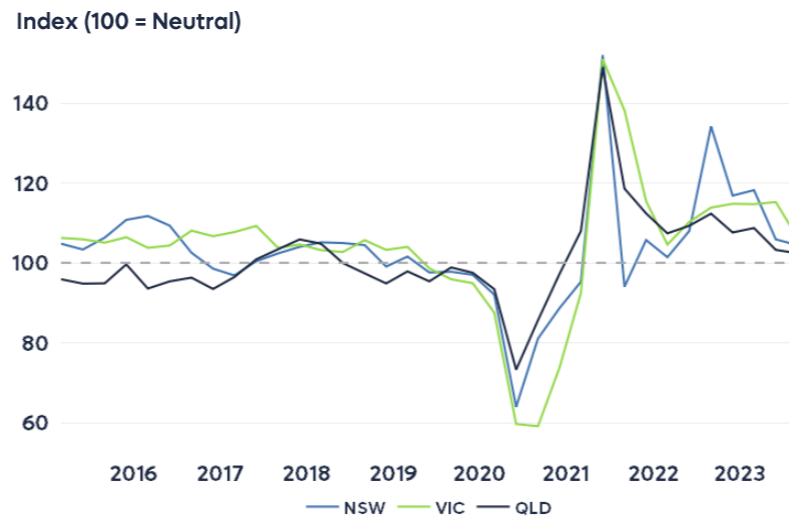
- South Australia ranked highest in economic activity through the September quarter, with continued strength in the labour market.
- All the States of Australia have recorded above-trend SEPI results, although growth momentum is slowing in all states.
- Queensland and Tasmania sit at the bottom of the Performance Table in September, with SEPI results just above 102, which still points to growing economies.

Over the September quarter, South Australia's State Economic Performance Indicator (SEPI) was ranked the highest at a value of 106.9, followed by Victoria in a close second at 106.3. The driving factor for South Australia to come out on top was the relative resilience in job ads, continuing to expand at above historical rates.

Both South Australia and Victoria are experiencing above-average levels of hours-worked growth, suggesting that the high overseas migration levels are effectively being absorbed into the labour force. South Australia has seen real business investment expand more through FY23 than any other State.

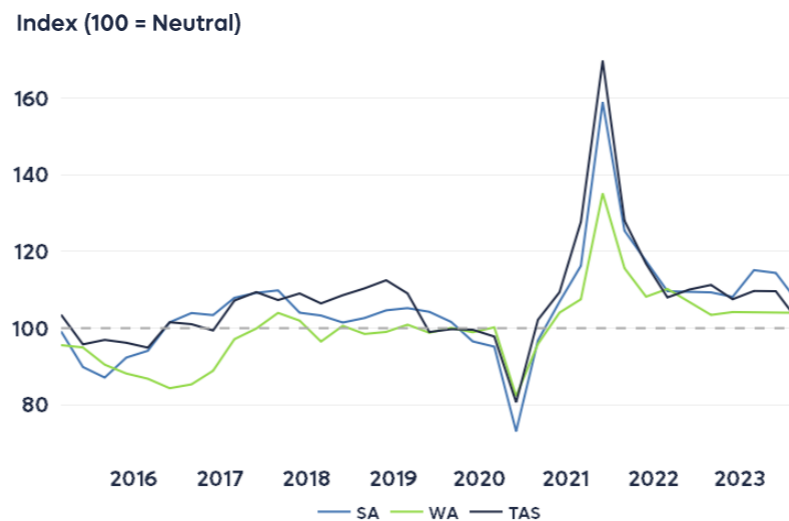
While the economy has begun showing signs of cooling through 2023, SEPI figures suggest that relative to historic levels, economic activity in each state has continued to expand throughout the year. While expected to soften, each state's final demand figures are anticipated to see growth through the September quarter.

SEPI – Larger states



Source: ABS, National Skills Commission, Judo Bank

SEPI – Smaller states



Source: ABS, National Skills Commission, Judo Bank

State Economic League Table Q3 2023

State Economic Performance Indicator

1. South Australia	106.9
2. Victoria	106.3
3. New South Wales	104.4
4. Western Australia	104.0
5. Queensland	102.4
6. Tasmania	102.1

The September quarter reading is an estimate based on the data available at the time of publication. All readings are subject to future revisions that normally occur with time series data.

Judo Bank's State Economic Performance Indicator combines the growth rates of a range of economic variables and reflects whether a state economy is expanding or contracting relative to historical trends.

At 100, the indicator is at a neutral level. Above 100 indicates the economy is growing above the long-run average rate, while below 100 indicates economic activity is growing slower than average.

Workforce Comparison.

- Western Australia has the tightest labour market across Australia and, unsurprisingly, the strongest wage growth.
- Despite having the tightest labour market except Western Australia, New South Wales wage growth has lagged behind other states through FY23.
- All State labour markets are starting to show signs of easing, but remain at historically 'tight' levels in September 2023.

Despite an unbelievably tight labour market, wage growth has been contained below 4% annually for all states except WA. Dwelling prices are recovering in all States after slumping through the first half of FY23, albeit Tasmania and Victoria are recovering at a lot slower rate.

All States across Australia are experiencing an unprecedentedly tight labour market. Western Australia in FY23 reached extreme lows, with the ratio of unemployed persons to job vacancies falling below one, which has never been seen before.

Despite showing signs of slowing, the demand for labour is still well below the pre-pandemic trends across all states, particularly in QLD, SA and TAS.

With this labour market tightness comes wage pressure, which is picking up across all states, most notably in Western Australia. The mining state saw wage growth of 4.2% over FY23, the largest of all states by three percentage points. NSW has seen softer wage growth over FY23 relative to other states, however, only marginally. This softer growth is likely driven by the larger population growth experienced by the state.

Workforce Statistics Across The States

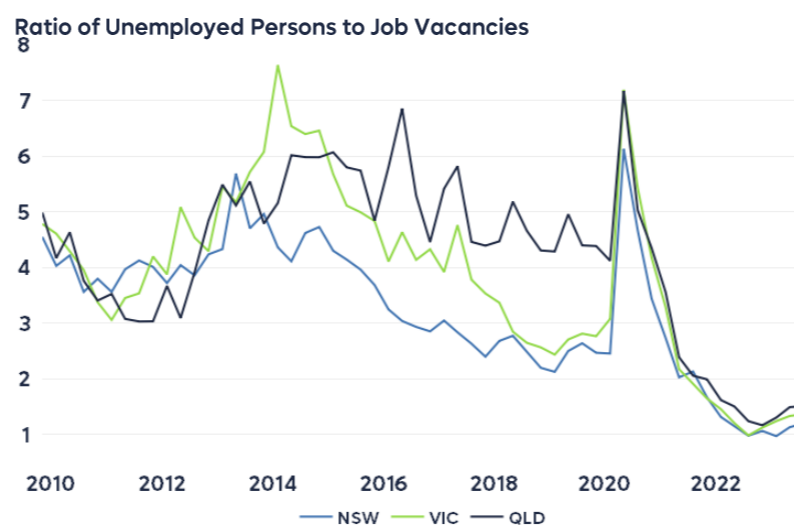
	NSW	VIC	QLD	SA	WA	TAS
Labour Market Tightness Ratio (Unemployed/Vacancies)	1.2	1.4	1.5	1.6	1.1	1.9
Labour Underutilisation	10.0%	10.2%	11.1%	11.5%	9.7%	11.2%
Unemployment rate	3.6%	3.5%	4.1%	3.6%	3.8%	4.4%
Employment to Population Ratio	64.0	65.1	63.6	62.1	66.7	60.0
Annual Wage Growth	3.4%	3.6%	3.7%	3.7%	4.2%	3.9%
Average Weekly Wage	\$1,832	\$1,833	\$1,791	\$1,678	\$2,039	\$1,619

Source: ABS, REA Proptrack (September)



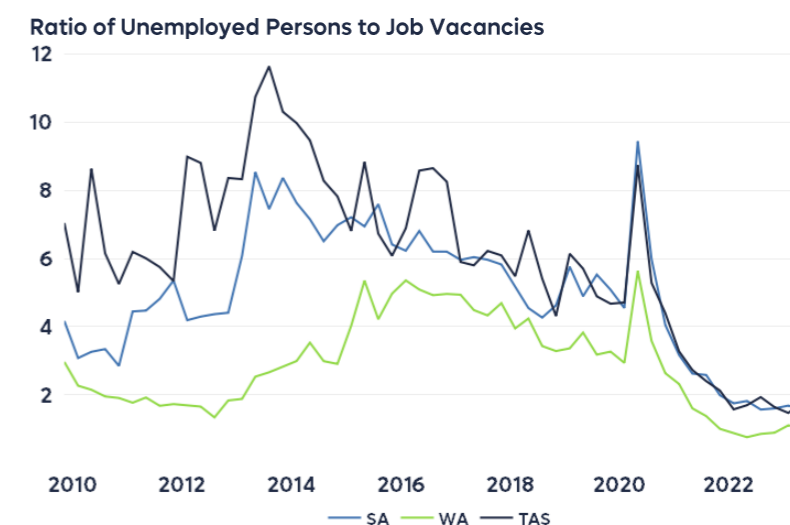
Western Australia is the only state economy that has seen this degree of labour and skill shortages in the last 50 years, prior to the current episode.

Labour market tightness – Eastern states



Source: ABS 6202.0, ABS 6354.0, Judo Bank

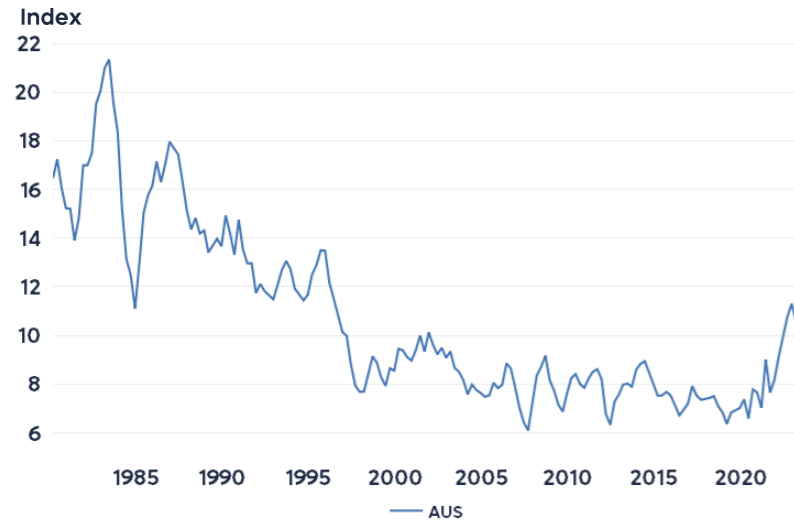
Labour market tightness – Other states



Source: ABS 6202.0, ABS 6354.0, Judo Bank

What is the Misery Index?

Misery Index: Australia



Source: ABS, Judo Bank

What is a Misery Index?

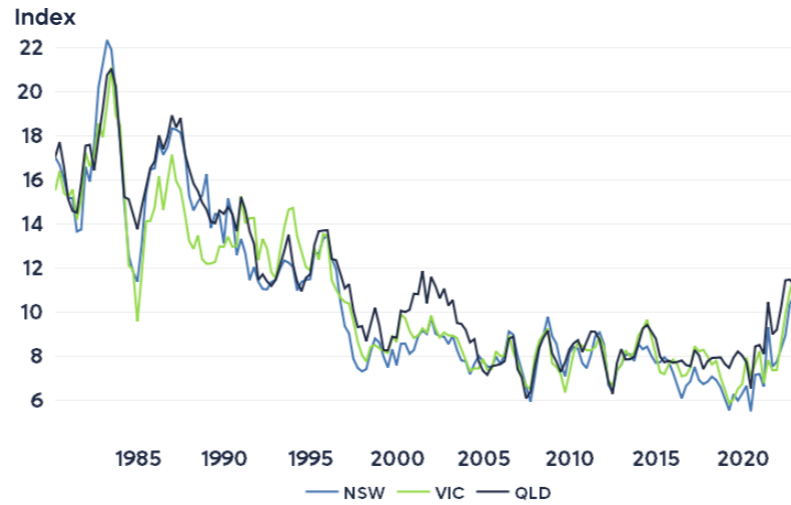
With inflation being a big focus in today's economy, it is important to understand how this burdens everyday Australians.

While a simple measure, the Misery Index (the sum of the unemployment rate and inflation rate) can provide an indication of economic pressure on households, given both unemployment and inflation are considered to negatively impact economic well-being.

The greater the index, the greater the misery facing households and conversely, the lower the index, the lower the level of economic distress.

The national Misery Index reached 11.3 in 2022, the highest level since 1996 after accounting for the introduction of GST. It has since come down just below 10, where it was in 2001, but still above the average rate of the last 20 years of around 7.5.

Misery Index: Eastern States



Source: ABS, Judo Bank

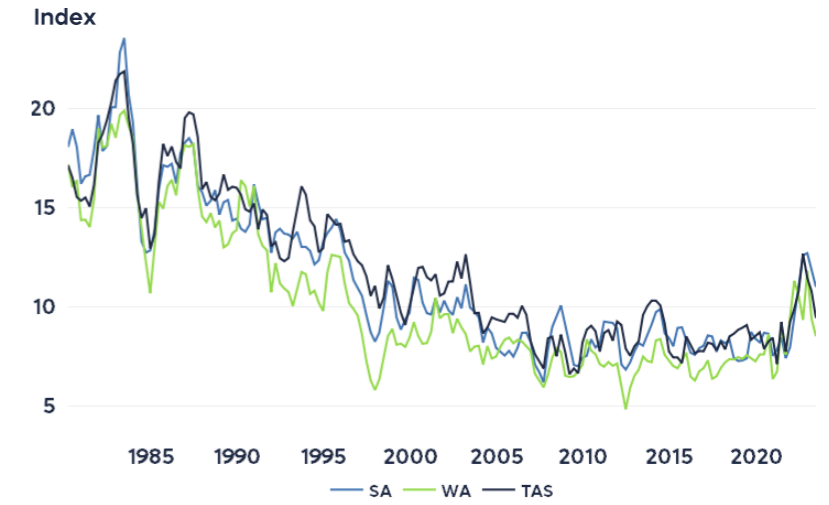
What is the Misery Index telling us about the States?

Recent increases in the Misery Index have been driven by higher inflation, while the misery index readings of the turn of the century were driven by higher unemployment rates than we have today.

Common across all states, the Misery Index is at a level last seen through the late 1990s and early 2000s, and is significantly elevated on the outcomes seen over the past two decades. However, the Misery Index is heading lower with inflation falling and each State's unemployment rate remaining historically low.

The lowest read of the Misery Index is Western Australia at 8.5, implying that across the nation, Western Australians are more employed and finding it easier to maintain their standard of living. WA residents are currently benefitting from the highest wage growth in the nation, the tightest labour market and surprisingly the lowest level of inflation despite this.

Misery Index: Other States



Source: ABS, Judo Bank

South Australia's economy similarly has been booming, with the highest SEPI reading of all states in September. Yet unlike WA, this rise in economic activity and wages has translated to the highest inflation level across all States. Combined with the highest unemployment rate across all states, South Australians are feeling the greatest cost of living pressures of all Australians.

Misery Index Across the States

	NSW	VIC	QLD	SA	WA	TAS
Misery Index	9.7	9.4	10.2	11.0	8.5	9.4
Unemployment (%)	3.1	3.7	3.8	4.1	3.6	3.9
Inflation (%)	6.6	5.6	6.3	6.9	4.9	5.5

Source: ABS, June quarter 2023

Forecast Tables.

A ‘soft landing’ is the strong consensus amongst Australian economic forecasters. The RBA, Federal Treasury and State Governments all expect the current mild slowdown to continue into 2023/24 before a modest recovery by 2025/26, avoiding a recession.

The Judo view is very similar to the latest set of forecasts from the RBA. The primary difference is compositional. We expect a more substantial and drawn-out slowdown in consumer spending and more resilience in business investment than the RBA view.

Inflation is projected to fall to around 4% in early 2024 before falling back into the RBA’s 2% to 3% target band by the middle of calendar 2025. This is also a widely held view, with few forecasters expecting a quicker return to target.

The state treasuries are projecting a similar cyclical slowdown for their economies and a recovery in the outyears (2024/45 and beyond). NSW and South Australia have the most conservative projections. Neither state is expected to grow by more than 2% over the next 3 years.

In contrast, the Queensland Government is projecting strong growth both this year and next at 3%, presumably the result of strong government investment programs due to get started. The other states are broadly in line with the national outlook.

State Government Real GSP Projections (Year Average)

	NSW	VIC	QLD	WA	SA	TAS	*AUS
2021-22a	1.80	5.60	4.40	3.10	5.10	4.30	3.70
2022-23e	3.75	2.75	2.00	4.25	3.50	1.50	3.30
2023-24f	1.25	1.50	3.00	2.25	1.00	2.00	1.50
2024-25f	1.25	2.50	3.00	1.75	1.75	2.25	2.25
2025-26f	2.00	2.75	2.75	2.00	2.00	2.50	2.75

Source: State and Federal Government 2023-24 Budgets
 *Australian figures reflect real GDP growth
 a=actual, e=estimated, f=forecast

National and International Forecast Table (Year on Year)

	Jun-23	Jun-24	Jun-25	Jun-26
Economic Activity				
Gross Domestic Product (real GDP)	2.1	1.0	2.2	3.2
RBA		1.3	2.0	
Unemployment Rate (quarterly, %)	3.6	4.5	4.5	4.3
RBA		4.2	4.5	
Consumption (real)	1.5	0.8	2.1	3.0
RBA		1.9	2.5	
Business Investment (real)	8.3	2.0	5.0	8.0
RBA		-0.1	1.0	
Gross Domestic Product (nominal GDP)	3.6	5.0	5.5	5.5
Treasury		1.3	2.5	
Inflation				
Consumer Price Index (CPI)	6.0	4.3	3.0	3.0
RBA		3.6	3.1	
Wage Price Index (WPI)	3.6	4.3	4.0	3.3
RBA		4.0	3.7	
Financial				
RBA Cash Rate (end quarter, %)	4.10	4.35	3.50	3.50
3 Year Government Bond Yield	3.84	3.75	3.75	4.00
10 Year Government Bond Yield	3.92	4.00	4.00	4.25
US Federal Funds Rate	5.25	5.50	3.50	3.25
US 10 Year Interest Rate	3.75	4.00	3.75	4.00
USD/AUD	0.67	0.64	0.70	0.72

Source: ABS, RBA, Judo Bank

Thank you.

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