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South Australia

State Economic Download.

April 2024

Boldly backing business

Contents.

A note from our Chief Economic Advisor.

Signs of a gradual recovery in 2024.

The economic slowdown of 2023 is increasingly looking like it is turning into a recovery in 2024, at least for some states and industries across Australia. We are seeing the first hints of a two-speed economy emerging, with Queensland and Western Australia looking much better in 2024, while New South Wales and Victoria remain soft.

Australia's economy should register better economic growth over the first half of 2024 than experienced through the final six months of 2023. The Judo Bank Purchasing Managers Index (PMI) has seen a big improvement in key indicators such as output, new orders and employment. The recovery is primarily occurring in the service sector recovery. The Judo Bank Australian Manufacturing PMI remains soft in early 2024, stuck in the slow lane as it was for much of the last year.

Along the eastern seaboard, the state PMIs highlight a divergence in performance between regions. Queensland has seen a significant bounce-back in business activity since late 2023, Victoria has had a more modest recovery, and New South Wales remains near the cyclical lows of last year.

Queensland business activity is strong. If sustained over the next six months, it will be consistent with economic momentum rising back above the long-term rate of growth. New South Wales business activity, by contrast, is weak. The key PMI activity indicators for the state remain above levels historically associated with recession, but the soft landing continues in 2024.

South Australia and Western Australia have also seen an improvement in business activity in the first three months of 2024, consistent with our State Economic Performance Indicator, which has these two states plus Queensland at the top of the State Economic Performance League Table.

The source of economic weakness in 2023 was consumer belt tightening, a response to cost-of-living pressures, a rising income tax burden and tighter monetary policy. However, there are some tentative signs of better consumer spending across most states in early 2024. The upcoming big tax cuts, set to commence on 1 July, could potentially boost consumer spending.

The emerging economic recovery is tentative, and from a national perspective, we should not be expecting a return to the strong growth rates experienced in 2021 and 2022. Australia simply does not have the capacity to facilitate strong economic growth over the next three years.

Inflation pressures eased to around 3.5% in early 2024, although the domestic element of inflation is running above 4.0%. The significant disinflationary impact on overall inflation is coming out of the global goods markets, where price inflation has fallen back to zero.

The jury is still out on what's next for Australian inflation. The consensus among economists, and the hope of the Reserve Bank of Australia (RBA), is further moderation of price pressures. But if international developments are any guide, inflation will likely be 'sticky' going forward due to elevated domestic services inflation.

The worst of the pandemic inflation is now behind us, and you could argue that the original pandemic-induced inflation 'shock' has turned into a disinflation impulse within the global economy. Underlying inflation globally, however, risks becoming entrenched due to a self-reinforcing cycle of cost pressures and rising prices.

Domestic inflation and the ongoing resilience of demand in economies across the globe is happening despite tighter monetary policy and the political, economic and financial uncertainty plaguing the world in 2024.

This highlights that the Australian economy's underlying fundamentals remain solid, with strong employment growth and multigenerational lows in unemployment, a historically unique and positive feature. We are seeing an investment boom, led by a surge in infrastructure spending and solid building activity across most state economies.

Australia's economy is proving resilient once again. However, this resilience raises the risk that interest rates are not high enough to ensure inflation returns to the RBA's target sustainably. Australia's interest rate, at 4.35%, is below the rate seen in similar economies. As major economies deal with the 'higher-for-longer' risk for inflation and interest rates, there is a real possibility that the RBA may have to take our interest rates a little higher to get the job done.

Warren Hogan
Judo Bank Chief Economic Advisor

Section 1

Global and national.

Global economy
Bouncing back in 2024?

Key takeaways

- The world economy is on the mend after a soft landing in 2023, and the US is leading the way.
- Inflation is still too high, which could keep interest rates higher for longer, and even see some central banks increase interest rates.

The US economy is streaking ahead of the rest of the world, supported by massive government support in the form of the Inflation Reduction Act. Despite its name, the act is adding demand to the economy and making it hard to get inflation down to the Federal Reserve's 2.0% target rate.

The global economy continues to show signs of a revival in 2024 after the slowdown of 2023. Leading indicators of economic activity have been rising since late 2023. Recent data confirms that the 2023 slowdown in economic activity worldwide was moderate, a classic soft landing.

Even for those economies experiencing a technical recession, it was more-or-less a recession in name only. The financial distress and job losses usually associated with a recession have not materialised in the current cycle.

Distress has emerged in parts of the financial system, business community and household sector. The distress, however, is isolated to vulnerable pockets and has not derailed the broader economy in most countries.

The demand for labour is holding up in most economies, while unemployment remains near multigenerational lows. This is a hallmark of the current global economy, which is likely related to the significant demographic shift we have seen over the past decade – the retirement of baby boomers.

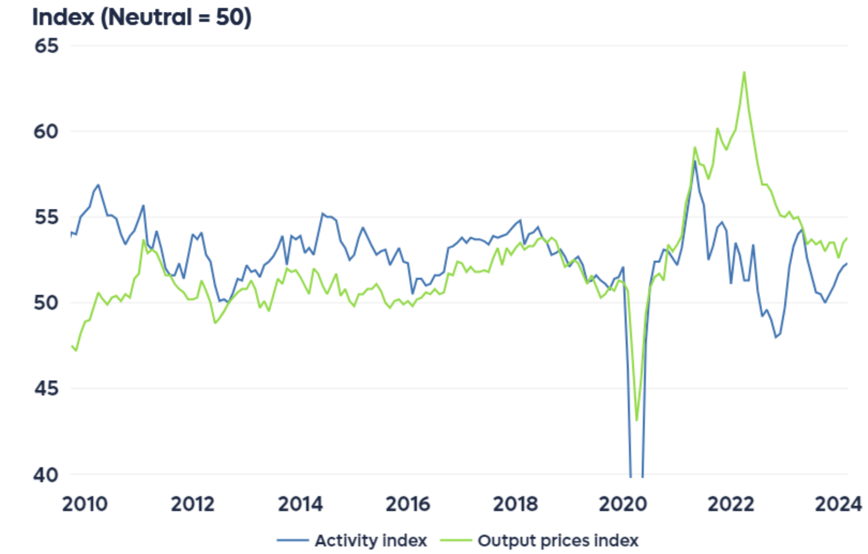
While baby boomers have stopped working, they have not stopped spending. Indeed, many have saved for decades for this precise moment in life, to enjoy retirement with more free time to focus on special interests and travel.

Further progress on inflation has been made over the last six months, although almost all of the lower inflation is due to weakness in goods prices. Services inflation, which is mostly a domestic phenomenon, remains elevated above central bank target rates in most major economies.

The global cost-of-living crisis is easing, but it is far from over. The so-called 'last mile' of disinflation is proving more challenging to achieve than the initial fall from inflation rates, from about 8.0% to around 4.0%. To get inflation back to the Federal Reserve's target of 2.0% will require patience.

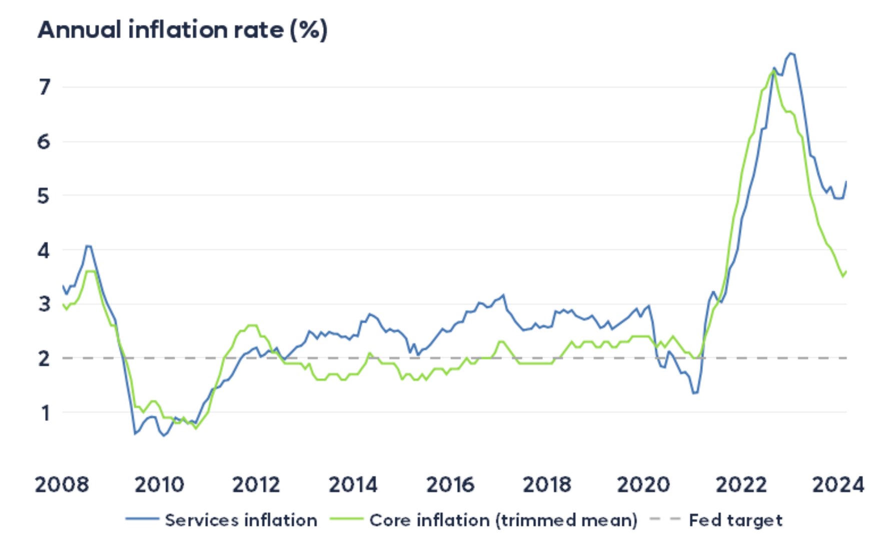
This may result in interest rates remaining higher for longer, and in some economies there is a possibility that policy may need to be tightened a little further.

S&P Global PMI – Activity and output prices



Source: S&P Global, Judo Bank

US inflation – Services and core (trimmed mean)



Source: FRED, Judo Bank

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Global markets

While markets are performing well, investors seeking safe havens.

Key takeaways

- **Financial markets are performing well in 2024, with the underlying consensus that the US Federal Reserve will commence a moderate cutting cycle this year.**
- **Sticky inflation may put upward pressure on interest rates and create volatility in many asset markets.**

Bitcoin and gold have hit record highs in 2024 despite rising interest rates and a strong US dollar, as investors seek safe havens from potential market volatility.

Asset markets have experienced strong trading conditions in 2024 thus far, with many markets worldwide setting record high prices. Whether we look at public equity markets, segments of the commercial property market or residential property in Australia, investors are happy to buy up assets despite higher interest rates, political uncertainty and concerns about the outlook for economic activity.

A common theme across asset markets is earnings yields, which inflationary pressures have supported. Whether it is rising rents in Australia's housing market supporting local rental yields, or higher earnings across corporate America, asset prices have continued to perform well despite higher interest rates because an inflationary economy is boosting underlying earnings.

Asset markets are starting to feel pressure from rising long-term interest rates. The US 10-year Treasury yield increased from about 4.0% at the start of 2024 to nearly 4.5% in April. The US interest rate is a benchmark for global asset prices and the interest rates of other countries.

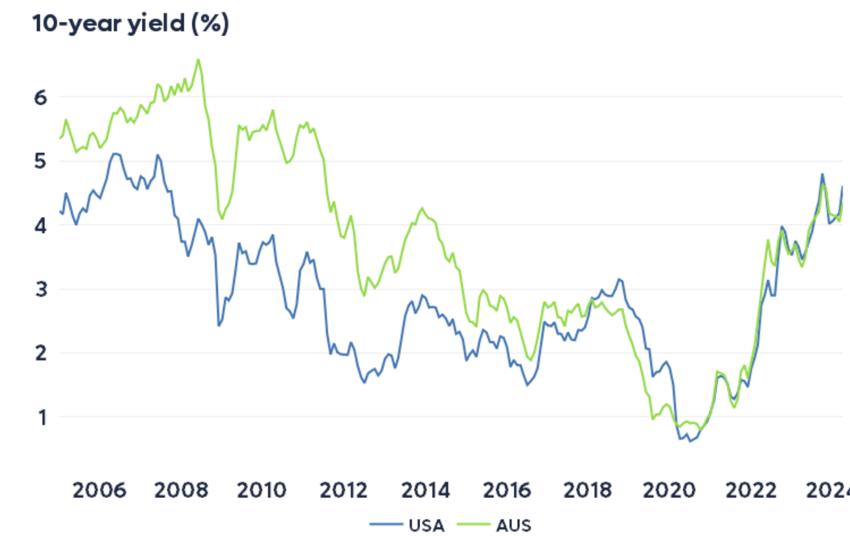
Rising long-term interest rates put downward pressure on asset prices. As a rule of thumb, for every 1.0% increase in rates, asset prices should fall about 10.0%. However, if underlying earnings are rising, then asset prices can withstand higher rates.

It is becoming clear that the new normal for US interest rates is around 4.0%. While both short- and long-term rates will fluctuate around this level, 4.0% is a good starting point for considering what other interest rates and asset values should be in the post-pandemic world.

Commodity markets are diverging, with some – including coal, gas and many agricultural products – returning to pre-pandemic levels. Oil is moving higher in 2024, thanks to uncertainty in the Middle East and solid global demand. Gold is surging to record highs as investors seek protection against inflation and geopolitical uncertainty.

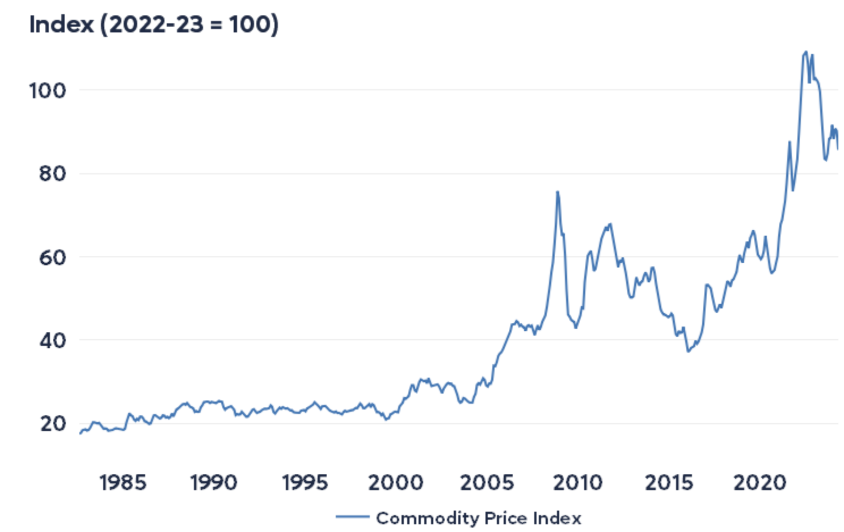
The RBA Index of Commodity Prices summarises the overall commodity picture and what it means for our economy. Although commodity prices are 20.0% below 2022 peaks, they are just above the average levels seen since the start of the pandemic and almost 40.0% above pre-pandemic averages.

Government 10-year Treasury yields – Australia and US



Source: FRED, RBA, Judo Bank

RBA Index of Commodity Prices ($A)



Source: RBA, Judo Bank

Australian economy

Not a normal cycle.

Key takeaways

- The RBA's 'narrow path' is getting narrower as the economy starts 2024 on a stronger footing.
- The RBA has no room for upside surprises on its inflation projections, which could be threatened by a sharper bounce-back in consumer spending in the first half of 2024.

Over the past 40 years, inflation-adjusted consumer spending has stalled four times. In each episode, business investment contracted by an average of 16.0%. But in 2023, business investment in plant, machinery and equipment increased by 7.4%.

The slowdown in the Australian economy over the last 18 months has primarily resulted from consumer belt tightening. Despite rising gross household incomes, inflation has undermined disposable incomes, and surging income tax payments have torn a hole in many Australians' spending capacity.

Higher mortgage rates have been painful for many, but the number of Australian households driven into financial distress due to higher debt service is relatively small. A quick look at the major banks' results shows that distress is only just back to what was once considered normal.

In a typical economic slowdown, higher interest rates also impact business profits, investment and, ultimately, hiring. Most Australian businesses are in good financial health. Chronic labour shortages mean the demand for labour continues to outstrip the number of available workers, and overall employment is still expanding.

No economy experiences a severe economic downturn when employment is growing.

Australia appears to be following the path of the US. Early signs of stronger business conditions in 2024 suggest a cyclical recovery in economic activity is afoot following the soft landing in 2023.

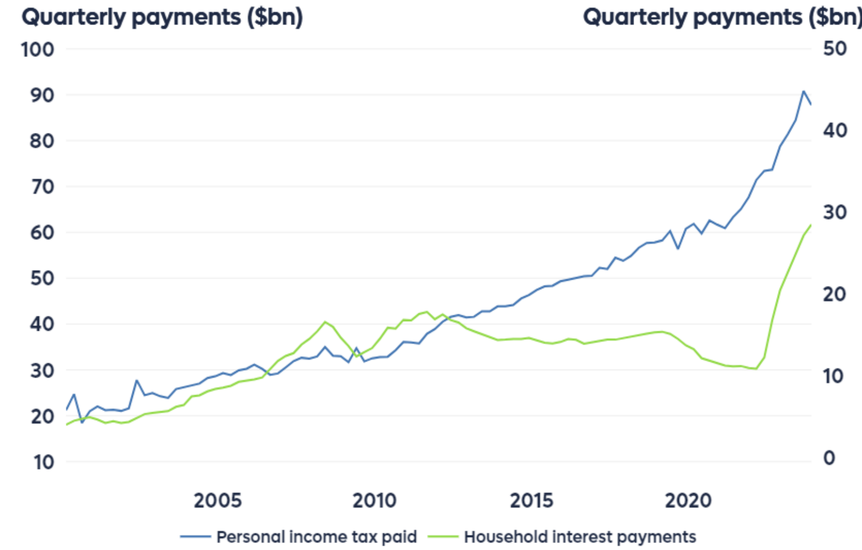
This is excellent news, but it comes with a sting in its tail. A more robust economy means inflation might persist for longer. This could mean higher interest rates to ensure inflation returns to the RBA's target range of 2.0% to 3.0%.

The RBA's narrow path, driving the expectation that Australian interest rates will be cut in the next 12 months, requires economic activity to remain subdued throughout 2024 for inflation to return to target on a sustainable basis.

Buoyant commodity markets, rising asset values and low unemployment do not suggest a weak economy. The main stress in the economy is the impact of rising prices on everyday Australians' living standards. The policy priority should be to remove this pressure by getting inflation below 3.0%.

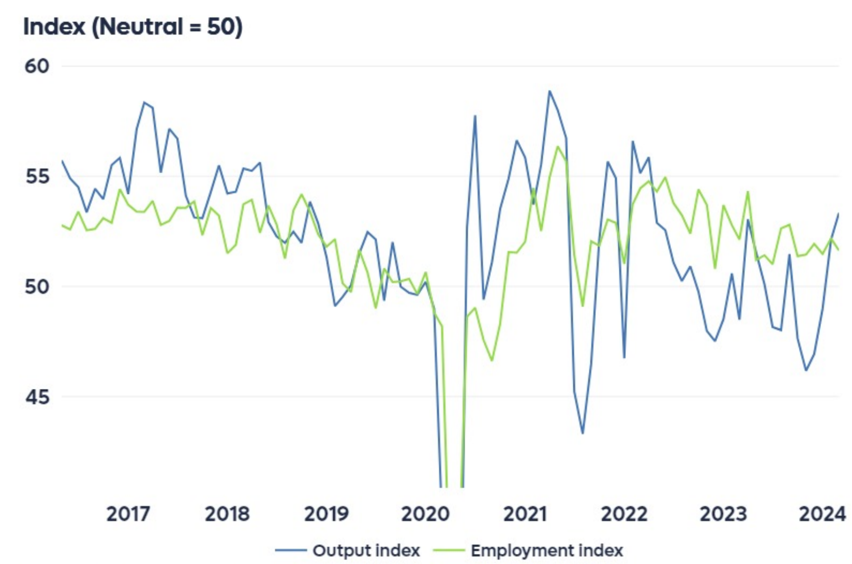
History shows that the only way to control inflation is to set interest rates to the right levels. At 4.35%, the RBA cash rate might not yet be high enough to ensure price stability.

Household interest and personal income tax payments



Source: ABS, Judo Bank

Australian S&P PMI – Output and employment



Source: S&P Global, Judo Bank

Australian consumers

Drove the slowdown in 2023, but worst is likely behind them.

Key takeaways

- Consumers nationwide took a hit in 2023, tightening their belts and pulling back on discretionary spending.
- Despite this slowdown in spending activity, consumption levels appear to have stabilised heading into 2024, with inflation-adjusted per capita sales still above pre-pandemic levels in each state.
- While household savings and real disposable incomes improved through to the end of 2023, whether this will convert to an improvement in consumption levels in the first half of 2024 is unknown.

Consumer belt tightening drove the overall slowdown in economic activity in 2023, with business activity and investment holding up. What happens next with consumer spending could determine the next phase of the Australian economy.

The Australian household sector has borne the brunt of the economic slowdown since 2022. Inflation, a rising tax burden and higher interest rates have squeezed household disposable incomes.

We saw the first signs of an easing of these pressures on household incomes in the final three months of 2023. The effects of higher interest rates are starting to wane as the last of the fixed-rate mortgages roll off.

Income tax paid by households fell in the December quarter of 2023 for the first time since the March quarter of 2021. While it is unclear how the tax take will evolve over the first six months of 2024, what is clear is that we will see a significant boost to household income from 1 July when the Stage 3 tax cuts kick in. The tax cuts are worth about $6bn a quarter. With the current tax take at about $90bn a quarter, household incomes will be boosted by at least 5.0%.

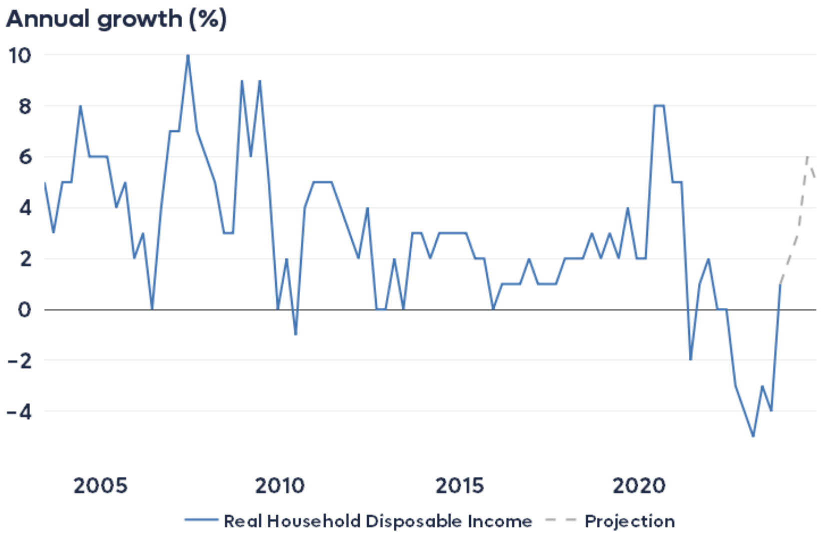
As household disposable income starts to grow, the question is what impact will this have on consumption and the economy? The swing factor in this calculation is the household saving rate, which moved off 15-year lows late last year, rising from 1.9% to 3.2%.

Our analysis suggests the households' desired savings rate is about 9.0% in early 2024, much higher than the rate seen over the past year. If consumers decide to save the extra income rather than spend it, consumer spending may remain tepid in 2024. This is the central case, with consumption growth expected to remain at around 1.7% in 2024.

Despite the lower savings rate in 2023, Households have accumulated excess savings since the pandemic. We expect some excess savings remain and will be used to support spending, keeping actual savings below the desired rate.

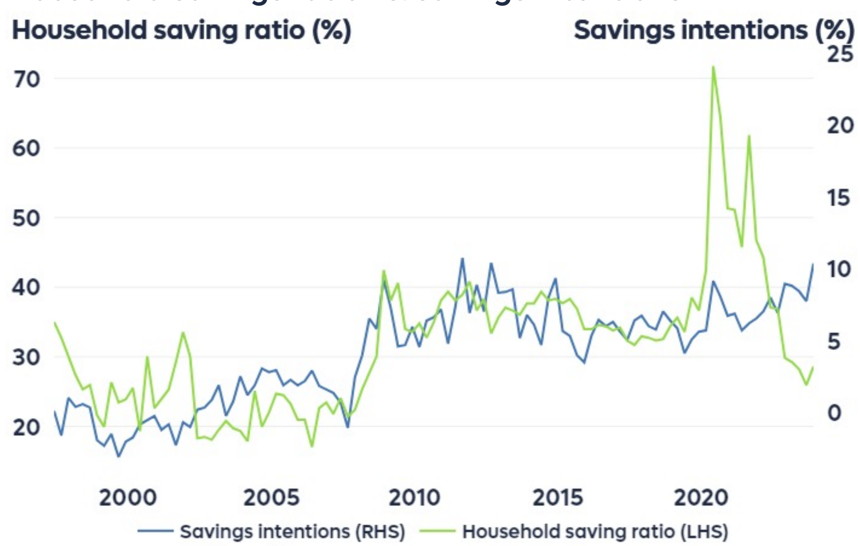
This suggests that the worst of the consumer adjustment to higher interest rates is behind us. What is not clear is how much of a recovery in spending is coming. Population growth remains strong, and so does employment in early 2024. So far in 2024, we have seen a recovery in essential spending while discretionary spending remains soft.

Growth in real household disposable income



Source: ABS, Judo Bank

Household savings ratio vs. savings intentions



Source: ABS, WMI, Judo Bank

Australian businesses

Early signs of improved conditions in 2024.

Key takeaways

- There are tentative signs of a recovery for Australian business in 2024.
- While business insolvencies have been climbing, this pick-up is to be expected after an extended period of low insolvency rates.

If demand remains soft across the economy, eventually businesses will pull back on investing and hiring. This must happen for the economy to stay on the RBA's narrow path.

Business activity appears to be recovering in 2024 from the low point of late 2023. The Judo Bank PMIs, which provide a timely insight into business conditions, suggest the manufacturing sector remains soft while conditions have improved across service industries.

The Australian service sector accounts for over 80.0% of business activity, while manufacturing has fallen to about 7.0% of output. The rapid improvement in key activity indicators in the Judo Bank Services PMI suggests a cyclical economic recovery is underway. However, without a recovery in consumer data, it is too early to be confident of this view.

The services output index was above the neutral 50 mark in February and March and experienced the most significant four-month increase in the survey's history (outside pandemic lockdown periods). This is a clear signal of stronger business conditions in 2024 and could reflect a loosening of Australian consumers' purse strings.

Business profits remain under pressure as cost pressures become increasingly difficult to pass on to final prices in a slower economy. While this has tempered investment and hiring intentions, it has not reversed investment plans. The Australian Bureau of Statistics (ABS) capital expenditure survey for 2024–25 points to a 10.0% increase in Australian businesses' capex plans.

Construction activity remains elevated, with dwellings under construction, non-residential construction and infrastructure spending all at high levels. While down from 2023 highs, investment pipelines remain elevated, highlighting the high levels of construction spending that will take place across the Australian economy well into 2025.

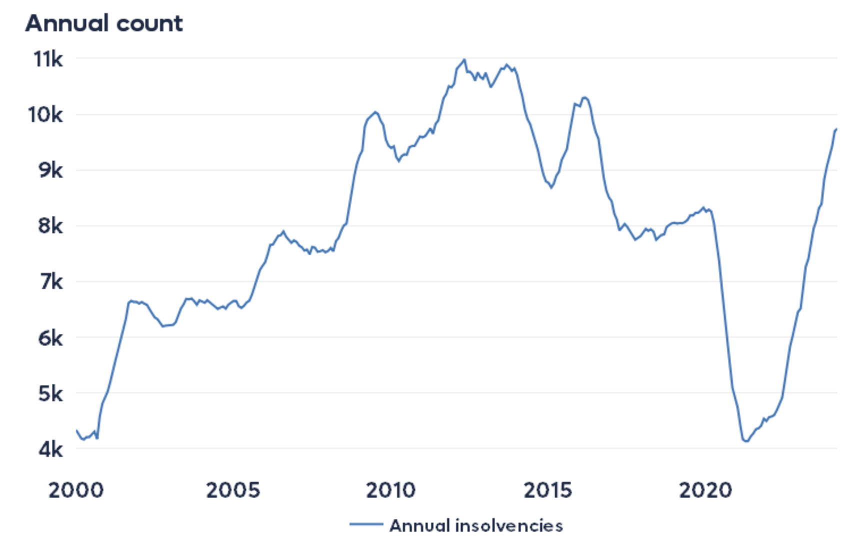
Business insolvencies are rising despite the relatively healthy state of business balance sheets across the Australian economy. First-time insolvencies are running at an annual rate of about 10,000 in the 2023–24 financial year, with a clear upward trend in the monthly data to February. This is the highest number of insolvencies in almost a decade, when ASIC's data hit a high point.

If we see a surge in insolvencies over a short period, it will create risks for the economy. If the insolvency process plays out over several years, the implications for the broader economy will be limited. Indeed, an economy free of the 'zombie' businesses accumulated after the pandemic will go a long way to reducing labour shortages, as failing industries release people to seek work in industries looking for more staff.

Australian services S&P PMI – Activity and new business

Source: S&P Global, Judo Bank

Annual first-time business insolvencies



Source: ASIC, Judo Bank

Inflation and interest rates

The job might not be done at a 4.35% cash rate.

Key takeaways

- The war on inflation is far from over, with underlying domestic inflation pressures still above the RBA's target of 2.0% to 3.0%.
- Until inflation is sustainably back to target, the economy must remain 'soft' to stay on the RBA's narrow path.

Domestic inflation remains uncomfortably high in Australia. A pick-up in domestic economic activity before inflation returns to target will increase the risk of further rate hikes.

The first battle in the war on inflation is over. The original pandemic inflation shock to global goods markets and associated supply chains is now receding. Global goods inflation has been close to zero in early 2024, and has been responsible for getting inflation in most countries under 4.0% over the past six months.

The main battle is reducing domestically generated inflation. Across most economies, that battle is far from won. US service inflation has hovered around 5.0% over the past six months, despite the overall Consumer Price Index (CPI) falling below 4.0%. In Australia, various measures of domestic services inflation are running at 4.0% to 5.0%.

At this stage, there appears to be little risk that inflation will start rising again. The threat of the so-called wage-price spiral is not apparent. However, central banks need inflation to get all the way down to their targets, an inflation rate of 2.0% for most global central banks. The RBA will be happy if Australia's inflation comes down to 2.5%.

Currently, domestic inflation in most economies is sticky, showing how little spare capacity is available globally.

We have achieved full employment in Australia, with the unemployment rate below 4.0%. In many industries, there are still difficulties in accessing inputs for production. The Australian construction industry is particularly stretched.

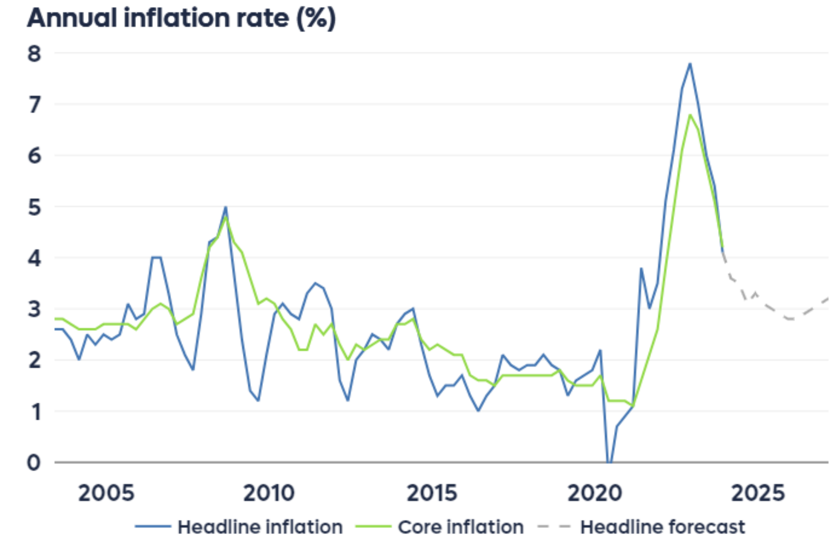
As global markets have retracted their expectations of rate cuts, long-term interest rates have been on the rise, reflecting the necessity for interest rates to be sustained at higher levels for an extended period. This trend makes it increasingly improbable for global interest rates to decrease significantly this year.

This poses a real problem for the RBA as they never got interest rates up to the global level of around 5.0%. The RBA has been relying on a high proportion of variable rate mortgages, creating enough pressure in the economy to maintain a soft landing and get inflation back to target.

The longer global interest rates remain above 5.0%, the more likely the RBA is to finish tightening monetary policy and raise the Australian cash rate to 5.0% from 4.35%.

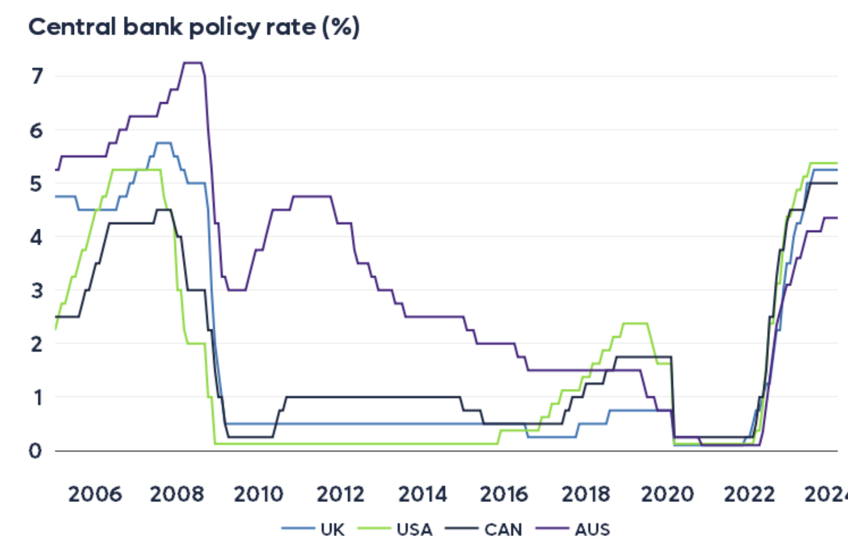
The RBA board will not hike again unless they absolutely have to. This means they will be late and may need to hike more because they are late. At the very least, we should not rule out another two or three rate hikes before the cycle is over.

Domestic inflation pressures



Source: ABS, Judo Bank

Central bank policy rates – Australia, US, UK and Canada



Source: RBA, FRED, BOE, BOC, Judo Bank

Section 1

The SME economy.

Leading the way in 2024.

Key takeaways

- **The recovery in Australian business activity in 2024 has been almost entirely the result of an improvement in the SME sector.**
- **The emerging SME economic recovery will be uneven across states and industries, with Queensland and Western Australia leading the way in 2024.**

The SME sector is leading the recovery in business activity across Australia in 2024. A lift in SME activity has been responsible for just about all the recovery in the Judo Bank PMI key activity indicators.

This partly reflects that SMEs were a soft spot in the economy throughout 2023. Despite the relative health of the Australian business sector, the operating environment has been challenging for the past four years. Even in recovery, businesses have had to deal with rising costs, tight labour markets, and grumpy consumers bearing the brunt of this inflation with cost-of-living pressures.

The SME sector tends to have less scale and flexibility to deal with these challenges, making the strong recovery in 2024 even more impressive. Sentiment lifted significantly over the summer break as the economy stabilised, financial markets improved, and expectations grew that we had seen the last of the RBA's rate hikes.

The jump in SME activity could reflect better consumer spending. The official statistics point to only a small improvement in retail spending in 2024; however, businesses might be confident that the worst of the consumer spending adjustment is behind us.

The recovery in Australian economic and business conditions has not been even across the states. The evidence from 2024 thus far points to a strong recovery in Queensland, Western Australia and South Australia, while Victoria and New South Wales remain soft. This geographic dispersion of economic conditions will also be relevant for the SME sector.

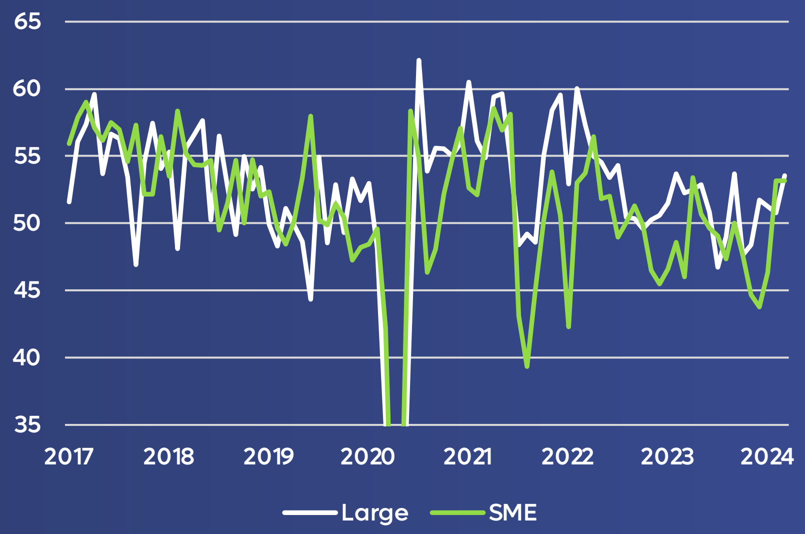
There is also clear evidence that business failures are rising, many of which would be classified as SMEs. But we should keep these numbers in perspective. Australia has about 2.6m businesses, 90.0% of which are SMEs. ASIC data shows that first-time insolvencies are running at an annualised rate of around 10,000.

The broad numbers are consistent with what we are seeing in relative state economic performance, with a net increase of 11,031 in the number of businesses in Queensland in 2022–23 compared to a net decrease of 7,606 in Victoria over the same period.

We expect SMEs in Victoria and New South Wales to continue to experience challenging operating conditions in 2024. However, the outlook is bright for state economies in recovery, particularly for the high-growth states of Western Australia and Queensland.

Judo Bank S&P output PMI – Large vs. SME

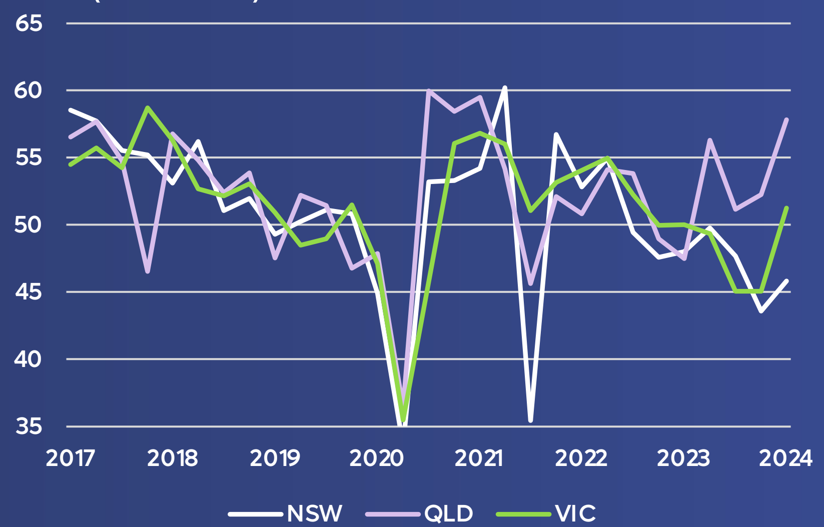
Index (neutral = 50)



Source: S&P Global, Judo Bank

Judo Bank S&P output PMI – NSW, Victoria and Queensland

Index (neutral = 50)



Source: S&P Global, Judo Bank

SME activity readings for February and March suggest consumption is beginning to bounce back in 2024.

Section 2

South Australia.

Ongoing tightness in the labour market as the nation eases.

South Australia.

Ongoing tightness in the labour market as the nation eases.

Although South Australia has lost its mantle as Australia's fastest growing state economy, the fundamentals of the state's economic revival remain intact.

Strong population dynamics, a wave of private business investment and a new ambitious government are all keeping the state on a virtuous path of growth and expansion.

The South Australian consumer remains cautious despite the ongoing improvements in the state economy. That could be about to change as consumer sentiment has started to improve over the past six months. Strong employment and wealth fundamentals should lead to a meaningful pickup in spending in 2024.

The South Australia property market continues to perform well in 2024 after a strong performance over the past five years. But housing is starting to get expensive, by South Australian standards, and new supply is needed to balance the market over the next few years.

Labour shortages are impacting South Australia's economy in a similar manner to other states. The health and education sectors stand out, but the reality is that finding the right skills is proving difficult for almost all employers.

The removal of Chinese wine tariffs will provide an outsized benefit for the economy of South Australia, which is a major wine exporter. Major projects related to the defence industry and mining sector are also giving the state economy a boost in 2024.

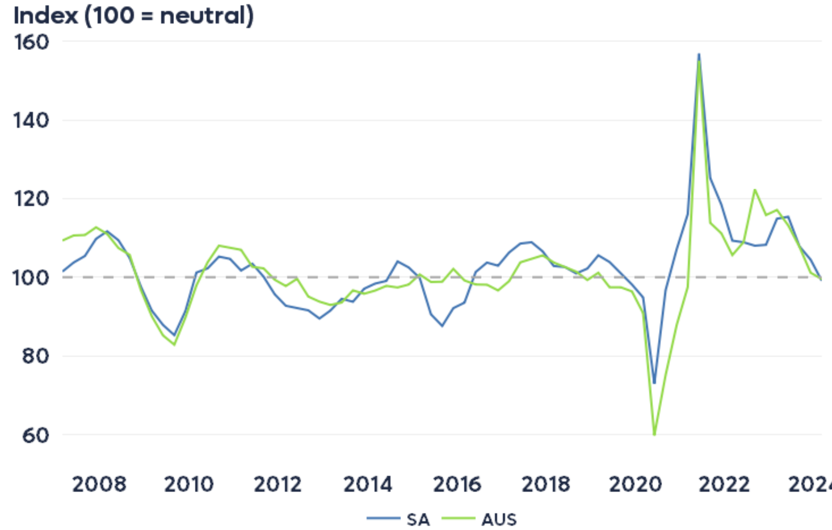
3.9%
Unemployment rate March 2024

1.4
Number of unemployed persons per job vacancy

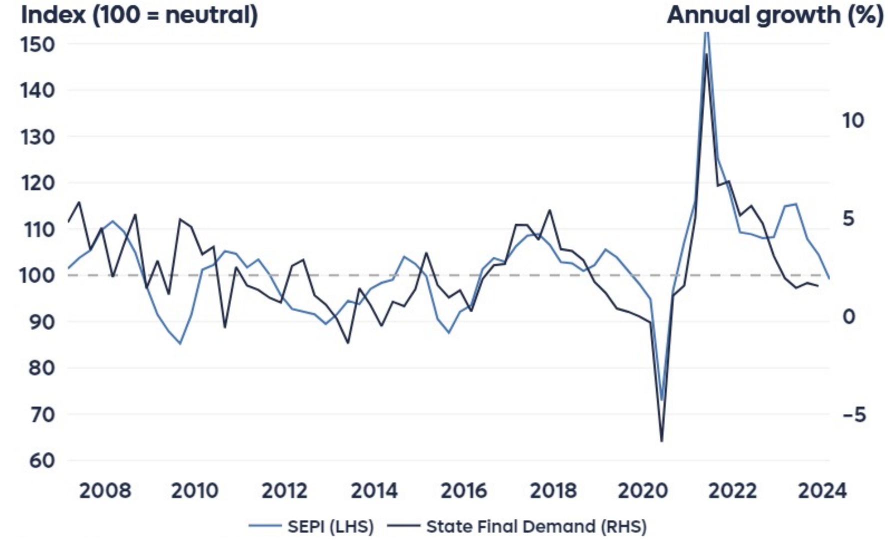
262 Million USD
Potential annual wine exports to China with tariffs lifted

South Australian
mineral exploration spend, excl. petroleum, has returned to mining boom levels

South Australia State Economic Performance Indicator (SEPI)



Source: ABS, Jobs & Skills Australia, Judo Bank



Source: ABS, Jobs & Skills Australia, Judo Bank

South Australians consumed approximately 2.8% more per capita in December 2023 than in December 2019.

Unlike the rest of the nation, job vacancies continue to climb, reaching 25,900 positions in February – 115.0% above 2019 levels.

Households.

South Australians still cooking instead of eating out.

Key takeaways

- South Australian consumer sentiment has begun to pick up in 2024, with improved expectations about family finances and the economic outlook.
- The hospitality sector in South Australia continues to be weak, with inflation-adjusted retail hospitality sales falling below pre-pandemic levels.
- Early activity readings suggest we are seeing a notable improvement in overall consumer spending in early 2024.

South Australian consumers appear to be starting 2024 on a positive note. Consumer sentiment readings improved, buoyed by optimistic expectations for family finances and the economic outlook. The Melbourne Institute's Consumer Expectations Index rose to 90.3 in the March quarter of 2024, marking the highest quarterly reading in two years.

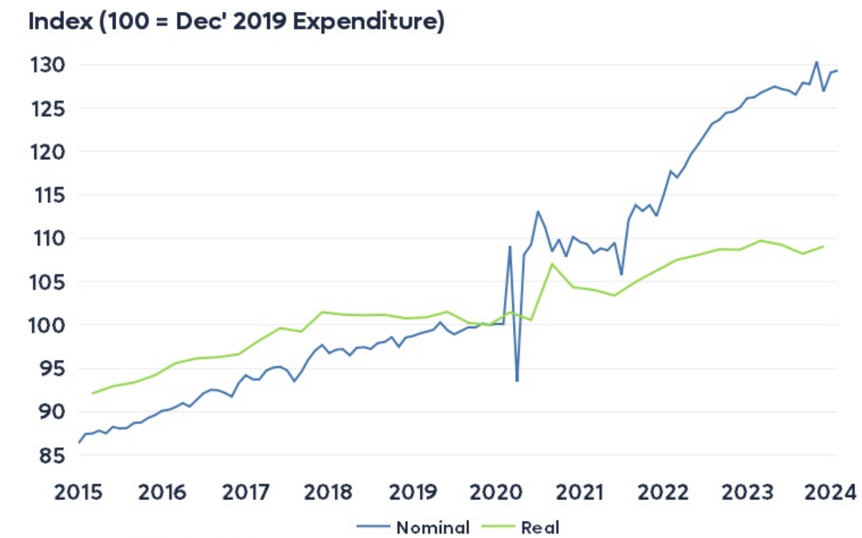
In line with consumer sentiment, real retail sales continued to grow throughout the second half of 2023 – up 0.3% over the year. Inflation-adjusted sales remain 9.1% above the level in the December quarter of 2019 despite the slowdown in 2023. Overseas migration was at a record high in the final months of 2023, supporting overall consumption levels. After accounting for population growth, we estimate that South Australians tightened their belts on discretionary spending but continued to consume approximately 2.8% more per capita in December 2023 than in December 2019.

Relative to all other states, South Australia has seen the smallest increase in per capita consumption levels since before the pandemic. The slowdown in activity has affected both goods and hospitality. Inflation-adjusted hospitality sales took a hit in the second half of 2023, leading to a 0.7% fall in consumption in 2023. Hospitality has struggled more in South Australia than any other state, with the sector experiencing virtually no post-pandemic boom and inflation-adjusted sales residing at 1.3% below December 2019 levels. Goods spending, in line with the rest of the nation, slowed in 2023 as households deferred making purchases to maintain budgets.

The relative underperformance of South Australia compared to other states is a puzzle. Despite the state's relative housing affordability and the tight labour market, South Australians have seen a less significant increase in trade levels than all other states. This may reflect household savings buffers, which may not have been built up to as significant a degree as eastern states, driven by lower per capita government support payments and reduced lockdown periods.

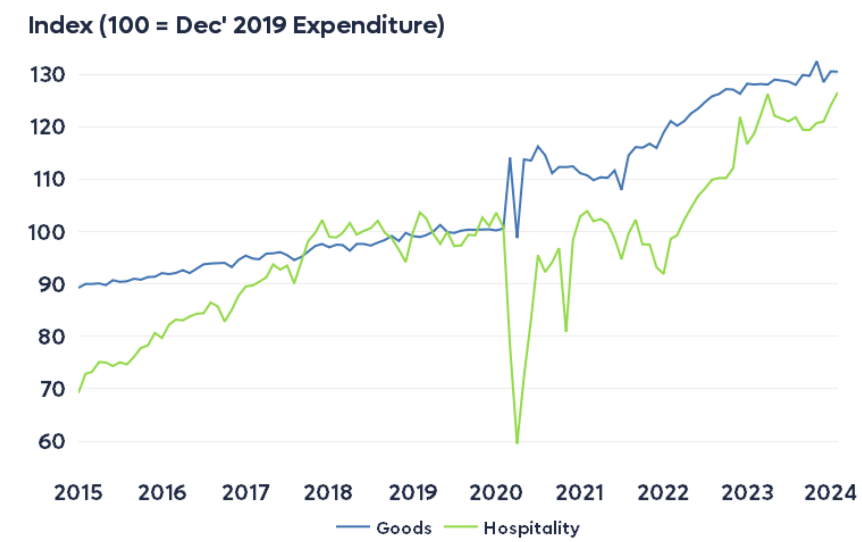
The worst, however, appears to have passed South Australian consumers. Hospitality spending rose 5.0% over the first two months of 2024 – the most significant increase in the discretionary spending category in nine months. Similarly, goods spending showed signs of hitting the bottom at the start of the December quarter, with early estimates of real expenditure suggesting it will pick up in the new year.

Retail trade – nominal vs. real



Source: ABS 8501.0, Judo Bank

Retail trade – goods and hospitality



Source: ABS 8501.0, Judo Bank

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Business.

Employment slowing down due to labour shortages.

Key takeaways

- South Australian businesses are growing their workforces at a slower rate than the rest of the nation, but this appears to be driven by skills shortages rather than a lack of labour demand.
- South Australia has seen labour markets become tighter heading into the new year unlike the rest of the nation. Job vacancies have hit a new peak of 25,900 positions, 115.0% above the number prior to the pandemic.
- Labour shortages are impacting the education and healthcare sectors hardest, similar to other states.

South Australian businesses are expanding headcounts for full-time and part-time roles more slowly than the rest of the nation. Total South Australian employment growth slowed significantly over the past few months, with the most recent six-month annualised reading in February equal to -1.9% – well below the Australian average of 2.5%.

Unlike most states, the sharp decline in full-time employed persons through the summer months hasn't notably rebounded in the new year. The number of full-time employed persons in South Australia in February was 607,100 – 3.2% less, or 20,000 fewer, than the average level seen in the second half of 2023.

Also, unlike most states, the easing in labour demand for full-time roles through the back half of 2023 wasn't supplemented by a pickup in part-time employment. In South Australia, part-time employment growth until March 2024 lagged behind that of the nation since mid-2023.

The slowdown in employment growth seems to be caused by a shortage of available labour (and skills) rather than a drop in demand. In February, South Australia recorded the lowest unemployment rate in 50 years at 3.2% – lower than all other states and the national average of 3.7%.

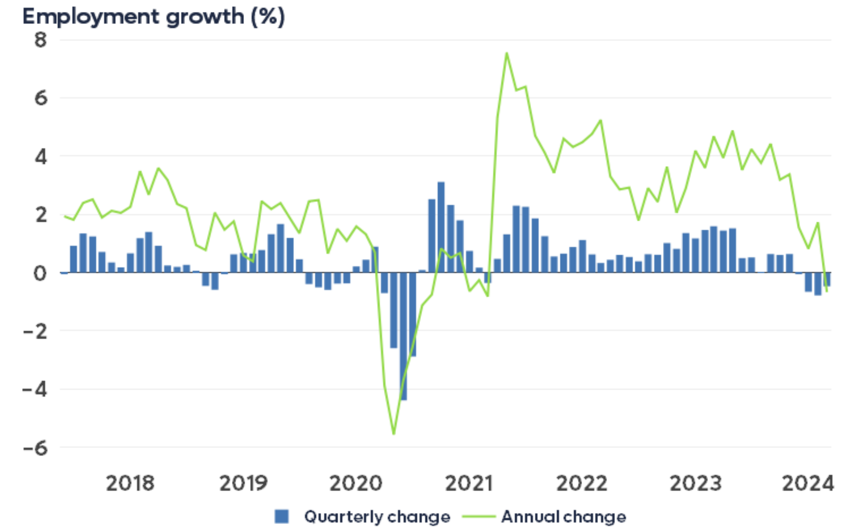
Labour market tightness increased throughout 2023, unlike the rest of Australia, as the number of vacancies failed to slow down in any material way and increased to a new peak in February 2024 at 25,900 positions – 115.0% higher than the pre-pandemic trend.

We expect this difficulty in hiring to continue in 2024. Job advertisements in South Australia remain at record high levels, at 14,800 in March – almost double the average number seen in 2019.

Like the rest of the nation, the most significant increase in labour demand has been seen in roles in the healthcare system and education sector. With job advertising stable, we expect that the unemployment rate will remain under 4.0% through to the middle of the year.

Despite tightness in the labour market being more significant than the national picture, wage growth was slower than in other states in the second half of 2023. This suggests South Australian businesses are struggling to attract staff due to the softening consumer sector. Margins are being squeezed, making it difficult for businesses to further increase wages. According to a South Australian Chamber of Commerce survey, wage growth was the most challenging cost increase businesses faced in 2023.

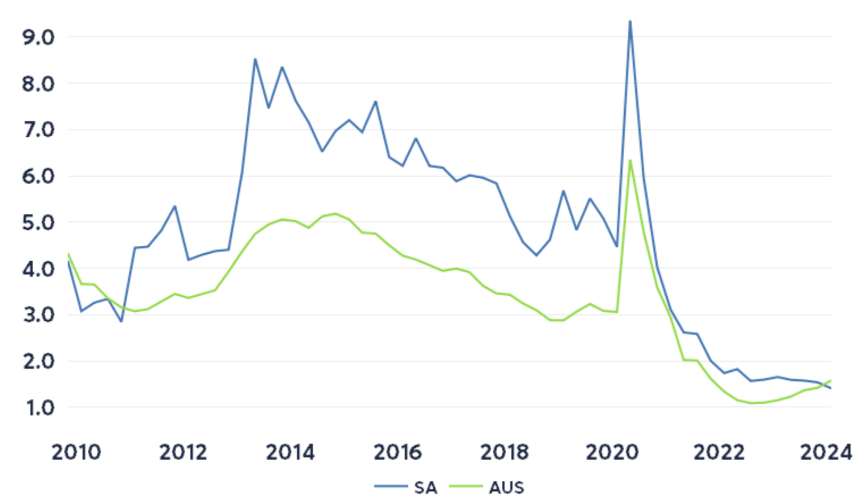
Employment growth – quarterly and annual change



Source: ABS 6202.0, Judo Bank

Labour market tightness – South Australia vs. Australia

Ratio of unemployed persons to job vacancies



Source: ABS 6202.0, ABS 6354.0, Judo Bank

Managing Director Comments

"We are still seeing a solid revenue and profit growth across our customer base in SA and are supporting these businesses with additional growth capital ."

- Grant Erskine

Government and construction.

Private infrastructure keeps construction worker demand high.

Key takeaways

- **Despite cuts made to federal funding for South Australian infrastructure projects, the state's infrastructure and building pipeline remains elevated, driven by a large share of private heavy-industry projects.**
- **The construction industry is running at capacity in South Australia and is facing more severe labour shortages than the national average.**

The South Australian Government has made minor revisions to its budget in its mid-year update. Net operating surpluses forecast for 2026–27 are still expected, but they have been revised down by $299m, with the most significant reduction in 2024–25. Net debt levels have been revised down over the forecast period, driven by a decrease in government investment over the years to 2026–27.

Following the Australian Government's Infrastructure Investment Plan Strategic Review, $494m in road projects have been put on hiatus due to $400m of funding being removed. Despite this, South Australia continues to have a significant infrastructure pipeline, reaching $3.4bn at the end of 2023 – 24.0% up on the prior year.

Unlike most other states, the infrastructure pipeline in South Australia is dominated by private rather than public investment. Just over three-quarters of works in pipeline work are infrastructure activity for the private sector, and over a third are for private sector heavy industry infrastructure.

The pipeline of heavy industry infrastructure works – predominantly mining and minerals projects – averaged $1.2bn in 2023, the highest level on record. There has also been a pickup in electricity generation works, such as the Blyth Battery, which will be a key energy provider for South Australian copper mining operations.

The South Australian Government's push for the state to run on 100.0% renewables will see construction commence in the second half of 2024 on the planned Whyalla hydrogen power plan, estimated to cost $593m. The plant is expected to be operational in 2026 and to create approximately 1,000 jobs during construction, along with 80 cabins, to ensure adequate housing supply in Whyalla during the build.

Like the infrastructure pipeline, the pipeline of non-residential building activity remains historically high, driven primarily by the South Australian Government's big hospital build. The largest government project, construction of the new Women's and Children's Hospital remains on track to begin in the June quarter of 2024.

With the large amount of non-residential construction in the pipeline, the demand for construction work remains elevated, and unlike the national picture, is yet to show clear signs of slowing through early 2024.

In February, the number of construction job ads remained 112.0% higher than pre-pandemic levels—close to double the 62.0% seen nationwide. Given increased cost pressures, any additional infrastructure and building announcements, which are unlikely in the coming state budget, would take more resources away from the housing sector, limiting the state's ability to deal with the cost-of-living crisis.

Infrastructure construction pipeline

Value of projects in pipeline ($ Billions)

Source: ABS 8752.0, Judo Bank

Residential dwelling pipeline

Stock of dwellings in pipeline

Source: ABS 8752.0, Judo Bank

Construction workers remain in high demand, with advertisements 112.0% above pre-pandemic levels in February 2024.

Will 2024 be the year of wine and copper?

Key takeaways

- **The removal of China's wine tariffs will likely increase Australian wine exports despite China's wine demand softening in recent years. South Australia is well placed to benefit from the reopening of the Chinese market.**
- **Recent copper discoveries in northern South Australia create the opportunity to substantially increase the state's copper exports.**

South Australian exports could improve over the years due to recent developments in both the wine and copper markets.

In late March, the Chinese Government confirmed that it would be removing tariffs imposed on Australian wine exports, stating that the anti-dumping duties were "no longer necessary". The duties on wine exports introduced in late 2020 were between 116.2% to 218.4%. Once imposed, the volume of Australian wine exported to China fell from $681m to $22m – a significant blow to the industry.

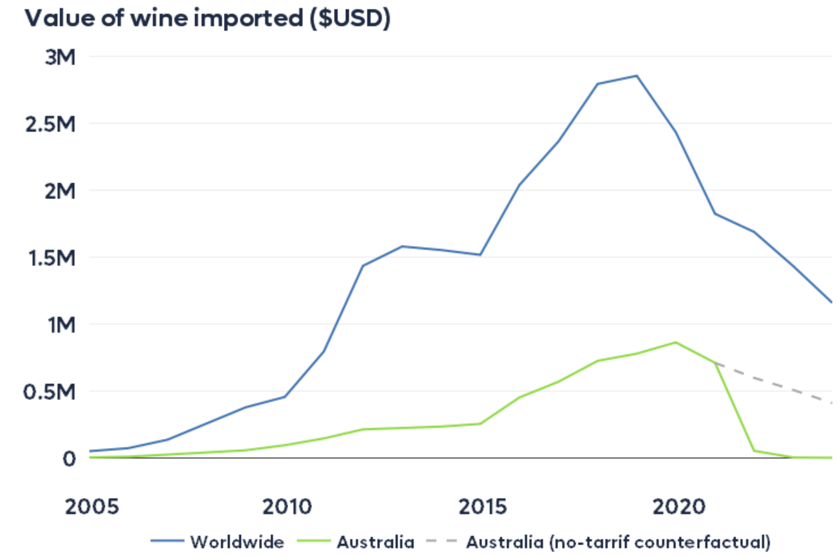
With the tariffs removed, Australia regains its competitive advantage of a 0% tariff rate under the China–Australia Free Trade Agreement, compared to the 14.0% rate incurred by competing exporters abroad. Wine exports to China are predicted to climb sharply and South Australian manufacturers are set to benefit more than any other state. In 2022–23, South Australian producers were responsible for approximately 64.0% of Australia's wine exports.

However, China's demand for wine is expected to be lower than before the introduction of said tariffs. Wine consumption in China has been easing since the pandemic – down by almost half between 2019 and 2022. Assuming China's domestic consumption doesn't deteriorate in 2024, removing the tariff could result in additional wine exports of approximately US$410m annually, of which US$262m would likely flow through to South Australia. To speed up the reintroduction of the wine trade between South Australia and China, the South Australian Government is spending $1.85m on the China Re-Engagement Support Package, which will support producers in attending relevant industry events in China and promotional marketing campaigns.

The discovery of copper reserves at Oak Dam presents an opportunity to increase copper exports from South Australia, some of which will find their way into China. BHP is exploring the possibility of doubling the capacity of the Olympic Dam copper smelting facility. While in the early stages of consideration, the opportunity would create local mining jobs in the north of the state. The state government estimates the increased capacity and exports could increase government mining royalties by up to $9m a year.

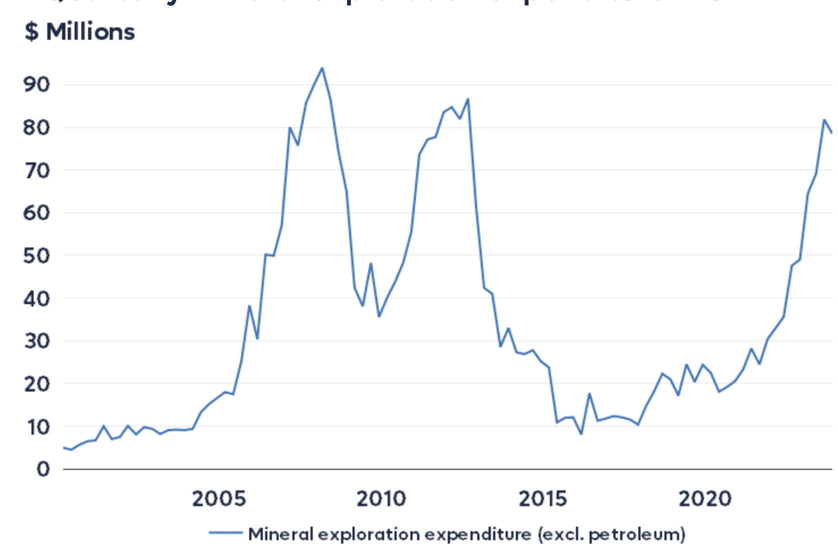
To significantly increase copper exports, mining facilities in the north of South Australia require substantially more water than the local area can provide. This has led to the government initiating, alongside private industry, the jointly funded Northern Water project – a desalination plant on the Eyre Peninsula and a 600-kilometre pipeline to transport desalinated water to northern South Australia. If the project goes ahead, construction and operation of the plant are predicted to create over 6,000 jobs in northern South Australia and over 7,000 state-wide.

China annual wine imports – by import region



Source: ITC, General Customs Administration of China statistics, Judo Bank

Quarterly mineral exploration expenditure in SA



Source: ABS 8412.0, Judo Bank

The level of non-petroleum mineral exploration spending has reached levels close to those seen during the mining boom.

Section 3

Q1 2024 comparisons and forecasts.

Review of the business and economic conditions of the six states.

Pictured: Judo customer

Rene Ratilainen
Broadbeach Waters Pharmacy

judobank

Queensland: Strongest performing state economy.

Queensland replaced South Australia in the top spot on Judo Bank's State Economic Performance League Table in early 2024.

The New South Wales economy is languishing at the bottom of the rankings, with weak growth performance over the past year and few signs of a recovery in early 2024.

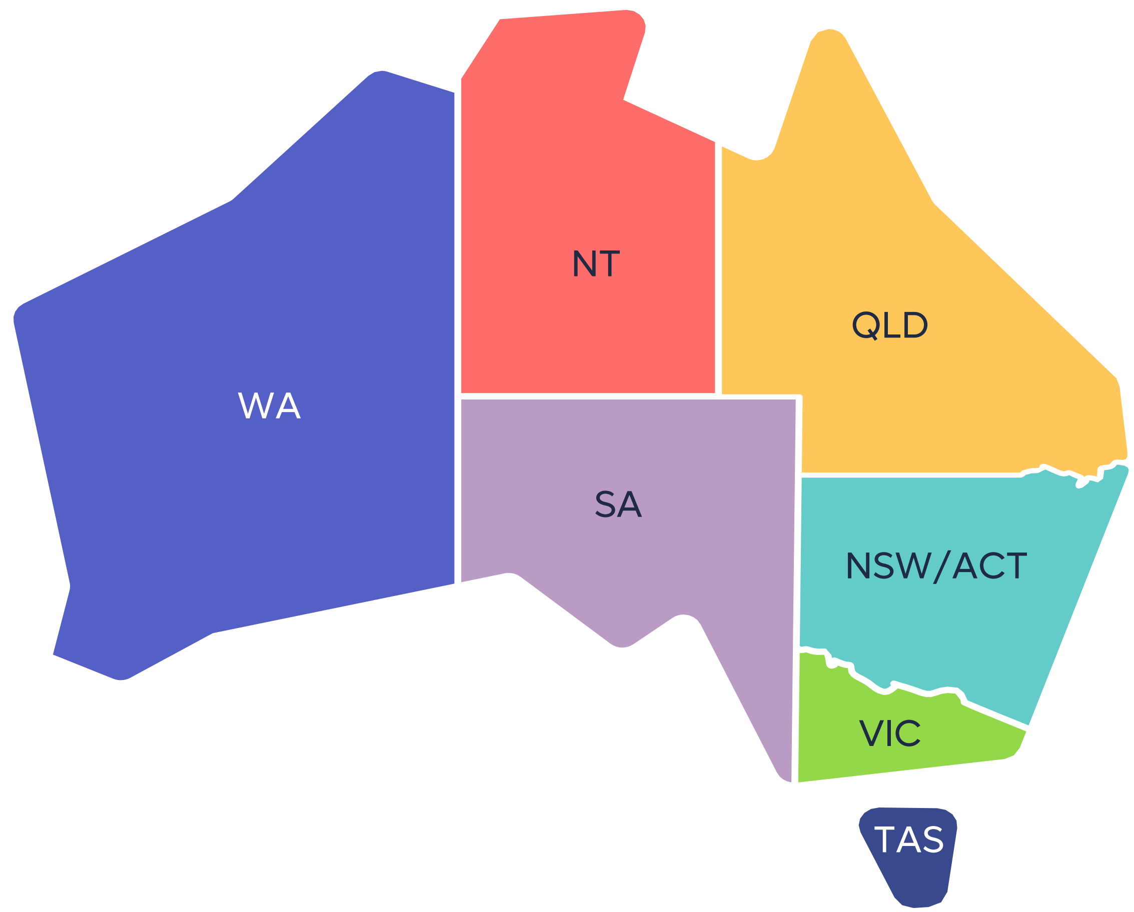
Victoria is hanging in there in the fourth spot, but activity is still below trend. It is becoming increasingly clear that Queensland and Western Australia will be the growth engines of the Australian economy in 2024.

The Western Australian economy has finally recalibrated itself with the national economic cycle after 20 years of de-synchronisation stemming from the once-in-a-hundred-year mining investment boom.

Western Australia is now reaping the economic benefits of its expanded mining capacity. Despite the global economic slowdown of 2023, the state is experiencing high income growth driven by strong export markets.

Queensland's potential to outpace all states over the next three to five years cannot be ignored. Not only is Queensland at the start of a massive infrastructure journey, but the 2032 Olympics will provide a significant lift to the state if the next Queensland Government puts together a credible plan to deliver world-class facilities.

Tasmania remains in a lacklustre position as flat population dynamics inhibit growth in economic activity. The fundamentals of the state are solid, and a strong wave of investment in recent years should be the foundation for future growth in industrial capacity.



State Economic Performance League Table (March 2024)

1. Queensland	**102.1**
2. Western Australia	100.4
3. South Australia	99.1
4. Victoria	99.0
5. Tasmania	98.3
6. New South Wales	96.5

102.1

Queensland
Leading the nation out of a soft landing.

100.4

Western Australia
The most resilient state through the consumer-led slowdown.

99.1

South Australia
Ongoing tightness in the labour market as national labour demand eases.

99.0

Victoria
Signs of positive activity heading into 2024, but debt woes remain.

98.3

Tasmania
Population woes continue.

96.5

New South Wales
The tightest consumer belts across the nation.

State economic performance.

Queensland scores highest SEPI through March quarter 2024

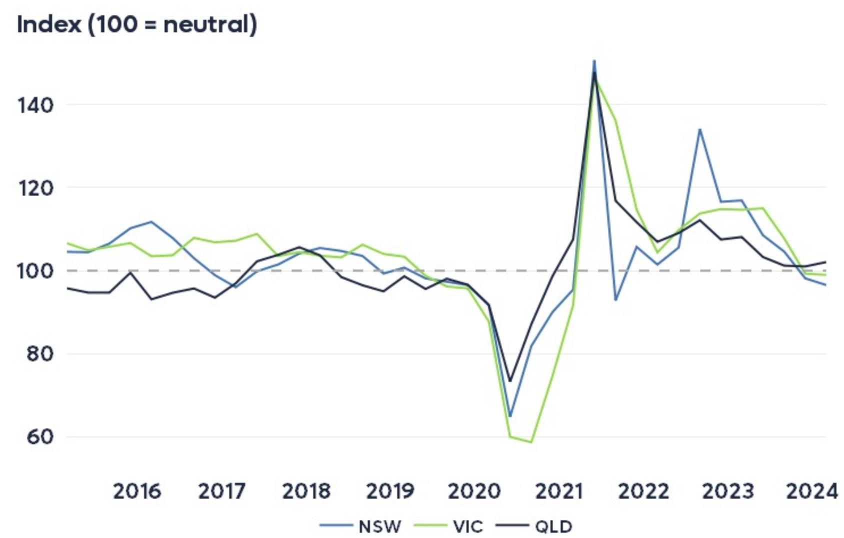
- **Queensland ranked highest in economic momentum through the start of 2024, driven predominantly by growth in hours worked across the economy.**
- **All states outside Queensland and Western Australia appear to be growing below long-term trend, driven by a combination of squeezed household budgets in New South Wales and Victoria, and increased difficulty in sourcing labour in South Australia and Tasmania.**

Over the March quarter, Queensland's SEPI was ranked the highest at 102.1, followed by Western Australia at 100.4. The combination of elevated job advertisements and resilient hours worked growth drove Queensland's differing performance from the other states through the March quarter.

Most state indexes are close to 100, suggesting that activity across the nation is no longer expanding at elevated post-pandemic levels, and that we have begun to see a reversion in momentum to levels more reflective of long-term averages through the back half of 2023.

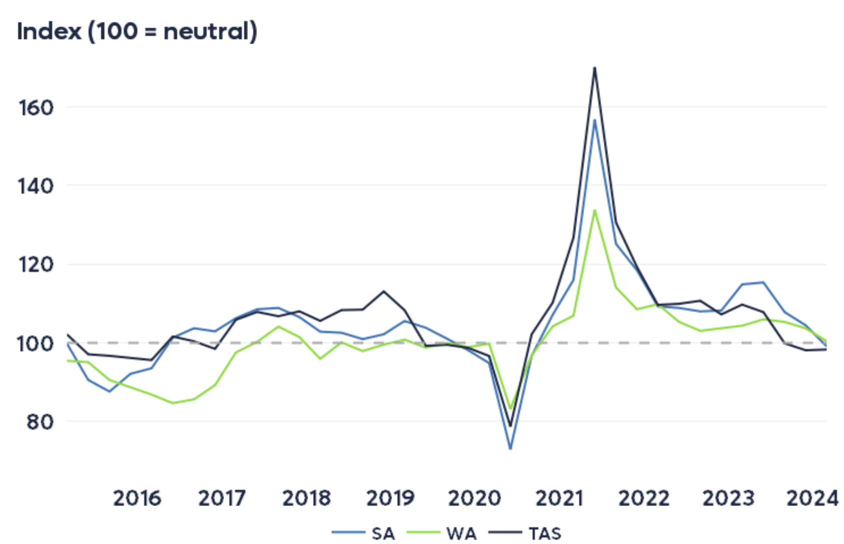
New South Wales SEPI has taken the most notable fall, driven primarily by weak household consumption levels and a pronounced slowing of growth in hours worked relative to long-term averages. Consumers and households in New South Wales have been hit harder by the slowdown and interest rate rises compared to other states.

SEPI – Larger states



Source: ABS, Jobs & Skills Australia, Judo Bank

SEPI – Smaller states



Source: ABS, Jobs & Skills Australia, Judo Bank

State Economic League Table Q1 2024

State Economic Performance Indicator	
1. Queensland	102.1
2. Western Australia	100.4
3. South Australia	99.1
4. Victoria	99.0
5. Tasmania	98.3
6. New South Wales	96.5

The March 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 SEPI 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.

- **With activity levels easing through the back half of 2023, labour demand across most states has begun its transition towards pre-pandemic levels.**
- **South Australian and Tasmanian businesses continue to face extraordinarily tight labour markets, limiting employment growth.**
- **New South Wales has seen the sharpest easing of labour markets, with job vacancies now only 20.0% above 2019 levels.**

Labour markets began to ease in the second half of 2023 and early 2024, with national unemployment rising from its low point of 3.5% in June 2023 to 3.8% in March 2024.

Despite this easing, labour markets across Australia remain extraordinarily tight by historical measures. Excluding February 2008, the ABS has no record of the national unemployment rate falling below 4.0%, a reality we have faced for almost two years.

While the labour market tightness has been a blessing in achieving the RBA's soft landing, it has caused hiring to become the most significant issue facing businesses. Difficulty finding suitable labour and meeting wage demands has been a key issue for businesses across all states.

The level of labour market tightness across states has been uneven. With the consumer segment slowing down more sharply in New South Wales, employment growth has slowed in the state by a greater degree than the national average. South Australia and Tasmania too have experienced weak employment growth, but for the opposite reason. As these states have seen labour markets plateau or become somewhat tighter, the inability to source labour has inhibited businesses' hiring ability.

Workforce statistics across the states

	NSW	Vic	Qld	SA	WA	Tas
Labour market tightness ratio (unemployed/vacancies)	1.6	1.6	1.8	1.4	1.4	1.8
Labour underutilisation	10.0%	10.9%	10.8%	10.5%	9.9%	11.8%
Unemployment rate	3.8%	4.1%	4.1%	3.9%	3.4%	3.8%
Employment-to-population ratio	63.6	64.6	63.9	60.3	66.6	58.7
Annual wage growth	4.3%	3.7%	4.8%	4.0%	4.7%	4.3%
Average weekly wage	$1,891	$1,858	$1,845	$1,735	$2,108	$1,670

Source: ABS (19/04/2024)

While labour market tightness is easing across the eastern states, South Australia and Tasmania have seen little alleviation of labour shortages.

Labour market tightness – Eastern states

Ratio of unemployed persons to job vacancies

Source: ABS 6202.0, ABS 6354.0, Judo Bank

Labour market tightness – Other states

Ratio of unemployed persons to job vacancies

Source: ABS 6202.0, ABS 6354.0, Judo Bank

Forecast tables.

The consensus among economists and the expectation of the RBA is for the economy to remain in a soft landing through the first half of 2024. A soft landing is essentially a slowdown in economic activity that takes growth below its long-run trend but remains positive. A recession is defined as a contraction in economic activity lasting at least six months.

The tentative signs of a recovery in some state economies suggest that the soft landing might be behind us, and we have entered a new phase of economic expansion, a cyclical recovery in activity.

While great news, the problem for Australia and the world is that inflation remains above central bank targets. It is our assessment that economic activity must remain below trend throughout 2024 to ensure inflation continues to fall towards 2.5% by 2025. We find ourselves in an unusual situation where good news on the economy could be bad news for interest rates. The RBA has done less than other central banks in raising interest rates over the last two years.

The prospect of global interest rate reductions in 2024 has faded in recent months. A higher-for-longer global interest rate environment raises the risk that the RBA might be forced to resume its tightening cycle later in the year to bring rates into line with those of other nations.

The consumer is key. The consumer belt tightening phase must be extended well into 2024 if the economy is to remain on the RBA's narrow path.

State government real gross state product forecasts (year average)

	NSW	Vic	Qld	WA	SA	Tas
2021–22	1.80	5.60	4.40	3.10	5.10	4.30
2022–23	3.70	2.60	2.30	3.50	3.80	1.10
2023–24f	1.50 (1.25)	1.50	3.00	1.75 (2.25)	1.25 (1.00)	1.50 (2.00)
2024–25f	1.25	2.50	3.00	2.00 (1.75)	1.50 (1.75)	2.00 (2.25)
2025–26f	2.00	2.75	2.75	2.00	1.75 (2.00)	2.50

Source: State and Federal Government 2023–24 budgets
*Australian figures reflect real GDP growth, e=estimated, f=forecast, original projections in parenthesis

National and international forecast table (year on year)

	June 23	June 24	June 25	June 26
Economic activity				
Gross domestic product (real GDP)	2.1	1.4	2.2	3.0
RBA		*1.3*	*2.1*	*2.4*
Unemployment rate (quarterly, %)	3.6	4.5	4.5	4.3
RBA		*4.2*	*4.4*	*4.4*
Consumption (real)	1.2	0.9	2.1	2.7
RBA		*0.8*	*2.4*	*2.6*
Business investment (real)	10.6	3.7	5.0	8.0
RBA		*1.2*	*1.6*	*2.2*
Inflation				
Consumer price index	6.0	3.5	3.0	2.9
RBA		*3.3*	*3.1*	*2.6*
Wage price index	3.6	4.2	4.0	3.3
RBA		*4.1*	*3.6*	*3.2*
Financial				
RBA cash rate (end quarter, %)	4.10	4.35	3.50	3.50
3-year government bond yield	4.00	3.75	3.50	4.00
10-year government bond yield	3.92	4.50	4.00	4.25
US federal funds rate	5.25	5.50	4.50	4.25
US 10-year interest rate	3.75	4.50	4.00	4.25
USD/AUD	0.67	0.64	0.70	0.72

Source: ABS, RBA, Judo Bank

Thank you.

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