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New South Wales

State Economic Download.

October 2023

Boldy backing business.

Contents.

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Section 1

Business and Economic Outlook.

Empower yourself with local and global economic insights.

Pictured Judo Customer

David Wardle | Quik Corp

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.

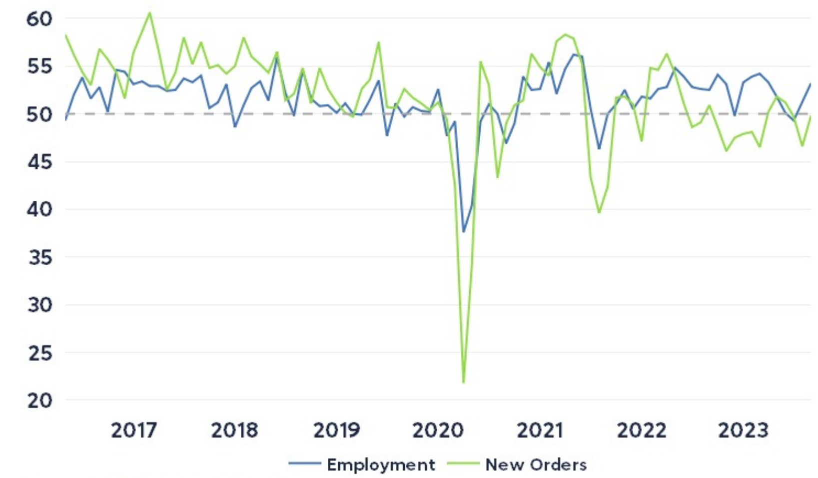
SME profitability has grown in a similar fashion to bigger businesses despite pandemic and post-pandemic challenges

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

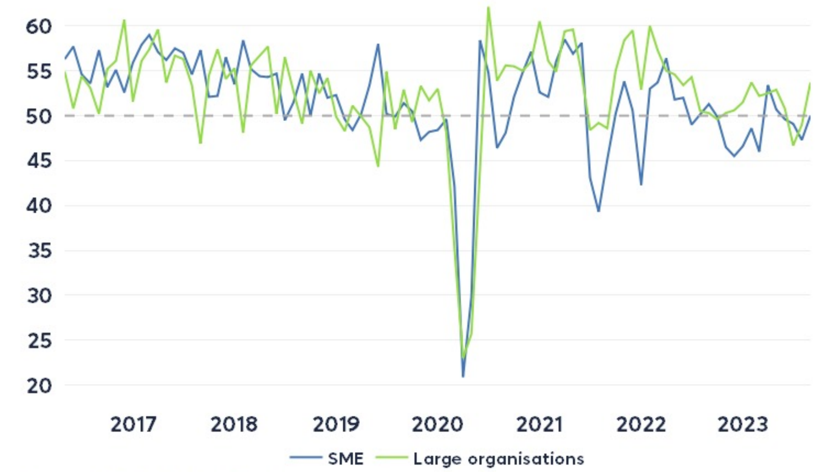
Index (neutral = 50)



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.**

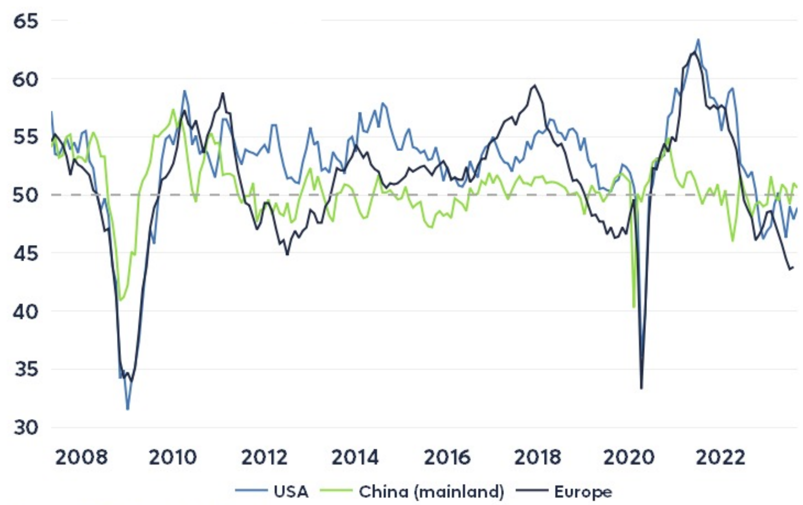
For much of the last 12 months, economists and financial markets have been preoccupied with the impending global recession in the wake of aggressive interest rate increases worldwide.

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.

Global Business Activity – S&P PMIs



Source: S&P Global, Judo Bank

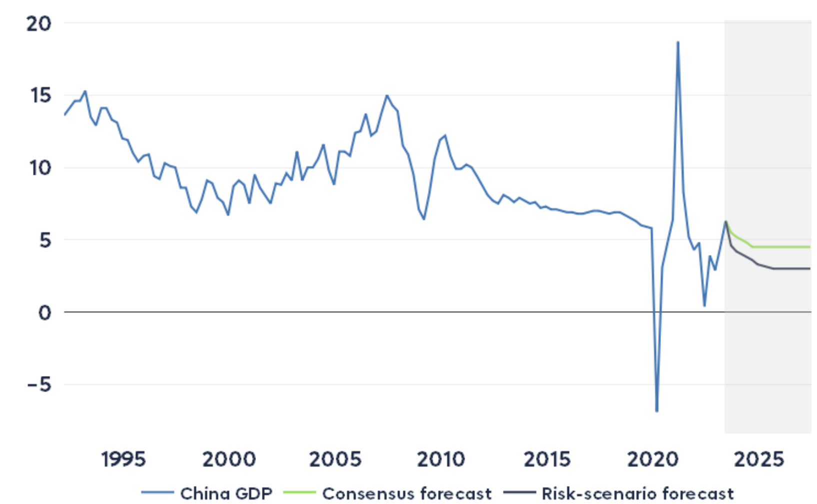
The US economy continues to defy expectations of a slump. The fear of a credit crunch in the wake of bank failures earlier this year haven't played out. The banking system has continued to provide credit to the economy, and business continues to generate new jobs.

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



Source: World Bank, EQ Economics, Judo Bank

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.

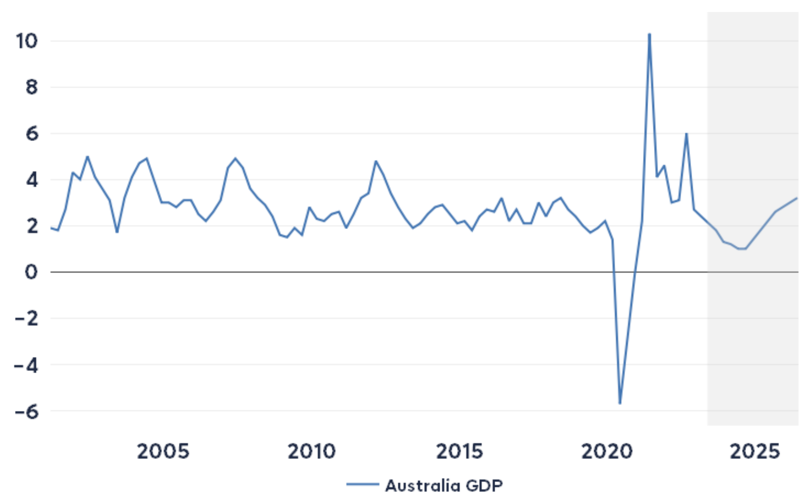
Essential consumption is being supported by strong population and employment growth.

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.**

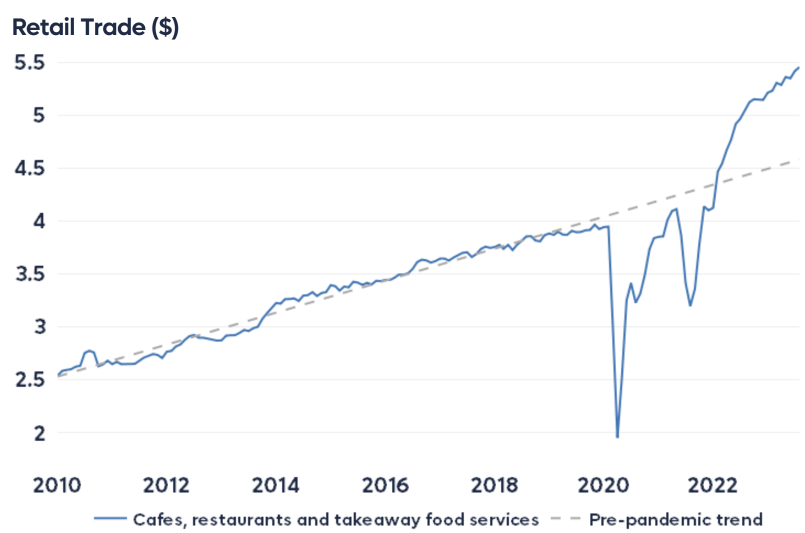
Over the past year, the weak point in the Australian economy has been a rapid slowdown in consumer spending growth. Rising interest rates, a higher income tax burden and falling real wages are squeezing household cashflows forcing widespread belt-tightening.

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.

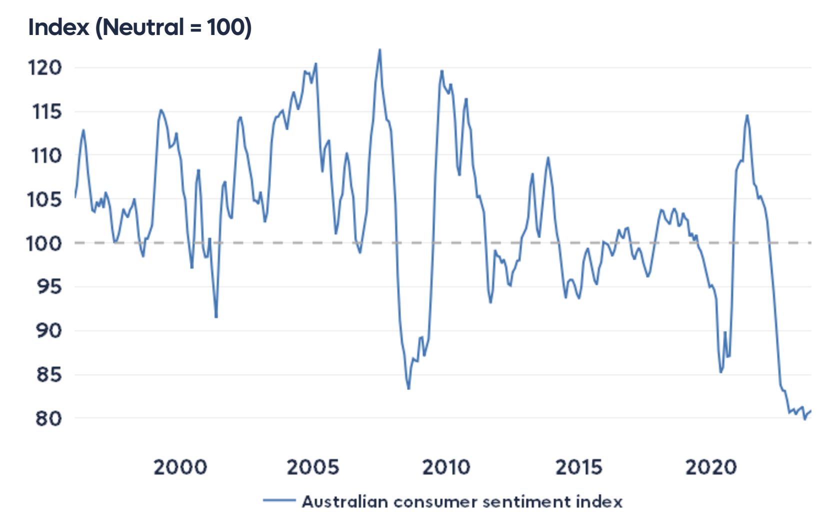
Consumer spending on essential items is being supported by strong population and employment growth right through to September. Unemployment is rising gradually, driven by high rates of workforce growth, not job losses.

Restaurants, Cafes and Takeaway Spend



Source: ABS, Judo Bank

National Consumer Sentiment



Source: Westpac - Melbourne Insititute, Judo Bank

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.

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.

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.

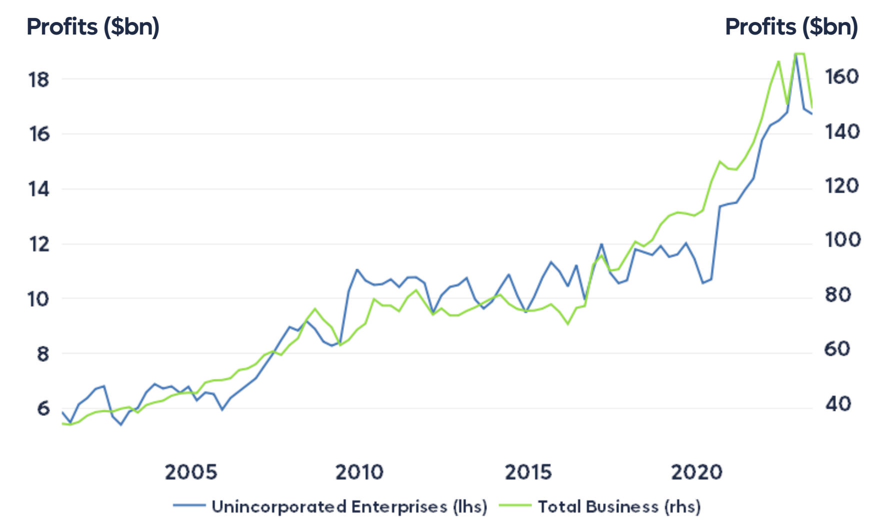
Construction activity is strong outside of the residential sector with both infrastructure spending and commercial activity still solid.

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.

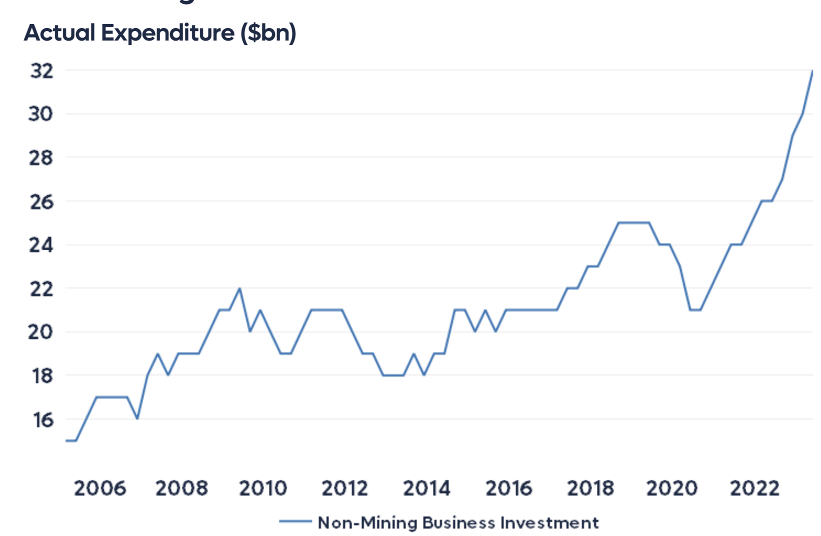
Australian businesses are also tackling the challenge of climate change, playing their part in the energy transition. From new energy sources to more energy-efficient production.

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.

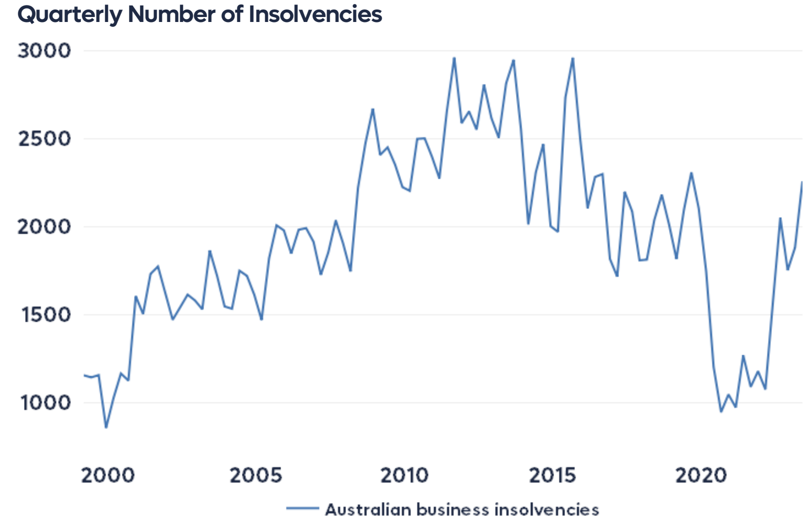
For much of this inflationary episode, these cost pressures have been felt equally by businesses large and small. And until this year, SMEs have been as successful as larger companies at passing on some of these cost pressures to final customers.

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.

Business Insolvencies

Quarterly Number of Insolvencies



Source: ASIC, Judo Bank

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.

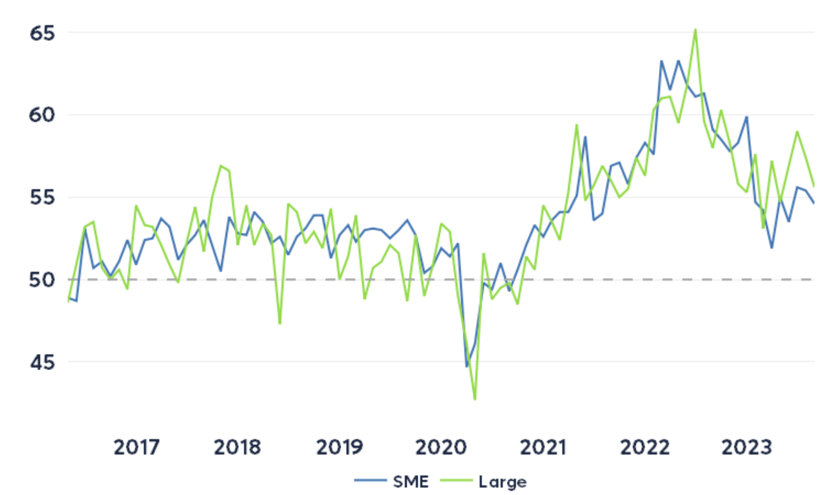
Labour hoarding exists because of substantial costs in hiring and firing people, particularly in a highly regulated labour market like Australia's.

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.

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.

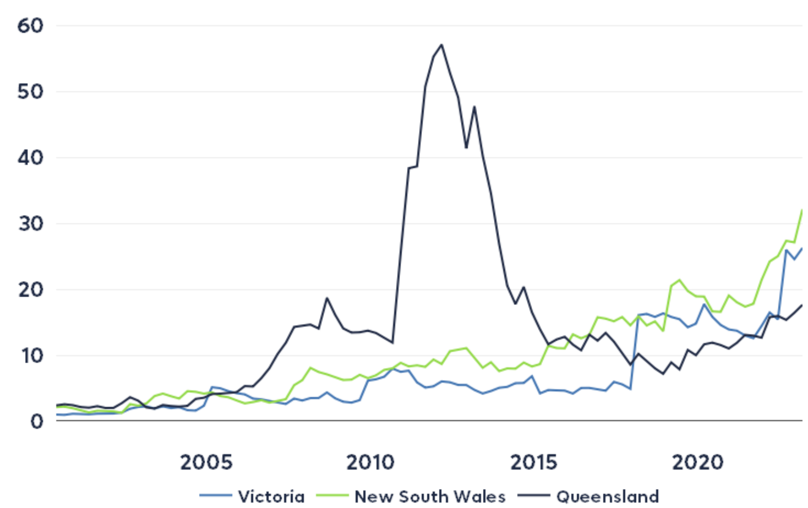
According to Infrastructure Australia, the total infrastructure pipeline is almost $1 trillion, with about half underway and the other half under consideration but likely to proceed.

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.

Infrastructure Pipeline by State

Work Yet to be Done ($bn)

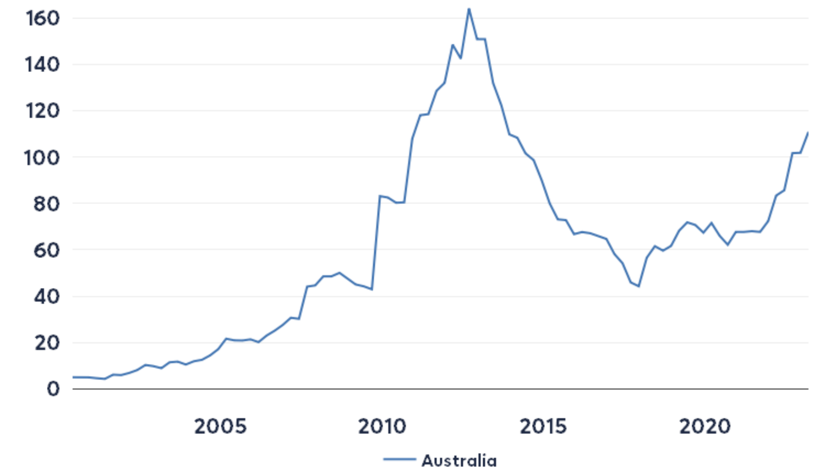


Source: ABS, Judo Bank

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

Infrastructure Pipeline (Private Sector)

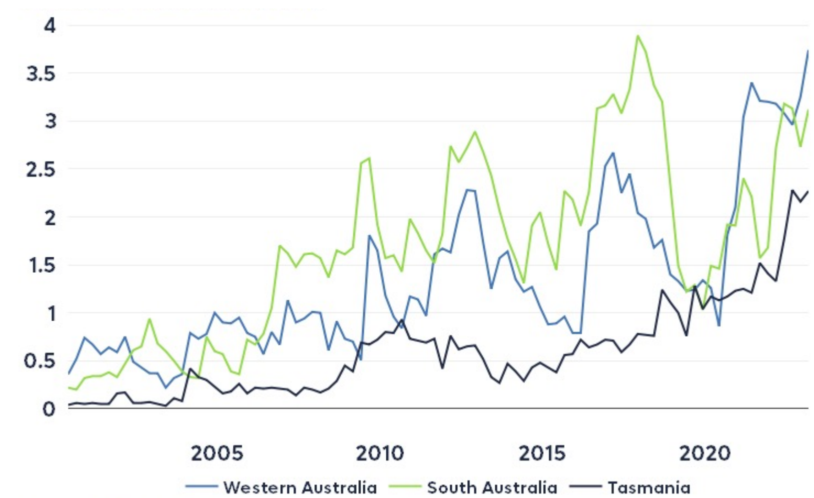
Work yet to be done ($bn)



Source: ABS, Judo Bank

Infrastructure Pipeline by State*

Work Yet to be Done ($bn)

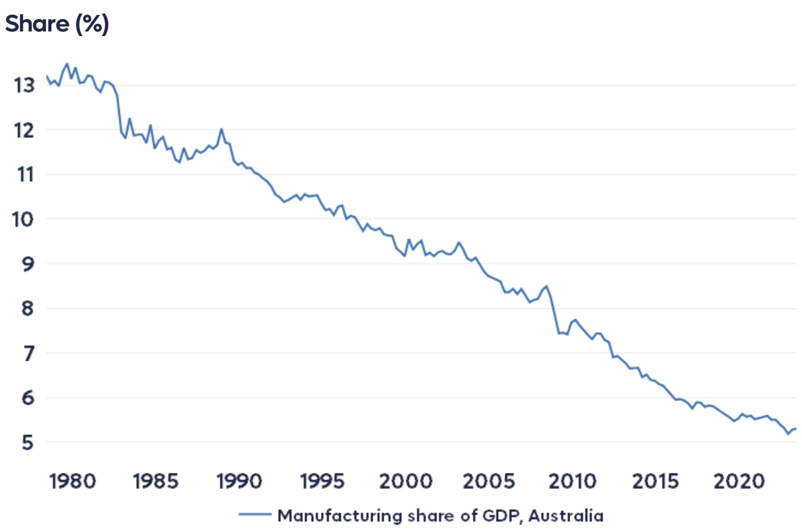


Source: ABS, Judo Bank

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

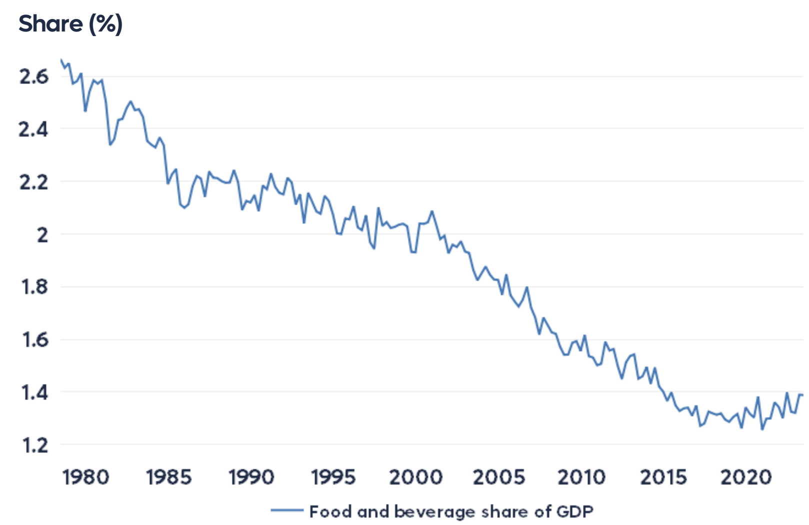
Manufacturing Revival?

Manufacturing Share of Production



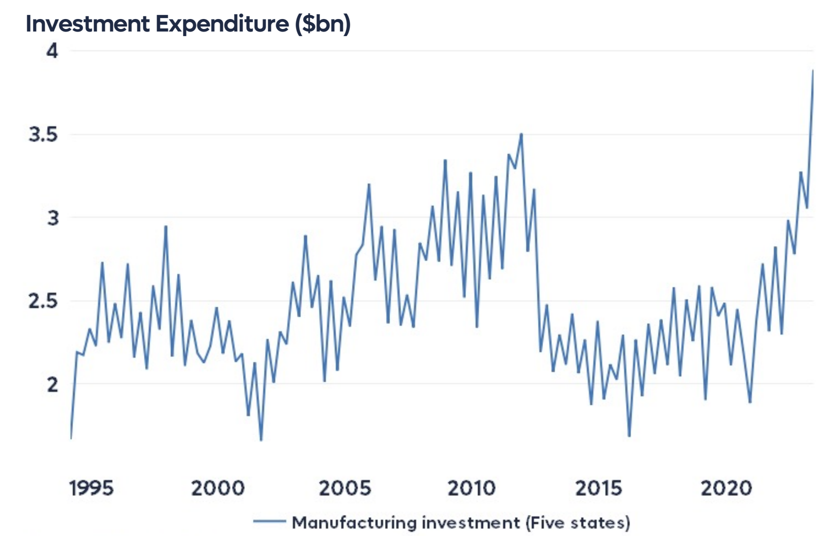
Source: ABS, Judo Bank

Food and Beverage Share of Total Output



Source: ABS, Judo Bank

Manufacturing Investment (Five States, $bn)



Source: ABS, Judo Bank

- **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

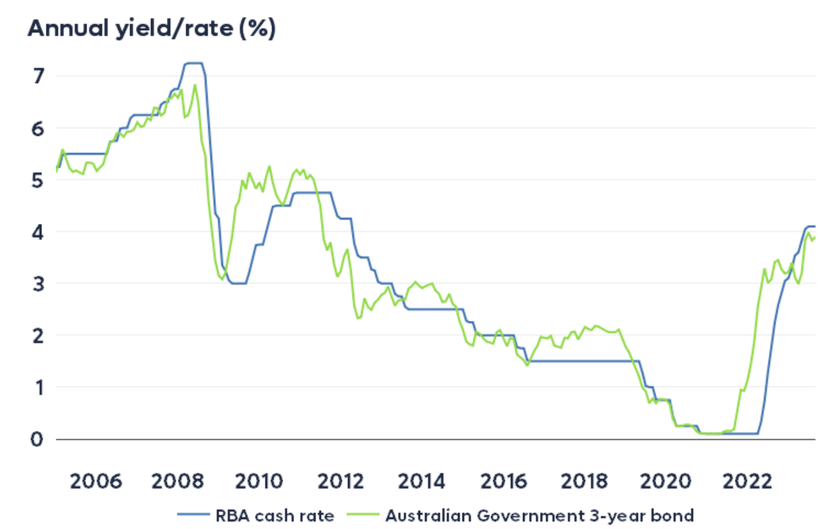
The RBA thinks they have interest rates at about the right level to get the economy to slow sufficiently to remove the inflation from the economy. They have not increased rates since June, a genuine pause.

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

Section 1

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.

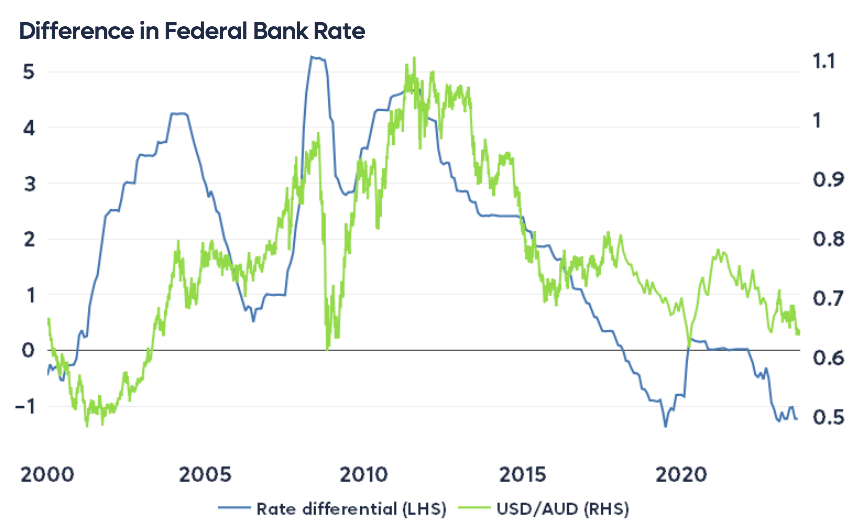
If commodity prices were the only factor determining the level of the $A, it would be at parity with the $US. By contrast, if the interest rate differential was the only factor determining the level of the $A, it would be at US50c.

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.

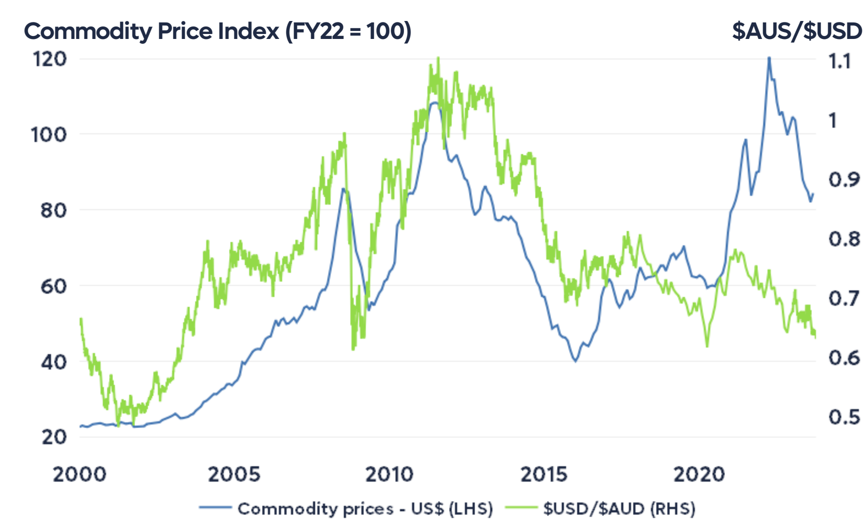
One of the unknowns is the role of LNG prices. Australia is a major exporter of LNG following the significant expansion of capacity in the past 15 years. Rising energy prices could support the $A as LNG export values rise.

$A and the Interest Rate Differential



Source: RBA, Judo Bank

$A and Commodity Prices



Source: RBA, Judo Bank

Section 2

New South Wales.

Infrastructure boom,
Consumer gloom.

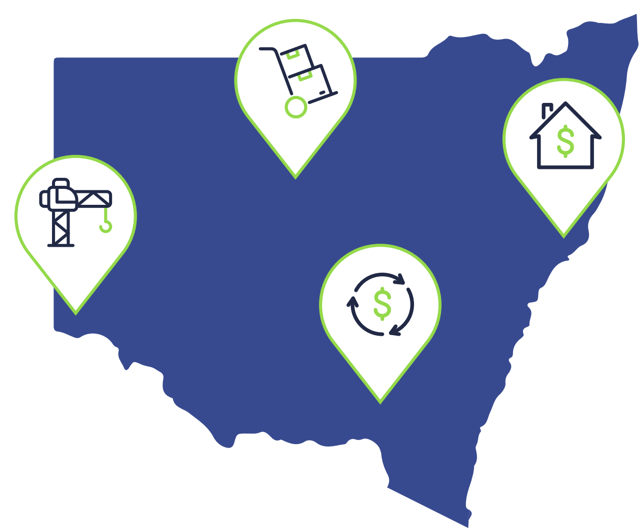
Pictured Judo Customer
Ben Nichols | Bredal Australia

judobank

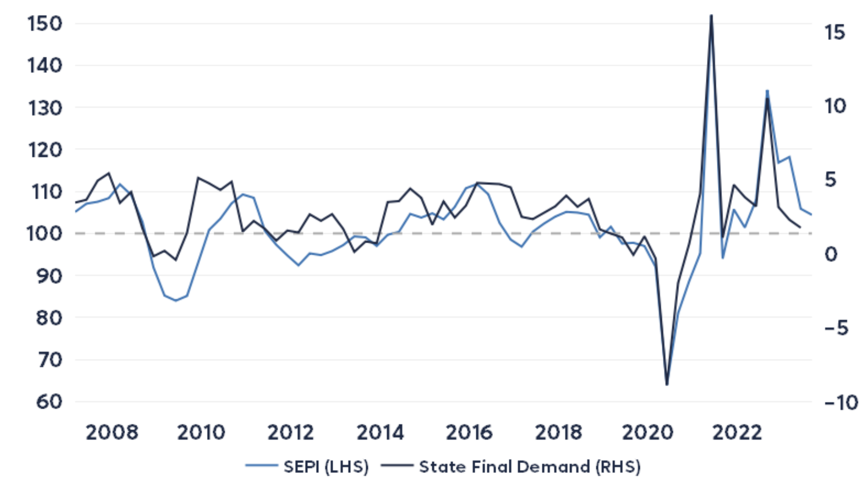
New South Wales Economic Performance.

- NSW is in the middle of the biggest infrastructure boom in a generation. The infrastructure construction pipeline sits above $30bn, having doubled in the past 5 years.
- Commercial construction activity is also strong, with a healthy pipeline. The soft spot in the construction industry is in the residential sector, where the pipeline of work is expected to slow in line with the decline in residential building approvals over the past 18 months.
- Immigration has surged to its highest-ever level in NSW, with net overseas migration (NOM) hitting 153,000 over the year to March 2023, higher than the pre-pandemic peaks of around 100,000.
- NSW faces one of the most severe dwelling shortages in the nation, yet the construction industry has little capacity to respond to demand for the foreseeable future.
- Consumer spending has slowed in NSW, but despite having some of the biggest mortgages in the nation, the decline in spending and consumer sentiment is broadly in line with national trends.
- The demand for labour is strong even as immigration drives up the supply of new workers. The NSW labour market is one of the tightest in the nation, with unemployment rising only modestly in 2023 from a 50-year low of 2.9%.
- Western Sydney is the growth engine of the NSW economy, with major infrastructure projects and population flows expected to keep economic activity going for many years to come. The completion of the Western Sydney International Airport in 2026 and associated infrastructure will mark a new era.

- The pandemic surge in people leaving Sydney for regional NSW has slowed over the past year but is far from reversing. Regional NSW continues to benefit from strong population growth and government investment.
- Consumer-facing businesses in NSW will face another tough year as household belt-tightening continues into 2024. Strong population and employment dynamics will put a floor under demand.



NSW State Economic Performance Indicator (SEPI)



Source: ABS, National Skills Comission, Judo Bank

The NSW economy has slowed rapidly in 2023 led by weak consumer spending. Economic growth appears to have stabilised, softening slightly in the September quarter, in line with the overall national economy. The Judo Bank State Economic Performance Indictor (SEPI) is pointing to a loss of momentum in economic activity over the course of 2023, which is likely to remain soft, though still expanding in 2024.

While lower than FY23 levels, historically high levels of overseas migration are projected for FY24-FY27.

Job advertisements in August are still at the high level of 87,500, 49% higher than in August 2019.

The post-pandemic boom has made NSW house prices even more unaffordable than the rest of the nation.

The non-resi construction pipeline has reached new heights, driven by Western Sydney International Airport.

Boldy backing business.

Population Trends.

- **New South Wales recorded the largest increase in population on record in FY2023, driven by an abnormally high level of overseas migration.**
- **Interstate migration out of New South Wales might not return to pre-pandemic levels as anticipated.**
- **As regional living benefits through the pandemic disappear, movement from Sydney to the regions is slowing.**

Apart from the big decline in international arrivals, New South Wales population dynamics were hardly affected by the pandemic, unlike other states. The long-standing pattern has been high levels of international arrivals and a constant net outflow of people from New South Wales to the rest of Australia.

There has been a net inflow of 153,000 overseas migrants arriving in New South Wales over the year to March 2023, the highest level of overseas migration experienced on record (going back to 1982). Most states are experiencing record net overseas immigration in 2023 given the Government's 'surge' announced in the Federal Budget.

The state is projected to welcome 105,000 overseas migrants in FY24 before moderating to an average of 86,000 a year till the end of FY27. This projection is essentially a 'normalisation' of net overseas migration numbers in New South Wales at pre-pandemic levels.

This migration will compensate for the losses experienced through the pandemic and offset the population loss to other states, reaching a record high of 43,000 persons in 2021.

Interstate migration levels are expected to return to pre-pandemic averages after seeing a large outflow through the pandemic – primarily to Queensland. Given increases in housing unaffordability in New South Wales relative to other states, budget projections for interstate migration levels may be optimistic for the state. The sharp rise in dwelling prices and rising rents across the state are expected to be a major factor driving people to other parts of Australia well into the future.

After peaking in 2020, migration away from Sydney to the New South Wales regions has begun to slow, returning to levels seen in 2019. Over the year to March 2023, the net flow of people from Sydney to the regions has been 14,000. The net outflow from Sydney has slowed in 2023 but the underlying trend is unlikely to reverse anytime soon.

Over the longer-term regional infrastructure investment and developments such as Western Sydney Airport will increase the appeal of living outside of the Sydney metropolitan area, particularly in a world of flexible work arrangements.

105K
Overseas migration projection for FY24

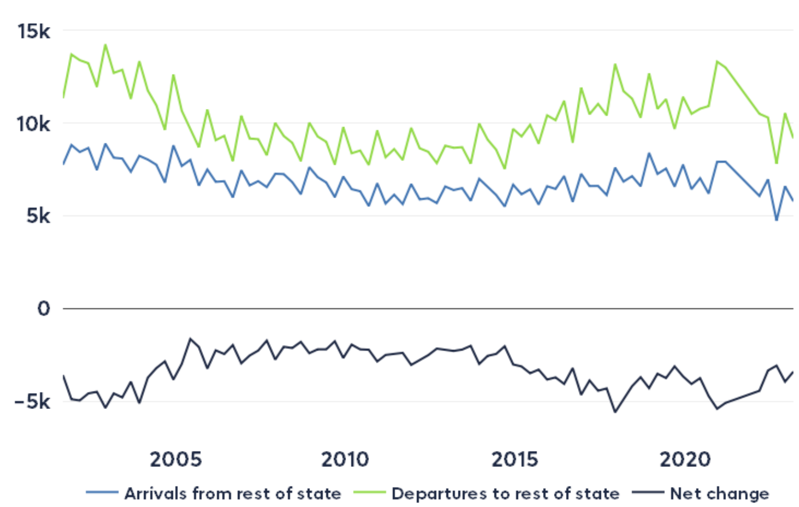
13.7K
Net departures from Sydney to regional NSW year to March 2023

Worsening dwelling affordability may prevent interstate migration flows recovering in FY24.

Population growth is anticipated to slow to the level seen in 2019 over the next 3 years.

Migration Between Sydney & Regional NSW

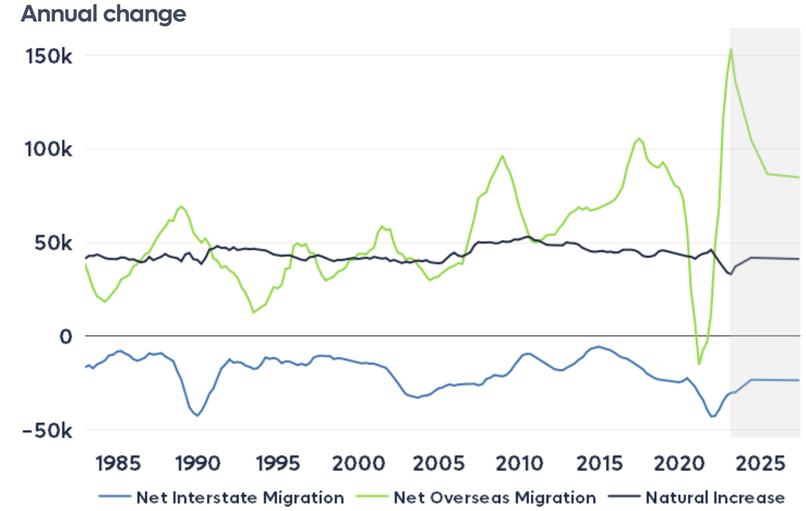
Quarter Change



Source: ABS 3101.0, Judo Bank

Components of New South Wales Population Change

Annual change

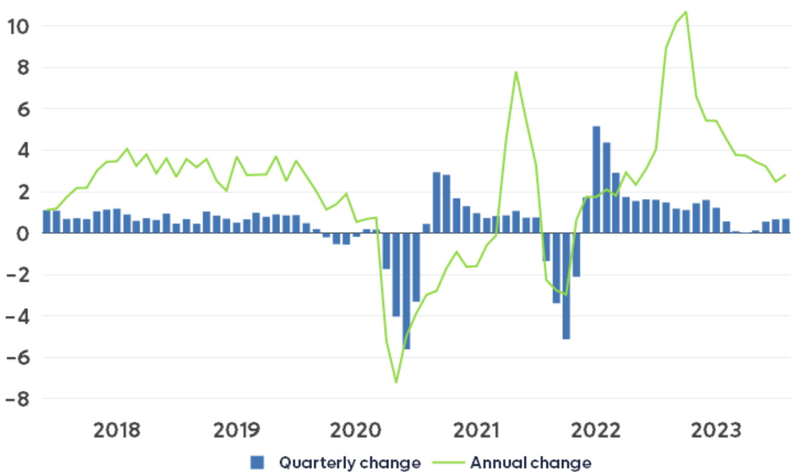


Source: ABS 3101.0, Federal Budget 2023-24, Judo Bank

Easing Labour Market Conditions.

New South Wales Employment Growth

Employment Growth (%)



Source: ABS 6202.0, Judo Bank

Labour-Market Tightness

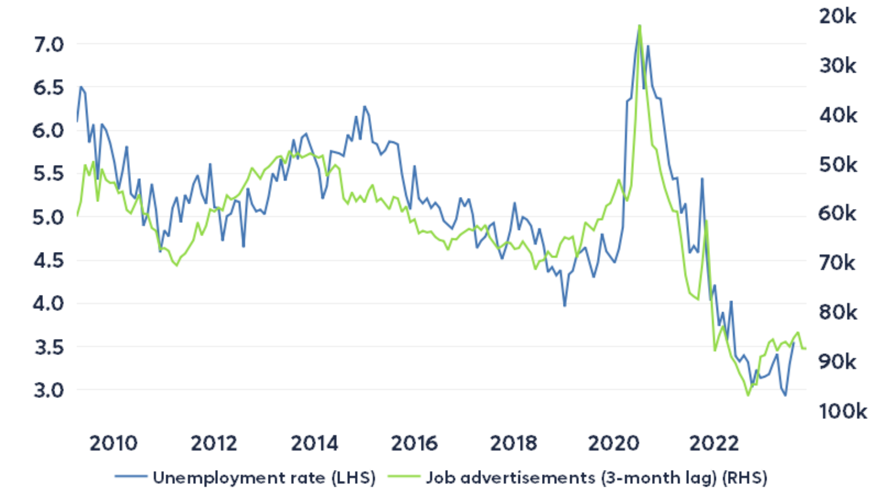
Ratio of Unemployed Persons to Job Vacancies

Source: ABS 6202.0, ABS 6354.0, Judo Bank

Unemployment Rate vs. Job Advertisements

Unemployment Rate (%)

Job Advertisements



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

- **New South Wales is experiencing record labour market tightness, with almost one job vacancy per unemployed person.**
- **There are signs of a loosening labour market ahead amid high migration, slowing activity and a slight decrease in job advertisements.**
- **The New South Wales unemployment rate will rise through 2024, likely driven by overseas migration.**

While softening from the peak in mid-2022, job vacancies remained well above the pre-pandemic trend in August 2023 – at 122,000, up 52,000 on pre-pandemic trend levels. Given the unusually high level of vacancies, the ratio of unemployed persons to job vacancies, a measure of labour market tightness, fell under 1.0 in early 2023 before rising to 1.2. Almost one job is available per unemployed person in the economy. The number of job advertisements further illustrates this, sitting at a historically high level of 87,500 in August, 44.4% higher than the average level seen through 2019.

With a tight labour market, New South Wales is efficiently absorbing the large migration flows into the state into the labour force, evidenced by the 132,000-person increase in the labour force size in the year to August 2023. We're also seeing a big increase in part-time employment in New South Wales, consistent with employment for students.

Despite a slowdown in economic activity through 2023, employment growth has remained positive thus far. This stems from a large construction pipeline and a gradual softening of consumer demand. Through early FY24, employment growth appears to be stabilising at levels in line with the long-run average annual growth rate.

There are signs of the labour market easing ahead. The fall in job advertisements seen through FY23 indicates a rising unemployment rate, expected to reach 4% by the end of 2023. As the economy slows in response to higher rates and inflation, demand for labour will soften. This, combined with large overseas migration flows through 2024, will put upward pressure on the unemployment rate over the year ahead even if employment growth continues to grow.

3.2%

Employment growth in FY23

2.9%

Lowest level of unemployment rate through 2023

Despite trending downwards, job vacancies in NSW are still at record high levels, 73% above pre-pandemic trend.

High levels of immigration into NSW are converting to a larger labour force, with hours worked increasing by 3.2% in the year-to-August.

Consumer Belt Tightening.

- **Consumer sentiment remains subdued below pre-pandemic levels, driven by weakening household finances.**
- **Weak consumer sentiment and finances, tied with inflating prices, have slightly decreased consumption levels through FY23.**
- **While other states are still seeing an increase in eating out, NSW residents are cutting back on eating out and takeaway amid higher relative mortgage servicing costs.**

Consumer sentiment in New South Wales remains at record lows, with the index reading at 83.6 in October 2023, well below the long-run neutral level of 100. The key driver of this result is the deterioration of family finances over FY23 as rising interest rates and inflation bite into household disposable incomes. The past-year family finances sub-index was 64.4 in October, well below the 2019 average of 84.6.

While consumer sentiment remains very weak in New South Wales, it is higher than the national average in 2023, which may reflect the strong performance of the Sydney housing market this year.

While retail sales rose through FY23, consumption levels have fallen. Retail turnover growth has slowed through 2023, to 1.3% the year to August quarter of 2023. After stripping out the impact of inflation, retail consumption levels fell over the year to June quarter 2023, down 1.5%.

Cost of living pressures and higher interest rates are expected to keep downward pressure on consumer spending through the rest of FY24. A further slowdown in employment growth is expected to add to the downward pressure on consumption.

This slowdown in spending will be partially offset by the consumption demand from strong population growth, which is expected to see an extra 123,000 people in New South Wales in FY24.

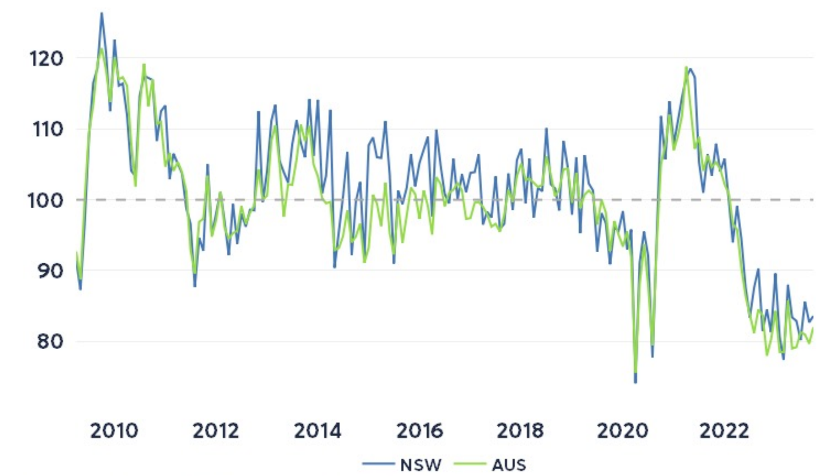
Despite facing similar inflation levels on eating out across the eastern states, New South Wales consumers have curtailed spending on eating out much more than those of Victoria and Queensland. In August 2023, total spending at restaurants and on takeaway was 23.8% up on pre-pandemic levels.

Much lower than the peaks reached by Melbourne and Brisbane, which are still rising (49.1% and 54.4% above pre-pandemic levels, respectively). This likely stems from the more significant rise and level in New South Wales of housing costs, rent and mortgage repayments, adding considerable pressure to cut lifestyle spending.

Annual growth in goods spending has been slowing consistently through 2023, measured at 0.2% in August of 2023. After peaking in September 2022 at 8.1% growth year-on-year, real goods spending has declined through the rest of FY23, down by an estimated 3.6% in June 2023.

Consumer Sentiment Versus National

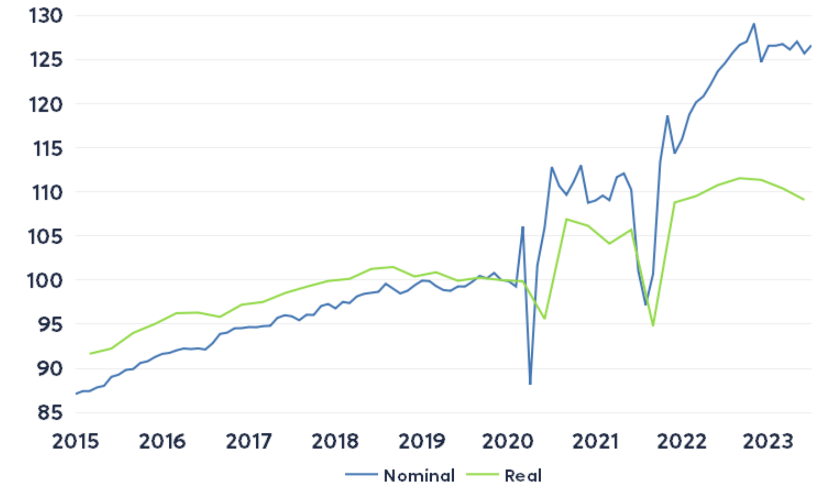
Index (100 = Neutral)



Source: Westpac - Melbourne Insititute, Judo Bank

Real and Nominal Growth in Retail Turnover

Index (100 = December 2019 Expenditure)



Source: ABS 8501.0, Judo Bank

Managing Director Comments

"Consumers are being confronted with hard choices. Adaptability, pragmatism and understanding the market is crucial."

- Stephen Mifsud

Housing Market Running Out of Steam?

- **The post-pandemic boom has made New South Wales house prices even more unaffordable than the rest of the nation.**
- **Opportunities regionally for home buyers have also worsened through the pandemic, with peak prices in the regions comparable to 2019 capital city prices.**
- **Dwelling prices are expected to come under pressure in FY24 as a slower economy and higher interest rates catch up with one of the world's most expensive property markets.**

The median price difference between dwellings in Sydney versus the nation's capital cities was 240k in September 2023, up 37% from a 175k differential in December 2019. The median dwelling price in New South Wales has increased over 230k since the pandemic commenced, with property prices in Sydney and regional New South Wales increasing 33% and 50% since December 2019, respectively.

At the peak in 2022, the median price of a property in regional New South Wales was $724k, similar to the median price for a dwelling in Sydney in mid-2019. The rush for the regions driven by the pandemic appears to have slowed down but not reversed, with retiring baby boomers and job opportunities in the regions continuing to support net outflows of people from Sydney.

Following the slowdown in house prices driven by rising interest rates, Sydney prices have begun to increase again in 2023 while regional prices have plateaued. Investors and owner-occupiers who have adjusted to the new higher interest rates are driving the recovery.

House prices have grown significantly more than units through and after the pandemic. The median house price in Sydney was $1.35m in September 2023, while the median unit price was 797k, up 40% and 11%, respectively.

With the RBA close to the peak of interest rates and house prices continuing to rise into the first months of FY24, homeowners will likely maintain the wealth gains generated through the pandemic.

Higher mortgage repayments will probably drive some established stock to list and slow demand from locals. However, record levels of migration into the state and a projected decline in dwelling completions over the year ahead will maintain concerns about an undersupply of housing stock for the foreseeable future.

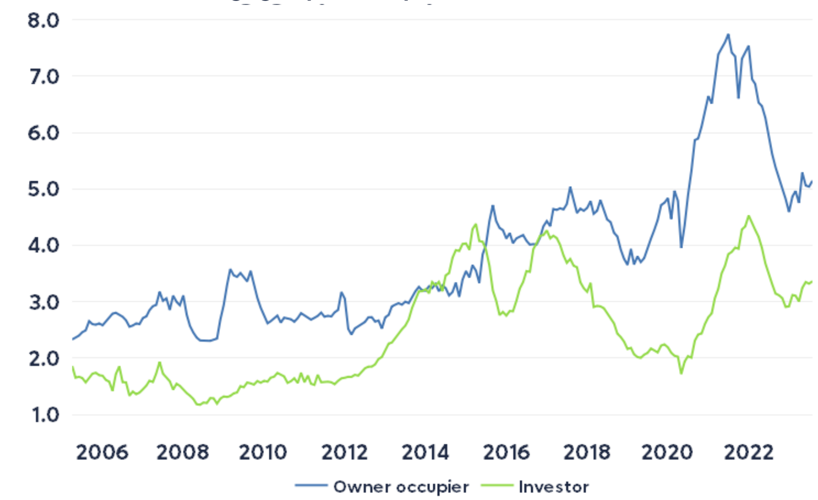
While the New South Wales government has attempted to address the rental crisis by preventing landlords and real estate agents from inviting above-price rental bids, the real solution lies with stock levels. An increase in adequate dwelling stock available to the rental market will drive lower rent increases through improved competition among landlords.

There has been increased investor activity in the housing market in 2023, although industry sources are also quoting an increase in investor selling.

With a weakening construction pipeline and high migration flows, the National Housing Finance and Investment Corporation projects a mismatch of dwellings to households by 700 in 2024 and 15,100 by 2025. Industry sources, however, suggest the number will be larger given greater migration flows than anticipated.

New Mortgage Commitments – Owner Occ. & Investor

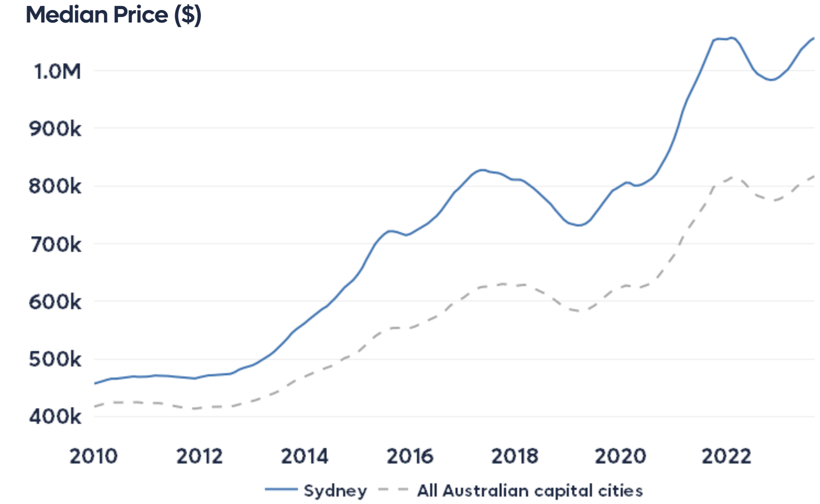
Value of New Mortgages (Billions $)



Source: ABS 5601.0, Judo Bank

Median capital city dwelling price – NSW and AUS

Median Price ($)



Source: REA Proptrack, Judo Bank

The median price difference between dwellings in Sydney versus the nation's capital cities is 240k, up 37% on 2019.

Infrastructure Boom.

- **The residential construction industry shows signs of slowing ahead, in line with the rest of the nation.**
- **Non-residential building and infrastructure activity moves to new highs through FY23, bolstered by the construction of Western Sydney International Airport.**
- **Sydney's new airport is expected to have a positive impact on the construction activity for several years, as firms take advantage of the new high-growth Western Sydney economy.**

It seems that Sydney is being transformed into two economies, the traditional Sydney coastal economy and a new high-growth Western Sydney economy. The completion of the new international airport is one of the final pieces to underpin the new Western Sydney economy. Construction activity will flow across all sectors as this new economy develops into one of Australia's most important economic regions.

After slumping through the first half of FY23, residential building approvals across New South Wales have increased significantly and returned to pre-pandemic levels in July. Over the year to August, residential building approvals fell 36%. Homebuilders have struggled to keep up with the work entering the pipeline, evidenced by completions struggling to keep up with lagged approvals.

This is likely a reflection of cost pressures being felt across homebuilders and developers, facing high interest rates, higher labour costs and a tighter labour market.

With the softening of residential construction demand, the pipeline of dwellings is expected to soften over the year as completions catch up with approvals through FY24 and FY25.

The current level of stock in the pipeline will likely have little impact on housing affordability in New South Wales, given that the number of dwellings to hit the market is equivalent to households created through expected overseas net migration.

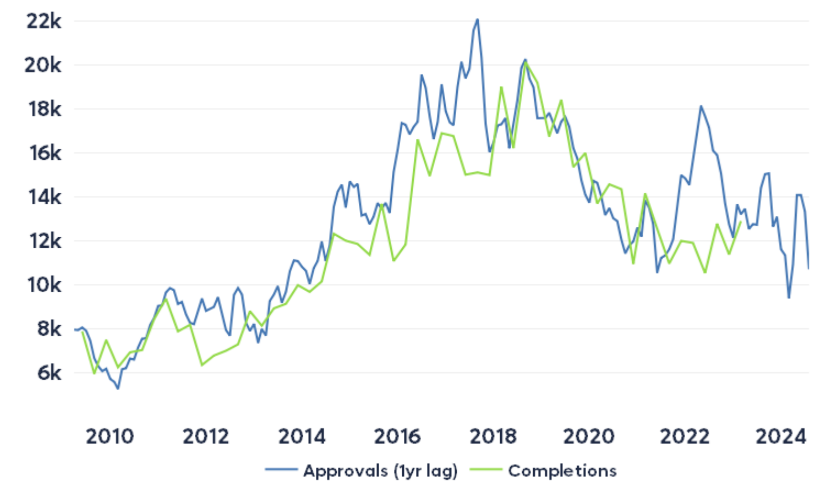
Non-residential building activity has expanded in FY23 at rates seen leading up to the pandemic. With the value of approvals reaching $5.5bn in the August quarter of 2023, building activity and the pipeline will likely continue expanding through FY24.

The pick-up in non-residential building activity has been primarily driven by the Western Sydney airport terminal, seeing an unprecedented increase in transport building project spend by the private sector. Construction is scheduled to continue through FY24, with a large amount of the project remaining before the airport opens in FY26.

The public sector has also ramped up infrastructure spending on roads and rail to improve airport accessibility. The New South Wales civil construction industry will remain active through FY24, with the current pipeline of commenced activity equating to almost a year's output based on current completion rates.

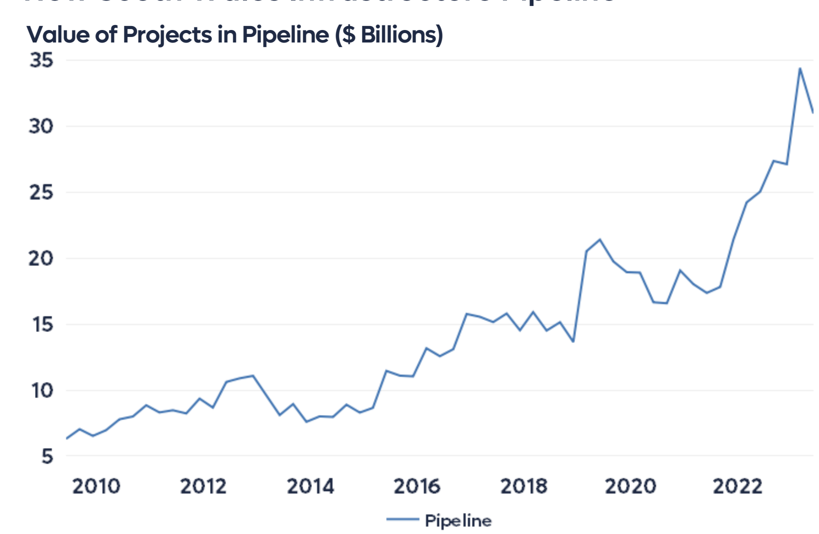
With new freight opportunities, Sydney's West could see an increase in non-residential and civil building activity, as firms seek to benefit from more affordable logistical solutions.

New South Wales Residential Construction Activity



Source: ABS 8752.0, Judo Bank

New South Wales Infrastructure Pipeline



Source: ABS 8762.0, Judo Bank

Managing Director Comments

"SMEs linked to infrastructure are likely to experience stable and reliable income over the coming months."

- Stephen Mifsud

Business Conditions.

- **Judo Bank New South Wales PMIs suggest that business conditions are softening in line with the rest of Australia.**
- **Margin pressure from the pandemic persists for New South Wales businesses, slightly above that seen across the nation**
- **In response to the tight labour market, wage growth has been climbing but remains lower than in other states.**

Total business investment, excluding mining, rose 20.1% to $12.2bn over the year to June quarter of 2023. Investment in equipment, plant and machinery increased by a greater degree, up 24.0% to $6.4bn. Despite rising interest rates and inflation, investment levels in New South Wales continue to grow in real terms, with the chain volume measure of investment up 11.0% in the year to June 2023.

Business conditions have softened through 2023 as consumption slows, with the New South Wales PMI Output Index falling to 46.6 in September, down 3.4 points from the neutral level and well below the national reported figure of 51.5.

Despite this, Judo Bank's state-based PMIs suggest that New South Wales firms are still expanding their labour forces in line with the nation, with the employment index at 51.6 in September and remaining in expansion territory over the past six months.

Business expectations for future activity continue to sit at decade lows amid economic uncertainty and consumer expenditure slowing. It appears that the SME operating environment is getting tougher in FY24.

While improving, New South Wales firms continue to face margin pressures that began to rise in late 2021. In August, the smoothed difference in businesses reporting a rise in input costs to final good costs was 66% higher than the pre-pandemic average, sitting higher than the national average over the same period of 31%.

With the tight labour market, FY23 has seen wage growth increase, reaching 3.4% year-on-year in June 2023. NSW wages are growing slower than in other states, particularly the high-growth states of Western Australia, South Australia and Queensland.

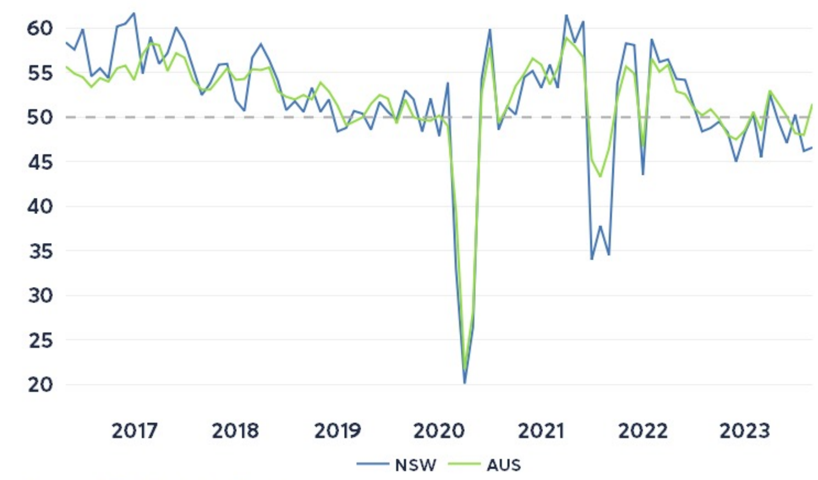
Small business wage growth has slowed rapidly through the second half of 2023, down from the high point of 4.6% in September 2022 to 3.1% in June 2023, according to Xero Small Business Insights.

The slowdown in wage growth among small businesses, softening consumer demand and a growing labour supply could keep wage growth contained over the year ahead, as expected by both the RBA and Treasury.

The State Government, however, has lifted the cap on public services wages, which could put upward pressure on overall wages across the state.

Judo Bank Composite Output Index

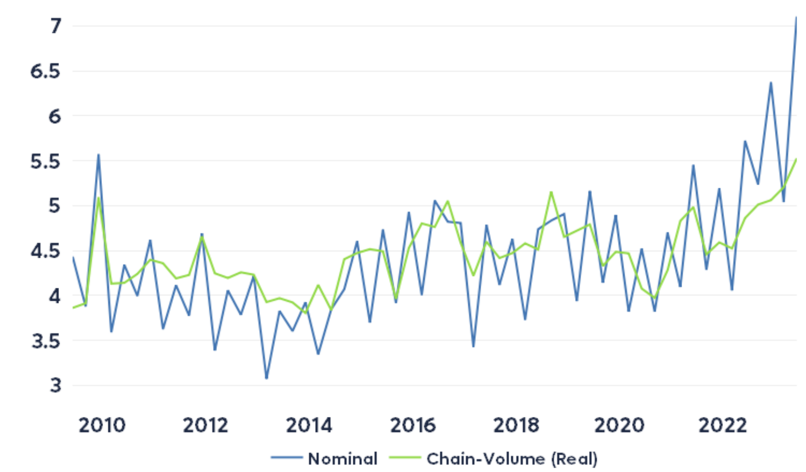
Output Index (Neutral Level = 50)



Source: S&P Global, Judo Bank

Investment in Plant and Equipment – nominal and real

Expenditure ($ Billions)



Source: ABS 5625.0, Judo Bank

Managing Director Comments

"Working capital squeeze could present concerns where business payment terms are being stretched."

- Stephen Mifsud

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.

Section 3

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.

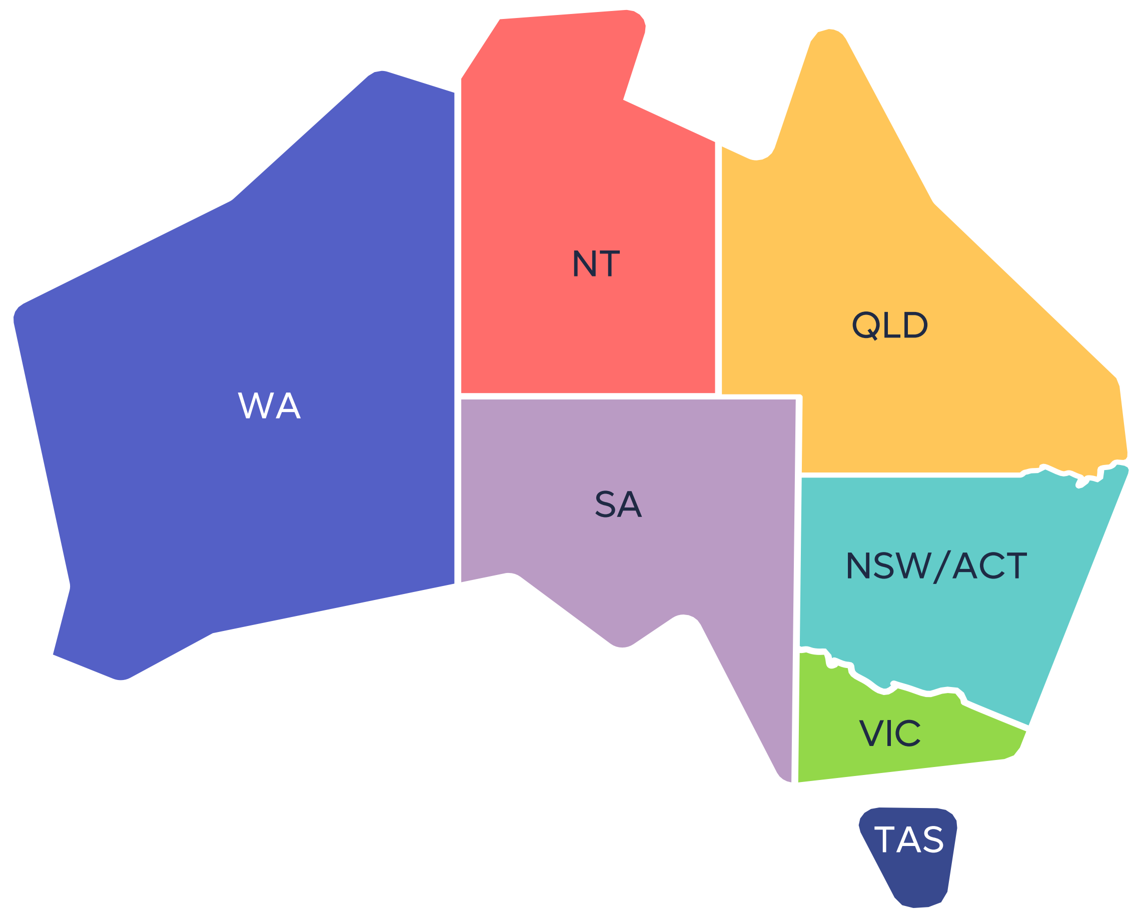
Infrastructure is in focus for NSW and QLD, but for different reasons. The NSW government has bolstered infrastructure to accommodate the growth of Western Sydney, with projects such as the Western Sydney International Airport opening the door to even faster economic growth and investment in western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



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

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.

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.**

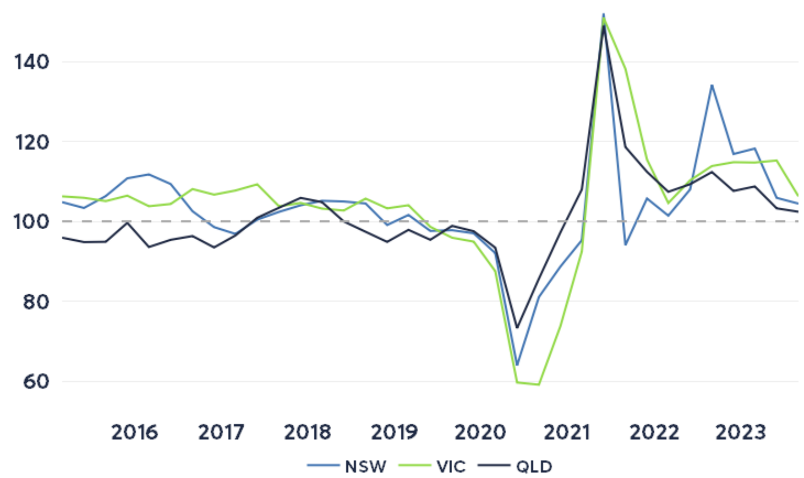
Over the September quarter, South Australia's State Economic Performance Indicator (SEPI) was ranked the highest at a value of 106.9, followed by Victoria in a close second at 106.3. The driving factor for South Australia to come out on top was the relative resilience in job ads, continuing to expand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

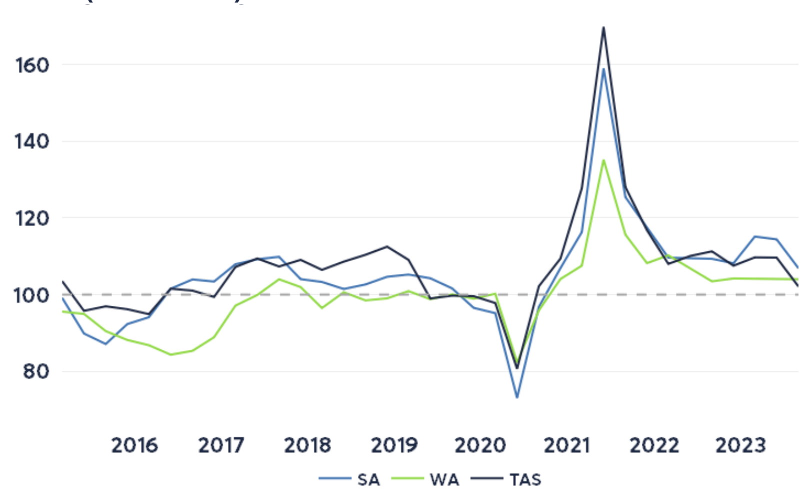
Index (100 = Neutral)



Source: ABS, National Skills Comission, Judo Bank

SEPI – Smaller states

Index (100 = Neutral)



Source: ABS, National Skills Comission, 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 unprecedently 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.

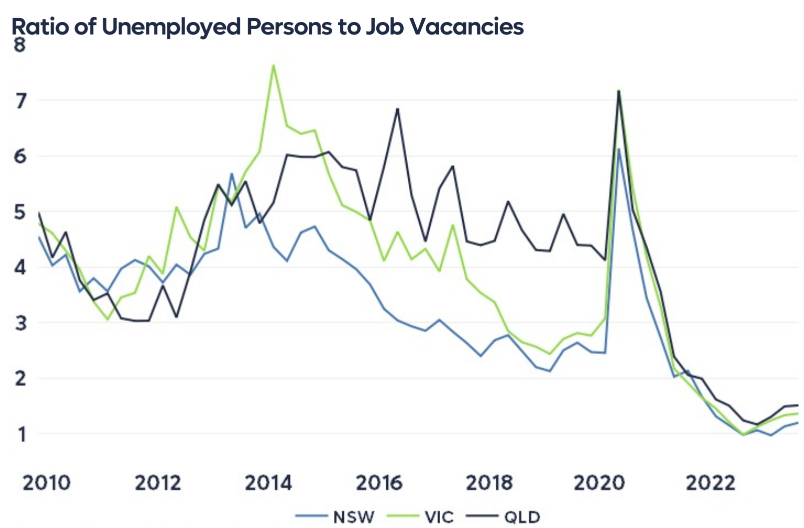
Workforce Statistics Across The States

	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)

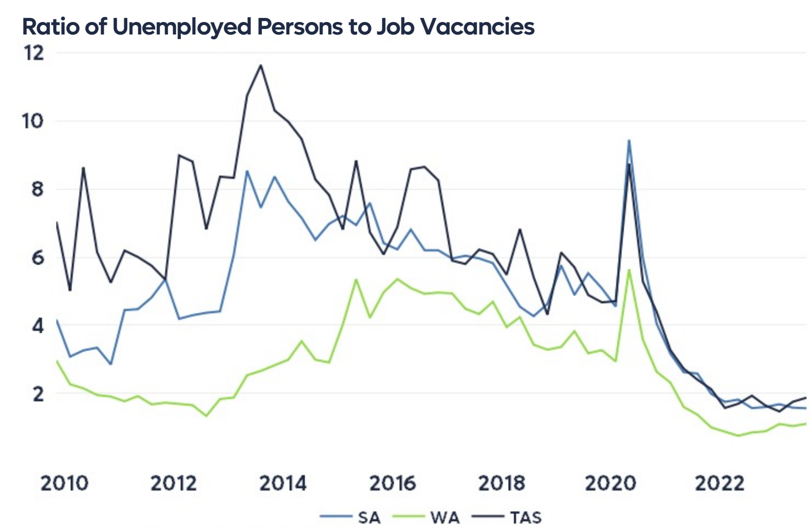
Western Australia is the only state economy that has seen this degree of labour and skill shortages in the last 50 years, prior to the current episode.

Labour market tightness – Eastern states



Source: ABS 6202.0, ABS 6354.0, Judo Bank

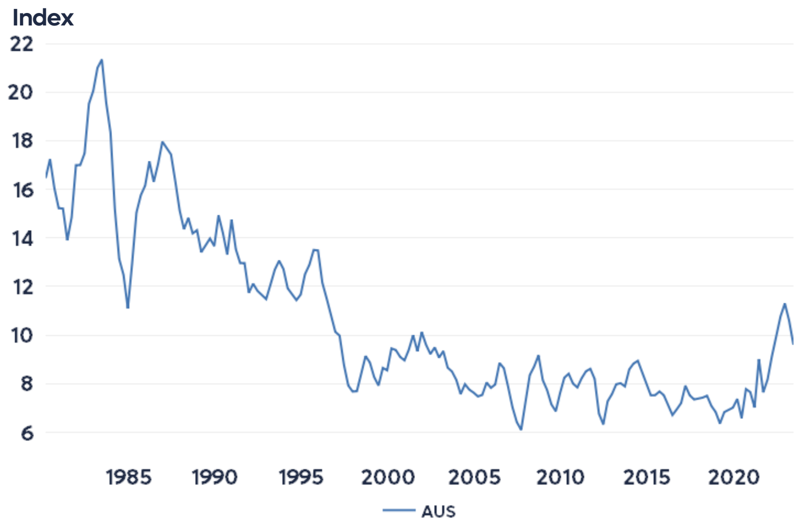
Labour market tightness – Other states



Source: ABS 6202.0, ABS 6354.0, Judo Bank

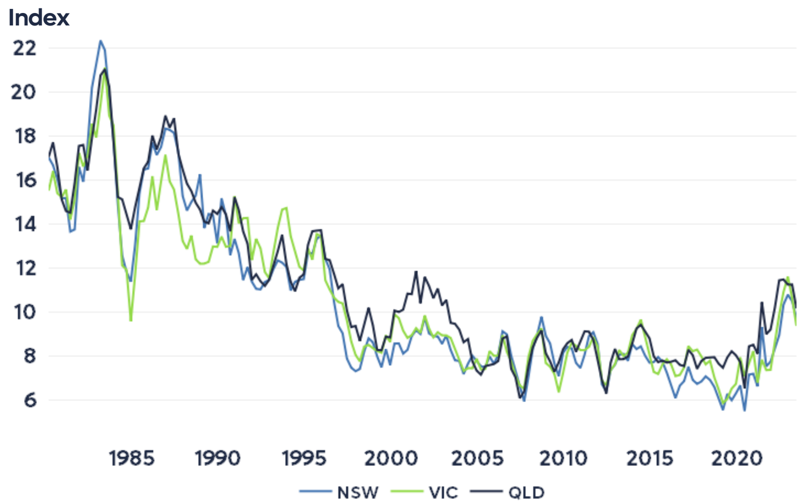
What is the Misery Index?

Misery Index: Australia



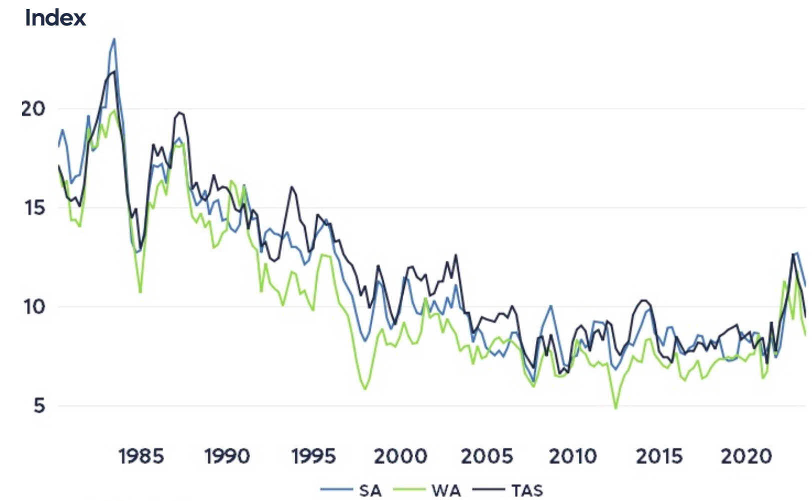
Source: ABS, Judo Bank

Misery Index: Eastern States



Source: ABS, Judo Bank

Misery Index: Other States



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.

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.

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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