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Western Australia

State Economic Download.

April 2024



 Boldly backing business

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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.

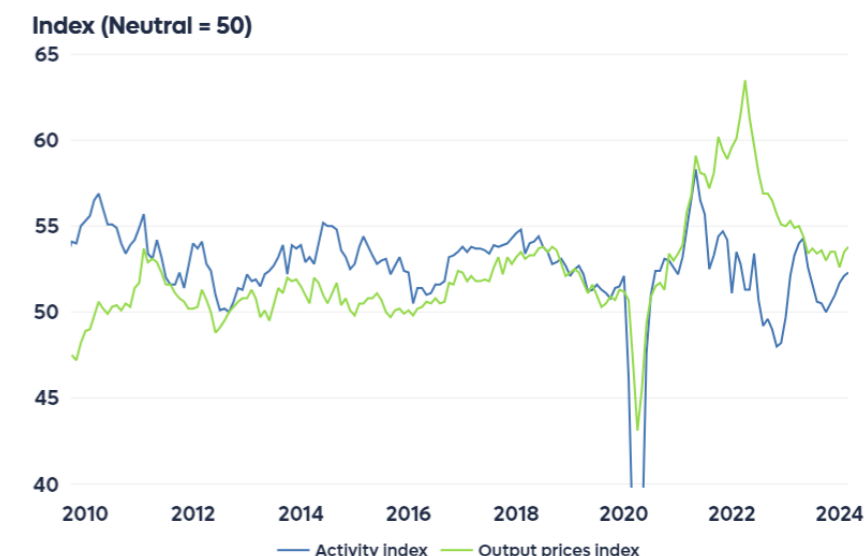
While baby boomers have stopped working, they have not stopped spending. Indeed, many have saved for decades for this precise moment in life, to enjoy retirement with more free time to focus on special interests and travel.

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.

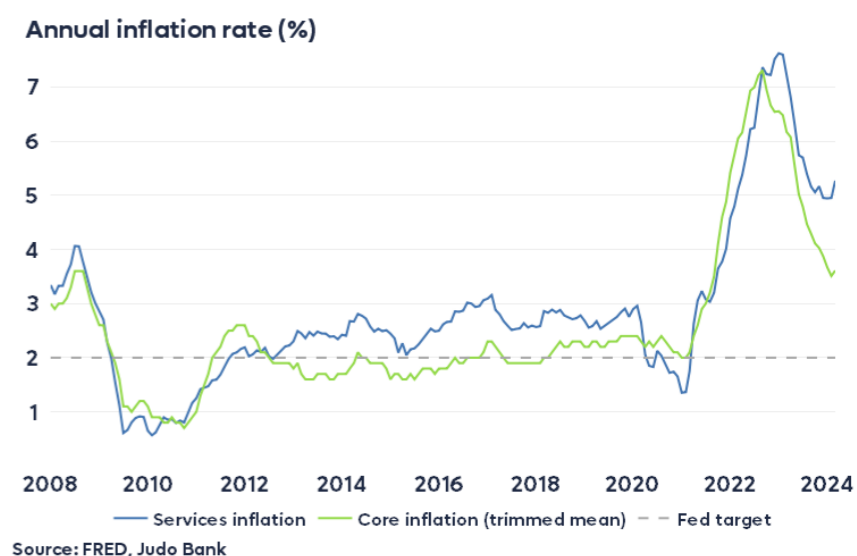
The global cost-of-living crisis is easing, but it is far from over. The so-called 'last mile' of disinflation is proving more challenging to achieve than the initial fall from inflation rates, from about 8.0% to around 4.0%. To get inflation back to the Federal Reserve's target of 2.0% will require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



US inflation – Services and core (trimmed mean)



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.

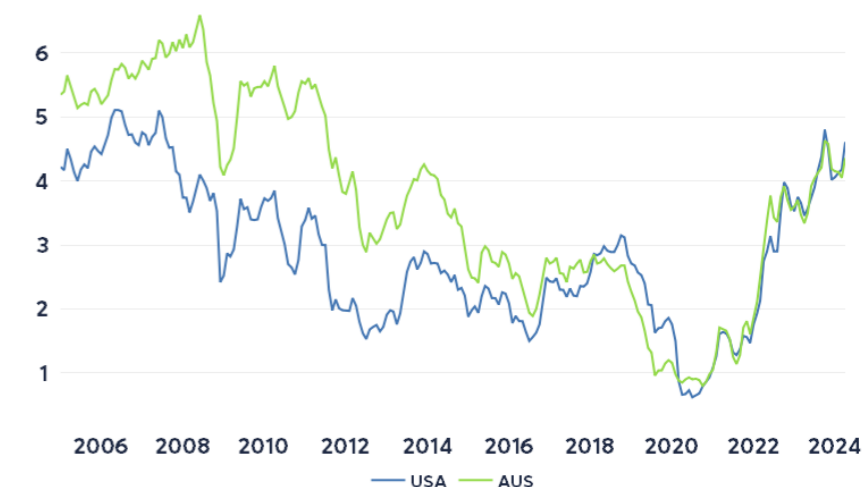
Rising long-term interest rates put downward pressure on asset prices. As a rule of thumb, for every 1.0% increase in rates, asset prices should fall about 10.0%. However, if underlying earnings are rising, then asset prices can withstand higher rates.

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 10-year yield (%)



Source: FRED, RBA, Judo Bank

RBA Index of Commodity Prices (\$A) Index (2022-23 = 100)



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.

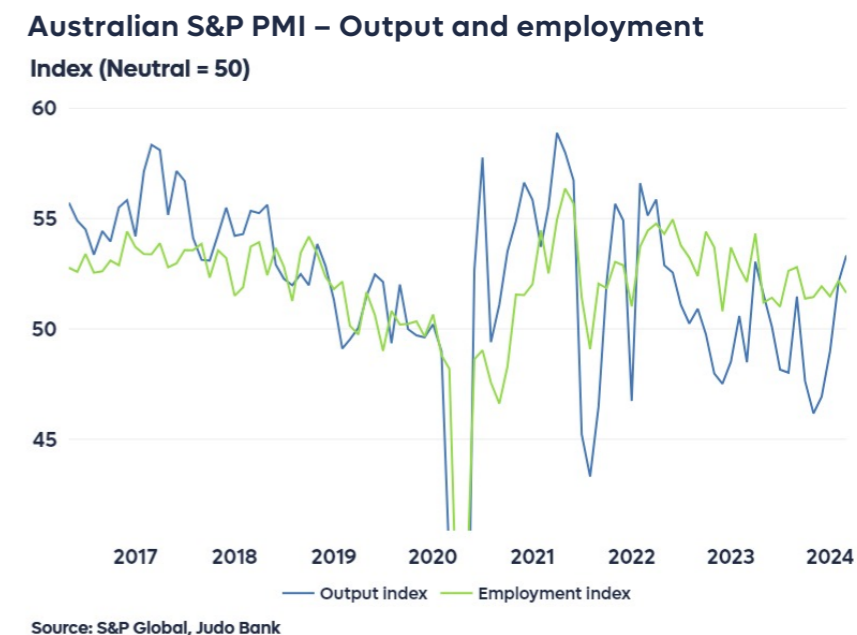
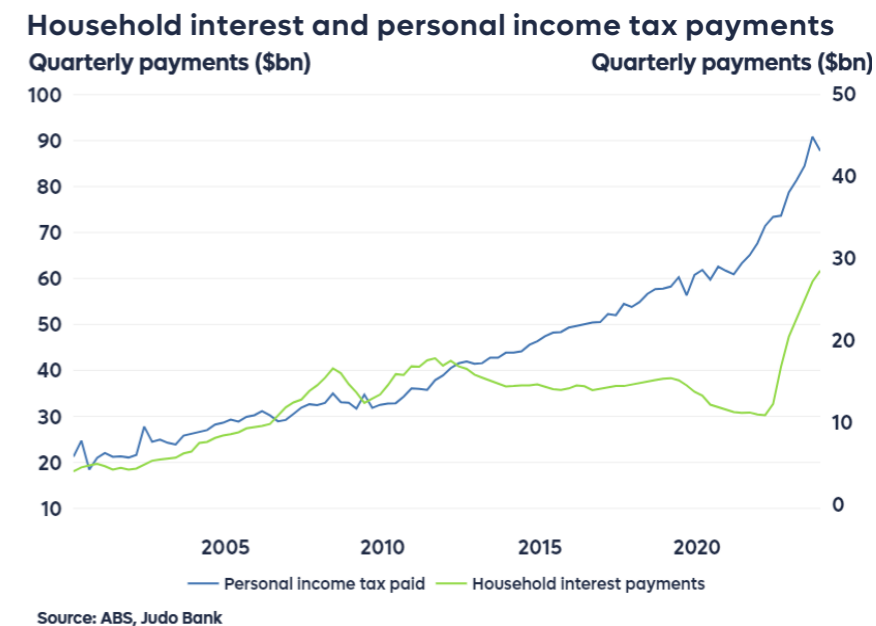
Australia appears to be following the path of the US. Early signs of stronger business conditions in 2024 suggest a cyclical recovery in economic activity is afoot following the soft landing in 2023.

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.



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%.

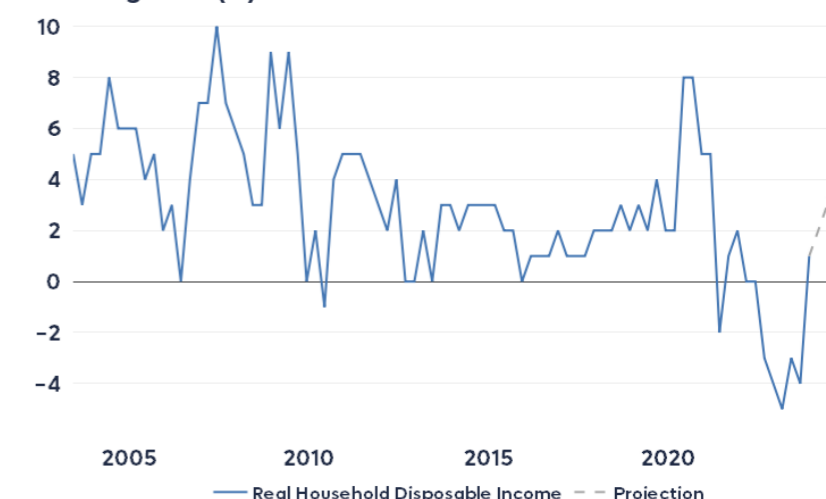
As household disposable income starts to grow, the question is what impact will this have on consumption and the economy? The swing factor in this calculation is the household saving rate, which moved off 15-year lows late last year, rising from 1.9% to 3.2%.

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.

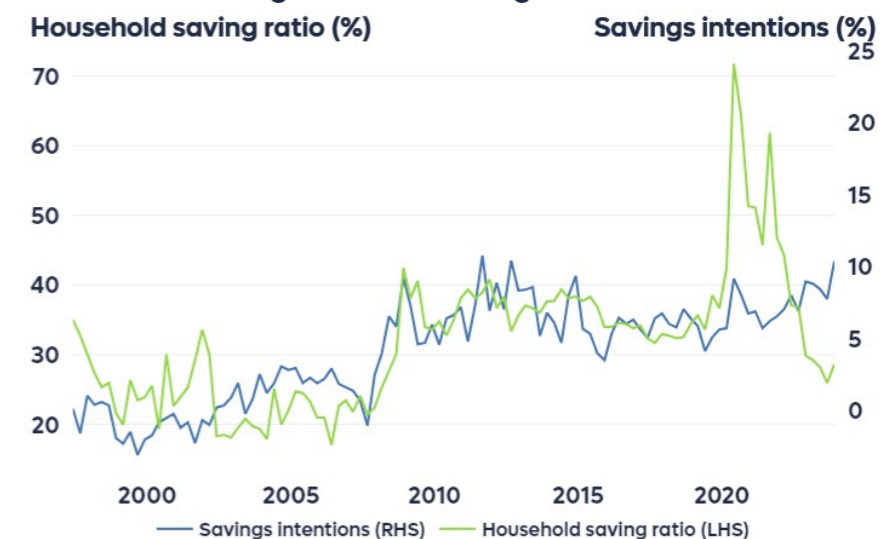
This suggests that the worst of the consumer adjustment to higher interest rates is behind us. What is not clear is how much of a recovery in spending is coming. Population growth remains strong, and so does employment in early 2024. So far in 2024, we have seen a recovery in essential spending while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

Growth in real household disposable income
Annual growth (%)



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.

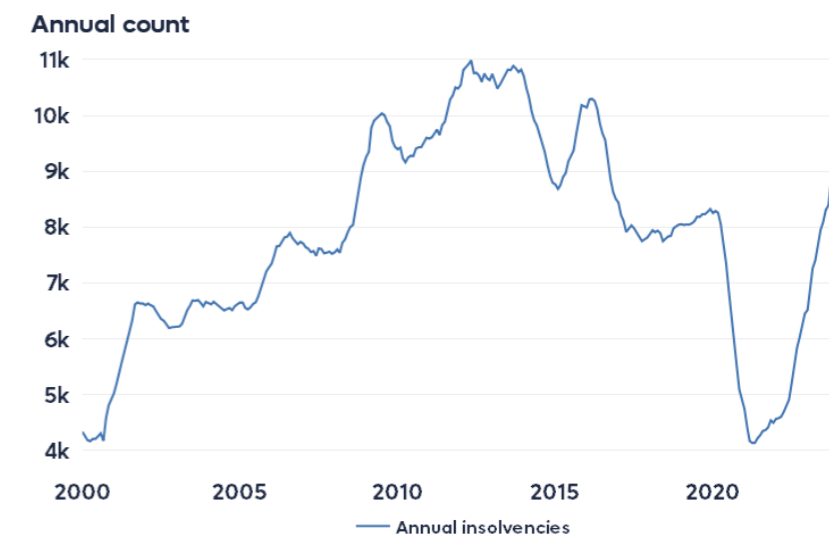
If we see a surge in insolvencies over a short period, it will create risks for the economy. If the insolvency process plays out over several years, the implications for the broader economy will be limited. Indeed, an economy free of the ‘zombie’ businesses accumulated after the pandemic will go a long 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 Index (Neutral = 50)



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.

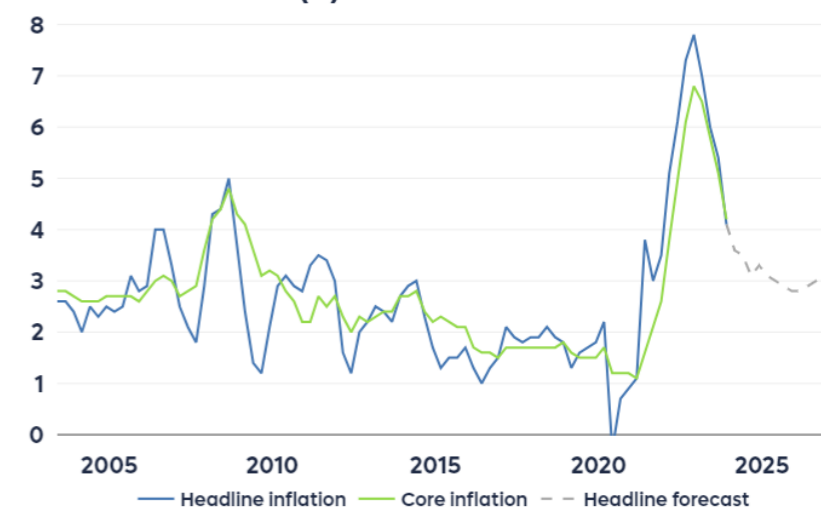
As global markets have retracted their expectations of rate cuts, long-term interest rates have been on the rise, reflecting the necessity for interest rates to be sustained at higher levels for an extended period. This trend makes it increasingly improbable for global interest rates to decrease significantly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

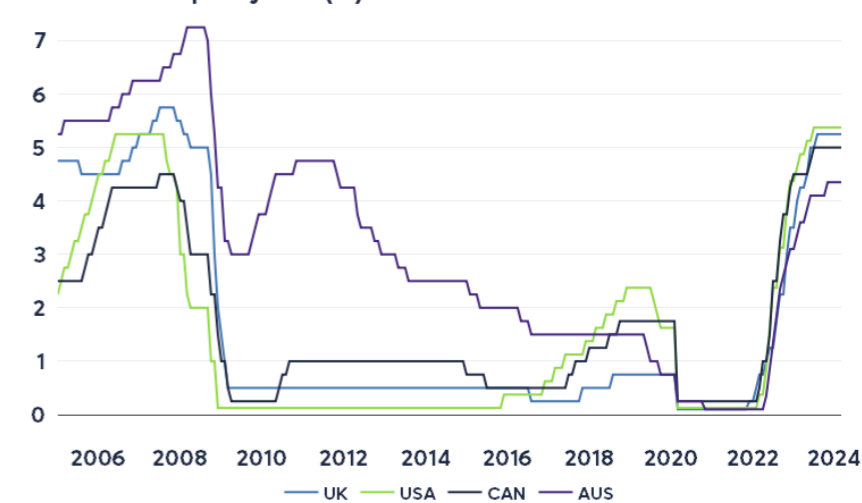
The RBA board will not hike again unless they absolutely have to. This means they will be late and may need to hike more because they are late. At the very least, we should not rule out another two or three rate hikes before the cycle is over.

Domestic inflation pressures
Annual inflation rate (%)



Source: ABS, Judo Bank

Central bank policy rates – Australia, US, UK and Canada
Central bank policy rate (%)



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.

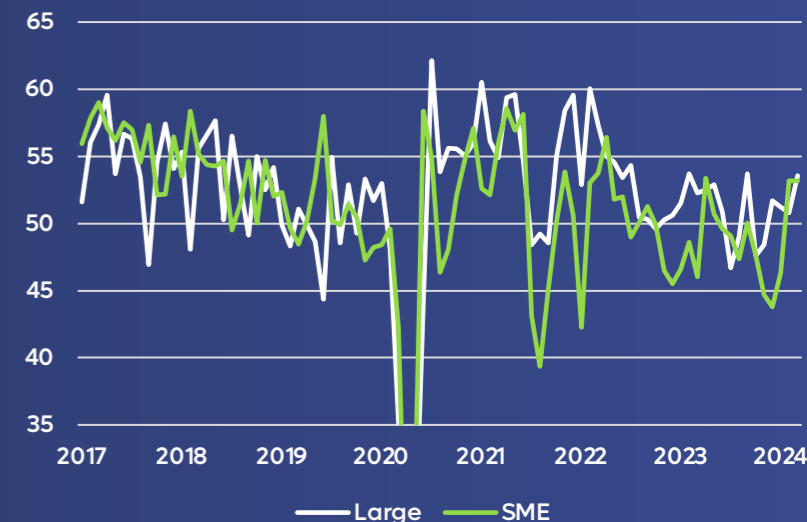
The recovery in Australian economic and business conditions has not been even across the states. The evidence from 2024 thus far points to a strong recovery in Queensland, Western Australia and South Australia, while Victoria and New South Wales remain soft. This geographic dispersion of economic conditions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

Western Australia.

The most resilient state through the consumer-led slowdown.

Pictured Judo customer

Rocky Ridge Brewing Co.



Western Australia.

The most resilient state during the consumer-led slowdown.

Western Australia outperformed the rest of the country during the consumer-led slowdown of 2023 and is set to lead the national recovery over the years ahead.

We have seen a big improvement in consumer sentiment in 2024, which appears to have translated into better retail spending at the start of the year. Rising house prices and solid employment growth should continue to underpin consumer demand as tax cuts kick in on 1 July.

Business sentiment is also improving, as are activity levels. Investment is solid across the economy, with emerging potential for increased mining investment related to the green energy revolution. Concerns about China's growth do not appear to be disrupting income flows from traditional mining exports.

The Western Australian economy has now recalibrated to the global economic cycle following 20 years of stresses and strains associated with the great mining boom of the early 21st century.

The Western Australian economy's biggest challenge is accessing suitable labour to underpin the incredible growth potential of the state. While every state is facing labour shortages, the severity is not constraining economic activity in the same way as it is in Western Australia in 2024.

The future is bright for Western Australia, but that future requires infrastructure, both public and private sector driven economic capacity. Without the right amount of investment, Western Australia will not be able to maximise economic and population growth.

7.1%

Increase in per capita real retail trade since 2019

4.6

Population growth per dwelling completed in the year to September 2023

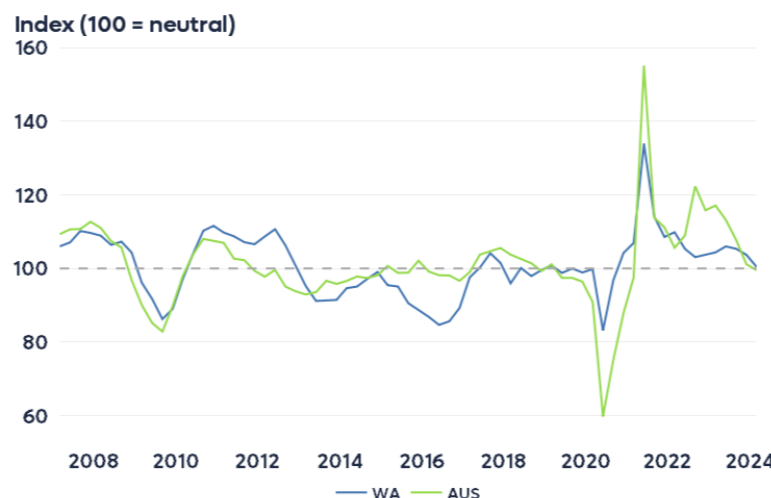
4.1%

Annual employment growth in the year to March 2024

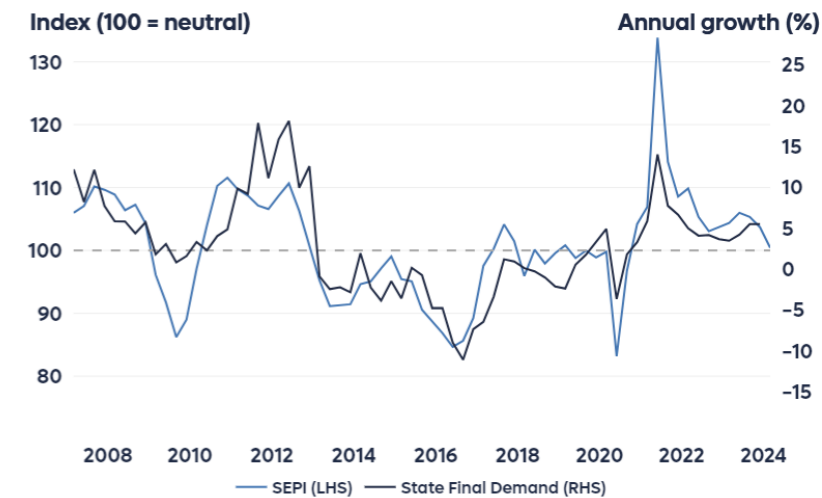
1.4

Unemployed persons per job vacancy, February 2024

WA State Economic Performance Indicator (SEPI)



Source: ABS, Jobs & Skills Australia, Judo Bank



Source: ABS, Jobs & Skills Australia, Judo Bank



Dwelling prices in Perth are growing quicker than in all other states, having increased **18.6%** in the year to March 2024.



On average, Western Australians are still consuming **7.0%** more than they did in 2019, the most of any state.

Households.

Loosest consumer belts of all Australians.

Key takeaways

- Inflation-adjusted retail sales rose 0.8% in 2023, bolstered by a high level of population growth. This compares favourably to a 1.0% fall across the nation.
- On a per capita basis, Western Australians have only seen a mild slowdown in consumption and are still consuming 7.0% more than in 2019.
- Evidence of strong household balance sheets in Western Australia are reflected in the ongoing high level of discretionary spending on hospitality. Hospitality spending, adjusted for inflation finished 2023 over 25.0% higher than the level seen prior to the pandemic.

Solid household finances, relatively low mortgage stress, and the most significant relative increase in population size have meant Western Australia has the most resilient levels of consumption in the nation.

In the March quarter of 2024, Melbourne Institute’s consumer sentiment index for Western Australia rose to 90.9, the highest reading across the states and the highest quarterly average reading in Western Australia since mid-2022. This significant increase, primarily driven by an improvement in perceptions about the economic and financial outlook for 2024, signals a growing optimism among households.

Despite this, there has been a minimal recovery in underlying ‘time to buy major household items’, suggesting that even Western Australian households are still cautious about drawing down further on savings buffers.

With less stress from higher interest rates than the rest of the nation and a labour market that remains more resilient than eastern states, inflation-adjusted retail sales increased by 0.8% over 2023 compared to a 1.0% decline across the national economy. After accounting for inflation, retail sales are still 16.4% above pre-pandemic levels. After accounting for Western

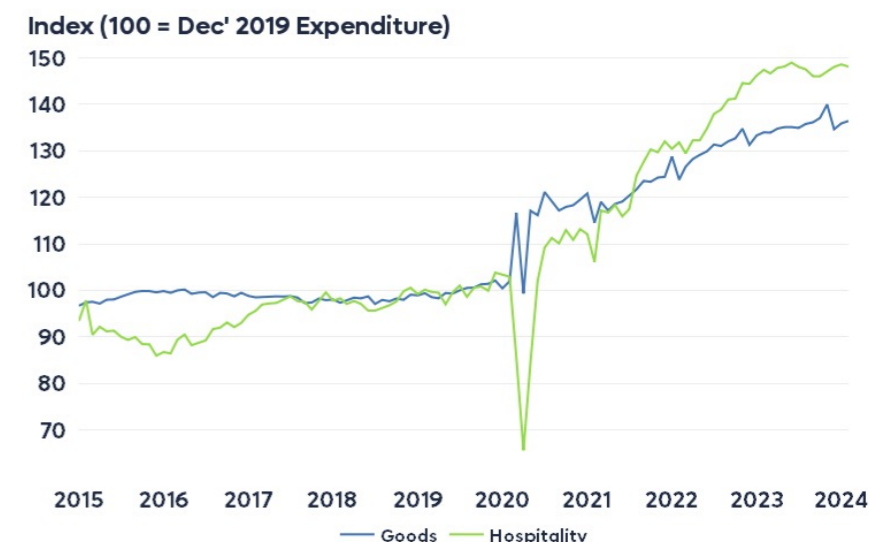
Australia’s high population growth, inflation-adjusted per capita consumption levels eased 2.4% in 2023 but remained 7.1% above 2019 levels.

On average, Western Australians have seen the most significant increase in consumption levels in the country, with national per capita inflation-adjusted sales only 4.1% above 2019.

This resilience is particularly evident in the state’s hospitality spending. While hospitality spending slowed down by an estimated 1.8% in real terms in 2023, spending still sits an estimated 26.8% above 2019 levels. Goods spending has also been resilient but to a lesser extent.

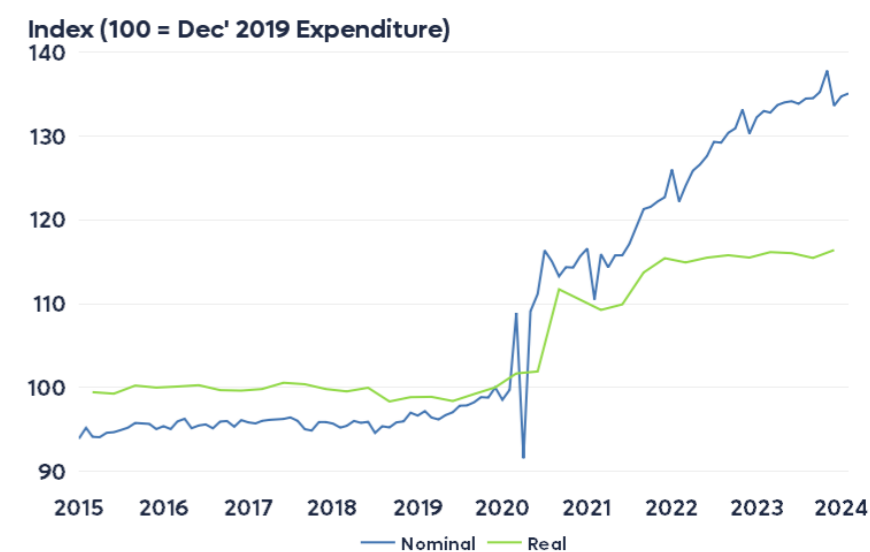
Sales growth in Western Australia was weaker in January and February than in the rest of the nation. However, we expect retail spending to grow over the rest of 2024. Household balance sheets are expected to improve in 2024, with tax cuts due on 1 July and the RBA on hold in the first half of 2024. A further easing of cost-of-living pressures will also support consumer spending.

Retail trade – Goods vs. services



Source: ABS 8501.0, Judo Bank

Retail trade – Inflation adjusted vs. nominal



Source: ABS 8501.0, Judo Bank

Business.

Employment growth is picking up in 2024.

Key takeaways

- Western Australia continues to see strong employment growth heading into 2024, with businesses significantly increasing employment of part-time workers to meet elevated demand for staff.
- The labour market remains tight in Western Australia, with only 1.4 unemployed persons per job vacancy. The healthcare and education sectors are experiencing the most trouble in sourcing new staff.
- We expect it will remain difficult to source labour throughout 2024, with the labour market only likely to moderate slightly given the high level of job advertisements in the new year.

In February, the employment growth rate in Western Australia rose to 4.8%, marking the highest level since mid-2022, before easing slightly to 4.1% in March. This robust growth, outpacing the national average, was primarily driven by a substantial increase in part-time employment, which rose to 13.8% in the year to February, compared to the national rate of 7.0%. This increase in part-time employment is spread across various sectors, with healthcare, education and construction leading the way.

A number of factors are at work here. Firstly, cost pressures are continuing to hurt margins, forcing businesses to settle for cheaper forms of labour in the near term until the economy recovers further. Secondly, the ongoing labour shortages in Western Australia could be making it challenging for businesses to source full-time workers. Thirdly, given economic uncertainty, hiring part-time workers could be a risk mitigation tactic for businesses, with greater ease in scaling and shrinking the hours of employees on part-time contracts.

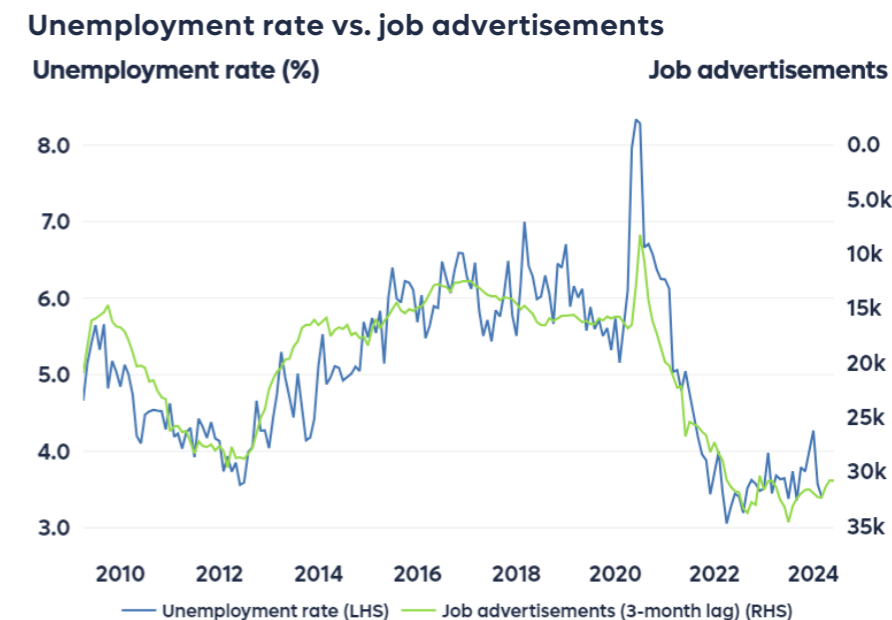
Despite a slight easing in the number of job vacancies in early 2024, the job market in Western Australia remains remarkably robust, with 1.4 unemployed persons for every job advertised. The number of job vacancies, which peaked at 66,500 in early 2022, moderated to

47,800 in February 2024. However, these figures still represent a 60.0% increase over the pre-pandemic trend.

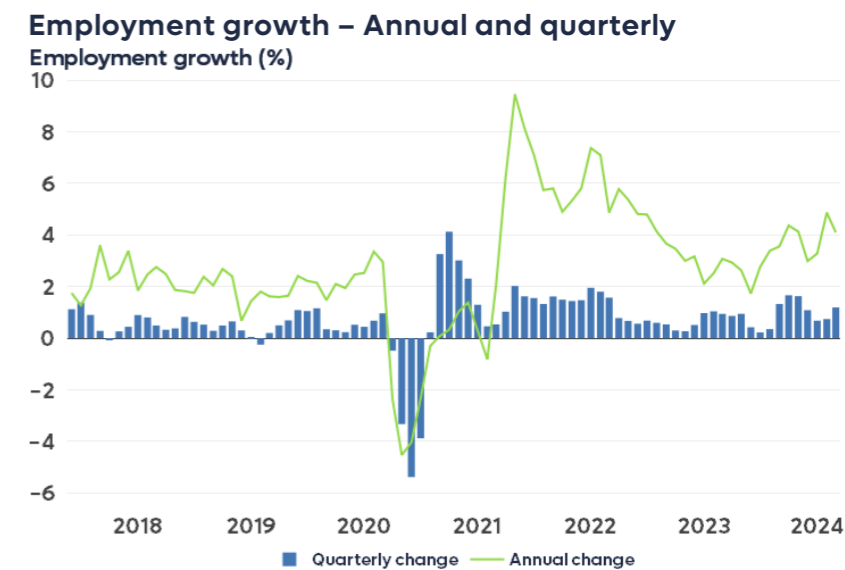
Specific sectors are experiencing more difficulty sourcing labour, with the demand for education and medical professionals remaining high. This is evidenced by the number of advertisements remaining 203.0% and 155.0% above their respective 2019 averages.

With consumers faring better in Western Australia than in other states, labour demand for discretionary spending sectors like hospitality remains well above that seen nationwide. The number of job advertisements in March was 167.7% higher than the average level seen in 2019, compared to 73.8% higher across Australia.

While this number has come down slightly, likely assisted by the increase in overseas migration seen in Western Australia during 2023, ongoing labour market tightness will likely continue through 2024 as inflation eases, real household disposable incomes improve, and the slowdown in consumer activity begins to reverse.



Source: ABS 6202.0, Jobs & Skills Australia (3/24), Judo Bank



Source: ABS 6202.0, Judo Bank

Managing Director Comments

“The WA economy remains robust with solid growth across employment and national leading levels of discretionary spending.”

- Grant Erskine

Government and construction.

Strong finances can't overcome worker shortages.

Key takeaways

- Higher iron ore prices (40.6% higher than predicted) and a more resilient labour market than anticipated have led to improved surpluses in the Western Australian budget.
- A better financial position has allowed the state government to add to the already solid infrastructure pipeline and increase public sector wages.
- Western Australia's shortage of construction workers threatens to delay planned projects. The demand for construction workers remains well up on pre-pandemic levels, with no sign of labour pressures abating.

The Western Australian Government continues to have a healthy financial position in 2024. It revised its 2023–24 budget surpluses upwards, from \$3.3bn to \$3.7bn, in its mid-year budget update.

Elevated iron ore prices (Mid-Year budget Update \$104.2 versus 2023–24 Budget \$74.1) were the key reason for this budget improvement, with royalties from iron ore an estimated \$3.0bn higher than predicted in the 2023–24 budget.

From the 2024–25 financial year to the 2026–27 financial year, revenues have been revised upwards by \$6.2bn. An increase in payroll tax revenue is responsible for 40.0% of the additional income. Ongoing tightness in the labour market and revised forecasts of employment growth will see the payroll tax taken by the Western Australia Government increase by \$2.5bn on expectations in the 2023–24 financial year budget. Increased Federal Government grants, including upward revisions to the state's GST share, were also a key contributor to the rise in revenues, equating to \$3.2bn from the 2024–25 to 2026–27 financial years.

With the forecast additional revenue, the Western Australian Government has agreed to a \$2.8bn increase in public sector wages and an

increase in the public sector infrastructure pipeline. The largest investment is the \$2.8bn Alkimos Seawater Desalination Plant, with plans for construction to be completed by 2028. Western Australia has an extensive public infrastructure pipeline, valued at an estimated \$8.7bn. Key projects commencing in early 2024 are the \$2.3bn Collie battery, expected to generate 500 jobs at the peak of construction and scheduled for completion before the end of 2025.

Non-residential building approvals remain at a record high level, with \$6bn in building approvals through the year to February 2024, only slightly down from the mining boom peak of \$6.4bn over the year to February 2013.

The ability to source construction worker remains a threat to Western Australia's infrastructure and building plans, and more so than other states. Demand for construction workers remains at a historical high point, and there appears to be little the government can do to increase workers in the near term. Construction worker job advertisements in Western Australia remain 128.0% above pre-pandemic levels, and there has been little trend down towards pre-pandemic levels. Construction worker demand across Australia has been easing gradually since mid-2023, with advertisements now only 36.0% above 2019 levels.

Non-residential building pipeline

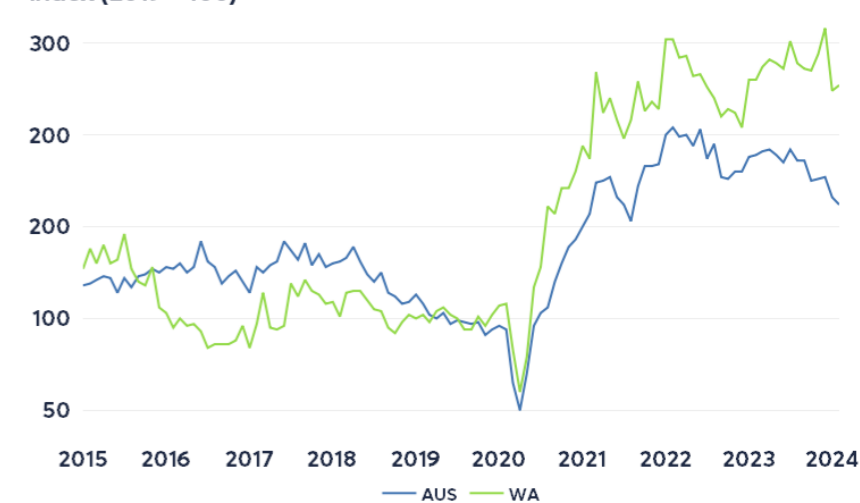
Value of projects in pipeline (\$ Billions)



Source: ABS 8752.0, Judo Bank

Construction job advertisements – WA and Australia

Index (2019 = 100)



Source: Jobs & Skills Australia, Judo Bank



With ongoing labour supply issues, construction cost pressures are expected to remain elevated throughout 2024.

Property price growth outpacing the nation.

Key takeaways

- Throughout 2023, record migration levels and the relative affordability of property in Western Australia has seen the property market outperform every other state.
- Ongoing high levels of population growth, weak building approvals, and a construction industry constrained by labour demand will lead to ongoing house price and rent growth throughout 2024.

Dwelling prices in Perth have been outpacing those in capital cities across the nation. Over the year to March, the city's dwelling prices rose 18.6%, compared with the national capital city average of 6.8%. The six-month annualised growth rate suggests that, in line with the rest of the nation, the rate of annual growth has peaked. Despite this, the growth rate remains well above pre-pandemic levels and the highs of the mining boom.

This high level of growth in the capital city is being seen in both detached dwellings and units. House prices are up 19.2% (up 60.8% on December 2019), while unit prices have increased 13.2% (up 33.2% on December 2019). Regional Western Australia has also fared well, with dwelling prices up 10.0% over the year to March, approximately 55.1% above where they were in December 2019.

Similarly, price growth in Perth's rental market has outpaced all other capital cities, up 17.0% in the year to April 2024, well above the national capital city average of 10.2%.

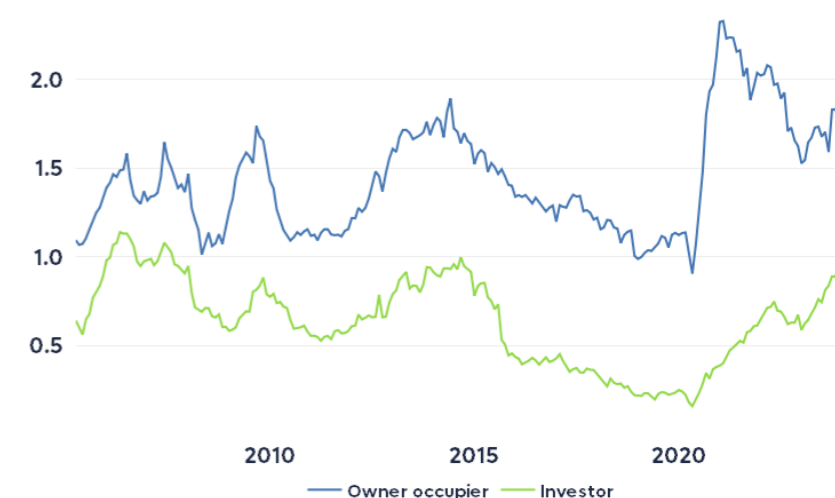
Western Australia's outperforming housing market stems from high population growth, lower starting prices and the attraction of investor demand from other states. The latest annual population growth reading in September 2023 was 3.3% in Western Australia, well above all other states and the national average of 2.5%.

The increase in added dwelling stock was lower than across the nation for the respective increase in population size. The increase in population per dwelling completed in the year to September 2023 was 4.6 persons per dwelling, the highest seen across the country and well above the level seen across any state in history.

To complement the rise in dwelling demand, investor demand in Western Australia's property market has grown disproportionately to the rest of the nation. In January 2024, 11.0% of investor home loans were for Western Australian properties, up from 8.0% the year prior and 4.0% in December 2019. The bulk of this increase comes alongside a slowdown in the share of national investor demand for Victorian dwellings in 2023.

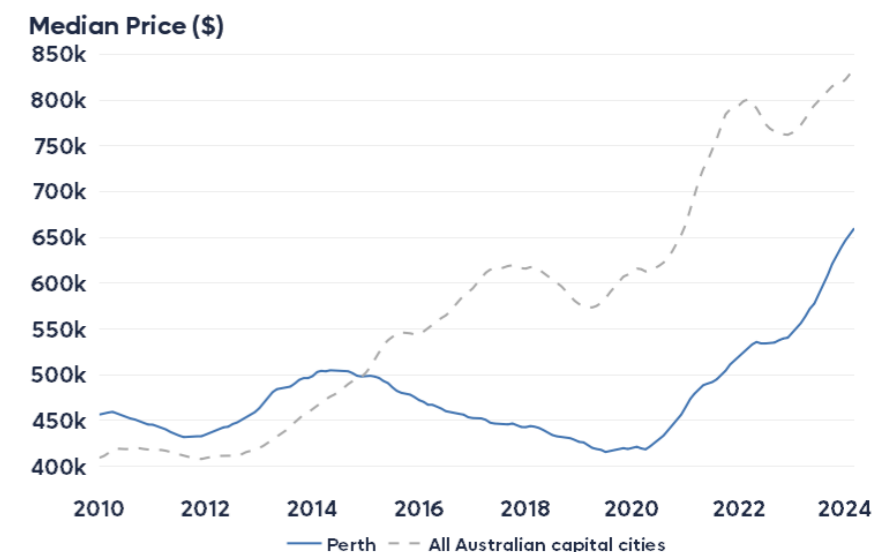
Annual dwelling approvals, a forward-looking indicator of new dwelling stock for the year ahead, fell to 14,000 in 2023, the lowest annual reading in recorded history in Western Australia. A combination of ongoing elevated levels of population growth, construction worker shortages, and a slowdown in building approvals throughout 2023 suggest that little alleviation in dwelling price growth will take place in 2024.

New mortgage commitments – Owner occupier and investor
Value of new mortgages (Billions \$)



Source: ABS 5601.0, Judo Bank

Median capital city dwelling price – WA and Australia



Source: REA Proptrack, Judo Bank



Dwelling prices in Perth have increased **18.6%** in the year to March, compared to the national capital city average of **6.8%**.

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



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.

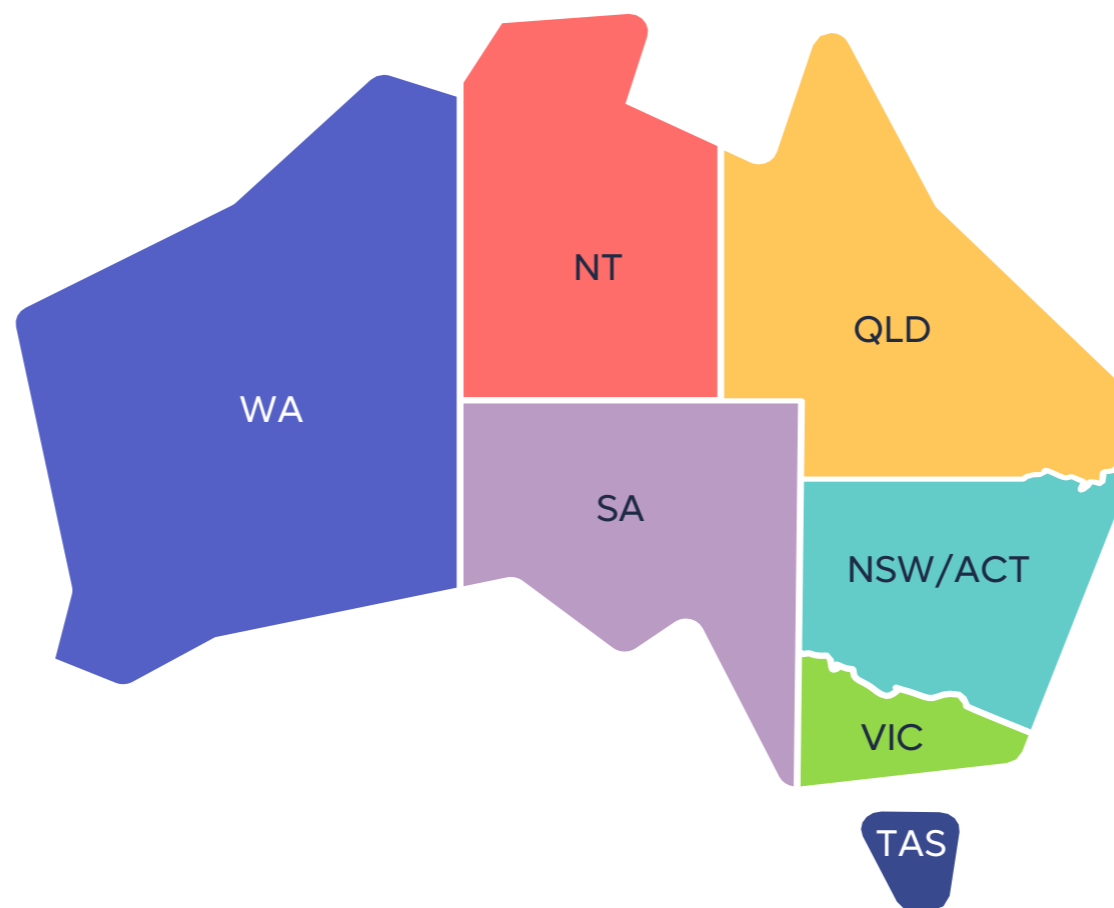
Victoria is hanging in there in the fourth spot, but activity is still below trend. It is becoming increasingly clear that Queensland and Western Australia will be the growth engines of the Australian economy in 2024.

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.



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 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

State economic performance.

Queensland scores highest SEPI through March quarter 2024

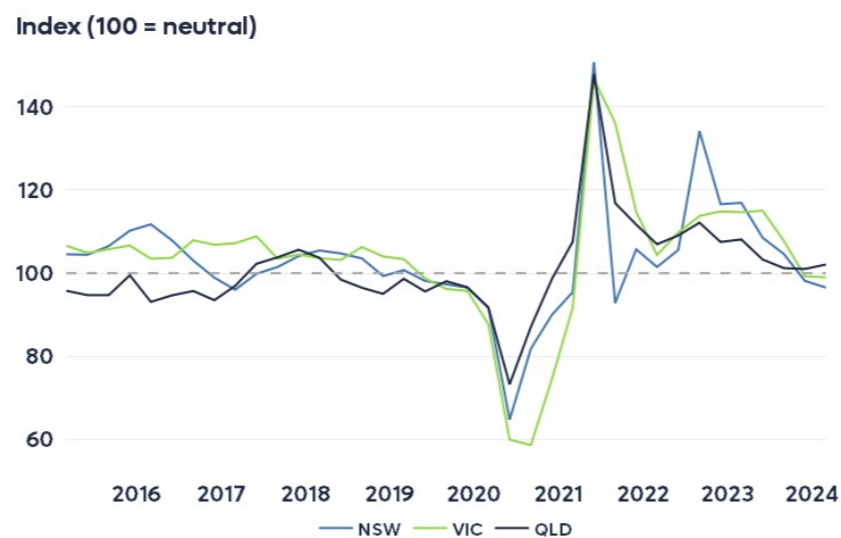
- Queensland ranked highest in economic momentum through the start of 2024, driven predominantly by growth in hours worked across the economy.
- All states outside Queensland and Western Australia appear to be growing below long-term trend, driven by a combination of squeezed household budgets in New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

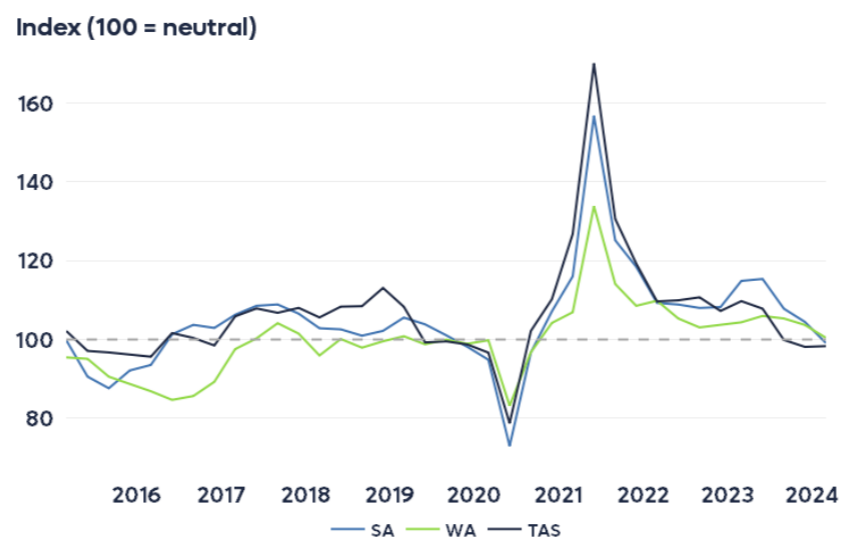
New South Wales SEPI has taken the most notable fall, driven primarily by weak household consumption levels and a pronounced slowing of growth in hours worked relative to long-term averages. Consumers and households in New South Wales have been hit harder by the slowdown and interest rate rises compared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

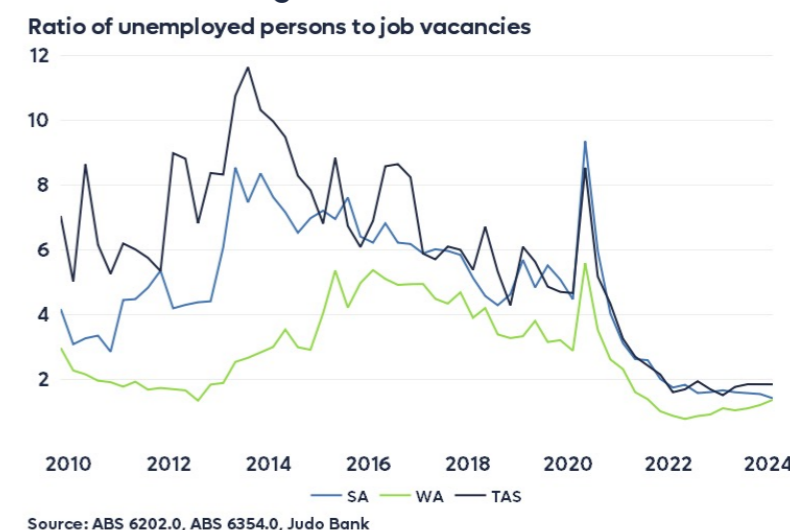


While labour market tightness is easing across the eastern states, South Australia and Tasmania have seen little alleviation of labour shortages.

Labour market tightness – Eastern states



Labour market tightness – Other states



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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