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Victoria

State Economic Download.

October 2023

Boldy backing business.

Contents.

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.

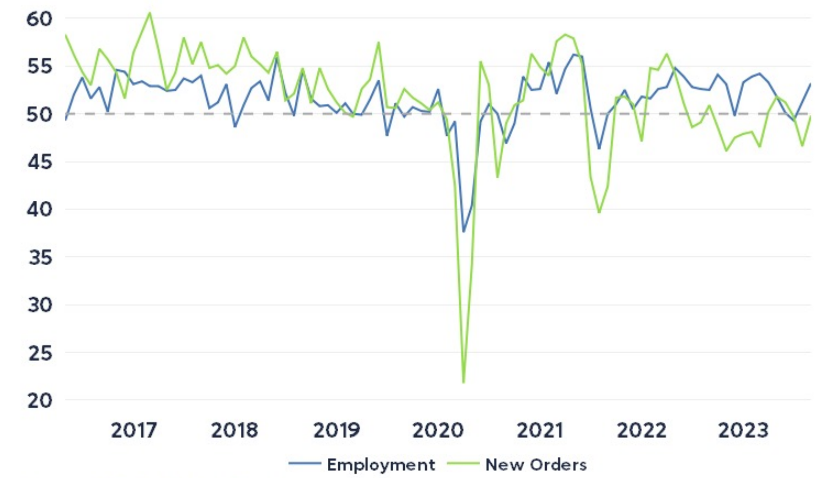
SME profitability has grown in a similar fashion to bigger businesses despite pandemic and post-pandemic challenges

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

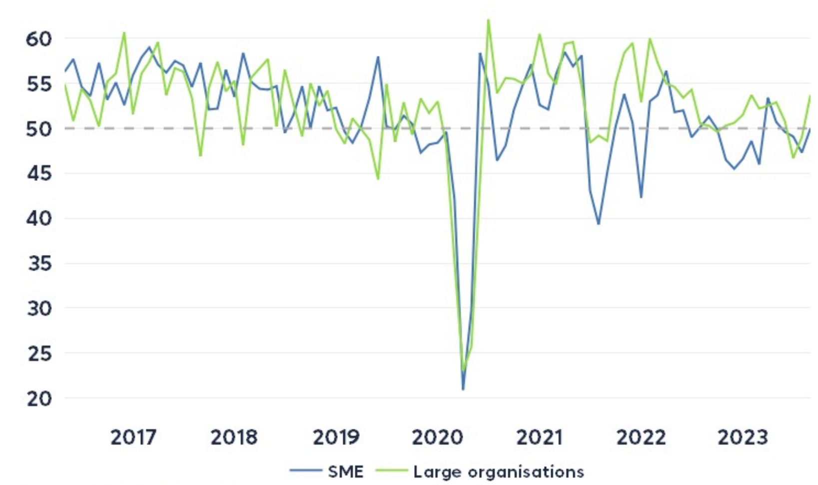
Index (neutral = 50)



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.**

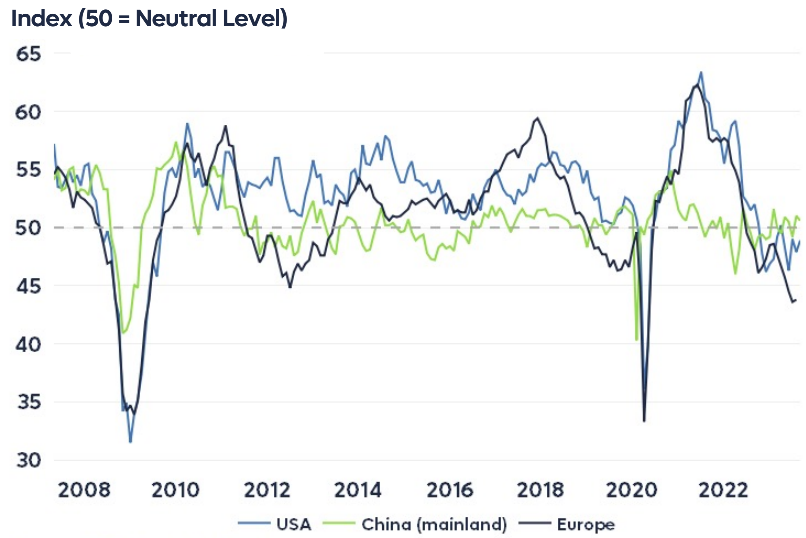
For much of the last 12 months, economists and financial markets have been preoccupied with the impending global recession in the wake of aggressive interest rate increases worldwide.

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

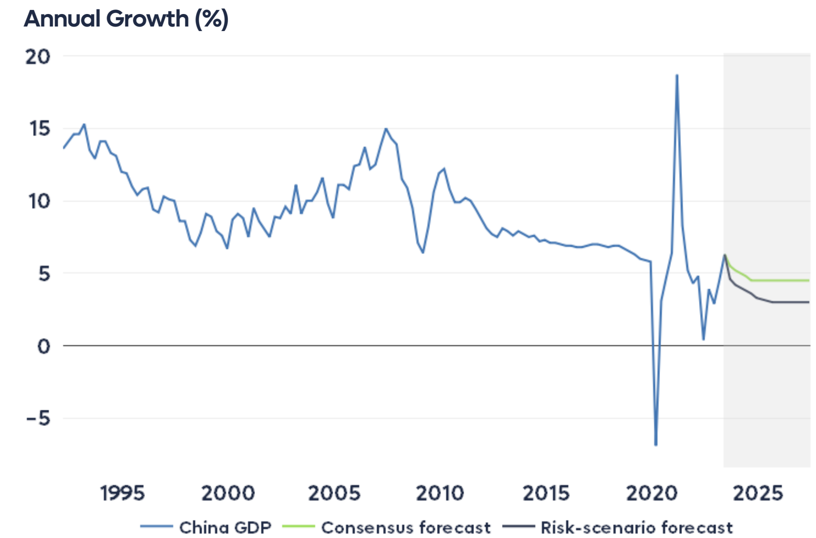
The US economy continues to defy expectations of a slump. The fear of a credit crunch in the wake of bank failures earlier this year haven't played out. The banking system has continued to provide credit to the economy, and business continues to generate new jobs.

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.

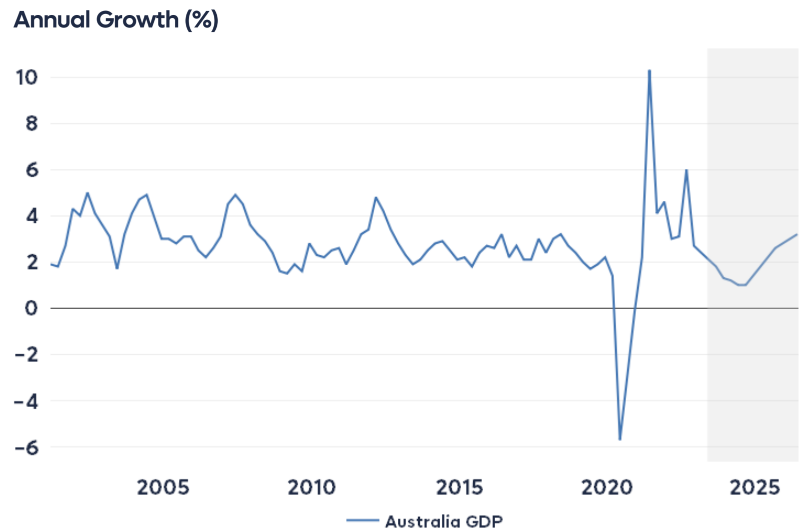
Essential consumption is being supported by strong population and employment growth.

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.

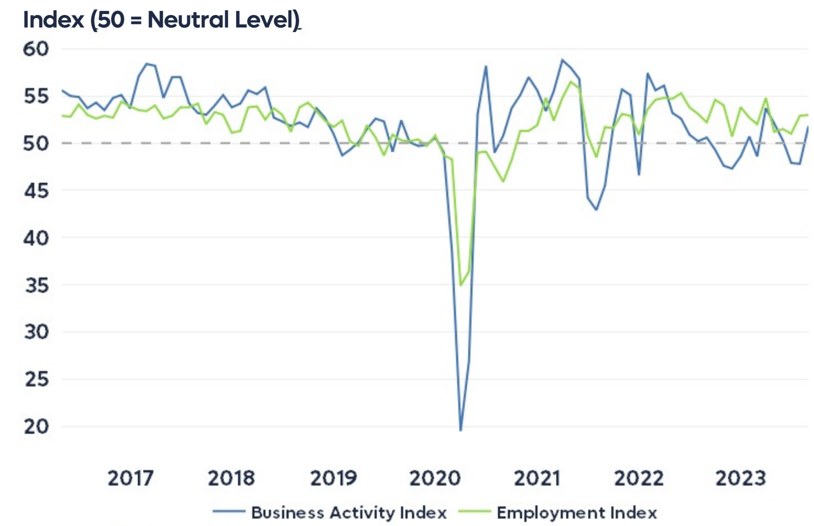
While consumer spending is weak, business investment is still strong. Mining investment is rising, while non-mining investment is up almost 10% over the year when adjusted for inflation.

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

Judo Bank Services PMI



Source: S&P Global, Judo Bank

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.**

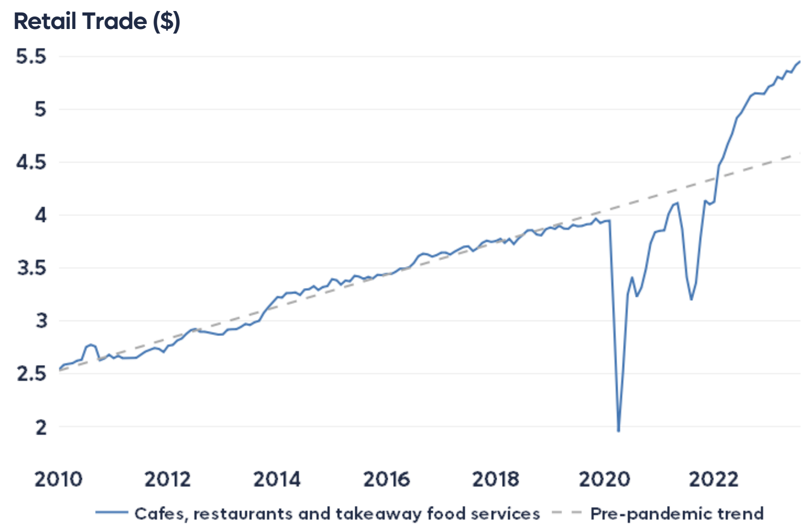
Over the past year, the weak point in the Australian economy has been a rapid slowdown in consumer spending growth. Rising interest rates, a higher income tax burden and falling real wages are squeezing household cashflows forcing widespread belt-tightening.

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

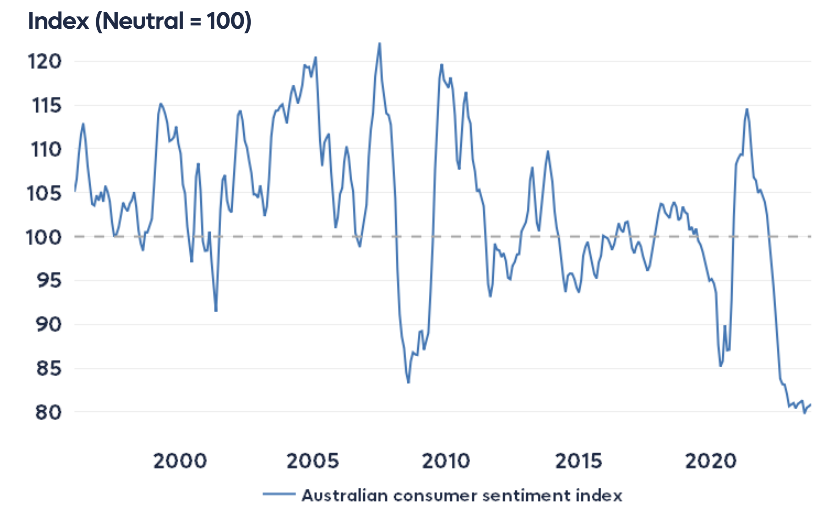
Consumer sentiment has been at recession levels for more than a year. The only time consumer sentiment has been weaker for such a prolonged period was in the early 1990s recession, when high interest rates crashed the economy and unemployment surged past 10%.

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

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

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

National Consumer Sentiment



Source: Westpac - Melbourne Insititute, Judo Bank

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.

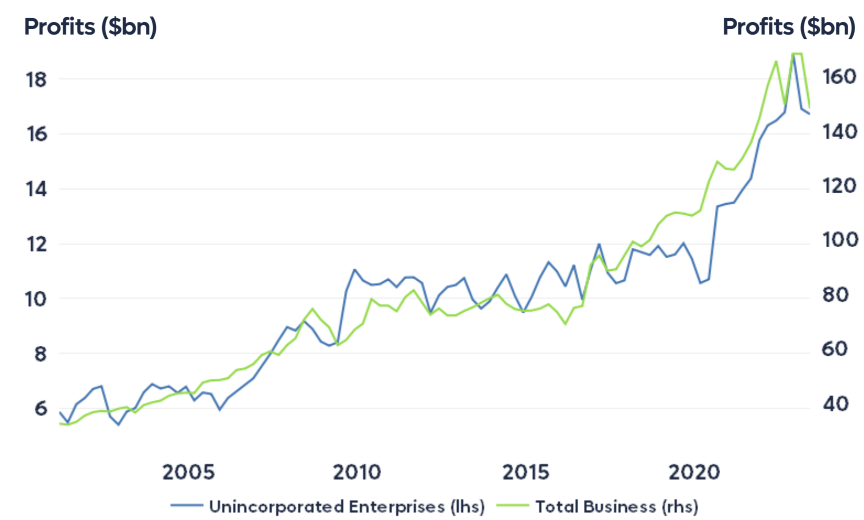
Construction activity is strong outside of the residential sector with both infrastructure spending and commercial activity still solid.

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.

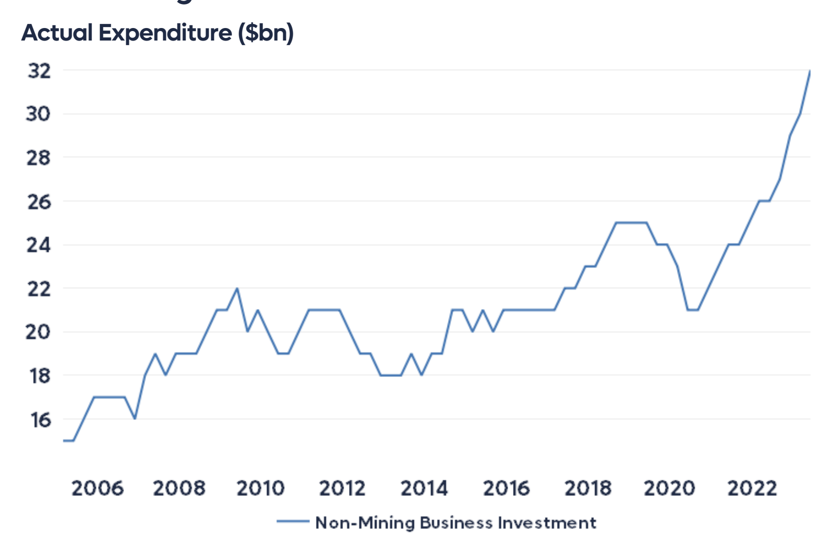
Australian businesses are also tackling the challenge of climate change, playing their part in the energy transition. From new energy sources to more energy-efficient production.

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.

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

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

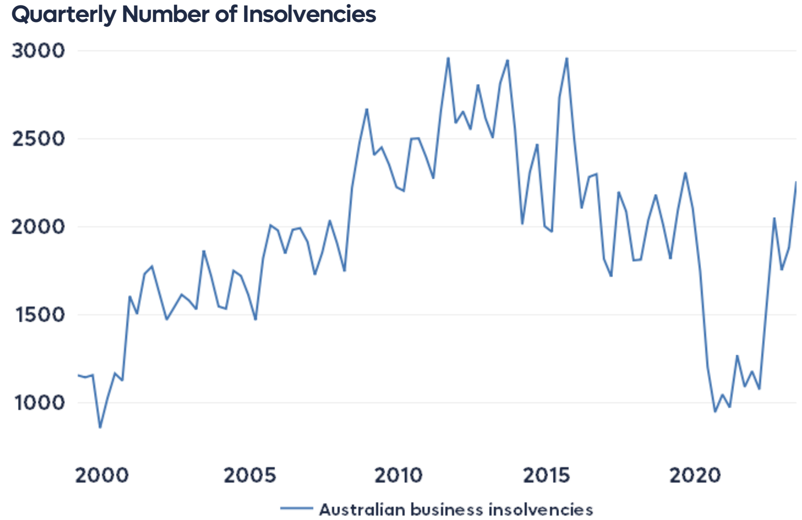
Labour hoarding exists because of substantial costs in hiring and firing people, particularly in a highly regulated labour market like Australia's.

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

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

Business Insolvencies

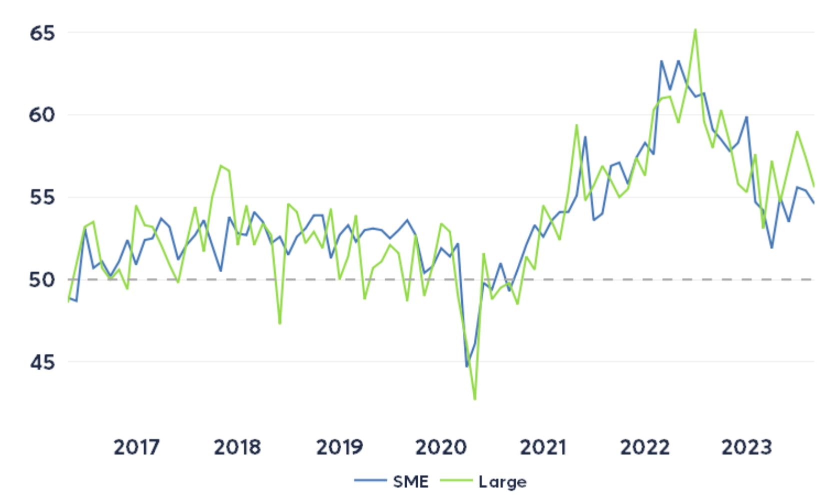
Quarterly Number of Insolvencies



Source: ASIC, Judo Bank

Judo Bank Prices Charged Index

Index (50 = Neutral Level)



Source: S&P Global, Judo Bank

Infrastructure Boom.

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

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

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

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

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

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

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

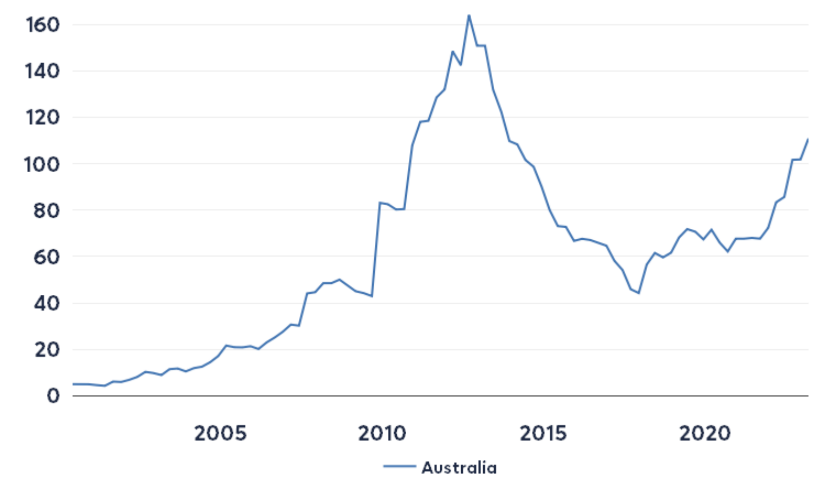
The biggest challenge is labour shortages which Infrastructure Australia estimates at 214,000 workers in 2023, which could rise to more than 400,00 over the next two years.

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

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

Infrastructure Pipeline (Private Sector)

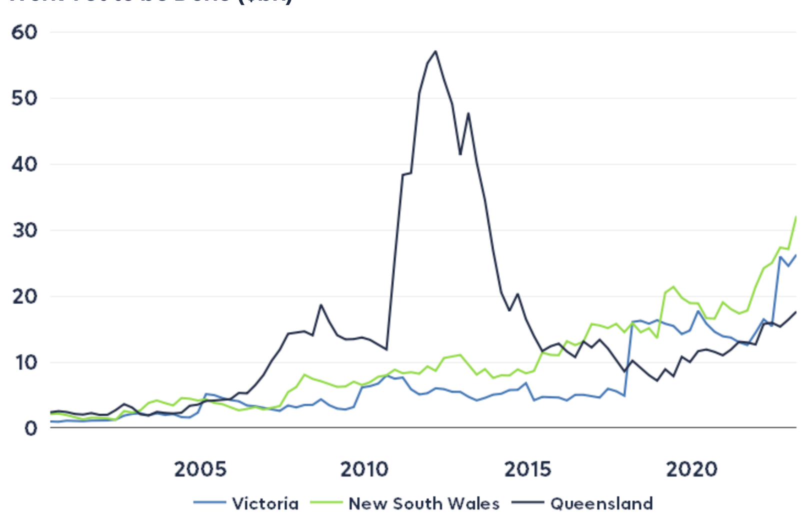
Work yet to be done ($bn)



Source: ABS, Judo Bank

Infrastructure Pipeline by State

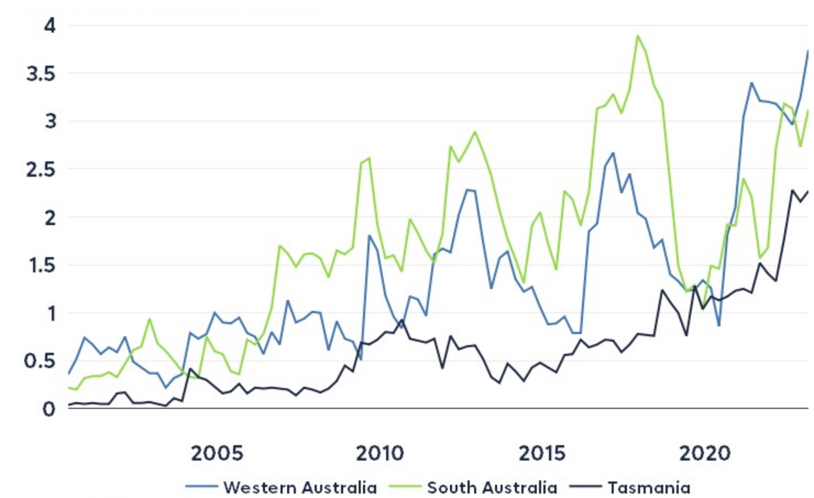
Work Yet to be Done ($bn)



Source: ABS, Judo Bank

Infrastructure Pipeline by State*

Work Yet to be Done ($bn)



Source: ABS, Judo Bank

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

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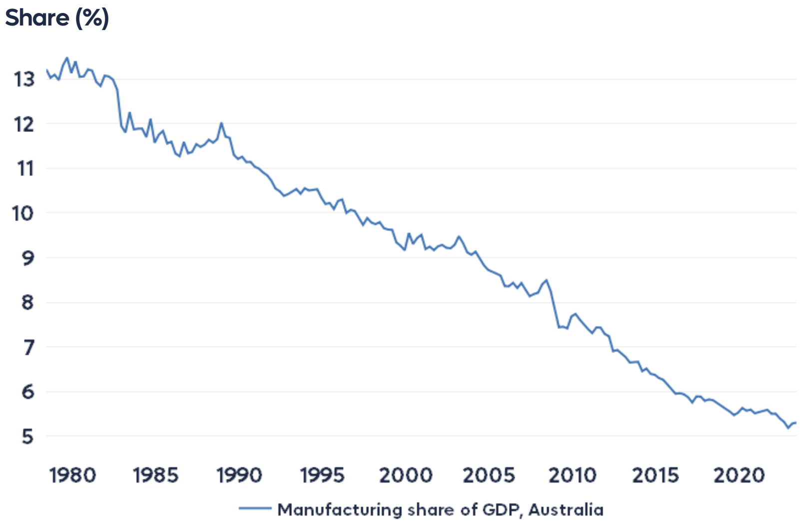
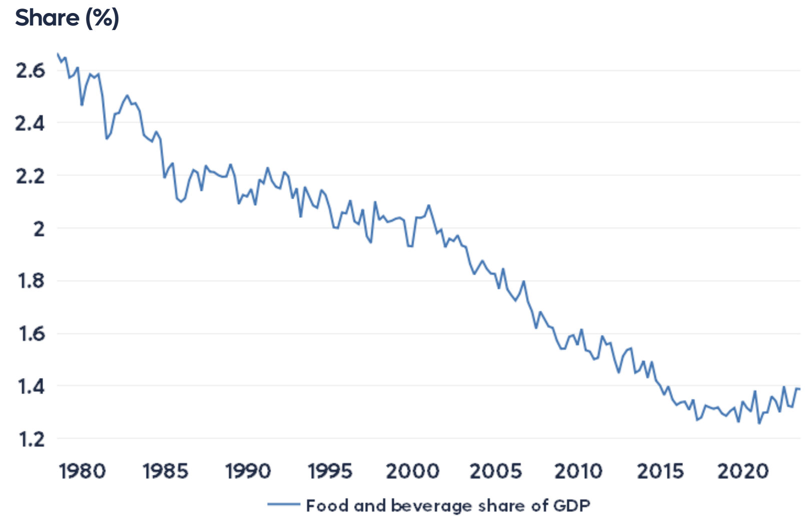
Manufacturing Revival?

Manufacturing Share of Production



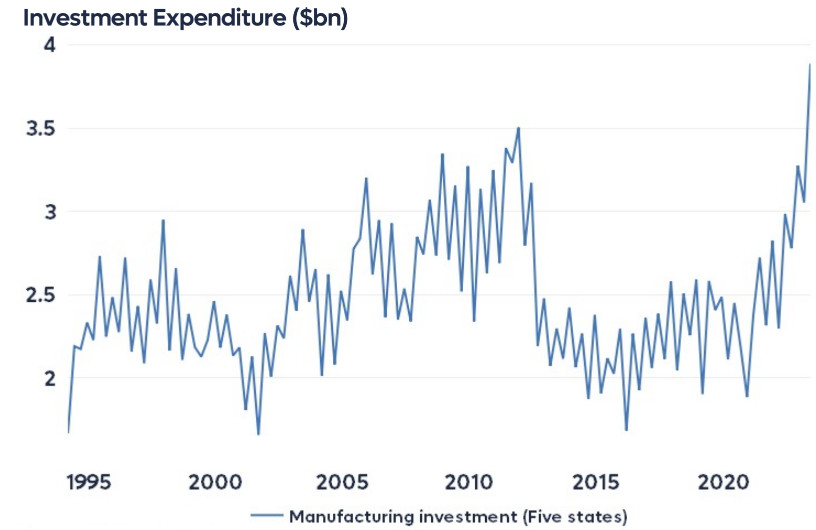
Source: ABS, Judo Bank

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

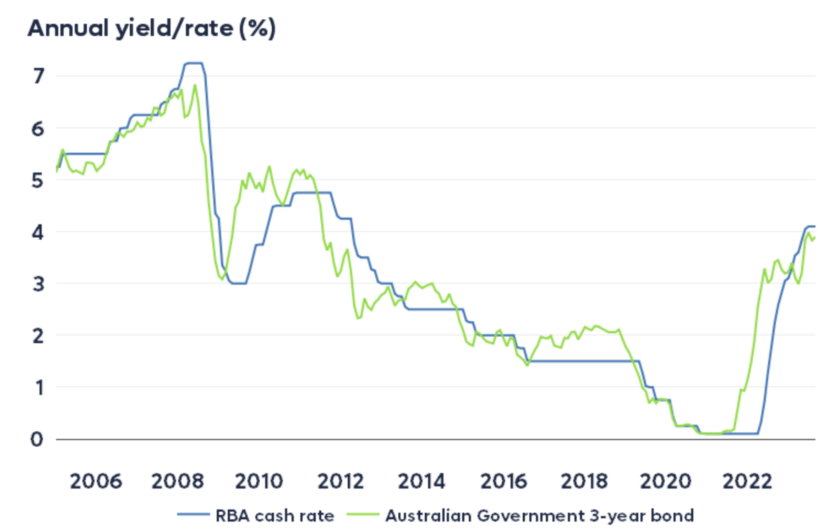
The RBA thinks they have interest rates at about the right level to get the economy to slow sufficiently to remove the inflation from the economy. They have not increased rates since June, a genuine pause.

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

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.

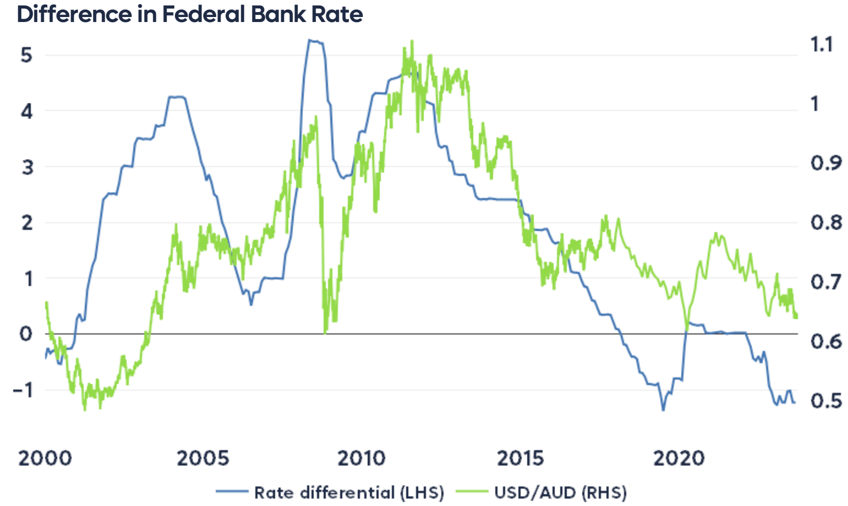
If commodity prices were the only factor determining the level of the $A, it would be at parity with the $US. By contrast, if the interest rate differential was the only factor determining the level of the $A, it would be at US50c.

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.

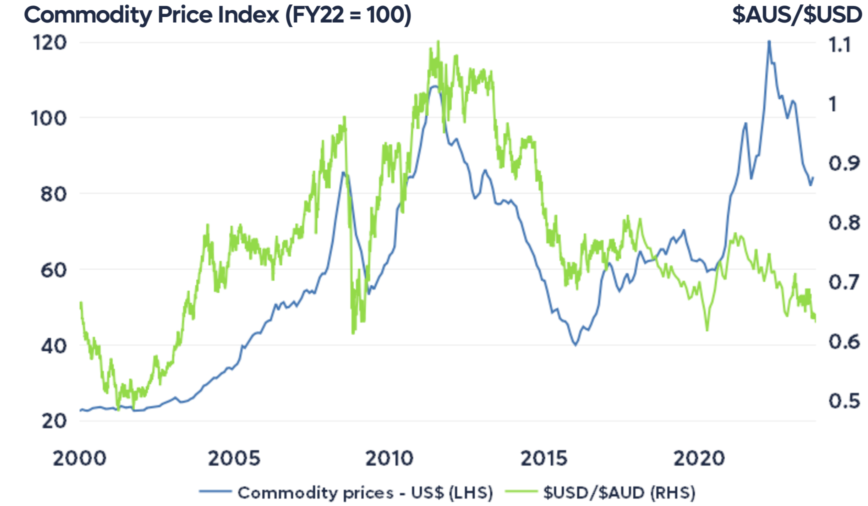
One of the unknowns is the role of LNG prices. Australia is a major exporter of LNG following the significant expansion of capacity in the past 15 years. Rising energy prices could support the $A as LNG export values rise.

$A and the Interest Rate Differential



Source: RBA, Judo Bank

$A and Commodity Prices



Source: RBA, Judo Bank

Section 2

Victoria.

After Dan.

Pictured Judo Customer

Fleet Wines

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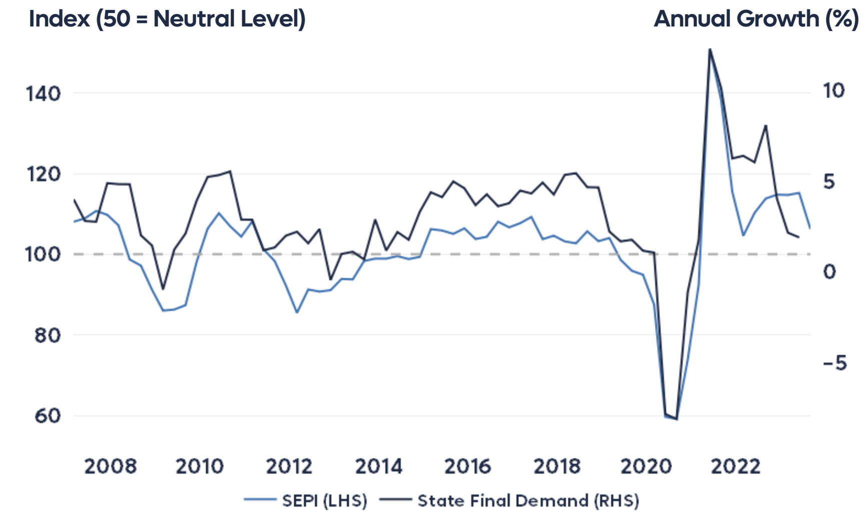
Victoria Economic Summary.

- Victoria is experiencing a generational infrastructure boom largely focused on large-scale urban transport projects in metropolitan Melbourne.
- The pipeline of commercial and residential construction remains robust and is expected to support employment and overall economic activity into 2025.
- The Government is putting the longer-term economic outlook at risk with a raft of new taxes and regulations that have damaged investor and business confidence. So far business is still investing, but there are concerns that investment in the state economy could suffer.
- Victoria's population dynamics look to be returning to the pre-pandemic favourable trends. Net overseas migration has surged and the pandemic exodus of Victorians to the rest of Australia appears to be ending.
- Victoria's reputation has taken a big hit over the past three years. From the most locked down city to the cancellation of the Commonwealth Games, the State Government has reduced business and investor confidence.
- Victoria's economic activity has held up well in 2023, with consumer spending slowing gradually and employment expanding. Melbourne's property market, however, has failed to keep up with the gains of other capital cities, driven by relatively softer investor activity in 2023.
- The pandemic surge in people leaving Melbourne for regional Victoria has slowed over the past year but is not reversing. Regional Victoria continues to benefit from population growth.
- Consumer-facing businesses in Victoria will face another tough year as household belt tightening continues into 2024. Strong population and employment dynamics will put a floor under demand while the construction boom continues over the next two years.

Economic activity continued to rise through Q2, driven by a large increase in hours worked.

The infrastructure construction pipeline has risen over 58% the year to June 2023.

Victoria State Economic Performance Indicator (SEPI)



Source: ABS, National Skills Comission, Judo Bank

Victoria's economic activity has maintained strong rates of growth for most of 2023. However, the preliminary reading of the Judo Bank State Economic Performance Indicator (SEPI) suggests activity hit a wall in the September quarter. Even so, Victoria still ranks as one of the strongest-performing state economies.

Historically high overseas migration projections for FY24-FY27 benefit Victoria more than any other state.

Job advertisements in August are still at the high level of 73,400, 56% higher than in August 2019.

Victorian house price growth has not kept pace with the national average in 2023.

Population Trends.

- **Population growth has returned to Victoria in FY23 after an unprecedented departure from the state.**
- **Local Victorians, however, are still leaving the state, unconvinced by the state's future opportunities and leadership.**
- **The capital city exodus to regions driven by pandemic lifestyle has ceased and is returning to pre-pandemic levels.**

The population growth experienced through FY23 and anticipated for FY24 and FY25 is being driven primarily by the return of overseas migration to the state.

As we move towards a 'big' Australia and overseas migration figures climb, Victoria is set to be the biggest gainer of all the states, as outlined in the Federal Budget. The state is projected to welcome 373,000 overseas migrants over the next four years, bolstering the labour force and driving up demand across the economy. Like what we saw in the mid-2010s, Victoria's population growth is projected to outpace the nation over the next two years.

Despite high levels of overseas migration, Victoria is failing to remain attractive to locals, with 5,600 Victorians migrating across the nation over the year to March 2023, well below the positive migration experienced leading up to the pandemic. Interstate migration has begun to improve through the second half of FY23.

The 2023-24 Federal Budget projects a return to near pre-pandemic levels at 3,200 interstate migrants for FY24. This expectation may discount the relative housing affordability pressures anticipated over the years ahead, incentivising Victorians to relocate to more affordable states such as Queensland and South Australia.

While still greater than the pre-pandemic average, the number of Victorians moving to regional hubs has slowed. The driving force here is likely the combination of work-from-office mandates and the deterioration in relative affordability of the regions following the large dwelling price increases through the pandemic.

The big question is whether Victoria will continue to see such high population growth rates over the year ahead. If official projections are right, then the state will need a big lift in dwelling supply to accommodate the extra people.

373K

Overseas migration projected till FY27

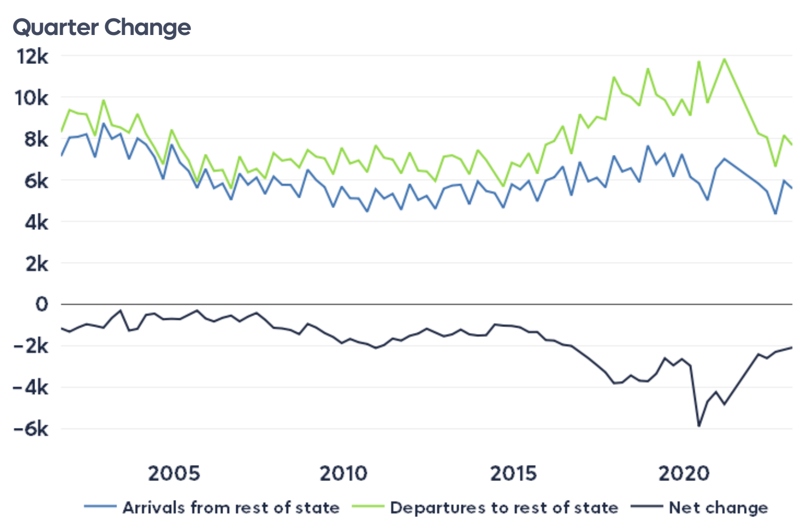
2.2%

Victoria's estimated population growth in FY24

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

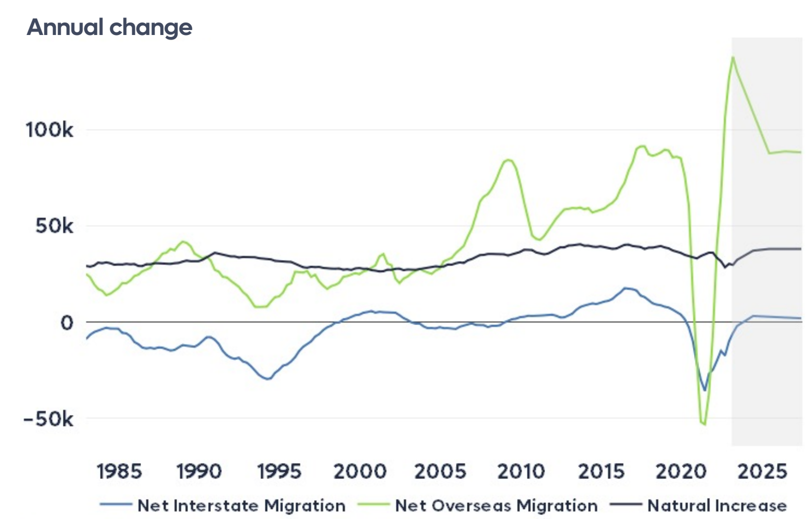
Movement to the regions has returned to levels comparable with pre-pandemic averages.

Migration between Melbourne and Regional VIC



Source: ABS 3101.0, Judo Bank

Components of Victorian Population Change



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

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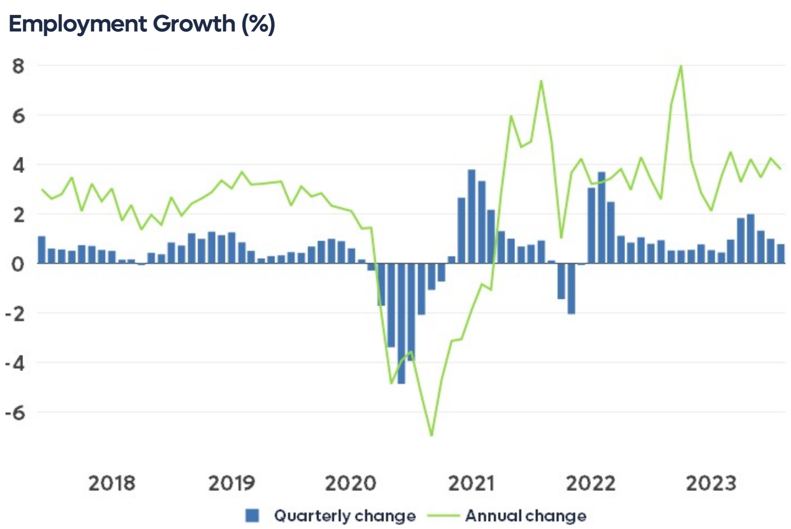
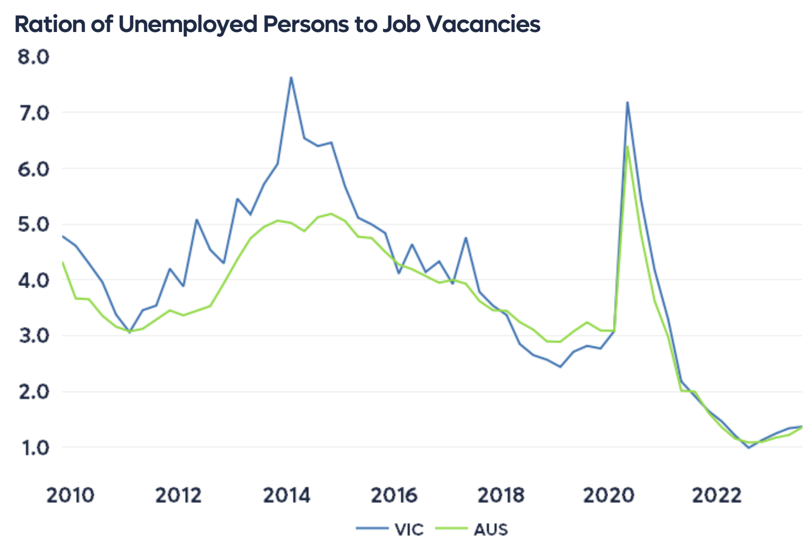
Signs of a Loosening Labour Market Ahead.

Victorian Employment Growth



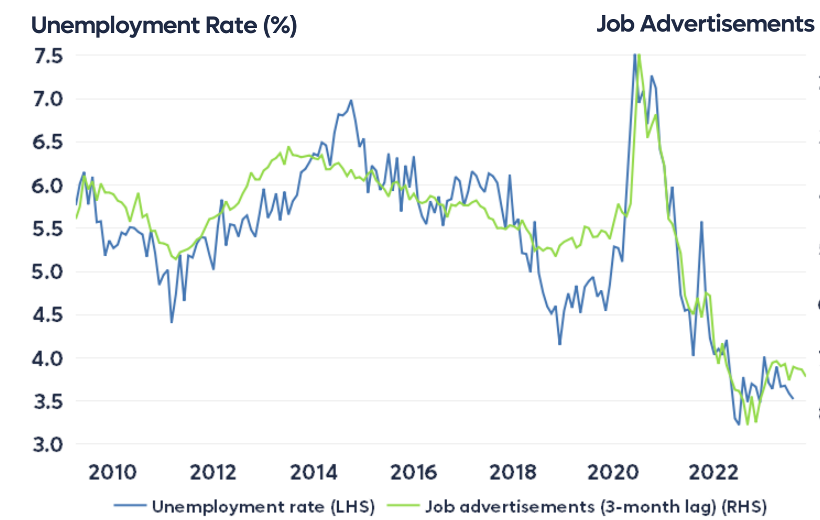
Source: ABS 6202.0, Judo Bank

Labour Market Tightness



Source: ABS 6202.0, ABS 6354.0, Judo Bank

Unemployment Rate vs. Job Advertisements



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

- **The labour market remains extraordinarily tight, despite high interest rates and a slowdown in consumer goods spending.**
- **There are signs of a loosening labour market ahead, amid high migration and slowing business activity.**
- **The Victorian 2023-24 Budget decision to raise payroll tax could negatively impact worker demand over the years ahead.**

Labour demand in Victoria has shown resilience to rising interest rates and slowing consumer demand in 2023, with numerous labour market indicators considerably tighter than pre-pandemic levels.

Job advertisements in August are still at a high level, 56% higher than the level seen in August 2019. Similarly, ABS job vacancies were 100,000 in August 2023, just under double the pre-pandemic trend. The labour market reached its 'tightest' level on record at the start of FY23, with the ratio of unemployed people to job vacancies falling just below one in Victoria in August 2022. Before softening through FY23, Victoria had a vacant role for every unemployed person in the state. Hours worked have continued to grow at a rate well above pre-pandemic trends in the August 2023 quarter, up 6% year-on-year. This is likely a reflection of a tight labour market easily absorbing the large flows of immigration seen through FY23.

The ratio of unemployed people to job vacancies has started tracking up for the first time since May 2020. While still at record low levels in August at 1.4, the change in direction highlights that for businesses searching for labour, the worst is over.

The increases in overseas migration tied with slowing consumer spending are effectively softening labour demand. This will likely continue as interest rate rises to date continue to flow through the economy, and labour supply continues to grow. We're also seeing this across small businesses, according to Xero Small Business Insights, with headcounts only rising 2.2% in the year to June 2023, down from 3.9% the previous year.

Victorian labour market conditions are likely to ease more than other states, given the potential for the State Government's raft of new taxes to dampen business investment. Following the FY23-24 State Budget, Victoria is now the most expensive state to do business in, and this will likely impact the location decision of businesses and where they hire labour going forward .

Despite softening, job vacancies in Victoria remain at record high levels, over 90% above pre-pandemic trend.

The Victorian Consumer.

- **Consumer sentiment continues to weaken among Victorians, falling to record lows.**
- **Weak sentiment and high inflation are hitting consumer spending habits, with Victorians slowing consumption through FY23.**
- **Despite inflationary pressures, Victorians are not cutting back on eating out. Goods spending, on the other hand, is falling.**

Westpac-Melbourne Institutes Consumer Sentiment Survey suggests that at no other time since the survey commenced in 1996 have Victorians been discouraged from buying major household goods to the same extent as they have in 2023. This is aligned with Victorian family finances deteriorating to the worst level on record in September 2023, as higher interest rates, housing costs, and inflation bite into household discretionary incomes. Similarly, the survey's 'time to buy a major household item' index has rebounded slightly in October but remains at historic lows.

After peaking in September 2022, Victorian consumers have seen real consumption levels fall 0.8% over the year to June 2023 to below the pre-pandemic trend. As inflation continues to weigh on the state, price rises have stagnated retail sales, with August retail sales comparable to the previous year. According to Xero Small Business Insights, small businesses are also feeling the pinch, with annual sales growth trending downwards through the end of FY23, reaching 6.3% in June.

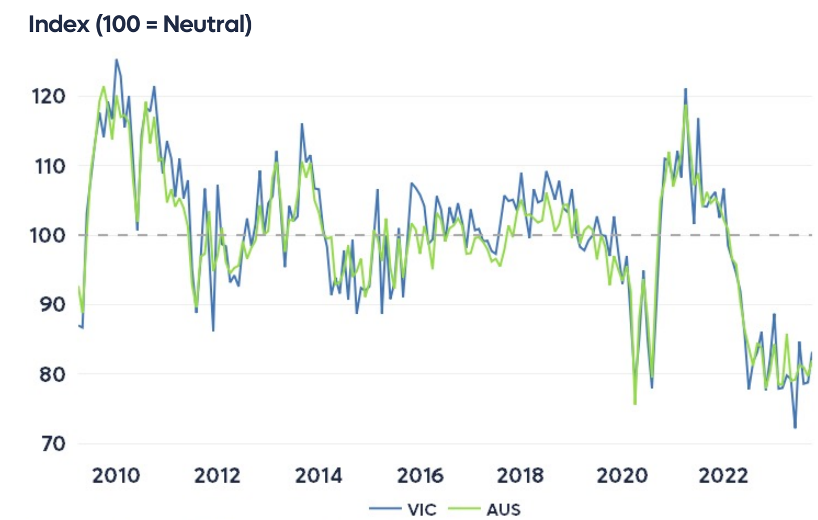
While this sales growth is comparable to pre-pandemic levels, the high inflation rate means Victorian small businesses are seeing less growth in products sold than pre-pandemic averages. The steep fall in consumer sentiment in Victoria and the flow on impact on consumption levels has been cushioned by the extraordinary population growth experienced through FY23, offsetting the demand slowdown among Victorian residents.

While turnover levels have softened among goods retailers over FY23, hospitality spending in Victoria has risen steadily, increasing 17.6% over the year to June quarter 2023. After accounting for inflation, annual growth in hospitality consumption was an estimated 9.7% in the June quarter of 2023, a growth rate well above the years leading up to the pandemic and a stark difference to the near 0% real growth of other eastern states.

After seeing harsher lockdowns than all other states through the pandemic, Victorians are potentially doing more to avoid cutting back on eating out than other states. In contrast, retail goods growth has slowed significantly, down 0.1% in the year to August 2023, notably below pre-pandemic levels.

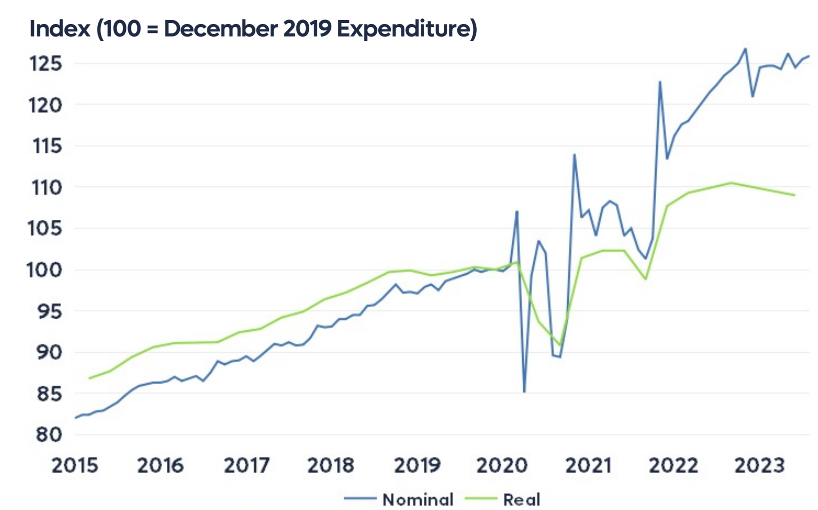
Victoria is positioned to be the largest beneficiary of overseas migration flows over the years ahead. The addition of migrants is expected to bolster aggregate consumer demand levels. The question is whether the increase in aggregate demand levels is significant enough to offset the softening in consumer demand experienced by existing Victorians.

Consumer Sentiment versus National



Source: Westpac - Melbourne Insititute, Judo Bank

Real and Nominal Growth in Retail Turnover



Source: ABS 8501.0, Judo Bank

Managing Director Comments

"There are small pockets of retail that remain resilient despite declining sentiment in the broader marketplace."

— Ben Tuszynski

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House Prices Failing to Bounce Back.

- **Victoria's owner-occupier and investor demand has been slower to recover through FY23 than all states except Tasmania.**
- **Median prices in Melbourne are no longer greater than the nation average, following a weaker performance through FY23 and at the start of FY24.**
- **Victoria is anticipated to face the greatest housing shortage of all states over the years ahead.**

Despite the record migration levels experienced through FY23, Victoria's investor and owner-occupier demand has been slower to recover to the new level of interest rates relative to other states. In the year to August 2023, new loans for investors in property fell 14.9%, the lowest of the eastern states, with New South Wales and Queensland down 1.5% and 1.4% respectively. Similarly, new loans fell 16.8% for owner-occupiers, once again the lowest of the eastern states, with New South Wales and Queensland down 8.5% and 11.8% respectively. Lower investment growth has likely been influenced by concern about the state's finances and the local government's choice to raise land tax to fund state government debt levels.

After falling through the first half of FY23, dwelling prices have started to stabilise and grow across Victoria. In September, the median dwelling price in Melbourne was $810,000, down 4.3% on their highpoint in March 2022 post-pandemic of $846,000. Unlike other states, this fall and lack of recovery has seen the median dwelling price across Australia's capital cities pass Melbourne's for the first time since they were comparable in 2015.

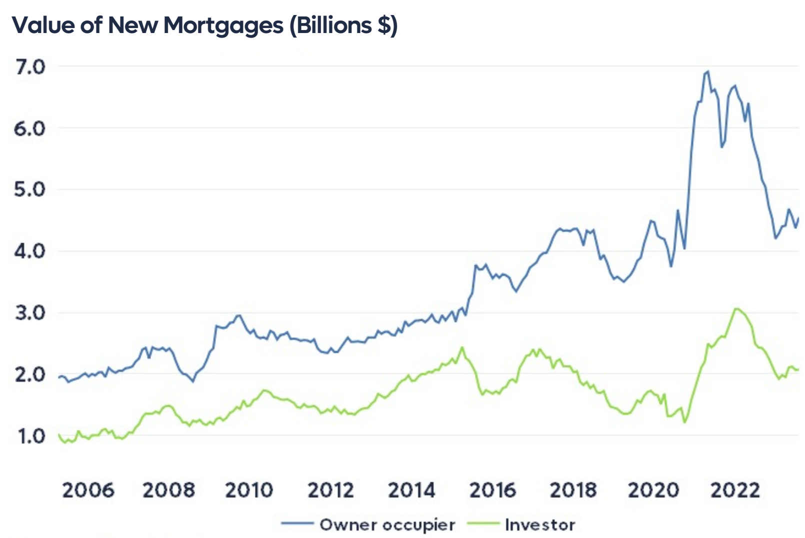
The pandemic saw a record number of Melbournians relocate to the regions, a trend seen across Australia, driving up regional property prices by an unprecedented amount. Regional Victorian dwelling prices in September were up 40.6% in December 2019 and have only softened 4.8% from the peak in early 2022. However, as intrastate migration habits return to pre-pandemic averages, driven partly by work-from-office mandates and a return to 'pre-pandemic' Melbourne, regional house prices have started softening to a greater degree compared to the capital.

Rents have climbed more in Melbourne than the national capital city average, with SQM Research reporting an increase of 18% over the 12 months to October. This issue, driven by a lack of appropriate dwelling stock, will likely be exacerbated in FY24 due to a high level of overseas migration and a shortfall in new supply.

Melbourne is predicted to see a shortfall of 2,700 new dwellings in 2024, before increasing to 10,500 for 2025 and 10,400 for 2026 (National Housing Finance and Investment Corporation, 2023).

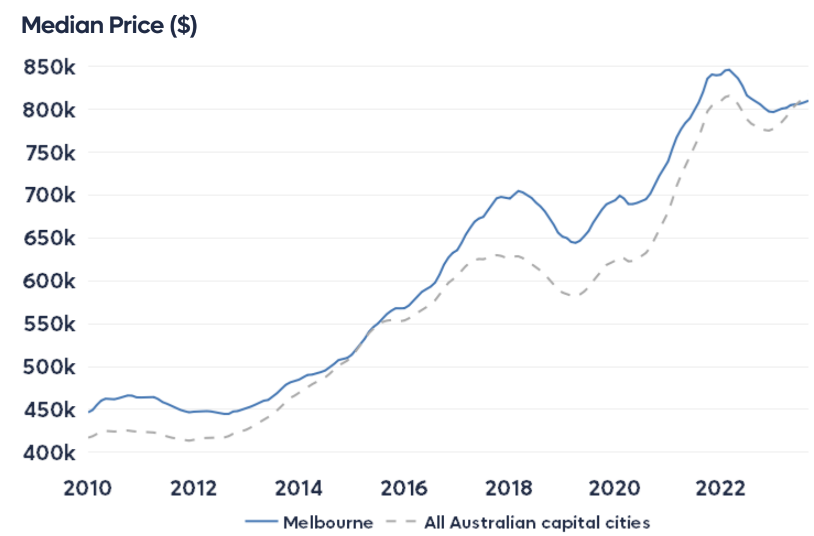
These estimates are optimistic, given the upward revisions to population forecasts and the suit of property taxes introduced by the Andrews government. The introduction of the COVID land tax levy, 7.5% short-term rental tax and increases to vacant land tax will act to reduce the comparative appeal of investing in property in Victoria. The average land tax amount for Victorian homeowners equals $2,100, 27.3% higher than New South Wales and 56.7% higher than Queensland. Investors are already responding to these tax introductions, with new mortgages failing to rebound in 2023. Since the end of 2022, the monthly count of new investor mortgages in August has fallen 2.6% in Victoria. Over the same period, New South Wales and Queensland have seen increases of 15.7% and 15.3% respectively.

New Mortgage Commitments – Owner Occ. & Investor



Source: ABS 5601.0, Judo Bank

Median Capital City Dwelling Price



Source: REA Proptrack, Judo Bank

Construction Activity.

- **Slowing building approvals through mid-2023 point to a slowdown in residential construction through FY24.**
- **Despite a cooling residential market, construction activity across the non-residential building sector has been resilient to rate rises so far.**
- **The civil infrastructure construction pipeline has reached new heights over the past 12 months, rising 58% over the year to June 2023.**

With building approvals continuing to slow through July, FY24 will see a slowdown in the Victorian residential construction sector. The number of approvals has begun a recovery towards pre-pandemic levels since May, potentially reflecting the stabilising of dwelling prices. The number of approvals, however, remains historically low, with the number seen over the three months to August 2023 comparable to levels last seen outside the pandemic in 2015. As a leading indicator of dwellings completed, FY24 is expected to bring a fall in the number of dwellings constructed and a softening of labour demand in the sector. The combination of higher interest rates and building company insolvencies has softened labour demand in the residential construction sector. At the same time, large overseas migration flows will assist businesses unable to source labour through FY24.

Non-residential building activity continues to grow in nominal terms in Victoria, with the pipeline of work increasing 25% over the year to March quarter to $16.3bn, outpacing growth in both Queensland and New South Wales.

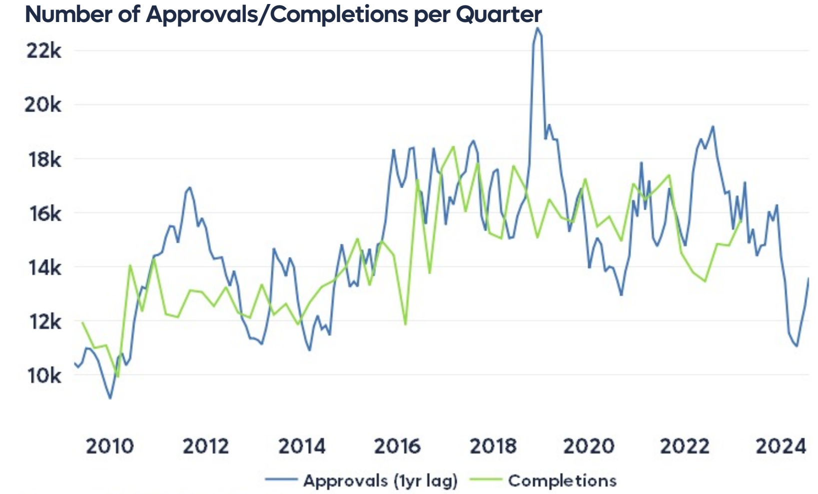
A lot of growth, however, can be attributed to the inflation of building costs through 2022 and 2023. The value of work in nominal terms in the year to March 2023 is up 6.0% on the year prior, and down 4.2% in real terms. Non-residential construction activity is predominantly split across private commercial and industrial buildings, and Victorian government initiatives to increase the number and quality of schools in Victoria.

The pipeline is now valued at $24.3bn, primarily driven by increased public sector infrastructure spending, which has grown almost three-fold. The big projects contributing to the rise in civil engineering spend were the Level Crossing Removal and West Gate Tunnel projects, spending $5.39bn and $7.99bn through FY23, respectively. Transport infrastructure spending is predicted to slow over the years ahead, with government expenditure through FY24 expected to be approximately $9bn, half of what it was through FY23. This will likely have a cooling effect on the labour demand alongside the residential market, however, given FY24 infrastructure spend remains high on pre-pandemic levels, demand for infrastructure workers will also remain above pre-pandemic levels.

Despite a slowdown in residential construction, demand for construction workers will remain high through FY24.

Victoria's Residential Construction Activity

Number of Approvals/Completions per Quarter



Source: ABS 8752.0, Judo Bank

Victoria's Infrastructure Pipeline

Values of Projects in Pipeline (Billions $)

Source: ABS 8762.0, Judo Bank

Managing Director Comments

"Serviced apartments remain in high demand, likely reflecting strong employment and housing shortages"

— Ben Tuszynski

Business Conditions.

- **Early indicators suggest Victoria's economy will slow more than any other state through the September quarter.**
- **While a tight labour market drives higher wage growth, Victorian small business payrolls signal that a slowdown in labour costs could be underway.**
- **While investment expenditure increased in Victoria through the second half of FY23, a raft of new taxes may drive away business and investment in the years ahead.**

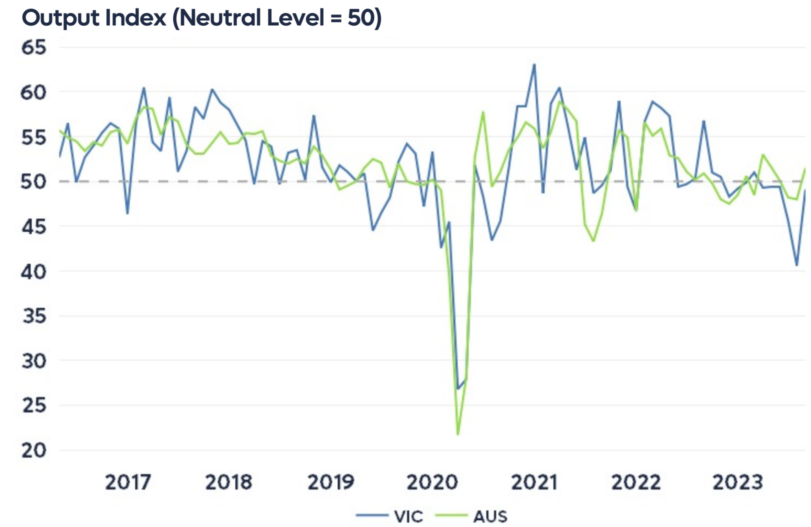
Over the past six months to September, the Judo Bank PMI Output Index for Victoria has consistently sat below the neutral level, falling to its lowest level outside the pandemic in August. Since April, output levels have softened across the state at a greater rate than other states or territories, as businesses are likely to see seeing lower levels of output than the month prior. Despite a clear slowdown in the economy through the quarter so far, employment indexes are still in expansion territory, having not dropped below 50 for all of 2023. Business margin pressures continue to remain above pre-pandemic levels but have continued to trend downwards since March in line with the rest of the nation.

Wages grew at 3.6% through FY23, the highest growth rate Victoria has experienced since 2011. This was predominantly driven by the private sector, up 3.7% over FY23 relative to the 3.2% growth experienced by the Victorian public sector. As the labour market begins to soften, wage pressure shows signs of easing. This is particularly the case for small businesses, with Xero Small Business Insights stating that year-on-year payroll growth softened through FY23 to 3.2%, after peaking in September 2022 at 4.9%.

Business expenditure on plant and equipment has risen to $4.8bn in the June quarter of 2023, the highest level on record. This growth has potentially been driven by the squeeze on businesses margins through FY23, as rising labour and input costs drive them to devise new ways to maintain margins and outcompete.

The Victorian Government's recent changes to payroll and land tax through the state's 2023-24 Budget, tied with the abrupt cancelling of the Commonwealth Games, place Victoria at risk of weaker appeal to investment over the years ahead. For large businesses (~1000+ workers), Victoria has become the most expensive state to hire labour in, with the COVID Debt Levy raising payroll tax above New South Wales and Queensland for payrolls exceeding $100 million.

Judo Bank Composite Output Index



Source: S&P Global, Judo Bank

Wage growth – Private and public sector

Source: ABS 6345.0, Judo Bank

Wages in Victoria grew at 3.6% through FY23, the highest growth rate the state has experienced since 2011.

The Victorian economic activity index fell to 40.6 in August, a record low outside of the pandemic.

Managing Director Comments

"We continue to be a trusted advisor with our customers, taking a hand-in-hand approach to navigating economic challenges over the next 12-18 months."

— Ben Tuszynski

Section 3

Comparisons and Forecasts, October 2023.

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

Pictured Judo Customer
Hamish Coates | Rocky Ridge Brewing Co.

judobank

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.

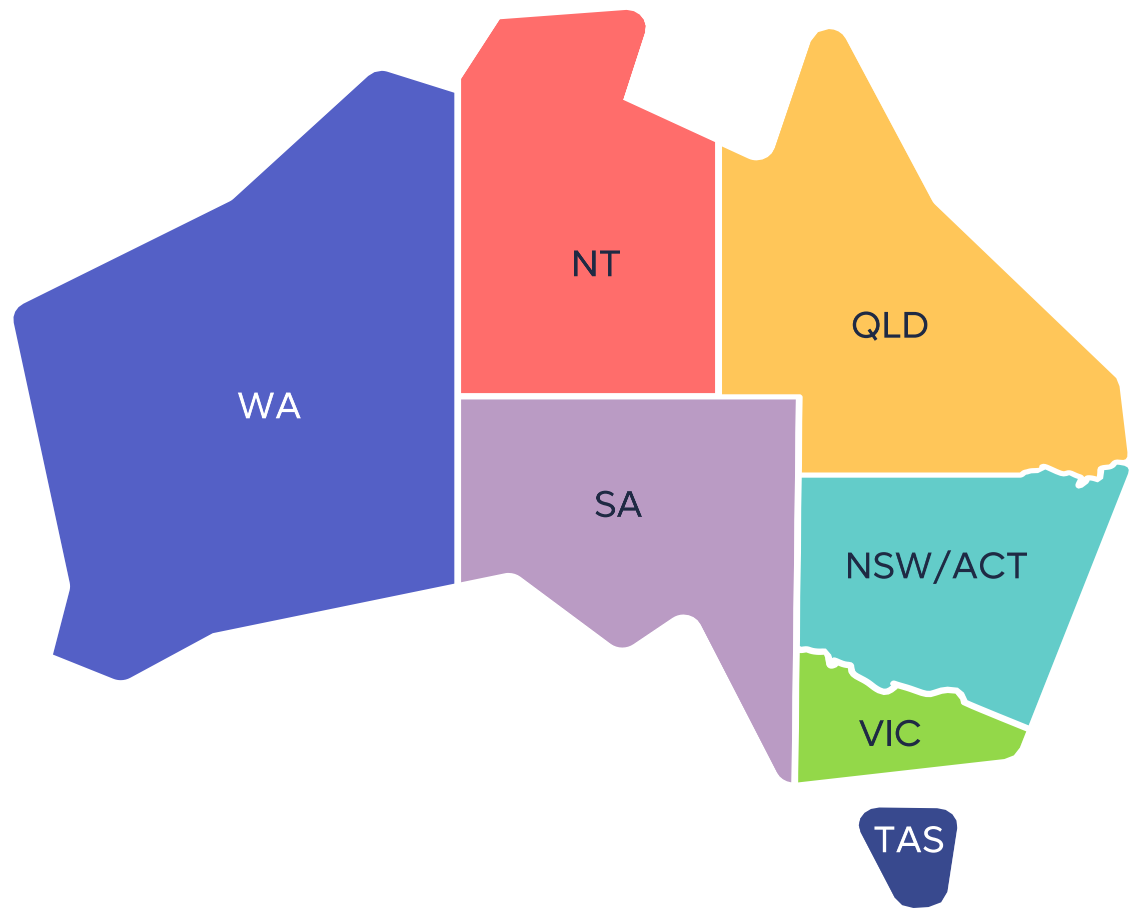
Infrastructure is in focus for NSW and QLD, but for different reasons. The NSW government has bolstered infrastructure to accommodate the growth of Western Sydney, with projects such as the Western Sydney International Airport opening the door to even faster economic growth and investment in western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

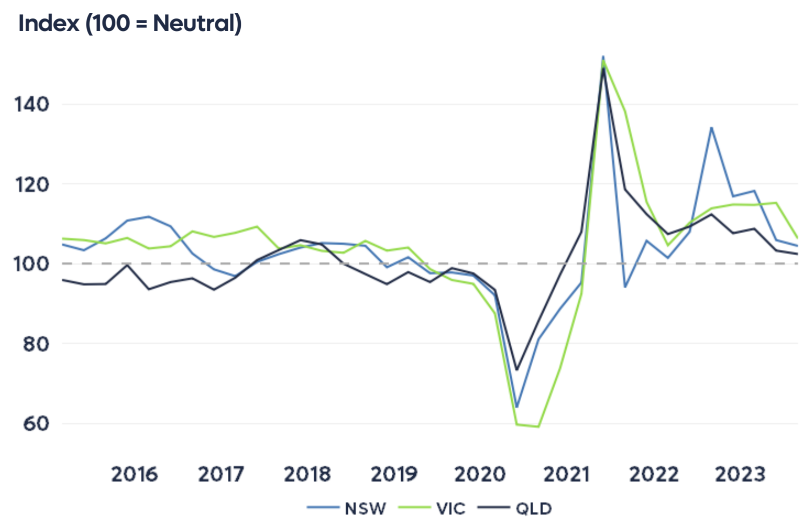
- **South Australia ranked highest in economic activity through the September quarter, with continued strength in the labour market.**
- **All the States of Australia have recorded above-trend SEPI results, although growth momentum is slowing in all states.**
- **Queensland and Tasmania sit at the bottom 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.

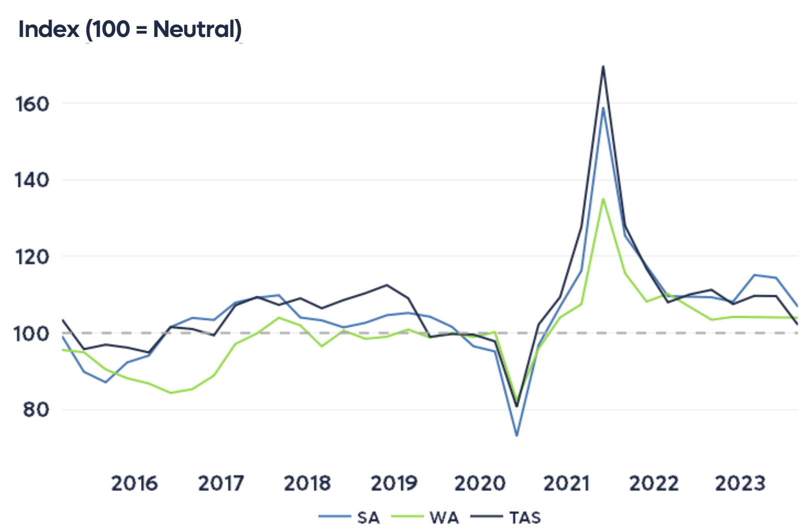
While the economy has begun showing signs of cooling through 2023, SEPI figures suggest that relative to historic levels, economic activity in each state has continued to expand throughout the year. While expected to soften, each state's final demand figures are anticipated to see growth through the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

SEPI – Larger states



Source: ABS, National Skills Comission, Judo Bank

SEPI – Smaller states



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.

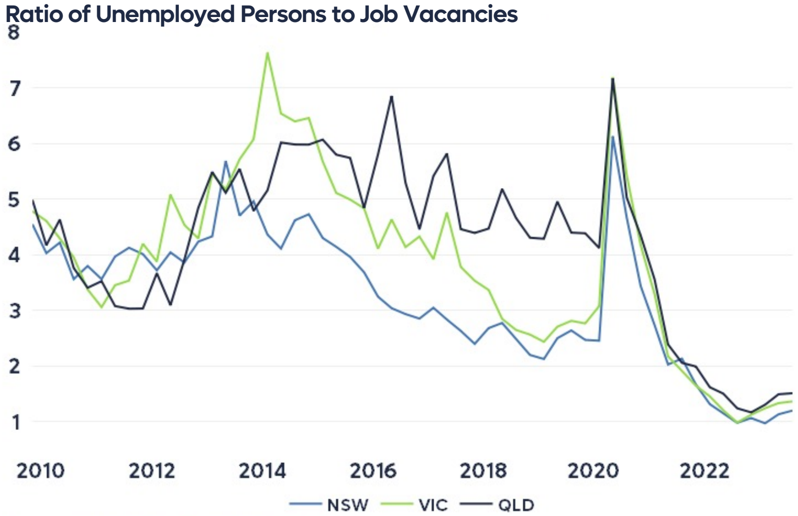
Workforce Statistics Across The States

	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)

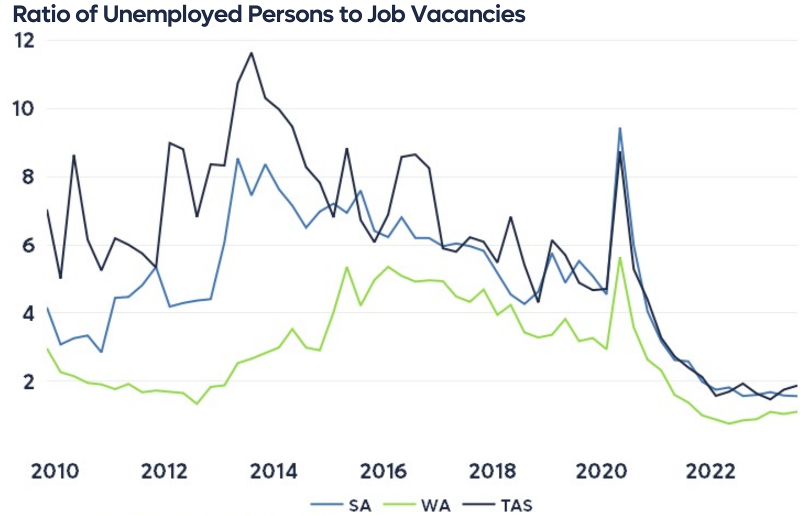
Western Australia is the only state economy that has seen this degree of labour and skill shortages in the last 50 years, prior to the current episode.

Labour market tightness – Eastern states



Source: ABS 6202.0, ABS 6354.0, Judo Bank

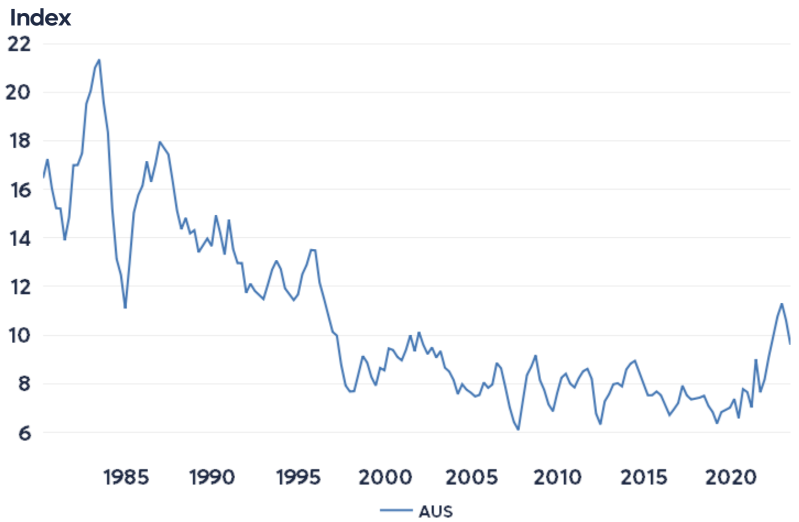
Labour market tightness – Other states



Source: ABS 6202.0, ABS 6354.0, Judo Bank

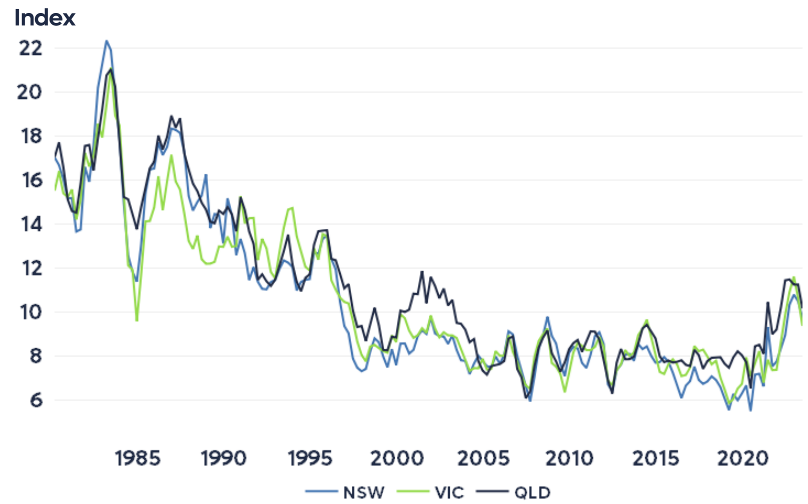
What is the Misery Index?

Misery Index: Australia



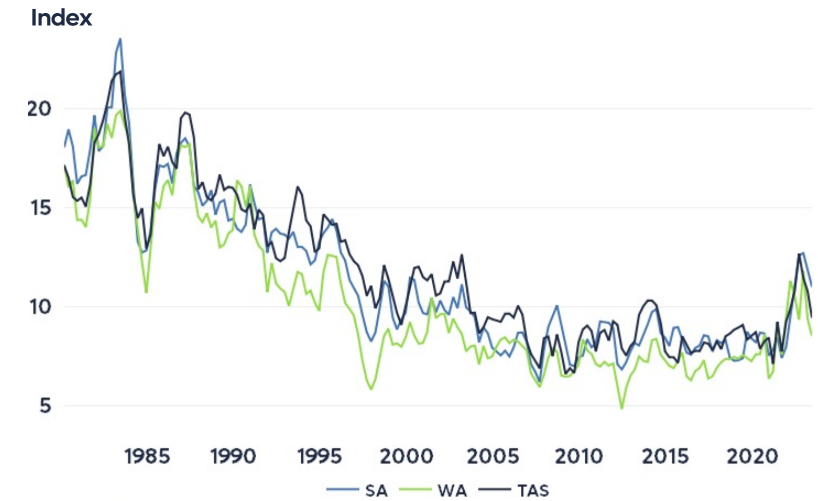
Source: ABS, Judo Bank

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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