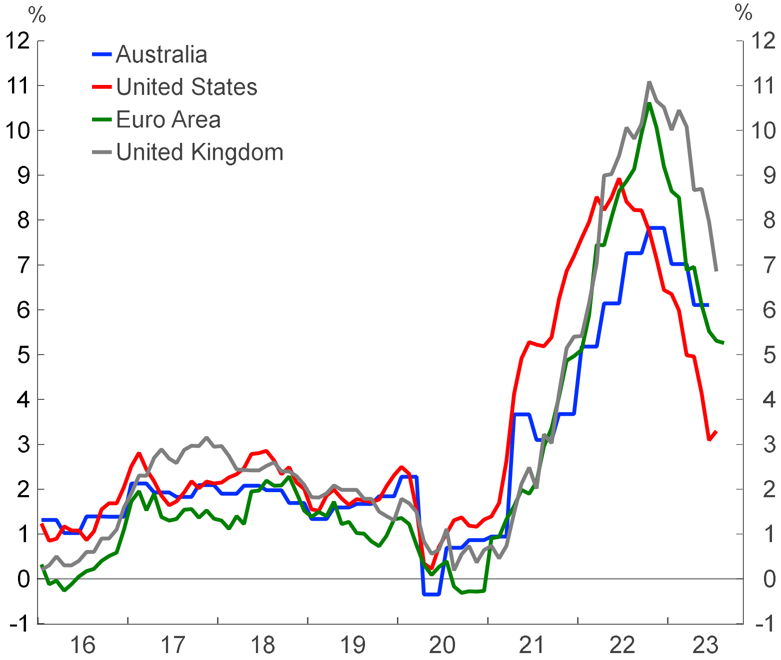
Economic Outlook: Higher for How Long?

Jameson Coombs, Economist

5 September 2023

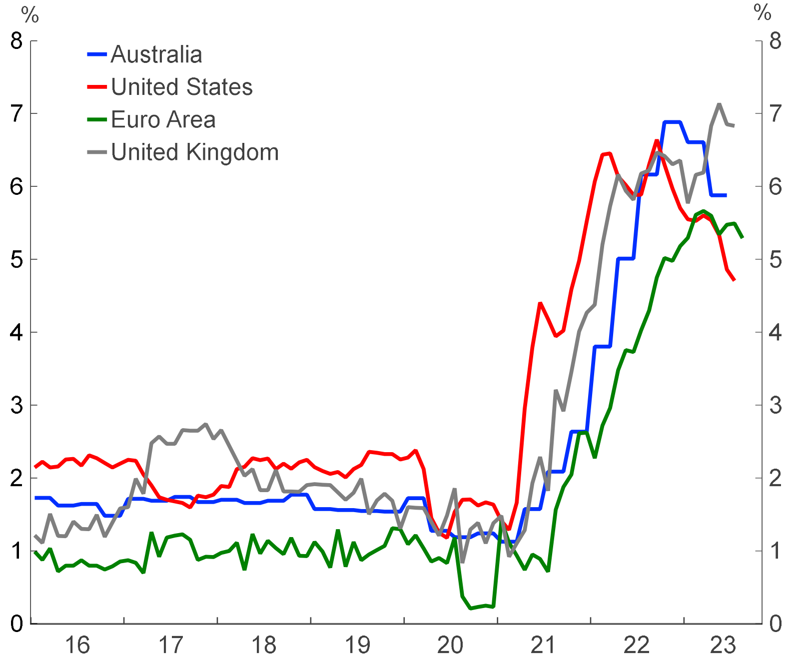
The World is Fighting an Inflation Problem

Headline Consumer Price Index
Annual % Change



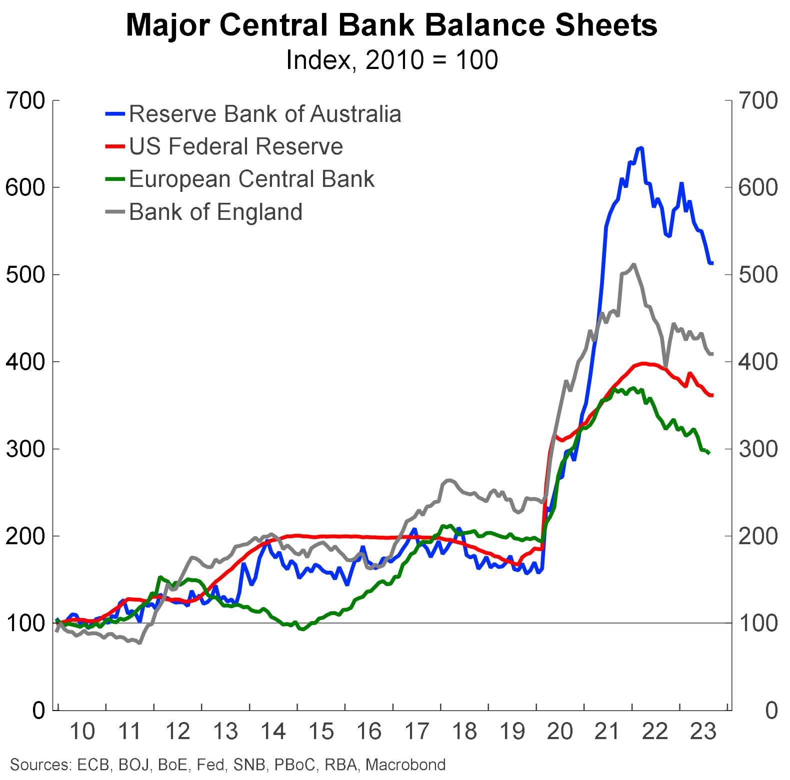
Sources: ABS, BLS, Eurostat, ONS; Macrobond

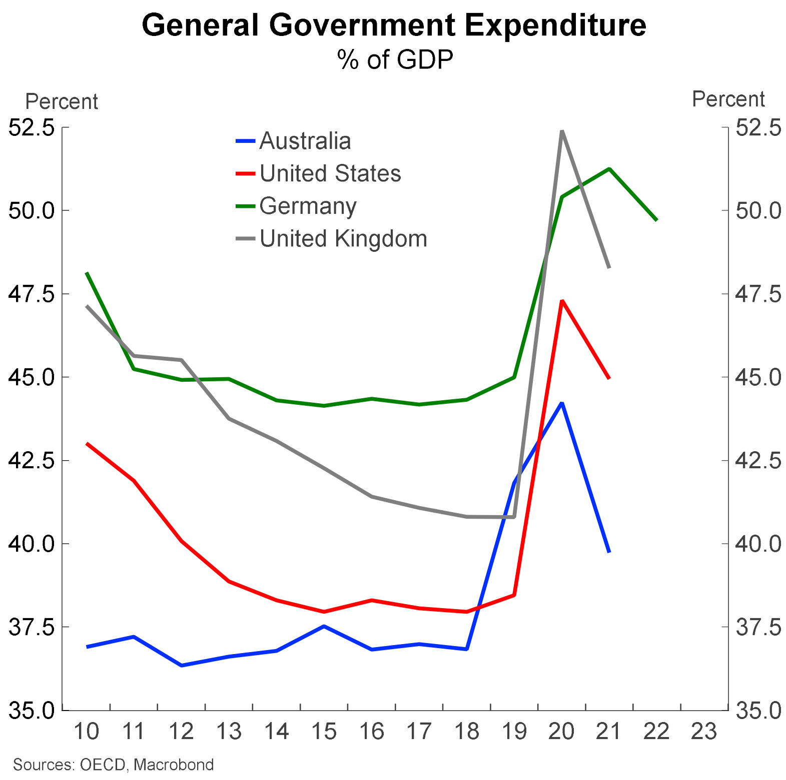
Core Consumer Price Index
Annual % Change



Sources: ABS, BLS, Eurostat, ONS; Macrobond

And It's Easy to See Why…

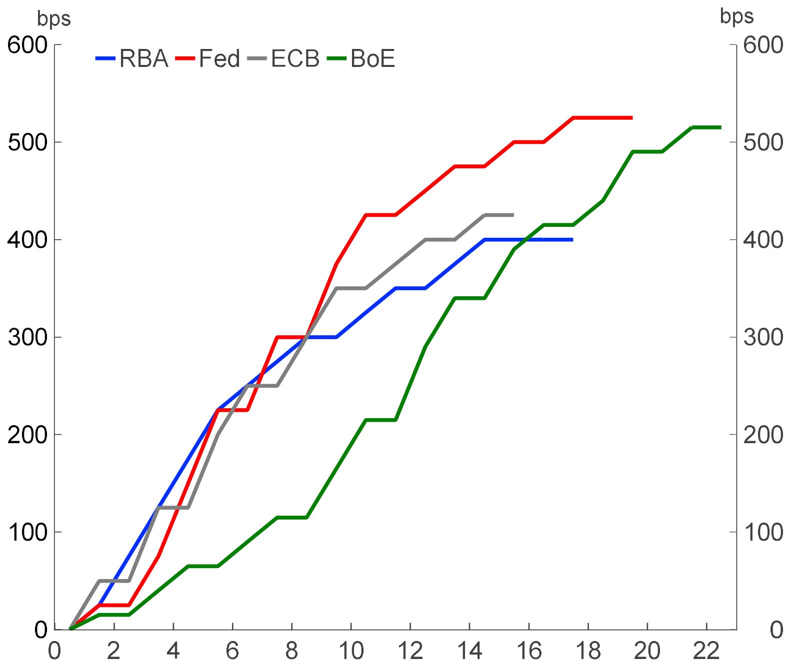




Now Central Banks are Trying to Reign the Stimulus Back In

Major Central Bank Policy Rates

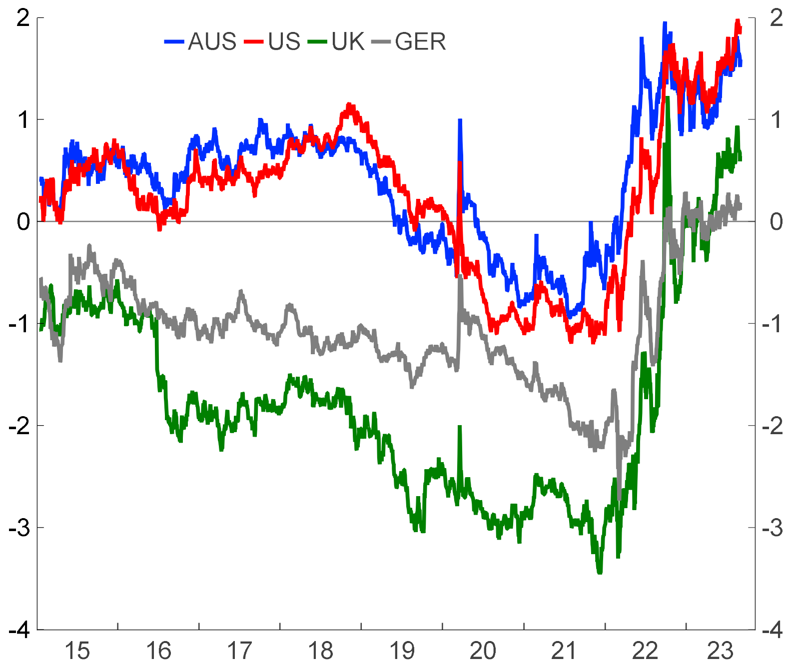
Cumulative Rate Increases, Months Following First Hike



Sources: RBA, BoC, ECB, BoE, RBNZ, Fed; Macrobond

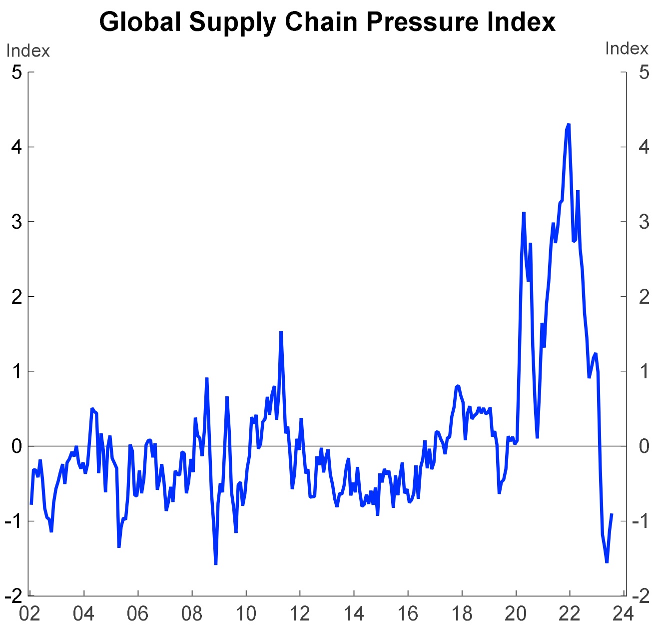
Global Real Interest Rates

10-Year Inflation-Linked Bonds

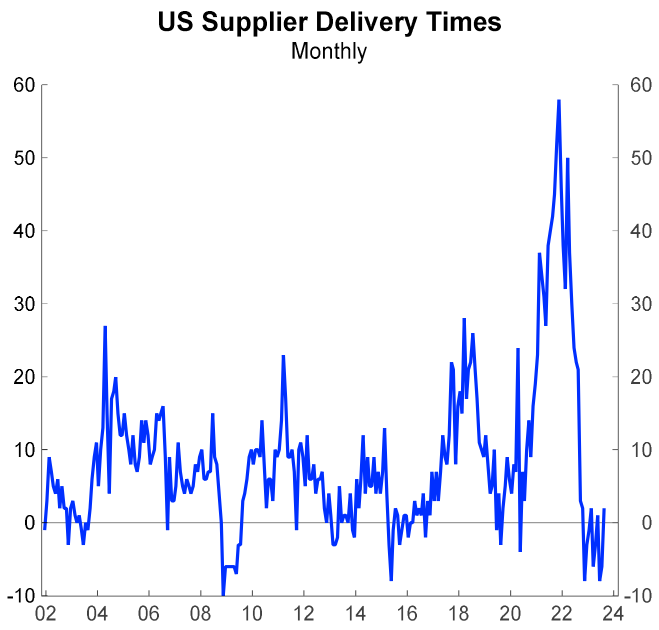


Sources: Bloomberg, Macrobond

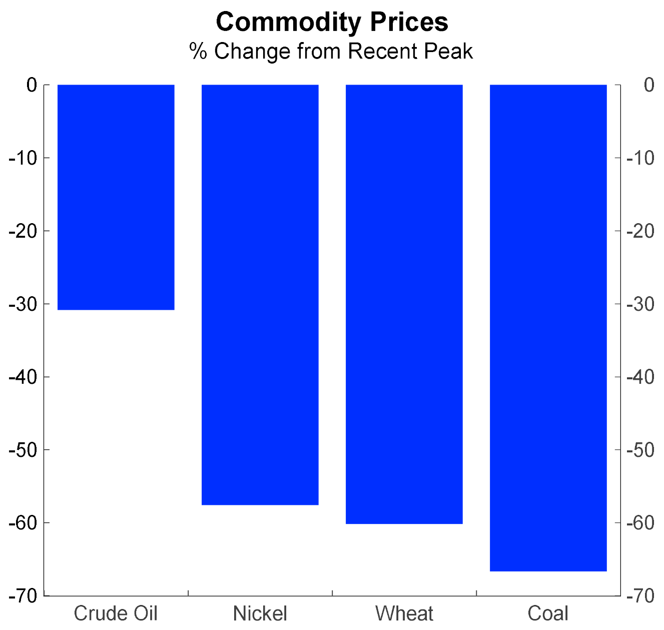
And the Supply Curve is Shifting Back



Sources: Federal Reserve Bank of New York; Macrobond



Sources: Federal Reserve Bank of Kansas City; Macrobond



Sources: CME Group, LME, HWWI; Macrobond

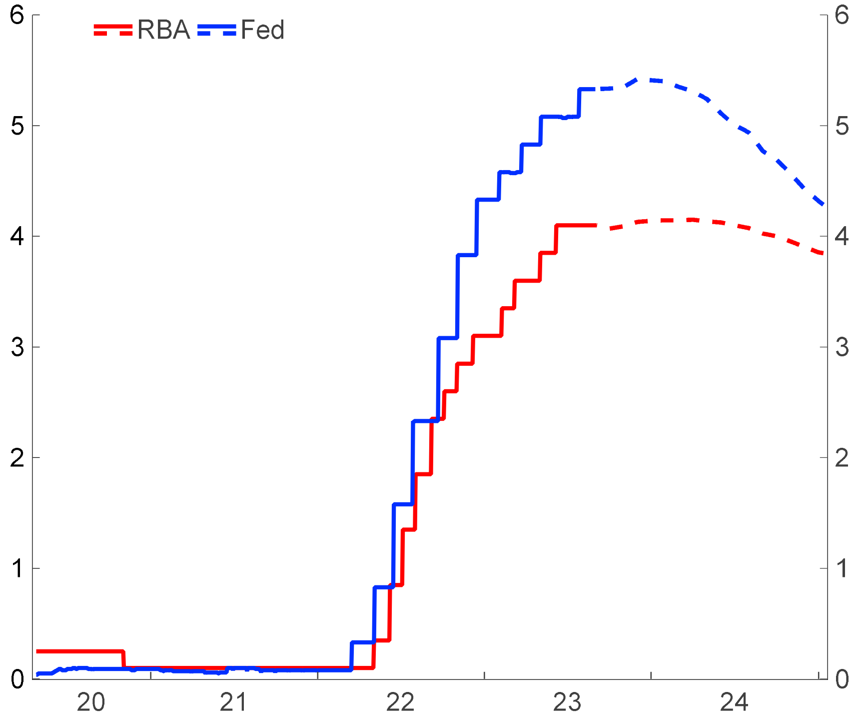
The Two Key Questions For Markets

1. Have central bank’s done enough to tame inflation?

2. What will be the cost of bringing inflation down? Recession?

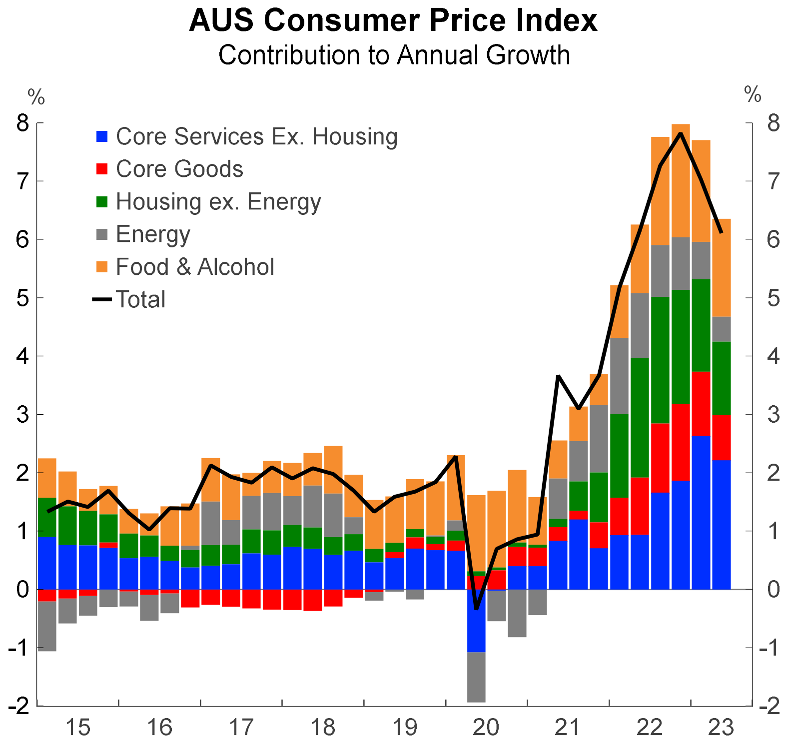
Central Bankers Trying the Up and Hold Approach

RBA vs Fed
Policy Rates & Market Expectations

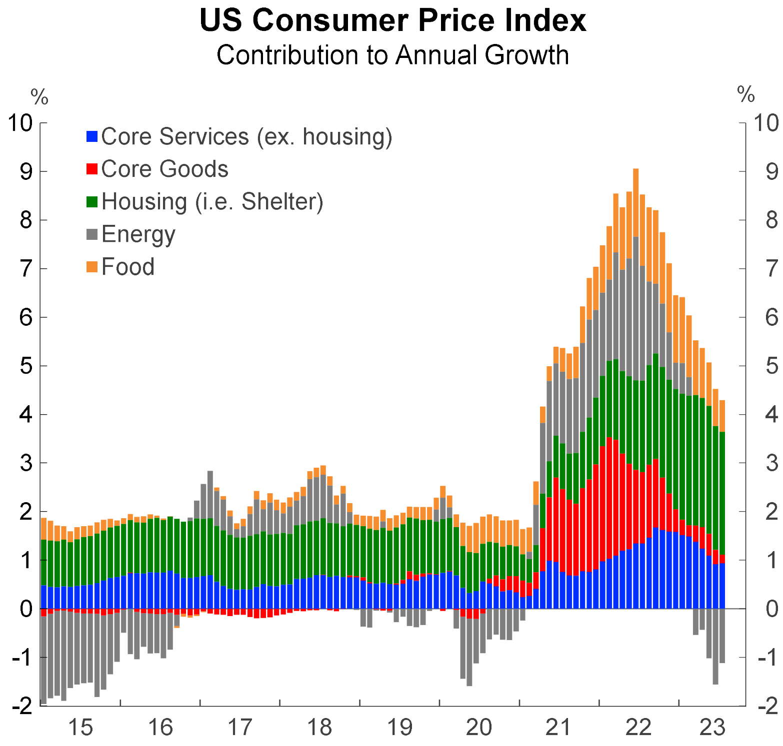


Sources: RBA, Federal Reserve Bank of New York, CME Group, Macrobond

The Battleground has Shifted – Services are Key



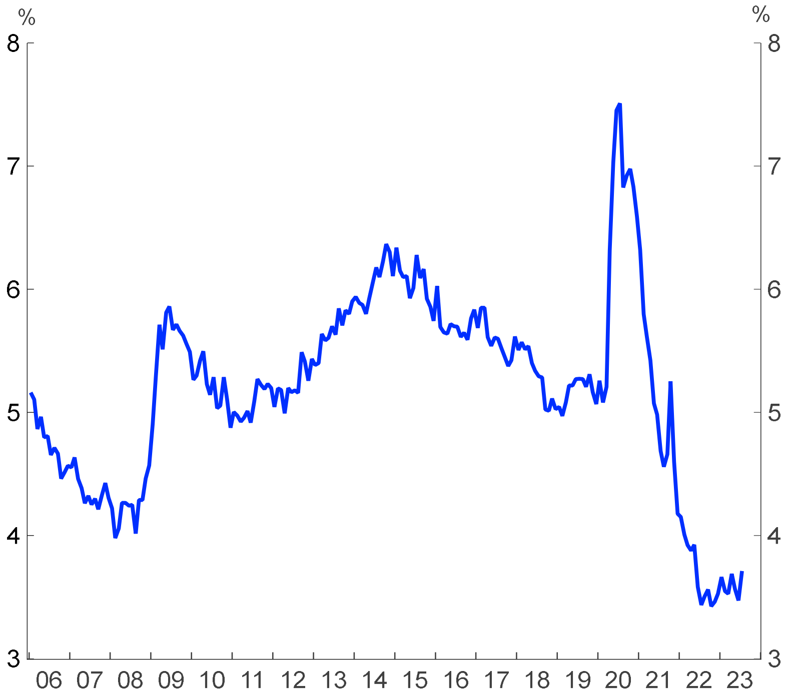
Sources: ABS, Macrobond



Sources: BLS, Macrobond

Wages Watch – Resilience is a Double-Edged Sword

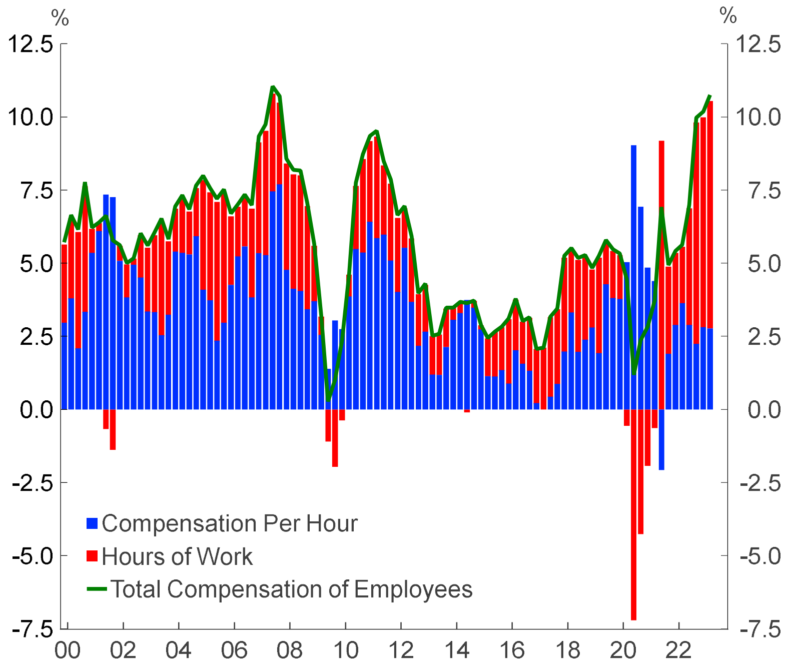
Unemployment Rate



Sources: ABS; Macrobond

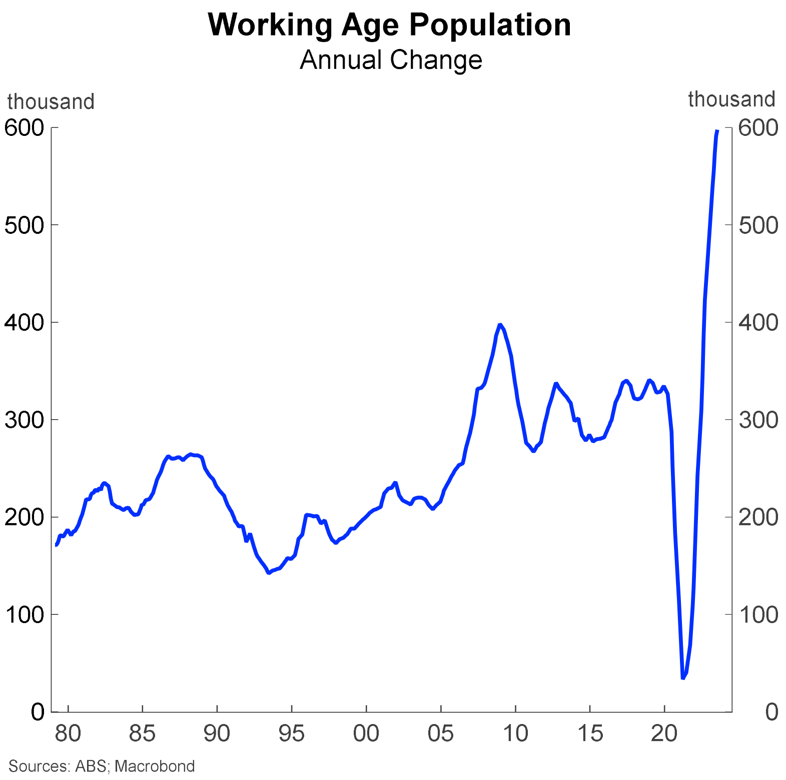
Compensation of Employees

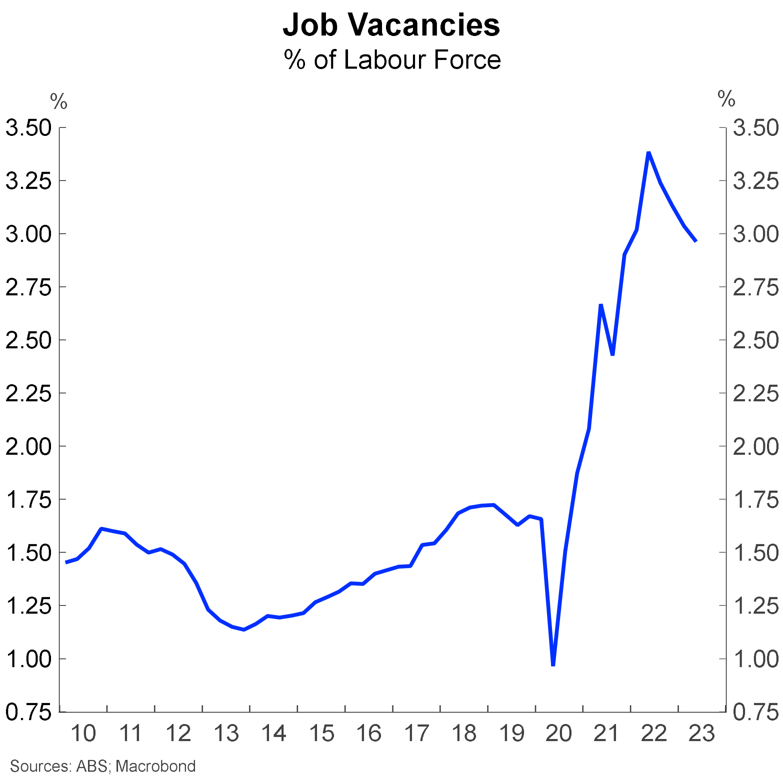
Annual % Change



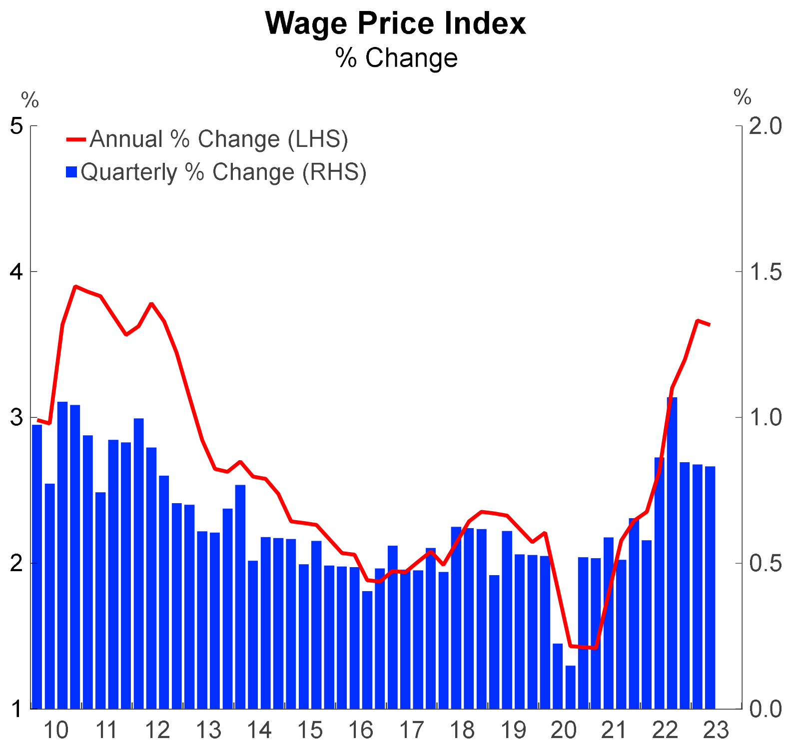
Sources: ABS, Macrobond

Supply and Demand are Converging

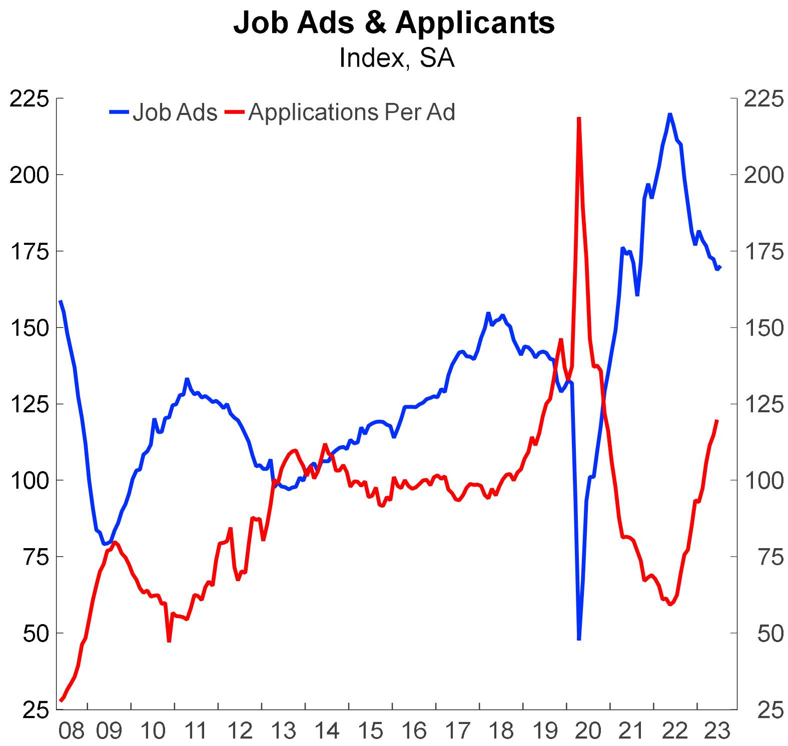




A Wage-Price Spiral Unlikely

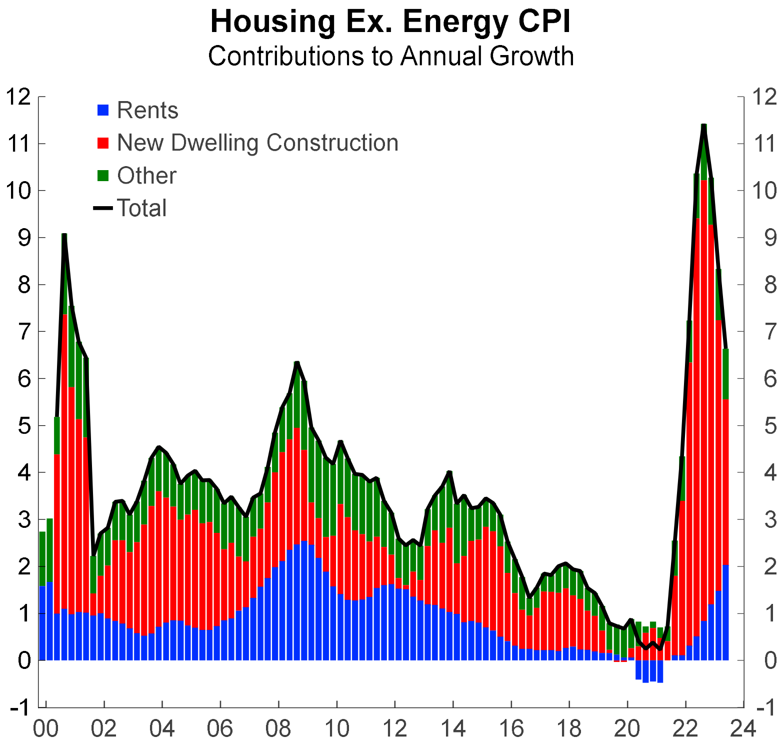


Sources: ABS; Macrobond

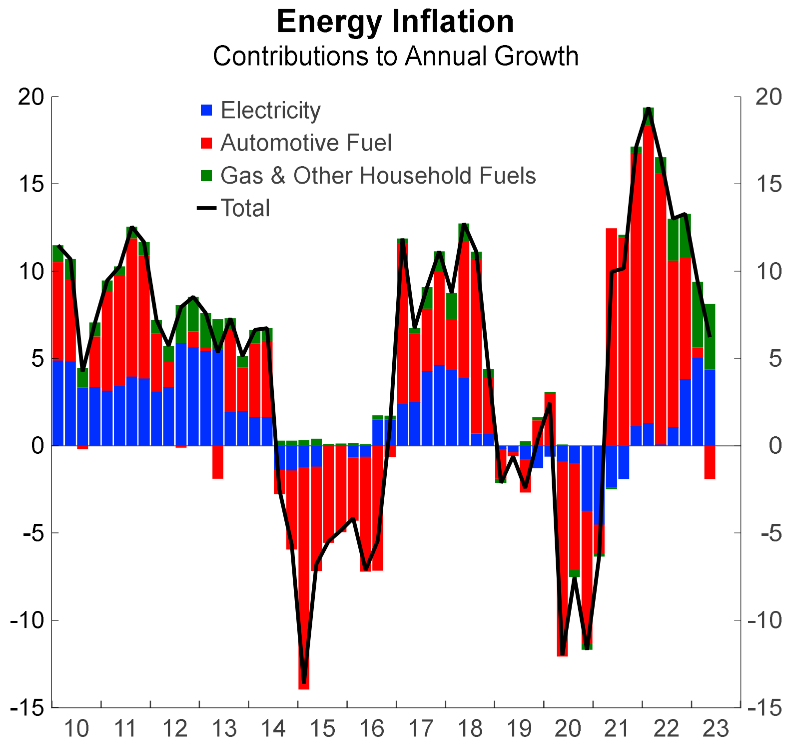


Sources: SEEK Australia; Macrobond

The Last Mile is Always Hardest – Inflation Risks?

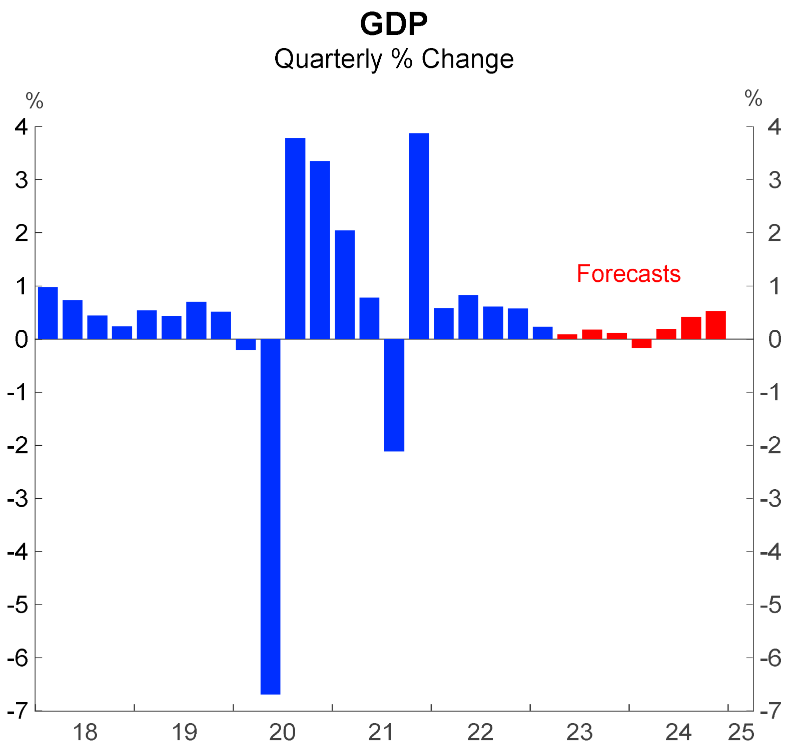


Sources: ABS, Macrobond

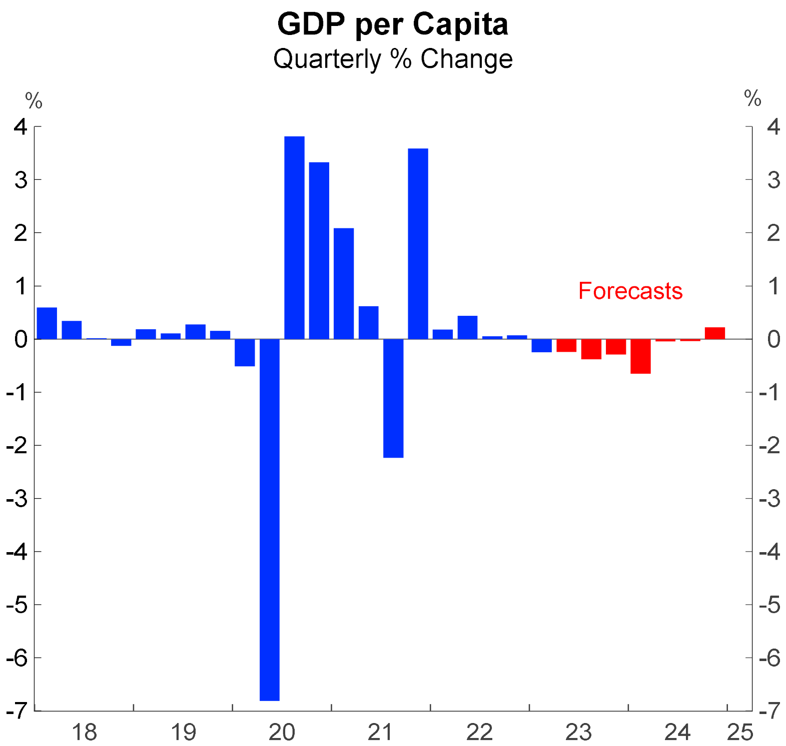


Sources: ABS, Macrobond

The Cost is Yet to be Borne



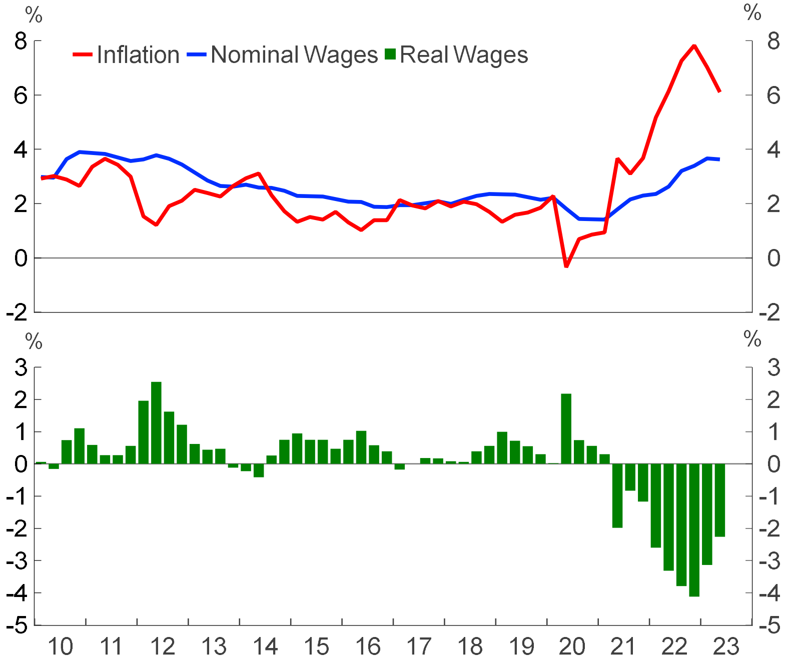
Sources: ABS; Macrobond



Sources: ABS; Macrobond

Inflation and Rates Double Whammy

Nominal vs Real Wages Growth
Annual % change

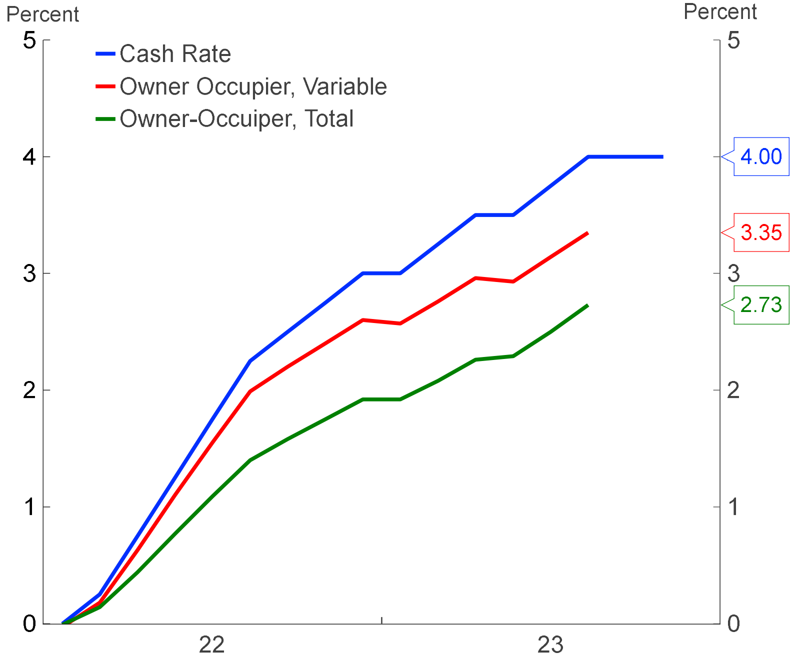


Sources: ABS; Macrobond

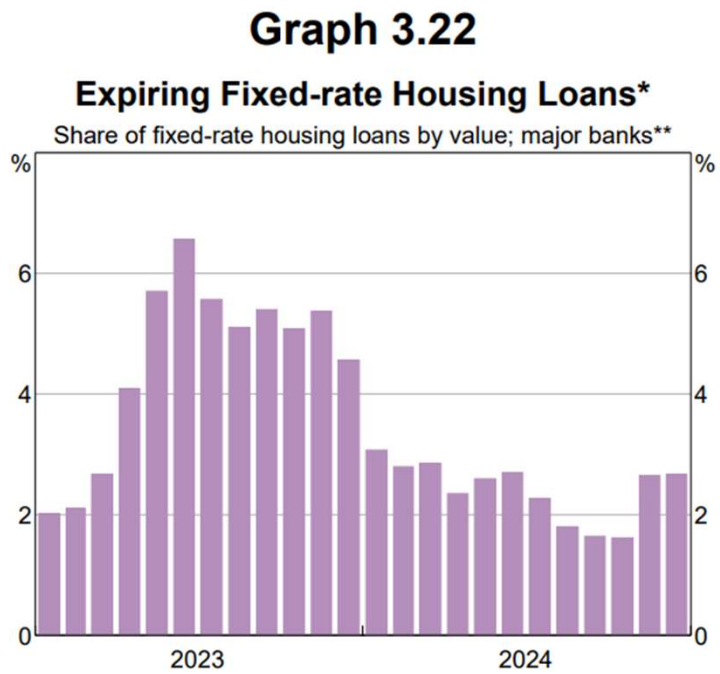
Scheduled Mortgage Repayments
% Share of Disposable Income

Sources: RBA, Macrobond

And There is More to Come Even Without Additional Hikes

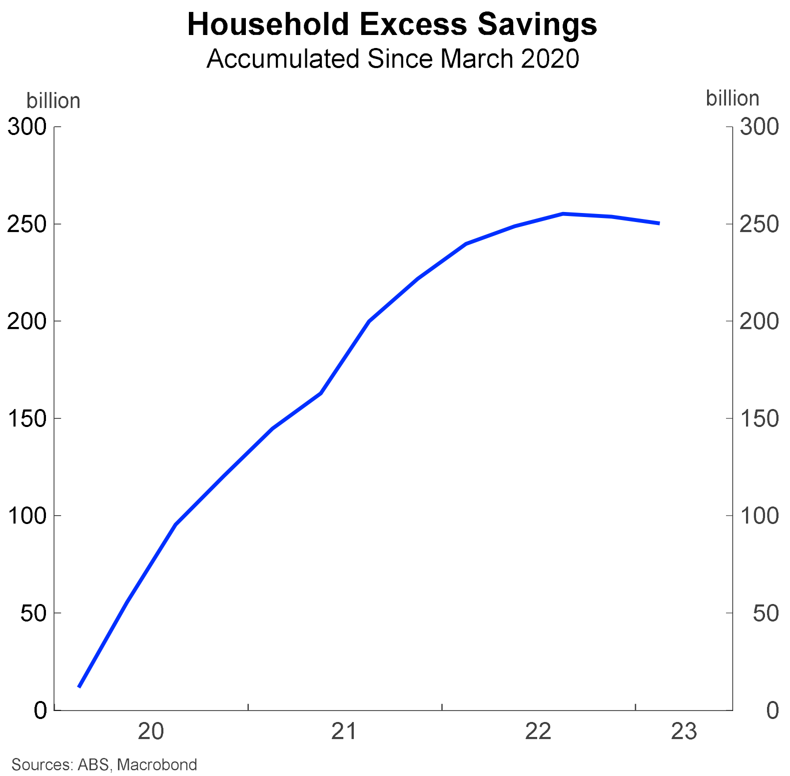


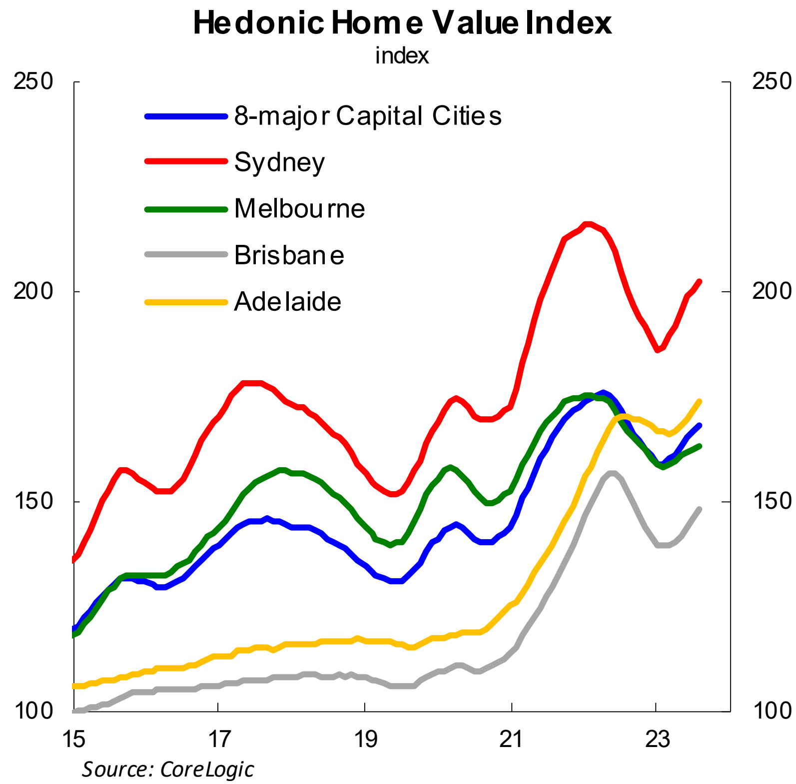
Sources: RBA, Macrobond



* Loans expiring beyond 2024 not available monthly.
** Value of fixed-rate housing loans outstanding as at end December 2022.
Sources: Major banks; RBA

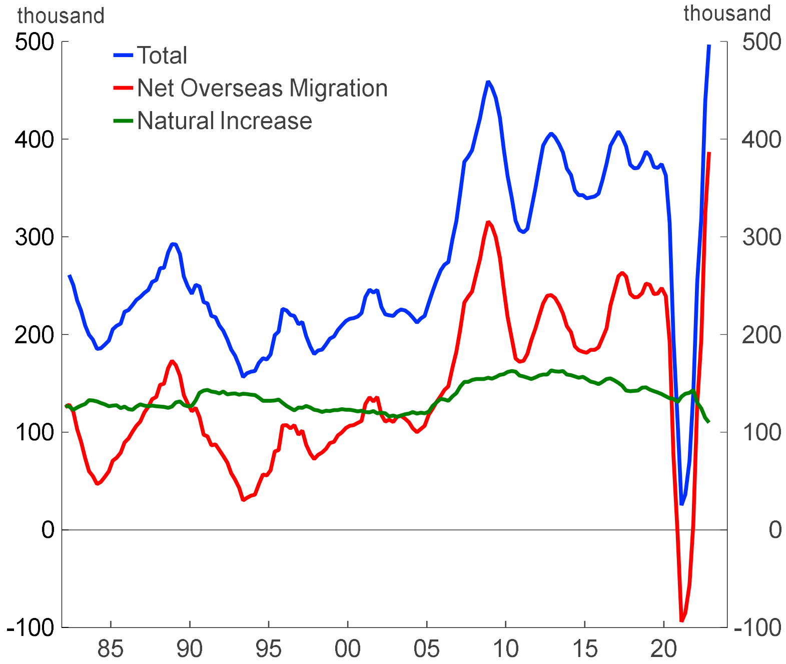
Savings and Wealth Working the Other Way





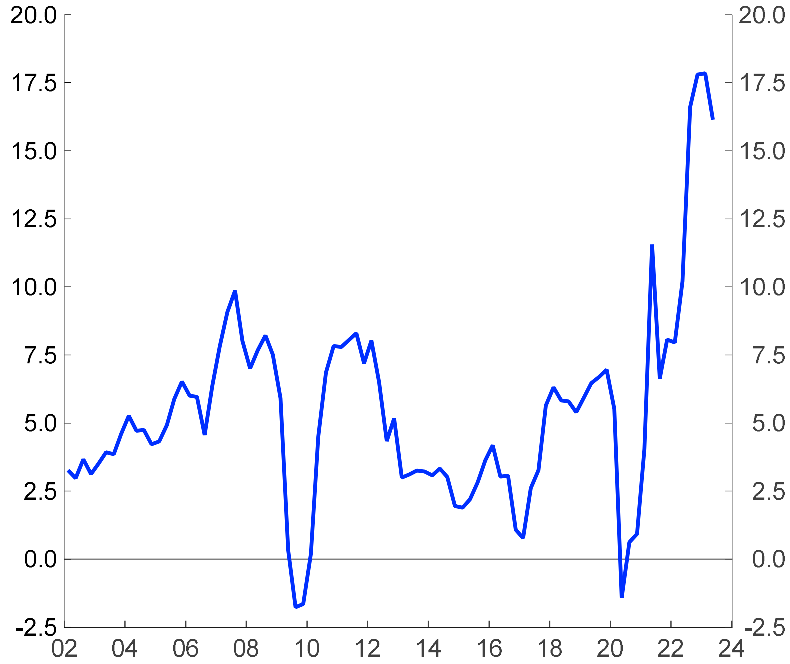
So Too is Population and Income Growth

Australia, Population Change
Rolling annual change



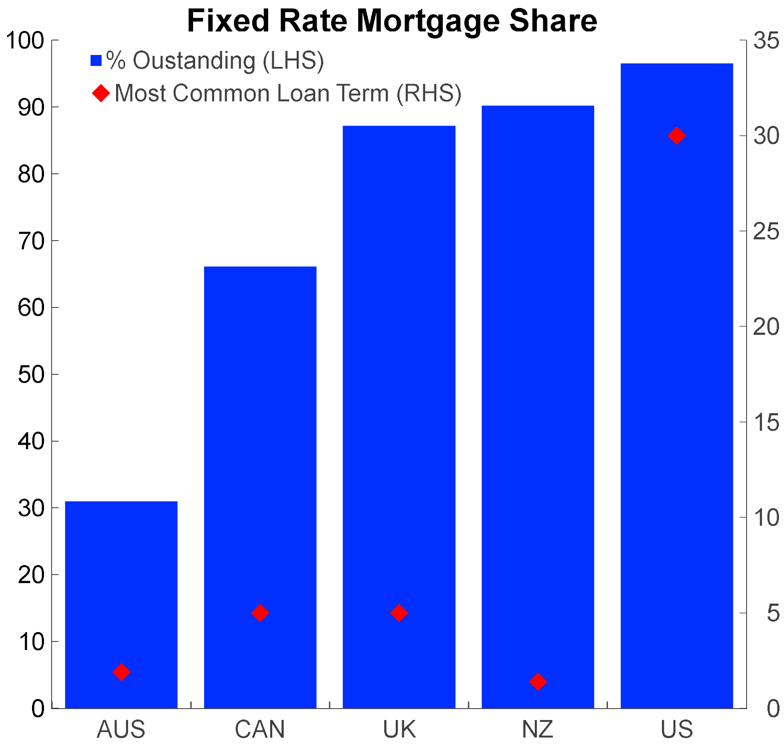
Sources: ABS; Macrobond

Wages & Salaries
Annual % Change

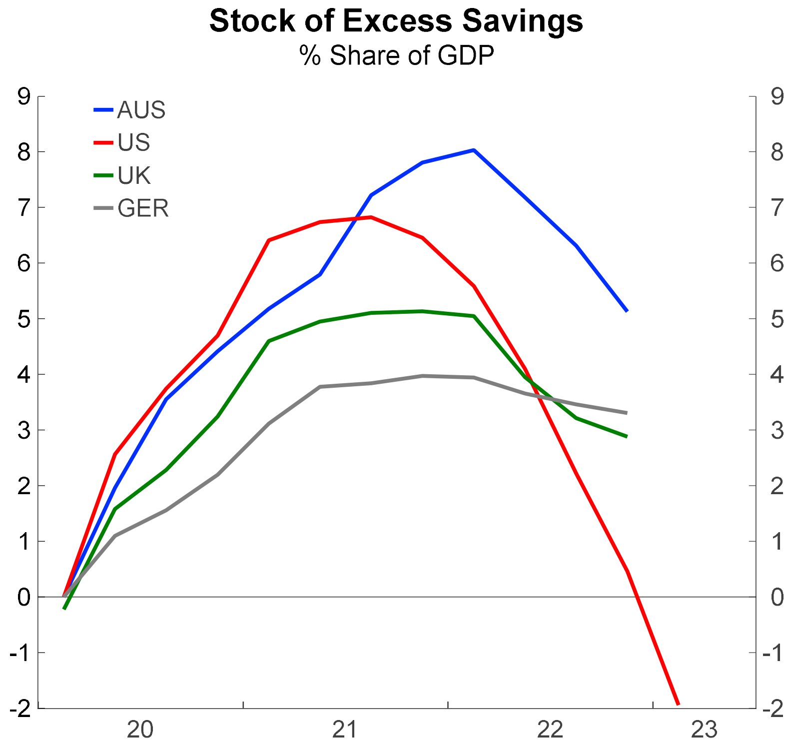


Sources: ABS, Macrobond

The Global Experience is Slightly Different

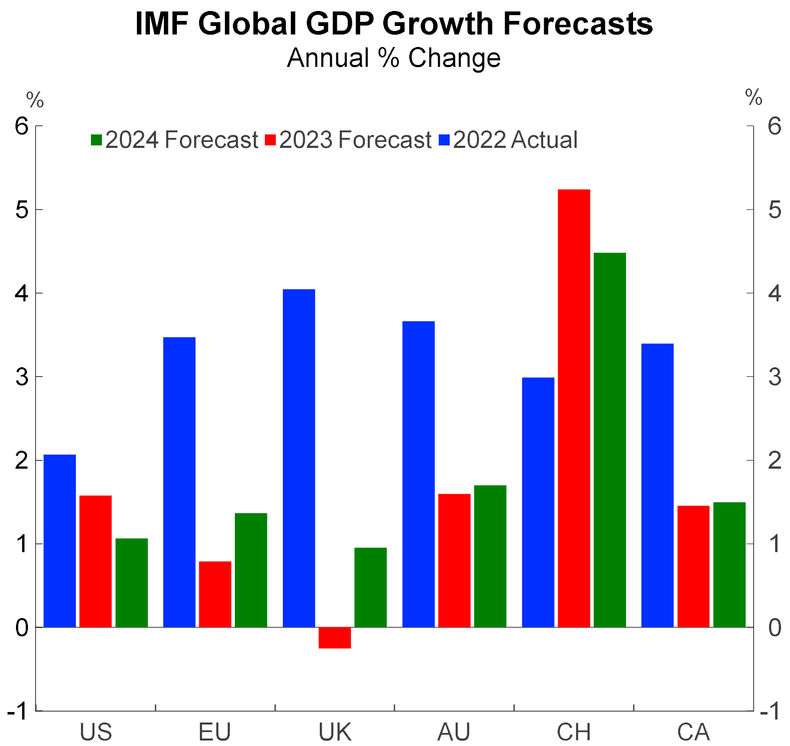


Sources: RBA, Macrobond

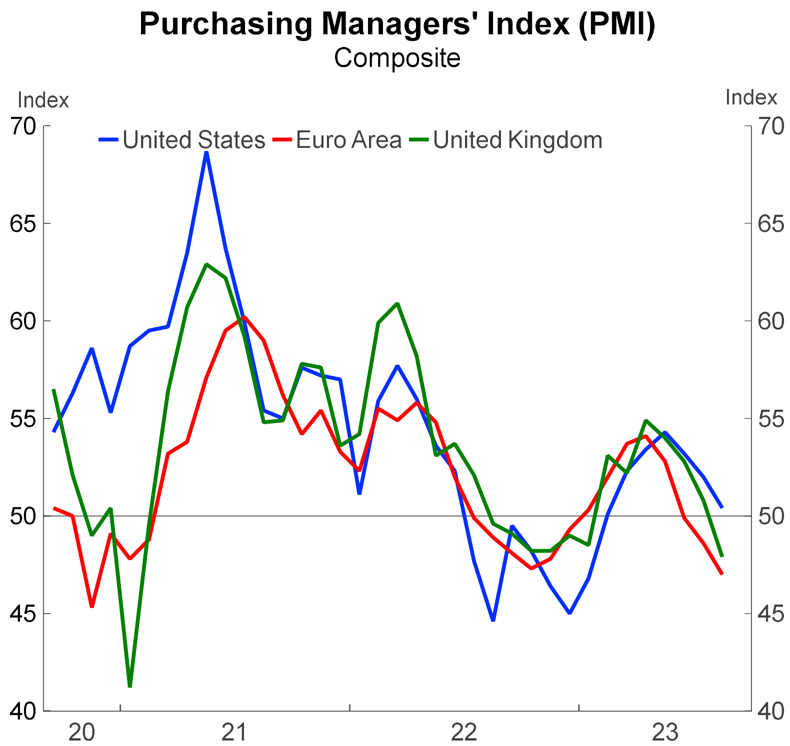


Sources: US Federal Reserve, Macrobond

The Global Experience is Slightly Different

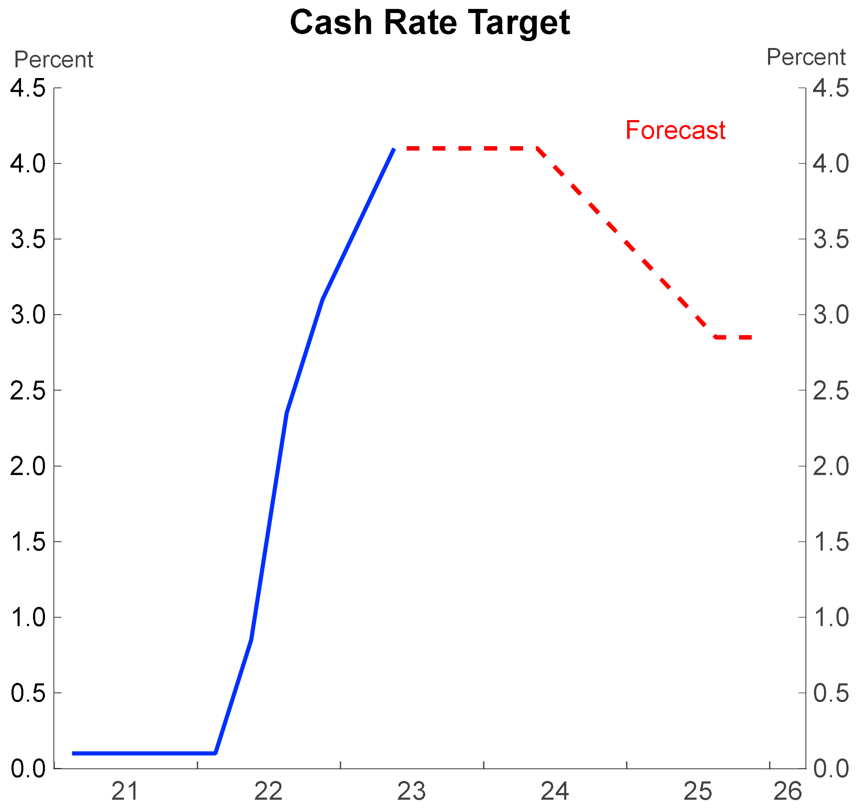


Sources: IMF, Macrobond



Sources: S&P Global, Macrobond

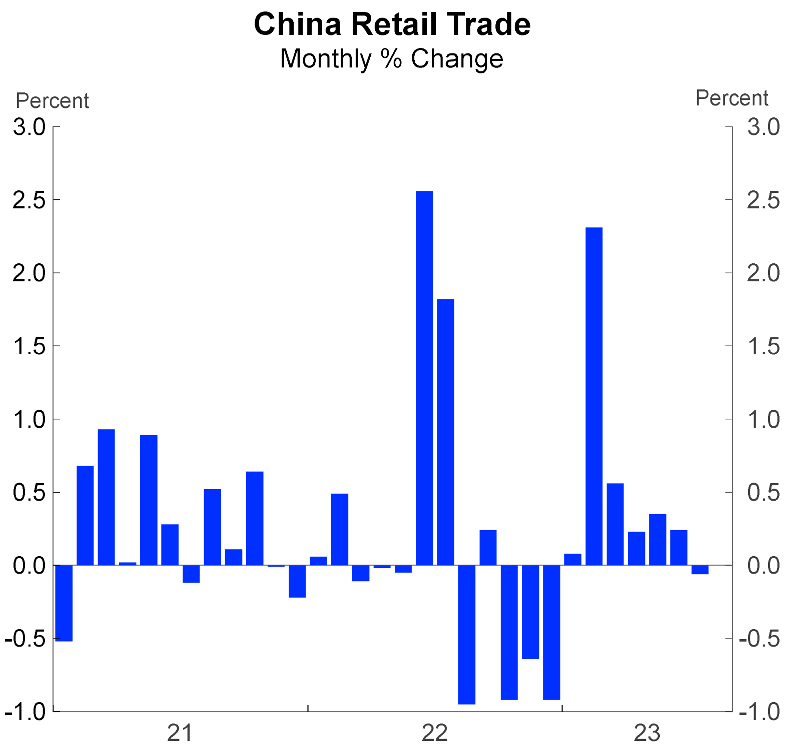
What Does this Mean for Rate Cuts?



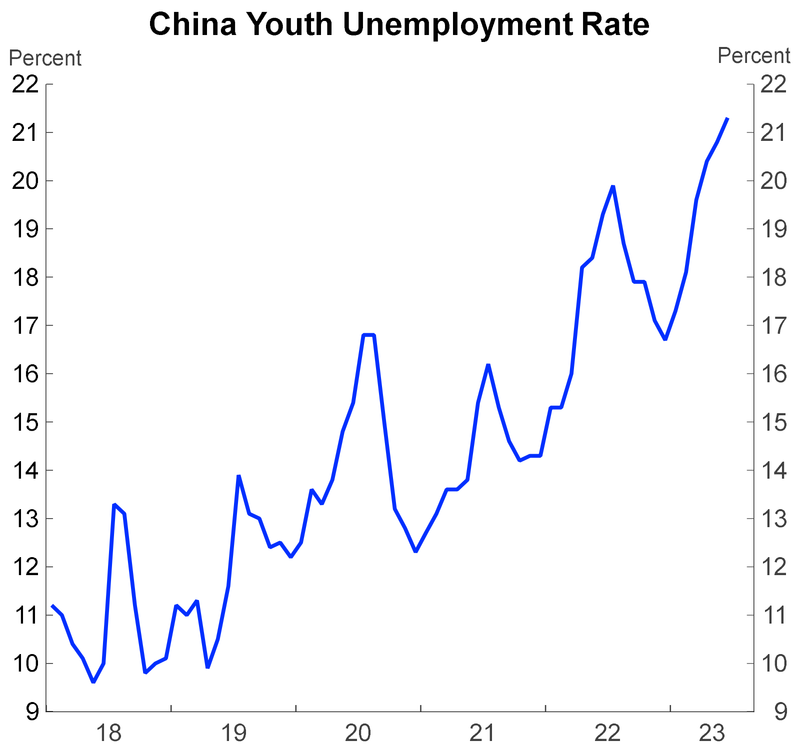
Sources: RBA; Macrobond

The Elephant in the Room – China

Reopening Boost Was Short-Lived



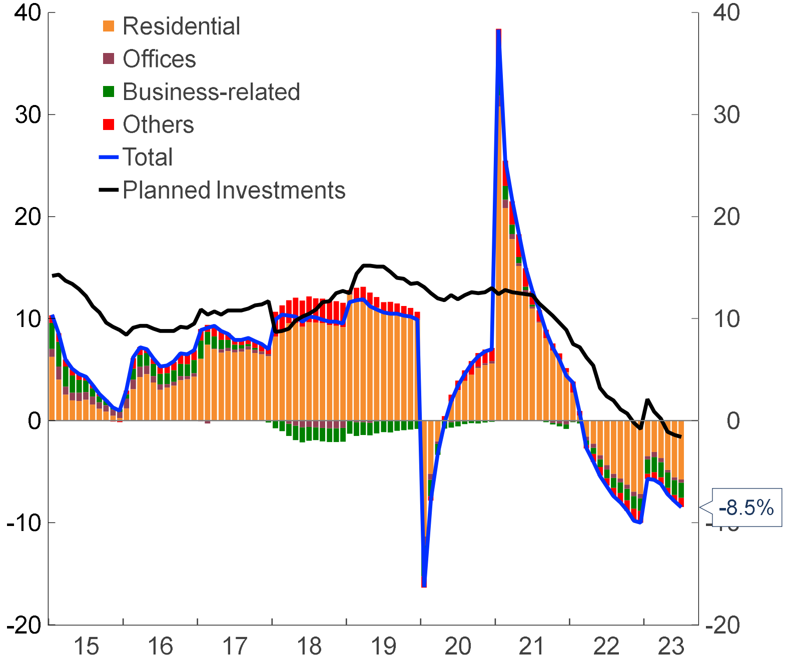
Sources: NBS, Macrobond



Sources: NBS, Macrobond

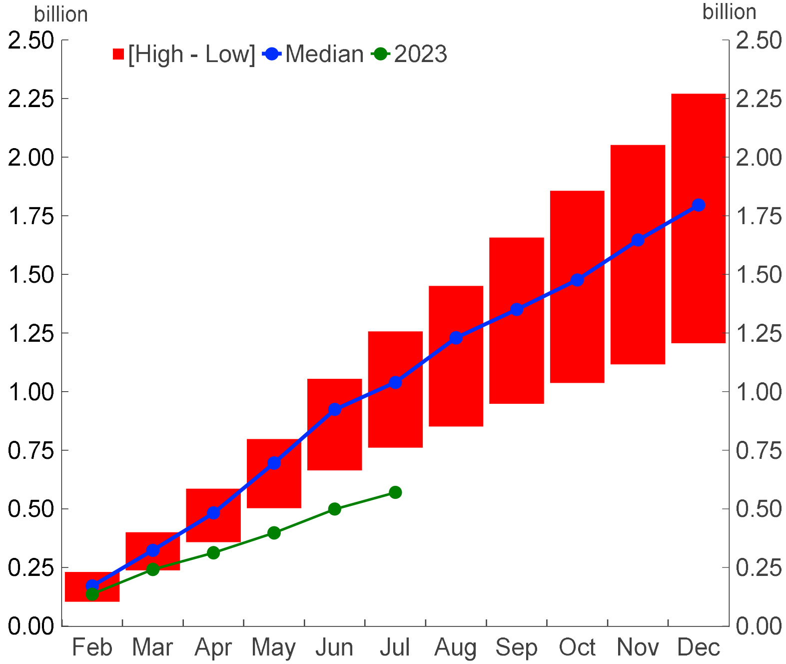
Residential Property Drag

China Construction Investments
Contribution to Growth, y/y% YTD



Sources: NBS, Macrobond

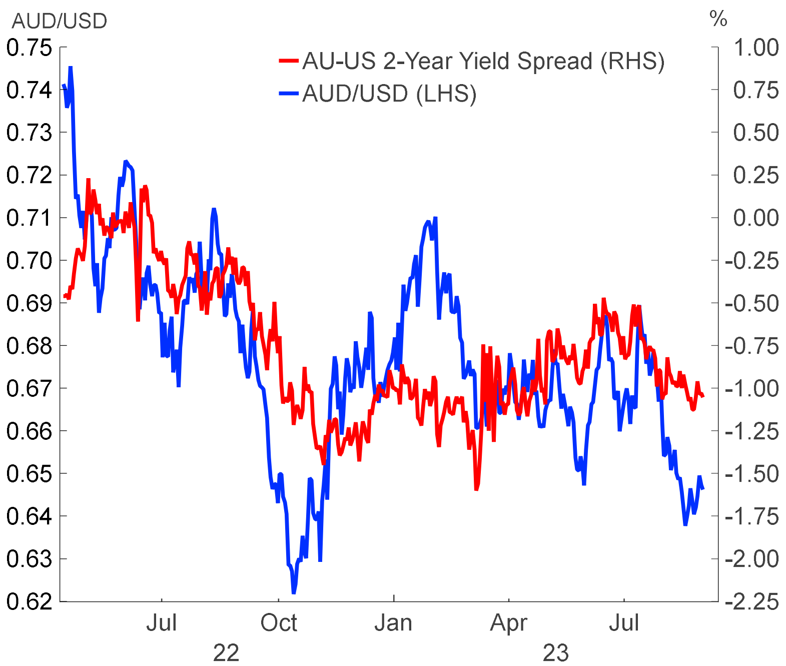
China Construction Starts
Cumulative floor space of real estate, square meters



Sources: NBS, Macrobond

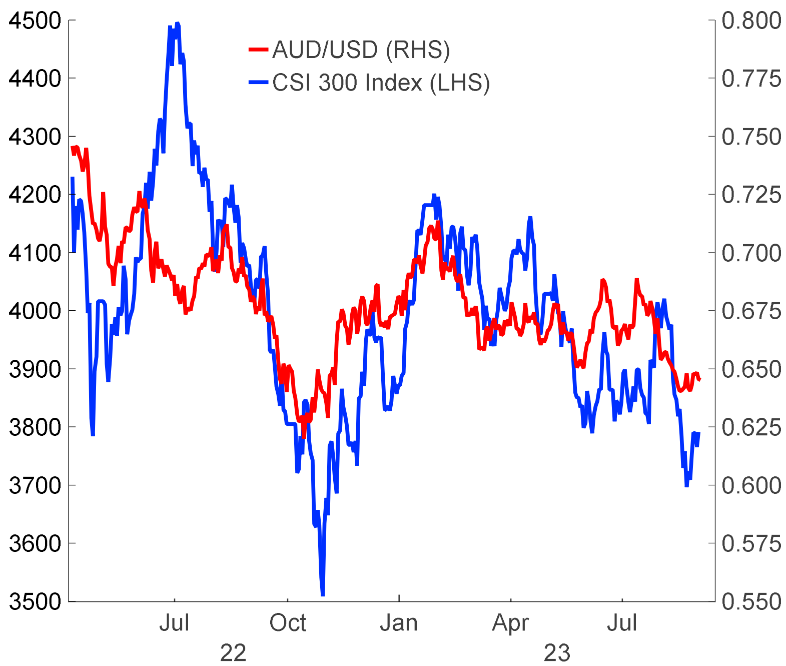
Aussie Dollar Taking a Beating

AUD vs AU-US 2-Yr Yield Spread
Daily



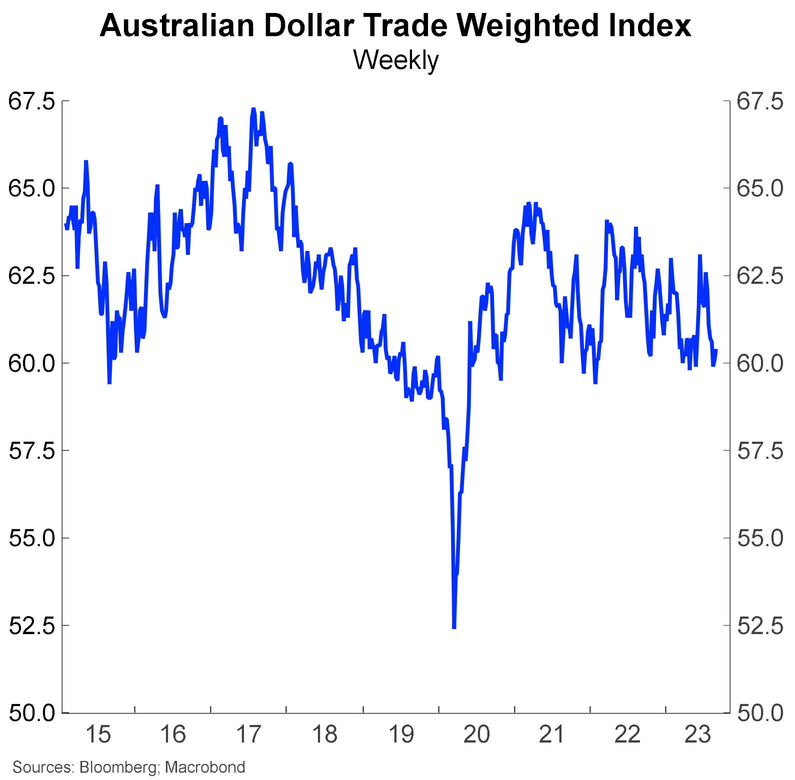
Sources: Macrobond, RBA, U.S. Department of Treasury; Macrobond

AUD/USD vs CSI 300
Daily



Sources: Bloomberg; Macrobond

But It's Unlikely to Phase the RBA



Thank You

Questions?

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