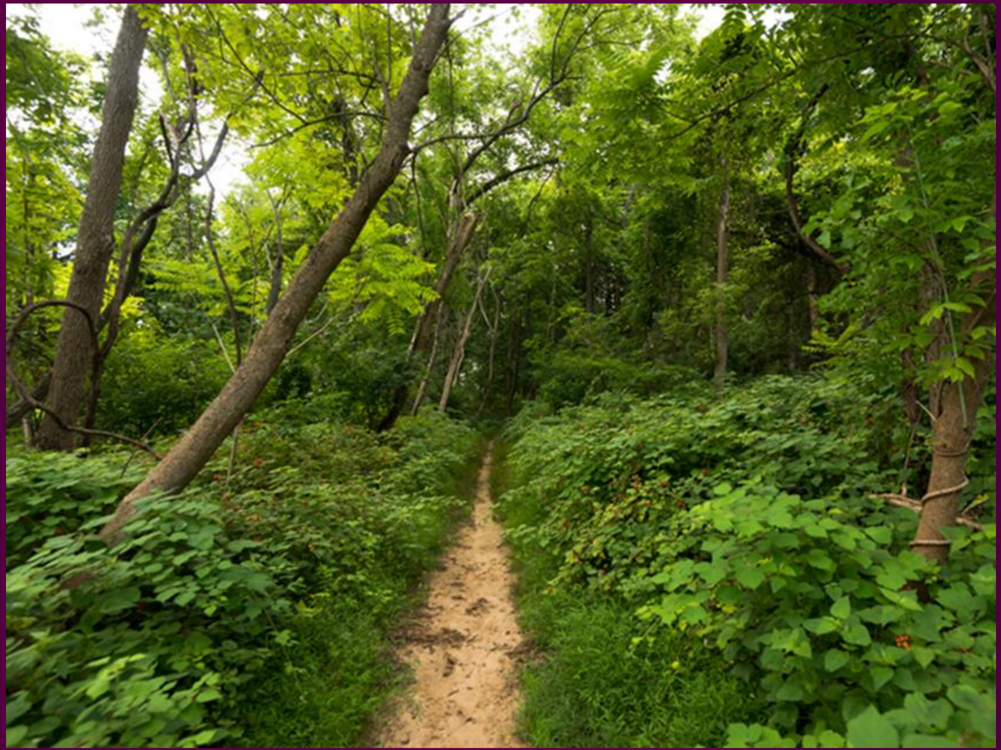
2024 Economic and Market Outlook



October 2nd 2024

Hervey Bay

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Themes for FY25

RBA hiking cycle is complete- but we are still hiking across tabletop mountain.

Geopolitical tensions becoming more intense and more disruptive every week.

Australia is still the 'lucky country'… but we can improve our odds with ambitious reform.

Fun fact: The number **2024** is 44 x 46, and next year **2025** is 45 x 45: the first perfect square since 1936.

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Ten predictions for FY24- *review*

1. **Chinese economy** to (just) hit target growth with more stimulus: **GDP growth > 5 %...**
2. ...second only to **India > 6%** (now the world's most populous nation)
3. **G7** countries all at risk of **recession-** deepest in the Europe & UK
4. **Gold price** to exceed US$2100 /oz (a new **record high**)
5. **AI** to increasingly influence and shape all markets (especially **labour markets**)

6. **Australian economy** to experience a **technical recession**...its depth dependent on RBA peak
7. National **unemployment rate to exceed 4.5 %** by mid 2024, well before RBA forecasts
8. Core **inflation will remain above the RBA target** (of 2 -3 %) until late in 2024...
9. ...so **no RBA rate cuts in FY24** (a longer cycle than markets had anticipated)
10. **Resi property** at risk of one more short down-leg...but **most resilient in QLD, SA and WA**

Top 10 economics quotes:

1. " It is better to be roughly right than precisely wrong "

John Maynard Keynes

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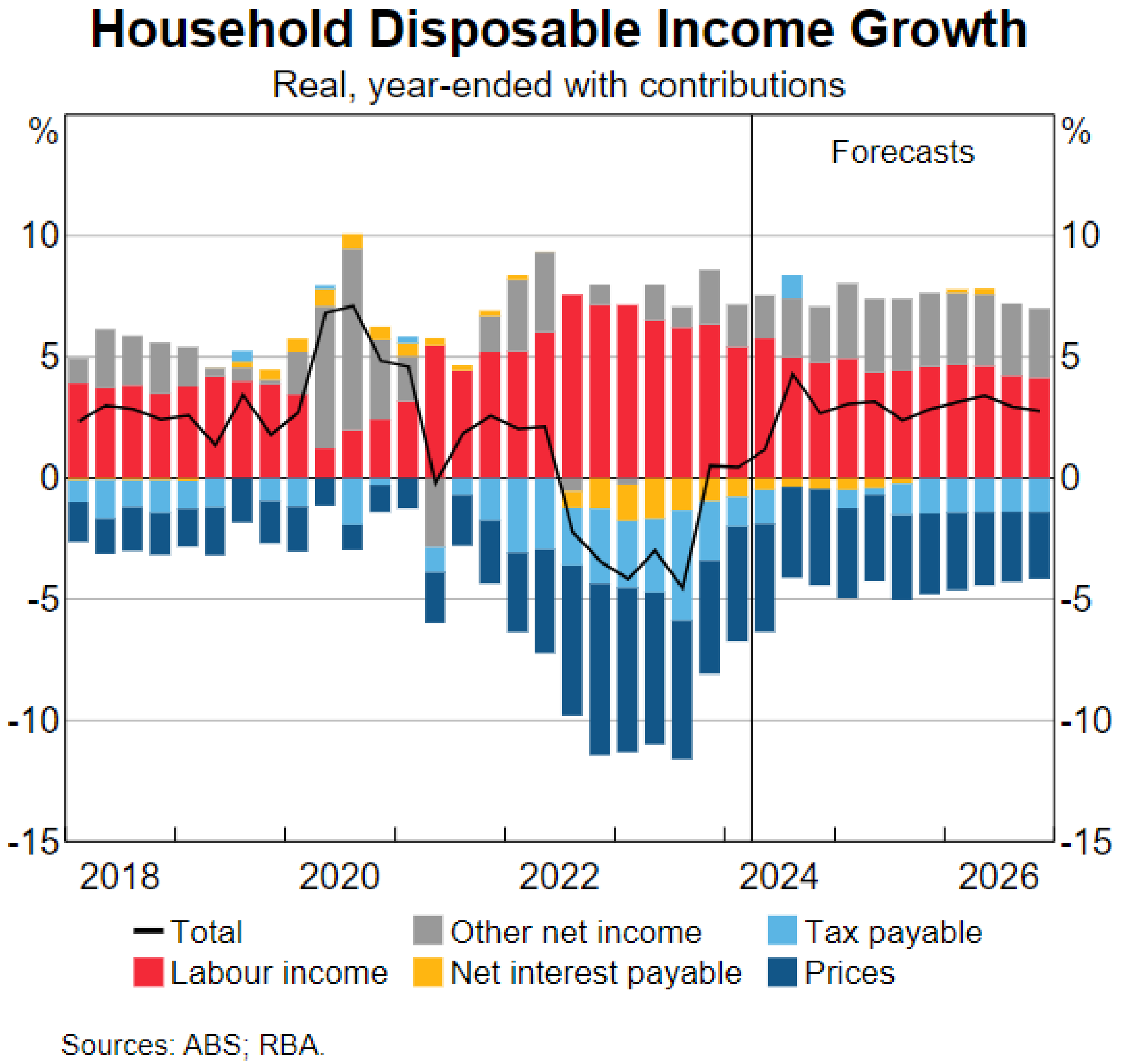
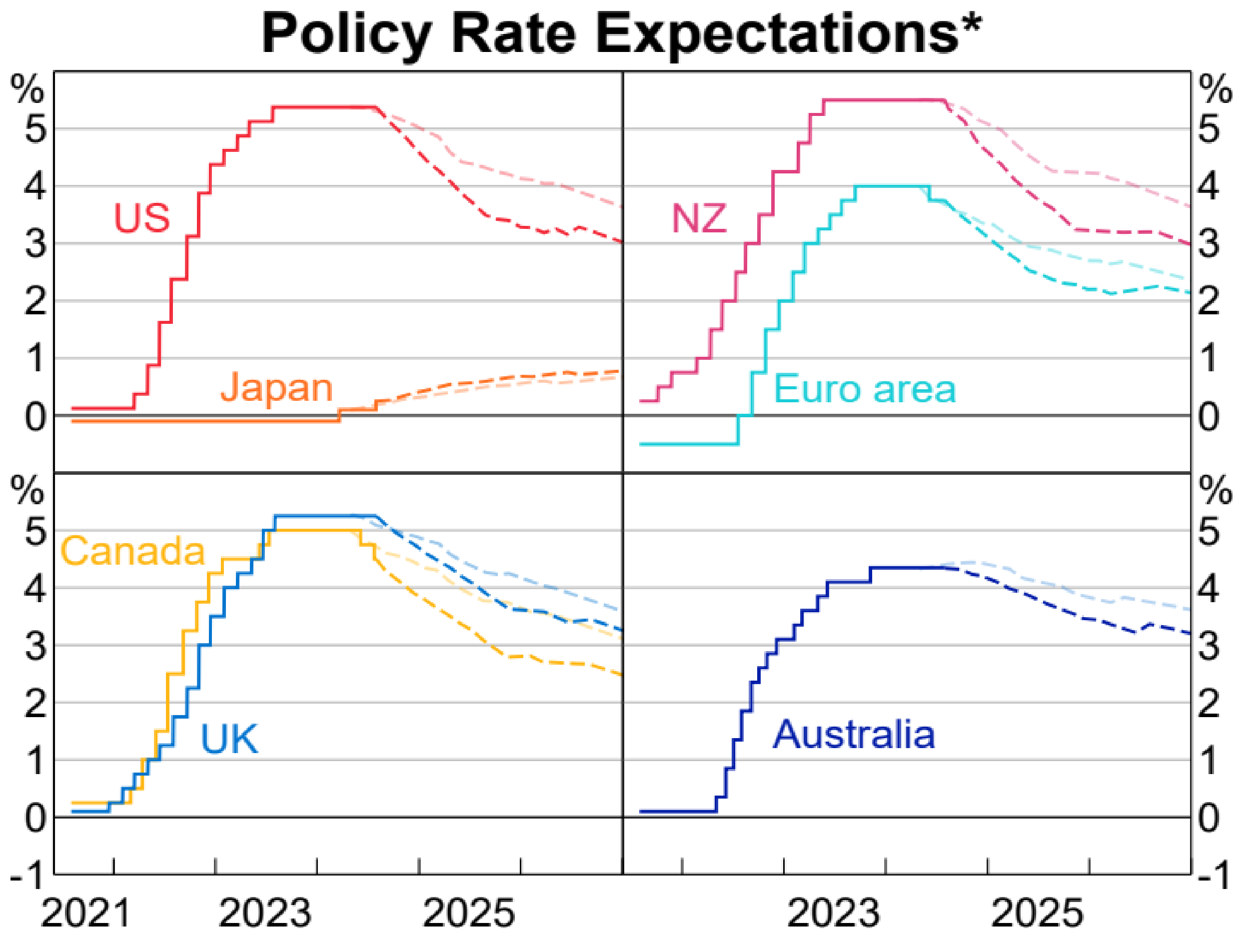
Cost of living crisis = Inflation crisis



Top 10 Charlie Munger quotes:

10. " Live within your income and save, so that you can invest…understanding both the power of compound interest (and the difficulty of getting it) is the heart and soul of understanding… "

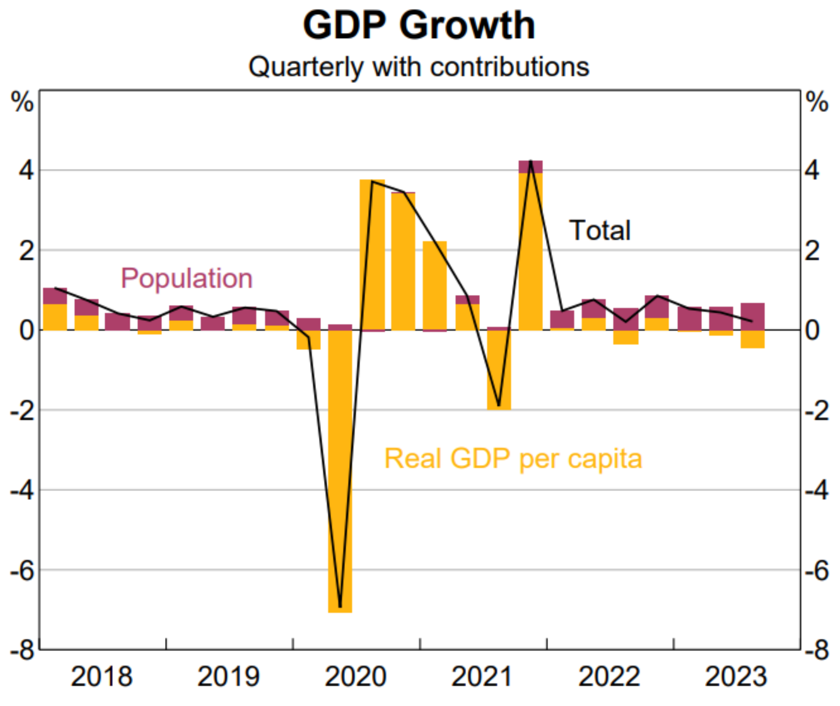
Basecase forecasts for FY25



* Darker dashed lines show expectations implied by current overnight index swap rates; lighter dashed lines show the same expectations as of 2 May 2024.

Sources: Bloomberg; RBA.

Forecasts for FY25:	12/24	6/25
RBA OCR (12/23: 4.35 %)	4.35 %	4.1 %
GDP growth (1.5 %)	1.1 %	1.9 %
Unemployment (3.9 %)	4.4 %	4.8 %
Core CPI (4.2 %)	3.3 %	3.0 %
Resi. Property (+ 8.1 %)	+ 5 %	+ 4.5 %
US Fed Funds (5.5 %)	4.5 %	3.75 %
AUD / USD (.6820)	72 c	76 c

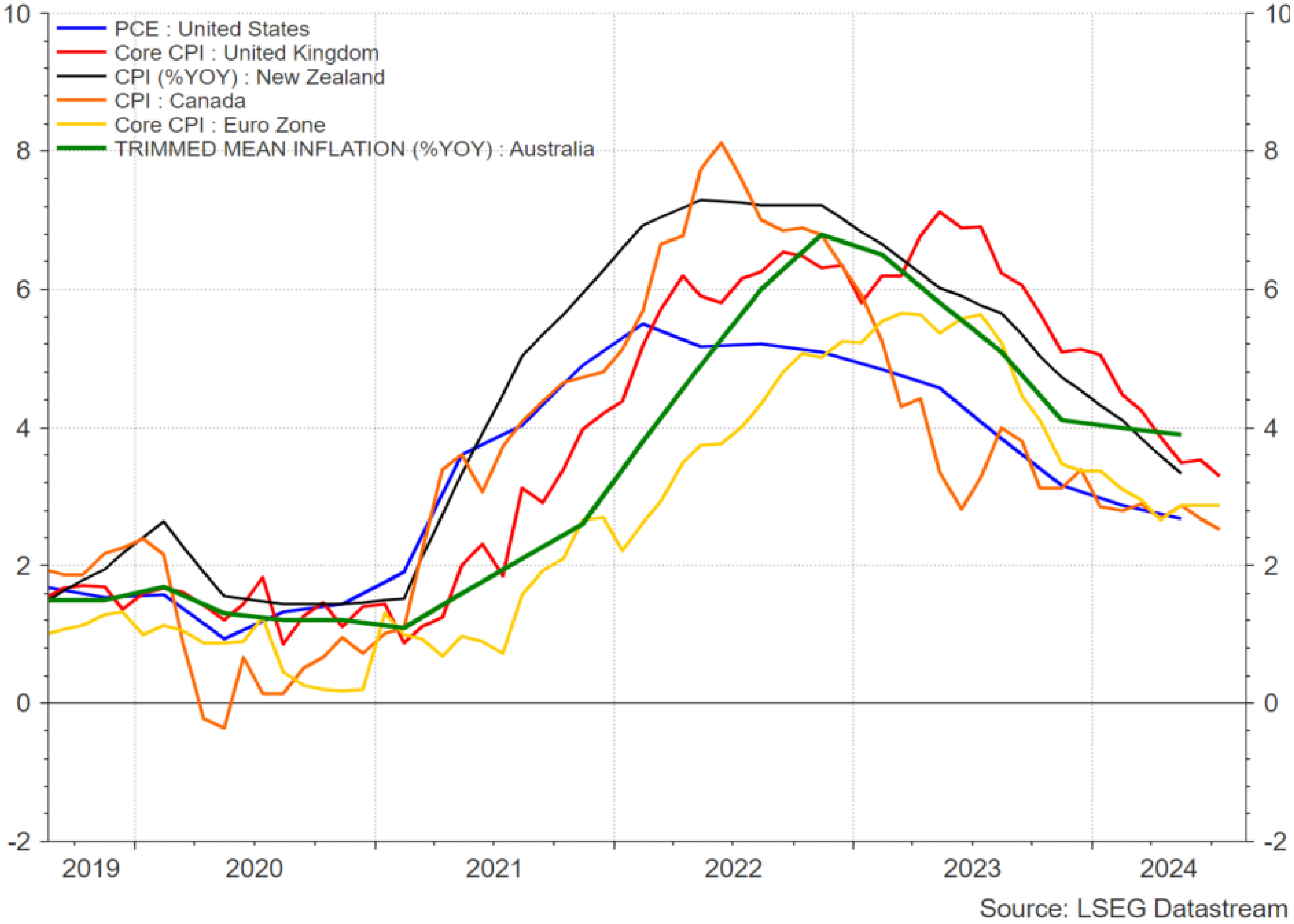


Sources: ABS; RBA.

Top 10 Charlie Munger quotes:

9. " What you have to learn is to fold early if the odds are against you, but if you have a bid edge, back it heavily."

Why we should be patient for RBA rate cuts (unlike elsewhere)

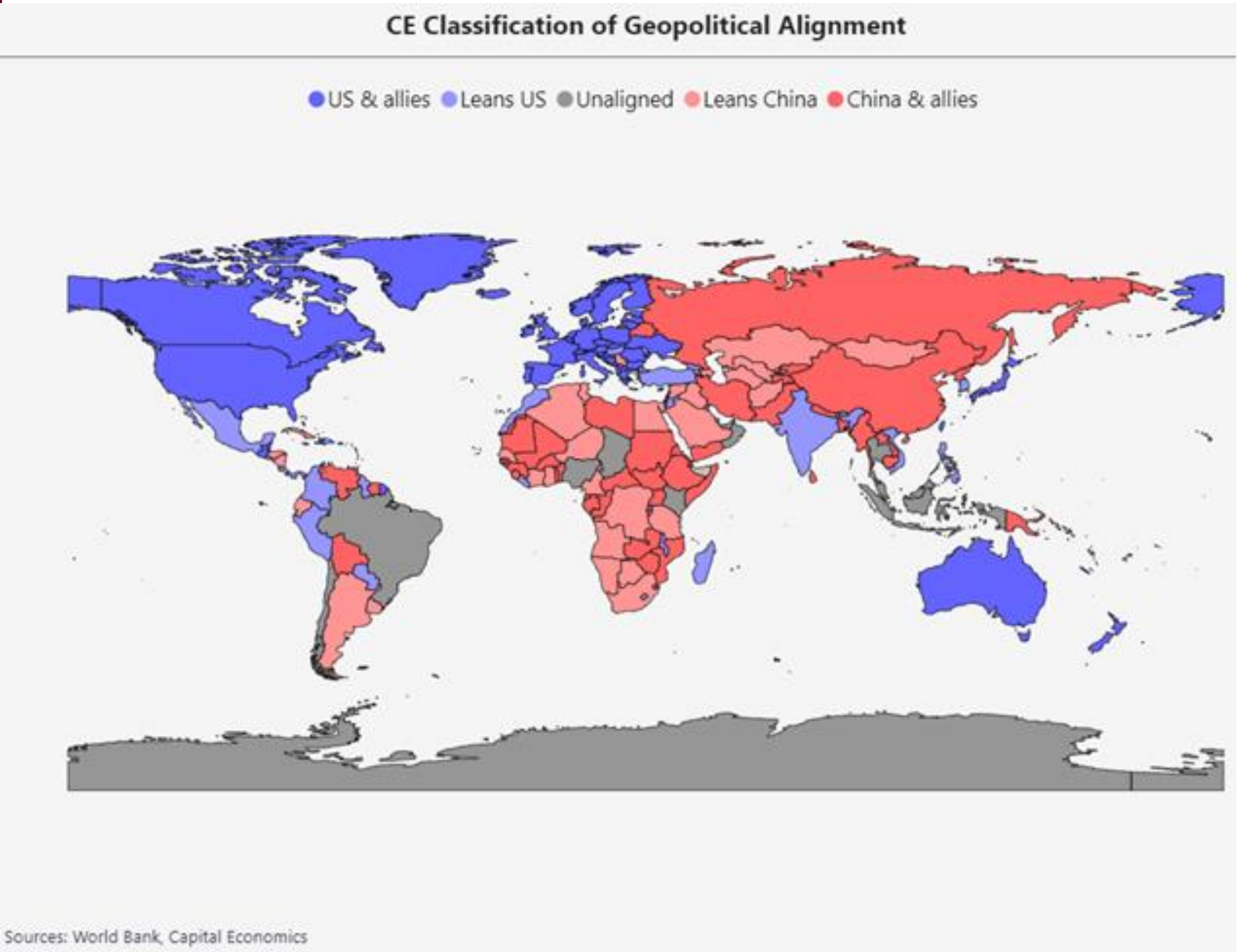


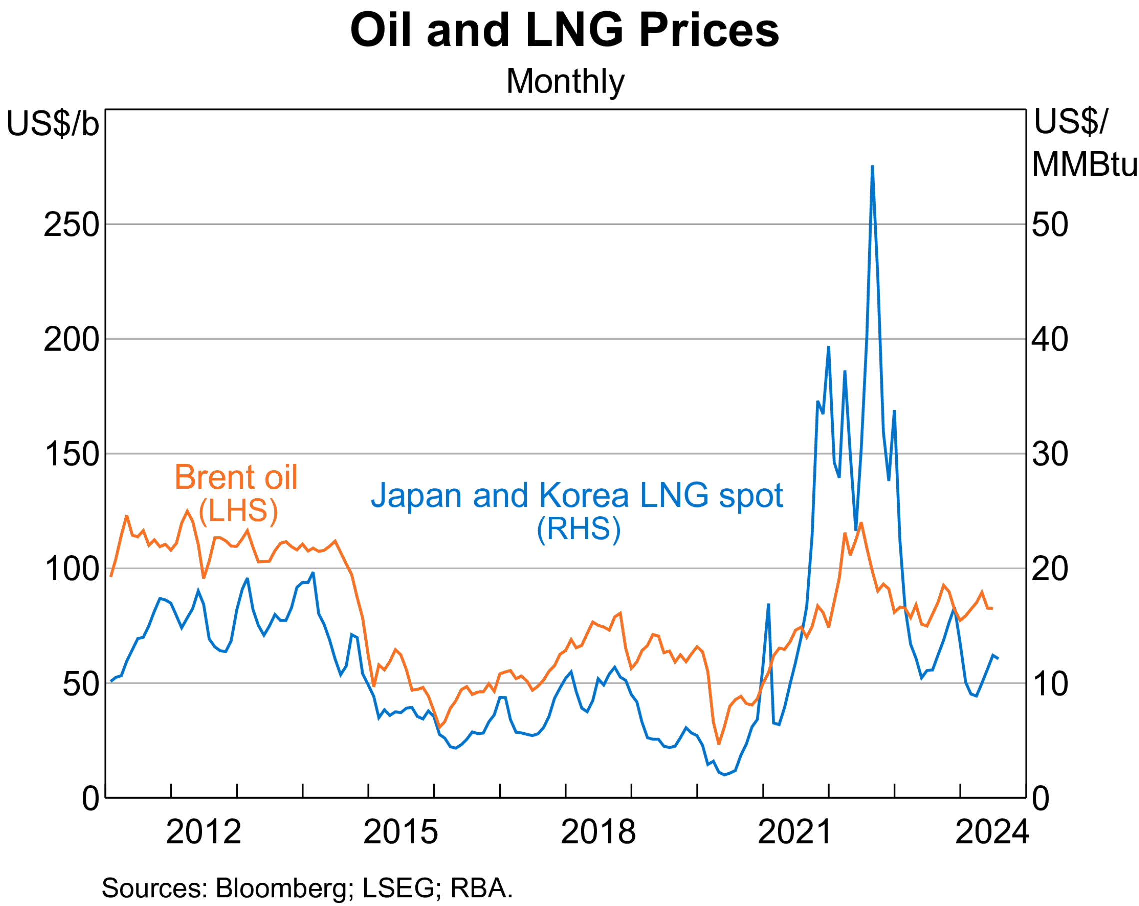
- Unlikely the RBA will cut rates until core CPI is in the 2-3 % band
- Very unlikely that core CPI < 3% until Q4 (released Jan '25)
    - Services inflation
    - Wages growth above 4% while productivity is going backwards
    - Population growth and housing shortages
    - Stage 3 tax cuts
    - Geopolitical backdrop

Top 10 Charlie Munger quotes:

8. " People are trying to be smart. But all I'm trying to do is not be idiotic, and it's harder than most people think. "

The global context: geopolitical tensions, adding to inflationary risks

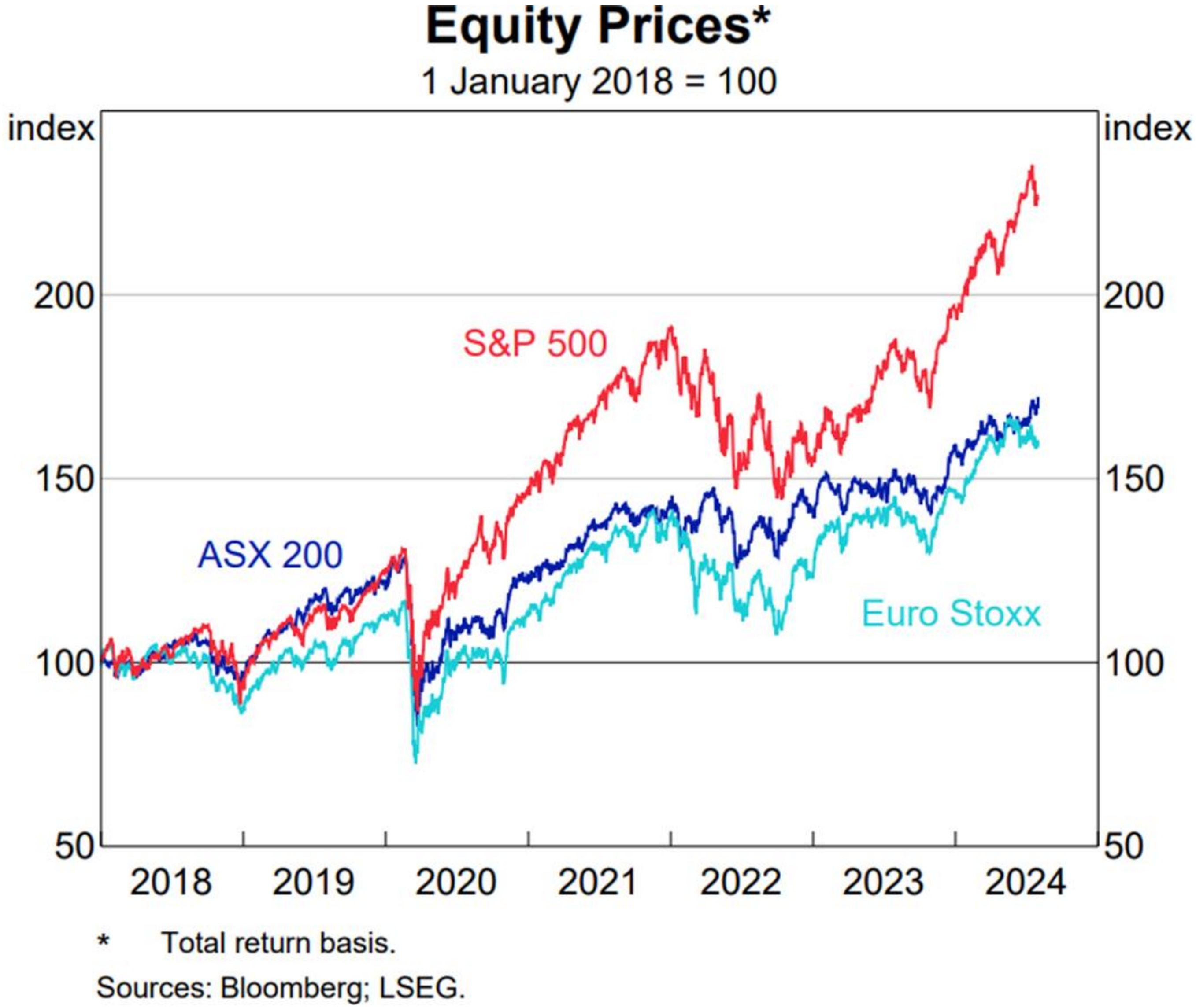


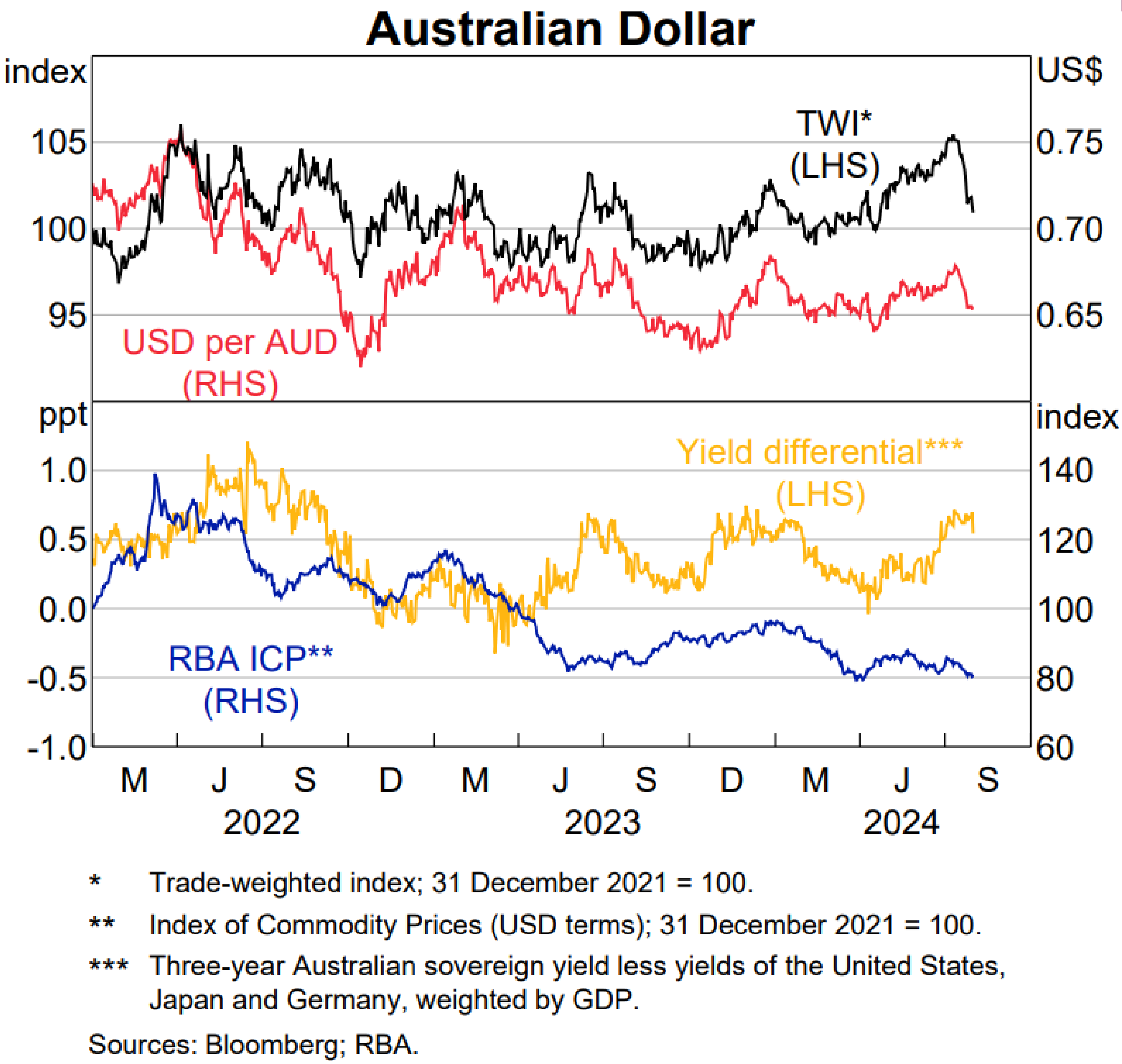


Top 10 Charlie Munger quotes:

7. " The safest way to try to get what you want is to try to deserve what you want. "

The markets are banking on a US soft landing…but when??





Top 10 Charlie Munger quotes:

6. " You're looking for a mispriced gamble. That's what investing is. You have to know enough to know whether the gamble is mispriced. That's value investing. "

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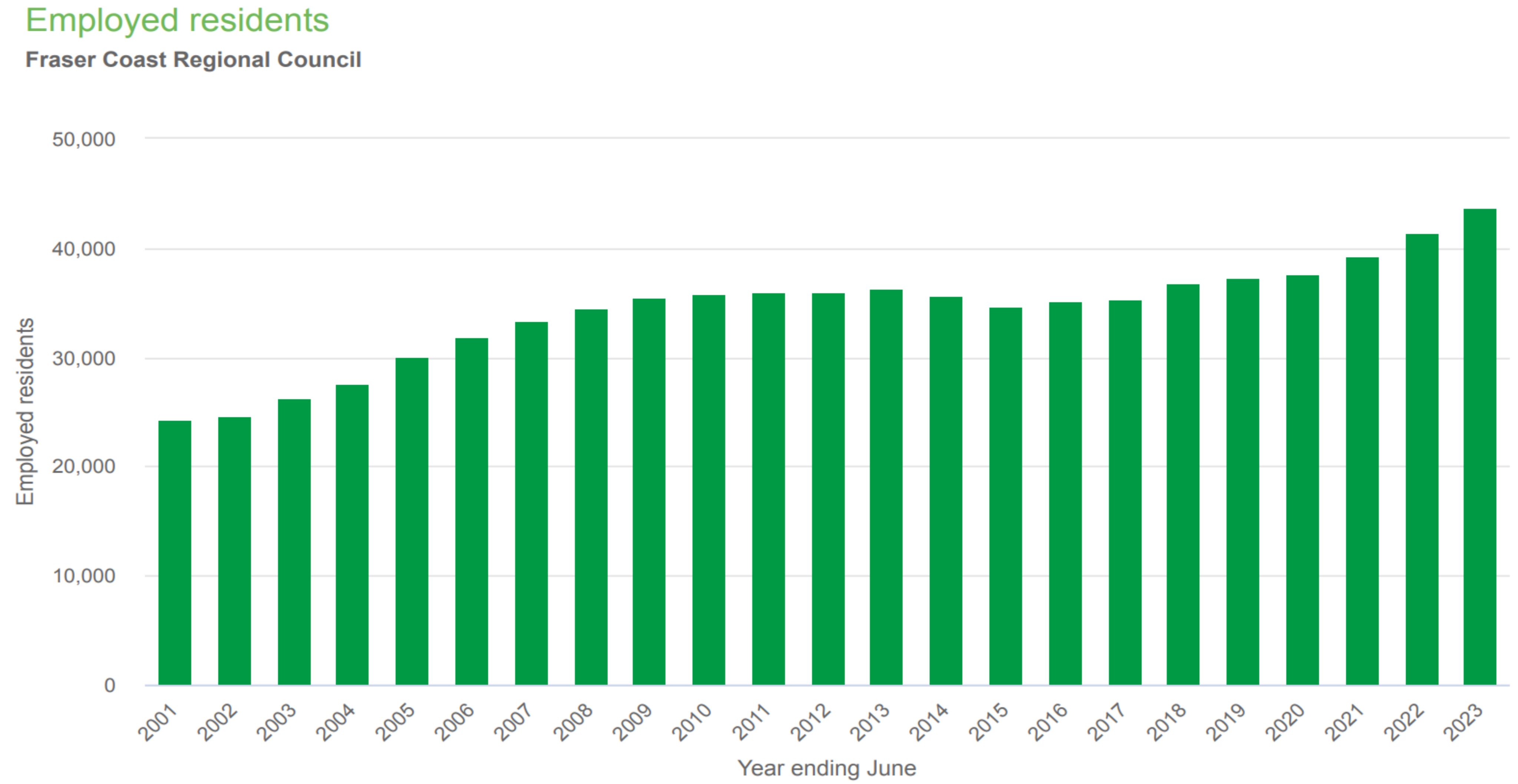
Residential property uneven but near record highs



Source: National Institute of Economic and Industry Research (NIEIR) ©2023 Compiled and presented in economy.id by .id (informed decisions)

.id informed decisions

Top 10 Charlie Munger quotes:

5. " The big money is not in the buying or selling, but in the waiting. "

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State vs state: regional divergence

Regional labour force – Wide Bay SA4, Jun 24

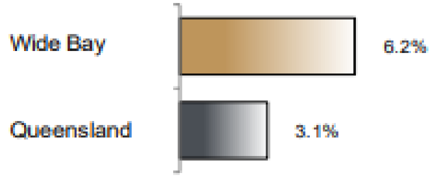
Source: ABS, *Labour force, Australia, detailed*, released 25 July 2024, 11:30 am (AEST)

Table 1 Labour force status, Wide Bay SA4

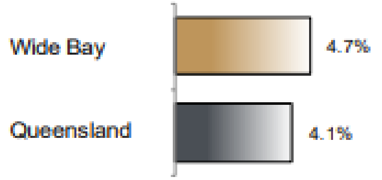
	Year ending			Annual change	
	Jun 23	May 24	Jun 24		
	— persons —			persons	%
Total employed	131,900	140,100	140,100	8,200	6.2
Total unemployed	7,300	7,000	6,800	–500	–6.2
Total labour force	139,200	147,000	146,900	7,700	5.6
Not in the labour force	131,500	131,700	132,600	1,100	0.8
Total persons 15+	270,700	278,700	279,500	8,800	3.2
Participation rate (%)	51.4	52.8	52.6	. .	1.1 (a)
Unemployment rate (%)	5.2	4.7	4.7	. .	–0.6 (a)

(a) Percentage point change.

Employment growth, annual



Unemployment rate

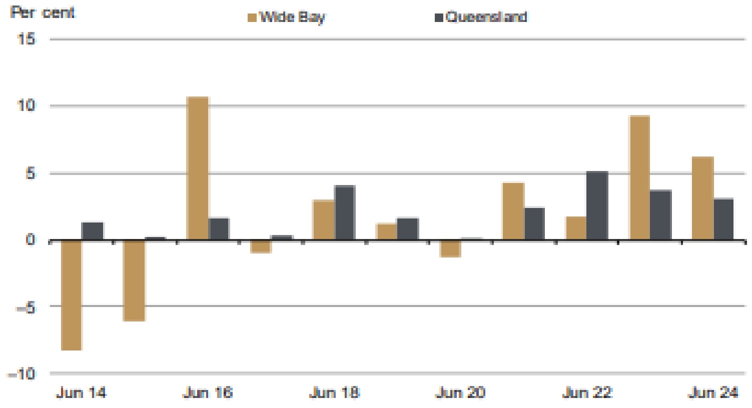


Key data

Employment (annual change)........................ ↑ 6.2%
Unemployment rate 4.7%
Unemployment rate (annual change) .... ↓ 0.6 ppt
Participation rate.. 52.6%

ppt = percentage point

Figure 1 Annual change in employment, Wide Bay SA4



GSP	FY23	FY24 f	FY25 f
NSW	3.7 %	1.4 %	1.5 %
NT	-5.2 %	3.0 %	1.7 %
QLD	2.3 %	2.0 %	2.7 %
SA	3.8 %	1.5 %	2.0 %
TAS	1.1 %	1.0 %	1.6 %
VIC	2.6 %	1.3 %	1.5 %
WA	3.5 %	1.1 %	2.0 %

Top 10 Charlie Munger quotes:

4. " I never allow myself to hold an opinion on anything that I don't know the other side's argument better than they do. "

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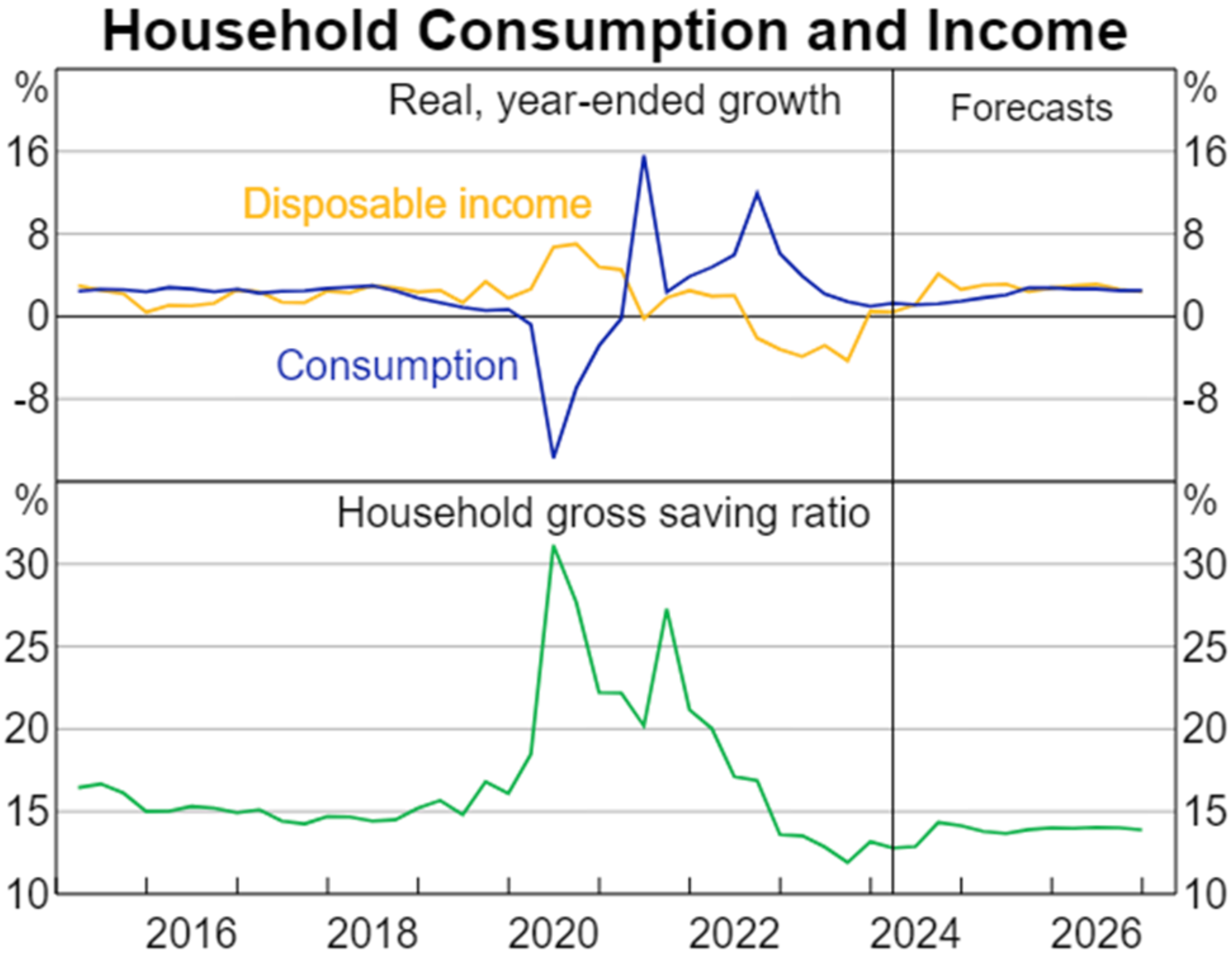
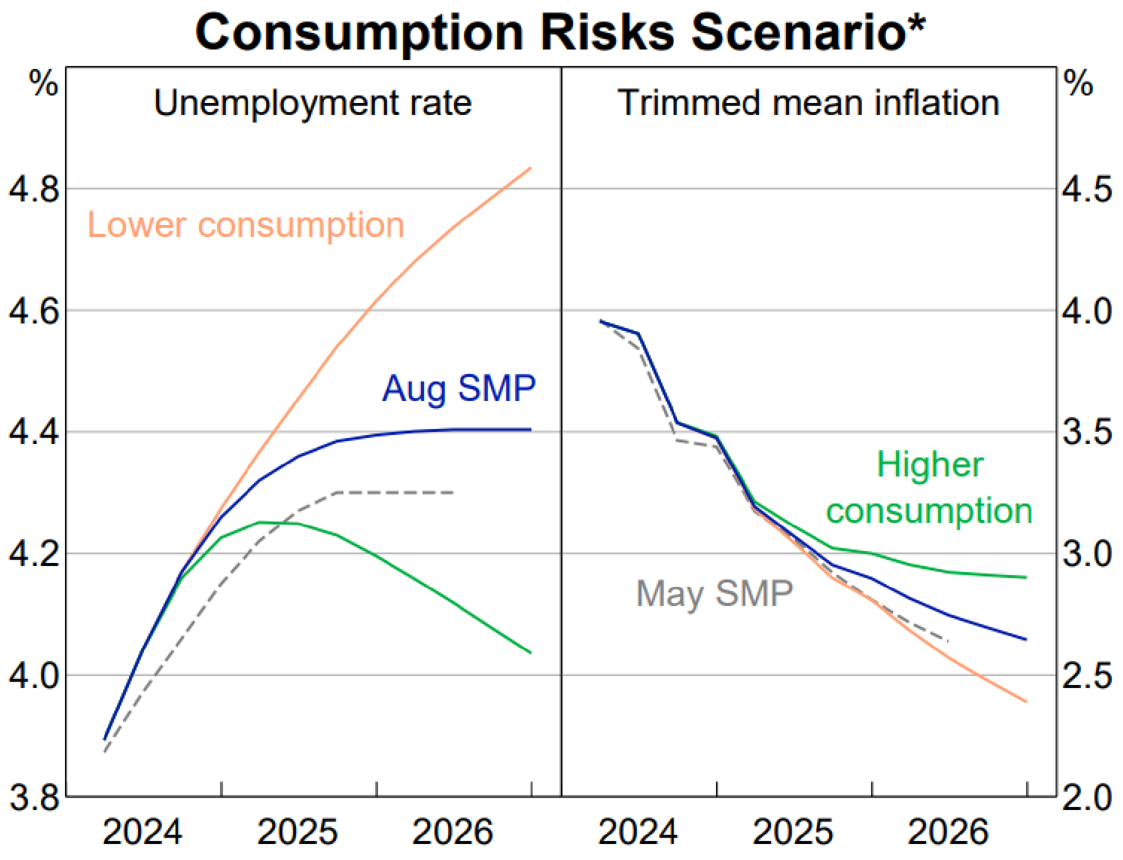
Will recent tax cuts and COL support be spent or saved?



Sources: ABS; RBA.



* Scenario assumes exchange rate and policy path are fixed to August SMP assumptions.

Sources: ABS; RBA.

Top 10 Charlie Munger quotes:

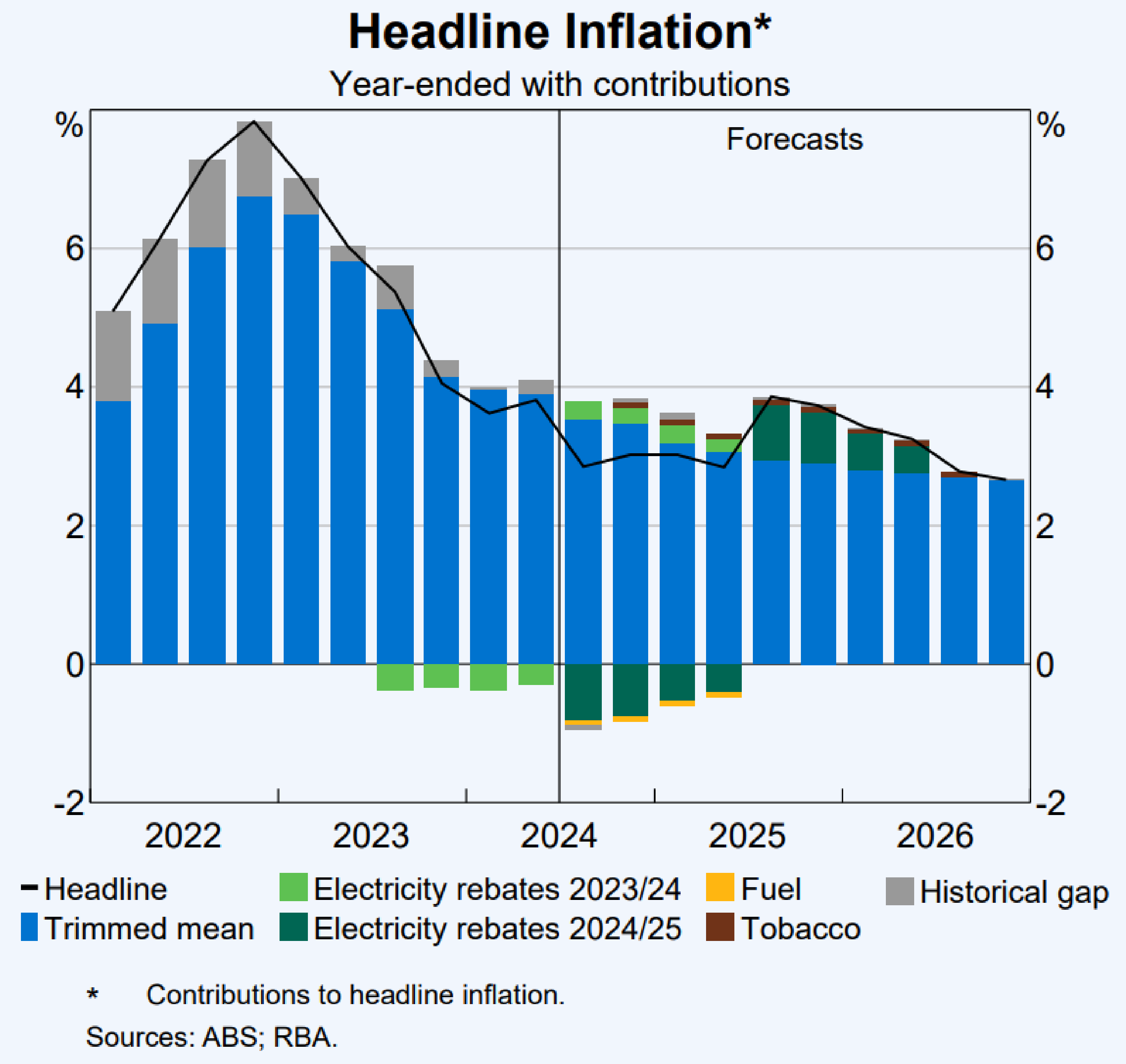
3. " We are all learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. "

Federal Budget focal points

- Cost of Living support
- Inflation

- Housing affordability
- Productivity
- Global issues
  - Climate change/ TTNZ
  - Geopolitics/ security
  - Technology adoption/ AI

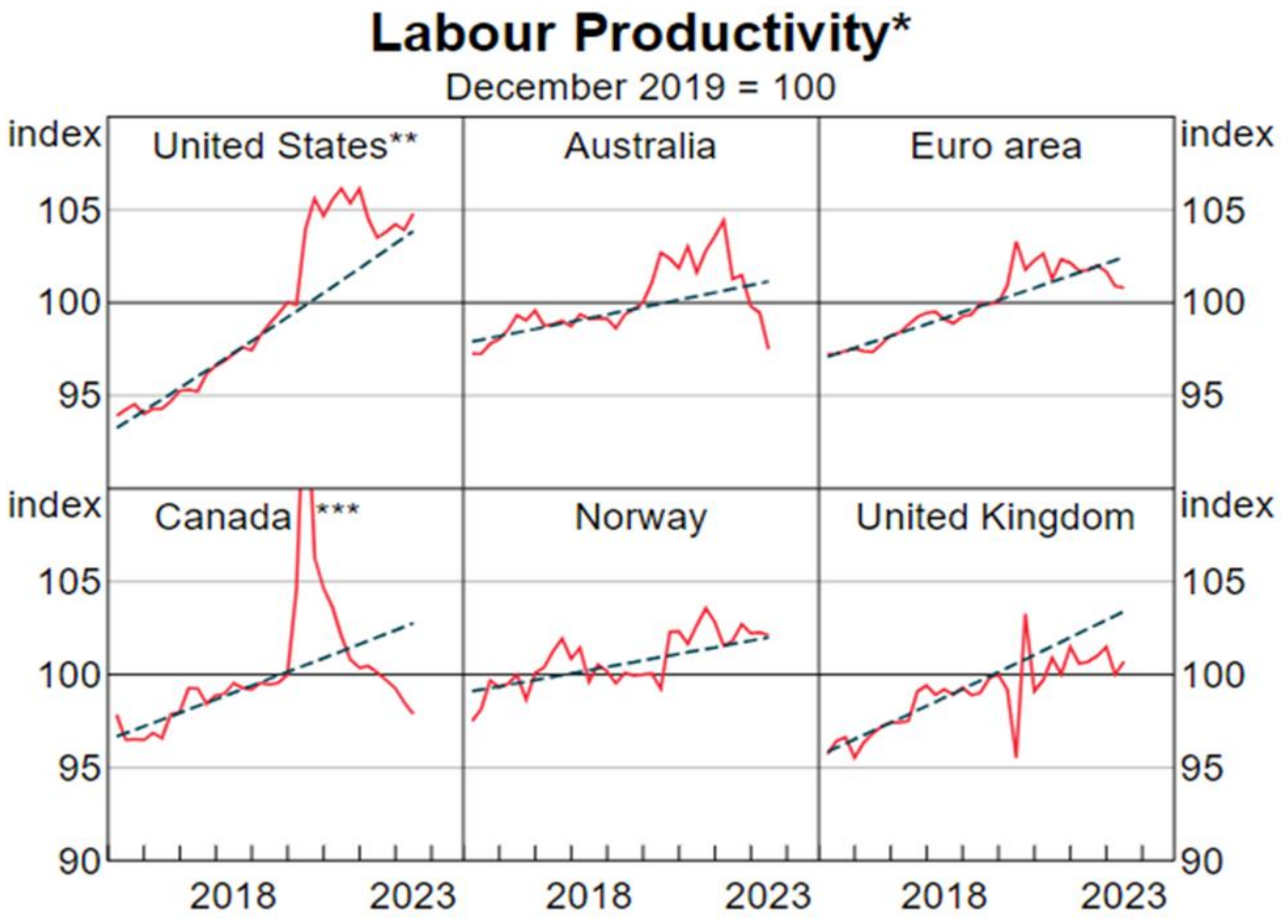
- Sustainable debt profile
- Election implications



Top 10 Charlie Munger quotes:

2. " Hard work, honesty- if you keep at it- will get you almost anything. "

The lucky country…outperforming by most measures…

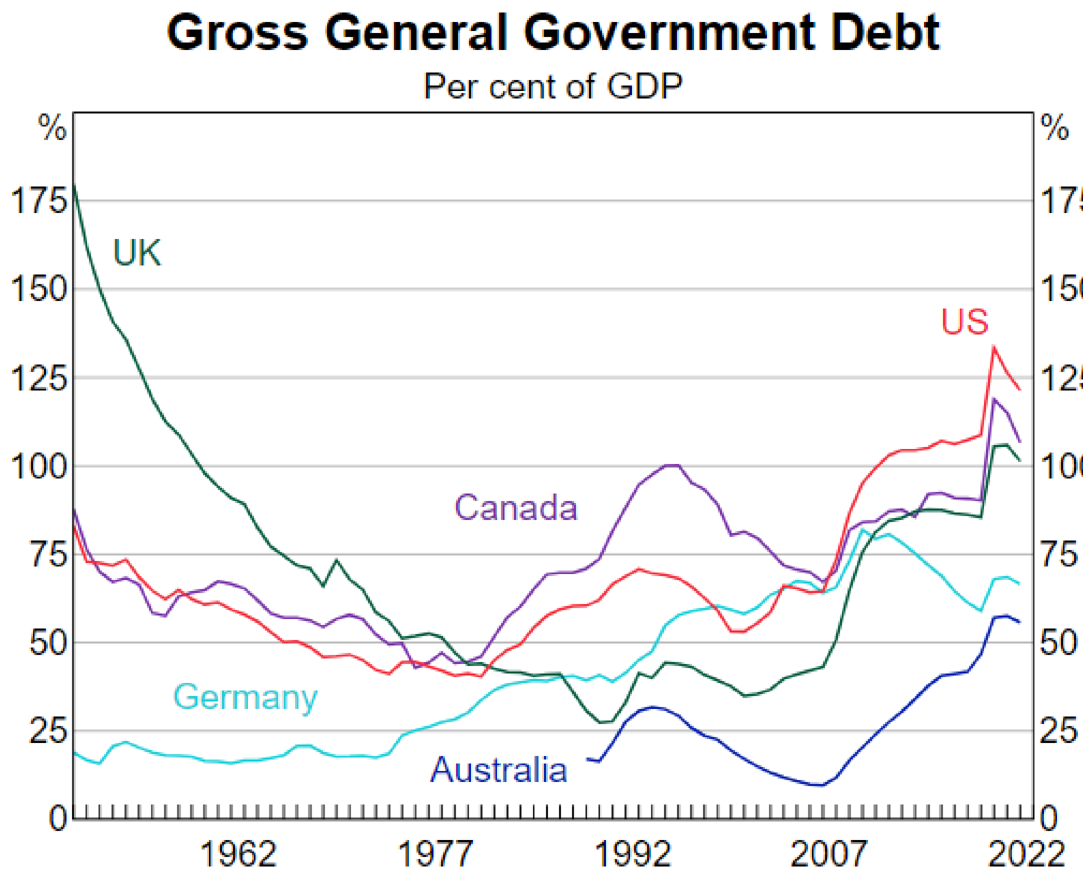


* Hourly, seasonally adjusted. Dotted lines show pre-pandemic (2015–19) trend.

** Non-farm business sector.

*** Business sector.

Sources: ABS; RBA; Refinitiv.



Source: IMF.

1. " In my whole life, I have known no wise people- none, zero- who didn't read all the time. My children laugh at me- they think I'm a book with a couple of legs sticking out. "

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10 predictions for FY25

1. Rate cuts by **July** in **Europe and Canada** after (near) recessions
2. Rate cuts by **September** in **US, UK and New Zealand** after recessions/ slowing growth
3. **Chinese growth** again slower than India's, but **> 4 %** helped by several rate cuts
4. **Japan's economy** to **outperform** despite rising interest rates
5. Geopolitical tensions and decarbonisation to keep **energy and metal prices elevated**, and **help agricultural commodities** to stabilise

6. **RBA on hold in 2024**, despite impatient calls from most directions (3 cuts in '25)
7. Core **inflation** to remain above the target band of 2-3 % until **Q1 '25**
8. **Unemployment** to trend higher… **> 4.5 %** (well above RBA forecasts)
9. The **Aussie Dollar** to rally against a weaker greenback **> 72 c**
10. Gains in **housing prices** more modest than FY24 **(around 5 %)** with SA, WA and QLD strongest, Victoria and Tasmania lagging

Charlie Munger bonus quote:

11. " Show me the incentive, and I'll show you the outcome"

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