ECONOMIC UPDATE

QLD IN A POST COVID WORLD

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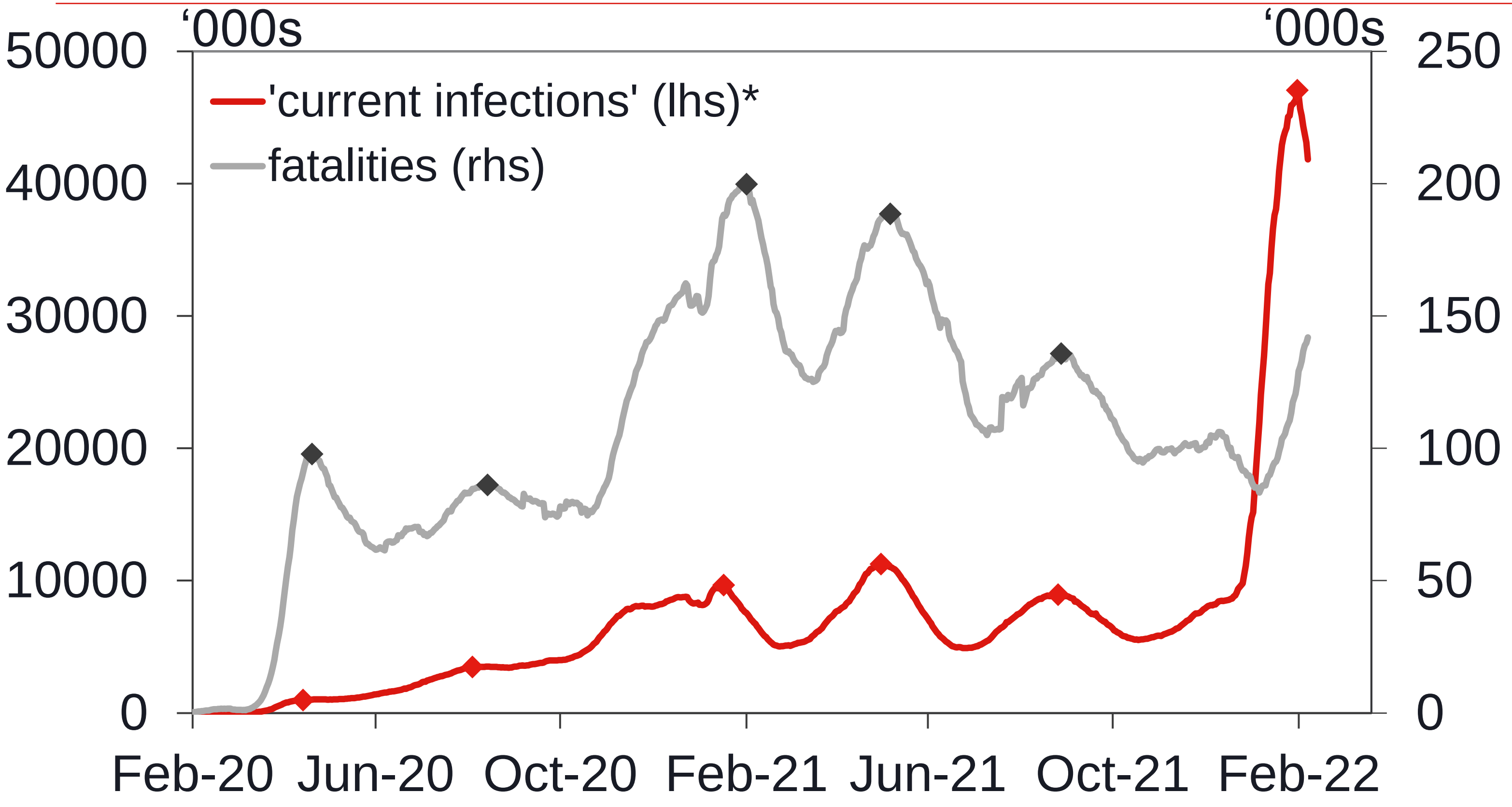
Westpac Institutional Bank

February 2022

Covid-19 globally: Omicron a different beast

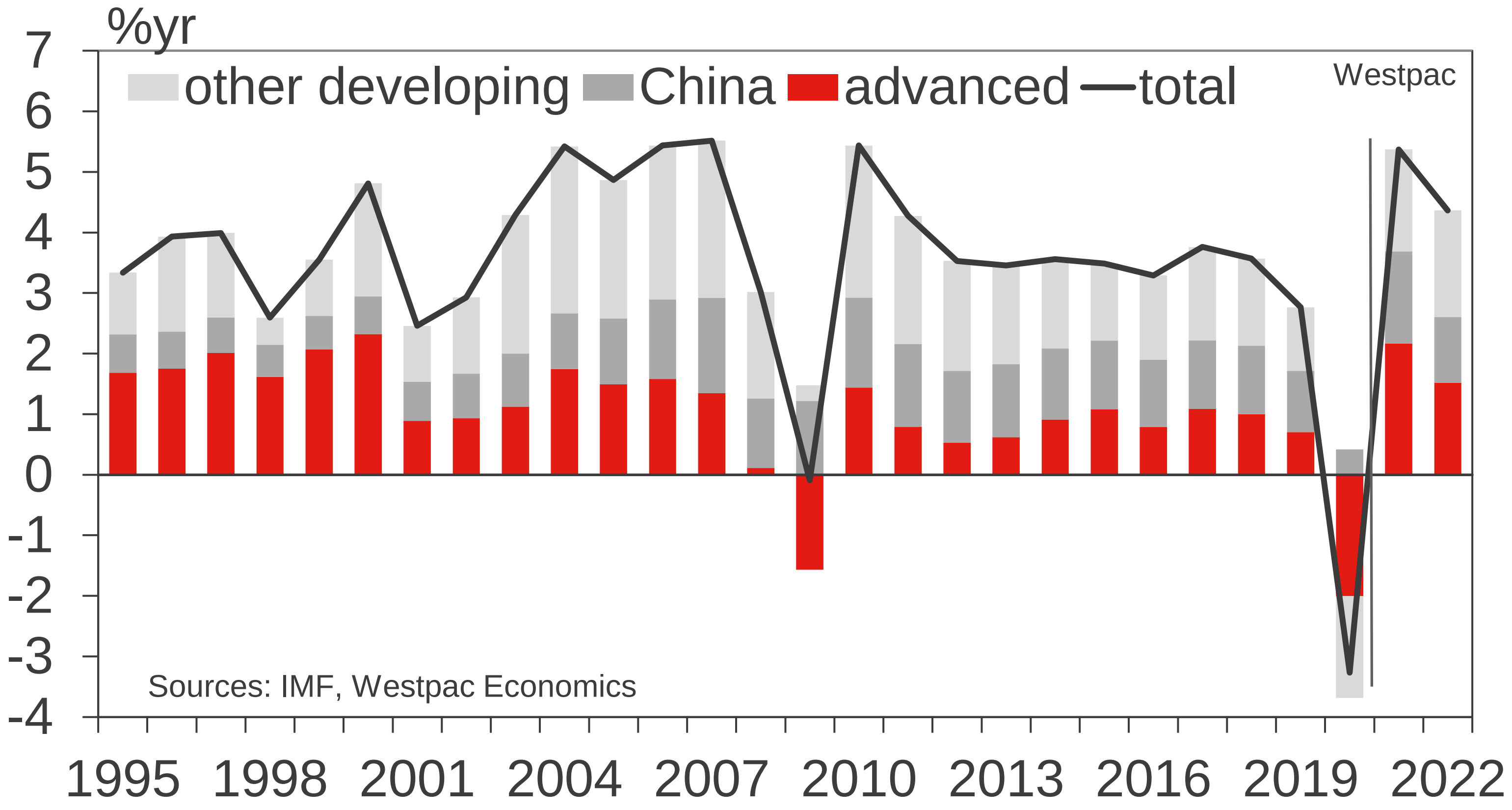
Infections spike to a new high but fatalities remain contained



- Under Omicron, global 'current infections' have quadrupled since Christmas.
- However, the health impact has been clearly less severe.
- As borders reopen and restriction ease how will consumers respond in an environment of elevates infections?
- We are already seeing the impact of 'self isolation' in many economies.

World growth: pre-omicron recovery still intact

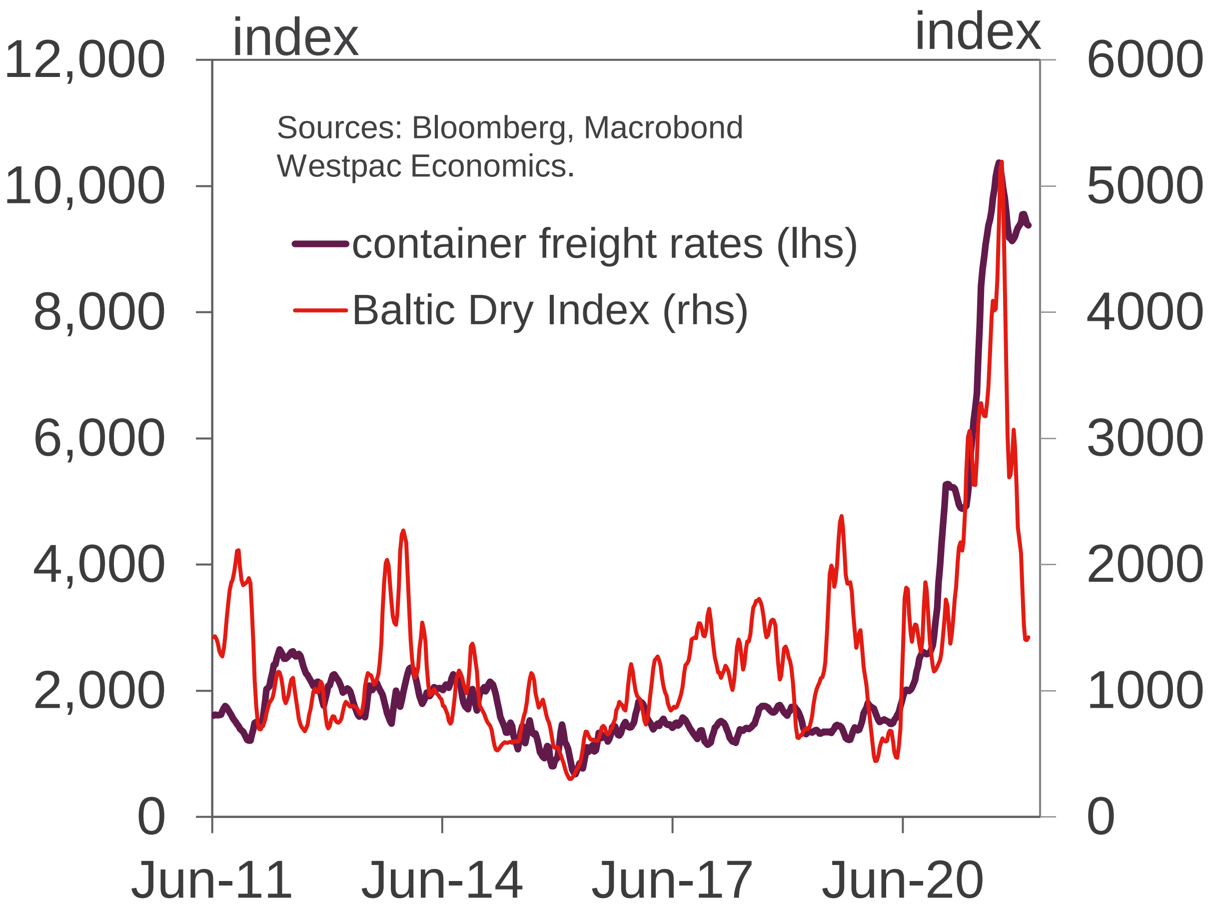
Growth bounced out of lockdowns but momentum continues



- The recovery remains intact despite Omicron but we are in the sweet spot right now.
- There are also mounting signs that growth is now coming with much higher inflation.
- The pandemic disruptions are manifesting as a productivity shock = higher inflation for given level of output.

Shipping rates have eased but disruptions hit containers

Container rates remain elevated

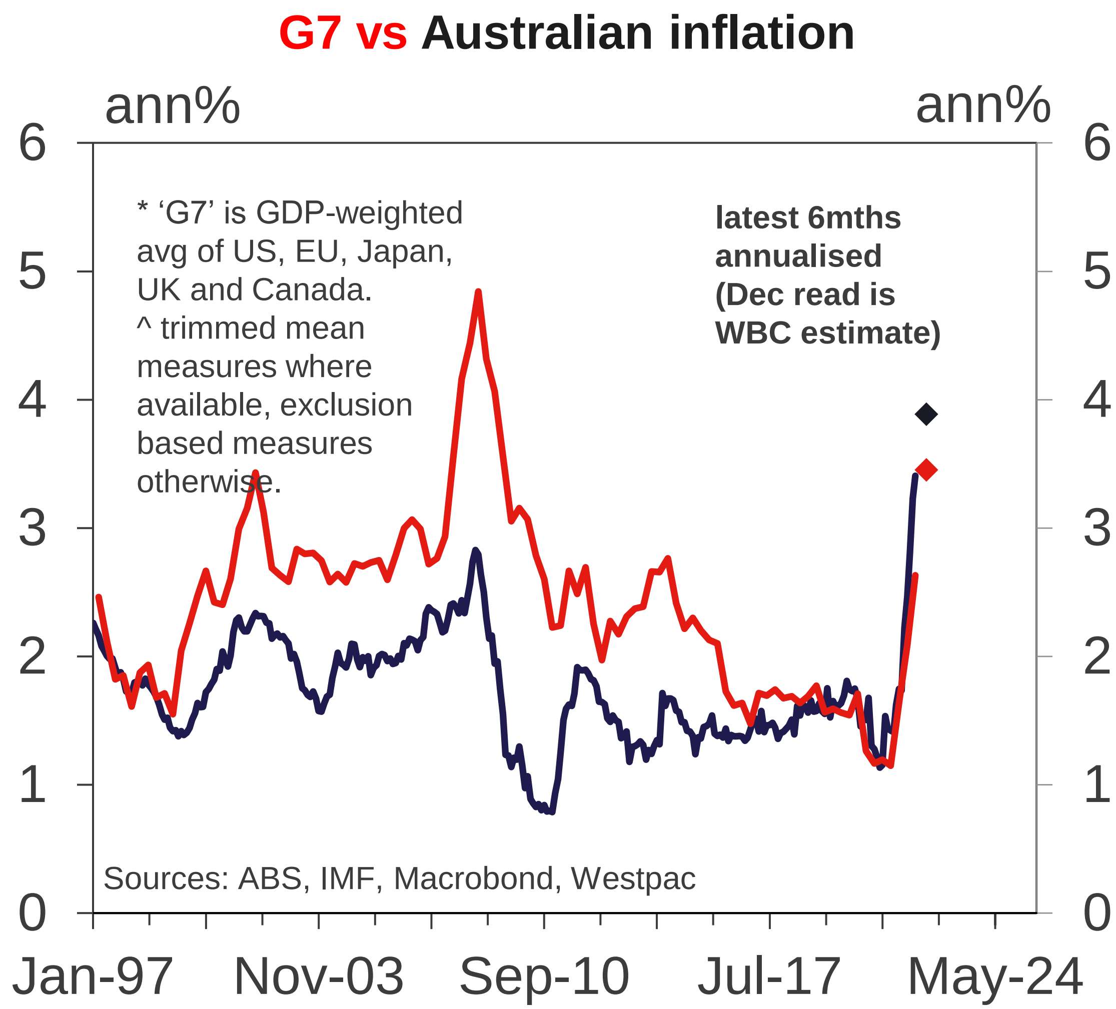


Disruption extends with recovery

Supply chain disruptions

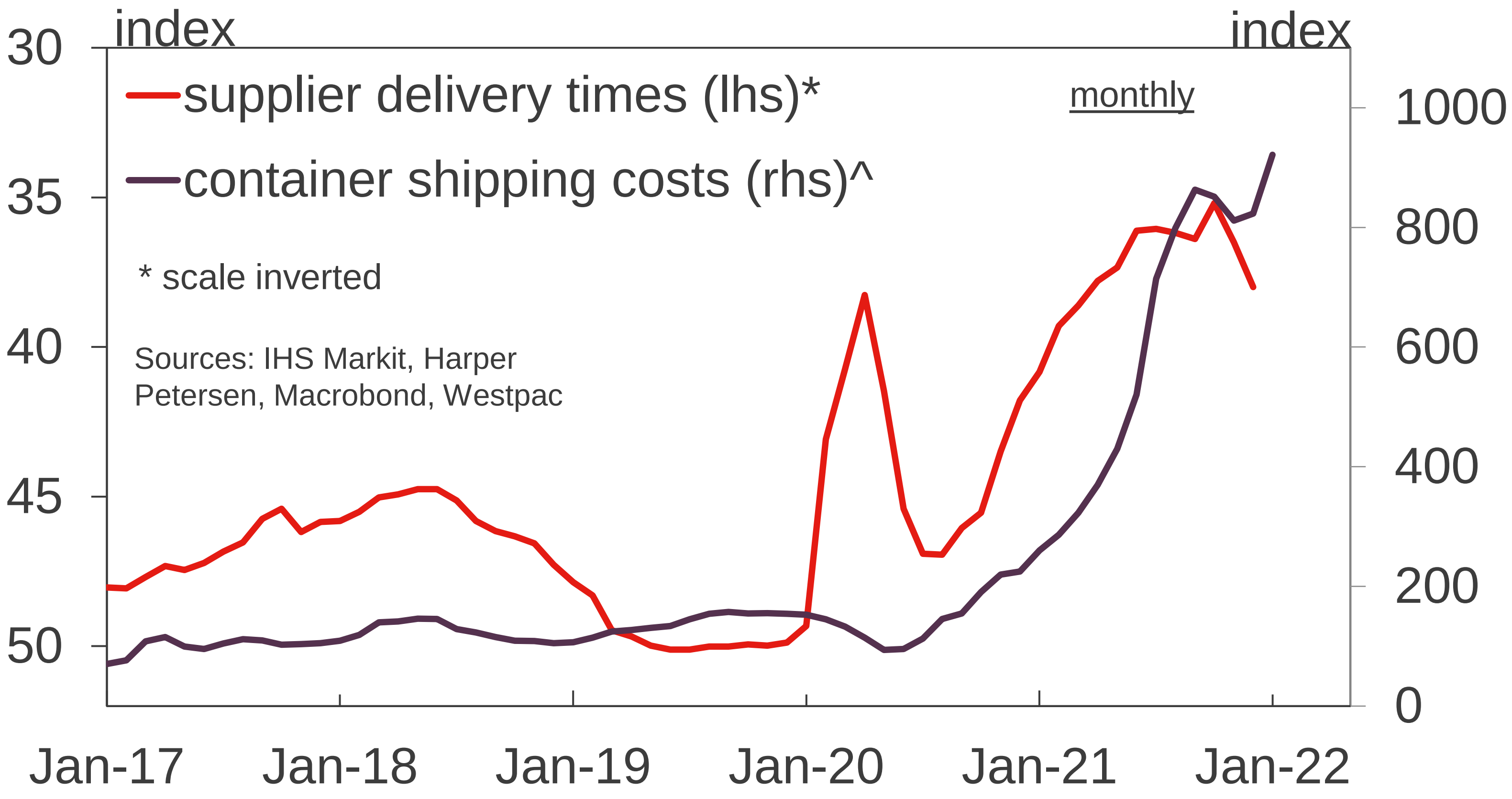
Temporary	Longer lasting
• Switch from services to goods during COVID reverses • Demand weakens in response to higher prices • End of major supply disruptions from COVID • ‘Great resignation’ moderates • Price pressures emanating from specific sectors such as oil eases. • Increased costs spur productivity drives	• Lagged effects from upstream cost increases continues. • Inflation starts feeding into expectations and wider price and wage setting. • Ongoing costs associated with virus – surveillance and intermittent disruptions? • Need for more ‘contingency’ capacity in case of future disruptions? • Under-investment in capacity. • Risk of ‘son of omicron’ variant wreaking more havoc

Consumer inflation has surged globally, starting to impact here



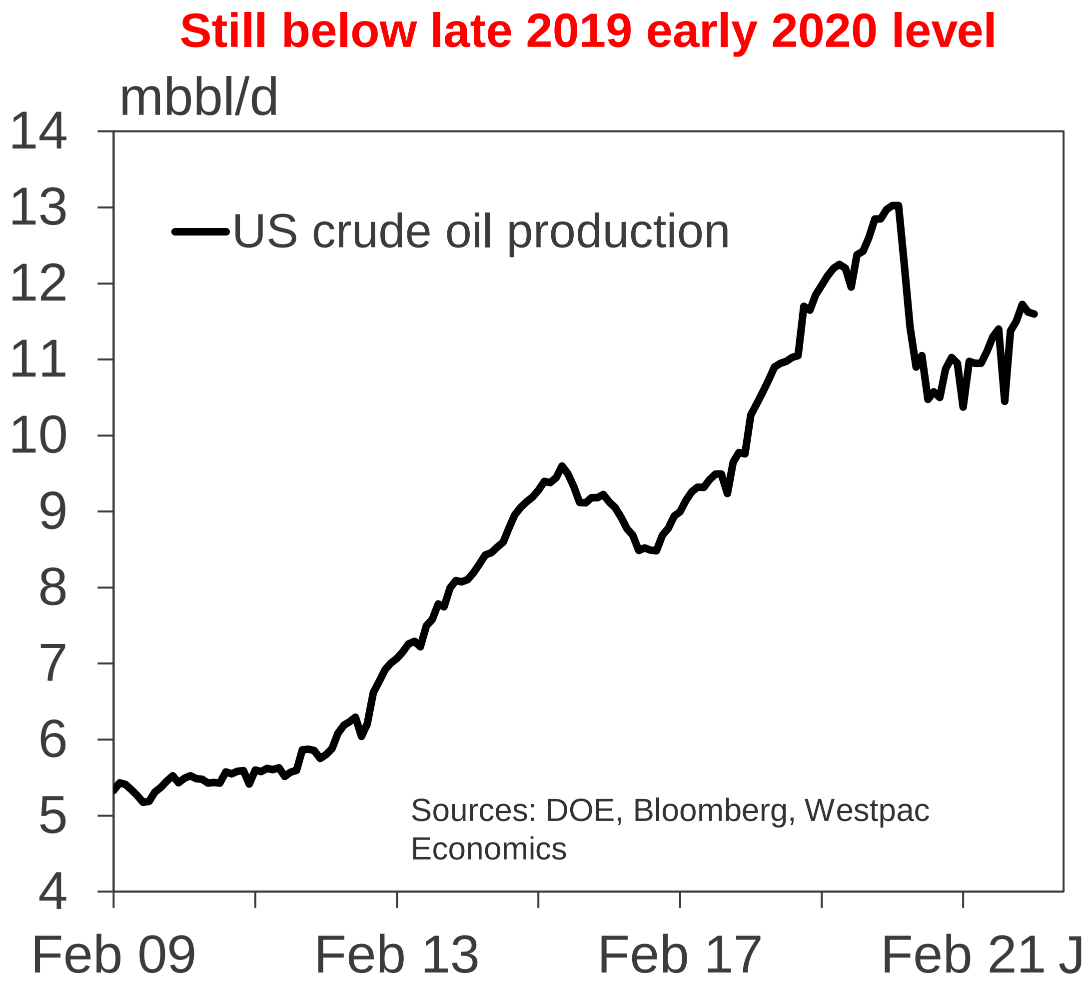
Global supply chains still struggling

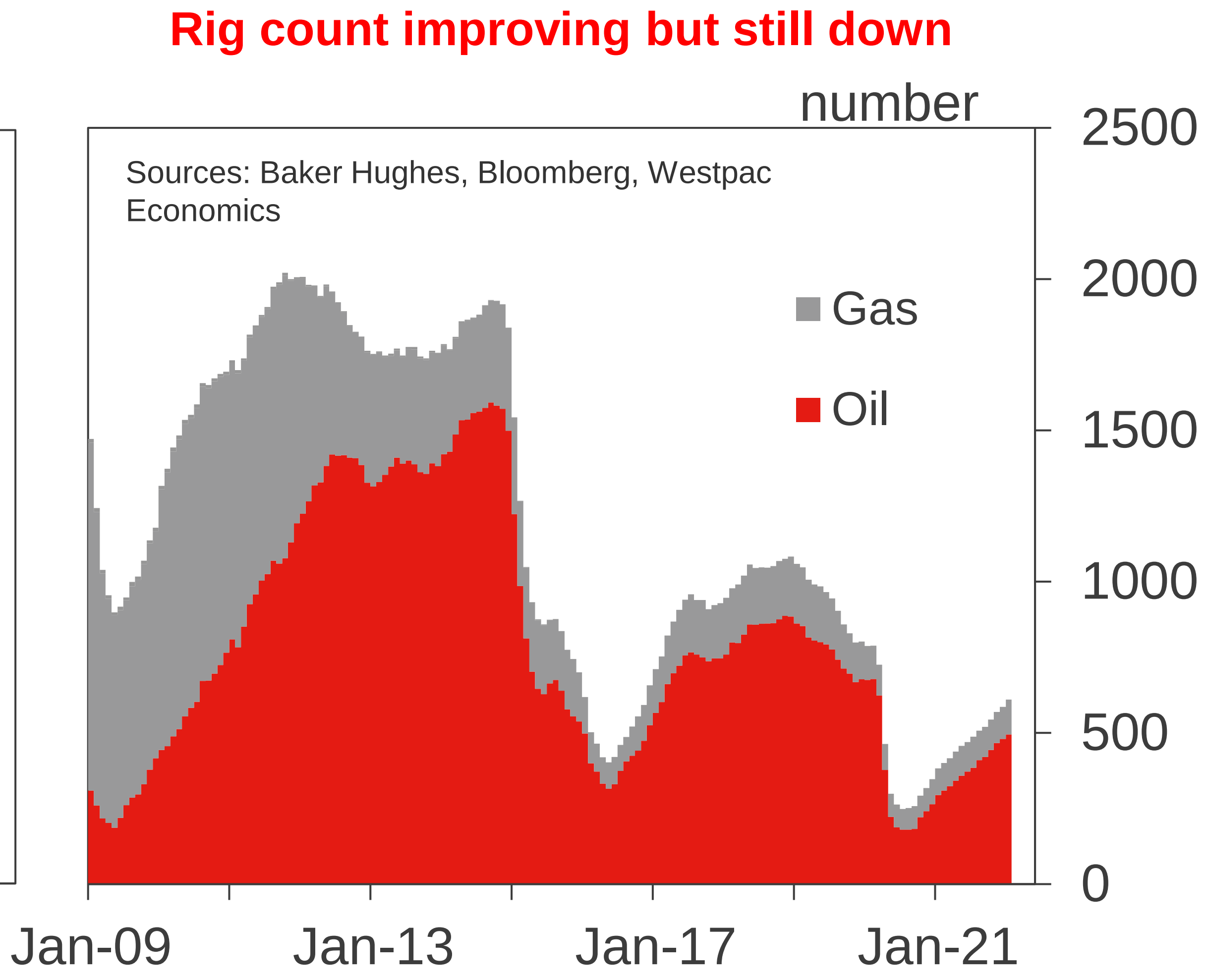
Delivery times may be improving but they still remain elevated



- China, which is following a zero Covid policy, presents a specific risk for trade.
- Continued intermittent disruptions from COVID restrictions very likely.
- Shipping costs look to be peaking but they are sill a long way from facing a meaningful correction.
- Current level of shipping costs remain a significant inflation risk that builds over time.

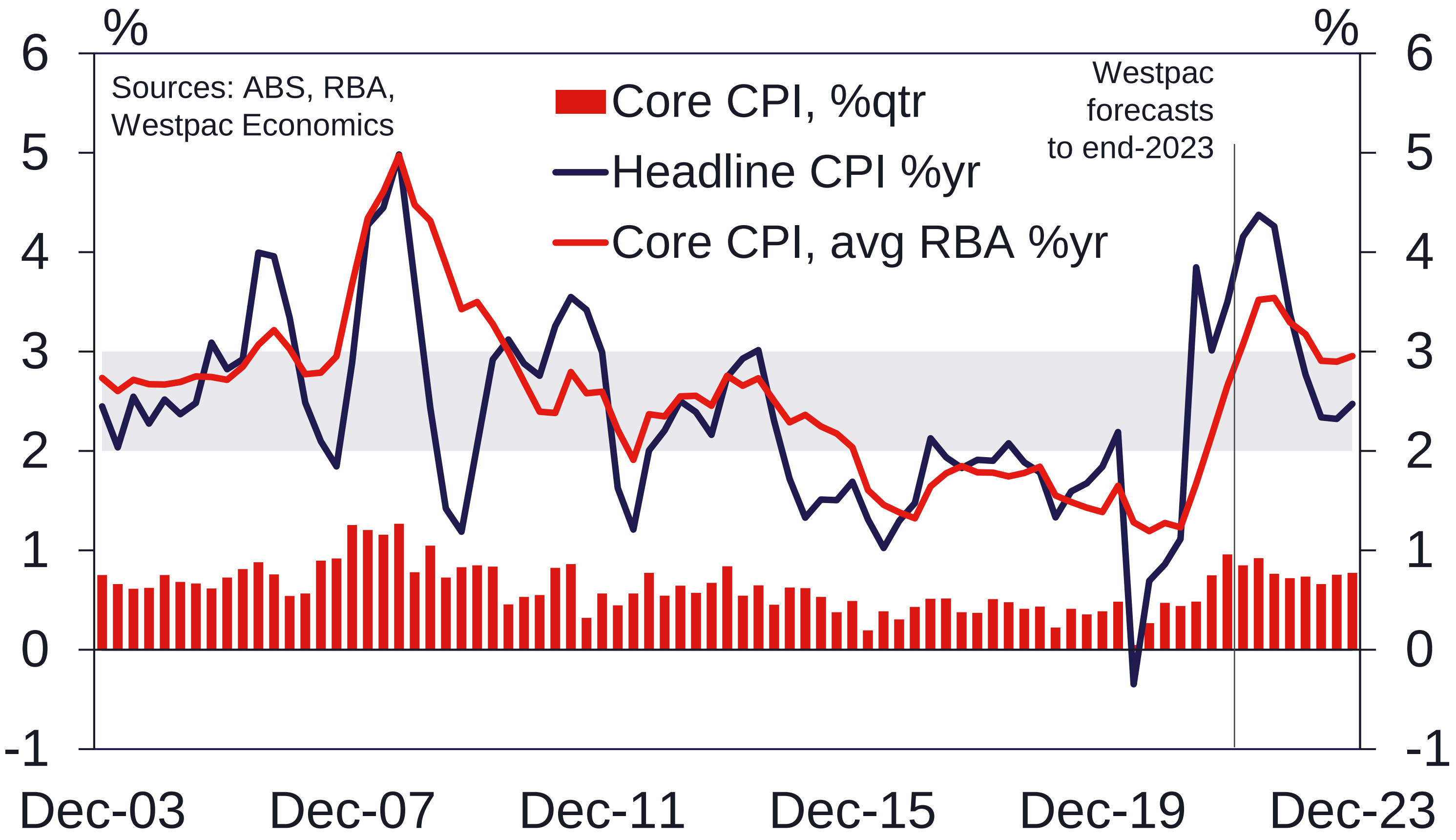
Response by US crude production has been modest





Australian inflation continues to firm

While the CPI to ease back into the band core remains elevated



- Falling crude prices and moderating dwelling price inflation are the key factors leading to an easing in headline inflation in 2023.
- However, with rising wages and input costs the core measures of inflation remain around 3.0%yr.

Pivot

Fed is pivoting more quickly than expected to rein in inflation: rate hikes imminent.

RBA hike set for August following 2 more updates from the CPI.

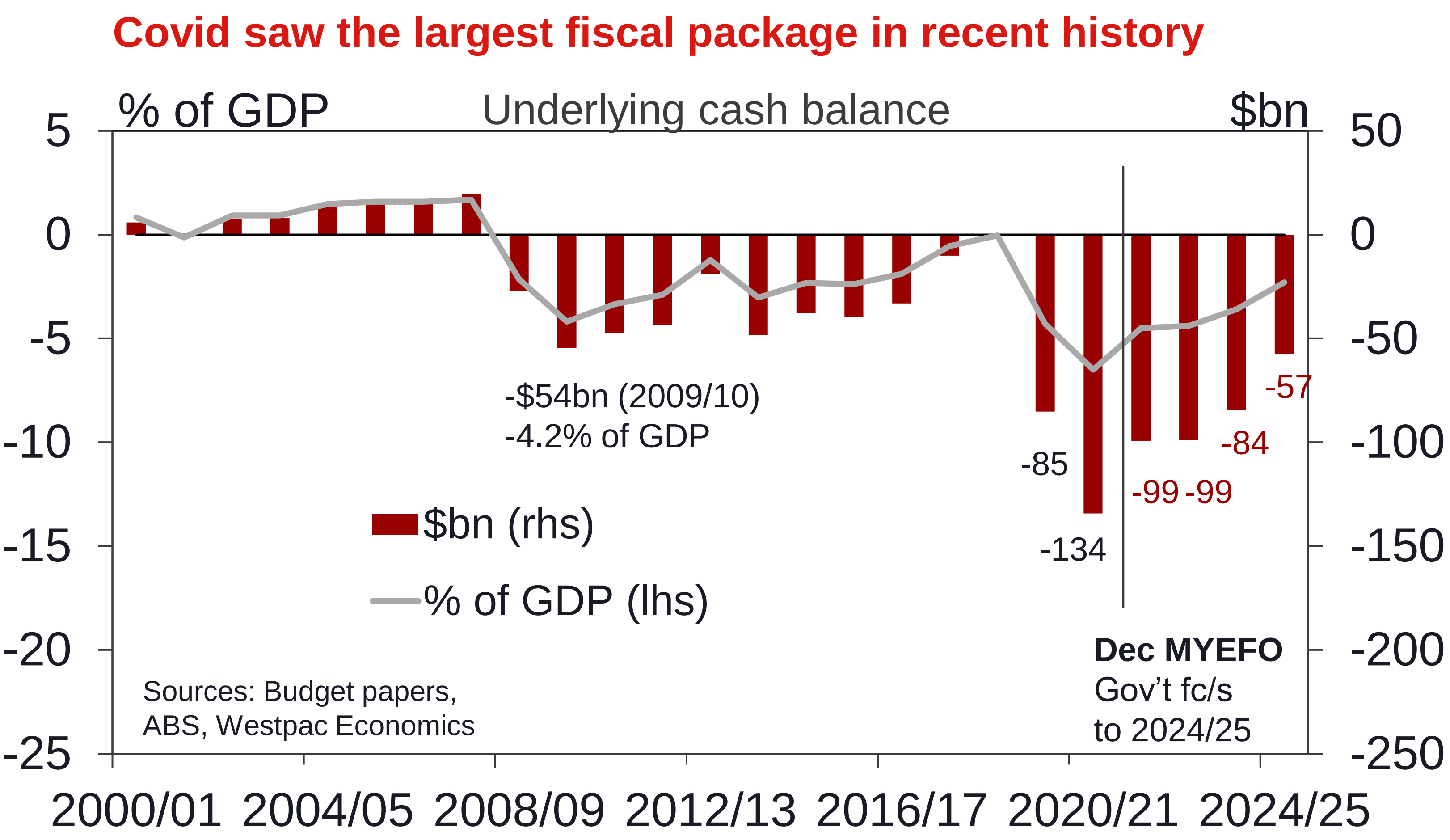
Financial forecast out to end 2024

	Latest	Jun-22	Dec-22	Dec-23	Dec-24
RBA Cash	0.10	0.10	0.50	1.50	1.75
Aus 10yr bond	1.93	2.40	2.50	2.20	1.90
Fed funds	0.125	0.625	1.125	1.875	1.875
US 10yr bond	1.83	2.30	2.50	2.20	2.00
AUD/USD	0.71	0.70	0.73	0.78	0.76

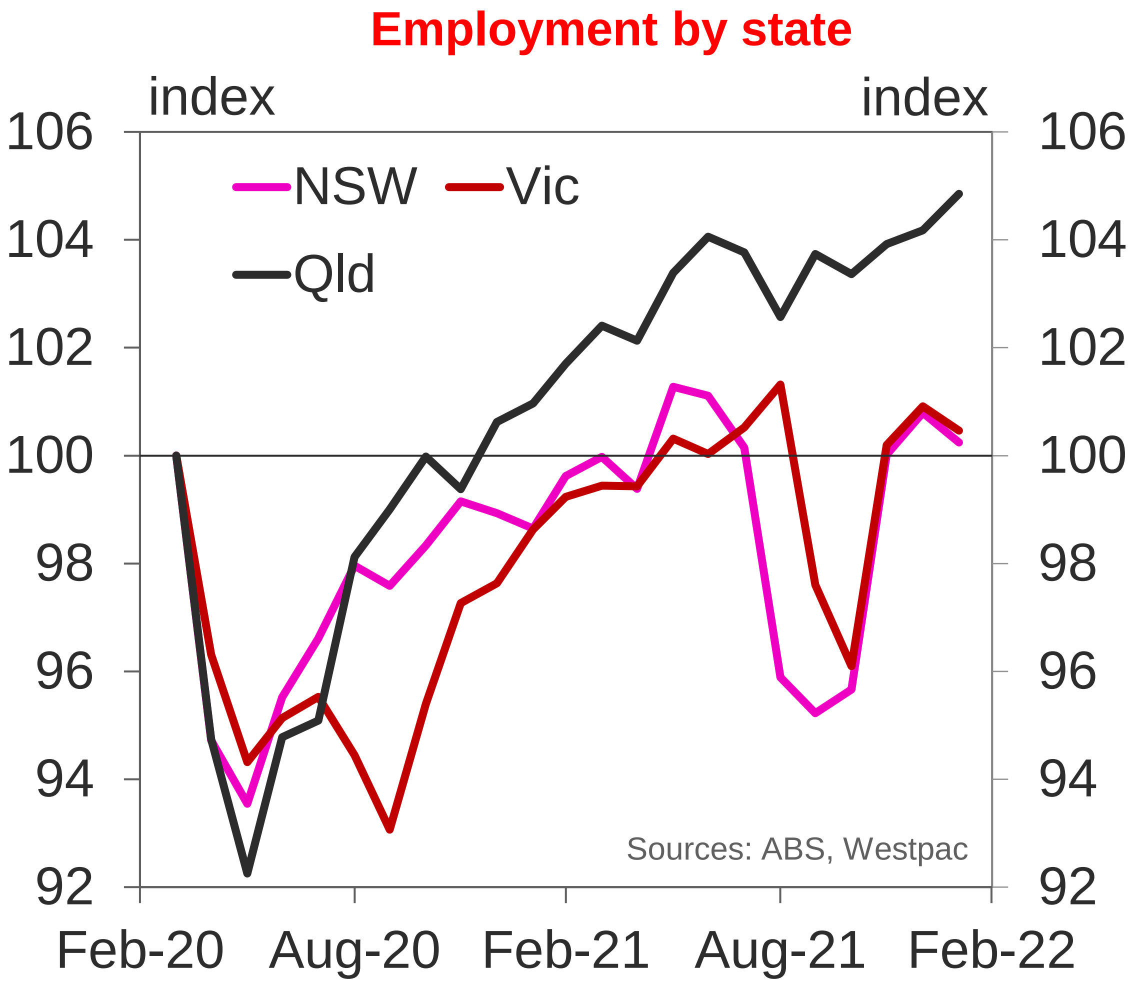
Australian federal fiscal balance

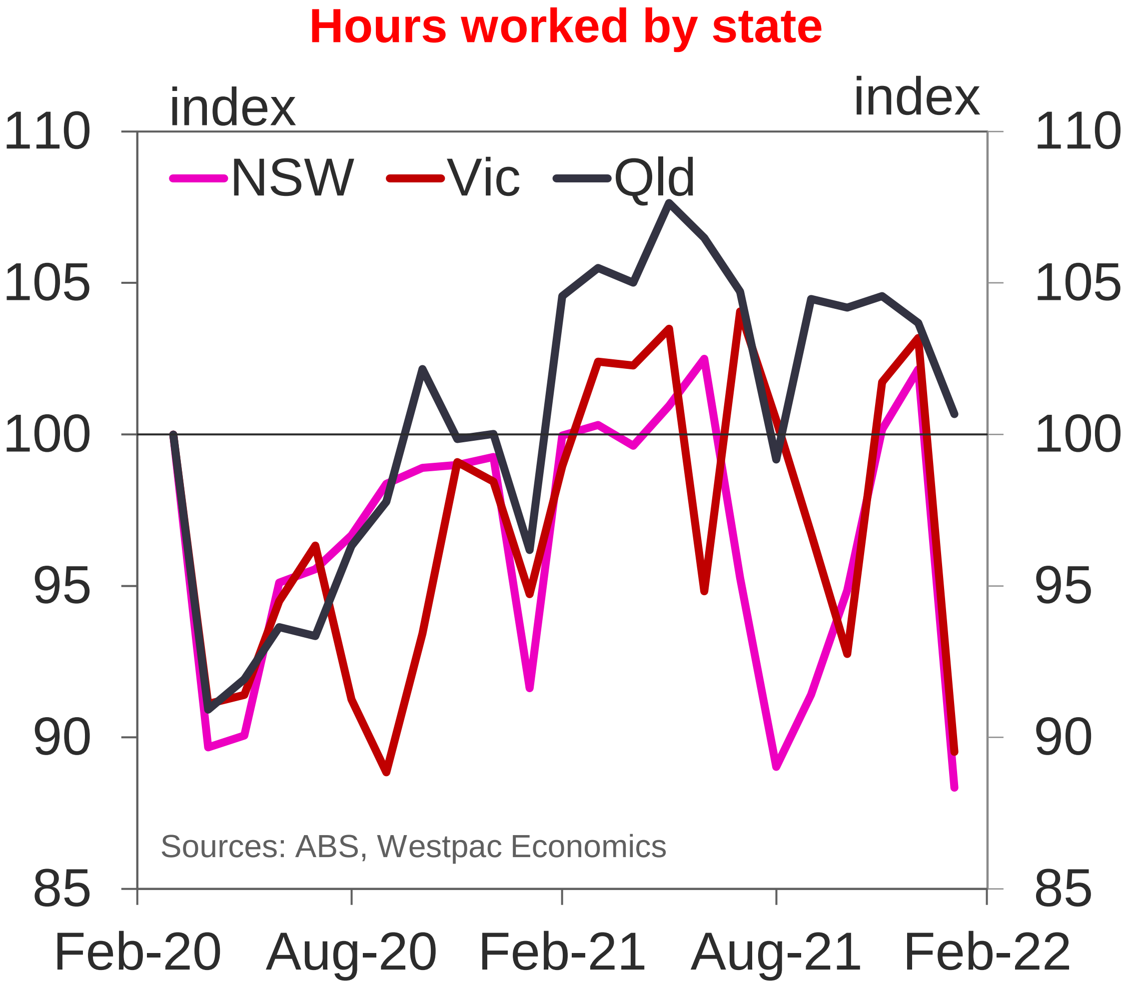
Deficit

The current forecasts have very conservative commodity profile some upside risk for incomes.



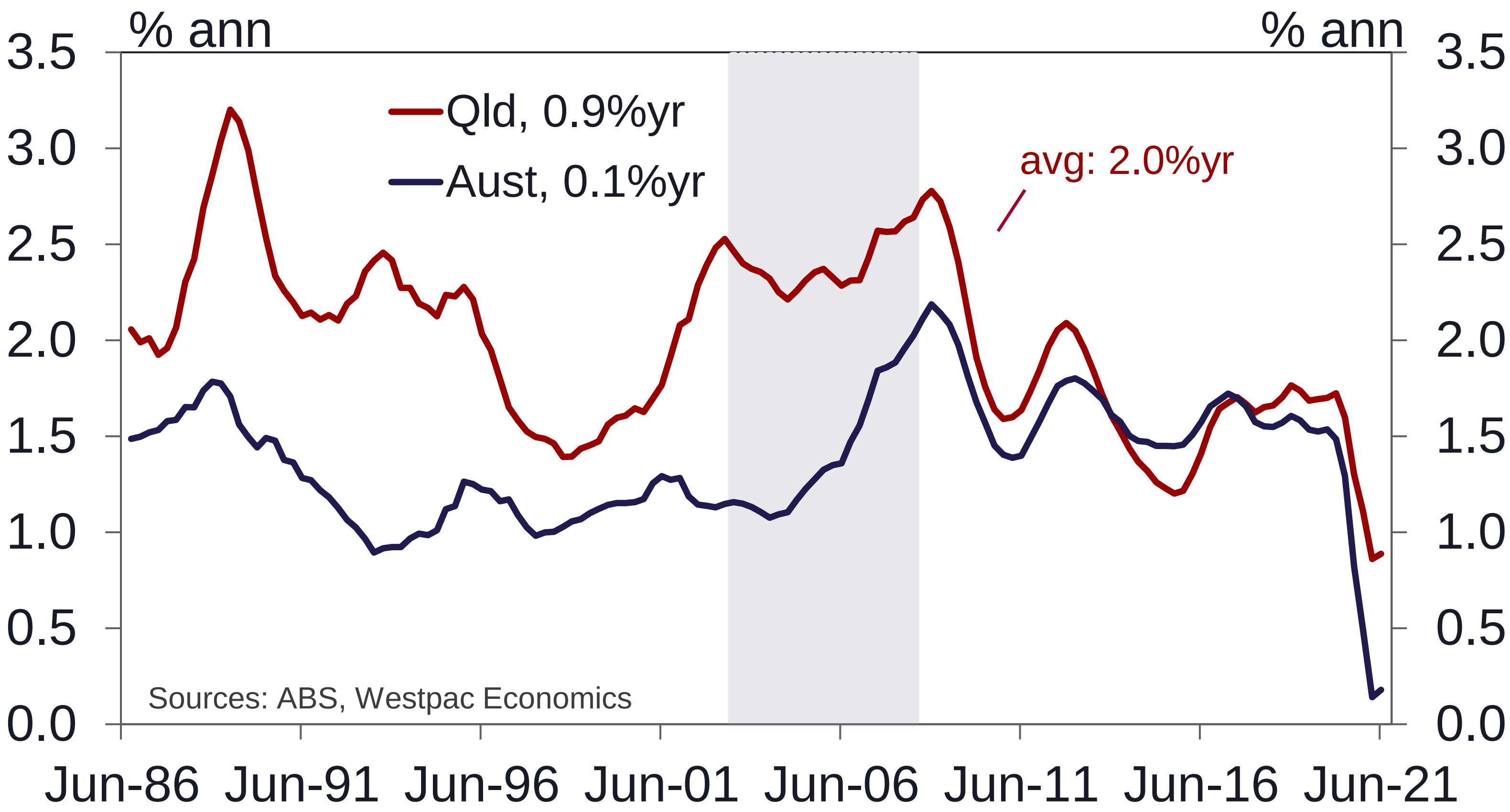
Covid hits hours worked a lot harder than employment





Population growth slows but better than average

Delivery times may be improving but they still remain elevated



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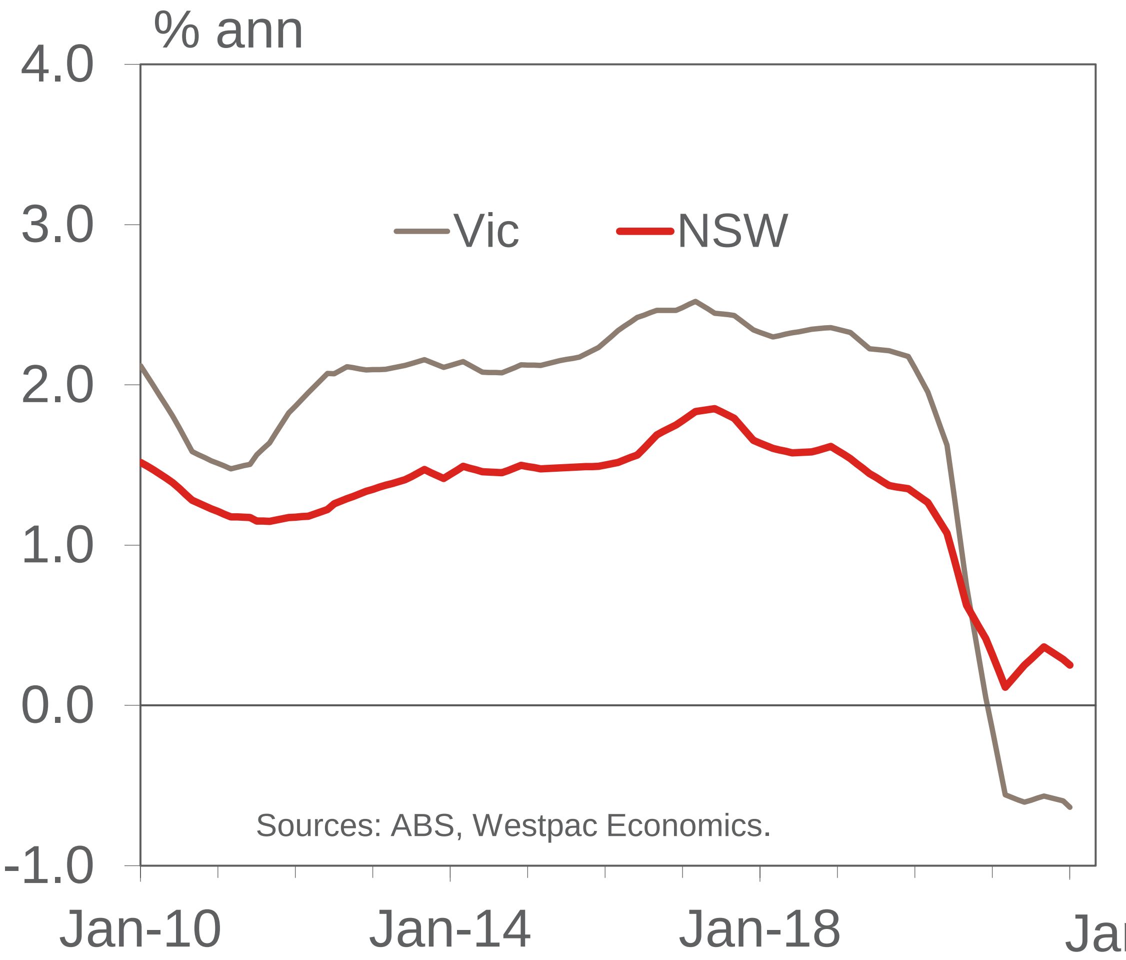
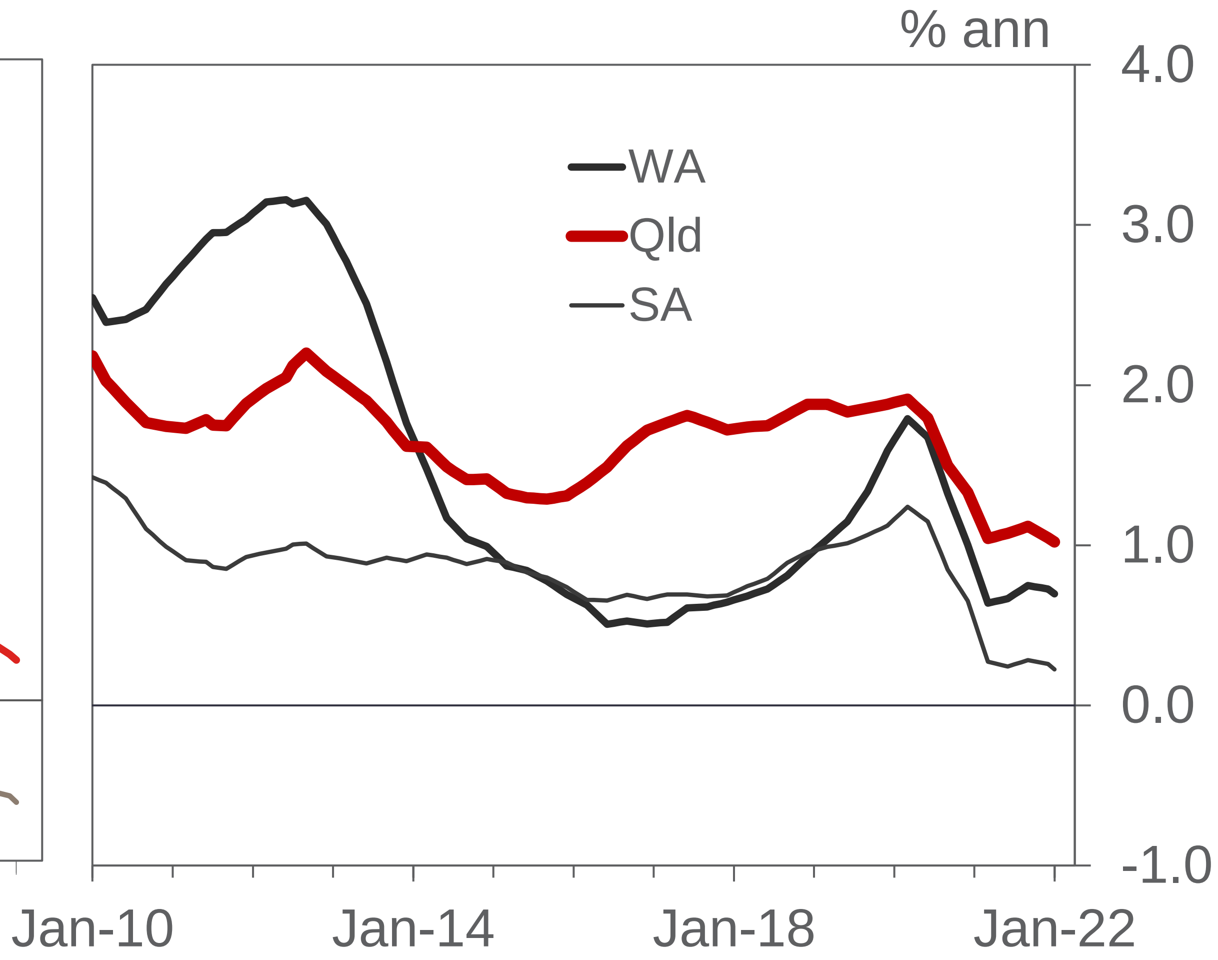
Working age population growth

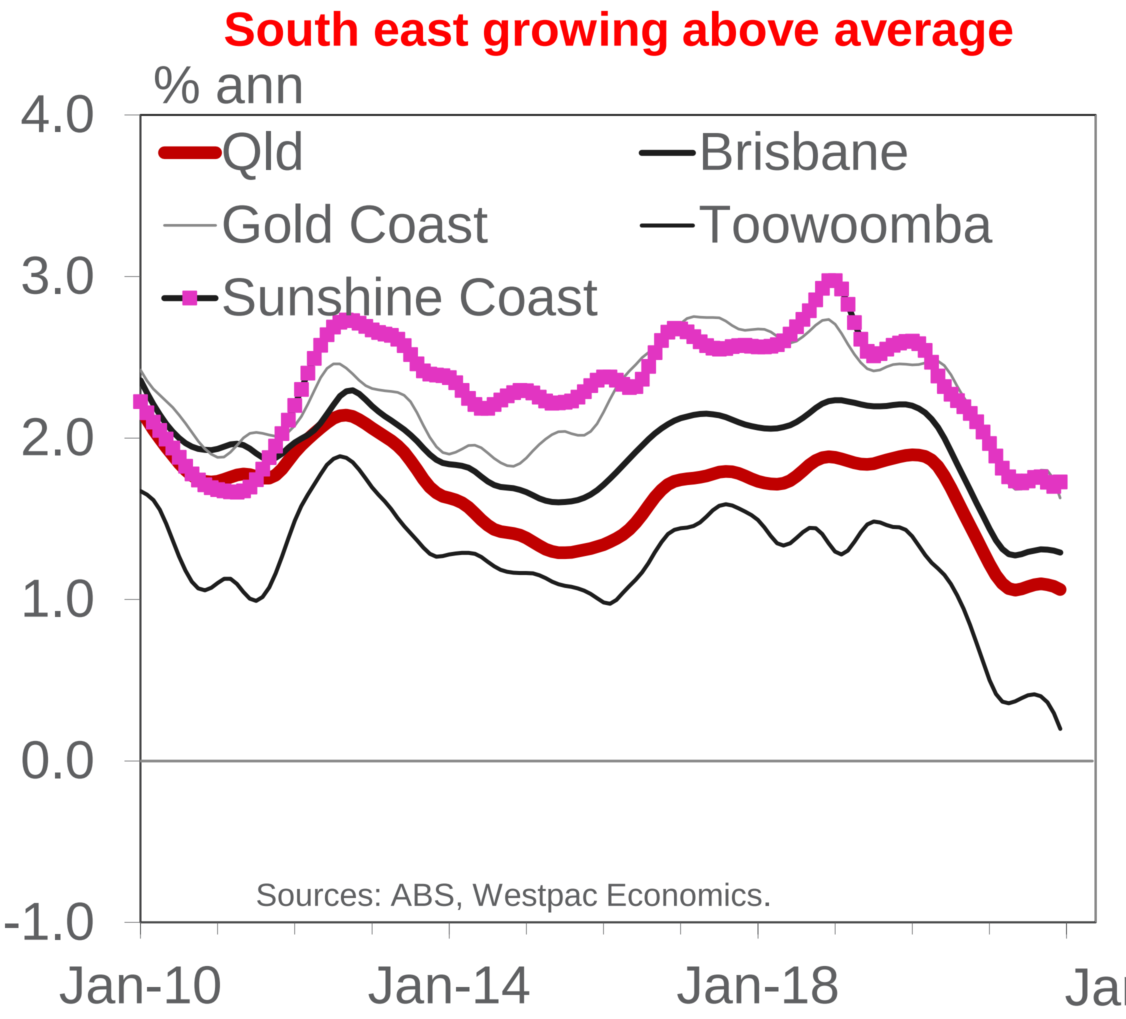
Growth has stalled in the south east…

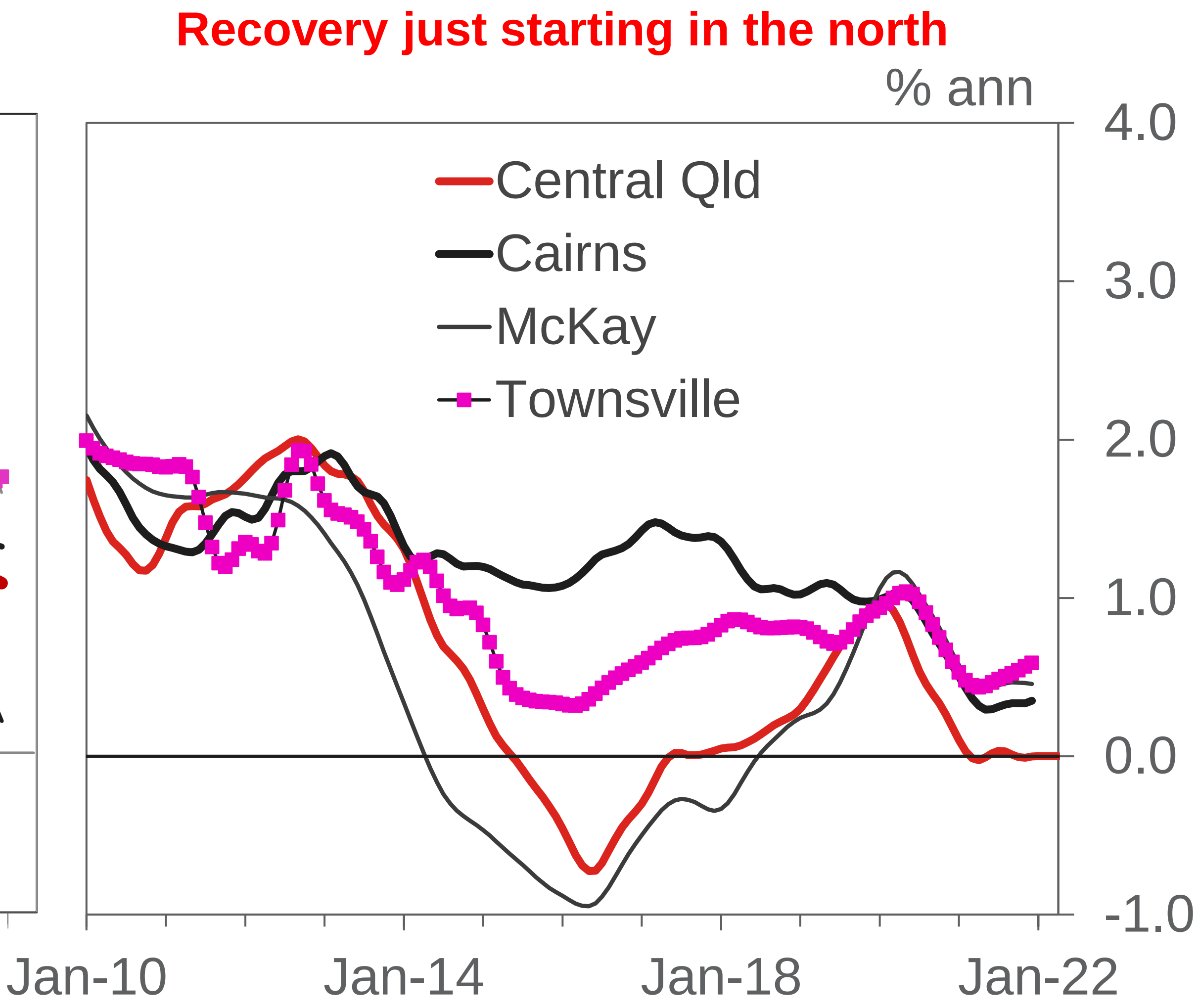


…but continues in the north and west

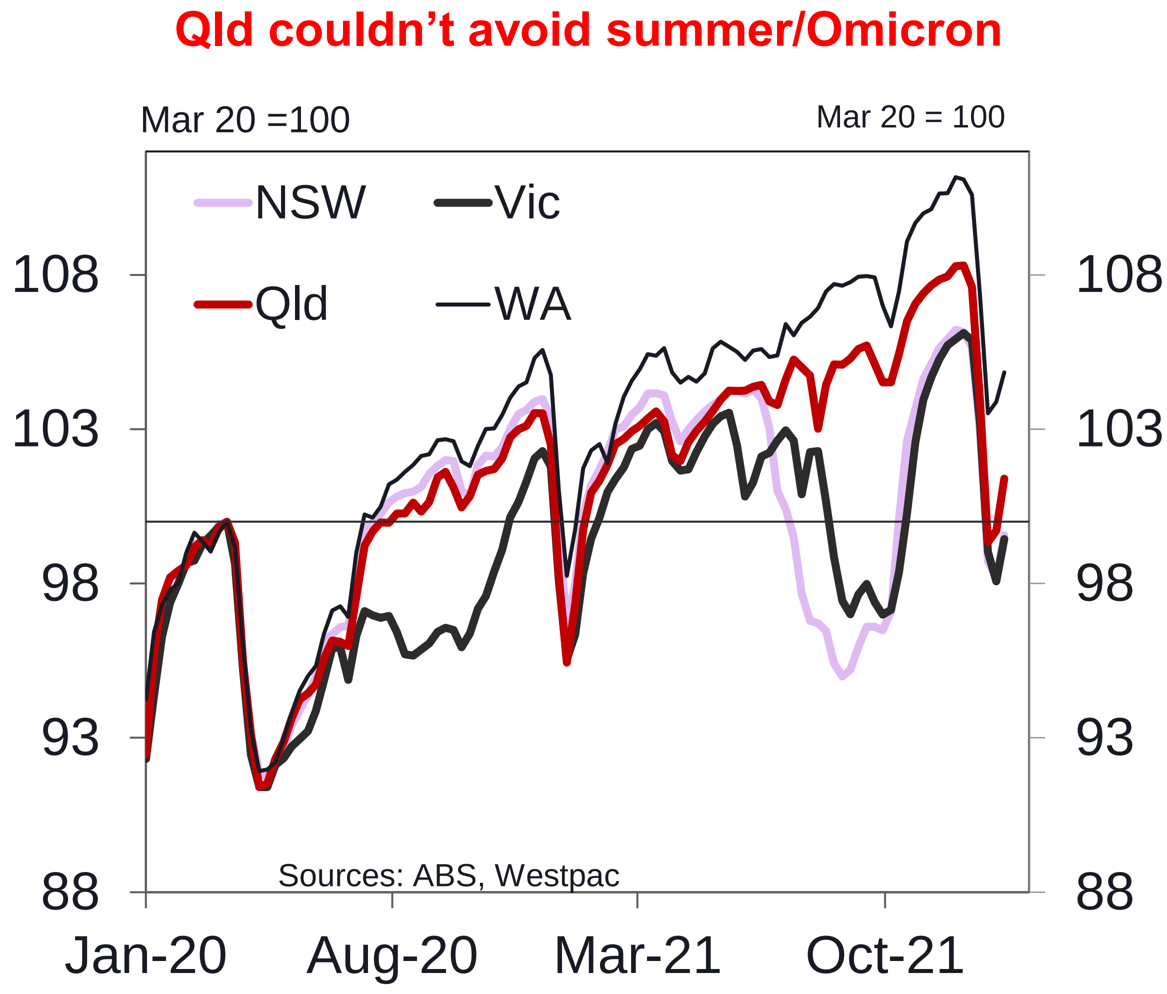


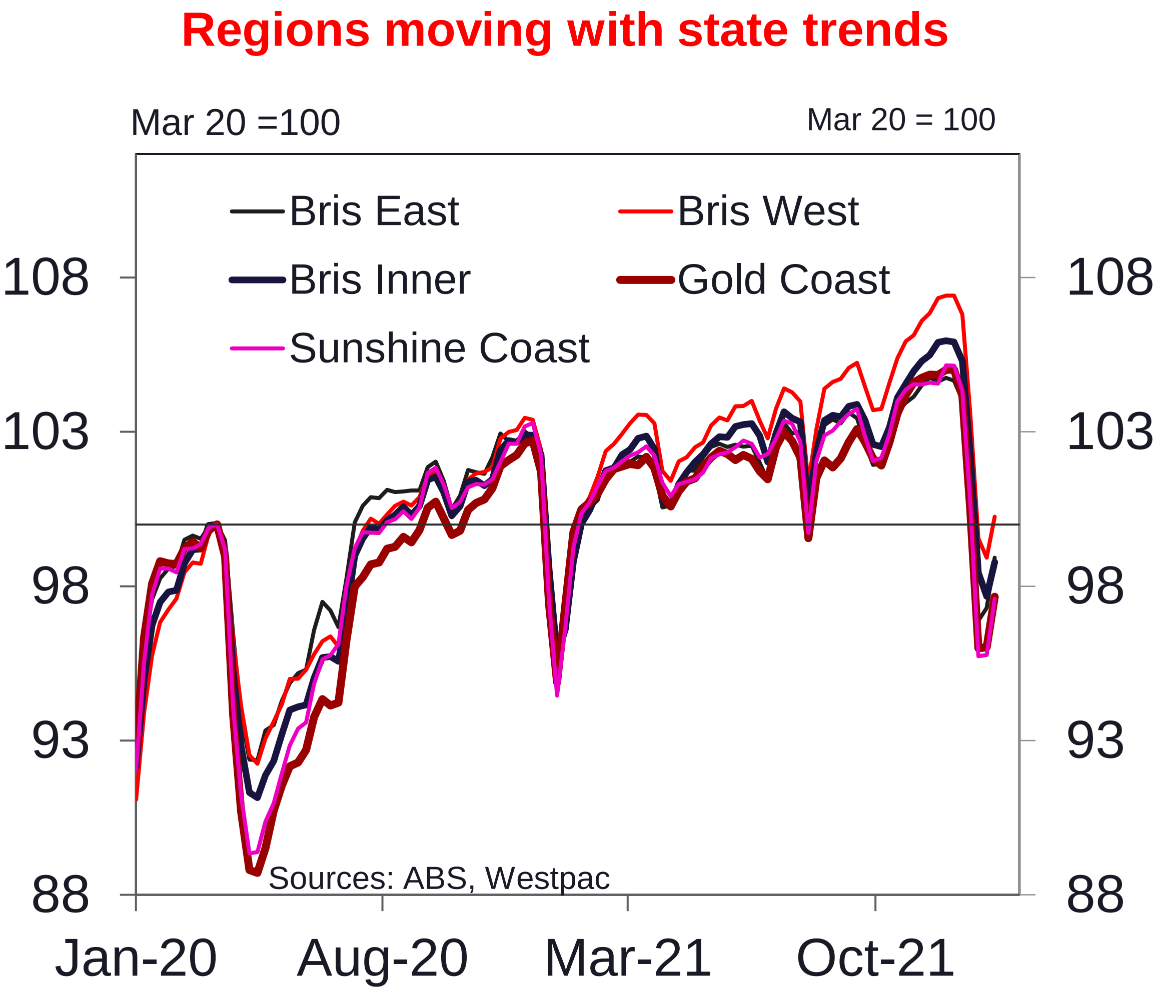
Working age population growth within Queensland





Weekly payrolls, variation between states larger than within

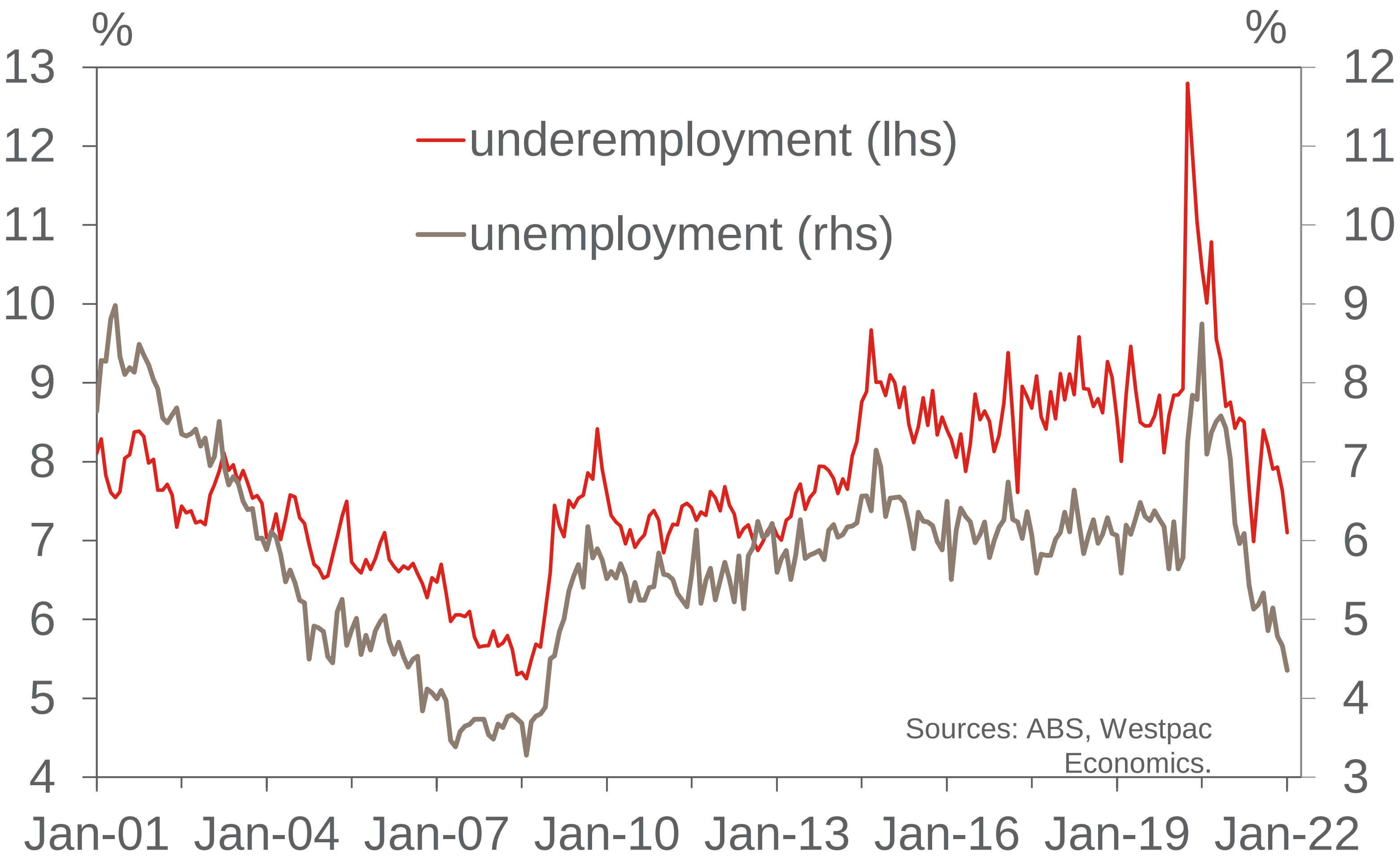




Tight

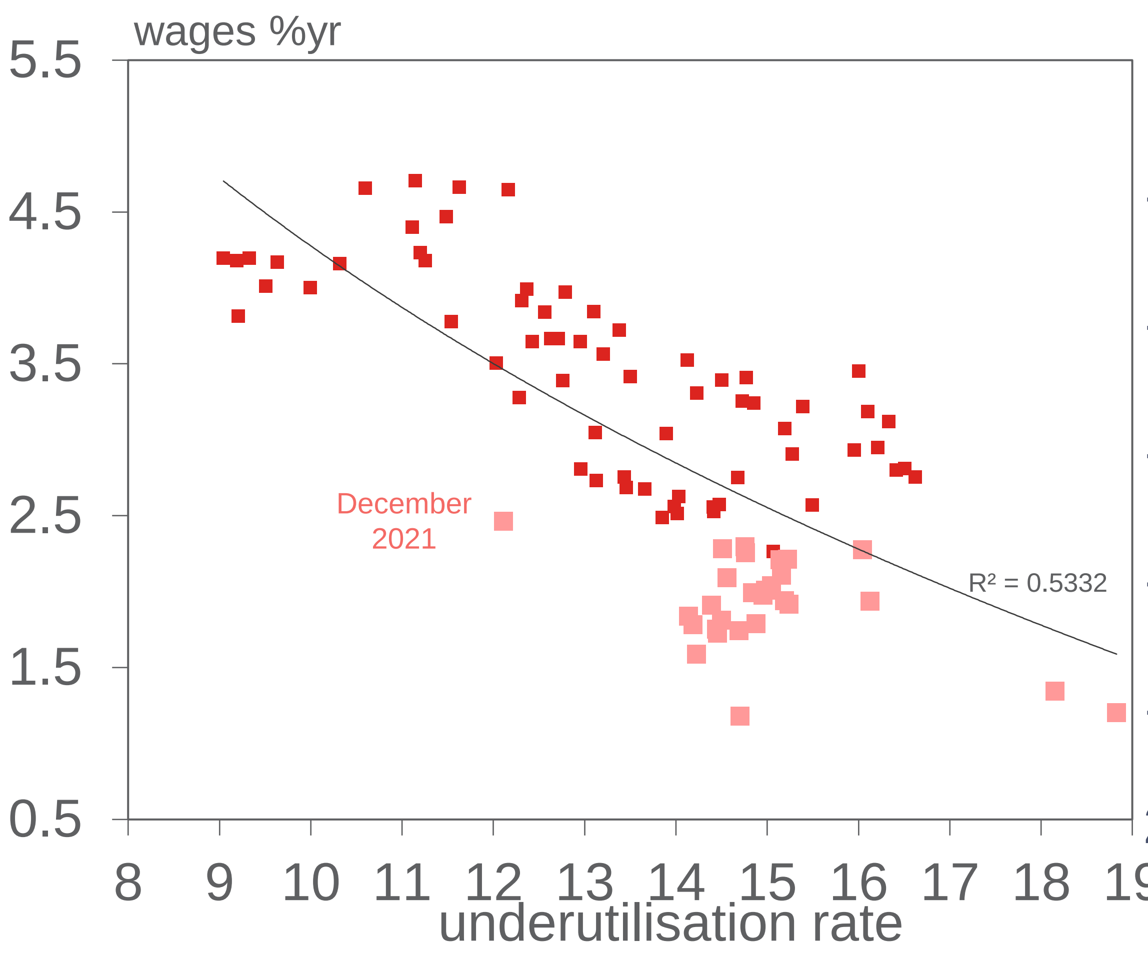
Underemployed are those employed who are wiling, and able, to work more hours if offered. Most, but not all, are part-time workers.

Qld underemployment and unemployment



Wages set to rise as the labour market tightens

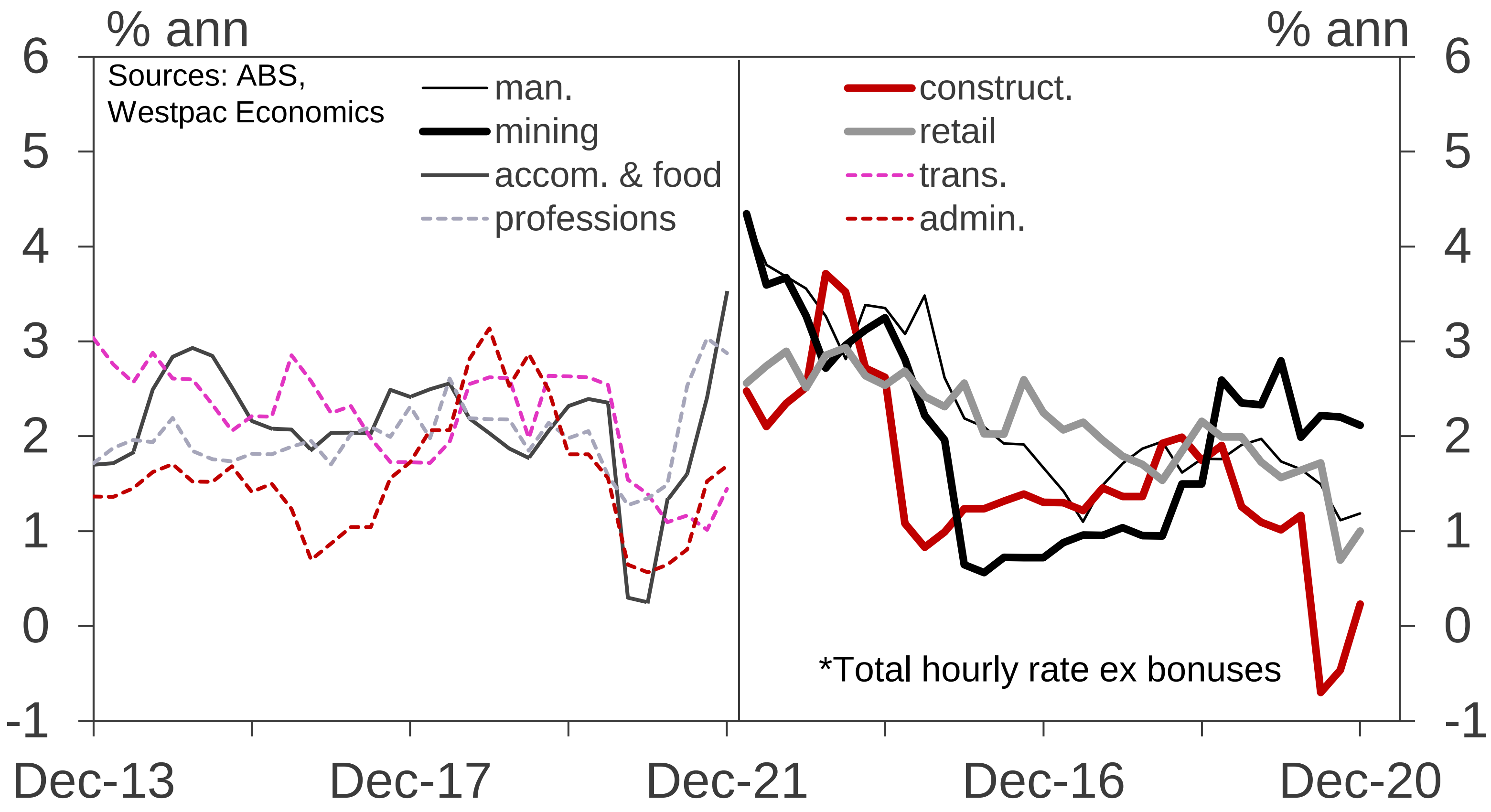
Qld couldn't avoid summer/Omicron



Falling underemployment, higher wages

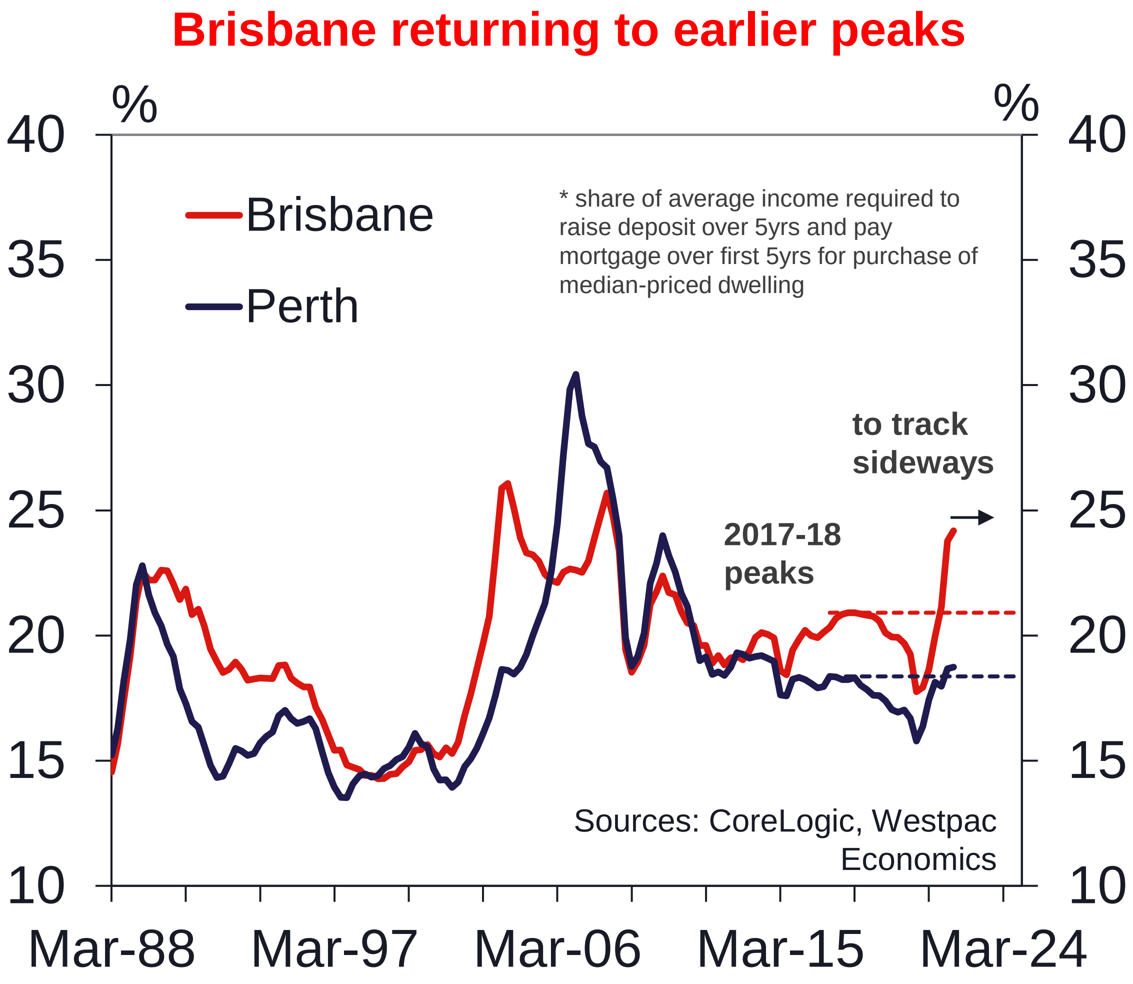
Qld wage gains concentrated in a few industries

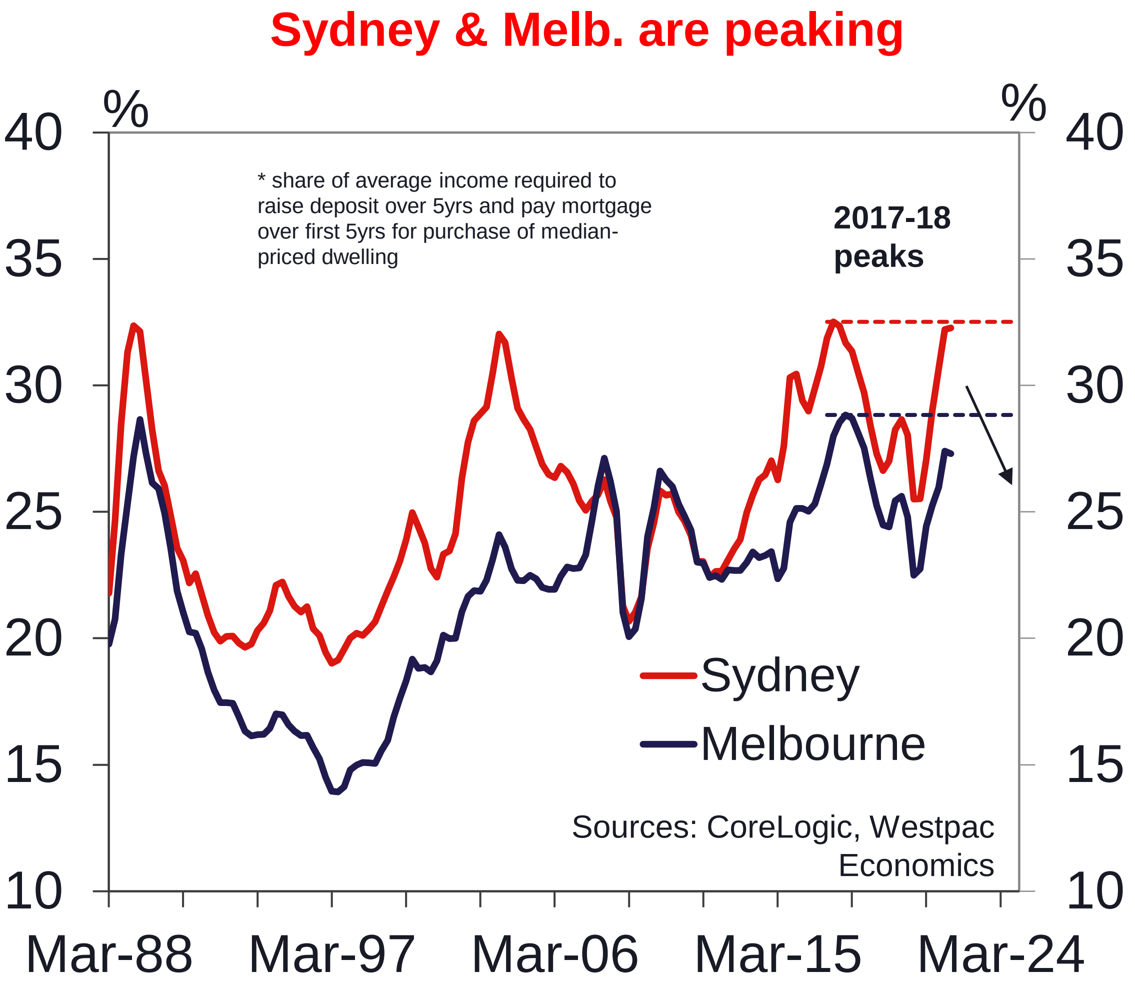
Hospitality & professional wages bounced out of Covid



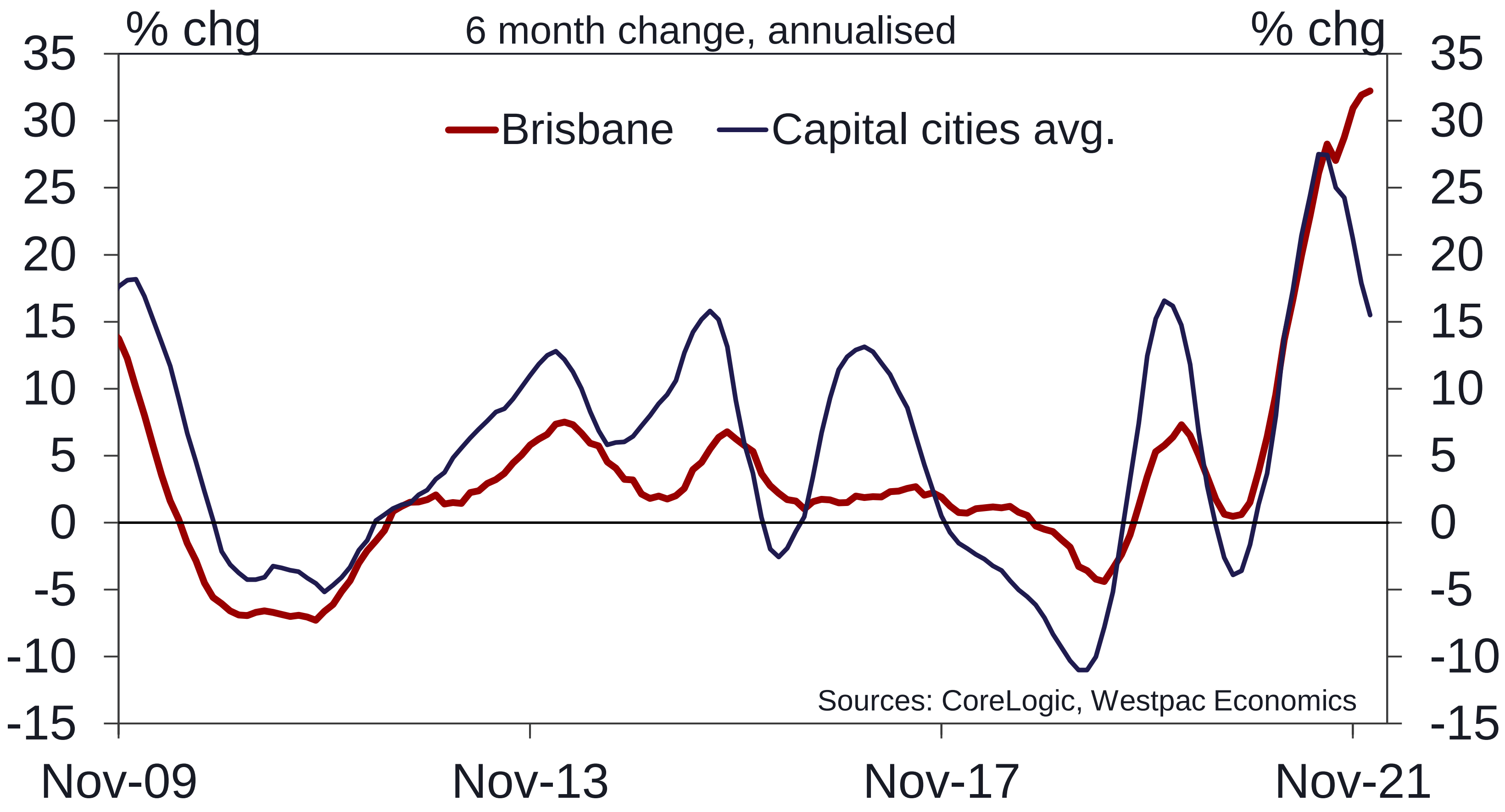
- Sectors with the tightest labour markets are experiencing fastest wages growth – in Qld this is hospitality and professional services.
- Unlike in NSW and Vic, retail wages are lagging suggesting retailing in not under the same pressure in Qld.
- Mining has its own path.
- Construction still dealing with Covid disruptions but robust demand for dwellings is likely to see wages move higher.

Housing affordability being stretched again





House price boom shows demand strength



Population & income growth to underpin further gains in house prices

Conclusion, Qld to continue to outperform

- US labour market strong – Fed to end taper by March with the first rate rise – interest rates to peak at 1.875% in late 2023.
- Key to avoiding future global recession will be to contain inflation blow out; eventual easing of supply chain pressures while wages growth peaks in late 2023.
- Ukraine presents a significant unknown.
- Australian to have strong growth in 2022 (+5.5%) – after flat start to 2022 due to Omicron.
- Households with $245 billion and businesses have $179 billion in excess savings.
- Unemployment to fall to 3.8% in 2022.
- Wages growth set to lift though a widespread wages boom is unlikely.
- RBA cash rate to rise in August 2022; 1.75% by first quarter of 2024.
- Bond rates are going higher – will adjust as QE is unwound; to peak around 2.5%.
- The RBA cash rate will not reach a contractionary level as inflation pressures ease in 2024.
- Central banks will avoid contractionary policy if wages continued to be contained.
- Global house price boom signals risk of overshoot in rate cycle; equities vulnerable; FED knows.
- Dwelling prices slowing but encouraging outlook for Queensland although affordability will be an issue.
- Queensland has outperformed other majors – population; consumer; house prices.

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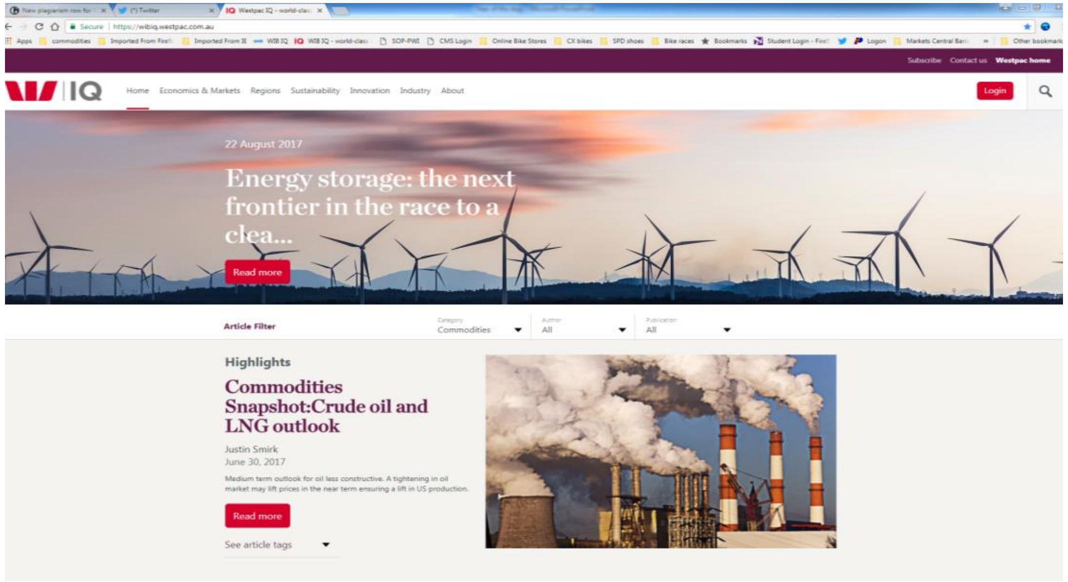

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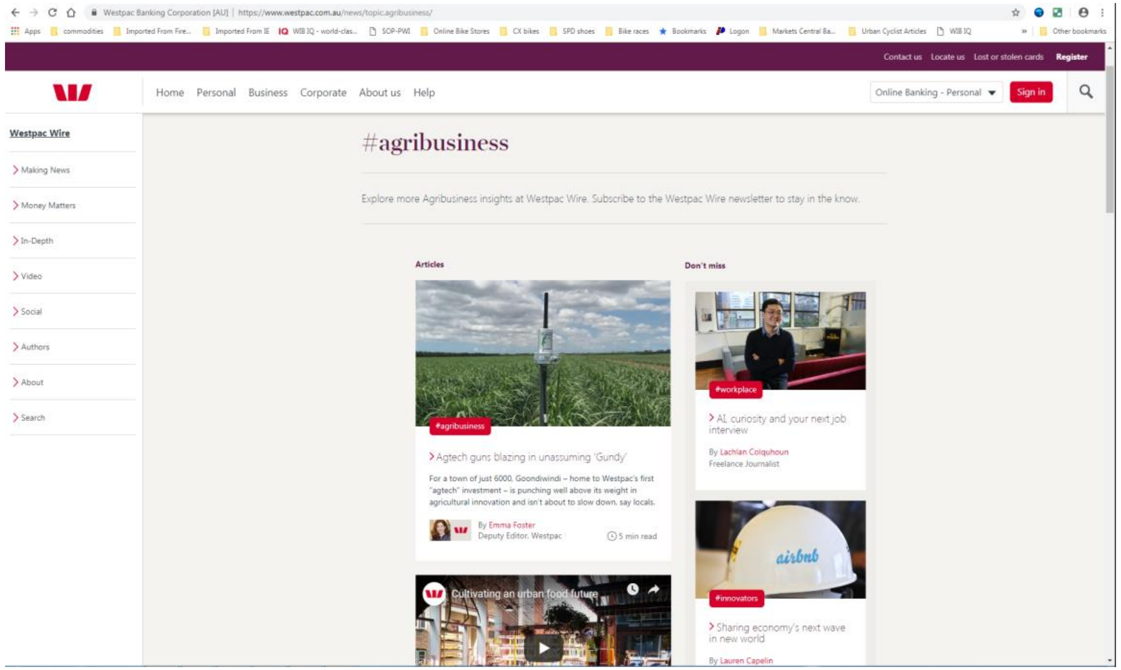

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