

2025 Economic and Market Outlook

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Words we can use less in the 2nd half of the 20s:

2020 **Unprecedented**

2021 **Pivot**

2022 **Literally**

2023 **Cozzie-lives**

2024 **Inflation**

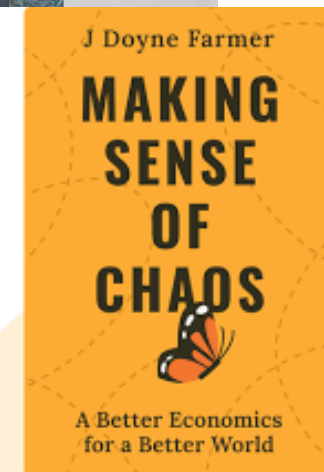
Themes for 2025

Trump and tariffs: the second act ... Macbeth or Much Ado About Nothing?




Australia's economic recovery: good different

Global conditions: chaotic or just really complex?

Fun fact: **2025** is 45 x 45: the first perfect square year since 1936. The next will be in 2116.



10 predictions for 2024 **REVIEW**

1. Rate cuts by **July** in **Europe** and then the **US** after recessions/ slowi
2. Rate cuts by **November** in **Canada, UK and New Zealand** after r
3. **Chinese growth** again slower than India's, but **> 4 %** help
4. **Japan's economy** and stock market to **outperform** 
5. Geopolitical tensions and decarbonisation to keep **energy and met**
agricultural commodities to stabilise
6. **RBA on hold all year**, despite impatient calls from most directions (4 cuts in '25)
7. Core **inflation** to remain above the target band of 2-3 % until **Q4 '24**
8. **Unemployment** to trend higher... **> 4.5 %** (well above RBA forecasts) 
9. The **Aussie Dollar** to rally in H2 against a weaker greenback **> 72 c** 
- 1/2
X
10. Gains in **housing prices** more modest than '23 (**around 4 %**) with WA, SA and QLD strongest

AFR Tuesday 3 January 2023 www.afr.com | The Australian Financial Review

Quarterly economists' survey

Forecasts for key Australian indicators

Economist	Institution	Cash rate (%)						Forecast	Date	GDP growth (%)
		Current	Jan 23	Jun 23	Dec 23	Jun 24	Dec 24			
Shane Oliver	AMP	3.10	3.10	2.85	2.60	2.60	2.60	3.10	1.80	
David Plank	ANZ	3.35	3.85	3.85	3.60	-	3.85	Nov 24	2.20	
Peter Munckton	Bank of Queensland	3.35	3.60	3.60	3.35	2.35	1.90	3.60	May 24	
David Robertson	Bendigo and Adelaide Bank	3.35	3.60	3.60	3.85	3.85	3.25	3.85	Feb 25	
Sean Langcake	BIS Oxford Economics	3.35	3.60	3.60	3.60	3.10	2.60	3.60	Sep 24	
Marcel Thieliant	Capital Economics	3.10	3.85	3.60	3.10	3.10	-	3.85	Nov 23	
Gareth Aird	CBA	3.35	3.35	2.85	-	-	-	3.35	Dec 23	
Phil O'Donoghue	Deutsche Bank	3.35	3.35	3.35	2.85	2.85	2.85	3.35	Jun 24	
Craig Emerson	Emerson Economics	3.10	2.85	2.60	2.60	2.60	-	3.10	Apr 23	
Andrew Book	Goldman Sachs	3.35	4.10	4.10	4.10	3.00	3.00	4.10	Aug 24	
Paul Bloxham	HSBC	3.10	3.10	3.10	3.10	3.10	-	3.10	-	
Alex Joiner	IFM Investors	3.25	3.25	3.25	2.75	2.25	2.00	3.25	Jun 24	
Ben Jarman	JPMorgan	3.10	3.10	3.35	3.60	3.60	-	3.60	-	
Warren Hogan	Judo Bank	3.35	3.85	4.35	4.35	3.25	3.00	4.35	Aug 24	
Brendan Rynne	KPMG	3.35	3.35	3.10	2.85	2.60	2.60	3.35	Nov 23	
Justin Fabo	Macquarie Bank	3.35	3.35	3.35	2.60	2.60	-	3.35	Mar 24	
Stephen Anthony	Macroeconomics Advisory	3.35	3.85	4.35	4.60	4.00	3.50	4.60	Dec 24	
Stephen Koukoulas	Market Economics	3.10	3.10	3.10	2.50	2.25	2.00	3.10	Jun 24	
Bob Cumteen	MLC Asset Management	3.35	3.35	2.85	2.85	2.60	2.60	3.35	Aug 23	
Katrina Ell	Moody's Analytics	3.35	3.35	3.35	3.00	3.00	3.00	3.35	Jun 24	
Chris Read	Morgan Stanley	3.35	3.60	3.60	3.10	2.60	-	3.60	Mar 24	
Michael Knox	Morgans Financial Limited	3.35	3.60	4.85	3.35	2.55	2.55	4.85	Feb 24	
Alan Oster	NAB	3.35	3.60	3.60	2.85	2.85	2.85	3.60	Feb 24	
Andrew Ticehurst	Nomura Australia	3.35	3.85	3.85	2.85	2.85	-	3.85	Feb 24	
Michael Blythe	PinPoint Macro	3.35	3.60	3.35	2.85	2.85	2.85	3.60	Oct 23	
Matthew Peter	QIC	3.35	3.60	3.60	3.50	3.50	3.60	3.60	Feb 26	
Su-Lin Ong	RBC Capital Markets	3.35	3.60	3.60	3.10	3.10	-	3.60	Jun 24	
Paul Brennan	Suncorp	3.10	3.10	2.85	2.35	2.35	2.60	3.10	Dec 23	
Prashant Newnaha	TD Securities	3.35	3.60	3.60	3.10	2.60	-	3.60	Mar 24	
George Tharenou	UBS	3.35	3.35	3.10	2.60	2.60	-	3.35	Nov 23	
Bill Evans	Westpac	3.35	3.85	3.85	3.35	2.85	2.35	3.85	Mar 24	
Tim Toohy	Yarra Capital	3.25	3.25	3.25	2.75	2.75	2.75	3.25	Feb 24	
Median		3.30	3.50	3.50	3.10	2.90	2.70	3.60	Mar 24	
Median		3.35	3.60	3.48	3.10	2.85	2.60	3.60	Mar 24	

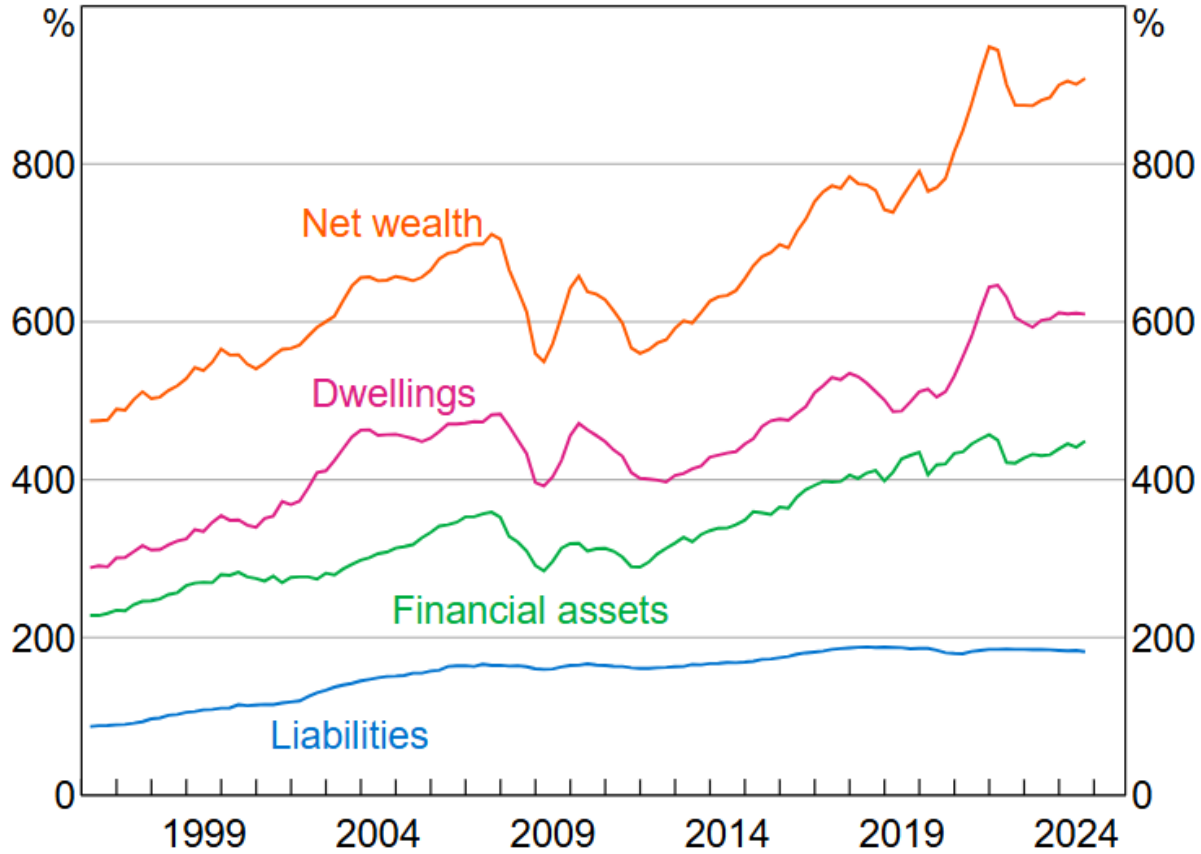
Fun fact: 2023/ 24 was the first example in history of the US avoiding recession despite raising interest rates by 5% AND their yield curve inverting. It was also the longest ever period of inversion: over 2 years!



In 2025 expect improving household income and consumption- but wealth to stagnate

Household Wealth and Liabilities*

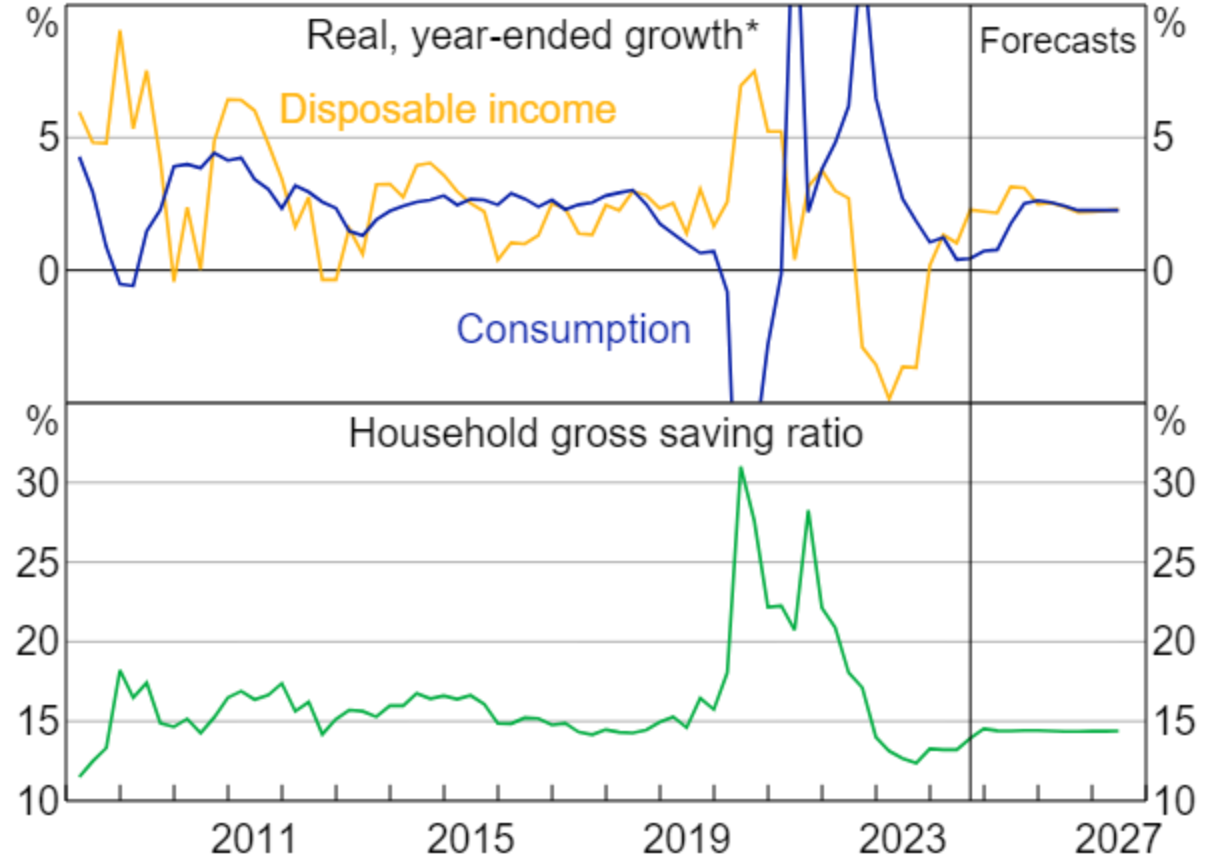
Per cent of annual household disposable income



* Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises.

Sources: ABS; RBA.

Household Consumption and Income

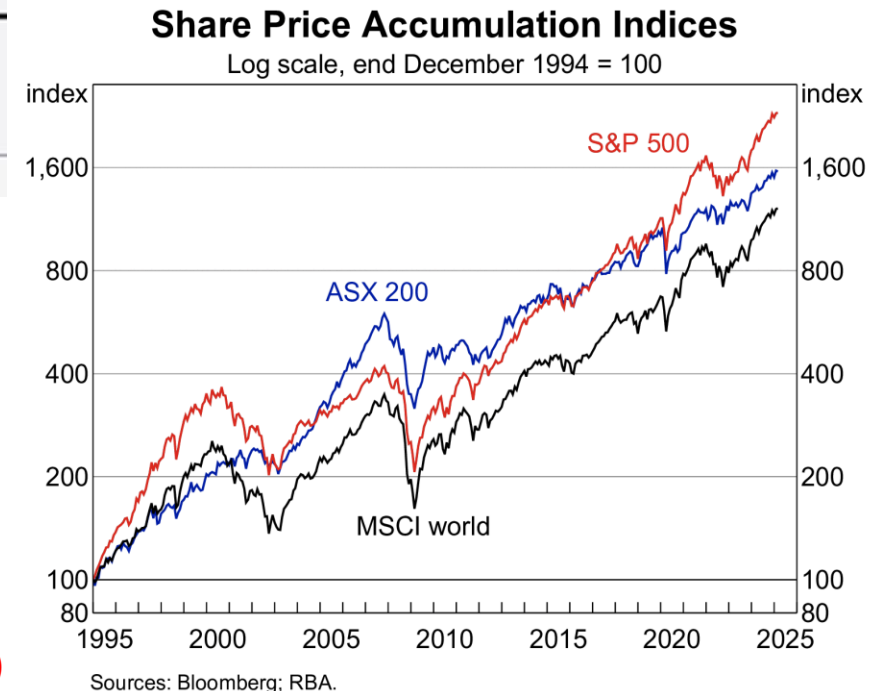
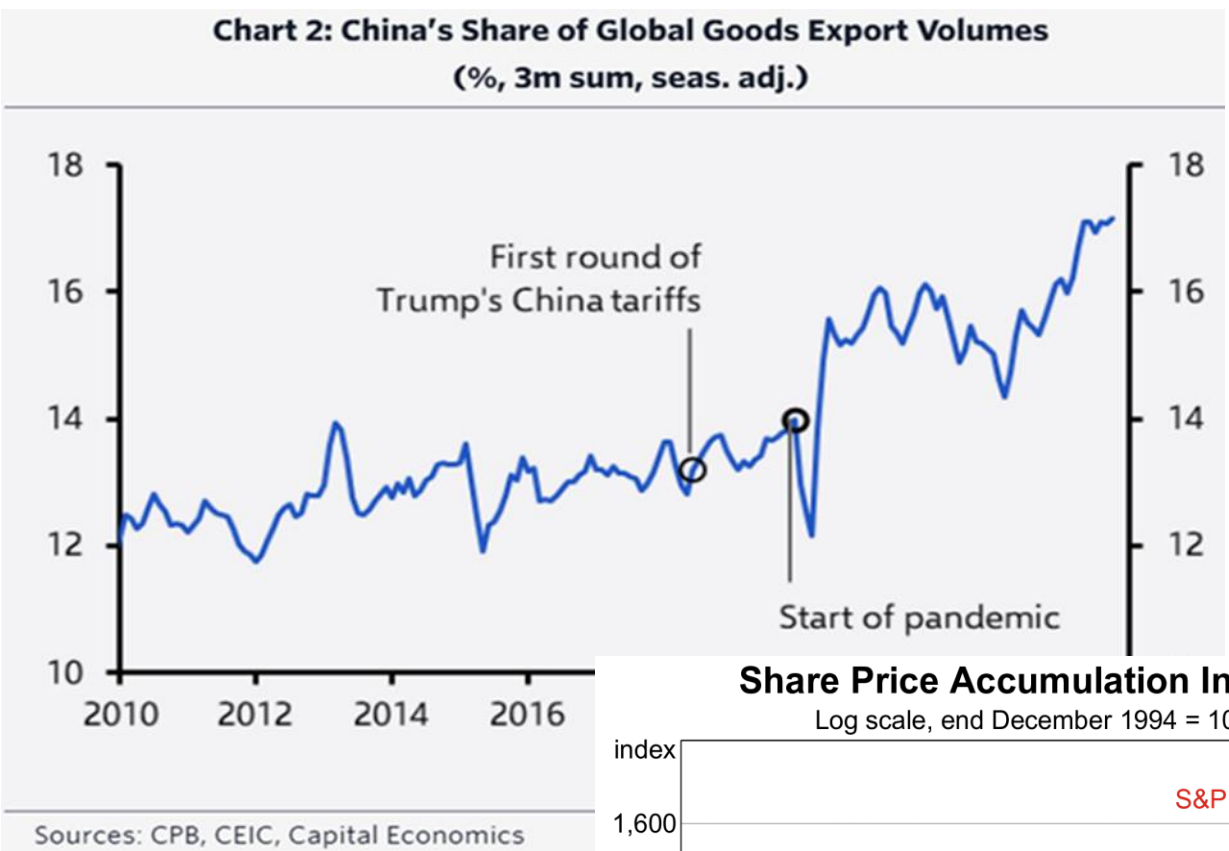
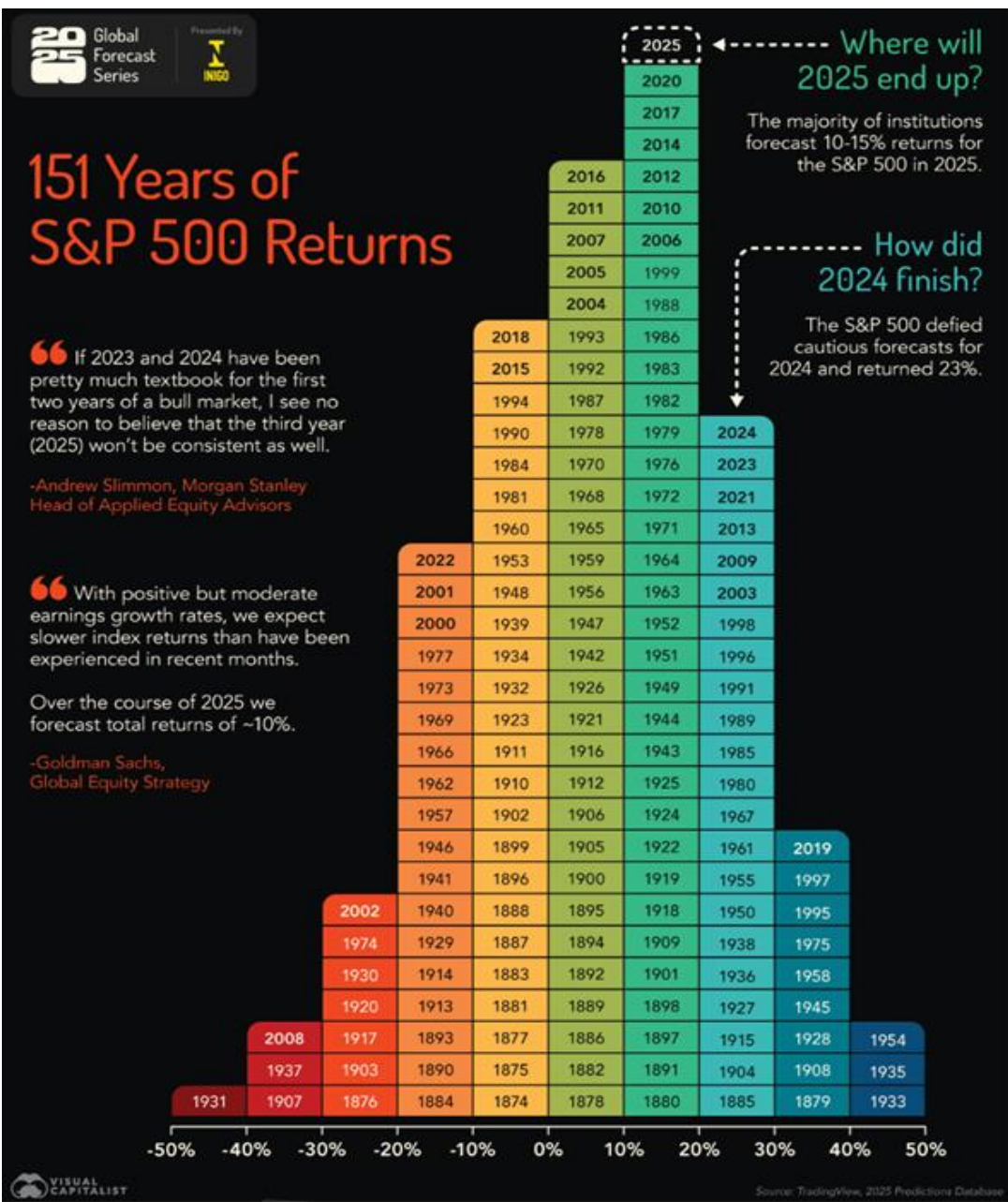


* Outliers during the COVID-19 pandemic have been truncated.

Sources: ABS; RBA.

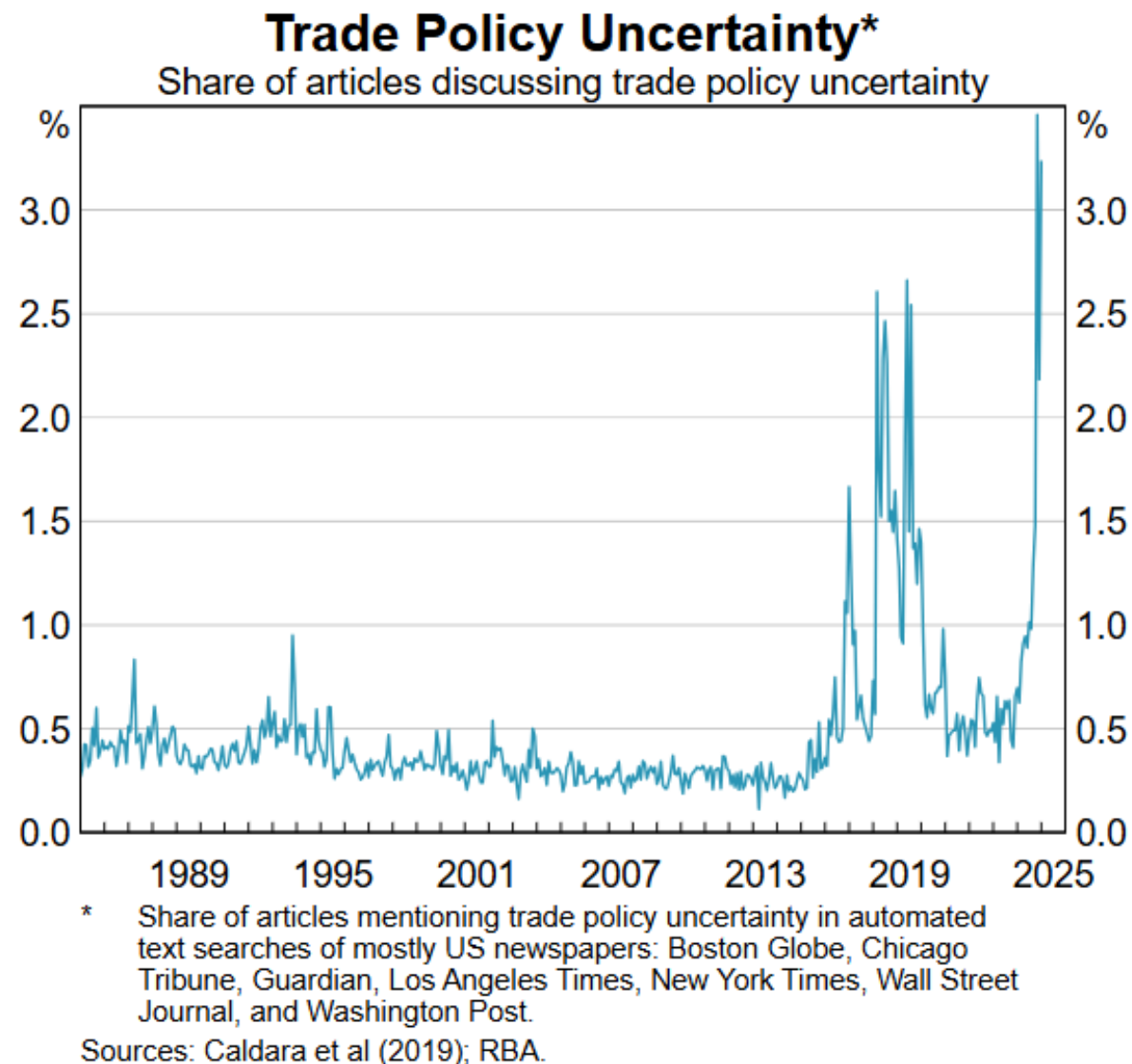
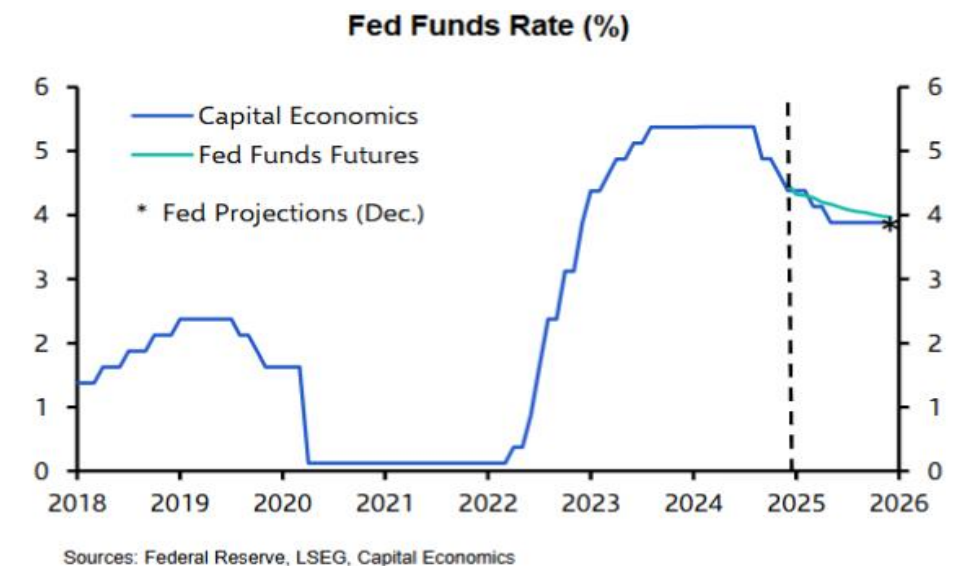
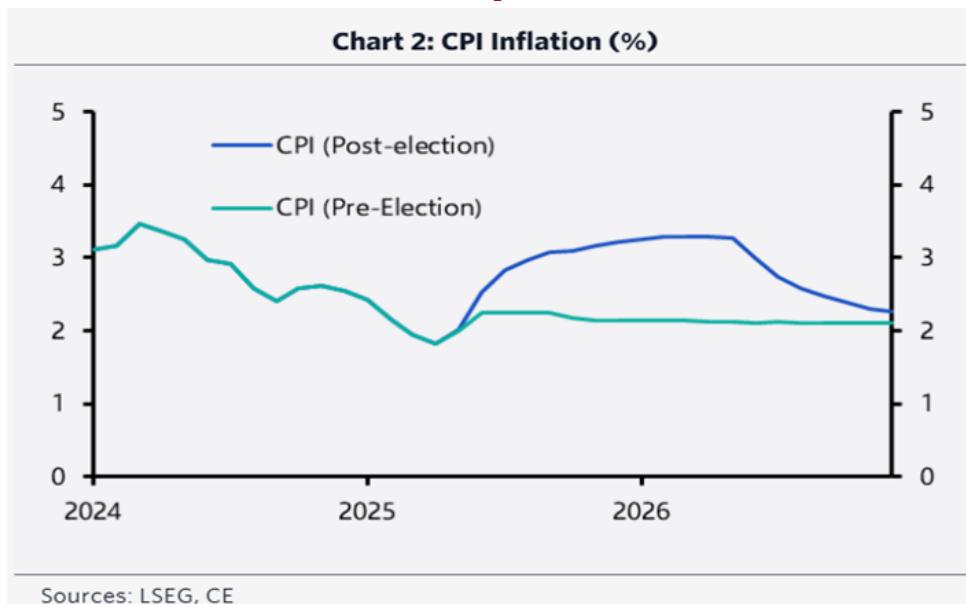
Fun fact: Australian superannuation assets now exceed A\$ 4 Trillion, while total residential dwellings are valued at over A\$11 Tn (with mortgage debt of just under A\$3 Tn)

Geopolitics more complicated than ever in 2025 (but stock markets are were coping)



Fun fact: In 2024 the 'magnificent 7' tech stocks put on 63 %, led by Nvidia up 171 % (vs the Nasdaq +30 %)

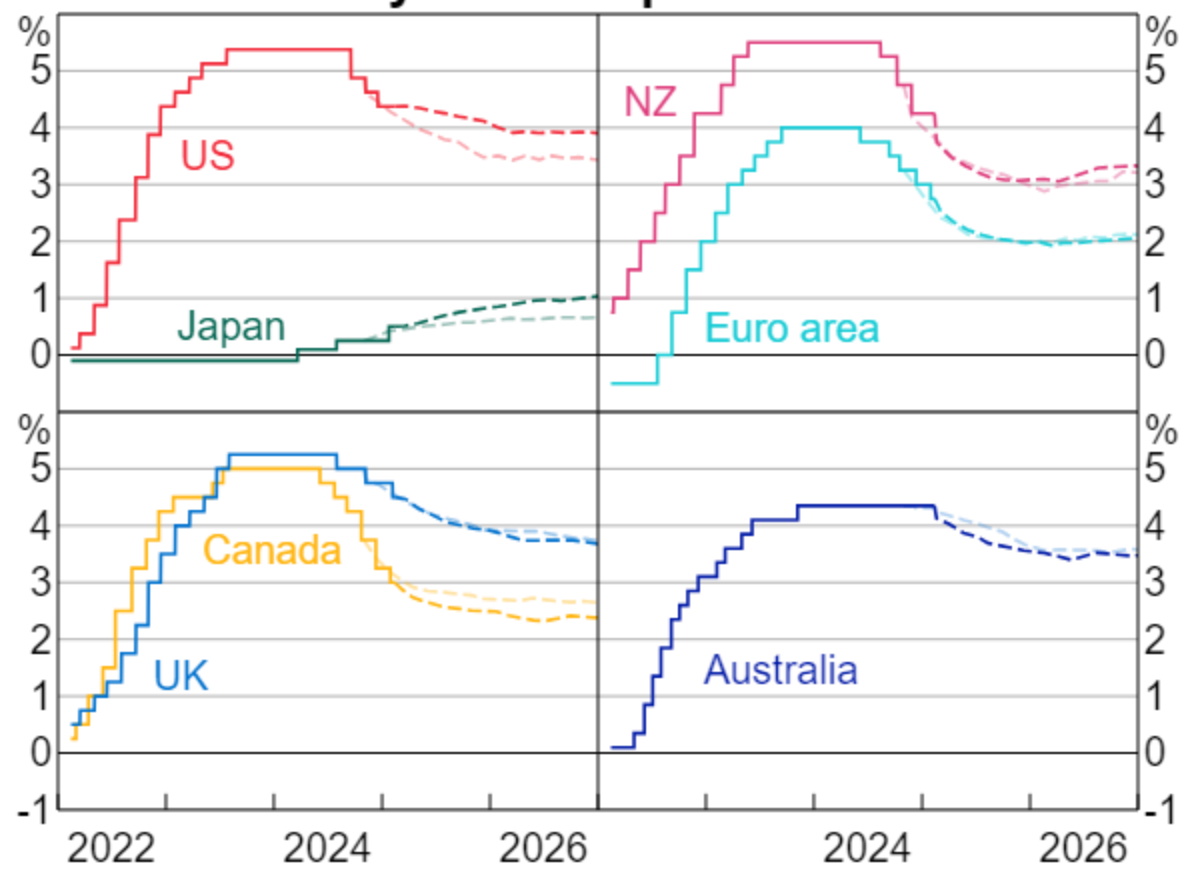
How tariffs actually work (and who pays)



Fun fact: In June '24 sixteen Nobel Prize-winning economists signed an open public letter warning that Trump's proposed tariffs would reignite inflation in the US.

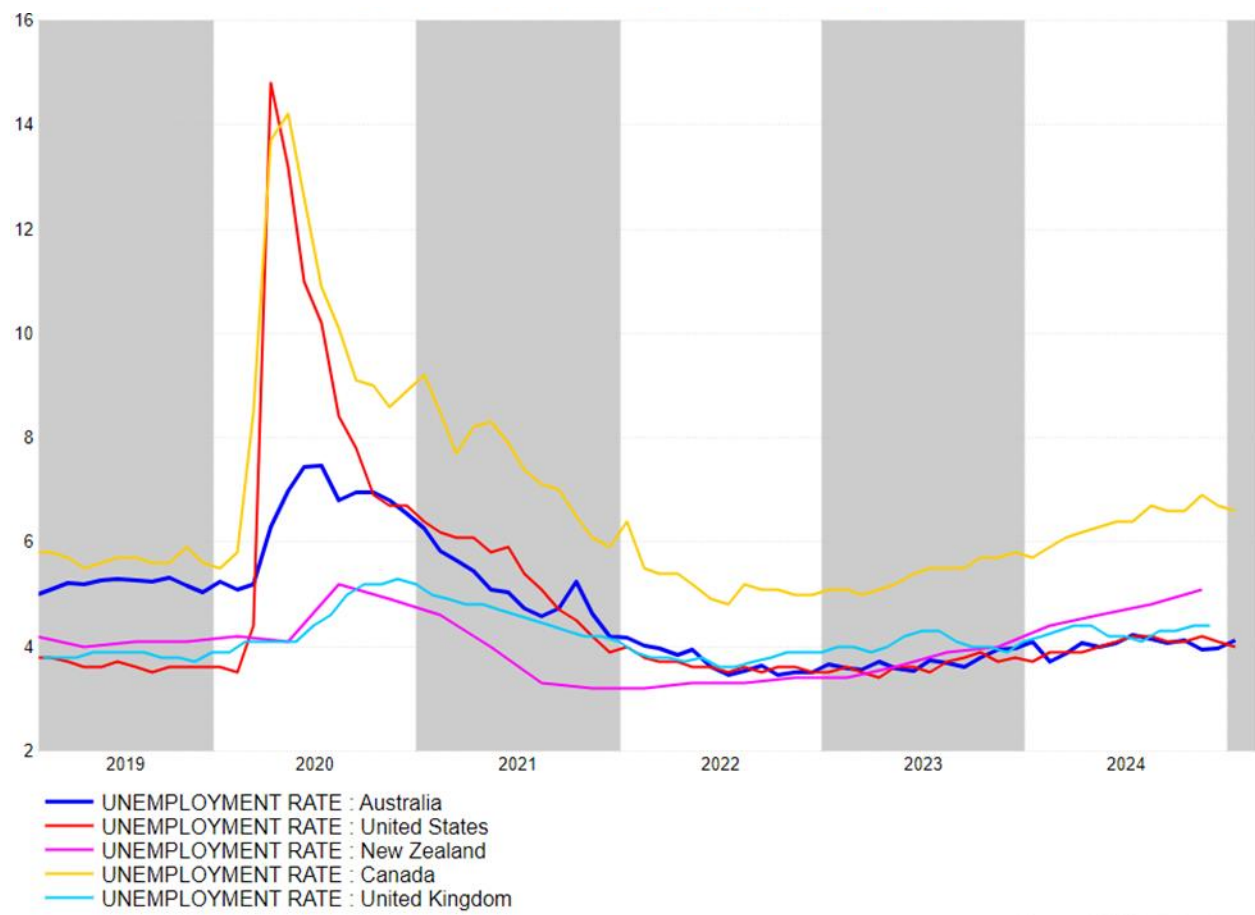
More RBA rate cuts are coming, but only to around a 'neutral' rate

Policy Rate Expectations*



* Darker dashed lines show expectations implied by current overnight index swap rates; lighter dashed lines show the same expectations as of 31 October 2024.

Sources: Bloomberg; RBA.

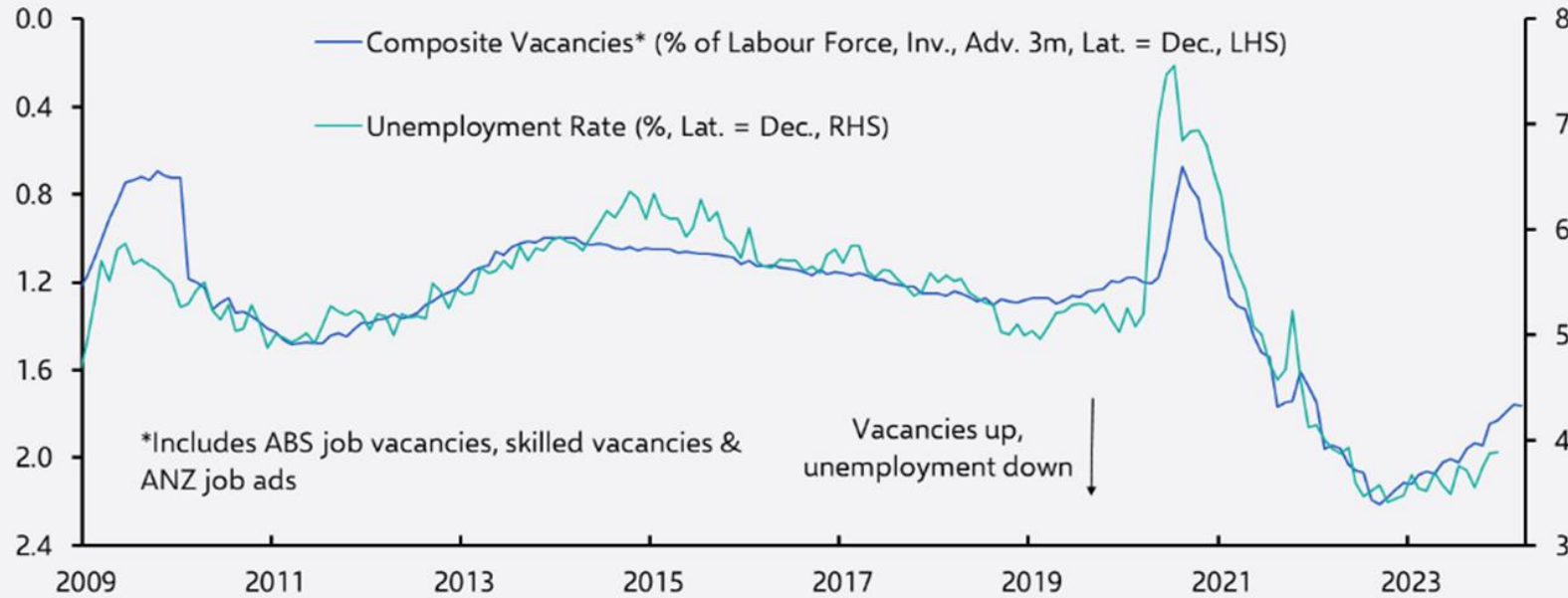


Source: LSEG Datastream

Fun fact: Japan's official interest rate was last above 1% in 1995.

A jump to 'full employment' (c 4.5 %) would allow more RBA cuts...but it's not happening yet

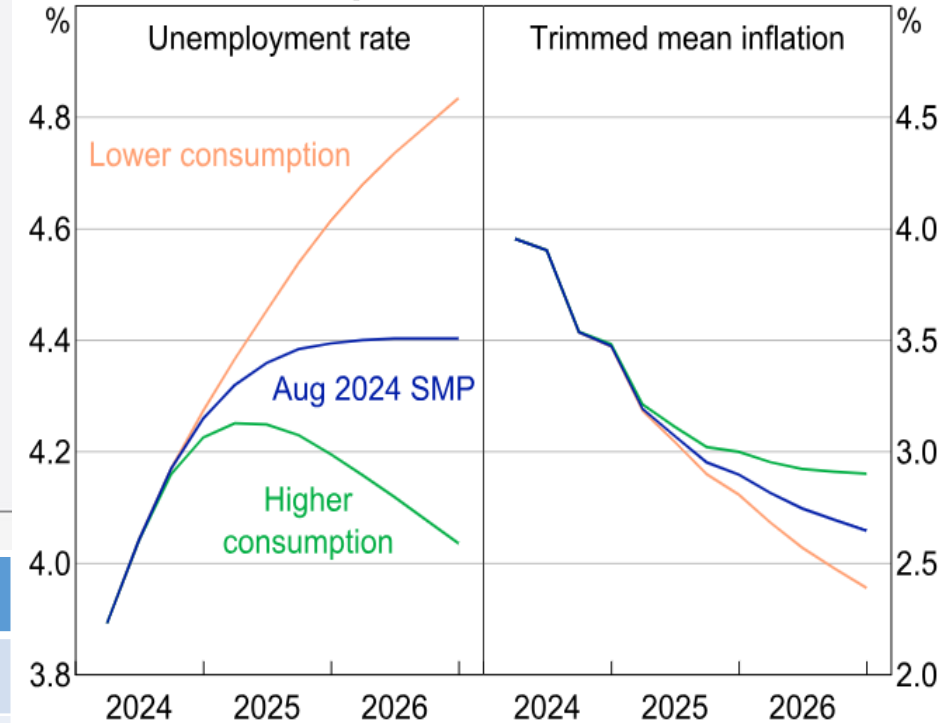
Chart 1: Composite Vacancies & Unemployment Rate



Sources: ABS, ANZ, Refinitiv, Capital Economics

Unemployment rate	(trend)	Unemployment rate	(trend)
ACT	3.2 %	Tas.	4.0 %
W.A.	3.5 %	S.A.	4.1 %
QLD.	3.9 %	N.T.	4.4 %
NSW	3.9 %	VIC	4.6 %

Consumption Risks Scenario*



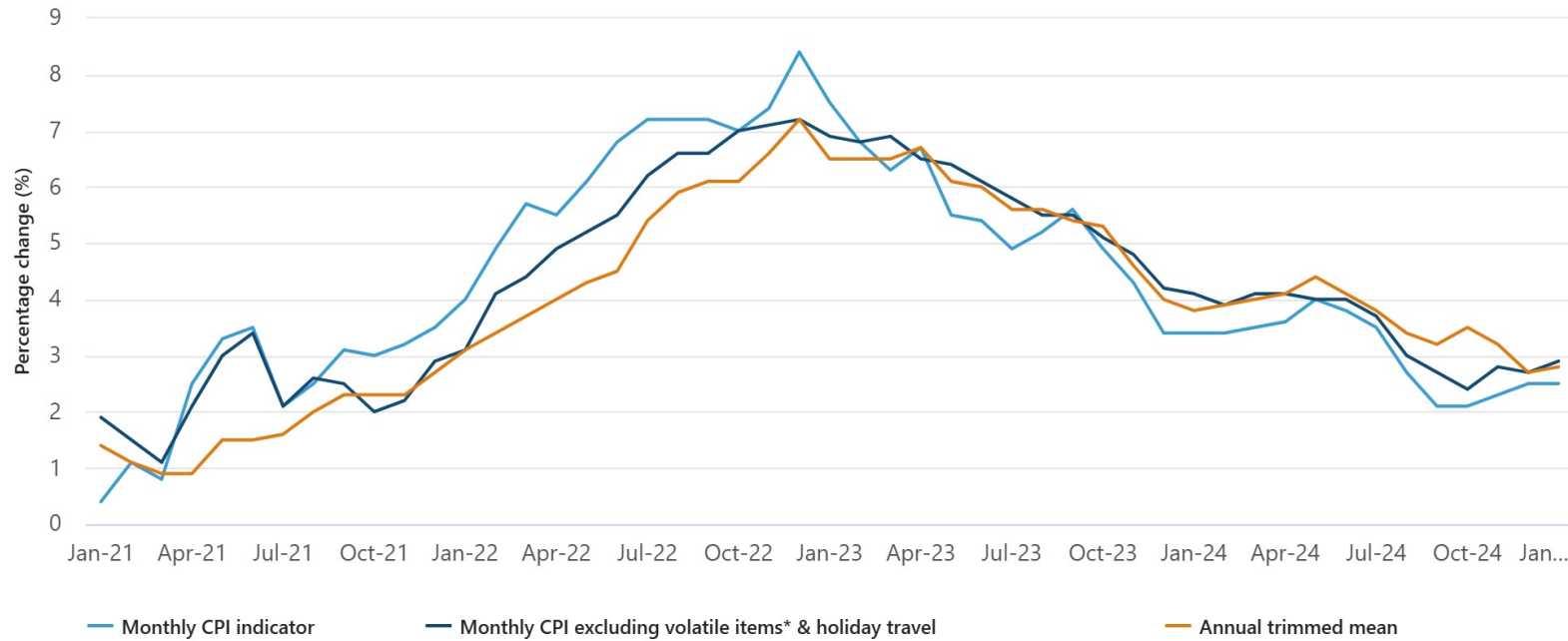
* Scenario assumes exchange rate and policy path are fixed to August 2024 SMP assumptions.

Sources: ABS; RBA.

Fun fact: Australia's unemployment rate fell to 3.4 % in October '22, its lowest level since 1974. Today's level of 4.0% is the still lower than any time since 1975

CPI is back to 'normal' but core inflation has lagged

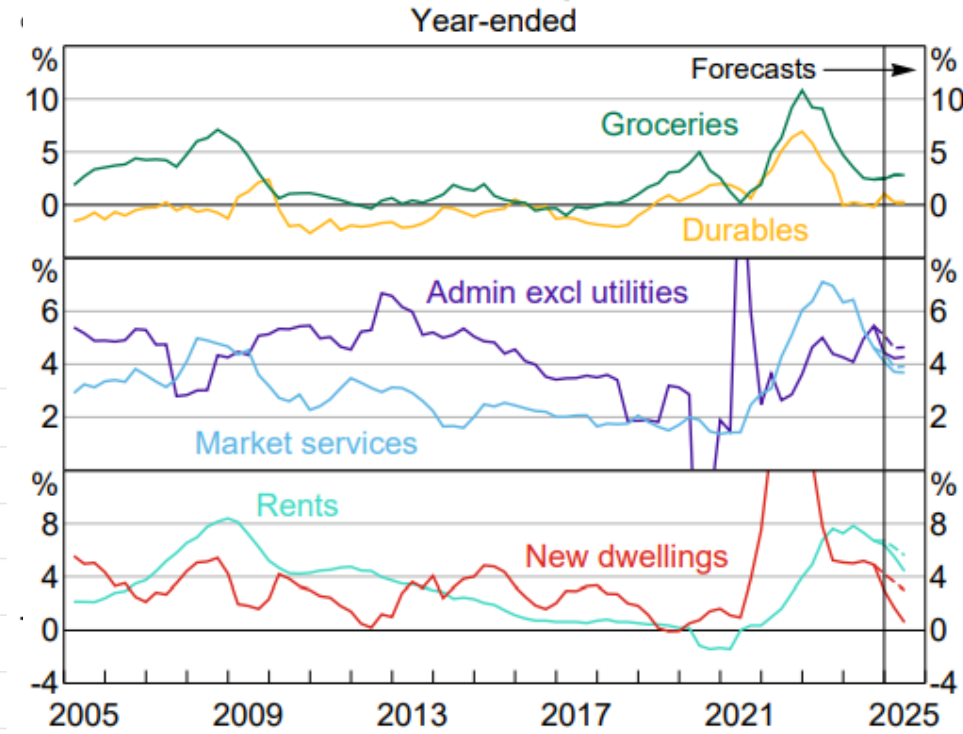
All groups monthly CPI indicator, Australia, annual movement (%)



*Volatile items are Fruit and vegetables and Automotive fuel

Source: Australian Bureau of Statistics, Monthly Consumer Price Index Indicator January 2025

Inflation Forecasts by Component*



* Groceries excludes fruit & vegetables; market services excludes domestic holiday travel & accommodation and telecommunications; dashed lines are previous forecasts; outliers during the COVID-19 pandemic have been truncated.

Sources: ABS; RBA.

Fun fact: 'Housing' is the largest component in the CPI basket, weighted at 22 %.

The next largest is 'Food and non-alcoholic beverages' : 17 %

Property values to be primarily driven by supply, not RBA rates

Value of total building approvals

Fraser Coast Regional Council

■ Non Residential ■ Residential

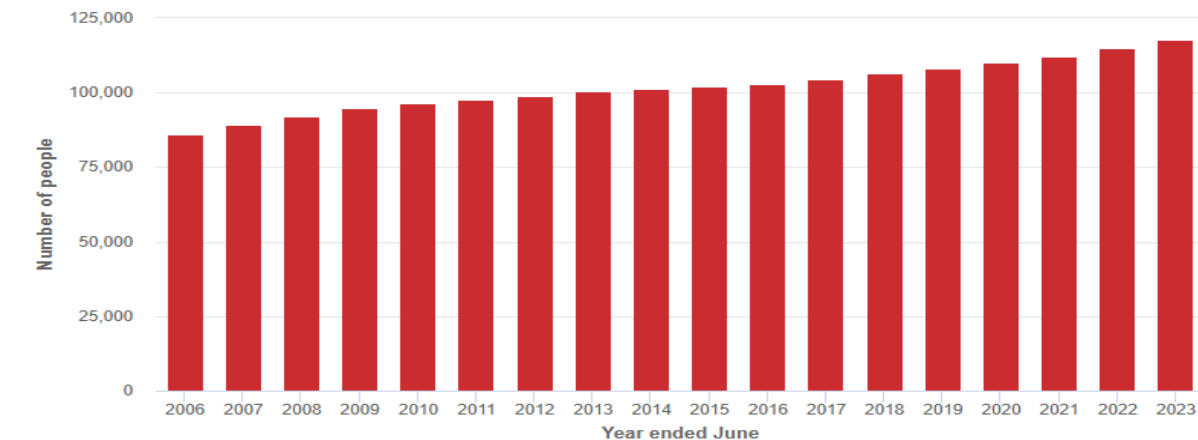


Source: Australian Bureau of Statistics, Building Approvals, Australia, catalogue number 8731.0. Compiled and presented in economy.id by .id (informed decisions)

.id informed decisions

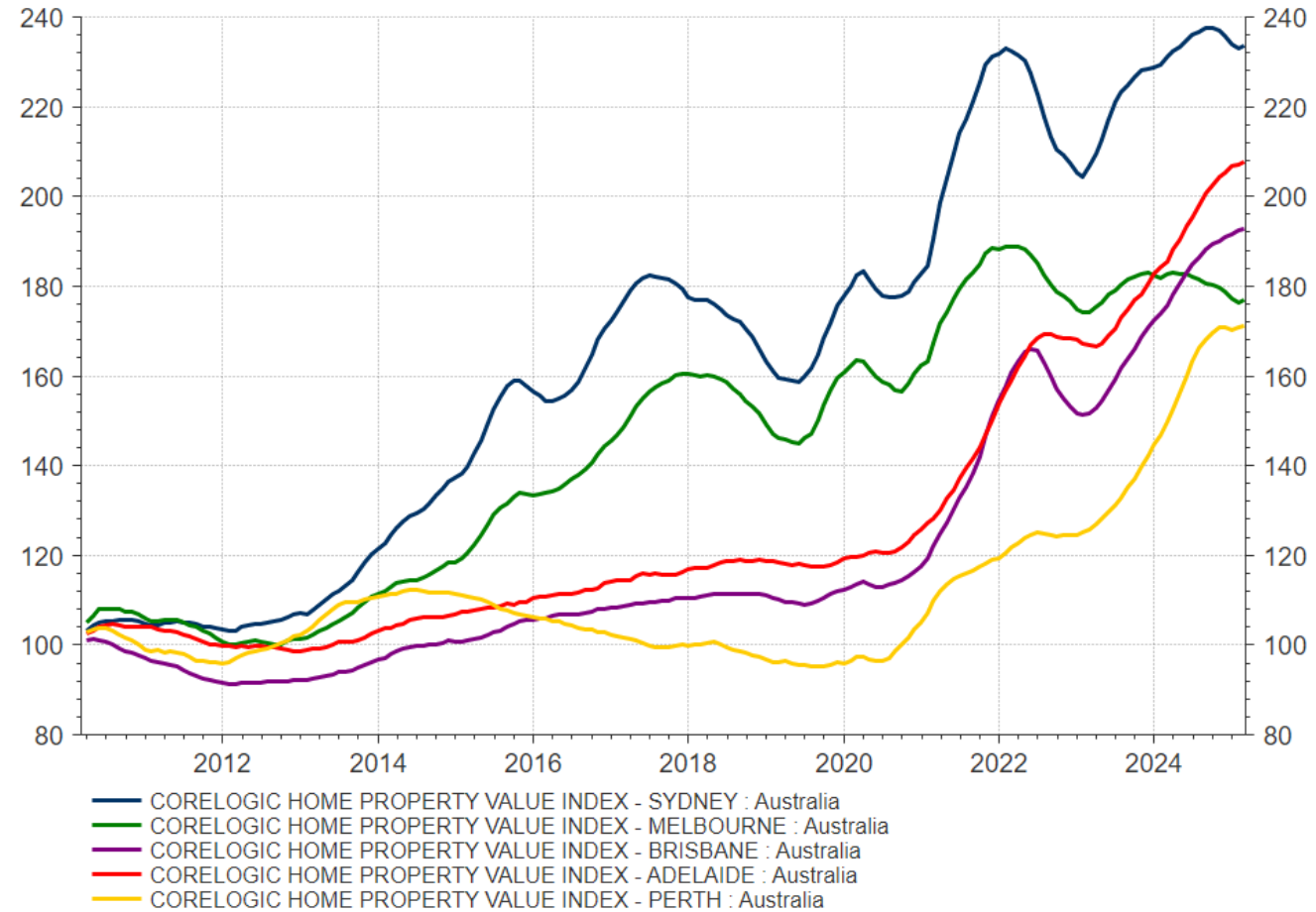
Estimated Resident Population (ERP)

Fraser Coast Regional Council



Source: Australian Bureau of Statistics, Regional Population Growth, Australia (3218.0). Compiled and presented by .id (informed decisions)

.id informed decisions



Source: LSEG Datastream

Business conditions to feed off consumer demand in 2025

Fraser Coast Regional Council - Gross Regional Product



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



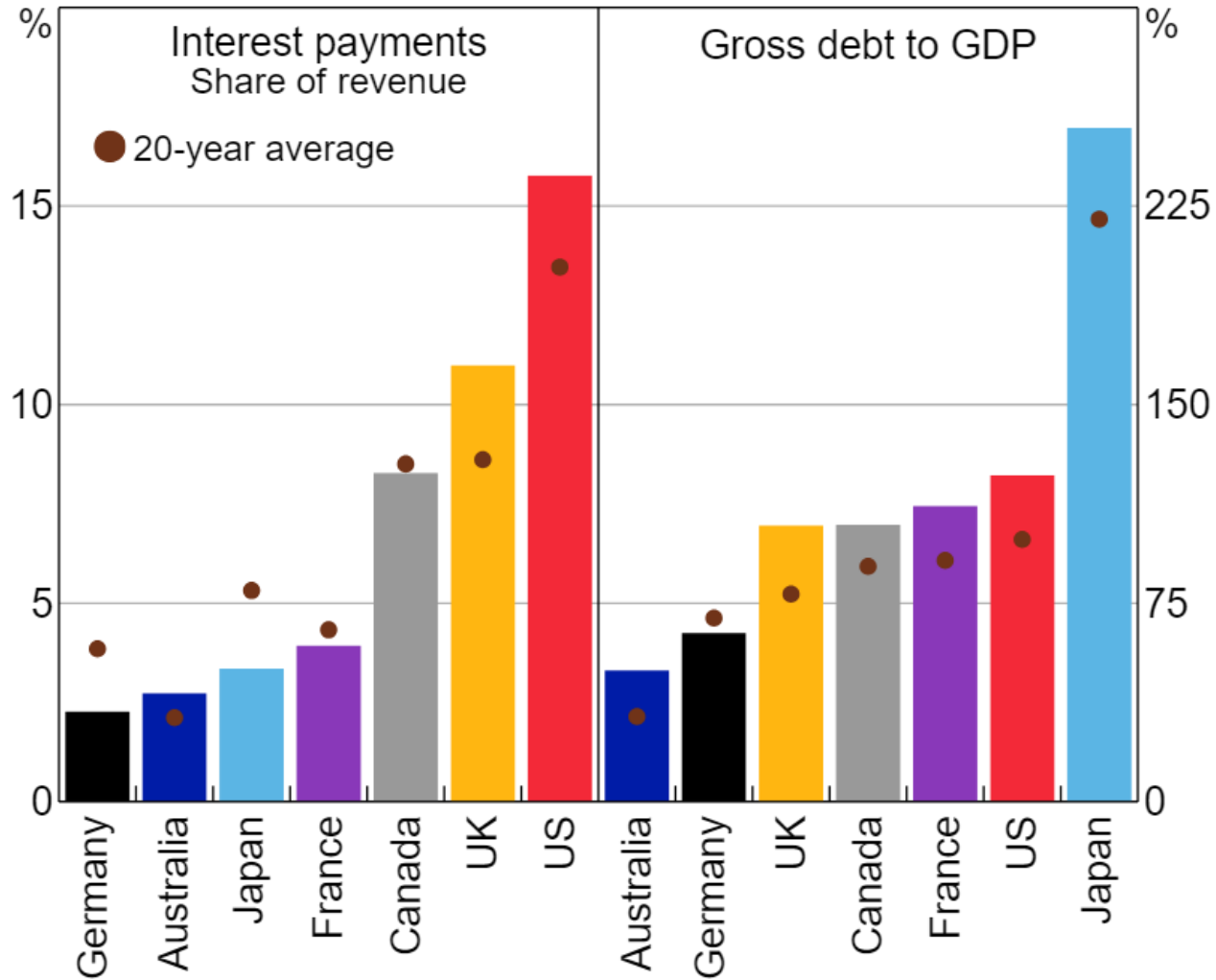
.id informed decisions

Fun fact: Of the 2.6 million businesses in Australia, 97 per cent are defined as 'small' (less than 20 employees), with a further 2 per cent of firms classified as 'medium-sized' (between 20 and 200 employees).

The next global black swan event?

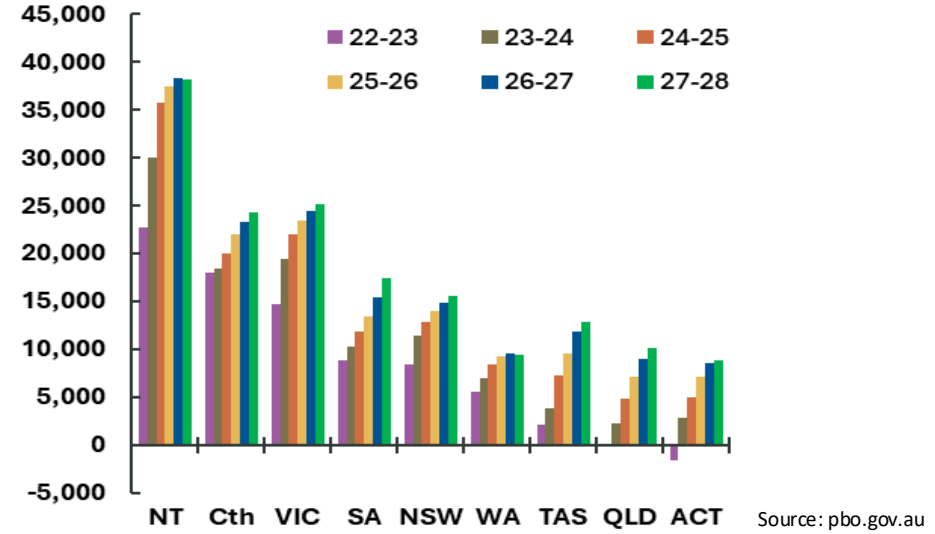
Sovereign Debt

Latest observation April 2024



Sources: IMF; Refinitiv.

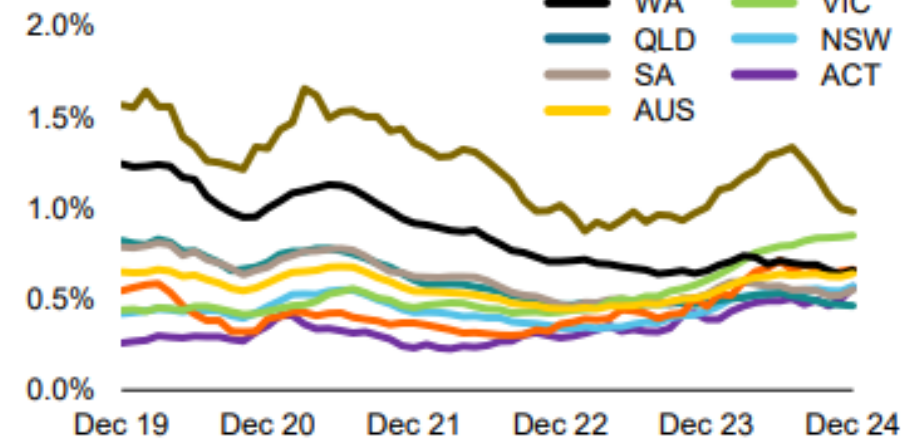
Chart 4: Net debt per capita (\$)



Source: pbo.gov.au

State

90+ days¹



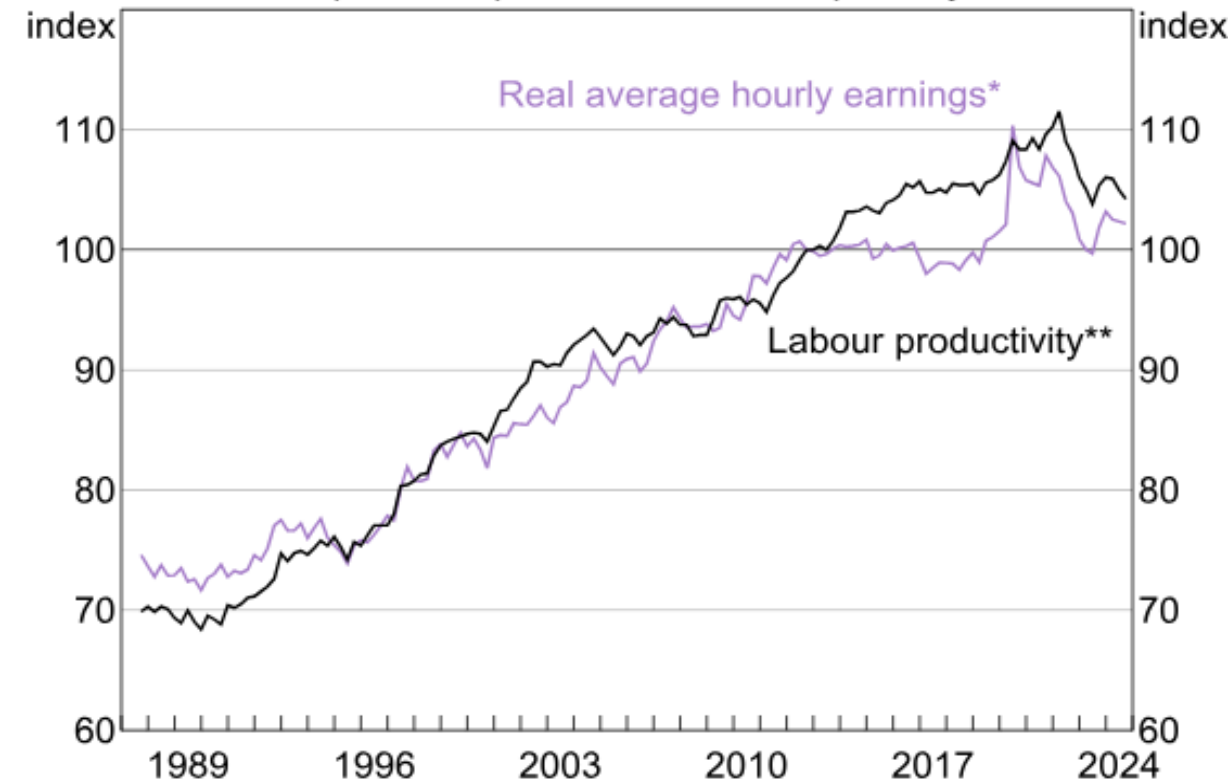
Mortgages, Commonwealth Portfolio Loan, Residential Mortgage Group and

Fun fact: The annual interest bill on US government debt now exceeds US\$1 Trillion. Btw: a trillion is a really large number...a million seconds is 11 ½ days, a billion seconds is 31 ½ years, but a trillion seconds is 31 710 years.

The big issue here: fixing productivity- the secret sauce to living standards

Real Wages and Productivity

September quarter 2012 = 100, quarterly



* Real average hourly earnings is the ratio of average hourly earnings (AENA) to the consumer price index; AENA includes all parts of compensation to employees, including bonuses, superannuation and the effect of labour compositional change.

** Non-farm GDP per hour worked.

Sources: ABS; RBA.

The solution?

- **Bold structural reform**
 - Tax
 - Education
 - Industrial Relations
- **Reduce bureaucracy** and regulatory burdens
- **Competition** and R&D incentives
- **Regional Australia's role** in housing supply, unique resources/ TTNZ/ immigration etc
- **Listen to the Productivity Commission!**
 - A more adaptable workforce
 - Better harnessing of new technologies
 - Improving the efficiency of the public sector
 - Etc, etc, etc...

Fun fact: Australia has one of the least competitive company tax rates in the OECD. We're the third highest, with only Columbia and Portugal having a higher tax rate.





10 predictions for 2025

1. **More rate cuts in Europe and Canada** taking official rates to near **2 %**
2. Rate cuts also in **US, UK and New Zealand** but only down to around **4 %**
3. More policy support in **Chinese achieving 4 % + growth** despite trade wars
4. Financial markets to become **even more volatile for FX, bonds and stocks**
5. **US tariffs** will end the period of 'US exceptionalism' and risk **stagflation in H2** of '25
6. **RBA to cut rates 3-4 times** : a shallow easing cycle to around **3 ½ %**
7. **Core inflation** to fall to below 3% in **Q1 '25** (released April 30th)
8. **Unemployment** to trend higher... **> 4.5 %** (above RBA forecasts)
9. Australia **less impacted by tariffs**, AAA rating to guard us from global sovereign debt fears
10. Gains in **house prices nationally** much more modest (**less than 3 %**) with WA, QLD and SA gains offsetting small falls in Victoria and NSW

Fun fact: The equation **2025 = 45 x 45** is also correct if all its digits are increased by 1
(3136 = 56 x 56) NB The last time this coincidence occurred was the year 25 (= 5 x 5)

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	2025
	$(20+25)^2$
	$(1+2+3+4+5+6+7+8+9)^2$
	$1^3+2^3+3^3+4^3+5^3+6^3+7^3+8^3+9^3$