

FY25 Economic and Market Outlook

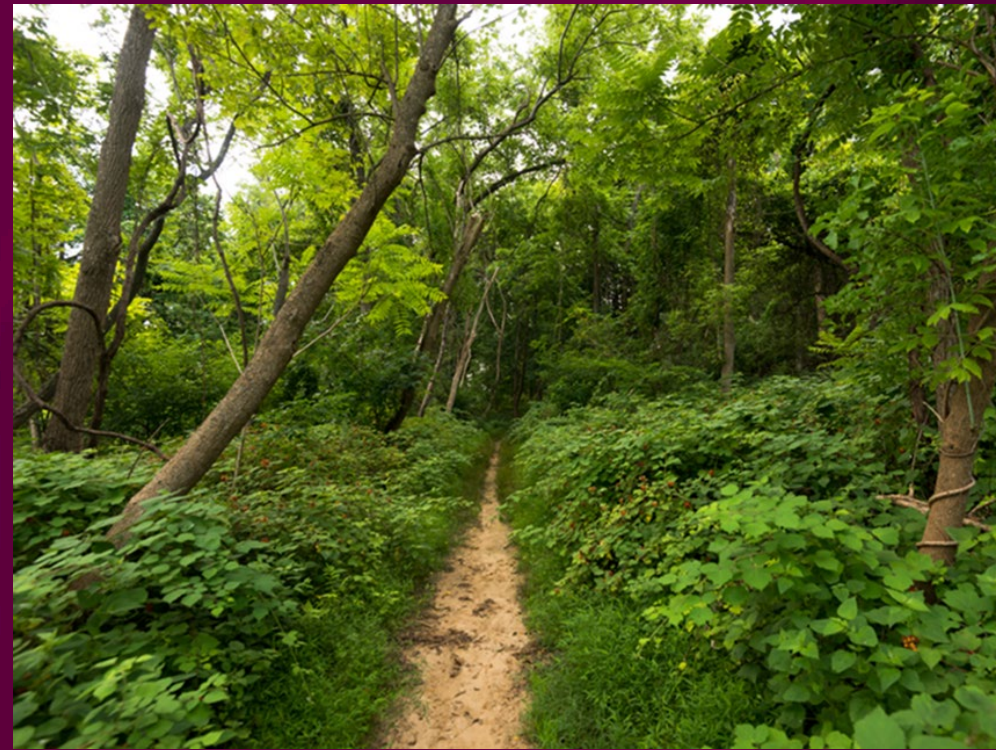
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Themes for FY25

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

Geopolitical tensions becoming more intense...and adding to inflationary risks.

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

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



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**



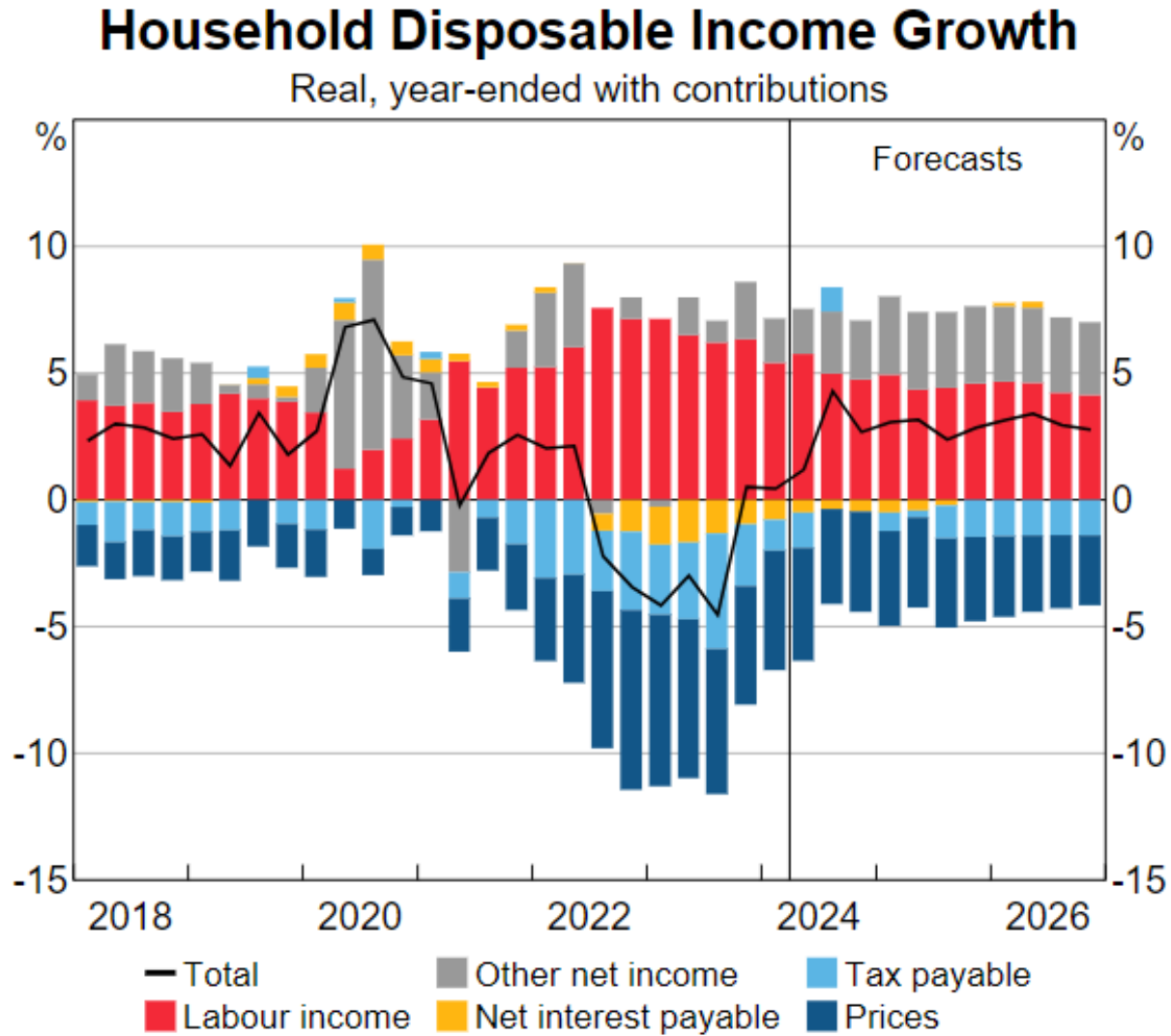
Top 10 economics quotes:

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

John Maynard Keynes

8
OUT
OF
10

Cost of living crisis = Inflation crisis



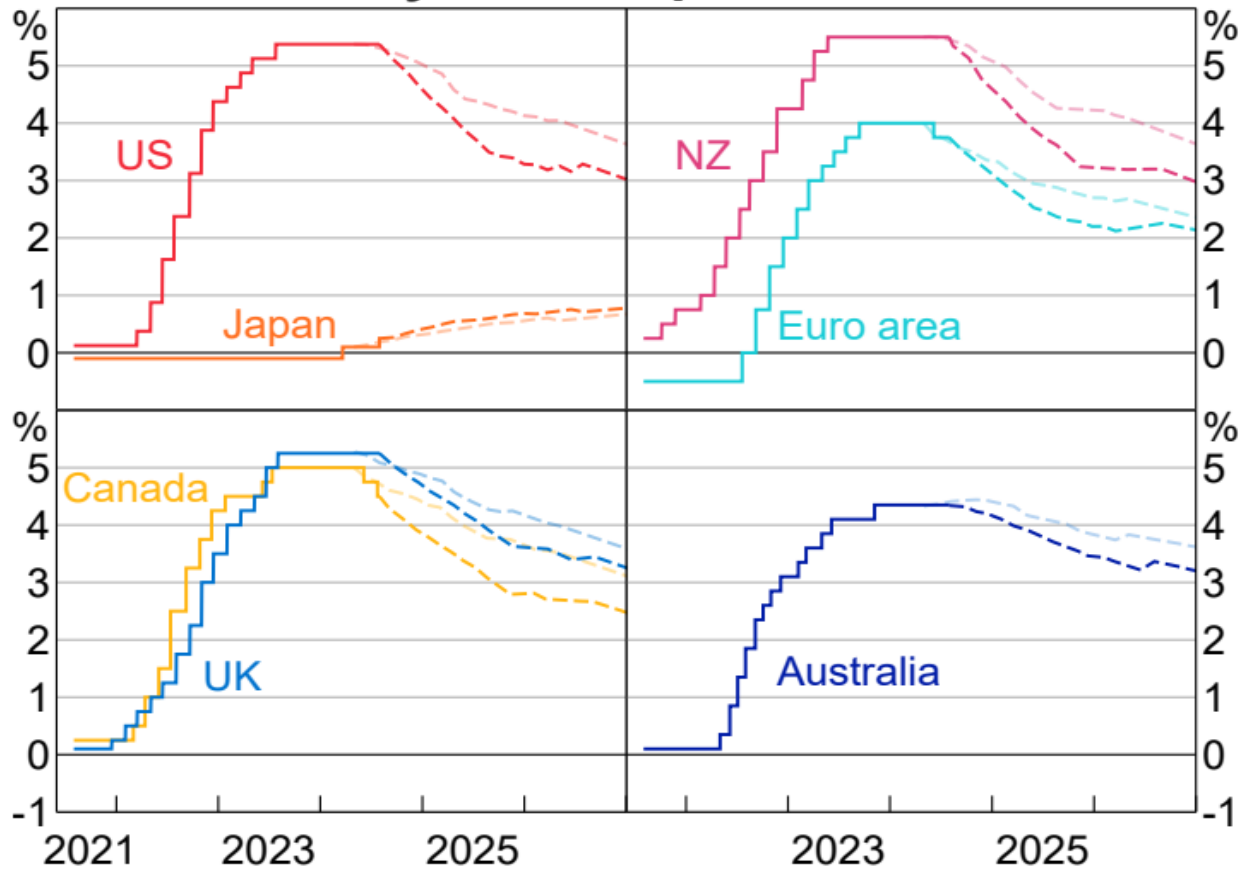
Sources: ABS; RBA.

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

Policy Rate Expectations*



* 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.

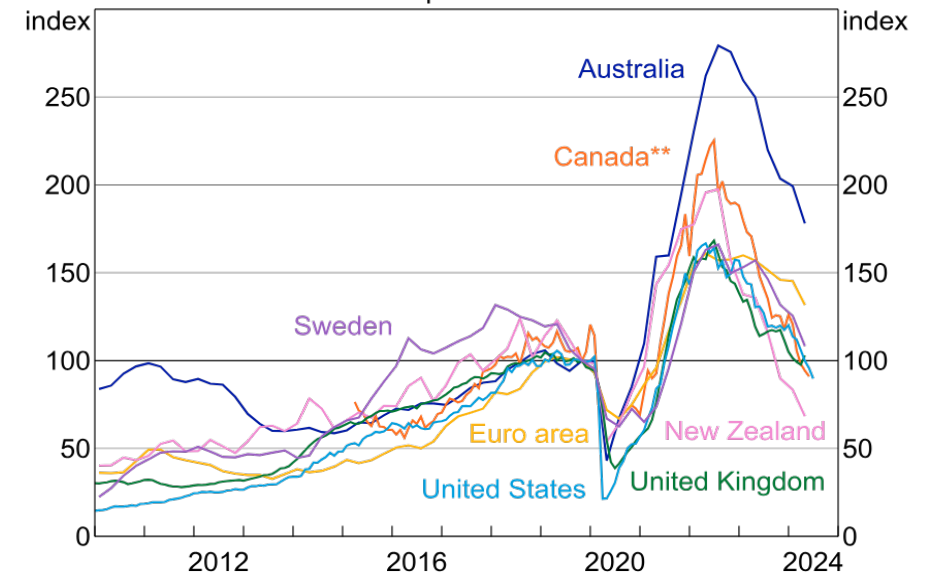
Top 10 Charlie Munger quotes:

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

Forecasts for 2025:	12/24	6/25	12 / 25
RBA OCR (12/23: 4.35 %)	4.35 %	4.1 %	3.6 %
GDP growth (1.5 %)	1.2 %	1.9 %	2.3 %
Unemployment (3.9 %)	4.4 %	4.8 %	5.2 %
Core CPI (4.2 %)	3.3 %	3.0 %	2.9 %
Resi. Property (+ 8.1 %)	+ 6.5 %	+ 4.5 %	+ 3.5 %
AUD / USD (.6820)	73 c	75 c	77 c

Vacancy-to-unemployment Ratios*

December quarter 2019 = 100



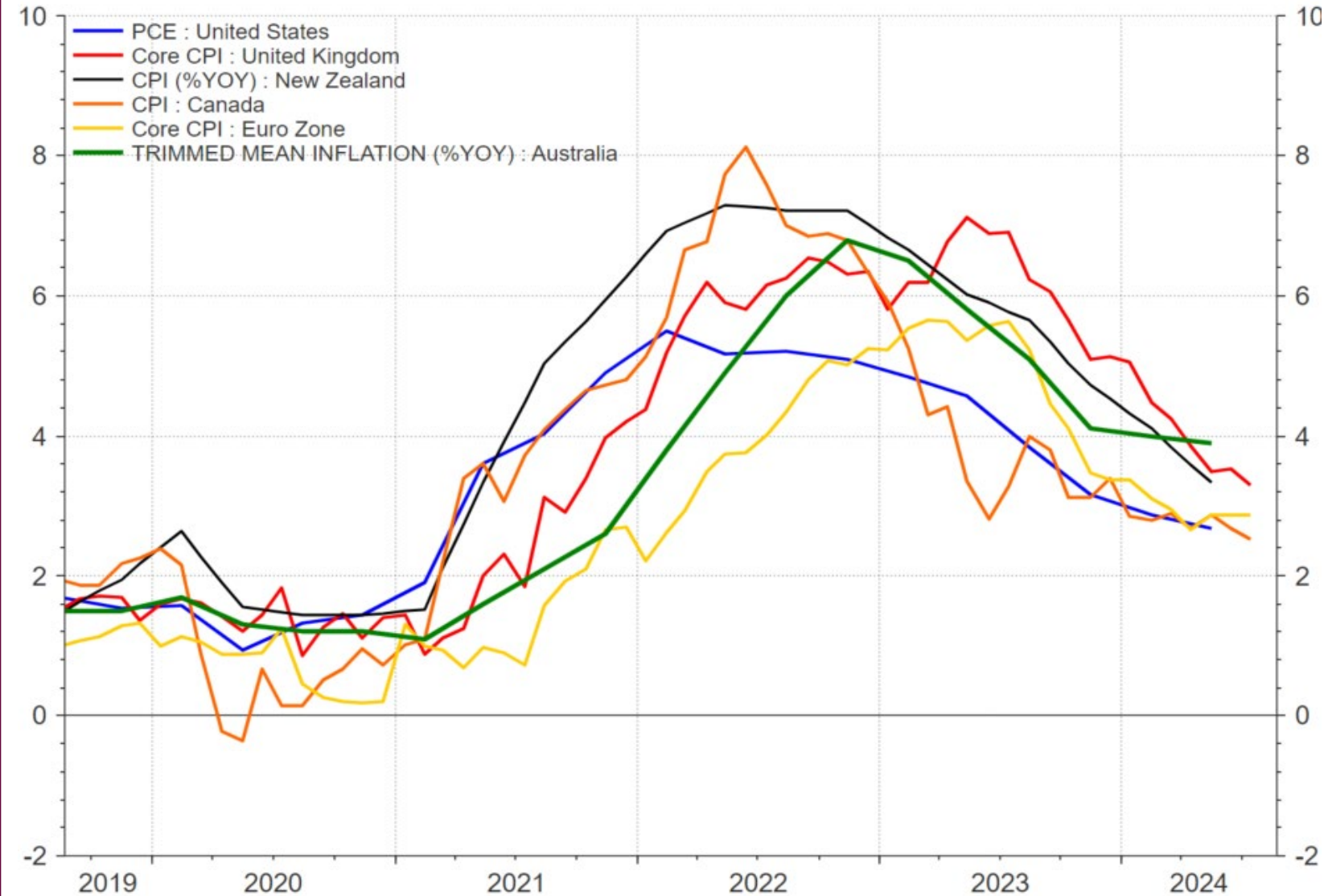
* Data for the United States, the United Kingdom and Canada are monthly, and are indexed to November 2019.

** Canadian vacancies data are unavailable for the June and September quarters of 2020.

Sources: Eurostat; LSEG; RBA.



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



Source: LSEG Datastream

- 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



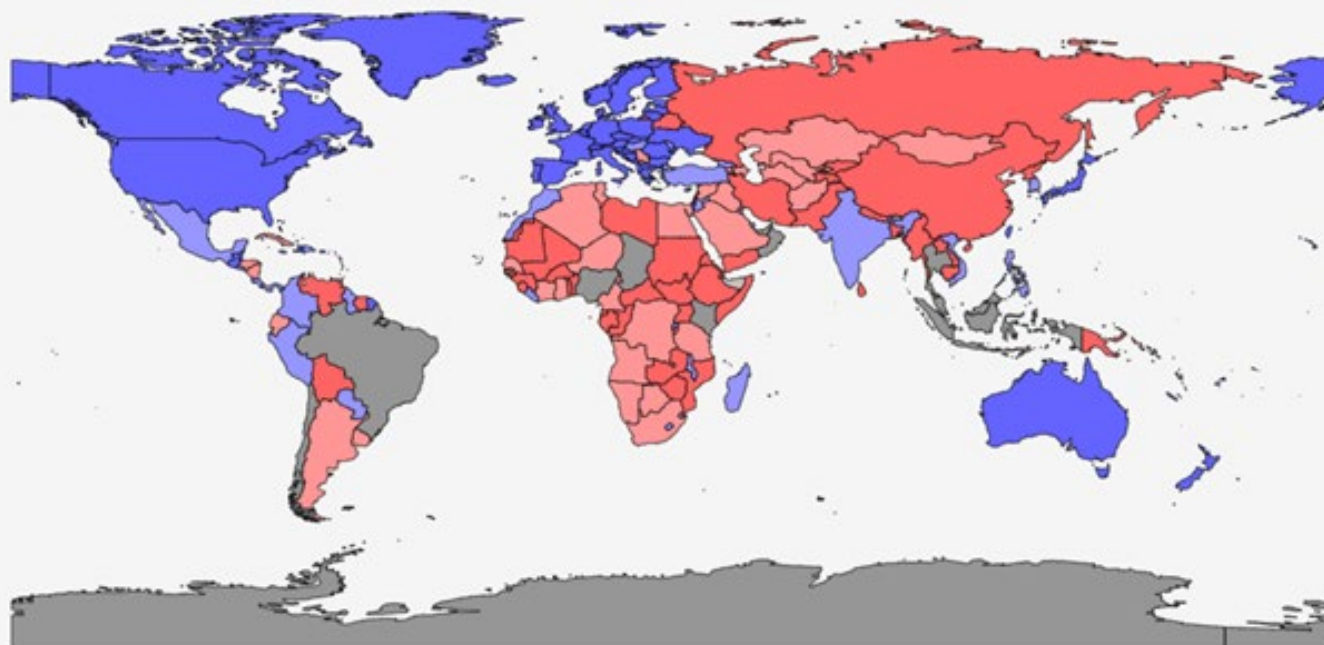
Top 10 Charlie Munger quotes:

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

CE Classification of Geopolitical Alignment

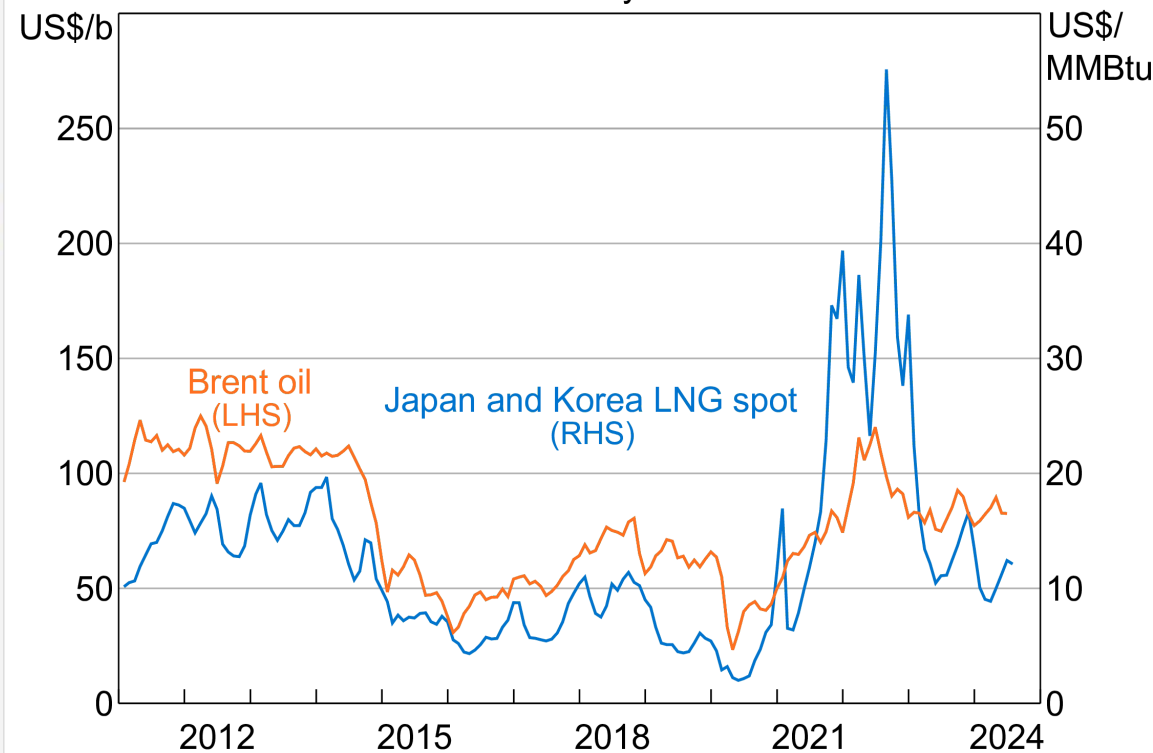
● US & allies ● Leans US ● Unaligned ● Leans China ● China & allies



Sources: World Bank, Capital Economics

Oil and LNG Prices

Monthly



Sources: Bloomberg; LSEG; RBA.

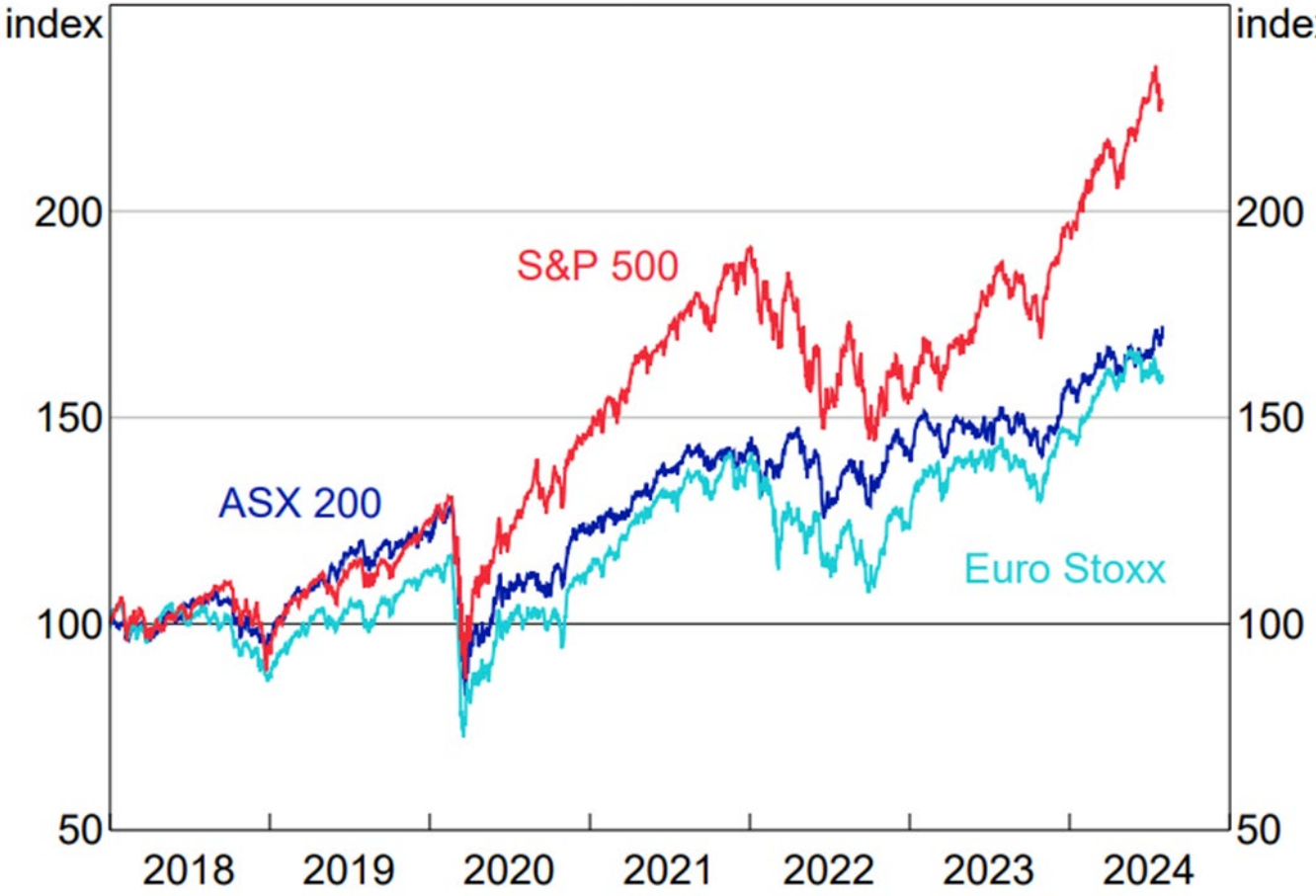
Top 10 Charlie Munger quotes:

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

Equities near record highs: Aussie Dollar set to appreciate

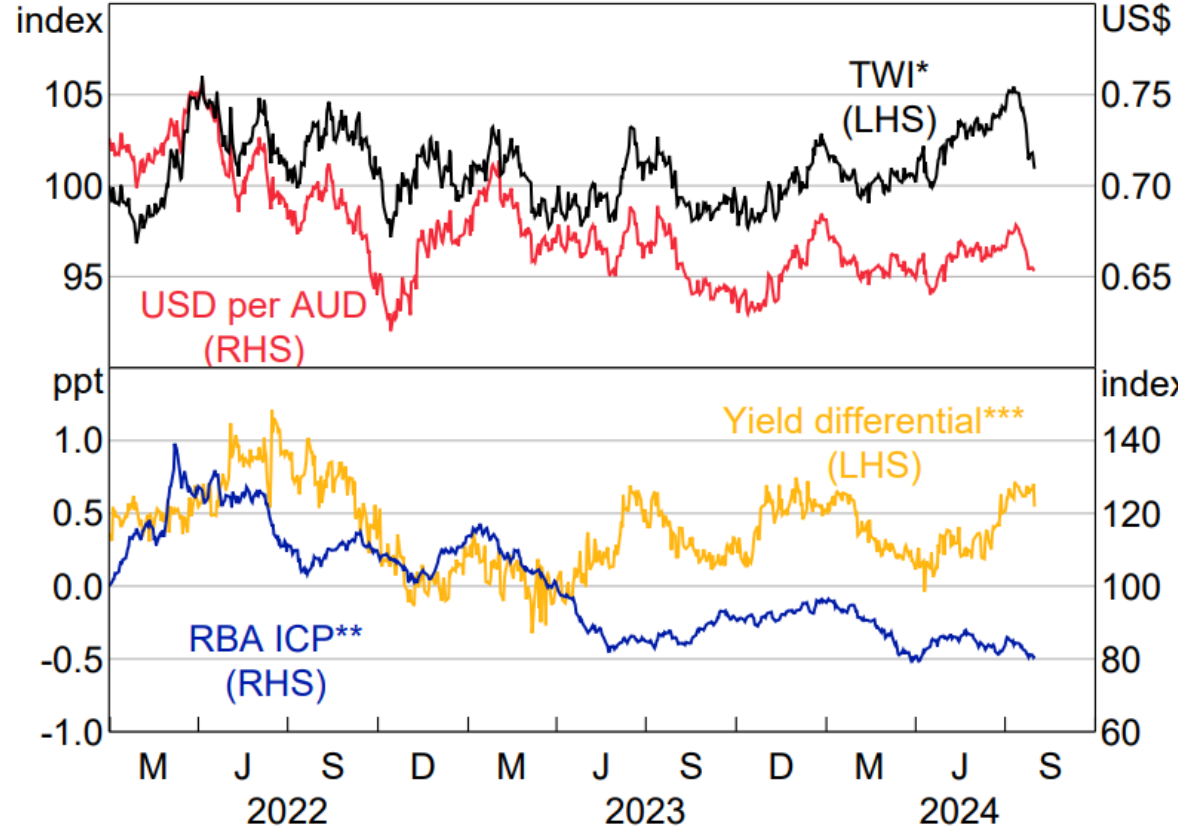
Equity Prices*

1 January 2018 = 100



* Total return basis.
Sources: Bloomberg; LSEG.

Australian Dollar



* Trade-weighted index; 31 December 2021 = 100.
** Index of Commodity Prices (USD terms); 31 December 2021 = 100.
*** Three-year Australian sovereign yield less yields of the United States, Japan and Germany, weighted by GDP.

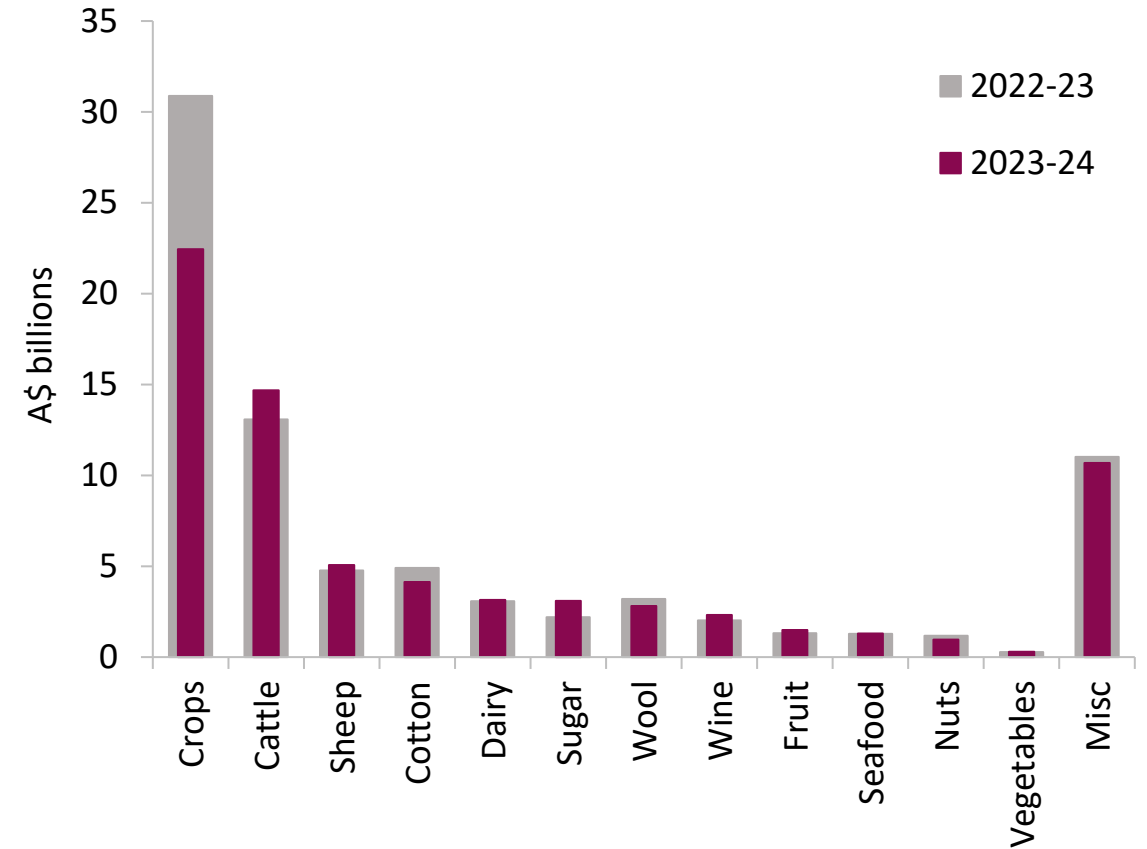
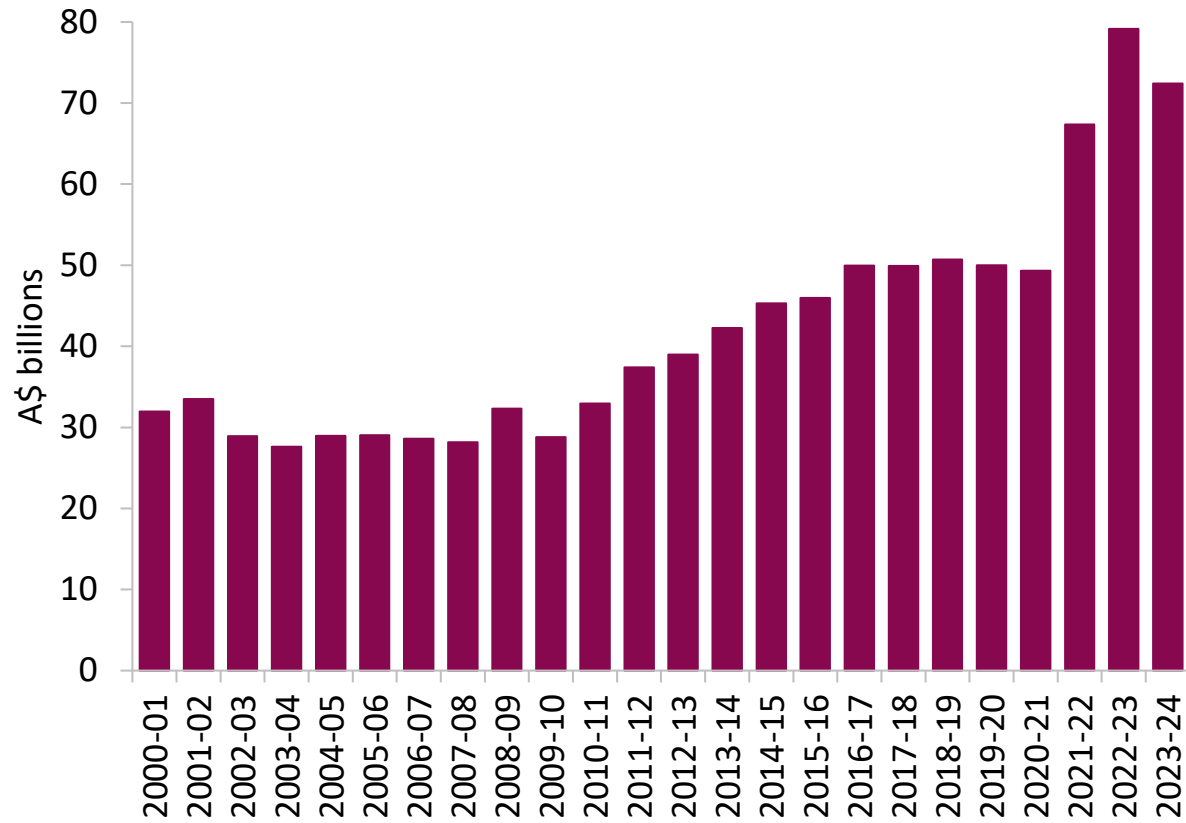
Sources: Bloomberg; RBA.

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."

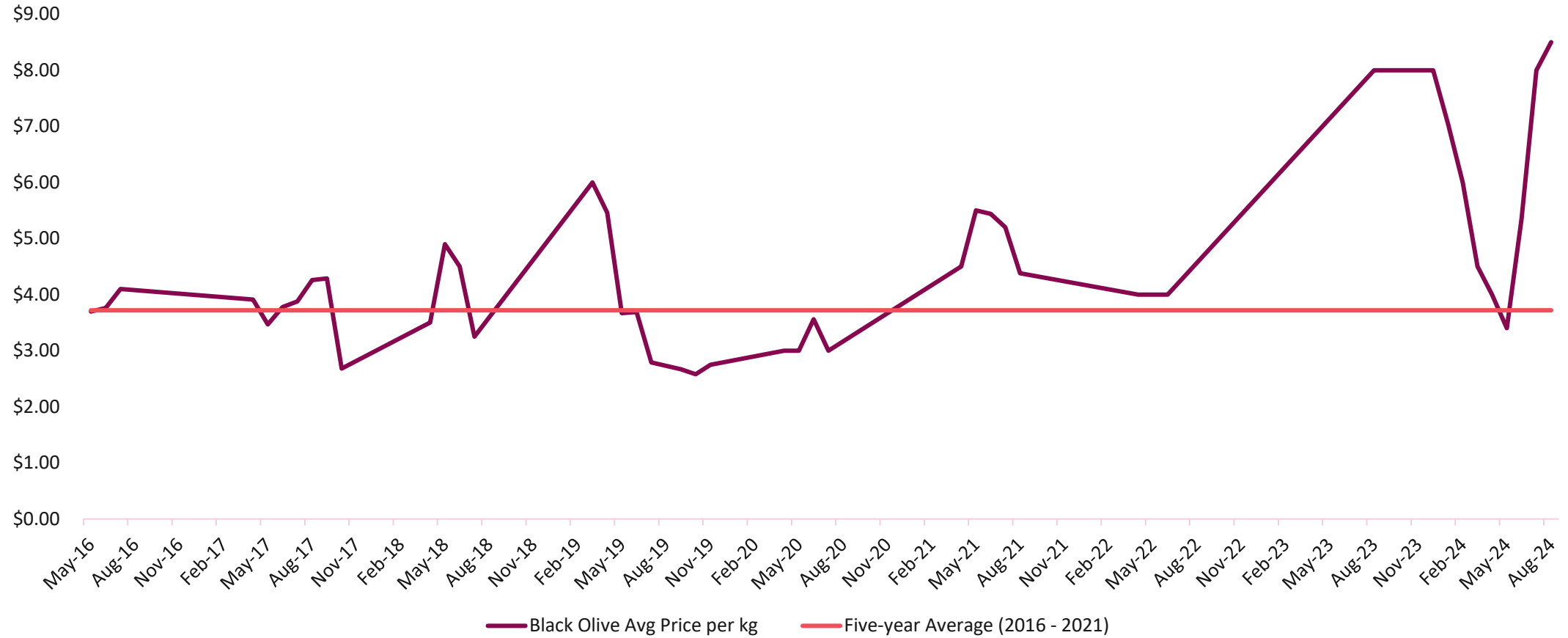


Value of Australian Agricultural Exports



Domestic Olive Prices Remain Elevated

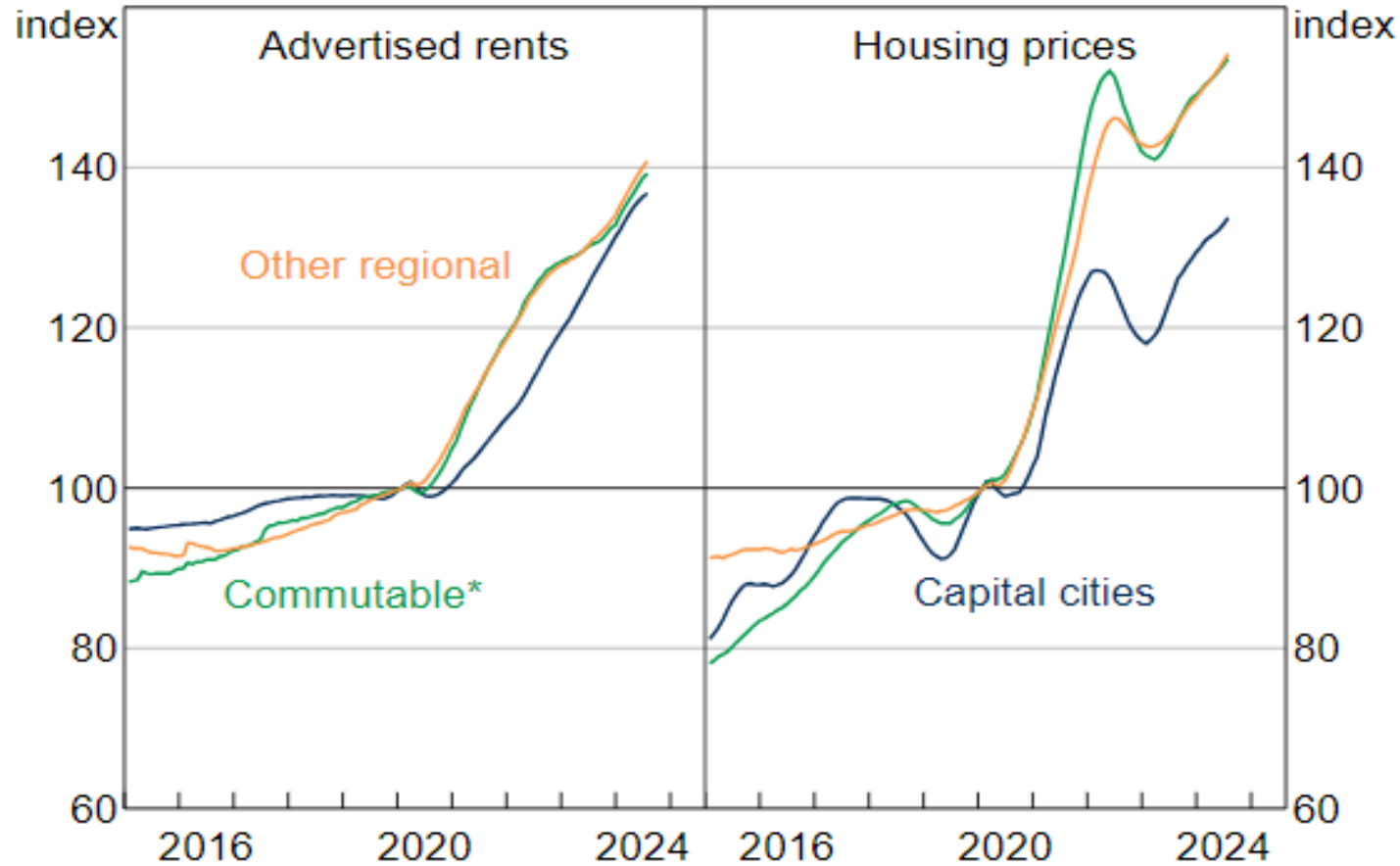
Black Olive Wholesale Domestic Prices



Residential property uneven but near record highs

Housing Costs

January 2020 = 100



* Commutable defined as regional areas less than 150 km from capital city GPO.

Sources: CoreLogic; RBA.

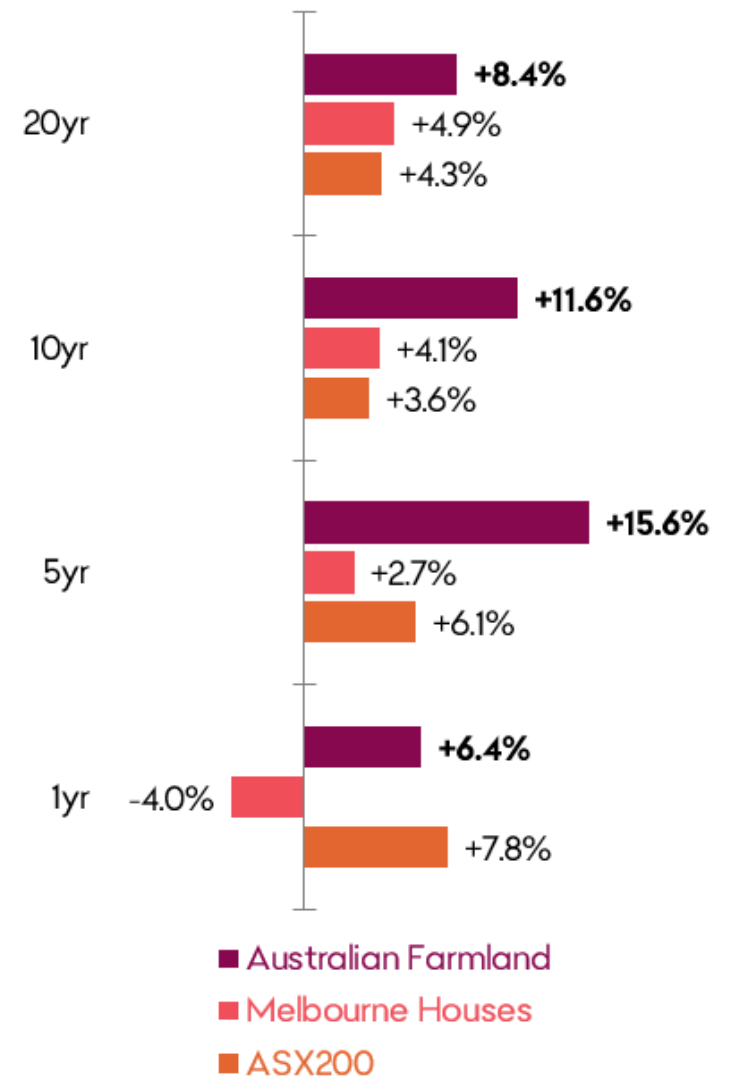
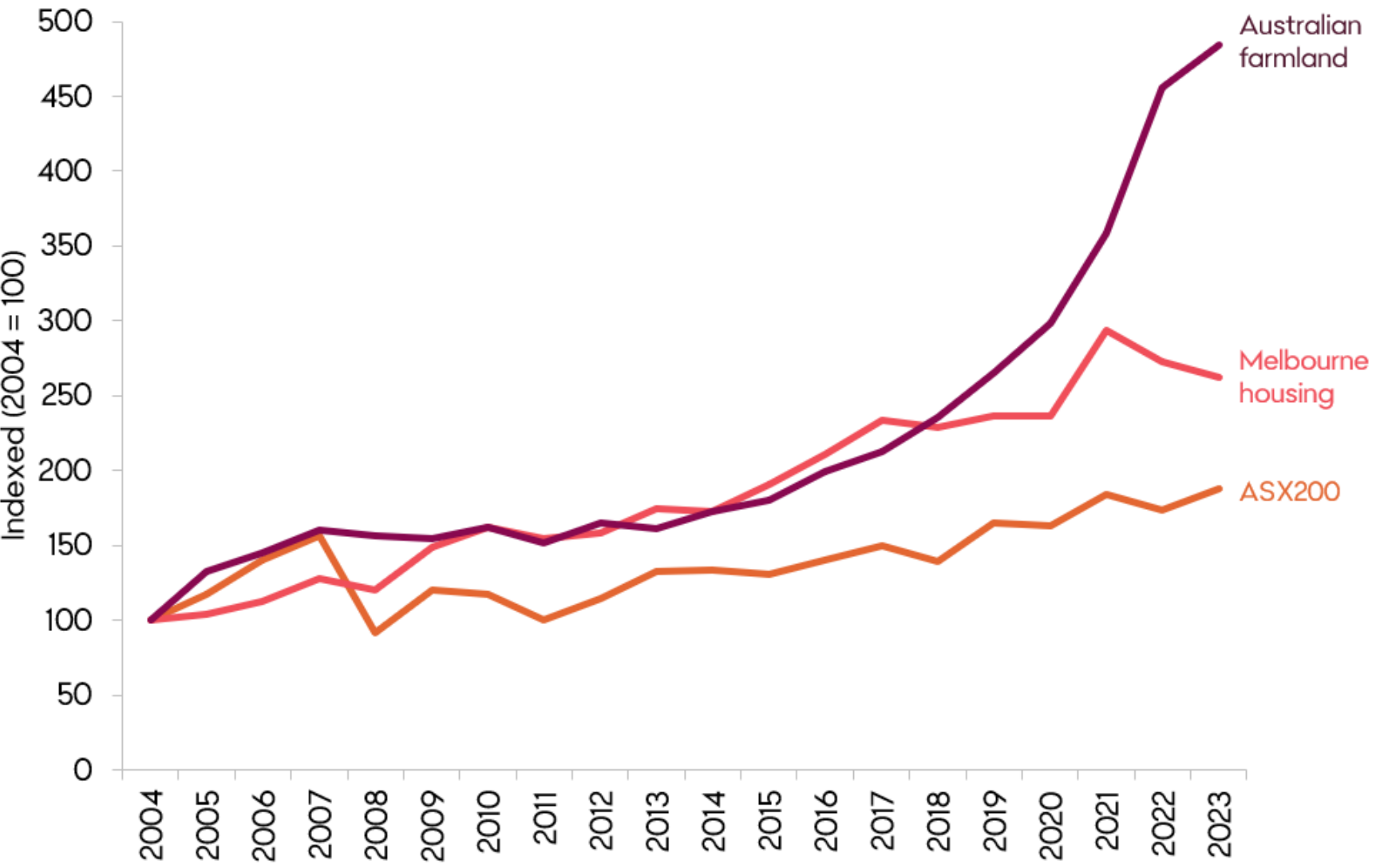
	Median dwelling value	Onset of COVID to September '24	Timing of peak
Adelaide	\$802 100	69.0 %	<at peak>
Brisbane	\$881 100	66.4 %	<at peak>
Canberra	\$844 900	30.8 %	May '22
Darwin	\$492 300	25.3 %	May '14
Hobart	\$654 300	26.9 %	Mar '22
Melbourne	\$777 400	9.9 %	Mar '22
Perth	\$797 200	74.6 %	<at peak>
Sydney	\$1 188 900	29.2 %	<at peak>
Capitals	\$891 600	34.1 %	<at peak>
Regional SA	\$435 700	66.0 %	<at peak>
Regional QLD	\$ 671 600	66.2 %	<at peak>
Regional Tas	\$516 900	45.9 %	May '22
Regional VIC	\$562 000	30.8 %	May '22
Regional WA	\$531 300	71.0 %	<at peak>
Regional NSW	\$741 000	49.2 %	May '22
Regional	\$640 200	53.7 %	<at peak>
National	\$807 100	38.3 %	<at peak>

Top 10 Charlie Munger quotes:

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



Farmland outpacing housing and sharemarket growth



Sources: APM, Australian Bureau of Statistics, Investing.com

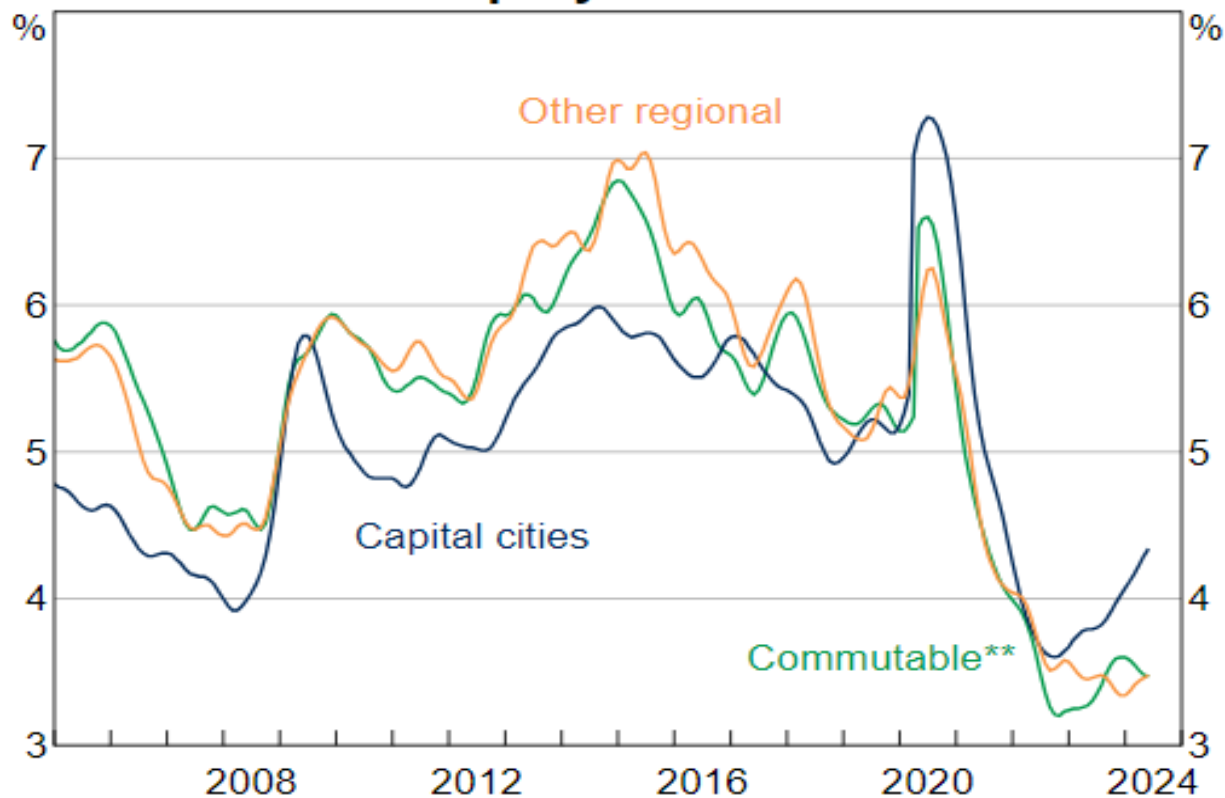
Top 10 Charlie Munger quotes:

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."



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

Unemployment Rate*



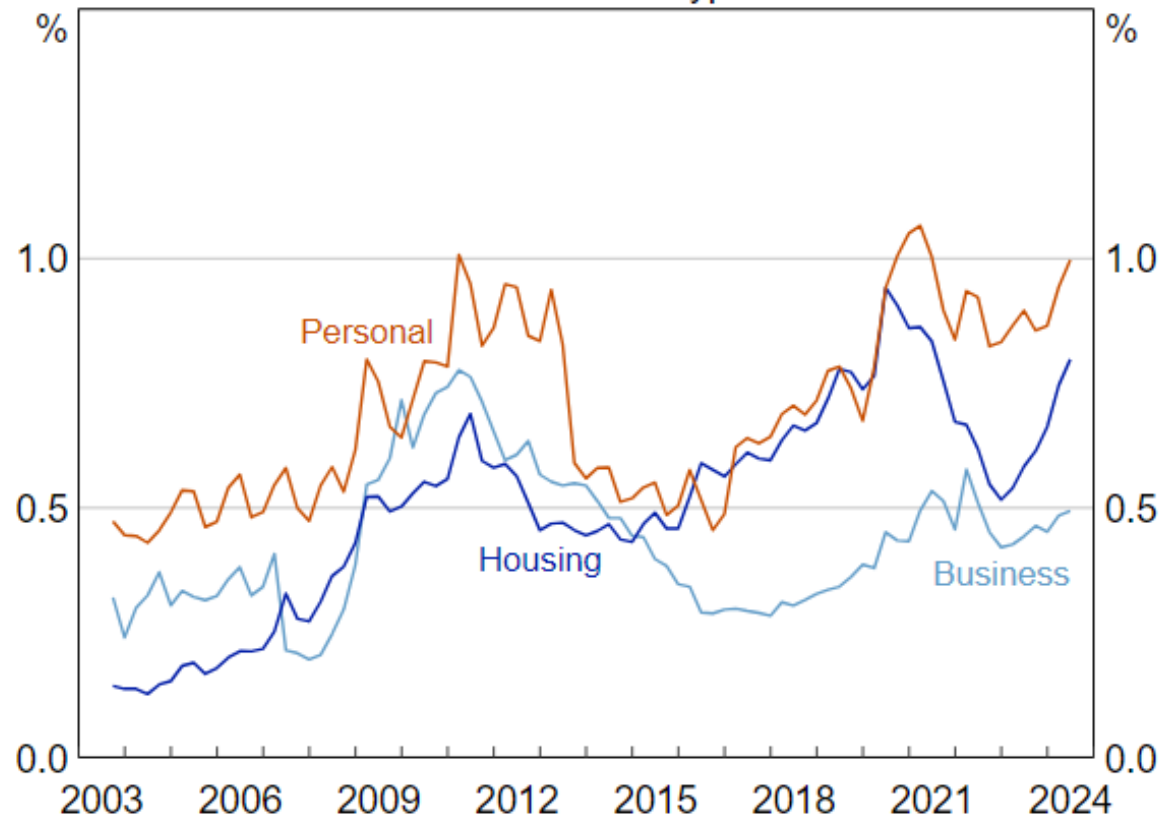
* 13-term Henderson trend; seasonally adjusted.

** Commutable defined as regional areas less than 150 km from capital city GPO.

Sources: ABS; RBA.

Loans in 90+ Day Arrears*

Share of credit type



* Earliest observation December 2003. Latest observation June 2024.

Sources: APRA; RBA.

Top 10 Charlie Munger quotes:

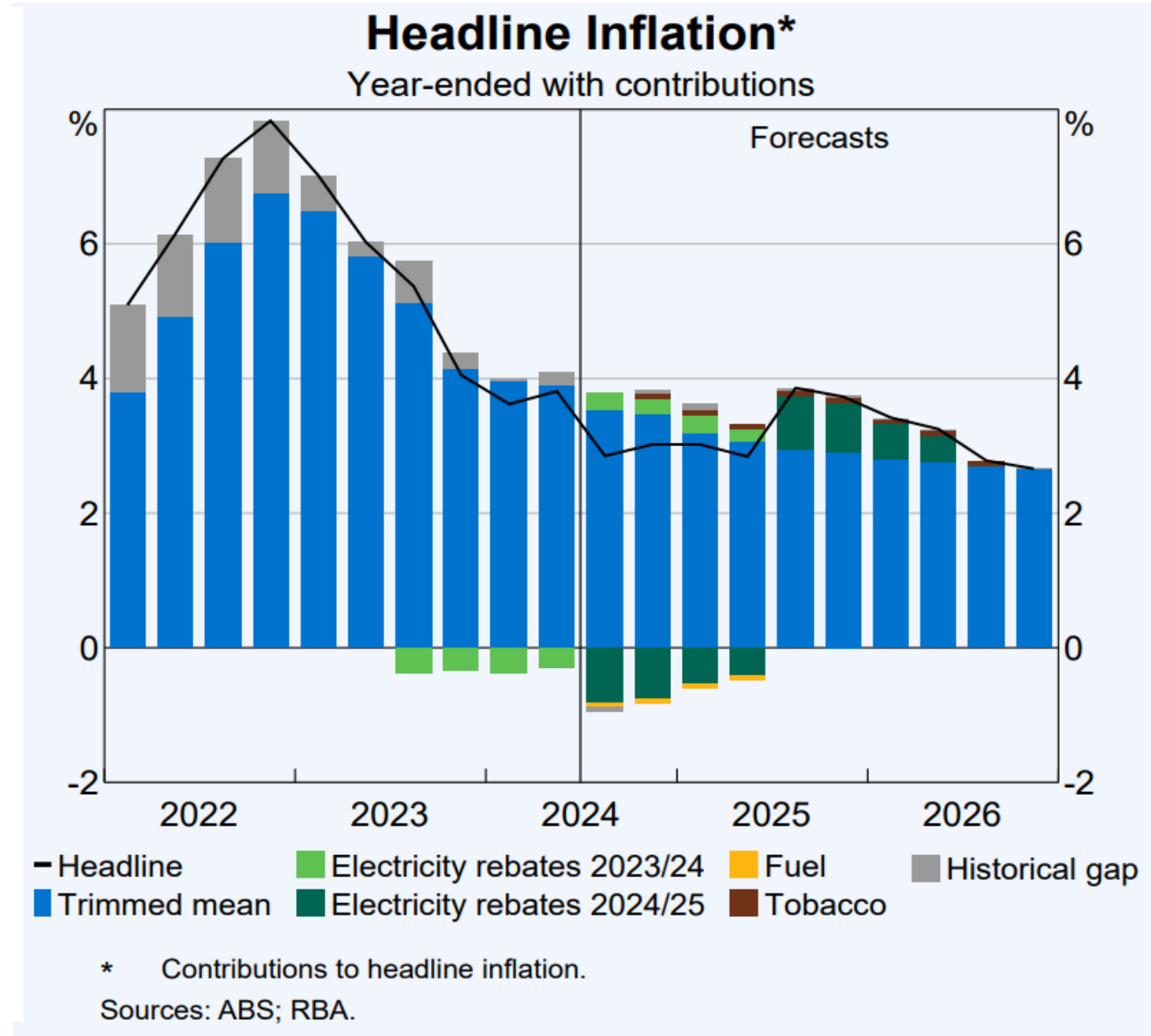
3. " We are all learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. "

Federal Budget focal points

- Cost of Living support
- Inflation

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

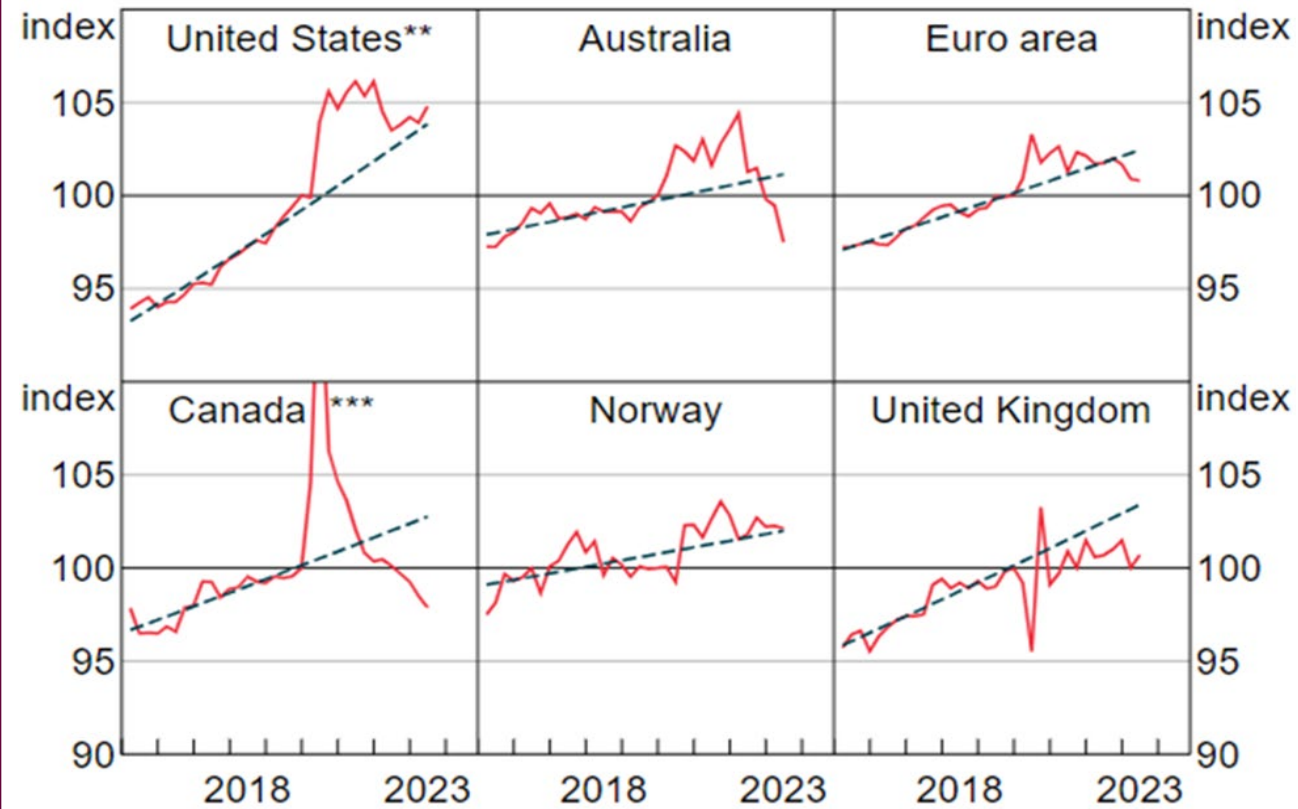
- Sustainable debt profile
- Election implications



The lucky country...outperforming by most measures...

Labour Productivity*

December 2019 = 100



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

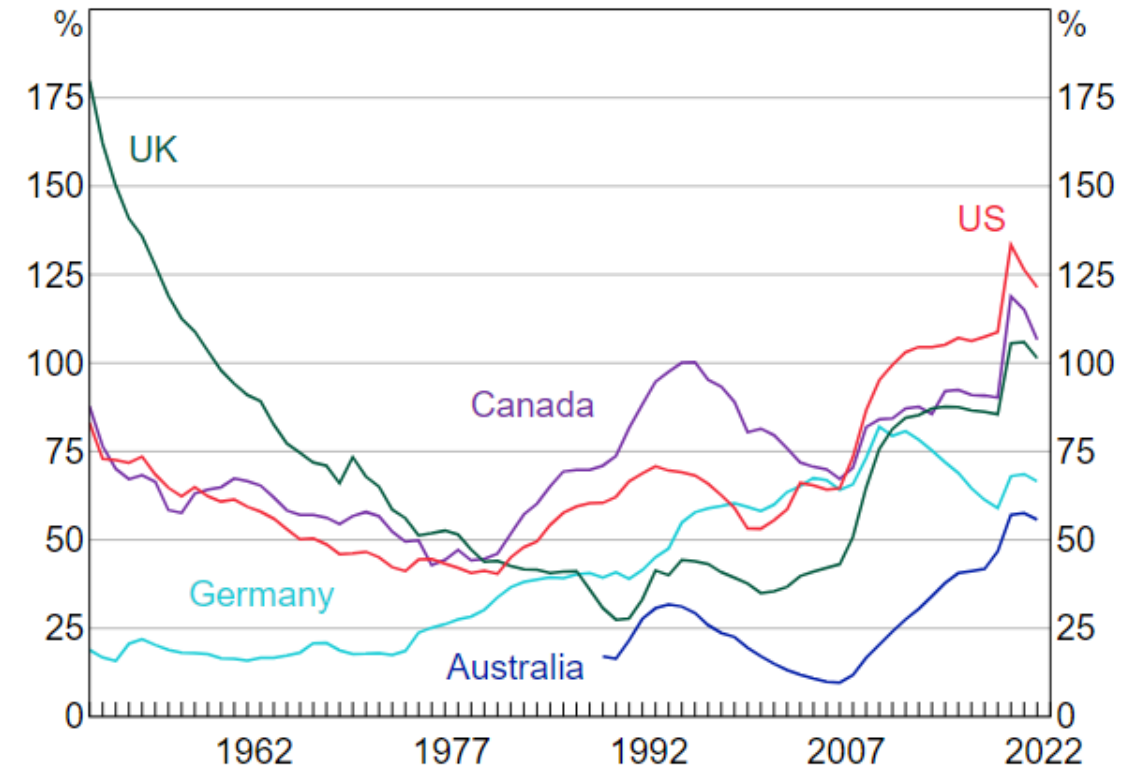
** Non-farm business sector.

*** Business sector.

Sources: ABS; RBA; Refinitiv.

Gross General Government Debt

Per cent of GDP



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."

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; **3-4 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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