

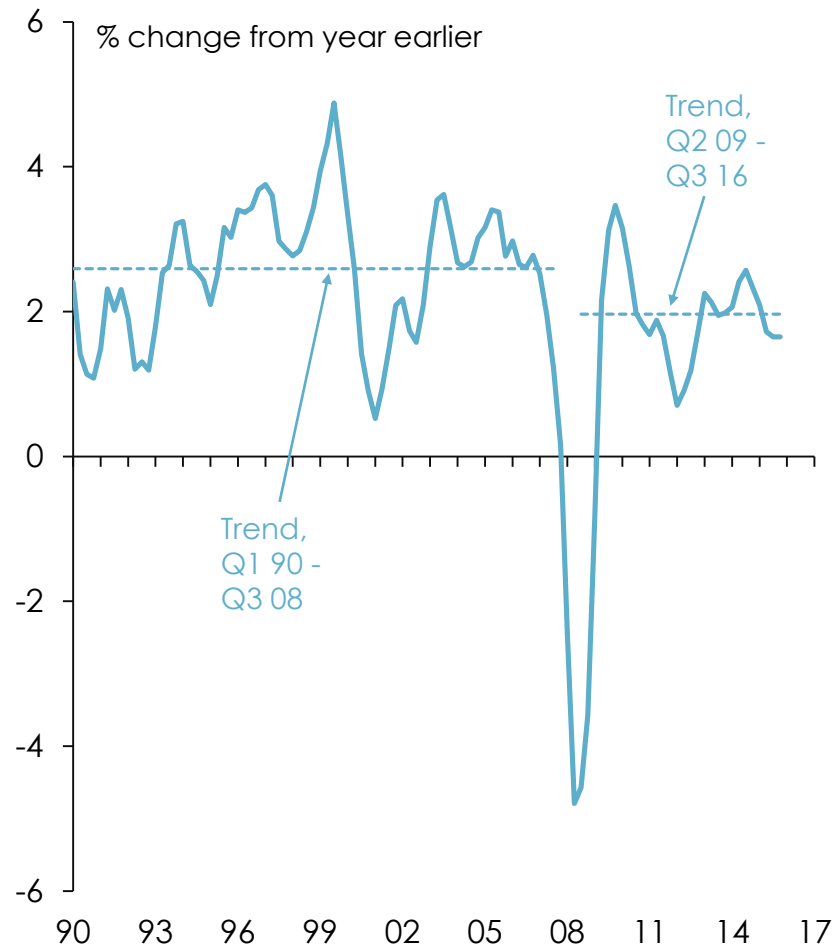
OUTLOOK FOR THE WORLD ECONOMY AND ITS IMPLICATIONS FOR AUSTRALIA

PRESENTATION TO THE FACTSET INVESTMENT PROCESS
SYMPOSIUM 2017

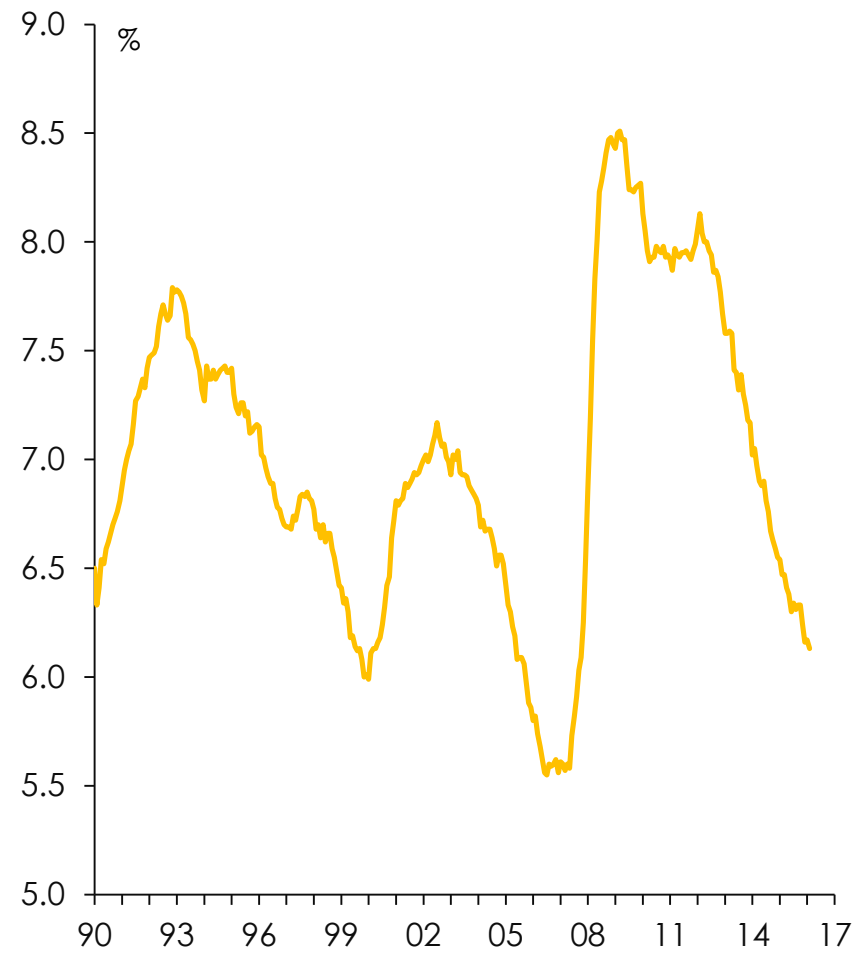
INTERCONTINENTAL HOTEL, SYDNEY
4TH APRIL 2017

Economic growth across 'advanced' economies has been consistently weaker than expected – yet unemployment has fallen sharply

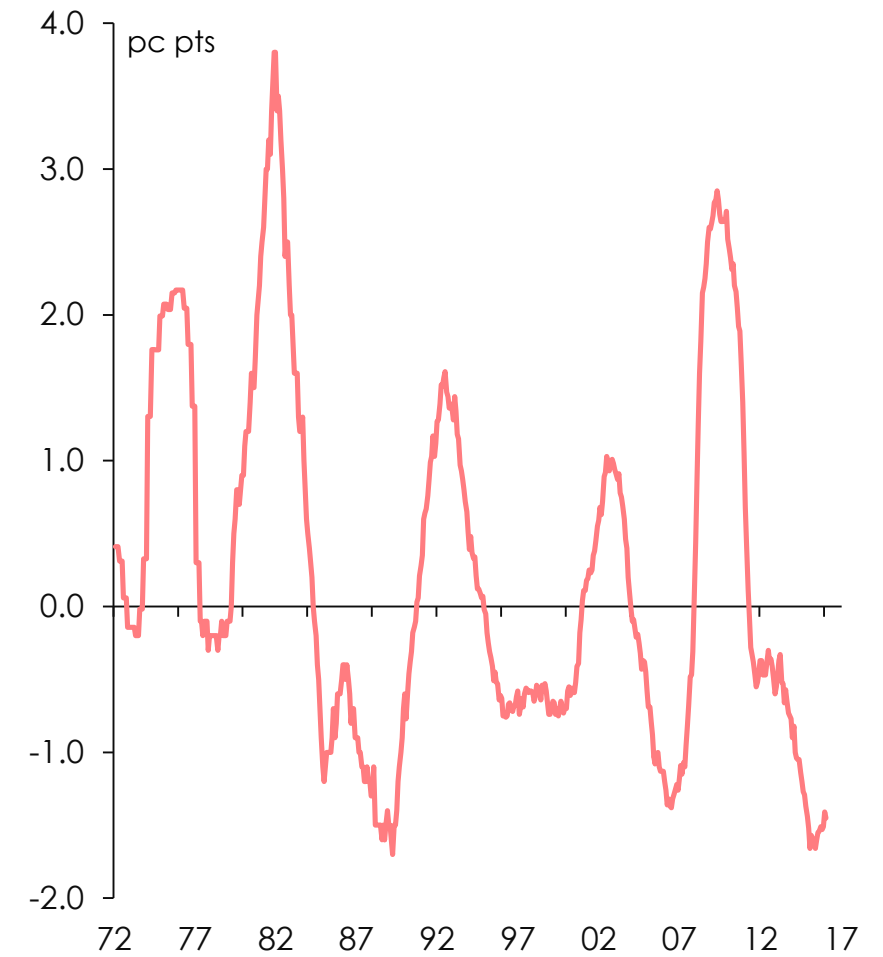
OECD area real GDP growth



OECD area unemployment rate



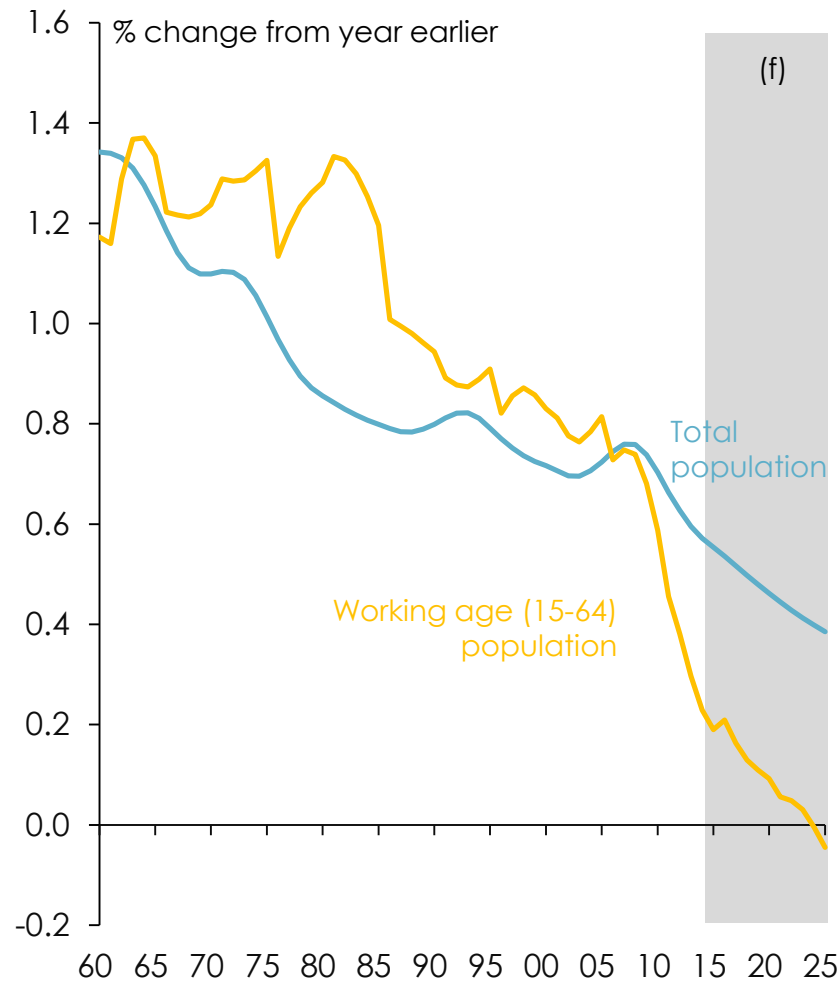
3-year change in OECD unemployment rate



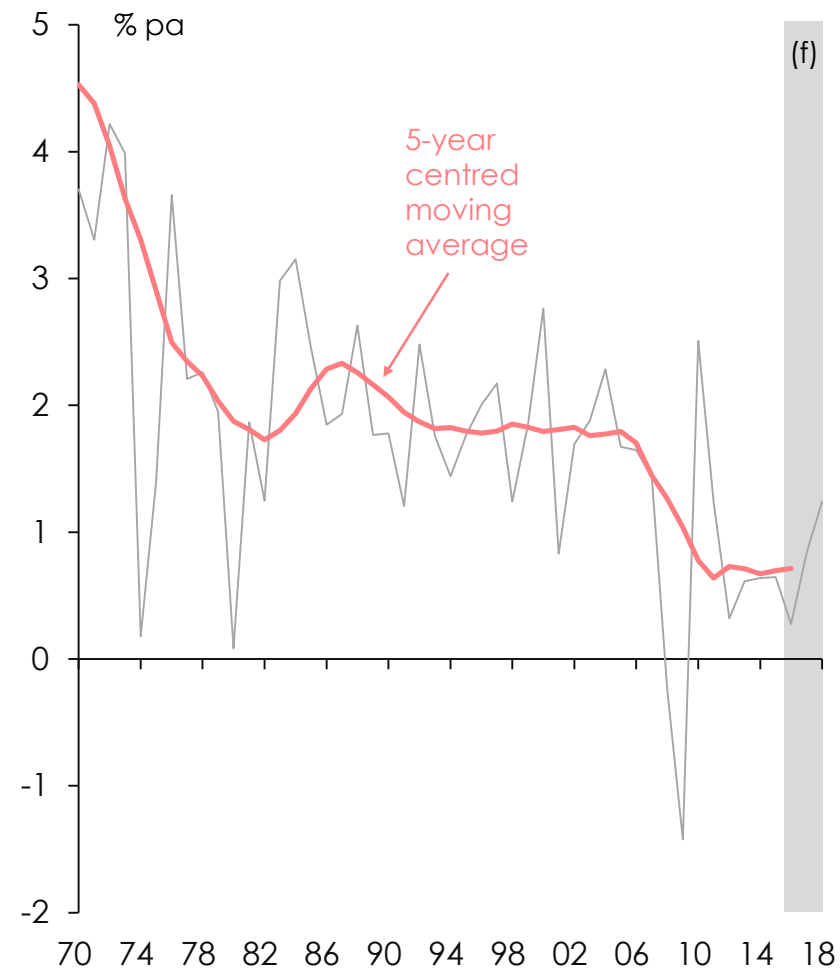
Source: Organization for Economic Co-operation & Development (OECD). The OECD comprises 34 (mostly) 'advanced' economies in North America and Europe, plus Japan, Korea, Australia, New Zealand, Mexico, Chile, Turkey & Israel.

It could be that GDP growth is being understated – or it could be that ‘potential growth’ has slowed

OECD area population growth



OECD area labour productivity growth



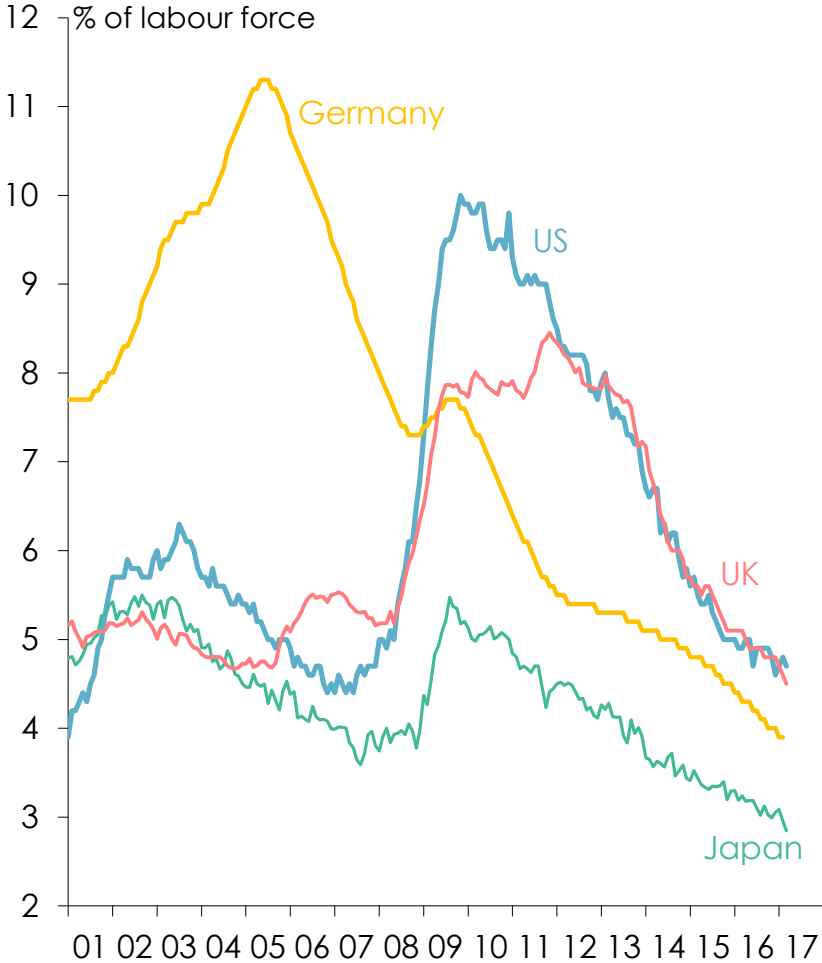
OECD area potential GDP growth



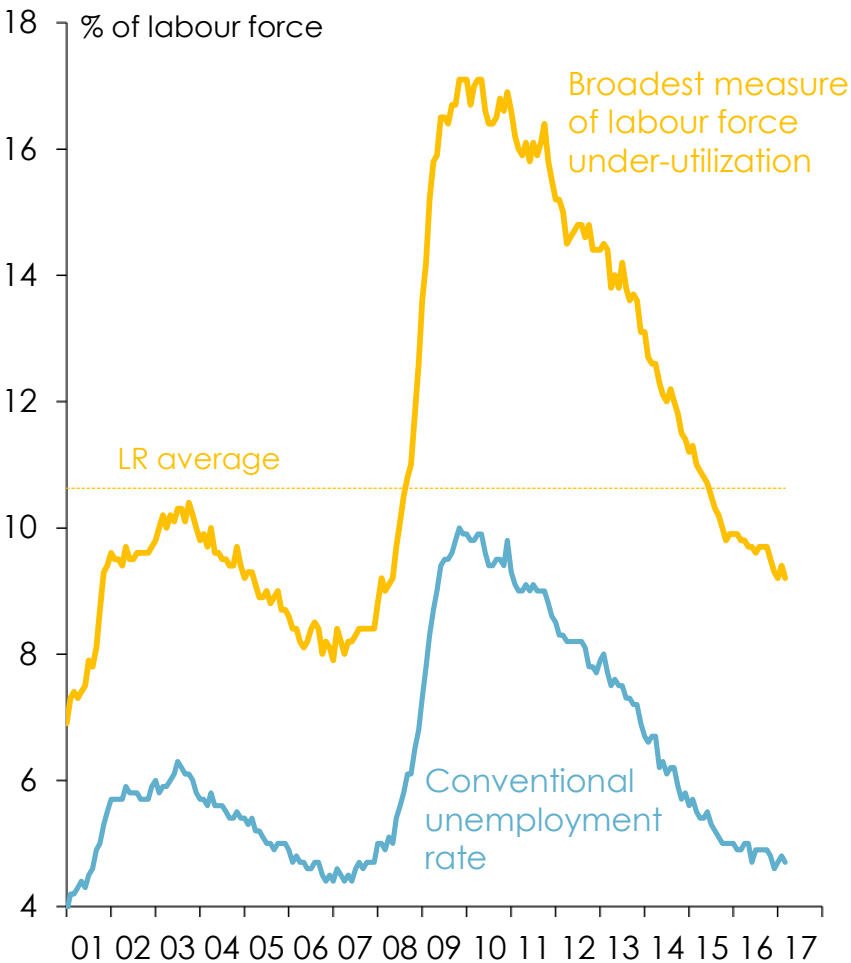
Sources: United Nations Economic & Social Affairs Division, Population Branch, *World Population Prospects – The 2015 Revision*; Organization for Economic Co-operation & Development (OECD), *Economic Outlook* database. 'Potential growth' means growth in the level of real GDP assuming full employment of the available labour force.

The four largest 'advanced' economies are now more or less at 'full employment'

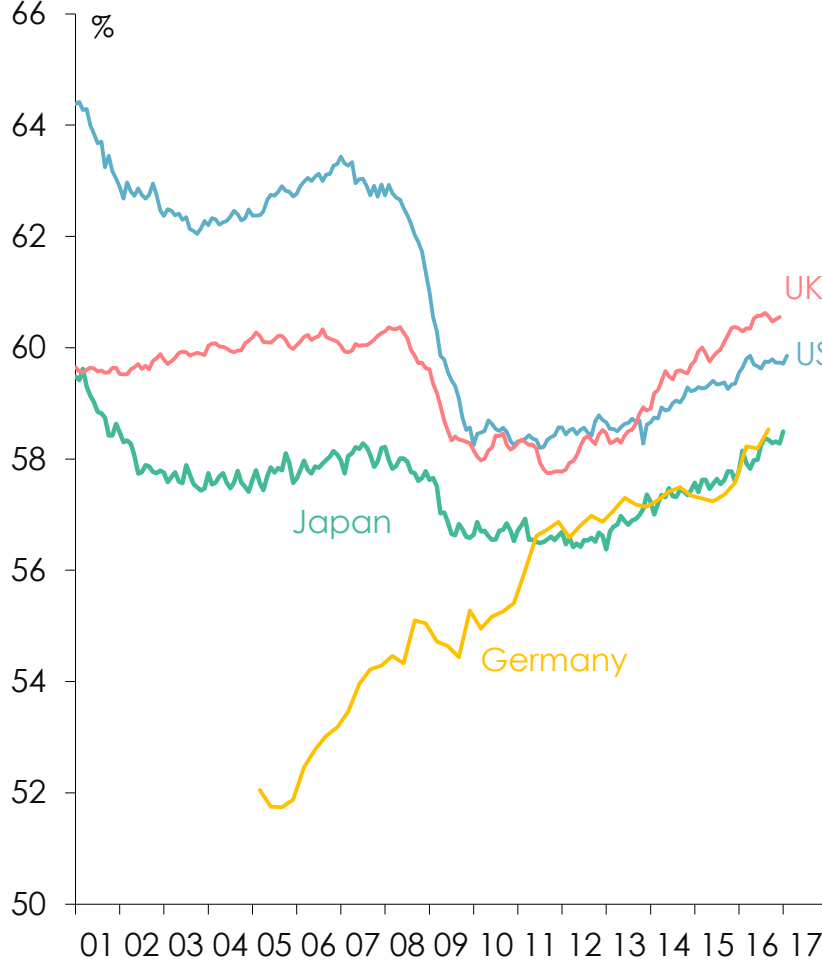
Four largest 'advanced' economies - unemployment



Broader measures of US 'under-employment'



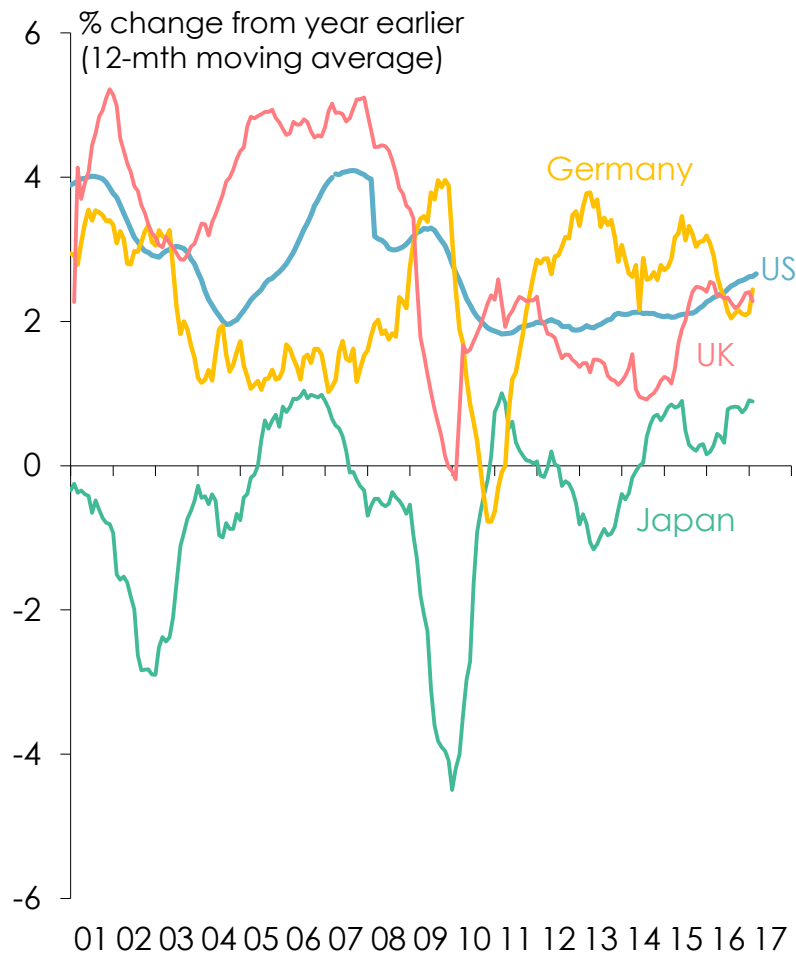
Employment-population ratios



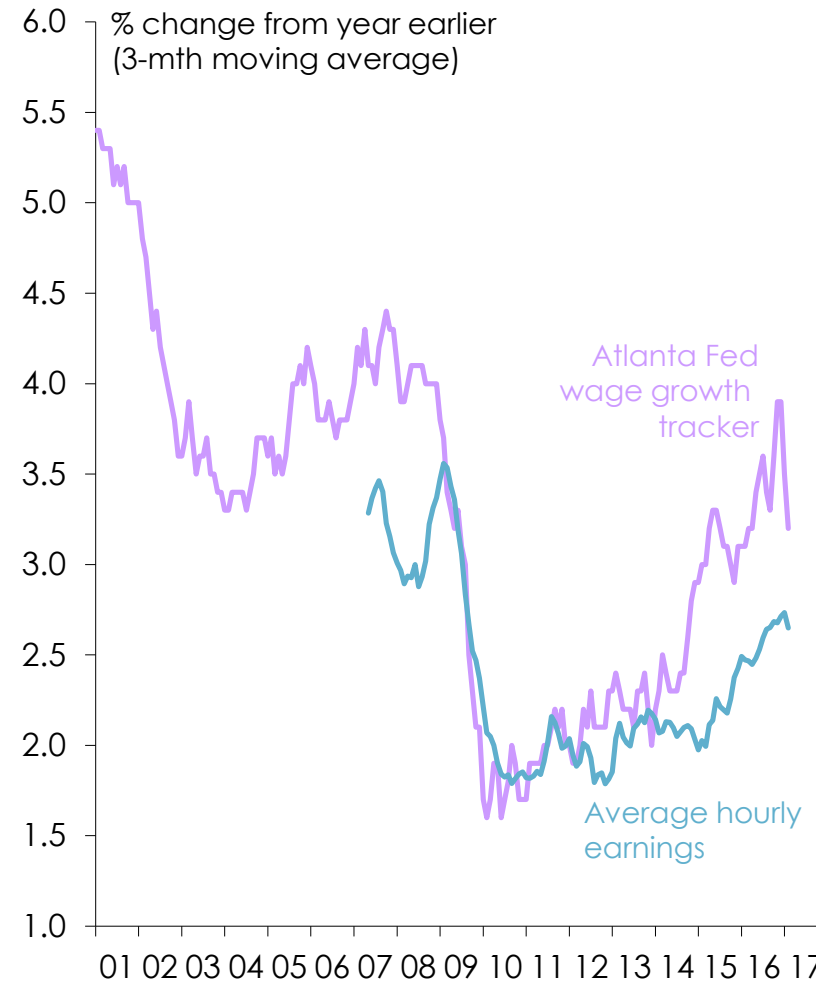
Sources: US Bureau of Labor Statistics; Japan Labour Ministry; Bundesagentur fur Arbeit; UK Office of National Statistics; Thomson Reuters Datastream.

Inflation looks to have passed its low point in each of the four largest 'advanced' economies

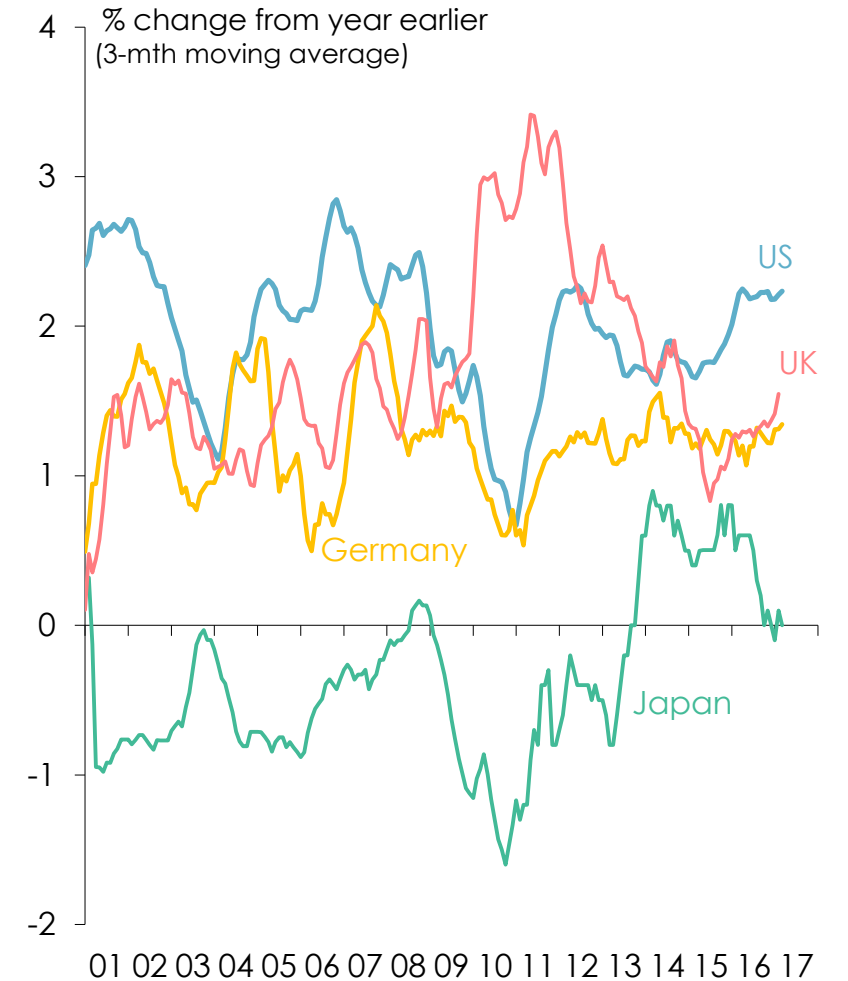
Wage inflation – four largest 'advanced' economies



US wage inflation – alternative measures



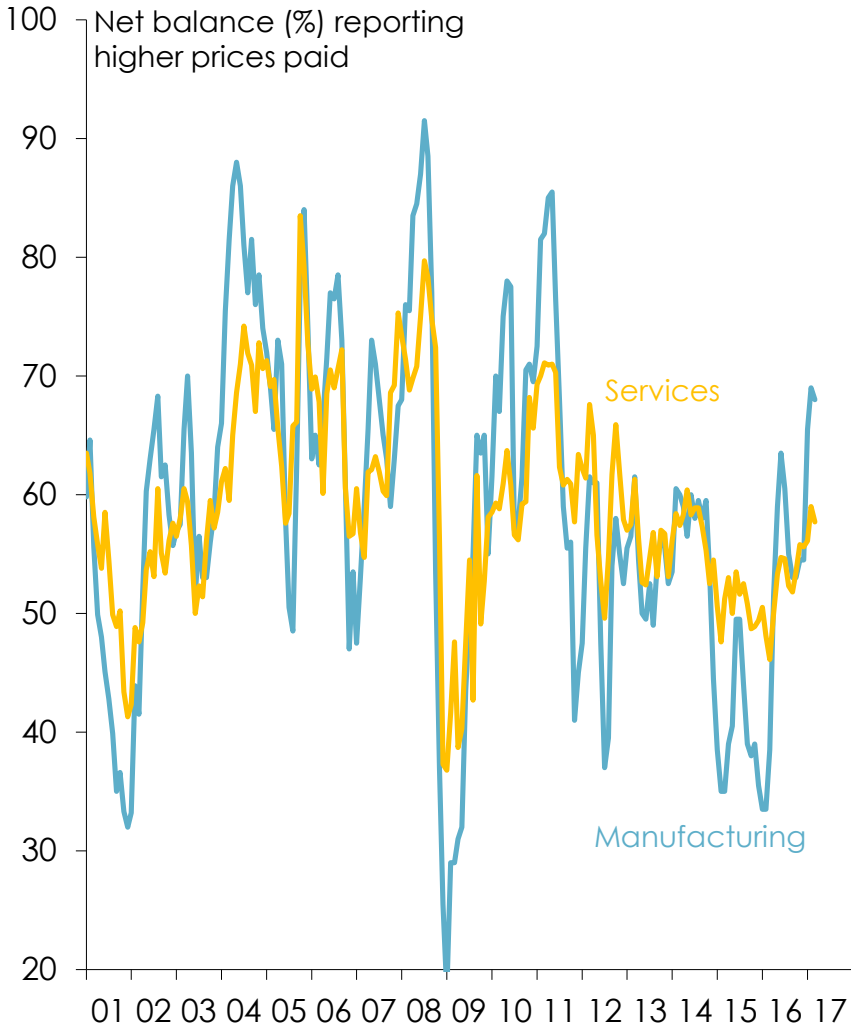
'Core' CPI inflation – four largest 'advanced' economies



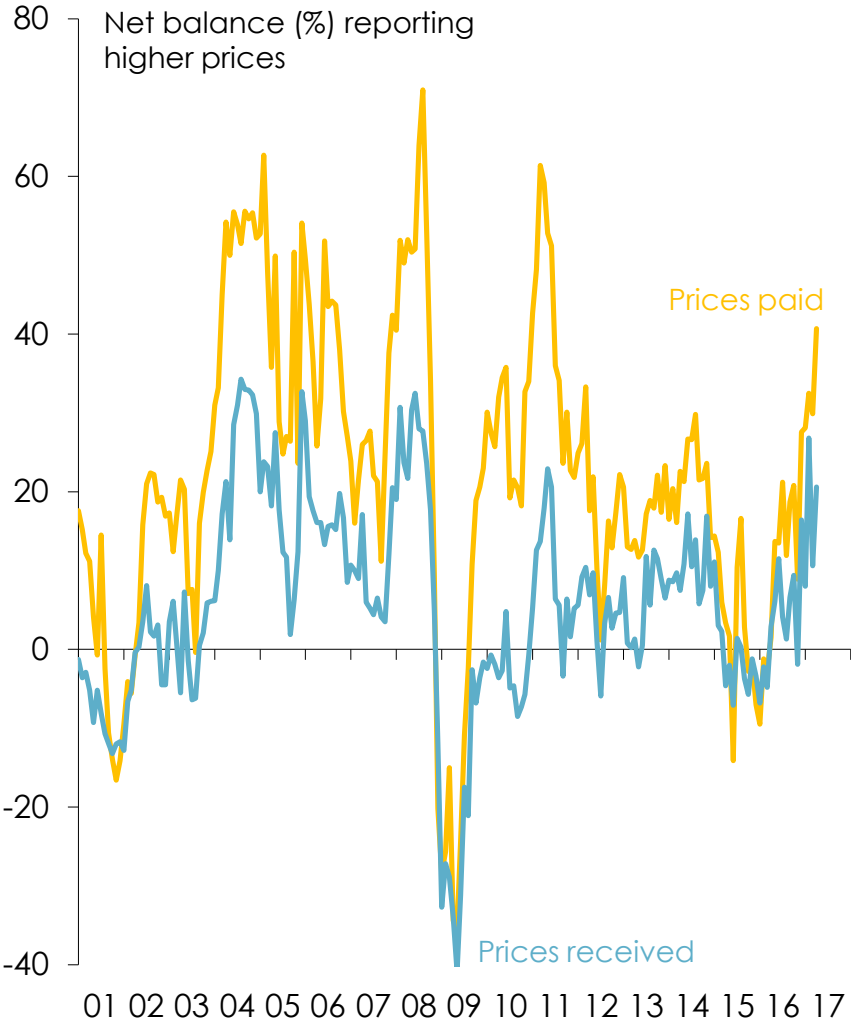
Note: The Atlanta Fed wage growth tracker measures the increase in the hourly earnings of identified individuals over 12-month intervals. It excludes those with annual earnings exceeding US\$150K, and hourly earnings less than US\$2.13. 'Core' inflation figures for Japan exclude effects of GST increase in April 2014.
Sources: US Bureau of Labor Statistics; Federal Reserve Bank of Atlanta; Japan Labour Ministry; Statistics Japan and Bank of Japan; Statistisches Bundesamt; UK Office of National Statistics; Thomson Reuters Datastream.

Some other 'straws in the wind' regarding inflation

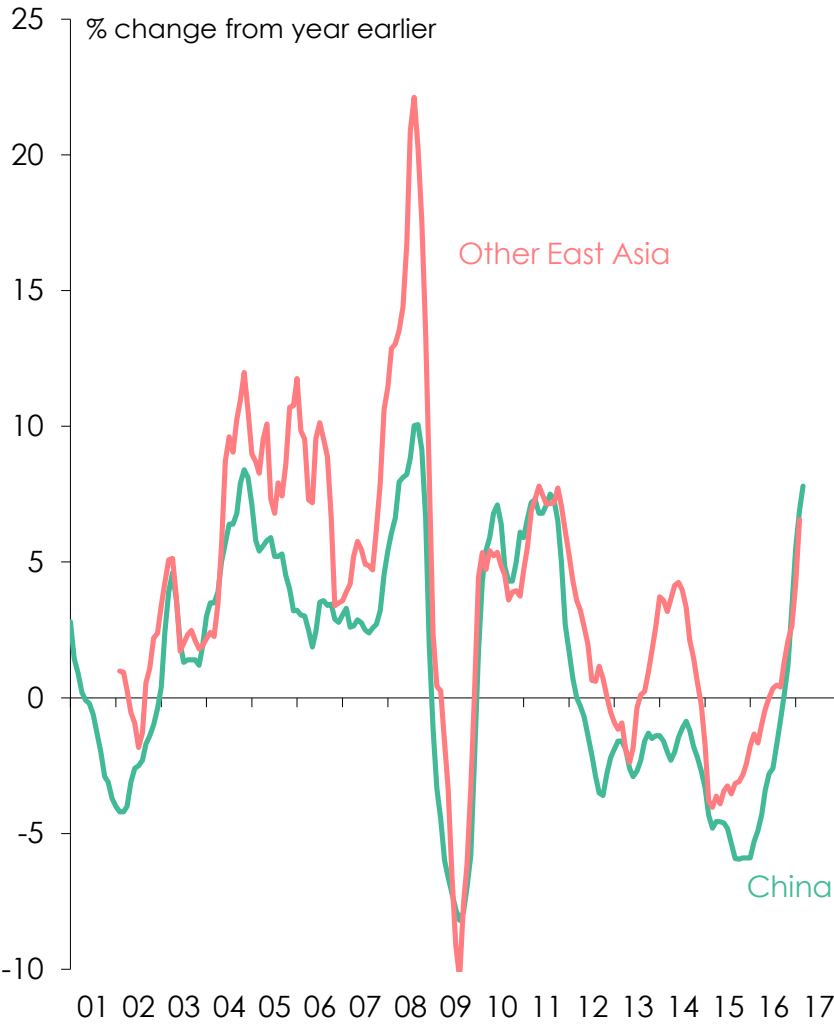
US ISM prices paid



Philadelphia Fed prices



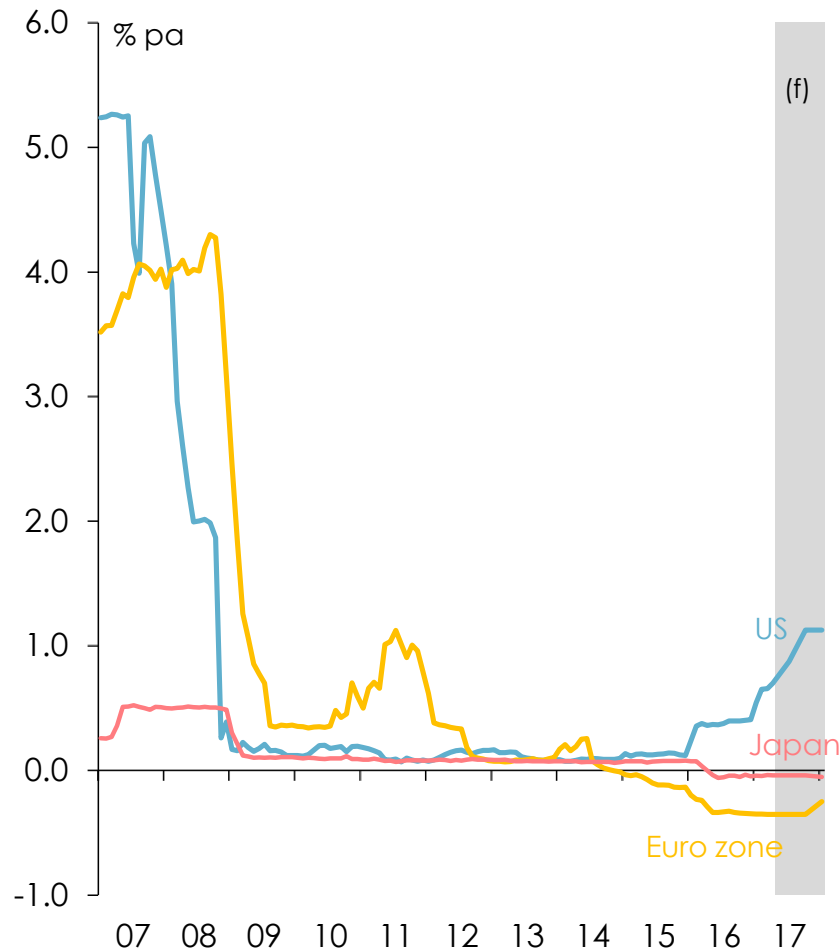
Asian producer prices



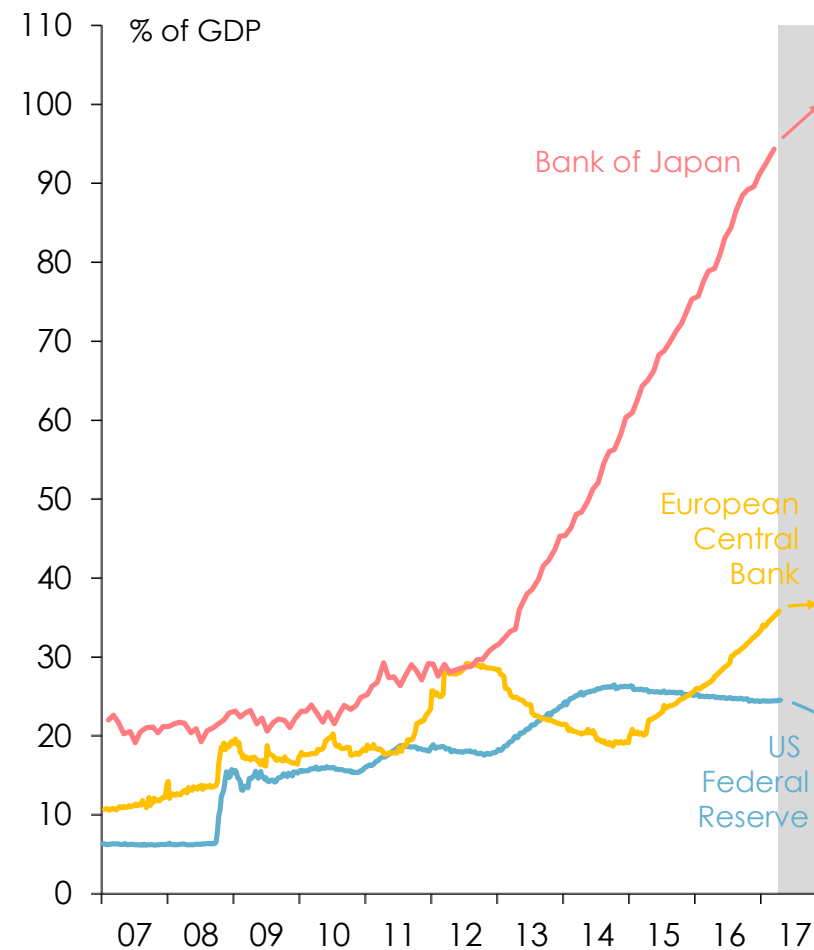
Sources: US Institute of Supply Management (ISM); Federal Reserve Bank of Philadelphia; East Asian statistical agencies and central banks.

So the long down-trend in interest rates has come to an end – as bond markets began to sense from the middle of last year

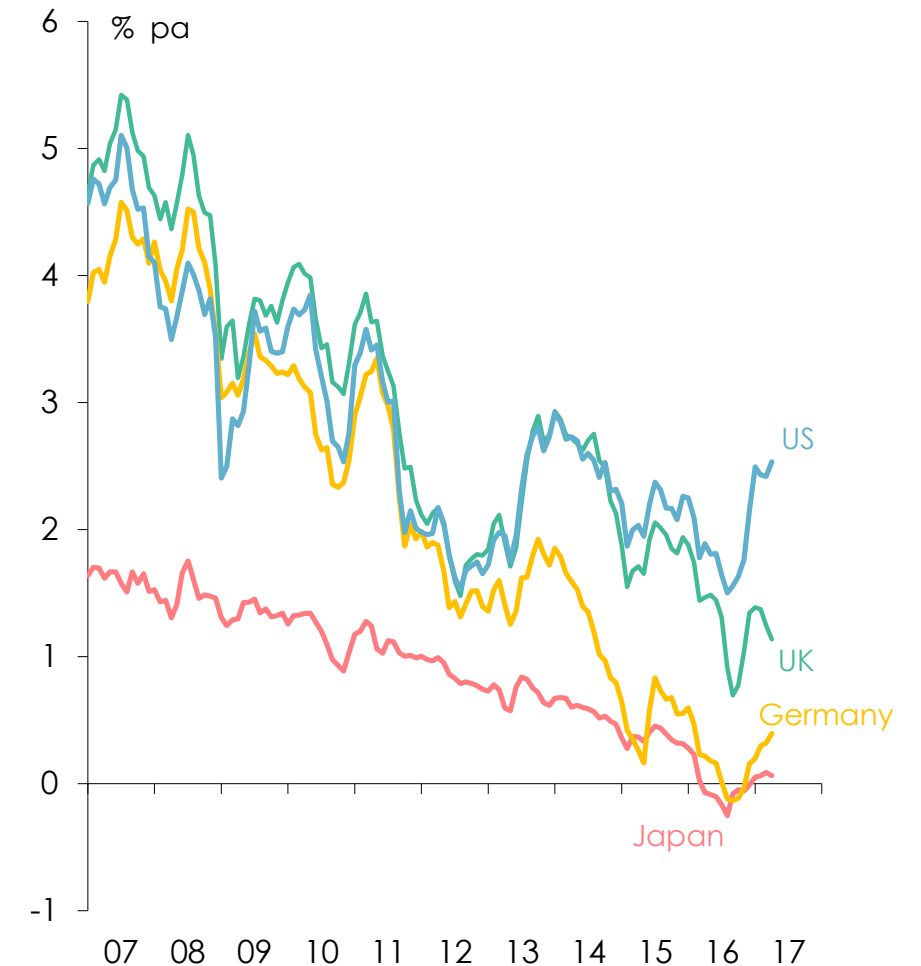
Major central bank policy interest rates



Major central bank balance sheets



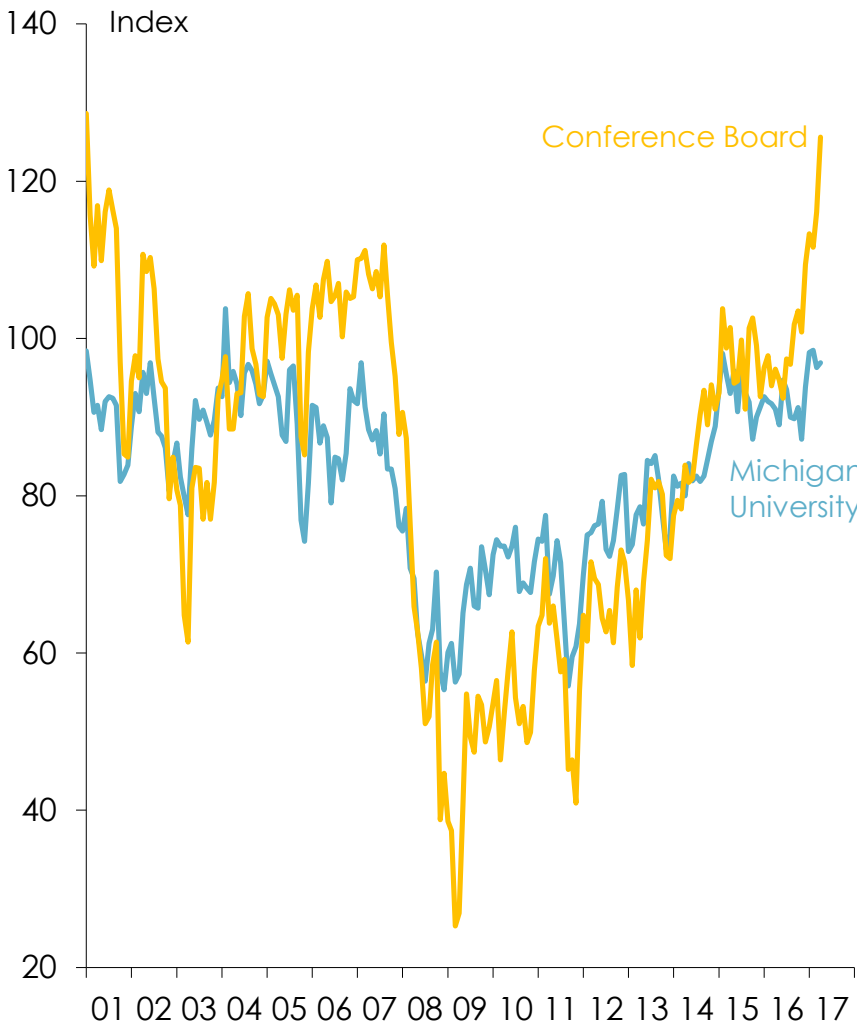
10-year bond yields



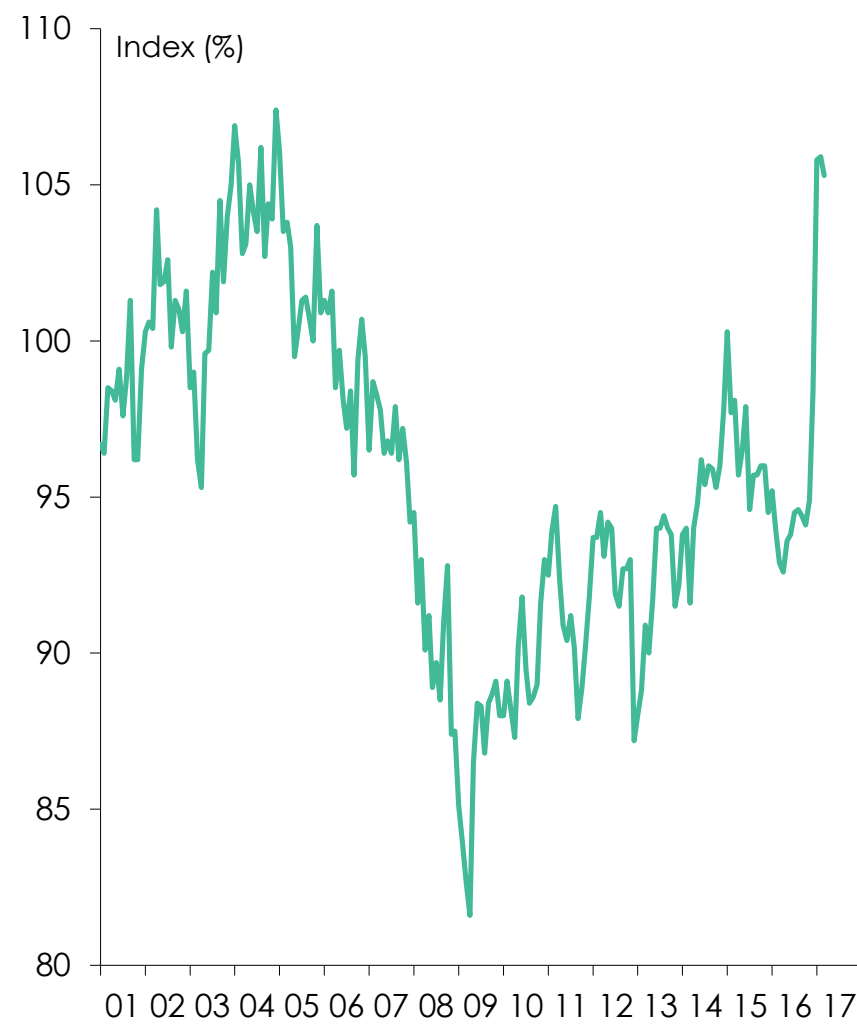
Source: Thomson Reuters Datastream; US Federal Reserve; European Central Bank; Bank of Japan.

US consumer and business confidence have improved sharply since the election

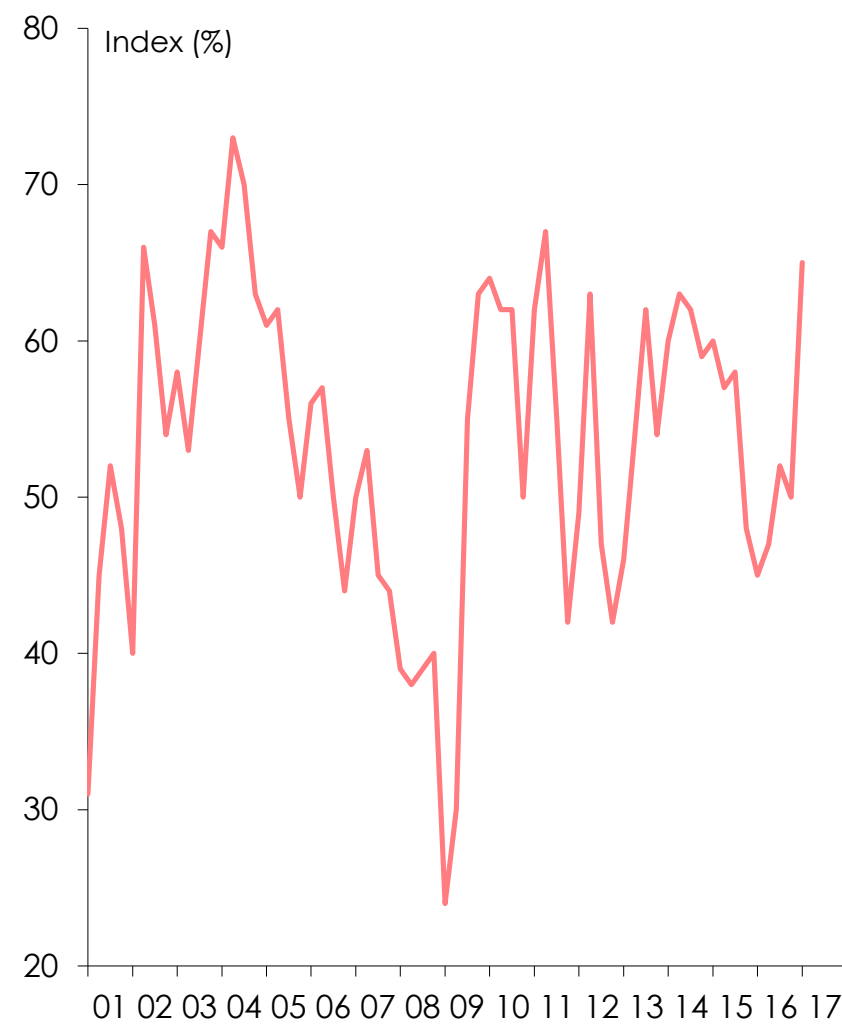
Consumer confidence



Small business optimism



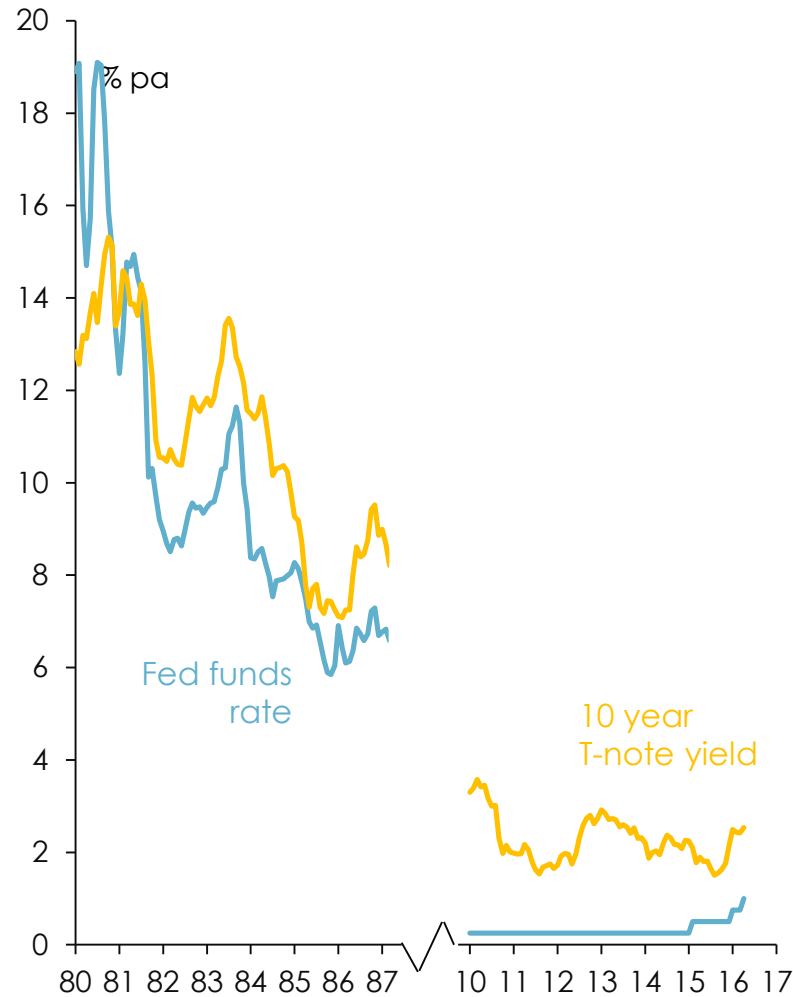
CEO confidence



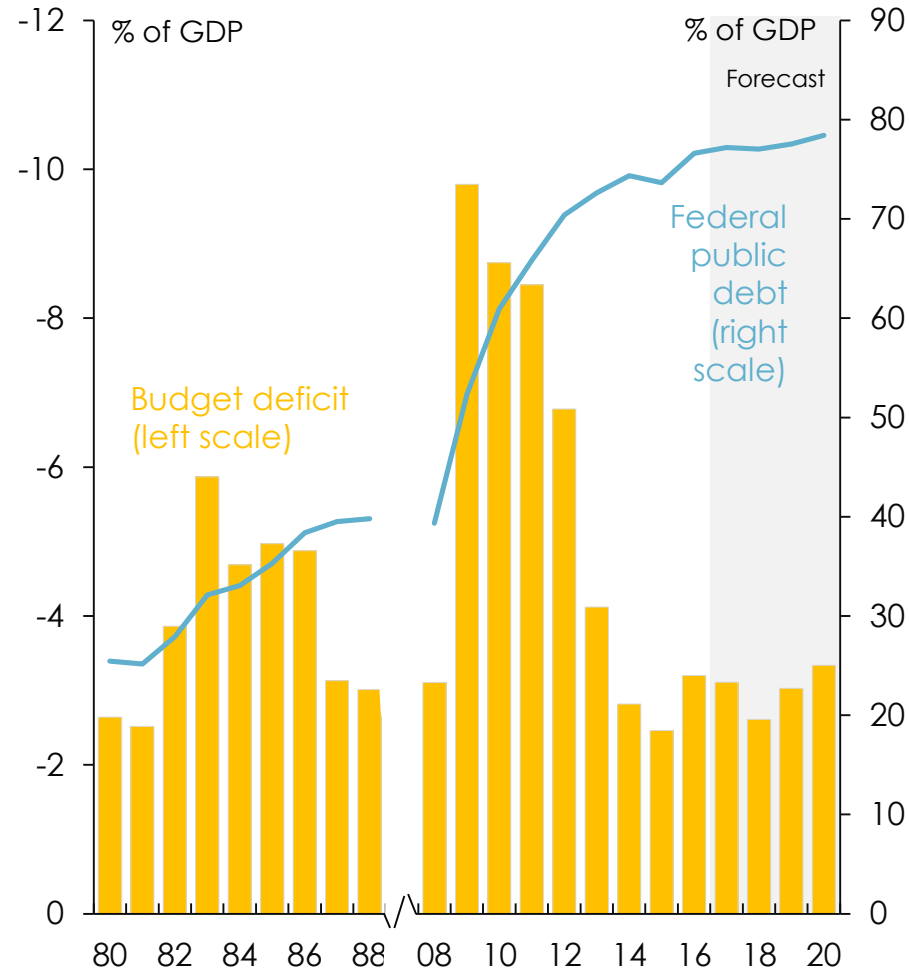
Sources: The Conference Board; University of Michigan Survey Research Center; National Federation of Small Businesses.

Three reasons why Trump's fiscal policies may not have the same impact on economic growth as Reagan's

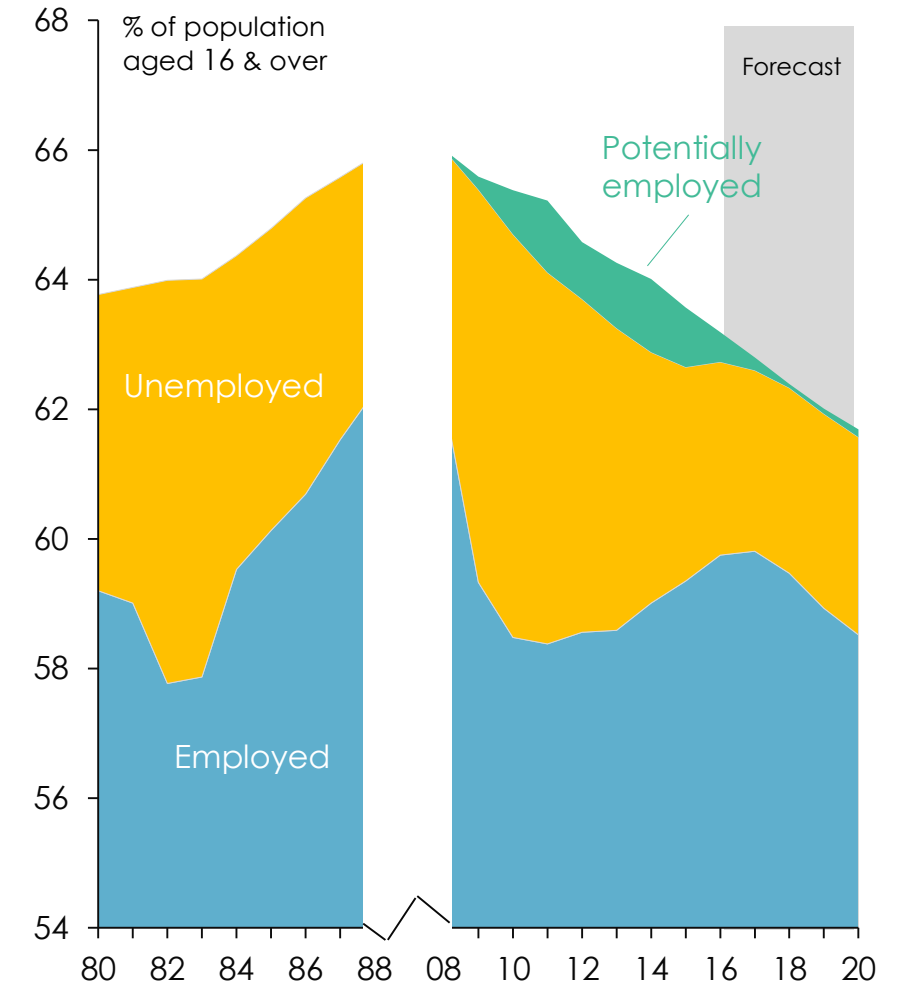
Interest rates



Federal budget and debt



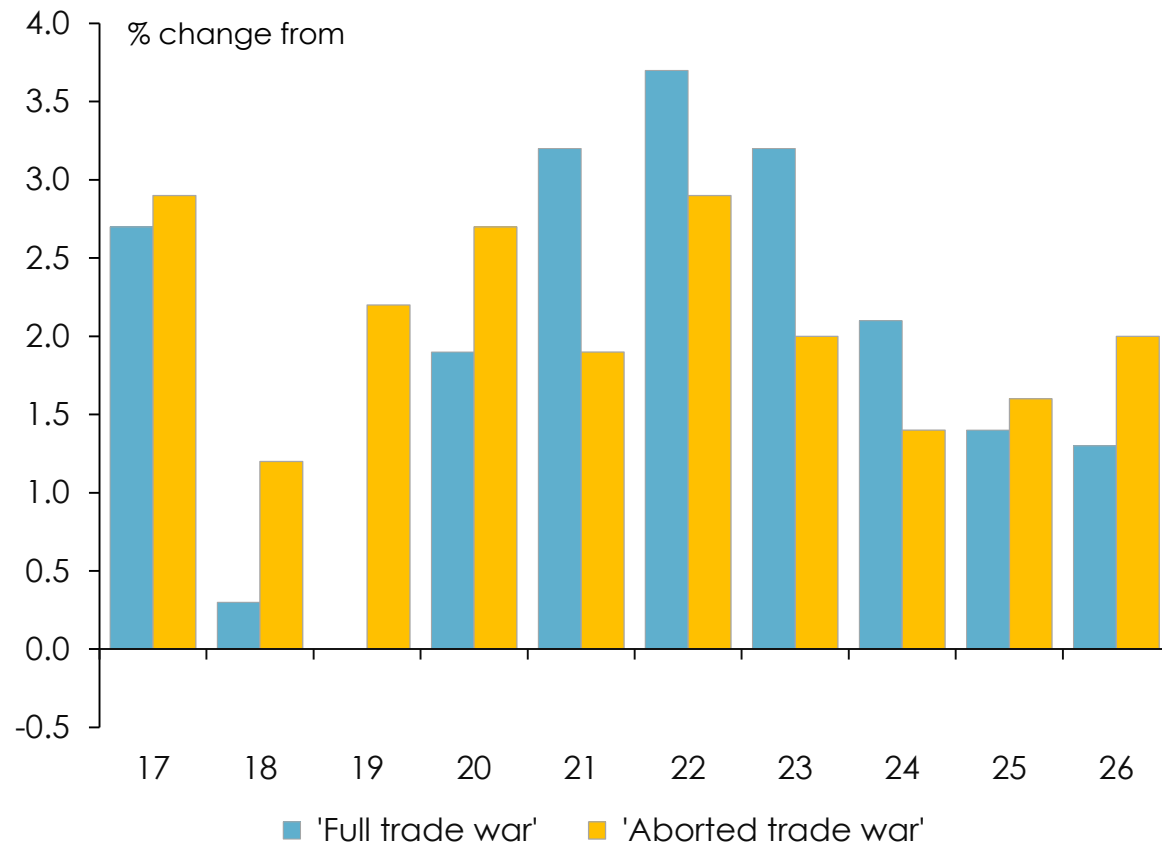
Labour supply



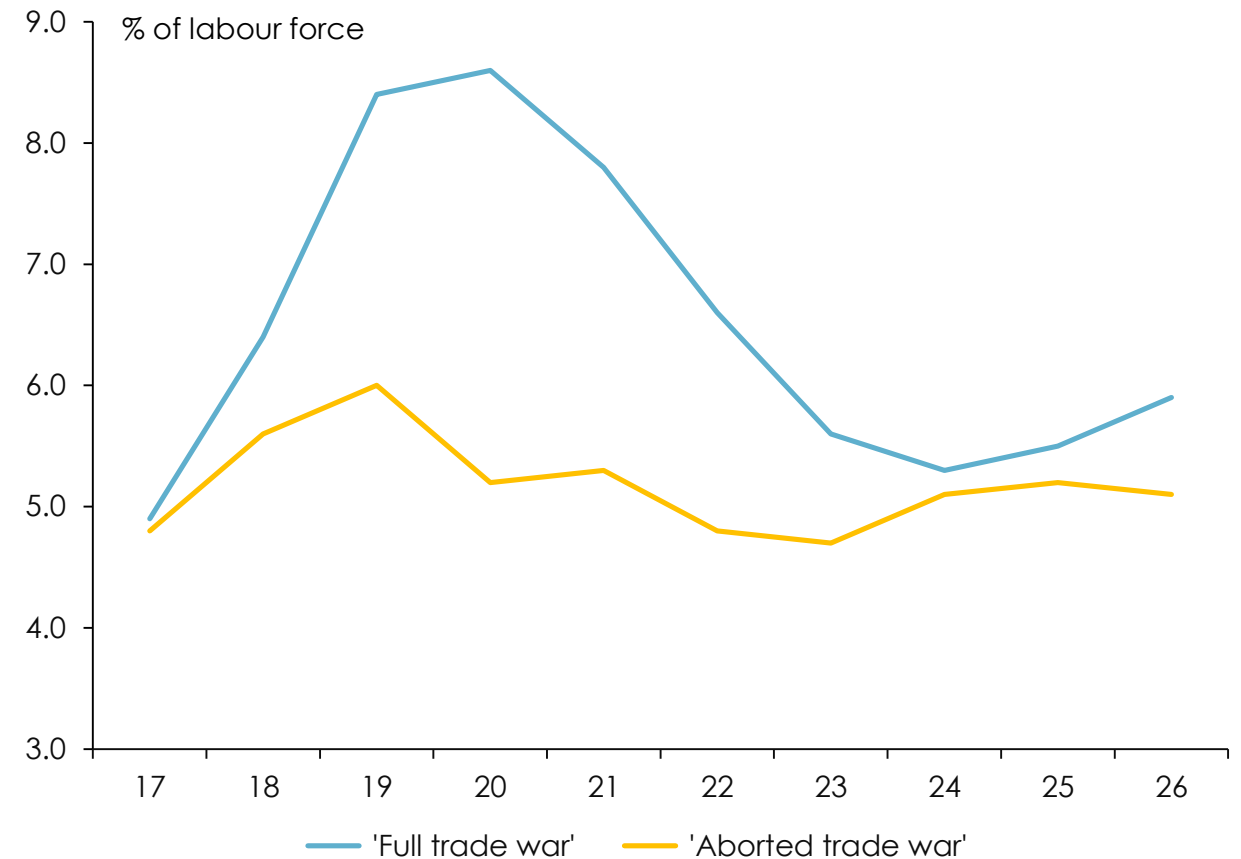
Sources: US Federal Reserve; US Congressional Budget Office.

A full-blown 'trade war' would send the US economy into recession

Simulated changes in US real GDP under 'trade war' scenarios



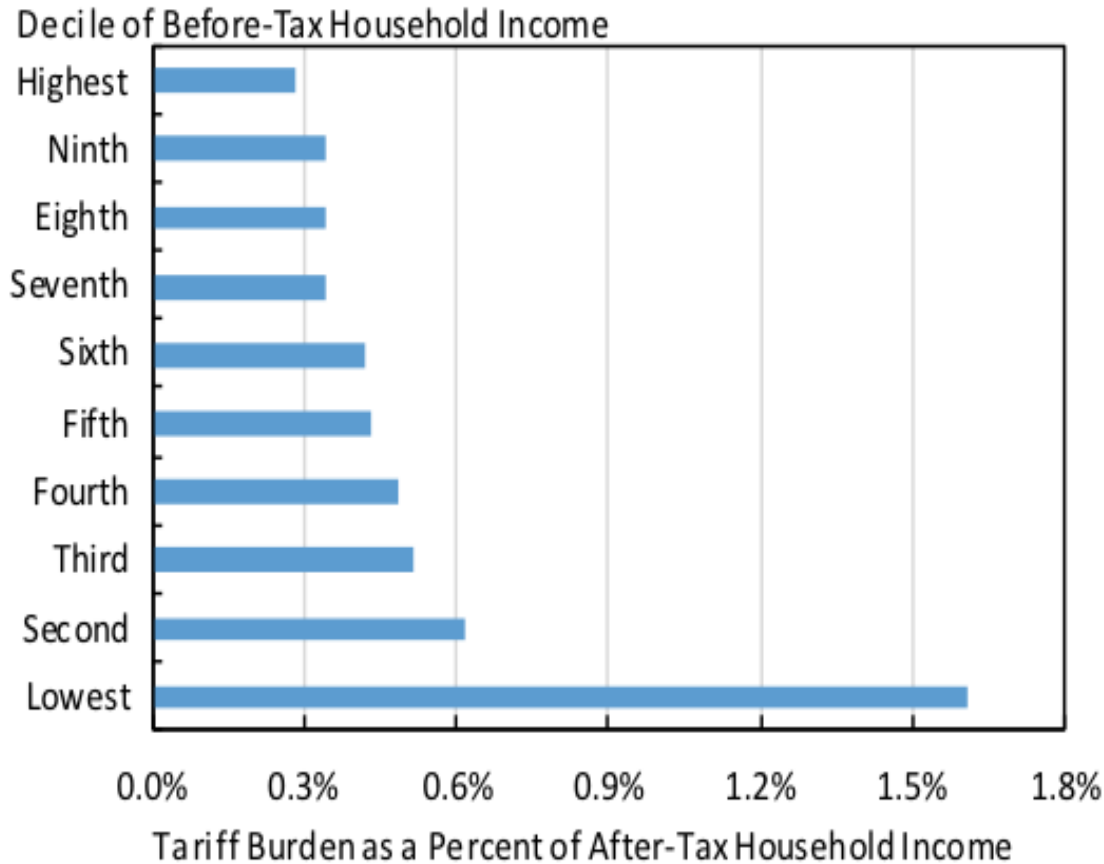
Simulated levels of US unemployment under 'trade war' scenario



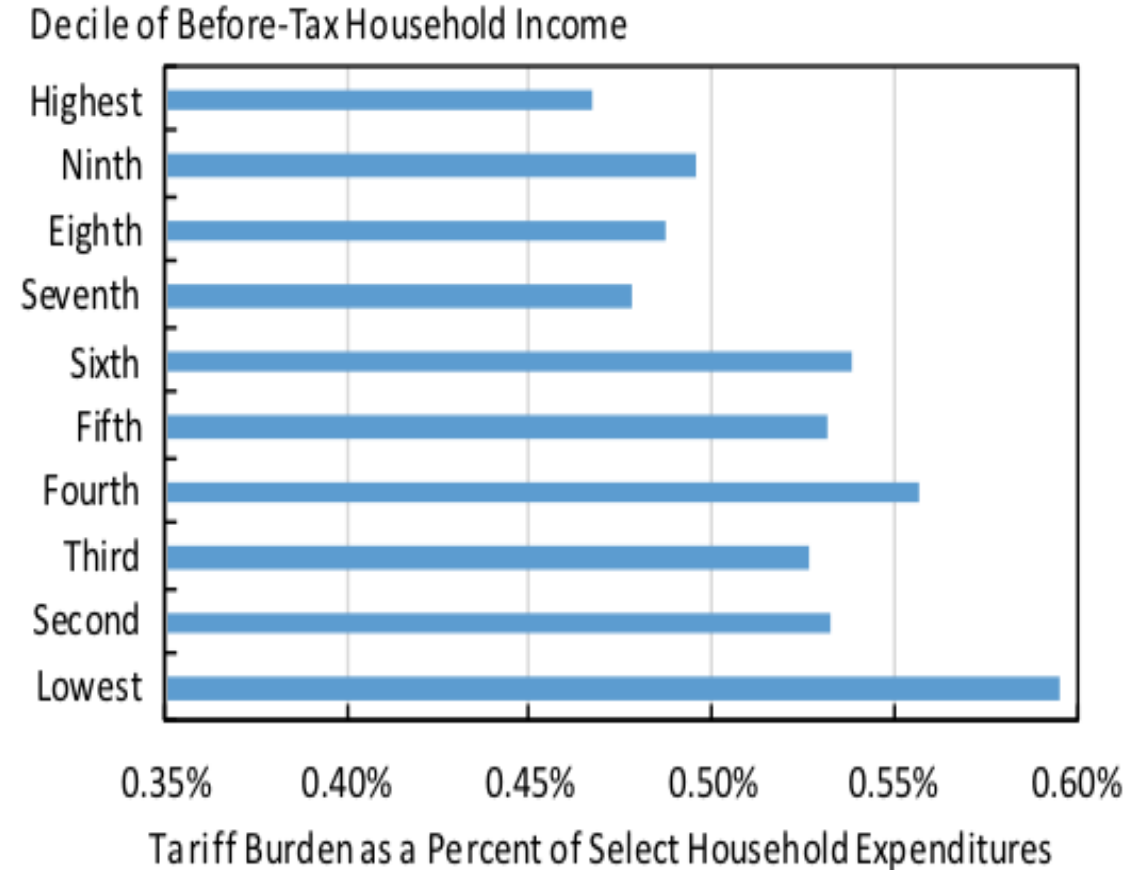
Note: 'full trade war' scenario assumes US imposes 45% tariff on non-oil imports from China and 35% on non-oil imports from Mexico, and China & Mexico impose similar tariffs on imports from US. 'Aborted trade war' assumes US tariffs are imposed for only a single year, because China and Mexico concede to US demands, the US Congress overturns the action, or President Trump loses in the courts, or the public outcry is such that the administration is forced to stand down
 Source: Marcus Noland, Sherman Robinson and Tyler Moran, 'Impact of Clinton's and Trump's Trade Policies, in Peterson Institute for International Economics, Briefing 16-6, ['Assessing Trade Agendas in the US Presidential Campaign'](#), September 2016.

Increased tariffs would hurt the poorest households hardest

Tariff burden relative to after-tax income



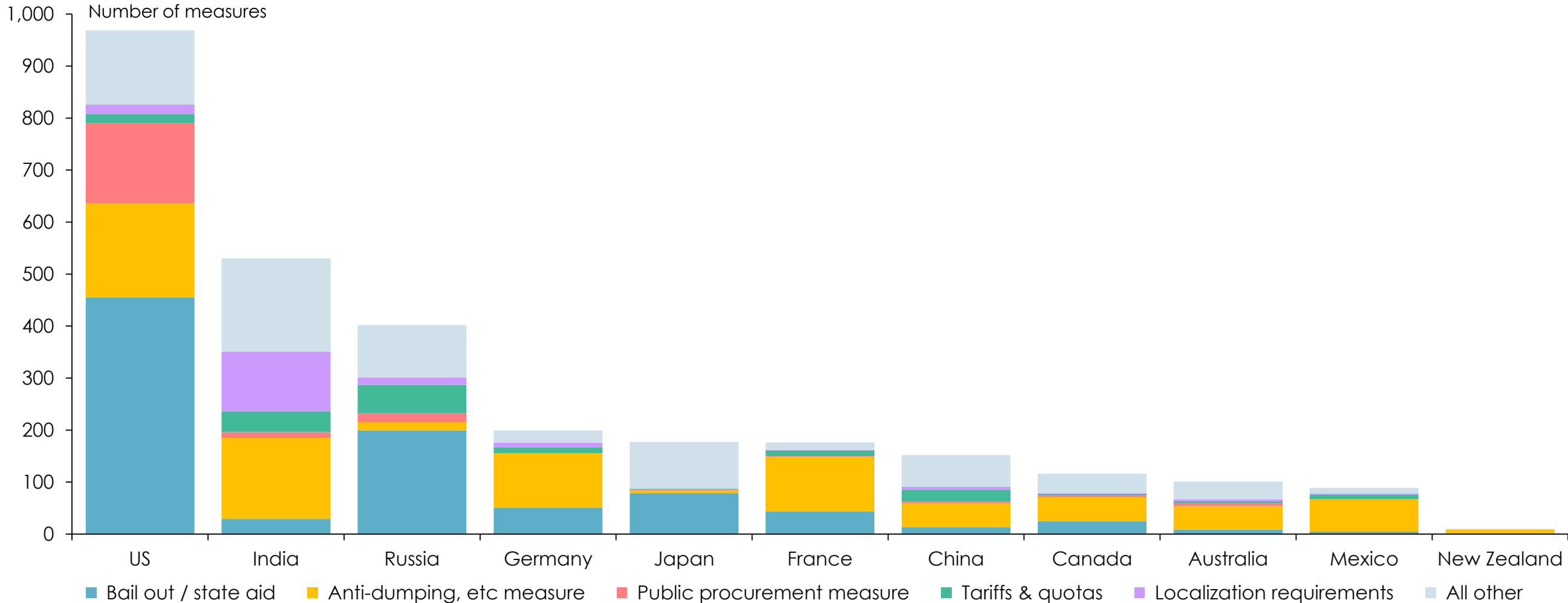
Tariff burden relative to expenditures excluding mortgage, rent & utilities



Source: Jason Furman, Katheryn Russ and Jay Shambaugh (Obama Administration Council of Economic Advisors), ['US tariffs are an arbitrary and regressive tax'](https://voxeu.org), voxeu.org, 12th January 2017.

The US has imposed more trade-restricting measures than any other country since the financial crisis

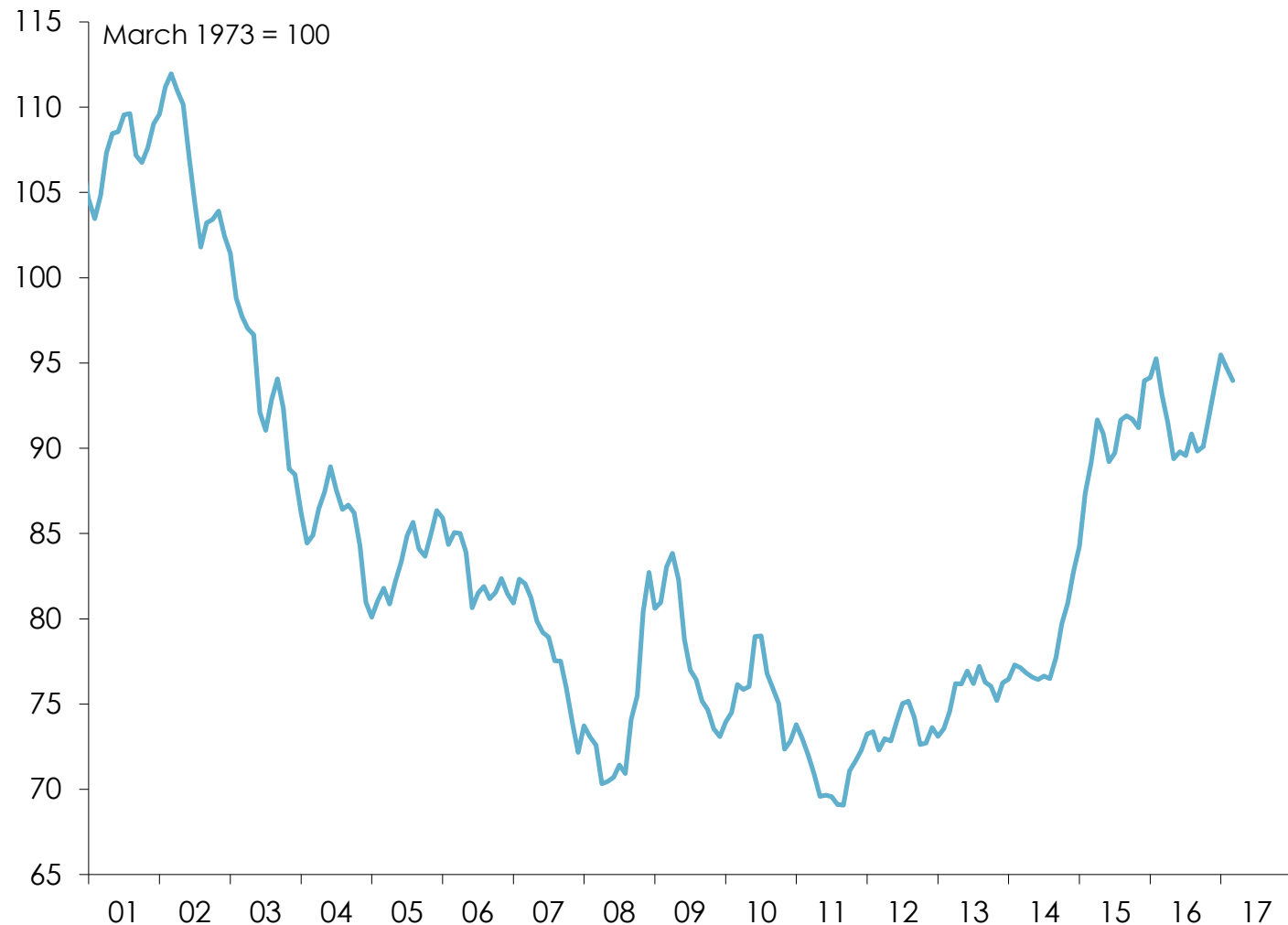
Anti-trade measures introduced since 2008 – selected countries



Source: Global Trade Alert database.

The US dollar will either rise further, or fall a lot – depending in large part on what Trump does

US dollar vs other major currencies



- ❑ If Trump sticks to his ‘pro-growth’ agenda (tax cuts together with increased spending on defence and infrastructure) then the US dollar will probably keep rising
 - in response to rising US inflation and interest rates
- ❑ If Trump pursues a highly protectionist trade policy, and/or seeks to politicize the Federal Reserve, then the US dollar will likely fall (and potentially fall a lot)
 - because those kind of actions will undermine confidence in the US financial system, and the US dollar, as a ‘safe haven’

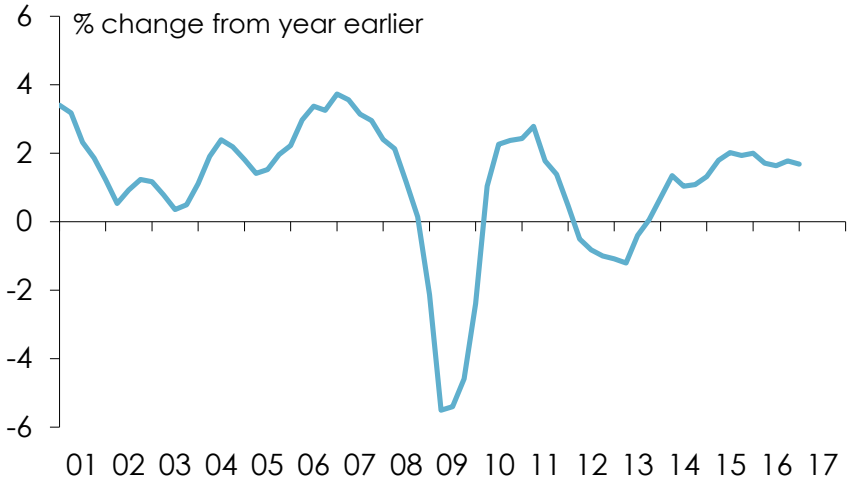
Source: Thomson Reuters Datastream.

Populism has been on the march longer in Europe than the US

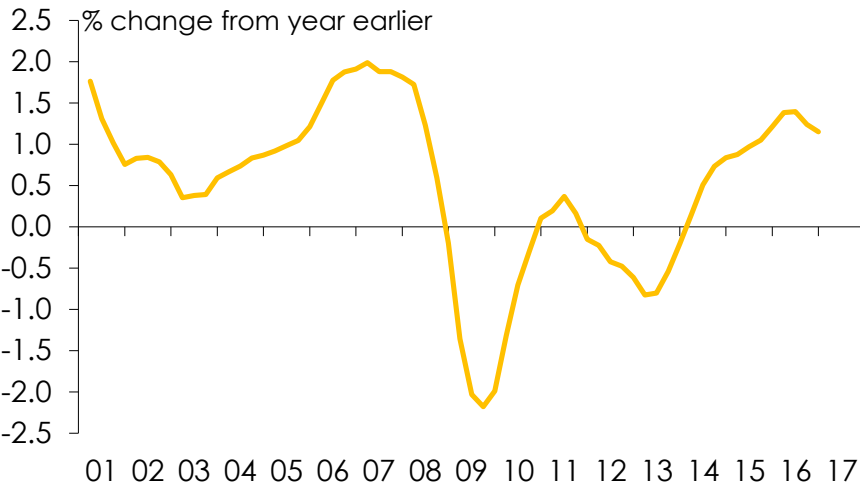


The euro area economy is gradually improving

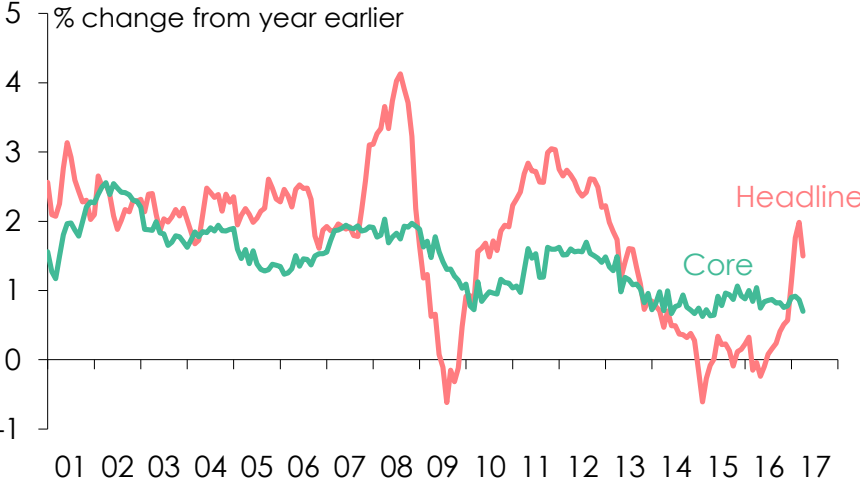
Real GDP



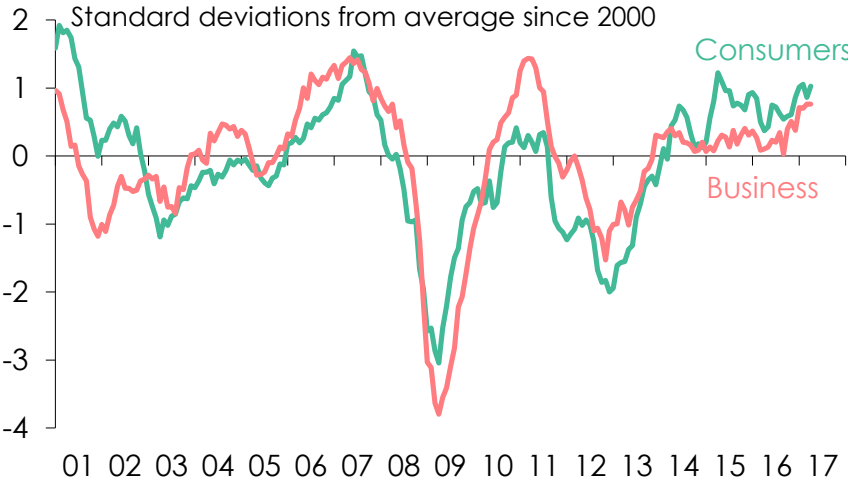
Employment



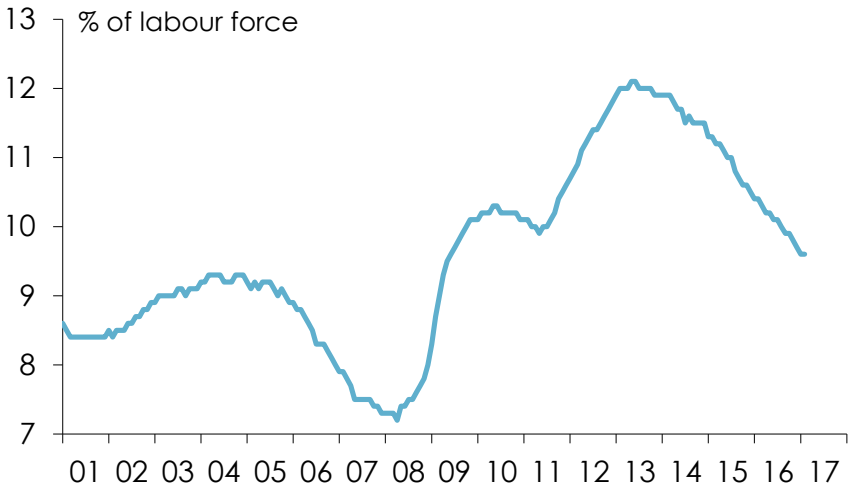
Inflation



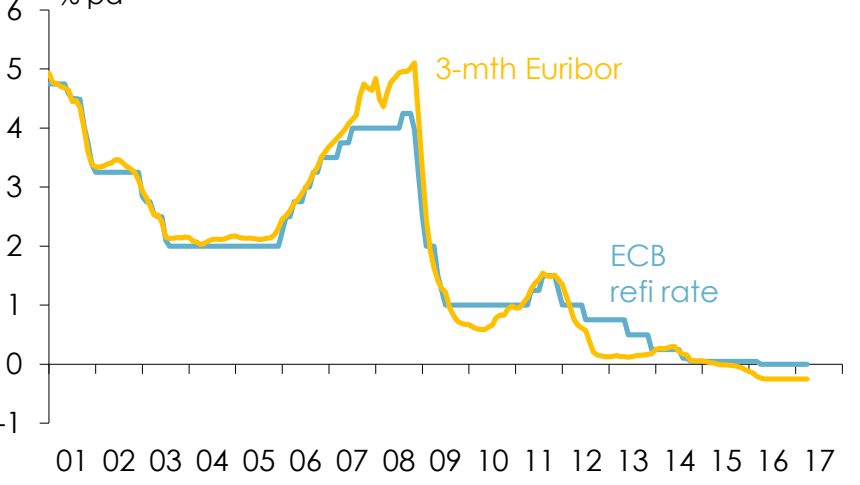
Business & consumer confidence



Unemployment

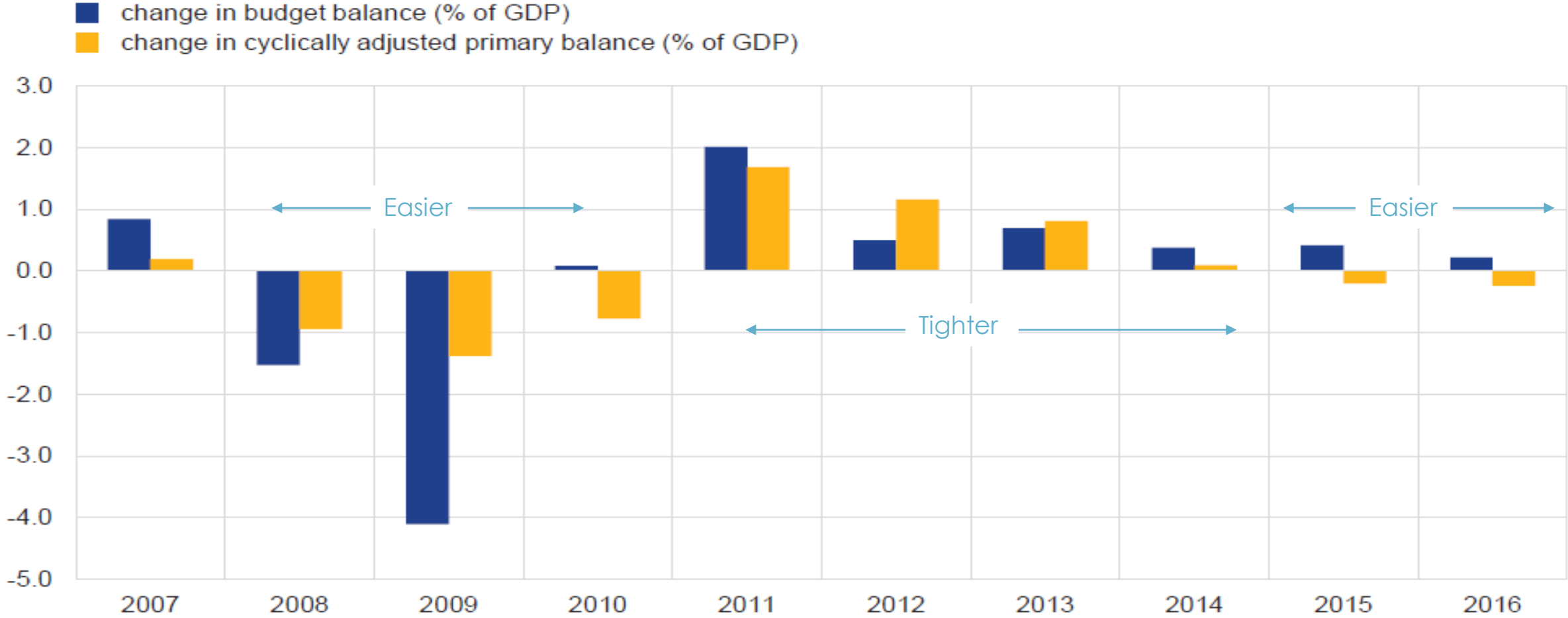


Interest rates



Backtracking from fiscal austerity has helped the recovery in Europe

Measures of the stance of fiscal policy in the euro area



Note: The 'cyclically adjusted budget balance' is the budget balance excluding interest payments and abstracting from the impact of the business cycle on government revenues and expenditures.

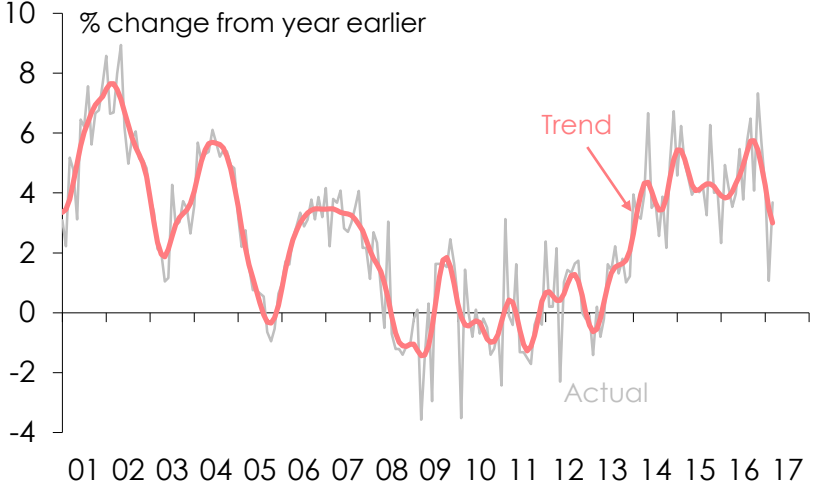
Source: European Central Bank, *Economic Bulletin*, Issue 4, 2016, p. 71.

Last year's Brexit hit sterling and confidence, but so far the dire warnings about economic consequences have not been borne out

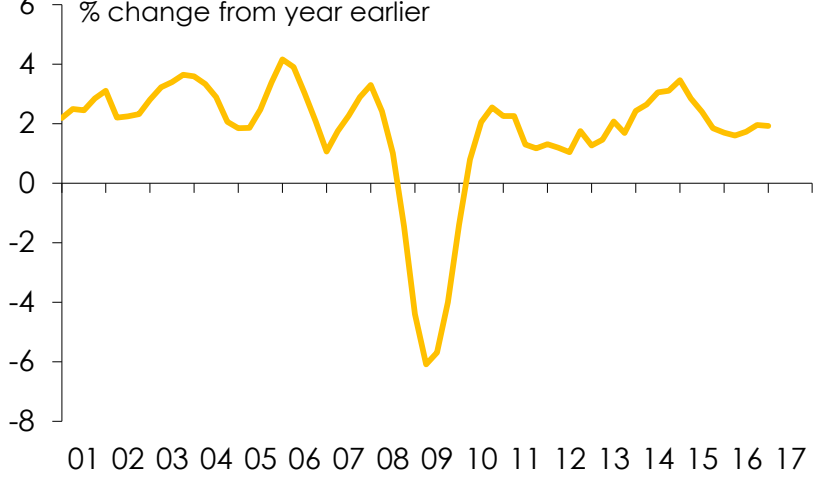
Sterling vs US\$



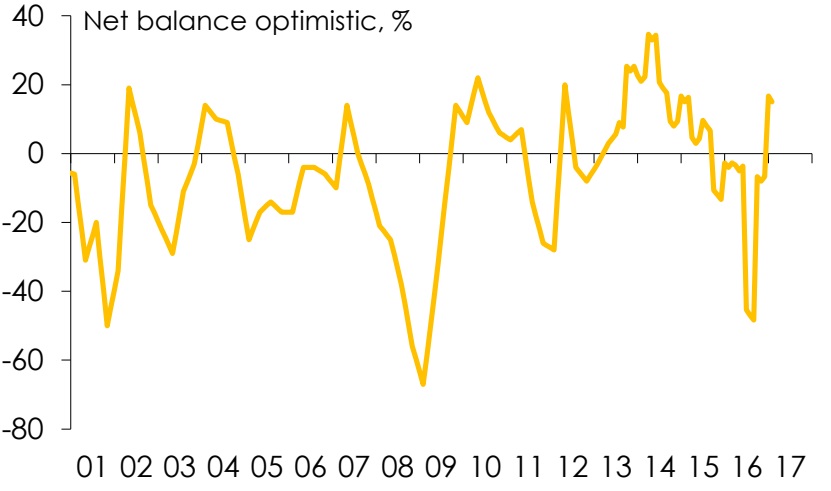
Retail sales volume



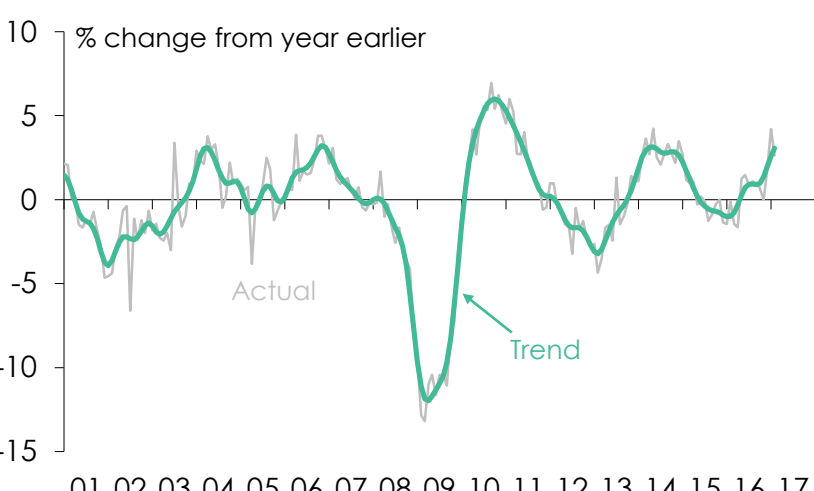
Real GDP



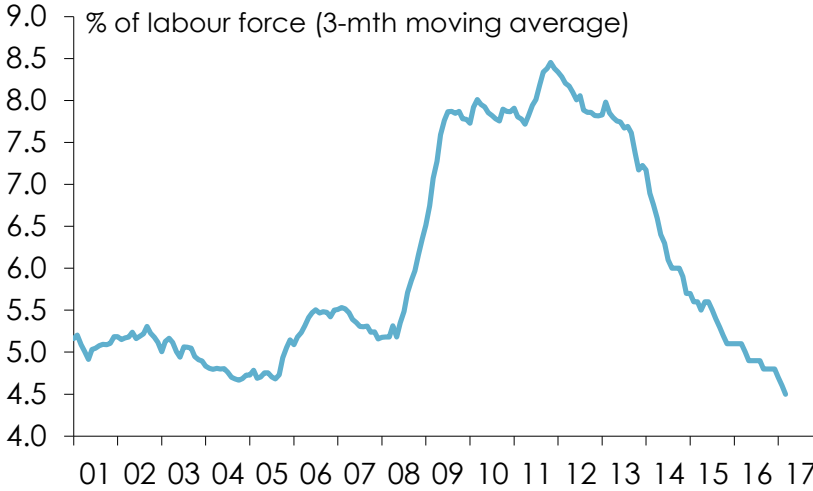
Business confidence



Manufacturing production



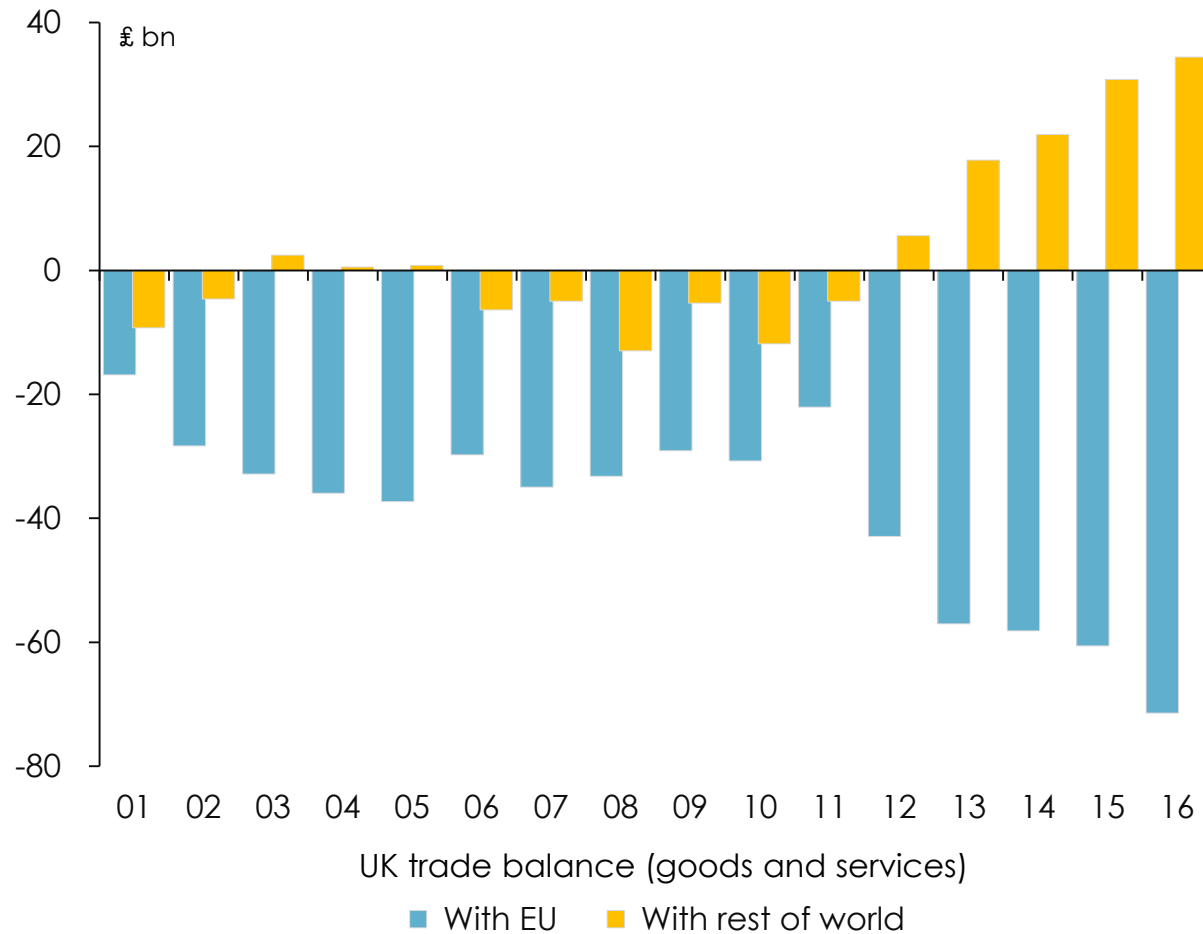
Unemployment



Sources: Thomson Reuters Datastream; Confederation of British Industry; UK Office for National Statistics.

'Brexiters' think that the EU 'needs' the UK more than the UK 'needs' the EU – but in fact UK-EU trade matters more to the UK than to the rest of the EU

UK balance of trade on goods and services – EU and rest of the world



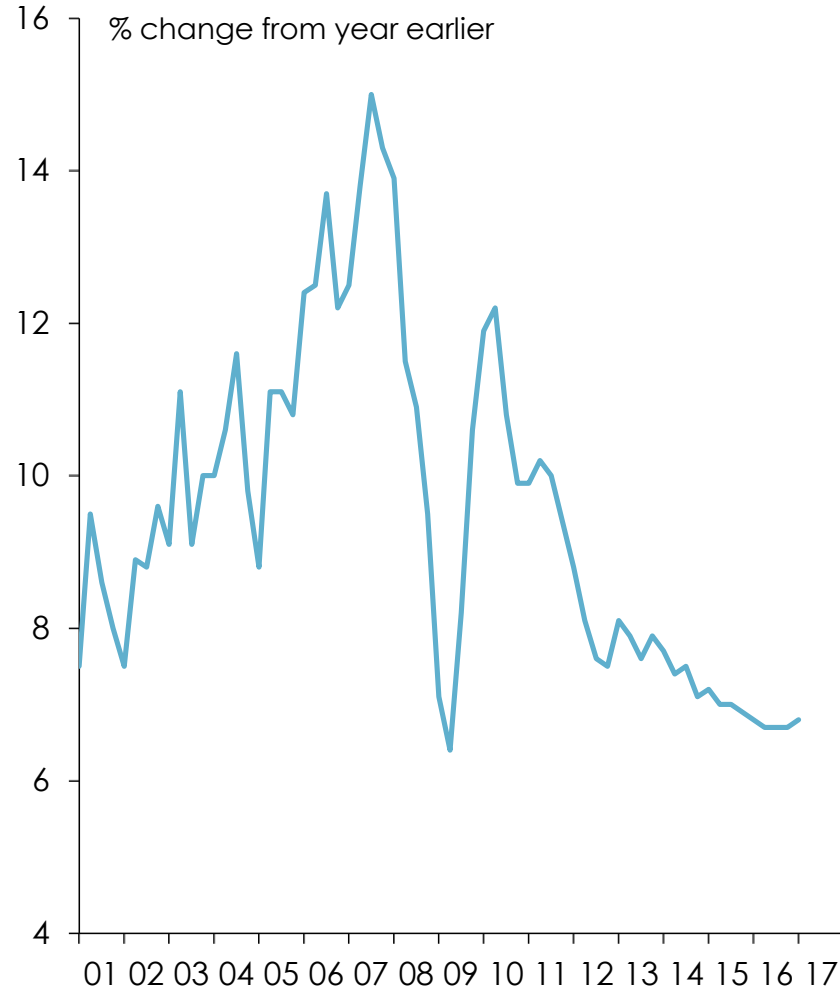
UK-EU trade as a pc of UK and EU ex-UK GDP



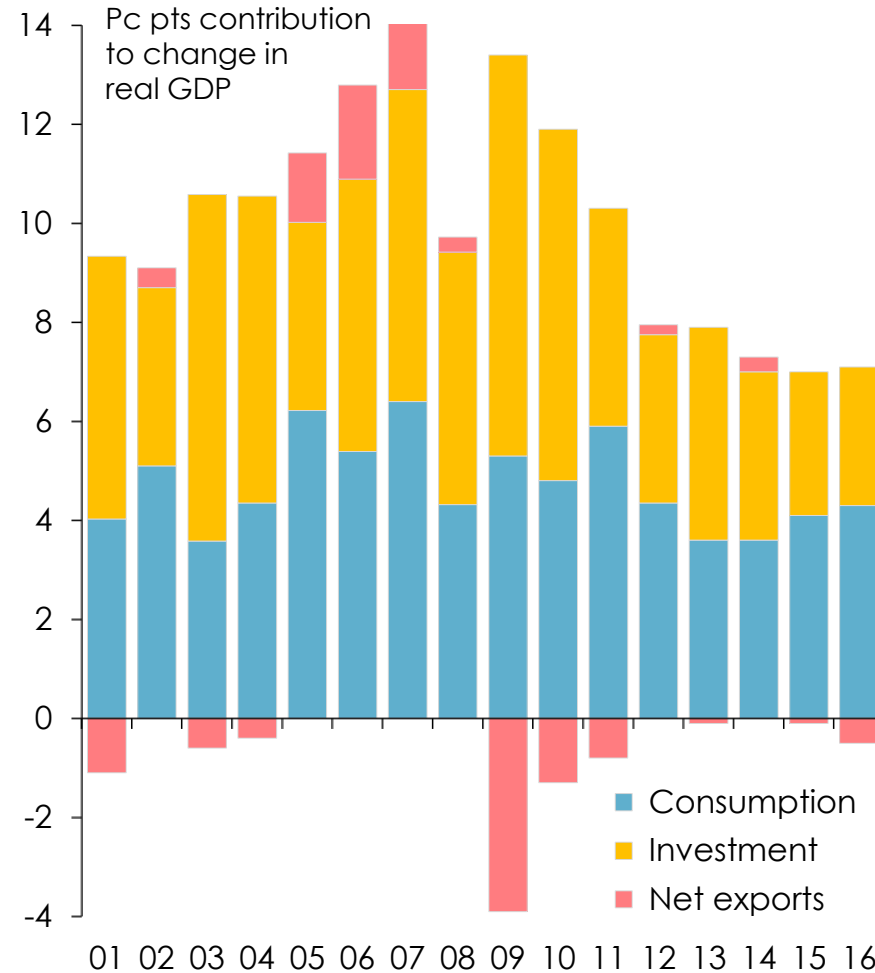
Sources: UK Office for National Statistics; Eurostat.

China's growth has slowed a lot; it's no longer driven by net exports; and it isn't running big current account surpluses any more

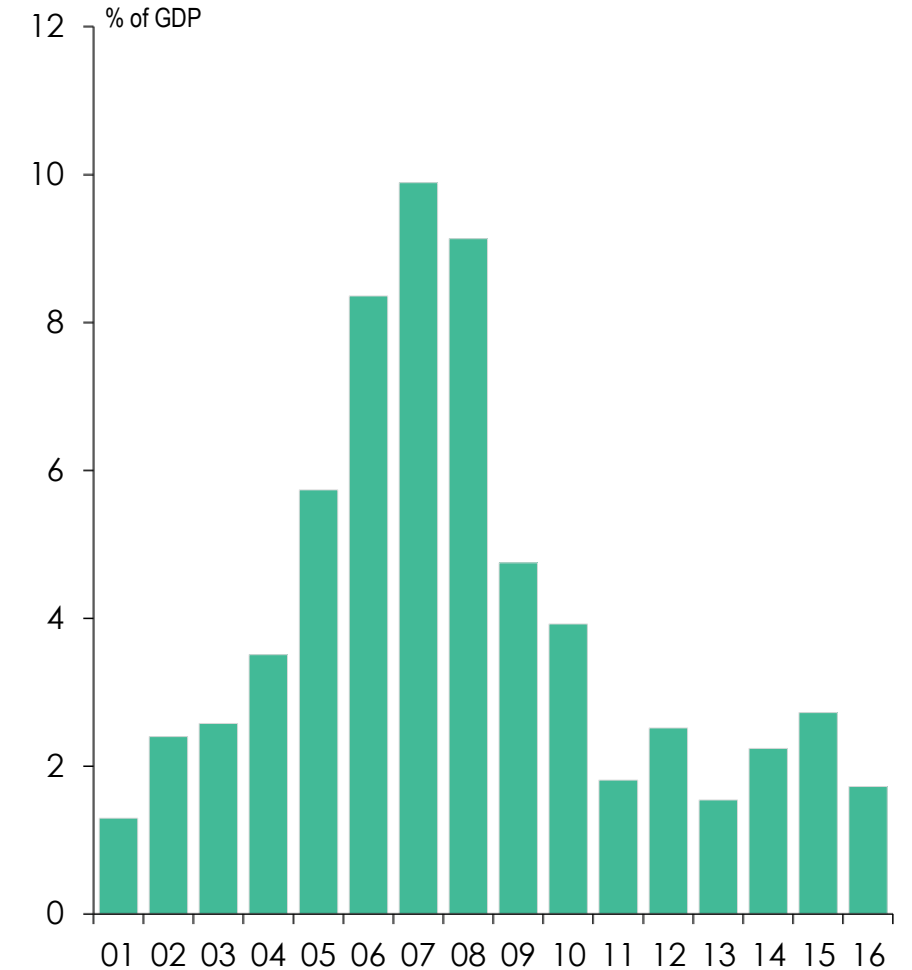
China real GDP growth



Contributions to Chinese real GDP growth



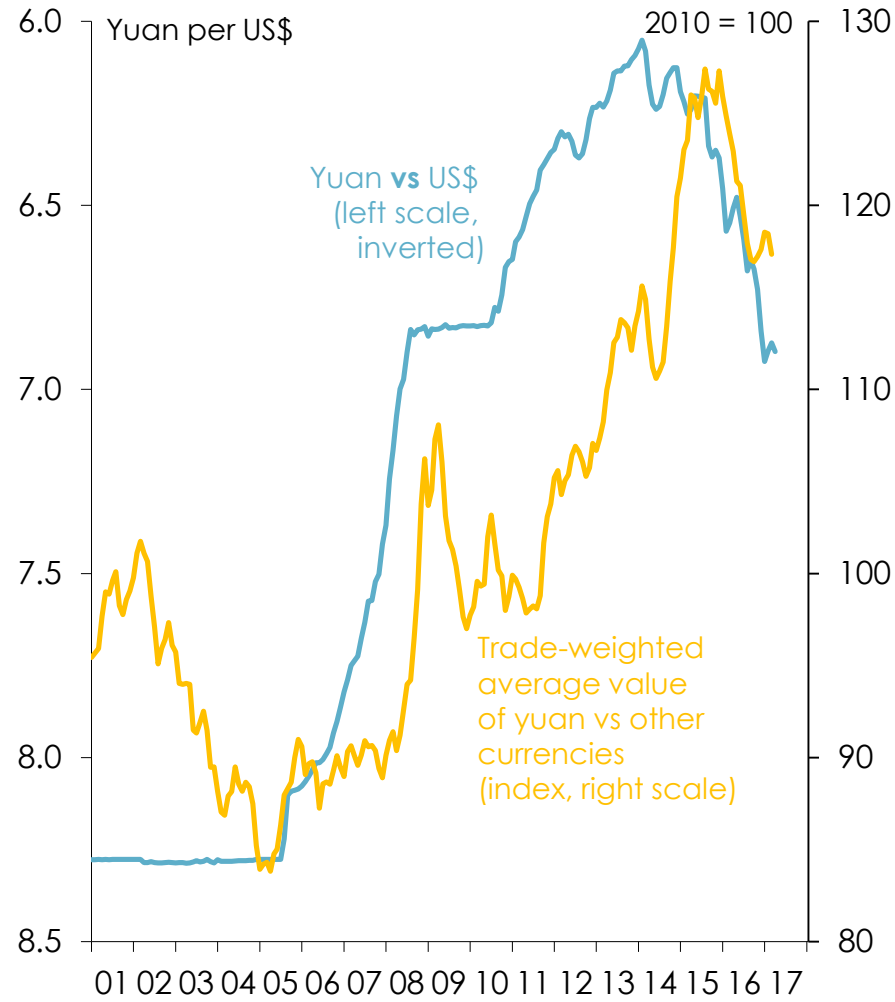
Chinese current account surplus



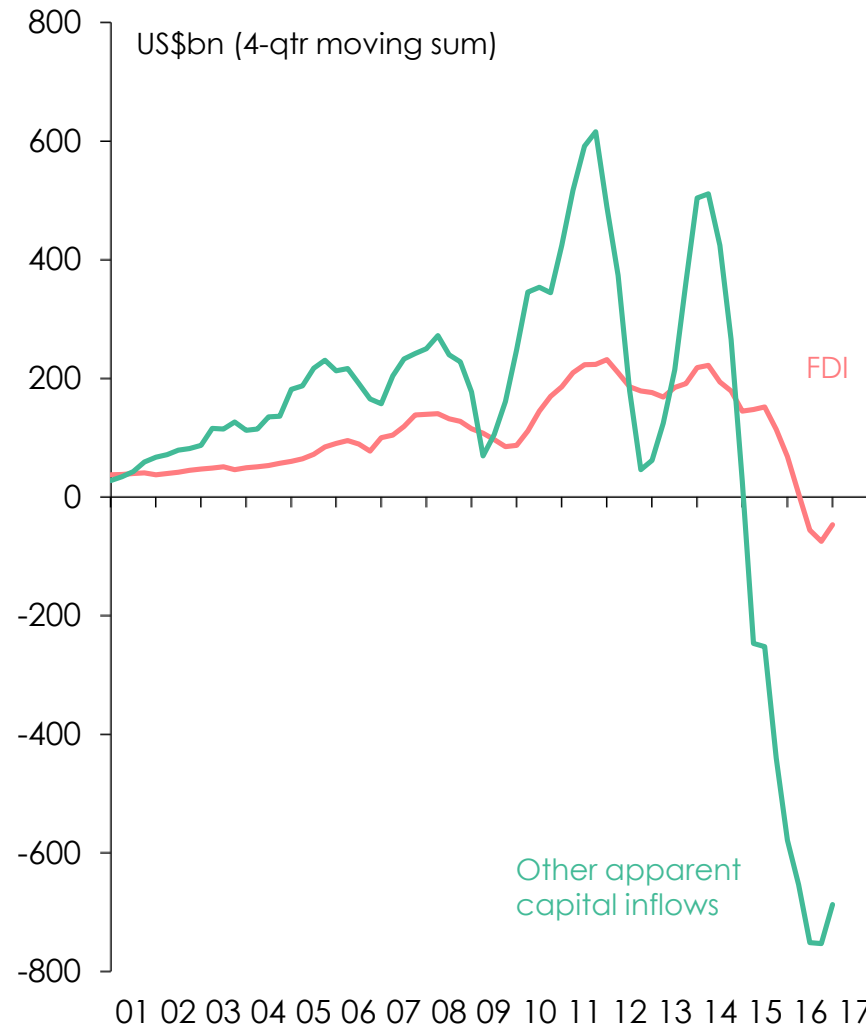
Source: China National Bureau of Statistics.

China has been 'manipulating' its currency – to stop it falling, rather than to make it cheaper

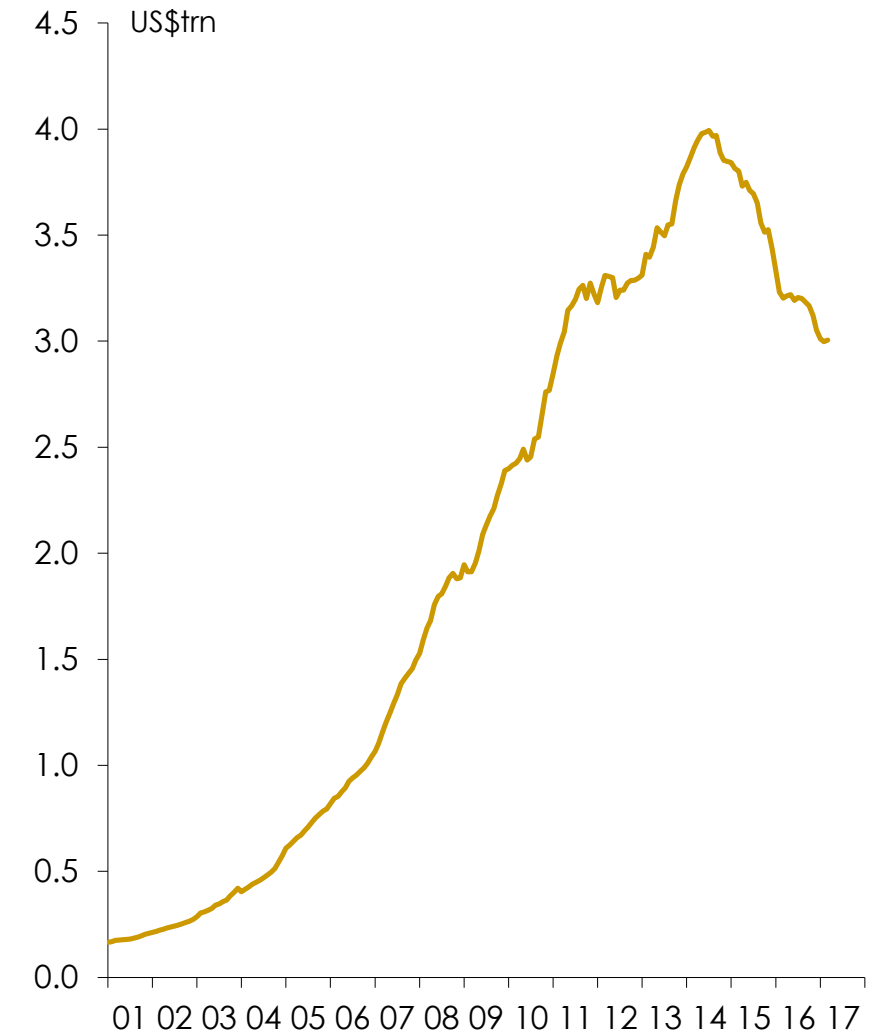
Chinese yuan vs US dollar



Net apparent capital inflow



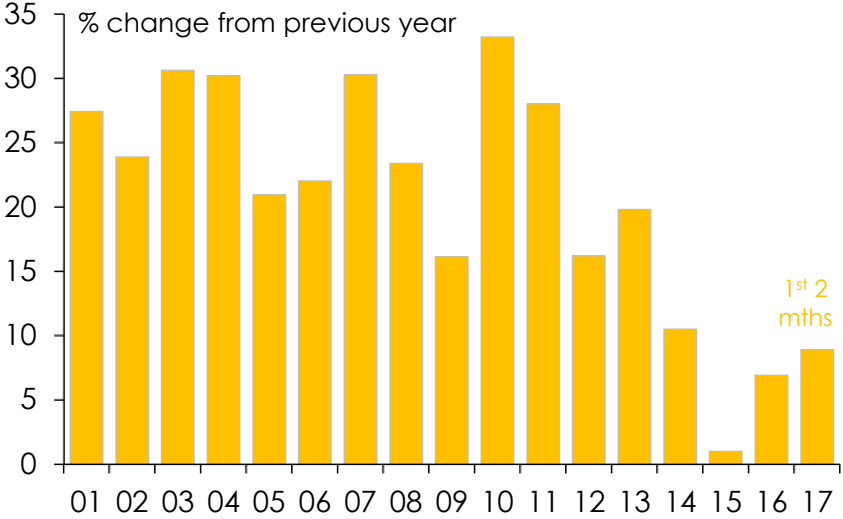
PBoC FX reserves



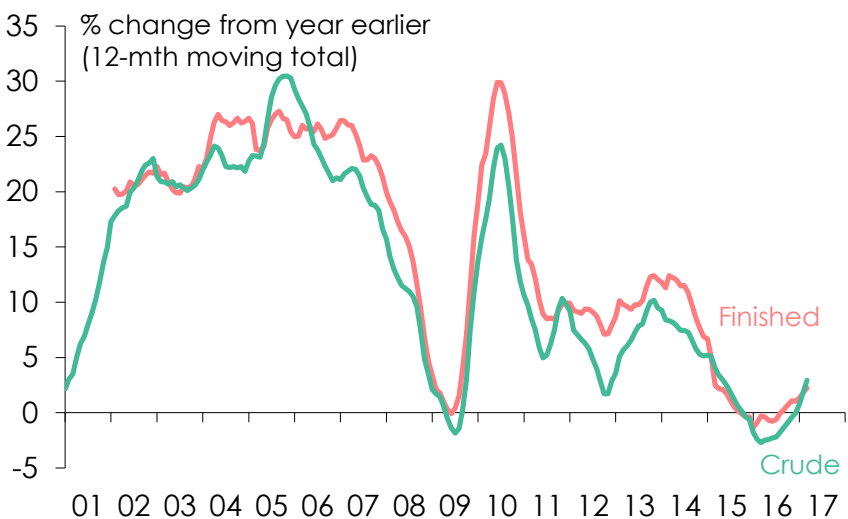
Note: 'Other apparent capital inflows' = current account balance minus capital account balance, change in FX reserves and net FDI.
Sources: People's Bank of China; Bank for International Settlements; China National Statistics Bureau.

Chinese authorities have reversed the declines in the property sector and residential construction which occurred late 2015 and early 2016

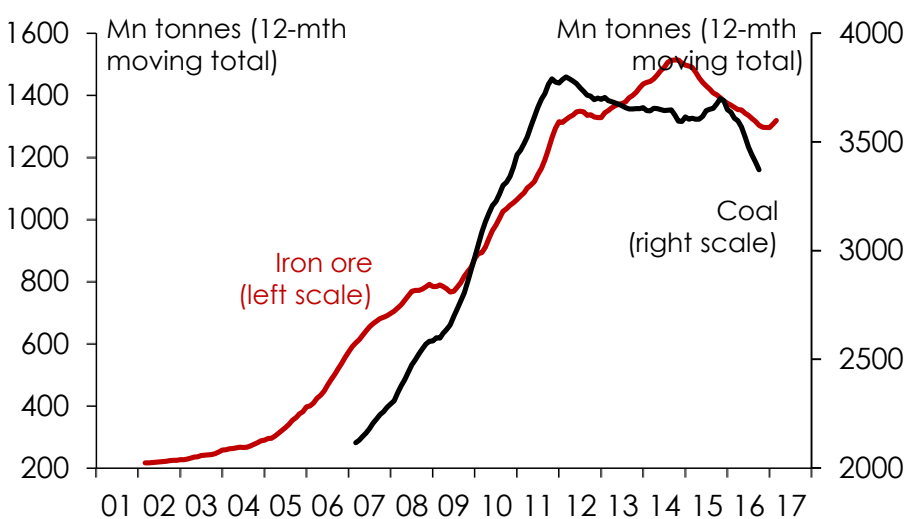
Real estate investment



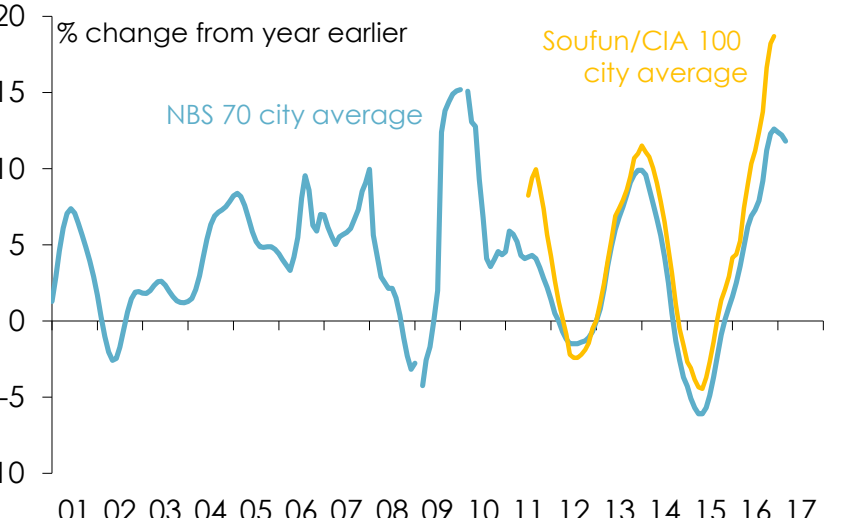
Steel production



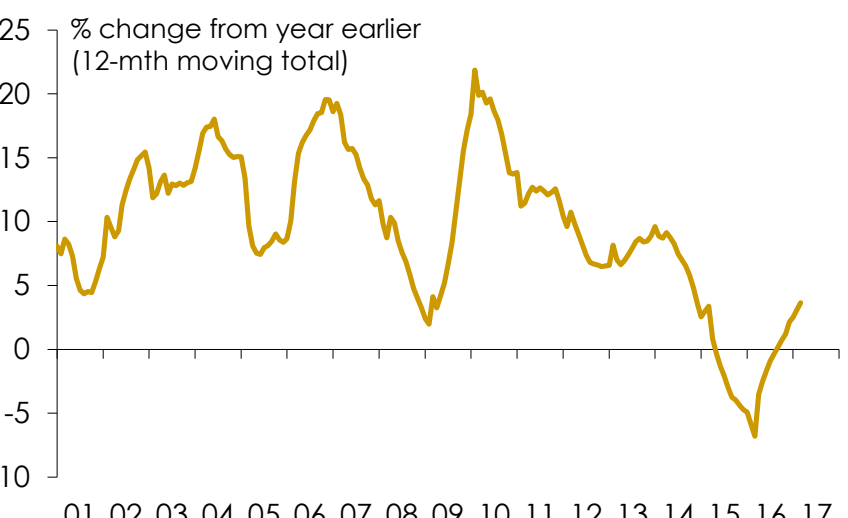
Iron ore and coal production



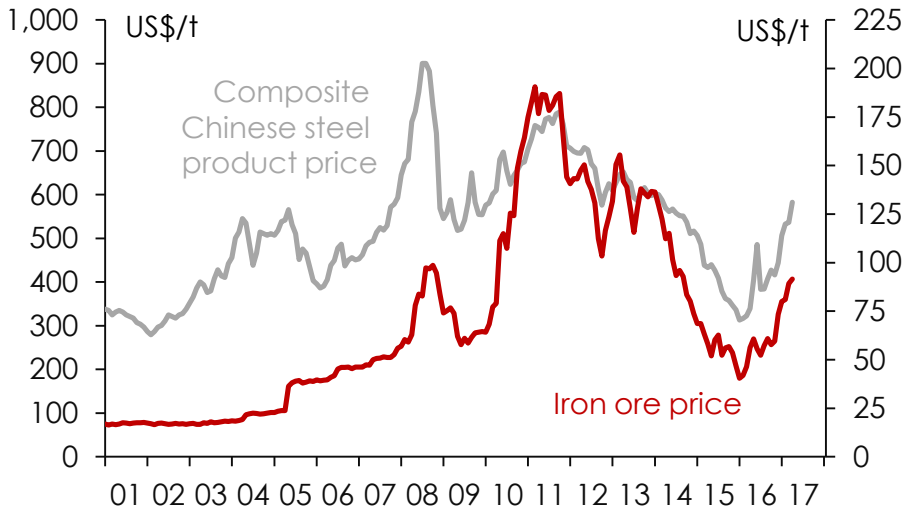
Urban property prices



Cement production

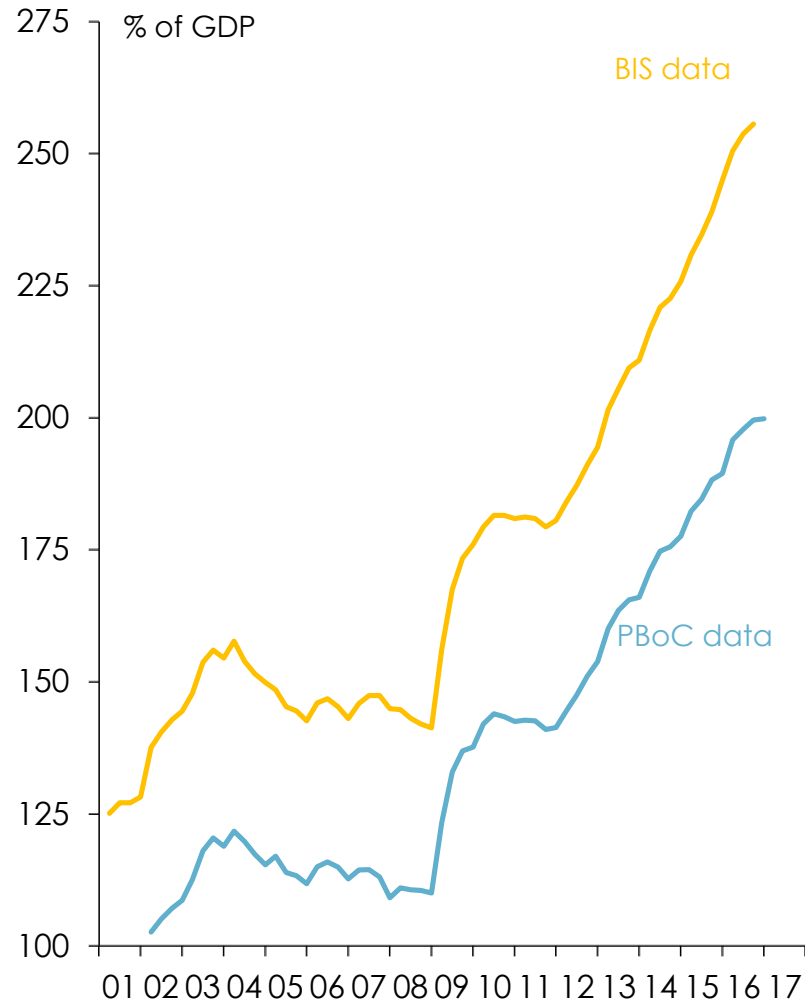


Iron ore and steel prices

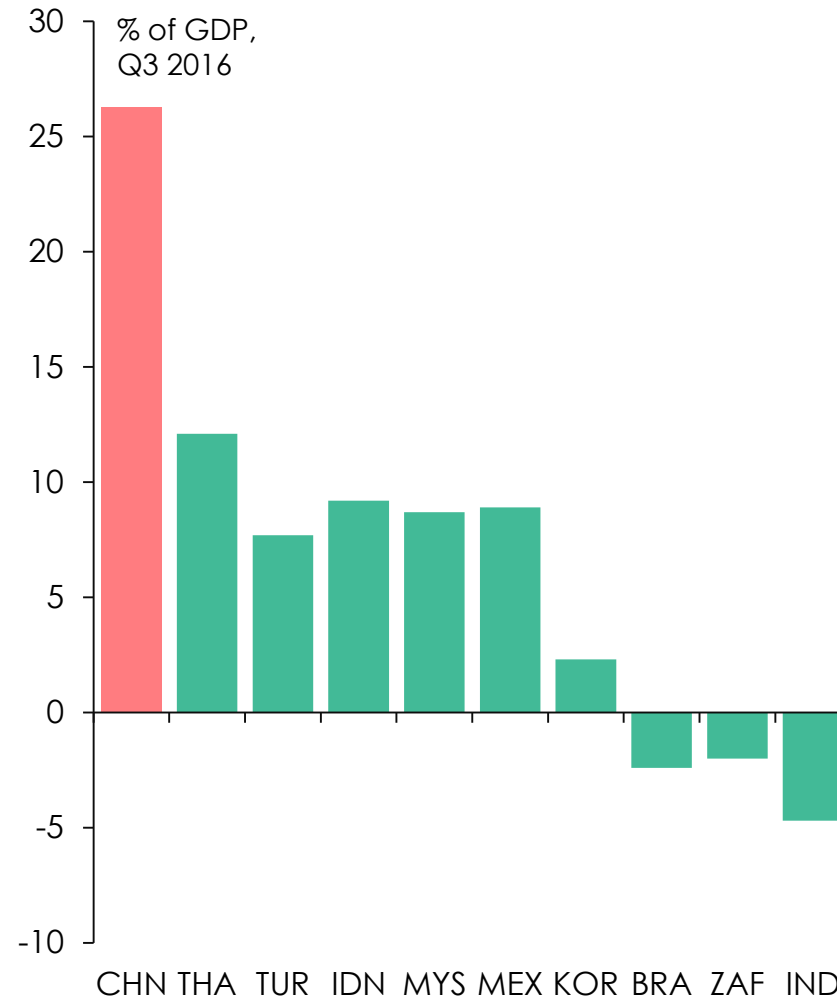


China now carries a lot of debt – most of which is owed by the corporate sector (especially SOEs) rather than households or government

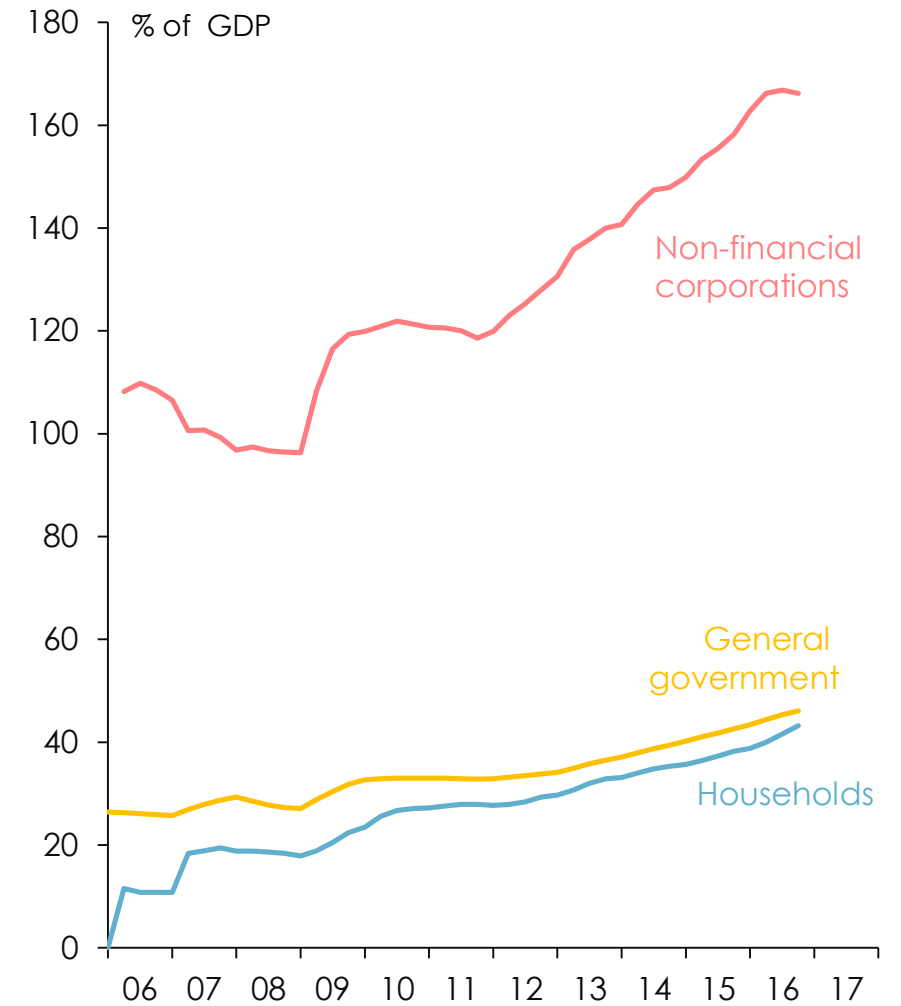
China debt outstanding as a proportion of GDP



Emerging market 'credit gaps'



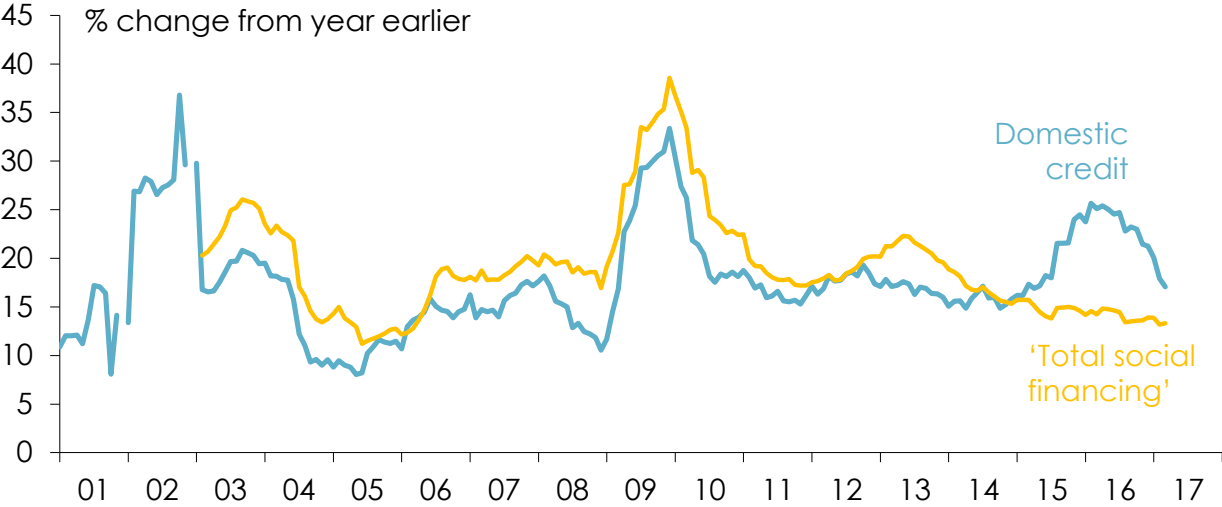
Chinese debt outstanding by major sector



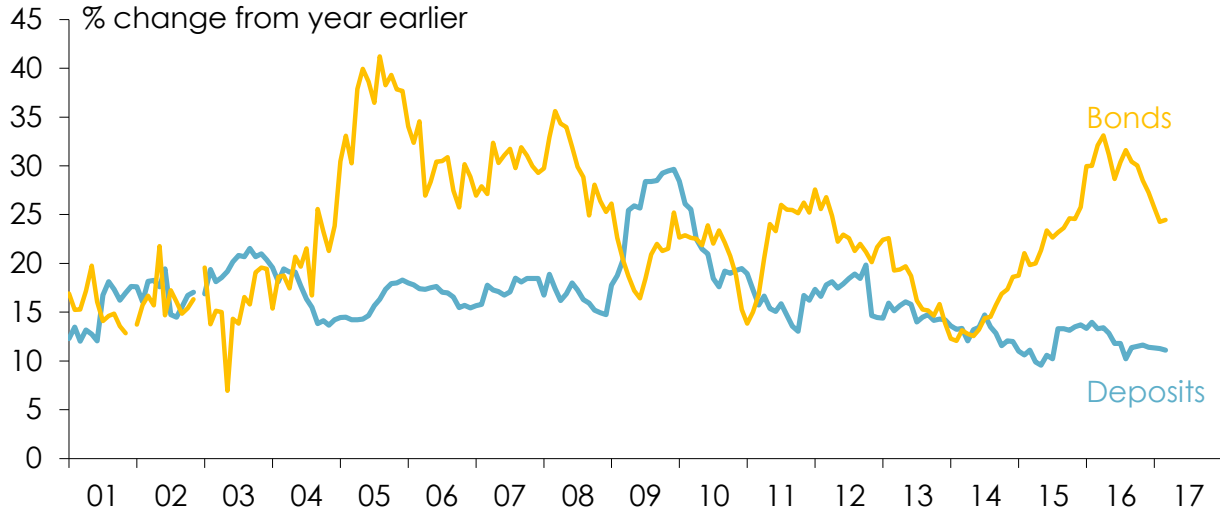
Note: The 'credit gap' is the difference between the credit-to-GDP ratio (as estimated by the BIS) and its long-run trend.
Sources: People's Bank of China (PBoC); Bank for International Settlements (BIS).

The most recent round of Chinese monetary stimulus has been financed in a way which has increased the risks in the financial system

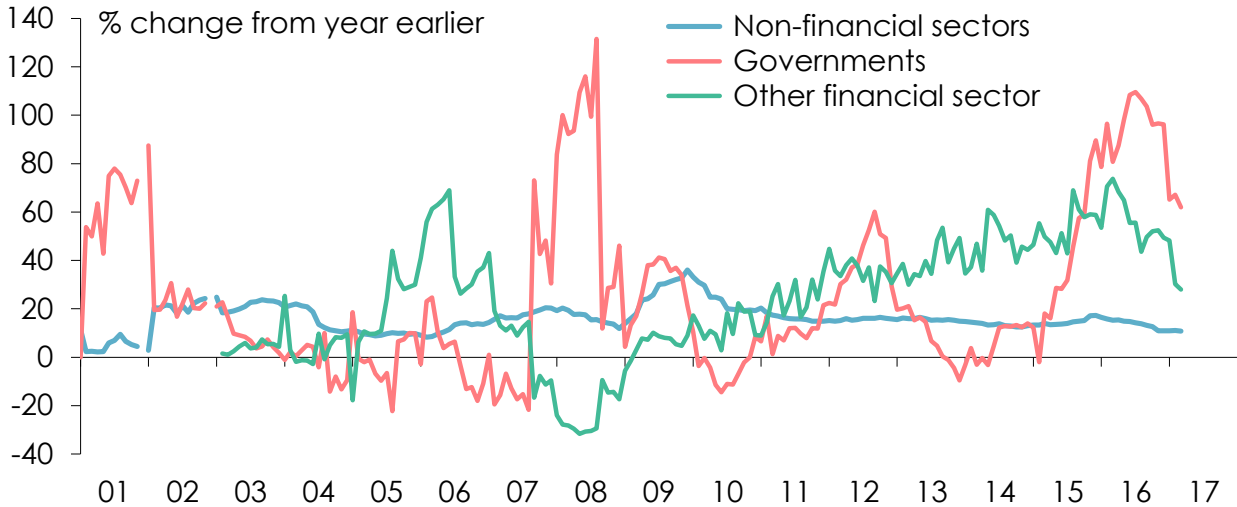
Credit growth - total



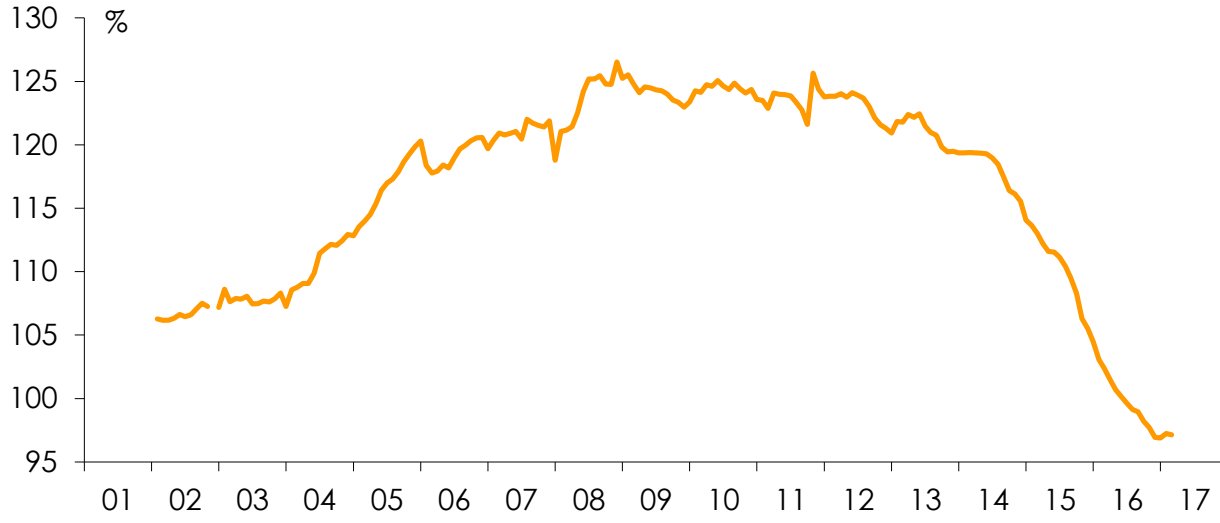
Banking system liabilities



Credit growth – by sector



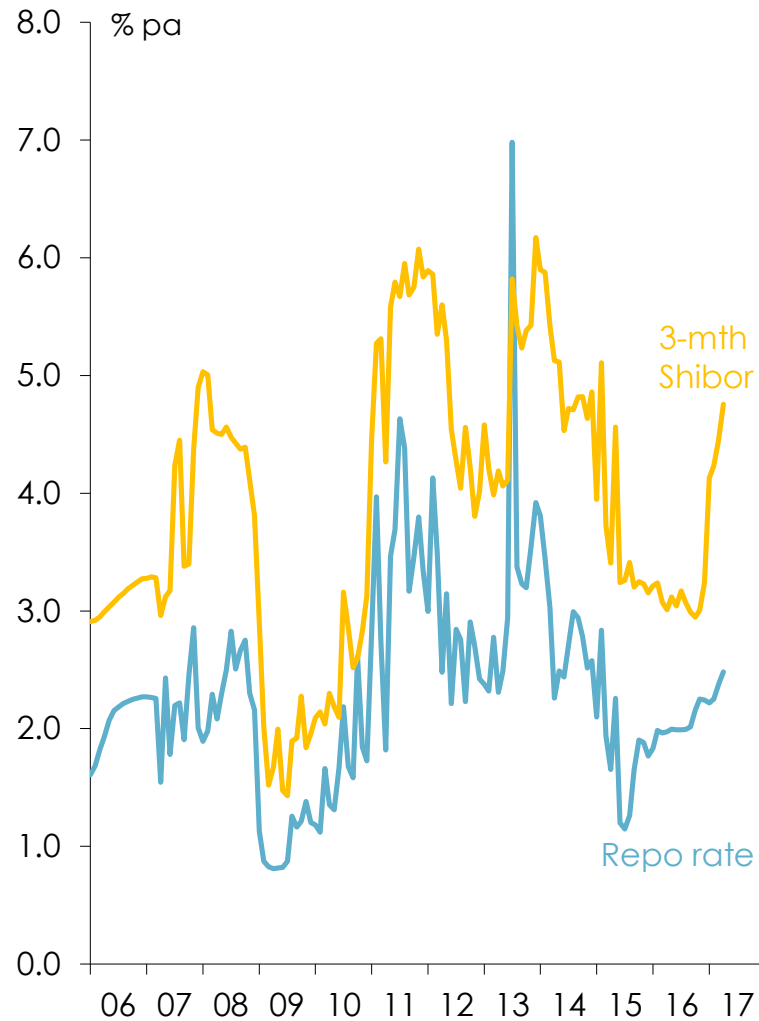
Banking system deposits-to-loans ratio



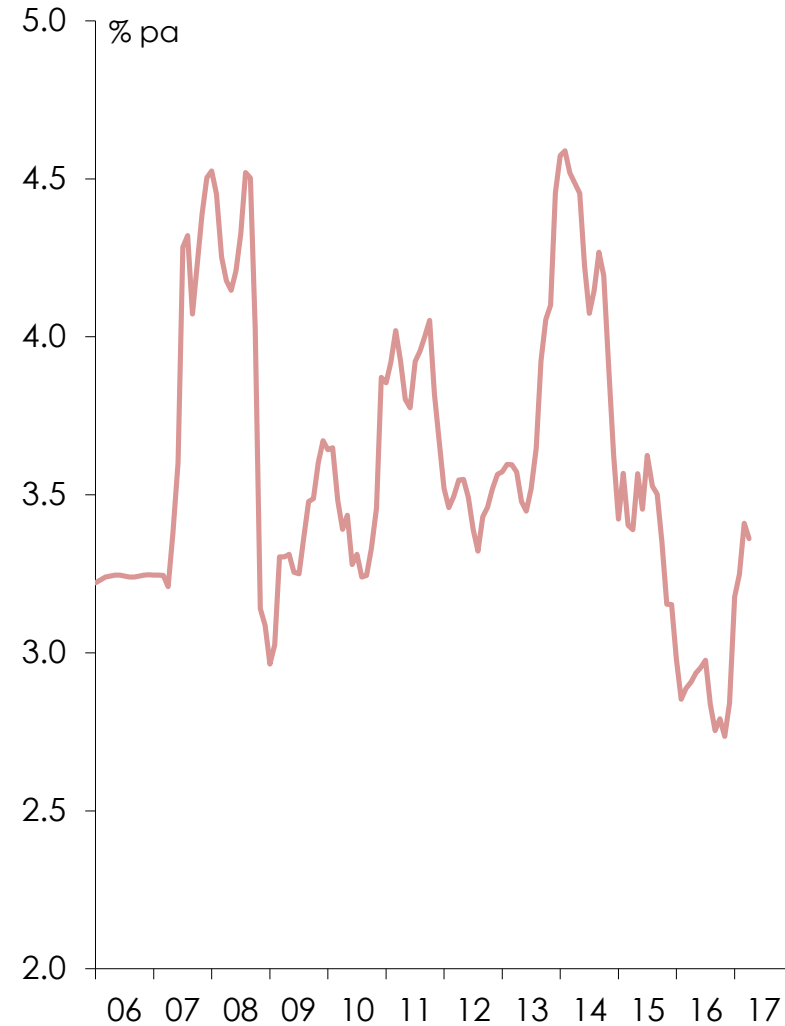
Sources: People's Bank of China; Thomson Reuters Datastream.

Chinese authorities making tentative steps towards restraining credit growth, but no appetite for slower economic growth

China short-term interest rates



China 10-year bond yield



- Market-sensitive interest rates have moved up since mid-November
 - it's not clear whether this reflects discretionary policy tightening by the PBoC or simply 'market pressures'
 - there has been no change to regulated deposit or loan interest rates, or to reserve requirement ratios
- The government's growth target of '6½% or higher' for 2017 isn't materially different from last year's 6½-7%
 - likewise the reduction in the money supply growth target from 13% to 12% doesn't foreshadow major credit tightening
- The focus is on 'stability' ahead of the 19th CCP Congress in November
 - that's likely to include stability in credit conditions and asset prices

Note: 'Shibor' = Shanghai inter-bank offered [interest] rate.
Source: Thomson Reuters Datastream.

Chinese Stats Bureau doesn't just publish economic statistics, it explains why the economy is doing so well

• Chinese(GB) • RSS • Mobile • Organizational Chart

Mar.31, 2017 Fri:



National Bureau of Statistics of China

- Home
- Data
- Communiqués
- Legal Framework
- Classifications & Methods
- Press Release
- International Cooperation
- Understanding S

National Economy Registered a Steady Performance with Good Growth Momentum in the First Two Months

In the first two months, under the correct guidance and arrangement of the Central Committee of the Communist Party of China and the State Council, and with concerted efforts of Chinese people, main indicators of the Chinese economy registered positive changes and economic performance kept improving. The overall economy sustained steady p

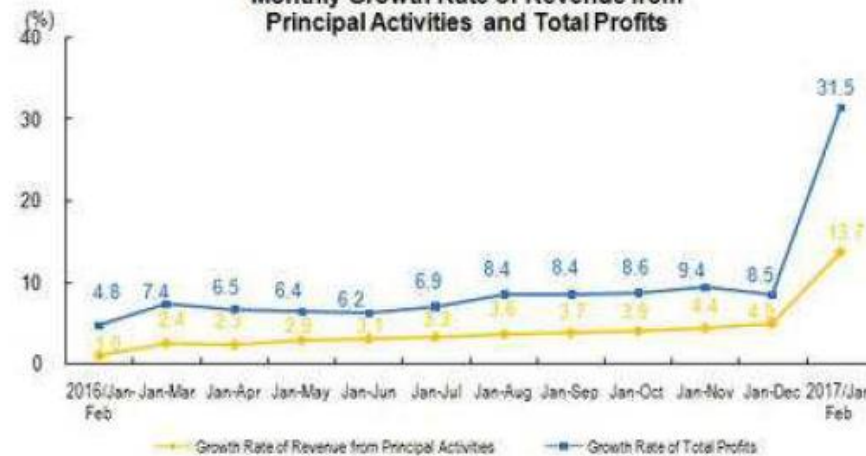
Statistical data

SDDS NSDP

Statistical Database

- Monthly Data
- Quarterly Data
- Annual Data
- Census Data
- Other Data

Monthly Growth Rate of Revenue from Principal Activities and Total Profits




Press Release

[Release Calendar](#)

- Industrial Profits Increased in the First Two Months of 2017
- Market Price of Important Means of Production in Circulation, March 11-20, 2017
- Average Price of Food in 50 Cities, March 11-20, 2017
- Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in February 2017

Perhaps the Australian Bureau of Statistics should do the same ...



[Statistics](#) [Census](#) [Complete your survey](#) [About us](#)

> [By Catalogue Number](#)

5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2016 [Quality Declaration](#)

LATEST ISSUE Released at 11:30 AM (CANBERRA TIME) 01/03/2017

[Summary](#) [Downloads](#) [Explanatory Notes](#) [Related Information](#) [Past & Future Releases](#)

Page tools: [Print Page](#) [Print All](#) [Email Notification](#) [RSS](#) [BOOKMARK](#) [Search this Product](#)

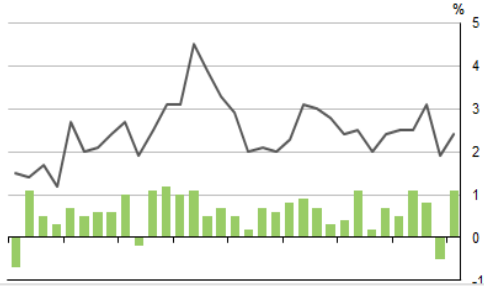
ANALYSIS

As a result of strong economic management by the Turnbull Government and despite persistent obstruction by the Senate ...

AUSTRALIAN ECONOMY GROWS BY 1.1%

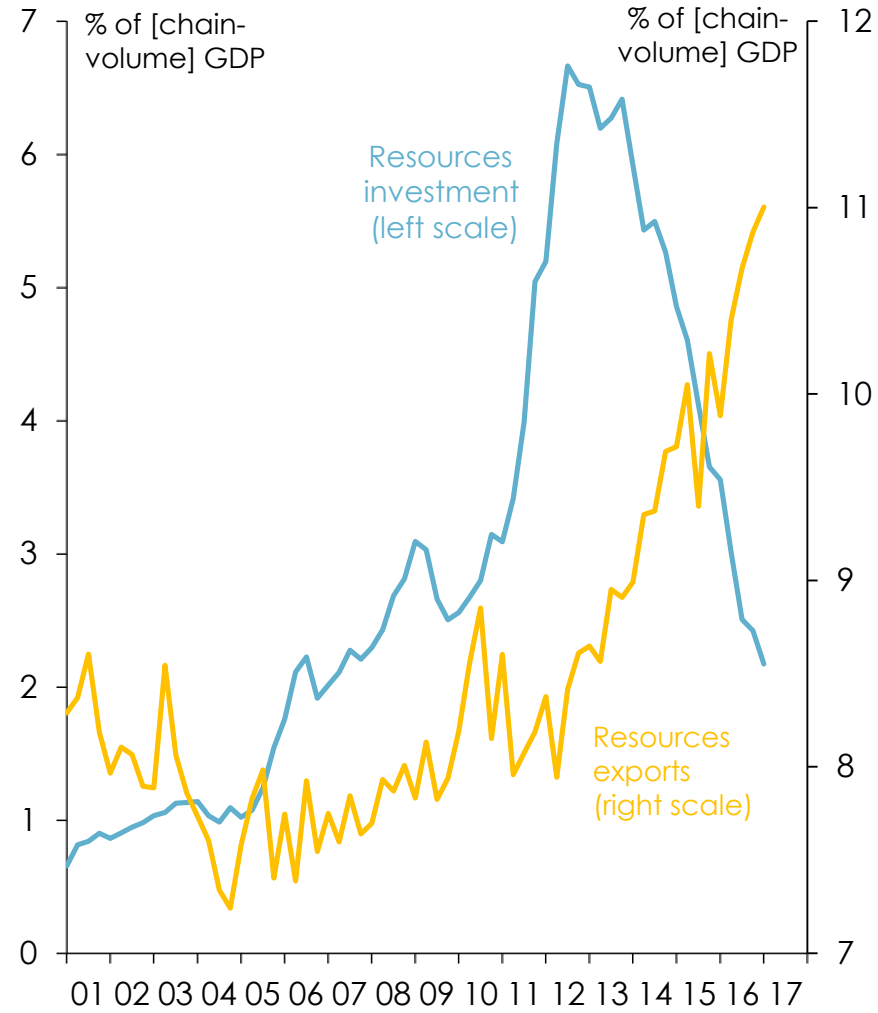
In chain volume seasonally adjusted terms, Australian Gross Domestic Product (GDP) grew by 1.1% in the December quarter 2016, following a contraction of 0.5% in the September quarter. Through the year growth is positive at 2.4%.

GROSS DOMESTIC PRODUCT, Volume measures: Seasonally adjusted

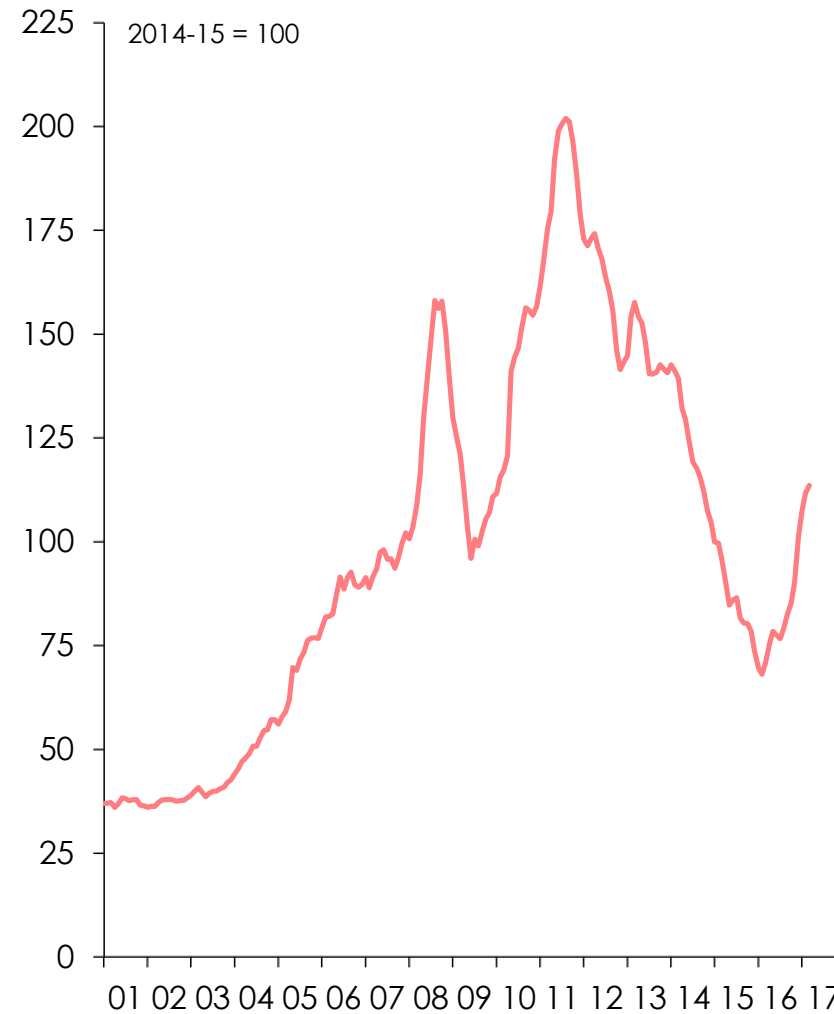


The resources investment boom is over – but the rebound in commodity prices has pushed Australia's trade balance back into surplus

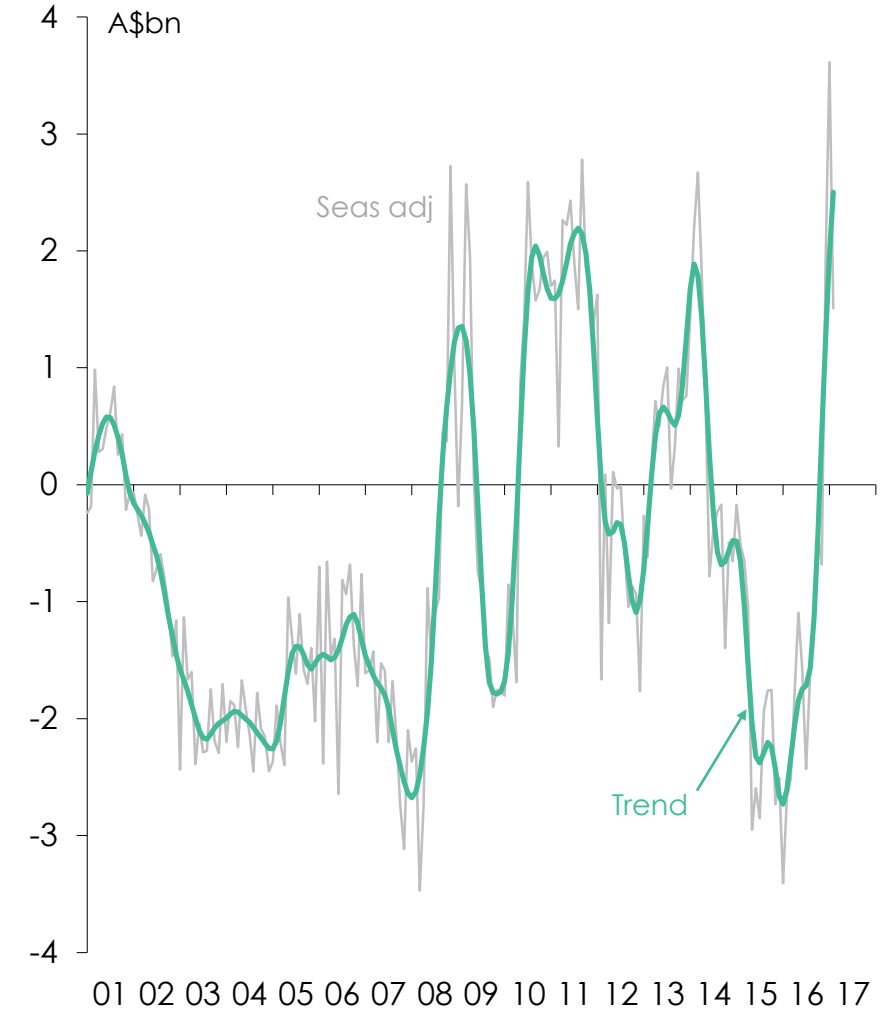
Australia's resources investment & export volumes



Australia's resources export prices



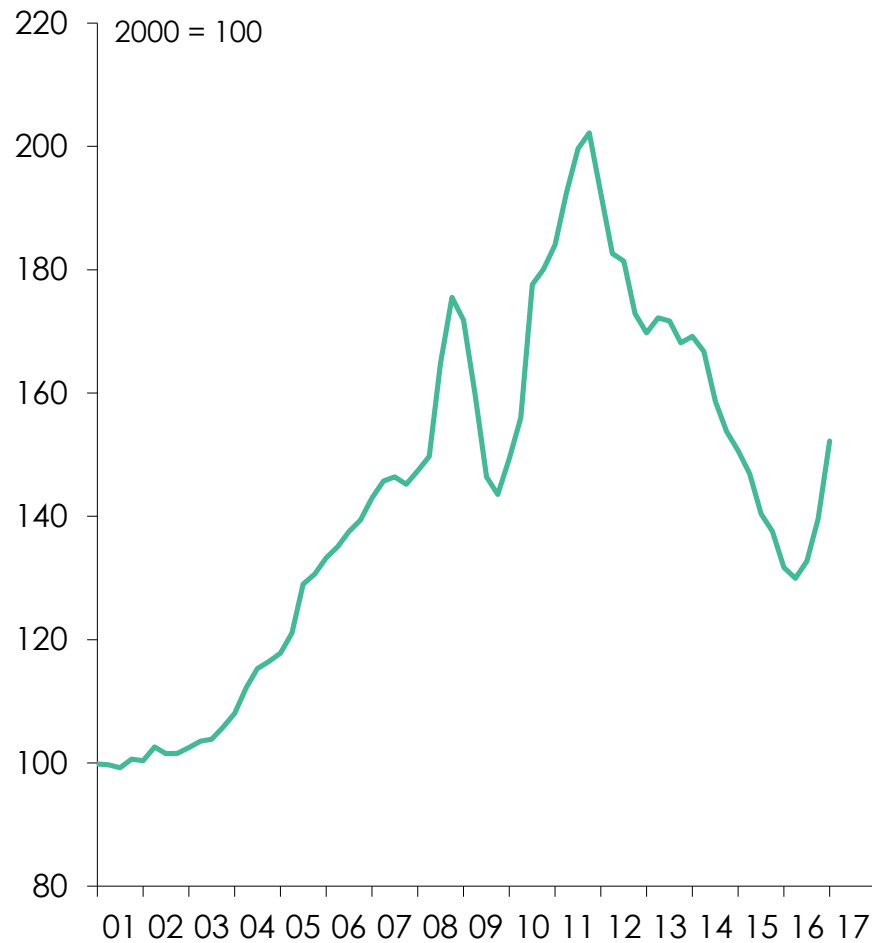
Australia's merchandise trade balance



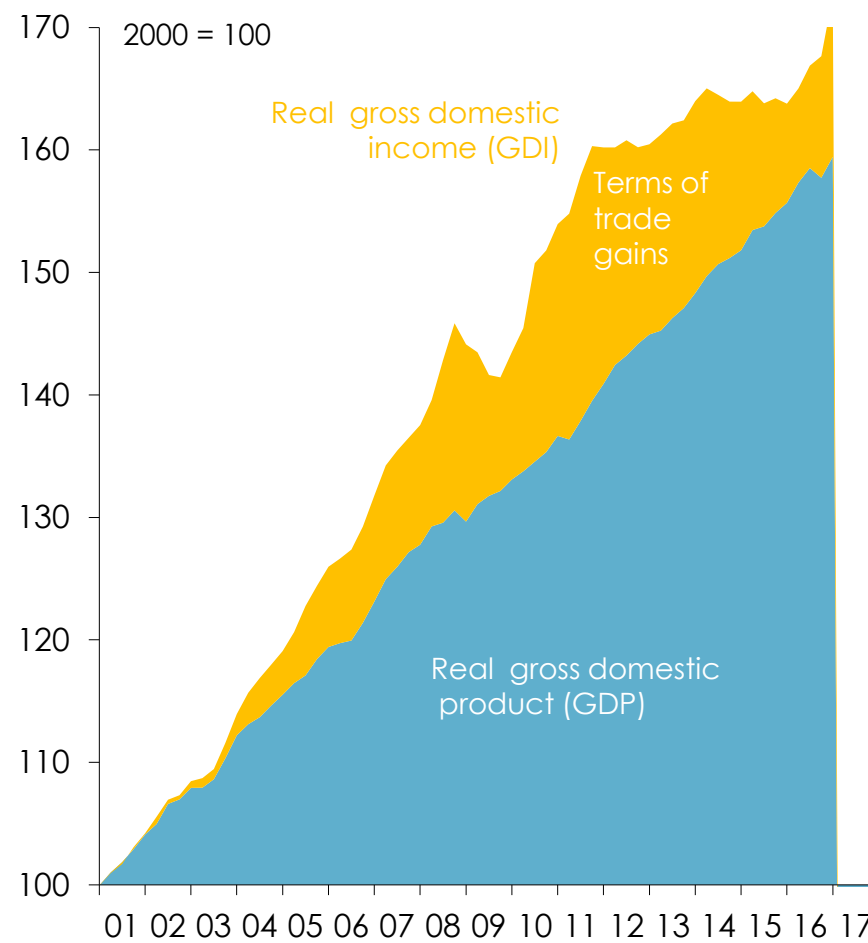
Note: Resources investment includes exploration expenditure.
Sources: ABS; RBA.

Will the rebound in commodity prices be a 'get out jail free' card for the Australian economy – like it was after the financial crisis?

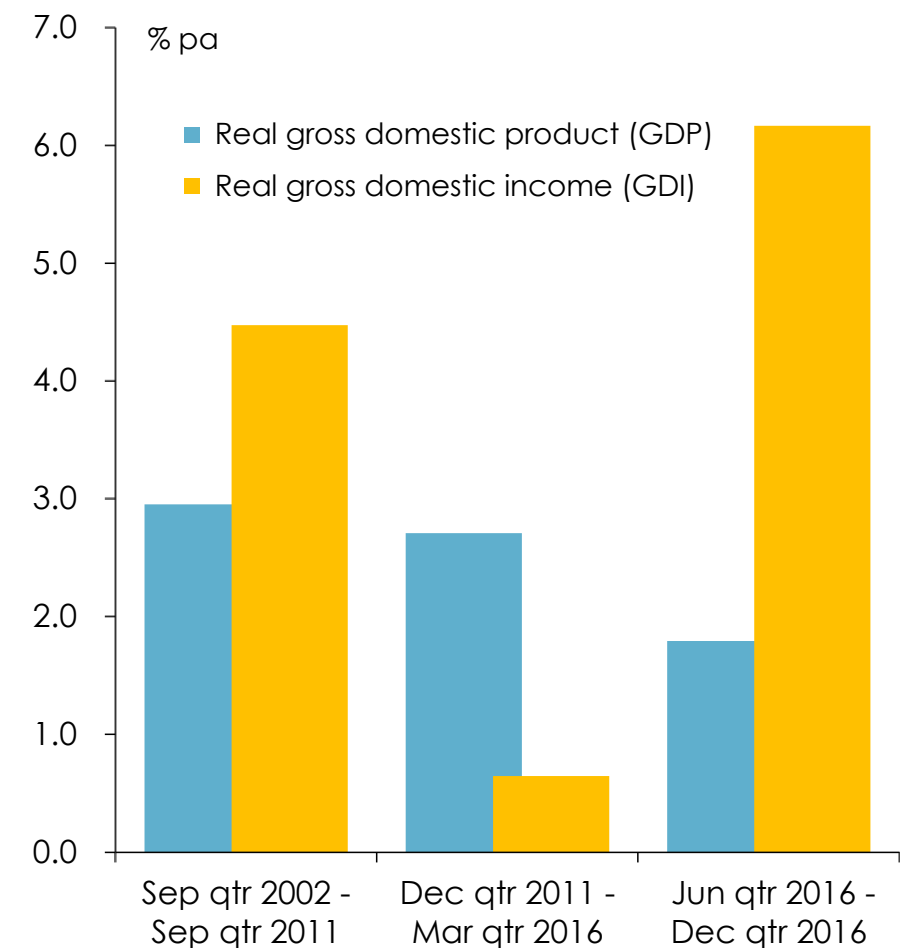
Australia's terms of trade (ratio of export to import prices)



Gains in real income arising from changes in the terms of trade



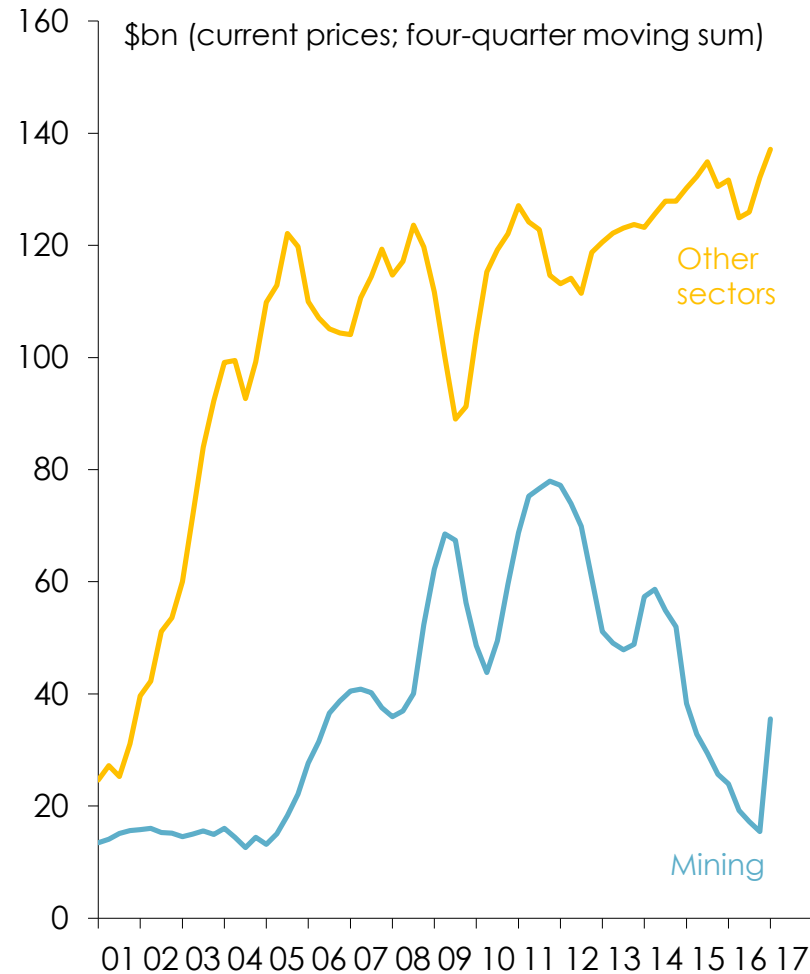
Growth in real gross domestic income (GDI) vs real GDP



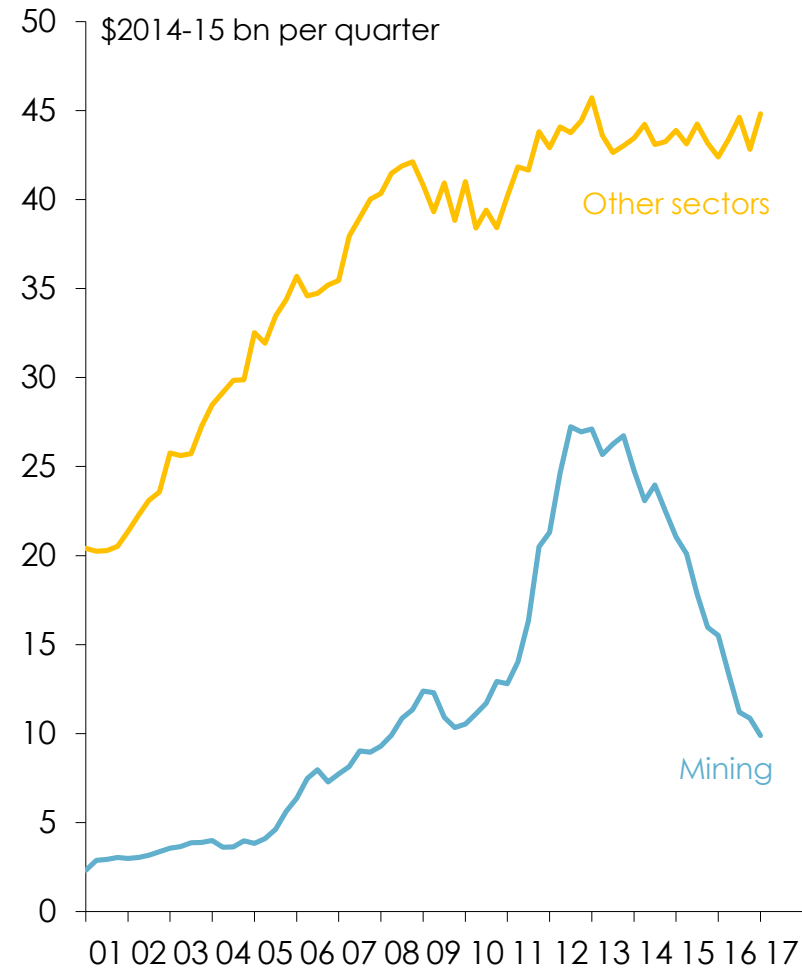
Note: 'The 'terms of trade' is the ratio of the implicit price deflator of exports of goods and services to the implicit price deflator of imports of goods and services. Real gross domestic income (GDI) is real gross domestic product (GDP) adjusted for income gains or losses arising from changes in the terms of trade. Source: ABS.

Much of the recent uptick in national income growth has gone to profits – but economic and political uncertainty are holding back investment

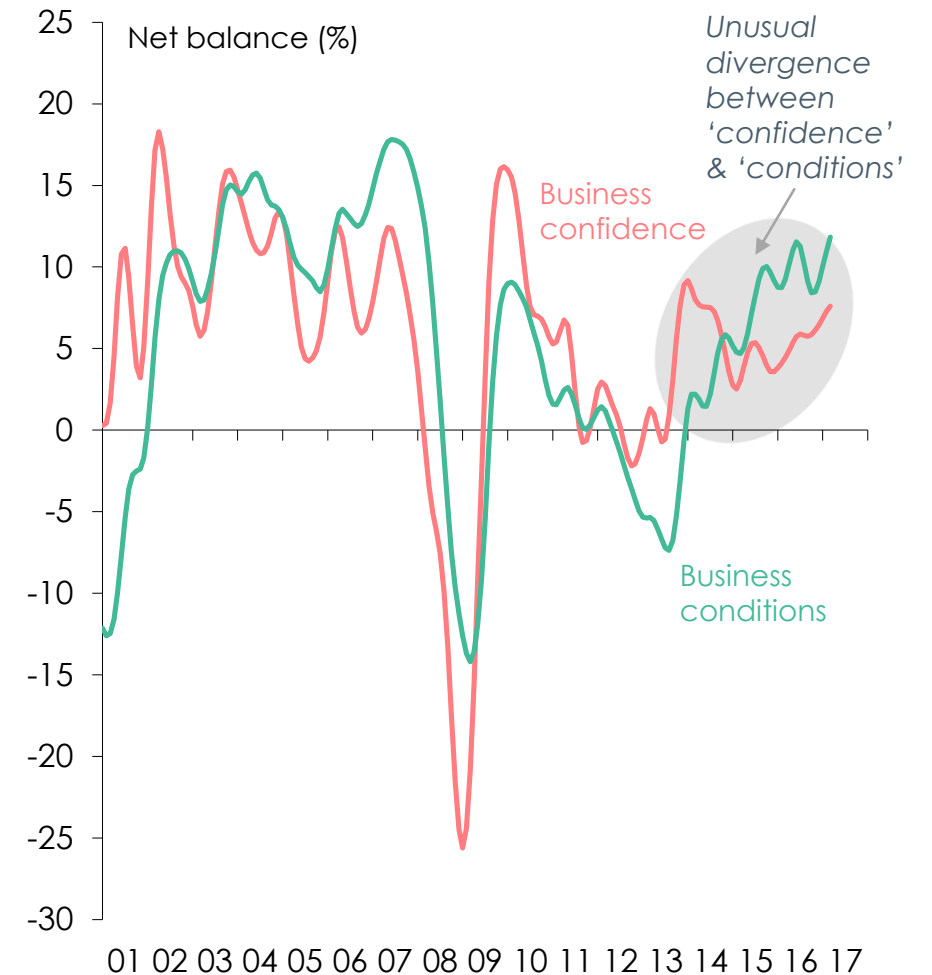
Pre-tax company profits



Business investment



Business conditions and confidence

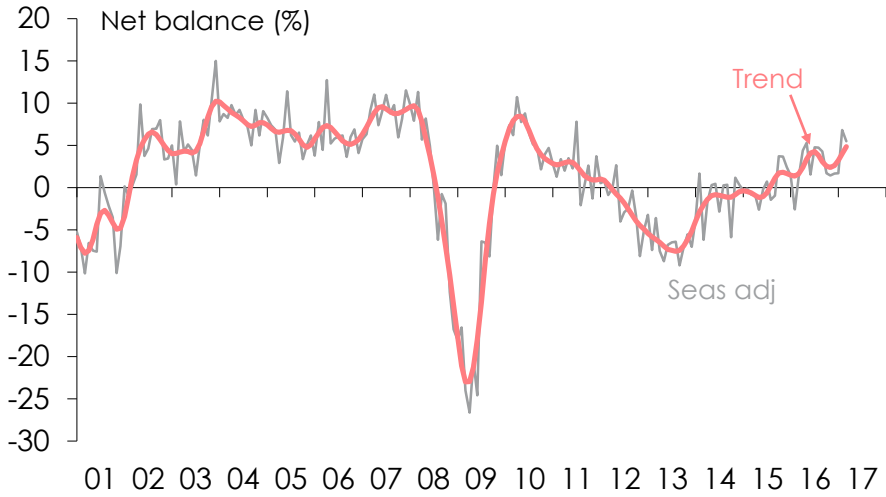


Note: 'Other sectors' in the company profits survey exclude banks and other deposit-taking intermediaries, insurance and super funds, education & training, and health care & social assistance. Mining investment includes buildings & structures and plant, equipment & machinery from the capex survey plus exploration expenditure; investment by 'other sectors' is the national accounts measure of total new business investment minus this estimate of mining investment.

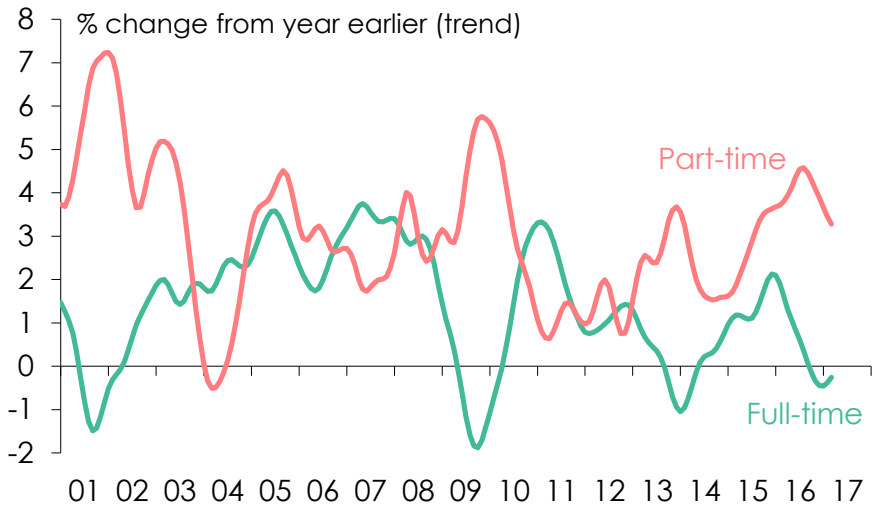
Sources: ABS; National Australia Bank [Monthly Business Survey](#).

Employers are cautious about additional hiring, especially of full-time workers – and about granting wage increases

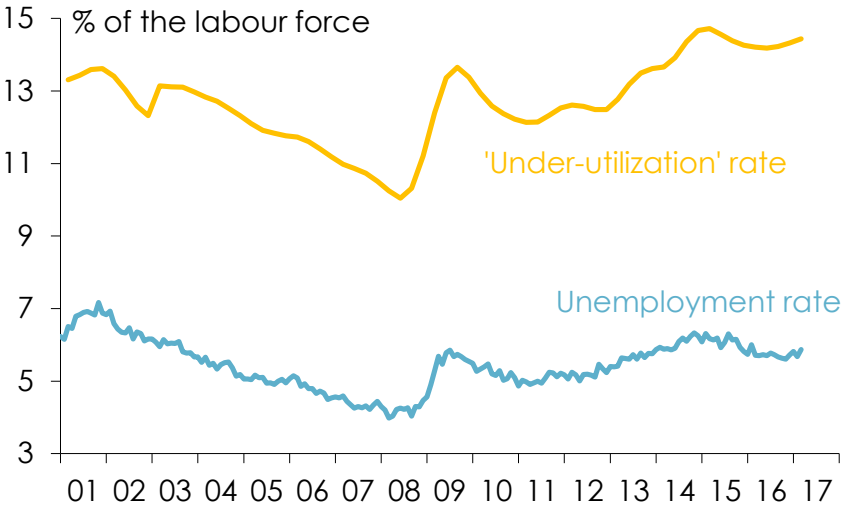
Employer hiring intentions



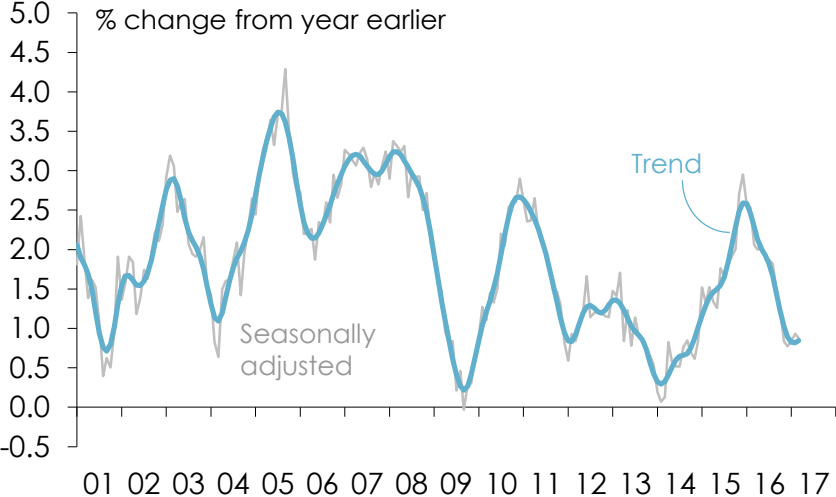
Full- vs part-time employment



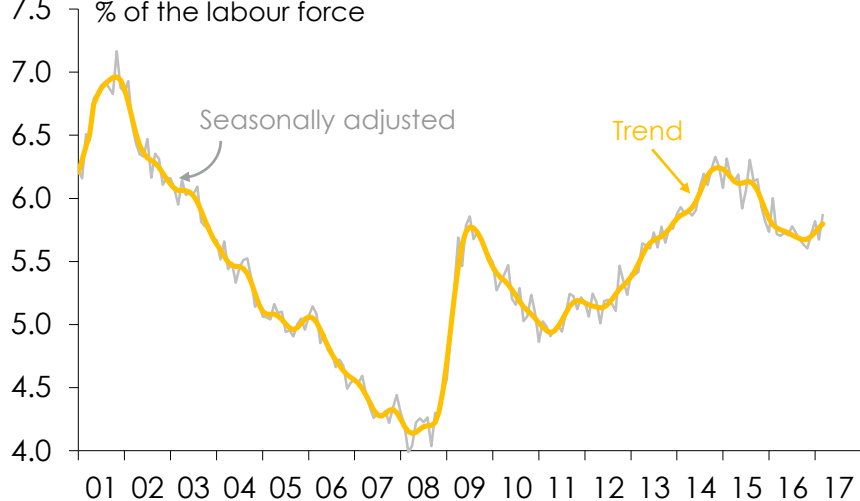
Labour force under-utilization



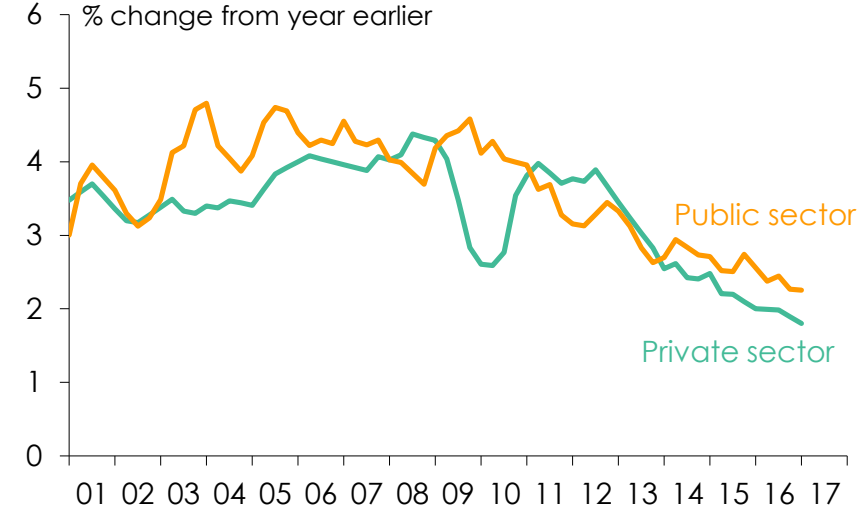
Employment growth



Unemployment rate

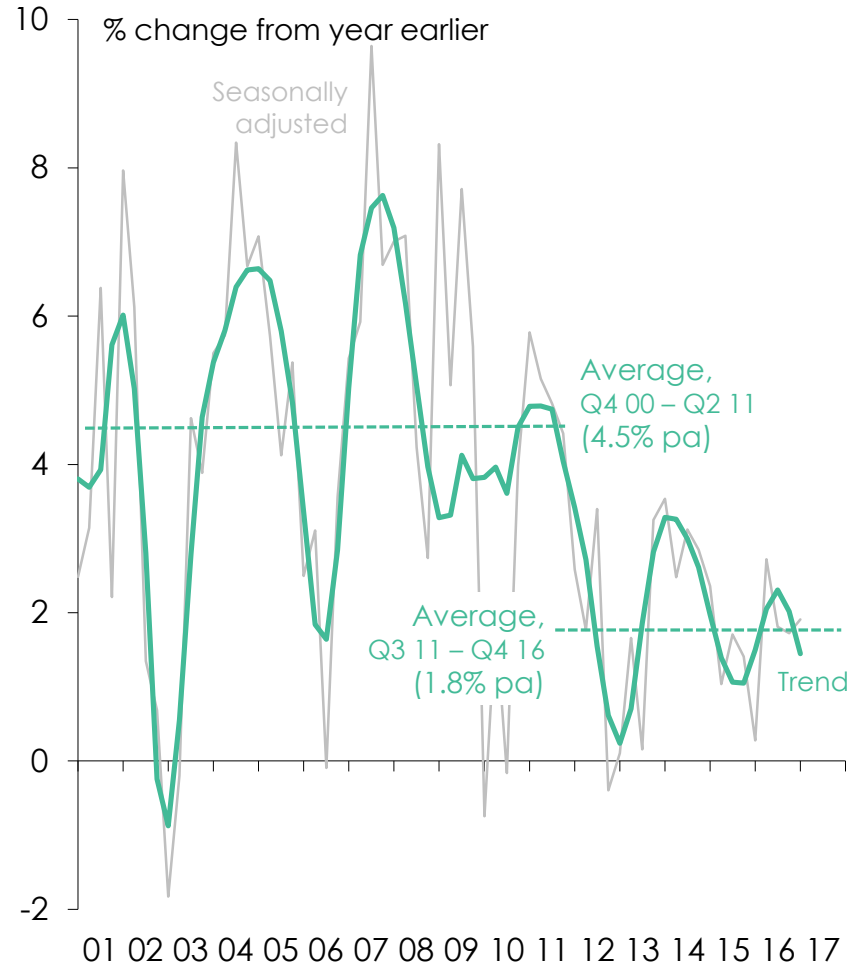


Wage cost index

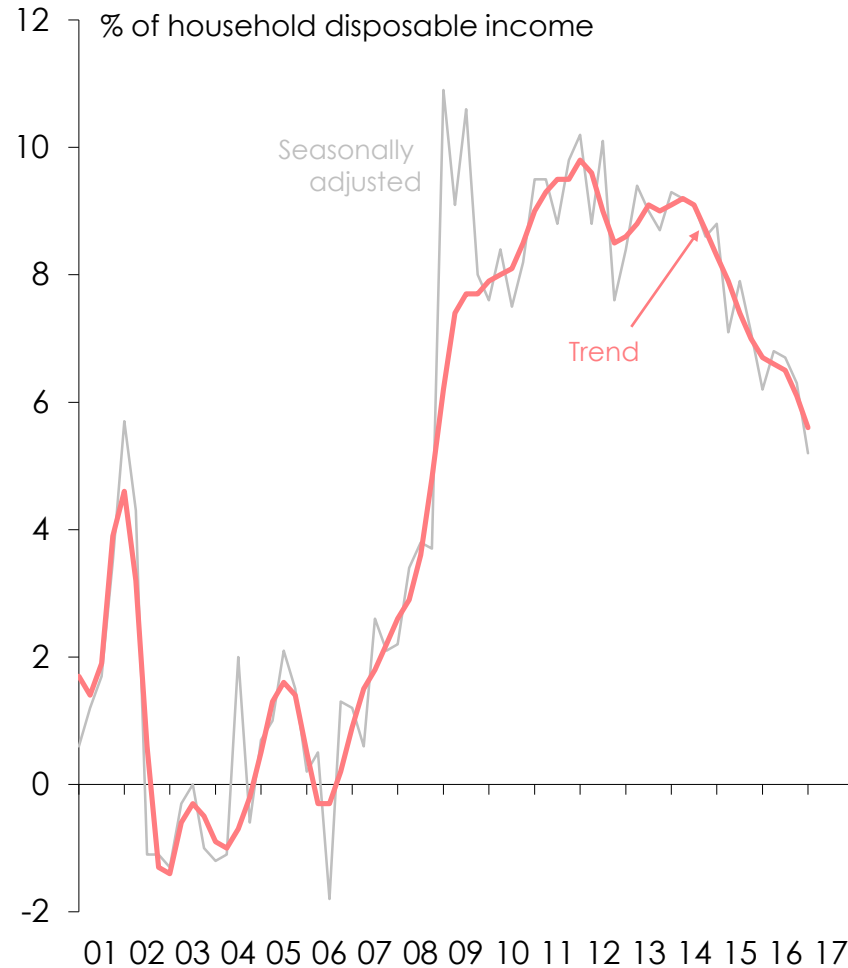


Weak income growth and debt repayment continue to detract from growth in consumer spending

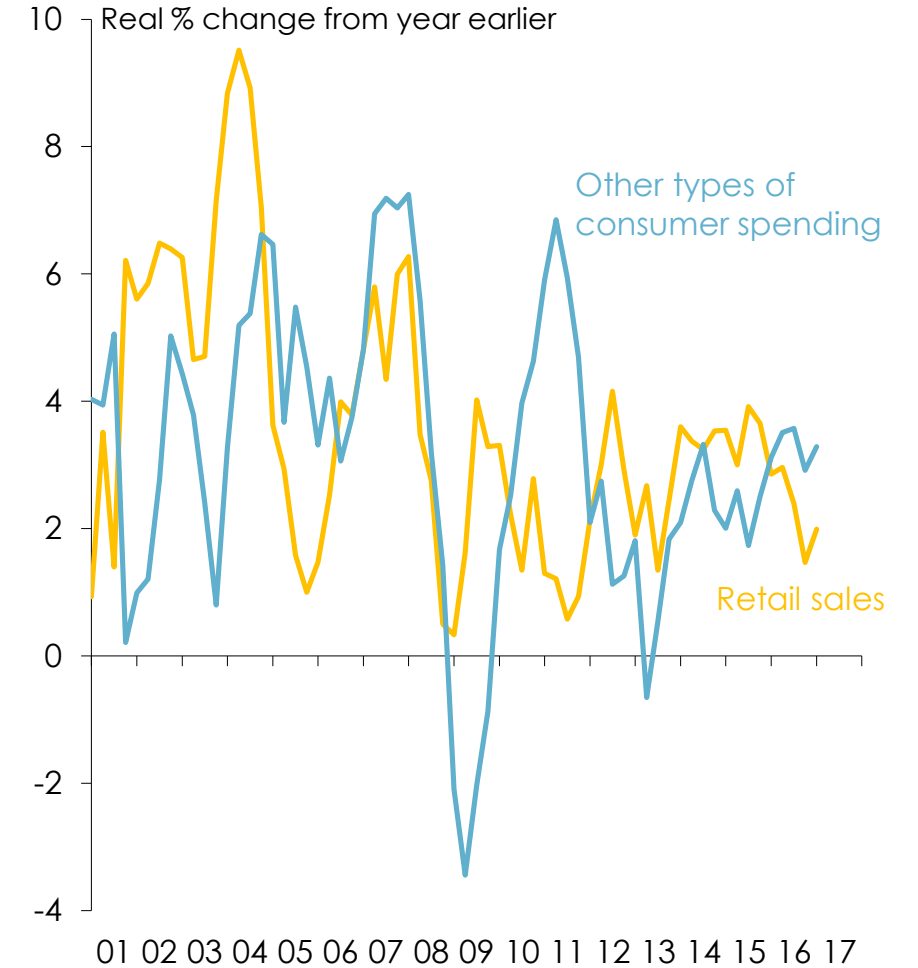
Real household disposable income



Household saving rate



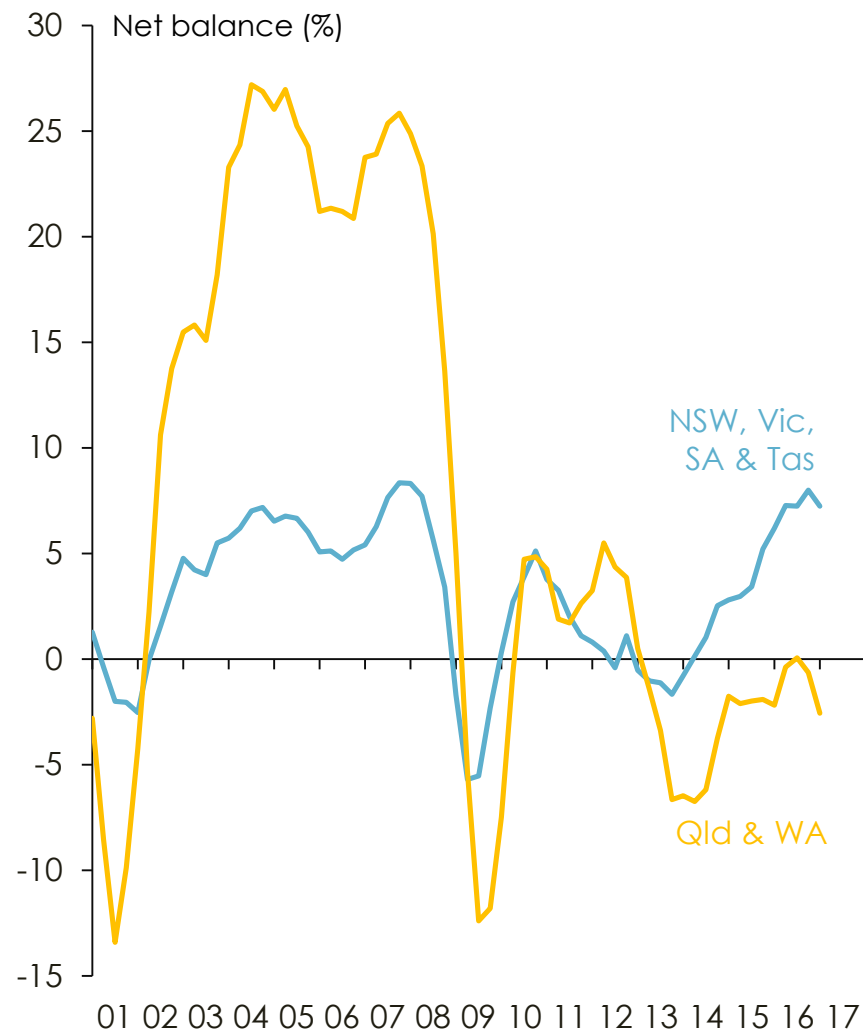
Consumer spending



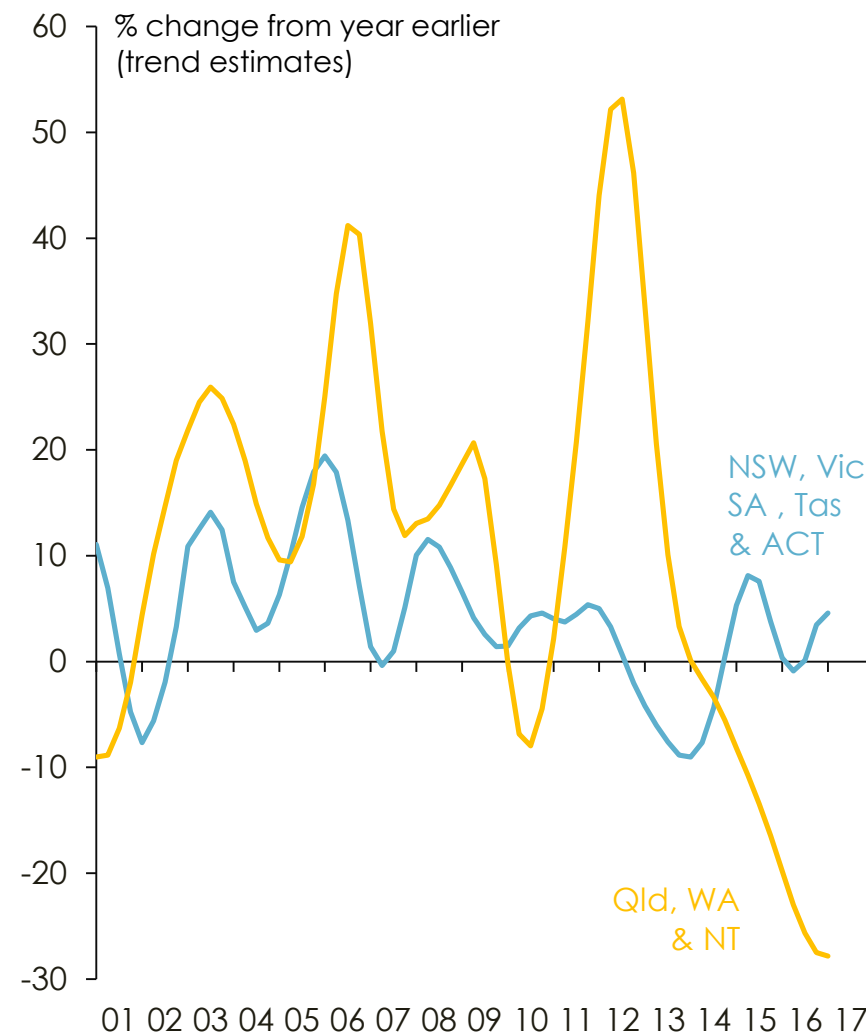
Source: ABS.

The end of the mining investment boom, combined with the falls in the A\$ and interest rates, have shifted regional pattern of economic growth

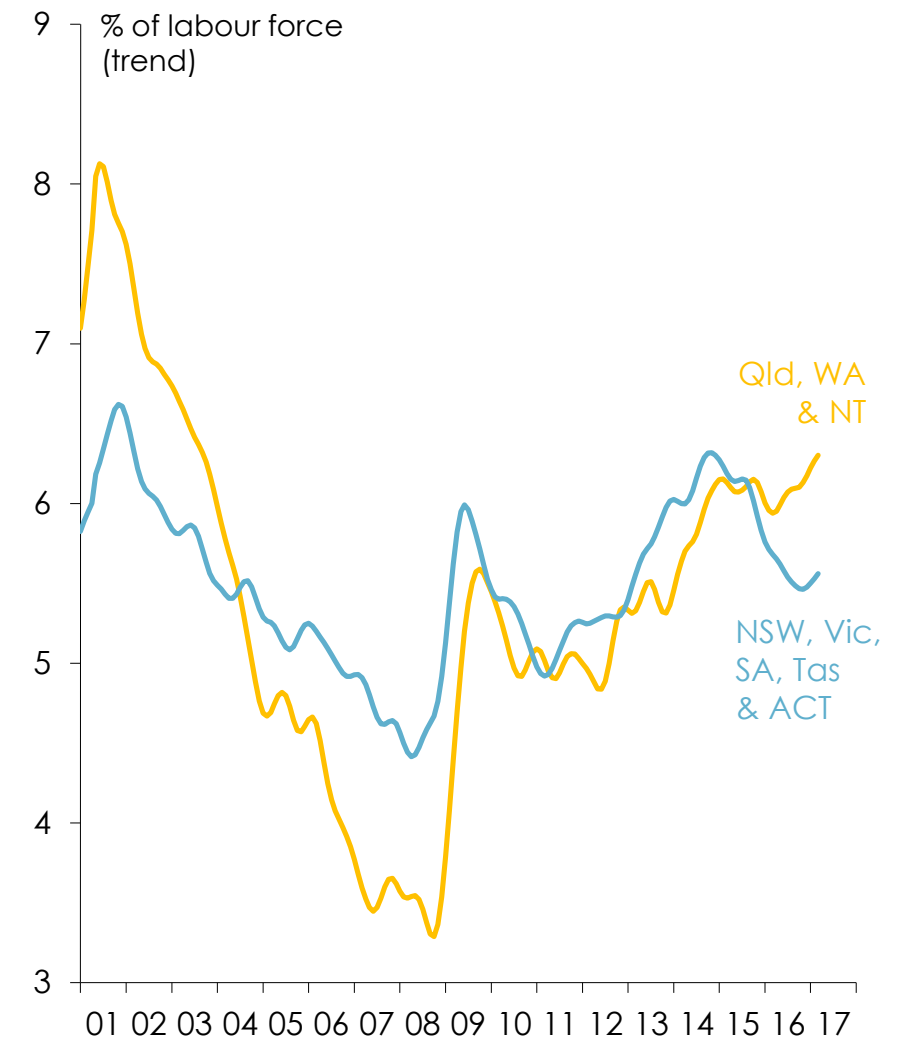
Business conditions



Business investment



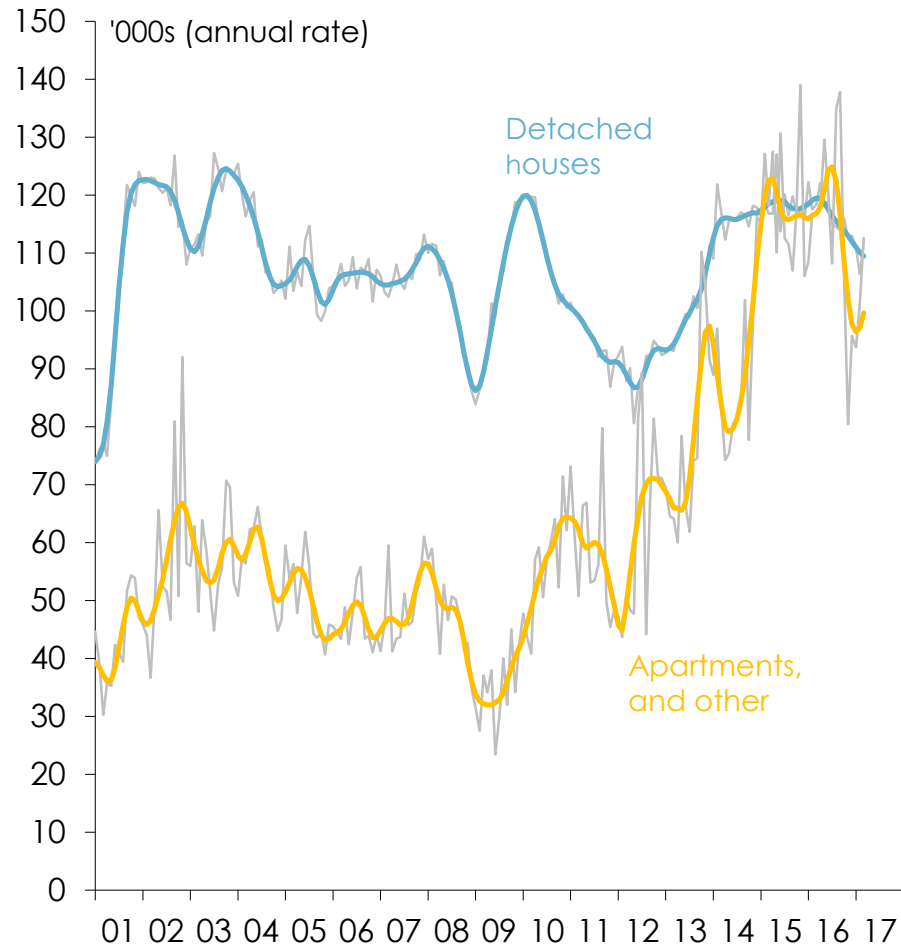
Unemployment rate



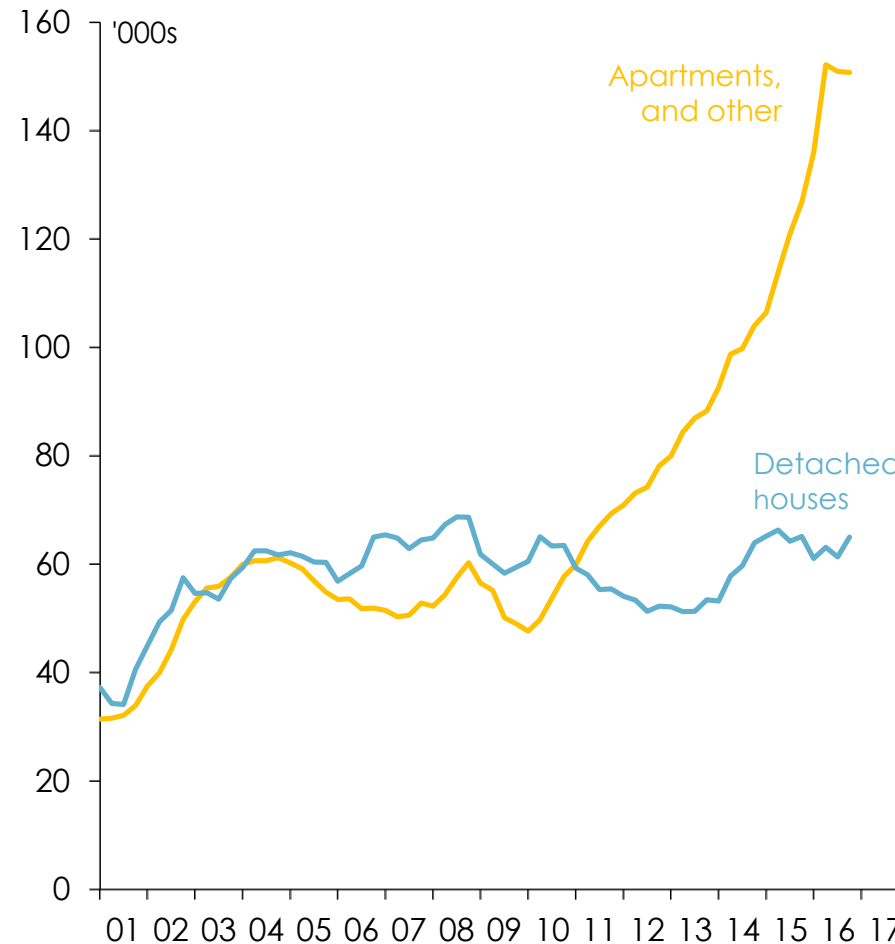
Note: Business conditions are weighted by State or Territory shares of GDP. 'Business investment' is from the ABS capex survey which excludes intellectual property investment, and investment by the agriculture, forestry & fishing; public administration & safety; education & training; and health care & social assistance sectors; and by superannuation funds. Sources: National Australia Bank; ABS.

Housing activity is probably close to peaking – although there is still a large ‘pipeline’ of work yet to be completed

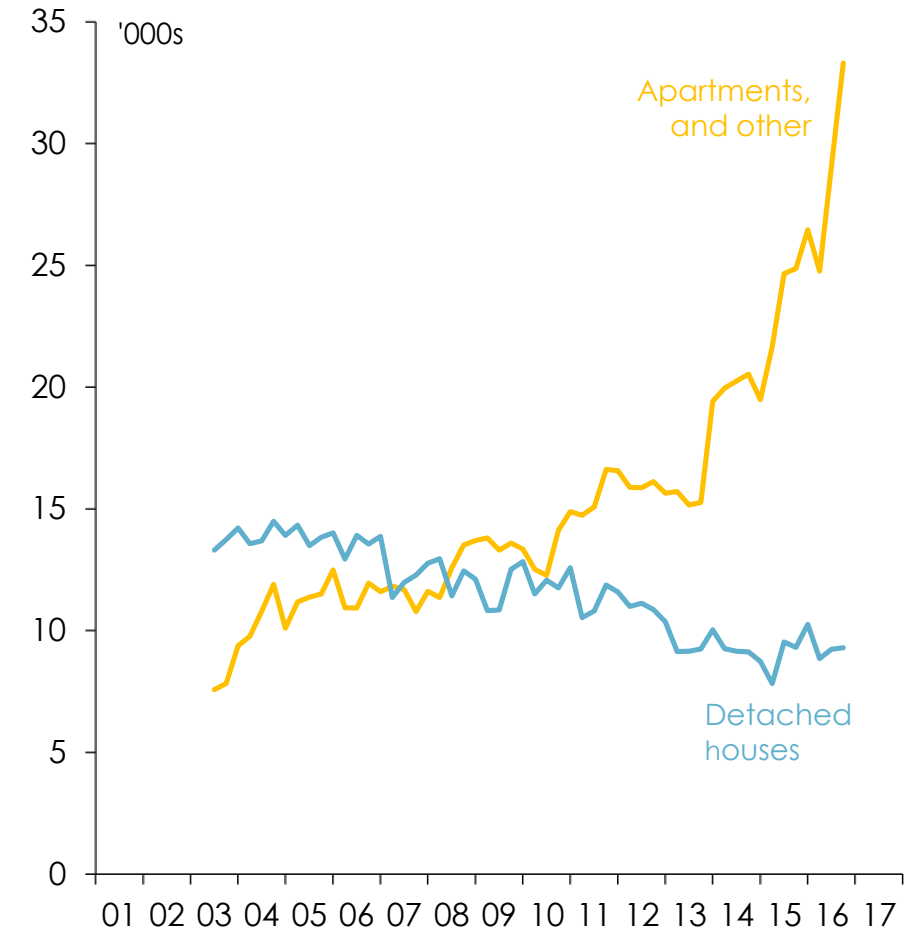
Private residential building approvals, by type of dwelling



Residential buildings under construction



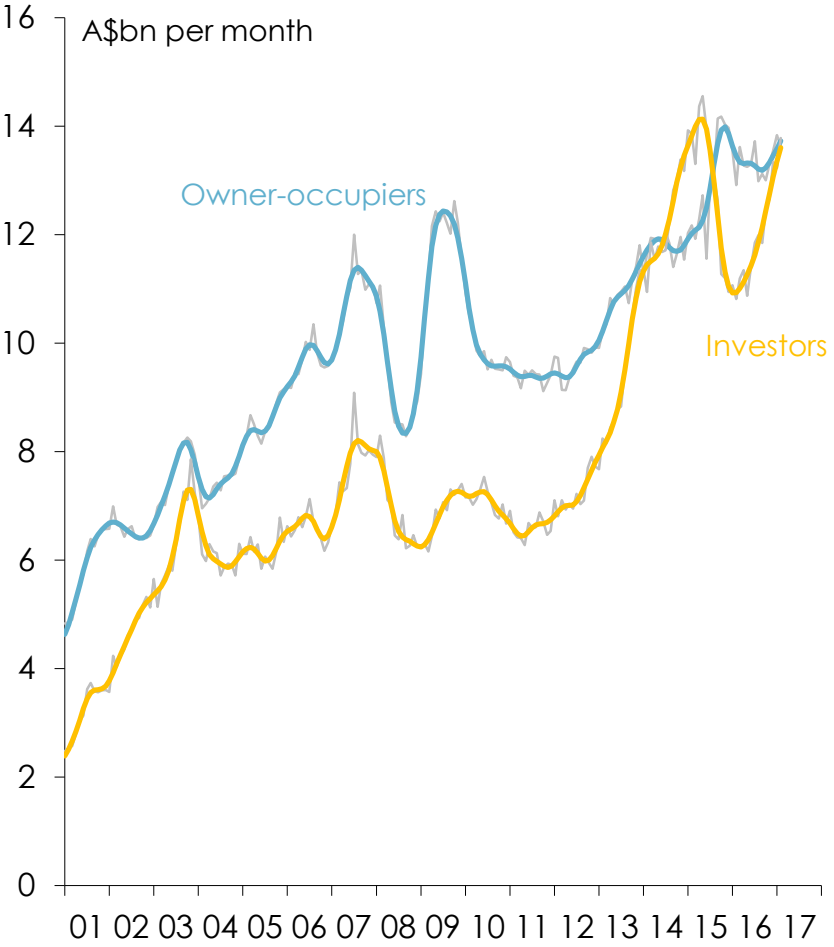
Dwellings approved but not yet commenced



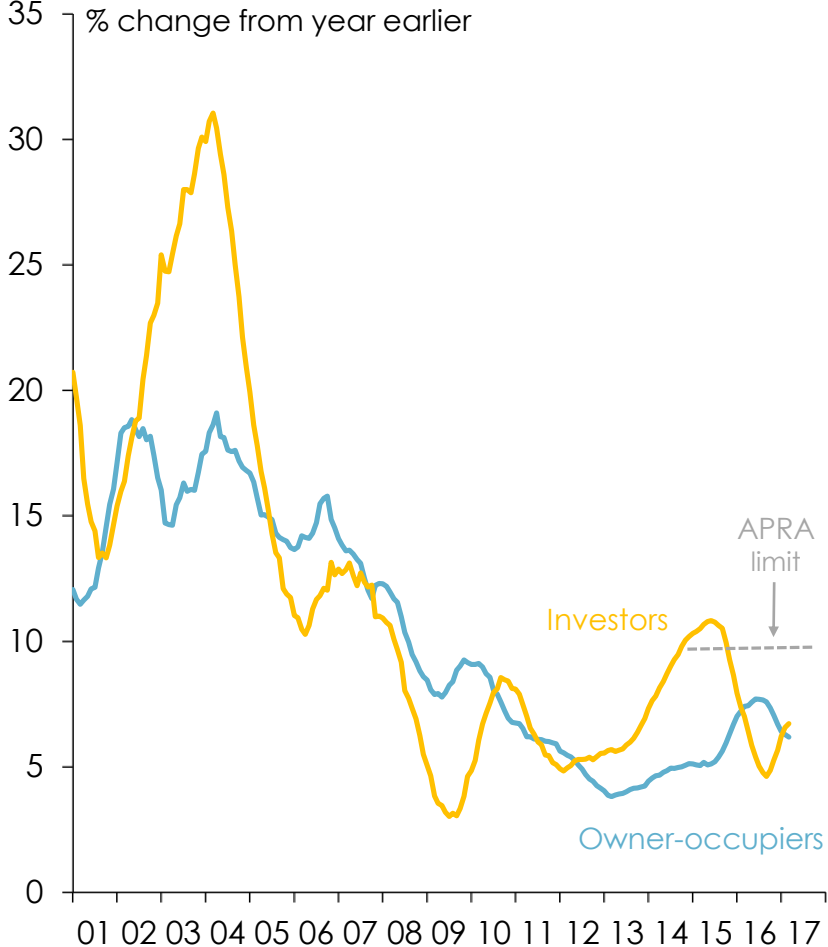
Note: grey lines in first chart above show seasonally adjusted data; thicker coloured lines are the ABS 'trend estimates'. Source: ABS.

Reserve Bank and APRA will be keeping an eye on the apparent rebound in lending to investors

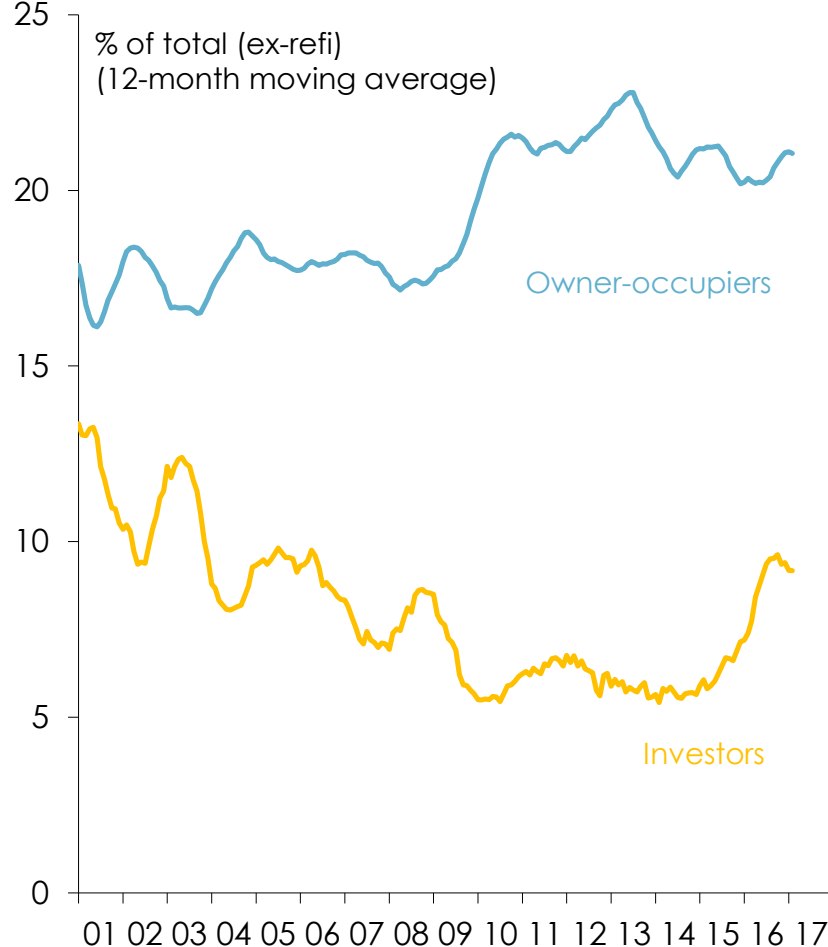
Finance commitments for residential property purchases



Housing finance outstanding by type of borrower



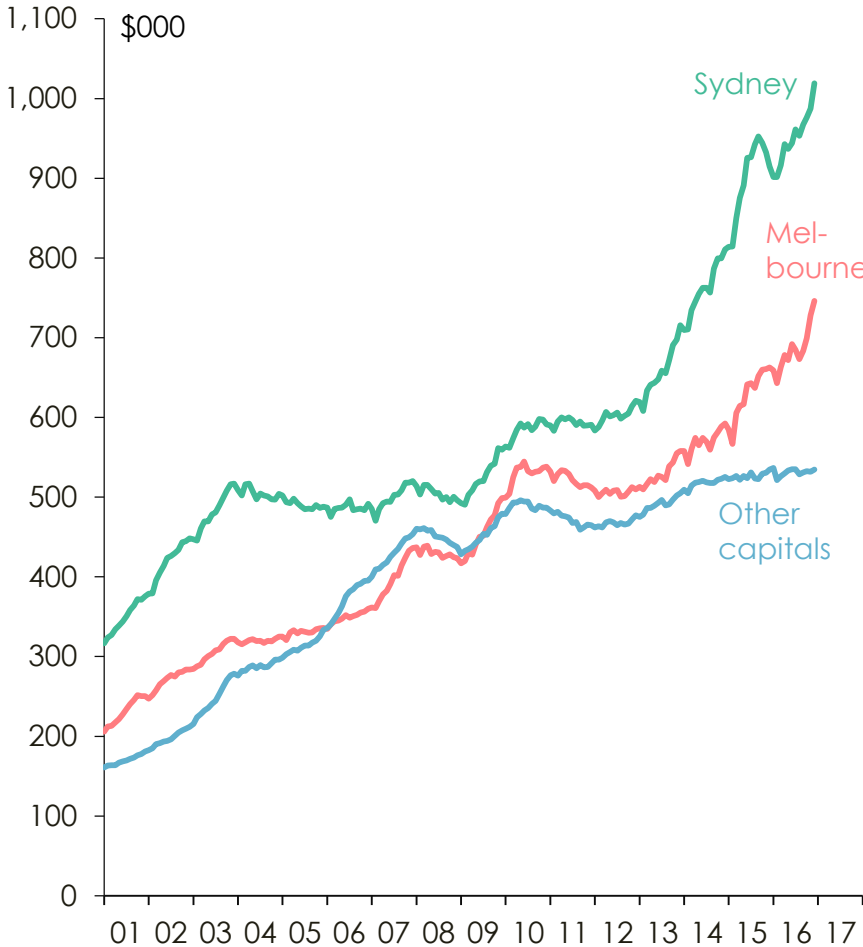
Lending for purchase of new housing, by type of borrower



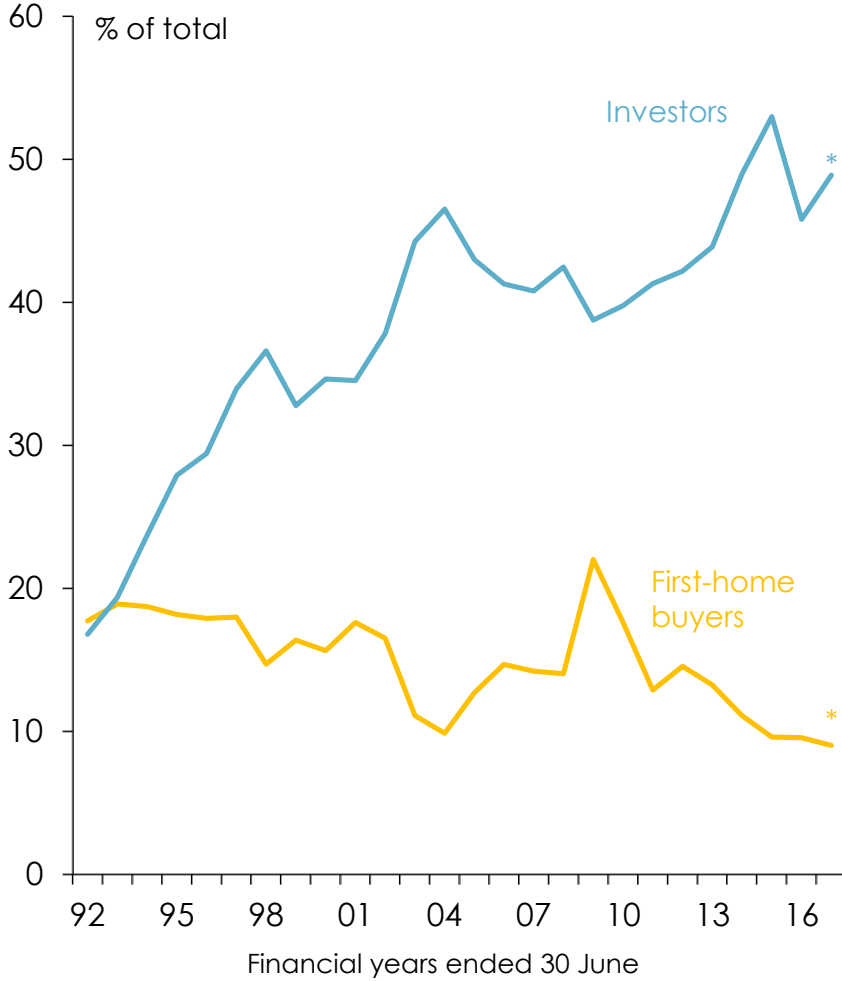
Note: grey lines in first chart above show seasonally adjusted data; thicker coloured lines are the ABS 'trend estimates'. Source: ABS.

Reserve Bank and APRA will be keeping an eye on the apparent rebound in lending to investors

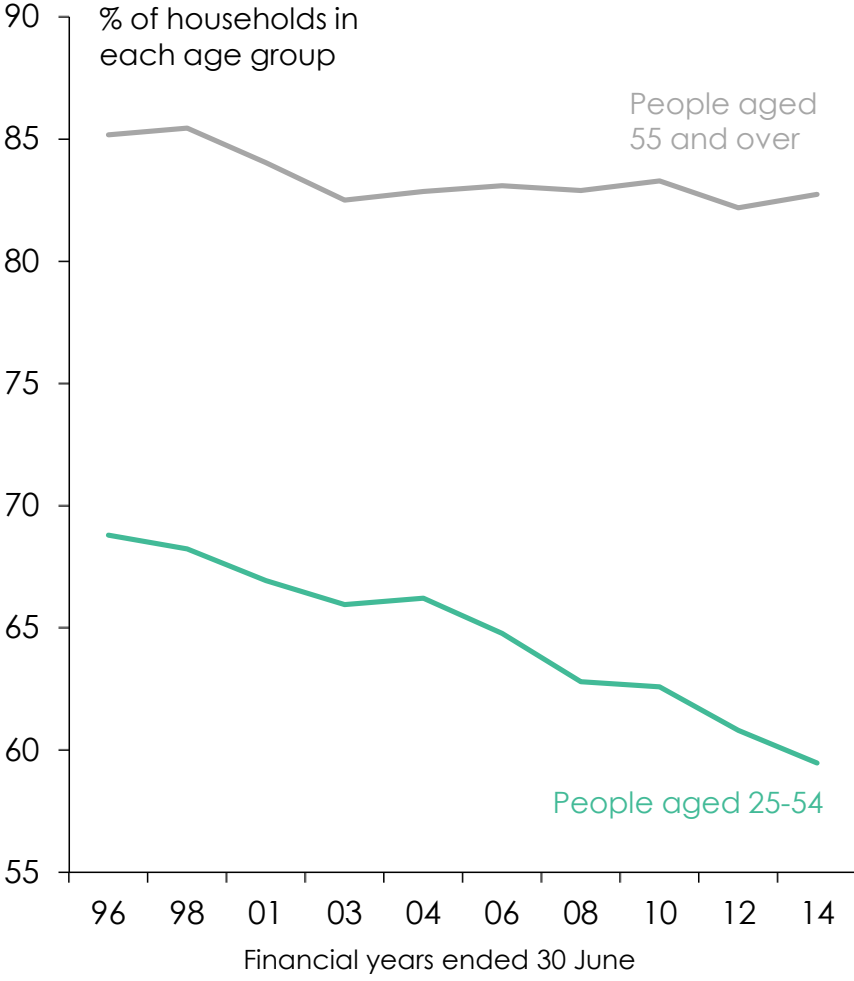
Capital city residential property prices



Mortgage lending to first-time buyers and investors



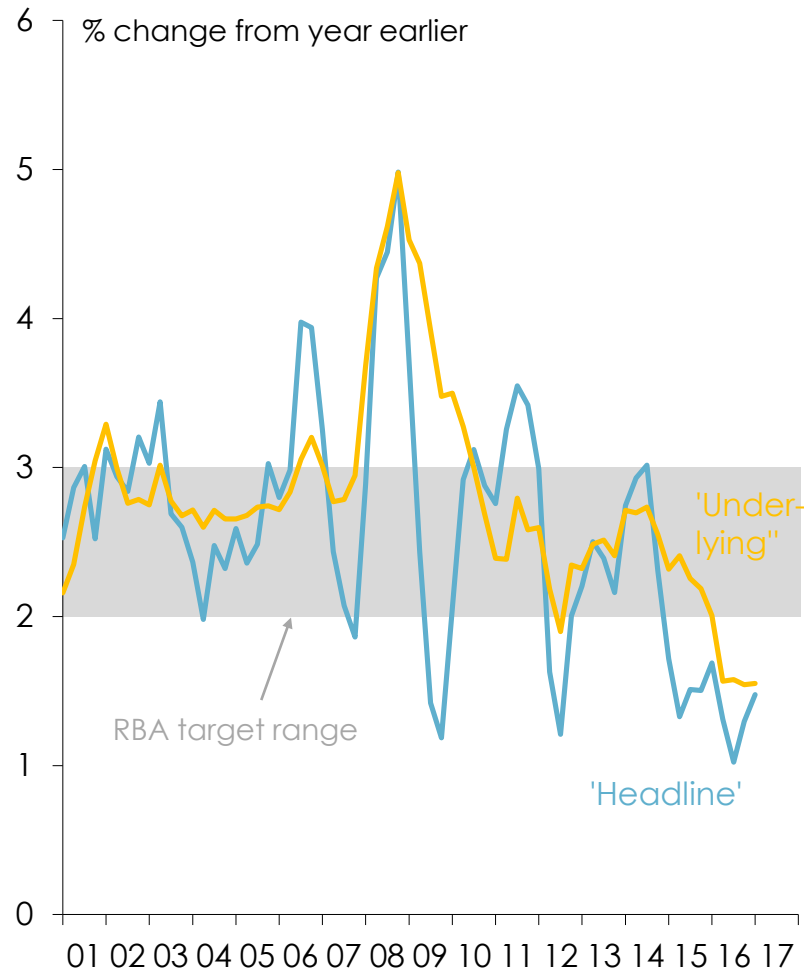
Home ownership rates by age group



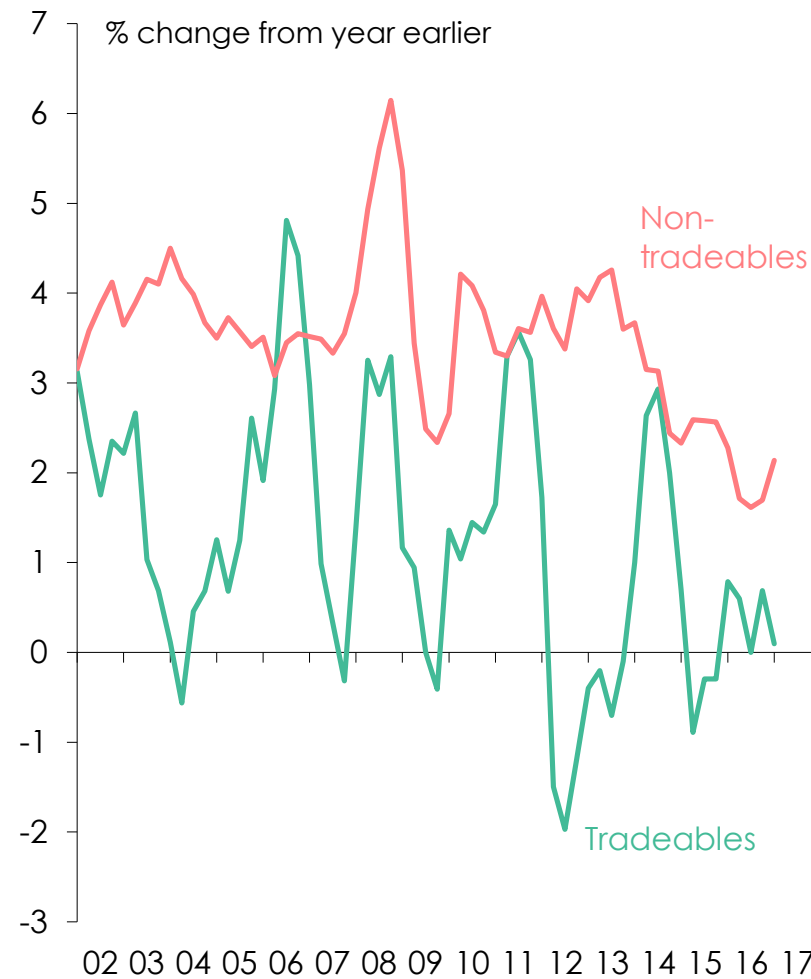
Note: * 2016-17 data are for July-November 2016.
Sources: CoreLogic; ABS.

Unlikely to be any repeat of last year's inflation surprises, but it will probably be a while before the RBA starts raising rates

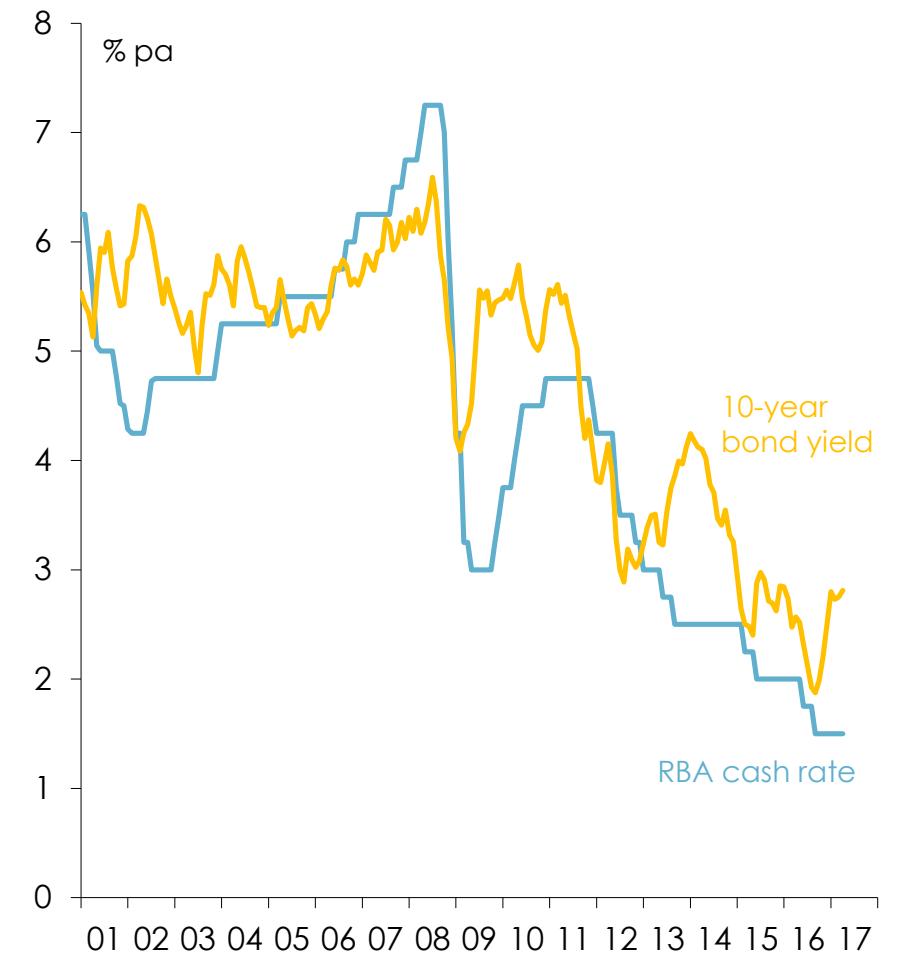
Consumer price inflation



External vs domestic influences on prices



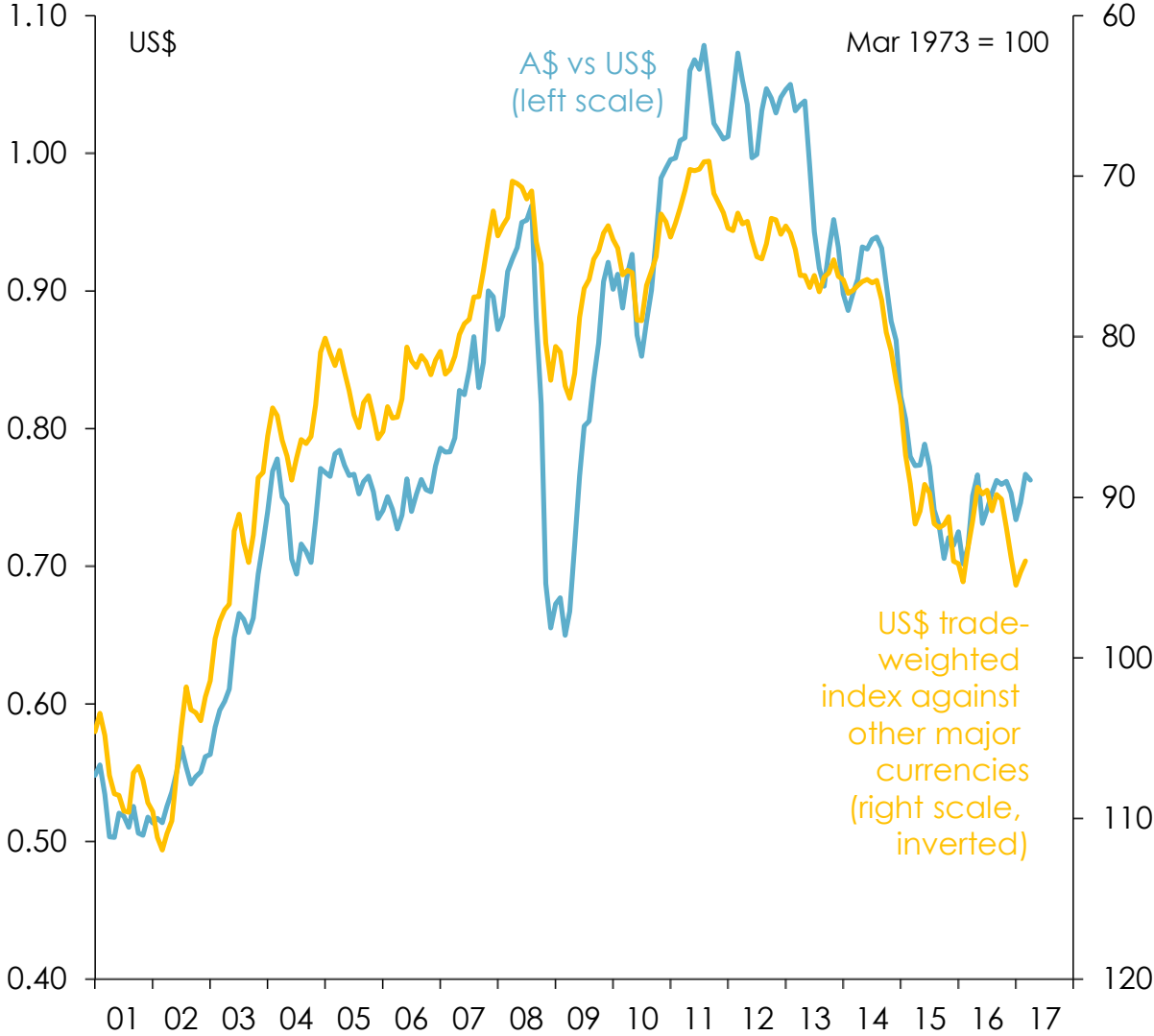
Interest rates



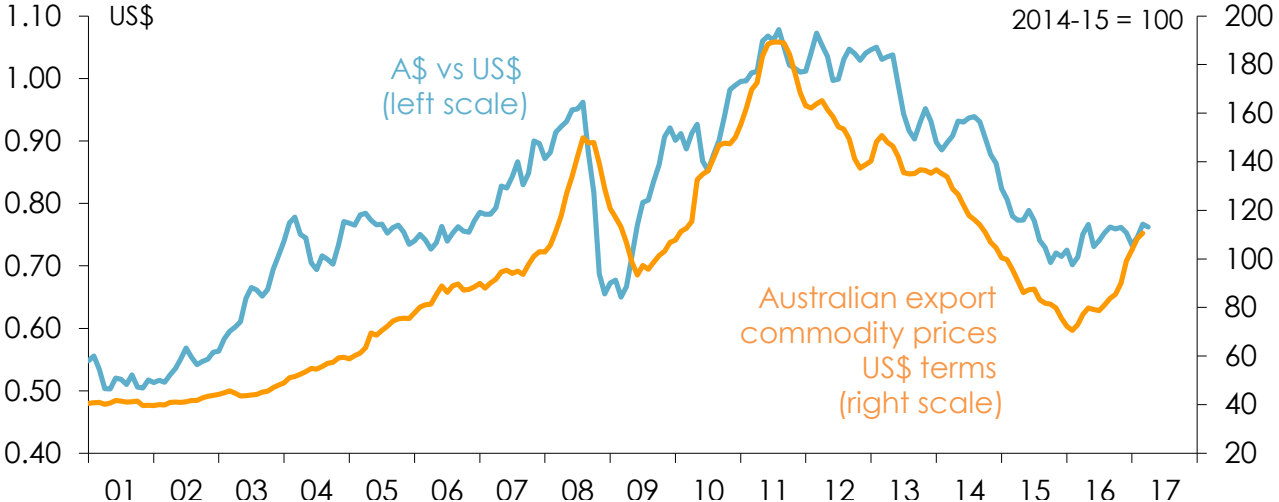
Source: ABS; RBA.

Outlook for A\$ depends crucially on what the US\$ does – although commodity prices and interest rate spreads may also be important

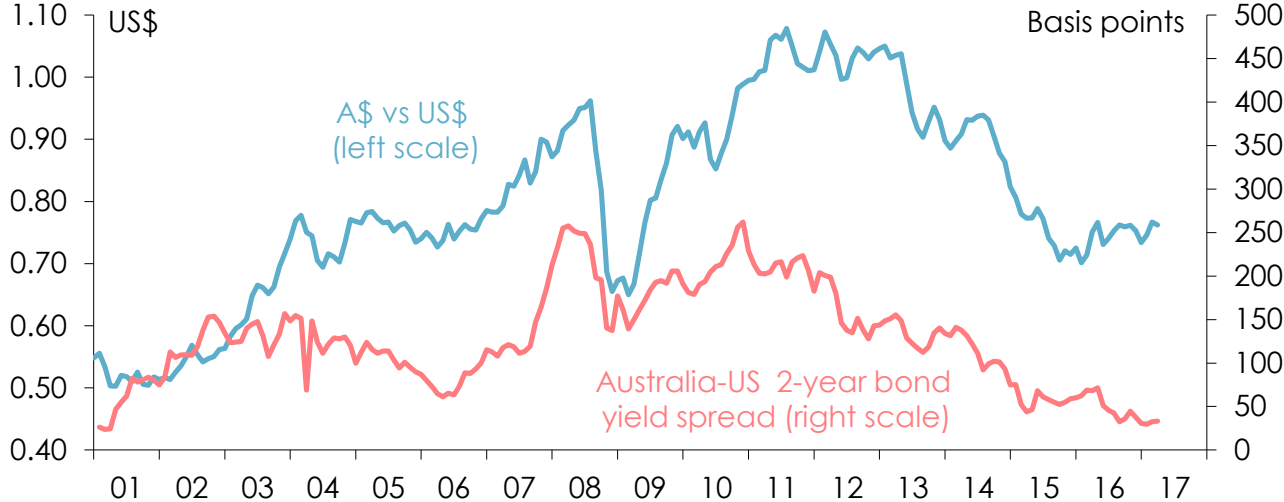
A\$-US\$ and US\$ vs other currencies



A\$-US\$ vs commodity prices



A\$-US\$ vs interest rate spreads



Sources: Thomson Reuters; US Federal Reserve; Reserve Bank of Australia