

Economic Outlook

China, Trump & Trade Wars. We do live in interesting times.

Westpac Institutional Bank

For the Tractor Machinery Association

By: Justin Smirk, June 2018



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–Summary from last year.

– *Growth risks to present themselves in 2018*

- The year started strongly but is set to moderate as rates rise in the US, liquidity tightens in Europe & Japan and growth slows in China.
- The unwinding the mining boom has faded while the growth in exports associated with that investment continues, lower AUD supportive.
- Housing prices, and household debt, hit record highs. House price inflation to disappear by year's end. Slow growth in wages means consumption continues below trend.
- Inflation well contained so energy shocks more of a potential risk to business activity than underlying inflation.
- Construction cycle is very mature & growth set to slow next year.
- Business confidence soft, sales are modest and political risks remain but population growth has picked up a little.
- RBA on hold, market rates being dragged higher, AUD heading down to US65¢.



The global economy

US powers ahead with Trump

Energy & resources

Rural commodities

Domestic economy

Housing & market interest rates

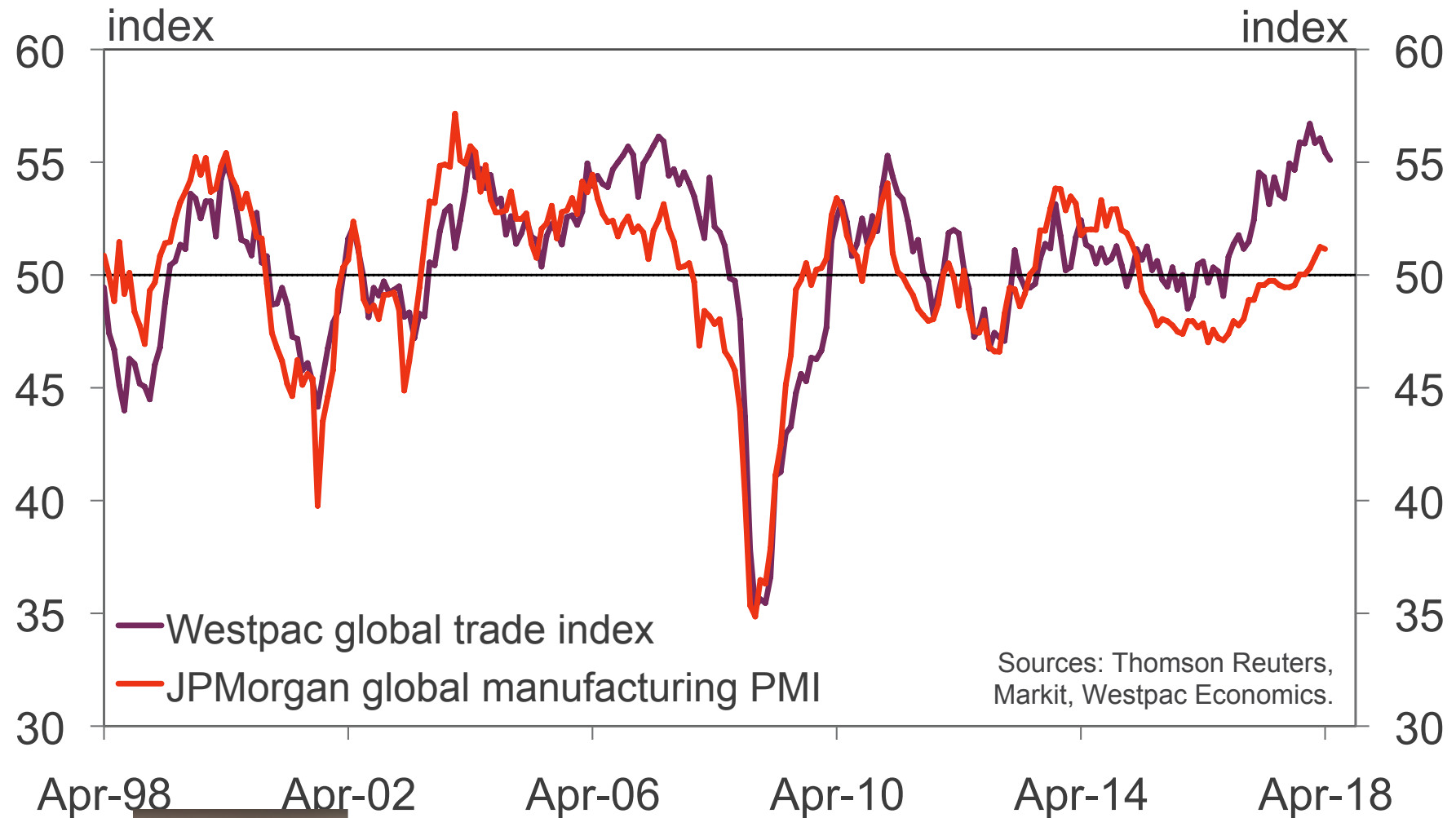
Forecasts



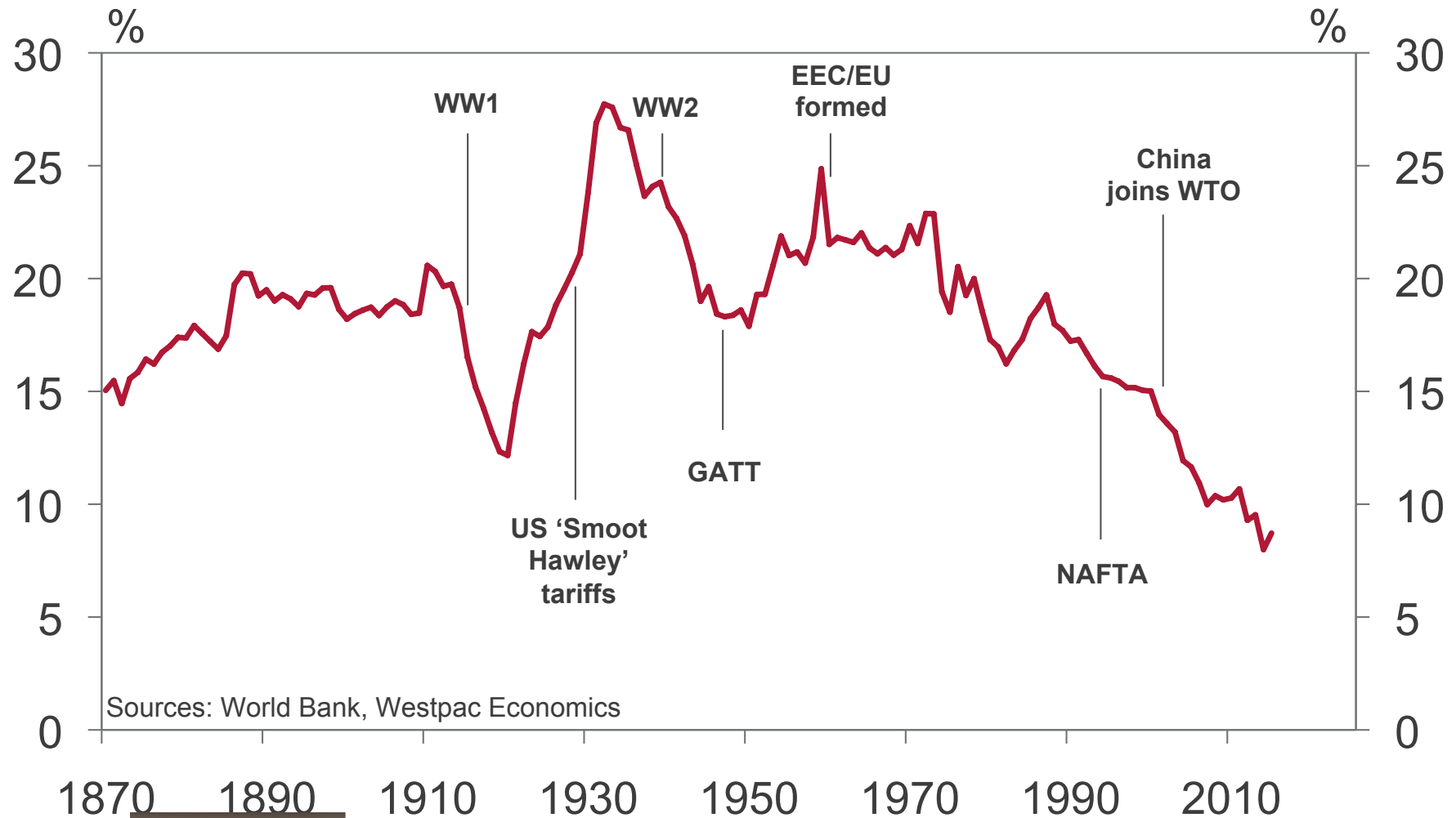
**The global economy had
a solid start in 2018**



Global PMI & global trade orders



Global trade: average tariffs, long history



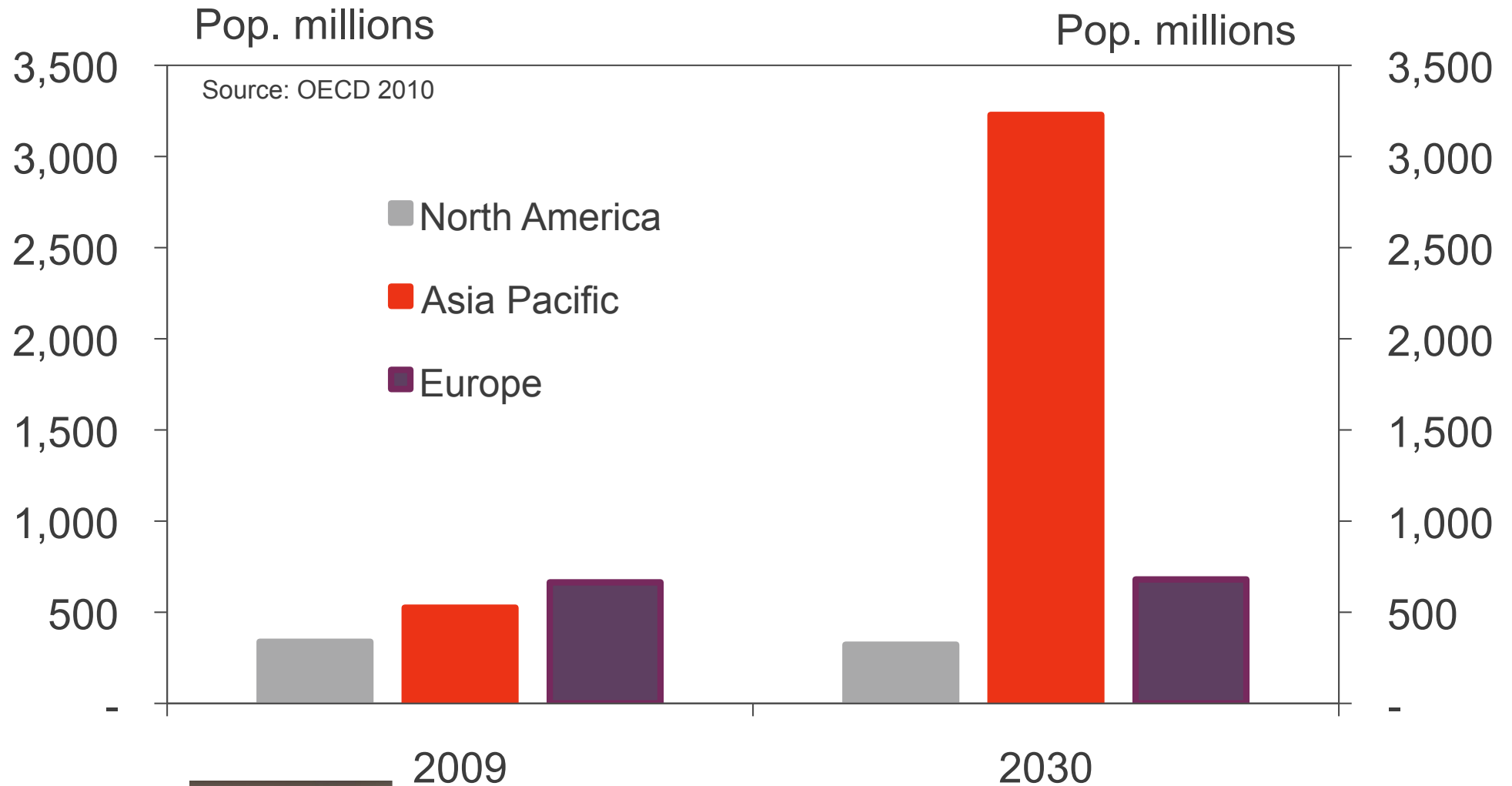
World growth firmer holding in 2018

	2014	2015	2016	2017	2018(f)	2019(f)
Australia	2.6	2.5	2.6	2.2	2.7	2.5
New Zealand	3.6	3.5	4.0	2.8	2.6	3.2
US	2.6	2.9	1.5	2.3	2.8	2.5
Euro	1.3	2.1	1.8	2.3	2.1	1.6
Japan	0.4	1.4	0.9	1.7	1.2	1.0
China	7.3	6.9	6.7	6.9	6.3	6.1
India	7.4	8.2	7.1	6.7	7.2	7.2
NIE's*	3.5	2.1	2.3	3.1	2.8	2.6
World	3.6	3.5	3.2	3.8	3.8	3.7

*NIE are Newly Industrialised Economies – Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore.



Size of the global middle class

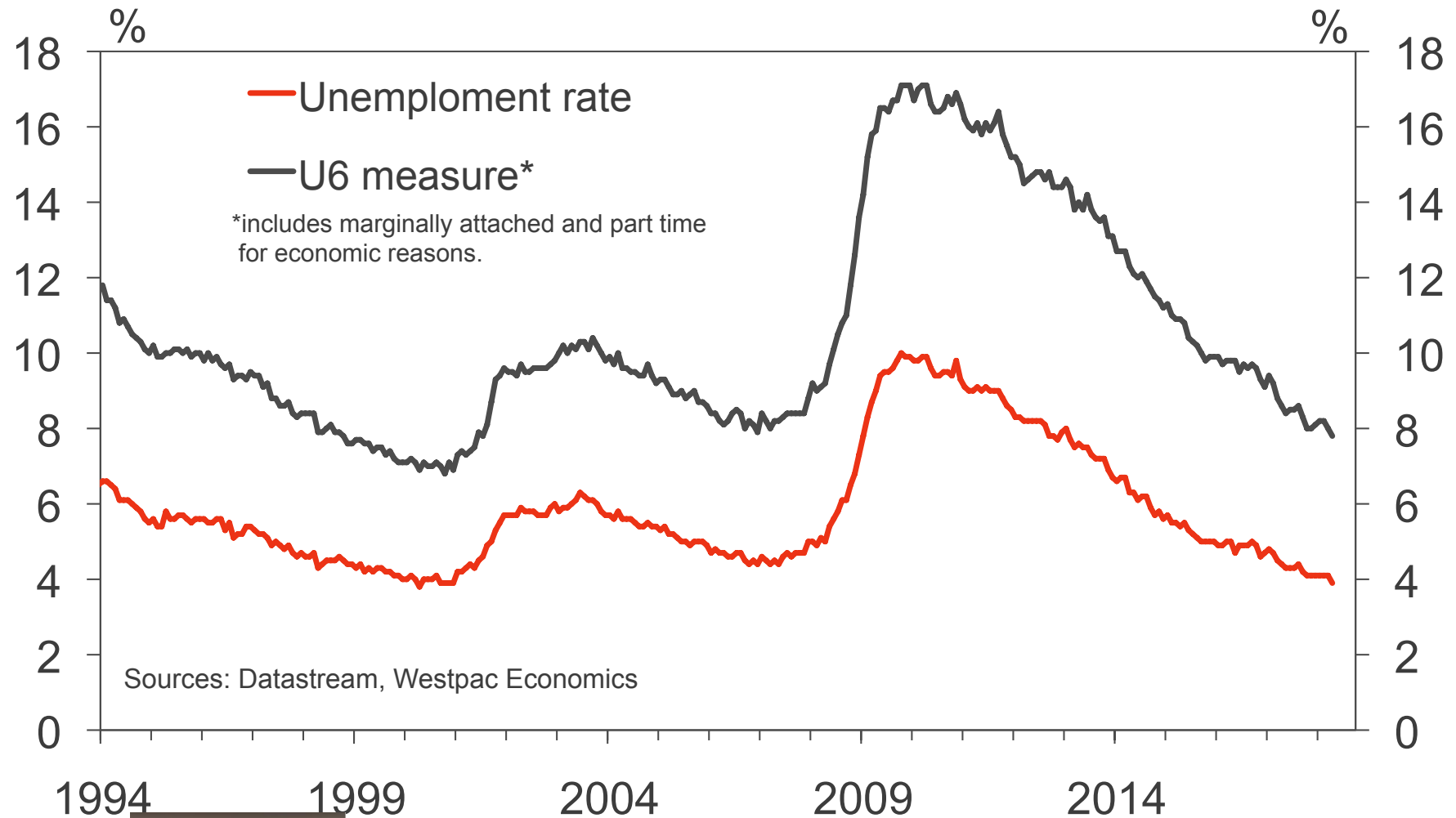


US has powered ahead in the age of Trump

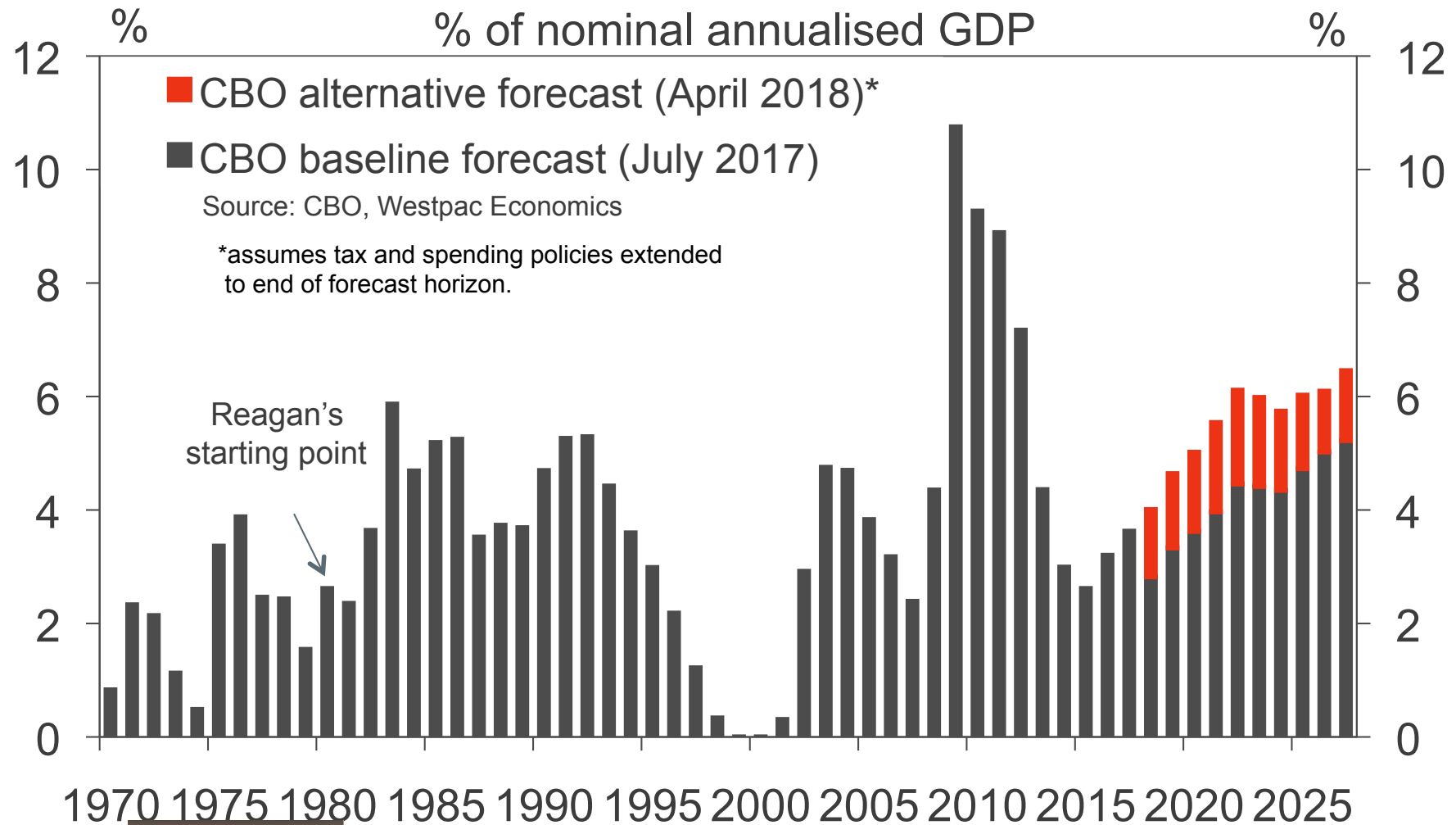
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Little slack in US labour market



Tax and spending hit deficit

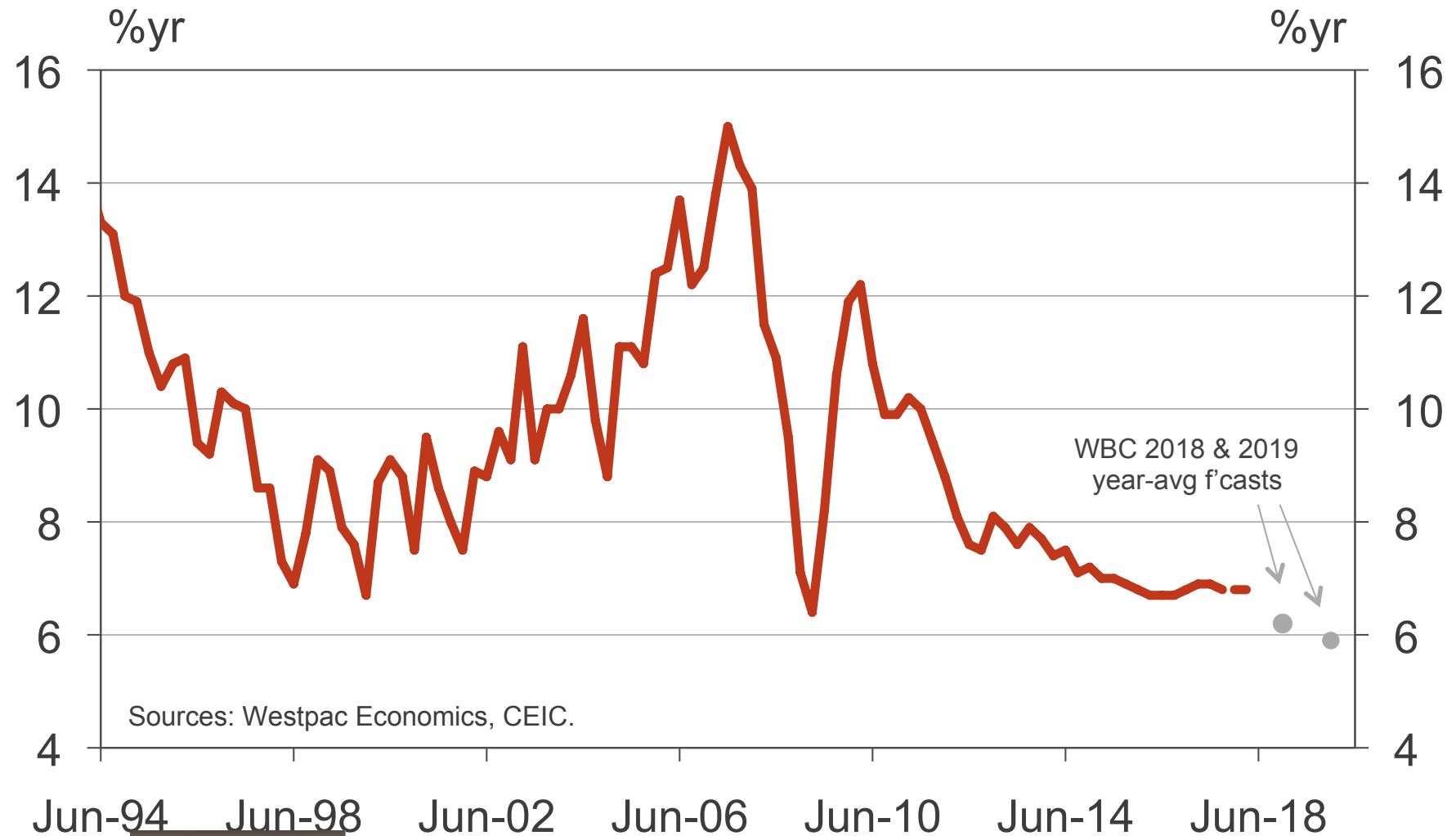


Chinese growth momentum to slow in 2018 & 2019

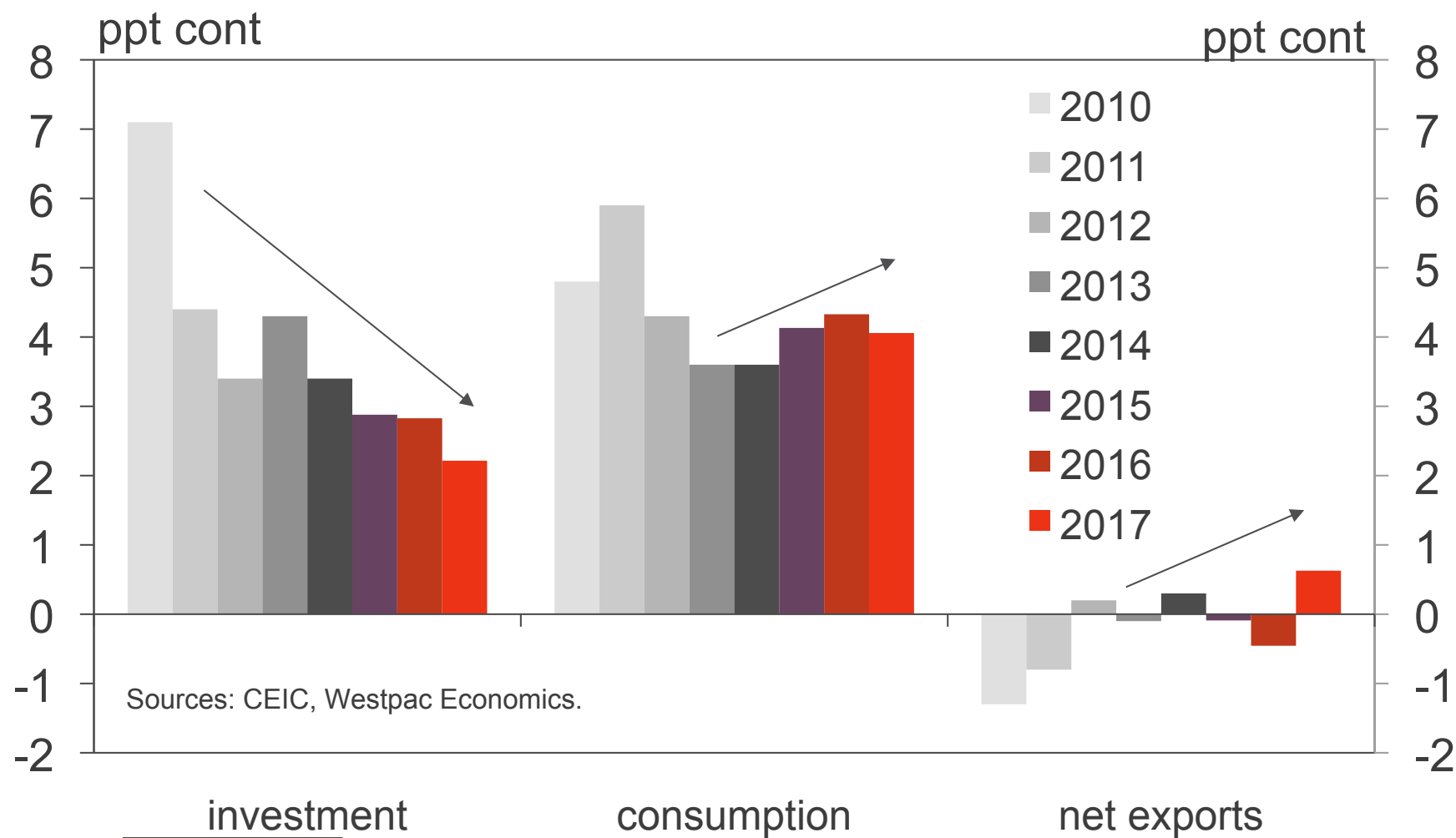
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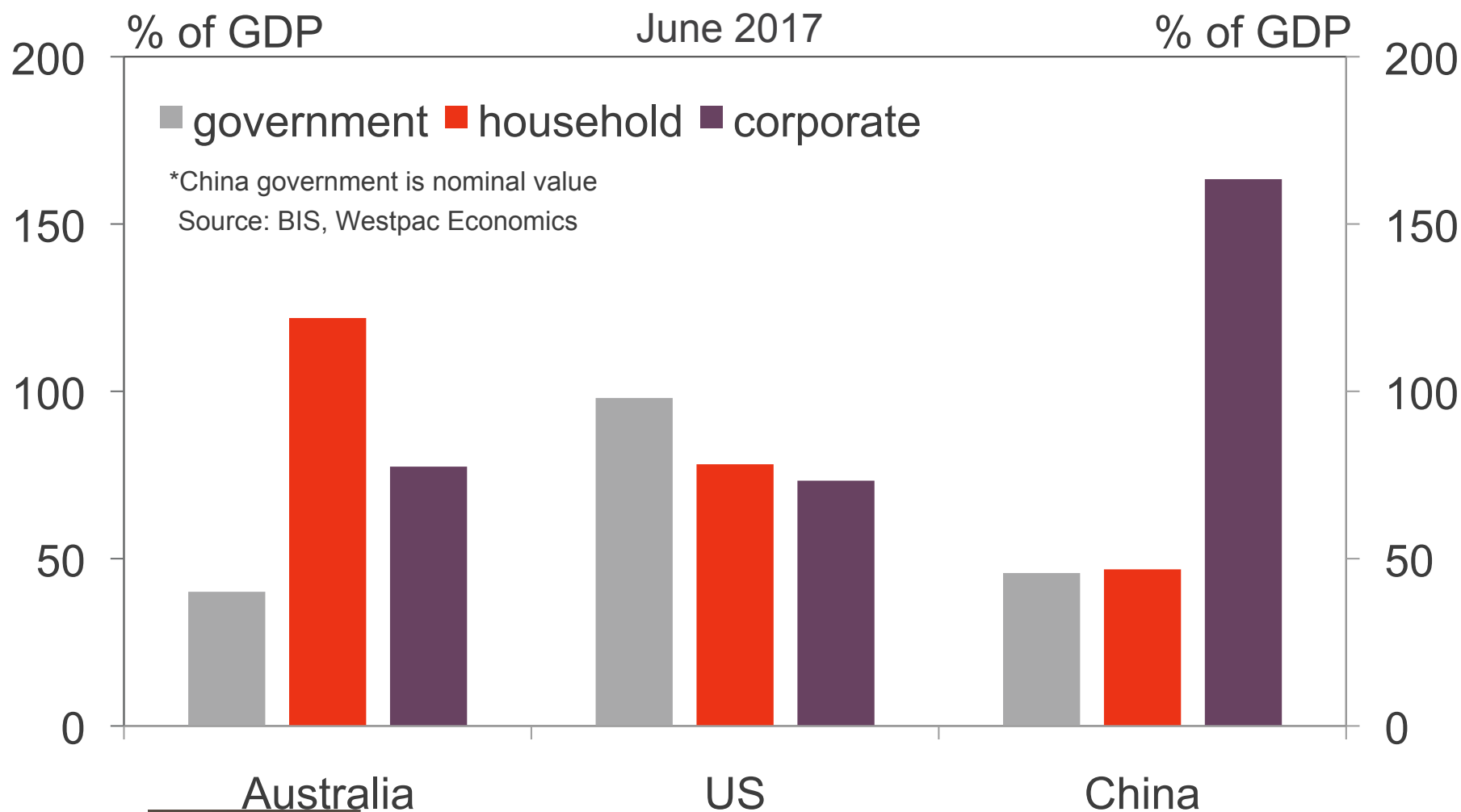
China real GDP to decelerate slowly



China's growth transition



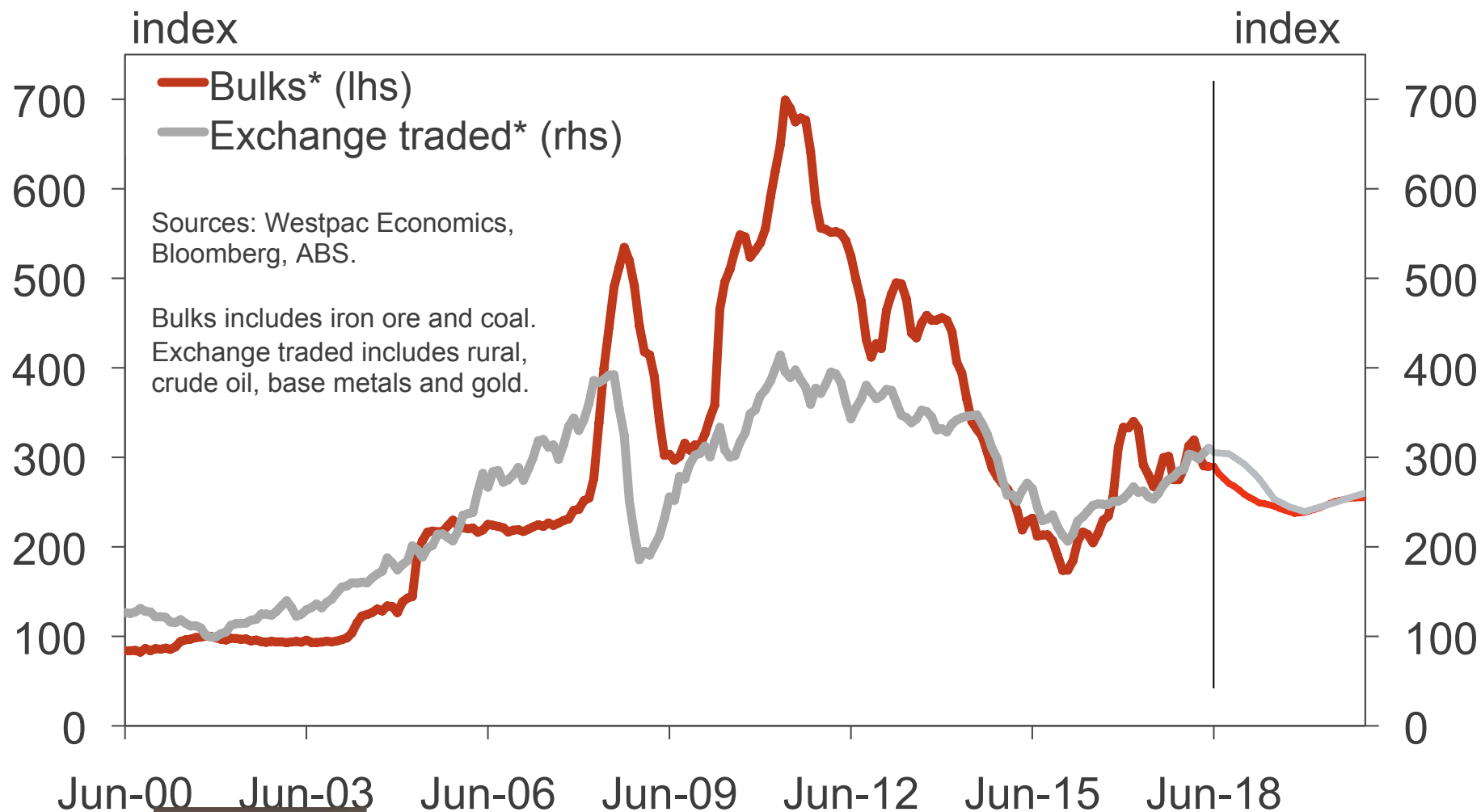
China debt: developed world scale



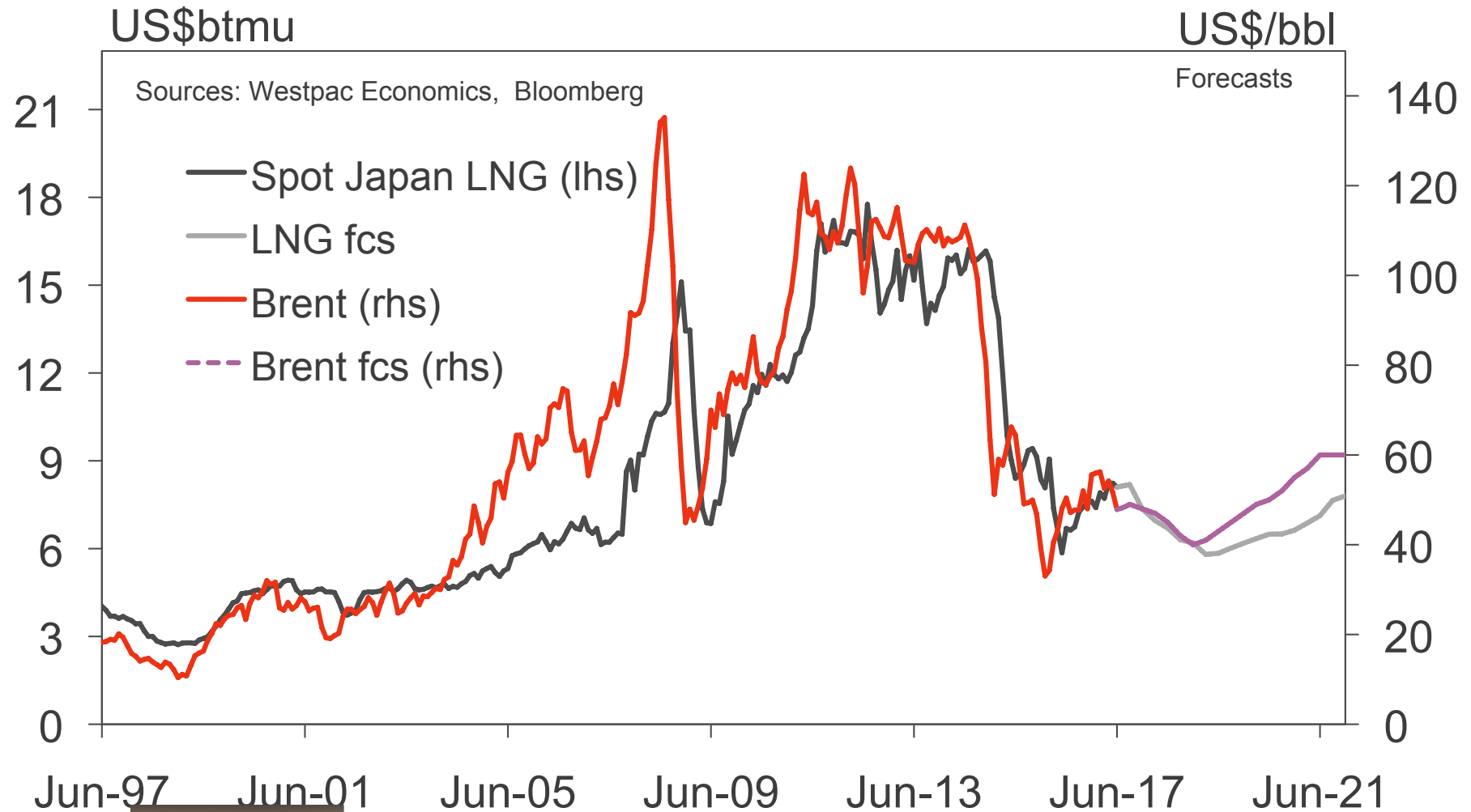
Energy & Resources



Australian commodity prices outlook



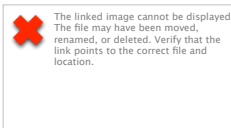
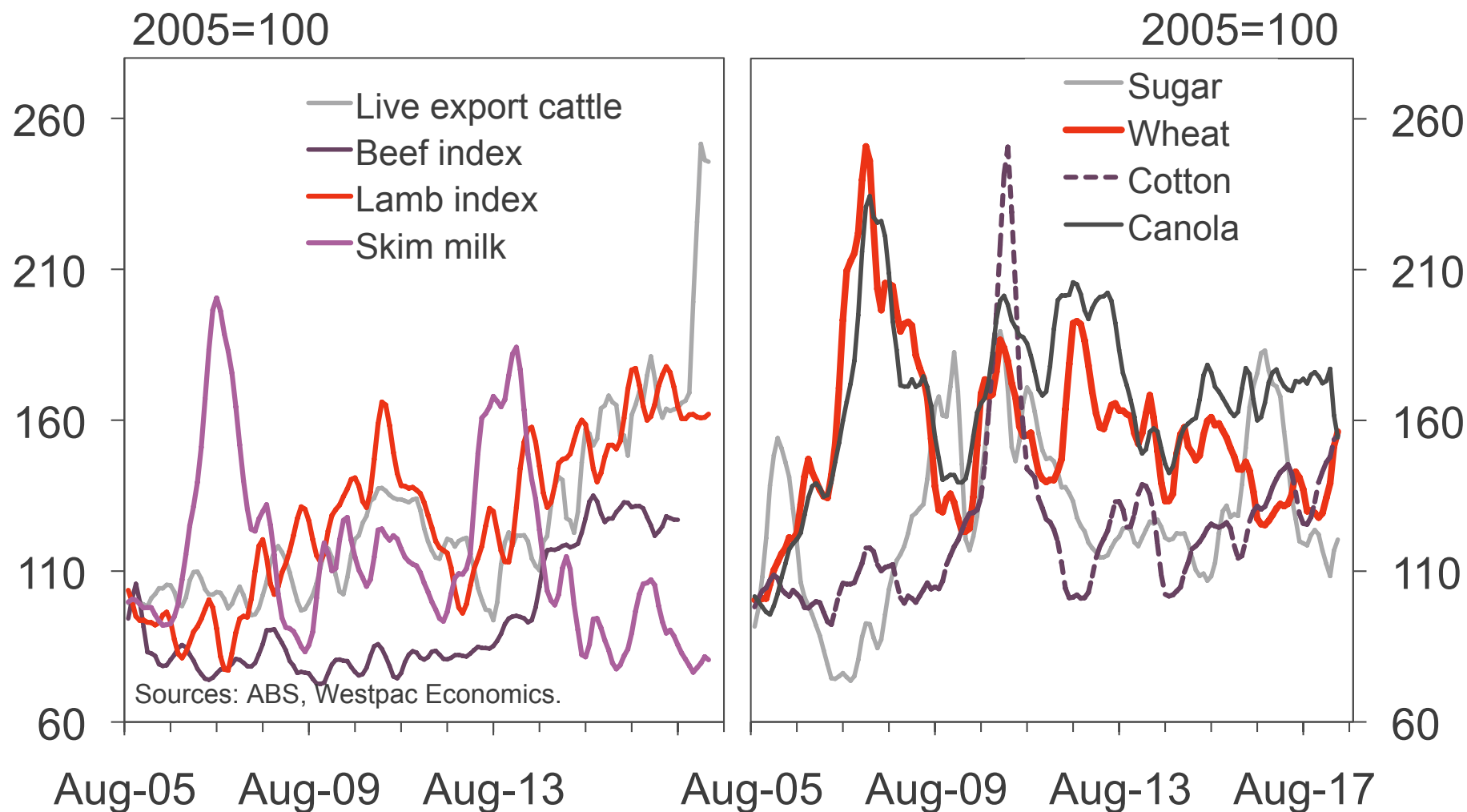
Japanese LNG & Brent crude oil



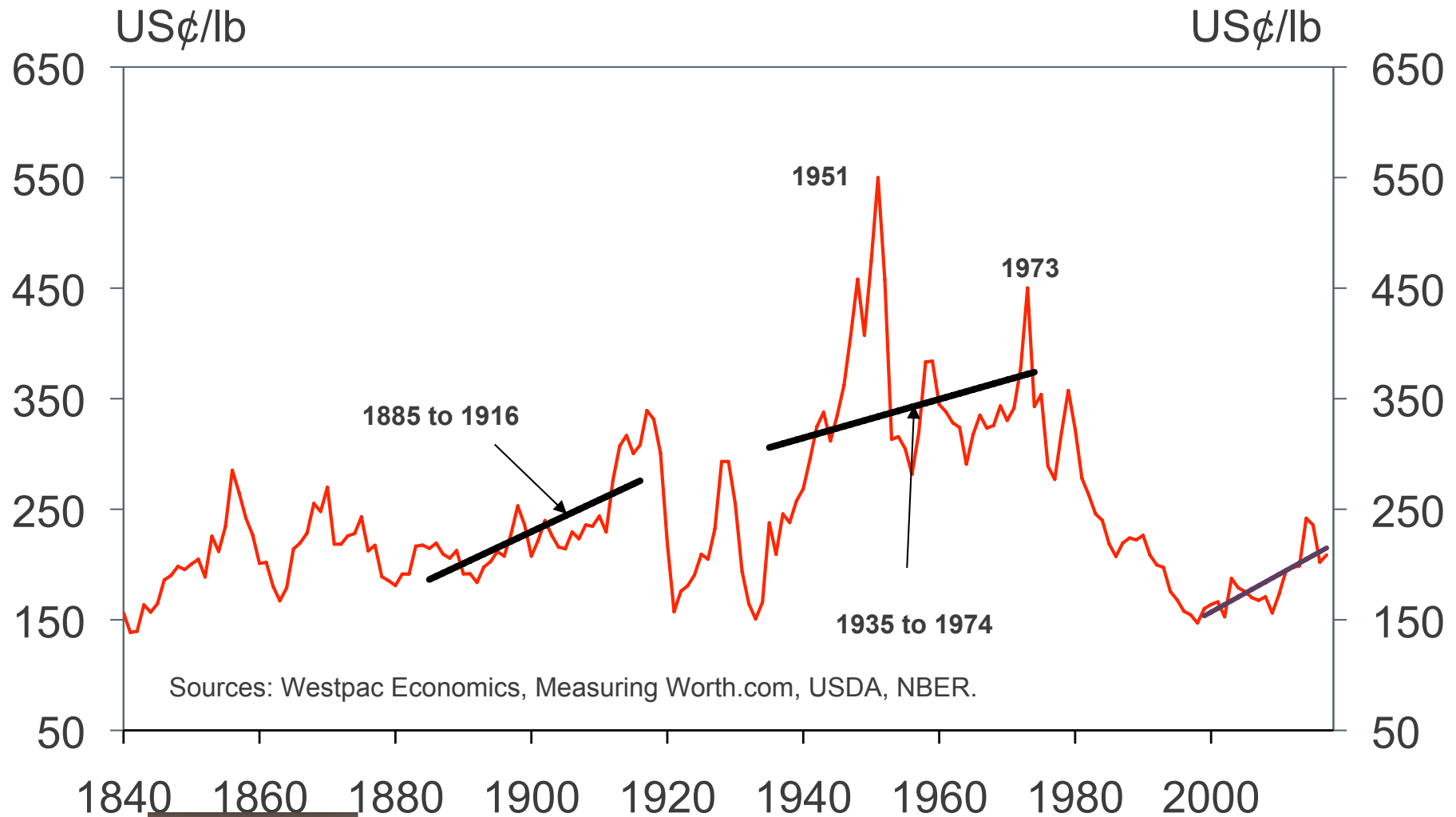
Rural Commodities



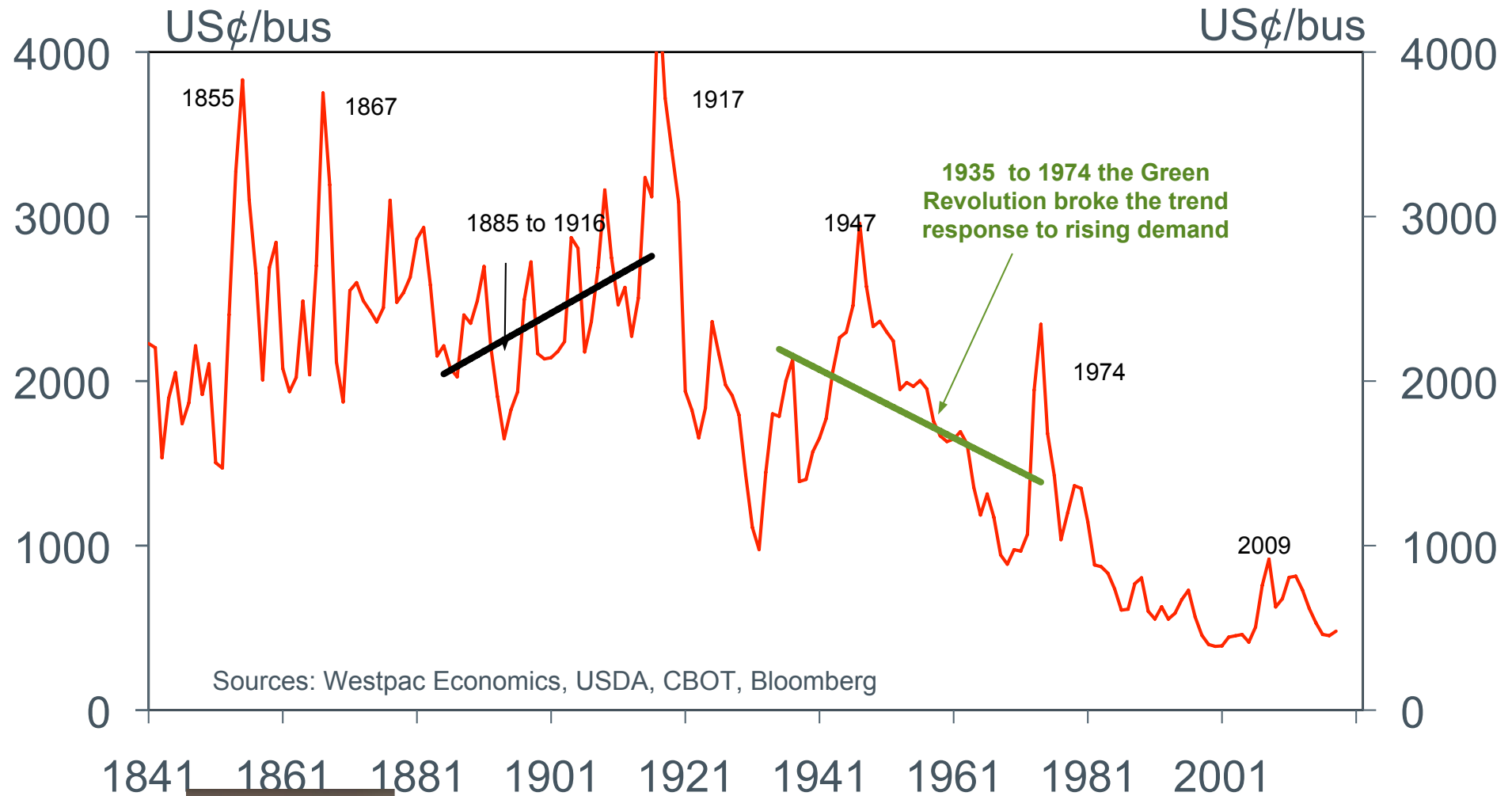
Farm commodities in Australian dollars



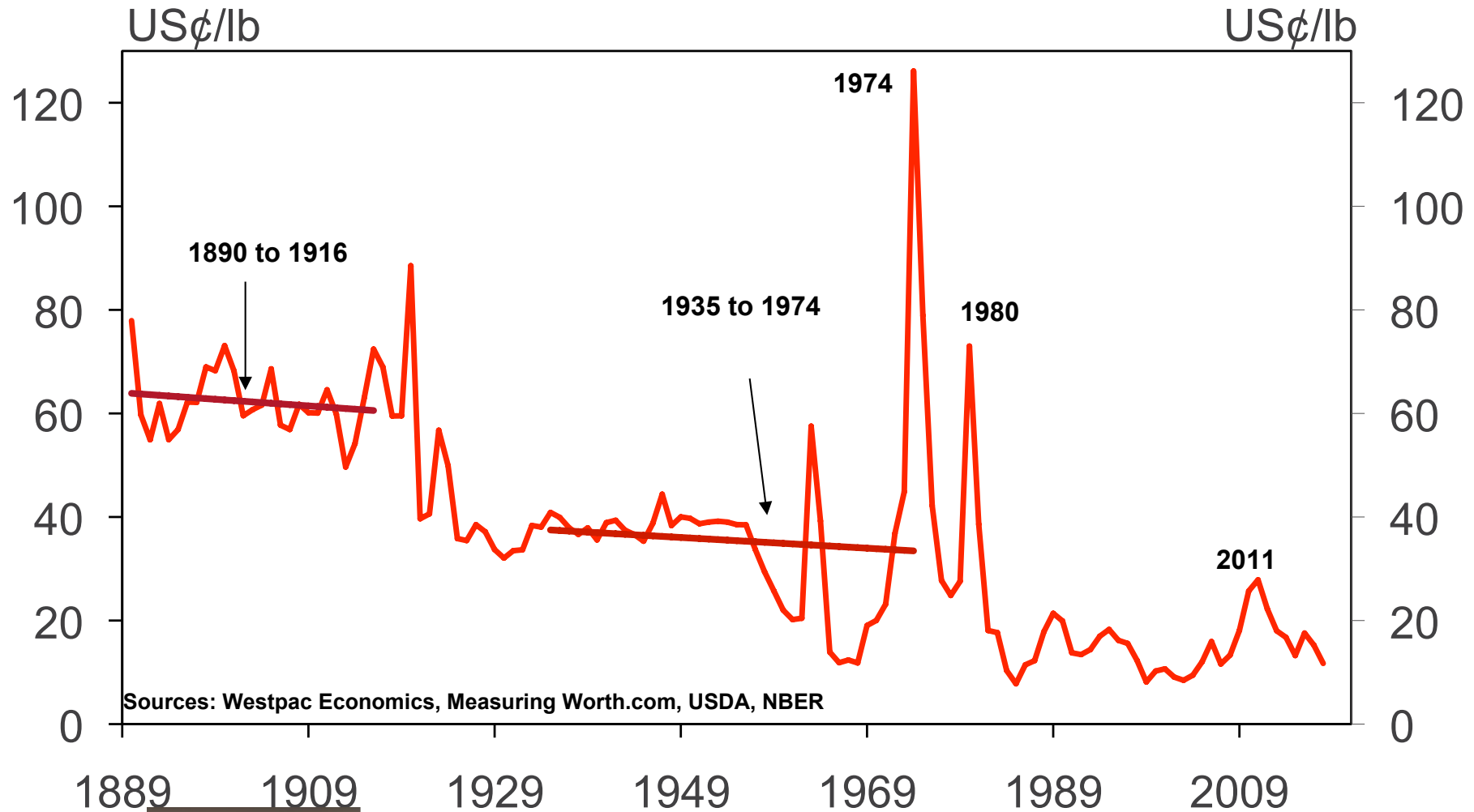
Beef prices in 2016 dollars



Wheat price in 2017 dollars



Inflation adjusted sugar prices



Technological advances continue

Driverless tractors next? Farms fire up automation

#agribusiness #digital #technology



Merran White

06:00am January 19 2018



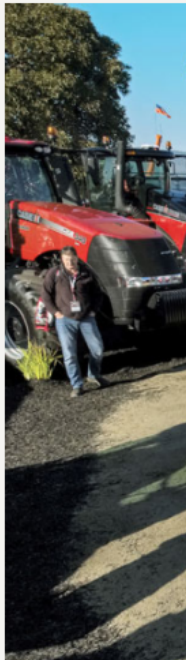
The futuristic prototype driverless tractor by Case IH on display at an AgQuip Field Day in Gunnedah. (Supplied)

And it is not just tractors

Driverless
autonomous



Merran White



The futuristic prototype driverless tractor by Case IH on display at an AgQuip Field Day in Gunnedah. (Supplied)

From P2P to agbots, farmers tackling tech head on

#agribusiness #digital #fintech



Danny John

02:30am September 12 2017



The rise of "ag-tech" is seeing new financial products emerge, not just mechanical innovations like drones and robots, to improve the way Australian farmers do business. (Getty Images)

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#technology

> How Allbirds grew a shoe into a global business

Tim Brown, the co-founder of a NZ shoe business loved by US tech entrepreneurs and world leaders, says "clarity of focus" has been one of a handful of its key drivers of success.



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By [Emma Foster](#)

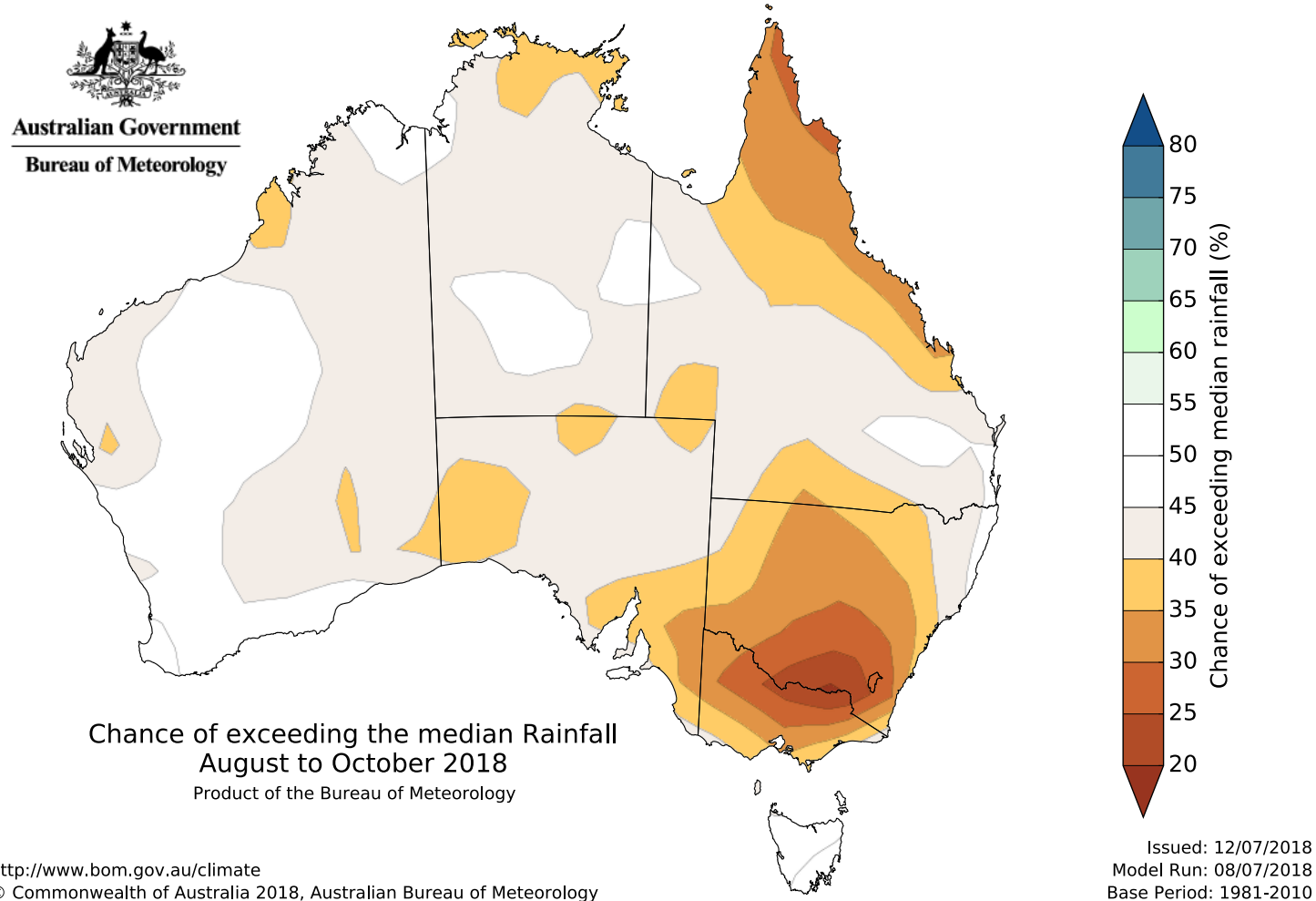


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Of course, this means little with no rain



<http://www.bom.gov.au/climate>

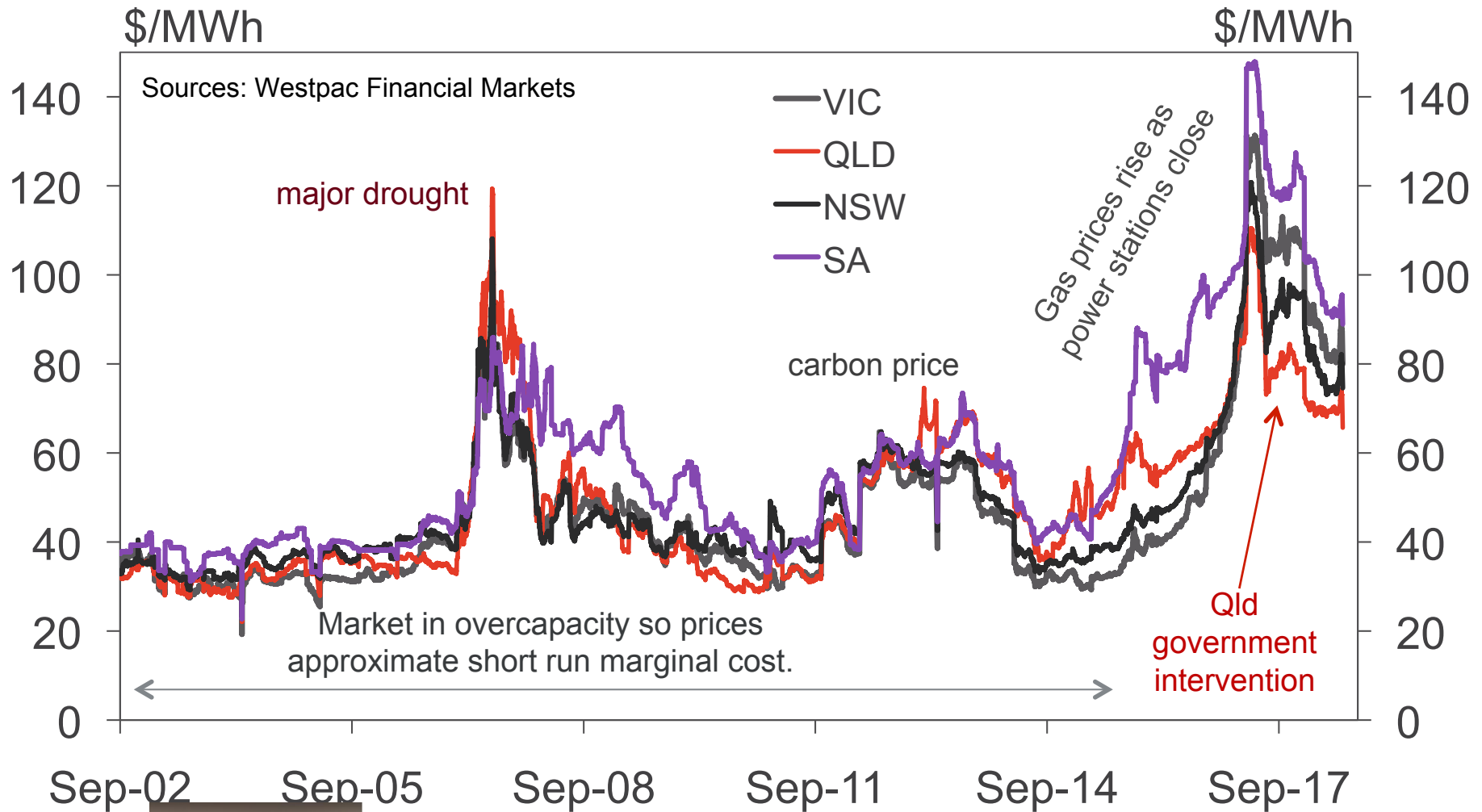
© Commonwealth of Australia 2018, Australian Bureau of Meteorology



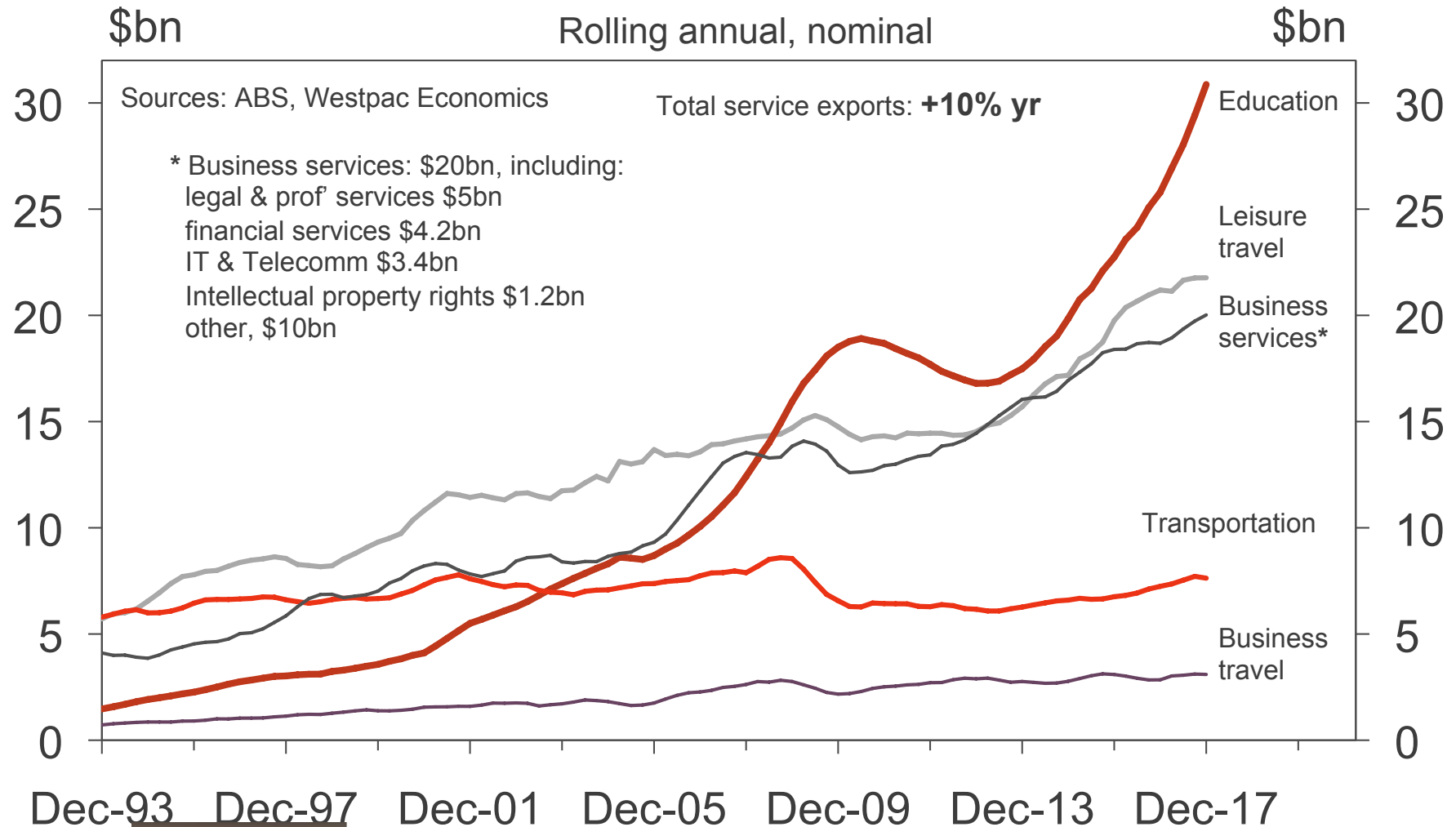
Domestic economy



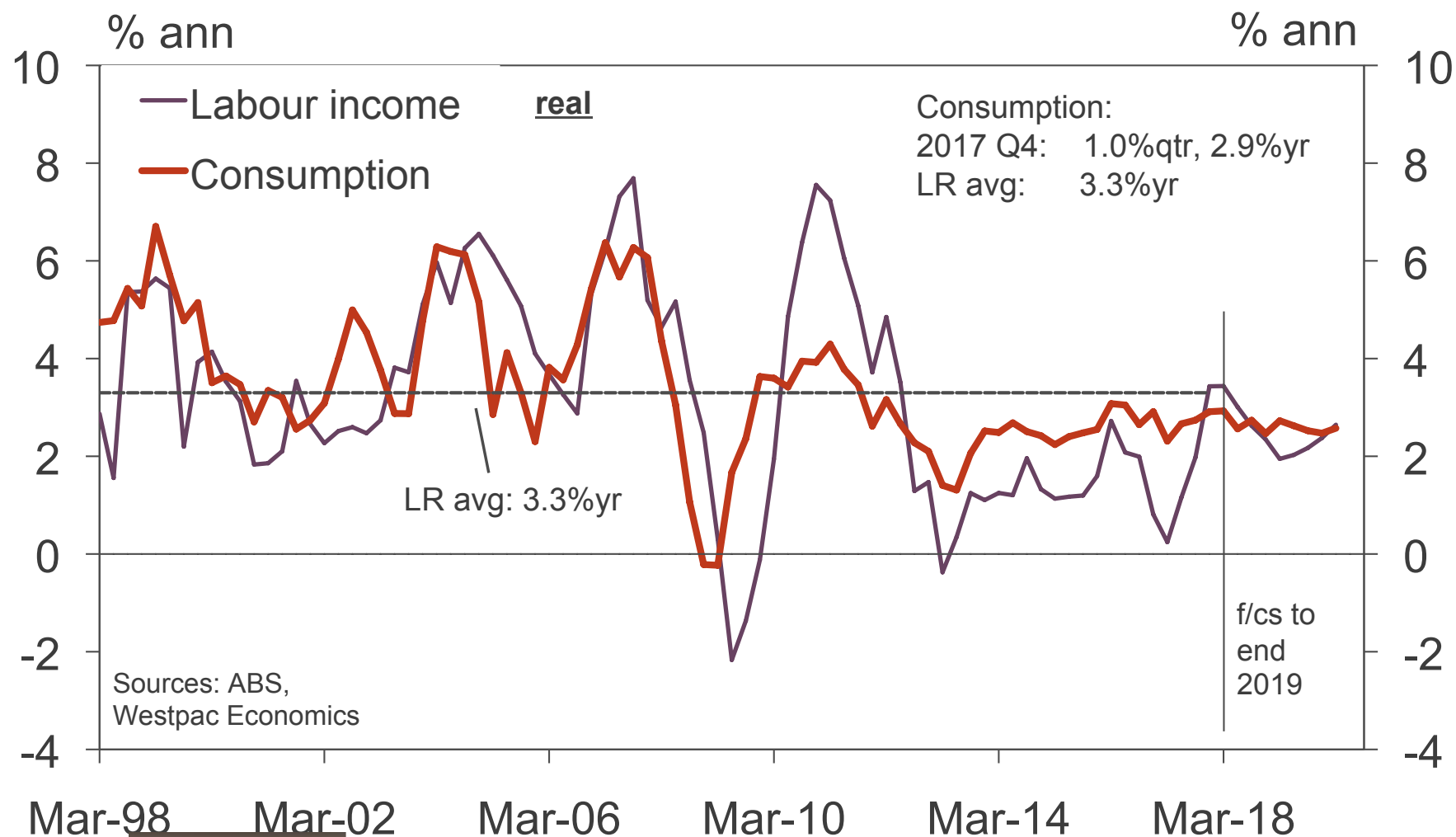
Electricity futures



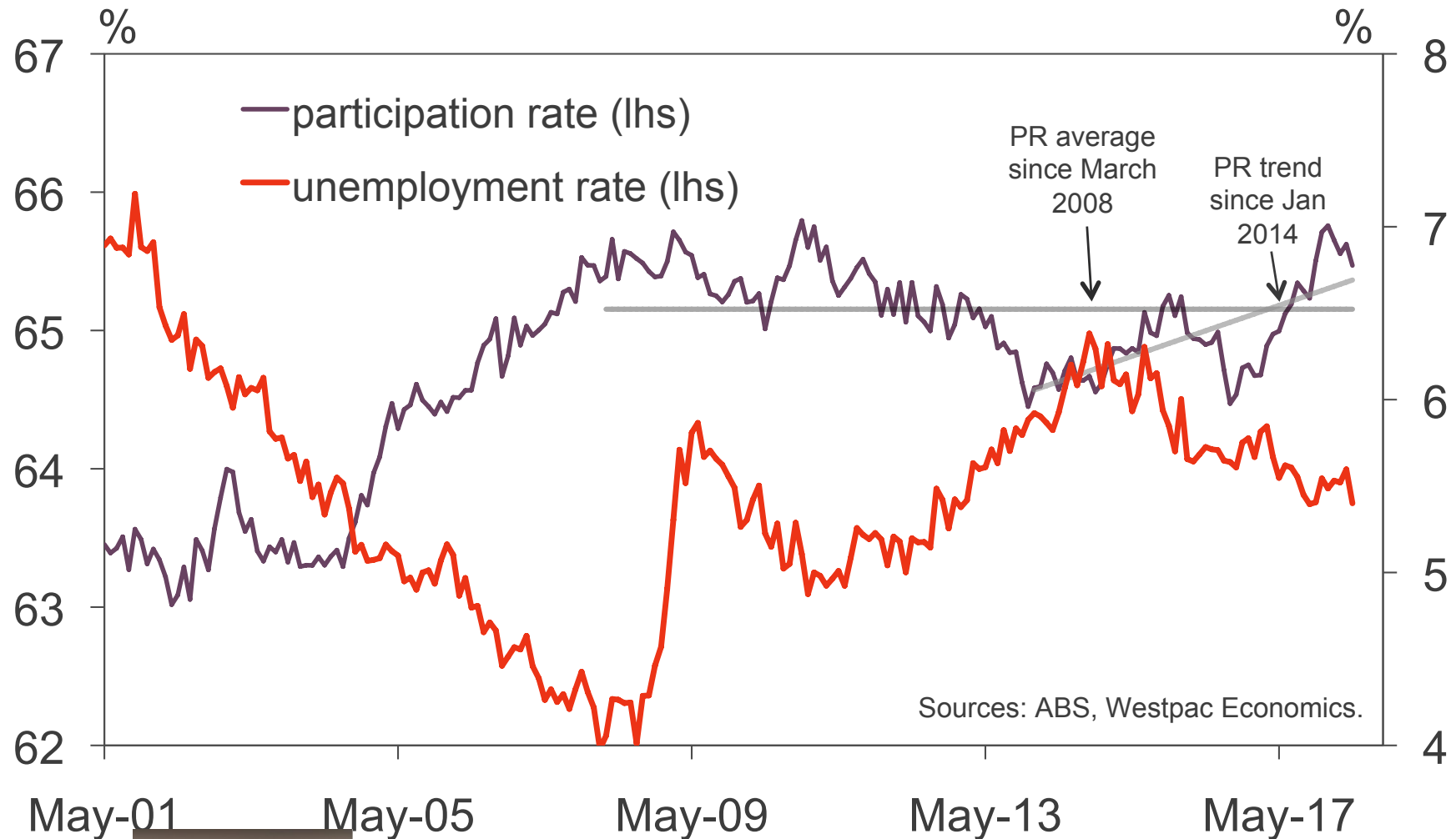
Service exports: a bright spot, for now



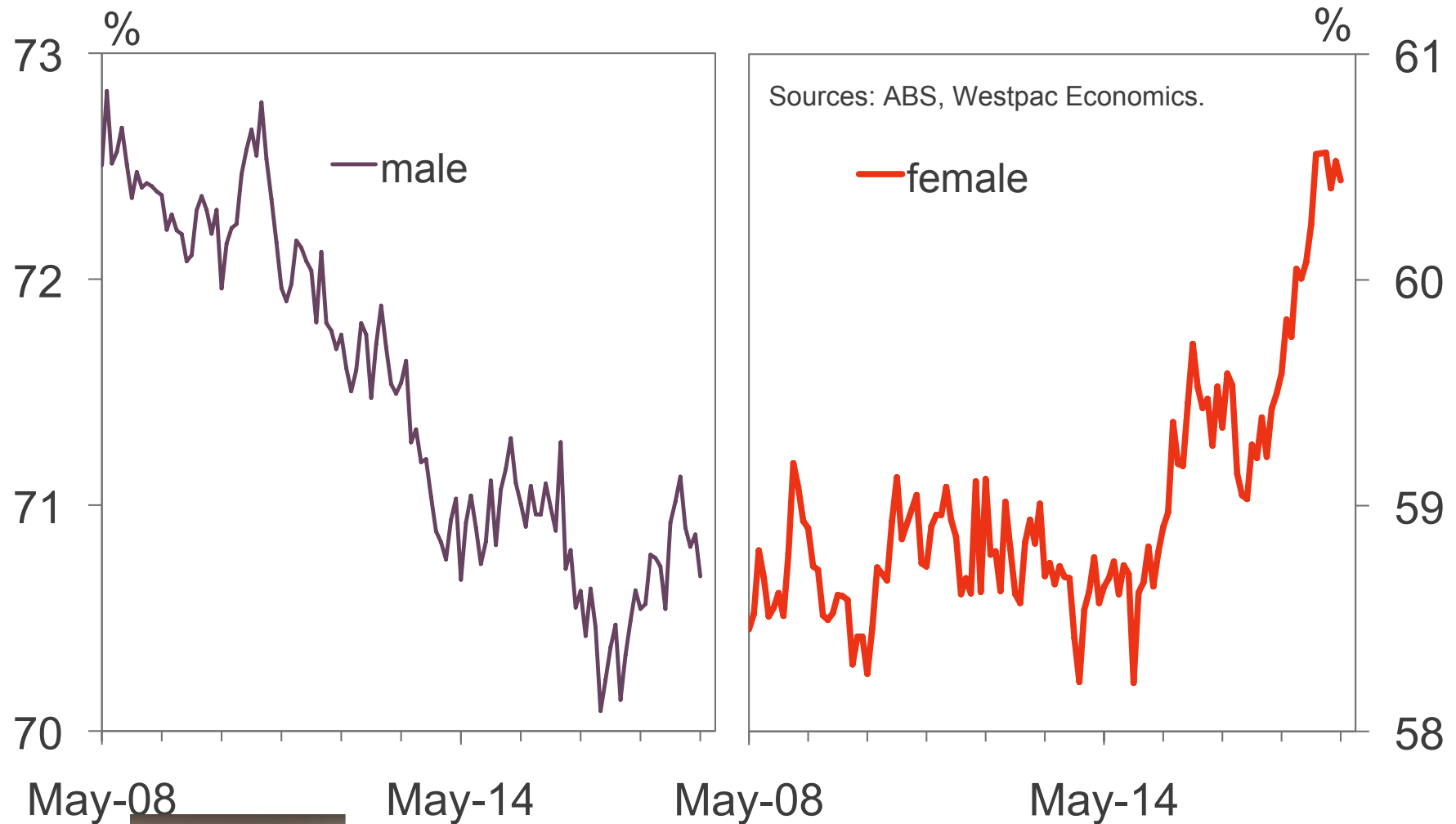
Aus: consumer spend vs labour income



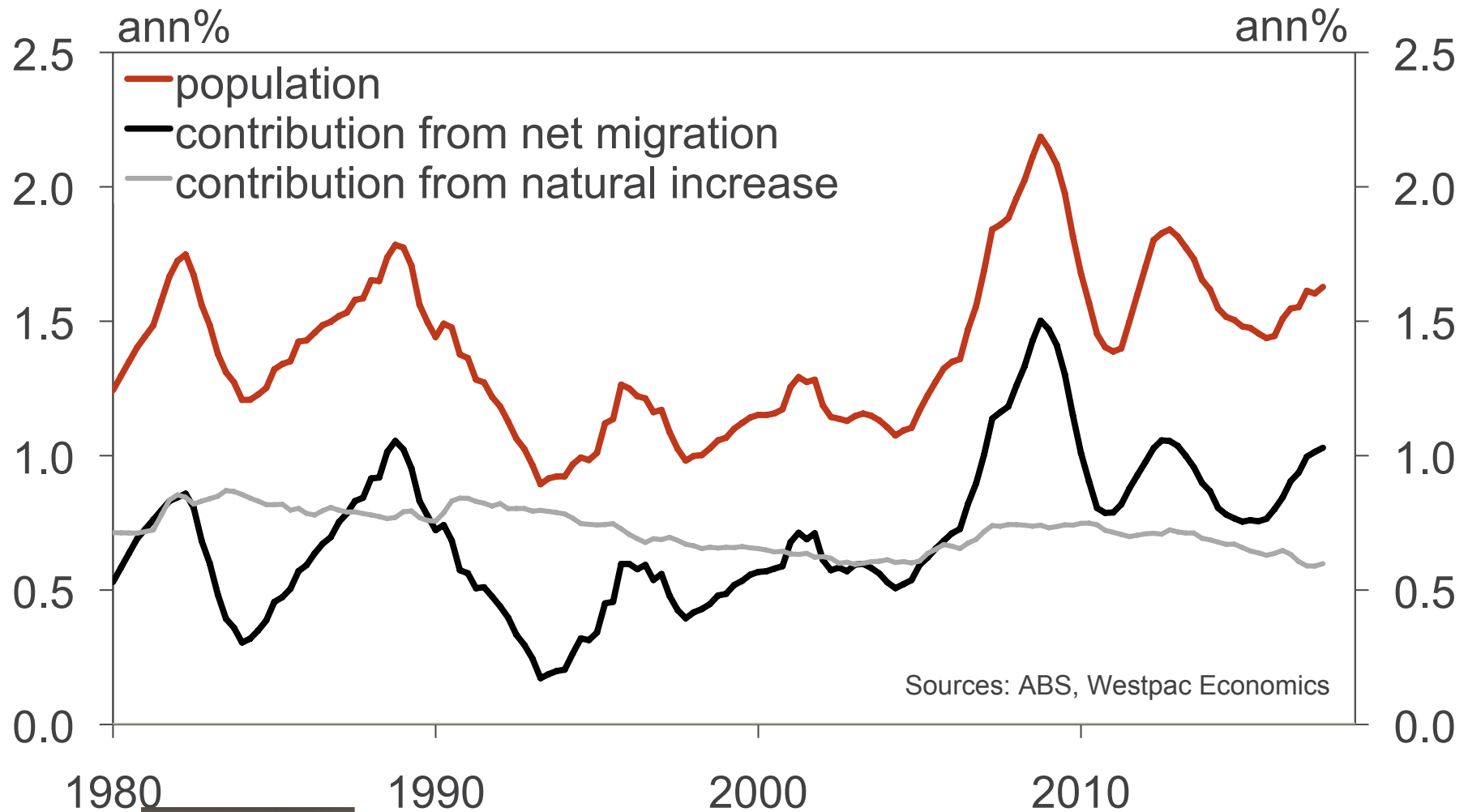
Unemployment and participation rates



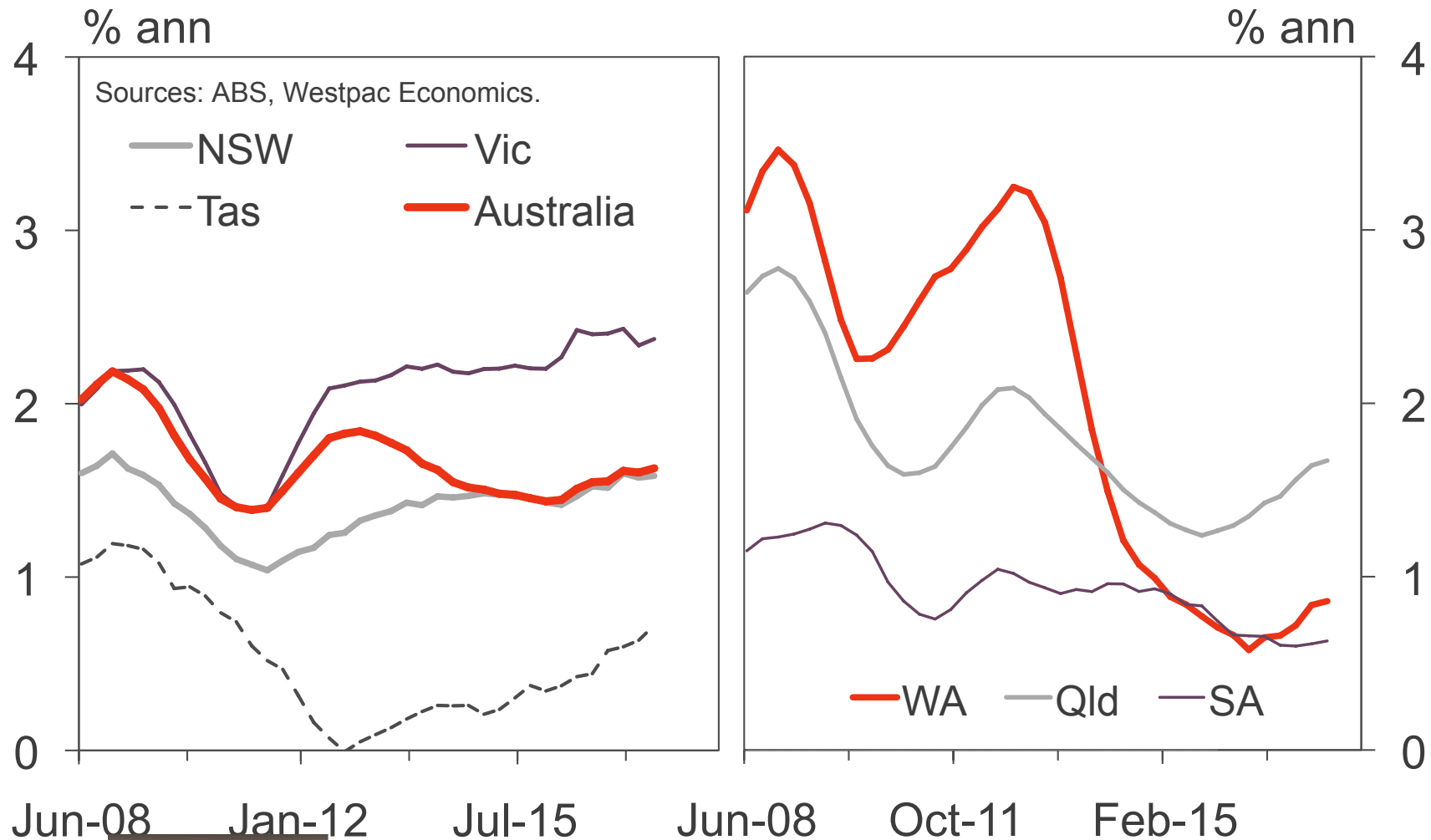
Australian participation rates by gender



Population growth



Population growth: NSW lags VICTORIA

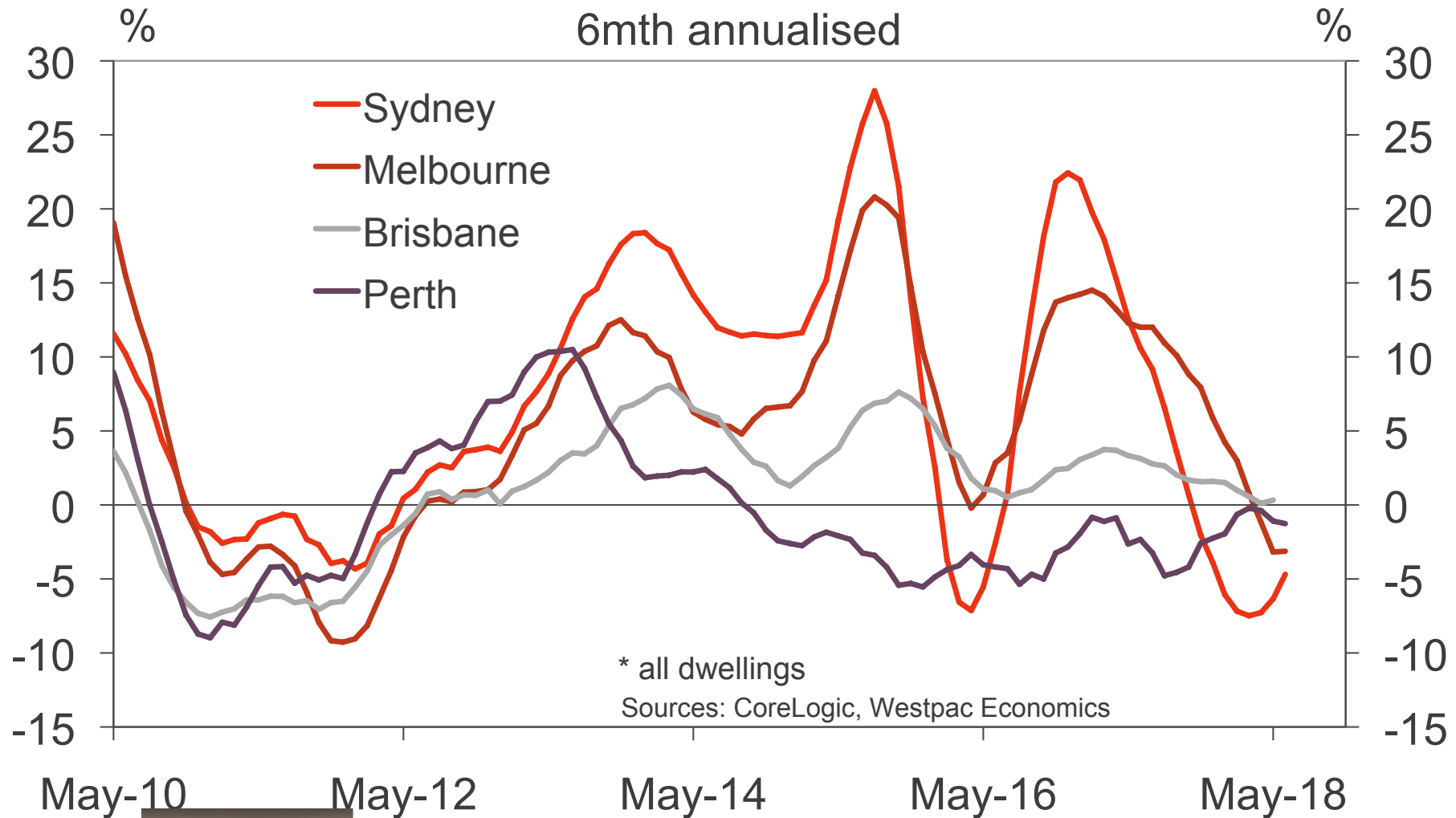


Housing & market interest rates

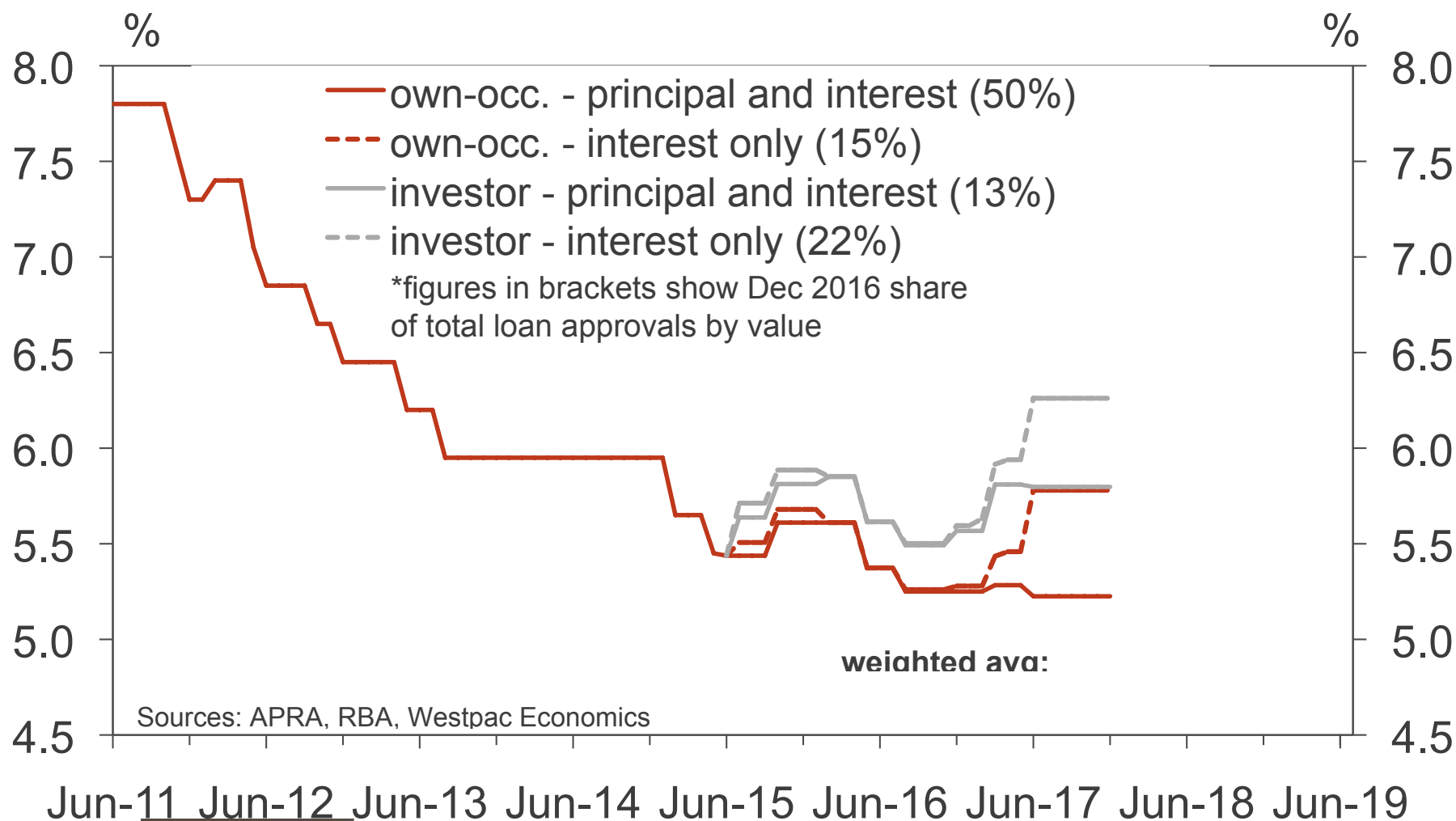
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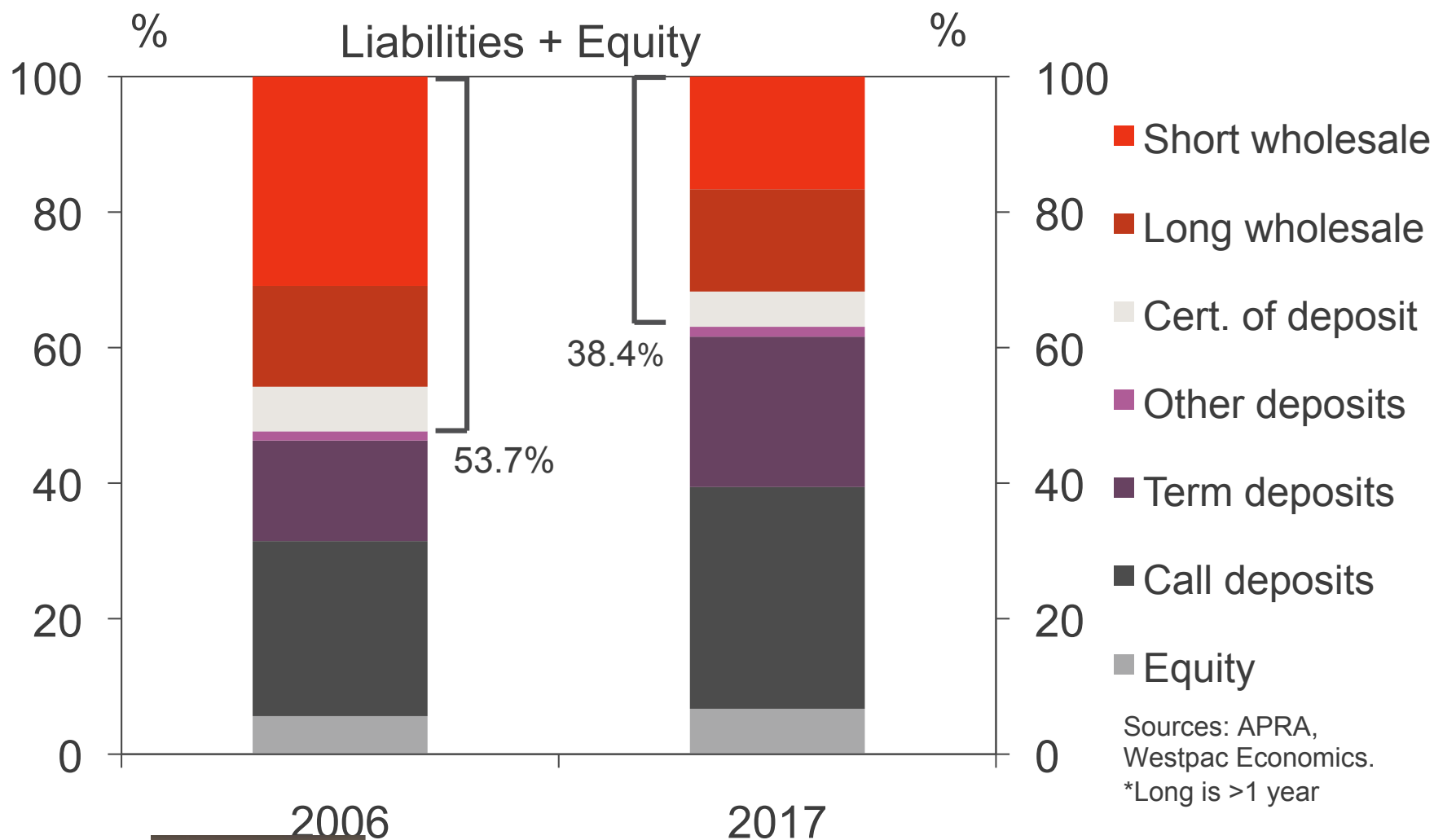
Australian dwelling prices: capital cities



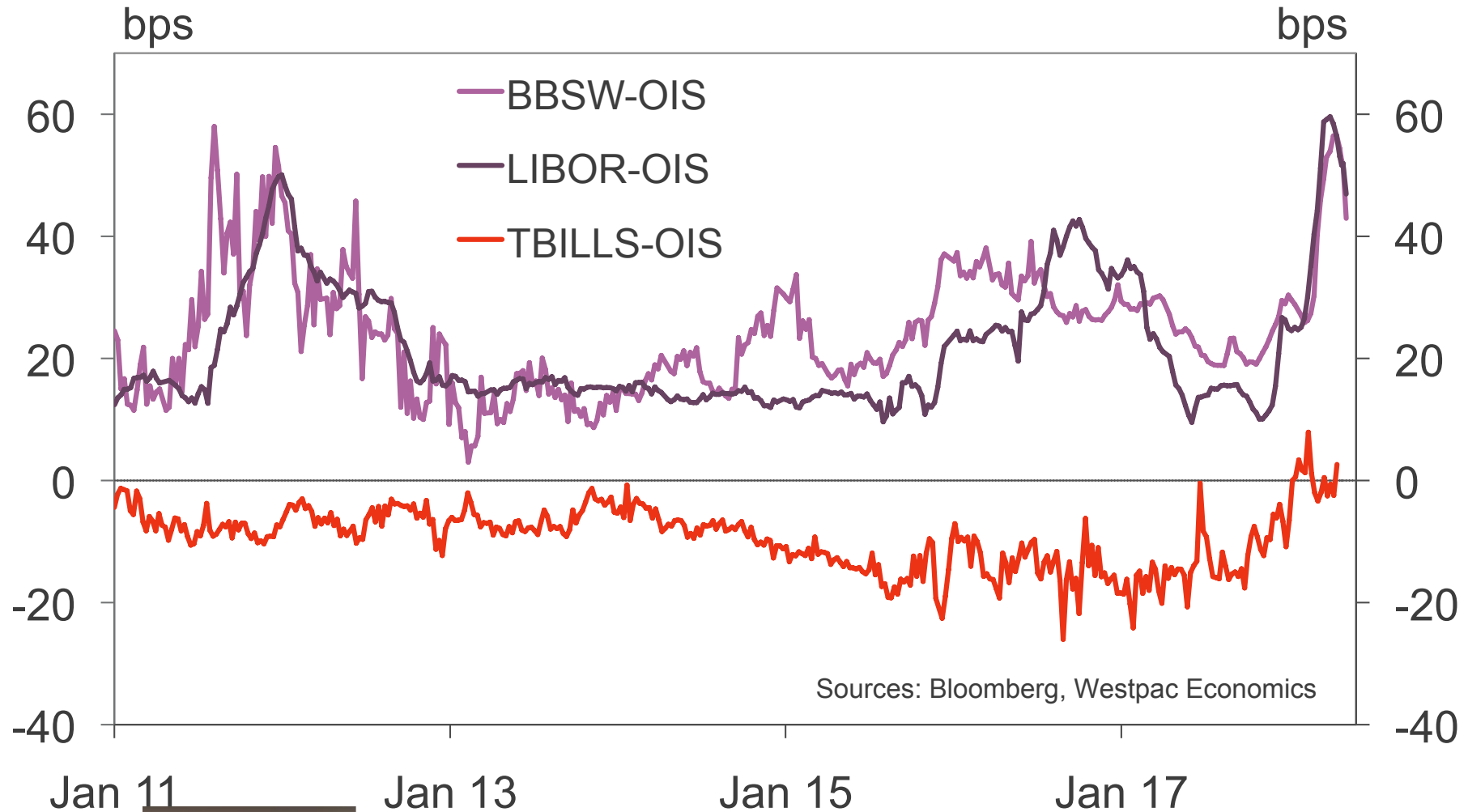
Mortgage interest rates: 'tiering'



Big 4 bank funding pre-GFC and now



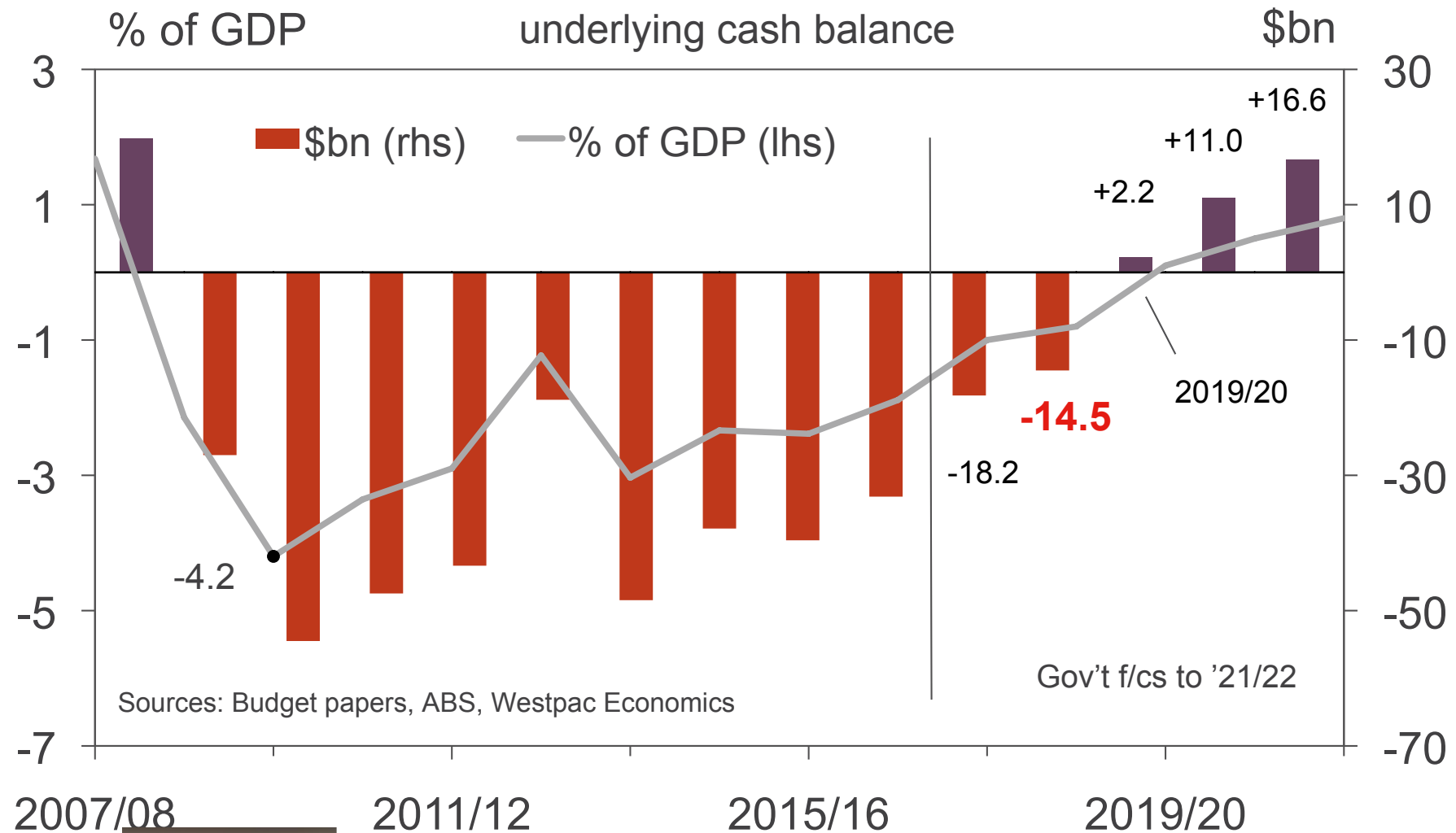
Short term funding spreads (3 month)



Forecasts



Federal Budget: \$14.5bn deficit in 2018/19



Current Forecasts – June 2018

	At time of forecast	Sep-18	Dec-18	Jun-19	Dec-19
RBA Cash	1.50	1.50	1.50	1.50	1.50
Aus 10yr	2.58	2.75	3.05	3.10	3.00
3yr swap	2.03	2.40	2.50	2.50	2.70
Fed Funds	1.875	2.125	2.125	2.625	2.625
US 10yr	2.83	3.00	3.35	3.50	3.20
AUD/USD	0.739	0.74	0.74	0.72	0.70

Source: Westpac Economics



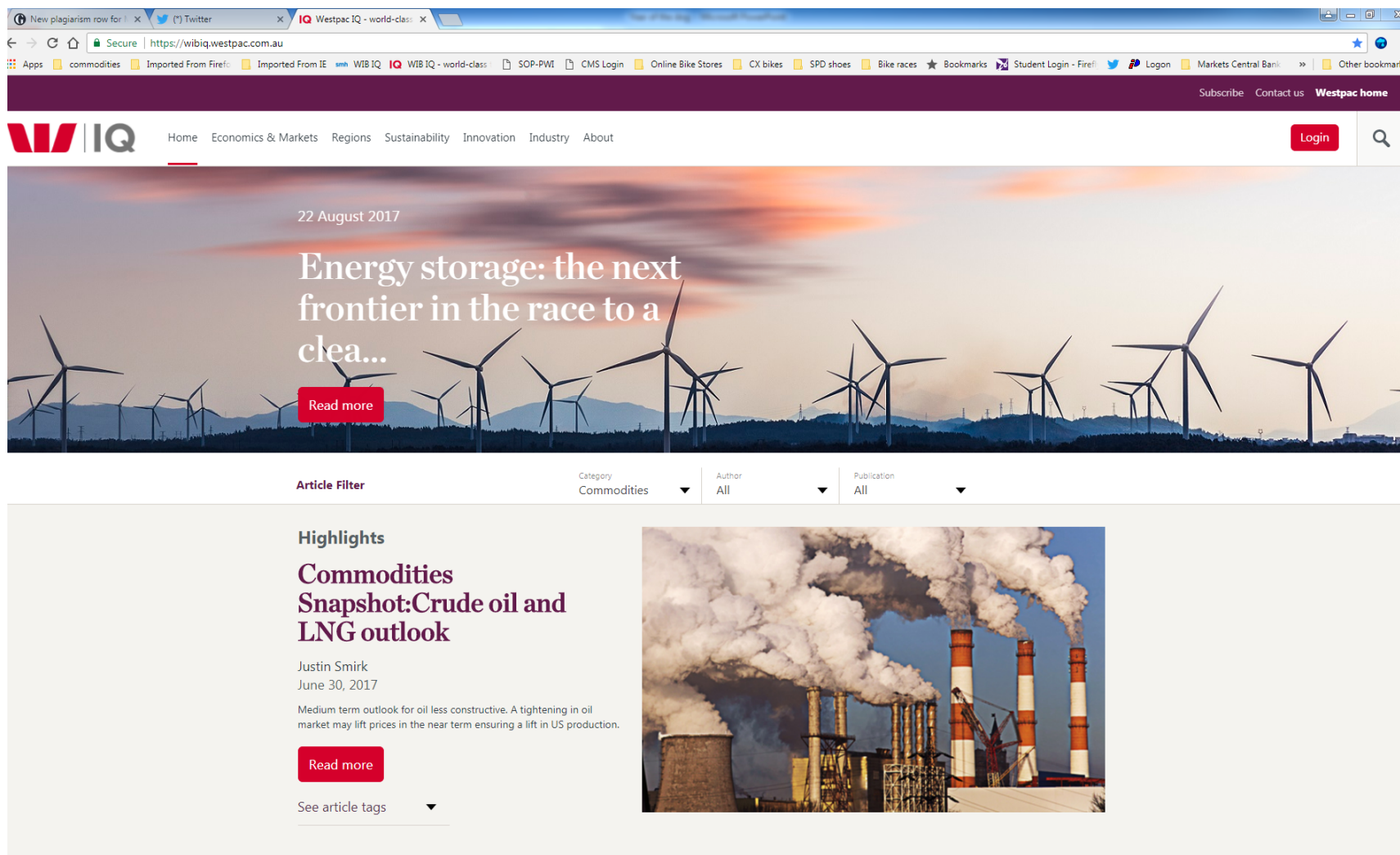
AU model breakdown

	Jul-18	Sep-18	Dec-18	Dec-19
Fair Value US¢	77¢	77¢	76¢	72¢
AUD/USD forecasts	74¢	74¢	74¢	70¢
Cash rate spread	-38ppt	-63ppt	-63ppt	-113ppt
Commodities latest = 100	100	97.8	93.5	83.2

Source: Westpac Economics



Westpac IQ – home of our research



The screenshot displays the Westpac IQ website interface. At the top, there's a navigation bar with the Westpac IQ logo and links for Home, Economics & Markets, Regions, Sustainability, Innovation, Industry, and About. A search bar with a 'Login' button is on the right. Below the navigation bar, a large banner features a sunset over a field of wind turbines. The banner text reads '22 August 2017' and 'Energy storage: the next frontier in the race to a clean...', with a 'Read more' button. Below the banner, an 'Article Filter' section allows users to filter by Category (Commodities), Author (All), and Publication (All). The main content area highlights a 'Commodities Snapshot: Crude oil and LNG outlook' by Justin Smirk, dated June 30, 2017. The article text states: 'Medium term outlook for oil less constructive. A tightening in oil market may lift prices in the near term ensuring a lift in US production.' A 'Read more' button is provided. To the right of the article text is an image of an industrial facility with smokestacks emitting thick white smoke. Below the article text, there is a 'See article tags' link.

22 August 2017

Energy storage: the next frontier in the race to a clean...

[Read more](#)

Article Filter

Category: Commodities | Author: All | Publication: All

Highlights


Commodities Snapshot: Crude oil and LNG outlook

Justin Smirk
June 30, 2017

Medium term outlook for oil less constructive. A tightening in oil market may lift prices in the near term ensuring a lift in US production.

[Read more](#)

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- iv. a "need to know" policy;
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Information in this presentation correct as at July 2018

We are living in interesting times.

- US is starting out from a robust position, China tightening credit & continues to focus on environmental and structural improvements.
- US interest rates are rising and tighter liquidity driving a strong US dollar narrative.
- Overall, slower Chinese growth and a higher US dollar will see lower commodity prices. But watch out for shifting trade relations.

Domestically in Australia

- Weak income growth to contain consumption.
- Housing will continue to correct in Sydney & Melbourne.
- Political uncertainty will weigh on business.
- RBA on hold in 2018 and 2019 but market rates to move higher.
- US rates to 112 basis points above RBA in 2019.
- Higher USD combined with weaker AUD.