THE AUSTRALIAN ECONOMY: WHAT'S IN STORE?

PRESENTATION TO RPS AUSTRALIA

QT HOTEL, MELBOURNE
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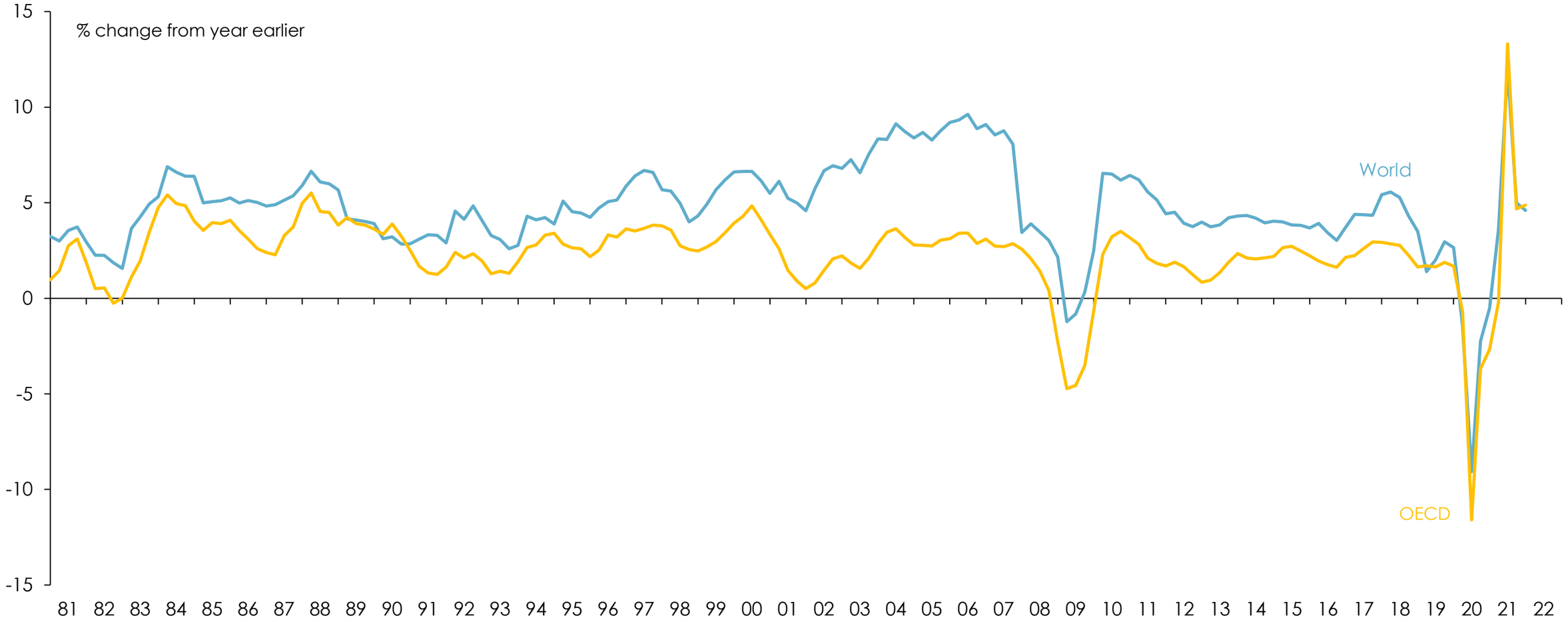
Covid-19 threw the world economy into its deepest recession since the 1930s, from which it has recovered quite quickly over the past 18 months

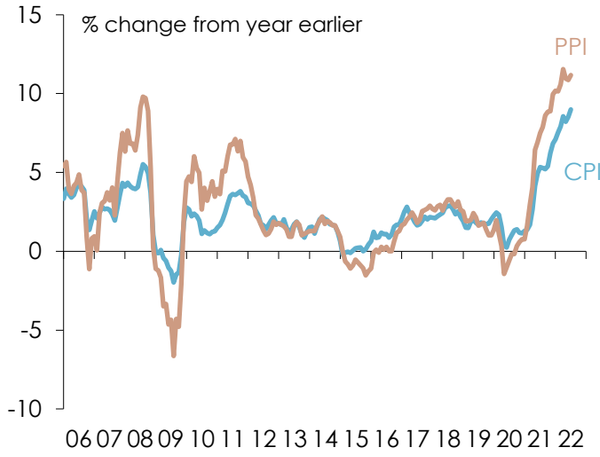
World and OECD area real GDP growth



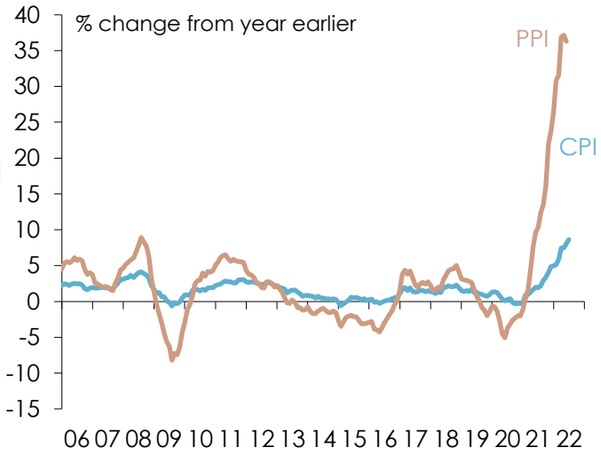
Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. *Sources:* national statistical agencies and central banks; Eurostat; OECD; IMF; Corinna.

But now there's a new threat on the economic horizon – the highest inflation in at least 20, and in some countries, 40 years

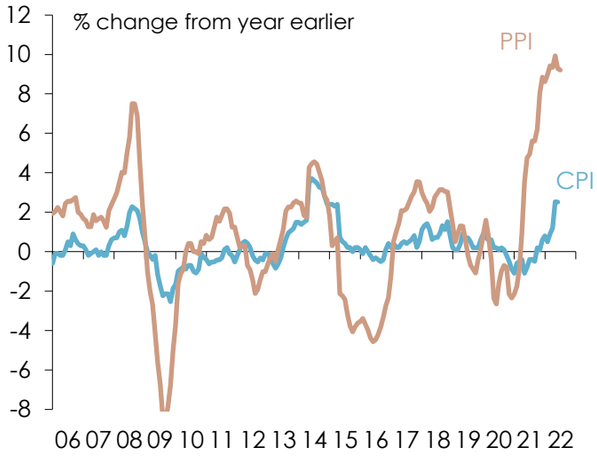
United States



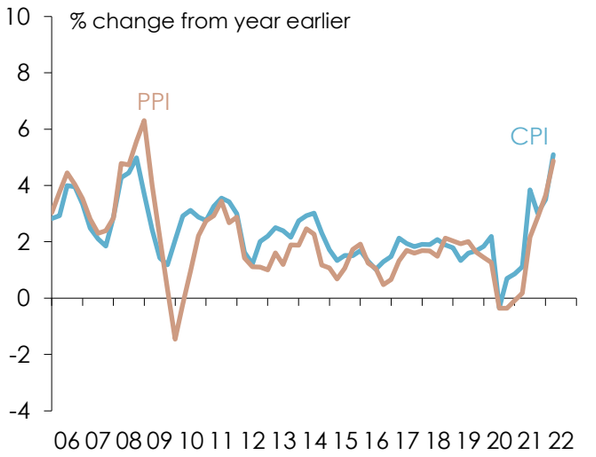
Euro area



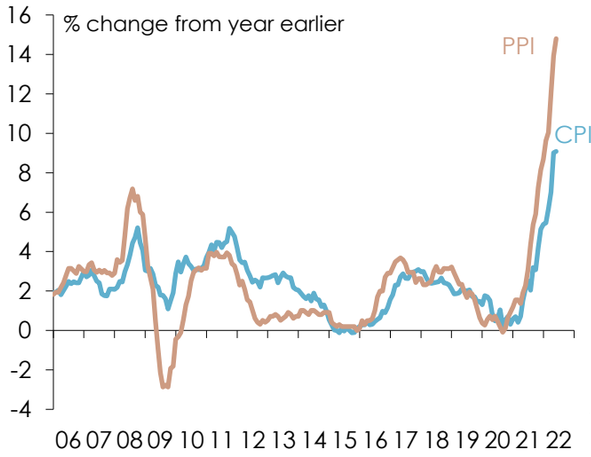
Japan



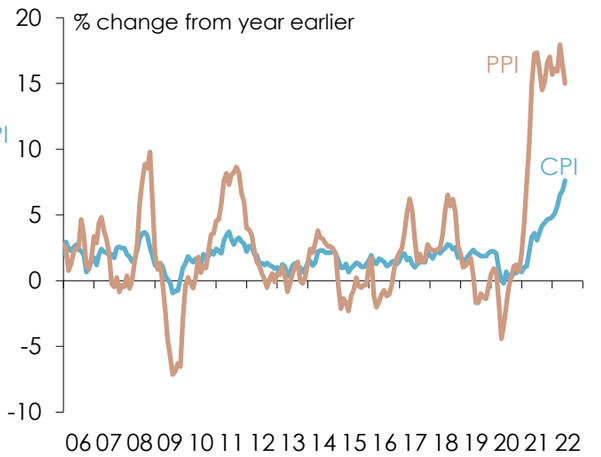
Australia



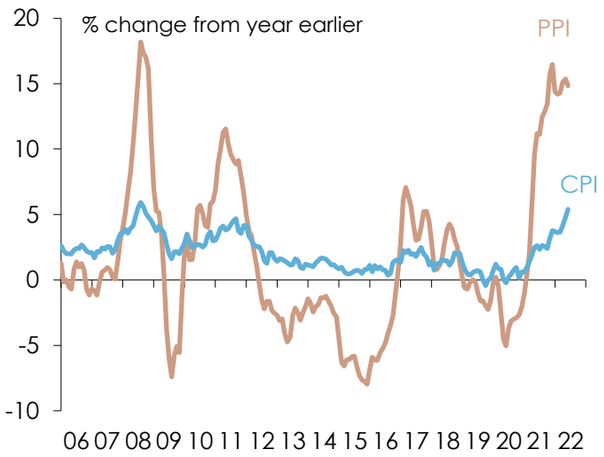
United Kingdom



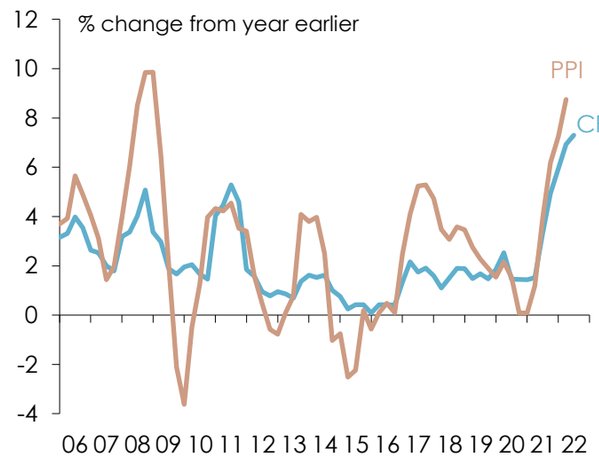
Canada



Korea



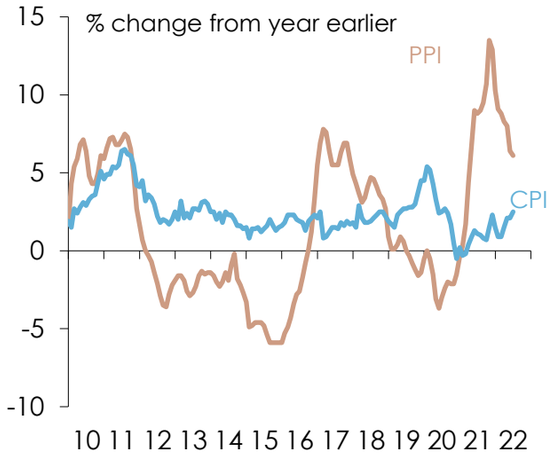
New Zealand



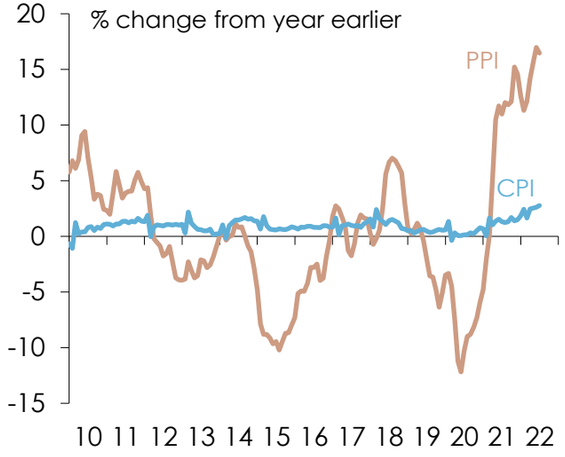
Note: 'PPIs' are producer price indexes, measuring prices of items produced by (in most cases) manufacturing firms. CPI is the consumer price index.
Sources: US Bureau of Labor Statistics; UK Office for National Statistics; Eurostat; Statistics Canada; Statistics Bureau of Japan; Statistics Korea; Australian Bureau of Statistics; Statistics New Zealand.

Most Asian economies (other than China) have also experienced significant increases in inflation

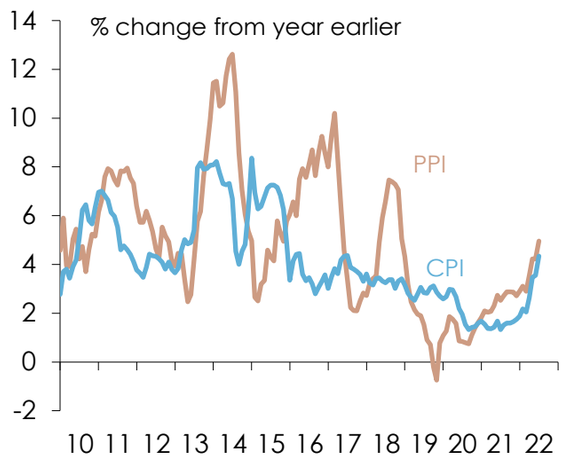
China



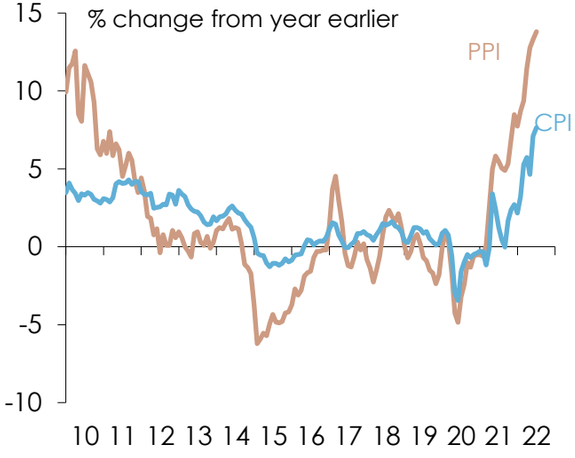
Taiwan



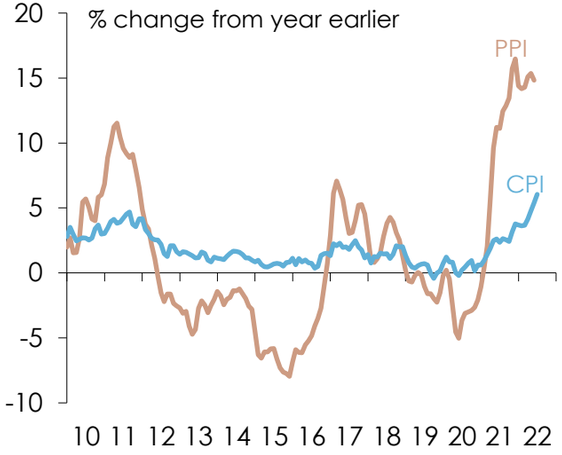
Indonesia



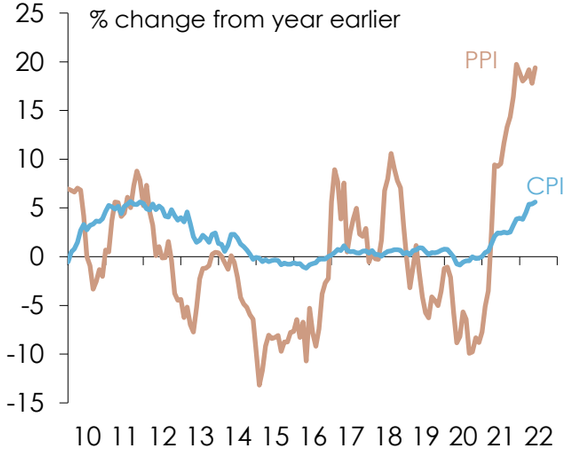
Thailand



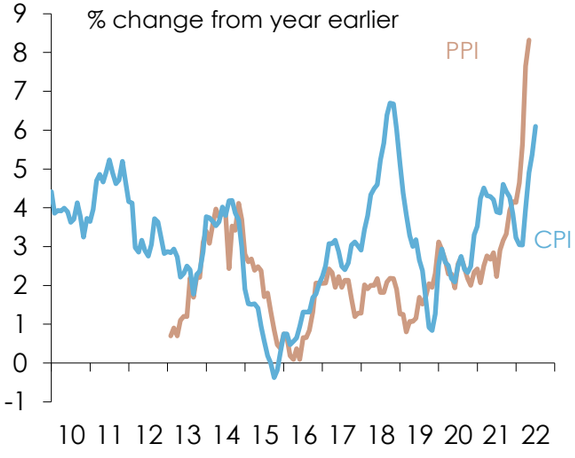
Korea



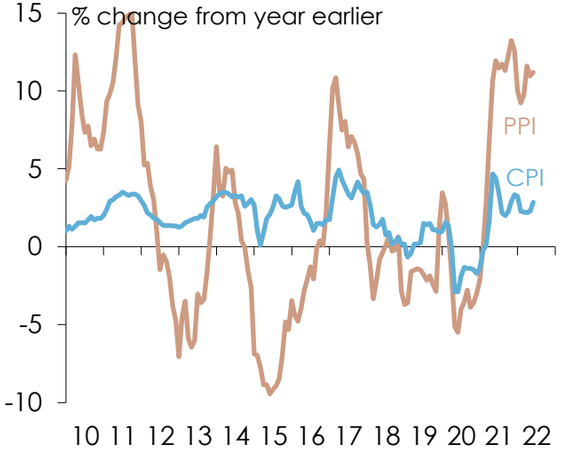
Singapore



Philippines



Malaysia



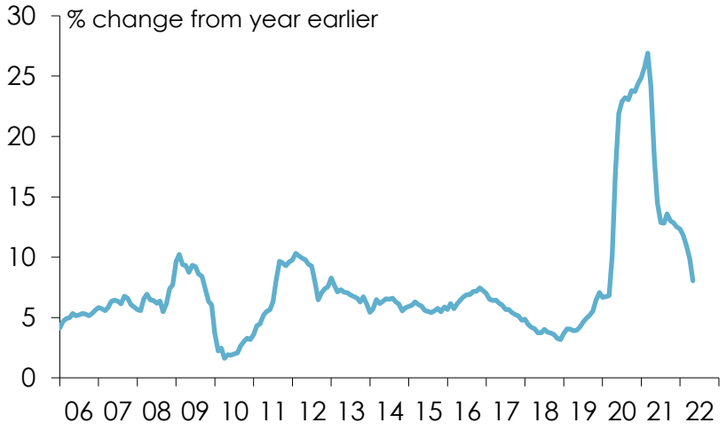
Sources: China National Bureau of Statistics; Statistics Korea; Bank of Korea; Taiwan Statistical Bureau; Singstat; Monetary Authority of Singapore; Statistics Indonesia; Philippine Statistics Authority; Thailand Bureau of Trade and Economic Indices; Department of Statistics Malaysia.

Where did this inflation, all of a sudden, come from?

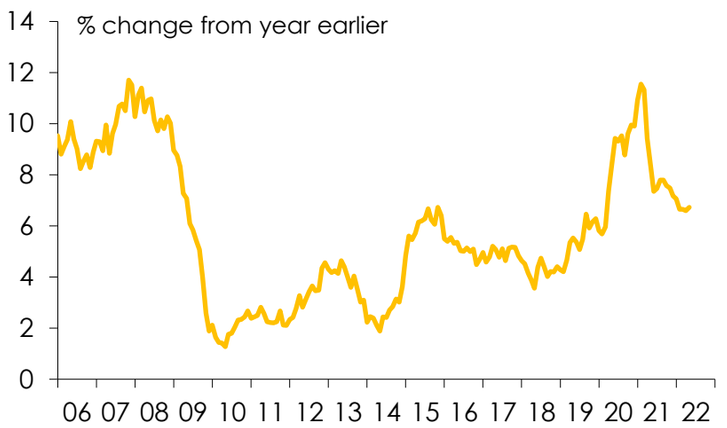
- **With the benefit of hindsight, governments and central banks provided 'too much' fiscal and monetary policy stimulus in response to the economic downturns wrought by the restrictions imposed to deal with Covid-19**
  - that was the 'right mistake' to have made, at least initially, in the circumstances
  - but governments and central banks were slow to recognize that it was 'too much', and to start winding it back
- **Covid-19 restrictions had a larger, and longer-lasting, impact on global supply chains than anticipated**
  - which combined with strong demand – especially for 'durable goods' – precipitated big increases in costs and prices that turned out not to be as 'transitory' as initially expected
- **Commodity prices rebounded dramatically after the contraction in the global economy turned out to be shorter than initially expected**
  - cuts in production of some commodities – in some cases (especially energy) not totally Covid-driven) – have had lasting consequences for commodity prices
- **Russia's invasion of Ukraine exacerbated the upward pressure on food and energy commodity prices**
  - some of these effects will likely persist for some time after the conflict is eventually resolved (if and when it is)
- **Large increases in housing prices (in part the result of 'excessive' monetary stimulus) have added to inflation**
  - this shows up in different ways in different countries because of differences in the way owner-occupier housing costs are included (or not included) in consumer price indices
- **Labour shortages – as a result of restrictions on immigration, and (in the US) permanent withdrawals from the labour force – combined with strong recoveries in employment have resulted in very tight labour markets**
  - in turn generating a significant pick-up in 'wage inflation' in the US, the UK and some other economies (though not thus far in the euro area, Japan or Australia)

Monetarists (like Milton Friedman) would say, "I told you so"

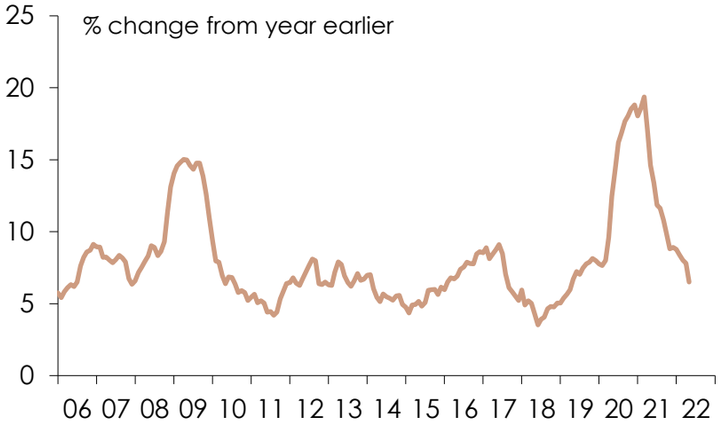
US M2



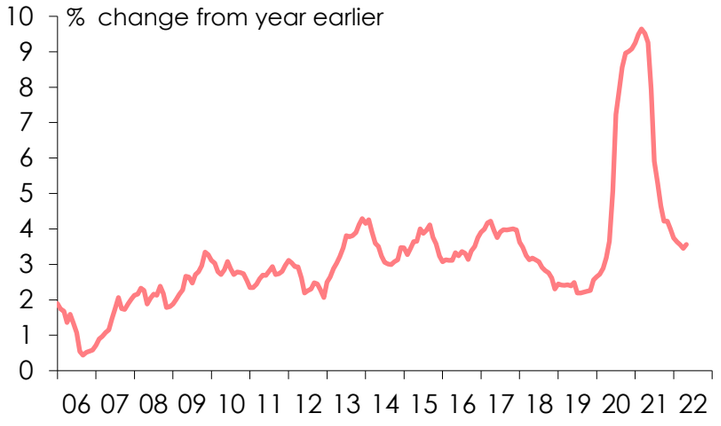
Euro area M2



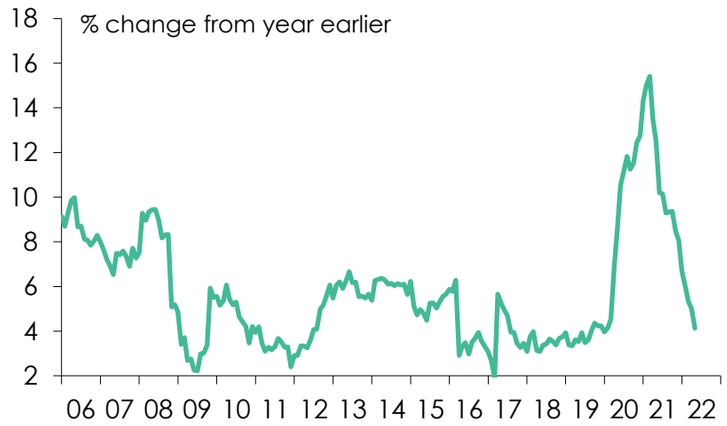
Canada M2



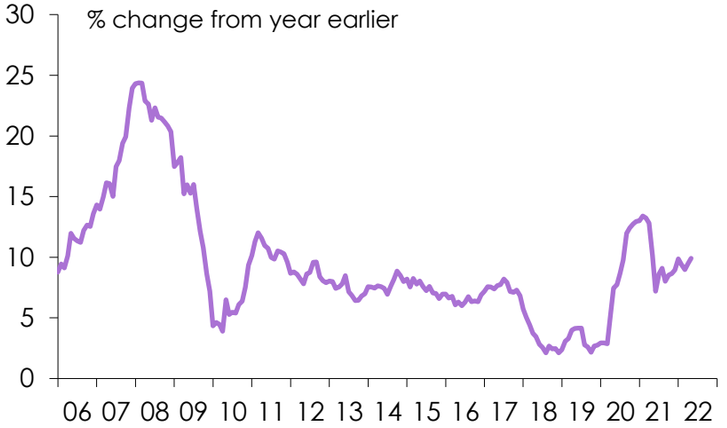
Japan M2 + CDs



UK M2



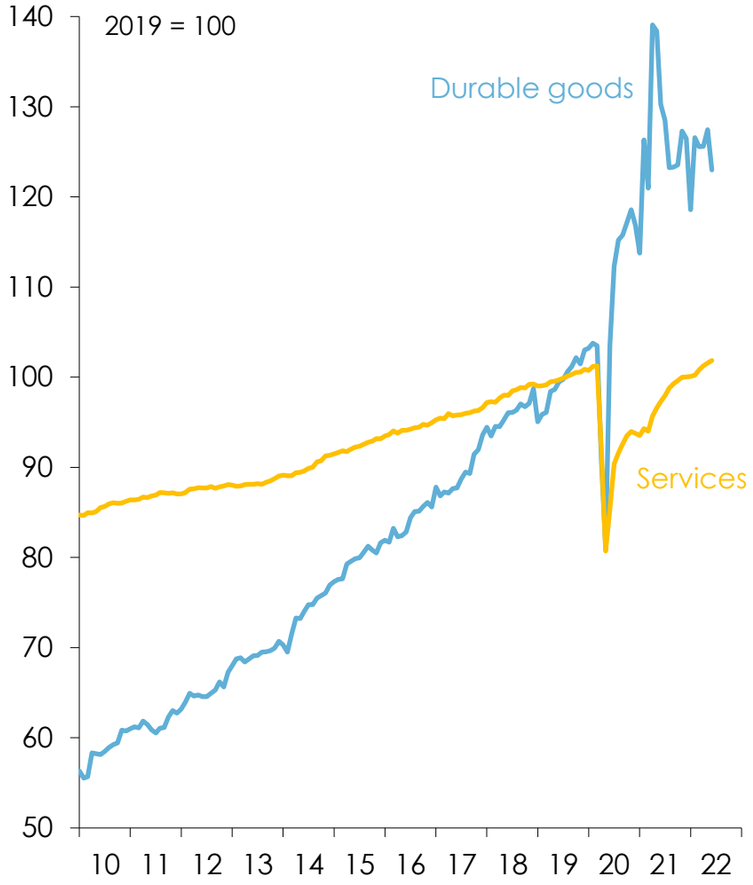
Australia M3



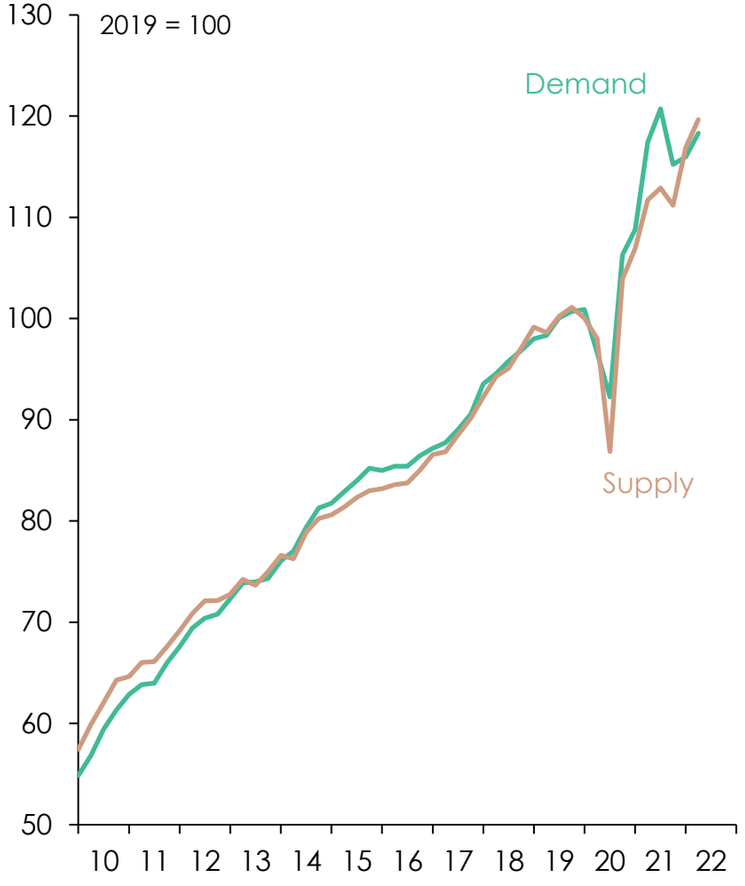
Sources: US Federal Reserve; Bank of Japan; European Central Bank; Bank of England; Bank of Canada; Reserve Bank of Australia.

The inflation surprise began with a huge imbalance between the demand for and supply of durable goods induced by Covid-19

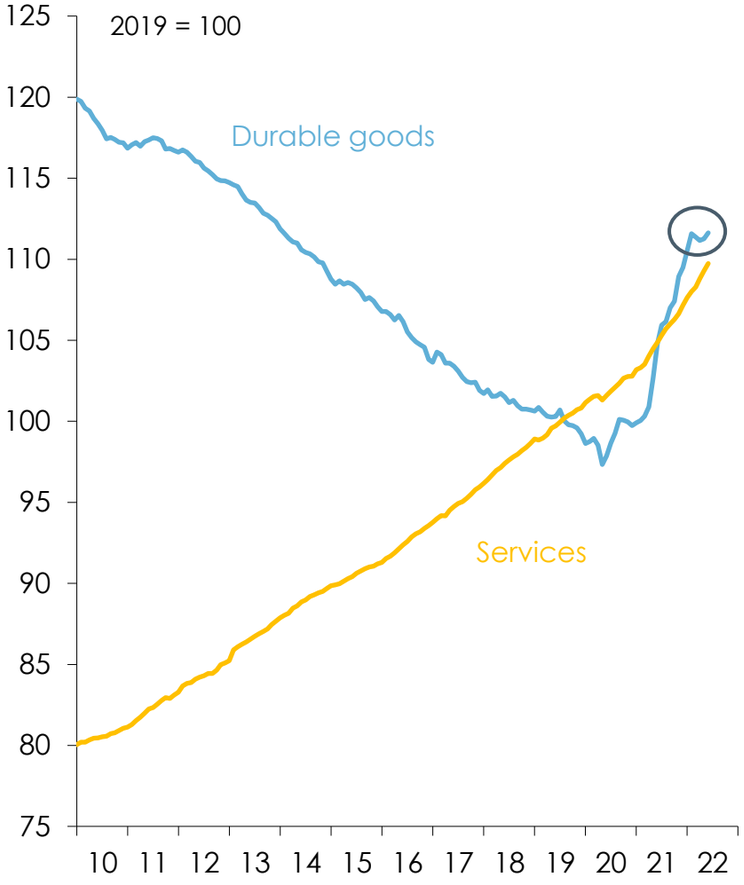
Composition of US personal consumption expenditures



Aggregate demand for and supply of durable goods in the US



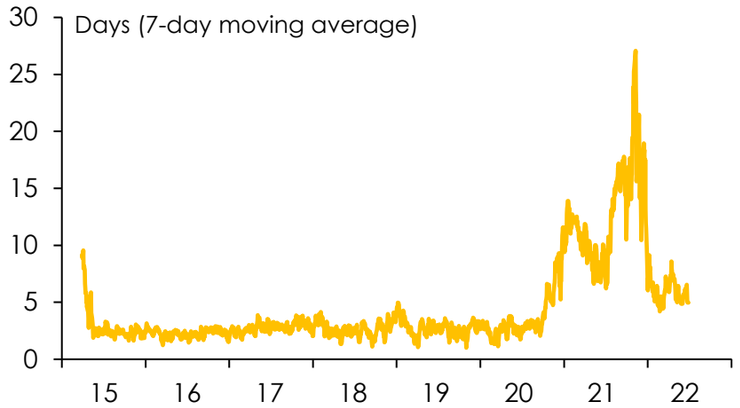
Price 'deflators' (indexes) for components of US consumption



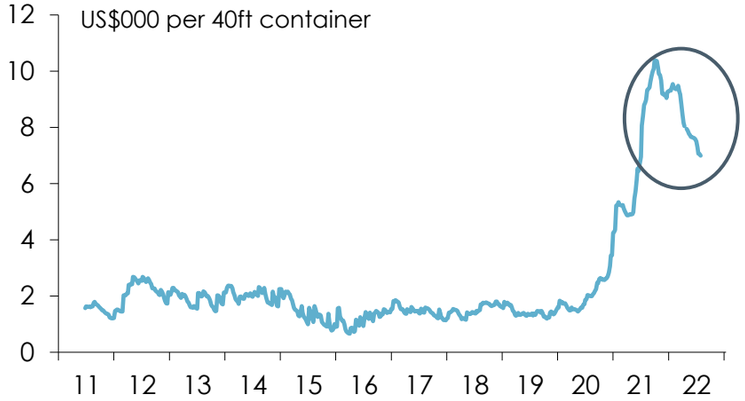
Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. *Source:* US Bureau of Economic Analysis,

These ‘imbalances’ between demand & supply resulted in unprecedented disruptions to supply chains in the US and around the world

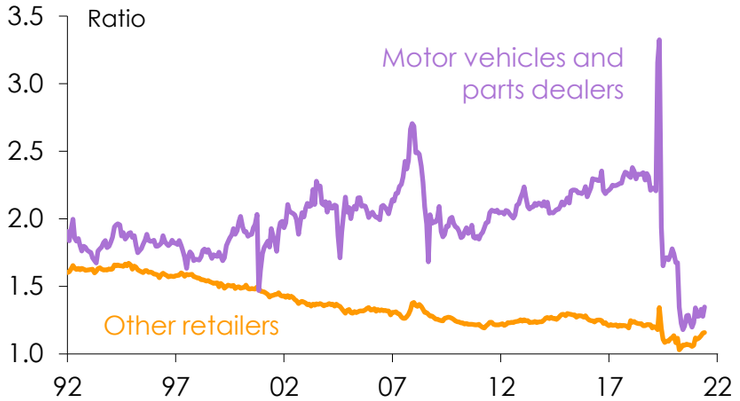
Average time at anchor and berth for ships at Port of Los Angeles



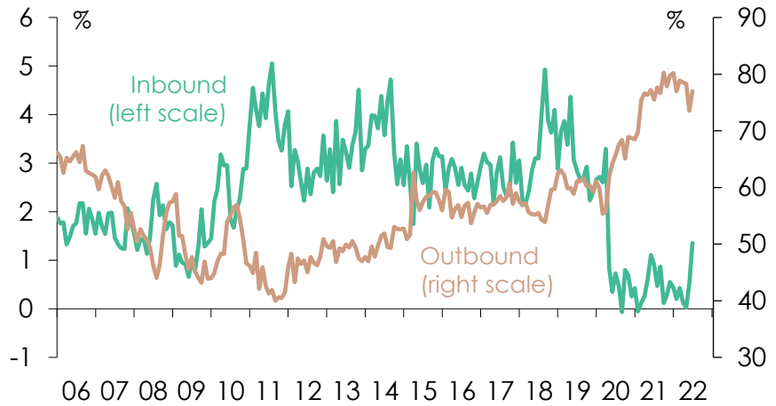
Container shipping freight costs



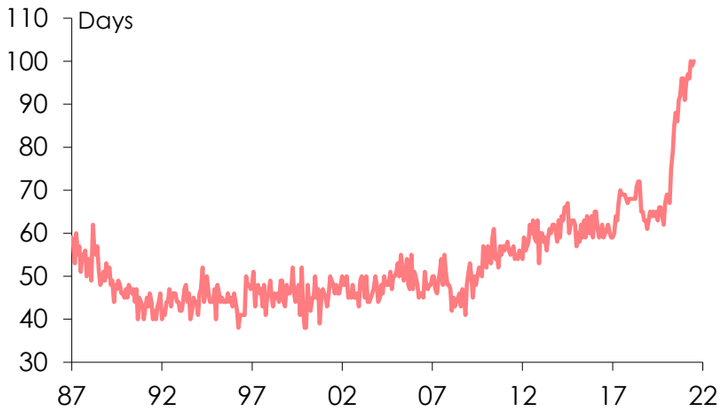
US retail inventories-sales ratios



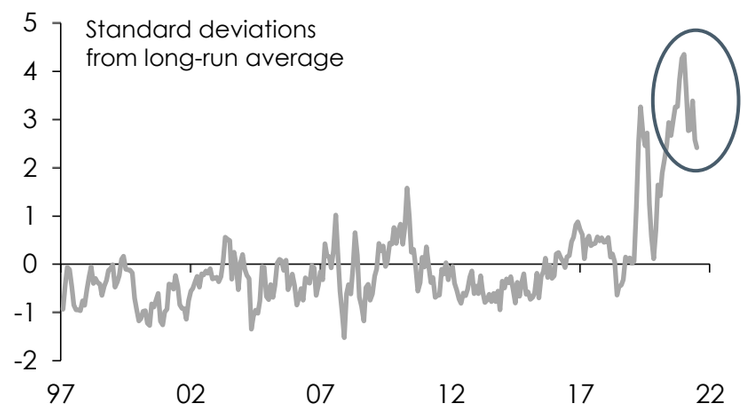
Empty containers as a pc of total passing through Port of Los Angeles



Average lead time for delivery of materials to US manufacturers



NY Fed index of global supply chain pressures



Sources: Port of Los Angeles; Drewry Supply Chain Advisors; Institute for Supply Management; US Census Bureau; Federal Reserve Bank of New York.

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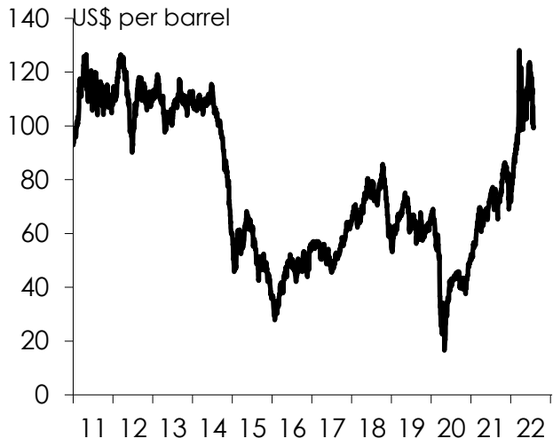
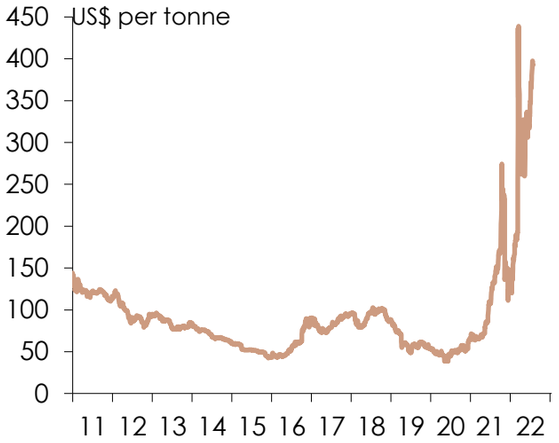
Commodity prices started rising towards the end of 2020, and (in the case of energy & some foods) rose further following Russia's invasion of Ukraine

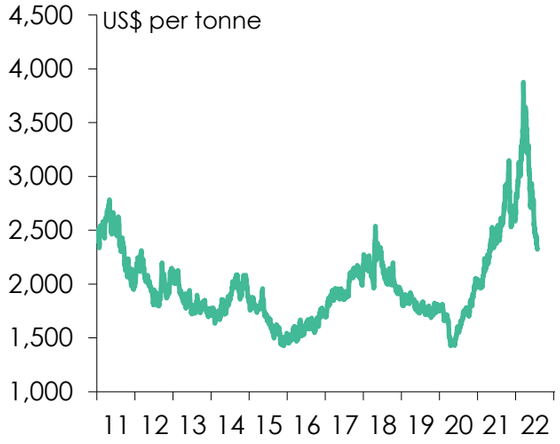
Crude oil



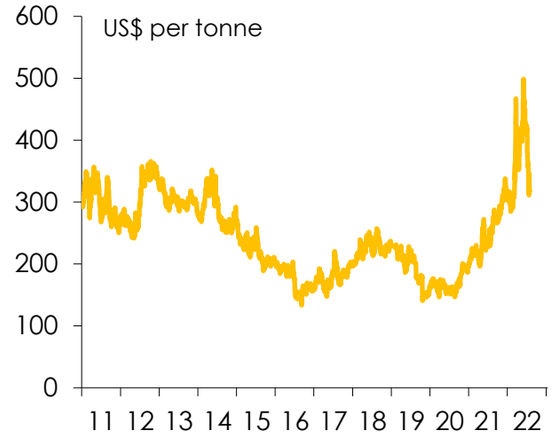
Thermal coal



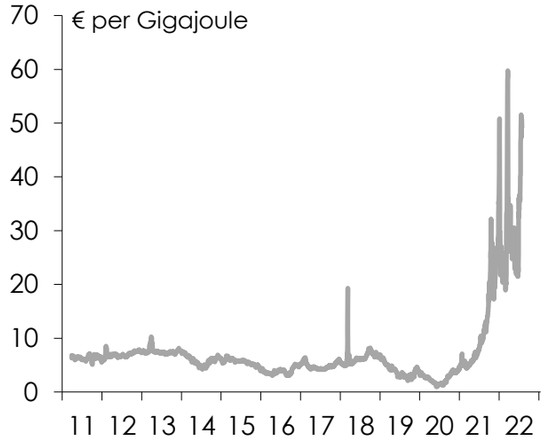
Aluminium



Wheat

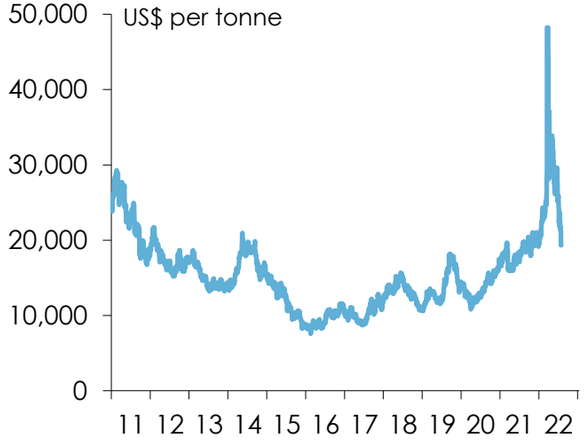


Natural gas

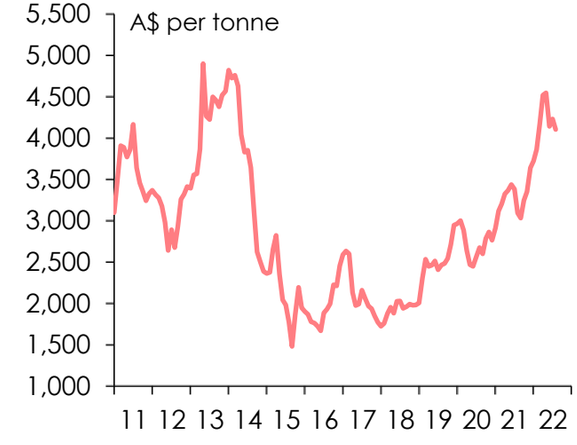


Iron ore

Nickel



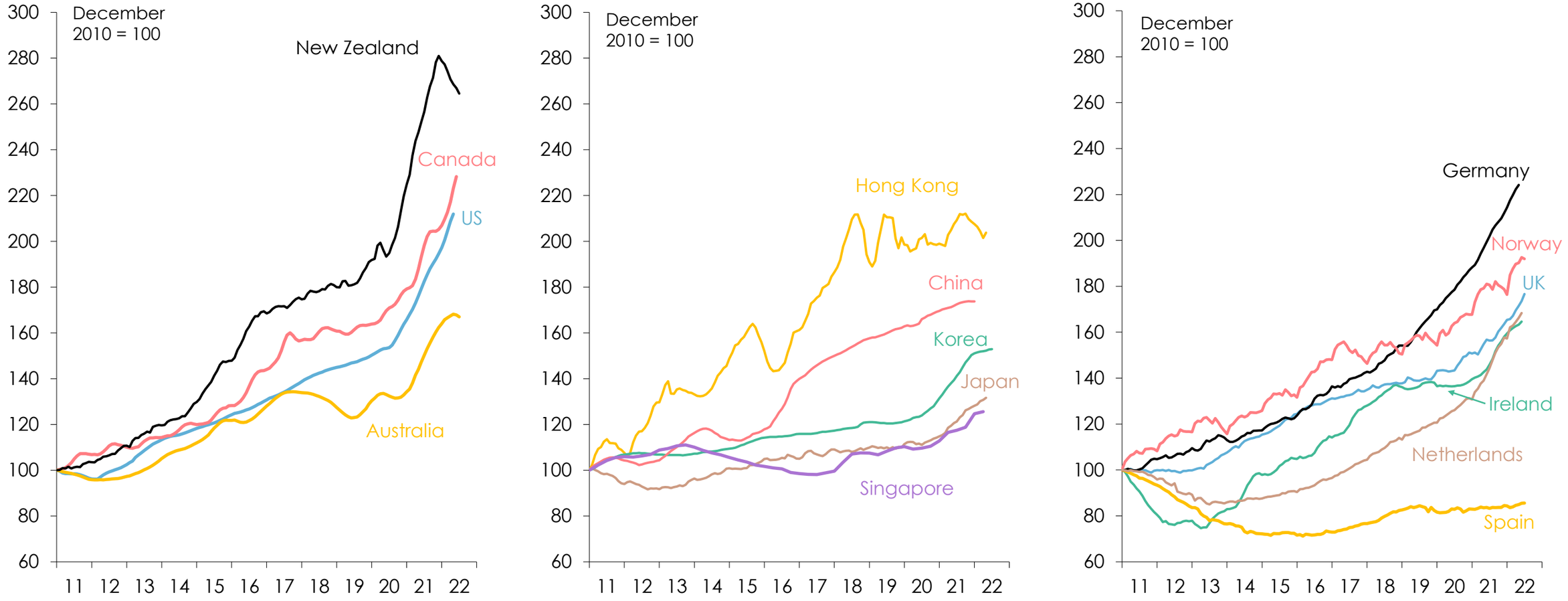
Skimmed milk powder



Source: Refinitiv Datastream.

Record-low interest rates combined with readily available credit fuelled surges in housing prices across much of the world

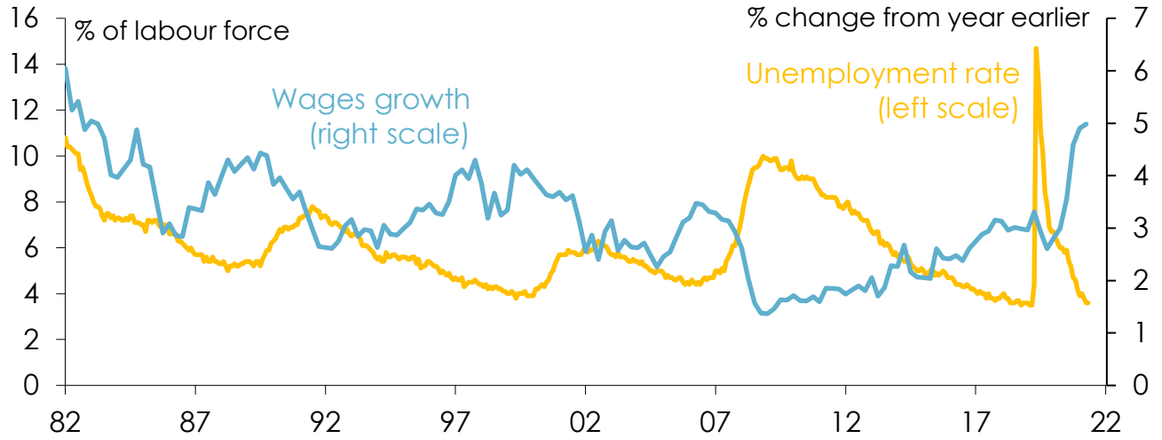
House price indices



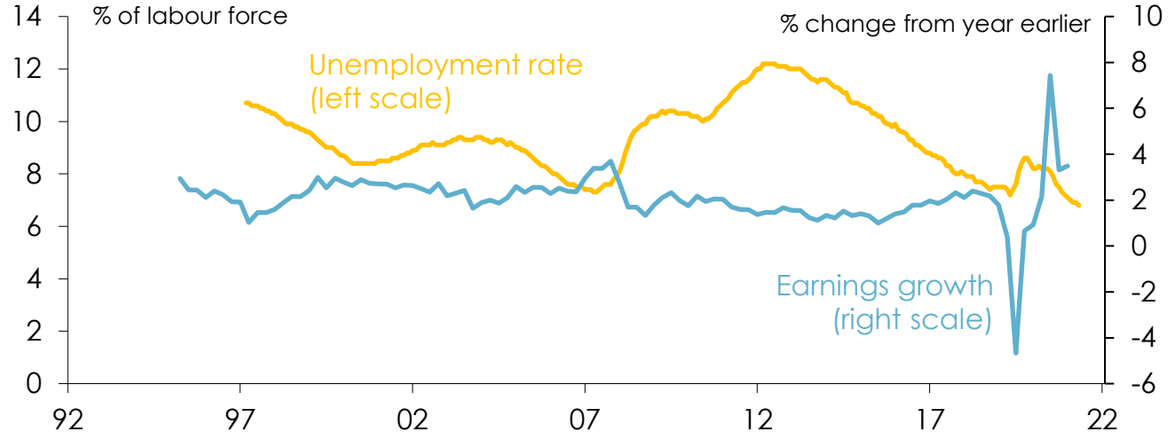
Sources: S&P-CoreLogic Case Shiller national (United States); Teranet-National Bank (Canada); CoreLogic (Australia); Real Estate Institute of New Zealand; China Index Academy; Japan Real Estate Institute (Tokyo condominiums); Kookmin Bank house price index (Korea); Centaline Centa-City Index (Hong Kong); Urban Redevelopment Authority (Singapore); Europace hauspreisindex (Germany); Halifax house price index (UK); Central Statistics Office RPPI (Ireland); Fotocasa real estate index (Spain); Statistics Netherlands; Eiendom Norge (Norway). These indices have been chosen for their timeliness and widespread recognition: they do not necessarily all measure the same thing in the same way.

And in the US and the UK – though less so in the euro area or Japan – low unemployment is fuelling the fastest wages growth since the 1980s

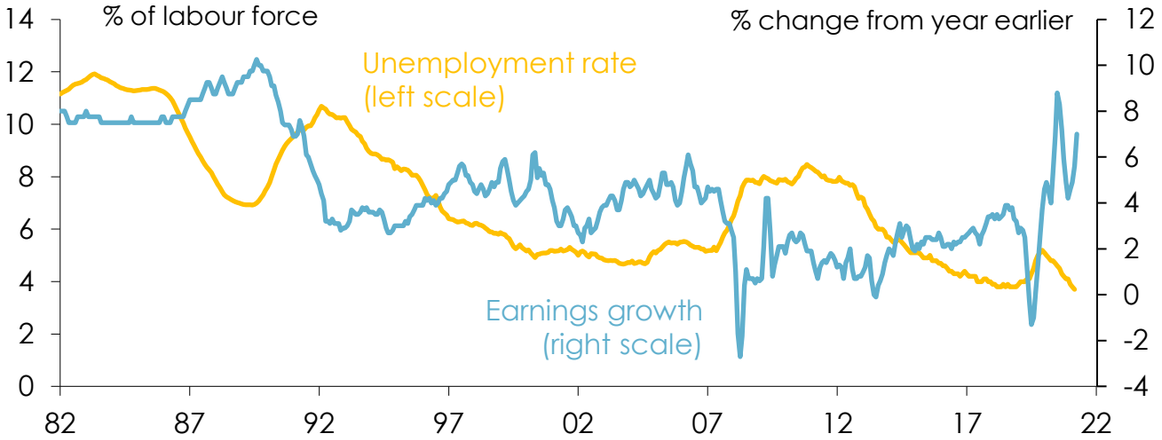
US unemployment and wages



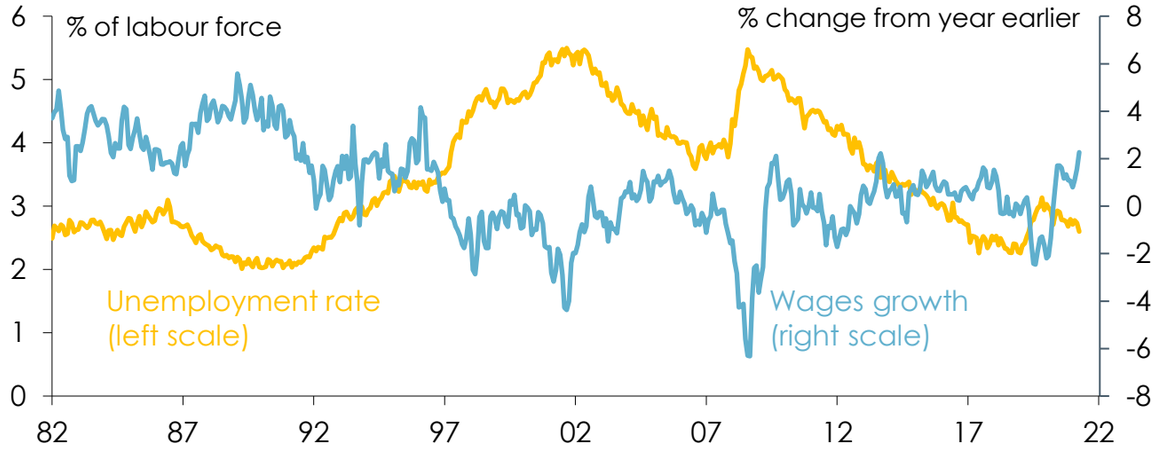
Euro area unemployment and wages



UK unemployment and wages



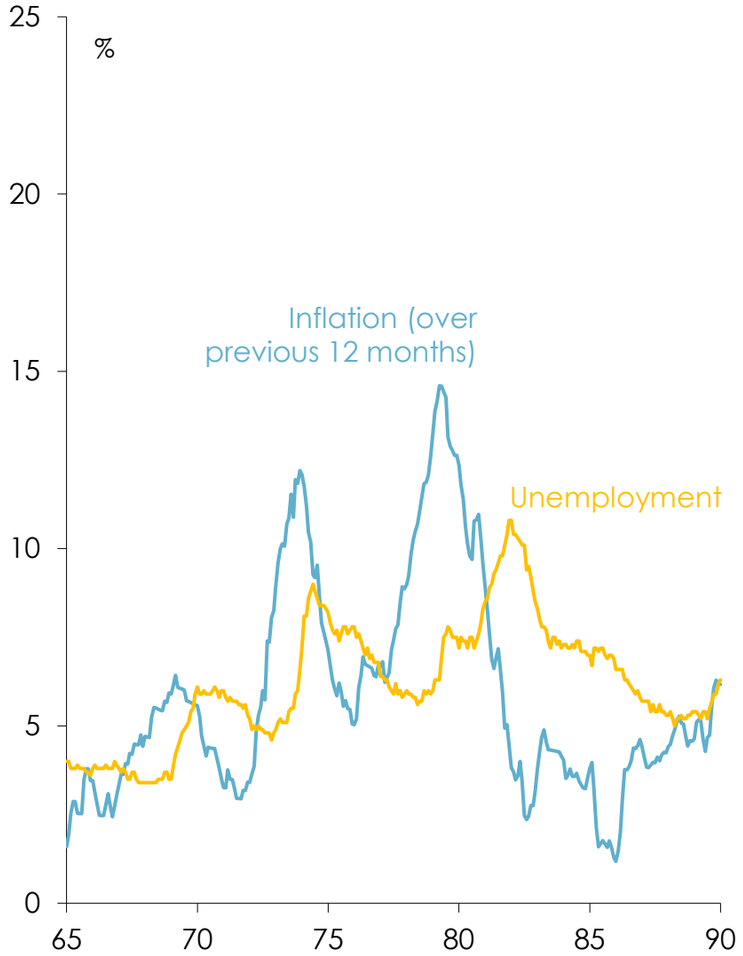
Japan unemployment and wages



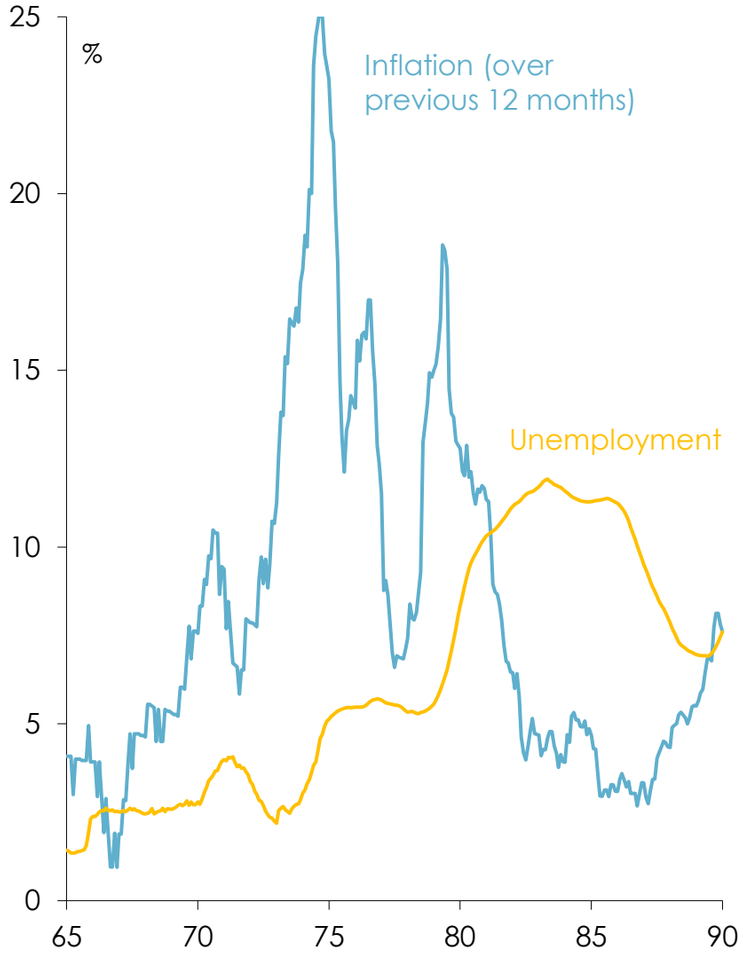
Note: The US measure of earnings growth is the wages component of the employment cost index for private industry workers; for Japan, cash earnings for all employees; for the UK, 'underlying' average earnings growth; and for the euro area, average compensation per hour.
Sources: US Bureau of Labor Statistics; UK Office for National Statistics; Eurostat; Japan Ministry of Health, Labour & Welfare.

Could all this lead to a replay of the ‘stagflation’ of the 1970s and 1980s?

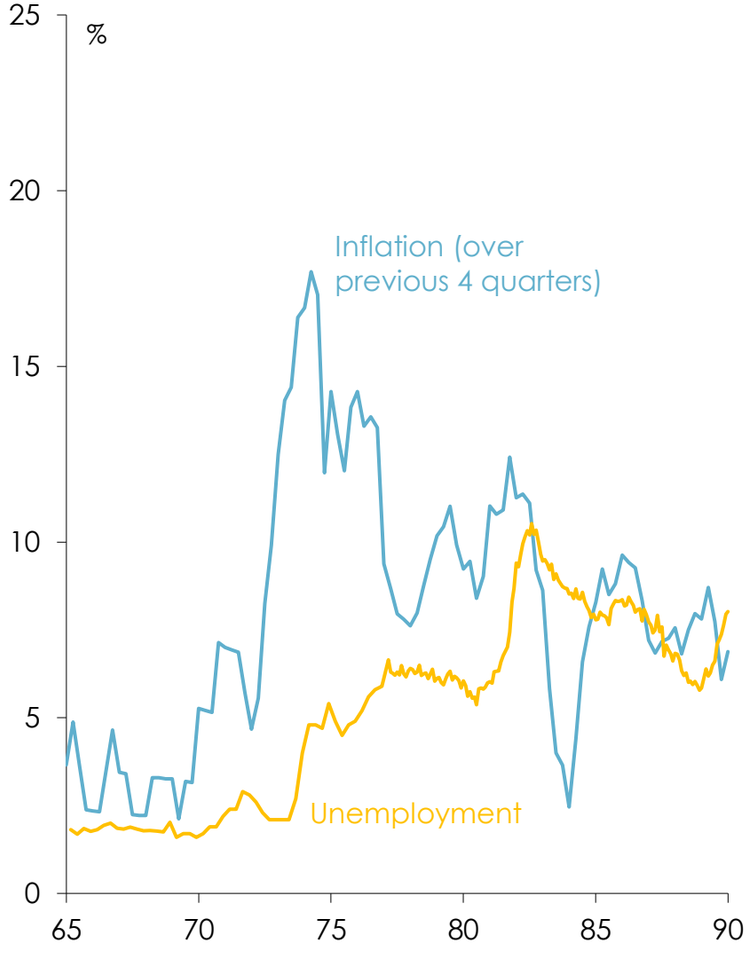
United States



United Kingdom



Australia



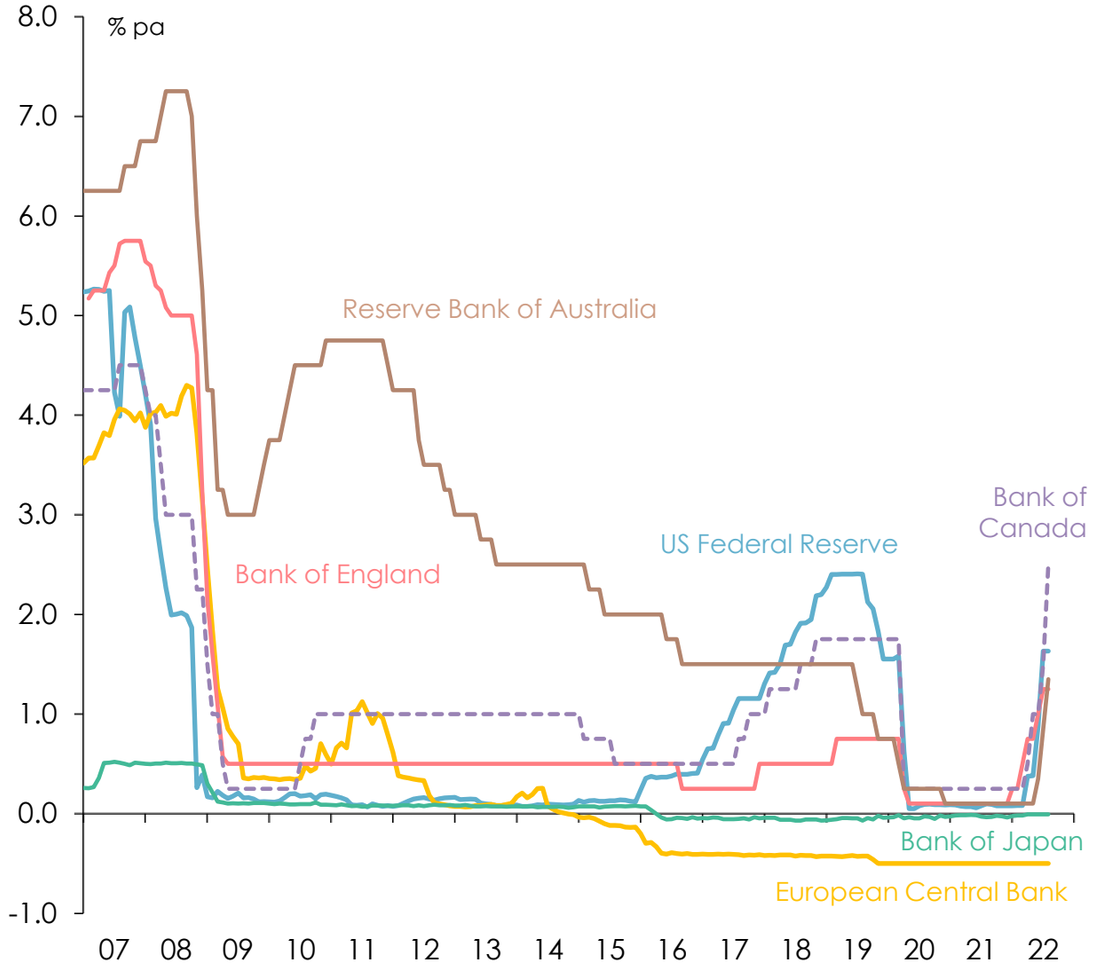
Sources: US Bureau of Labor Statistics; UK Office for National Statistics; and Australian Bureau of Statistics.

There are some parallels between now and the 1970s – but there are also some very important differences

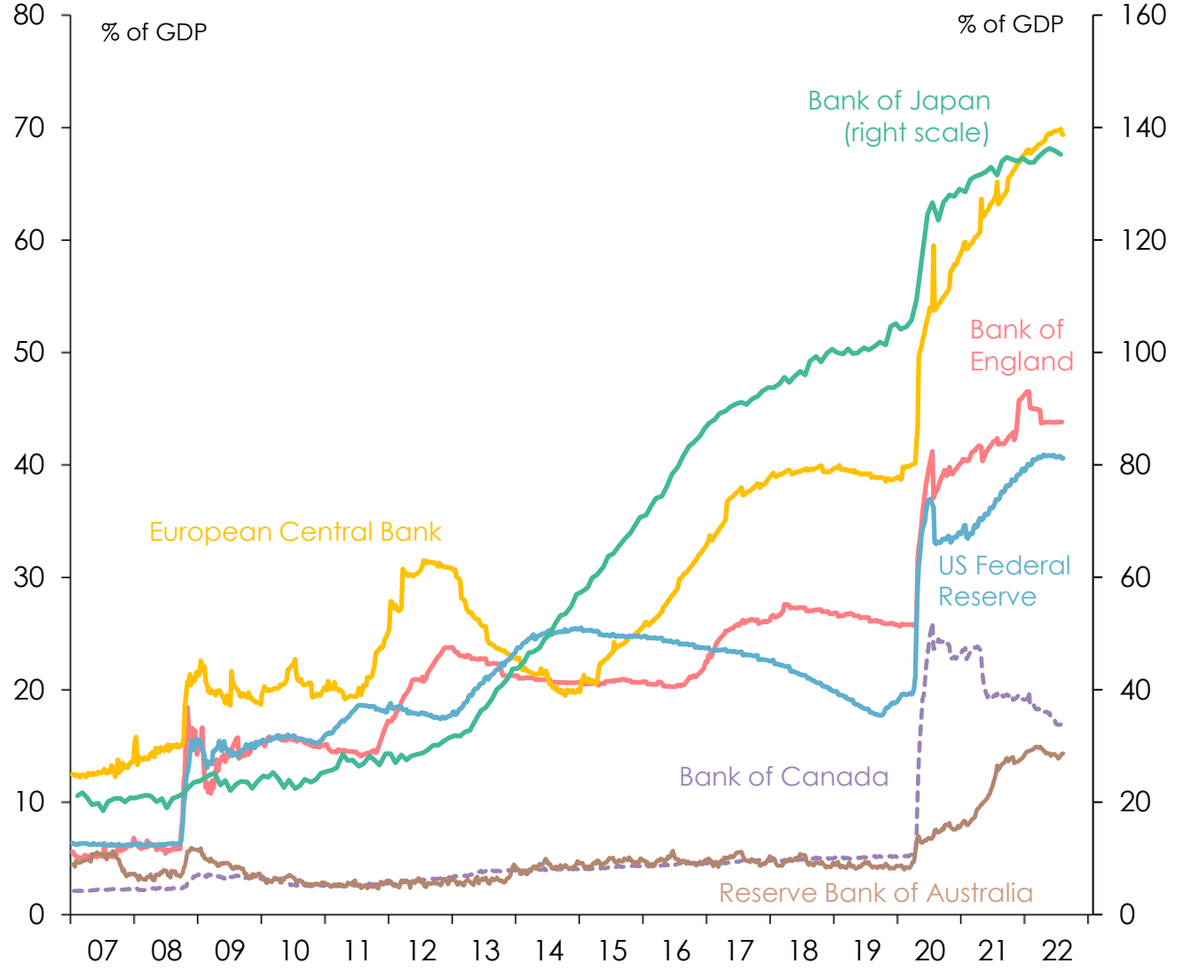
- The inflation of the 1970s and early 1980s was partly attributable to large increases in commodity prices (especially food and oil), excessively loose fiscal and monetary policies, and military conflicts
  - as is today's inflation
- But the demographic profile of 'advanced (and some 'developing' economies, especially in Asia) is very different from that of the 1970s and 1980s
  - the rise in unemployment after the mid-1970s was partly due to the entry of the second half of the 'baby boom' generation (including a much higher proportion of women than in the first half of that generation) into work forces
  - whereas by contrast today workforces are either growing much more slowly, or shrinking
- There are far fewer 'feedback loops' between prices and wages now than then
  - 'cost of living adjustment' clauses in employment contracts, or explicit wage indexation arrangements, were commonplace in the 1970s and 1980s – they're not now
  - more generally employees have much less 'bargaining power' vis-à-vis employers today than back then
- Central banks have the ability to do 'whatever it takes' to get inflation down
  - whereas until the 1990s, politicians (rather than central banks) had the 'final say' on monetary policy decisions
  - which meant that central bank assurances that they could and would keep inflation under control had very little credibility
- Inflation expectations are much better 'anchored' today than in the 1970s and 1980s
  - because central banks lacked credibility, people (as workers and consumers) and businesses expected inflation would remain high, and behaved in ways which tended to ensure that it did remain high
  - for example, demanding wage rises to compensate for anticipated increases in prices, or putting prices up in anticipation of future cost increases

Major economy central banks, apart from the BoJ, have begun tightening monetary policy and will keep doing so until inflation starts to come down

Major central bank policy interest rates



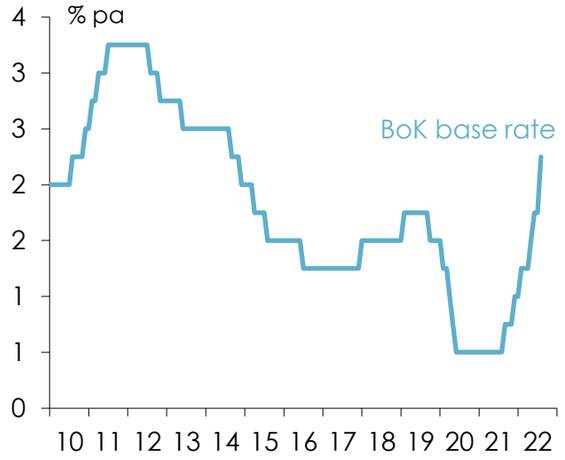
Major central bank balance sheets



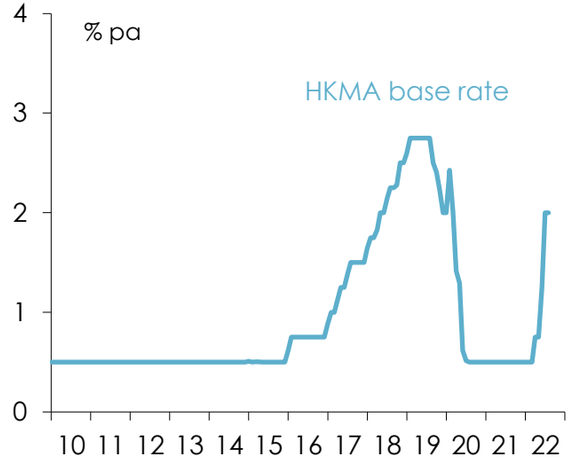
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; Bank of Canada; Reserve Bank of Australia; national statistical agencies; Corinna.

Most Asian central banks are also tightening monetary policy

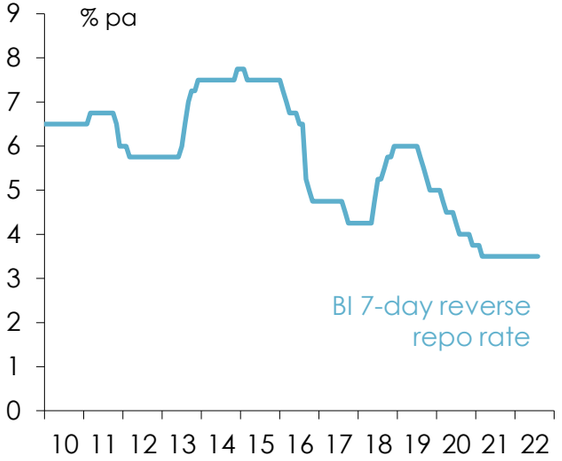
Korea



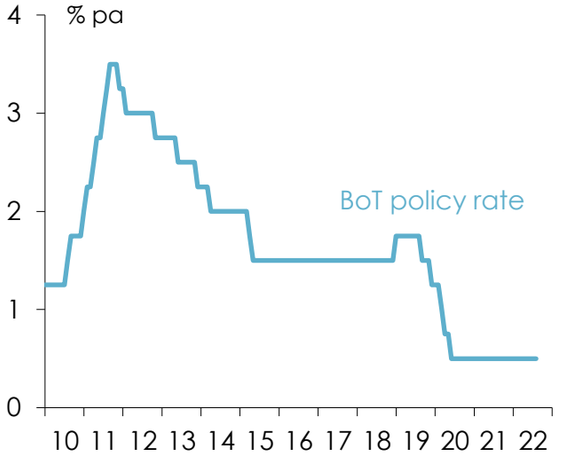
Hong Kong



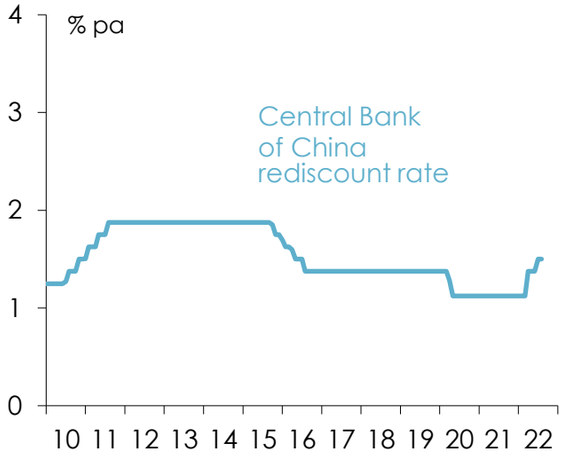
Indonesia



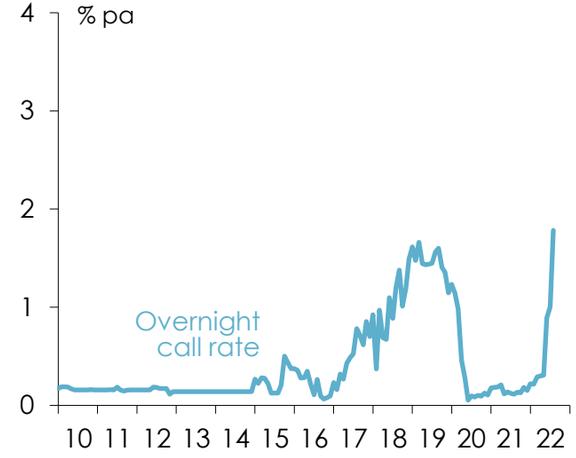
Thailand



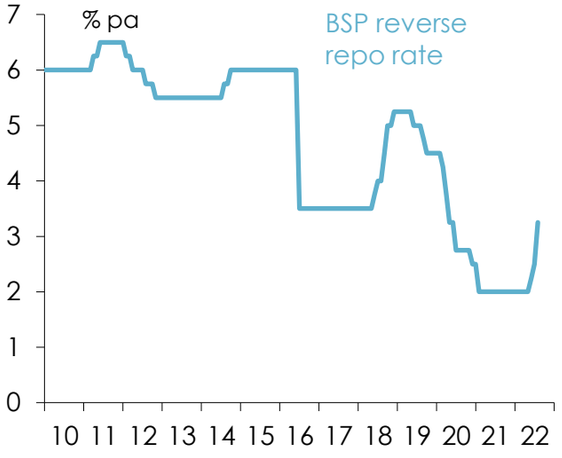
Taiwan



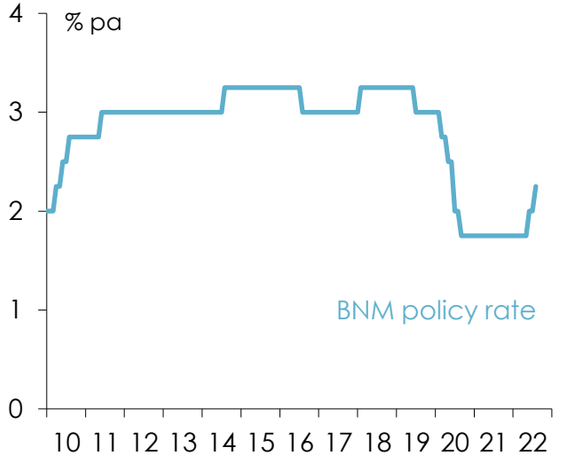
Singapore



Philippines



Malaysia



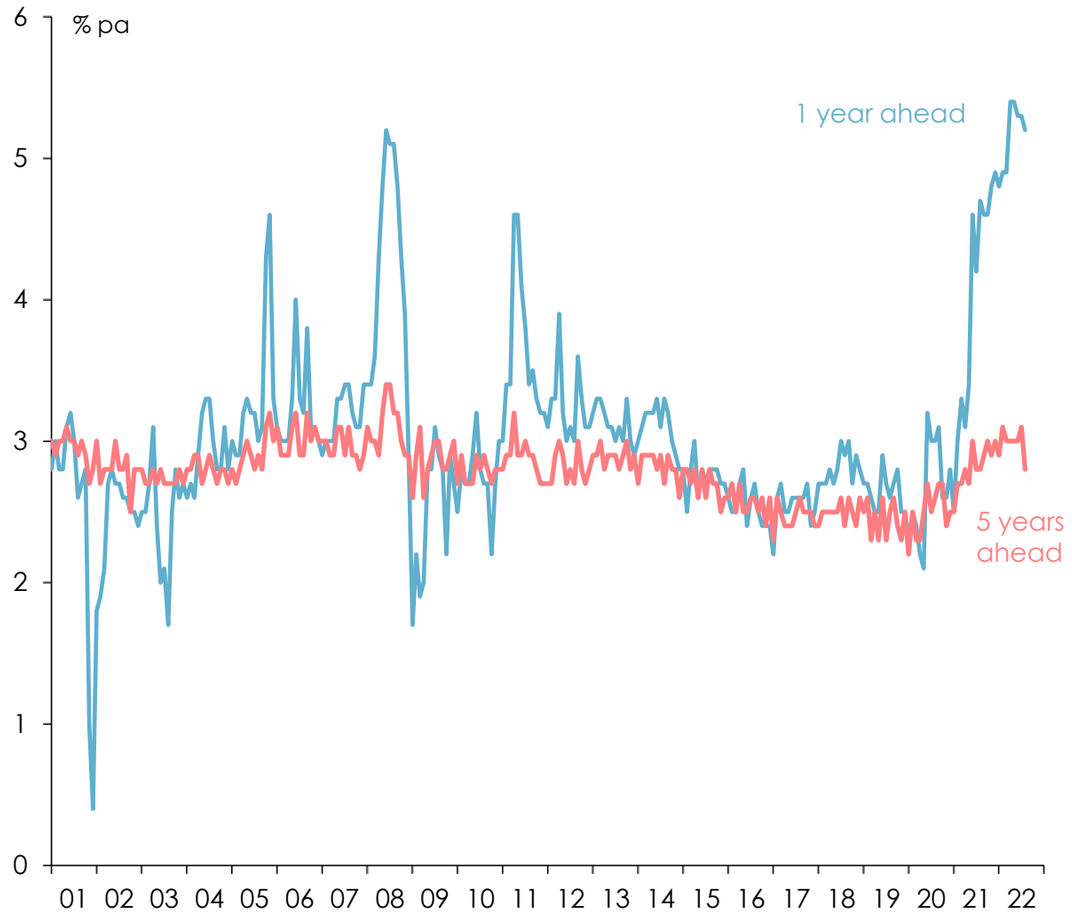
Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, under which the HKMA base rate moves in line with a pre-set formula based on the US fed funds rate; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy instrument. Data are monthly averages. Sources: national central banks; Refinitiv Datastream.

It may be difficult for central banks to engineer a ‘soft landing’ by doing enough to control inflation but not enough to induce recessions

- Central banks don’t know how high they need to raise interest rates in order to bring inflation back down to their targets
  - apart from anything else it’s been a long time since they have needed to bring inflation down
- Central banks don’t know what the impact of whatever level of interest rates turns out to be required to bring inflation down will be on economic activity
  - particularly given much greater levels of private sector debt in many economies
- Central banks don’t really know how ‘quantitative tightening’ (the unwinding of their bond and other asset buying programs) will work
  - other than via its impact on asset prices (shares and probably housing) and (probably) exchange rates
- In these circumstances, there’s a significant risk that central banks (and or governments) will ‘get it wrong’, resulting in recessions
  - that risk is greatest for the UK, and for parts of the euro area
  - but it’s not trivial in the US either

The US Federal Reserve will likely draw some comfort from the fact that longer-term household inflation expectations remain "well-anchored"

Household inflation expectations
(from the Michigan U consumer sentiment survey



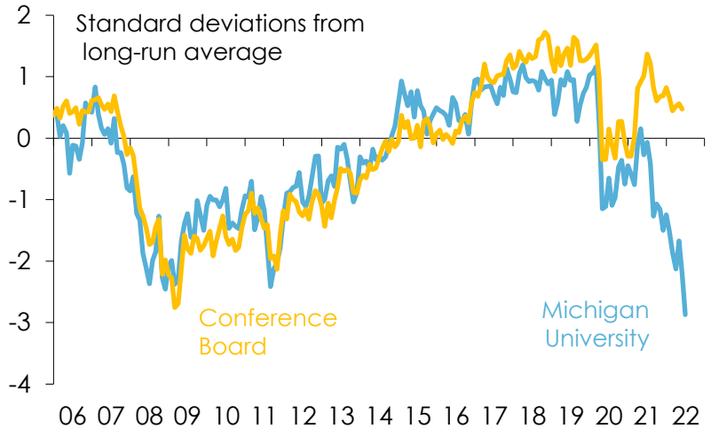
Household inflation expectations
(from the NY Fed Survey of Consumer Expectations

Sources: Michigan University Survey Research Center; Federal Reserve Bank of New York Center for Microeconomic Data.

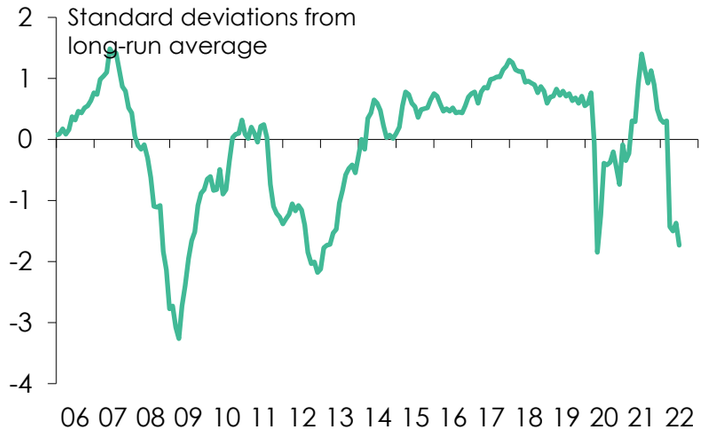
Consumer sentiment has deteriorated in almost every major economy, in most cases to lower levels than in 2020 or 2008

Consumer confidence indexes

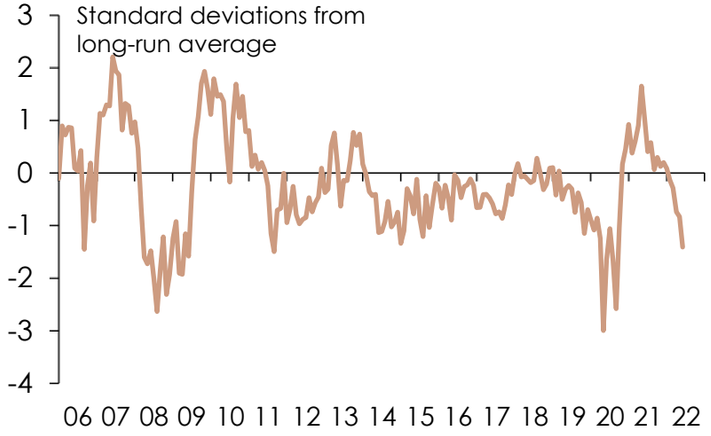
United States



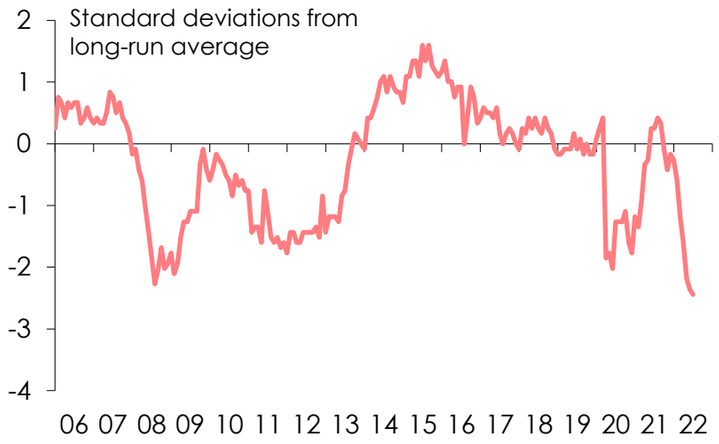
Euro area



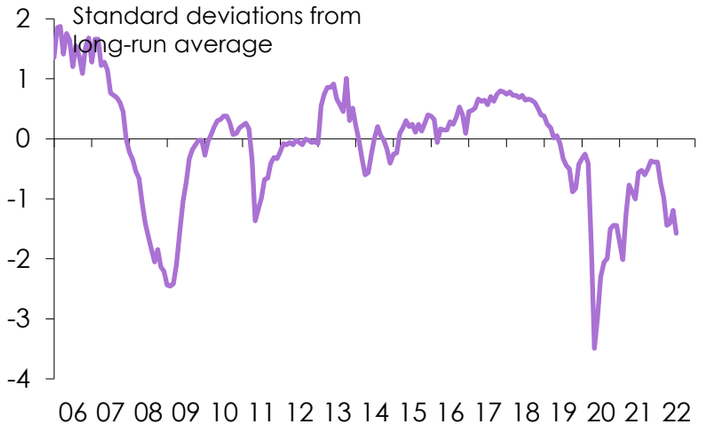
Australia



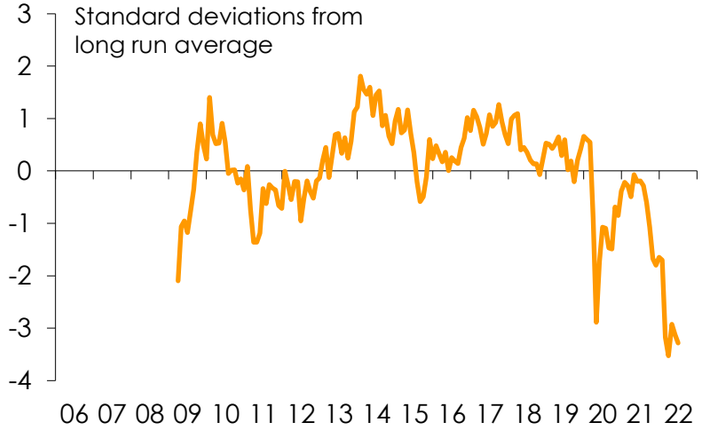
United Kingdom



Japan



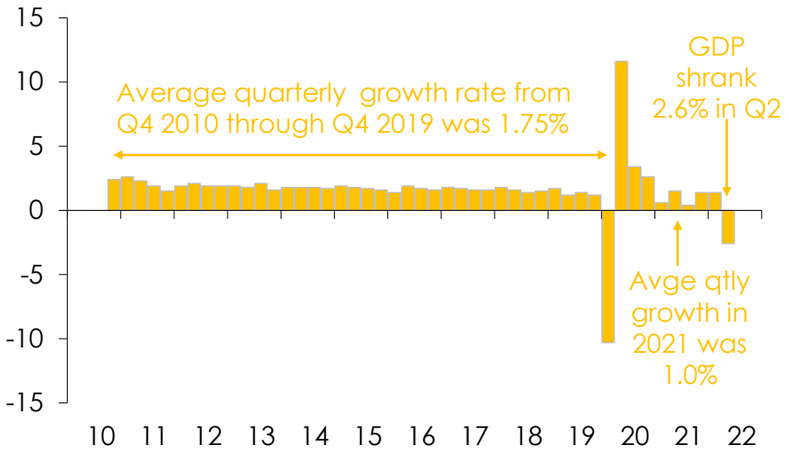
New Zealand



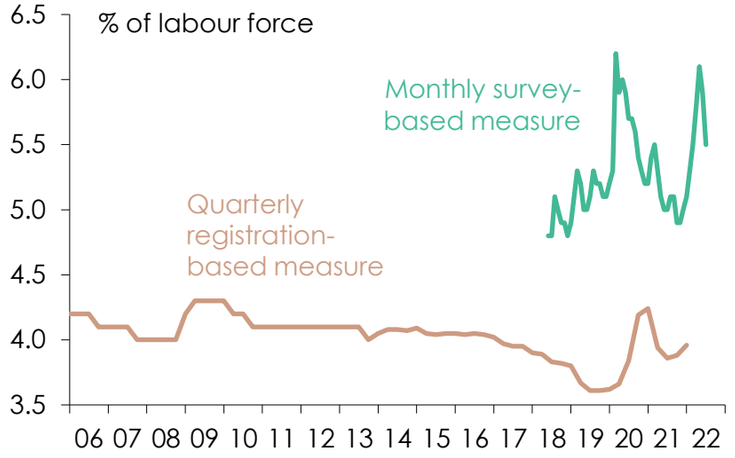
Sources: Michigan University Survey Research Center; The Conference Board; GfK; European Commission; Japan Cabinet Office; Westpac-Melbourne Institute; ANZ-Roy Morgan.

China's recovery from the initial downturn in 2020 wasn't all that strong, and it has faltered again this year due to the pursuit of 'zero Covid'

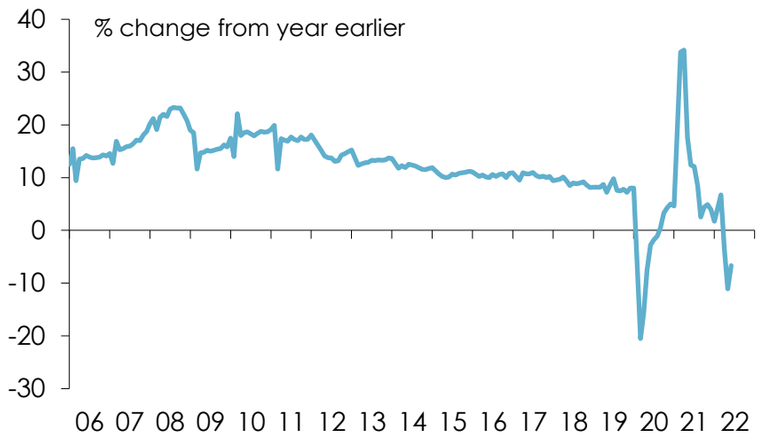
Quarterly real GDP growth



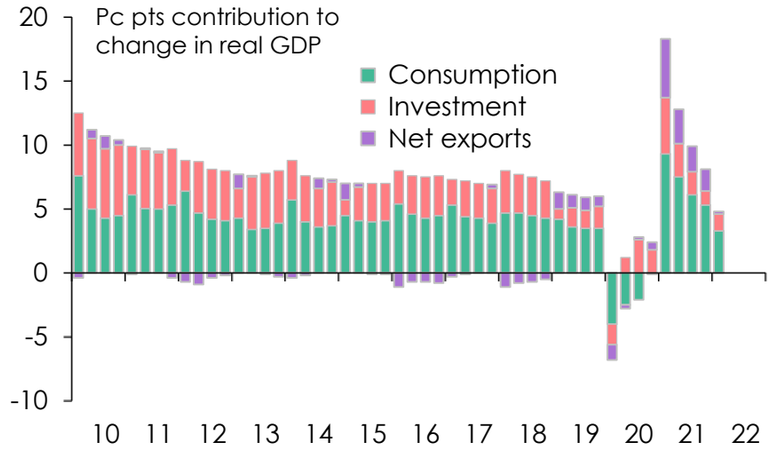
Urban unemployment rate



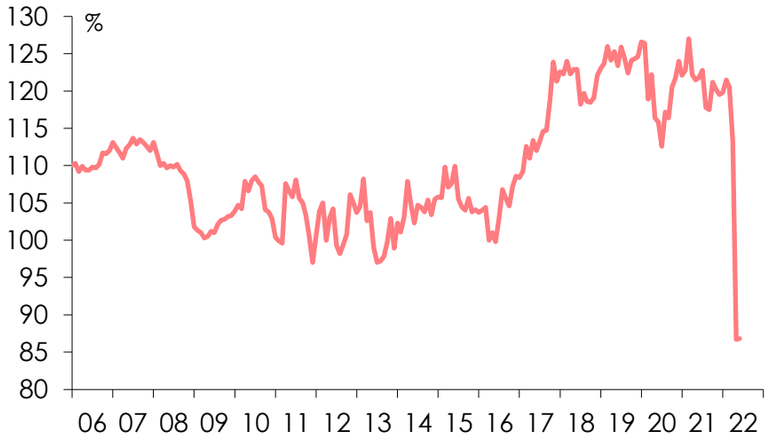
Retail sales



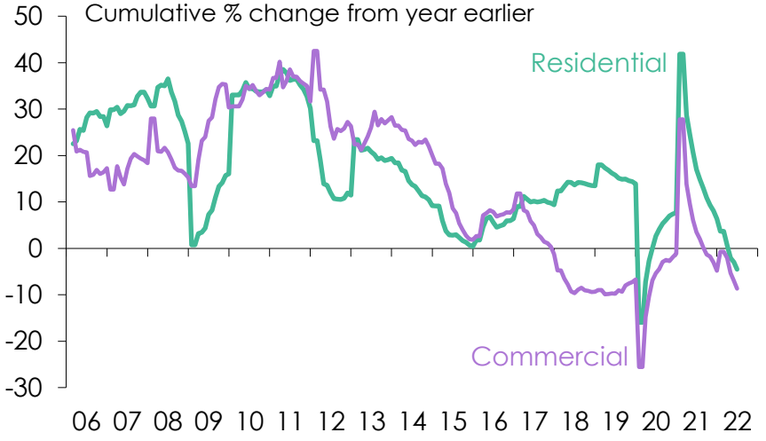
Sources of real GDP growth



Consumer sentiment



Real estate investment

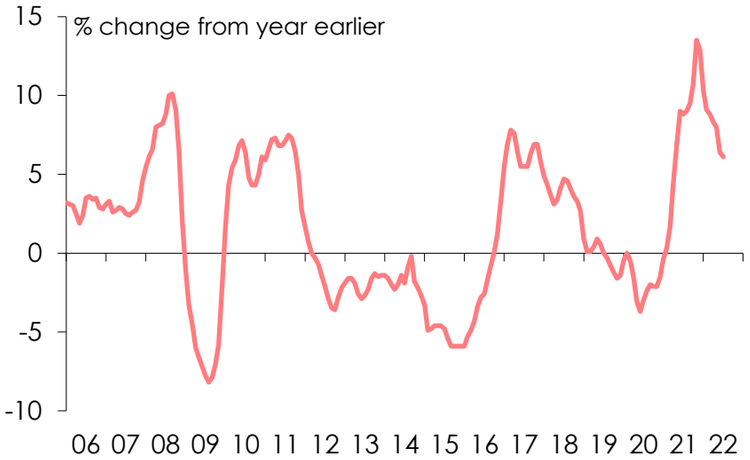


Sources: China National Bureau of Statistics.

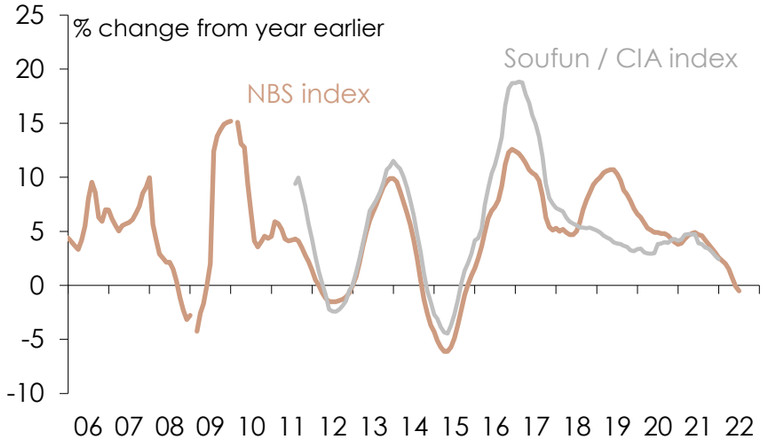
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

China is one of the few big economies in the world where inflation isn't rising – yet 'the authorities' seem reluctant to do much to boost growth

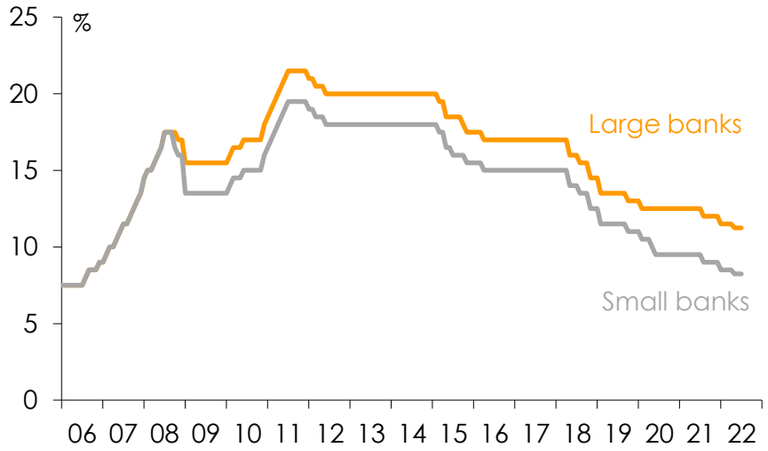
Producer prices



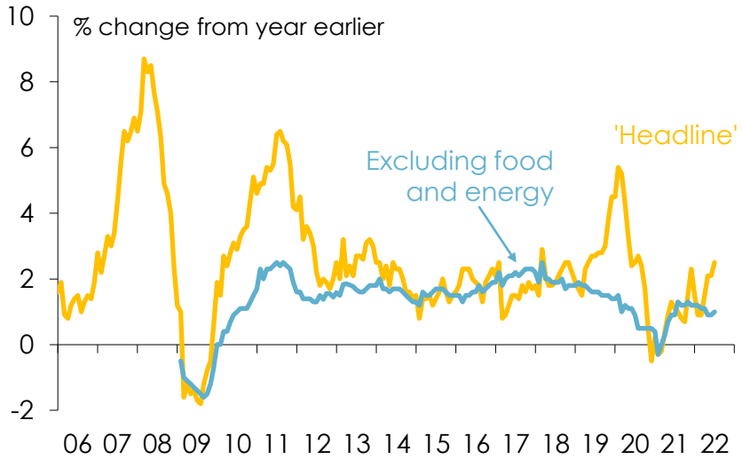
Residential real estate prices



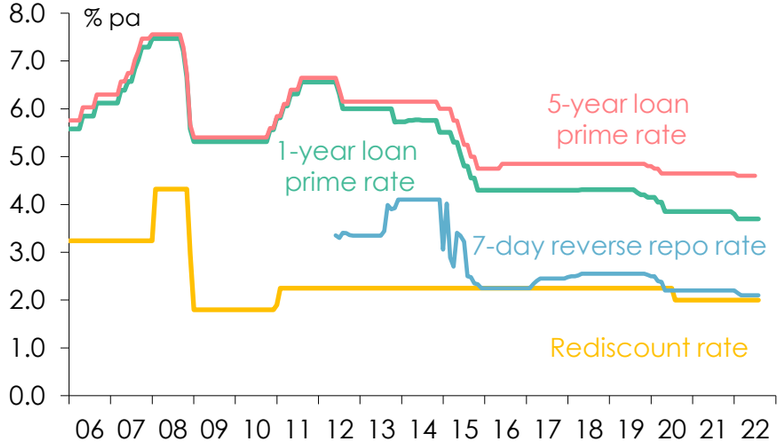
Bank reserve requirement ratios



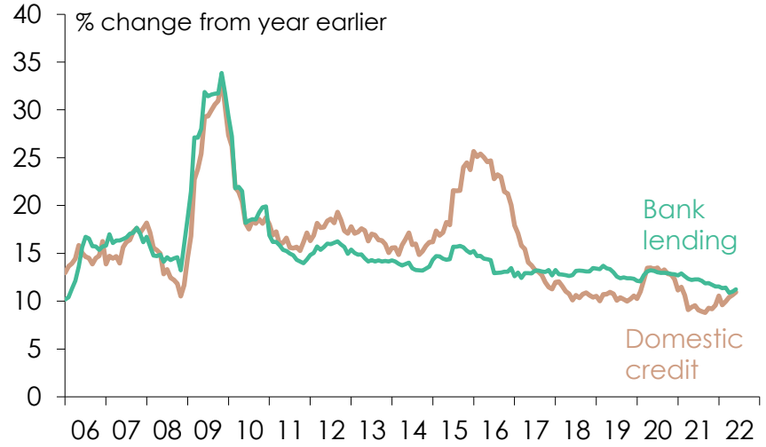
Consumer prices



PBoC policy interest rates



Credit growth



Sources: China National Bureau of Statistics; People's Bank of China.

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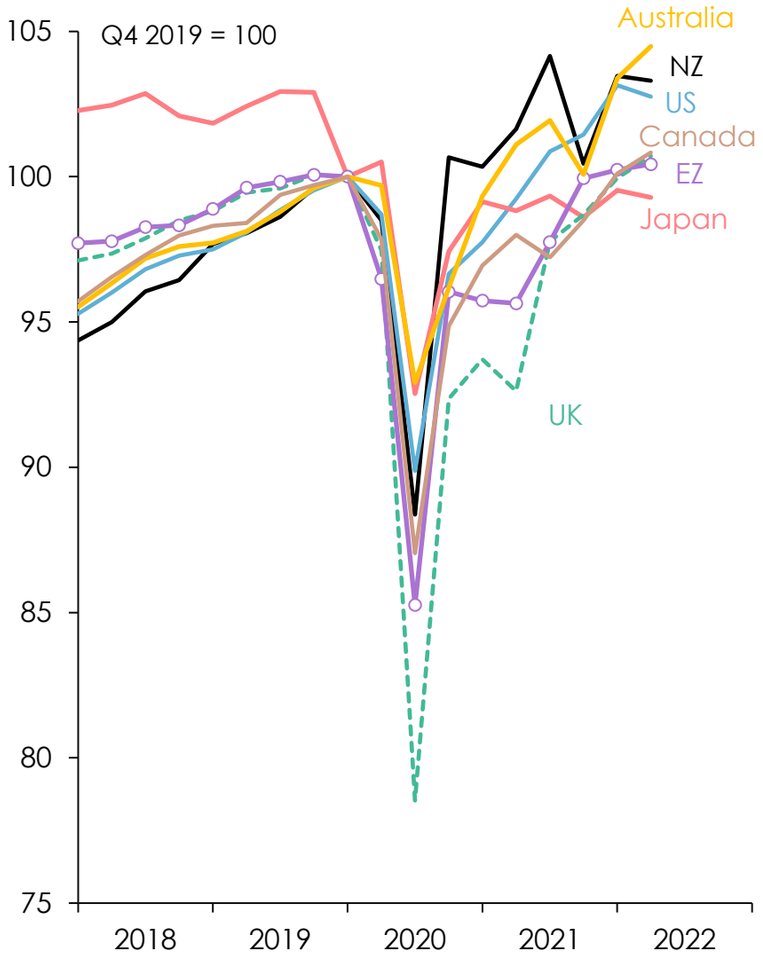
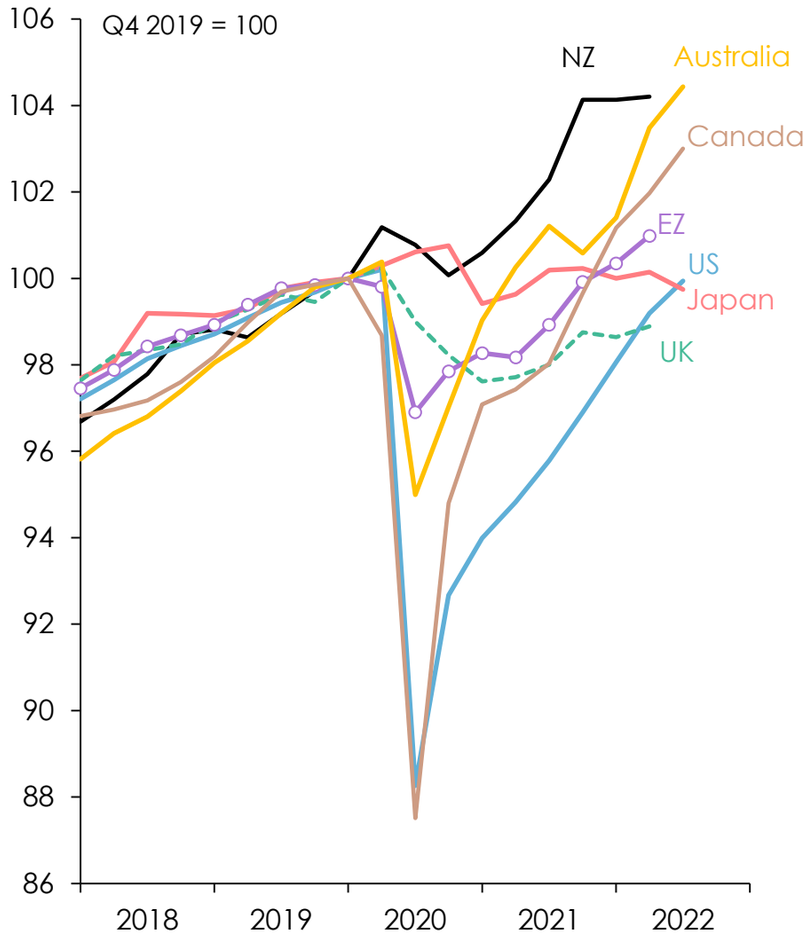
INDEPENDENT ECONOMICS

Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

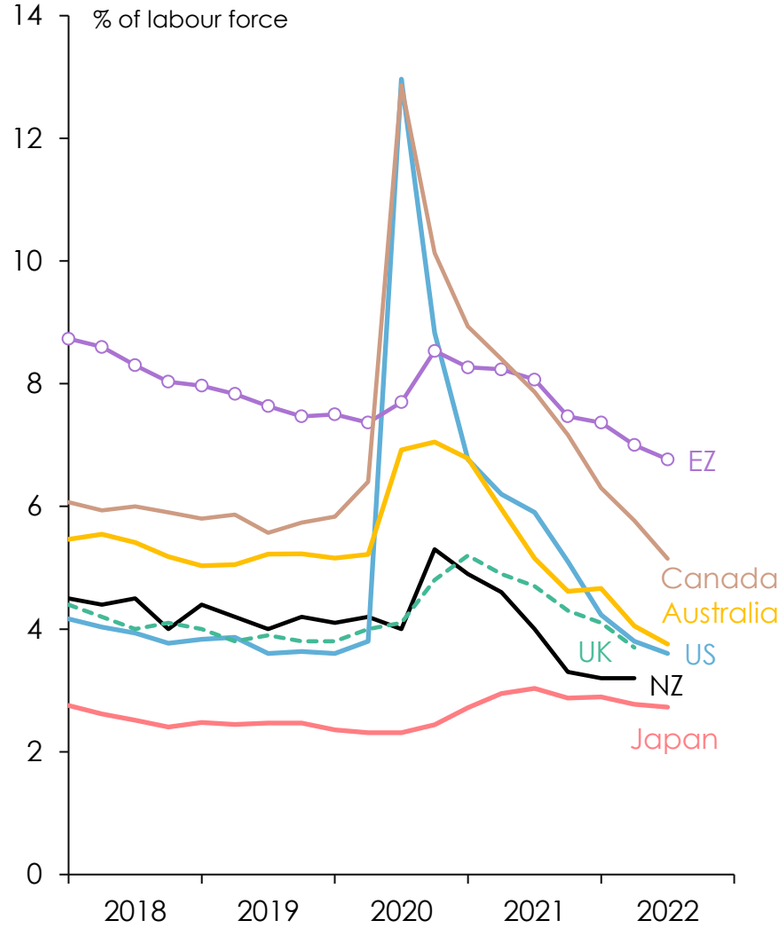
Level of real GDP



Employment



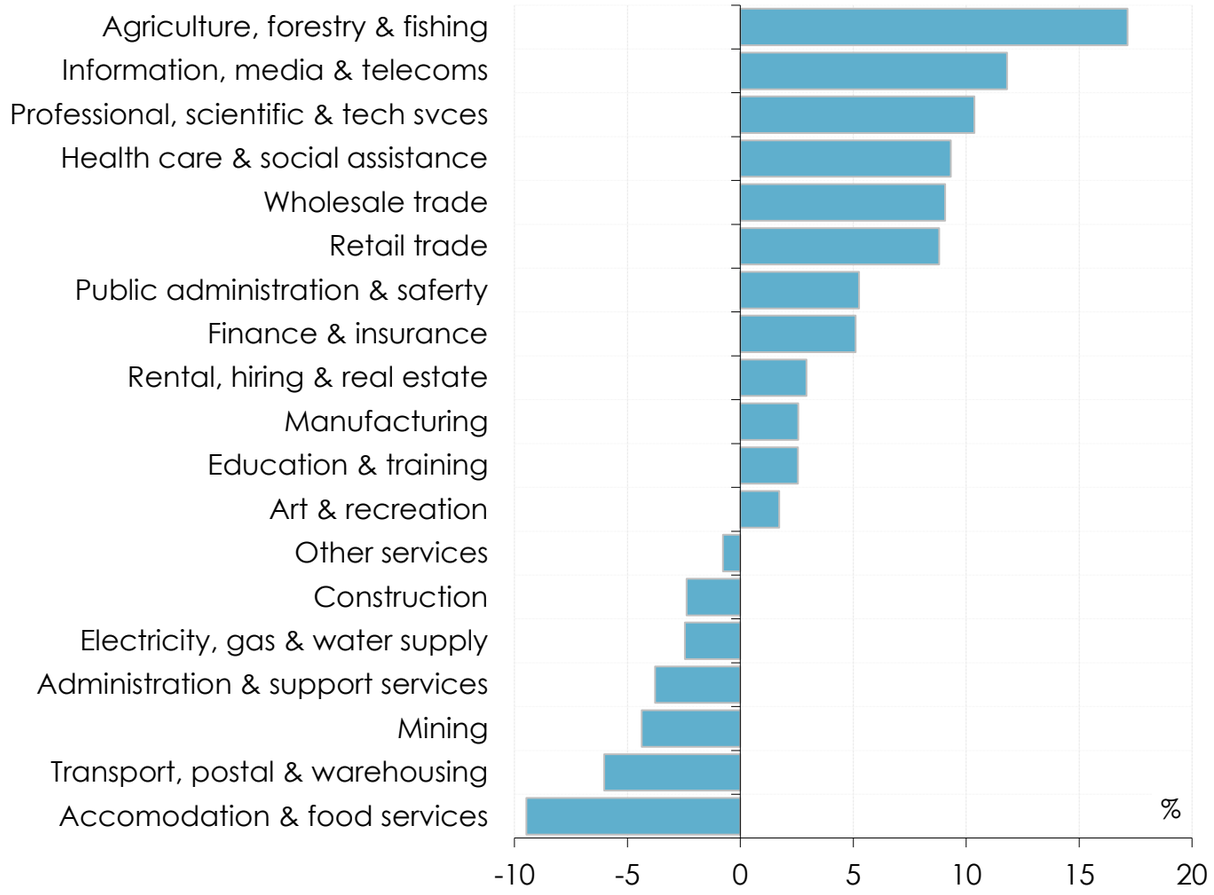
Unemployment



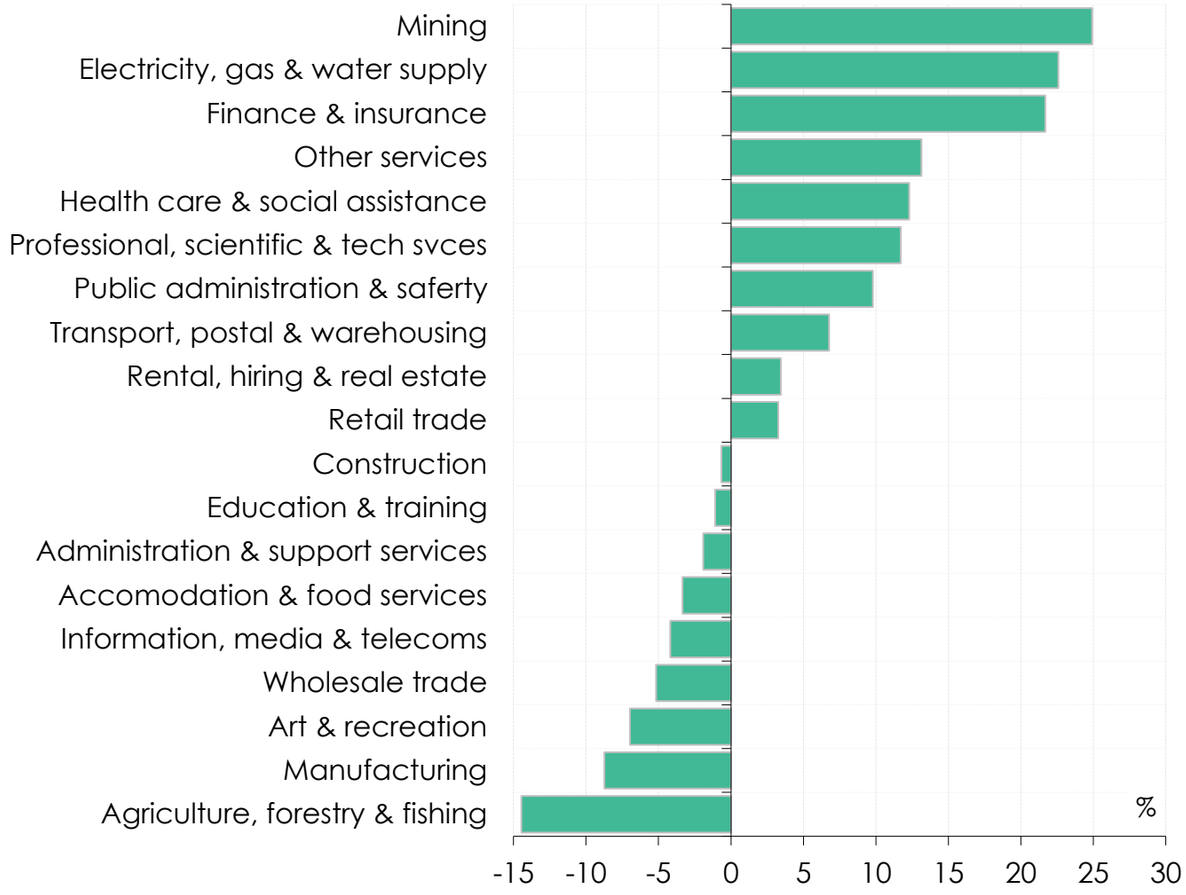
Sources: ABS ; Statistics NZ ; US Bureau of Economic Analysis and Bureau of Labor Statistics; Japan Cabinet Office and Statistics Bureau of Japan; Eurostat; UK Office for National Statistics; and Statistics Canada; Corinna.

The recovery in economic activity and employment has however been quite uneven across different sectors

Q1 2022 real gross value added by industry – change from pre-pandemic peak



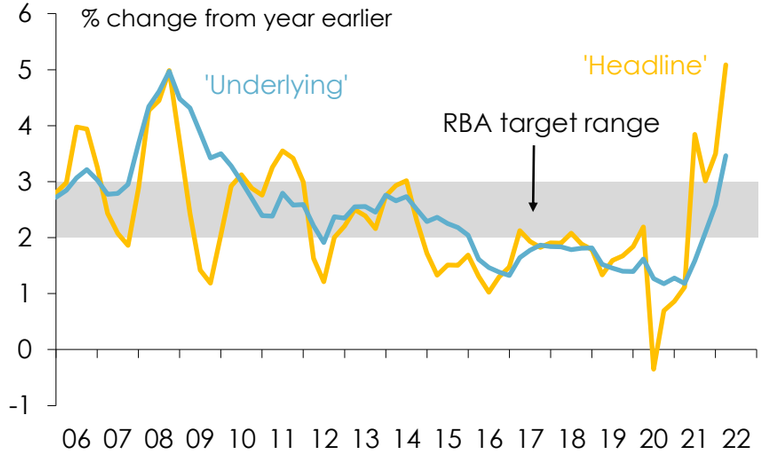
Q2 2022 employment by industry – change from pre-pandemic peak



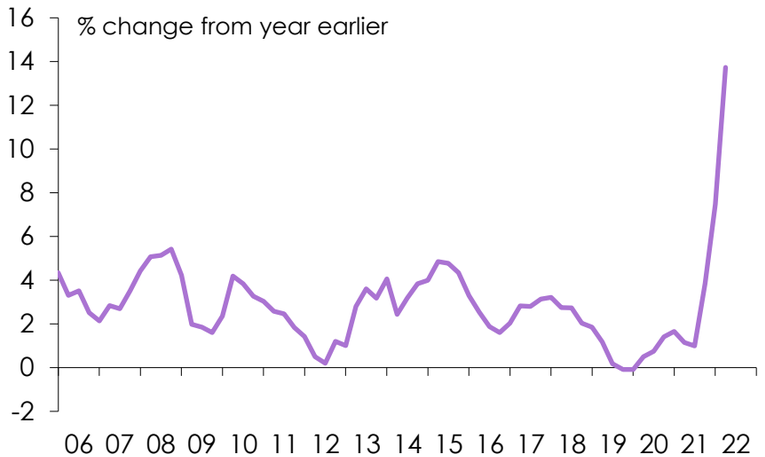
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, March quarter 2022; and *Labour Force, Australia, Detailed*, May 2022.

Australia's inflation rate has risen sharply since the middle of last year

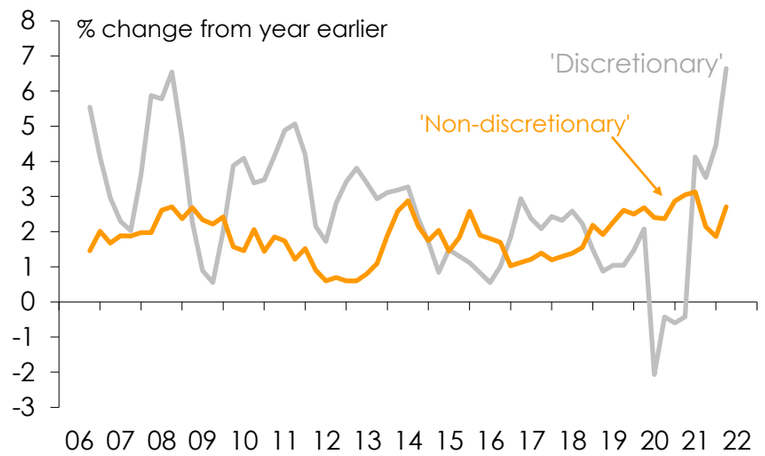
Consumer prices – annual change



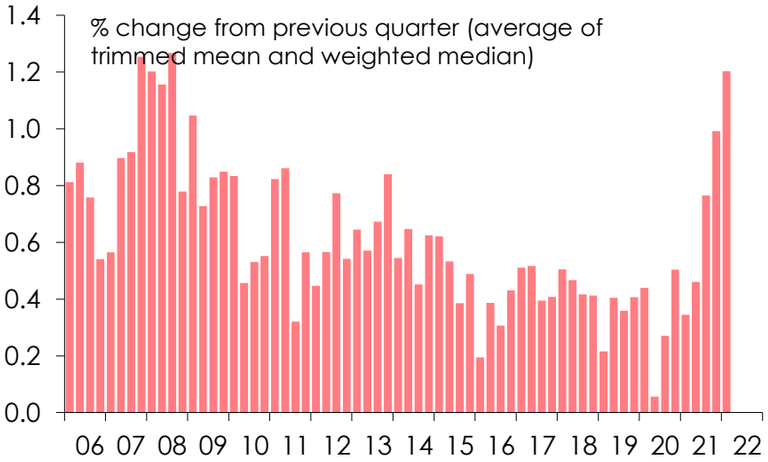
New dwelling purchase costs



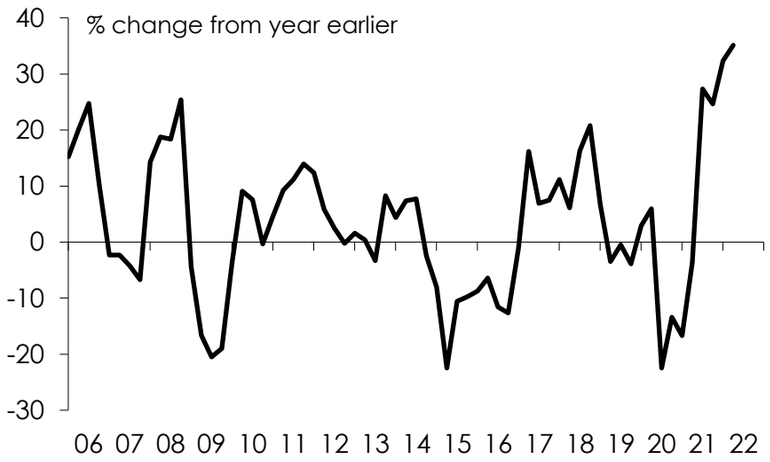
'Discretionary' vs 'essential' items



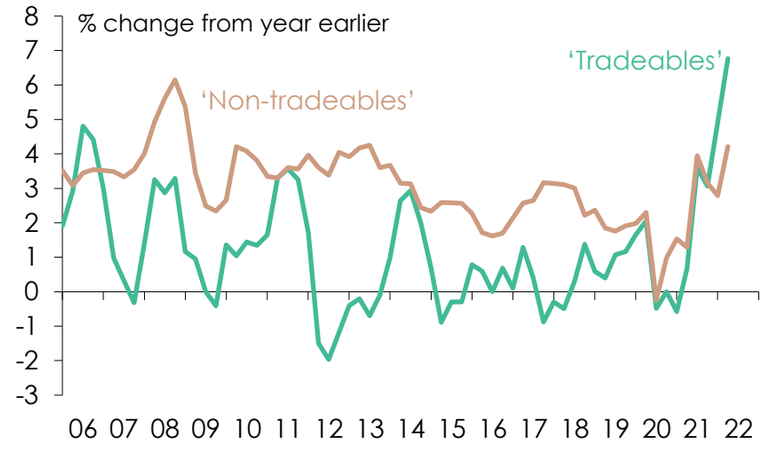
Quarterly 'underlying' inflation



Automotive fuel prices



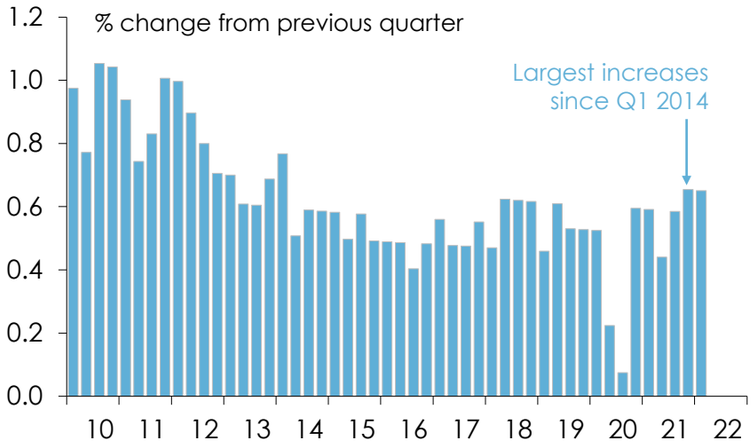
'Tradeables' vs 'non-tradeables'



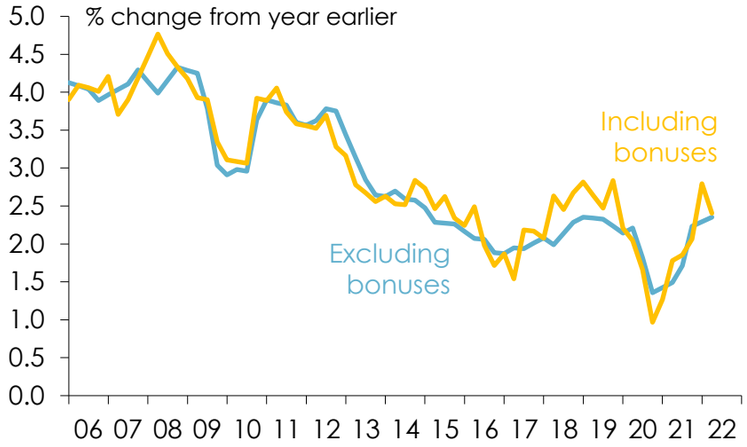
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. *Source:* ABS, *Consumer Price Index, Australia*.

Wages growth as measured by the wage price index remains sluggish but the RBA's business liaison suggests it is now starting to pick up

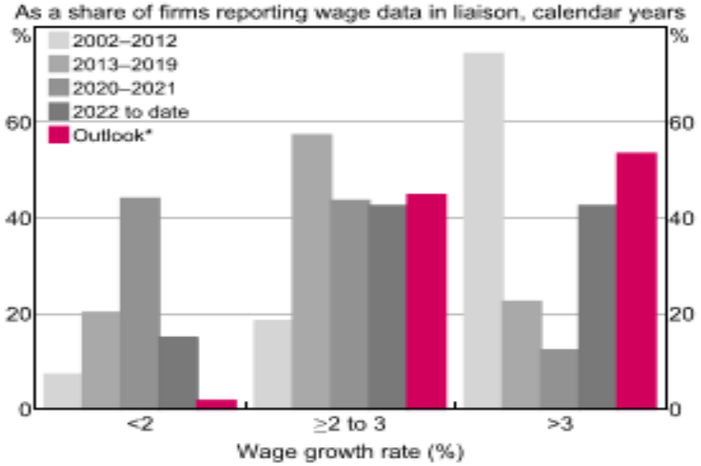
Wage price index excluding bonuses



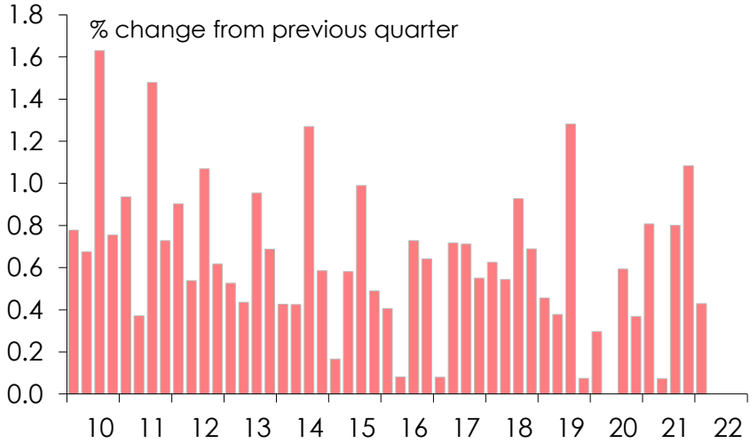
Wage price index – all sectors



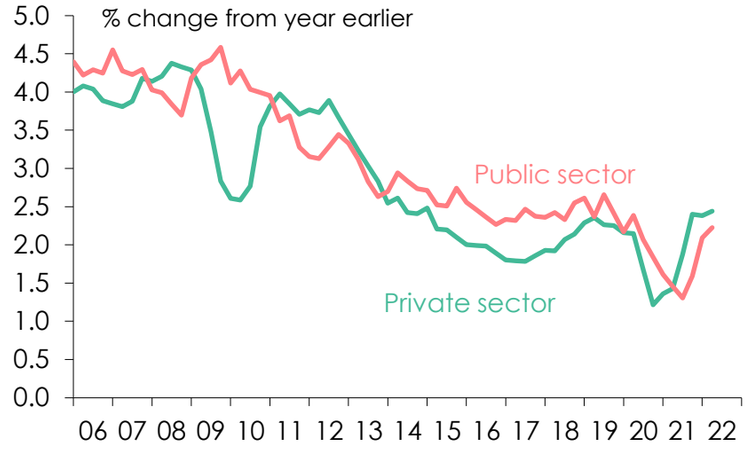
Distribution of wages growth



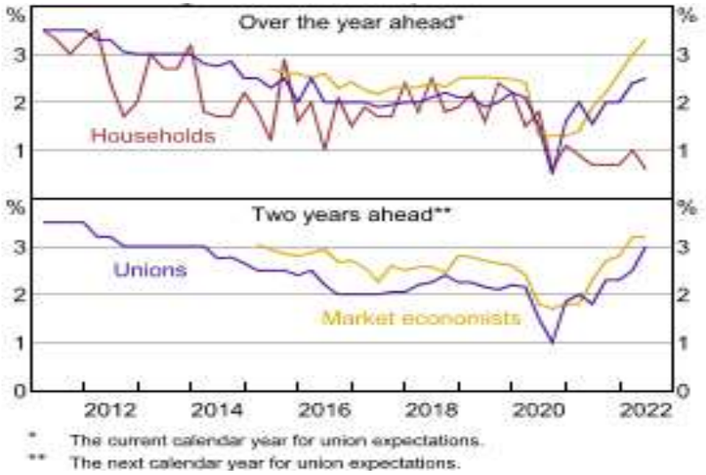
Wage price index including bonuses



WPI – private vs public sectors



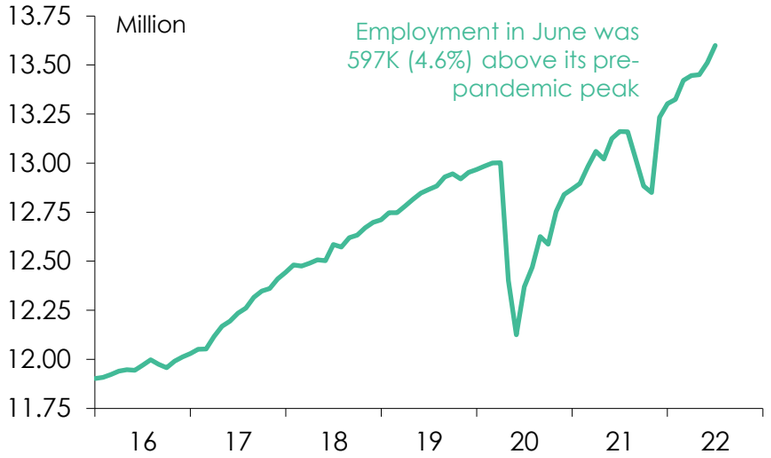
Wage growth expectations



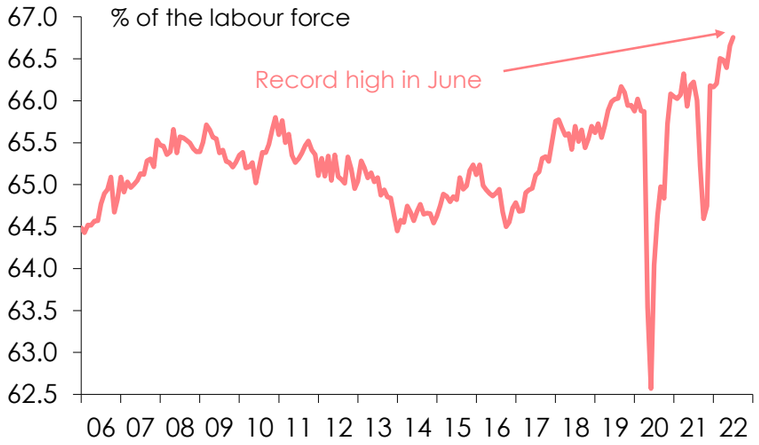
Sources: ABS, *Wage Price Index, Australia*; Reserve Bank of Australia, *Statement on Monetary Policy*, 6th May 2022.

Strong growth in employment combined with the effects of border controls on labour supply have created the tightest labour market in 48 years

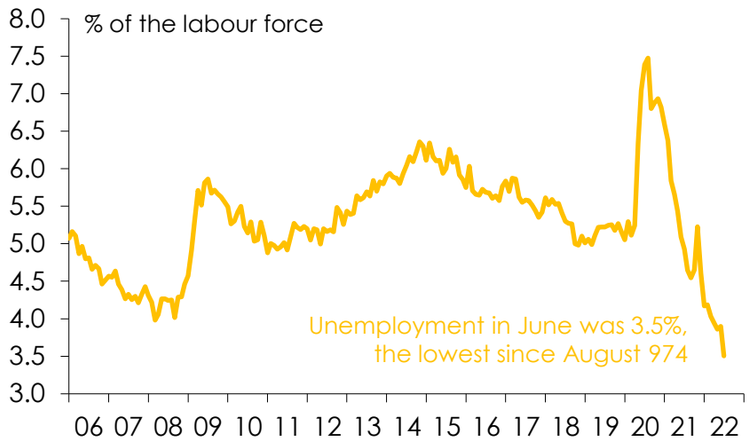
Employment



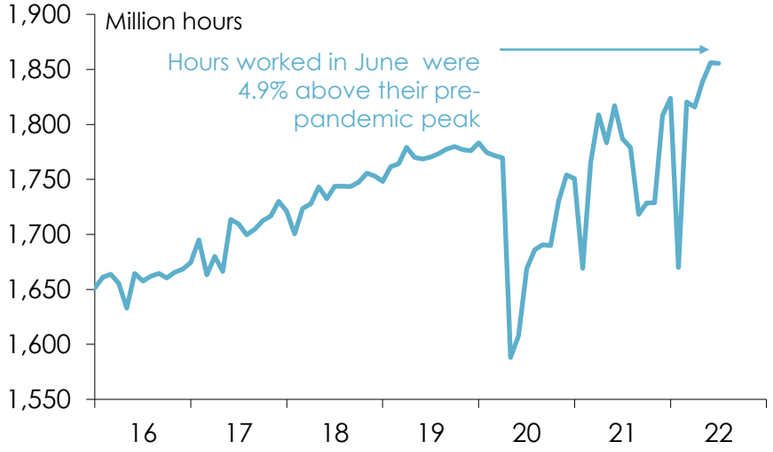
Labour force participation rate



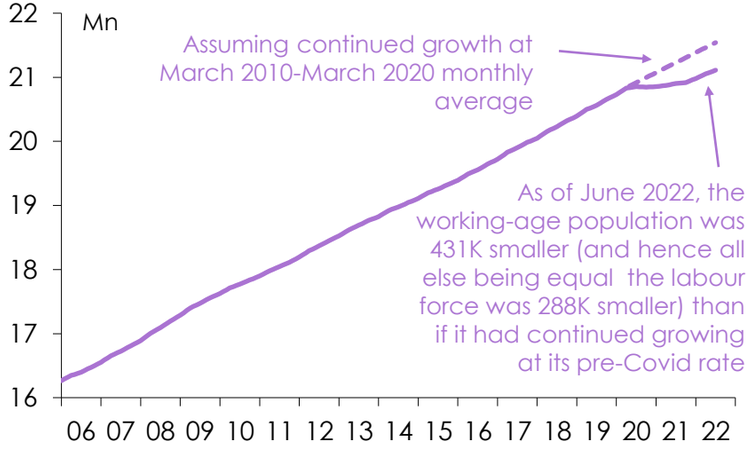
Unemployment rate



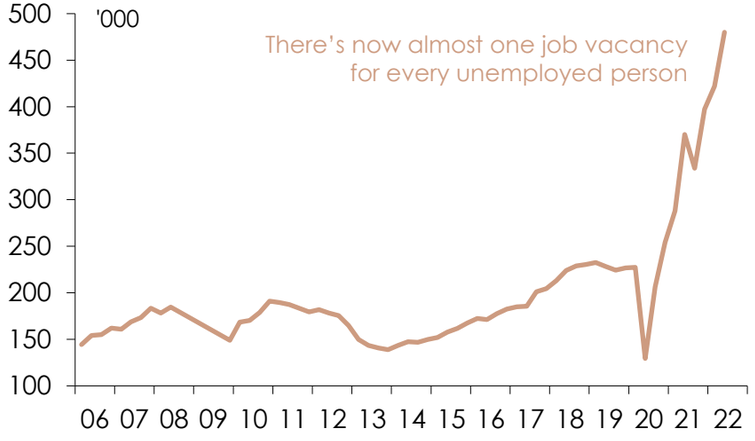
Total hours worked



Civilian working-age population



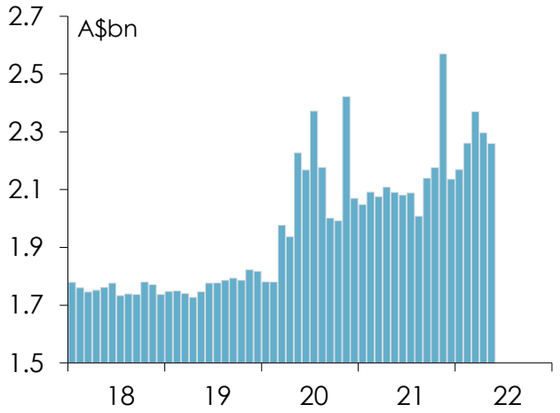
Job vacancies



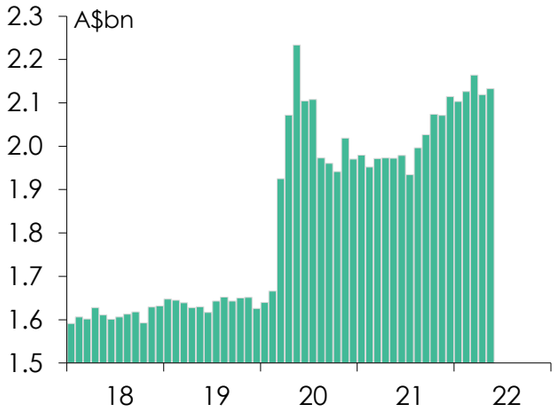
Source: ABS, *Labour Force, Australia*, June, and *Job Vacancies, Australia*, May.

Australians continued to spend freely on 'discretionary' items in May despite the first rise in interest rates, and rising prices for 'essential' items

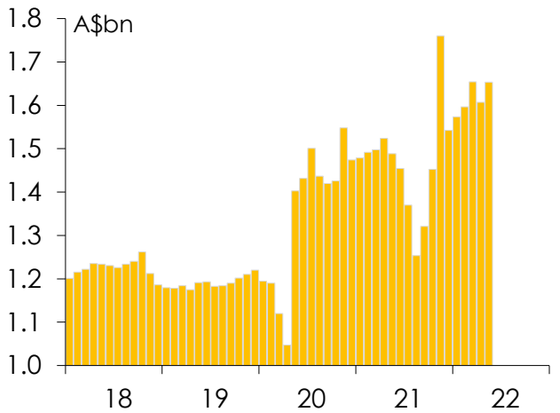
Electronic & electrical goods



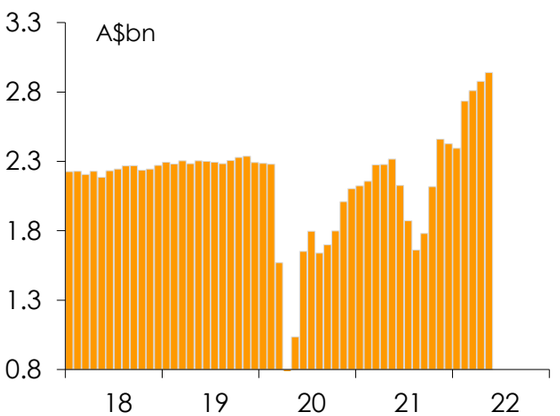
Hardware, building & garden supplies



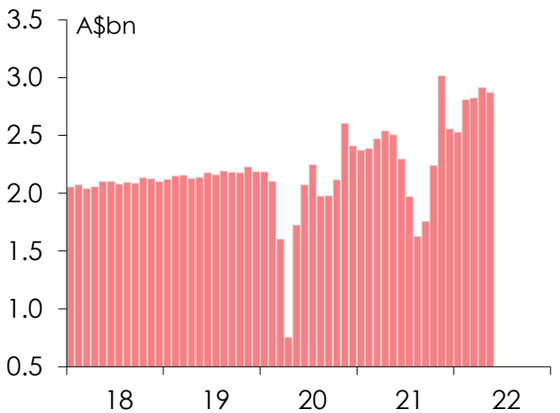
Floor coverings, furniture, housewares etc



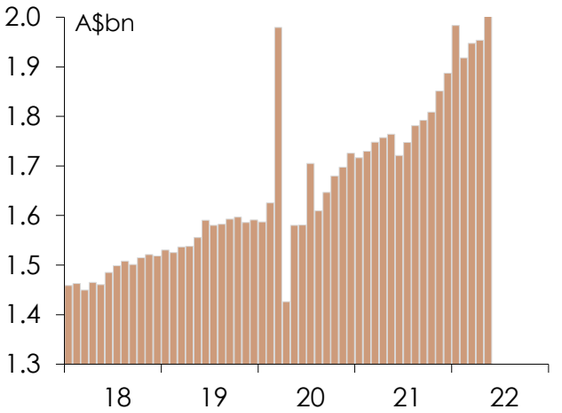
Cafes and restaurants



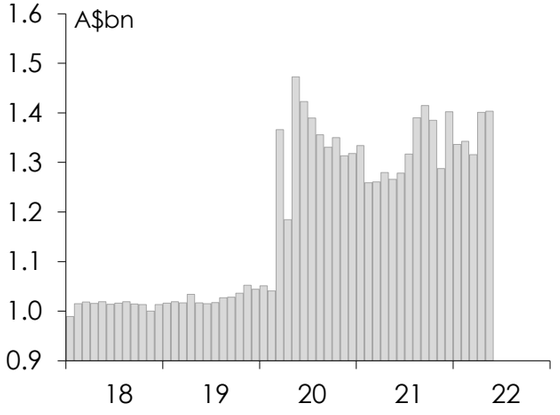
Clothing, footwear & personal accessories



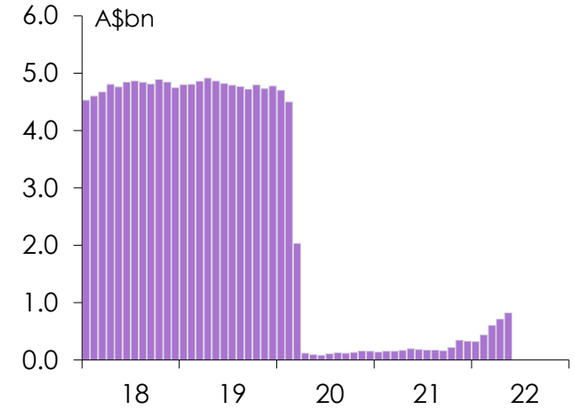
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel



Sources: ABS, *Retail Trade, Australia*, May 2022 and *International Trade in Goods and Services, Australia*, May 2022.

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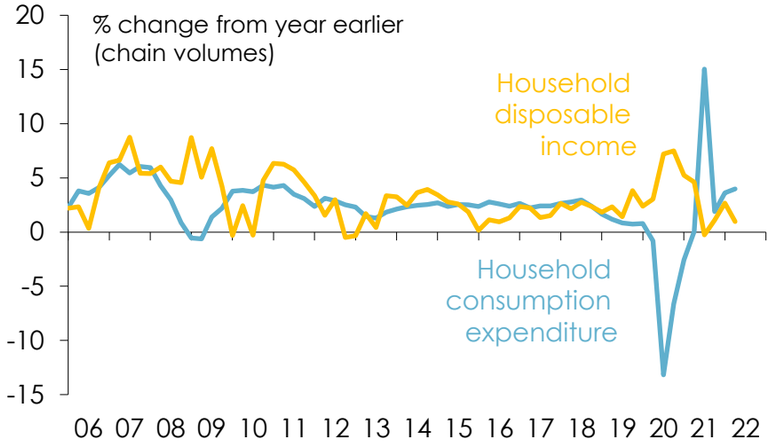
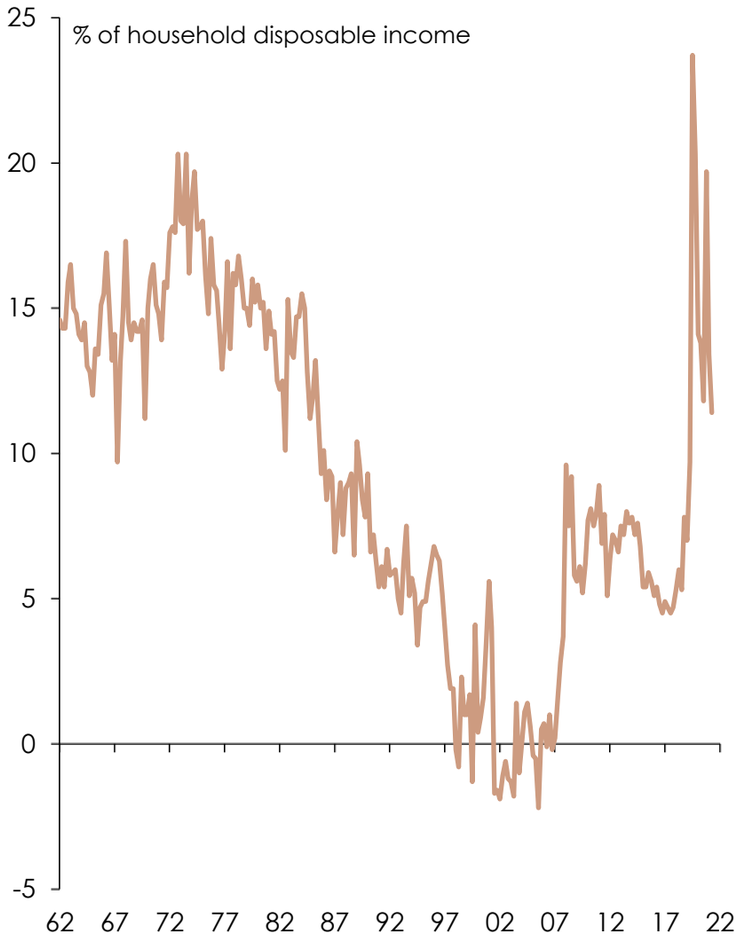
Households are sustaining spending in the face of weak real income growth by reducing saving – many households have large cash reserves

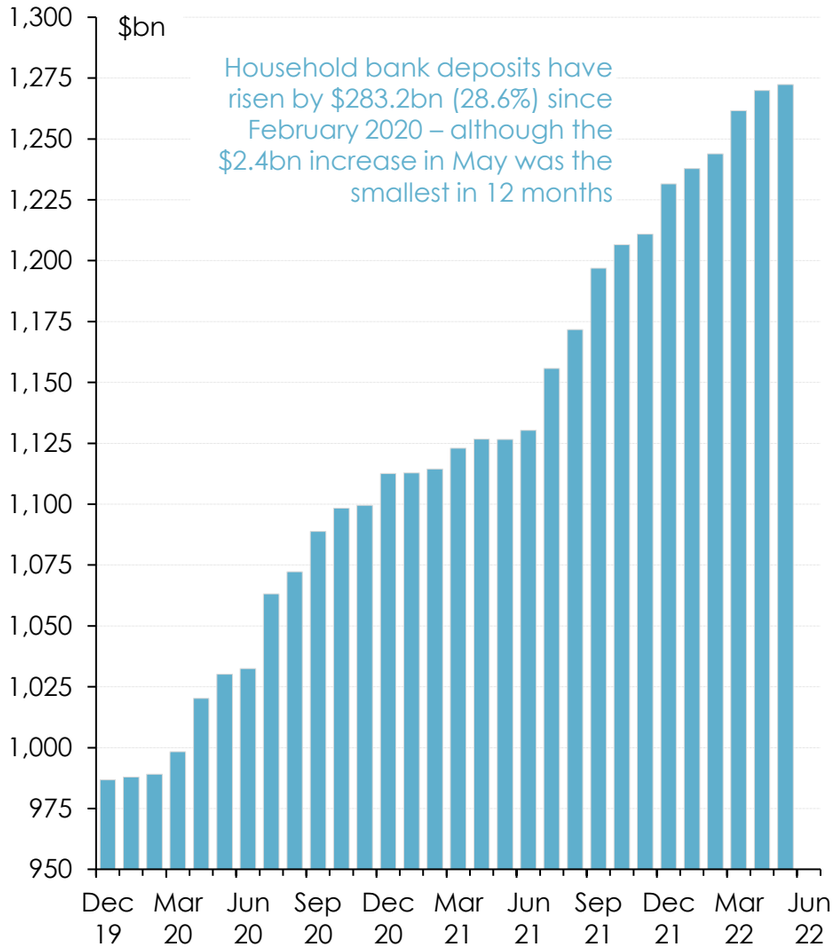
Household income and spending



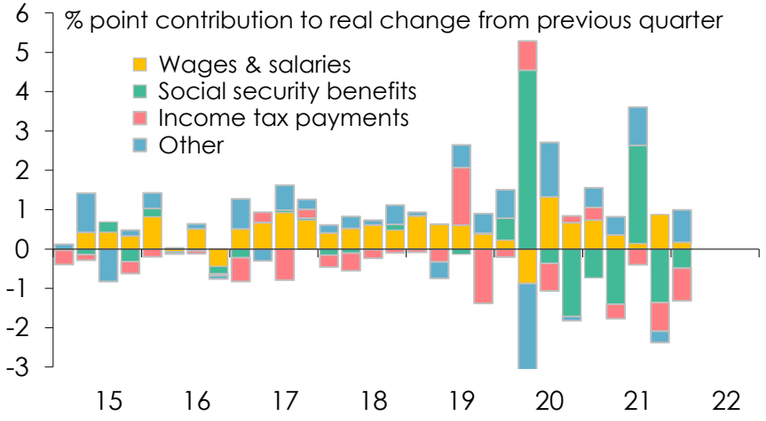
Household saving ratio



Household bank deposits



Sources of household income



Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, March quarter 2021; Australian Prudential Regulation Authority, *Monthly Authorised Deposit-taking Institution Statistics*.

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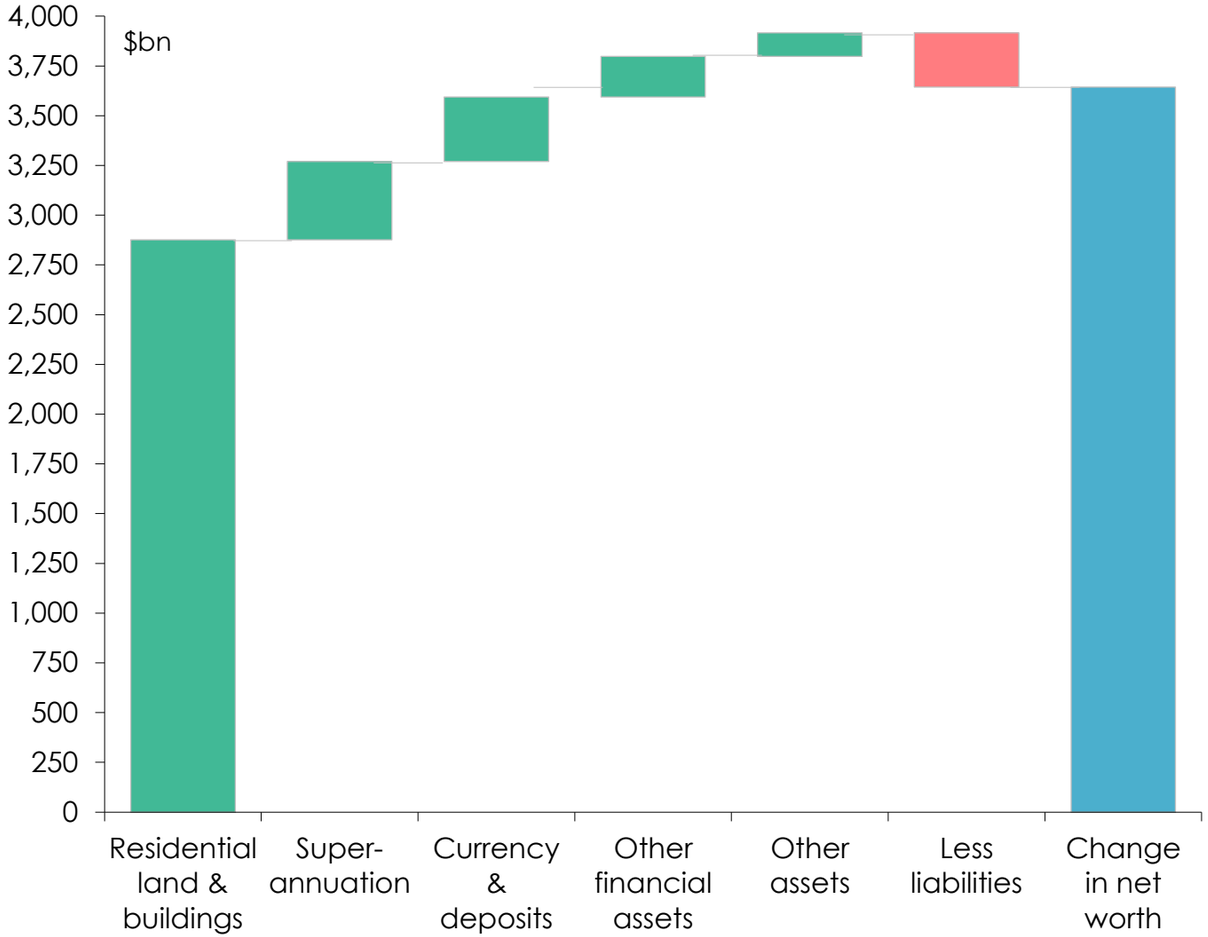
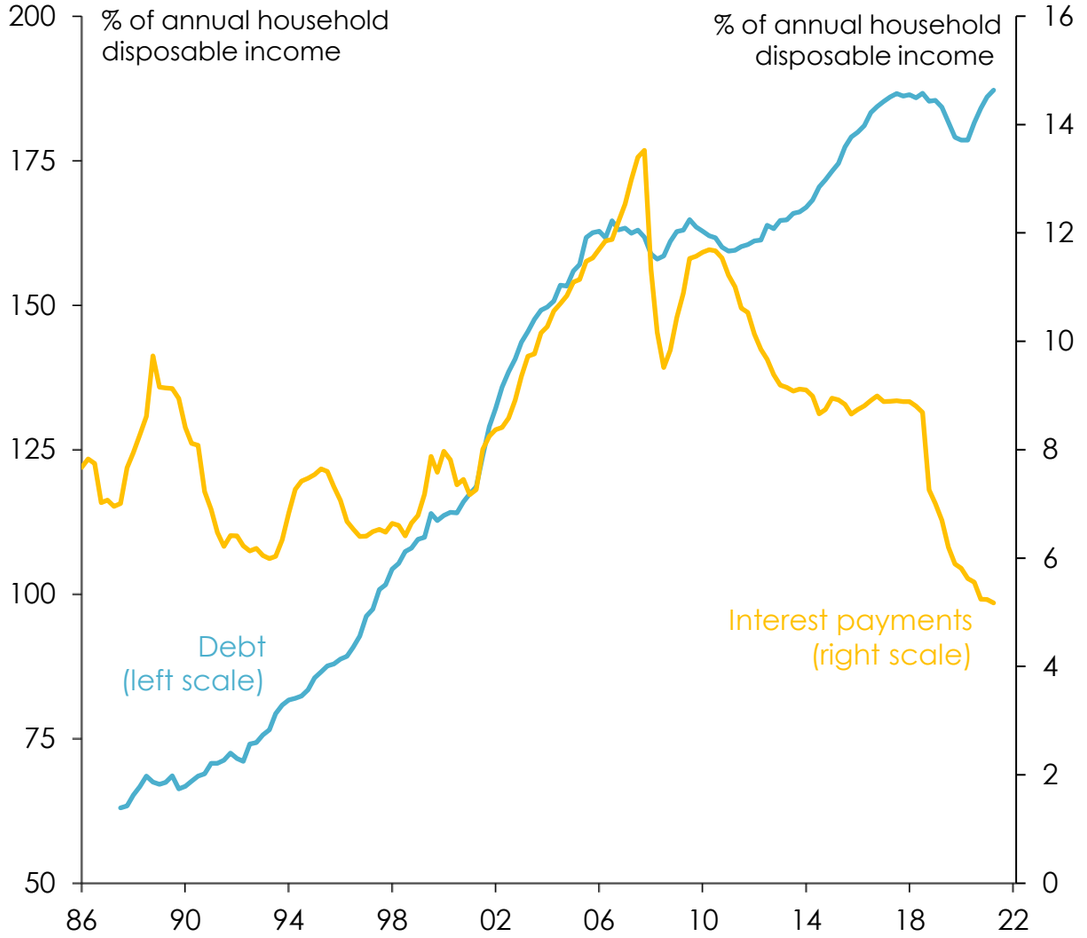
Household net worth has risen by $3.6trn (32%) since the end of 2019, while interest payments (at least up to Q2) fallen as a pc of income

Sources of gains in household net worth, Q4 2019 to Q1 2022



Household net debt and interest payments as a percentage of disposable income



Sources: ABS, *Finance and Wealth Accounts*, March quarter 2022; RBA, *Statistical Tables* E1 & E2.

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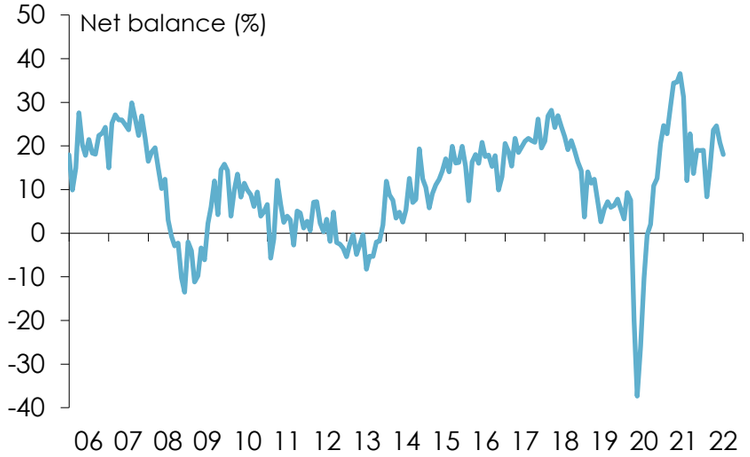
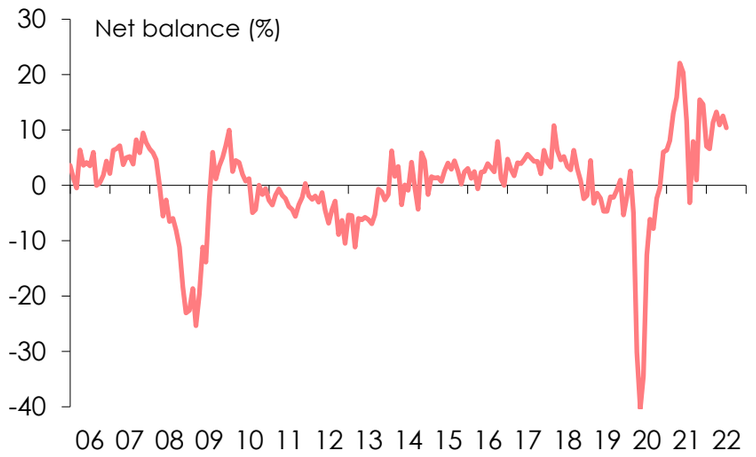
And although business confidence has fallen over the past few months, 'business conditions' up to June remained favourable

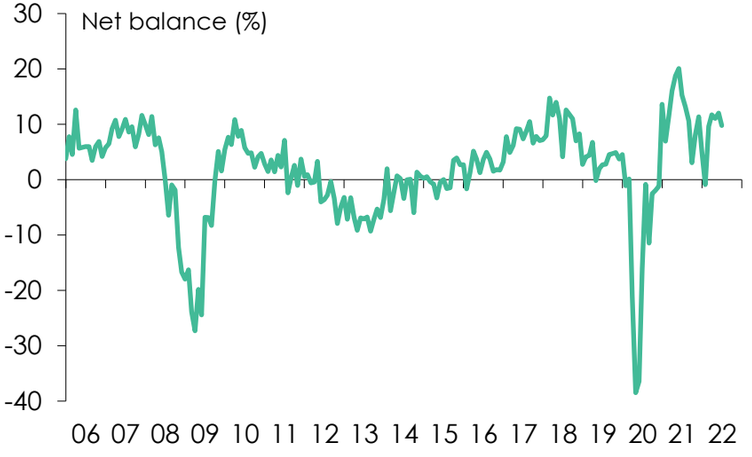
Trading conditions



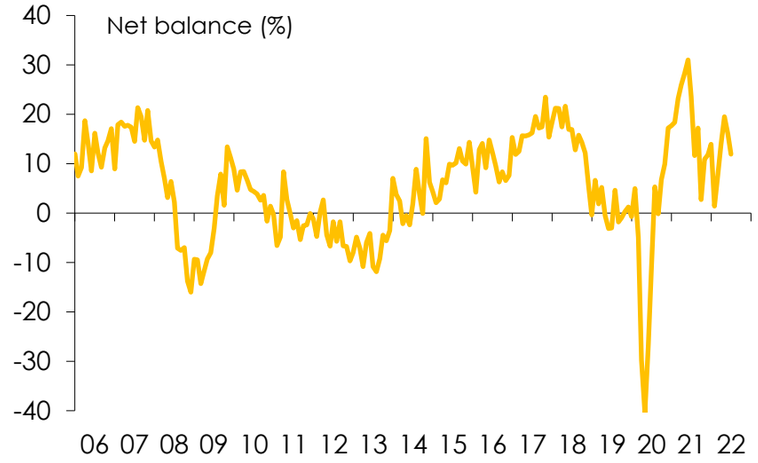
Forward orders



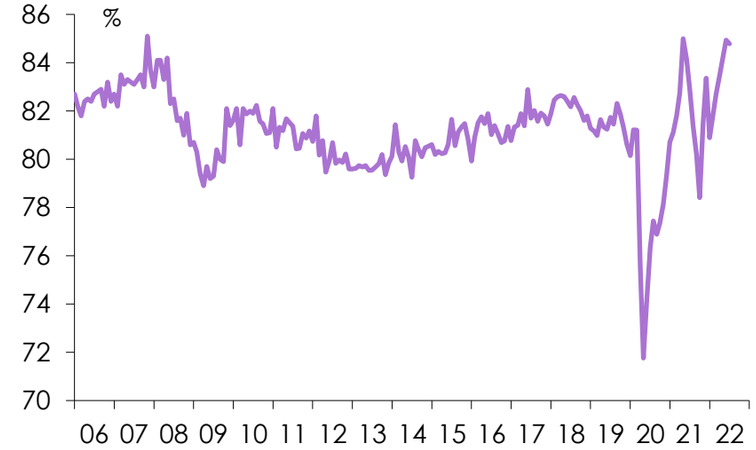
Employee hiring intentions



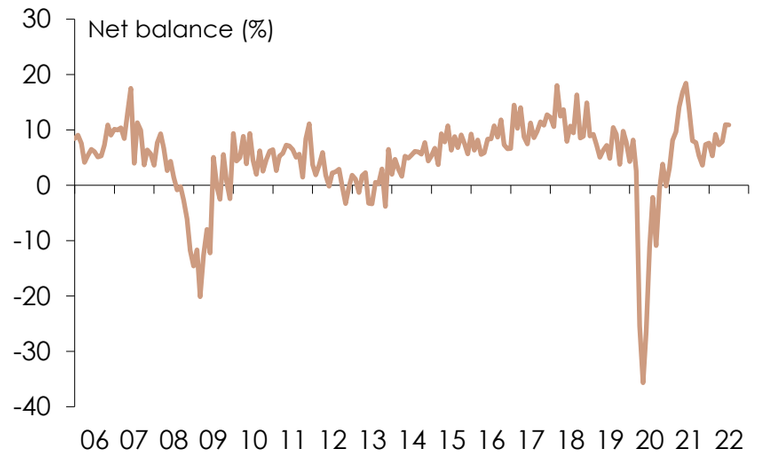
Profitability



Capacity utilization



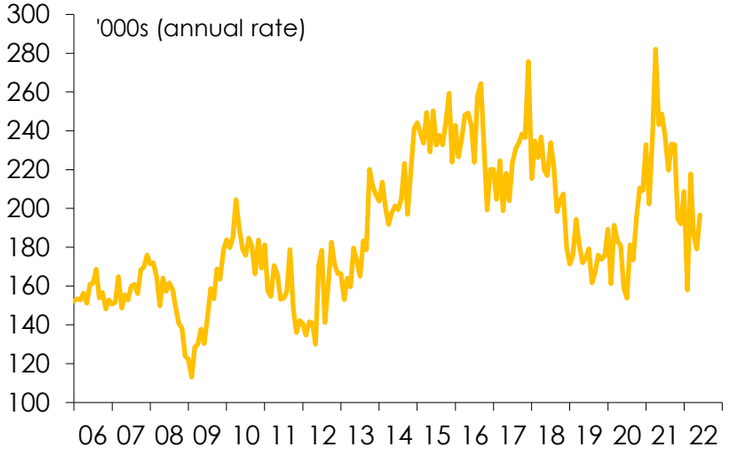
Capital expenditure intentions



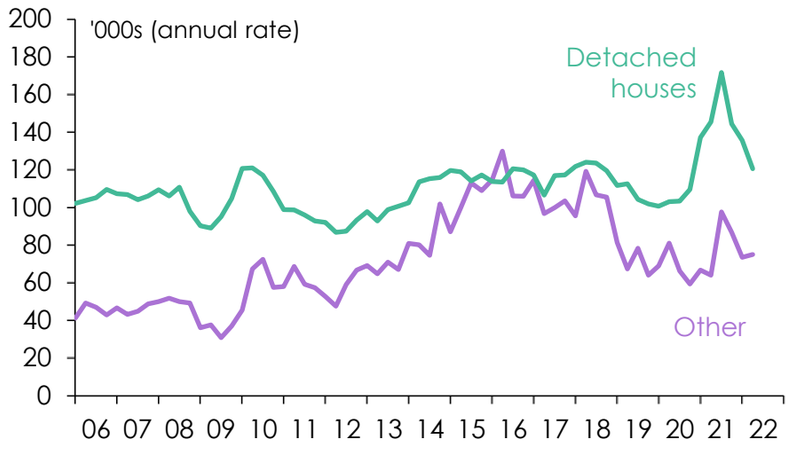
Source: National Australia Bank *Monthly Business Survey*, June 2022.

Building approvals have fallen sharply from their highs of early last year, but there is a lot of residential construction work still in the pipeline

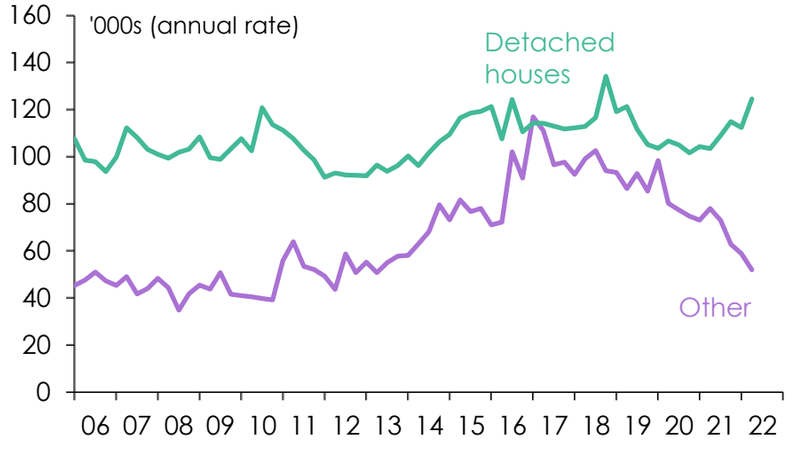
Residential building approvals



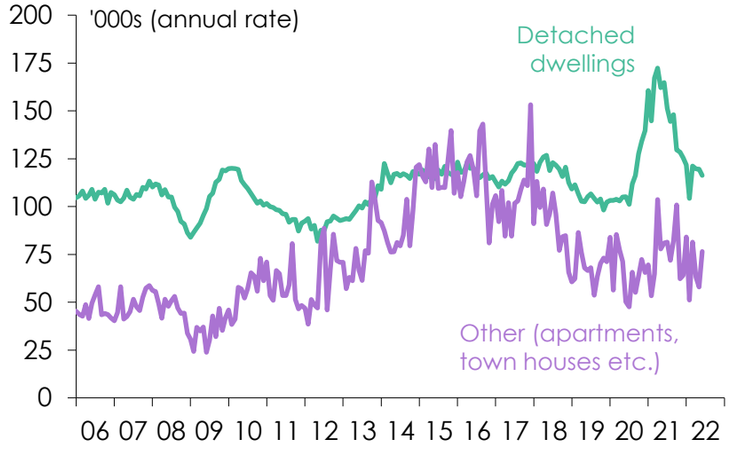
Dwellings commenced



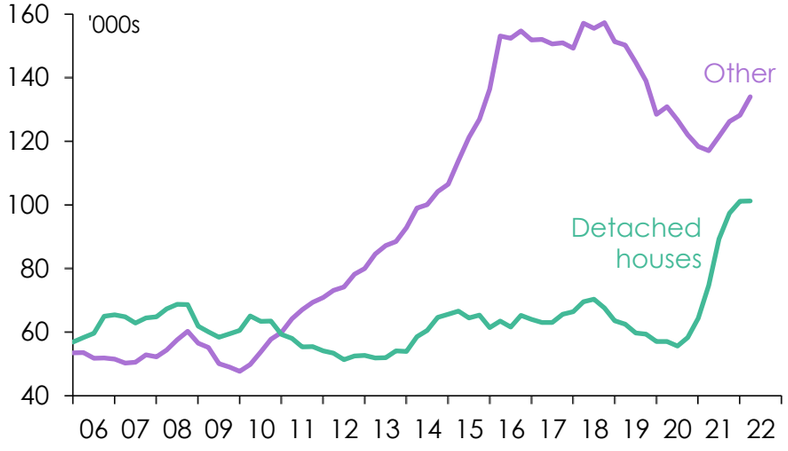
Dwellings completed



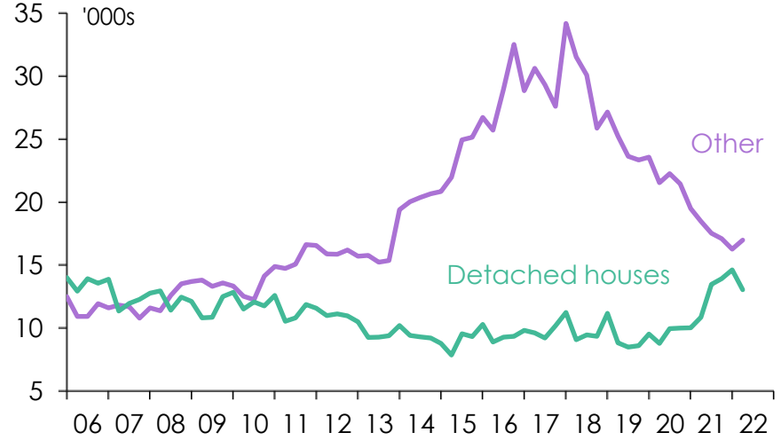
Building approvals, by type



Dwellings under construction



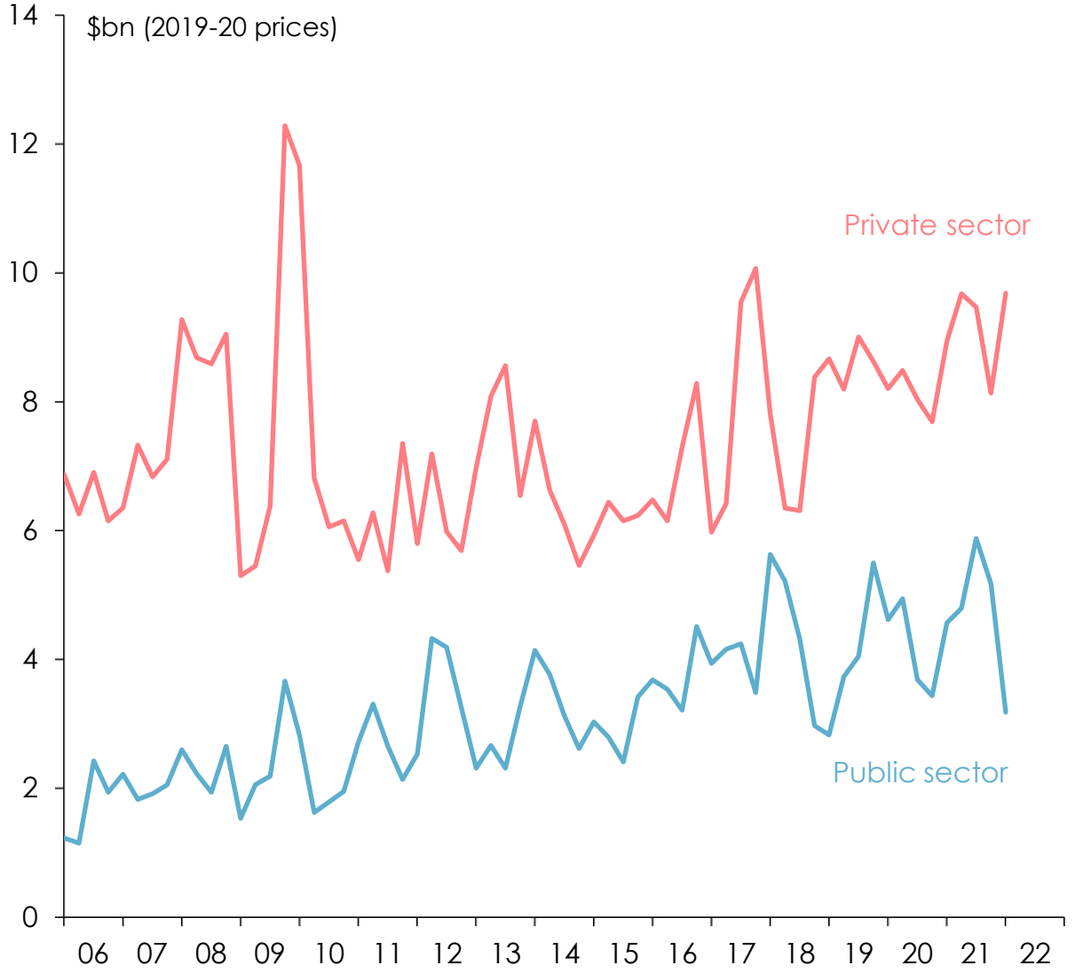
'Pipeline' of work yet to be started



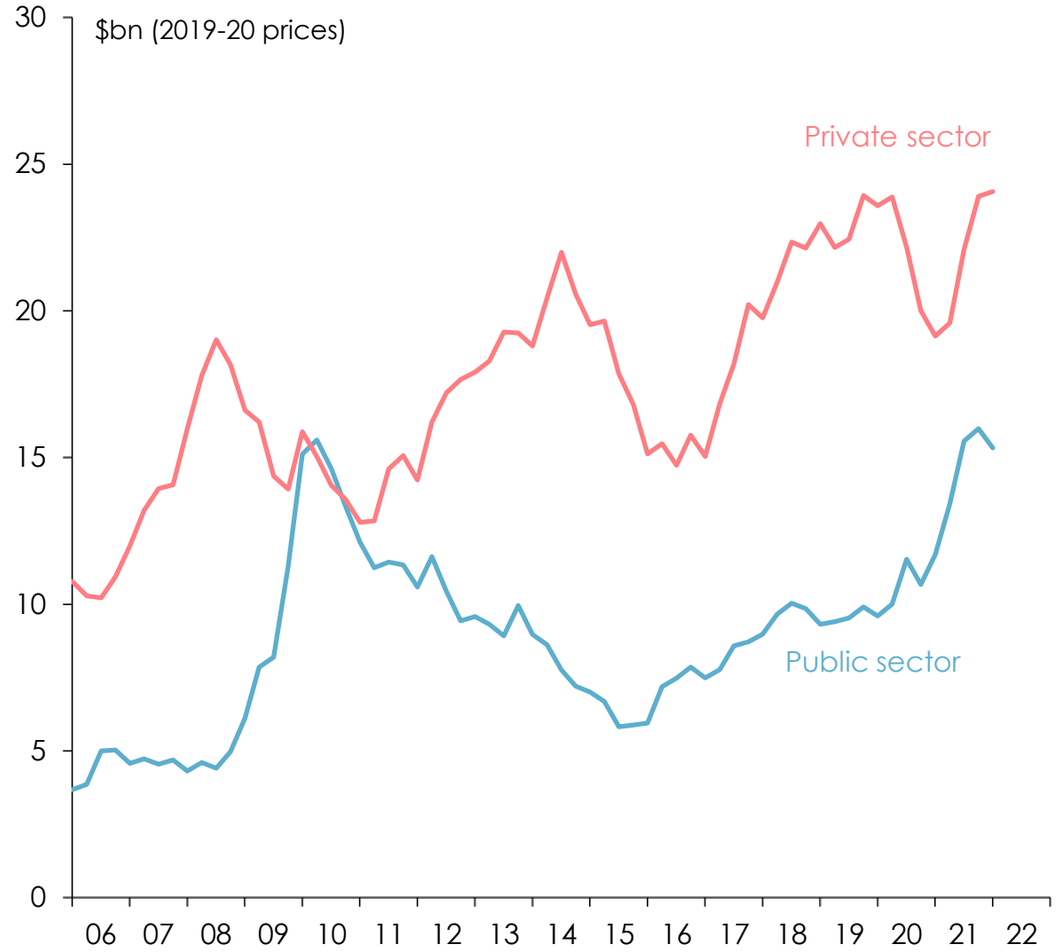
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. *Sources:* ABS, *Building Approvals*, May and *Building Activity*, March quarter.

There's a reasonable 'pipeline' of non-residential building work, although the level of commencements is subdued

Non-residential commencements



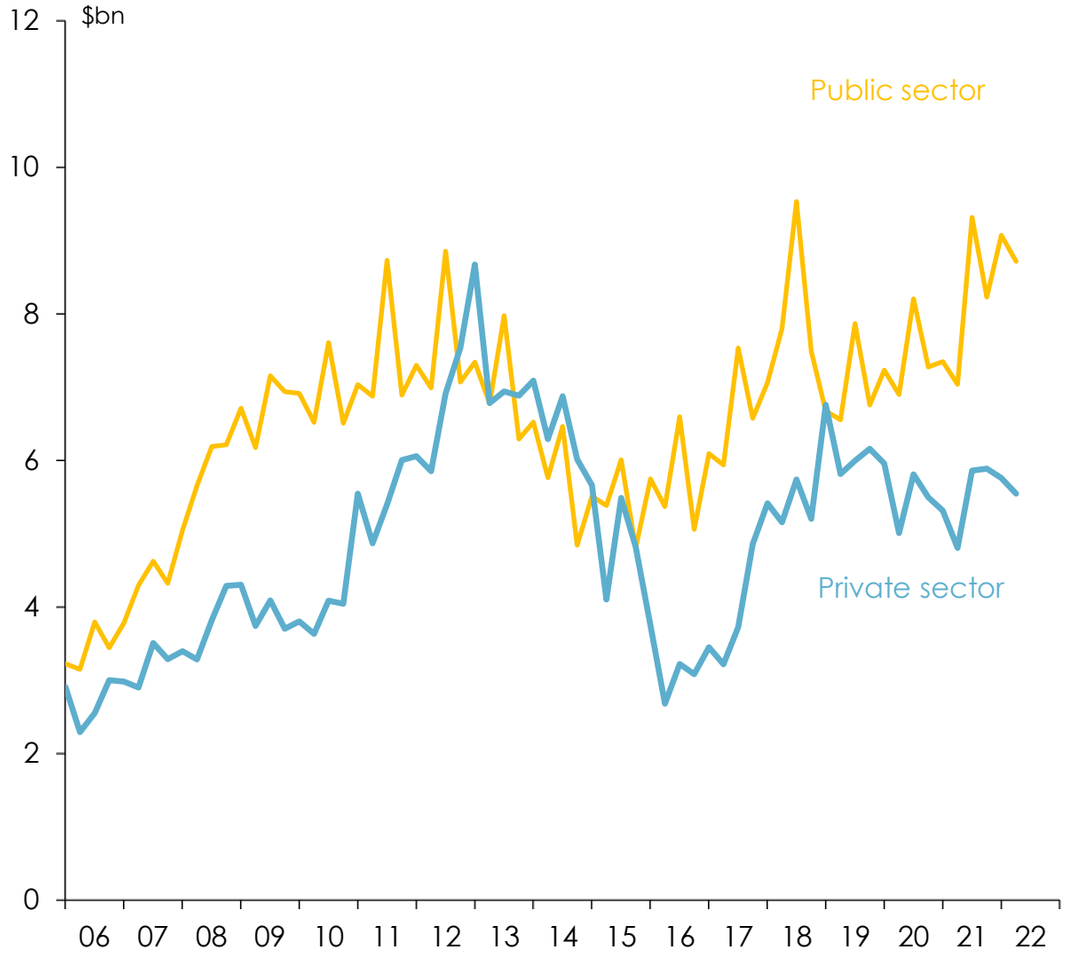
Non-residential building work yet to be done



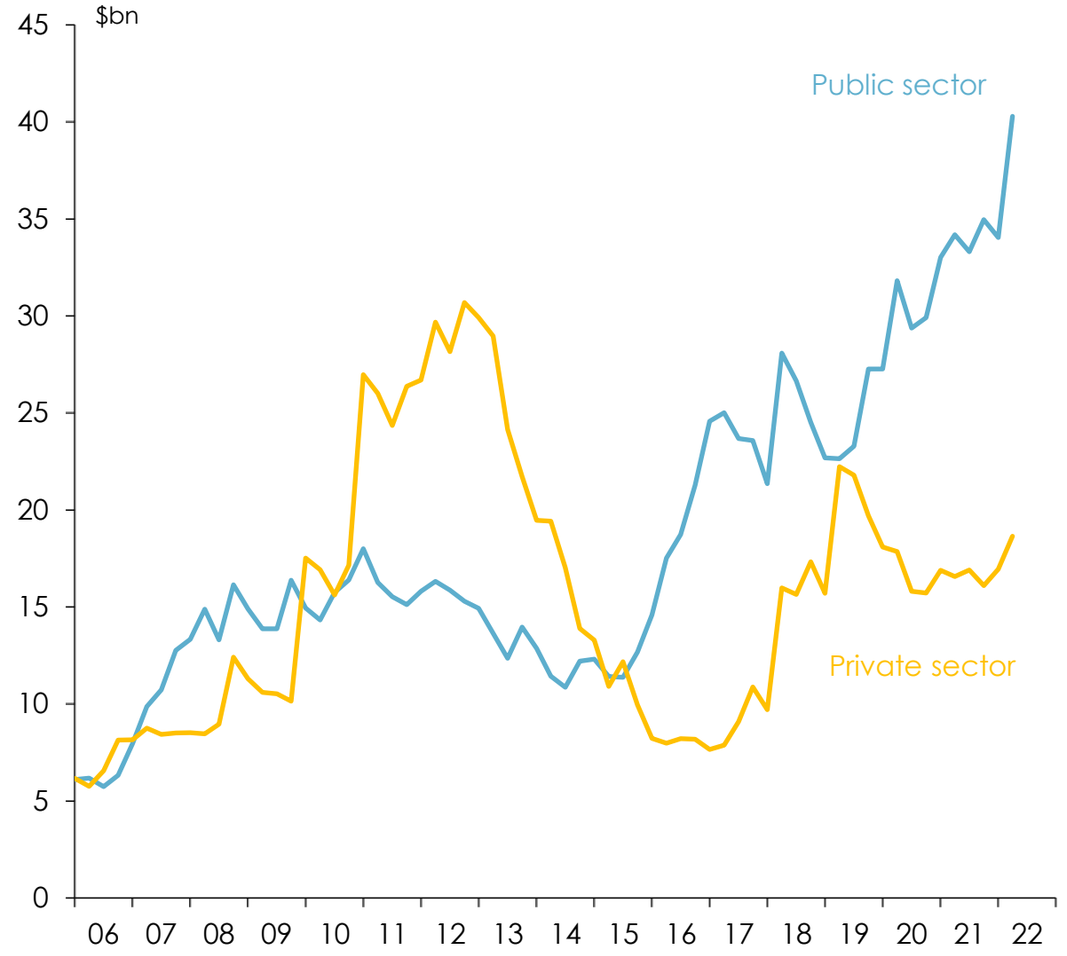
Source: ABS, *Building Activity, Australia*, March quarter 2022.

By contrast there's a lot (perhaps even 'too much') infrastructure construction work under way

Infrastructure construction work done



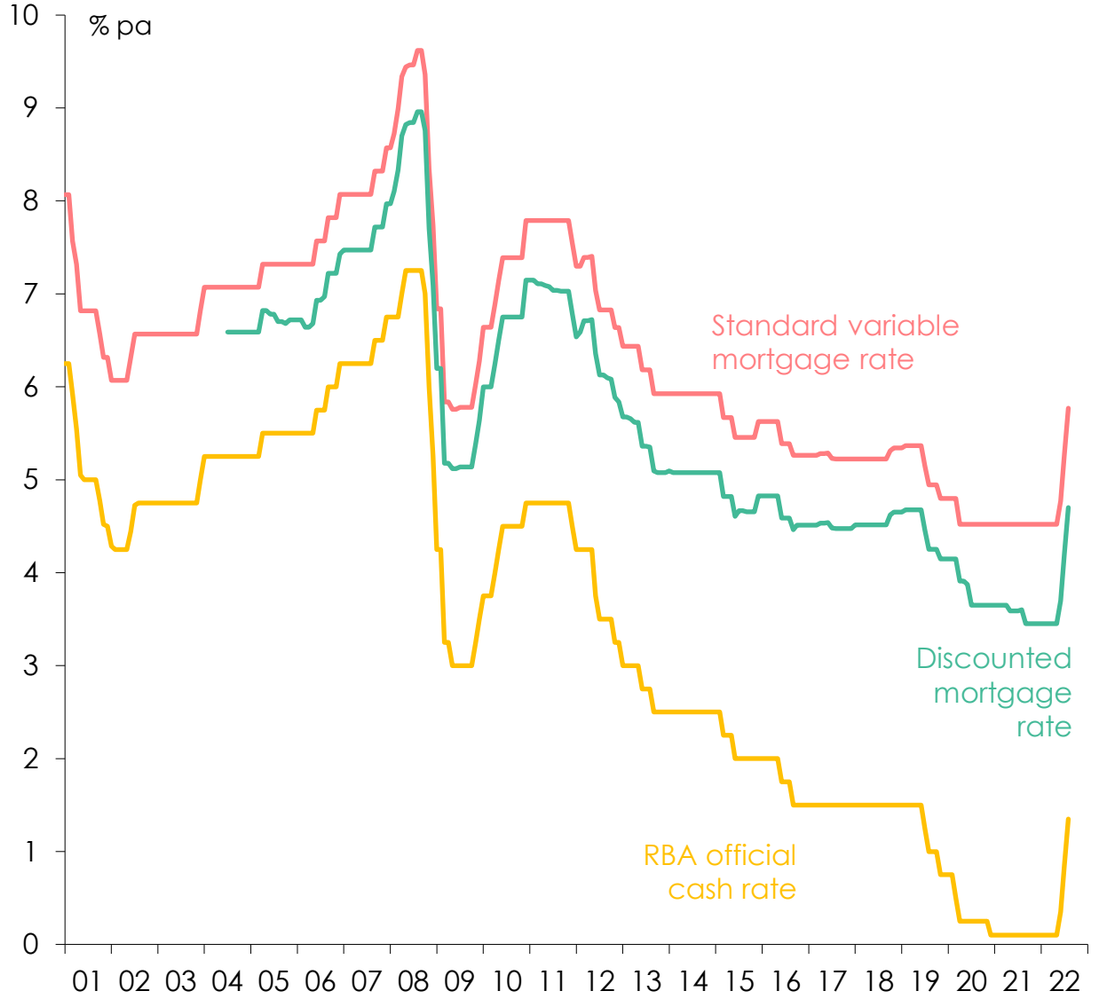
Infrastructure construction work yet to be done



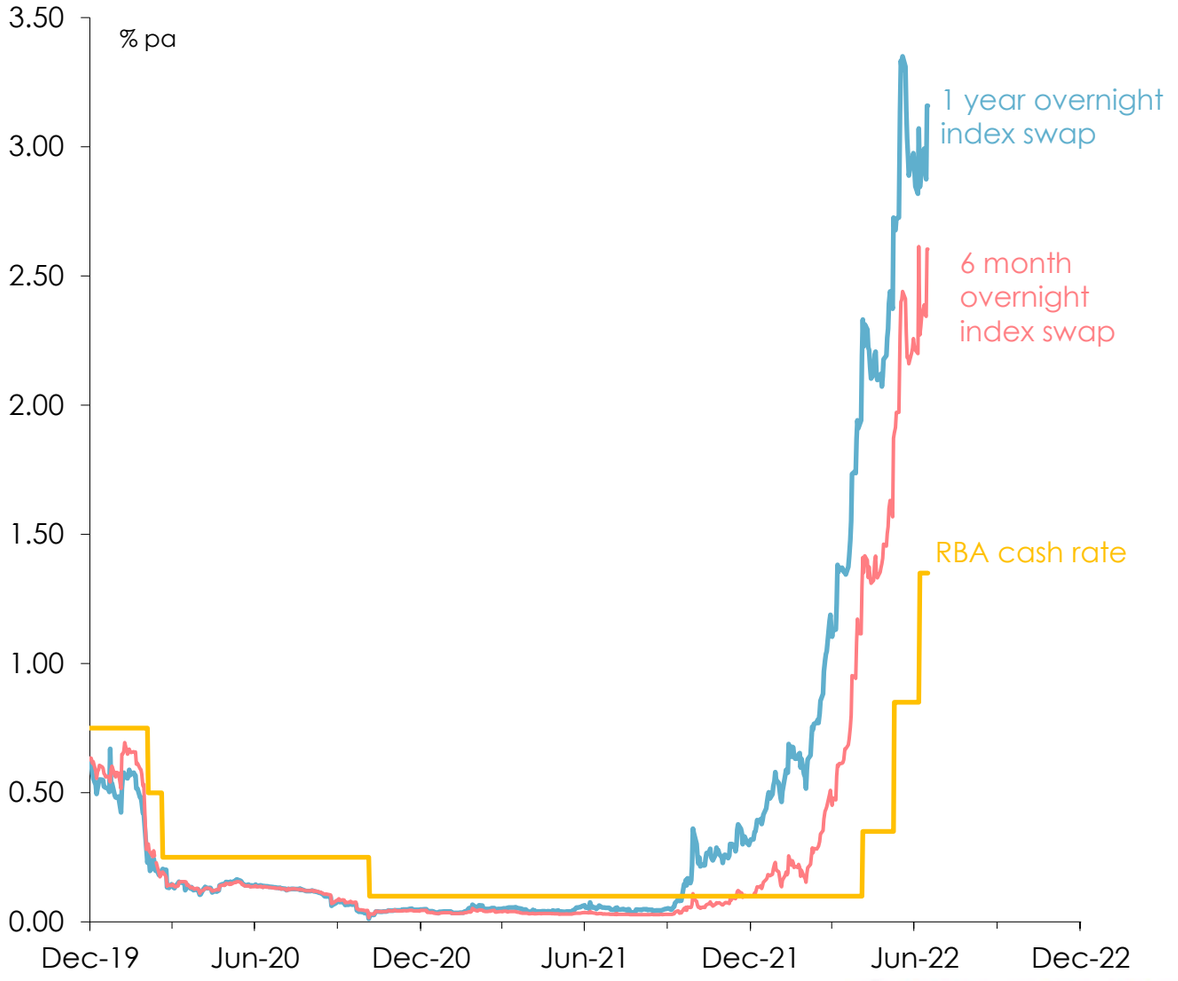
Source: ABS, *Building Activity, Australia*, March quarter 2022.

The Reserve Bank has now raised its cash rate by 150 basis points in three months – and financial markets are expecting a lot more

Reserve Bank cash rate & mortgage rates



Financial market pricing of future levels of the cash rate



Source: Reserve Bank of Australia; Refinitiv Datastream

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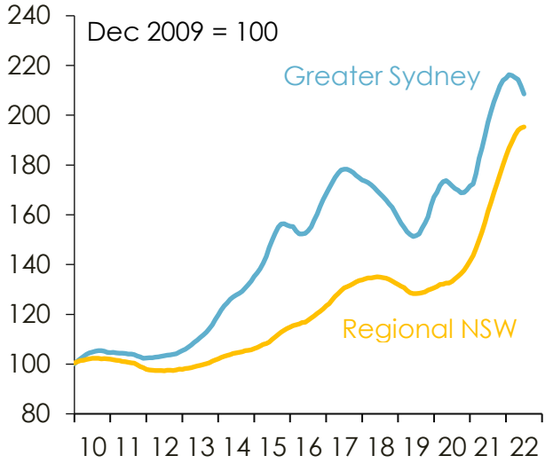
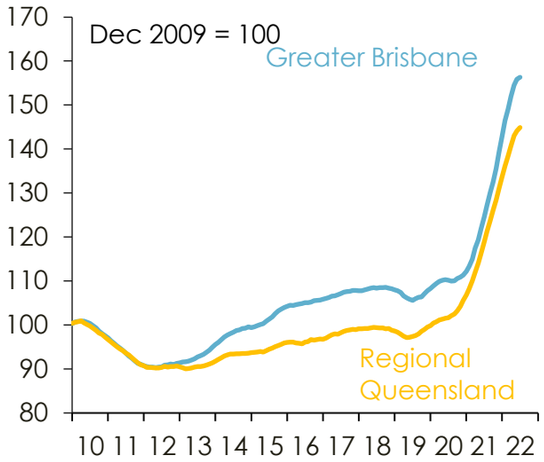
Higher interest rates will likely prompt falls in residential property prices (just as record-low rates helped fuel the increases of the past two years)

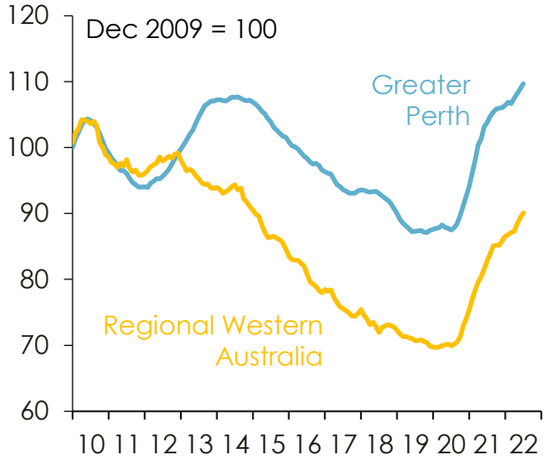
New South Wales



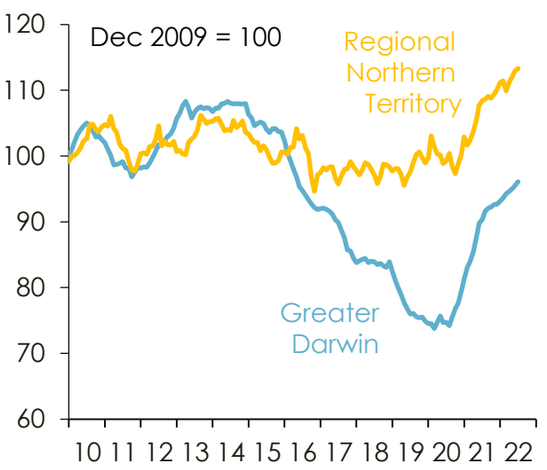
Queensland



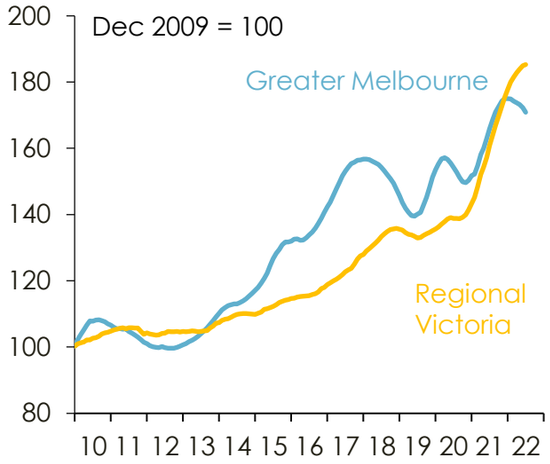
Western Australia



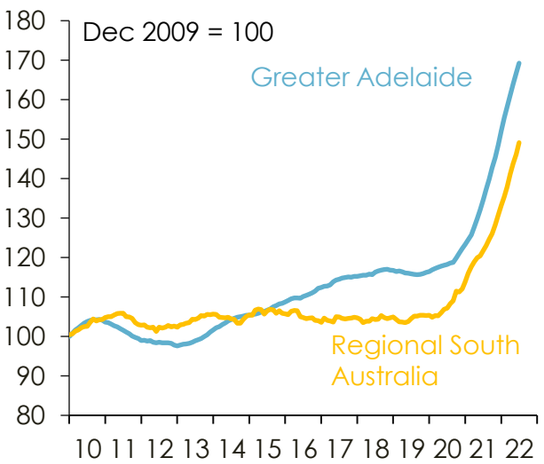
Northern Territory



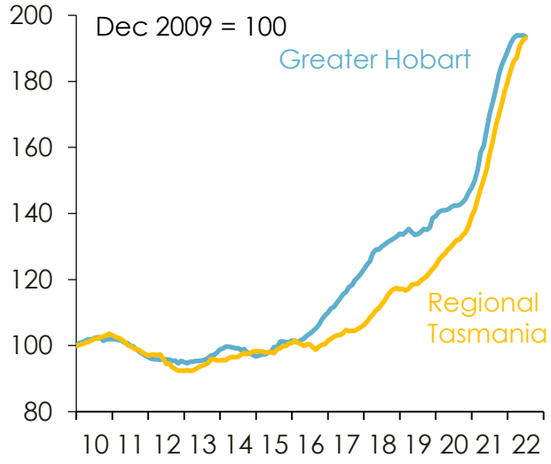
Victoria



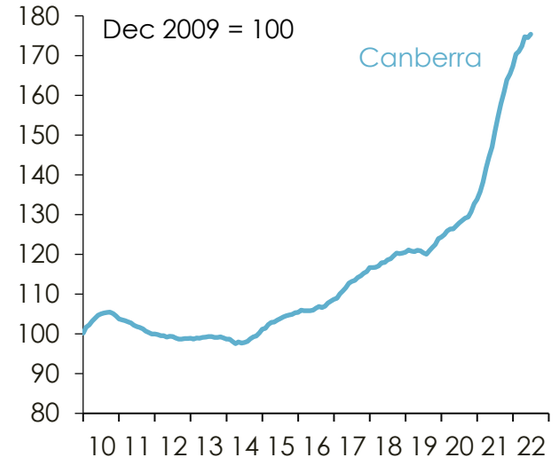
South Australia



Tasmania



Australian Capital Territory

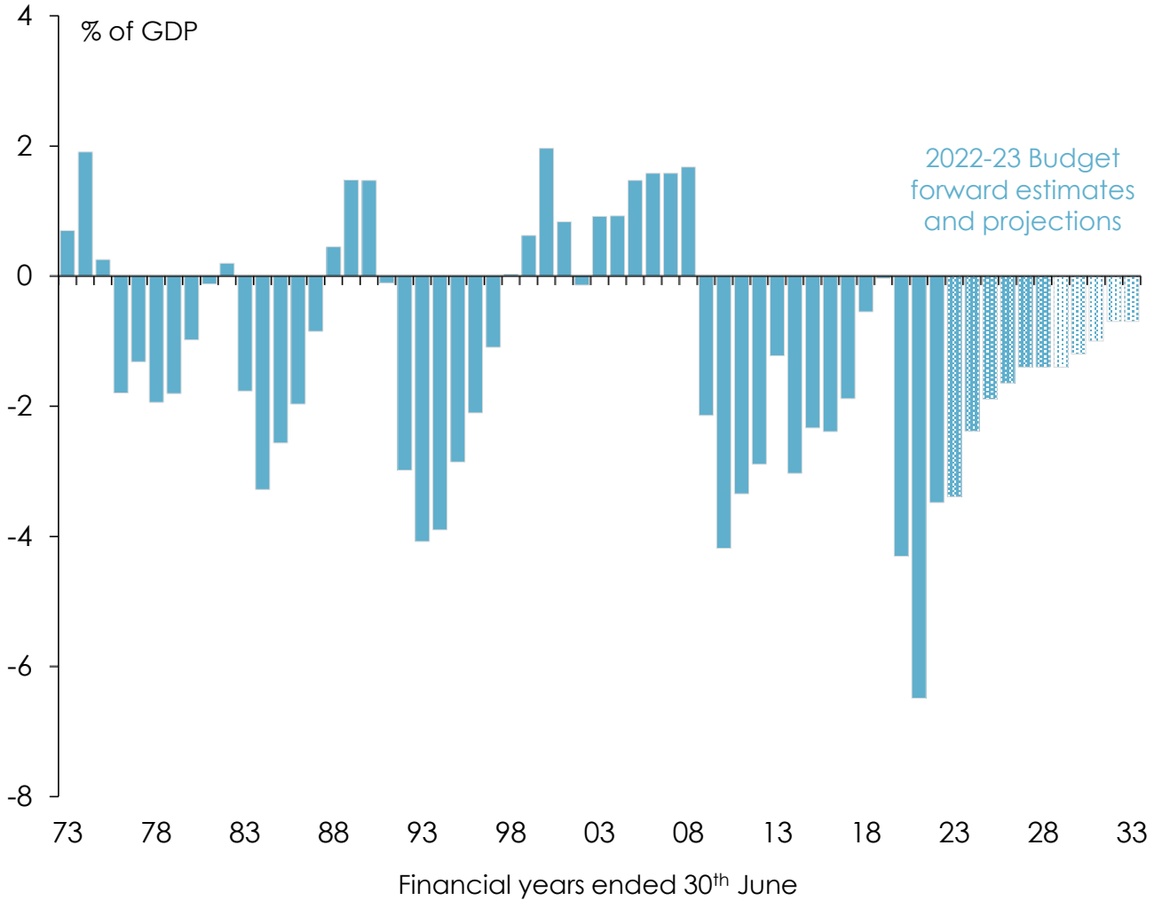


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states have different vertical scales.
Source: CoreLogic.

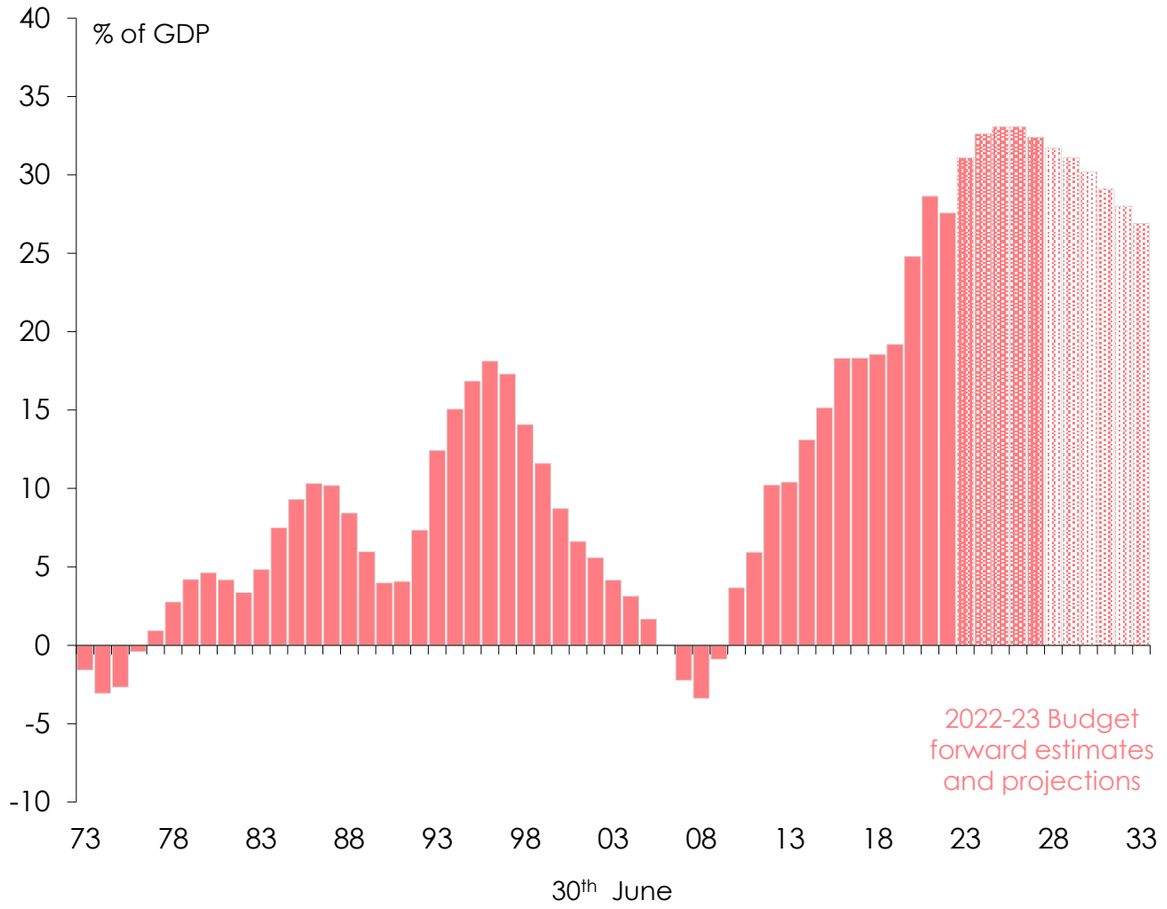
The new Federal Government has a significant medium-term challenge in putting the budget on a more sustainable footing

'Medium-term' projections of the 'underlying cash balance' and net debt

'Underlying' cash balance



Net debt



Source: Australian Government, 2022-23 *Budget Paper No. 1, Statement No. 3* and Statement No. 10, 29th March 2022. Return to "What's New".

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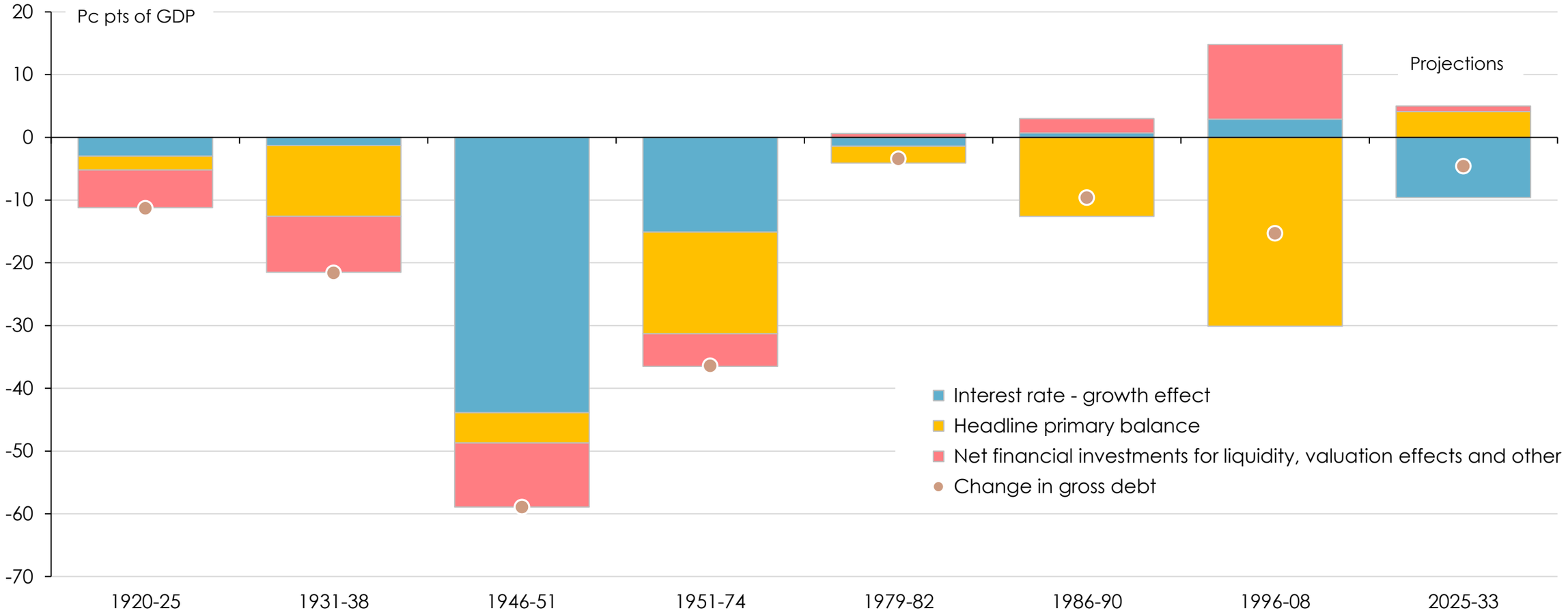
Current projections of declining debt-to-GDP rely solely on interest rates being less than GDP growth, with no contribution from budget surpluses

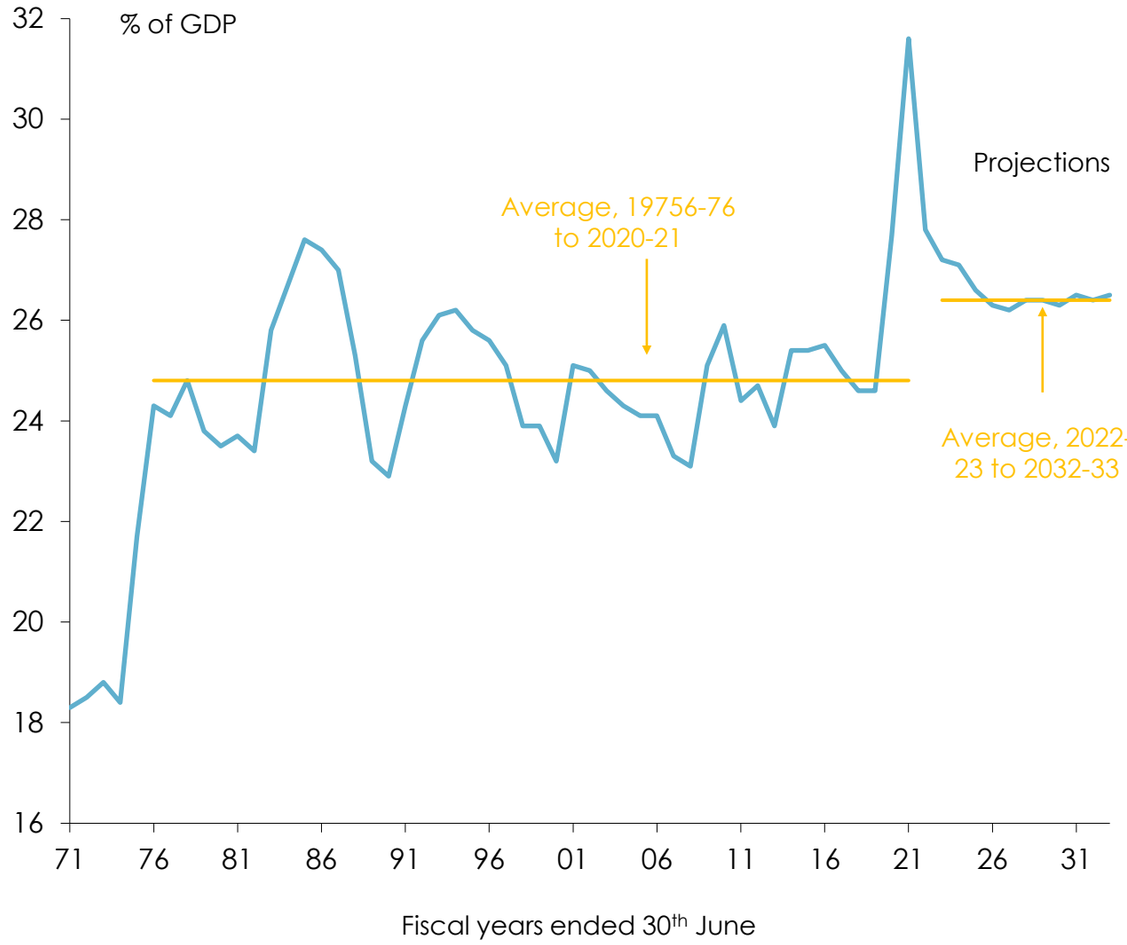
Sources of reductions in Federal Government gross debt as a pc of GDP during previous episodes of debt reduction, compared with projections for the period 2025 (when debt is currently forecast to peak) and 2033



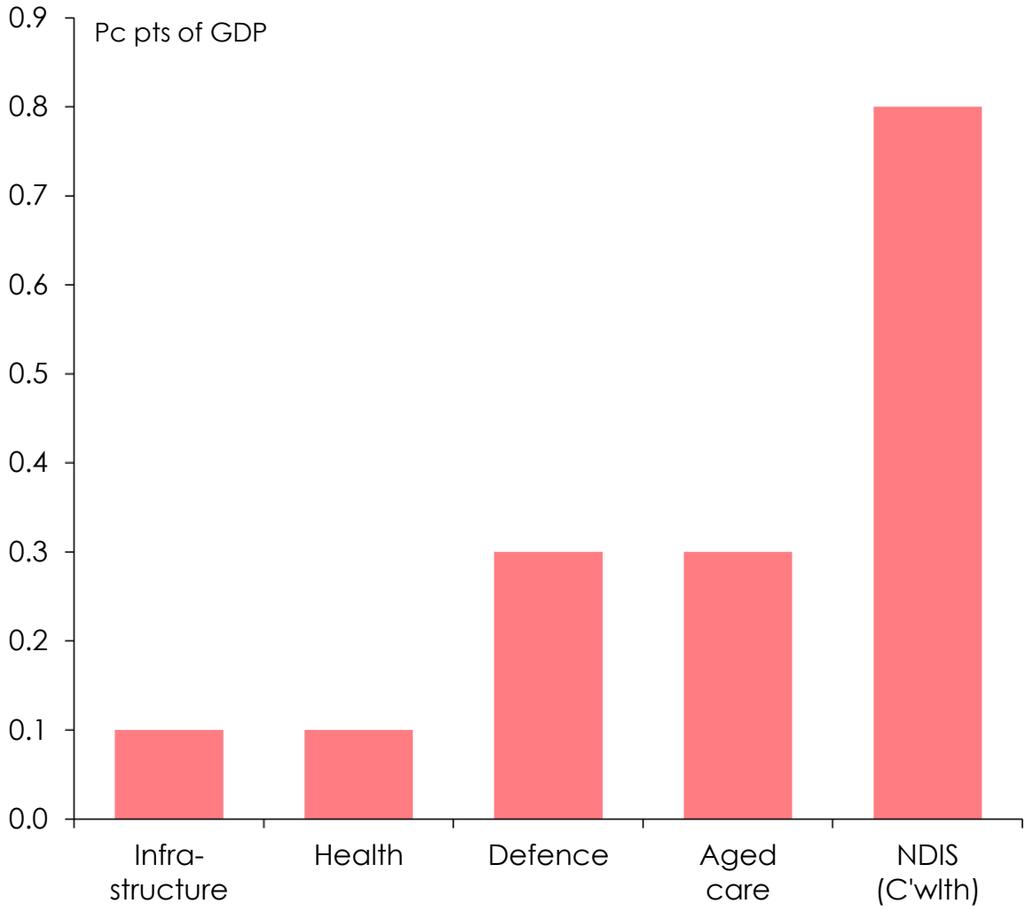
Note: Data are in financial years. Debt excludes issuance for the states. The contribution of interest rates less growth captures the combined direct effect of the former increasing debt and of the latter growing GDP, but not their effects on the headline *primary balance* (the budget balance excluding interest payments). *Source:* Steven Kennedy (Secretary to the Treasury), *Post-Budget economic briefing - opportunities and risks*, address to Australian Business Economists, 8th June 2022.

Federal Government spending seems likely to be around 1½ pc pts of GDP higher over the next decade than over the past 45 years

'Underlying' cash payments as a pc of GDP



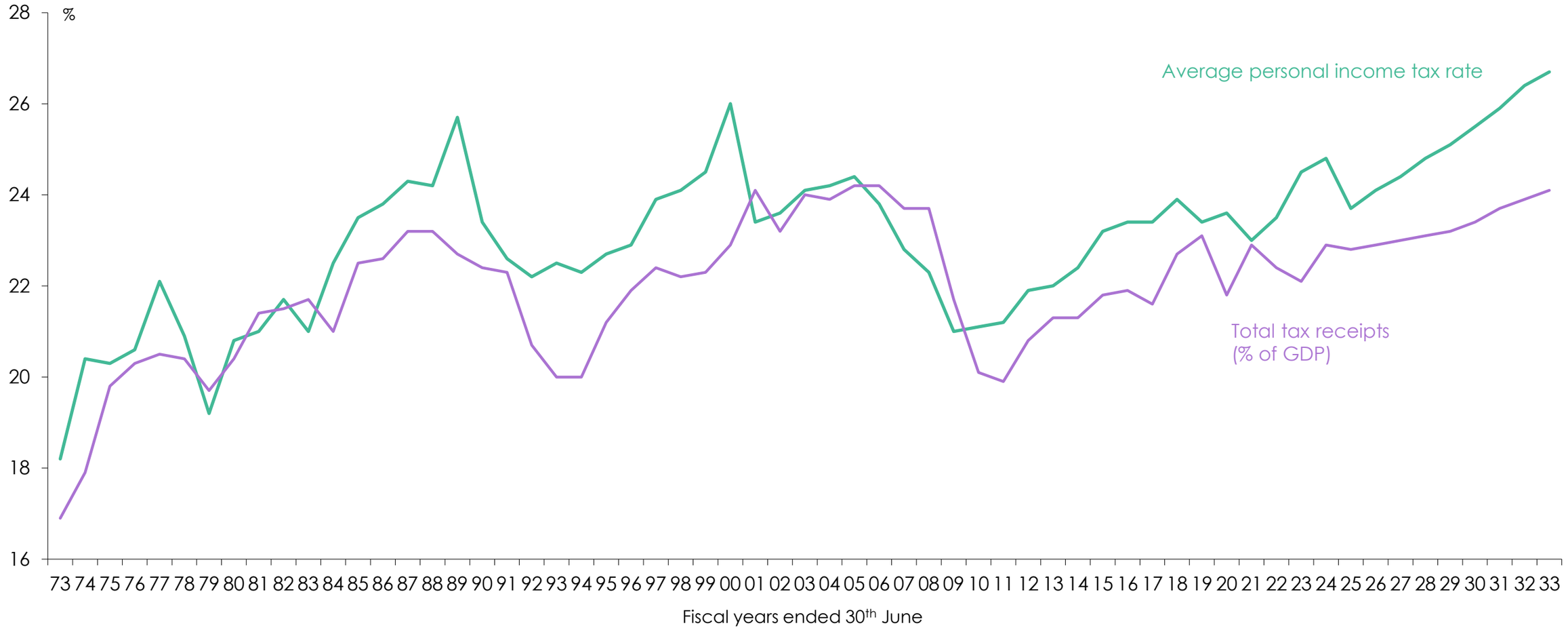
Changes in payments between 2018-19 and 2025-26



Note: Averages for government spending as pc of GDP exclude temporary Covid support measures since 2019-20. *Source:* Steven Kennedy (Secretary to the Treasury), *Post-Budget economic briefing - opportunities and risks*, address to Australian Business Economists, 8th June 2022.

In the absence of tax reform, current budget projections imply personal income tax rates rising to record levels by the late 2020s

Average personal income tax rates, and total tax receipts as a percentage of GDP



Source: Steven Kennedy (Secretary to the Treasury), *Post-Budget economic briefing - opportunities and risks*, address to Australian Business Economists, 8th June 2022.

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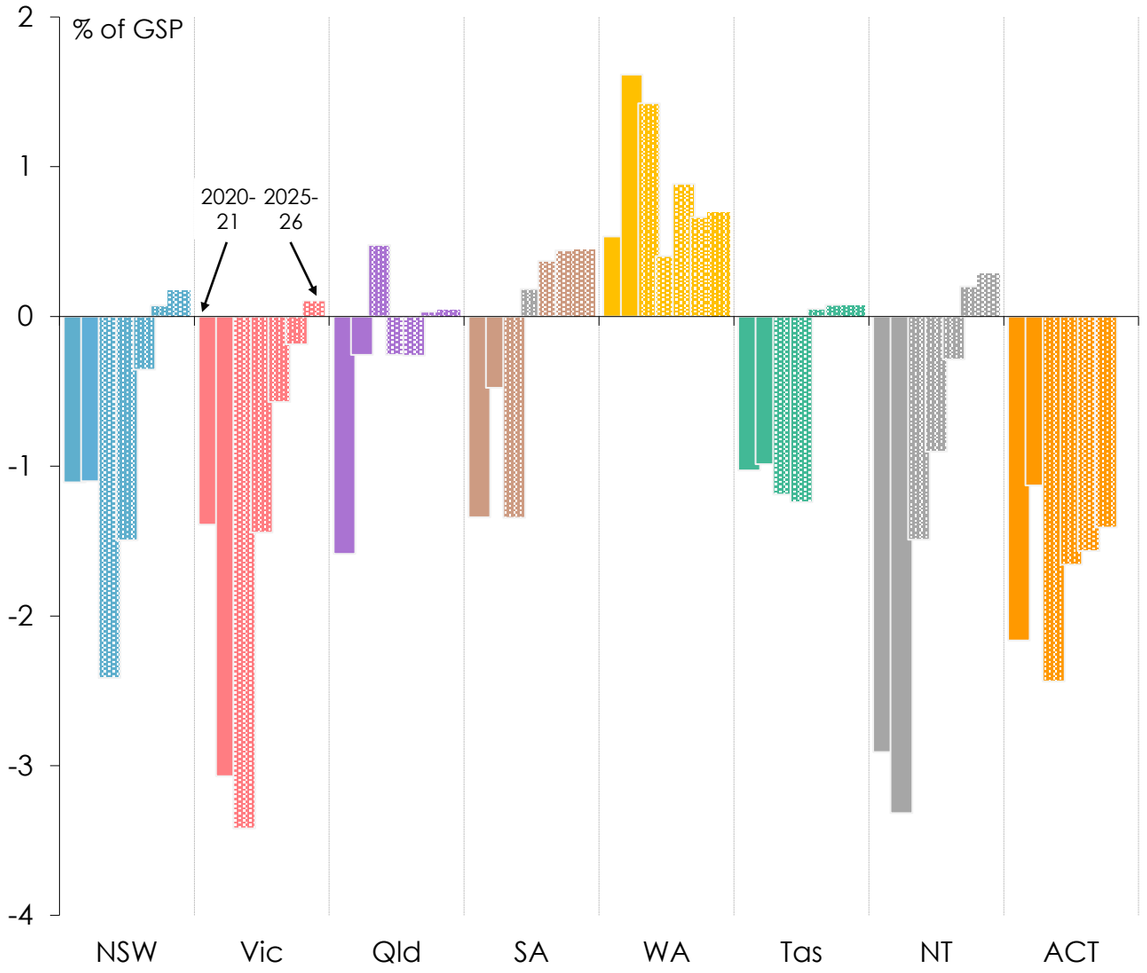
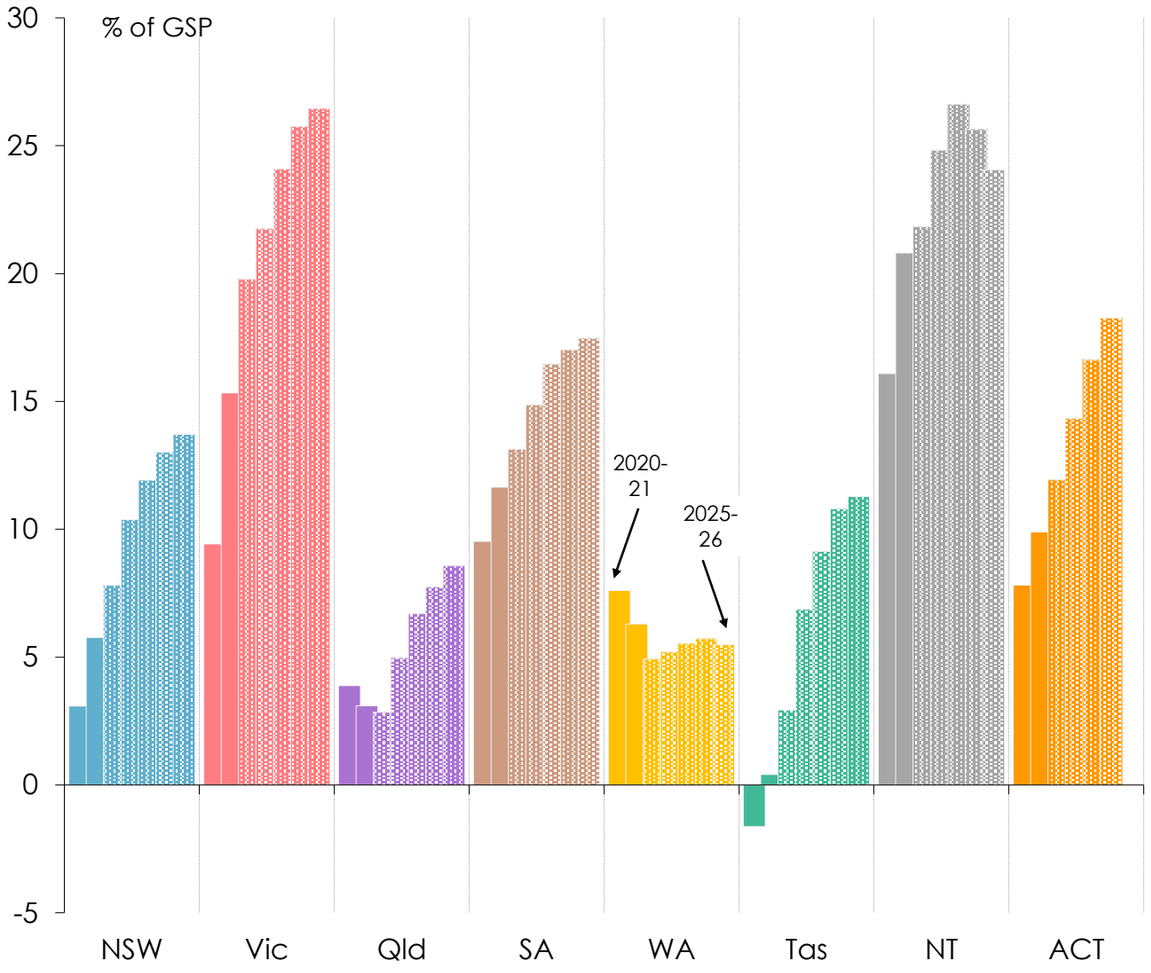
Some states and territories – particularly Victoria and the Northern Territory – also face significant fiscal challenges

States and territories – 'net operating balances'



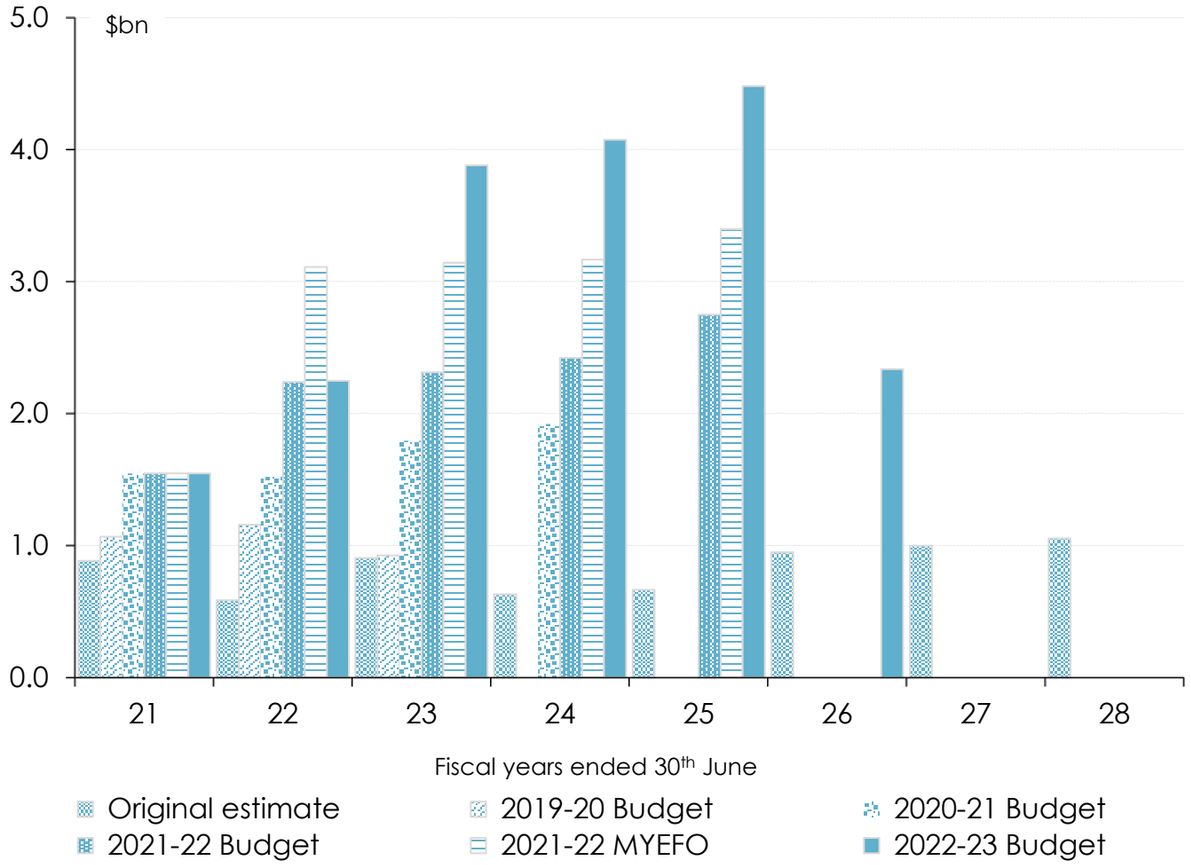
States and territories – net debt



Note: Estimates are for the 'general government' sector, ie excluding GBEs, etc. 'Net operating balance' is the difference between 'operating expenses' (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or Treasury estimates of real GSP growth combined with Federal Treasury estimates of the (national) GDP price deflator. *Sources:* State and Territory 2022-23 Budget Papers, except for the ACT which is the 2021-22 Mid-Year Review. Return to "What's New".

Those challenges have been exacerbated by the appalling 'deal' to give WA a bigger share of the GST revenue than it deserves

Successive estimates of the cost to the Federal Budget of the 'transition' to the new GST revenue-sharing arrangements 'agreed to' in 2018



- **The 2022-23 Budget Papers put the cost to the Federal Budget of the 'deal' imposed on the states and territories in 2018, in order to appease Western Australia's demands for larger share of GST revenues than it was 'entitled' to under the long-standing principles hitherto used by the Grants Commission to recommend how that revenue should be distributed among the states and territories, at $18.6bn over the six years to 2025-26**
  - this is four times the original estimate of $4.6bn
  - because the iron ore price has stayed much higher than assumed when the original estimate was made,
  - so the 'guarantee' that no other state would be worse off while WA never gets less than 70% of what it would have obtained under a notional 'equal per capita' distribution has become much more expensive
- **It's simply scandalous that the Federal Government has to add almost $20bn to its deficits in order to transfer a similar amount to the only government in Australia which is running budget surpluses**

Sources: Australian Government, *Interim response to Productivity Commission inquiry into horizontal fiscal equalization*, 5th July 2018; and 2022-23 *Budget Paper No. 3: Federal Financial Relations*, 29th March 2022.

Key risks and challenges for the Australian economy

- **Continued, possibly escalating, geo-political tensions**
  - most obviously, a broadening of the conflict in Ukraine, and/or an attempt by China to grab Taiwan
  - but also plausibly, the return of Donald Trump (or someone like him) to the White House in 2025
- **Recessions in major advanced economies**
  - caused by sustained large increases in food & energy prices,
  - and/or by central banks pushing rates 'too high for too long', or inadvertently precipitating a large fall in asset prices
- **Big falls in commodity prices**
  - most likely caused by recessions in the US and Europe combined with the ongoing slowdown in China, but perhaps alternatively precipitated by the end of the conflict in Ukraine
- **Recession in Australia**
  - not a high-probability scenario, but most plausible cause would be the RBA 'mis-judging' the amount of monetary policy tightening required to bring inflation back down to within its 2-3% target range
  - another possible trigger could come from an abrupt and large fall in commodity prices
- **'De-globalization'**
  - the desire to 'de-risk' supply chains (through 'friend-shoring' and the like) is understandable, but could become a Trojan Horse for (never-far-from-the-surface) protectionist instincts
- **Another pandemic**
  - Australia (like most other countries) is less well-placed to do again what it did in response to Covid-19
  - and the public may be weary of mobility restrictions and other health measures
- **Climate change**
  - 'extreme weather events' are clearly becoming both more frequent and more damaging
  - the tensions between emissions reductions objectives and 'energy security' are become more intense