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# **The World and Australian economies in a nutshell**

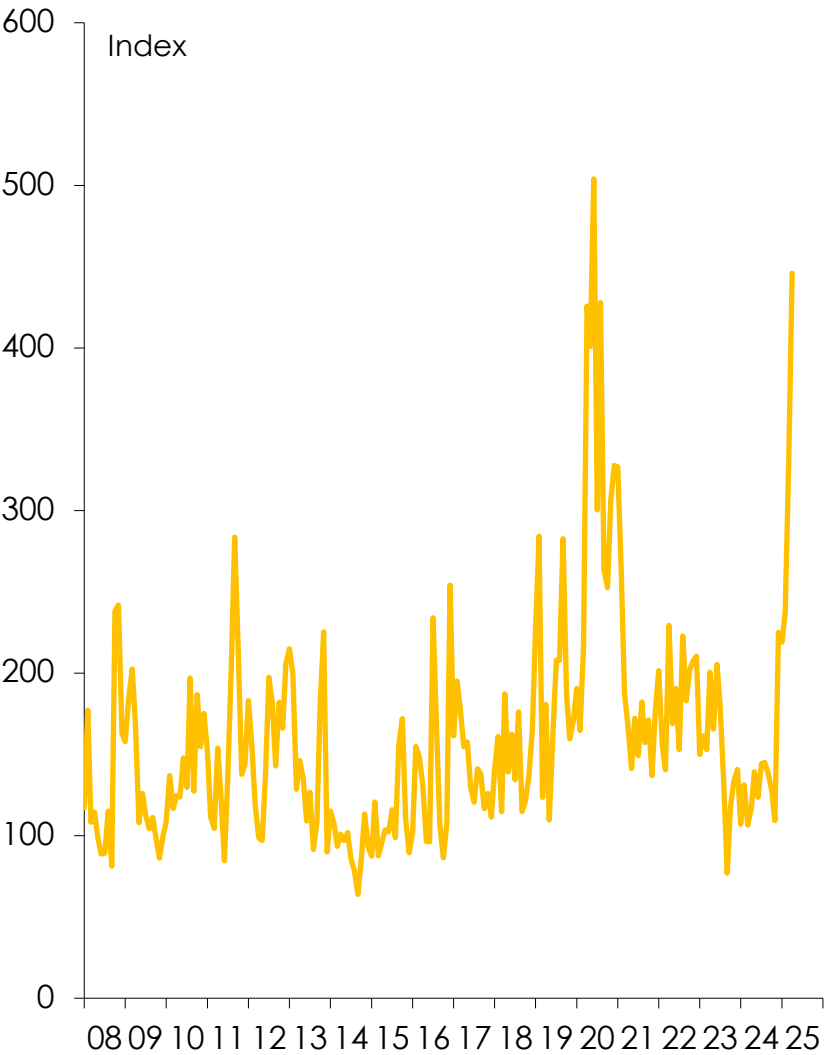
**Saul Eslake**

**12<sup>th</sup> June 2025**

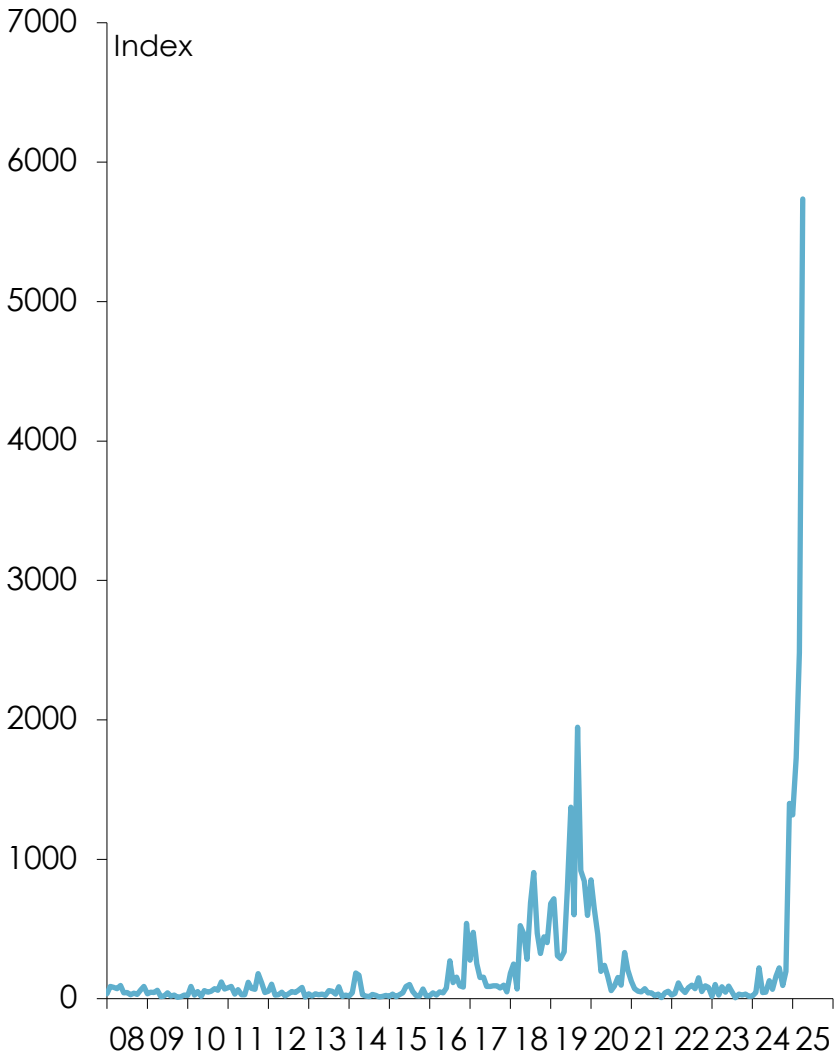
# The economic consequences of Mr Trump

# Uncertainty about US economy policy is pervasive – and while a lot of that is about trade, it's not *all* about trade

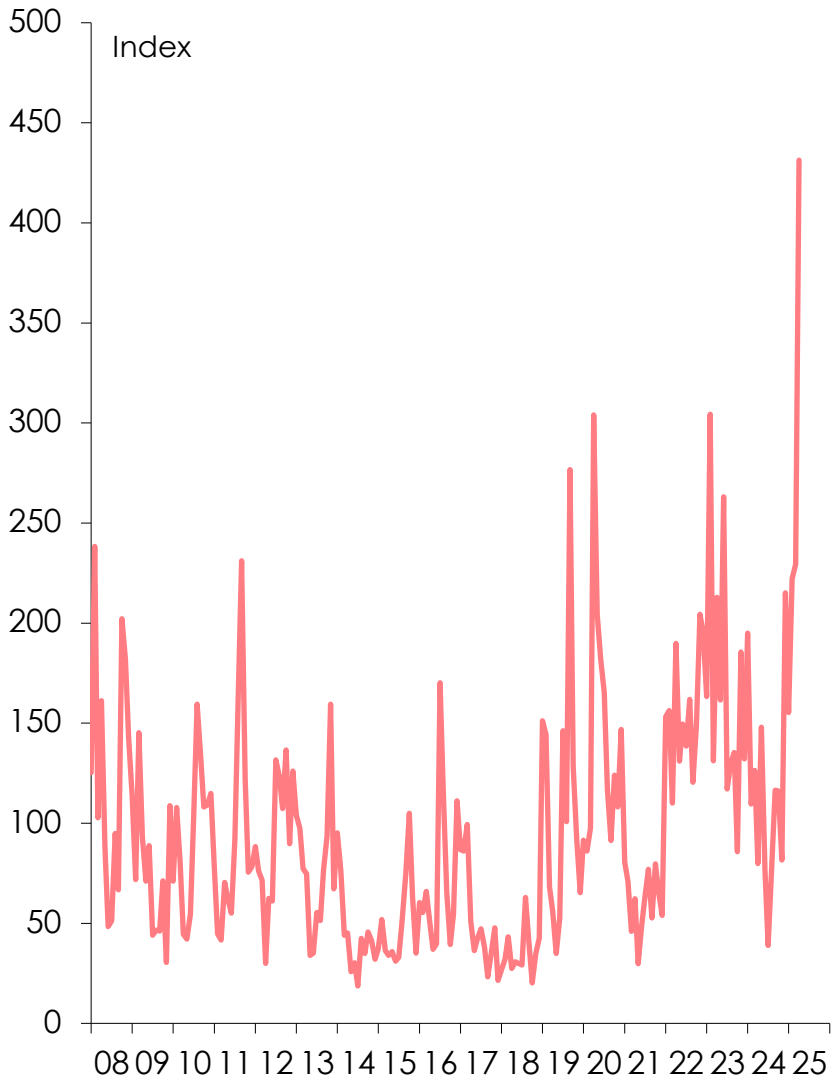
US economic policy uncertainty



US trade policy uncertainty



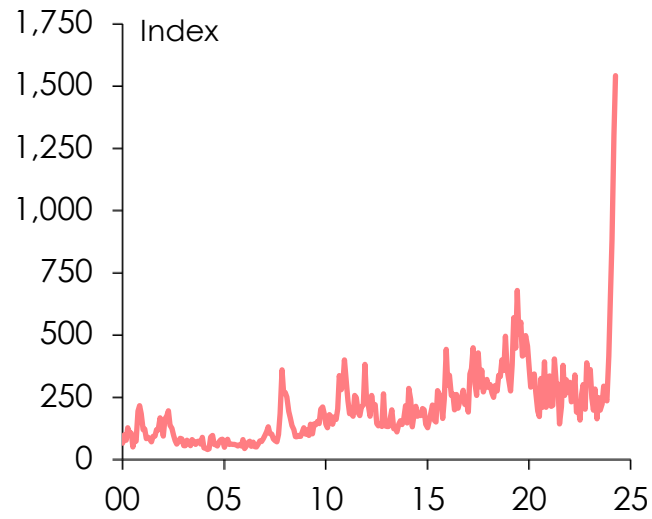
US monetary policy uncertainty



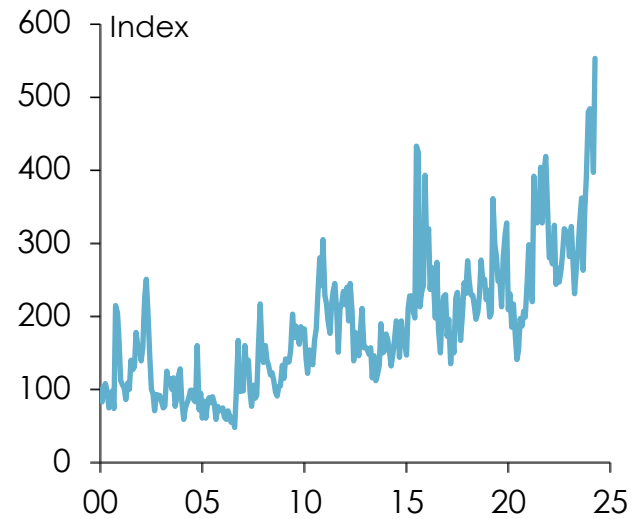
Note: The Economic Policy Uncertainty Index is an index of search results from 10 US large newspapers for articles search for articles containing the term 'uncertainty' or 'uncertain', the terms 'economic' or 'economy' and one or more of the following terms: 'congress', 'legislation', 'white house', 'regulation', 'federal reserve', or 'deficit'.  
Sources: Dario Caldara and Matteo Iacoviello, [US Monthly Economic Policy Uncertainty Index](#).

# Uncertainty about US economic and trade policies – and reactions by other countries – is pervasive around the world

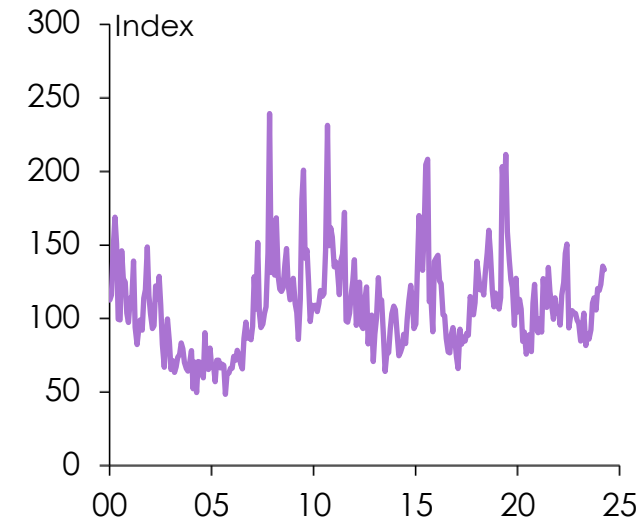
Canada



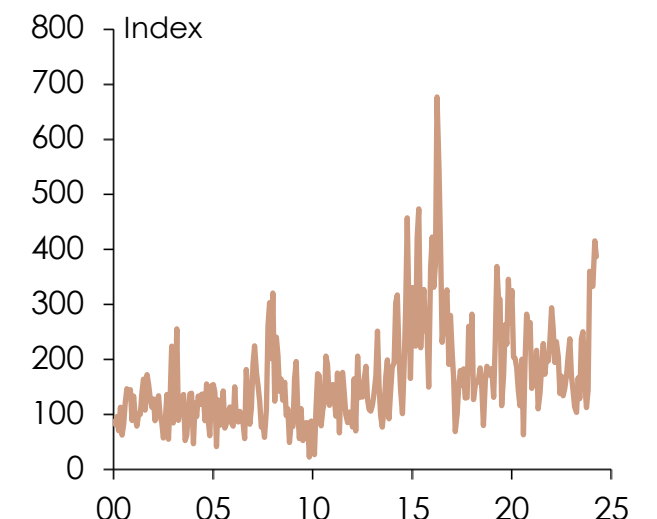
Europe



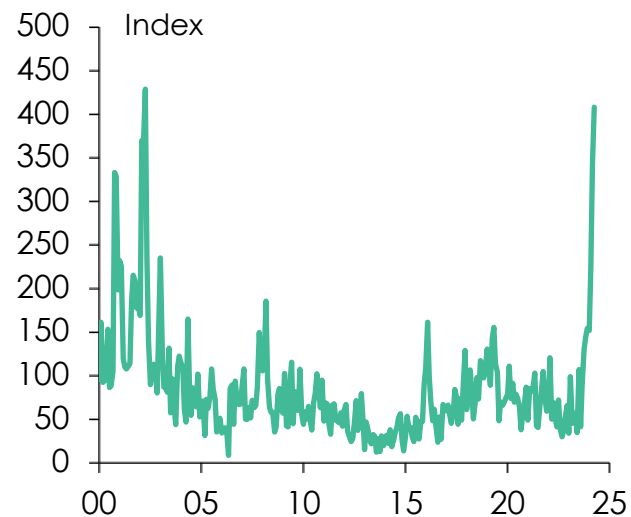
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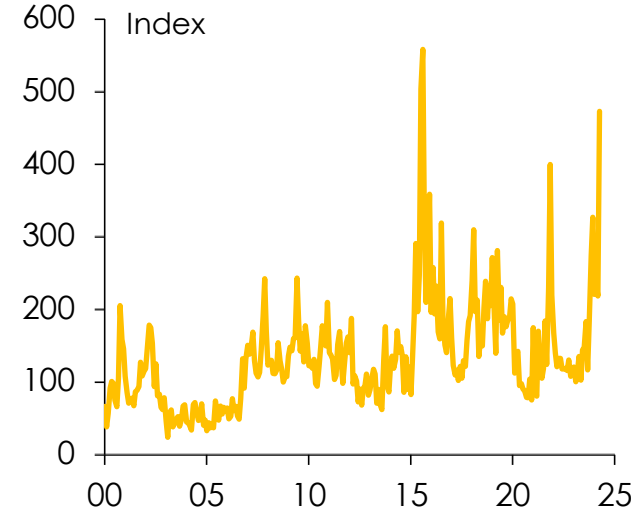
Brazil



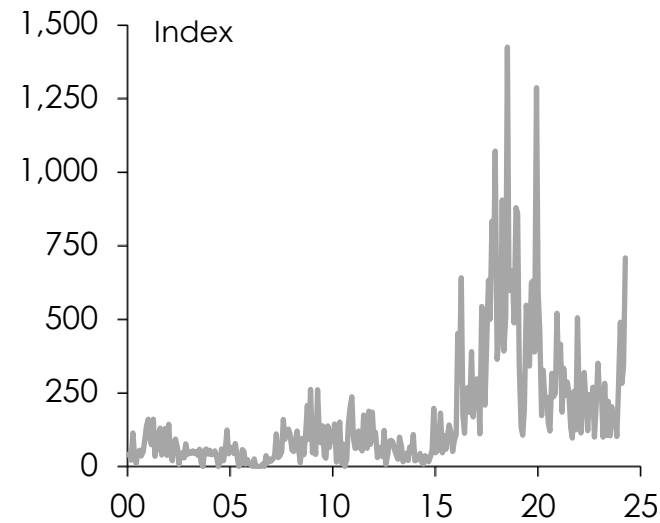
Mexico



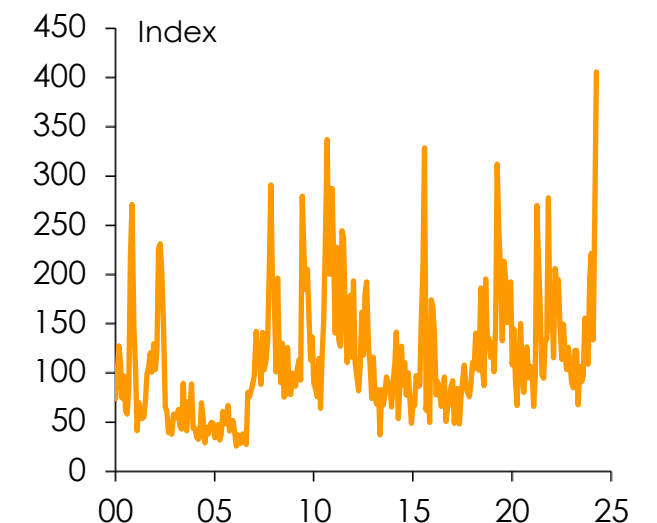
United Kingdom



China

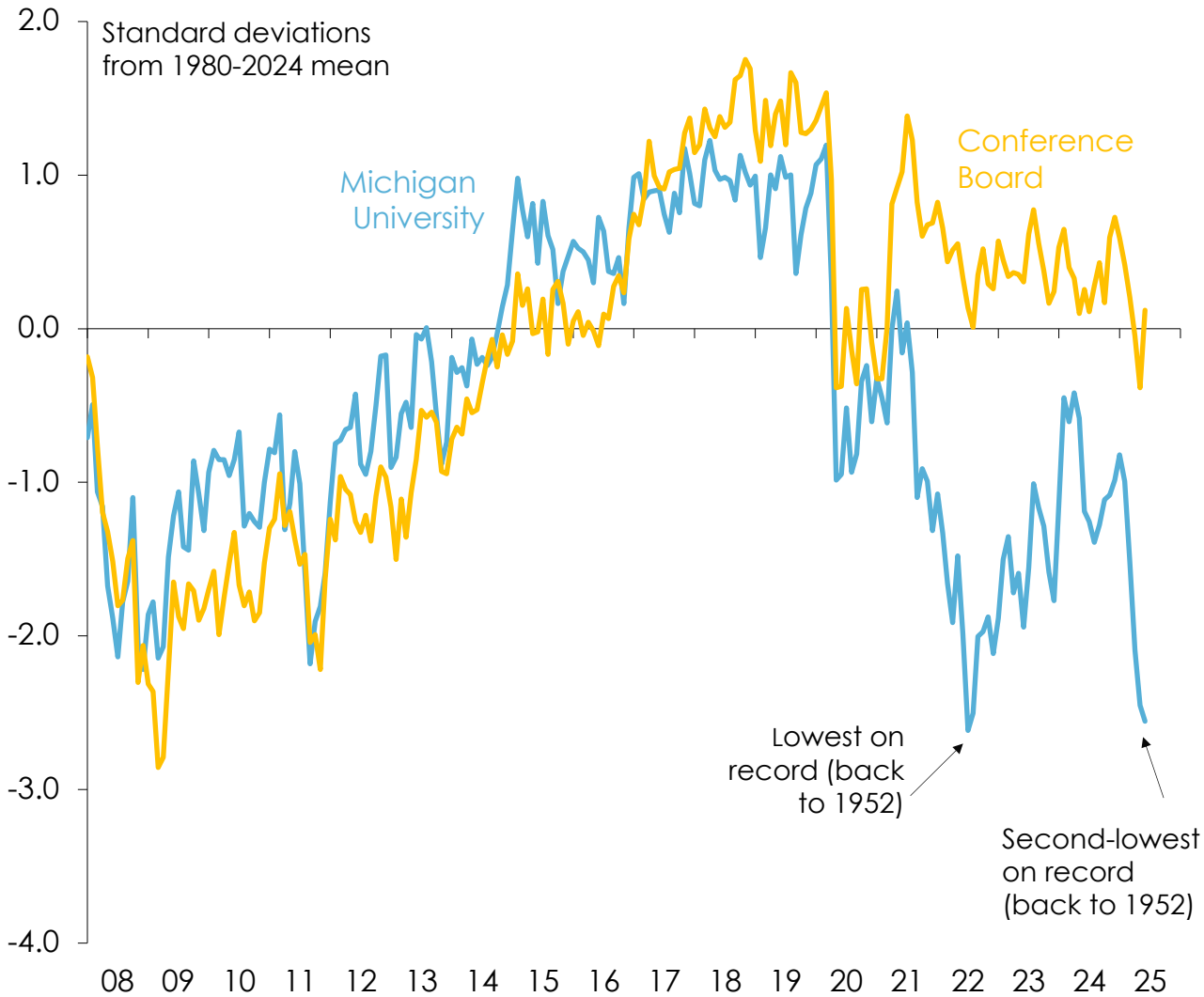


Australia

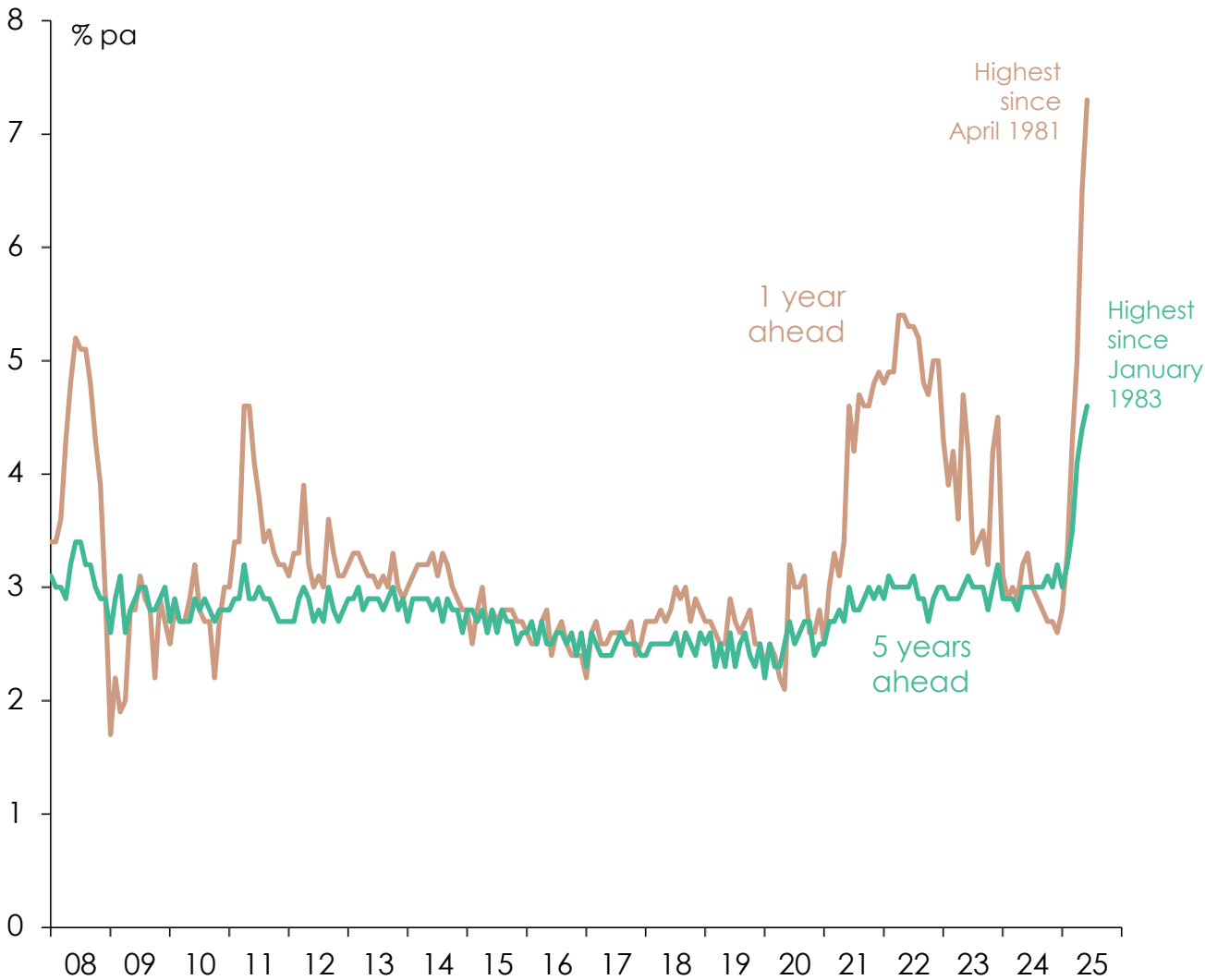


# American households are starting to sense that an economic winter is coming

## Measures of US consumer sentiment



## Household inflation expectations



Note: The Conference Board measure gives much greater weight to consumer perceptions of labour market conditions, while the Michigan University measure gives greater weight to perceptions of inflation. Sources: The Conference Board, [US Consumer Confidence](#); University of Michigan, [Surveys of consumers](#).

# The Trump Administration is trashing America's 'brand' – in the financial markets no less than anywhere else

## US Treasury bond yields



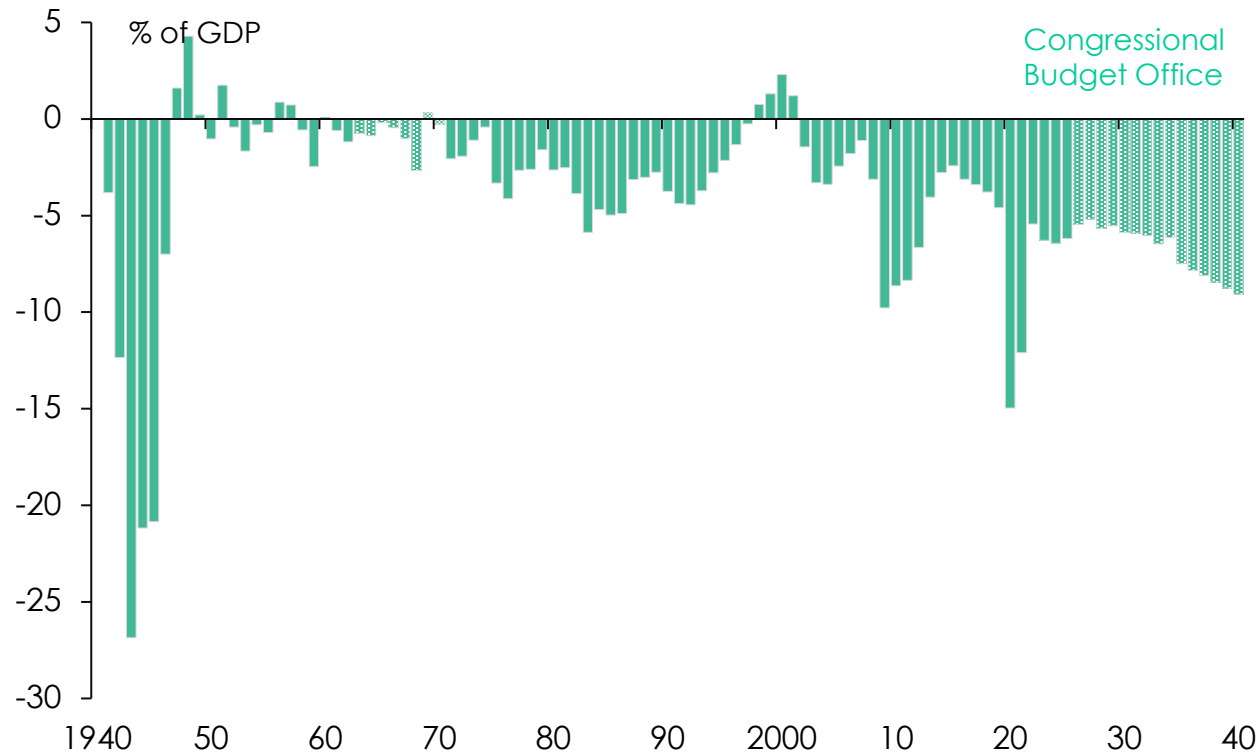
## US dollar vs other major currencies



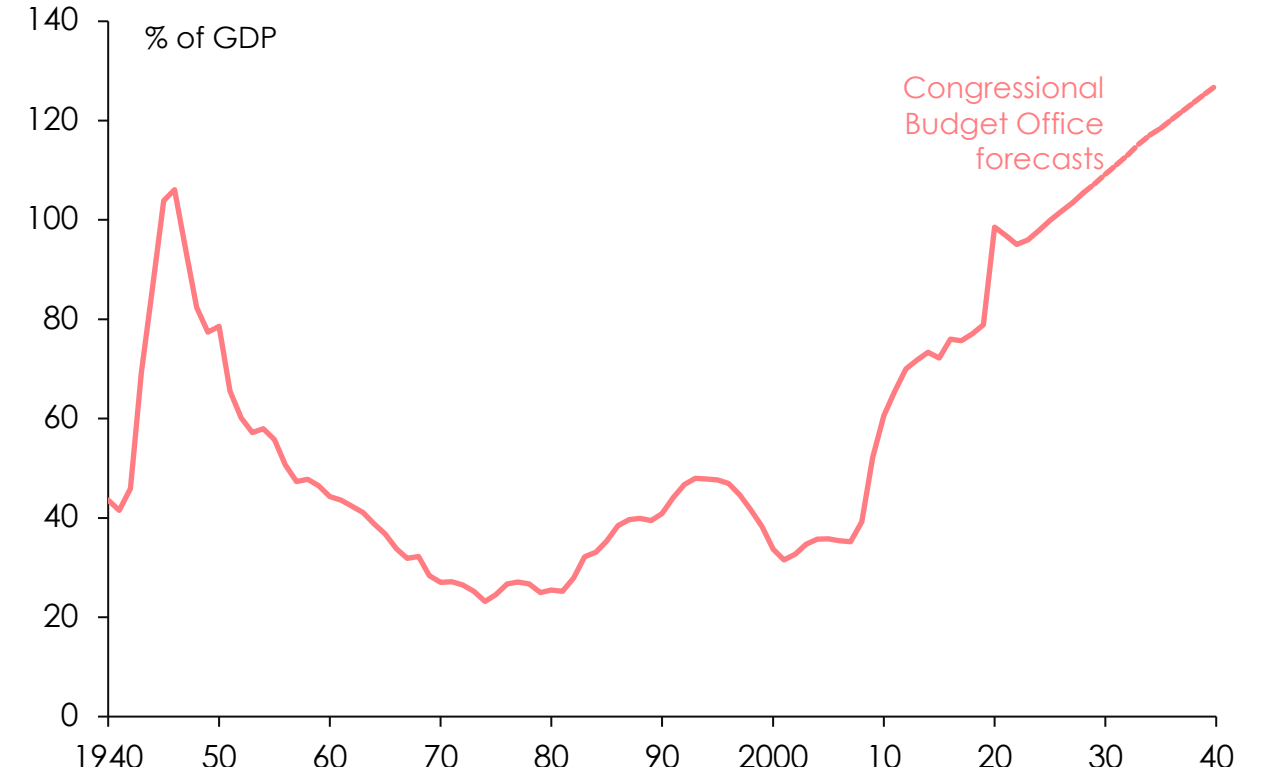
Source: LSEG Datastream.

# The US Budget is already in a fairly dire condition – and Trump’s “One Big Beautiful Bill” will make it even worse

## US Federal budget deficit



## US Federal net debt

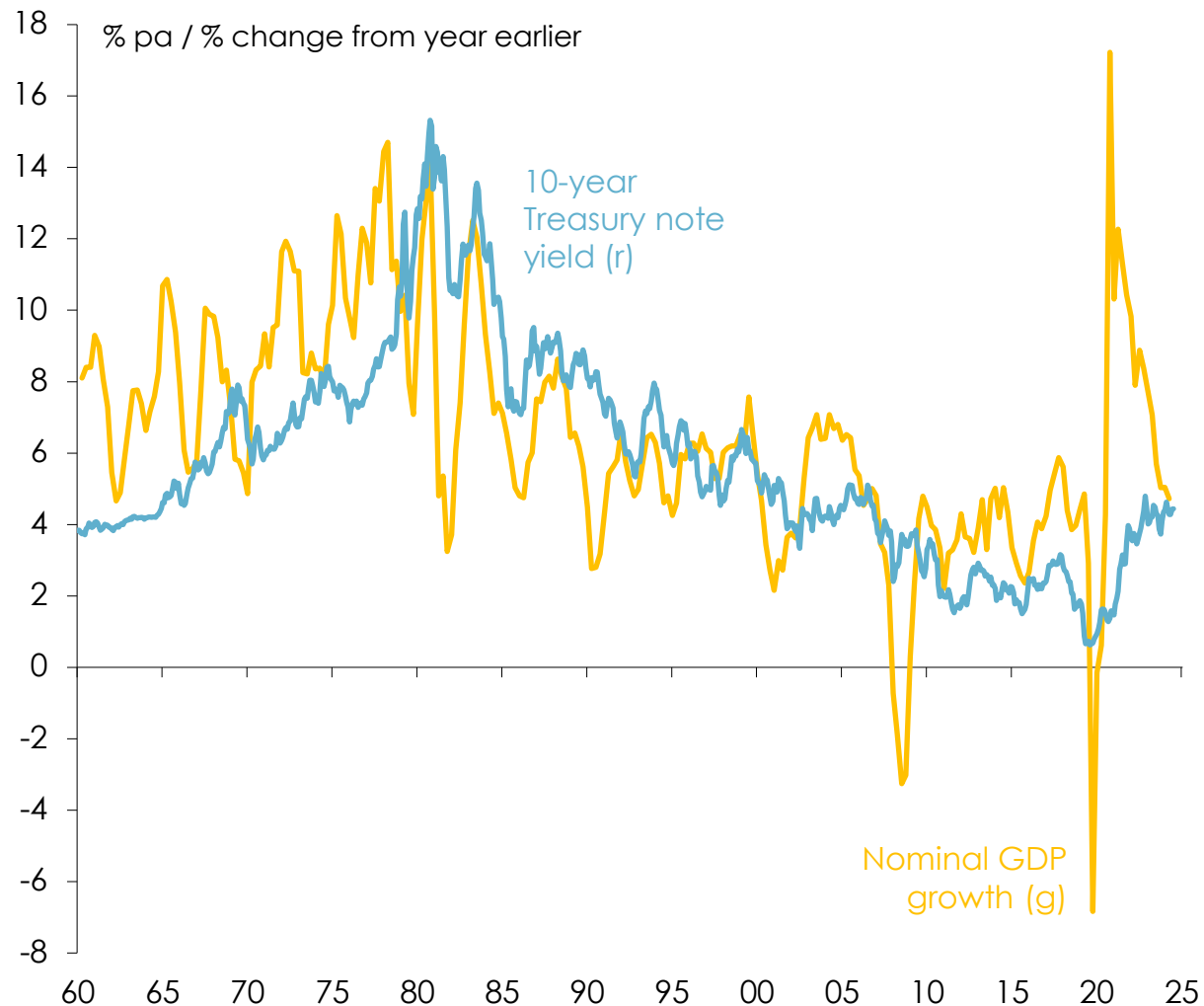


- ❑ The Congressional Budget Office estimates that the ‘One Big Beautiful Bill Act’ will add US\$3.8 trillion to deficits over the fiscal years 2025-34 (on top of the US\$21.1 trillion already forecast on unchanged policies)
- ❑ The Committee for a Responsible Federal Budget estimates that it will add US\$3.1 trillion to deficits over the next decade (or as much as US\$ 5.1 trillion if ‘temporary provisions’ are extended without offsets)

Sources: Congressional Budget Office, [The Budget and Economic Outlook: 2025 to 2035](#), 17<sup>th</sup> January 2025; [The Long-Term Budget Outlook: 2025 to 2055](#), 27<sup>th</sup> March 2025; and [Estimated Budgetary Effects of a Bill to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, the One Big Beautiful Bill Act](#), 20<sup>th</sup> May 2025; Committee for a Responsible Federal Budget, [Breaking Down the One Big Beautiful Bill](#), 21<sup>st</sup> May 2025.

# The US is on the cusp of having higher interest rates on government debt than nominal GDP growth – which could lead to exponential growth in debt

## Interest rates and nominal GDP growth



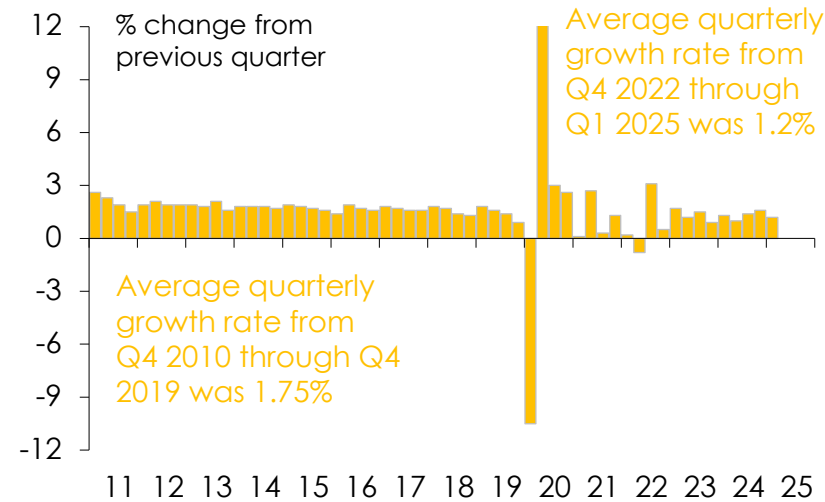
- ❑ In the aftermath of the global financial crisis of 2007-09, and particularly during the Covid-19 pandemic, the ‘conventional economic wisdom’ began to emphasize that, in an environment of historically low interest rates, larger deficits and higher public debt could be sustained
- ❑ In particular, former IMF Chief Economist Olivier Blanchard, in his [February 2019 Presidential Address to the American Economic Association](#), asserted that when interest rates are lower than [nominal] economic growth rates (which he said was “historically the rule rather than the exception”) “the fiscal costs of debt are zero and the welfare costs of debt are small” – a view which came to be widely accepted
- ❑ Now, however, interest rates on US government debt (which have been rising) are almost equal to the growth rate of US nominal GDP (which has been falling)
- ❑ If bond yields were to remain higher than GDP growth for an extended period, deficits and debt would grow exponentially



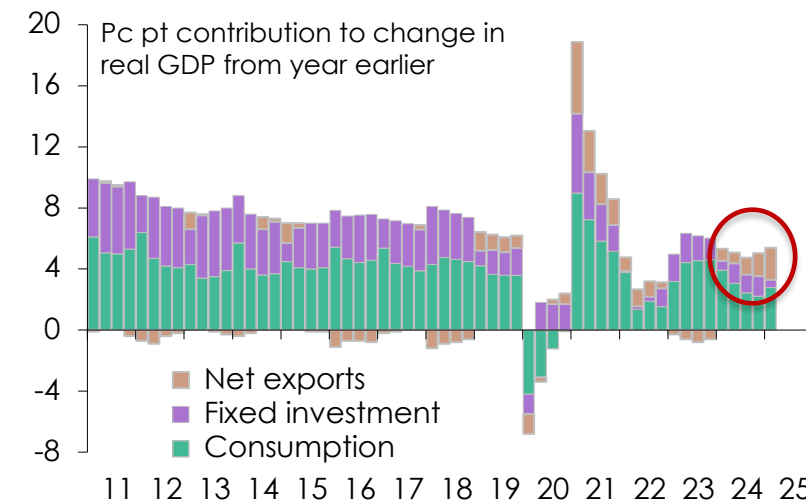
# China – still searching for new drivers of growth

# China's post-Covid recovery has been very modest

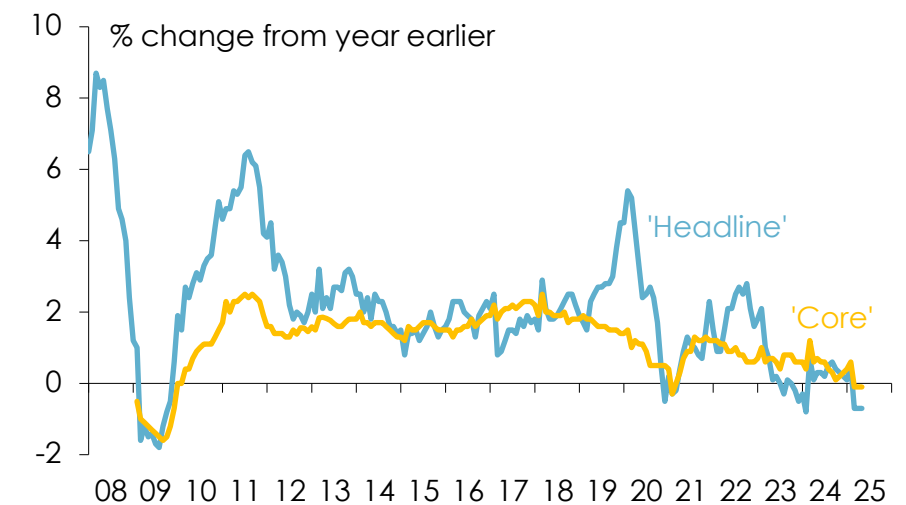
## Quarterly real GDP growth



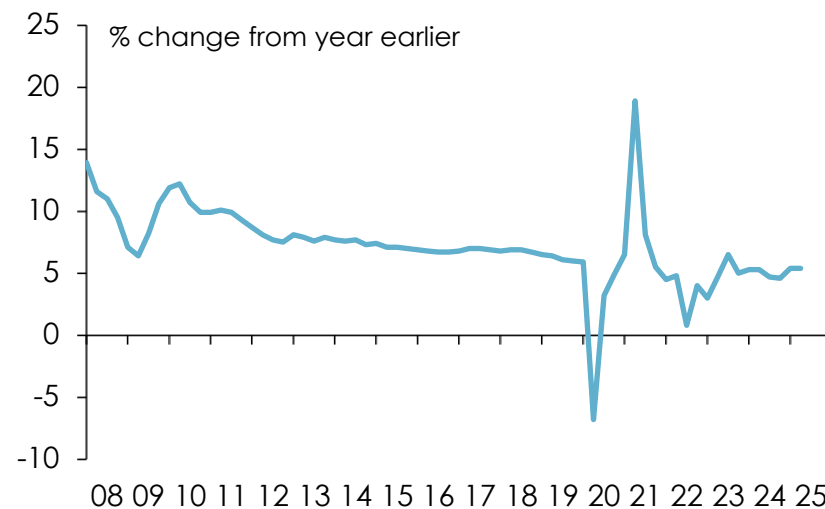
## Contributions to GDP growth



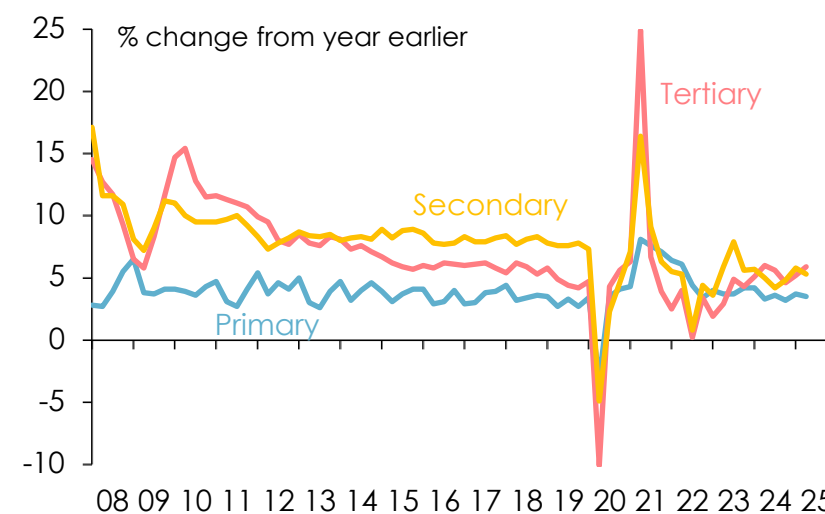
## Consumer prices



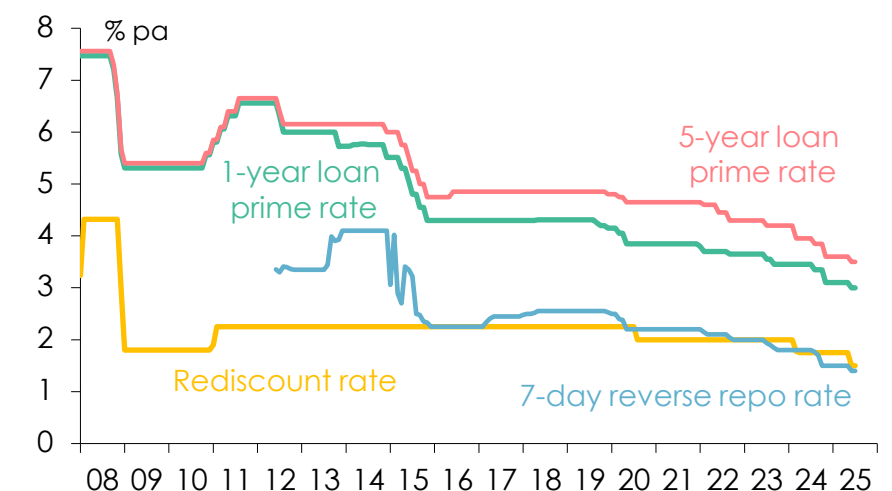
## Annual real GDP growth



## Annual real GDP growth, by sector



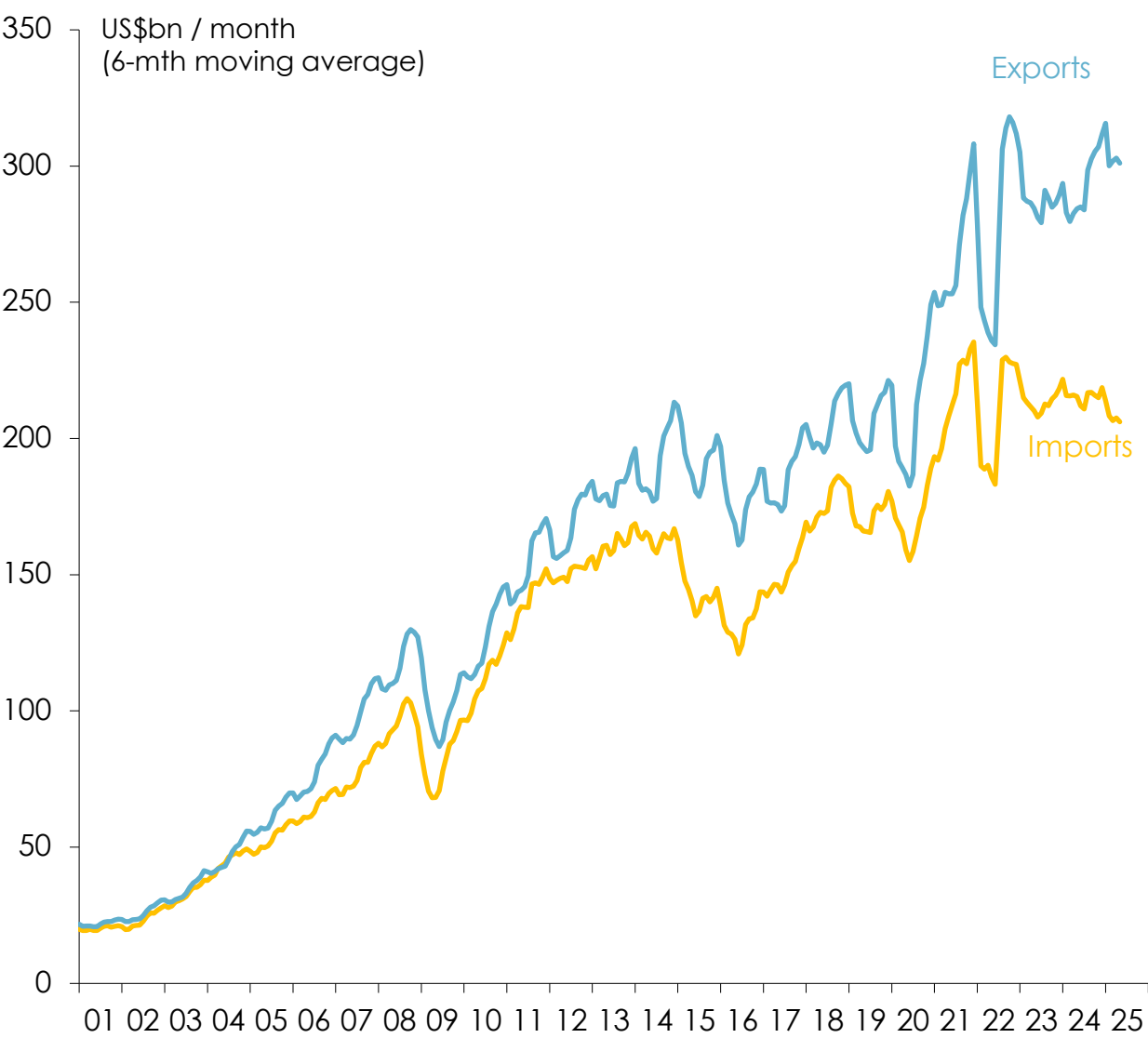
## Interest rates



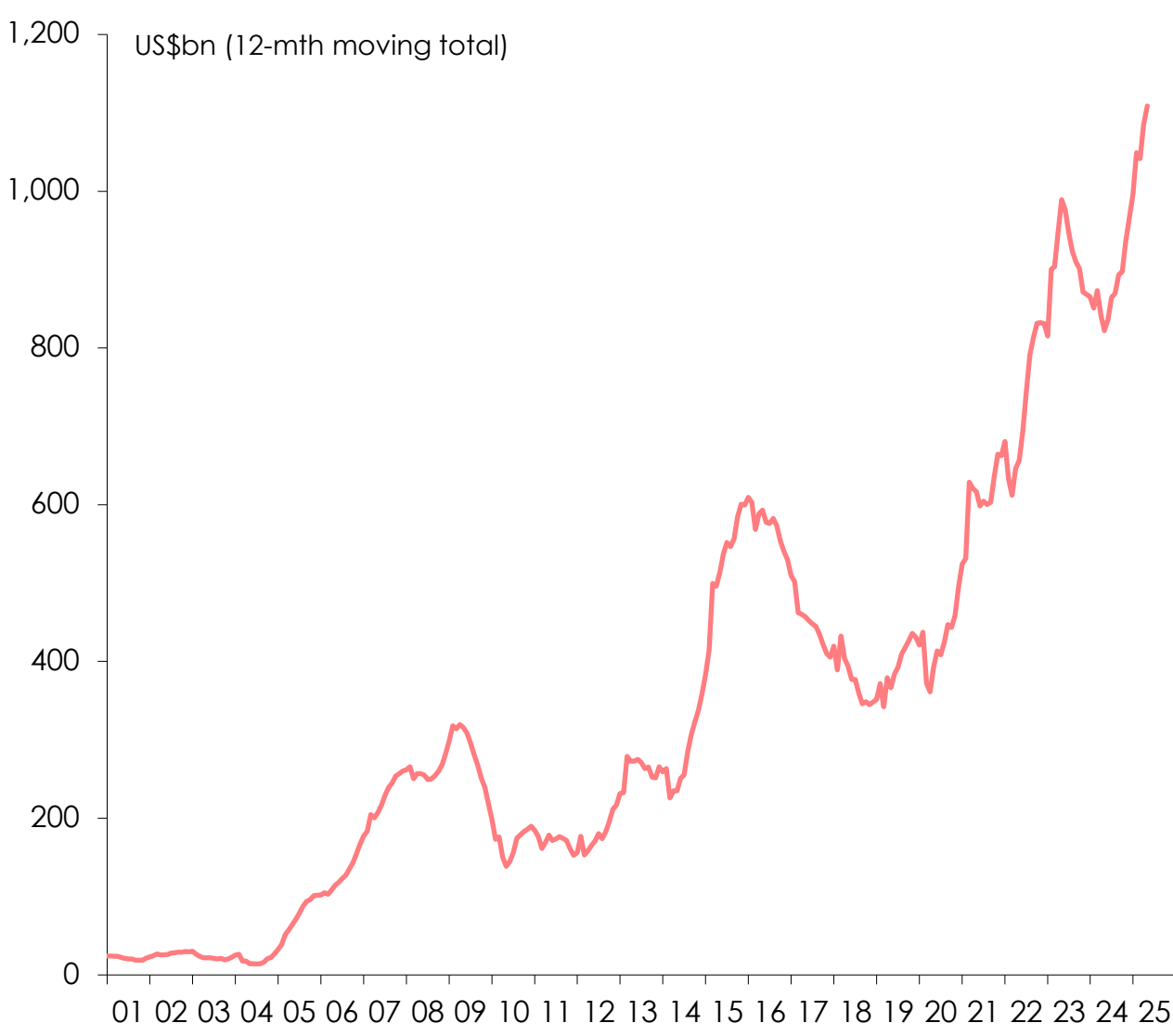
Sources: [National Bureau of Statistics of China](#); [People's Bank of China](#).

# China's merchandise trade surplus is being sustained by weakness in imports as well as in strength in exports ...

China's merchandise exports and imports



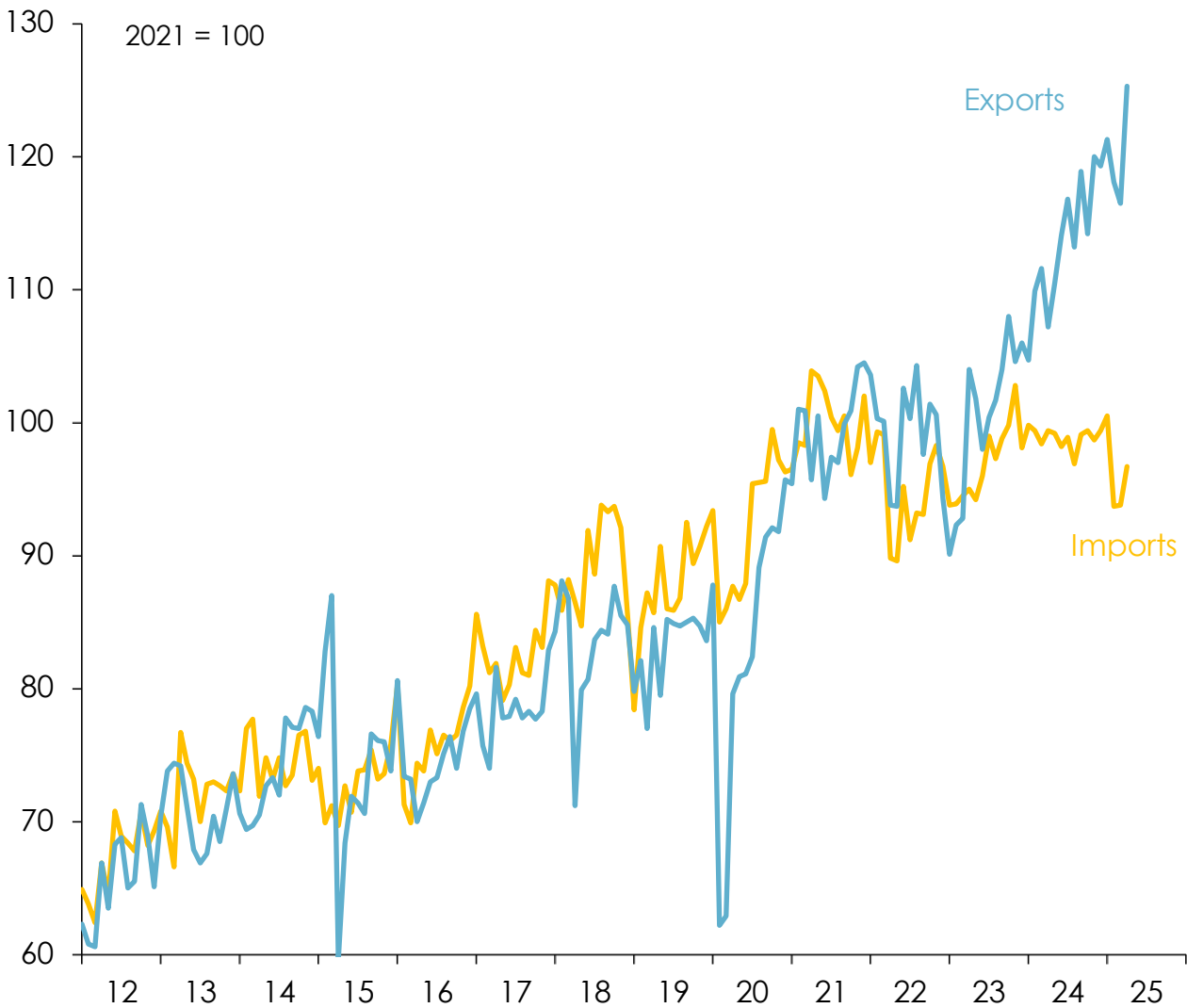
China's merchandise trade surplus



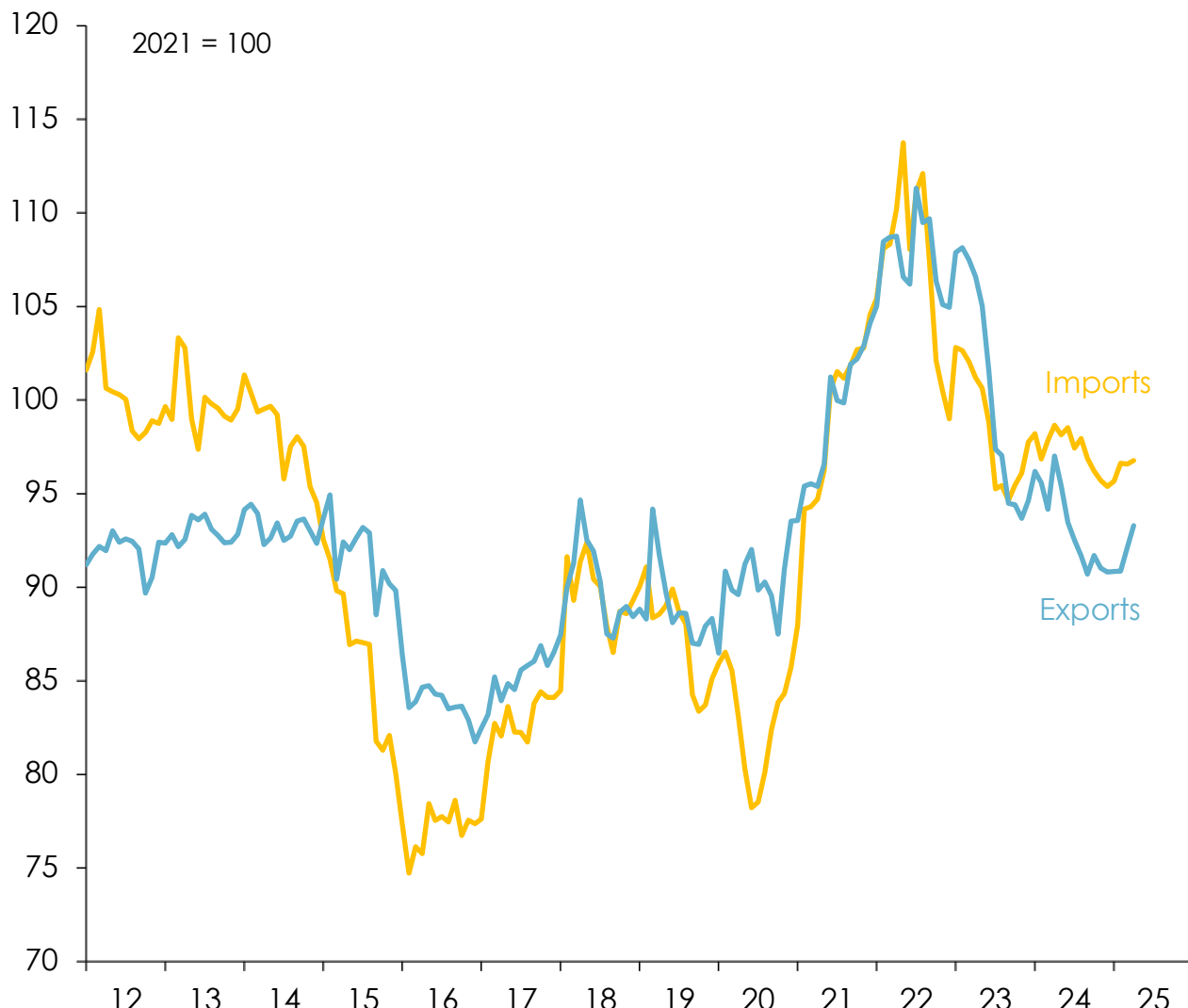
Source: [General Administration of Customs](#).

# ... as is even more obvious when you break the data down into volumes and prices

China's merchandise export and import volumes



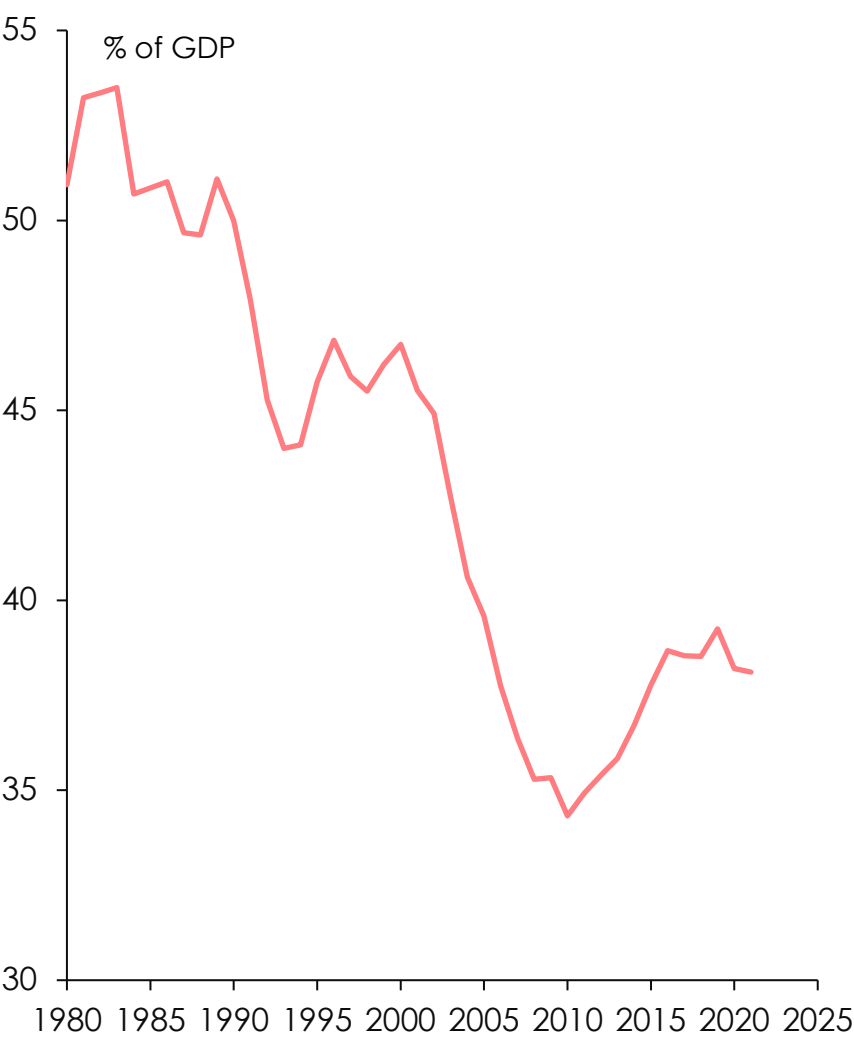
China's merchandise export and import prices



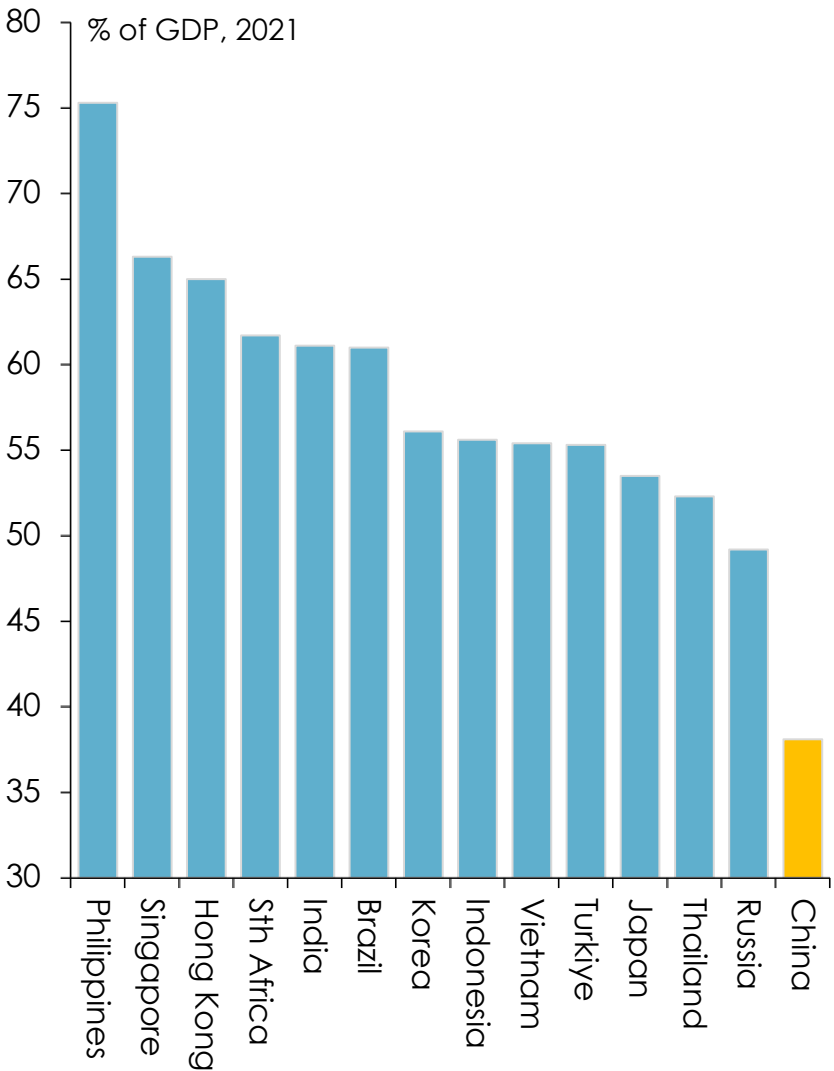
Source: CPB Netherlands Bureau for Economic Policy Analysis, [World Trade Monitor](#).

# In principle, China could sustain stronger growth by lifting household spending, but that won't happen while households feel obliged to save

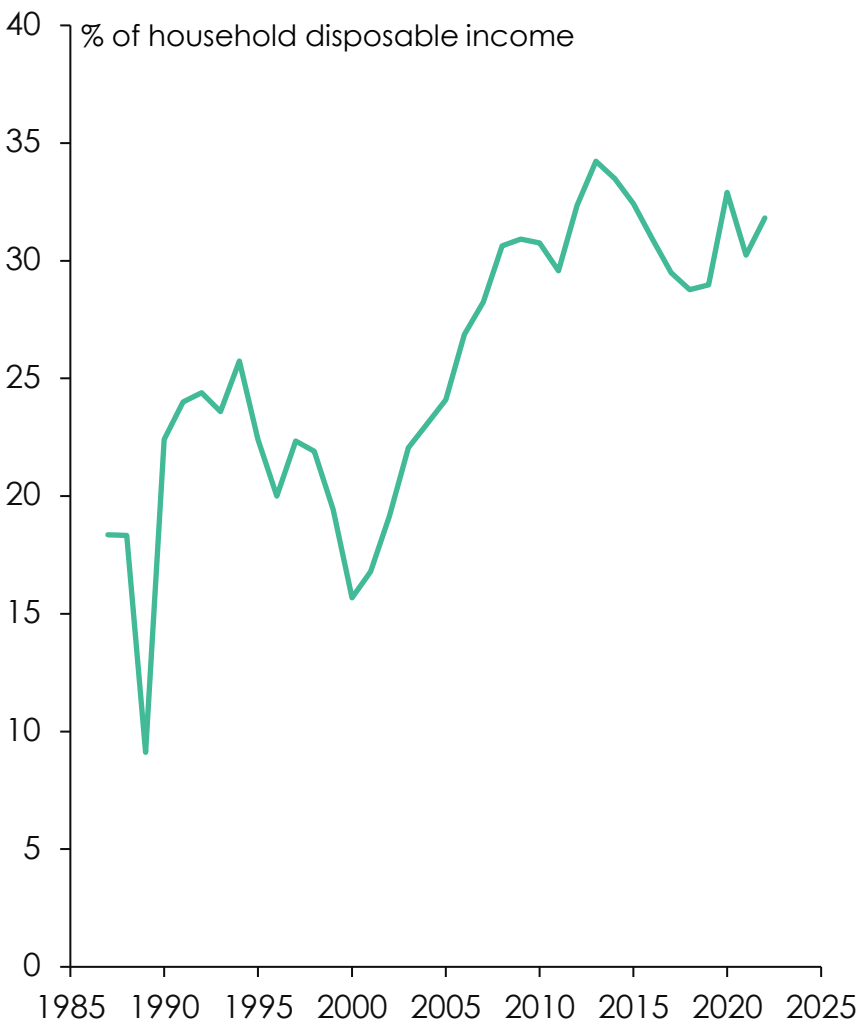
China household consumption as a pc of GDP



Household consumption as a pc of GDP, China & other countries



China household savings rate



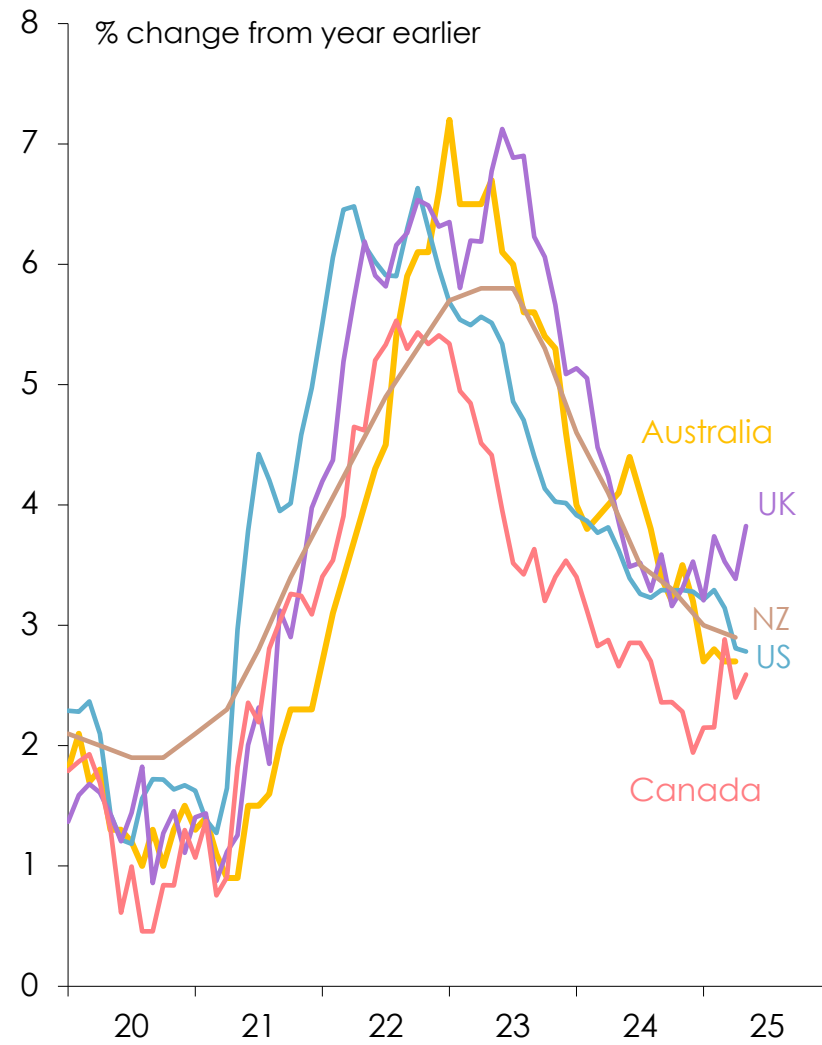
Sources: The World Bank [Data](#); Oxford Economics, [China](#).

# Australia – a relatively low-cost victory over inflation, but significant challenges await

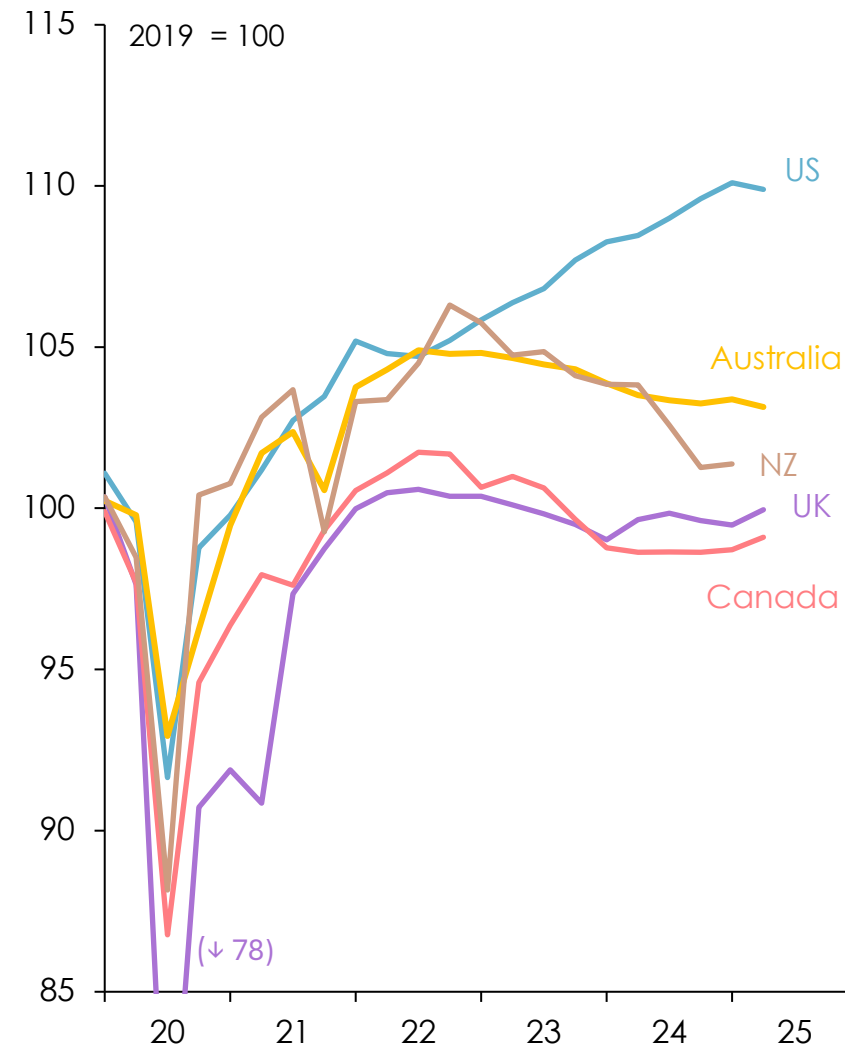


# Australia has succeeded in getting inflation back down to its target range – with less cost in terms of economic growth or unemployment

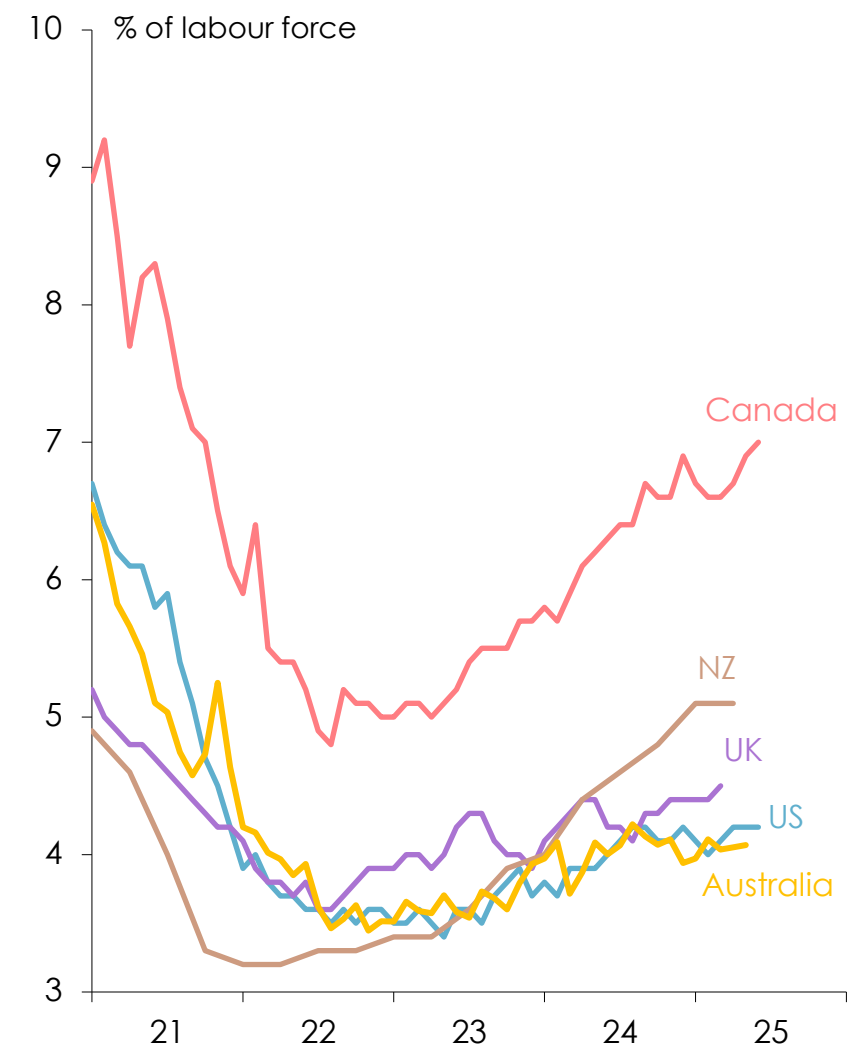
## 'Underlying' or 'core' inflation



## Real per capita GDP



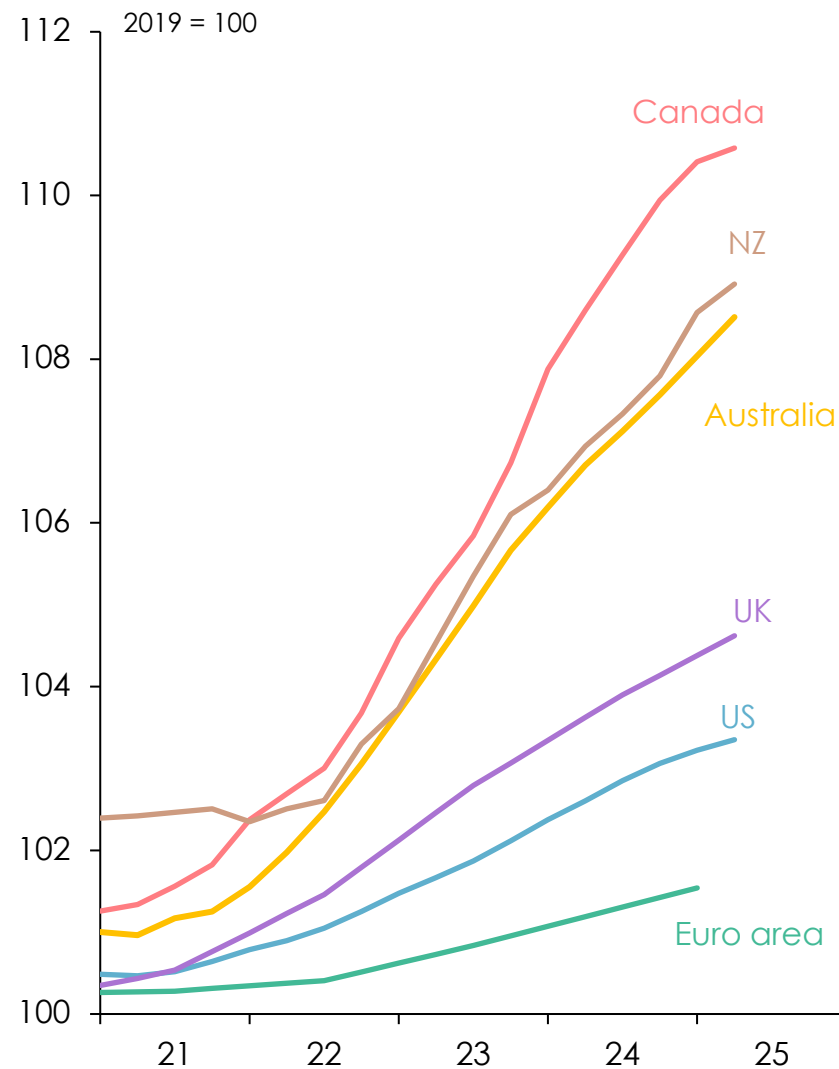
## Unemployment rate



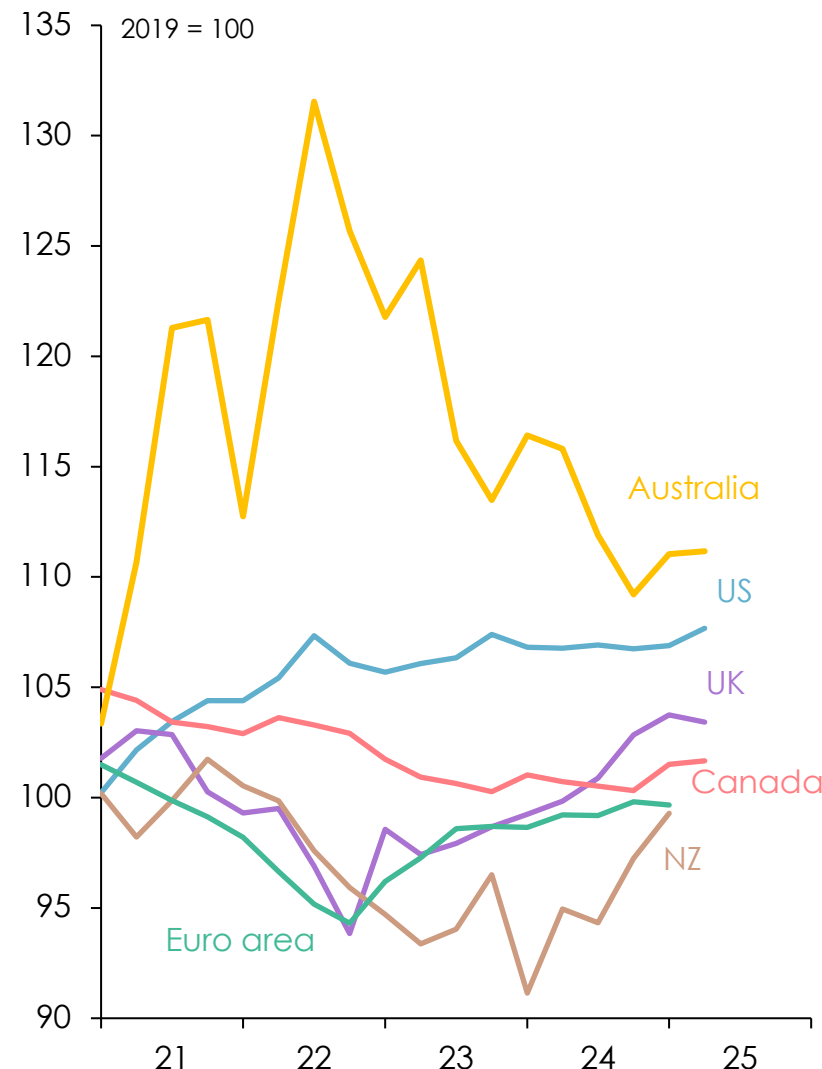
Sources: US [Bureau of Labor Statistics](#) and [Bureau of Economic Analysis](#); UK [Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#); [Statistics NZ](#)

# Australia has relied on population growth, and favourable terms of trade (commodity prices) to obscure an abysmal productivity performance

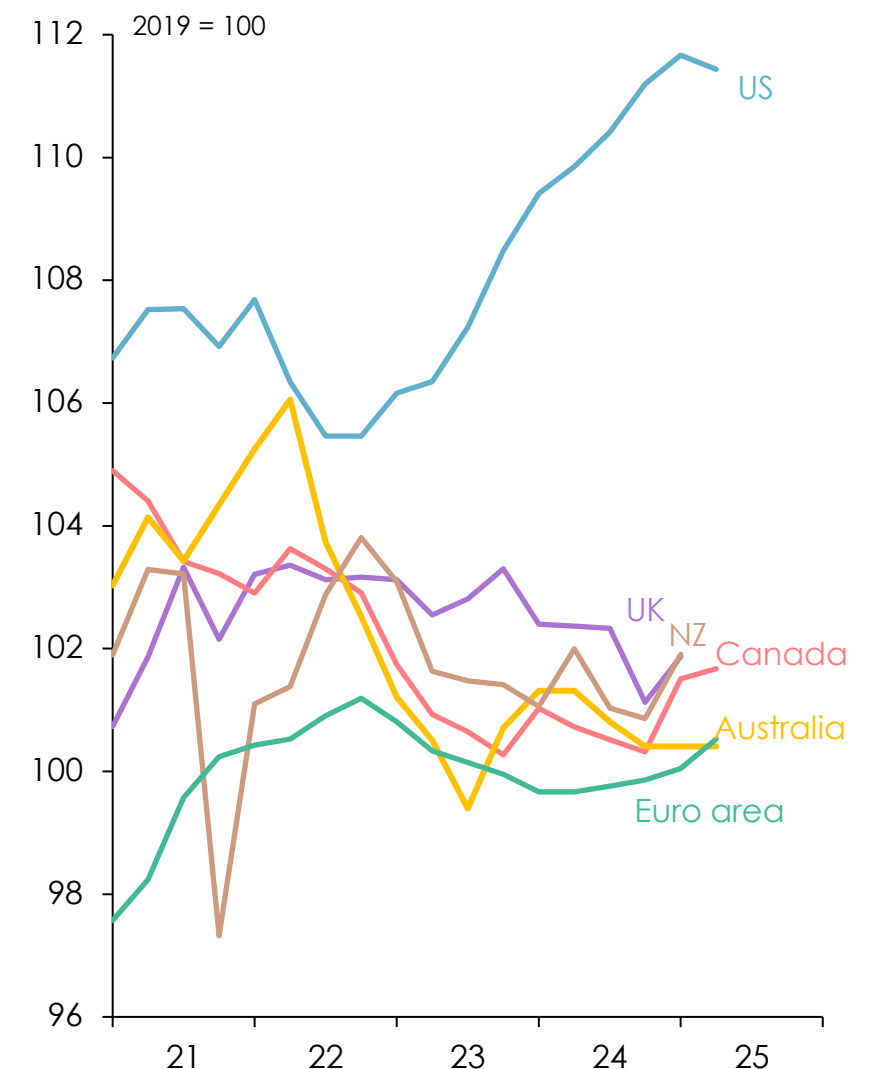
## Population



## Terms of trade (export/import prices)



## Labour productivity

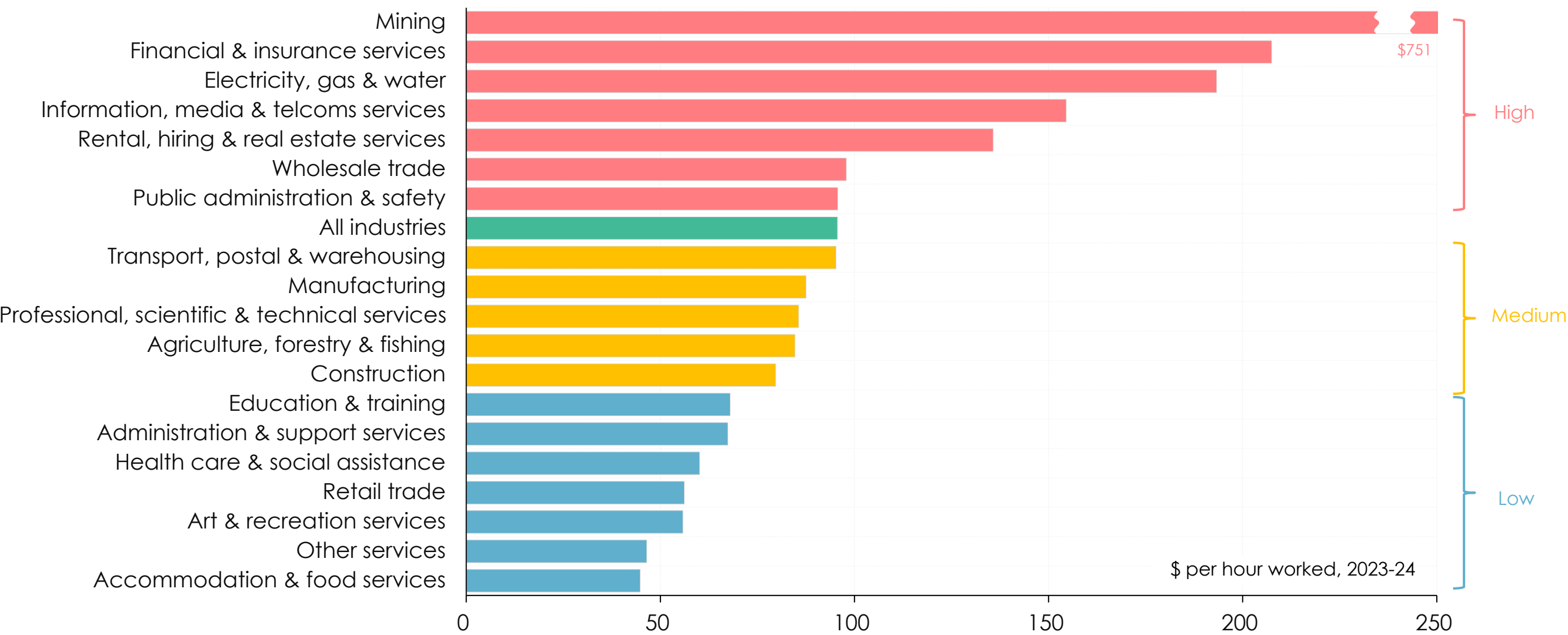


Sources: US [Bureau of Labor Statistics](#) and [Bureau of Economic Analysis](#); [Eurostat](#); UK [Office for National Statistics](#); [Statistics Canada](#); [Australian Bureau of Statistics](#); [Statistics NZ](#).



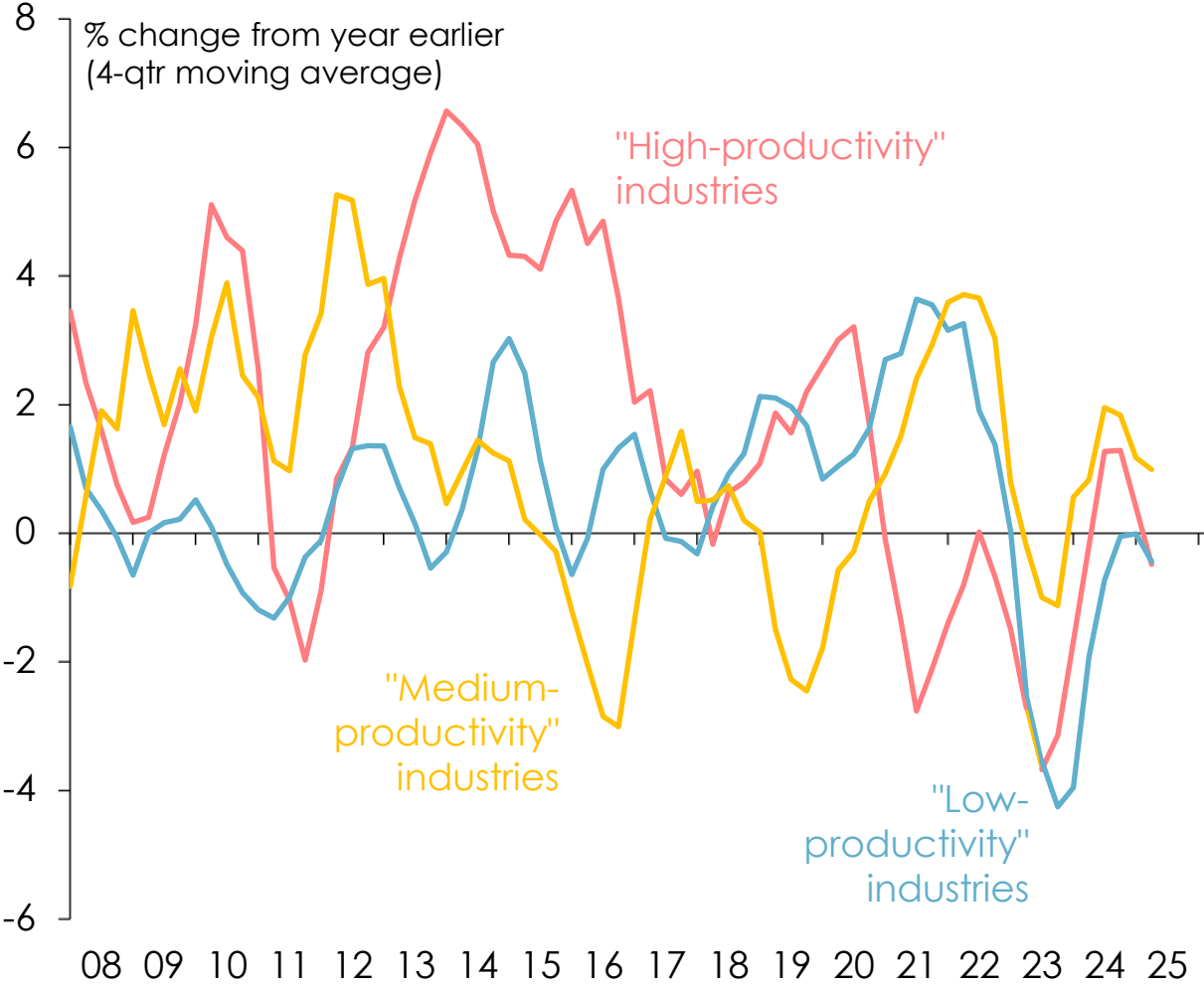
# Some industries have much higher labour productivity than others ...

Australian labour productivity (gross value added per hour worked) by industry, 2023-24

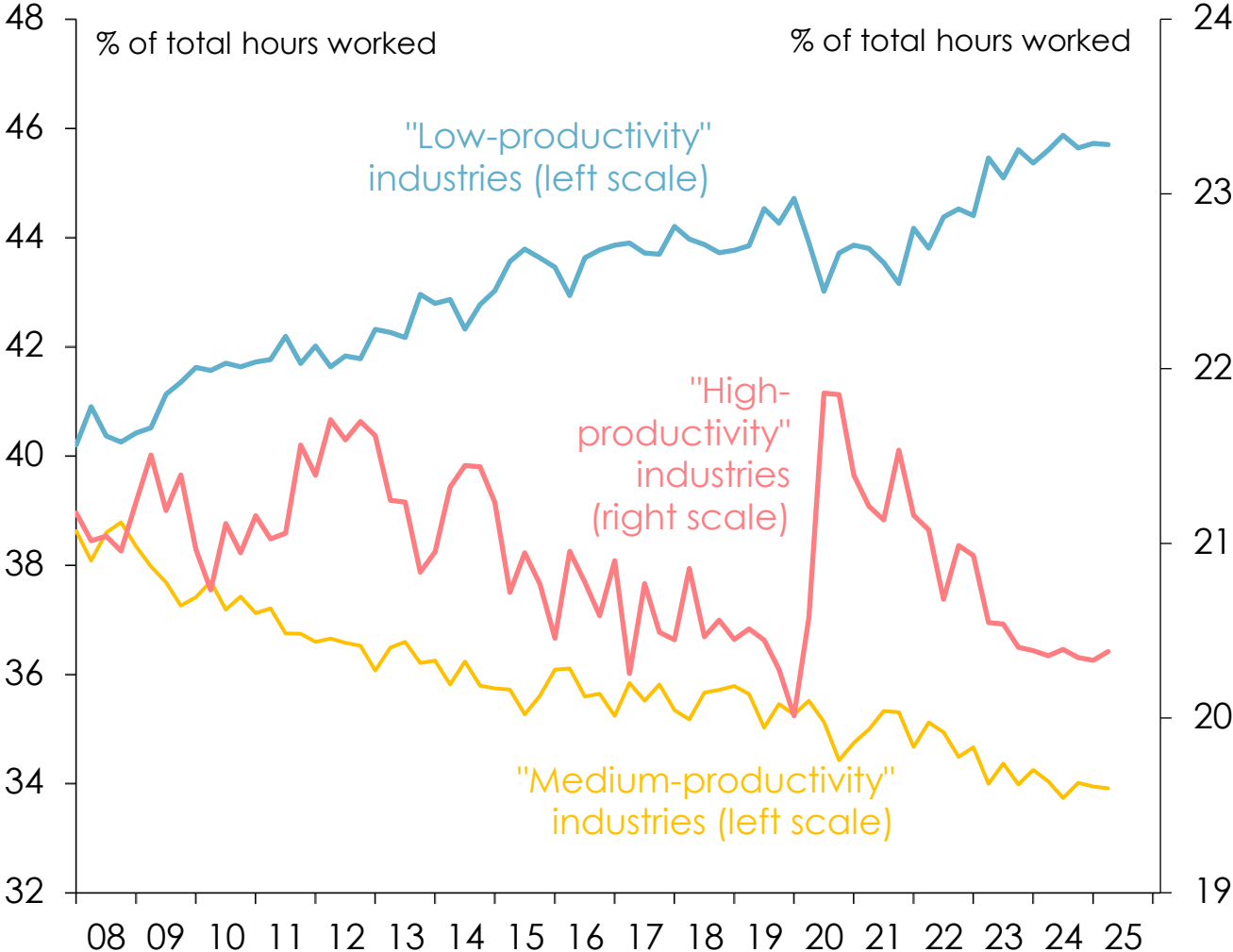


# The slide in Australia's overall productivity growth rate is partly due to a shift towards intrinsically low labour productivity industries ...

Labour productivity growth in “high-”, “medium-” and “low-productivity” industries



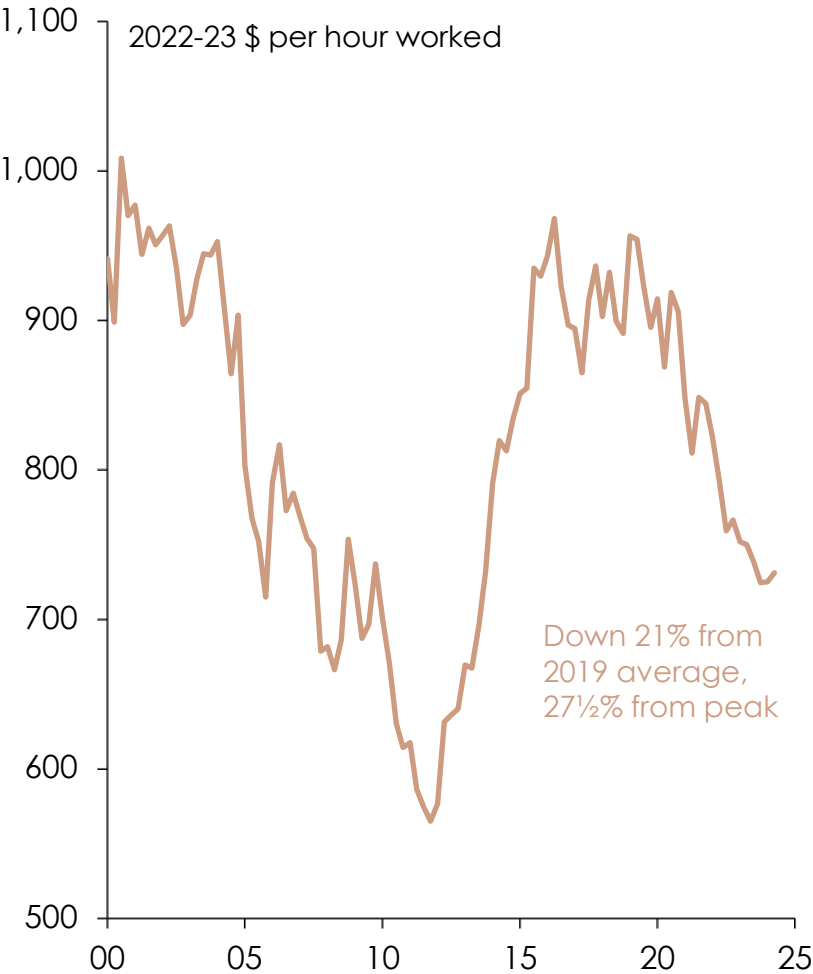
Shares of total hours worked in “high-”, “medium-” and “low-productivity” industries



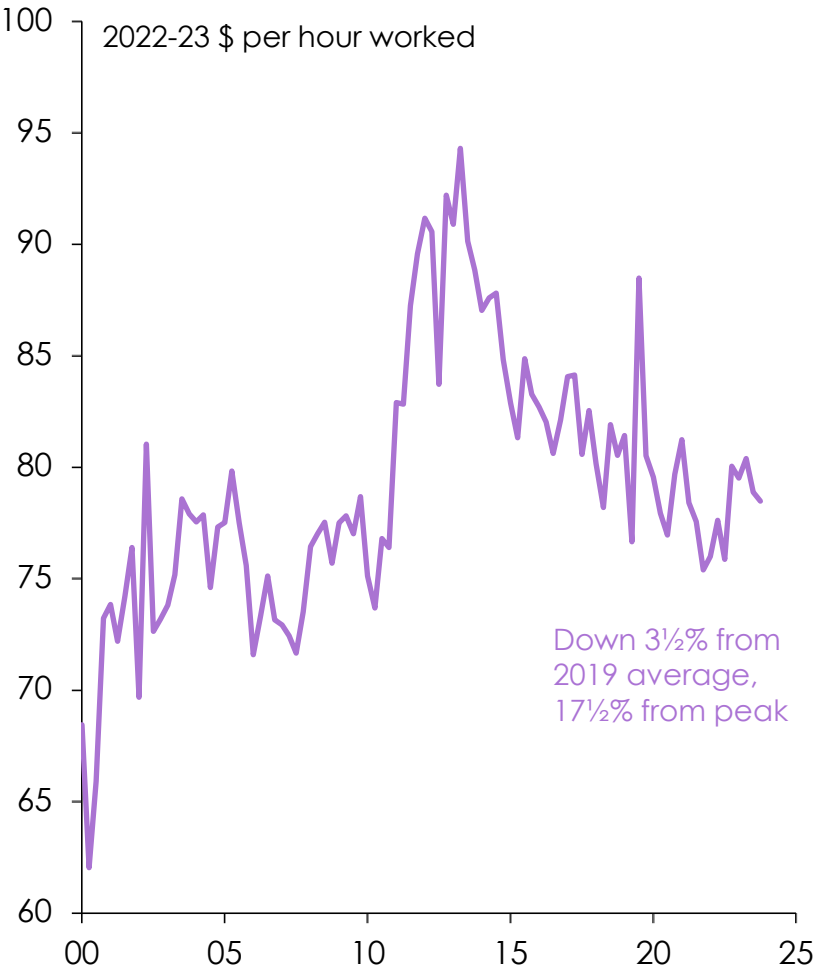
Note: “High-”, “medium-” and “low-productivity” industries are as classified in the previous slide.  
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2025, and [Labour Account, Australia](#), March quarter 2025.

# ... but also because productivity growth in three of Australia's more important industries has actually been negative over long periods of time

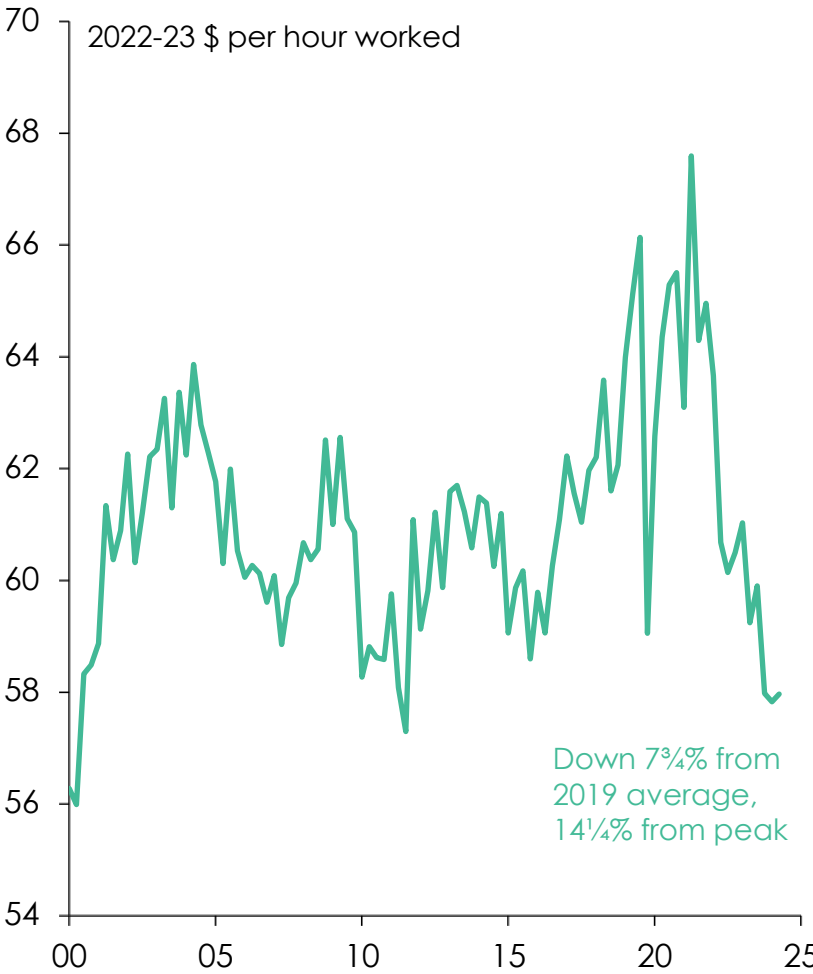
Labour productivity in mining



Labour productivity in construction



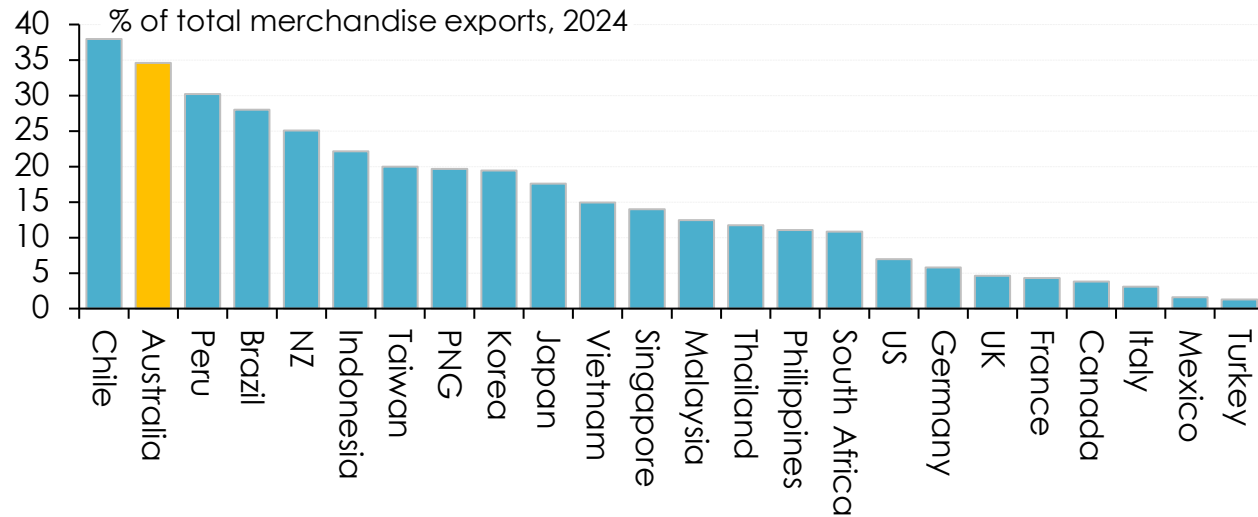
Labour productivity in health care and social assistance



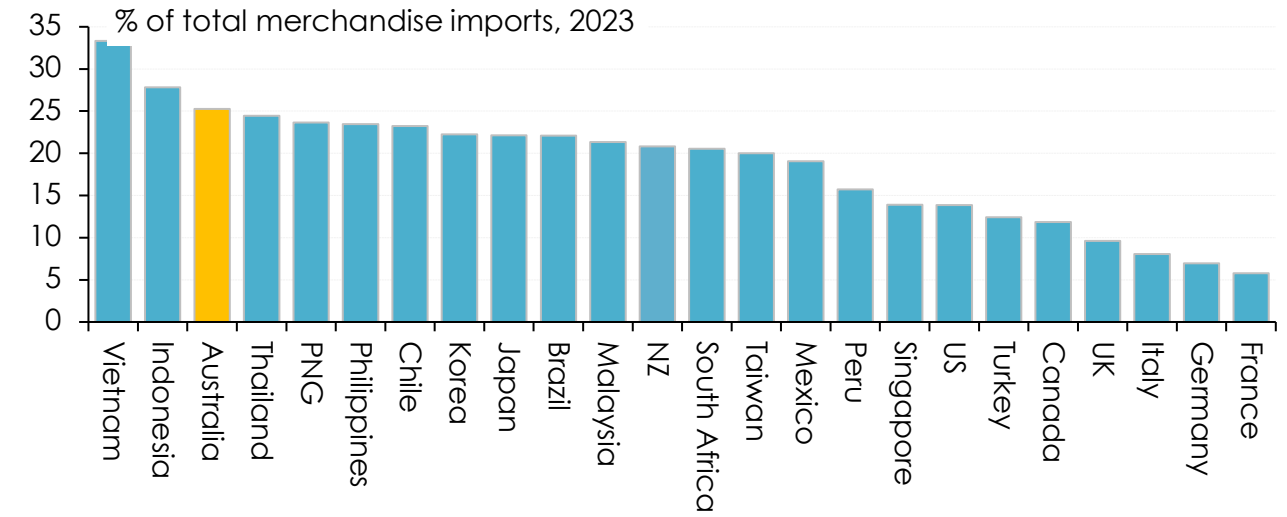
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2025, and [Labour Account, Australia](#), March quarter 2025.

# Australia is more exposed to a protracted slowdown in China's economy – or to trade sanctions against China – than any other 'advanced' economy

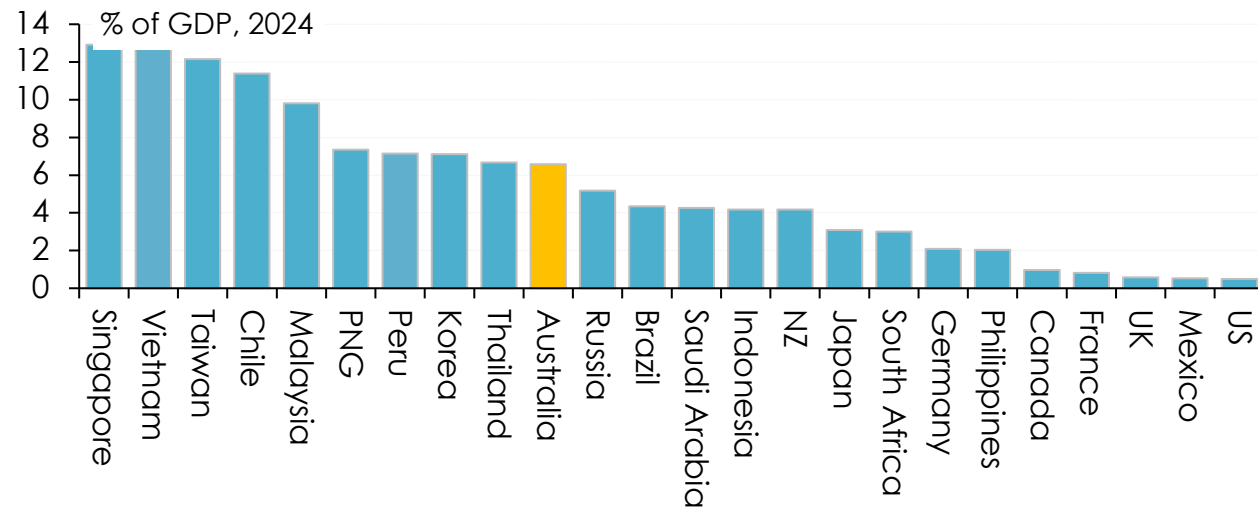
## Exports to China as a pc of total exports



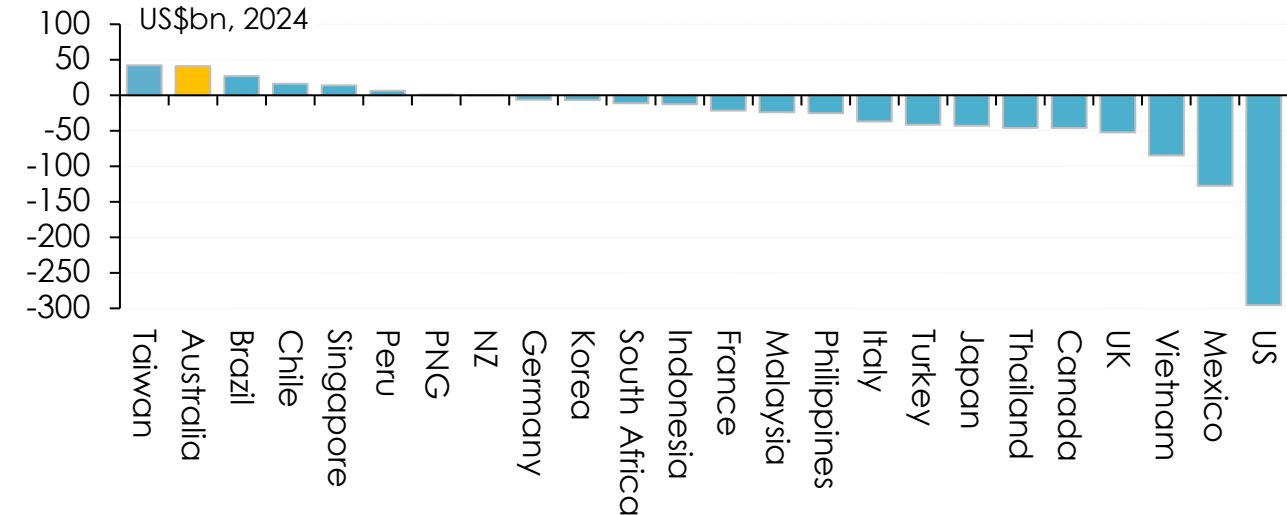
## Imports from China as a pc of total imports



## Exports to China as a pc of GDP

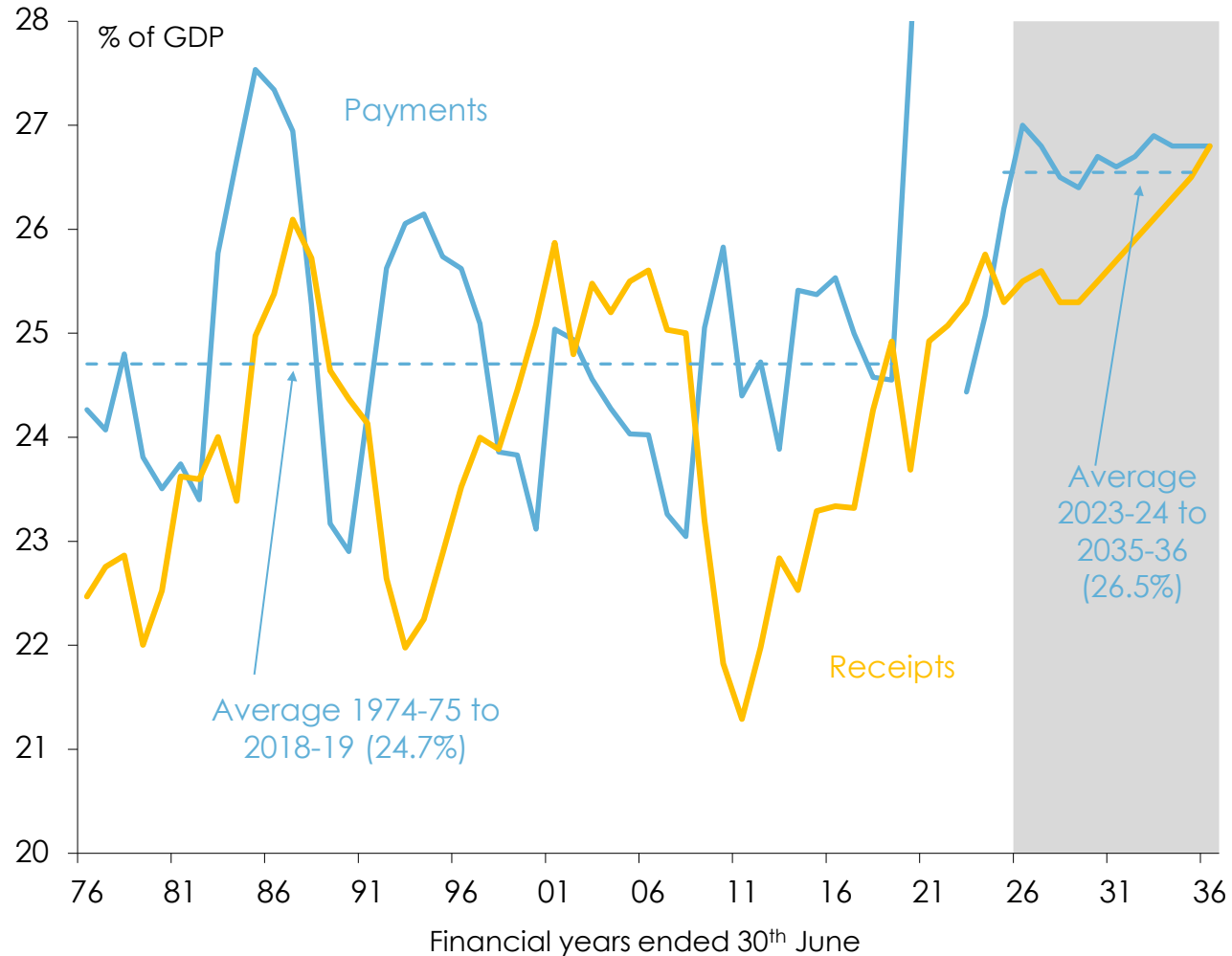


## Bilateral merchandise trade balances with China



# Australia's long-term structural budget problem should prompt an 'adult conversation' about how to pay for additional spending – but it hasn't

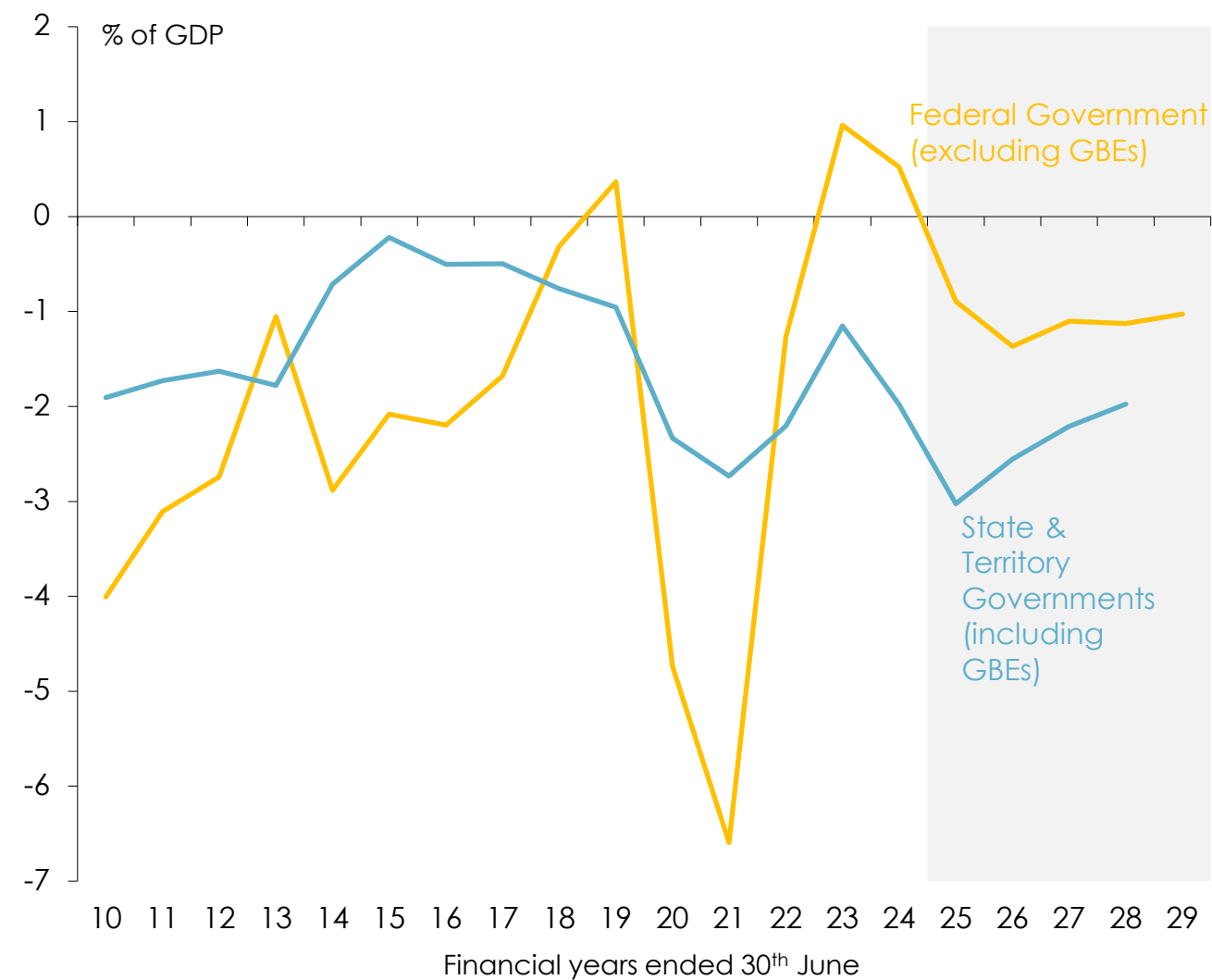
## 'Underlying' cash payments and receipts



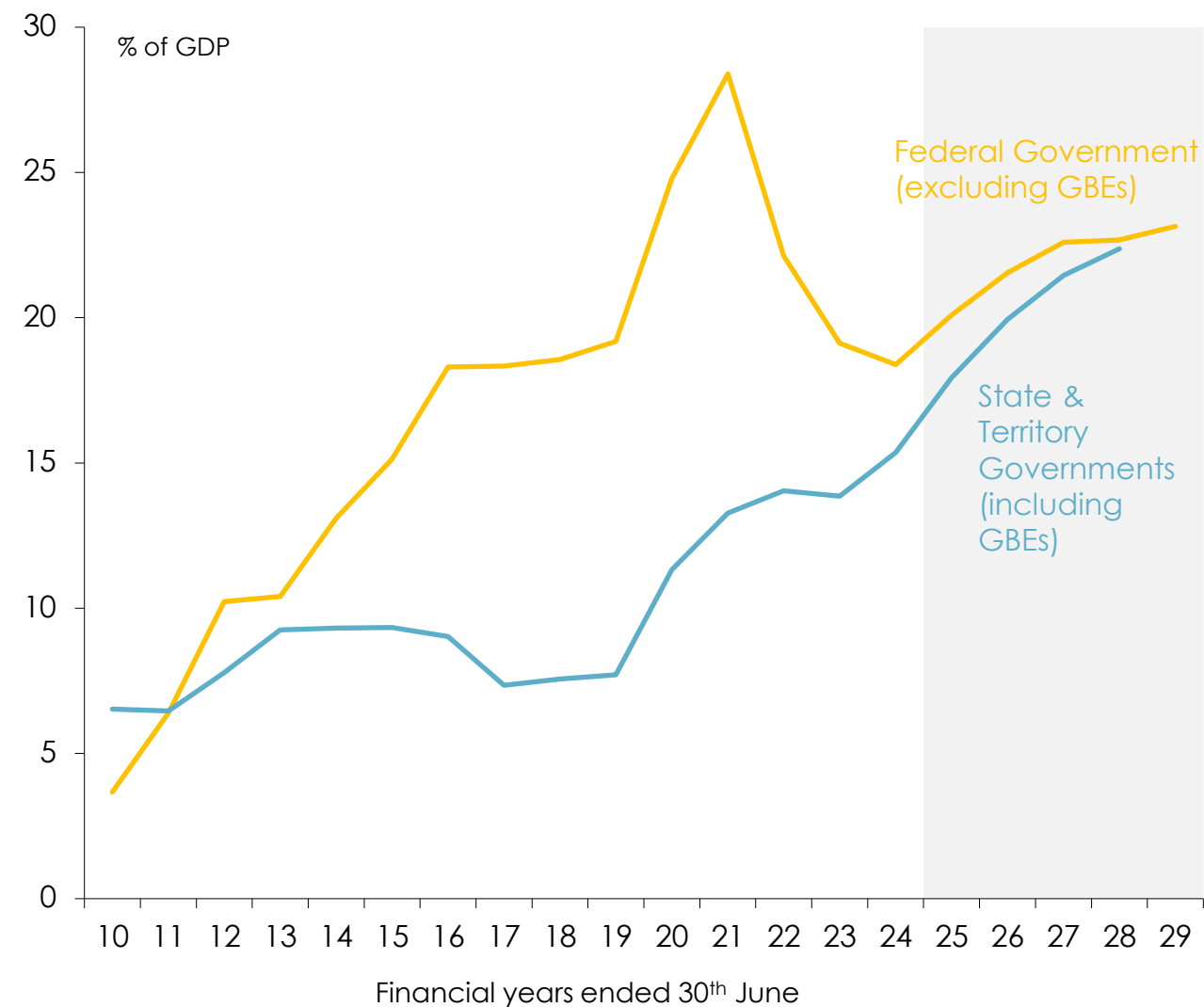
- ❑ Federal government spending in the post-Covid era appears to have settled at about 1¾ pc points of GDP higher than the 1975-2019 average
  - that reflects the Australian public's evident demand for more spending on health, aged, disability and child care ...
  - ... the consensus among the major political parties that Australia needs to spend more on defence (whether the public wants that or not)
  - and the inevitability of more spending on interest as a result of the \$531bn increase in net debt since 2008
- ❑ It's not at all clear that this additional spending can be offset by reductions in other areas of the Budget
  - although scrapping the outrageous GST 'deal' done at the behest of Western Australia would be a good start
- ❑ Neither side of politics appears willing to have an 'adult conversation' with the Australian public about how this additional spending should be paid for
  - which leaves the 'default options' of on-going deficits, and 'bracket creep' pushing up personal income tax

# State and territory governments have been larger deficits in recent years than the Federal Government, and running up more debt

Cash surpluses or deficits



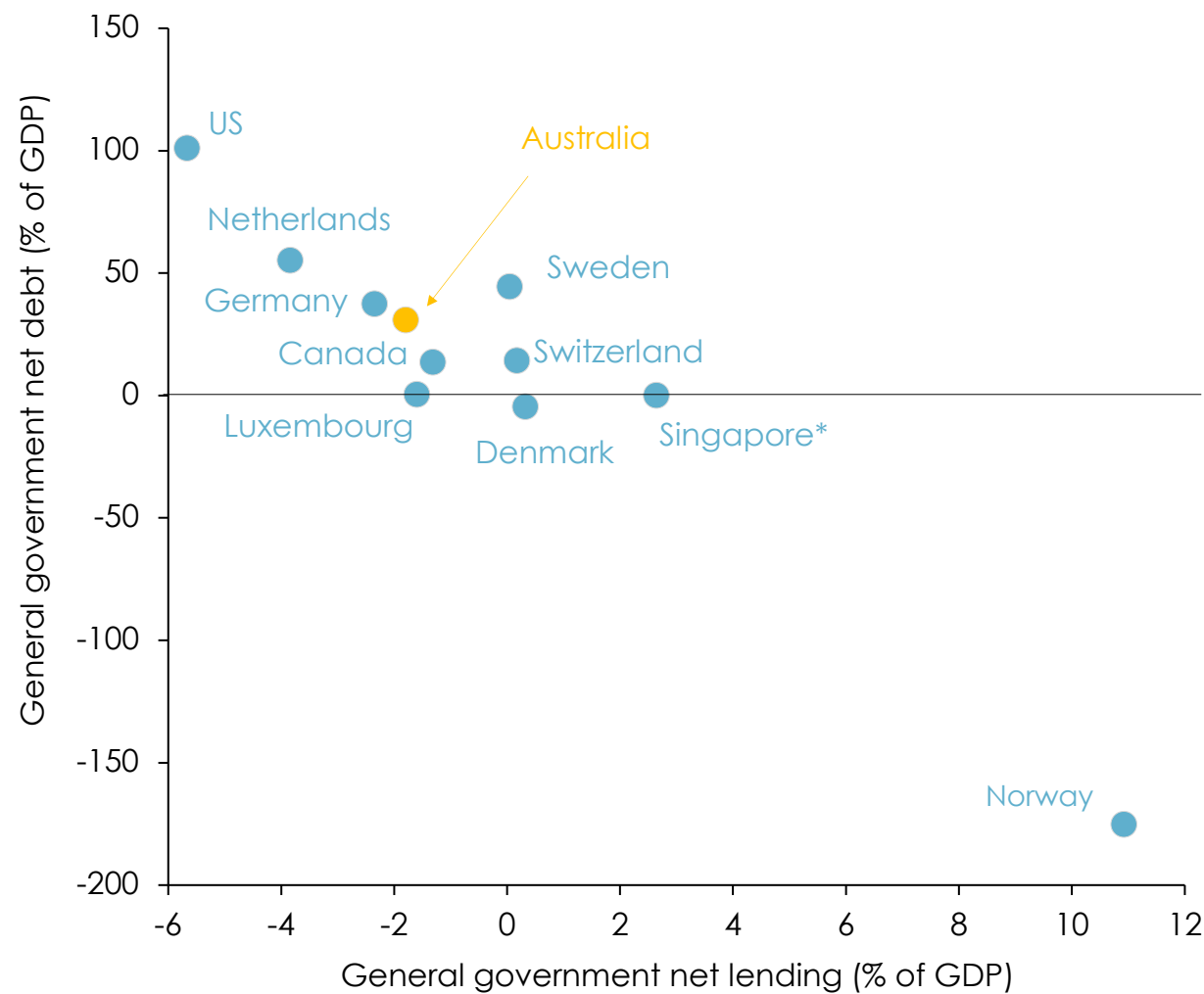
Net debt



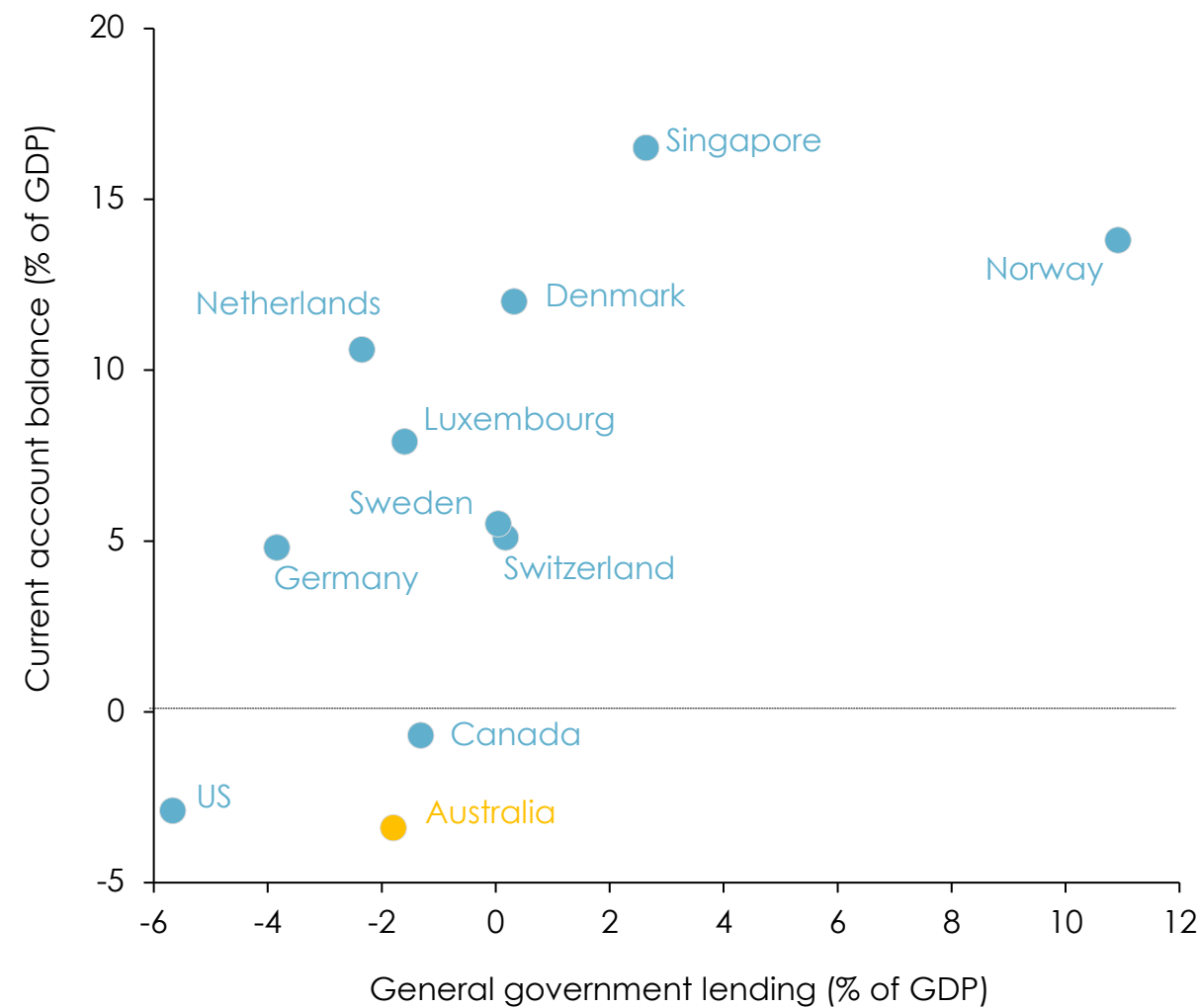
Sources: Australian Government, [2025-26 Budget Paper No. 1](#), 2025-26 Budget Papers for [Victoria](#), [South Australia](#), [Tasmania](#) and the [Northern Territory](#); 2024-25 Mid-Year budget reviews for [New South Wales](#), [Queensland](#), [Western Australia](#) and the [Australian Capital Territory](#).

# Australia may be at risk of losing its AAA credit rating

AAA-rated countries – budget balance and net debt (averages for 2025-2030)



AAA-rated countries – budget balance and current account balance (averages for 2025-30)



Note: Data are averages for 2025-2030. Net debt not available for Singapore. The US no longer has a AAA rating from any of the three major rating agencies.  
Sources: IMF, [Fiscal Monitor Database](#) and [World Economic Outlook database](#), April 2025.



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