



Australia Macroeconomic Report



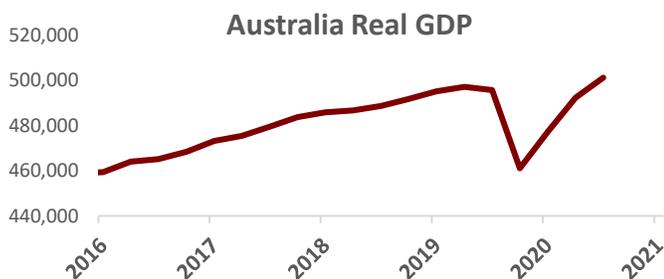
Economic Profile

Country	Australia
Currency	Australian Dollar (AUD)
Population	25,843,217
Economy	Developed
GDP	\$1.61 trillion
GDP PPP	\$1.41 trillion
Largest Trading Partner	China

Market Outlook

Point in Economic Cycle	Left-of-peak
Outlook	Bearish

I have an overall bearish outlook on the Australian economy for the next twelve months. I believe that after a significant recovery from COVID-19, the economy is left-of-peak in the economic cycle. Firstly, a new wave of COVID cases has caused Australia to reimplement stronger lockdowns and restrictions. They were hit particularly hard because of their lackluster vaccination rollout over the course of the summer. This has led to a decrease in consumer confidence and will likely run its course on employment in weeks to come. There are also worries regarding the real estate market of Australia, which is currently in extremely high demand due to matching supply and low interest rates. However, an eventual reopening of the nation and the possibility of the market being overleveraged creates some uncertainty of its stability. Australia's relations with China are also questionable right now, as there's been lots of contention over politics, COVID-19, and trade tariffs. All these factors would all play into the strength of Australia's commodity trade and interest rate dependent currency. I believe that possibilities of a contraction of the Chinese economy, lowering demand for natural resources, and worsening COVID-19 conditions all signs of an economic correction in the months to come.

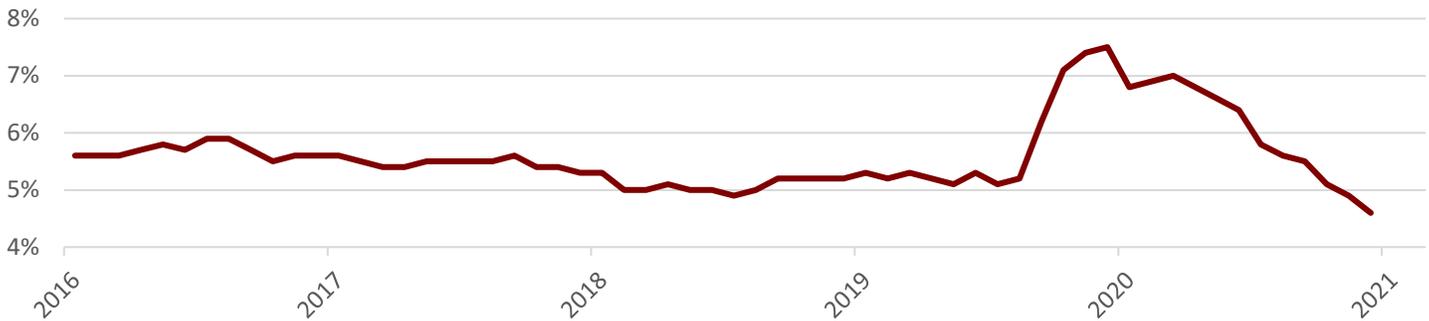


International Monetary Fund, Real Gross Domestic Product for Australia, retrieved from FRED, Federal Reserve Bank of St. Louis; September 3, 2021.



Key Indicators

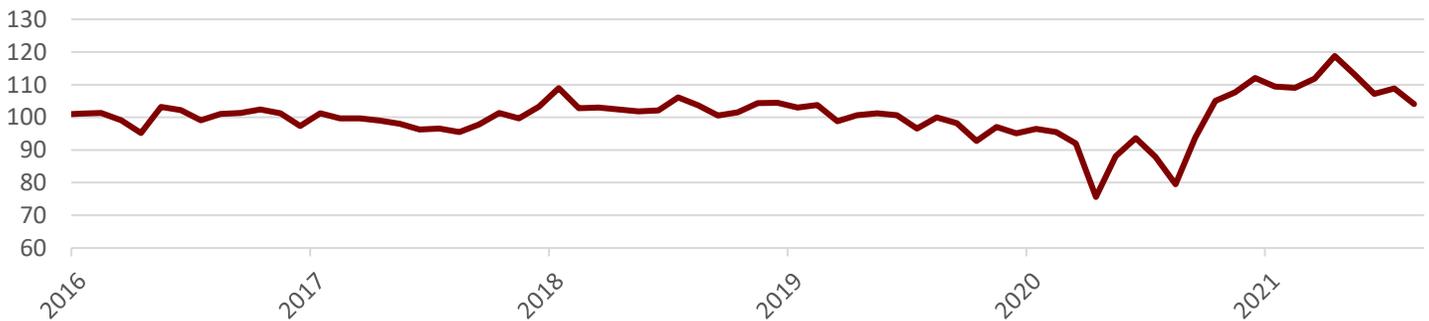
Australia Unemployment Rate (Monthly)



Thompson Reuters, Eikon.

Australia has historically had unemployment rates below the global average, and despite the COVID-19 pandemic leaving millions unemployed in 2020 and 2021, they have made a significant recovery. Australia currently has an unemployment rate of 4.6% - which is over a percent lower than their 5-year average. This is an incredibly good sign for the Australian economy, because it will lead to consumers having more purchasing power in a more stimulated, productive economy. However, the rising cases of COVID-19 in New South Wales (Australia's largest state that produces 35% of nations GDP) may hinder this recovery. If restrictions and regulations become stricter, a new phase of unemployment may ensue.

Australia Consumer Confidence Index (Monthly)



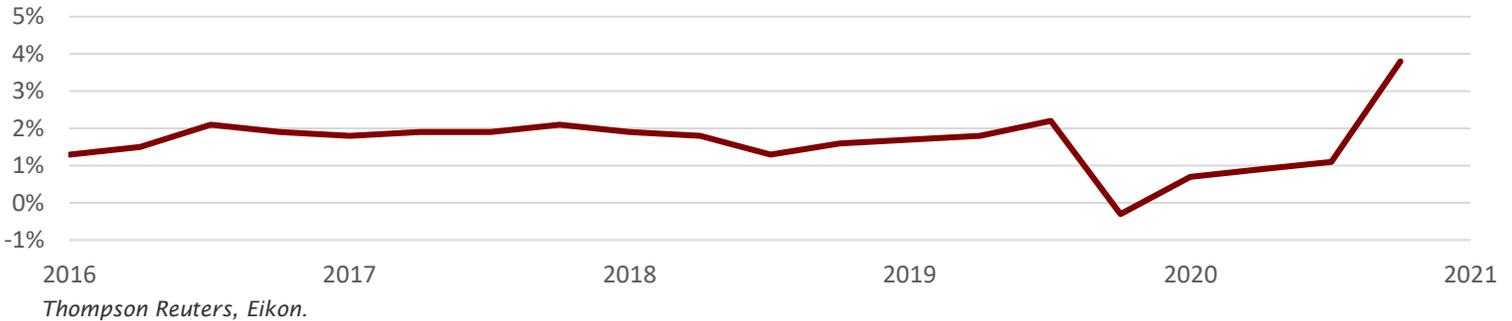
Thompson Reuters, Eikon.

The Consumer Confidence Index is used as a barometer for a population's sentiment of their current and future economy. Consumer confidence in Asia-Pacific has been one of the highest worldwide, even when accounting for possibly inflated Chinese metrics. This has been a result of COVID-19 restrictions going away. But the previously mentioned growth in COVID-19 cases has, however, caused it to decrease over the last couple months. If rigorous lockdowns and restrictions make a return, it's likely the uncertainty would cause consumers to spend less and save more, resulting in a less stimulated economy.



Key Indicators

Australia Consumer Price Index (%Δ YoY)



Inflation has been one of the most talked about economic trends recently, as it has been affecting nearly every nation in some way due to the large expenses that came with the onset of the pandemic. Australia has maintained their interest rates at about 10bps in hopes of continuing economic growth after Q2 2020. However, with inflation reaching nearly 4%, consumers grow weary of the real value of their savings and investments decreasing. A steady growth in inflation is a very normal part of a developed economy, but typically only 1%-3% per year. Because of continuously low interest rates and rising government expenses, inflation will likely stay higher than normal.

Australia Housing Starts (Monthly)



Housing starts reflect the amount of real estate projects commenced in a particular month. Since Q3 2020, an increasing number of real estate establishments have been built each month as demand soared throughout the pandemic. Home prices have increased by almost 17% in the past twelve months and demand has kept up. With the current ultra-low interest rates, concerns arise of whether Australia has a real estate bubble. Because the hot market is driven entirely by internal demand, as Australia has its borders closed, a reopening could lead to a significant correction if supply can't meet its demand. In addition, low interest rates may cause the market to become overleveraged, creating a far more fragile market.



Key Indicators

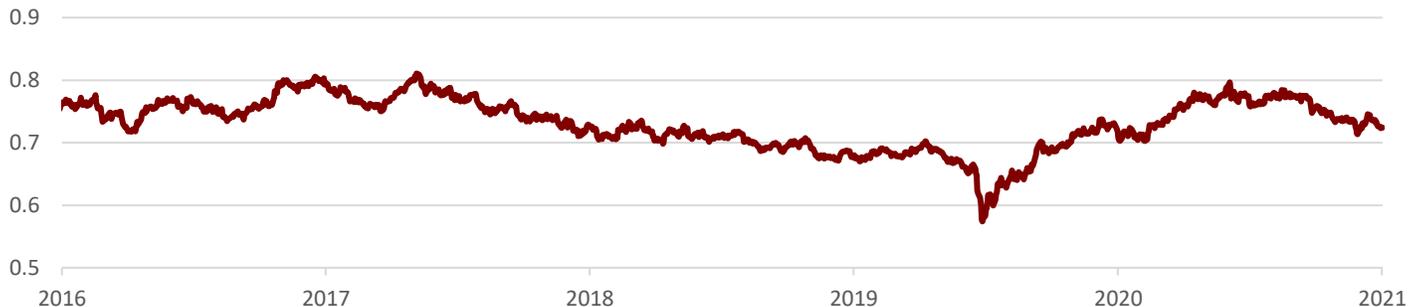
Australia Balance of Trade (In Millions)



Thompson Reuters, Eikon.

Australia is rich in natural resources and their largest trade partner, China, is practically right next door. In the past 18 months, their balance of trade has increased nearly four-fold, meaning they currently export A\$12B worth of goods more than they import. This is typically a very good sign for a strong economy, but there's concern about how a contraction in the Chinese economy would affect this balance. Like Australia, many think the Chinese real estate market is reaching a tipping point. There's extraordinarily high demand for property in China right now, and Australia is a key source for the raw materials needed for those projects. If that demand falls, Australia's trading surplus could quickly diminish.

AUD/USD



Thompson Reuters, Eikon.

The Australian Dollar, or the Aussie, is the 5th most traded currency in the world, despite Australia's economy ranking at 14 in terms of GDP. It's popular because of its exposure to commodity markets, being that commodity trade is a staple of the Australian economy. The strength of the AUD is also closely tied with interest rate outlooks. In 2019, the AUD saw a significant decline due to weak manufacturing in China on top of the trade war with the Trump administration. Then, it fell again in 2020 due to the pandemic and the shortages that proceeded. Looking forward, we can expect the Chinese economy to have a significant influence on Australia's national currency. If Australia's national bank announces a rise in interest rates and/or the Chinese economy begins to contract, it's likely the AUD's value will take a substantial hit.



Geopolitical Factors

Covid-19 Pandemic

When the pandemic first began, Oceanic nations such as Australia led the way with use of complete lockdowns to mitigate the effects of the virus. On top of making people stay within their dwellings, they closed their borders to travelers and mandated those who were able to visit to quarantine for two weeks. Because of these rigid guidelines, they were able to keep cases to a minimum. This was of course a deterrent to their economy, and they fell into their first recession in 30 years. Then, as vaccines began to roll out, they were criticized for their lethargy in making them available and accessible to their population. Currently, only about 36% of those over 16 years old are vaccinated. In contrast, almost 80% of the same demographic are vaccinated in the US. Australia has also been in lockdown once again for the past weeks and will continue to be as it was extended by 3 weeks in the past few days. The Australian government notes that these restrictions will likely stay in place until at least 70% of the population has a minimum of one vaccination dose. Many estimates say we can expect this to happen by mid-October, but that's dependent on the availability of vaccine and the population's sentiment towards it. The next step after this would be once over 80% of the population has been vaccinated, when travel bans would be lifted and a gradual return to a traditional way of life begin. Of course, much of the productivity of the economy is reliant on the workforce being at full efficiency and effectiveness, so higher vaccination rates in the coming months could be great news for Australia. However, variants of COVID-19 such as the Delta variant could hinder this and cause a prolonging of the lockdown and a weak economy.

Relations with China

Historically, Australia and China have had good relations overall. For decades, both have benefitted from economic engagements and political organizations such as APEC. There has been contentions between the nations lately, though, and they have only been amplified by the pandemic. Throughout the past year, Australia has sought to investigate the origins of COVID-19 within China, and they have expressed grievances with China's influence on their commercial sectors. In addition, a series of tariffs on goods such as barley and wine have been enacted by China. There have also been numerous cyber attacks committed against Australia, who seem to think on good authority that it was China behind them. Australia is a political ally of the US, and the conflict between the America and China has only affected Australia negatively. In the future, further escalations between China and Australia/America may lead to restricted trade, and therefore, a weakened AUD, lower balance of trade, and a decreased demand for Australia's natural resources.