Luc Franz
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RAMBLER
INVESTMENT FUND

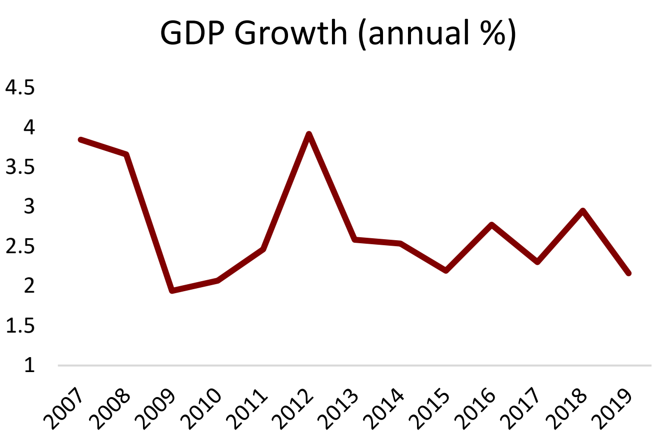
Australia Macroeconomic Report

Economic Profile

Country	**Australia**
Currency	**Australian Dollar**
Population	**25.67 million**
Economy	**Developed**
GDP (2020)	**1.32 Trillion**
GDP per Capita	**$53,831**

Market Outlook

Point in Economic Cycle	**Right of peak**
Outlook	**Bearish**



(GDP Growth (annual %) – Australia, Prev 12 years (Source: World Bank)

<u>Macroeconomic Thesis:</u>

After conducting research on several leading, lagging and coincidental economic indicators, it is my belief that Australia is currently right of peak in its business cycle. My outlook for the next year is bearish due to the implications of Covid-19 and the current trade tensions with China.

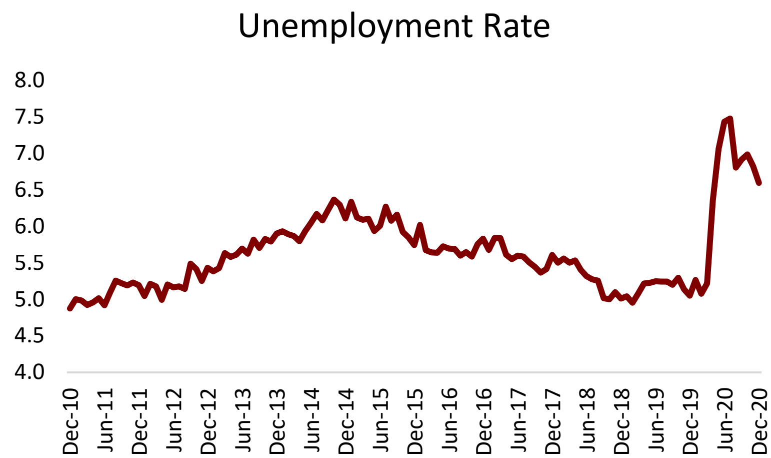
I choose to focus on Australia because I wanted to see what kind of impact the tensions with China were having on their overall economy. Additionally, this is the first time in 28 years that Australia has not had consecutive annual GDP growth, so I was interested to see how their economy was positioned to come out of the recession.

By conducting an analysis of economic data such as unemployment, housing starts, gross government debt, CPI, Australian dollar strength and PCE, I have a negative outlook on the Australian economy for the upcoming year. While the Australian economy has preformed better than many of its OECD counterparts during the pandemic, it is not without its issues. Low interest rates reduce foreign direct investment which is an issue for a country that is rapidly increasing its debt. High unemployment will also hinder the economy going forward.

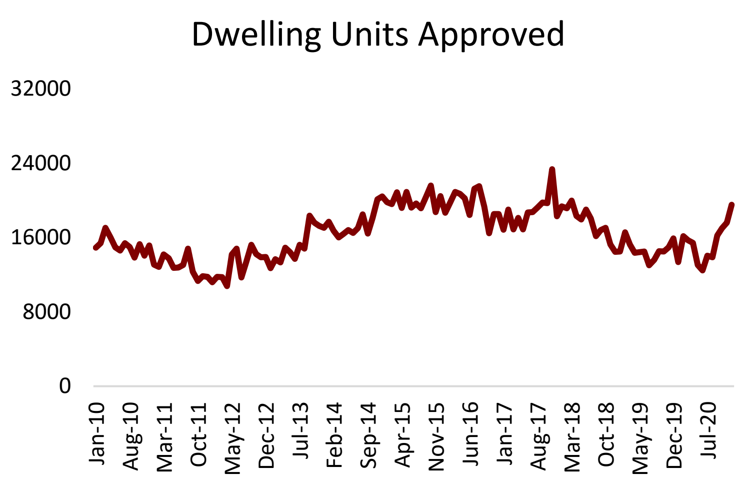
Restoring economic ties with China is paramount for the success of the Australian economy in 2021. Australia has been firm on its commitment to holding China accountable for its transgressions so it uncertain if an understanding can be reached in the near term. Reaching vaccination targets will also be key for Australia in order to bring down unemployment. Due to the massive uncertainty that Australia faces, it will be very difficult for the economy to expand. Therefore, I have a bearish outlook on the Australian economy for the upcoming year.

Economic Indicators

<u>*Unemployment:*</u>
The Employment rate is an important economic indicator because it helps to measure both productivity and the purchasing power of workers. Despite stringent lockdown protocols, unemployment has remained low when compared to similar OECD countries. The unemployment rate for 2020 peaked at 7.5%. In December 2020, the seasonally adjusted unemployment rate had fallen to 6.6%. Employment levels are expected to fluctuate within the year until Australia hits its vaccination targets which is expected to happen in October. Even if Australia hits its vaccination targets, there is a consensus amongst economists that unemployment may persist long term.

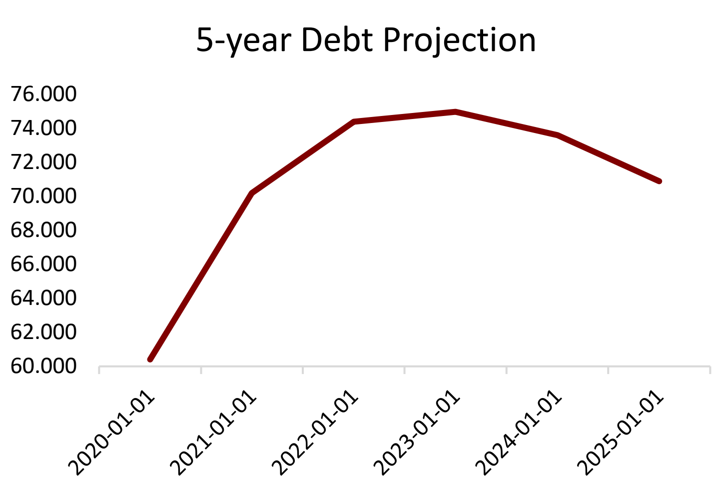


(Unemployment rate, Seasonally adjusted, Prev 10 years (Source: Australian Bureau of Statistics)



(Dwelling Units Approved, Prev 10 years (Source: Australian Bureau of Statistics)

<u>*Housing Starts:*</u>
Residential construction is foundational for growth in any economy. The industry helps homeowners build wealth while also employing 1.15 million people in Australia. The number of dwellings that were approved for construction in Australia exploded in the fourth quarter of 2020, up 10.9% in seasonally adjusted terms. The key catalyst has been the HomeBuilder scheme which was intended to help support the residential construction industry during the pandemic. It provides grants and numerous leniencies to construction companies. However, it is believed that after the program expires at the end of March, there will be a sharp correction.



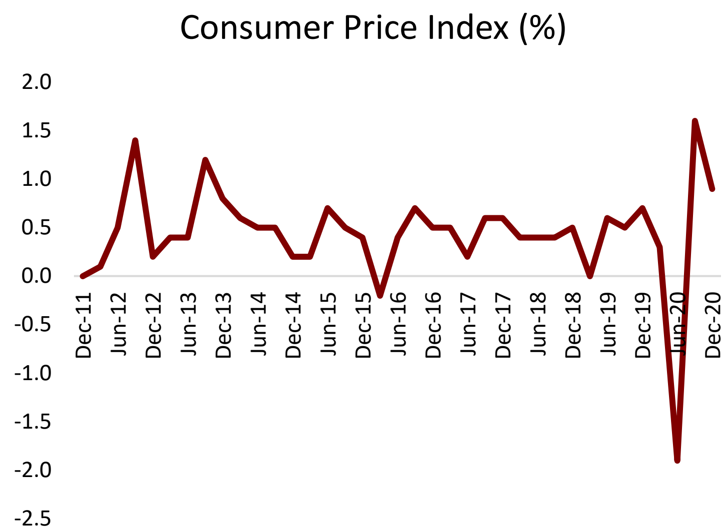
(5-year Debt Projection (Source: Federal Reserve Bank of St. Louis)

<u>*Gross Government Debt:*</u>
The debt-to-GDP ratio helps to illustrate how much a government is borrowing relative to their output. This ratio is important because it gauges the sustainability of a governments financing. Australia's economic response to Covid-19 has increased spending dramatically and government debt will be up 14.5% from current levels by 2023. It will be difficult for policymakers to lower debt over the next 10 years as Australia must begin to pay back money that it borrowed to finance stimulus is response to the pandemic.

Economic Indicators

<u>*CPI*</u>

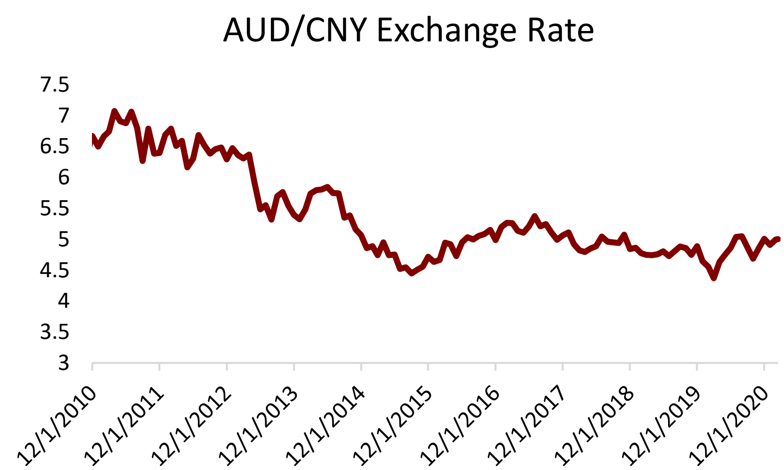
Consumer Price Index (CPI) is a basket of goods and services that is gathered and monitored to gauge inflation. Australia's CPI was on a tumultuous path in 2020. In Q2 there was a negative change of -1.9% from Q1. There was a recovery in Q3 of 1.6 and Q4 moved back down closer to the mean, changing 0.9%. The largest changes were seen in the Alcohol and Tobacco segment, as well as in Furnishings, Household equipment and services segment. Domestic prices of wine have increased in the wake of the tariffs imposed on the wine industry by China. The HomeBuilder scheme has raised prices in the construction industry as demands surges. The expiration of the HomeBuilder scheme and the repeal of Chinese tariffs would help stabilize CPI in 2021.



(Consumer Price Index (%), Prev 9 years (Source: Federal reserve Bank of St. Louis)

<u>*Australian Dollar Strength:*</u>

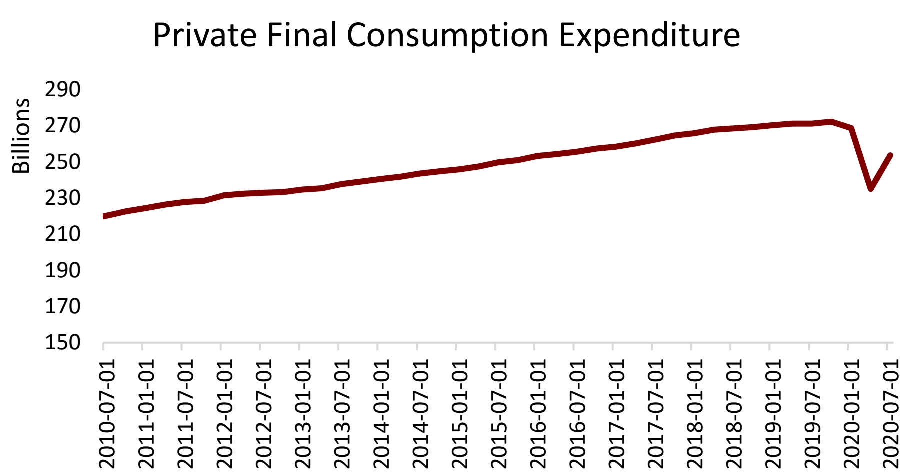
The strength of a nation's currency is important because it can have a large effect on the balance of trade. The Australian dollar has recovered well after taking a plunge in March 2020. However, there are some caveats. Due to Australia's 0.1% interest rate, Investors have begun moving their cash out of the country in hopes of higher yields elsewhere. The Reserve Bank of Australia has said that it does not plan on raising interest rates until 2024. As commodity prices have fallen globally, there is less demand for Australia's currency from its trading partners. The strength of the Australian Dollar will largely depend on these two factors moving forward.



(AUD/CNY Exchange rate, Prev 10 years (Source: Bloomberg)

<u>*Personal Consumption Expenditures:*</u>

Personal Consumption Expenditures (PCE) measures the value of private consumption in a country. It is important in economies like Australia's where consumption accounts for more than half of GDP. The pandemic hit PCE hard, losing 37 billion between Q4 2019 and Q2 2020. PCE is back on the upward trend, growing 19 billion to close out the year. It is unlikely that PCE will reach pre-pandemic levels until the population is fully vaccinated, but a V-shaped recovery is expected.



(Private Final Consumption Expenditure for Australia , Quarterly, Prev 10 years (Source: Federal Reserve Bank of St. Louis)

Geopolitical Factors

<u>Tensions with China:</u>

China is Australia's largest partner, accounting for 27.4% of Australia's global trade. China is also Australia's largest source of international students, its most valuable tourism market and a significant provider of foreign direct investment. In 2020, Australia was a vocal critic of China. Australia led calls for an inquiry into the origins of Covid-19 and raised concerns over China's activities in the South China Sea and its treatment of Uighur Muslims. China responded with significant tariffs including an 80% tariff on barley and up to 212% tariffs on wine. 8 Australian abattoirs are also now banded from selling in China. While Australia's criticism of China's behavior were admirable and much-needed, it should now look to cool tensions going forward. China and Australia have a mutualistic relationship, but China is far less dependent on Australia than Australia is on China. Trade officials and ambassadors from both sides have both expressed a desire to lower tensions. In 2021, Australia will look to continue to hold China accountable while also restoring economic tie

<u>Coal Industry</u>

In 2018-19, Australia exported $69.5 million dollars of coal which accounted for 3.5% of its GDP. The industry directly employs 50,000 people and supports another 120,000 indirect jobs. Domestic and global coal prices fell in 2020 and revenue is believed to be down by 11% on the year. With the rise of ESG investing, coupled with increases in the use of alternative energy sources, there is plenty of reason to believe that the best days of the coal industry are behind us. There is growing pressure in Australia for a commitment to decarbonize and have net zero emissions by 2050. Such a commitment would continue to exacerbate the demise of coal in Australia. The Australian government will need to devise a strategy that transitions jobs out of coal and into industries that can help make up for export loses.

<u>Covid-19:</u>

Australia has very much been a model country when it comes to handling the pandemic. As of February 15th, there have only been 28,892 cases 909 deaths from Covid-19 in all of Australia. The National Cabinet, which was established in March 2020 in direct response to Covid-19, has been extremely effective at creating a unified response to the pandemic. The intergovernmental forum has facilitated collaboration across the different levels of government and has allowed states to stay autonomous but learn from each other. The first vaccines will arrive in Australia in late February and there are concerns over how quickly Australia will be able to reach herd immunity. Over 18 million people will be receiving the AstraZeneca vaccine which only has a 62% effective rate in preventing Covid-19. Prime Minister Scott Morrison predicts that Australia will need a 95% vaccination rate in order to reach herd immunity. A study done by the Roy Morgan Research Institute in December found that only 77% of Australians are willing to take the vaccine when its available. Australian plans to spend A$24 million on vaccine advertisements in the coming months, only time will tell if that will be enough to push Australia to herd immunity.