




ECONOMIC INDICATORS

Edition 7





“I do not see where the 2-party system fits into the principle of democracy, especially when it comes to economic management and outcomes.”

Harry Burke – Superannuation Technical Specialist

In this 7th edition of our Economic Indicators publication, we review some key economic indicators in Australia and compare them to the United Kingdom and the United States. We also look closely at the rising debt levels of both governments and households. As always, we invite you to review, consider and formulate your own opinions.

KEY ECONOMIC INDICATORS

Australia

Economic Indicator	2004	2019	2022
Interest Rate (Cash Rate - July) ¹	5.25%	1.00%	1.35%
GDP Growth (Q1) ¹	4.90%	1.70%	3.30%
Inflation (June - Annual)¹	2.50%	1.60%	5.10%
Unemployment (June) ¹	5.5%	5.20%	3.90%

In Australia, the target level for inflation is between **2.00%** to **3.00%**.

United Kingdom

Economic Indicator	2004	2019	2022
Interest Rate (Cash Rate - July) ²	4.50%	0.75%	1.25%
GDP Growth (Q1) ³	3.00%	2.20%	8.70%
Inflation (June - Annual)²	1.60%	2.00%	9.10%
Unemployment (Feb to Apr) ⁴¹	4.80%	3.80%	3.80%

In the United Kingdom, the target level for inflation is **2.00%**.

United States

Economic Indicator	2004	2019	2022
Interest Rate (Federal Reserve Overnight Rate - June) ⁵	1.03%	2.38%	1.65%
GDP Growth (Q1) ⁶	2.03%	2.40%	-1.50%
Inflation (June - Annual)⁷	2.00%	1.10%	8.10%
Unemployment (May) ⁸	5.50%	3.70%	3.60%

In the United States, the target level for inflation is **2.00%**.

Key Observations

As at June 2022, annual inflation rates across the board are sitting much higher than monetary policy inflation targets.

The aim of inflation targets is to keep the rate of inflation within an economy sufficiently low enough so that it does not materially distort economic decisions in the community. It also provides discipline for monetary policy decision-making and serves as an anchor for private-sector inflation expectations.⁹

RISING DEBT LEVELS

General Government Gross Debt as a Percentage of GDP	2004	2019	2022
Australia ¹⁰	30.4%	77.0%	84.4%
United Kingdom ¹⁰	51.8%	118.5%	143.0%
United States ¹⁰	88.9%	136.2%	150.4%

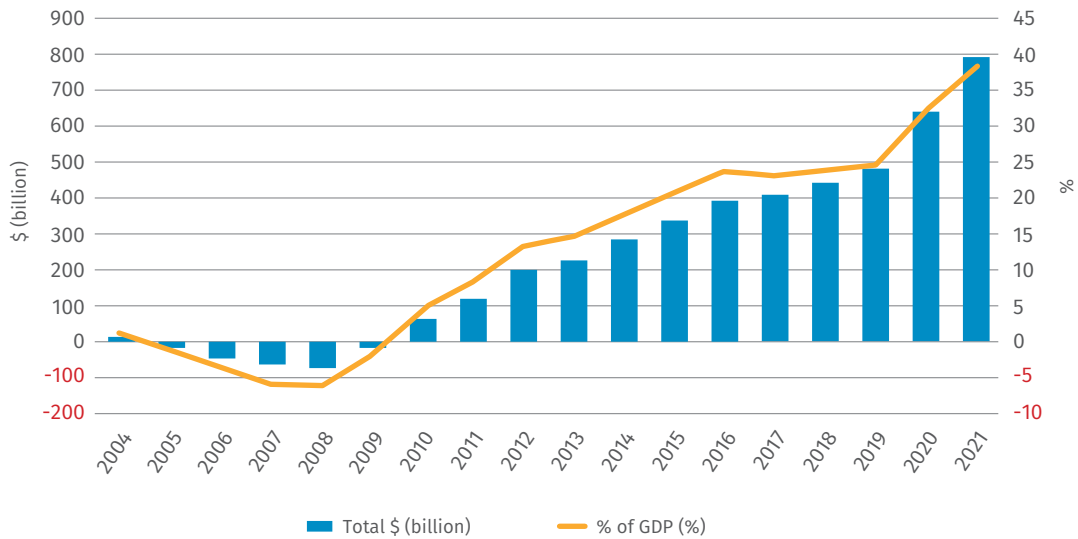
Australian Government Debt

- Australian government gross debt increased from \$534.4 billion in March 2019 to \$885.5 billion in April 2022. A \$351.1 billion increase in just 3 years.¹¹
- Australian government gross debt is forecast to increase to over a trillion dollars in 2023–24, reaching a peak over the forward estimates of \$1.193 trillion in April 2026.¹¹

While gross debt is a good representation of the total magnitude of outstanding debt, net debt is more frequently reported on in Australia. Australian government net debt is defined as ‘the sum of interest-bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements)’¹¹

The table below shows the historical increase in Australian government net debt levels seen from 2004 to 2022.

Australian Government Total Debt (Net) and % of GDP¹²



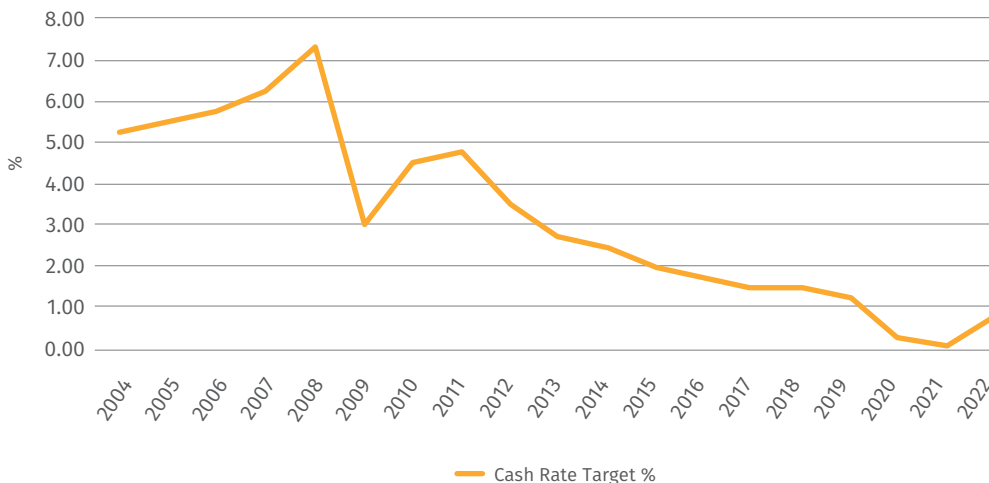
Key Observations

- Australian government net debt is the highest it has been since the 1950's.¹¹
- The trend of increasing government debt can be tracked back to the Global Financial Crises (GFC) in 2008.

It is interesting to note that as the level of government debt increased, interest rates decreased significantly, largely offsetting the cost of servicing the increasing debt level.¹¹

The table below shows the historical path of Australia's Interest Rate (Cash Rate) from 2004 to 2022.

Australian Interest Rate (Cash Rate)¹



In response to inflationary pressures and tightening of monetary policy by central banks, interest rates are now starting to increase globally. As a result, both the size and servicing of the Australian government debt level will be an issue for current and future Australian governments to contend with.¹¹

If interest rates stay above the level forecast in the recent Budget, interest payments will increase over time as new debt is issued at higher interest rates and existing debt issued at lower historical interest rates matures and is refinanced. Interest payments on Australian government debt reduce the amount of money available in the Budget for expenditure on government services, or requires additional debt to be raised to fund these activities.¹¹

AUSTRALIAN HOUSEHOLD DEBT

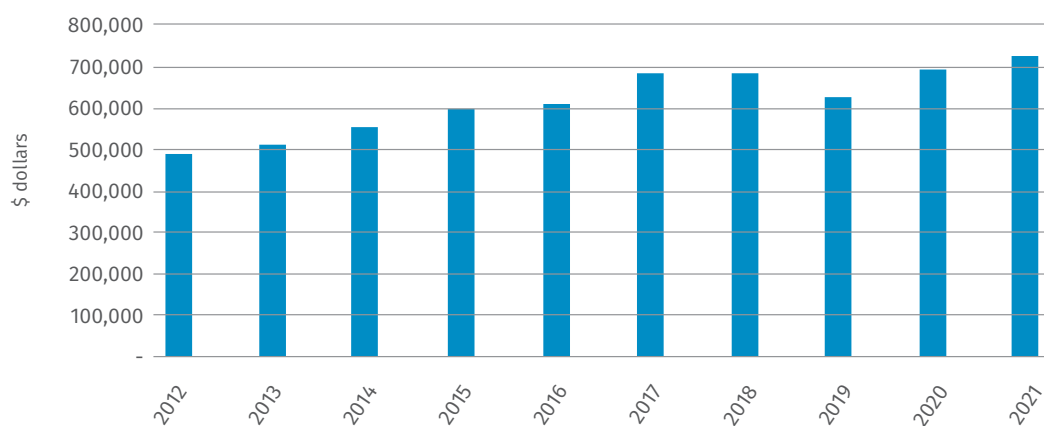
The trend of increasing debt levels is also present within Australian households.

Economic Indicator	2004	2019	2022
Household Debt as a Share of Income ¹	148%	187%	186%

- The Australian average price of residential dwellings has also increased 68% from \$490,000 in 2012 to \$825,000 in 2021.¹

The table below shows a history of the average price of residential dwellings in Australia from 2012 to 2021.

Australian Average Price of Residential Dwellings¹



FINAL THOUGHTS

Since the Global Financial Crises (GFC) back in 2008, debt levels have significantly increased whilst interest rates have been at historically low levels. Unconventional monetary policy has also been introduced into the equation. Debt has to be repaid at some point by somebody. With interest rates now starting to trend upwards, the cost of servicing debt, in the form of interest repayments, will need careful consideration by both governments and households.

From an economic indicator point of view, when taking a historical view over the past 17 years, it can be seen that a number of negative economic trends have arisen. The variation in economic indicators from 2004 appears extreme. Are these negative trends the new normal?

CONTACT AXIS

As super specialists, we have a keen awareness of key economic indicators and have been assisting individuals with growing and protecting their super for over 25 years.

Give us a call on **1800 111 299** or email super@axisfg.com.au

REFERENCES

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