AXIS
FINANCIAL GROUP

ECONOMIC INDICATORS

Edition 12

"Dependence on credit to boost demand imperils the world economy. We must correct the underlying imbalances."

Atif Mian

- John H. Laporte, Jr. Class of 1967 Professor of Economics, Public Policy, and Finance at Princeton University.

ECONOMIC INDICATORS

In this edition of our Economic Indicators publication, we take a closer look at some of the key domestic and global indicators. As always, we invite you to review, consider and formulate your own opinions.

AUSTRALIAN INDICATORS

Indicator	Value	Effective Date
Cash Rate Target[1]	4.35%	Feb 2024
Inflation CPI (Annual Change)[1]	4.10%	Dec 2023
Inflation CPI (Monthly Change)[1]	3.40%	Jan 2024
GDP (Annual Change)[2]	1.50%	Dec 2023
GDP Per Capita (Annual Change)[2]	-1.00%	Dec 2023
Terms of Trade (Annual Change)[2]	-3.90%	Dec 2023
Household Savings to Income Ratio[2]	3.20%	Dec 2023
Unemployment (Seasonally Adjusted)[3]	4.10%	Jan 2024
Australian Government (Gross) Debt[4]	$889.8 billion	30 Jun 2023
Australian Government (Gross) Debt to GPD Ratio[4]	35.2%	30 Jun 2023

According to the Australian Bureau of Statistics:

- Gross Domestic Product grew 0.2% in the December quarter 2023 driven by increased government consumption and capital investment. Growth in both household consumption and GDP over 2023 has slowed due to sustained cost of living pressures and higher interest rates.[2]
- Government expenditure (+1.1%) contributed 0.2 percentage points to GDP. State and federal government social benefit schemes for households, including the Energy Bill Relief Fund and expansion of the Child Care Subsidy, were the main contributors to the rise.[2]
- Government consumption rose to be 2.7% higher through-the-year.[2]
- Household Savings to Income Ratio increased to 3.2% for the quarter ending Dec 2023 after dropping to 1.9% in the quarter ending Sep 2023.[2]

GLOBAL ECONOMY

According to Pierre-Olivier Gourinchas, Economic Counsellor and Director of Research of the International Monetary Fund (IMF), "the global economy is approaching a soft landing, but risks remain." Gourinchas suggests that "policy focus must shift to repairing public finances and improving medium-term growth prospects" and that "inflation is declining steadily and growth is holding up but the pace of expansion remains slow, and turbulence may lie ahead." Analysis conducted by the IMF "shows that a substantial share of recent disinflation occurred via a decline in commodity and energy prices, rather than through a contraction of economic activity."[5]

Gourinchas reports that "with disinflation and steady growth, the likelihood of a hard landing has receded, and risks to global growth are broadly balanced. On the upside, faster disinflation could lead to further easing of financial conditions. Looser fiscal policy than necessary and than assumed in the projections could imply temporarily higher growth, but at the risk of a more costly adjustment later on."[5]

> *"Deepening property sector woes in China or, elsewhere, a disruptive turn to tax hikes and spending cuts could also cause growth disappointments"*
>
> International Monetary Fund -
> *World Economic Outlook Update Jan 2024*

The IMF reports in their World Economic Outlook Update Jan 2024 that "stronger structural reform momentum could bolster productivity with positive cross-border spillovers. On the downside, new commodity price spikes from geopolitical shocks – including continued attacks in the Red Sea – and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions. Deepening property sector woes in China or, elsewhere, a disruptive turn to tax hikes and spending cuts could also cause growth disappointments."[6]

Global Debt Overview

Global Total Debt (Percent of GDP, weighted averages)	1968	1986	2004	2022
Euro Area	70.7	147.3	208.6	254.4
Japan	127.9	242.2	333.5	447.4
United Kingdom	129.0	125.7	197.3	252.1
United States	138.7	176.8	217.7	273.9
China	-	73.4	142.4	272.1

Source: IMF 2023 Global Debt Monitor 11 Sep 2023[7]

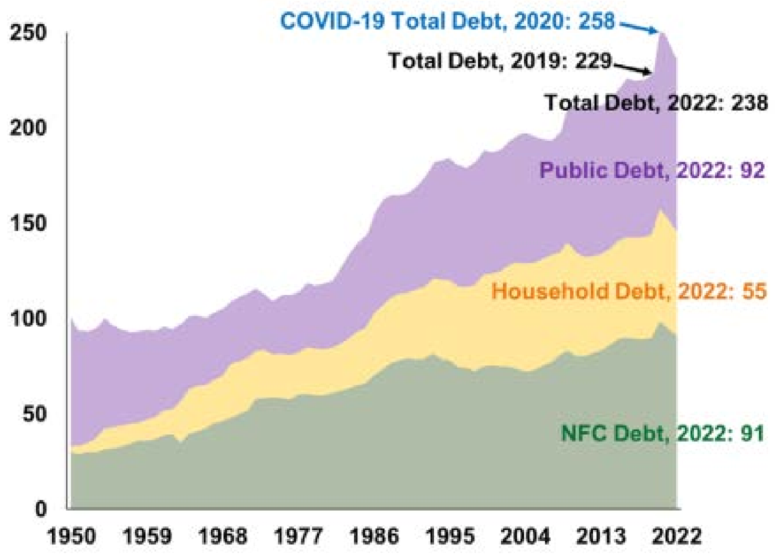
Global Public Debt (Percent of GDP, weighted averages)	1968	1986	2004	2022
Euro Area	25.0	52.1	69.7	93.2
Japan	11.8	74.0	169.5	261.3
United Kingdom	70.9	41.0	39.8	101.4
United States	48.7	57.7	66.1	121.4
China	-	-	26.4	77.1

Source: IMF 2023 Global Debt Monitor 11 Sep 2023[7]

Global Private Debt (Percent of GDP, weighted averages)	1968	1986	2004	2022
Euro Area	45.7	95.2	138.9	161.1
Japan	116.1	168.2	164.0	186.1
United Kingdom	58.1	84.6	157.5	150.8
United States	90.0	119.2	151.6	152.5
China	-	73.4	116.1	195.0

Source: IMF 2023 Global Debt Monitor 11 Sep 2023[7]

Global Debt Overview



Source: IMF 2023 Global Debt Monitor 11 Sep 2023[7]

Debt Supercycle

Atif Mian, John H. Laporte, Jr. Class of 1967 Professor of Economics, Public Policy, and Finance at Princeton University suggests in an IMF article published March 2024 that "the economic system requires long-term balance between what people earn and what they spend. Loss of this balance has led to a massive debt supercycle that threatens the global economy. Breaking that cycle is one of the most pressing challenges of the 21st century."[8]

Mian reports that "the debt supercycle is the product of an ever-increasing buildup of borrowing by consumers and governments. For example, total debt was about 140 percent of GDP between 1960 and 1980 in the United States, but has since more than doubled—to 300 percent of GDP. The same trend holds true globally. Not even the GFC in 2008 could put a dent in debt's relentless upward march. It would be a mistake to think that 2008 reflected merely some unfortunate policy misstep. The buildup in debt that led to the 2008 crisis stemmed from deep structural imbalances in the economy. Those imbalances persist, as do the dangers associated with them."[8]

> *"It would be a mistake to think that 2008 reflected merely some unfortunate policy misstep. The buildup in debt that led to the 2008 crisis stemmed from deep structural imbalances in the economy. Those imbalances persist, as do the dangers associated with them."*
>
> Atif Mian
> *- John H. Laporte, Jr. Class of 1967 Professor of Economics, Public Policy, and Finance at Princeton University*

US INDICATORS

Indicator	Value	Effective Date
US National Debt[9]	$34 trillion	Dec 2023
Total Household Debt[10]	$17.5 trillion	Dec 2023
Credit Card Debt[10]	$1.13 trillion	Dec 2023
Mortgage Balances[10]	$12.25 trillion	Dec 2023
Auto Loan Balances[10]	$1.61 trillion	Dec 2023
Real GDP (Annual Rate)[11]	3.20%	Feb 2024
Annual Inflation Rate (Not Seasonally Adjusted)[12]	3.10%	Jan 2024
Civilian Unemployment Rate[13]	3.70%	Jan 2024

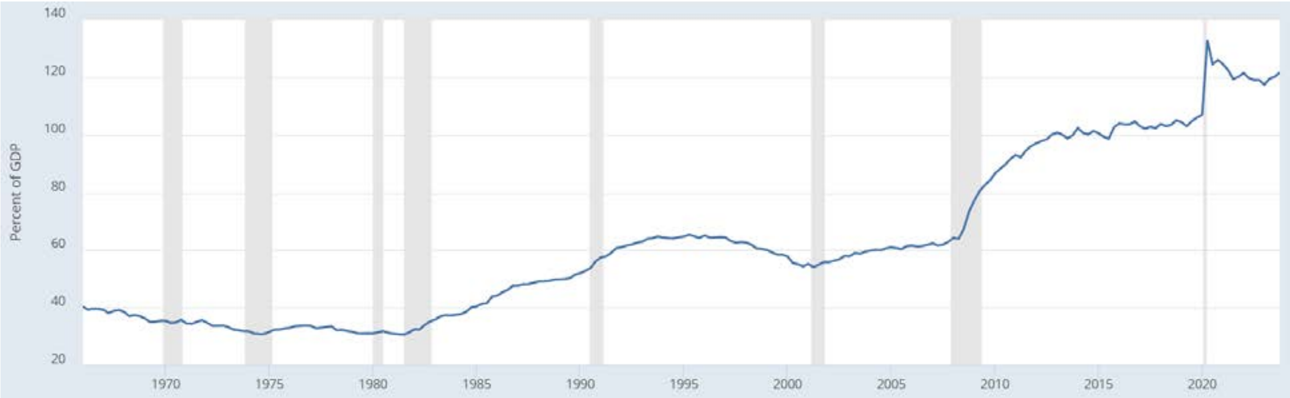
National Debt

US national debt (also known as public debt) has been rising by $1 trillion each quarter since June 2023.[9]

National debt, is the total amount of outstanding borrowing by the US federal government accumulated over the nation's history[9]

What is significant is that this immense rise in national debt is happening during a time when the US economy is reportedly relatively strong and unemployment is low, which is usually when federal deficits get reined in. Increased government spending normally occurs during weak economic periods and high unemployment to try and stimulate growth.[9]

US Federal Debt: Total Public Debt as Percent of Gross Domestic Product 1966 to 2023



Source: Federal Reserve Economic Data14

American economist, financial broker/dealer, Peter Schiff suggests that "if the economy was strong, we would not be running up $1 trillion a quarter on national debt because a strong economy lowers deficit because you get more production, you get higher tax revenues, the government does not have to spend as much on support programs. But what we are seeing is a fiscal situation that looks like we are in recession."[15]

> *"We are probably already in a recession and I think that the idea that we have avoided one is absurd. I think the government numbers do not tell the whole story and I think that they are likely to be downwardly revised, six months to a year from now."*
>
> Peter Schiff
> *- American economist, financial broker/dealer*

Schiff is of the opinion that "we are probably already in a recession and I think that the idea that we have avoided one is absurd. I think the governments numbers do not tell the whole story and I think that they are likely to be downwardly revised, six months to a year from now. That is what they did with the Great Recession which started in Dec 2007 but they did not acknowledge it until Dec 2008. The government went back and revised down a year worth of rosy economic data and then said we have been in a recession the entire time."[16]

Nonpartisan, research-based initiative, Penn Wharton Budget Model (PWBM), recently published a research brief investigating the sustainability of current federal debt levels within the US which estimated that, "even under myopic expectations, financial markets cannot sustain more than the next 20 years of accumulated deficits projected under current U.S. fiscal policy. Forward-looking financial markets are, therefore, effectively betting that future fiscal policy will provide substantial corrective measures ahead of time. If financial markets started to believe otherwise, debt dynamics would "unravel" and become unsustainable much sooner."[17]

The PWBM research brief found that "under current policy, the United States has about 20 years for corrective action after which no amount of future tax increases or spending cuts could avoid the government defaulting on its debt whether explicitly or implicitly (i.e., debt monetization producing significant inflation). Unlike technical defaults where payments are merely delayed, this default would be much larger and would reverberate across the U.S. and world economies."[17]

Other Debt Rising

In the US, increasing debt levels is a trend seen across the board. During the fourth quarter of 2023 total household debt rose by $212 billion to reach $17.5 trillion, credit card balances increased by $50 billion to $1.13 trillion, mortgage balances rose by $112 billion to $12.25 trillion and auto loan balances rose by $12 billion to $1.61 trillion, continuing an upward trajectory seen since 2011. Delinquency transition rates increased for all debt types except for student loans.[10]

Typically, lenders report a loan as being delinquent once a borrower is 60 days late in making payment. If late payments persist, then each month the borrower is late, the lender may continue reporting the delinquency to the credit agencies for as long as 270 days at which point the loan may fall into default.[18]

American economist, financial broker/dealer, Peter Schiff notes that "if the economy was so great why are people drowning in debt? Why is credit card debt at an all-time high when credit card interest rates are also at a record high? The only reason consumers are using credit is because they are broke. If it was a good economy they would not have to depend on credit. They would have the income to buy the things they need, they would not have to be borrowing money and going as deeply into debt."[15]

> *"If the economy was so great why are people drowning in debt? Why is credit card debt at an all-time high when credit card interest rates are also at a record high? The only reason consumers are using credit is because they are broke. If it was a good economy they would not have to depend on credit."*
>
> Peter Schiff
>
> *- American economist, financial broker/dealer*

CHINA INDICATORS

Indicator	Value	Effective Date
Annual GDP Growth Rate[19]	5.20%	Dec 2023
Overall Labor productivity[19]	5.70%	Dec 2023
Urban Surveyed Unemployment Rate[19]	5.10%	Dec 2023
Inflation CPI (Annual Rate)[19]	0.20%	Dec 2023
Total Population[19]	1,409.67 million	Dec 2023
Real Estate Investment (Annual Change)[19]	-9.6%	Dec 2023

According to preliminary estimation by the National Bureau of Statistics of China, at the end of 2023:

- China's gross domestic product (GDP) in 2023 was 126,058.2 billion yuan, up by 5.2 percent over the previous year.
- Overall labor productivity in China was 161,615 yuan per person, up by 5.7 percent over the previous year.
- The total number of employed people in China was 740.41 million, in urban areas was 470.32 million, accounting for 63.5 percent of the total employed people.
- The consumer prices in China went up by 0.2 percent over the previous year.

- China's total population decrease by 2.08 million from Dec to 2022 to Dec 2023.
- Investment in real estate development was 11,091.3 billion yuan, down by 9.6 percent over the previous year. Of this total, the investment in residential buildings reached 8,382.0 billion yuan, a decrease of 9.3 percent, that in office buildings was 453.1 billion yuan, down by 9.4 percent, and that in buildings for commercial business was 805.5 billion yuan, down by 16.9 percent.

China Economic Outlook

Benchmark and economic analysis research group, BBVA Research, report that "although China's 2023 results on GDP and economic activities are better than expected, their outlook for ongoing recovery in 2024 has not got a solid foundation yet as the deep adjustment of real estate market and local government debt overhang still remain the main risks and these two issues are highly correlated. In addition, deflationary environment and geopolitics risks will persist in the foreseeable future."[20]

BBVA Research suggest that China's "monetary and fiscal policy will remain expansionary in 2024 to support growth recovery and to rebuild market sentiments" and that "the key risks faced by China are in the real estate market, local government debt, supply chain relocation outside China and geopolitics." Their view is that "the real estate sector remains the main drag on growth and seems to need more time to achieve a soft-landing. There will still be a long haul to sustain a robust growth momentum and to reverse the market sentiments going forward."[20]

Alicia Garcia-Herrero, chief economist for Asia Pacific at Natixis suggests that "for China, the only way out of this [property] crisis is a slow but painful adjustment" and notes that "the adjustment has only started and will take years to conclude."[21]

> *"While property sales and project starts have collapsed, and many developers have been driven into bankruptcy, the full impact of China's property crisis on real economic activity has not yet been felt."*
>
> Capital Economics
> *– Independent economic insight provider*

Capital Economics, a provider of independent economic insight, suggests that "despite China's efforts in real estate sector investment and developer pressure, it is unlikely that Beijing can offset the underlying weakness in property demand for much longer. Ultimately, China is attempting to use cyclical tools to solve structural issues."[22]

According to Capital Economics, much of China's "infrastructure investments are financed by local governments that face diminishing returns and other financial headwinds." China's "demographic challenges including a falling population and stalling urbanization suggest weaker property demand in the years ahead". "While property sales and project starts have collapsed, and many developers have been driven into bankruptcy, the full impact of China's property crisis on real economic activity has not yet been felt."[22]

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.

Got questions about economic impacts on your super?

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

REFERENCES

1. https://www.rba.gov.au/
2. https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release
3. https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/jan-2024
4. https://treasury.gov.au/speech/opening-statement-economics-legislation-committee-october-2023
5. https://www.imf.org/en/Blogs/Articles/2024/01/30/global-economy-approaches-soft-landing-but-risks-remain
6. https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024
7. https://www.imf.org/en/Search#q=2023%20global%20debt%20monitor&sort=relevancy
8. https://www.imf.org/en/Publications/fandd/issues/2024/03/Symposium-Breaking-the-debt-supercycle-Atif-Mian
9. https://edition.cnn.com/2024/01/03/economy/us-national-debt-34-trillion/index.html
10. https://www.newyorkfed.org/microeconomics/hhdc
11. https://www.bea.gov/data/gdp/gross-domestic-product
12. https://www.bls.gov/cpi/
13. https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm
14. https://fred.stlouisfed.org/series/GFDEGDQ188S
15. https://youtu.be/VQWqpAkvVWY?si=VFsiMFXjKBxH1pap
16. https://youtu.be/AGEZ1uNZBLA?si=bVNWyEUxDF2jWZam
17. https://budgetmodel.wharton.upenn.edu/issues/2023/10/6/when-does-federal-debt-reach-unsustainable-levels
18. https://www.investopedia.com/terms/d/delinquency-rate.asp
19. https://www.stats.gov.cn/english/PressRelease/202402/t20240228_1947918.html
20. https://www.bbvaresearch.com/en/publicaciones/china-economic-outlook-of-2024-and-the-52-conclusion-of-2023/
21. https://edition.cnn.com/2023/10/06/economy/china-economy-real-estate-crisis-intl-hnk/index.html
22. https://www.businessinsider.com/china-economy-housing-market-real-estate-crash-investors-outlook-construction-2024-3?op=1&utm_source=copy-link&utm_medium=referral&utm_content=topbar