



GLOBAL ECONOMIC OUTLOOK

QIC ECONOMICS & RESEARCH
September 2024

We acknowledge and respect the traditional lands and cultures of First Nations peoples in Australia and globally and pay our respects to Elders past and present. We recognise First Nations peoples' longstanding and ongoing spiritual connections to land, sea, community, and country.

1.

Global Outlook

2.

Australian Outlook

3.

Appendix: Country snapshots

- US
- Euro area
- UK
- China

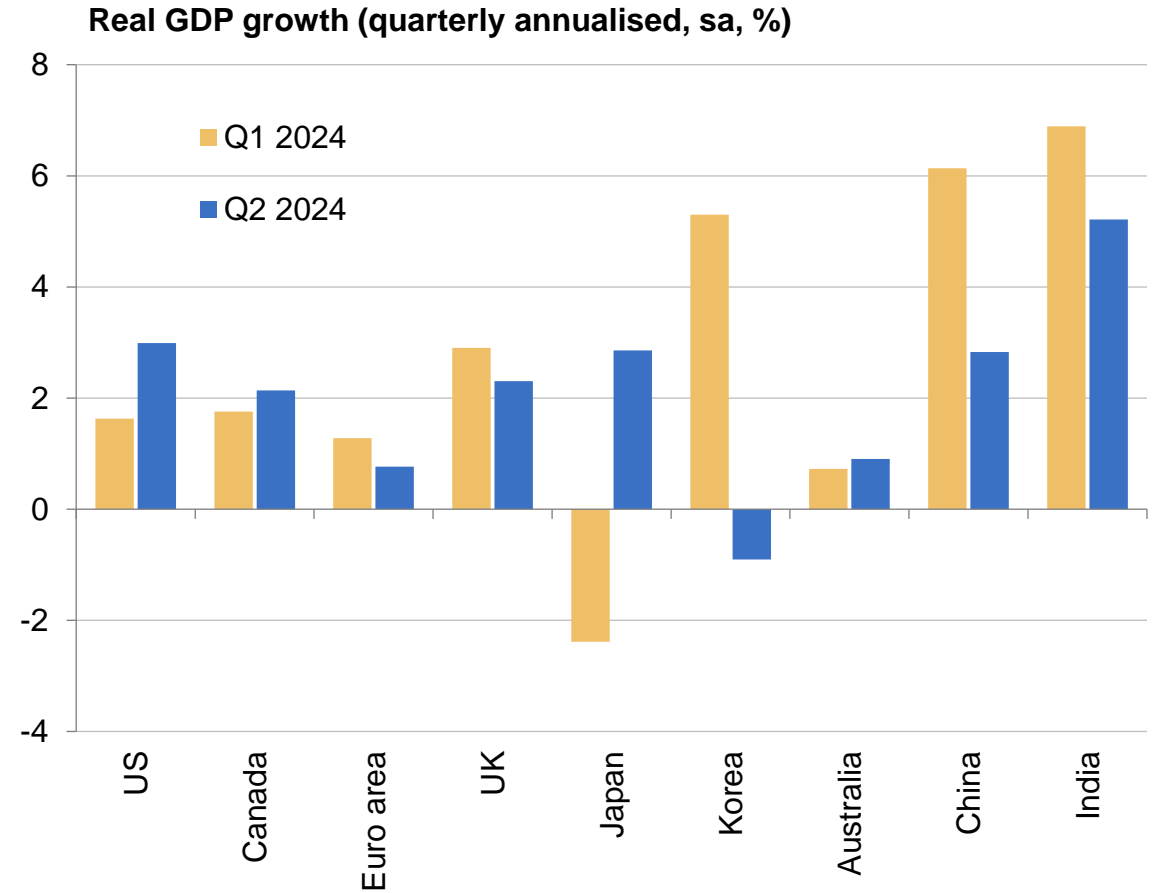
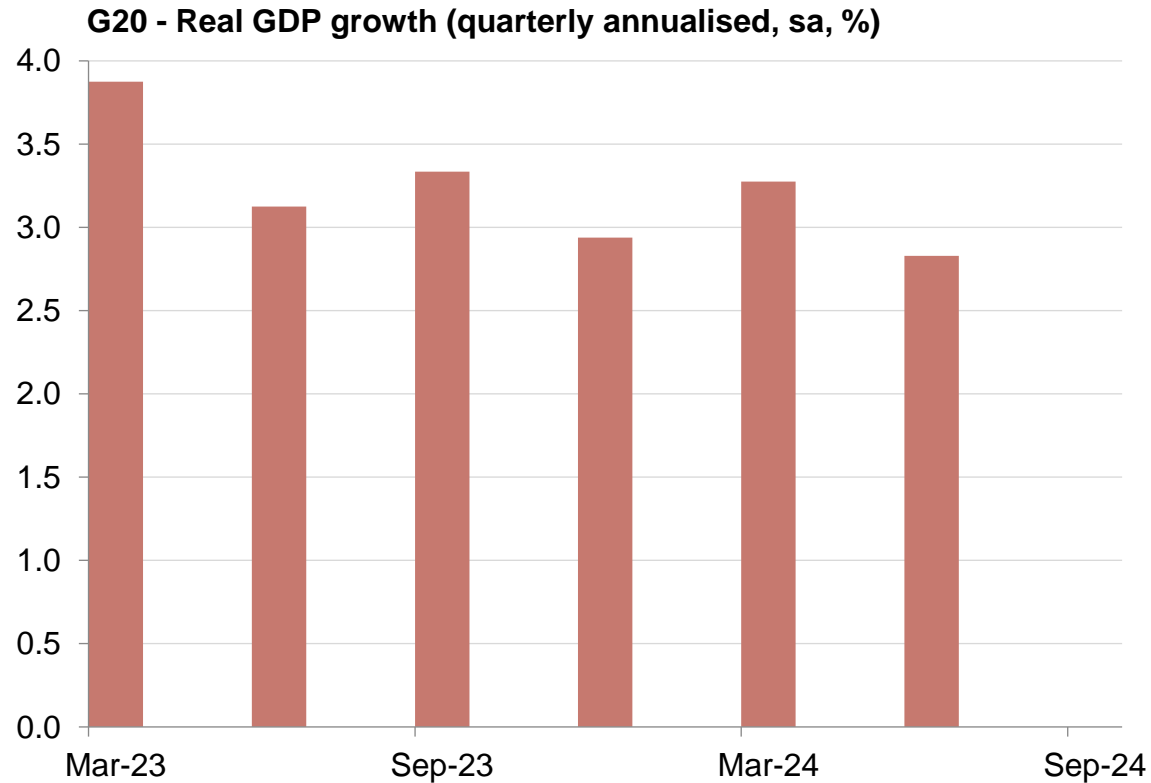
QIC

Global Outlook

SEPTEMBER 2024

Moderate growth continued across the global economy in the June quarter

US remains solid, China slows sharply, Japan rebounds, while UK/Europe continue to recover gradually



Source: Refinitiv, QIC

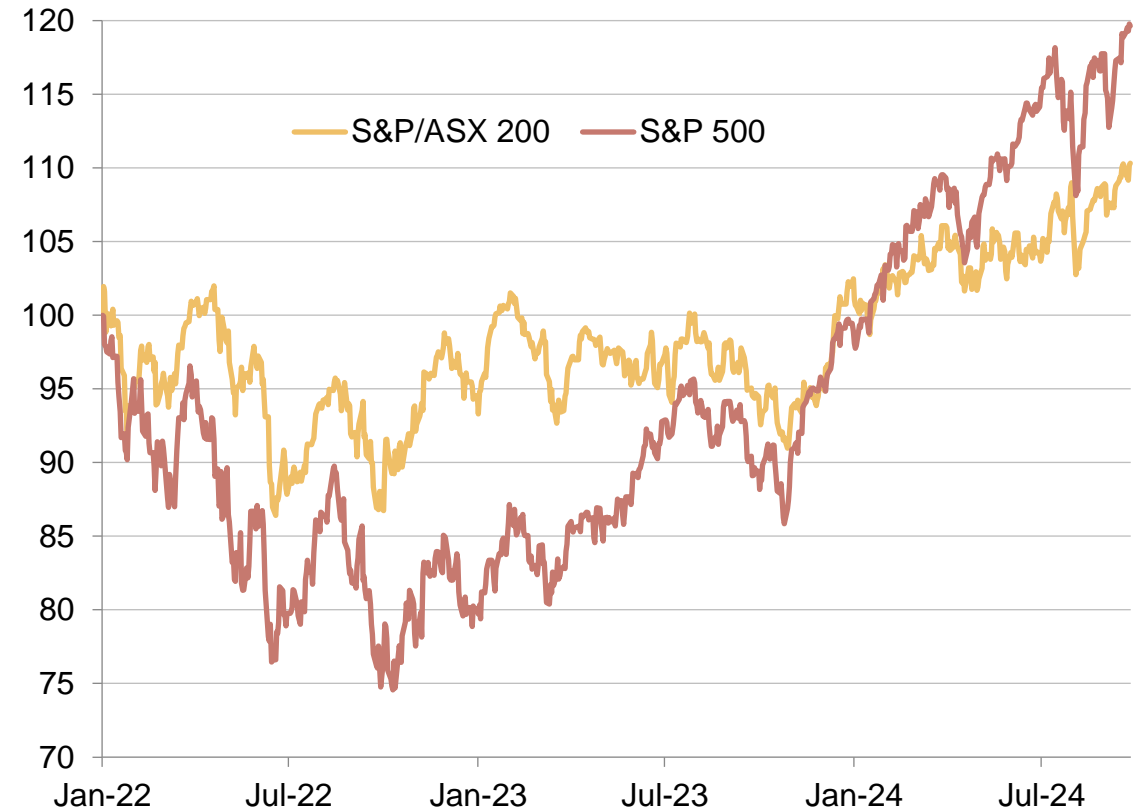
Incoming economic data have disappointed, but remain consistent with a soft-landing

Following temporary dislocations in early August, equity markets rally to record highs

Citi economic surprise index



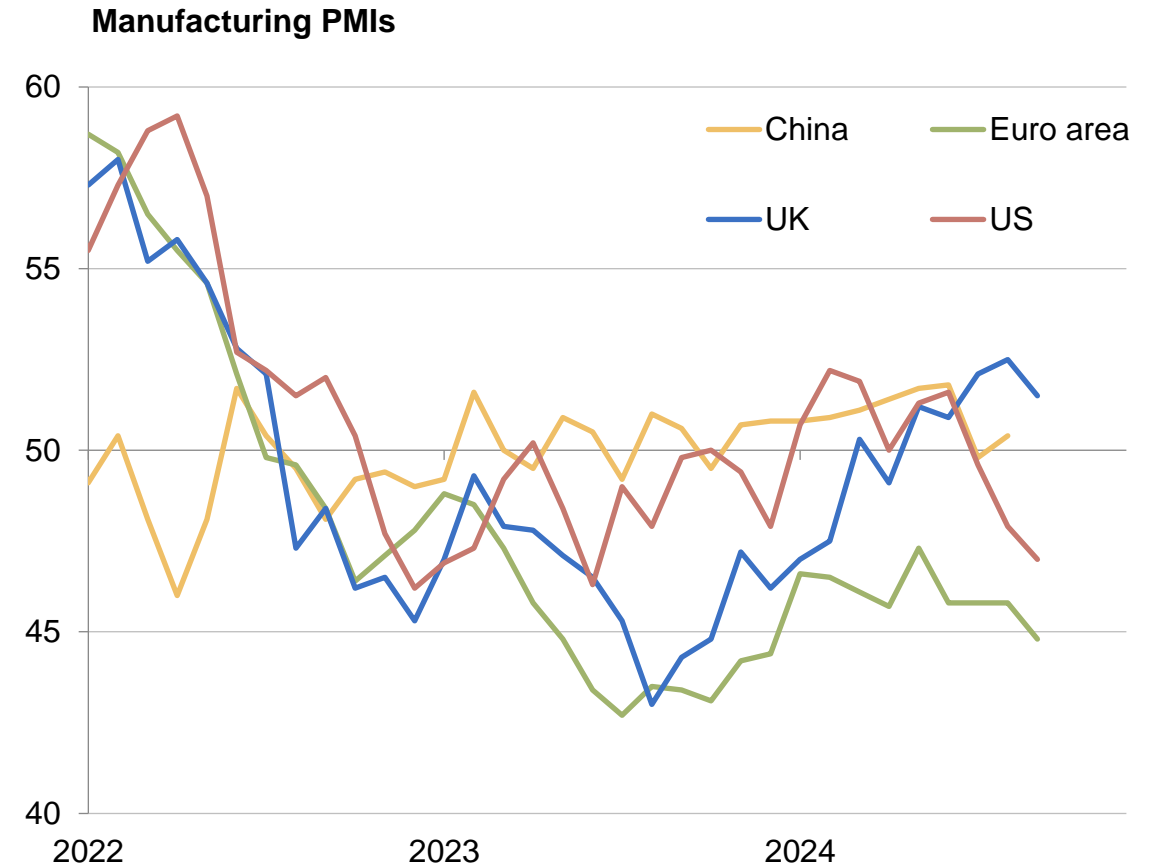
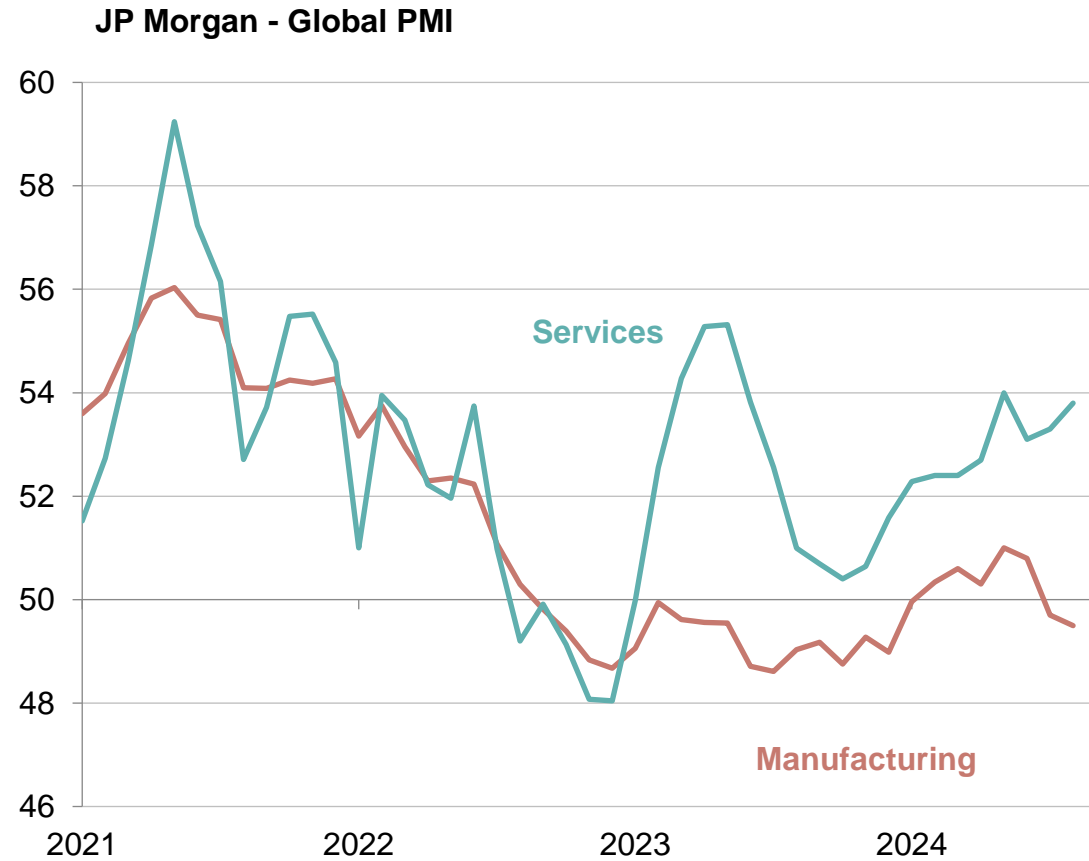
Equity market price index (3 Jan 2022 = 100)



Source: Refinitiv, Bloomberg, QIC

Forward indicators point towards a modest slowdown in H2 2024

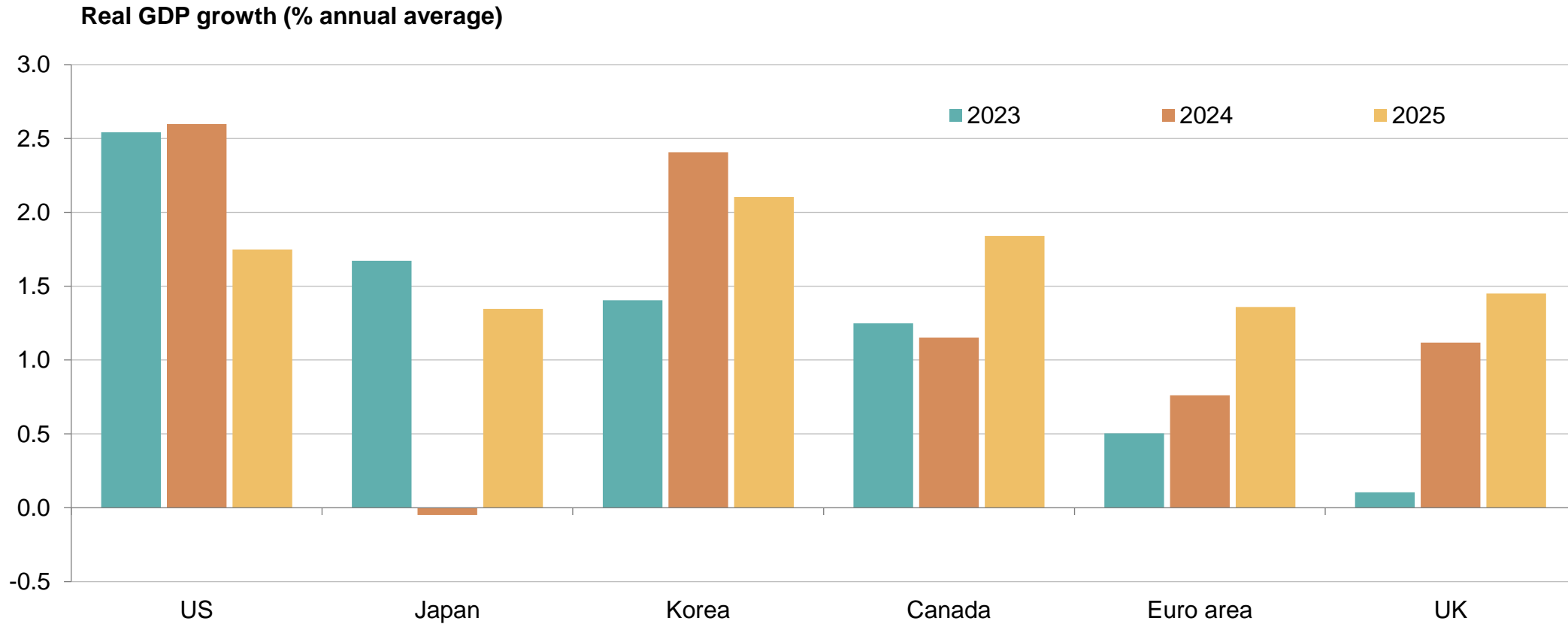
Manufacturing sector has softened, while services activity remains more resilient



Source: Refinitiv, QIC

Ongoing convergence expected across advanced economies

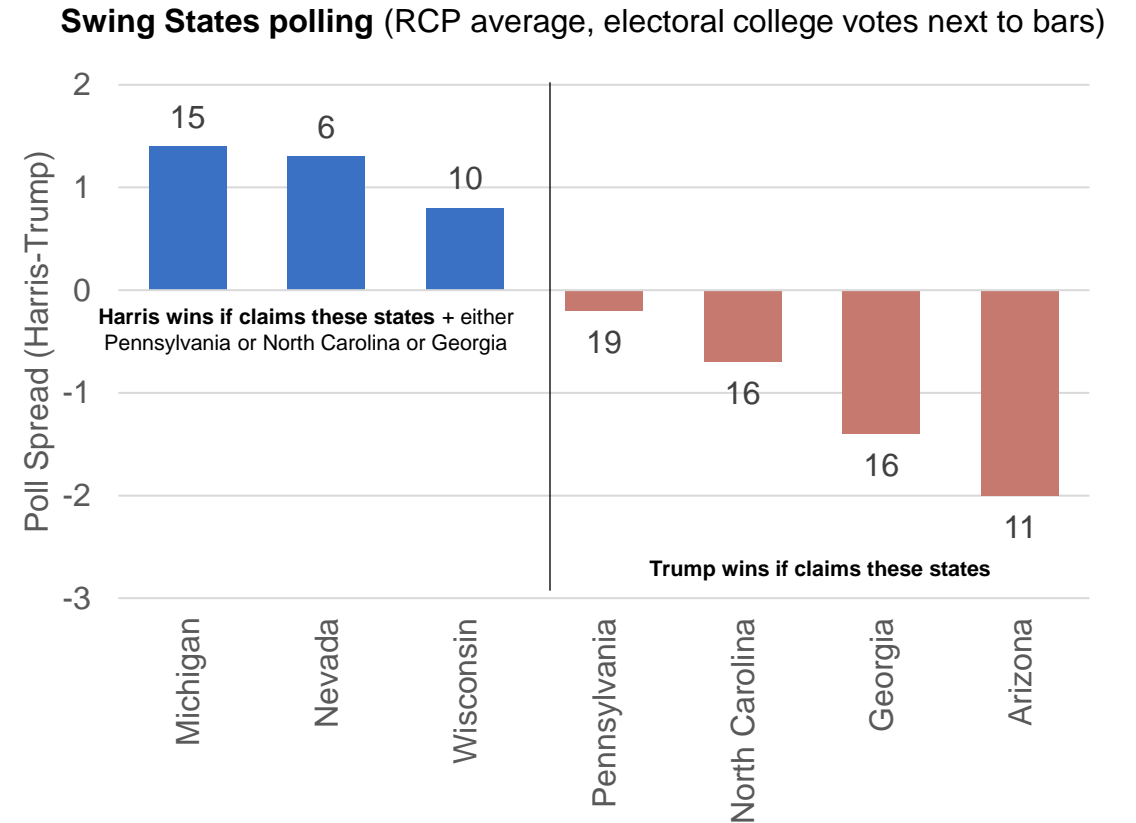
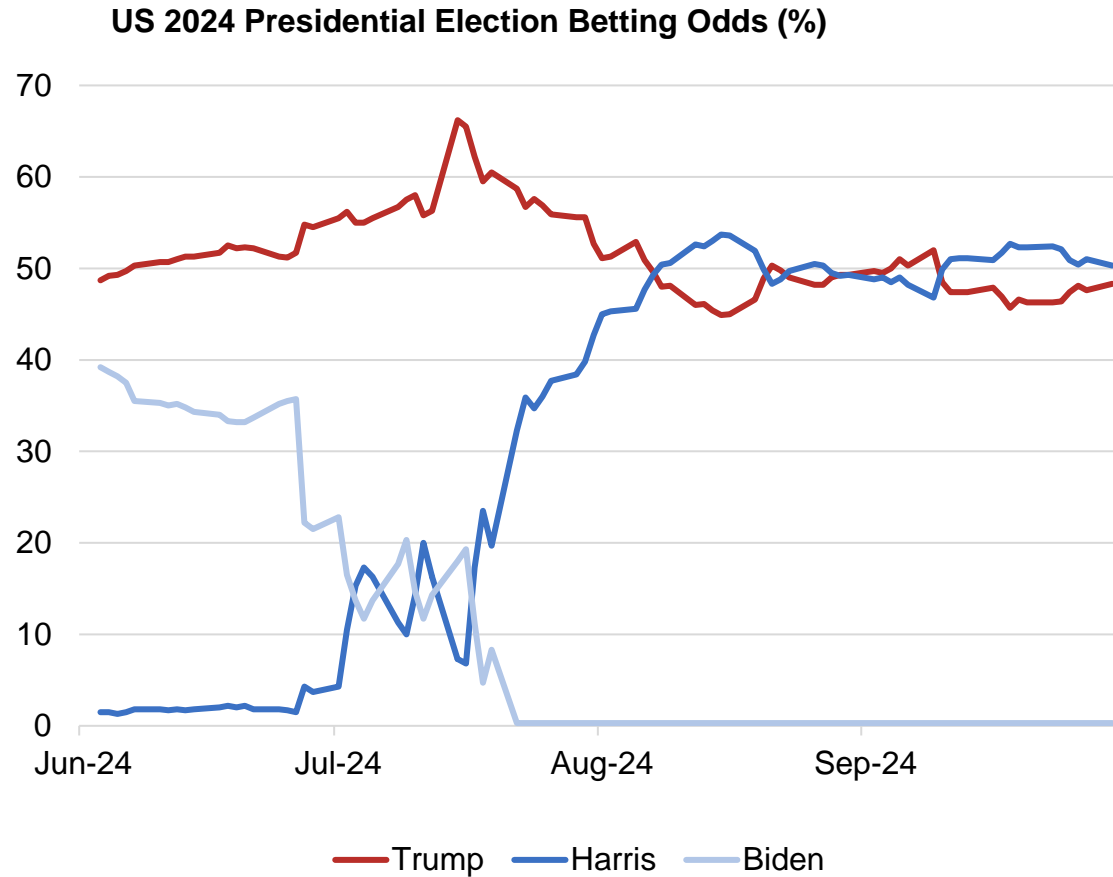
Growth in the US to moderate in 2025, but continue to recover in UK, Europe and Japan



Source: Refinitiv, QIC

Significant uncertainty remains around the US Presidential Election

Betting odds have Harris just ahead, while polls in crucial swing states suggest Trump may just get over the line

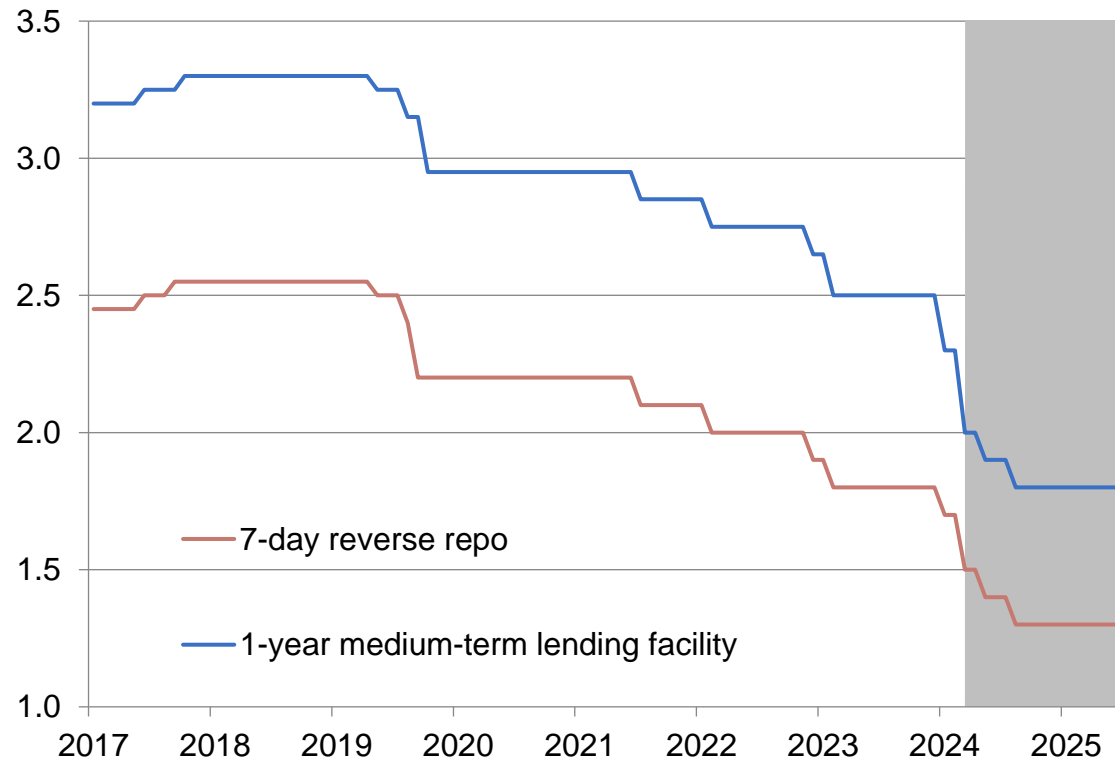


Source: Bloomberg, Real Clear Politics (as at 29 Sept), QIC

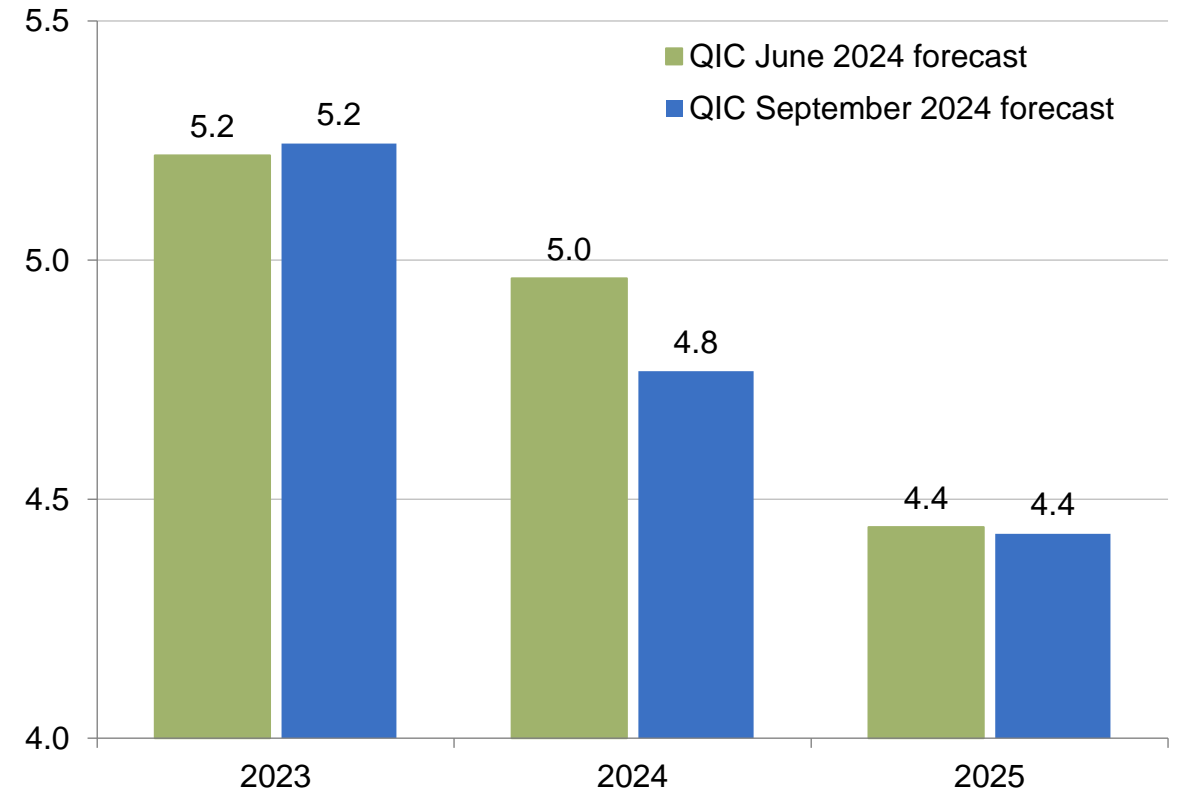
Chinese authorities unveil coordinated policy easing to strive to hit their 2024 growth target

QIC expects 2024 growth to fall short of the “around 5%” growth target & a further moderation is likely next year

China - PBOC key interest rates (%)



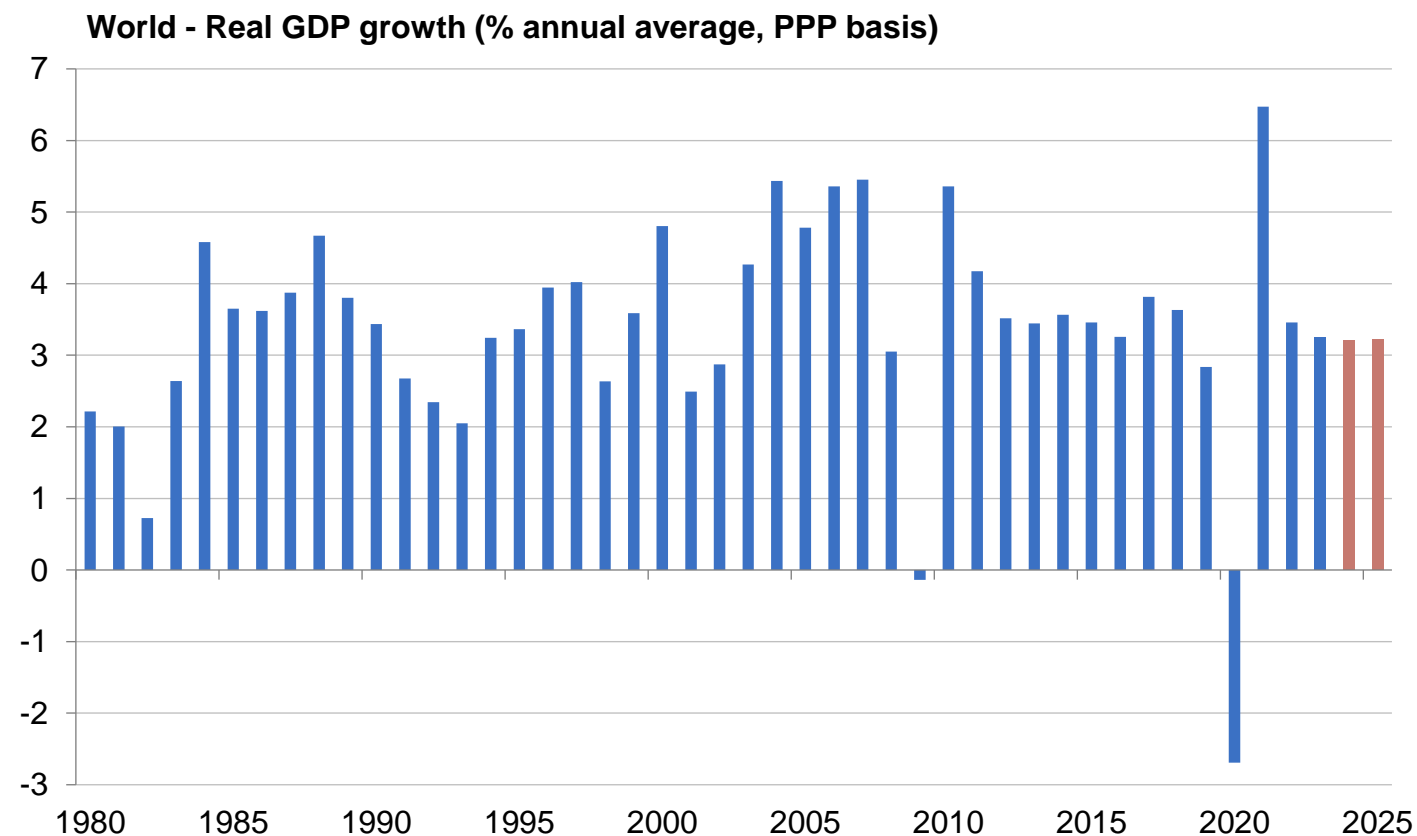
China - Real GDP growth (% annual average)



Note: Grey shading represents QIC forecasts
Source: Refinitiv, QIC

Global growth outlook

No significant change in QIC's global growth forecasts since June

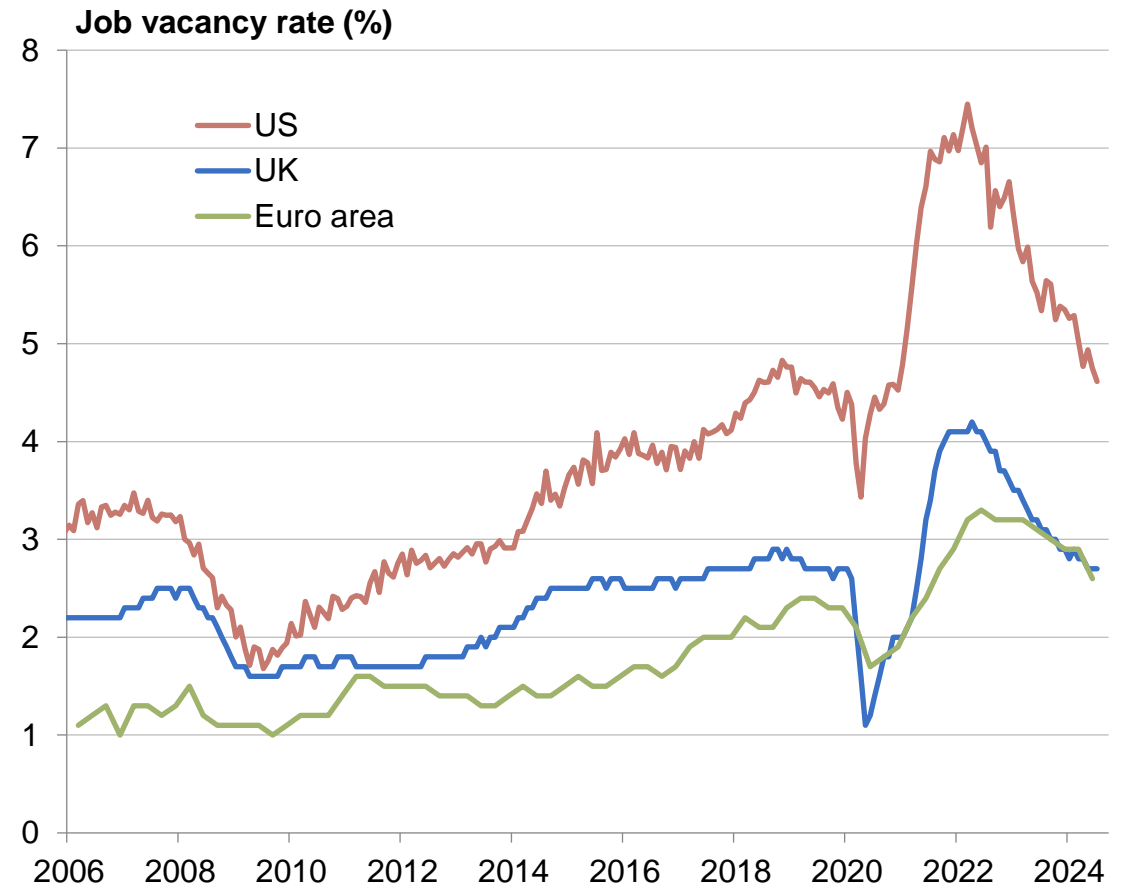
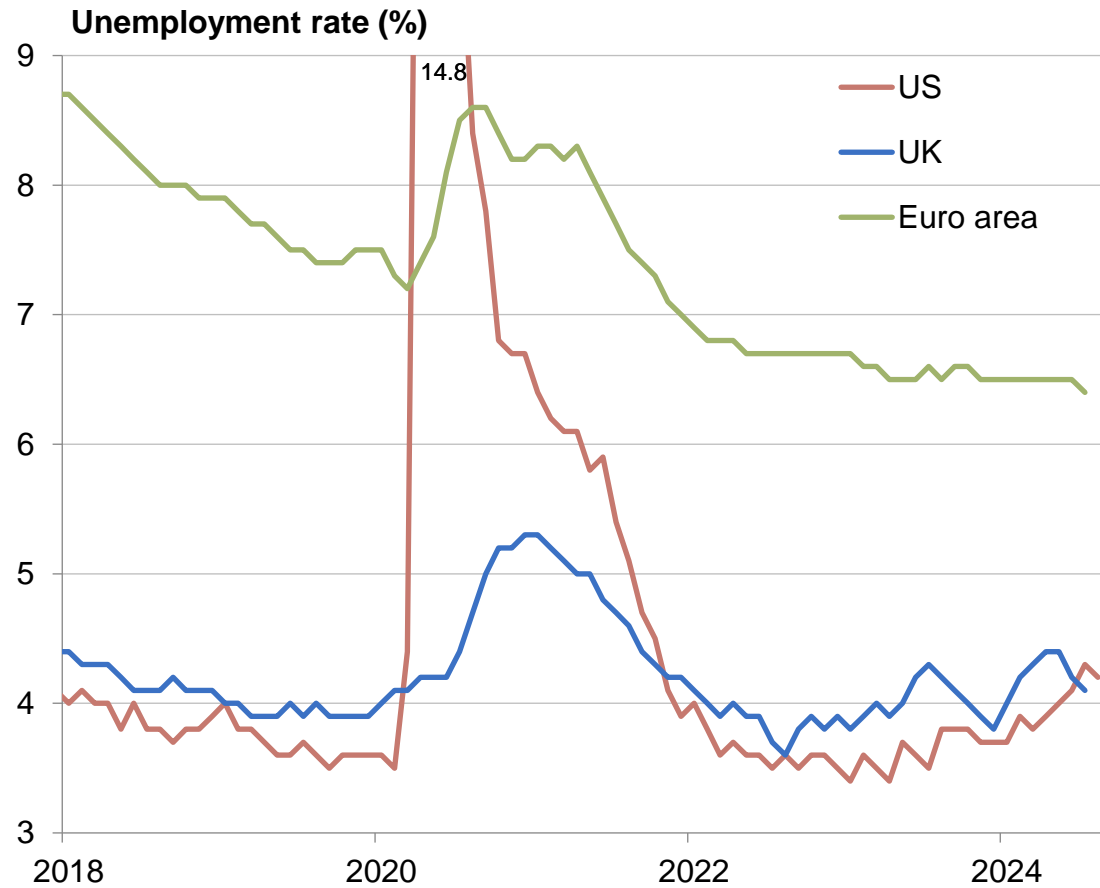


QIC Real GDP Forecasts (%)	2023 Actual	2024 F'cast	2025 F'cast
World	3.3	3.2	3.2
Advanced economies	1.7	1.6	1.7
US	2.9	2.6	1.7
Canada	1.2	1.2	1.8
Euro area	0.5	0.8	1.4
UK	0.1	1.1	1.4
Japan	1.7	0.0	1.3
Emerging & developing	4.3	4.3	4.2
China	5.2	4.8	4.4
India	7.7	6.9	6.5

Note: Red columns represent QIC forecasts
Source: Refinitiv, QIC

Labour market conditions have moved into better balance across advanced economies

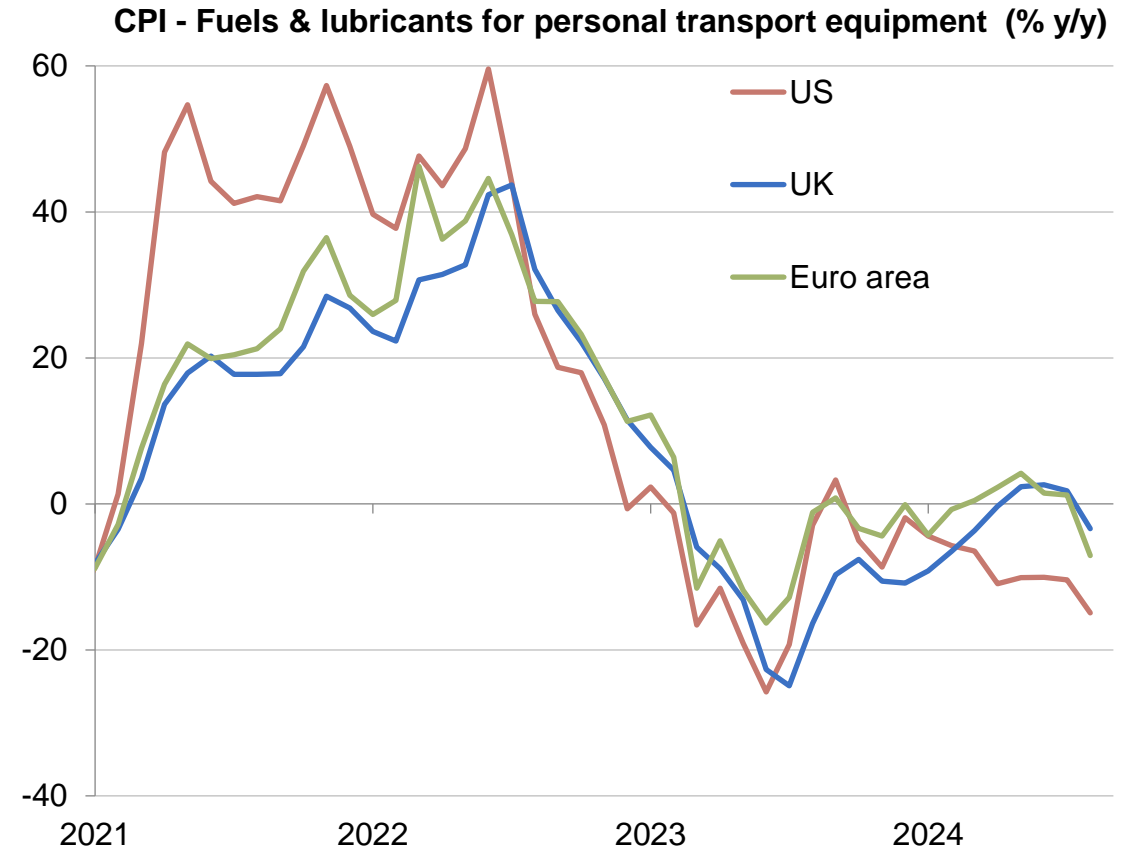
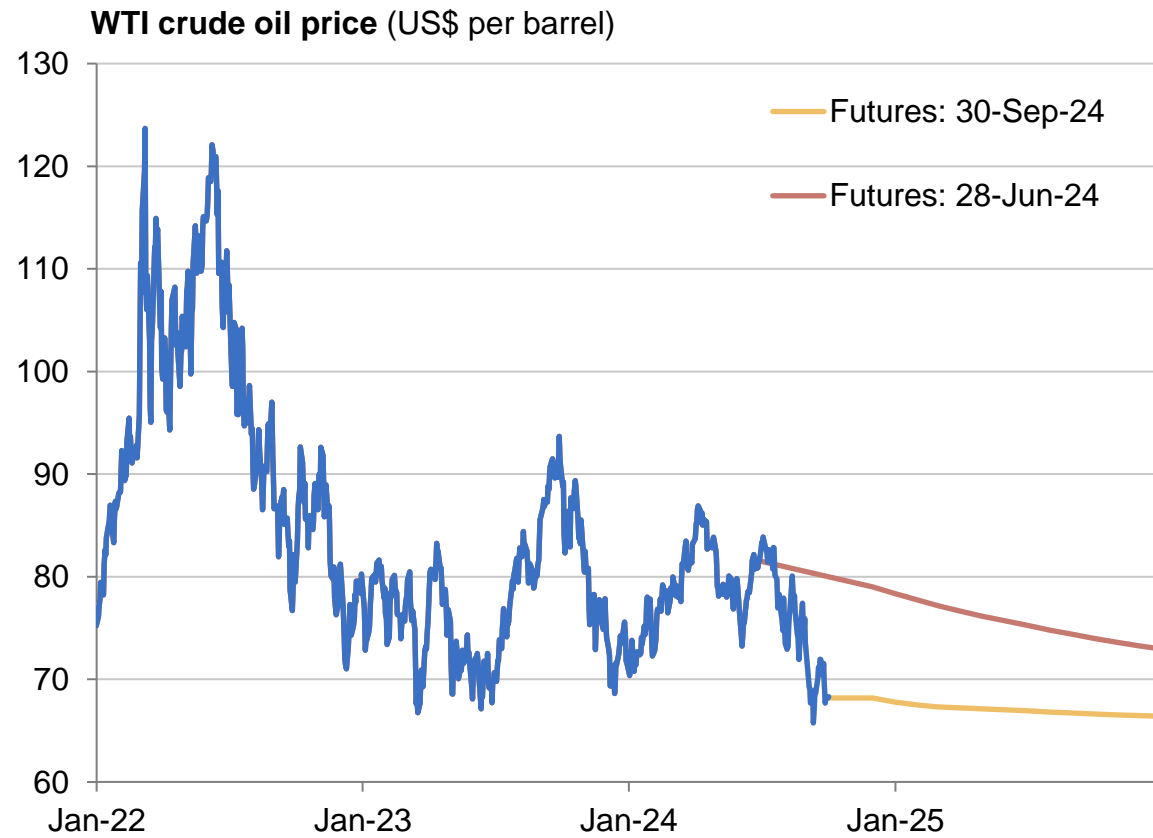
Can monetary policy easing prevent more widespread weakening?



Source: Refinitiv, QIC

Commodity prices, particularly oil, have eased more than expected on signs of softening demand

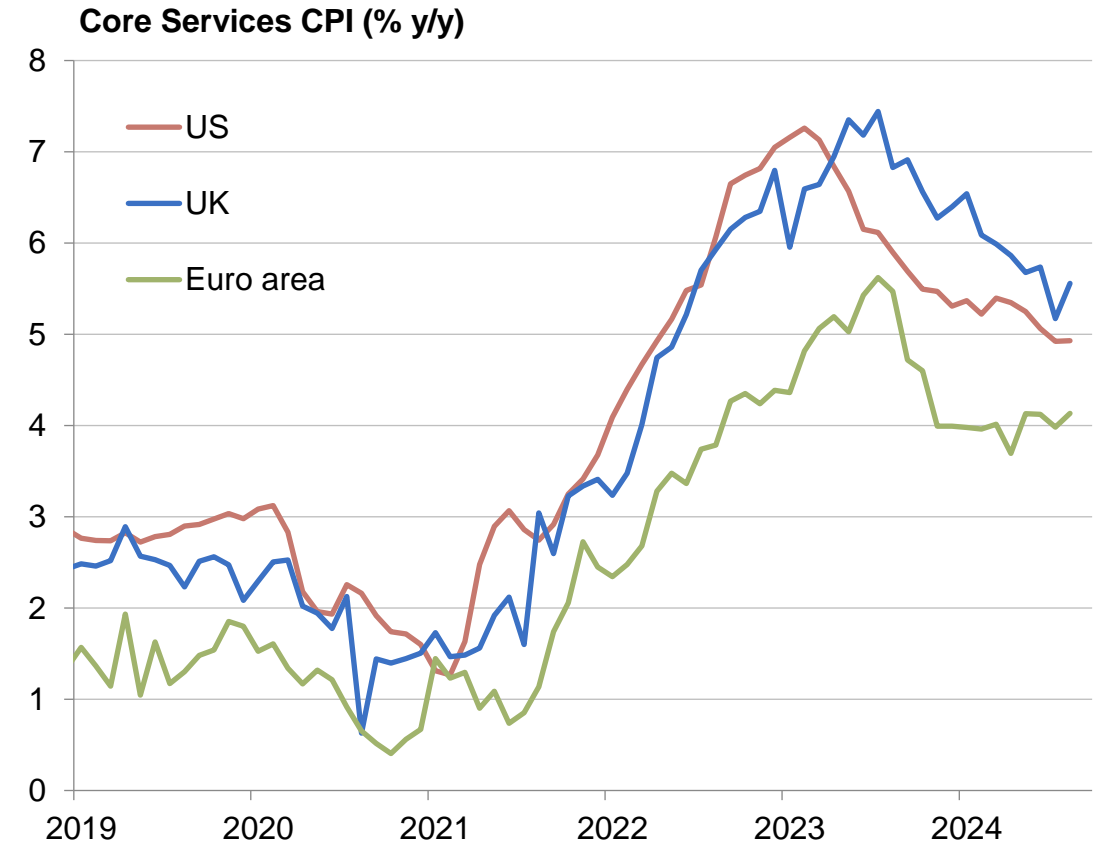
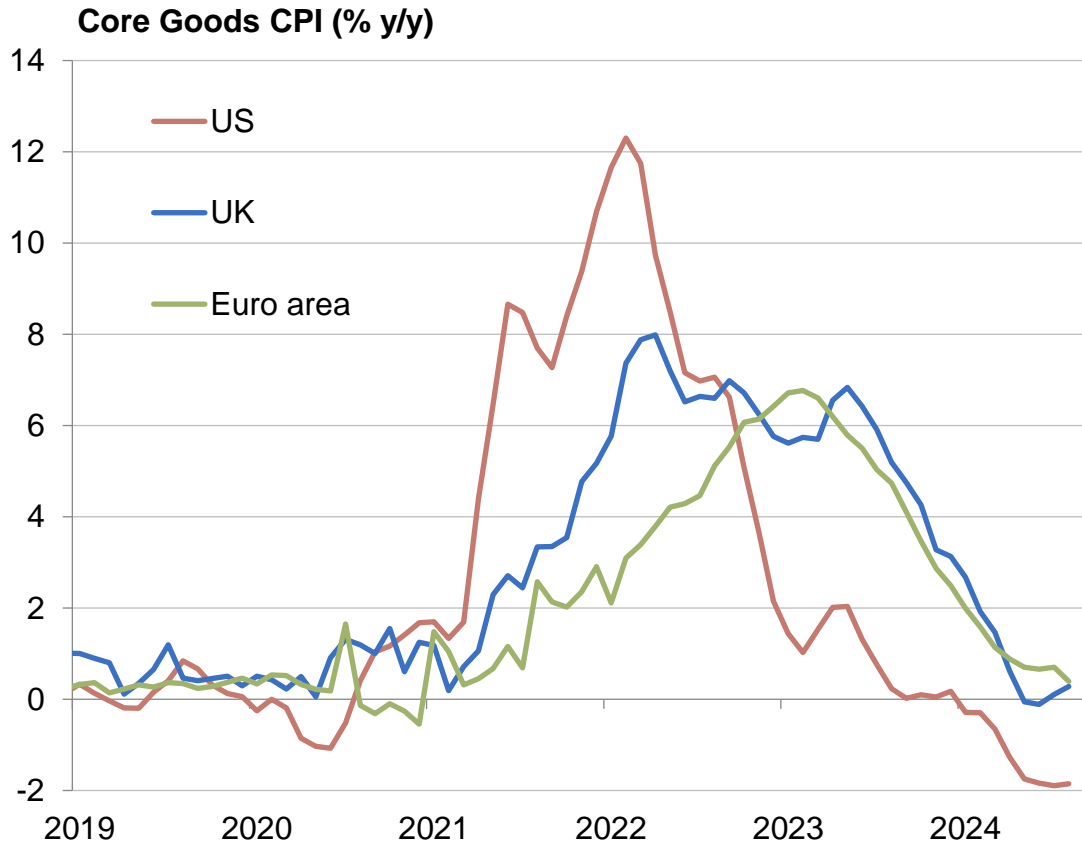
Lower gasoline prices are dampening headline inflation pressures in Q3, but base effects are less favourable in Q4



Source: Refinitiv, BLS, QIC

Welcome signs of easing in core inflation

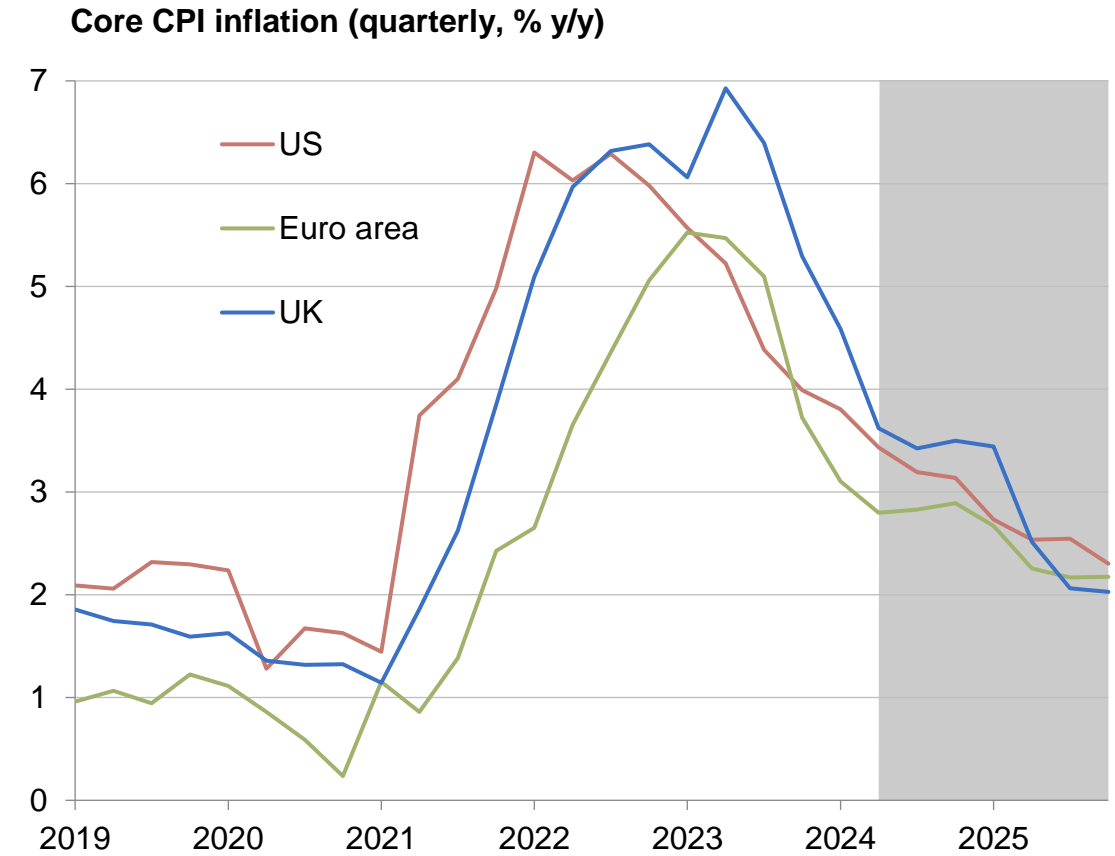
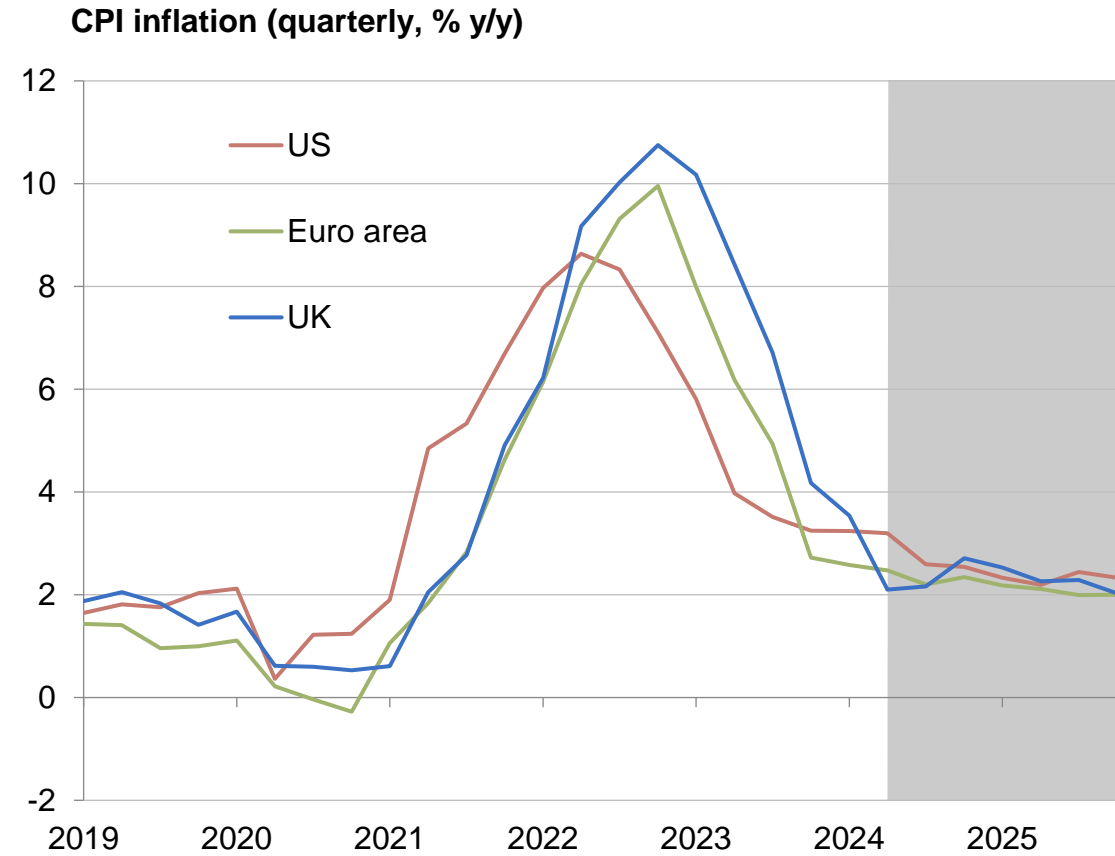
Core goods inflation has fallen to more normal rates, while progress on core services inflation remains slow



Source: Refinitiv, QIC

Inflation expected to fall close to central banks' targets by late 2025

Risks around inflation outlook are becoming more balanced

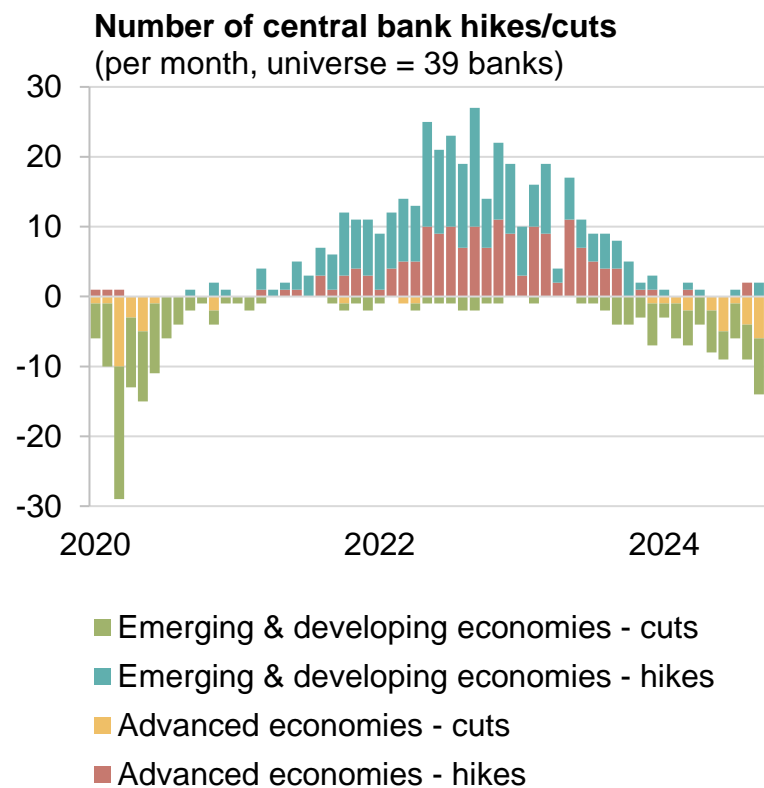


Note: Grey shading represents QIC forecasts

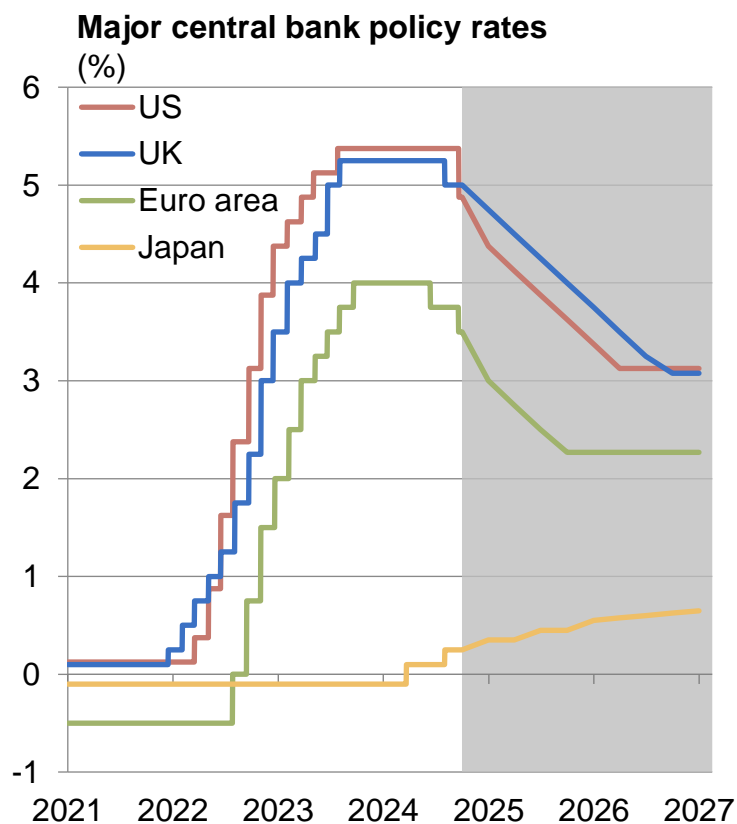
Source: Refinitiv, QIC

Major central banks to ease policy towards neutral settings

More aggressive cuts could occur if labour market conditions deteriorate unexpectedly



Note: Grey shading represents QIC forecasts
Source: Refinitiv, QIC



- Most central banks have commenced their easing cycle over the past six months
- The Fed cut rates by 50bps in September and QIC expects a further 175bps of easing over the coming 18 months (two 25bp rate cuts in November and December, a further four cuts in 2025 and one cut in 2026).
- Following the ECB's cut in June and September, QIC expects a further two cuts in Q4-24 and three cuts in 2025
- The BOE cut rates by 25bp in late July and QIC expects a further 175-200bps of rate cuts proceeding at a quarterly pace
- Japan is forecast to continue to gradually lift rates over the coming year

Global Growth Forecasts

Global growth forecasts (% annual average)	QIC			Consensus		QIC revisions since June		Consensus revisions	
	2023	2024	2025	2024	2025	2024	2025	2024	2025
World	3.3	3.2	3.2	3.2	3.2	0.0	0.1	0.1	-0.1
Advanced Economies	1.7	1.6	1.7	1.7	1.6	0.1	0.0	0.1	0.0
United States	2.9	2.6	1.8	2.5	1.7	0.2	0.1	0.1	0.0
Euro Area	0.5	0.8	1.4	0.7	1.3	0.0	0.0	0.1	-0.1
Japan	1.7	0.0	1.3	0.0	1.2	-0.1	0.1	-0.5	0.0
United Kingdom	0.1	1.1	1.4	1.0	1.2	0.3	0.0	0.5	0.1
Canada	1.2	1.2	1.8	1.1	1.8	0.2	0.1	0.0	-0.1
Other Advanced Economies	1.5	2.0	2.3	2.1	2.3	-0.1	-0.1	0.0	-0.1
Australia	2.0	1.2	2.1	1.2	2.1	0.0	-0.1	-0.2	-0.2
Emerging Market and Developing Economies	4.3	4.3	4.2	4.3	4.3	-0.1	0.1	0.1	-0.1
Emerging and Developing Asia	5.7	5.4	5.1	5.3	5.1	-0.2	0.1	0.0	0.0
China	5.2	4.8	4.4	4.8	4.4	-0.2	0.1	0.0	0.0
India	7.7	6.9	6.5	6.9	6.7	-0.5	-0.1	0.2	0.1
Emerging and Developing Europe	3.1	3.4	2.7	3.2	2.6	0.6	0.3	0.5	-0.1
Russia	3.5	3.6	1.9	3.6	1.7	0.9	0.3	1.0	0.2
Latin America and the Caribbean	2.3	2.0	2.3	1.8	2.3	0.2	-0.1	0.2	-0.2
Brazil	2.9	2.9	2.6	2.7	2.0	1.1	0.2	0.9	0.0
Mexico	3.2	1.3	1.7	1.6	1.5	-0.5	-0.5	-0.6	-0.5
Middle East and Central Asia	2.0	2.9	4.0	2.8	4.2	-0.5	0.0	-0.4	-0.3
Sub-Saharan Africa	3.4	3.1	3.3	2.1	2.7	0.0	0.0	-0.4	-0.2
South Africa	0.7	0.9	2.0	1.0	1.9	0.0	0.1	-0.2	0.0

Source: Refinitiv, IMF, QIC.

Summary of Global Outlook



GROWTH

- Global economy remains on track for a soft-landing. Global growth is forecast to average a 3.2% pace in 2024 & 2025, close to the outturn seen in 2023, but ½ ppt below that seen in the decade prior to COVID
- Increased convergence expected across advanced economies in 2025, with the UK and euro area gradually recovering and the US beginning to moderate from the strong growth seen in 2023
- Despite a recent ramp-up in stimulus measures, growth in China is expected remain under pressure, with a further slowdown expected in 2025



INFLATION

- Lower gasoline prices are helping to place downward pressure on headline inflation rates, although this source of disinflation should gradually fade
- Core goods inflation has returned to more sustainable rates, but core services inflation remains too high across most economies
- Inflation pressures to continue to trend lower, but the last-mile lower will be bumpy and inflation is not expected to fall sustainably to target until late 2025



MONETARY POLICY

- With inflation concerns easing, central banks are becoming more focussed on the upside risks to unemployment
- Major central banks have commenced their easing cycles and will continue with rate cuts in Q4-24 & 2025 towards more neutral levels. However, policy rates will remain much higher than in the decade prior to COVID
- QIC expects a further 175bps of rate cuts by the US Federal Reserve, 125bps by the ECB and 175-200bps by the Bank of England over the coming 1-2 years
- The Bank of Japan is expected to continue to slowly lift rates over the coming year



Australian Outlook

SEPTEMBER 2024

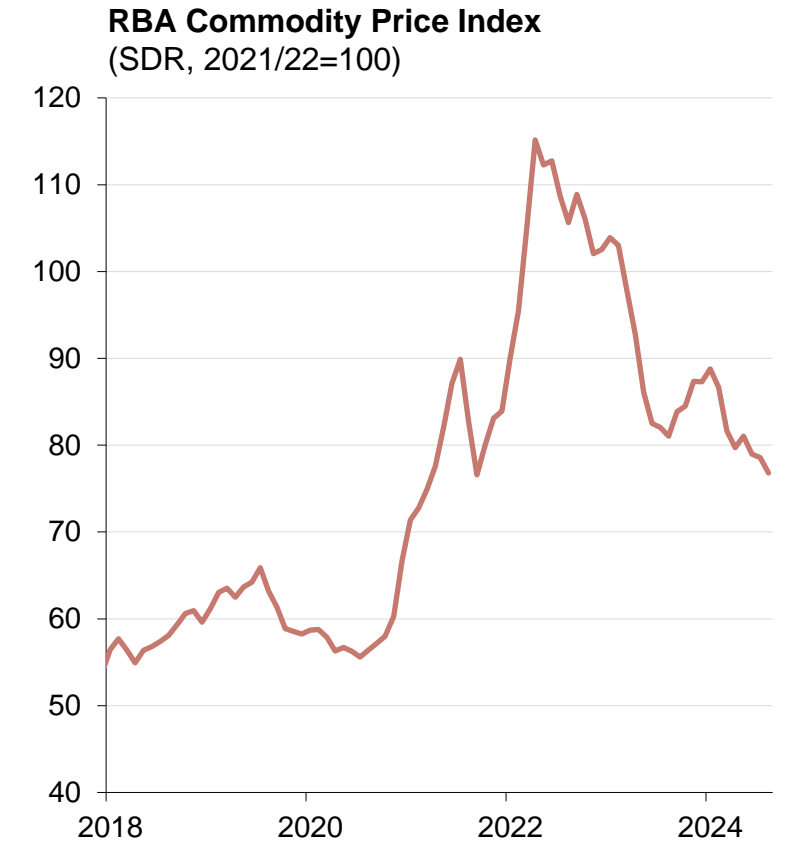
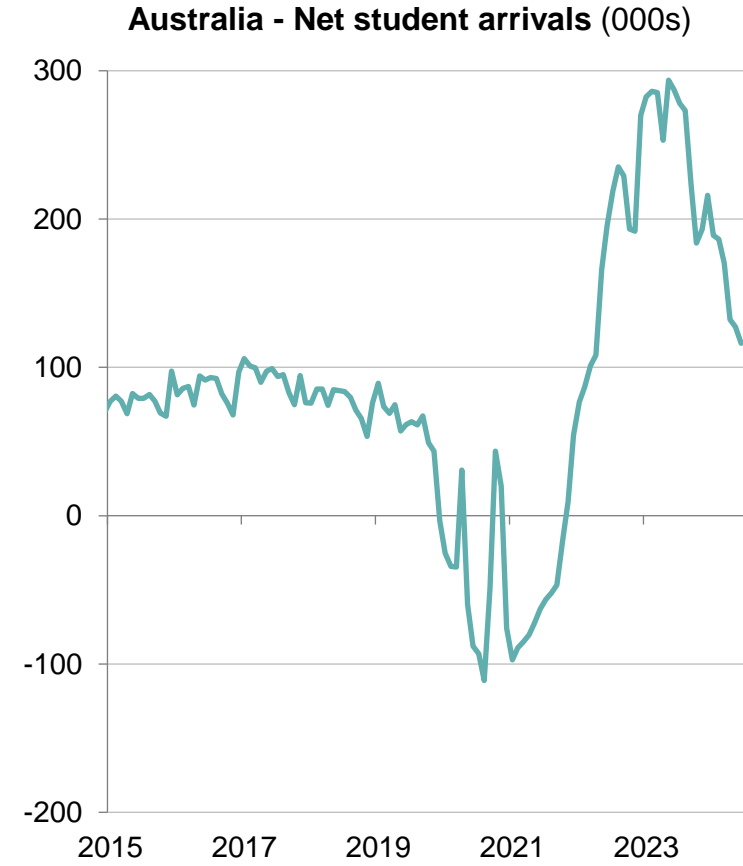


Australia Current Conditions

SEPTEMBER 2024

Population growth peaked in 2023, remains above trend

Commodity prices are trending lower, but remain modestly above pre-COVID levels

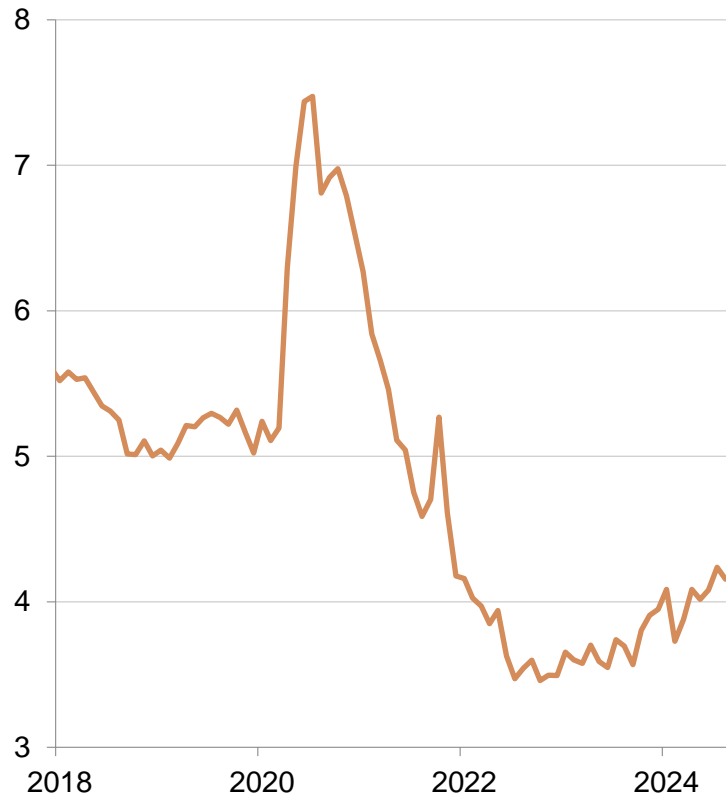


Source: RBA, ABS, QIC

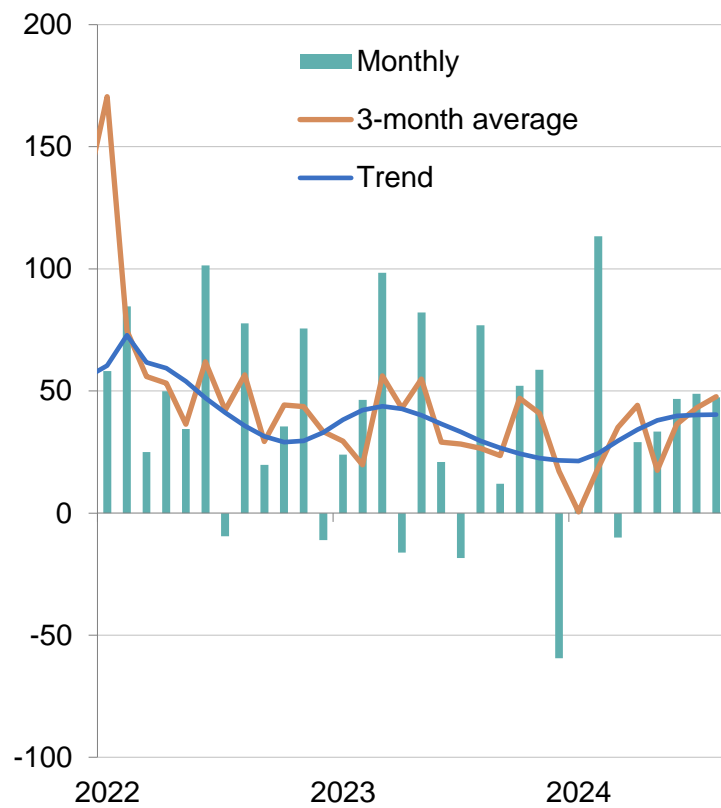
Gradual trend rise in unemployment rate confirms labour market pressures are easing

Employment remains surprisingly resilient, but levels are being revised down as population growth slows

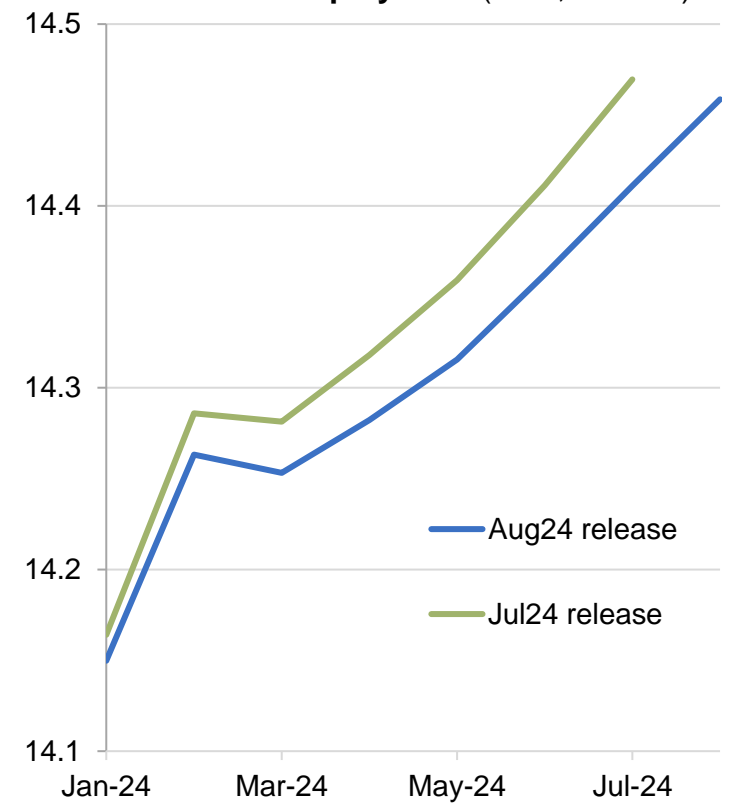
Australia - Unemployment rate (sa, %)



Australia - Change in employment (sa, 000s)



Australia - Employment (level, millions)



Source: ABS, QIC

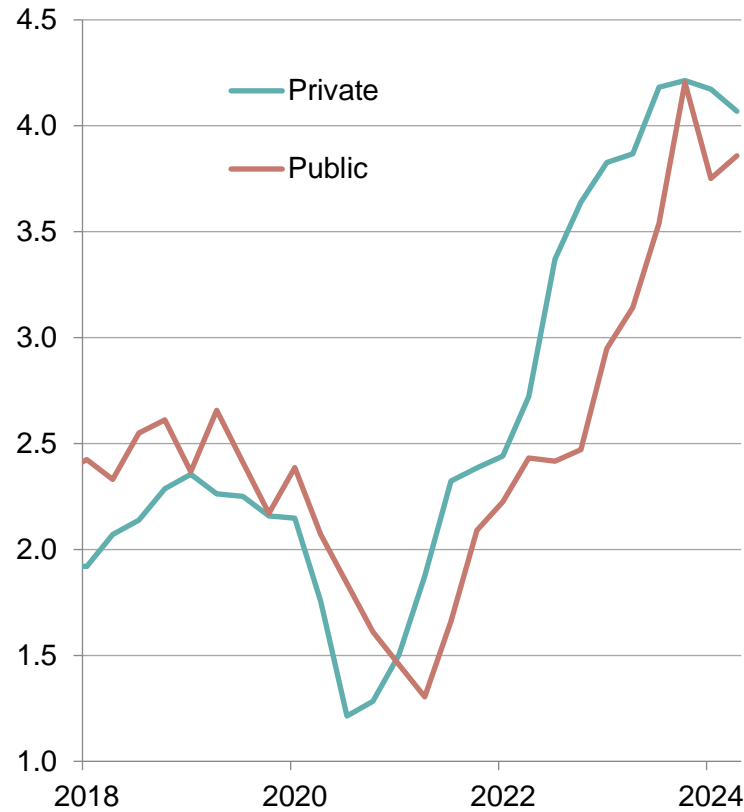
Rising unemployment is consistent with wage growth having peaked

Residual strength is in health & social care, education and sectors benefiting from last year's FWC gains

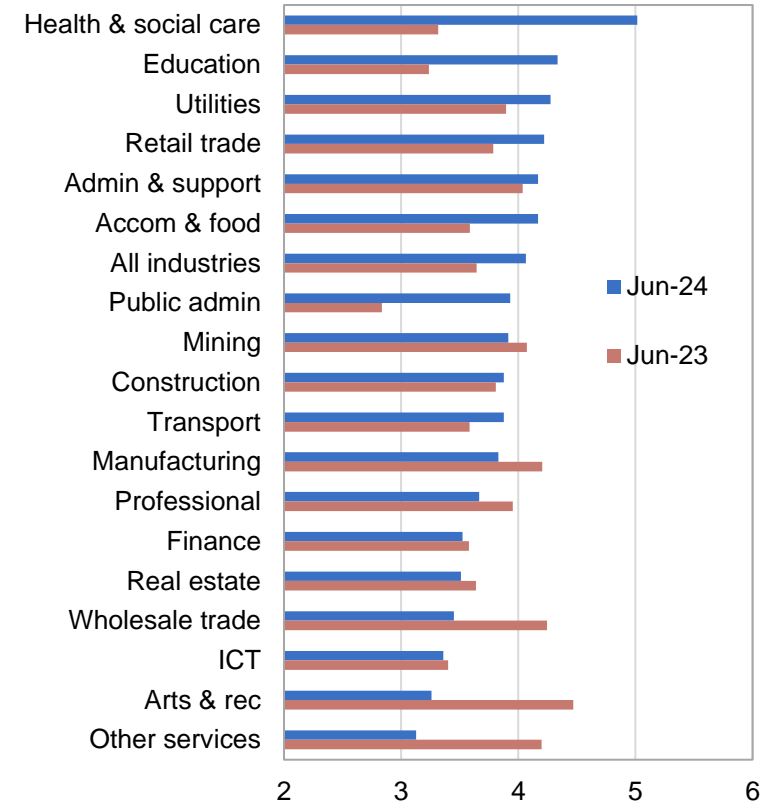
Australia - Wage price index (% growth)



Australia - Wage price index (% y/y)



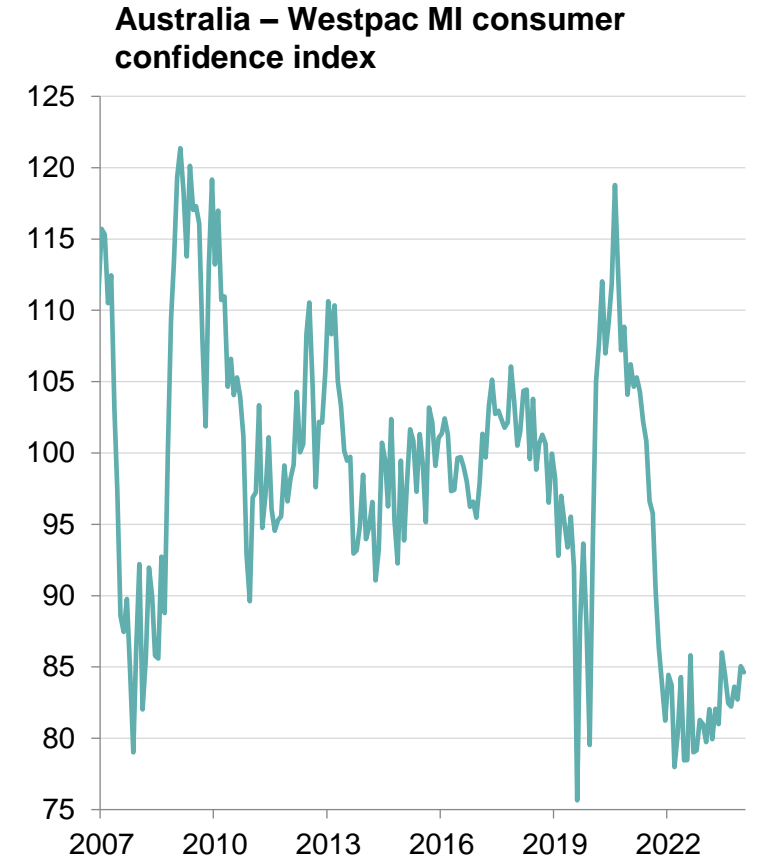
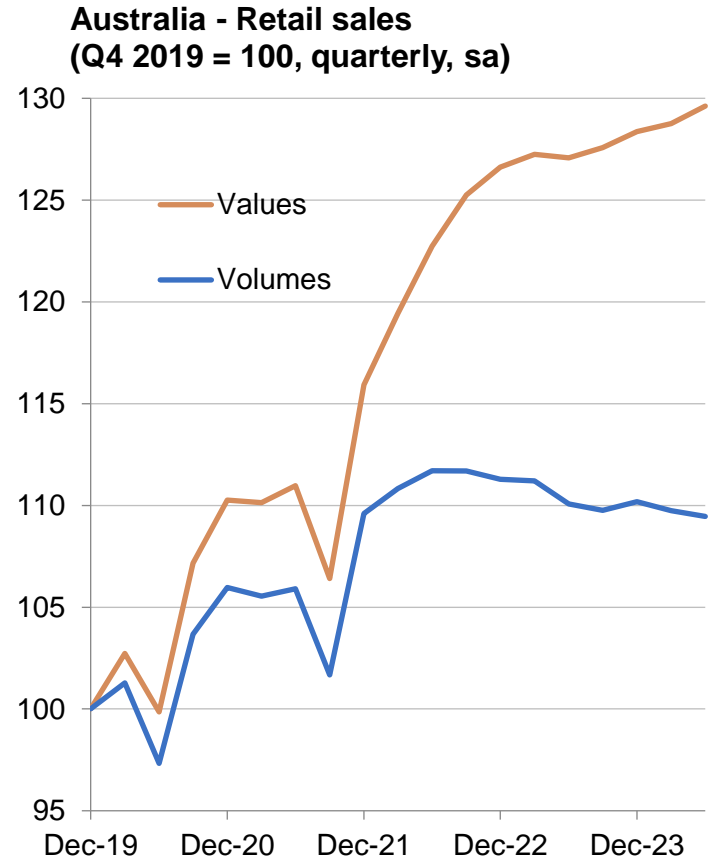
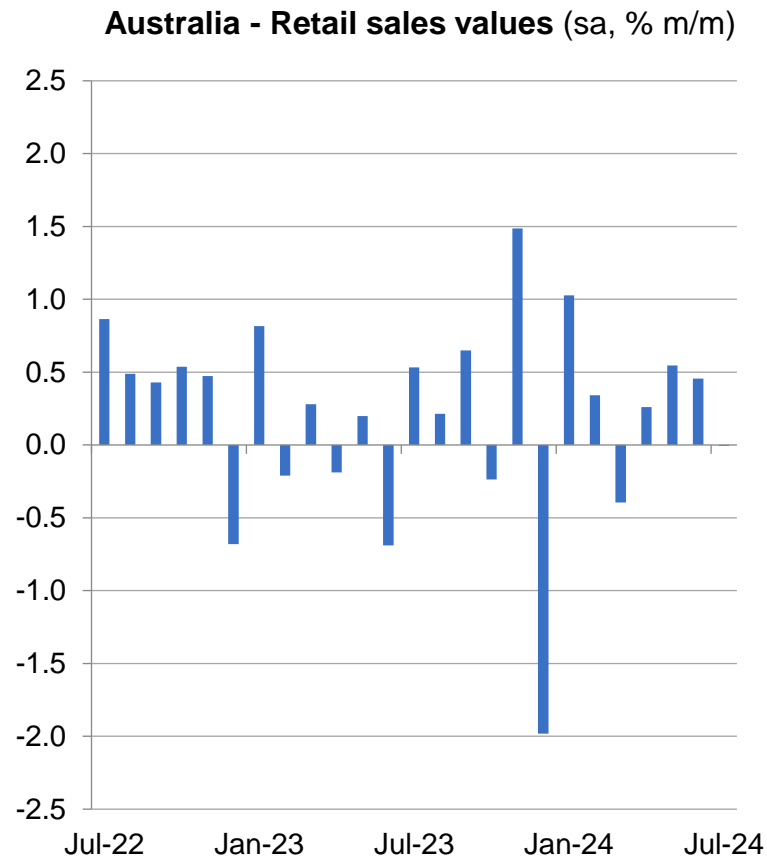
Australia - Wage Price Index (% y/y)



Source: ABS, QIC

Household spending is weak, with no bounce seen yet following July's tax cuts

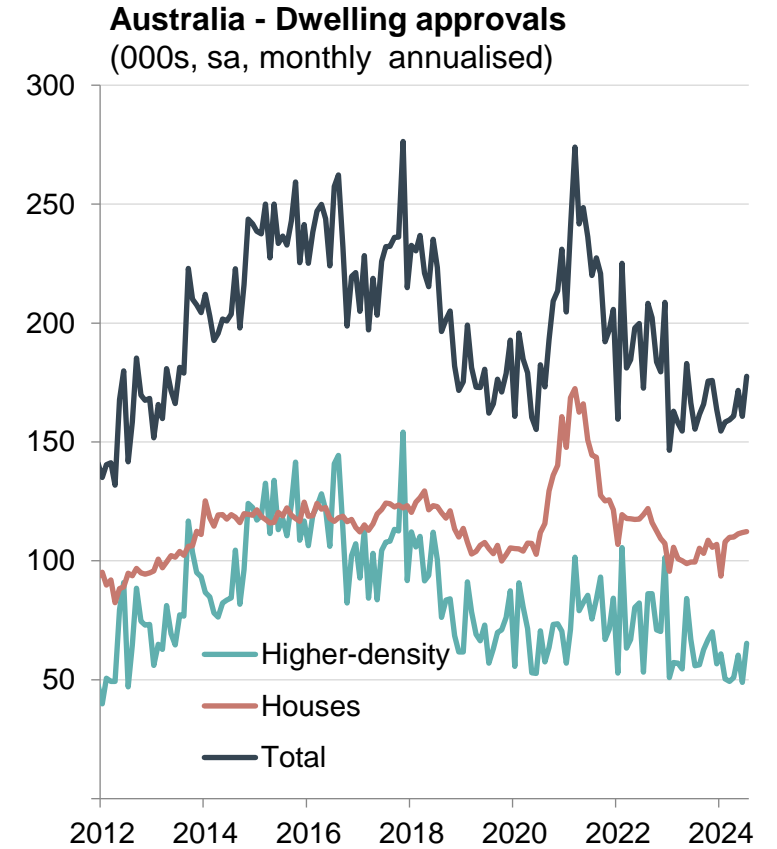
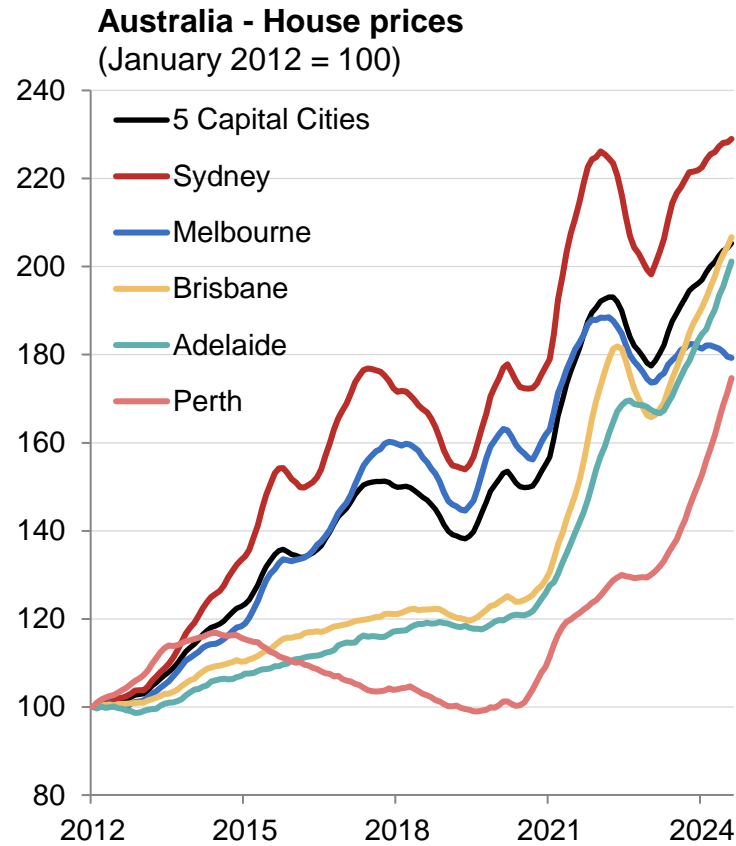
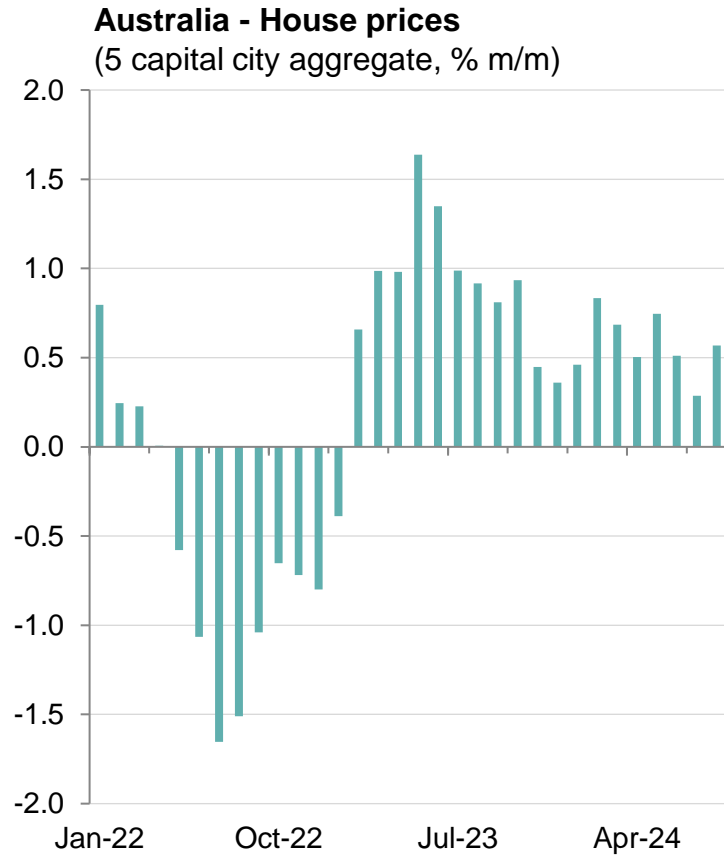
Confidence is gradually recovering from recessionary lows, suggesting the weakest point may be behind us



Source: ABS, Refinitiv, QIC

House prices keep rising due to lack of housing supply and strong demand

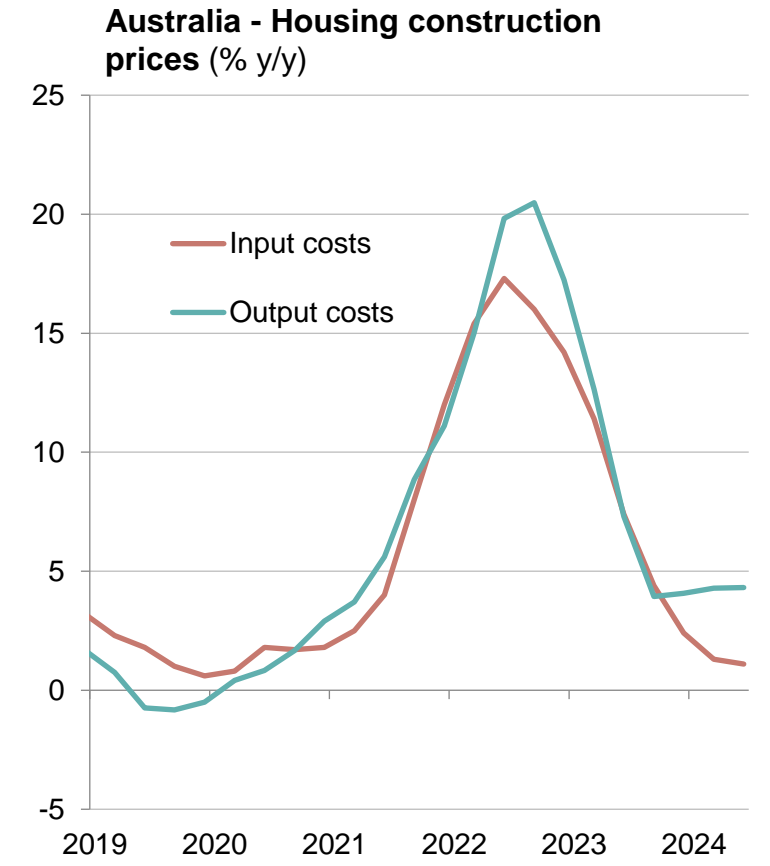
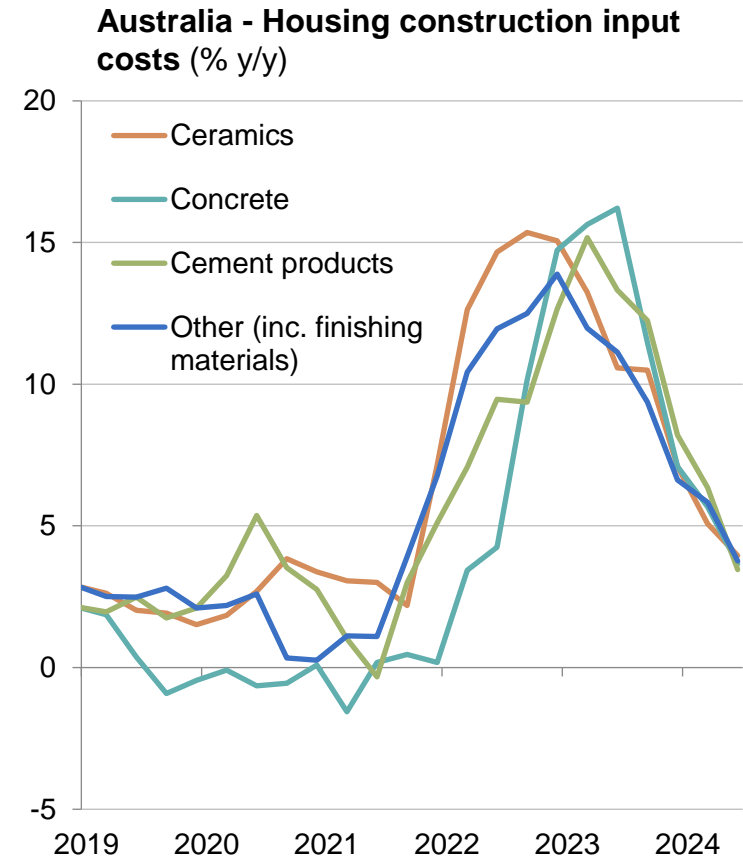
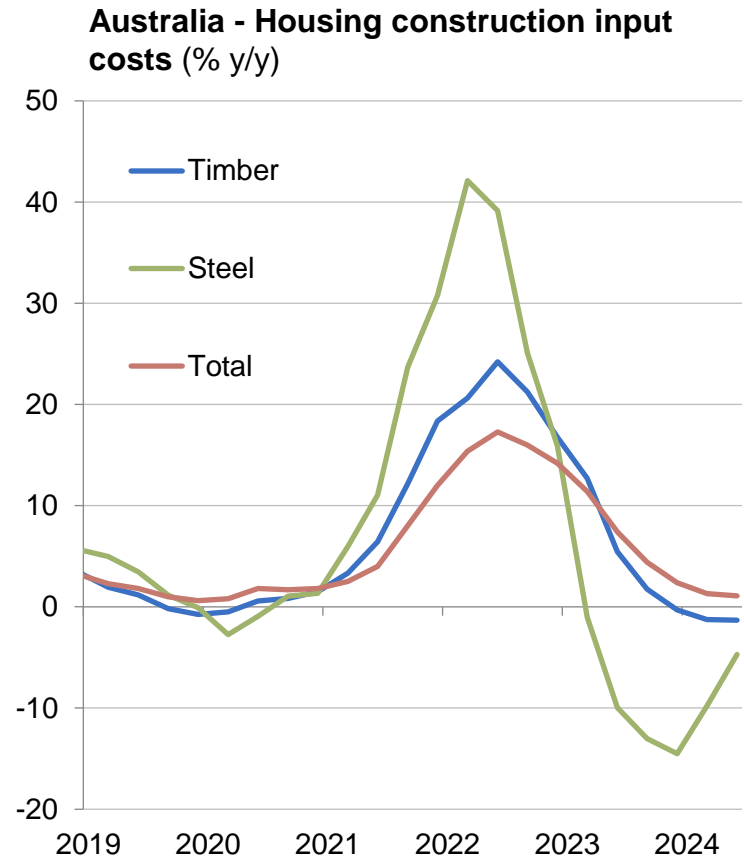
Approvals for new housing remain soft, with higher-density particularly weak



Source: ABS, Refinitiv, QIC

The increase in housing construction costs continues to weigh on new supply

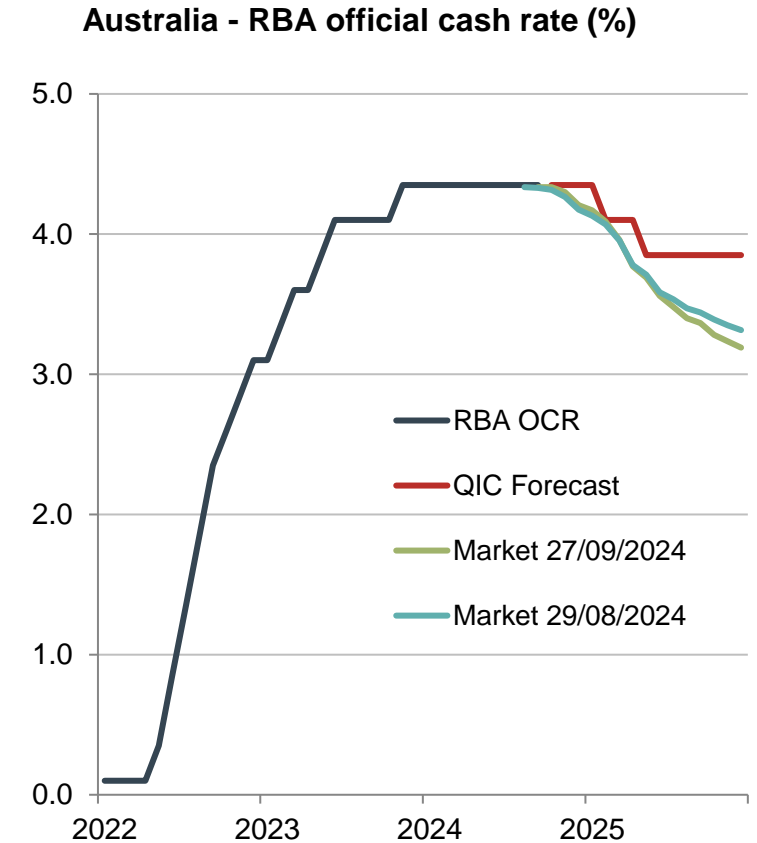
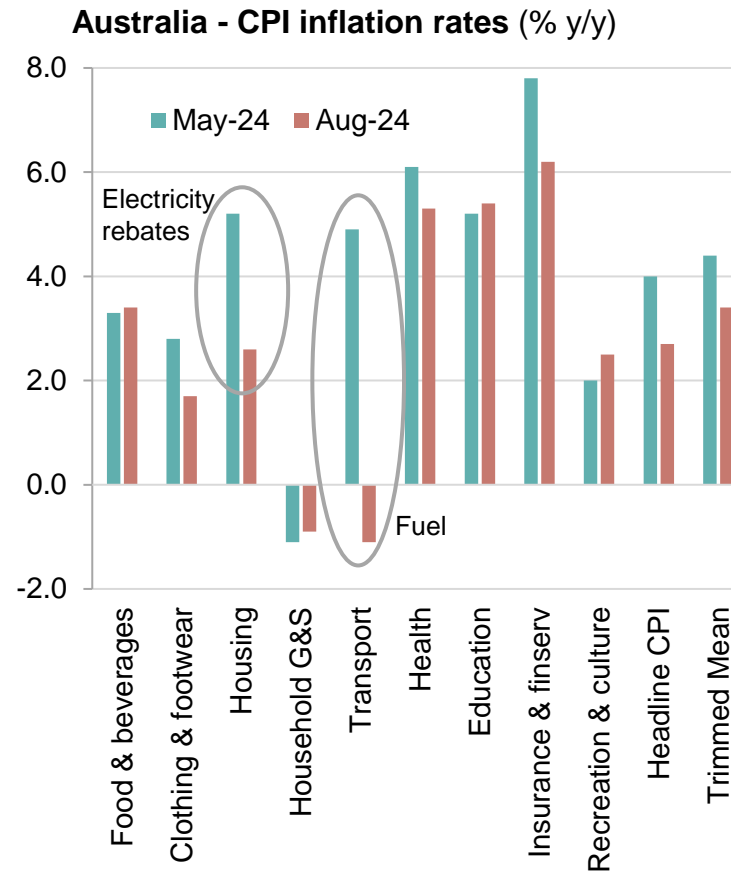
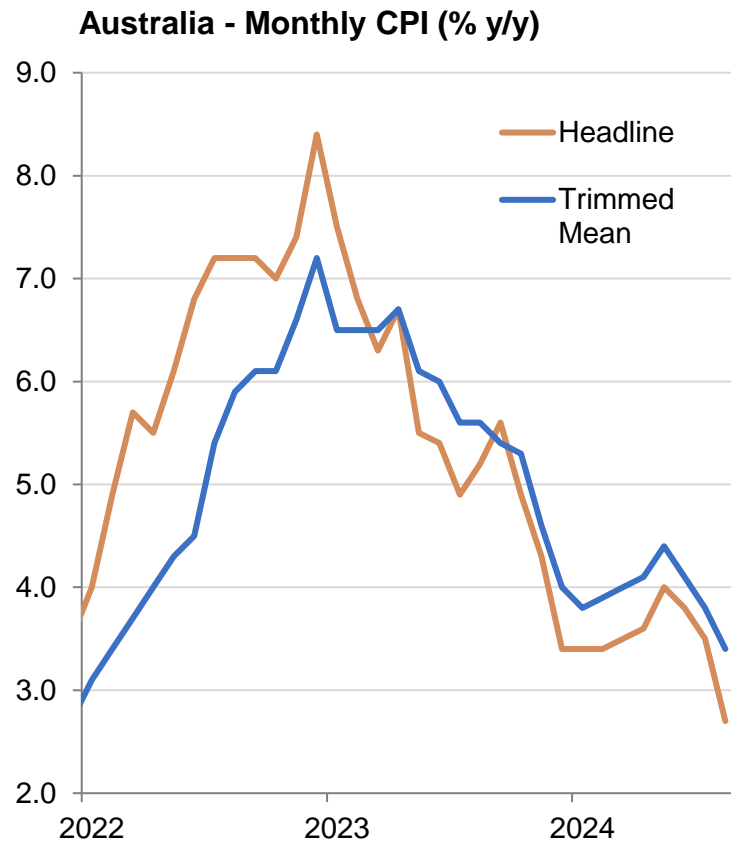
While timber & steel prices have fallen, other inputs like wages, continue to drive construction costs higher



Source: ABS, QIC

Headline and core inflation have slowed sharply since May

Markets are pricing over 100bps of cuts in Australia by the end of 2025; QIC expects more modest rate cuts



Source: ABS, Refinitiv, Bloomberg, QIC



Australia Economic Outlook

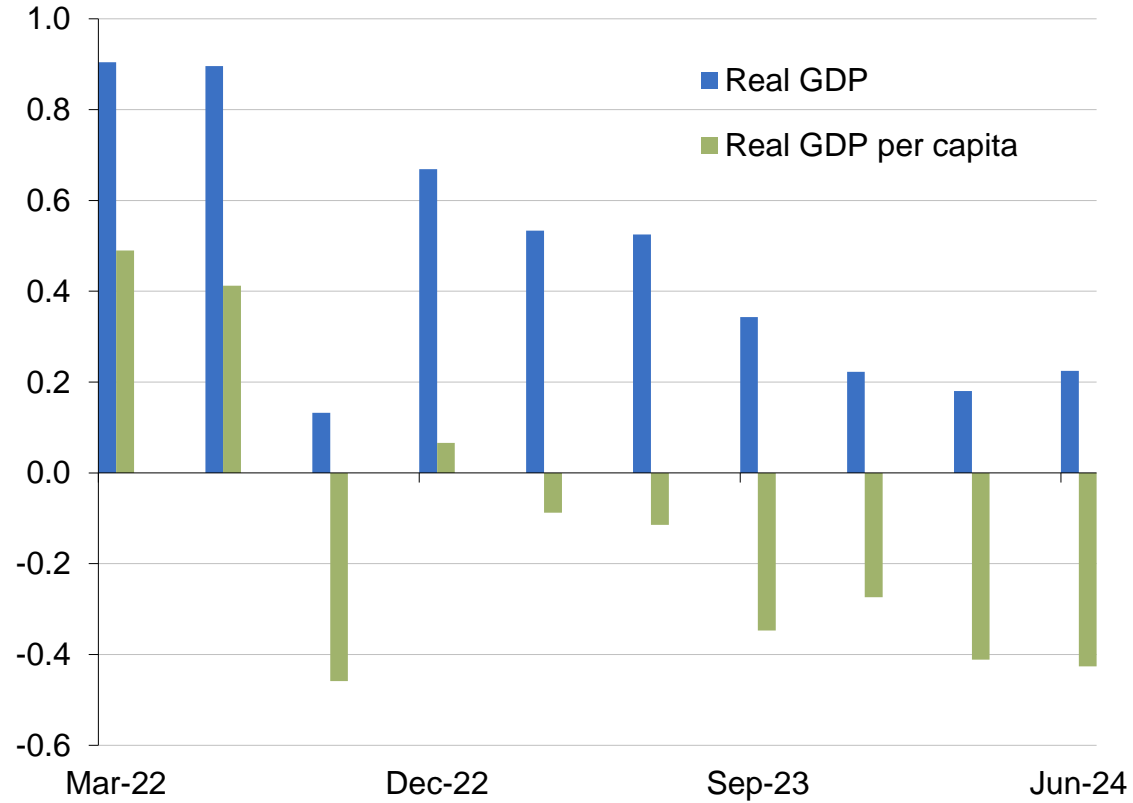
SEPTEMBER 2024

Australia's economy is weak and unemployment is rising

Without strong population growth, Australia would be in recession

The weakness in the economy is easing pressure in the labour market

Australia - Quarterly real GDP growth (%)



Australia - Unemployment rate (sa, %)

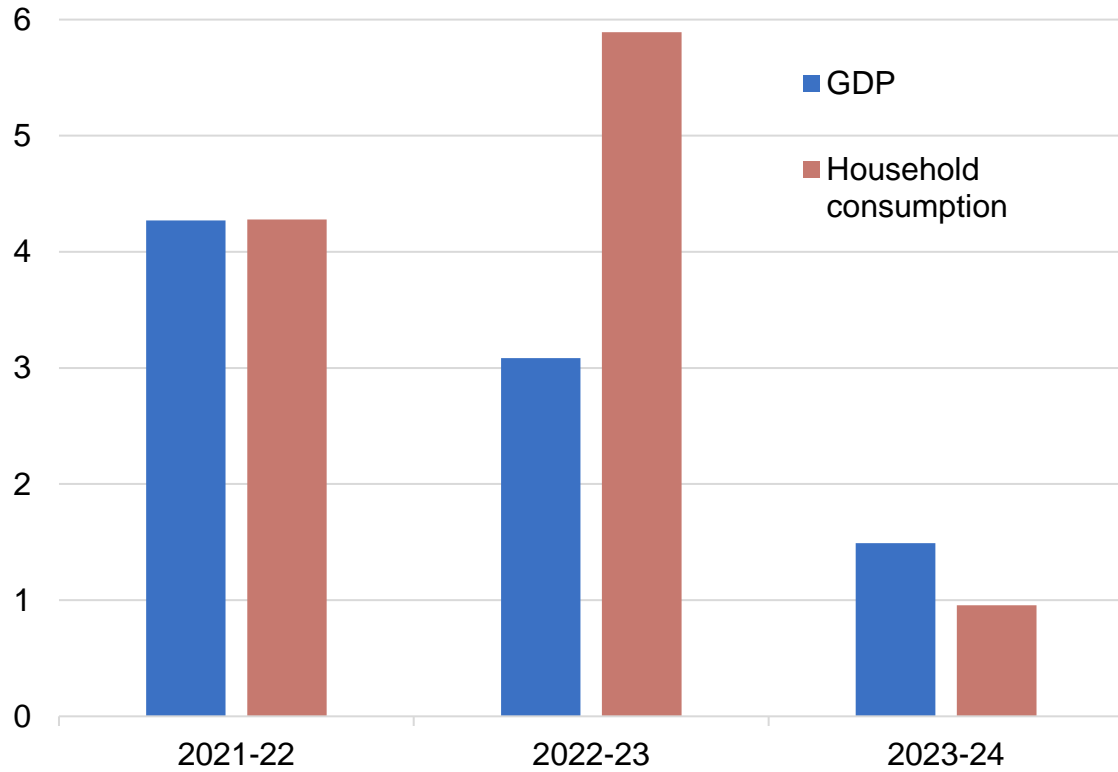


Source: ABS, QIC

Household spending has been the main driver of the weaker economy

Real consumer spending grew by less than 1% in 2023-24

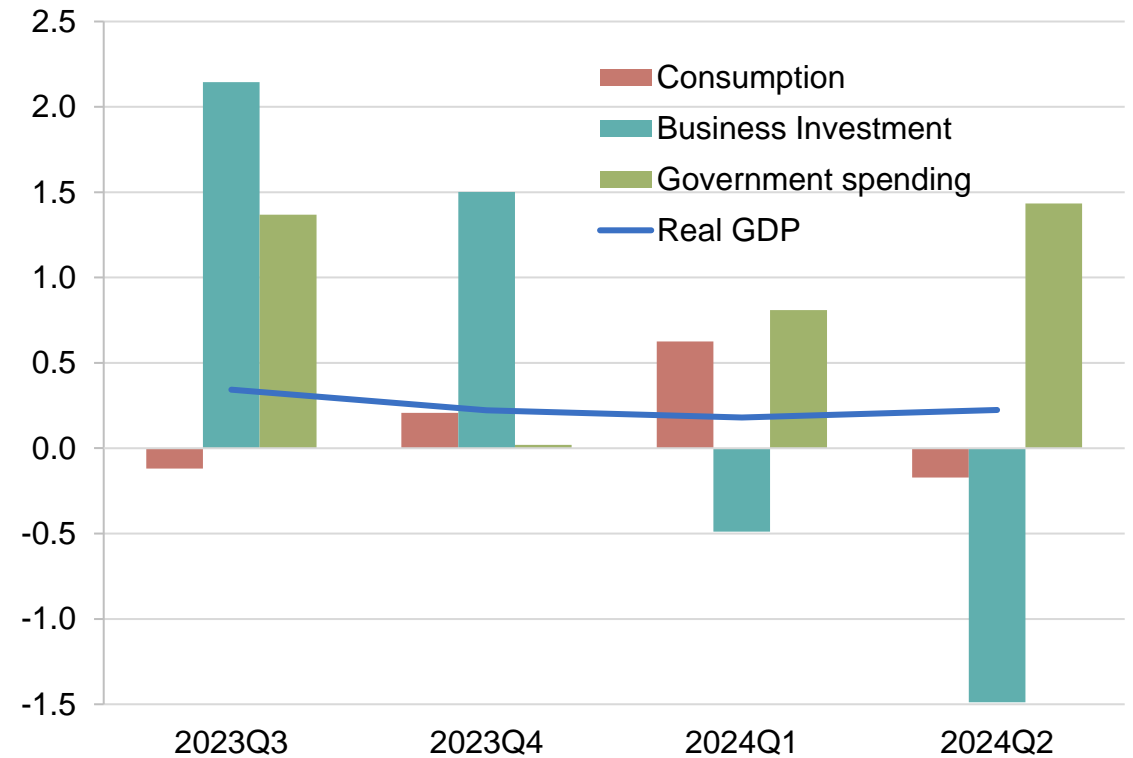
Australia – Real GDP and Consumption (% y/y)



Source: ABS, QIC

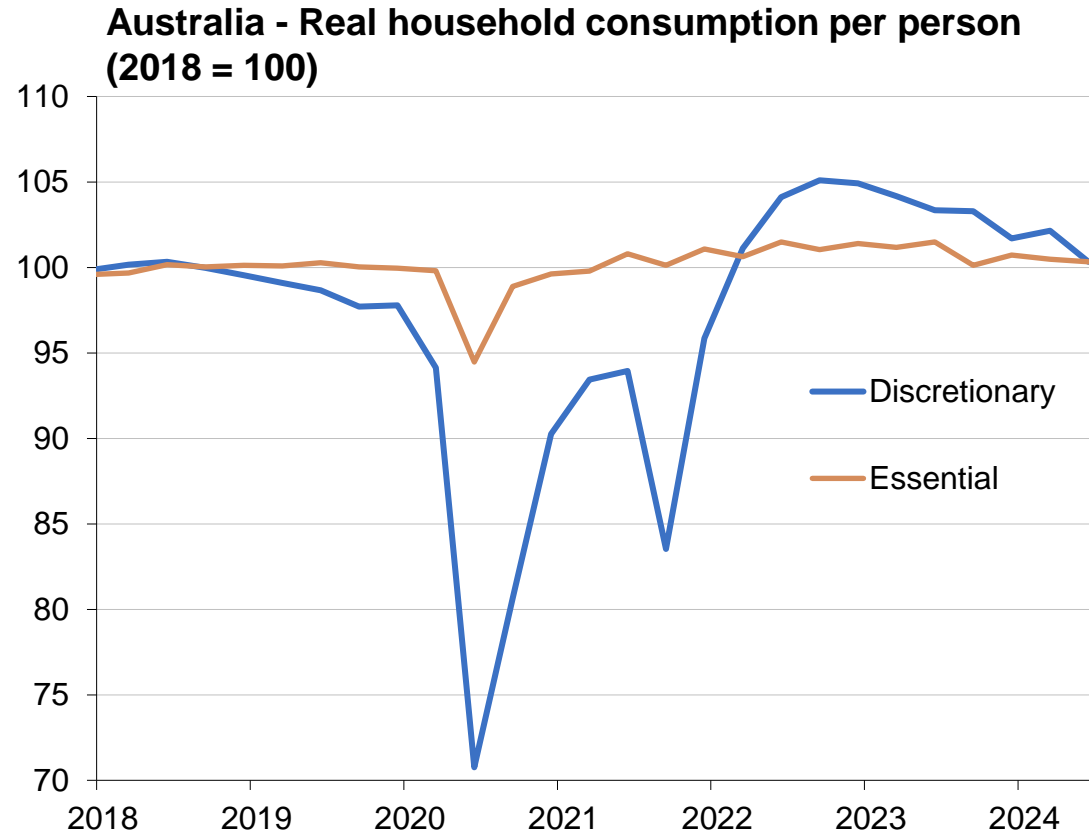
The softness is spreading to business investment while government spending ramps up

Australia - Real GDP and components (% q/q)



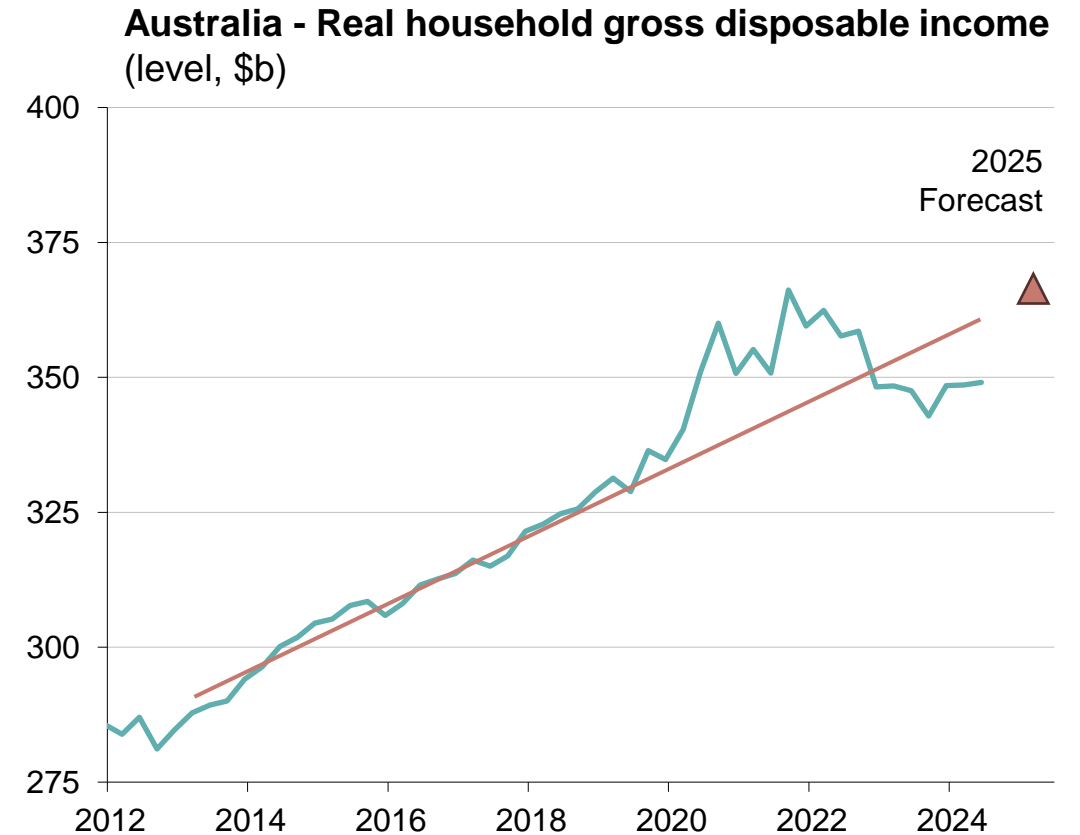
Consumer spending softened as real disposable incomes fell

Households reduced discretionary spending per person while maintaining essential spending



Source: ABS, QIC

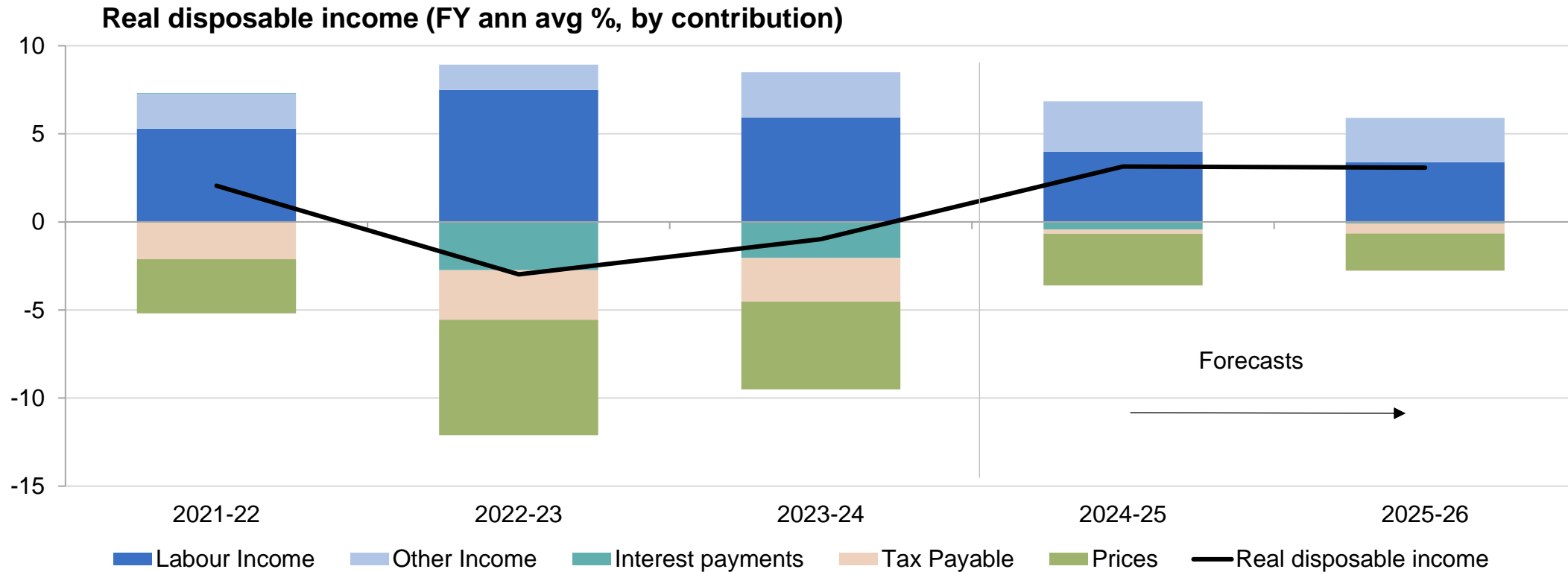
Real disposable incomes fell sharply; but a recovery is underway



What drives the recovery in real disposable incomes?

Nominal labour incomes have been supportive, and will remain so

But slowing inflation, tax cuts & lower interest rates will boost real disposable incomes from 2024-25

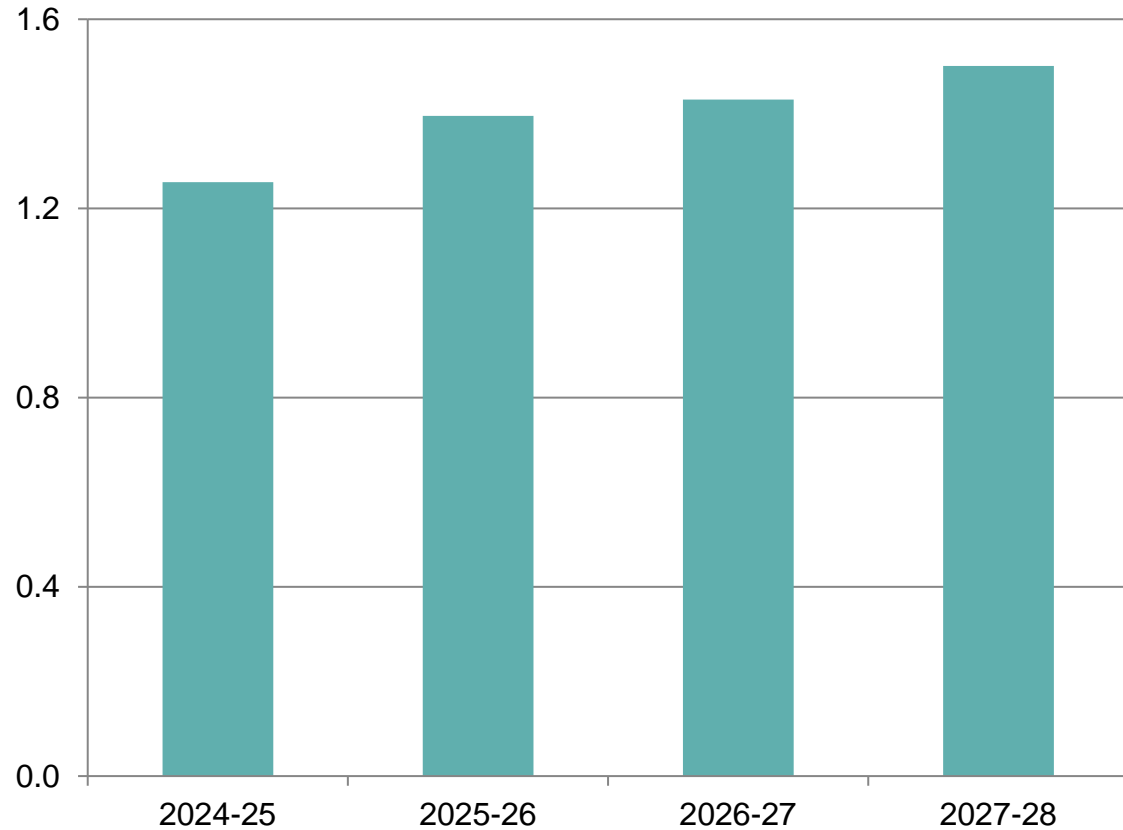


Source: ABS, QIC
 Note: 2024/25 and 2025/26 are QIC forecasts

Tax cuts from H2'24 and still-high rates of migration underpin the recovery in incomes

The Stage 3 tax cuts support spending from FY25

Stage 3 tax cuts (% of disposable income)

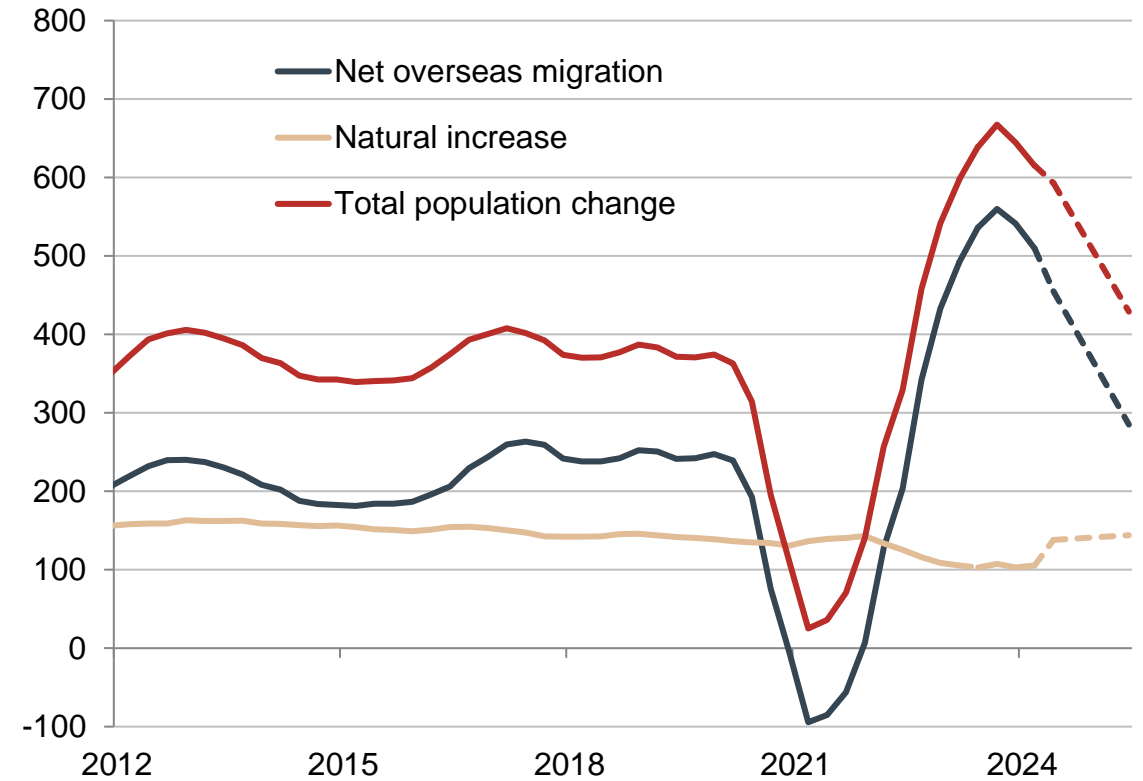


Source: ABS, Treasury, Centre for Population, QIC

Note: 2024 to 2026 are QIC forecasts

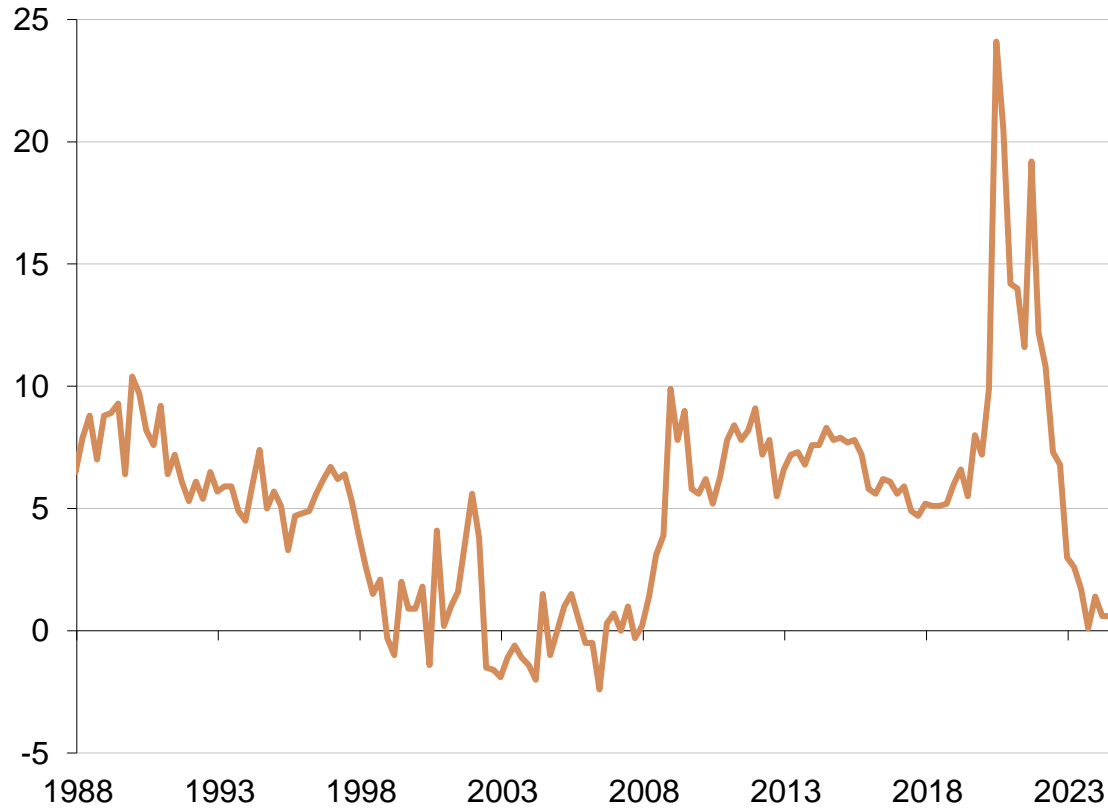
Above trend population growth driven by migration keeps a floor under consumer spending

Australia - Change in population (000s of people, rolling annual change over prior four quarters)



While we have likely passed the trough, the recovery in consumer spending will only be gradual
 Household savings have fallen and will need to be rebuilt as incomes recover
 Tepid consumer spending growth will keep GDP growth below trend in 2024-25

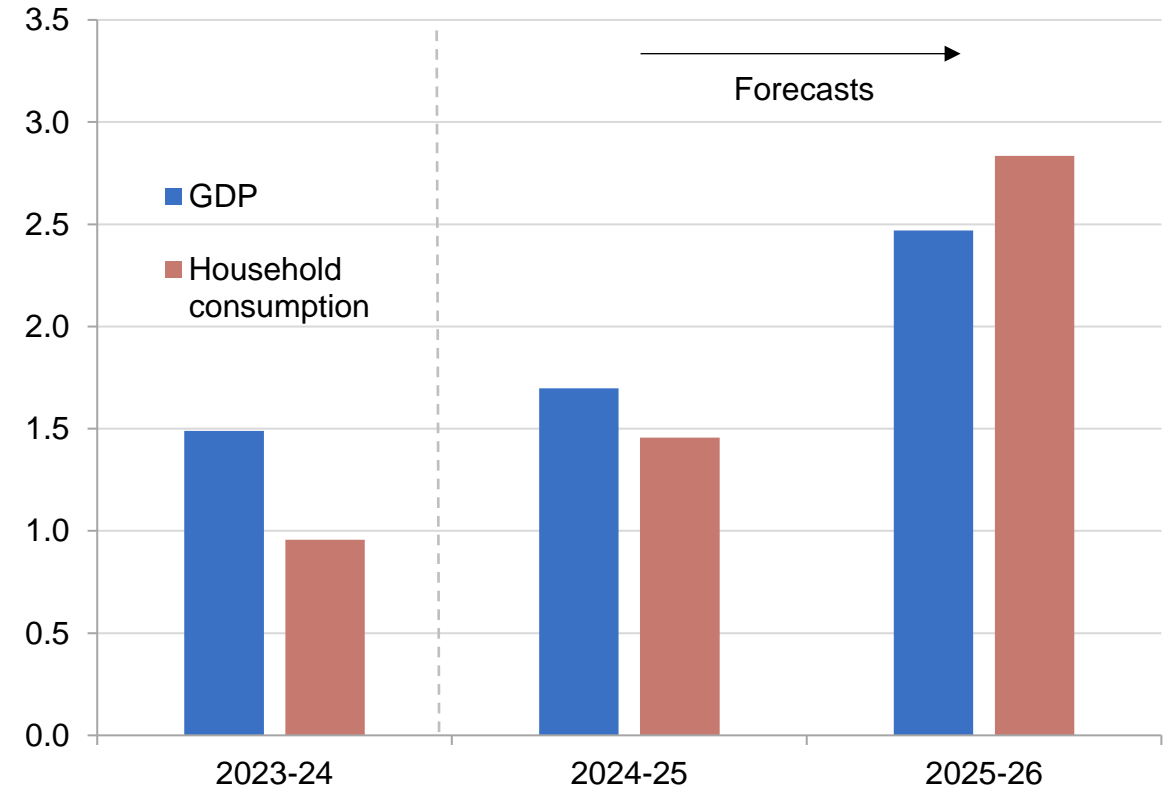
Australia - Household savings rate (%)



Source: ABS, QIC

Note: 2024-25 and 2025-26 are QIC forecasts

Australia - GDP and Consumption Growth (% y/y)

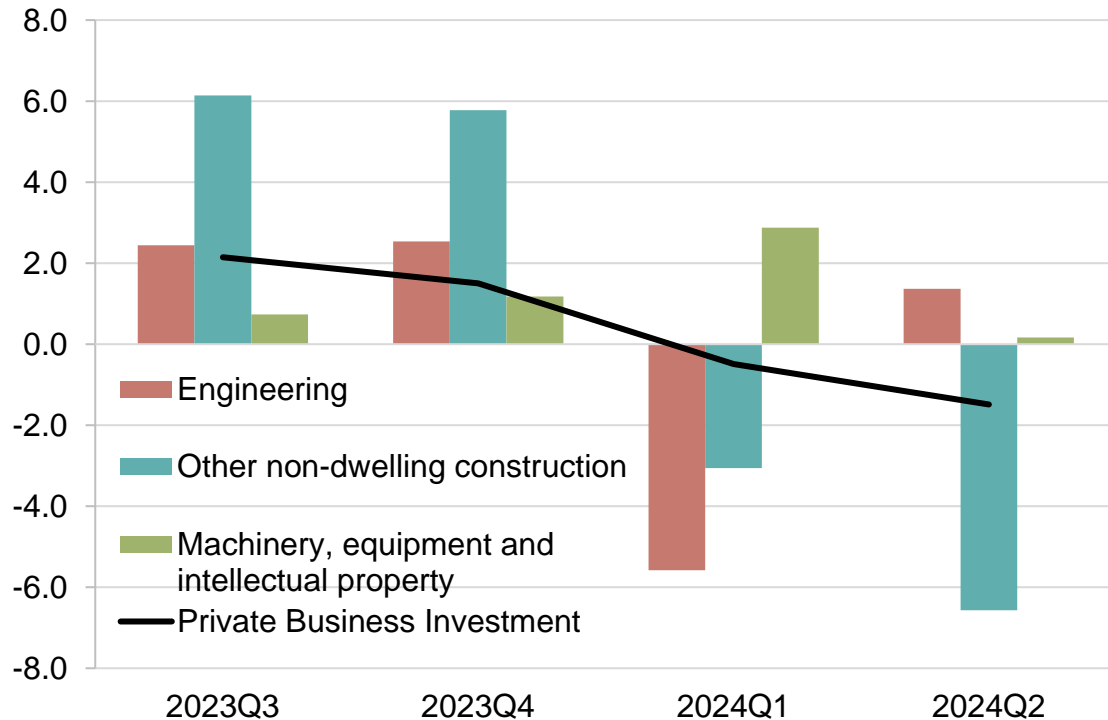


Can investment hold up while the consumer is in the doldrums?

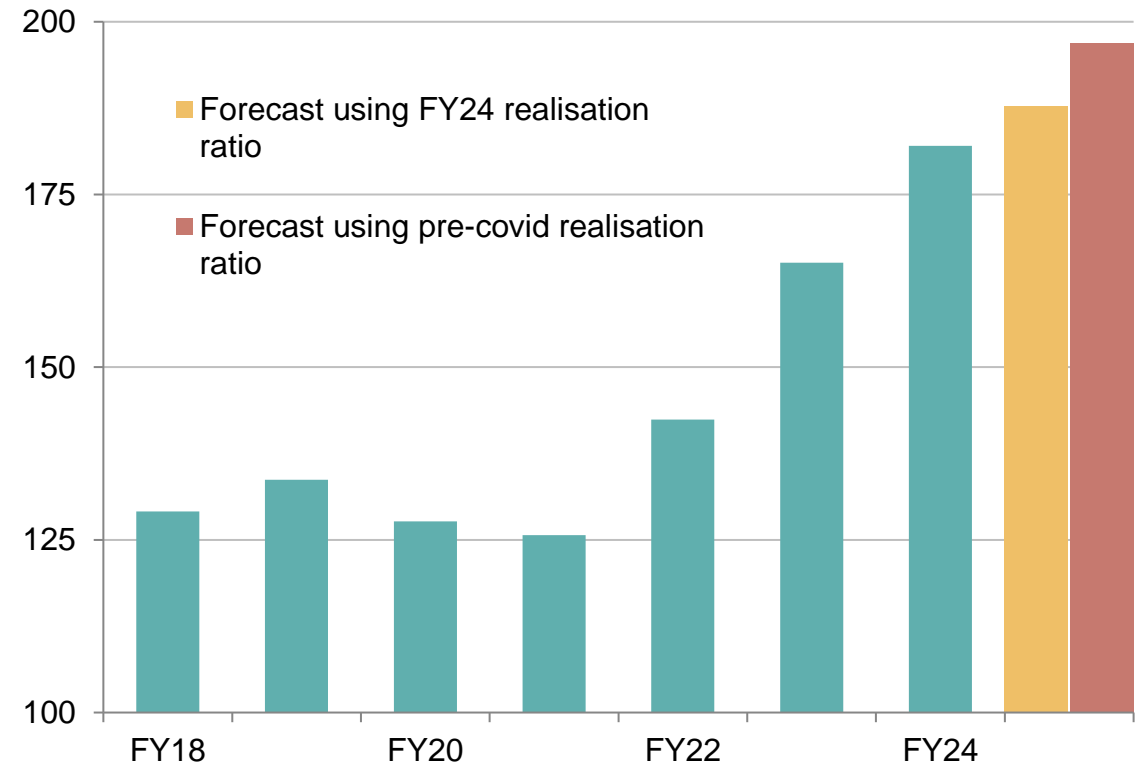
Weaker business investment in H1'24 driven by construction while IT spending holds up

Capex intentions suggest modest growth over the coming year

Australia - Real private gross fixed capital formation growth (% q/q)



Australia - Total capex (current prices, \$b)



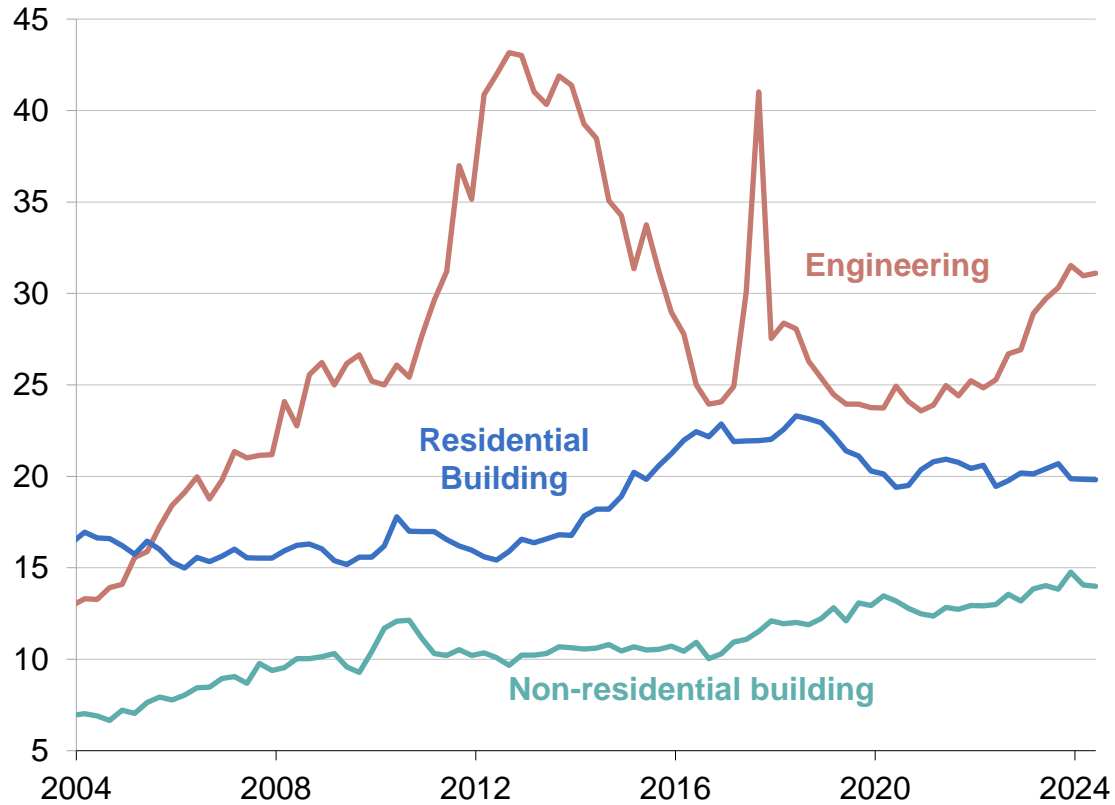
Source: ABS, QIC

The level of construction work done remains elevated, despite weakness in H1'2024

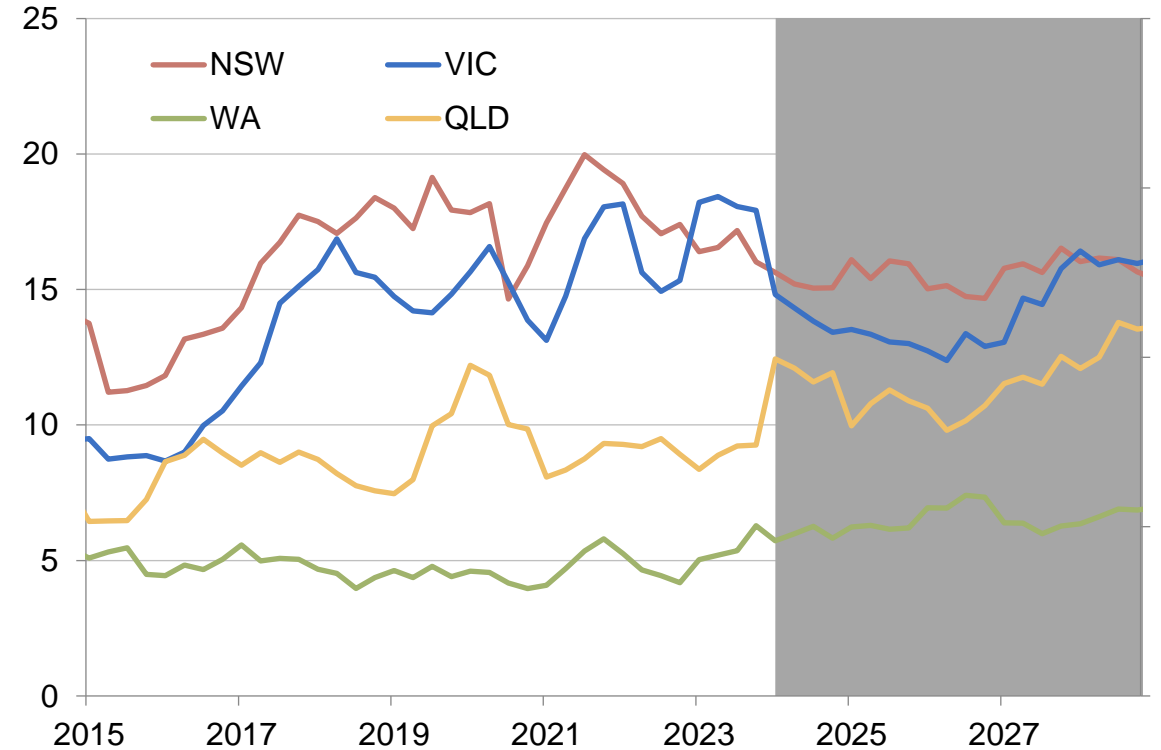
The pullback was concentrated in NSW which is likely past its peak

While Qld and WA still have solid non-residential construction pipelines

Australia - Construction work done (\$b, 2020/21 prices)



Australia - Non-residential commencements by state (\$b, 2021/22 prices)



Source: ABS, QIC, Oxford Economics

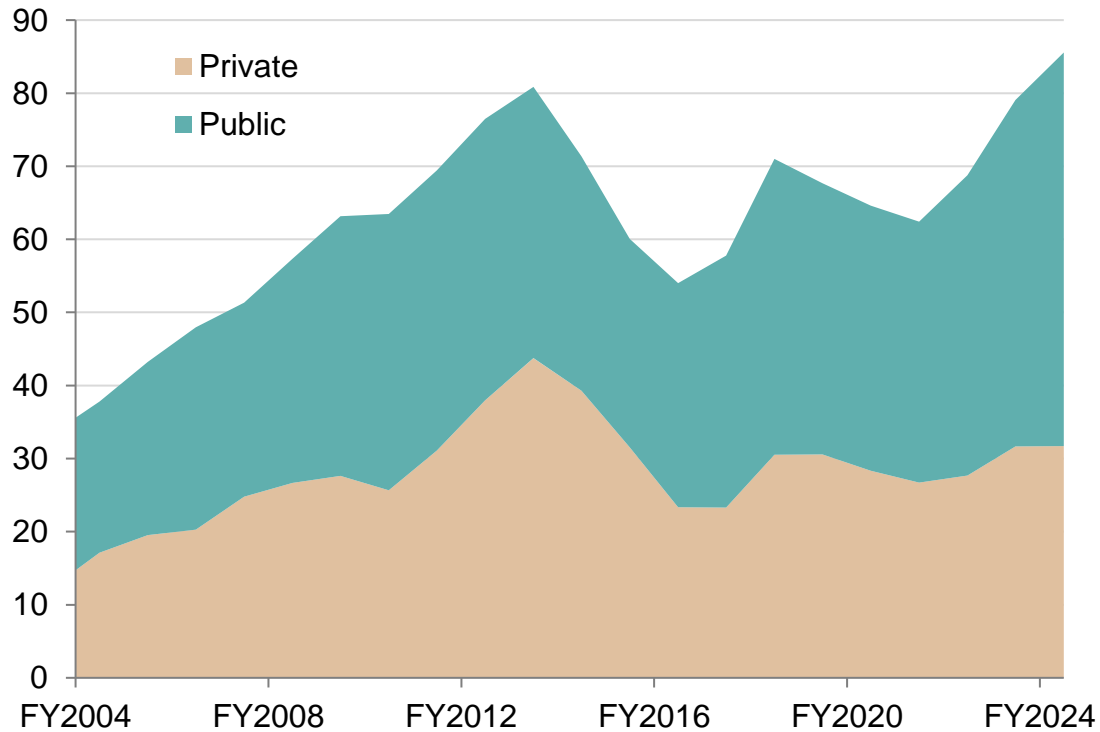
Note: Grey shading represents forecasts

Infrastructure spending drives growth and continues to compete for resources

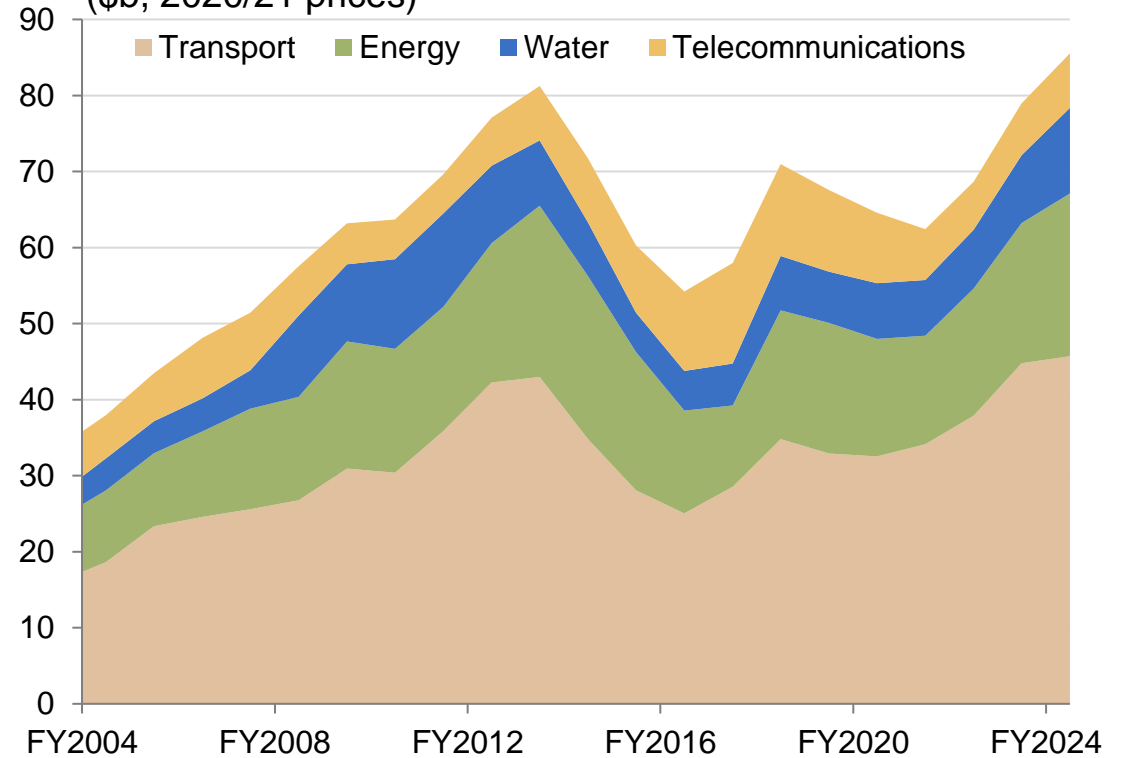
Infrastructure spending is driven by strong growth in government sector

Transport and energy infrastructure have been the drivers of growth

Australia - Infrastructure construction
(\$b, 2020/21 prices)



Australia - Infrastructure construction
(\$b, 2020/21 prices)

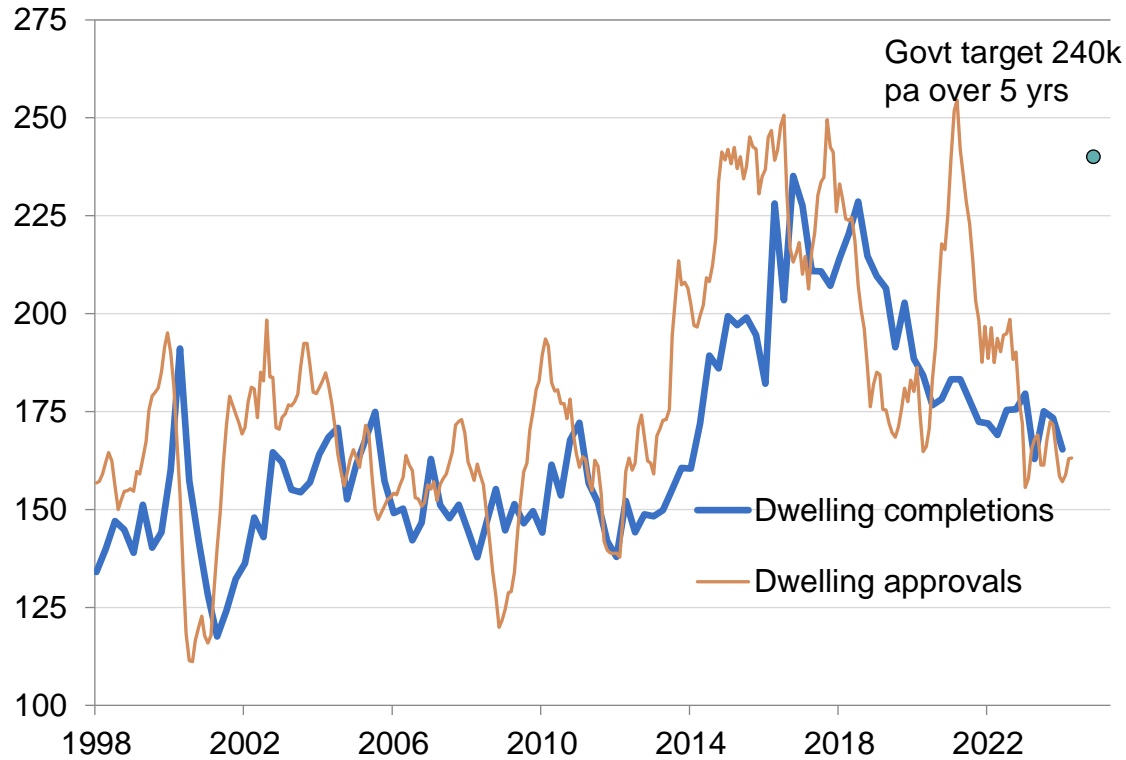


New housing supply is needed to satisfy demand, but residential construction remains weak

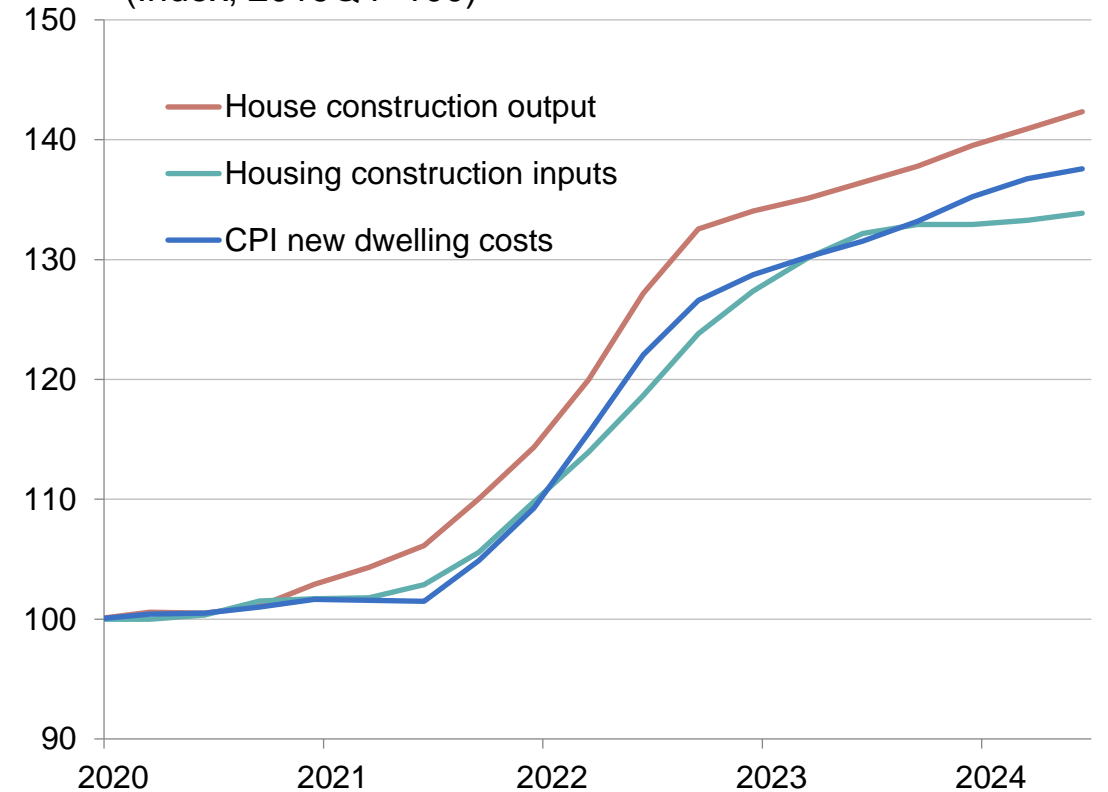
The supply of new dwellings is well below govt targets with little recovery expected in the near term

As rising construction costs, longer build times and higher interest rates deter investment in new homes

Australia - Building approvals and dwellings completed
(000s, sa, annualised)



Australia - House construction cost
(Index, 2019Q4=100)



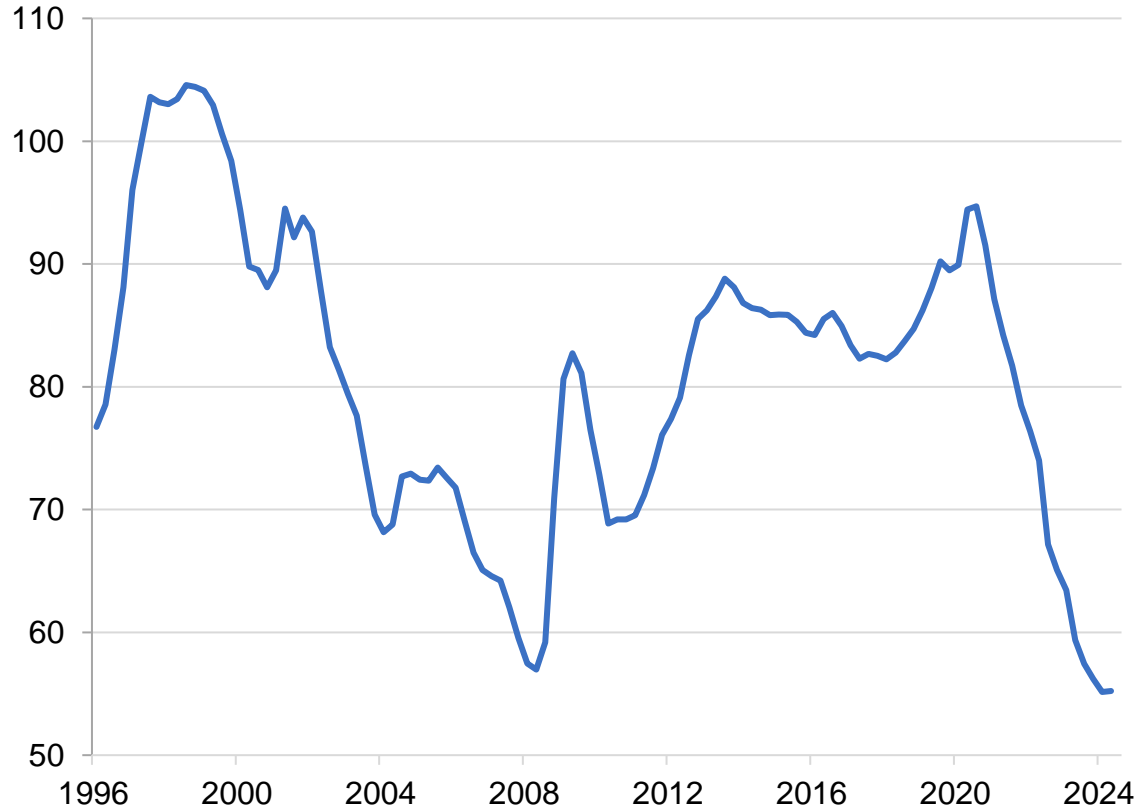
Source: ABS, QIC

Despite stretched affordability, house prices continue to press higher

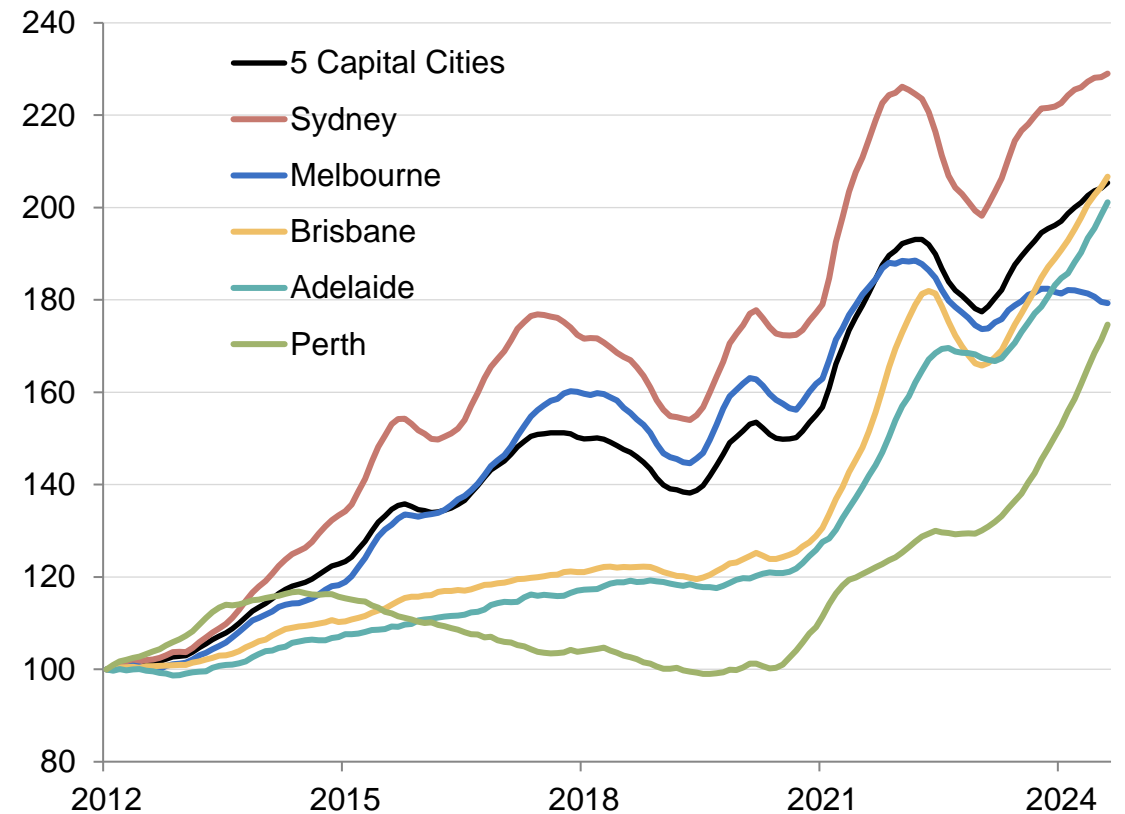
Weak disposable incomes and high borrowing costs have pushed affordability to record levels

But house prices push higher, due to strong demand for the existing housing stock

Australia - HIA Housing Affordability Index



Australian dwelling prices (January 2012 = 100)



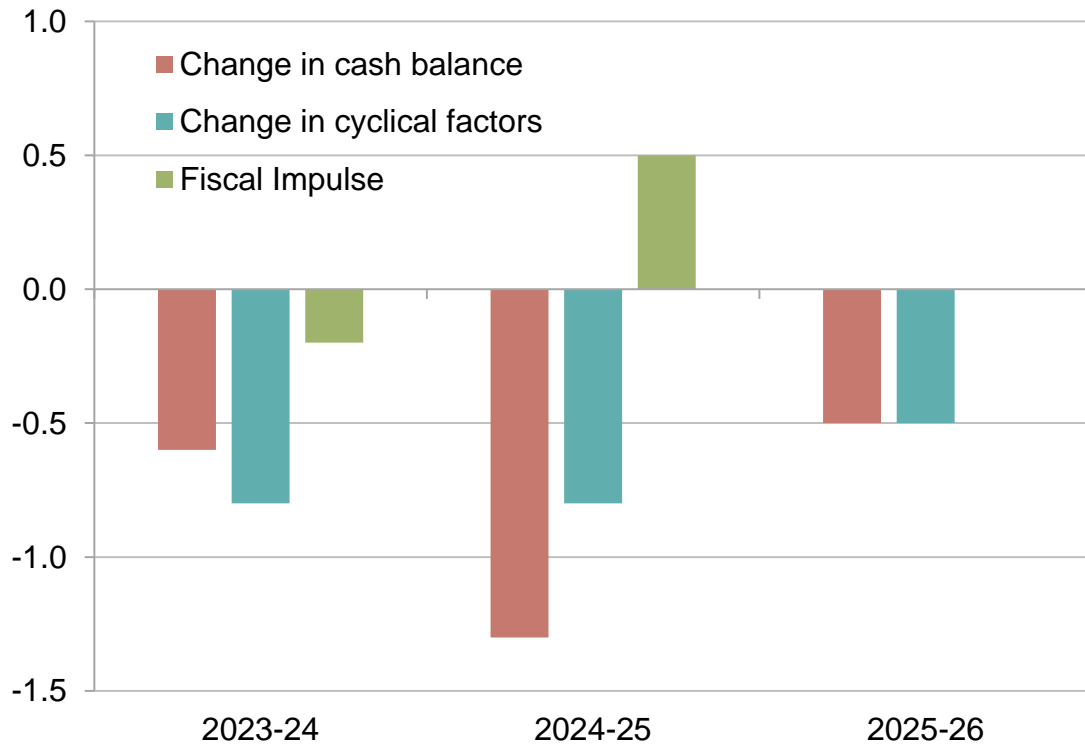
Source: Refinitiv, QIC

Federal fiscal easing arrives at an opportune time to support the economy in 2024-25

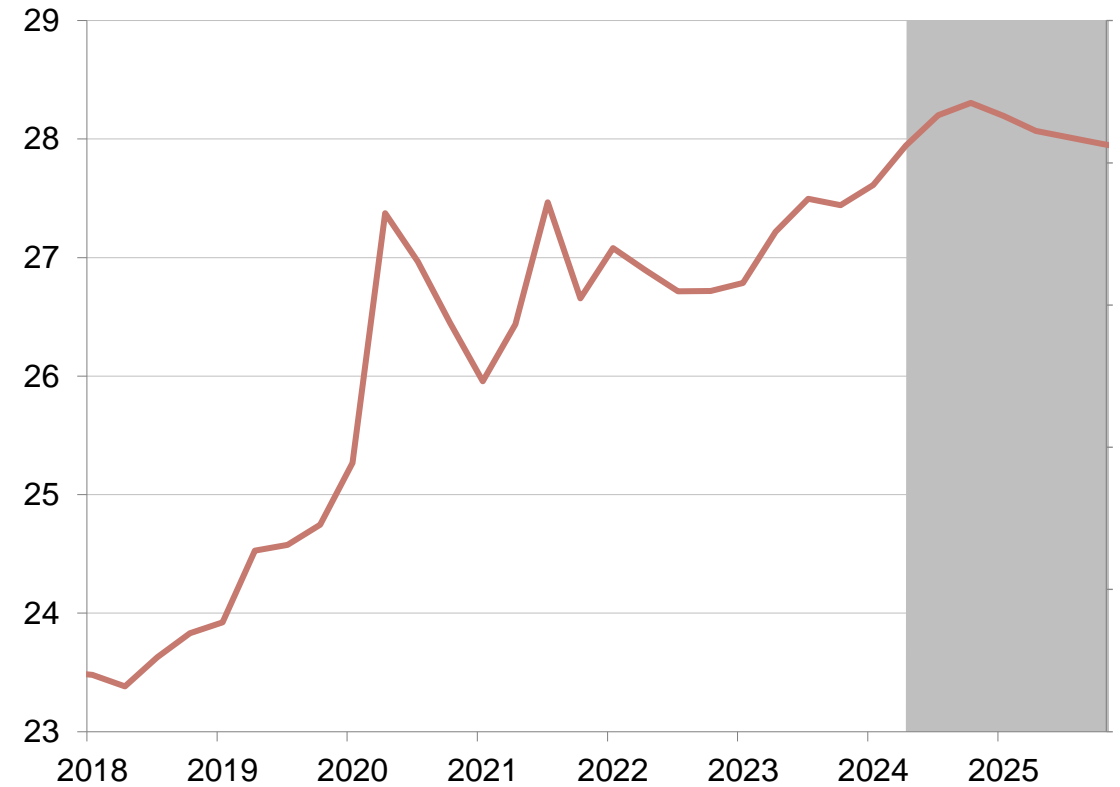
Tax cuts plus additional spending drives a turnaround in the Federal fiscal impulse in 2024-25

Combined with state government subsidies, this boosts spending over 2024-25, especially H2'24

Australia - Influences on Federal Budget
(% of GDP)



Australia – Real public spending (% of GDP)



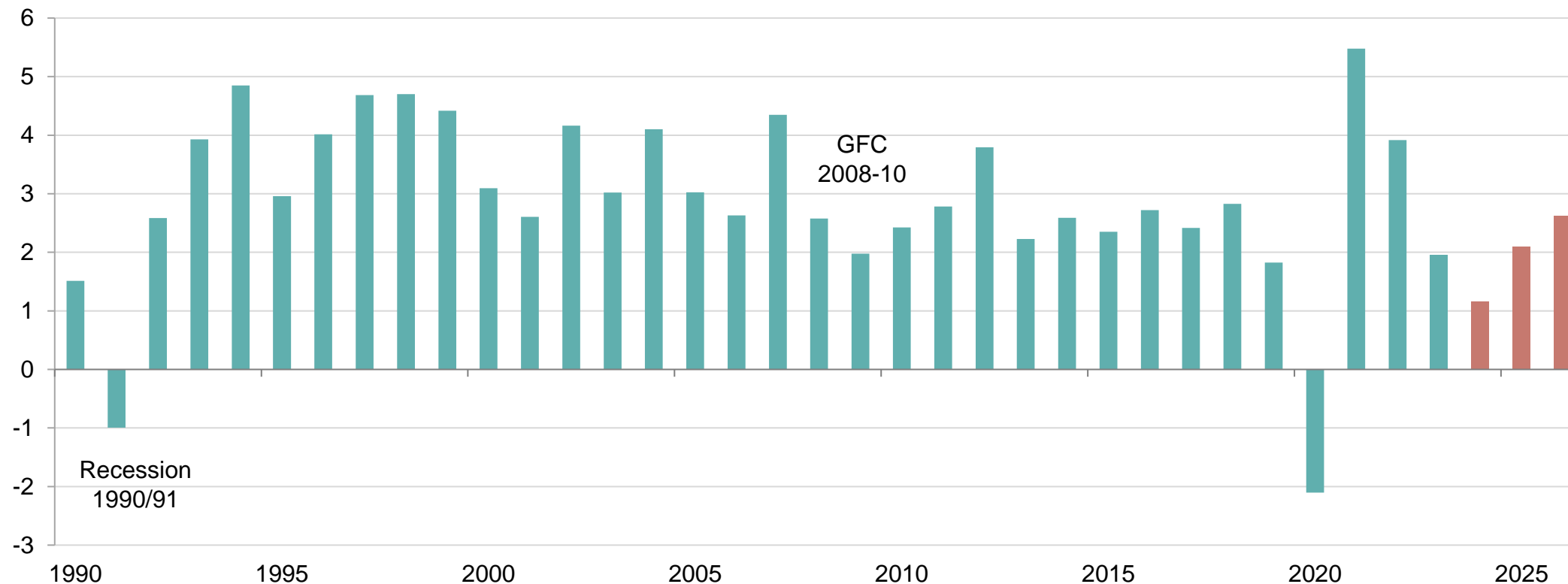
Source: Treasury, State Government Budgets, ABS, QIC

Note: Grey shading denotes QIC forecasts

Australia to avoid recession, but growth is tepid in 2024

Outlook more similar to the GFC slowdown than the 1990/91 recession

Australia - Real GDP growth (% annual average)



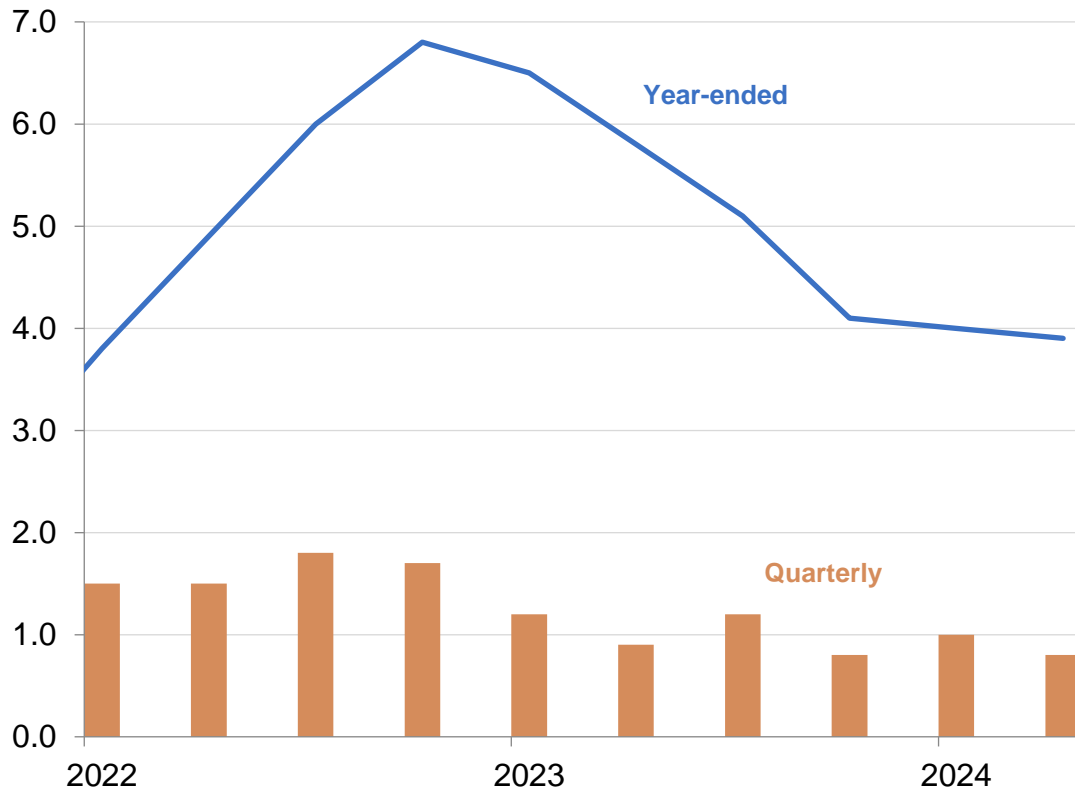
Source: Refinitiv, QIC
Note: Red bars represent QIC forecasts

Inflation remains too high for the RBA to be comfortable easing policy

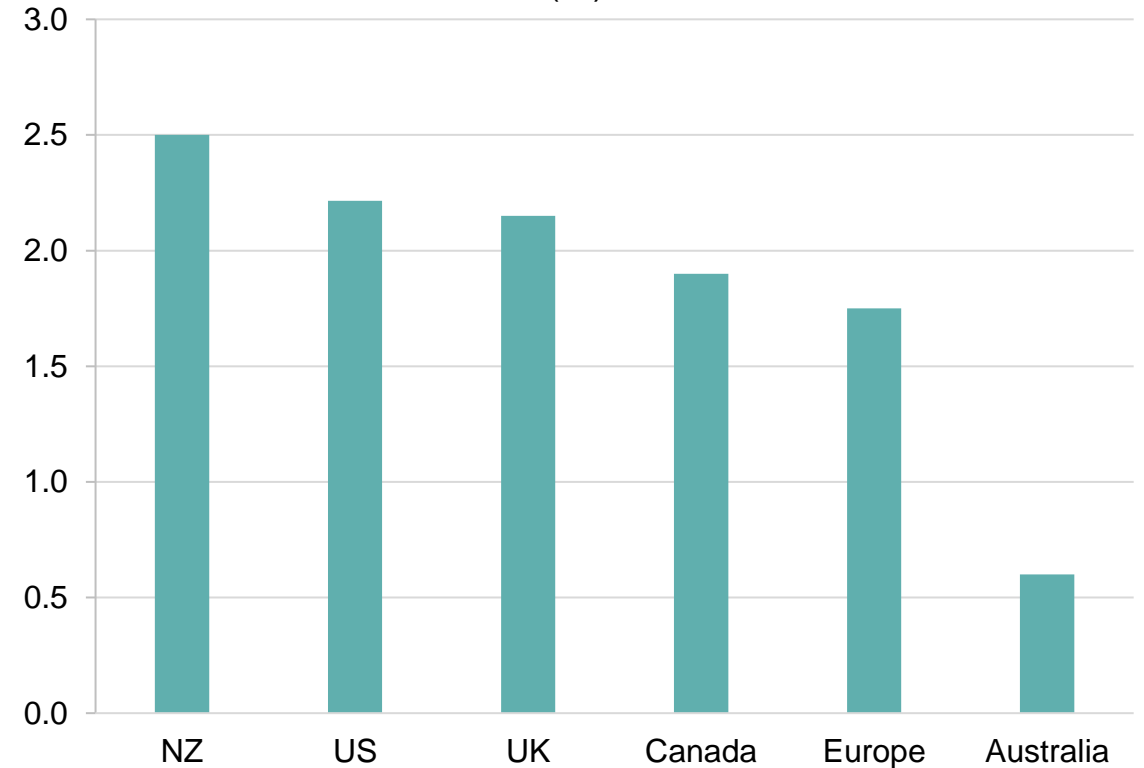
Core inflation moved below 4% in the June quarter, but the pace of easing in inflation has slowed

The RBA is in no rush to ease policy as Australian rates are less restrictive than global counterparts

Australia - Trimmed mean CPI inflation (%)



Peak policy rate compared to estimated neutral rate (%)



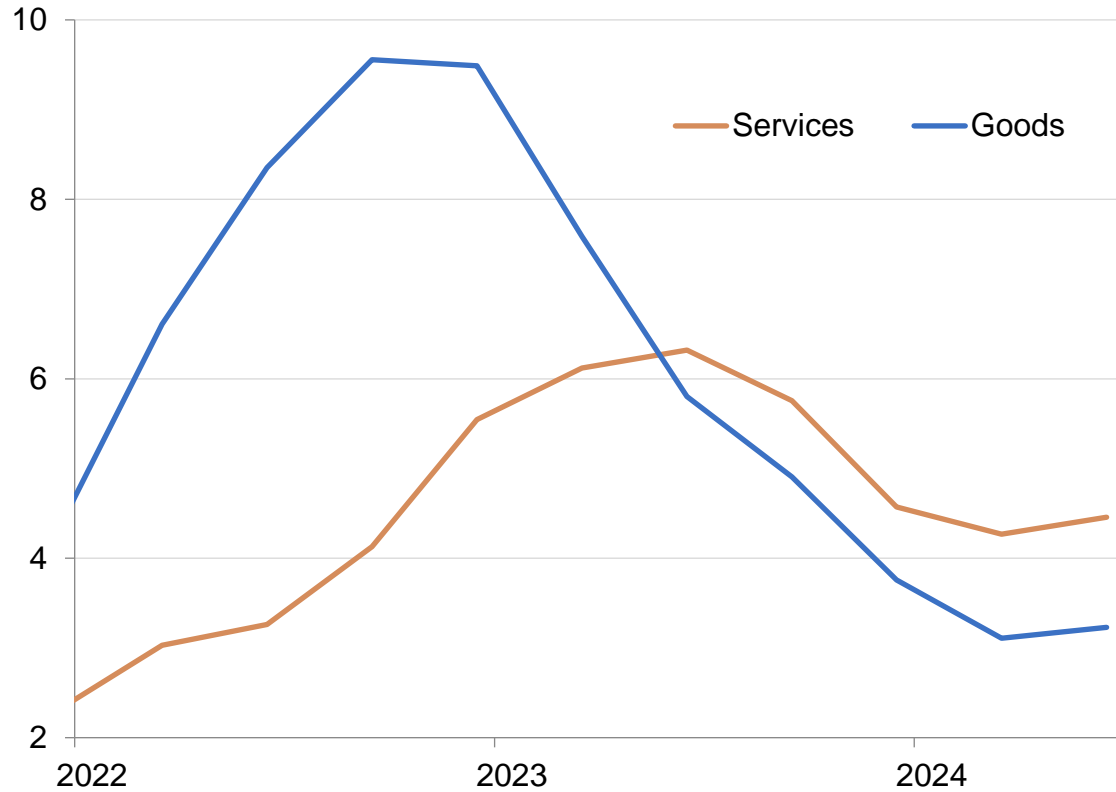
Source: ABS, Refinitiv, QIC

Inflation has slowed from its peaks, but remains uncomfortably high in a few key services industries

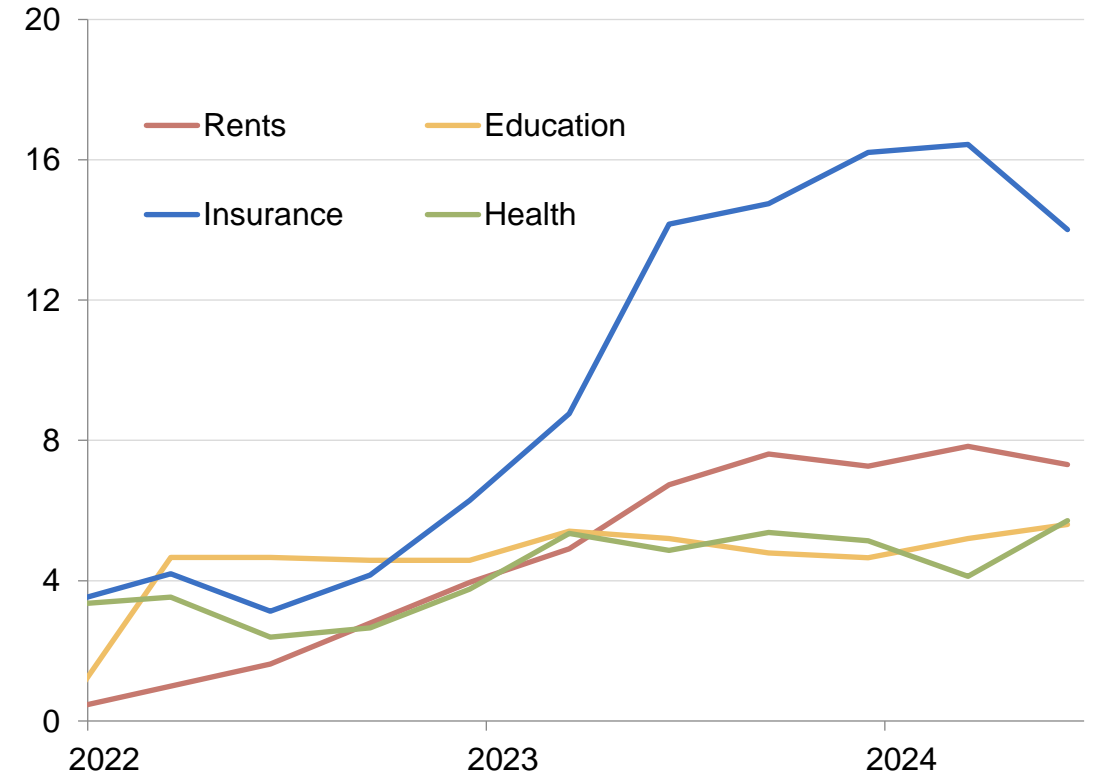
Goods inflation has slowed but services inflation remains stubbornly elevated

And pockets of services inflation remain problematic, especially insurance and rents

Australia - Consumer price inflation (% y/y)



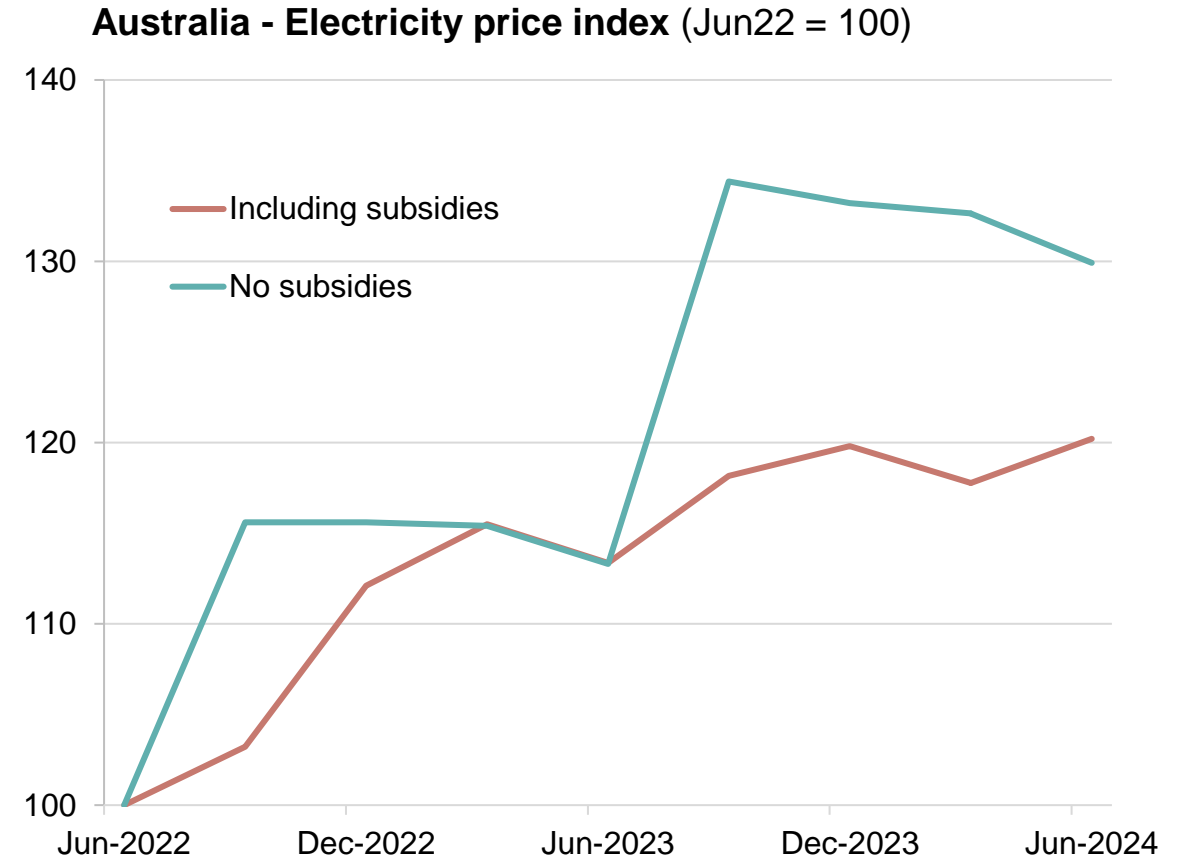
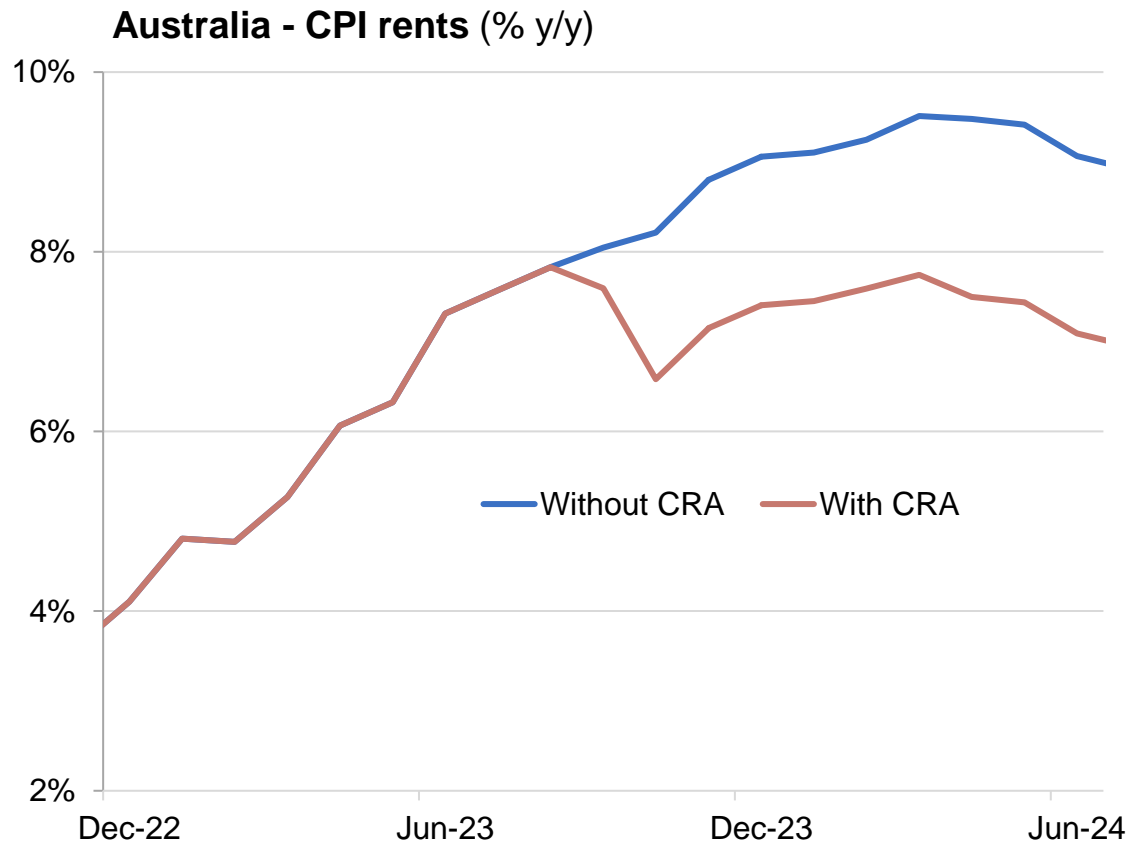
Australia - Selected services Inflation (% y/y)



Source: ABS, QIC

The decline in inflation is flattered by the government’s targeted cost-of-living subsidies

This includes Commonwealth Rent Assistance (CRA), electricity rebates, childcare & pharmaceuticals cost relief



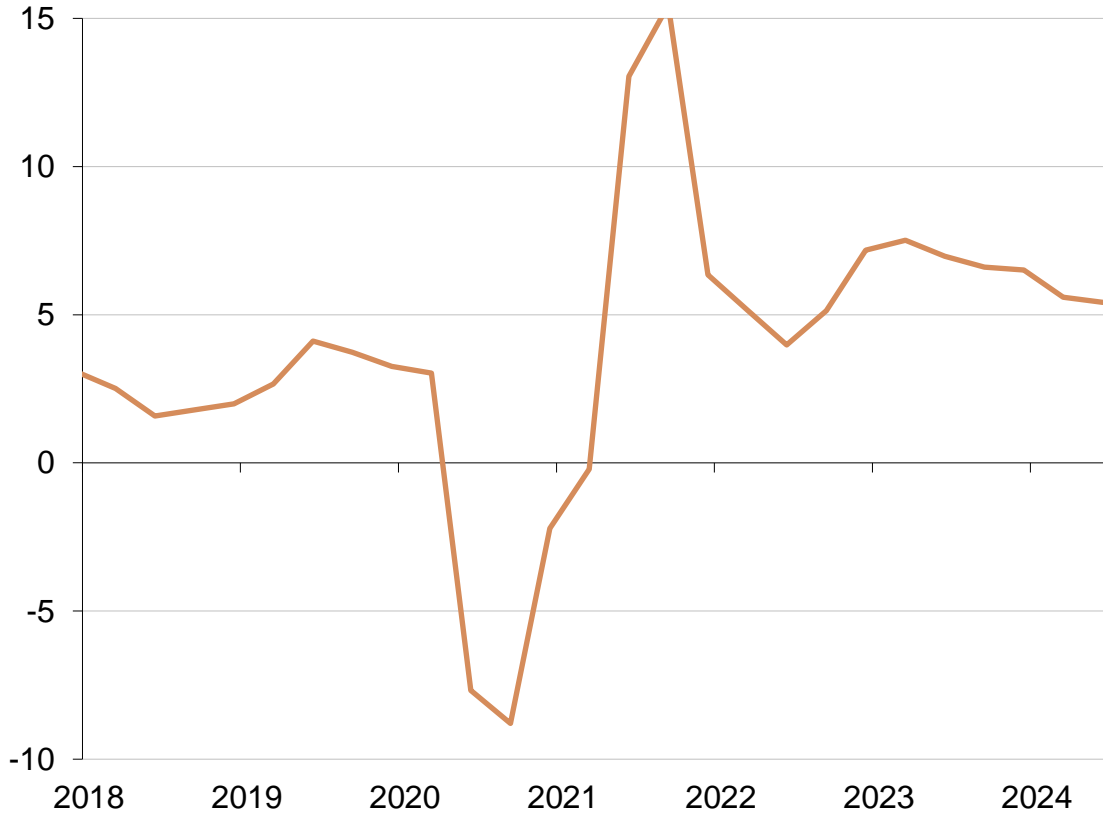
Source: ABS, QIC

But growth in unit labour costs above 5% is inconsistent with inflation being at target

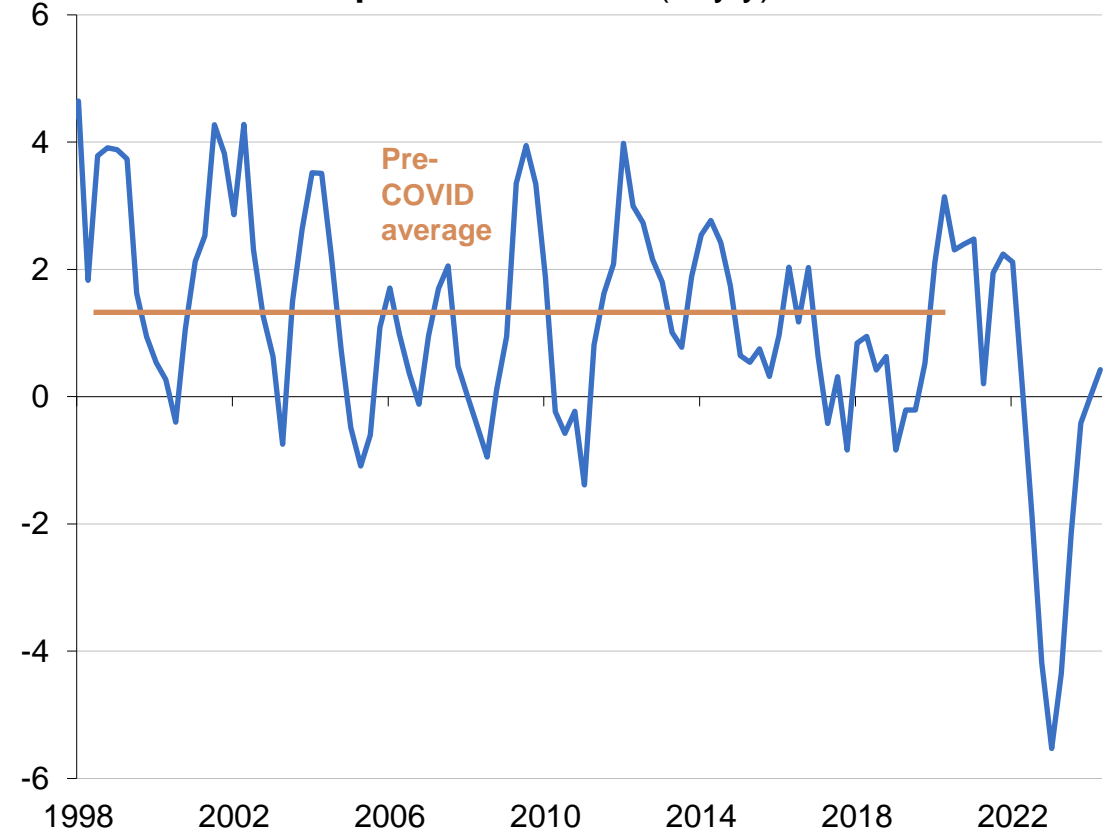
Unit labour costs have been pushed up by elevated wages and weak productivity growth

The post-COVID recovery was driven by the services sector which led to exceptionally weak productivity

Australia - Nominal unit labour costs (% y/y)



Australia - GDP per hour worked (% y/y)



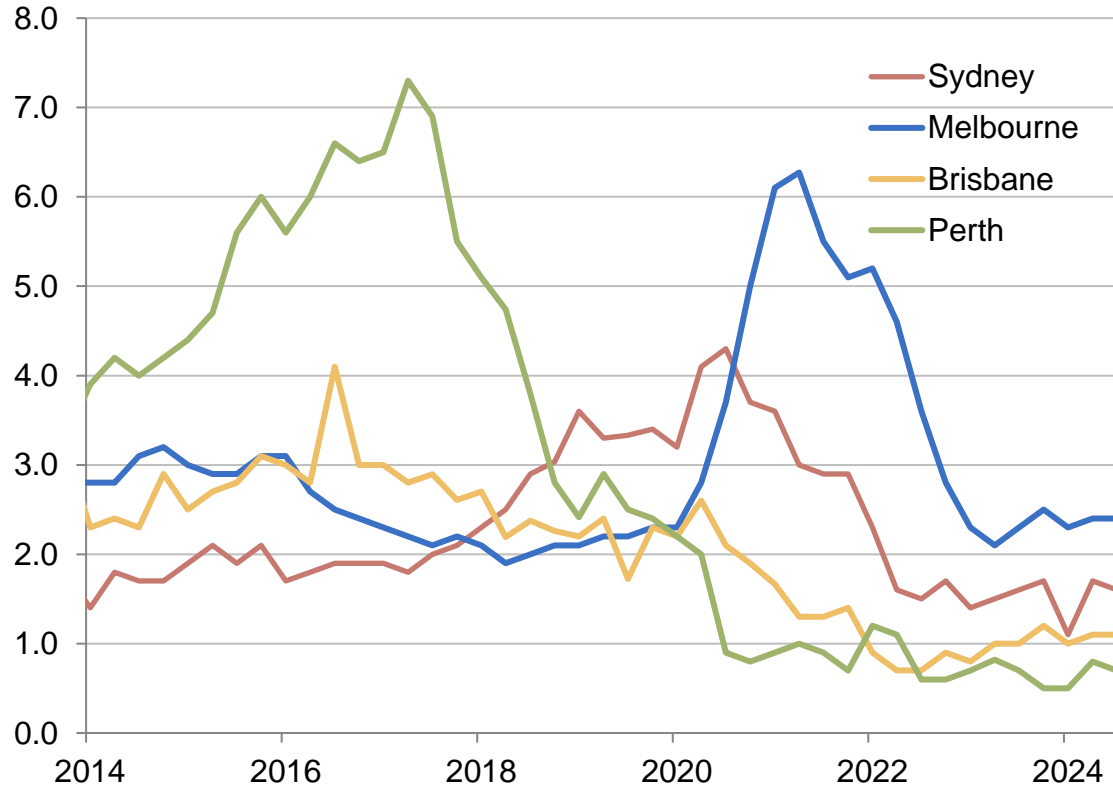
Source: ABS, QIC

The housing market is tight, but rental inflation looks to have peaked

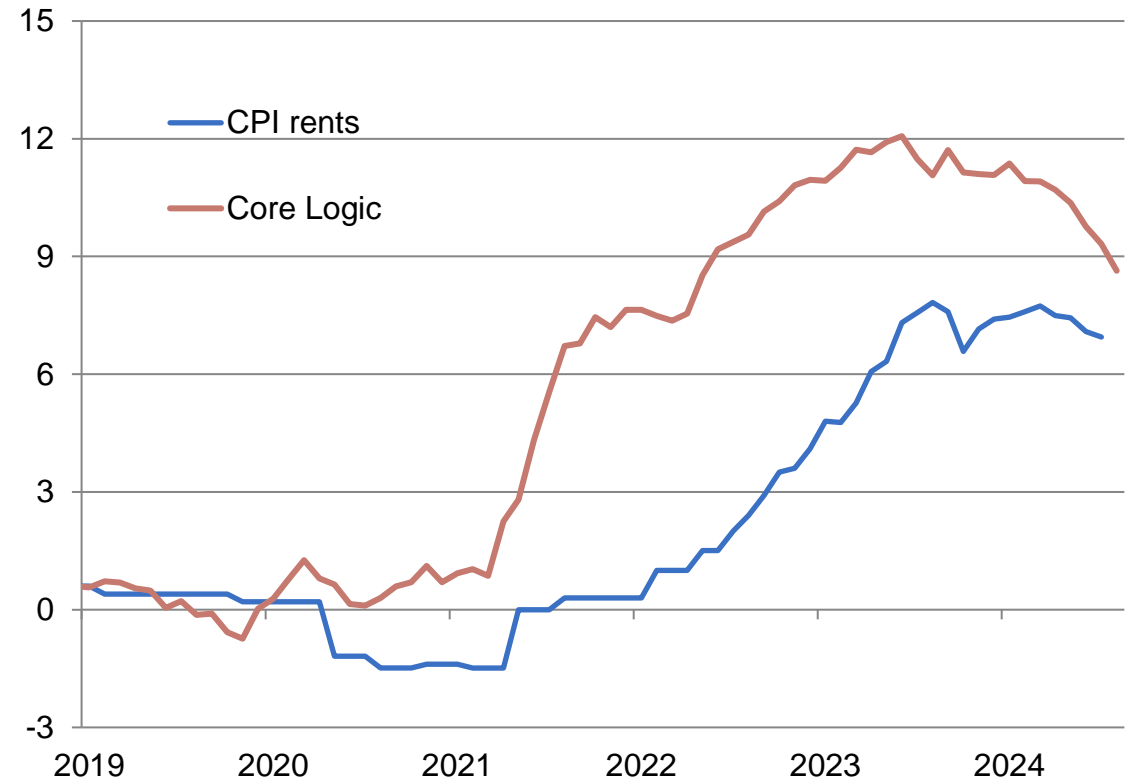
Vacancy rates are near historic lows, but have eased very modestly

Rental growth is elevated but showing initial signs of slowing

Australia - Capital city rental vacancy rate (%)



Australia - Capital city rent growth (% y/y)



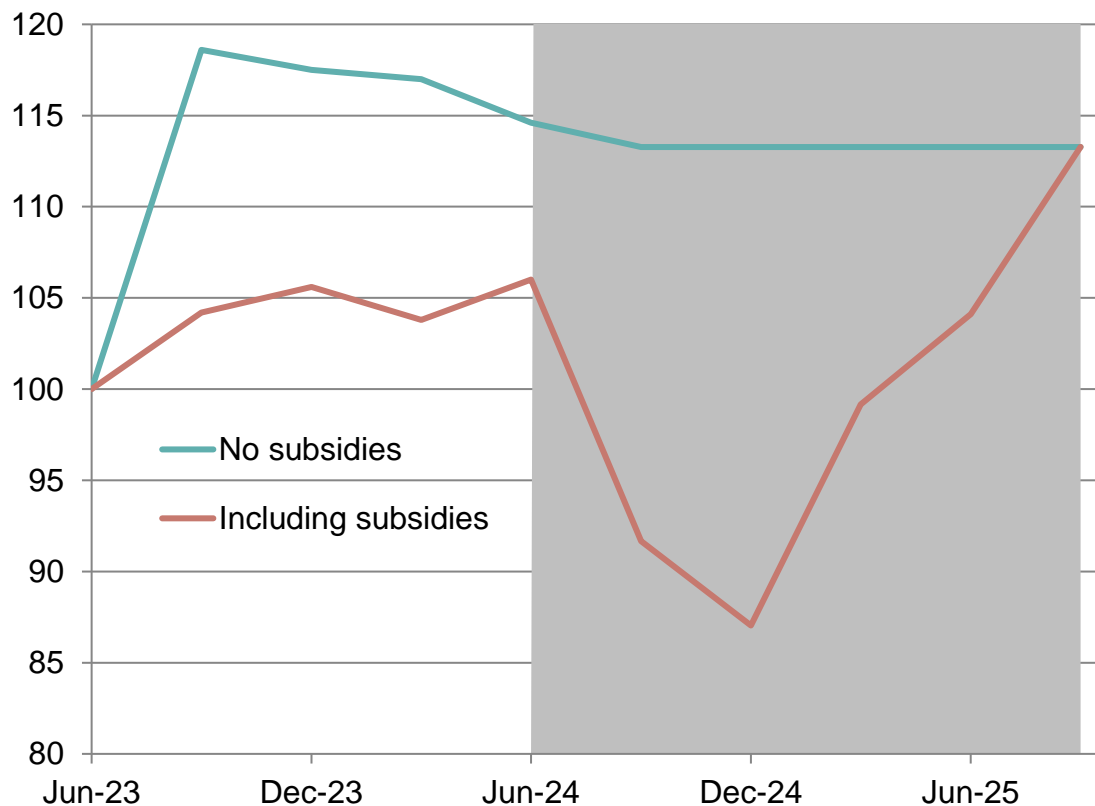
Source: SQM Research, Core Logic, ABS, QIC

Electricity prices are falling due to Federal and State government subsidies

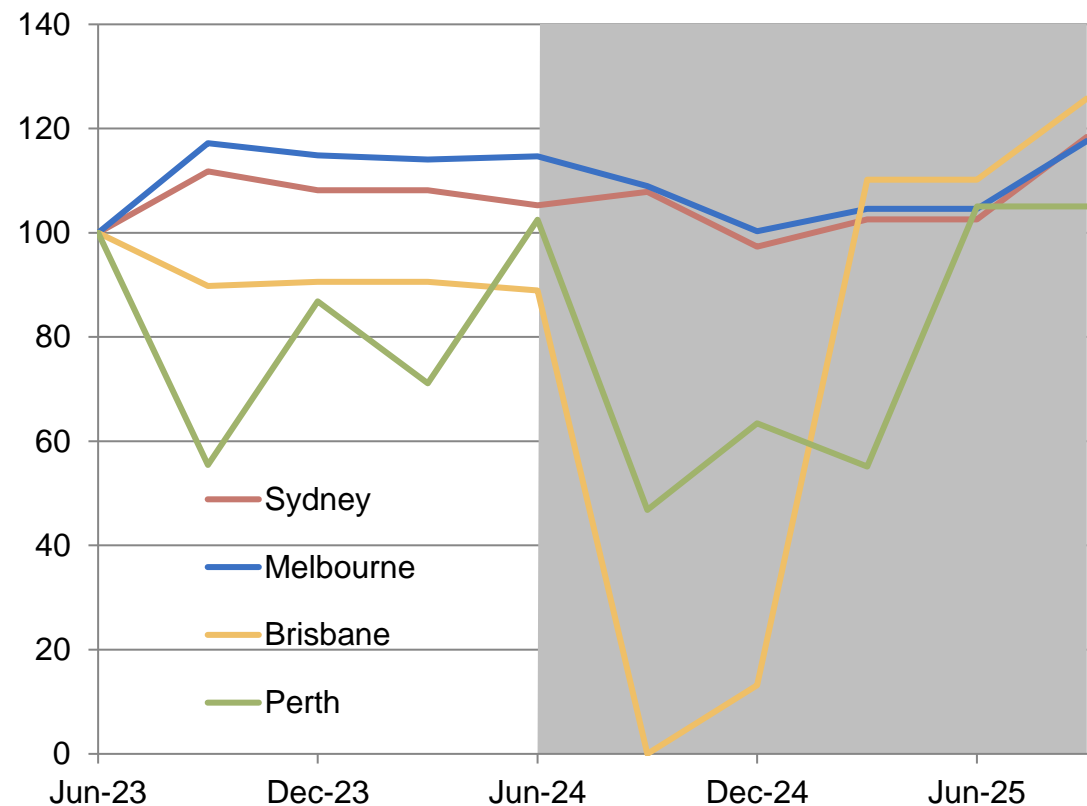
Electricity prices will be suppressed by subsidies for the next year

Significant falls in the near term are driven by additional subsidies in Qld and WA

Australia - Electricity price index (Index, Jun-23 = 100)



Australia - Electricity price index (Index, Jun-23 = 100)



Source: ABS, CPRC, QIC

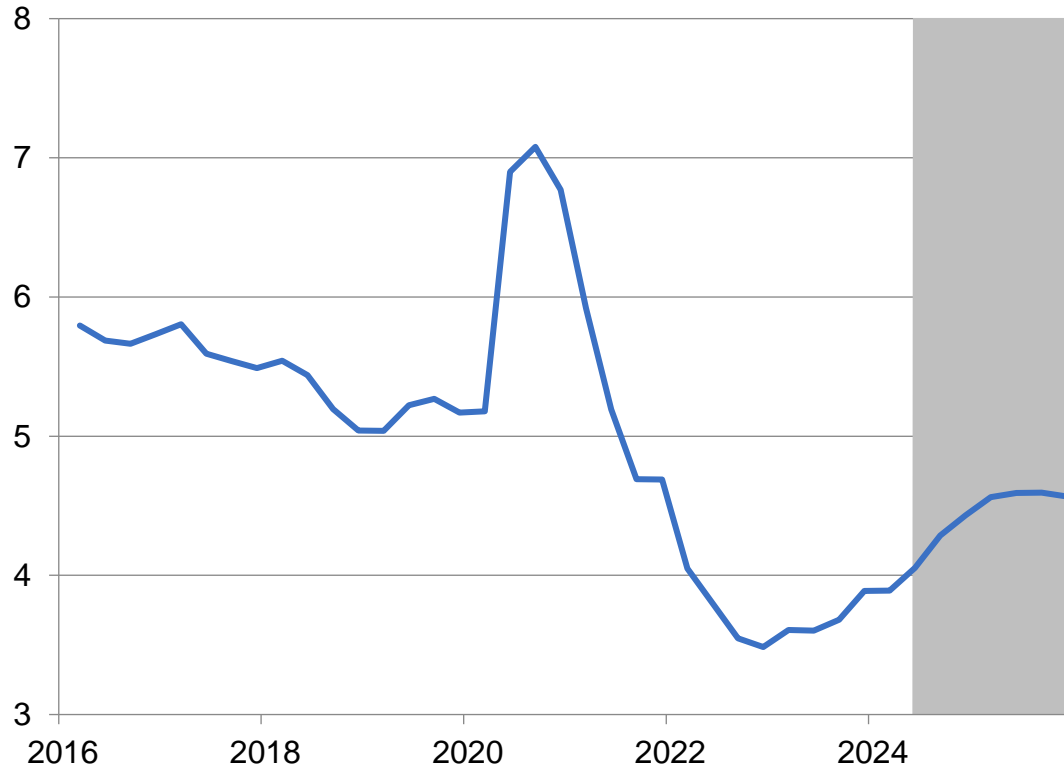
Note: Grey shading denotes QIC forecasts

The core inflation outlook is improving, as the weaker labour market slows wage growth

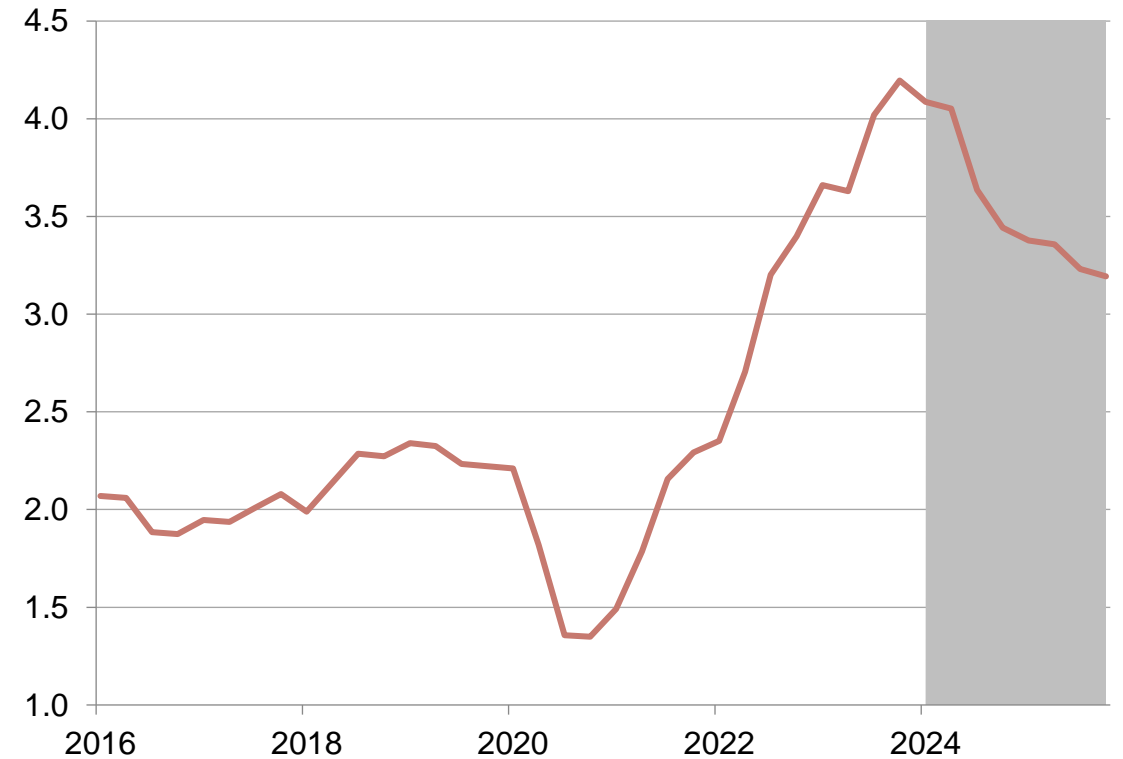
Capacity constraints in the labour market should continue to ease as the unemployment rate rises

And wage growth will slow more meaningfully

Australia - Unemployment rate (%)



Australia - Wage price index (quarterly, % y/y)



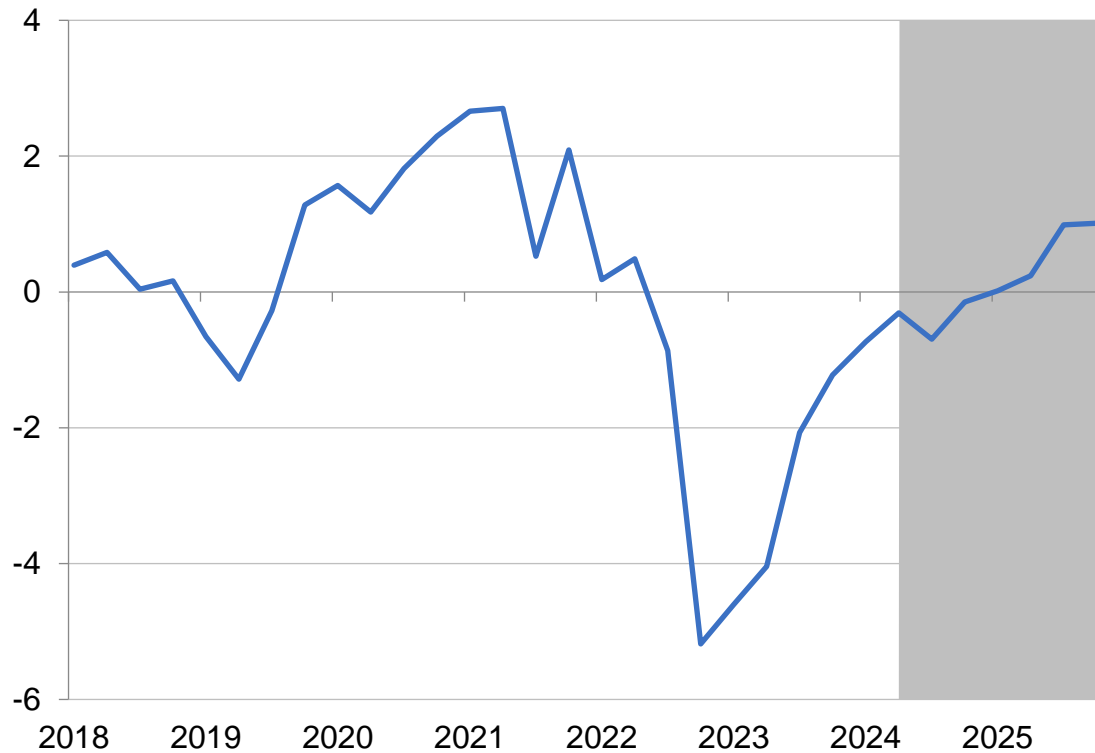
Source: ABS, QIC
 Note: Grey shading denotes QIC forecasts

Slower wages, combined with improving productivity, slows unit labour cost growth

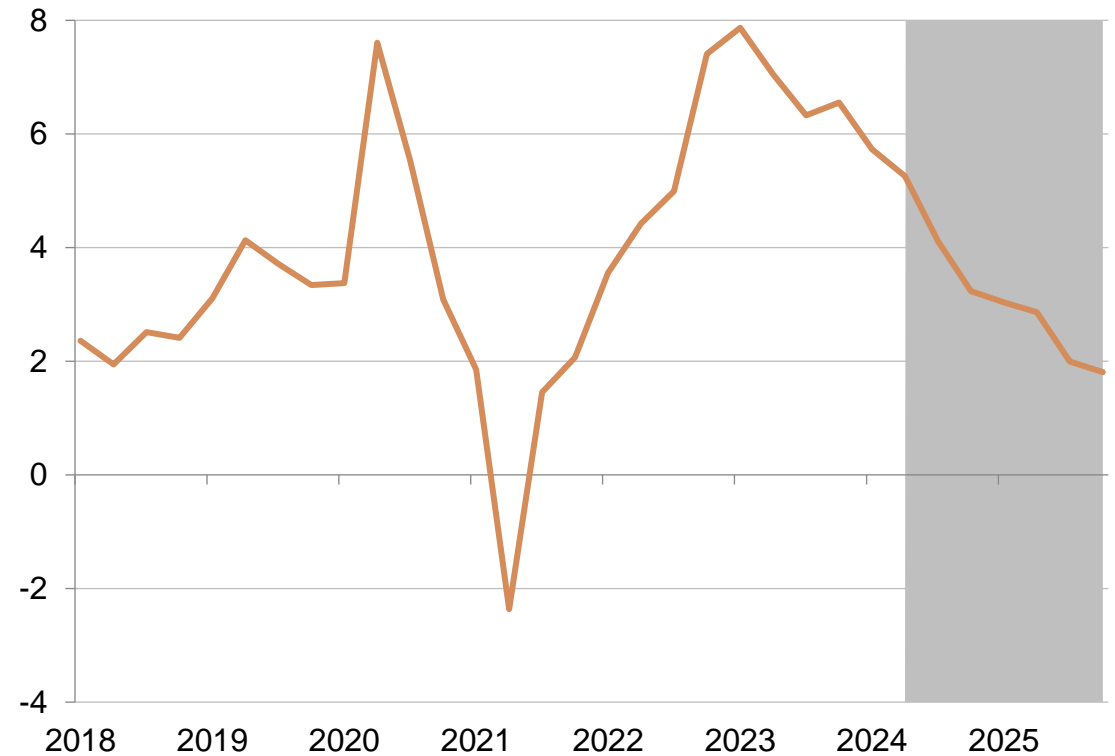
We are expecting a modest improvement in the productivity growth trend

Unit labour costs will slow to a rate consistent with the inflation target over the coming year

Australia - Trend productivity growth (% y/y)



Australia - Trend nominal unit labour costs (% y/y)



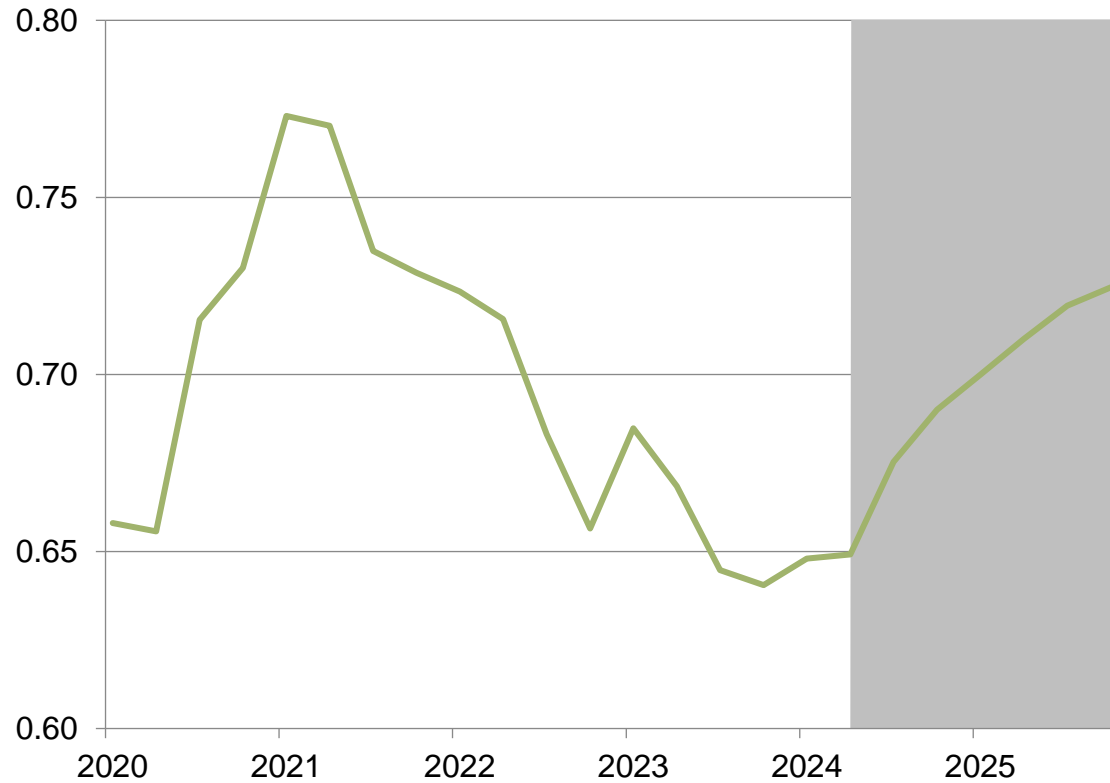
Source: ABS, QIC
 Note: Grey shading denotes QIC forecasts

Imported inflation should also ease over the coming year

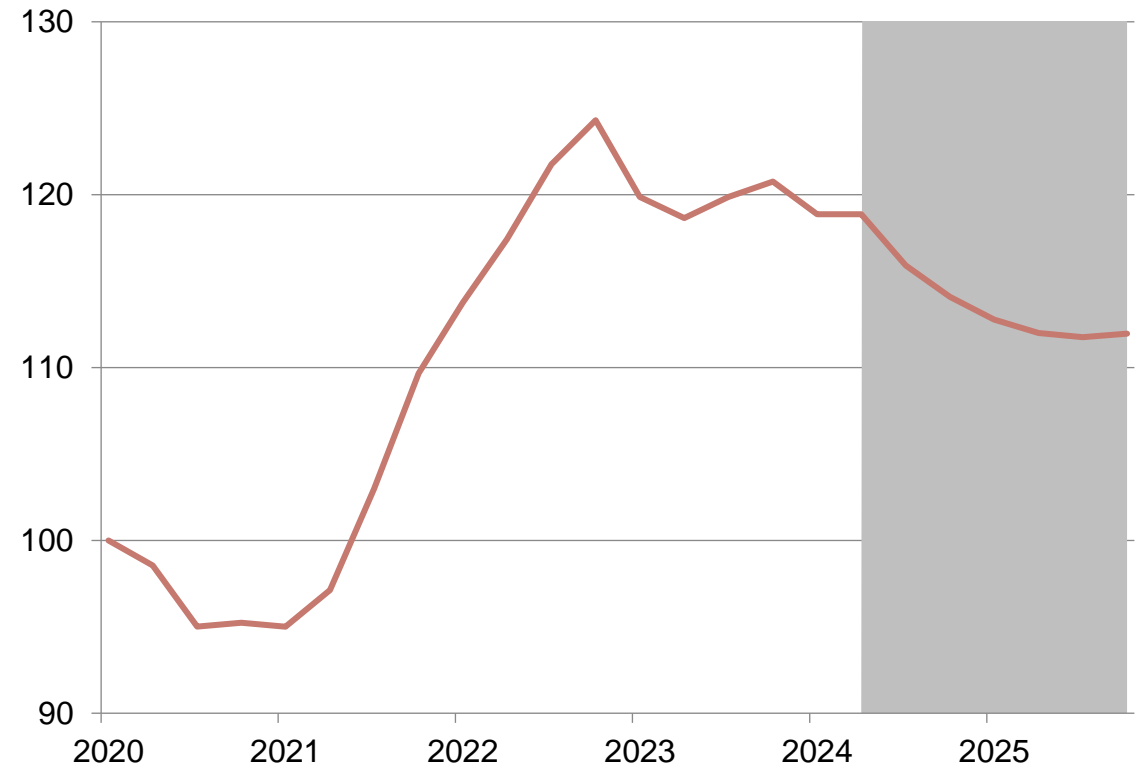
Interest rate differentials support the Australian dollar as global central banks ease more than RBA

Slower global inflation and a stronger \$A puts downward pressure on import prices

Australia - Exchange Rate (USD per AUD)



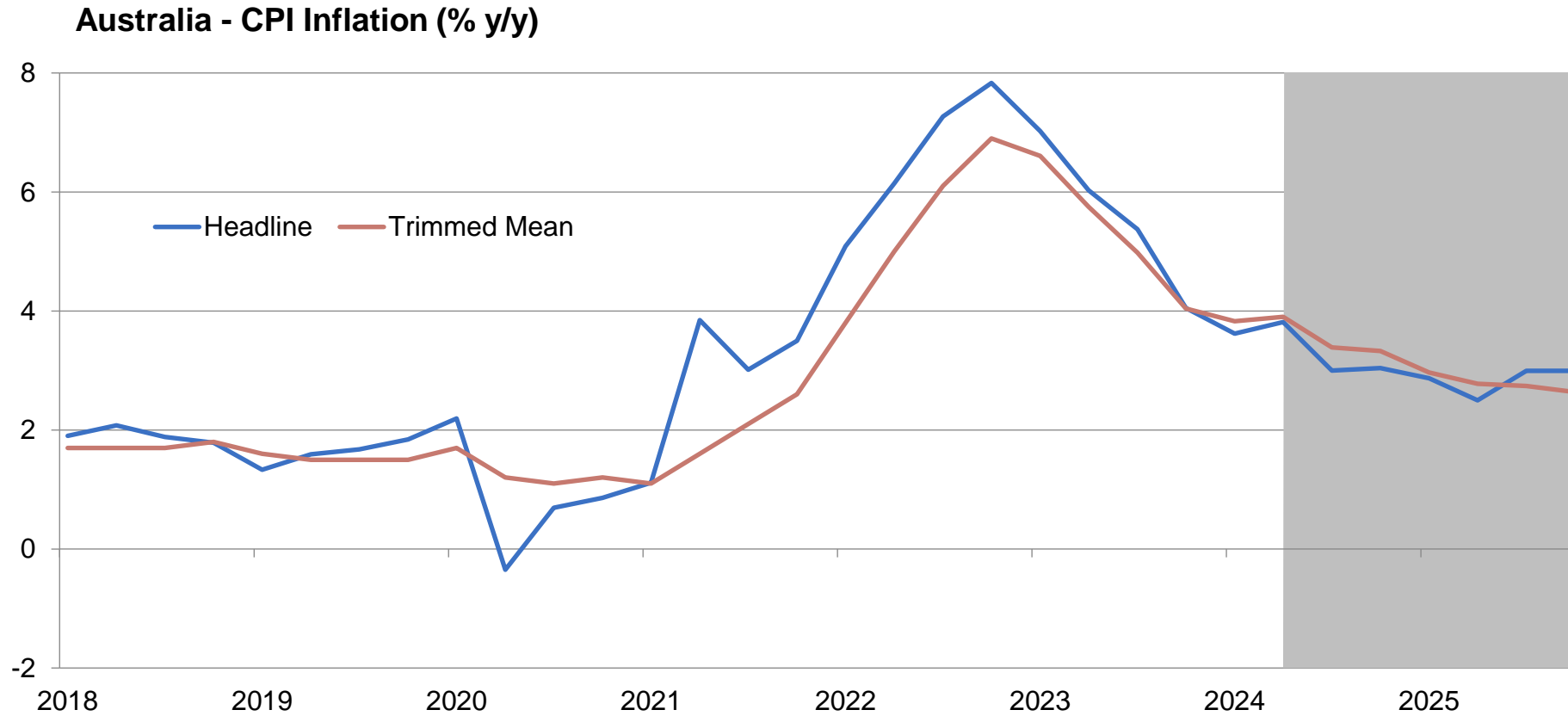
Australia - Import Price Index (MQ2020 = 100)



Source: ABS, Refinitiv, QIC
 Note: Grey shading denotes QIC forecasts

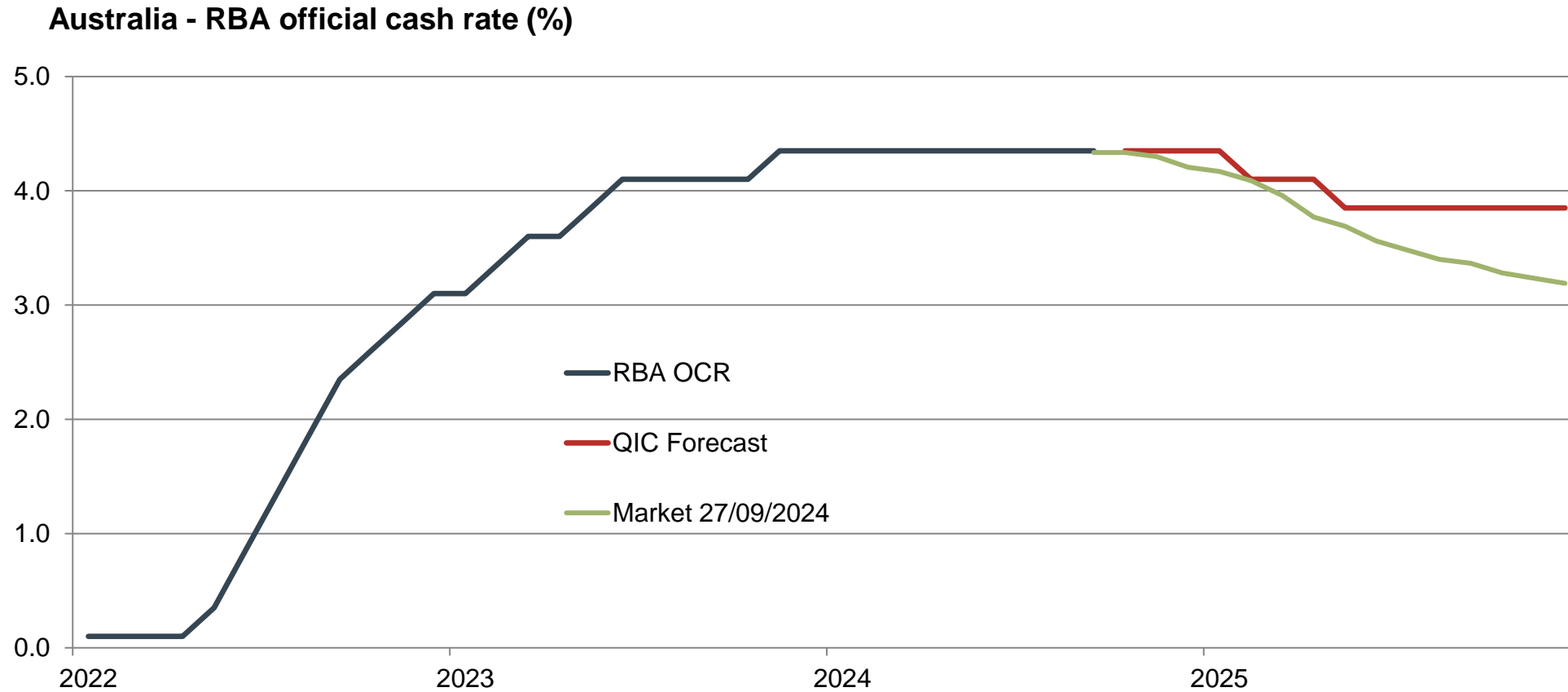
Core inflation is expected to move into the RBA target band by mid'25

Headline inflation is lower in the near term but higher when subsidies expire in H2'25



Source: ABS, QIC
Note: Grey shading represents QIC forecasts

Monetary policy easing is on the cards in 2025, but the easing cycle will only be shallow
Rates will be cut toward neutral as inflation slows toward target and growth recovers toward trend



Source: Refinitiv, Bloomberg, QIC
Note: Red line represents QIC forecasts

Summary of Australian Outlook



GROWTH

- The Australian economy is expected to avoid recession, but slow to just 1.2% growth in 2024
- Consumer spending will be tepid given intense cost-of-living pressures, but aggregate household spending is supported by strong population growth and a robust financial sector
- A modest recovery toward trend is forecast moving through 2025 as inflation and interest rate pressures ease and the government delivers tax and cost-of-living support to households



INFLATION

- Inflation has slowed significantly since its peaks but remains too high for the RBA to consider rate cuts
- Nominal unit labour costs have remained stubbornly high, but are likely to ease from the second half of the year
- Wage growth has peaked and will slow further as capacity constraints in the labour market ease, while a modest recovery in trend productivity is likely as the economy improves over the coming year
- Slowing growth in unit labour costs, combined with lower prices of imports, should see core inflation ease back within the RBA's target range by the middle of 2025



MONETARY POLICY

- At 4.35%, interest rates are in restrictive territory, though less so than global counterparts
- A rise in unemployment, combined with a slowing in inflation towards target, should allow the RBA to commence a modest easing cycle from early 2025
- The easing cycle in Australia will be modest compared to developed market economies

Appendix Country snapshots

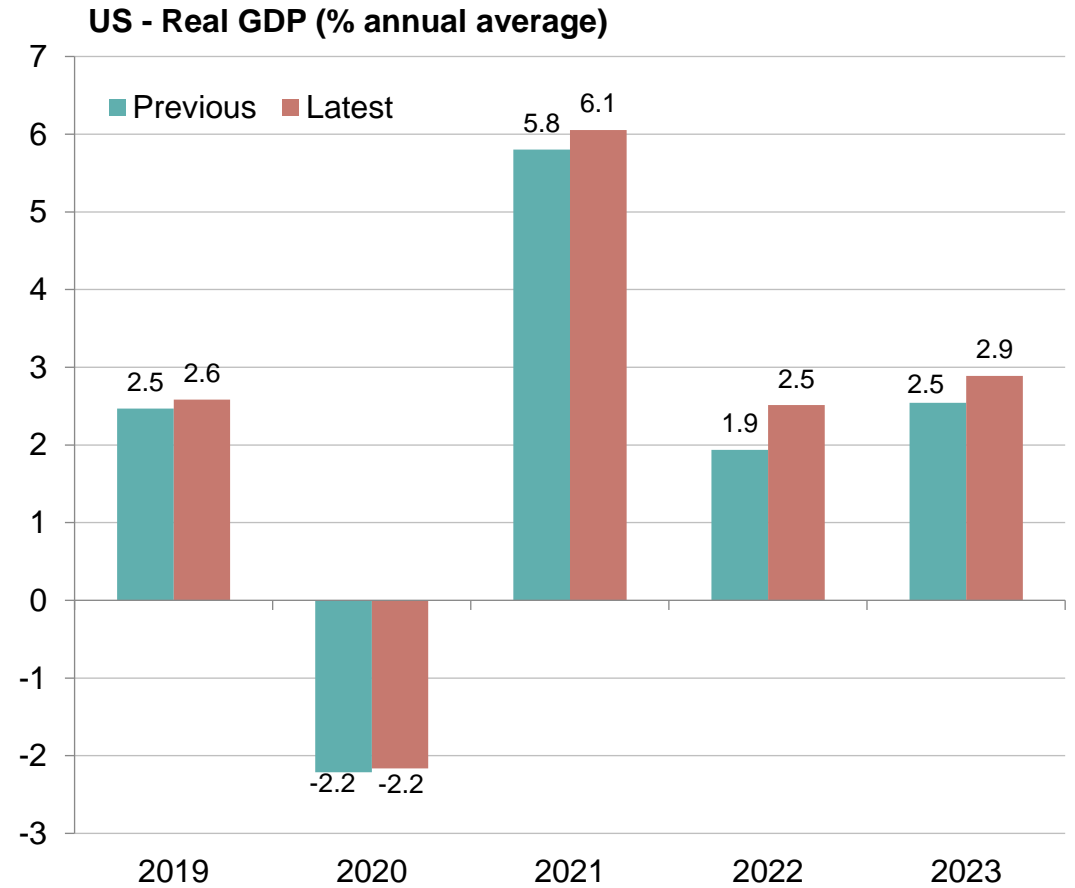
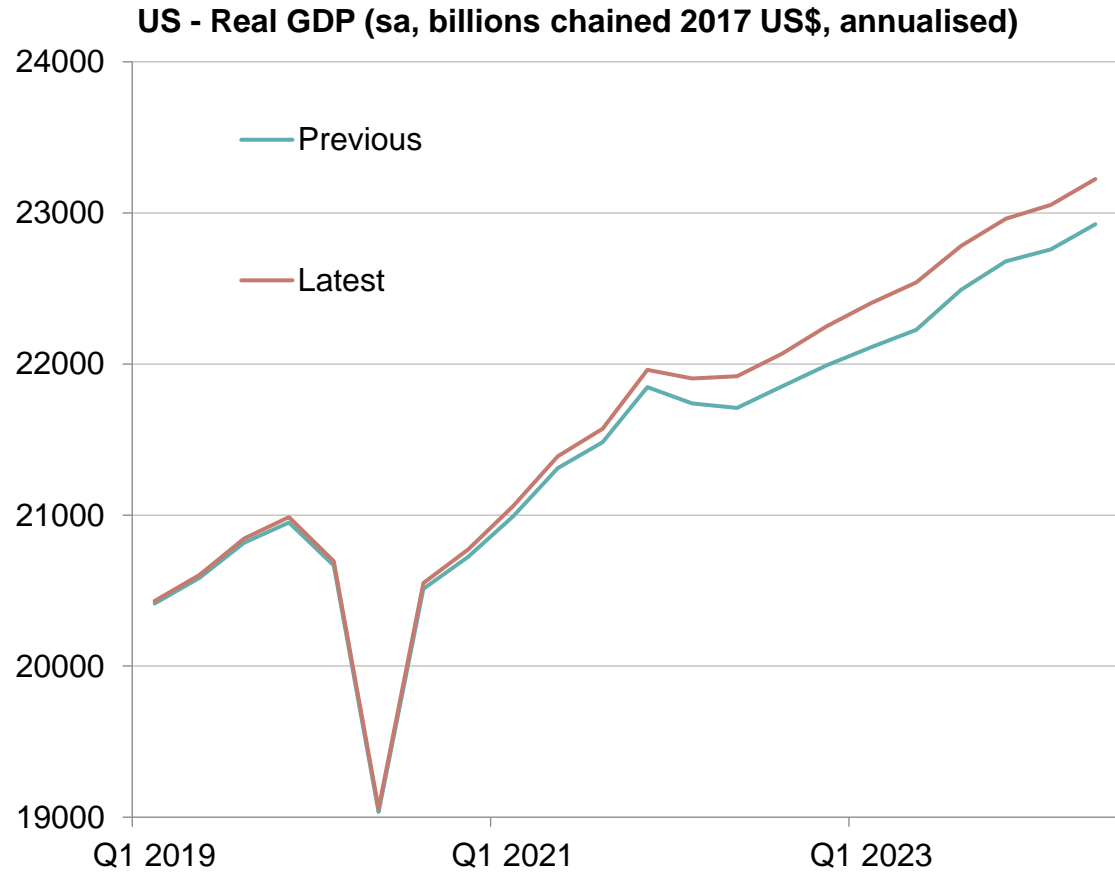
QIC

US Economic Outlook

SEPTEMBER 2024

National accounts revisions reveal a stronger US economy over recent years

Even more significant revisions were evident for real domestic income



Source: Refinitiv, QIC

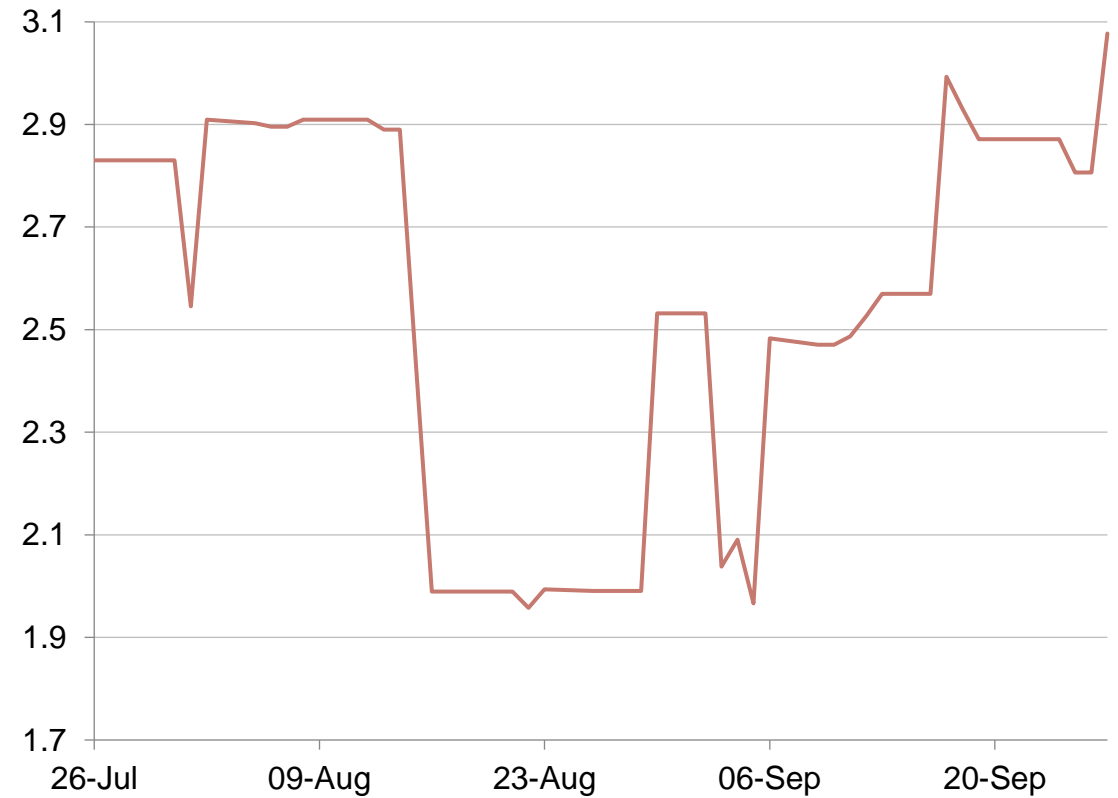
More recent data indicates the US continues to navigate the narrow path towards a soft-landing

Despite some disappointing employment reports, tracking estimates for Q3 real GDP growth remain solid

Citi US economic surprise index



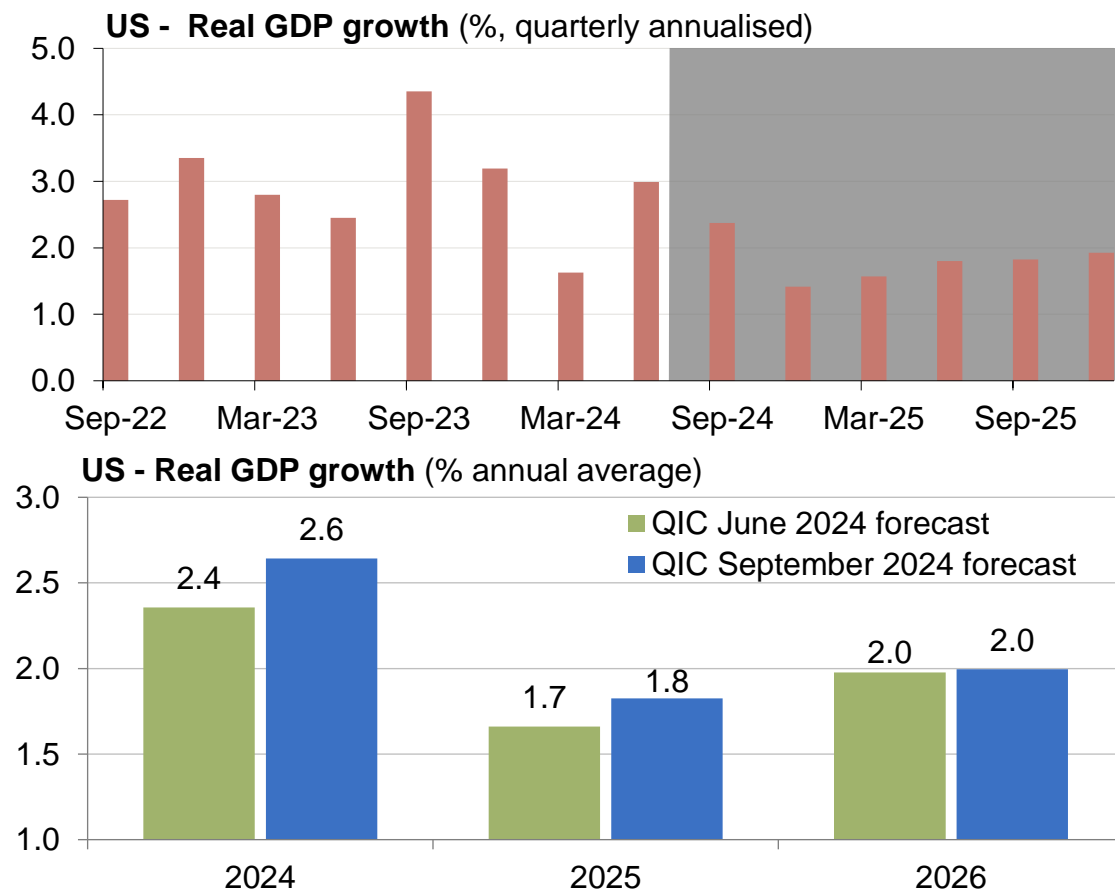
Atlanta Fed - GDPNow estimate for Q3 real GDP growth (% qsaar)



Source: Refinitiv, QIC

QIC expect a modest pull-back in US economic growth in coming quarters

2024 and 2025 forecasts have been revised slightly higher since June



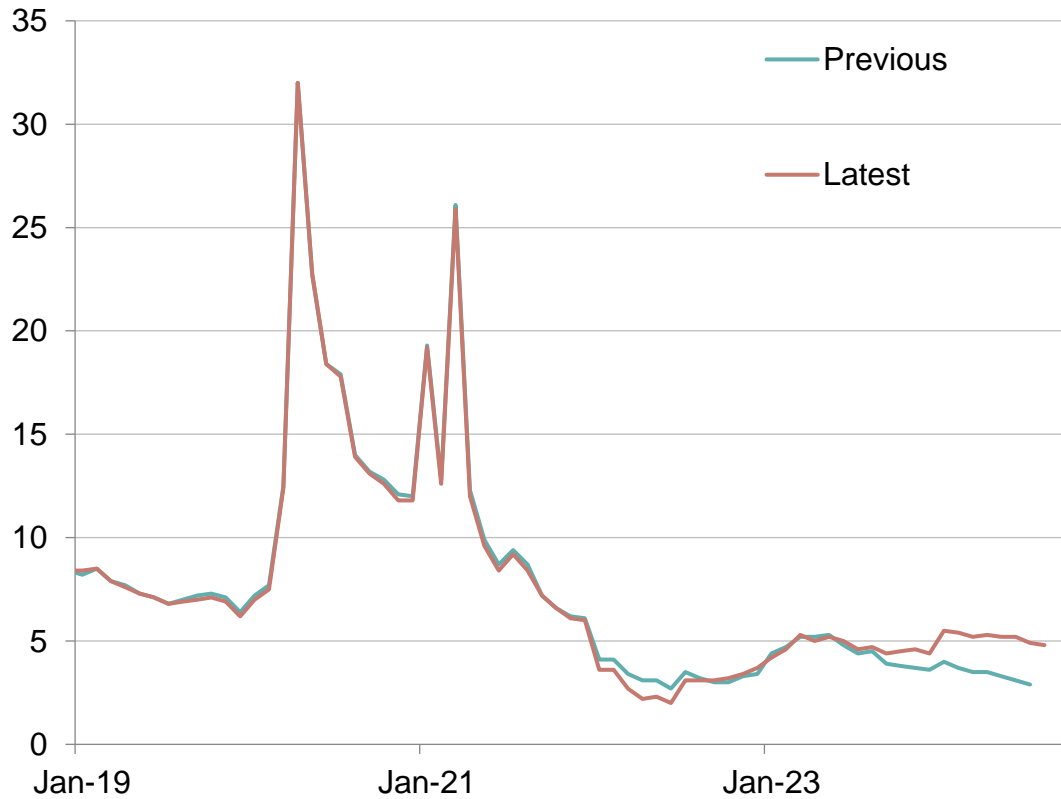
Notes: Grey shading represents QIC forecasts
Source: Refinitiv, QIC.

US Economic Forecast Summary	Annual average			
% growth (unless otherwise stated)	2023	2024	2025	2026
Real GDP	2.9	2.6	1.8	2.0
Consumption	2.5	2.5	1.9	1.8
Business investment	6.0	4.0	2.7	3.0
Housing investment	-8.3	3.3	0.7	4.3
Government consumption & investment	3.9	2.8	1.1	1.1
Government consumption	2.9	1.9	0.8	0.9
Government investment	7.5	6.3	2.4	1.9
Change in stocks (ppt contribution)	-0.4	0.1	0.0	0.1
Net exports (ppt contribution)	0.5	-0.4	-0.1	-0.1
Exports	2.8	2.9	3.0	3.6
Imports	-1.2	4.8	3.1	3.2
Residual (ppt contribution)	-0.2	0.1	0.0	0.0

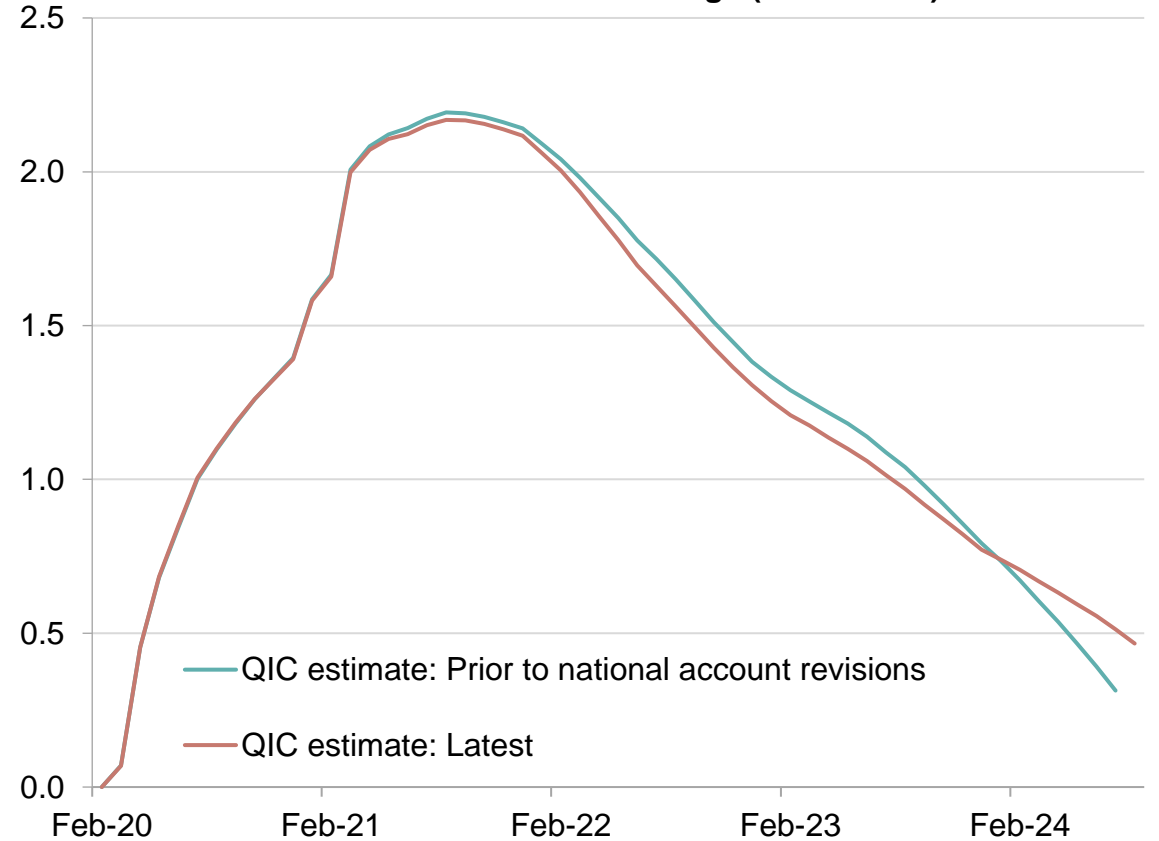
Solid US growth outturns over 2023 and H1 2024 have been driven by the consumer

Recent national accounts revisions suggest higher household savings buffers

US - Personal savings rate (%)



US - Cumulative excess household savings (US\$ trillion)

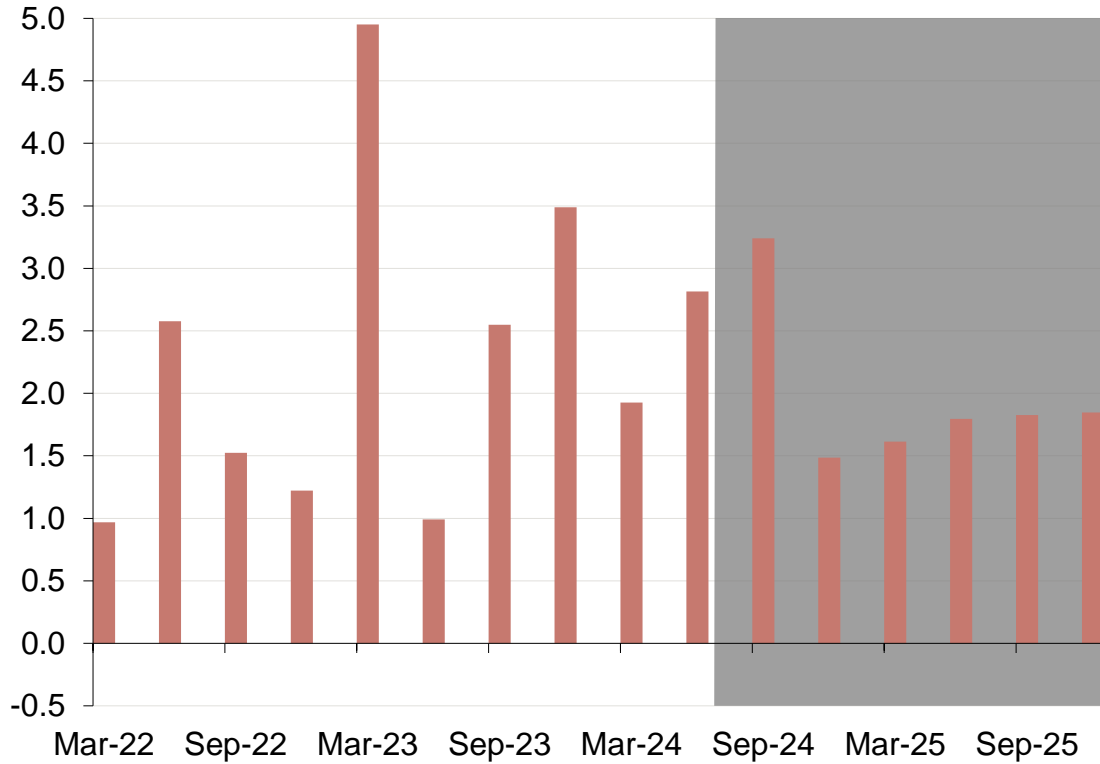


Source: Refinitiv, QIC

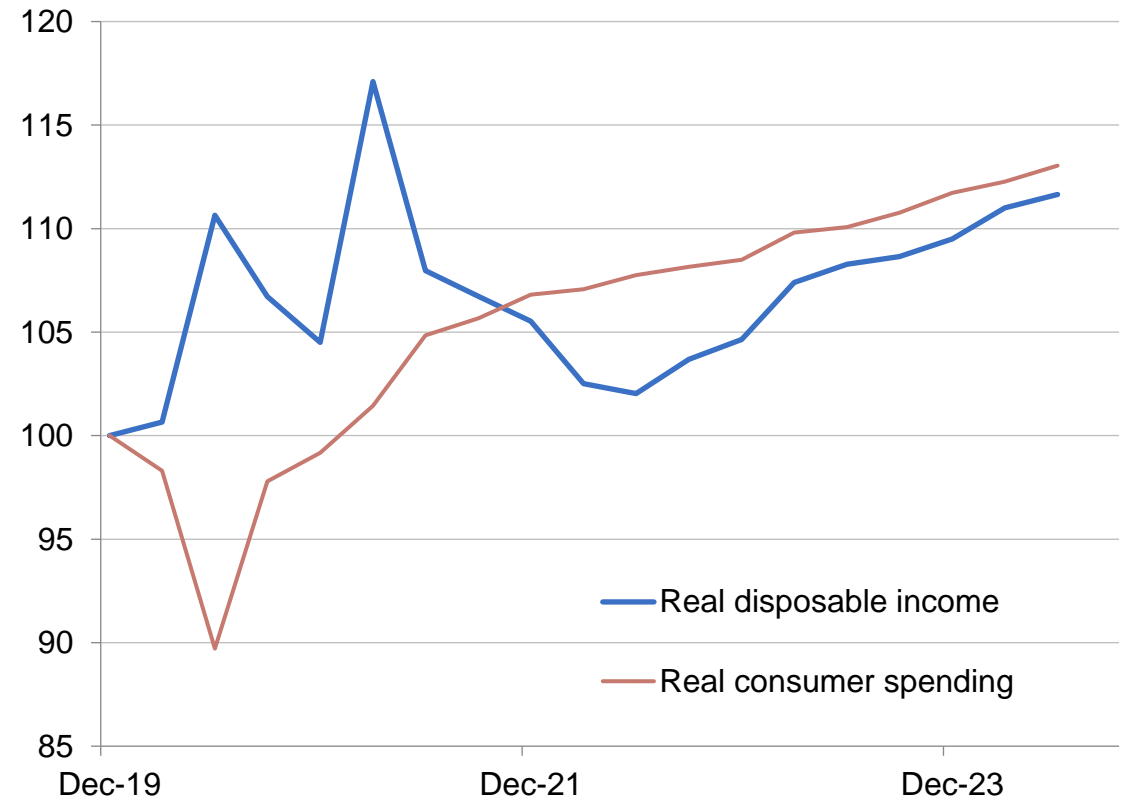
More modest growth expected in consumer spending over the coming year

Outlook for consumer spending to track more in line with real disposable income trends

US - Real consumer spending growth (% , quarterly annualised)



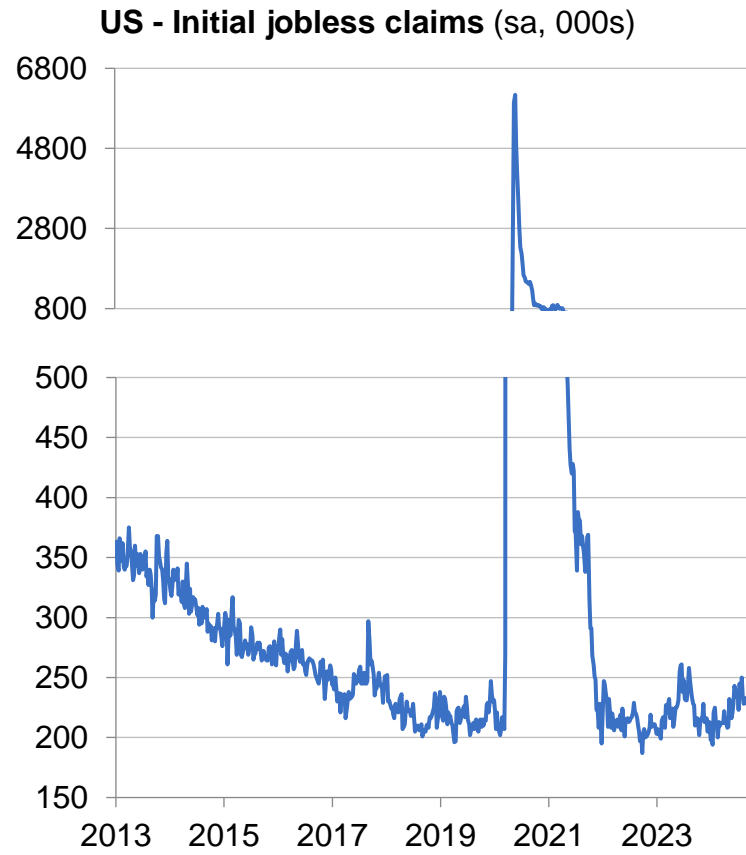
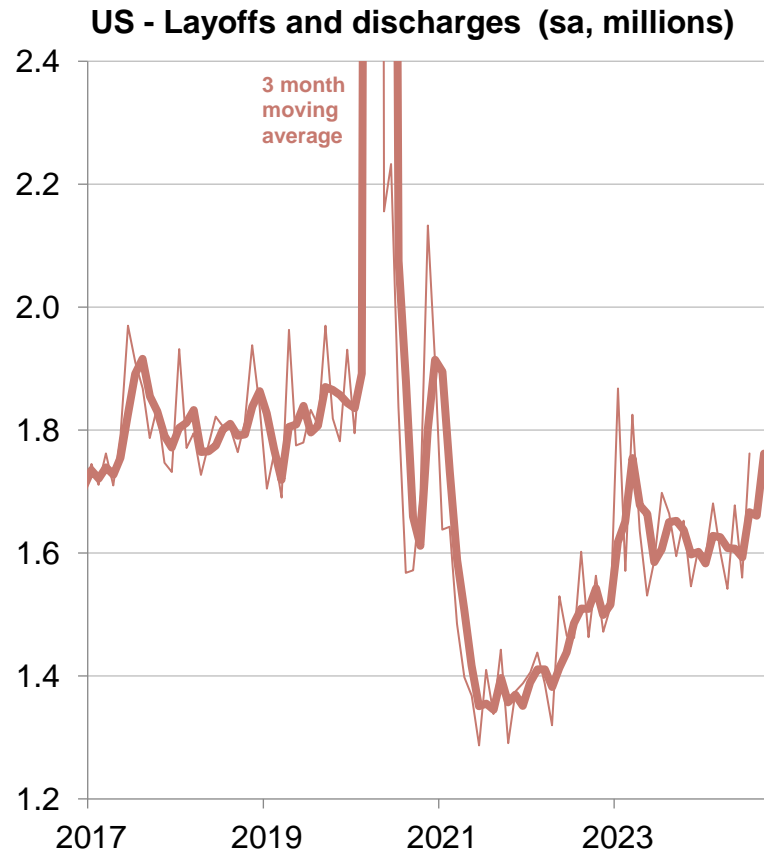
US - Real disposable income & consumption (Index, Q4 2019 = 100)



Notes: Grey shading represents QIC forecasts
Source: Refinitiv, QIC.

Labour market developments will remain key for the outlook

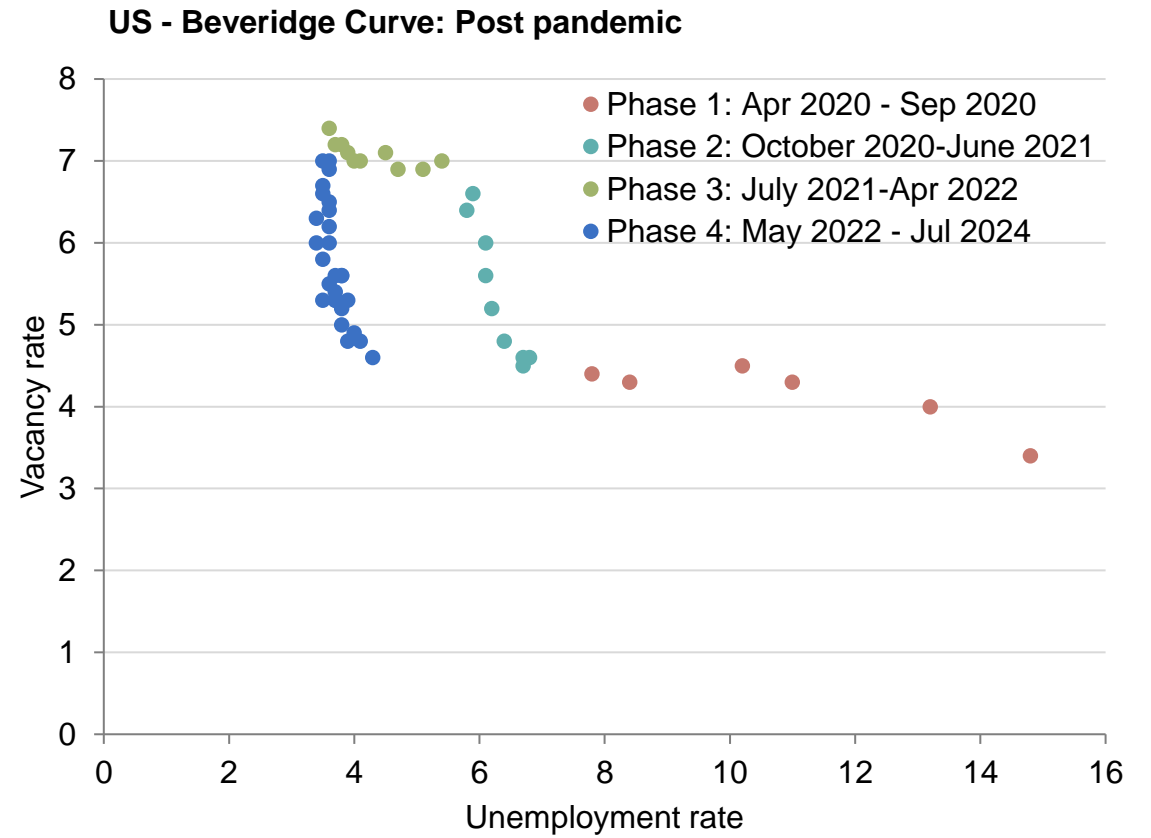
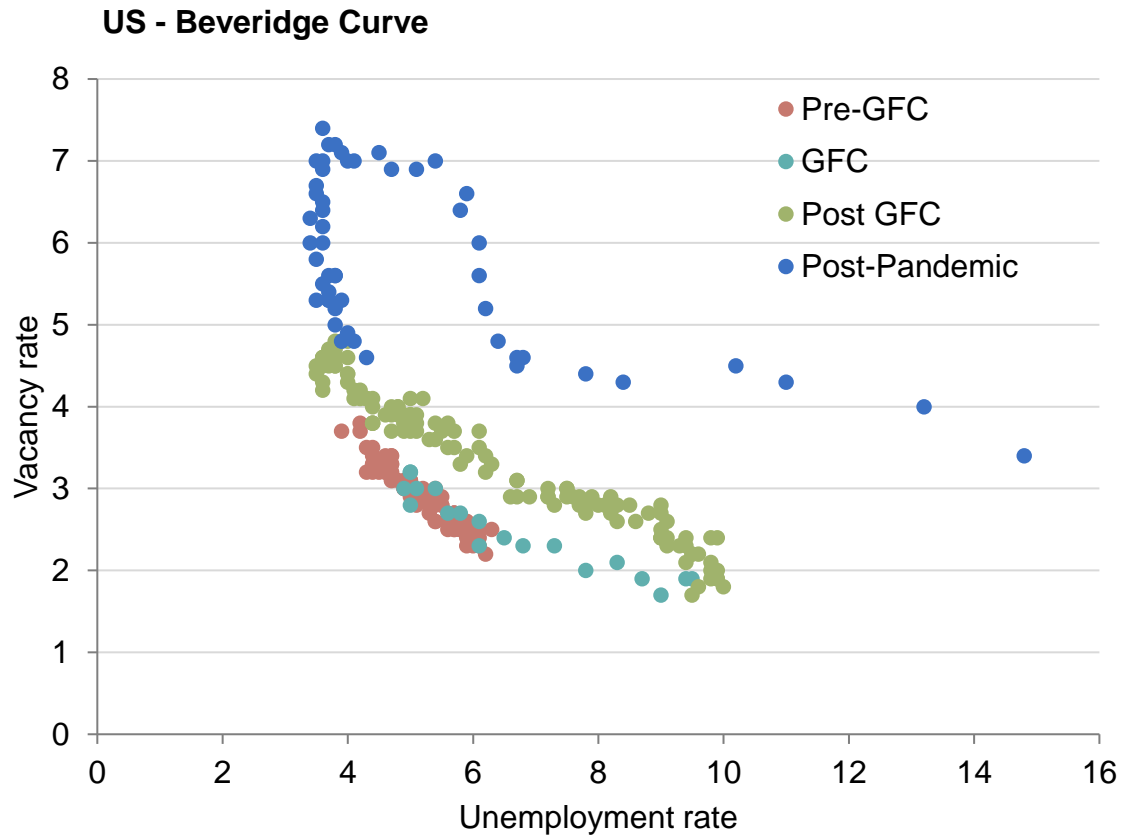
Despite a recent slowdown in employment growth, indicators remain consistent with an orderly rebalancing in the labour market



Source: Refinitiv, QIC.

US Beveridge Curve has largely normalized to the pre-pandemic experience

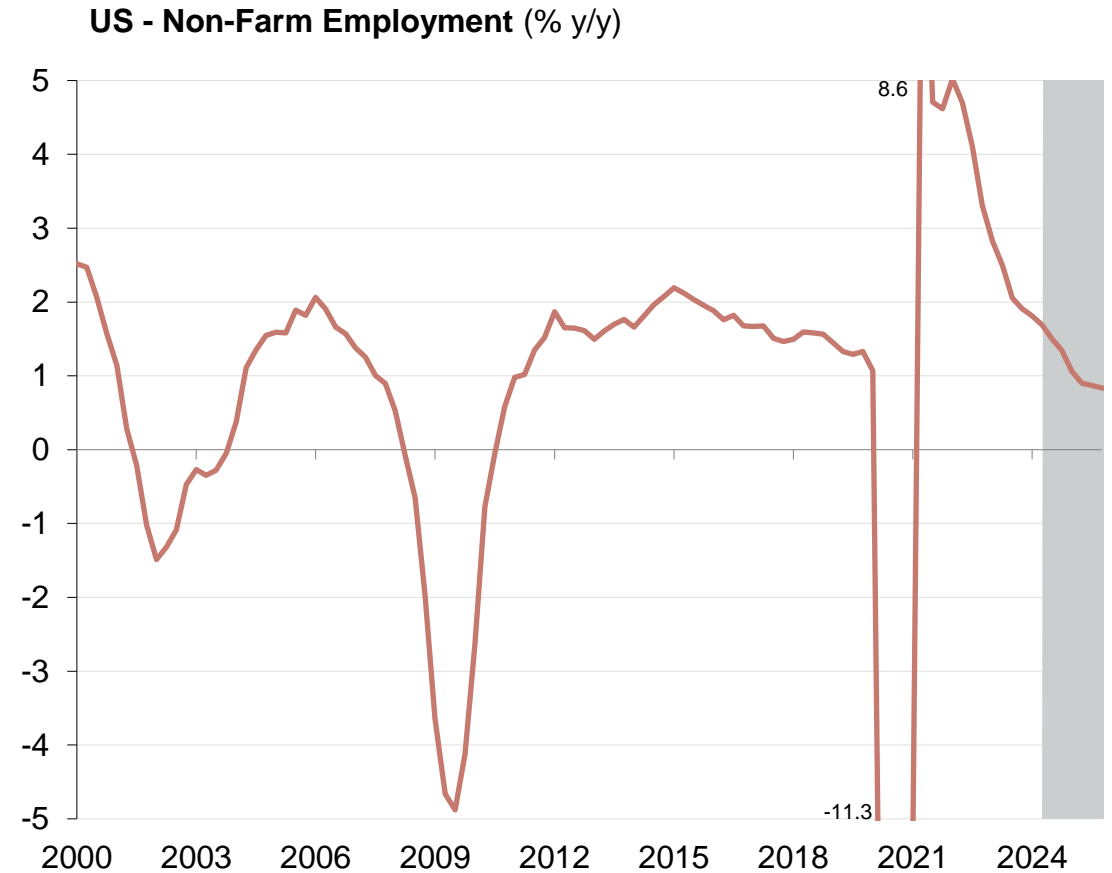
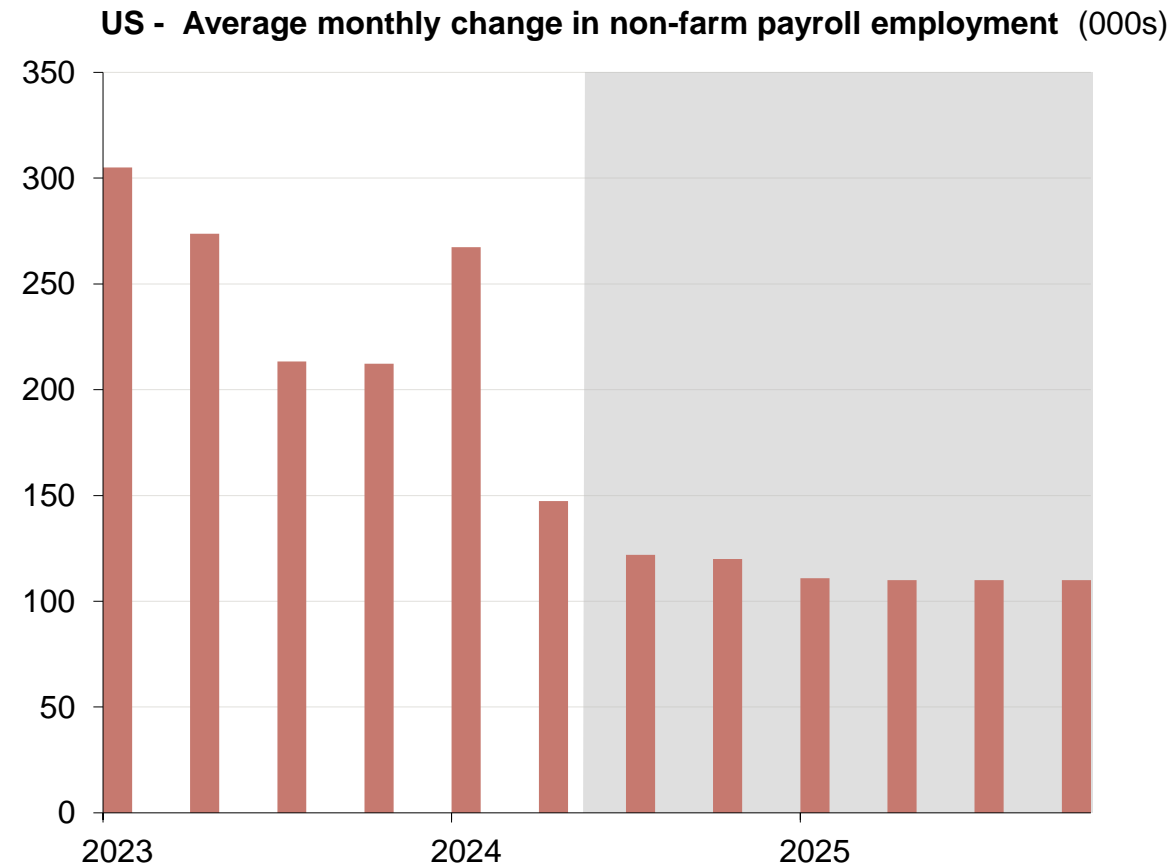
Further falls in job vacancies from here are likely to be associated with higher unemployment



Source: Refinitiv, QIC.

Employment growth to slow further, but QIC expect outright declines to be avoided

Any signs of more widespread weakness in labour market conditions will be met with more aggressive Fed cuts



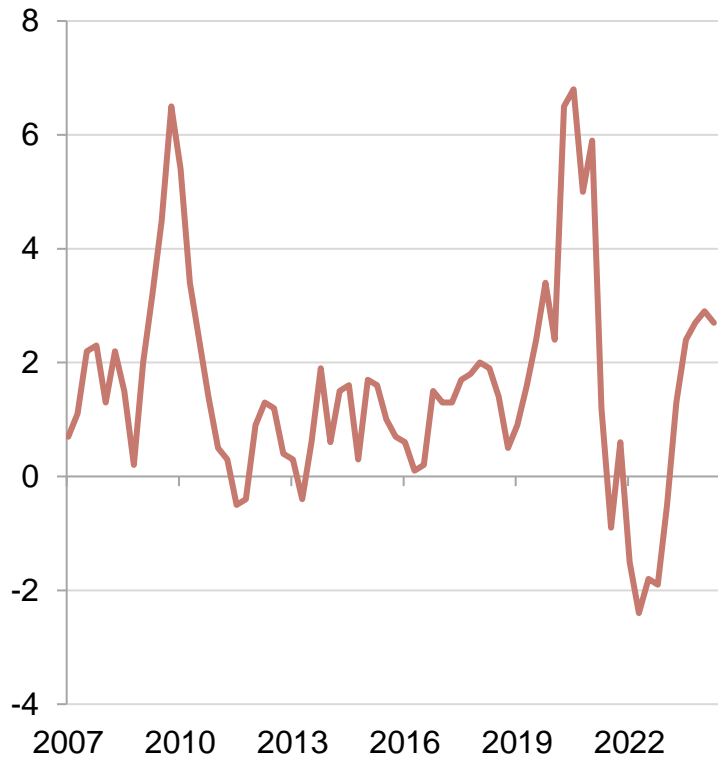
Notes: Grey shading represents QIC forecasts. Non-farm payroll employment growth will be revised lower in the year to March 2024 once the annual BLS revisions are incorporated into the monthly data (approx. -70K per month)
 Source: Refinitiv, QIC.

No reason to suspect that firms need to shed labour over the coming year

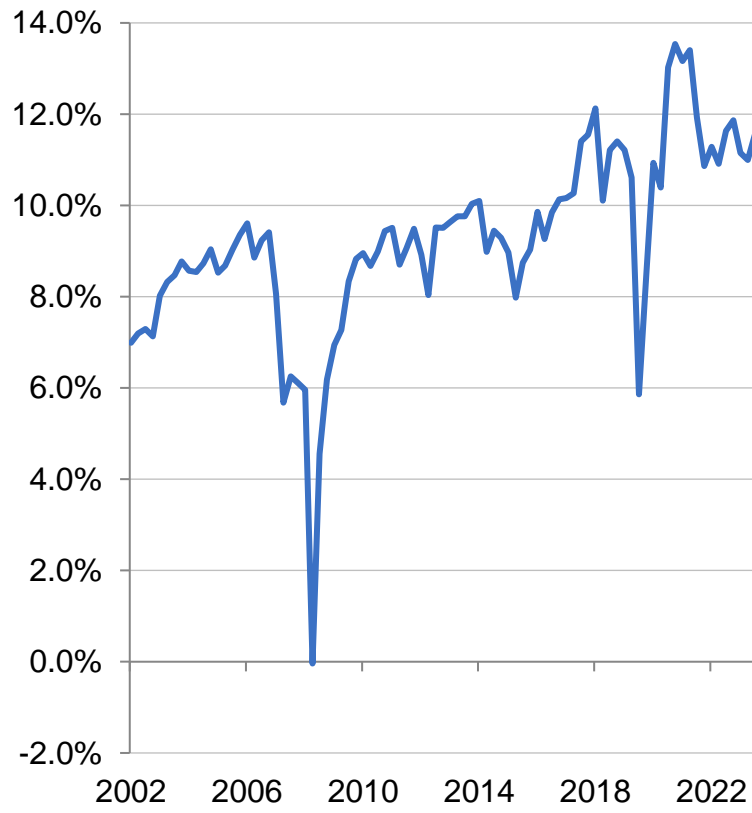
Productivity growth remains strong (and will be revised higher), growth in unit labour costs is low, profit margins are healthy, and capacity utilization is close to long-run average levels

US - Labour productivity

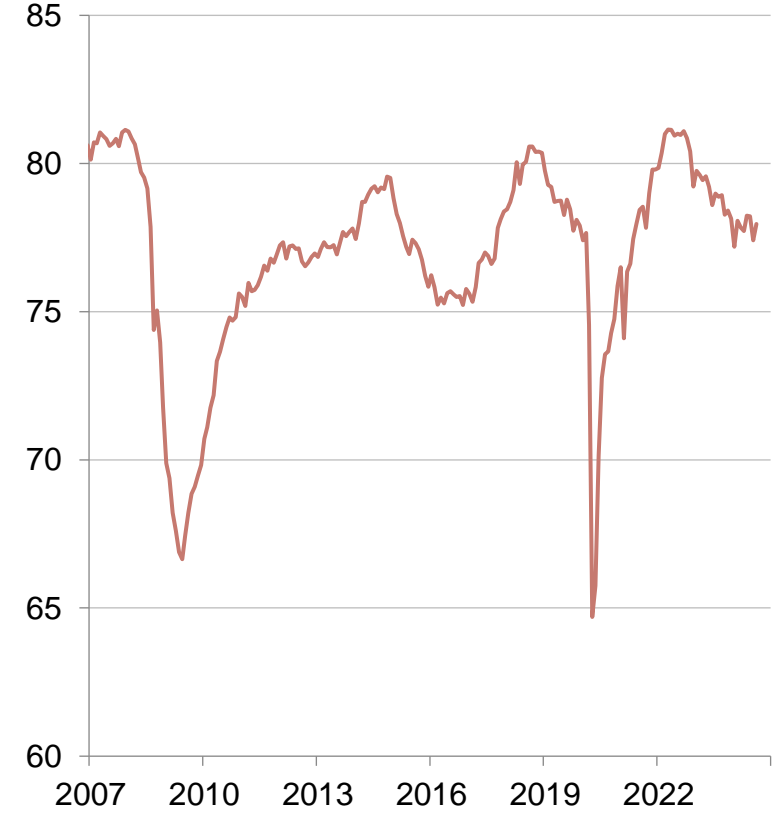
Non-farm business sector (sa, % y/y)



S&P 500 operating margin (%)



US - Capacity utilisation (sa, %)

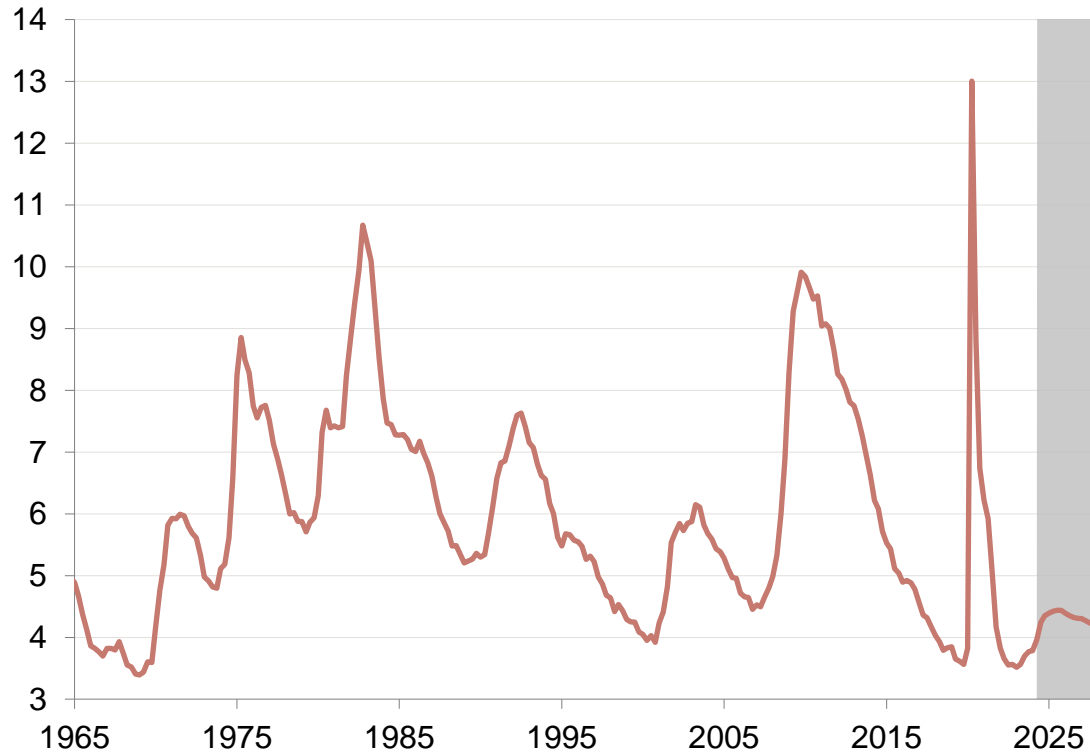


Source: Refinitiv, Standard and Poor's, QIC.

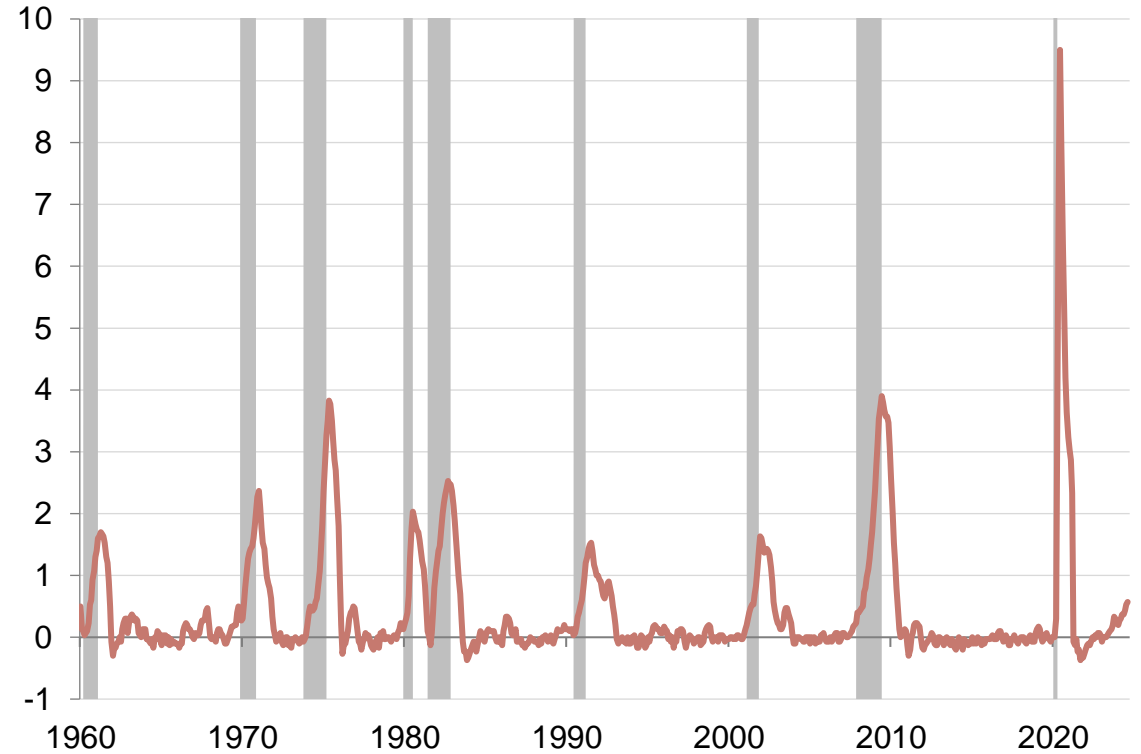
Unemployment rate forecast to peak around 4½%

QIC expect the Sahm rule will not apply this cycle, although we acknowledge the risks to the labour market are skewed to the downside

US - Unemployment Rate (%)



US - Real-time Sahm Rule Indicator*



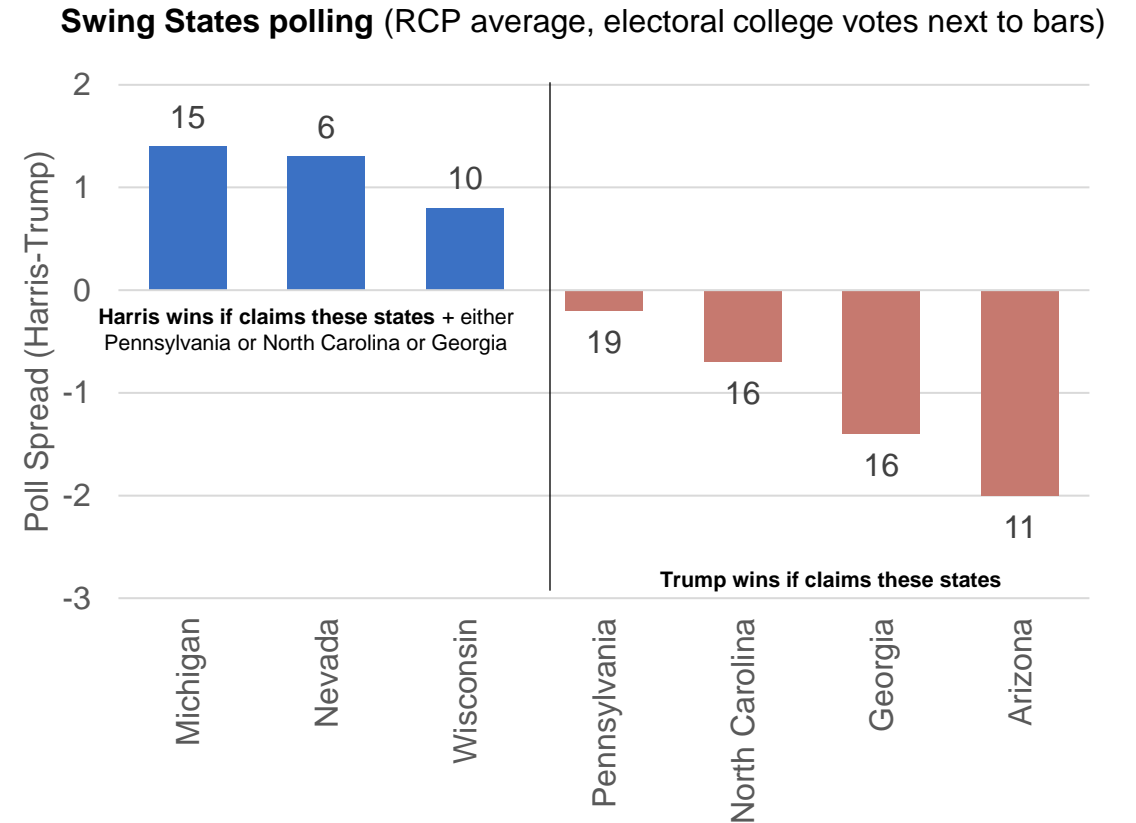
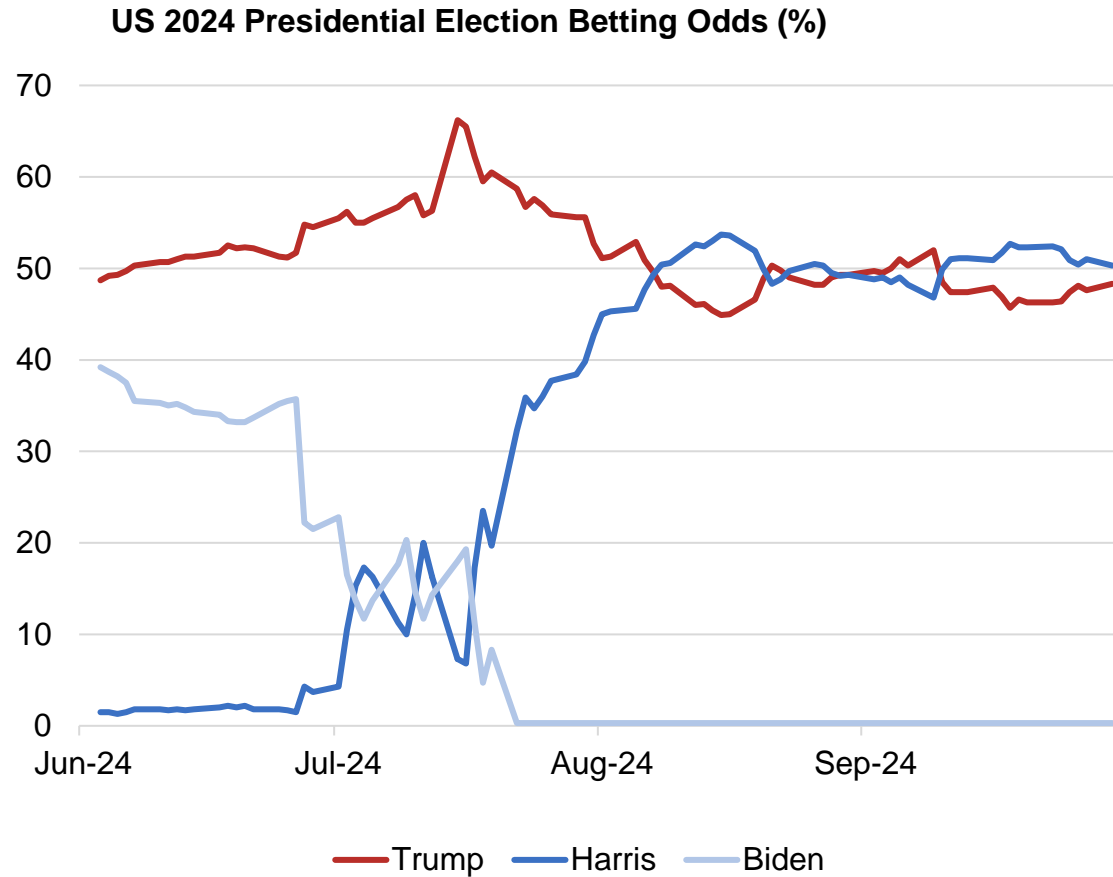
*Sahm rule indicates the start of a recession when the 3-month moving average of the unemployment rate rises by 0.5pts or more relative to minimum of the 3-month moving average from the previous 12 months

Note: Grey shading on left hand chart represents QIC forecasts, while grey shading in right hand chart denotes US recessions as defined by the NBER.

Source: Refinitiv, QIC.

Political uncertainty remains elevated as November's Presidential election is too close to call

Harris is ahead in betting markets, while recent polls have Trump just ahead in the swing states needed to claim 270 electoral college votes



Source: Bloomberg, Real Clear Politics (as at 29 Sept), QIC

Summary of key economic policies

Trump vs Harris

TRUMP

- Extend Trump's 2017 Tax Cut & Jobs Act (TCJA) measures due to expire in 2026
- Lower the corporate tax rate from 21% to 15%
- Exempt tip income from taxation
- Exempt social security benefits from taxation
- Sharp increase in tariffs on China (60%) and the rest of the world (10%)
- More stringent border protection and largest domestic deportation in history (official statistics suggest ~11 million undocumented immigrants, Trump claims 15-20 million)
- Replace the Affordable Care Act

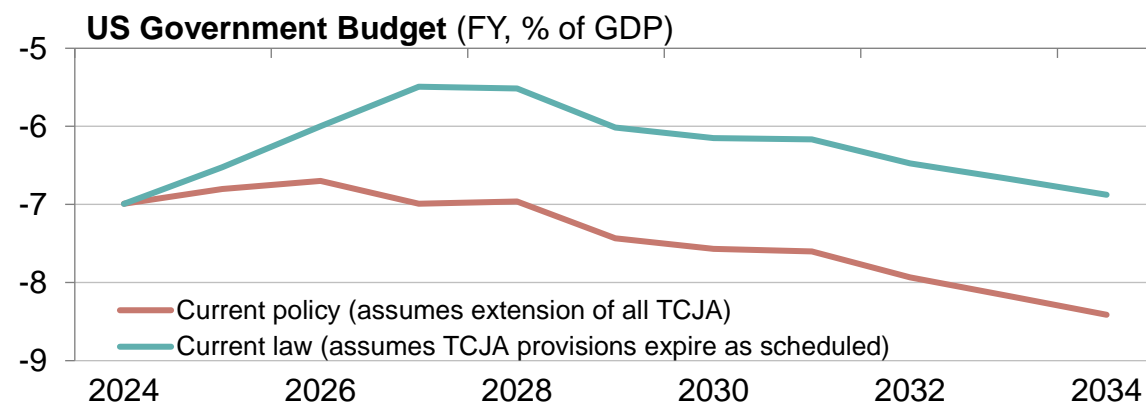
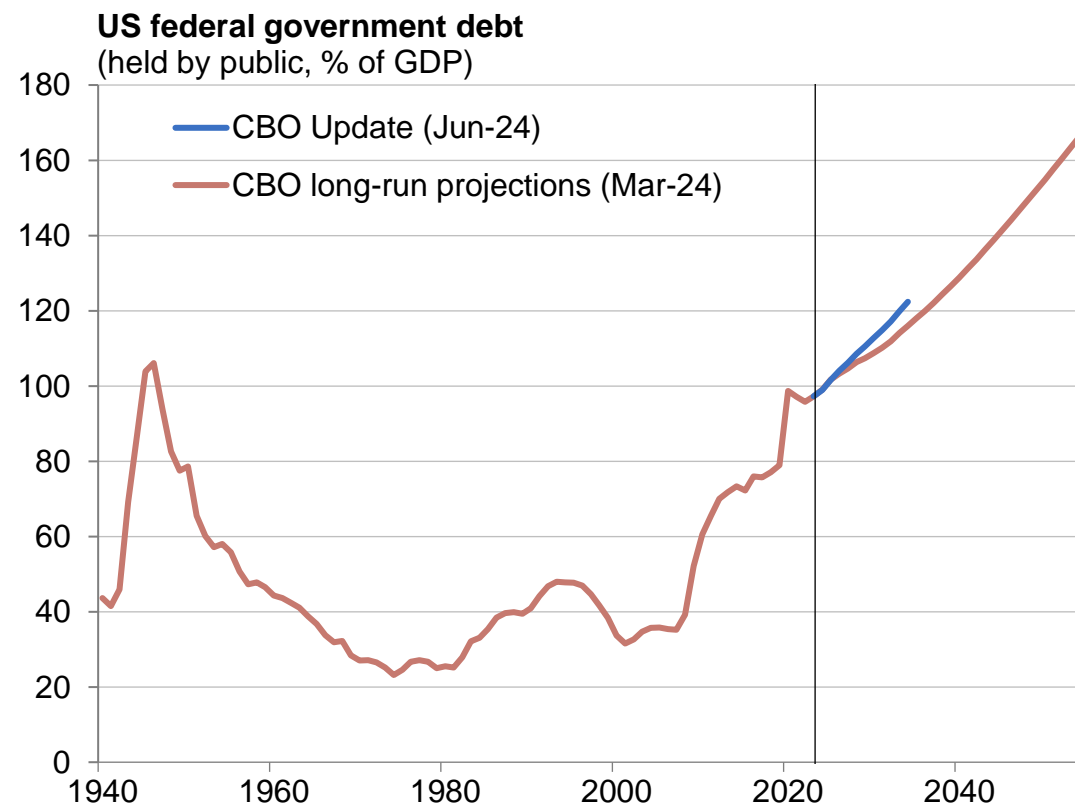
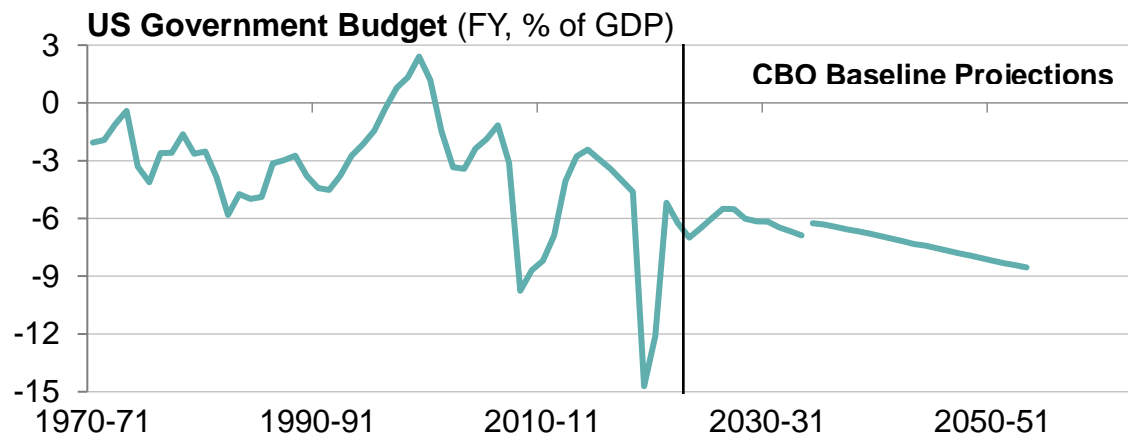


HARRIS

- Higher income tax rates & capital gains tax for high income earners
- Raise the corporate tax rate from 21% to 28%
- Exempt tip income from taxation
- Larger tax credits to support families and low-to-middle income earners
- Increase housing supply by building an additional 3 million new homes over four years
- Federal ban on price gouging
- Expand and make permanent the tax credit enhancements for Affordable Care Act marketplace plans

Long-run fiscal outlook to remain challenging under either party

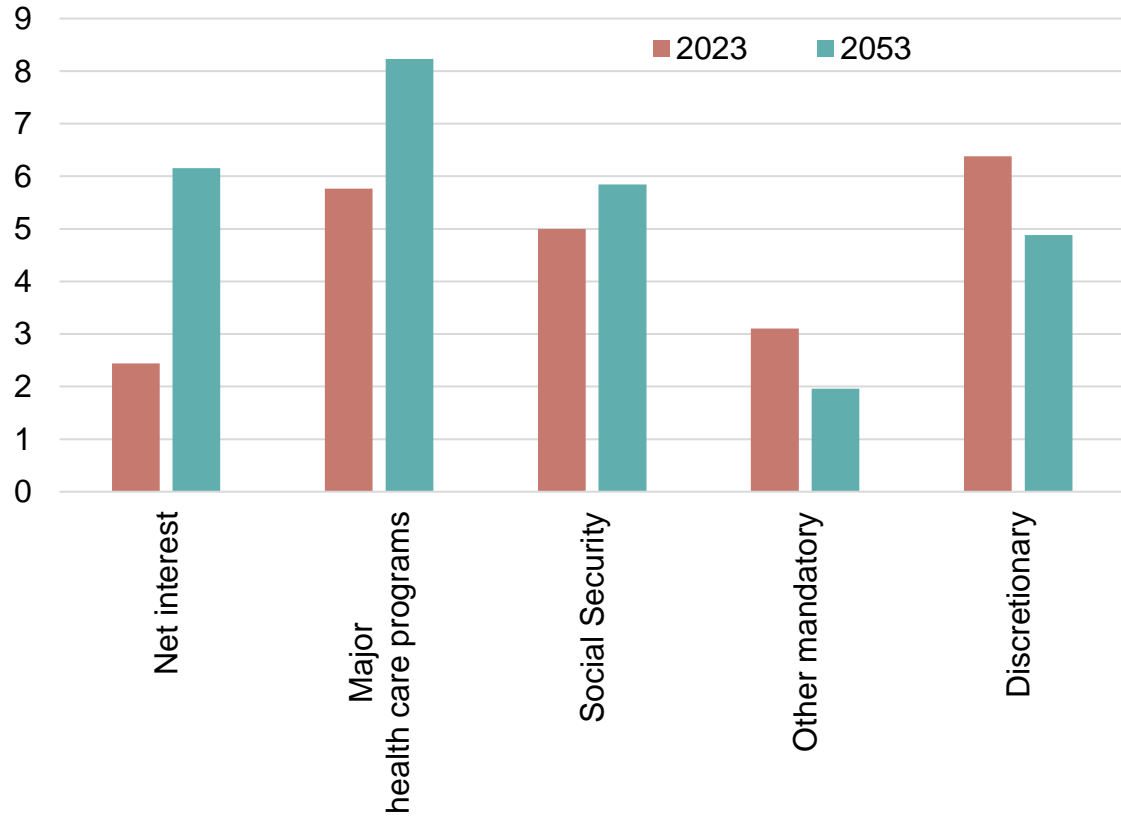
Even under the CBO's baseline projections, which assumes no extensions of Trump's 2017 expiring tax cuts, long-run public finances remain weak



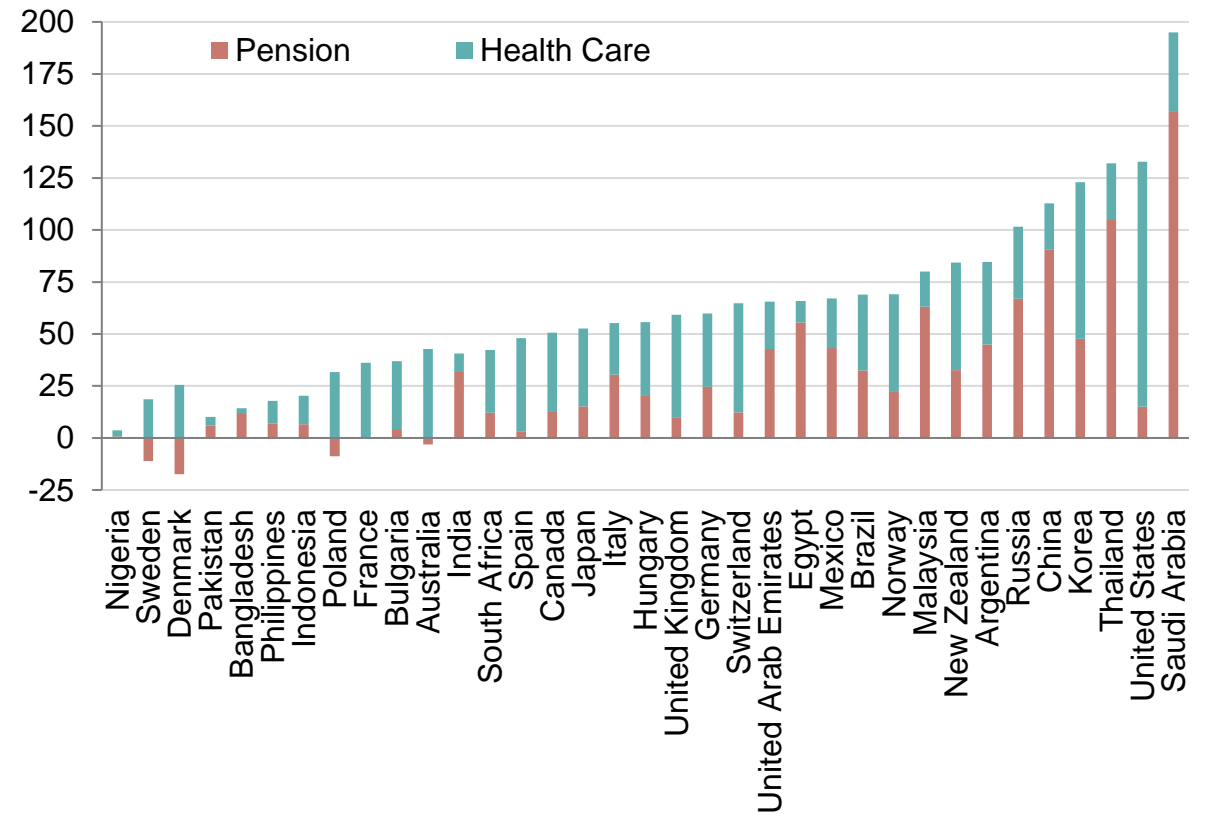
Note: CBO Baseline Projections assume the expiring provisions of Trump's 2017 Tax Cuts and Jobs Act expire at the end of 2025 as currently legislated. This is unlikely under either party, which will result in an even worse deficit and debt outlook. Forecasts for the next 10 years based on the CBO June update, whereas forecasts from 2034-35 from the CBO's long-term outlook in March.

US faces long-term health and pension pressures

US - Government payments
(% of GDP)



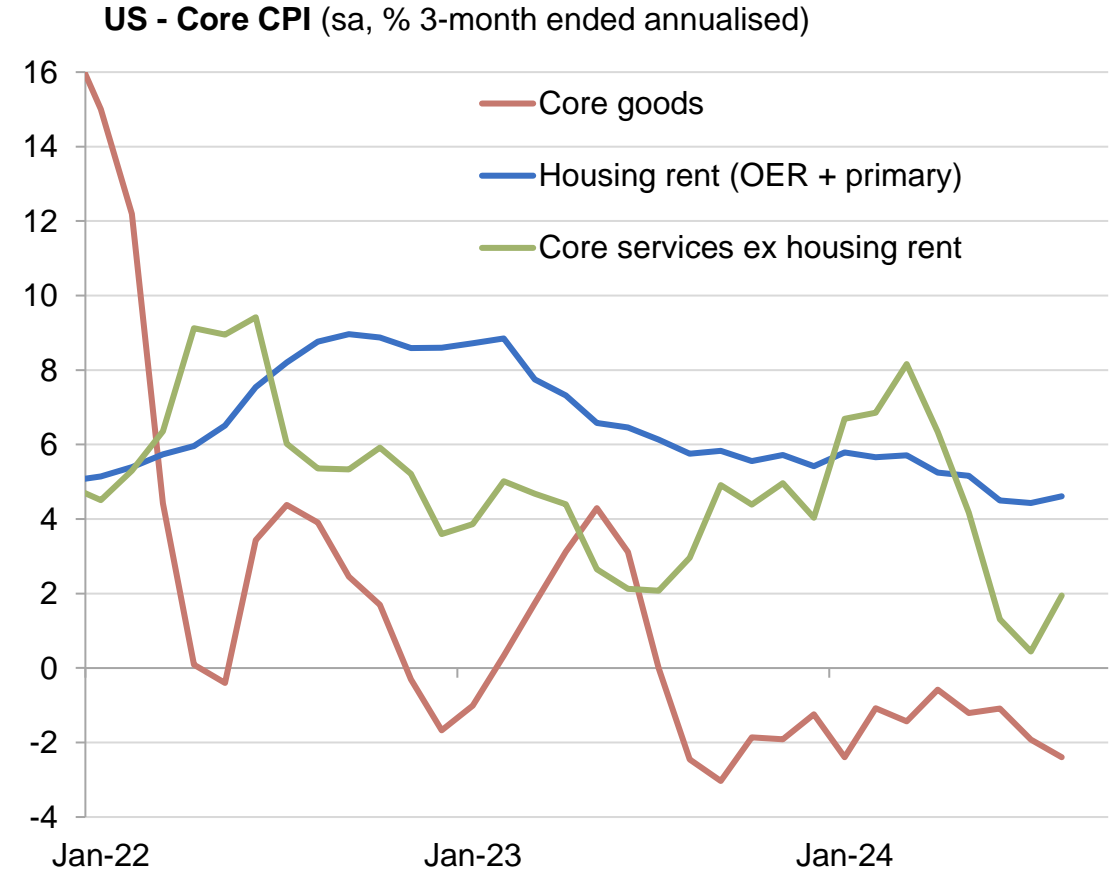
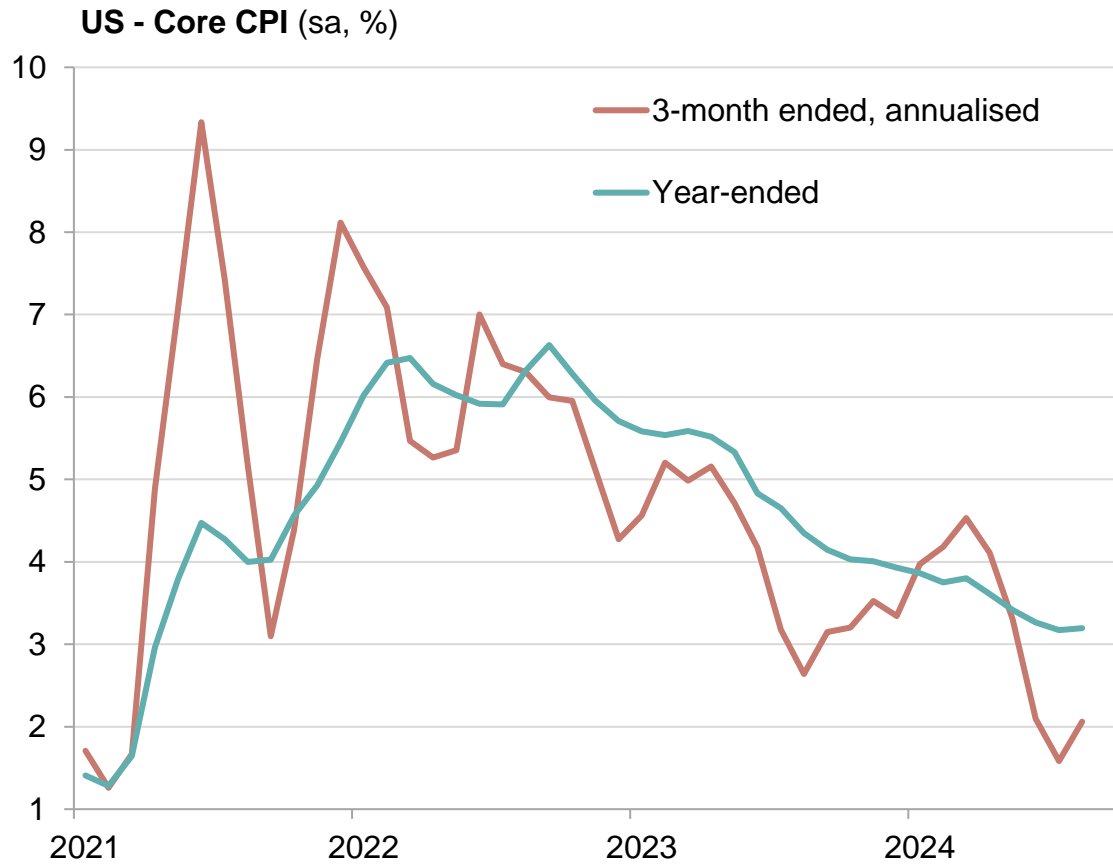
NPV of pension & health care spending change, 2023-50
(% of GDP)



Source: CBO, IMF

Inflation momentum has improved significantly over recent months

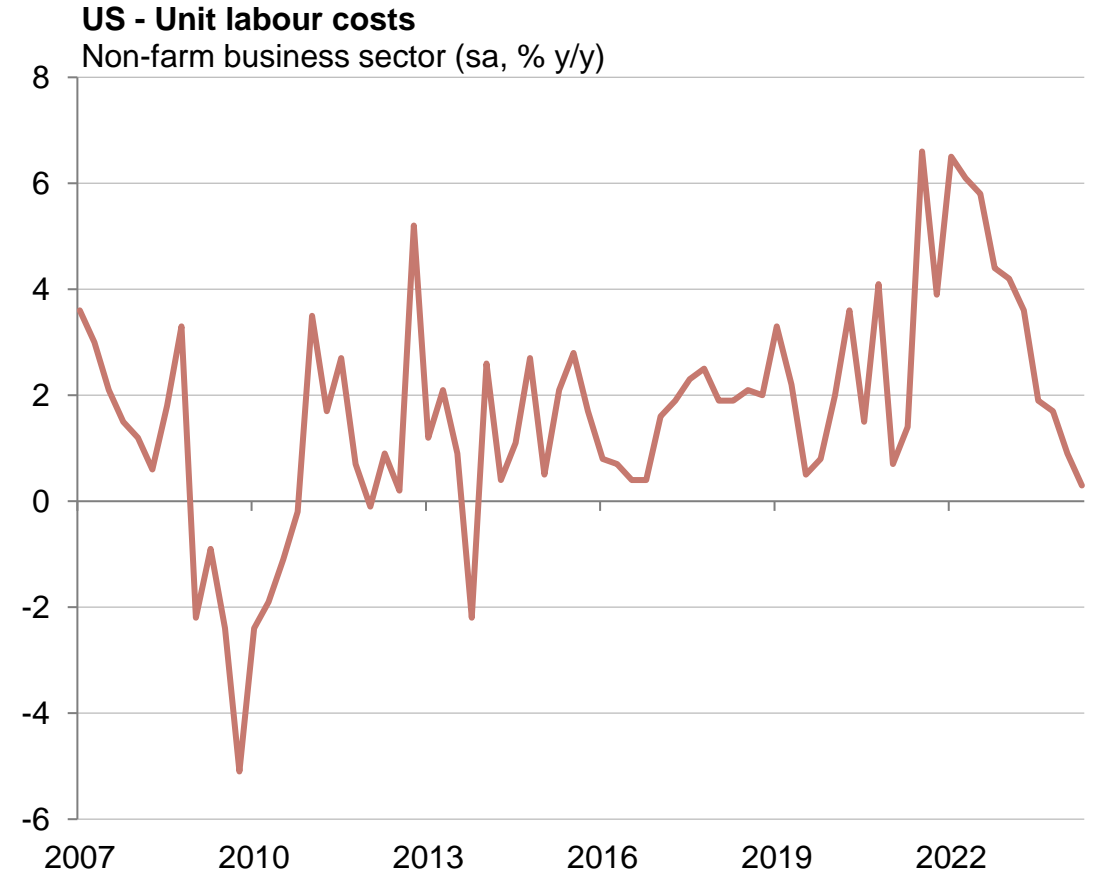
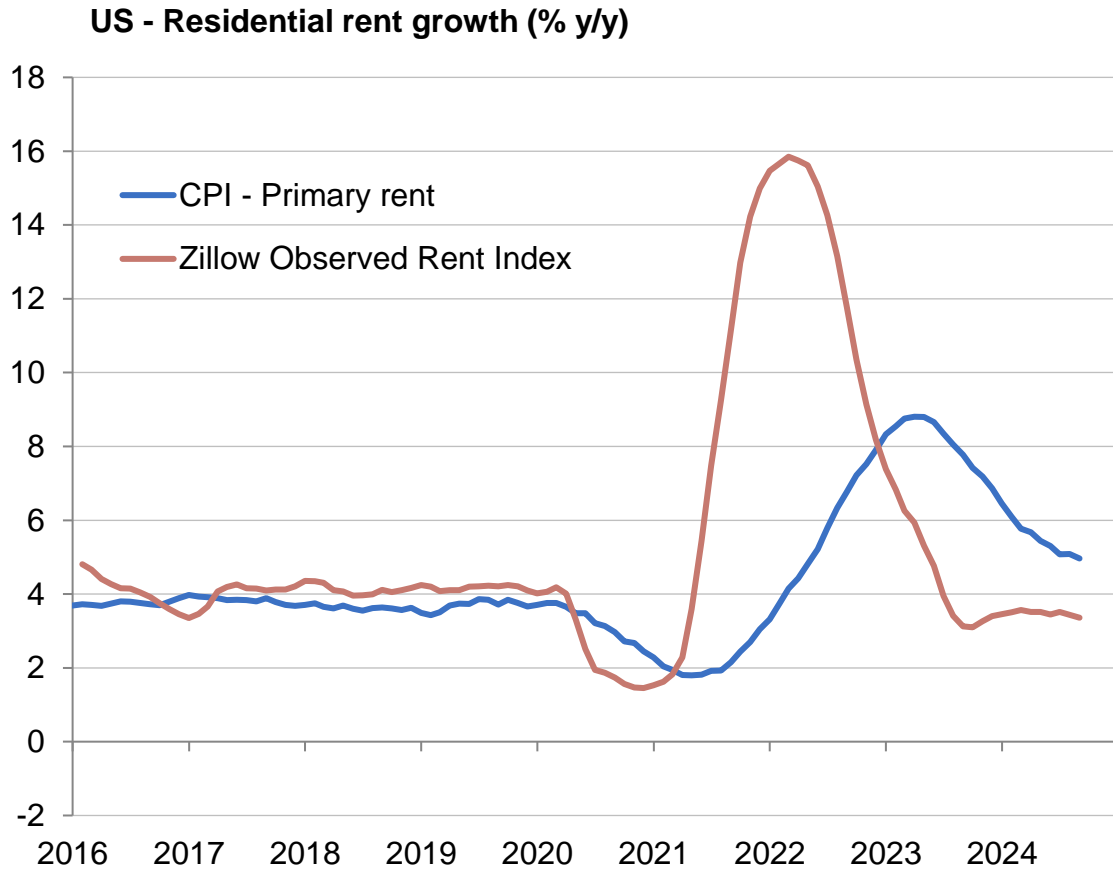
Super-core services inflation has slowed sharply since March, while housing rent gradually trends lower



Source: Refinitiv, QIC

Housing rent should continue to gradually moderate

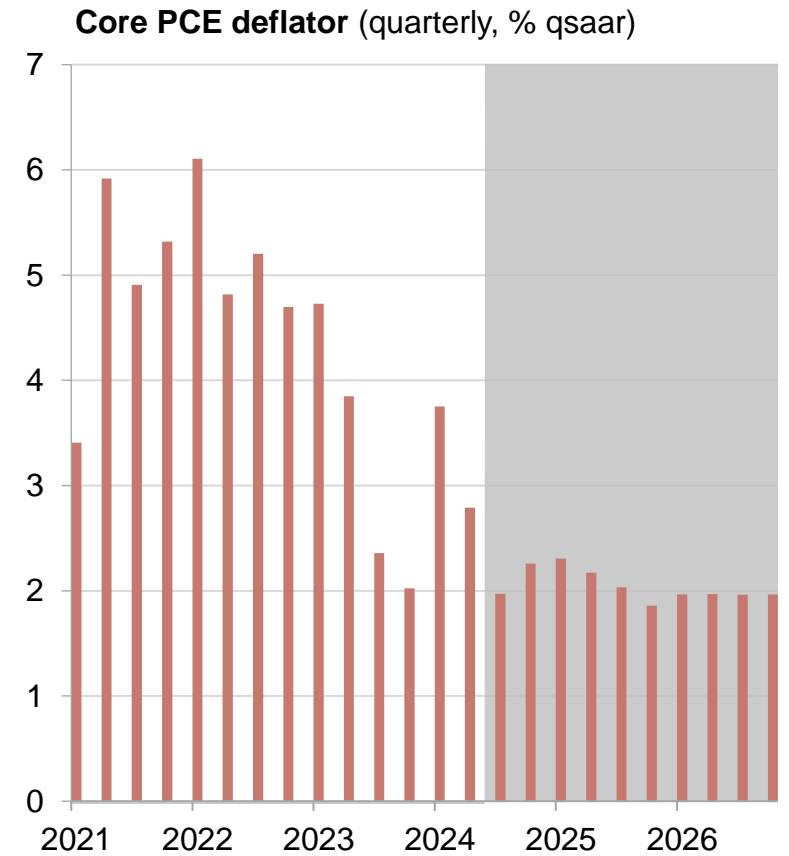
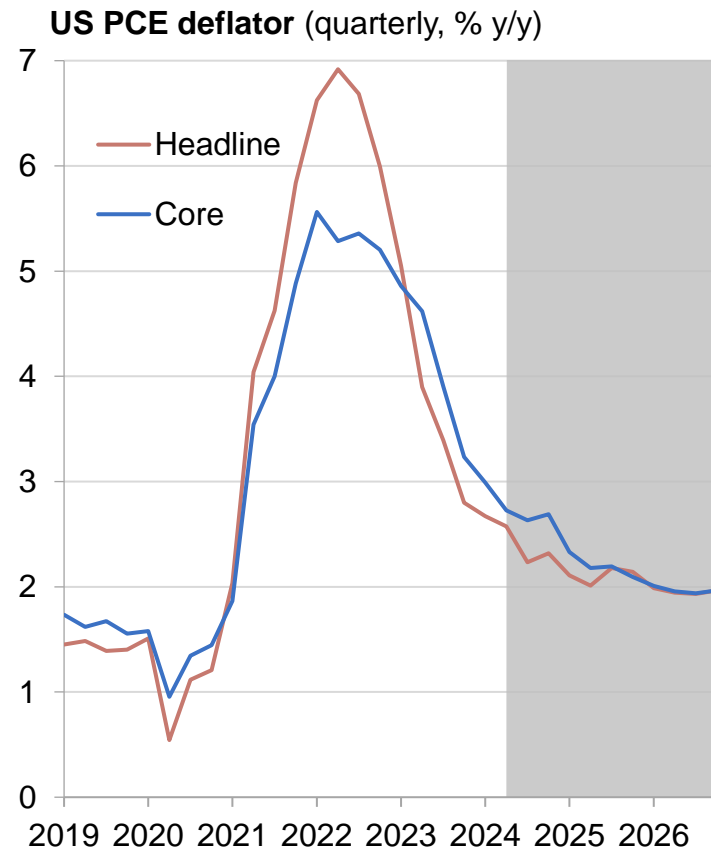
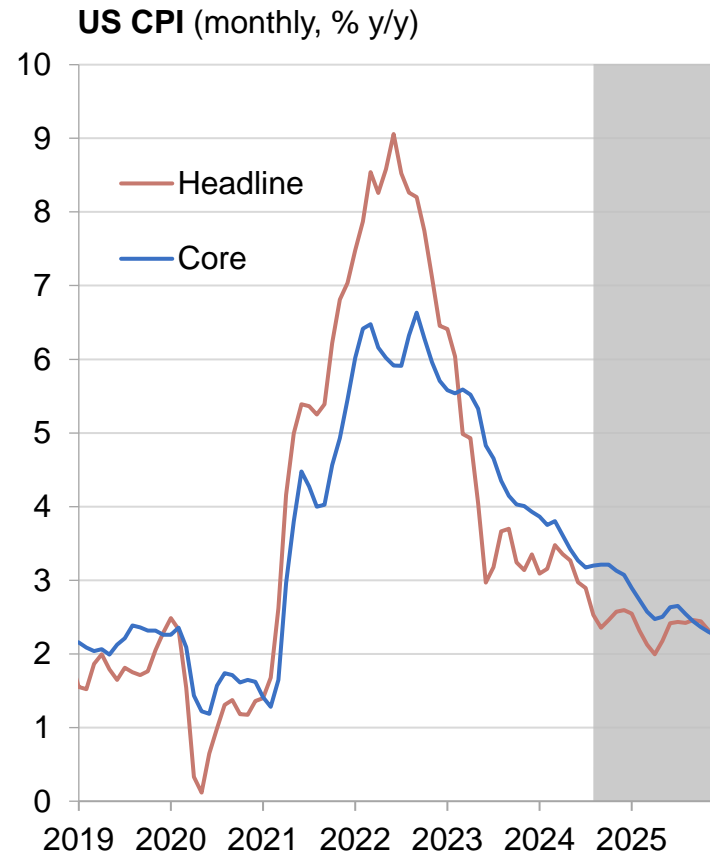
More subdued unit labour costs to underpin benign super-core services inflation



Source: Refinitiv, QIC

Core inflation to fall to rates close to target by late 2025

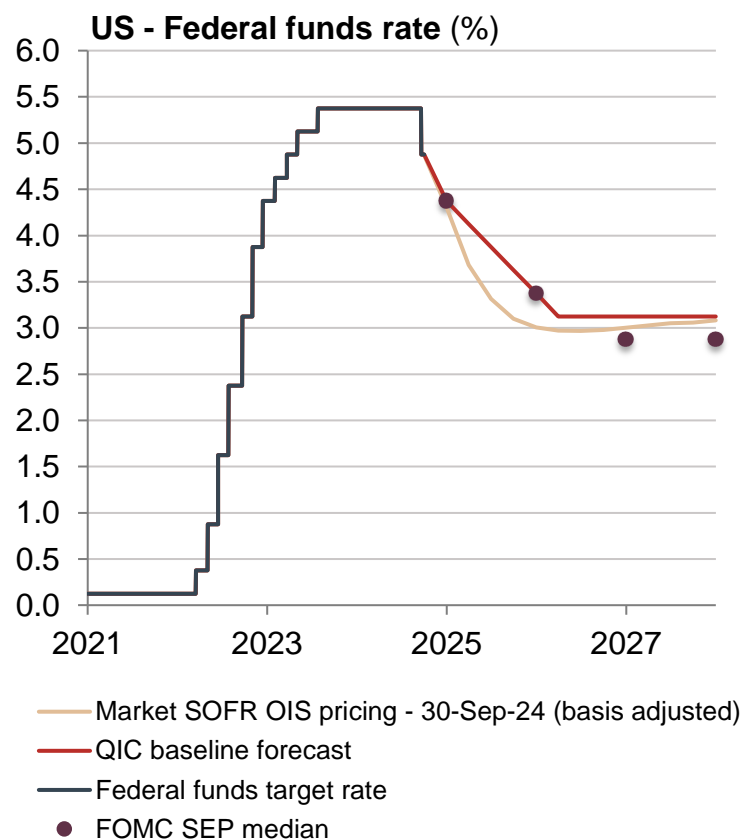
Risks around inflation outlook are becoming more balanced



Note: Grey shading represents QIC forecasts
 Source: Refinitiv, QIC

Ongoing easing cycle by the Fed over the coming year

QIC expect slightly slower rate cuts than current market pricing



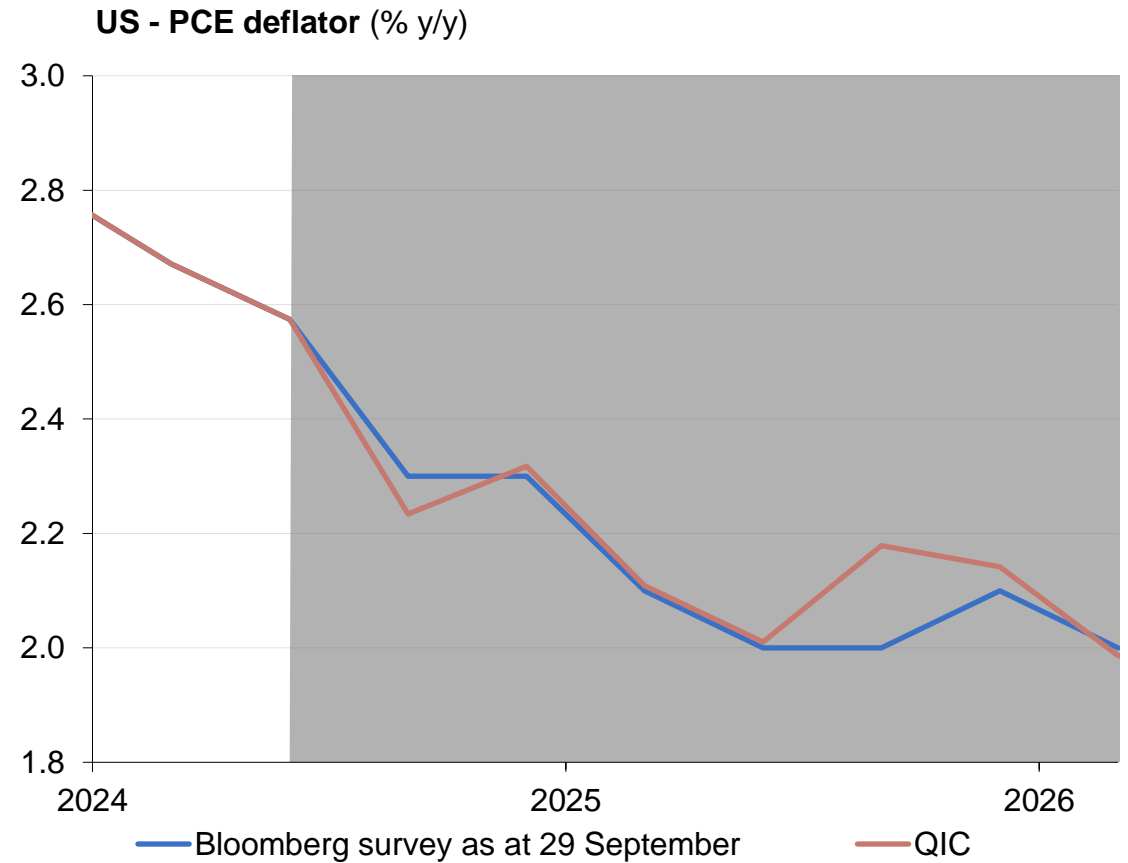
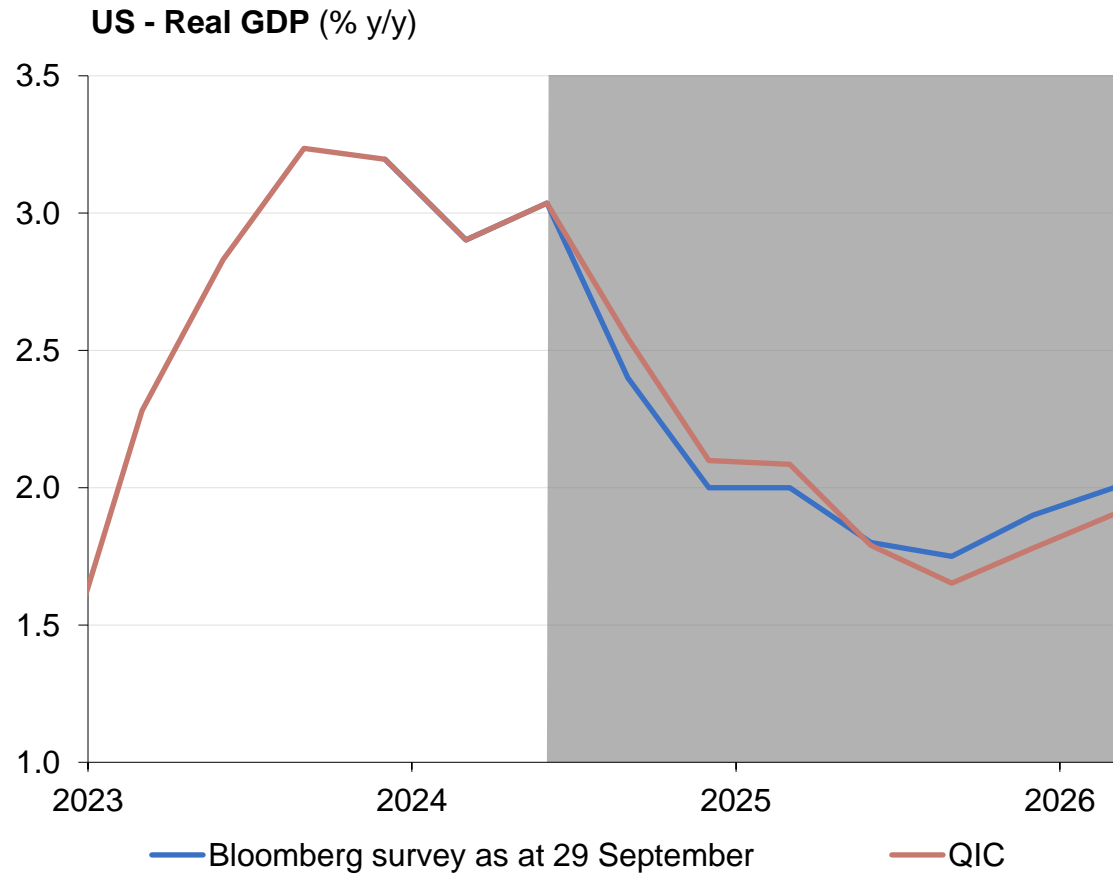
Source: Refinitiv, QIC

FOMC Median Projection vs QIC	2024	2025	2026	2027	Longer run
Real GDP	2.0	2.0	2.0	2.0	1.8
QIC projection	2.1	1.8	2.1	2.0	1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
QIC projection	4.4	4.4	4.3	4.2	4.1
PCE inflation	2.3	2.1	2.0	2.0	2.0
QIC projection	2.3	2.1	2.0	2.0	2.0
Core PCE inflation	2.6	2.2	2.0	2.0	
QIC projection	2.7	2.1	2.0	2.0	2.0
Federal funds rate	4.4	3.4	2.9	2.9	2.9
QIC projection	4.4	3.4	3.1	3.1	3.2

- QIC expects a further 175bps of cuts by the US Federal Reserve over the coming 18 months (50bps in 2024, 100bps in 2025 and 25bps in 2026)
- QIC's forecasts over 2024 and 2025 are in line with the latest FOMC dot plot
- QIC's longer-run view is slightly above the Fed's expectations. The Fed has slowly lifted their long-run neutral view from 2.5% to 2.875% over the past nine months and we expect a further modest increase over the coming year
- QIC rate cut forecasts are slightly slower than current market pricing. However, should the labour market deteriorate more than expected we would expect a swifter rate easing cycle by the Fed.

QIC vs Consensus

No significant difference between QIC and Consensus for the US outlook



Note: Grey shading represents forecasts.

Source: Bloomberg, QIC

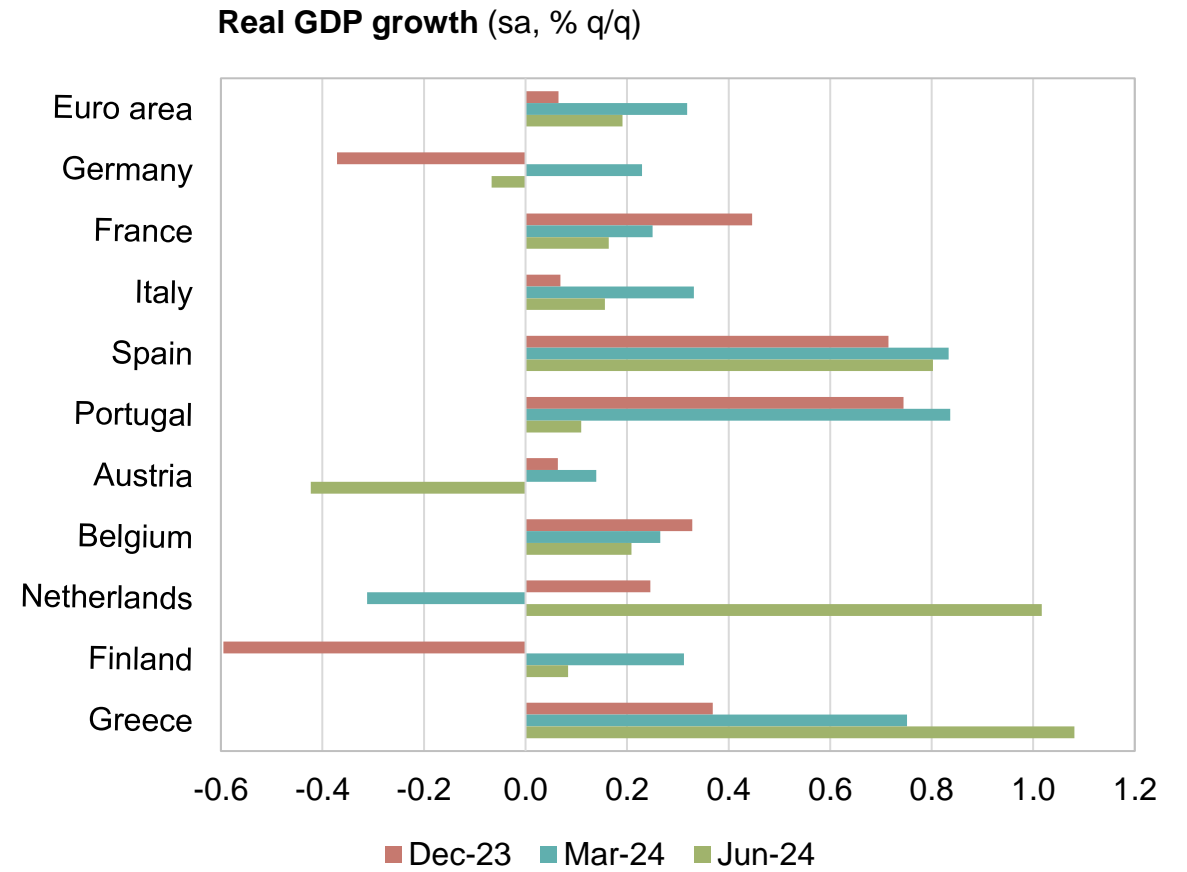
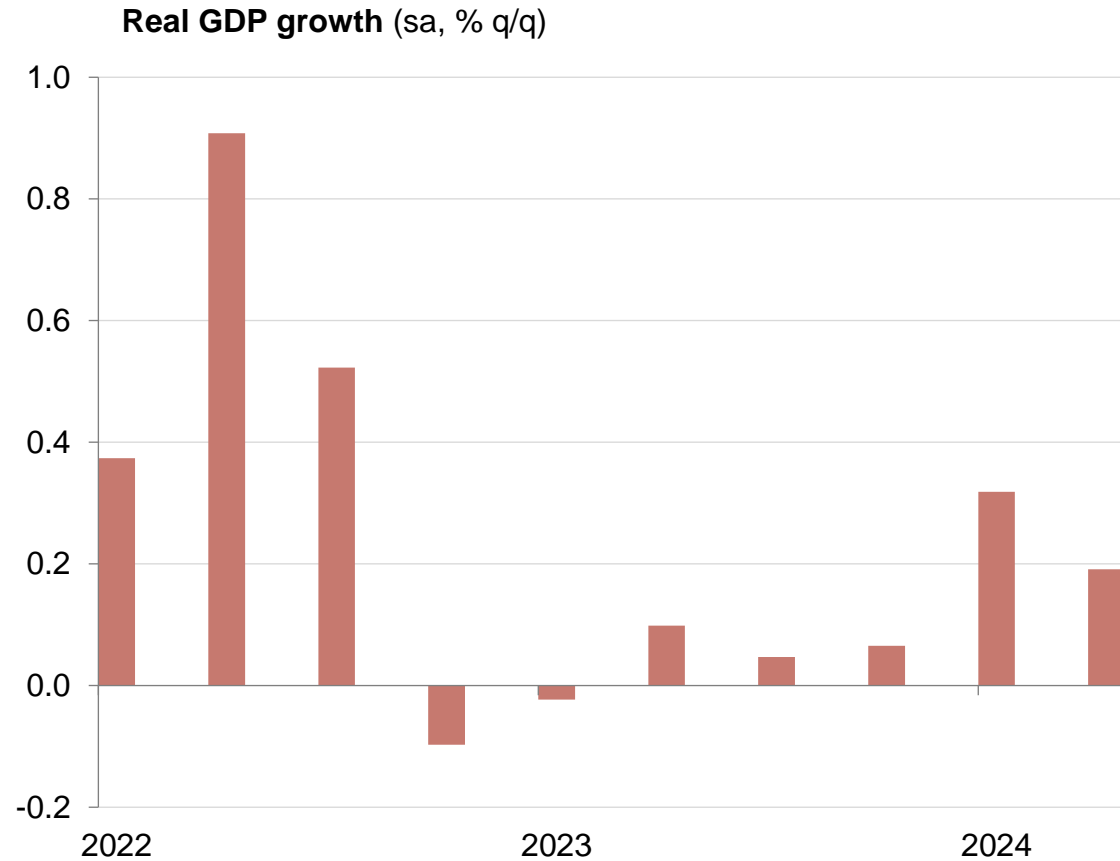
QIC

Euro Area Economic Outlook

SEPTEMBER 2024

Gradual recovery is underway in the euro area

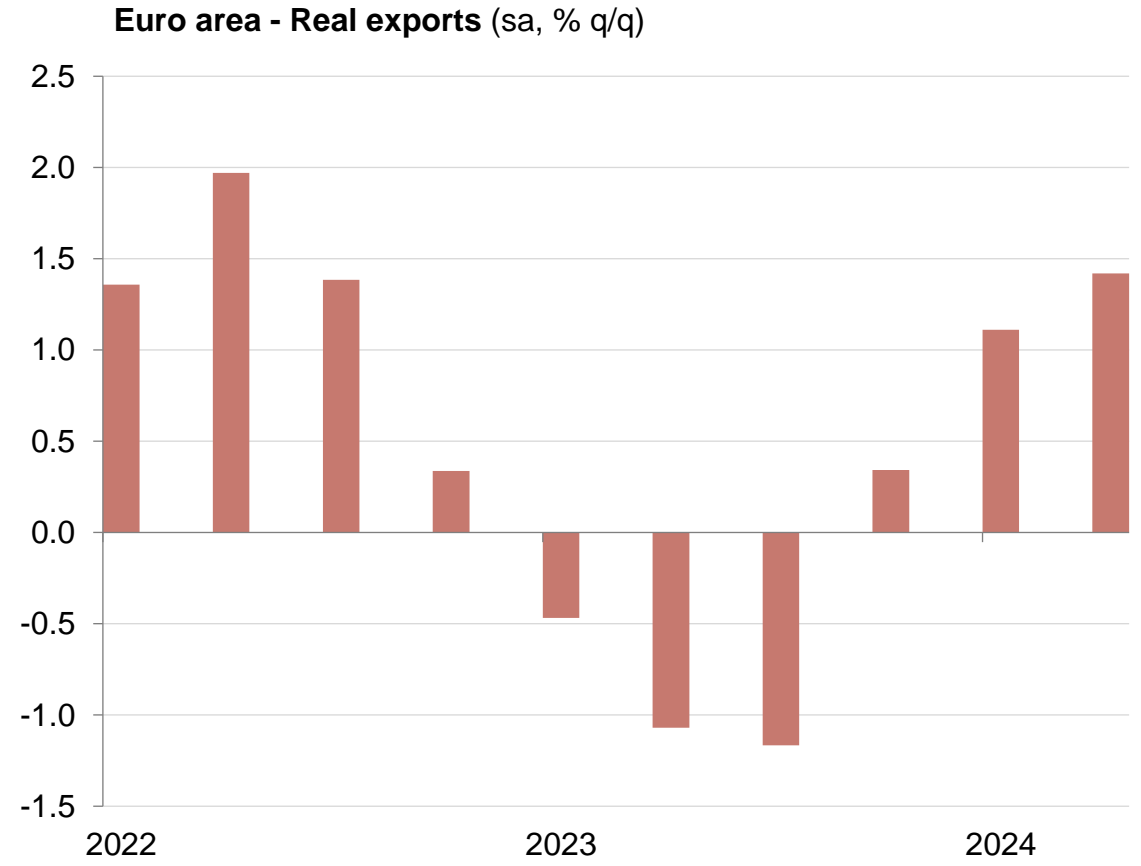
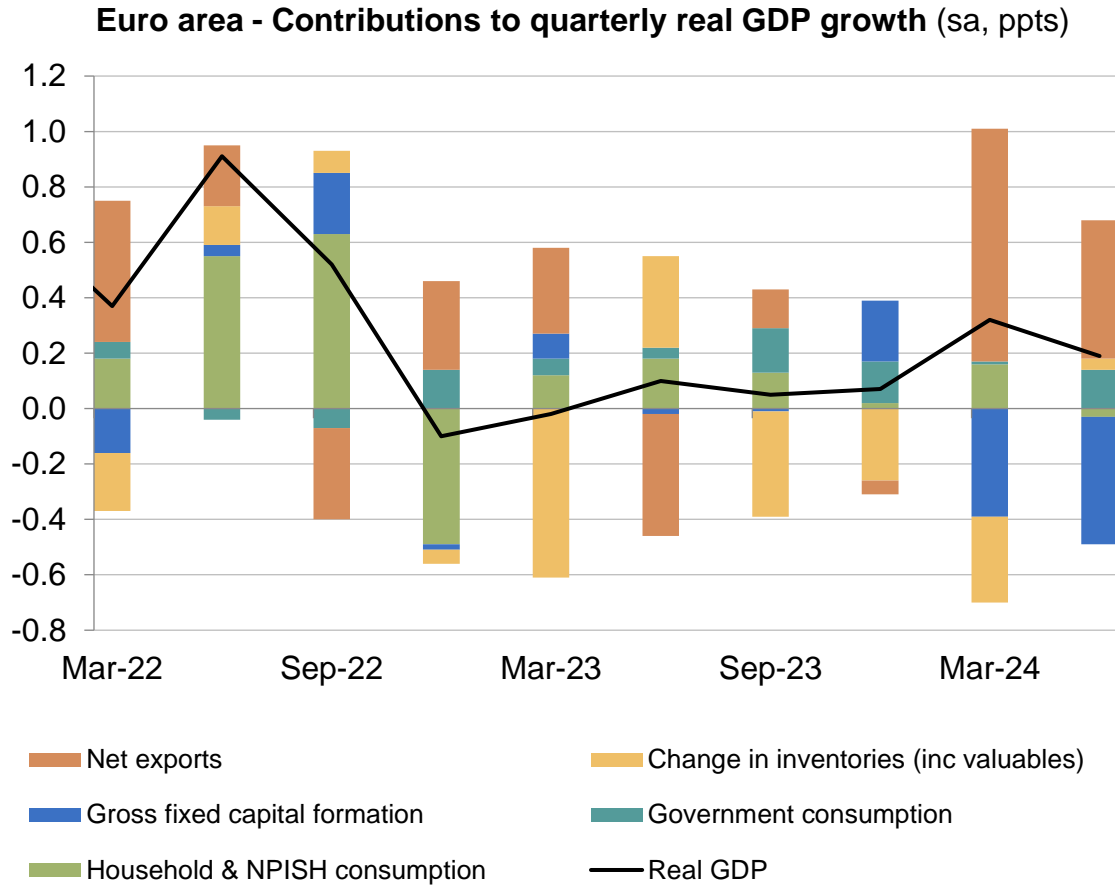
However, conditions remain uneven with the German economy continuing to struggle



Source: Refinitiv, QIC

Recovery remains fragile, so far underpinned largely by stronger external demand

Tight monetary policy and political uncertainty have been constraining investment, while consumer spending has been slow to pick-up

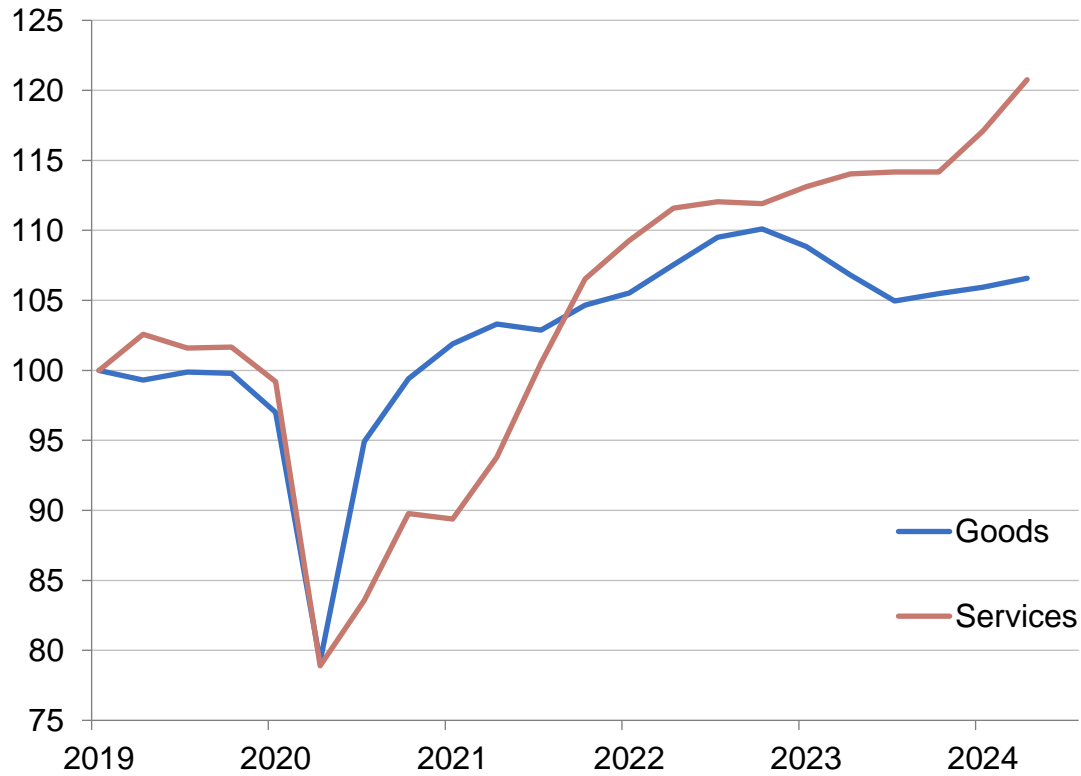


Source: Refinitiv, QIC

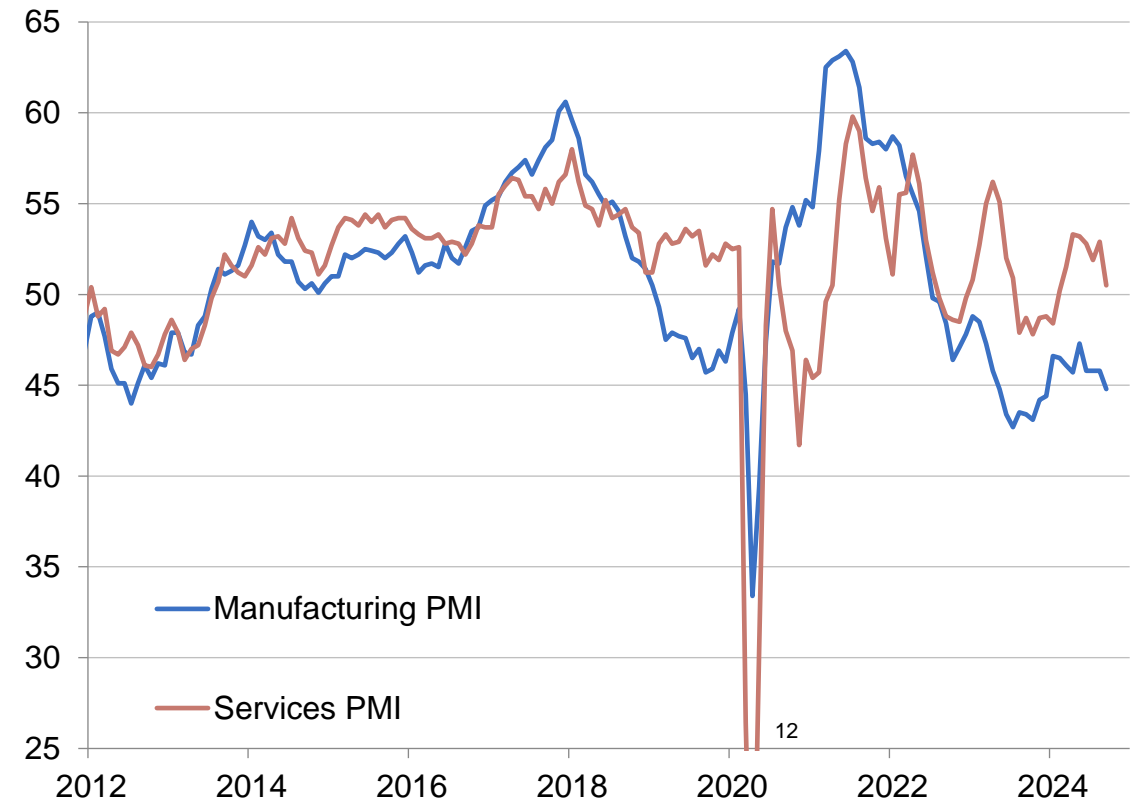
Recovery in exports has been led by services, with manufacturing sector remaining sluggish

Recent business surveys point to loss of momentum during the September quarter

Euro area - Real exports (Q1 2019 = 100)



Euro area - PMI surveys

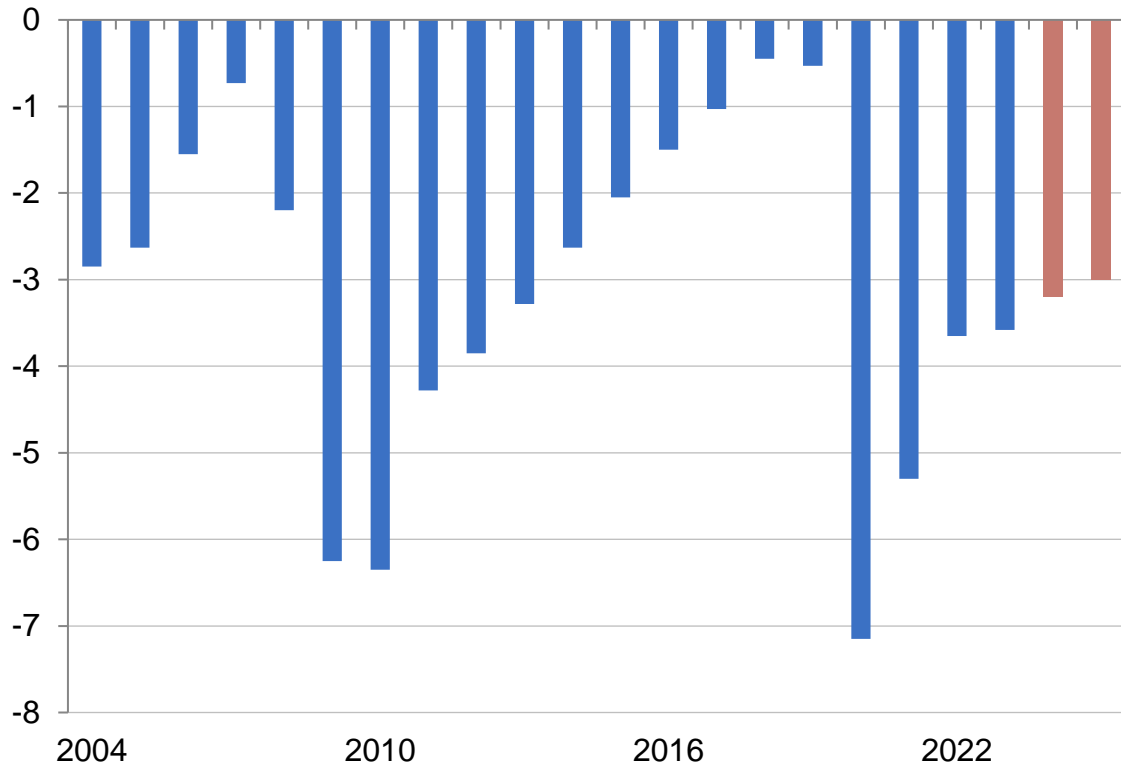


Source: Refinitiv, QIC

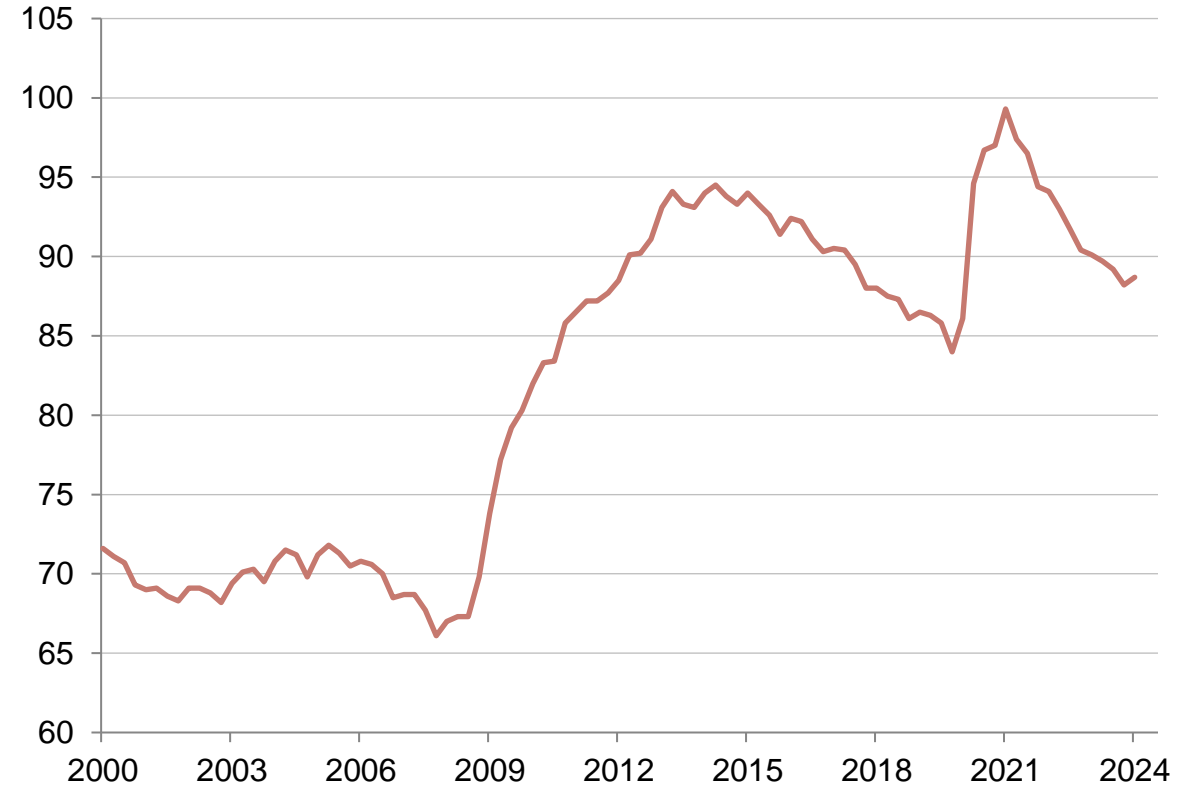
Fiscal policy to be a modest drag on growth

New fiscal rules to keep debt levels on a downward trajectory

Euro area - Budget balance (% of GDP)



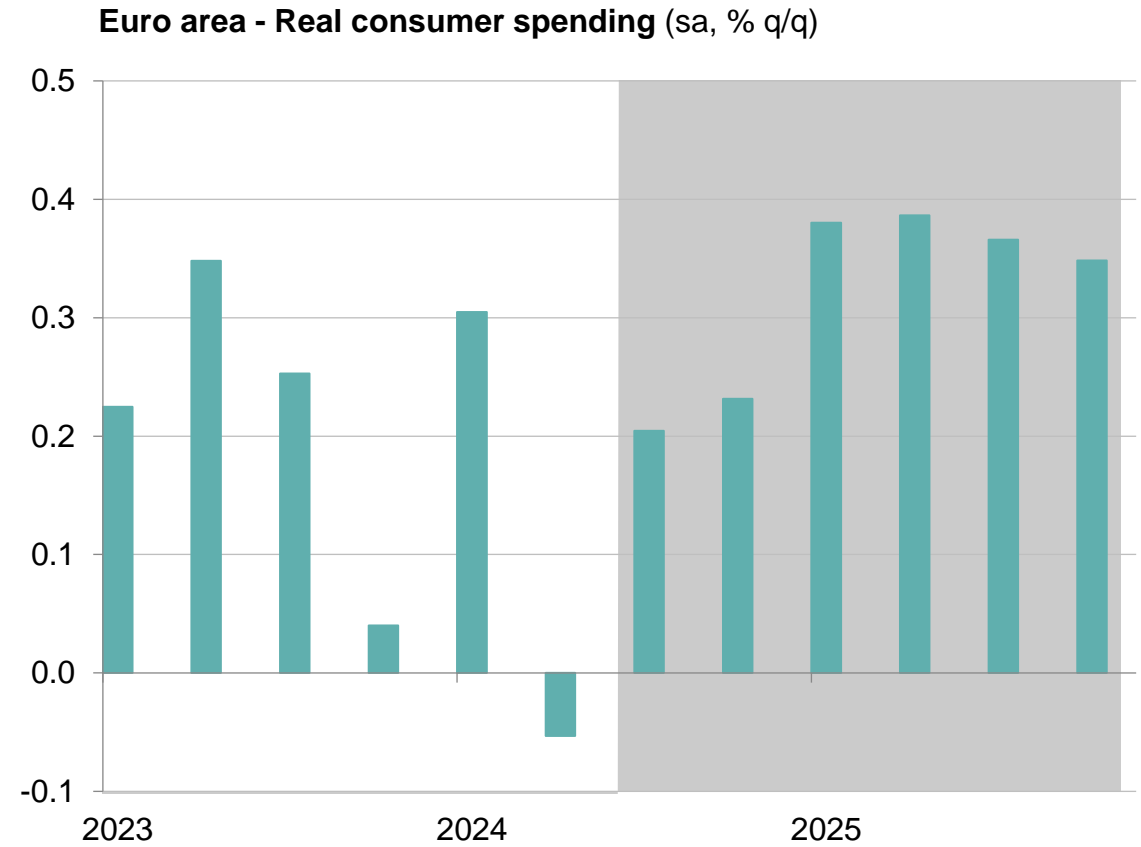
Euro area - General government debt (% of GDP)



Source: Refinitiv

Improved prospects for consumer spending to drive the economic recovery in 2025

Consumer sentiment continues to recover and is closing in on long-run average levels



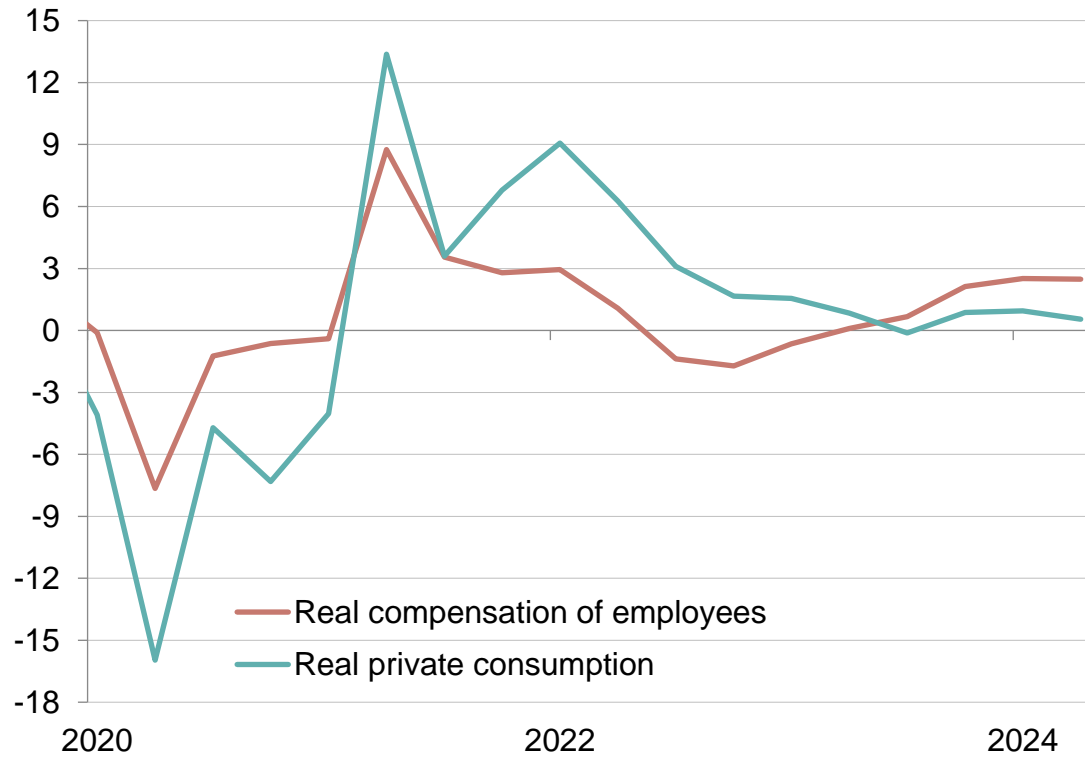
Note: Grey shading represents QIC forecasts

Source: Refinitiv, QIC

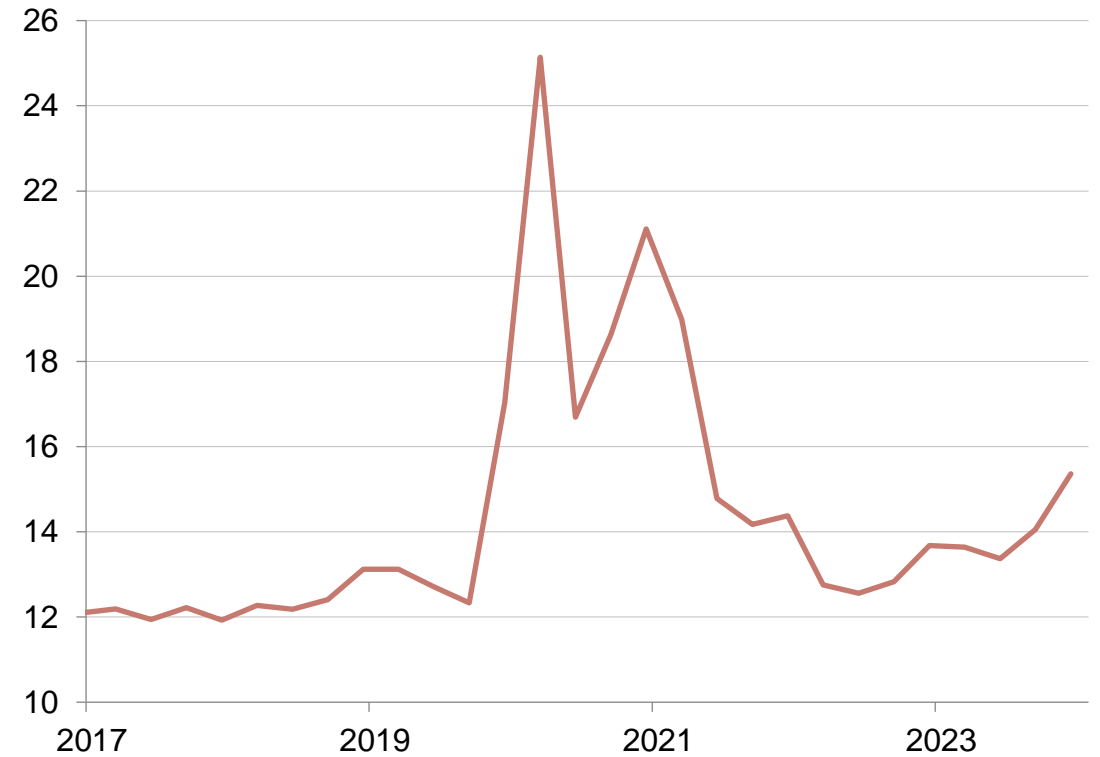
Higher consumer spending to be underpinned by improved real household incomes

Consumers have initially saved the additional income, but should gradually lift spending in coming quarters

Euro area - Household real income and consumption (% y/y)

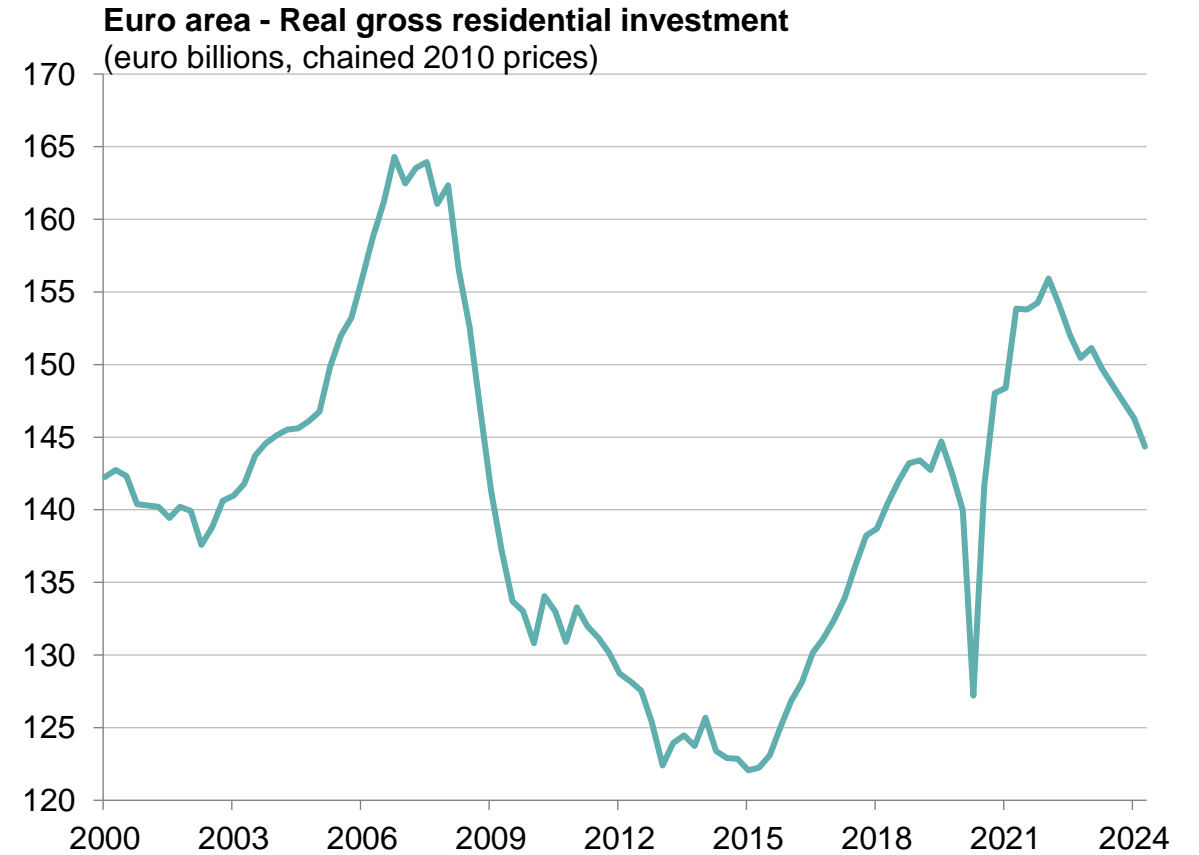
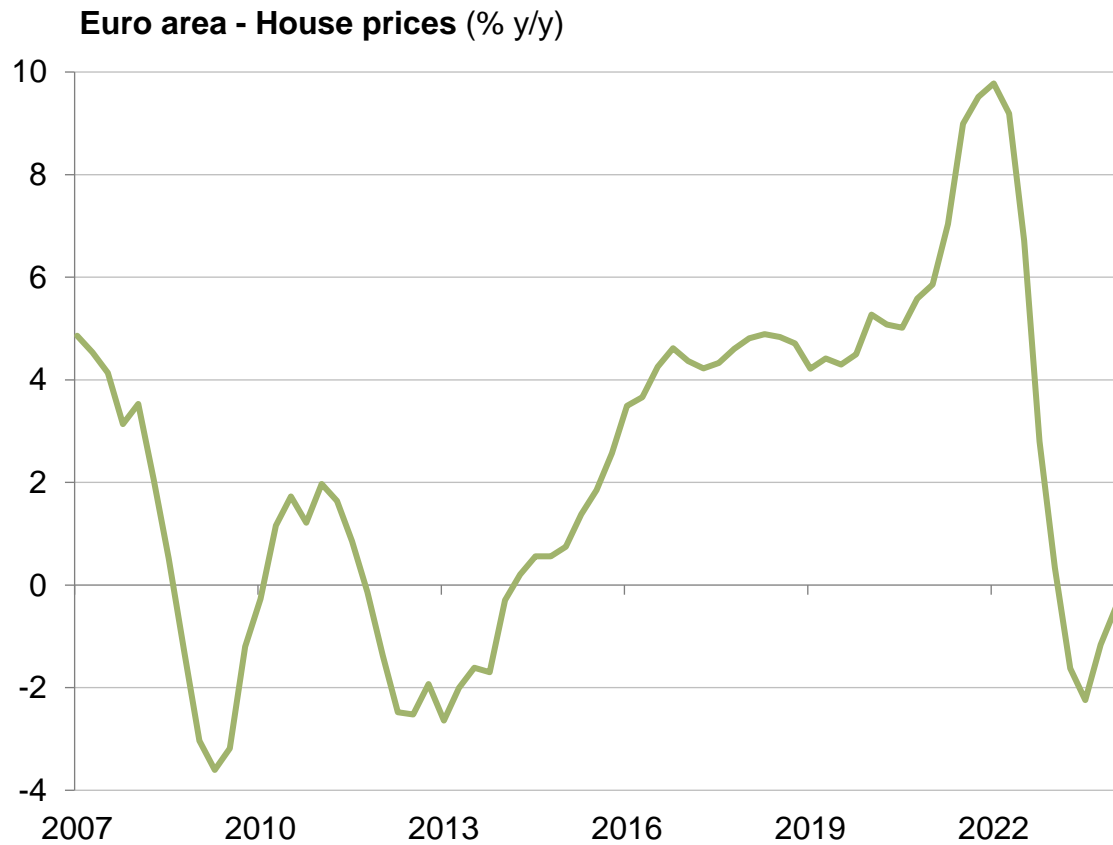


Euro area - Gross household savings rate (%)



Falling house prices and dwelling investment have weighed on the economy though 2023 & H1 2024

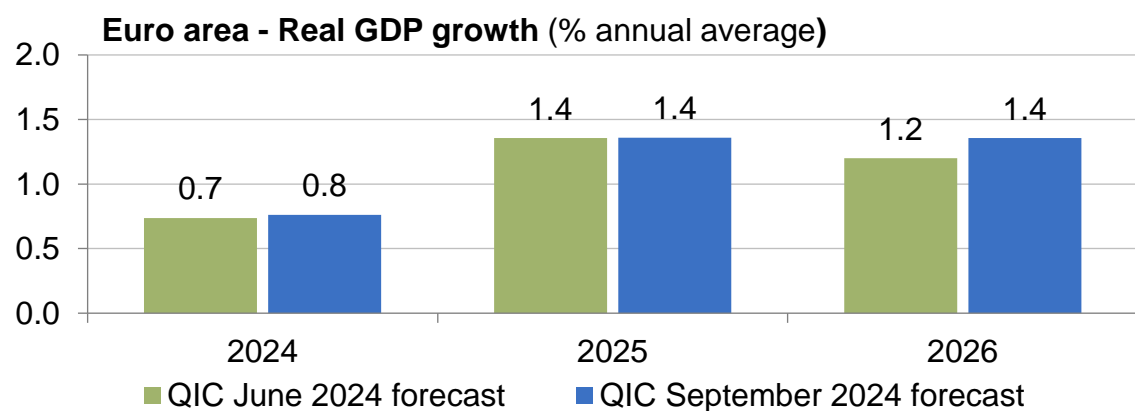
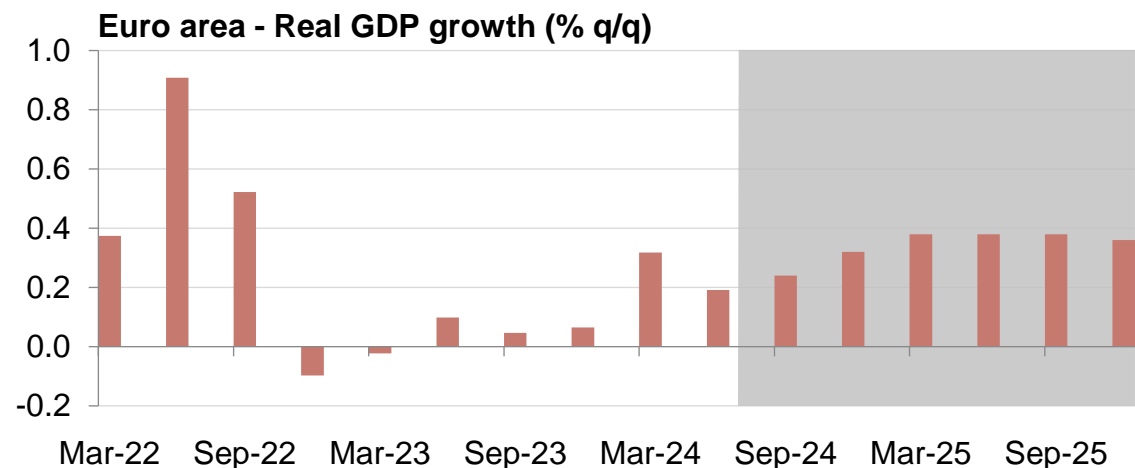
Housing market to remain weak in H2 2024, but should improve in 2025 as rate cuts flow through



Source: Refinitiv, QIC

Euro area economic recovery to gather pace in 2025

Little change to QIC’s forecasts since June, with the economy tracking broadly in-line with our expectations



Note: Grey shading represents QIC forecasts

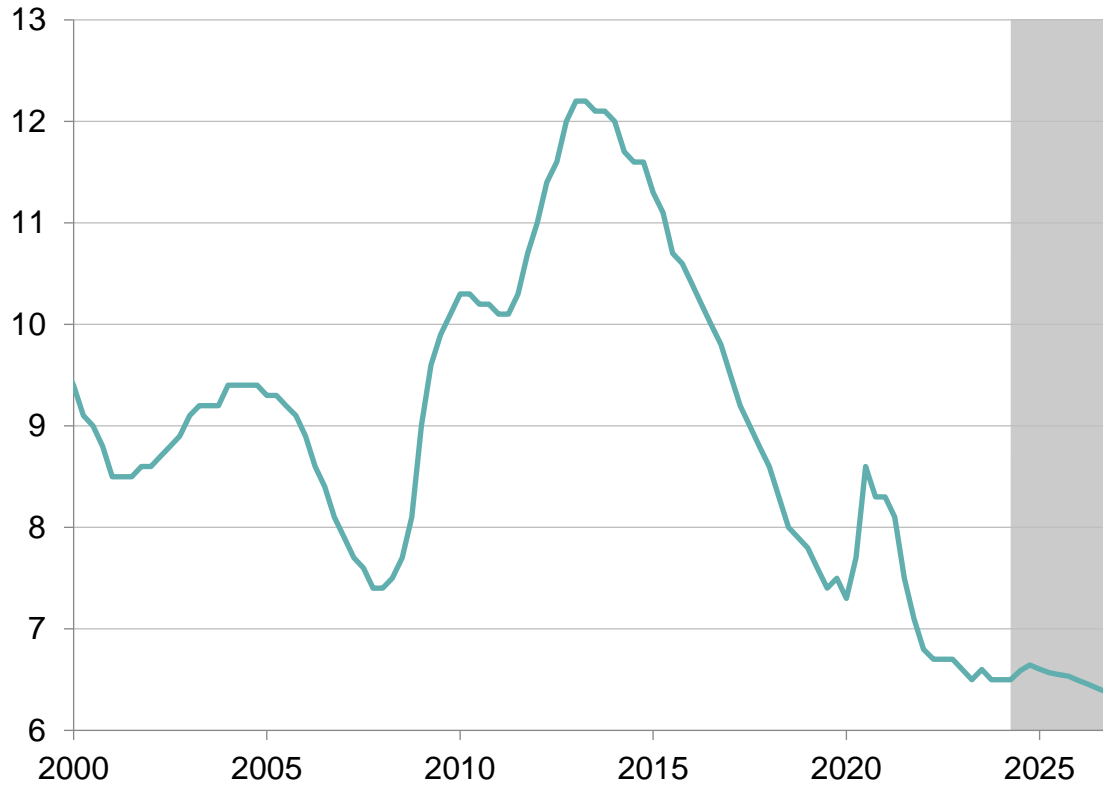
Source: Refinitiv, QIC

QIC Forecasts (% annual average)	2023	2024	2025	2026
Real GDP	0.5	0.8	1.4	1.4
Household consumption	0.8	0.7	1.2	1.2
Government consumption	1.2	1.6	0.9	1.2
Gross fixed capital formation	1.1	-2.4	1.1	1.6
Change in stocks (ppt contribution)	-0.5	-0.6	0.0	0.0
Net exports (ppt contribution)	0.1	1.2	0.3	0.1
Exports	-0.4	2.2	3.3	2.9
Imports	-0.7	-0.1	3.1	3.0
Residual (ppt contribution)	0.0	0.0	0.0	0.0

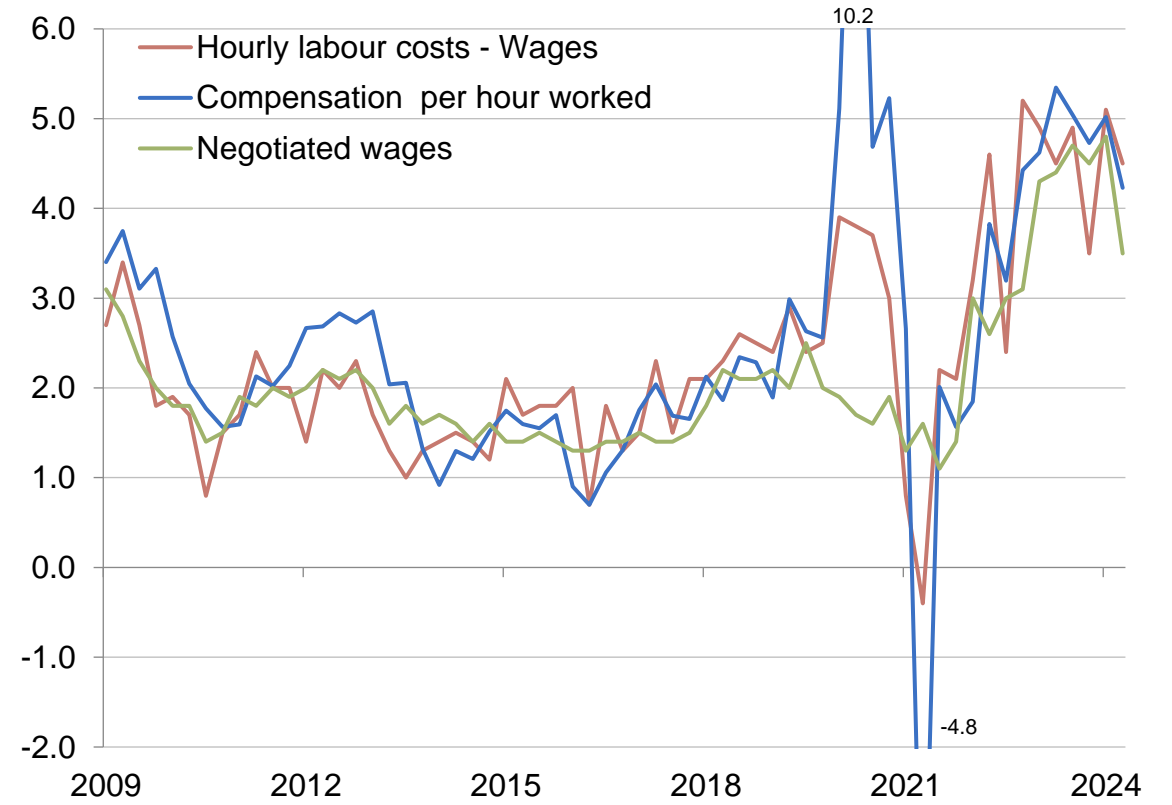
Labour market conditions remain solid across the region

Underlying wage growth to gradually ease over coming year

Euro area - Unemployment rate (%)



Euro area - Wage growth measures (% y/y)

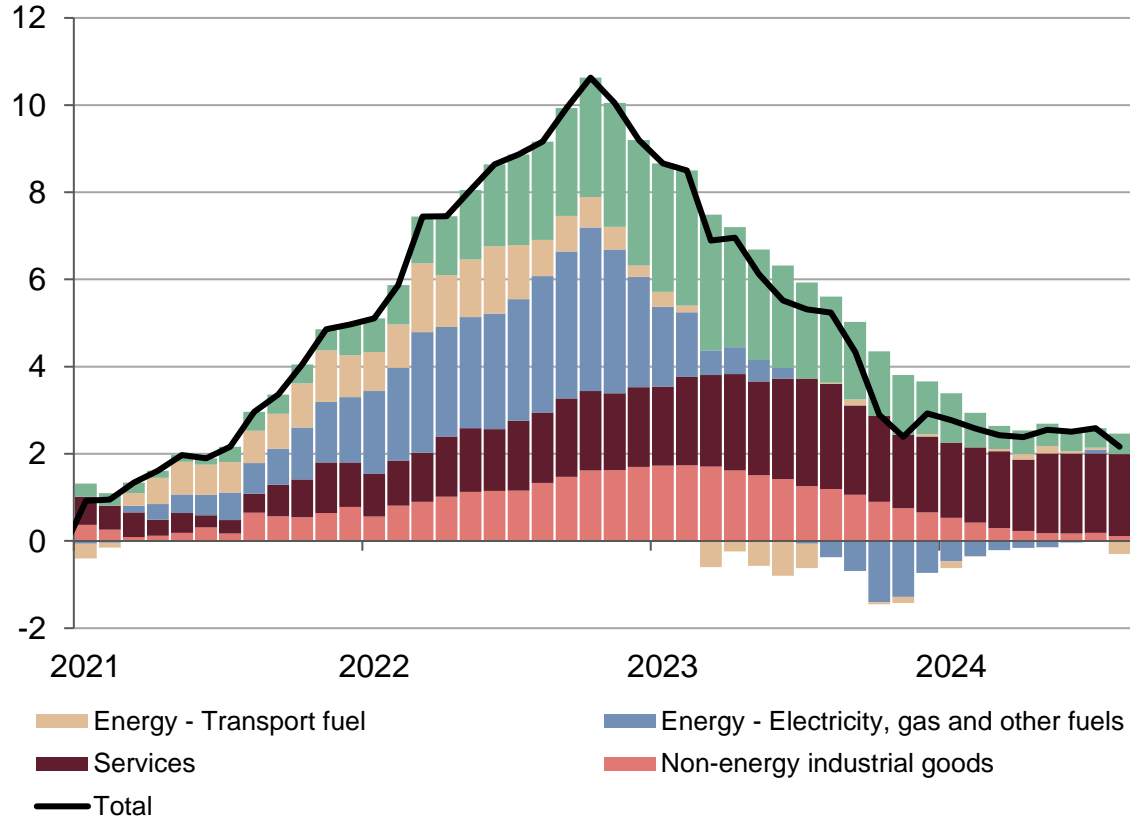


Note: Grey shading represents QIC forecasts
Source: Refinitiv, QIC

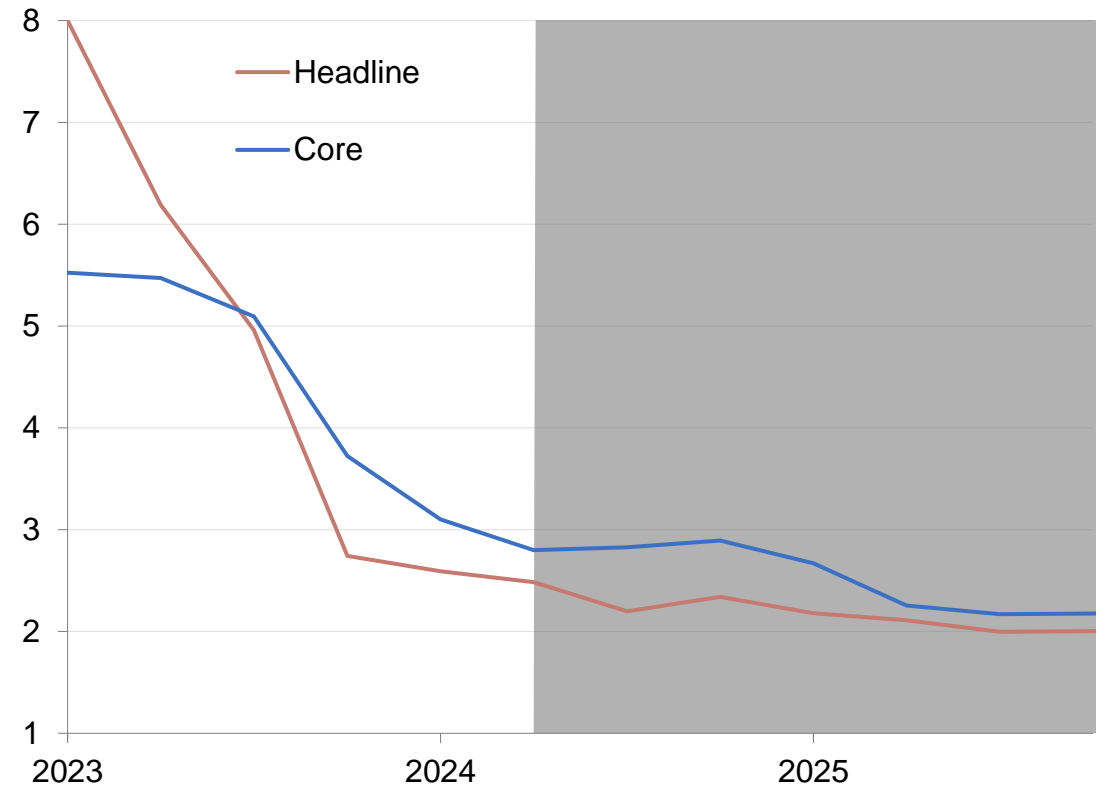
Substantial progress has been made on the inflation front

Although core services inflation will be slow to abate, inflation is on-track to fall sustainably to target by late 2025

Euro area - Inflation (% , contributions to year-ended inflation)



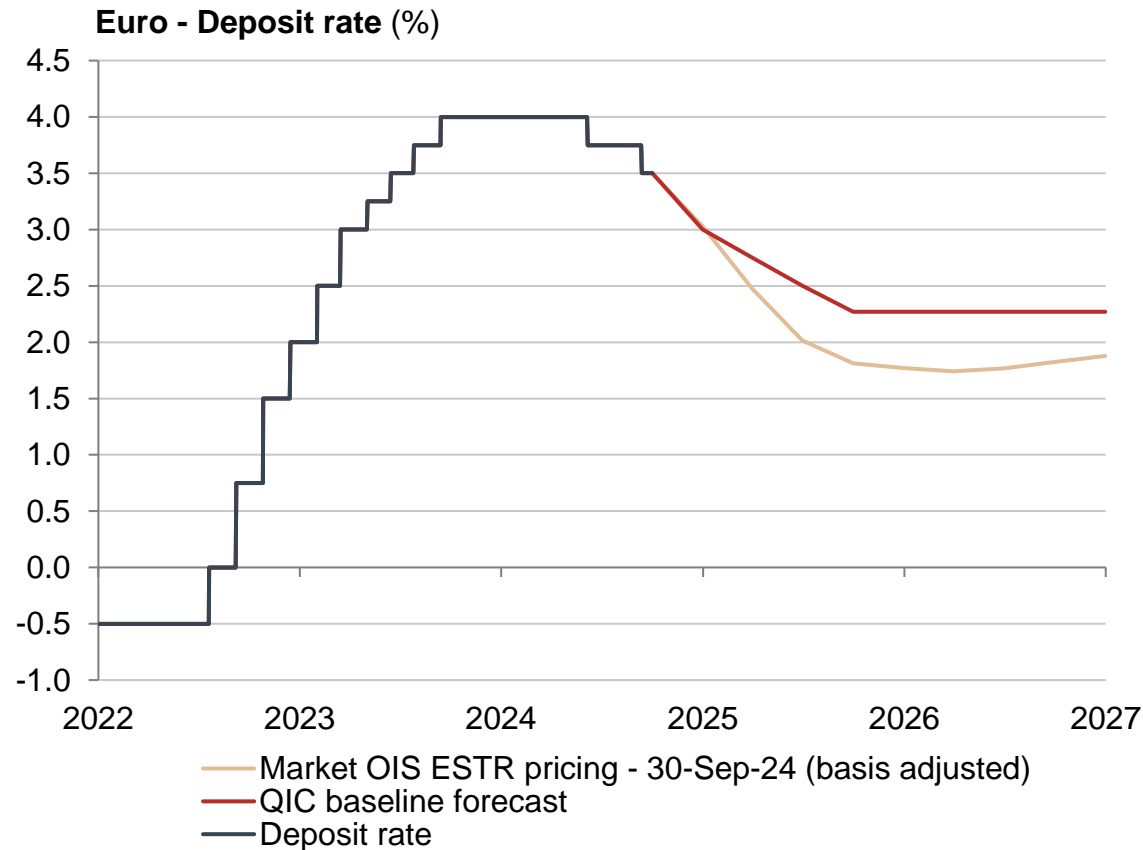
Euro area - Inflation (quarterly, % y/y)



Note: Grey shading represents QIC forecasts
Source: Eurostat, Refinitiv, QIC

Gradual monetary policy easing cycle to continue in Q4 2024 and 2025

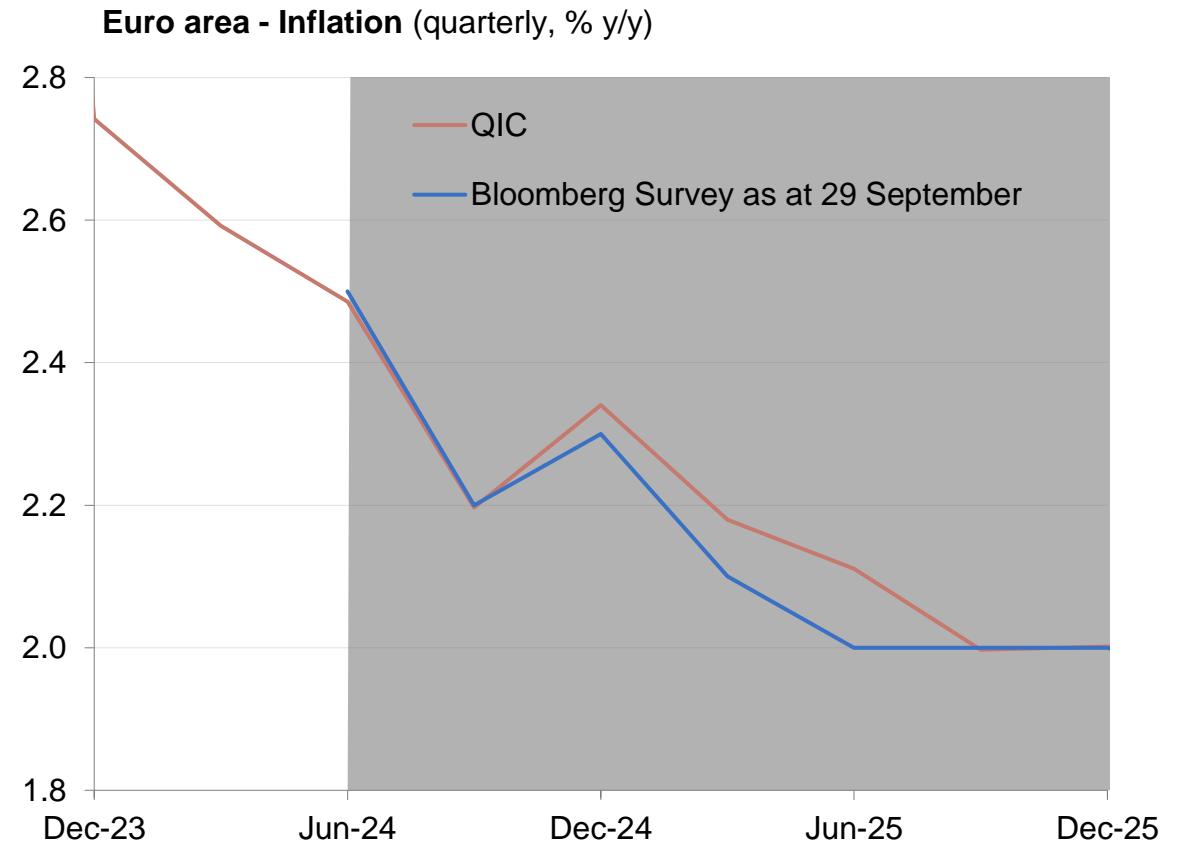
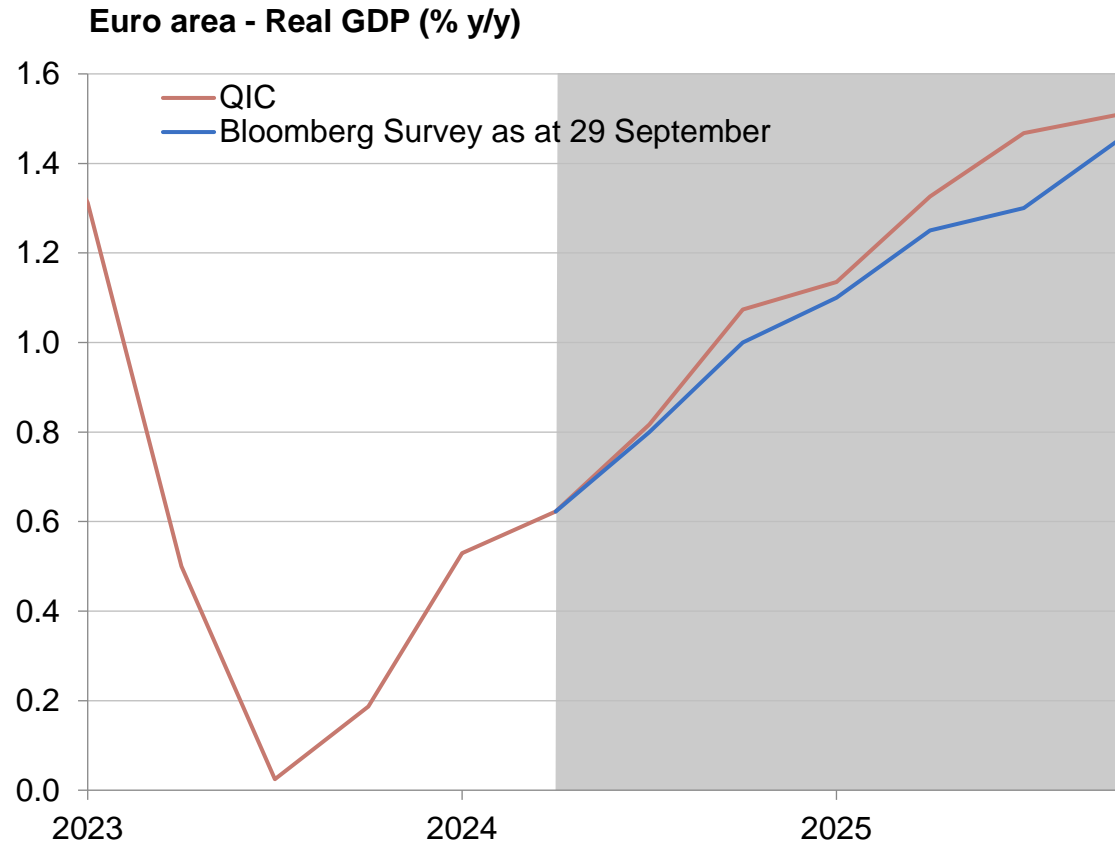
QIC expects the ECB to cut a further 50bps in 2024, with a further 75bps in 2025



QIC vs ECB forecasts (% annual average)	2023	2024	2025	2026
Real GDP				
QIC	0.5	0.8	1.4	1.4
ECB staff	0.5	0.8	1.3	1.5
HICP				
QIC	5.4	2.4	2.1	2.0
ECB staff	5.4	2.5	2.2	1.9
Core HICP				
QIC	4.9	2.9	2.3	2.0
ECB staff	4.9	2.9	2.3	2.0

QIC vs Consensus

QIC has modestly stronger growth and higher inflation than Consensus



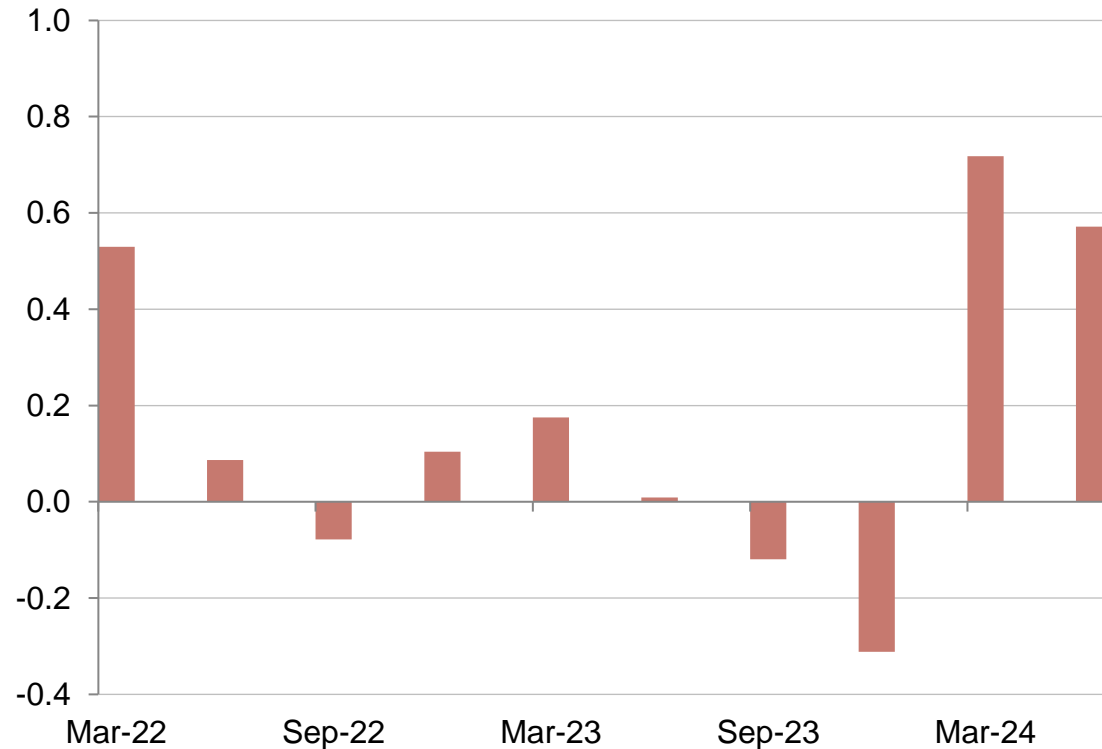


UK Economic Outlook

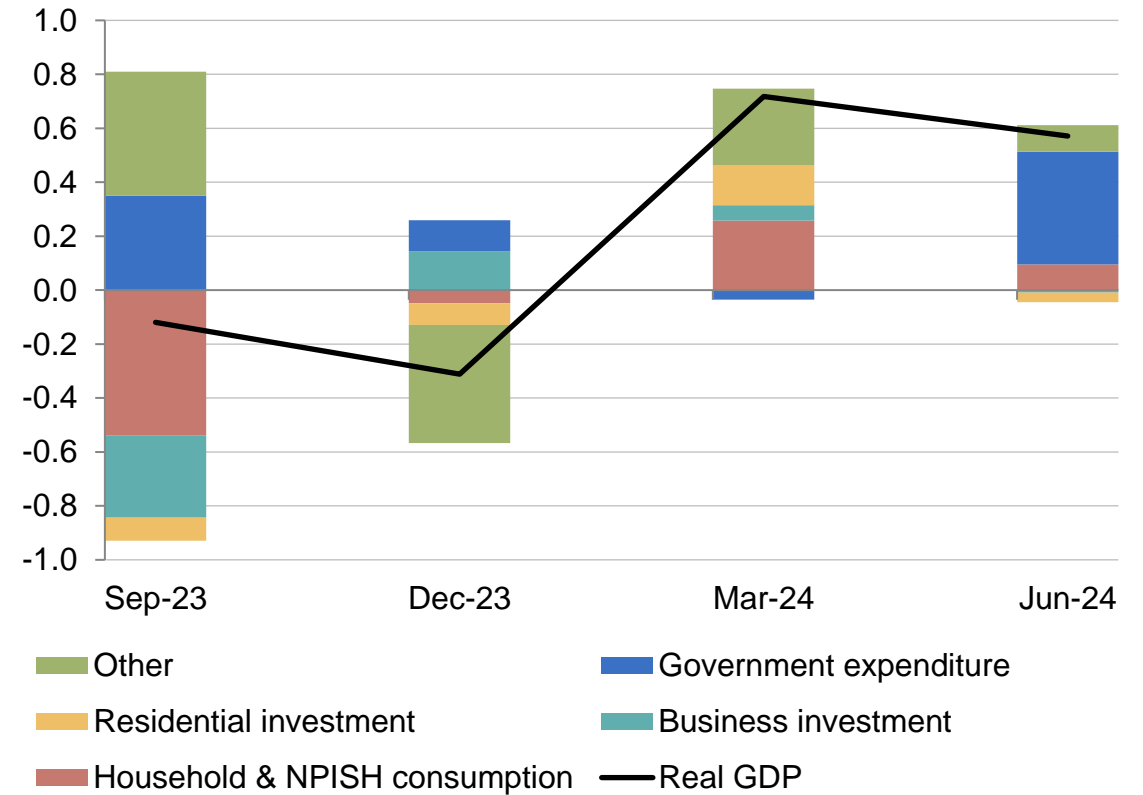
SEPTEMBER 2024

UK economy continues to recover more quickly than expected following a mild recession in H2 2023
 However, underlying momentum has been softer than the headlines suggest, with declining private investment and sluggish consumer spending during Q2

UK - Real GDP Growth (% q/q)



UK - Contributions to quarterly real GDP growth (ppts)

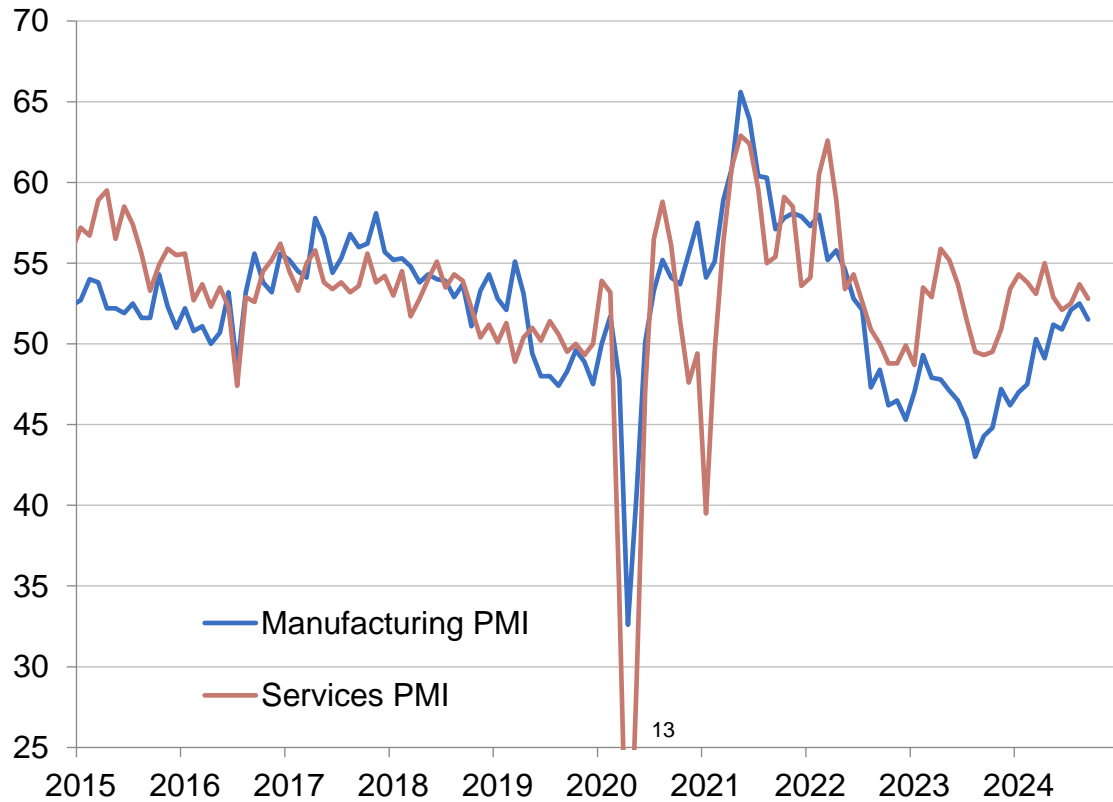


Source: Refinitiv, QIC

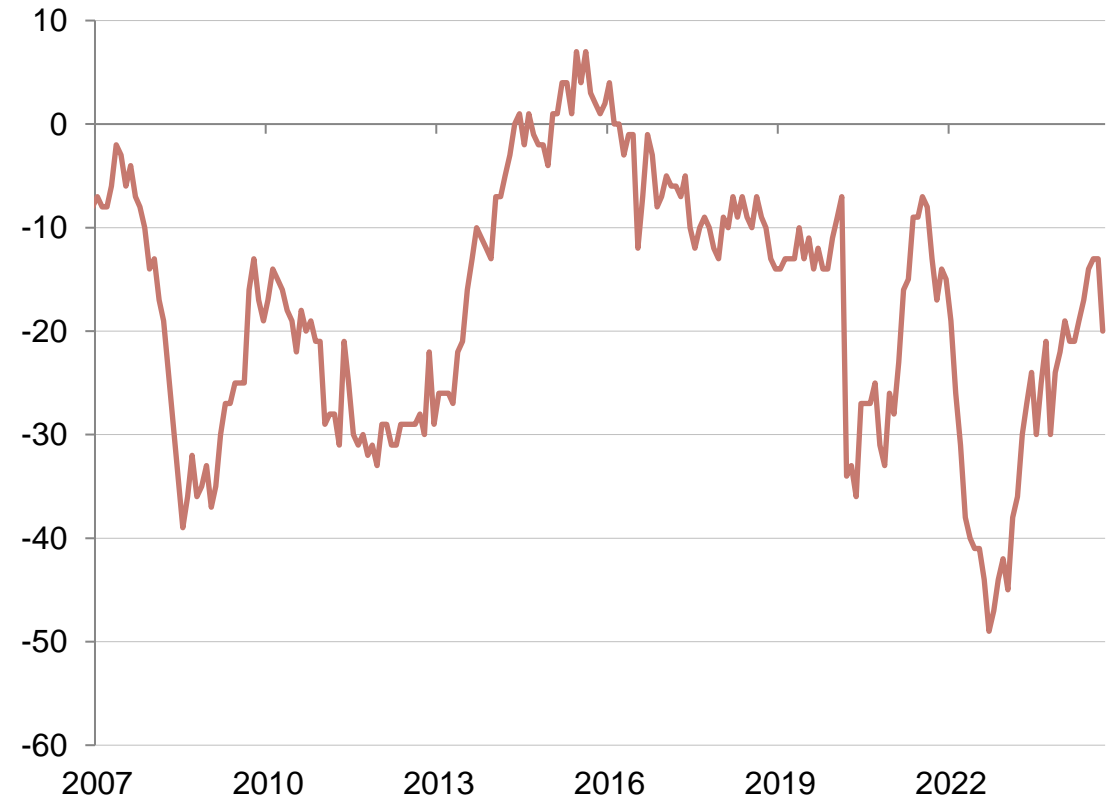
Survey indicators are consistent with an ongoing gradual recovery in the UK

Both business and consumer confidence have improved significantly over the past year

UK - PMI surveys



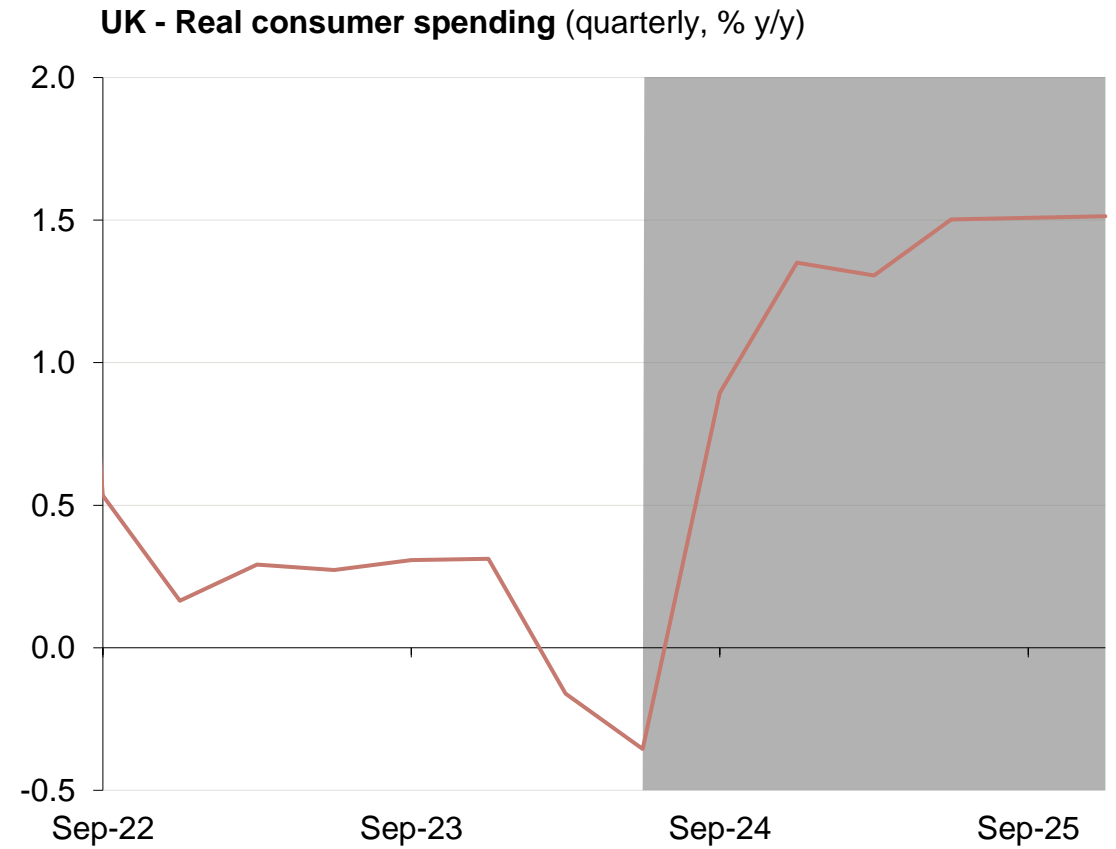
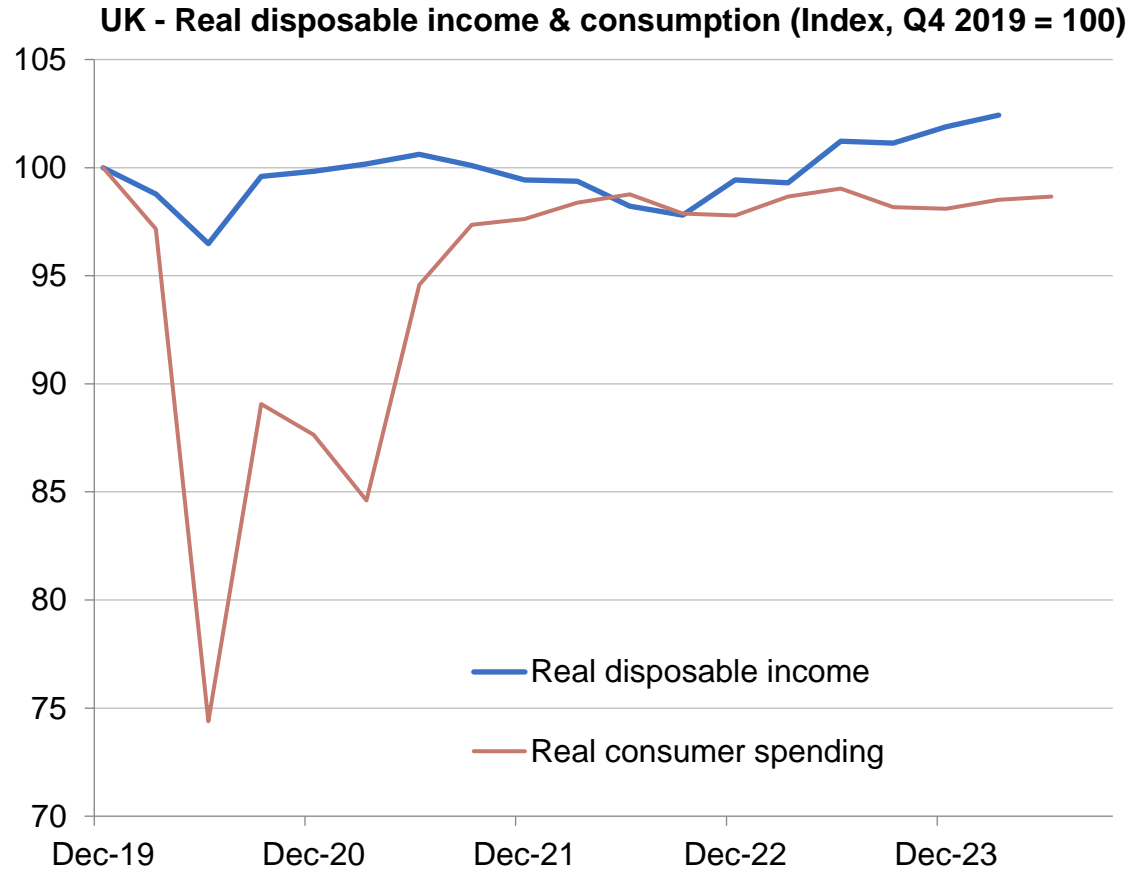
UK - GfK consumer confidence index



Source: Refinitiv, QIC

Consumer spending should improve in 2025

Moderating inflation pressures are supporting purchasing power, which should eventually boost spending

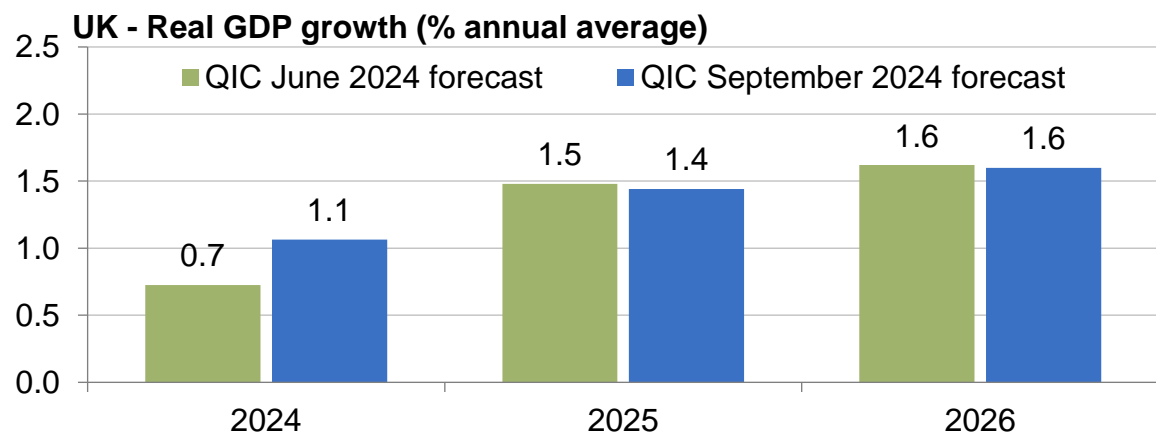
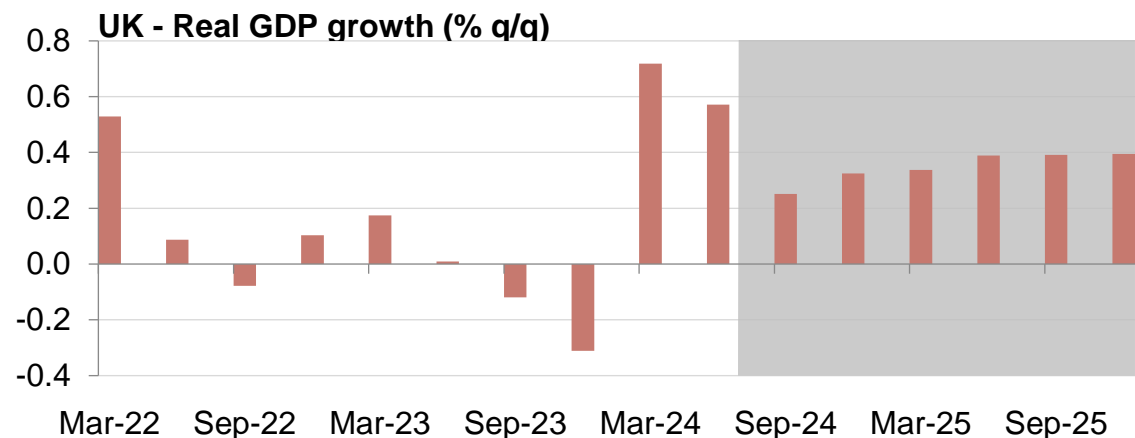


Note: Grey shading represents QIC forecasts

Source: Refinitiv, QIC

UK growth outlook

Economic recovery to gain traction in 2025 and 2026



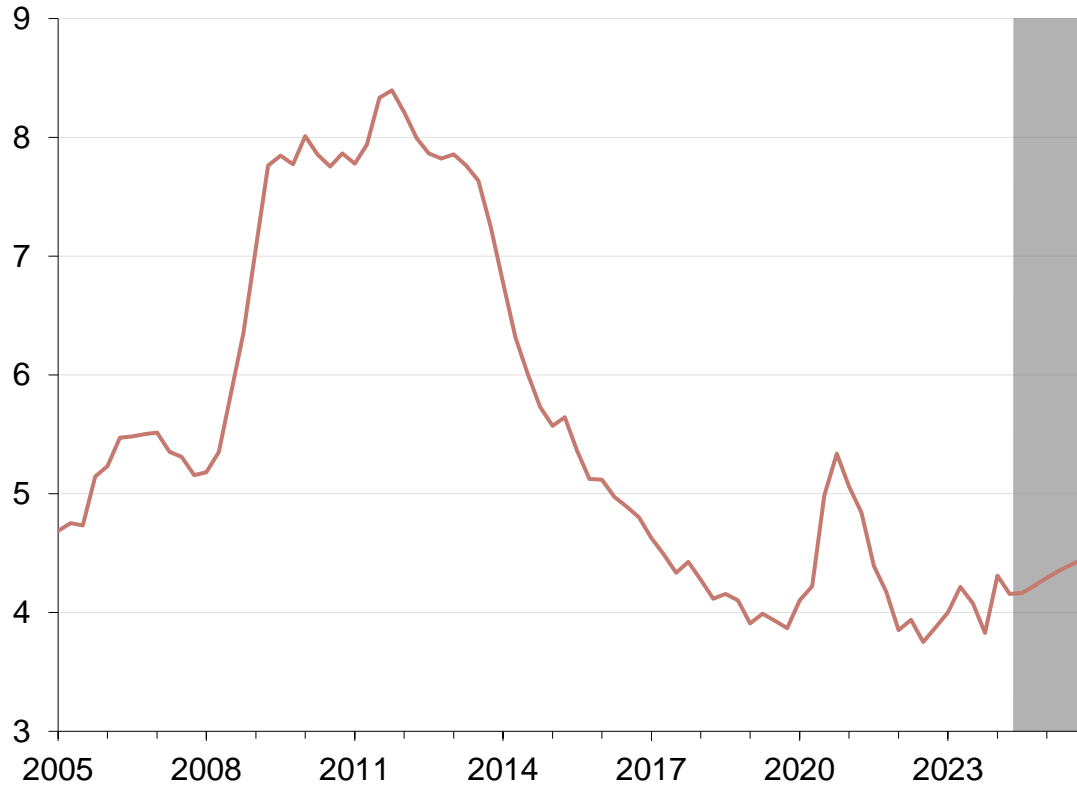
Note: Grey shading represents QIC forecasts
Source: Refinitiv, QIC

UK Economic Forecast Summary	Annual average		
	2023	2024	2025
% growth (unless otherwise stated)			
Real GDP	0.1	1.1	1.4
Consumption	0.3	0.4	1.5
Business investment	5.5	0.1	1.1
Housing investment	-7.6	-0.8	0.7
Govt consumption & investment	1.4	2.9	1.8
Government consumption	0.5	2.5	1.6
Government investment	6.8	5.3	2.6
Change in stocks (ppt contribution)	-0.7	1.2	0.5
Net exports (ppt contribution)	0.3	-1.1	-0.5
Exports	-0.5	-0.7	2.4
Imports	-1.5	2.7	3.7
Residual (ppt contribution)	-0.3	0.0	0.0

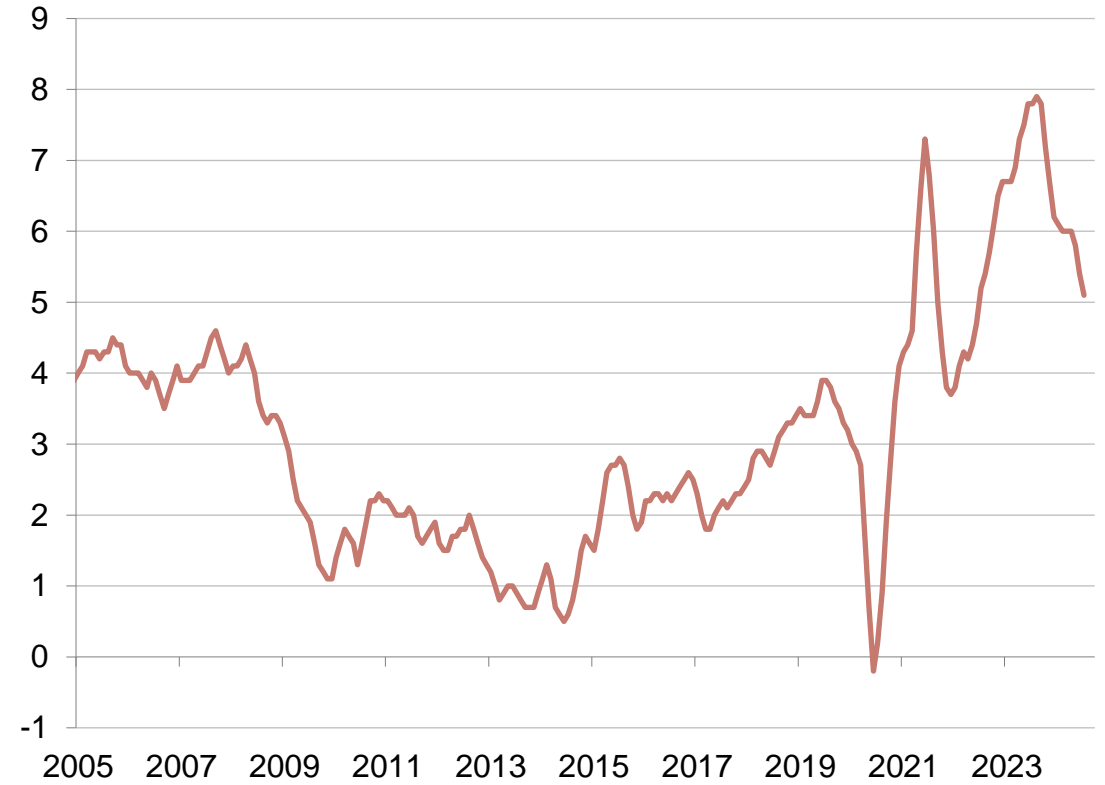
Only a modest softening is expected in the UK labour market

Unemployment rate forecast to rise to around 4½%, while wage growth should continue to gradually ease

UK - Unemployment rate (quarterly, %)



UK - Average weekly earnings excluding bonuses (% y/y, 3mma)

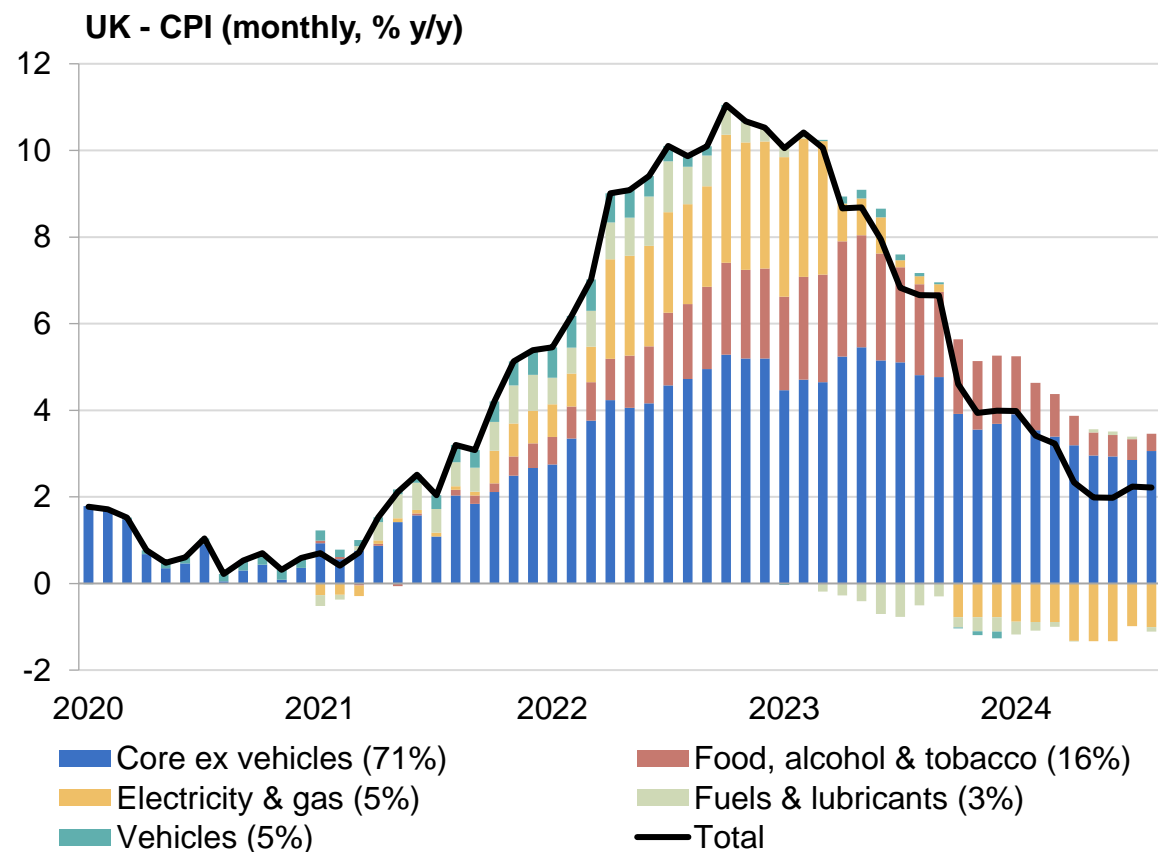


Note: Grey shading represents QIC forecasts

Source: Refinitiv, QIC

Headline inflation has fallen to close to 2%, but core inflation remains elevated

Household energy bills are set to rise again in October, placing renewed upward pressure on headline inflation



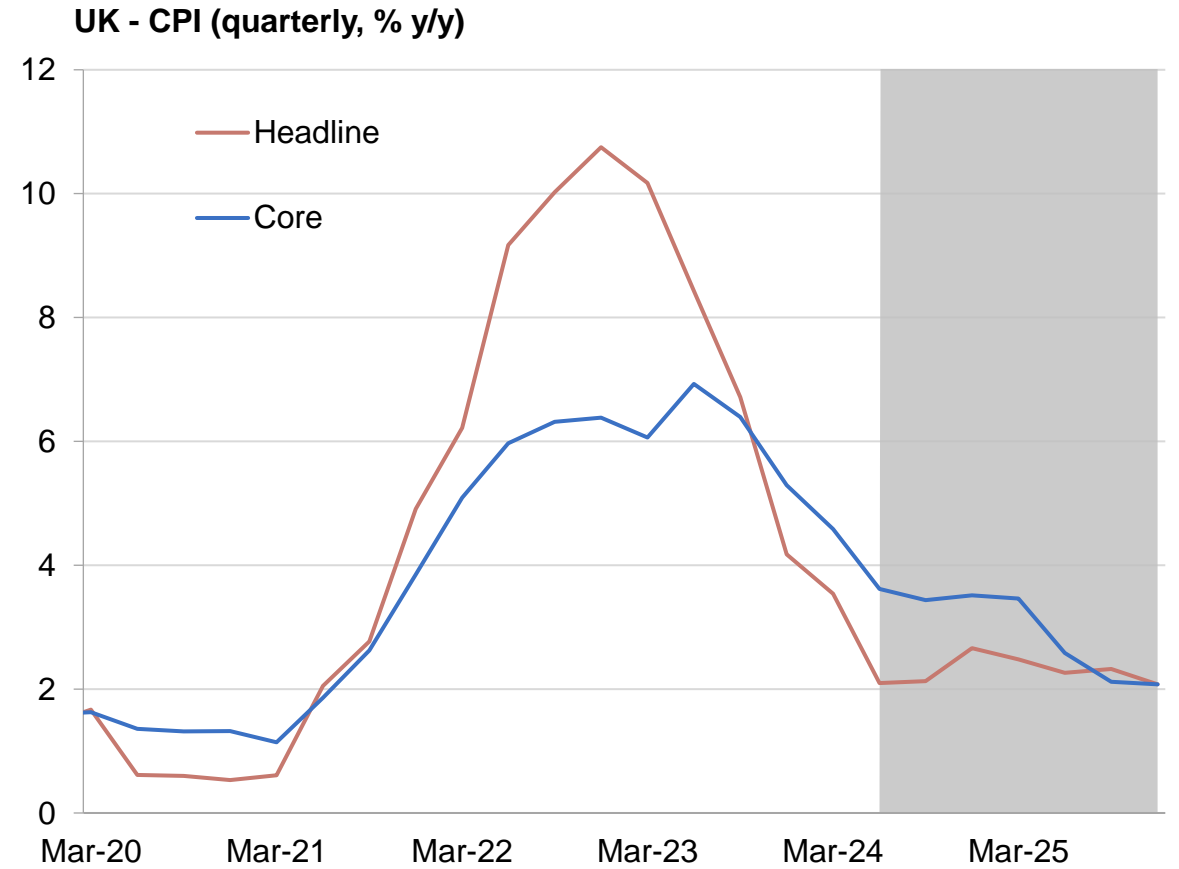
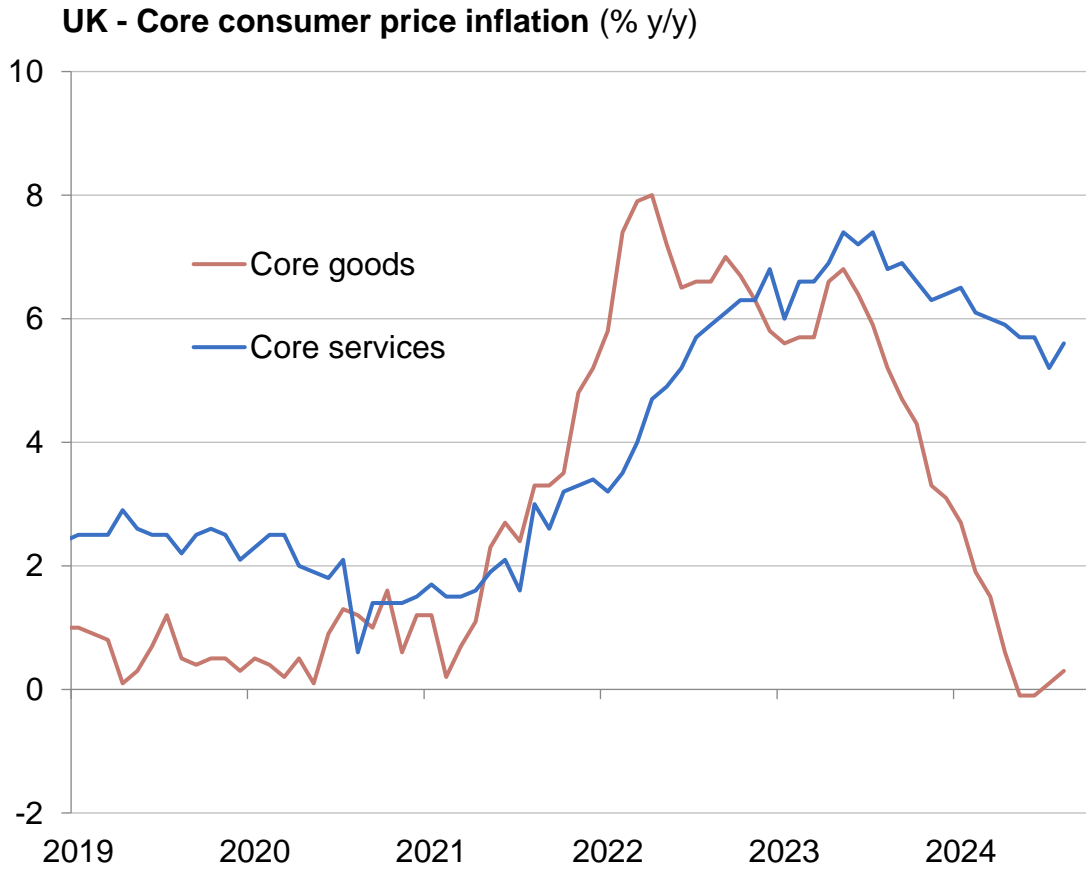
Regulatory period	OFGEM Price Cap £	With energy price guarantee	% change
Apr-21	1,138	1,138	9
Oct-21	1,277	1,277	12
Apr-22	1,971	1,971	54
Oct-22	3,549	2,500	27
Jan-23	4,279	2,500	0
Apr-23	3,280	2,500	0
Jul-23	2,074	2,074	-17
Oct-23	1,923	1,923	-7
Oct-23*	1,834	1,834	n/a
Jan-24	1,928	1,928	5
Apr-24	1,690	1,690	-12
Jul-24	1,568	1,568	-7
Oct-24	1,717	1,717	10

* OFGEM price cap revised in Oct-23 assuming lower typical consumption for the average household. Price cap assuming direct debit payment.

Notes: * OFGEM price cap revised assuming lower typical consumption for the average household.
Source: Refinitiv, OFGEM, QIC

Inflation forecast to decline sustainably to target by late 2025

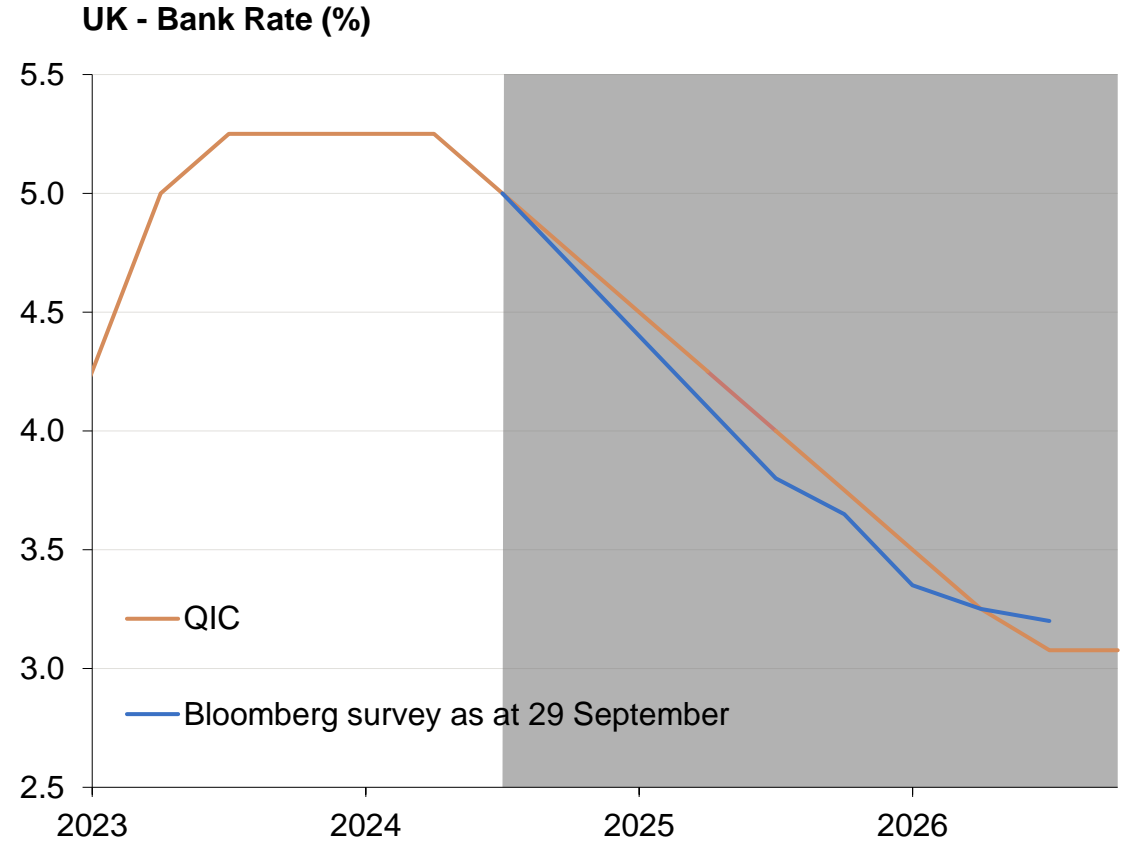
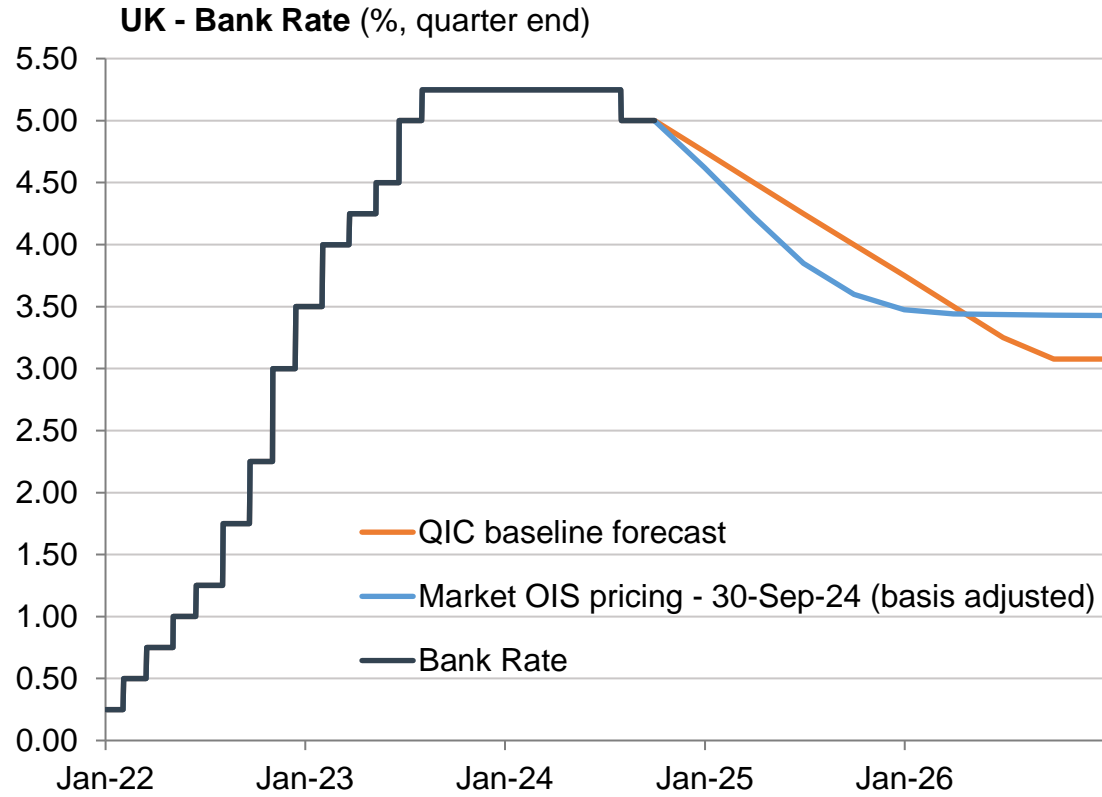
Core services inflation has been sticky, but moderating wage growth should see pressure ease over 2025



Note: Grey shading represents QIC forecasts
Source: Refinitiv, QIC

BOE likely to proceed cautiously given elevated services inflation

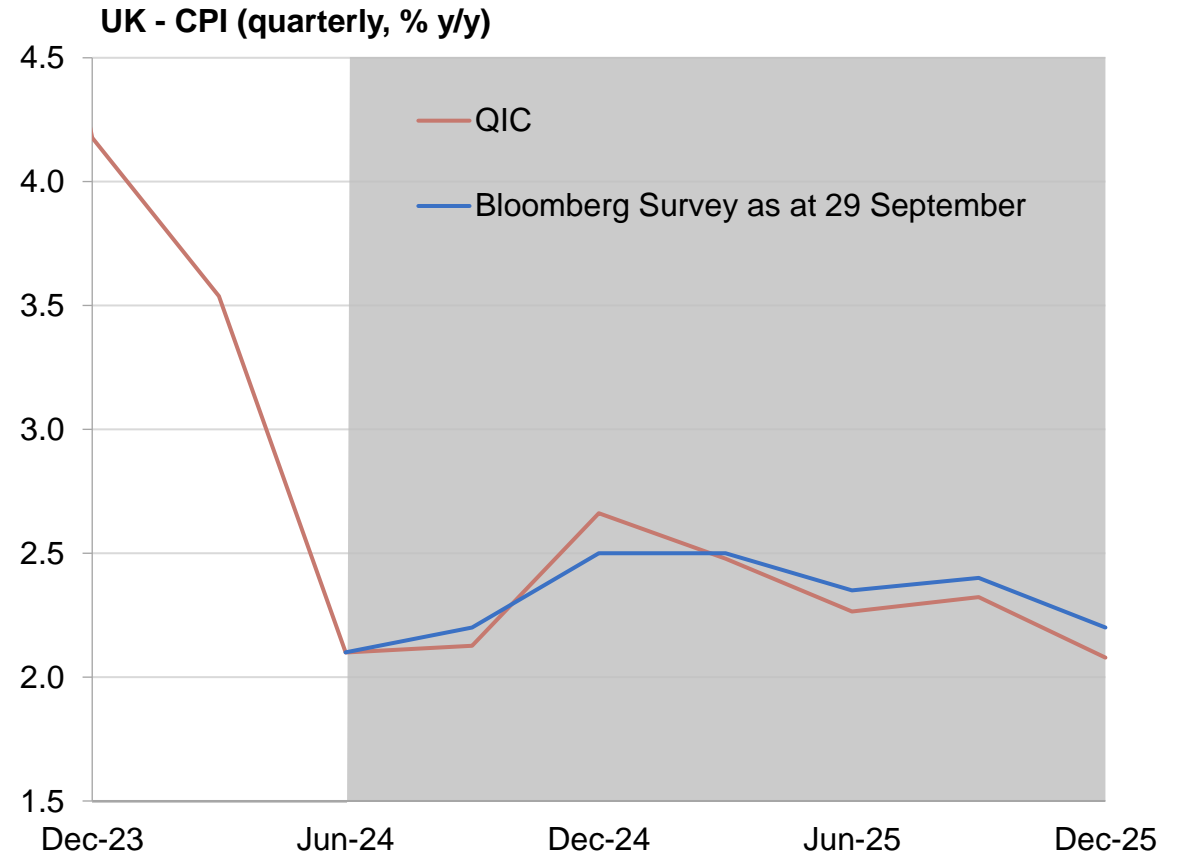
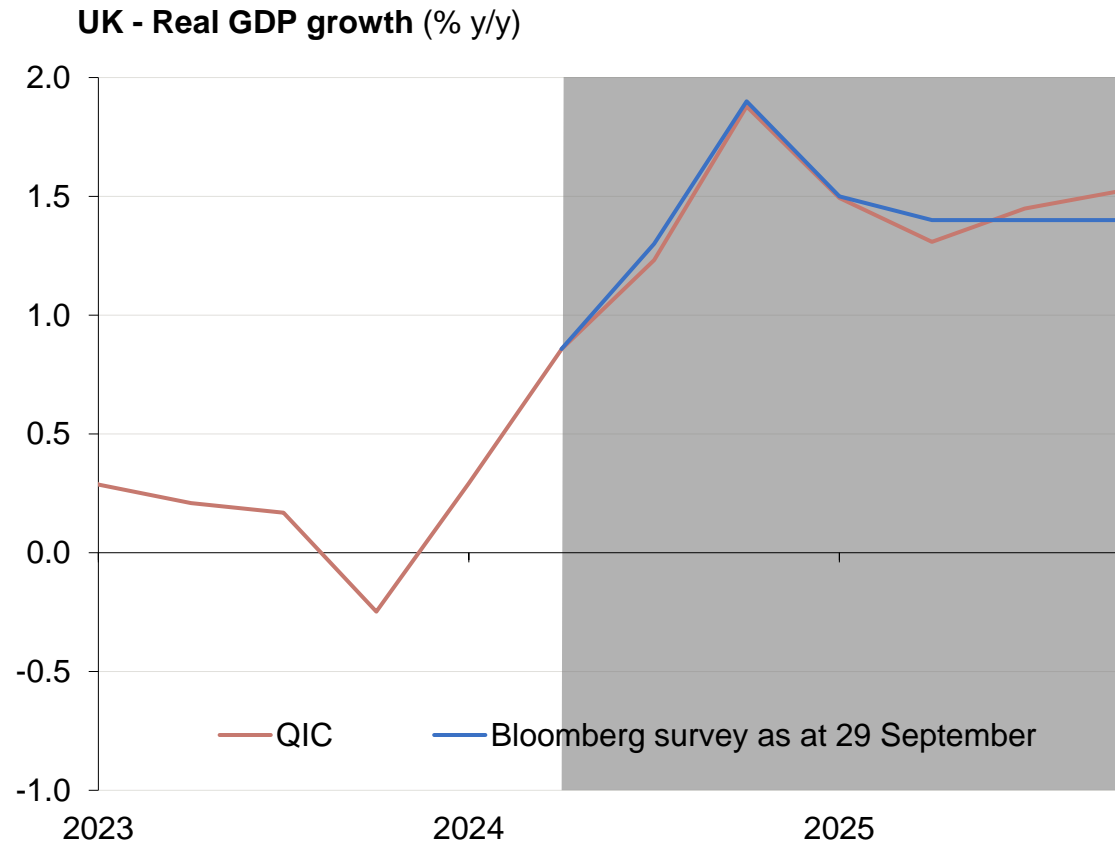
QIC expects a 25bp rate cut every three months



Note: Grey shading represents QIC forecasts
Source: Refinitiv, Bloomberg, QIC

QIC vs Consensus

QIC expects UK inflation to be a touch higher than Consensus in Q4-24, but lower in H2 2025



Note: Grey shading represents QIC forecasts

Source: Bloomberg, QIC

QIC

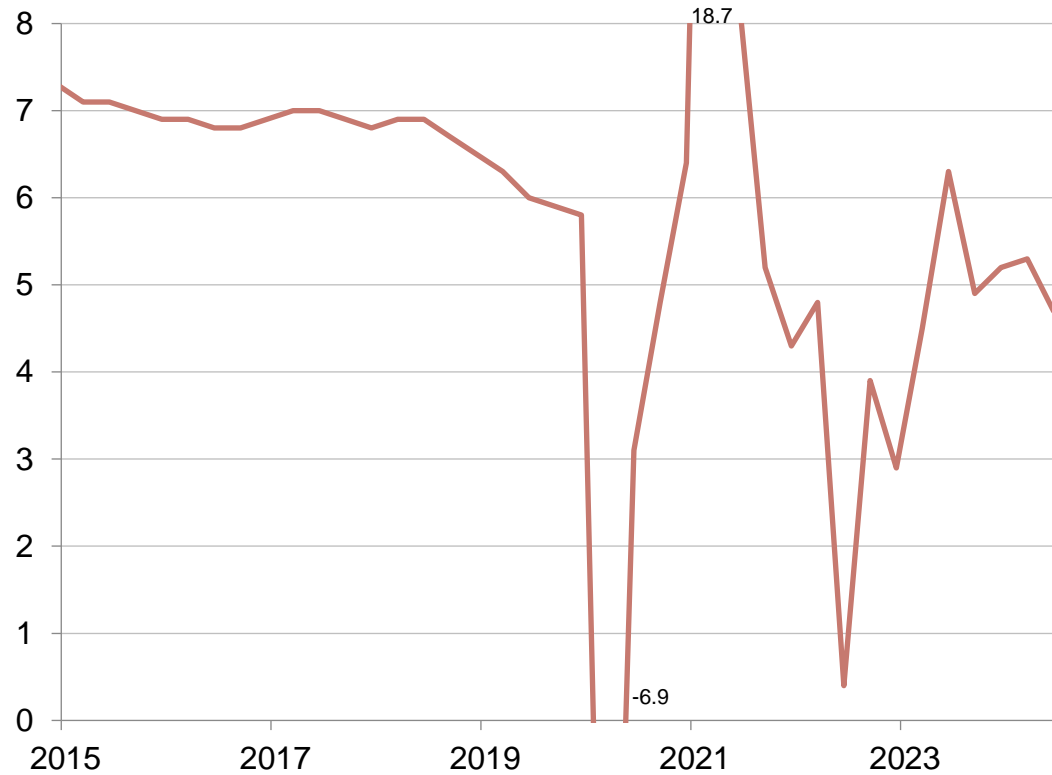
China Economic Outlook

SEPTEMBER 2024

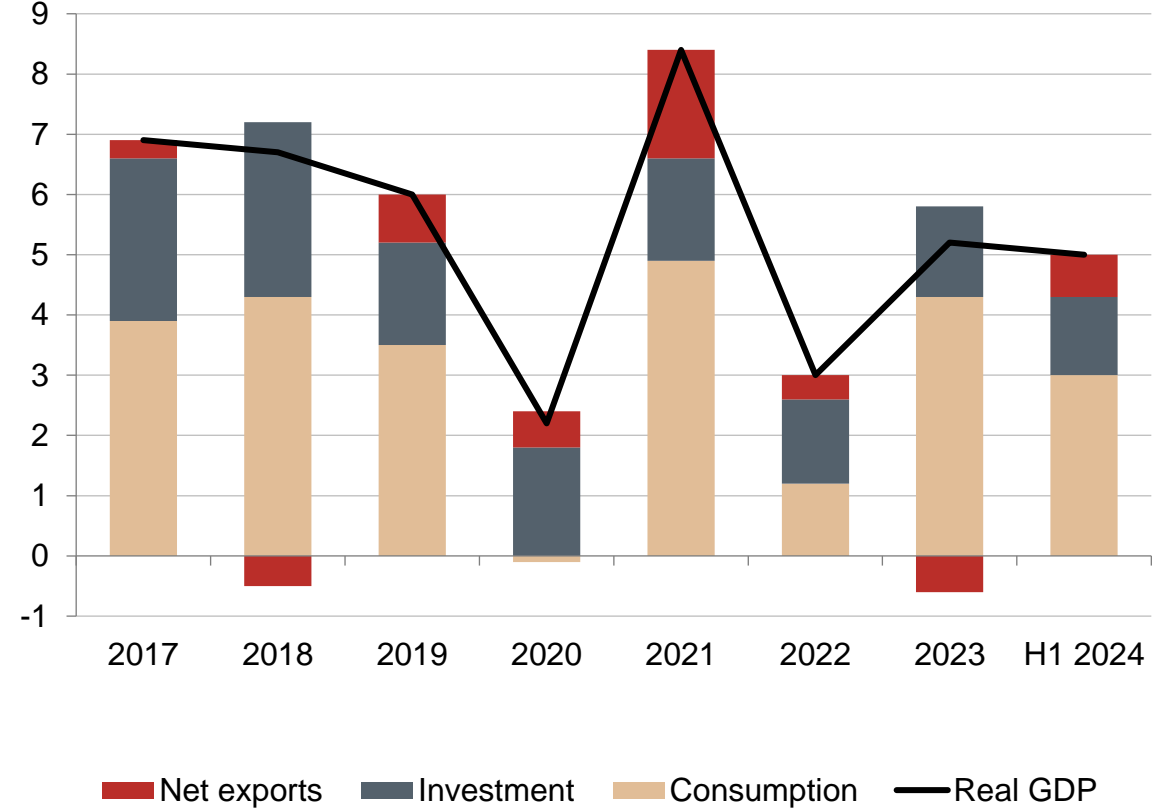
Chinese economy slows sharply in the June quarter

External sector has been driving growth, with domestic activity disappointing

China - Real GDP growth (% y/y)



China - Real GDP growth (% average)

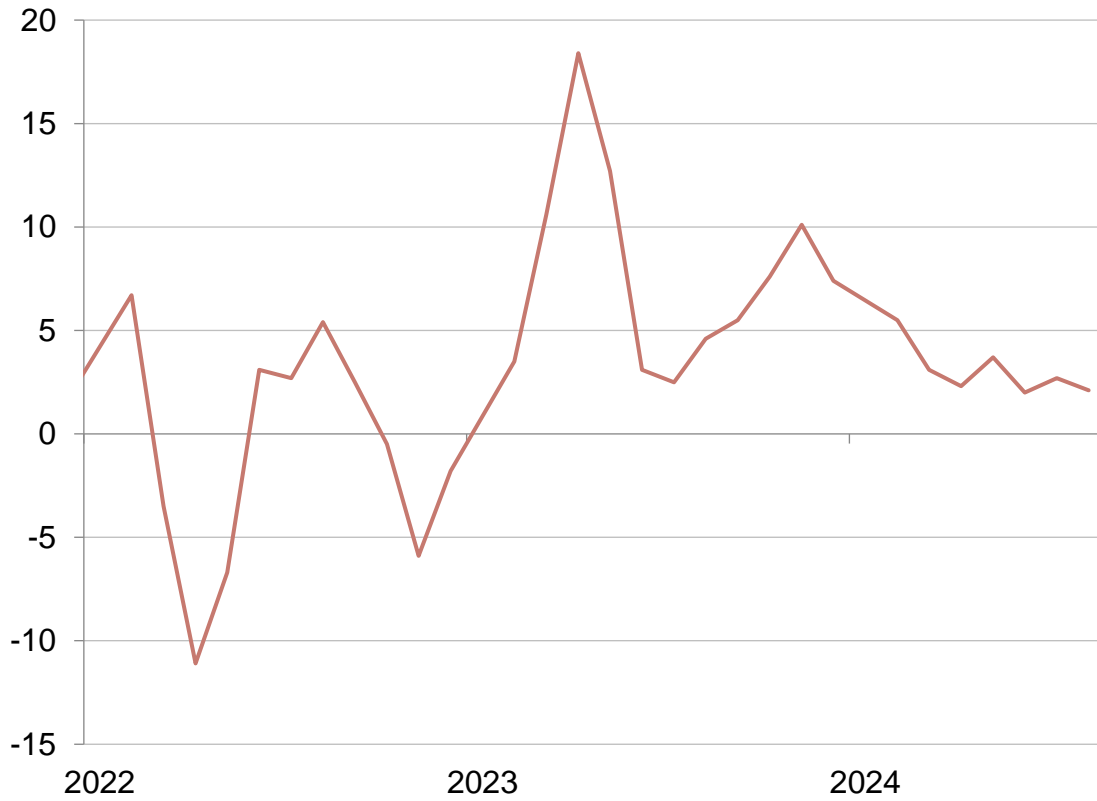


Source: Refinitiv, QIC

Domestic momentum has remained weak in July and August

Consumer spending has been sluggish

China - Retail sales (nsa, % y/y)



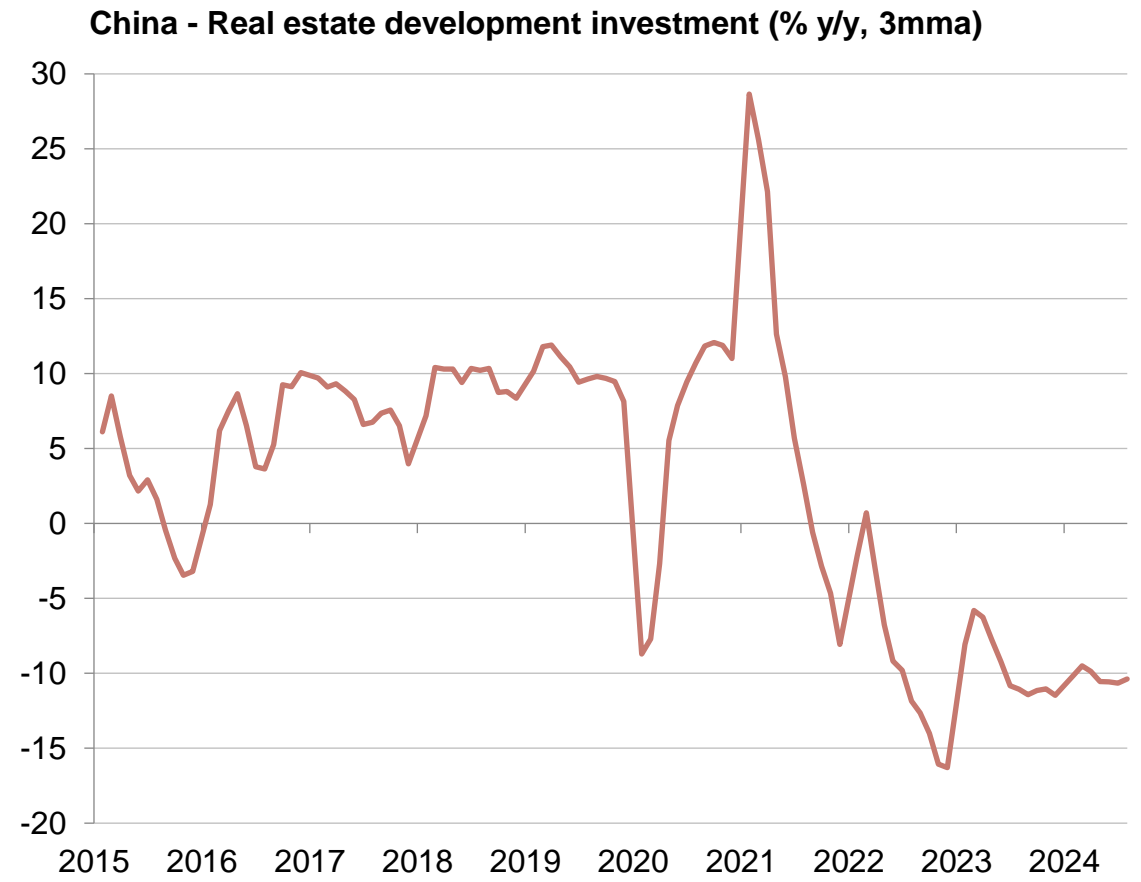
China - NBS composite PMI output index (sa)



Source: Refinitiv, QIC

Property market headwinds continue to weigh on the economy

Excess supply and deteriorating confidence leads to sharp drops in prices and residential investment



Source: Refinitiv, QIC

Authorities unveil coordinated policy easing and send clear signal of additional fiscal stimulus

Measures aimed to promote & stabilize housing market and strive to achieve around 5% growth target

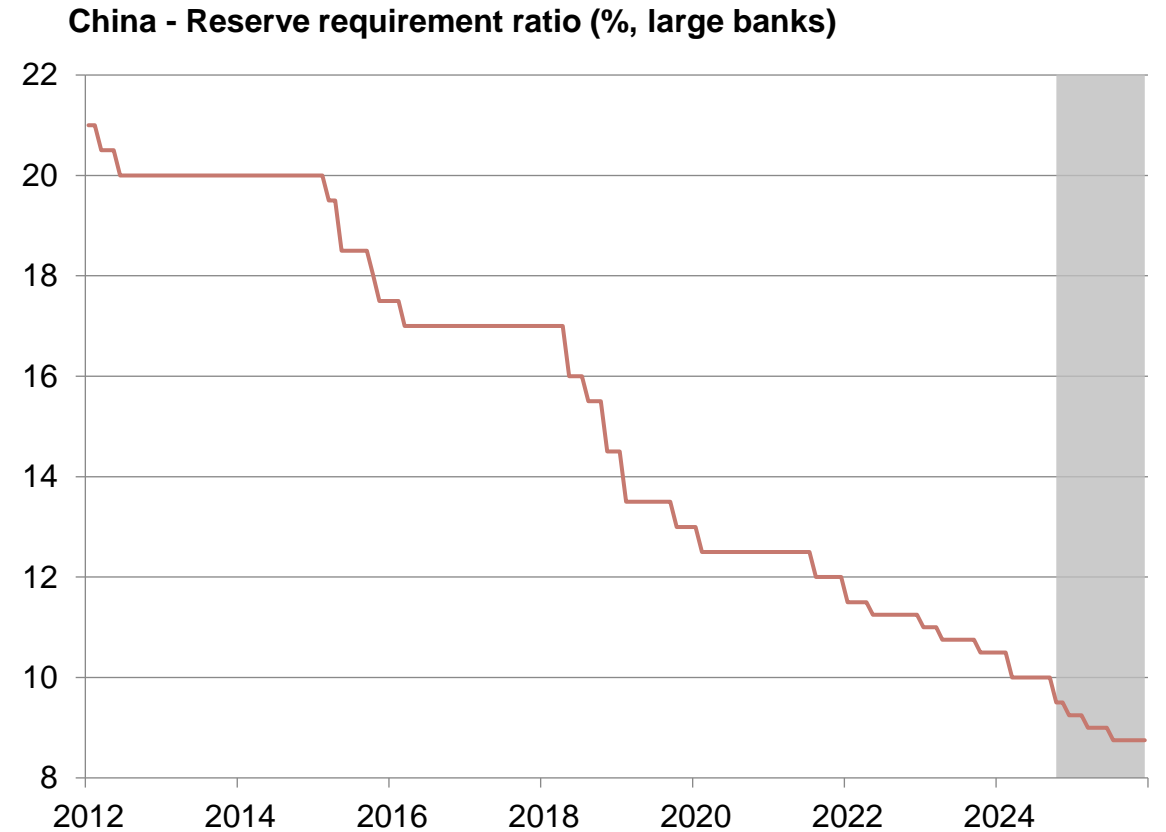
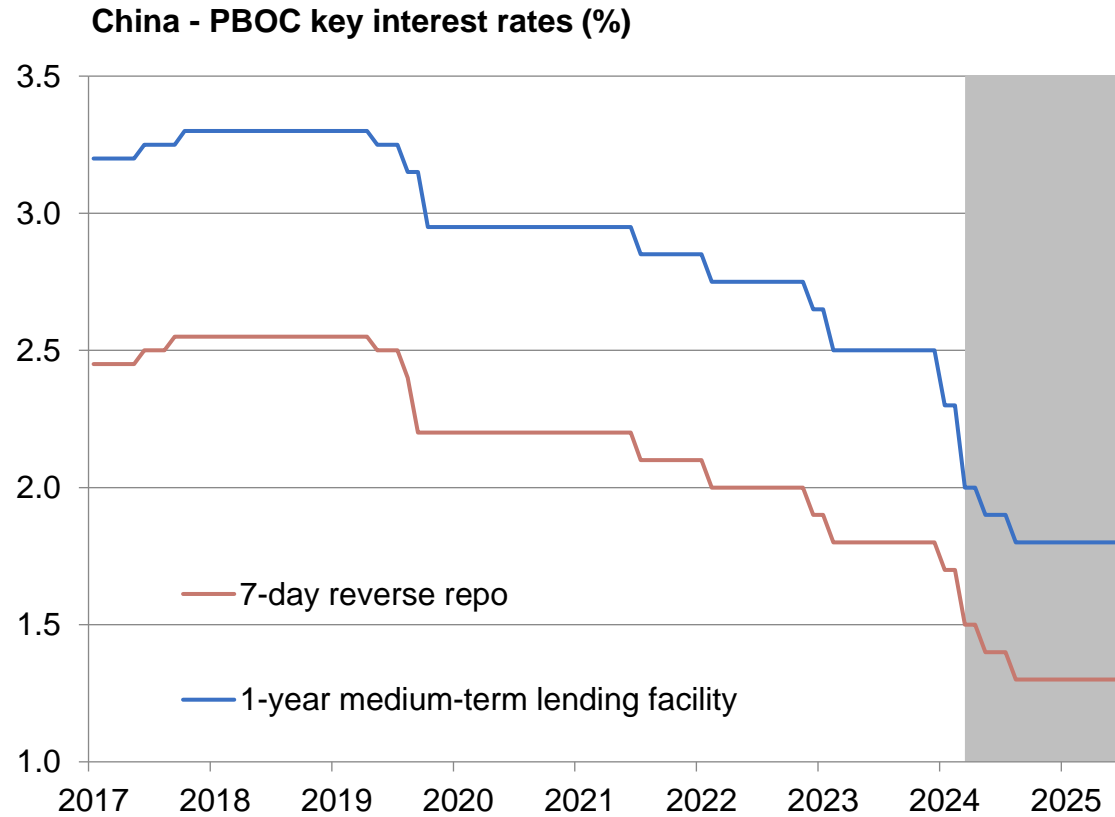
September policy measures

Monetary	<ul style="list-style-type: none"> • Cut 7-day reverse repo by 20bps to 1.50% • Cut MLF rate by 30bps • Cut RRR by 50bps and hinted at a further 25-50bps by the end of this year
Property	<ul style="list-style-type: none"> • Relax home purchase restrictions (different for each city) • Reduce existing mortgage rates by around 50bps • Lower minimum downpayment ratio for 2nd homes to 15% • Allow policy & commercial banks to support qualified enterprises in acquiring land from developers • Extend two policies from 2024 to the end of 2026: (i) operating property loans can be used to repay developers' existing real estate-related loans and open market bonds; and (ii) developers' existing loans can be extended and repayment arrangements adjusted. • Affordable housing re-lending: local SOEs can borrow 100% of the principal loan amount (up from 60%) to purchase unsold homes and convert into affordable ones
Financial	<ul style="list-style-type: none"> • Create liquidity backstop to securities firms/fund managers/local life insurance to purchase stocks, with an initial quota of RMB500bn • Create relending program for equity buy-back, initial quota of RMB300bn
Fiscal	<ul style="list-style-type: none"> • No specific measures revealed yet, but summary of Politburo meeting provides clear indication of more stimulus to “<i>strive to achieve the full-year growth targets</i>” (i.e. around 5%) • On the direction of incremental policy support, policymakers pledged to strengthen fiscal and monetary easing more proactively, facilitate the property sector stabilization, bolster equity market, support the operation of troubled companies, and boost consumption and employment. • Sources suggest the government is likely to adopt an additional long-term RMB 2 billion government special bond quota to support additional fiscal spending and may inject capital into SOE banks

Source: HSBC, Goldman Sachs, Xinhua, QIC

Further fiscal and monetary easing expected to support growth

More will need to be done to address debt restructuring across the property sector

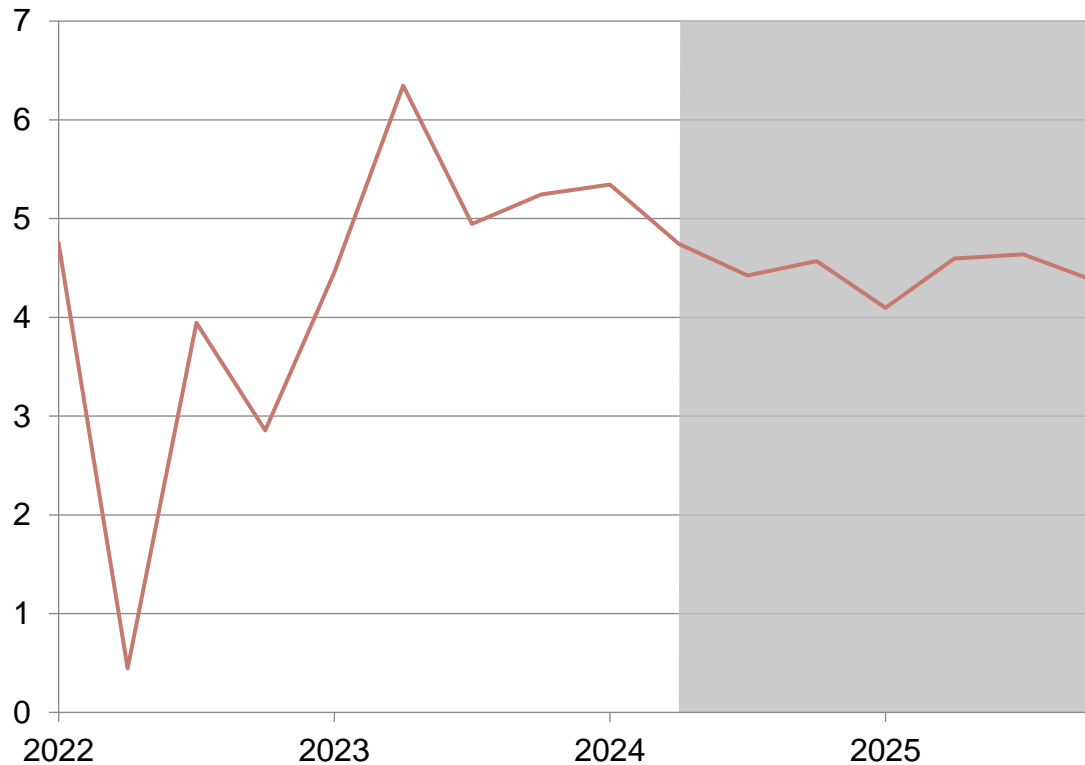


Note: Grey shading represents QIC forecasts

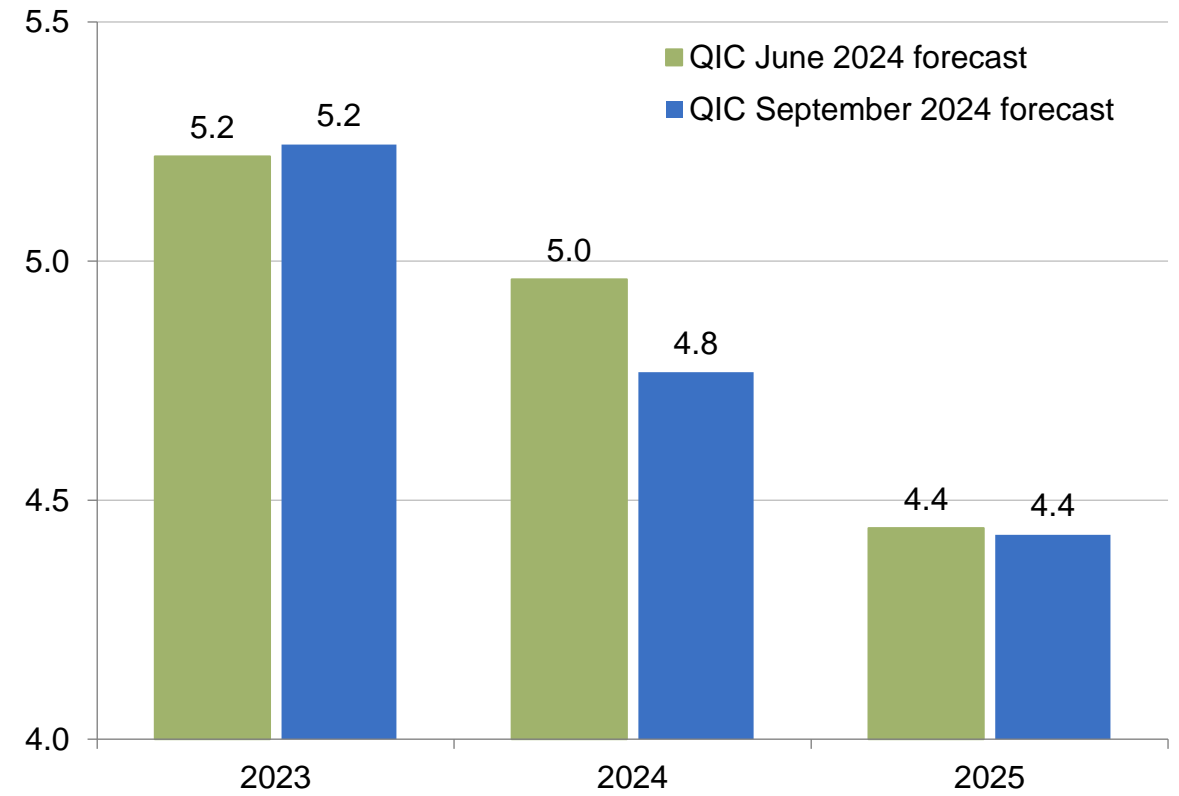
Source: Refinitiv, QIC

Outlook downgraded since June, but recent stimulus measures to see momentum improve in Q4
 QIC expects 2024 growth to fall short of the “around 5%” growth target & a further moderation is likely next year

China - Real GDP (% y/y)



China - Real GDP growth (% annual average)



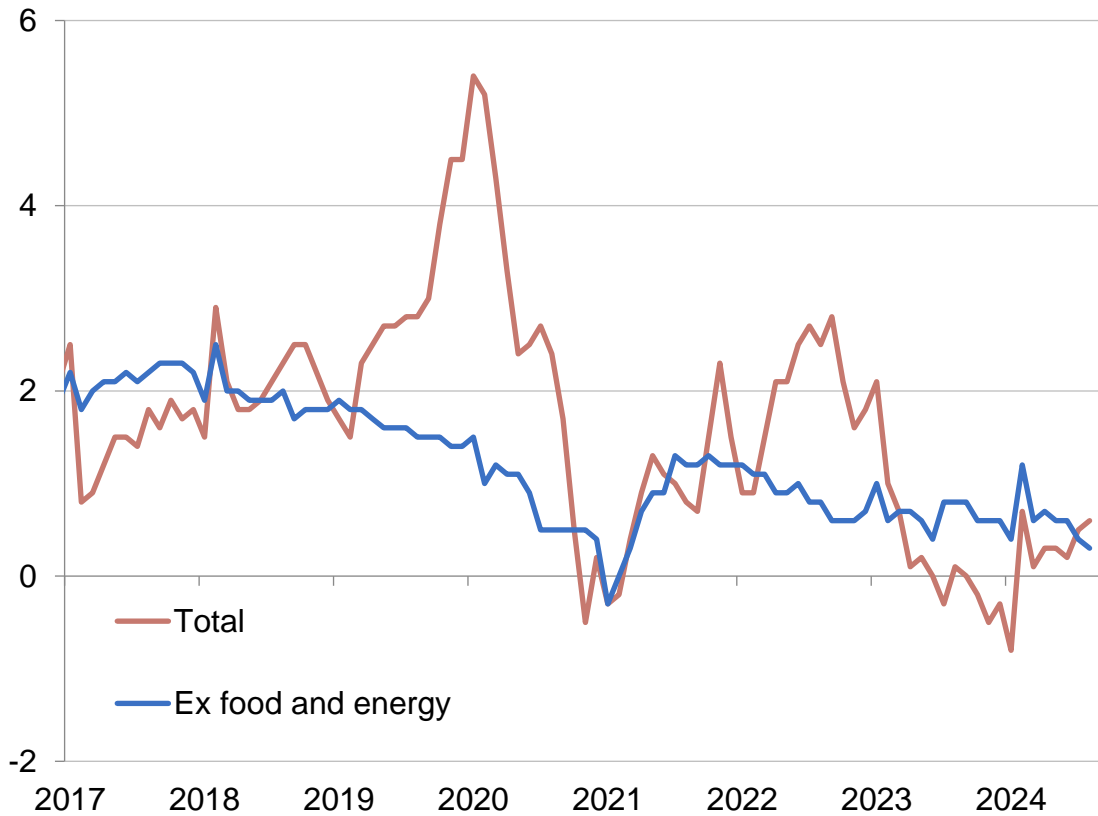
Note: Grey shading represents QIC forecasts

Source: Refinitiv, QIC

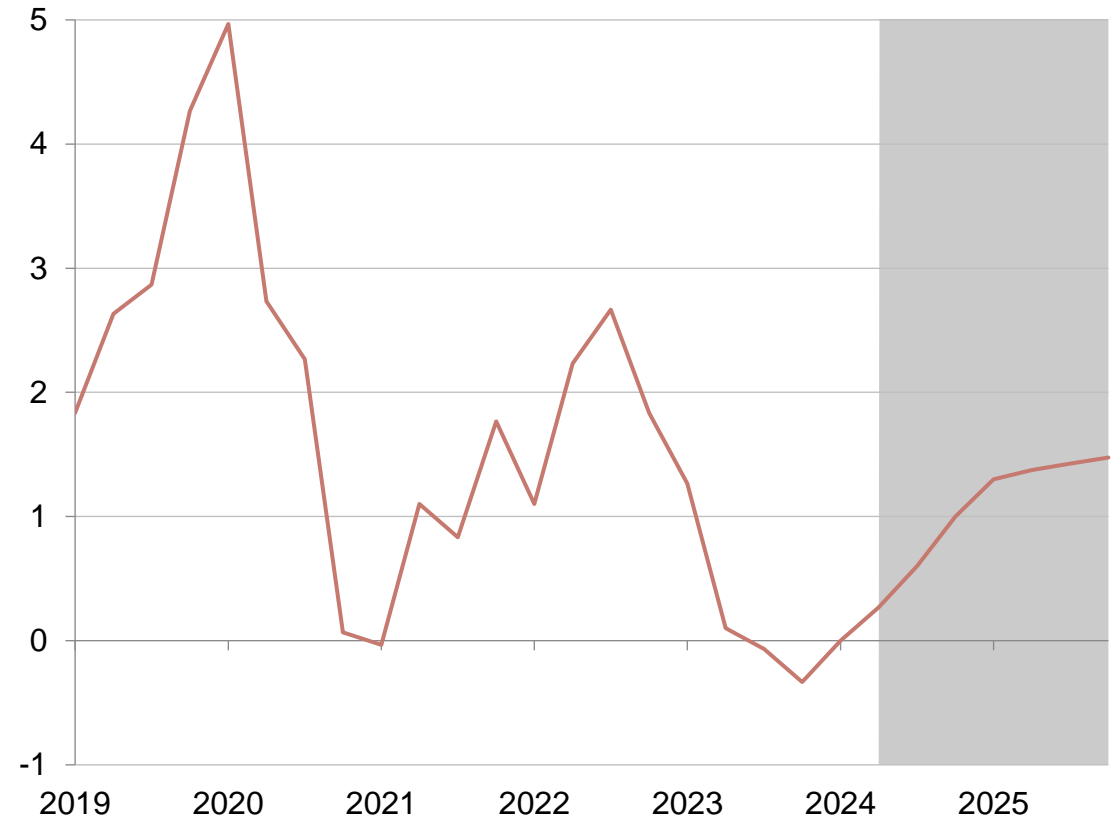
Inflation remains low in China

Only a modest pick-up is expected in 2025

China - Consumer price inflation (% y/y)



China - CPI inflation (quarterly, % y/y)

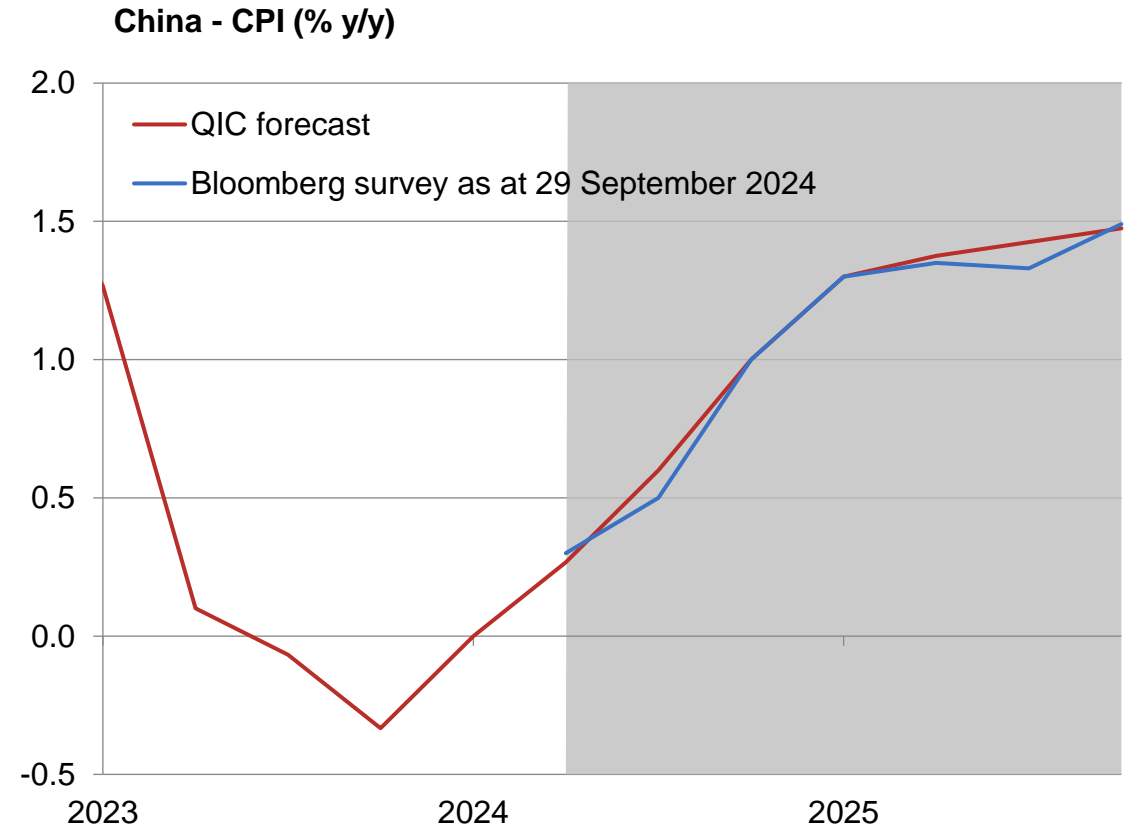
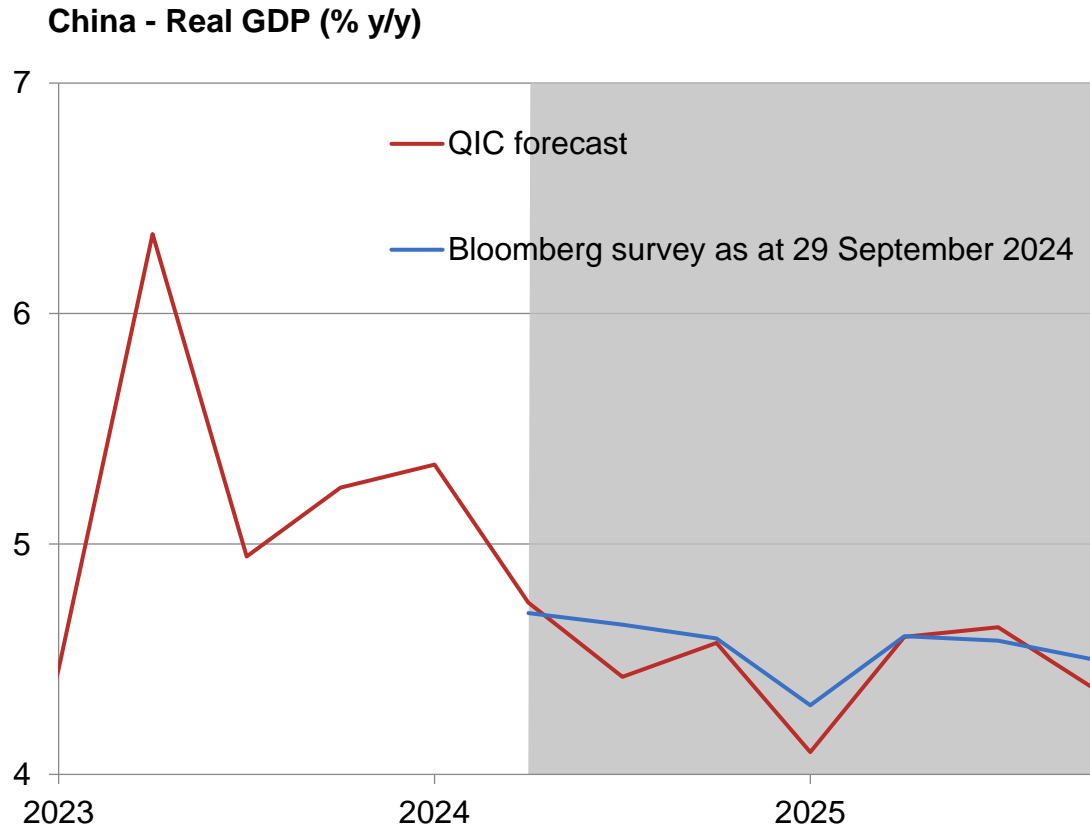


Note: Grey shading represents QIC forecasts

Source: Refinitiv, QIC

QIC vs Consensus

QIC's Chinese economic forecasts are similar to the Consensus view



Note: Grey shading represents QIC forecasts
Source: Bloomberg, QIC

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