BULLETIN

1 June 2022

Australian national accounts, Q1
Robust domestic demand early in 2022.
Output performance constrained by disruptions.
Q1 domestic demand: 1.6%qtr, 4.8% yr
Q1 real GDP: 0.8%qtr, 3.3% yr

The Australian economy expanded by 0.8% in the March 2022 quarter for an annual increase of 3.3%.

A key driver of growth was household consumption which increased by 1.5% including a 4.3% lift in discretionary spending as the economy reopened despite disruptions from the Omicron variant and floods. Highlights were: recreation and culture (+4.8%); hotels, cafes, and restaurants (+5.3%); and transport services (+60%). Vehicle purchases also increased by 13% with some easing of supply constraints. Discretionary spending now exceeds the pre-pandemic level for the first time. Essential spending declined by 0.2% due to falls in food (more eating out) and health as Omicron affected visits to doctors and elective surgery.

With household gross disposable income increasing by only 0.6% this solid lift in household spending was partly funded by a further fall in the household savings rate from 13.4% to a still elevated 11.4%. We expect that savings rate to gradually fall back to the equilibrium level of around 6% over the remainder of the year supporting above trend growth in household spending.

The disruptions from Omicron and the floods saw hours worked in the quarter contract by 0.9%, in sharp contrast to a reported 2.6% rise in employment numbers. In short, labour market conditions were quite mixed, with substantial impacts from disruptions.

With total compensation of employees up 1.8%, average earnings per employee contracted by -0.8% although average earnings per hour lifted by a solid 2.7%. In part, this may reflect upward pressures on wages due to ongoing shortages - as suggested by other qualitative indicators. Total compensation of employees in the private sector lifted by a solid 2.3%.

Inflation pressures were evident in the price measures. The domestic final demand implicit price deflator (the best measure of domestic price pressures) rose by 1.4% - the strongest growth since the introduction of the Goods and Services Tax in 2001.

Economic growth in the quarter was severely impacted by the external sector. Exports contracted by 0.9% while imports surged by 8.1% with net exports subtracting 1.7ppt's from growth. The rebuilding of non-farm business inventories partly reflecting the surge in imports, while other inventories also added to growth (farm and public authorities). Together, total inventories added 1.0ppt to activity in the quarter, providing a partial offset to the hefty net export drag.

Home building contracted for the second quarter in a row falling by 1%. Despite the huge pipeline of work builders have accumulated, largely due to the HomeBuilder program, activity has been disrupted due to labour and material shortages and challenging weather conditions

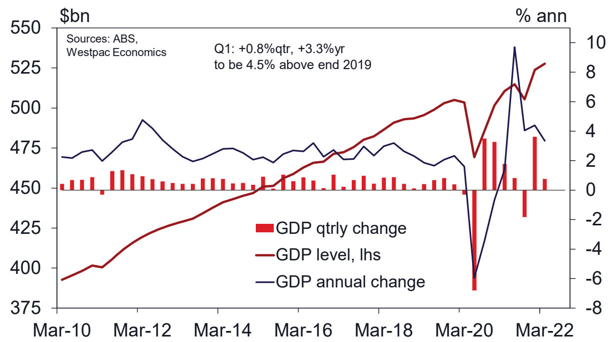
Growth in the Australian economy is expected to shift into a higher gear particularly over the next two quarters. Businesses will be encouraged by a buoyant consumer as the economy continues to reopen without the disruptions of the March quarter.

GDP: Mar qtr 2022

	% qtr		% yr	
	Dec	Mar	Dec	Mar
Private consumption	6.4	1.5	3.6	4.0
Dwelling investment	-1.9	-1.0	5.7	-1.3
Business investment*	0.7	1.4	6.7	3.6
Private final demand*	4.5	1.2	4.6	3.6
Public spending*	-0.1	2.6	5.5	8.0
Domestic demand	3.2	1.6	4.9	4.8
Stocks - private non-farm #	1.1	0.6	0.5	0.3
- other #	-0.1	0.4	-0.1	0.4
GNE	4.3	2.6	5.2	5.4
Exports	-0.9	-0.9	-2.6	-4.2
Imports	0.7	8.1	2.3	7.6
Net exports #	-0.3	-1.7	-1.0	-2.4
Statistical discrepancy #	-0.2	-0.1	0.3	0.4
Non-farm GDP	3.5	0.8	4.0	3.2
GDP, real	**3.6**	**0.8**	**4.4**	**3.3**
GDP, nominal	3.5	3.7	10.2	10.2
GDP deflator	1.2	-0.1	6.8	5.6
Household deflator	0.3	0.7	1.8	2.2
Earnings per worker (non-farm)	1.7	-0.8	3.0	2.1
Real household disp income	4.3	-1.2	1.1	2.6

*adjusted for asset sales. # ppt contribution to growth
Sources: ABS, Westpac Economics

Australian economy: hit by disruptions in Q1



1 June 2022

Labour incomes will be boosted by further jobs growth and a lift in wage gains. As we saw in the March quarter, household spending growth can run ahead of disposable incomes when a declining savings rate is releasing greater spending capacity.

We expect these near-term developments to sustain despite soft consumer sentiment, as households worry about inflation, rising interest rates and the global economy. Overall, we expect GDP growth in 2022 to exceed 4% particularly centred around the June and September quarters.

From the Reserve Bank's point of view, these accounts will reinforce the case for further interest rate rises. The Bank may see some encouraging evidence in the accounts around wages growth but will be more focussed on the clear inflationary pressures now flowing through the economy.

The RBA Board meets next on June 7, and we expect it will take the opportunity to raise the cash rate by 40bps in recognition of the need to fully wind back the emergency rate cuts we saw in 2020. Over the course of the remainder of the year we expect the cash rate to increase to 175 basis points from the current 0.35% on the way to a terminal rate of 2.25% by May next year.

Bill Evans, Chief Economist

Domestic demand (Andrew Hanlan)

Domestic demand (+1.6%qtr, +4.8%yr): Domestic demand expanded by a robust 1.6% in the quarter, evidence of the underlying strength in demand across the economy.

Public demand (+2.6%qtr, 8.0%yr): Government spending in the form of public demand (accounting for 27% of the economy) remains a key growth driver. Over the past year, public demand expanded by a brisk 8%, directly adding 2.1ppts to growth. The focus of additional spending has been on the health response to covid, as well as an upward trend in public investment.

Private demand (+1.2%qtr, 3.6%%yr): Private sector spending growth continues to trail that in the public sector. The Q1 result was held back by a 1% contraction in home building activity.

Consumer spending (+1.5%qtr, +4.0%yr): Consumer spending expanded by 1.5% in the March quarter, benefiting from a further relaxation of restrictions - notwithstanding the omicron outbreak. That has the level of consumer spending a modest 2.5% above pre-pandemic levels at the end of 2019. For more detail, see below for a discussion of the household sector.

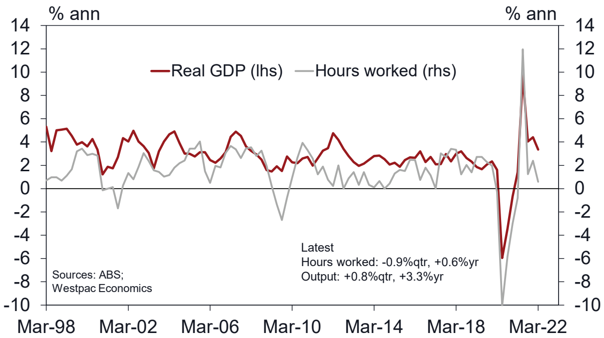
Home building (-1.0%qtr, -1.3%yr): Home building activity contracted over the year, down by -1.3%, centred on a 2.9% decline over the past half year. That is despite a sizeable work pipeline which emerged in response to low interest rates, the HomeBuilder program and a shift in tastes, with folk demanding more space during the pandemic. Supply headwinds (labour and material shortages), covid related disruptions and wet weather have all held back work.

New business investment (+1.4%qtr, +3.6%yr): Business investment spending advanced in the March quarter, up by 1.4%, centred on equipment spending, +3.2%, and infrastructure activity, +2.3%. Wet weather contributed to a fall in commercial building work, -2.6%, despite a sizeable pipeline. This follows a patchy second half of 2021 for business investment, a -1.4% for Q3 and a 0.7% for Q4, impacted by delta lockdowns and supply headwinds. The outlook is positive, with a generally upbeat mood, and as businesses respond to robust underlying demand, capacity constraints, and generous tax concessions.

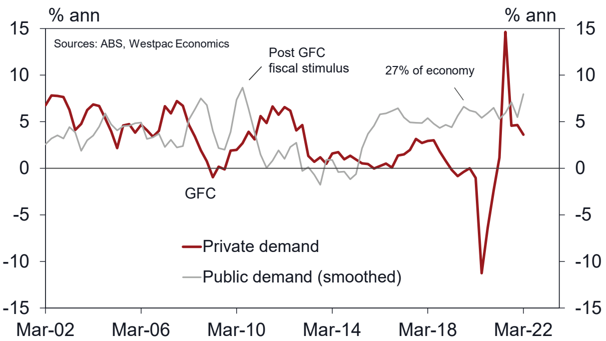
GDP: the expenditure estimate

The Expenditure estimate of GDP printed 0.8% for the quarter, in line with the headline reading, with annual growth at 2.9% (trailing the GDP average measure of 3.3%).

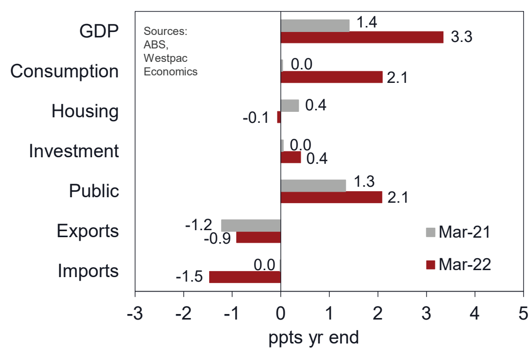
Hours worked & output



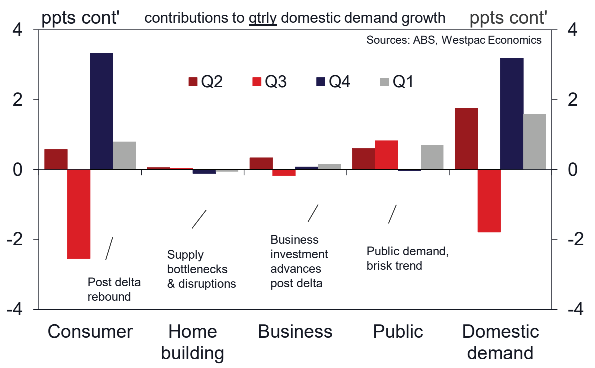
Domestic demand: private / public split



GDP growth: year-end contributions



Australia: domestic demand



1 June 2022

Net exports were a very large negative, subtracting 1.7ppts from activity in the quarter. Imports surged, +8.1%, on the reopening and a correction to weakness over the second half of 2021 associated with lockdowns. Exports remain a source of disappointment, down by -0.9%, led lower by resources which have been hampered by supply disruptions.

Inventories added 1.0ppt to activity in total. An inventory rebuild in the non-farm business segment, aided by the flood of imports, added 0.6ppts. Other inventories, farm and public authorities, also added to growth, a handy 0.4ppts.

Household sector (Matthew Hassan)

Consumers had a mixed first quarter, positive 'post-COVID' reopening dynamics more than offsetting headwinds from the omicron outbreak, severe weather and a rise in living costs. While the spending gain came in a little below forecast, it was still solid and broadly in line with our view (noting the high degree of uncertainty associated with various cross-currents). Incomes came in better than expected with a high saving rate – down in the quarter but still well above pre-COVID 'normal' – pointing to scope for a further robust lift in spending near term.

Total consumption rose 1.5%qtr, taking annual growth to 4%yr. Gains were led by a continued 'normalisation' in COVID-affected service sectors and a strong surge in durables, centred on vehicles.

Nationally, consumer spending was 2.5% above its pre-COVID level. However the accumulated gain is much larger (+5.3%) for states that were unaffected by the 'delta' lockdowns in 2021 suggesting there is more reopening uplift to come in NSW and Vic.

The broad expenditure mix was largely as expected, the main exception being an undershoot on retail categories. The showed a muted 0.3%qtr gain despite a solid 1.2%qtr rise in the retail survey. While the survey does not map directly to consumer spending in the national accounts, the reason for the relatively large discrepancy is unclear. The broad mix also points to further upside potential with fuel and discretionary services spend still 7.5% and 12.2% below pre-COVID levels.

The spending detail showed more big gains for heavily COVID-impacted segments: transport services +60%qtr (but still 57% below 2019 levels); hotels, cafes & restaurants +5.3%qtr, 7.3%yr; and recreation +4.8%qtr, 7.6%yr. Together, these three categories accounted for 1.3ppts of the 1.5% gain in Q1.

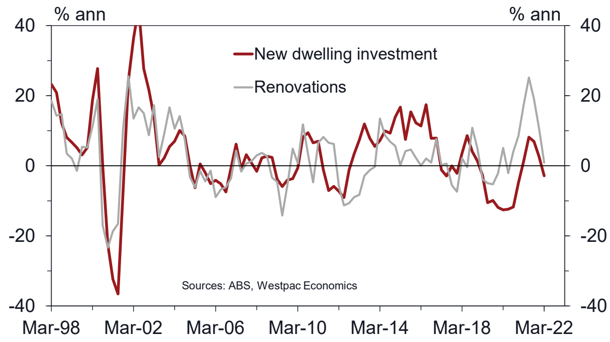
The other notable gain was motor vehicles, which posted a 13%qtr jump to be up 7.4%yr. This looks to be more temporary – the supply problems that limited reopening gains for this segment in Q4 cleared somewhat in Q1 but look to still be a big issue.

Softness was concentrated in areas that had benefited from expenditure switching during lockdowns but were now seeing patterns reverse: basic food (–2%qtr, +0.4%qtr); and alcohol (–2.9%qtr, +1.6%yr) clearly losing out in the shift back to eating out. Spending on health also fell (–2.3%qtr, –0.2%yr) as the 'catch-up' in elective surgeries and visits to health practitioners evident in Q4 went back on hold amidst the 'omicron' outbreak.

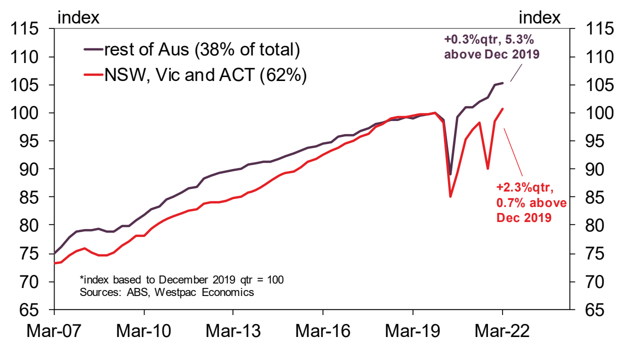
Around incomes, both labour and non-labour income held up better than expected, weather-related insurance payouts providing some notable support to the latter.

Total wage incomes rose 1.8%qtr, maintaining annual growth at a robust 5.4%yr. The detail here is clearly complicated by COVID-related disruptions. At an aggregate level, Q1 saw employment surge 1.9% but total hours worked decline 0.9% and average non-farm earnings per employee decline 0.8%. The hours worked decline clearly reflects virus disruptions. However, where this related to sickness and isolation requirements, incomes would have been maintained for those with leave entitlements. In areas where the decline in hours worked was more due to demand or weather

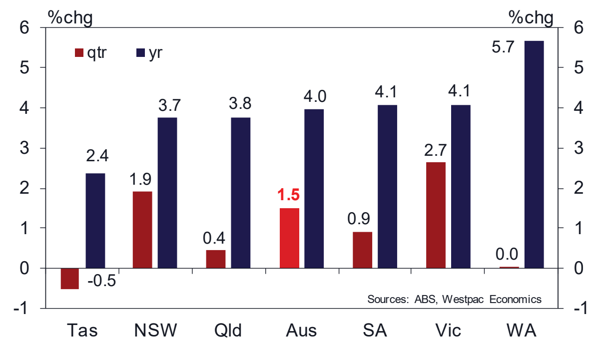
Housing hit by bottlenecks & disruptions



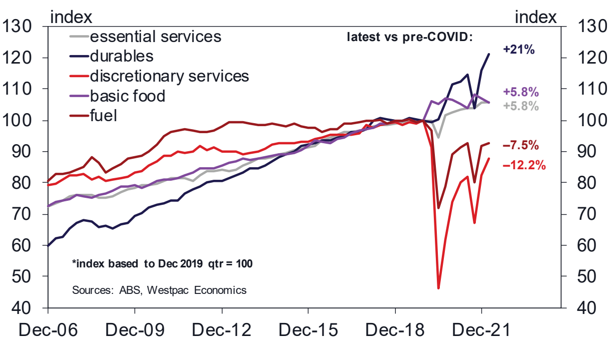
Consumer spending: 'delta states' vs rest



Consumer spending: Q1 2022



Consumer spending: broad categories



factors, or for casual employees without leave available, there would have been more negative flow-on effects for wage incomes.

Non wage incomes were more mixed but also came in a bit better than expected. The wind-back in fiscal support was expected to see a further decline here but the 0.9%qtr fall was relatively mild. Notably, $2.8bn in insurance payouts associated with severe weather events added significantly to the bottom line. Gross mixed income (mainly the profits of farm sector and unincorporated businesses) and property income (dividends and deposits) also saw decent gains – up 8.6%qtr and 2.8%qtr respectively.

Overall, total gross income rose 1.5%qtr, to be up 5.8%yr. Much of this was absorbed by a significant increase in tax payments, up 6.1%qtr as the surge in employment brought more people into the income tax system.

The net effect saw nominal household disposable income up just 0.6%qtr, annual growth slowing to 4.2%yr. Note that this was a sizeable decline in inflation-adjusted terms with real household disposable incomes declining 0.8%qtr and up just 1%yr. The consumption deflator measure of inflation in the national accounts rose 1.6%qtr in Q1 to be up 3.2%yr (the measure is typically milder and 'smoother' than the CPI in part due to definitional differences).

The combination of a decline in real disposable income and solid rise in real consumer spending produced a fall in 'new' household savings (the portion of income unspent). The savings ratio dropped from 13.4% in Q4 to 11.4% in Q1. That is still relatively high, well above the 6% rate we would expect under more normal circumstances.

In nominal terms, this reduced savings effort effectively 'freed up' just over $6bn in income, accounting for most of the $8.7bn increase in spending in the quarter. Going forward, a further normalisation in the savings rate to the 5-10% range alone would free up another $15-20bn in income – equal to about 6% of total consumption. With a large accumulated reserve from the high savings over the last two years (now about $265bn) consumers in aggregate have plenty of scope to fund further gains in spending if they choose.

The States (Elliot Clarke)

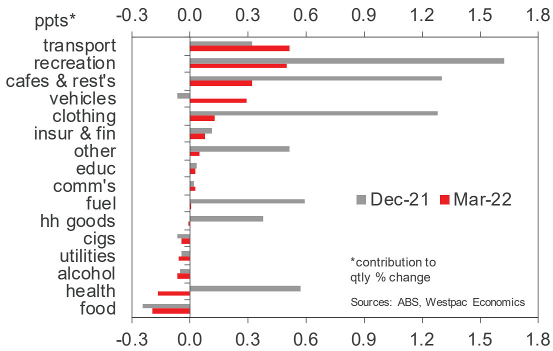
The south east's strong recovery from 2021's lockdowns continued in Q1. Except Tasmania, the other states also saw robust growth.

New South Wales followed Q4 2021's 7.0% surge with a 1.2% gain in Q1. At March, state demand is 3.8% higher than a year ago and 4.9% above its pre-pandemic level (Q4 2019). Having gained almost 14% in six months, household consumption in NSW is now 1.2% above Q4 2019. With a strong labour market and services yet to fully recover, additional healthy gains are likely in coming months. Housing investment also fared well in the three months to March despite ongoing supply constraints, activity rising 2.4% after Q4's 1.9%. While total activity in the sector is only 1.1% lower versus Q1 2021, new home construction is down 4.3%yr. Less affected by supply and labour issues, renovation work has provided a partial offset, 2.6%yr.

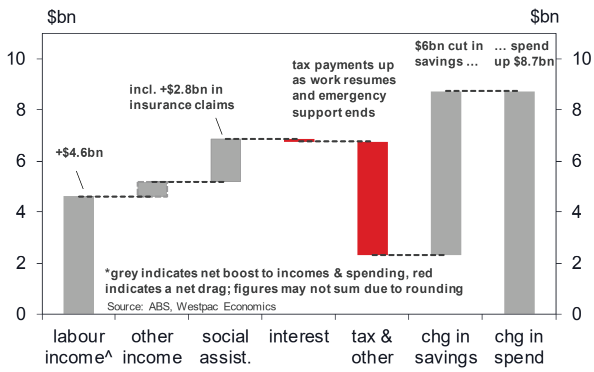
Business investment continued its choppy run of the past year in Q1, leaving activity down 1.6%yr. This is a stark contrast to Vic's 8.4%yr and the nation's 3.6%yr. In NSW, while engineering work is up 6.8%yr, non-residential construction is down 11%yr and equipment spending -4.8%yr. Public demand continues to act as an offset to this weakness in investment (7.3%yr), albeit with public investment only a small positive (1.1%yr).

Victoria's recovery from Q3 2021's contraction of 1.7% has been exceptionally strong, Q4 2021 and Q1 2022 respectively seeing growth of 3.5% and 2.4%, leaving the level of activity 6.0% higher than a year ago, and 5.4% up on Q4 2019. The consumer has been the driving force behind this rebound, consumption having gained 9.5% in the six months to March (4.1%yr). Housing investment's profile is out of step with consumption, having risen in Q3 then declined in Q4 2021. Still, activity is up 3.0%yr as a result of strength in renovation work (14%yr).

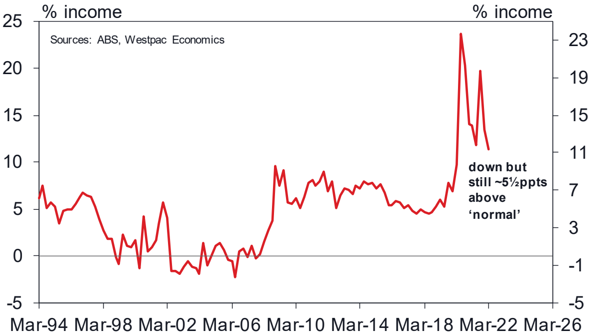
Consumer spending by category



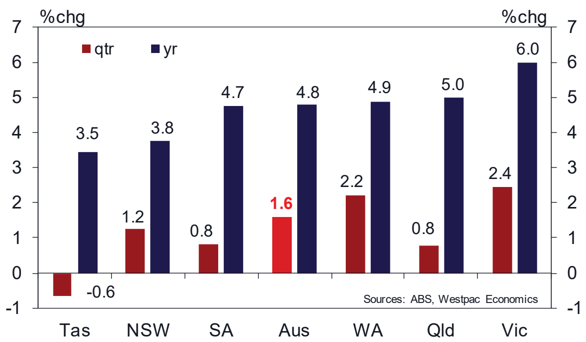
Household income flows: Q1 2022



Household savings ratio



State demand: Q1 2022



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

As noted above, Vic business investment has shown considerable strength in recent quarters, 8.4%yr. Admittedly this outperformance comes after a period of underperfomance through 2020 compared to the other states. Still, current momentum is a clear positive for the outlook, particularly as the gains have primarily come as a result of strong capacity expansion, with non-dwelling construction up 14%yr. Note as well that this private-sector investment push is being complimented by robust growth in public investment (8.6%yr), with public demand gaining 9.4%yr overall.

Queensland's economy posted a very healthy gain of 0.8% in Q1 2022 (5.0%yr). While growth in the six months to March was only a third of that seen in the prior half year, Qld did not have the same losses to recoup as NSW and Vic. As a result, state demand in Qld is currently 7.5% higher than end-2019. Behind the headline outcomes, consumption has grown broadly in line with NSW and VIc (all experiencing gains of around 4.0%yr). Housing has been considerably weaker in Qld however, with new construction and renovation work both down (respectively -3.6%yr and -6.9%yr).

Business investment, in contrast, continues to show strength, 8.3%yr. Principally, these gains have been driven by non-dwelling construction (30%yr), though engineering construction and equipment spending have also been supportive (both 3.8%yr). Like in Vic, public demand has provided very healthy support over the year, 8.0%yr, albeit with less growth in public investment, 5.4%yr.

Western Australia experienced another quarter of strong growth in Q1 2022, 2.2%, keeping annual growth near 5.0%yr. At March, WA state demand is 9.3%yr higher than prior to the pandemic, the strongest performance since December 2019 across the states.

Household consumption stalled in Q1, but annual growth is still very healthy at 5.7%yr. Q1's momentum instead came from public demand (5.8%; 9.0%yr), in particular public investment (8.5%; 22%yr). Business investment also provided a material contribution in Q1 thanks to growth of 3.4%; although activity in the sector is still down 1.6%yr as a result of the losses of the second half of 2021. Housing investment, once again, was a negative in Q1, activity in the sector having declined 7.4% over the nine months to March after a 26% gain over the year to Q2 2021. Affordability and the strength of the WA labour market should turn this downtrend during 2022.

South Australia continued to show robust momentum in Q1 as well (0.8%; 4.7%yr). Household consumption has been a key positive (0.9%; 4.1%yr), so too housing construction (2.7%; 2.7%yr). Also, while business investment was unchanged in Q1, it has risen 7.4% over the past year. Underlying this result has been a 16%yr gain for non-dwelling construction; a 7.2%yr rise for engineering work; and a 3.4%yr lift in equipment spending. Growth in public investment has been much more modest (1.1%yr), but has been made up for by public consumption, with public demand up 5.5%yr overall.

Tasmania was the only state to experience a decline in activity in Q1, a -0.6%qtr. While still above trend, the Q1 annual growth rate of 3.5%yr was materially behind the nation's 4.8%yr. Of the sectors, public demand remained a significant positive for the state (1.9%; 8.8%yr). More than offsetting was consumption (-0.5%; 2.4%yr), dwelling investment (-5.8%; -3.5%yr), and business investment (-6.0%; -2.1%yr).

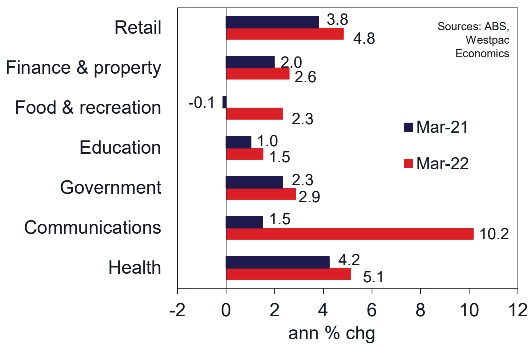
Production: an industry perspective (Andrew Hanlan)

The Production estimate of GDP printed 0.7%, with annual growth at 3.5% - readings which are broadly in line with the GDP average headline of 0.8%qtr, 3.3%yr.

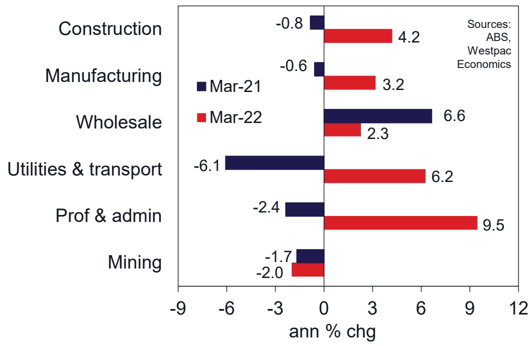
The delta lockdowns and subsequent reopening understandably significantly impacted the household services sector, as well as goods distribution. Roll forward to Q1, wet weather and severe flooding in NSW and Qld was another source of disruption.

The goods distribution sector underperformed in the quarter, contracting by -0.8%, in part due to the adverse weather - with construction broadly flat, +0.2%.

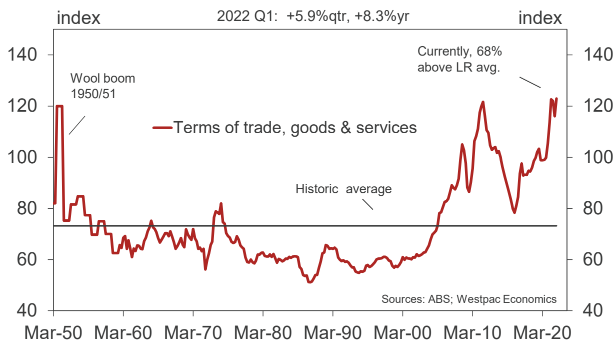
GDP by industry



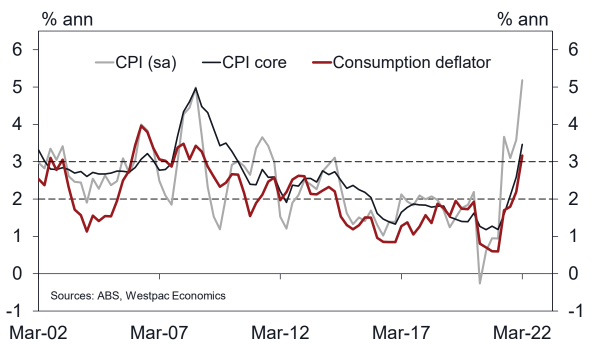
GDP by industry



Terms of trade, elevated



Consumer inflation surge



Agriculture declined, down by -5.8%, in the context of a strong improvement from late 2020 on improved seasonal conditions. Mining continues to disappoint, impacted by supply headwinds, with output -2.2% lower since September 2020, including a -1.5% for Q1.

Manufacturing expanded, +1.1%qtr +3.2%yr, responding to robust demand and benefiting from the reopening, but constrained by supply headwinds (labour and material shortages). Utilities remains patchy, up 0.9% after a -0.7%.

The household services sector consolidated, +0.3%, after rebounding strongly in Q4, +7.2%, recovering from the delta lockdown hit, a -5.4% for Q3 2021.

Hospitality, +3.7%, and arts & recreation, +4.4%, performed strongly in the quarter, benefiting from fewer restrictions and increased domestic travel after the extended delta lockdowns.

Health care & social assistance eased back, -0.9%, coming off a strong Q4, +5.9%, to still be well up over the year, +5.1%. Omicron disruptions were a factor in the opening quarter of 2022, delaying some elective surgery. Other services consolidated, -0.2%, after a delta related volatile half year (Q3, -13.6% and Q4, +17.6%). Education & training continues to tick over, +0.4%.

Business services remained an outperforming - showing further strength, up 1.2% in the quarter, to be 6.4% higher over the year.

That has the level of output for this segment 6.3% above pre-pandemic levels (vs 4.5% for total output). Professional scientific & technical services are up 10.8% on pre-pandemic levels (with a large pipeline of construction work a plus), while IT is 12.6% higher, followed by financial & insurance services, +6%, benefiting from low interest rates.

Goods production posted a Q1 result of +2.7%qtr, +5.2%yr. Wholesale trade, +3.2%, and transport, postal & warehousing, +4.3%, both had strong quarters - with a flood of imports and an inventory rebuild, as well as increased travel on fewer restrictions.

Income (Justin Smirk)

Real GDP (I) lifted a further 0.8%qtr in the March quarter following a 3.7% gain in December. However, due to base effects from a strong bounce back through 2021 the annual pace eased to 3.6%yr from 4.7%yr. From a low of -5.8%yr at June 2020 the annual pace surged to a peak of 9.4% in June 2021.

Nominal income grew a further 3.0% in March building on the 3.7% gain in December. Again due to base effects from the recovery through 2021 the annual pace eased back to 7.8%yr from 8.0% in December and the recent peak of 16.1%yr in June 2021.

The terms of trade (ToT) lifted 5.9% in March reversing the 4.9% decline in December with export prices (+9.6%) outpacing the gain in import prices (+3.5%). The ToT is now up 8.3% in the year a moderation from the peak of 24.0%yr in the year to June 2021 as commodity prices surged in the post Covid recovery. Commodity prices did ease in late 2021 but the Russian invasion of Ukraine disrupted the supply of many critical commodities driving a further lift in prices. More recently prices have started to ease as markets adjust to the events in Ukraine and start to focus on pricing in the risk of a global slowdown/recession as central banks around the world normalise monetary policy.

The following analysis is based on seasonally adjusted nominal data.

Total factor income (TFI), which is GDP (I) minus taxes less subsidies, gained 2.6% in March to be up 9.2% in the year. These numbers have been pushed and pulled around a lot in the last few years due to significant short term government support packages introduced to offset the impact of the lock downs implemented to manage the Covid pandemic. The annual growth in TFI had a recent low of 2.5%yr at September 2021.

Company profits (private non-financial) surged 7.3% in December to be up 21.6% in the year. The surge seen in commodity prices in early 2022 boosted the earnings of miners adding to a more general boost as NSW and Vic continue to reopen their economies.

Profits in the private financial sector continue to benefit from the strength of borrowing for the Australian housing sector. However, housing has started to cool, particularly in Sydney and Melbourne, and the gain in March was a more modest 0.9% following 1.3% in December, 1.4% in September and 1.7% in June 2021.

Inflation

GDP deflator surged 3.0% in March boosted by the 5.9% gain in the ToT. This took the annual pace to 6.7%yr from 5.6%yr - the annual pace has been around a 6%yr pace since June 2021.

The GNE deflator, which is not impacted by changes in the terms of trade, gained 1.5% in the quarter to be up 4.2% in the year. This was s the strongest quarterly increase since the 1.7%qtr print back in March 2001.

Consumer deflator (household consumption deflator) increased by a sizeable 1.6% in March to be up 3.2% in the year. This was the strongest quarterly increase since the 2.5% print in September 2005. As was the case in December, the March gain was a bit more modest that the 2.0% rise in the seasonally adjusted CPI in March which reported an annual pace of 5.2%yr. The household consumption deflator has a floating basket of goods and services with consumers often moving away from more expensive goods (where they can), and towards cheaper goods. As such, in a period of stronger than usual inflationary pressure National Accounts consumption deflators can run at a more modest pace than the CPI.

Total compensation of employees lifted 1.8% in March to be up 5.5% in the year. The annual pace of total compensation peaked at 6.3%yr in June 2021.

Labour costs, as measured by average non-farm compensation per employee, fell 0.8% with the annual pace moderating to 2.1%yr from 3.0%yr. This moderation does appear to be due to a drop in hours worked (see more below) as there was a lift in the number of employees in the quarter - many workers are paid on an hourly basis hence less hours results in less pay.

Hours worked fell 0.9% in March seeing the annual pace ease back to 0.6%yr from 2.4%yr in December. Of late hours worked have been more volatile than usual as the economy has been shut down, then re-opened, a number of times creating volatility in activity with many losing the ability to work. Hours worked fell 4.7% in September to then lifted 4.4% in December taking the annual pace down to 1.2%yr, from 12%, moderating even further to 2.4%yr before flattening out at 0.6%yr in March.

GDP per hour worked lifted 1.6% in March which is not surprising given the positive GDP print and falling hours worked. In the year GDP per hour worked is up 2.8%yr a solid outcome but the gains should moderate in the June quarter as hours worked bounces back.

Unit labour costs lifted 1.6% in March to be up 2.8% in the year. Due to significant base effects from a 2020/2021 surge the annal pace is just 3.7%yr, down from 5.2% in December and the recent peak of 14.4%yr in September 2021. Wages are yet to be a significant ongoing cost pressure but we are closely watching current developments as we are expecting to see a more meaningful lift in labour costs through 2022.

Westpac Economics

Bill Evans, Chief Economist
ph(61-2) 8254 8531

Senior Economists
Andrew Hanlan, Matthew Hassan, Justin Smirk, Elliot Clarke
ph (61-2) 8254 9337, 8254 2100, 8254 9336, 8253 8476

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a client of Westpac.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and Australian credit licence 233714. Information is current as at date shown on the publication. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. XYLO Foreign Exchange's combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing customercare@XYLO.com.au.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

Disclaimer continued overleaf

DISCLAIMER

Disclaimer continued

Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

I. Chinese Wall/Cell arrangements;

II. physical separation of various Business/Support Units;

III. Strict and well defined wall/cell crossing procedures;

IV. a "need to know" policy;

V. documented and well defined procedures for dealing with conflicts of interest;

VI. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.