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Further information

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Executive Summary

Australian resource and energy export earnings are forecast to be \$417 billion in 2023–24. This is broadly consistent with the December 2023 *Resources and Energy Quarterly* (REQ) but down around 10% from a record \$466 billion in 2022–23 following the spike in energy prices due to the fallout from the Russian invasion of Ukraine. In 2024–25, export earnings are forecast to fall further to around \$369 billion, reflecting further bulk commodity price declines and a rise in the AUD/USD. Through the rest of the outlook period (to 2029), export values are expected to level out as commodity price declines slow and the AUD/USD lifts modestly.

World economic growth remains soft, weighed down by relatively tight financial conditions. However, key markets have continued to support commodity demand. US economic growth has been robust despite interest rate hikes in the past 2 years. In China, strong investment in infrastructure and manufacturing capacity has helped resource and energy commodity demand in the face of weak demand from the residential property sector.

Chinese demand is likely to continue to shape commodity markets over the next five years. However, Indian economic growth is currently the strongest in the world, and its growing manufacturing base, strong infrastructure spending and demographics, all suggest rising per capita consumption of resource and energy commodities. By 2029, India will account for a significantly larger share of world commodity demand.

The global energy transition will also be a key factor in resource and energy commodities over the outlook period. While the transition will see increased demand for commodities used in low emission technologies (for example, iron ore, aluminium, copper, nickel and lithium), it will reduce demand for other commodities (such as some fossil fuels). Moreover, the continuing evolution of technologies during the energy transition increases the challenge of forecasting future demand, supply and prices.

The decarbonisation of steel/aluminium production and supply chains will affect growth and trade patterns over the outlook period to 2029. Overcoming the substantial technological, energy and feedstock

challenges required to achieve this transformation will take both time and substantial capital investment. There are already many pilot steel plants under construction around the world, especially hydrogen-based DRI operations, most of which are expected to begin over the next two years. Aluminium producers are increasingly resorting to renewable power to reduce their emissions, and this trend will accelerate over the outlook period. This will include the use of green hydrogen.

The prices of lithium and nickel reached high levels in 2022 and H1 2023. Combined with strong supply growth since 2020, softer-than-expected (cyclical and structural) demand for both metals has since seen market surpluses develop. Since the last REQ, rising inventories have seen the prices of lithium and nickel hit 5-year lows. The relatively weak price outlook has contributed to announced closures and production cuts by a number of key nickel and lithium producing nations (including Australia) and added to existing supply chain uncertainties associated with Western nations' policy measures to secure future supply.

Some high-cost nickel producers may exit the market permanently. However, nickel's use in a widening array of materials and technologies means a tightening global balance and improved prices in the latter half of the outlook period. Lithium remains a central component of batteries used in numerous technologies. Australian lithium exports are likely to remain substantial, with most lithium producers in Australia likely to remain globally competitive.

There are a number of factors that could quickly outdate some of the forecasts, including:

- a further widening of Western sanctions on Russia to include base metals, which may improve the prospects for Australian metal producers, particularly of nickel and aluminium.
- any further widening in the Hamas-Israel conflict could disrupt Middle East oil/LNG supply and raise prices, hurting world economic growth.
- higher-than-normal odds of a new La Niña episode starting in H2 2024, which raises the risk of wet weather and flooding that heavily impacted mines, transport routes and ports in Australia in 2021-23.

Overview



Australia's mining sector



Contributes to around **13.4% of GDP**



Makes up more than **two-thirds** of Australia's total merchandise exports



The resources sector directly employs **around 300,000** people

Outlook



Influences on long-term outlook: **global energy transition, geopolitics and infrastructure development**



Commodity prices and earnings expected to **ease** over the outlook period as **energy commodity prices slide**

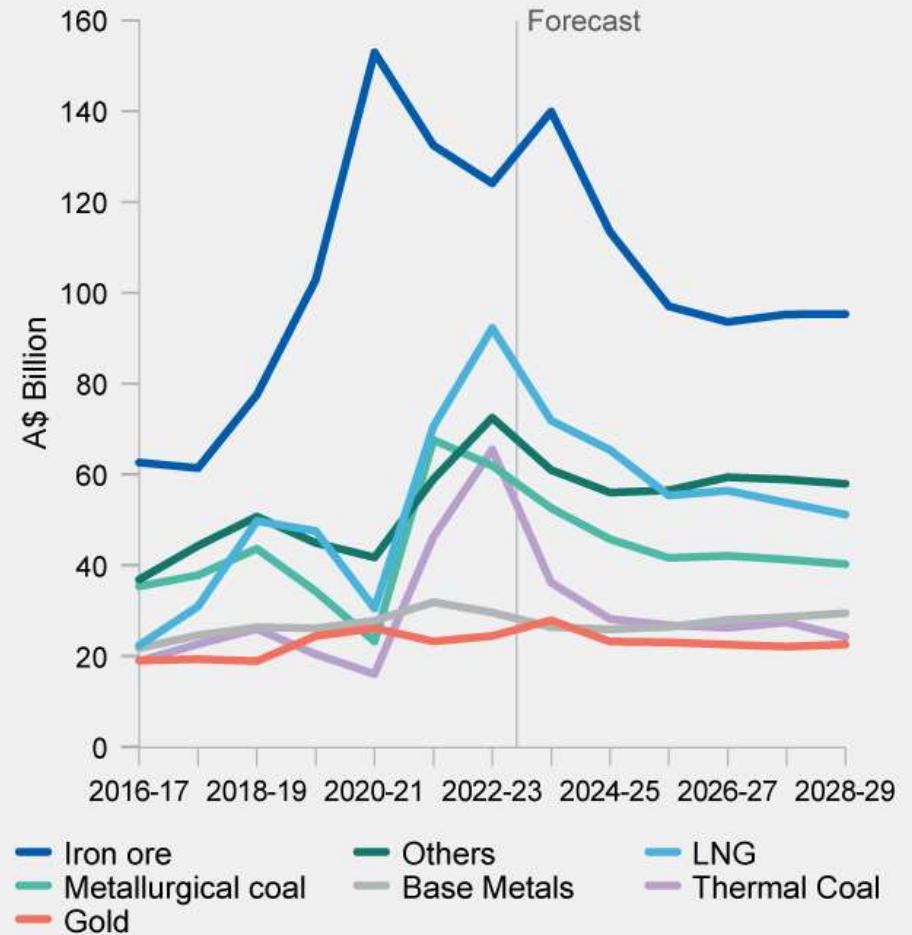


Supply disruptions for energy commodities have reduced, but new risks introduced with **geopolitical conflicts**



Investment in **new deposits and mines** is on the rise

Australia's resource and energy exports



SOURCE: ABS; DISR; OCE

1.1 Summary

- The near-term outlook for Australian resource and energy commodity exports has improved slightly in net terms since the December 2023 REQ. Major economies have avoided a recession, and the outlook is for an improvement in world economic growth in 2025 once monetary policy becomes less restrictive in major Western economies. The global energy transition and firm growth in China and India will maintain the demand for minerals over the rest of the outlook period.
- Relatively weak growth in world demand and rising world commodity supply will see Australia's resource and energy exports decline to \$417 billion in 2023–24 from \$466 billion in 2022–23. Another decline is likely in 2024–25, as commodity prices drift down and the AUD/USD lifts. Further out, lower bulk commodity prices will dampen export earnings.
- Recent falls in nickel and lithium prices have been driven by supply continuing to outpace demand, and iron ore prices have softened as worries persist over the real estate sector in China.

1.2 Macroeconomic, geopolitical and policy factors

Inflation is declining, opening the way for less restrictive monetary policies

Since the last REQ, labour markets in the major Western economies have lost some tightness and inflation has continued to moderate. Western central banks are expected to start withdrawing their restrictive monetary stance in H2 2024. Moves towards a more neutral monetary stance by the world's major central banks will support a rise in world economic growth over the next five years.

Over the same time, world economic growth will be boosted by the ongoing investment needed for the global energy transition. Demographic factors will keep labour markets relatively tight over the forecast period, maintaining relatively high household spending on goods and services, and improving government budgets.

Investment in manufacturing capacity has helped support Chinese growth as the property sector shake out continues. China's government continues to roll out new measures to put local government finances on a more

sustainable footing and support economic growth: the focus of support measures has been on fiscal rather than monetary policy, including infrastructure spending. Consumer spending has been slower with confidence hurt from property price declines.

Chinese economic growth is forecast to fall to 3-4% in the latter part of the outlook period. While this is much lower than growth averaged in the 2000-2020 period, it comes off a higher base — suggesting still high demand in absolute terms. Chinese commodity demand is thus likely to (still) be highly influential over the next five years. However, India is likely to account for a much larger share of world demand by the end of the outlook period with a growing manufacturing base, strong infrastructure spending and favourable demographics.

Low emission technologies will be key driver of future supply and demand

Government policies to drive 'net zero' and geostrategic interests are set to continue to impact both the supply and demand for commodities used in low emission technologies. Under the US Inflation Reduction Act, graduated changes to content requirements are set to impact supply chains (right back to mine level) of EVs and other low emission technologies.

Climate drivers have shifted since the last REQ: the current El Niño weather event has peaked and is now forecast to end in H1 2024. Some weather forecasters attach a higher-than-normal chance of the start of a La Niña episode in H2 2024. Should this eventuate, Australian miners may experience a repeat of the wet weather and the associated flooding of mines, transport routes and ports that hampered output in 2021-2023.

Like other sectors of the economy, the increased use of AI could boost resource and energy commodity supply by lowering the cost of exploration, production and transportation and increasing the efficiency of inventory management. Demand may also be increased through the broader impact of AI on economic growth.

Geopolitical risks continue to challenge commodity markets

Geopolitical developments continue to pose risks to the outlook for commodity markets. The widening of the Hamas-Israel conflict has already

had an impact on energy markets: attacks on shipping in the Red Sea have forced cargo ships to take alternate routes, adding to voyage time and thus shipping costs. The ongoing Russia invasion of Ukraine will continue to harm Russia's ability to produce/export resource and energy commodities; Russian miners face rising borrowing costs, impacting on their ability to develop new projects and expand existing ones. Potential investment in Russia by Chinese and Indian interests will likely only partly replace Western investment/participation.

More broadly, risks to the aggregate revenue forecasts appear evenly balanced. The impact of current relatively low prices for lithium and nickel being sustained for longer than we expect could easily be offset by iron ore prices holding up better than expected. Unemployment may rise as the impact of official interest rate hikes peaks. A widening of the Hamas–Israel conflict poses a significant risk to energy commodity and financial markets. A further widening of sanctions against Russia to include base metals may benefit Australian producers in the medium term.

AUD has attracted some support

The AUD/USD has risen slightly in recent months. This reflects market optimism over Chinese government efforts to stabilise the nation's property sector, and currency market expectations that moves in Australian-US interest rate differentials will encourage AUD buying. The consensus forecast adopted is for the AUD/USD to lift modestly in the outlook period.

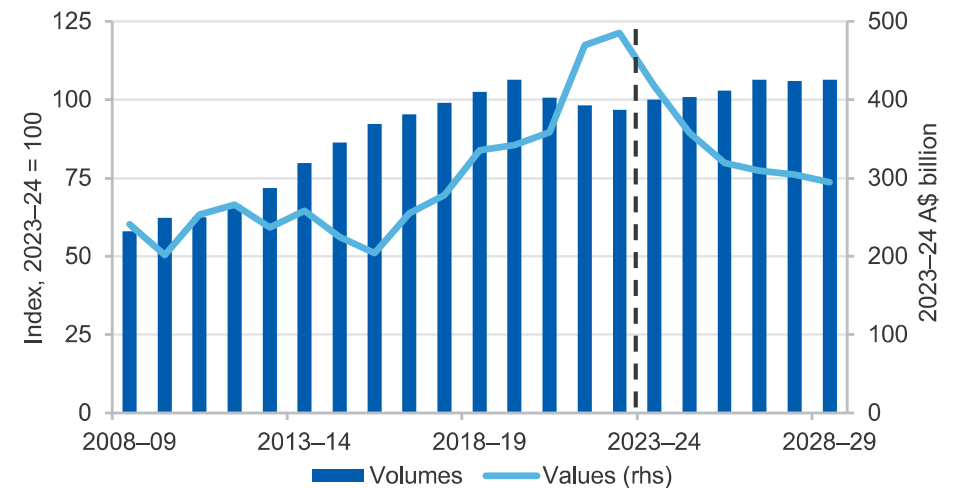
1.3 Export values

Australia's export values are forecast to be \$417 billion in 2023–24

The world economic slowdown and fewer supply disruptions generally reduced commodity prices over the past quarter. The Resources and Energy Export Values Index fell 8% from the March quarter 2023: a rise in volumes only partly offset the impact of a double digit fall in prices.

There has been a significant upward revision to the aggregate forecasts since December. Resource and energy exports are forecast to be \$417 billion in 2023–24 and \$369 billion in 2024–25. Exports are forecast to fall to around \$300 billion in real terms in 2028–29 (Figure 1.1).

Figure 1.1: Australia's resource and energy export values/volumes



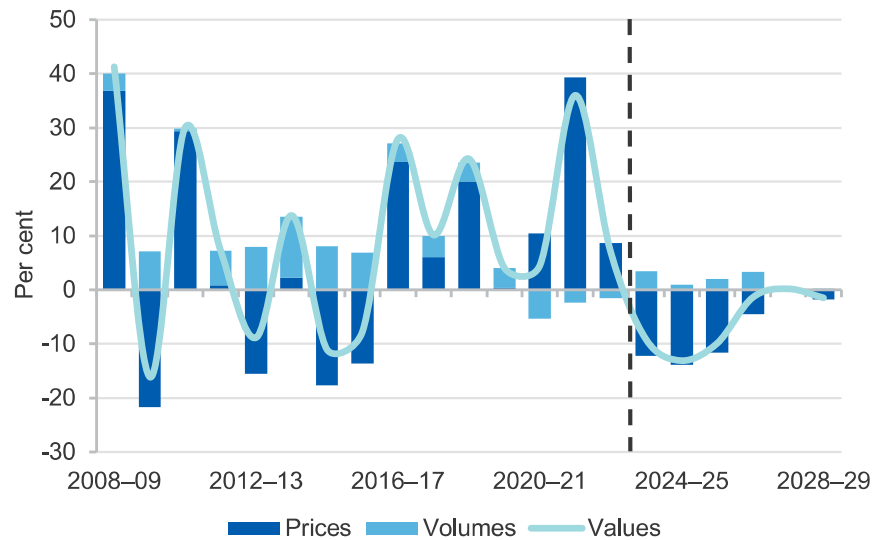
Source: ABS (2024) International Trade in Goods and Services, 5368.0; Department of Industry, Science and Resources (2024)

Weak demand and improved global commodity supply are expected to drive a fall in prices, more than offsetting the impact of a forecast small rise in export volumes (Figure 1.2). Export values are forecast to fall by 12% to \$369 billion in 2024–25, driven by lower prices.

Within the totals, energy export earnings are set to show double digit falls. LNG earnings are forecast to fall by \$6 billion to \$65 billion in 2024–25, and then settle at \$50–55 billion in the period from 2025–26 to 2028–29. Lower prices will drive the falls. Thermal coal exports are forecast to fall even more sharply: from \$66 billion in 2022–23 to \$36 billion in 2023–24 and \$30 billion in 2024–25. Exports should settle at \$24–27 billion thereafter. Uranium should earn Australia \$1 billion in 2023–24, and more than \$2 billion after 2024–25.

Among resource commodities, **iron ore** remains the largest earner, forecast to earn about \$136 billion in 2023–24, but fall to \$111 billion in 2024–25. The sharp retracement in **lithium** prices is expected to see lithium exports fall from \$20 billion in 2022–23 to \$11 billion in 2023–24. Export values should then stabilise at around the \$10–11 billion mark.

Figure 1.2: Annual growth in Australia's resources and energy export values, contributions from prices and volumes



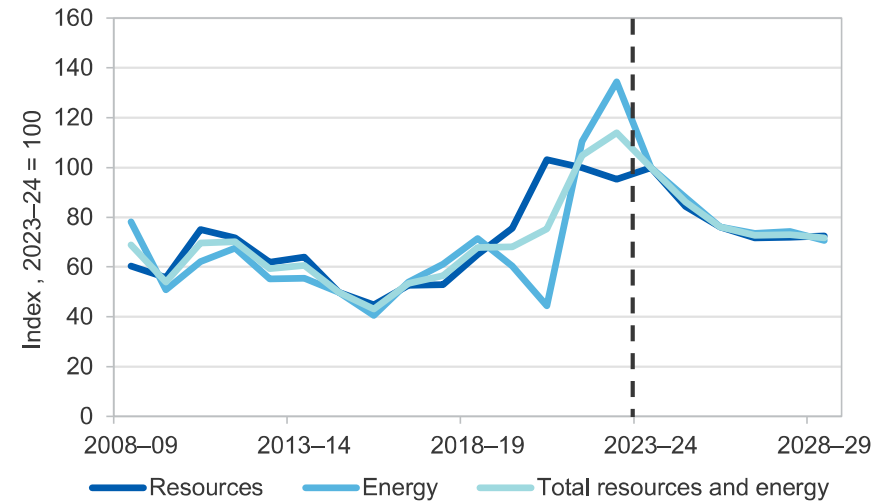
Source: ABS (2023) International Trade in Goods and Services, 5368.0; Department of Industry, Science and Resources (2024)

1.4 Prices

Since the December 2023 *Resources and Energy Quarterly*, resource and energy prices have generally declined in US\$ terms (Figure 1.3). Slow world economic growth has overwhelmed the impact of new efforts by the Chinese government to boost growth. Prices are likely to fall further but remain above pre-pandemic levels, as supply remains relatively tight for some commodities (such as coal, iron ore and copper).

In Australian dollar terms, the Resources and Energy Commodity Price Index fell by 2% (preliminary estimate) in the March quarter 2024, to be down 11% on a year ago. In US dollar terms, the index fell by 1% in the quarter, to be down 14% on a year ago. Resource export prices (in A\$ terms) were unchanged from the March quarter 2023, while energy prices fell by 21%.

Figure 1.3: Resource and energy export prices, A\$ terms

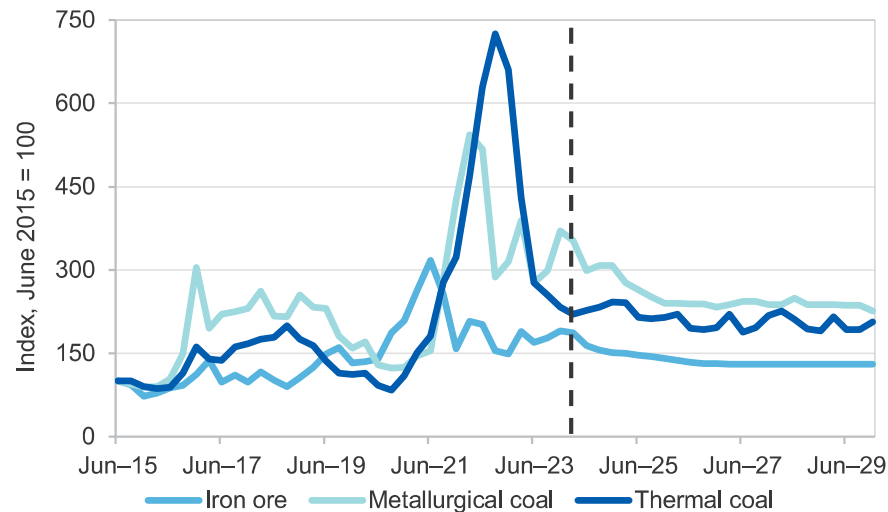


Notes: The export price index is based on Australian dollar export unit values (EUVs, export values divided by volumes); the export price index is a Fisher price Index, which weights each commodity's EUV by its share of total export values.
Source: ABS (2024) International Trade in Goods and Services, 5368.0; Department of Industry, Science and Resources (2024)

Iron ore prices have declined in net terms in recent months, hurt by worries of falling Chinese demand and high Chinese stockpiles (Figure 1.4). The price of **metallurgical coal** has held relatively high, with production problems adding to firm demand. Some Russian supply remains stranded from world markets and some Queensland mines have continued to be affected by bad weather.

Energy prices continue to ease, as demand and supply factors push in the same direction. The enormous supply chain disruptions that pushed prices high in 2022 and 2023 have continued to ease, with Western European nations obtaining supply elsewhere from Russia. Slow world economic growth has constrained energy usage. **Thermal coal** prices are still above pre-pandemic levels, with some Russian production shut in.

Figure 1.4: Bulk commodity prices



Notes: Prices are in US dollars, and are the international benchmark prices
 Source: Bloomberg (2024); Department of Industry, Science and Resources (2024)

LNG prices are declining as the Northern Hemisphere winter passes and European storage levels remain relatively high. Prices should come under downward pressure from rising US and Qatari supply in 2025. Gas/LNG markets remain more vulnerable to supply shocks following the stranding of some Russian supply.

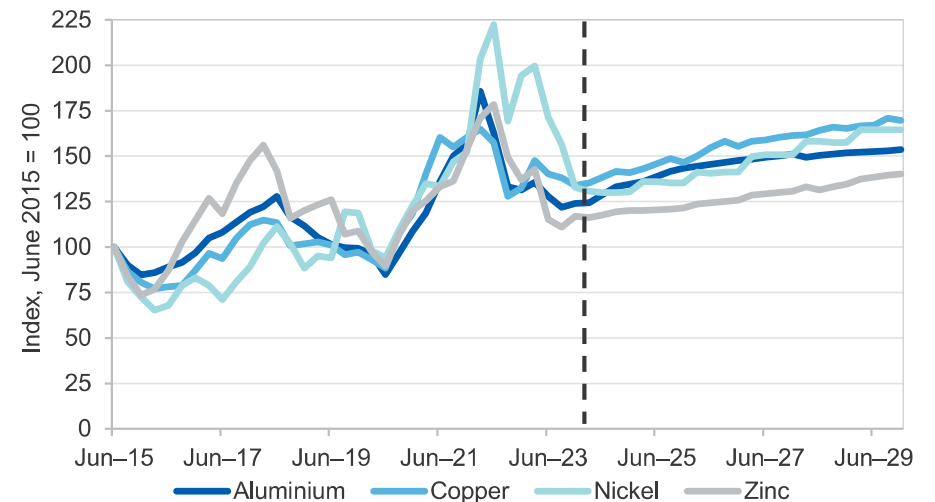
Oil prices have risen modestly since the last REQ, with OPEC+ extending output cuts to offset the impact of weak demand. However, the rising take-up of EV's will detract from demand over the outlook period.

The **gold** price has hit a record above US\$2,100 since the last REQ, on the back of a number of supportive factors: the prospect of lower interest rates in most economies in 2024–25, geopolitical tensions, and worries over the Chinese property market.

Base metal prices have been mixed, impacted by weak construction and manufacturing in major economies (Figure 1.5). The price of **nickel** has steadied after falling throughout 2023: inventories are rising due to high

Indonesian output and moderating (cyclical) global demand. Closures and cutbacks are occurring in many nickel producing nations, and further expansions in Indonesia will likely be put on hold if prices fall back to January/February 2024 lows. Exchange inventories of Russian **aluminium** are rising, shunned by Western consumers. Stocks of most base metals are low for this stage of the economic cycle, which skews price risks to the upside. Rising infrastructure-related demand (particularly for the global energy transition) should support prices over the outlook period, combined with broader demand following easing monetary policy.

Figure 1.5: Base metal prices



Notes: Prices are in US dollars, and are the international benchmark prices
 Source: Bloomberg (2024); Department of Industry, Science and Resources (2024)

Since the last REQ, **lithium** prices (spodumene and lithium hydroxide) have dropped to their lowest level since 2019. Market surpluses have seen inventories rise, and producers in a number of countries (including Australia) have announced cuts/closures in response to the relatively weak outlook for prices. However, Australian lithium exports will continue to contribute substantially to resource and energy export earnings.

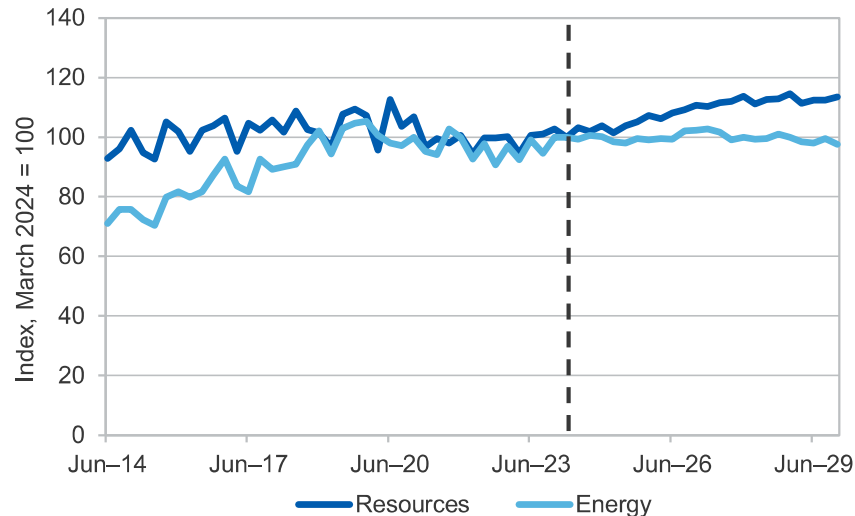
1.5 Export volumes

March quarter export volumes rose

The Resources and Energy Export Volumes Index (preliminary estimate) fell 1.1% in the March quarter 2024 from the December quarter 2023 but was up 6.7% on the March quarter 2023. Resource commodity volumes rose by 5.1% in the year to the March quarter 2024 and energy export volumes recorded 8.5% gains (Figure 1.6). High prices, better weather conditions and easing workforce problems have driven the improvement.

In volume terms, most resource exports are likely to show only modest growth in 2024 but pick up with improved world economic growth in 2025 and 2026. The global energy transition will support resource export volumes over the outlook period. Relatively high prices (due to low investment in new supply) and the global energy transition are set to see energy production and exports stagnate over the outlook period.

Figure 1.6: Resource and energy export volumes



Source: Department of Industry, Science and Resources (2024)

Energy exports will level out in 2024, as the sharp price falls of the past year temper production and encourage delayed maintenance to occur.

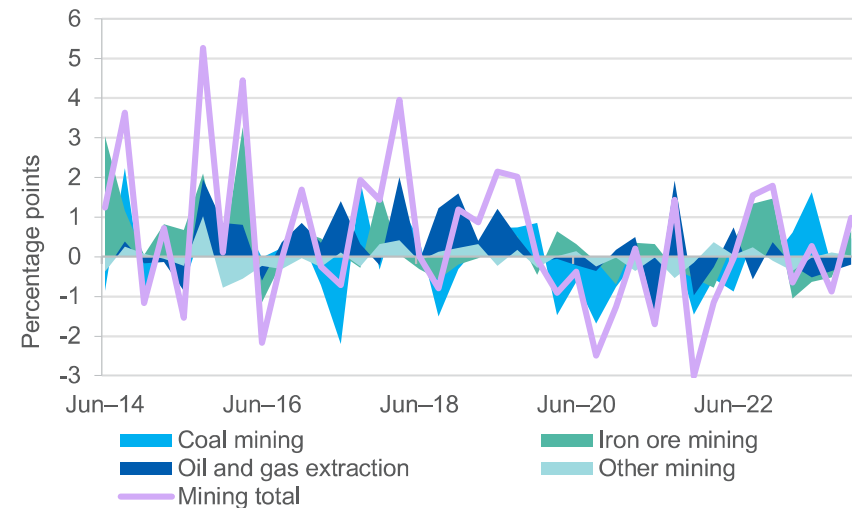
The current El Niño climate episode is expected to end by June 2024. There is a strong chance of a La Niña episode developing in 2024–25, raising the odds of the type of wet weather disruptions that hampered the production and transportation of Australian mines in the 2021–2023 period. Further out, depleting oil fields will hurt oil exports, and coal exports will be impacted by the global energy transition and constraints on finance for new mines.

1.6 Contribution to growth and investment

Mining output rose while the overall economy grew more modestly

Australia's real GDP rose by 0.2% in the December quarter 2023, to be up 1.5% from a year before. Mining value-added rose by 1.0% in the December quarter but was 0.5% lower than in December 2022 (Figure 1.7). The quarterly rise was driven by stronger Iron Ore mining (up by 1.9%) and Coal mining (up by 1.6%) which continues to recover from the impact on production of the La Niña weather episode. Exploration rose by 1.1% to be up 9.8% over the year. Oil and gas extraction contracted, as maintenance and operational issues impacted.

Figure 1.7: Contribution to quarterly growth, by sector

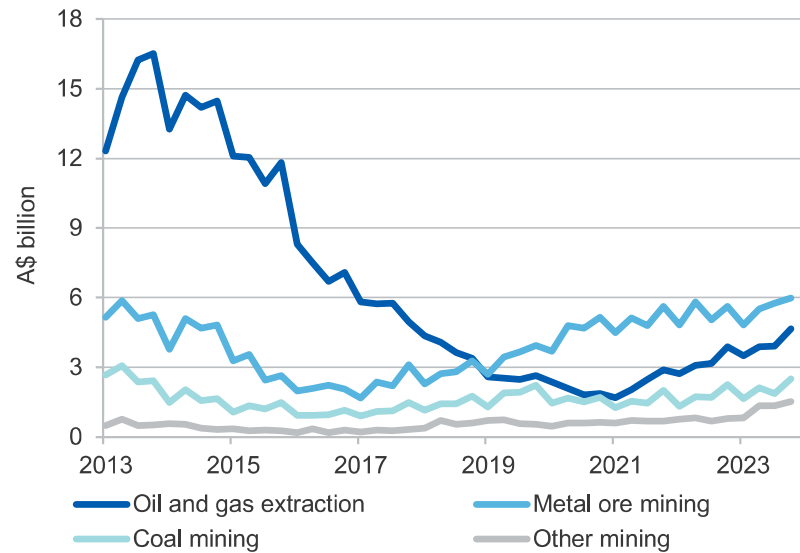


Source: ABS (2023) Australian National Accounts, 5206.0

Mining investment is growing strongly

The latest ABS Private New Capital Expenditure and Expected Expenditure survey shows that Australia's resources industry invested \$14.7 billion in the December quarter 2023, up 17% from the December quarter 2022. In quarterly terms, investment grew for all categories, with particular strength in coal, oil & gas mining (Figure 1.8).

Figure 1.8: Mining capex by commodity, not seasonally adjusted



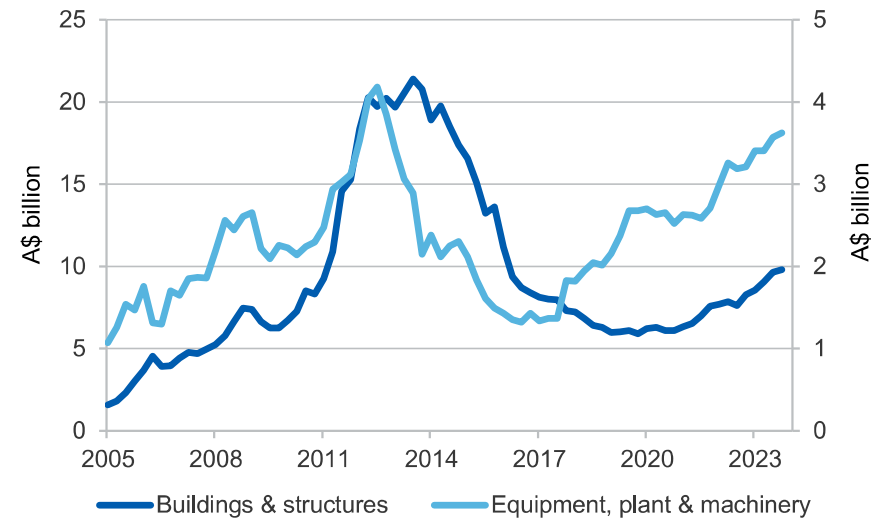
Notes: Other mining includes non-metallic mineral mining and quarrying and exploration and other mining support services; chart data is in nominal, original terms

Source: ABS (2024) Private New Capital Expenditure and Expected Expenditure, 5625.0

Expenditure for buildings and structures rose by 1.6% in the December quarter, while investment in equipment, plant and machinery rose by 4.7%, capping off two years of strong growth (Figure 1.9).

Spending on plant and machinery has accounted for a steadily rising share of total investment spending since 2017, but spending on buildings and structures is now growing steadily.

Figure 1.9: Mining industry capital expenditure by type, quarterly



Notes: Chart data is in nominal terms, seasonally adjusted.

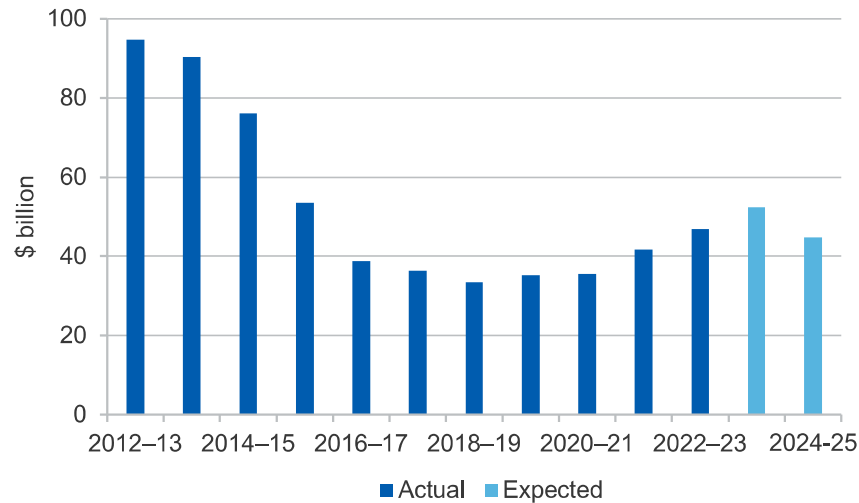
Source: ABS (2024) Private New Capital Expenditure and Expected Expenditure, 5625.0

Forward expectations suggest that total mining industry investment in 2023–24 is set to rise in the near-term (Figure 1.10). The fifth estimate for 2023–24 suggests the mining industry will invest \$52 billion during the financial year. This is around 2% higher than the fourth estimate in the survey. The first estimate for 2024–25 (\$45 billion) is around 7% higher than the equivalent estimate for 2023–24. Estimates for forward spending tend to be revised up over time.

Further out in the outlook period, capital expenditure in the lithium and nickel industries is expected to edge back following recent declines in prices.

Energy commodities including coal, gas and (especially) uranium are experiencing relatively strong prices at present, and have good prospects for enhanced exploration activity over the next few years.

Figure 1.10: Mining industry capital expenditure, fiscal year



Notes: Chart data is in nominal terms

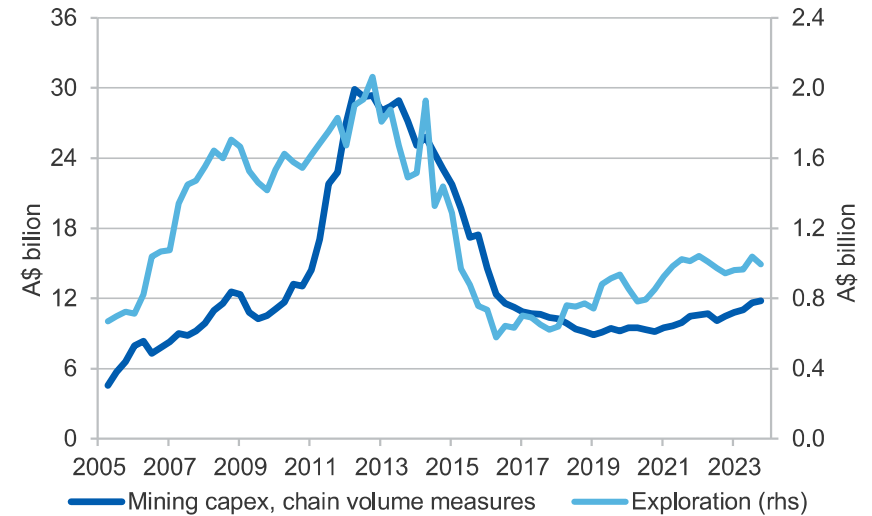
Source: ABS (2024) Private New Capital Expenditure and Expected Expenditure, 5625.0

Exploration expenditure (adjusted for inflation) fell by 5% to \$993 million in year to the December quarter 2023. However, in trend terms, exploration is rising, encouraged by relatively high commodity prices and the need for minerals vital to the global energy transition (Figure 1.11).

Industries recording significant growth in exploration expenditure include coal (up by 34% in the December quarter), oil and gas (up by 19%), and 'other mining' (up by 19%). Fossil fuel exploration is likely to have received a boost from the energy price spike of 2022. This price spike occurred as Western nations moved away from Russian exports, raising the likelihood of some Russian production being stranded for many years.

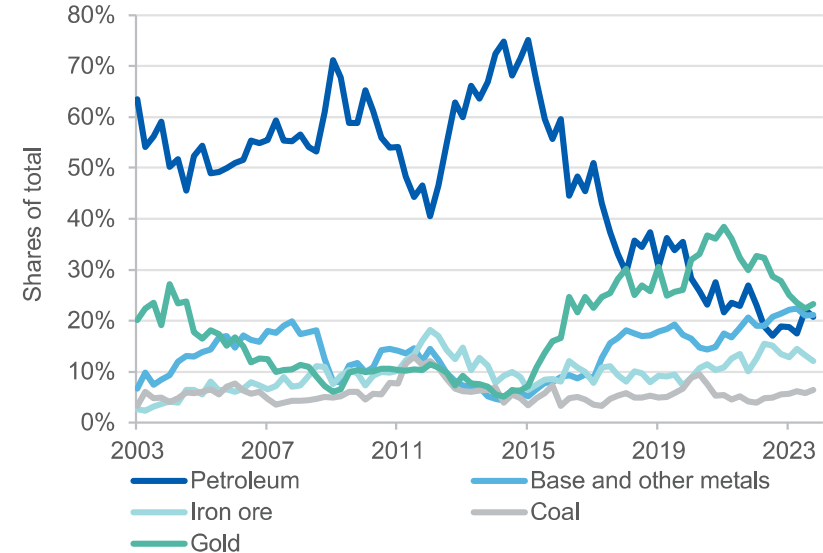
Exploration spending is a leading indicator of broader capital investment, and recent growth suggests interest is rising in precious and industrial metals (such as copper and iron ore), and critical minerals. Given the typical lags involved, we could expect capital spending by resource and energy companies to continue to lift over the next few years.

Figure 1.11: Mining capital expenditure vs exploration (real, quarterly)



Source: ABS (2024) Private Capital Expenditure Survey, Chain Volume measure, 5625.0

Figure 1.12: Shares of exploration expenditure by commodity type



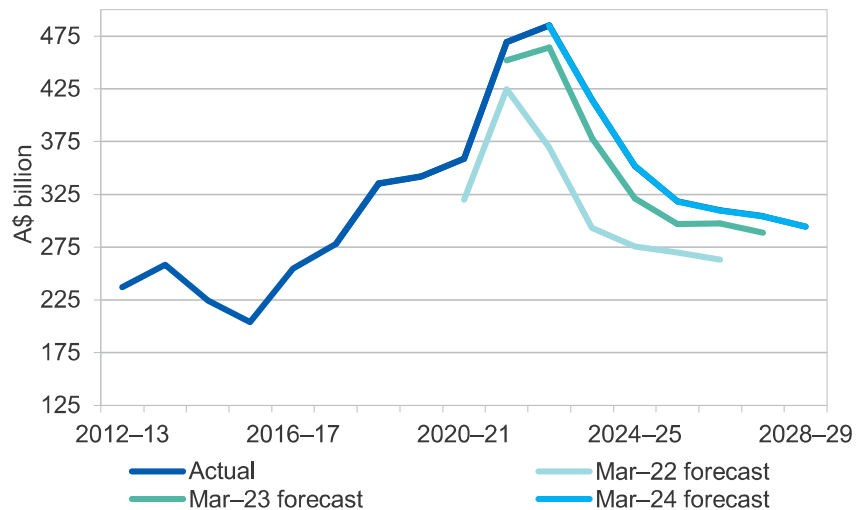
Source: ABS (2024) Private Mineral and Petroleum Exploration, 8412.0

1.7 Revisions to the outlook

The forecast for Australia's resources and energy exports in 2023–24 is \$10 billion higher than the forecast contained in the December 2023 *Resources and Energy Quarterly*. The forecast for 2024–25 (nominal prices) is \$19 billion higher than the same report (Figure 1.13). Compared to the March 2023 REQ, export earnings further out in the outlook period are holding up better than expected.

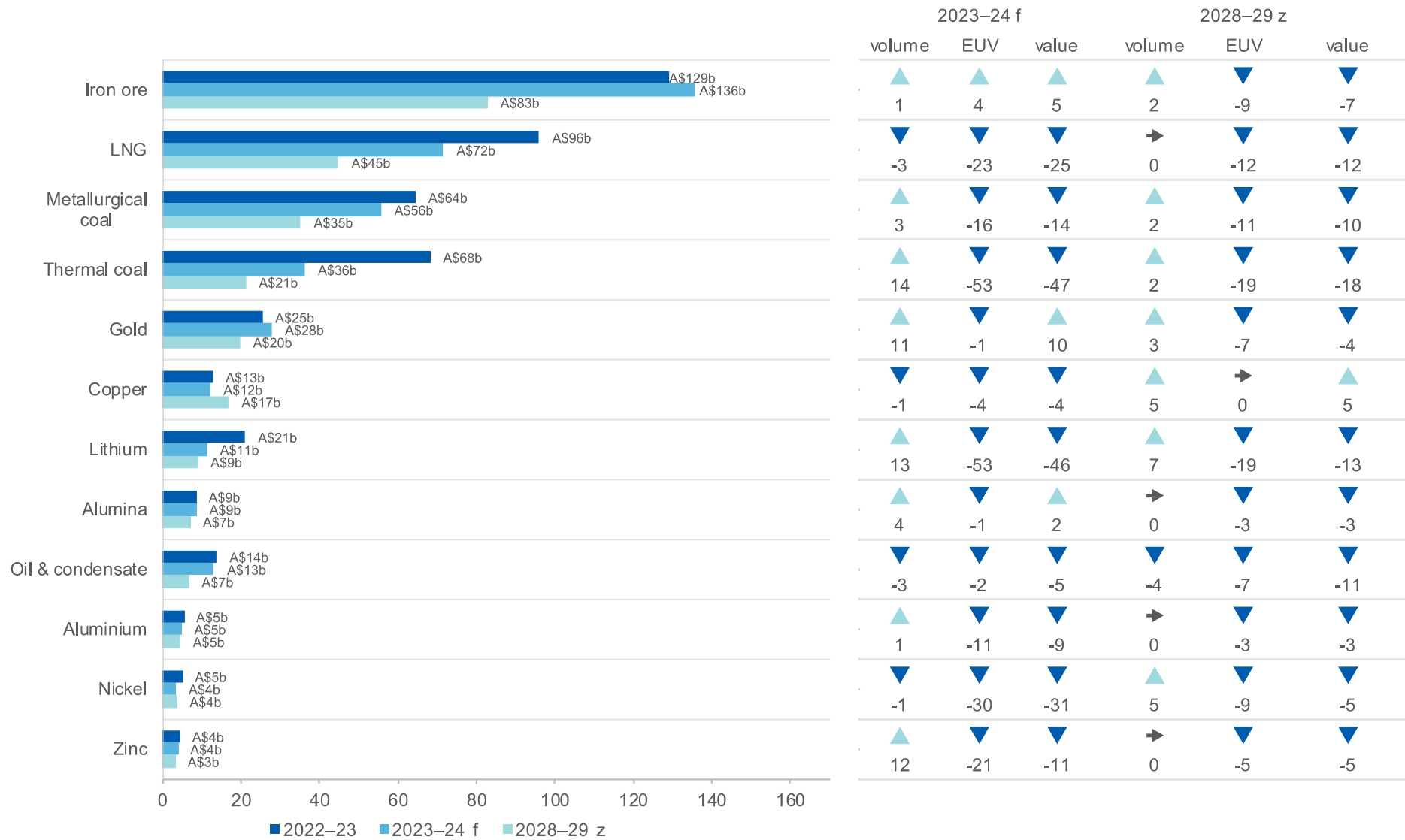
The 2023–24 and 2024–25 revisions have been largely driven by an upward revision to the iron ore price and the impact of a weaker than expected exchange rate against the US dollar (AUD/USD). Further out, an improved outlook for iron ore has more than offset downward revisions to export earnings for lithium and oil.

Figure 1.13: Resource and energy exports, by forecast publication



Source: Department of Industry, Science and Resources (2024)

Figure 1.14: Australia's major resources and energy commodity exports, 2023–24 dollars % change from 2022–23 CAGR % change from 2022–23



Notes: f forecast; z projection. EUV is export unit value.

Source: ABS (2024) International Trade in Goods and Services, 5368.0; Department of Industry, Science and Resources (2024)

Table 1.1: Outlook for Australia’s resources and energy exports in nominal and real terms

Exports (A\$m)	2022–23	2023–24 ^f	2024–25 ^f	2025–26 ^f	Percentage change			CAGR ^g %
					2026–27 ^f	2027–28 ^f	2028–29 ^f	
Resources and energy	466,338	417,092	368,892	338,664	336,657	339,042	336,128	-5.3
– real ^b	485,078	417,092	357,541	319,423	309,786	304,371	294,395	-8.0
Energy	238,711	183,402	163,127	141,082	140,437	137,686	130,916	-9.5
– real ^b	248,304	183,402	158,108	133,067	129,227	123,606	114,662	-12.1
Resources	227,627	233,690	205,765	197,581	196,220	201,356	205,212	-1.7
– real ^b	236,774	233,690	199,434	186,356	180,558	180,765	179,734	-4.5

Notes: **b** In 2023–24 Australian dollars; **f** forecast; **g** growth rate on 2022-23 levels.

Source: ABS (2024) International Trade in Goods and Services, 5368.0; Department of Industry, Science and Resources (2024)

Table 1.2: Australia's resource and energy exports, selected commodities

	Unit	Prices			Unit	Export volumes			Real export values, A\$b, 2023–24 prices		
		2022–23	2023–24 ^f	2028–29 ^f		2022–23	2023–24 ^f	2028–29 ^f	2022–23	2023–24 ^f	2028–29 ^f
Iron ore	US\$/t	95	103	75	Mt	895	900	983	129	136	83
LNG	A\$/GJ	21	17	12	Mt	82	79	79	96	72	45
Thermal coal	US\$/t	302	135	115	Mt	182	208	207	68	36	21
Metallurgical coal	US\$/t	277	289	207	Mt	156	161	175	64	56	35
Gold	US\$/oz	1,831	1,995	1,909	Mt	228	253	275	25	28	20
Lithium	US\$/t	5,174	1,800	1,231	Kt	440	499	676	21	11	9.1
Crude oil	US\$/bbl	87	84	73	Kb/d	852	845	1,135	14	13	6.9
Copper	US\$/t	8,289	8,258	10,061	Kt	282	274	215	13	12	17
Alumina	US\$/t	343	341	369	Mt	16,566	17,165	16,708	8.6	8.8	7.2
Aluminium	US\$/t	2,333	2,204	2,685	Kt	1,440	1,462	1,483	5.5	5.0	4.6
Nickel	US\$/t	23,911	17,889	20,950	Kt	161	159	214	5.2	3.6	3.8
Zinc	US\$/t	2,981	2,529	2,979	Kt	1,247	1,400	1,213	4.5	4.0	3.3
Uranium	US\$/lb	51	85	119	t	4,809	5,478	7,217	0.8	1.2	2.0

Notes: **a** Export data covers both crude oil and condensate; **b** Lithium carbonate equivalent; **f** forecast. **Price information:** Iron ore fob (free-on-board) at 62 per cent iron content estimated netback from Western Australia to Qingdao China; Metallurgical coal premium hard coking coal fob East Coast Australia; Thermal coal fob Newcastle 6000 kc (calorific content); LNG fob Australia's export unit values; Gold LBMA PM; Alumina fob Australia; Copper LME cash; Crude oil Brent; Aluminum LME cash; Zinc LME cash; Nickel LME cash; Lithium spodumene ore.

Source: ABS (2023) International Trade in Goods and Services, Australia, Cat. No. 5368.0; LME; London Bullion Market Association; The Ux Consulting Company; US Department of Energy; Metal Bulletin; Japan Ministry of Economy, Trade and Industry; Department of Industry, Science and Resources (2023)

Macroeconomic Outlook



Global GDP and economic change in 2023

Country	China	US	EU	India	ASEAN	Japan	S Korea	Taiwan	Australia
Per cent share of global GDP (PPP)	19	15	15	8	5	4	2	1	1
Yearly change	▲ 5.2%	▲ 2.5%	▲ 0.6%	▲ 6.7%	▲ 4.9%	▲ 1.9%	▲ 1.4%	▲ 0.8%	▲ 1.8%
Share of Australia's two-way trade	30%	6%	9%	4%	10%	12%	7%	4%	–

Global overview

- In 2023, global economic activity **increased by 3.1%**. Growth is expected to maintain **3.1%** in 2024 and **3.2%** in 2025.
- Steady **disinflation** and **growth in major economies** expected to **ease monetary conditions and support growth** in late 2024 and 2025.
- **China's economic growth** is projected to slow from **4.6%** in 2024 to **3.4%** in 2028.



Global risks

- **Tight monetary policy for longer** if inflation pressures, particularly in services, persist or rebound.
- Continuation of **China's property sector downturn** could dampen its economic recovery
- **Geoeconomic and weather-related shocks**



SOURCE: IMF; ABS; OCE

2.1 Summary

- Global industrial production and manufacturing activity recovered in late 2023 and early 2024, due to improvements in global goods demand.
- The outlook for global growth in 2024 improved slightly, with the balance of risks remaining slightly tilted to the downside. As inflation returns to target levels, central banks will likely adopt less restrictive stances, allowing growth to pick up in 2025.
- Despite better-than-expected growth in the December quarter 2023, key downside risks challenge China's growth outlook, including ongoing issues in the real estate sector.

2.2 World economic outlook

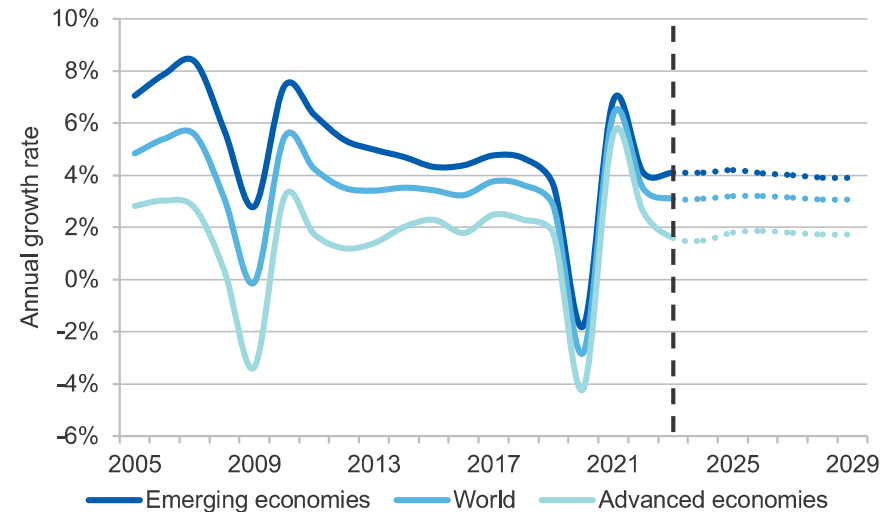
Declining inflation and resilient growth expected to support a soft landing

The International Monetary Fund (IMF) forecasts the world economy to grow by 3.1% in 2024, rising modestly to 3.2% in 2025. This represented an upgrade of 0.2 percentage points for 2024 compared to the IMF's October 2023 outlook, reflecting stronger than expected consumption in the United States, China and emerging economies in 2023. With higher confidence of a soft landing, the IMF stated the balance of risks is less negative than in October, however it is still tilted to the downside.

Growth in advanced economies is expected to slow to 1.5% in 2024, picking up in the latter half of the year and rising to 1.8% in 2025. While US consumption has continued to be stronger than expected, European economies slowed substantially in 2023 under pressure from high energy prices and tighter monetary policy. As inflation eases further towards central bank targets, easing monetary policy will support a lift in consumption and industrial activity — particularly in Europe.

Emerging economies (notably China and India) experienced stronger growth than expected in 2023 and are expected to continue this momentum throughout the outlook, with growth rising from 4.1% in 2023 to 4.2% in 2025.

Figure 2.1: GDP growth forecasts



Source: IMF (October 2023, January 2024)

Inflation eased more than anticipated in most major economies in 2023. Effects of tightened monetary policy including weaker consumption growth, retail sales, and investment intentions were seen across major economies, particularly in Europe and Japan, weighing on growth for manufacturing exporters — including China, Japan and South Korea. Signs in late 2023 and early 2024 suggest goods consumption in major economies appears to have turned a corner, with surveys pointing to improvements in global manufacturing sector output and new orders.

Over the 5-year outlook, the IMF expects global economic growth to ease to 3.1%, below the historical average of 3.8% over 2000–2019. Growth in advanced and emerging economies is expected to diverge over the outlook period, with major emerging markets China and India accounting for a major share of global economic growth by 2029. Growth in advanced economies is projected to ease over the outlook towards long-run potential growth of 1.7% by 2028, with slower growth reflecting demographic profiles and economic maturity.

The IMF expects growth in China's economy to ease from 4.6% in 2024 to 3.4% by 2028. China's growth is projected to slow as potential growth from its traditional growth engines of construction (property and infrastructure) and manufacturing exports yield diminishing returns over time, and the economy transitions towards services (see September 2023 *Resources and Energy Quarterly*).

The IMF emphasised both upside and downside risks to global growth stemming from uncertainty over the outlook for China, as its property sector downturn continues. Additional property sector reforms and large-scale investment may boost subdued confidence and household consumption over the outlook. However, structural challenges and local government financing constraints pose risks for China's growth outlook.

Downside risks to global growth remain as global core goods prices are easing but core services remain elevated relative to pre-pandemic levels. Ongoing labour market tightness may slow further disinflation, keeping monetary policy tight for longer. Fiscal policy stances are also expected to tighten across the advanced and emerging economies to rebuild budgetary room given rising sovereign debt burdens. If inflation in major economies eases to central bank targets sooner than expected, this could result in an earlier return towards neutral monetary policy, presenting an upside risk for global growth.

The sharp rise of artificial intelligence (AI) presents an opportunity for supply-side reforms as productivity and incomes are expected to improve with the growth of AI over the medium term. Advanced economies where services and cognitive-intensive roles are key drivers of the economy are likely to benefit from the technology faster than emerging economies.

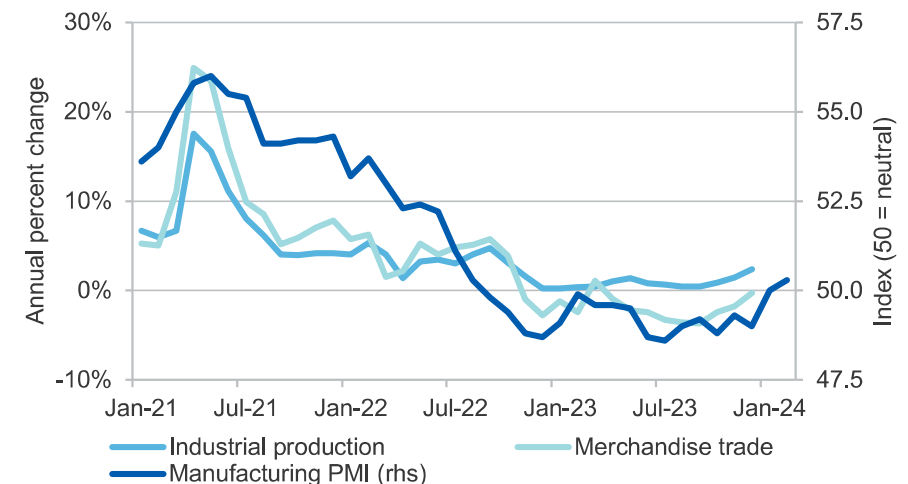
Global industrial production and trade diverges while demand remains low

Global industrial production (IP) increased by 1.6% year-on-year in the December quarter 2023 (Figure 2.2). Positive annual growth reflects lower energy prices in many major economies as well as rebounding industrial activity in China, following a weaker 2022. Global IP growth was weak throughout much of 2023 due to downturns in the industrial sectors of major producers such as Europe and Japan.

Global merchandise trade volumes declined by 1.9% year-on-year in 2023 (Figure 2.2). Softer goods demand weighed on a wide array of goods, except passenger vehicles which surged in 2023. The WTO expects a recovery of trade volume to 3.2% in 2024, however rising trade distortions and geopolitical fragmentation are expected to weigh on global trade going forward. The IMF noted 3,200 new restrictions on trade were imposed in 2022 and about 3,000 in 2023, up from about 1,100 in 2019.

Forward indicators of manufacturing activity indicate a recovery from a prolonged contraction is in prospect. The JP Morgan Global Manufacturing Purchasing Managers Index (PMI) measured 50.3 in February 2024, indicating the first expansion in 18 months. The rise was driven by expansions in major producers such as China, the United States, India and South Korea. Improvements in global manufacturing activity have come through increasing output, with new orders also rising above 50 for the first time in 20 months. The downturn in new export orders continued but the rate of decline eased, raising optimism in the manufacturing sector.

Figure 2.2: World industrial production, trade and manufacturing



Notes: PMI data is up to February 2024; IP and trade data only available to December 2023. Source: Bloomberg (2024); CPB Netherlands Bureau for Economic Policy Analysis (2024).

Inflationary pressures easing but remain vulnerable to further shocks

Headline inflation measures have continued to decline over recent months in many major economies; however, progress to return inflation to target levels has been slowed recently by persistence in services inflation.

US headline inflation measured 3.2% in February 2024, moderating less than expected despite lower energy and food prices (Figure 2.3). US services inflation rose marginally to just below 5.0% year-on-year, raising concerns over the pace of further disinflation.

Eurozone headline inflation maintained its moderating trajectory in February 2024 to 2.6%, albeit recording a slightly higher result than its low point of 2.4% in November 2023. Headline inflation has declined significantly throughout 2023 due largely to falling energy prices, however core inflation (excluding food and energy prices) appears to be easing at a slower pace, falling to 3.1% in February 2024.

In January 2024, the IMF forecast global headline inflation would fall from 6.8% in 2023 to 5.8% in 2024 and 4.4% in 2025. Compared to the October 2023 outlook, the forecast for 2025 was revised down marginally, while the forecast for 2024 was unchanged. Inflation is expected to fall more quickly in advanced economies due to tighter monetary policy and less exposure of these economies to commodity price and exchange rate shocks.

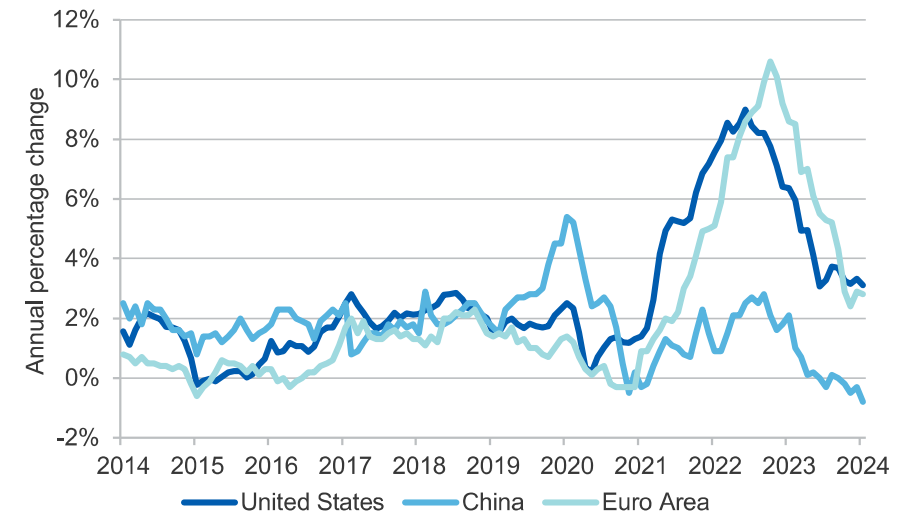
The Hamas-Israel conflict and the escalation of geopolitical tensions in the Middle East presents upside risks to inflation through energy commodity prices and shipping prices. The Middle East produces about 35% of the world's oil exports and 14% of gas exports, and hosts key transit routes for energy commodity shipping such as the Persian Gulf and the Red Sea.

Attacks on commercial shipping vessels in the Red Sea (which controls 11% of global trade) have also caused diversion of shipping around the Cape of Good Hope, driving up global shipping prices. Shipping transiting the Red Sea has dropped by more than half since early December, and further escalation of the conflict may lead to a rebound in global goods price inflation. This shipping disruption has occurred at a time when another key transit corridor (the Panama Canal) is running at low capacity

due to drought: daily transits through Panama Canal were down to 20 slots in January 2024 from its normal capacity of 38–40.

The potential for inflationary shocks through global commodity or shipping prices is elevated over the outlook period, due to heightened geopolitical risks, fragmentation of world trade and greater potential for weather-related shocks such as drought or flooding.

Figure 2.3: CPI inflation in the United States, China and Europe



Source: Bloomberg (2024)

2.3 Major trading partners' economic outlook

The outlook for Australia's major trading partners remains weak, with their GDP growth in 2024 forecast by the RBA to be around 3.1%, then 3.0% in 2026, well below its pre-pandemic decade average. Slower growth in Australia's major trading partners is expected to slow demand for Australia's exports. That said, the IMF expects robust economic growth in China and the US, as well as ongoing expansion in India. Growth from these key markets should support growth in their trade partners' economies, underpinning Australian resource and energy export earnings over the outlook period.

Box 2.1: Commodity demand prospects will be underpinned by urbanisation and investment in Australia’s major trading partners

Long-term demand for resource and energy commodities has historically been driven by fundamental drivers such as population (total resource demand), income growth (consumption intensity), urbanisation (commodity intensity) and technological change (changes in commodity mix).

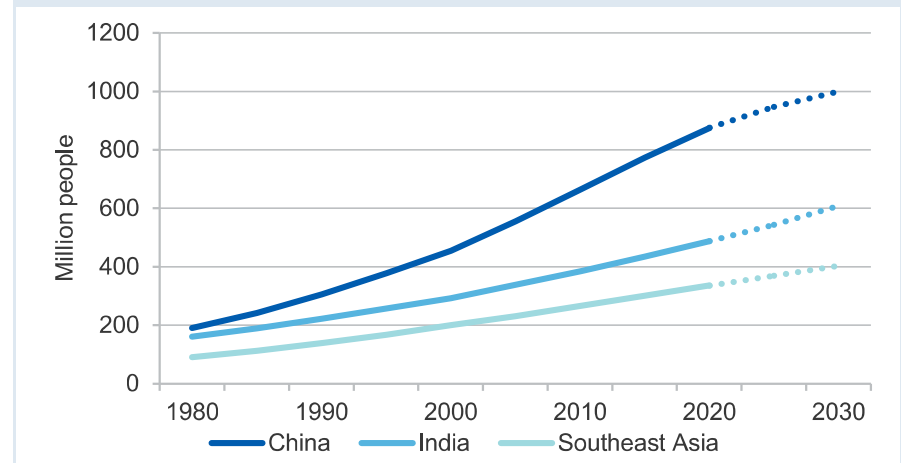
Three key export markets for Australia (China, India and Southeast Asia) are projected to add 313 million people to their urban populations from 2020 to 2030 (Figure 2.4). This will be a major driver of increased energy consumption within these regions, as well as metal consumption for infrastructure and property construction. While China’s property sector has slowed and may drive less commodity demand growth than otherwise, its urban population is still expected to continue growing — albeit at a slower rate than previously.

A significant structural shift in commodity demand is also expected to result from the technological change arising from the energy transition. This will drive a shift in the commodity mix required for energy generation from traditional energy commodities (such as coal) to those used in clean energy technologies (such as lithium and copper).

As economies continue to grow, urbanise and develop new industries (such as in the clean energy value chain), this will drive new growth in demand for Australia’s resource and energy commodities, as well as shifts in the weighting of Australia’s major trading partners (such as China and India) as sources of demand for specific commodities (Figure 2.5)

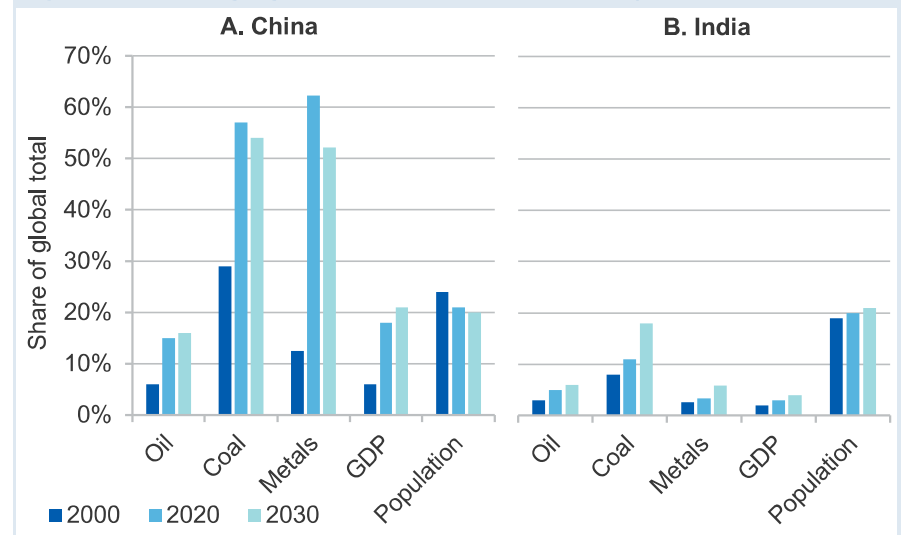
In the medium-term this will be driven largely by global investment efforts to construct clean energy infrastructure and value chains as governments and business work towards 2030 emissions targets. Demand for Australian resource commodities is expected to be assisted by policies such as the US Inflation Reduction Act which will provide incentives for manufacturers to use Australian critical minerals.

Figure 2.4: Urban population projections for key export markets



Source: UN (2018, 2022)

Figure 2.5: Changing concentration of commodity demand



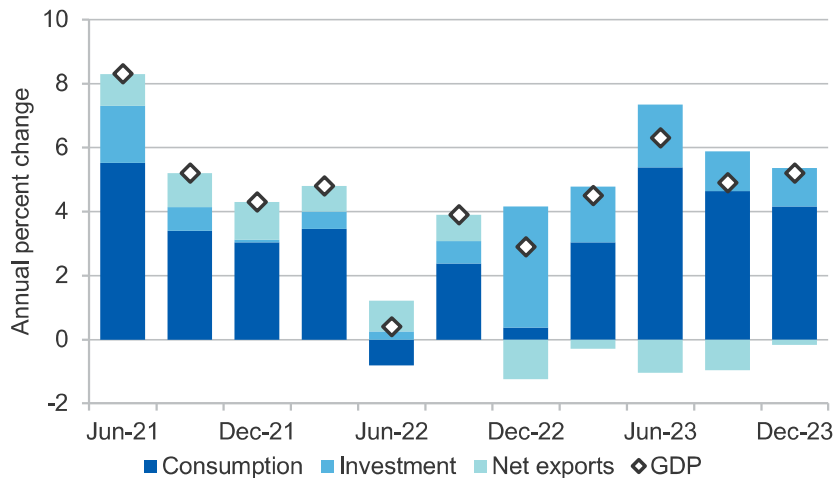
Notes: 'Metals' here refers to steel, copper, aluminium, nickel and zinc.
Source: IMF (2024); UN (2022); Wood Mackenzie (2024)

China's recent growth exceeded expectations, but risks remain

China's economy grew by 1.0% in the December quarter 2023, with GDP 5.2% higher year-on-year (Figure 2.6). Strong household consumption growth was the key driver of China's economic growth in 2023, as services demand recovered following the lifting of pandemic restrictions in early 2023. Policy measures to boost investment in infrastructure and manufacturing supported the rebound. However, the IMF expects China's growth to slow over the coming years, as consumption growth fades and the property sector remains weak.

While the rebound in consumption demand appeared to fade through the middle of 2023 — leading to bearish forecasts for China's economy — recent indicators point to strengthening consumption early in 2024, particularly in services. The official index of services production increased by 5.8% year-on-year in January-February 2024, led by growth in accommodation and food services (12%), and information and technology services (10%). Retail sales of consumer goods rose by 5.5%, driven by growth in online sales of physical goods by 14%.

Figure 2.6: China – contributions to quarterly real GDP



Notes: Consumption is made up of both household and government sectors.
Source: Bloomberg (2024); National Bureau of Statistics of China (2024)

In February 2024, China's inflation rose to 0.7% year-on-year following 4 consecutive months of deflation. The rebound in price growth was driven by food price deflation easing to an 8-month low as the prices of pork and fresh vegetables lifted. China's core inflation — excluding food and energy prices — rose to 1.2% in February 2024, remaining below policy targets.

Year-to-date fixed asset investment (FAI) increased by 4.2% year-on-year in January-February 2024, supported by 6.3% growth in infrastructure and 9.4% growth in manufacturing investment. Particularly strong growth was reported for investment in high-tech manufacturing, rising by 10% year-on-year. Private FAI was up by 0.4% during January-February 2024, weighed down heavily by declining investment from private property developers. This has translated to a higher share of FAI from state-owned enterprises.

China's industrial production rose by 7.0% year-on-year in January-February 2024, the fastest rate in 2 years. Growth was driven by continued strength in utilities output (7.9%) and manufacturing (7.7%). Notable year-on-year increases were reported for automobile production (9.8%) and electric vehicle charging stations (41.8%). This followed strong growth in automobile industry output throughout 2023, especially EV's and hybrids.

The Caixin Manufacturing Purchasing Managers' Index (PMI) rose to 50.9 in February 2024, a fourth straight month of growth. Output improved with modest growth in new orders. New export orders grew for the second consecutive time in 7 months, and overall sales rose the most in 5 months. Business sentiment hit a 9-month high, linked to projections of higher world demand.

The persistent downturn of China's property sector — which accounts for around 30–35% of China's steel demand and 20% of total GDP — has continued to act as a drag on China's economic activity, with conditions remaining weak despite various monetary and fiscal policy support measures announced in 2023. Investment in real estate development declined by 9.0% year-on-year in January-February 2024 and new property starts (by floor space) were on average 20% lower year-on-year in 2023. New home sales in 30 major cities fell by 33% year-on-year in January 2024.

With more than half of large private developers in China either defaulting or under severe financial stress, Chinese authorities are actively adopting new policy measures to stabilise the property sector, supporting its overall economic growth target of 5% in 2024.

The Chinese Communist Party conference in December 2023 called for a “new model” to increase the state’s share of its property market, from 5% currently to 30%. One of the programs underpinning its plan is “Project Whitelist”, a policy launched by the housing ministry in January and approved by banks in February. The project involves CNY123.6 billion (US\$17.2 billion) and local governments to compile a list of property projects eligible for financial support and collaborate with banks to fulfil the financing needs of these projects. Another program involves the state to purchase existing distressed projects and newly build more subsidised housing for low-and-middle-income families, aimed to add 6 million affordable housing units over the next five years.

In February 2024, the People’s Bank of China (PBoC) cut its key mortgage rates – five-year loan prime rate — by 25 basis points, and injected CNY1 trillion into the banking system by cutting the reserve requirement ratio for banks. Key Tier 1 cities — Beijing and Shanghai — introduced lower mortgage down payment requirements for first and second homes in December 2023, and cut interest rates on outstanding first-home mortgages to support household consumption.

Escalating structural issues continue to weigh on the property sector rebound, as local government debt levels rise while the population declines and properties remain oversupplied. The IMF expects fundamental demand for new housing (measured by urban household formation) to drop by 50% over the next decade. China’s population declined for the second consecutive year in 2023 (-0.15%), a sharper decline than 2022. China’s working age population peaked in 2011, while the number of people above the national retirement age of 60 is projected to increase from 280 million to 450 million by 2035. Ageing demographics is expected to worsen local government budget shortfalls and pressure China’s current pension system.

A potential new source of growth in China’s economy is its active push to be dominant in high-end goods manufacturing. China became the world’s largest car exporter in 2023, driven by its stronghold in the electric vehicle (EV) market. Last year, Chinese EV exports grew by 70%, reaching a global market share of 35%. Its large domestic market, strong EV and green energy supply chain ranging from key battery minerals to processing technologies, and favourable government policies have contributed to a distinct cost advantage for Chinese EVs and batteries. Continued government support is expected as Chinese authorities named EV exports a “key pillar” of its trade in February 2024.

The IMF expects China to grow by 4.6% in 2024, an upward revision of 0.4% reflecting ongoing investment in infrastructure and manufacturing and stronger than expected consumption. The IMF projects growth to drop to 4.1% in 2025 and 2026 and to 3.4% by 2028 in line with a long-term trend towards lower growth. Uncertainties remain, with its ongoing real estate downturn, local government debts, and headwinds to its export-led growth — due to bifurcating supply chains and rising trade restrictions.

[Japan slowing due to weak real incomes and external demand](#)

Japan’s GDP rose by 1.0% year-on-year in the December quarter 2023, with annual growth weighed down by two consecutive quarters of decline over H2 2023. Private consumption — accounting for 53% of GDP — was the key drag on GDP growth, having contracted for 3 consecutive quarters to be 0.5% lower year-on-year. Cost of living pressures have weakened consumers’ real incomes, with post-COVID pent-up demand for services appearing to fade in the December quarter 2023.

In response to cost-of-living pressures, the government released a ¥17 trillion economic relief package in November 2023 aimed at supporting consumption (e.g. cost of living relief measures) and business investment (e.g. targeted tax cuts for strategic sectors).

The depreciation of the Yen through much of 2023 contributed to strong growth in Japan’s exports, however this was not enough to lift Japan’s industrial sector out of contraction. Slowing growth in goods demand both

domestically and in Japan’s major trading partners, was a key issue for its commodity-intensive industrial sector throughout 2023.

Japan’s industrial outlook remains weak, however there are signs of improvement with several important indicators returning to growth as 2023 ended. Vehicle exports improved over the year (up by 11% year-on-year in November 2023), as did growth in machinery orders (6.1% in December 2023) and industrial output (0.6% in December 2023) (Figure 2.7).

While the Jibun Bank Japanese Manufacturing PMI remained in contractionary territory in February 2024 — due to weakening demand and cost pressures — firms remained optimistic about the 12-month outlook, citing expected improvements in market demand.

Japan’s core inflation declined to 2.0% in January 2024, meeting the Bank of Japan (BoJ) inflation target. Supporting expectations for cost pressures to ease further, Japan’s producer price inflation was reported at 0.2% in January 2024, down from 9.5% in January 2023.

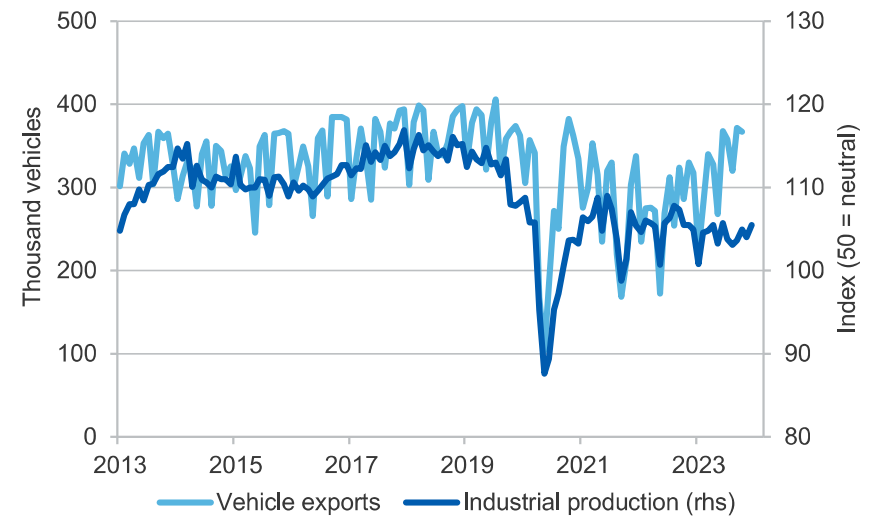
The IMF expects Japan’s economic growth to slow to 0.9% in 2024, a slight downgrade from October 2023, then slow further to 0.8% in 2025. Growth is expected to slow as factors that supported strong growth in H1 2023 fade, such as COVID-related pent-up demand and the surge in inbound tourism. While Japan’s exports grew strongly in 2023 due in part to Yen depreciation, further depreciation to the same extent is unlikely based on the outlook for interest rates in other major currency hubs.

As the effects of past stimulus efforts fade and macroeconomic policy settings return to neutral, Japan’s economic growth is projected to slow to 0.5% in 2026, then to its long-run potential of 0.4% from 2027 onwards.

South Korea’s industrial outlook has turned positive

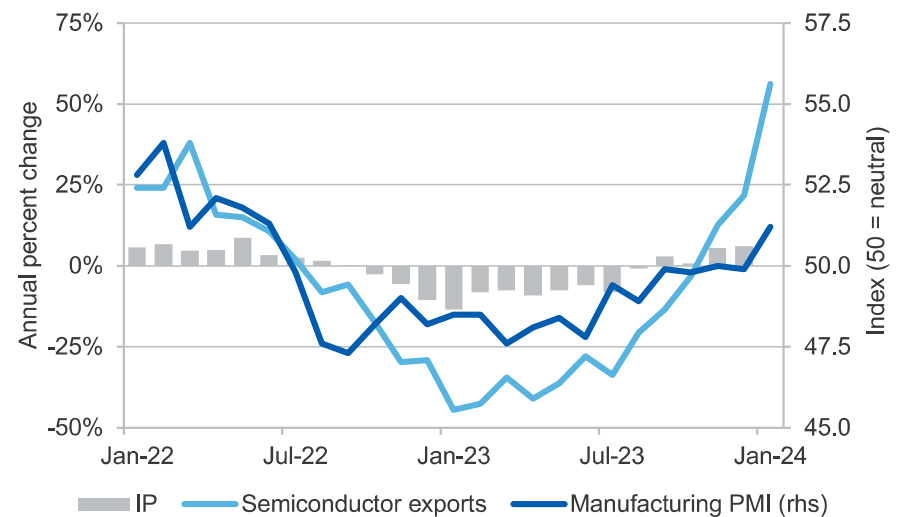
South Korea’s GDP grew by 2.2% year-on-year in the December quarter 2023, recovering from 0.9% in the June quarter 2023. Annual growth was primarily driven by 9.9% year-on-year growth in exports which, combined with imports tracking flat, led to a 61% expansion in the country’s trade balance. Export growth was led by sales of manufactured products, including vehicles, ships and semiconductors.

Figure 2.7: Japan industrial production and vehicle exports



Source: Bloomberg (2024)

Figure 2.8: South Korean industrial activity and exports



Source: Bloomberg (2024)

South Korea's industrial sector and goods exports appear to be on the upswing, having been weighed down in 2022–23 by the downturn in the global technology cycle and falling global goods demand.

South Korea's industrial production increased in December 2023 to be 6.2% higher year-on-year (Figure 2.8). Having been in contractionary territory since mid-2022, South Korea's manufacturing PMI returned to expansion in late 2023 and rose further to 50.7 in February 2024. Improvement in February was led by increasing output and the second consecutive expansion in new orders since June 2022. Exports of semiconductors increased by 56% year-on-year in January 2024, rebounding from a prolonged downturn which commenced in August 2022.

The IMF forecasts South Korea's economic growth to be 2.3% in 2024 and 2025, supported by robust growth in goods exports and investment. Growth is then forecast to ease to 2.2% in 2026 and to 2.1% by 2028.

Resilient US labour market and consumption supporting growth

The US economy grew by 3.1% year-on-year in the December quarter 2023, driven by robust personal and public consumption growth. This was driven by continued growth in both goods and services consumption. While 2022 and H1 2023 were characterised by weak goods consumption growth — as consumers preferred services following the end of COVID restrictions — goods consumption picked up towards the end of the year, growing by 5.1% in real terms in December 2023 (Figure 2.9).

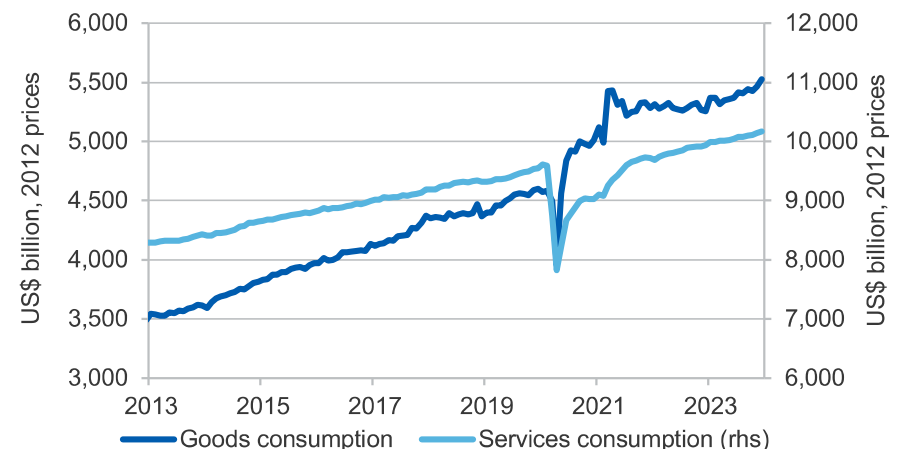
US labour market resilience and remaining savings buffers have continued to support strong consumption. The US labour market has softened slightly, but less than was expected. The unemployment rate held steady at 3.7% in January 2024, only marginally higher than the average of 3.5% in H1 2023. While official employment growth slowed further over the end of 2023 and into early 2024, an alternative measure (nonfarm payroll employment) instead indicated an acceleration in employment growth, adding 353,000 jobs in January 2024 — above the average rise of 220,000 over H2 2023. Wage growth has also rebounded, up from 5.2% in September 2023 to 6.8% in December 2023.

Supported by investment policies such as the Infrastructure Investment and Jobs Act, Inflation Reduction Act and the CHIPS & Science Act, US private non-residential investment and construction spending continued to grow strongly over H2 2023. Investment growth has been led by spending in power and manufacturing, with private investment in manufacturing structures rising in real terms by 69% year-on-year in December 2023.

US industrial production tracked flat year-on-year in January 2024, as declines in manufacturing (down by 0.9%) and mining output (down by 1.2%) associated with cold weather, were balanced by higher utilities output (up by 9.0%) for heating purposes.

The US industrial outlook appears to be recovering in early 2024. The US Manufacturing PMI stayed in contractionary territory at 47.8 in February with both manufacturing output and new orders returning to contraction amid seasonal headwinds. Notable improvement was reported in new export orders returning to expansion after 8 months of contraction. Output is likely to improve further in coming months, given cold weather impacts in February are expected to subside.

Figure 2.9: Real US consumption of goods and services



Notes: Consumption data is monthly, reported in annualised terms.
Source: Bloomberg (2024)

In January 2024, the IMF upgraded its forecast for US economic growth in 2024 by 0.6% to 2.1% due to ongoing strength in US consumption and ongoing labour market tightness. The IMF also revised down its forecasts for US inflation, which is now expected to average 2.2% in 2024 and 1.9% in 2025 — downward revisions of 0.5% in both years. Combined with declining US inflation (both headline and core) and ongoing increases in US labour productivity growth (2.7% in the December quarter 2023), markets and the US Federal Reserve are convinced the US tightening cycle has concluded. In their December economic projections, the Federal Open Market Committee’s median expectations suggested at least 75 basis points of interest rate cuts in 2024. The recent strong monthly increase in US core inflation (0.4% in February 2024) has cast doubts over the pace of further declines in services inflation, however the US Fed is broadly expected to commence its cutting cycle in 2024.

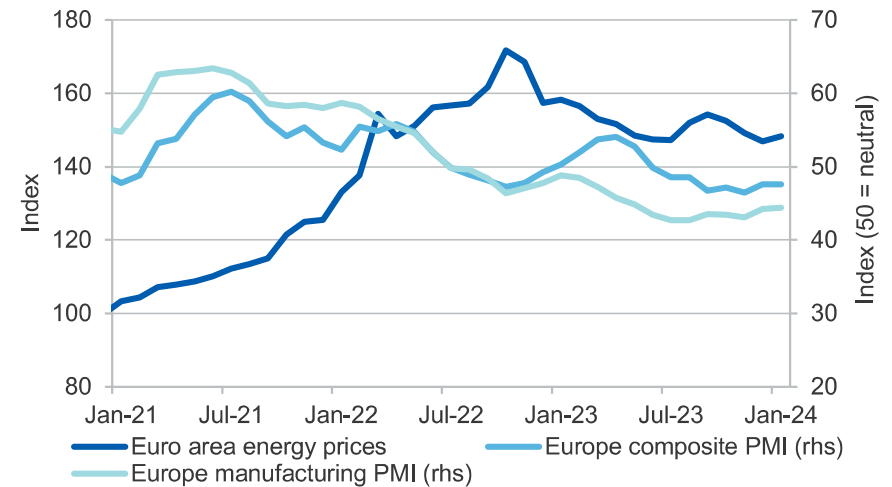
Growth is forecast to ease to 1.7% in 2025 as monetary policy lags, fiscal tightening and softening of labour markets slow aggregate demand. US GDP growth is then projected to stabilise at around 2.1% from 2026 onwards, as monetary policy is returned to a neutral stance and long-term investment policies support continued capital accumulation.

Eurozone economies face slower growth, manufacturing downturn

Eurozone GDP growth was flat over the December quarter 2023, bringing annual GDP growth to 0.1% year-on-year. Among the larger economies Spain grew by 0.6% over the quarter, while Italy’s quarterly growth picked up to 0.2%. France’s economy did not grow over the quarter, while Germany’s economy contracted by 0.3% to be down 0.2% year-on-year.

Europe’s manufacturing sector has been in a prolonged downturn since July 2022, driven by the rapid surge in energy prices (Figure 2.10). Europe’s industrial outlook remains weak, however there are signs that the worst of the downturn may be over. In February 2024, the Eurozone manufacturing PMI recorded a contractionary reading of 46.5, however business sentiment in Europe’s manufacturing sector improved as declines in output slowed to a 9-month low and new orders to 11-month low respectively.

Figure 2.10: European energy price index and PMIs



Source: Bloomberg (2024); Eurostat (2024)

In its January update, the IMF forecast Euro Area growth at 0.9% in 2024, revised down by 0.3% from October 2023. Ongoing manufacturing weakness led to more downgrades to German growth (now 0.5% in 2024, up from -0.2% in 2023), while weaker-than-expected services activity drove downgrades for France (1.0% in 2024) and Spain (1.5% in 2024).

The near-term economic outlook for Europe remains weighed down by ongoing weakness in the industrial sector, with the services sector also falling into contraction in H2 2023. The Eurozone Composite PMI was reported at 47.9 in January 2024, an 8th consecutive monthly contraction.

The cumulative lags of tight monetary policy in the region are expected to continue slowing economic activity until monetary policy begins easing, with real incomes expected to drive a recovery in consumption over H2 2024 as the energy price shock subsides and inflation eases. The IMF then expects Euro Area growth to pick up further to 1.7% in 2025, driven by continued recovery in consumption and industrial activity. Over the remainder of the outlook period, economic growth is expected to slow from 1.7% in 2026 toward a long-run potential growth of 1.3% by 2029.

India's GDP growth to be strong over the medium term

India's GDP growth was 8.4% year-on-year in the December quarter 2023, exceeding market expectations of 6.6% growth. GDP growth was driven by strong private consumption expenditure — especially for services — as well as continued strength in fixed capital formation. India's manufacturing PMI remained expansionary in February 2024, reaching a 5-month high of 56.9. Accelerated expansion was driven by robust demand, both domestic and international, causing companies to scale up production. Strength in demand and new business enquiries led business optimism about the coming year to its highest since late 2022. The IMF forecasts India's economic growth to slow to 6.5% in 2024 and 2025, revised up by 0.2% in both years due to stronger-than-expected domestic demand seen in 2023.

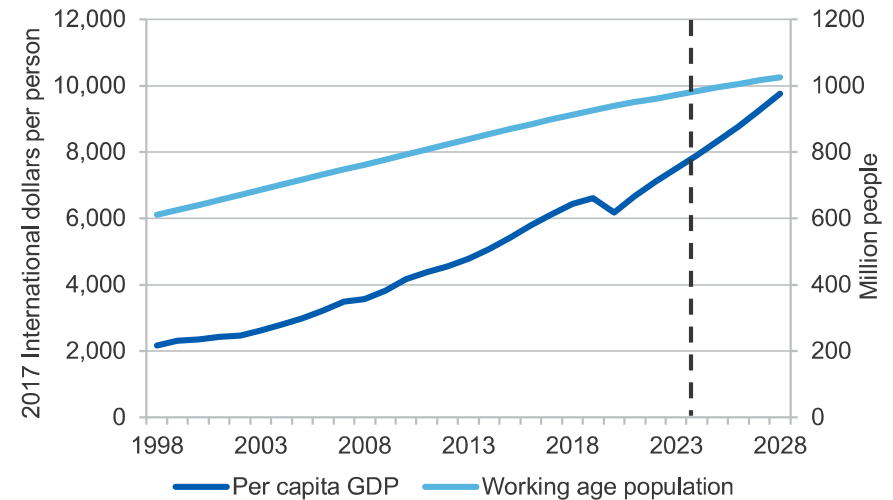
Compared with many major economies, India has a relatively young population and its working age population is expected to continue growing strongly over the outlook period — this will drive higher output (from a growing labour force) and domestic consumption (Figure 2.11). From 2026 to 2029, India's GDP growth is expected to stabilise at a long-run potential rate of about 6.3%. Long-run growth is expected to be driven by large-scale infrastructure investment, population and productivity growth.

Exchange rate assumption revised lower

Since the start of 2024, the Australian dollar has weakened both relative to the US dollar and in trade-weighted terms (Figure 2.9). The AUD/USD move arose due to market expectations for US interest rates to remain at current levels for longer than was expected in late 2023.

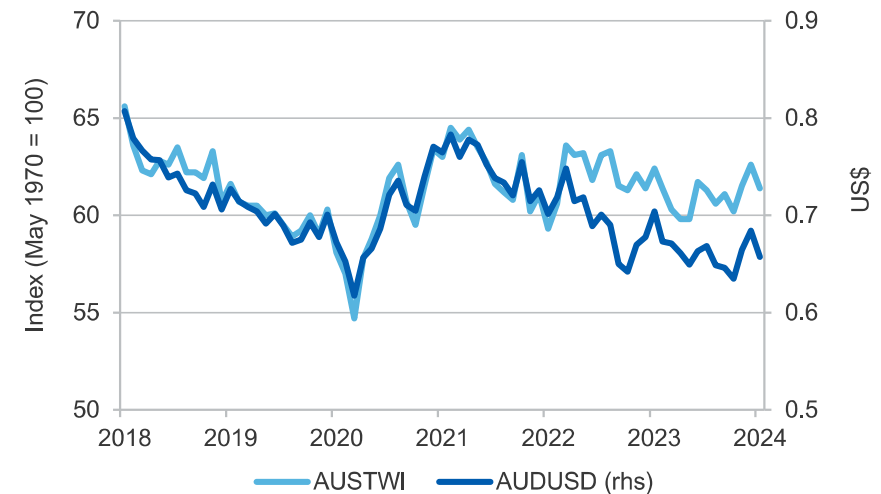
Assumption adjustments were made in line with changes in market consensus on the exchange rate outlook. The market consensus (surveyed by Bloomberg) is for the Australian dollar to appreciate against the US dollar over the outlook period, as interest rates decrease quicker in the US than in Australia. In February 2024, the median consensus for the AUD/USD exchange rate was an average of US\$0.68 in 2024, US\$0.72 in 2025 and US\$0.74 in 2026. The AUD/USD exchange rate is assumed to rise to US\$0.75 by mid-2026.

Figure 2.11: Per capita GDP and working age population in India



Notes: Working age population is calculated as people aged 15-64
Source: IMF (2024); UN (2022)

Figure 2.12: Australian trade-weighted index and AUD/USD



Source: RBA (2024)

Table 2.1: IMF annual GDP growth projections for major trading partners

	2023	2024 ^a	2025 ^a	2026 ^a	2027 ^a	2028 ^a	2029 ^a
World^b	3.1	3.1	3.2	3.2	3.1	3.1	3.1
China ^c	5.2	4.6	4.1	4.1	3.7	3.4	3.4
Japan	1.9	0.9	0.8	0.5	0.4	0.4	0.4
South Korea	1.4	2.3	2.3	2.2	2.2	2.1	2.1
India ^d	6.7	6.5	6.5	6.3	6.3	6.3	6.3
ASEAN-5 ^e	4.9	5.3	5.2	5.1	5.0	5.0	5.0
Eurozone	0.6	1.2	1.9	2.0	1.8	1.7	1.7
United States	2.5	2.1	1.7	2.1	2.1	2.1	2.1

Notes: **a** Assumption. **b** Calculated by the IMF using purchasing power parity (PPP) weights for nominal country gross domestic product. **c** Excludes Hong Kong. **d** Based on fiscal years, starting in April; **e** Indonesia, Malaysia, Philippines, Thailand and Vietnam.

Sources: IMF (2024); Bloomberg (2024)

Table 2.2: Exchange rate and inflation assumptions

	2023	2024 ^a	2025 ^a	2026 ^a	2027 ^a	2028 ^a	2029 ^a
AUD/USD exchange rate	0.66	0.68	0.72	0.75	0.75	0.75	0.75
Inflation rate^b							
United States	4.1	2.2	1.9	2.2	2.1	2.1	2.1
	2022–23	2023–24 ^a	2024–25 ^a	2025–26 ^a	2026–27 ^a	2027–28 ^a	2028–29 ^a
Australia	7.0	4.0	3.2	2.8	2.5	2.5	2.5

Notes: **a** Assumption; **b** Average CPI growth over the specified year (fiscal or calendar).

Sources: ABS (2024) Consumer Price Index, 6401.0; Bloomberg (2024); Department of Industry, Science and Resources (2024); RBA (2024); IMF (2024)