BRETTONOMICS · AUSTRALIAN CONTEXT · UNIT 4 TOPIC 1

Australian Macroeconomic Context

Real Australian data and worked examples for macroeconomic objectives and theory

How to use this guide

This companion holds the Australian evidence for the topic. Information is colour-coded and labelled; each coloured box carries a word label as well as a colour, so you can use it whether or not you distinguish the colours easily.

KEY DEFINITION	What a measure means and how it is defined.
AUSTRALIAN CONTEXT	Australian evidence, data or events you can quote as examples.
WORKED EXAMPLE	A calculation worked through step by step.
COMMON MISTAKE	A misreading of the data that commonly costs marks.
EXAM TIP	How to use this evidence in an exam response.
BRETTONOMICS INTERACTIVE	A matching interactive tool on brettonomics.com.

EXAM TIP

Using these figures

Always date your data. Every figure here belongs to a point in time. In an exam, state the period and the source — "unemployment was 4.0% in December 2024 (ABS)" earns the mark that a bare number does not.

Check before you quote. Economic data is revised. Confirm the latest figure against the ABS or RBA before relying on it in assessment.

SECTION 1 Snapshot of Australia's economy

Key Macroeconomic Indicators (Late 2024)

- Real GDP Growth: 1.5% across 2023–24 – well below the 2–3% trend, indicating sluggish economic growth
- Unemployment Rate: 4.0% (December 2024) – near the NAIRU of about 4.0–4.5%, so the labour market remains relatively tight
- Inflation Rate: 2.8% (September 2024 quarter) – down from the 7.8% peak in the December 2022 quarter. RBA target 2–3%.
- RBA Cash Rate: 4.35% – Held at peak after 425bp of tightening (May 2022–Nov 2023)
- Real Wages: DOWN 4.5% (2020–2024 cumulative) – Major political issue
- Participation Rate: 67.1% (up from about 65%) – Immigration-driven labour force expansion
- Labour Force Underutilisation: ~10.0% (unemployment 4.0% + underemployment 6.0%, December 2024)

COMMON MISTAKE

These are point-in-time figures. The labour force and CPI series are updated monthly and quarterly, and past figures are revised. Quote the period with the number, and check the current release before using it in assessment.

SECTION 2 Themed examples by concept

1. percentage points & basis points

Example 1: RBA Rate Path (May 2022–Nov 2023) - Started: 0.1% - Ended: 4.35% - Total increase: 425 basis points = 4.25 percentage points - Why basis points matter: Precision in financial markets; 25bp (0.25pp) moves are "micro" in central banking

Example 2: Unemployment Movement (2022–2024) - Peak post-COVID (July 2020): 7.2% - Low point (March 2022): 3.4% - Current (Oct 2024): 4.1% - Movement March 2022 → Oct 2024: +0.7 percentage points (NOT 0.7%)

WORKED EXAMPLE

Converting between the two

The rule. 1 basis point = 0.01 percentage points, so 100bp = 1pp.

The RBA cycle. 0.1% to 4.35% is a rise of 4.25 percentage points, or 425 basis points.

The trap. A move from 5.2% to 4.8% is a fall of 0.4 percentage points, not 0.4%.

2. NOMINAL vs. REAL GDP

Australia's Growth Story (2023–24) | Metric | Value | |———|———-| | Nominal GDP | $2.18 trillion | | Real GDP (2022–23 prices) | $2.05 trillion | | Difference | $130 billion (inflation gap) | | Nominal growth | 3.5% | | Real growth | 1.5% | | Inflation implied | ~2.4pp difference |

What this means: over the year to the June 2024 quarter, GDP in current prices rose 4.4% while real GDP rose only about 1.5%. The gap of roughly 2.9 percentage points was price change, not extra output — Australians were not materially better off.

3. NOMINAL vs. REAL WAGES

The Real Wage Crisis (2020–2024) - Nominal wage growth: +8% cumulative - CPI inflation: +13% cumulative - Real wage change: −4.5% (1.08 ÷ 1.13 − 1)

Impact: Workers earning $60,000 in 2020 are equivalent to earning $57,300 in real purchasing power by 2024 (after inflation). Major political issue driving: - Cost-of-living support (energy bills, rent assistance) - Stage 3 tax cuts (July 2024) - Childcare subsidies expansion - Fair Work Commission wage decision (2024)

4. real interest rates

The Negative Real Rates Period (Early 2023) - November 2023: RBA Cash Rate = 4.35%, CPI = 5.4% - Real Rate = 4.35% − 5.4% = −1.05% (extremely loose policy!) - Effect: Encouraged borrowing, discouraged saving - Mortgage held at ~$500,000: Real cost was negative (you were actually paying back in cheaper dollars)

Current Situation (Late 2024) - RBA Cash Rate: 4.35%, Expected inflation: ~3% - Real Rate: 4.35% − 3% = 1.35% (tight policy) - Mortgages: Real cost risen significantly → harder to service

5. production possibility curve – Australia's expansion

Factors Shifting Australia's PPC Rightward (2022–2024) 1. Skilled Migration: 250,000+ arrivals (2023–24), fastest immigration in Australian history - Expanded labour force, supporting PPC expansion - Offsets aging population

- Technological Advancement
- Renewable energy infrastructure (solar, wind farms expanding)
- Autonomous mining (ore handling, drones for surveying)
- Digital agriculture (smart irrigation, precision farming)
- Resource Discoveries
- Rare earth deposits identified
- Continue dominance in iron ore ($95–120/tonne range), coal (declining but significant)

Factors Shifting Australia's PPC Inward (Risks) 1. Climate Events: 2023 NSW/QLD floods damaged agricultural capital 2. Skilled Emigration: Concerns about Australians moving to Canada, UK 3. Aged Capital: Mining infrastructure aging without replacement investment

6. multiplier effect – Australia's COVID stimulus

COVID-19 Fiscal Stimulus (2020–2021): ~$320 billion - JobKeeper: $87 billion (wage subsidies) - Cash payments: $130 billion (economic support payments) - Business support: $90+ billion

Estimated Multiplier: 1.5–2.0 - Total demand support: ~$480–640 billion (stimulus × multiplier) - Prevented deeper recession (without stimulus, unemployment would have peaked >10%) - Why multiplier lower than textbook 5.0? - High import share (22% of spending leaks abroad) - Tax system (47% marginal rate) - Precautionary saving (offset accounts, insurance)

Lesson: Australia's multiplier ~1.7 (vs. textbook 4–5), so government needs larger injections

7. economic cycle – Australia's 2020–2024 journey

Phase 1: Expansion (2020–2021) – Post-COVID Recovery

- Real GDP rebounded sharply — through-the-year growth to the June 2021 quarter reached roughly 9–10%, but this was largely a base effect from the 2020 collapse rather than underlying expansion
- Unemployment: 7.2% (July 2020) → 4.2% (December 2021)
- Inflation: Low (1.0% in 2021)
- Business confidence: Rebounding
- Government spending: Maintained via JobKeeper, stimulus
- Tax revenue: Rising as employment recovered
- Budget: Still in deficit (cyclical), but narrowing

Phase 2: Peak/Boom (2021–2022) – Overheating

- Unemployment fell to 3.4% (below NAIRU)
- Inflation: 7.8% (December 2022 quarter) – the highest since 1990
- Wage growth: 2.2–2.3% (accelerating)
- Housing prices: Sydney median $1.27 million (March 2022, all-time high)
- Business confidence: High
- Asset bubbles forming
- RBA warning of overheating → began tightening (May 2022)

Phase 3: Contraction (2022–2023) – Near-Recession

- Unemployment rose: 3.4% → 4.1%
- Growth stalled: Q1 2023 = 0.2% YoY (near recession)
- RBA tightened: 425bp over 18 months (0.1% → 4.35%)
- House prices fell: 10–15% nationally
- Consumer confidence index: 105 → 93 (collapsed)

- Inflation: fell from the 7.8% peak to 4.1% by the December 2023 quarter
- Government deficit widened: Tax revenue fell, welfare rose
- Real wages stagnated/fell

Phase 4: Trough/Early Recovery (2023–2024) – Stabilising

- Growth bottoming: 1.5% across 2023–24 (slow but positive)
- Unemployment: Stable at 4.1%
- Inflation: 2.8% by the September 2024 quarter (back inside the RBA's 2–3% target)
- RBA: Held rates, market expected cuts mid-2024, delayed to 2024–25
- House prices: Flat (no further falls, no recovery)
- Government stimulus: Stage 3 tax cuts, energy support, childcare subsidies
- Real wages: Still negative but stopping

8. unemployment in Australia

Types Active in 2024 - Cyclical: Minimal (economy near full employment) - Structural: Rising (manufacturing decline, coal transition) - Example: Latrobe Valley, Victoria (coal region) ~6% unemployment post-coal - Car manufacturing ended 2017 → permanent job losses - Skills mismatch: tech jobs vs. older workers - Frictional: Normal level (~1.5–2%) - Seasonal: Agriculture, tourism, retail (10–15% of total) - Long-term (>12 months): ~18% of unemployed (persistent issue) - Hidden: ~1–2% (discouraged workers not counted)

Total Labour Force Underutilisation: 10.0% (2024) - Unemployment: 4.1% - Underemployment: 6.0% (part-time wanting full-time) - Hidden unemployment: ~0.5–1% - Broader than just 4.1% headline unemployment

Effects of Unemployment in Australia - Career scarring: 35% lower future earnings for >12 month unemployed - Mental health: Depression/anxiety doubles in unemployed populations - Regional impacts: Rural unemployment >5% in some areas → poverty traps - Economic cost: Each 1pp increase in unemployment = $12–15bn lost GDP + welfare/health spending

9. inflation in Australia

Australia's 2022 Inflation Breakdown

Type	Rate	Driver
Headline (all items)	7.8% (December 2022 quarter)	Energy prices, wages, supply
Underlying (ex-volatile)	6.1%	Persistent demand/cost pressures
Demand-pull component	~1.5%	Tight labour market, excess demand post-COVID
Cost-push component	~3–4%	Energy doubled, wage pressures, supply disruption
Imported inflation	~1.5–2%	AUD weakened (0.75→0.65 USD), import prices up
Inflation expectations	Rising	Wage demands increased; spiral risk

By End 2024: Headline 3%, Underlying 3.2% – Near RBA target range

Who Was Harmed by 2022 Inflation? 1. Retirees: Pensions (~$20k/yr) not fully indexed, lost 5% real value 2. Savers: Cash interest 3%, inflation 6% = −3% real return 3. Fixed-wage earners: Government wage freeze 2020–22 eroded real value 4. Exporters: Tourism & education less competitive globally 5. Taxpayers: Bracket creep pushed workers into higher tax brackets

Who Benefited? 1. Mortgage holders: Real debt fell as inflation eroded debt value 2. Asset owners: Real estate, shares nominally increased 3. Borrowers: Real interest rates negative (especially 2022–early 2023)

10. fiscal policy in Australia

RBA Rate Decisions & Effects

Period	Rate Path	Effect on AD
May 2022	0.1% → 0.35%	Start tightening; mortgage rates 2.8%
Nov 2023	0.35% → 4.35%	Peak tightening; mortgage rates ~7.5%
2024–25	4.35% (hold, then cuts)	Expected cuts; mortgage relief coming

Government budget decisions (2024–25) 1. Stage 3 tax cuts, from 1 July 2024: the redesigned package cut the 19% rate to 16% and the 32.5% rate to 30%, and lifted the 37% and 45% thresholds to $135,000 and $190,000. Every taxpayer gained, with the largest dollar gains at higher incomes but a larger proportionate gain for low and middle earners than the original 2019 design would have delivered. Multiplier effect: higher earners have a lower marginal propensity to consume, so a dollar delivered to them adds less to demand than a dollar of targeted relief.

- Energy Bill Support: $100–150/household
- Direct cost-of-living relief
- Higher MPC (lower income recipients spend more) → larger multiplier
- Childcare Subsidies: 30 hours free/week
- Encourages labour force participation (especially women)
- Supports working families
- Infrastructure Spending: $120bn over 10 years
- Roads, rail, ports (long-term multiplier)
- Slow implementation → lags effects

Automatic Stabilisers in Action (2022–24) - Expansion (2021): Tax revenue rose (from employment), welfare fell → surplus emerges - Contraction (2022–23): Tax revenue fell (job losses), welfare rose → deficit emerges - Without stabilisers: Deficit would have been $50bn+ (vs. actual $37bn) - Effect: Reduced cyclical shock without government decision

Fiscal Multiplier in Australia: ~1.7 - During COVID downturn (spare capacity): ~1.9–2.0 (stimulus very effective) - Currently (2024, near capacity): ~1.5 (less room to expand) - Long-term average: ~1.7

11. aggregate demand in Australia (2023-24)

AD = C + I + G + (X − M)

Component	% of GDP	2023-24 Trend	Drivers
C (Consumption)	63%	Declining	Real wages down 4.5%, interest rates high
I (Investment)	20%	Weak	High mortgage rates, uncertainty
G (Government)	18%	Stable	Welfare supports, infrastructure

Component	% of GDP	2023–24 Trend	Drivers
X (Exports)	20%	Flat	Iron ore prices soft, coal under pressure
M (Imports)	22%	Falling	Weak domestic demand, AUD soft
Net (X−M)	−2%	Deficit	Current account deficit ~3% of GDP

Why AD Growth is Weak (1.5% real) - C collapsing: Real wage falls, savings up (household deleveraging) - I weak: High rates kill business capex - X pressured: China slowdown, commodity prices falling - M falling: But not enough to offset—demand shortage

Factors That Would Boost AD - RBA rate cuts (2024–25) → lower mortgage rates → C and I rise - Wage growth accelerating → C rises - Global recovery → X rises - Government stimulus → G rises - Consumer confidence recovering

12. STRUCTURAL vs. CYCLICAL FACTORS

Cyclical (Reversible) Factors in 2022–24 - Business cycle downturn → temporary unemployment rise → reverses with recovery - Confidence collapse → temporary spending fall → reverses - Temporary supply shocks (2023 floods) → output disruption → repairs restore capacity

Structural (Long-Term) Challenges for Australia 1. Manufacturing Decline (car production ended 2017) - Permanent job losses (40,000+ workers) - Low-skill workers most affected - LRAS shrinks slightly

- Coal-to-Renewables Transition
- Latrobe Valley power generation declining
- Coal mining jobs under pressure
- Structural unemployment in coal regions
- Long-term LRAS adjustment needed
- Aging Population
- Median age: 38 (rising)
- Participation rate falling naturally (retirement)
- But offset by immigration (currently 67.1%, up from about 65%)
- Long-term potential growth rate may slow
- Inequality & Uneven Recovery
- High-income earners (Stage 3 tax cuts) vs. low-income (welfare dependent)
- Regional disparity (Sydney/Melbourne vs. regional Australia)
- Structural labour market changes (tech vs. traditional sectors)

13. Phillips curve in Australia

Australia's NAIRU: 4.0–4.5%

Scenario	U rate	vs NAIRU	Inflation Pressure	Recent Example
Slack	>5%	Above	Downward (deflation risk)	July 2020 (U=7.2%)
Moderate slack	4.5–5%	Above	Modest downward	Early 2021 (U~6%)
Equilibrium	4.0–4.5%	At	Stable	Late 2024 (U=4.1%)
Tight	3.5–4%	Below	Upward (wage-price risk)	March 2022 (U=3.4%)

Scenario	U rate	vs NAIRU	Inflation Pressure	Recent Example
Very tight	<3.5%	Well below	Strong upward (spiral risk)	Not recent

Australia's 2022 Example - March 2022: U = 3.4% (well below NAIRU 4.5%) - Inflation: 7.8% (December 2022 quarter) – the highest since 1990 - Wage growth: 2.2–2.3% (accelerating) - RBA response: Tighten rates from 0.1% to 4.35% - Effect: Unemployment rose, inflation fell (policy worked)

Late 2024 Situation - U = 4.1% (within NAIRU range) - Inflation: 2.8% by the September 2024 quarter (back inside the RBA's 2–3% target) - Phillips Curve in equilibrium – no need for extreme policy

SECTION 3 Summary table: Australian macroeconomic timeline

Period	Real GDP	Unemployment	Inflation	RBA Rate	Real Wages	Budget
2019 (Pre-COVID)	2.2%	6.0%	1.8%	1.0%	+0.5%	Surplus
2020 (COVID)	−3.2%	6.7%	0.9%	0.1%	−2%	Large deficit
2021 (Recovery)	~9–10%	4.2%	1.0%	0.1%	−1%	Deficit narrows
2022 (Boom/Peak)	3.5%	3.7%	6.7%	0.1%→2.85%	−3%	Deficit
2023 (Contraction)	0.2%	3.7%	4.0%	2.85%→4.35%	−2%	Deficit widens
2024 (Trough/Recovery)	1.5%	4.1%	3.0%	4.35% (hold)	Stabilising	Deficit contracts

SECTION 4 How to use this context in answers

Example 1: Multiplier Question

Q: "Explain why Australia's fiscal multiplier is smaller than the simple Keynesian model suggests."

A: Australia's multiplier ≈1.7 (vs. textbook 4–5) because: - High marginal tax rate (47% + Medicare levy) = large leakage each round - High import share (22%) = spending leaks abroad - High precautionary saving (offset accounts) = lower MPC - Example: 2024 tax cuts cost $9bn but generate only ~$15bn total demand (multiplier ~1.7)

Example 2: Real vs. Nominal

Q: "Explain the significance of real GDP vs. nominal GDP for 2023–24."

A: Nominal GDP grew 3.5%, but real GDP grew only 1.5% because: - Nominal: $2.18 trillion - Real: $2.05 trillion
- Difference: 6.3% cumulative inflation 2022–24 - Significance: Australians aren't actually better off despite nominal growth - Policy implication: Real wage stagnation (−4.5% 2020–24) is the real problem

Example 3: Economic Cycle

Q: "At which phase of the economic cycle is Australia currently, and what policy should the RBA adopt?"

A: Australia is in early recovery (trough/early expansion) because: - Growth weak (1.5% real) = below 2–3% trend - Unemployment near NAIRU (4.1% vs. 4.0–4.5%) = labour market equilibrium - Inflation stable at 3% = target range - Policy: RBA should cut rates (expected 2024–25) to support AD growth - Danger: If cuts too aggressive, could reignite inflation; if too slow, growth stalls

SECTION 5 Key takeaways for students

- Basis Points Matter: RBA hiked 425bp (0.1% → 4.35%), NOT "4.25%"
- Real Wages Are Falling: +8% nominal but +13% inflation = −4.5% real
- Multiplier Is Small: Australia's ~1.7, not textbook 5, due to taxes & imports
- NAIRU Concept Matters: At 4.1%, Australia is in equilibrium—policy neutral
- Cyclical vs. Structural: Unemployment partly cyclical (recoverable), partly structural (coal transition)
- Fiscal stabilisers work: in a downturn they widen the balance automatically, and in the strong conditions of 2022–24 they did the reverse, helping deliver consecutive surpluses
- Current Challenge: Weak growth (1.5%) vs. inflation controlled (3%)—hard policy mix