



**October 2024**

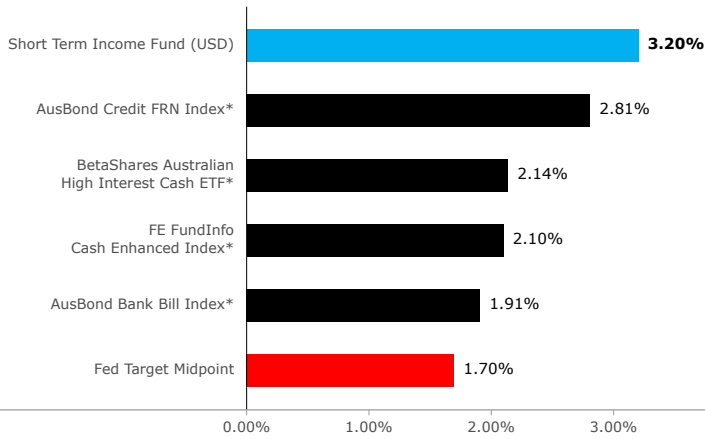
**Objective:** An independently-rated/recommended strategy targeting low-risk cash and fixed income returns that exceed the midpoint of the US Fed Funds Target Range plus 1.5% to 3.0% p.a. over rolling 12 month periods after Management Fees, Administration Fees and Performance Fees, denominated in USD.

**Strategy:** The USD Investor Class has exposure to an Underlying Pool (the **Fund**) which invests in an actively managed diversified portfolio of Australian deposits, investment grade floating-rate notes and hybrid securities with a weighted-average “A” credit rating. We do not invest in fixed-rate bonds (unless interest rate risk is hedged), direct loans, use leverage, or take currency risk. We add value via active asset-selection using a range of valuation models with the aim of (1) delivering lower portfolio volatility than traditional bond funds and (2) providing superior risk-adjusted returns, or alpha, without explicitly seeking interest rate risk, credit risk or liquidity risk. The strategy is managed by Coolabah Capital Investments, which is a specialist active credit manager. The Fund returns are hedged to USD.

Period Ending	Gross Return (USD)	Net Return (USD) <sup>†</sup>	US Fed Fund Target Midpoint	Gross Excess Return (USD) <sup>‡</sup>	Net Excess Return (USD) <sup>†‡</sup>
<b>2024-10-31</b>					
1 month	0.73%	0.66%	0.41%	0.33%	0.25%
3 months	1.90%	1.72%	1.27%	0.63%	0.45%
6 months	3.84%	3.48%	2.62%	1.22%	0.87%
1 year	8.20%	7.38%	5.33%	2.87%	2.05%
3 years pa	5.29%	4.52%	3.74%	1.55%	0.78%
5 years pa	4.68%	3.79%	2.39%	2.30%	1.40%
10 years pa	4.09%	3.23%	1.71%	2.39%	1.52%
<b>Inception pa Oct. 2014</b>	<b>4.07%</b>	<b>3.20%</b>	<b>1.70%</b>	<b>2.37%</b>	<b>1.51%</b>

**Coolabah Short Term Income Fund Returns (Net) vs Comparisons**

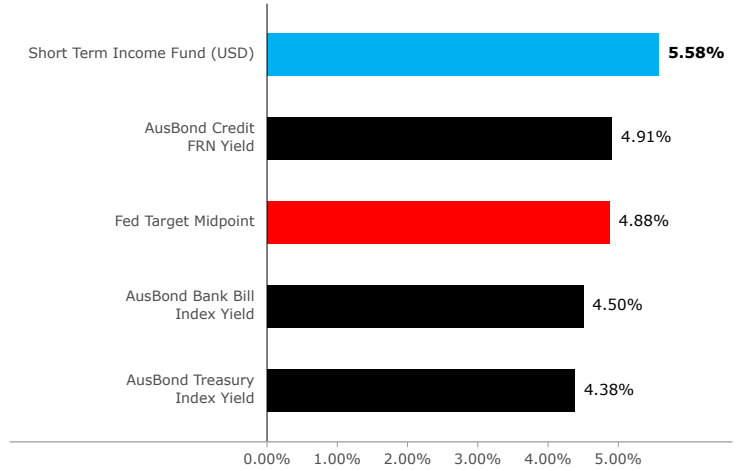
Annualized Total Returns Since Inception in October 2014 to October 2024



Data Source: RBA, Bloomberg, Mainstream, Coolabah Capital Investments

**Annual Running Yield**

31 October 2024

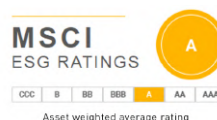


Data Source: RBA, Bloomberg, Coolabah Capital Investments

<sup>†</sup> Net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement. \*USD gross returns are estimated from AUD gross returns using 1 month forward contracts. <sup>‡</sup> The Excess Return columns represent the gross and net return above the midpoint of the US Federal Funds Target Range.

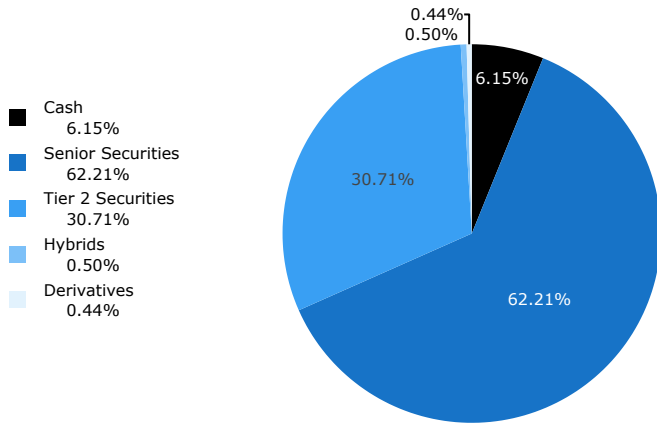
**Disclaimer:** Past performance does not assure future returns. Returns are shown net of management fees and costs unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. To understand Fund's risks better, please refer to the Product Disclosure Statement available at Coolabah Capital Investments' website.

Net Monthly Returns > Fed Target Midpoint	77%	Modified Interest Rate Duration	< 0.1 years
Portfolio Weight to Cash Accounts	6.1%	Gearing Permitted?	No
Portfolio Weight to Bonds	93.4%	1 Year Av. Portfolio Weight to Cash	3.8%
Av. Portfolio Credit Rating	A+	Portfolio Weight to AT1 Hybrids	0.5%
Portfolio MSCI ESG Rating	A	Cash Accounts + RBA Repo-Eligible Debt	66.5%
No. Cash Accounts	8	Net Annual Volatility (since incep.)	0.80%
No. Notes and Bonds	140	Net Sharpe Ratio (since incep.)	1.88x
Av. Interest Rate (Gross Running Yield)	5.58%		



**Coolabah Short Term Income Fund  
Portfolio Composition (NAV)**

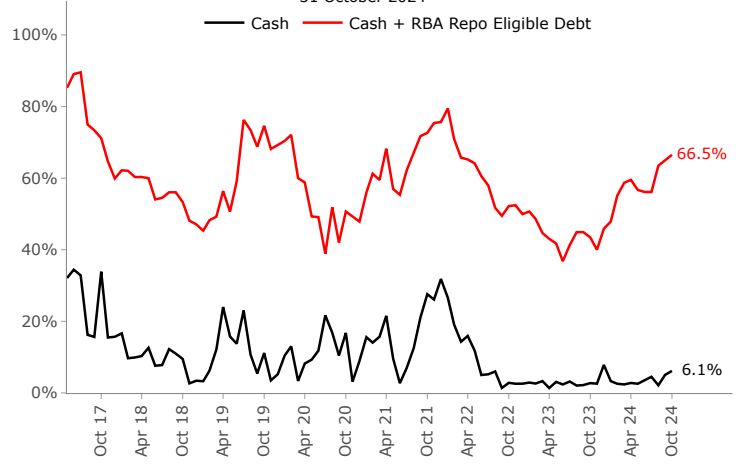
31 October 2024



Data Source: Coolabah Capital Investments

**Portfolio Weights: Cash + RBA Repo Eligible Debt**

31 October 2024

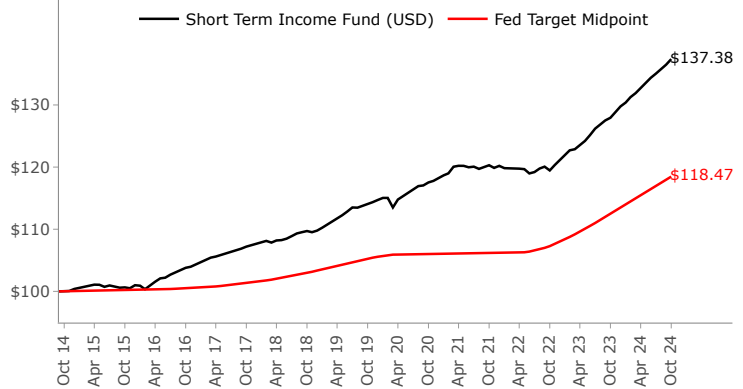


Data Source: Coolabah Capital Investments



**Value of \$100 Invested since Inception**

31 October 2024



Data Source: Bloomberg, Coolabah Capital Investments

**Disclaimer:** Past performance does not assure future returns. Returns are shown net of management fees and costs unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. To understand Fund's risks better, please refer to the Product Disclosure Statement available at Coolabah Capital Investments' [website](#).

**The since inception gross (net) return of 4.07% pa gross (3.20% pa net)** is the total annual return earned by the fund since Oct. 2014, including interest income and movements in the price of the bond portfolio after all fund fees (assuming net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement). The net return quoted applies to the Coolabah Short Term Income Fund - USD Investor Class, with quarterly distributions reinvested. Investment return will vary depending upon investment date and any additional investments and withdrawals made. **The annualised volatility estimate of 0.80% pa** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Coolabah Short Term Income Fund - USD Investor Class.

Portfolio Managers Christopher Joye, Ashley Kabel, Roger Douglas, Fionn O'Leary ([Coolabah Capital Investments](#))

APIR Code	ELT3997AU	Fund Inception	30-Sep-14
ISIN	AU60ETL39970	Distributions	Quarterly
ARSN	601 093 485	Unit Pricing	Daily (earnings accrue daily)
Asset-Class	Short-Term Fixed-Interest	Min. Investment	US\$1,000
Custodian	Citigroup	Withdrawals	Daily Requests (funds normally in 5 days)
Investment Manager	Coolabah Capital Investments (Retail)	Buy/Sell Spread	0.00%/0.025%
Responsible Entity	Equity Trustees	Mgt. & Admin Fee	0.55% pa
Target Return	Net 1.5%-3.0% pa over Fed Funds Target Mid Point	Perf. Fee	22.5% of returns over Fed Funds Target Midpoint + 2.05% pa

*In the commentary below, returns indicated with \* are estimated returns in USD based on AUD returns hedged to USD with 1m forward contracts. All other returns are USD Denominated where unit classes in USD exist, and estimated from AUD returns hedged to USD using 1m forward contracts before the inception of the USD unit class. Strategy commentary is for the AUD Market.*

**Portfolio commentary:** In October, the zero-duration daily liquidity Coolabah Short Term Income Fund (STIN) returned 0.73% gross (0.66% net), outperforming the AusBond Bank Bill Index\* (0.40%), the Fed Target Midpoint (0.41%), the BetaShares High Interest Cash (AAA) ETF\* (0.41%), the FE Cash Enhanced Index\* (0.46%), and the AusBond Credit FRN Index\* (0.52%). Over the previous 12 months, STIN returned 8.20% gross (7.38% net), outperforming the Fed Target Midpoint (5.33%), the AusBond Bank Bill Index\* (5.59%), the BetaShares High Interest Cash (AAA) ETF\* (5.68%), the FE Cash Enhanced Index\* (6.24%), and the AusBond Credit FRN Index\* (7.02%). STIN ended October with a running yield of 5.58% pa, a weighted-average credit rating of A+, and a portfolio weighted average MSCI ESG rating of A.

Since the inception of STIN 10.1 years ago in October 2014, it has returned 4.07% pa gross (3.20% pa net), outperforming the Fed Target Midpoint (1.70% pa), the AusBond Bank Bill Index\* (1.91% pa), the FE Cash Enhanced Index\* (2.10% pa), the BetaShares High Interest Cash (AAA) ETF\* (2.14% pa), and the AusBond Credit FRN Index\* (2.81% pa). Since inception, STIN's Sharpe Ratio, which measures risk-adjusted returns, has been 2.87x gross (1.88x net). While STIN's return volatility since inception has been low at around 0.80% pa (measured using daily returns), as a daily liquidity product with assets that are marked-to-market using executable prices, volatility does exist. This contrasts with illiquid credit (eg, loans and high yield bonds) wherein assets that have very high risk can appear to have remarkably low volatility, which is, in fact, just a mirage explained by the inability to properly value these assets using executable prices.

**Strategy commentary:** The month of October was characterised by robust performance across Coolabah's floating-rate strategies as high-grade bank bond prices mean-reverted while outright government bond yields surged as much as 50 basis points higher.

After the US 10-year government bond yield had slumped to as low as 3.6% in September, this benchmark climbed back towards 4.3% in October on the back of concerns that the US presidential race would leave a legacy of intensifying inflation pressures. Irrespective of whether Trump or Harris win, the US budget deficit is set to soar to 7-8% of GDP, which is fiscal largesse that has been rarely witnessed since World War Two.

Higher risk-free government bond yields attracted buyers to fixed-income securities with healthy credit spread performance across investment-grade corporate bond markets in Europe (where spreads were 12bps tighter), the UK (12bps tighter), Australia (6bps tighter) and the US (5bps tighter). These yield-based buyers are swamping spread traders who are more discriminating about the margin they earn above the risk-free rate.

This contrasted strikingly with synthetic credit markets, which are the preferred hedging instrument for fixed-income investors, with credit default swap (CDS) indices reporting flat or wider synthetic spreads in the US (investment grade CDS was 1bps wider while HY CDS was 7bps wider), Europe (IG CDS was flat while HY CDS was 3bps wider), and Australia (IG CDS 3bps wider).

The move higher in 10-year government bond yields over October was particularly pronounced in Australia (+51bps) and the US (+50bps) followed by the UK (+44bps), Germany (+27bps), New Zealand (+24bps), France (+21bps), and Italy (+20bps).

This was driven by many different factors, including brisk US inflation and jobs data, fears about the inflationary impulses of a Trump presidency, higher oil prices responding to never-ending Middle Eastern ructions, worries about a blow-out in public spending in the UK, and evidence of stickier-than-expected consumer price pressures in Australia, where the local central bank is demonstrably behind the curve vis-à-vis peers.

Notwithstanding the challenge posed by the big increase in discount rates, equity markets were once again comparatively insouciant with only muted total return losses in the US (S&P500 off 0.92% while Nasdaq was down only 0.82%), Australia (the ASX200 fell 1.31%) and the UK (FTSE100 down 1.45%). In Europe, equity bourses did suffer more with the Euro Stoxx 50 Index off by 3.30%.

**Strategy commentary cont'd:** Higher yields hurt fixed-rate bonds (or duration), which had rallied firmly in September with the benchmark Bloomberg Global Aggregate Corporate Index (USD hedged) losing 1.62% in October while the Aussie benchmark, known as the AusBond Composite Bond Index, fell by 1.88%.

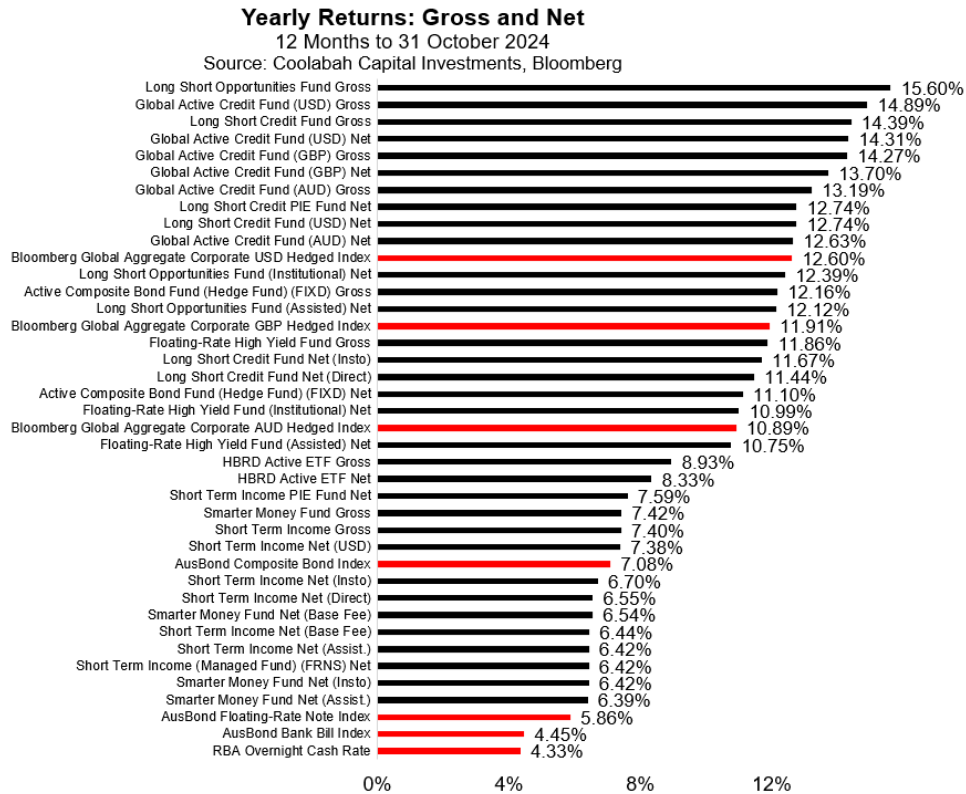
Coolabah's long duration Active Composite Bond Fund (average A+ rating) outperformed the Composite Bond Index by 0.44% in October and has returned 11.1% net of fees over the last 12 months compared to the Composite Bond Index's 7.1%.

In October, Coolabah's flagship floating-rate strategies delivered pleasing performance with the Long-Short Opportunities Fund (av. A+ rating) leading the way with a 1.32% to 1.33% net return in the month (it has returned 12.1% to 12.4% net of fees over the last year). This was followed by the Long-Short Credit Fund (av. A+ rating), which returned 1.26% to 1.28% in October (and 11.4% to 11.7% over the last 12 months), and the Floating-Rate High Yield Fund (av. A+ rating), which returned 1.00% to 1.02% in October (and 10.8% to 11.0% over the last year).

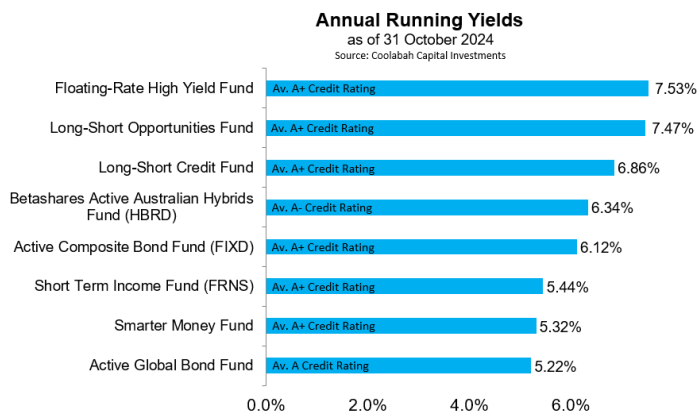
Coolabah's recently launched Active Sovereign Bond Fund (av. AAA rating) also had its best month in October since its January 2024 inception, returning 0.85% net.

Other floating-rate strategies did well, including HBRD (av. A- rating), which returned circa 0.79% net in October (or 8.33% over the last 12 months), and the Short Term Income (av. A+ rating) and Smarter Money and Funds (av. A+ rating), which returned 0.76% and 0.66% net, respectively, in the month compared to the RBA cash rate's 0.36% (the STIF and the SMF have returned 6.4% and 6.5% net over the last year relative to the RBA cash rate's 4.3%).

The last 12 month strategy performance (black bars) vs benchmarks (red bars) and current product yields (blue bars) are enclosed below. Past performance is no guide to future returns and investors should read the PDS to better understand risks.



Strategy commentary cont'd:



**RBA: Policy not as tight as peers, which is why inflation is higher**

With the year almost over, the RBA kept the cash rate steady at 4.35% in November, having last raised rates twelve months ago.

The RBA also issued an updated outlook that was little changed from August, showing a slow return of underlying inflation to the 2.5% midpoint of the inflation target in late 2026.

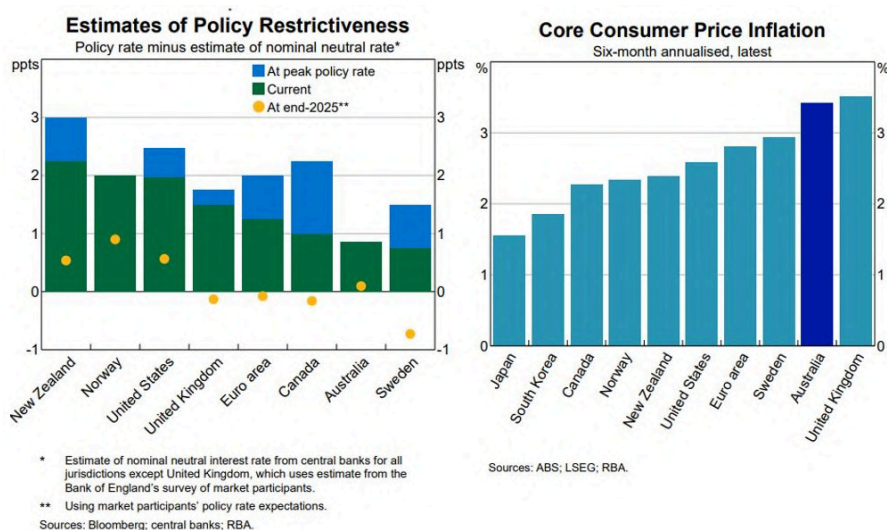
The slow return of inflation to target reflects the well-known choice by the RBA not to raise rates as much as other countries in order to preserve as many of the COVID-era gains in the labour market as possible.

Interestingly, the RBA was more explicit in highlighting this trade-off in two charts in today's [Statement on Monetary Policy](#).

The first chart shows how Australia's monetary policy – as measured by the policy rate less the neutral rate – is not as tight as other countries, even with some other central banks already cutting rates.

The second chart shows that less tight policy has meant that underlying inflation in Australia is higher than nearly all its peers, where lower inflation elsewhere has allowed other advanced economies to start cutting rates sooner.

CCI has [previously](#) made the same points, such that the RBA has less scope to cut rates than other countries if it achieves a soft economic landing for the simple fact that it never raised rates by as much as in the first place.



The RBA shows that policy is not as tight as other countries, such that underlying inflation is still high

### Strategy commentary cont'd: The room to cut interest rates across countries

With most central banks now cutting interest rates, some have recently reduced policy rates by 50bp instead of the typical 25bp increment.

This might seem surprising given that larger rate cuts are usually reserved for times of crisis, but some banks are clearly wanting to make sure that they are reducing the real policy rate – which is the policy rate less expected inflation – given that the real rate drives the economy.

In other words, if a central bank cuts rates in response to lower expected inflation, it must reduce the nominal policy rate by more than the fall in expected inflation in order to lower the real policy rate.

In judging the stance of policy, the first chart shows the real policy rate – calculated as the nominal policy rate less the central bank's forecast for underlying inflation over the next twelve months – for several advanced economies, including Australia.

It compares the real policy rates prevailing at the start of recent rate cuts (where applicable) with current real rates, alongside central bank/economist estimates of the neutral real policy rate.(1)

The chart shows that most countries had high real policy rates before starting to cut rates, with Australia and Norway – both yet to begin easing policy – exceptions, as they have the lowest real rates.

In Australia's case, this was by design, as the RBA board consciously decided not to raise rates as aggressively as other countries in order to preserve as many of the COVID-era gains in the labour market given its dual mandate of price stability and full employment.

Among the central banks that have started to cut rates, Canada, the euro area, and Sweden have made the most progress in reducing their real rates.(2)

As a result, Norway and Australia now find themselves with real policy rates in the middle of the global pack.

The second chart shows the gap between the real policy rate and central bank/economist estimates of the neutral real policy rate for the same economies, both now and when rate cuts began.

In all cases, real rates have remained above neutral rates as central banks have sought to control inflation.

On this metric, monetary policy remains restrictive across the advanced economies, but is least tight in Australia, reflecting the RBA's cautious approach of trying to slowly reduce inflation without triggering a sharp rise in unemployment.

The euro area, Sweden and Canada have reduced the gap with their neutral rates the most. In contrast, policy remains very restrictive in the US, New Zealand, and the UK, with Norway, which is yet to cut rates, not far behind.

If central banks successfully achieve soft economic landings where inflation sustainably returns to target, they will aim to close the gap between real policy and neutral rates.

In such a scenario, the US and New Zealand would have the most room to cut rates, potentially reducing the real policy rate by about 175bp, or around 200bp in nominal terms given both countries currently forecast inflation to remain slightly above target for some time.

The UK, Norway, the euro area, and Sweden would have less room to cut rates, with the real policy reductions estimated at about 75-125bp. Nominal rate cuts for these economies could range from about 75-175bp, depending on forecast inflation, which remains above target for some time for most of these countries.

In Australia's case, eventual rate cuts could see the RBA lower the real policy rate by about 50bp, with the nominal rate about 85bp lower given the RBA currently forecasts inflation above the 2.5% midpoint next year.

**Strategy commentary cont'd:** If central banks miscalculate and soft landings turn into hard landings or even recessions, then they will naturally cut by much more in order to reduce real policy rates *below* their neutral benchmarks.

A critical factor in this analysis is the likelihood that neutral rates have risen in many countries, as suggested by model results and market pricing.

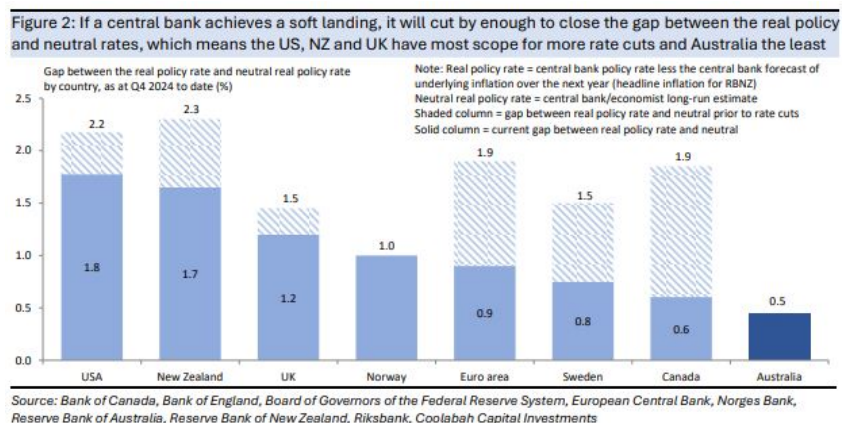
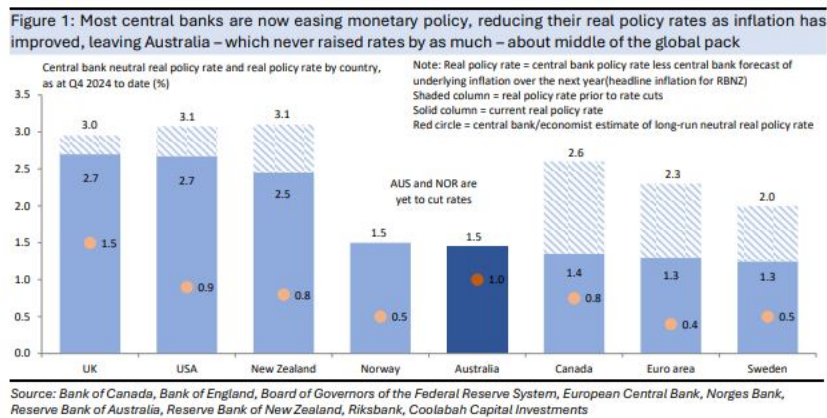
If neutral rates are indeed higher, then central banks are unlikely to need to cut real policy rates by as much in a soft landing scenario, provided they adjust up their estimates of neutral.

However, if central banks underestimate the neutral rate and cut too aggressively, then they risk jeopardising a successful soft landing, inadvertently rekindling inflation.

Note:

(1) Headline inflation forecasts were used for New Zealand.

(2) Not all the ECB's policy rate reduction reflects monetary policy decisions, as there was also a 35bp technical reduction in the main refinancing rate related to how policy is implemented.



**Persistent excess demand vs returning inflation to target**

The RBA's economic outlook points to persistent excess demand, which jars with its expectation that inflation returns to target over the next few years. If the RBA pulls off a soft landing, the contradiction might end up resolved by inflation staying above target for longer, such that the RBA overachieves on the employment half of its mandate.

**Strategy commentary cont'd:** The RBA has become more transparent over the past few years and is now publishing estimates of spare capacity in the economy, as measured by the output gap, the gap between the unemployment rate and the NAIU, and the gap between the hours-based underutilisation rate and its respective NAIU.(1)

These measures of slack are reported as ranges because potential output and the two NAIUs are unobservable and are estimated using a variety of techniques.

Taking the midpoints of the RBA ranges, the RBA estimates suggest that there is still excess demand across the board, albeit less than the stimulus-driven extremes reached when the economy rapidly recovered from the short-lived, but very deep COVID-driven recession in 2020.

That is, GDP was about 0.9% above potential in Q1, down from a post-COVID peak of 2.25%, while the unemployment rate was around 0.7pp below the NAIU in Q2, narrower than a 1.1pp gap when the economy was recovering, and the underutilisation rate was about 1.2pp below its respective NAIU in Q2, less than a 1.7pp difference during the economic rebound.

To judge what might happen to spare capacity over the next few years, we forecast the three gaps using RBA estimates for GDP, unemployment and underutilisation, assuming that potential GDP continues to grow at its most recent annual rate and that the NAIU and underutilisation NAIU hold steady over the forecast horizon.

On this basis, excess demand is actually expected to persist, with output averaging around 0.5-0.75% above potential, the unemployment rate holding about 0.4pp below the NAIU, and the underutilisation rate about 0.6pp below its NAIU, all calculated using midpoint estimates for potential output and the two NAIUs.

The gaps persist because the RBA is forecasting GDP growth to pick up to about 2.5%, marginally above the latest estimate of potential growth, the unemployment rate to peak at 4.4%, below the current NAIU of about 4.75%, and the underutilisation rate to peak at 5.8%, below the respective NAIU of almost 6.5%.

Given that the RBA expects underlying inflation will broadly return to the 2.5% target by 2026, the seeming disconnect between the activity and labour market forecasts pointing to persistent excess demand suggests that judgment has been applied to the inflation profile.

Every forecaster needs to apply judgment at times and in this case it probably reflects a combination of factors, namely:

- The RBA might believe that potential GDP and the two NAIUs are better represented by the figures implied by the extremes of the historic gaps, namely 2.5% potential growth, a 4.25% NAIU, and a 5.75% underutilisation-based NAIU, rather than the midpoints;
- The RBA could be worried that the economy will underperform its outlook over the next few years; and
- Every inflation model is imprecise and can have large forecast errors at times.

On the first point, the governor said in June that she thought the NAIU was 4.3%, below the 4.75% midpoint, which suggests she would expect the unemployment gap to be broadly closed based on the staff's current outlook.

On the second point, the RBA might be right to be worried that the economy could underperform given that it – like the market – regularly has large forecast misses for both activity and the labour market, where its concern could be magnified if the US finally enters recession.

That said, the Beveridge curve is yet to normalise in Australia, suggesting that further weakness in the demand for labour could be mostly absorbed by job vacancies returning to pre-COVID levels rather than a sharp rise in unemployment, while it is worth acknowledging that the RBA has a better track record than the Fed in engineering soft landings.

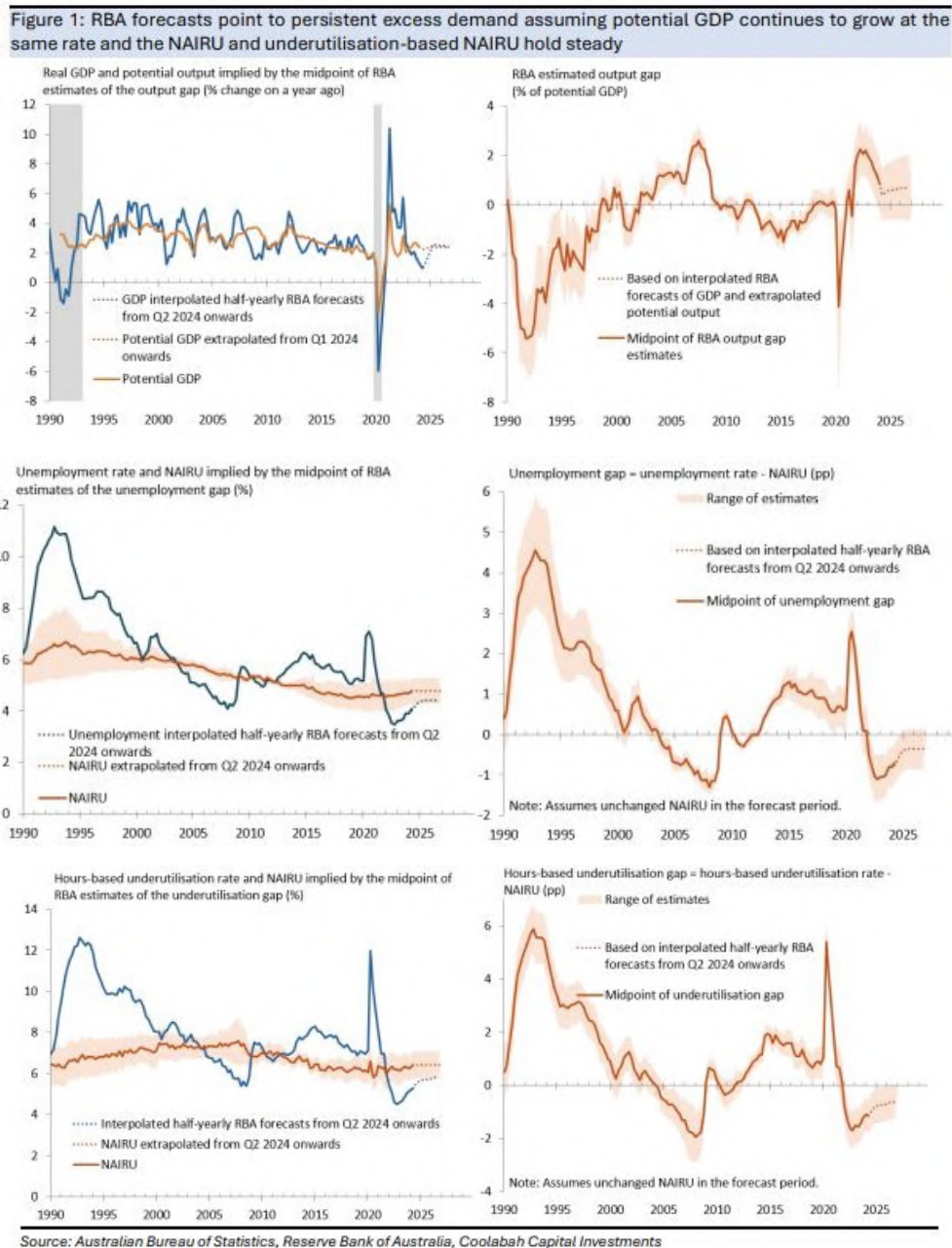




**Strategy commentary cont'd:** However, if a soft landing is realised, the seeming contradiction between the implied outlook for persistent excess demand and the forecast achievement of the inflation target might end up resolved by inflation staying above the target for longer, such that the RBA might overachieve on the employment half of its dual mandate.

Note:

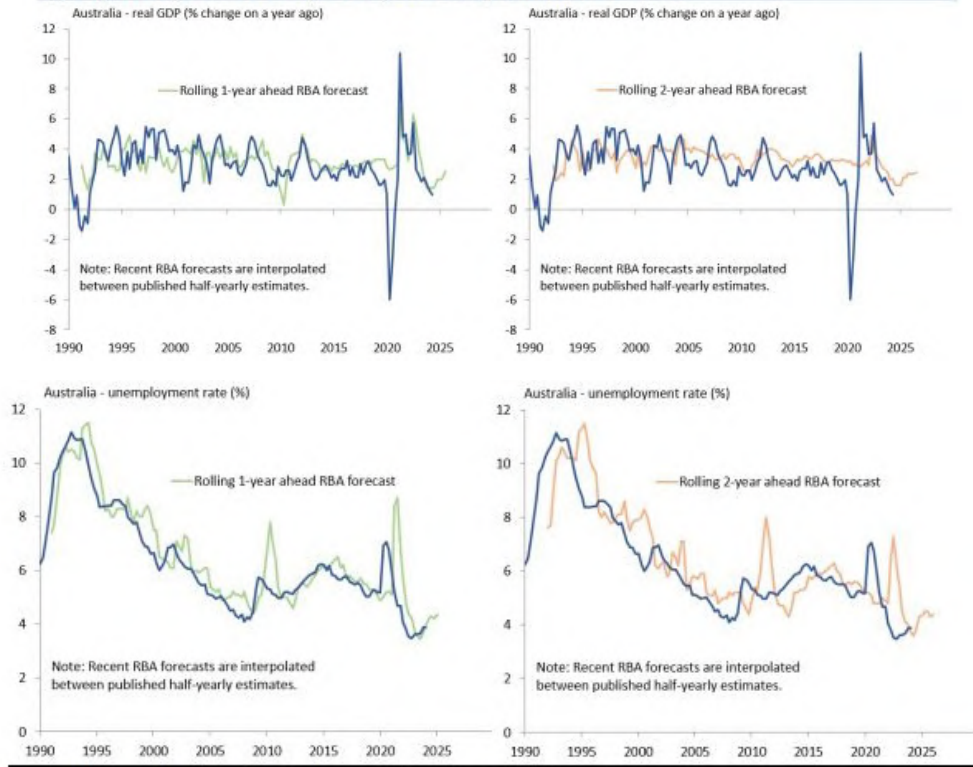
(1) The hours-based underutilisation rate captures the hours of work desired by current and unemployed workers.





Strategy commentary cont'd:

**Figure 2: The forecasts of persistent excess demand might end up wrong given that the RBA, like the market, regularly has large misses when predicting both activity and the labour market**



Source: Australian Bureau of Statistics, Reserve Bank of Australia, Coolabah Capital Investments

**Financial stability & its potential bearing on eventual RBA rate cuts**

The RBA's latest board [minutes](#) reported that the special topic at the late September RBA board meeting was the staff's semi-annual assessment of financial stability risks.

This involved pointing out the usual risks to Australia's financial stability, such as low risk premia reflecting market expectations for a global soft landing that may not be realised against a backdrop of rising public-sector debt and a lack of fiscal discipline, as well as longstanding concerns about the Chinese financial system.

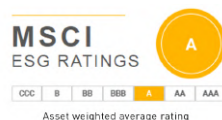
Interestingly, the board concluded its assessment with a "[discussion of] the potential for financial sector vulnerabilities to build if easier financial conditions were to lead higher risk borrowers to take on excessive debt and/or lenders to compete more aggressively by lowering lending standards".

Put simply, this is an acknowledgement of the threat to financial stability when households already have a lot of debt and banks and borrowers might both take more risks when the board eventually cuts interest rates, which could happen in response to either unexpectedly good news on inflation and/or a sharp rise in unemployment.

Ordinarily, economic concerns take precedence over financial stability when the RBA sets interest rates, but the board noted "the RBA review's recommendation that decisions about monetary and macroprudential policy should be coordinated in such a situation".

It remains to be seen whether the RBA would, in practice, place more weight on financial stability given to date it has placed most emphasis on retaining the COVID-era gains in the labour market, but it could conceivably constrain the size of an eventual easing cycle.

All these issues are brought home by the following charts which contrast how Australia has deviated from the largest advanced economies.



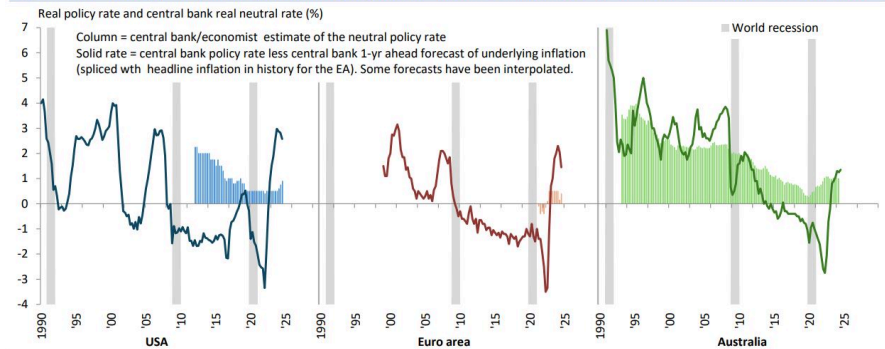
Asset weighted average rating

**Strategy commentary cont'd:** Firstly, unlike the US and euro area, monetary policy is not particularly tight in Australia when judged by comparing the real policy rate – defined as the policy rate less the central bank's forecast of year-ahead underlying inflation – with the central bank's estimate of the neutral real rate.

Secondly, high mortgage rates have not stopped Australia's household debt from continuing to grow at a solid rate, unlike the weak growth seen in the US and negligible growth in the euro area.

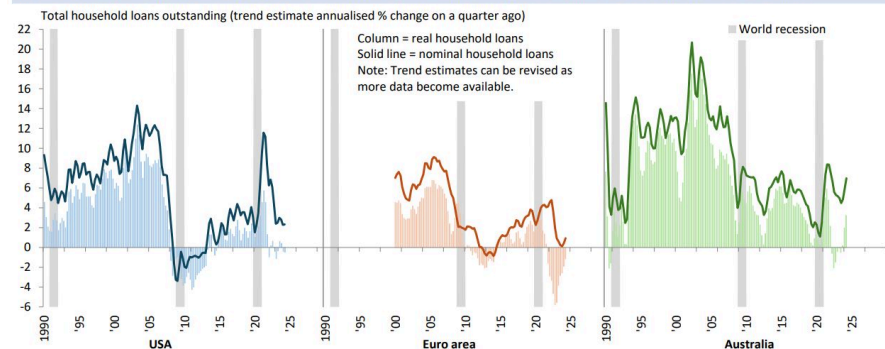
Thirdly, household leverage has reached a new record high in Australia, with total liabilities now slightly more than two times annual income. This contrasts with households reducing already much lower gearing ratios in the US and euro area, where, excluding the COVID-episode extremes, US leverage is now the lowest since the late 1990s and euro area leverage is the lowest since the mid 2000s.

**Figure 1: Monetary policy is not particularly tight in Australia when judged by the RBA's estimated neutral rate**



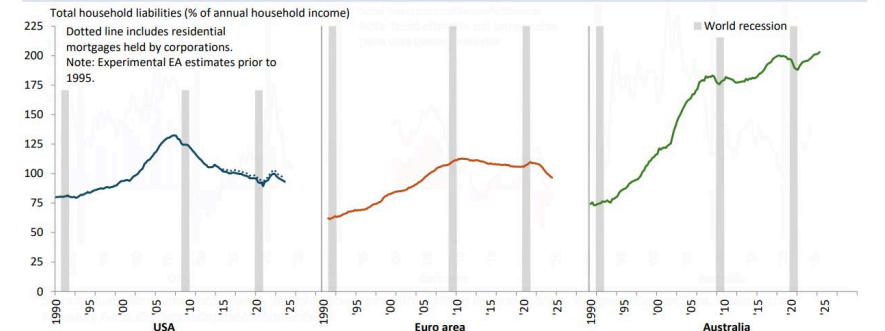
Source: Australian Bureau of Statistics, Board of Governors of the Federal Reserve System, European Central Bank, International Monetary Fund, Coolabah Capital Investments

**Figure 2: Despite high mortgage rates, Australian households have continued to borrow at a solid rate**



Source: Australian Bureau of Statistics, Board of Governors of the Federal Reserve System, European Central Bank, International Monetary Fund, Coolabah Capital Investments

**Figure 3: Australian household leverage has reached a new record high, contrasting with the deleveraging in other countries**



Source: Australian Bureau of Statistics, Bank for International Settlements, Board of Governors of the Federal Reserve System, European Central Bank, International Monetary Fund, Coolabah Capital Investments

**Strategy commentary cont'd: The public sector's role in propping up growth and jobs**

Strong growth in public demand has accounted for all of Australia's weak GDP growth over the past year as activity in the rest of the economy has slowed sharply. Above-average growth in a broad, but volatile measure of public-sector employment has accounted for about two-thirds of strong total jobs growth over the past year, while private-sector hiring has slowed to a still-solid pace (private-sector employment is much weaker in other countries and has contracted in the UK and NZ). Health and social assistance – which is already Australia's largest employer – continues to drive public-sector employment, with very crude estimates showing NDIS-related hiring adding to total employment from 2018 to 2022 when the scheme was ramping up.

The national accounts show that growth in the economy is currently being propped up by public-sector demand, which accounts for all of the 1% increase in Australia's real GDP over the past year (note that public demand comprises public consumption and investment).

The last time this happened was in the year before COVID hit and before that in the global financial crisis.

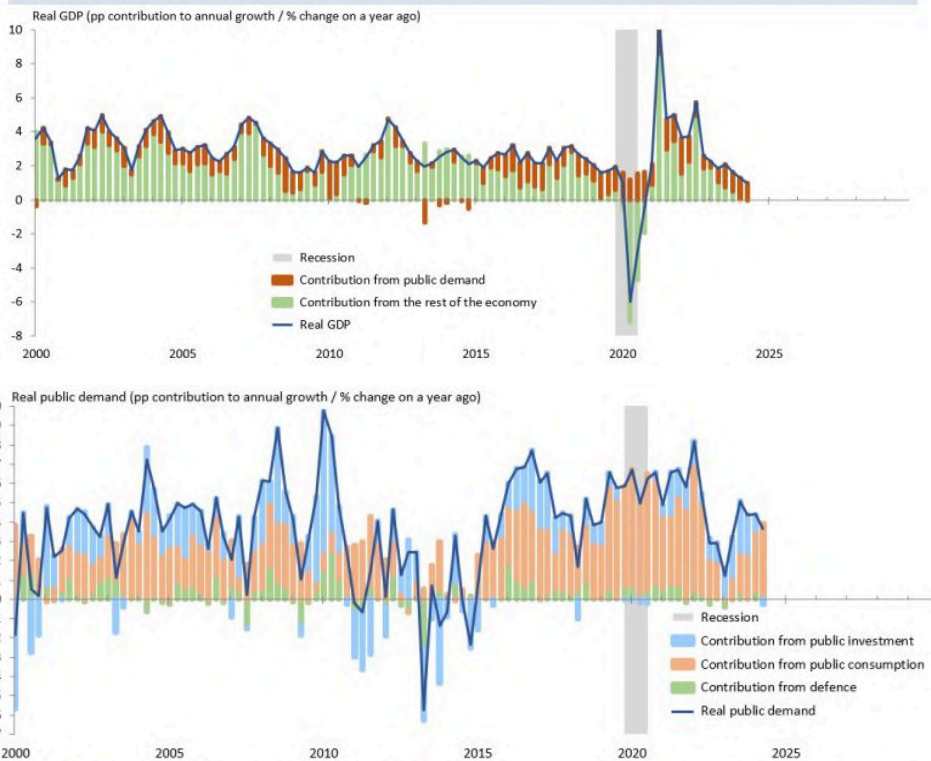
This unusual turn of events reflects the combination of ongoing strong growth in public demand and activity in the rest of the economy sharply tapering off after a very strong recovery from the short-lived COVID-driven recession of 2020.

Most of the strength in public demand reflects public consumption, which covers the government wages bill, as well as goods and services that are provided either free of charge or sold at below-market prices.

The latter includes direct government subsidies that are tied to private-sector spending on specific goods and services – such as "cost-of-living relief" payments for household electricity bills – where the ABS reallocates the subsidised expenditure from private- to public-sector demand.(1)

This standard accounting treatment means that private demand has likely not been quite as weak as recently reported and that growth in public demand has been flattered by Commonwealth and state governments both making more use of cost-of-living payments.(2)

**Figure 1: Public demand has accounted for all the weak economic growth in Australia over the past year, driven by public consumption**



Note: Public demand = public consumption + public investment.  
 Source: Australian Bureau of Statistics, Melbourne Institute, Coolabah Capital Investments



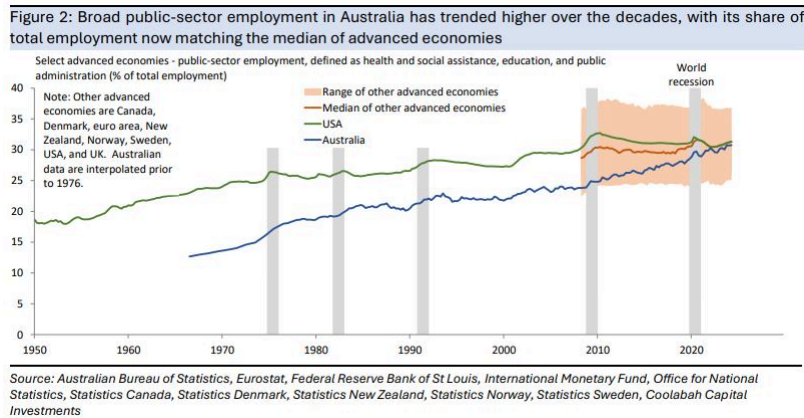
**Strategy commentary cont'd:**

The fact that public demand has propped up economic growth raises the question of whether the same is true for the labour market, where employment has risen by a strong 2.7% over the past year.

Using the broadest definition of the public sector – which is the ABS "non-market sector" that comprises the public administration, health and social assistance, and education industries – public-sector employment currently stands at about 4.5mn, or 31% of total employment, up from 26% a decade ago.(3)

This is the same as the equivalent share in the USA and places it in line with the median share of most other advanced economies, although there is a marked variation across countries.

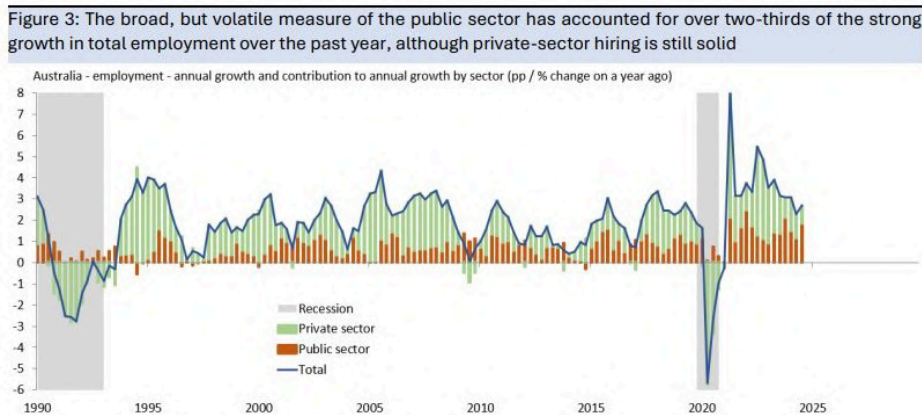
A few economies – viz, the euro area, Canada, and New Zealand – are at the bottom end of the range, clustered around 25%, while the Nordics are at 33% and over.



On this basis, above-average growth of about 6% over the past year has seen this broad measure of the public sector account for 1.8pp of the 2.7% increase in total employment over the same period.

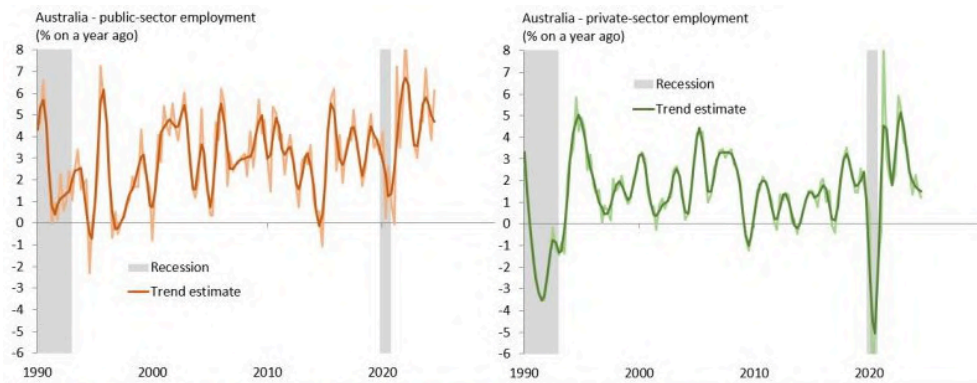
With the broad private-sector measures of employment, defined as the "market sector" by the ABS, up 1.2% from a year ago, this means that the private sector has added 0.8pp to total growth.

Smoothing the data because the industry split of employment is volatile, even when reported as annual growth rates, shows that both public- and private-sector employment display mini-cycles, but public-sector employment hardly ever falls, with the private-sector accounting for job losses in recessions and also contracting during the global financial crisis.(4)





Strategy commentary cont'd:

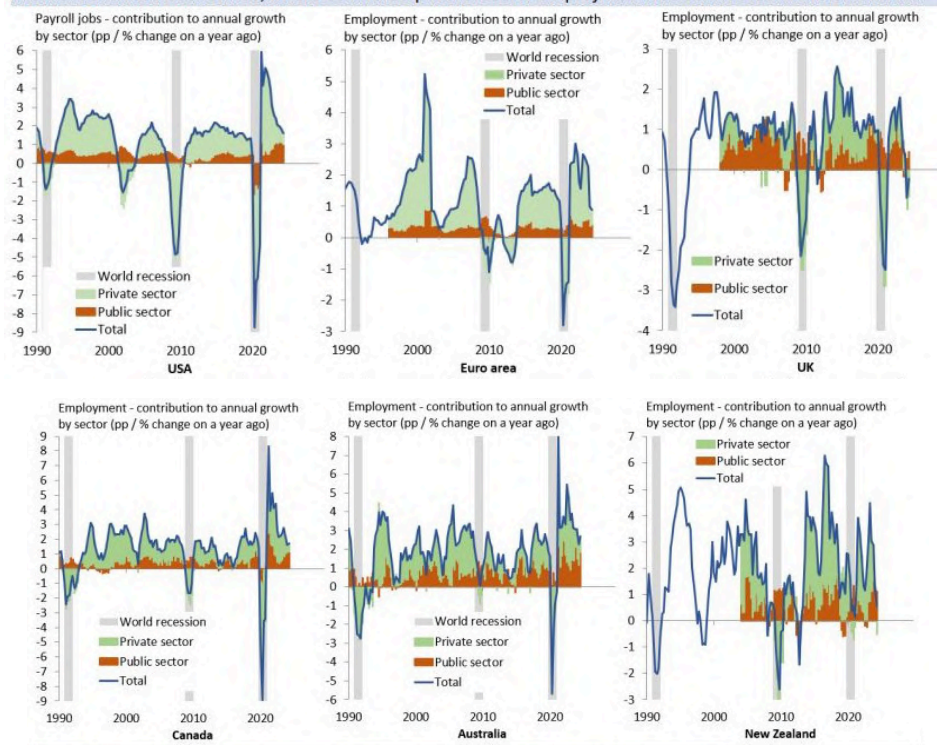


Note: Public sector = public administration, health and social assistance, and education. Private sector = all other industries.  
Source: Australian Bureau of Statistics, Melbourne Institute, Coolabah Capital Investments

All this is similar to the experience of other countries, where estimated broad public-sector employment is generally not correlated with the business cycle and currently accounts for most, and sometimes all, growth in total employment.

Correspondingly, growth in broad private-sector employment is much weaker than in Australia, broadly stalling for payroll jobs in the US in Q2 and recently contracting in the UK and New Zealand.

Figure 4: The broad public sector has accounted for most, and sometimes all, recent growth in total employment in other advanced economies, where estimated private-sector employment has contracted in the UK and NZ



Note: Public sector = public administration, health and social assistance, and education. Private sector = all other industries.  
Source: Australian Bureau of Statistics, Eurostat, Federal Reserve Bank of St Louis, International Monetary Fund, Office for National Statistics, Statistics Canada, Statistics Denmark, Statistics New Zealand, Statistics Norway, Statistics Sweden, Coolabah Capital Investments

In terms of what has driven the recent strength in broad public-sector employment in Australia, about half of all public-sector workers are employed in the health and social assistance sector, which is also the largest single employer in Australia, accounting for 16% of total employment (education is fifth at 8% and public administration is sixth at 7%).

**Strategy commentary cont'd:** Health and social assistance has grown in importance over the past sixty years, although the share of total employment has picked up at a faster rate from 2009 onwards.

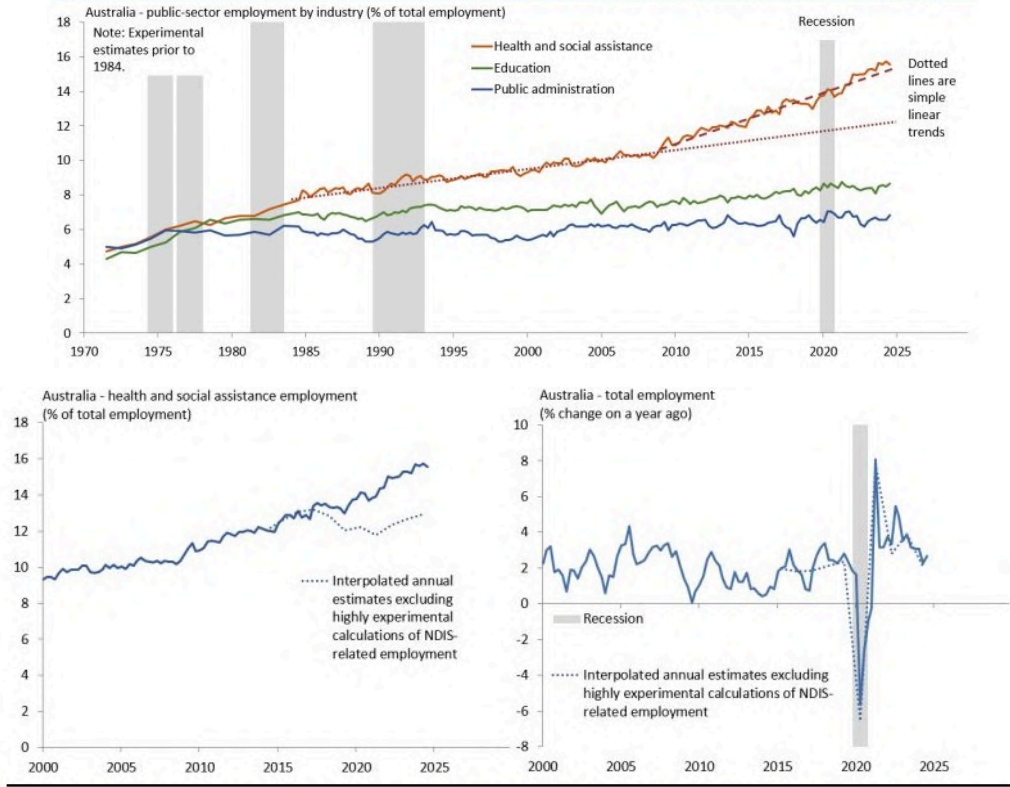
The National Disability Insurance Scheme (NDIS), which took some years to ramp up after starting in 2013, likely accounted for much of this acceleration.

On our highly experimental time series estimates, which are based on scheme payments and separate industry data on wages and profits, most of the strength in health and social assistance employment from 2018 to 2022 was likely due to NDIS.

This suggests that over that period, NDIS-related employment potentially added about 0.5pp to average annual growth in total employment of about 2.25%, but that there has been only a minimal contribution over the past couple of years.

That said, the latest census suggests that these extremely imprecise estimates could overstate the earlier contribution to growth in total employment based on a very fine split of jobs that shows a likely NDIS impact, but also strong hiring in hospitals and aged care between 2016 and 2021.

**Figure 5: Health and social assistance has become an even larger employer over time, with highly-imprecise estimates suggesting NDIS-related employment added to total employment growth between 2018 and 2022**



Source: Australian Bureau of Statistics, Melbourne Institute, National Disability Insurance Agency, Coolabah Capital Investments

Finally, in terms of the outlook, the broad measures of public- and private-sector job vacancies both peaked at multi-decade highs as a share of the labour force a couple of years ago.

Private-sector vacancies have since fallen faster and are approaching their pre-pandemic levels, while declining public-sector vacancies are still at a historically high level.



Strategy commentary cont'd:

**Figure 6: The broad measure of public-sector vacancies has declined, but is still above pre-COVID levels, while broad private-sector vacancies are approaching pre-pandemic rates**



Note: Public sector = public administration, health and social assistance, and education. Private sector = all other industries.  
Source: Australian Bureau of Statistics, Melbourne Institute, Coolabah Capital Investments

Note:

- (1) In contrast, welfare payments and indirect government subsidies, where the money can be used for any purpose, are separately reported as transfers of income and are not counted in GDP.
- (2) The ABS will publish data on direct subsidies to households in 2023-24 later this month.
- (3) Narrower measures of public-sector employment are available, but the broader measure was used to account for the blurring of some jobs between the public and private sectors (e.g., a healthcare professional might consult to both private and public hospitals) and the fact that the public sector significantly influences the pricing decisions in the health and education sectors via subsidies and regulation.
- (4) The volatility of sectoral split of employment partly reflects sampling variability. For example, survey respondents are sometimes inconsistent when reporting which industries employ other members of their household from one survey to the next.





Don't forget to listen to Coolabah Capital's popular Complexity Premia podcast. You can listen on your favourite podcast app, or you can find it on [Apple Podcasts](#) or [Podbean](#).

**Performance Disclaimer:**

Past performance does not assure future returns. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. This information has been prepared by Coolabah Capital Investments (Retail) Pty Limited ACN 153 555 867. It is general information only and is not intended to provide you with financial advice. You should not rely on any information herein in making any investment decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The Product Disclosure Statement (PDS) and Target Market Determination (TMD) for the funds should be considered before deciding whether to acquire or hold units in it. A PDS and TMD for these products can be obtained by visiting [www.coolabahcapital.com](http://www.coolabahcapital.com). Neither Coolabah Capital Investments (Retail) Pty Limited, Equity Trustees Limited nor their respective shareholders, directors and associated businesses assume any liability to investors in connection with any investment in the funds, or guarantees the performance of any obligations to investors, the performance of the funds or any particular rate of return. The repayment of capital is not guaranteed. Investments in the funds are not deposits or liabilities of any of the above-mentioned parties, nor of any Authorised Deposit-taking Institution. The funds are subject to investment risks, which could include delays in repayment and/or loss of income and capital invested. Past performance is not an indicator of nor assures any future returns or risks. Coolabah Capital Investments (Retail) Pty Limited (ACN 153 555 867) is an authorised representative (#000414337) of Coolabah Capital Institutional Investments Pty Ltd (AFSL 482238). Equity Trustees Ltd (AFSL 240975) is the Responsible Entity for these funds. Equity Trustees Ltd is a subsidiary of EQT Holdings Limited (ACN 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). A Target Market Determination (TMD) is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed. The Fund's Target Market Determination is available here' [website](#).

**Ratings Disclaimer:**

MSCI Disclaimer: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

