S&P Global
Ratings

Corporate Top Trends Update

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This report does not constitute a rating action

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Australia and New Zealand

Indirect Exposure Threatens A Delicate Recovery

Key Takeaways

- Australia and New Zealand have limited exports to the U.S., but indirect tariff effects could hit their large export sector.
- Weak Chinese demand pose risks for miners; a regional slowdown could hit ports and airports and derail the consumer and real estate recovery.
- Stabilizing office values will support REIT deleveraging; capex flexibility and bank liquidity will help infrastructure firms.

Less direct risks but substantial indirect exposure. Australia and New Zealand may face less risk of new U.S. tariffs relative to other Asia-Pacific economies. Instead of a trade surplus, the Pacific has a sizable US$16 billion trade deficit with the U.S. (see chart 1). They would also face less direct impacts from U.S. tariffs--their exports to the U.S. amount to just 1.1% of their combined GDP.

Chart 1

Australia's and New Zealand's low U.S. exports to limit direct exposure

Australia's and New Zealand's U.S. trade

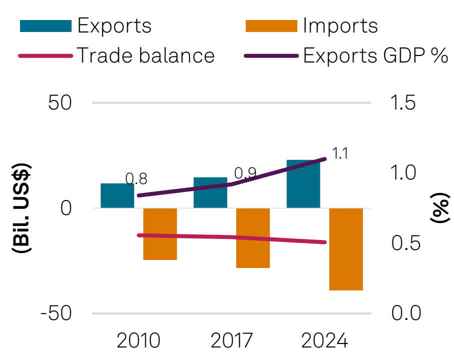
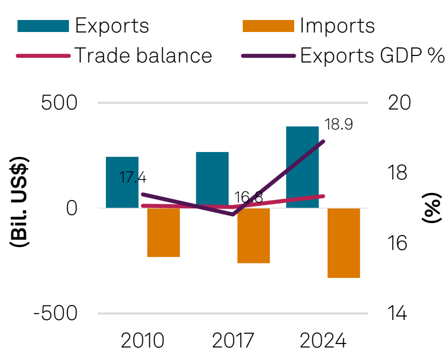


Chart 2

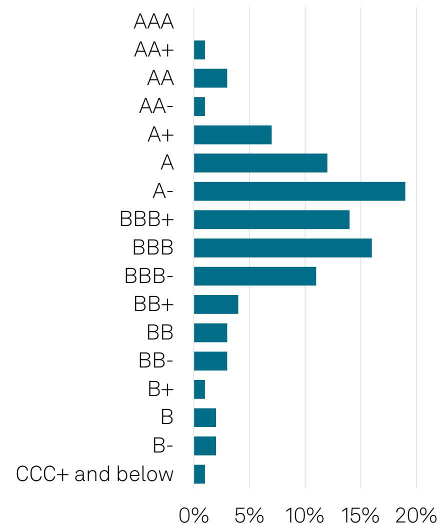
Australia's and New Zealand's large export sector raise indirect risks

Australia's and New Zealand's total trade

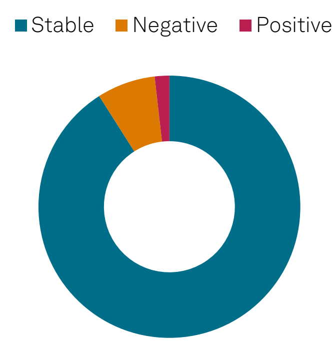


Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

Adverse outcomes of U.S. tariffs, such as a global slowdown, could nevertheless deliver substantial indirect hits through the Pacific's large export sector, at a fifth of its GDP (see chart 18). China's weakening demand, for example, could weigh on Australian miners. If the slowdown becomes regional, it could hit port and airport volumes, nullify recent government stimulus, and derail the consumer and real estate recovery in key markets, particularly Australia.

Weak China growth is a key risk for iron ore miners. New U.S. tariffs on Chinese goods threaten to slow China's growth and further reduce the country's imports of Australian commodities. Global demand is already softening without the new levies, reflected in our assumption that iron ore prices will fall from US$100 per dry metric ton in 2025 to US$90 in 2026.

Major iron ore operators such as Fortescue Metals Group Ltd., Rio Tinto PLC, and BHP Group Ltd. can absorb this price impact given their strong balance sheets and low-cost positions. However, entities higher up the cost curve could see their viability threatened if fresh tariffs trigger a pullback in China's industrial activity and pressure the sector's profitability.

Copper and gold more resilient on price outlook and U.S. protection. Commodities that stand to benefit from energy transition, such as copper, enjoy a healthy price outlook. Meanwhile, gold continues to trade at record price levels, reflecting its role as a hedge against inflation and geopolitical uncertainties. These commodities are likely to remain resilient against coming tariff headwinds.

On the metals side, the competitive and cost advantages of Australian producers with operations in the U.S may benefit from U.S. tariffs at the expense of their global peers, particularly those with tighter profit margins. This includes steel and packaging manufacturers Bluescope and Amcor.

Consumer recovery could be derailed by new U.S. tariffs. New U.S. tariffs and resulting retaliation by targeted countries could disrupt global supply chains and rekindle supply-side inflation. This, plus other potential effects such as slower growth, weaker confidence, and retreats from spending to saving could nullify recent rate cuts and stimulus and derail the gradual consumer recovery in Australia and New Zealand.

Australia's consumption has held up on a resilient labor market that has pushed down unemployment to generational lows. Recent federal income tax cuts and other stimulus will help raise consumers' propensity to spend, even if they do so in a price-conscious manner.

Rate cuts by the Reserve Bank of Australia will also encourage spending. This is particularly the case for lower-income households with high mortgage debt, as they have been hit the hardest by higher prices and mortgage payments amid a protracted decline in real wages. Lastly, government scrutiny on the marketing practices of supermarkets could reduce their pricing flexibility; however, resulting regulatory actions may lead to pricing adjustments that facilitate more spending.

REIT recovery relies on improving financing conditions. Commercial real estate is set to recover further on the back of lower rates and a stronger sector outlook--if these conditions are not derailed by new U.S. tariffs. Mirvac Wholesale Office Fund, Kiwi Property Group and Investa Commercial Property Fund are all seeking to sell assets and raise fresh equity or third-party capital. These plans are critical to easing pressures on the trusts' credit quality after years of rising redemptions and falling valuations and capital investments.

For offices, lower interest rates and stabilizing valuations should support asset sales, particularly in Sydney, Australia's largest office market. An improving sector outlook and a weaker Australian dollar should also encourage inflows of foreign capital to further support equity fundraising, although landlords will balance divestments with portfolio scale and competitive position.

In retail, demand for high-quality assets continues to strengthen under low supply over the past five years and a strong recovery in foot traffic after the pandemic.

In the industrial sector, vacancy and incentive rates will rise modestly in 2025, albeit from a low base. Credit profiles should remain stable, underpinned by high quality, well-located, and highly diversified assets with long leases. Strong demand for data centers, in particular, will provide a substantial new growth area for players such as Goodman Group.

Lastly, credit improvements will also hinge on bond market access. Adverse market conditions and competitive loan pricing over recent years led more issuers to borrow from banks. As a result, debt maturities have shortened meaningfully. Associated risks are moderating as inflows return to the bond market, which is tightening spreads and allowing issuers to restore longer debt tenors and more funding diversity.

The energy sector faces elevated capex and policy uncertainties. Capital outlays remain elevated in the energy sector. This exacerbates sensitivity to economic slowdowns and supply and demand imbalances. Regulated entities benefit from cost-recovery mechanisms, but unregulated ones rely on their own capital management, risk-sharing, and hedging to temper exposure to market cycles.

Investments in renewable energy may moderate in 2025 from record levels in 2024. Australia's election could also affect the amount and type of future investments given the policy divergence between the country's major political parties. The incumbent government may press ahead with its renewable agenda, but the opposition party's promotion of nuclear generation could hurt investments in wind, solar, and firming batteries.

Fossil fuels firms are looking to balance returns against the higher capital needs of sustainability projects. They are likely to reorient their focus toward traditional projects, given the challenge for renewable projects to achieve comparable returns, particularly under policy uncertainties ahead. Woodside's decision to delay its hydrogen and solar projects in the U.S. reflects a reassessment of the need for clean energy investments that generate lower returns.

Against these considerations are booming power demand for data centers and their construction, which continue to drive the need for renewables as well as other sources of energy.

Infrastructure firms have some exposure to geopolitical tensions despite defensive characteristics. Most entities in the sector are coping with higher costs fueled by inflation and more frequent adverse weather events. New U.S. tariffs and rising geopolitical tensions in Asia-Pacific could add to these strains.

Ports and airports may face slower growth; this is given 80%-85% of port trade is headed to or coming from Asian economies, while 75%-80% of international tourism into Australia also comes from the region. For land transport, poor consumer confidence or lower spending due to any tariff impact would likely knock on to rail freight volumes, which are already dealing with competitive challenges. The utilities sector is less exposed to global factors but faces high capital investments. Execution risk remains high with cost and risk sharing mechanism becoming more common.

Rated firms in these sectors have the financial flexibility, mainly around timing of capex, to withstand some turbulence over the next 12 months. Refinancing needs, meanwhile, are supported by strong liquidity in the bank market and healthy appetite for Australian infrastructure assets from offshore investors.

Related Research

Australia/New Zealand

- ATCO Gas Outlook Revised To Positive On Strengthening Cash Flow; 'BBB+' Ratings Affirmed, Feb. 27, 2025
- Plenary Health Finance Rating Placed On CreditWatch Negative Following Action On Counterparty Honeywell International, Feb. 10. 2025
- Bingo Downgraded To 'CCC+' On Continued Weak Cash Flow And Credit Measures; Outlook Negative, Feb. 10, 2025

Editor's note: S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

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