

Weekly Economic Outlook

Monday, 13 December

Will Confidence Fall Victim to Omicron?

Confidence is critical to the outlook for economic growth in Australia. This week, the highlights on the data calendar are updates on consumer and business confidence, as well as fresh data on the labour market. The week is rounded off by the release of the Federal government's fresh budget forecasts.

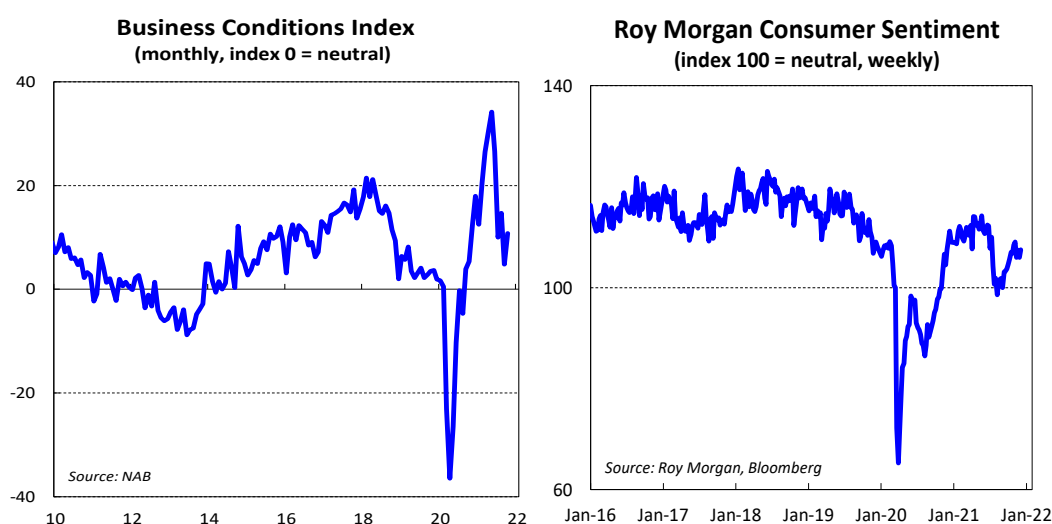
Business confidence in October rose to a six-month high, after a sharp jump in September. Encouragingly, businesses began feeling more optimistic before the prolonged lockdowns lifted in NSW, Victoria and the ACT. This optimism is reflected by solid growth in credit extended to businesses and in the upgrade to business-spending plans for 2021-22.

On Tuesday, we receive an update on the monthly business survey for November. Confidence is likely to show ongoing optimism, although some retreat from October's elevated level is possible. News of the Omicron variant emerged on November 24. Consumers and businesses in Australia have mostly shrugged aside the risk from Omicron, but some caution has crept in.

Business confidence is often tied closely to trends in consumer spending, which can be shaped by consumer confidence.

On Wednesday, the December reading of consumer confidence published by Westpac and the Melbourne Institute will be released. Last month, consumer confidence rose 0.6% to 105.3, which is above 100.0 – the threshold that divides the optimists from the pessimists. It is also above the long-run average of 100.0.

The more frequent, weekly consumer confidence series from Roy Morgan suggests consumer confidence peaked in early November but has stayed close to the peak. Indeed, consumers have remained optimistic about the future, despite potential risk posed by Omicron.



One of the key economic data releases before Christmas is out this Thursday. It is the labour force data for last month. The employment result will follow a drop of 46,300 jobs in October, led by a deep decline in jobs in Victoria.

In November, we expect a bounce back in jobs of 220,000, which is above consensus estimates for a rise of 200,000. This would recover two-thirds of the jobs lost over August to October due to the extended lockdowns in NSW, Victoria and the ACT.

The risk to jobs growth lies to the upside. Many businesses continue to report labour shortages, especially in areas of IT, accounting, manufacturing and hospitality.

The spike in jobs in November is likely to be accompanied by a sharp lift in the participation rate, as workers return to the labour force in NSW, Victoria and the ACT. The participation rate is likely to have lifted further in November; we predict from 64.7% to 65.8%.

The rise in the participation rate means the labour force has expanded and stronger jobs growth is needed to prevent the unemployment rate from heading north. We expect jobs growth won't be firm enough in November to limit a rise in the unemployment rate. However, we expect only a marginal rise in the unemployment rate to 5.3% in November, from 5.2% in October.

The lift in the unemployment rate from the recent trough of 4.5% (in August) to an anticipated 5.3% in November is modest and speaks to the resilience of the Australian economy in the despite the Delta lockdowns.

Over next year, as the economic recovery ramps up, we expect business spending and hiring to also ramp up and contribute to a renewed decline in the unemployment rate.

Thursday will also be significant because the Federal government will release its Mid-Year Economic and Fiscal Outlook (MYEFO).

The Federal Budget was handed down in May. MYEFO provides an update to May's Budget.

Since May, the government has had to deal with prolonged Delta lockdowns in the country's biggest states of NSW and Victoria. It has also had to contend with a sharp fall in the iron ore price, although the May Budget allowed for a sharp fall in the iron ore price.

So, MYEFO is likely to reveal a downgrade in the government's bottom-line, primarily driven by a lift in government support spending in response to the Delta lockdowns. We are forecasting the budget deficit to be downgraded to \$117.0 billion for 2021-22 (or 5.3% of GDP), from the previous government estimate of \$106.6 billion.

One of the best ways to repair the budget is to grow the economy faster. We are anticipating the economic recovery to strengthen and help narrow the budget deficit over the outyears. However, the near-term outlook rests on Omicron not leading to additional prolonged lockdowns. Assuming Omicron, or other new variants, do not have a significant impact on the economy, we expect the deficit to be trimmed to \$89 billion (or 3.9% of GDP) in 2022-23.

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Forecasts

End Period:	2022				2023		
	Close (10 Dec)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.25	0.50
90 Day BBSW, %	0.06	0.10	0.15	0.20	0.40	0.65	0.70
3 Year Swap, %	1.30	1.30	1.25	1.20	1.20	1.30	1.40
10 Year Bond, %	1.69	2.15	2.30	2.30	2.30	2.30	2.25
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.375	0.625	0.875	0.875	1.125
US 10 Year Bond, %	1.52	2.00	2.20	2.30	2.30	2.30	2.25
USD Exchange Rates:							
AUD-USD	0.7160	0.71	0.70	0.71	0.73	0.75	0.76
USD-JPY	113.52	116	116	117	117	118	118
EUR-USD	1.1299	1.10	1.08	1.09	1.10	1.11	1.12
GBP-USD	1.3231	1.36	1.37	1.38	1.38	1.37	1.37
NZD-USD	0.6805	0.67	0.66	0.67	0.69	0.70	0.71
AUD Exchange Rates:							
AUD-USD	0.7160	0.71	0.70	0.71	0.73	0.75	0.76
AUD-EUR	0.6337	0.65	0.65	0.65	0.66	0.68	0.68
AUD-JPY	81.280	82.4	81.2	83.1	85.4	88.5	89.7
AUD-GBP	0.5412	0.52	0.51	0.51	0.53	0.55	0.55
AUD-NZD	1.0521	1.06	1.06	1.06	1.06	1.07	1.07

	2020	2021 (f)	2022 (f)	2023 (f)
GDP, %	-0.8	2.8	6.4	2.7
CPI (Headline), %	0.9	3.0	2.5	2.6
CPI (Trimmed mean), %	1.1	2.3	2.8	2.8
Unemployment Rate, %	6.8	5.3	3.8	3.8
Wages Growth, %	1.4	2.2	2.8	3.1

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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