Weekly Economic Outlook

Monday, 31 August 2020

The Pandemic Recession

In 2020, the coronavirus has become the key driver for the economic outlook. The prevalence of cases has determined the restrictions imposed and the impact on confidence.

As we receive GDP data for a number of countries around the world, we are seeing the significant impact of the pandemic on the economy. The contraction, particularly over the June quarter, is expected to be sizeable and synchronised across regions.

In Australia, we will receive GDP data for the June quarter on Wednesday. We have had a preliminary forecast of 7% over June quarter, but recent data of late has suggested there are upside risks to this forecast. An outcome close to our expectations would be the largest decline in GDP since the Great Depression. It would also confirm Australia's first recession since the early 1990s.

Nonetheless, a 6-7% quarterly contraction would compare favourably with other advanced economies. In the UK, GDP contracted over 20% in the June quarter, while German GDP fell nearly 10% over the same period. In the US, GDP contracted at an annualized 31.7% pace in the June quarter, equivalent to a 9.1% contraction on a quarterly basis.

With restrictions being imposed in Australia at a relatively early stage in the virus's spread, the virus became contained quickly and restrictions were able to be lifted sooner than expected. Economic growth is becoming synonymous with a report card on the handling of the virus. In South Korea, where restrictions were less prevalent but there were significant contact tracing and testing capabilities, GDP contracted just 3.3% in the June quarter, according to a preliminary estimate.

We should note that it is not only the mandated restrictions that are hitting economic activity. In Sweden, where there has been a greater prevalence of the virus and less stringent restrictions, GDP contracted a sizeable 8.3% in the June quarter. While a smaller contraction than in parts of Europe, it is larger than our estimated contraction in the economies of Australia or even South Korea over the quarter. It highlights the negative impact from the virus within the community on confidence and ultimately on economic activity.

Looking ahead to the second half of this year, the recovery from these widespread lockdowns is uneven and uncertain. The increase in cases in Victoria and the lockdown measures imposed will have a further detrimental impact on economic activity over the September quarter, even as other parts of the country continue to re-open. Further, the emerging clusters of cases in NSW have weighed on confidence in the State and will also limit the recovery in economic activity. Australia-wide economic growth is not expected to return until the final quarter of the year.

In addition to Australian GDP, we will receive the partial economic data leading up the release, including government statistics and the current account tomorrow. Company profits were released today and showed a surprise 15% jump in the quarter, which have been boosted by the receipt of government subsidies. Tomorrow, we expect the current account surplus to widen to a record $13.0 billion. Net exports are expected to contribute 1.0 percentage points to GDP, as imports have weakened more than exports. Government spending is likely to have surged, reflecting the increase in support measures.

Housing data will be released tomorrow, including building approvals and dwelling prices. We expect soft conditions to continue in housing, reflecting the rise in unemployment, weak incomes, and uncertainty about the outlook. Building approvals are expected to rise 3.0% in June as the Government's HomeBuilder grant kicks in, but approvals are likely to remain at a very low level. Dwelling prices are expected to decline another 0.6% in August after a 0.8% decline in July.

The Reserve Bank (RBA) is scheduled to meet on Tuesday and is expected to keep policy settings on hold. Rhetoric of late has been mostly dismissive of adopting alternative policy options such as negative interest rates, foreign exchange intervention and direct government financing, although the RBA has suggested it could tweak the policy measures currently in place.

Overseas, the main release in focus will be non-farm payrolls in the US. Other employment data is continuing to show an ongoing improvement in the labour market, but with the rate of improvement slowing. The consensus forecast is for a 1.4 million gain in jobs over August following a 1.8 million increase in July. The unemployment rate is expected to decline from 10.2% to 9.8%.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Forecasts are detailed on the following page

Forecasts

Please note that due to the unprecedented nature of the coronavirus's impact on the economy and the rapid change of developments, there is greater than usual variability attached to these forecasts.

		2020			2021	
End Period:	**Close (Aug 28)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.09	0.10	0.15	0.20	0.25	0.30
3 Year Swap, %	0.19	0.25	0.30	0.35	0.35	0.40
10 Year Bond, %	1.02	0.90	0.90	0.95	1.05	1.20
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.72	0.60	0.60	0.65	0.75	0.85
USD Exchange Rates:						
AUD-USD	0.7365	0.73	0.75	0.76	0.76	0.78
USD-JPY	105.37	105	105	105	106	106
EUR-USD	1.1903	1.19	1.21	1.22	1.23	1.24
GBP-USD	1.3353	1.32	1.33	1.34	1.35	1.37
NZD-USD	0.6743	0.66	0.67	0.66	0.66	0.68
AUD Exchange Rates:						
AUD-USD	0.7365	0.73	0.75	0.76	0.76	0.78
AUD-EUR	0.6188	0.61	0.62	0.62	0.62	0.63
AUD-JPY	77.61	76.7	78.8	79.8	80.6	82.7
AUD-GBP	0.5517	0.55	0.56	0.57	0.56	0.57
AUD-NZD	1.0924	1.11	1.12	1.15	1.15	1.15

	2019	**2020 (f)**	**2021 (f)**
GDP, %	2.2	-3.7	3.0
CPI (Headline), %	1.8	0.7	2.1
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	8.6	7.4
Wages Growth, %	2.2	1.9	1.6

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

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

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist
Janu Chan
chanj@banksa.com.au
(02) 8253 0898

Economist
Nelson Aston
nelson.aston@banksa.com.au
(02) 8254 1316