

# Weekly Economic Outlook

Monday, 31 May 2021

## Pandemic Recovery Marches On

Australia's economic recovery has pushed on this year as we contended with COVID-19 outbreaks and natural disasters. We will see exactly how this has all played out with the release of March quarter GDP data on Wednesday.

We expect GDP grew 1.4% in the quarter, with annual growth running at 0.5%. The recovery has continued this year, although moderated from the very strong rebound we saw over the second half of 2020, with quarterly growth of 3.4% in the September quarter and 3.1% in the December quarter.

Economic activity was supported by ongoing policy stimulus and the further relaxation of pandemic-related restrictions. The housing boom and associated strength in residential construction also provided a boost to the economy while business investment continued to recover in response to tax incentives. However, the economy did meet some headwinds in the quarter. Brief lockdowns dented consumer spending and flooding in NSW and Queensland weighed on coal exports.

Consumer spending is a key uncertainty for this quarter – we have forecast 1.4% growth. The Australian consumer has been incredibly resilient through the COVID-19 crisis. Household spending bounced back very quickly last year. This hit a wrinkle in the March quarter as retail sales volumes declined 0.5% in the quarter alongside several snap lockdowns. However, spending on services has likely had a strong showing as restrictions eased. Many Australians (including this economist) were eager to get out to sporting events, the cinema and the hairdresser.

The Reserve Bank Board is meeting on Tuesday. We expect no big changes. The minutes of from the last meeting flagged that the Board would decide the on the future of its Yield Curve Control (YCC) and Quantitative Easing (QE) policies at the July meeting. We expect YCC will be extended to target the November 2024 bond and that another round of QE worth \$100 billion will be announced. We will be watching closely for any hints at which way the RBA is leaning ahead of the July announcement. Outside of this, we will also be eyeing any fresh thoughts from the RBA on the labour market and housing, especially after the conclusion of JobKeeper in March and the recent strong surge in investor lending.

Several important inputs to GDP will be released ahead of the big number on Wednesday – namely company profits, inventories and net exports. We expect company profits and inventories have continued to grow alongside the broader economic recovery but forecast a 1.1% decline in net exports, dragged lower by a fall in exports and the ongoing recovery in imports.

We will also get read on how the housing boom is tracking. First, dwelling prices data for May is out tomorrow. We expect the strong momentum has continued and have forecast 2.2% growth in the month. Second, we will get our first reading of building approvals after the expiry of HomeBuilder. We expect approvals fell 10.0% in April after surging in recent months. Third, we receive data on housing finance. We forecast a 3.0% increase in April and will be keeping a close eye on how investor lending growth is tracking. So far, the boom has been led by owner occupiers

but in March investor lending growth accelerated to its fastest pace in almost 18 years. The evolution of investor lending will be critical for policymakers in determining whether to tighten macroprudential policy. At this stage, we expect we could see an intervention next year.

Retail sales data is also out this week. We expect 1.1% growth in the month, in line with preliminary estimates. Retail sales has had a volatile start to the year, following a series of lockdowns as well as signs that 'catch up' spending is starting to wane. Plus, spending patterns are rebalancing as restrictions ease, reversing earlier shifts in behaviour. For example, households are starting to spend more on discretionary services like eating out and domestic travel. This could contribute to a rotation in spending away from retail towards non-retail segments.

Finally, private sector credit data for April is also out this week – we expect a 0.4% gain in the month and annual growth of 1.4%. Credit growth is emerging from a weak period associated with the pandemic.

We knew the recovery from the pandemic would be a bumpy ride. The fresh COVID-19 outbreak in Victoria is a reminder that we still face challenges. However the economy has rebounded much faster than expected and the outlook remains solid as restrictions are eased and vaccines are rolled out. We aren't out of the woods yet but there are good reasons to be optimistic.

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## Forecasts

End Period:	2021				2022		
	Close (28 May)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
<b>Aust. Interest Rates:</b>							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.04	0.05	0.07	0.09	0.10	0.10	0.10
3 Year Swap, %	0.36	0.40	0.40	0.45	0.60	0.80	0.90
10 Year Bond, %	1.70	1.85	1.95	2.10	2.20	2.30	2.40
<b>US Interest Rates:</b>							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.62	1.75	1.85	2.00	2.10	2.20	2.30
<b>USD Exchange Rates:</b>							
AUD-USD	0.7746	0.79	0.80	0.82	0.85	0.85	0.85
USD-JPY	109.86	109	109	110	111	111	111
EUR-USD	1.2188	1.21	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.4199	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7272	0.73	0.73	0.74	0.76	0.76	0.76
<b>AUD Exchange Rates:</b>							
AUD-USD	0.7746	0.79	0.80	0.82	0.85	0.85	0.85
AUD-EUR	0.6318	0.65	0.66	0.67	0.68	0.67	0.67
AUD-JPY	84.7	86.1	87.2	90.2	94.4	94.4	94.4
AUD-GBP	0.5434	0.56	0.57	0.58	0.60	0.60	0.60
AUD-NZD	1.0652	1.08	1.10	1.11	1.12	1.12	1.12

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.2	-1.1	4.5	3.0
CPI (Headline), %	1.8	0.9	2.2	1.8
CPI (Trimmed mean), %	1.5	1.2	1.5	1.6
Unemployment Rate, %	5.2	6.8	5.0	4.7
Wages Growth, %	2.2	1.4	2.2	2.2

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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