

Weekly Economic Outlook

Tuesday, 4 August 2020

Lockdown Tightens

How do you tighten restrictions in a city already under lockdown? Premier Daniel Andrews answered this question last week, imposing stage 4 restrictions across metropolitan Melbourne from 6pm, August 2. Stage 3 restrictions will be in place for Regional Victoria from August 5.

The retail sector has been hard hit by these latest restrictions, which will require all clothing, footwear stores and food courts to close. Major retailers can operate with a “click and collect” option. Services such as cleaners, gardeners and hairdressers will be shut. Some manufacturing has also been impacted.

There are also restrictions on the number of workers on construction sites, meatworks and abattoirs.

Support measures have been issued which include a \$5,000 grant for businesses in Victorian regional local government areas, and a grant of \$10,000 is available for employing businesses in metropolitan Melbourne and Mitchell Shire. A \$20 million CBD Business Support fund to help small businesses in Melbourne’s CBD has been announced. Further details on this support fund are expected to be available soon.

Andrews has warned that another 250,000 workers would be stood down due to the restrictions. It points to a further contraction in economic output in Victoria over the September quarter and another spike in unemployment.

The expected contraction in Australian GDP over 2020 is now likely to be greater than the 4.2% previously forecast.

Downside risks remain that further restrictions will be imposed in other parts of the country, and in particular NSW, or if restrictions in Victoria would need to be extended. The hit to confidence from the ongoing elevated number of cases in Victoria will also weigh on economic activity. However, some further policy support could provide some offset.

The RBA’s assessment on Victoria’s lockdown will be watched closely. In a speech in late July, RBA Governor Lowe said that the impact of Victoria’s lockdown after Stage 3 restrictions, was “very concerning”. The RBA will be holding its monetary policy meeting today and will release its Statement on Monetary Policy on Friday. The latter includes the RBA’s updated forecasts on GDP, employment and inflation. The RBA’s policy measures are expected to remain unchanged. Other commentary from the RBA also includes a speech from Assistant Governor Ellis via webinar on Friday.

Data on housing will be released this week. Yesterday, CoreLogic released dwelling price data which revealed prices have declined in the three consecutive months to July. Housing finance data on Wednesday is expected to show further moderation in new lending, and especially within investor lending. That said, there may continue to be strength in refinancing as mortgage holders look to take advantage of lower rates on offer.

Other key data this week includes retail sales and international trade, with both releases scheduled today. Retail sales increased 2.9% in June, however over the June quarter, volumes contracted 3.4% reflecting the nation-wide restrictions imposed earlier in the quarter. Another large surplus of \$8.2 billion was posted for June. Both exports and imports have rebounded with restrictions easing over the month, although exports were relatively firm in the month.

Overseas, the key data release will be US non-farm payrolls, scheduled for Friday. The consensus expectation is for a large rebound in jobs of 1.5 million, a sizeable increase for the third consecutive month. The unemployment rate is expected to fall from 11.1% to 10.5%. However, restrictions and concerns in some States regarding COVID-19 suggest that the recovery in the US economy will be uneven.

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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.

End Period:	2020			2021		
	Close (Aug 3)	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, %	0.10	0.10	0.15	0.20	0.25	0.30
3 Year Swap, %	0.20	0.25	0.30	0.35	0.35	0.40
10 Year Bond, %	0.82	0.95	1.00	1.05	1.15	1.25
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.55	0.70	0.75	0.80	0.85	0.90
USD Exchange Rates:						
AUD-USD	0.7124	0.70	0.72	0.73	0.74	0.75
USD-JPY	105.95	106	106	107	107	108
EUR-USD	1.1762	1.14	1.16	1.16	1.17	1.17
GBP-USD	1.3075	1.26	1.27	1.27	1.28	1.29
NZD-USD	0.6613	0.65	0.65	0.64	0.65	0.66
AUD Exchange Rates:						
AUD-USD	0.7124	0.70	0.72	0.73	0.74	0.75
AUD-EUR	0.6057	0.61	0.62	0.63	0.63	0.64
AUD-JPY	75.48	74.2	76.3	78.1	79.2	81.0
AUD-GBP	0.5449	0.56	0.57	0.57	0.58	0.58
AUD-NZD	1.0773	1.08	1.11	1.14	1.14	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-4.2	3.0
CPI (Headline), %	1.8	0.7	2.1
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	8.4	7.3
Wages Growth, %	2.2	1.8	1.6

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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