Weekly Economic Outlook

Monday, 8 November 2021

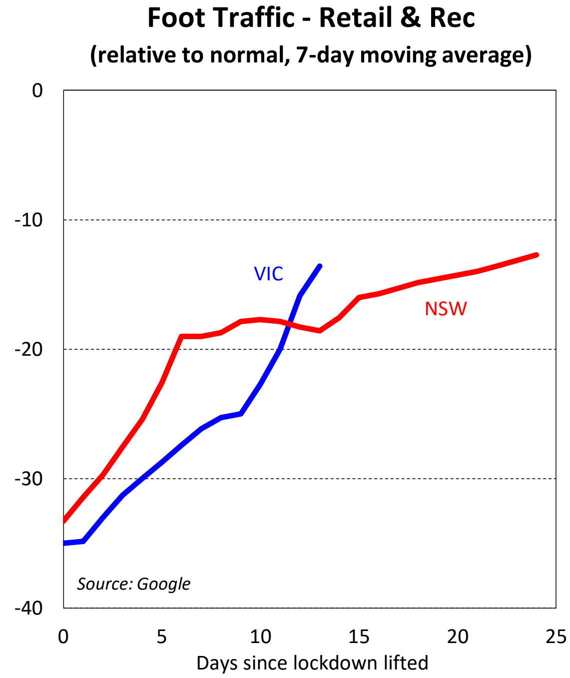
Confidence Buoyant As Restrictions Ease

The economic recovery is underway. As lockdowns have lifted across NSW, Victoria and the ACT, people have begun to return to their normal activities. Pent-up demand is being unleashed as consumers return to their favourite cafes, restaurants, and recreational venues.

Leading indicators of household spending, such as credit card spending data, are showing that consumers are eager spend, particularly in sectors such as personal services, hospitality, and travel. Spending is NSW is leading the rebound in spending, after the state lifted its lockdown on 11 October. Spending in Victoria is also picking up, however, the recovery has so far been more muted than in NSW. This likely reflects the later lifting of lockdown restrictions in Victoria versus NSW.

A recovery in consumer spending is expected to support business investment as the economy rebounds. The continued easing of restrictions is important for many businesses that have endured prolonged lockdowns, particularly as we enter the busy Christmas season.

Google mobility data shows that foot traffic around retail and recreational venues has rebounded sharply in NSW and Victoria in the days following the lifting of Delta-related lockdowns. Although the virus remains active in the community, it appears many consumers have not been deterred from getting out and about.



Strong progress in the vaccine rollout and the release of reopening roadmaps has contributed to business and consumer confidence remaining resilient during the Delta lockdowns. This week, we will receive updates on how confidence has fared as states reopened their economies.

October business confidence and conditions estimates will be published on Tuesday. Delta-related lockdowns lifted during the period, as strict lockdown conditions eased in Greater Sydney on 11 October and Greater Melbourne on 22 October. In September, business confidence recorded its largest jump in 15 months as the progress in the vaccine rollout and reopening roadmaps buoyed spirits. This was particularly true in NSW and Victoria, which led the bounce back in confidence. Nevertheless, business conditions remained subdued as lockdowns remained in place in September. In October, conditions are likely to see a decent bump, driven by the reopening boost.

On Wednesday, consumer sentiment data will be published for November. October recorded a slight pullback in sentiment. Nonetheless, consumers remained optimistic as restrictions were beginning to ease and life returning to normal was more than a distant mirage on the horizon. Following previous lockdowns, consumer sentiment recorded large increases. This supports the view that a bounce in consumer spending will lead the economic recovery. On the flip side, the shift in guidance from the Reserve Bank last week, which paves the way for earlier rate hikes, may have unsettled some consumers. However, the central bank continued to emphasise that a rate hike remains some way off.

Markets will also be keeping a close eye on the latest employment numbers for October, to be released on Thursday. September recorded a fall in employment of 138k, driven predominantly by drop in Victorian employment, as the state was heavily impacted by lockdowns in the month. However, a silver lining was evident, as hours worked, a better measure of the impact of lockdowns, inched higher in the month. This was led by growth in Queensland and a recovery in hours worked in NSW. The bounce in NSW is an encouraging sign that the recovery was already underway in the state. On balance, we expect employment to decline by a further 50k jobs in October. This reflects a recovery in NSW, balanced against continued weakness in Victoria. However, there are risks of a positive upside. In fact, market expectations range from a decline of 50k to an increase of 120k in the month.

We expect the unemployment rate will edge higher to 4.7% as the fall in employment is partly offset by a slight decline in the participation rate. Despite the hit to the economy from the Delta outbreak, it is possible that the unemployment rate will remain below 5% through the remainder of 2021 due to the fall in the participation rate. However, like the estimate for jobs in October, there is uncertainty and market forecasts for unemployment range between 4.5% and 4.9%.

The jobs market has taken a hit from Delta, but all things considered, it has held up fairly well. Jobs aren’t far off their pre-pandemic level and vacancies point to strong hiring intentions as restrictions ease. We expect the unemployment rate will march lower as the economy recovers, to sub-4% by the end of next year.

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Forecasts

		2021	2022				2023
End Period:	**Close (5 Nov)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.25
90 Day BBSW, %	0.05	0.07	0.10	0.15	0.20	0.40	0.65
3 Year Swap, %	1.13	1.30	1.30	1.25	1.20	1.20	1.30
10 Year Bond, %	1.81	1.95	2.05	2.15	2.25	2.30	2.30
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.375	0.625
US 10 Year Bond, %	1.45	1.75	1.90	2.00	2.10	2.20	2.25
USD Exchange Rates:							
AUD-USD	0.7400	0.75	0.76	0.77	0.78	0.78	0.79
USD-JPY	113.41	114	115	115	115	116	116
EUR-USD	1.1567	1.18	1.18	1.18	1.17	1.17	1.16
GBP-USD	1.3498	1.38	1.39	1.40	1.41	1.41	1.40
NZD-USD	0.7117	0.71	0.72	0.73	0.74	0.74	0.74
AUD Exchange Rates:							
AUD-USD	0.7400	0.75	0.76	0.77	0.78	0.78	0.79
AUD-EUR	0.6397	0.64	0.64	0.65	0.67	0.67	0.68
AUD-JPY	83.933	85.5	87.4	88.6	89.7	90.5	91.6
AUD-GBP	0.5483	0.54	0.55	0.55	0.55	0.55	0.56
AUD-NZD	1.0401	1.06	1.06	1.05	1.05	1.05	1.07

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.1	-0.9	0.0	7.4
CPI (Headline), %	1.8	0.9	3.0	2.5
CPI (Trimmed mean), %	1.5	1.1	2.3	2.8
Unemployment Rate, %	5.2	6.8	4.9	3.7
Wages Growth, %	2.2	1.4	2.1	2.8

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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