

Monday, 7 December 2020

Economy on the Up

Last week, the Australian Bureau of Statistics (ABS) delivered the encouraging news that the Australian economy returned to growth in the September quarter. Gross domestic product (GDP) grew 3.3% in the September quarter, after a record 7.0% plunge in the June quarter. The solid result for the quarter was mainly driven by a 7.9% surge in household consumption, as coronavirus restrictions across the country were eased and stimulus measures gained more traction. The household savings ratio declined from a record high of 22.1% in the June quarter to 18.9% in the September quarter, indicating consumers remained cautious about the economy. This rate is still very high compared to the 5.3% recorded in the last quarter of 2019.

The stronger-than-expected GDP result, plus solid outcomes among more recent partial indicators, has led us to upgrade our GDP forecasts. We have raised our growth forecasts for 2020 and 2021 from -3.0% and 2.8%, to -2.0% and 4.0%, respectively (more details on the table over the page). For 2022, our growth forecast has been lowered from 3.5% to 3.0%.

There are a few other key factors influencing our decision to upgrade our forecasts for next year. We expect the recent lift in consumer and business sentiment to be sustained, as various stimulatory measures and positive vaccine news support confidence. The vaccine developments should also lift global growth prospects and could spur a faster reopening of international borders. As households become more comfortable with improving economic conditions, their savings rate should decline towards pre-COVID-19 levels. The significant buffer of savings should help support consumption growth. We also believe the ultra-low levels of interest rates and the abundant fiscal stimulus measures provided by Federal and State governments will continue to stimulate growth in the coming few years.

As the economy is expected to recover faster, job creation will likely be stronger and the unemployment rate lower. We have revised down our forecasts for the unemployment rate for December 2021 from 7.0% to 6.0% and for December 2022 from 6.3% to 5.0%.

For this week, data on business confidence and conditions for November will be released tomorrow. In October, businesses showed optimism over the 2020-21 Federal Budget measures, taking the confidence index back to positive territory after three straight months in the red. We expect the easing of restrictions in Victoria, a rate cut by the Reserve Bank and the stimulus measures coming from State budgets to have kept businesses optimistic in November.

On Wednesday, The WBC-MI Consumer Sentiment survey for December will be released. In November, consumer confidence rose 2.5% to a seven-year high of 107.7, after sharp increases in September (18.0%) and October (11.9%). We remain cautiously optimistic about consumer confidence. The encouraging news around an effective vaccine, coupled with Victoria's further easing of restrictions, and an economic rebound could contribute to another lift in sentiment in December.

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Forecasts

End Period:	2020			2021		
	Close (Dec 7)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.02	0.02	0.02	0.02	0.02	0.02
3 Year Swap, %	0.14	0.12	0.12	0.12	0.12	0.12
10 Year Bond, %	0.99	0.85	0.95	1.05	1.15	1.25
US Interest Rates:						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.97	0.80	0.90	1.00	1.10	1.20
USD Exchange Rates:						
AUD-USD	0.7425	0.75	0.76	0.78	0.79	0.80
USD-JPY	104.17	104	105	106	106	106
EUR-USD	1.2121	1.20	1.20	1.21	1.22	1.24
GBP-USD	1.3441	1.34	1.34	1.36	1.38	1.39
NZD-USD	0.7048	0.71	0.72	0.73	0.74	0.74
AUD Exchange Rates:						
AUD-USD	0.7425	0.75	0.76	0.78	0.79	0.80
AUD-EUR	0.6126	0.63	0.63	0.64	0.65	0.65
AUD-JPY	77.37	78.0	79.8	82.7	83.7	84.8
AUD-GBP	0.5525	0.56	0.57	0.57	0.57	0.58
AUD-NZD	1.0545	1.07	1.07	1.10	1.11	1.13

	2019	2020 (f)	2021 (f)	2022 (f)
GDP, %	2.2	-2.0	4.0	3.0
CPI (Headline), %	1.8	0.9	2.0	1.8
CPI (Trimmed mean), %	1.6	1.1	1.7	1.8
Unemployment Rate, %	5.2	7.0	6.0	5.2
Wages Growth, %	2.2	1.0	1.1	1.5

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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The Detail

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