

Monday, 7 September 2020

Confidence is a Key Driver

Confidence is a key driver of economic activity. It can make us act boldly or it can make us act with caution.

Last week we saw an 'ugly' set of GDP numbers. A 7% decline in economic activity in the June quarter, while not surprising; was shocking. Headlines shouting 'Covid Recession' are almost depressing. They do little for confidence. Thankfully, they spoke of a time now more than two months behind us.

So what lies ahead that might lift or dent our confidence?

Key ABS data on payrolls is due on Tuesday. These will provide insights into the jobs market with details at State and industry levels. We expect some pick up in those States that have eased restrictions, but the lockdown in Victoria will weigh heavily on the national figures.

There will be a reading of business confidence on Tuesday. The July release showed a rebound in confidence, but the survey was taken before the Stage 4 restrictions were imposed in Victoria. At a national level, business confidence is likely to have taken a downturn, but for better news one will need to check the details. These are likely to show signs of recovery in the States with the fewer restrictions on movement.

The Westpac-Melbourne Institute index of Consumer Sentiment will come out on Wednesday. Last month, consumer sentiment plunged as Victoria went into Stage 4 lockdown and new 'hot spots' emerged in NSW. Since then, Victoria has remained in lockdown while 'hot spots' in NSW appear to be broadly under control. As with business sentiment, much depends on the Victorian readings. It is difficult to see a rebound in consumer confidence given that Victoria remained in lockdown over early September. Looking ahead, the extension of Victoria's restrictions do not bode well for its measure of consumer sentiment in October.

Wednesday will also see the release of ABS figures on housing finance. With low to zero wage growth, high unemployment and a high degree of uncertainty regarding the economy, it is difficult for individuals to make major financial commitments. Despite this, we may see a small rebound following sharp declines in earlier months. Wednesday's release will be for the month of July.

Confidence across Australia will pick up as restrictions are eased. This is taking longer than we might like, but it will come. The keys to removing restrictions lie in our adherence to health orders and the discovery of COVID-19 vaccines or treatments. In the meantime, government support programs will play their part.

These are difficult and complex times for businesses and individuals. This week's figures are unlikely to bring great joy, but they are backward looking. In the months ahead, provided Covid-19 case numbers decline, restrictions will be eased, and business will be able to lift their levels of activity.

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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 (Sep 4)	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, %	0.17	0.25	0.30	0.35	0.35	0.40
10 Year Bond, %	0.89	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	0.7282	0.73	0.75	0.76	0.76	0.78
USD-JPY	106.24	105	105	105	106	106
EUR-USD	1.1838	1.19	1.21	1.22	1.23	1.24
GBP-USD	1.3279	1.32	1.33	1.34	1.35	1.37
NZD-USD	0.6721	0.67	0.66	0.66	0.68	0.70
AUD Exchange Rates:						
AUD-USD	0.7282	0.73	0.75	0.76	0.76	0.78
AUD-EUR	0.6151	0.61	0.62	0.62	0.62	0.63
AUD-JPY	77.36	76.7	78.8	79.8	80.6	82.7
AUD-GBP	0.5483	0.55	0.56	0.57	0.56	0.57
AUD-NZD	1.0835	1.09	1.14	1.15	1.12	1.11

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-3.5	2.5
CPI (Headline), %	1.8	0.7	2.1
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	7.8	7.5
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.

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