

Monday, 10 August 2020

## Is there an Economy vs Health Trade-Off?

The economic impact of the Stage 3 and 4 restrictions in Victoria is expected to be significant. We anticipate a sizeable contraction in Victoria's economic growth in the September quarter, and the contraction in the national economy in 2020 is now expected to be larger at 4.7%, down from 4.2% previously.

Due to the Victorian outbreak and the restrictions, the Reserve Bank (RBA) has estimated that national GDP growth in the September quarter would reduce by at least 2 percentage points, relative to the situation if the outbreak had not occurred.

The idea of an even longer period of 'stay-at-home' orders brings sympathy for all Victorians.

Saving lives and bringing the virus under control should most definitely be a priority. However, in the debate of economy versus health outcomes, which has been raised by politicians and business leaders around the world, we should also consider the long-term economic consequences of not keeping the virus under control.

Even without mandated social distancing requirements, people will avoid shops, eateries, bars and visiting the beautician if they think that the virus is prevalent in society. Households are not alone in holding back on spending and travel with COVID-19 in the community. Businesses are particularly sensitive to uncertainty. Indeed, the RBA notes that in their liaison surveys with businesses, firms have deferred or cancelled discretionary investment spending. The RBA also adds that these decisions have not been mandated by health-related activity restrictions and that firms were reacting to the fall in demand and heightened uncertainty about the future.

RBA Assistant Governor Luci Ellis said last week that there is a need to get a hold of the virus for a strong economy, it was not a trade-off. It will continue to be the case that economic outcomes will be increasingly tied to cases of COVID-19 and confidence that the virus is under control.

Updated readings on key measures of confidence will be a key guide to the outlook this week. Business confidence will be released on Tuesday for July, and the Westpac-Melbourne Institute consumer sentiment index will be released on Wednesday. The business survey should capture the impact of the initial Stage 3 restrictions in Melbourne and Mitchell Shire, while the impact of the wider Stage 4 restrictions in August, will be gauged in the consumer sentiment survey.

We will also obtain some important information on the labour market. The weekly payroll data for the week ending July 25 will be released on Tuesday. It should provide an early guide to how Victoria was faring under the initial Stage 3 restrictions imposed in Melbourne and Mitchell Shire region. Recent data has indicated that the improving labour market outcomes due to the lifting of restrictions was beginning to fade.

Wages data will be released on Wednesday, which is expected to show a 0.4% increase in the June quarter and annual growth is expected to slow from 2.1% to 2.0%. Wages growth is expected to soften given the huge amount of slack in the labour market commensurate with the large loss of output in the quarter.

Additionally, monthly labour force data will be released on Thursday, which is expected to reveal a 40k increase in employment in July following a surge of 210.8k in June. Some renewed weakness in Victoria's labour market is anticipated, however the major hit to the State's labour market is expected to occur in August's data. The weakness in Victoria's labour market in July is expected to be offset by further re-opening of businesses in other States. The unemployment rate is expected to lift further from 7.4% in June to 7.8% in July, propped up by a lift in the participation rate from 64.0% to 64.4%.

Among other events to watch, RBA Governor Lowe will deliver his semi-annual testimony to parliament on Friday.

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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 7)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
<b>Aust. Interest Rates:</b>						
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, %	0.19	0.25	0.30	0.35	0.35	0.40
10 Year Bond, %	0.83	0.85	0.90	0.95	1.05	1.20
<b>US Interest Rates:</b>						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.54	0.55	0.60	0.65	0.75	0.85
<b>USD Exchange Rates:</b>						
AUD-USD	0.7157	0.71	0.72	0.73	0.74	0.75
USD-JPY	105.92	105	106	107	107	108
EUR-USD	1.1787	1.19	1.19	1.20	1.21	1.22
GBP-USD	1.3052	1.30	1.31	1.31	1.32	1.33
NZD-USD	0.6605	0.66	0.66	0.66	0.65	0.66
<b>AUD Exchange Rates:</b>						
AUD-USD	0.7157	0.71	0.72	0.73	0.74	0.75
AUD-EUR	0.6073	0.60	0.61	0.61	0.61	0.61
AUD-JPY	75.82	74.6	76.3	78.1	79.2	81.0
AUD-GBP	0.5484	0.55	0.55	0.56	0.56	0.56
AUD-NZD	1.0844	1.08	1.09	1.11	1.14	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-4.7	3.0
CPI (Headline), %	1.8	0.7	2.1
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	8.6	7.4
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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