

Monday, 13 July 2020

Lockdown – Take 2

The coronavirus has been a difficult adjustment for many. Our heart goes out to those Victorians now back in lockdown, after enjoying only a few fleeting weeks of being able to dine out or see a group of friends and family in person.

The big question is whether lockdown measures will need to be imposed for the rest of the country. National daily COVID-19 statistics are now being examined on a State-by-State basis.

New cases in Victoria increased by 273 yesterday, with a total of 1,486 active cases. Victoria's Premier Daniel Andrews announced a further 177 new cases as of today and said that he could not rule out further restrictions on movement.

Cases in NSW warrant close watching, after a cluster of cases emerged in Sydney's south west linked to the Crossroads Hotel. Thirteen new infections have now been linked to this cluster. Yesterday, fourteen new infections were recorded in NSW, of which 10 were locally acquired. The last time NSW active cases rose by more than 10 was in mid-April.

The enforced lockdown in Melbourne and the Mitchell Shire region from midnight last Wednesday has presented significant downside risks to the economic growth outlook. We were looking forward to a recovery being in place from the middle of this year, with restrictions being eased across the country. As other parts of the country continue to re-open, a recovery is still expected, provided the outbreak in NSW is contained. However, the lockdown in parts of Victoria will mean some economic activity will be lost and that the recovery is expected to be softer.

The renewed closure of services, loss to household incomes in the region and halting of interstate travel would weigh on economic growth, particularly in the September quarter.

Our forecast for the economic contraction in 2020 has been downgraded from 4.0% to 4.2%, but downside risks have intensified. The outlook mostly depends on whether the virus outbreak escalates outside of current lockdown areas and whether additional restrictions need to be imposed. Confidence will also play a strong role in the outlook, as heightened uncertainty about COVID-19 in the community could further limit economic activity.

The silver lining is that the government has been more forthcoming about providing additional policy support and lessening the risk of a fiscal cliff towards the end of September. Federal Treasurer Josh Frydenberg has set the date of July 23, on which he will outline changes to the JobKeeper wage subsidy scheme and provide further income support which could include bringing forward tax cuts. Frydenberg has also announced that he would provide an update on the Budget and economic situation.

Victoria's Premier also announced a \$534 million Business Support package, which includes a \$5,000 grant to support more than 80,000 eligible businesses, \$40 million worth of funding for regional tourism and expanded payroll tax deferral.

Ahead this week, we will receive updates on confidence for consumers and businesses. Business confidence to be released tomorrow will cover June and will therefore precede the latest

lockdown measures from last week. Business confidence and conditions have improved since hitting record lows in April but remain below pre-crisis levels.

Consumer confidence to be released on Wednesday will take on greater relevance as some responses will capture the impact of the lockdown measures to Melbourne and Mitchell Shire announced last week, and the escalating outbreak in the lead up to the announcement. The weekly Roy Morgan survey of consumer confidence published before the lockdown in Victoria revealed a pullback in sentiment.

The labour market will also be in focus this week. Weekly payroll data for the week ending June 27 will be another highlight on Tuesday. Meanwhile, the key labour force release for June from the Australian Bureau of Statistics (ABS) will be released on Thursday. We expect a 30k decline in jobs and for the unemployment rate to edge higher from 7.1% to 7.3%. The participation rate is expected to edge down further, from 62.9% to 62.8%, which has been preventing a larger increase in the unemployment rate. It would be the third consecutive month of decline in employment, but the smallest fall in three months. Our expectation of a modest fall in jobs is despite the further easing of restrictions and the re-opening of many businesses. It reflects our view that many returning to work would have been on JobKeeper and would have always counted as employed. Underlying weakness in the economy would suggest that labour market conditions will remain difficult. Moreover, weekly payrolls are suggesting a stabilising in labour market conditions, rather than an improvement.

Today, the ABS has also released the seventh edition of a survey on Household Impacts of COVID-19 Survey, which includes questions on health and well-being and the job situation of households.

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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 (July 10) | 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, % | 0.19 | 0.30 | 0.30 | 0.35 | 0.35 | 0.40 |
| 10 Year Bond, % | 0.86 | 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, % | 0.64 | 0.70 | 0.75 | 0.80 | 0.85 | 0.90 |
| USD Exchange Rates: | | | | | | |
| AUD-USD | 0.6950 | 0.70 | 0.72 | 0.73 | 0.74 | 0.75 |
| USD-JPY | 106.93 | 106 | 106 | 107 | 107 | 108 |
| EUR-USD | 1.1300 | 1.13 | 1.14 | 1.15 | 1.16 | 1.17 |
| GBP-USD | 1.2622 | 1.26 | 1.27 | 1.27 | 1.28 | 1.29 |
| NZD-USD | 0.6574 | 0.65 | 0.65 | 0.64 | 0.65 | 0.66 |
| AUD Exchange Rates: | | | | | | |
| AUD-USD | 0.6950 | 0.70 | 0.72 | 0.73 | 0.74 | 0.75 |
| AUD-EUR | 0.6151 | 0.62 | 0.63 | 0.63 | 0.64 | 0.64 |
| AUD-JPY | 74.30 | 74.2 | 76.3 | 78.1 | 79.2 | 81.0 |
| AUD-GBP | 0.5506 | 0.56 | 0.57 | 0.57 | 0.58 | 0.58 |
| AUD-NZD | 1.0571 | 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 | 0.3 | 2.0 |
| CPI (Trimmed mean), % | 1.6 | 0.9 | 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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