

Monday, 14 December 2020

## Can The Momentum Be Sustained?

Last week's solid numbers on business and consumer confidence built upon earlier positive news on GDP, retail spending, building approvals and housing finance.

There's also been recent good news on vaccines, borders openings and on social-distancing regulations. Can this run continue with more good news on the labour market?

A hint on the labour market comes on Tuesday when the weekly payroll jobs numbers are released by the Australian Bureau of Statistics (ABS). These statistics, produced in combination with the Australian Taxation Office (ATO), will be for the two weeks to 28 November.

The correlation between the, non-seasonally adjusted, weekly payrolls and the, seasonally adjusted, full monthly ABS labour force numbers is not that good. They do, however, come up with similar declines from the 'benchmark' numbers in March.

A pick-up in the weekly numbers for the last two weeks of November should point to jobs growth over the full month. Sadly, looking back, the October weekly numbers failed to pick-up the very strong, 178.8k growth in jobs over the month of October.

The full November ABS labour force figures will be released on Thursday. We expect job growth of 75k, a steady unemployment rate at 7.0% and a lift in the participation rate from 65.8% to 66.1%.

The end of lockdowns in Victoria, combined with the easing of social-distancing rules and the opening of interstate borders, are expected to result in solid jobs growth. The improved outlook for employment sits behind our expectation of a lift in the participation rate and the resulting stability of the unemployment rate, despite strong growth in the number of people employed.

We now expect the unemployment rate to stand at 6.0% in December 2021 and 5.2% in December 2022. We believe the peak in the unemployment rate is now behind us.

For those who enjoy a good dose of Reserve Bank (RBA) analysis, the minutes of the most recent Reserve Bank Board meeting will be released on Tuesday. The main messages from the RBA continue to be pressed.

The RBA Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per annum target range. The Board is not expecting to increase the cash rate for at least 3 years. The Board is prepared to do more to provide stimulus to the economy, if necessary.

We expect the government's Mid-Year Economic and Fiscal Outlook for 2020-21 to be released this week. No specific date is currently available. Federal Treasury is likely to upgrade its economic growth forecasts and may upgrade its outlook for commodity prices. Both would assist the Federal Budget's bottom line.

*This will be our last Weekly Economic Outlook for 2020. We wish our readers well over the Christmas and New Year period. The Weekly will recommence in mid-January.*

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## Forecasts

End Period:	2021					2022
	Close (Dec 11)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)
<b>Aust. Interest Rates:</b>						
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	0.04
3 Year Swap, %	0.16	0.12	0.12	0.12	0.12	0.15
10 Year Bond, %	0.99	0.95	1.05	1.15	1.25	1.40
<b>US Interest Rates:</b>						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.91	0.90	1.00	1.10	1.20	1.30
<b>USD Exchange Rates:</b>						
AUD-USD	0.7533	0.76	0.78	0.79	0.80	0.82
USD-JPY	104.04	104	104	104	104	106
EUR-USD	1.2112	1.23	1.24	1.25	1.26	1.27
GBP-USD	1.3224	1.34	1.36	1.38	1.39	1.41
NZD-USD	0.7084	0.72	0.73	0.74	0.74	0.74
<b>AUD Exchange Rates:</b>						
AUD-USD	0.7533	0.76	0.78	0.79	0.80	0.80
AUD-EUR	0.6221	0.62	0.63	0.63	0.63	0.65
AUD-JPY	78.54	79.0	81.1	82.2	83.2	86.9
AUD-GBP	0.5697	0.57	0.57	0.57	0.58	0.58
AUD-NZD	1.0617	1.06	1.07	1.07	1.08	1.11

	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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