

Monday, 15 February 2021

A Focus on Jobs and Spending

Last week, the focus was on business and consumer confidence. Both held up well. This week the focus will be on the labour market and retail spending.

Also, this week, the Reserve Bank (RBA) will release the minutes of its most recent board meeting. It seems unlikely that the minutes will provide more than what the Governor has already said in his recent presentations. But one lives in hope.

The January labour force figures will come out on Thursday. We expect jobs growth of around 10k with both the unemployment rate and the participation rate steady at 6.6% and 66.2%, respectively.

Partial data on the labour market has been mixed. Business surveys have been positive on employment while the weekly payrolls numbers have weakened.

Recent labour force figures have been encouraging. Workers are coming off JobKeeper, jobs are being created or reinstated, and the level of economic activity has picked up. This recovery has the potential to see a rise in the number of people looking for work (i.e. a rise in the participation rate). For the unemployment rate to fall, the number of jobs must rise by more than the number of 'new' workers. On Thursday we will see how that tug-of-war played out in January.

The retail sales figures due out on Friday are preliminary results. They cover about 80% of the full report and were introduced to provide more timely information as we moved through the COVID-19 crisis.

In December, retail sales contracted 4.1% due, in part, to 'Black Friday' and 'Cyber Monday' sales in late November, which brought spending forward. There were also virus-related impacts such as lockdowns in Perth and Brisbane. Credit card spending points towards a rise in retail sales of 2.0% in January.

The Australian population amassed large amounts of savings in the second half of 2020. This accumulation of savings reflected a combination of reduced opportunities to consume, with shops closed and people forced to stay home, as well as precautionary savings from households concerned about future income. Some of the build-up of savings also came from funds withdrawn from superannuation accounts plus government assistance payments. The big question is whether these savings will be spent or hoarded for a rainy day. We expect a mix of both. This should be sufficient to support retail spending over the months ahead.

Adding to support for retail spending in the months ahead will be improved dividends from listed companies. To date, dividend payments have been reasonable and will inject billions back into the economy.

Apart from the economic statistics, those with an eye for detail might like to look over the minutes of the February RBA board meeting. These will be released on Tuesday. These will be followed, on Wednesday, by RBA Assistant Governor Christopher Kent participating in a panel (round table) discussion on foreign exchange. He may take the opportunity to further explain the interaction

between the RBA's bond purchasing program and its impact upon the Australian dollar. The RBA's recent extension of its bond-buying program has done little to avert demand for Australian dollars.

After falling to a low of 0.7564 on February 2, the AUD has gained 2 US cents and looks set to appreciate further. Over the next few weeks, it could well try to flirt with the US 80 cent level. There is a growing risk that the AUD could breach US 90 cents later this year and end the year closer to 90 US cents, especially when we consider the price action since the second half of last year.

Hans Kunnen, Senior Economist
Ph: 02 8254 1316

Besa Deda, Chief Economist
Ph: 02 8254 3251

Forecasts

| End Period: | 2021 | | | | 2022 | | |
|------------------------------|----------------|--------|--------|--------|--------|--------|--------|
| | Close (12 Feb) | Q1 (f) | Q2 (f) | Q3 (f) | Q4 (f) | Q1 (f) | Q2 (f) |
| Aust. Interest Rates: | | | | | | | |
| RBA Cash Rate, % | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| 90 Day BBSW, % | 0.01 | 0.02 | 0.02 | 0.02 | 0.02 | 0.04 | 0.06 |
| 3 Year Swap, % | 0.14 | 0.15 | 0.15 | 0.15 | 0.15 | 0.18 | 0.22 |
| 10 Year Bond, % | 1.22 | 1.05 | 1.05 | 1.15 | 1.25 | 1.40 | 1.75 |
| US Interest Rates: | | | | | | | |
| Fed Funds Rate, % | 0.13 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| US 10 Year Bond, % | 1.16 | 1.10 | 1.25 | 1.40 | 1.50 | 1.60 | 1.65 |
| USD Exchange Rates: | | | | | | | |
| AUD-USD | 0.7761 | 0.78 | 0.79 | 0.80 | 0.82 | 0.85 | 0.85 |
| USD-JPY | 104.94 | 104 | 104 | 104 | 104 | 105 | 105 |
| EUR-USD | 1.2120 | 1.22 | 1.23 | 1.24 | 1.25 | 1.26 | 1.27 |
| GBP-USD | 1.3849 | 1.37 | 1.37 | 1.38 | 1.39 | 1.41 | 1.41 |
| NZD-USD | 0.7223 | 0.73 | 0.74 | 0.75 | 0.76 | 0.78 | 0.78 |
| AUD Exchange Rates: | | | | | | | |
| AUD-USD | 0.7761 | 0.78 | 0.79 | 0.80 | 0.82 | 0.85 | 0.85 |
| AUD-EUR | 0.6403 | 0.64 | 0.64 | 0.65 | 0.66 | 0.67 | 0.67 |
| AUD-JPY | 81.43 | 81.1 | 82.2 | 83.2 | 85.3 | 89.3 | 89.3 |
| AUD-GBP | 0.5602 | 0.57 | 0.58 | 0.58 | 0.59 | 0.60 | 0.60 |
| AUD-NZD | 1.0745 | 1.07 | 1.07 | 1.07 | 1.08 | 1.09 | 1.09 |

| | 2019 | 2020 (f) | 2021 (f) | 2022 (f) |
|-----------------------|------|----------|----------|----------|
| GDP, % | 2.2 | -2.0 | 4.0 | 3.0 |
| CPI (Headline), % | 1.8 | 0.9 | 2.6 | 2.2 |
| CPI (Trimmed mean), % | 1.6 | 1.2 | 1.9 | 2.0 |
| Unemployment Rate, % | 5.2 | 6.8 | 6.0 | 5.3 |
| 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.

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist

Hans Kunnen
hans.kunnen@bankofmelbourne.com.au
(02) 8254 1316

Economist

Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023

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