Weekly Economic Outlook

Tuesday, 15 June 2021

Lockdown Scare Spurs Vaccine Uptake

Weary Melburnians emerged from another lockdown late last week.

We know snap lockdowns have been effective at containing outbreaks, although they also have a material impact on economic activity. Consumer spending drops on the closure of shopfronts, cafes and restaurants.

Indeed, consumer sentiment fell 5.2% in June, as the circuit-breaker lockdown in Melbourne dented confidence. And this wasn't exclusive to Victoria. Confidence fell around the country as the outbreak served as a reminder that we aren't out of the woods yet.

Snap lockdowns will remain a risk and international borders will not reopen until we have made significantly more progress on the vaccine rollout.

Australia continues to lag on the vaccine front. As of 13 June, 20.7% of the population has received one vaccine dose and 2.1% are fully inoculated. For comparison, more than half the population in the United States, United Kingdom and Canada have had at least one vaccine dose.

A silver lining, if I can call it that, to the recent Victorian outbreak, is that it helped to spur an acceleration in vaccinations.

Before the most recent outbreak, there were less than 20k vaccine doses being administered per day in Victoria on a seven-day moving average basis. And in June, this surged to over 40k jabs per day. Victoria has now overtaken New South Wales with the highest number of doses in the country.

There are several factors which could have contributed to the uplift in vaccinations. First, it is reasonable to assume that worried Victorians rushed out to get the jab following the recent outbreak. Second, eligibility requirements were relaxed, with people in their 40s now able to receive the vaccine. Finally, the Federal government also released additional vaccines to Victoria.

The vaccine rollout is critical to the economic recovery. The Melbourne outbreak reminds us that we cannot be complacent.

Turning to the economic calendar, this week the big event on the international stage is the two-day meeting of the US Federal Open Market Committee (FOMC), which starts tonight. The actions of the US central bank matter for Australia because they have material implications for global growth, Australian bond yields, the Australian share market and relatedly the Australian dollar. No change in policy is expected but the big question is whether the FOMC will provide any signal of when it will commence tapering quantitative easing.

Since the FOMC last met in early April, several Federal Reserve officials have suggested the Fed is more open to a discussion about eventually winding down the pace of asset purchases. The minutes of April's meeting also indicated that "a number of participants" believed it might be "appropriate at some point in upcoming meetings" to begin thinking about tapering. Consensus expectations are still centred on the Fed only beginning tapering in early 2022.

Locally, economists will be looking to the release of May labour force data. April employment came in below expectations, alongside evidence of a stronger-than-usual seasonality around Easter. So far, the expiry of JobKeeper in March does not appear to have led to a marked deterioration in labour market conditions. We expect 30k jobs were added in May, although we have forecast the unemployment rate will increase to 5.7%, from 5.5% in April, as the participation rate returns to 66.3% from 66.0%.

This morning, the Reserve Bank (RBA) released the minutes for its June meeting. RBA-watchers were looking closely for any clues on what to expect at the July meeting, when the central bank will decide the future of the yield curve control (YCC) program and quantitative easing (QE).

The minutes reaffirmed our expectation that the 3-year yield target under YCC will not be rolled to the November 2024 bond and that QE will transition to an open-ended, flexible model. We continue to anticipate it is unlikely the cash rate will increase before 2024, although we can't rule out the possibility of a rate hike in 2023.

The minutes note members consider a return to full employment a priority for monetary policy, and that, in turn, this will assist in achieving the 2-3% inflation target. They flag a key consideration for whether YCC will be extended is an assessment of the inflation target being met some time in 2024. In May, the RBA forecast inflation would reach 2% by June 2023. Reading between the lines, this suggests there would not be a need to extend the target.

The minutes also laid out the options of the future of QE and effectively ruled out the prospect of ending the program at the conclusion of the current round of purchases in September. It was noted that members thought it was "premature to consider ceasing the program". The minutes also outlined the possibility of moving to a QE model where "the pace of the bond purchases is reviewed more frequently, based on the flow of data and the economic outlook". This approach is consistent with the expectations we laid out in our Weekly Economic Outlook on 7 June.

Separately, the minutes also provided some commentary on credit growth. The RBA noted that housing lending growth had increased, including an increase in borrowing from investors but stuck to the same line that it would be important to continue to monitor lending standards and trends in borrowing. It remains a possibility that macroprudential controls will be tightened in 2022.

The minutes also stated, according to information from the RBA's liaison program, that businesses' appetite to borrow had increased somewhat but that many businesses had little immediate need to borrow.

Indeed, a survey in February revealed that the number one reason businesses were not seeking additional funds from financial institutions was because they already had sufficient funds. As businesses feel more comfortable to expand, they will reduce these cash flow buffers and stronger growth in business credit should follow.

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Forecasts

		2021		2022			
End Period:	**Close (11 June)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.03	0.07	0.09	0.10	0.10	0.10	0.10
3 Year Swap, %	0.24	0.40	0.45	0.60	0.80	0.90	1.00
10 Year Bond, %	1.48	1.95	2.10	2.20	2.30	2.40	2.50
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.44	1.85	2.00	2.10	2.20	2.30	2.40
USD Exchange Rates:							
AUD-USD	0.7755	0.80	0.82	0.85	0.85	0.85	0.85
USD-JPY	109.39	109	109	110	110	111	111
EUR-USD	1.2189	1.23	1.24	1.25	1.26	1.27	1.27
GBP-USD	1.4184	1.42	1.43	1.43	1.44	1.44	1.44
NZD-USD	0.7196	0.74	0.76	0.78	0.78	0.78	0.78
AUD Exchange Rates:							
AUD-USD	0.7755	0.80	0.82	0.85	0.85	0.85	0.85
AUD-EUR	0.6363	0.65	0.66	0.68	0.67	0.67	0.67
AUD-JPY	84.9	87.2	89.4	93.5	93.5	94.4	94.4
AUD-GBP	0.5465	0.56	0.57	0.59	0.59	0.59	0.59
AUD-NZD	1.0777	1.08	1.08	1.09	1.09	1.09	1.09

	2019	**2020**	**2021 (f)**	**2022 (f)**
GDP, %	2.1	-1.0	4.8	3.2
CPI (Headline), %	1.8	0.9	2.6	1.8
CPI (Trimmed mean), %	1.5	1.2	1.6	1.7
Unemployment Rate, %	5.2	6.8	5.0	4.7
Wages Growth, %	2.2	1.4	2.2	2.2

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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