

Monday, 16 November 2020

## Busy Week Ahead

Last week was relatively quiet in terms of new data. Figures for business and consumer confidence were released, indicating that sentiment is improving. This is an encouraging sign as monetary and fiscal stimulus tends to be more effective when businesses and consumers are optimistic. This week will be busier. The highlight will be on Thursday when data on the labour market for October will be released.

This evening, the Reserve Bank (RBA) Governor Lowe will deliver a speech at the Committee for Economic Development of Australia annual dinner in Sydney. The RBA has been a focal point in the last two weeks, with the Board meeting on November 3 and the release of the Statement on Monetary Policy last Friday. For this reason, we do not expect the Governor to deliver any major news during the event.

Tomorrow, the RBA will remain in the spotlight with the release of the minutes of the November policy meeting. Also, the RBA Assistant Governor Kent will deliver remarks at the Australian Securitisation Forum 2020 and the RBA Deputy Governor Debelle will take part in a panel organised by ACI/Refinitiv.

The NSW 2020-21 State Budget will also be out tomorrow. South Australia, Tasmania and the Northern Territory released their budgets last week, announcing record spending, notably on infrastructure.

The Australian Bureau of Statistics (ABS) will deliver figures on weekly payroll jobs and wages for the week ending October 31. Also, the ANZ Roy Morgan weekly consumer confidence will be out.

On Wednesday, the RBA Governor will participate in a panel at The Australian newspaper's Strategic Forum 2020.

The Westpac/Melbourne Institute leading index for October will be released on the same day. The index has been on a steady climb since its weakest ever reading, registered in April. This upward trend suggests that the Australian economy is on a recovery path.

The ABS will deliver the wage price index for the September quarter on Wednesday. We expect a timid 0.1% increase. Substantial spare capacity in the labour market underpins our forecast.

On Thursday, the ABS will release key labour market data for October. After the national lockdown measures were implemented in March, the unemployment rate rose to 6.4% in April, peaking in July (7.5%). The rate declined to 6.9% in September. These figures would have been much higher if stimulus measures, notably the JobKeeper payment, had not been implemented.

We believe that the unemployment rate rose to 7.2% in October, mainly due to a combination of a soft economy recovery and considerable slack in the labour market.

Many workers who lost their jobs because of the pandemic left the labour force. The participation rate fell to its lowest level in nearly 15 years in May (62.7%) from its pre-COVID level of around 66.0%. As the Australian economy began re-opening, there was a steady increase in the

participation rate, reaching 64.8% in September. However, because Victoria was under lockdown rules in October, we believe participation fell slightly to 64.7%.

In forming our forecasts for employment, we make use of weekly payrolls figures. The most recent data indicates a 0.8% loss in employment in the first half of October. This reveals the fragility of the job market. We expect 30,000 jobs to have been lost in October, despite the recent increases in total job advertisements.

The RBA expects that businesses will hold off on new hiring for some time. Around 900,000 employees were working reduced hours in September. As the economy recovers, businesses will tend to increase hours worked before considering an increase in headcount.

Finally, on Friday, the ABS will release preliminary data on retail sales for October. In September, sales declined 1.1%, mainly driven by falls in spending on household goods and food.

We expect retail sales contracted by 0.5% in October, mainly driven by concerns over the labour market. The softer weekly payroll numbers, weak wages growth and concerns over job security continue to constrain consumer firepower. However, the easing of restrictions in Victoria and the cuts to personal income taxes announced in the 2020-21 Budget should provide some support in the months ahead.

**Bank of Melbourne Economics**

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## Forecasts

End Period:	2020			2021		
	Close (Nov 13)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (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	0.02
3 Year Swap, %	0.10	0.08	0.08	0.08	0.08	0.08
10 Year Bond, %	0.88	0.70	0.70	0.70	0.75	0.80
<b>US Interest Rates:</b>						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.90	0.70	0.65	0.65	0.70	0.75
<b>USD Exchange Rates:</b>						
AUD-USD	0.7270	0.75	0.76	0.76	0.78	0.80
USD-JPY	104.63	104	105	106	106	106
EUR-USD	1.1834	1.19	1.20	1.21	1.22	1.24
GBP-USD	1.3189	1.31	1.33	1.35	1.37	1.38
NZD-USD	0.6845	0.69	0.69	0.69	0.69	0.70
<b>AUD Exchange Rates:</b>						
AUD-USD	0.7270	0.75	0.76	0.76	0.78	0.80
AUD-EUR	0.6143	0.63	0.63	0.63	0.64	0.65
AUD-JPY	76.07	78.0	79.8	80.6	82.7	84.8
AUD-GBP	0.5510	0.57	0.57	0.56	0.57	0.58
AUD-NZD	1.0619	1.09	1.10	1.10	1.13	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.3	-3.5	2.8
CPI (Headline), %	1.8	0.6	1.6
CPI (Trimmed mean), %	1.6	1.0	1.6
Unemployment Rate, %	5.2	7.5	7.5
Wages Growth, %	2.2	0.9	1.0

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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