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It's All About Confidence

At the time of its release in 2018, the song “Confidence” by Ocean Alley proved extremely popular among Australian audiences, being voted number 1 in the Triple J Hottest 100 and receiving nominations at the ARIA music awards. It is unlikely that the artists behind the song realised just how applicable the song’s main line “it’s all about confidence” would become to the economic narrative in 2020.

Recent events have seen more fiscal and monetary support injected into the economy than ever before. Despite this, the economy is expected to contract sharply in the June quarter as activity ground to a halt, in many cases mandatorily due to lockdowns. Since then there have been, and will continue to be, ups and downs. As we begin to adjust to the new normal, spending by consumers and investment by businesses will depend significantly on confidence.

The Reserve Bank (RBA) has noted that despite the large shock to the labour market, household incomes have been broadly resilient due to schemes such as JobKeeper, the supplement to JobSeeker and early superannuation drawdowns. The herculean stimulus efforts from the government and the RBA may well tide the economy over until we reach a new equilibrium in life amid COVID-19. The strength of a recovery in the economy hinges on the psychology of consumers and businesses.

Last week we were provided with a taste of how confidence was evolving in the wake of Victoria’s second lockdown. Business confidence fell 15 points to -14 in July as COVID-19 cases were rapidly escalating throughout Victoria. Consumer confidence plunged 9.5% to 79.5 in August, after the State was hit with Stage 4 restrictions. In both surveys, respondents based in Victoria were the most downbeat, however, outturns in other States were more muted than likely would have occurred were it not for the outbreak. The risk is that consumers and businesses batten down for a period of prolonged uncertainty which manifests into a damaging cycle of weak demand and hampered business investment.

The coming week is relatively quiet in terms of economic events, the proverbial calm before the Q2 GDP storm is due to be released in two weeks’ time. On this front, Japan has set a sombre lead with GDP declining 7.8% in Q2, the weakest result on record. At this stage (ahead of the key partials due to be released in the coming weeks), we are forecasting a 7% fall in GDP across the Australian economy in Q2.

The minutes of the August RBA meeting will be released on Tuesday while preliminary data for retail spending in July will be released on Friday. Retail trade has bounced back significantly after a slump throughout the nationwide lockdown in April. In June, retail sales rose 2.7%, following a 16.9% increase in May. Spending on some retail goods has been relatively resilient in comparison to the weakness in spending on household services.

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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 (Aug 14)	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, %	0.21	0.25	0.30	0.35	0.35	0.40
10 Year Bond, %	0.93	0.90	0.90	0.95	1.05	1.20
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.72	0.60	0.60	0.65	0.75	0.85
USD Exchange Rates:						
AUD-USD	0.7171	0.71	0.72	0.73	0.74	0.75
USD-JPY	106.60	105	106	107	107	108
EUR-USD	1.1842	1.19	1.19	1.20	1.21	1.22
GBP-USD	1.3086	1.30	1.31	1.31	1.32	1.33
NZD-USD	0.6542	0.66	0.66	0.66	0.65	0.66
AUD Exchange Rates:						
AUD-USD	0.7171	0.71	0.72	0.73	0.74	0.75
AUD-EUR	0.6055	0.60	0.61	0.61	0.61	0.61
AUD-JPY	76.42	74.6	76.3	78.1	79.2	81.0
AUD-GBP	0.5480	0.55	0.55	0.56	0.56	0.56
AUD-NZD	1.0962	1.08	1.09	1.11	1.14	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-4.7	3.0
CPI (Headline), %	1.8	0.7	2.1
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	8.6	7.4
Wages Growth, %	2.2	1.9	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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The Detail

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