Weekly Economic Outlook

Bank of Melbourne

Monday, 17 May 2021

Jobs Stay in the Spotlight

It was a whopper of a week last week for economists with the Federal Budget handed down last Tuesday. A big theme in the Budget was ensuring the economic recovery is sustained and that the unemployment rate is driven to below 5%. The government kept its foot on the accelerator with more spending to ensure jobs growth and the economic rebound would continue.

This week the spotlight remains on jobs. The most watched release this week will be the labour force data on Thursday. The recovery in the jobs market has been incredible. In March, the economy hit an important milestone with more people employed in Australia than before the pandemic ravaged the labour market.

This week's labour force data is critical because it is the first view we get on the impact of the expiry of JobKeeper at the end of March. In early March, we estimated in a note we published that the number of job losses from the expiry of this scheme would be in the range of 60,000 to 140,000. Those working zero hours or very little hours would be most impacted by JobKeeper ending. We think April's employment numbers will still show an expansion in employment continued, but only 10,000 jobs are likely to have been added in the month. We are also anticipating the unemployment rate will stay steady at 5.6%, the lowest rate since April 2020. The expiry of JobKeeper and seasonal adjustment factors mean there is a higher-than-usual risk of an unexpected outcome in the jobs result.

Ahead of the labour force data, the wage price index for the March quarter is released. The Reserve Bank is anticipating that the lift in wage pressures will be slow and gradual and not enough to ensure underlying inflation is in the Reserve Bank's 2–3% target band on a sustained basis. Business surveys are reporting that there are labour shortages across a number of industries, especially with immigration at a standstill. Migration is not expected to start recovering until the middle of next year. However, some of the factors causing shortages are considered temporary by policymakers. Policymakers don't believe they will lead to a sustained lift in wages growth of 3% or more over the next few years. For the March quarter, we are forecasting a gain of 0.6% in the wage price index, which matches the size of the gain in the December quarter, and takes the annual rate up 0.1 percentage points to 1.5%. This annual pace remains soggier than a wet weetbix!

The minutes of the Reserve Bank's board meeting earlier this month are published tomorrow afternoon. These minutes will be less insightful than usual because the Board meeting on May 4 was followed by the quarterly Statement on Monetary Policy (SoMP) on May 7. The SoMP is a very detailed report that contains a set of economic forecasts. Indeed, the RBA revised up its economic growth forecasts, reflecting the faster-than-expected economic recovery that is underway. GDP growth was revised up to 4.75% for 2021, from 3.5% previously. The forecast for GDP growth in 2022 stayed the same at 3.50%.

There were also upgrades in the SoMP to expectations around the other key variables – unemployment and inflation. The RBA now expects the unemployment rate to end this year at

5.0%, down from 6.0% previously and the current rate of 5.6%. For December 2022, the RBA expects the momentum in jobs growth to continue with an unemployment rate of 4.5% forecast, down from 5.5% previously.

Until recently, a 4.5% rate of unemployment was considered to consistent with full employment in the economy, that is, a rate that would be enough to generate wage and inflation pressures. However, earlier this year the RBA suggested it believes the unemployment rate consistent with full employment to be in the high 3s to low 4s. In contrast, the Federal Treasury sees this rate to be around 4.5–5.0%.

For December 2021, underlying inflation is now expected to be 1.5%, up from 1.25% previously and for December 2022, it is 1.75% instead of 1.50% previously.

On Wednesday, there is also an update from the Melbourne Institute and Westpac on how consumers are feeling about the economy. Consumers have been very upbeat with the consumer sentiment index running consistently well above the 100 level since May last year. And in April, consumer sentiment hit an 11-year high.

The outlook for the economy has not darkened since the last survey has been taken, so we do not expect to see a substantial pull back from the elevated levels of consumer sentiment recorded a month ago. However, with the recent locally-transmitted COVID-19 infections in New South Wales and housing affordability starting to bite, there might be a modest decline in sentiment. On the other hand, spending initiatives contained in last week's Federal Budget will put upwards pressure on sentiment.

Finally, the week rounds out with the publication of preliminary figures for retail spending for April. We expect retail trade lifted 0.8% in April, after an increase of 1.3% in March. With the easing of social-distancing restrictions, Australians are returning to their obsession with drinking caffeine at cafes and dining out. The sharp growth in food retailing (ie. spending at grocery stores) has started to reverse while spending on cafes, restaurants and takeaway services has lifted. This trend is likely to have run a bit further in April.

Aside from the economic data, investors are eyeing the price of iron ore very closely after it pierced US$230 a tonne last week and Chinese regulators stepped in on Friday to cool some of the blistering rally in steel prices.

Market regulators in Tangshan, North China's Hebei Province, on Friday summoned all the iron and steel companies in the city and warned them to say away from any pricing abnormalities, including speculations and hoarding. Regulators noted that the surge in steel prices has far exceeded that of the rise in iron ore and threatened to impose "severe" penalties, even including revoking business licences, if steel makers are found to have engaged in illegal pricing activities. Tangshan is the world's largest steel-producing city and produced 14% of China's raw steel last year.

On the same day, the municipal government of Shanghai also summoned its steel-making companies, telling them to fulfill social responsibilities and be "cooperative" in the government's efforts to stabilise runaway steel prices. Earlier last week, three Chinese exchanges hiked transaction fees amid rising attention from the Chinese government.

At the time of writing, iron ore futures prices are trading at US$205.70 after falling sharply in response to the moves by the Chinese authorities.

Besa Deda, Chief Economist
(02) 8254 3251

Forecasts

		2021			2022		
End Period:	**Close (14 May)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.04	0.05	0.07	0.09	0.10	0.10	0.10
3 Year Swap, %	0.32	0.40	0.40	0.45	0.60	0.80	0.90
10 Year Bond, %	1.80	1.85	1.95	2.10	2.20	2.30	2.40
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.63	1.75	1.85	2.00	2.10	2.20	2.30
USD Exchange Rates:							
AUD-USD	0.7771	0.79	0.80	0.82	0.85	0.85	0.85
USD-JPY	109.35	109	109	110	111	111	111
EUR-USD	1.2141	1.21	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.4097	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7250	0.73	0.73	0.74	0.76	0.76	0.76
AUD Exchange Rates:							
AUD-USD	0.7771	0.79	0.80	0.82	0.85	0.85	0.85
AUD-EUR	0.6407	0.65	0.66	0.67	0.68	0.67	0.67
AUD-JPY	85.1	86.1	87.2	90.2	94.4	94.4	94.4
AUD-GBP	0.5521	0.56	0.57	0.58	0.60	0.60	0.60
AUD-NZD	1.0731	1.08	1.10	1.11	1.12	1.12	1.12

	2019	**2020**	**2021 (f)**	**2022 (f)**
GDP, %	2.2	-1.1	4.5	3.0
CPI (Headline), %	1.8	0.9	2.2	1.8
CPI (Trimmed mean), %	1.5	1.2	1.5	1.6
Unemployment Rate, %	5.2	6.8	5.0	4.7
Wages Growth, %	2.2	1.4	1.8	2.0

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

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