

Monday, 18 October 2021

Early Signs of Spending Bounce as Restrictions Ease

Restrictions are easing across Australia as the country begins its transition out of prolonged lockdowns and towards the new normal of learning to live with the virus.

Sydney's restrictions eased further today as NSW hit the 80% fully vaccinated threshold over the weekend. After a prolonged sixth lockdown, Melbourne has the unfortunate title of being the most locked-down city in the world but will see restrictions ease on Friday. Restrictions also eased in the ACT last week.

Official statistics on the impact of lifting of restrictions will take some time to flow through. However, Westpac merchant terminal data provides some early insights. It showed that the volume of transactions bounced back strongly in NSW compared to two weeks prior, after restrictions eased in Sydney on 11 October.

Shoppers were particularly eager to update their wardrobes and tend to their overdue personal grooming needs. Transactions across NSW on Monday, 11 October in clothing stores, and beauty and barber shops were over 10 times higher than compared to the Monday two weeks prior. Such venues were heavily impacted by lockdowns. Department stores were also popular, with spending volumes increasing by around 400% over the same period. Some stores even opened their doors to hundreds of eager shoppers at midnight on 11 October as restrictions lifted.

Of course, a new look wouldn't be complete without new shoes. Sydneysiders agreed, with the number of transactions on shoes increasing by over 300%. Transactions also increased by around 200% across pubs, as people took the opportunity to have an overdue catch up with friends and family over a drink.

While some of this strength reflects that the base of spending across NSW was low due to the lockdowns, these are very early signs of pent-up demand being unleashed.

Business confidence has also bounced back. Business confidence rebounded strongly in September, recording its biggest monthly gain in 15 months, as confidence rose 19 points to a 4-month high of +13. The rebound was led by a strong recovery across NSW and Victoria. Increasing vaccination rates and the release of reopening roadmaps helped to make businesses more confident about the future.

During previous lockdowns, spending bounced back strongly as restrictions eased. We expect this pent-up demand to continue to be unleashed as restrictions ease further across NSW and Victoria. However, demand may be more tempered than after previous lockdowns, as case numbers are likely to remain elevated.

Turning to the week ahead. Markets will be keeping one eye on the Minutes from the Reserve Bank's (RBA) October meeting, to be released on Tuesday. The Minutes will provide more information on the Bank's assessment of the current economic situation and its expectations around the outlook as restrictions ease. The meeting was largely uneventful. The RBA will continue to purchase \$4 billion a week of government bonds until at least mid-February 2022. The cash rate

was maintained at a record low of 0.1%.

Last week, the Australian Prudential Regulation Authority (APRA) announced a tightening in macroprudential policy, albeit a small move, in response to growing risks in the housing market. Markets will be watching the Minutes closely for more colour on housing market risks following the acceleration in housing credit growth.

Looking overseas, China Q3 GDP figures are being released today. GDP will be impacted by recent restrictions to control a fresh COVID outbreak. Energy supply issues may also weigh on growth over the period. Additionally, the real estate sector faced challenges during the quarter as Chinese authorities address excessive leverage in the sector and risks to the broader economy. The challenges faced by Evergrande have hit international headlines over the past few months and are the most public example of difficulties faced by heavily indebted developers.

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Forecasts

End Period:	2021		2022			2023	
	Close (15 Oct)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.25
90 Day BBSW, %	0.03	0.07	0.10	0.15	0.20	0.40	0.65
3 Year Swap, %	0.70	0.60	0.70	0.80	0.95	1.10	1.20
10 Year Bond, %	1.64	1.60	1.70	1.80	1.90	2.00	2.05
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.375	0.625
US 10 Year Bond, %	1.52	1.60	1.70	1.80	1.90	2.00	2.05
USD Exchange Rates:							
AUD-USD	0.7421	0.75	0.76	0.77	0.78	0.78	0.79
USD-JPY	113.87	112	112	113	113	114	114
EUR-USD	1.1602	1.19	1.20	1.19	1.18	1.18	1.17
GBP-USD	1.3678	1.38	1.39	1.40	1.41	1.41	1.40
NZD-USD	0.7031	0.71	0.72	0.73	0.74	0.74	0.74
AUD Exchange Rates:							
AUD-USD	0.7421	0.75	0.76	0.77	0.78	0.78	0.79
AUD-EUR	0.6397	0.63	0.63	0.65	0.66	0.66	0.68
AUD-JPY	84.79	84.0	85.1	87.0	88.1	88.9	90.1
AUD-GBP	0.5399	0.54	0.55	0.55	0.55	0.55	0.56
AUD-NZD	1.0524	1.06	1.06	1.05	1.05	1.05	1.07

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.1	-0.9	0.0	7.4
CPI (Headline), %	1.8	0.9	2.8	2.4
CPI (Trimmed mean), %	1.6	1.2	1.9	2.6
Unemployment Rate, %	5.2	6.8	5.1	3.8
Wages Growth, %	2.2	1.4	2.0	2.8

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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