

Monday, 19 April 2021

## Recovery Continues to Exceed Expectations

It is a fairly quiet week on the domestic front. The Reserve Bank (RBA) minutes for the April meeting are the main event. We will also see a preliminary reading on March retail sales.

Investors will be watching the minutes for colour on shifting risks after a run of remarkable economic data that surprised to the upside. In particular, the labour market has recovered in leaps and bounds.

Last week, we saw that another 70.7k jobs were added in March, meaning employment is now higher than before the pandemic. The unemployment rate declined to 5.6%. On top of this, leading indicators of employment are surging – job vacancies hit a record high in February.

For context, in February the RBA forecast the unemployment rate would reach 6.5% at the end of June.

Next month's data will give us the first glimpse of the impact of JobKeeper's expiry. Some disruption to jobs is likely but not enough to prevent the unemployment rate ending the year at a lower rate.

Last week, we also saw the strongest set of business conditions since 1996. On top of this, consumer sentiment soared to an 11-year high.

The conclusion of important support measures at the end of March, including JobKeeper, as well as setbacks in the vaccine rollout have done little to dent the optimism of households and businesses. This confidence will support spending and investment.

China's GDP numbers were also out last week. GDP increased an eye-watering 18.3% in the March quarter compared to a year earlier. These figures are distorted by base effects from when the economy was shut to curb the pandemic. Regardless, China's economy has charged ahead most of the world in recovering from the pandemic. China's rebound is good news for Australian exporters.

Altogether this suggests Australia is well on its way to reaching its pre-COVID level of economic activity by the middle of this year.

However, despite Australia's stunning economic recovery, we are still a long way off meeting the conditions necessary for the RBA to increase the cash rate. The central bank has indicated the unemployment rate will likely need to be in the high 3s or low 4s to get inflation sustainably back in the 2% to 3% per annum target band. We have not seen the unemployment rate around these levels since 2008.

We are at a critical juncture of the recovery as key support measures, like JobKeeper, are unwound. The run of strong data we have seen is an encouraging sign the economy is still on the right track.

**Matthew Bunny, Economist**  
(02) 8254 0023

## Forecasts

End Period:	2021				2022		
	Close (16 April)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
<b>Aust. Interest Rates:</b>							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.04	0.02	0.02	0.02	0.04	0.06	0.08
3 Year Swap, %	0.33	0.30	0.30	0.35	0.50	0.55	0.60
10 Year Bond, %	1.74	1.85	1.95	2.10	2.20	2.30	2.40
<b>US Interest Rates:</b>							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.58	1.75	1.85	2.00	2.10	2.20	2.30
<b>USD Exchange Rates:</b>							
AUD-USD	0.7734	0.79	0.80	0.82	0.85	0.85	0.84
USD-JPY	108.80	109	110	111	112	111	111
EUR-USD	1.1983	1.20	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.3832	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7142	0.72	0.73	0.74	0.76	0.76	0.75
<b>AUD Exchange Rates:</b>							
AUD-USD	0.7734	0.79	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6447	0.66	0.66	0.67	0.68	0.67	0.66
AUD-JPY	84.2	86.1	88.0	91.0	95.2	94.4	93.2
AUD-GBP	0.5592	0.56	0.57	0.58	0.60	0.60	0.59
AUD-NZD	1.0825	1.10	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	2.6	2.1
CPI (Trimmed mean), %	1.5	1.2	1.8	2.0
Unemployment Rate, %	5.2	6.8	5.7	5.2
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

### The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

---

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.