

Monday, 21 June 2021

NSW Budget Due, Sydney on Virus Alert

Well, last week was eventful, to say the least.

The Federal Reserve surprised markets with a hawkish tilt at its meeting. The Fed brought forward its rate hike forecast, predicting two rate increases by the end of 2023, according to the median of expectations in the dot plot. Plus, Chair Powell acknowledged the Fed is now talking about a plan to taper its quantitative easing program. The AUD/USD pair has subsequently fallen to its lowest level since December 2020 alongside broad-based US dollar strength. We are likely to see further selling in the Australian dollar in the near term.

On the domestic front, May labour force data blew projections out of the water with over 115k new jobs added in the month. Consensus forecasts had pegged a 30k increase. The unemployment rate fell to 5.1% and is now back at pre-COVID levels.

The unemployment rate is likely to have a '4' in front this year and hit full employment in the middle of next year, which will generate wage and inflation pressures. Reports of labour shortages by businesses are only likely to get louder.

On the back of these developments, we brought forward our forecast for the first cash rate hike to early 2023. For some time, we have been flagging the risk of a cash rate hike before 2024, despite the Reserve Bank's insistence that an increase in the cash rate before 2024 would be unlikely. For more detail on our thinking, see our report on the RBA, Fed & AUD Outlook released on 18 June.

And just after Melbourne emerged from lockdown, Sydney is facing a fresh virus outbreak.

At the time of writing, there have been 11 confirmed cases of community transmission. So far, the NSW government has not reduced capacities at hospitality venues or private gatherings, but mask wearing has been mandated in some settings across parts of the city.

Tomorrow, the NSW government will hand down the State Budget for 2021-22. Reports suggest the state budget will include \$3.5 billion in stimulus measures, including the continuation of some programs that were funded for two financial years, like grants for social housing.

Almost \$1.8 billion in additional funding for the COVID-19 response and \$1 billion to assist communities hit by bushfires and floods have been flagged. Emergency funding is expected to be announced to address the mouse plague in regional NSW. The NSW government's cap on public sector wages, which set a 1.5% limit on wage increases in November, is also set to be lifted.

It is a quiet week on the data front. Preliminary estimates released this morning showed retail sales rose 0.1% in May. The lockdown in Victoria weighed on spending, with retail sales declining 1.5% in the state in May. In Victoria, there were falls across most industries which were partly offset by a strong rise in spending at supermarkets, consistent with spending patterns in previous lockdowns.

In annual terms, retail sales grew 7.4% in May following 25.0% growth in the year to April.

Year-ended growth figures are volatile due to the impact of coronavirus lockdowns.

On Thursday, the Australian Bureau of Statistics will release its Business Conditions and Sentiments survey for June. Last month's survey indicated that operating conditions continued to improve for businesses. In the June survey, we will be looking for evidence of the impact of the new coronavirus outbreaks on businesses.

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Forecasts

End Period:	2021			2022			
	Close (18 June)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.02	0.04	0.07	0.10	0.15	0.20	0.40
3 Year Swap, %	0.48	0.50	0.60	0.80	0.95	1.10	1.25
10 Year Bond, %	1.60	1.95	2.10	2.20	2.30	2.40	2.50
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.375
US 10 Year Bond, %	1.44	1.85	2.00	2.10	2.20	2.30	2.40
USD Exchange Rates:							
AUD-USD	0.7479	0.78	0.80	0.82	0.85	0.85	0.84
USD-JPY	110.21	109	109	110	110	111	111
EUR-USD	1.1864	1.23	1.24	1.25	1.26	1.27	1.27
GBP-USD	1.3810	1.42	1.43	1.43	1.44	1.44	1.44
NZD-USD	0.6936	0.72	0.74	0.76	0.78	0.78	0.77
AUD Exchange Rates:							
AUD-USD	0.7479	0.78	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6304	0.63	0.65	0.66	0.67	0.67	0.66
AUD-JPY	82.4	85.0	87.2	90.2	93.5	94.4	93.2
AUD-GBP	0.5416	0.55	0.56	0.57	0.59	0.59	0.58
AUD-NZD	1.0785	1.08	1.08	1.08	1.09	1.09	1.09

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.1	-1.0	4.8	3.2
CPI (Headline), %	1.8	0.9	2.5	2.4
CPI (Trimmed mean), %	1.5	1.2	1.6	2.2
Unemployment Rate, %	5.2	6.8	4.4	3.8
Wages Growth, %	2.2	1.4	2.2	2.7

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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