

Monday, 21 September 2020

The Good, the Bad and the Ugly

The week ahead will be quiet in terms of data. Weekly payrolls are released on Tuesday and the preliminary retail sales figures come out on Wednesday.

The payrolls data should reflect improvements in jobs and wages activity across most States and the ongoing problems in Victoria. These issues were highlighted in the monthly labour force figures that came out last week. They showed good jobs growth in all States and territories except Victoria.

The good news is that Victoria can expect a pick-up in jobs in the weeks ahead given that restrictions have been eased outside of Melbourne. Thankfully, the number of new COVID-19 cases are falling and that bodes well for future Victorian jobs growth.

Building on the good news, it was encouraging to see good jobs growth in the August data last week. Of the 111k jobs created, one third were full-time and two thirds were part-time. It was also encouraging to see the unemployment rate decline, even though we know that many employees are still on JobKeeper.

The Federal budget on 6th October should provide more news on government spending. It has just announced its intention to increase payments to pensioners. Watch out for more news in the weeks ahead.

The bad news is that JobKeeper and JobSeeker payments will be amended at the end of the month. This ties in with the preliminary retail sales being released on Wednesday. Retail sales thrive on income growth. When income support is wound back in October, it could take retail sales down with it. The flip side is that jobs are being created and these bring with them income and spending power.

If spending within the economy dips, some businesses will come under new pressure. At this point it should be noted that the recent national account, or GDP, figures showed a spike in savings. We are being cautious with our cash. That's okay for households but not necessarily so good for the wider economy. Wednesday's preliminary retail sales figures will give us the latest numbers on our spending.

The cash flow boost measure for employers is also due to end at the end of this month. A survey of businesses published by the Australian Bureau of Statistics in August revealed 54% of businesses were accessing this measure and using it primarily to pay staff and cover fixed costs. The ending of this measure could see some businesses face more challenges, although the recovery in economic activity might provide some offset.

The ugly news, that could fester this week, is the gridlock at the WTO, the World Trade Organisation. The WTO oversees the legal ground rules for trade between nations. It helps countries negotiate trade deals and adjudicates on disagreements.

At present, the United States and China disagree on some trade issues, but the WTO is hamstrung. It is unable to play its role. The WTO arbitration committee has lost members and the major

nations cannot agree on new members. Trade disputes unsettle investors, they hold back economic activity and damage livelihoods. Resolution of the impasse would be welcome.

Hans Kunnen, Senior Economist
Ph: 02-8254 1316

Forecasts

End Period:	2020		2021			
	Close (Sep 18)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.09	0.10	0.10	0.10	0.10	0.15
3 Year Swap, %	0.16	0.23	0.25	0.25	0.30	0.35
10 Year Bond, %	0.89	0.90	0.95	1.05	1.10	1.20
US Interest Rates:						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.69	0.60	0.65	0.75	0.75	0.85
USD Exchange Rates:						
AUD-USD	0.7289	0.75	0.76	0.76	0.78	0.80
USD-JPY	104.57	105	105	106	106	106
EUR-USD	1.1840	1.21	1.22	1.23	1.24	1.25
GBP-USD	1.2917	1.33	1.34	1.35	1.37	1.39
NZD-USD	0.6759	0.67	0.66	0.66	0.68	0.70
AUD Exchange Rates:						
AUD-USD	0.7289	0.75	0.76	0.76	0.78	0.80
AUD-EUR	0.6158	0.62	0.62	0.62	0.63	0.64
AUD-JPY	76.21	78.8	79.8	80.6	82.7	84.8
AUD-GBP	0.5644	0.56	0.57	0.56	0.57	0.58
AUD-NZD	1.0784	1.12	1.15	1.15	1.15	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-3.5	2.5
CPI (Headline), %	1.8	0.7	2.1
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	7.8	7.5
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.

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Hans Kunnen

hans.kunnen@bankofmelbourne.com.au

(02) 8254 1316

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