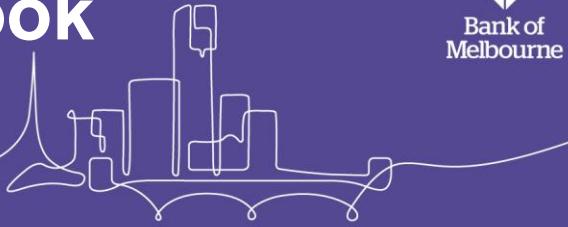


Weekly Economic Outlook

Monday, 22 March 2021



Limited Data: Time to Reflect

The week ahead is bereft of market moving domestic data. This should provide investors and other market participants with time to reflect on recent developments.

Last week's labour force data was encouraging at the macro level, but the devil is in the detail. There are pockets of the economy (some quite large) that remain at risk in the 'grey area' of transition from recession to recovery. The economy is recovering, but stimulus, in the form of JobKeeper is ending, while restrictions remain in place.

The pockets of pain have been identified. They include those associated restrictions on international travel (tourism, education, agriculture i.e., fruit pickers) and social distancing (arts and recreation, hospitality and events). Policies are in place to assist some of these sectors, but their effectiveness will only be captured by statistics in the months ahead.

The recovery, as forecast by the Reserve Bank Governor, is proving to be bumpy and uneven.

The strength of last week's labour force was encouraging, but we need to remind ourselves that in the months prior to the pandemic being declared, the unemployment rate averaged 5.1%. This was far from full employment and failed to generate substantial wage growth or consumer price inflation. Eight hundred thousand people remain unemployed and many would prefer to work more hours.

It is the interaction between the labour market and wages that sits behind the Reserve Bank's view, and ours, that the cash rate will not be lifted until at least 2024. Monetary policy is set to remain accommodative.

The bond market has been sending signals that reflect the improved outlook for the Australian and global economies. Longer-term yields have been rising in Australia and the US. While this appears appropriate, investors may be anticipating more inflation than seems likely or sustainable. Under its quantitative easing program, the Reserve Bank has been buying bonds to lower yields and keep a lid on the Australian dollar. The program is due to expire at the end of September, although we expect it will be extended.

One data set that will be released this week is business conditions and sentiments. This survey-based release seeks to measure how business revenues, expenses and employment are unfolding as the economy reacts to the stresses and strains of the pandemic induced recession and recovery.

Key findings from the last issue were that two in five (41%) businesses were significantly impacted by COVID-19 restrictions in February. This compares to 53% in April 2020. Also, in February, 41% of businesses reported that cash on hand could cover less than three months of business operations.

The next survey is due for release on Thursday.

Hans Kunnen, Senior Economist, (02) 8254 1316

Forecasts

End Period:	2021			2022			
	Close (19 Mar)	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, %	0.03	0.02	0.02	0.02	0.04	0.06	0.08
3 Year Swap, %	0.33	0.30	0.25	0.30	0.50	0.55	0.60
10 Year Bond, %	1.82	1.85	1.85	1.90	2.05	2.20	2.35
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.70	1.65	1.70	1.80	1.95	2.10	2.25
USD Exchange Rates:							
AUD-USD	0.7742	0.79	0.80	0.82	0.85	0.85	0.84
USD-JPY	109.03	109	110	111	112	111	111
EUR-USD	1.1914	1.20	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.3912	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7166	0.74	0.75	0.76	0.78	0.78	0.77
AUD Exchange Rates:							
AUD-USD	0.7742	0.79	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6498	0.66	0.66	0.67	0.68	0.67	0.66
AUD-JPY	84.4	86.1	88.0	91.0	95.2	94.4	93.2
AUD-GBP	0.5565	0.56	0.57	0.58	0.60	0.60	0.59
AUD-NZD	1.0804	1.07	1.07	1.08	1.09	1.09	1.09

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.2	-1.1	4.5	3.0
CPI (Headline), %	1.8	0.9	2.6	2.2
CPI (Trimmed mean), %	1.6	1.2	1.9	2.0
Unemployment Rate, %	5.2	6.8	6.0	5.3
Wages Growth, %	2.2	1.4	1.9	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

Senior Economist

Hans Kunnen

hans.kunnen@bankofmelbourne.com.au

(02) 8254 1316

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.
