

Monday, 29 March 2021

A Focus on the Housing Market

Fresh data on house prices, building approvals and lending for housing will be released this week. Each is likely to confirm the recent explosion of activity in the housing market. Low interest rates are having an impact.

Also due out this week are the latest numbers for retail spending, international trade and weekly payrolls.

The data stream kicks off on Tuesday with the relatively new series on weekly payroll jobs and wages. This series, a joint venture between the Australian Bureau of Statistics (ABS) and the Australian Taxation Office has tracked the fall and rise in payroll jobs since the beginning of the pandemic. They are a guide to the broader, monthly labour force statistics but measure the number of jobs rather than the number of people in employment. Many people have more than one job. We expect the series to show continued improvement in the number of payroll jobs.

On Wednesday, the Reserve Bank of Australia (RBA) will release the February private sector credit numbers and the ABS will put out building approvals for February.

Aggregate private sector credit picked up in late 2020, but growth was anaemic with an annual pace of 1.7% in January. We expect monthly growth of 0.3% in February for annual growth of 1.7%. However, credit extended for owner occupier housing has been growing at an annual pace of 5.7%. We expect this to continue, if not accelerate. Credit extended for housing investment and for business purposes has been more subdued with annual growth for both below 1.0%.

Building approvals are expected to fall 3.0% in February following a 19.4% decline in January. The weak January result followed several months of surging growth on the back of the government's HomeBuilder program. Later in the year we expect a return to solid, but less spectacular growth. Results in this series are always volatile due to the 'lumpy' nature of multi-dwelling, unit developments.

Thursday may be April Fool's Day, but the expected rise in housing prices, as measured by CoreLogic will be no prank. We expect that prices rose 2.5% in March, exceeding the 2.0% rise February which itself was the strongest monthly result in 17 years.

The ABS will add further insight into home lending on Thursday. In January, housing finance approvals rose 10.5%. We expect the February result to continue the expansion but at a slower, 2.0% rise in the month. Housing activity has been dragged forward by the HomeBuilder program and at some point, the pace of growth will subside as that program ends.

Also on Thursday, the ABS releases the full set of statistics for February retail sales. The preliminary release reported a decline of 1.1%. We expect a similar result for the final figures but with wide variations between the various retail sectors.

Rounding off a busy Thursday, will be the February trade data. Australia's trade account has been in surplus for seven consecutive months and we expect this to continue with a \$9.9bn surplus being reported. Commodity prices have been firm and boosting export income but as the

economy expands, imports are also expected to rise during the year.

On a different tack, the RBA has been engaging in quantitative easing (QE) for the past year. The aim of the policy has been, in part, to keep bond yields lower than they might otherwise have been in order to put downward pressure on the Australian dollar. There have been concerns that the RBA might taper back the bond purchases associated with QE. We do not hold this view and expect that the RBA will announce a further \$100bn of purchases in October when the program beginning in April ends. This will assist in Australia's ongoing economic recovery.

Forecasts

End Period:	2021				2022		
	Close (26 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, %	0.28	0.30	0.25	0.30	0.50	0.55	0.60
10 Year Bond, %	1.66	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, %	1.63	1.65	1.70	1.80	1.95	2.10	2.25
USD Exchange Rates:							
AUD-USD	0.7613	0.79	0.80	0.82	0.85	0.85	0.84
USD-JPY	109.26	109	110	111	112	111	111
EUR-USD	1.1780	1.20	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.3762	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.6971	0.72	0.73	0.74	0.76	0.76	0.75
AUD Exchange Rates:							
AUD-USD	0.7613	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	1.0922	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	2.2
CPI (Trimmed mean), %	1.6	1.2	1.9	2.0
Unemployment Rate, %	5.2	6.8	5.7	5.2
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.

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