

Tuesday, 4 August 2020

Lockdown Tightens

How do you tighten restrictions in a city already under lockdown? Premier Daniel Andrews answered this question last week, imposing stage 4 restrictions across metropolitan Melbourne from 6pm, August 2. Stage 3 restrictions will be in place for Regional Victoria from August 5.

The retail sector has been hard hit by these latest restrictions, which will require all clothing, footwear stores and food courts to close. Major retailers can operate with a “click and collect” option. Services such as cleaners, gardeners and hairdressers will be shut. Some manufacturing has also been impacted.

There are also restrictions on the number of workers on construction sites, meatworks and abattoirs.

Support measures have been issued which include a \$5,000 grant for businesses in Victorian regional local government areas, and a grant of \$10,000 is available for employing businesses in metropolitan Melbourne and Mitchell Shire. A \$20 million CBD Business Support fund to help small businesses in Melbourne’s CBD has been announced. Further details on this support fund are expected to be available soon.

Andrews has warned that another 250,000 workers would be stood down due to the restrictions. It points to a further contraction in economic output in Victoria over the September quarter and another spike in unemployment.

The expected contraction in Australian GDP over 2020 is now likely to be greater than the 4.2% previously forecast.

Downside risks remain that further restrictions will be imposed in other parts of the country, and in particular NSW, or if restrictions in Victoria would need to be extended. The hit to confidence from the ongoing elevated number of cases in Victoria will also weigh on economic activity. However, some further policy support could provide some offset.

The RBA’s assessment on Victoria’s lockdown will be watched closely. In a speech in late July, RBA Governor Lowe said that the impact of Victoria’s lockdown after Stage 3 restrictions, was “very concerning”. The RBA will be holding its monetary policy meeting today and will release its Statement on Monetary Policy on Friday. The latter includes the RBA’s updated forecasts on GDP, employment and inflation. The RBA’s policy measures are expected to remain unchanged. Other commentary from the RBA also includes a speech from Assistant Governor Ellis via webinar on Friday.

Data on housing will be released this week. Yesterday, CoreLogic released dwelling price data which revealed prices have declined in the three consecutive months to July. Housing finance data on Wednesday is expected to show further moderation in new lending, and especially within investor lending. That said, there may continue to be strength in refinancing as mortgage holders look to take advantage of lower rates on offer.

Other key data this week includes retail sales and international trade, with both releases

scheduled today. Retail sales increased 2.9% in June, however over the June quarter, volumes contracted 3.4% reflecting the nation-wide restrictions imposed earlier in the quarter. Another large surplus of \$8.2 billion was posted for June. Both exports and imports have rebounded with restrictions easing over the month, although exports were relatively firm in the month.

Overseas, the key data release will be US non-farm payrolls, scheduled for Friday. The consensus expectation is for a large rebound in jobs of 1.5 million, a sizeable increase for the third consecutive month. The unemployment rate is expected to fall from 11.1% to 10.5%. However, restrictions and concerns in some States regarding COVID-19 suggest that the recovery in the US economy will be uneven.

Janu Chan, Senior Economist

Ph: 02-8253-0898

Forecasts are detailed on the following page

Forecasts

Please note that due to the unprecedented nature of the coronavirus's impact on the economy and the rapid change of developments, there is greater than usual variability attached to these forecasts.

End Period:	2020			2021		
	Close (Aug 3)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.10	0.10	0.15	0.20	0.25	0.30
3 Year Swap, %	0.20	0.25	0.30	0.35	0.35	0.40
10 Year Bond, %	0.82	0.95	1.00	1.05	1.15	1.25
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.55	0.70	0.75	0.80	0.85	0.90
USD Exchange Rates:						
AUD-USD	0.7124	0.70	0.72	0.73	0.74	0.75
USD-JPY	105.95	106	106	107	107	108
EUR-USD	1.1762	1.14	1.16	1.16	1.17	1.17
GBP-USD	1.3075	1.26	1.27	1.27	1.28	1.29
NZD-USD	0.6613	0.65	0.65	0.64	0.65	0.66
AUD Exchange Rates:						
AUD-USD	0.7124	0.70	0.72	0.73	0.74	0.75
AUD-EUR	0.6057	0.61	0.62	0.63	0.63	0.64
AUD-JPY	75.48	74.2	76.3	78.1	79.2	81.0
AUD-GBP	0.5449	0.56	0.57	0.57	0.58	0.58
AUD-NZD	1.0773	1.08	1.11	1.14	1.14	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-4.2	3.0
CPI (Headline), %	1.8	0.7	2.1
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	8.4	7.3
Wages Growth, %	2.2	1.8	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

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

Economist

Nelson Aston

nelson.aston@bankofmelbourne.com.au

(02) 8254 1316

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.