



THE AUSTRALIAN ECONOMY THIS WEEK

28TH JANUARY 2022

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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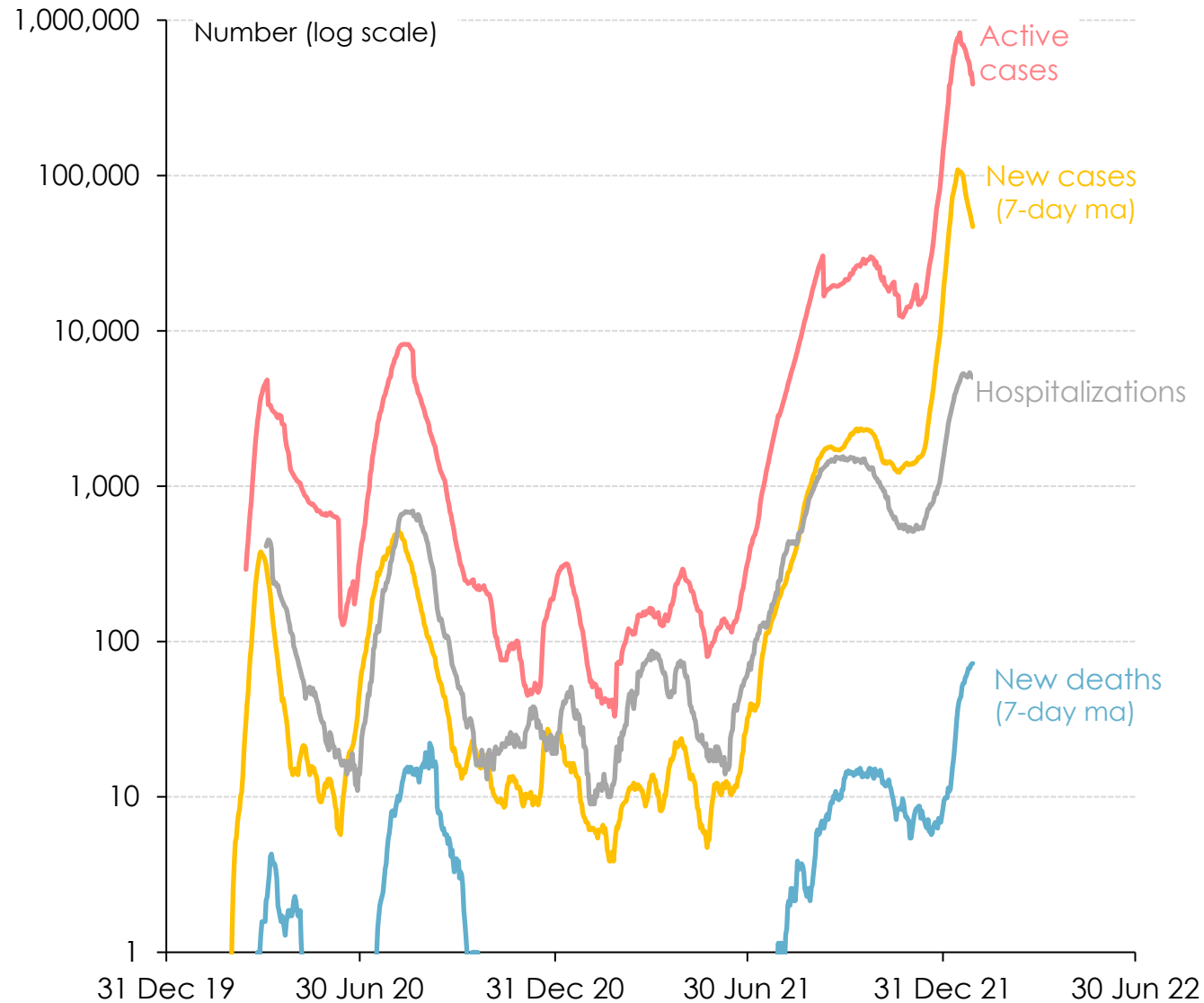
- ❑ It now seems increasingly likely that the 'Omicron wave' has peaked – at least in terms of new infections – although hospitalizations and fatalities (which lag infections by a few weeks) have yet to do so, leaving health systems still under considerable strain ([slide 5](#))
- ❑ Although governments have resisted re-imposing restrictions (apart from Western Australia, which has closed its borders to the rest of Australia and deferred previously-announced plans to re-open them on 5th February to 'a date to be determined'), a large number of Australians who have caught the virus or designated as 'close contacts' have been unable to go to work, disrupting many businesses, and many more Australians have voluntarily restricted their movements – although tech company data suggest that mobility may have started to increase again ([slide 10](#))
- ❑ The most important news this week was inflation – with the consumer price index rising a larger-than-expected 1.3% in the December quarter of last year, pushing the annual 'headline' inflation rate up to 3.3%, while the RBA's preferred measure of 'underlying' inflation rose 1.0% in the quarter (the biggest increase since the September quarter of 2008), lifting the annual 'underlying' inflation rate to 2.6%, the first time it's been above the mid-point of the RBA's 2-3% target range since the June quarter of 2014 ([slide 61](#))
- ❑ Inflation has also accelerated at the producer level, especially in the construction sector, and higher prices for imported goods have also contributed to the increase in inflation ([slide 62](#))
- ❑ Despite being unambiguously higher than expected (including by the RBA), and impossible to dismiss as entirely attributable to 'transitory' factors, Australian inflation hasn't risen as much as in most other 'advanced' economies ([slide 63](#))
- ❑ Nonetheless the RBA will almost certainly revise upwards its inflation forecasts (which had envisaged 'underlying' inflation remaining below the mid-point of its target band until end-2023) and lower its forecasts for unemployment ([slide 76](#)), in this coming Friday's *Statement on Monetary Policy*; and ahead of that, to terminate its bond purchase program and, probably, to abandon its insistence that it won't raise rates until 2023 ([slide 75](#)): markets are now firmly pricing at least two increases in the RBA's cash rate in the second half of this year and more in 2023 ([slide 80](#))
- ❑ Business confidence fell sharply in December, to its lowest level since May 2020, reflecting concerns about the rapid spread of the Omicron variant ([slide 21](#)), even though actual business conditions softened only marginally and remained above their long-run average ([slide 22](#))
- ❑ Consumer confidence fell in January, to its lowest level since September (though still above its long-run average), entirely as a result of consumers becoming more gloomy in outlying states which had previously been relatively free of Covid-19 ([slide 27](#))
- ❑ A more detailed look at employment by age groups shows that the reason for the decline in employment of younger adults since the onset of Covid is that a large number of them (presumably mostly international students) have left the country – and that the labour market experience of those remaining has been quite strong ([slide 45](#))
- ❑ The Federal budget deficit has continued to narrow rapidly thanks to buoyant revenues and falling spending ([slide 68](#))
- ❑ The A\$ dropped below US70¢ this week against a firmer US\$ and on the back of increased investor risk aversion ([slide 82](#))

The virus

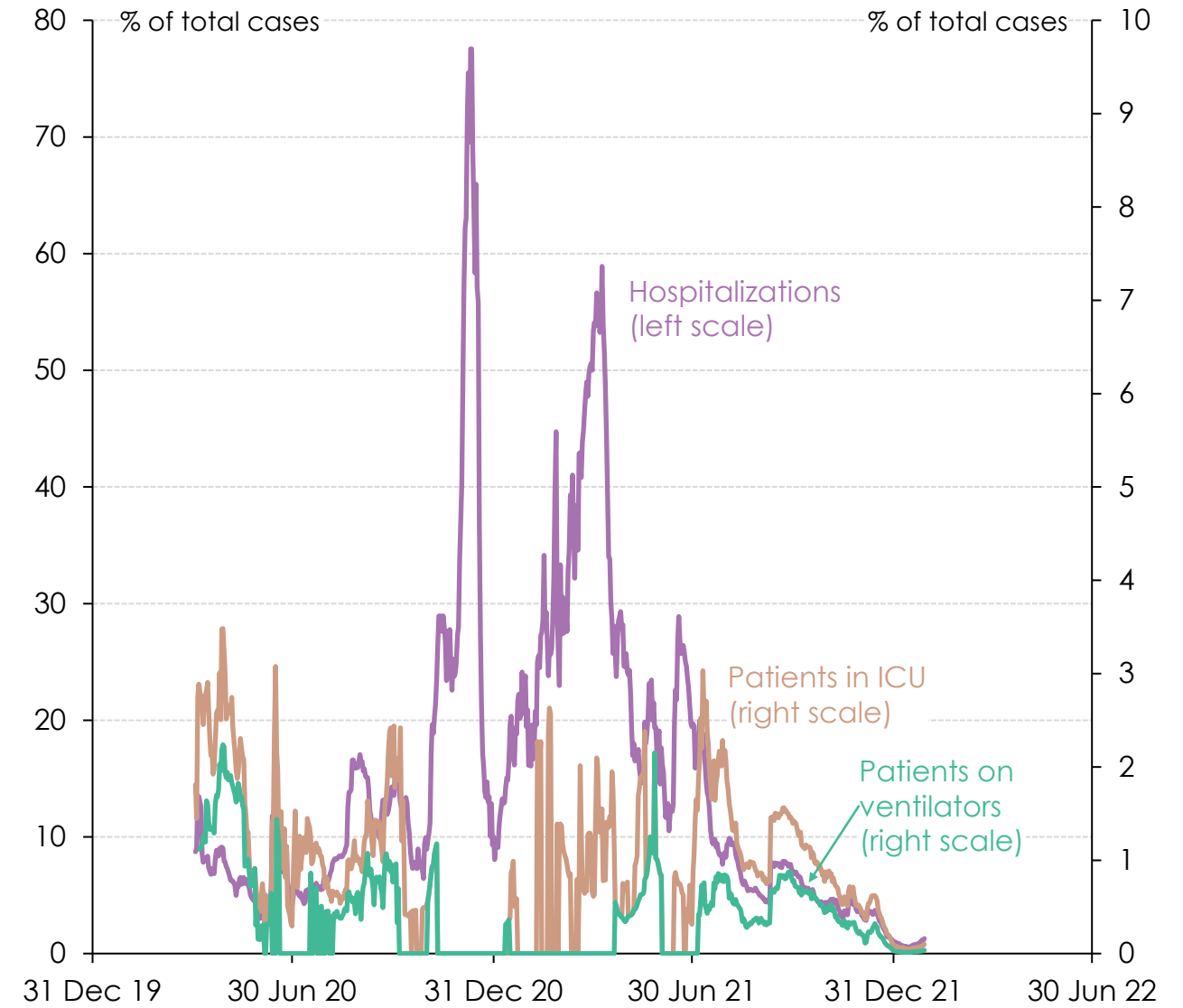
Case numbers have surged with the arrival of the 'omicron' variant in Australia – but it seems increasingly likely that the wave has peaked

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Cases, hospitalizations and deaths



Severity of cases

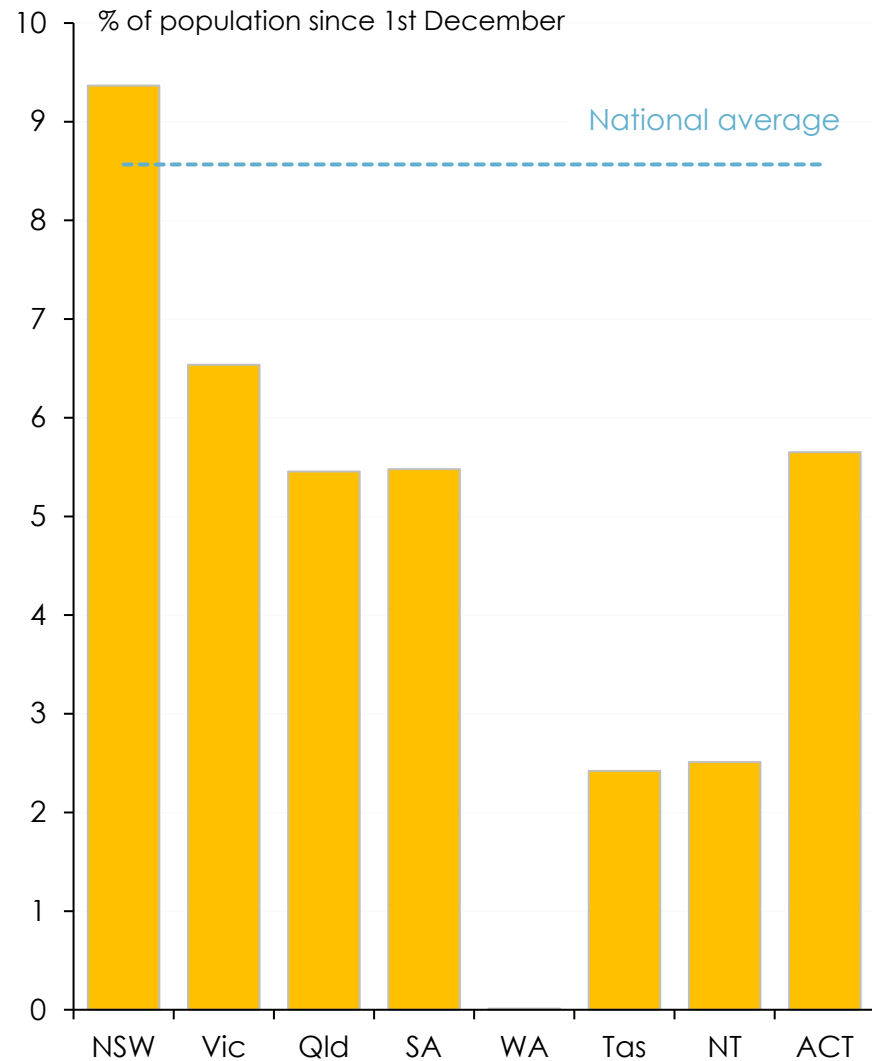


Note: Data up to 27th January. Source: covid19data.com.au. [Return to "What's New"](#).

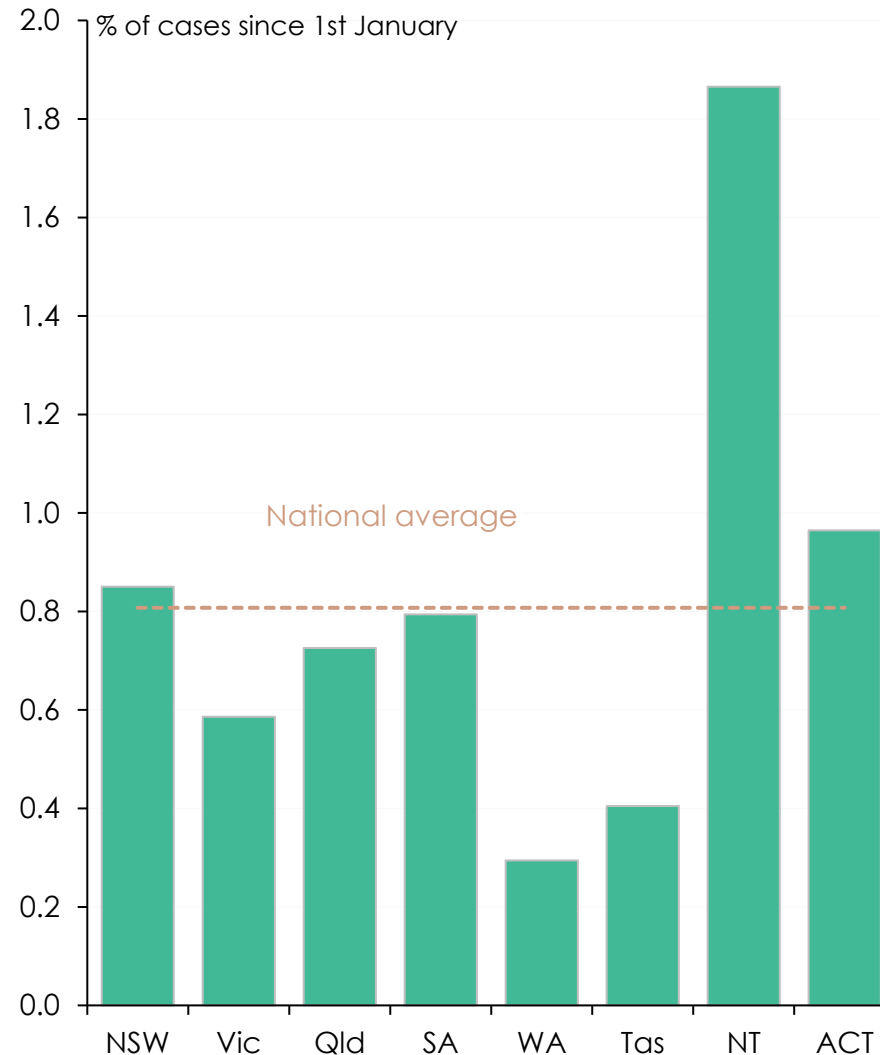
The omicron outbreak has been more widespread in NSW and Victoria than in the rest of Australia, and WA has kept it out through border closures

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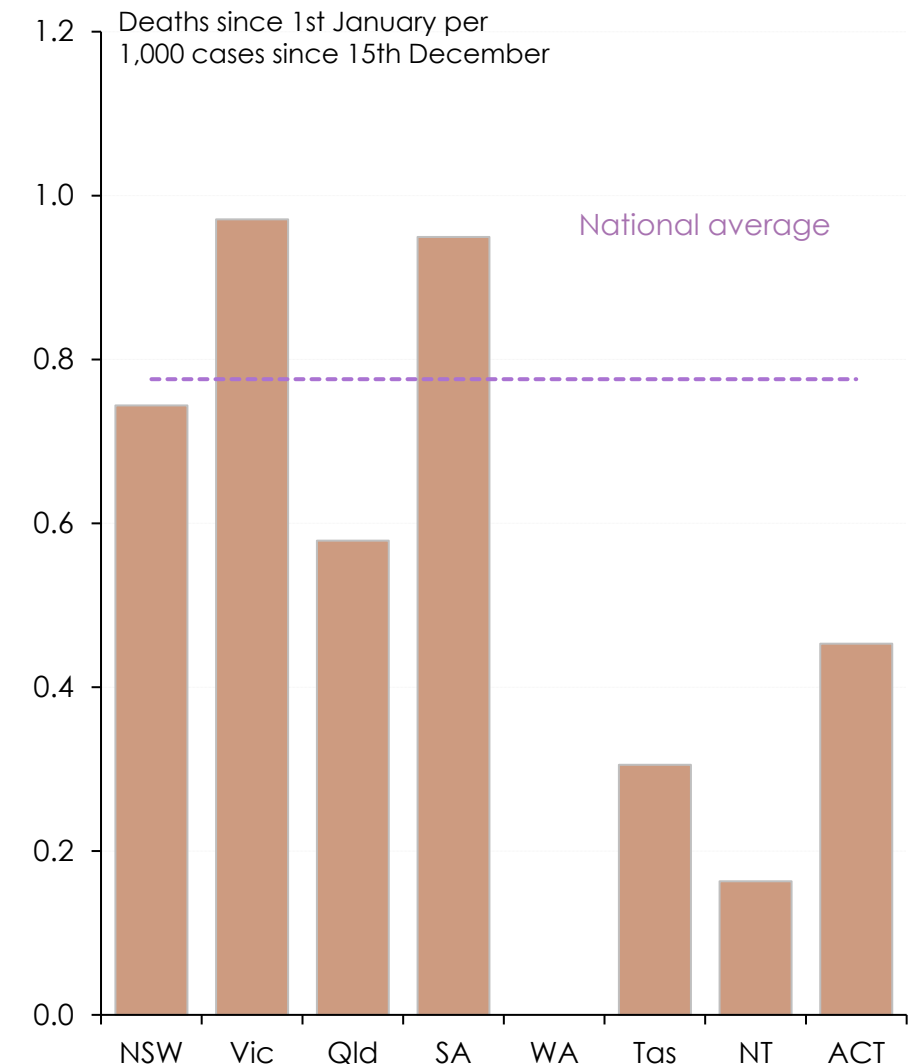
New cases since 1st December 2021



Hospitalization rate since 1st January



Fatality rate since 1st January



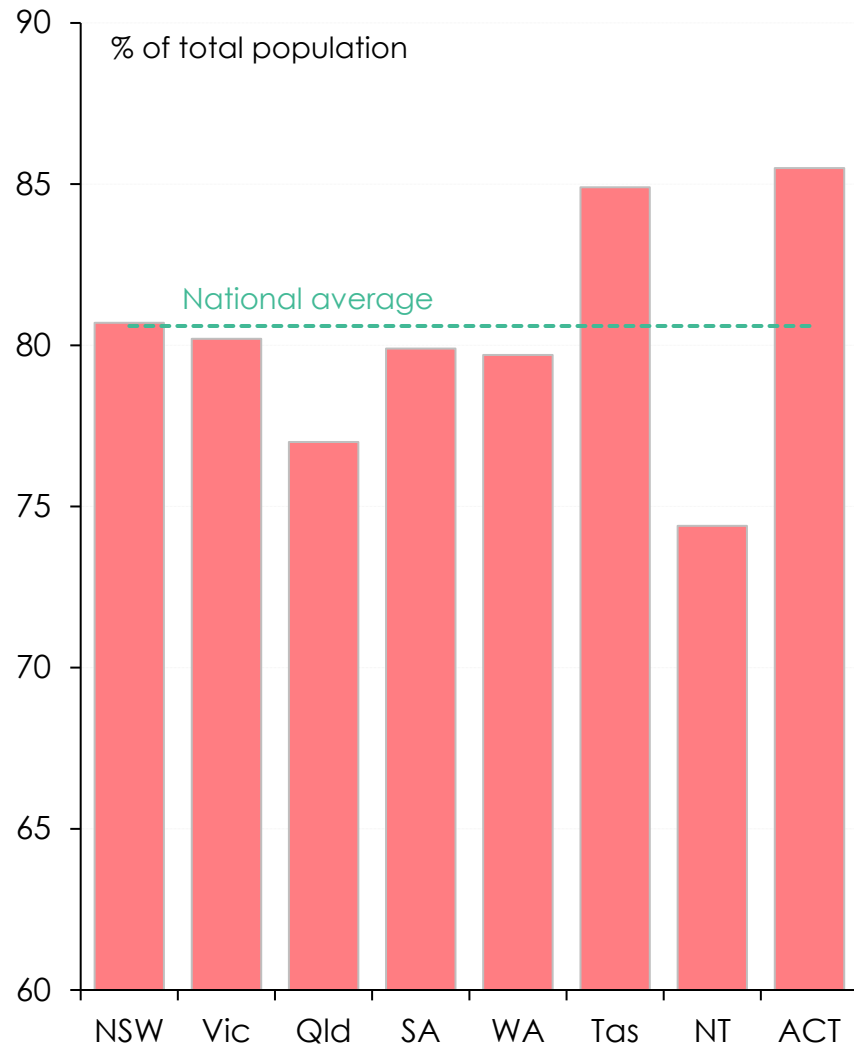
Note: Data are up to 27th January. 1st December was two days after the first omicron case was detected in Australia.

Source: covid19data.com.au. [Return to "What's New"](#).

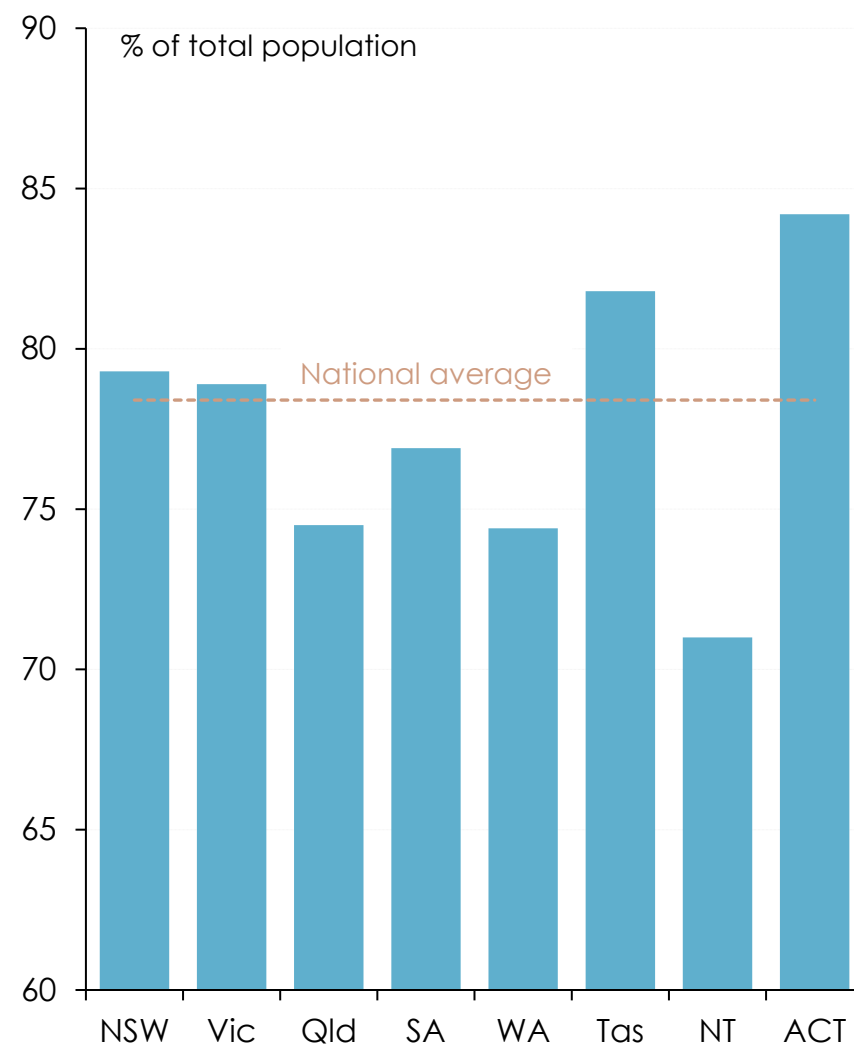
Tasmania and the ACT have had the most comprehensive vaccine rollouts while Queensland, Western Australia and the Northern Territory lag

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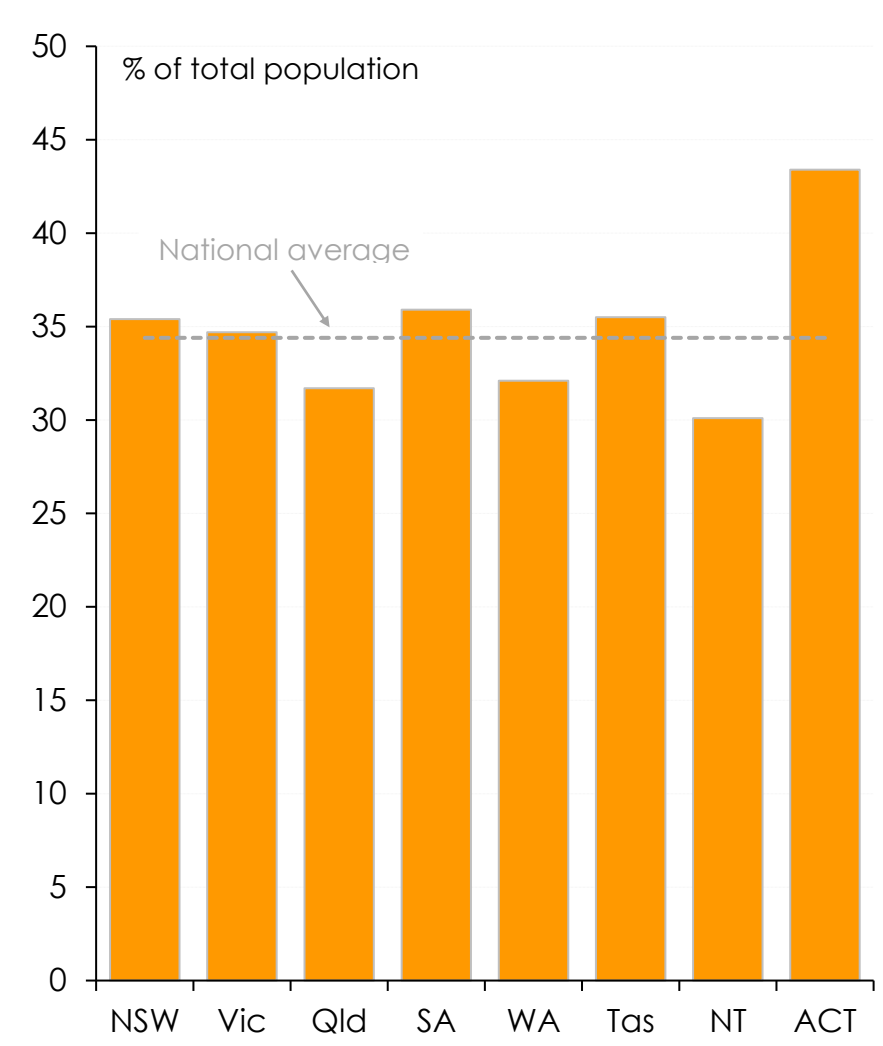
Pc of population who have had at least one vaccination



Pc of population who have had two vaccinations



Pc of population who have had a third ('booster') vaccination

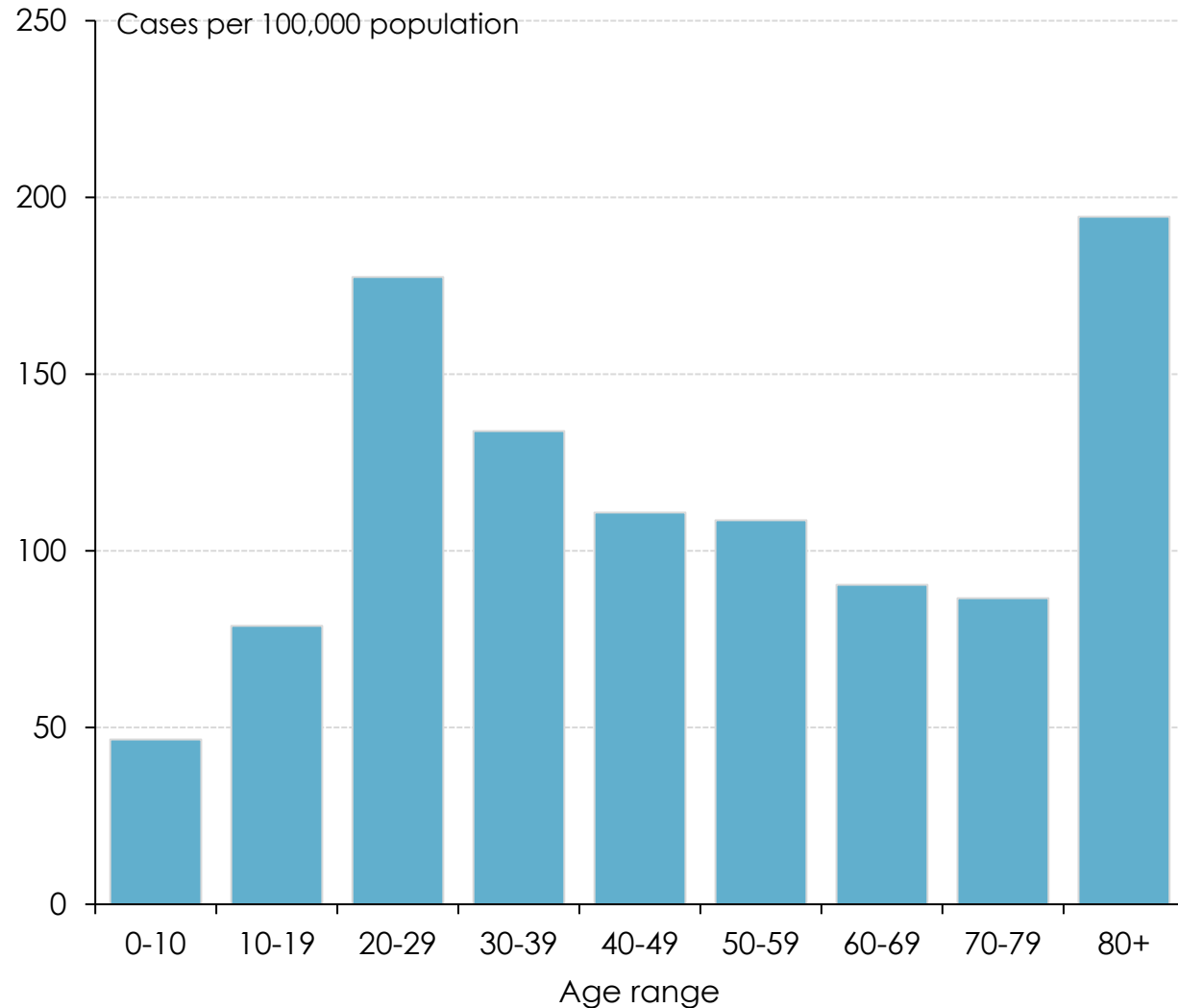


Note: Data are up to 27th January. Source: covid19data.com.au. [Return to "What's New"](#).

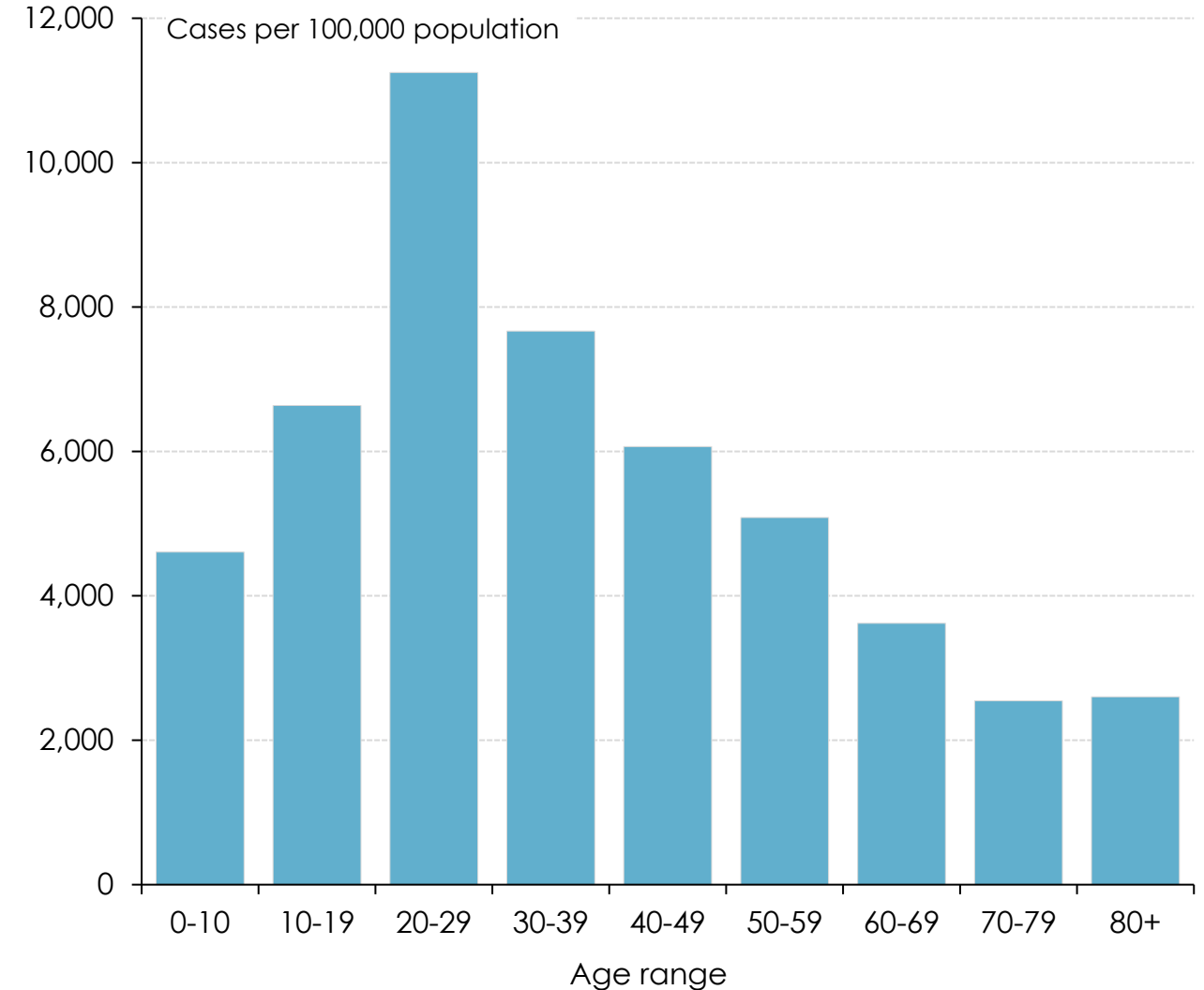
People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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Cumulative confirmed cases per 100,000 population, by age group – 2020



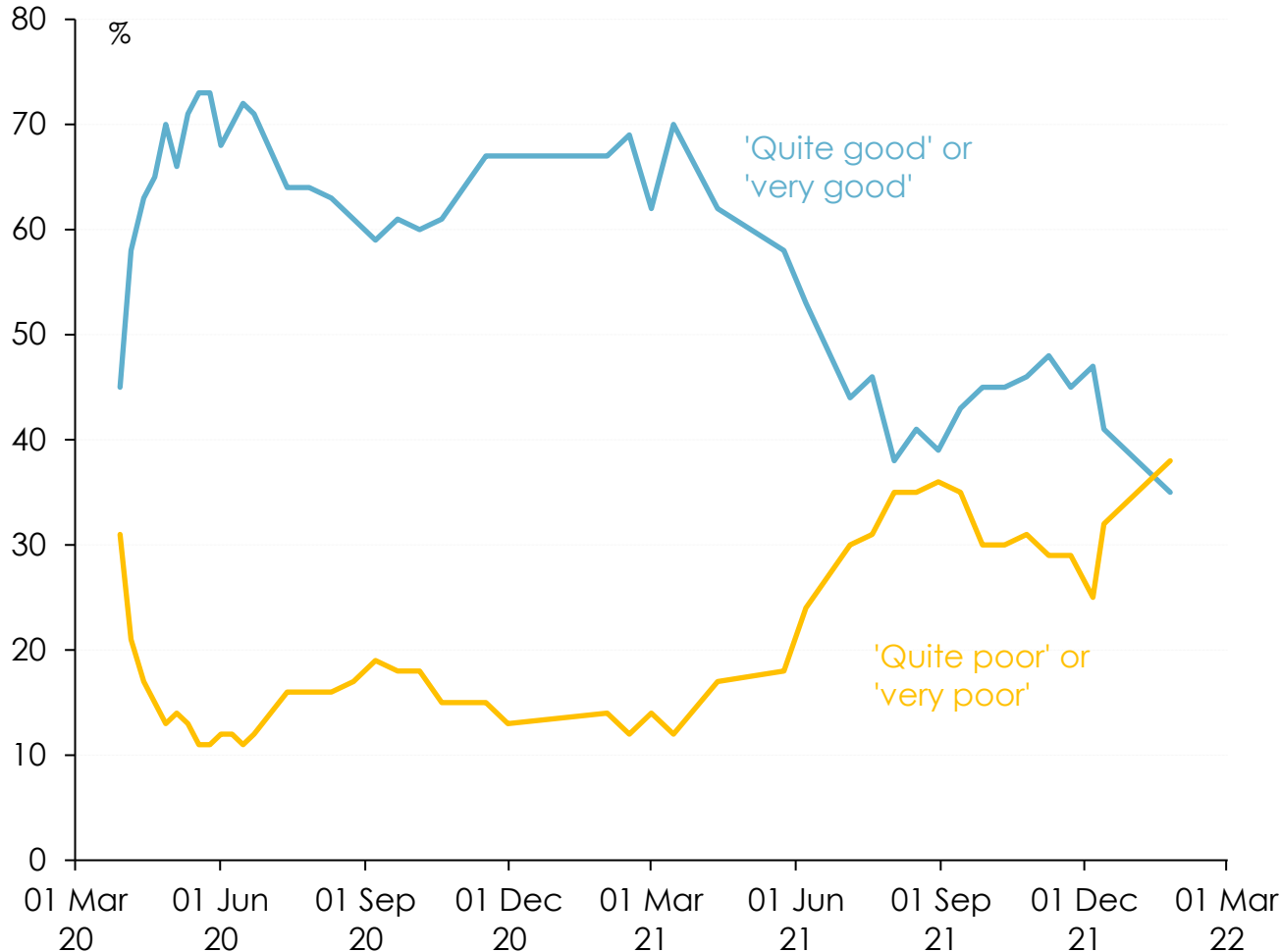
Cumulative confirmed cases per 100,000 population, by age group – since 1st January 2021



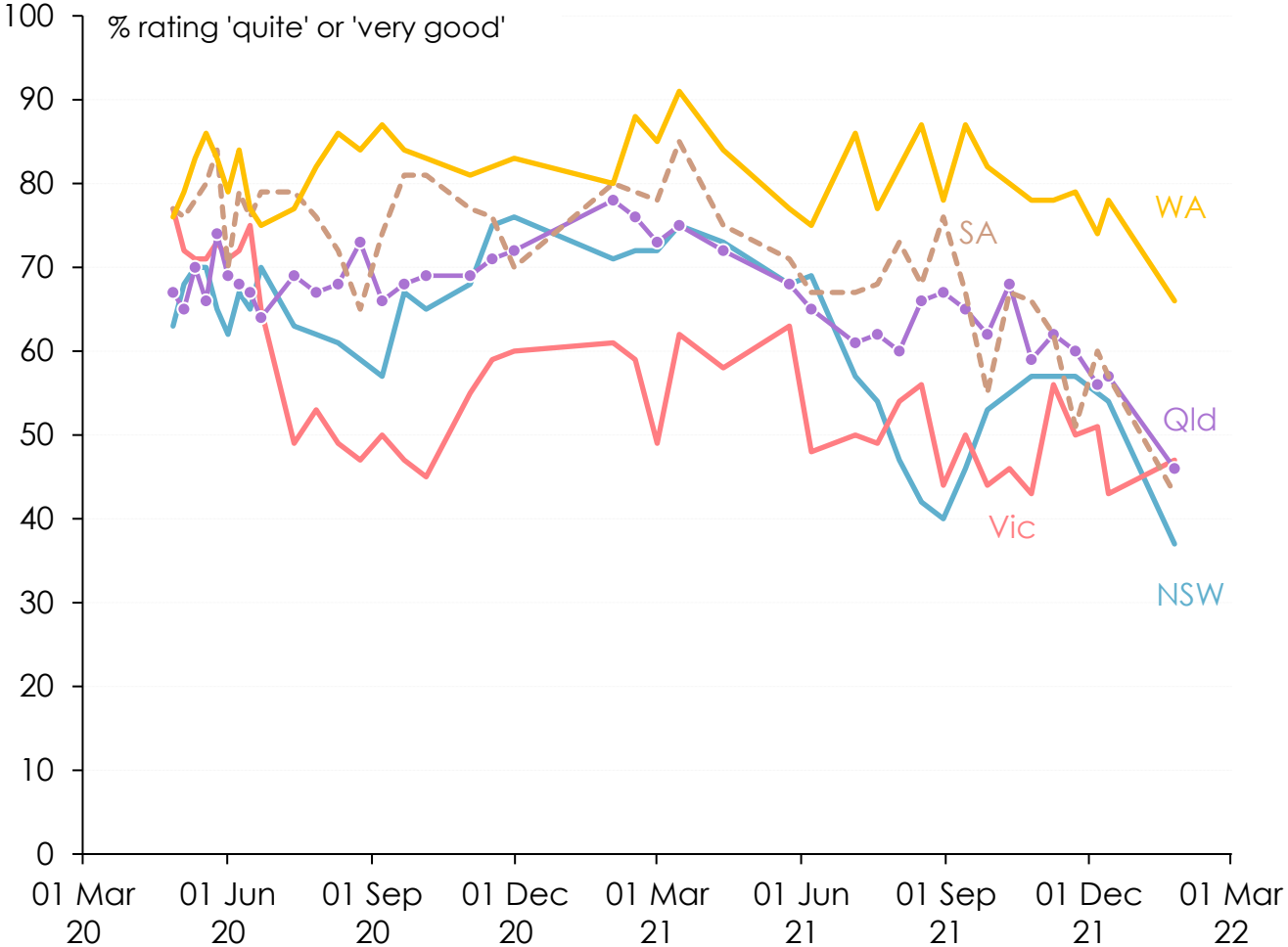
Opinion polls suggest that support for governments' handling of Covid-19 is declining

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Approval of Federal Government response to Covid-19



Approval of State Government responses to Covid-19



Note: Despite claiming to “track the mood of the nation”, Essential does not conduct polls in every state, nor in either of the two territories.
Sources: Essential Research, [The Essential Report](#), 25th January 2022.

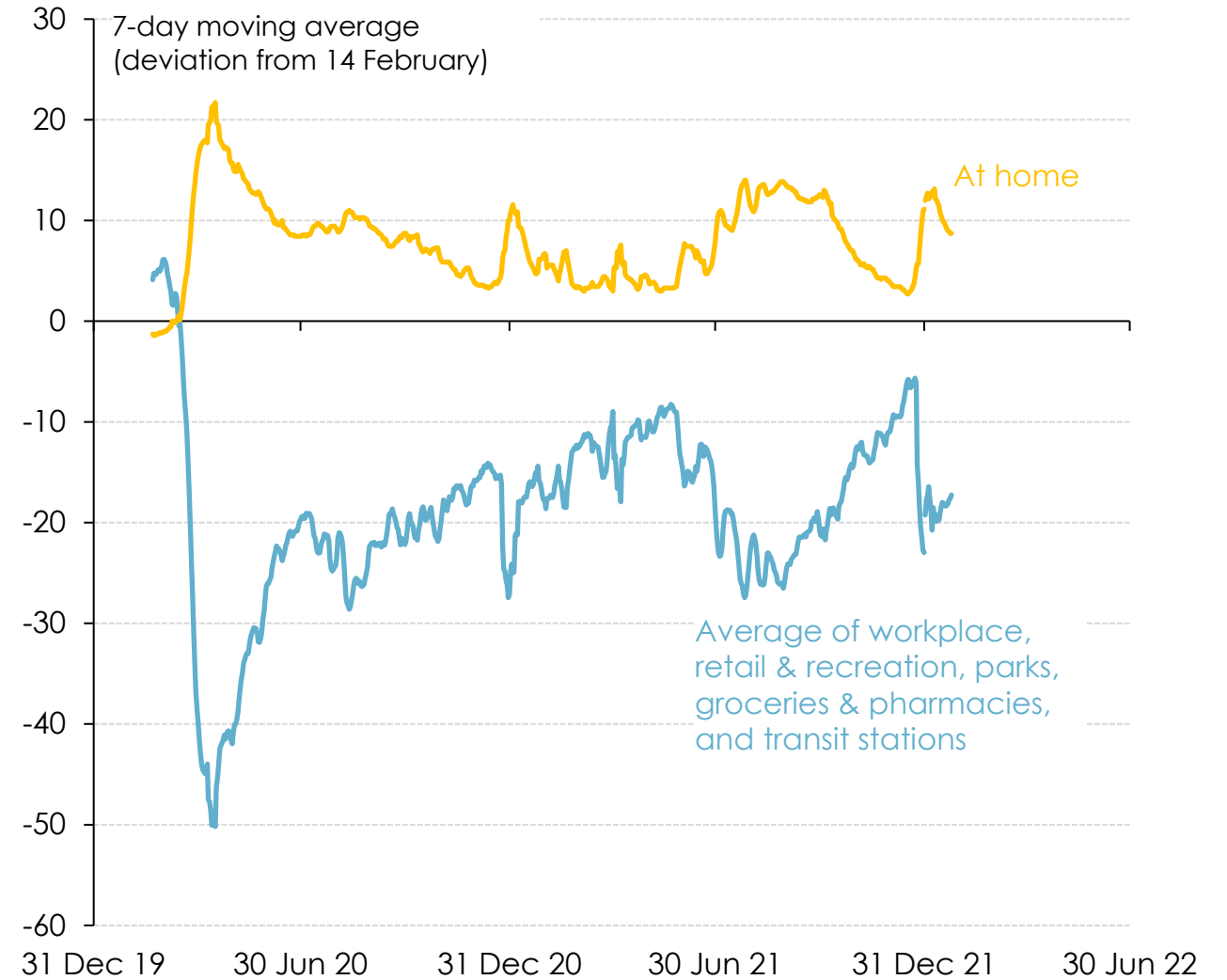
Mobility has picked up since the end of the first week of January, after a steeper fall over Christmas-New Year than occurred this time last year

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Apple mobility indicators



Google mobility indicators



Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 26th January). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 24th January).

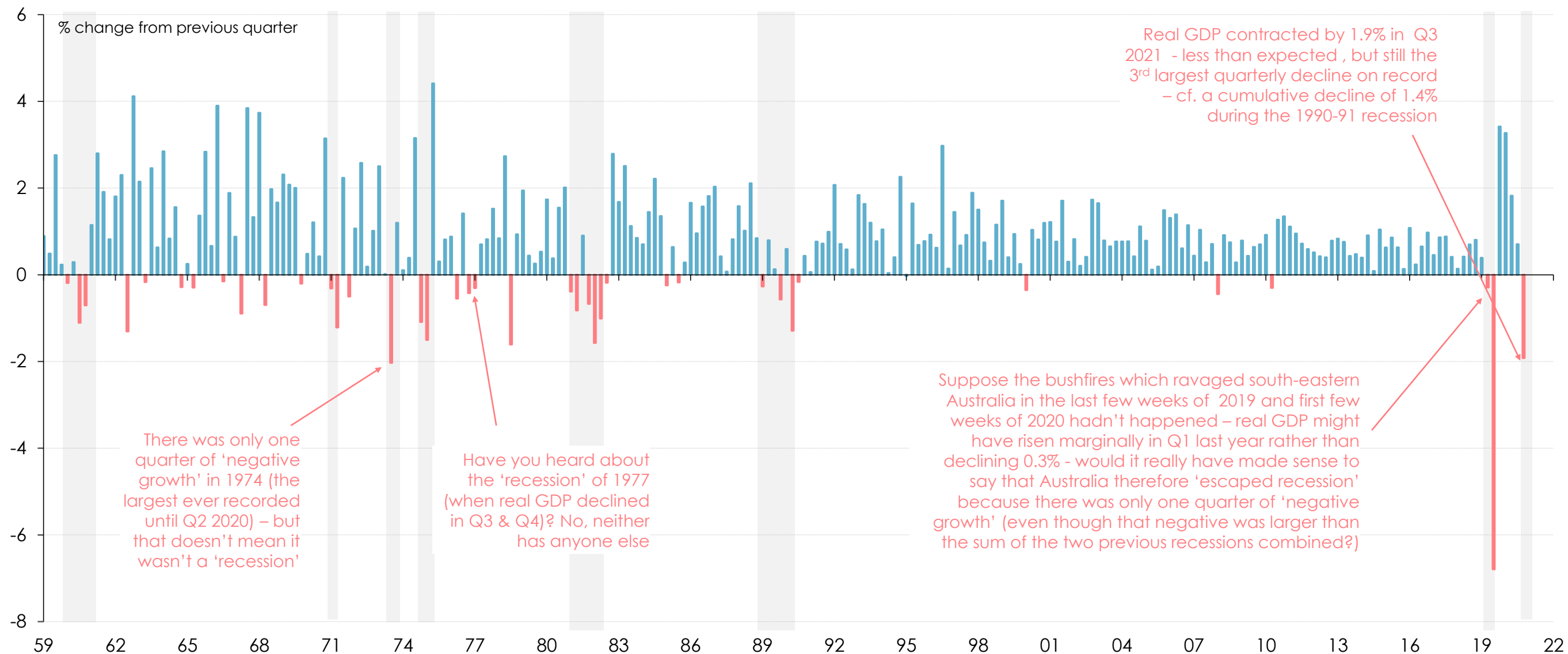
Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

Broad trends in the Australian economy

Australia's real GDP contracted by 1.9% in Q3 – less than expected, but still more than it did in the 1990-91 recession – but should rebound in Q4

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Quarterly growth in Australian real GDP, 1959-2021

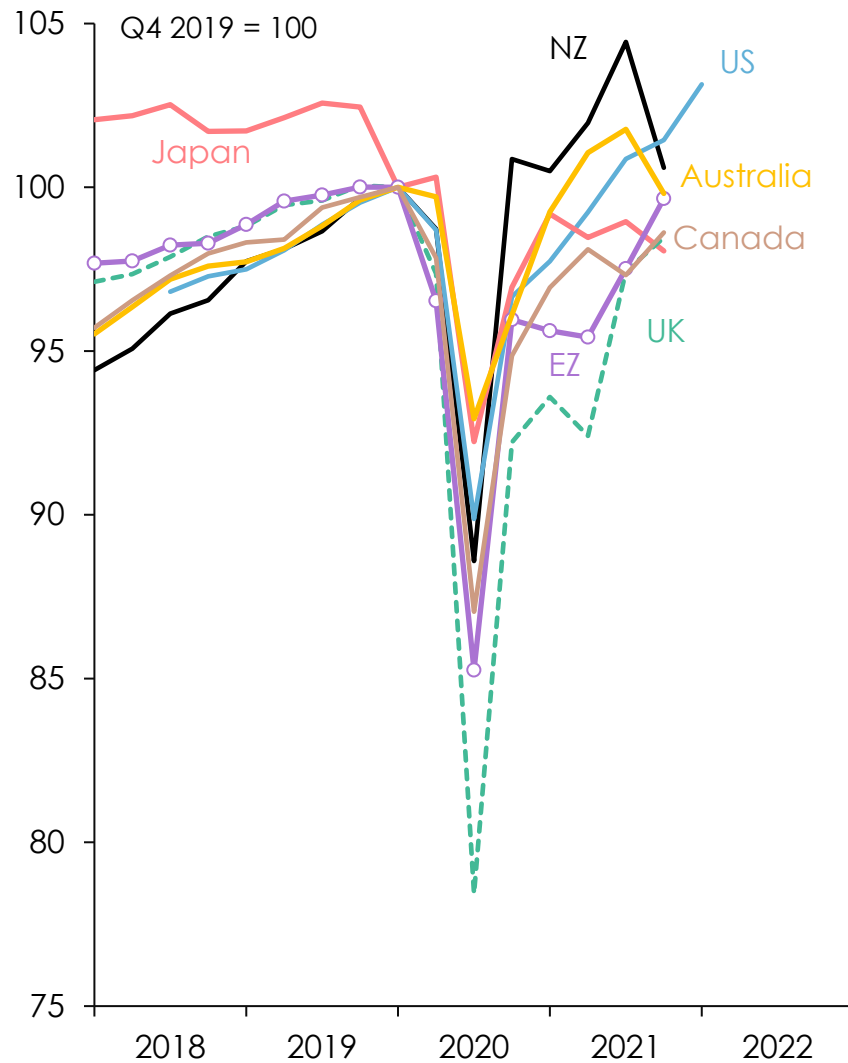


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. December quarter GDP will be released on 2nd March 2022. [Return to "What's New"](#).

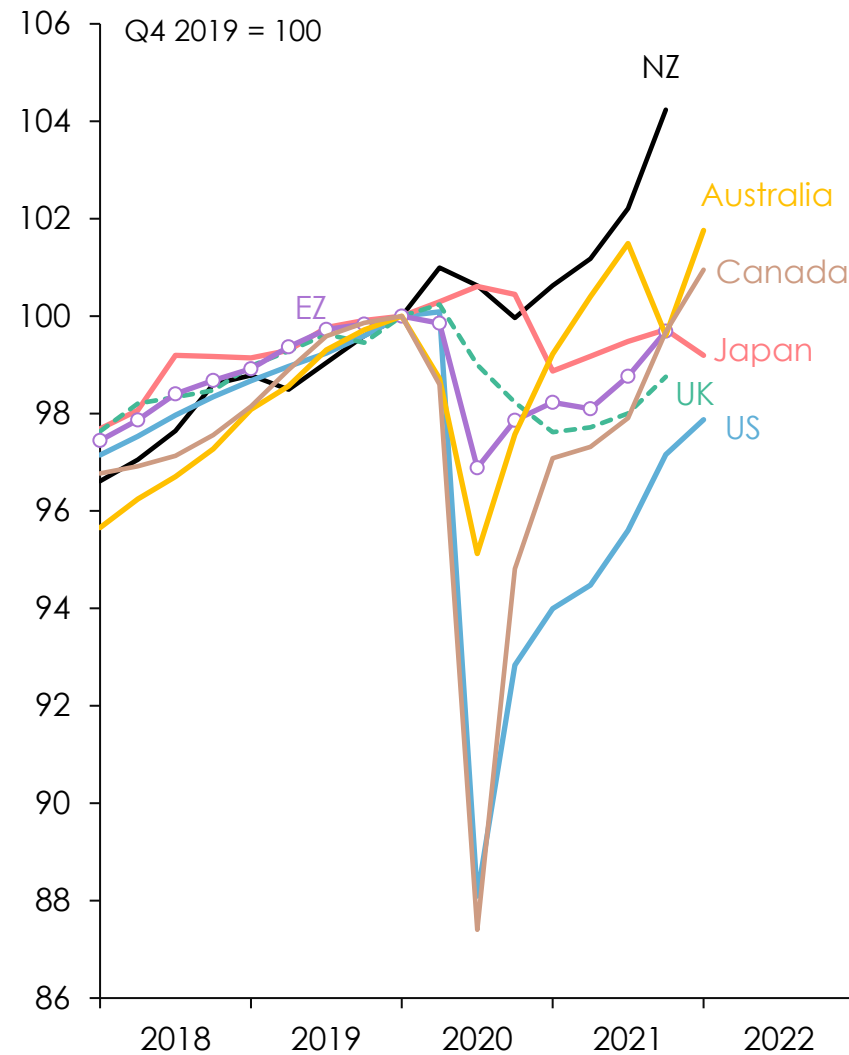
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies

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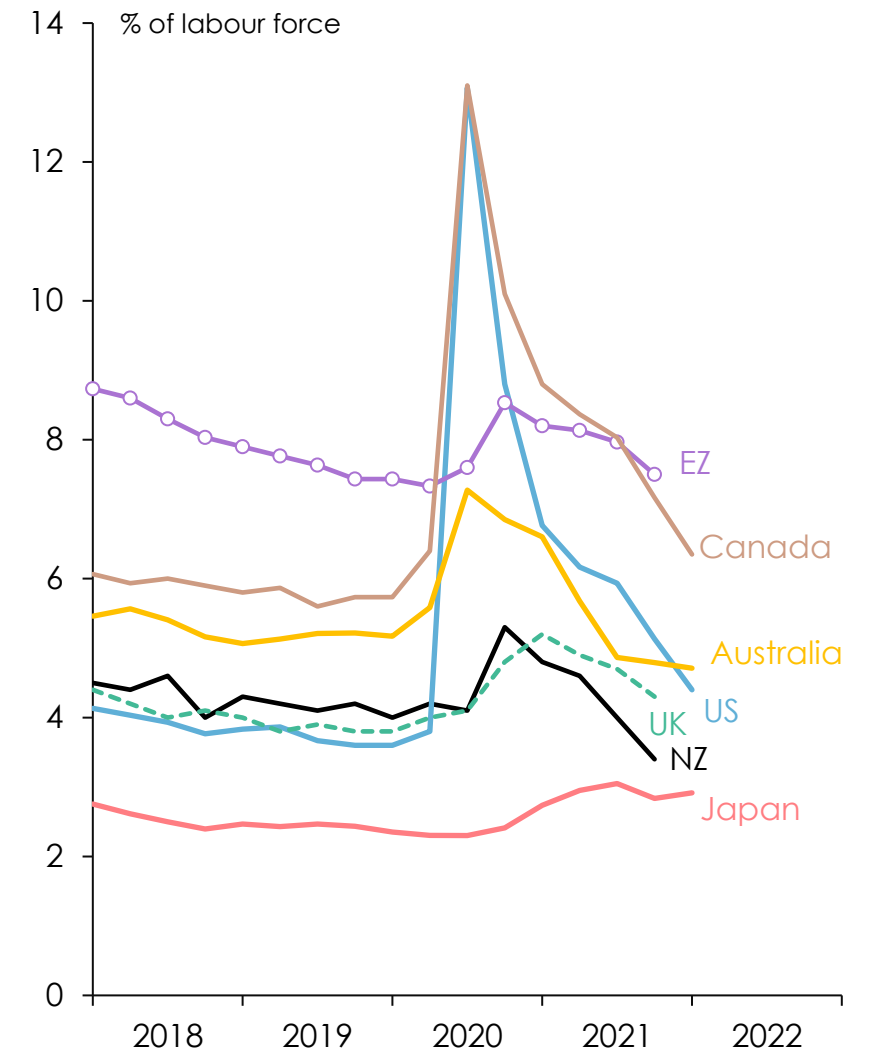
Level of real GDP



Employment



Unemployment

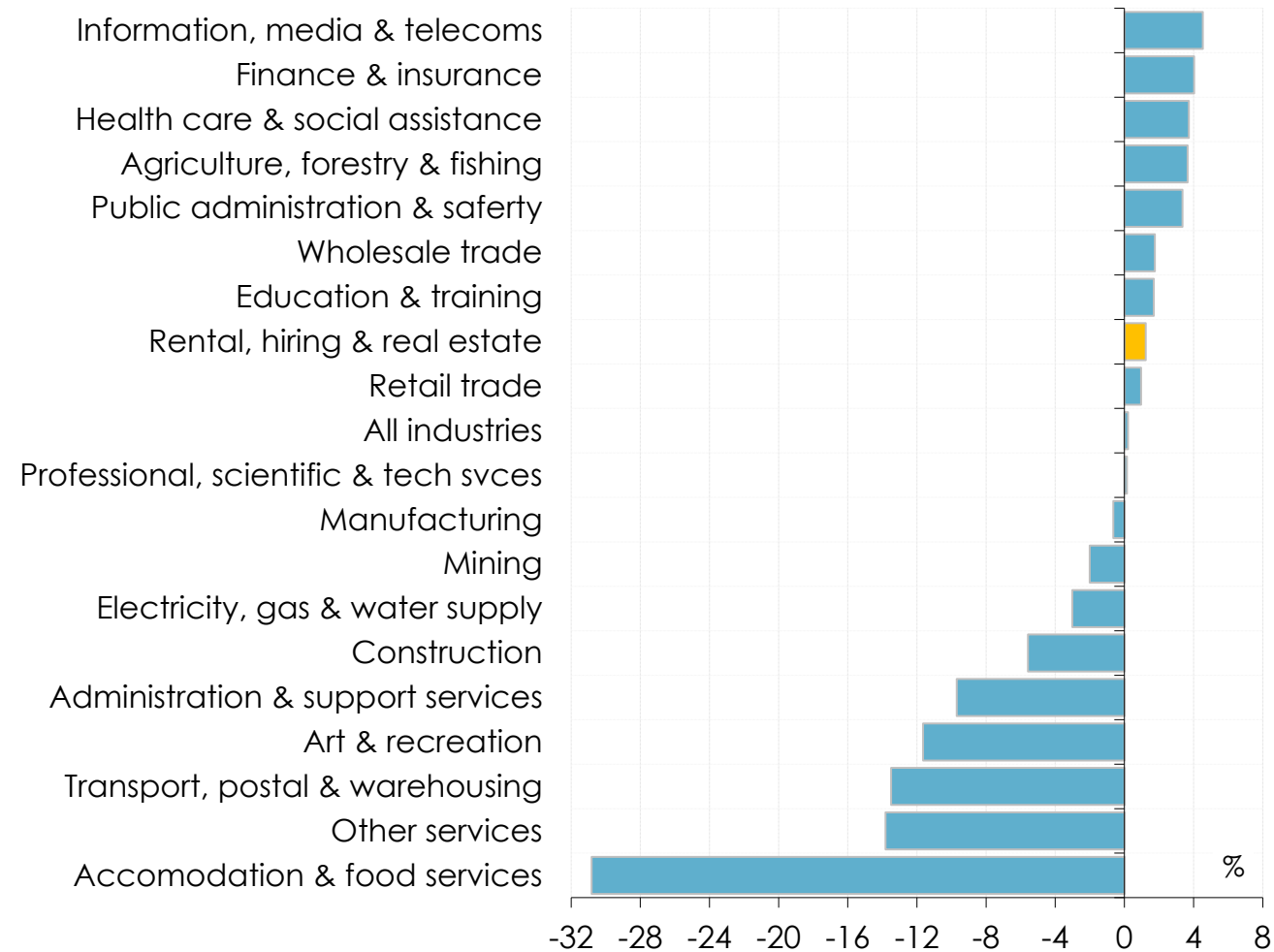


Note: Q4 2021 employment and unemployment data for Japan, the Euro zone and the UK are averages for October and November data. Sources: [ABS](#); [Statistics NZ](#); [US Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); [Japan Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); and [Statistics Canada](#); Corinna.

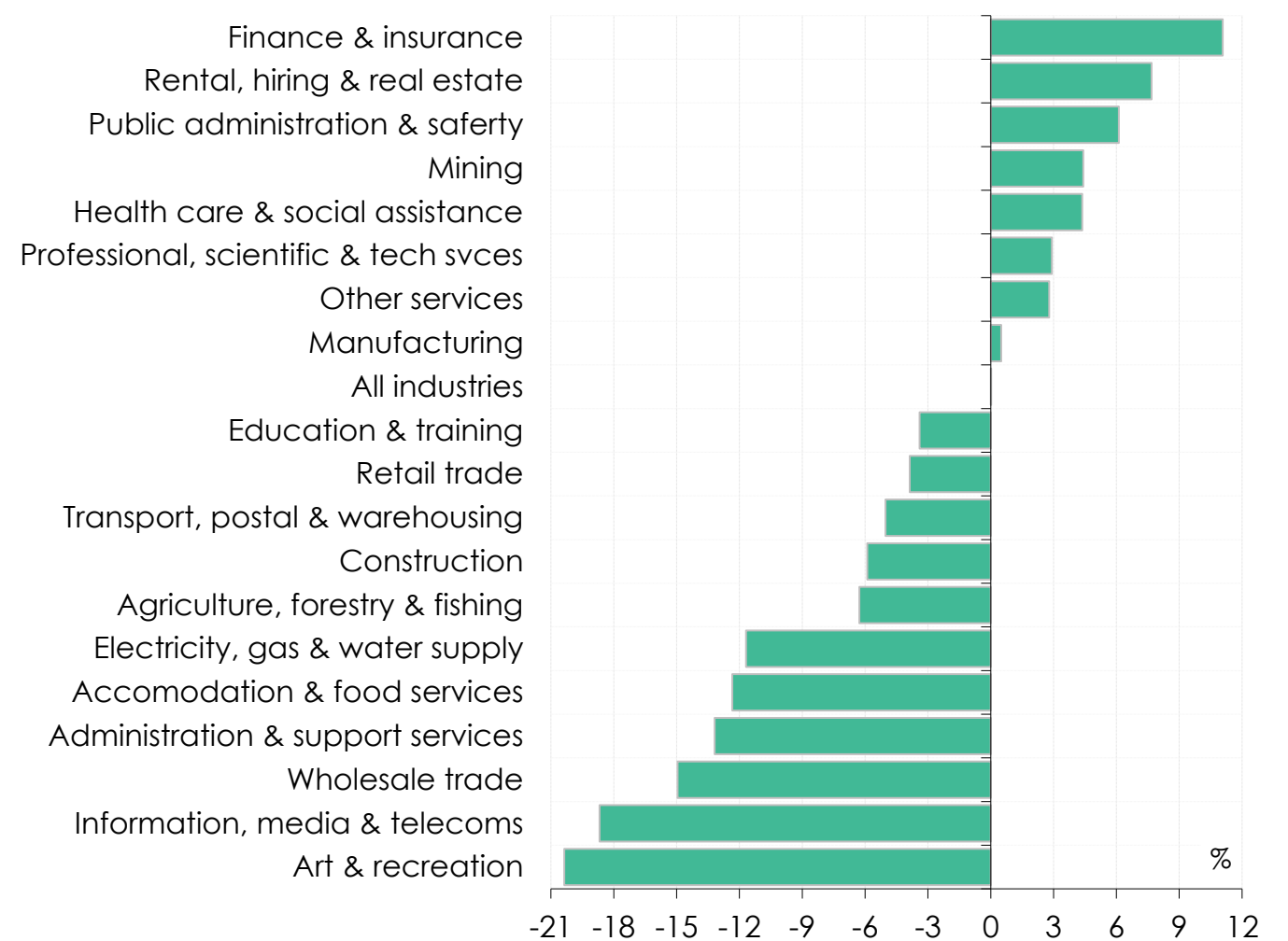
Some sectors of the economy have been much more severely affected by public health restrictions and border closures than others

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Q3 2021 real gross value added by industry – change from pre-pandemic peak



Q3 2021 employment by industry – change from pre-pandemic peak

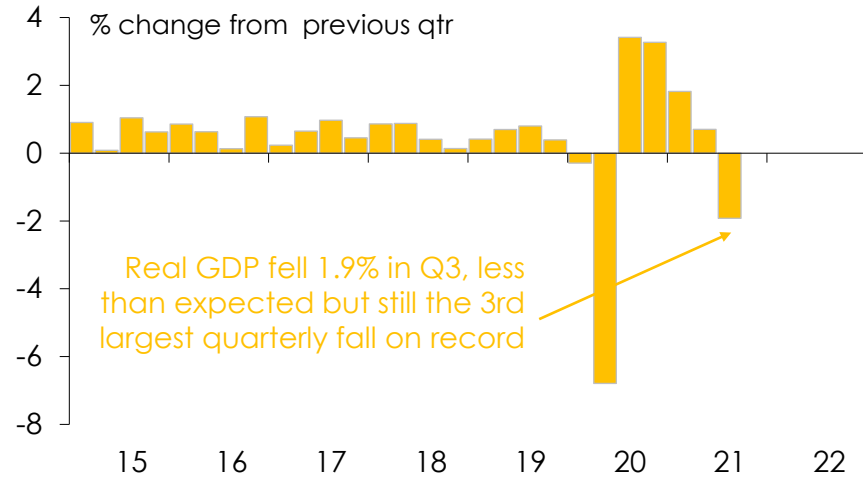


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021; and [Labour Force, Australia, Detailed](#), August 2021.

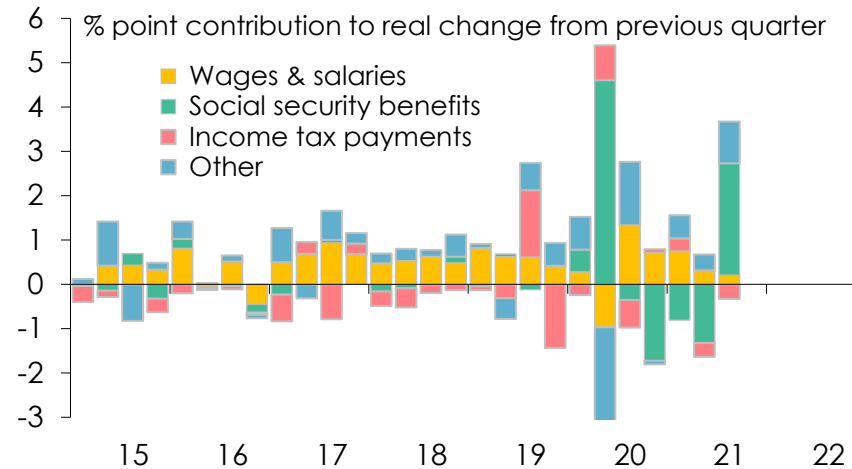
Household spending fell 4.8% in Q3 due to lockdowns, but a 3.3% rise in public spending limited the fall in real GDP to 1.9%

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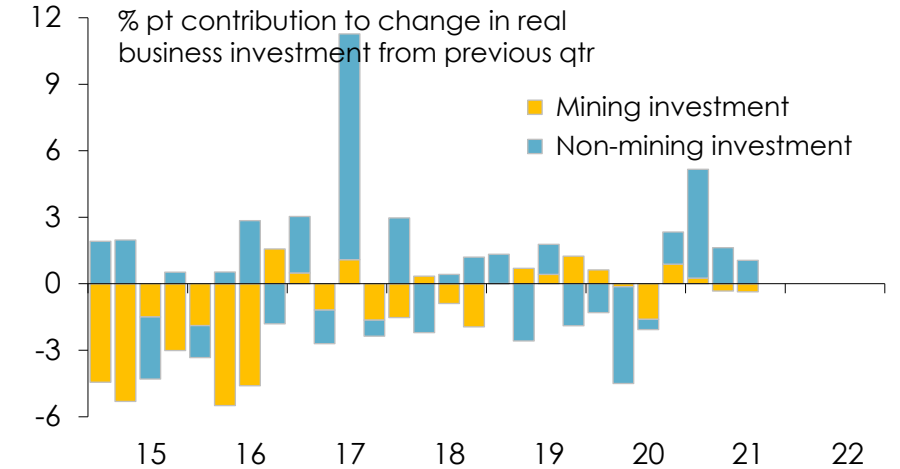
Quarterly change in real GDP



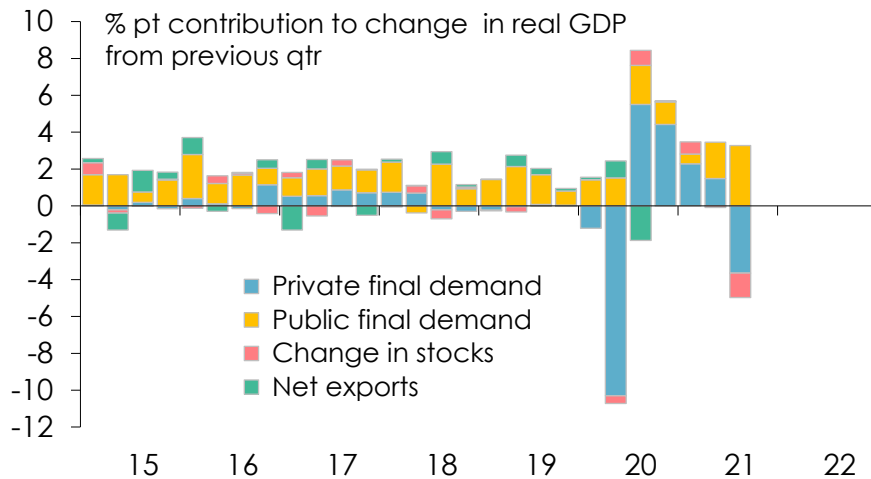
Household disposable income



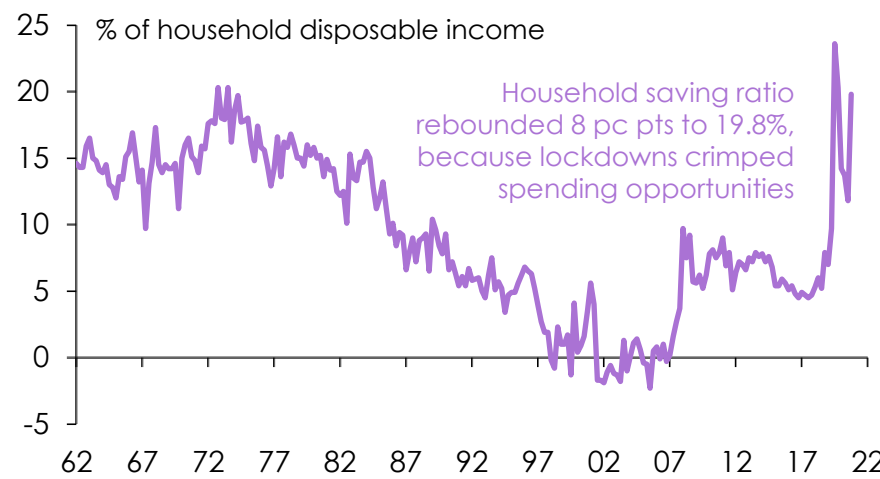
Business investment expenditure



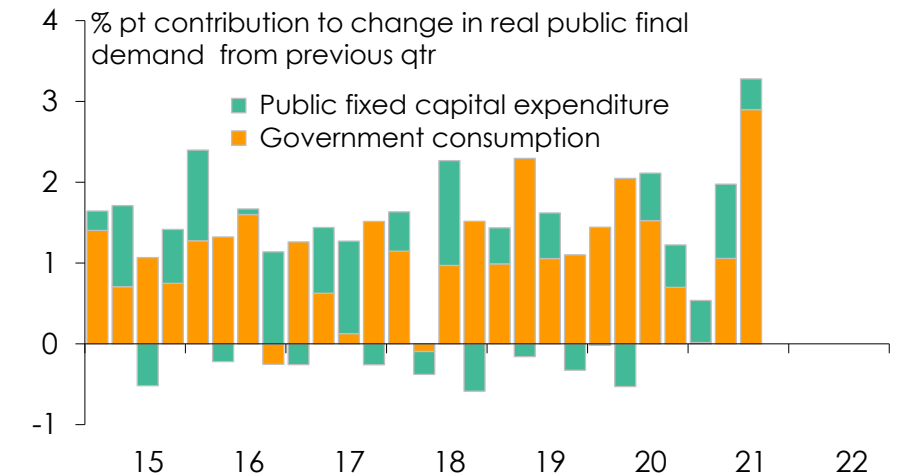
Contributions to quarterly GDP growth



Household saving rate



Public expenditure



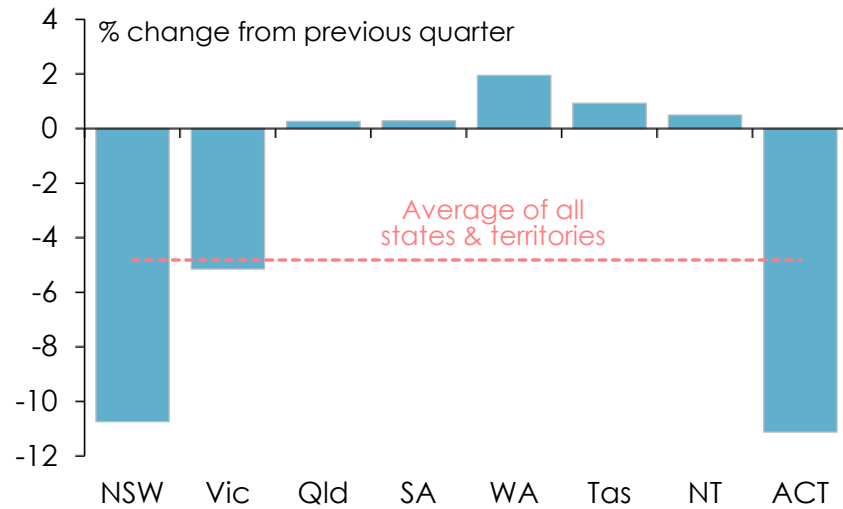
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. December quarter national accounts will be released on 2nd March 2022. [Return to "What's New"](#).

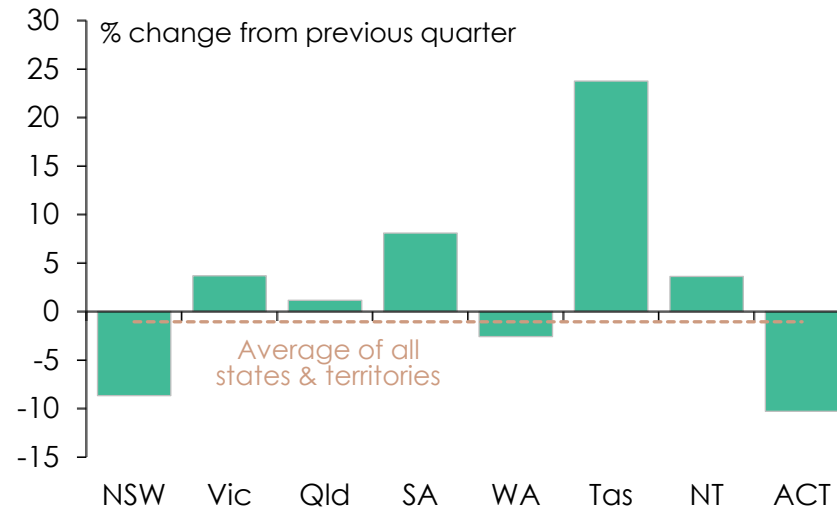
The contraction in Q3 was due to sharp downturns in private sector spending in NSW, the ACT and Victoria during their lockdowns

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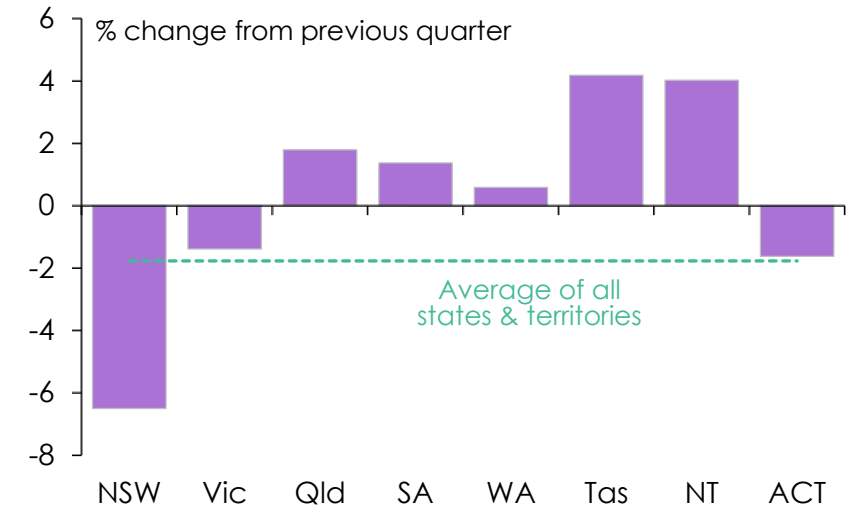
Household consumption



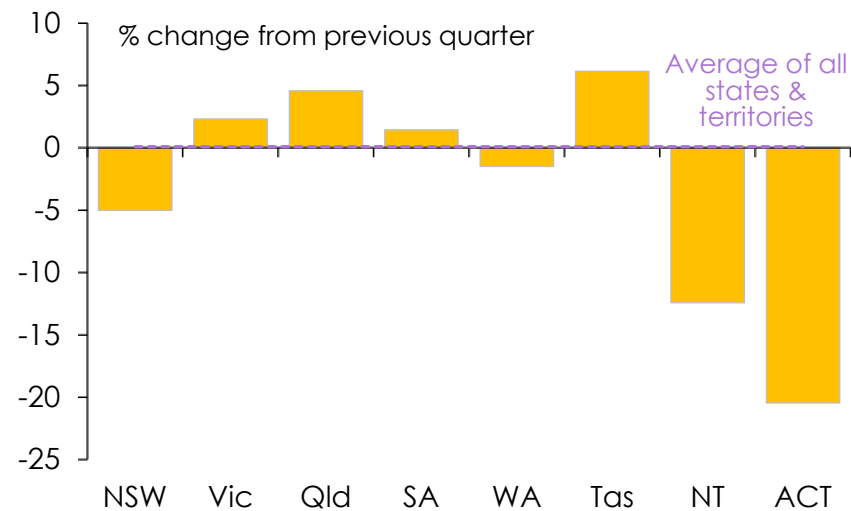
Business investment



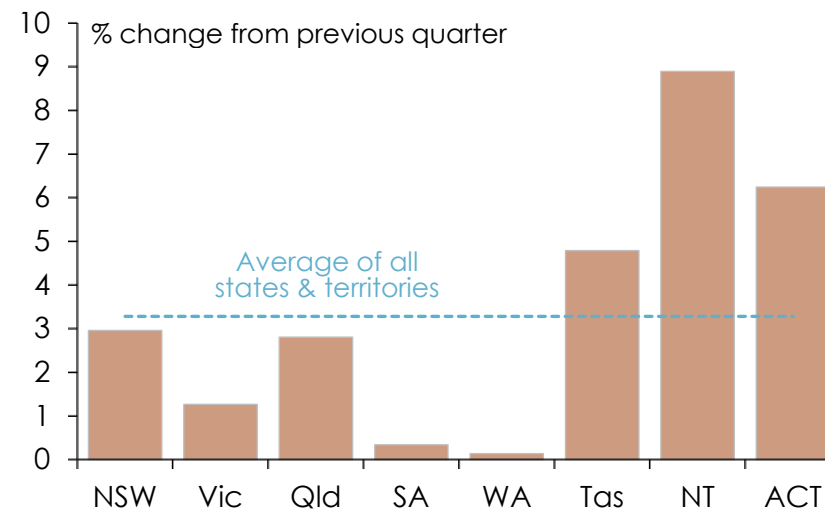
State final demand



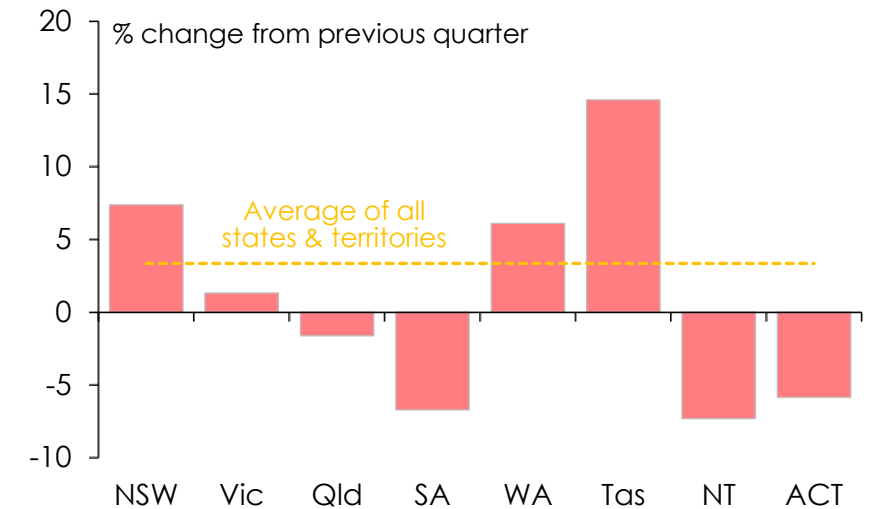
Dwelling investment



Public spending



International exports

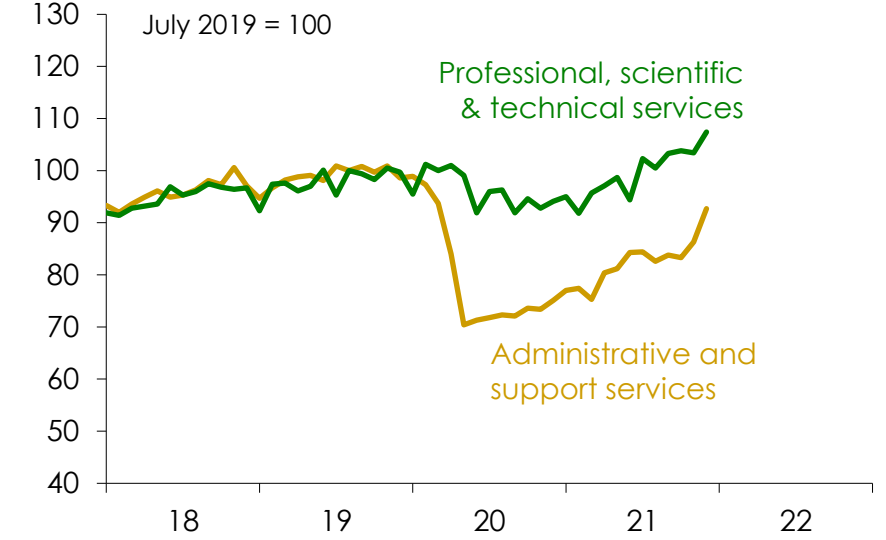
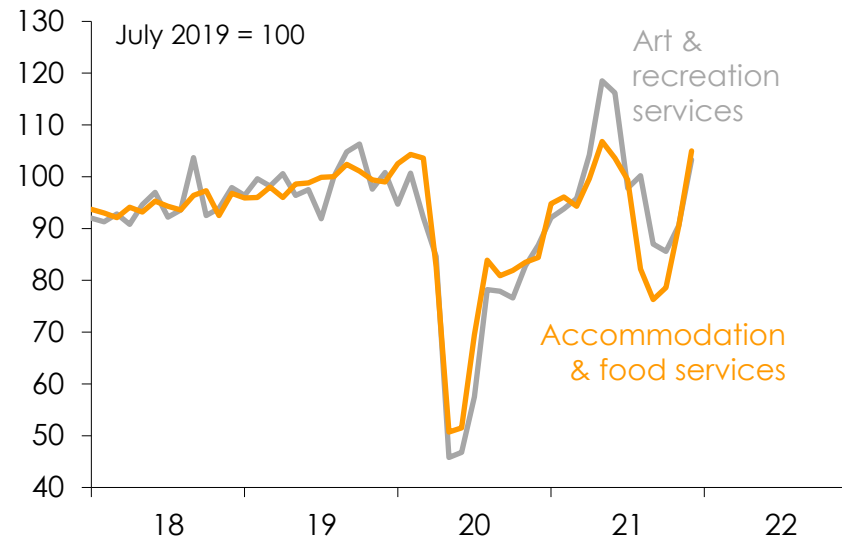
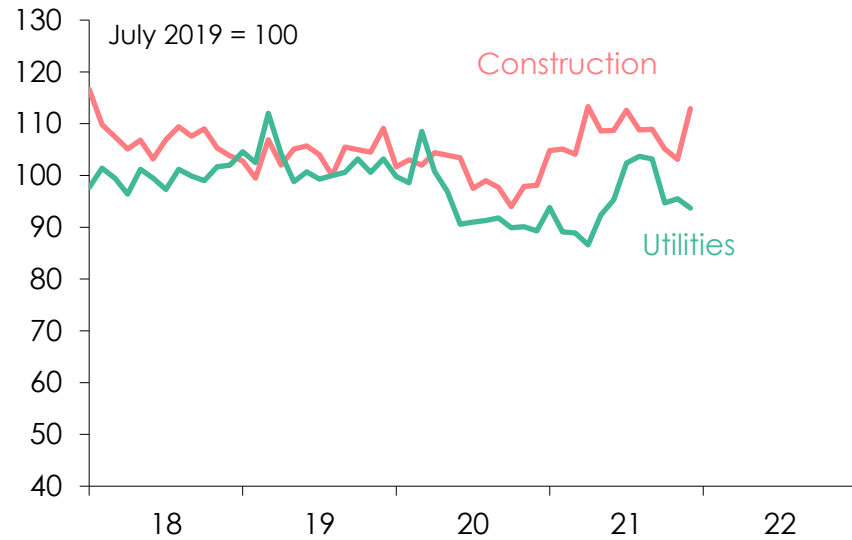
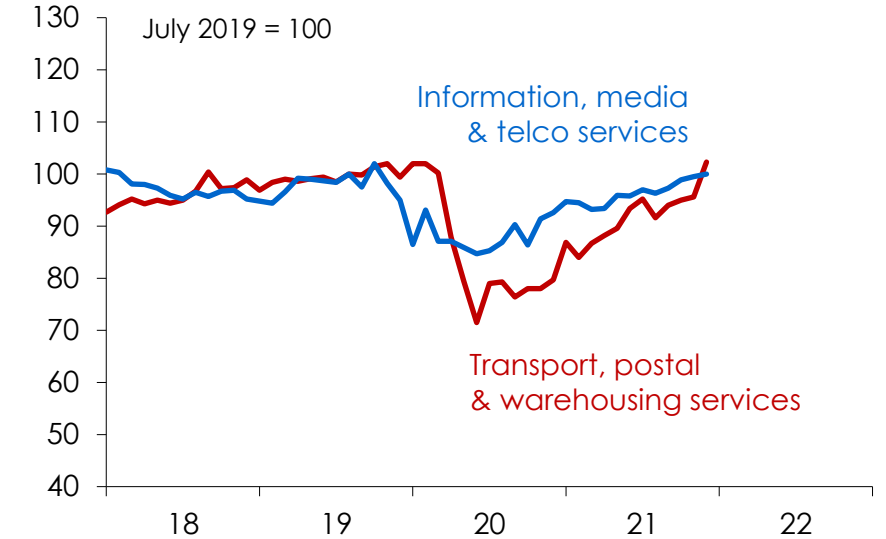
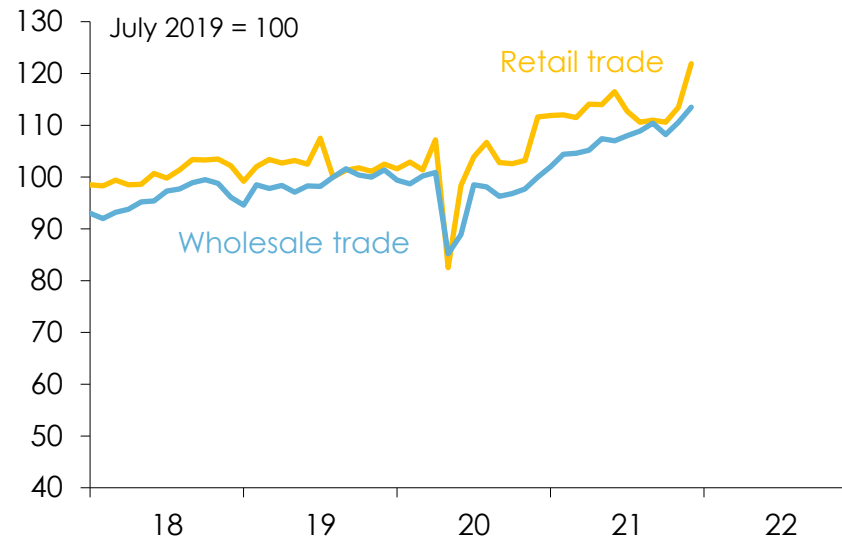
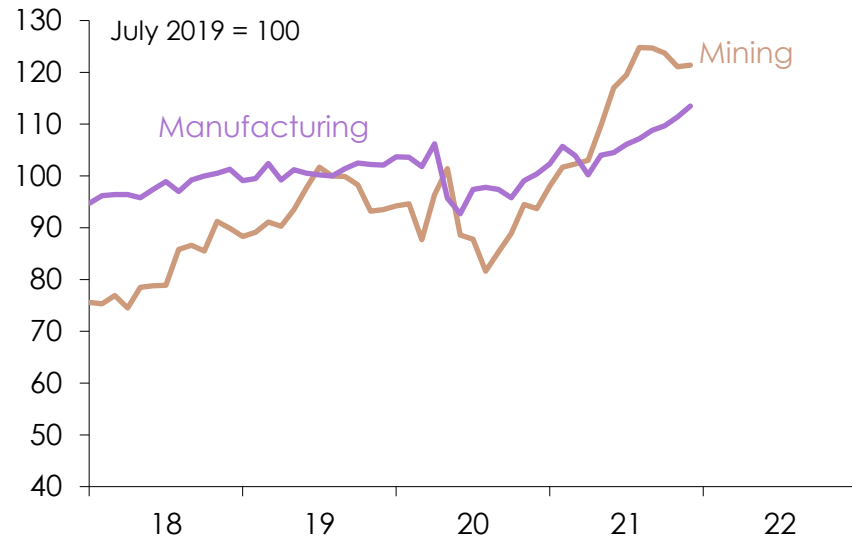


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021; [Balance of Payments and International Investment Position, Australia](#), September quarter 2021.

12 out of 13 sectors experienced a rise in turnover in November – with the largest gains in the sectors which had been most affected by lockdowns

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Indicators of business turnover, by industry

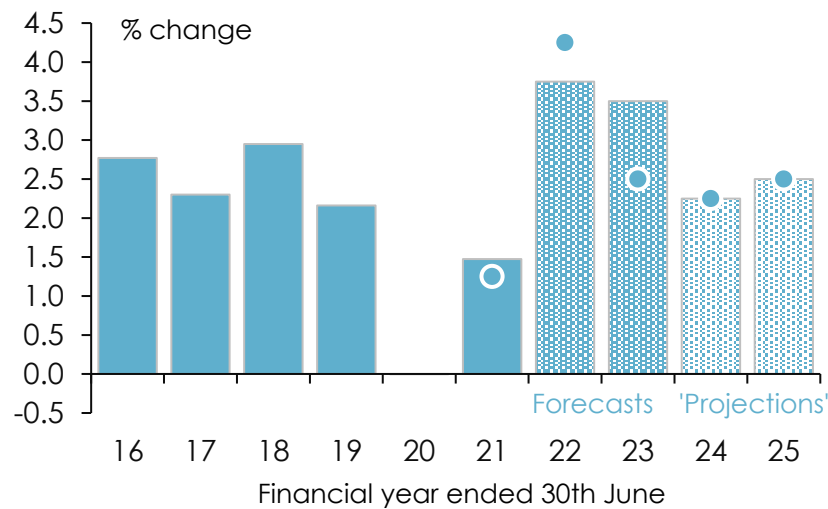


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), November 2021. December data will be released on 10th February. [Return to "What's New"](#).

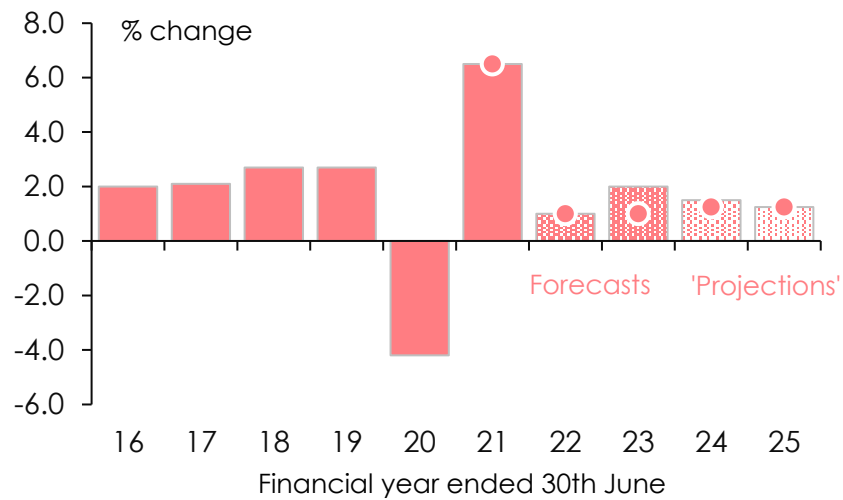
Treasury revised up its forecasts for economic and employment growth in 2022-23, and for wages growth through 2024-25, in December's MYEFO

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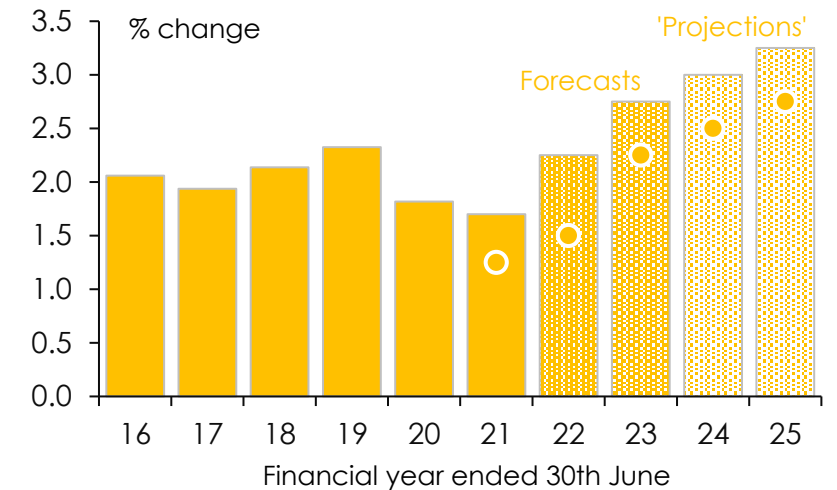
Real GDP



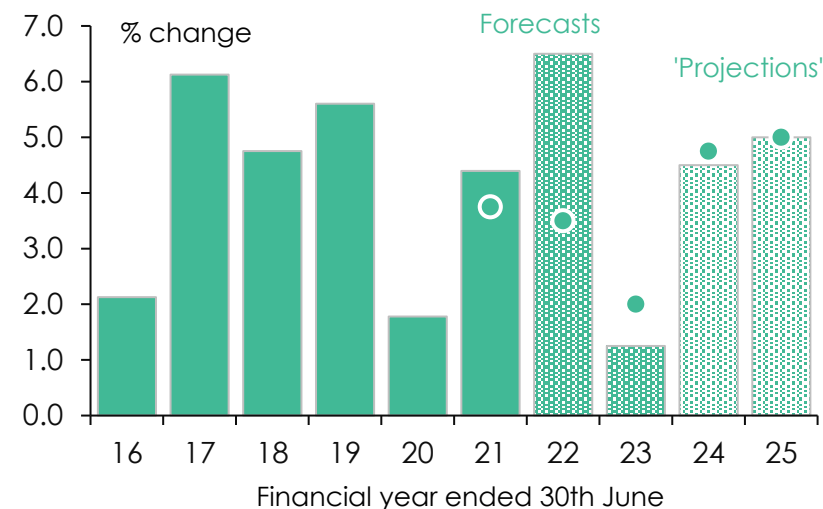
Employment



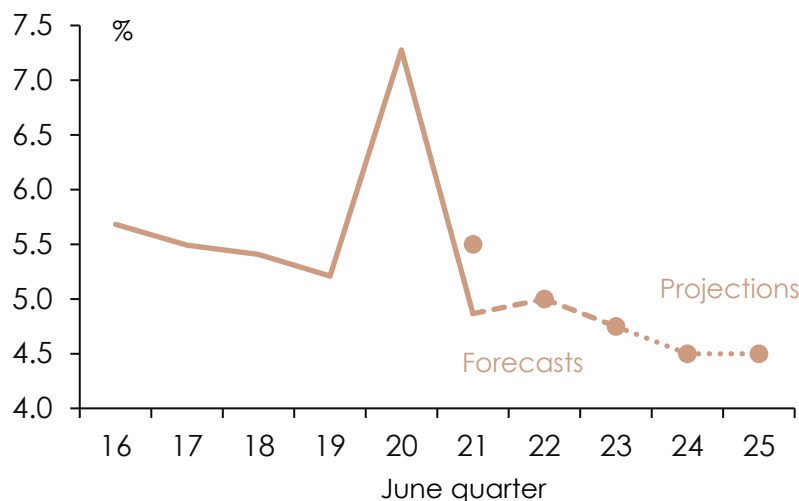
Wages



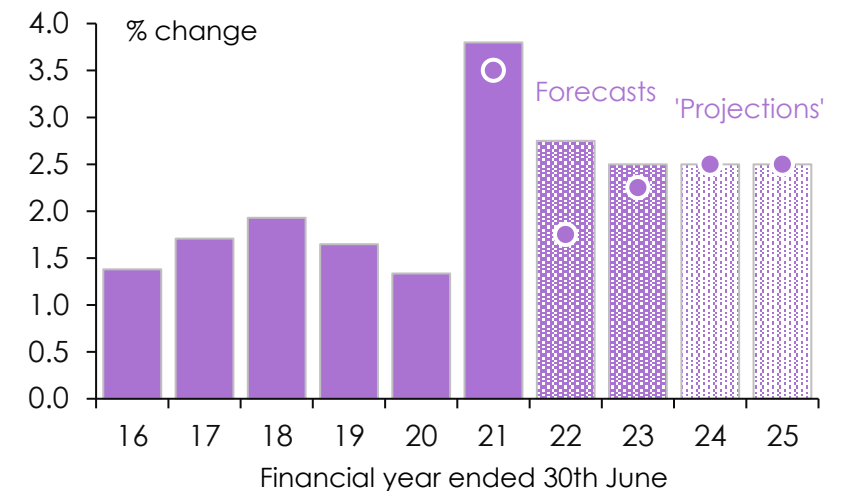
Nominal GDP



Unemployment rate



Consumer prices

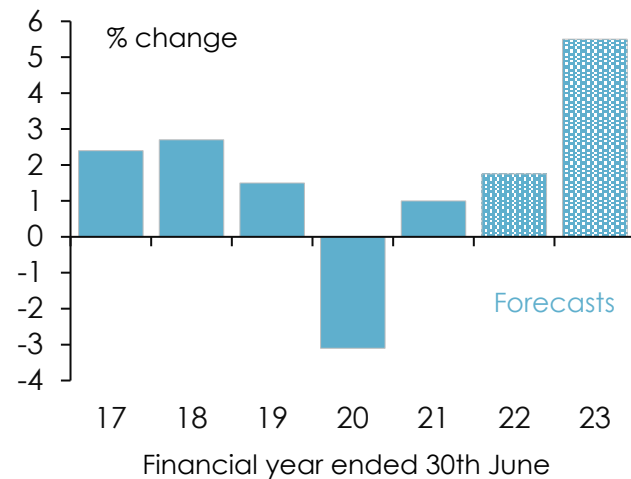


Note: Dots represent forecasts/projections in the 2021-22 Budget presented in May. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. The omicron variant is assumed to have no significant impact on 're-opening plans' or require a reimposition of widespread restrictions. Net overseas migration assumed to be -41K in 2021-22, +180K in 2022-23, +213K in 2023-24 and +235K in 2024-25; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by Q2 2022; Tapis oil prices remaining at around US\$83/bbl; and the A\$ remaining at around US75¢. Sources: ABS; Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. [Return to "What's New"](#).

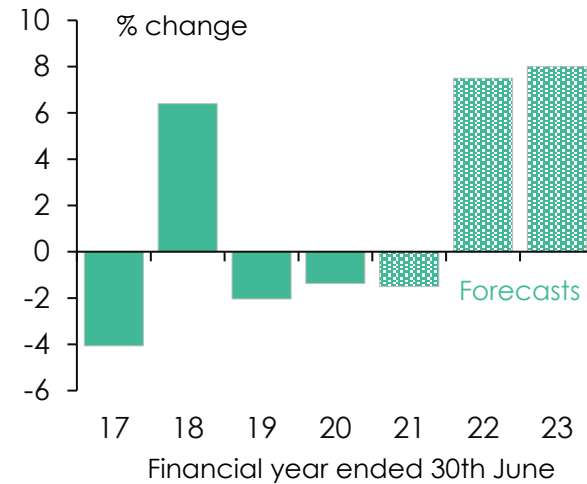
Treasury expects economic growth to be driven by private consumption and business investment offsetting weaker net exports

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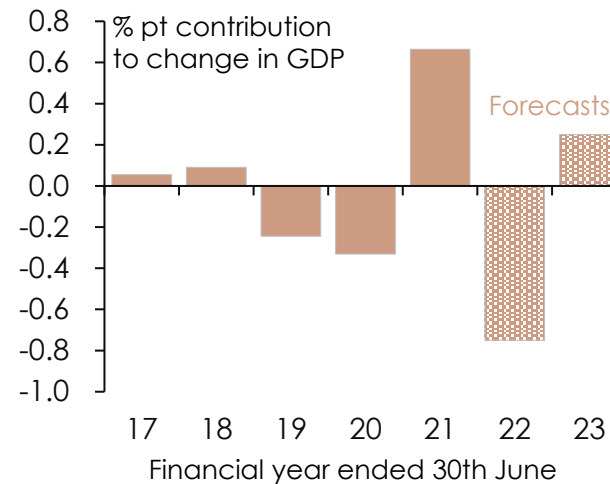
Household consumption



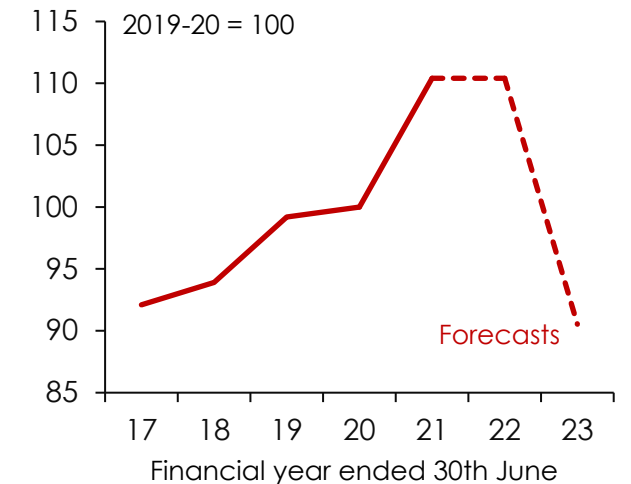
Business investment



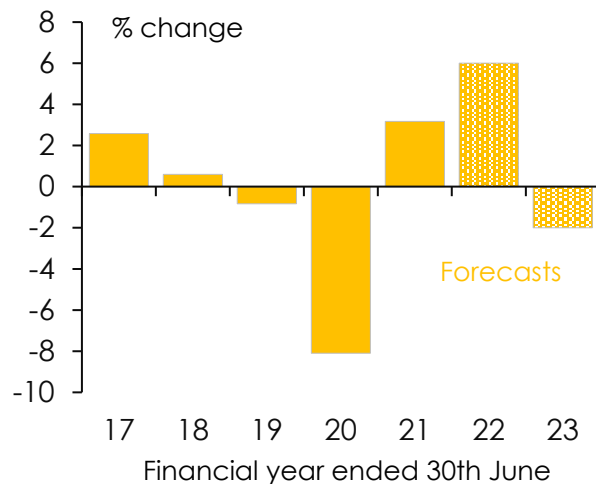
Change in inventories



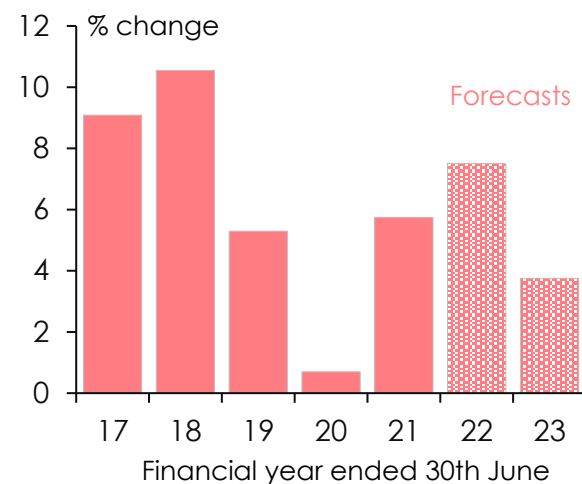
Terms of trade



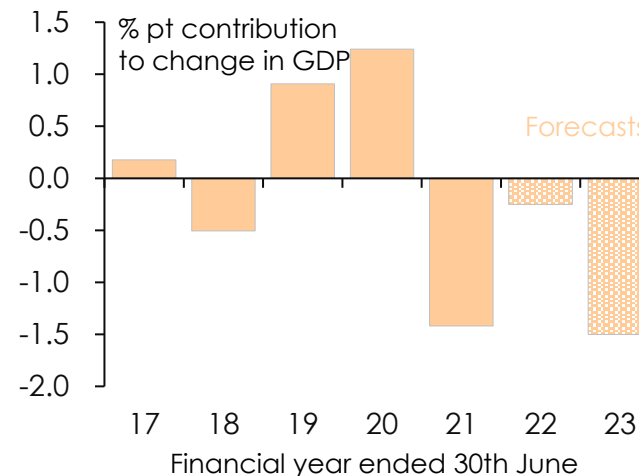
Dwelling investment



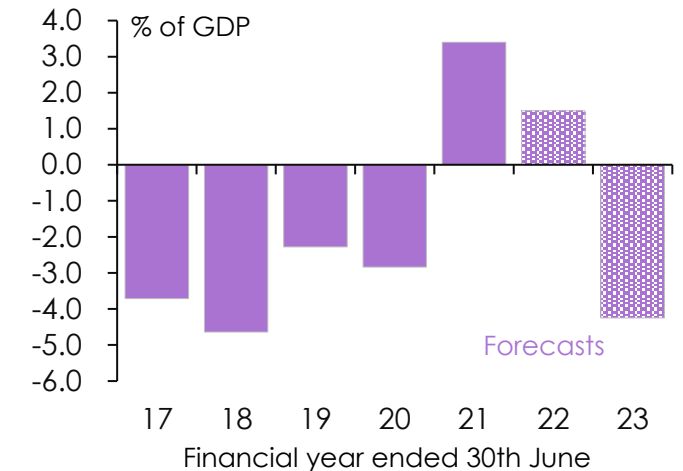
Public spending



Net exports



Current account balance



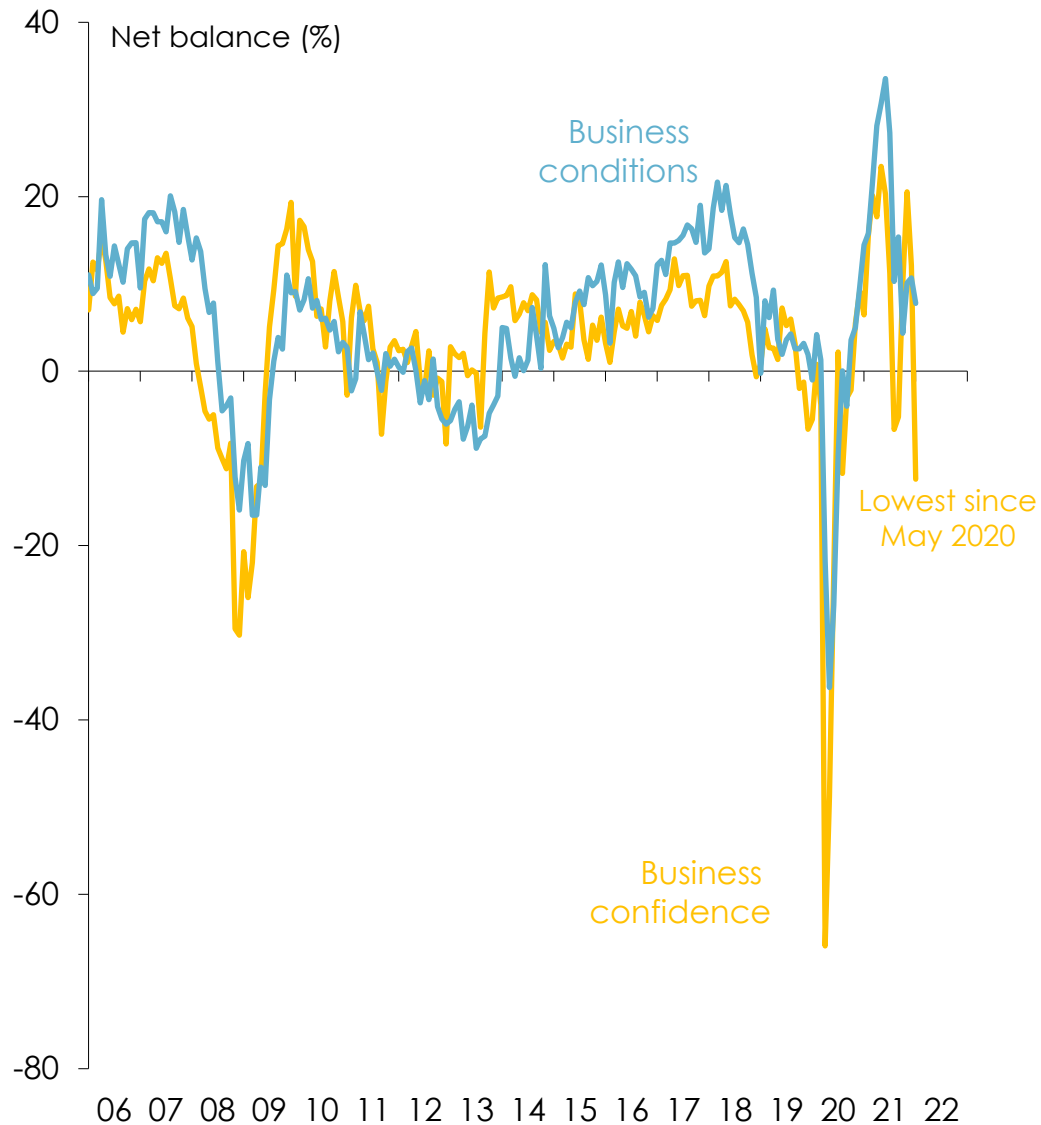
Note: Business investment and public spending exclude transactions in second-hand assets. The omicron variant is assumed to have no significant impact on 're-opening plans' or require a reimposition of widespread restrictions. Net overseas migration assumed to be -41K in 2021-22, and +180K in 2022-23; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by Q2 2022; Tapis oil prices remaining at around US\$83/bbl; and the A\$ remaining at around US75¢. Sources: ABS; Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. [Return to "What's New"](#).

The business sector

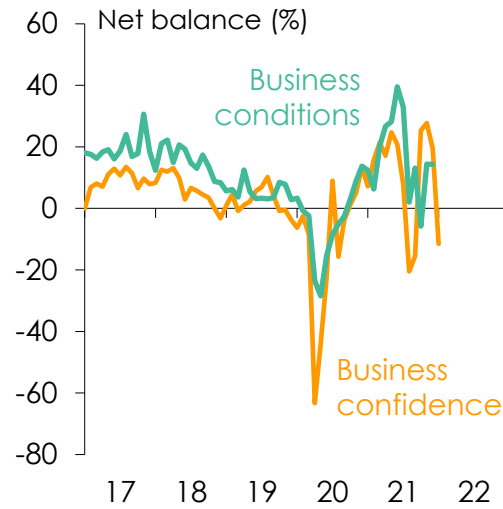
Business confidence 'tanked' in December, reflecting concerns about the initial spread of the omicron variant, particularly in the eastern states

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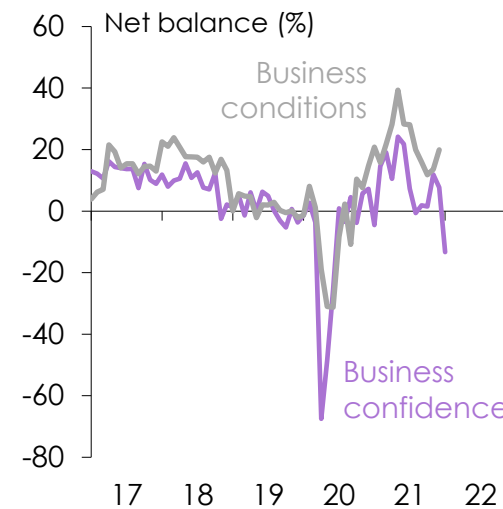
National business confidence & conditions



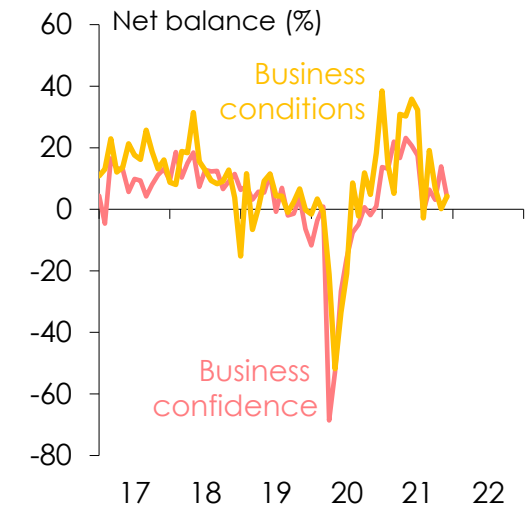
New South Wales



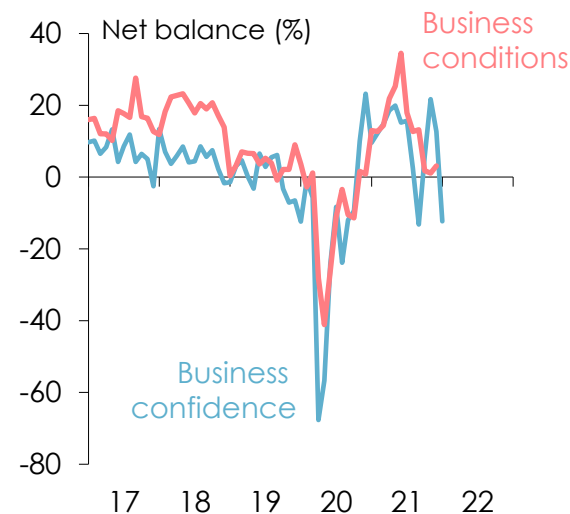
Queensland



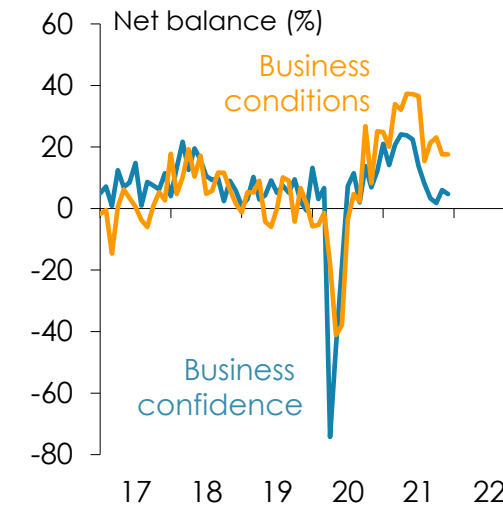
South Australia



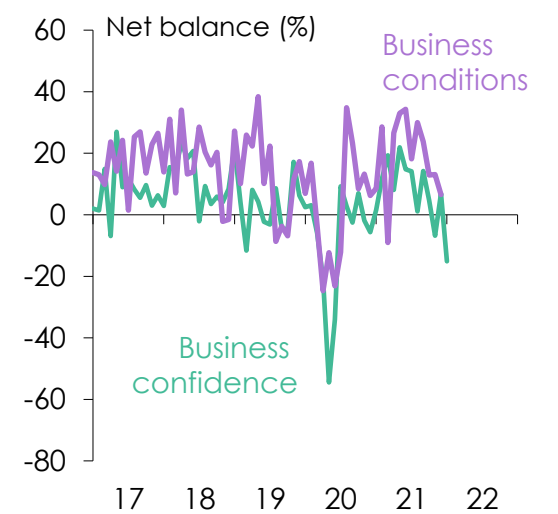
Victoria



Western Australia



Tasmania

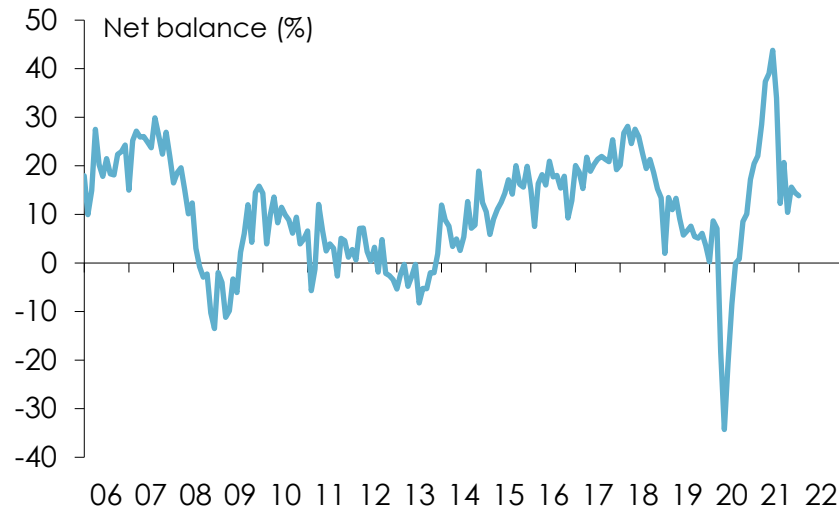


Sources: National Australia Bank [Monthly Business Survey](#), December 2021; January survey results will be released on 15th February. [Return to "What's New"](#).

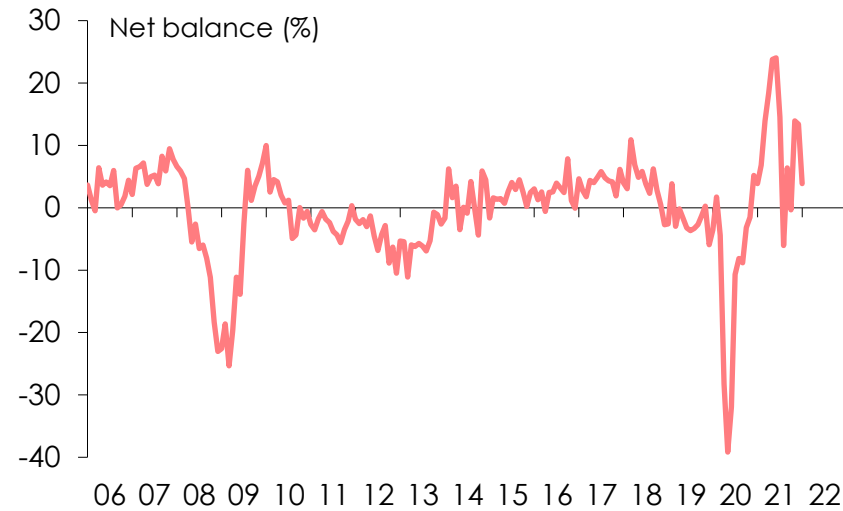
Business conditions softened a little in December, reflecting the early stages of the spread of the omicron variant, and ongoing cost pressures

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

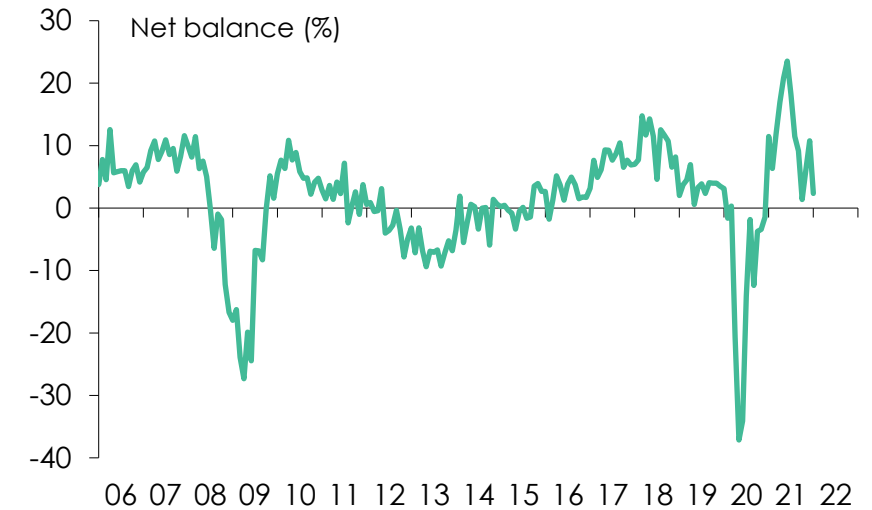
Trading conditions



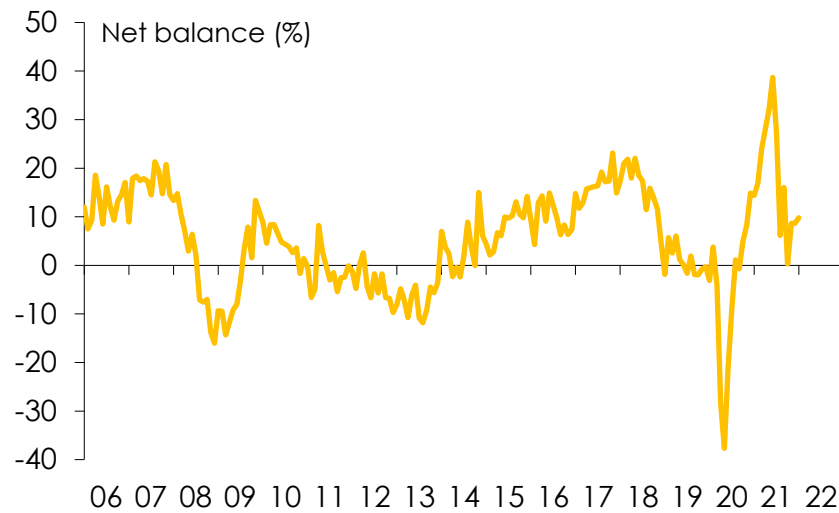
Forward orders



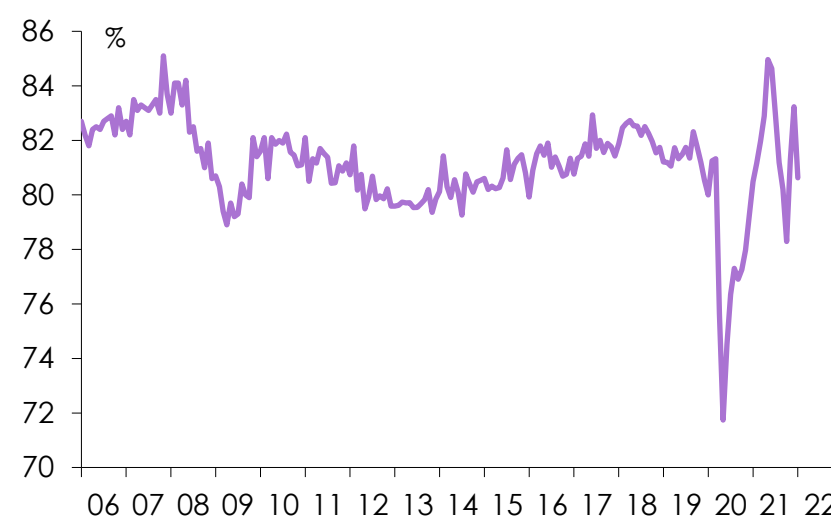
Employee hiring intentions



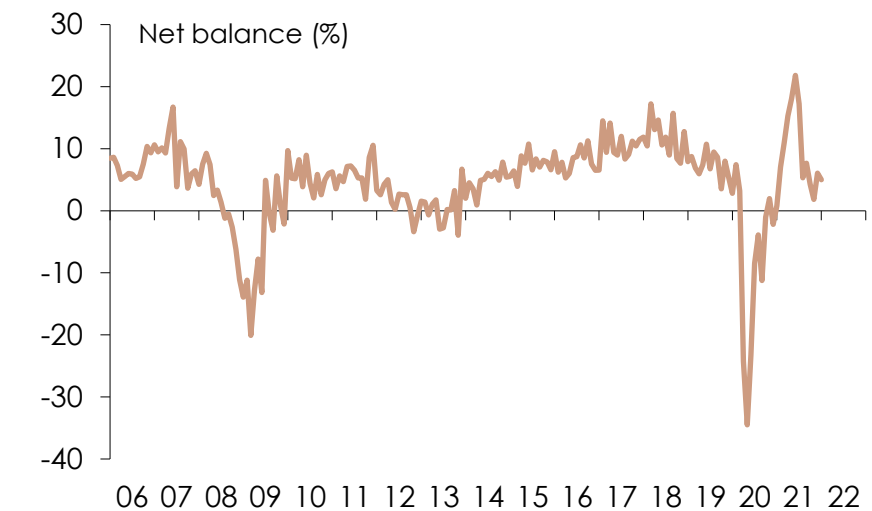
Profitability



Capacity utilization



Capital expenditure intentions

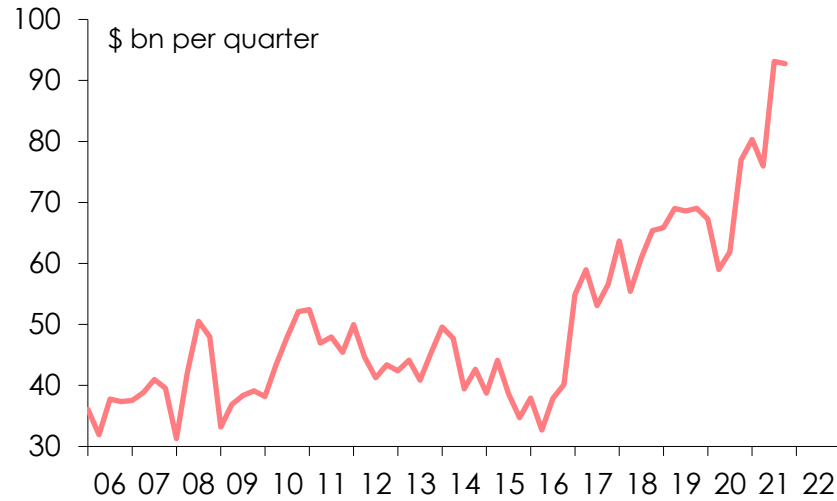


Source: National Australia Bank [Monthly Business Survey](#), December 2021; January survey results will be released on 15th February 2022. [Return to "What's New"](#).

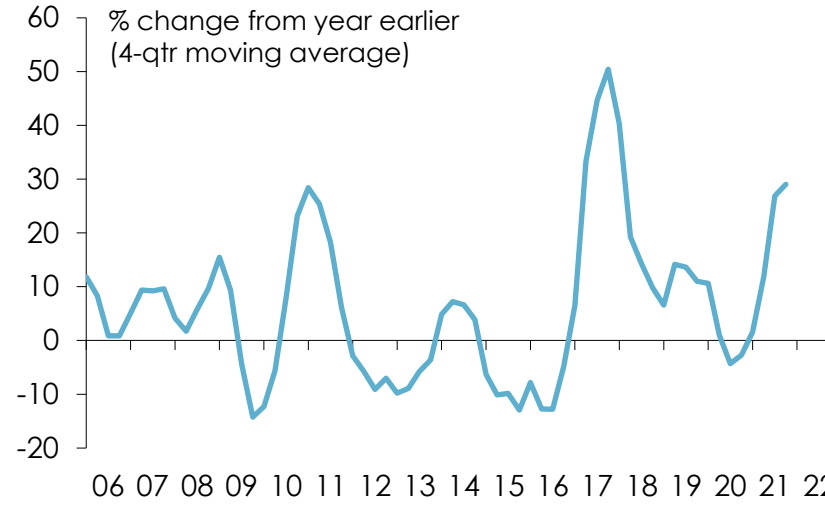
Company profits have grown strongly over the past five years, largely driven by the mining sector

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

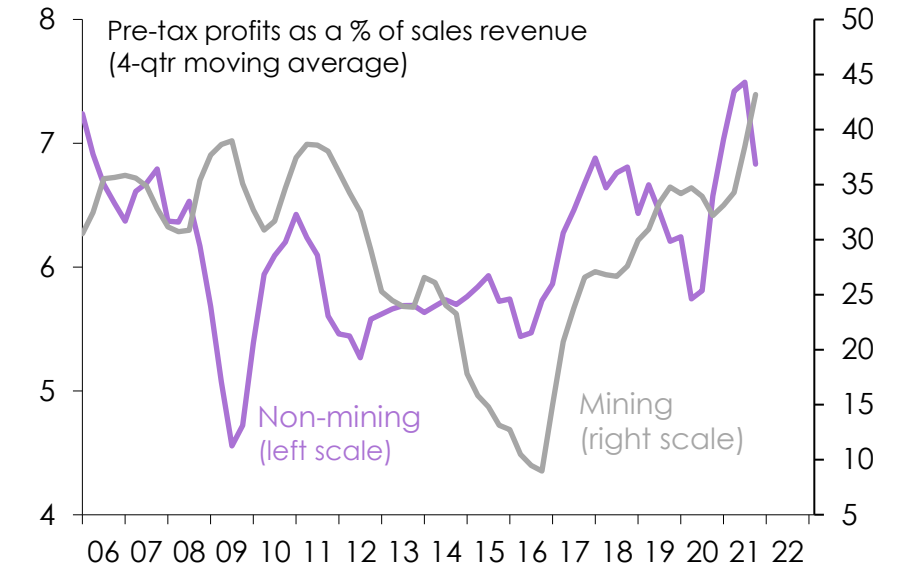
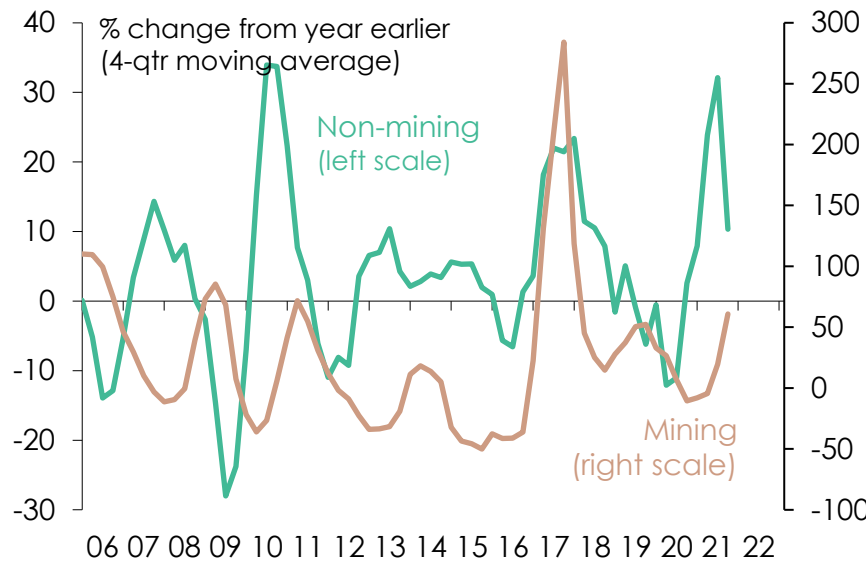
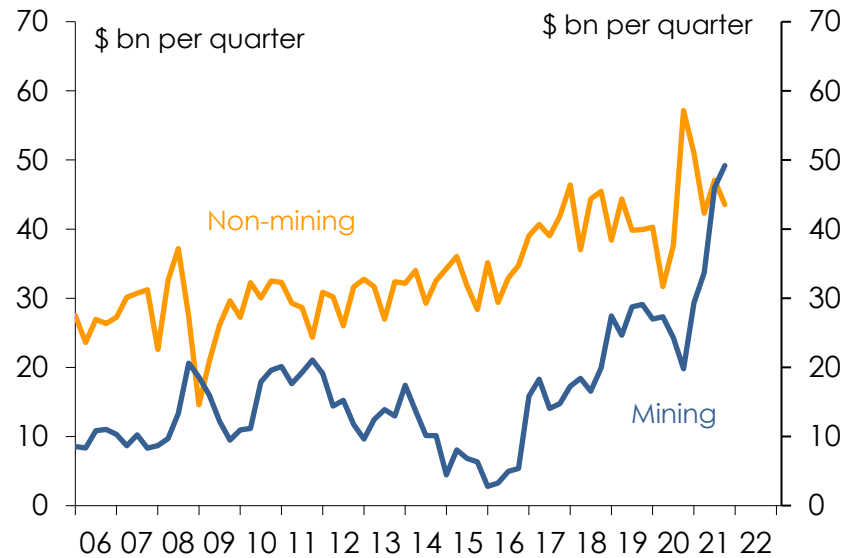
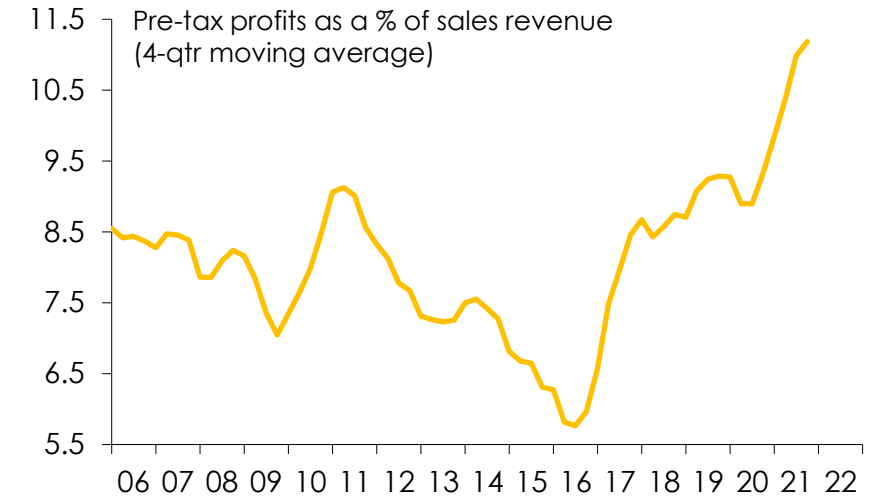
Pre-tax company profits



Pre-tax company profits growth



Pre-tax profit margins

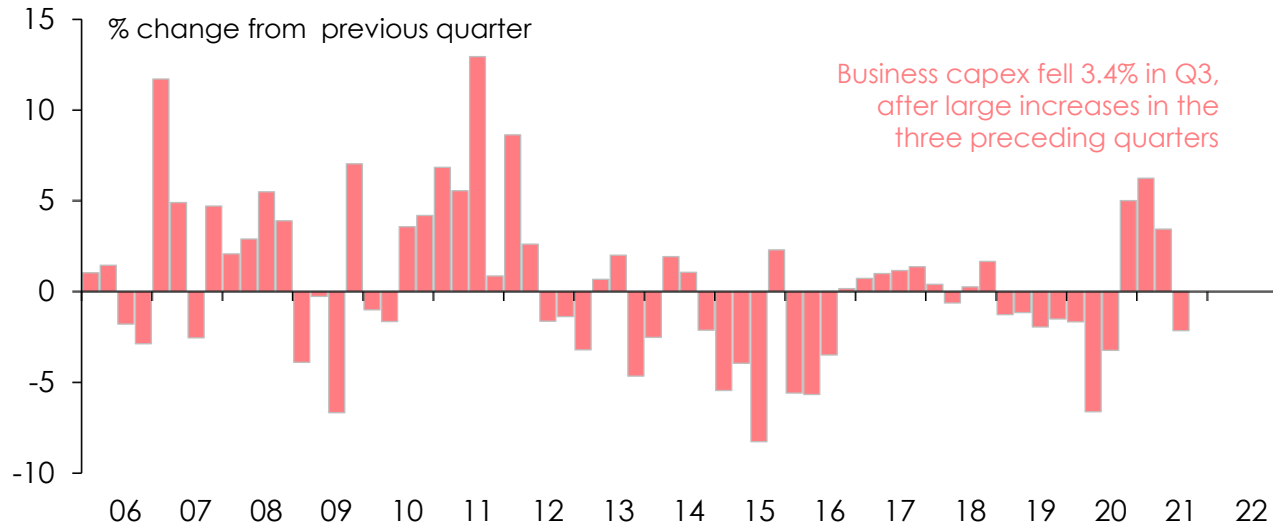


Note: Data depicted in these charts excludes banks and other deposit-taking financial intermediaries, health and general insurers, education and training, and health care and social assistance providers. Source: ABS, [Business Indicators, Australia](#), September 2021. December quarter data will be released on 28th February. [Return to "What's New"](#).

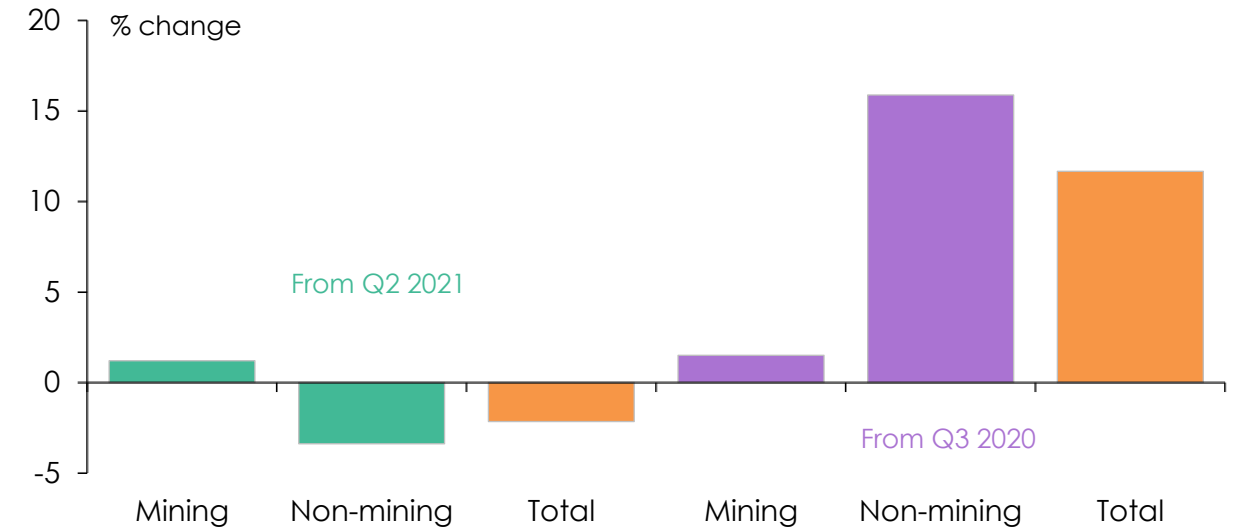
Business capex declined by 3.4% in Q3, after large increases in the three preceding quarters, mainly due to falls in NSW, Victoria and the ACT

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

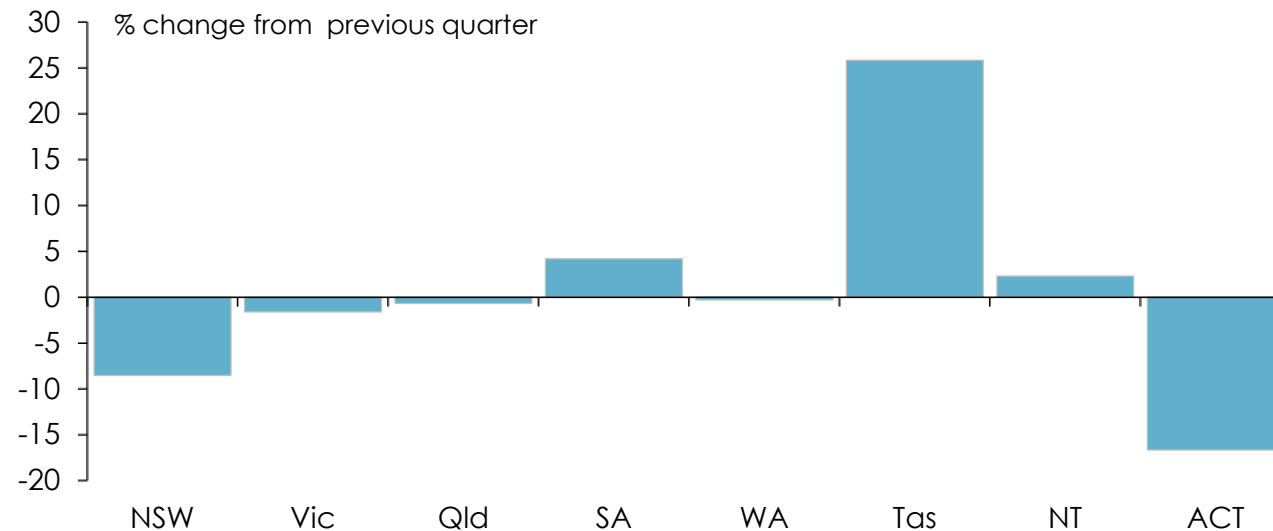
Real business new fixed capital expenditure



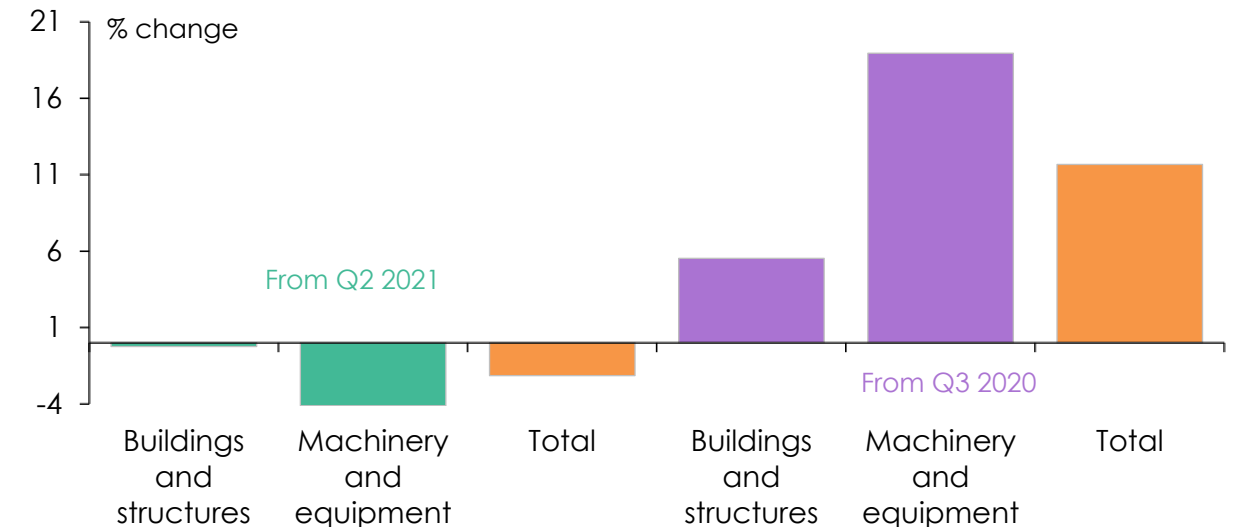
Real business new fixed capex, by industry, Q3



Real business new fixed capex, by state, Q3 2021



Real business new fixed capex, by asset, Q3

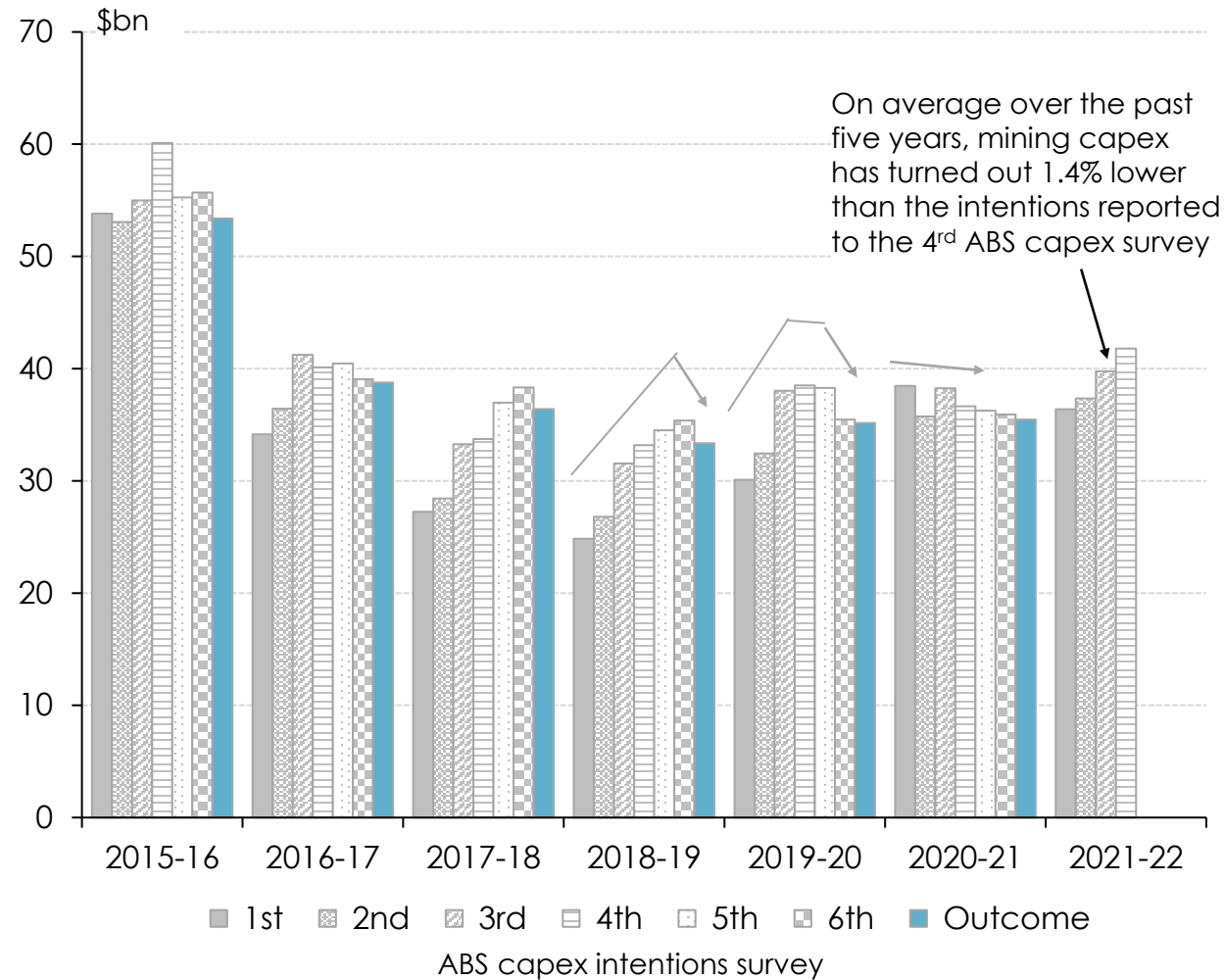


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); December quarter data will be released on 24th February 2022. [Return to "What's New"](#).

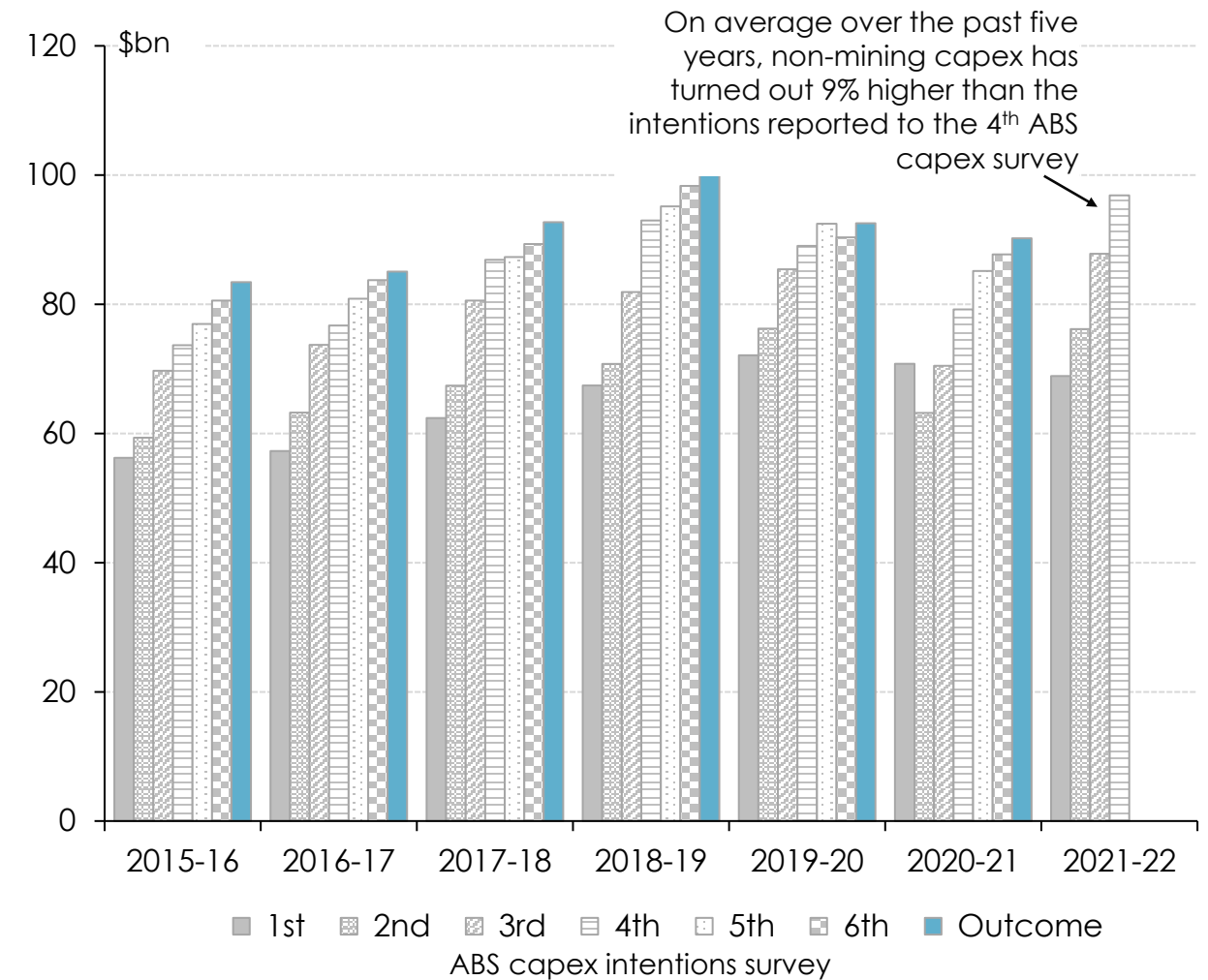
However businesses have again revised up their capex intentions for 2021-22 which if realized as in recent years points to an increase of 16½%

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining



Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & November, the fifth in January & February of the financial year, and the sixth in May & June. The outcome (actual capital expenditure in the financial year) is determined from the survey taken in July & August after the end of the financial year. From the December quarter 2020 the survey includes the education & training, and health care & social assistance sectors. The estimates shown above are in nominal terms.

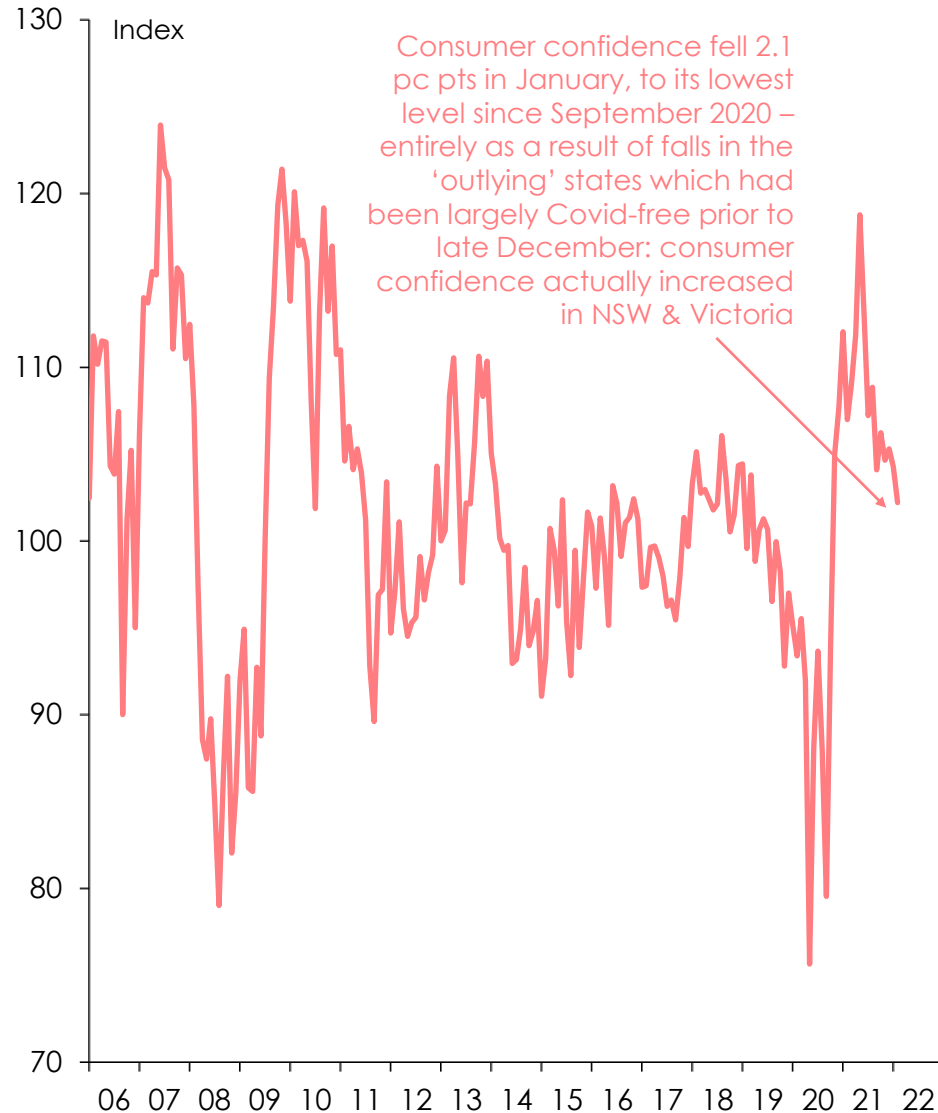
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#) (next update is released on 24th February 2022). [Return to "What's New"](#).

The household sector and consumer spending

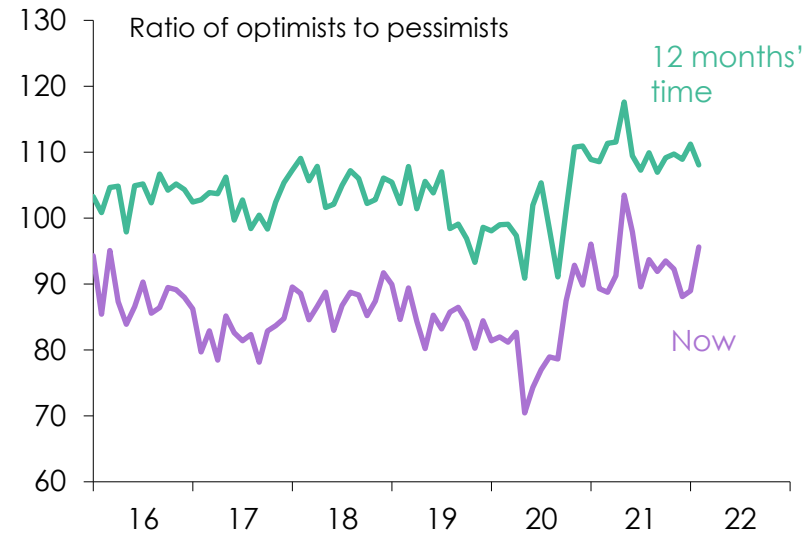
Consumer confidence fell 2.1 pc pts in January, to a 16-month low, reflecting falls in the (hitherto largely Covid-free) 'outlying' states

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

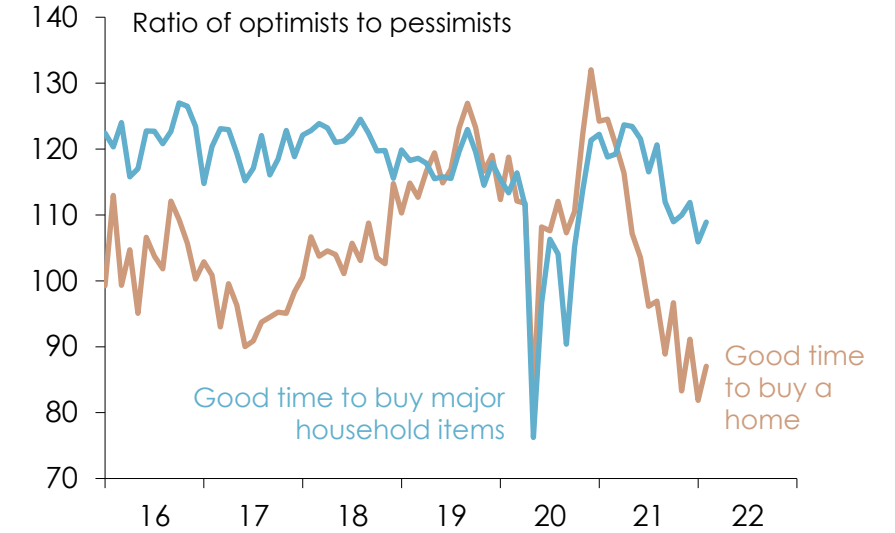
Consumer confidence index



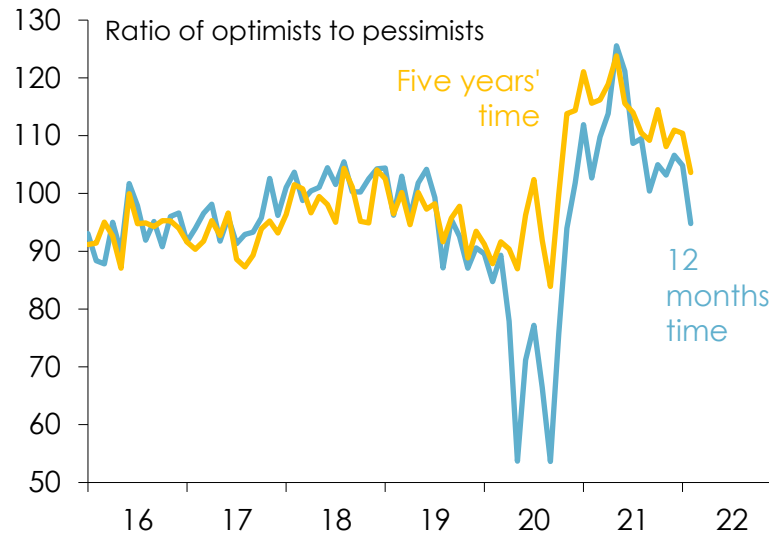
Household finances assessment



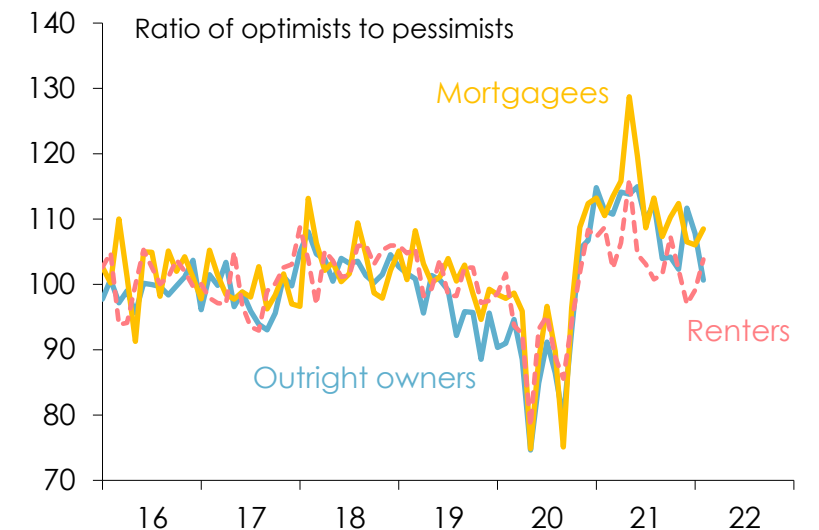
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure

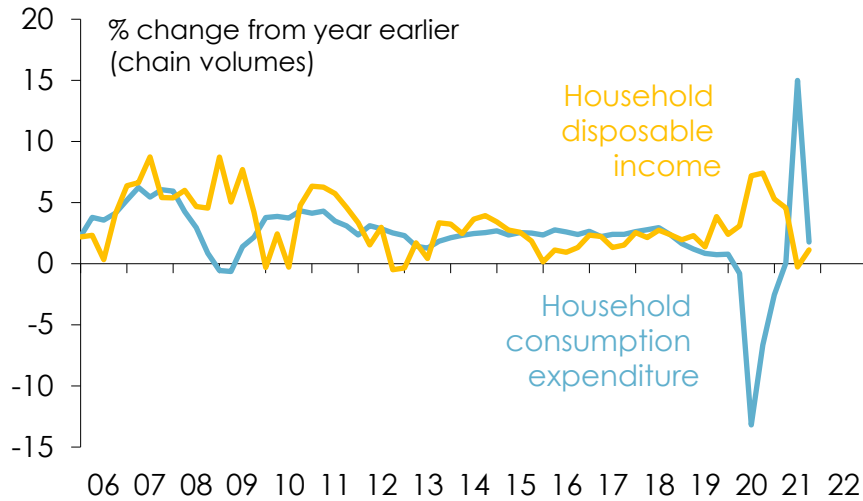


Source: [Westpac Banking Corporation](#). February consumer confidence will be released on 9th February. [Return to "What's New"](#).

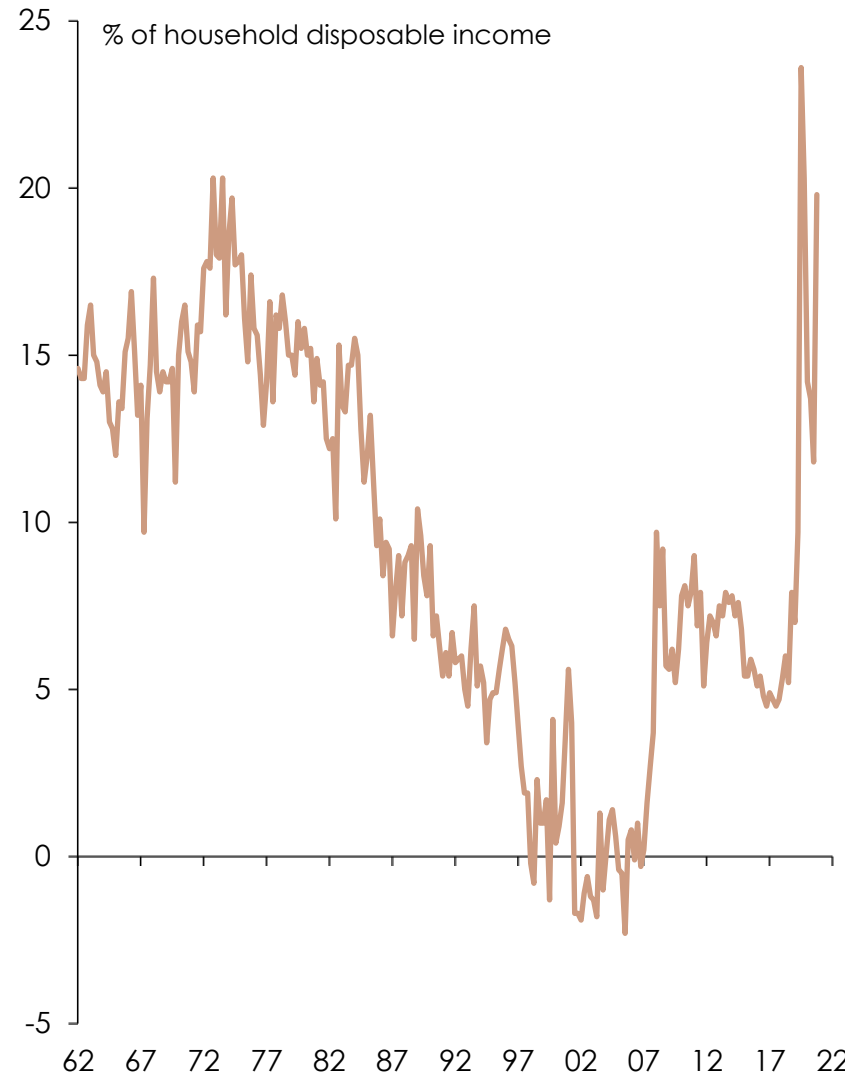
Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

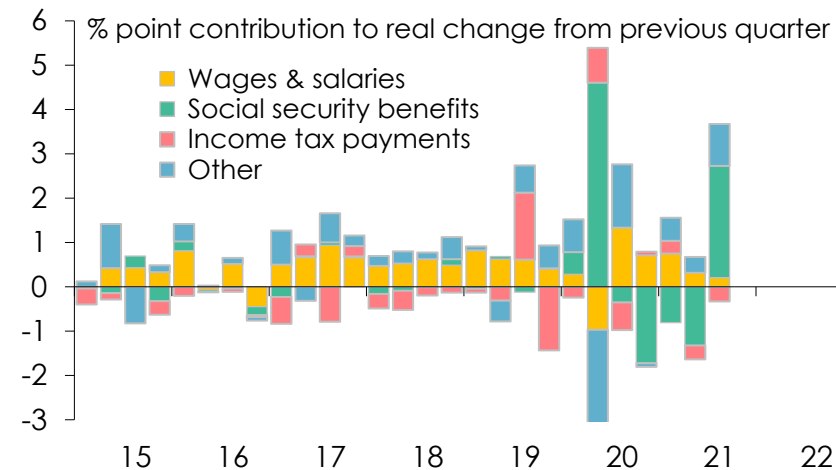
Household income and spending



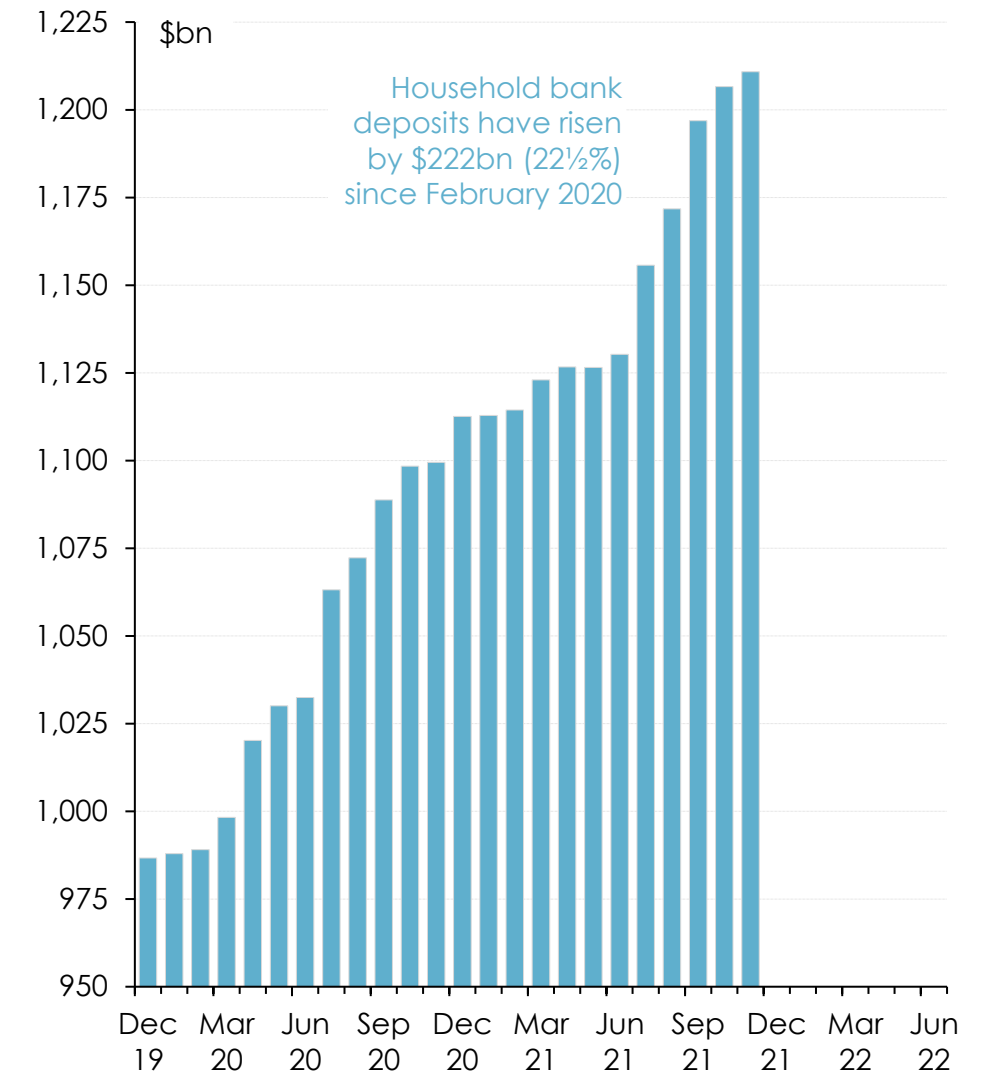
Household saving ratio



Sources of household income



Household bank deposits

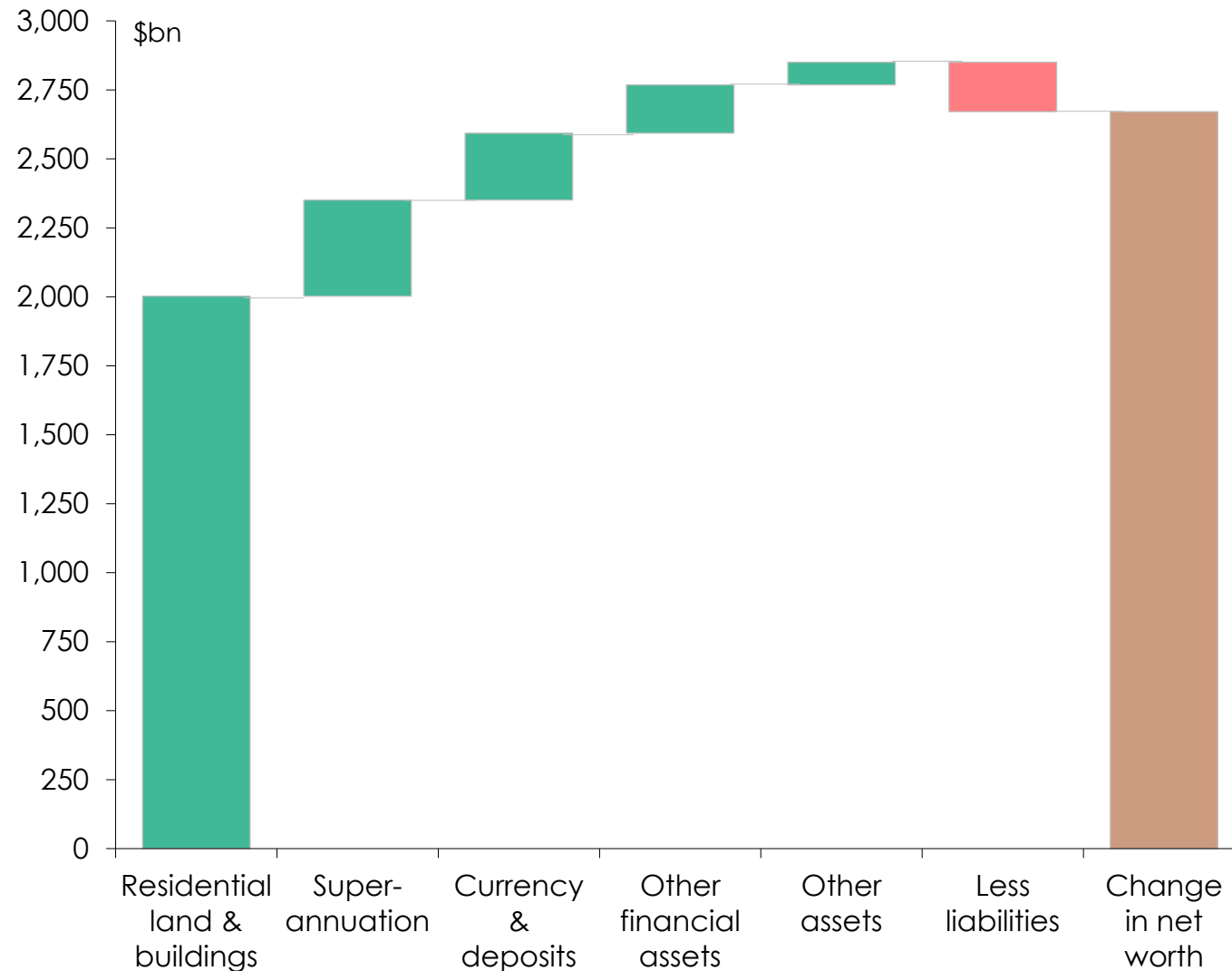


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). [Return to "What's New"](#).

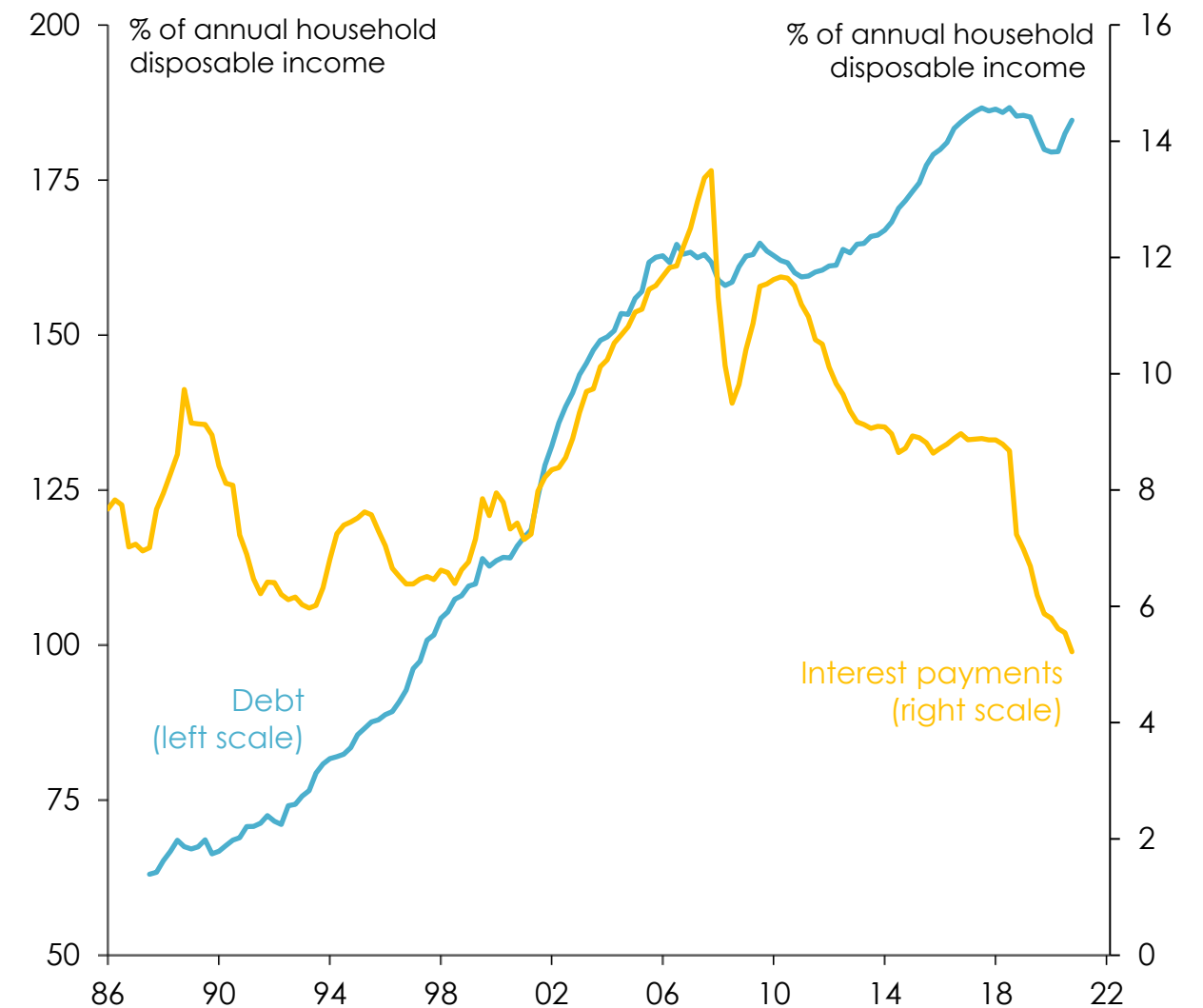
Household net worth has risen by \$2.7trn (23³/₄%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

Sources of gains in household net worth, Q4 2019 to Q3 2021



Household net debt and interest payments as a percentage of disposable income

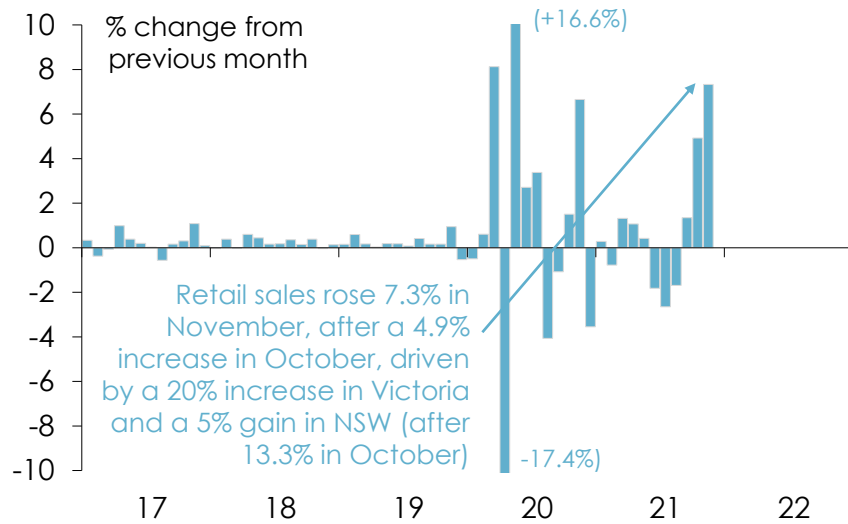


Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; RBA, [Statistical Tables](#) E1 & E2. September quarter data will be released on 31st March 2022. [Return to "What's New"](#).

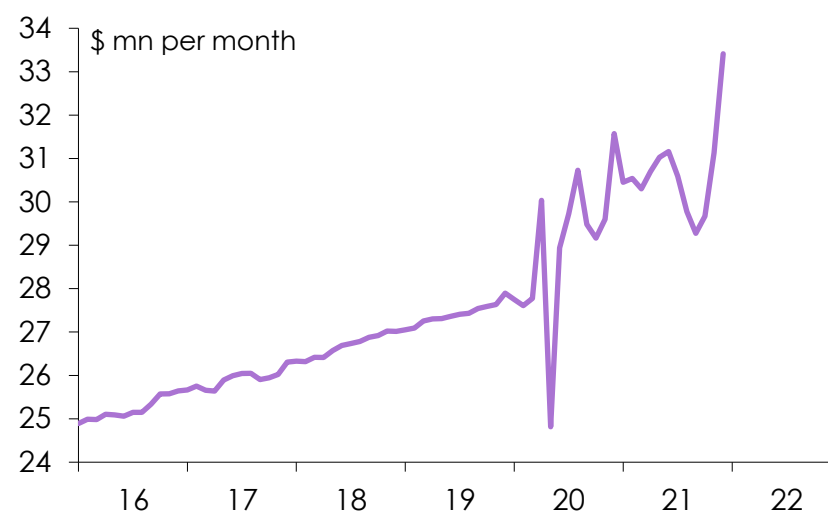
Retail sales surged 7.3% in November as Victoria came out of lockdown with a 20% rise in sales, together with a 5% gain in New South Wales

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

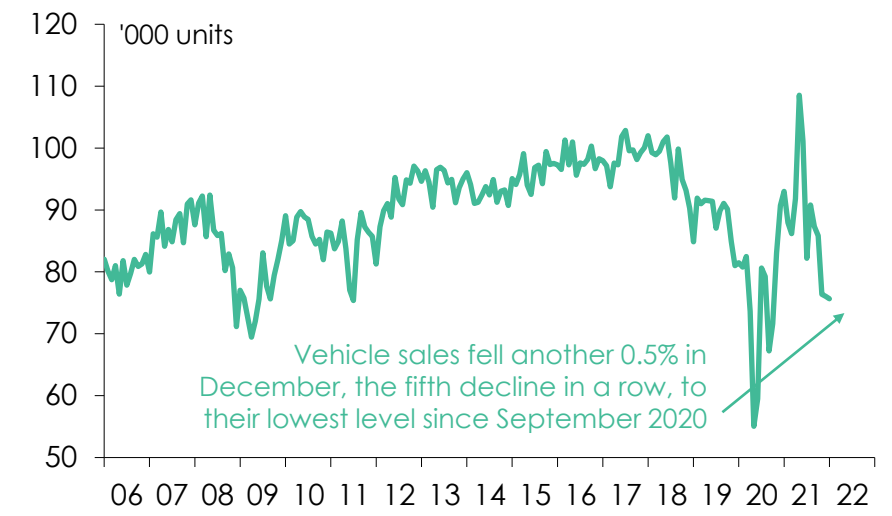
Monthly retail sales



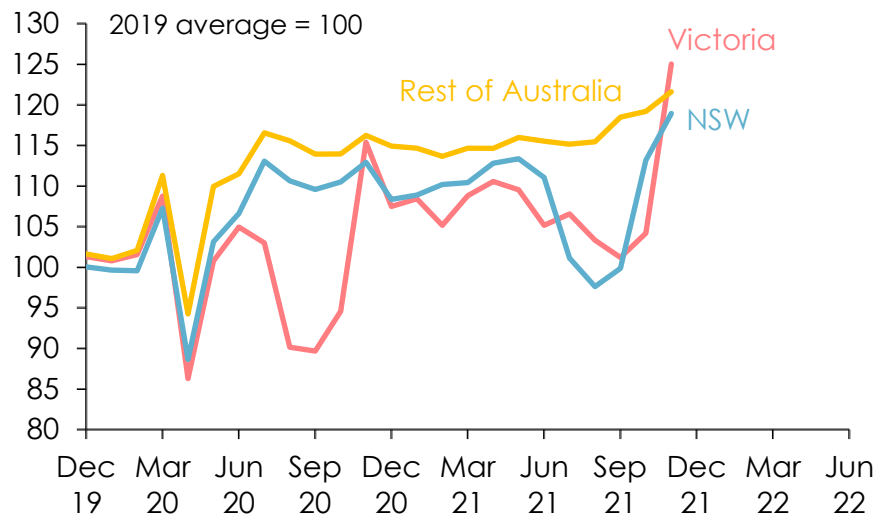
Level of retail sales



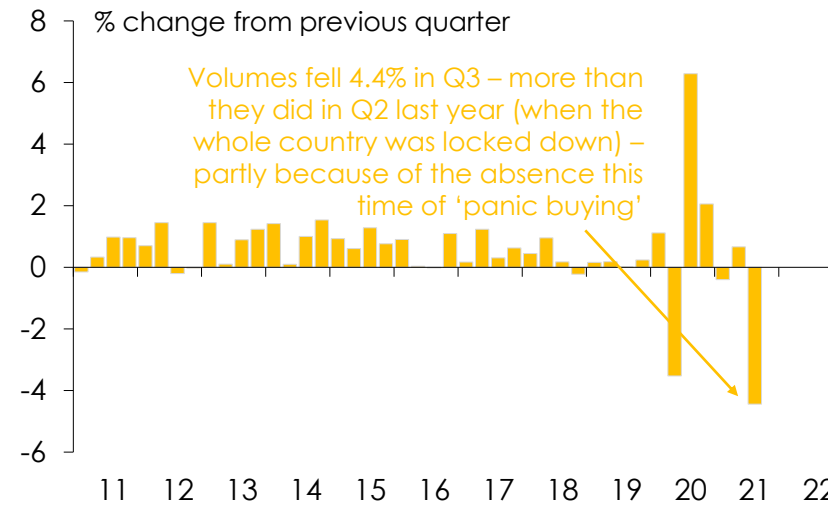
New motor vehicle sales



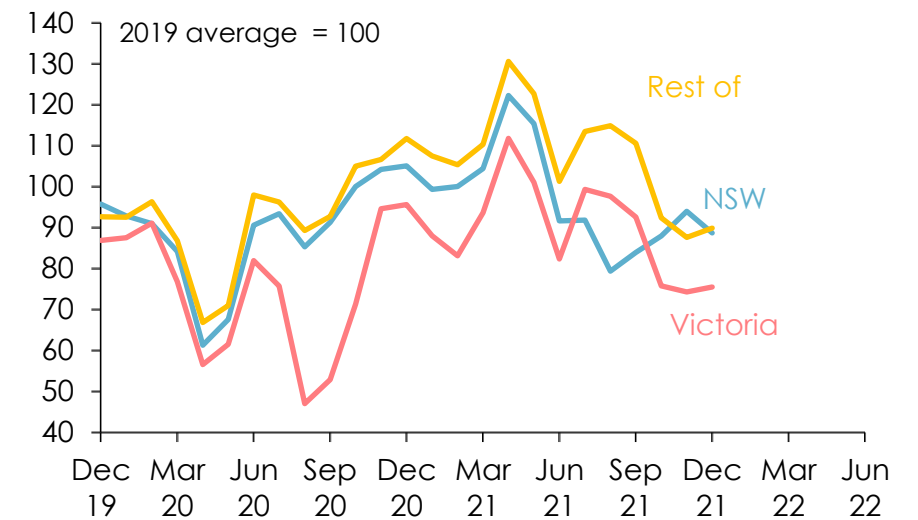
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



Vehicle sales – NSW, Vic & the rest

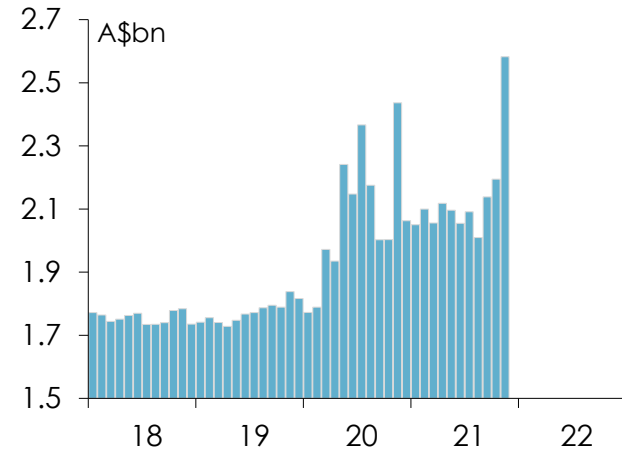


Note: see also [slide 31](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary December retail sales data will be released on 1st February; January motor vehicle sales data will be released in the second week of February. [Return to "What's New"](#).

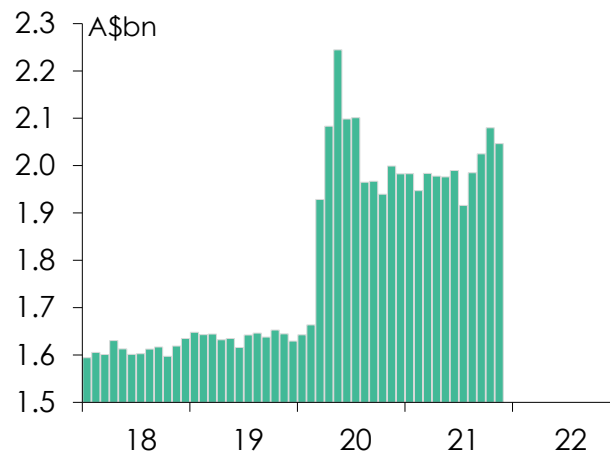
Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

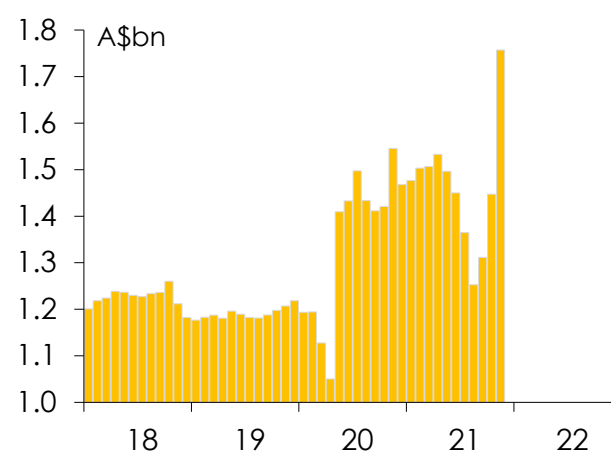
Electronic & electrical goods



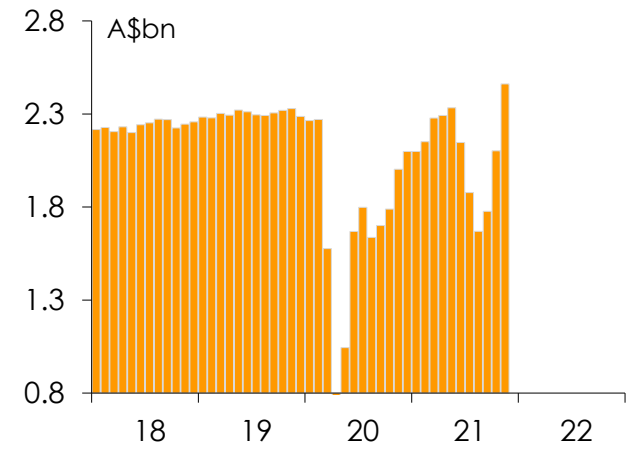
Hardware, building & garden supplies



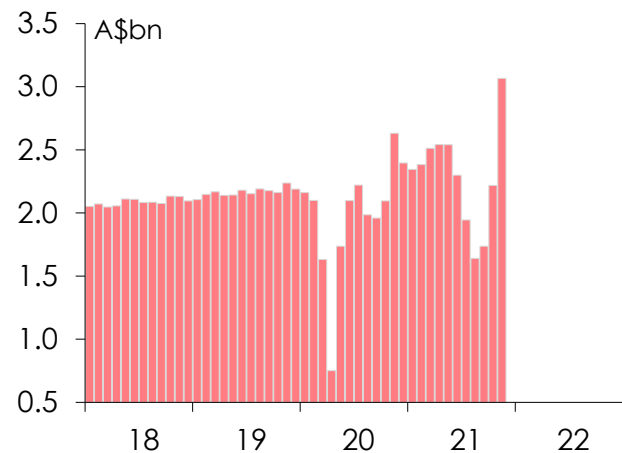
Floor coverings, furniture, housewares etc



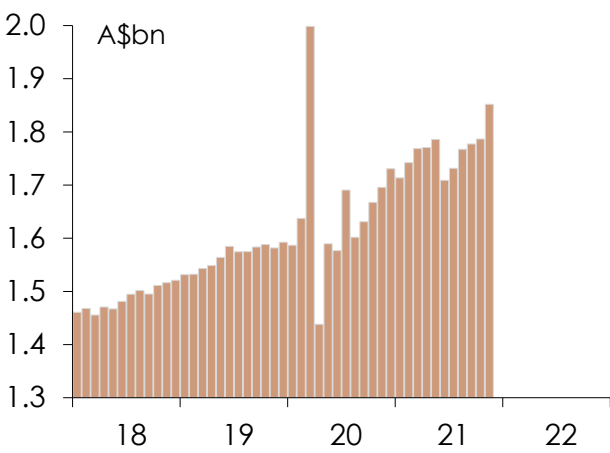
Cafes and restaurants



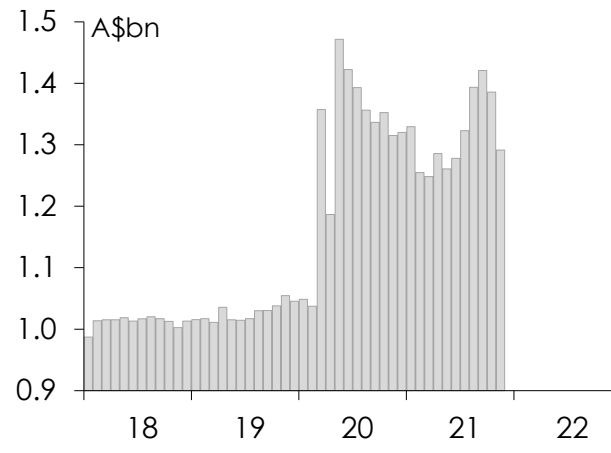
Clothing, footwear & personal accessories



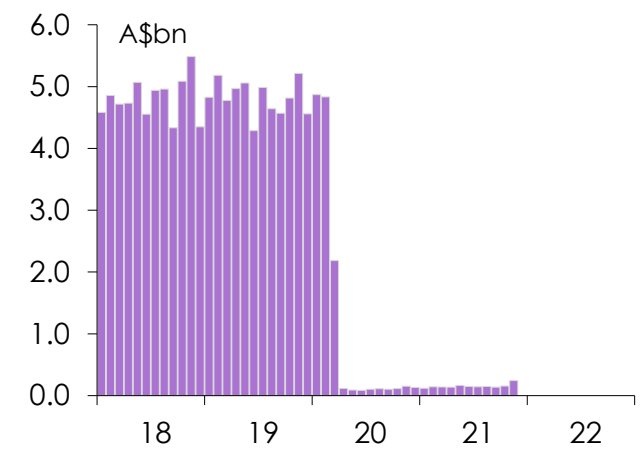
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

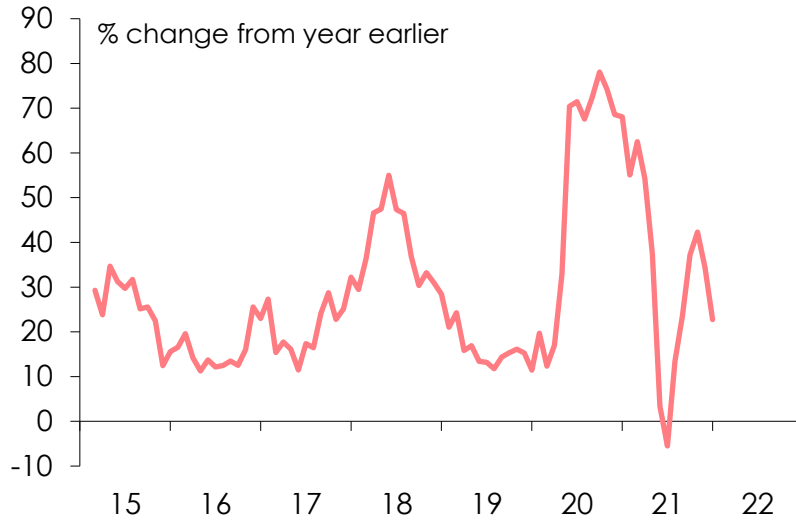


Sources: ABS, [Retail Trade, Australia](#), November 2021 (December data will be released on 7th February); and [International Trade in Goods and Services, Australia](#), November 2021. [Return to "What's New"](#).

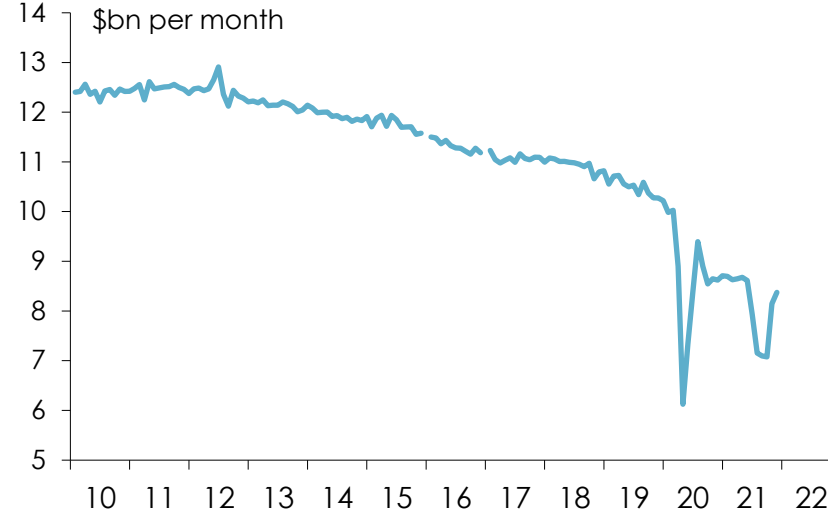
The most recent lockdowns have prompted a renewed surge in online spending and accelerated trends away from the use of cash

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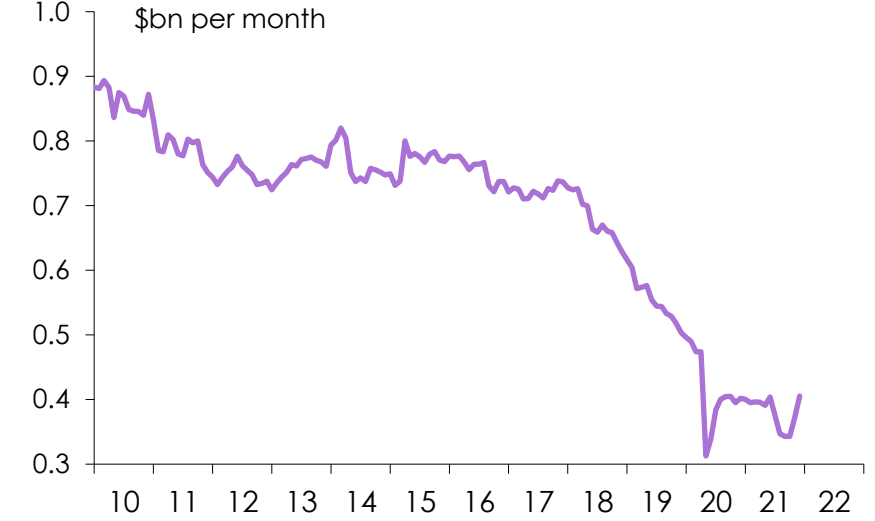
Growth in online retail sales



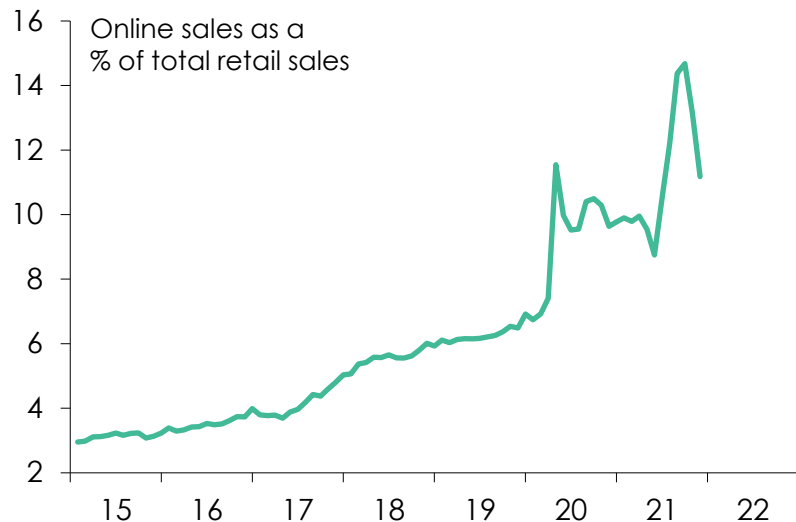
ATM cash withdrawals



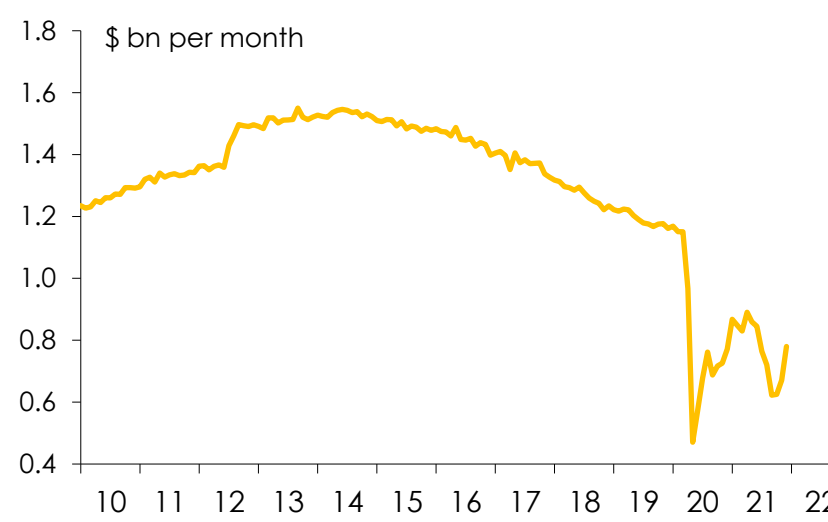
Credit card cash advances



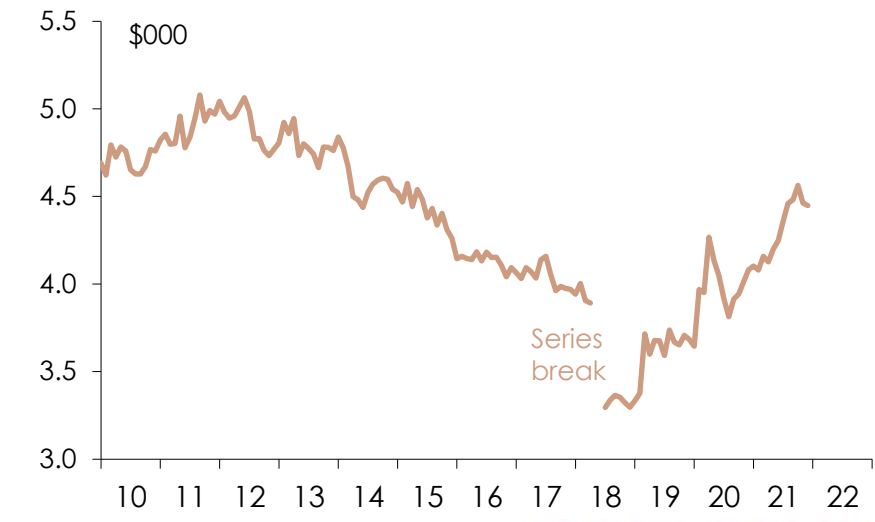
Online retail 'market share'



Debit card cash-outs



Direct entry payments avg value



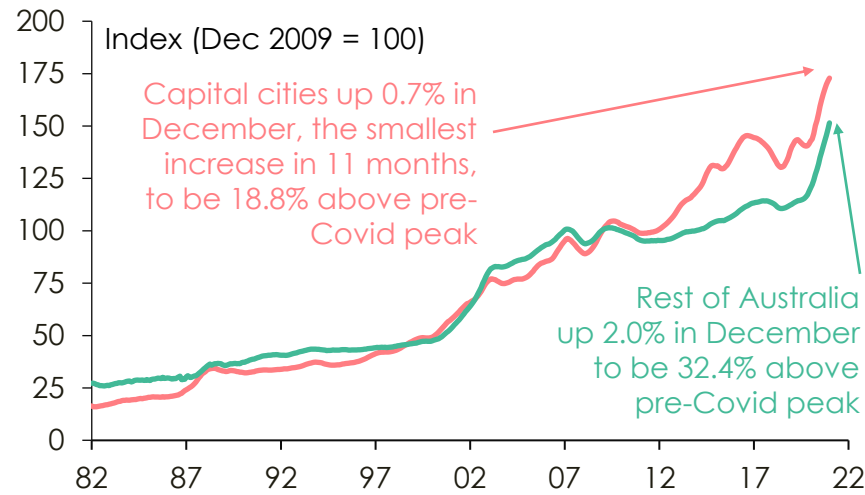
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for November. December online retail sales data and payments system data will both be published on 7th February. [Return to "What's New"](#).

Housing and the residential property market

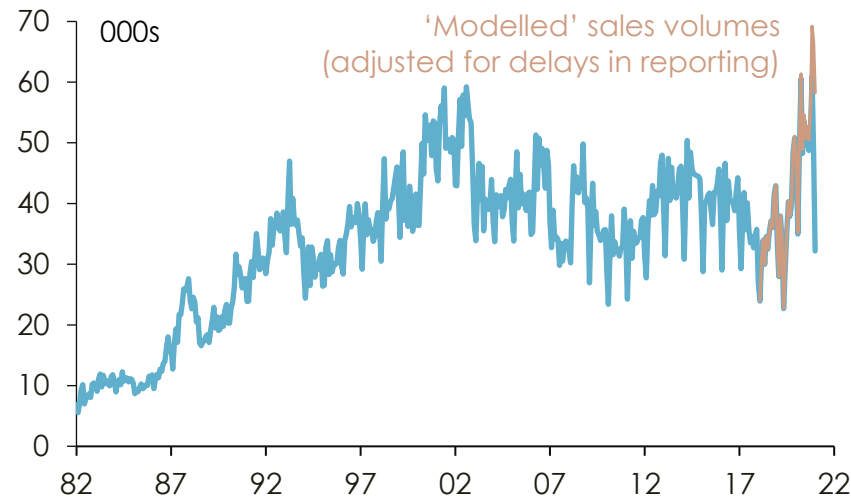
Property prices rose 'only' 1.0% in December, the smallest increase since last January, and down from 2.2% in each of May and June last year

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

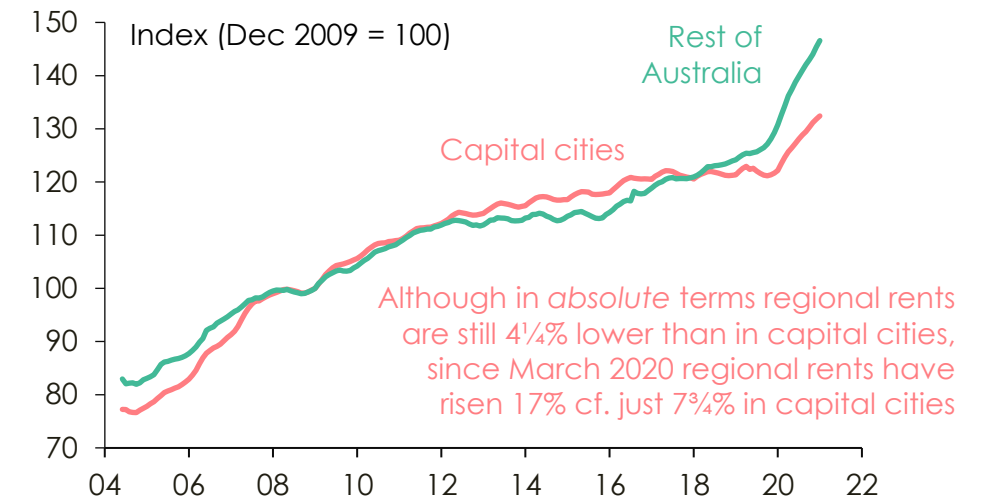
Residential property prices



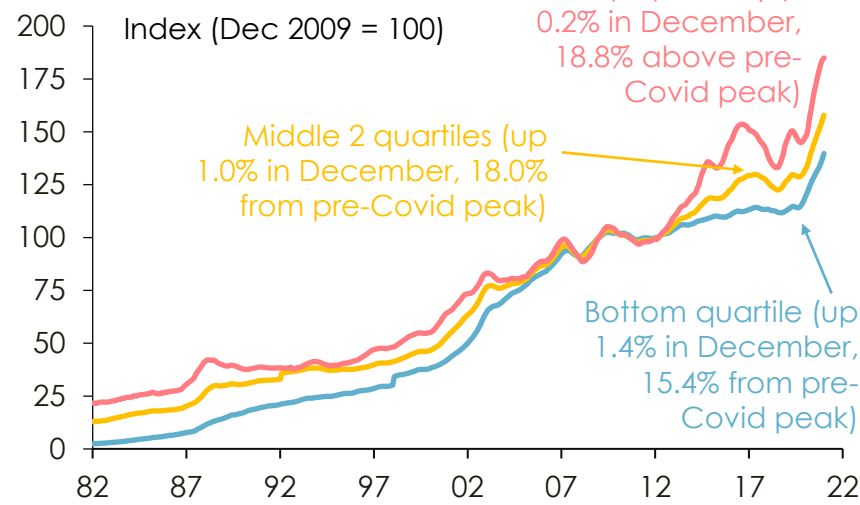
Residential property sales volumes



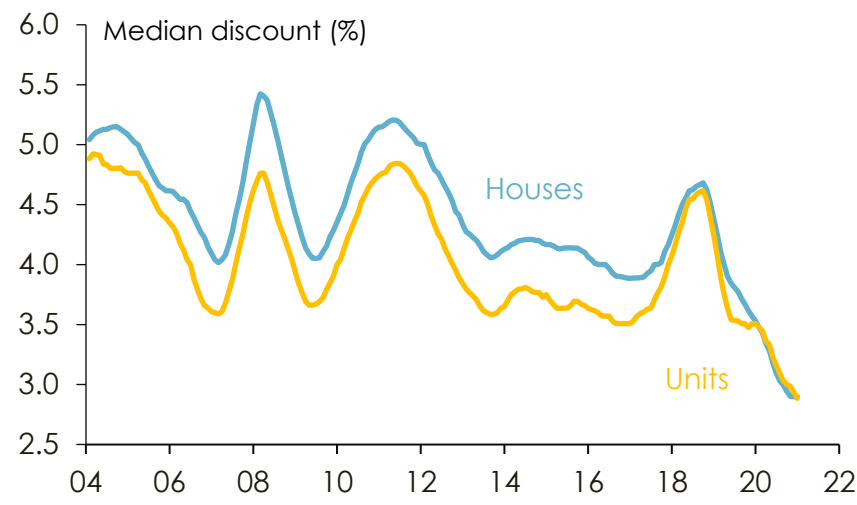
Residential rents



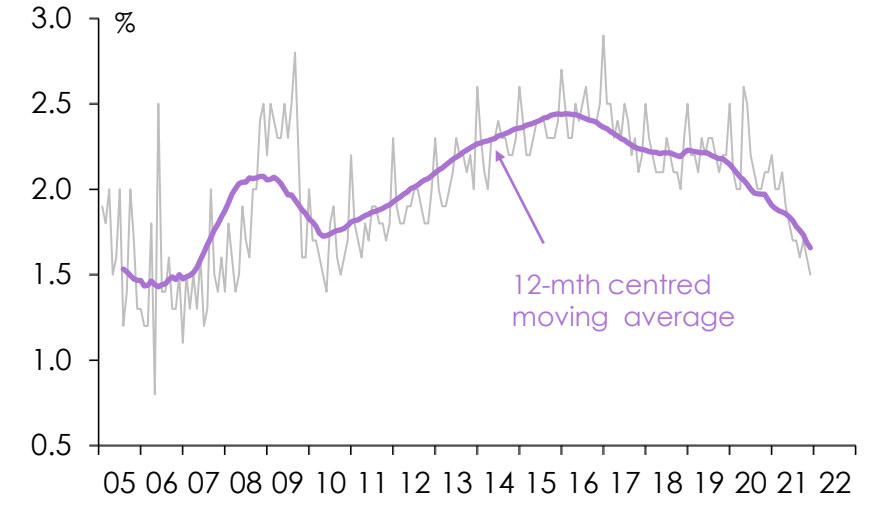
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

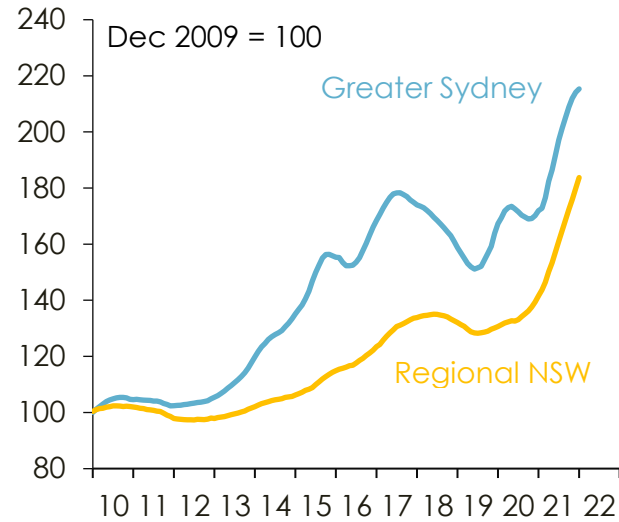


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of residential rents uses a similar methodology to measure the 'organic' change in underlying rents. The 'modelled' sales volume estimates seek to account for delays in receiving information on transactions that have yet to settle (which can be more than six weeks after the contract date). Latest data are for December (except for vacancy rates which is November). January prices, sales volumes and rents data will be released on 1st February. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

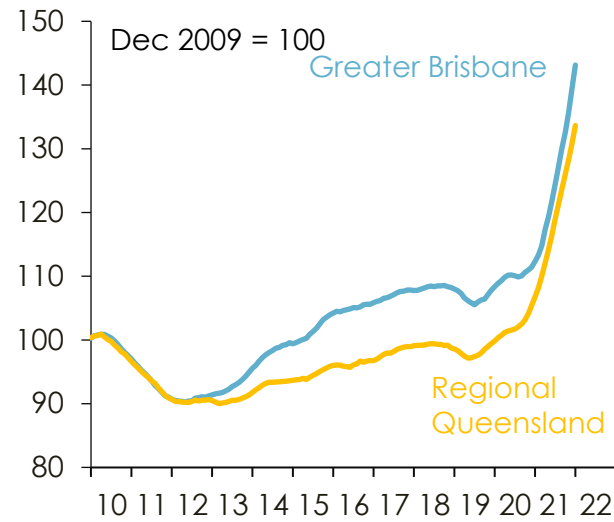
Prices in Adelaide, Canberra and Hobart, and regional NSW, Victoria, Qld and Tasmania are all 25-35% above their pre-pandemic peaks

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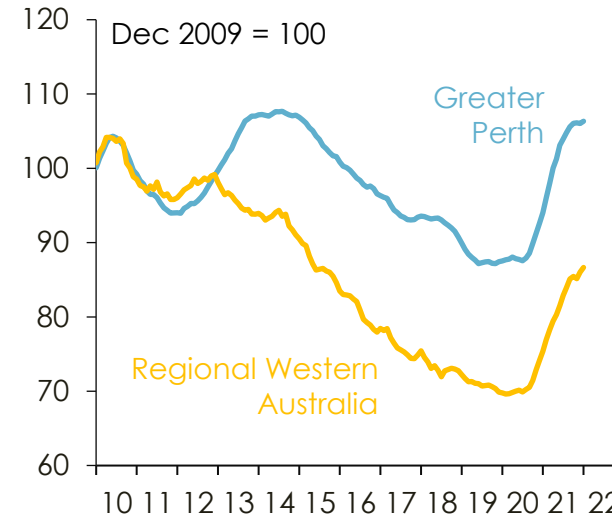
New South Wales



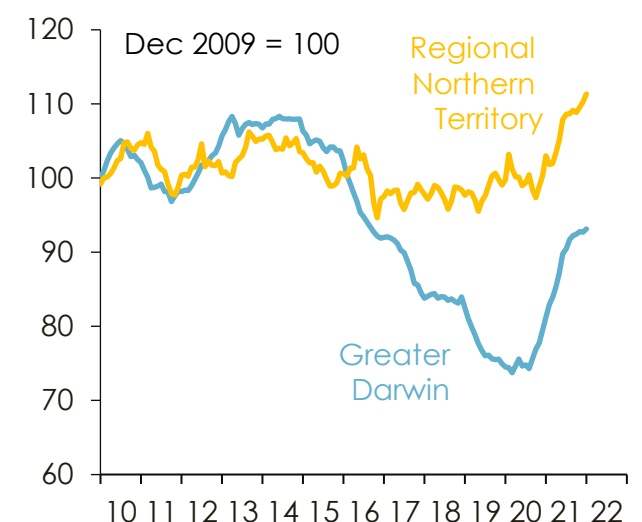
Queensland



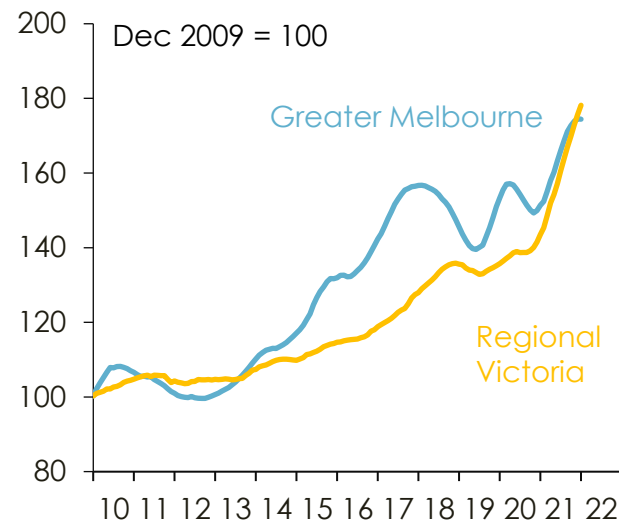
Western Australia



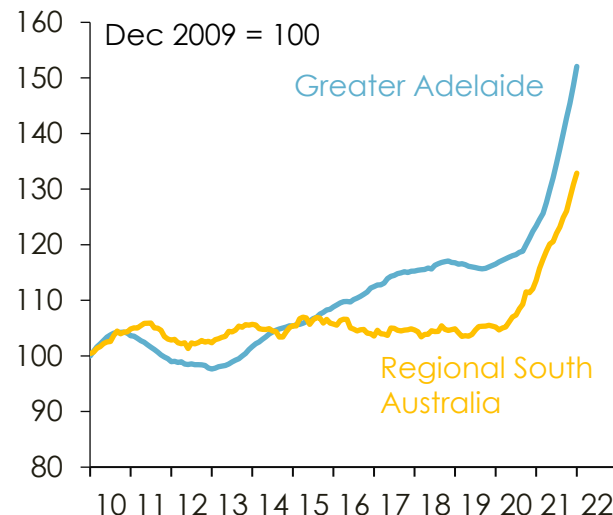
Northern Territory



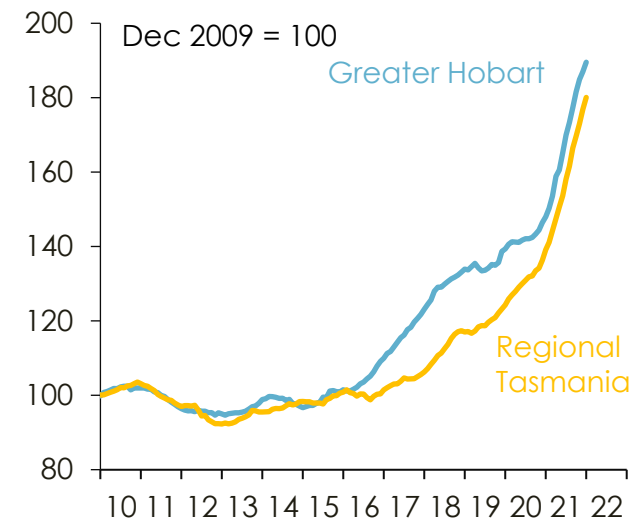
Victoria



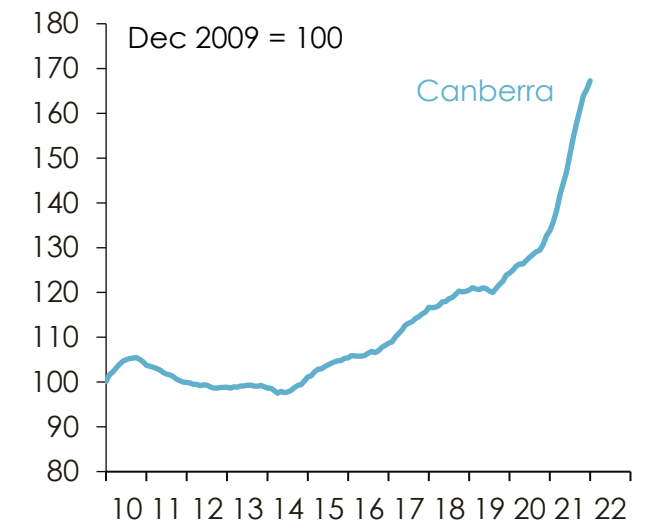
South Australia



Tasmania



Australian Capital Territory

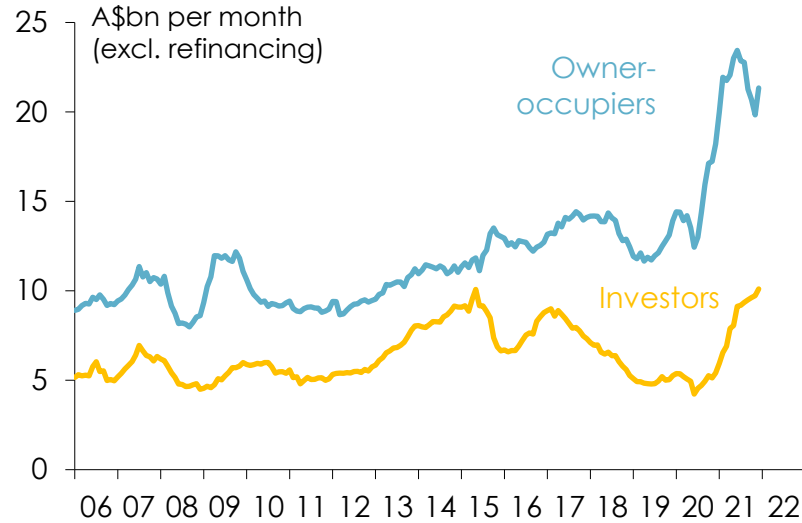


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states have different vertical scales. Latest data are December; January data will be released on 1st February. Source: [CoreLogic](#). [Return to "What's New"](#).

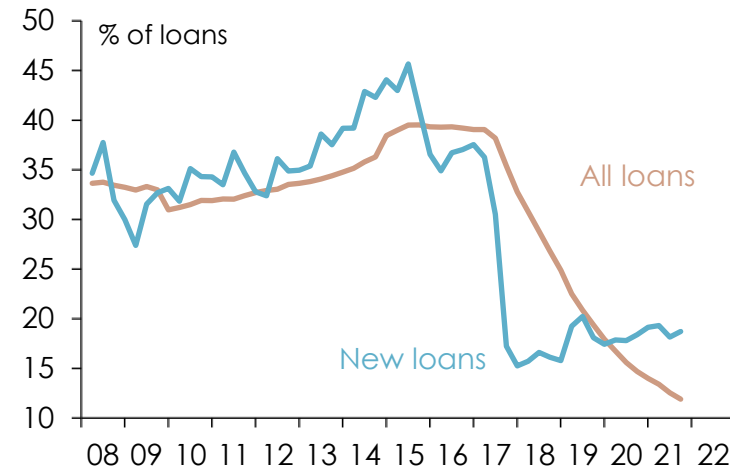
Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

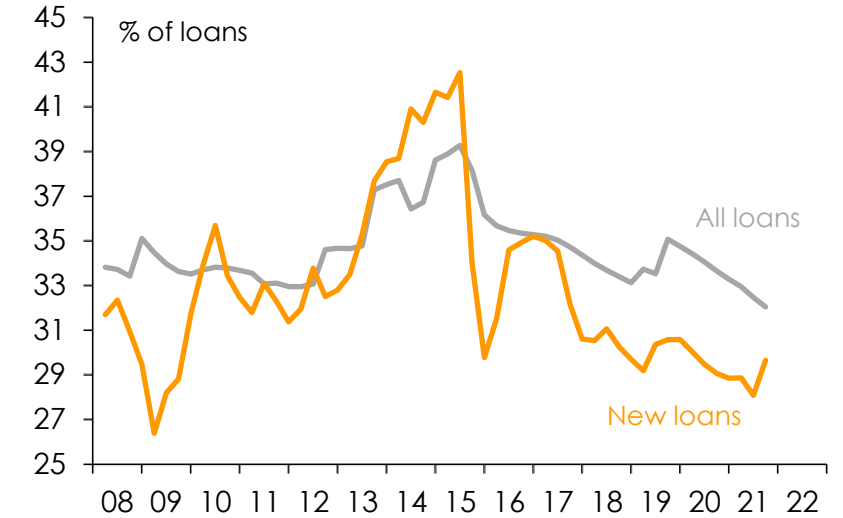
Housing finance commitments



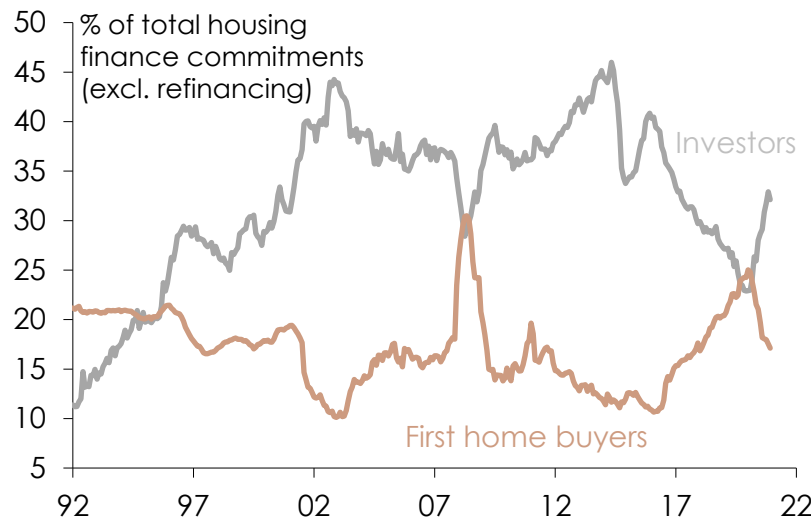
Interest-only loans



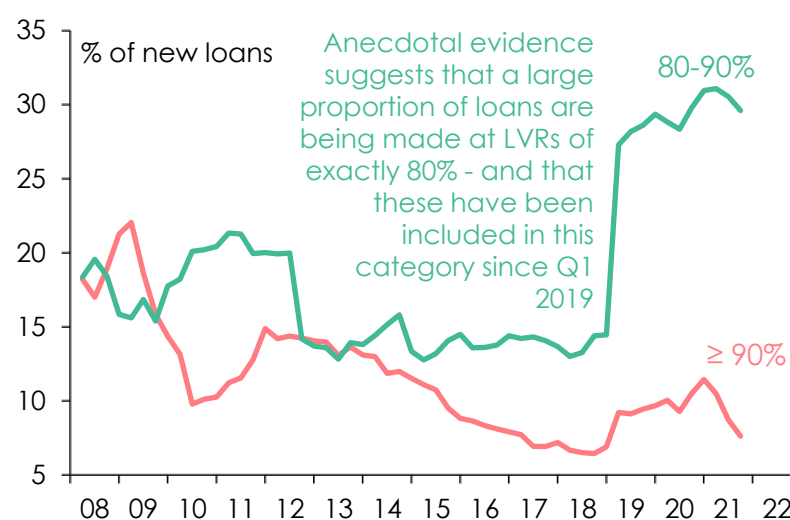
Loans to investors as a pc of total



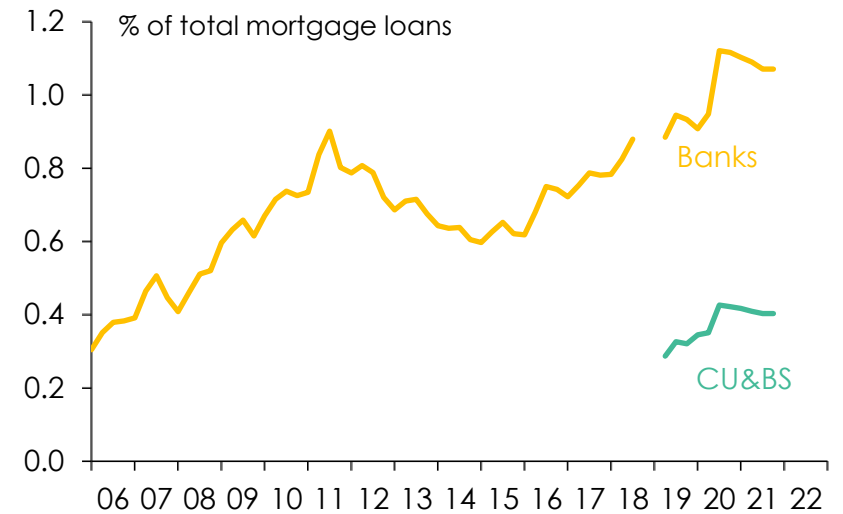
Shares of housing finance



High LVR loans as a pc of total



Non-performing mortgage loans

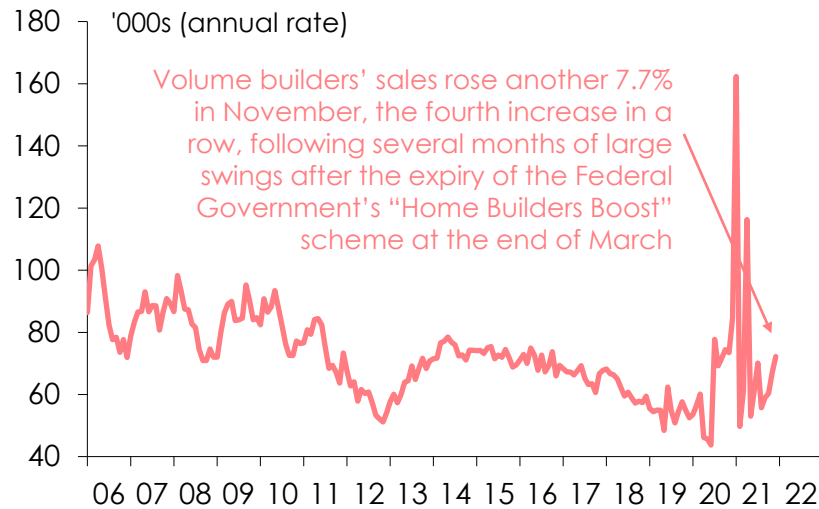


Sources: ABS, [Lending Indicators](#); Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). November housing finance data will be released on 14th January 2022; December; APRA data on ADI property exposures for the December quarter will be released on 15th March. [Return to "What's New"](#).

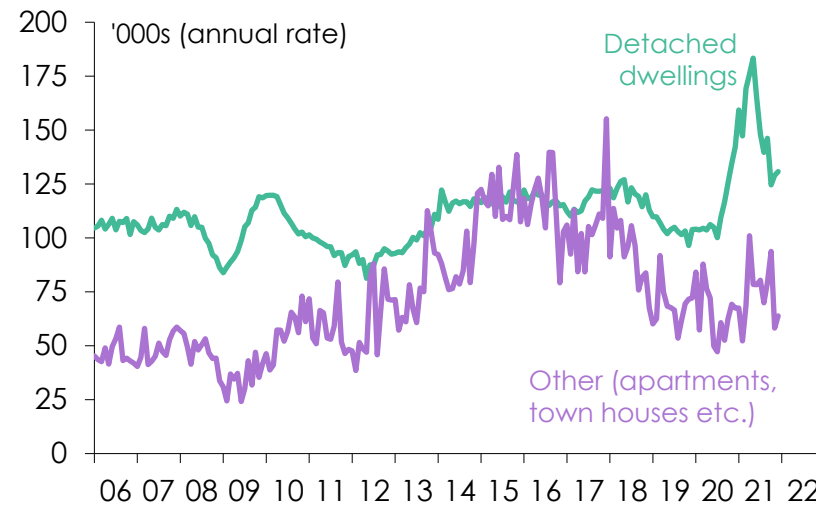
Residential building approvals rose marginally in November, but remain about 8% below the average for the five years before the onset of covid

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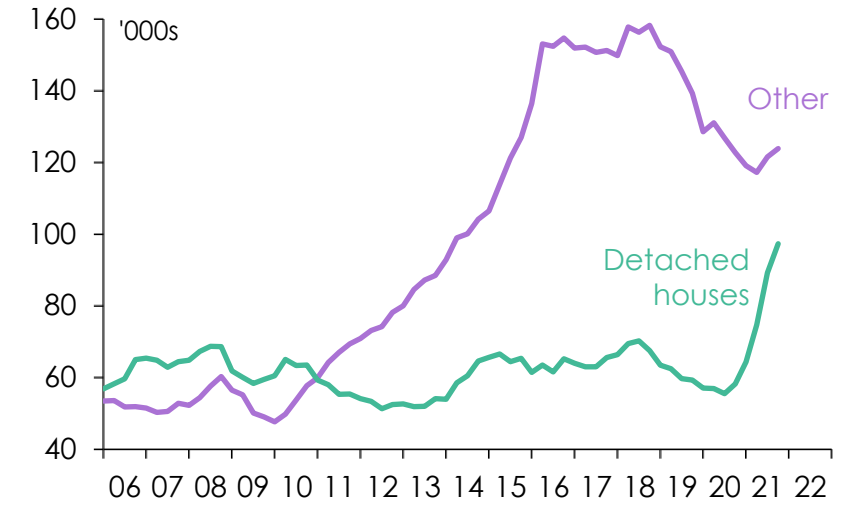
Large builders' new home sales



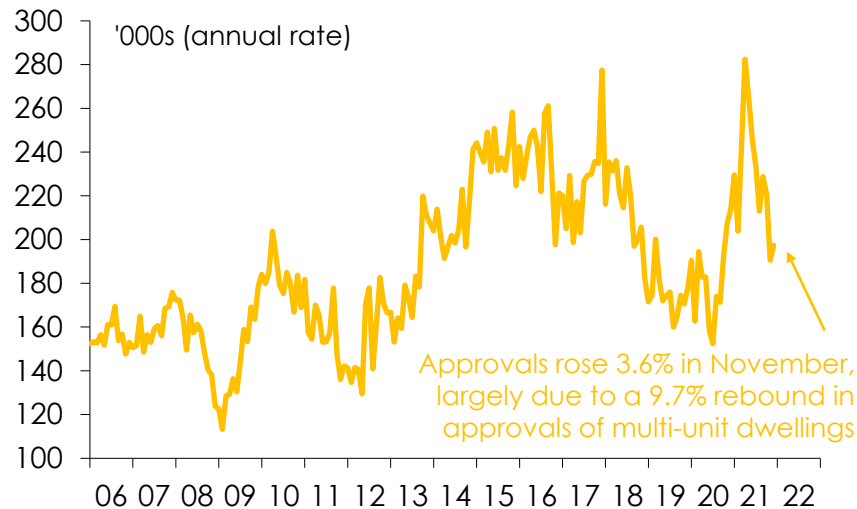
Building approvals, by type



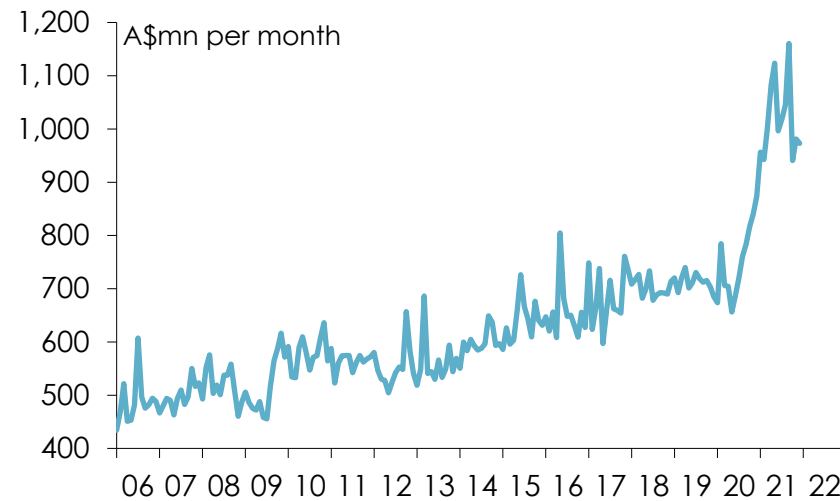
Dwellings under construction



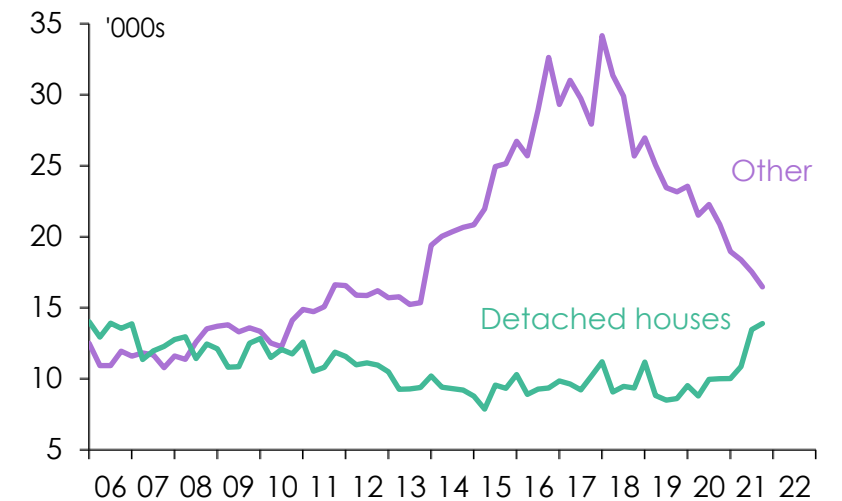
Residential building approvals



Alterations & additions approved



'Pipeline' of work yet to be started



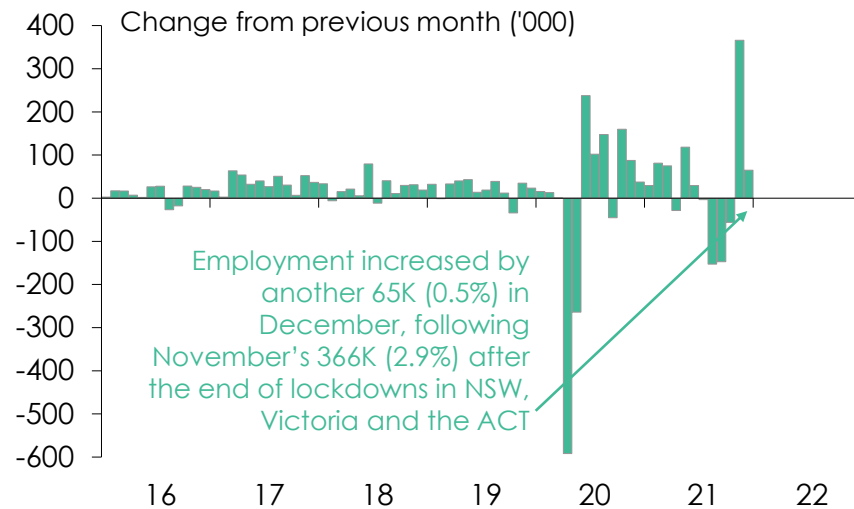
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#); Housing Industry Association. December building approvals data will be released on 3rd February; December quarter dwellings under construction and 'pipeline' data on 13th April. [Return to "What's New"](#).

The labour market

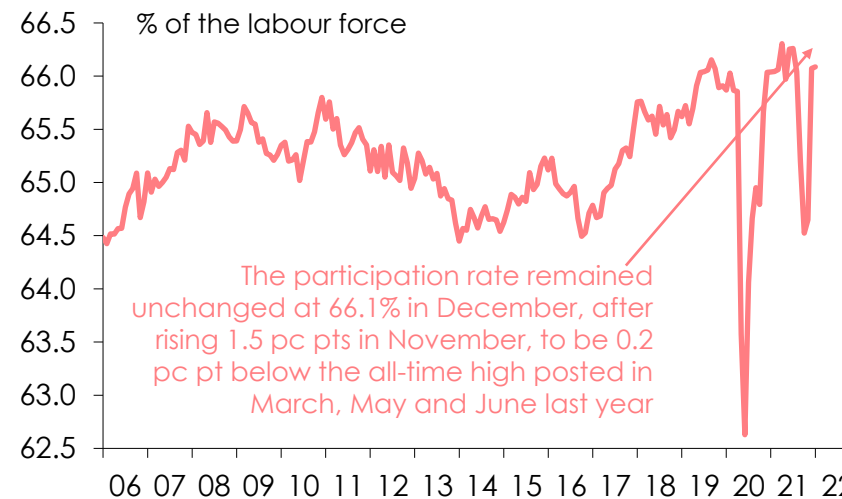
Employment rose another 0.5% in December, after a 2.9% surge in November, and the unemployment rate fell to its lowest since August 2008

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Employment



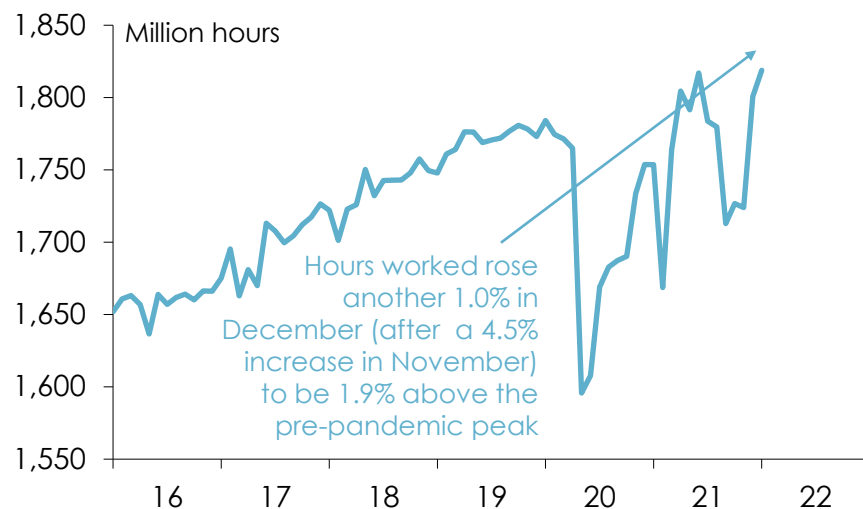
Labour force participation rate



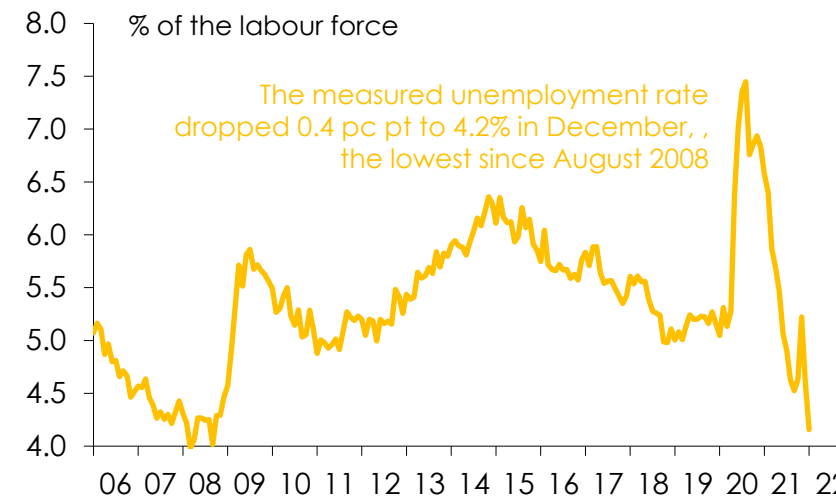
Under-employment ratio



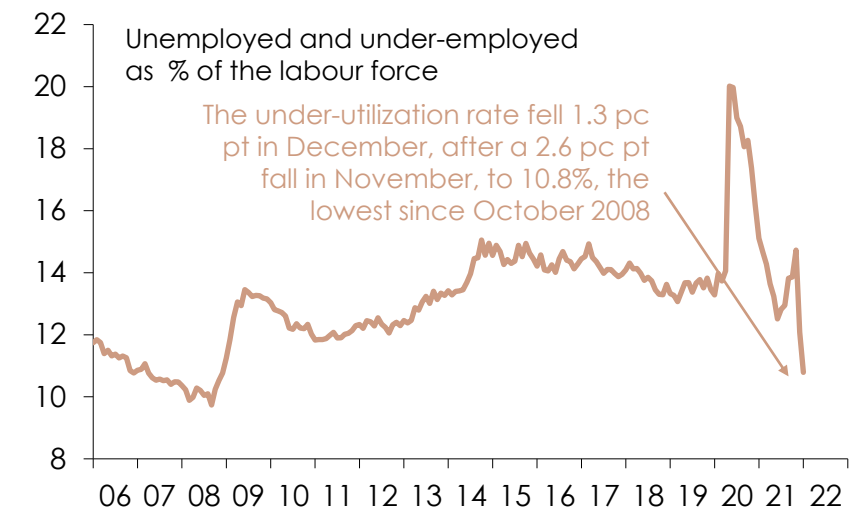
Total hours worked



Unemployment rate



'Under-utilization' rate

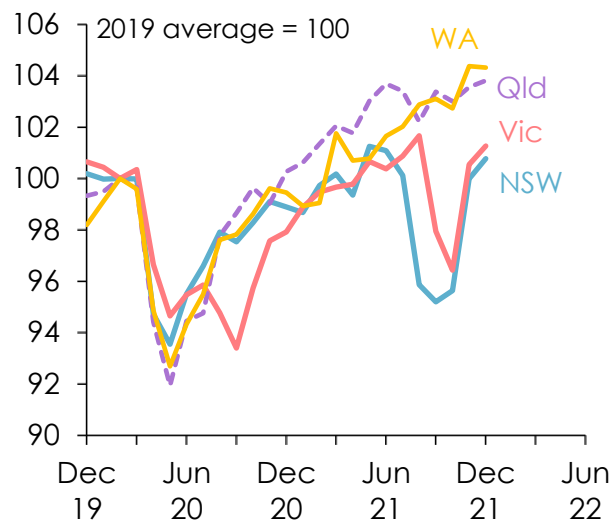


Source: ABS, [Labour Force, Australia](#), December 2021. January data will be released on 17th February. [Return to "What's New"](#).

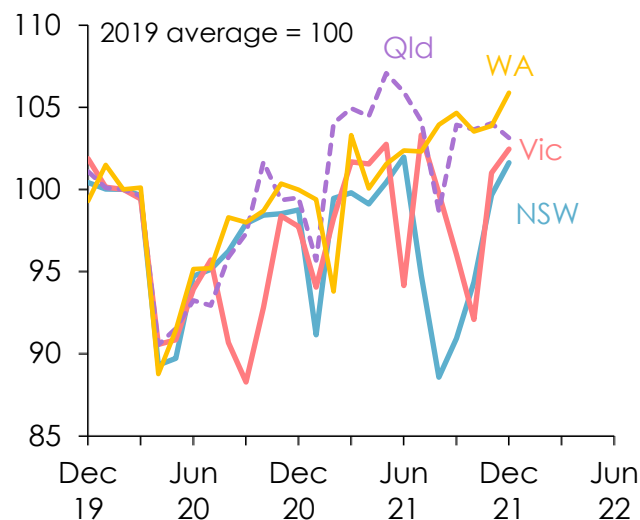
New South Wales and Victoria again accounted for most of the jobs gains in December – but employment hasn't fully recovered in the ACT

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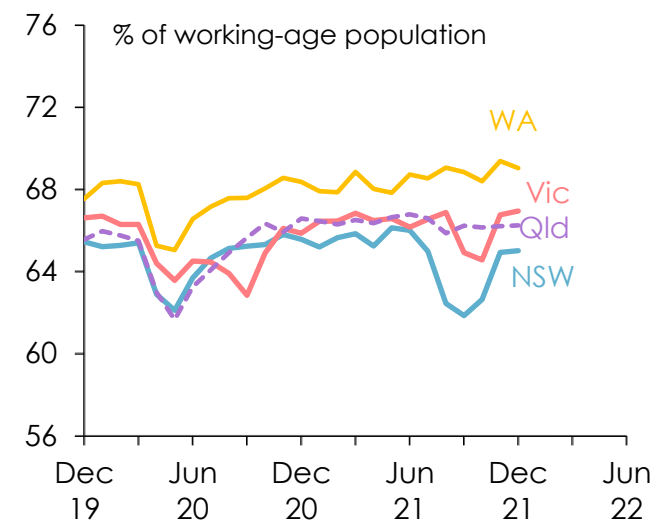
Employment



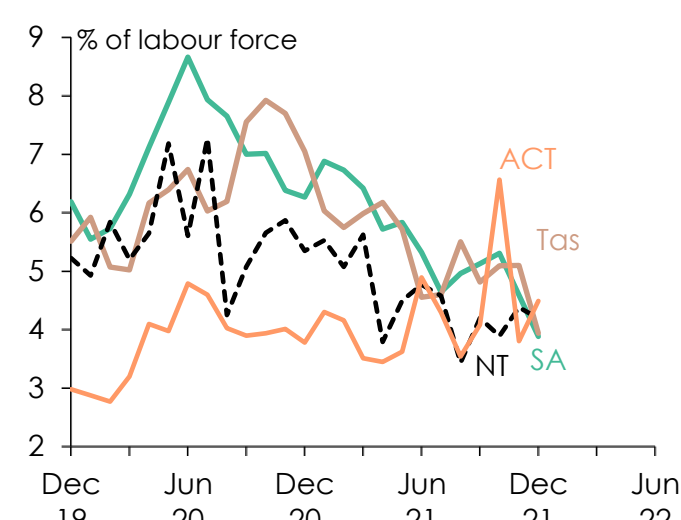
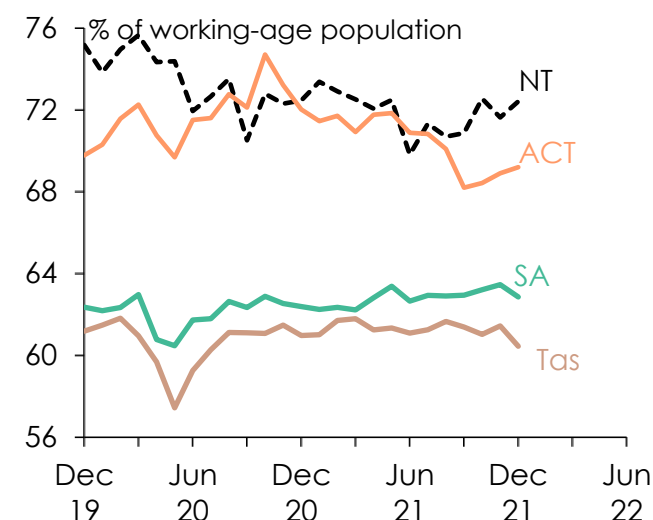
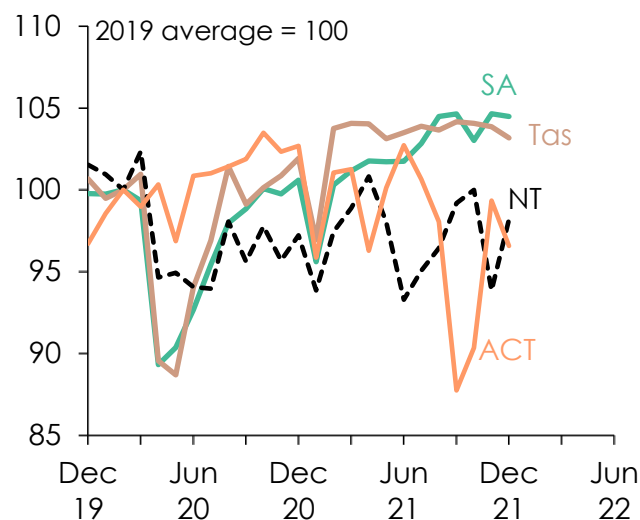
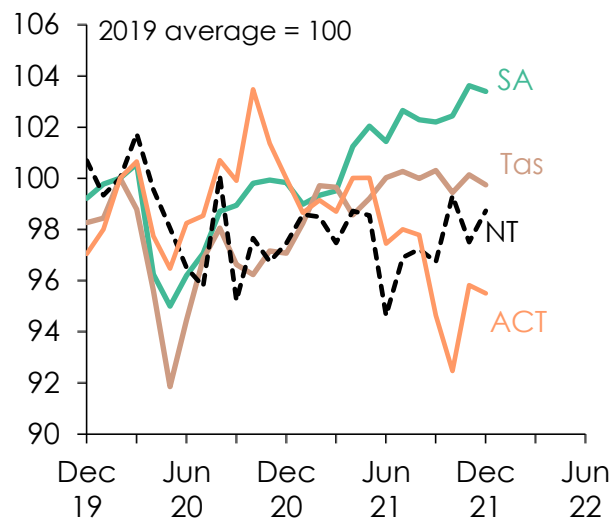
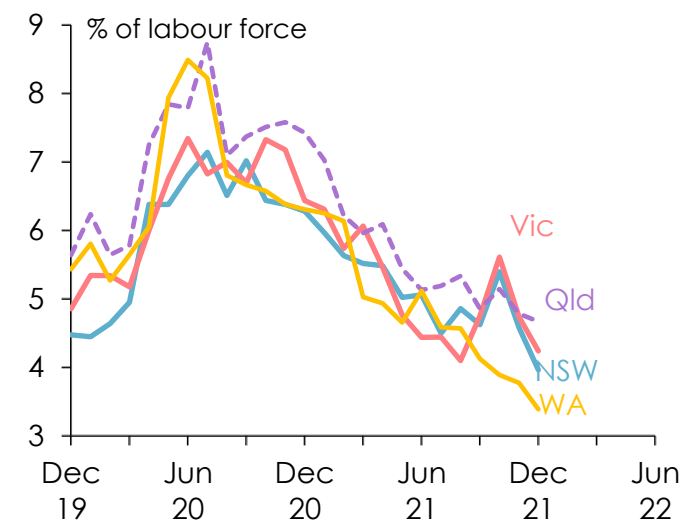
Hours worked



Participation rates



Unemployment rates

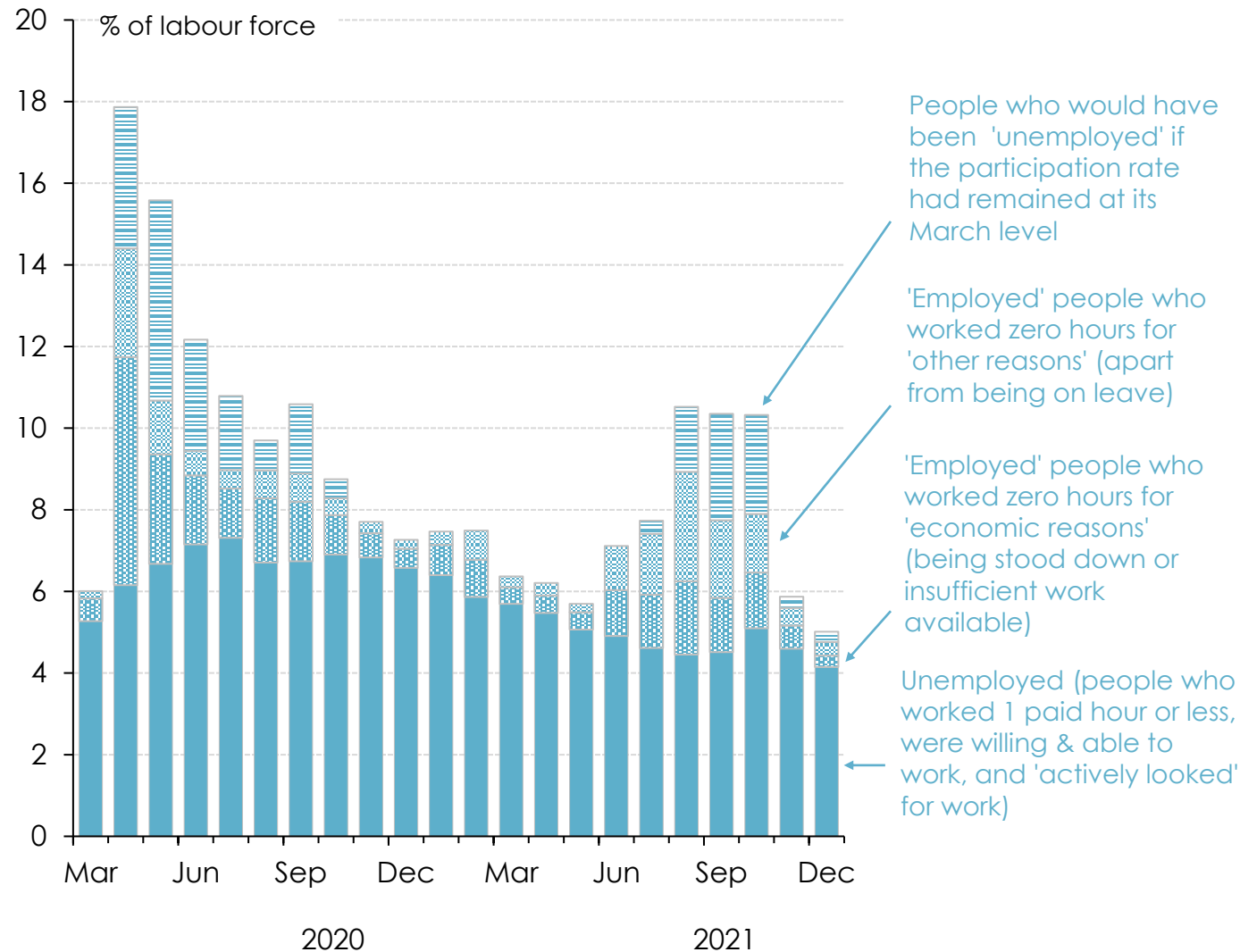


Source: ABS, [Labour Force, Australia](#), December 2021. January data will be released on 17th February. [Return to "What's New"](#).

The 'effective' unemployment rate dropped back to 5.0% in December, from over 10% in August, September and October last year

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Alternative measures of unemployment



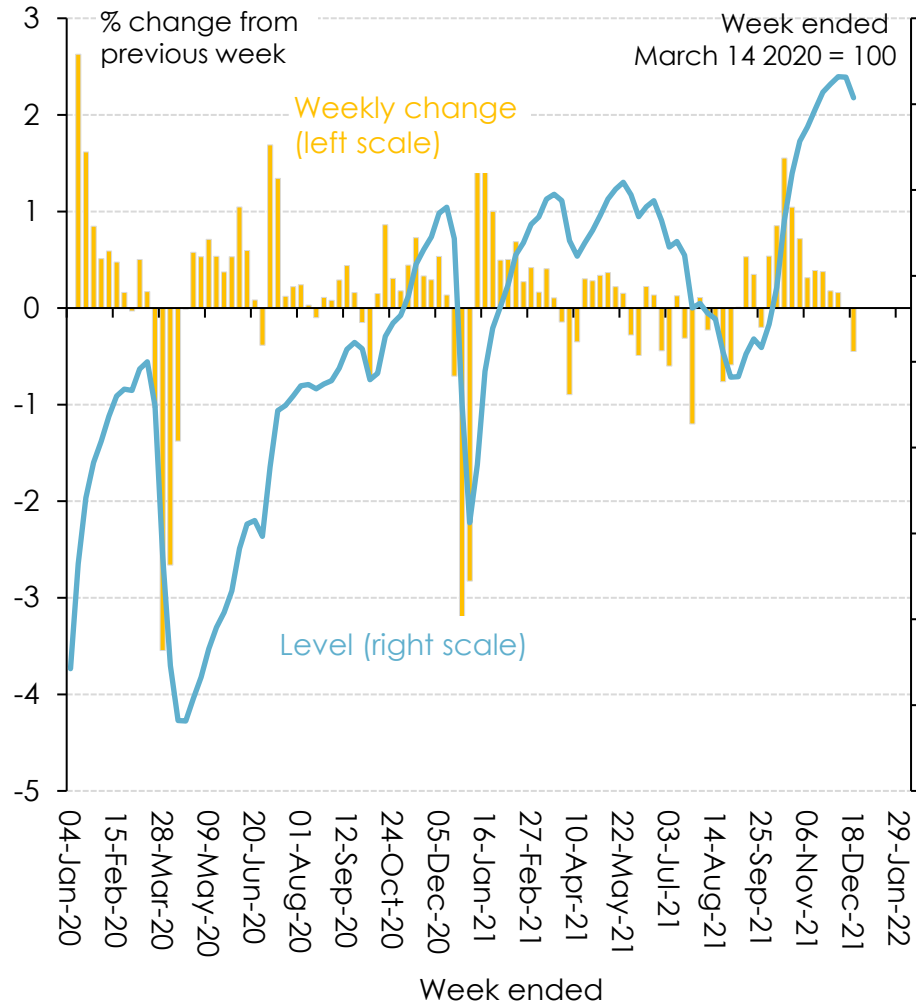
- ❑ The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') peaked at 249K last August, but by December had fallen to less than 39K, the lowest number since the ABS began measuring this category in July 2014
- ❑ The number of people counted as 'employed' but who worked zero hours for 'other reasons' (apart from being leave), which peaked at 371K in August, fell to 46K in December, the lowest number since May
- ❑ Almost 362K people had apparently 'dropped out' of the work force in September – and this number remained at 336K in October – but by December fewer than 35K of them were still out of the workforce
- ❑ The 'effective' unemployment rate – which adds back people in the above three groups to the 'official' rate – which had risen from 5.7% in May to 10.5% in August, and remained above 10% in September and October – fell back to 5.9% in November, and dropped again to 5.0% in December

Source: ABS, [Labour Force, Australia](#), December 2021. January data will be released on 17th February. [Return to "What's New"](#).

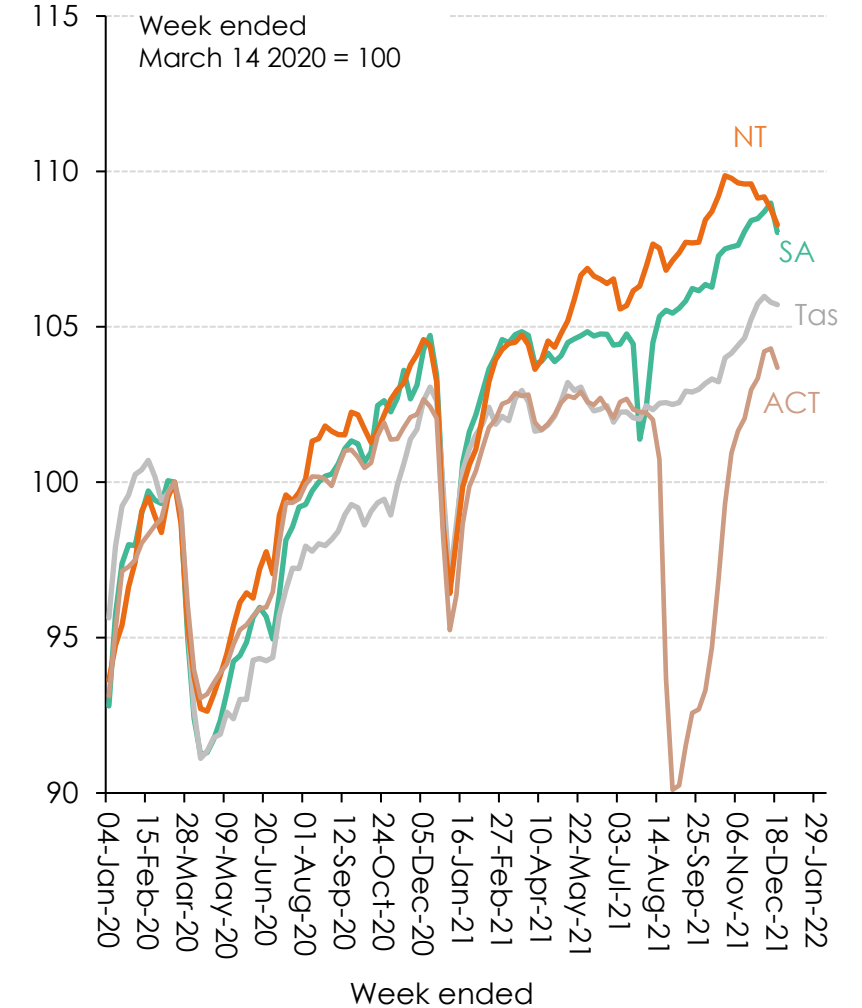
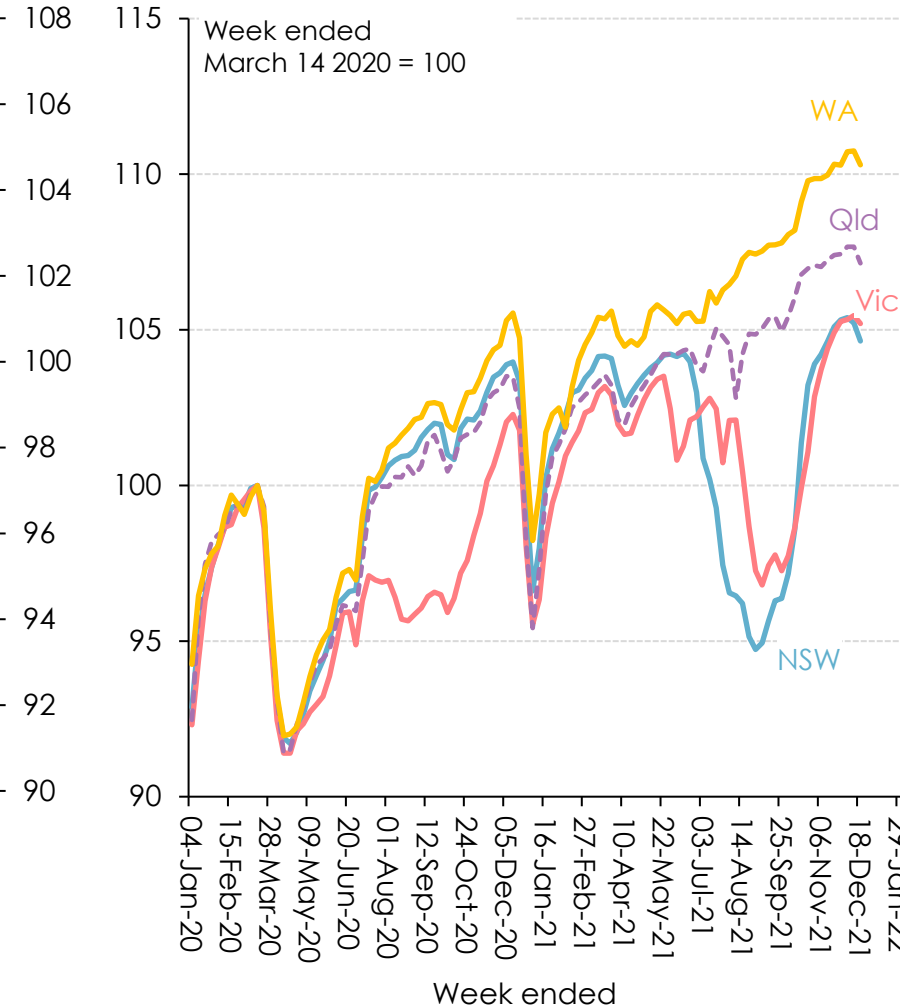
Payroll jobs fell by 0.3% over the first three weeks of December last year, reflecting a seasonal pattern similar to 2020

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Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



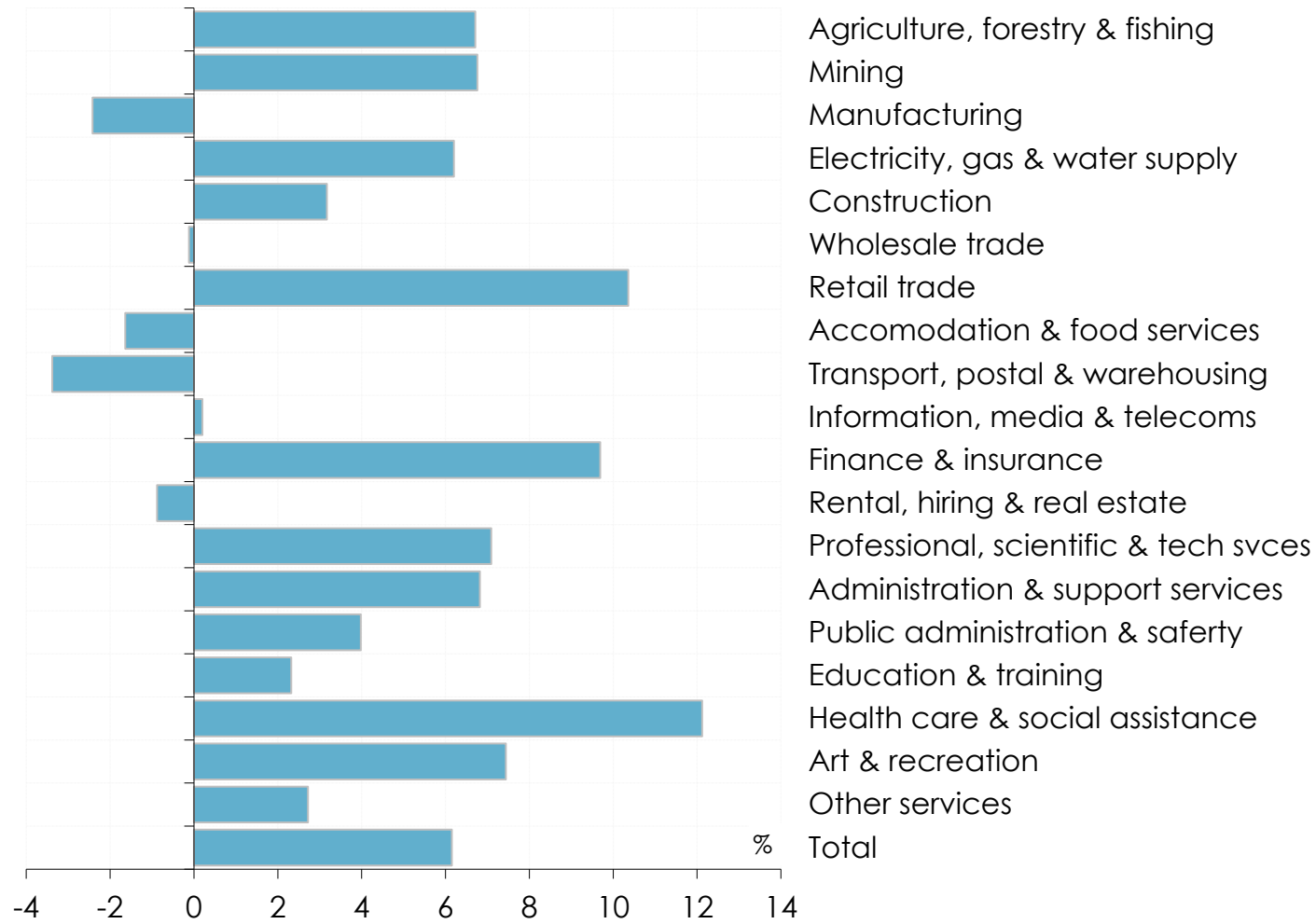
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are double-counted; employers and the self-employed are not included. Data are not seasonally adjusted (so at least some of the week-to-week variations could be due to 'normal' seasonal factors); and the two most recent weeks are subject to (what have often been large) revisions. [Return to "What's New"](#).

Payroll employment is still below its pre-pandemic level in five sectors, but is above the pre-pandemic level for both genders and all age groups

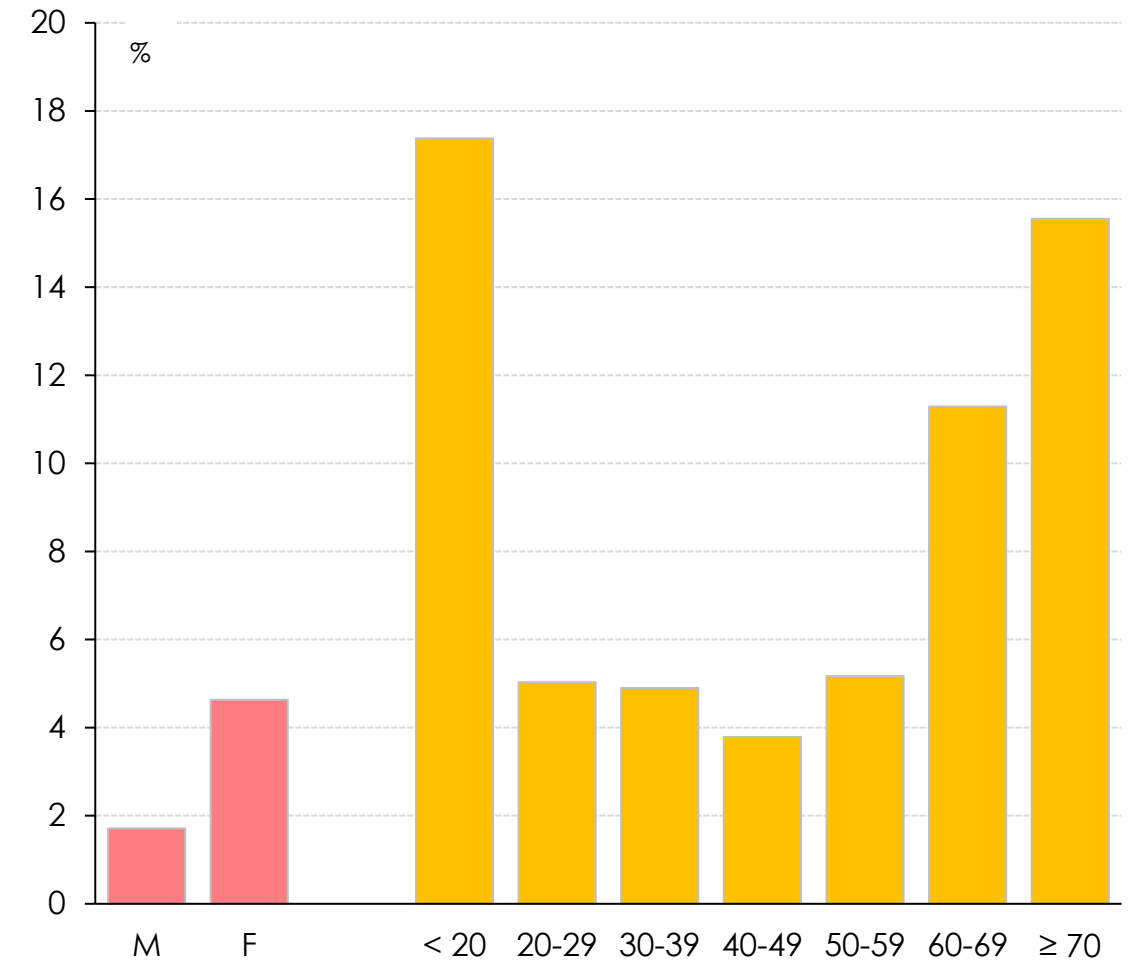
THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

Net change in payroll jobs between week ended 14th March 2020 and week ended 18th December 2021

By industry



By gender and age

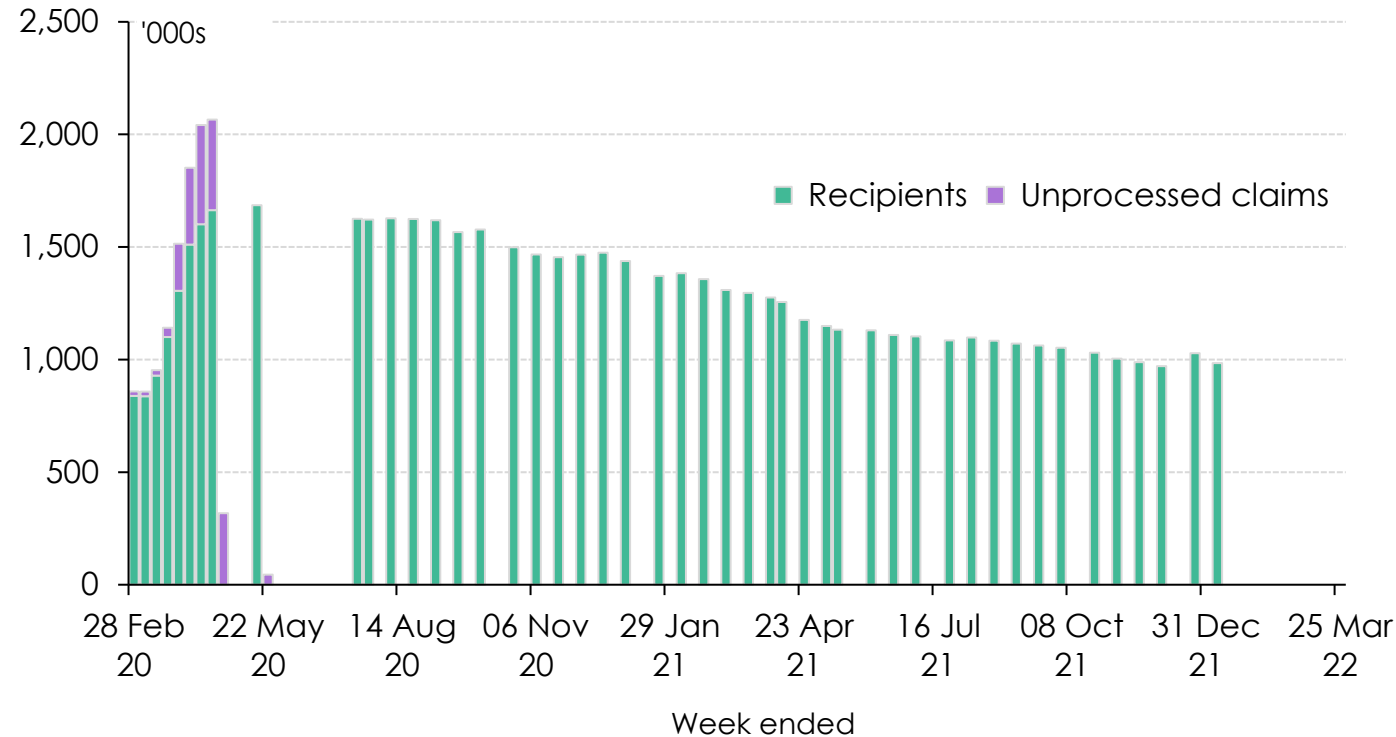


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are double-counted; employers and the self-employed are not included. [Return to "What's New"](#).

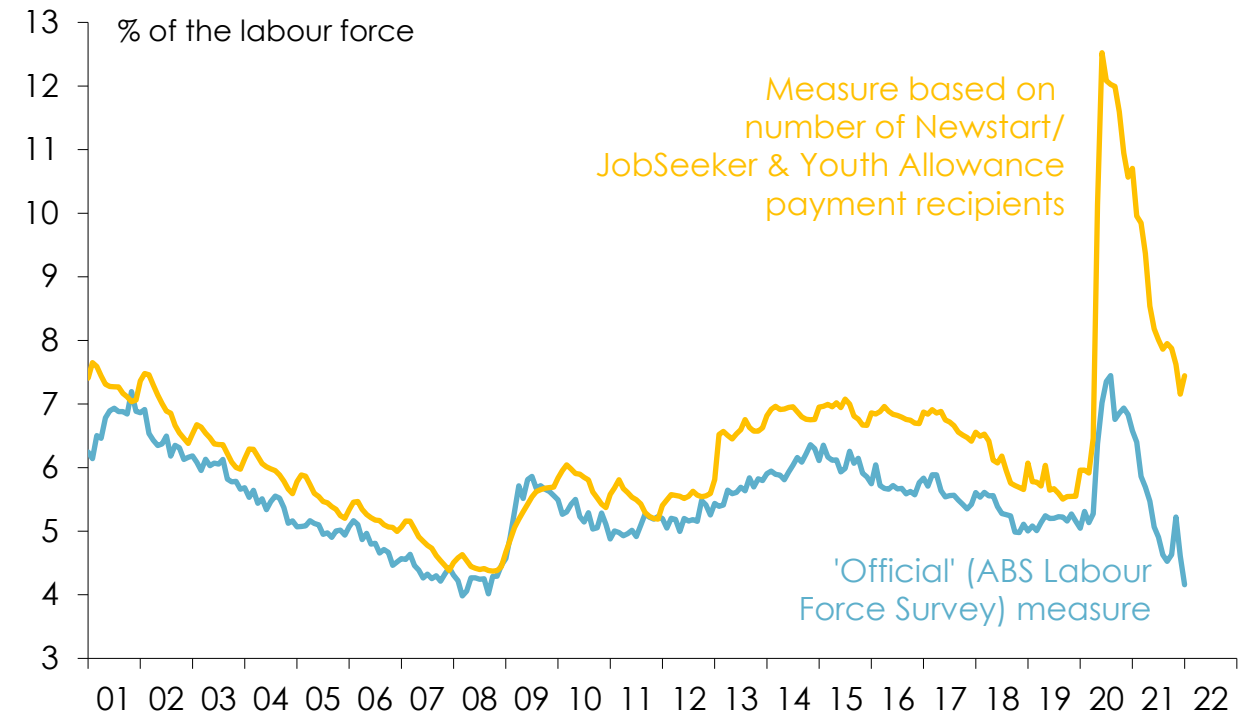
The number of people receiving joblessness-related income support payments has levelled out since mid-December

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Number of people receiving or seeking Newstart/JobSeeker or Youth Allowance payments



Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force



- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments rose by 57,600 (5.9%), to back above 1mn, between 10th and 31st December last year, but fell by 44,100 (4.3%) over the first two weeks of January

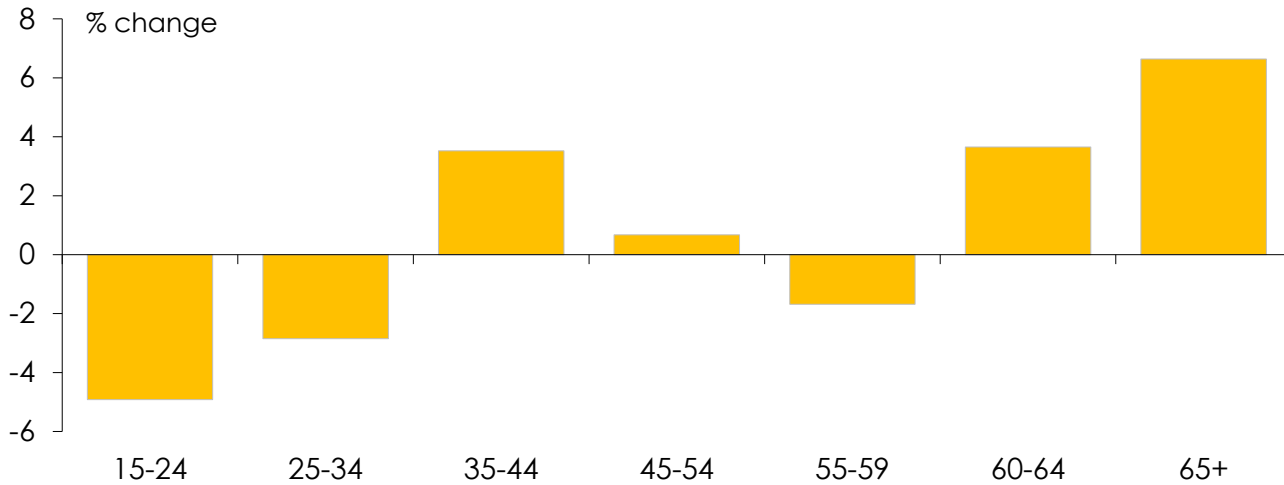
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). [Return to "What's New"](#).

The decline in employment among young people over the past two years reflects the fact that many of them (students?) have left the country

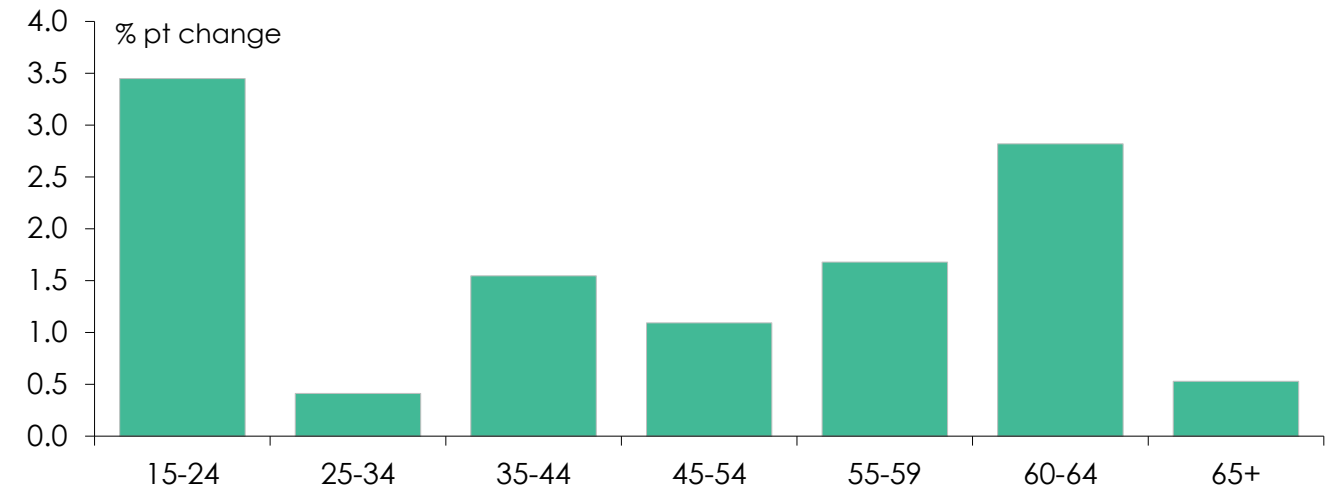
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Changes over the two years to December 2021, by age groups

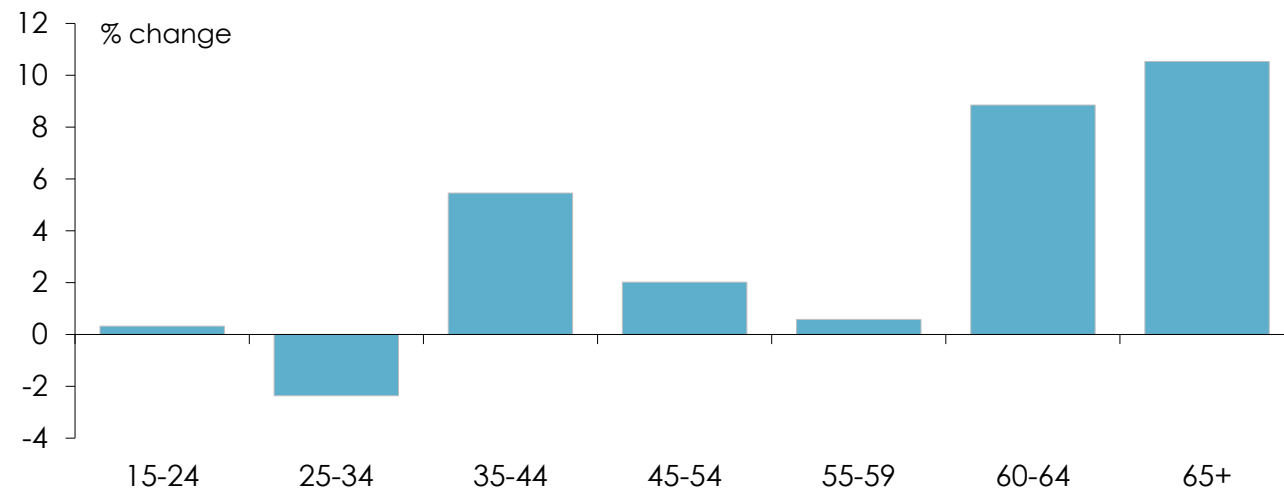
Civilian working age population



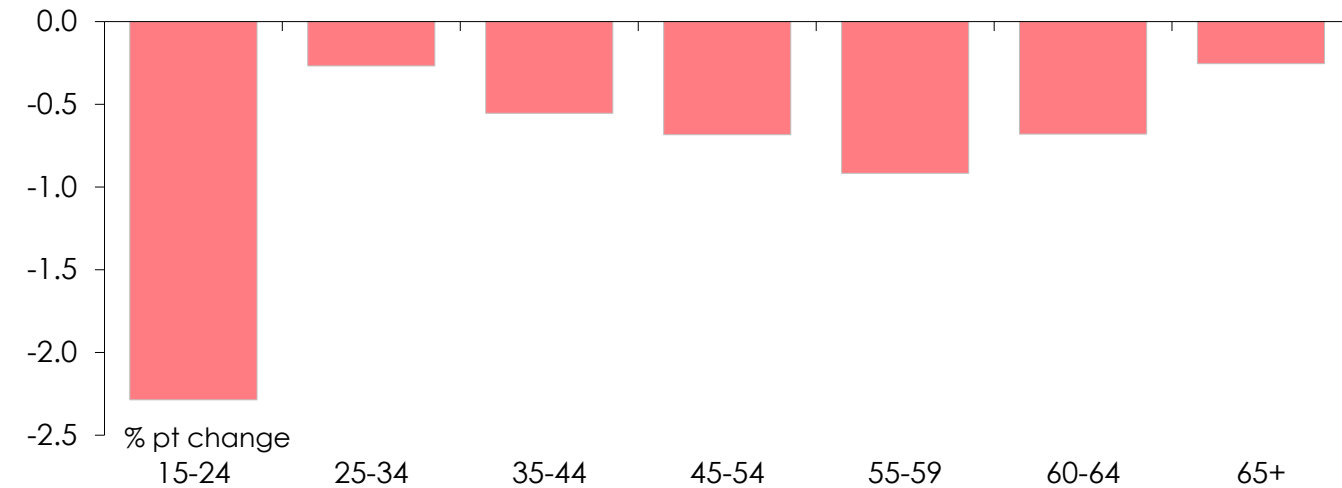
Employment-population ratio



Employment



Unemployment rates



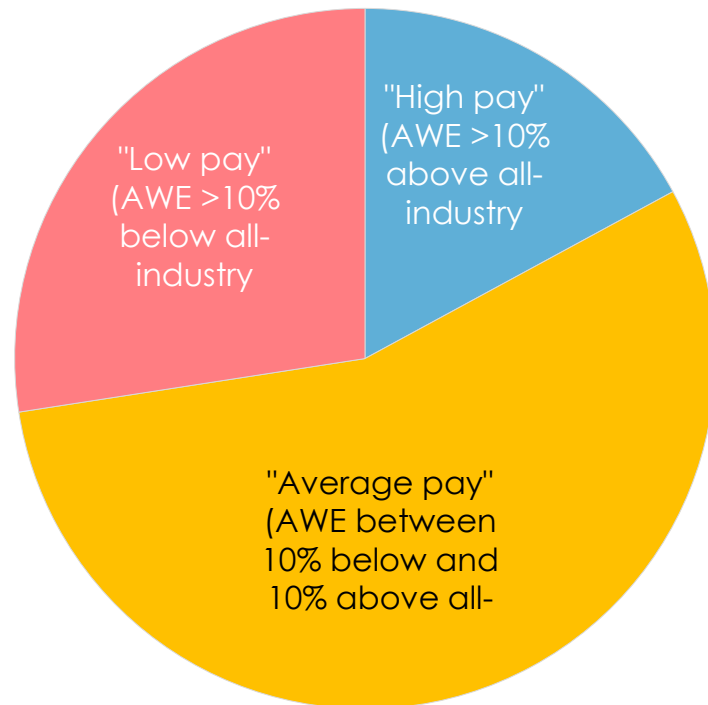
Note: The data from which the above charts are derived isn't seasonally adjusted, hence the need to make comparisons between December 2019 and December 2021.

Source: ABS, [Labour Force, Australia, Detailed](#), December 2021; January data will be released on 24th February. [Return to "What's New"](#).

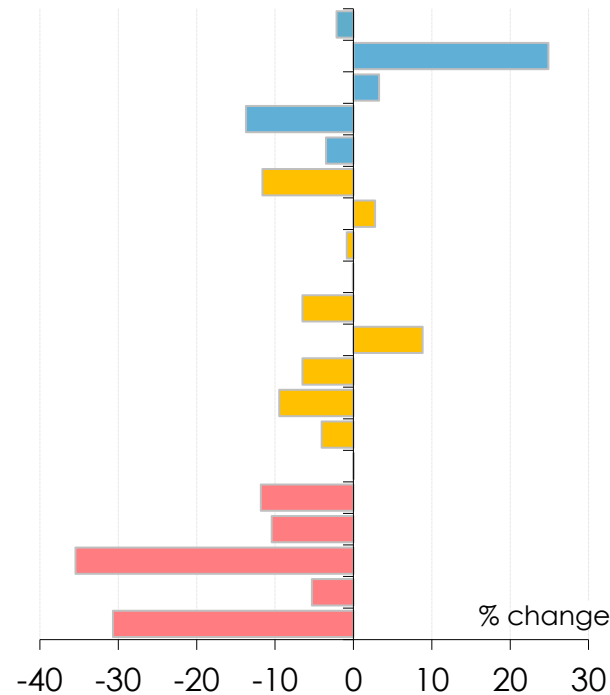
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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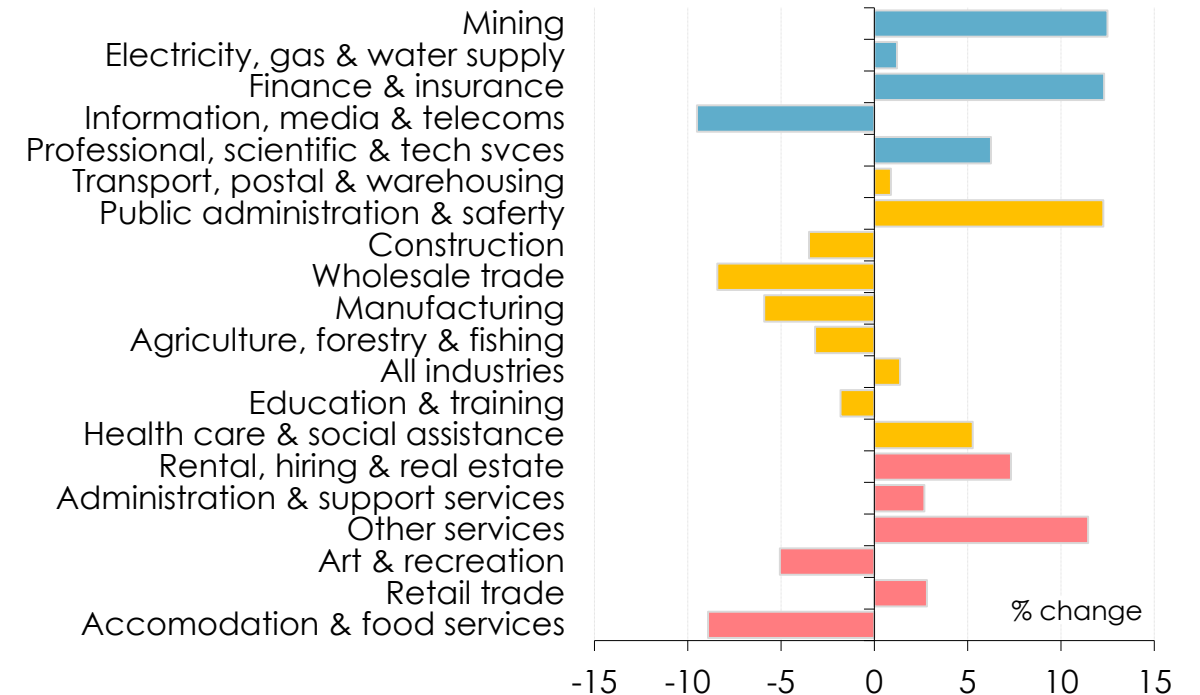
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry February-May 2020



February 2020 – November 2021



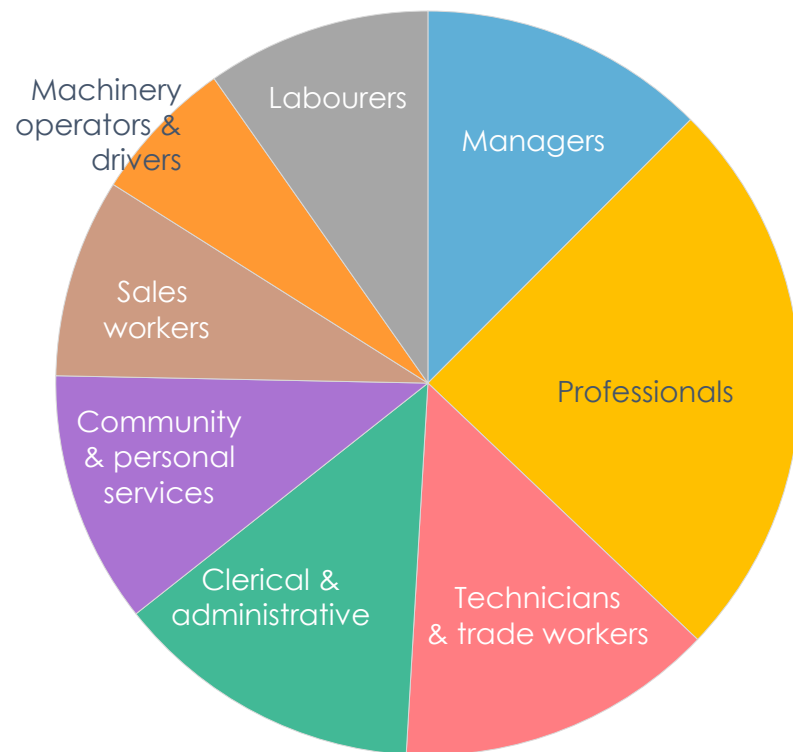
- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and 89% of job losses between May and August this year – and despite the recovery in November, employment in these industries was only 0.6% higher than in February 2020
- ❑ By contrast employment in “high pay” industries (17% of the pre-pandemic workforce) was 6.4% higher in November than it had been in February last year

Source: ABS, [Labour Force, Australia, Detailed](#), November 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2021 data will be released on 24th March. [Return to "What's New"](#).

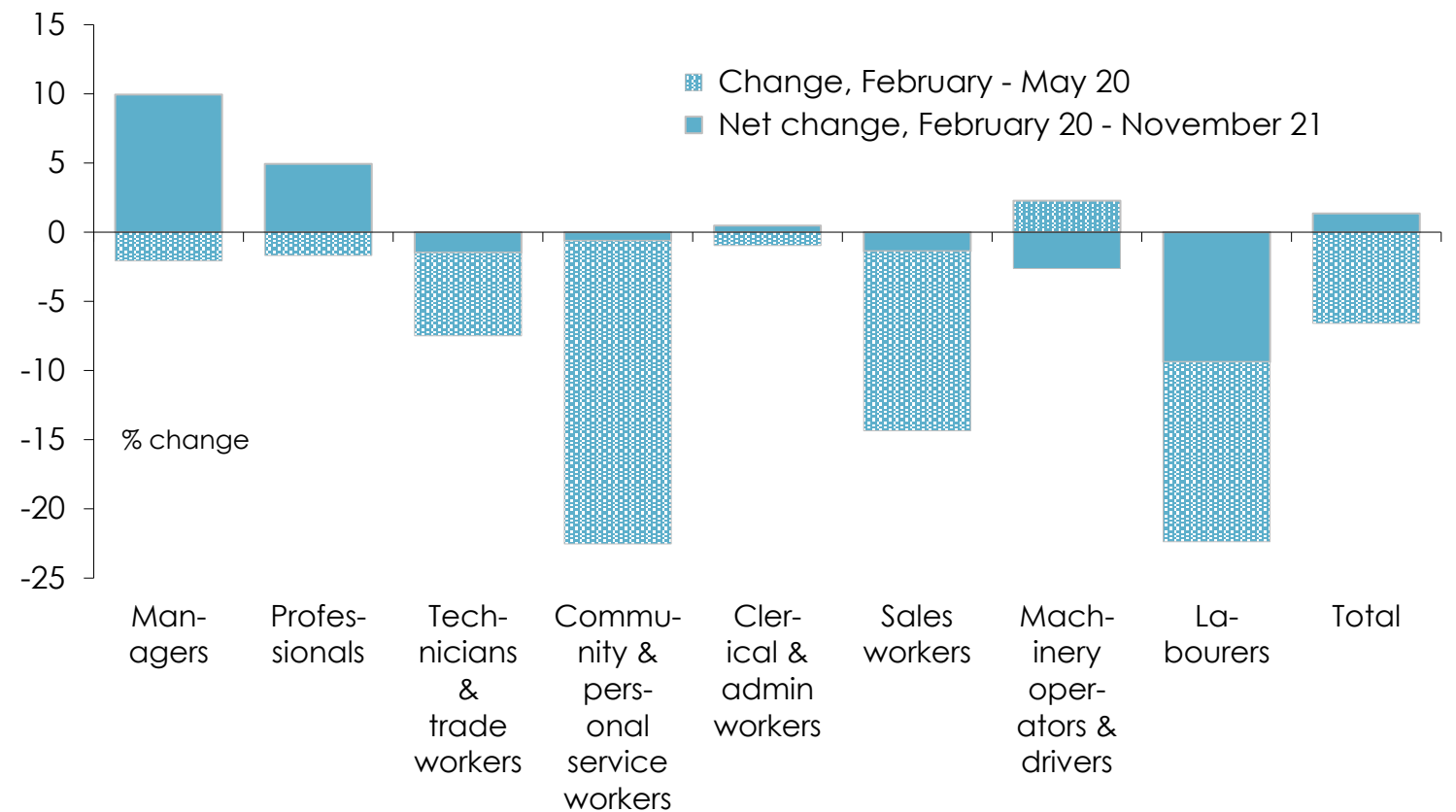
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



Change in employment between February 2020 and November 2021, by occupation



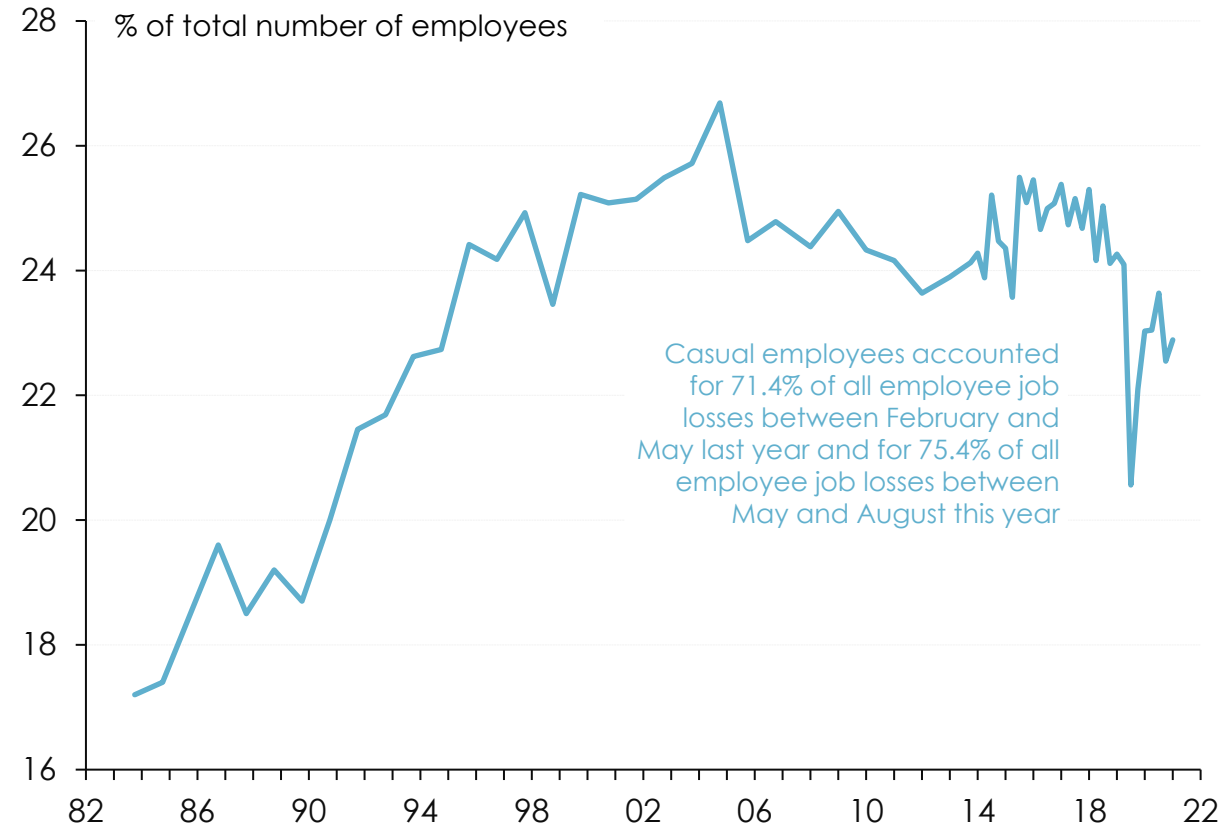
- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 3.8% fewer of them in November than in February last year
- ... whereas there are 6.6% more employed managers and professionals than there were in February last year

Source: ABS, [Labour Force, Australia, Detailed](#), November 2021. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2021 data will be released on 24th March. [Return to "What's New"](#).

Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

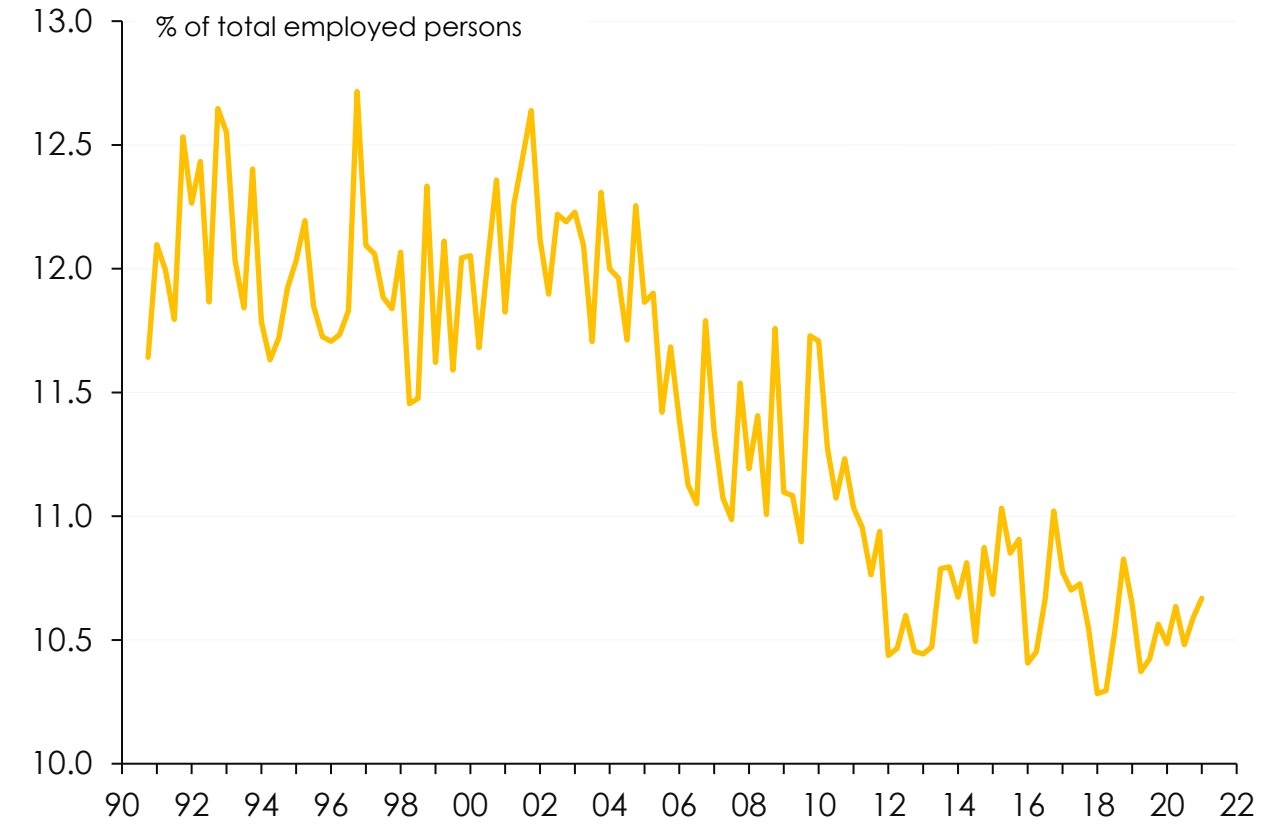
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'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



- ❑ **Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the current recession**

Owner-managers of unincorporated enterprises with no employees as a pc of total employment



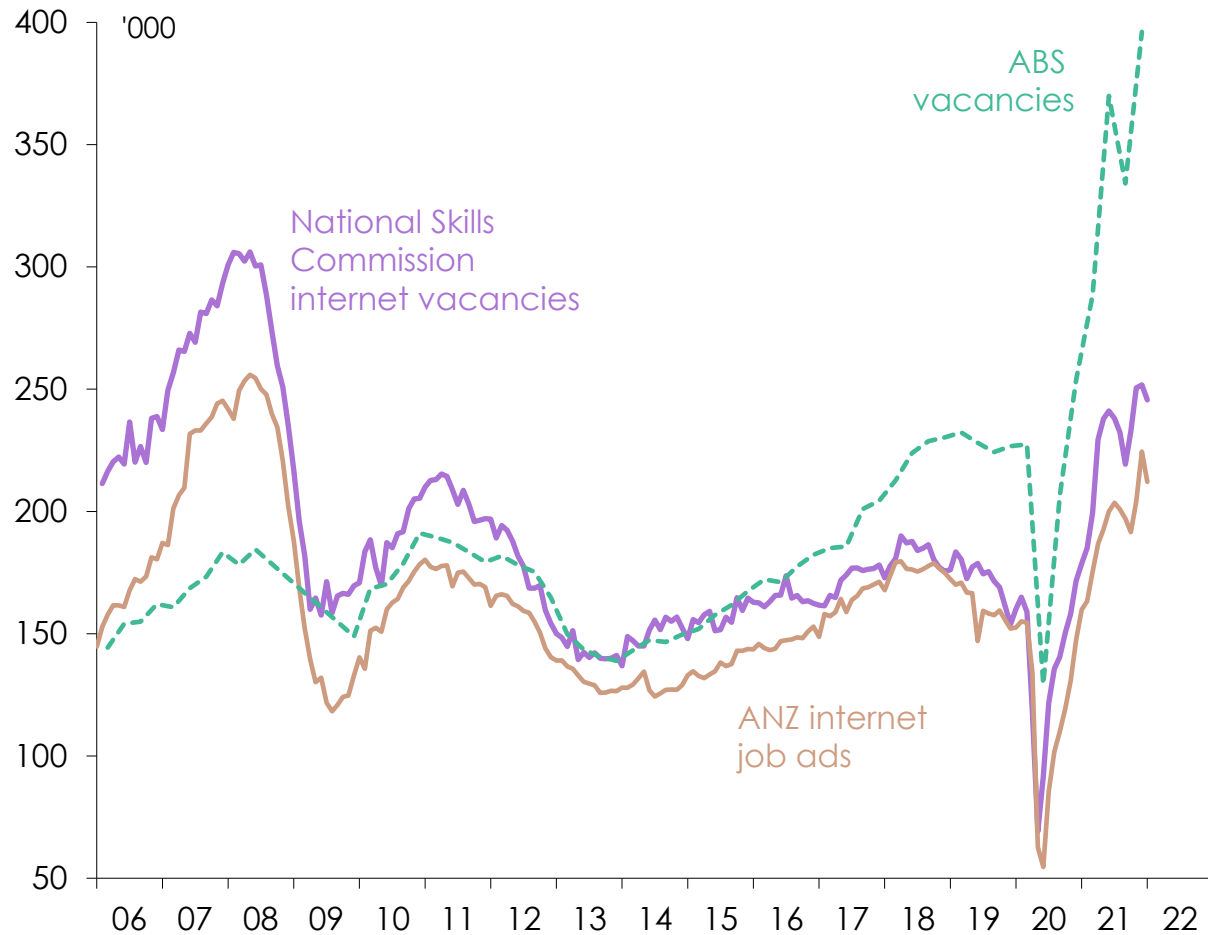
- ❑ **'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession**

Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents; [Labour Force, Australia, Detailed](#); and [Employee Earnings, Benefits and Trade Union Membership, Australia](#). [Return to "What's New"](#).

Job vacancies have rebounded swiftly from their recession lows – there are now fewer than two jobseekers for every vacancy, a record low

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Measures of job vacancies



- ❑ Job advertisements and vacancies fell only slightly during the NSW and Victorian lockdowns, and have rebounded strongly in October and November

Ratio of unemployed people to job vacancies

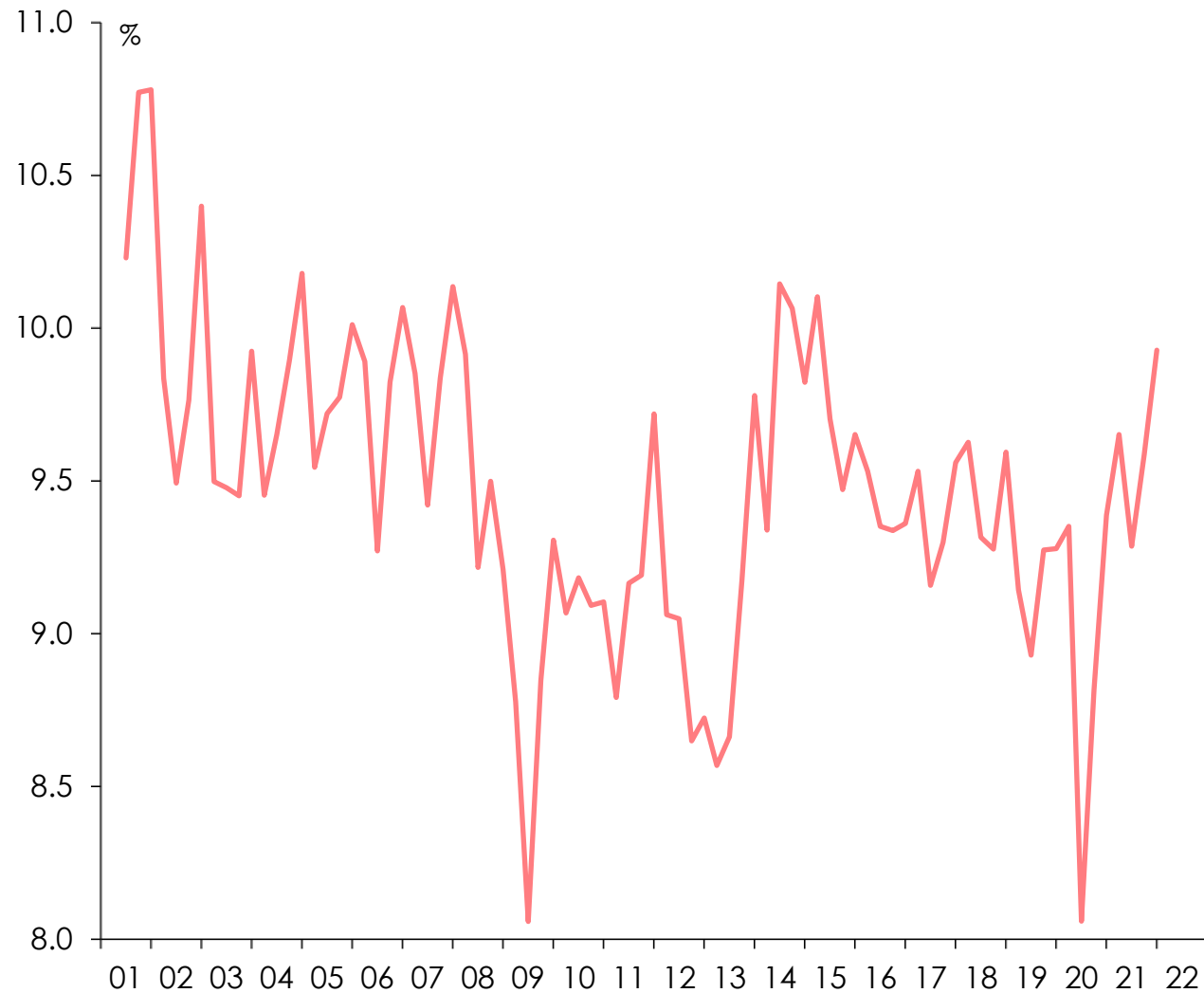


- ❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

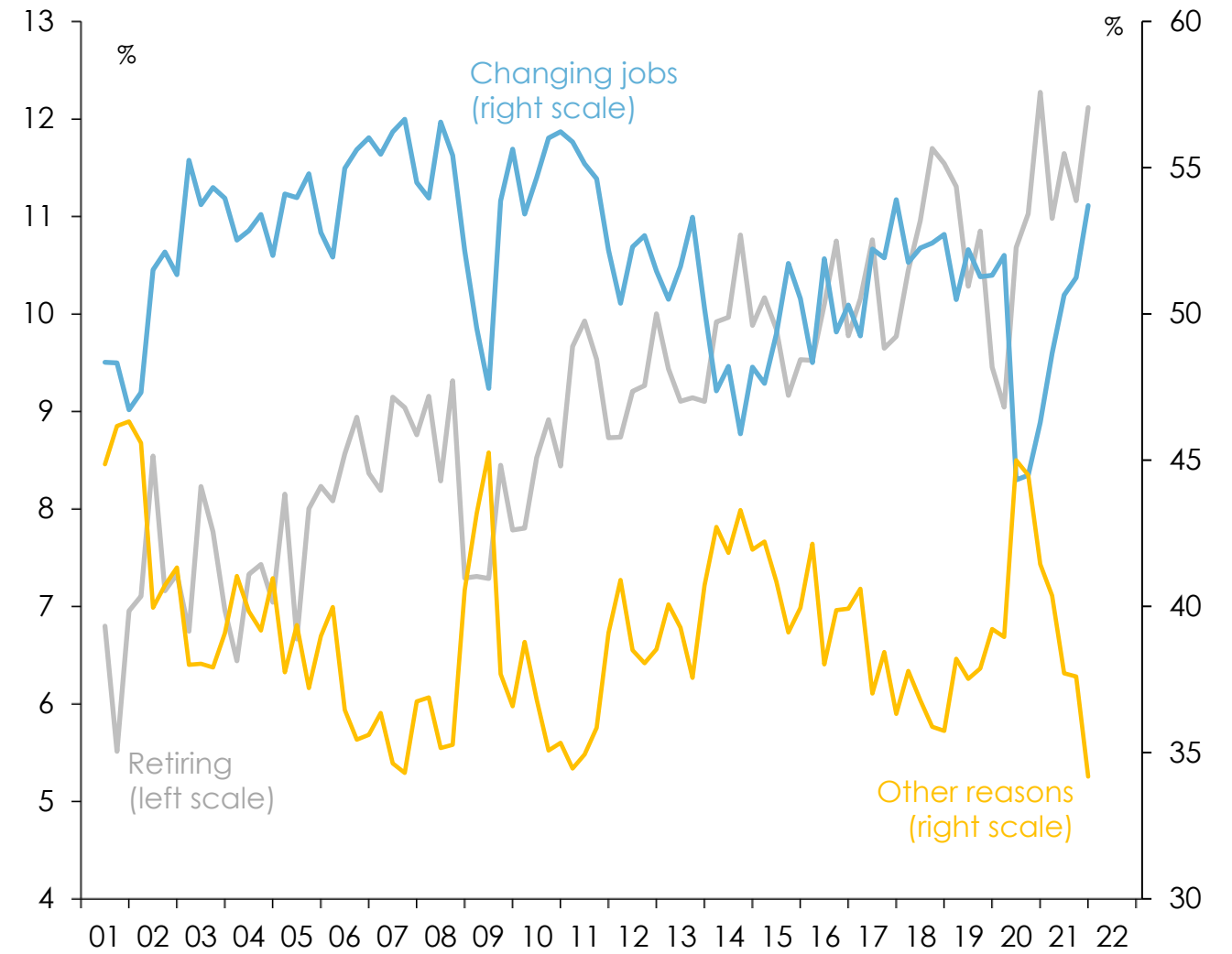
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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Proportion of employees who don't expect to be with their current employer or business in 12 months' time



Reasons for not expecting to be with their current employer or business in 12 months' time



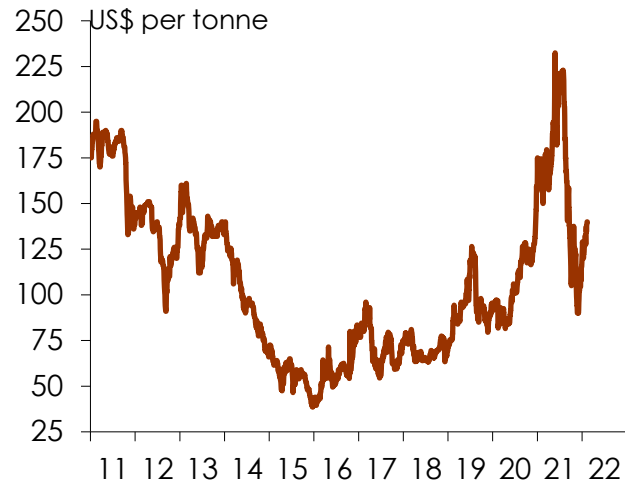
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table 17](#), November 2021.

Trade and the balance of payments

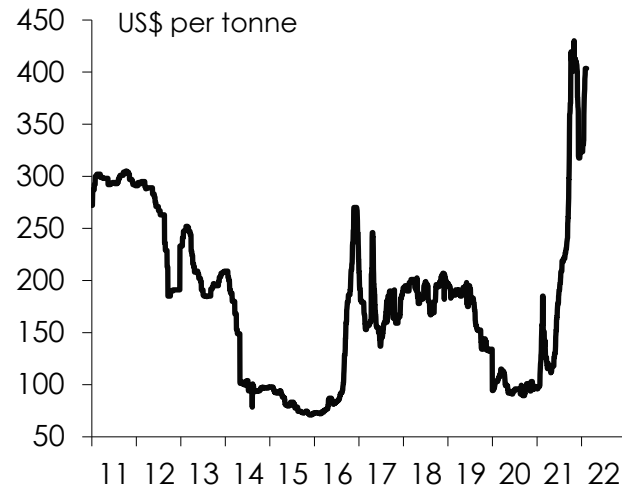
Iron ore, thermal coal and aluminium prices made further small gains this week, but met coal was unchanged, and other base metals and gold fell

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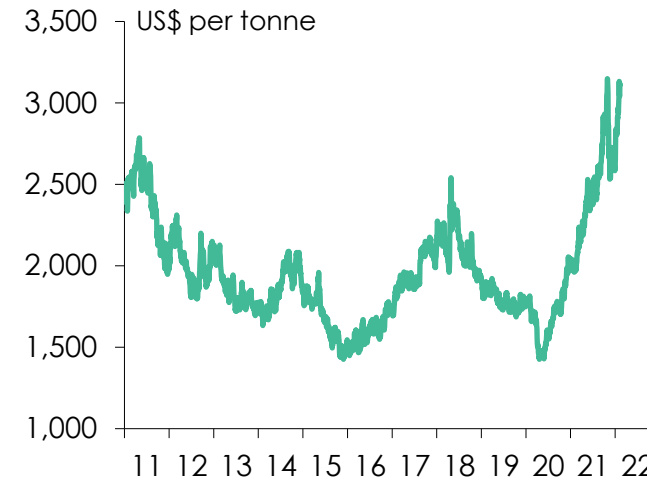
Iron ore



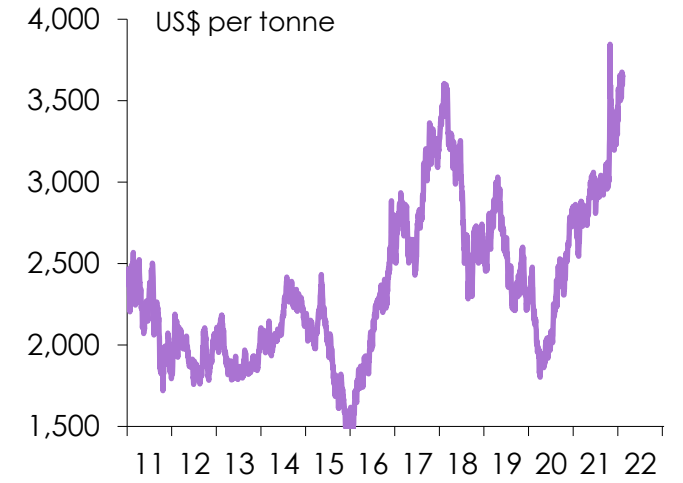
Metallurgical coal



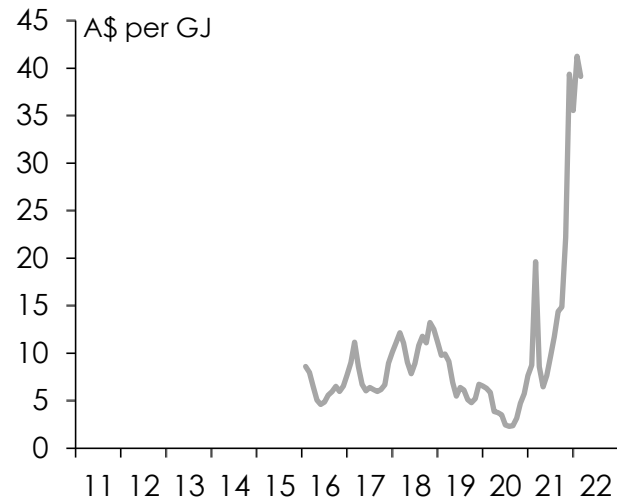
Aluminium



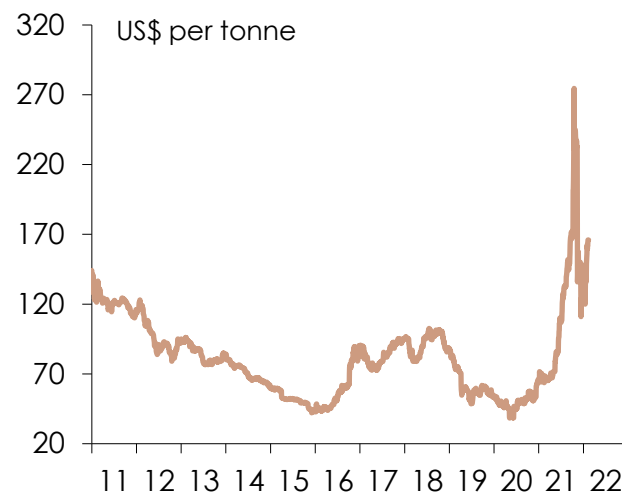
Zinc



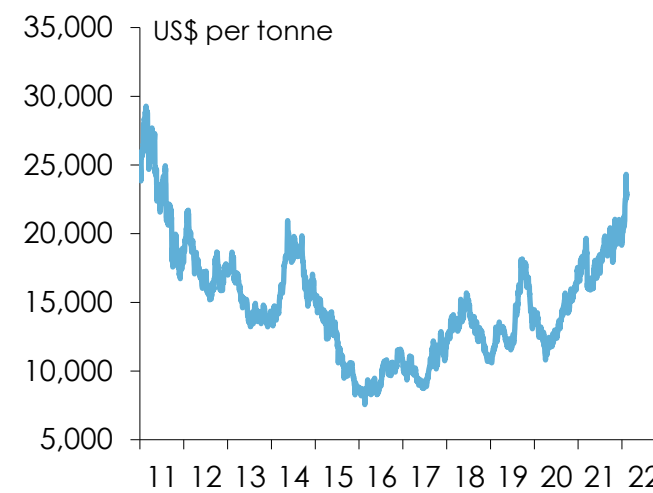
LNG



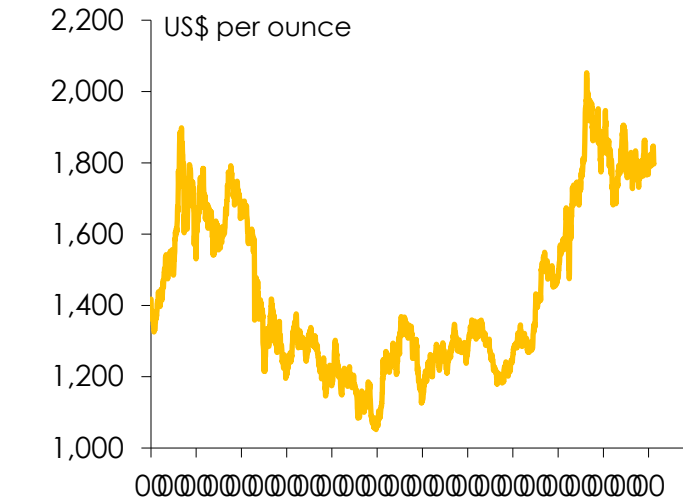
Thermal coal



Nickel



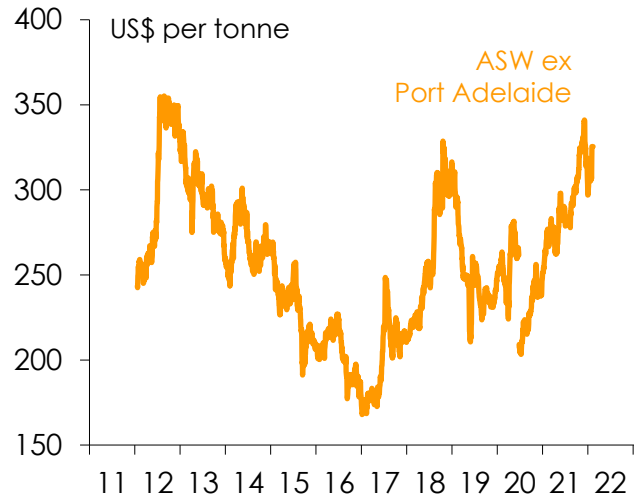
Gold



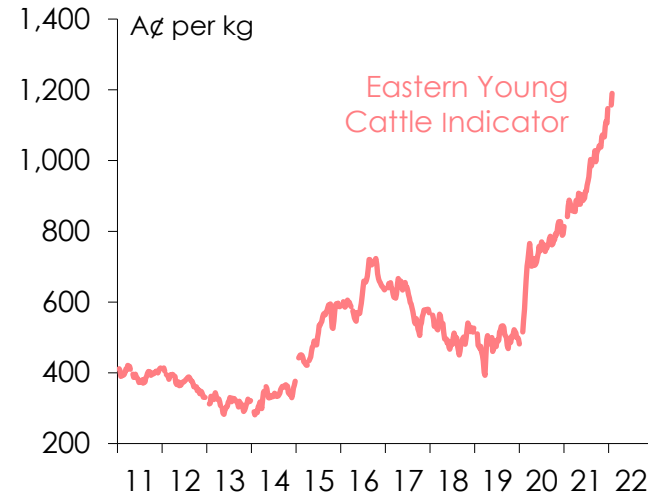
Among agricultural commodity prices, beef and milk have risen strongly so far this year but grain prices have fallen

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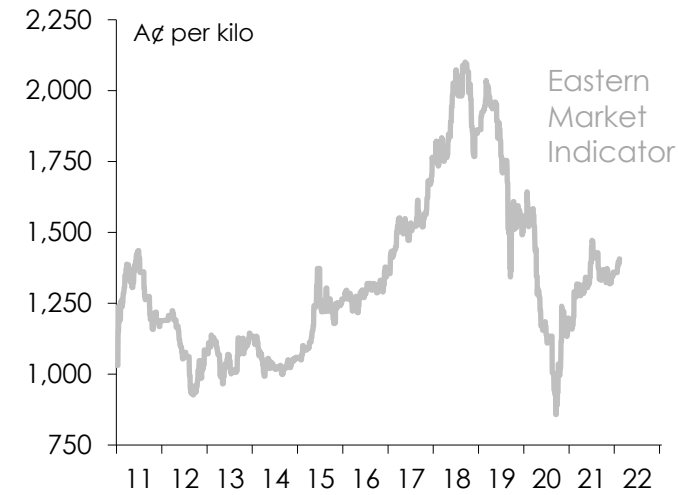
Wheat



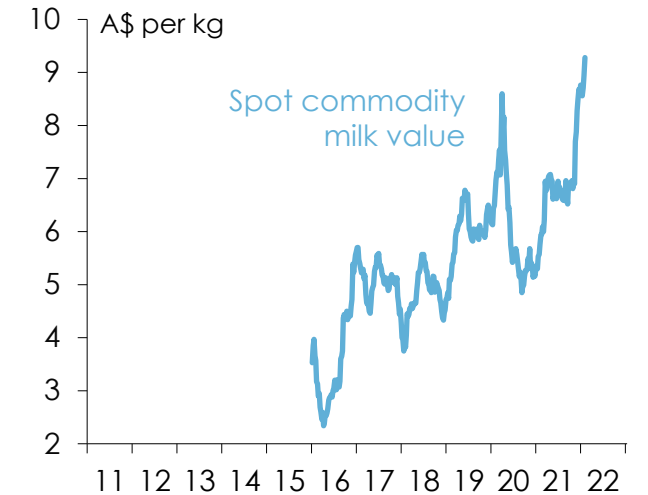
Beef cattle



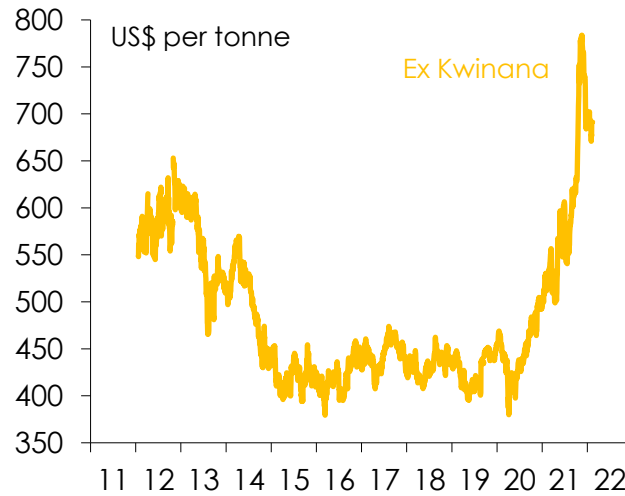
Wool



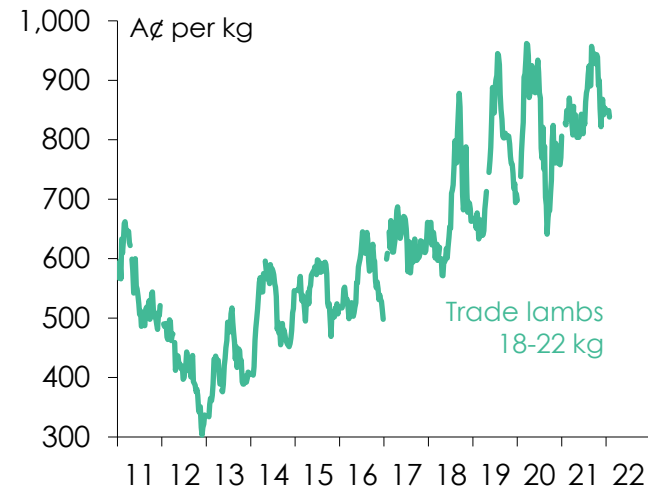
Milk



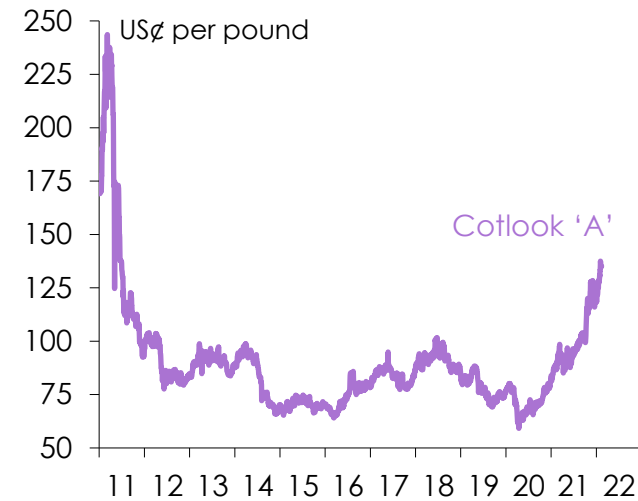
Canola



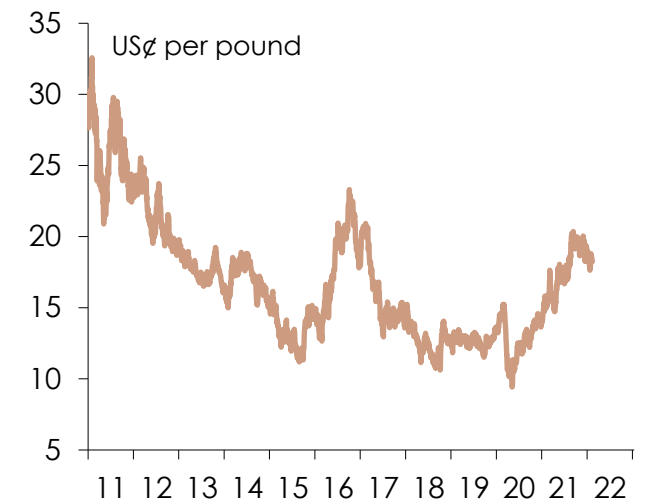
Sheep



Cotton



Sugar

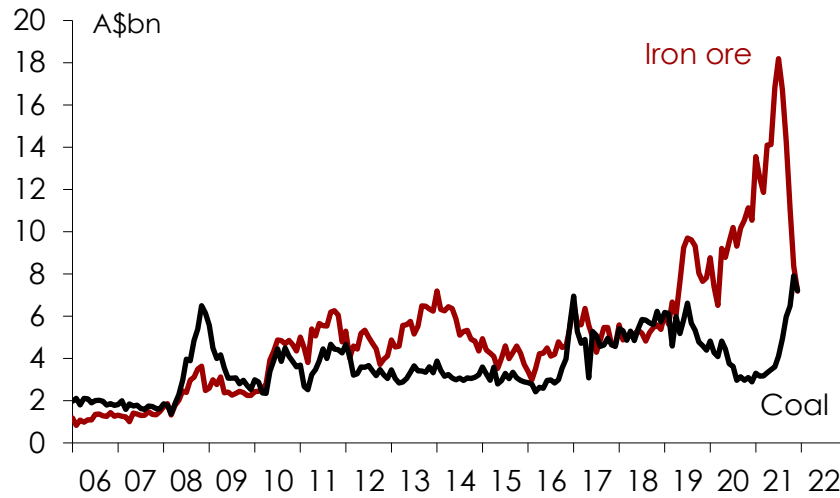


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 27th January. [Return to "What's New"](#).

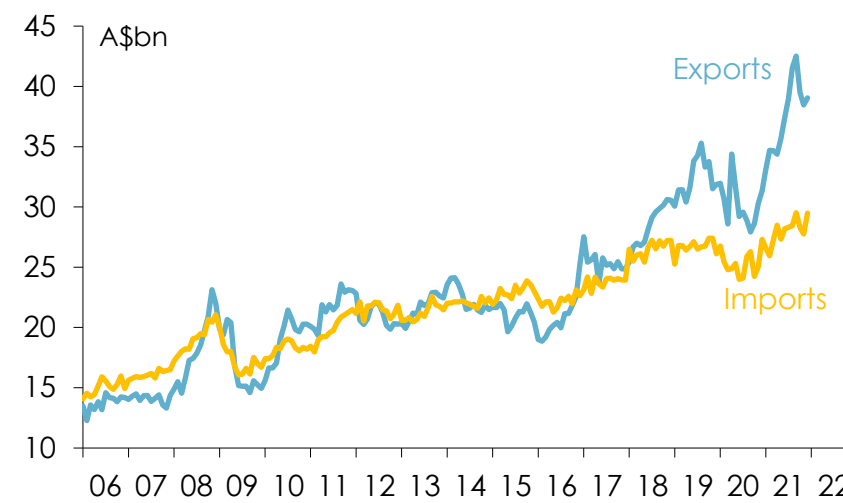
Australia's trade shrank by another \$600mn, to \$10³/₄bn, in November, largely due to falling iron ore exports – now supplanted by coal as #1

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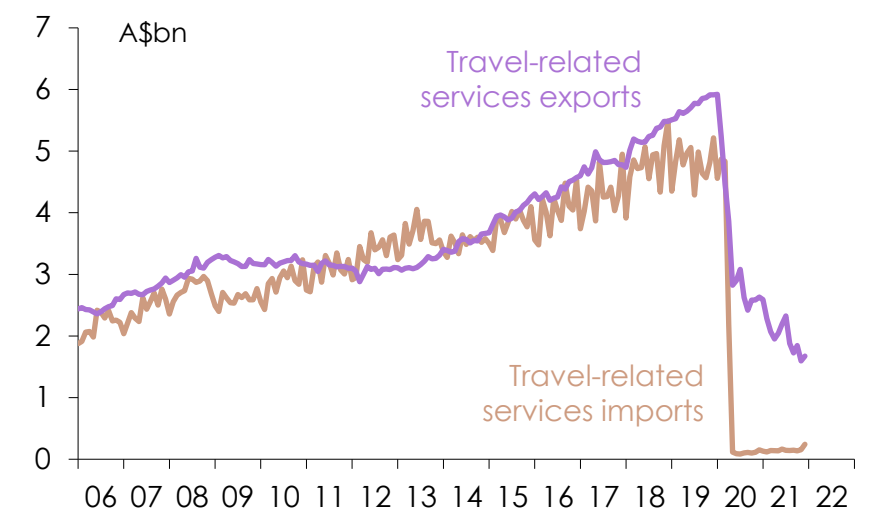
Iron ore and coal exports



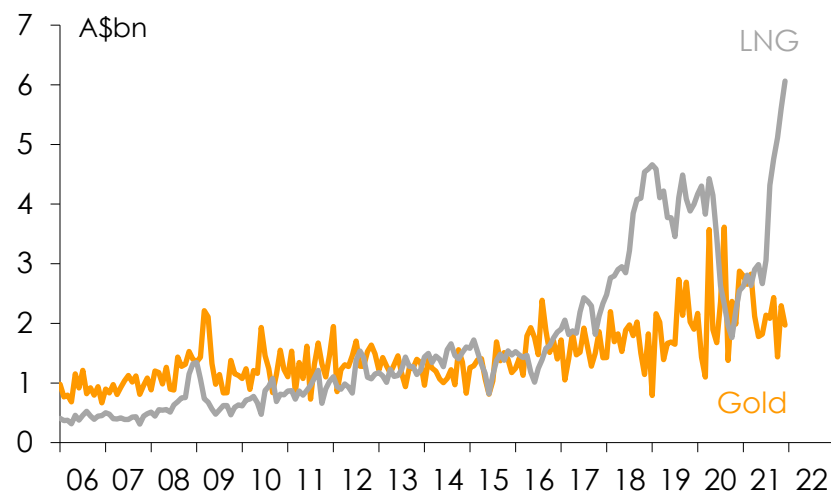
Merchandise exports and imports



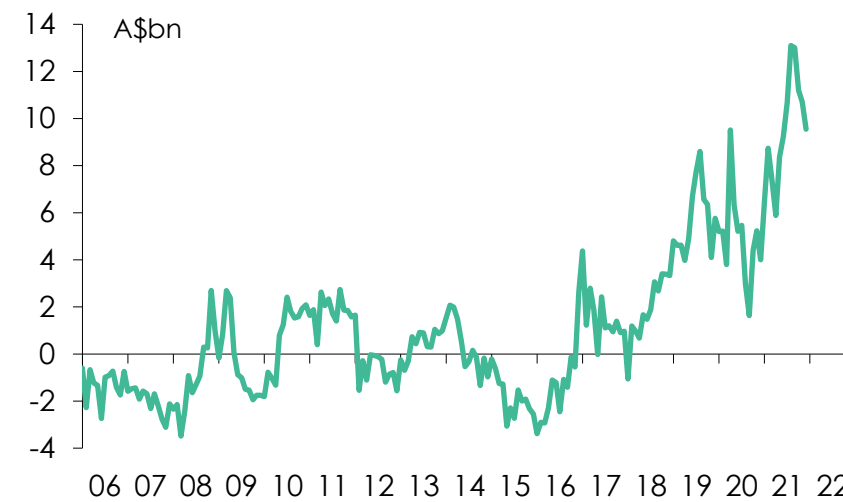
Tourism-related services trade



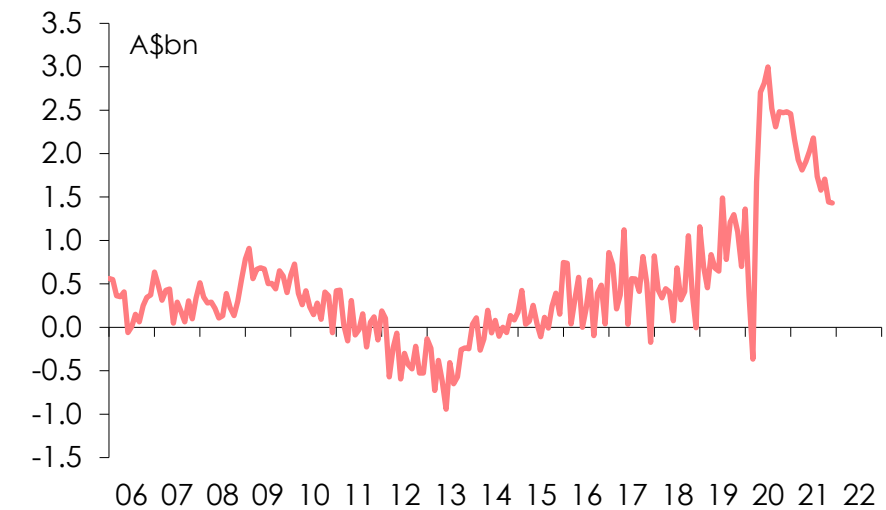
LNG and gold exports



Merchandise trade balance



Tourism services trade balance

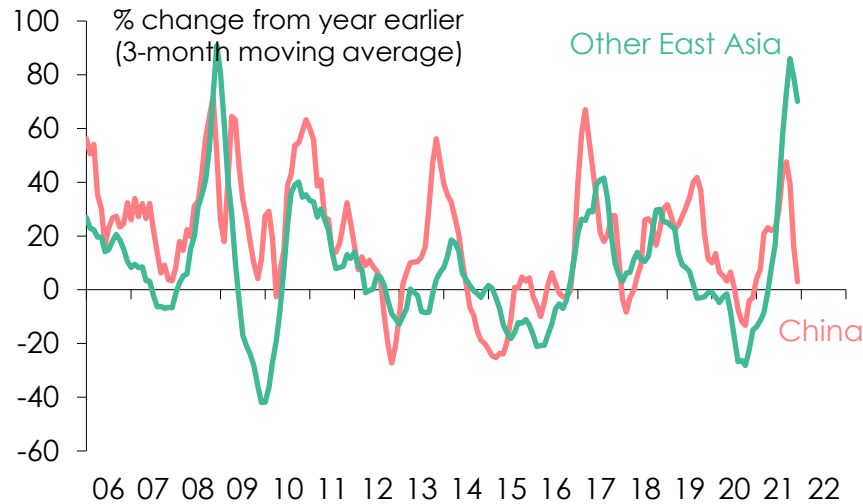


Source: ABS, [International Trade in Goods and Services, Australia](#), November 2021. December data will be released on 3rd February. [Return to "What's New"](#).

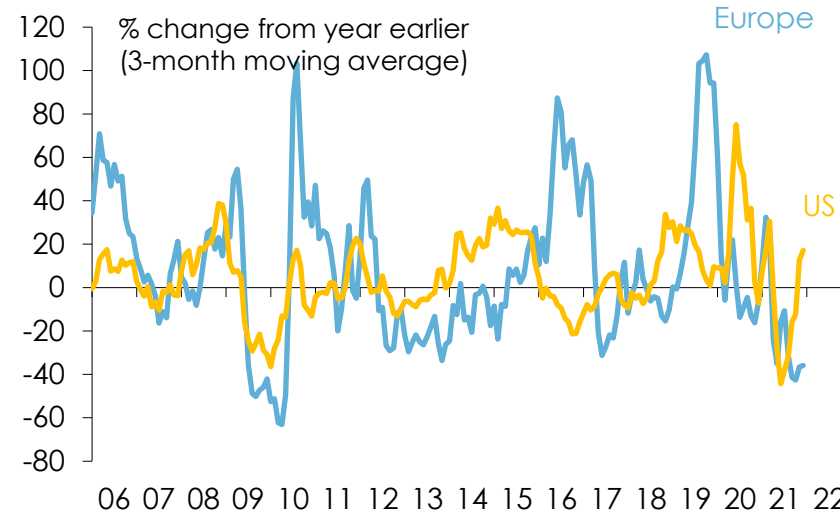
Australia's trade surplus with China has peaked as iron ore prices have eased, but surpluses with other Asian countries have increased

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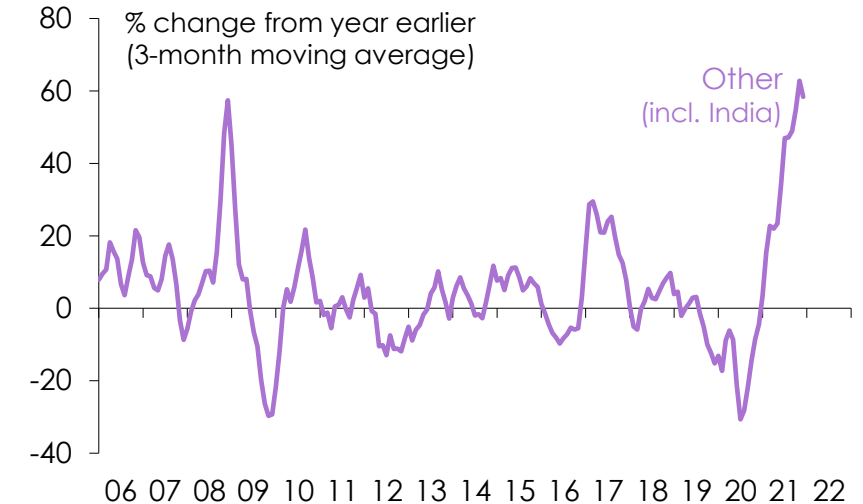
Merchandise exports – East Asia



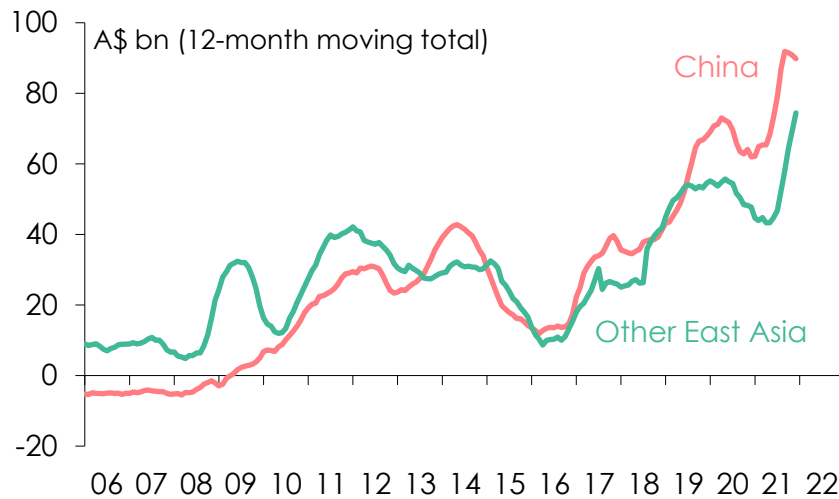
Merchandise exports – US & Europe



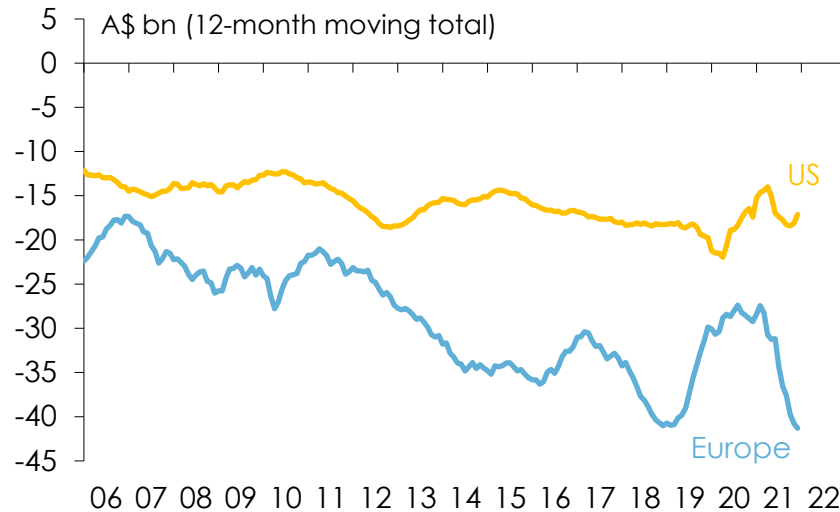
Merchandise exports – other



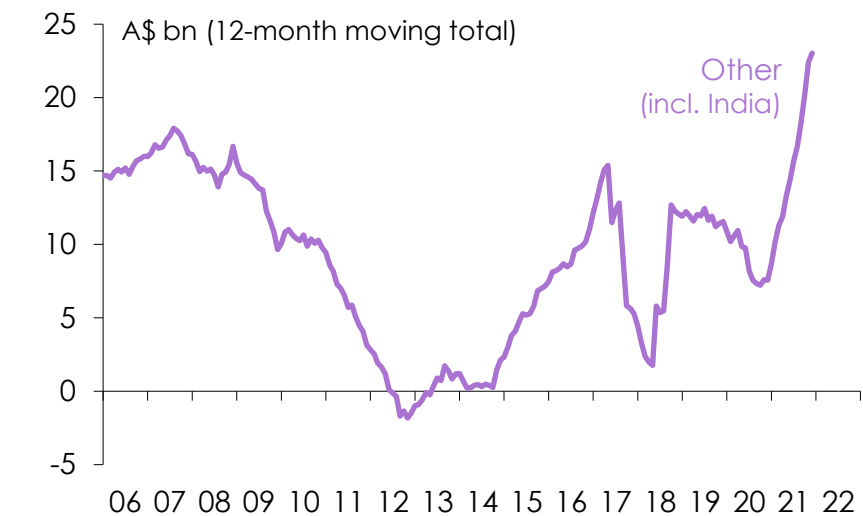
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

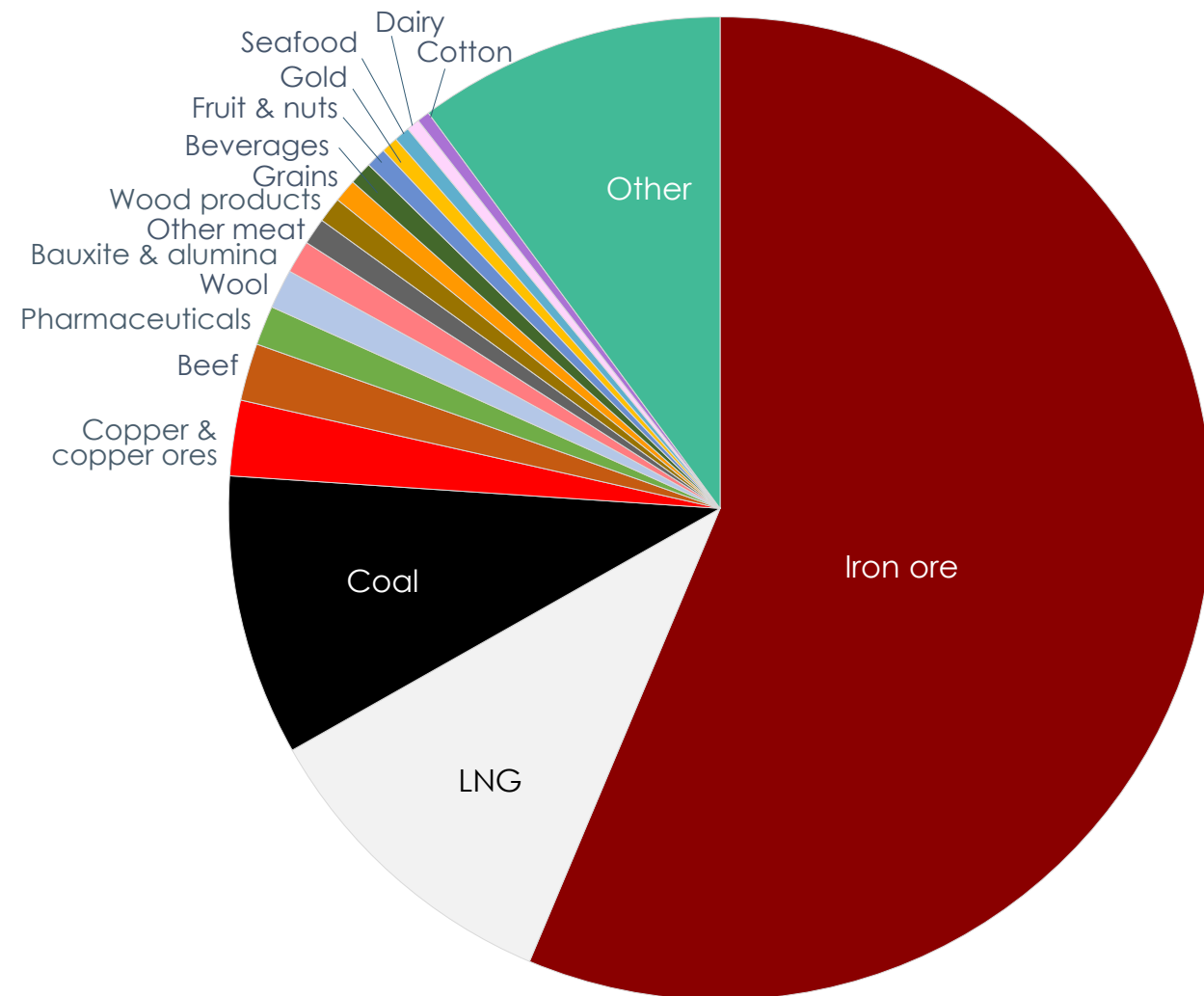


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS, [International Trade in Goods and Services, Australia](#), November 2021. December data will be released on 3rd February. [Return to "What's New"](#).

The bilateral relationship between Australia and its largest trading partner China seems unlikely to improve any time soon and could get worse

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Australia's merchandise exports to China, 2019-20



Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

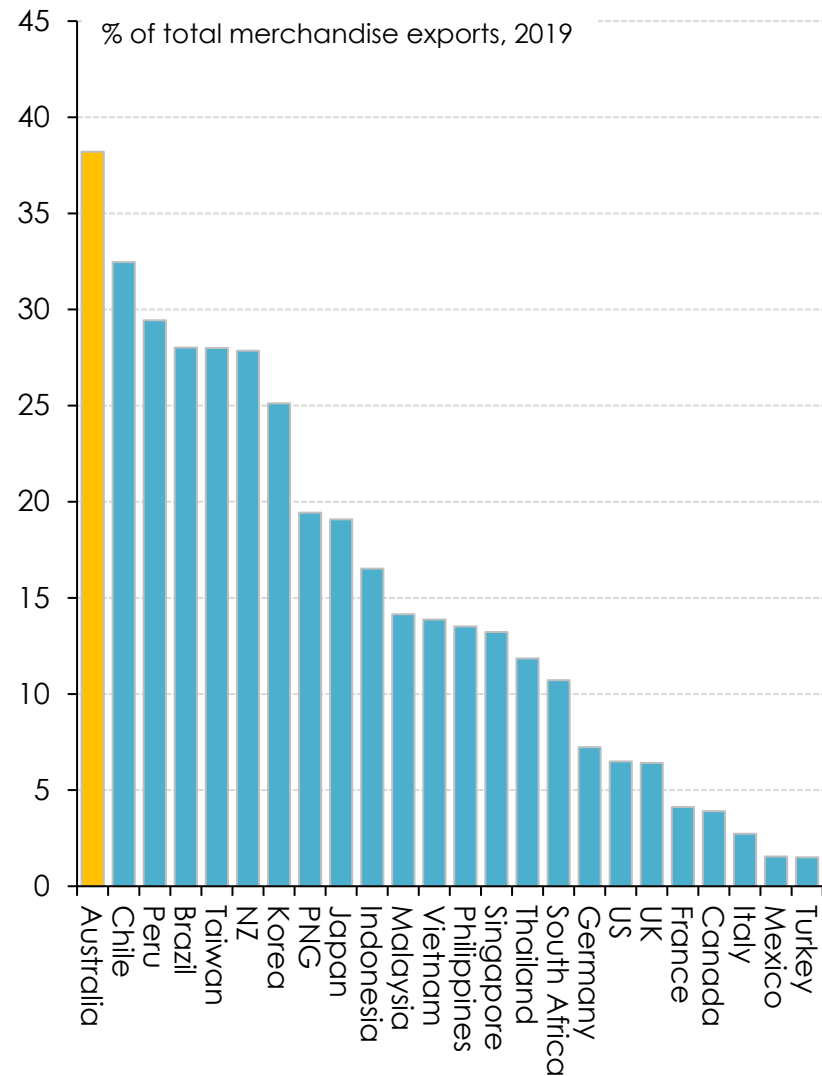
Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna. [Return to "What's New"](#).

- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
 - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019 of which tourism & education accounted for over 90%)
- ❑ China has no real alternatives to Australian iron ore in the near term – but it has been progressively expanding the range of other Australian products subject to discriminatory tariffs, “customs inspections”, quarantine issues or outright bans – including wheat, wool, copper ores, sugar, lobsters, timber, wine and coal
 - Australia's [exports of these products](#) to China have dropped from about \$25bn in 2019 to an annualized rate of about \$5½bn since the sanctions were imposed – although in many cases Australian exporters have been able to find alternative markets
- ❑ In July last year China's Foreign Ministry [openly acknowledged](#) that it was seeking to ‘punish’ Australia for “groundlessly accusing and smearing China and undermining China's core interests based on ideology” and “acting as a cat's paw” for the United States – a view likely to intensify after the announcement in September 2021 of [a new defence pact](#) with the US and UK
- ❑ This week, however, China's new Ambassador to Australia Xiao Quian [signalled](#) an apparent willingness to “push the China-Australia relations back to the right track” – although to date there has been no (public) response from the Australian Government

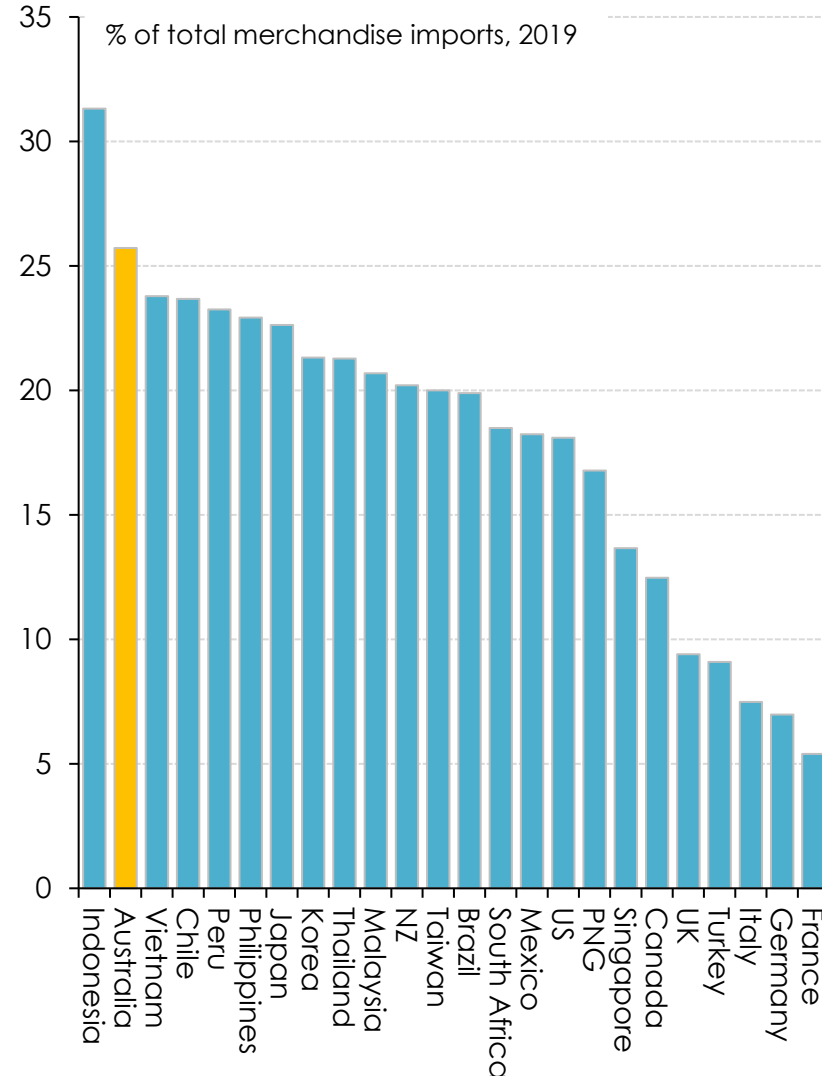
China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

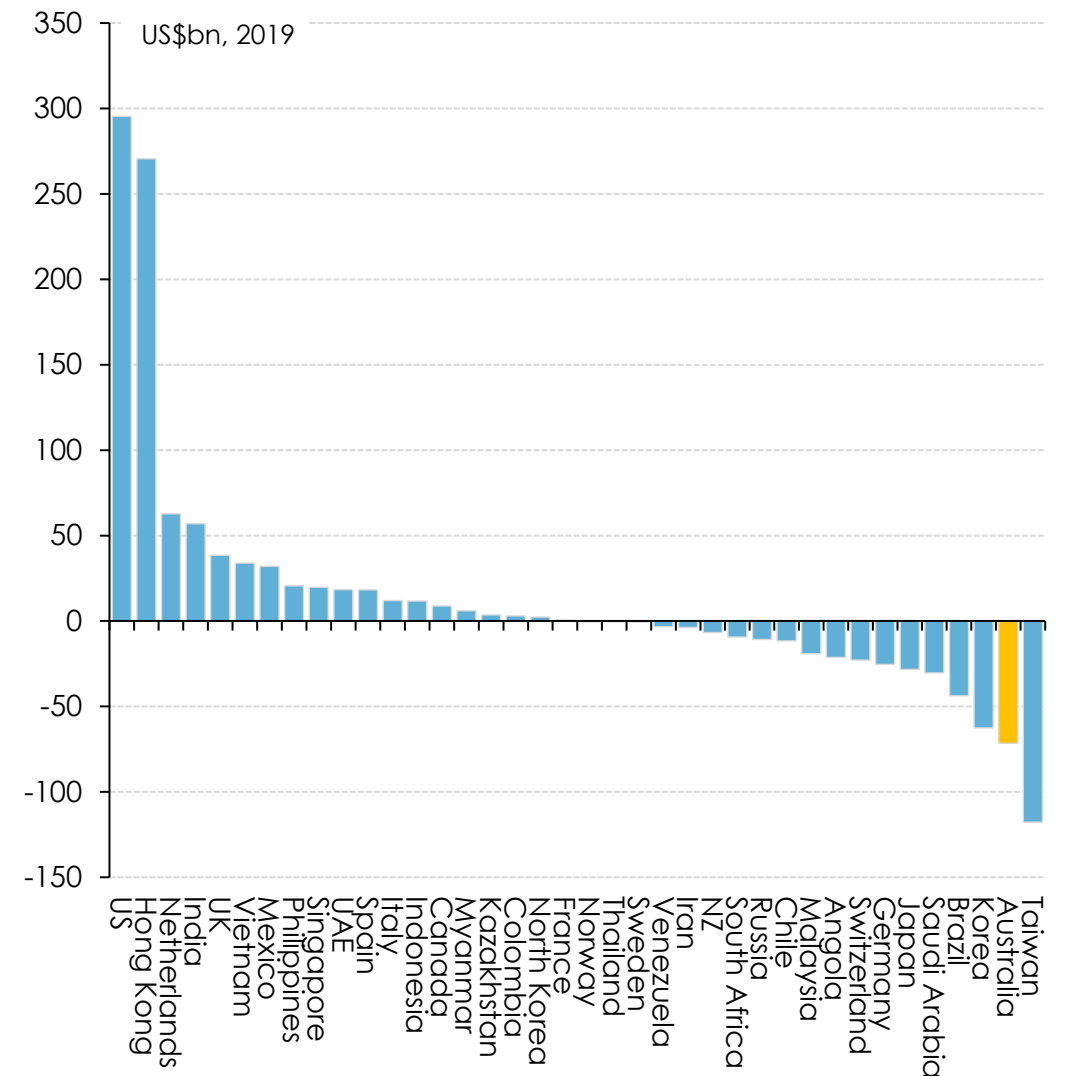
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



China's bilateral merchandise trade balances

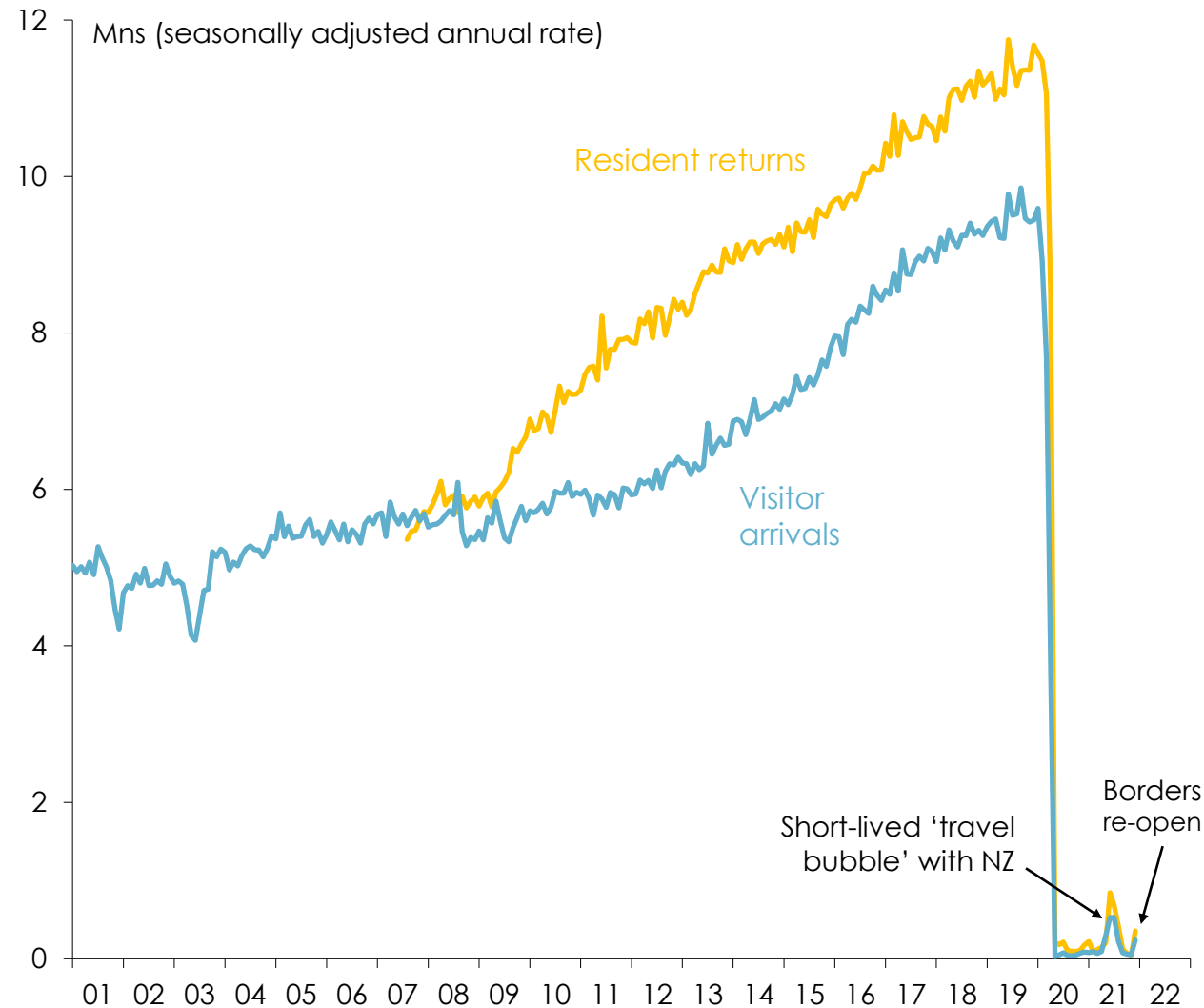


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

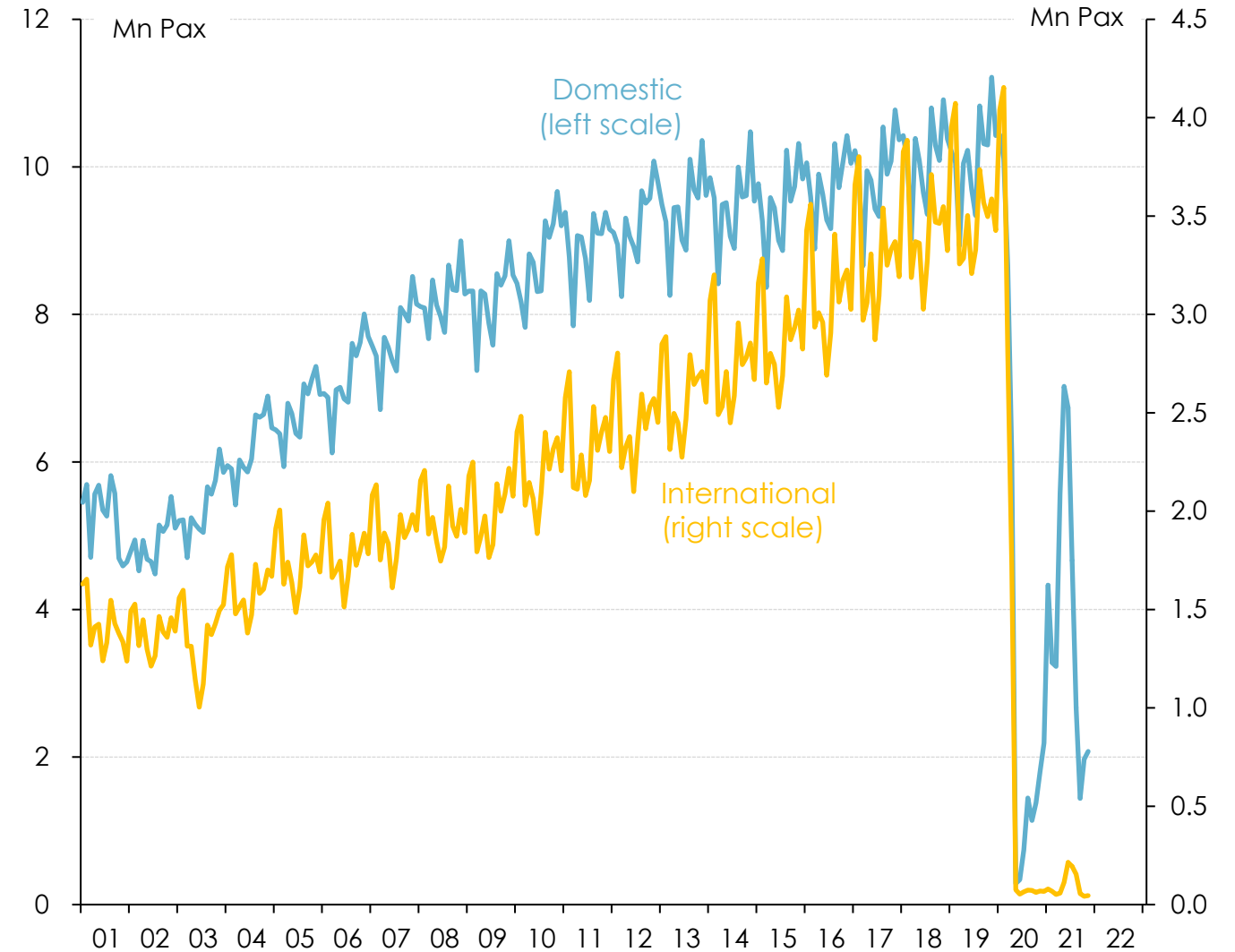
Domestic aviation picked up strongly between last November and May – but has since slumped with the lockdowns and tighter arrivals caps

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Short-term visitor arrivals and resident returns



Airport passenger movements

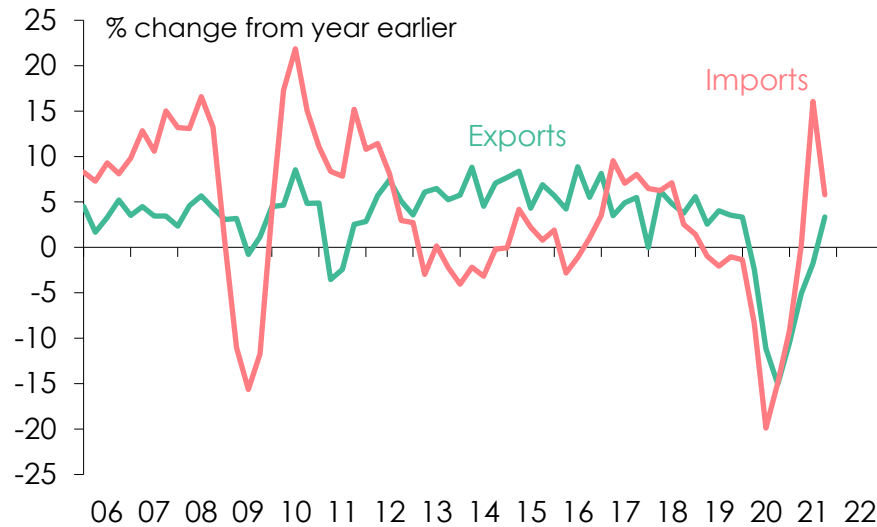


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest ABS data on arrivals and departures are for November; BITRE data on airport passenger movements are for October 2021. Sources: [ABS](#); [Bureau of Industry, Transport and Regional Economics \(BITRE\)](#); Corinna. [Return to "What's New"](#).

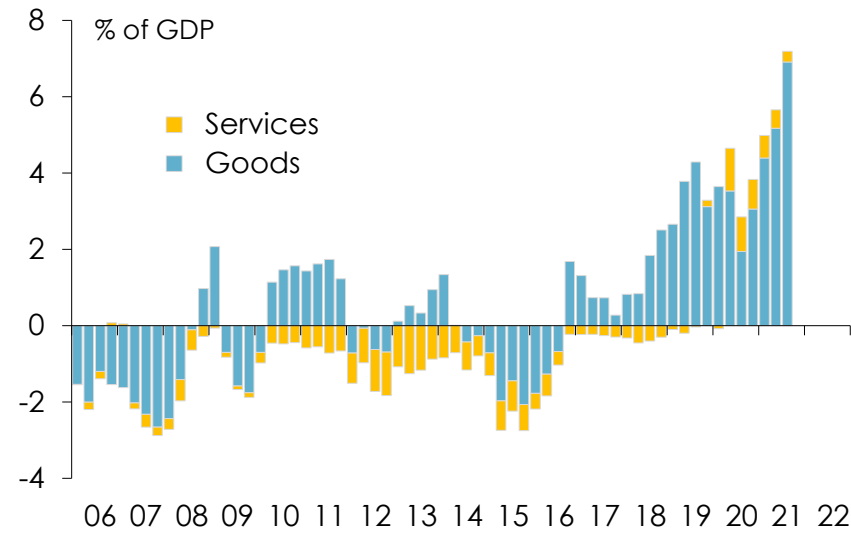
Australia posted another record current account surplus in the Q3, thanks to another large gain in export prices – but that’s probably the peak

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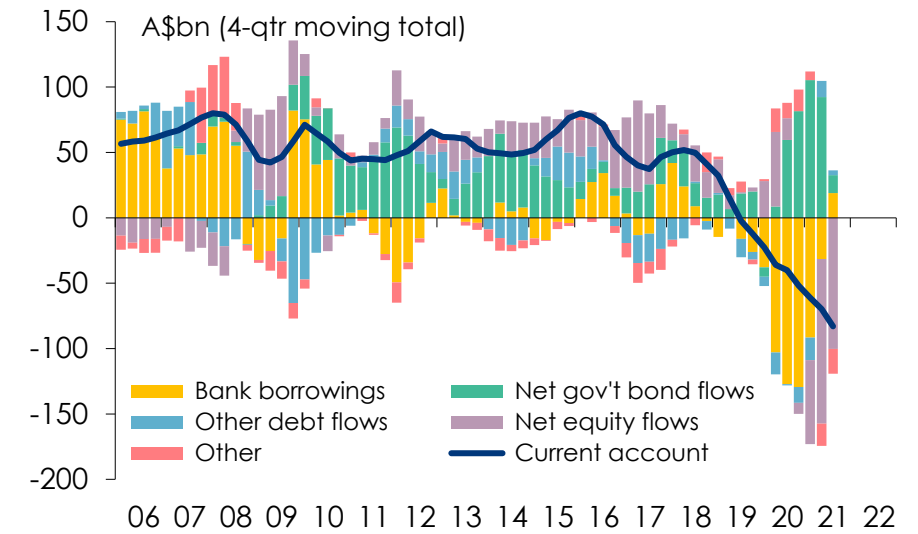
Export and import volumes



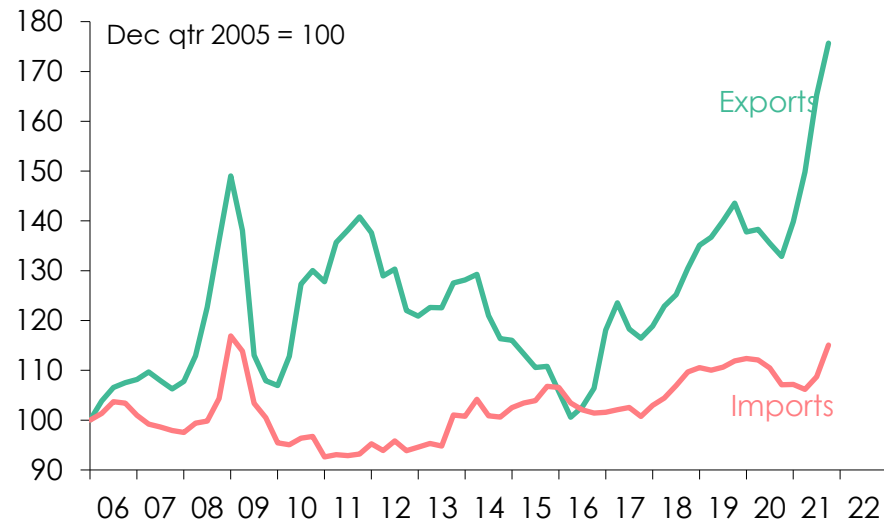
Goods & services trade balances



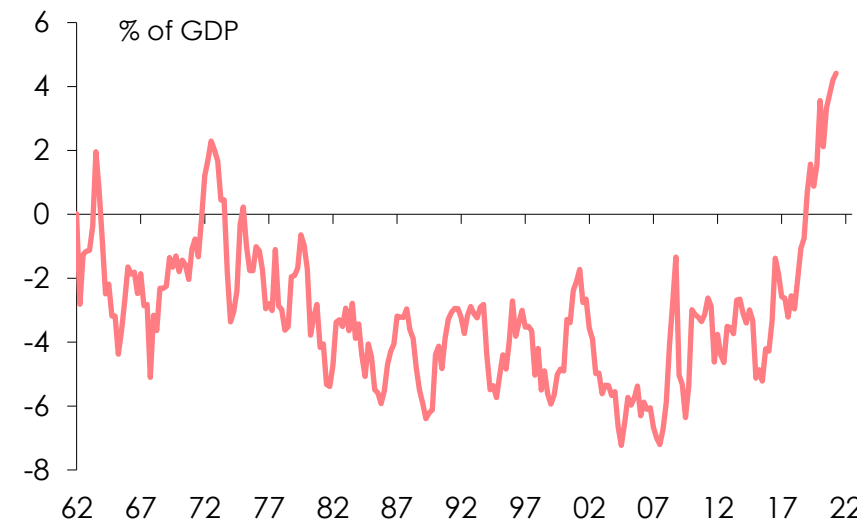
Capital flows



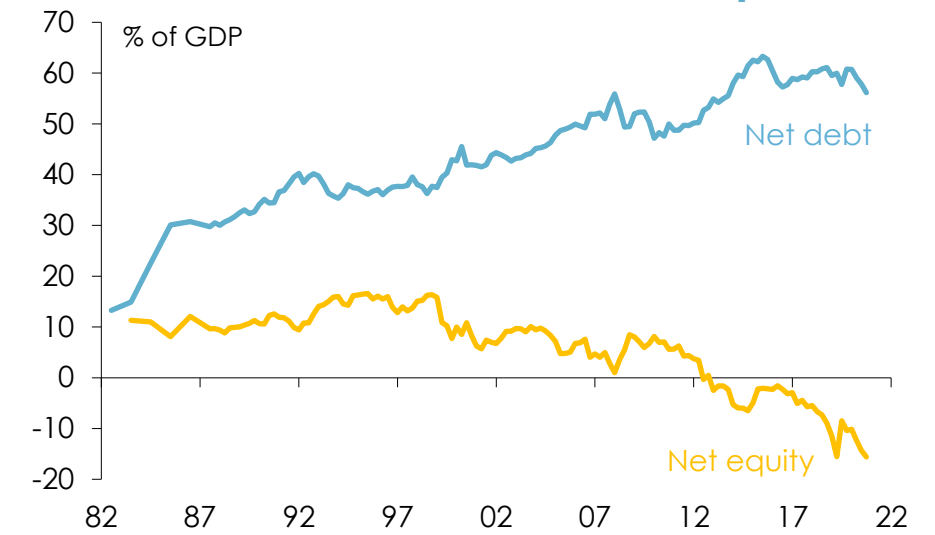
Export and import prices



Current account balance



Net international investment position



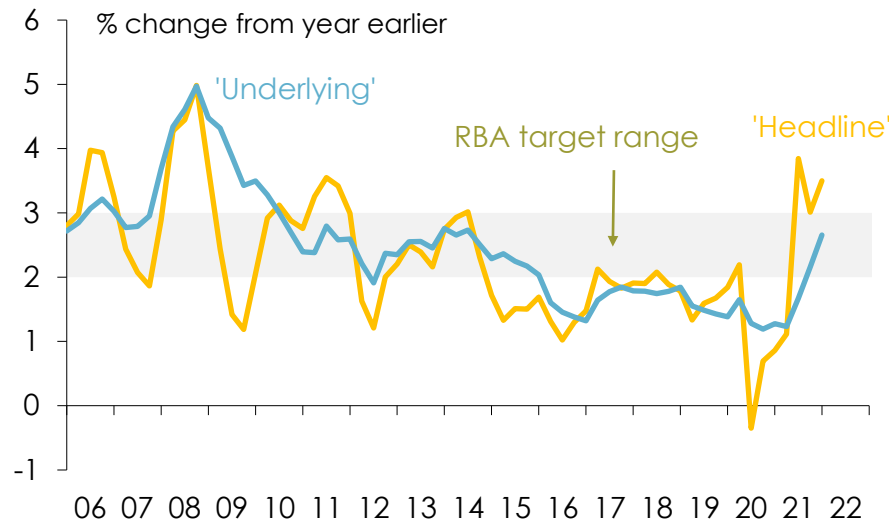
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a positive and net equity assets as a negative. Latest data are for the September quarter 2021; December quarter data will be released on 1st March 2022. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

Inflation

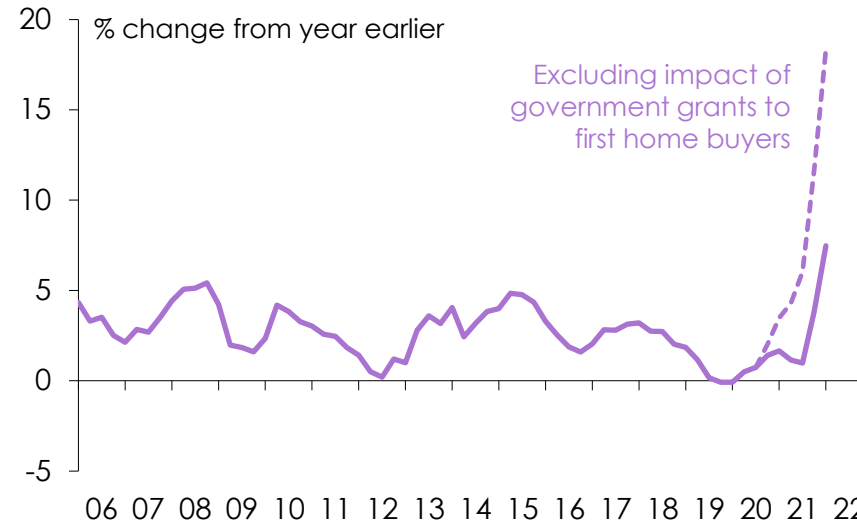
The December quarter CPI was unequivocally higher than expected, and puts some pressure on the RBA to start raising rates this year

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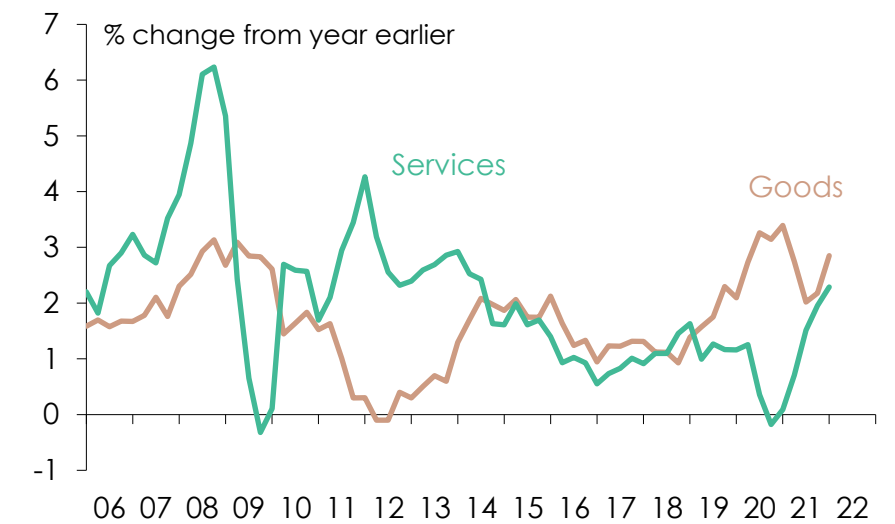
Consumer prices – annual change



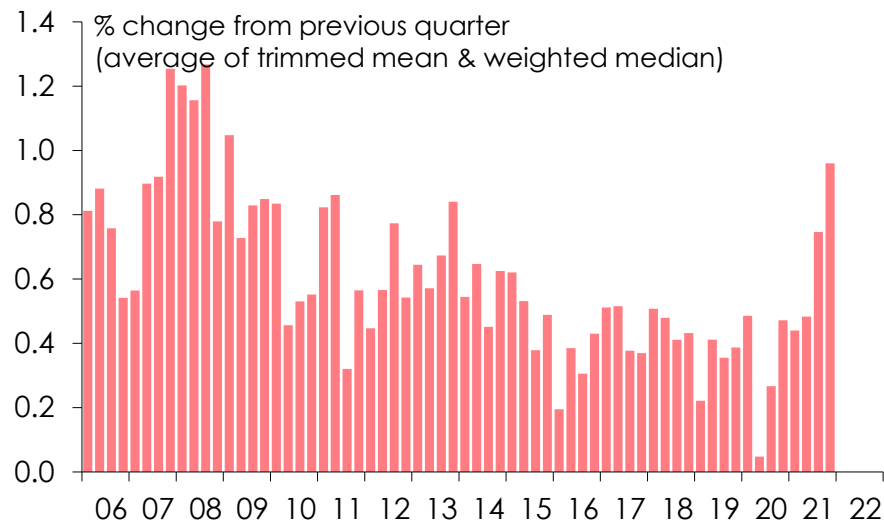
New dwelling purchase costs



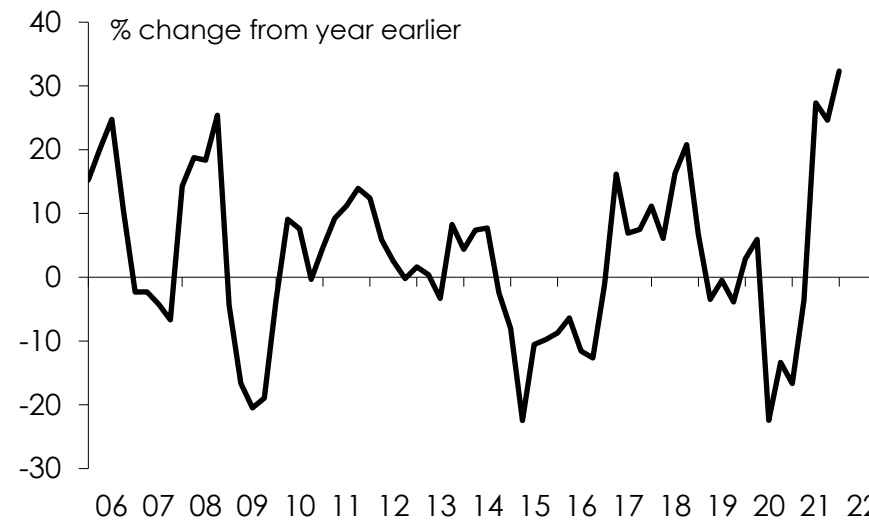
'Market' goods vs services



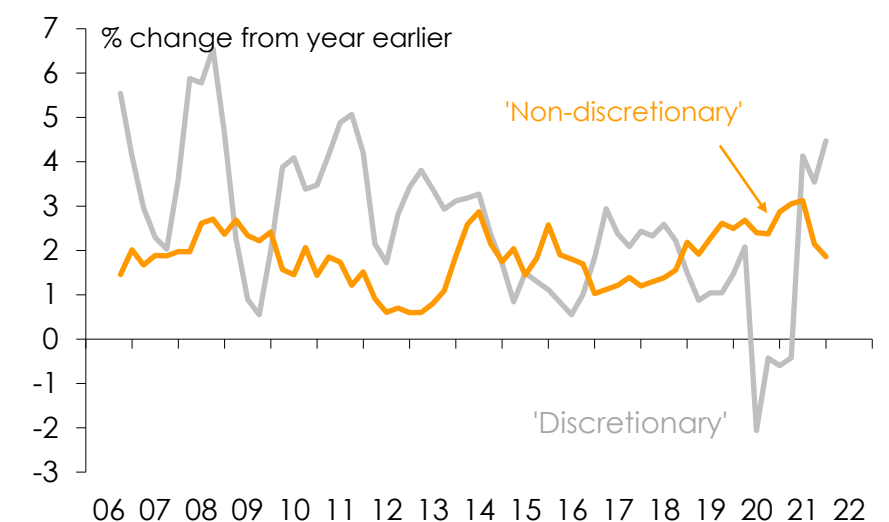
Quarterly 'underlying' inflation



Automotive fuel prices



'Discretionary' vs 'essential' items

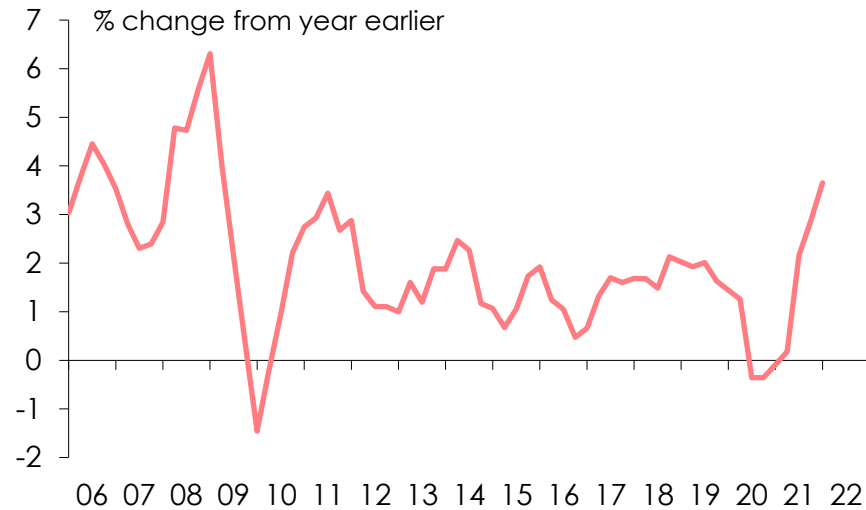


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. 'Market' goods and services exclude 'volatile items' (fruit & vegetables, utilities, property rates & charges, automotive fuel, urban transport services, postal services, child care, health, and education). For definitions of 'discretionary' and 'non-discretionary' items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), December. The March quarter CPI will be released on 27th April. [Return to "What's New"](#).

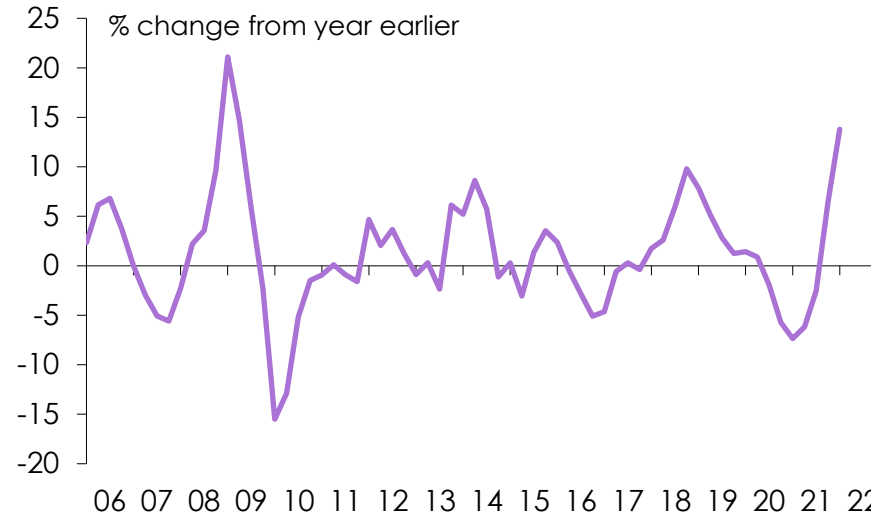
Domestic 'upstream' price pressures haven't been as intense as in other 'advanced' economies, except in the construction sector

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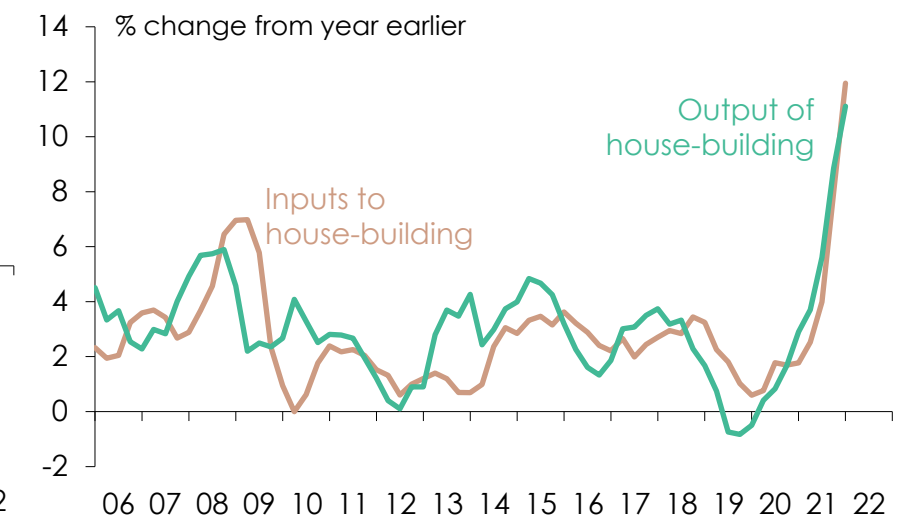
Producer price index



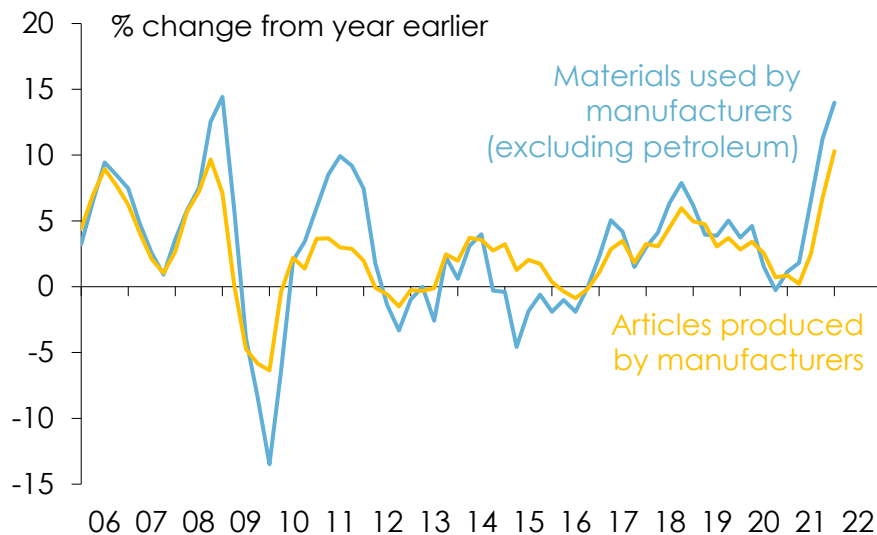
Import price index



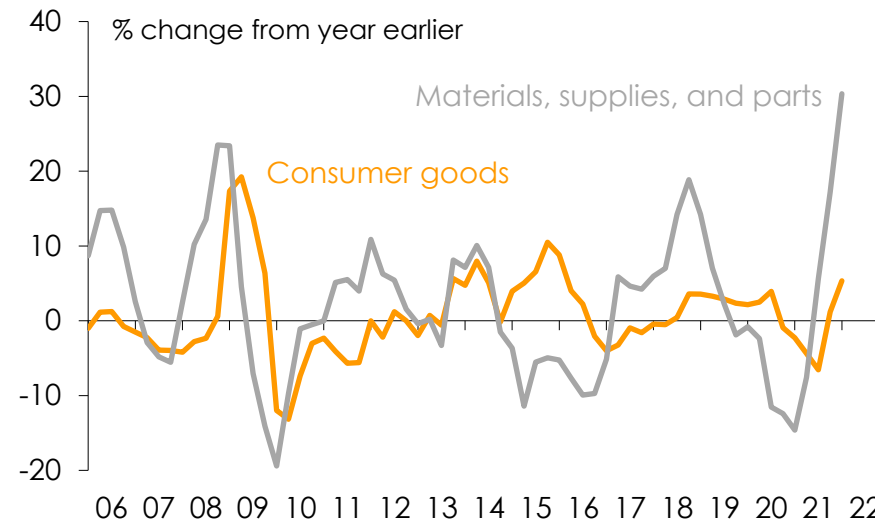
Construction input & output prices



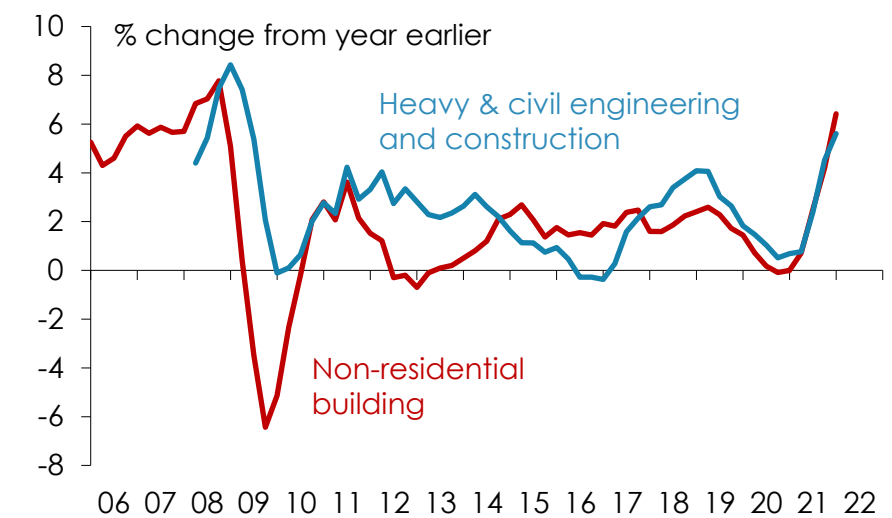
Manufacturing input & output prices



Imported consumer goods prices



Non-residential construction prices



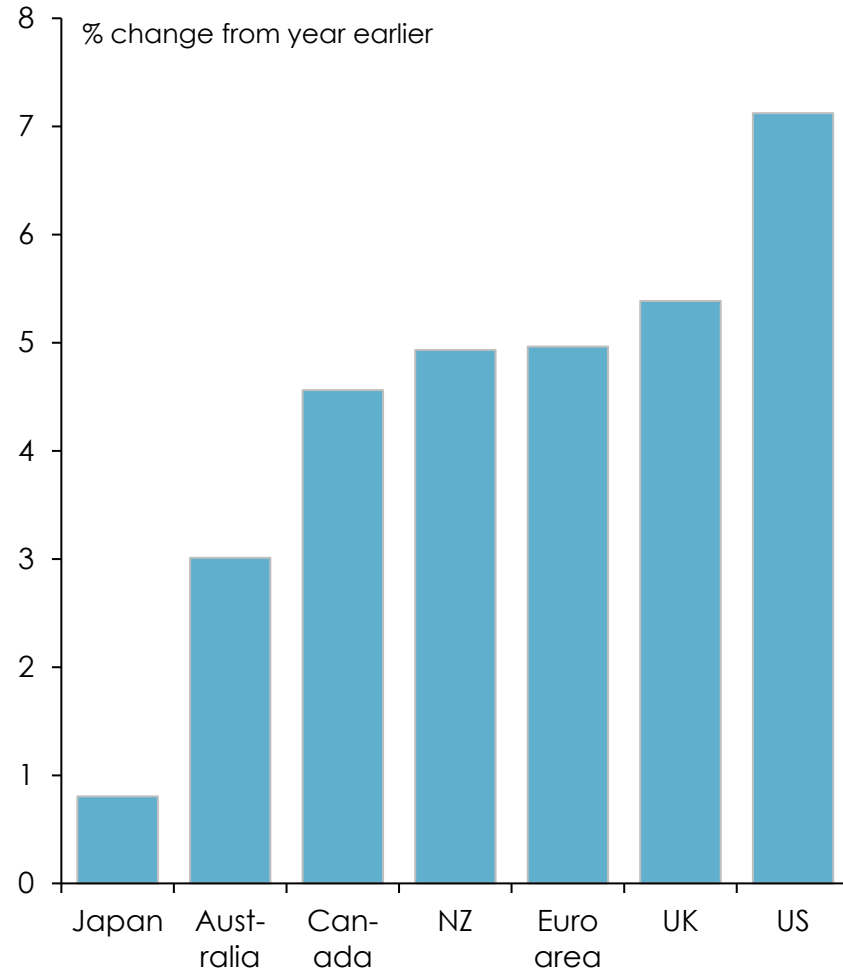
Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), December quarter 2021.

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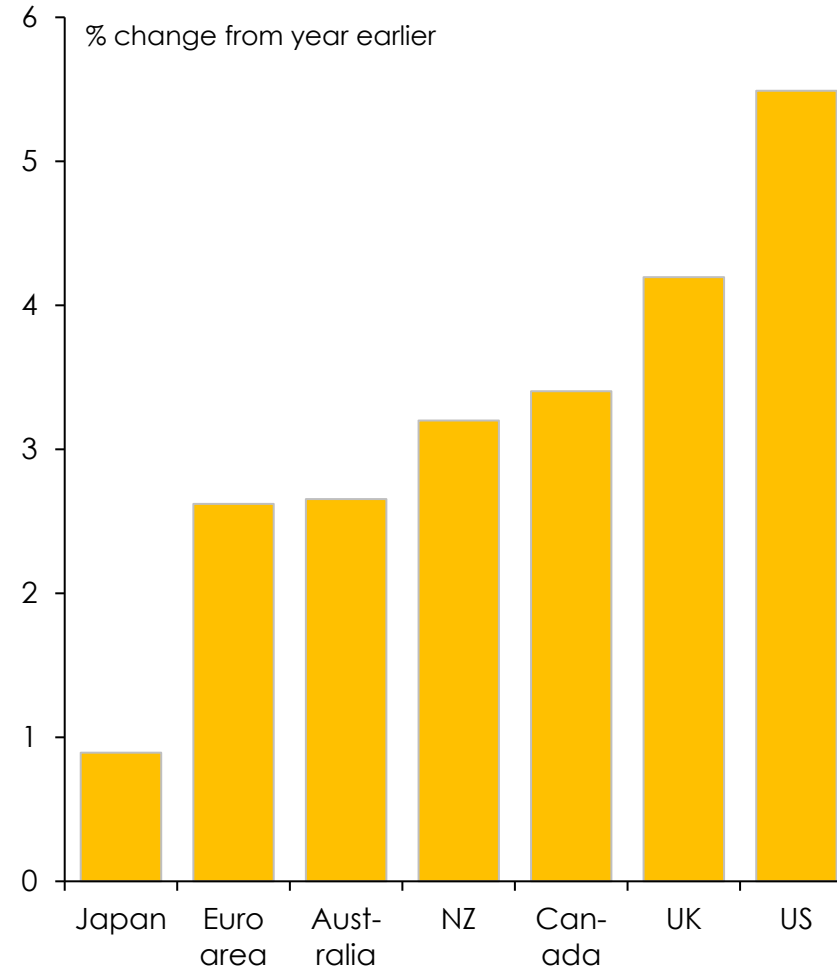
Although it has surprised to the upside, inflation in Australia hasn't risen nearly as much as in the US, the UK, Canada or New Zealand

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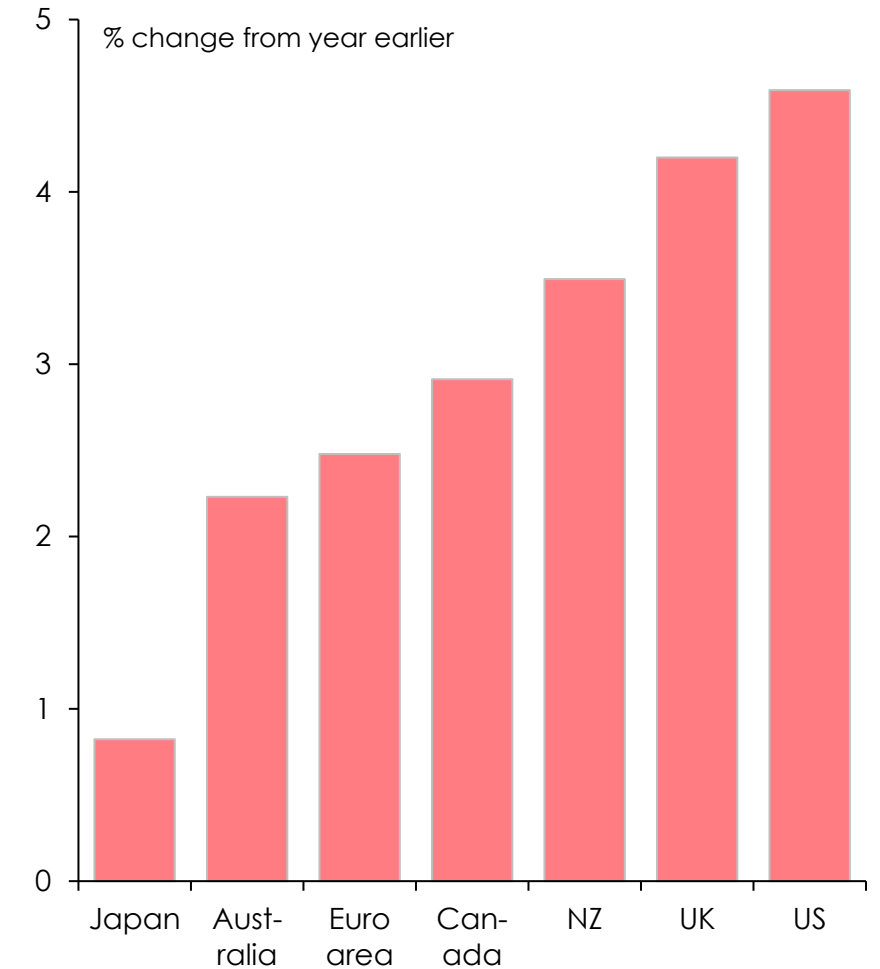
'Headline' consumer price inflation



'Underlying' or 'core' consumer price inflation



Wage inflation



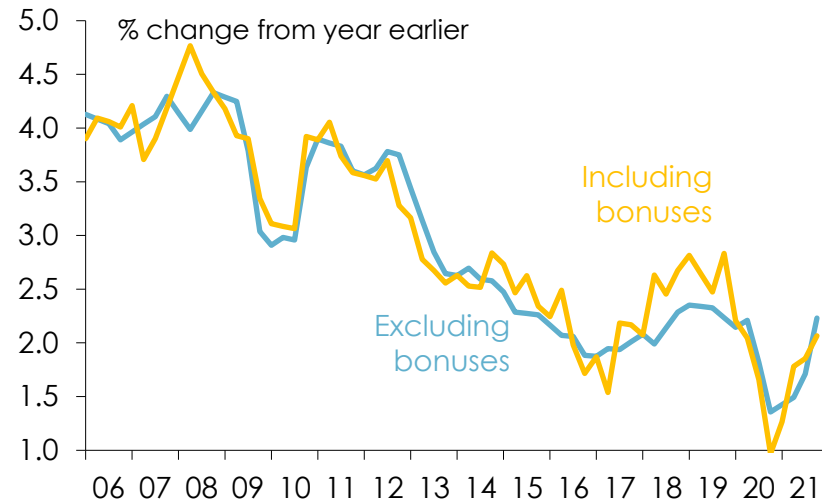
Note: Data are latest available, mostly December or December quarter for CPI inflation, and November of September quarter for wage inflation. 'Core' inflation is CPI excluding food & energy for the US, UK and Canada; trimmed mean for Japan and Australia; and 'sectoral factor model' for NZ. Wage inflation is average hourly earnings for Japan, the UK and Canada (and hence affected by changes in workforce composition), and wage price index or equivalent for the US, euro area and Australia.

Sources: [ABS](#); [US Bureau of Labor Statistics](#); [Eurostat](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Statistics New Zealand](#) and [Reserve Bank of New Zealand](#). [Return to "What's New"](#).

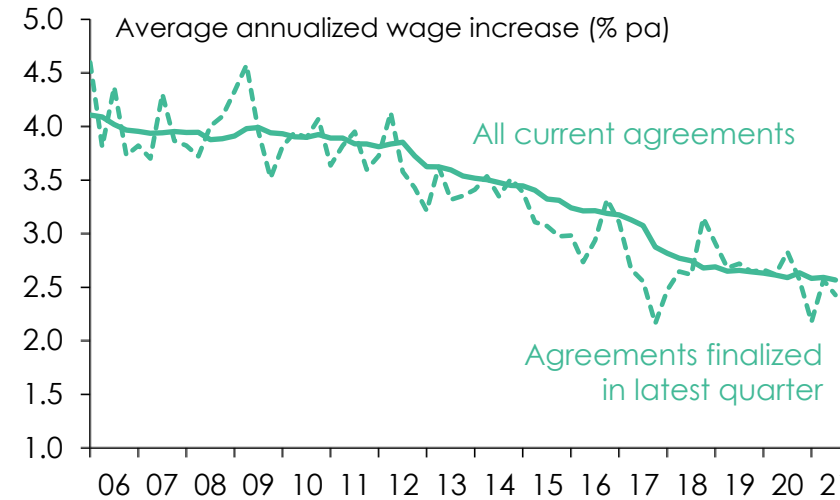
Wages growth is (as of Q3) back to where it had been pre-Covid, but is still well below what the RBA regards as consistent with its 2-3% target

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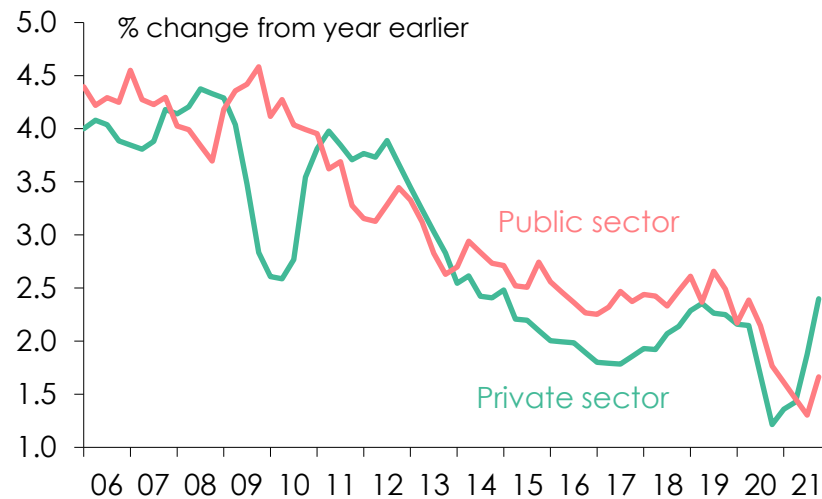
Wage price index – all sectors



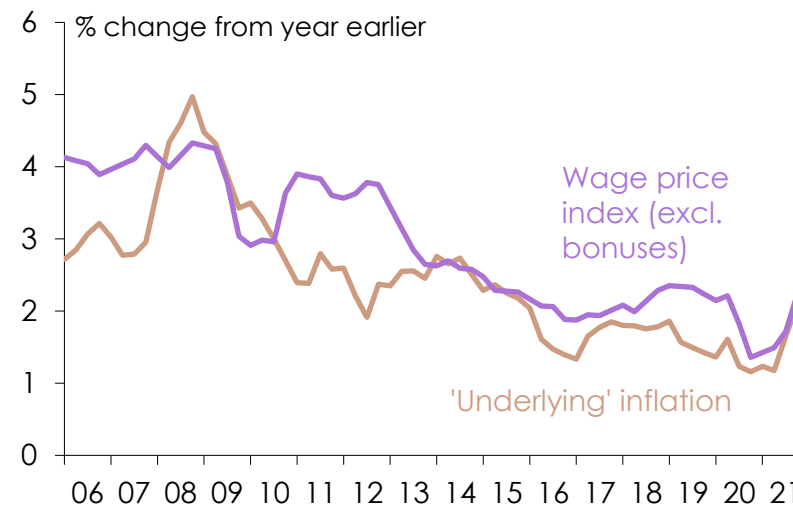
Enterprise bargaining agreements



WPI – private vs public sectors



WPI and 'underlying' CPI inflation

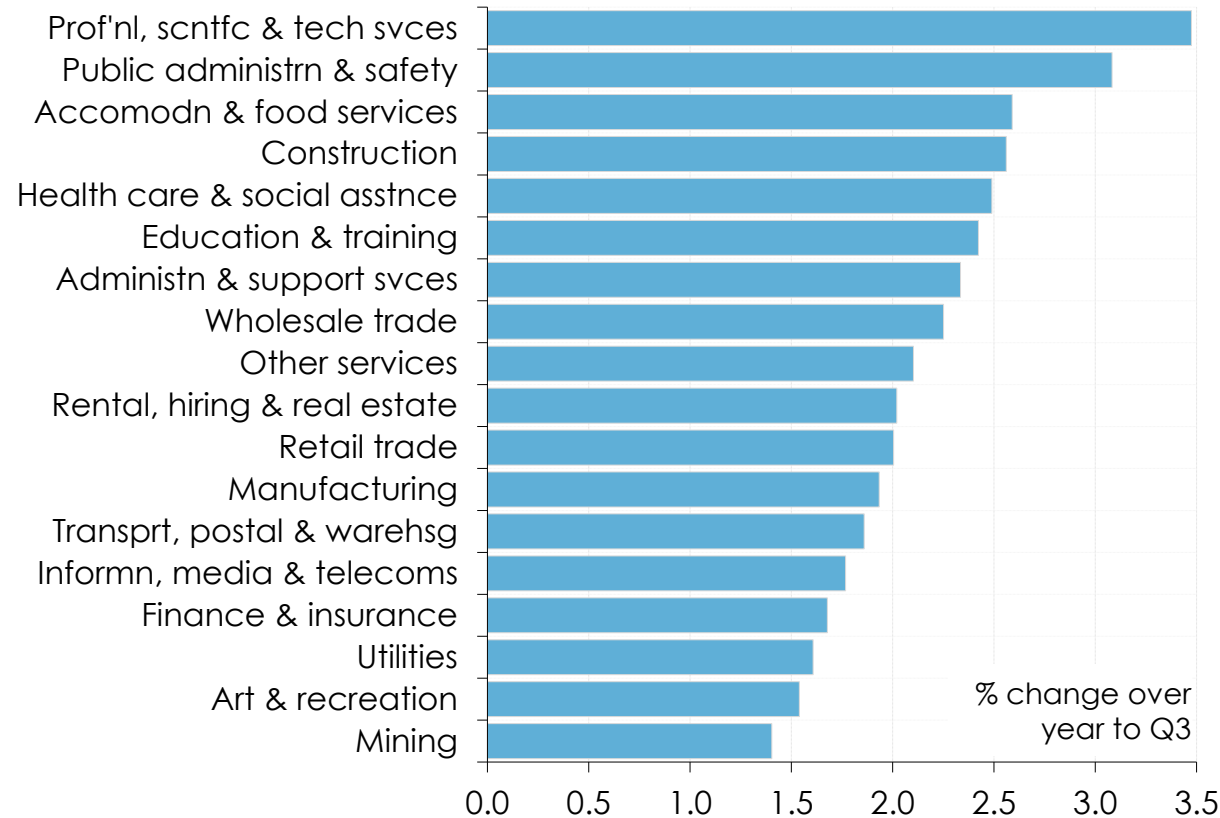


- The wage price index (excl. bonuses) rose 0.6% in Q3, up from 0.4% in Q2 but in line with Q1 and Q4 last year, pushing the annual rate back up to 2.2%, where it was in Q1 last year
- In other words, wages growth has now reverted to its (fairly weak) pre-Covid trend
 - it remains well short of the “3 point something percent” which RBA Governor Philip Lowe last month again identified as “likely will need to be growing at 3 point something per cent to sustain inflation around the middle of the target band”
- The main contributors to the Q3 increase were an end to ‘wage freezes’ in parts of the public sector, pay rises averaging more than 1% in a small number of sectors experiencing labour shortages, and partial implementation of the most recent increase in the minimum wage awarded by the Fair Work Commission in June

The slight pick up in wages growth in Q3 largely reflects individual agreements in a few sectors, plus an end to public sector ‘wage freezes’

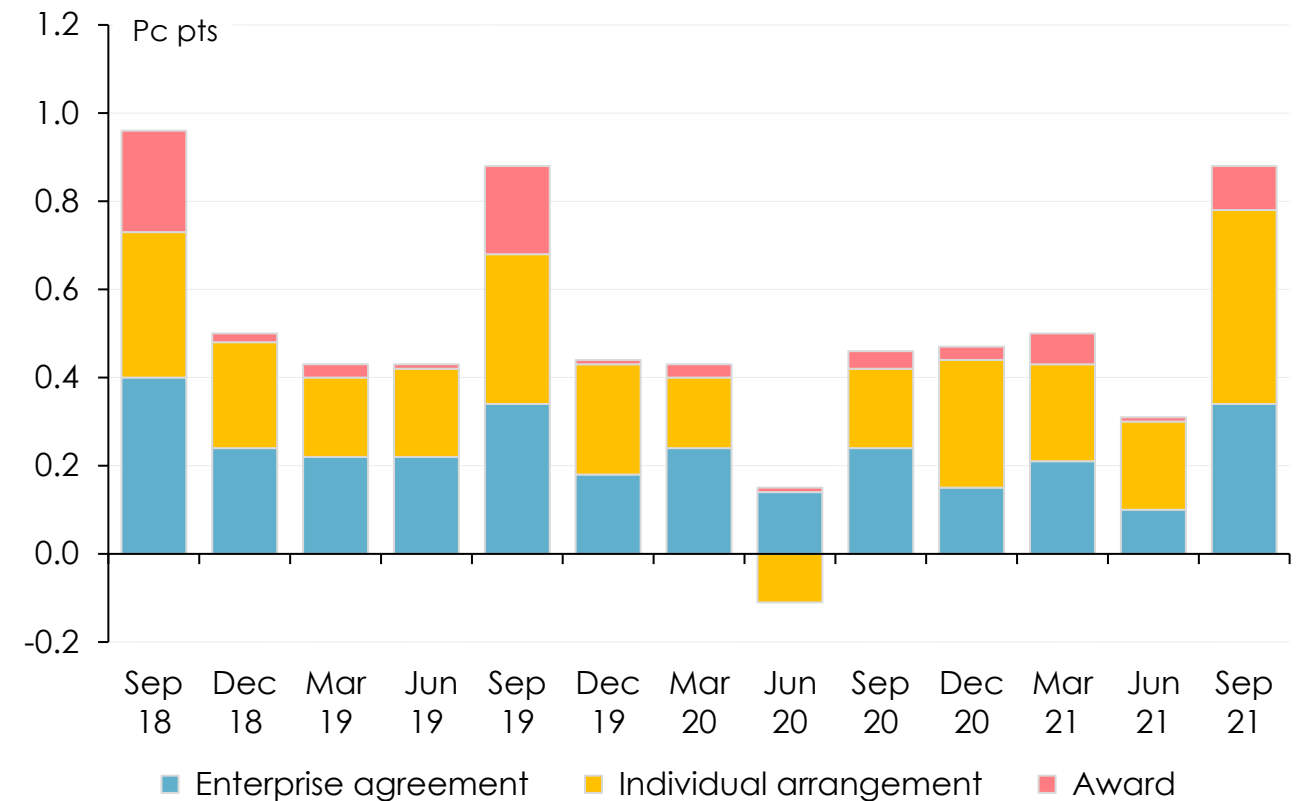
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Increase in wage price index over year to Q3 by sector



☐ To date, wages growth has only picked up in a few sectors – professional, scientific & technical services, and public administration & defence

Contribution to quarterly changes in wage price index, by method of setting pay



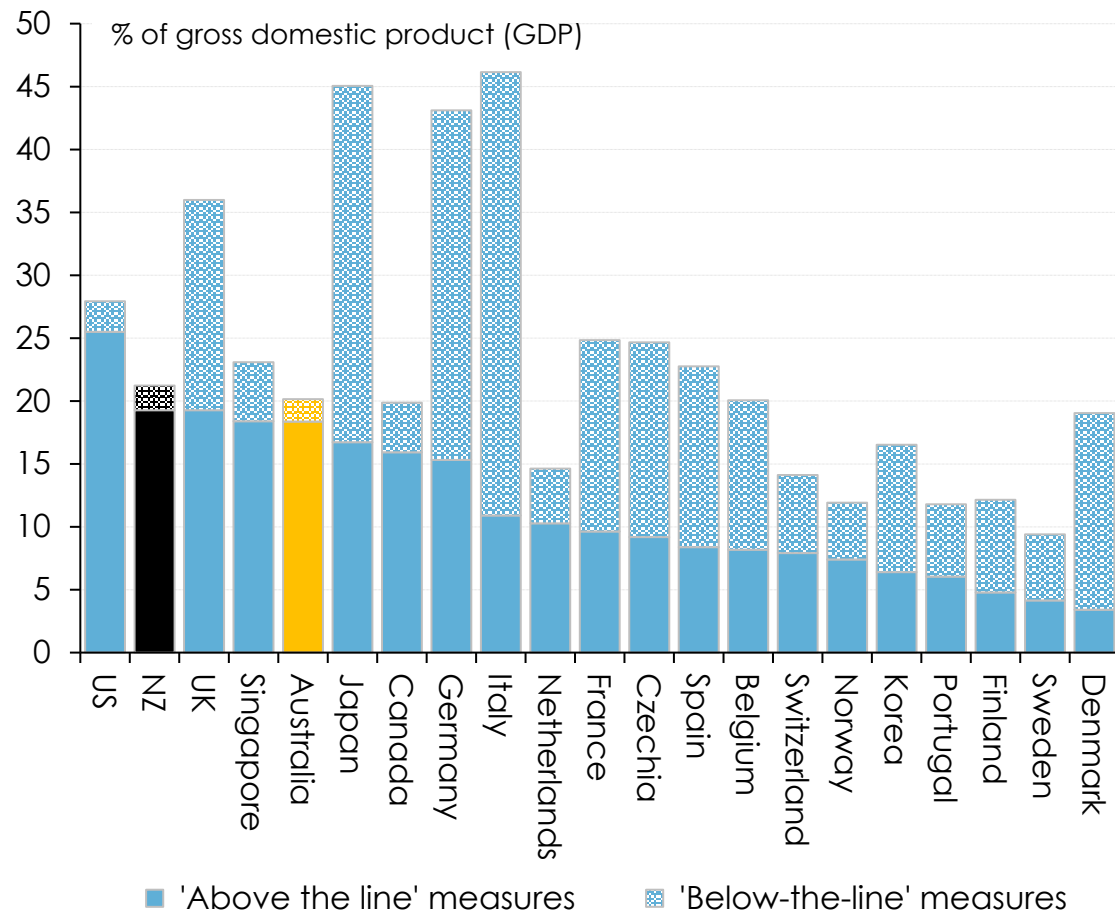
☐ Pay settings by individual arrangements (which are more sensitive to labour market conditions) made a larger contribution to wages growth in Q3

Fiscal policy

The Government's fiscal policy response to Covid-19 now exceeds 18% of GDP – compared with the 'advanced' economy average of 11¼%

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Fiscal policy responses to Covid-19 – selected 'advanced' economies



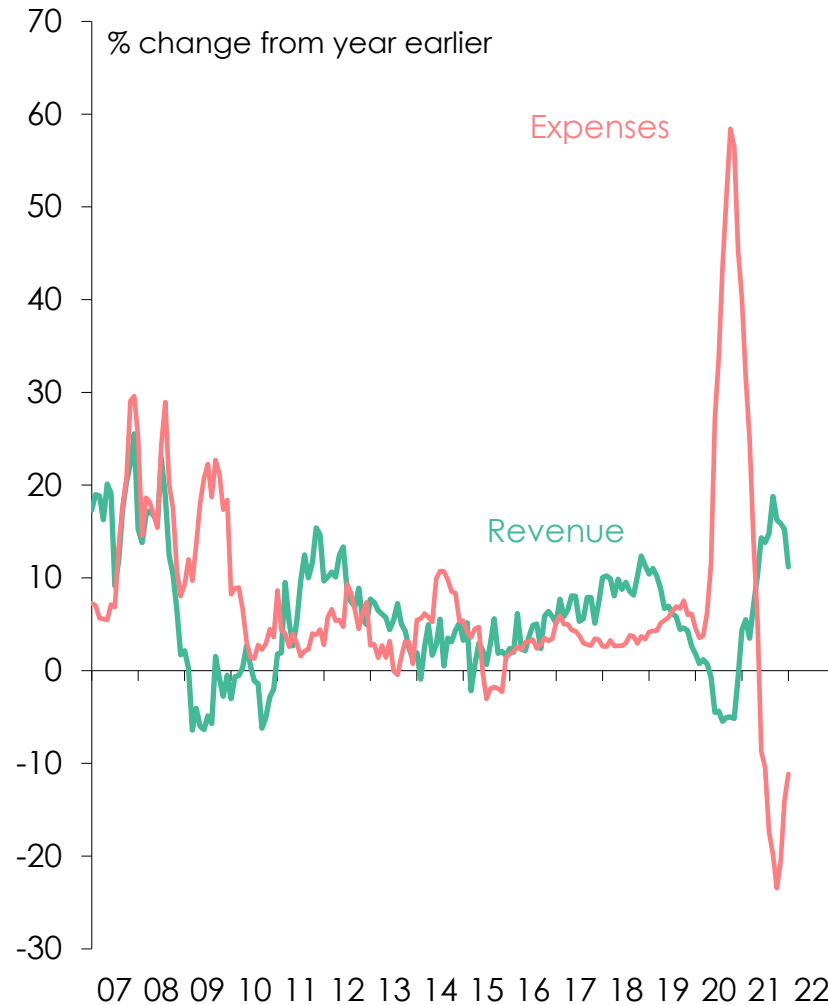
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 27th September 2021. Source: IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), October 2021. [Return to "What's New"](#).

- ❑ Policy measures announced by the Australian and state/territory governments in response to Covid-19 (up to end-September this year) have been equivalent to more than 18% of GDP – the fifth highest of any 'advanced' economy, according to IMF estimates released in October
 - December's Mid-Year Economic & Fiscal Outlook put total federal government measures since the onset of the pandemic at \$337bn (16.3% of GDP)
- ❑ In response to the protracted lockdowns in NSW, Victoria and the ACT (and shorter ones in the NT, Queensland, South Australia and Tasmania), the Federal Government paid out \$13.1bn to 2.4mn people displaced from employment by restrictions, or forced into quarantine or self-isolation
 - of which \$7.48bn was paid to people in NSW, \$4.45bn to people in Victoria, and \$345mn to people in the ACT
 - state and territory governments also made payments to businesses and individuals affected by health restrictions
- ❑ These payments have now largely ceased
 - only \$390mn was paid out in November, cf. \$3.2bn in October, \$4.4bn in September and \$5.1bn in July-August

The Federal budget deficit is declining rapidly, thanks largely to buoyant tax revenues, and net debt appears to have stabilized

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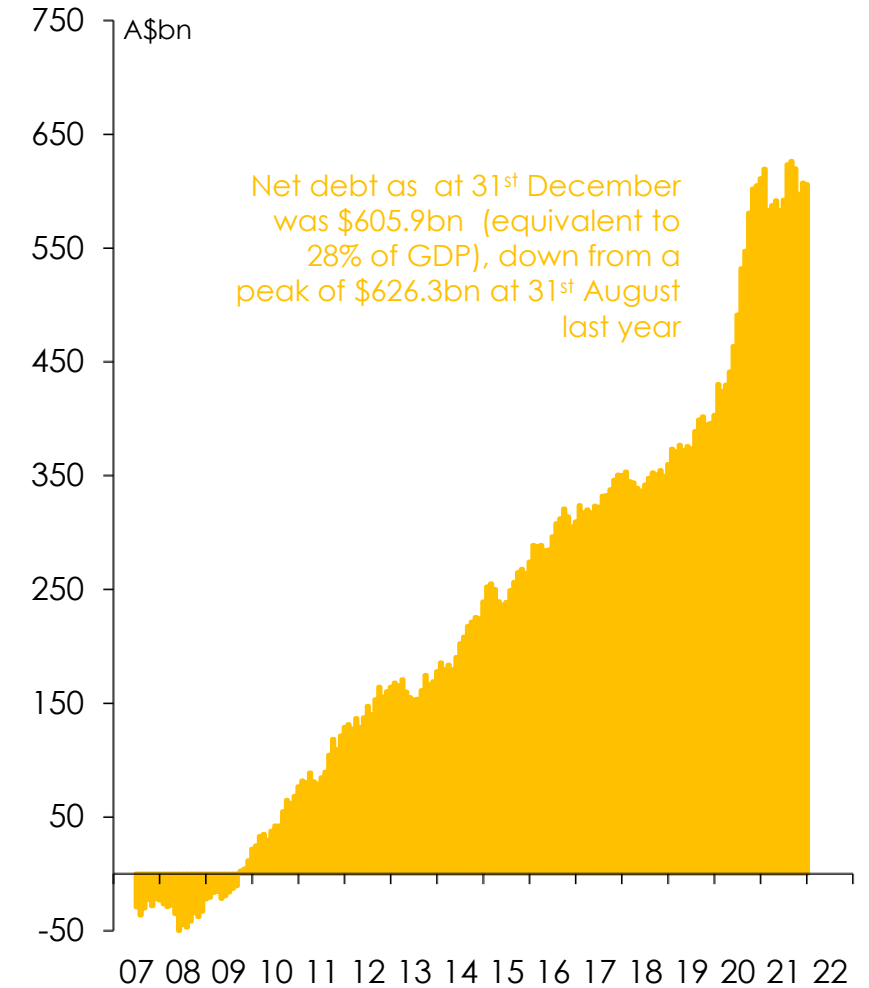
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



Australian Government net debt



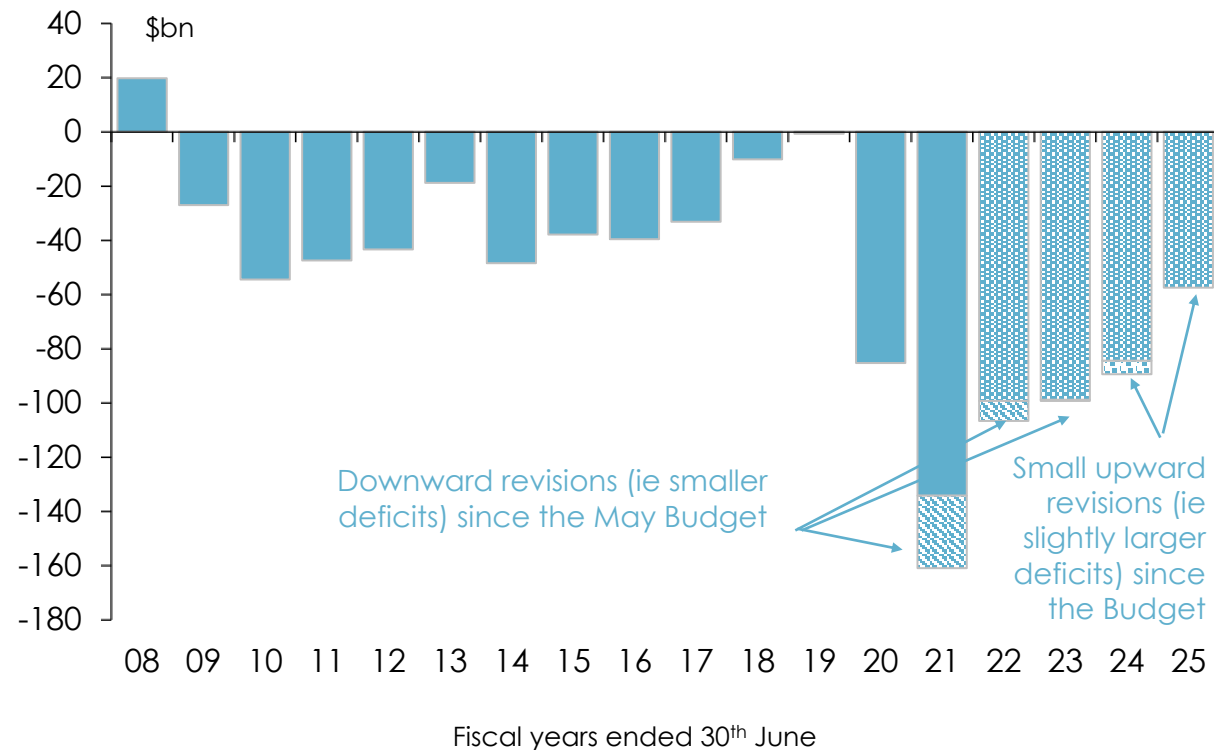
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, loans and other borrowing) minus cash and deposits, advances paid, and (interest-bearing) loans, placements and investments. Source: Australian Government, [Final Budget Outcome 2020-21](#); Department of Finance, [Commonwealth Monthly Financial Statements](#). [Return to "What's New"](#).

This 2021-22 Mid-Year Economic & Fiscal Outlook lowered the forecast deficits for 2021-22 and 2022-23 but raised them for 2023-24 and 2024-25

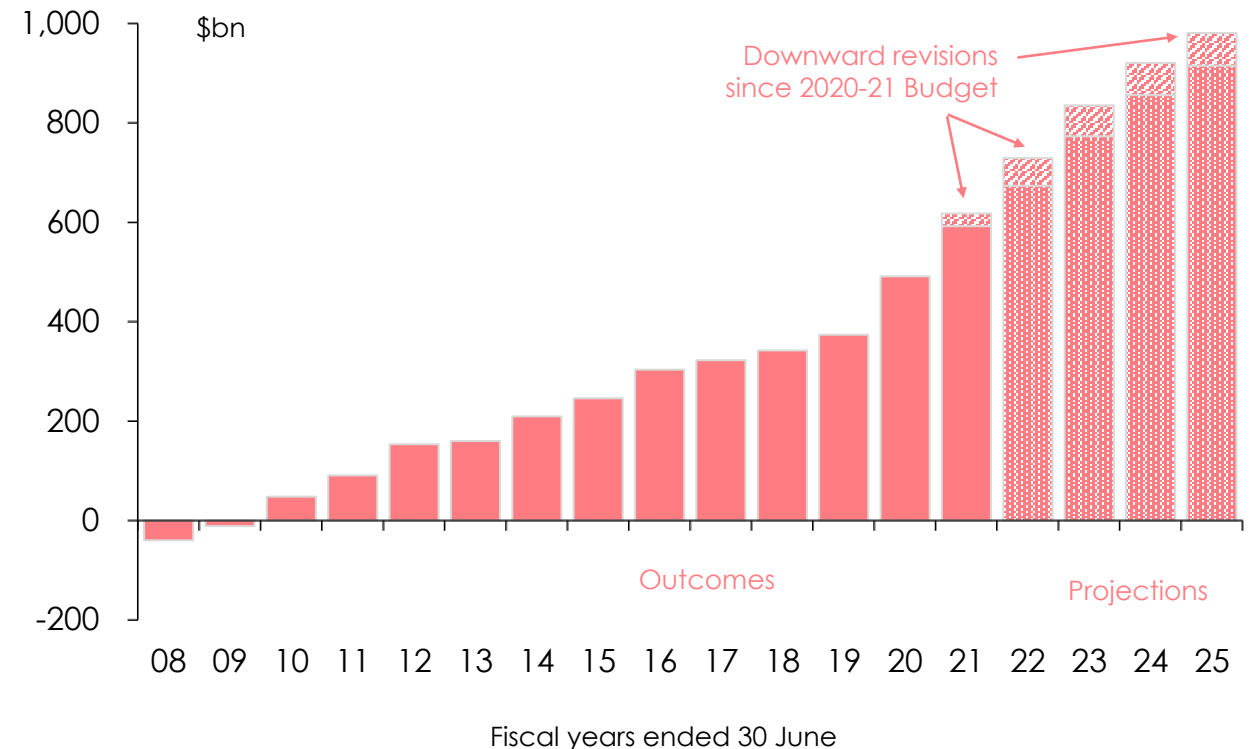
THE AUSTRALIAN ECONOMY THIS WEEK – 28th JANUARY 2022

2021-22 MYEFO forward estimates of the 'underlying' cash balance and net debt

'Underlying' cash balance



Net debt



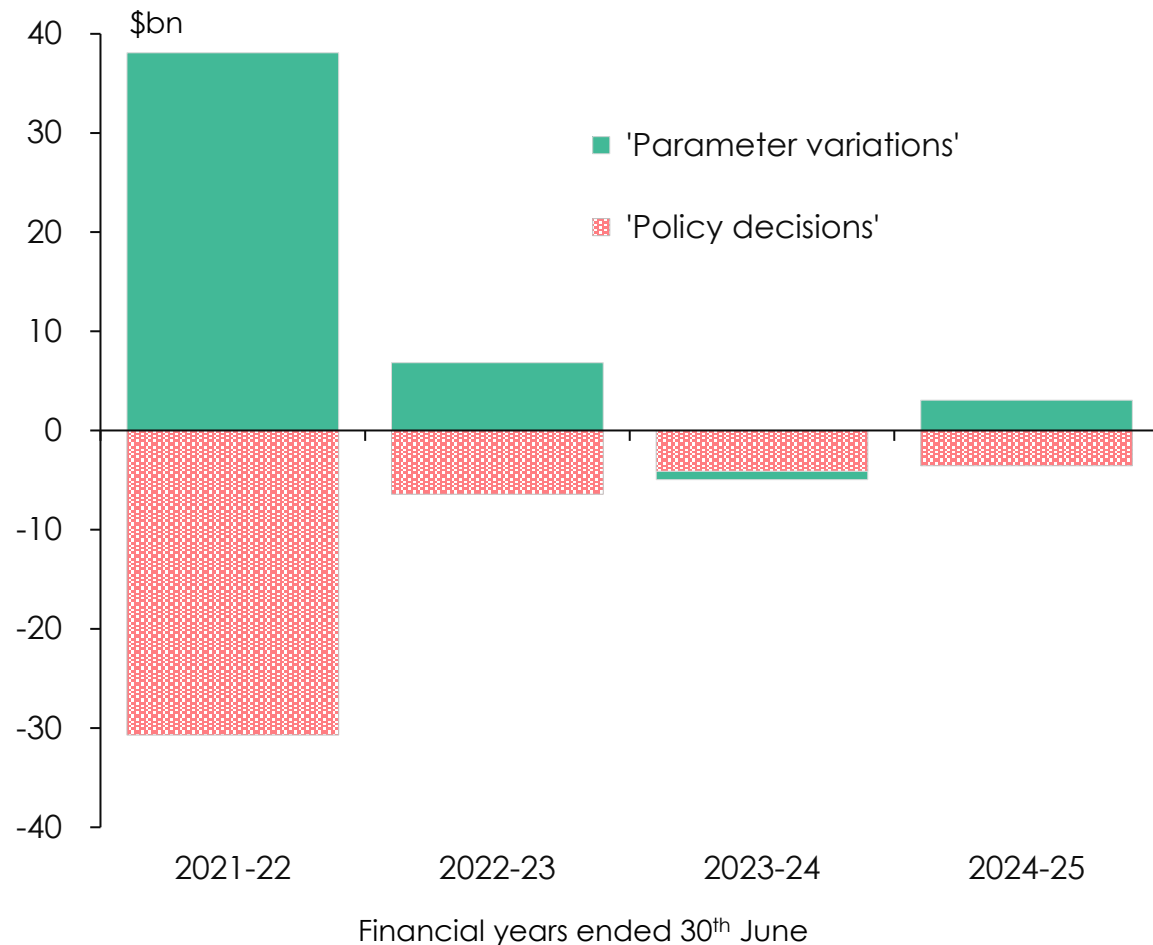
□ The deficit for 2020-21 of \$134.2bn (6.5% of GDP) was \$27bn less than had been forecast in the May Budget – the deficits for 2021-22 and 2022-23 were revised down by \$7.4bn and \$0.4bn, respectively, while the deficits for 2023-24 and 2024-25 were revised up by \$5bn and \$0.5bn

□ Net debt as at 30th June 2021 was \$25bn less than had been forecast in May – and the forecast for net debt as at 30th June 2025 has been revised down by \$66bn, to \$915bn (37.4% of GDP)

The Government spent almost all of the \$47bn net 'windfall gain' to the budget since May, leaving a net improvement in the deficit of just \$2¼bn

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Sources of the changes in forward estimates of the 'underlying cash balance' between the 2021-22 Budget and the 2021-22 MYEFO



- 'Parameter variations' – revisions to projections of receipts and payments due to changes in economic and other forecasting assumptions – since the May Budget improved the projected budget 'bottom line' by a total of \$47bn over the four years to 2024-25
 - upward revisions to forward estimates of receipts totalling \$106bn (mostly higher personal and company income tax collections) were partly offset by upward revisions to forward estimates of payments totalling \$59bn (of which more than half, \$26bn, was due to increased National Disability Insurance Scheme costs)
- However 'policy decisions' taken since the Budget absorbed \$45bn of those 'windfall gains'
 - spending decisions added \$48bn to forecast cash deficits – of which \$20bn was for payments to individuals and businesses affected by recent lockdowns – while revenue decisions reduced forecast deficits by \$3bn
 - 'policy decisions' also include \$16bn of spending decisions 'taken but not yet announced', which includes 'commercial-in-confidence' vaccine deals but also suggests a significant 'war-chest' for pre-election announcements
- As a result, the net improvement in the budget deficit over the four years to 2024-25 is a mere \$2.3bn

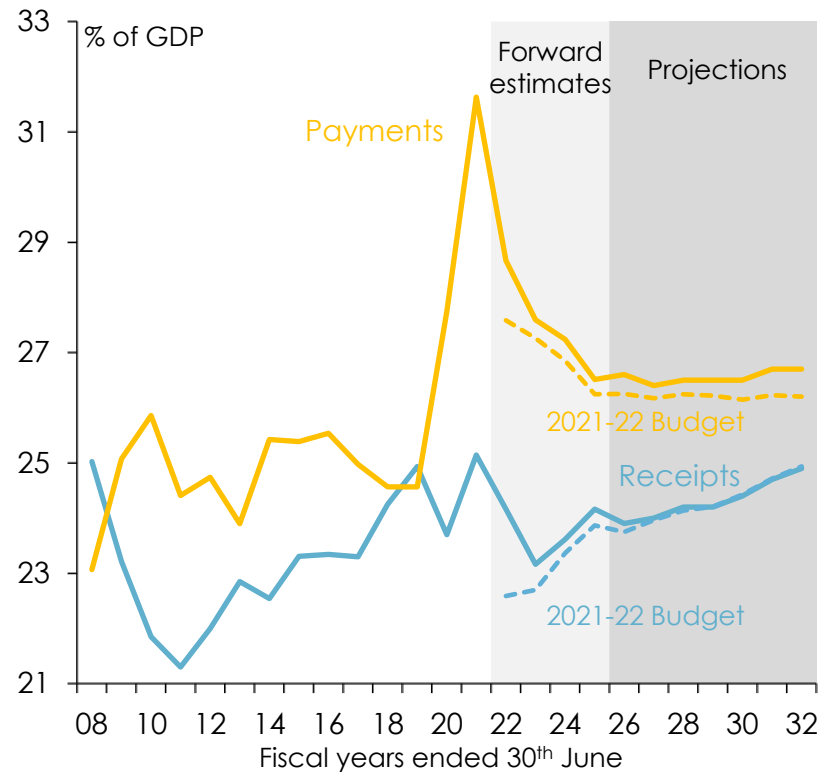
Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. [Return to "What's New"](#).

Longer-term MYEFO projections suggest higher spending and revenues with surpluses nowhere in sight for as long as revenues are arbitrarily 'capped'

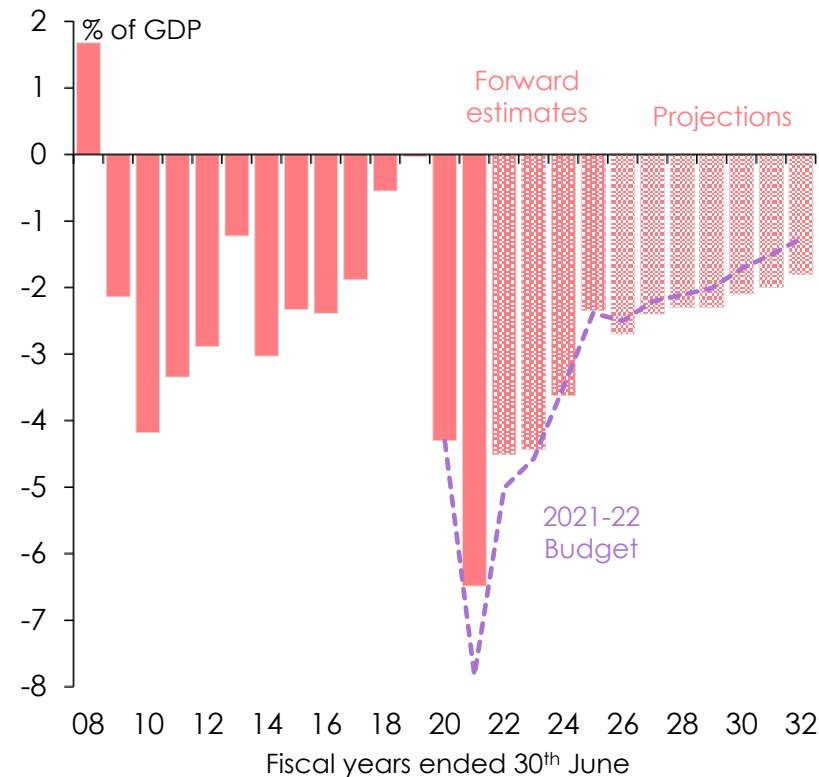
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2021-22 Budget and MYEFO Forward estimates and medium-term projections compared

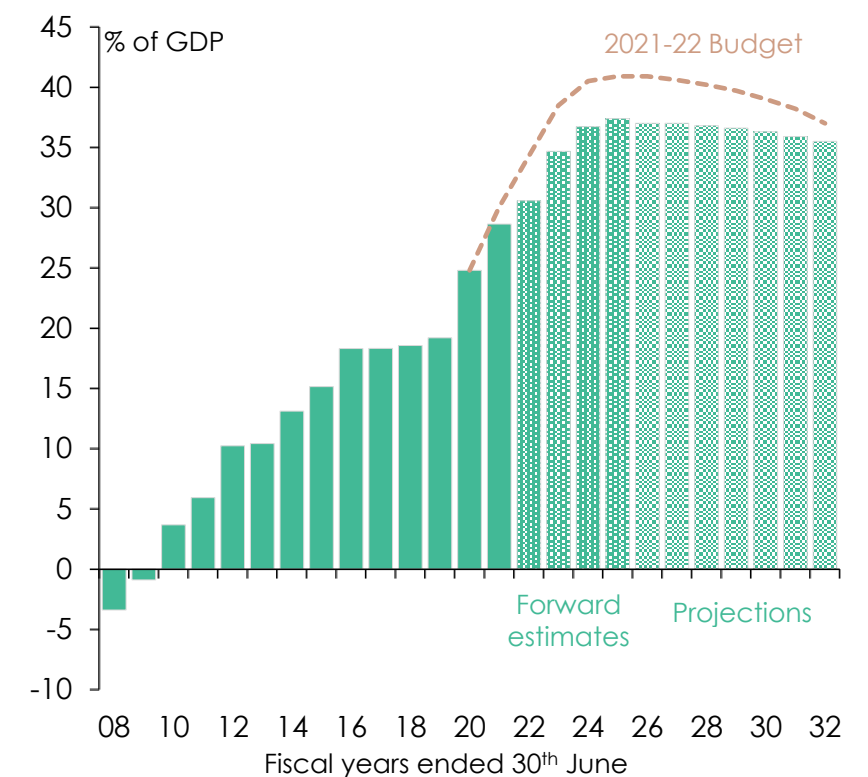
Receipts & payments



'Underlying' cash deficit



Net debt



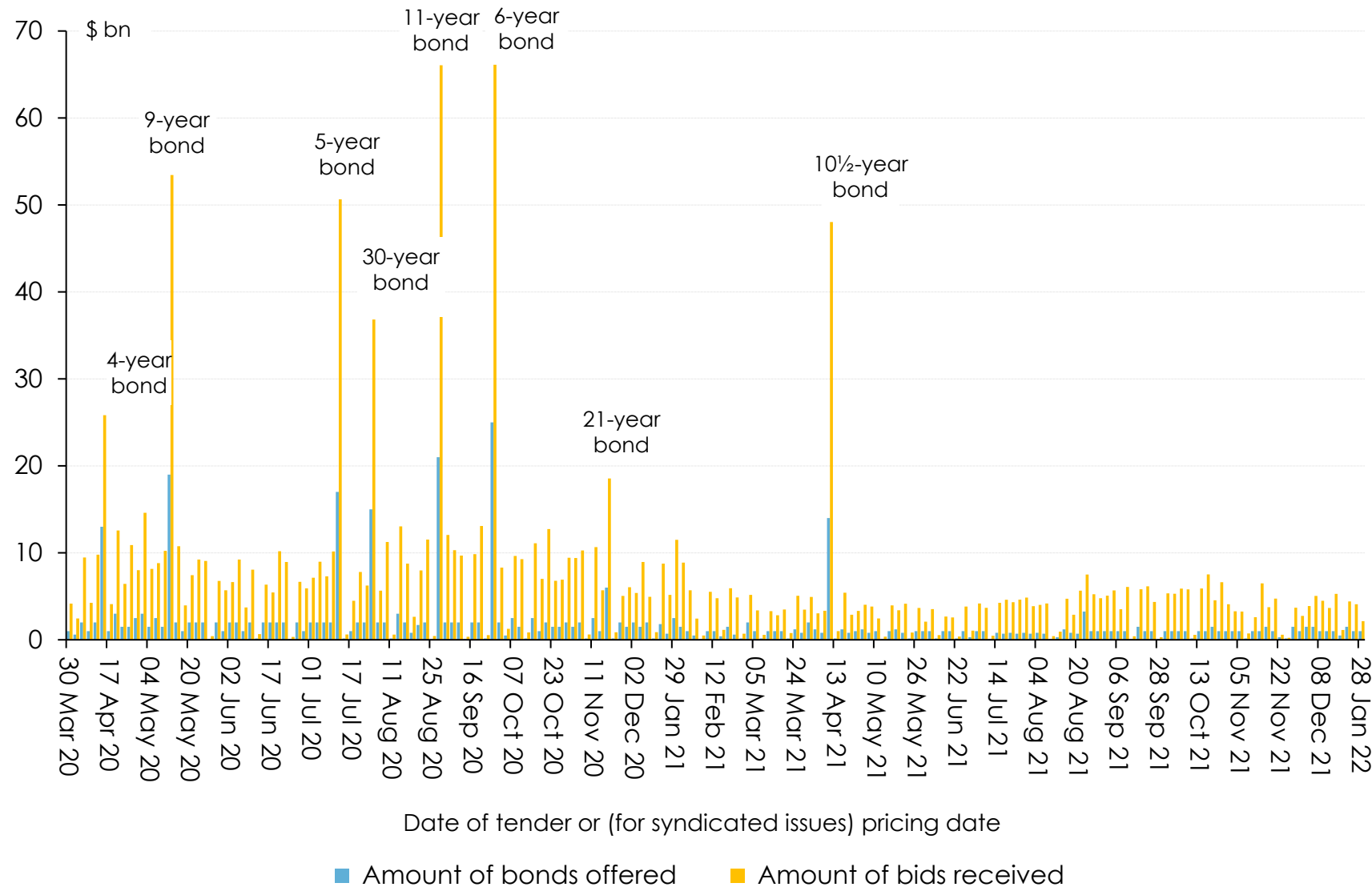
- ❑ MYEFO projects higher spending and revenues over the medium term than in the May Budget (and in the case of spending, significantly higher than in the pre-Covid era) – leading to persistent budget deficits (higher over the medium term than projected in the May Budget) – unless the quite arbitrary 23.9% of GDP 'cap' on tax revenues is amended or abandoned
- ❑ While interest rates remain low by historical standards the government can 'afford' to run deficits averaging 2¼% of GDP – but at the expense of not building 'buffers' to use in response to the next 'shock', whenever it comes

Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. [Return to "What's New"](#).

The Government continues to find a ready appetite for its bond issuance – in the past three weeks it has received bids of \$20³/₄bn for \$6bn of bonds

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Australian government bond issuance since March 2020



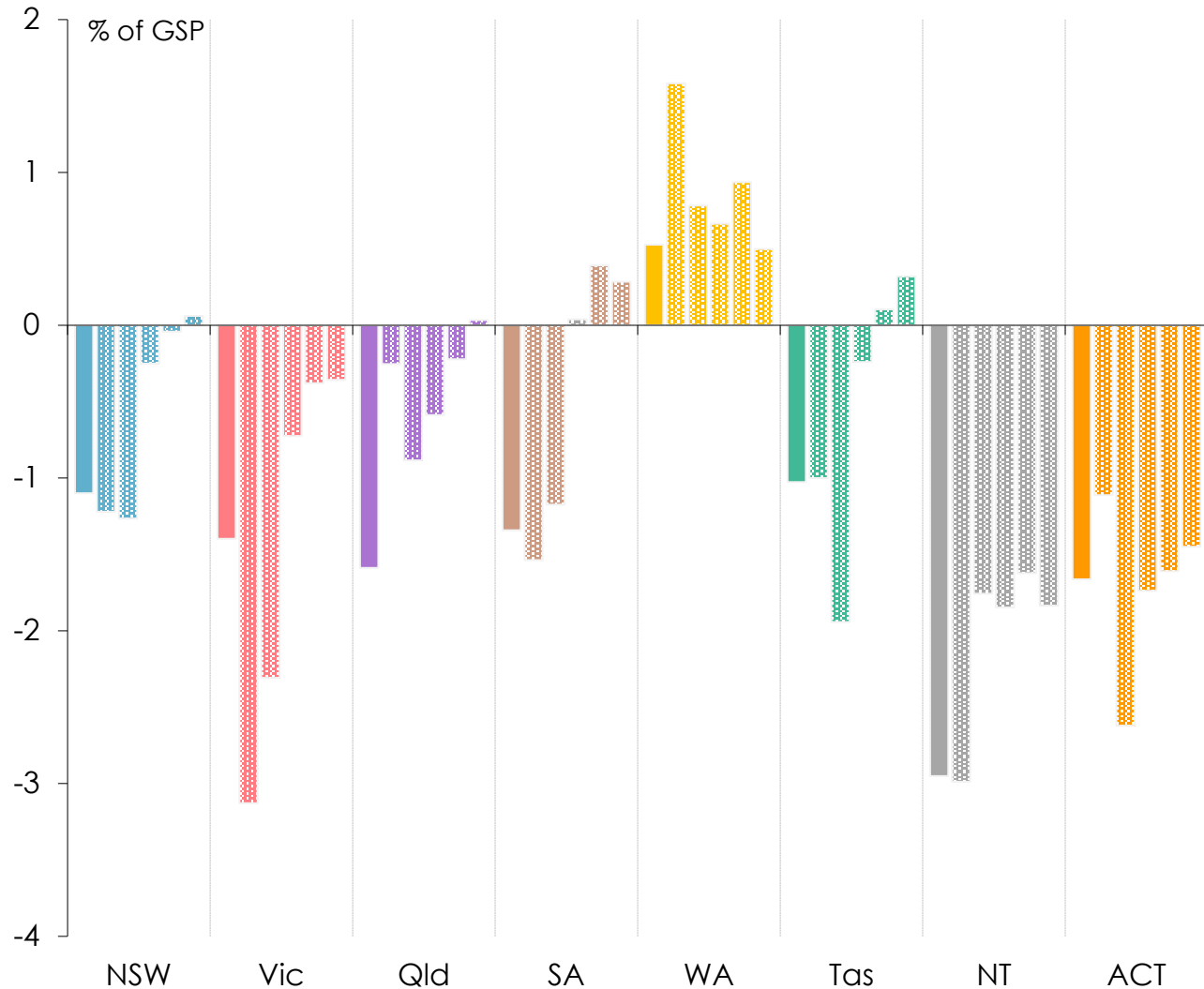
- ❑ On 7th January AOFM indicated it would issue about \$61bn of Treasury bonds, and \$5-5½bn of indexed bonds, over the six months to June
- ❑ Since resuming auctions on 12th January, the AOFM has sold \$6bn of bonds – including \$1bn of 4½-year and \$1bn of 10-year bonds this week, for which it received bids totalling \$6¼bn
- ❑ So far this financial year, the AOFM has received bids totalling over \$230bn for the \$53.4bn of bonds it has offered for sale – a ‘coverage ratio’ of 4.3 times, cf. 3¾ times during the 2020-21 financial year
- ❑ Since 30th March 2020, the Australian Office of Financial Management has issued \$350bn of Treasury bonds – based on the volume of bids received it could have borrowed \$1.32 trn with yields at most 4 bp above the highest yields actually accepted

Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).

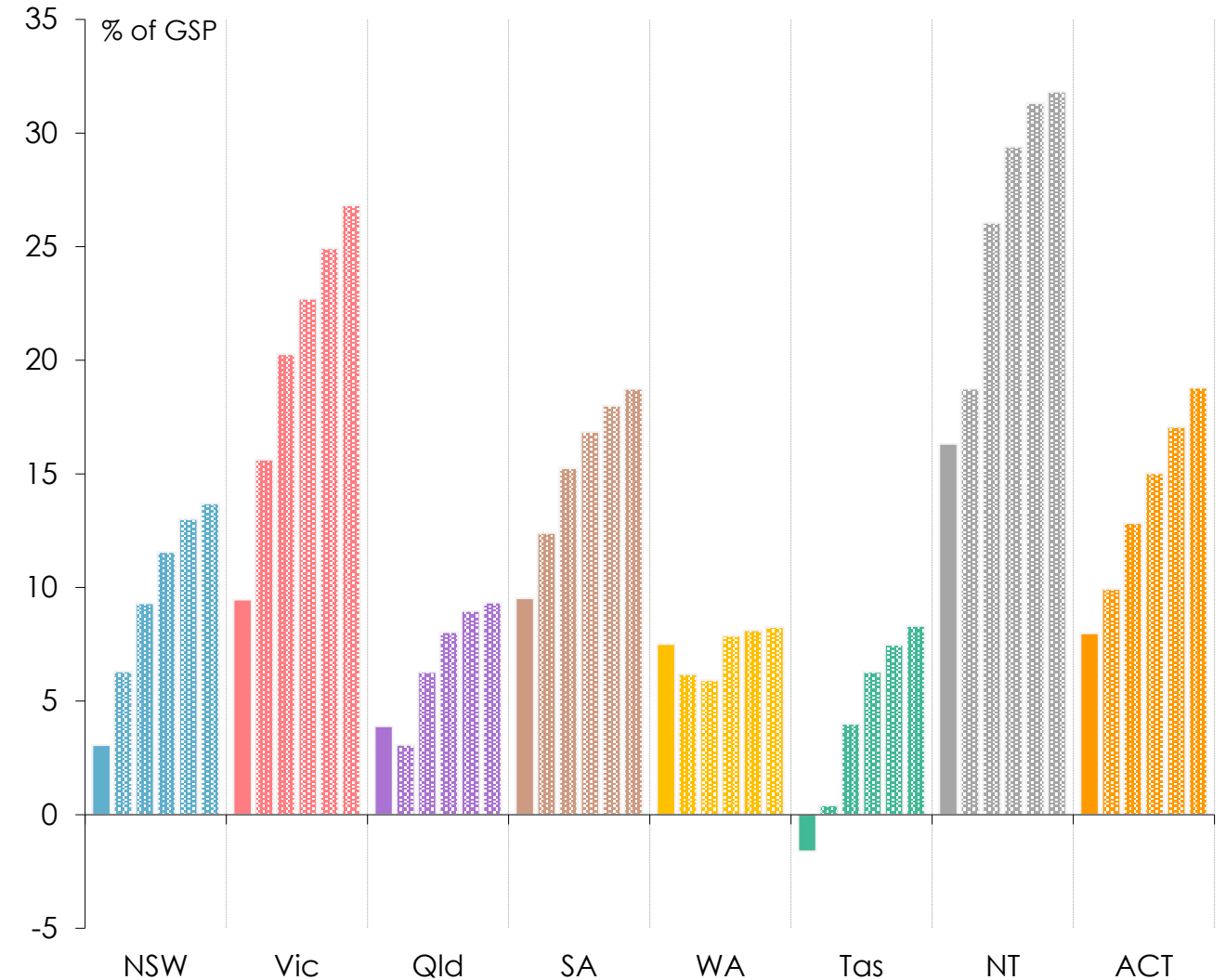
Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

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States and territories – ‘net operating balances’



States and territories – net debt



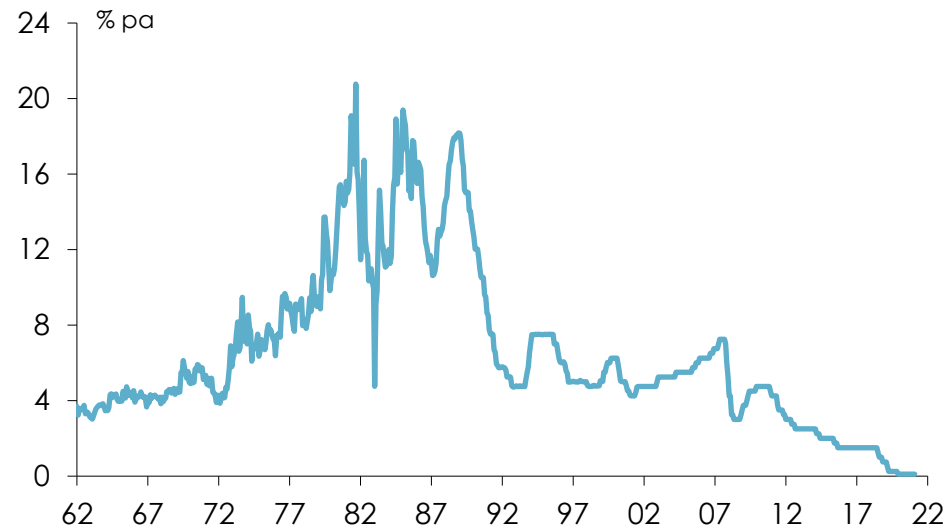
Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or Treasury estimates of real GSP growth combined with Federal Treasury estimates of the (national) GDP price deflator. Sources: State and Territory 2021-22 Budget Papers.

Monetary policy and the RBA

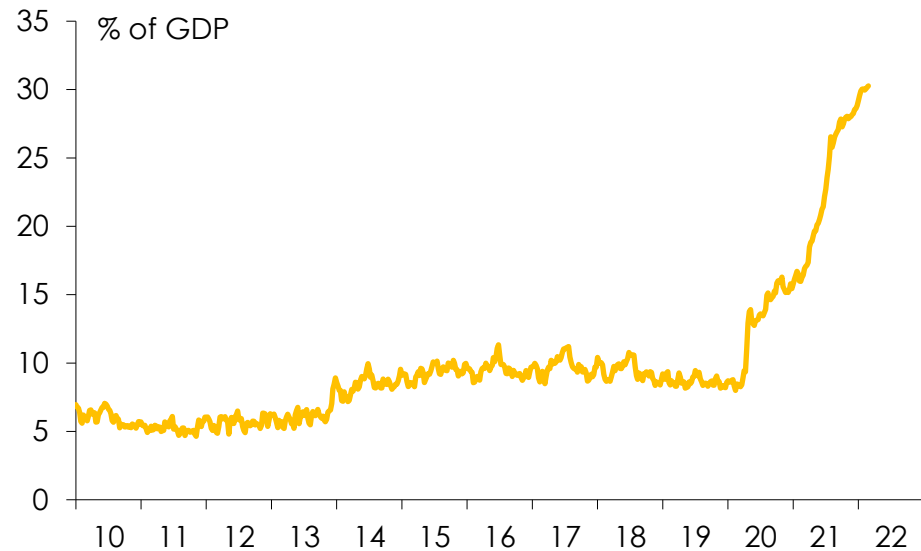
The RBA Board meets on Tuesday for the first time this year, and after the Q4 CPI will likely need to revisit the issue of when to start raising rates

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Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



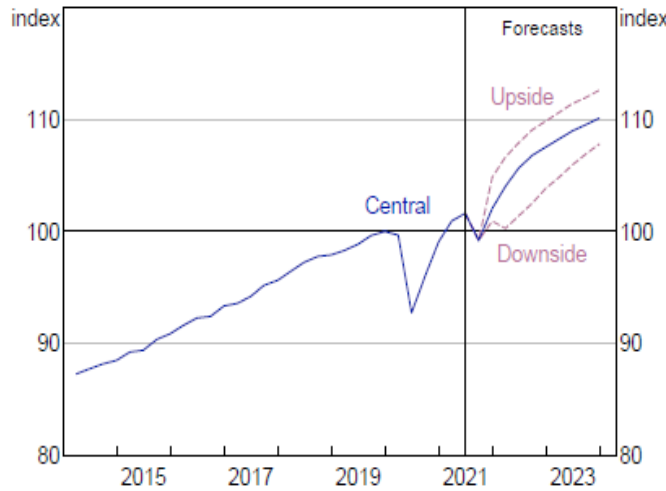
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1. [Return to "What's New"](#).

- ❑ At its final meeting for 2021, the RBA left the cash rate at 0.10% and maintained its bond purchase program at \$4bn per week until “at least mid-February 2022”
 - Governor Lowe indicated that this coming Tuesday’s Board decision on whether to continue the program will be guided by “the actions of other central banks”, “how the Australian bond market is functioning”, and “most importantly, actual and expected progress towards the goals of full employment and inflation consistent with the target”
- ❑ For the first time since last February, the [December post-meeting statement](#) did *not* put a date on when the RBA might raise the cash rate, instead merely saying that it “is likely to take some time” for the criteria for raising rates to be met, and “the Board is prepared to be patient”
 - although in a [speech in his home town of Wagga Wagga](#) on 16th December, Governor Lowe re-iterated that “the condition for an increase in the cash rate”, namely, “actual inflation sustainably in the 2-3% target range”, would not, in the Bank’s “central scenario”, be met in 2022
- ❑ However, the higher-than-expected Q4 inflation outcome – with annual ‘underlying’ inflation now above the mid-point of the target range for the first time since mid-2014 – puts pressure on the RBA to revise its ‘forward guidance’, and consider starting to raise rates this year
 - otherwise, the RBA will in effect be sanctioning *lower real* interest rates despite the economy being stronger and inflation higher than when it cut rates in 2020
- ❑ Given that other central banks are terminating their ‘QE’ programs it also seems highly likely that the RBA will end its bond purchase program

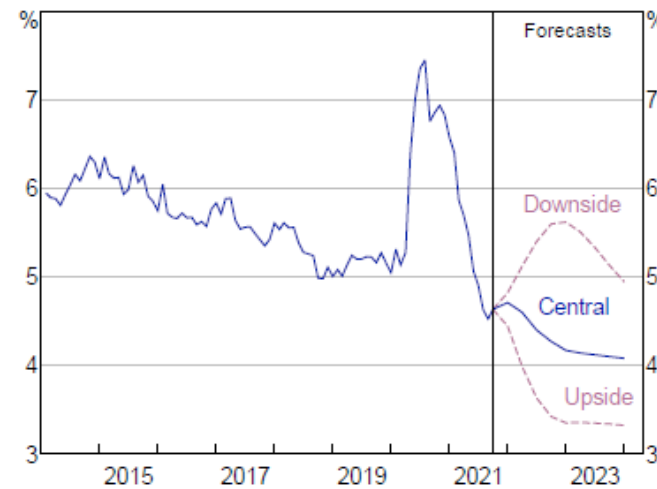
The RBA's next set of forecasts, to be released on Friday, will likely include upward revisions to its inflation outlook and an earlier date for lifting rates

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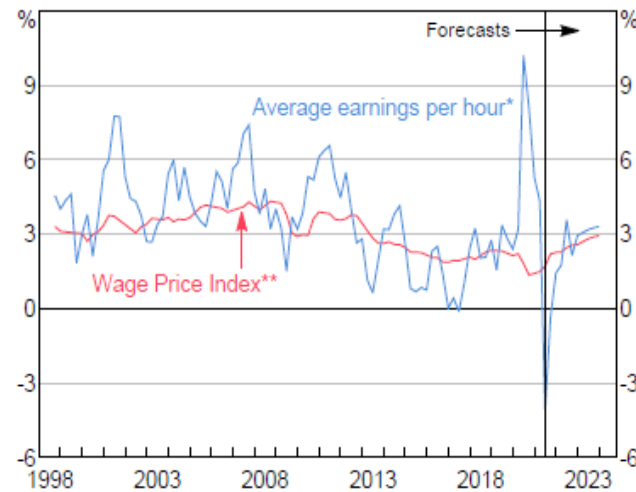
GDP



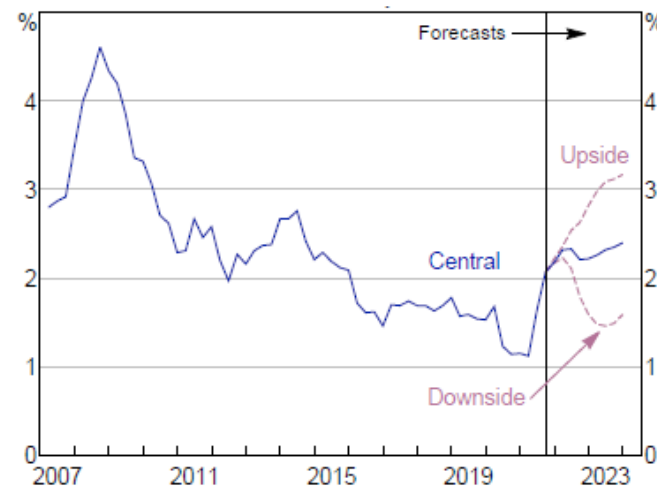
Unemployment



Wages



'Underlying' inflation



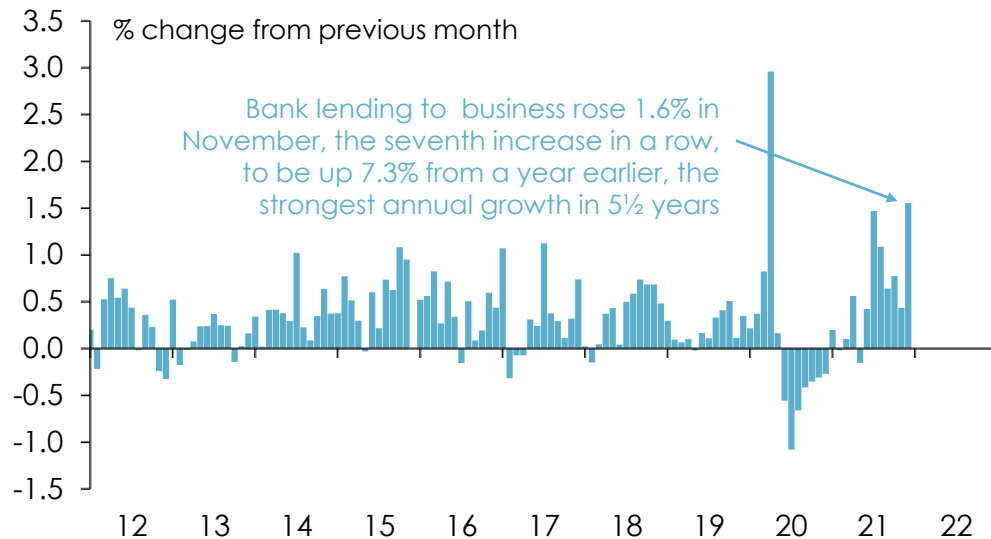
- ❑ In its November [Statement on Monetary Policy](#) RBA foreshadowed a “rapid bounce back” in economic activity after the end of lockdowns in NSW, Victoria and the ACT such that GDP would grow 5½% over the year to Q4 2022 before slowing to 2½% through 2023
- ❑ In this ‘central’ scenario the RBA expected the unemployment rate to fall from 4¾% in Q4 2021 to 4¼% by Q4 2022, and to “just above 4% by the end of 2023” ...
- ❑ ... in which case wage inflation was expected to pick up to “above 2% by the end of 2021” and “to be around 3% by the end of 2023”
- ❑ ‘Underlying’ inflation was expected to be “around 2¼ for much of the forecast period”, rising to “around 2½% by the end of 2023” - which “could be consistent with the first increase in the cash rate being in 2024”
- ❑ Although the RBA conceded “an increase in the cash rate in 2023 could be warranted” in the event of stronger economic growth, it concluded that “the latest data and forecasts do not warrant an increase in the cash rate in 2022”
- ❑ The February [Statement on Monetary Policy](#), to be released on Friday, is likely to incorporate downward revisions to forecasts for unemployment and upward revisions to forecasts for inflation – which could in turn warrant an earlier ‘lift-off’ for interest rates

Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 5th November 2021. The RBA's next set of forecasts will be published on 4th February. [Return to "What's New"](#).

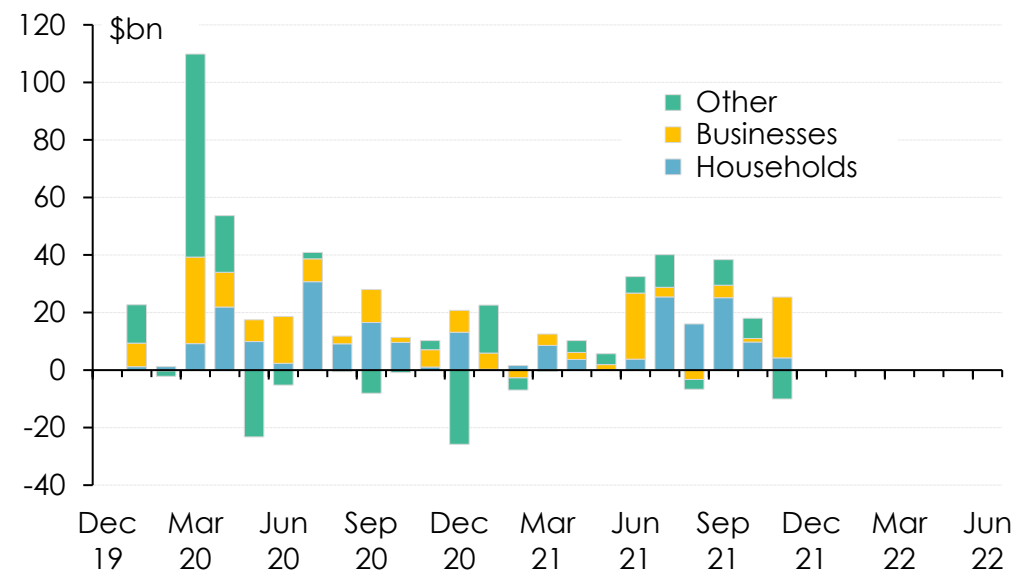
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

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Business credit outstanding



Monthly change in bank deposits



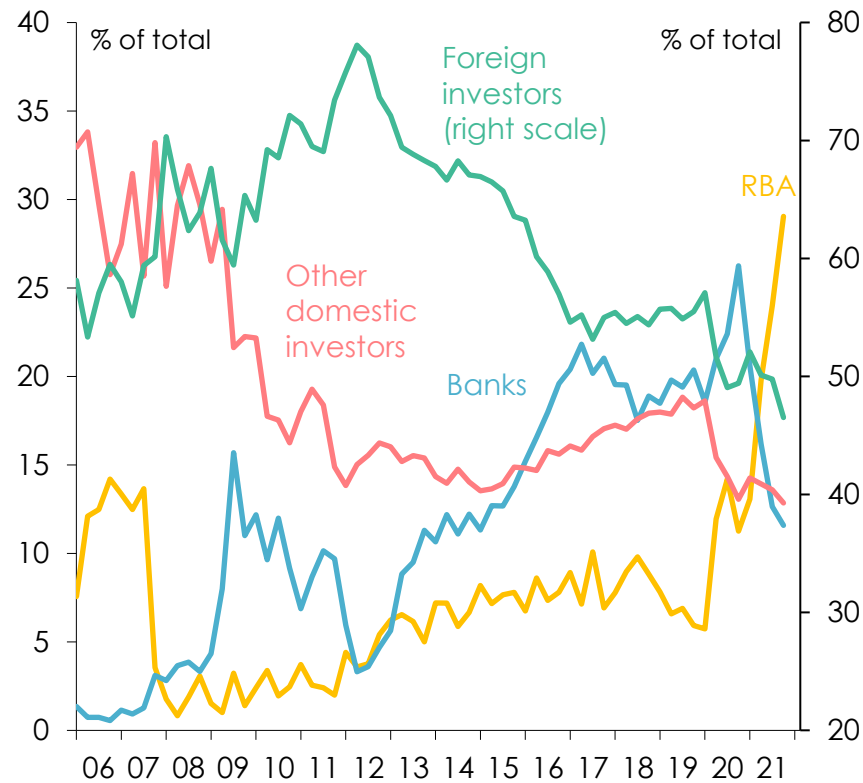
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during the most recent lockdowns
- ❑ Banks extended ‘repayment holidays’ to business and home mortgage borrowers who requested it
 - in May last year, 11% of mortgage borrowers and 18% of SME borrowers were deferring debt service payments
- ❑ Bank deposits have swelled by \$457bn (21½%) since February 2019 as customers have ‘parked’ precautionary loan drawings, additional savings and withdrawals from superannuation funds
 - almost all of this has gone into transaction deposits which don’t pay interest – so banks haven’t drawn as much as might otherwise have been expected from the RBA’s Term Funding Facility
- ❑ Household deposits have risen by \$222bn (22½%) since February 2019 – including by \$81bn between July and November most of which NSW and Victoria spent in lockdown – while business deposits have risen by \$164bn (27½%)

Sources: Reserve Bank of Australia; APRA. [Return to "What's New"](#).

The RBA has (indirectly) absorbed 70% of the increase in government debt since the end of 2019, foreign investors 24% and banks 7%

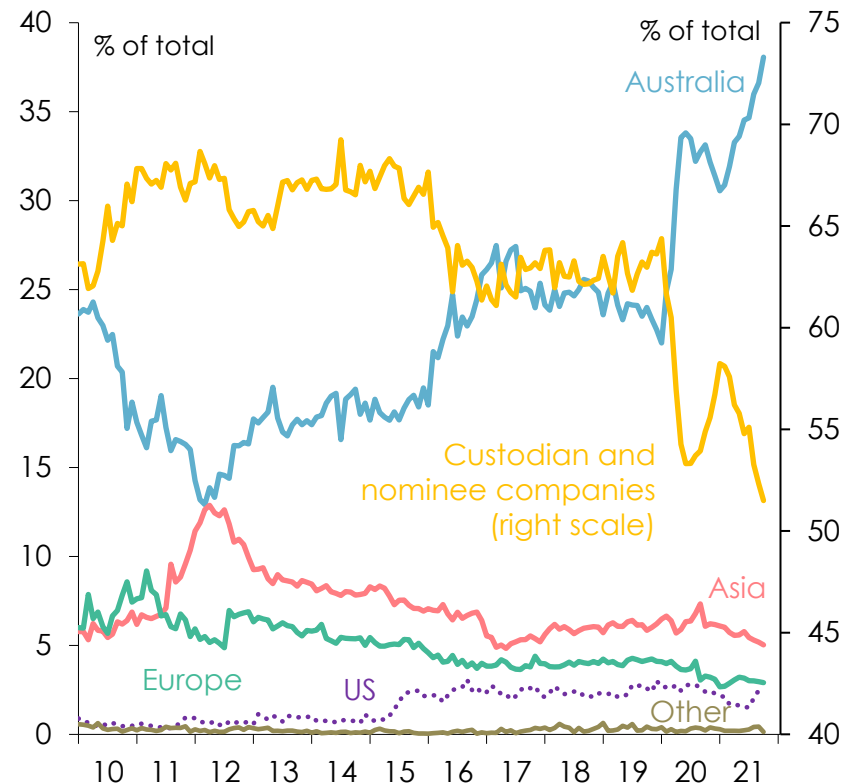
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Holder of Australian Government bonds



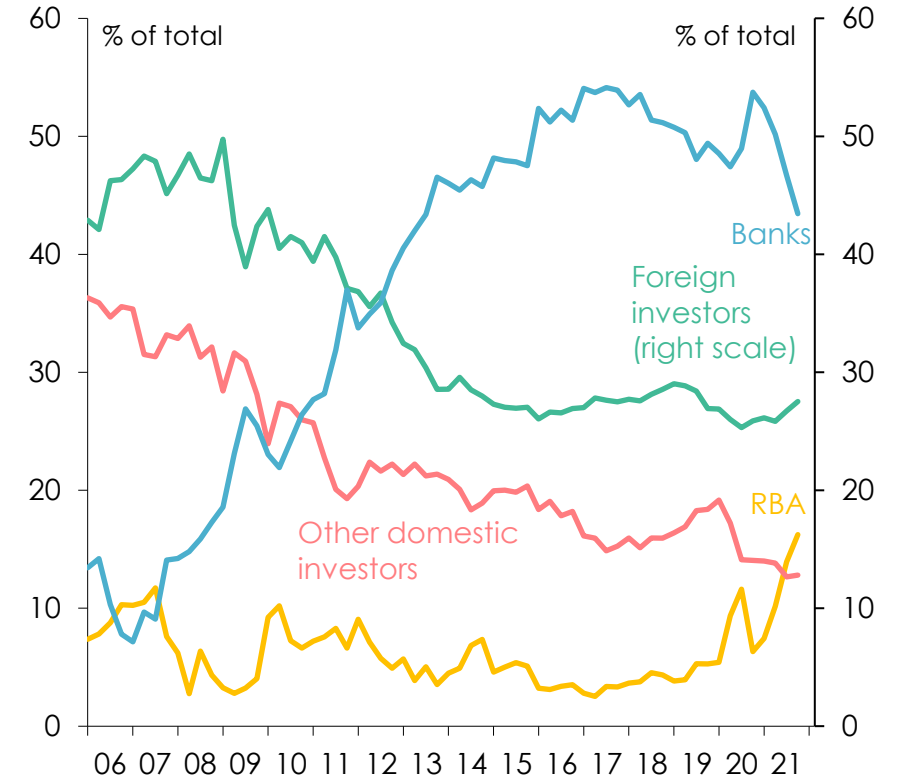
Australian Gov't bonds on issue have increased by \$266bn since the end of 2019 – of which \$225bn (85%) have been absorbed by the RBA, and \$56bn by foreigners, while banks have reduced their holdings by \$13bn

Nationality of Australian Government bond holders



Domestic holdings of Australian Gov't bonds (including RBA) rose by \$53bn over the 12 months to September while identified foreign holdings fell \$8½bn – and unidentified holdings (which include many foreigners) fell by \$9bn

Holder of State and Territory Government bonds



State & Territory Gov't bonds on issue since the end of 2019, of which \$53bn have been absorbed by the RBA, \$41bn by banks and \$37bn by foreigners

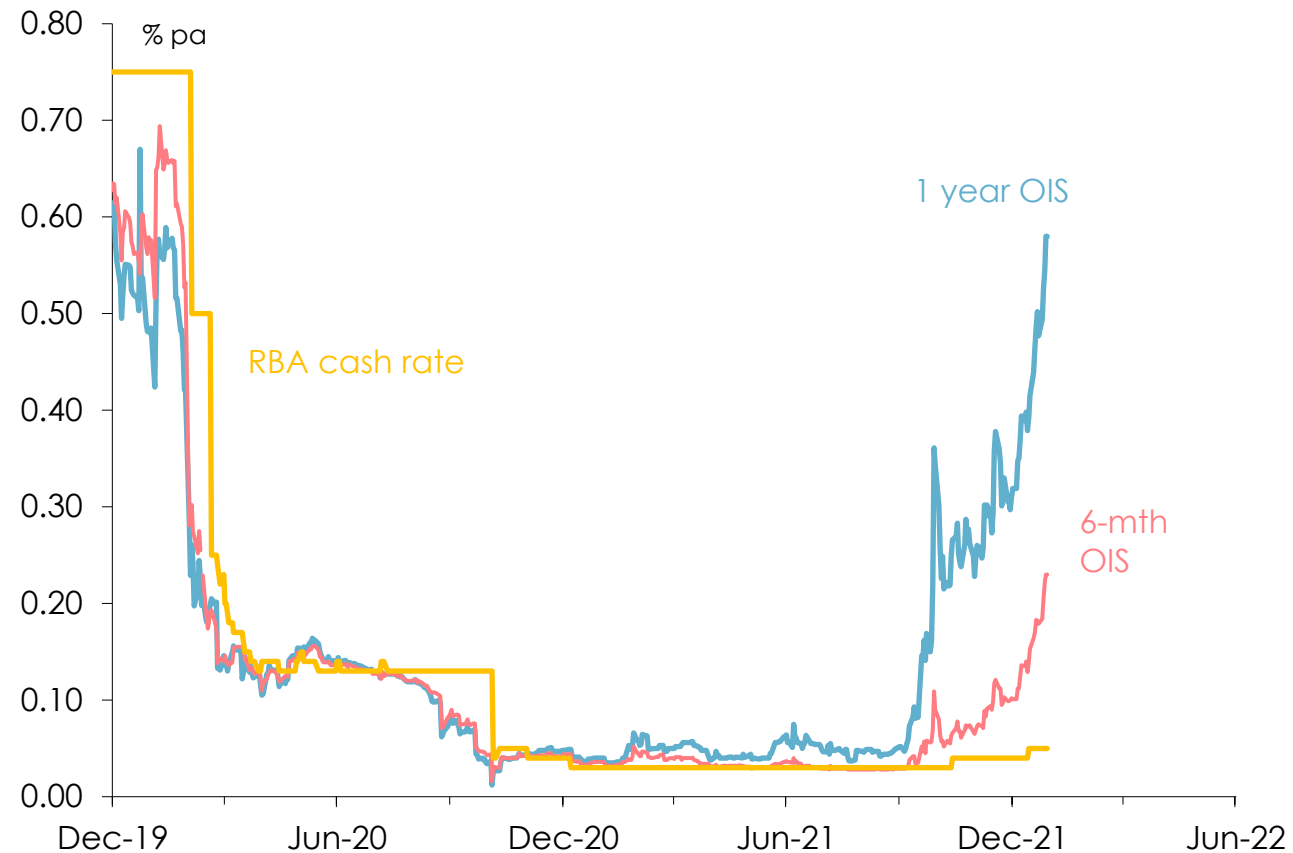
Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; [Australian Office of Financial Management](#). December quarter data will be released on 31st March 2022. [Return to "What's New"](#).

Australian financial markets

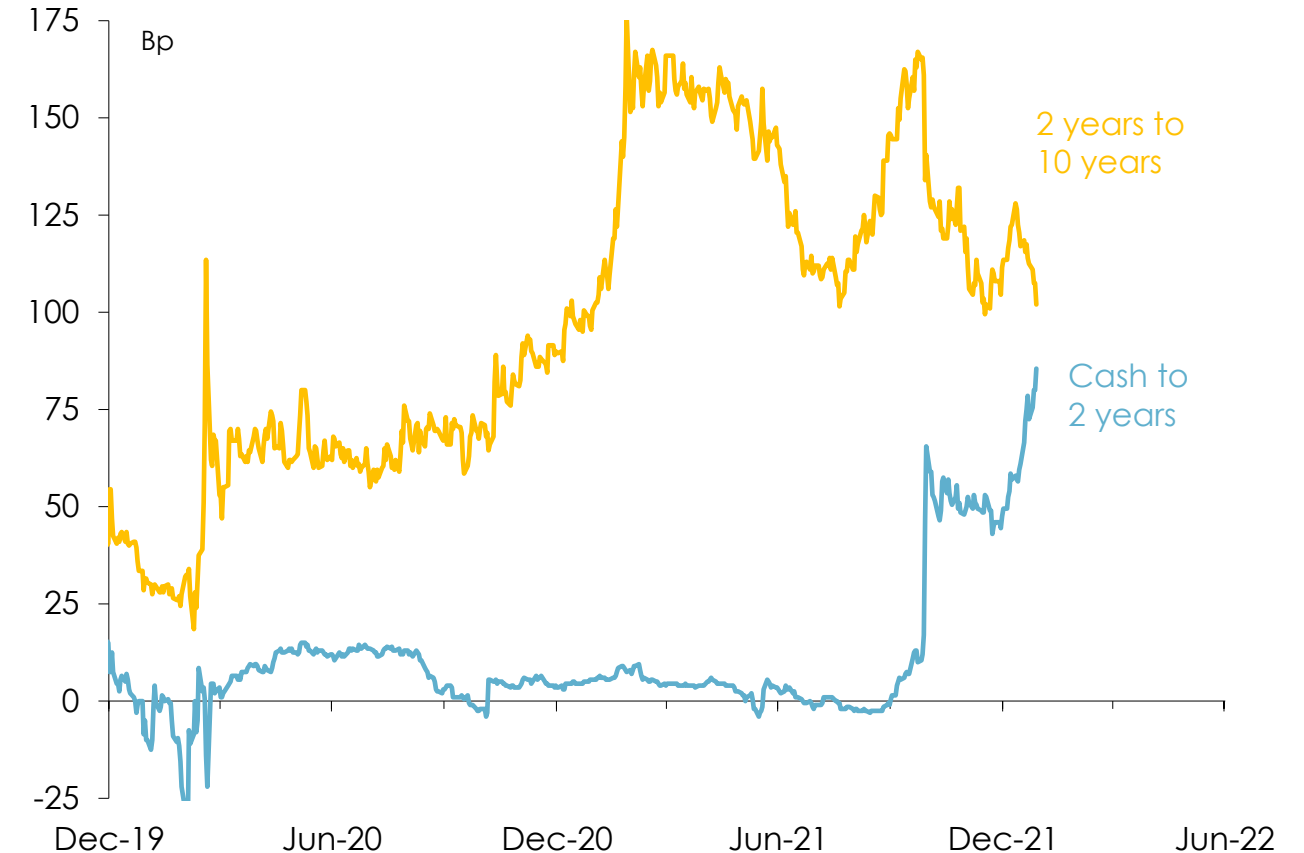
Financial markets have become even more confident that the RBA will raise its cash rate at least twice this year, after the Q4 CPI result

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Overnight index swap rates



Yield curves



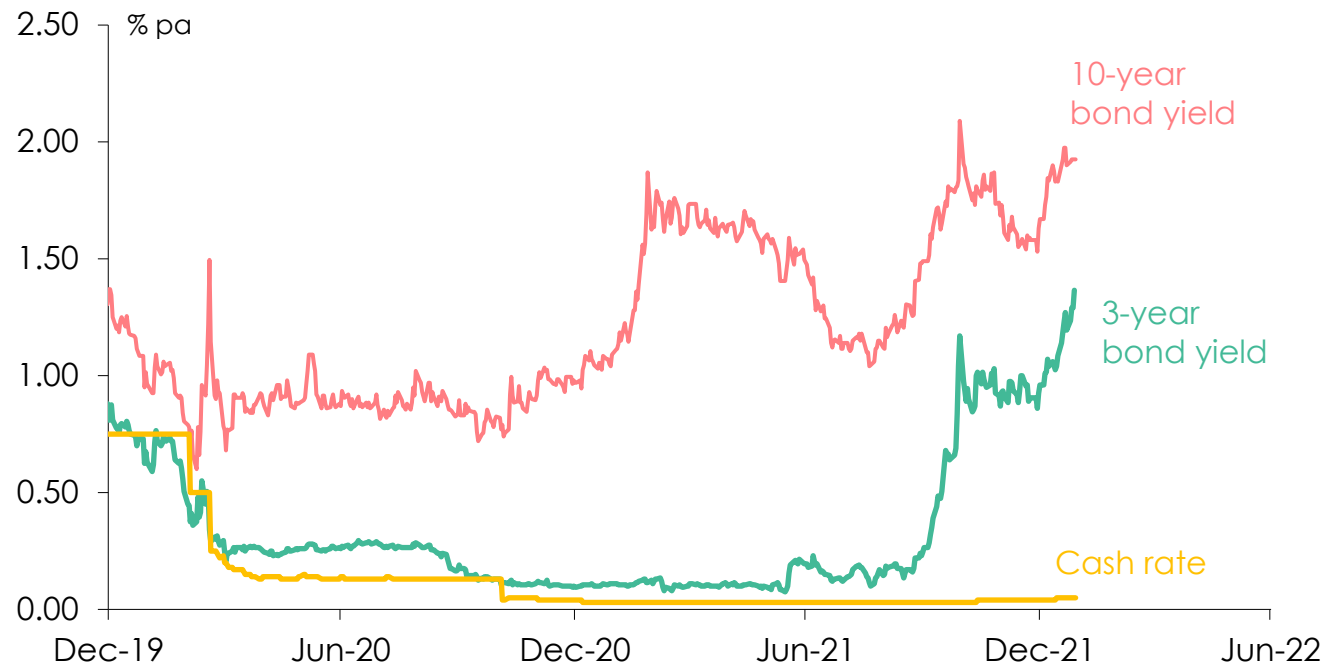
❑ Short-term money markets became even more confident of at least two increases in the RBA's official cash rate in the second half of this year, following Tuesday's higher-than-expected inflation outcome

❑ 2-year bond yield pricing suggests that markets expect that there will be further interest rate increases in 2023, after the two priced for this year

Australian bond yields have risen more than 30 bp so far this year, broadly in line with the trend in US yields

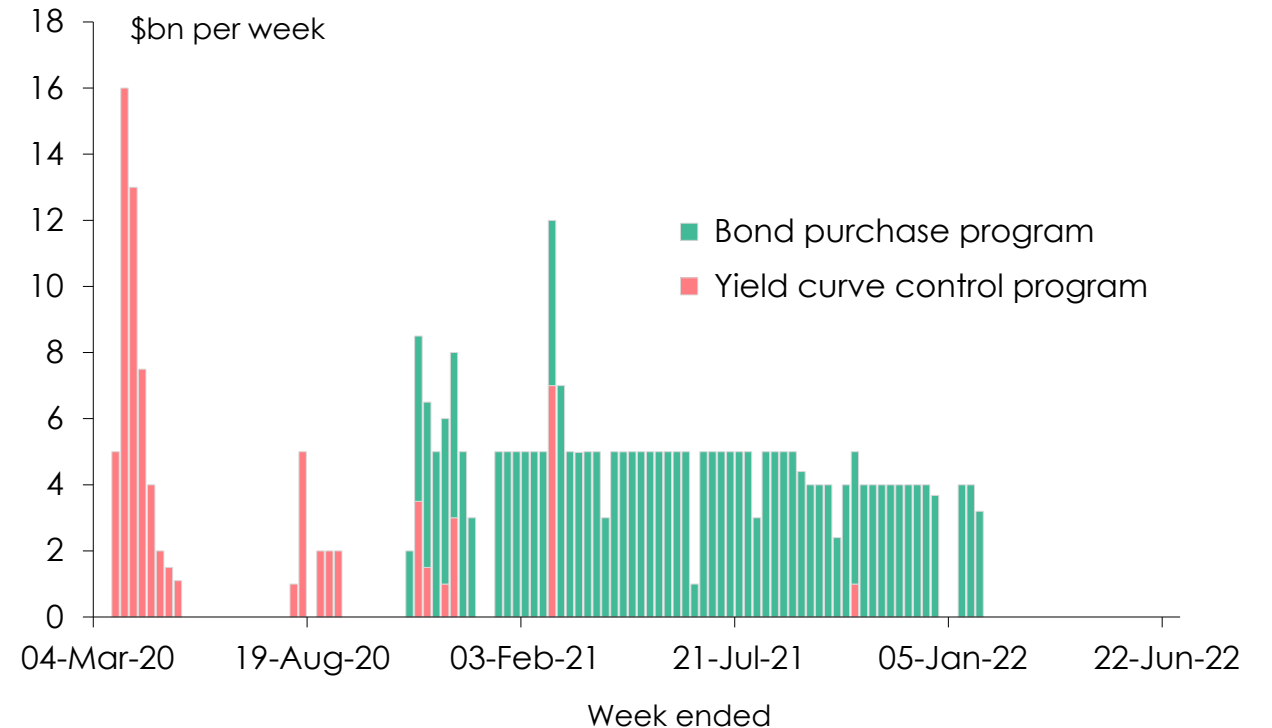
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Interest rates



- ❑ Short-term bond yields rose further this week after the Q4 CPI outcome ([slide 61](#)), with the 3-year yield moving above 1.3% for the first time since late April 2019
- ❑ However the 10-year yield was comparatively little changed at just above 1.90%, reflecting similarly small movements in longer-term US bond yields

RBA open market bond purchases



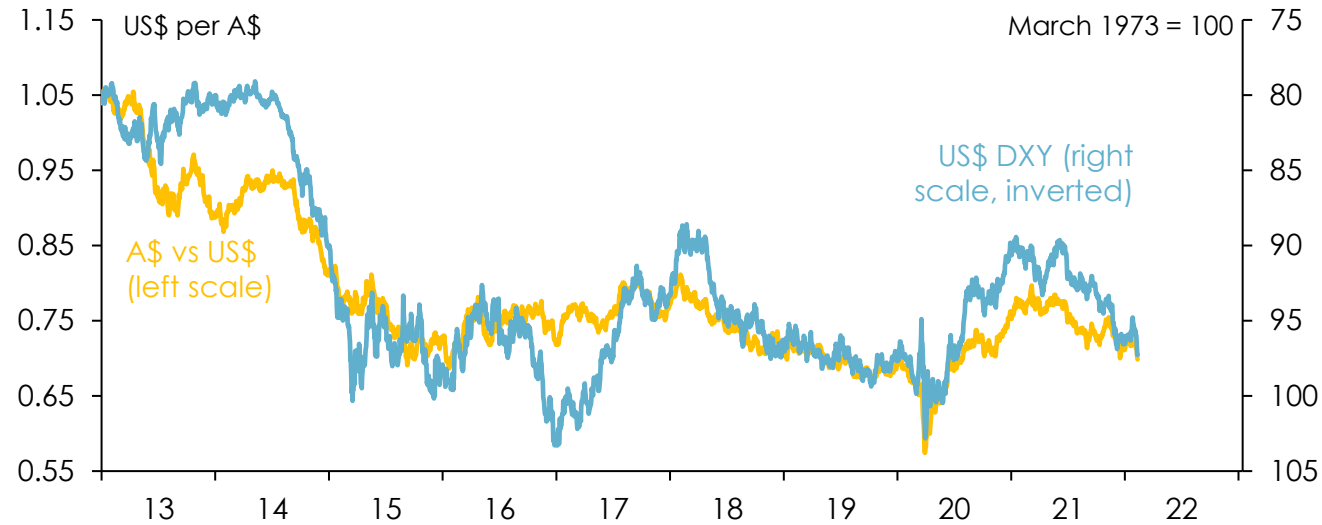
- ❑ The RBA only bought \$3.2bn of bonds this week, skipping the usual \$800mn purchase of state and territory government bonds on Wednesday because of the holiday marking the foundation of Sydney
- ❑ The RBA's total bond purchases now amount to just under \$340bn (about 16% of GDP) – but the bond purchase program will likely be terminated at this coming week's RBA Board meeting ([slide 75](#))

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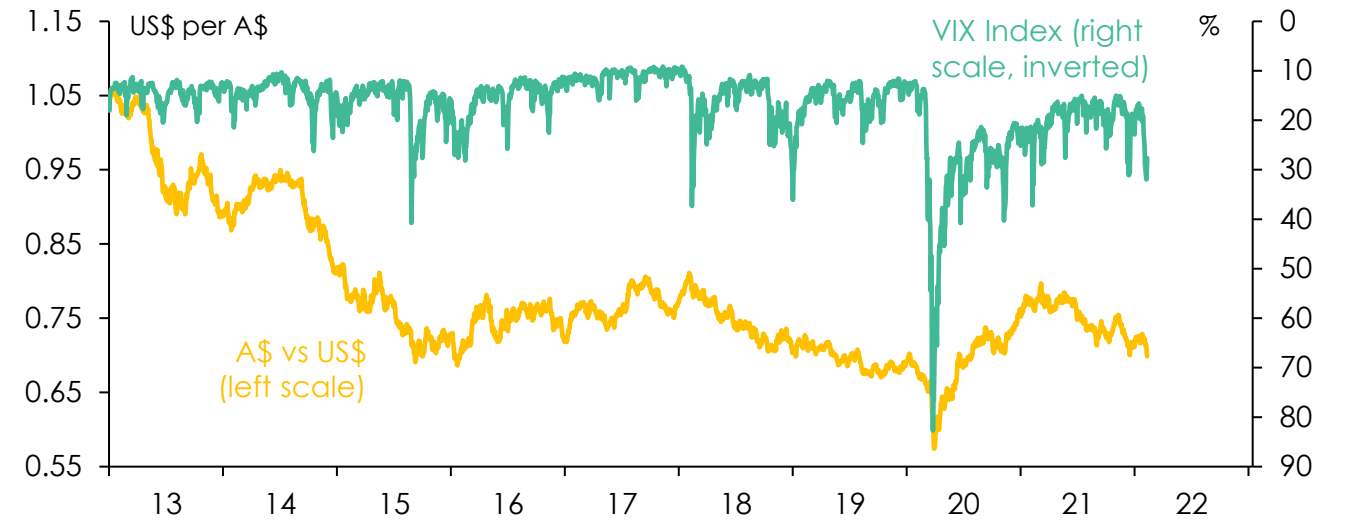
The A\$ fell further this week, to just below US70¢, despite further gains in the iron ore price, on a stronger US\$ and weaker investor risk appetites

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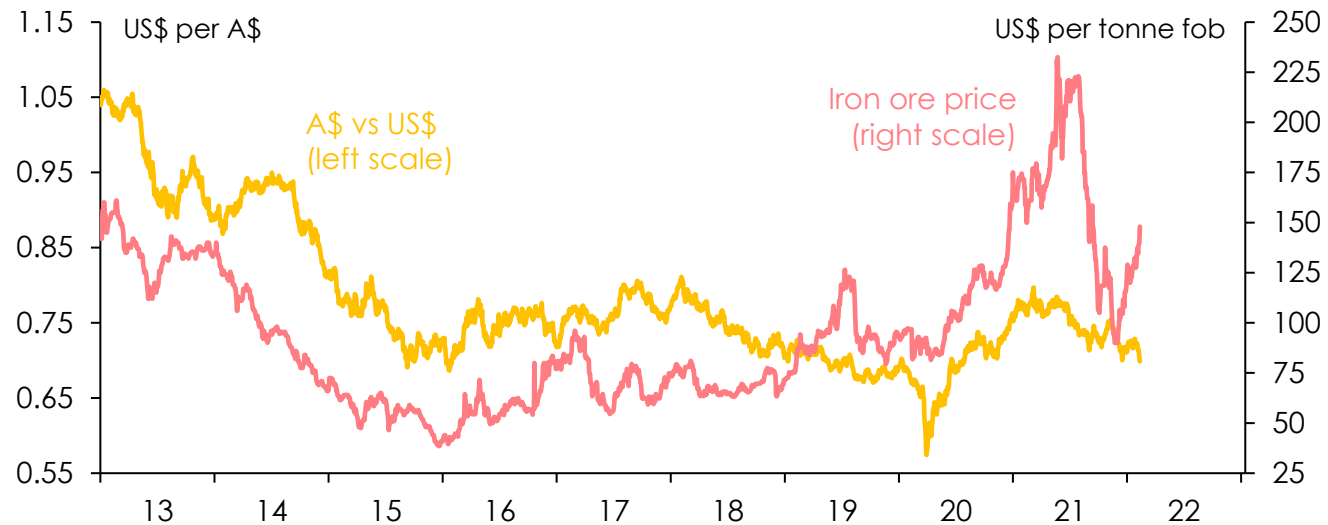
A\$-US\$ and US\$ trade-weighted index



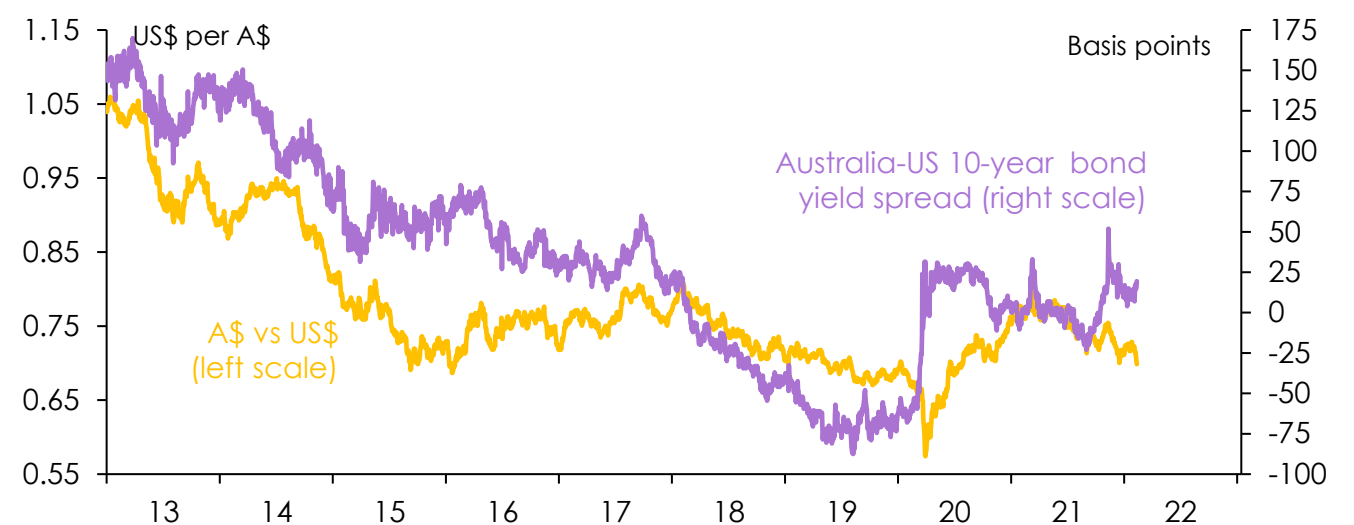
A\$-US\$ and US equity market volatility



A\$-US\$ and spot iron ore prices



A\$-US\$ and Australia-US 10-year bond yield spread

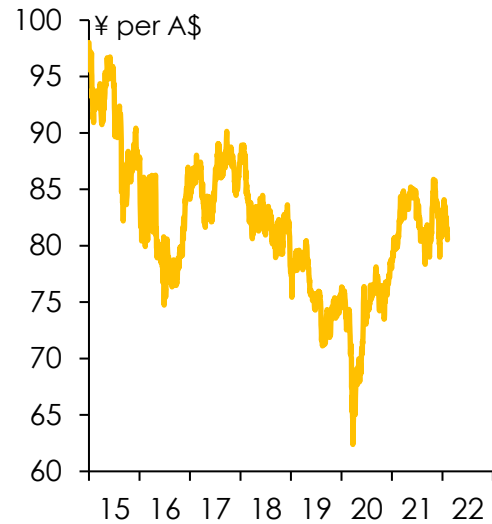


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 28th January. [Return to "What's New"](#).

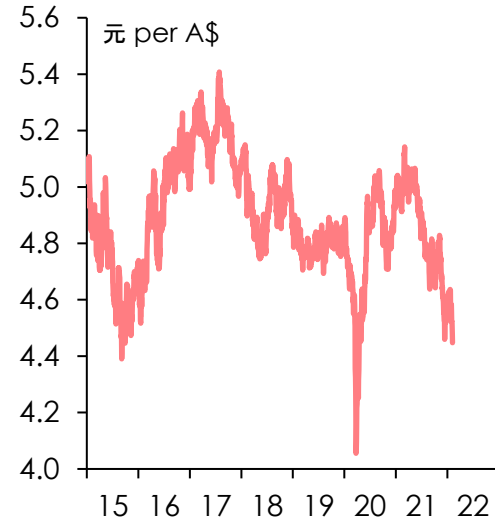
The A\$ was again mixed vs third currencies, rising against the euro, pound, won and NZ\$ but weakening against the yen, yuan, C\$ and Sing\$

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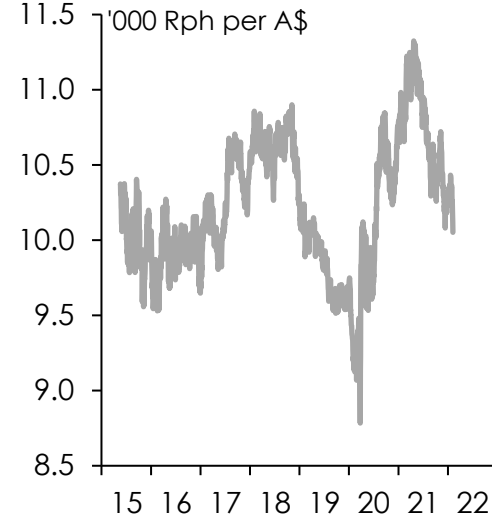
A\$ vs Japanese yen



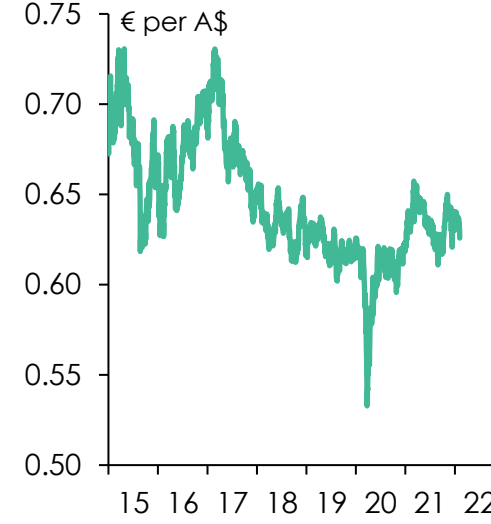
A\$ vs Chinese yuan



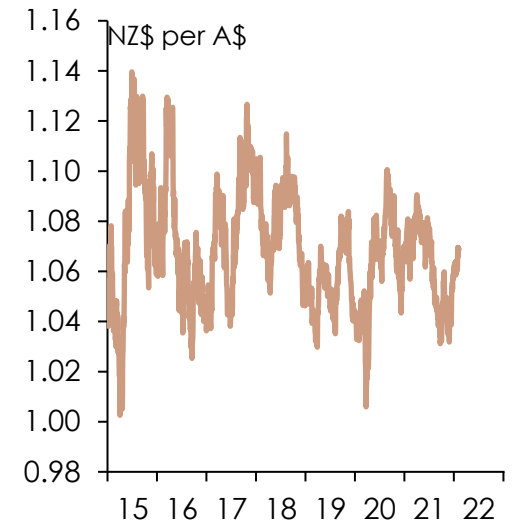
A\$ vs Indo rupiah



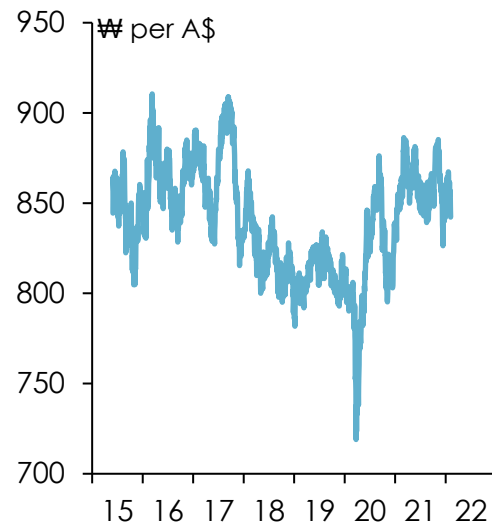
A\$ vs Euro



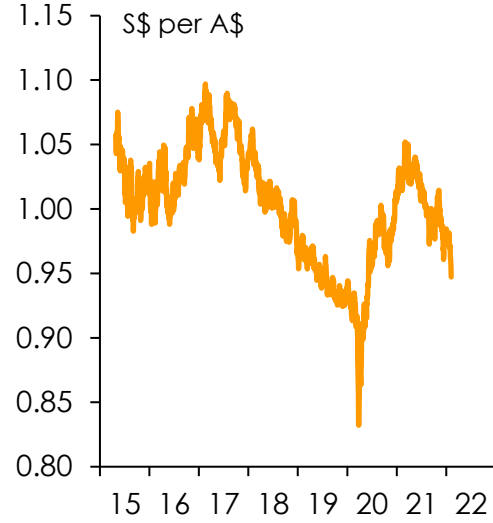
A\$ vs NZ\$



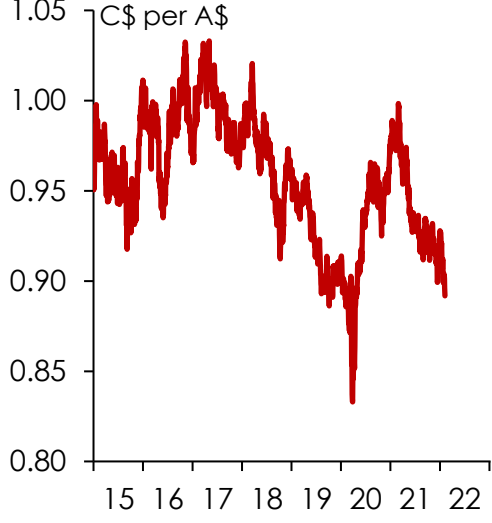
A\$ vs Korean won



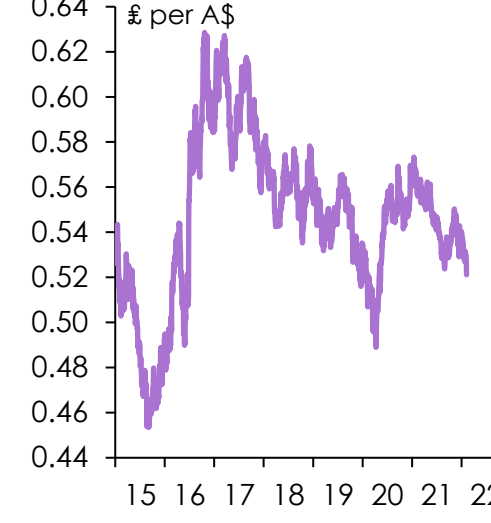
A\$ vs Singapore \$



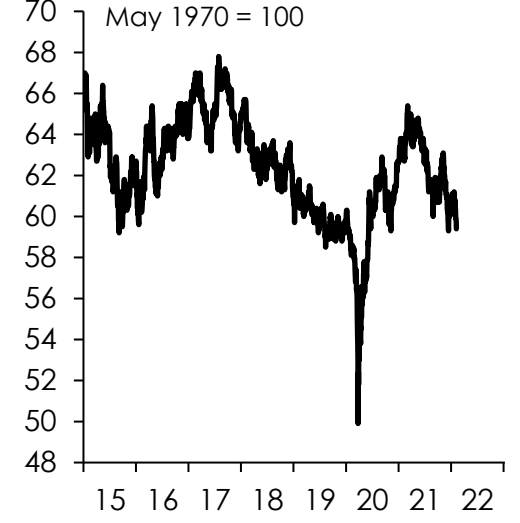
A\$ vs Canadian \$



A\$ vs British pound



A\$ TWI

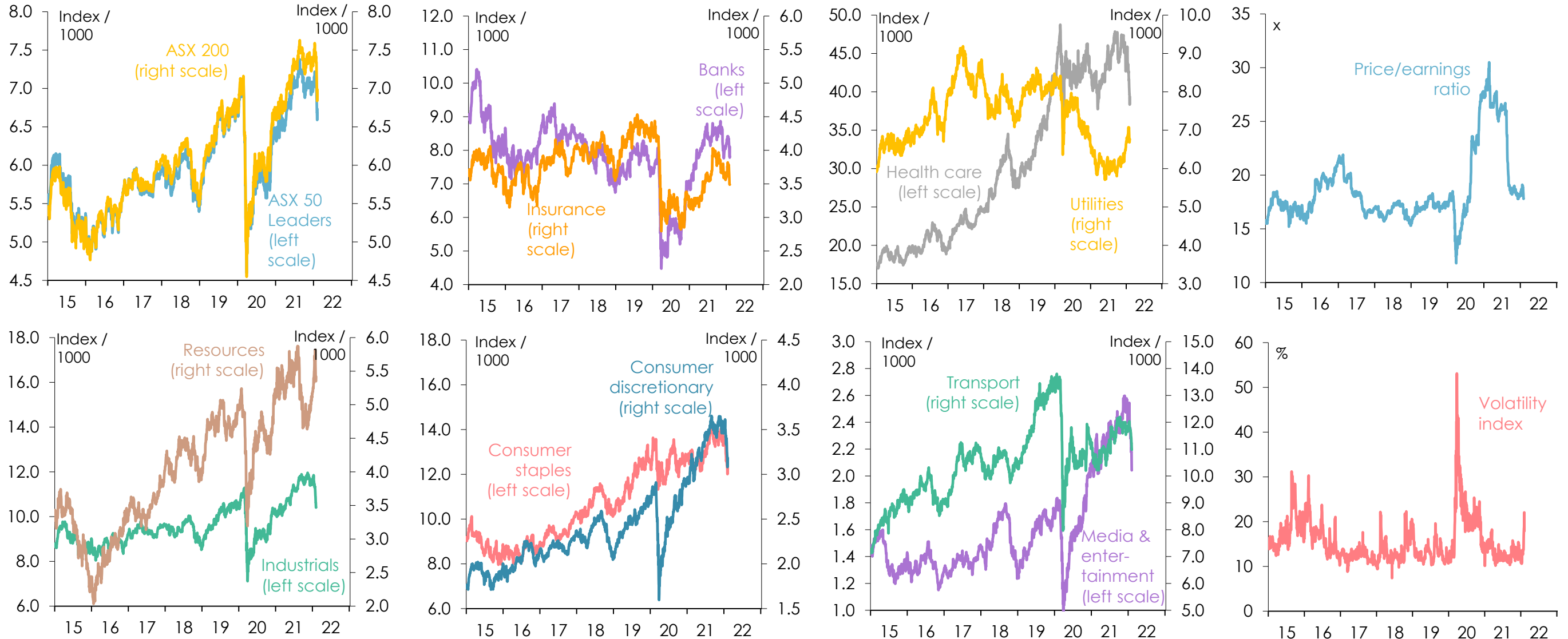


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 28th January. [Return to "What's New"](#).

The ASX fell another 2½% this week, despite retrieving some losses on Friday, to be down around 6% so far this year

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ASX indices



Sources: Refinitiv Datastream. Data up to 28th January. [Return to "What's New"](#).

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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