



# THE AUSTRALIAN ECONOMY THIS WEEK

25<sup>TH</sup> FEBRUARY 2022

**SAUL ESLAKE**

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

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# What's new?

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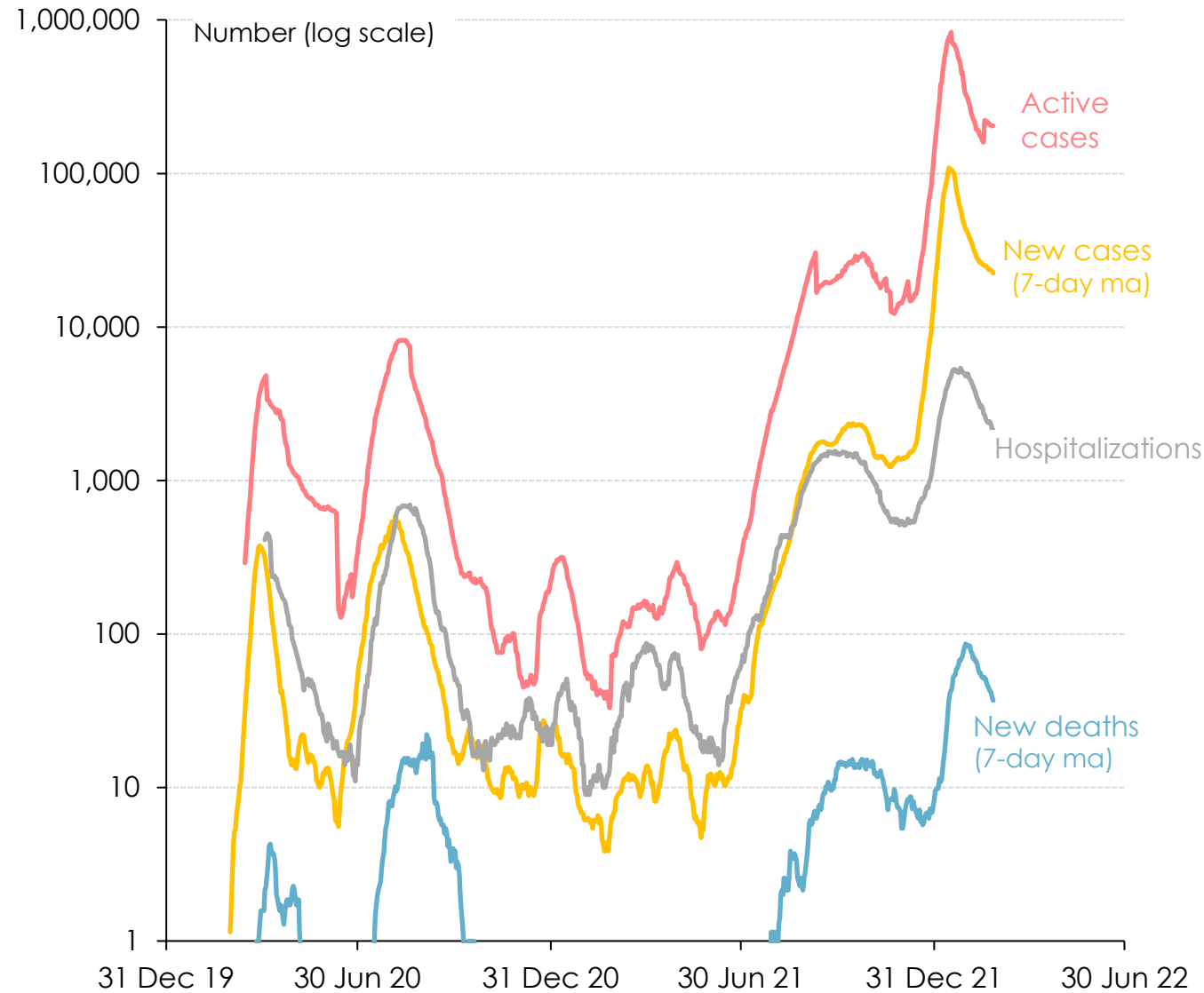
- ❑ The numbers of new and active cases are now down more than 70% from their peaks in the second week of January, and the numbers of hospitalizations and deaths more than 60% from their respective peaks in the last week of January, providing further evidence that Australia's 'omicron' wave is now receding ([slide 5](#))
- ❑ 'Omicron' appears to have arrived in Western Australia – despite its ongoing 'self-isolation', which won't end until this coming Thursday – and new case numbers in that state have started to rise sharply, albeit from a low base ([slide 6](#))
- ❑ The wage price index (excluding bonuses) rose 0.7% in the December quarter last year, the largest quarterly increase since the March quarter of 2014 – lifting the annual growth rate to 2.3%, the highest since the December quarter 2014, but still well below the 3%+ that the Reserve Bank regards as being consistent with 'underlying' inflation “sustainably” within its 2-3% target range ([slide 81](#))
- ❑ Employers in some sectors (including accommodation & food services, and retail trade) appear to have been willing to pay bonuses to attract or retain staff, but remain reluctant to lift ongoing pay rates ([slide 71](#))
- ❑ Business new fixed capital spending rose 1.1% in the December quarter, after falling 1.3% in the previous quarter, but was still 3.8% below its peak in the final quarter of 2018 ([slide 28](#))
- ❑ Businesses revised up their capex spending plans for the 2021-22 financial year by 1.6% in the most recent (January-February) ABS survey, about half the average revision in this survey over the past five years, but if realized to the same extent as on average over the past five years the results suggest a 14.3% (nominal) increase in capex in 2021-22, cf. 12.3% at the previous survey ([slide 29](#))
- ❑ The ABS released the first issue of a new indicator of household spending derived from banks' transactions data, which suggests household spending rose 3.1% in December after a 15.3% surge in November (as NSW, Victoria came out of lockdown), with spending on alcohol & tobacco up 32% (!! ) and clothing & footwear up 14.5%, but spending on health down 8.6% ([slide 36](#))
- ❑ The number of people on joblessness-related income support payments fell another 0.4% over the first two weeks of February, to a new post-Covid low ([slide 50](#))
- ❑ Financial markets responded to Wednesday's wages data by shading the probabilities they'd attached to the RBA raising its cash rate in the second half of the year ([slides 85-86](#)), and then reacted to Russia's invasion of Ukraine which began on Thursday in line with overseas markets, with the A\$ reversing earlier gains ([slide 87](#)) and share prices falling around 3% ([slide 89](#))
- ❑ Apart from the ongoing conflict in Ukraine, attention in the coming week is likely to focus on Tuesday's RBA Board meeting and Wednesday's December quarter national accounts ([slide 91](#))

**The virus**

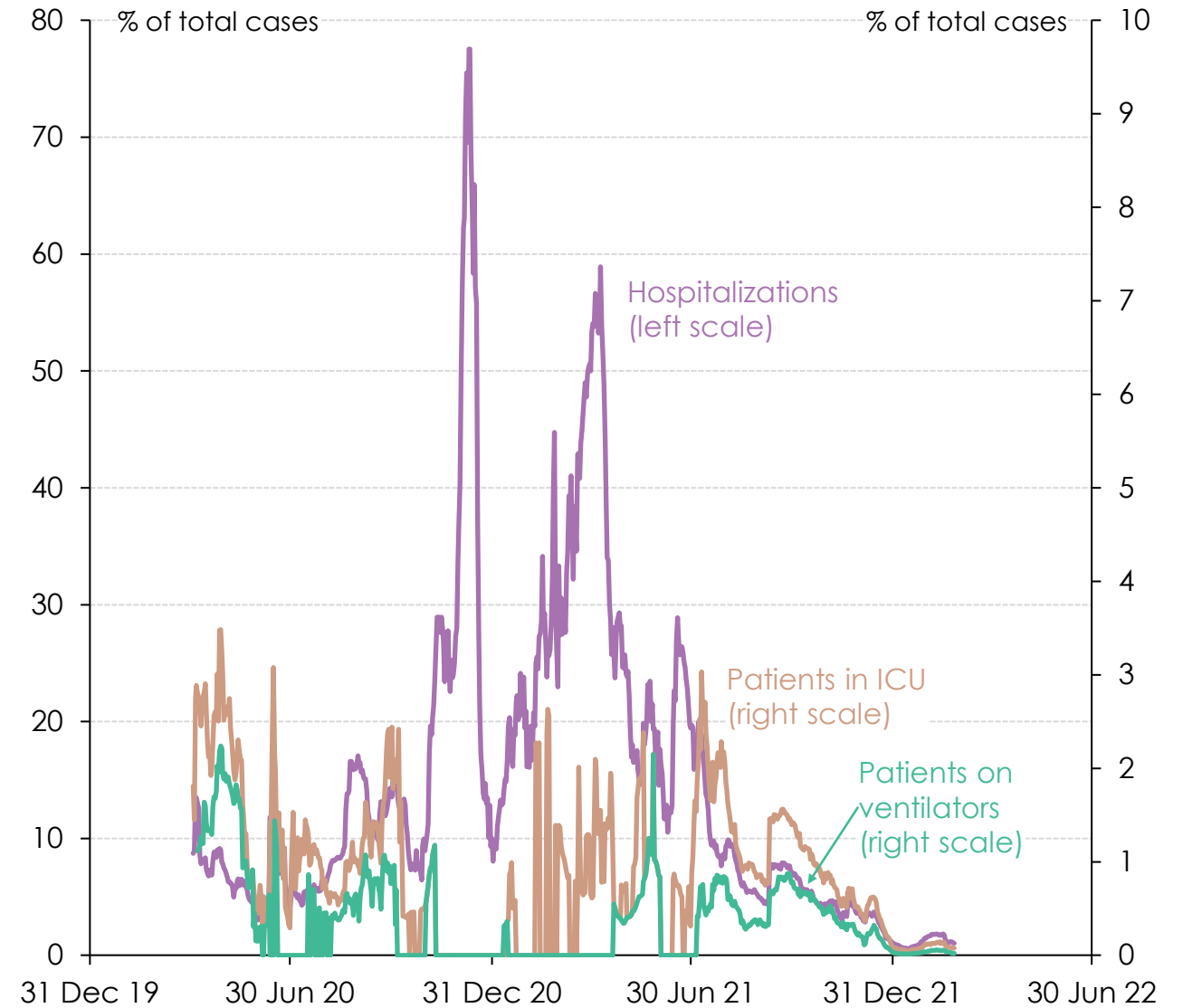
# Australia's 'omicron wave' has continued to subside, although the numbers of new and active cases, hospitalizations and deaths remain high

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## Cases, hospitalizations and deaths



## Severity of cases

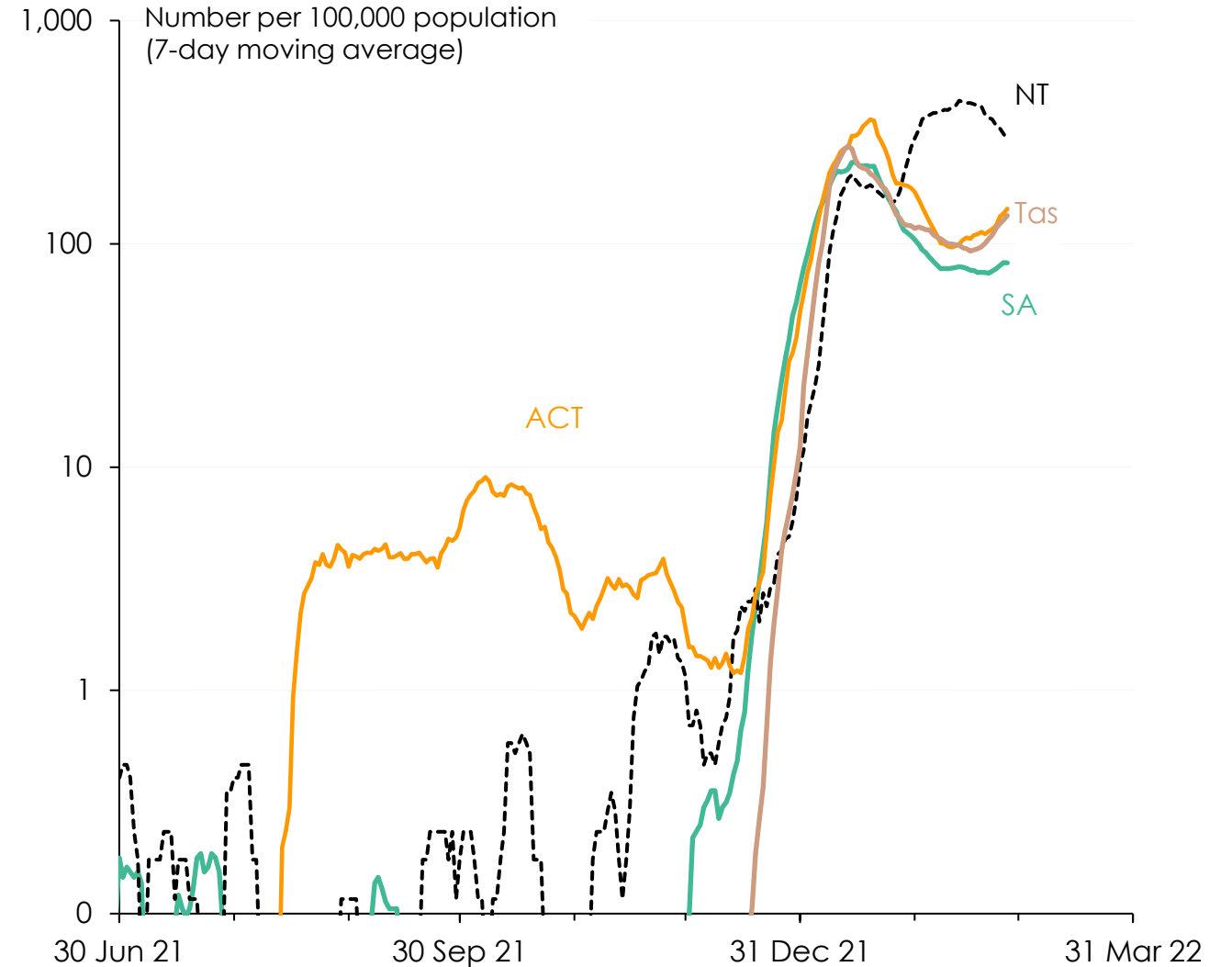
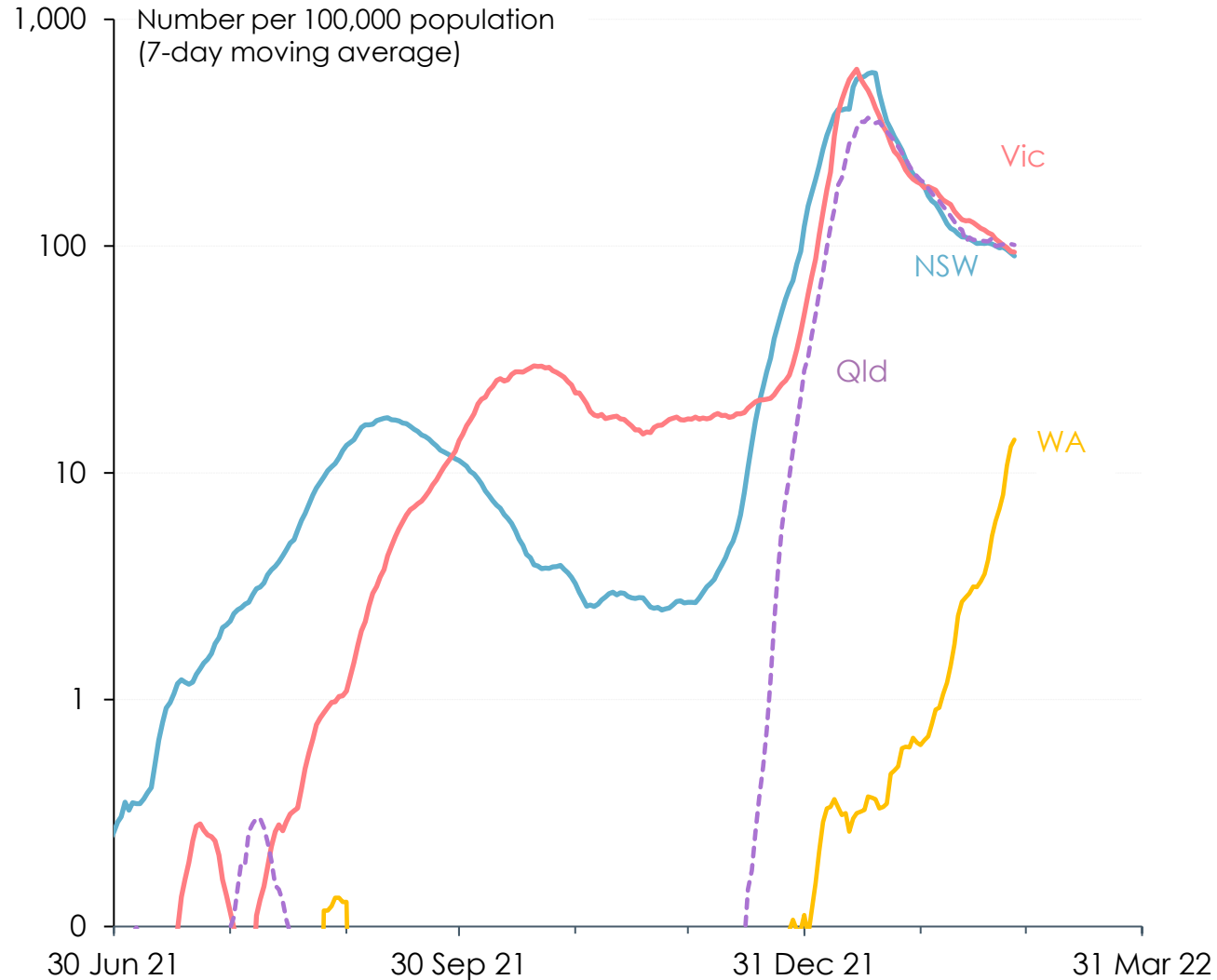


Note: Data up to 24<sup>th</sup> February. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# New infections are now rising rapidly in WA, despite it remaining in 'self-isolation', and new case numbers have also turned up in Tasmania & ACT

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## New infections per 100,000 population, states and territories, since 30<sup>th</sup> June 2021

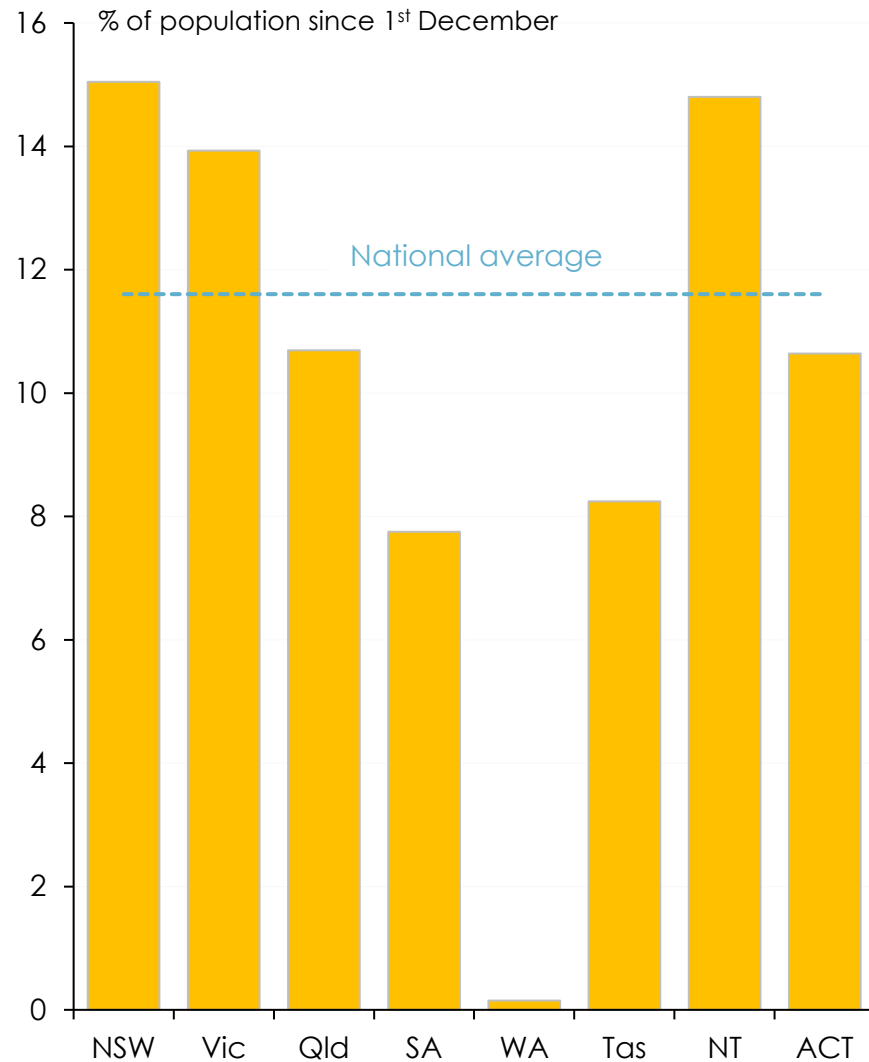


Note: Data are up to 25<sup>th</sup> February for all states and territories except SA, WA & NT which are 24<sup>th</sup> February. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

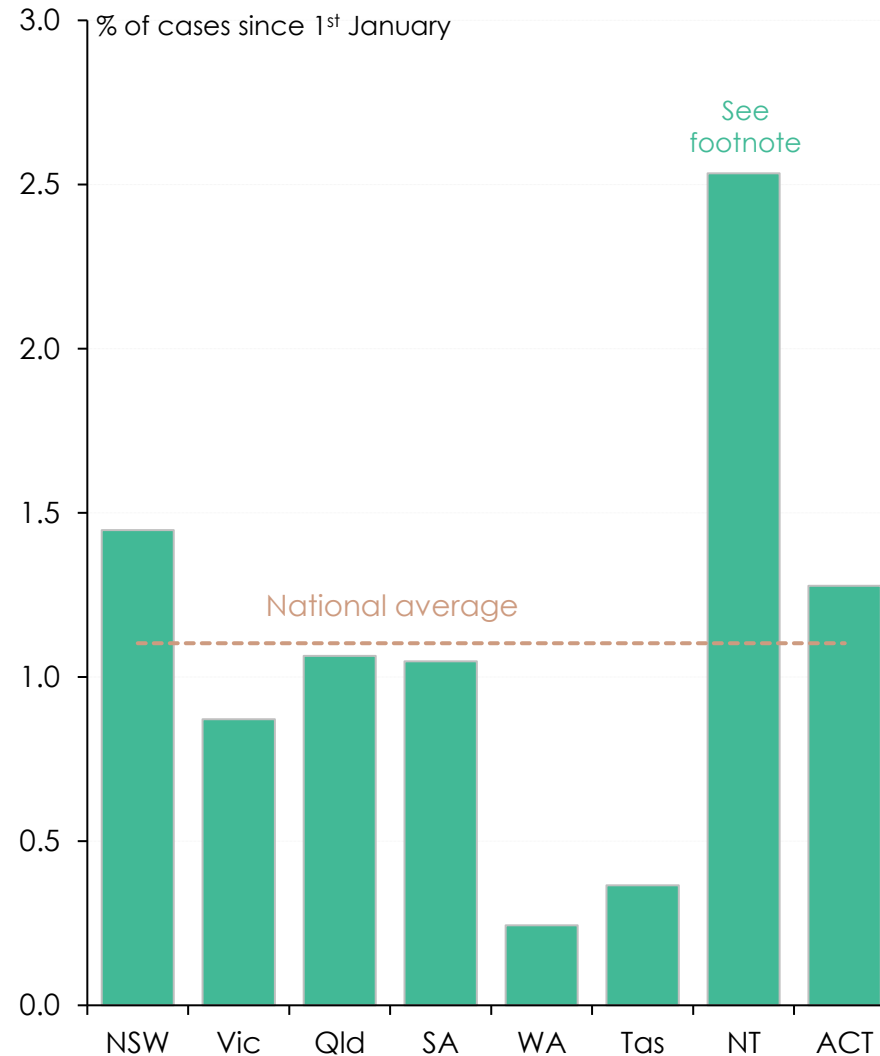
# The omicron outbreak has been more serious in NSW, Queensland and South Australia than in other states and territories

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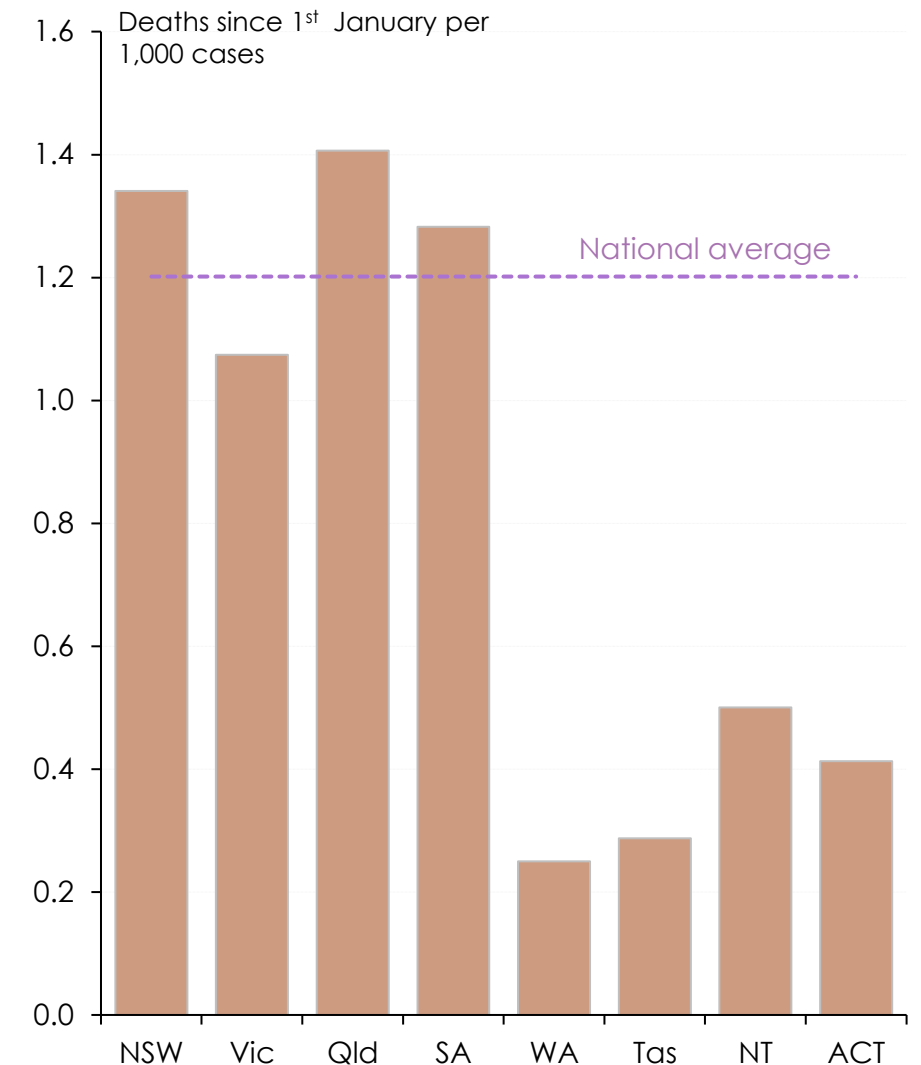
## New cases since 1<sup>st</sup> December 2021



## Hospitalization rate since 1<sup>st</sup> January 2022



## Fatality rate since 1<sup>st</sup> January 2022

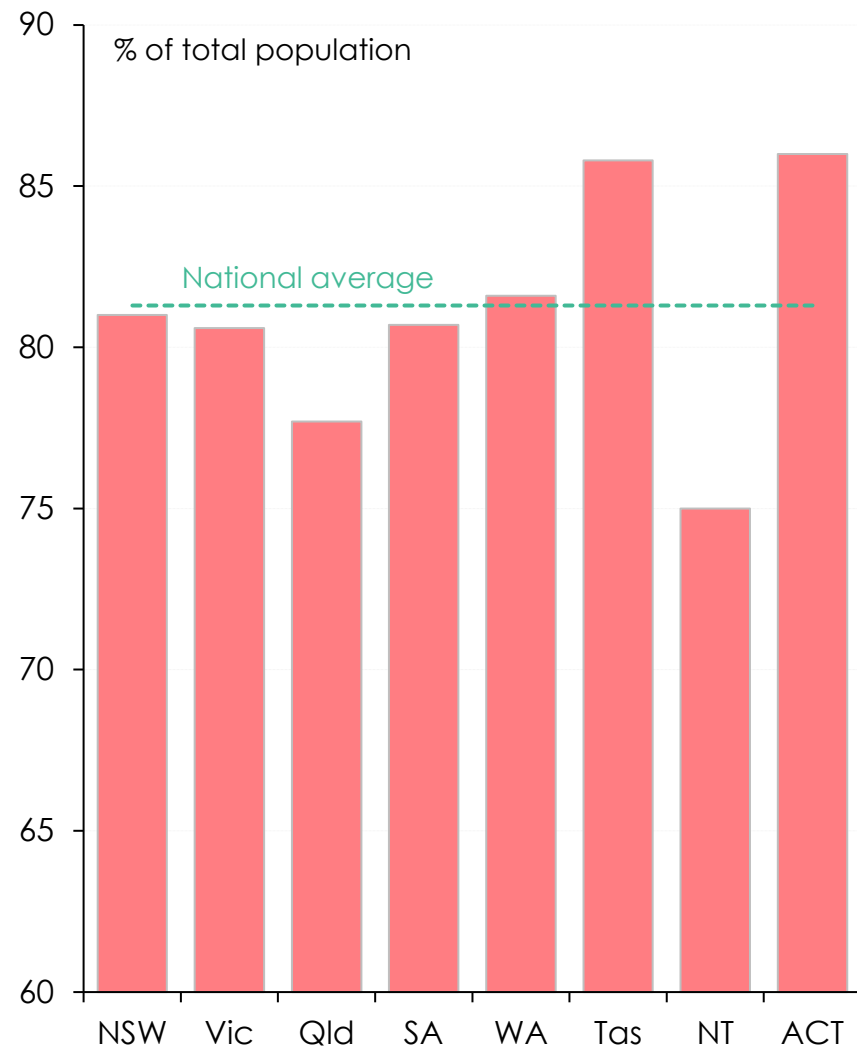


Note: Data are up to 25<sup>th</sup> February for all states and territories except SA, WA & NT which are 24<sup>th</sup> February. 1<sup>st</sup> December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

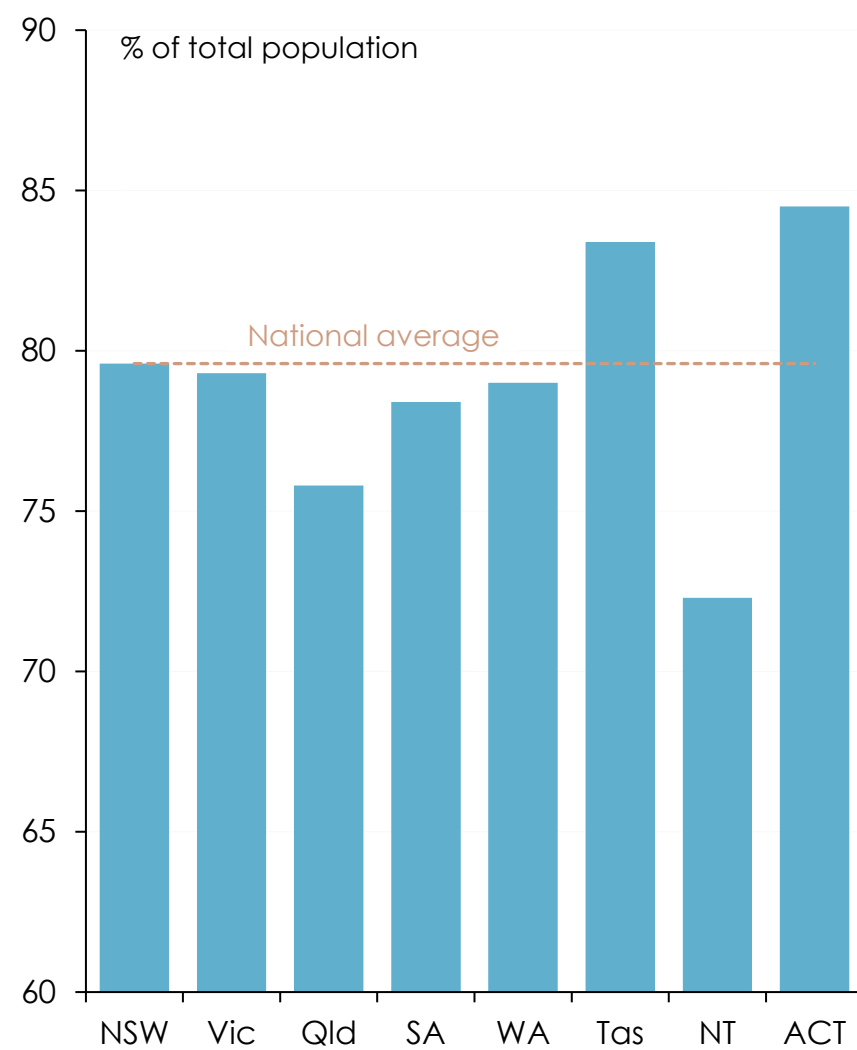
# Tasmania and the ACT have had the most comprehensive vaccine rollouts while Queensland, Western Australia and the Northern Territory lag

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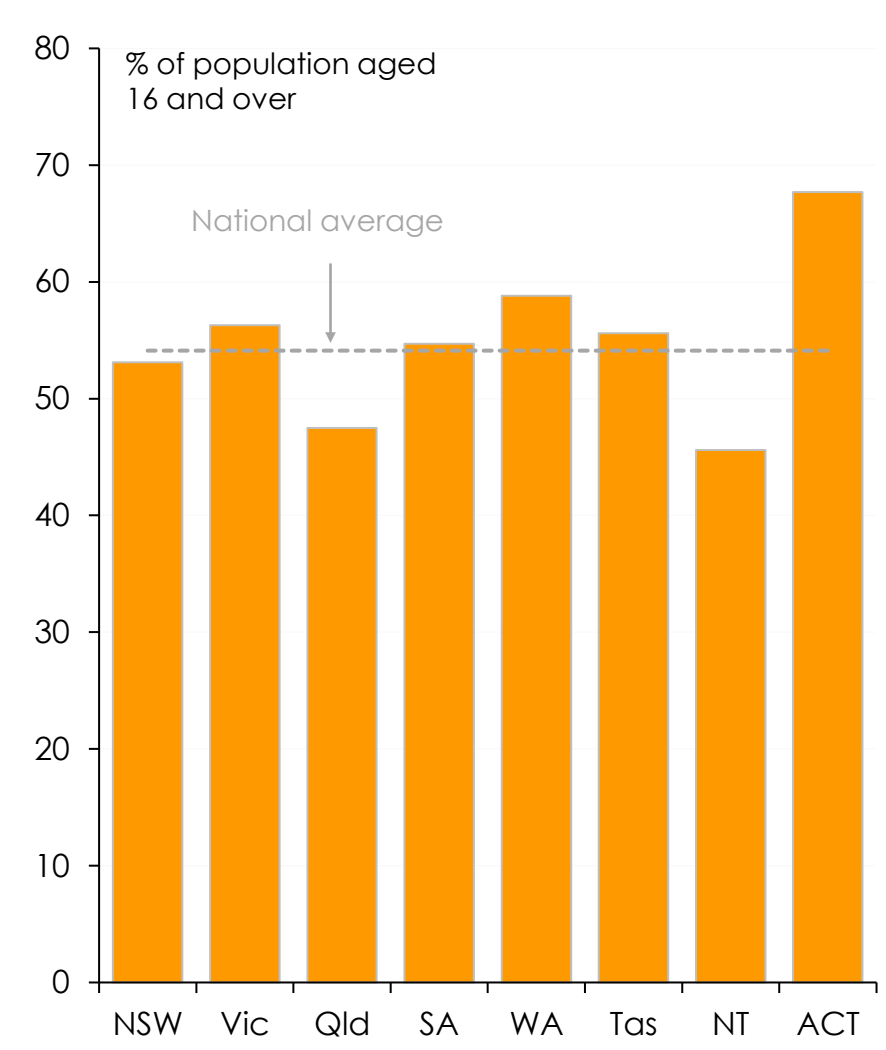
## Pc of population who have had at least one vaccination



## Pc of population who have had two vaccinations



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



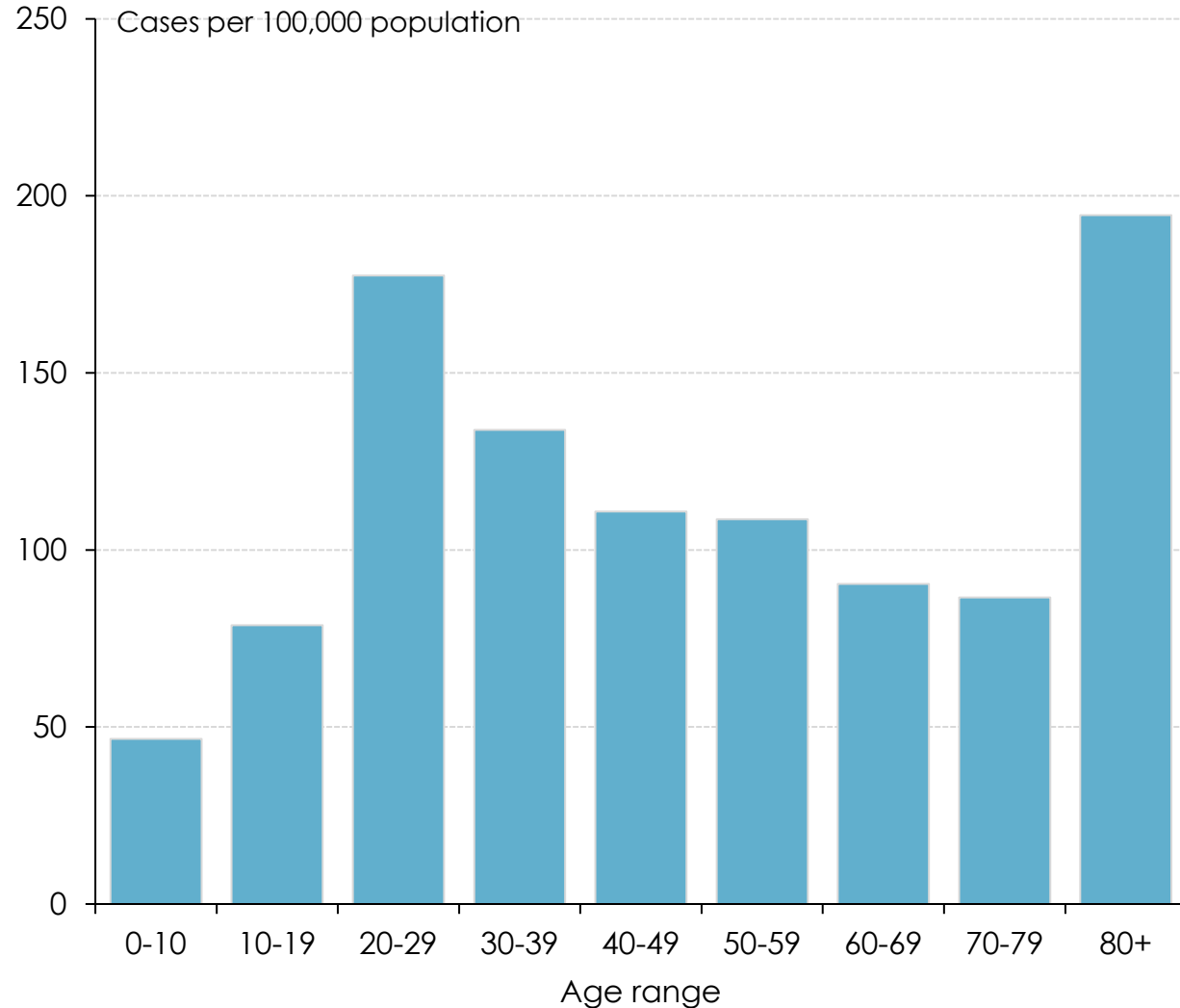
Note: Data are up to 24<sup>th</sup> February. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).



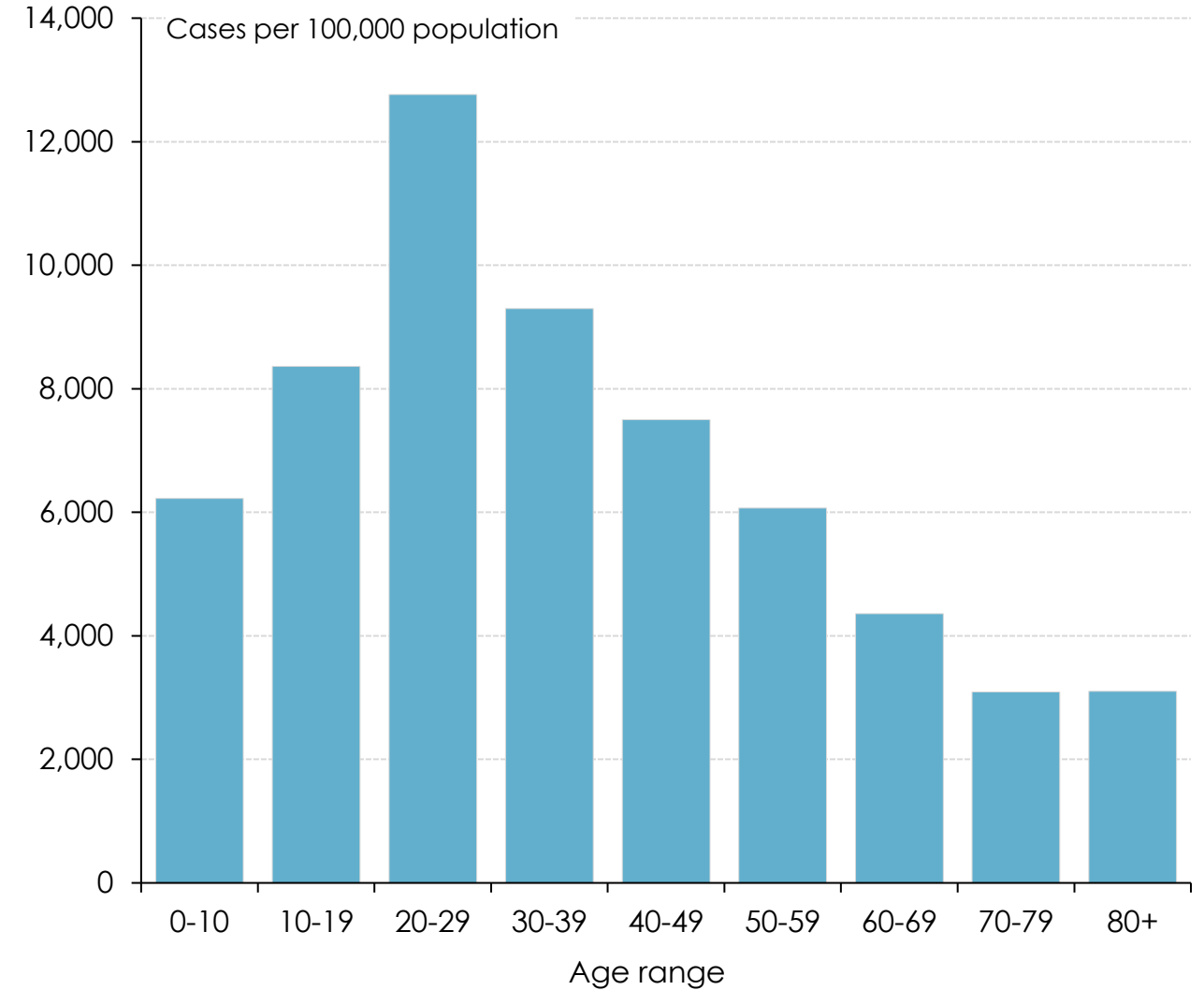
# People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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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 1<sup>st</sup> January 2021

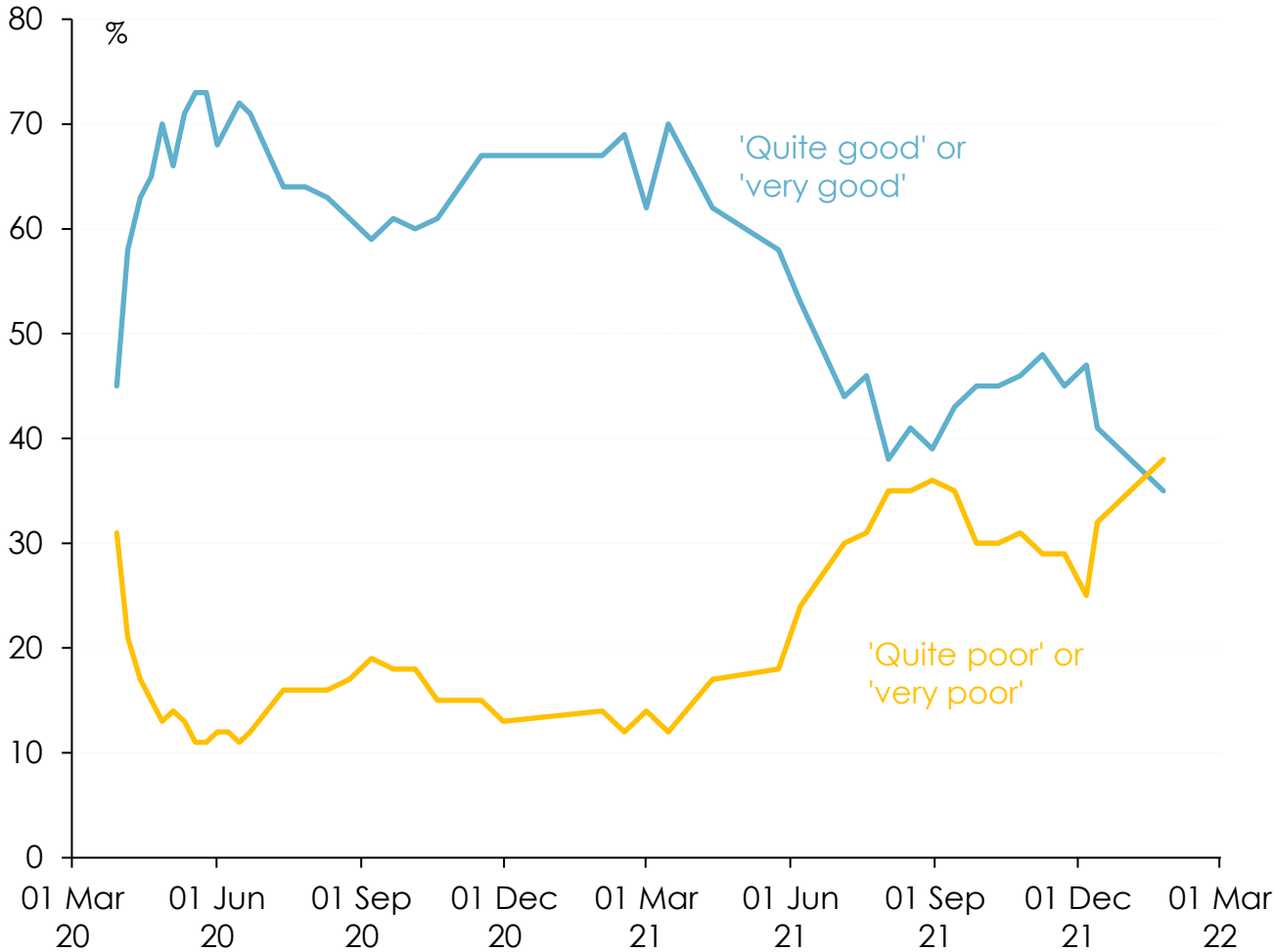


Note: Data for 2021-22 up to 24<sup>th</sup> February. . Source: [Australian Government Department of Health](#); ABS; Corinna. [Return to "What's New"](#).

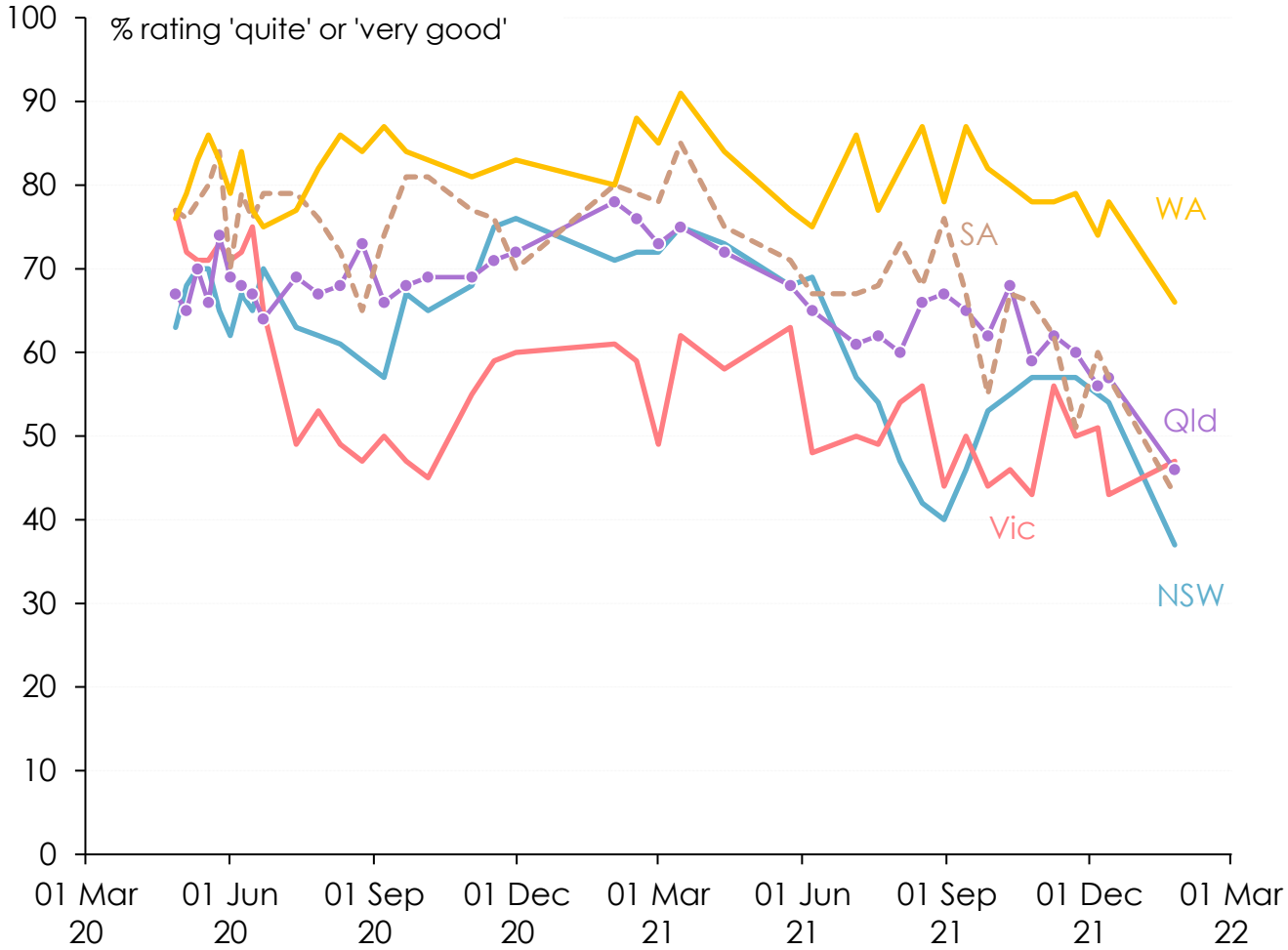
# Opinion polls suggest that support for governments' handling of Covid-19 is declining

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## Approval of Federal Government response to Covid-19



## Approval of State Government responses to Covid-19

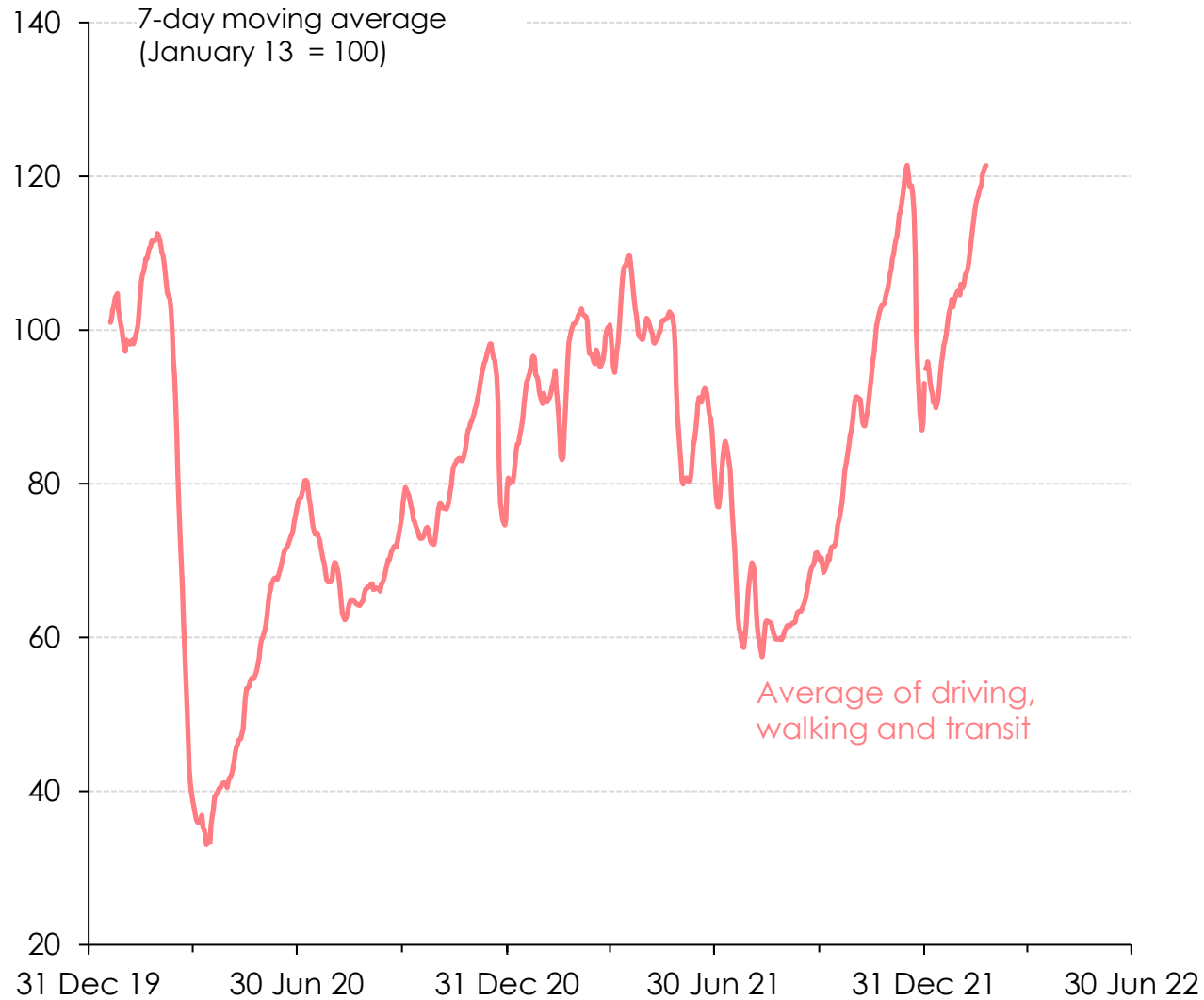


Note: Despite claiming to "track the mood of the nation", Essential does not conduct polls in every state, nor in either of the two territories.  
Sources: Essential Research, [The Essential Report](#), 25<sup>th</sup> January 2022.

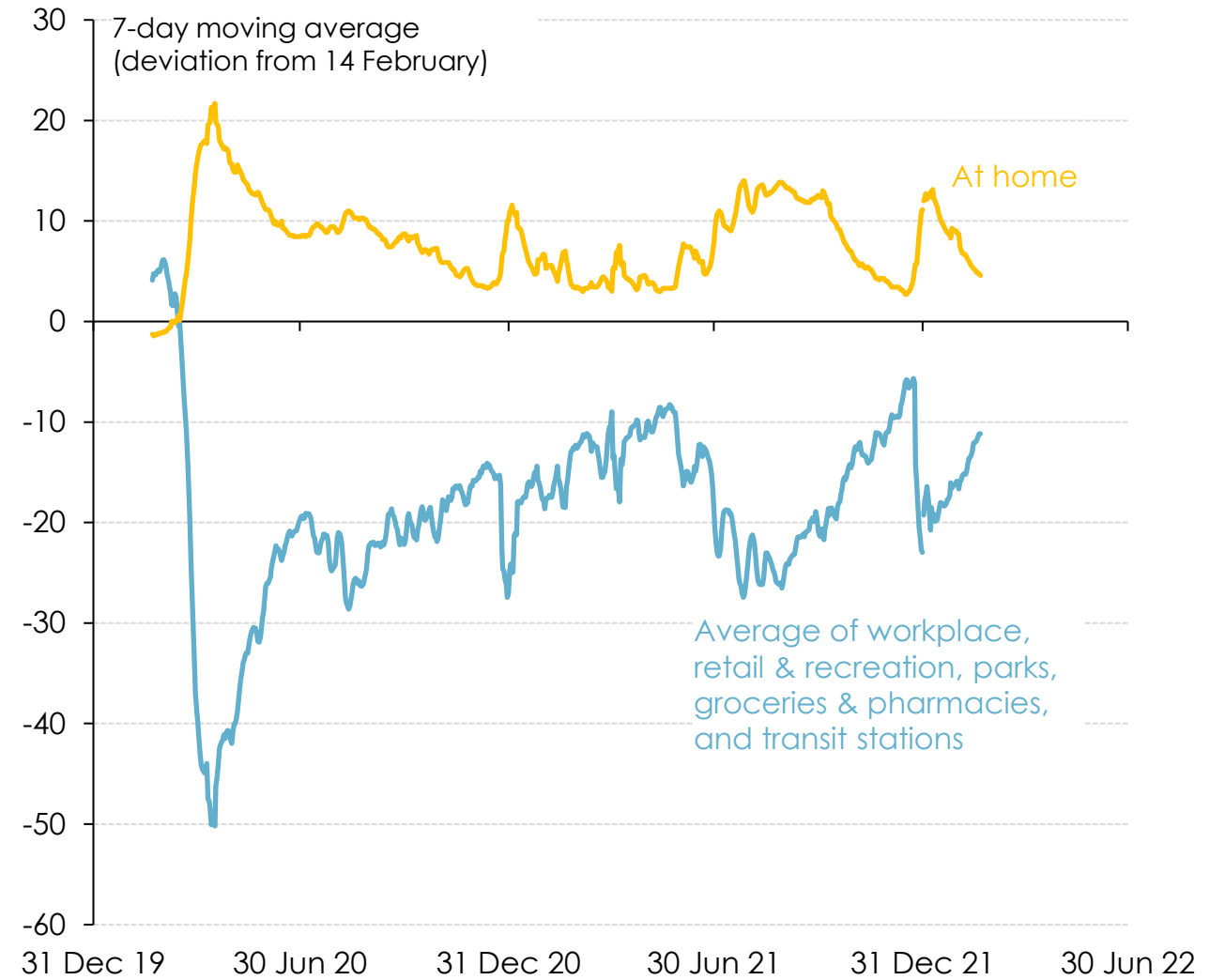
# Mobility has picked up since the end of the first week of January, after a steeper fall over Christmas-New Year than occurred this time last year

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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 23<sup>rd</sup> February). 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 20<sup>th</sup> February).

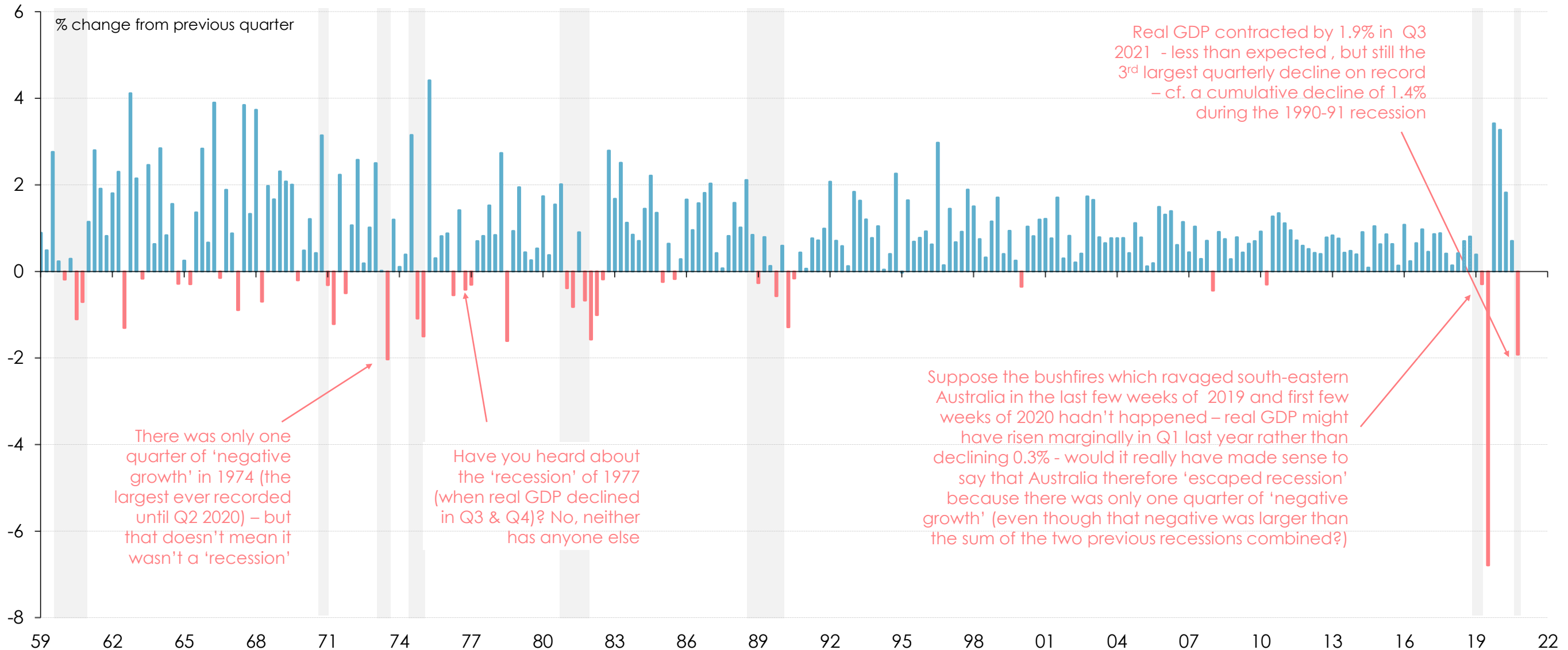
Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

# Broad trends in the Australian economy

# This Wednesday's Q4 GDP data should show a strong rebound after the 1.9% contraction recorded in Q3

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## Quarterly growth in Australian real GDP, 1959-2021

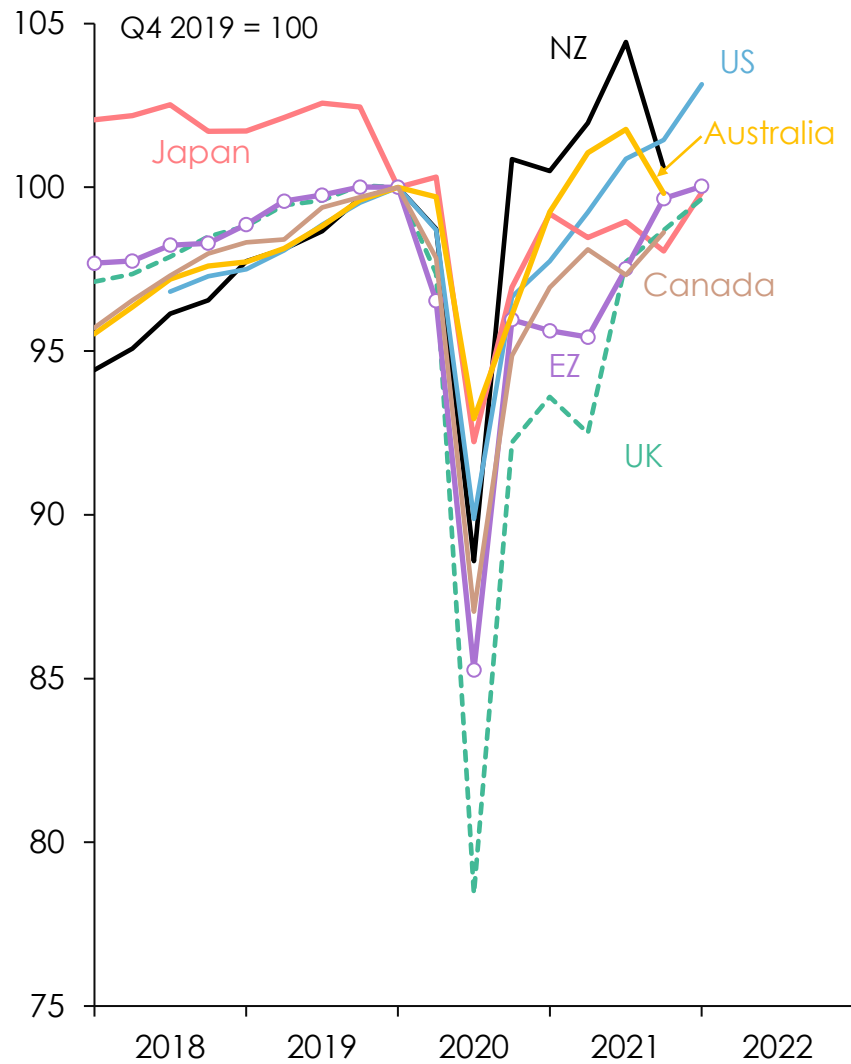


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. December quarter GDP will be released this Wednesday 2<sup>nd</sup> March. [Return to "What's New"](#).

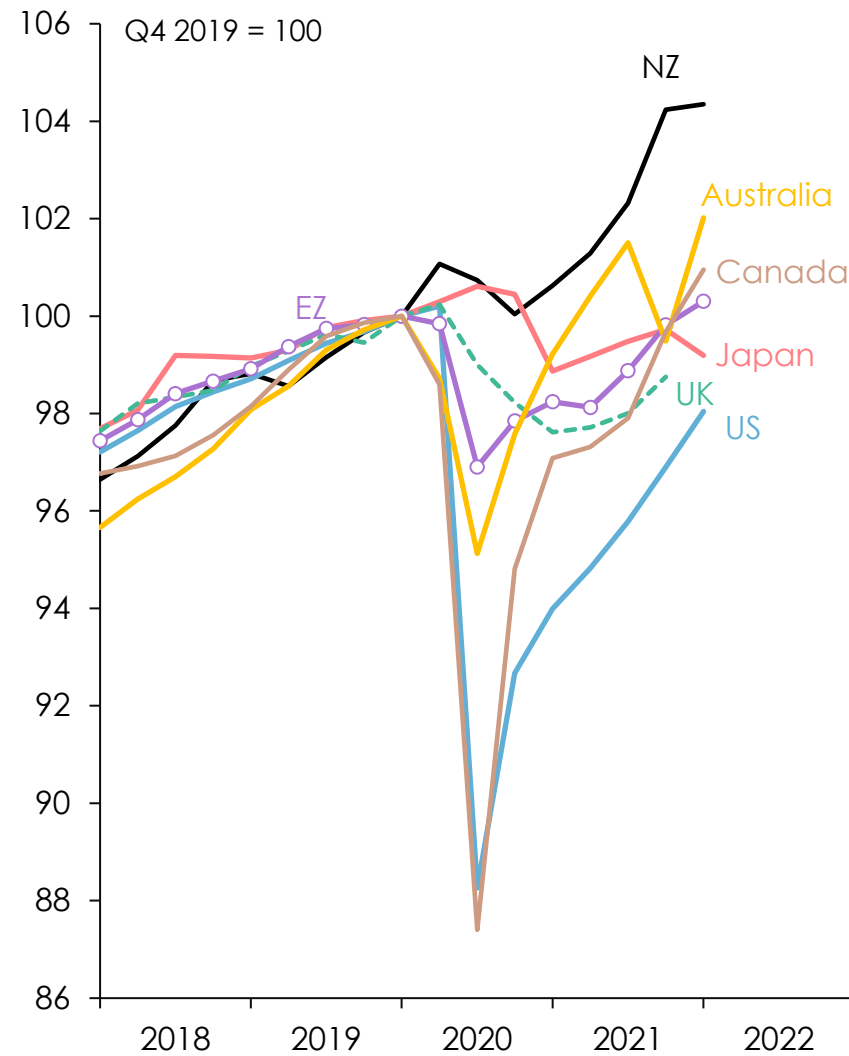
# Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies

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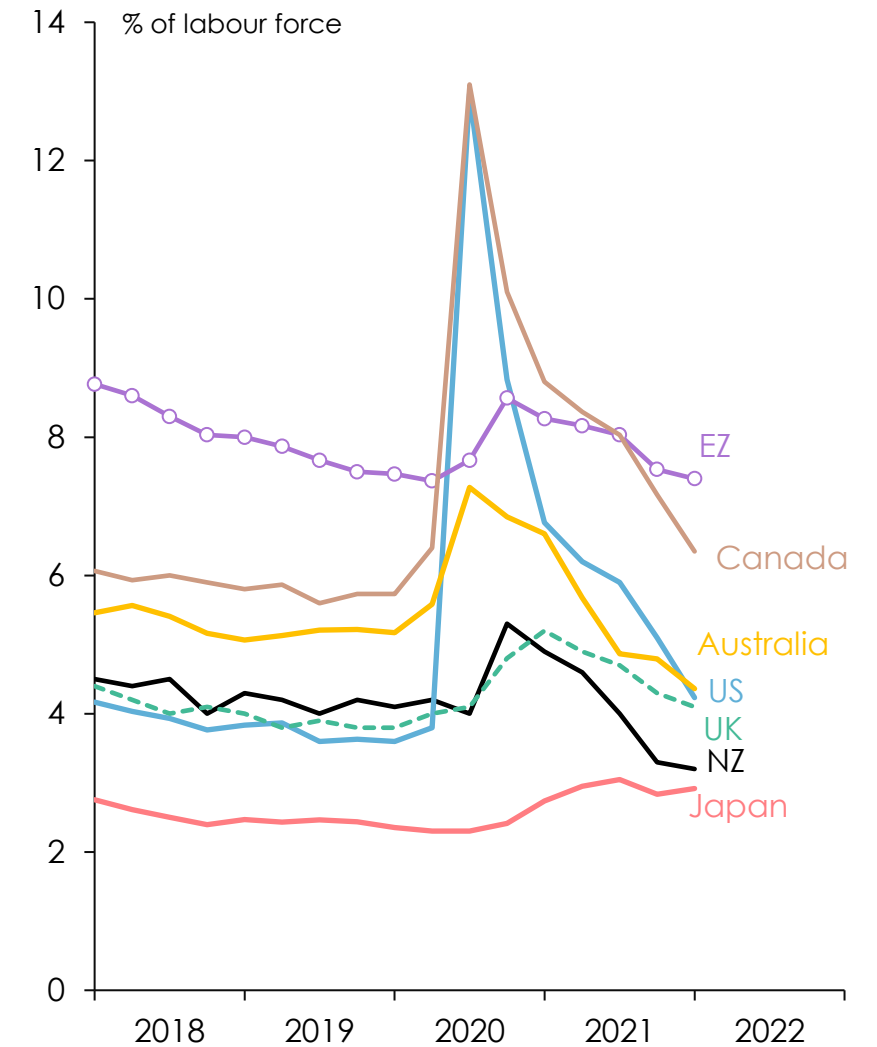
## Level of real GDP



## Employment



## Unemployment

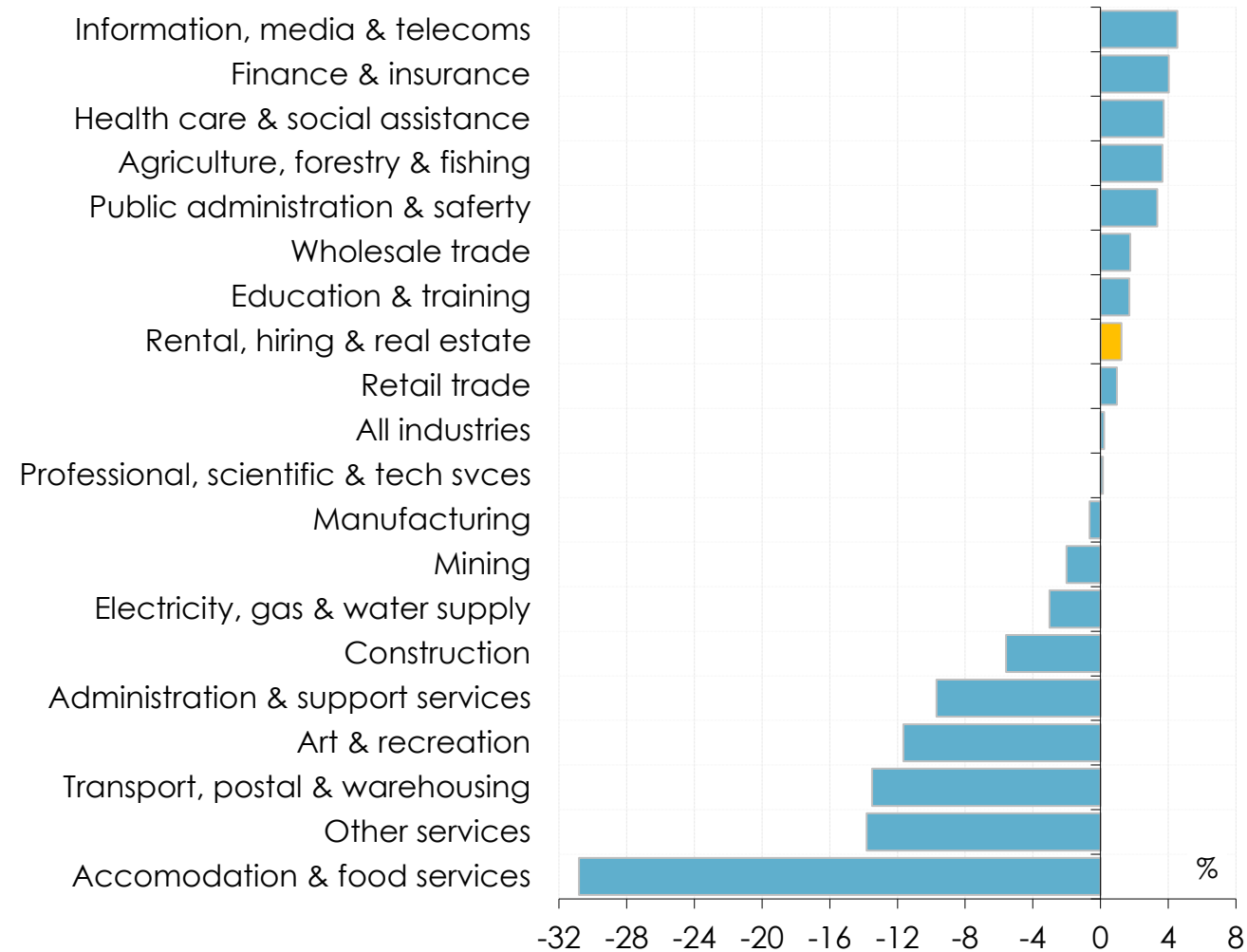


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

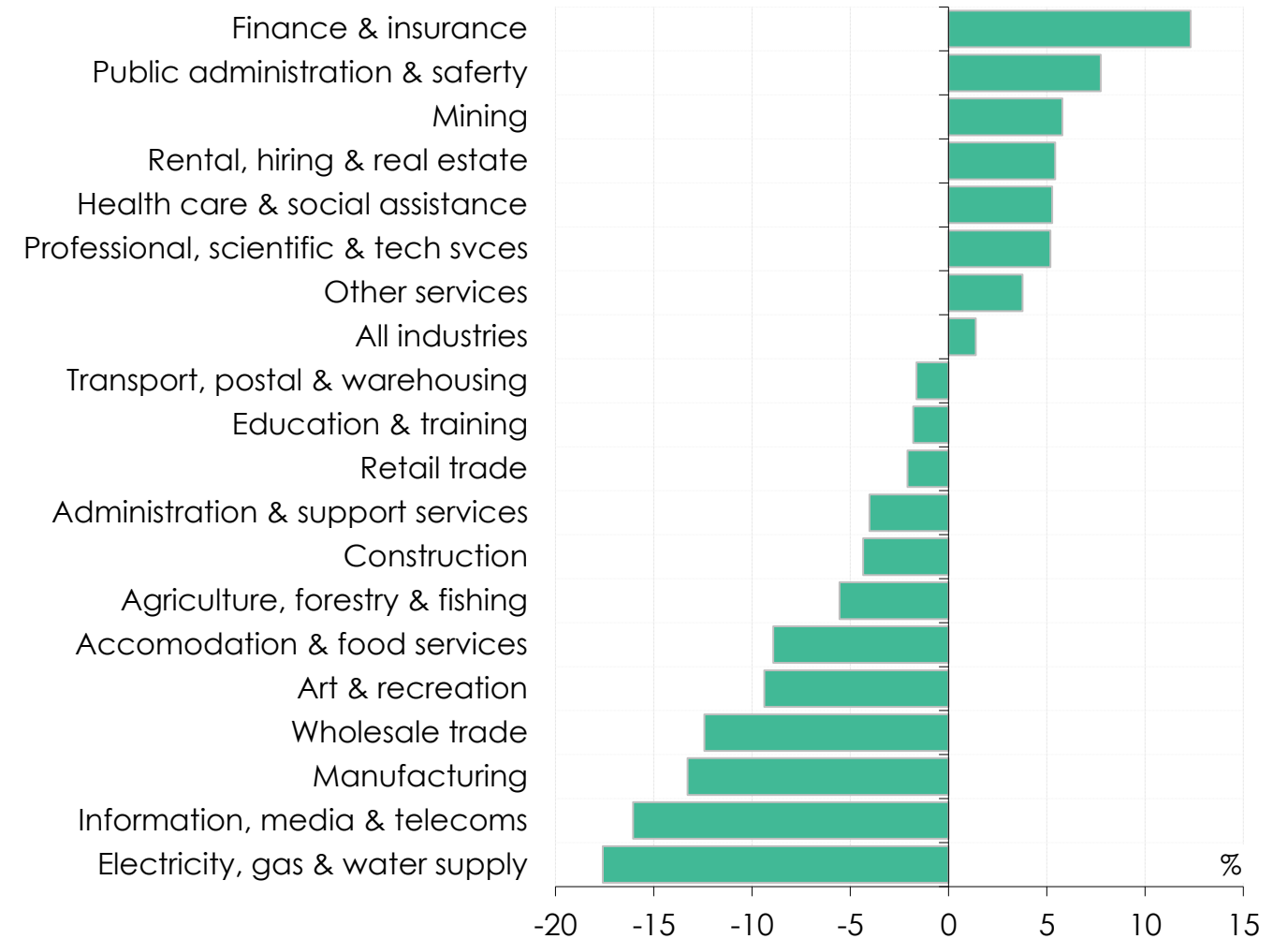
# Some sectors of the economy have been much more severely affected by public health restrictions and border closures than others

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



## Q4 2021 employment by industry – change from pre-pandemic peak

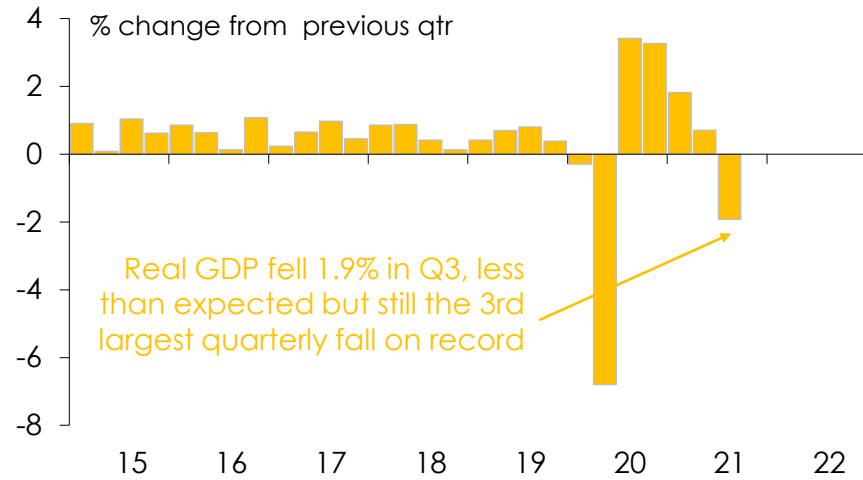


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021; and [Labour Force, Australia, Detailed](#), November 2021. GVA by industry data will be updated in the December quarter national accounts to be released on Wednesday, 2<sup>nd</sup> March

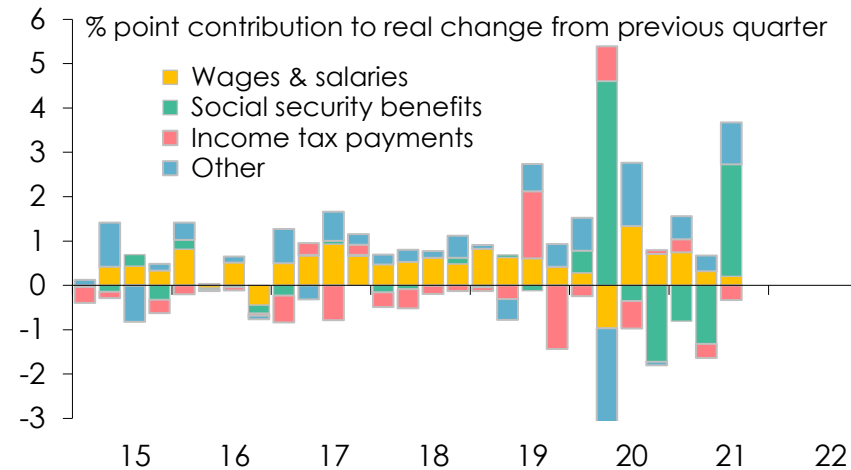
# Household spending is likely to have rebounded strongly in Q4, while business investment will also have risen, in data to be released Wednesday

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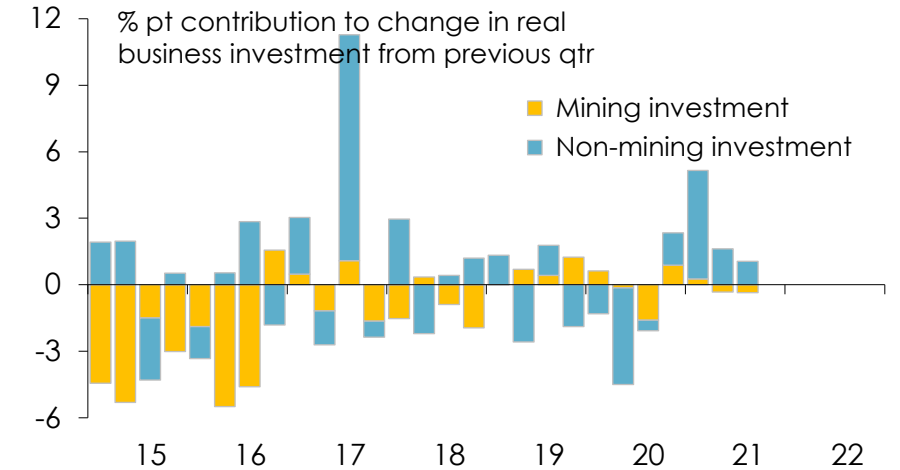
## Quarterly change in real GDP



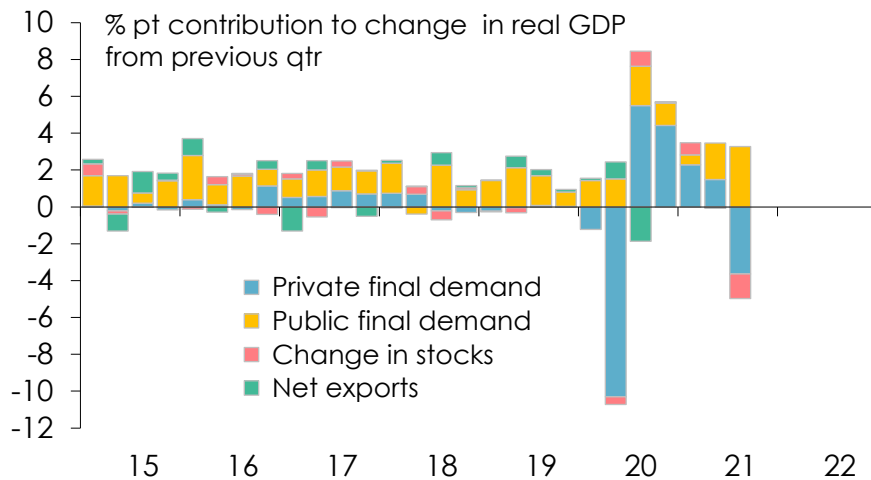
## Household disposable income



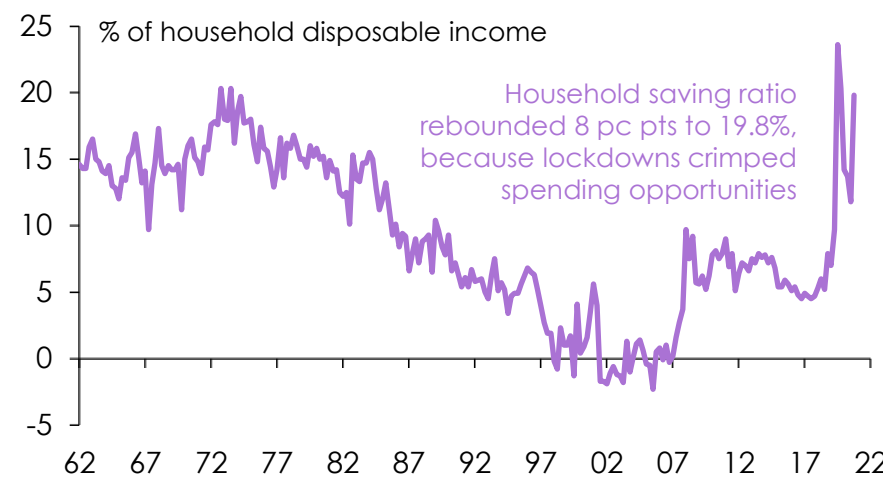
## Business investment expenditure



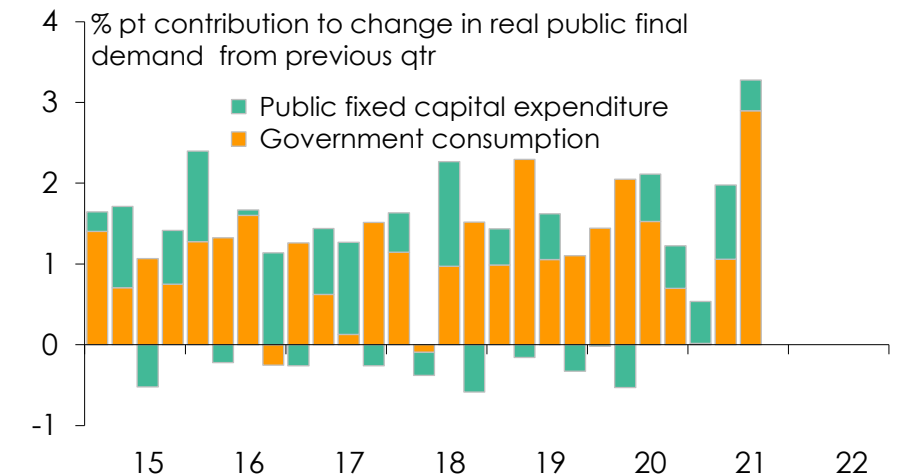
## Contributions to quarterly GDP growth



## 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

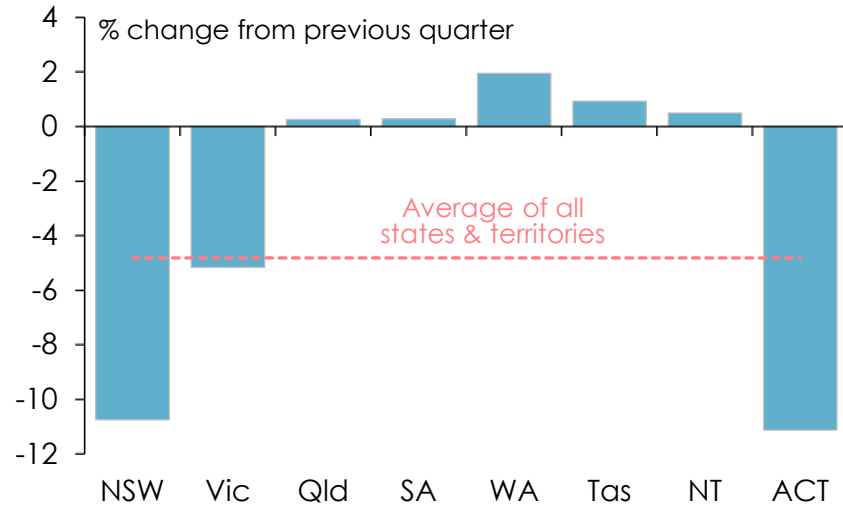
this coming Wednesday, 2<sup>nd</sup> March. [Return to "What's New"](#).



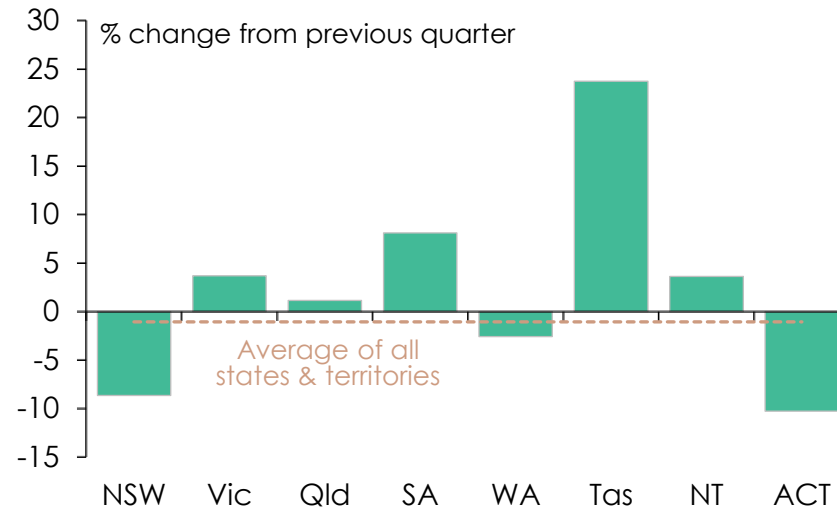
# There will likely have been strong rebounds in final demand in NSW, Victoria and the ACT in Q4 as they came out of lockdowns

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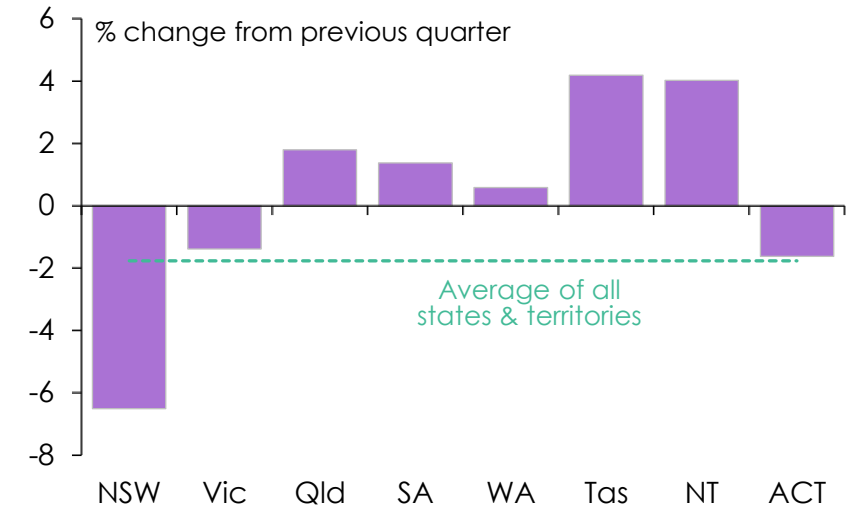
## Household consumption



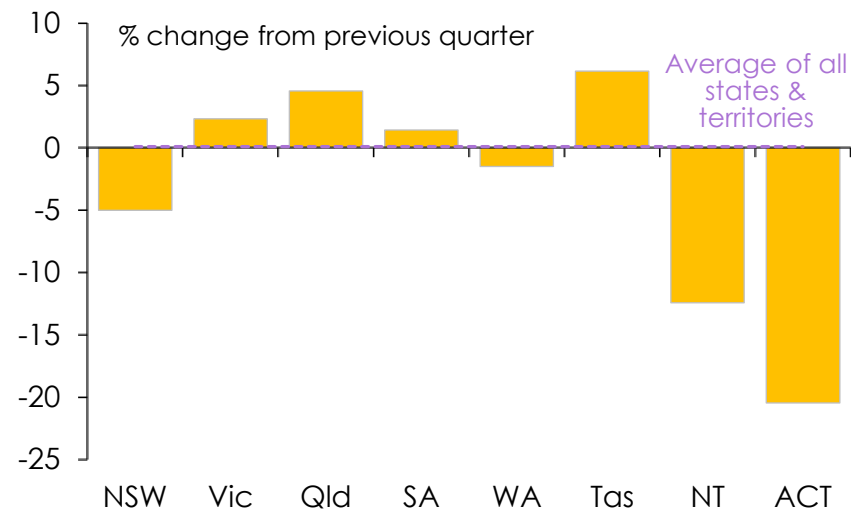
## Business investment



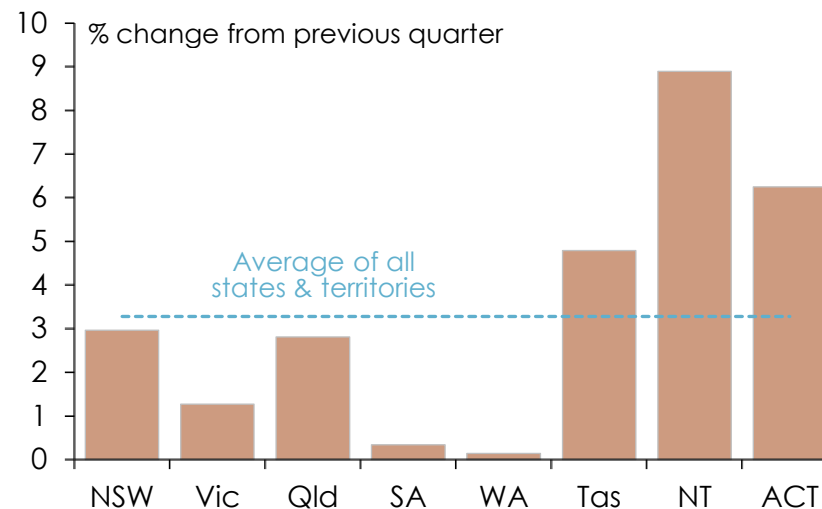
## State final demand



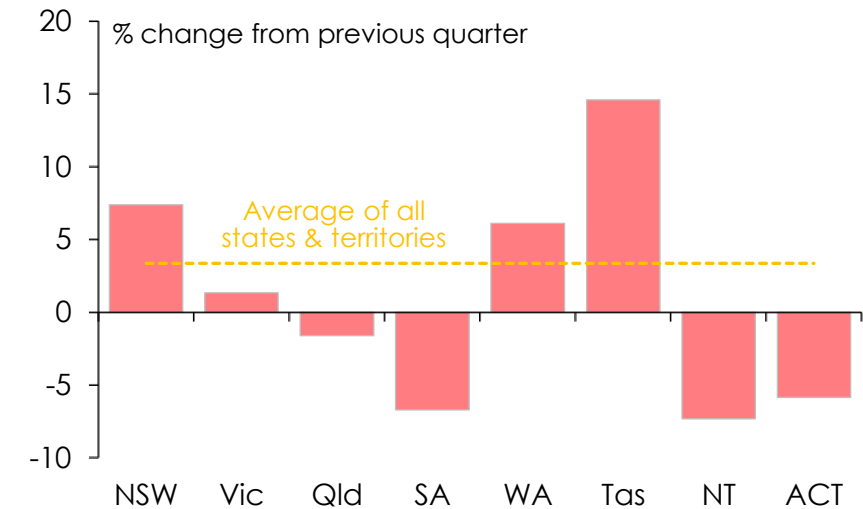
## Dwelling investment



## Public spending



## International exports

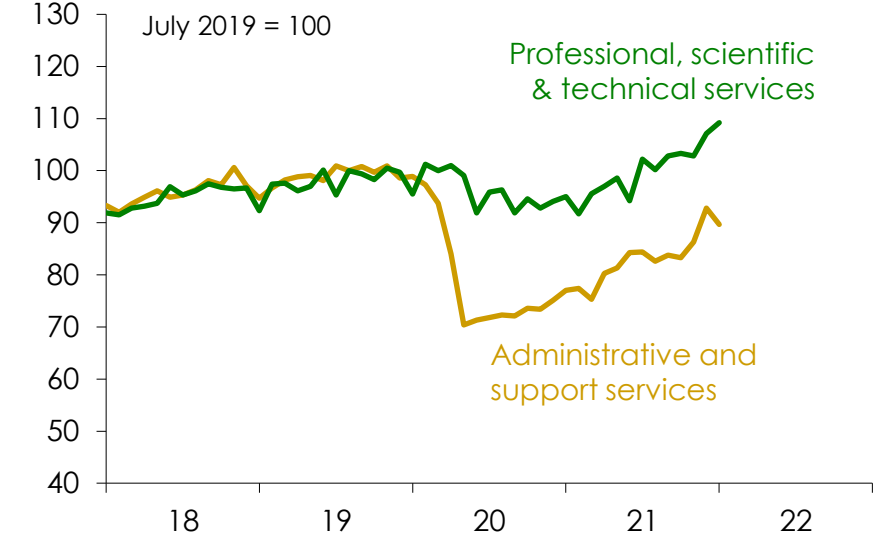
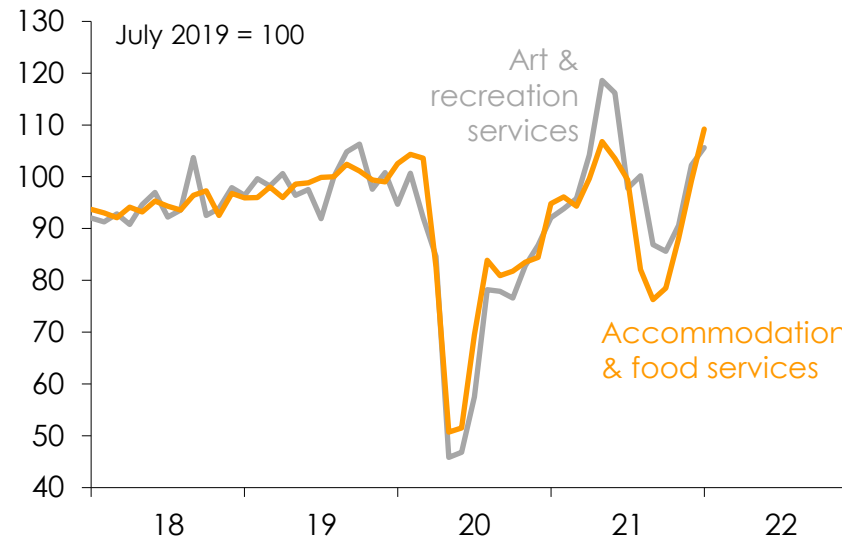
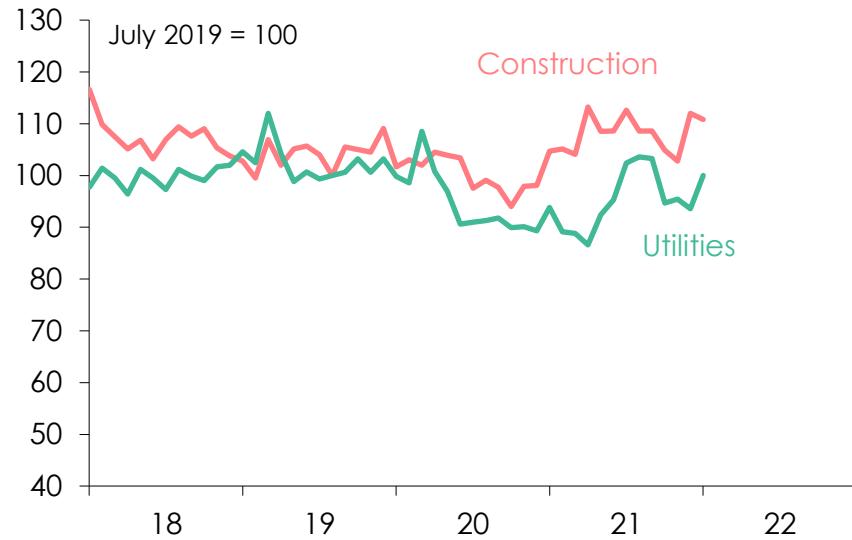
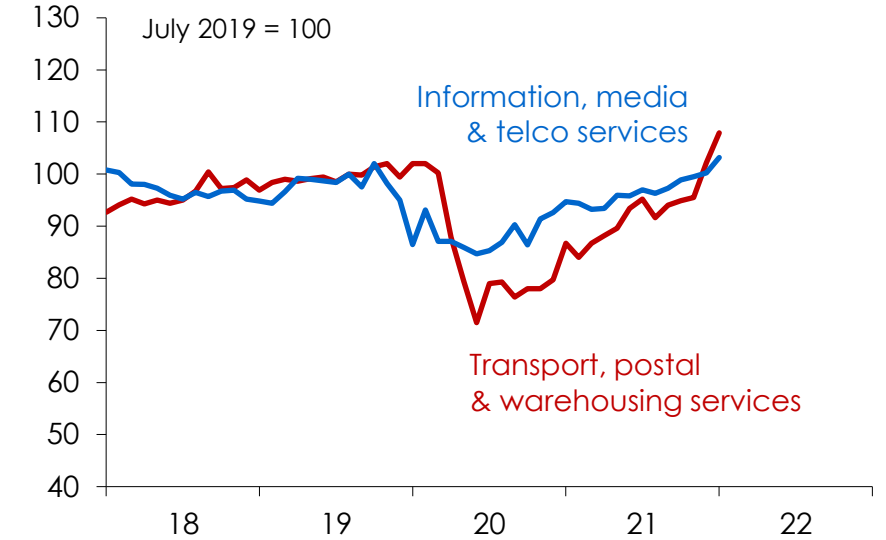
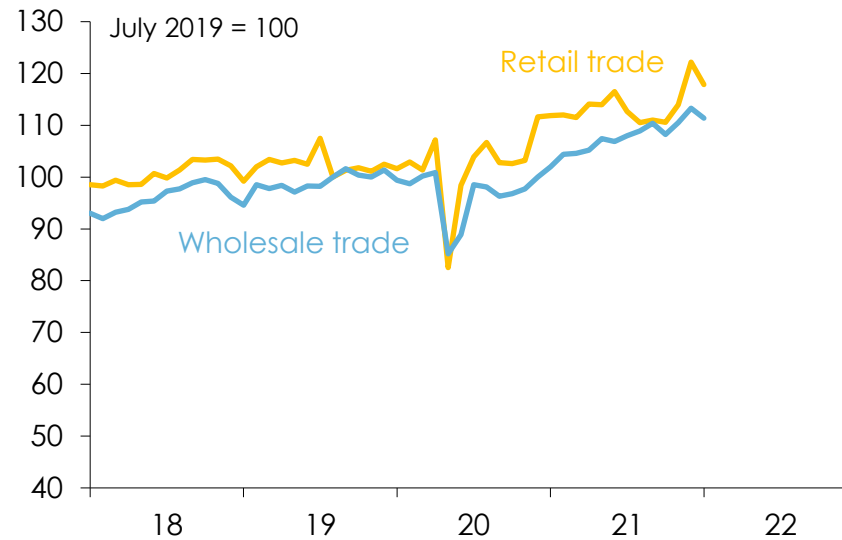
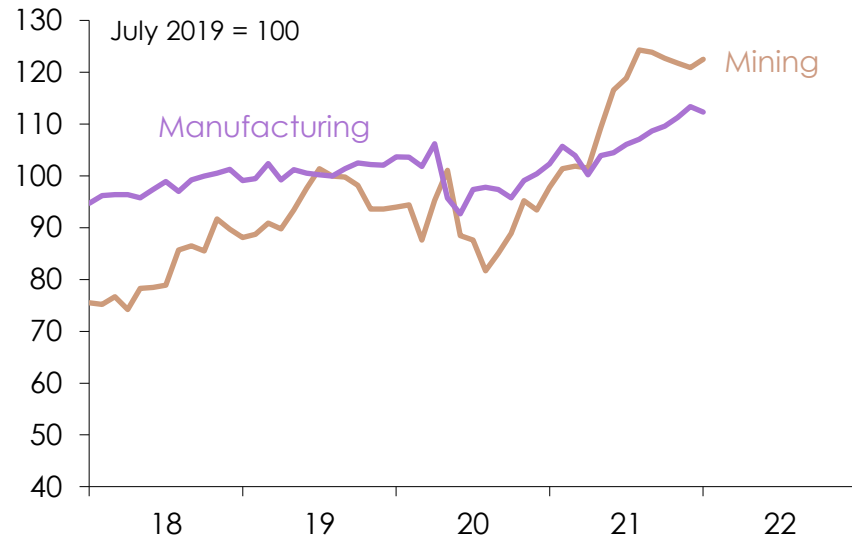


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021; [Balance of Payments and International Investment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

# 7 out of 13 sectors experienced a rise in turnover in December, with the largest gain in accommodation & food services, utilities and transport

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## Indicators of business turnover, by industry

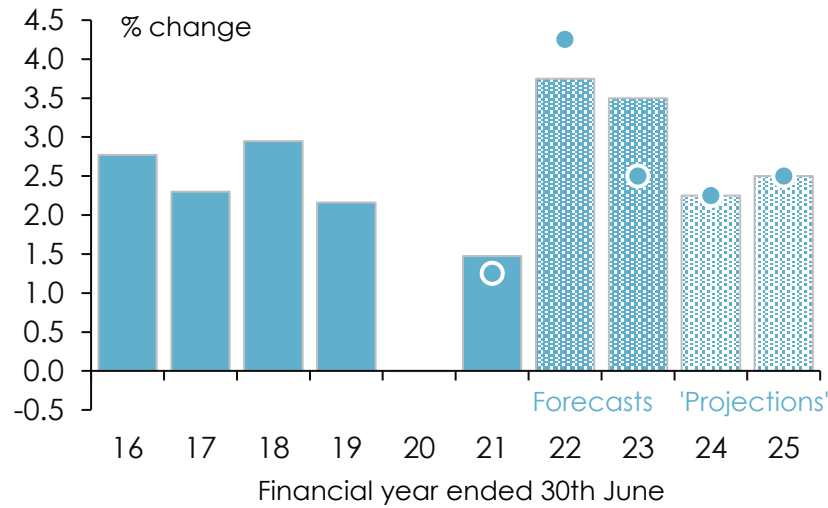


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), December 2021. January data will be released on 15<sup>th</sup> March. [Return to "What's New"](#).

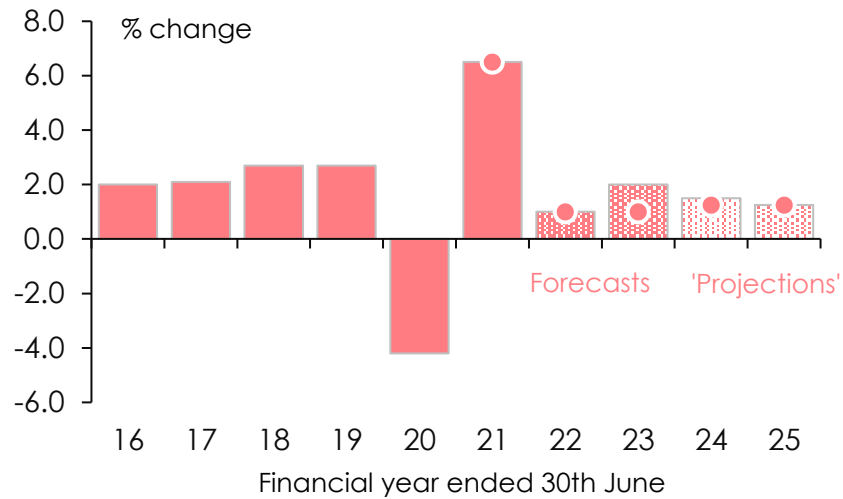
# Treasury revised up its forecasts for economic and employment growth in 2022-23, and for wages growth through 2024-25, in December's MYEFO

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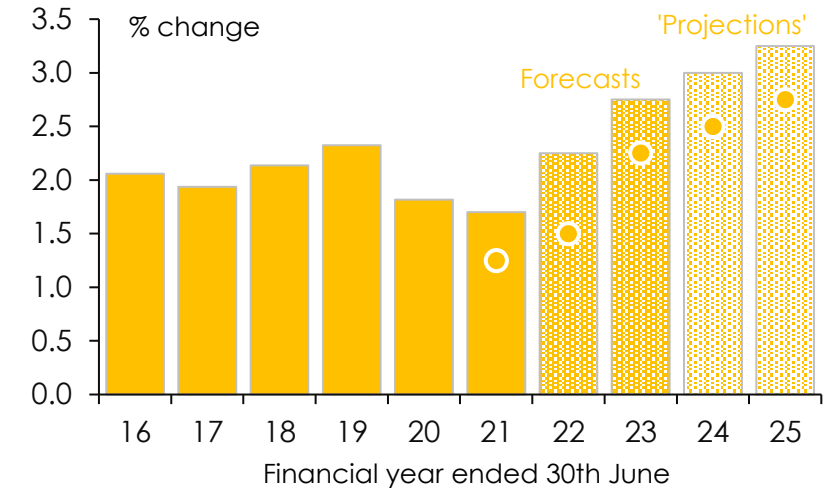
## Real GDP



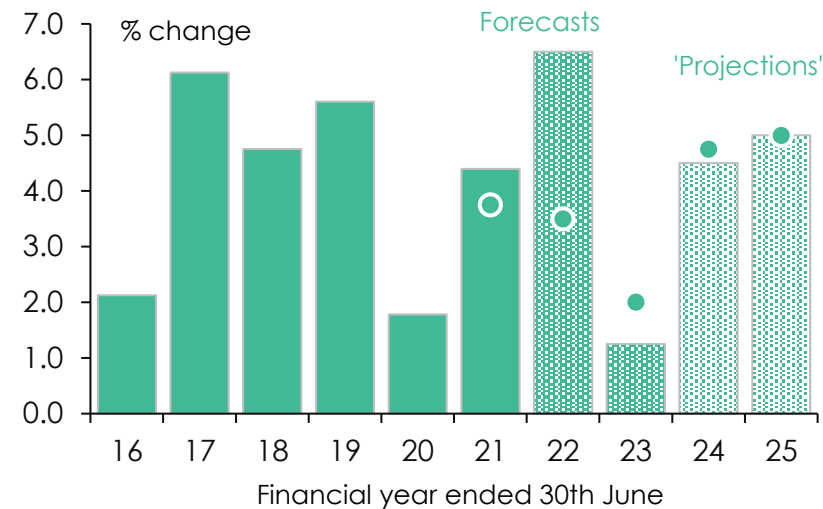
## Employment



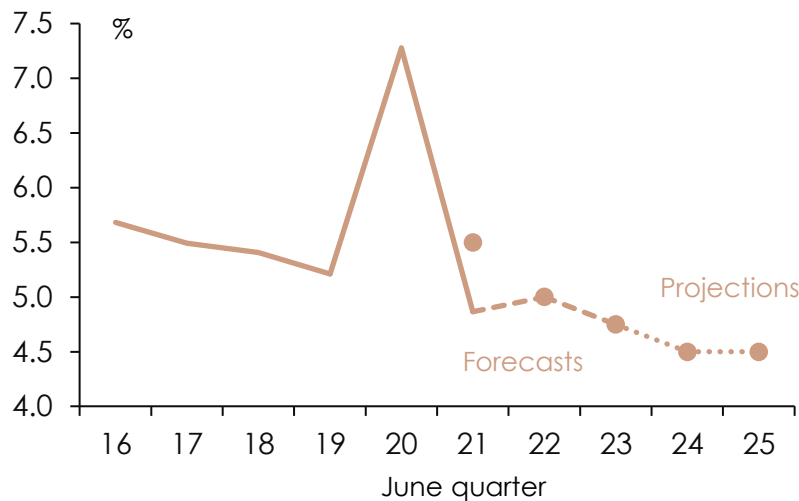
## Wages



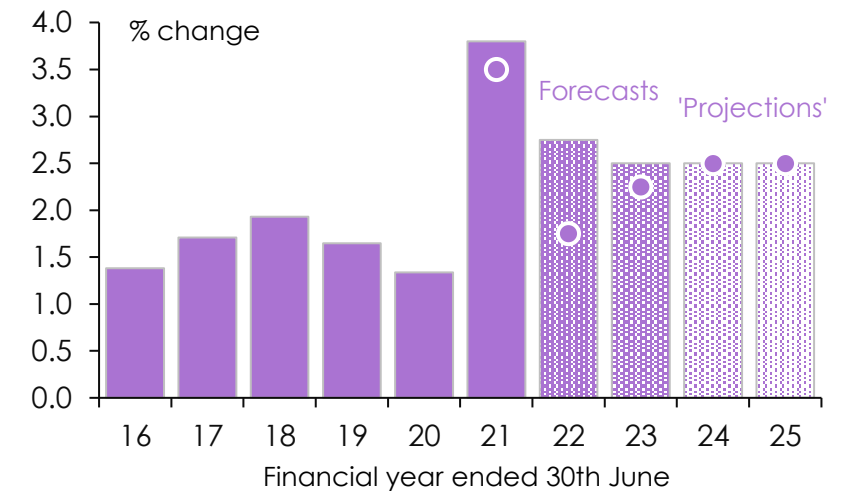
## Nominal GDP



## Unemployment rate



## Consumer prices

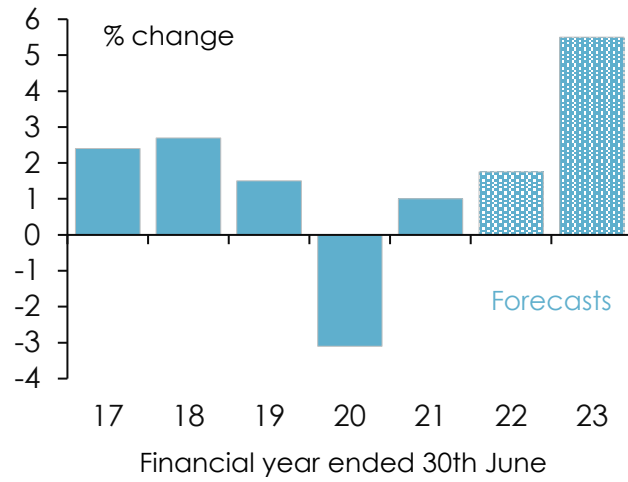


Note: Dots represent forecasts/projections in the 2021-22 Budget presented in May. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to be -41K in 2021-22, +180K in 2022-23, +213K in 2023-24 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](#), 16<sup>th</sup> December 2021. These forecasts will be up-dated in the 2022-23 Budget to be presented on 29<sup>th</sup> March. For the RBA's forecasts see [slide 81](#). [Return to "What's New"](#).

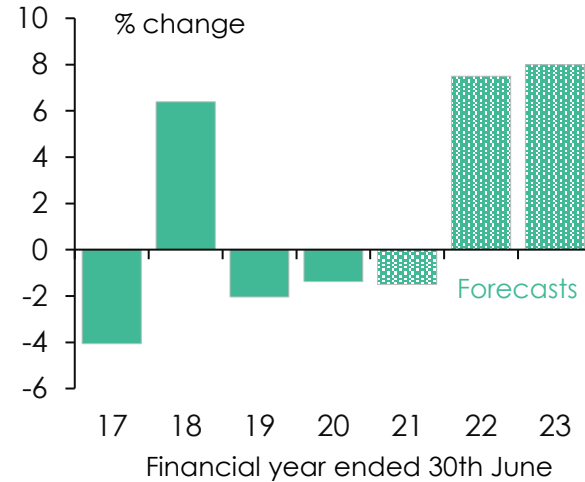
# Treasury expects economic growth to be driven by private consumption and business investment offsetting weaker net exports

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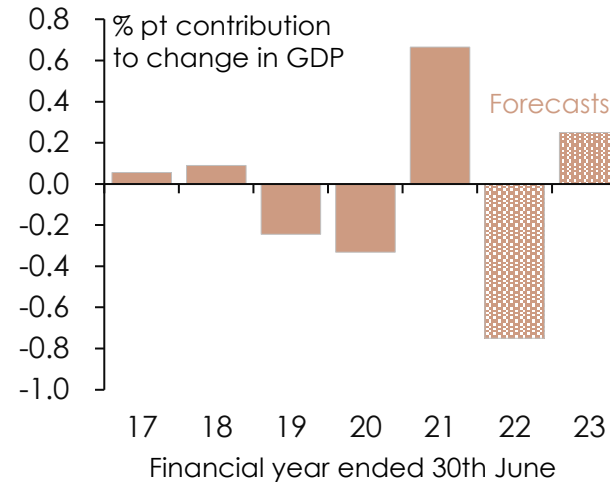
## Household consumption



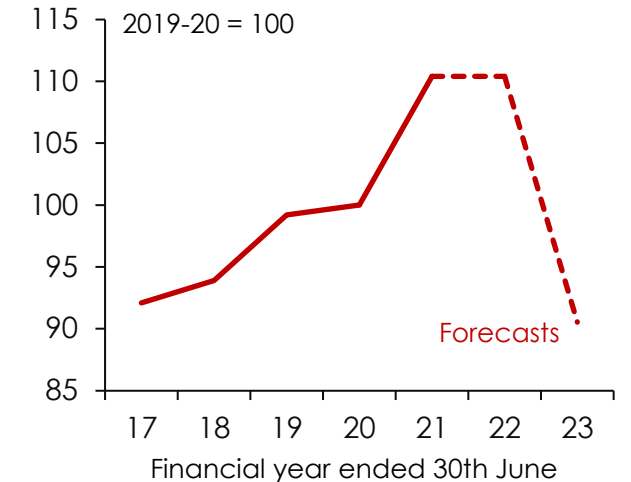
## Business investment



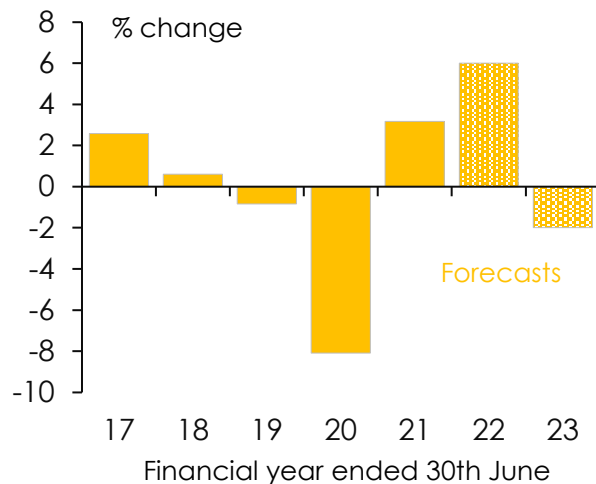
## Change in inventories



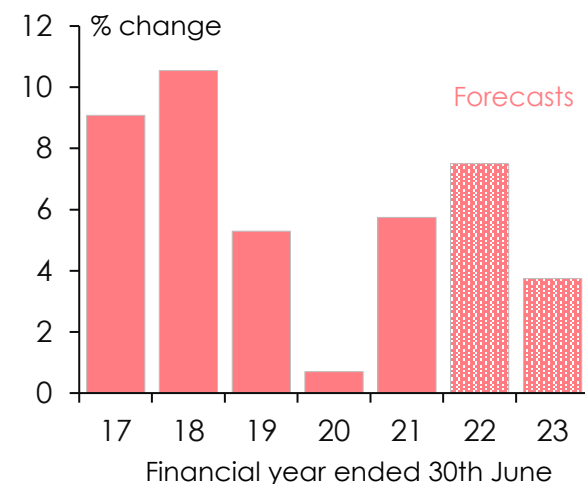
## Terms of trade



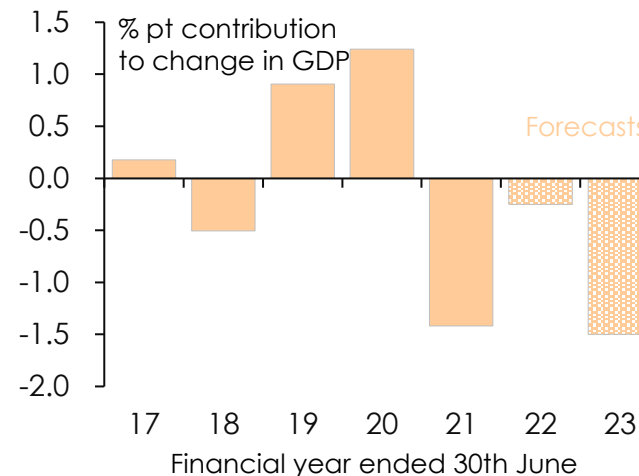
## Dwelling investment



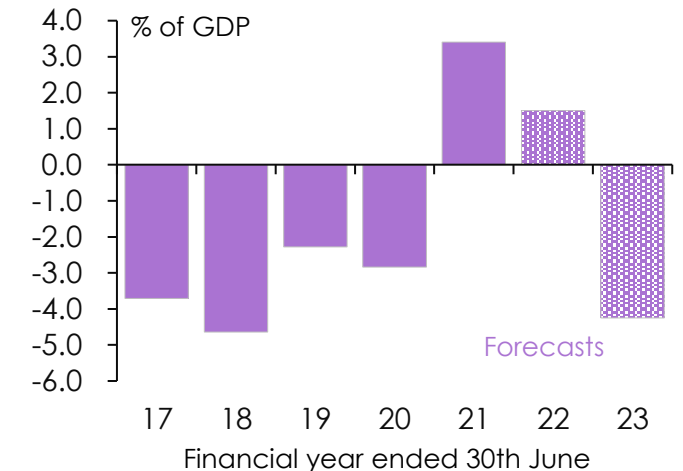
## Public spending



## Net exports



## Current account balance

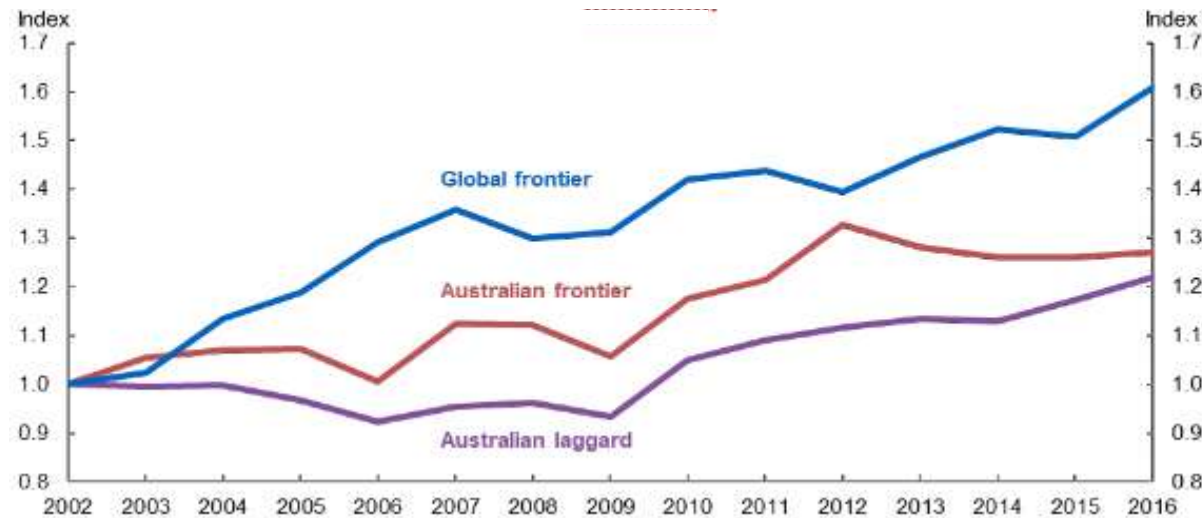


Note: Business investment and public spending exclude transactions in second-hand assets. Net overseas migration assumed to be -41K in 2021-22, and +180K in 2022-23; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by 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](#), 16<sup>th</sup> December 2021. These forecasts will be updated in the 2022-23 Budget to be presented on 29<sup>th</sup> March. [Return to "What's New"](#).

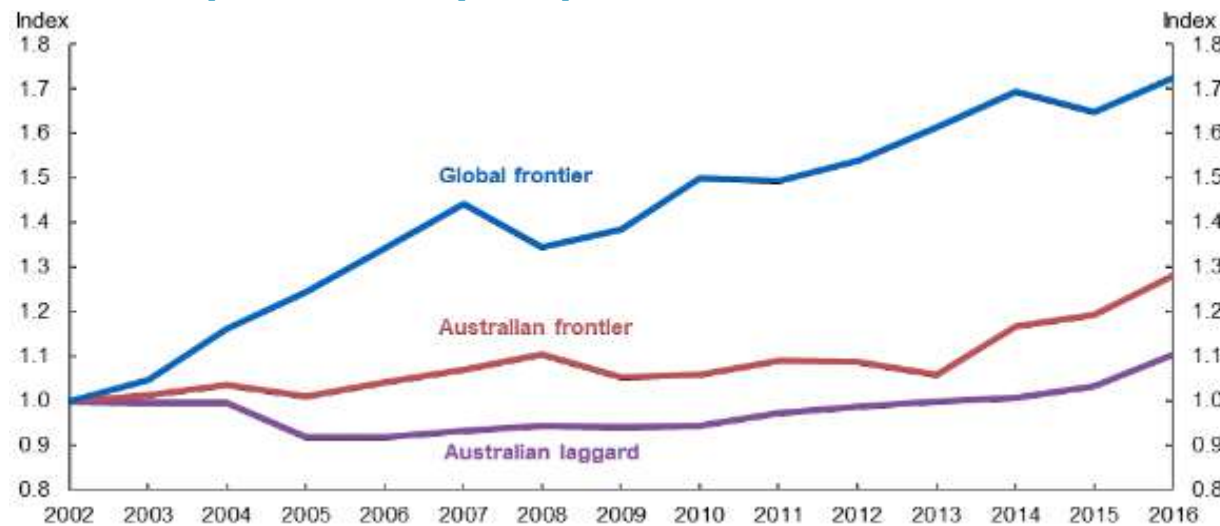
# A new Australian Treasury paper suggests Australia's productivity slowdown is due to a loss of 'business dynamism' and competitive pressures

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Labour productivity dispersion - manufacturing



## Labour productivity dispersion - services



- ❑ Four Treasury economists last month published a [Working Paper](#) showing that the 'gap' between the productivity performance of Australian firms and global 'frontier firms' has widened – especially in non-financial services sectors – with Australian firms 'catching up' more slowly than previously, suggesting slower adoption of 'cutting-edge' technologies and processes by Australian firms
- ❑ They show that this slower catch-up and diffusion at least partly reflects declining 'business dynamism' – as evidenced by declining rates of business entry and exit from industries – and reduced competitive pressures – as evidenced by increasing mark-ups (of prices over costs)
- ❑ They produce evidence showing that 'young firms' converge more quickly to the 'global frontier' (of labour productivity) than mature firms
- ❑ The authors suggest that "policies to address business dynamism and competitive pressures can improve Australia's productivity performance"
- ❑ These findings are consistent with my [long-held view](#) that tax preferences and other forms of support for small businesses, simply because they are small and for no other reason, should be scrapped and replaced with incentives for new businesses

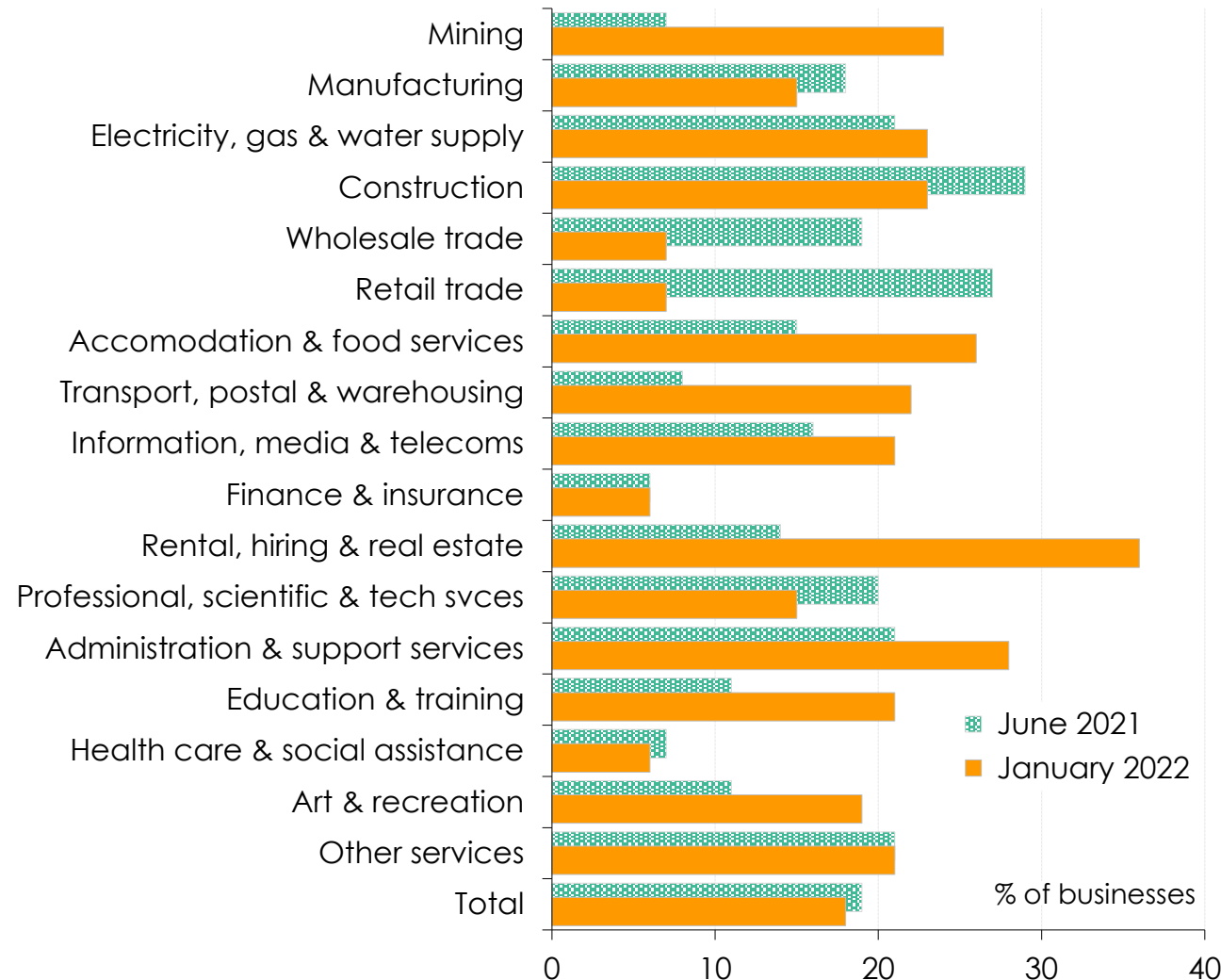
Source: Dan Andrews, Jonathan Hambur, David Hansell & Angus Wheeler, [Reaching for the Stars: Australian Firms and the Global Productivity Frontier](#), Treasury Working Paper 2022-01, January 2022. [Return to "What's New"](#).

# The business sector

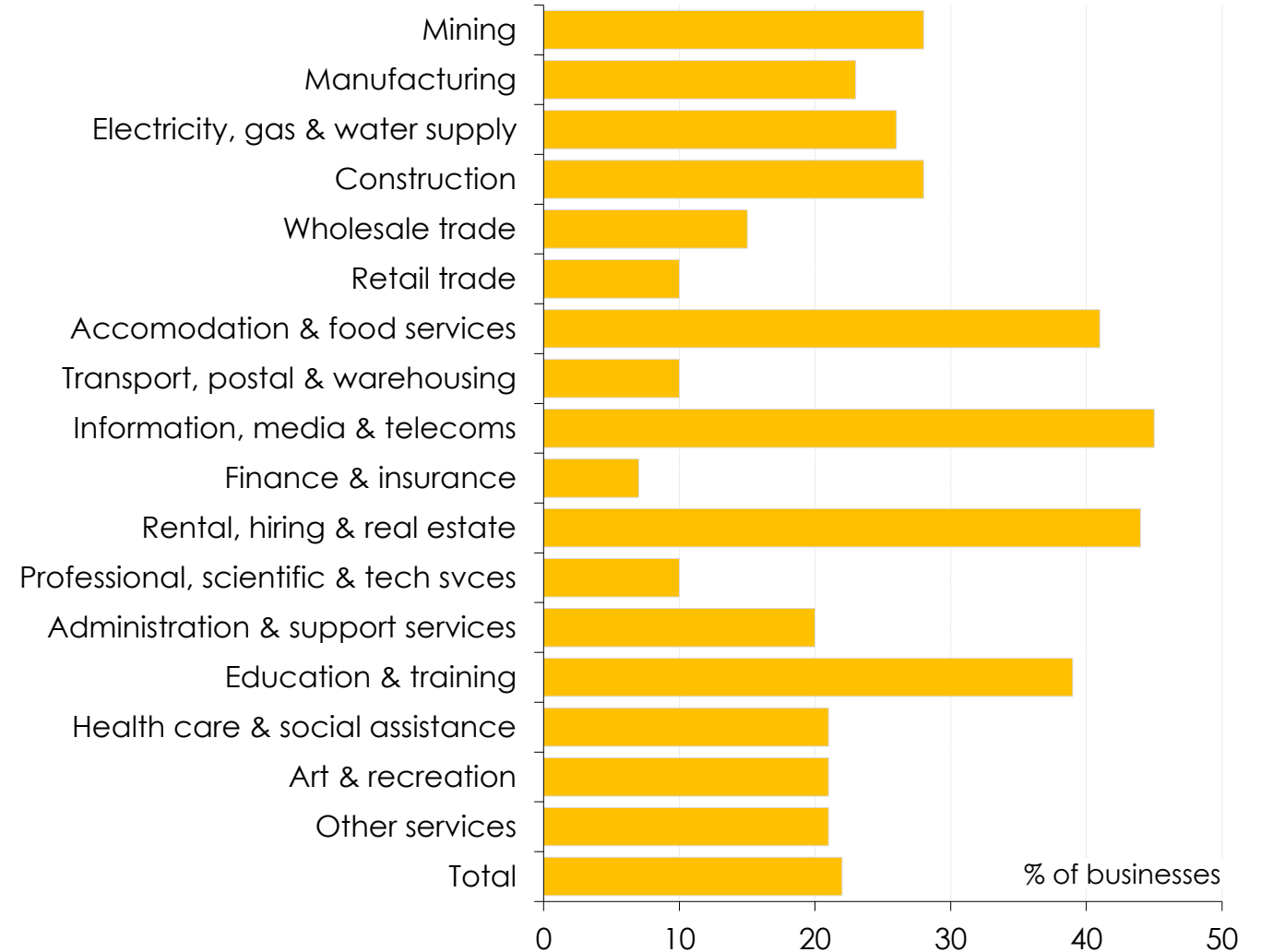
# 22% of employers experienced Covid-related staff absences in January – but overall staff shortages aren't significantly different from June last year

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Businesses with insufficient staff for current operations, June 2021 and January 2022



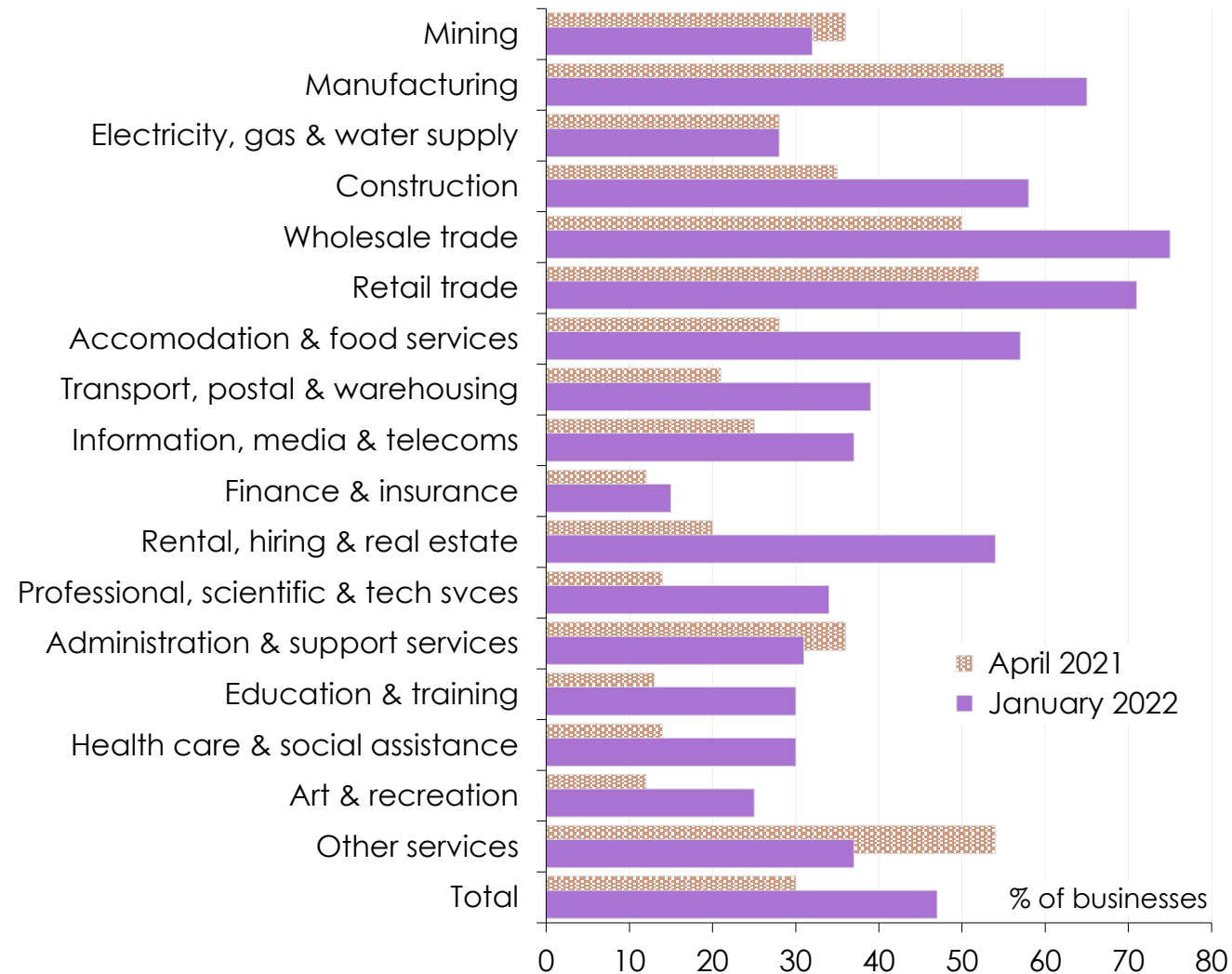
## Businesses with employees unavailable due to Covid-related factors, January 2022



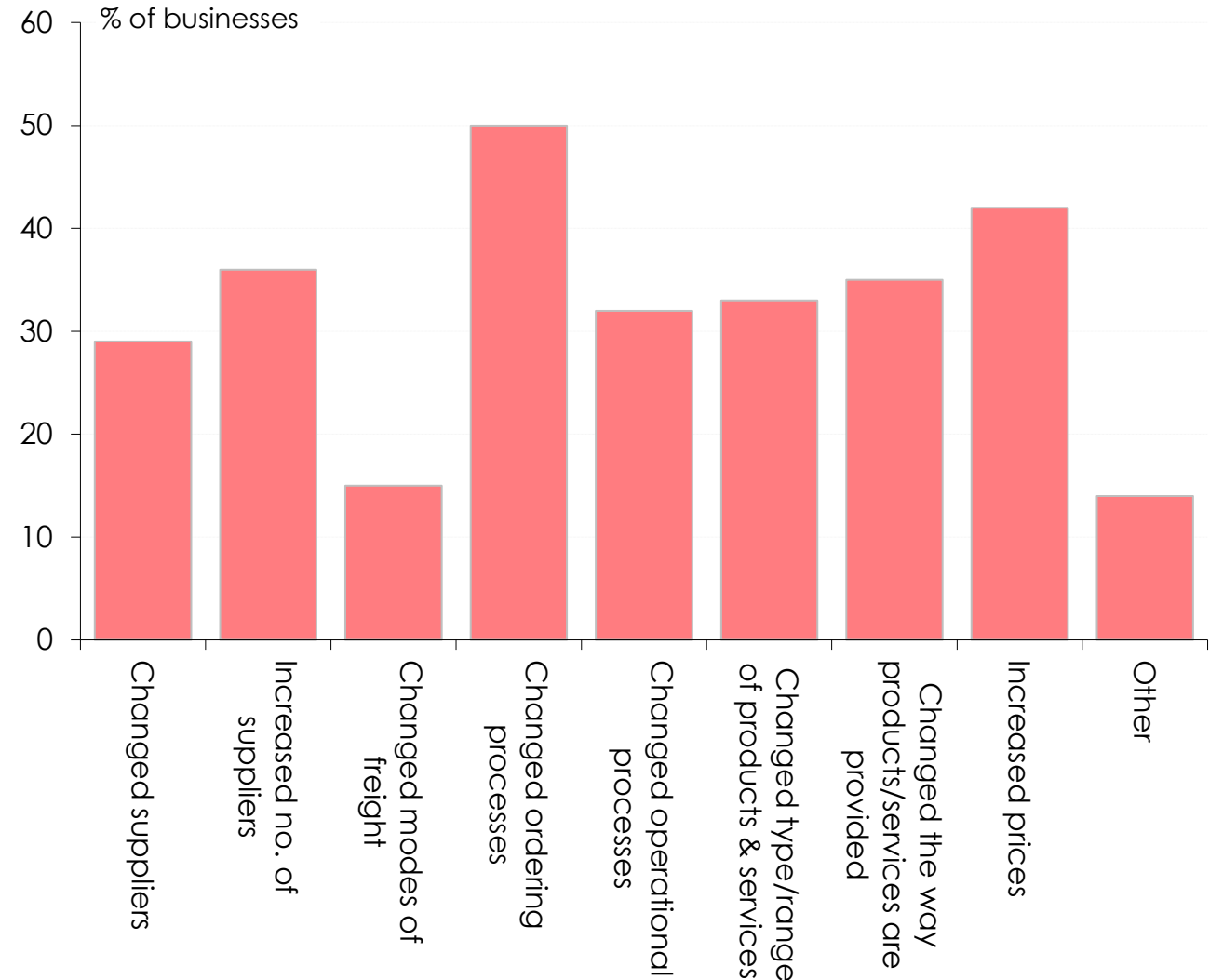
# 47% of businesses (over 70% of retailers and wholesalers) experienced supply chain disruptions in January – and 42% responded by raising prices

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Businesses affected 'to a great extent' by supply chain disruptions, by industry, April 2021 and January 2022



## Actions taken by businesses in response to supply chain disruptions, January 2022

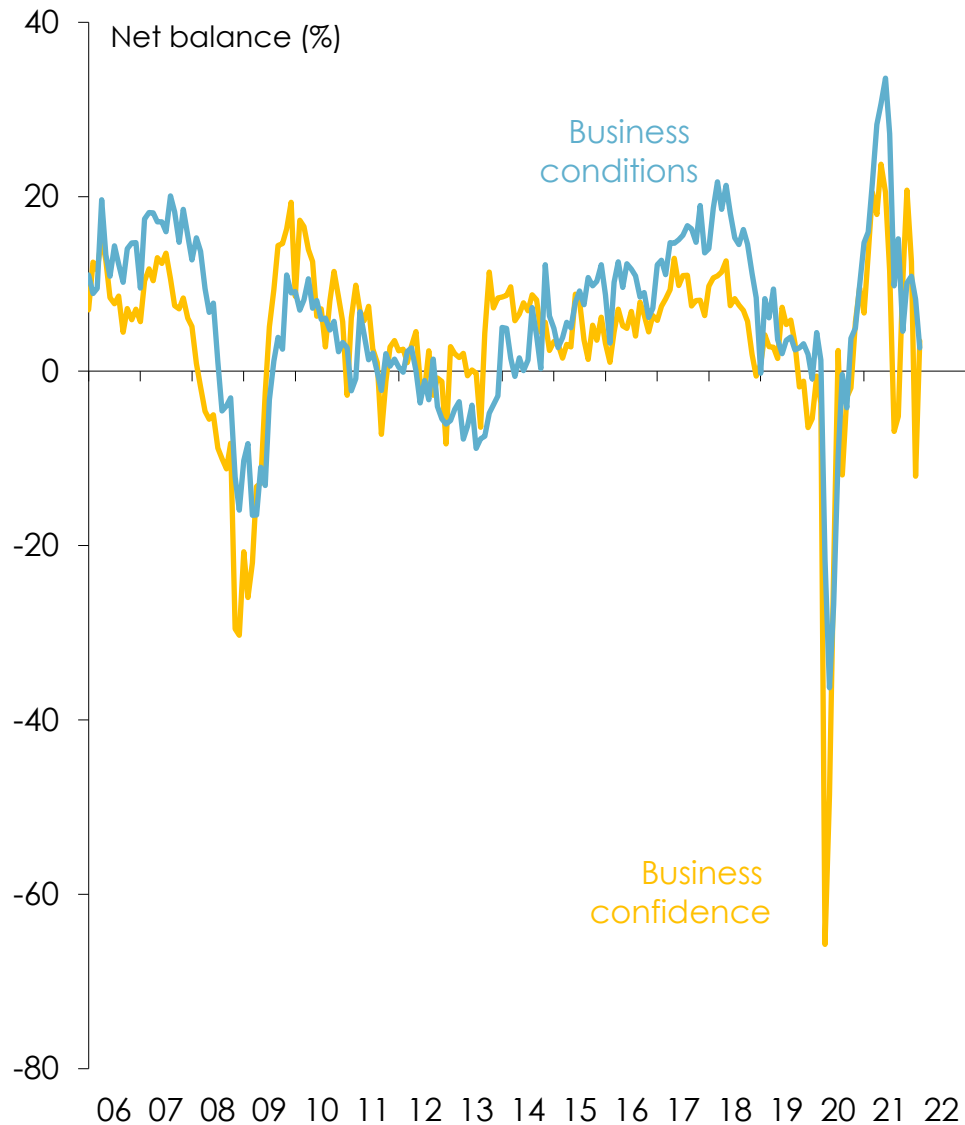




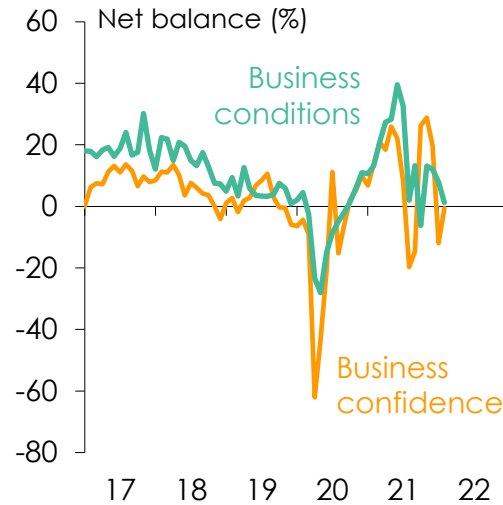
# Business confidence turned around in January, reversing almost two-thirds of December's sharp fall, even though business conditions softened

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

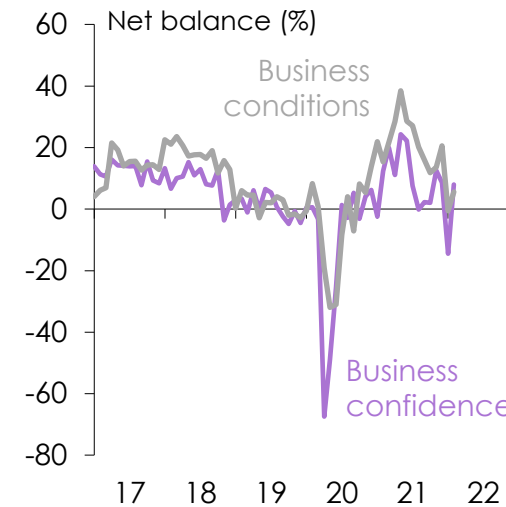
## National business confidence & conditions



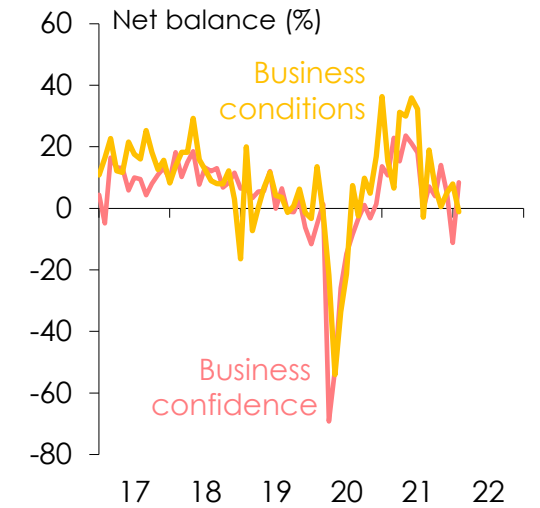
## New South Wales



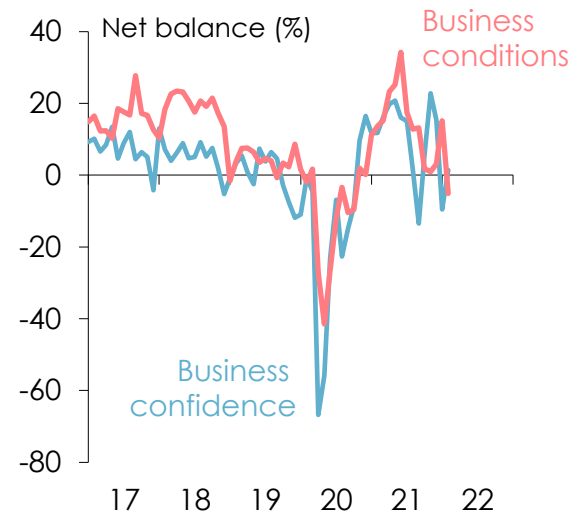
## Queensland



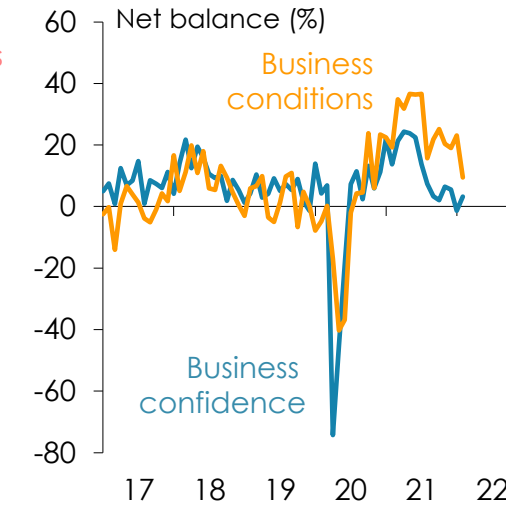
## South Australia



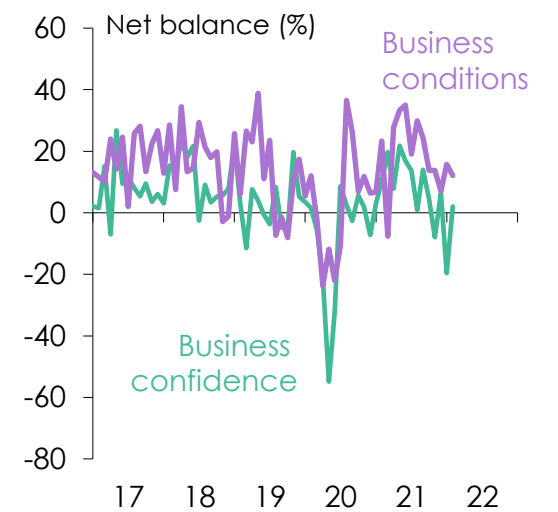
## Victoria



## Western Australia



## Tasmania

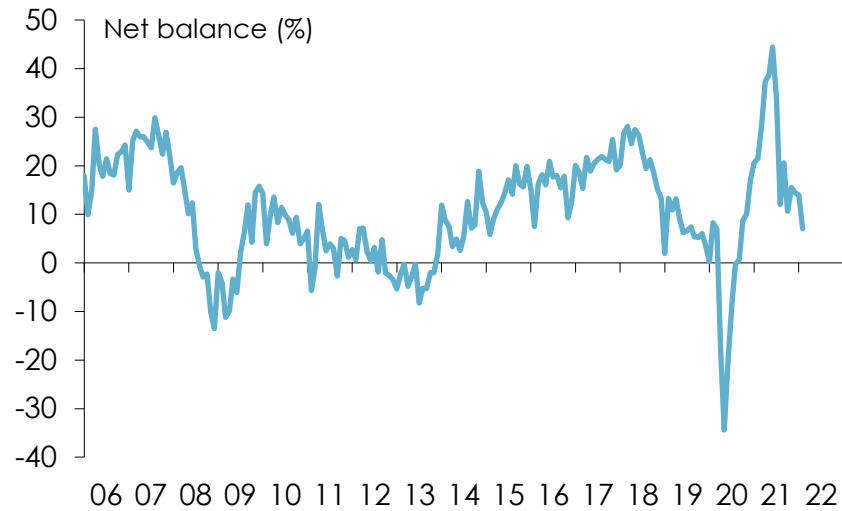


Sources: National Australia Bank [Monthly Business Survey](#), January 2022; February survey results will be released on 8<sup>th</sup> March. [Return to "What's New"](#).

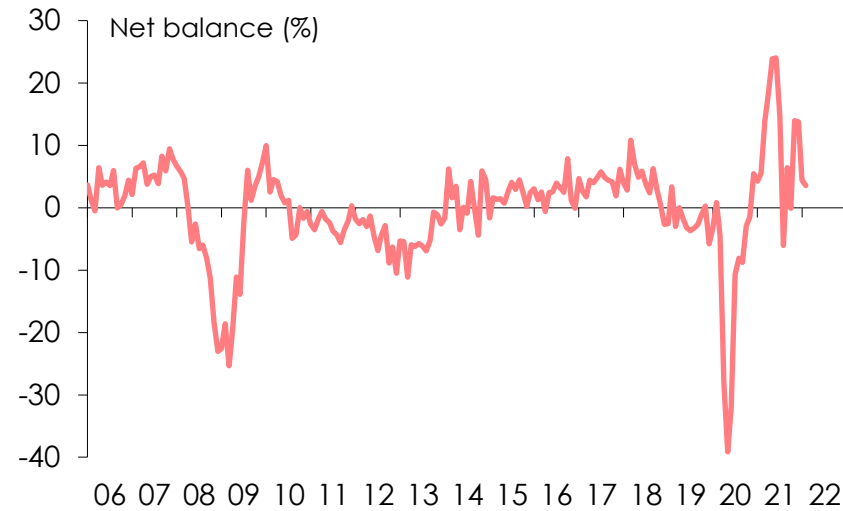
# Business conditions softened further in January due to consumer caution and staff shortages, but not as much as in the 2020 and 2021 lockdowns

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

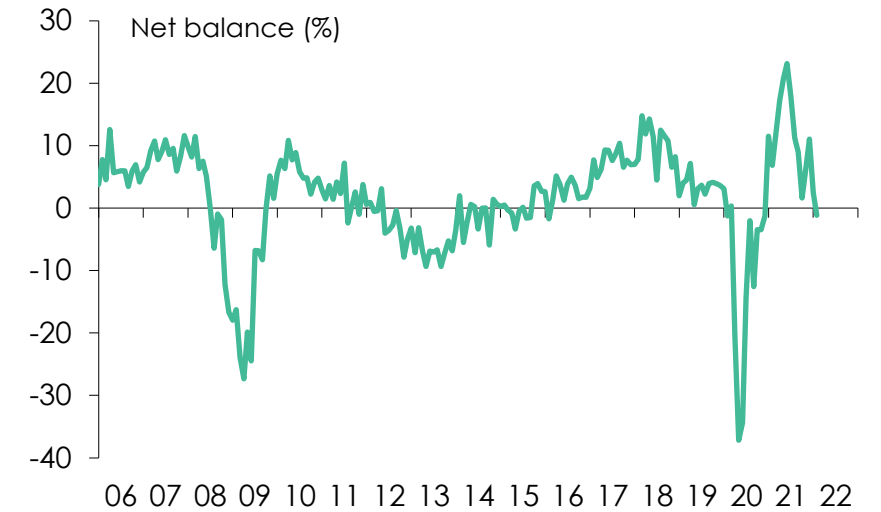
## Trading conditions



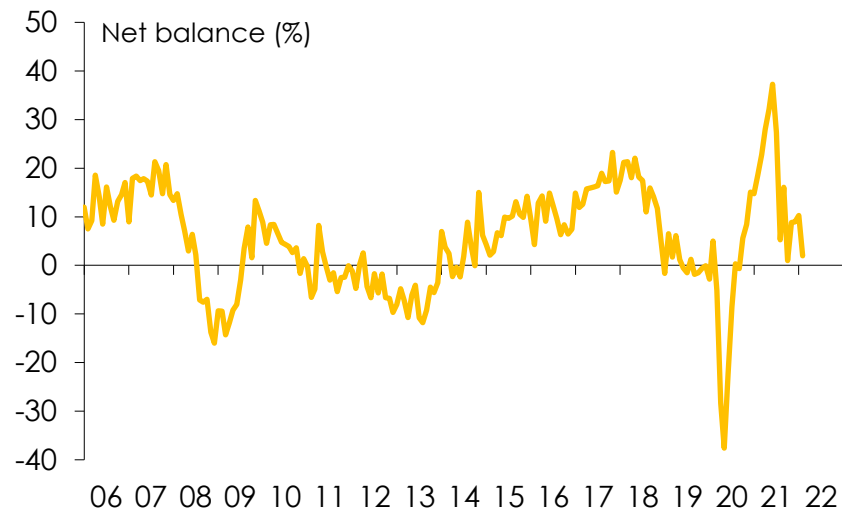
## Forward orders



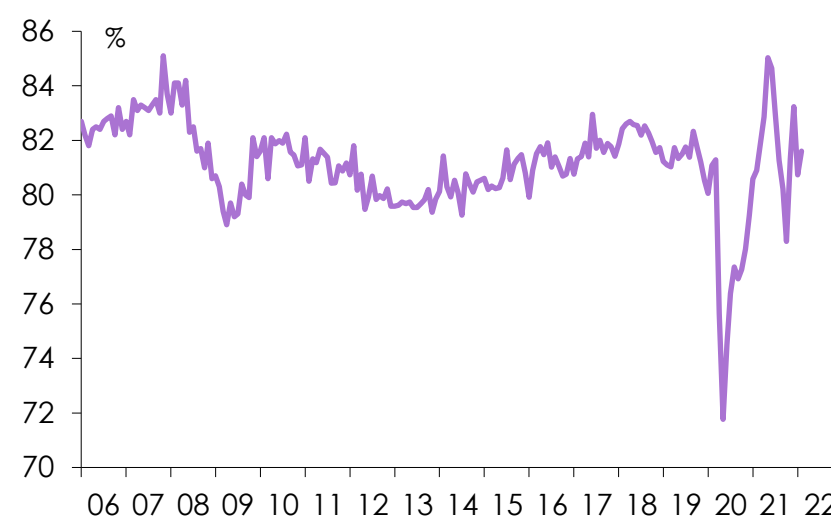
## Employee hiring intentions



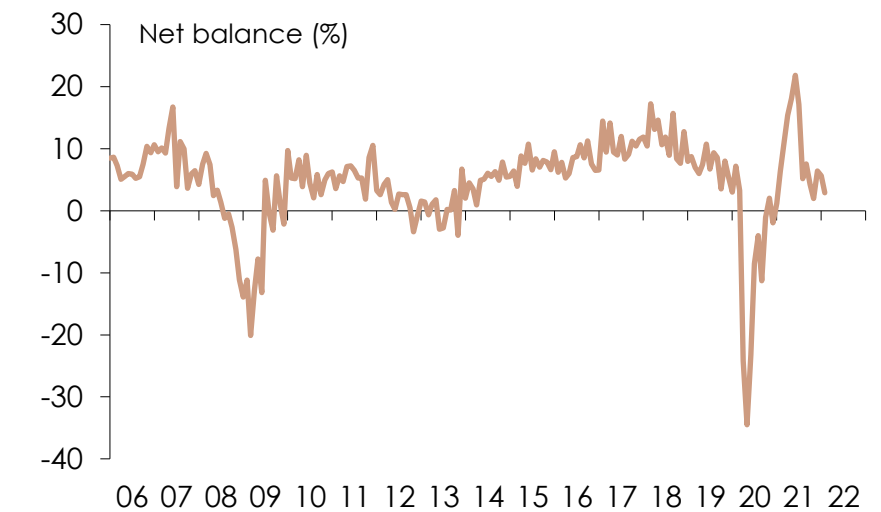
## Profitability



## Capacity utilization



## Capital expenditure intentions

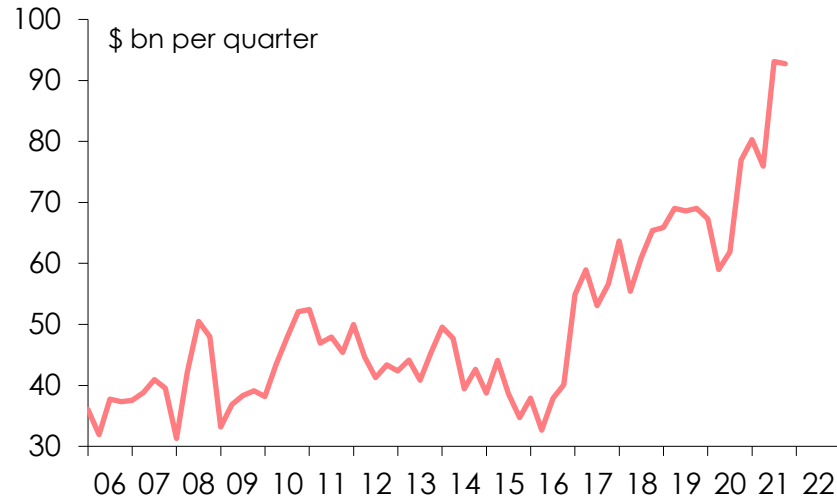


Source: National Australia Bank [Monthly Business Survey](#), January 2022; February survey results will be released on 8<sup>th</sup> March. [Return to "What's New"](#).

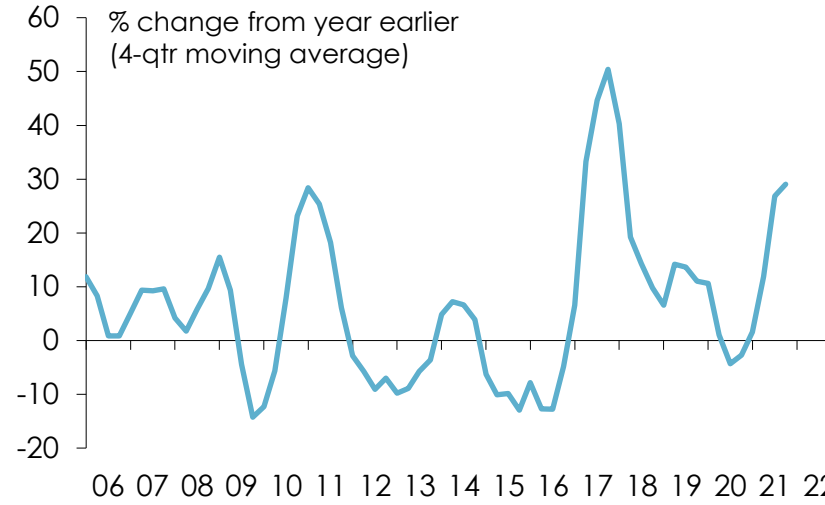
# Company profits have grown strongly over the past five years, largely driven by the mining sector

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

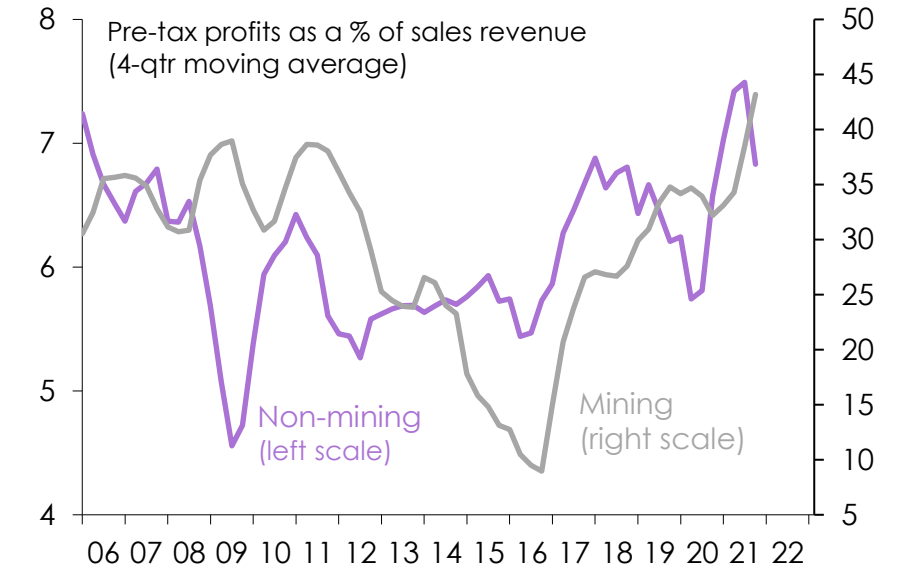
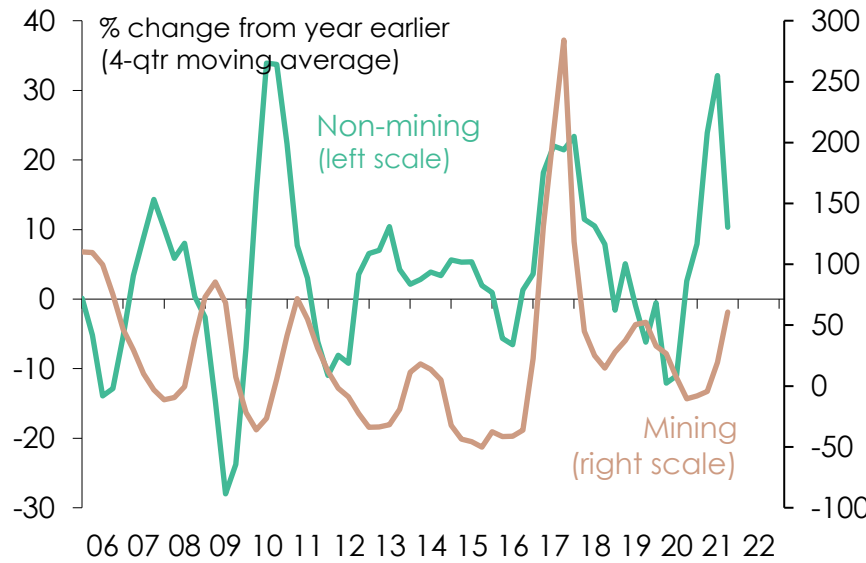
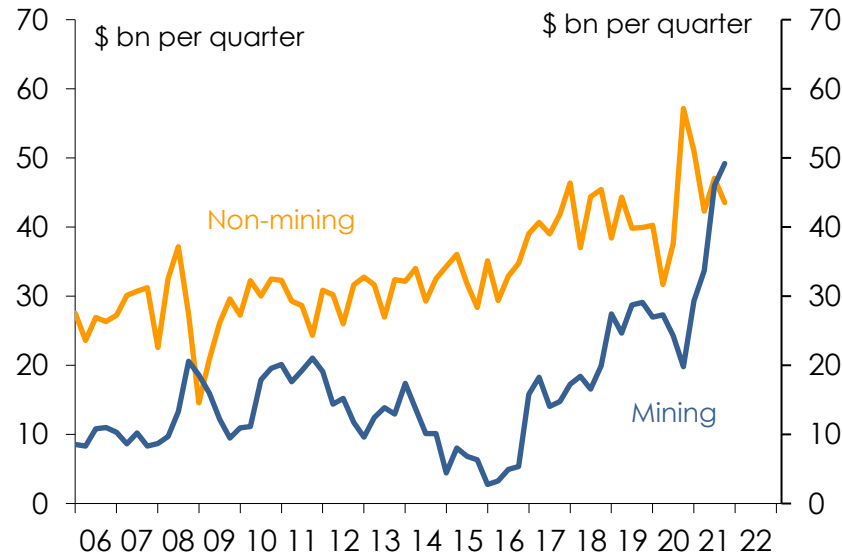
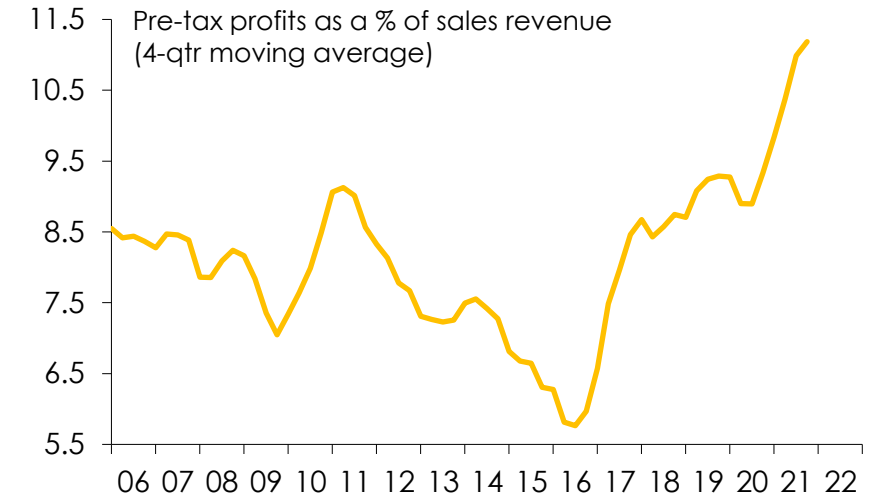
## Pre-tax company profits



## Pre-tax company profits growth



## Pre-tax profit margins

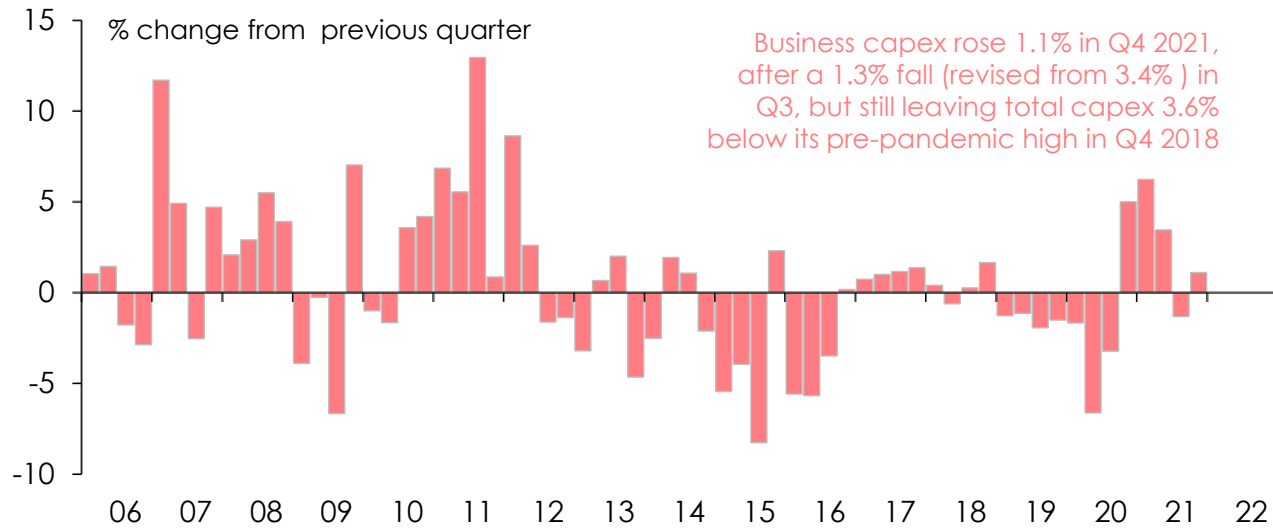


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), September 2021. December quarter data will be released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

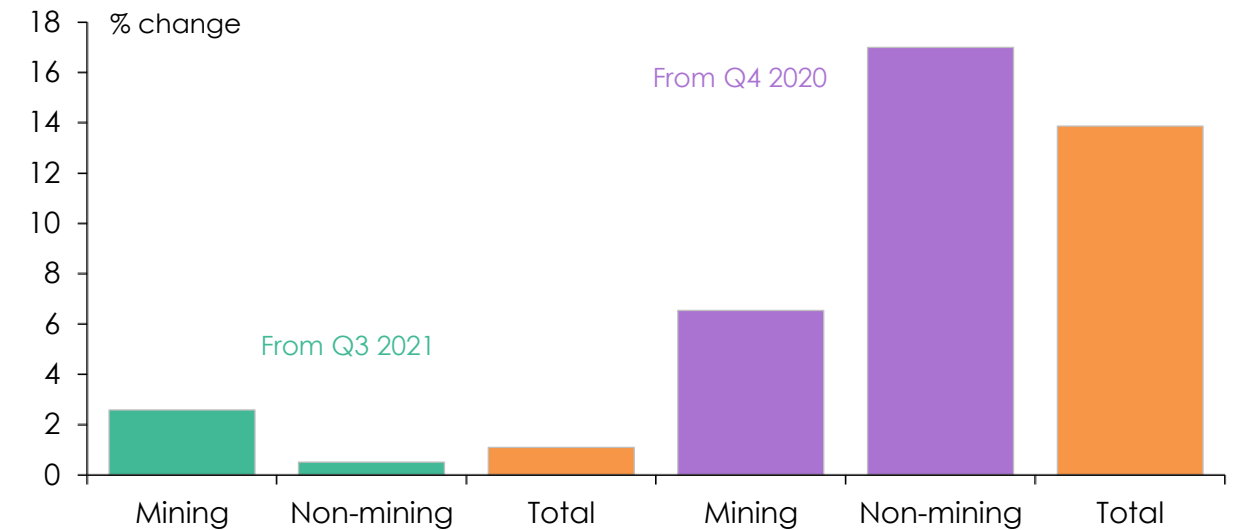
# Business capex rose 1.1% in real terms in Q4 2021, largely driven by the mining sector (in contrast to the earlier part of last year)

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

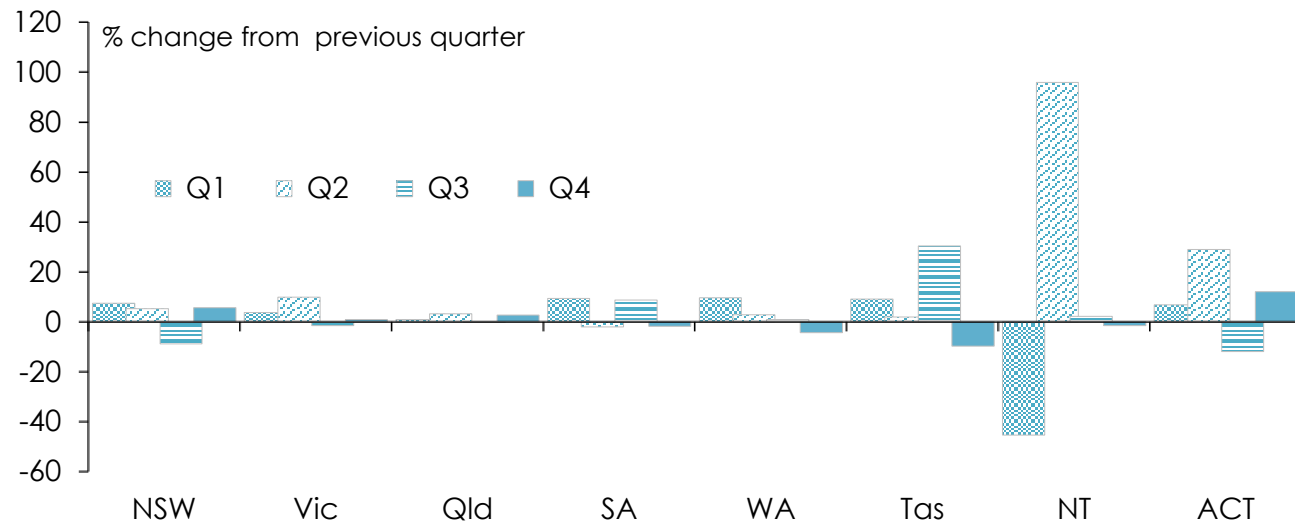
## Real business new fixed capital expenditure



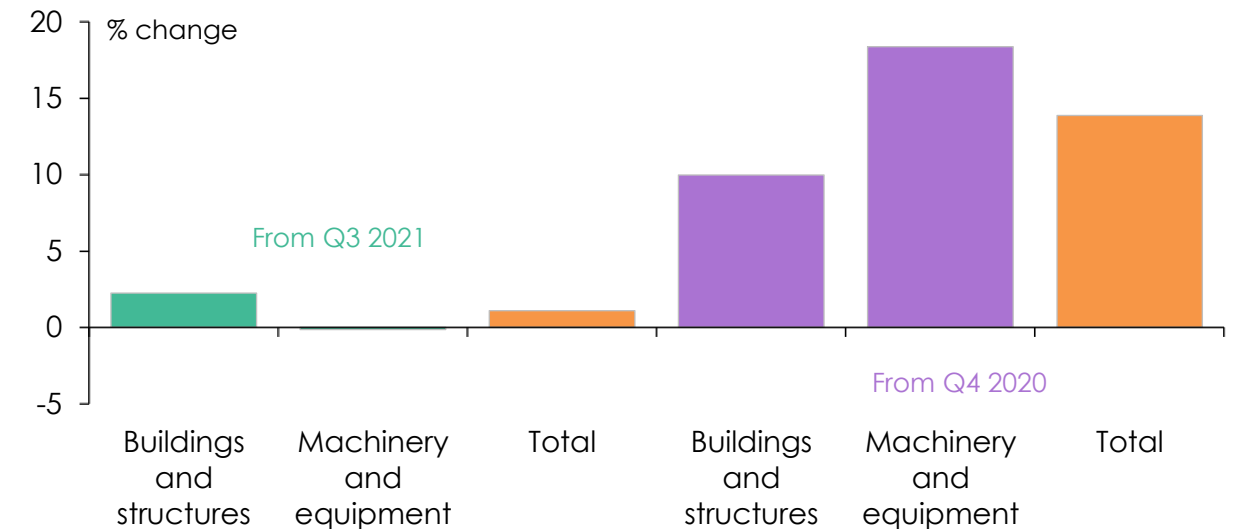
## Real business new fixed capex, by industry, Q4



## Real business new fixed capex, by state, 2021



## Real business new fixed capex, by asset, Q4

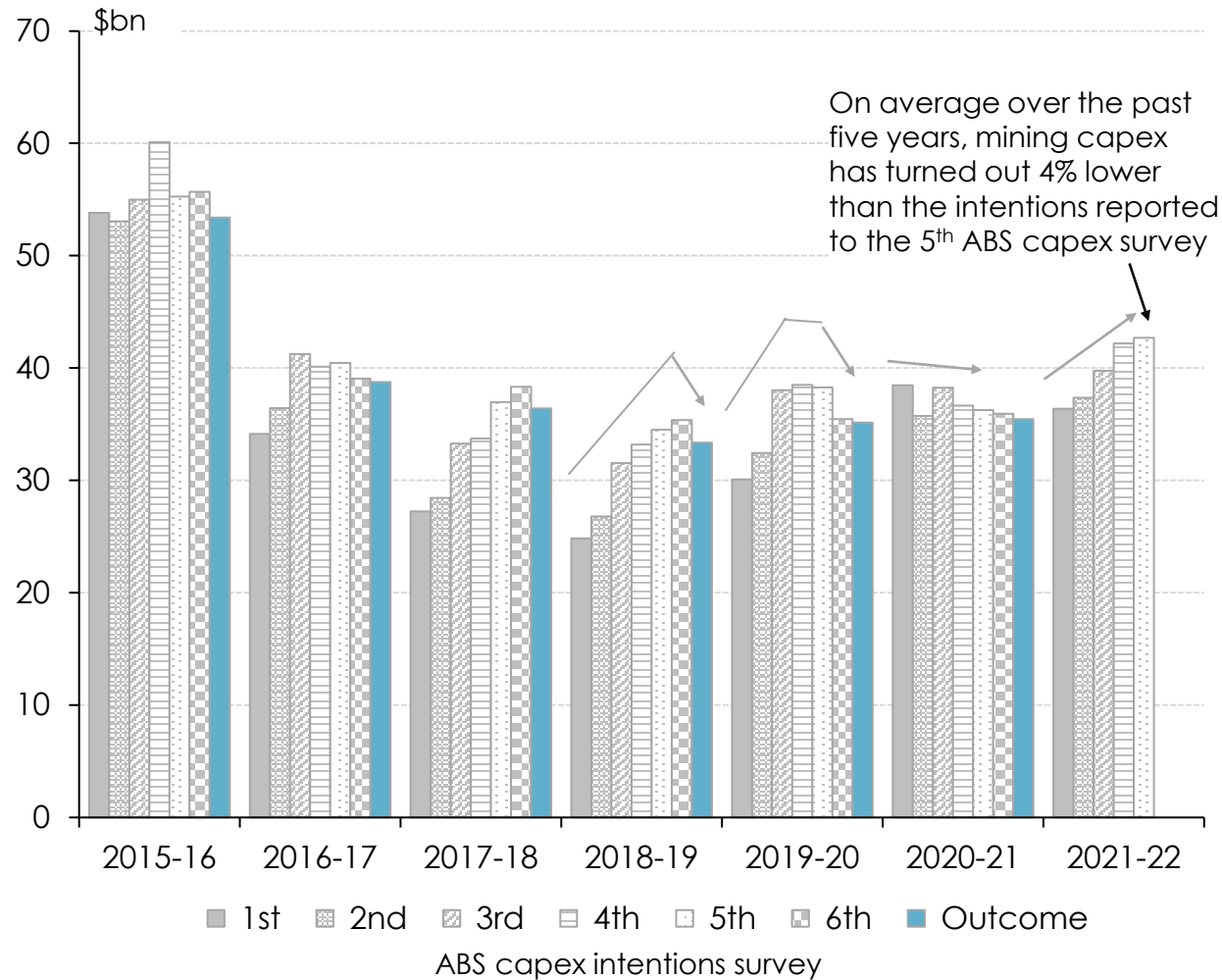


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.  
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 26<sup>th</sup> May. [Return to "What's New"](#).

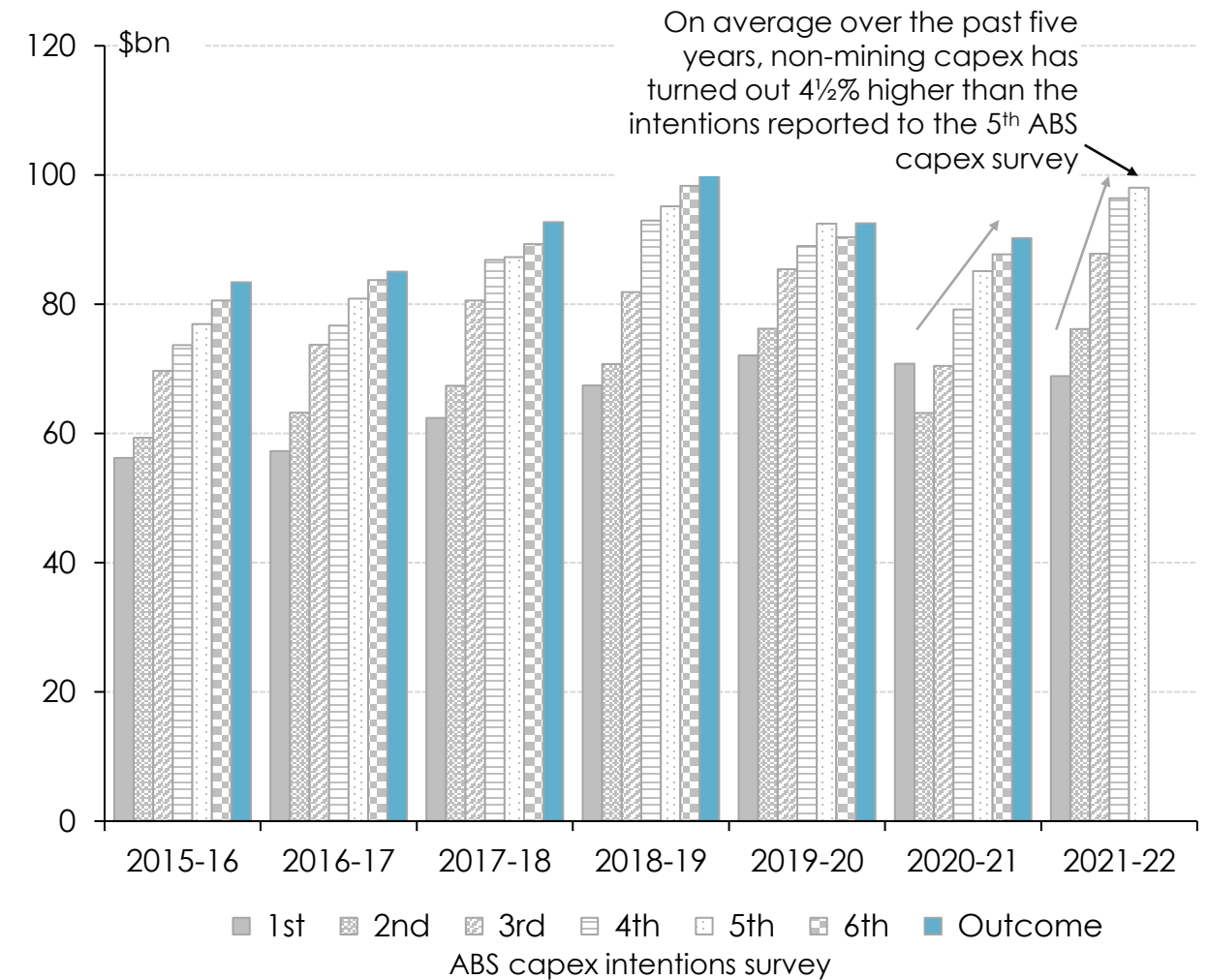
# Businesses revised up their capex plans for 2021-22 by 1.6% over the past three months, pointing to a 14¼% nominal increase in capex for 2021-22

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 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.

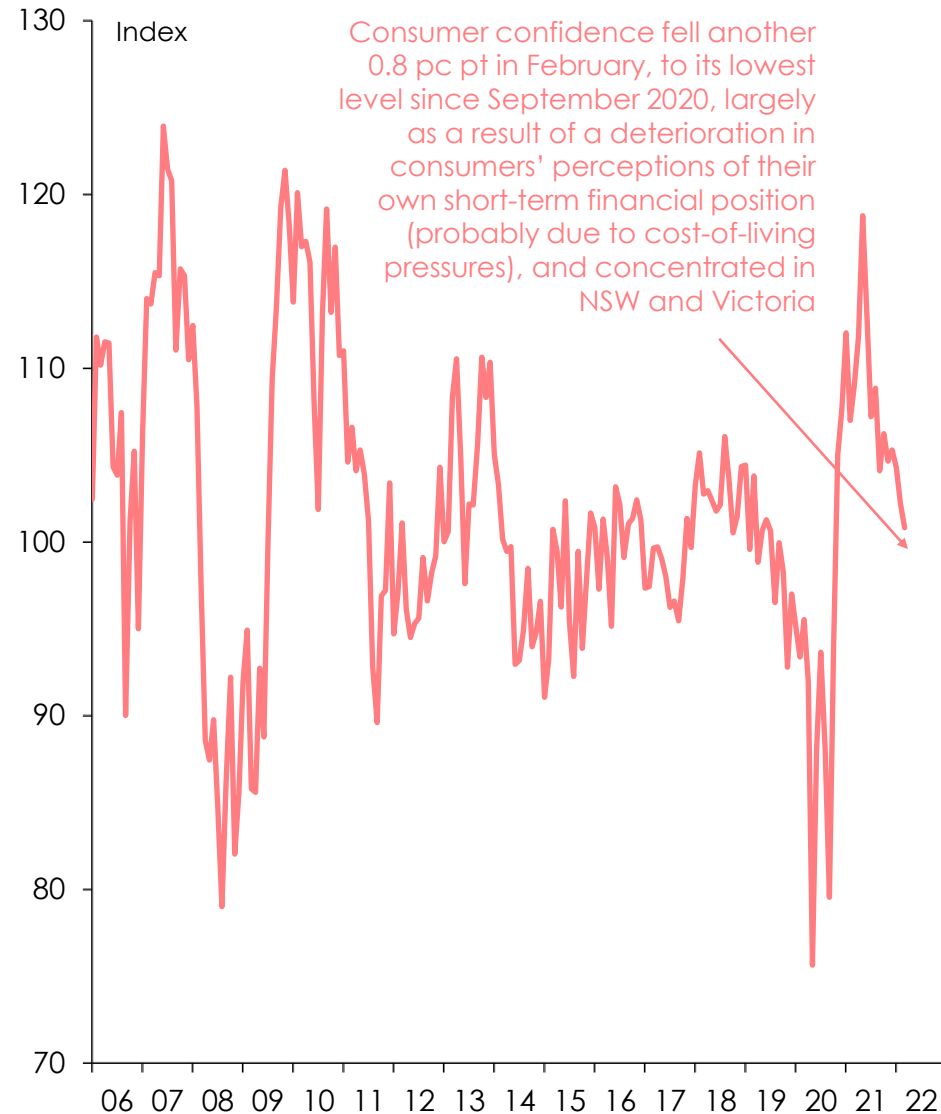
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); the 6<sup>th</sup> capex survey for 2021-22 will be released on 25<sup>th</sup> May. [Return to "What's New"](#).

# The household sector and consumer spending

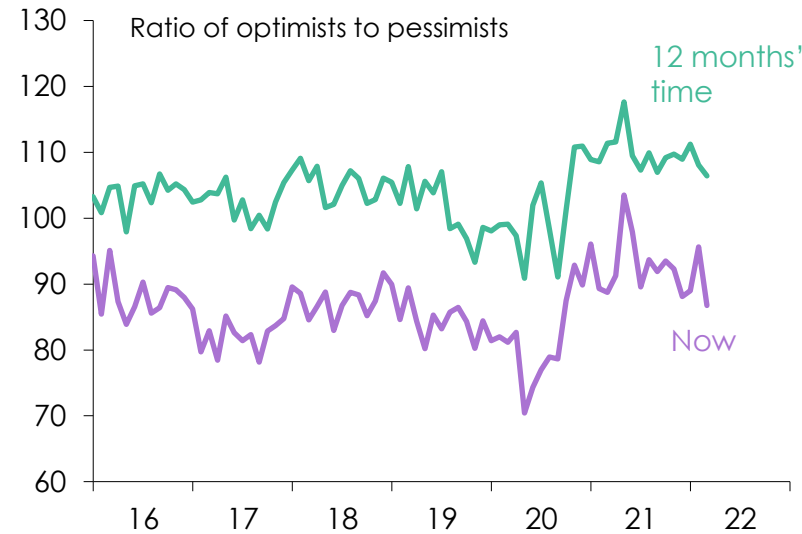
# Consumer confidence fell another 0.8 pc pt in February to a 17-month low, largely as a result of rising cost pressures on household finances

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

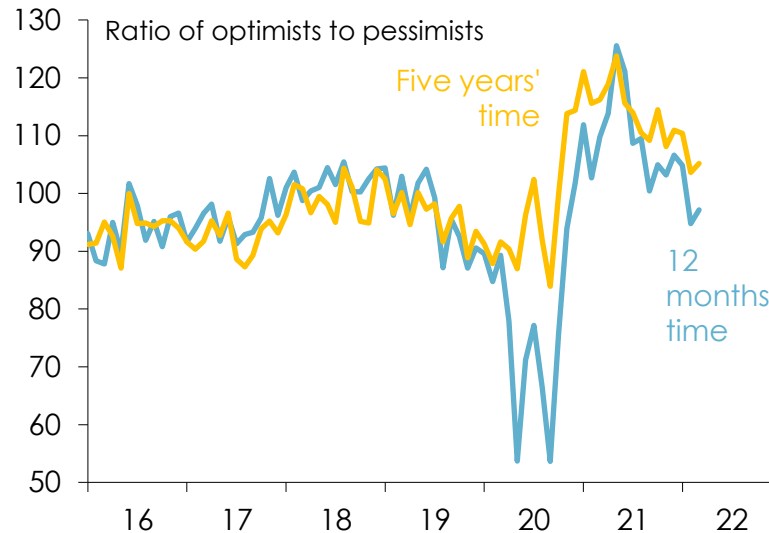
## Consumer confidence index



## Household finances assessment



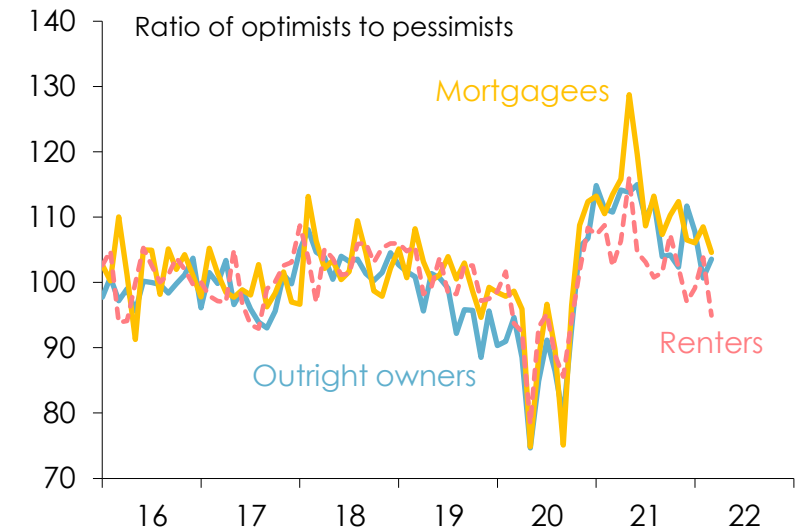
## Economic conditions assessment



## Buying conditions assessment



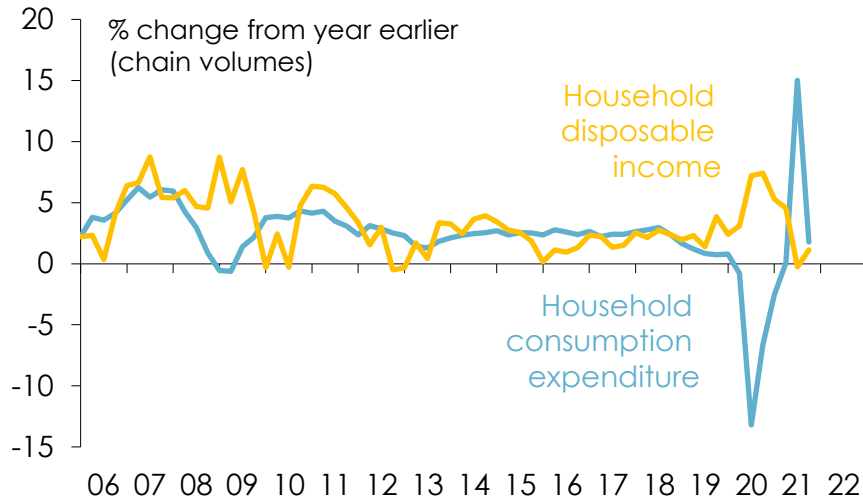
## Confidence by housing tenure



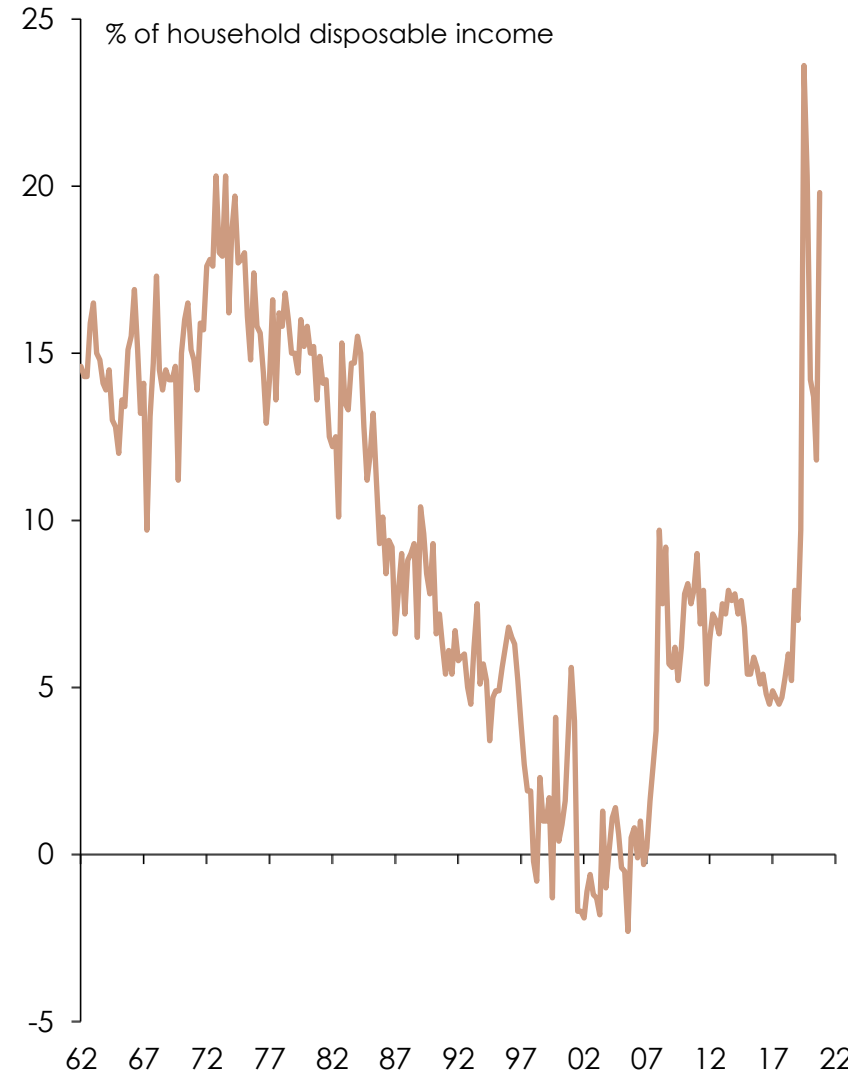
# Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

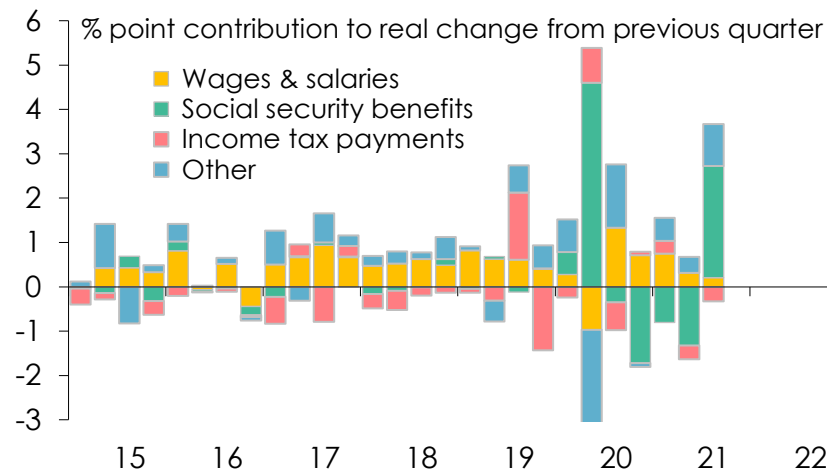
## Household income and spending



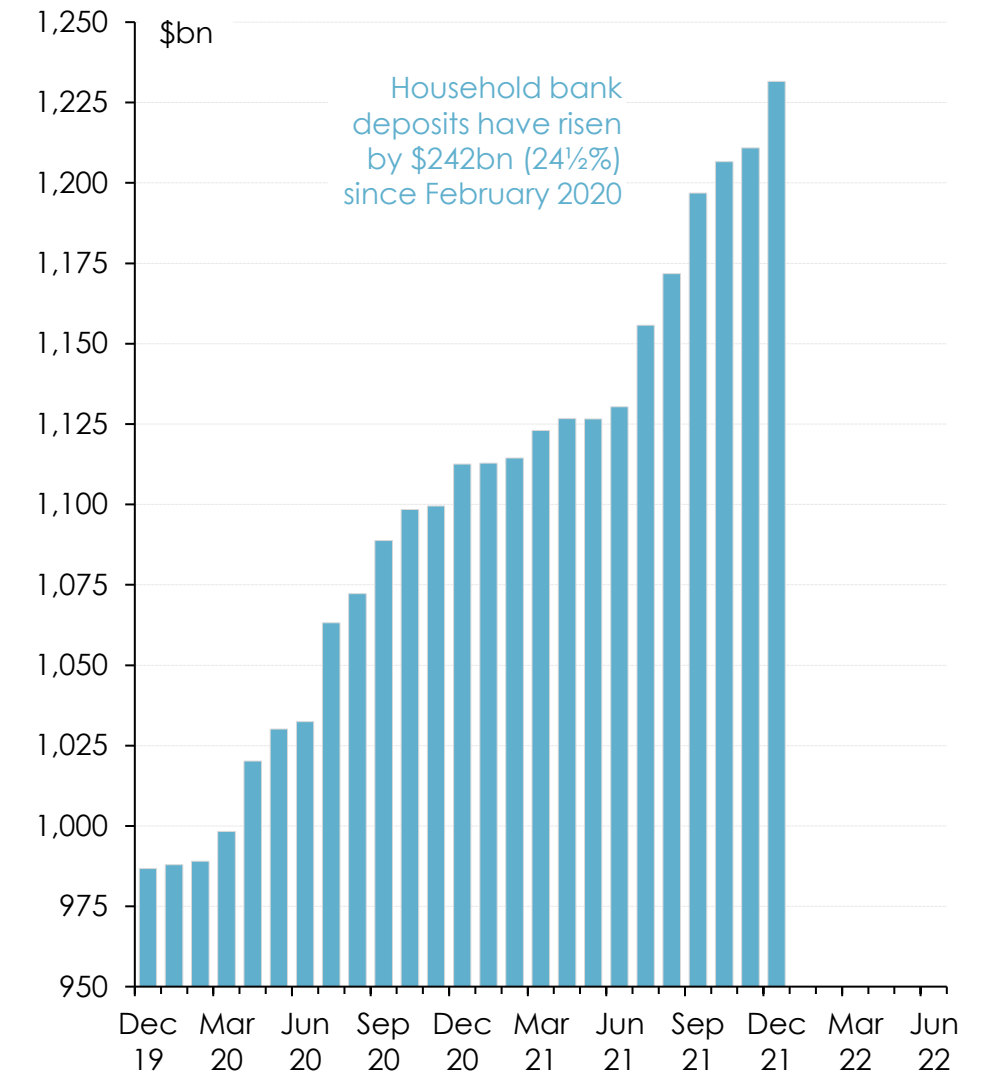
## Household saving ratio



## Sources of household income



## Household bank deposits



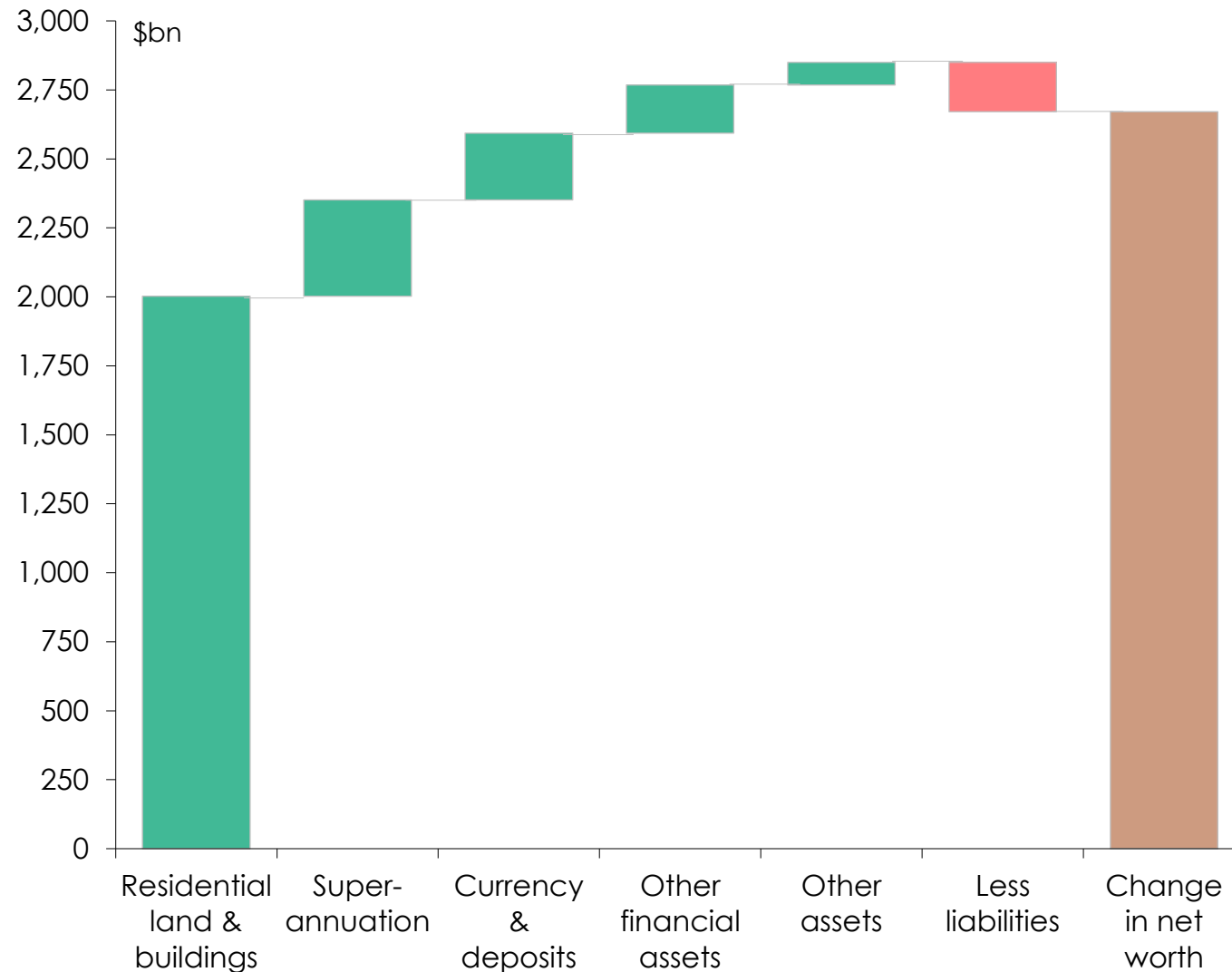
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). Q4 data on household income, spending and saving will be released this coming Wednesday, 2<sup>nd</sup> March. [Return to "What's New"](#).



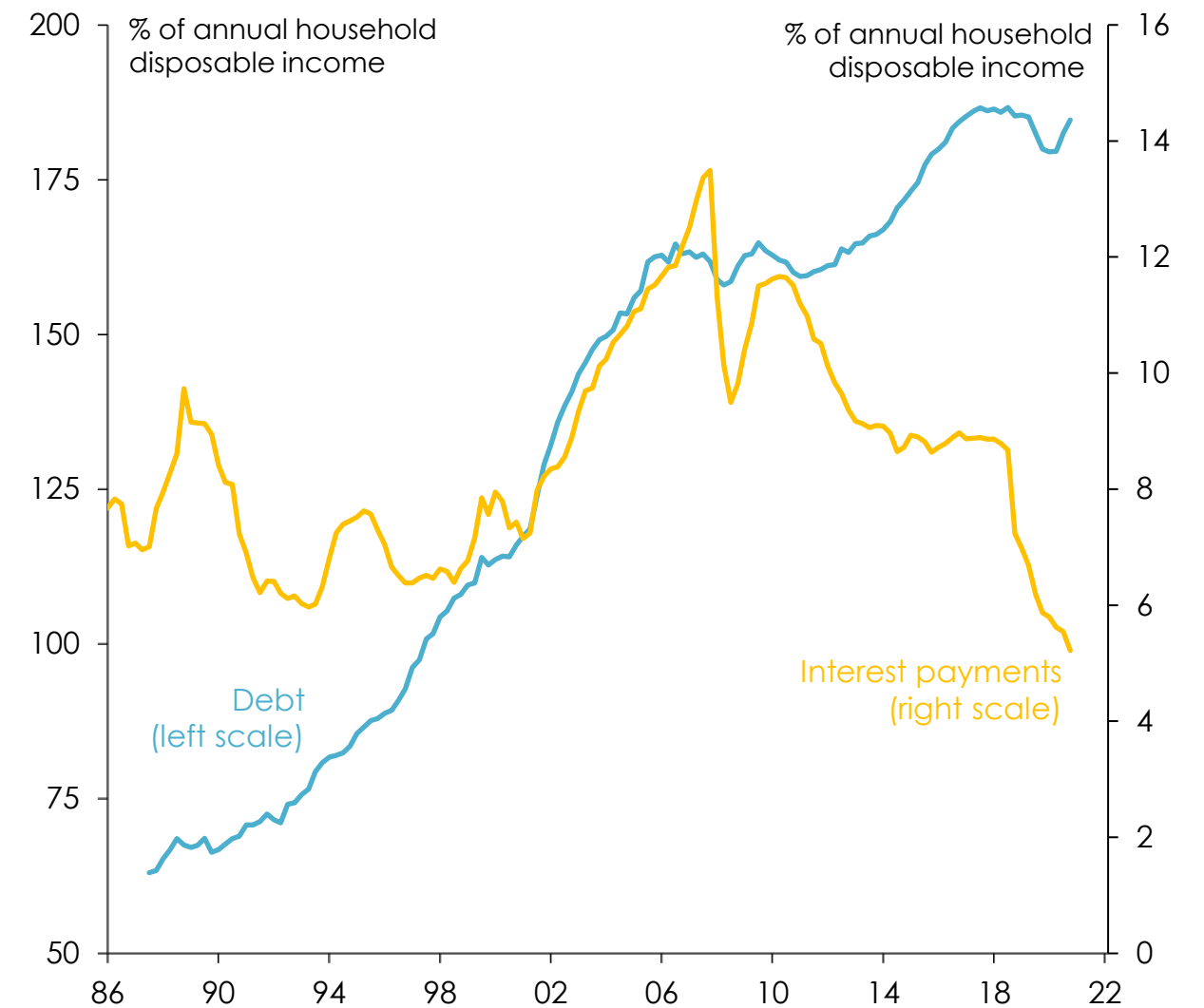
# Household net worth has risen by \$2.7trn (23<sup>3</sup>/<sub>4</sub>%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 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

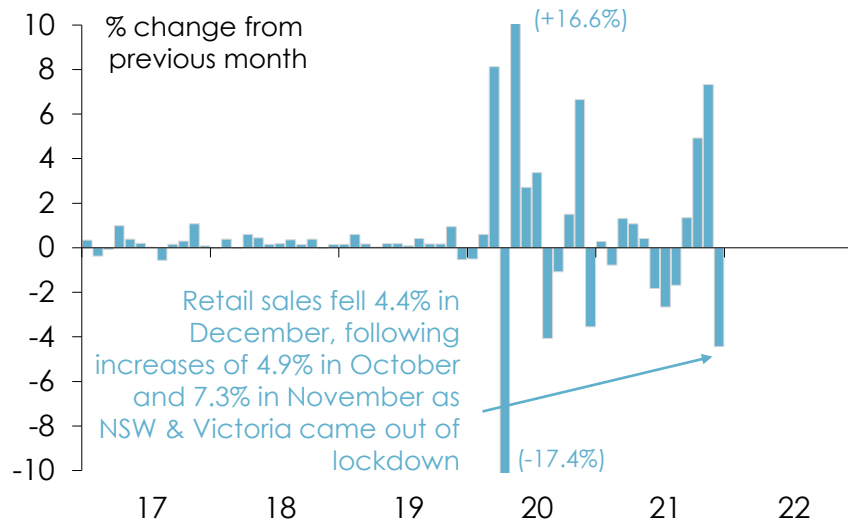


Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; RBA, [Statistical Tables](#) E1 & E2. December quarter data will be released on 31<sup>st</sup> March 2022. [Return to "What's New"](#).

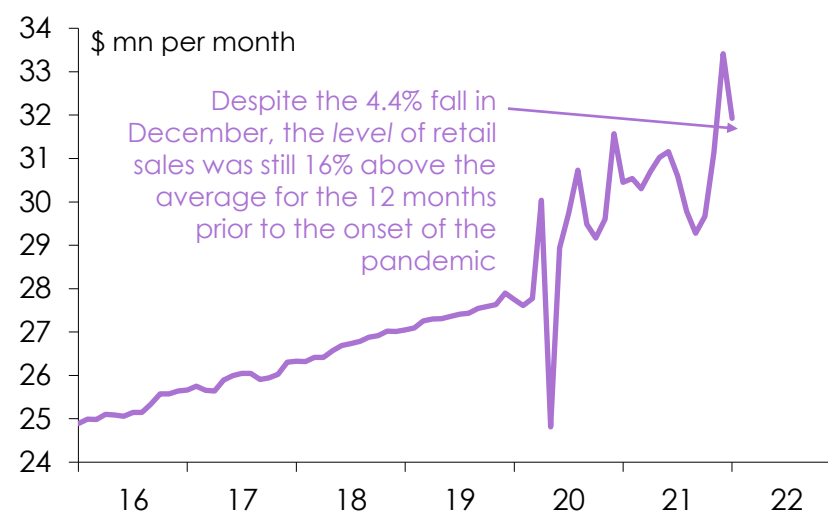
# New motor vehicle sales rose 10.8% in January after five successive monthly falls, with double-digit gains in every state except NSW and WA

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

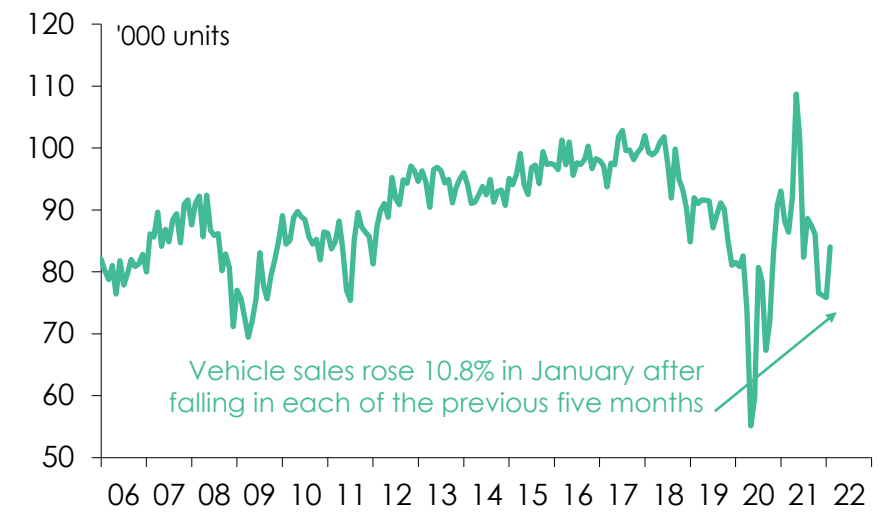
## Monthly retail sales



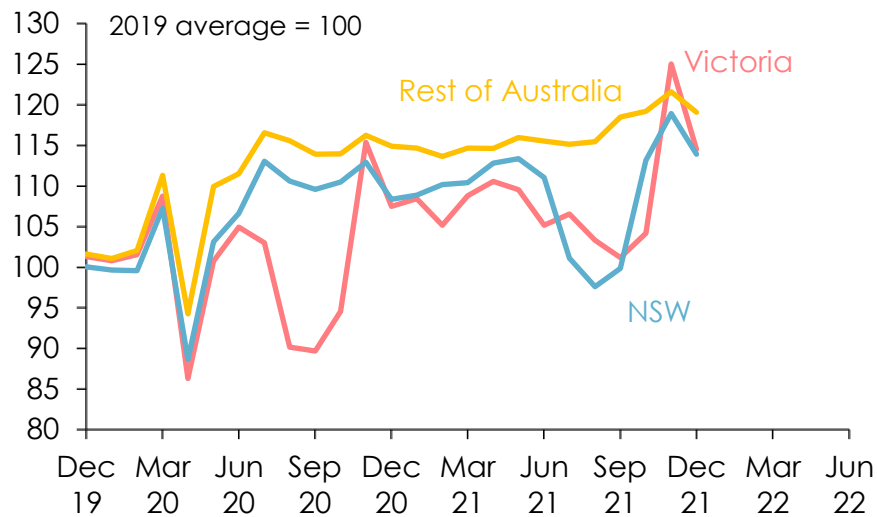
## Level of retail sales



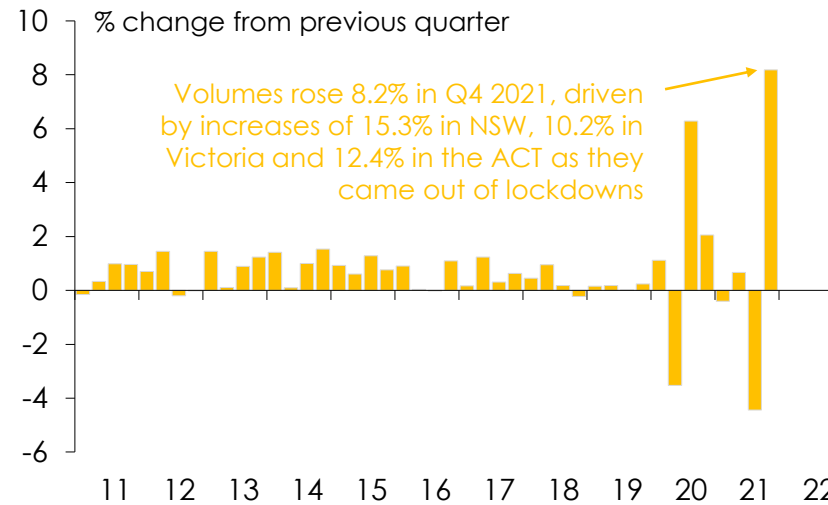
## New motor vehicle sales



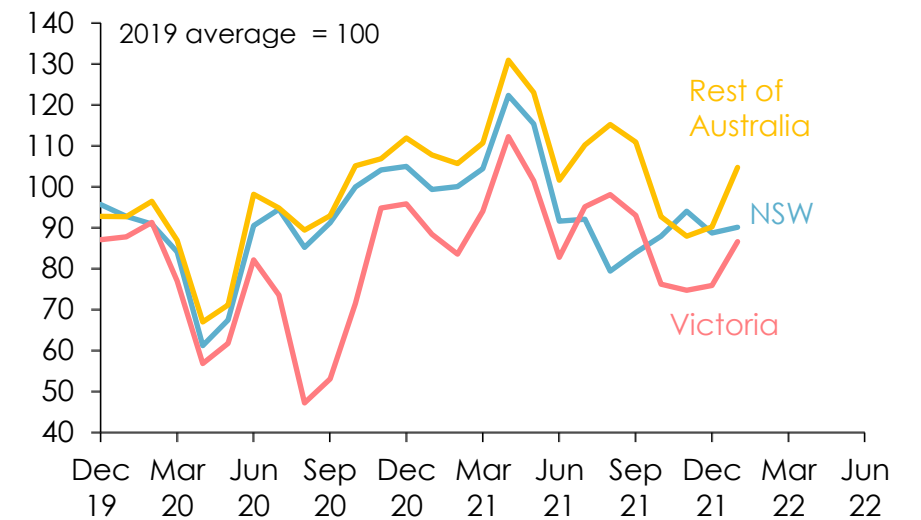
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



## Vehicle sales – NSW, Vic & the rest

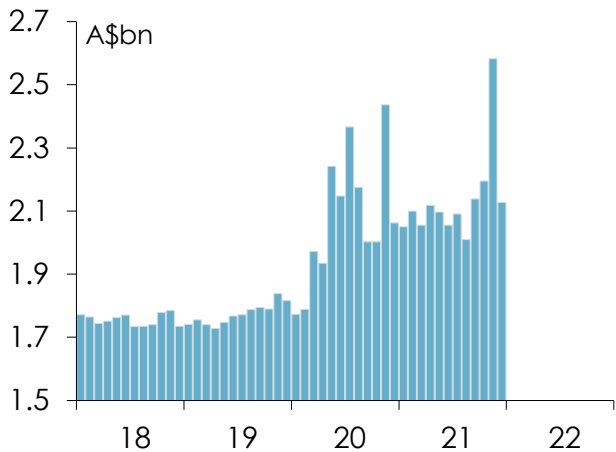


Note: see also [slide 35](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary January retail sales data will be released on 28th February; February motor vehicle sales data will be released in the second week of March. [Return to "What's New"](#).

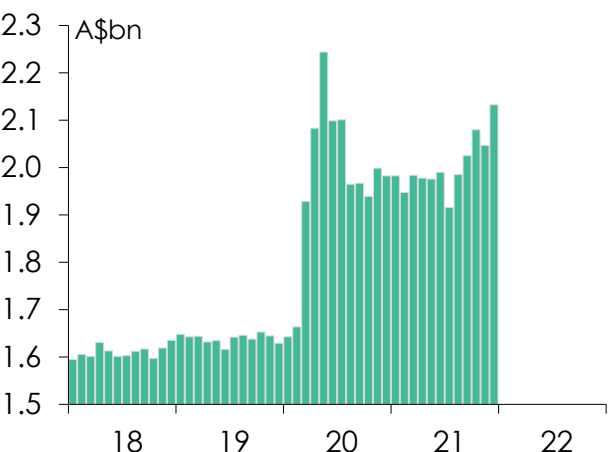
# Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

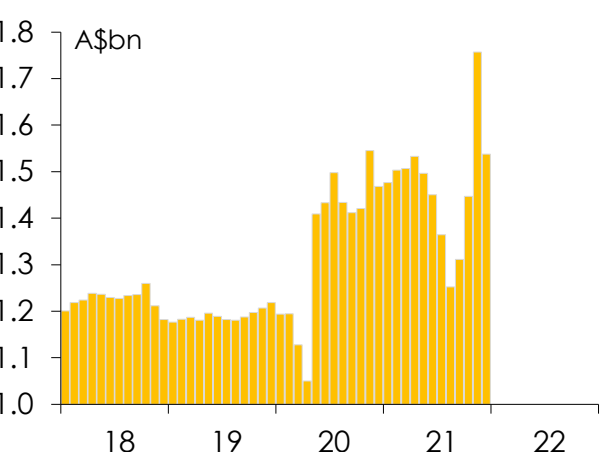
## Electronic & electrical goods



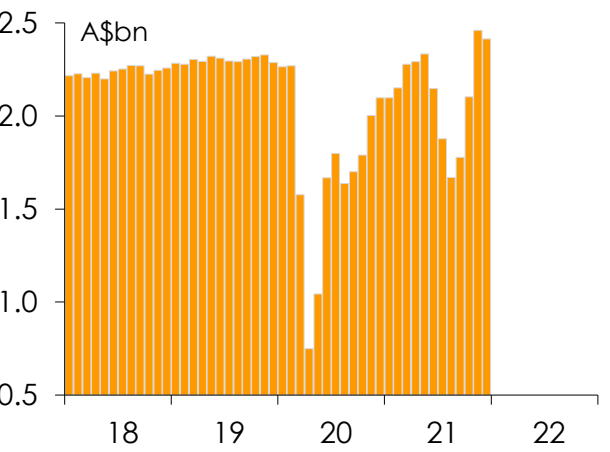
## Hardware, building & garden supplies



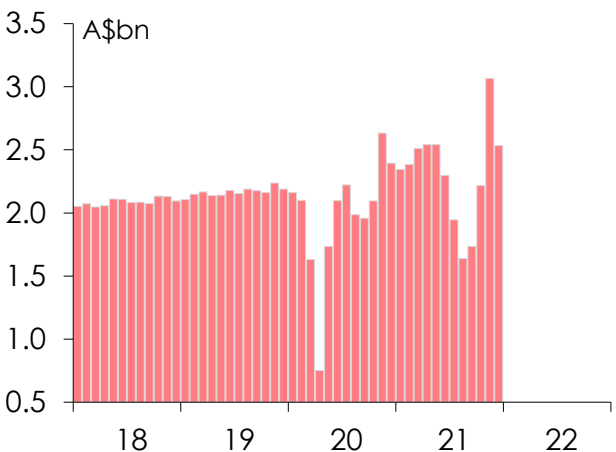
## Floor coverings, furniture, housewares etc



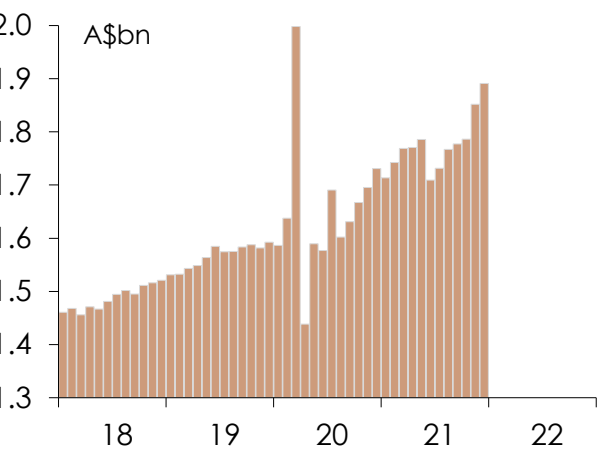
## Cafes and restaurants



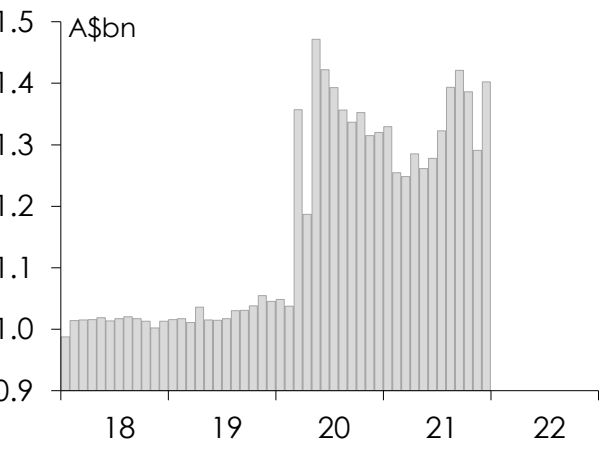
## Clothing, footwear & personal accessories



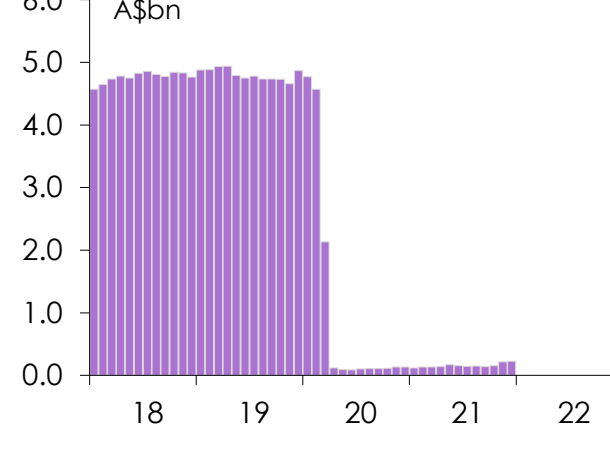
## Pharmaceuticals, cosmetics & toiletries



## Alcoholic beverages



## Overseas travel

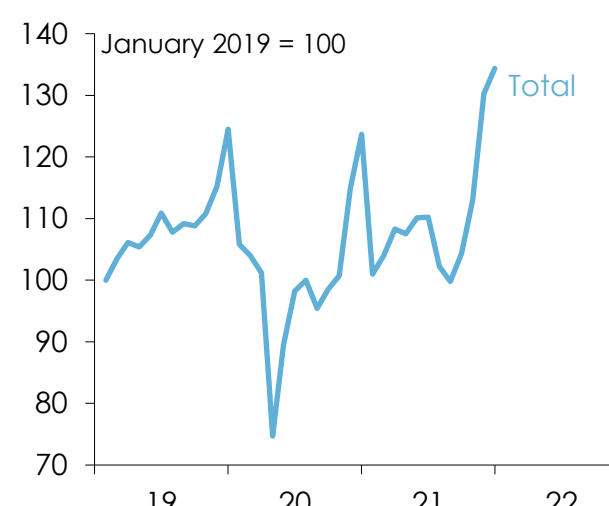
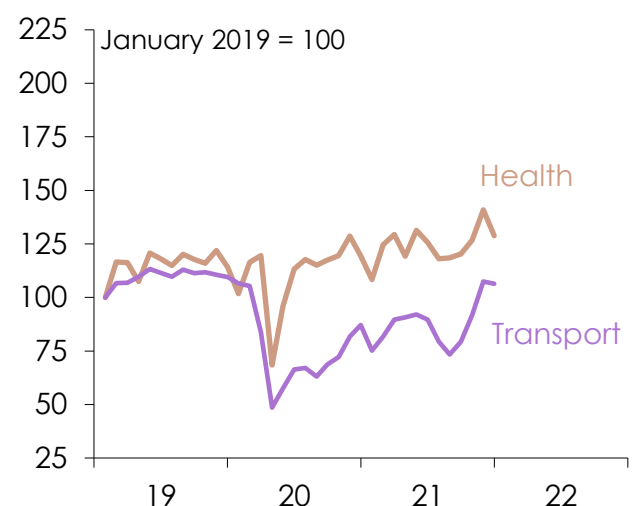
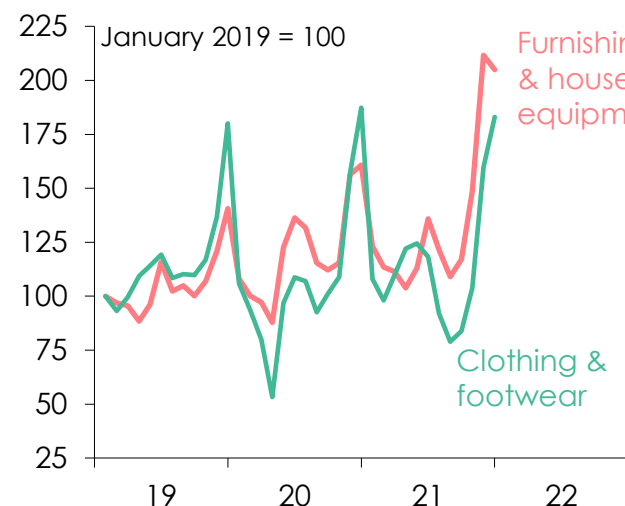
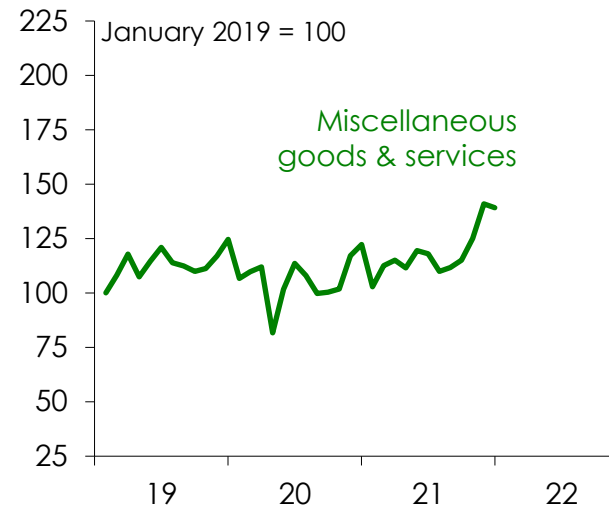
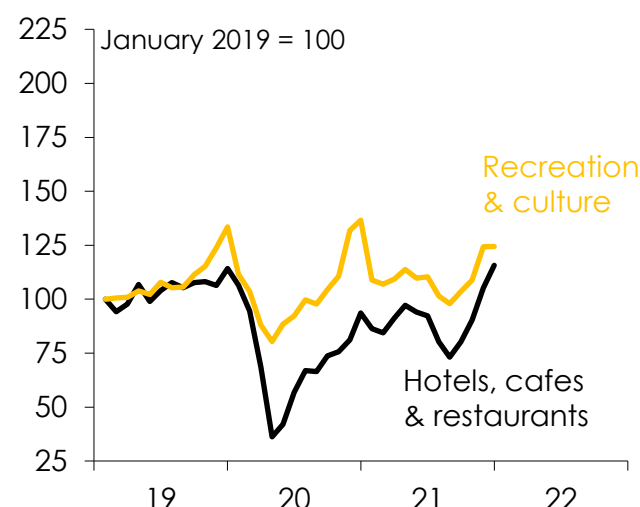
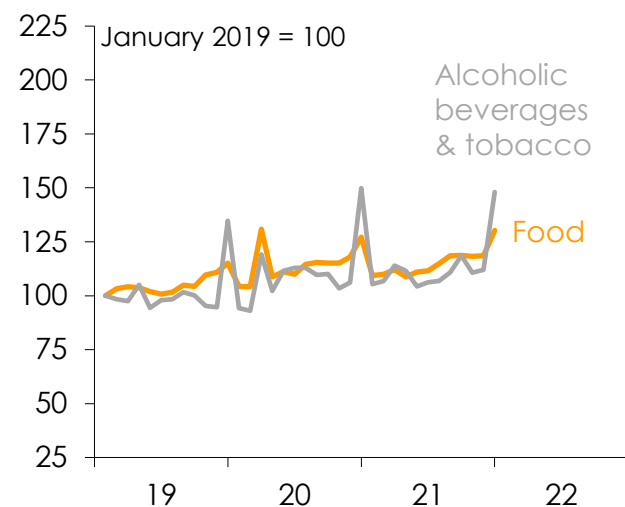


Sources: ABS, [Retail Trade, Australia](#), December 2021 (January data will be released on 4<sup>th</sup> March); and [International Trade in Goods and Services, Australia](#), November 2021. [Return to "What's New"](#).

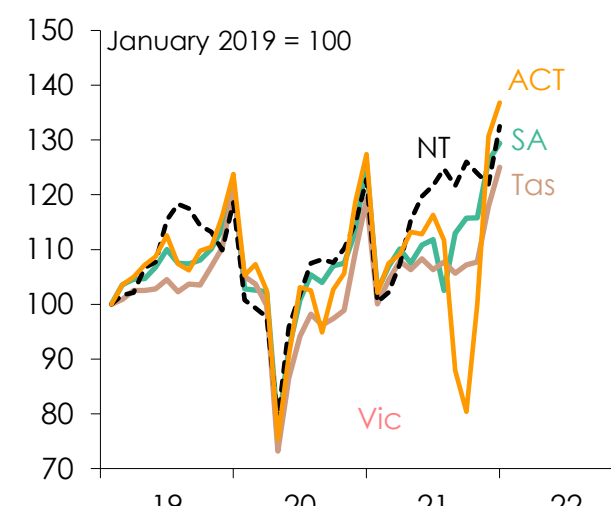
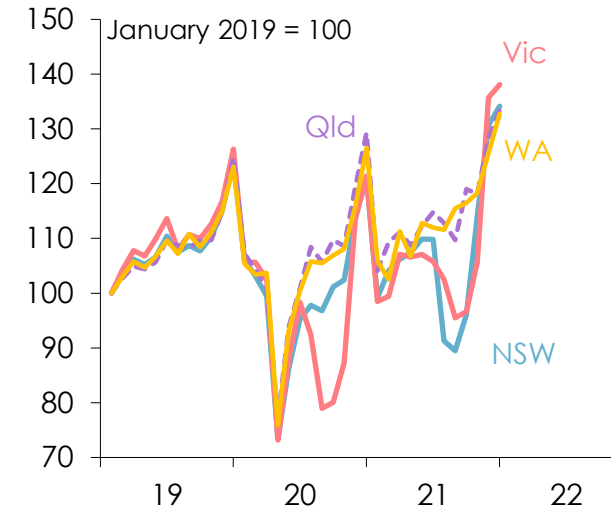
# The ABS' new household spending indicator, based on data from banks, shows how lockdowns affected different categories of spending

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Household spending by purpose



## By state & territory

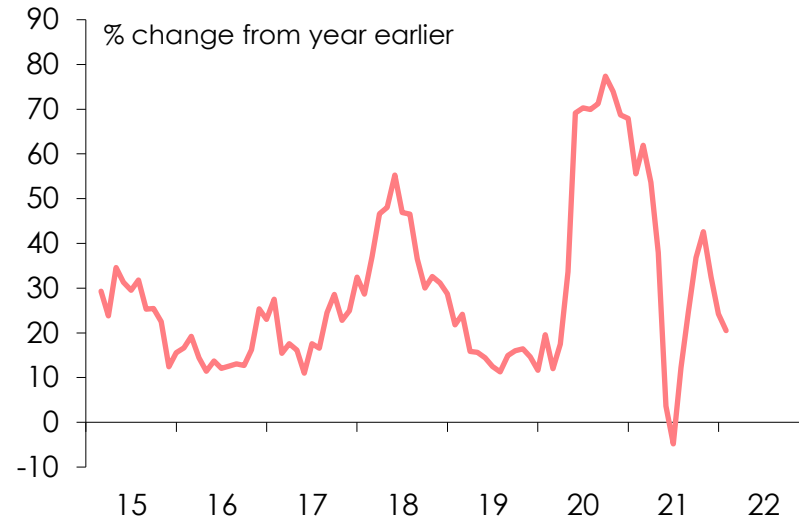


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week. Source: ABS, [Monthly Household Spending Indicator](#), December 2021. The ABS intends initially to publish this index eight weeks after the end of each month, and "over time" to reduce this publication lag.

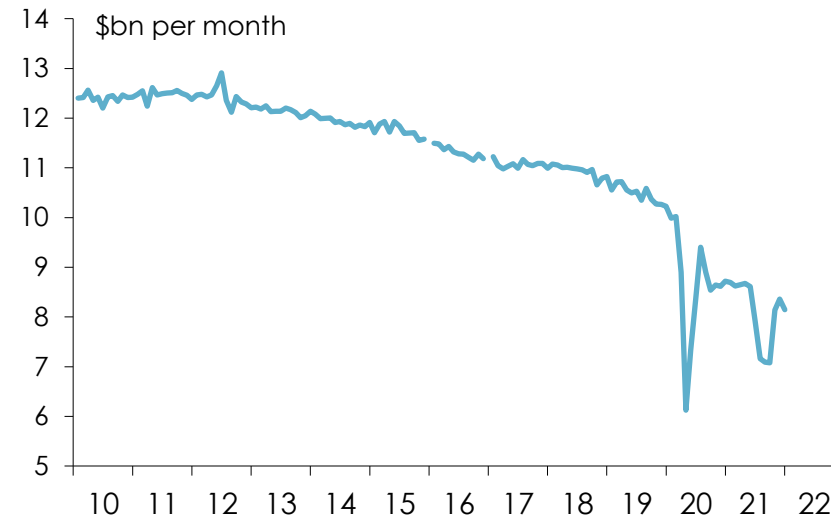
# Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

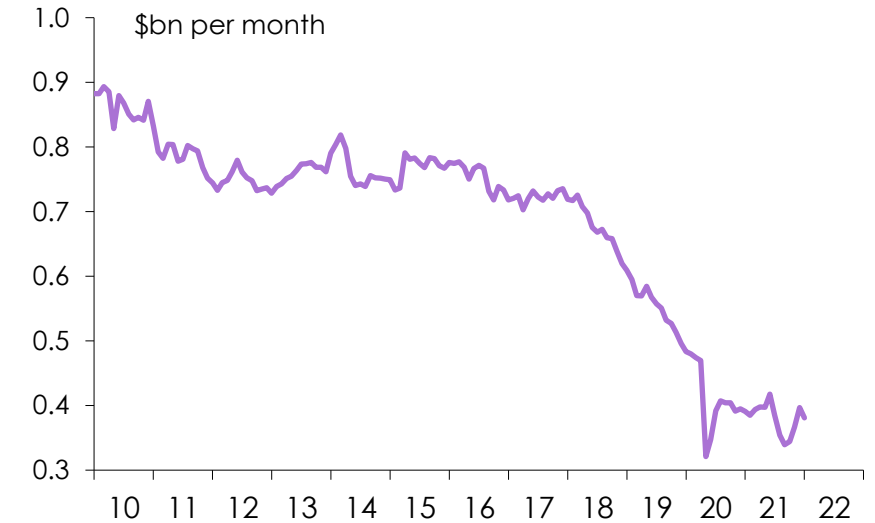
## Growth in online retail sales



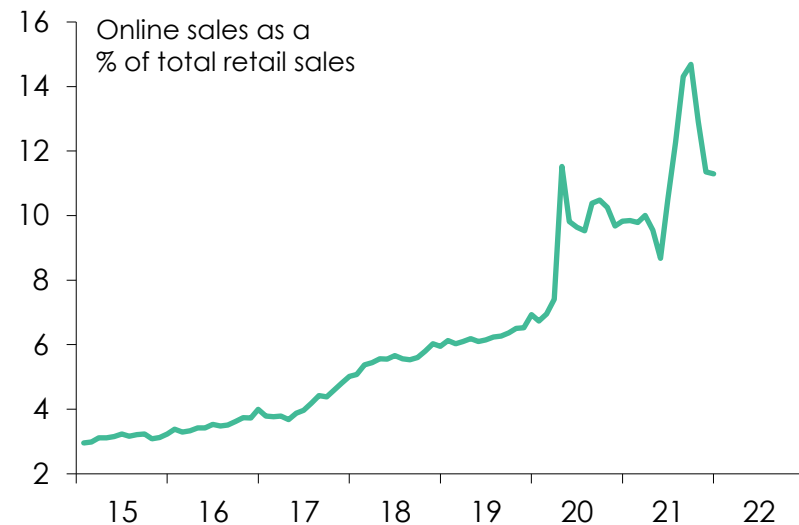
## ATM cash withdrawals



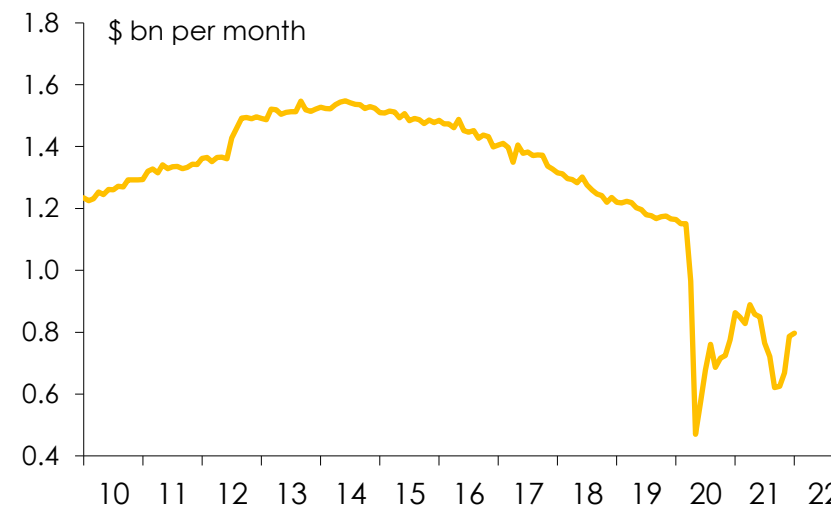
## Credit card cash advances



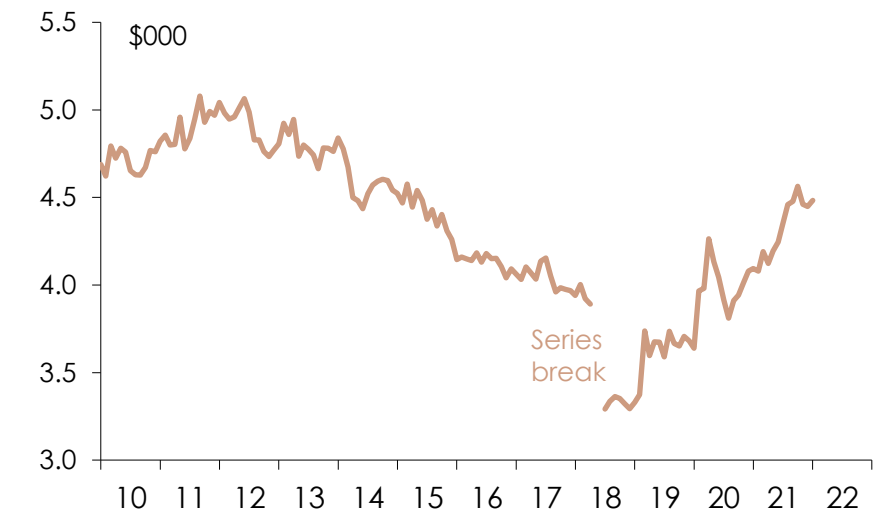
## Online retail 'market share'



## Debit card cash-outs



## Direct entry payments avge value



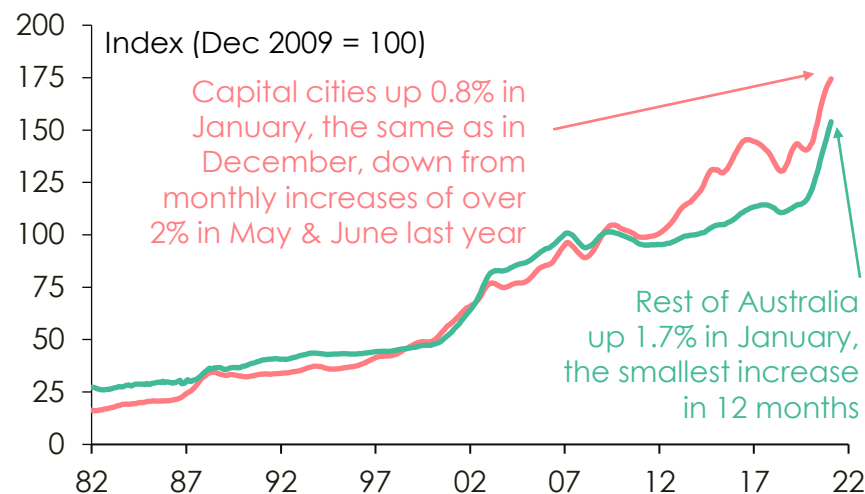
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for December. December online retail sales data will be published on 4<sup>th</sup> March and payments system data will both be published on 7<sup>th</sup> March. [Return to "What's New"](#).

# Housing and the residential property market

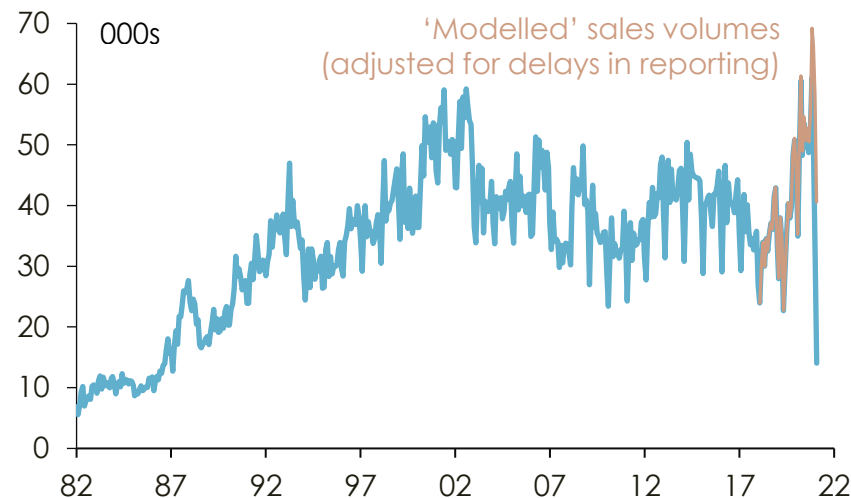
# Property prices rose 'only' 1.0% in January, the smallest increase in 12 months, continuing the slowing in monthly price gains since last June

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

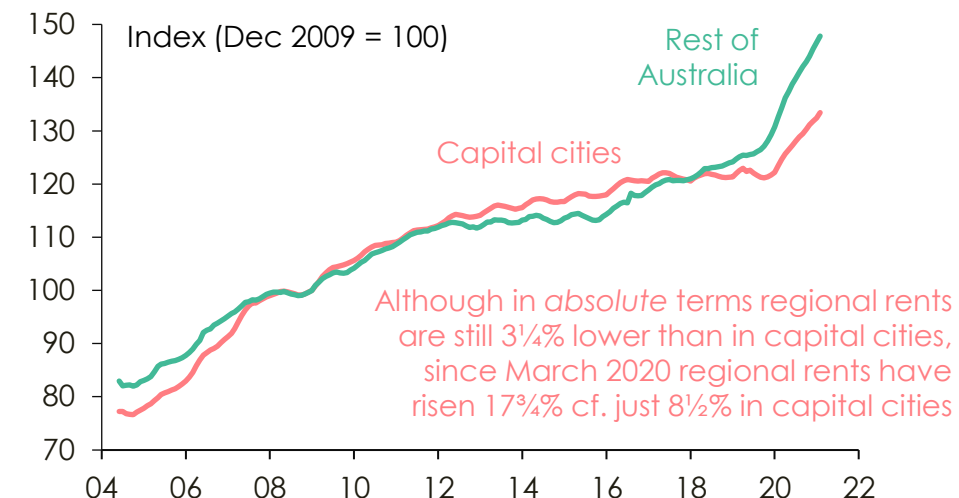
## Residential property prices



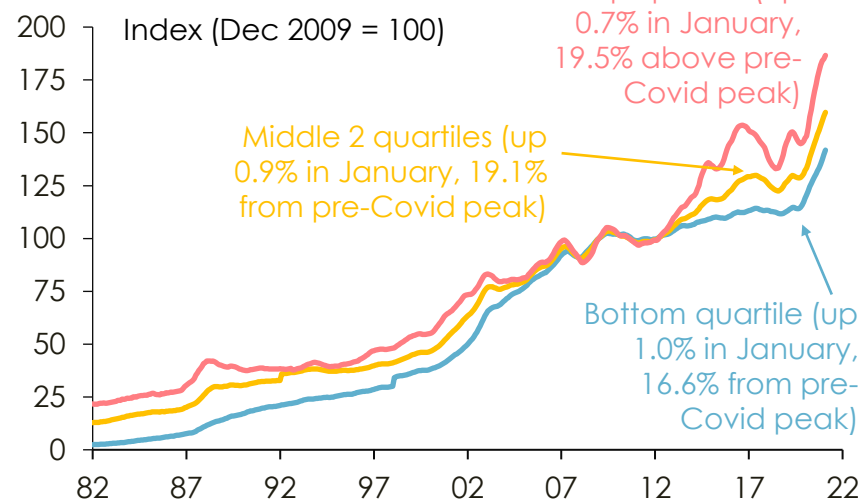
## Residential property sales volumes



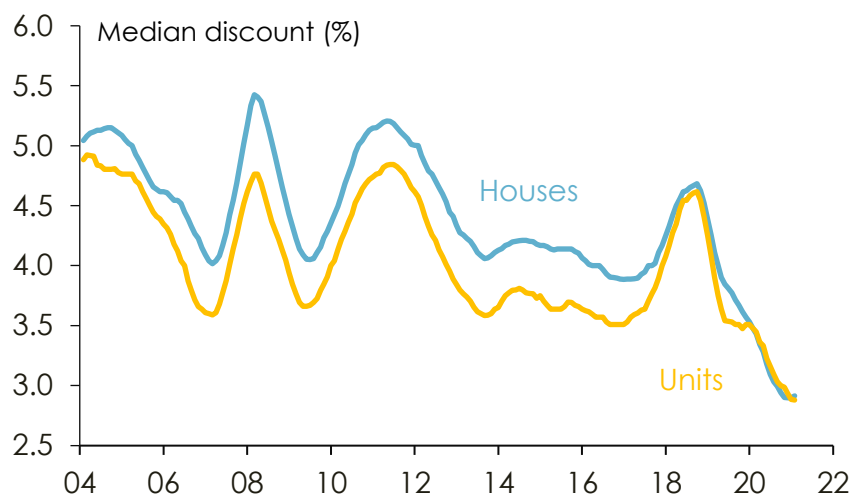
## Residential rents



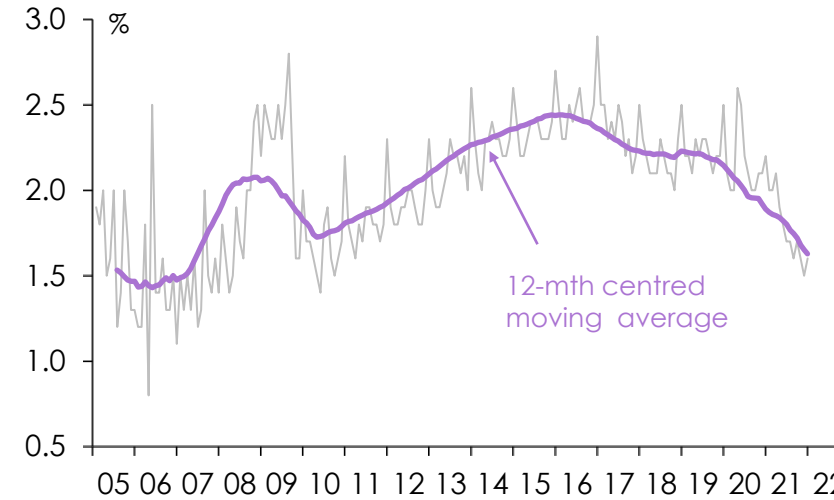
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

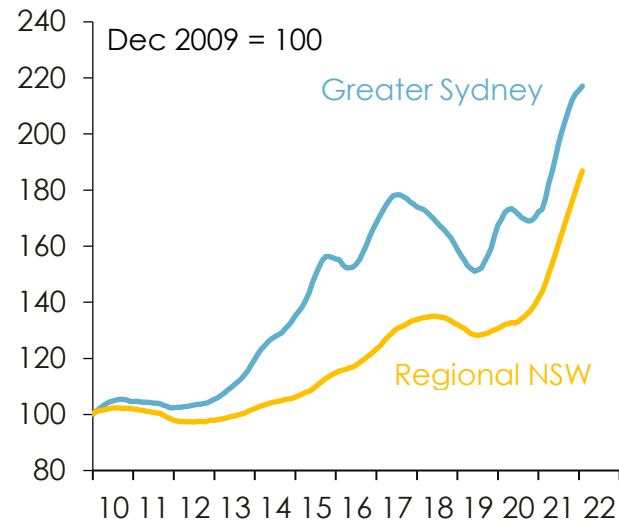


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of 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 January (except for vacancy rates which is December). February prices, sales volumes and rents data will be released on 1<sup>st</sup> March. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

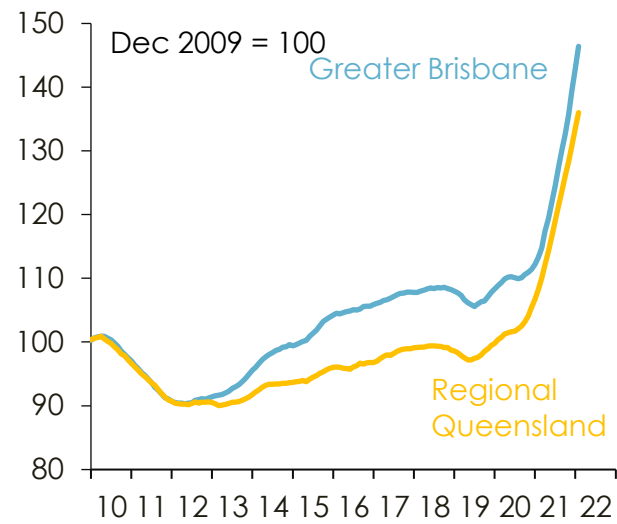
# Prices in Brisbane and Adelaide rose more than 2% last month, and along with Hobart and Canberra are more than 30% above pre-Covid levels

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

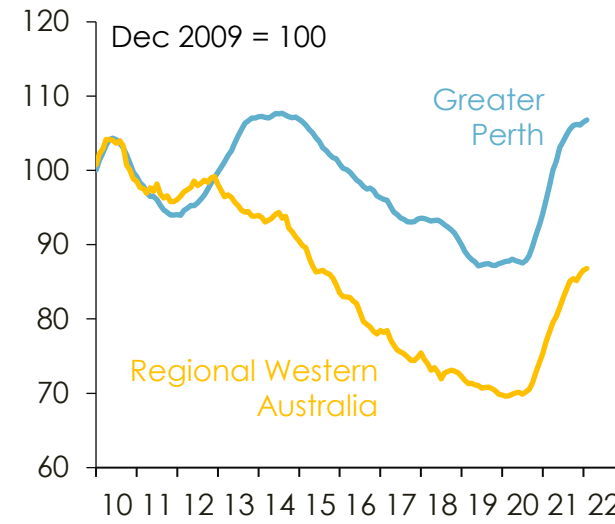
## New South Wales



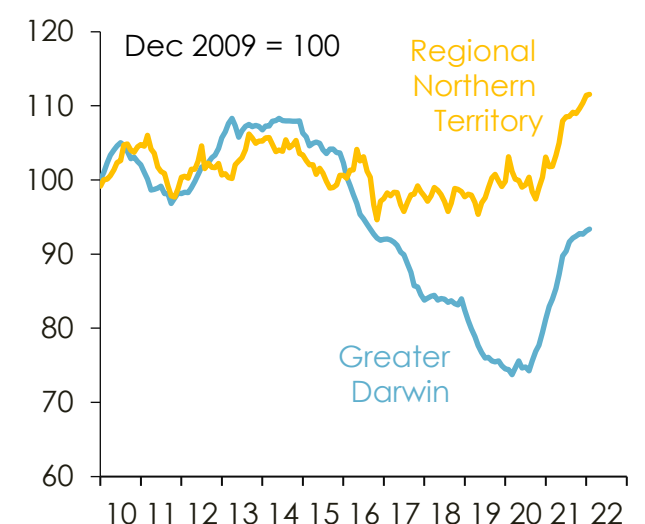
## Queensland



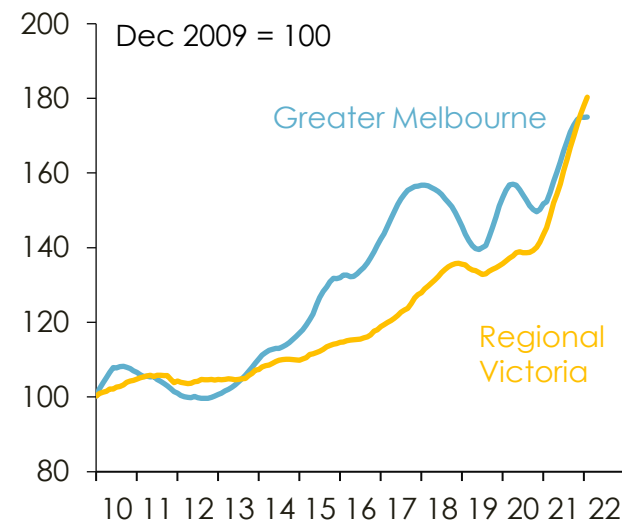
## Western Australia



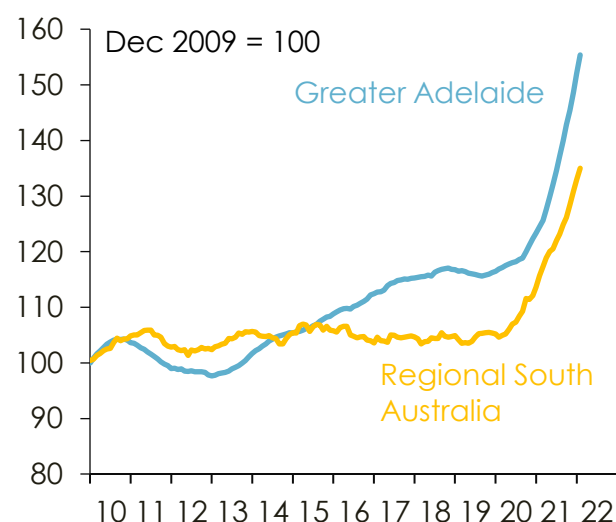
## Northern Territory



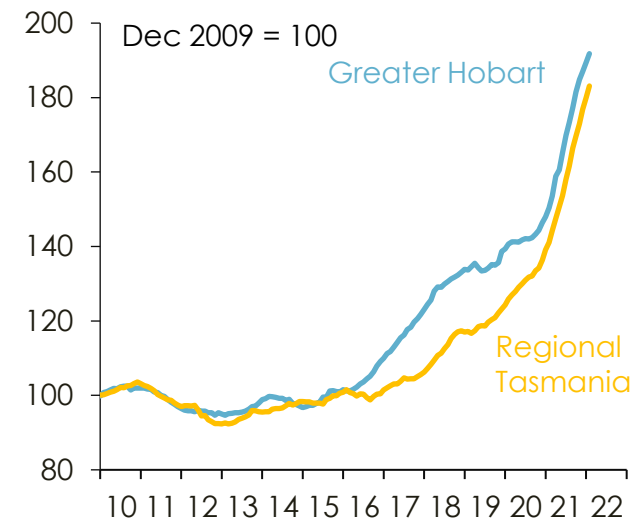
## Victoria



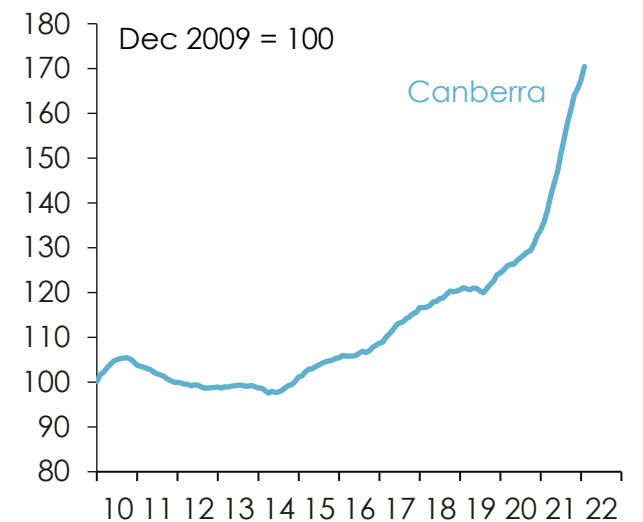
## South Australia



## Tasmania



## Australian Capital Territory



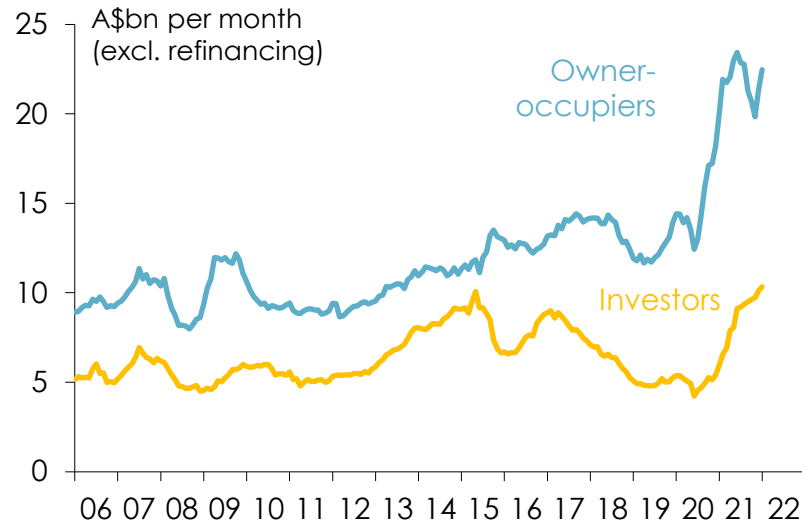
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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



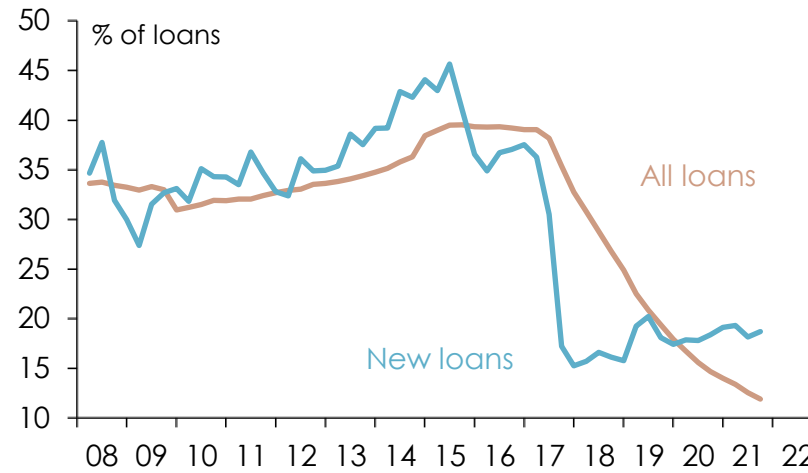
# Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

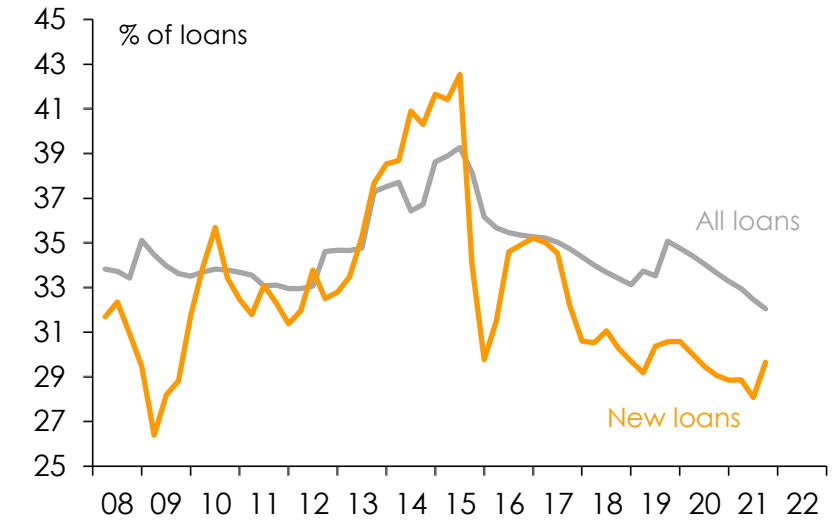
## Housing finance commitments



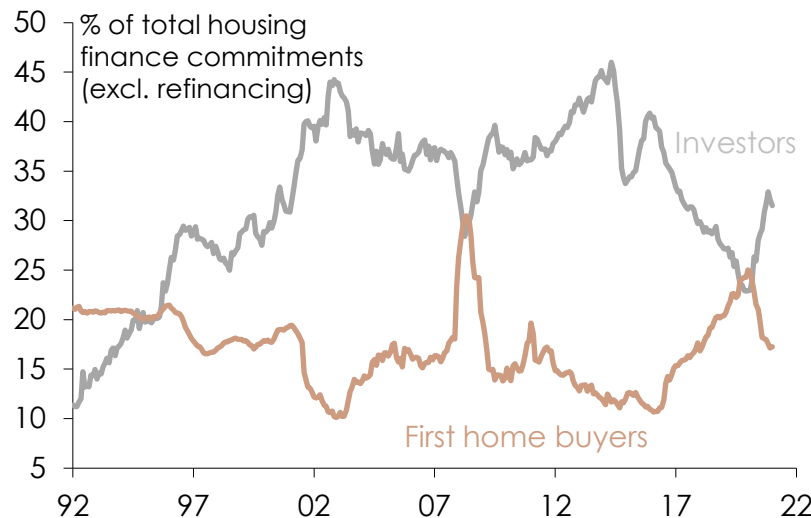
## Interest-only loans



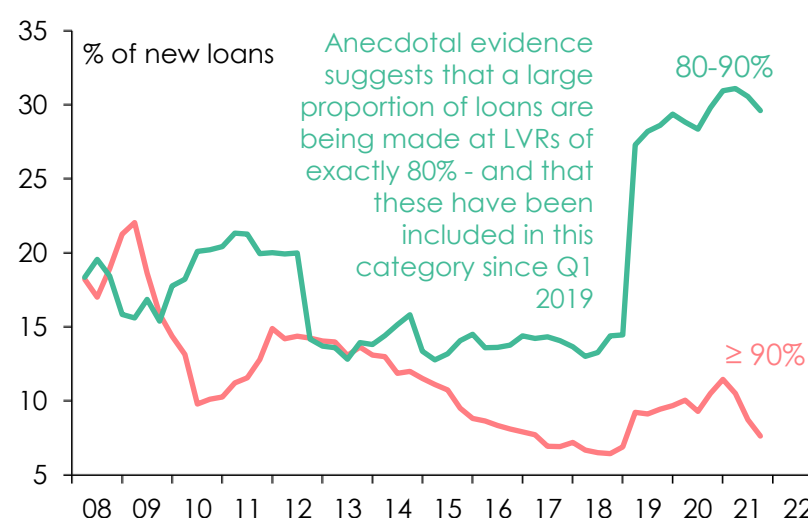
## Loans to investors as a pc of total



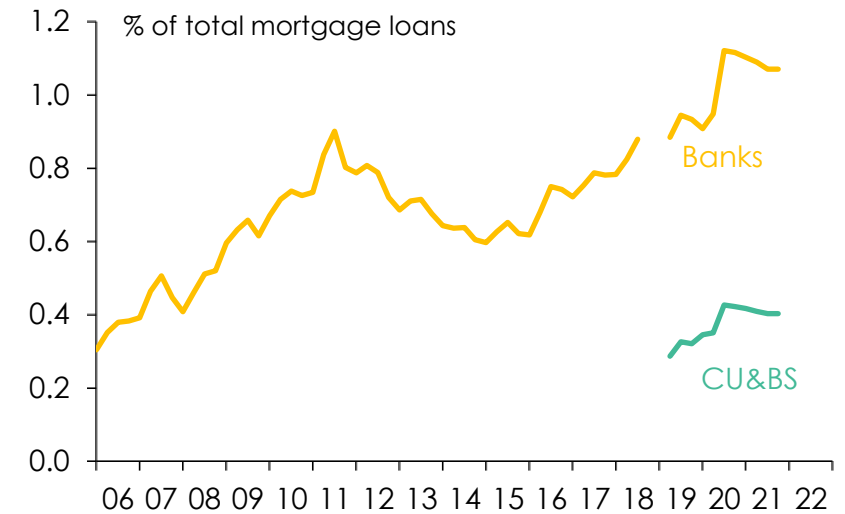
## Shares of housing finance



## High LVR loans as a pc of total



## Non-performing mortgage loans

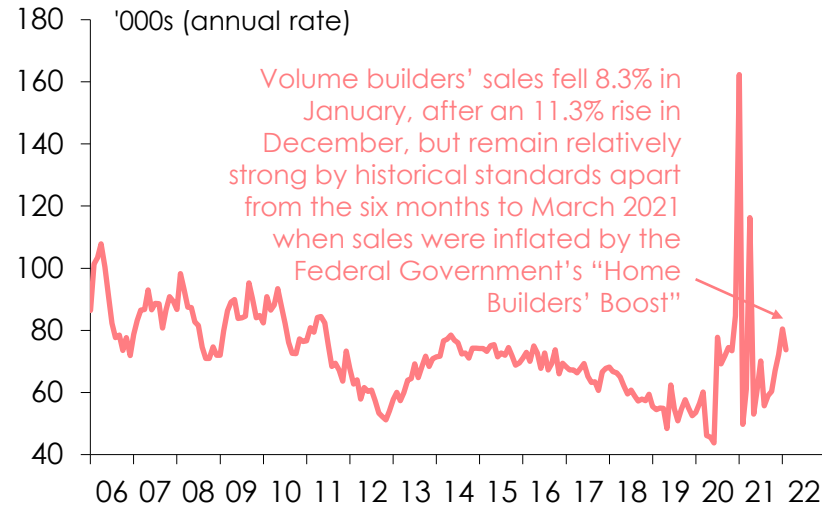


Sources: ABS, [Lending Indicators](#); Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). January housing finance data will be released on 1<sup>st</sup> March; December; APRA data on ADI property exposures for the December quarter will be released on 15<sup>th</sup> March. [Return to "What's New"](#).

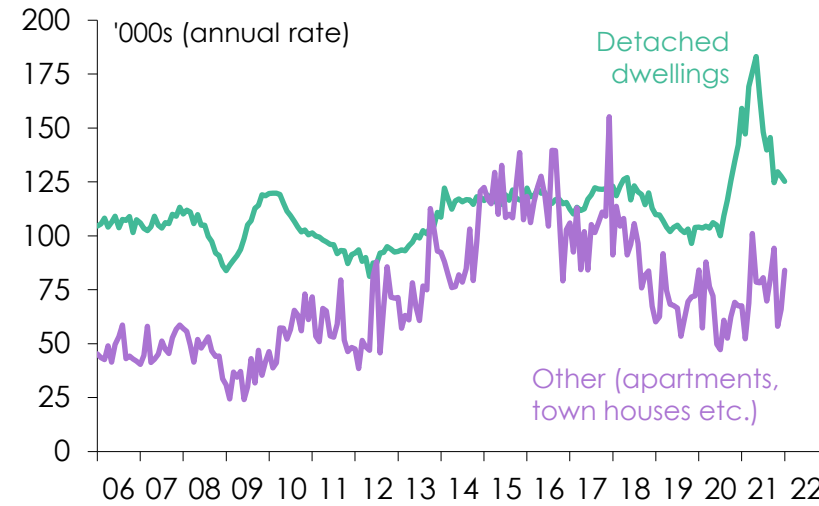
# Residential building approvals rose again in December, due to a surge in approvals for apartments, while renovation activity remained strong

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

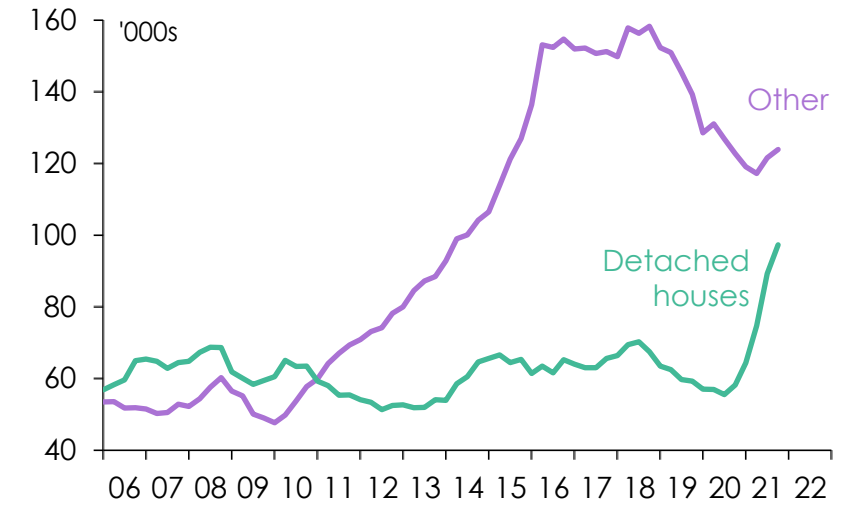
## Large builders' new home sales



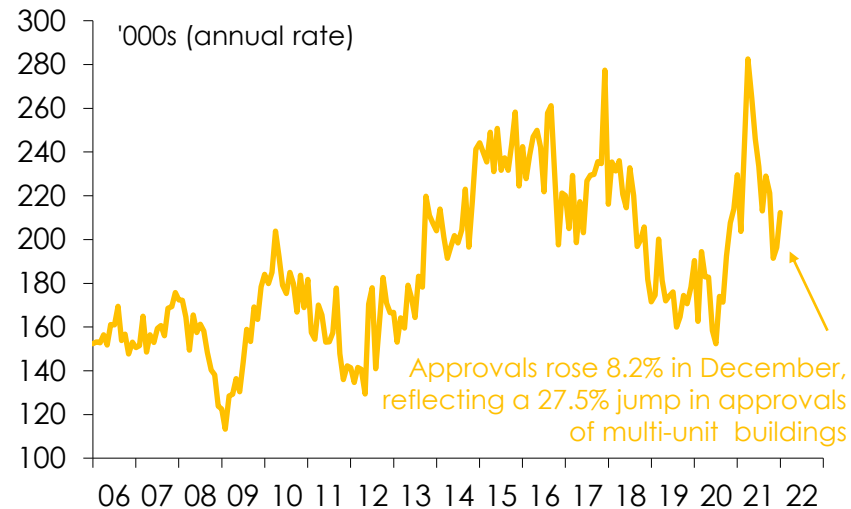
## Building approvals, by type



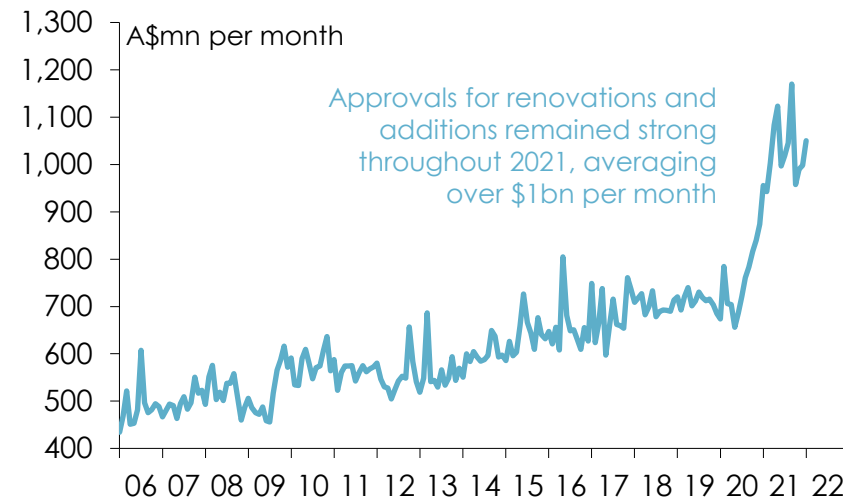
## Dwellings under construction



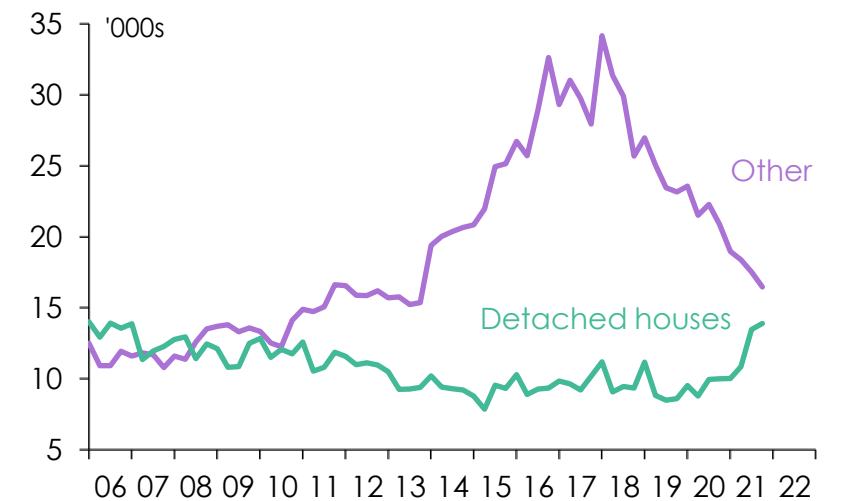
## Residential building approvals



## Alterations & additions approved



## 'Pipeline' of work yet to be started

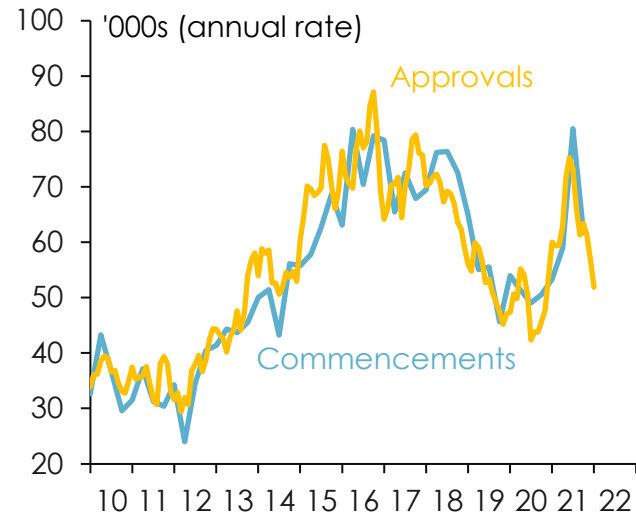


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. January building approvals data will be released on 3<sup>rd</sup> March; December quarter dwellings under construction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

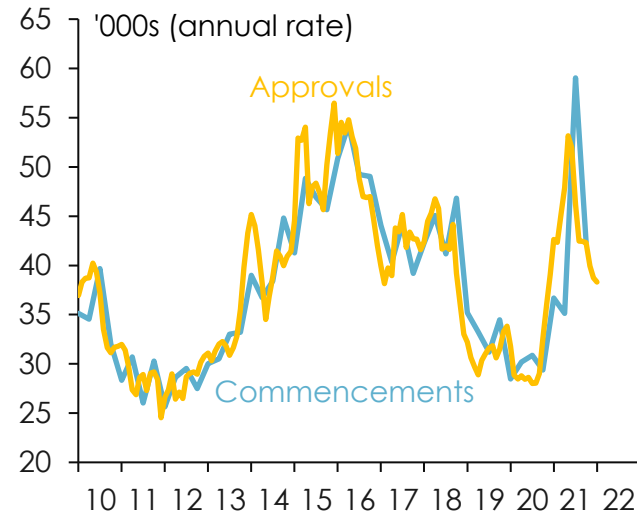
# Building approvals have fallen in every state since the end of the “First Home Builders’ Boost” scheme last March, but least in Victoria and SA

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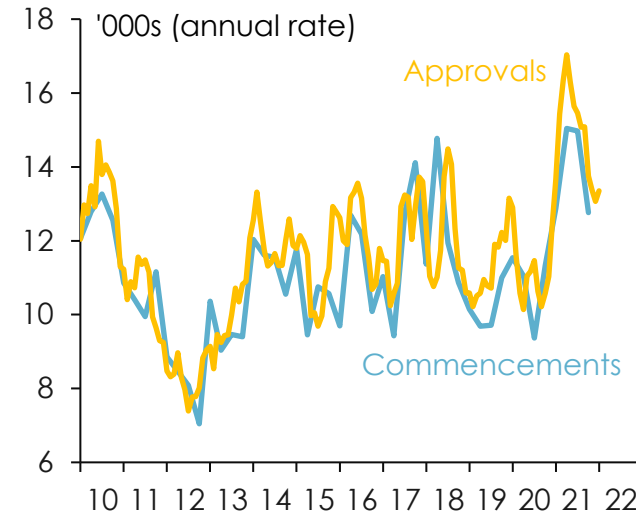
## New South Wales



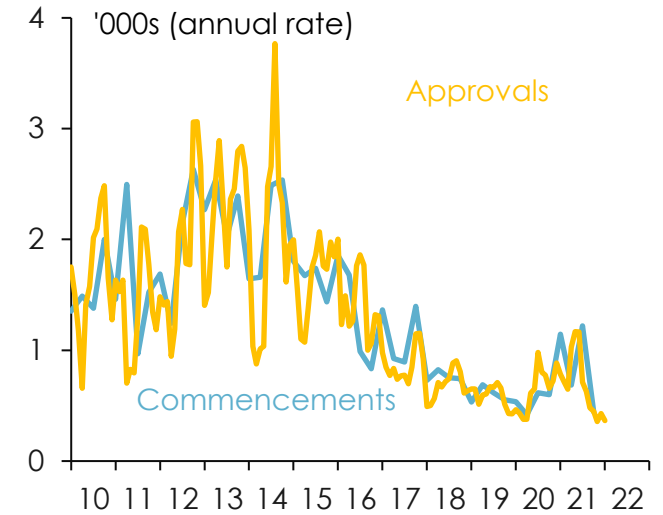
## Queensland



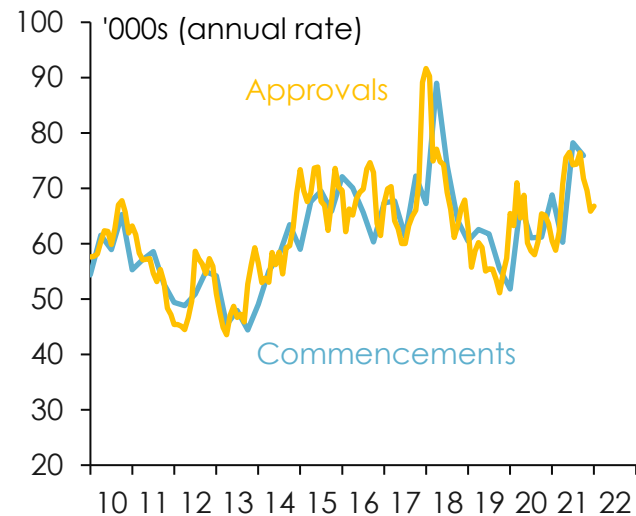
## South Australia



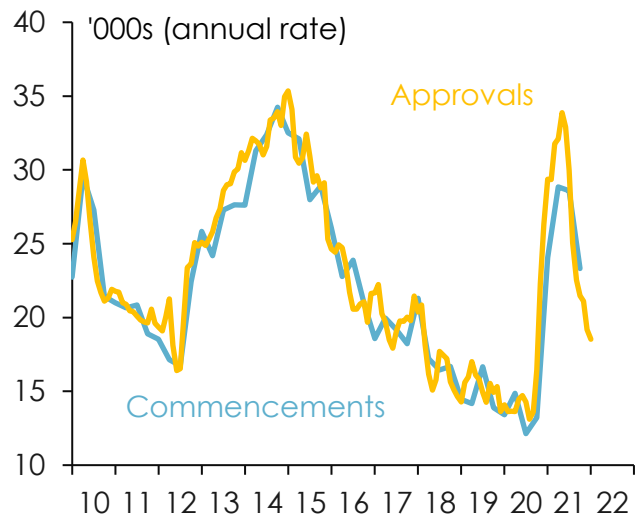
## Northern Territory



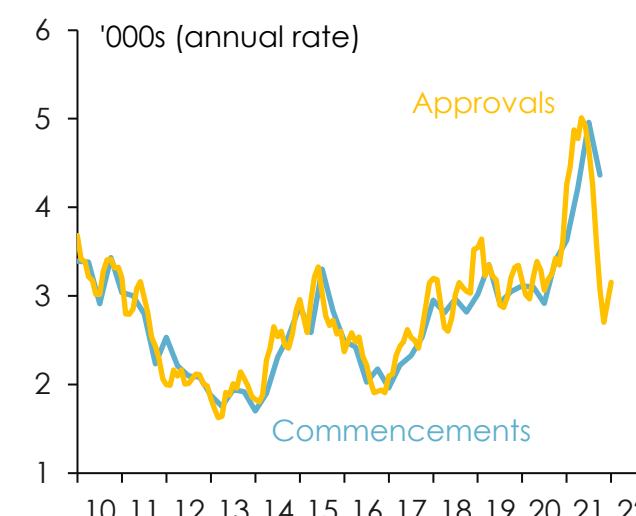
## Victoria



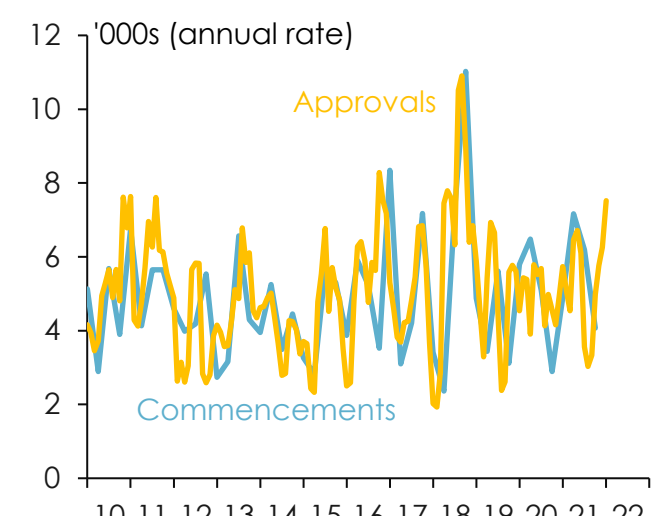
## Western Australia



## Tasmania



## Australian Capital Territory



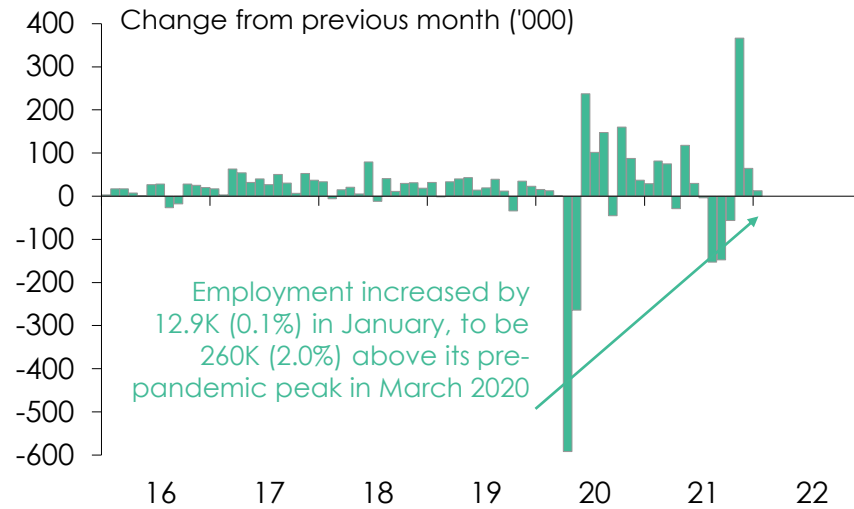
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly.  
Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to "What's New"](#).

# The labour market

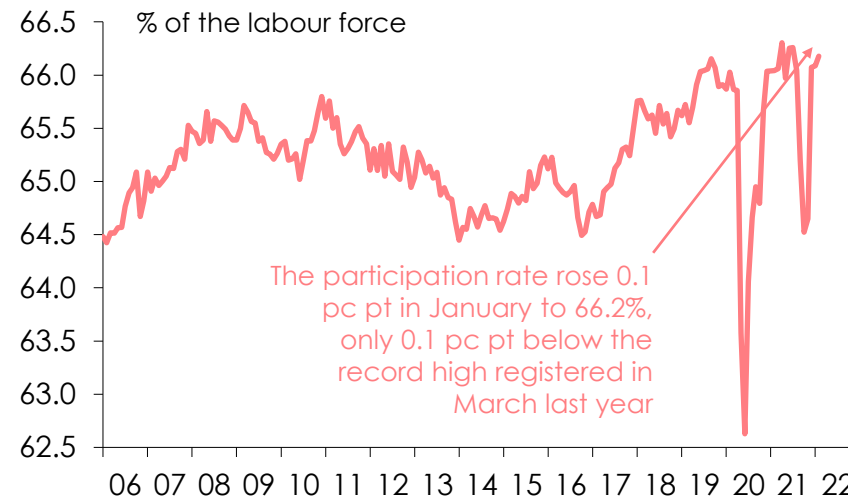
# Employment rose 0.1% in January, but a large number of people weren't able to go to work because of omicron, resulting in an 8.8% fall in hours

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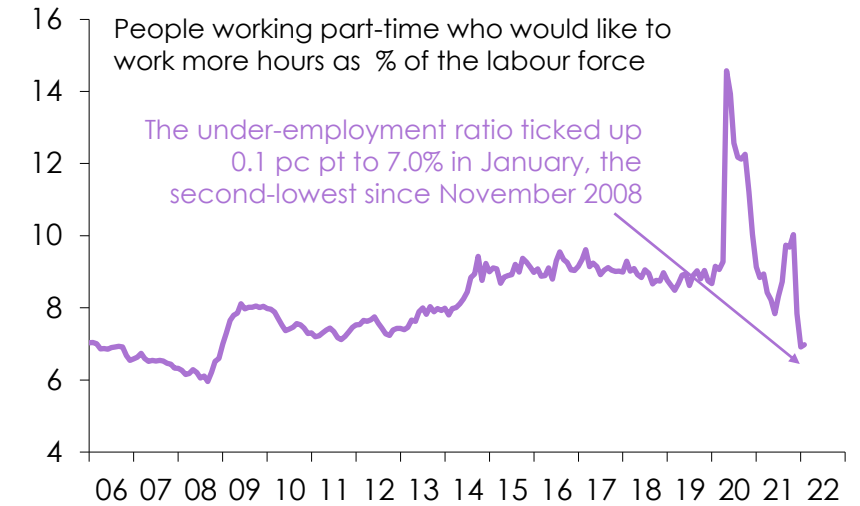
## Employment



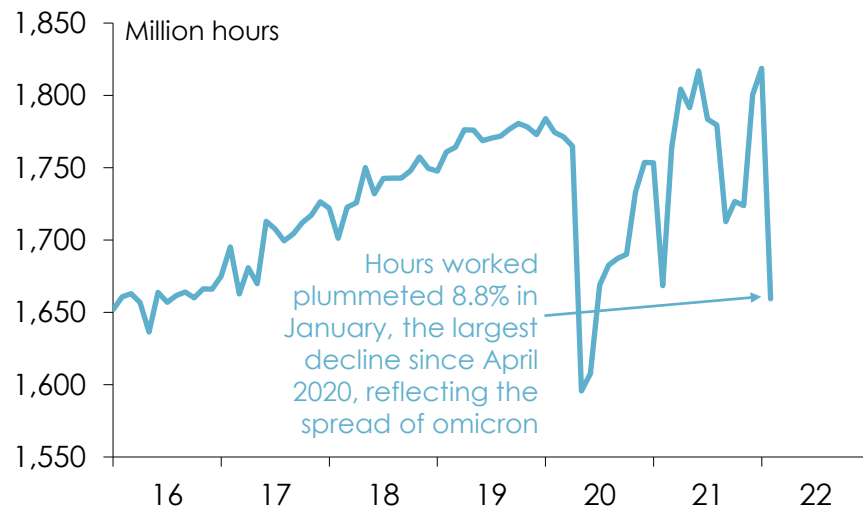
## Labour force participation rate



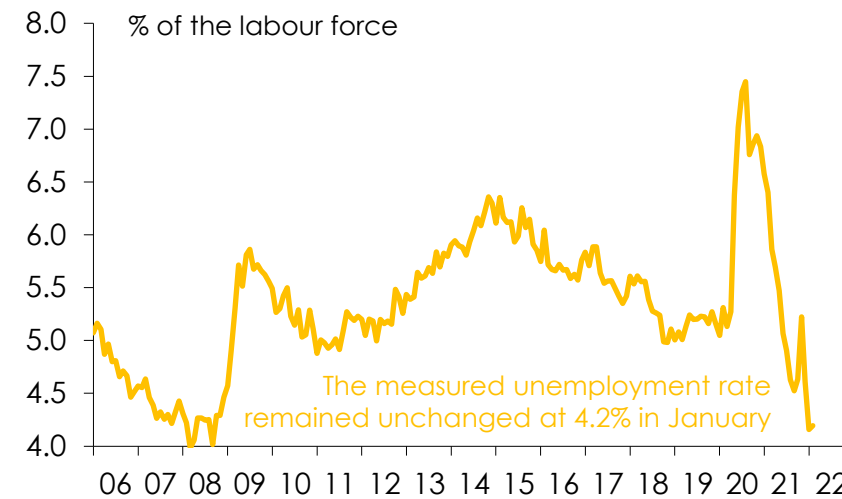
## Under-employment ratio



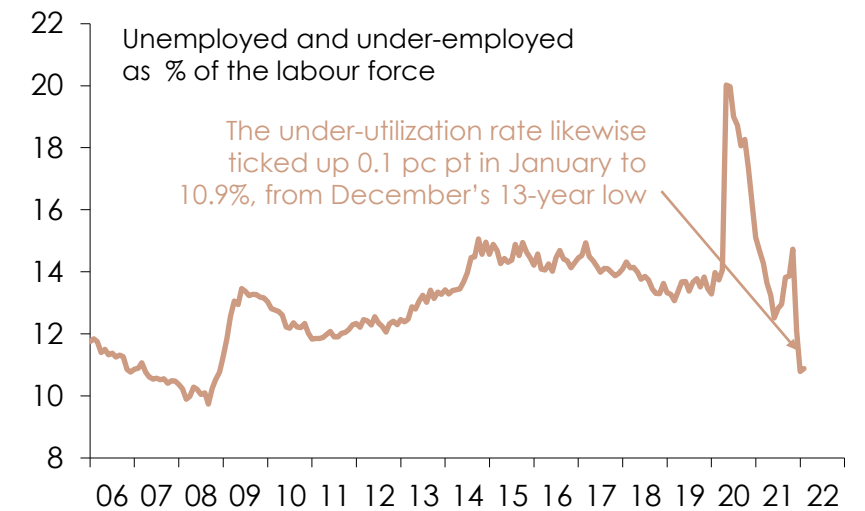
## Total hours worked



## Unemployment rate



## 'Under-utilization' rate

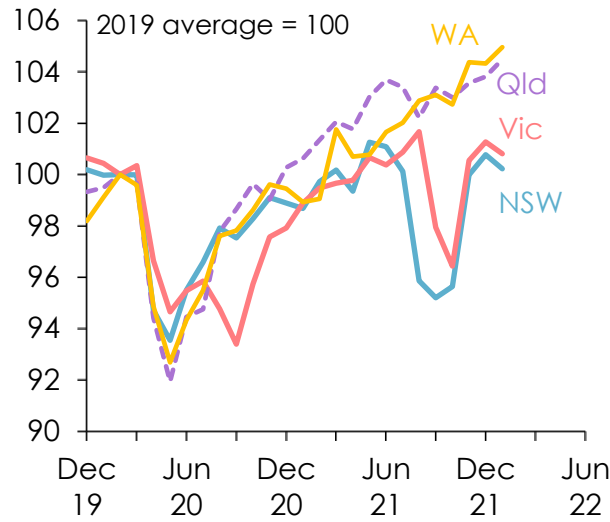


Source: ABS, [Labour Force, Australia](#), January. February data will be released on 17<sup>th</sup> March. [Return to "What's New"](#).

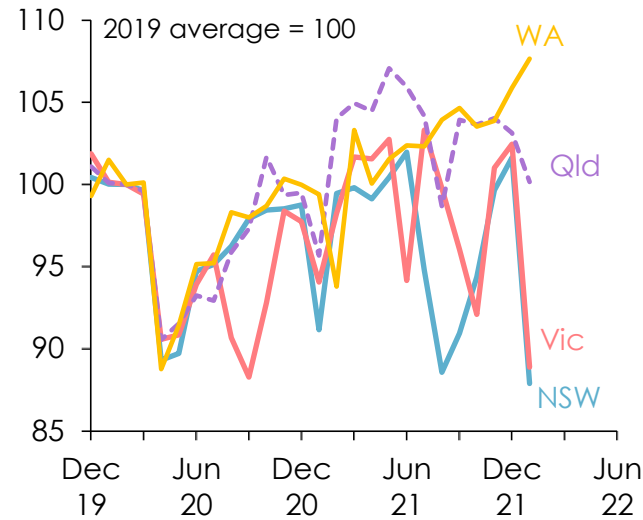
# New South Wales and Victoria again accounted for most of the jobs gains in December – but employment hasn't fully recovered in the ACT

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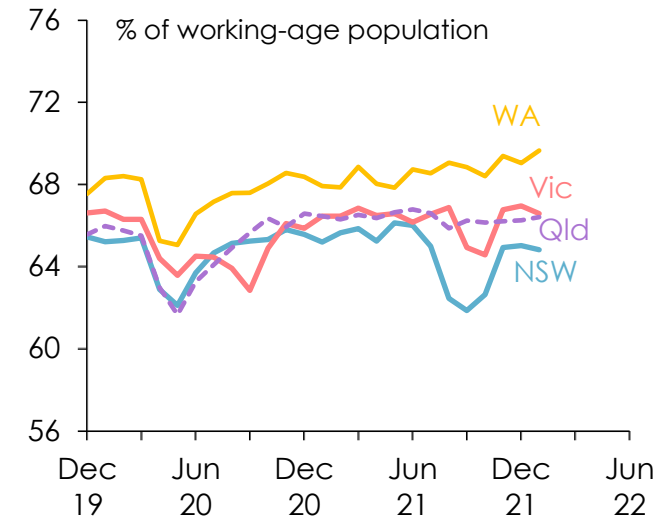
## Employment



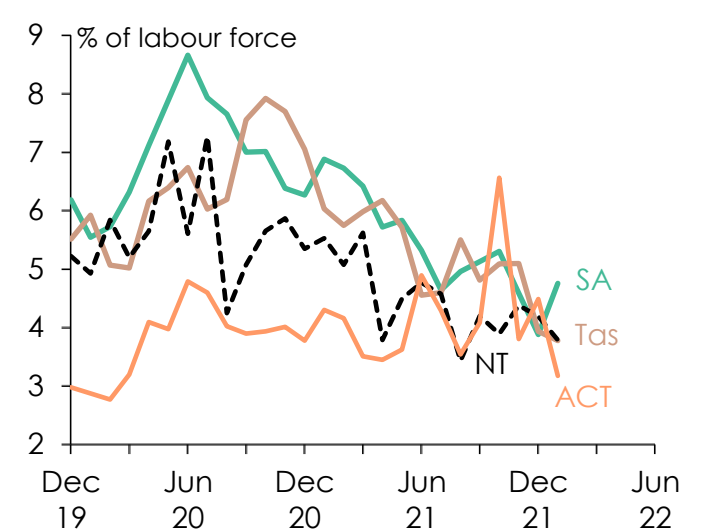
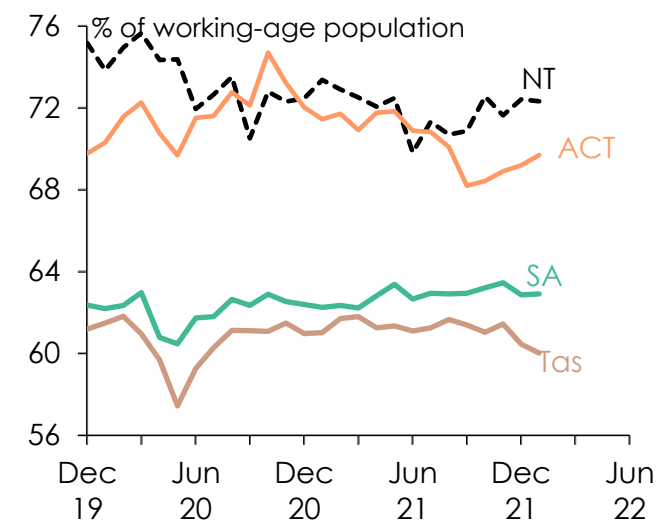
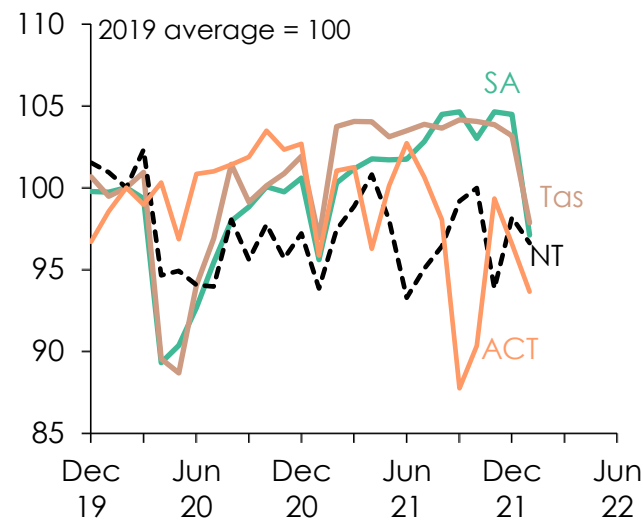
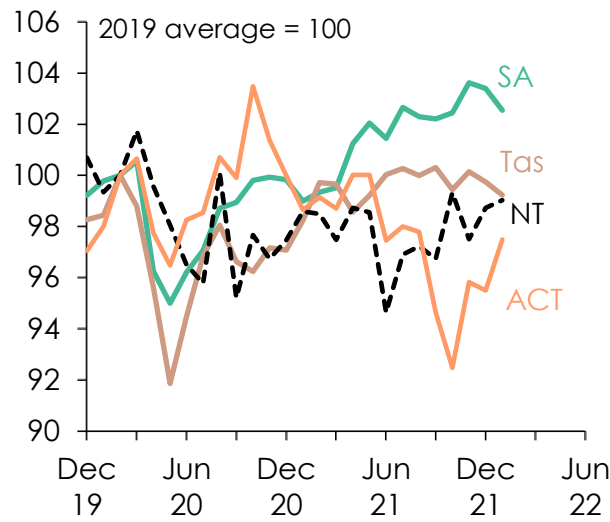
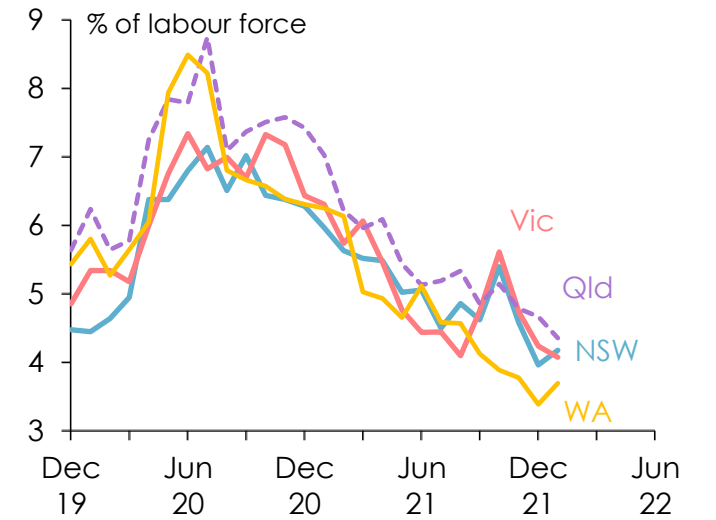
## Hours worked



## Participation rates



## Unemployment rates

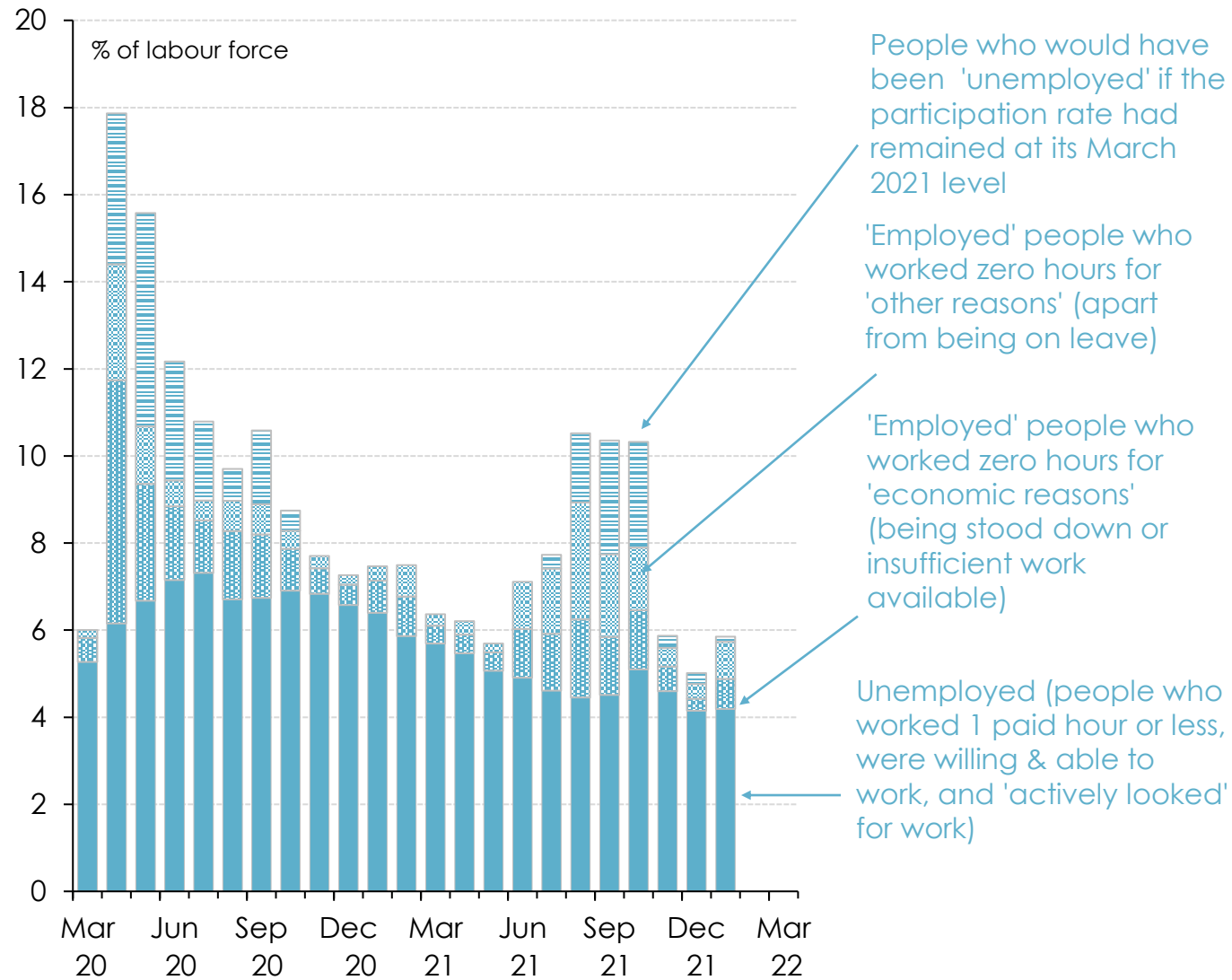


Source: ABS, [Labour Force, Australia](#), January. February data will be released on 17<sup>th</sup> March. [Return to "What's New"](#).

# The 'effective' unemployment rate rose to 5.8% in January, from 5.0% in December, but well below the 10.3-10.5% rates of August-October last year

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Alternative measures of unemployment



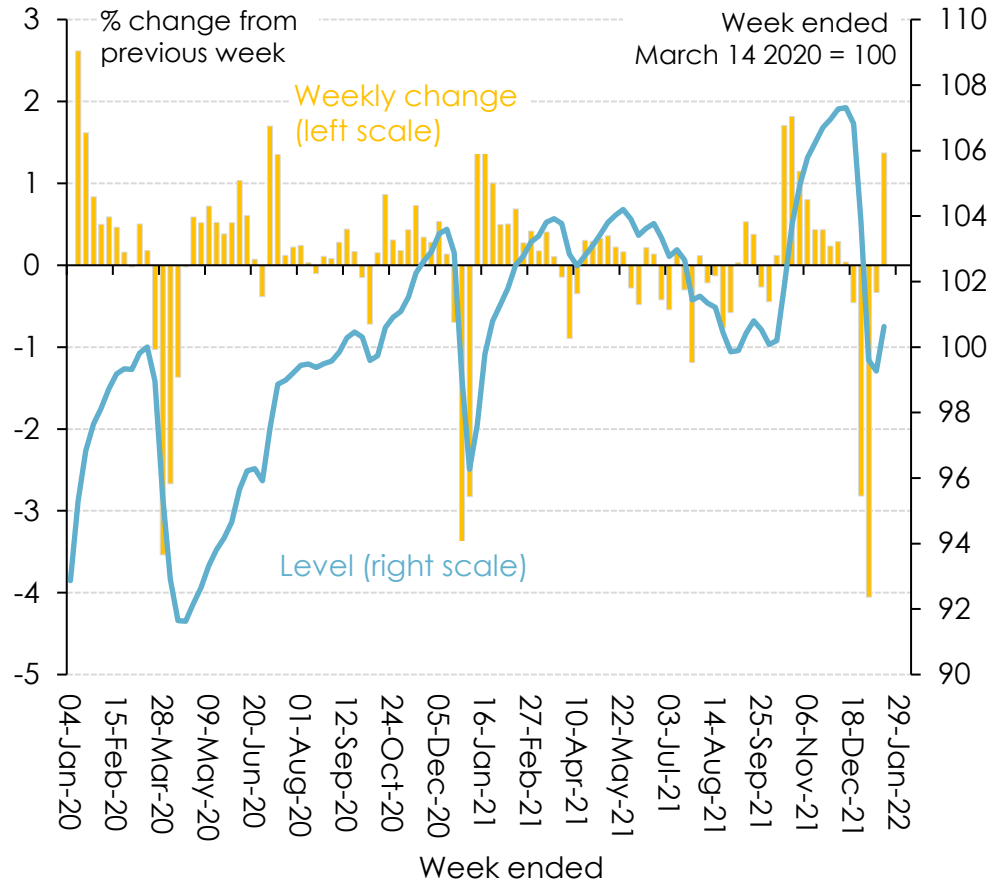
Note: the data on people working zero hours is not seasonally adjusted.  
 Source: ABS, [Labour Force, Australia](#), January. February data will be released on 17<sup>th</sup> March.  
[Return to "What's New"](#).

- ❑ 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; while the number of people counted as 'employed' but who worked zero hours for 'other reasons' (apart from being on leave), which peaked at 371K in August, fell to 46K in December
- ❑ 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
- ❑ In January, the number of people counted as 'employed' but working zero hours of 'economic' reasons rose to 96.5K (some of which may be seasonal), while the number working zero hours for 'other' reasons (apart from being on leave) rose to 117.9K
- ❑ There were also 15.7K people who at face value appear to have remained out of the labour force since the beginning of lockdowns in mid-2021
- ❑ Adding these categories of people back to the 'official' count of unemployed people gives an 'effective' unemployment rate in January of 5.8%, up from 5.0% in December but well below the 10.3-10.5% rates recorded in August, September and October
- ❑ Note these numbers don't include the 3.25mn workers taking annual leave in January (almost 500K more than in January last year) or the 450K (cf. the average since April 2020 of 134K) working zero hours because they were on sick leave

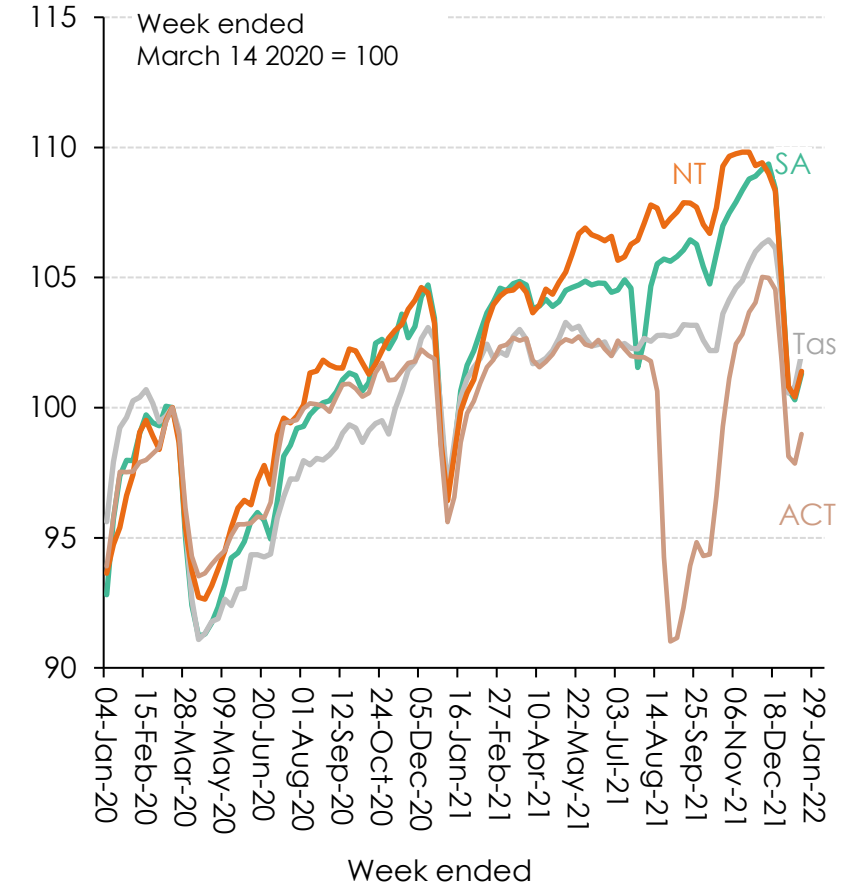
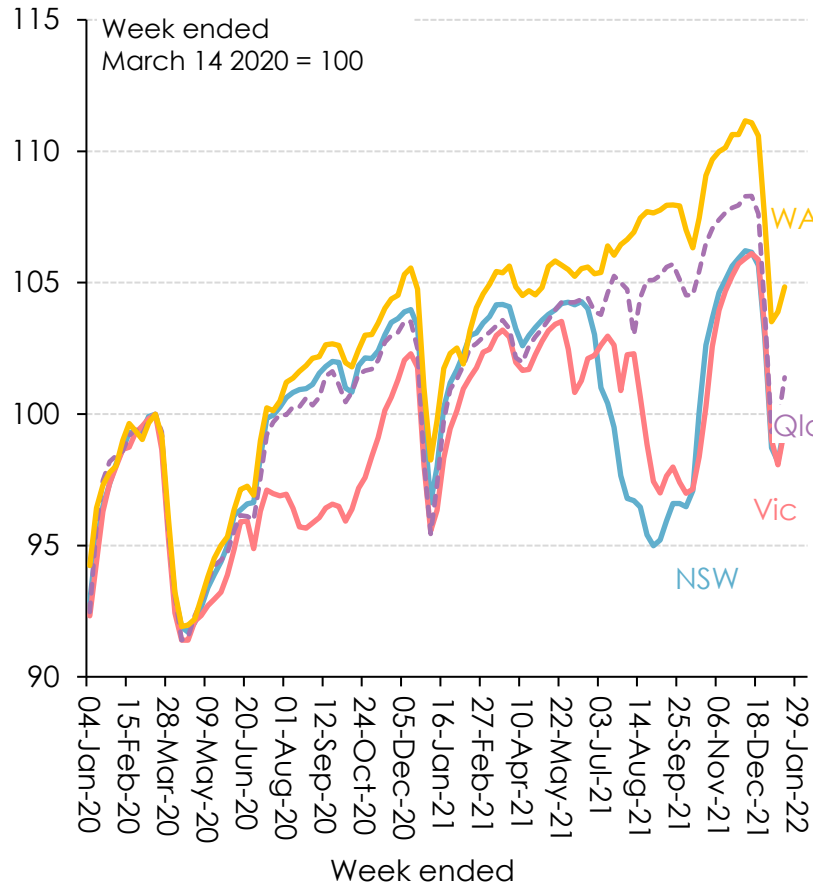
# Payroll jobs recovered less rapidly in the first two weeks of this year from the normal end-year downturn than they did in the first two weeks of 2021

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Level and weekly change in the number of payroll jobs



## Payroll jobs by State & Territory



❑ **The number of payroll jobs fell by 7.2% over the last three weeks of December 2021, similar to what occurred in 2020 – but rose by only 1.0% over the first two weeks of January, cf. a rise of 3.7% over the first two weeks of 2021**

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"](#).

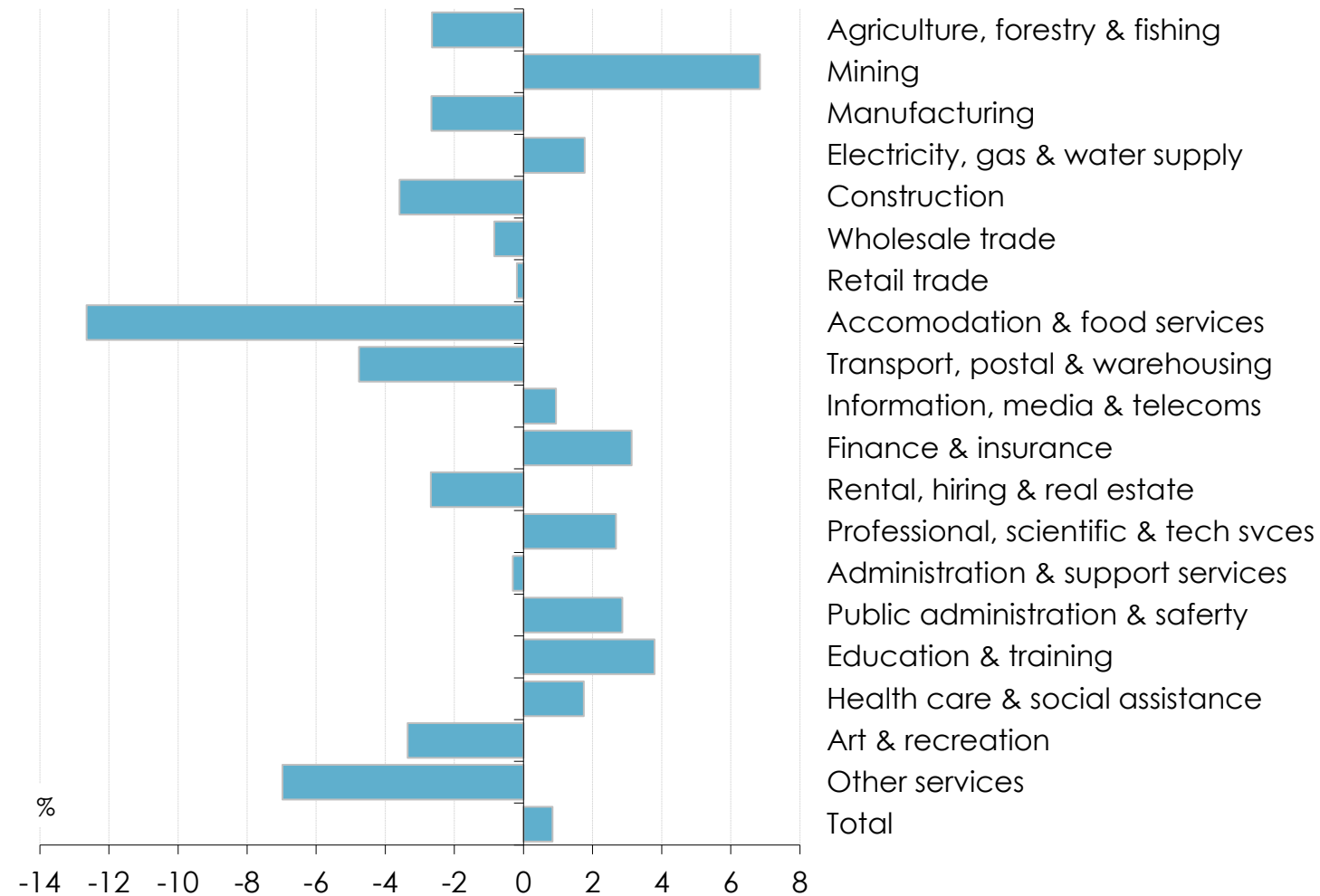


# The largest falls in payroll jobs over the past year have been in tourism & hospitality-related sectors, transport and construction

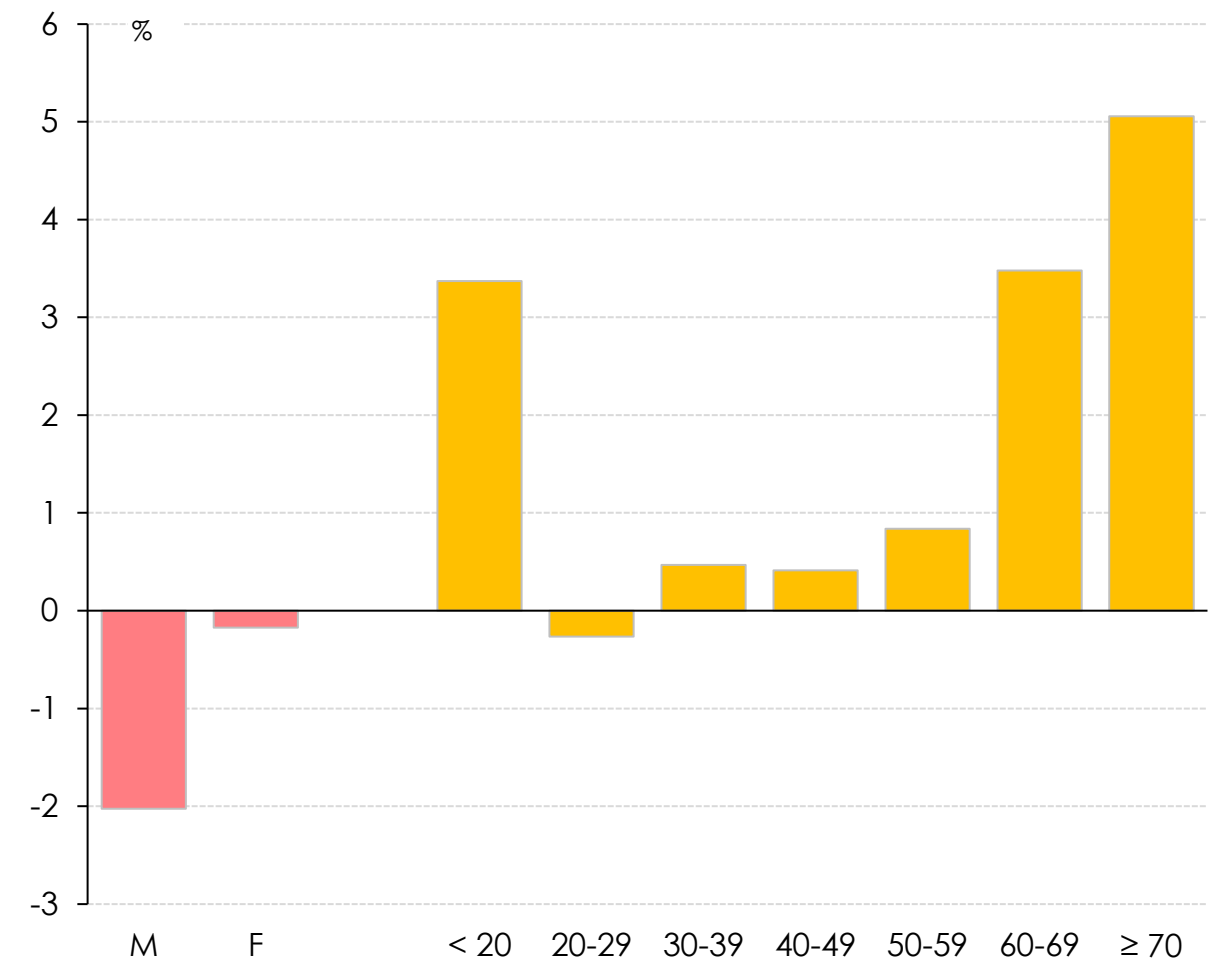
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Net change in payroll jobs between week ended 16<sup>th</sup> January 2021 and week ended 15<sup>th</sup> January 2022

### By industry



### By gender and age

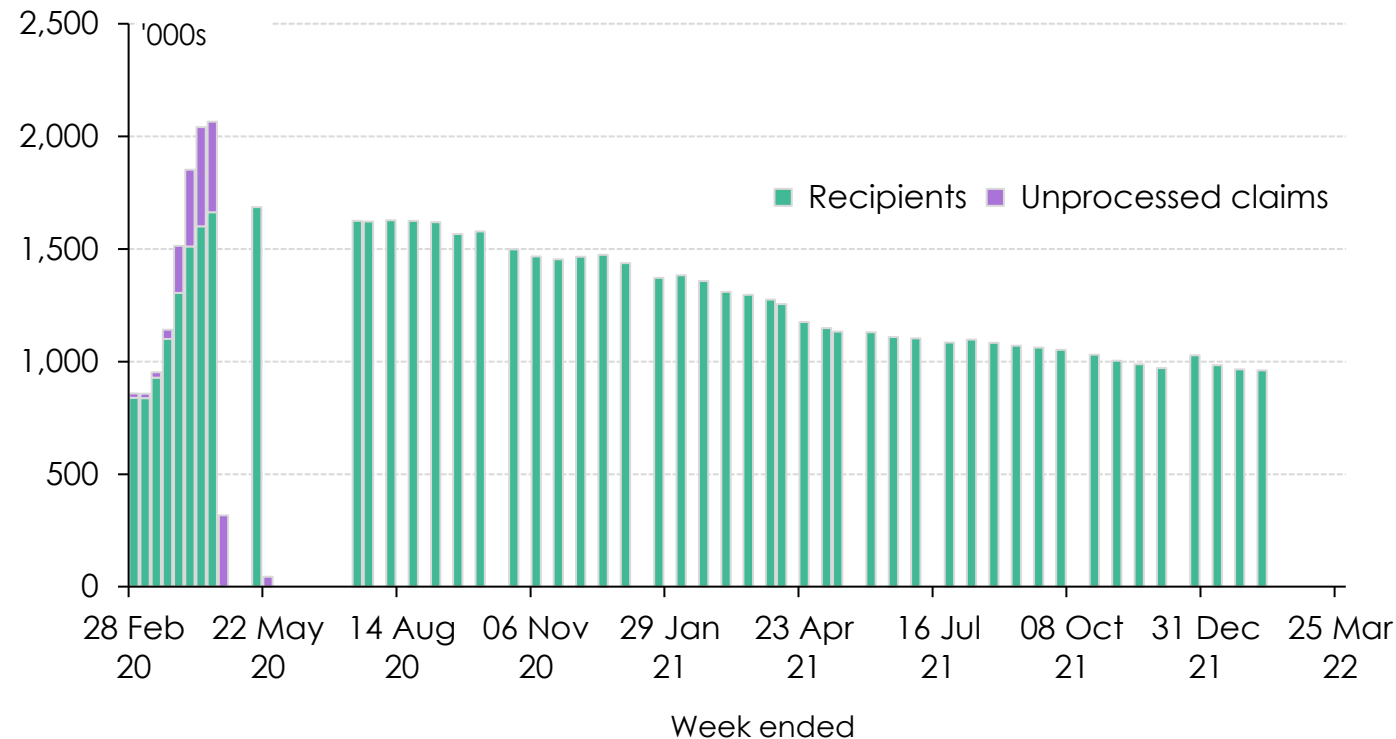


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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"](#).

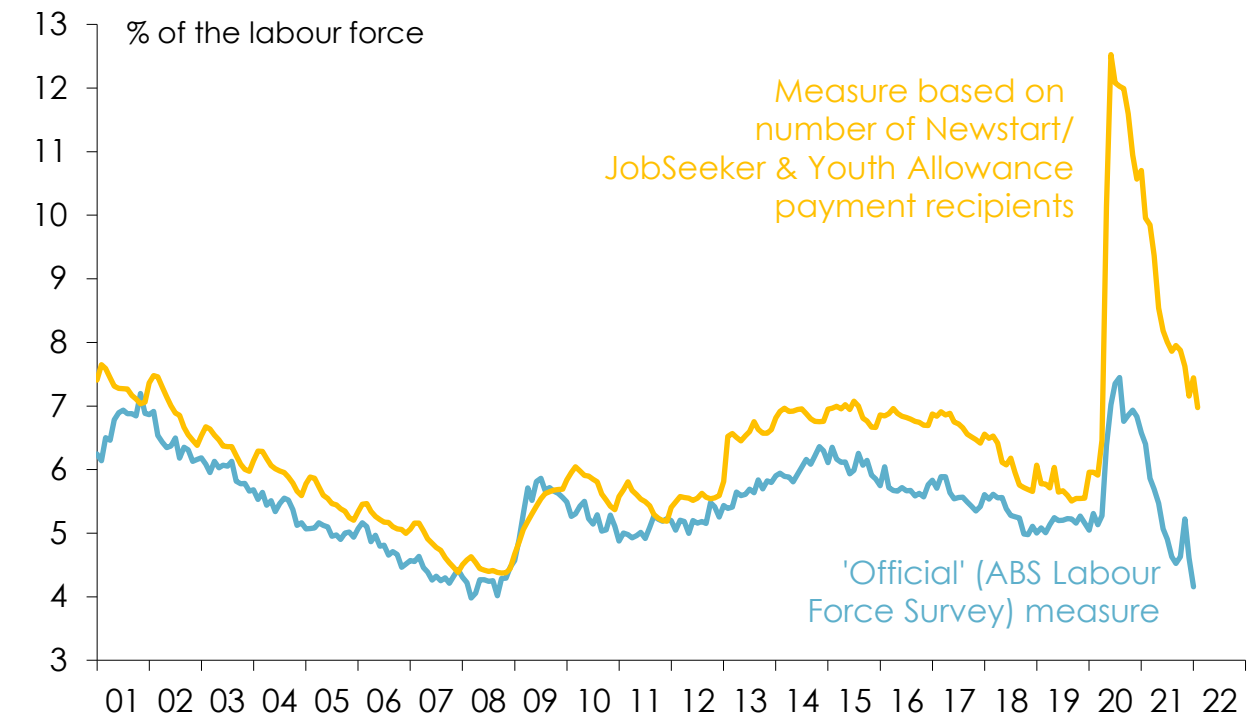
# The number of people receiving joblessness-related income support payments in mid-February was the lowest since the onset of Covid-19

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## 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



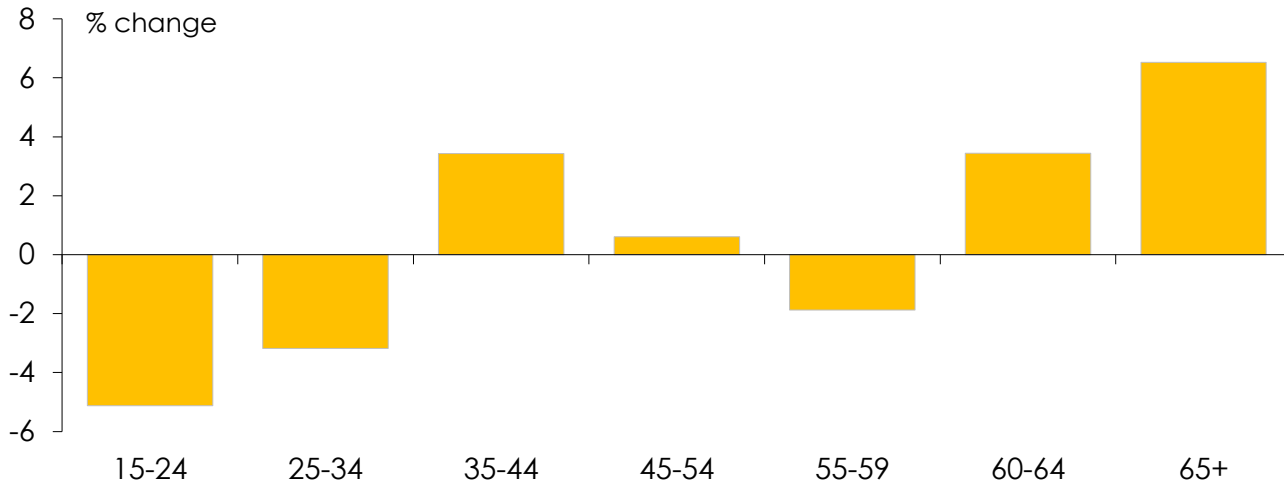
- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by 3,460 (0.4%) between 28<sup>th</sup> January and 11<sup>th</sup> February - the lowest number since 20<sup>th</sup> March 2020, ie since the onset of Covid-19

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

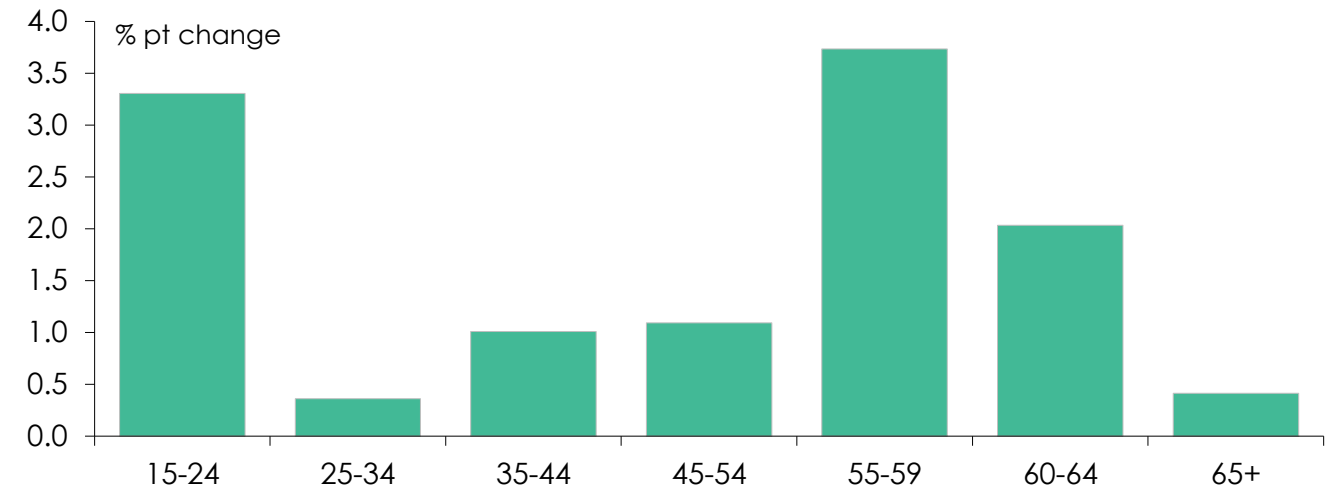
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Changes over the two years to January 2022, by age groups

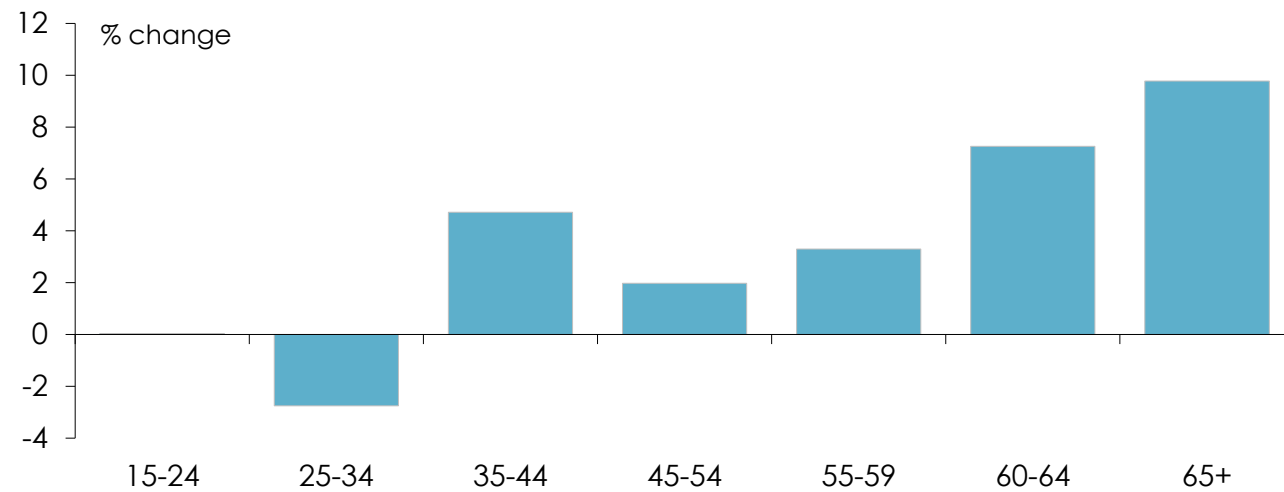
### Civilian working age population



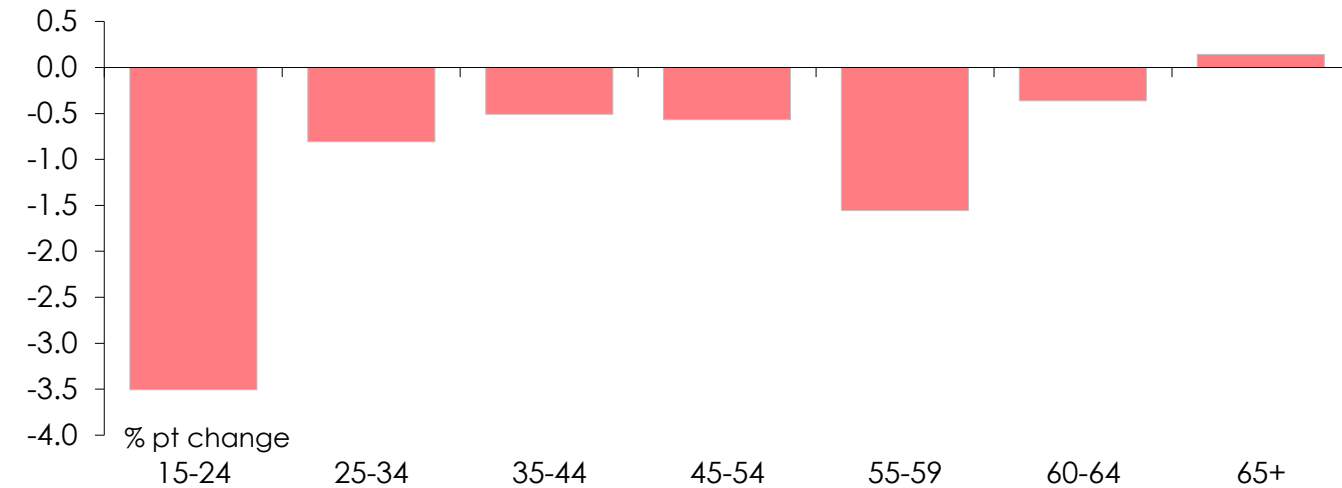
### Employment-population ratio



### Employment



### Unemployment rates



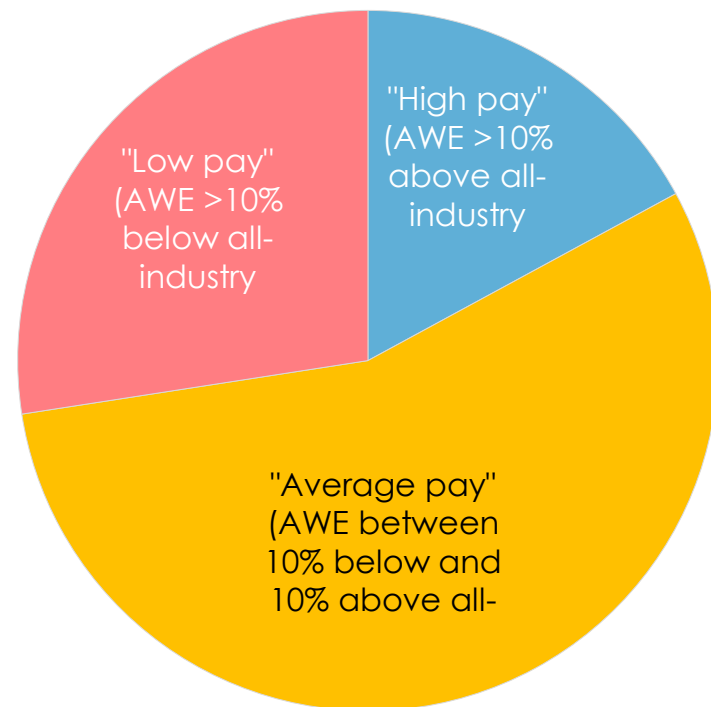
Note: The data from which the above charts are derived isn't seasonally adjusted, hence the need to make comparisons between December 2019 and December 2021.

Source: ABS, [Labour Force, Australia, Detailed](#), January 2022; February data will be released on 24<sup>th</sup> March. [Return to "What's New"](#).

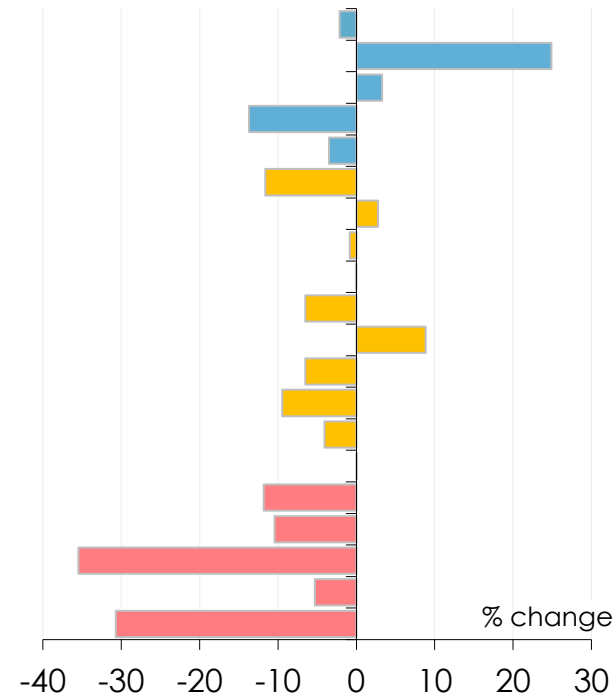
# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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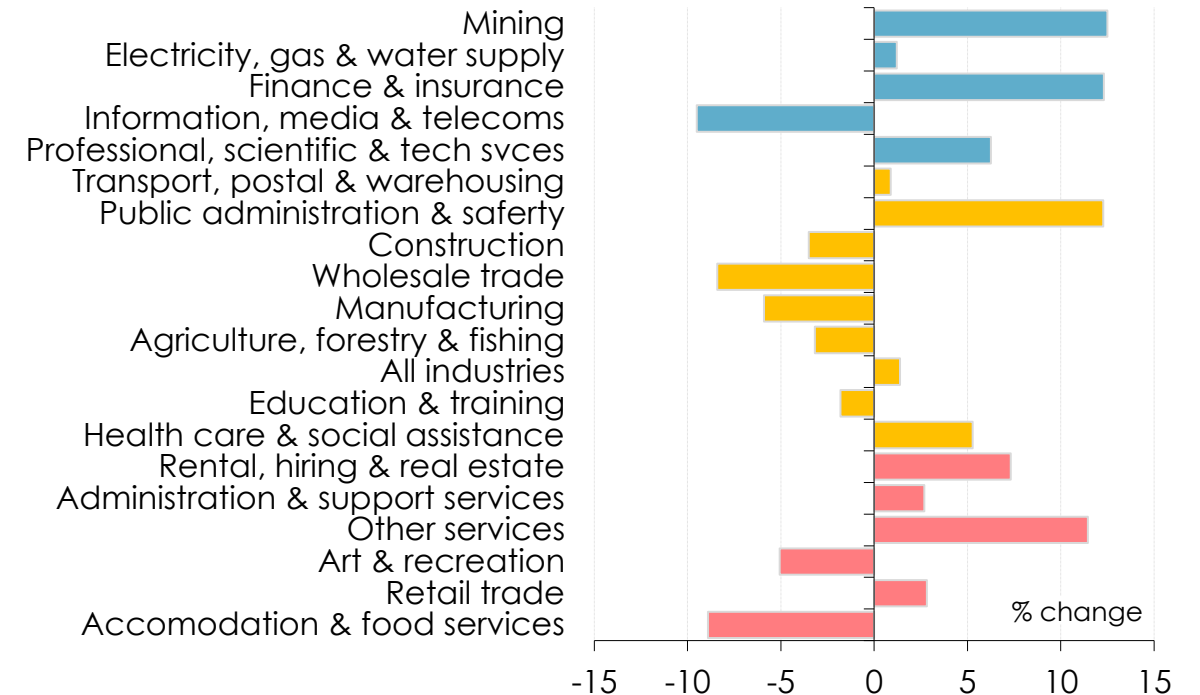
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry February-May 2020



February 2020 – November 2021



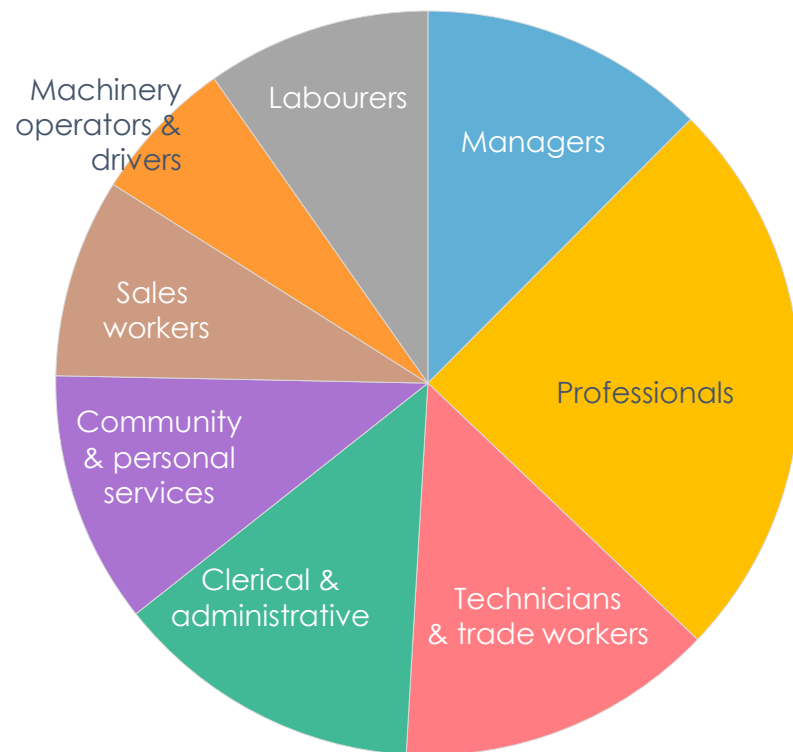
- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and 89% of job losses between May and August this year – and despite the recovery in November, employment 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 2022 data will be released on 24<sup>th</sup> March. [Return to "What's New"](#).

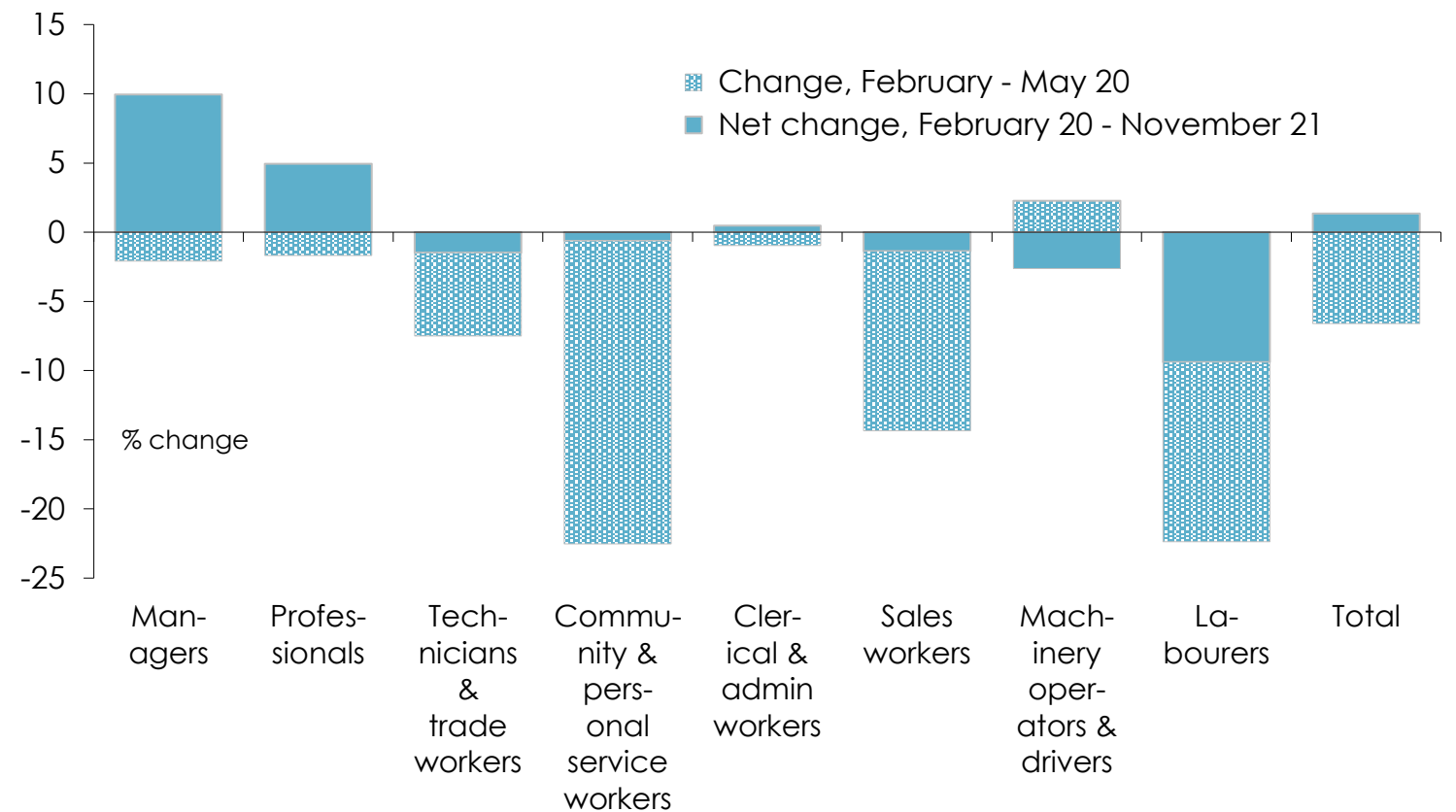
# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



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



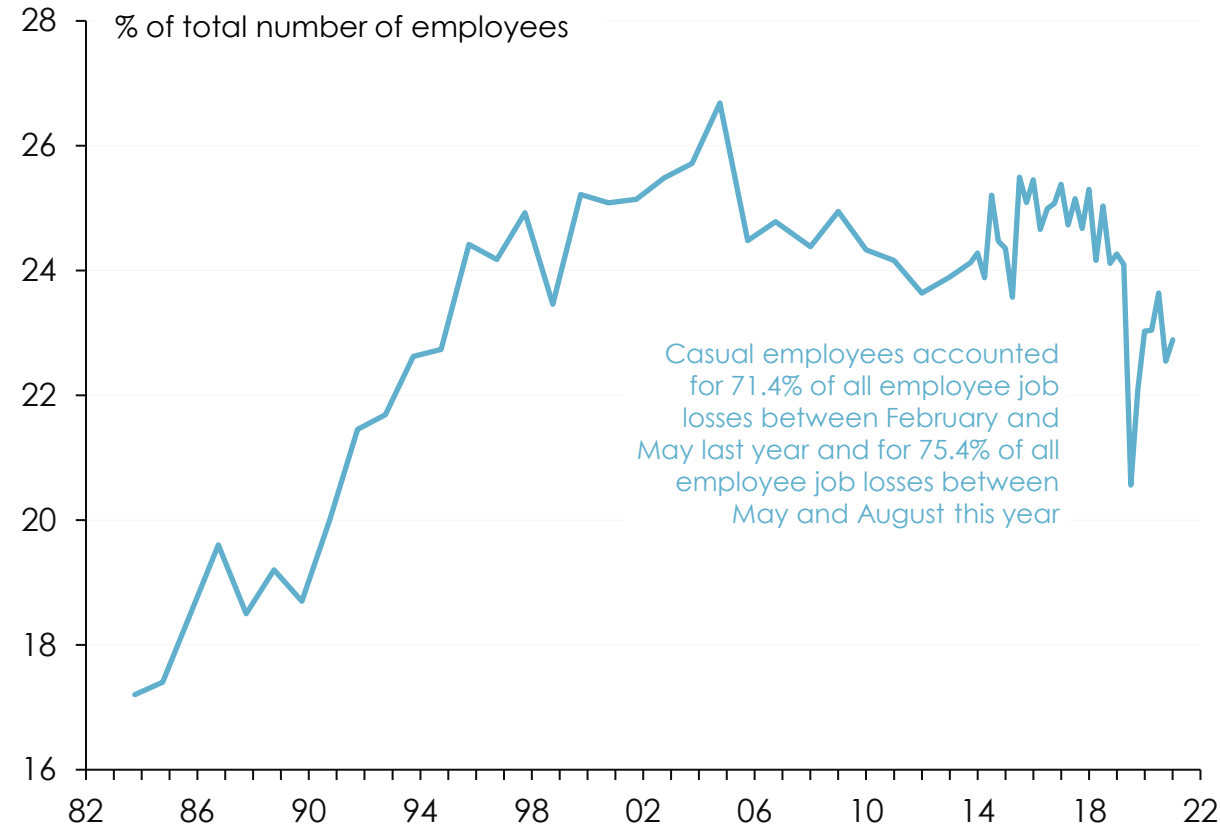
- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 3.8% fewer of them in November 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 2022 data will be released on 24<sup>th</sup> 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

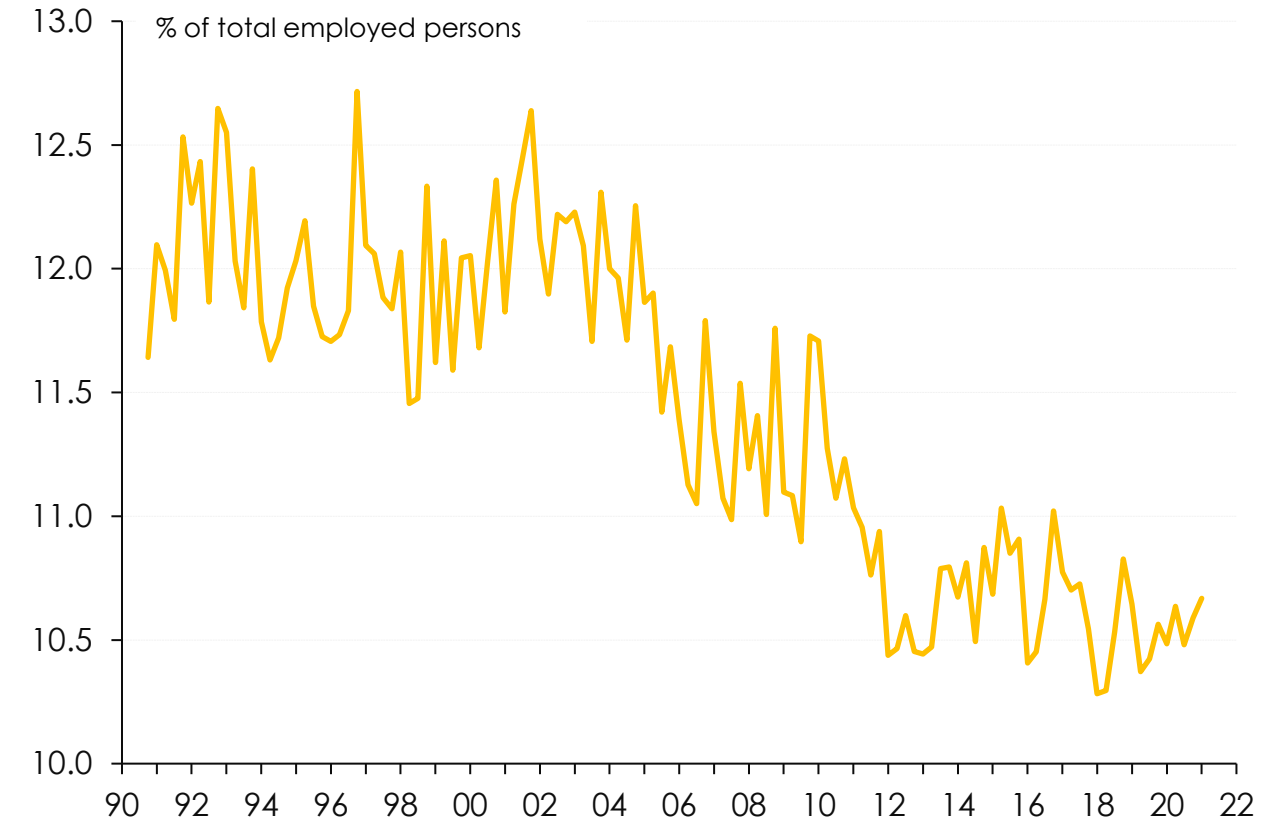
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## 'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



- ❑ **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



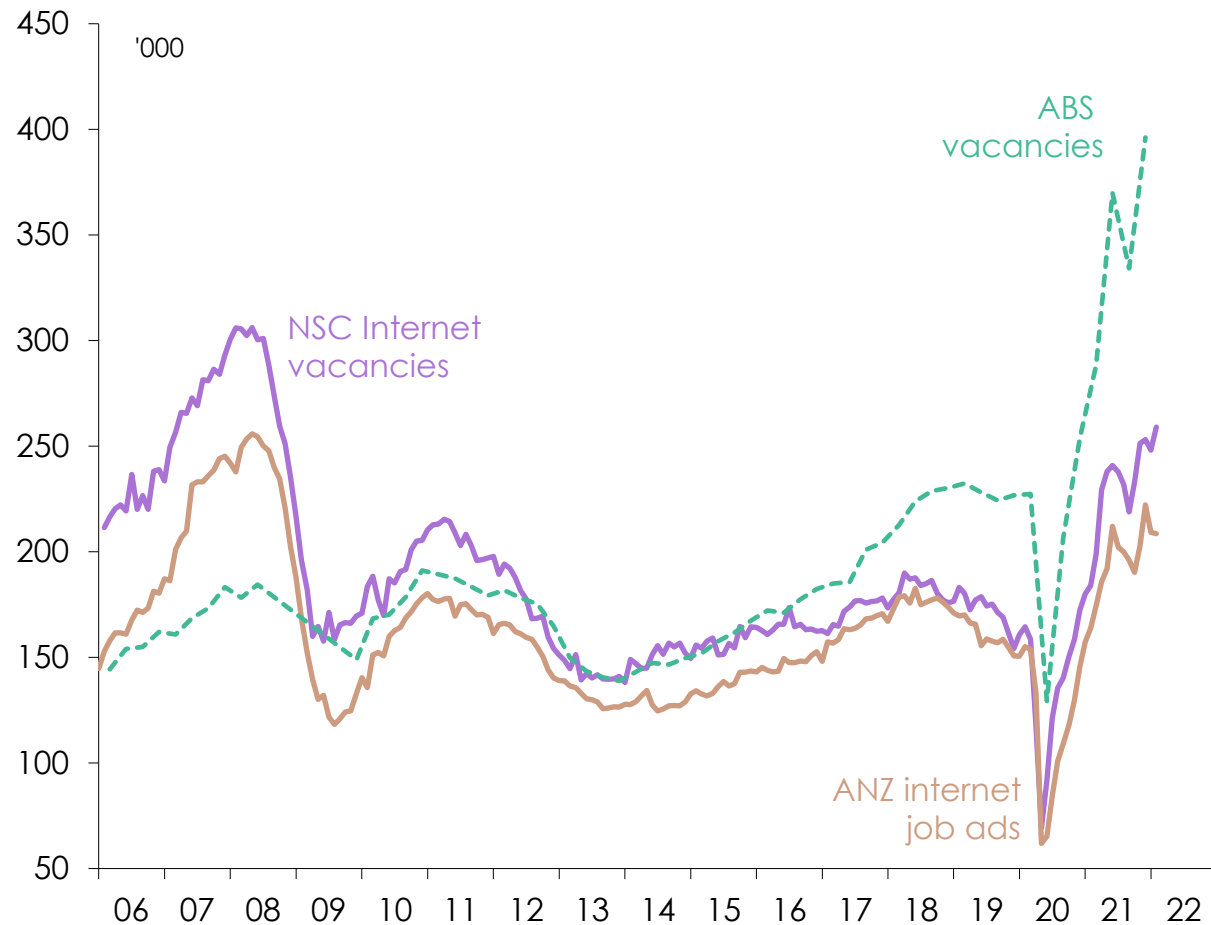
- ❑ **'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession**

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 vacancies as measured by the National Skills Commission reached their highest level since August 2008 in January, although the ANZ measure eased slightly

## Ratio of unemployed people to job vacancies

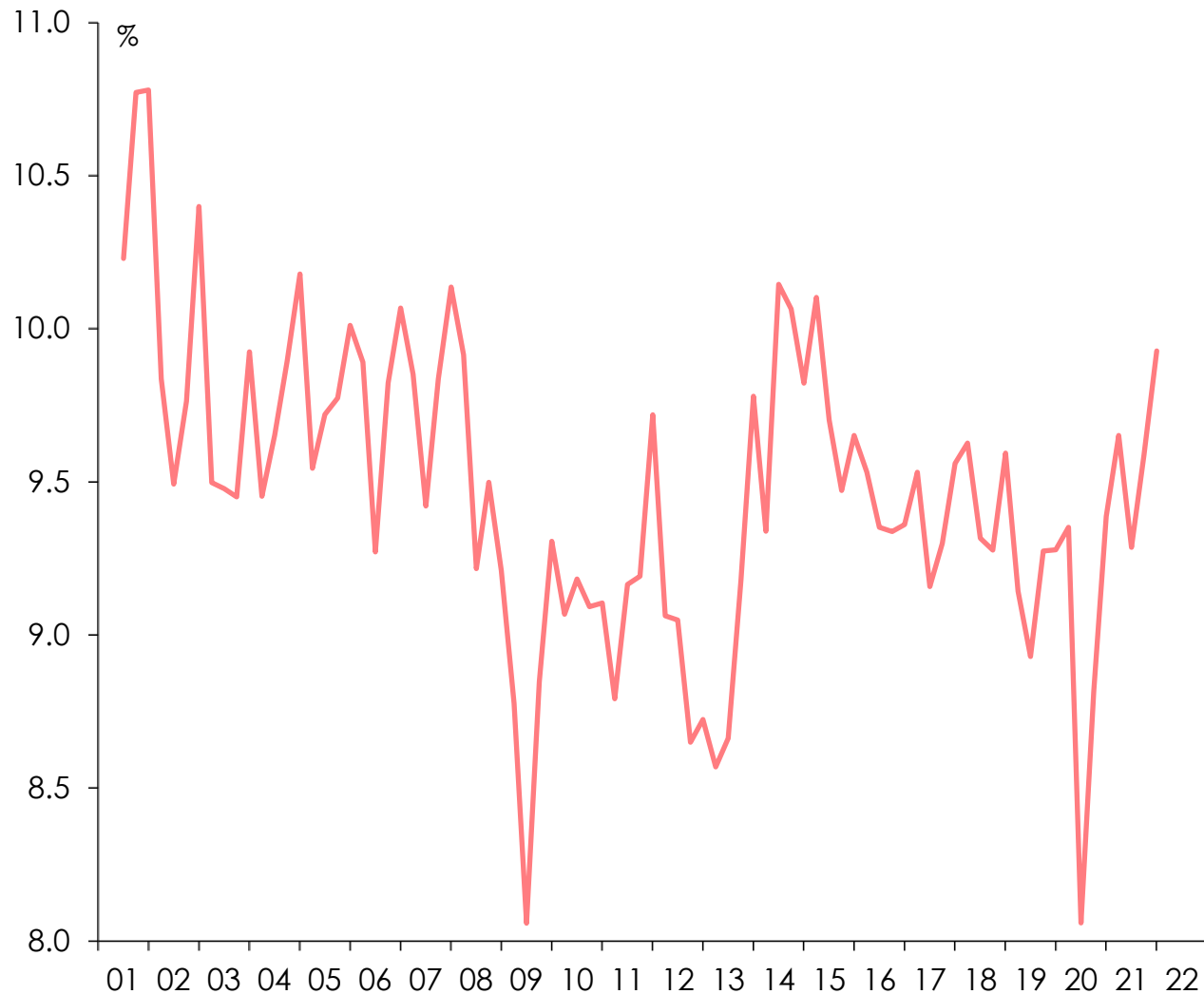


- ❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

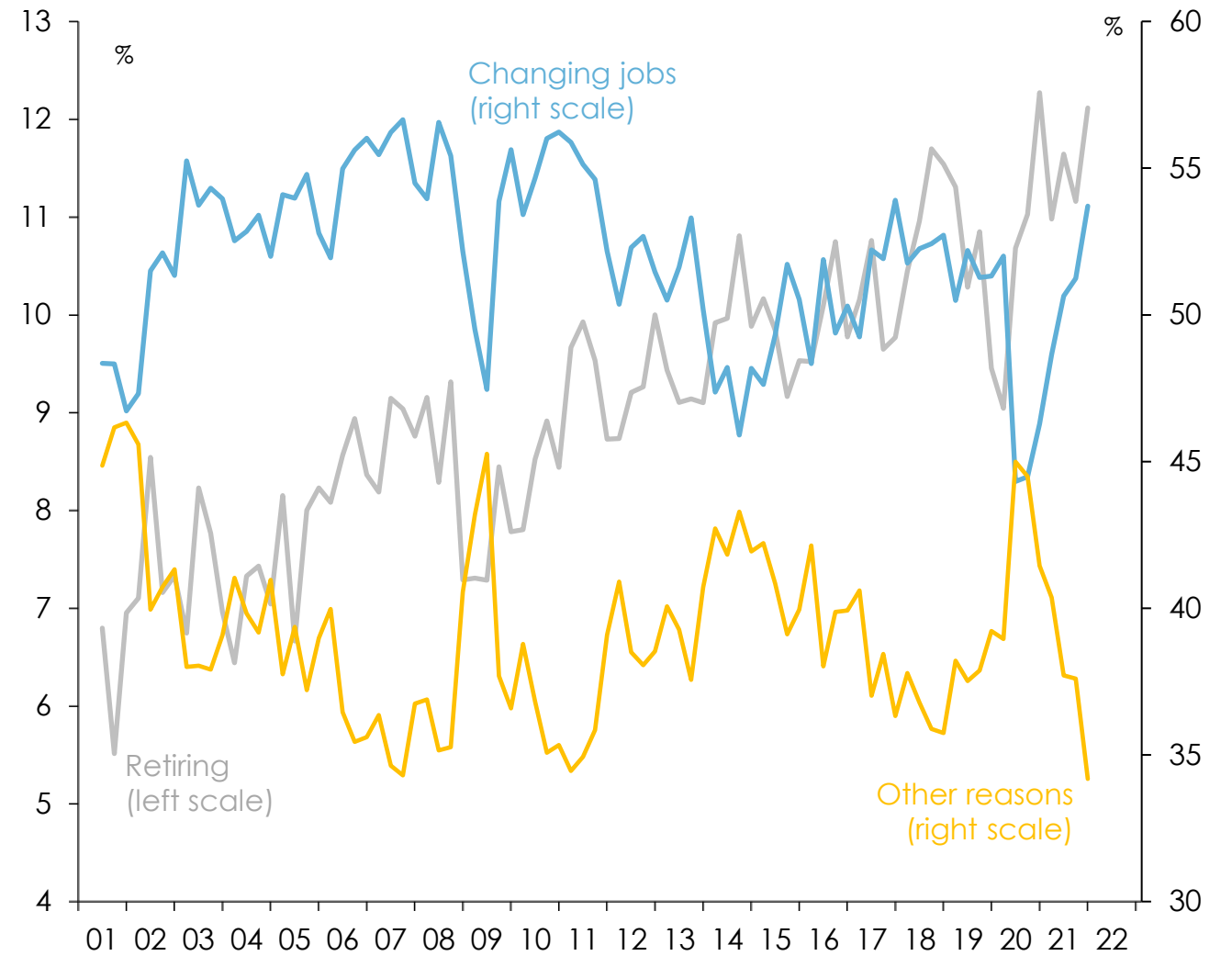
# There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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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.

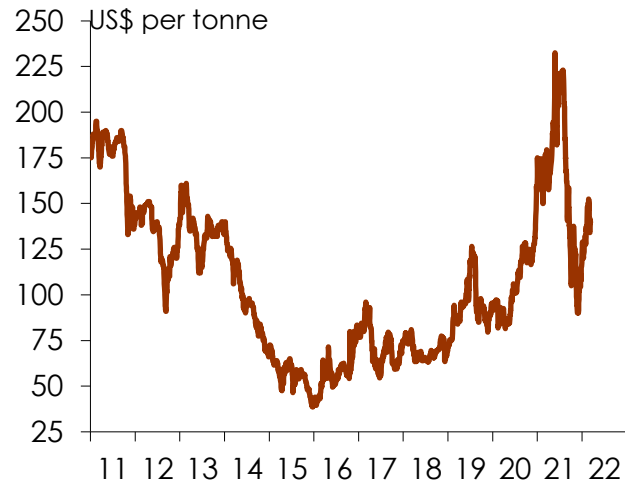


# Trade and the balance of payments

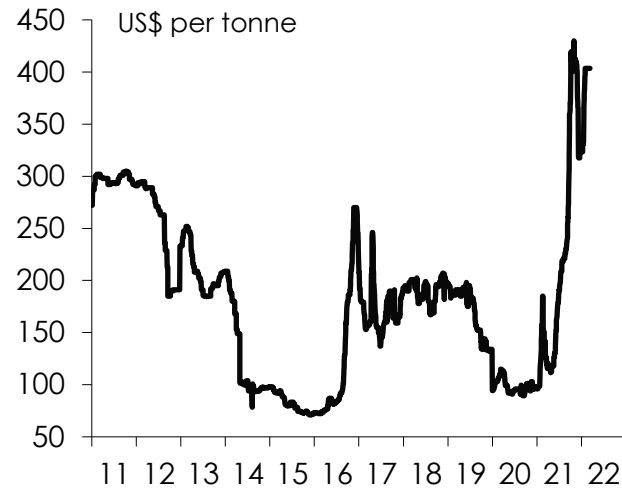
# The iron ore price recovered 4% this week after falling 10% last week, while base metals and the gold price rose after the Russian invasion of Ukraine

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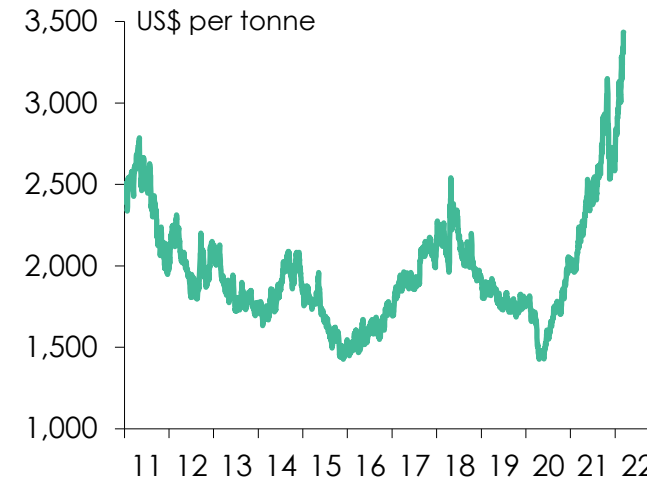
## Iron ore



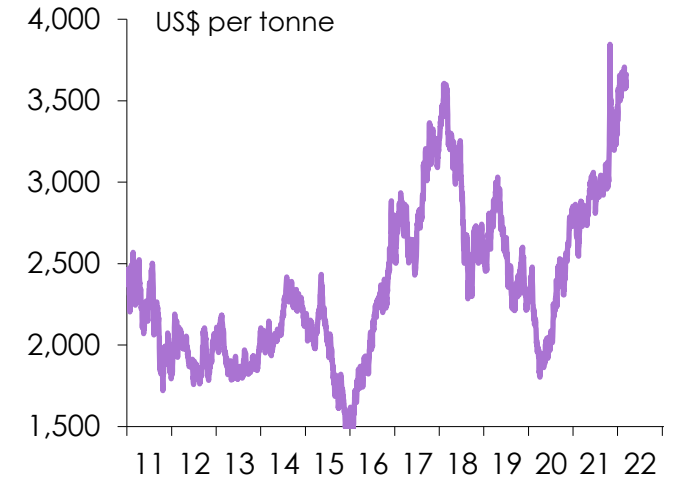
## Metallurgical coal



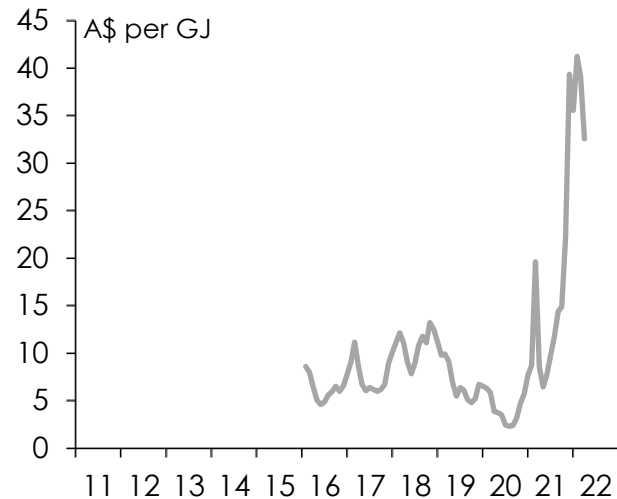
## Aluminium



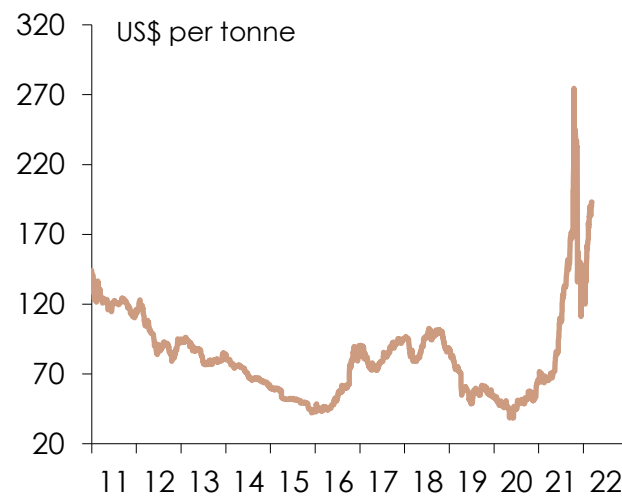
## Zinc



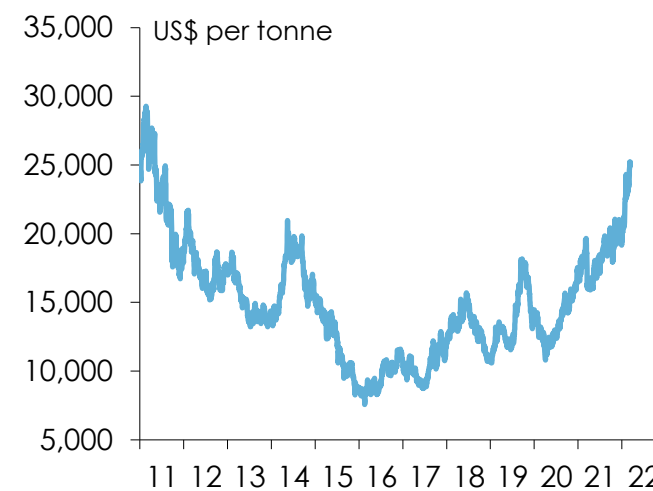
## LNG



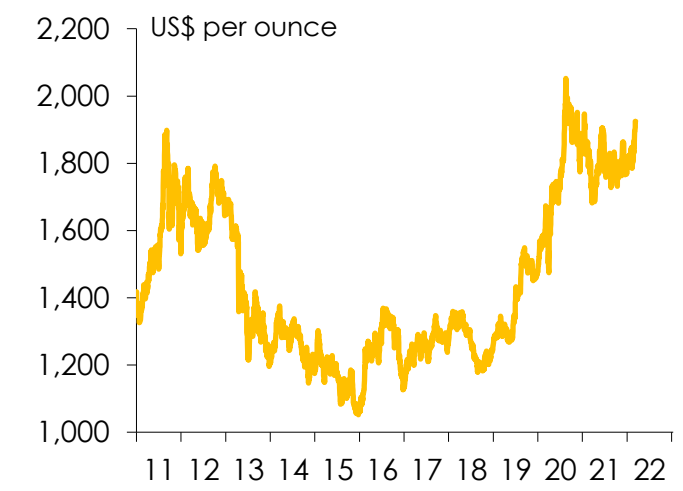
## Thermal coal



## Nickel



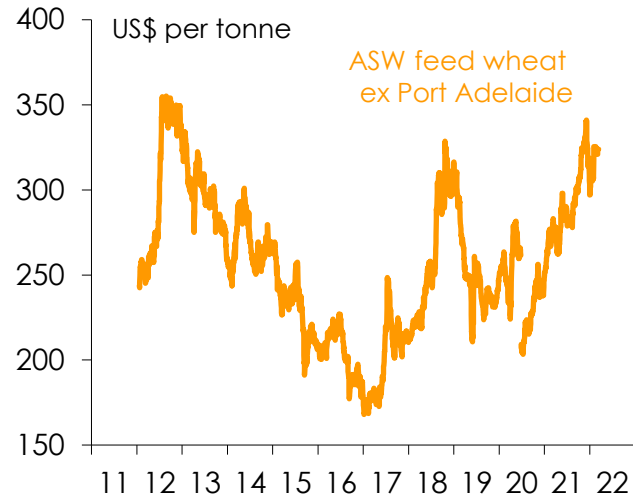
## Gold



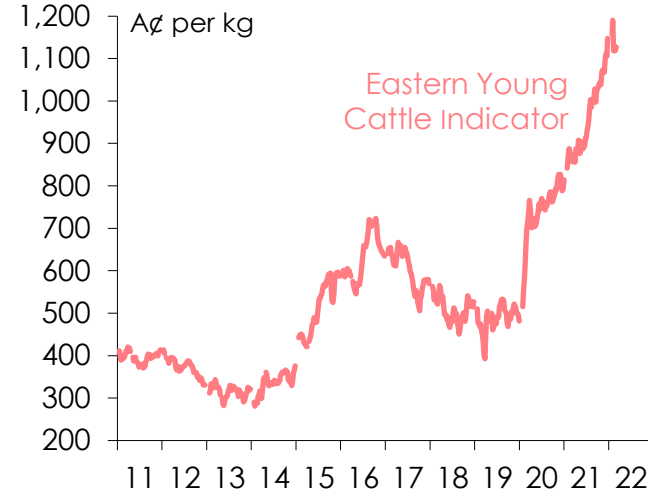
# Australian grain prices are yet to reflect increases in world prices prompted by Russia's invasion of Ukraine, but milk prices rose sharply

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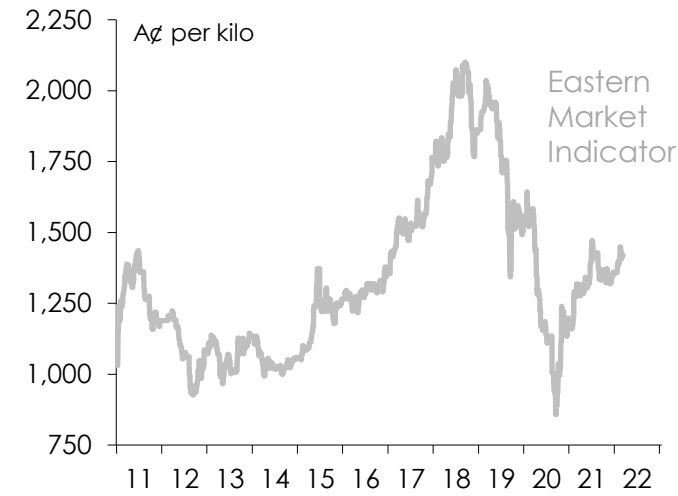
## Wheat



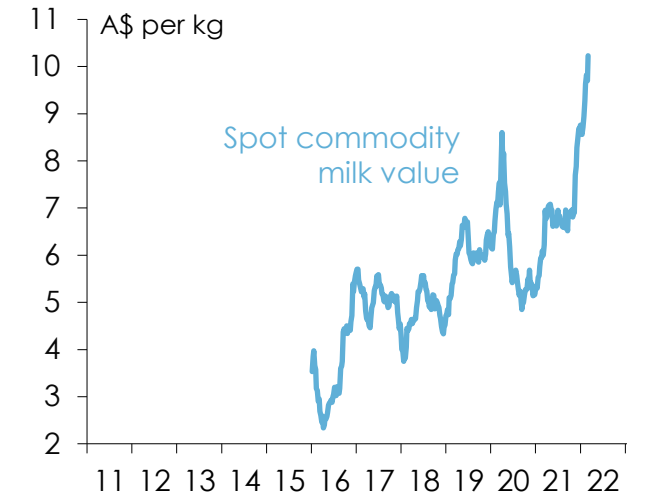
## Beef cattle



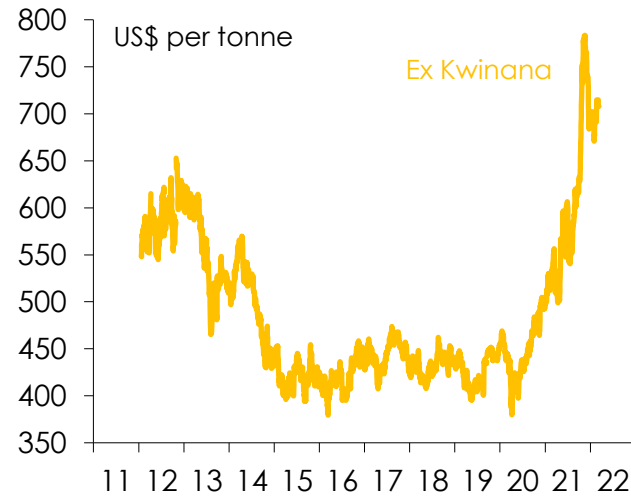
## Wool



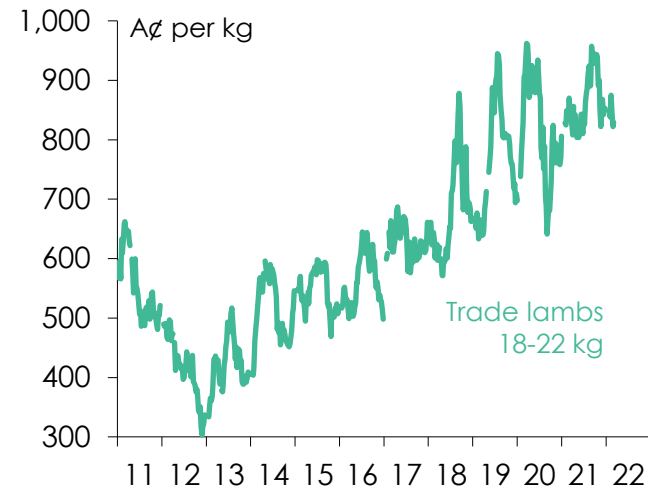
## Milk



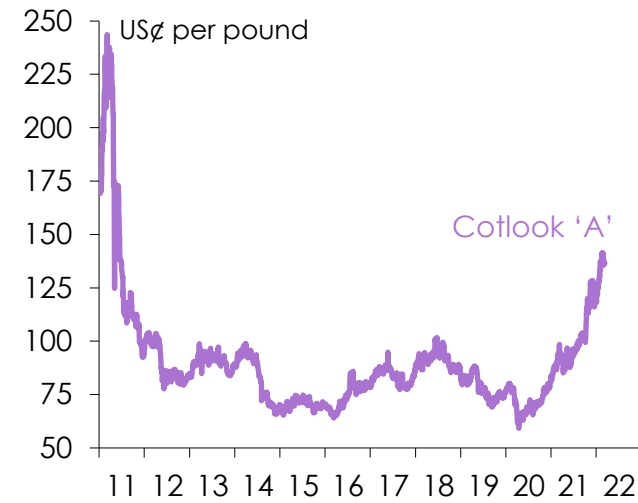
## Canola



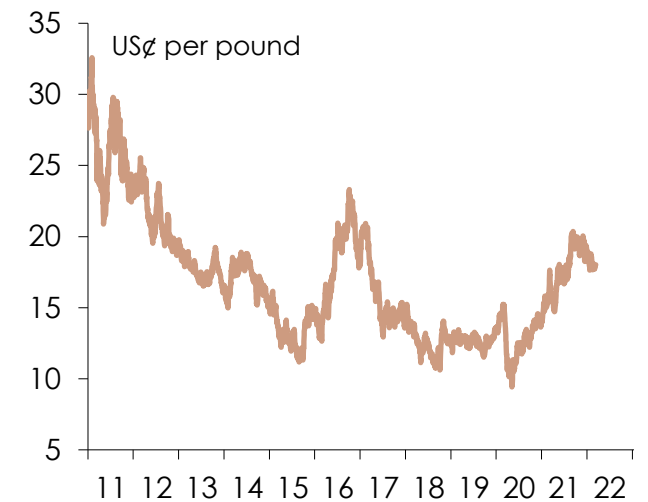
## Sheep



## Cotton



## Sugar

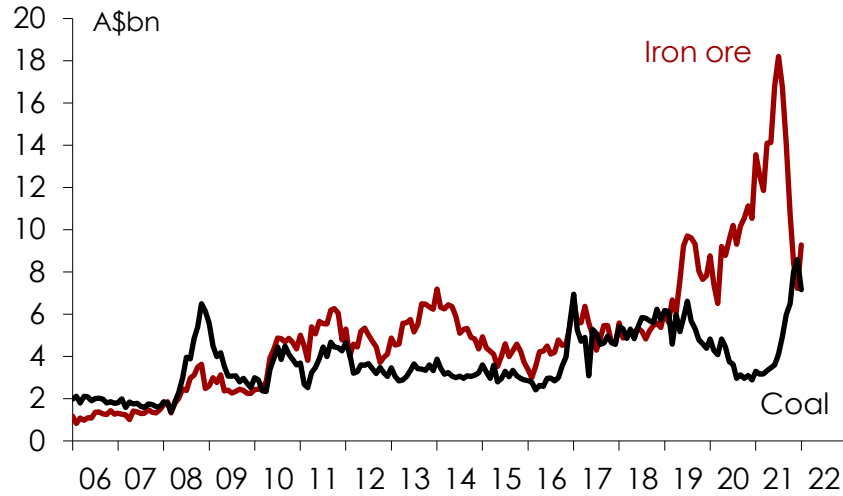


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 25<sup>th</sup> February. [Return to "What's New"](#).

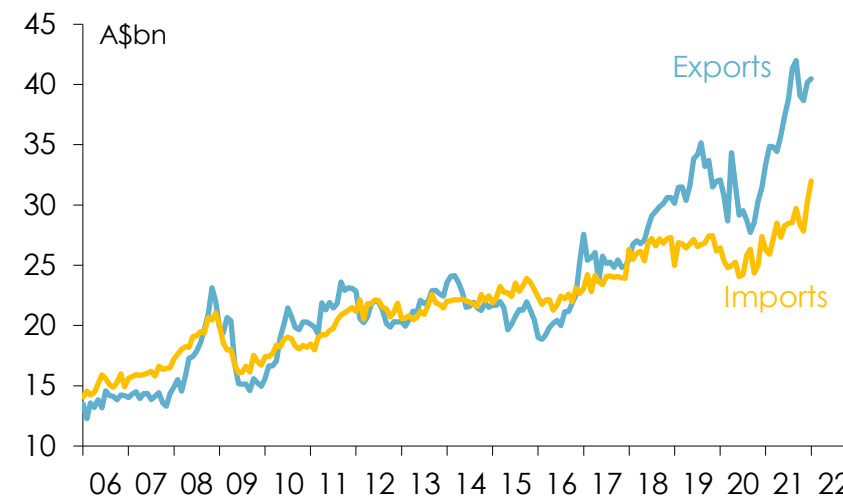
# Australia's trade shrank by another \$1.4bn, to \$8.4bn, in December – the fifth successive decline, this time largely due to rising imports

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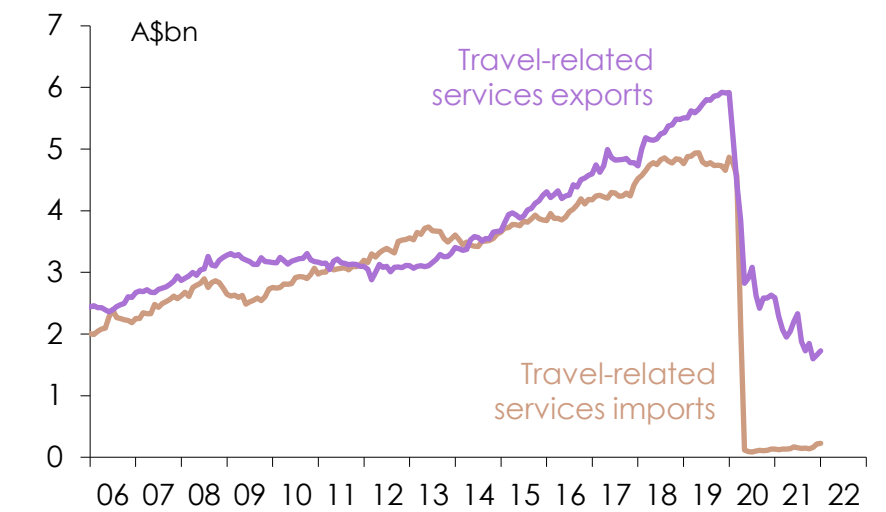
## Iron ore and coal exports



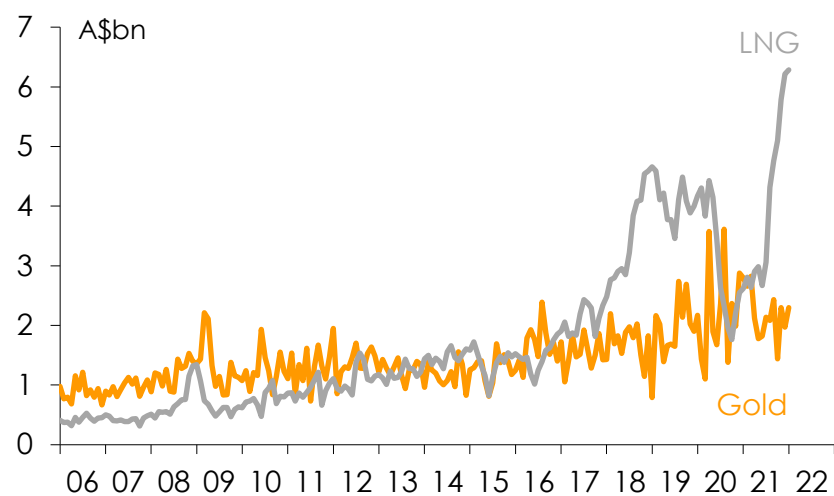
## Merchandise exports and imports



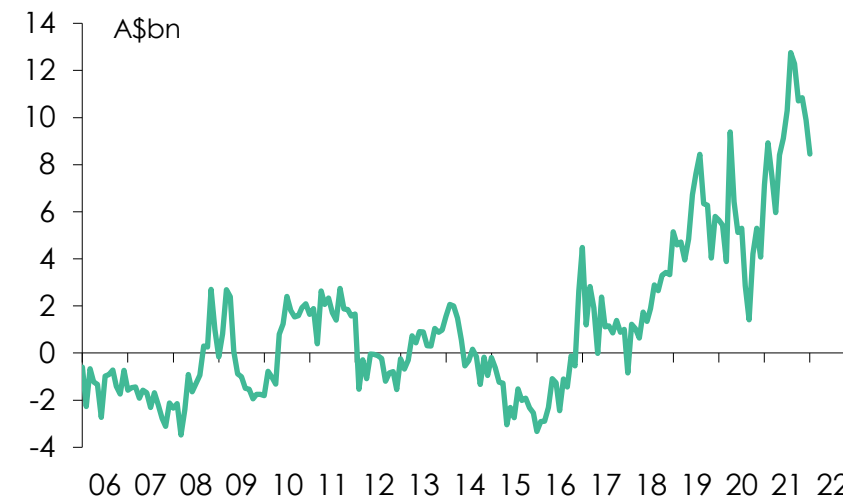
## Tourism-related services trade



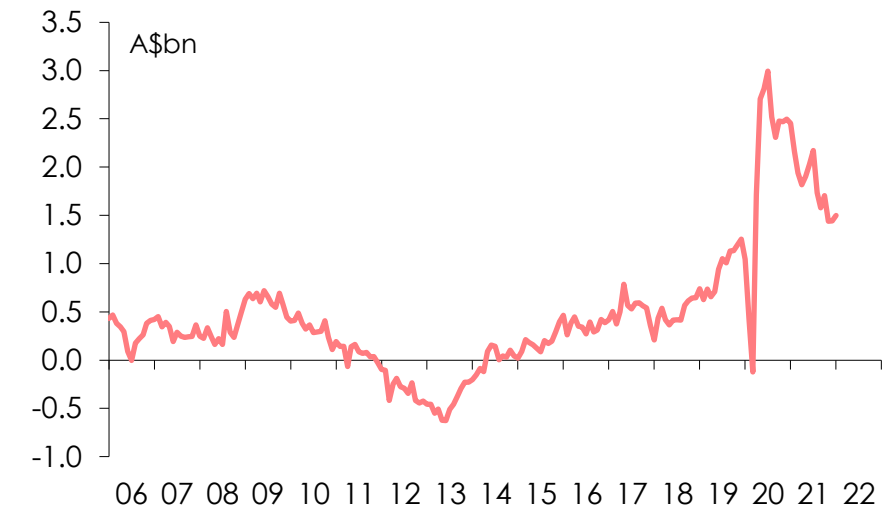
## LNG and gold exports



## Merchandise trade balance



## Tourism services trade balance

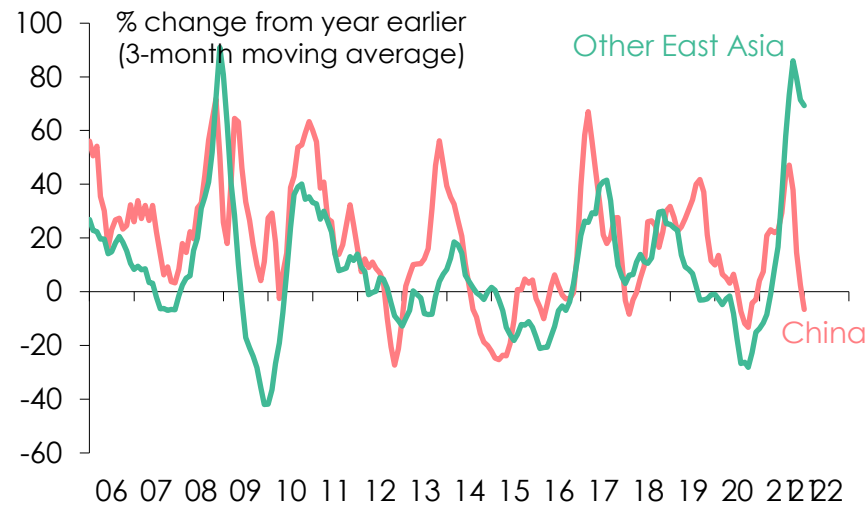


Source: ABS, [International Trade in Goods and Services, Australia](#), December 2021. January data will be released on 3<sup>rd</sup> March. [Return to "What's New"](#).

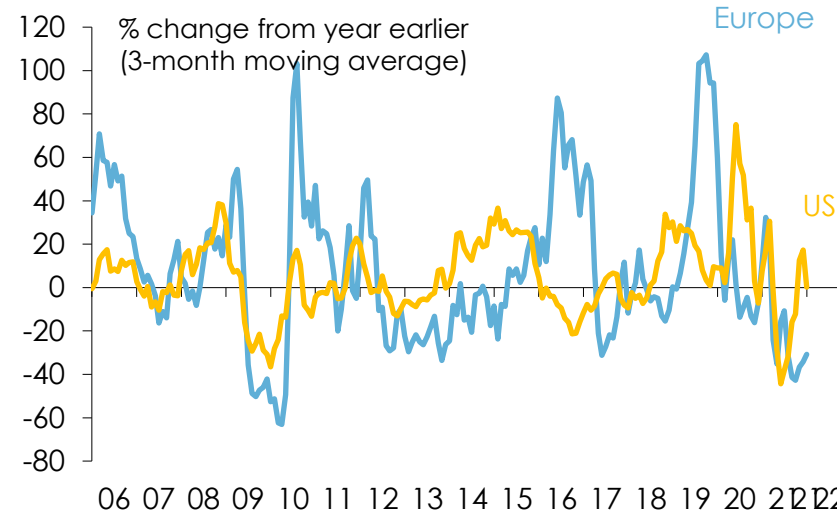
# Australia's trade surplus with China has peaked as iron ore prices have eased, but surpluses with other Asian countries have increased

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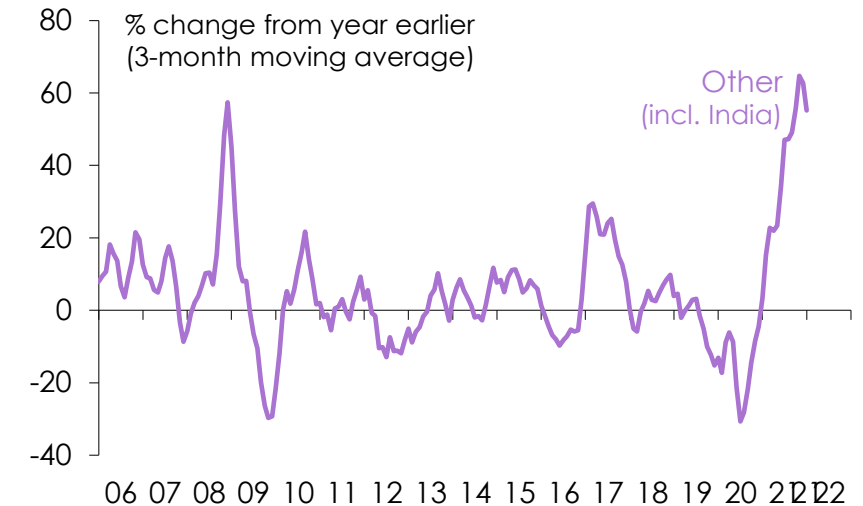
## Merchandise exports – East Asia



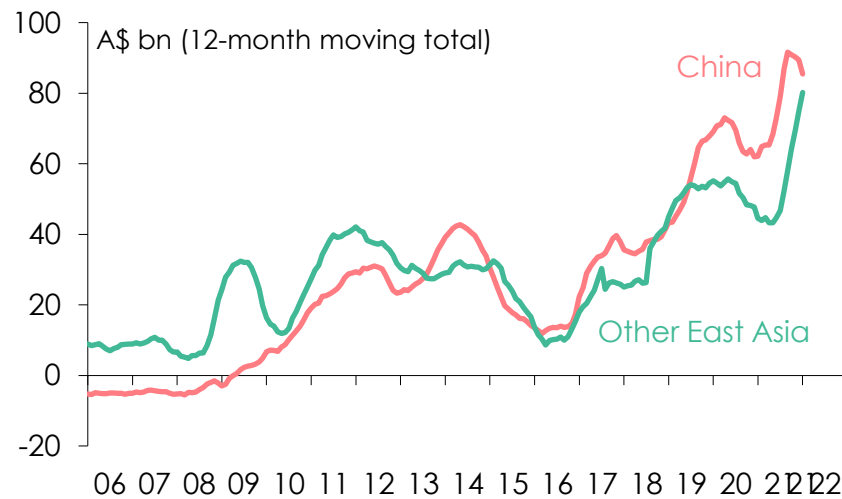
## Merchandise exports – US & Europe



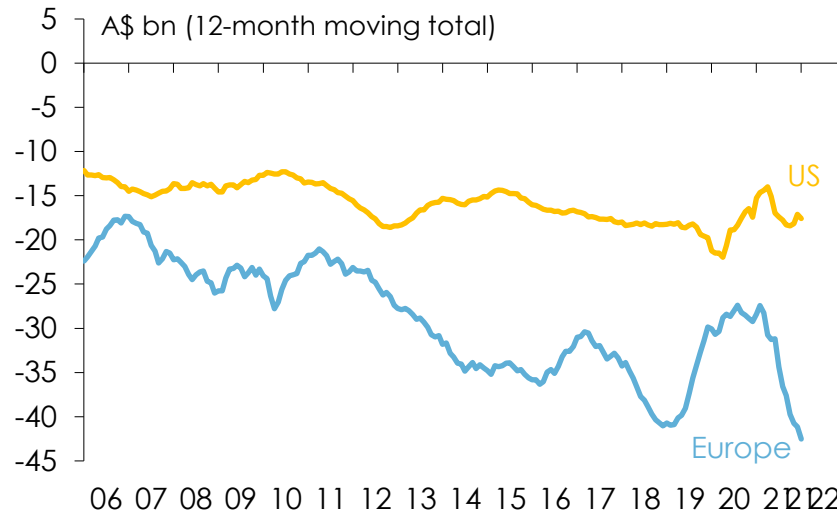
## Merchandise exports – other



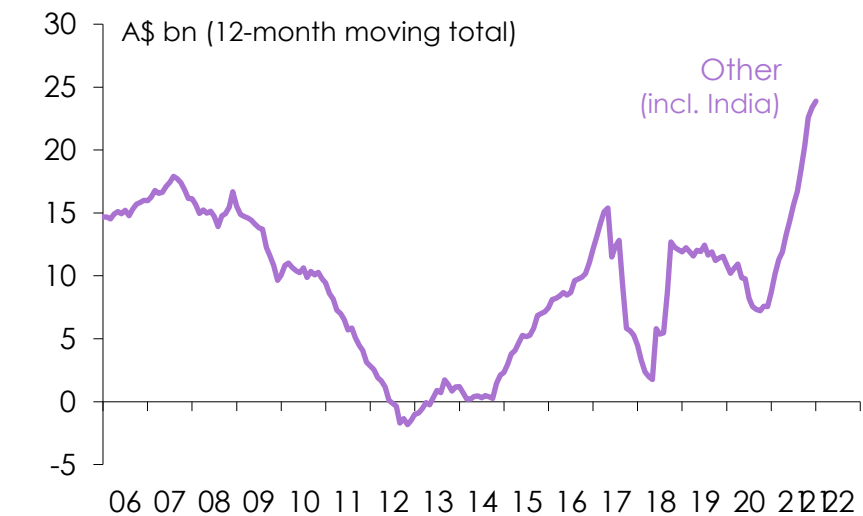
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other

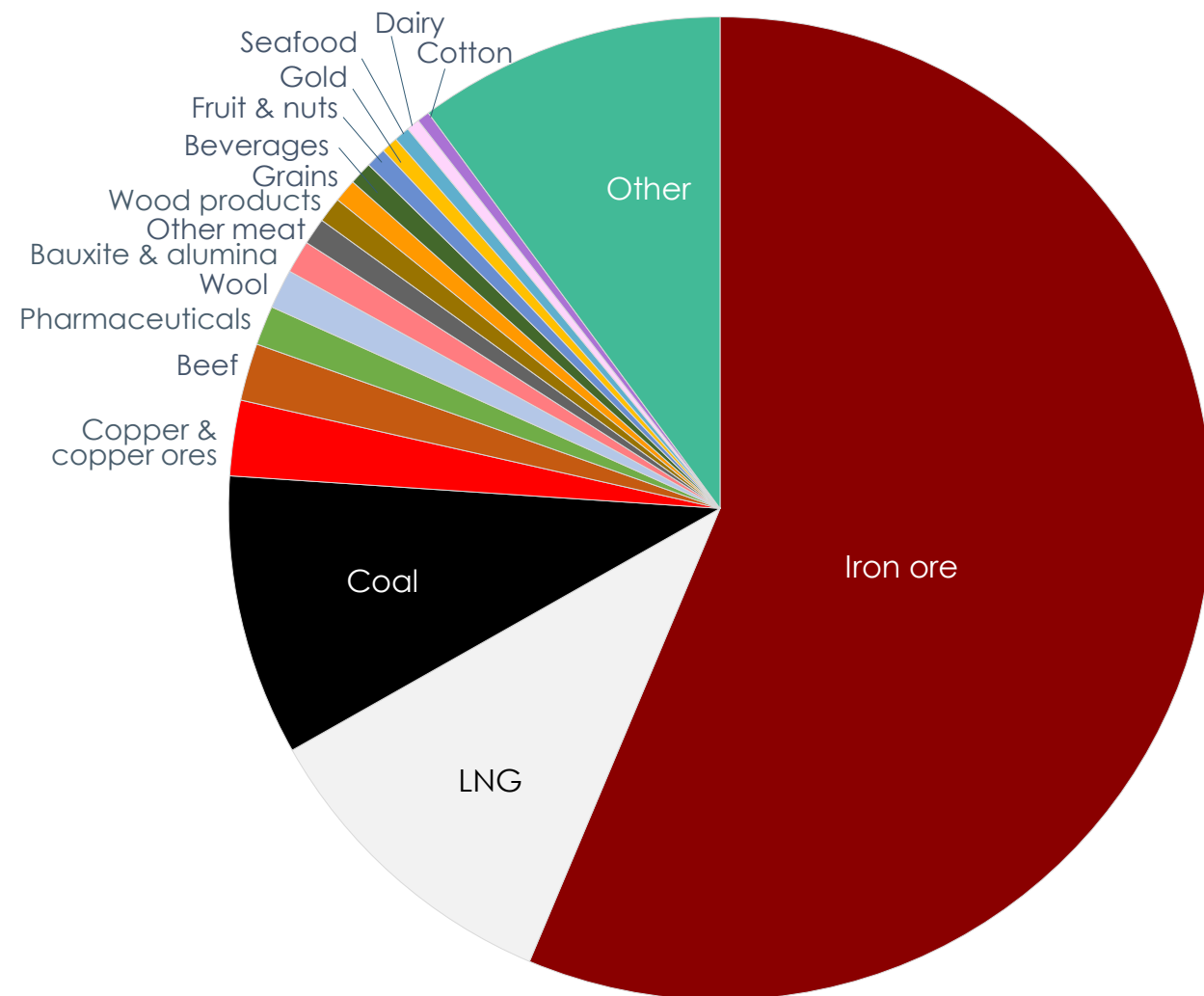


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS,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



- ❑ 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
- ❑ China's new Ambassador to Australia Xiao Quian this week again signalled a willingness to “work with Australia to meet each other half way” and indicated that “the diplomatic channel is open”, but there's again been no response from the Australian Government

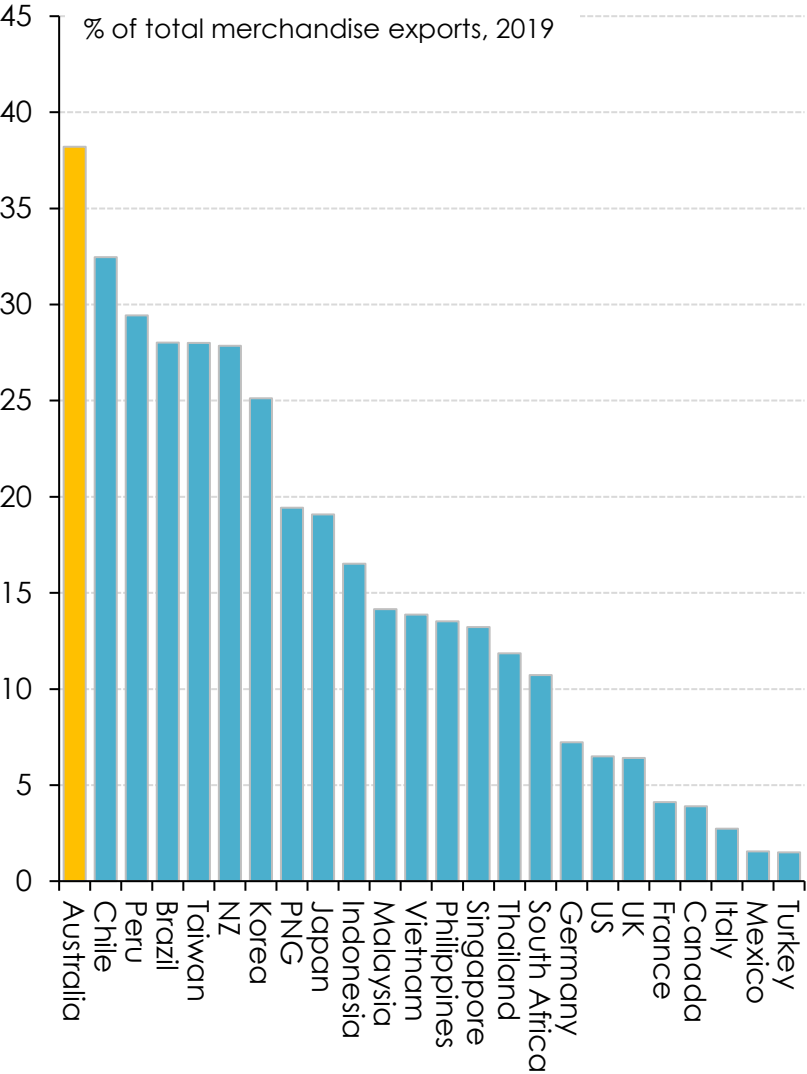
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

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

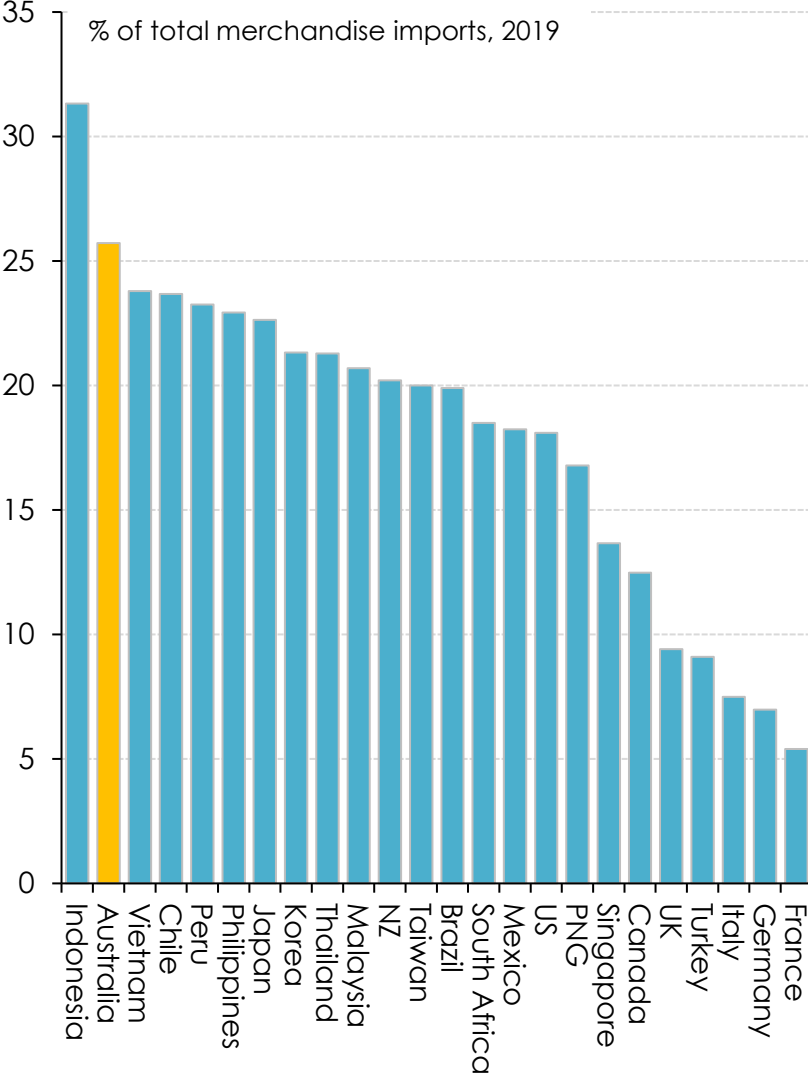
# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

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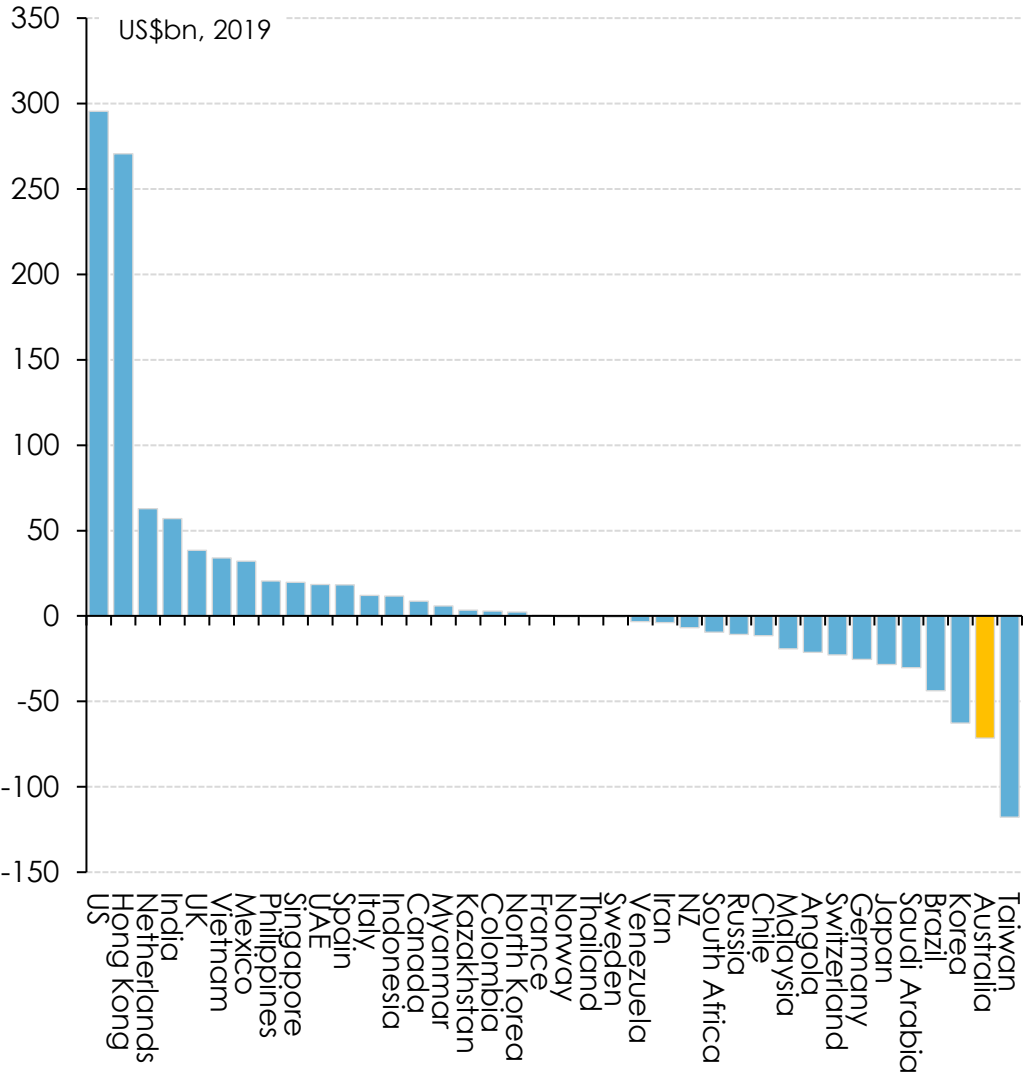
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



## China's bilateral merchandise trade balances

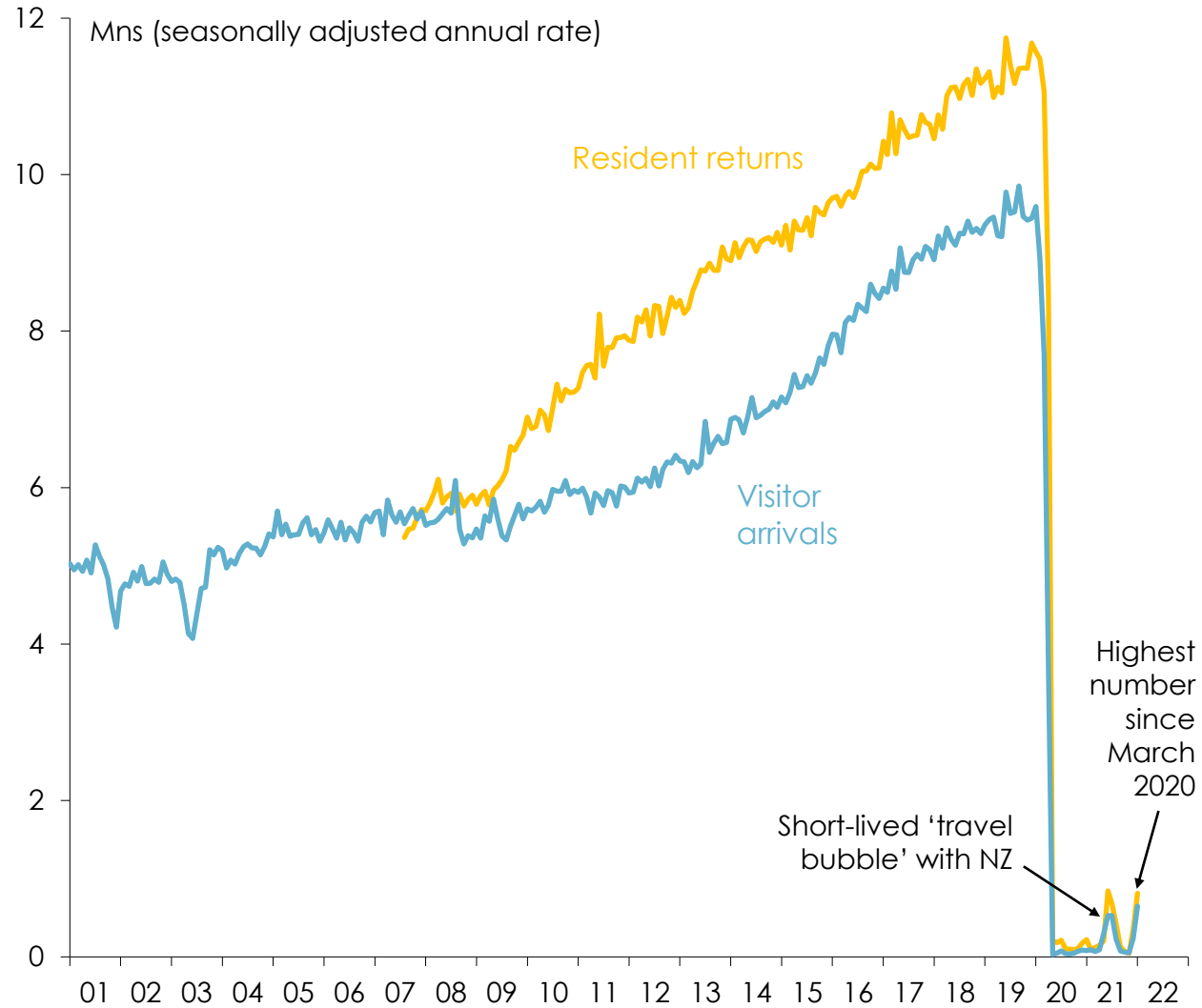


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

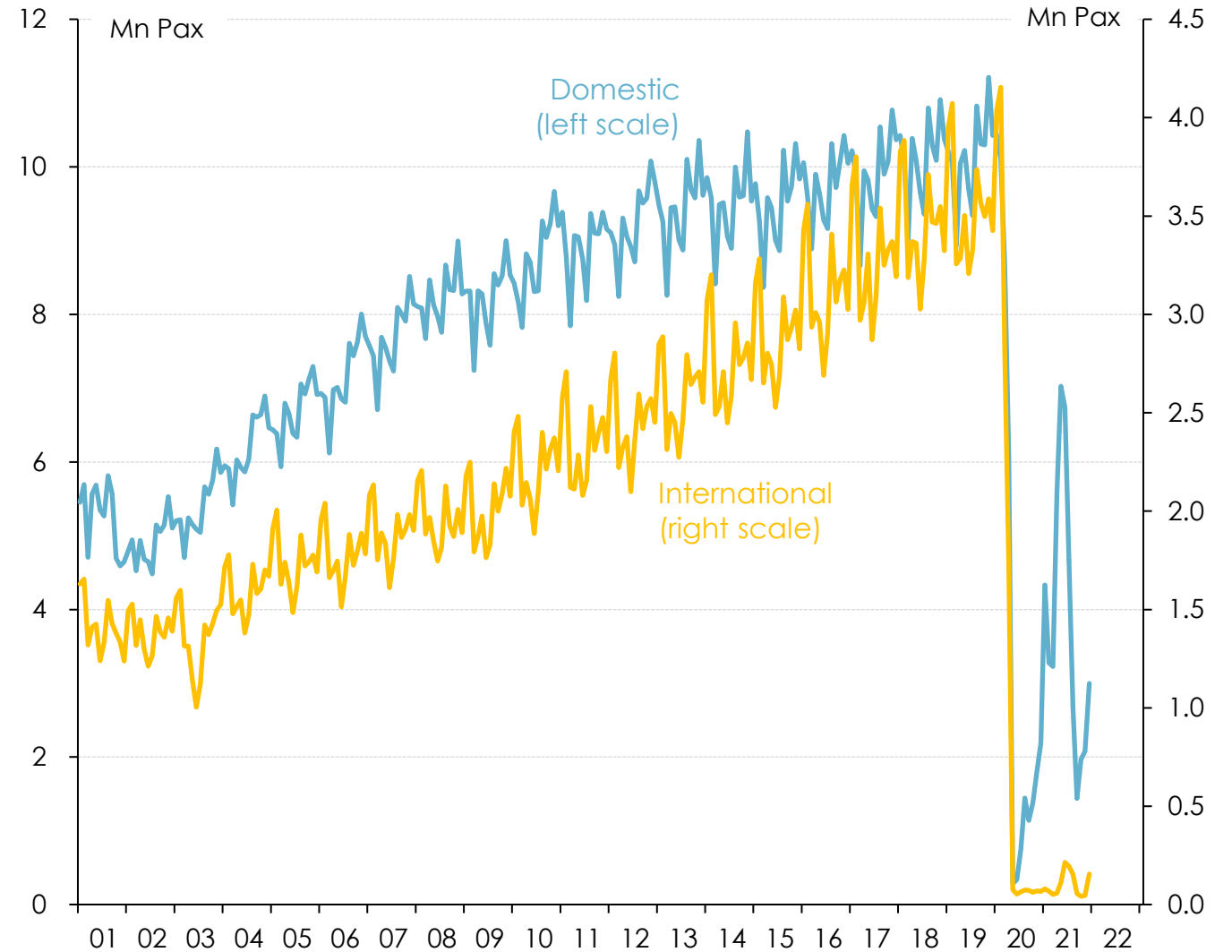
# The re-opening of Australia's international borders this Monday, 21<sup>st</sup> February, should see a faster pick up in arrivals and aviation traffic

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## Short-term visitor arrivals and resident returns



## Airport passenger movements



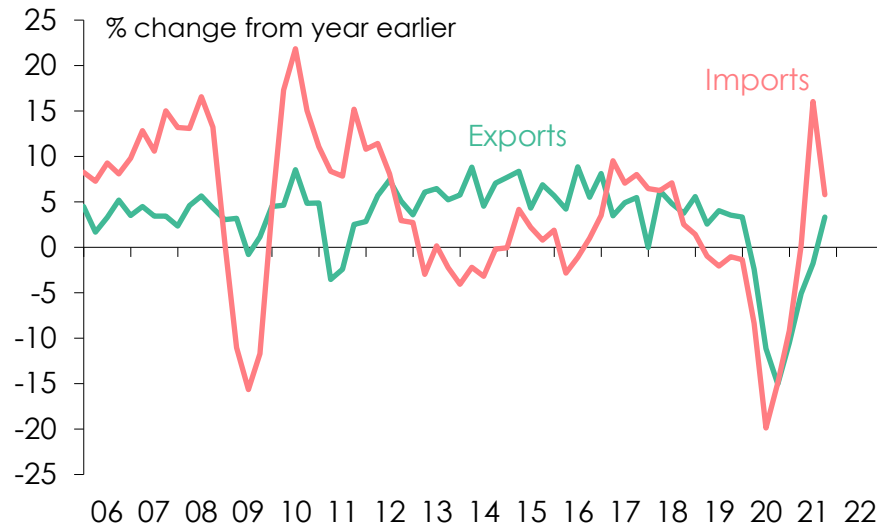
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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



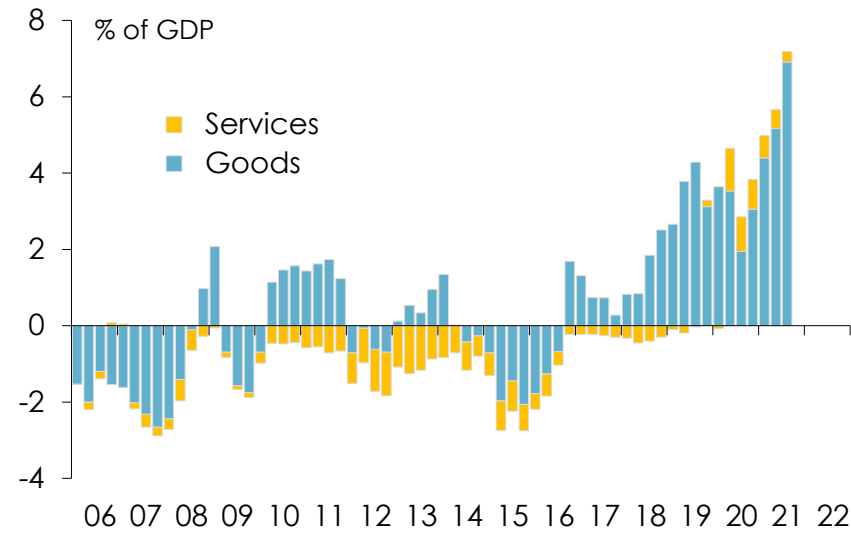
# Australia posted another record current account surplus in the Q3, thanks to another large gain in export prices – but that’s probably the peak

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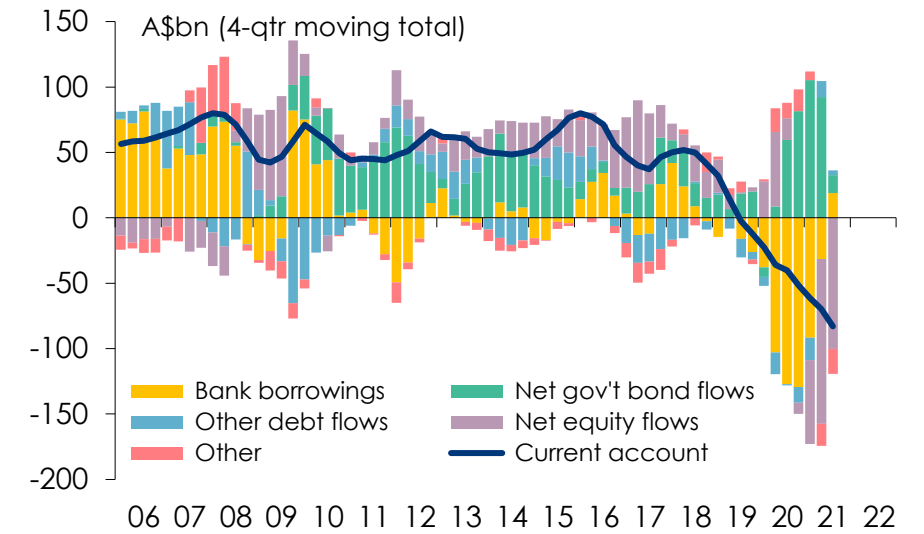
## Export and import volumes



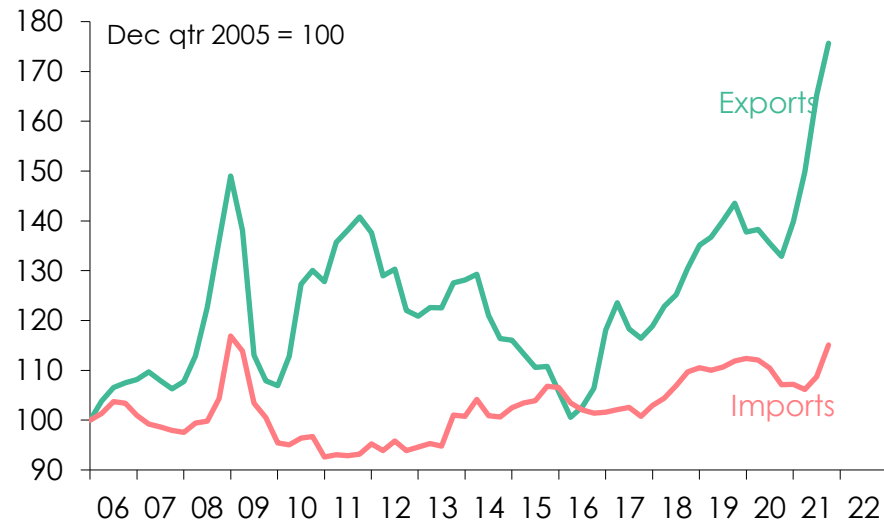
## Goods & services trade balances



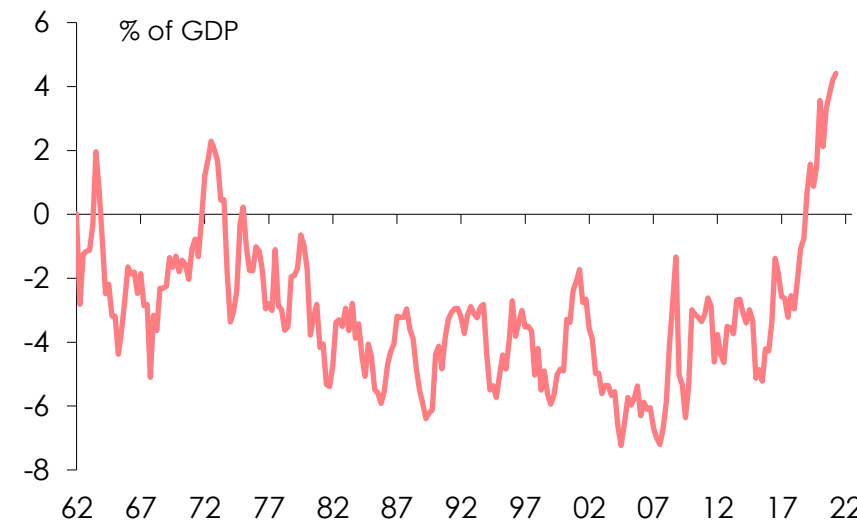
## Capital flows



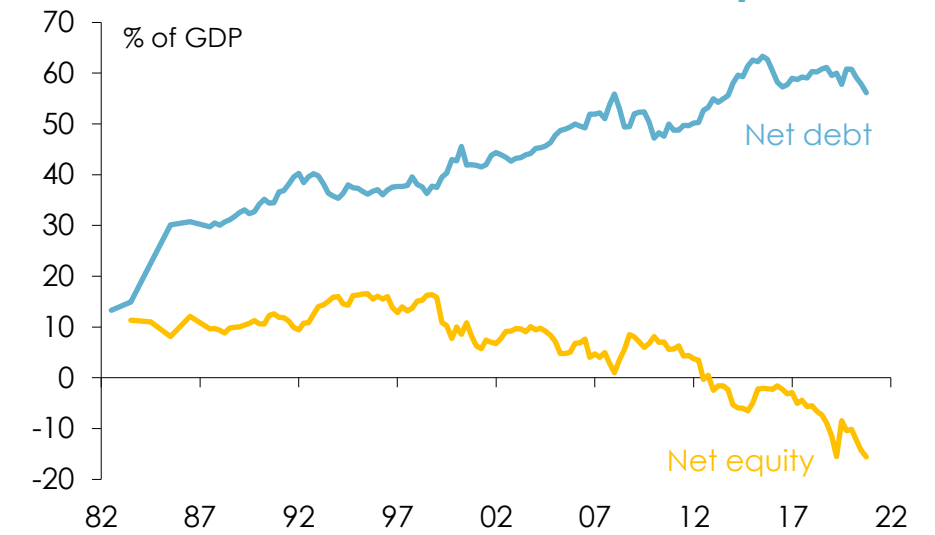
## Export and import prices



## Current account balance



## Net international investment position



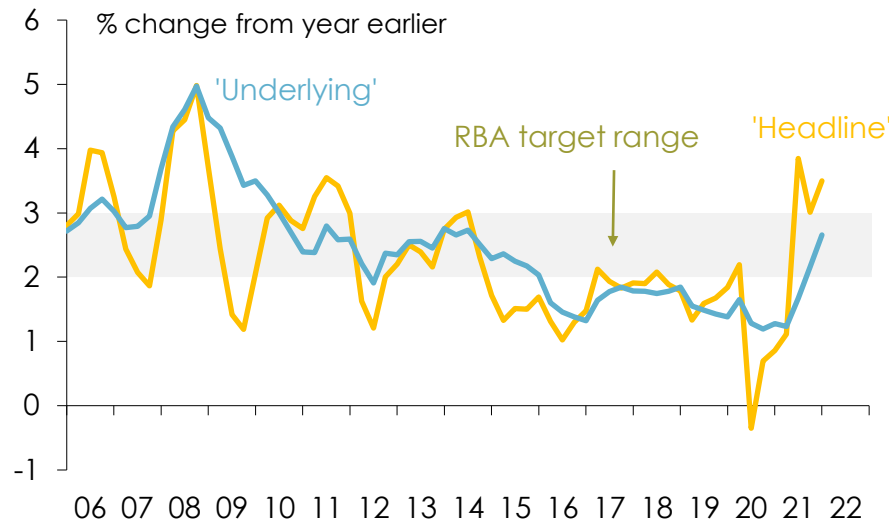
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

# Inflation

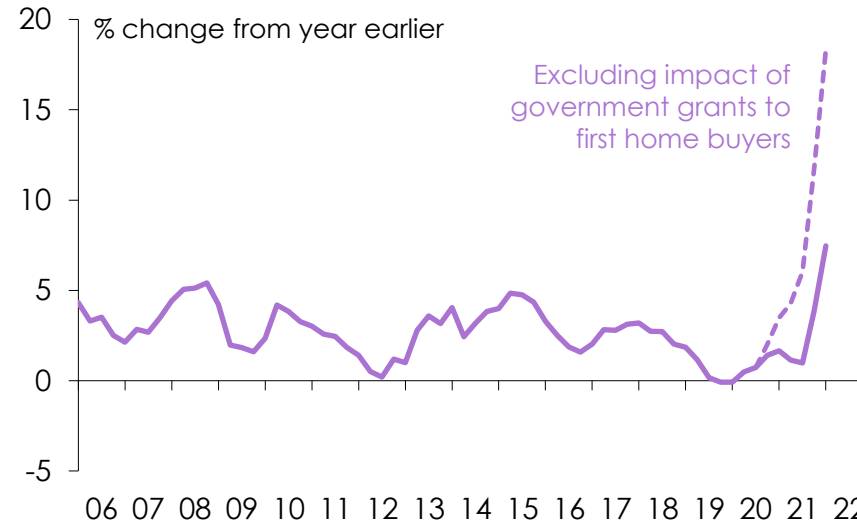
# The December quarter CPI was unequivocally higher than expected, and puts some pressure on the RBA to start raising rates this year

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

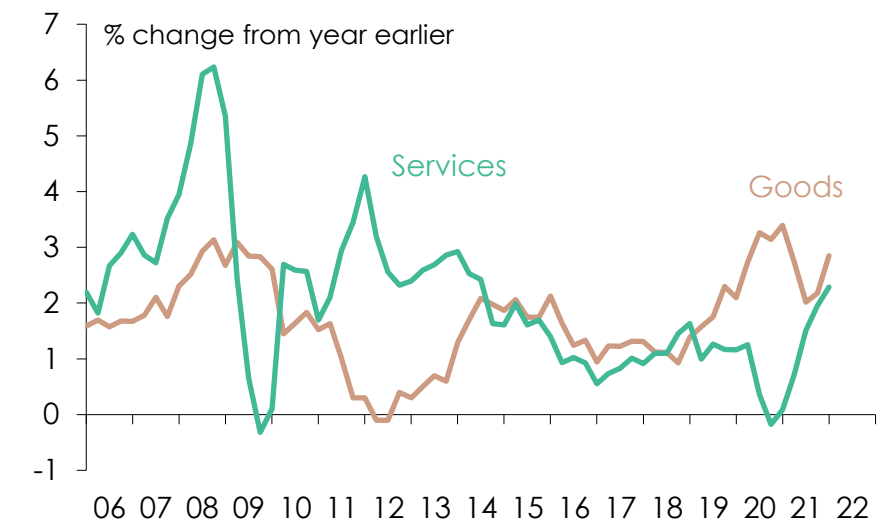
## Consumer prices – annual change



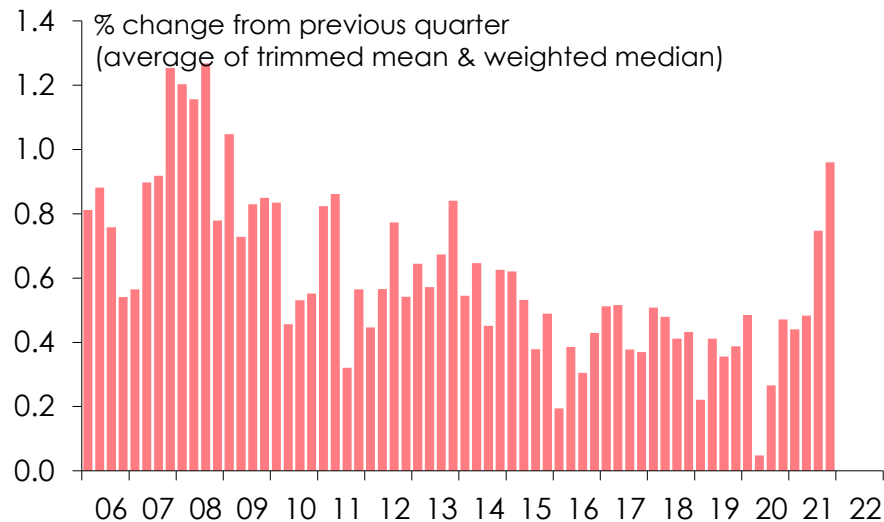
## New dwelling purchase costs



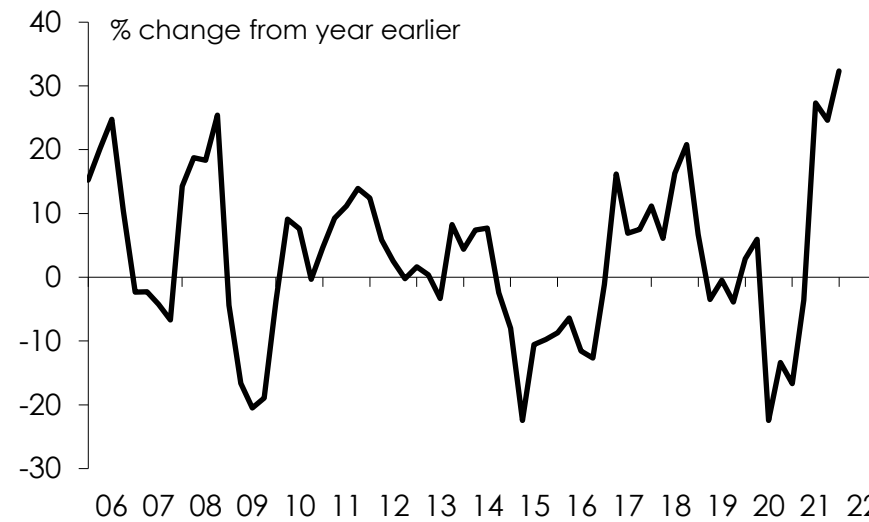
## 'Market' goods vs services



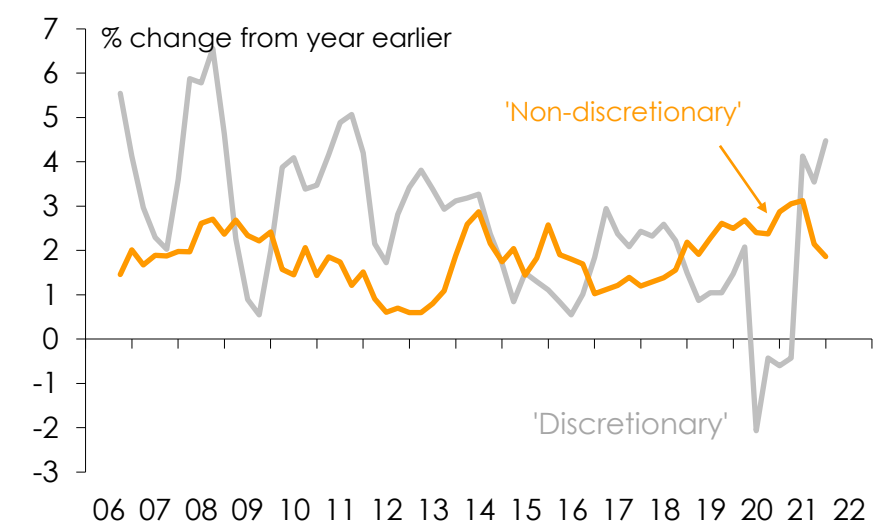
## Quarterly 'underlying' inflation



## Automotive fuel prices



## 'Discretionary' vs 'essential' items

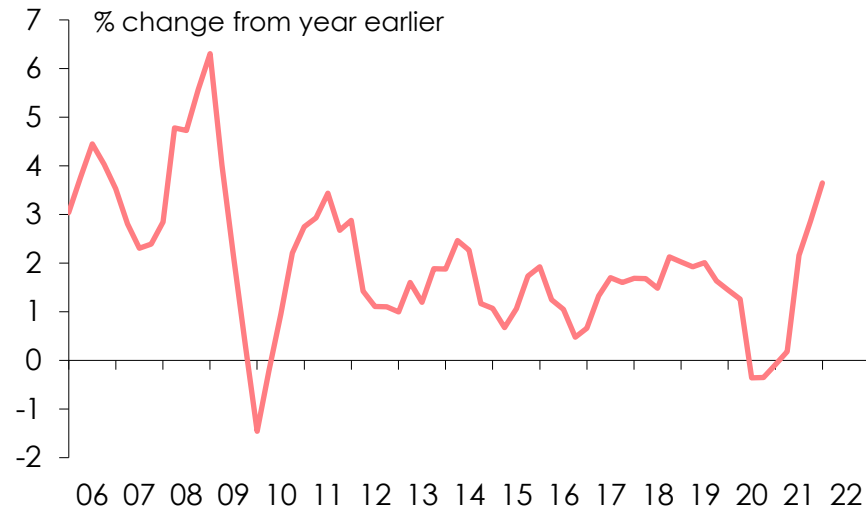


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. 'Market' goods and services exclude 'volatile items' (fruit & vegetables, utilities, property rates & charges, automotive fuel, urban transport services, postal services, child care, health, and education). For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

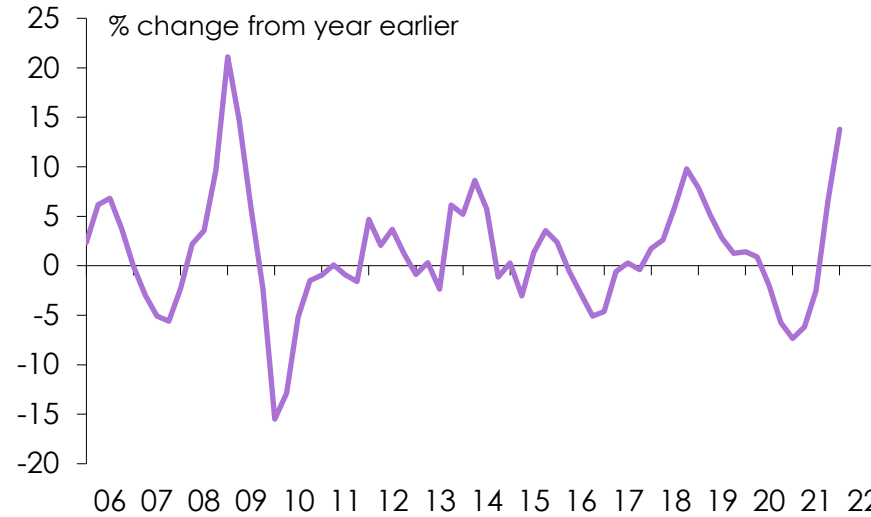
# Domestic 'upstream' price pressures haven't been as intense as in other 'advanced' economies, except in the construction sector

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

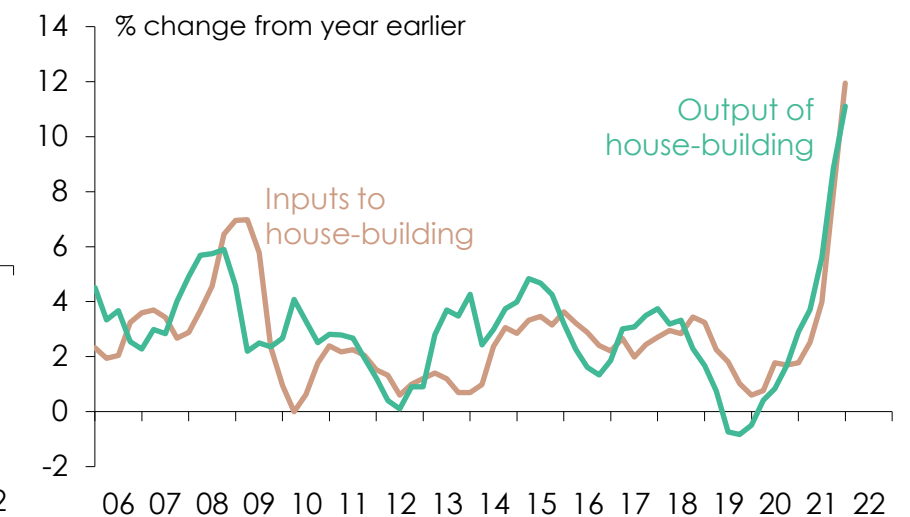
## Producer price index



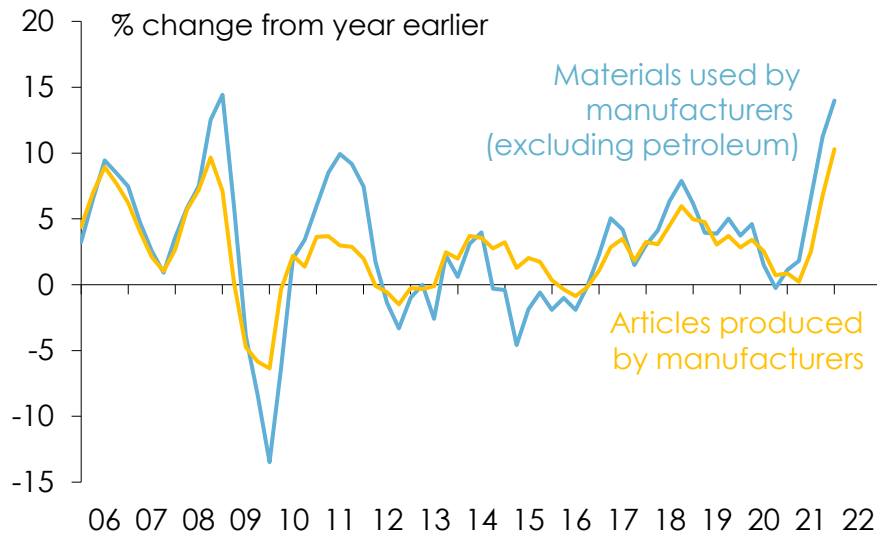
## Import price index



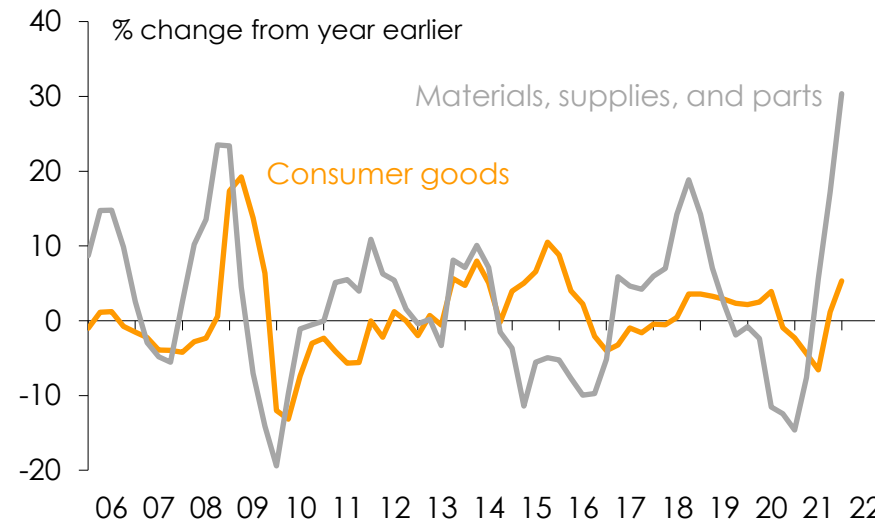
## Construction input & output prices



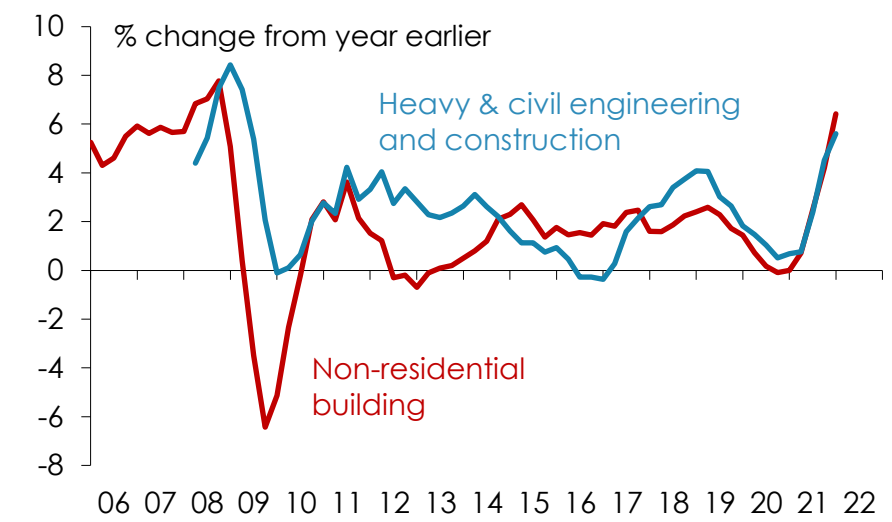
## Manufacturing input & output prices



## Imported consumer goods prices



## Non-residential construction prices



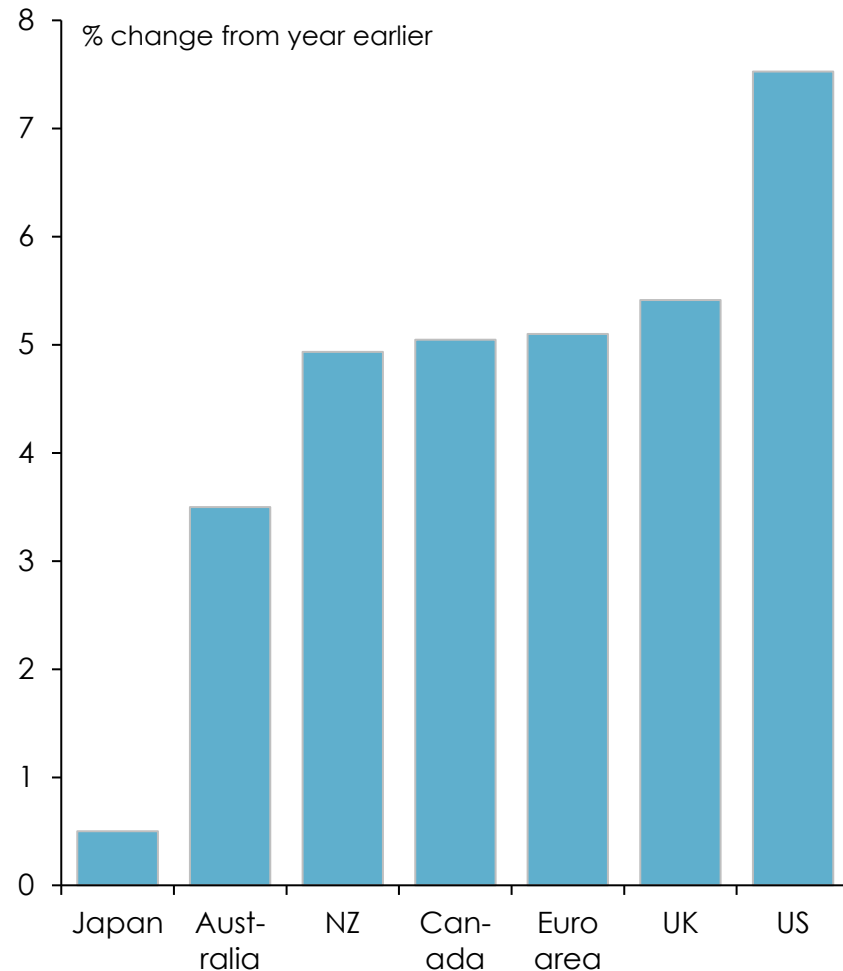
Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), December quarter 2021.

[Return to "What's New"](#).

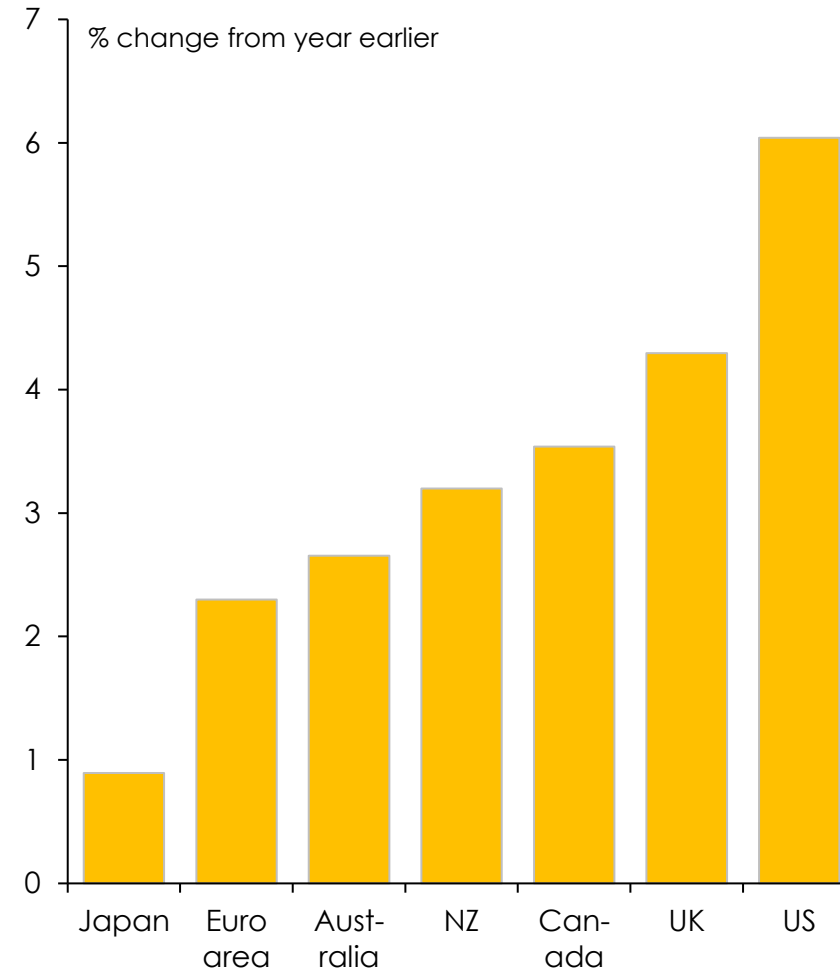
# Although it has surprised to the upside, inflation in Australia hasn't risen nearly as much as in the US, the UK, Canada or New Zealand

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

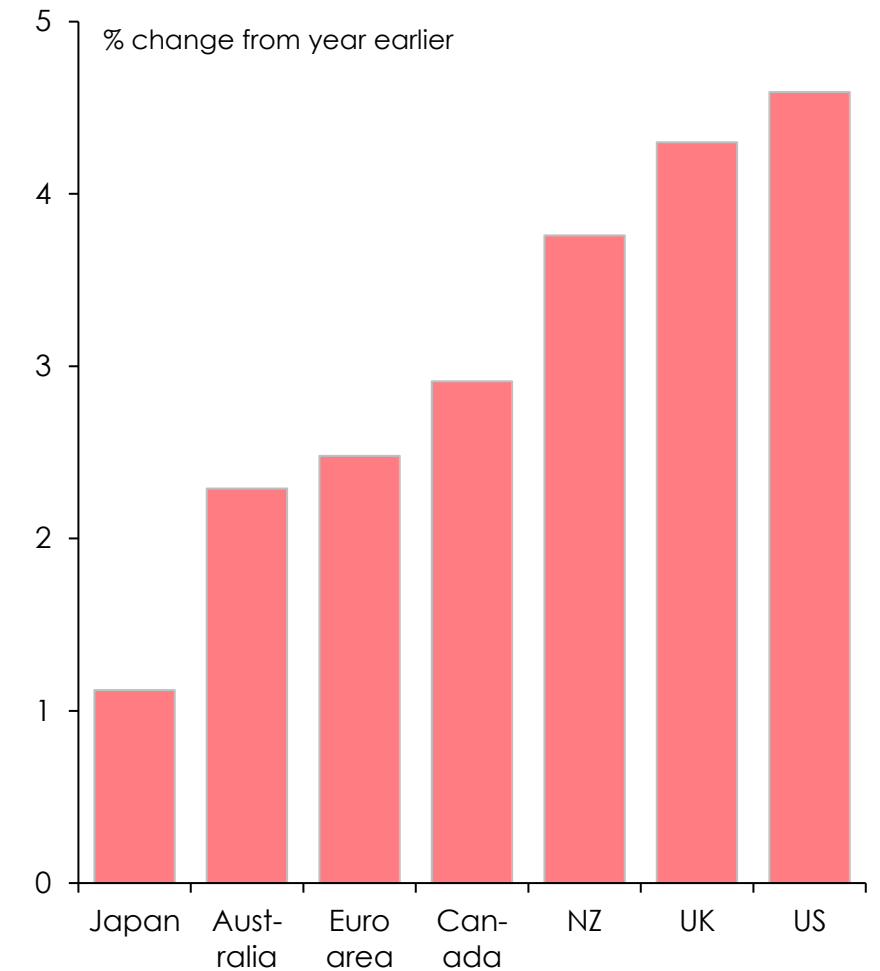
## 'Headline' consumer price inflation



## 'Underlying' or 'core' consumer price inflation



## Wage inflation



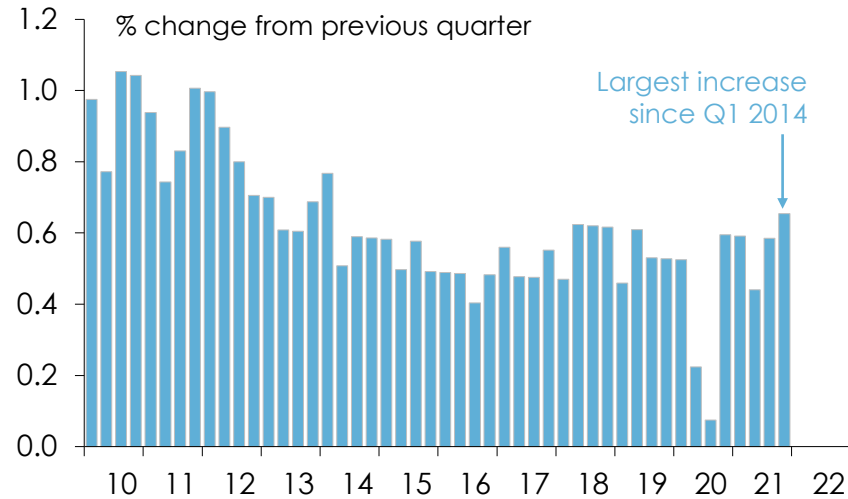
Note: Data are latest available, mostly January or December quarter for CPI inflation, and December or December quarter for wage inflation. 'Core' inflation is CPI excluding food & energy for the US, UK and Canada; trimmed mean for Japan and Australia; and 'sectoral factor model' for NZ. Wage inflation 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"](#).

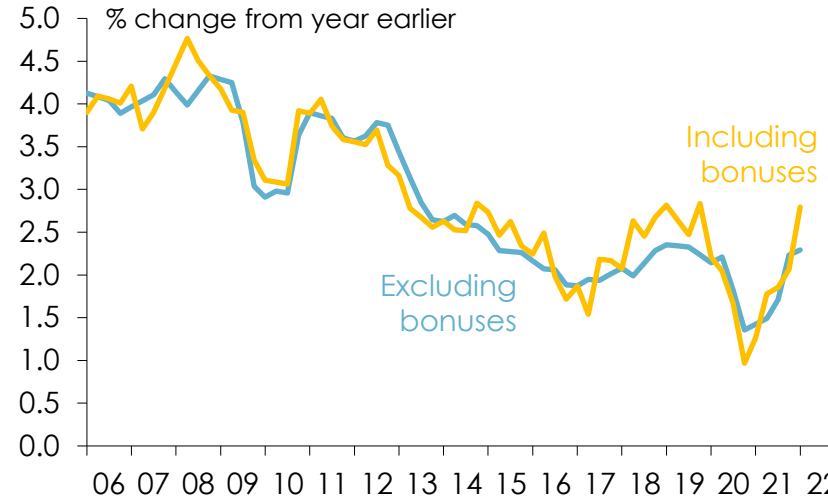
# Wages growth ticked up marginally in the final quarter of 2021 but is yet to break out of the sub-2½% range it's been in since the start of 2015

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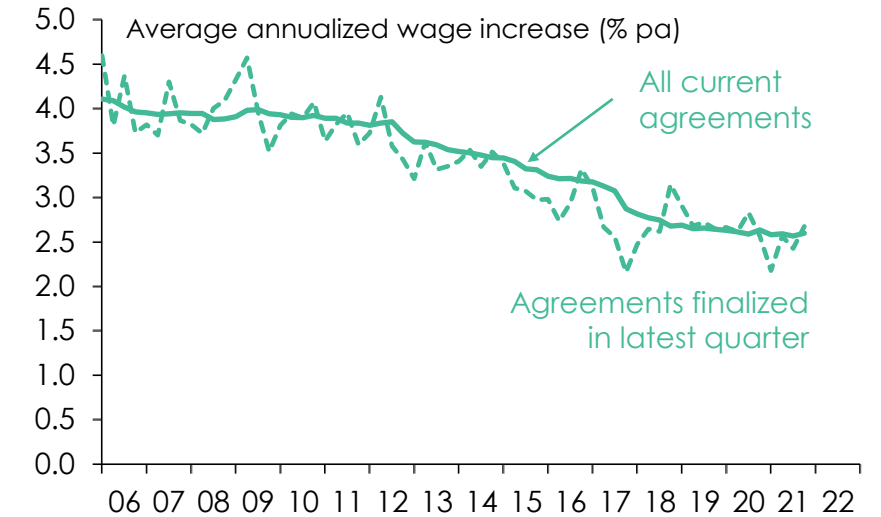
## Wage price index excluding bonuses



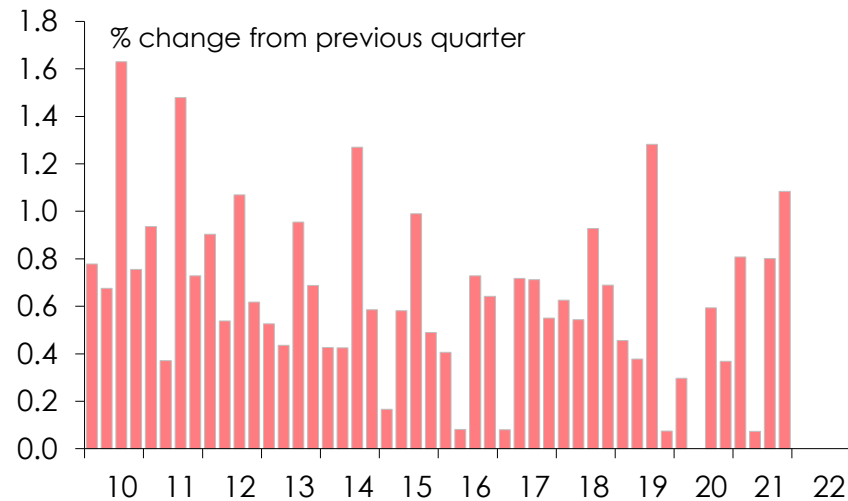
## Wage price index – all sectors



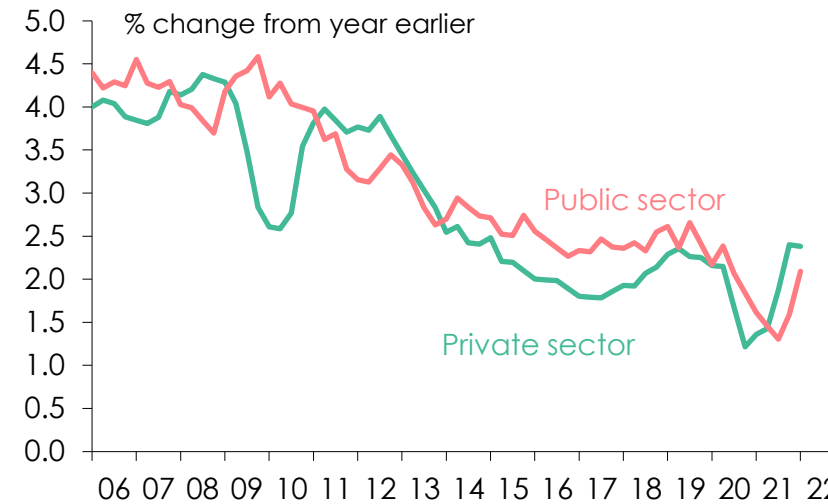
## Enterprise bargaining agreements



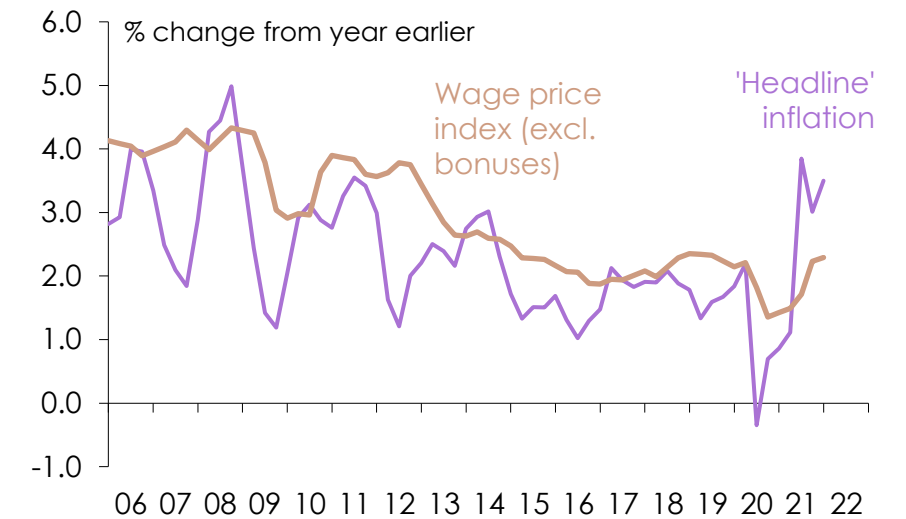
## Wage price index including bonuses



## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation

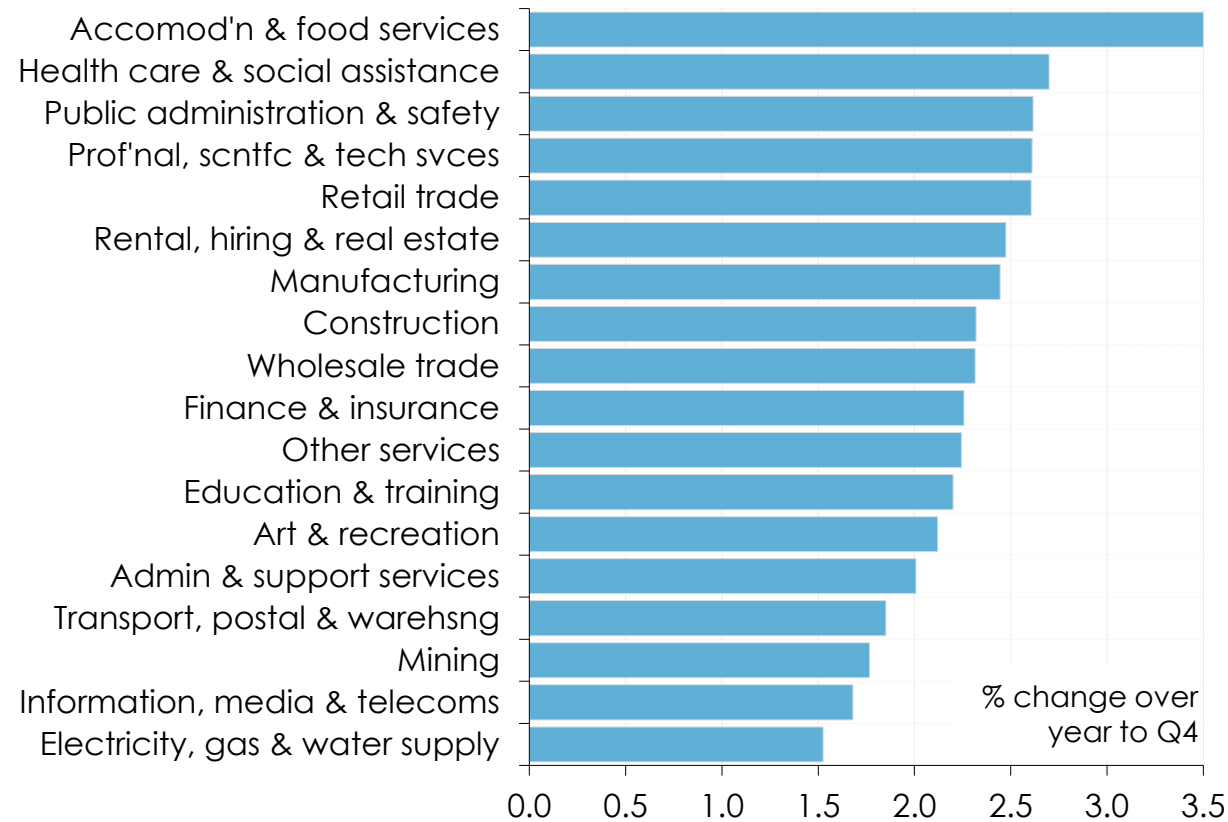


Sources: ABS, [Wage Price Index, Australia](#) Attorney-General's Department, [Trends in Federal Enterprise Bargaining](#); September quarter 2021; March quarter WPI data will be released on 18<sup>th</sup> May. [Return to "What's New"](#).

# Employers in some sectors affected by staff shortages do appear to have lifted wages a bit during Q4 but it's far from across-the-board

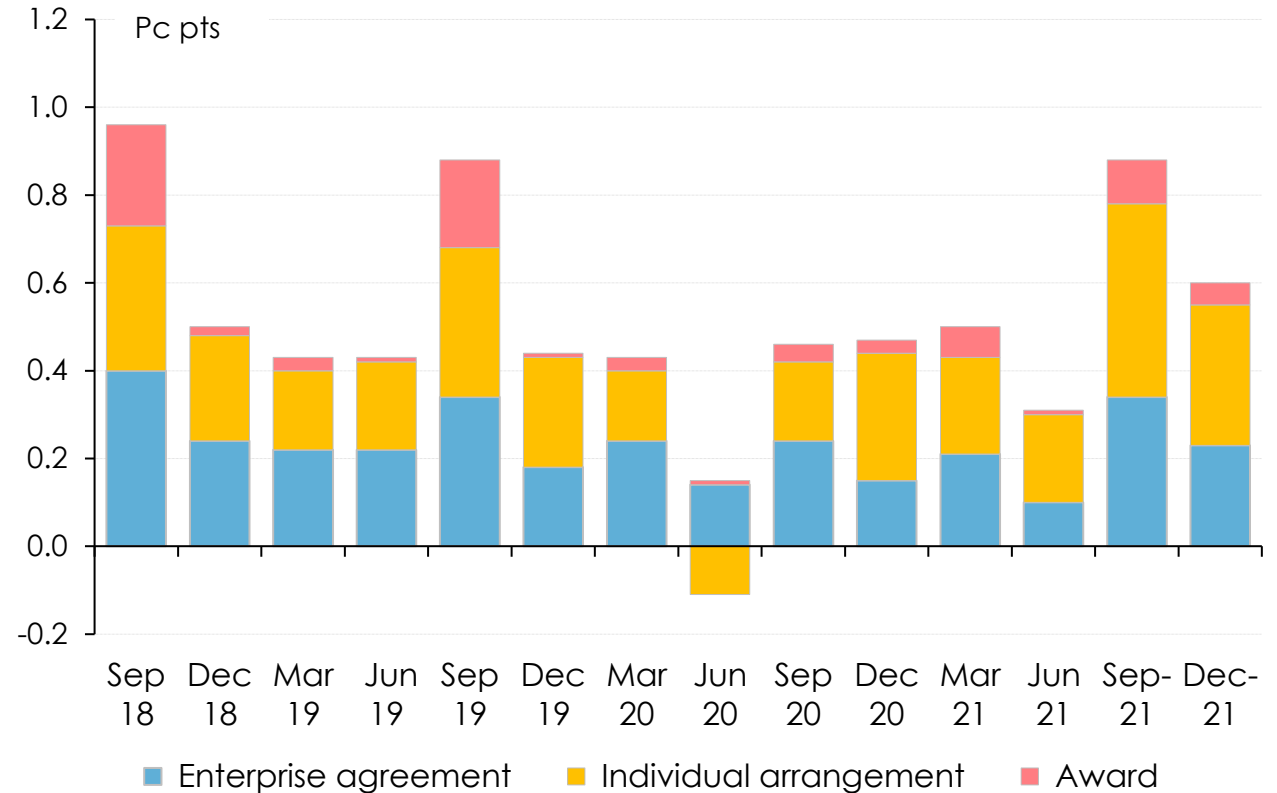
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Increase in wage price index over year to Q4 by sector



❑ Wages growth picked up in Q4 in the accommodation & food services and retail trade sectors where vacancies have been hard to fill, whereas in public admin & safety and health care, wages growth slowed in Q4

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



❑ Individual agreements have been the main contributor to the pick up in wages growth over the past two quarters – while multi-year enterprise agreements inject a degree of inertia into wage-bargaining outcomes

Sources: ABS, [Wage Price Index, Australia](#), December 2021; March quarter WPI data will be released on 18<sup>th</sup> May. [Return to "What's New"](#).

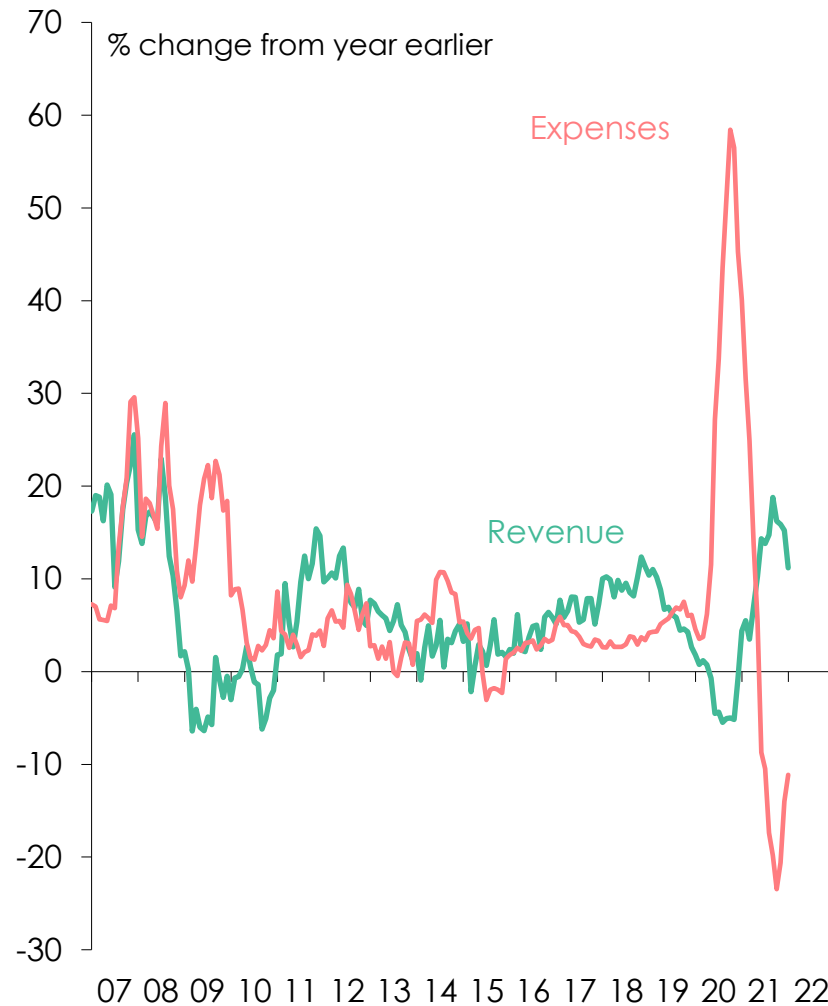
# Fiscal policy



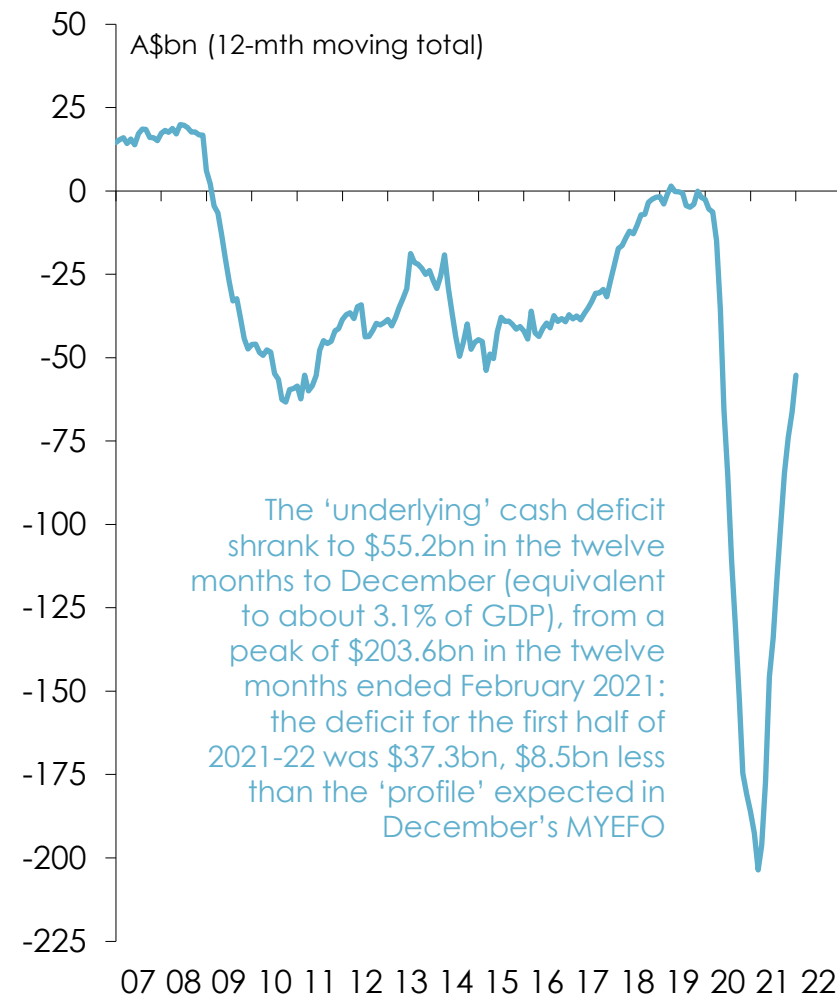
# The Federal budget deficit is declining rapidly, thanks largely to buoyant tax revenues, and net debt appears to have stabilized

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

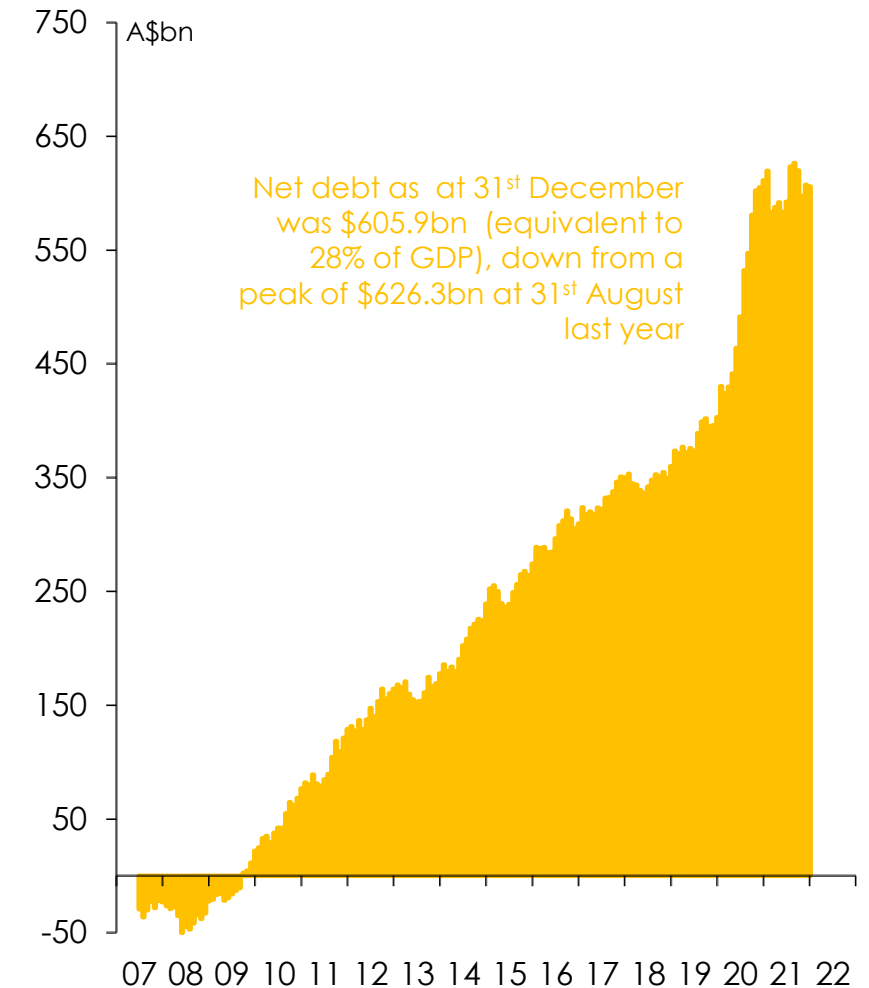
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt



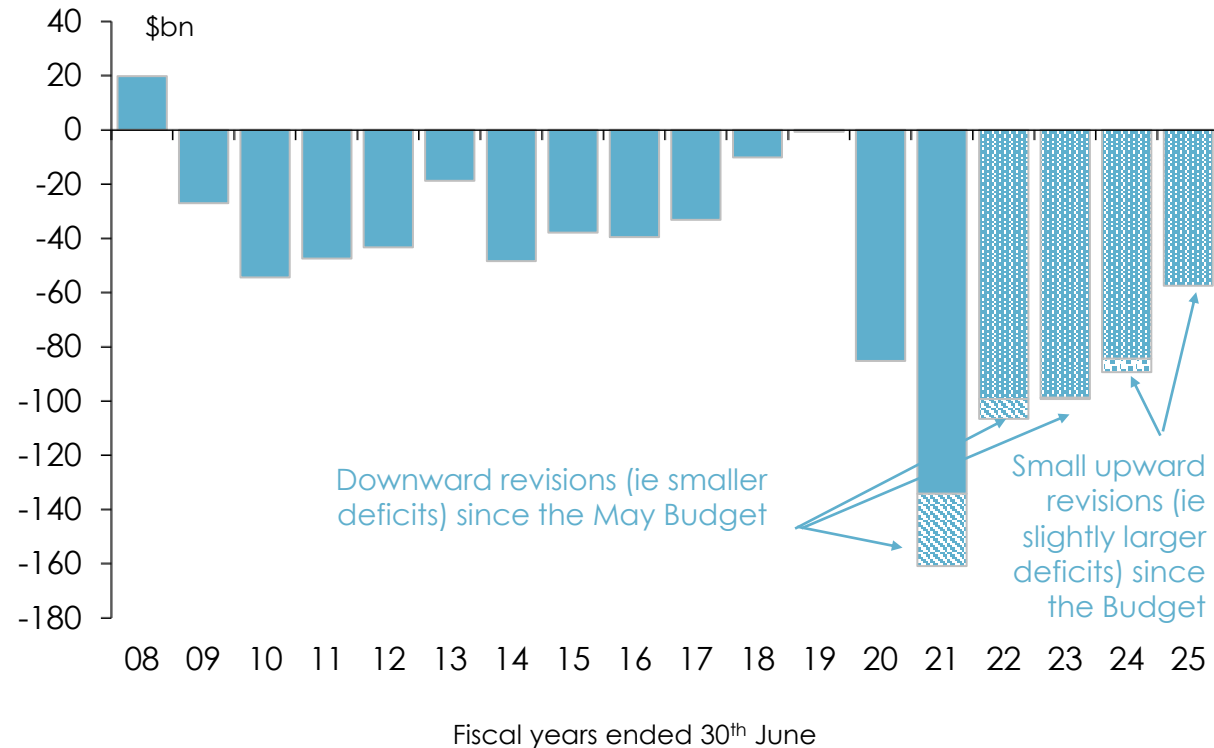
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, 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"](#).

# The 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

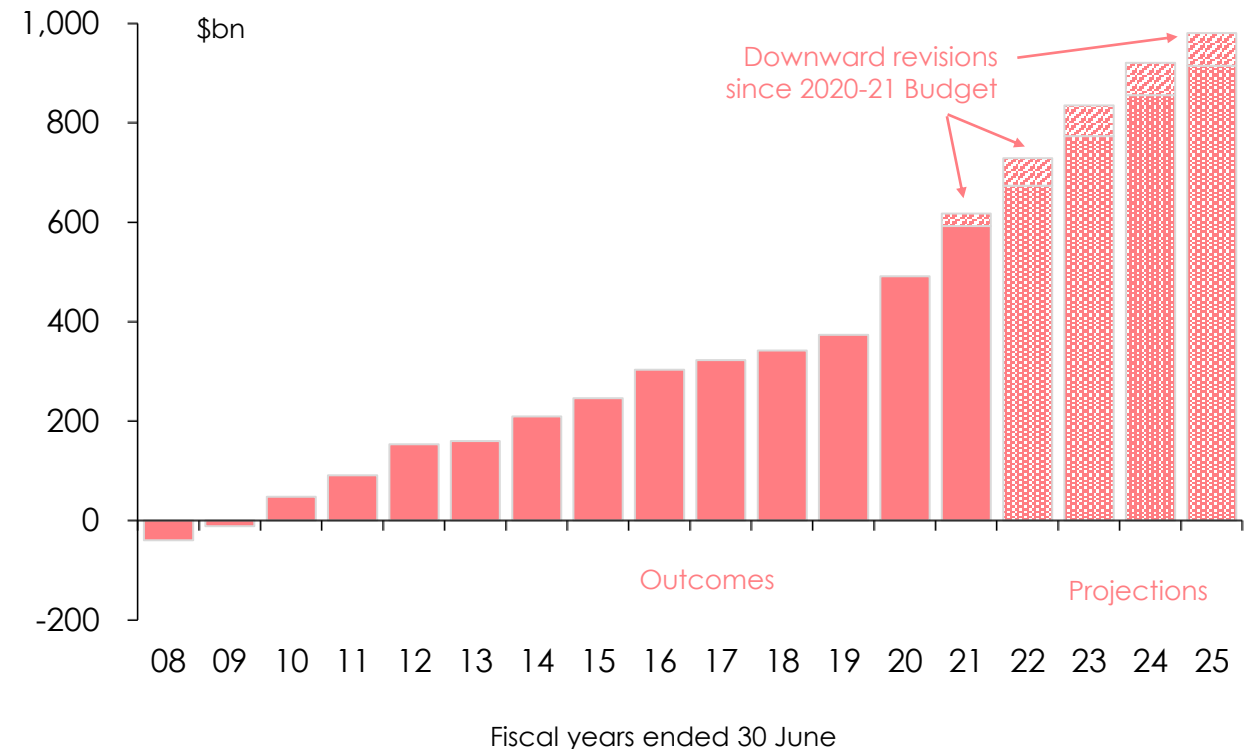
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

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

### 'Underlying' cash balance



### Net debt



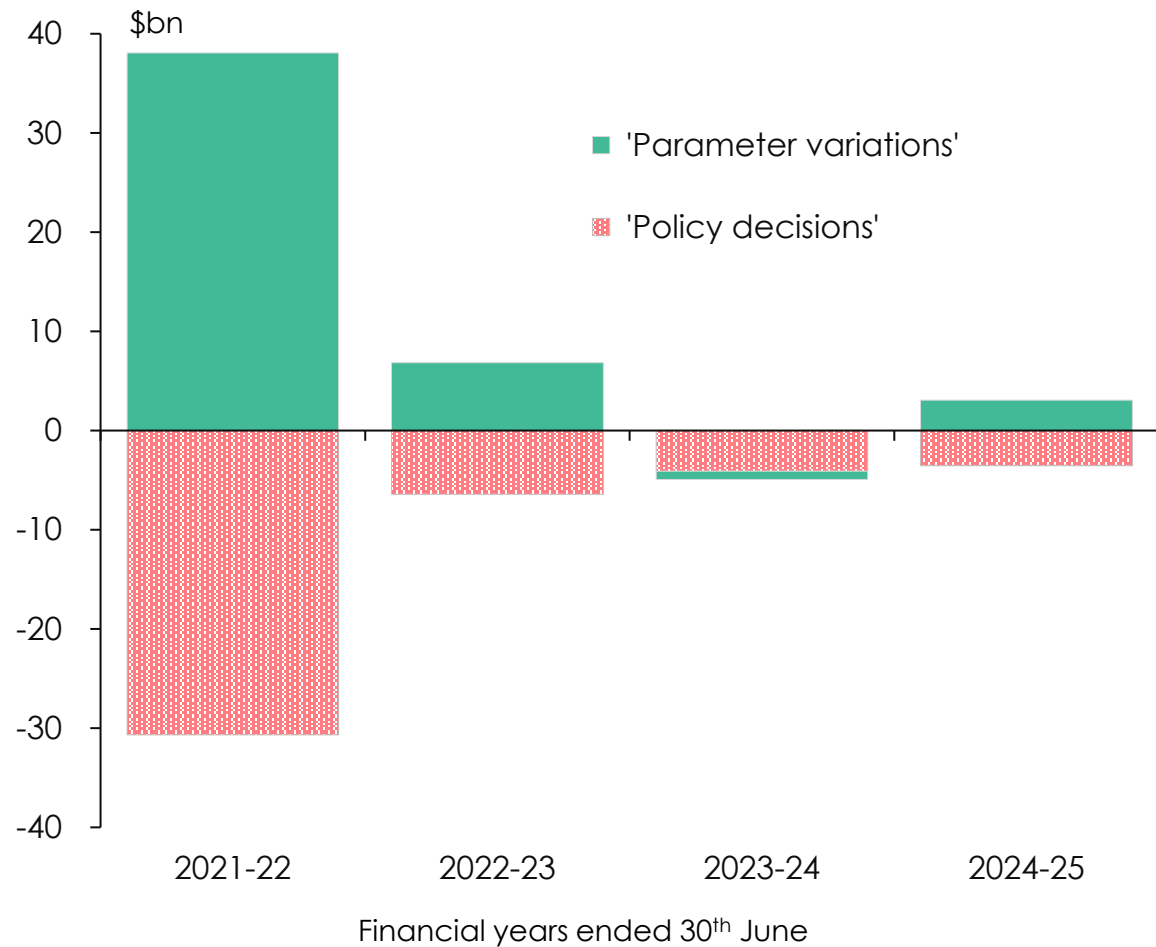
❑ The deficit for 2020-21 of \$134.2bn (6.5% of GDP) was \$27bn less than had been forecast in the May Budget – the deficits for 2021-22 and 2022-23 were revised down by \$7.4bn and \$0.4bn, respectively, while the deficits for 2023-24 and 2024-25 were revised up by \$5bn and \$0.5bn

❑ Net debt as at 30<sup>th</sup> June 2021 was \$25bn less than had been forecast in May – and the forecast for net debt as at 30<sup>th</sup> 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

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## 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

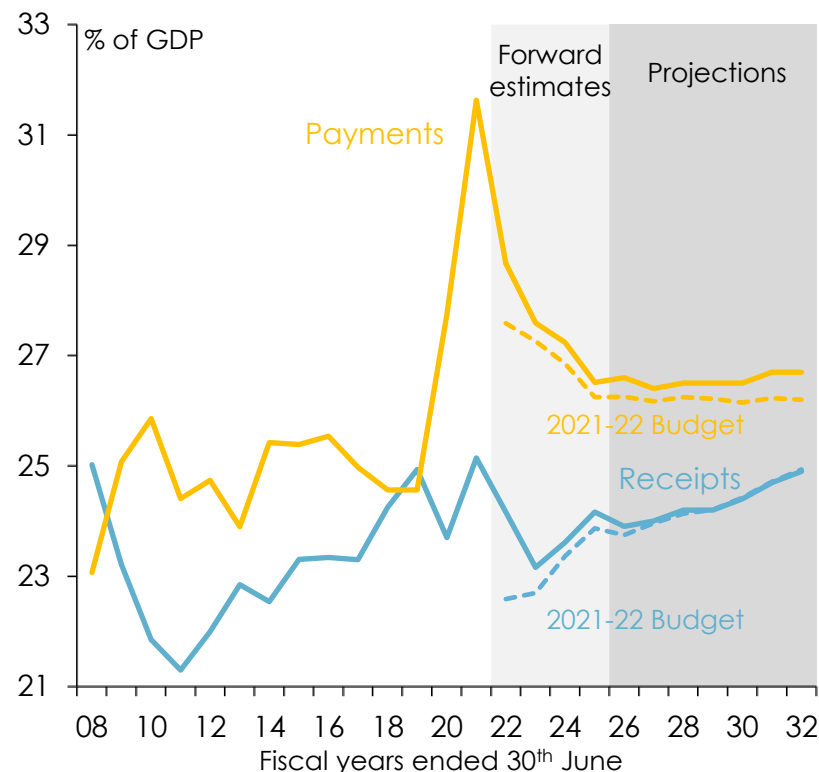
Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021. The 2022-23 Budget will be presented on 29<sup>th</sup> March. [Return to "What's New"](#).

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

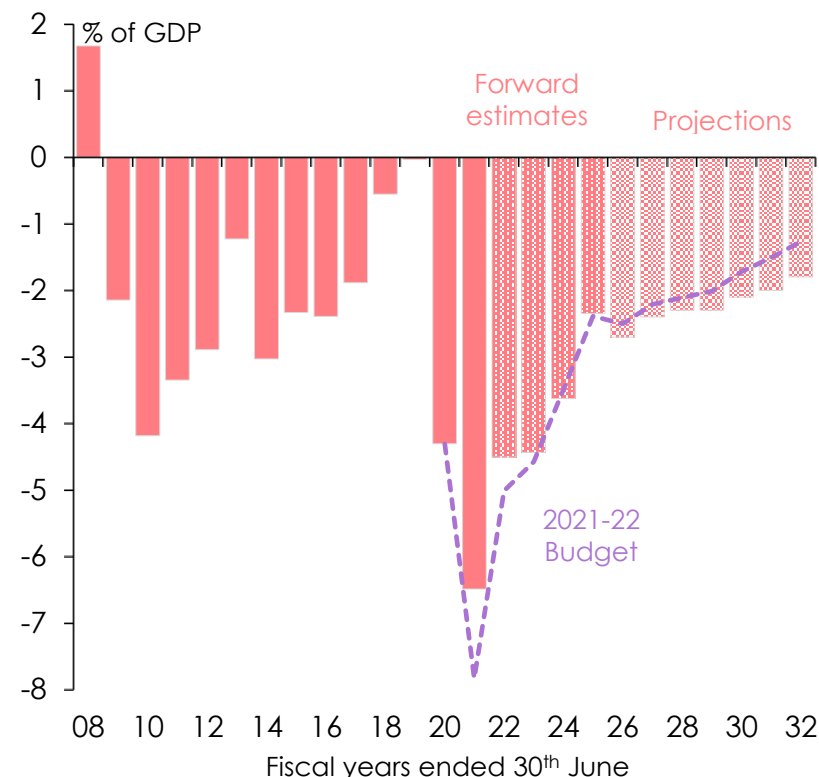
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

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

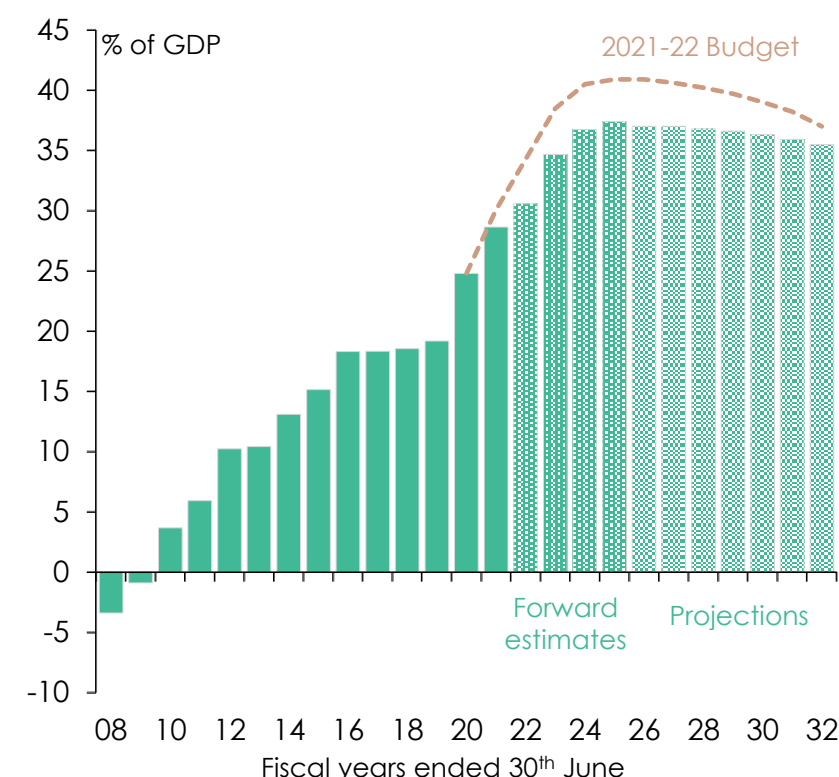
### Receipts & payments



### 'Underlying' cash deficit



### Net debt



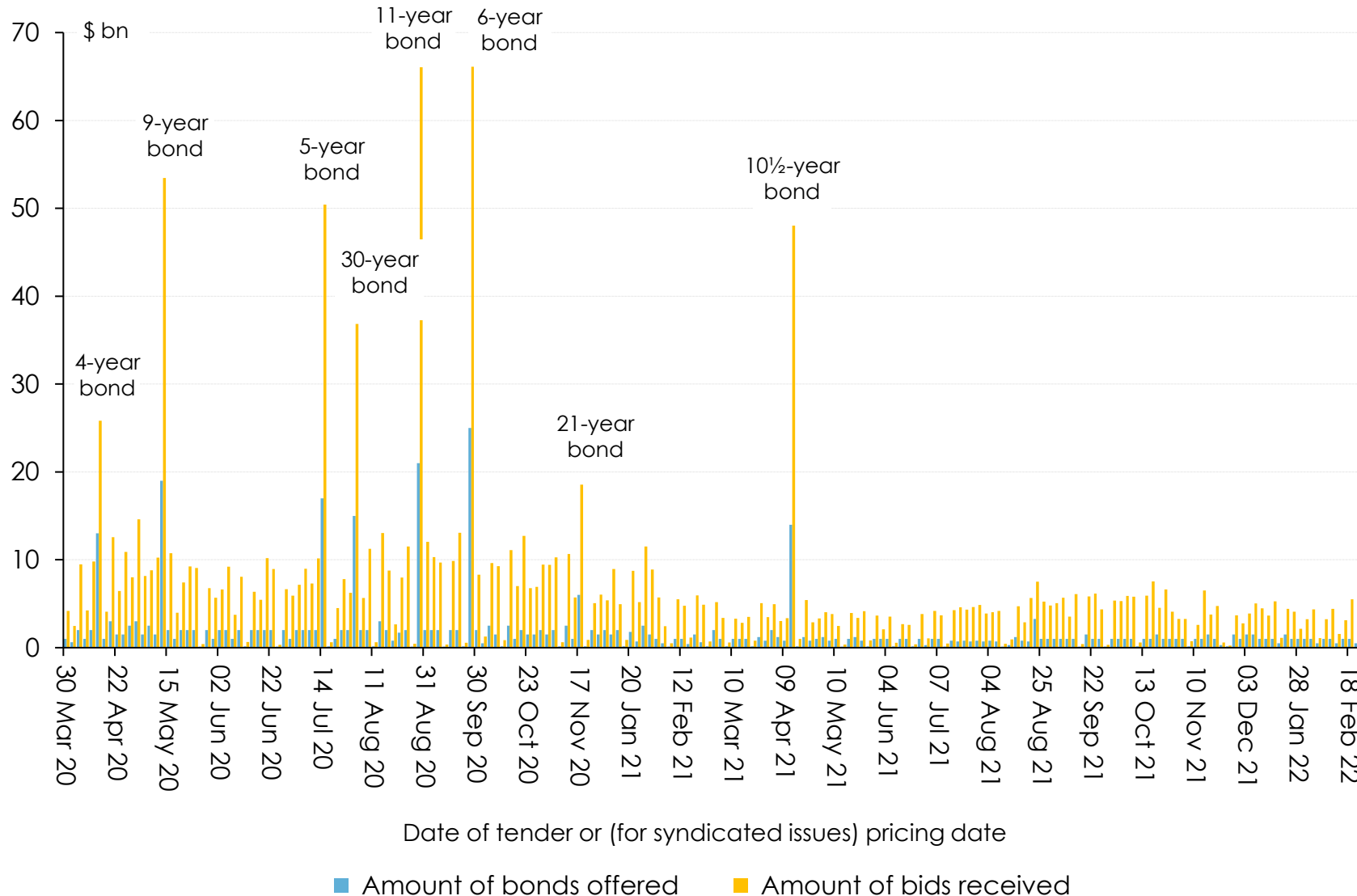
- ❑ MYEFO projects higher spending and revenues over the medium term than in the May Budget (and in the case of spending, significantly higher than in the pre-Covid era) – leading to persistent budget deficits (higher over the medium term than projected in the May Budget) – unless the quite arbitrary 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](#), 16<sup>th</sup> December 2021. The 2022-23 Budget will be presented on 29<sup>th</sup> March.  
[Return to "What's New"](#).

# The Government continues to find a ready appetite for its bond issuance – in the past five weeks it has received bids of \$54bn for \$15bn of bonds

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## Australian government bond issuance since March 2020



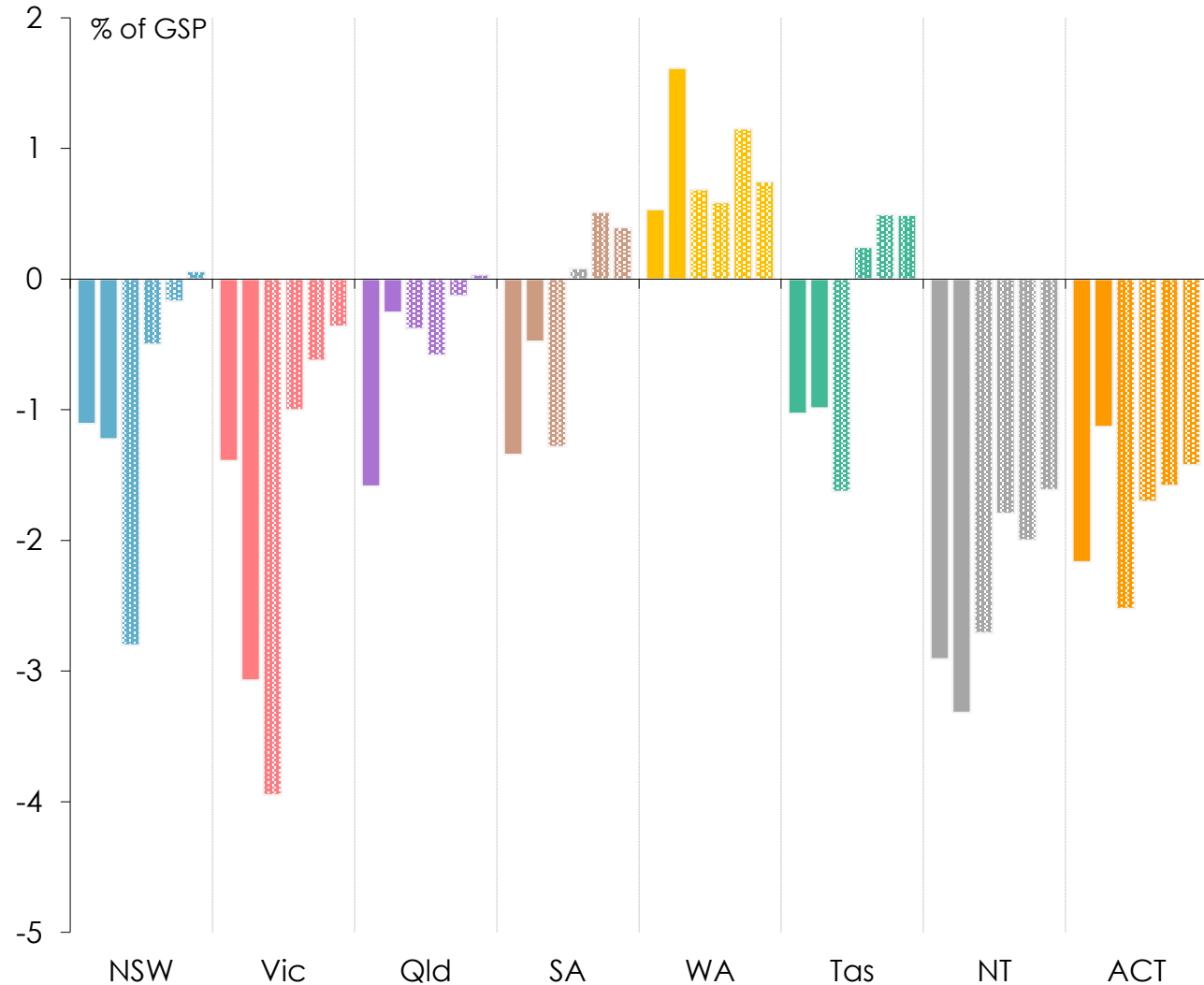
- ❑ On 7<sup>th</sup> January AOFM indicated it would issue about \$61bn of Treasury bonds, and \$5-5½bn of indexed bonds, over the six months to June
- ❑ Since resuming auctions on 12<sup>th</sup> January, the AOFM has sold \$15bn of bonds – including this week \$500mn of Nov 2029s, \$1bn of May 2032s, and \$500mn of Jun 2035s, for which it received bids totalling \$6.8bn
- ❑ So far this financial year, the AOFM has received bids totalling over \$263bn for the \$62.4bn of bonds it has offered for sale – a ‘coverage ratio’ of 4.2 times, cf. 3¾ times during the 2020-21 financial year
- ❑ Since 30<sup>th</sup> March 2020, the Australian Office of Financial Management has issued over \$359bn of Treasury bonds – based on the volume of bids received it could have borrowed \$1.36 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"](#).

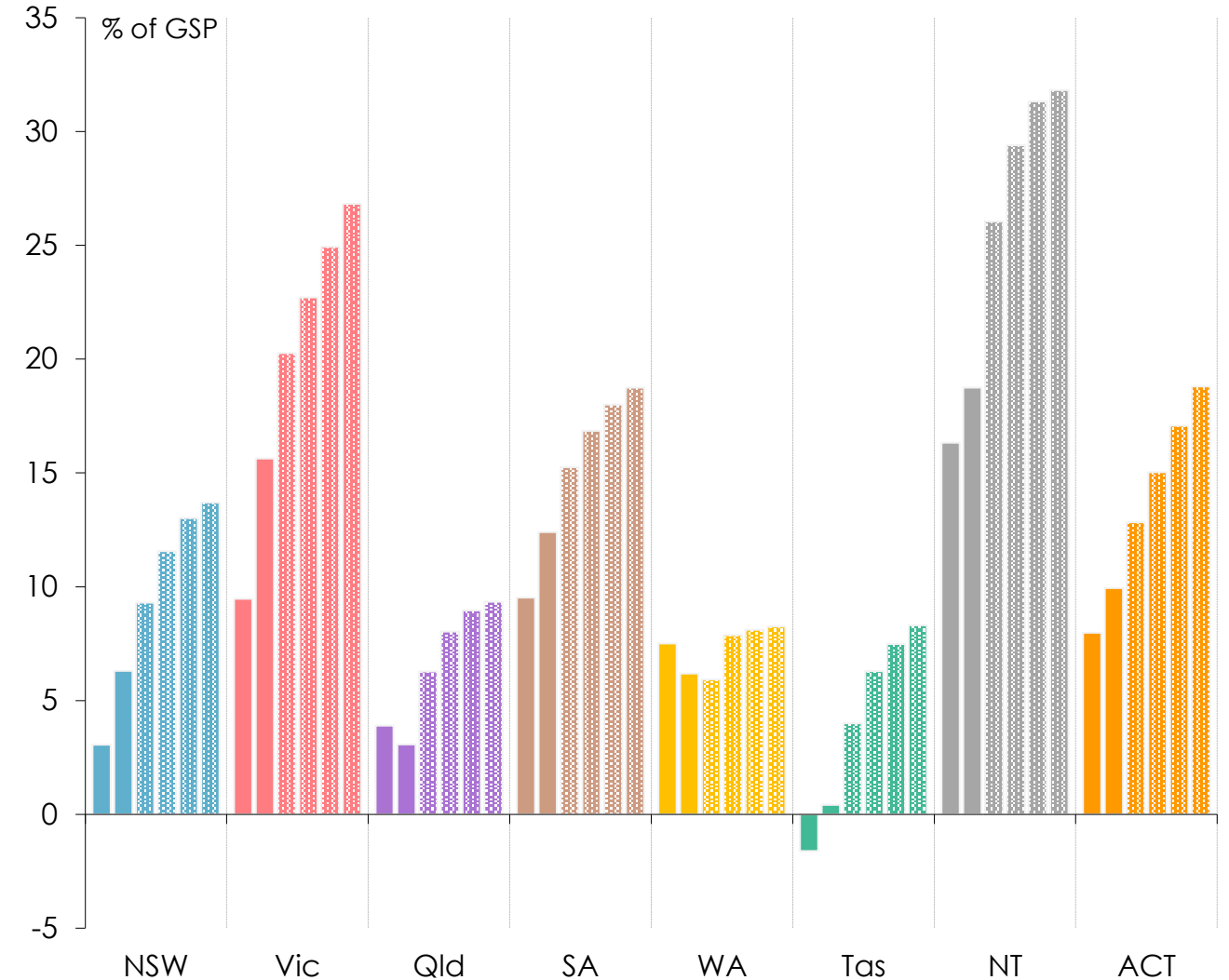
# Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

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## States and territories – ‘net operating balances’



## States and territories – net debt



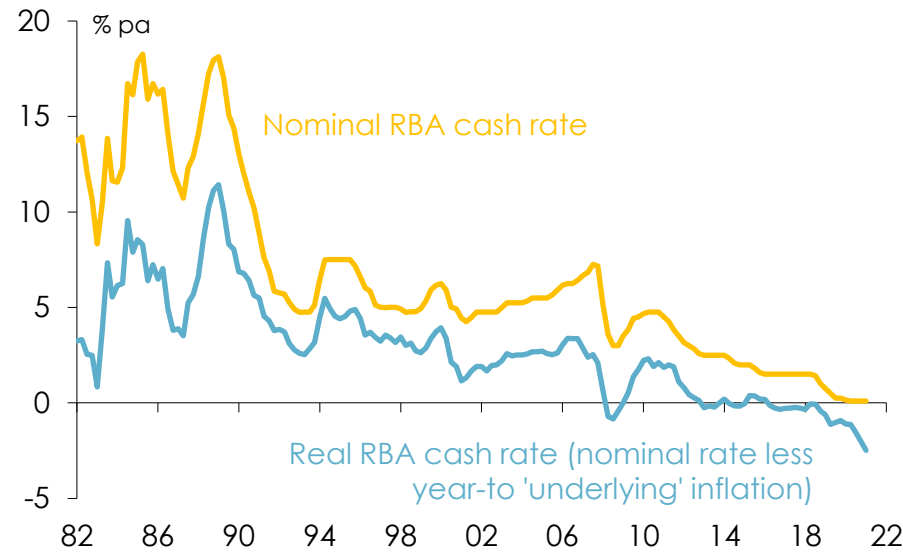
Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than 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 Mid-Year Reviews.

# Monetary policy and the RBA

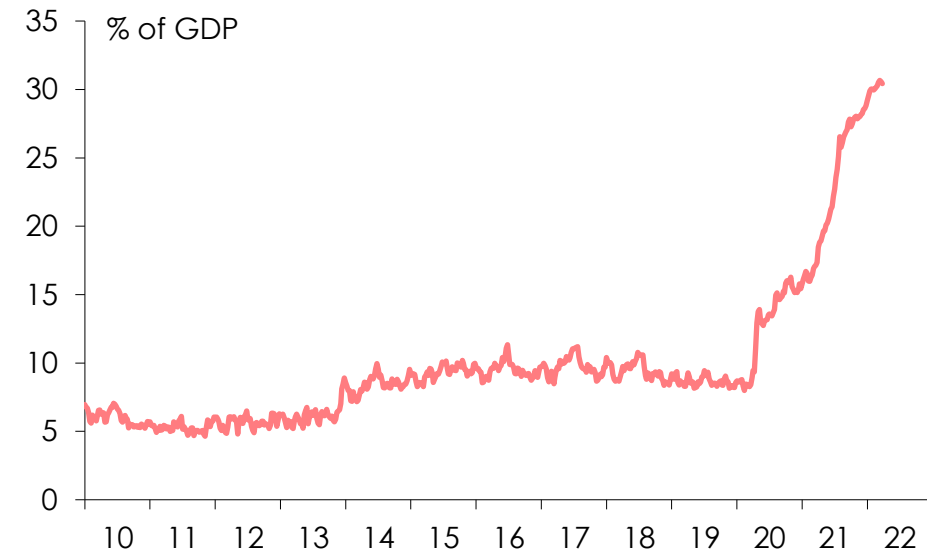
# The RBA is likely again to leave the cash rate at 0.10% at Tuesday's Board meeting, and to re-iterate its desire for "more data" on inflation

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Reserve Bank cash rate



## Reserve Bank assets as a pc of GDP



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

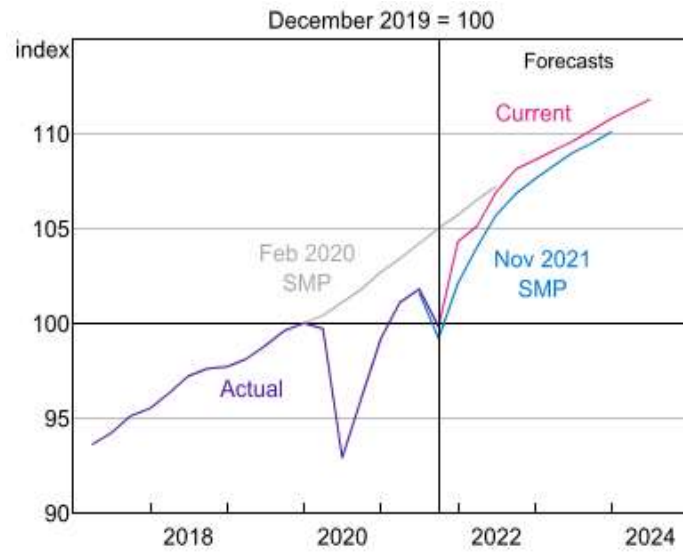
- ❑ As expected, the RBA decided to terminate its bond purchase program, with effect from 10<sup>th</sup> February, at Tuesday's board meeting, and left its cash rate unchanged at 0.10%
- ❑ In his [post-meeting statement](#) Governor Philip Lowe emphasized that the decision to end its bond purchases "does not imply a near-term increase in interest rates", but rather reflects the "faster-than-expected progress" made towards the RBA's inflation and employment goals, and the fact that many other central banks have ended, or will soon end, their 'QE'
  - the Board will consider whether to continue re-investing the proceeds of maturing bonds in its portfolio at its May meeting
- ❑ [Speaking](#) to the House of Representatives Economics Committee on 11<sup>th</sup> February, Dr Lowe again emphasized it was "too early" to conclude that inflation was "sustainably in the target range", especially given that "aggregate wages growth is no higher than before the pandemic"
  - he argued that the RBA had more scope "to wait and see how the data develop and how some of the uncertainties [around the inflation outlook] are resolved", than its counterparts in "countries with higher inflation rates"
  - the wage price index data released this week ([slide 70](#)) will have re-inforced the RBA's inclination to "wait and see"
- ❑ Whilst acknowledging that there were "risks to waiting" before raising rates, the Governor asserted that "there is also a risk to moving too early", namely, putting at risk "the opportunity to secure a lower rate of unemployment than was thought possible just a short while ago"



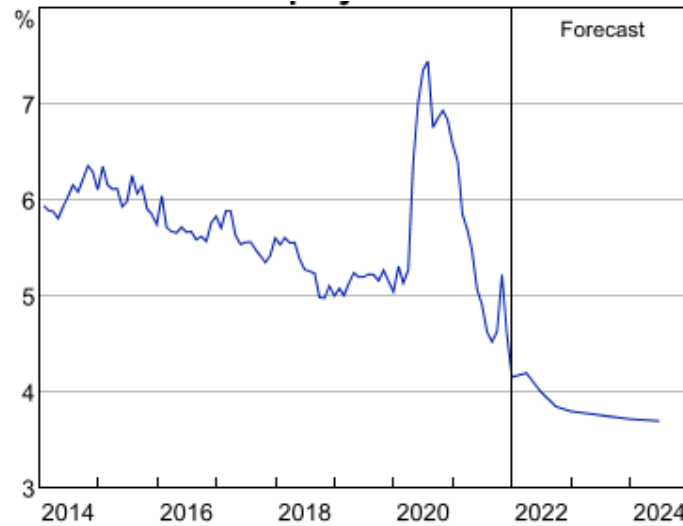
# The RBA upgraded its forecasts for near-term economic growth, lowered its forecasts for unemployment, and raised its forecasts for inflation

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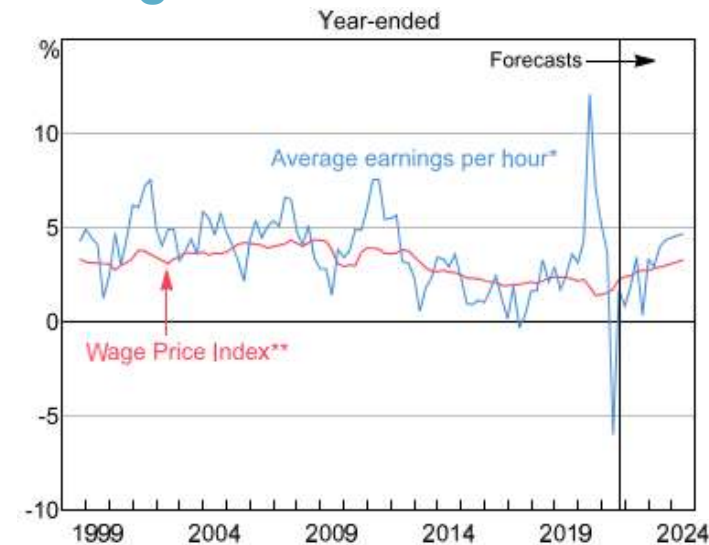
## GDP



## Unemployment



## Wages



## 'Underlying' inflation



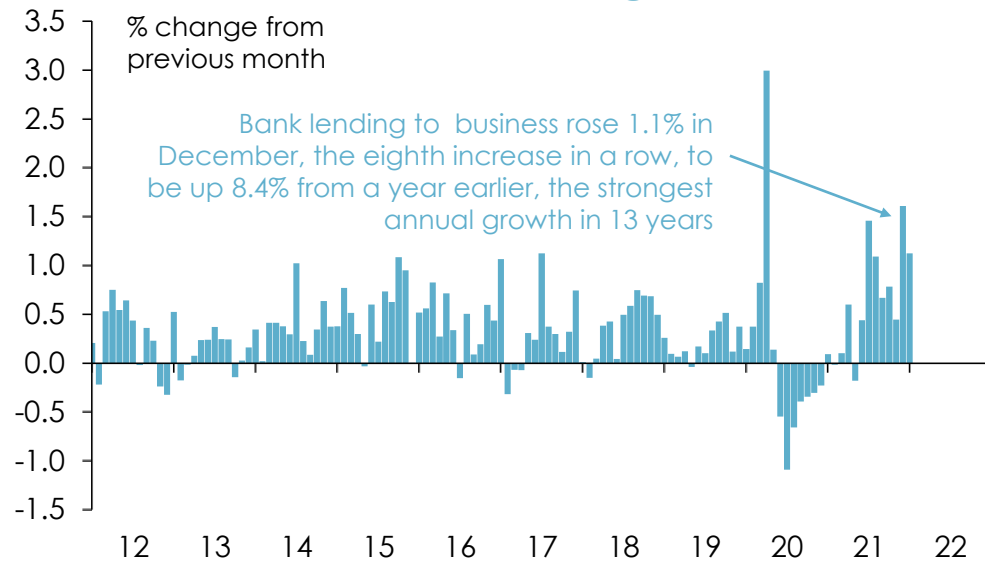
- ❑ In its latest [Statement on Monetary Policy](#), released on 4<sup>th</sup> February, the RBA upwardly revised its near-term real GDP growth forecast – from 4% to 5% over the year to Q2 2022 – but lowered its forecast for the year to Q2 2023 to 2½% (from 3¼%), and slowing further to 2% over the year to Q2 2024
- ❑ The RBA expects the unemployment rate to fall to 3¾% by Q4 this year (cf. its November forecast of 4¼%), and remain at that level through Q2 2024
- ❑ Despite this, wages growth is still expected to pick up only “gradually”, reflecting the impact of “more muted growth” in public and private enterprise agreements, and “the multi-year duration” of private sector agreements: annual growth in the WPI is forecast to increase only marginally to 2½% by the end of this year, and then to 3¼% by mid-2024
- ❑ ‘Headline’ inflation is expected to peak at 3¾% in Q2 (up from 2¾% previously) reflecting further pass-through of upstream cost pressures in durable goods and dwelling construction, before easing back to 2¾% from Q2 2023 on
- ❑ The RBA expects the same factors to lift ‘underlying’ inflation to a peak of 3¼% in Q2 this year, but then to fall back to 2¾% by Q4 this year and remain at that level thereafter (an upward revision from 2¼-2½%) underpinned by “the absorption of remaining spare capacity in the labour market”

Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 4<sup>th</sup> February. The RBA's next set of forecasts will be published on 6<sup>th</sup> May. [Return to "What's New"](#).

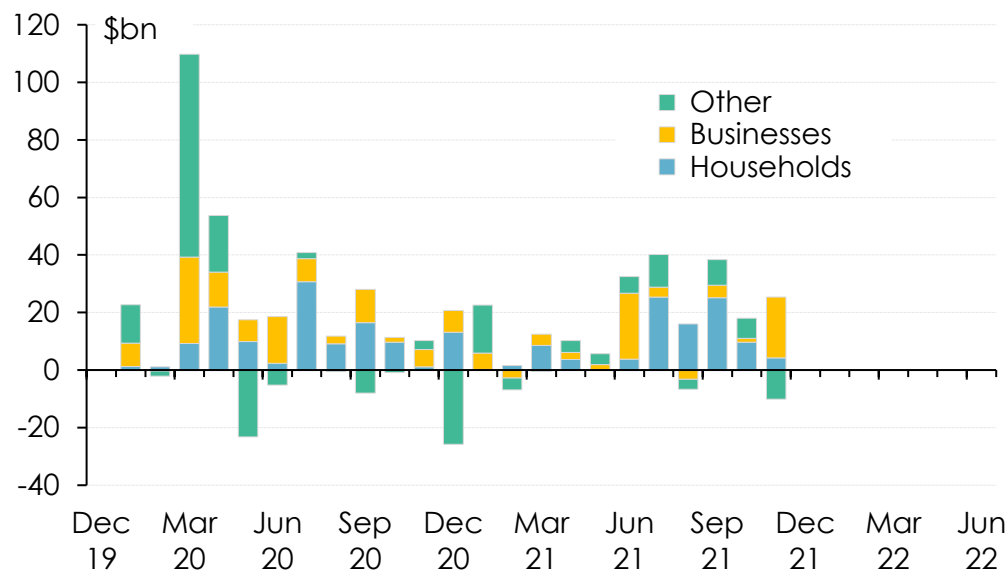
# Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

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## Business credit outstanding



## Monthly change in bank deposits



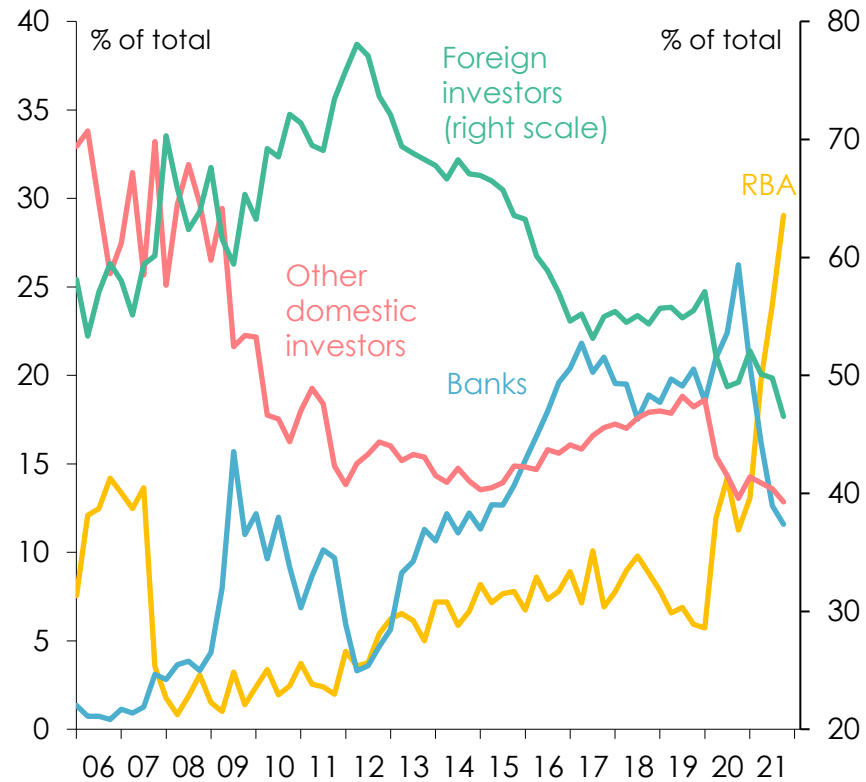
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during last year’s lockdowns
  - over the 12 months to December 2021, bank lending to business grew at its fastest rate since 2008
- ❑ Banks extended ‘repayment holidays’ to business and home mortgage borrowers who requested it
- ❑ Bank deposits have swelled by \$475bn (22%) 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 \$242bn (24½%) 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 \$171bn (28¾%)

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%

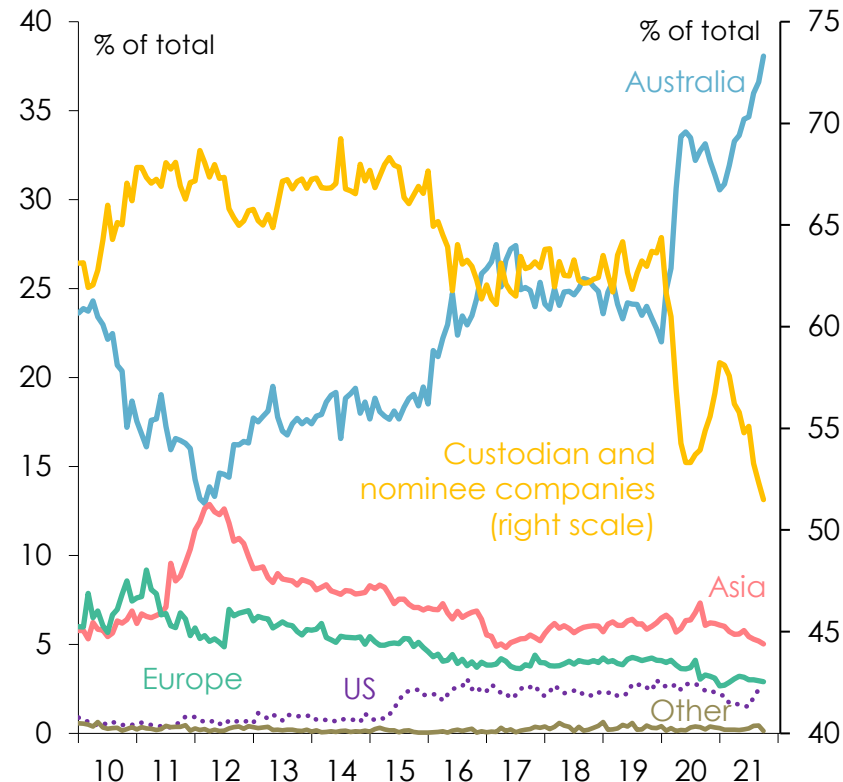
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Holders of Australian Government bonds



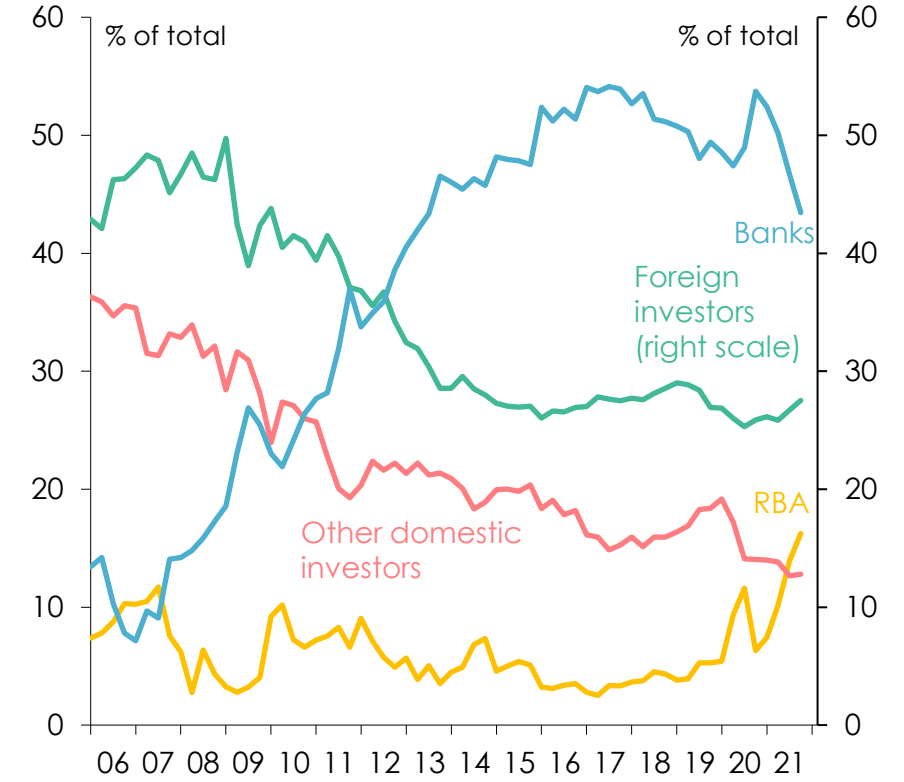
Australian Gov't bonds on issue have increased by \$266bn since the end of 2019 – of which \$225bn (85%) have been absorbed by the RBA, and \$56bn by foreigners, while banks have reduced their holdings by \$13bn

## 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

## Holders 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

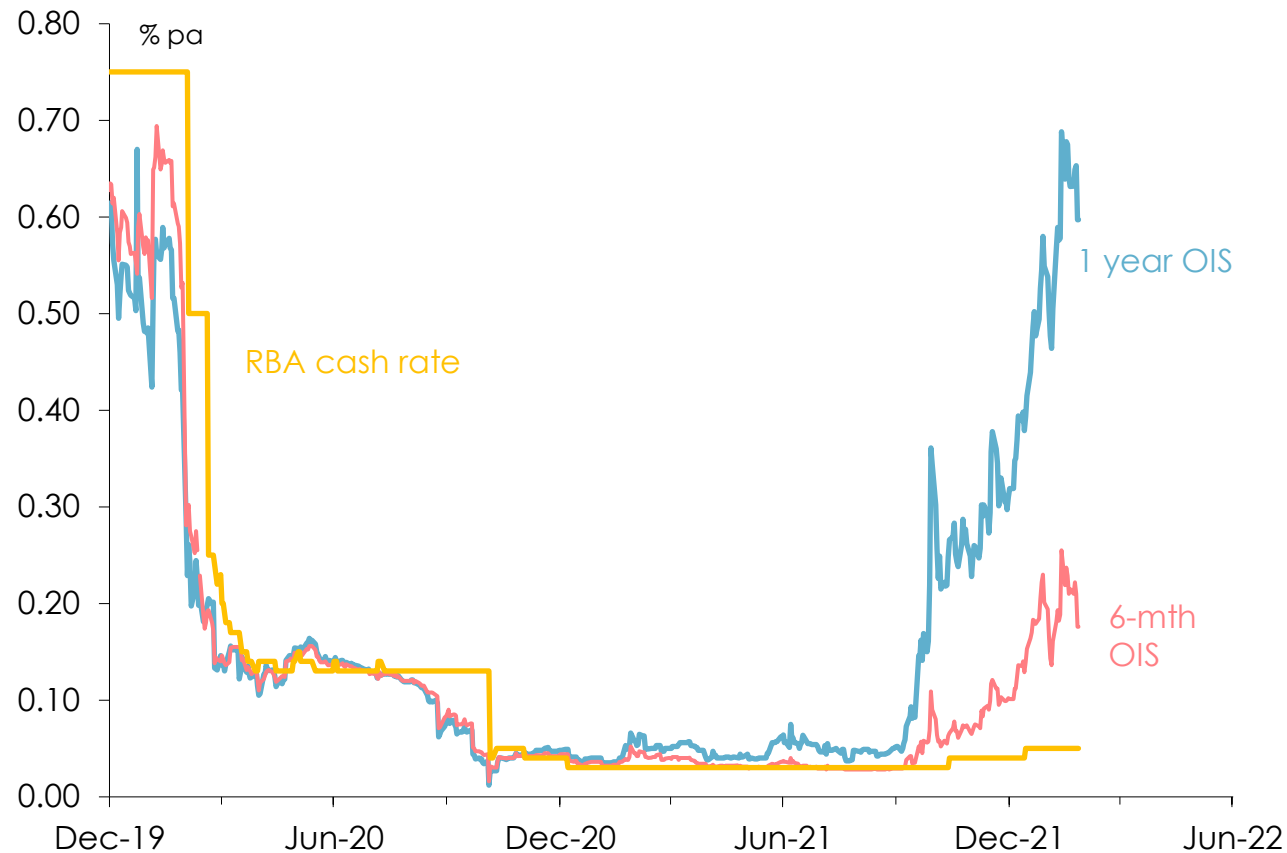
Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; [Australian Office of Financial Management](#). December quarter data will be released on 31<sup>st</sup> March 2022. [Return to "What's New"](#).

# Australian financial markets

# Financial markets this week slightly lowered their odds on early RBA rate hikes, while long-term yields eased after the Russian assault on Ukraine

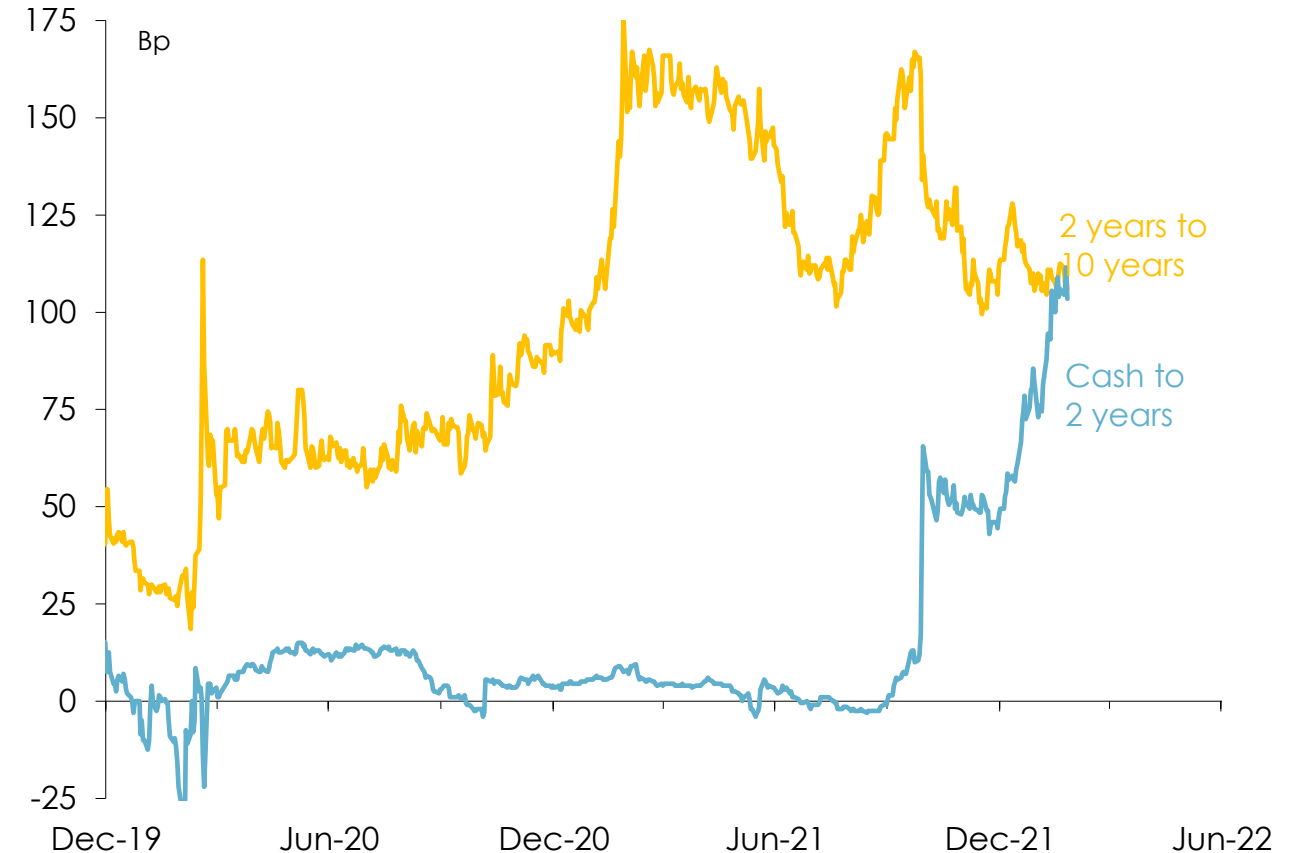
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Overnight index swap rates



- Short-term money markets reduced their ‘odds’ on the prospects for increases in the RBA cash rate this week, after 2021 Q4 wages data strengthened the RBA’s argument for waiting ([slide 70](#))

## Yield curves

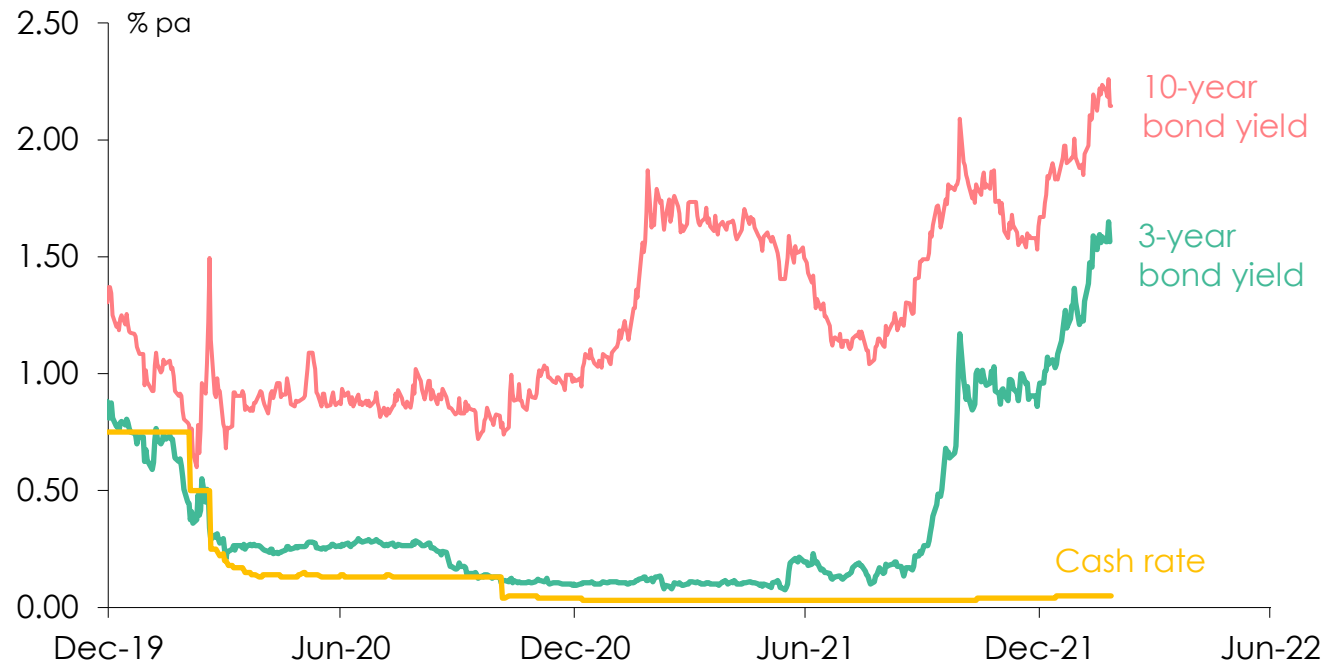


- The 2-year / cash spread narrowed 5 bp this week as money markets shaded the probabilities attaching to early rate hikes, while 2-year /10-year spread also narrowed a bit as long-term yields fell after the Russian invasion of Ukraine

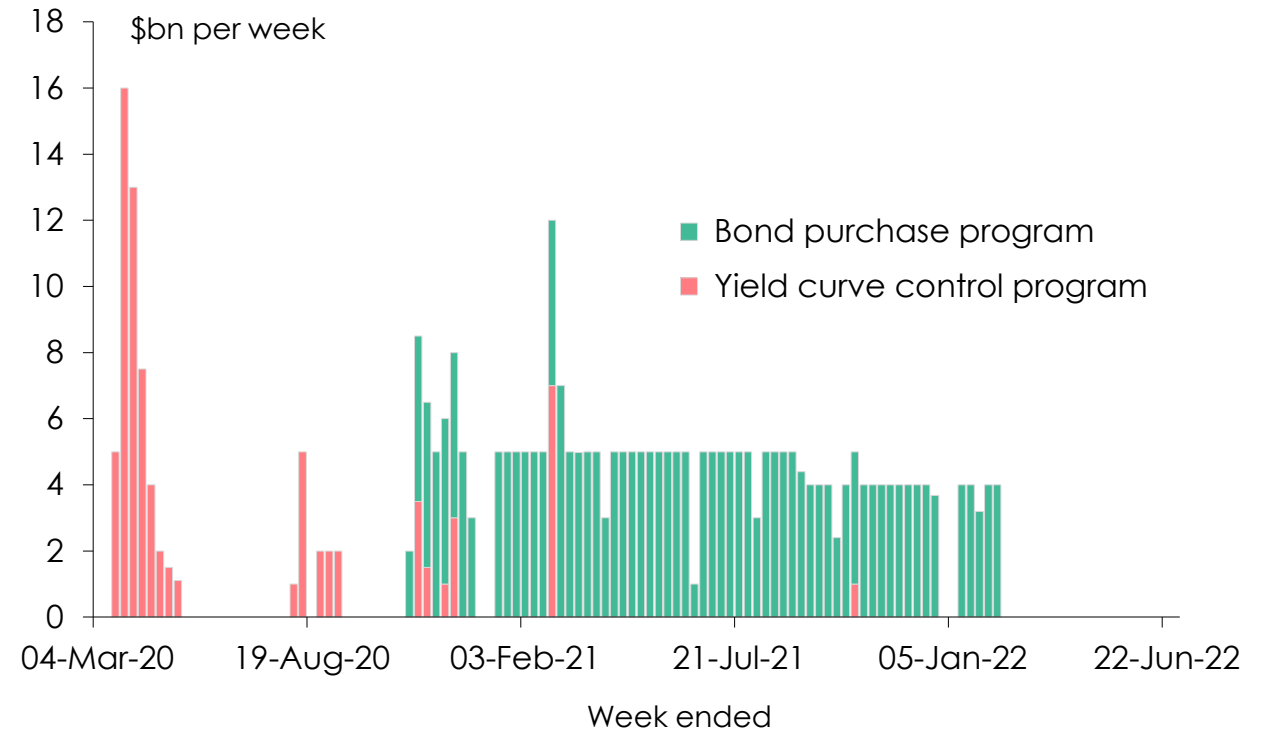
# Longer-term bond yields eased, in line with global trends, after the commencement of Russia's assault on Ukraine

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

## Interest rates



## RBA open market bond purchases



- ❑ Short-term bond yields eased a little this week after 2021 Q4 wages data strengthened the RBA's argument for waiting for more data before concluding that inflation was 'sustainably' within its target band ([slide 70](#))
- ❑ The 10-year yield eased from a high on Wednesday of 2.26%, following global trends, after the Russian invasion of Ukraine which began on Thursday (Australian time)

- ❑ The RBA purchased its final \$4bn of bonds under its now-terminated Bond Purchase Program in the second week of February, bringing the total amount of purchases under it to just under \$281bn, which together with purchases of \$80bn under the 3-year yield curve target program which was discontinued at the end of October last year means that, in all, the RBA purchased almost \$359bn of bonds, equivalent to about 17% of GDP

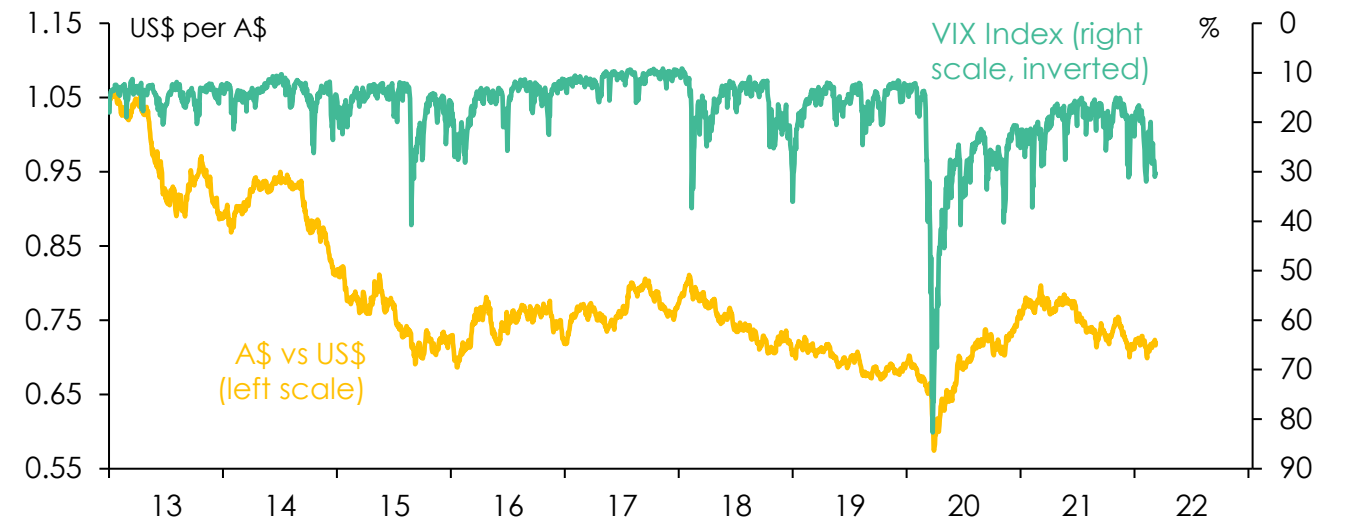
# The A\$ rose over the first half of this week aided by a recovery in the iron ore price but eased back below US72¢ after the Russian invasion of Ukraine

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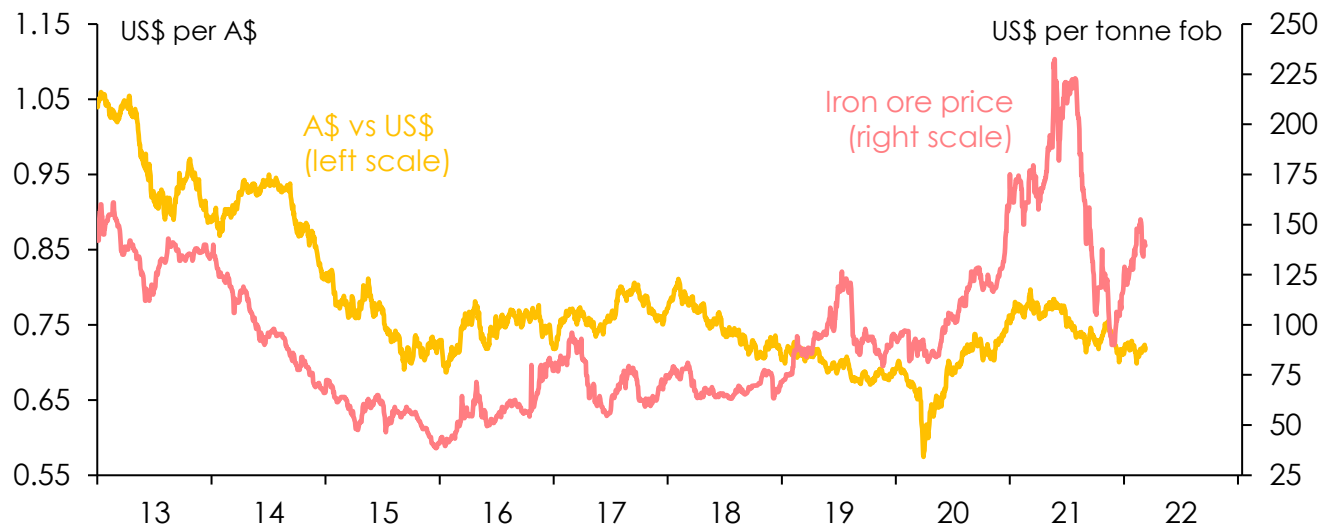
## A\$-US\$ and US\$ trade-weighted index



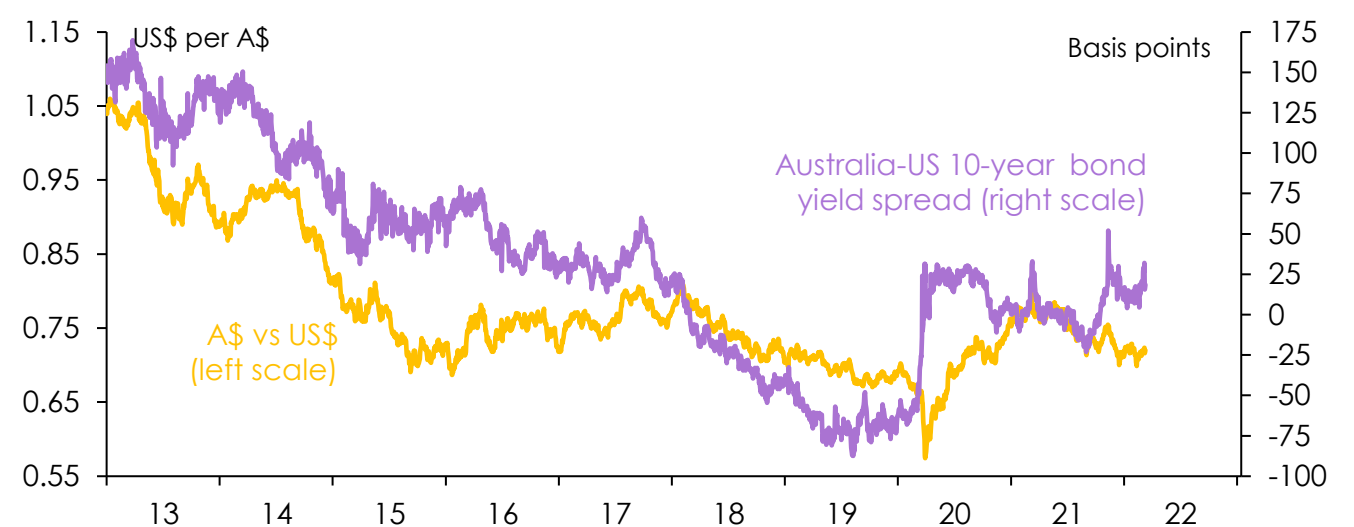
## A\$-US\$ and US equity market volatility



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



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

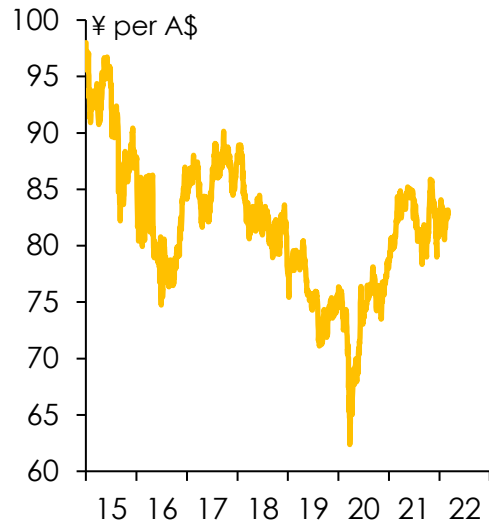


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 25<sup>th</sup> February. [Return to "What's New"](#).

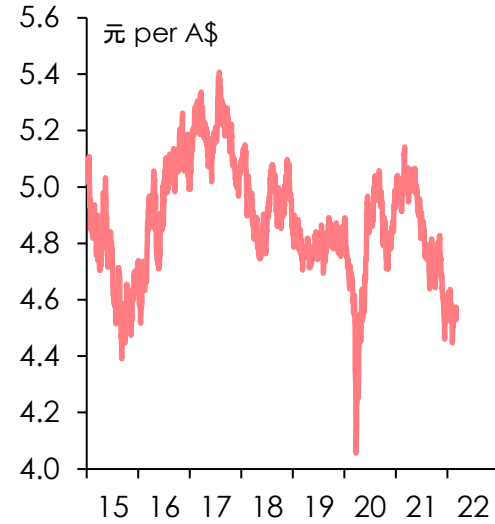
# The A\$ was firmer against most third currencies – especially the euro and sterling – but dropped more than 1% against the ‘safe haven’ yen

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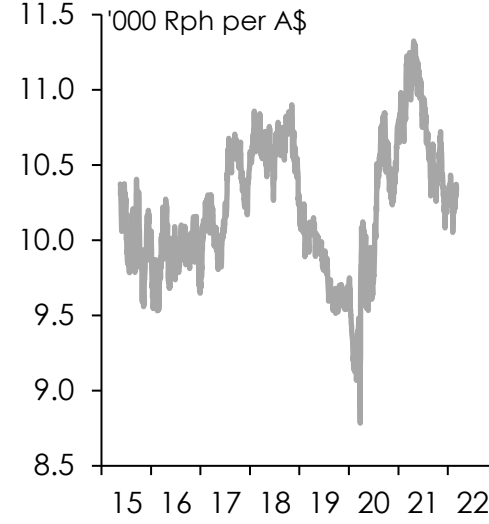
### A\$ vs Japanese yen



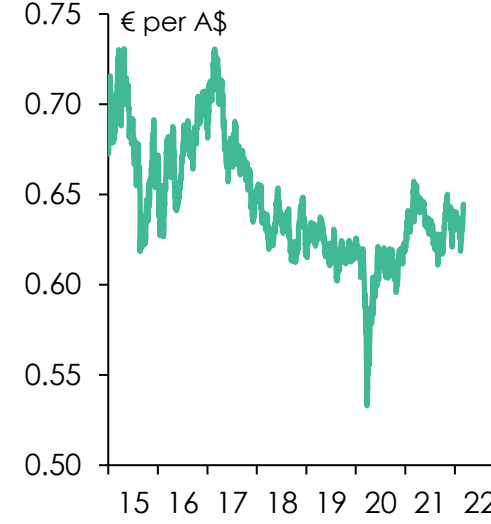
### A\$ vs Chinese yuan



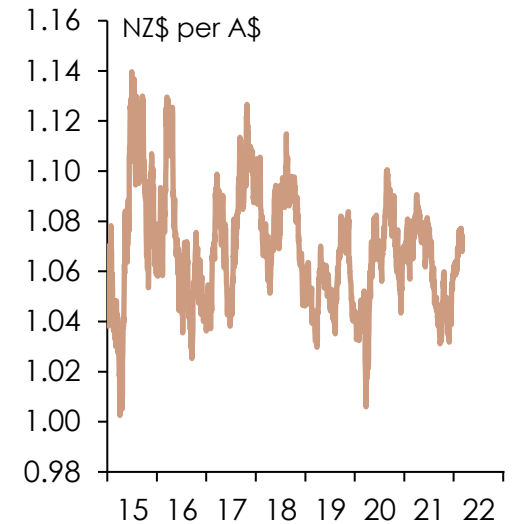
### A\$ vs Indo rupiah



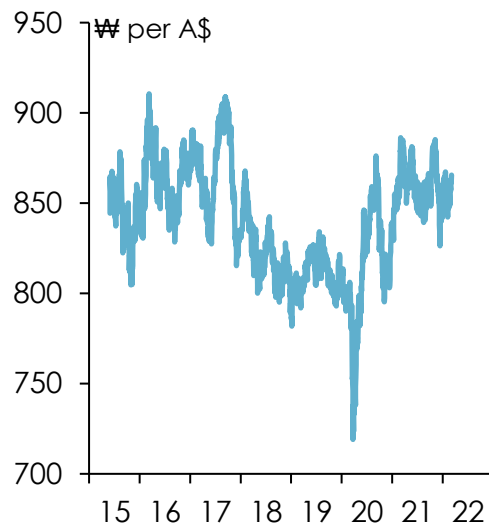
### A\$ vs Euro



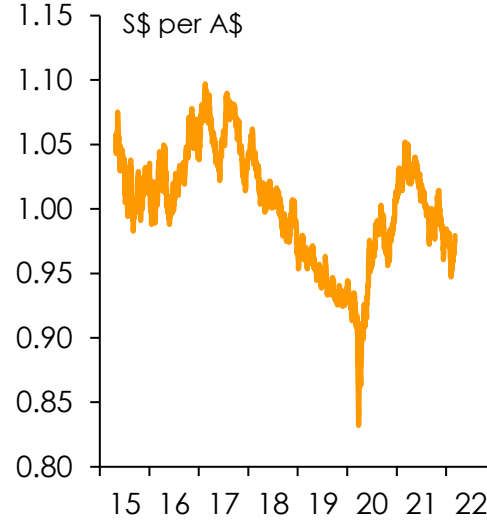
### A\$ vs NZ\$



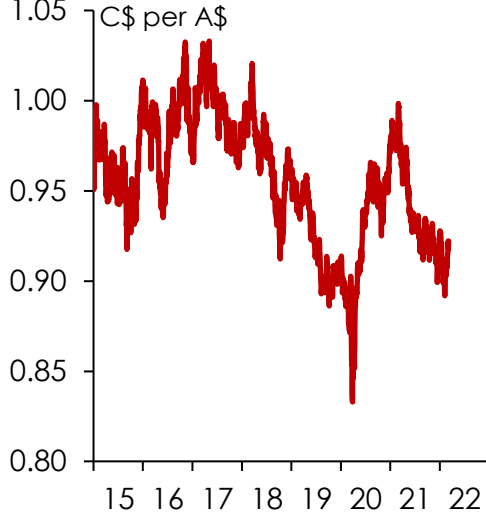
### A\$ vs Korean won



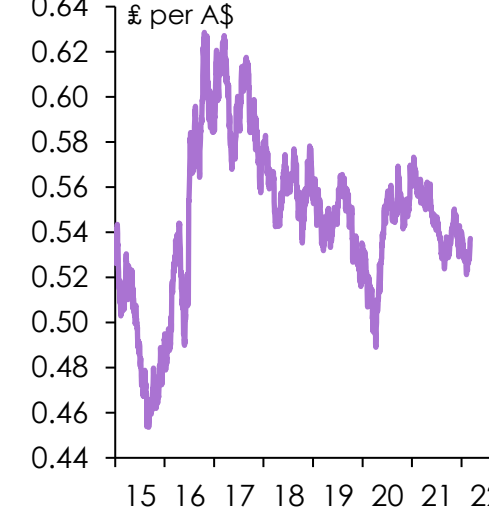
### A\$ vs Singapore \$



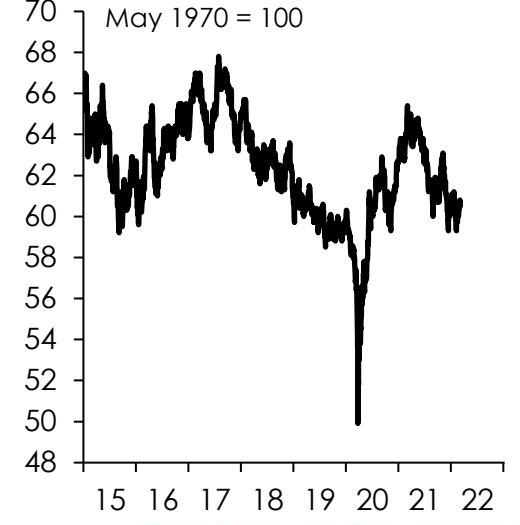
### A\$ vs Canadian \$



### A\$ vs British pound



### A\$ TWI



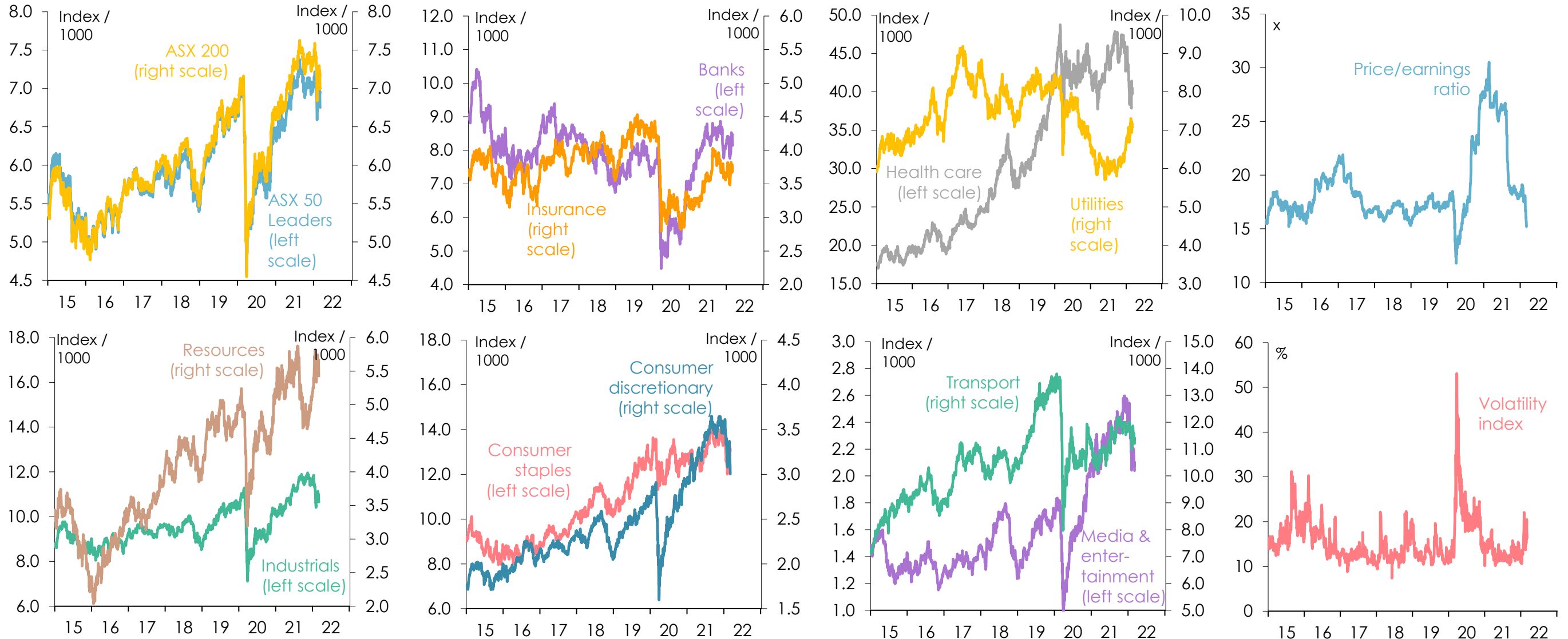
Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 25<sup>th</sup> February. [Return to "What's New"](#).



# Australian stocks fell about 3% this week, mirroring the global reaction to Russia's invasion of Ukraine, with resources down 4%

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## ASX indices



Sources: Refinitiv Datastream. ASX200 and 50 Leaders up to 25<sup>th</sup> February; other indices 24<sup>th</sup> February. [Return to "What's New"](#).

**Key data and events next week**

# Key data and events for week ended 4<sup>th</sup> March

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> FEBRUARY 2022

<b>Monday 28<sup>th</sup> February</b>	<b>December quarter business inventories and company profits; January preliminary retail sales; January monetary and credit aggregates</b>
<b>Tuesday 1<sup>st</sup> March</b>	<b>February CoreLogic residential property prices; December quarter balance of payments and international investment position; government finance statistics; January housing finance; RBA Board meeting; February commodity prices</b>
<b>Wednesday 2<sup>nd</sup> March</b>	<b>December quarter national accounts (GDP etc)</b>
<b>Thursday 3<sup>rd</sup> March</b>	<b>January building approvals; January balance of trade in goods &amp; services</b>
<b>Friday 4<sup>th</sup> March</b>	<b>January retail sales (final); February business conditions &amp; sentiments survey</b>

Note: This calendar includes data releases and policy events which are likely to be included in next week's edition of this Chart Pack. [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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