



# THE AUSTRALIAN ECONOMY THIS WEEK

4<sup>TH</sup> MARCH 2022

**SAUL ESLAKE**

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

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# What's new?

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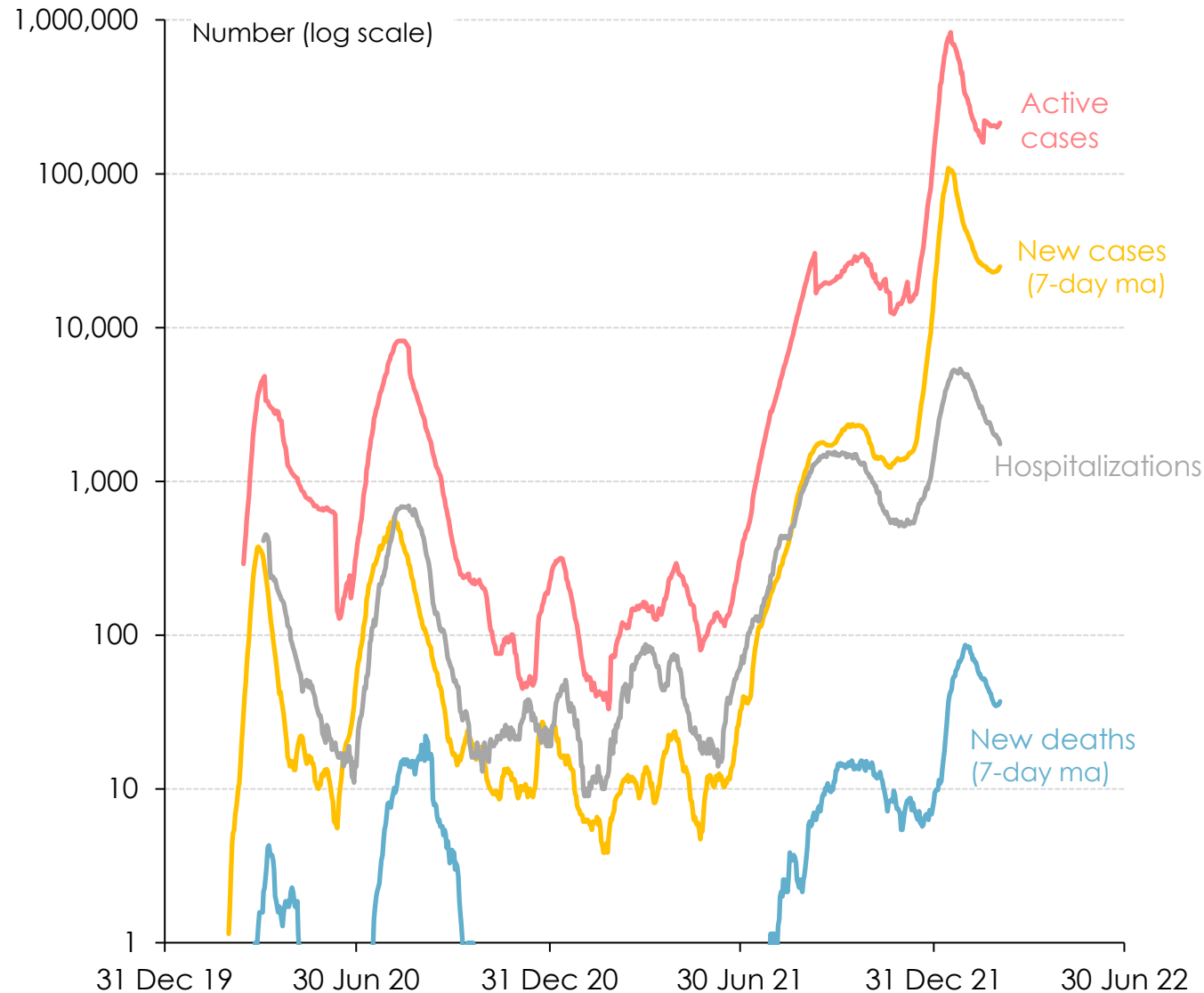
- ❑ Prices of many of Australia's principal commodity exports – in particular coal, iron ore, base metals and grains – rose sharply following Russia's invasion of Ukraine ([slides 60-61](#)), pushing the A\$ up to US73½¢, its highest level since mid-November last year ([slides 89-90](#)), but also prompting financial markets to be a little more cautious in their pricing of RBA rate hikes in the second half of this year ([slides 87-88](#))
- ❑ The decline in the number of new and active Covid-19 cases from the peak in mid-January has stalled over the last two weeks ([slide 5](#)), largely reflecting the sharp rise (albeit from a low base) in the number of cases in WA ahead of its re-joining the rest of the nation on Thursday ([slide 6](#))
- ❑ Australia's real GDP grew by 3.4% in the December quarter, the largest quarterly increase since the March quarter of 1976 ([slide 13](#)), driven by surges in household spending, especially on discretionary items, as New South Wales, Victoria and the ACT came out of their September quarter lockdowns ([slides 15, 16 and 35](#))
- ❑ The Q4 surge in consumer spending occurred despite a 1.3% fall in real household disposable income, due to the ending of pandemic-related benefit schemes – but households reduced their saving rate and have ample capacity to do so further in coming quarters, having racked up an additional \$249bn in bank deposits since the onset of the pandemic ([slide 33](#))
- ❑ Fewer businesses were adversely affected by supply chain disruptions or staff absences during February than in January, although both remain as significant problems ([slides 24-25](#))
- ❑ Retail sales rose 1.8% in January, partly reversing a 4.4% decline in December that in turn followed a 7.3% surge in November which probably partly reflected some 'pulling forward' of December sales ([slide 36](#))
- ❑ Residential property prices rose by 'only' 0.4% in February, the smallest increase since October 2020, and down from monthly gains of more than 2% in March, May and June last year, with prices falling in Sydney, Melbourne and Perth ([slides 41-42](#))
- ❑ Housing lending rose 2.6% in January, with loans to investors increasing by 6%, loans to first home buyers falling 5% and lending to other owner-occupiers rising by 3% ([slide 43](#)); Residential building approvals plummeted by 28%, the largest single-month fall in at least 50 years, with big falls in approvals of both detached and (the usually much more volatile) multi-unit dwellings ([slides 44-45](#))
- ❑ Australia's goods and services trade surplus increased – after narrowing for five successive months – by \$4bn, to \$12.9bn in January, with exports up 7½% and imports down 1½% ([slide 62](#)); meanwhile Australia's current account surplus shrank by almost half (to 2.3% of GDP) in the December quarter ([slide 67](#)) reflecting a fall in exports, a 5% deterioration in Australia's terms of trade ([slide 17](#)) and a widening in the income deficit
- ❑ The Federal Government's budget swung back into deficit in January after recording surpluses in November and December, but appears to be on track for a better outcome in FY2021-22 than forecast in December's MYEFO ([slide 75](#))
- ❑ Next week's economic calendar is very light in comparison to this week with February business conditions & confidence and March consumer confidence the main highlights ([slide 93](#))

**The virus**

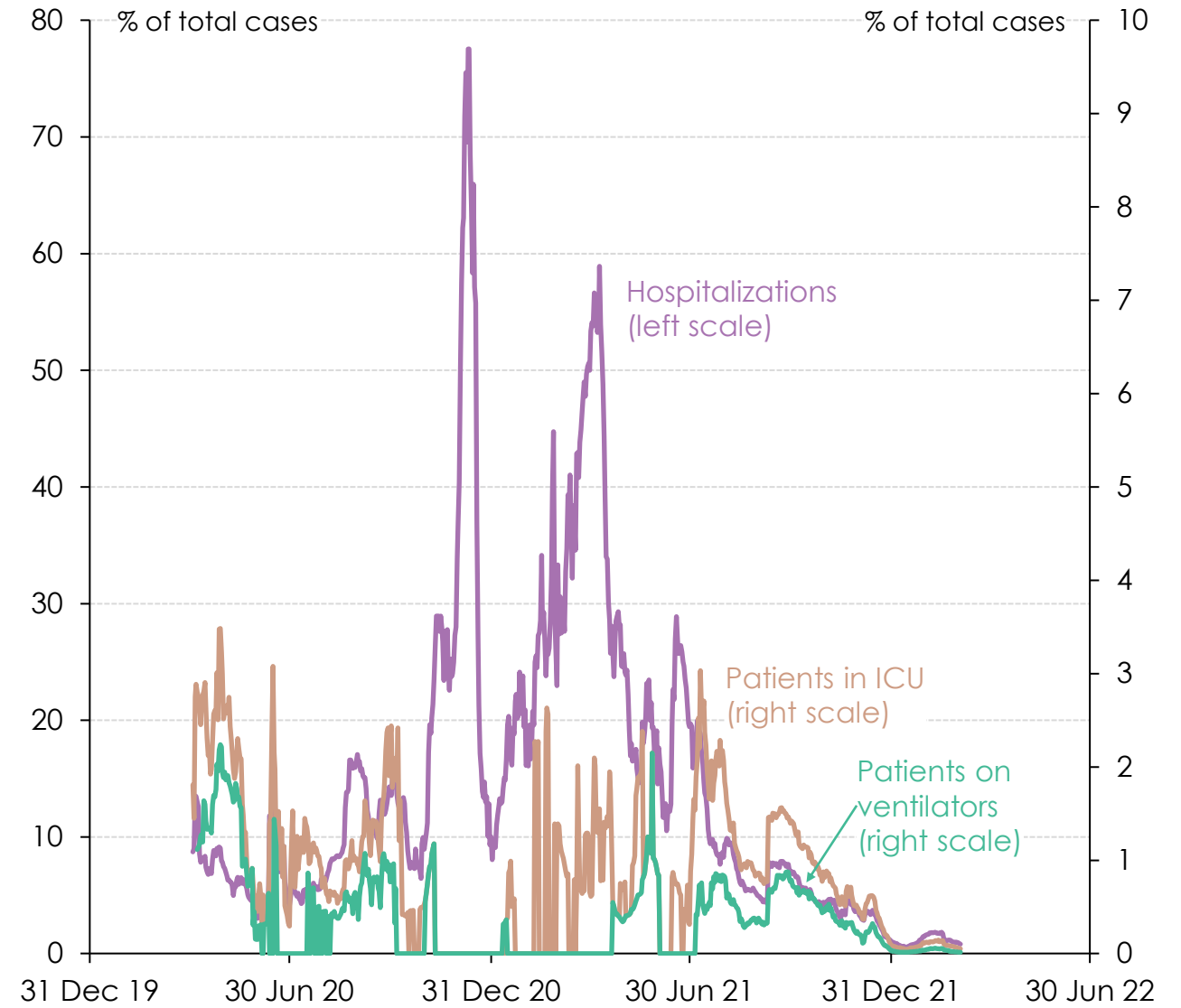
# After peaking in mid-January and then declining through mid-February, the numbers of new and active cases has picked up a bit in the past two weeks

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## Cases, hospitalizations and deaths



## Severity of cases

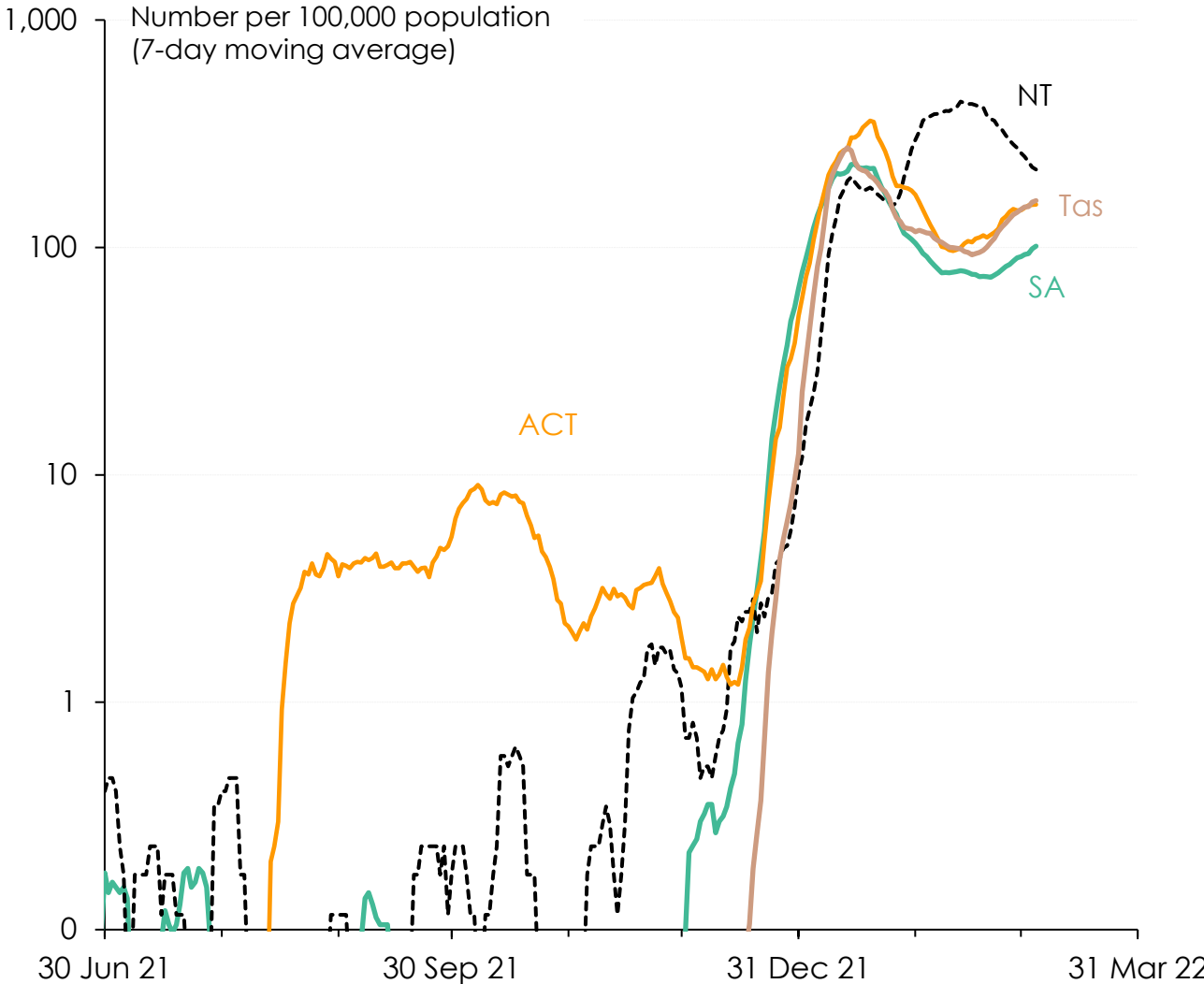
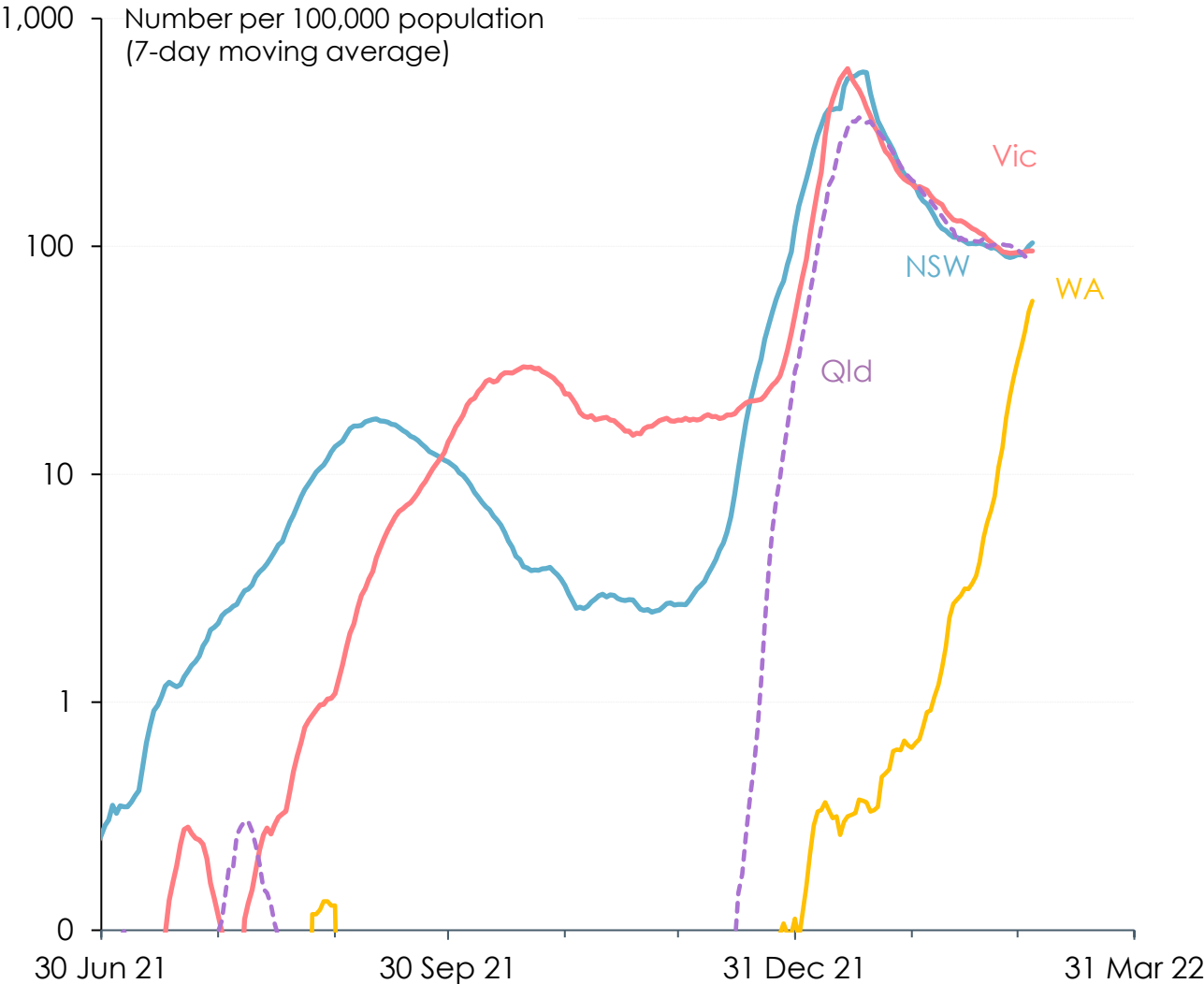


Note: Data up to 4<sup>th</sup> March. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# The uptick in the national total of new and active cases largely reflects a sharp rise (from a low base) in WA, which 'opened its borders' this week

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

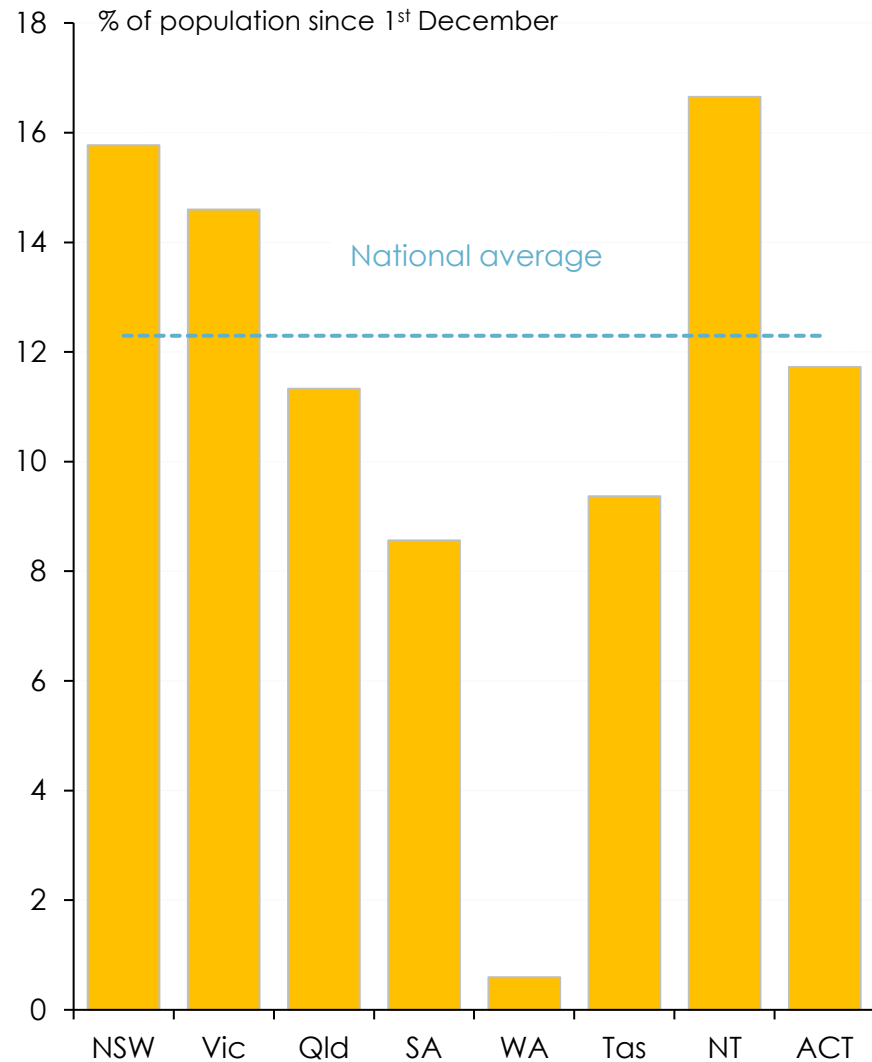


Note: Data are up 4<sup>th</sup> March. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

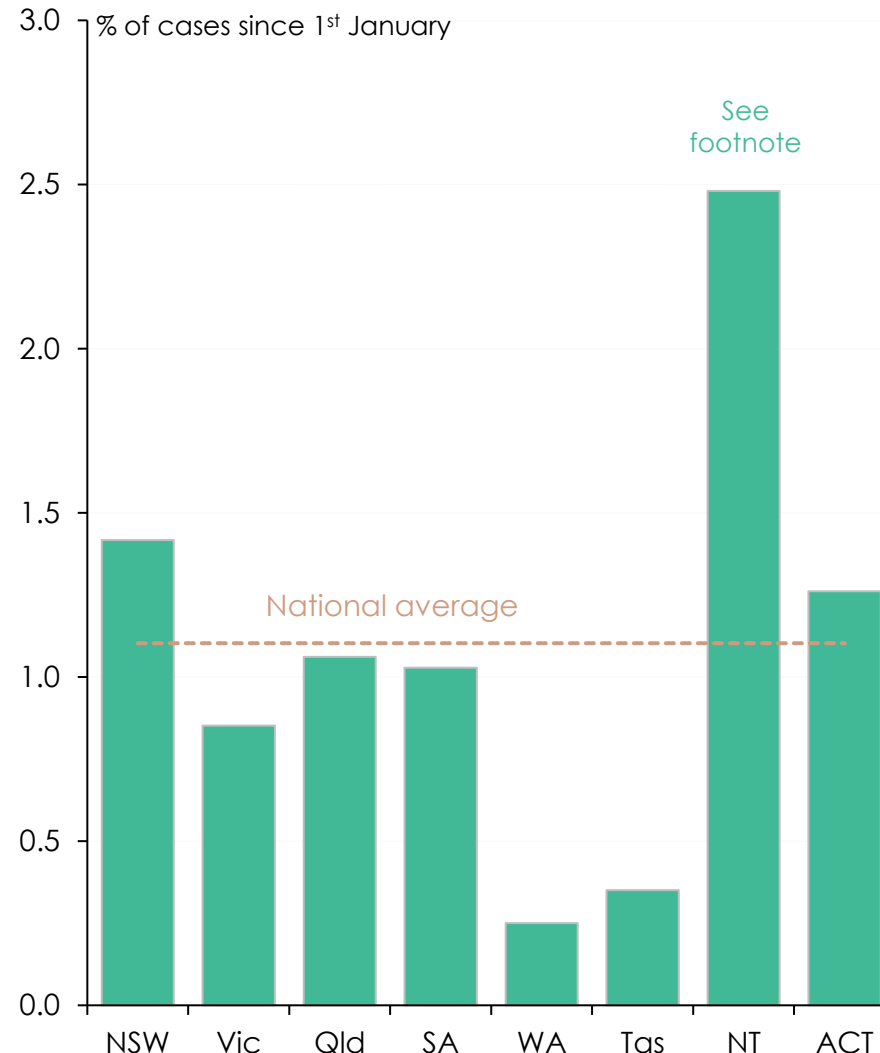
# The omicron outbreak has been more serious in NSW, Queensland and South Australia than in other states and territories

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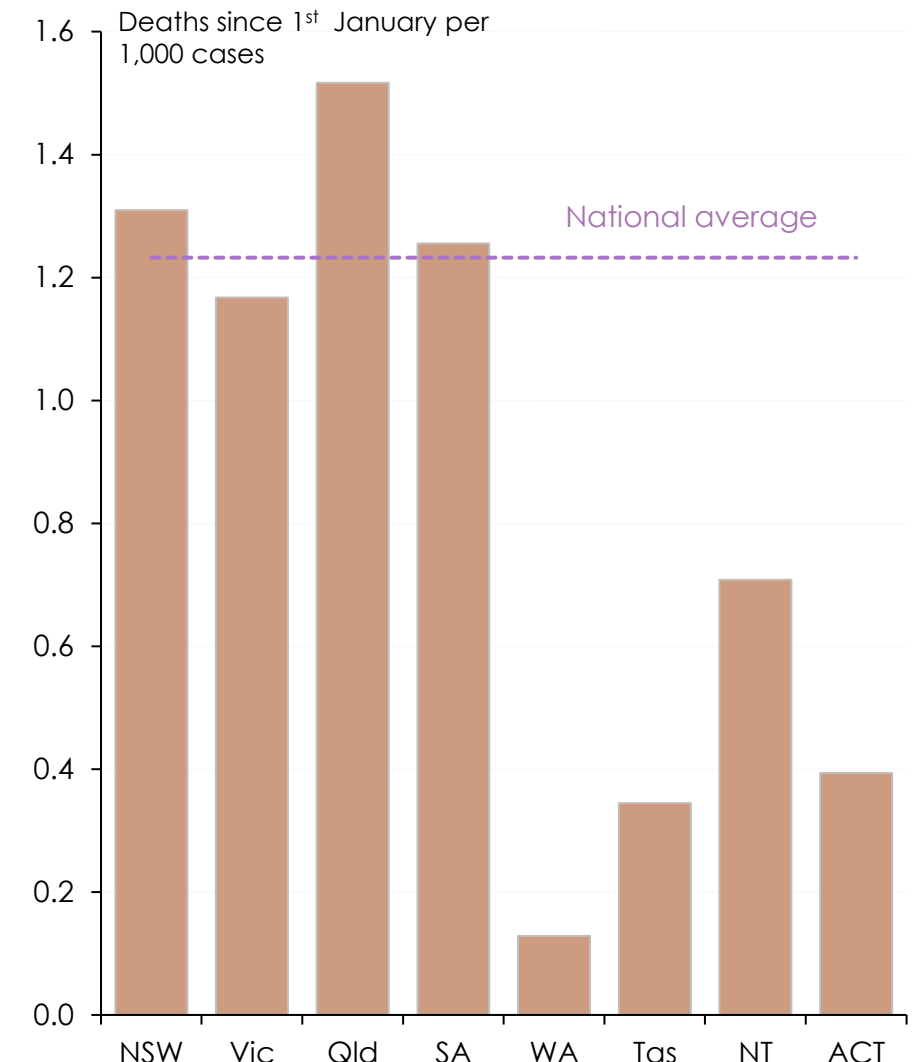
## New cases since 1<sup>st</sup> December 2021



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



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

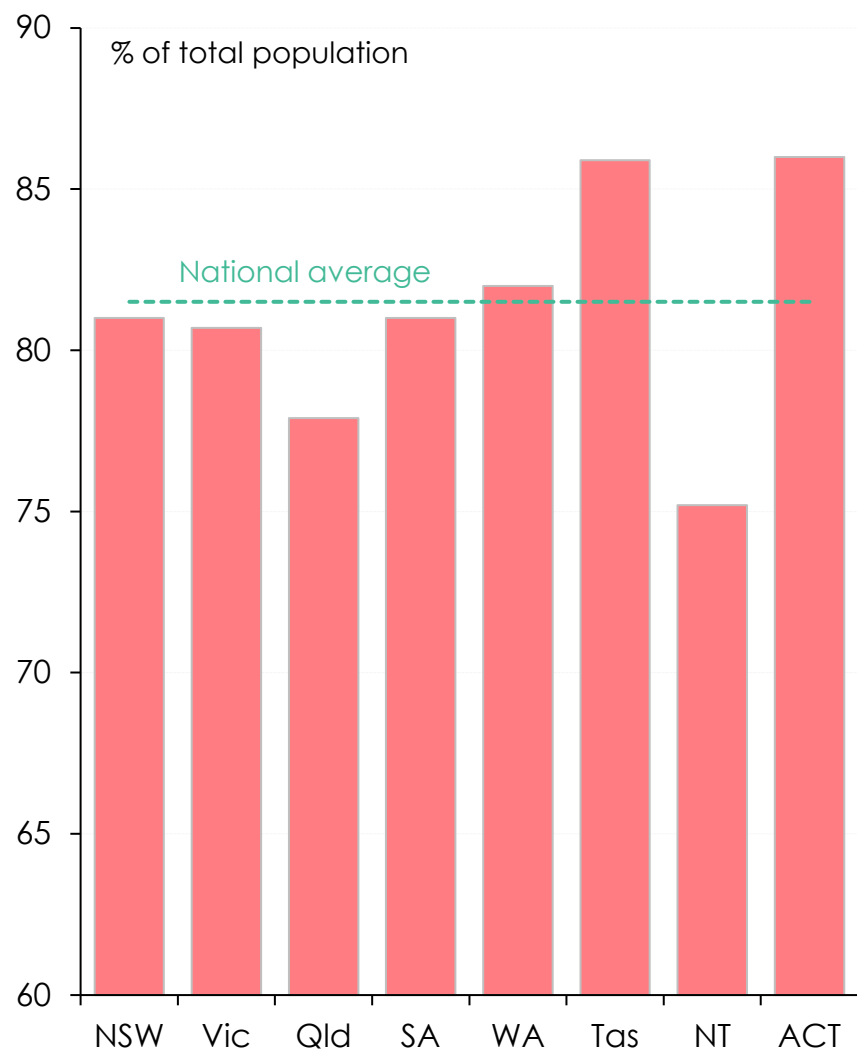


Note: Data are up to 4<sup>th</sup> March. 1<sup>st</sup> December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

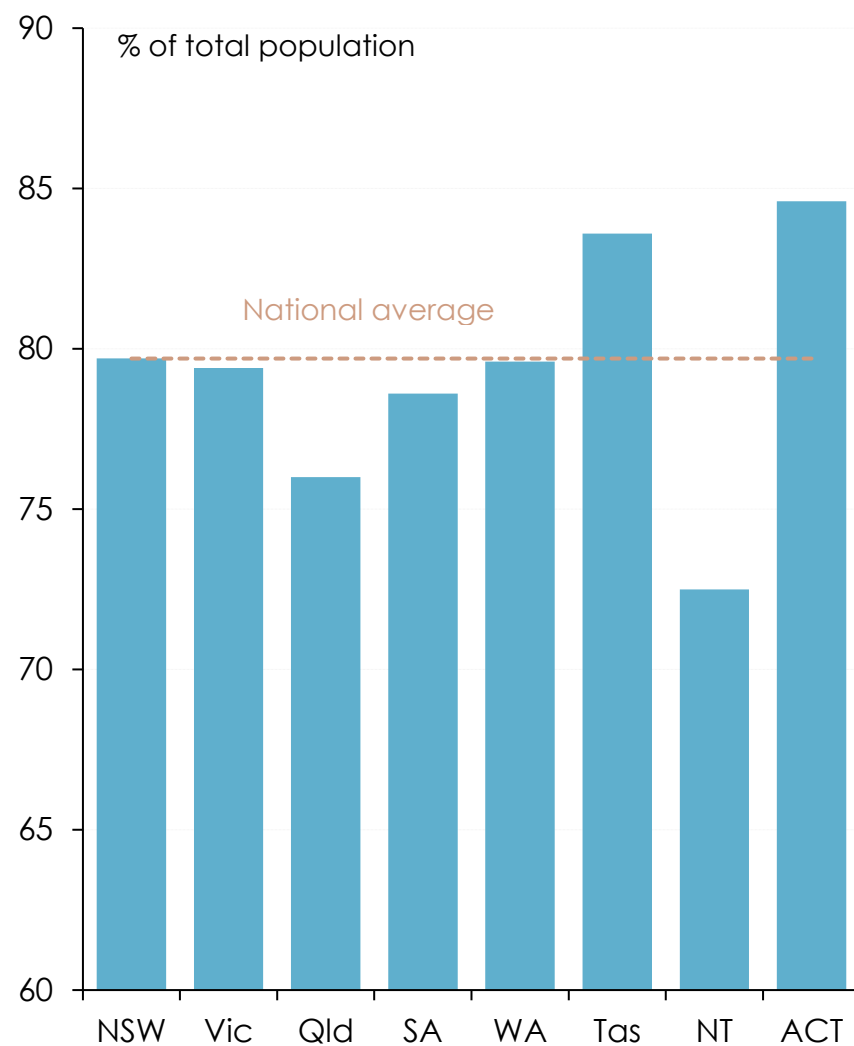
# The ACT, Tasmania and more recently WA have had the most successful vaccine rollouts while Queensland and the NT lag

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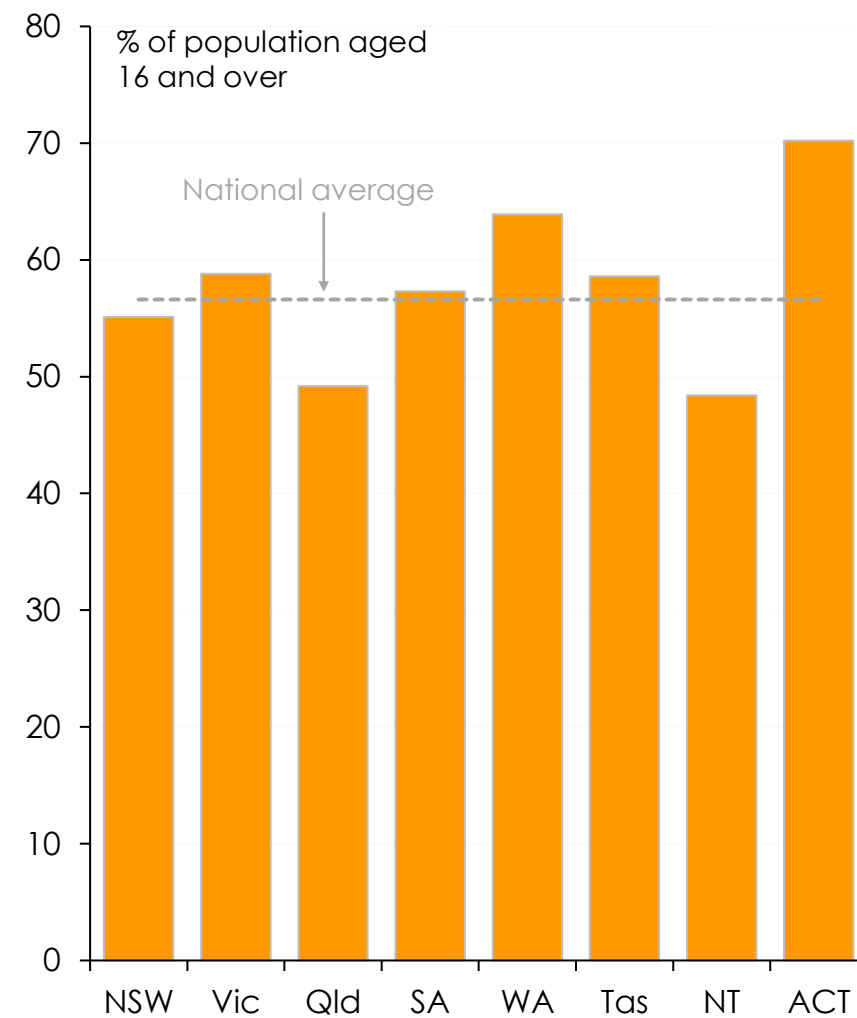
## Pc of population who have had at least one vaccination



## Pc of population who have had two vaccinations



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



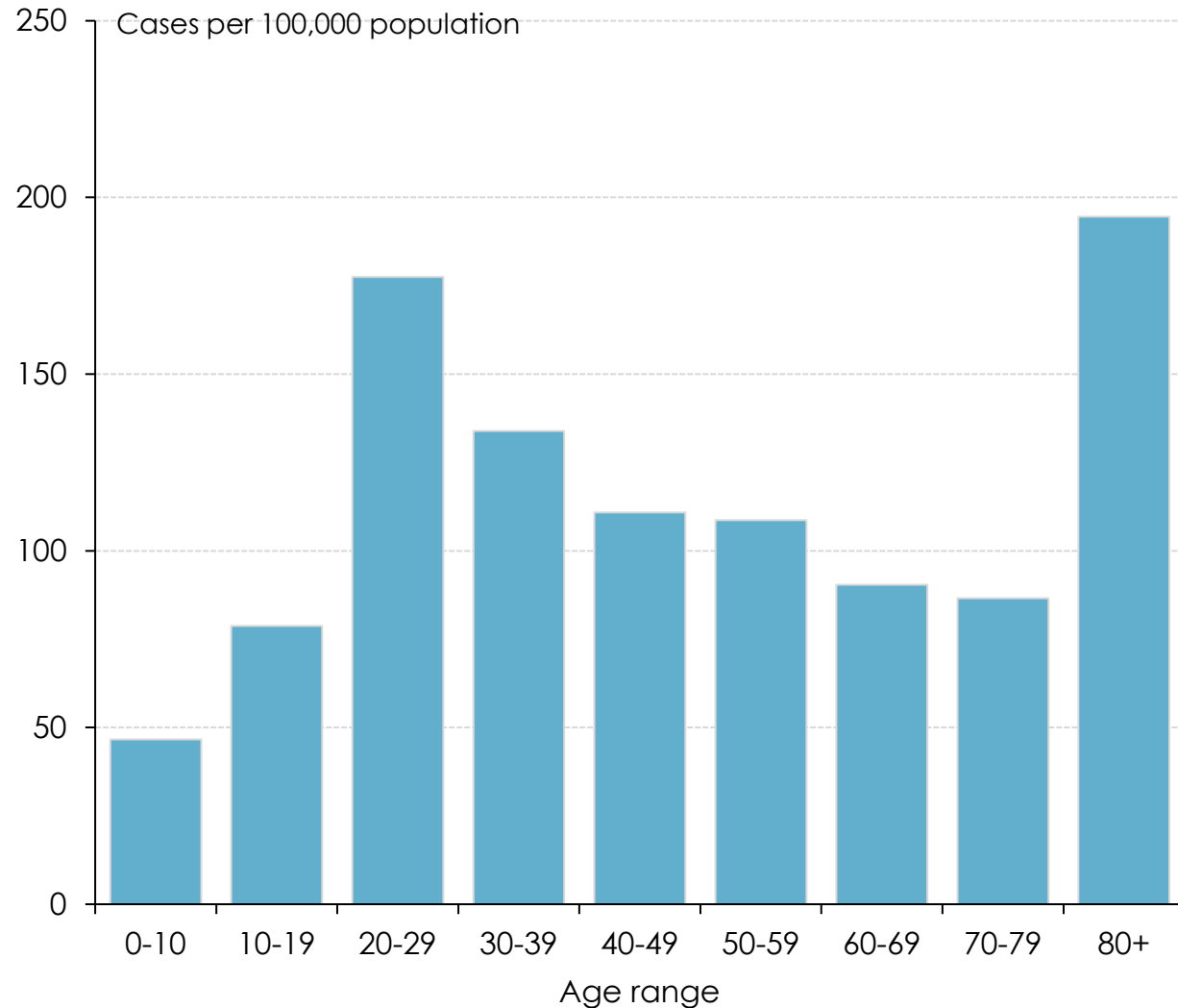
Note: Data are up to 4<sup>th</sup> March. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).



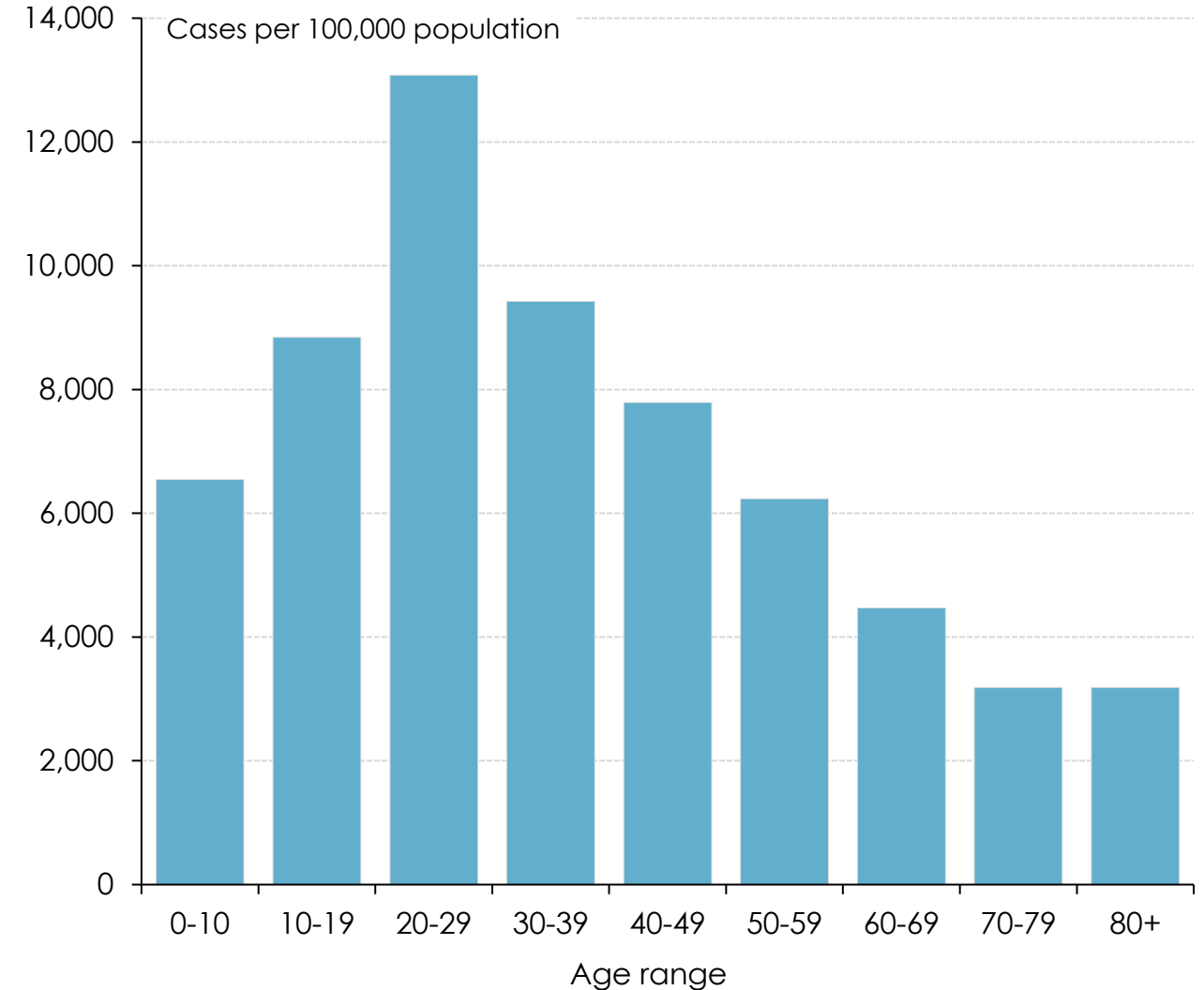
# People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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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

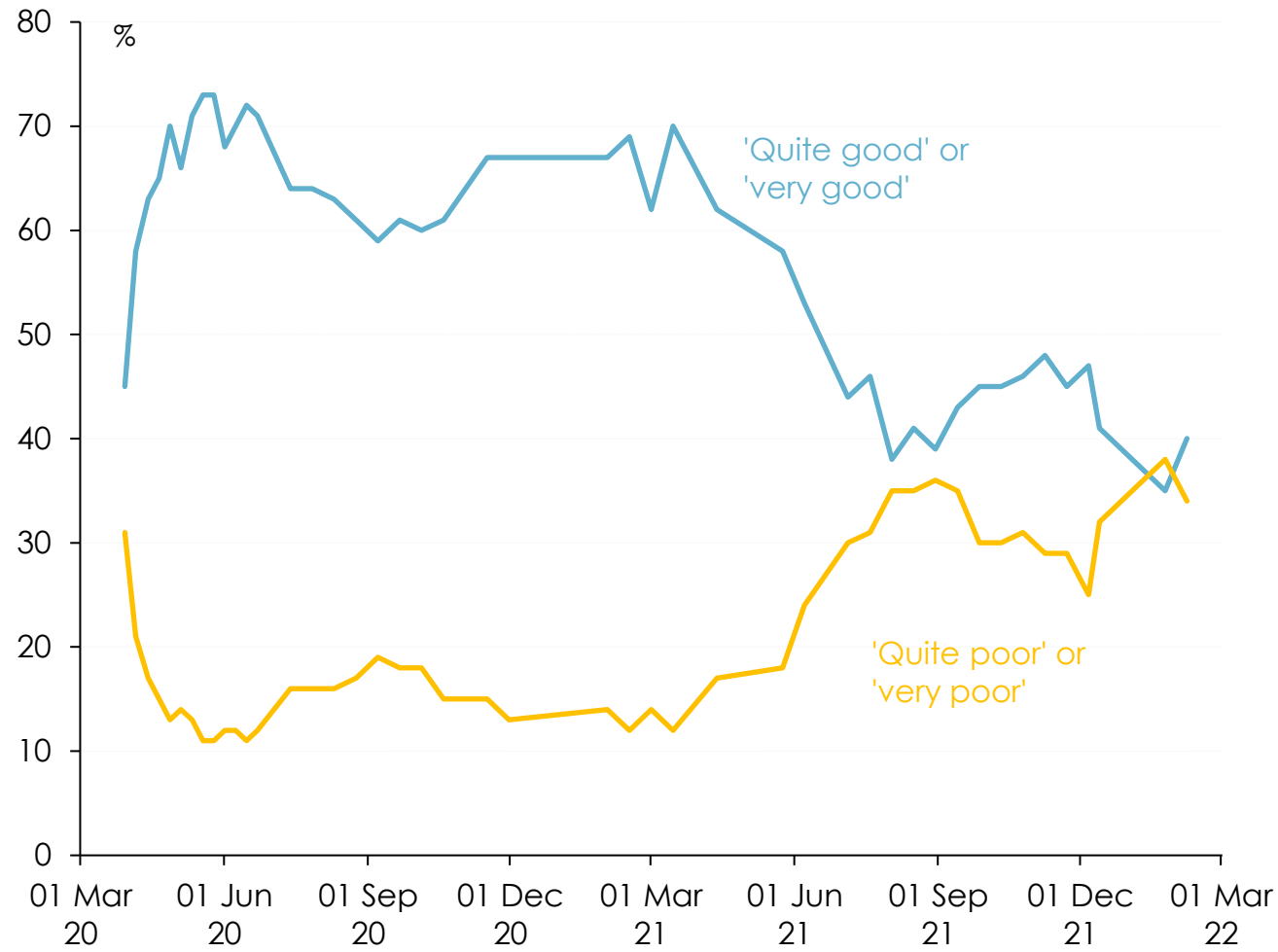


Note: Data for 2021-22 up 4<sup>th</sup> March. Source: [Australian Government Department of Health](#); ABS; Corinna. [Return to "What's New"](#).

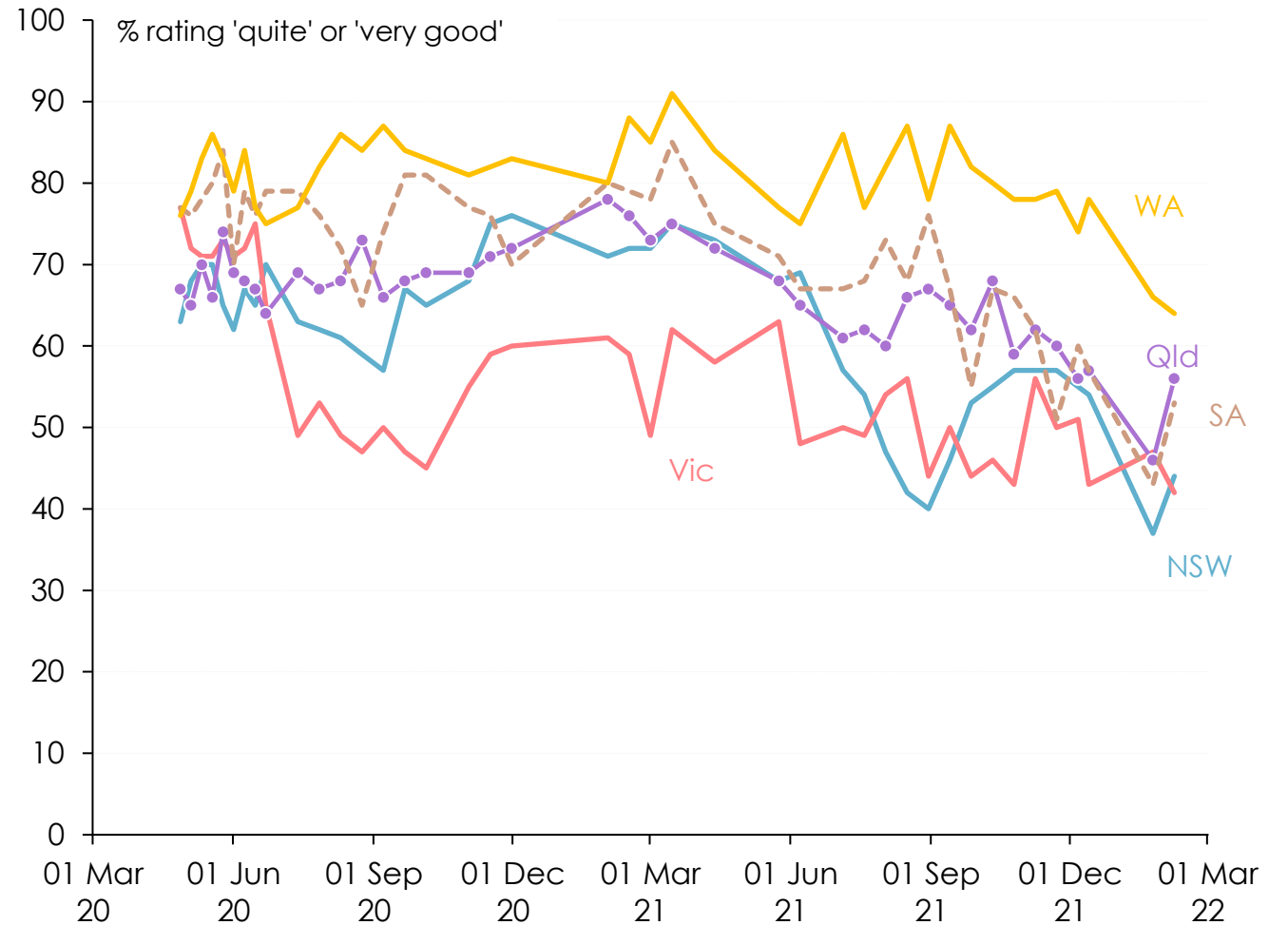
# Opinion poll ratings of most governments' handling of Covid-19 improved a bit in February but remain lower than during 2020 and the first half of 2021

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## Approval of Federal Government response to Covid-19



## Approval of State Government responses to Covid-19

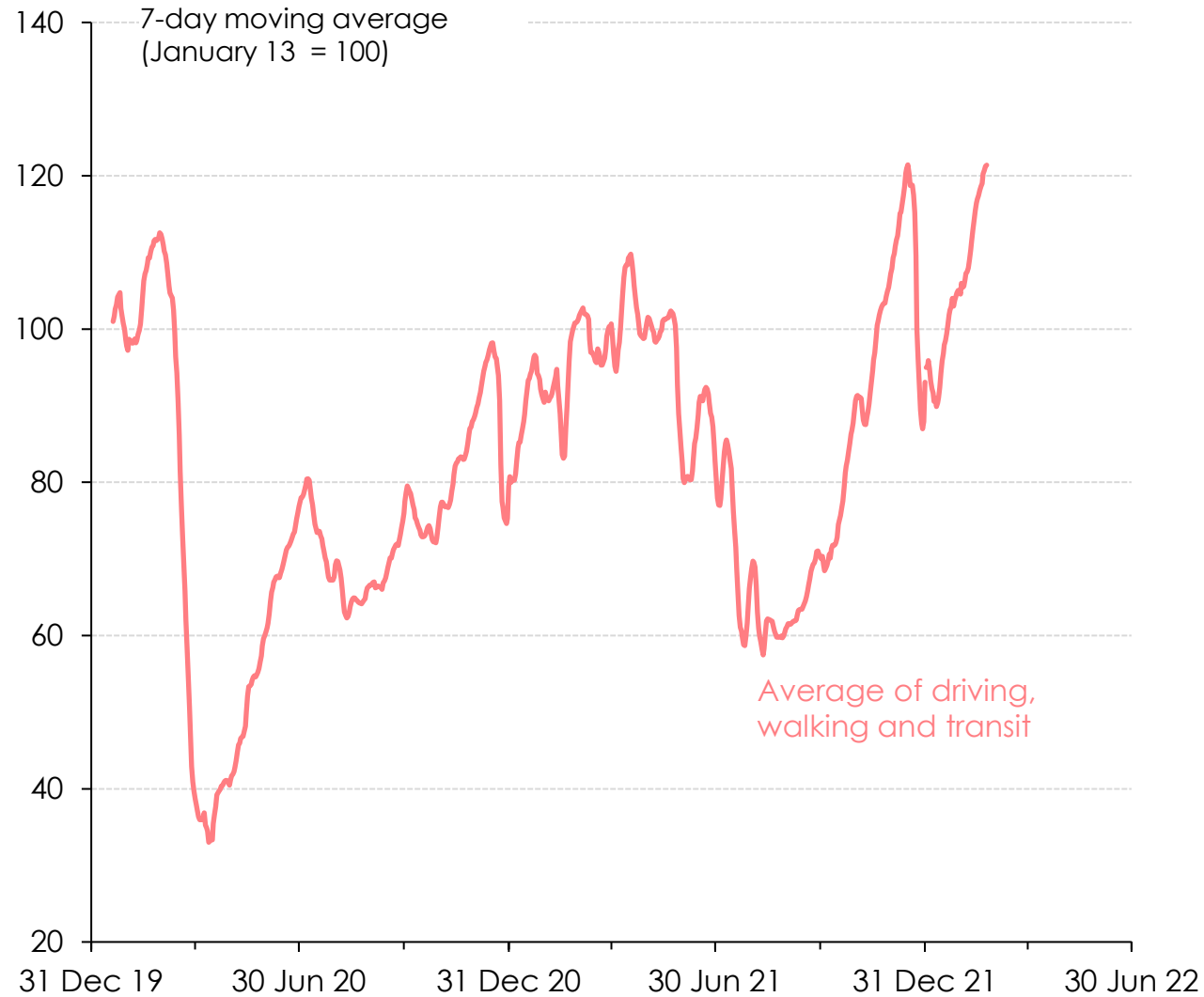


Note: Despite claiming to "track the mood of the nation", Essential does not conduct polls in every state, nor in either of the two territories.  
Sources: Essential Research, [The Essential Report](#), 8<sup>th</sup> February 2022.

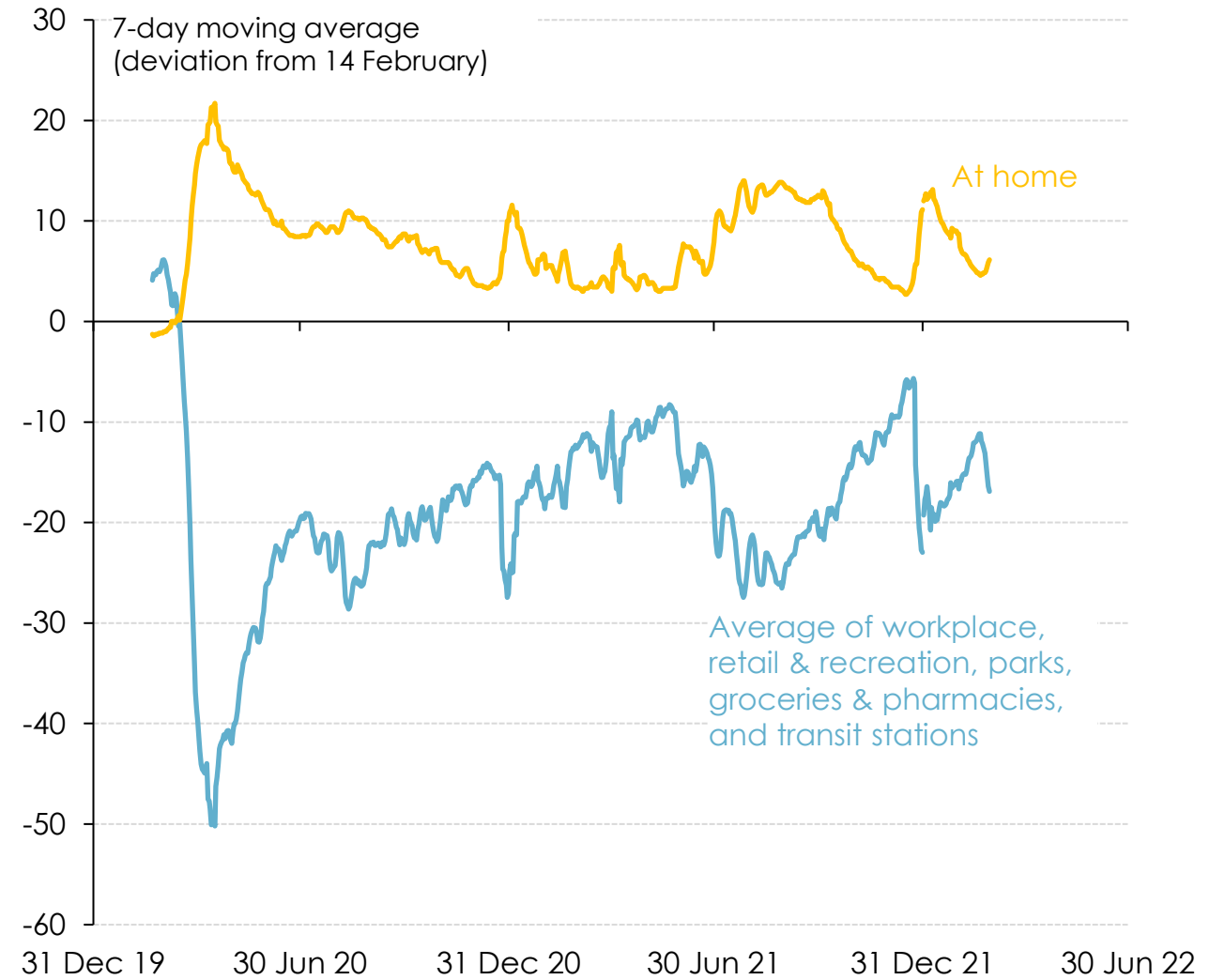
# Mobility has picked up since the end of the first week of January, after a steeper fall over Christmas-New Year than occurred this time last year

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## Apple mobility indicators



## Google mobility indicators



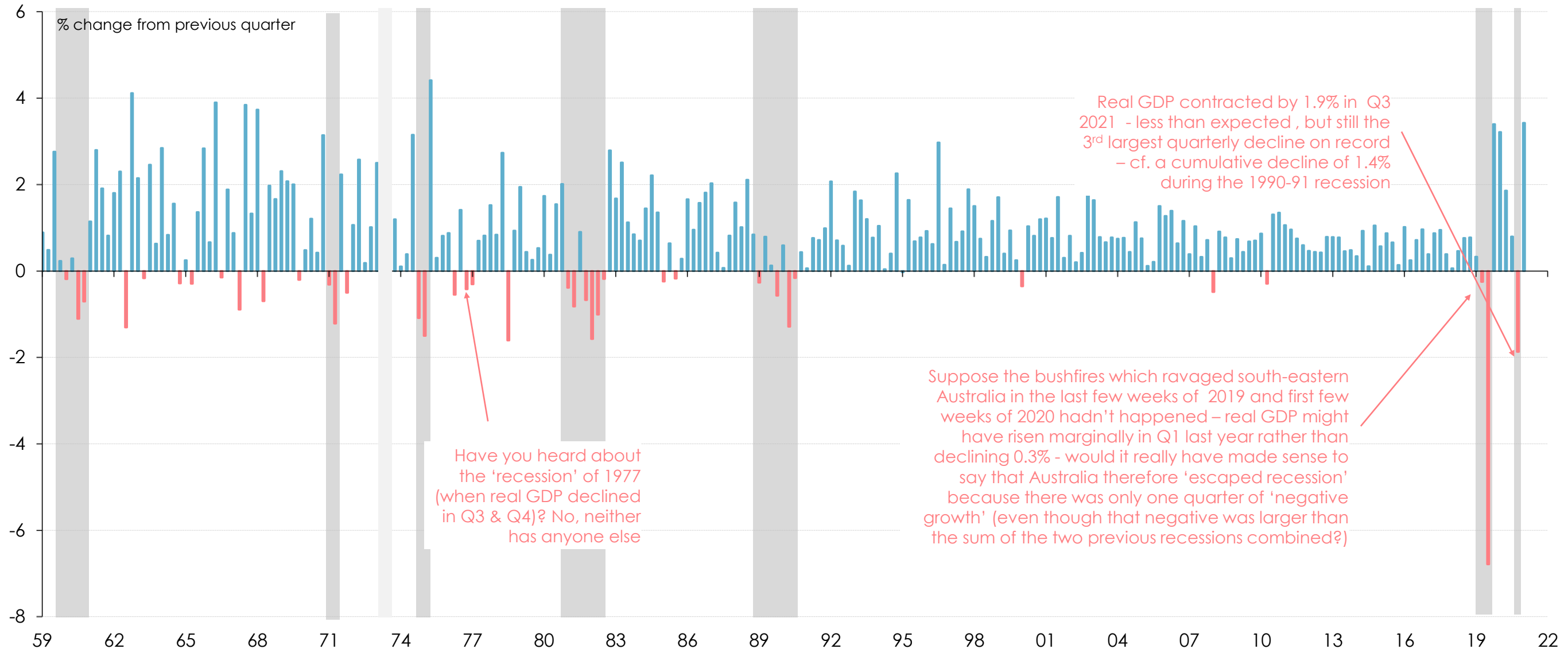
Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 23<sup>rd</sup> February – when trying to access their site this week the not-very-helpful message "something went wrong" appeared). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 28<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

# Real GDP rebounded by 3.4% in Q4 2021, the largest increase since the Q1 1976, to be 3.4% ahead of the Q4 2019 pre-pandemic peak

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

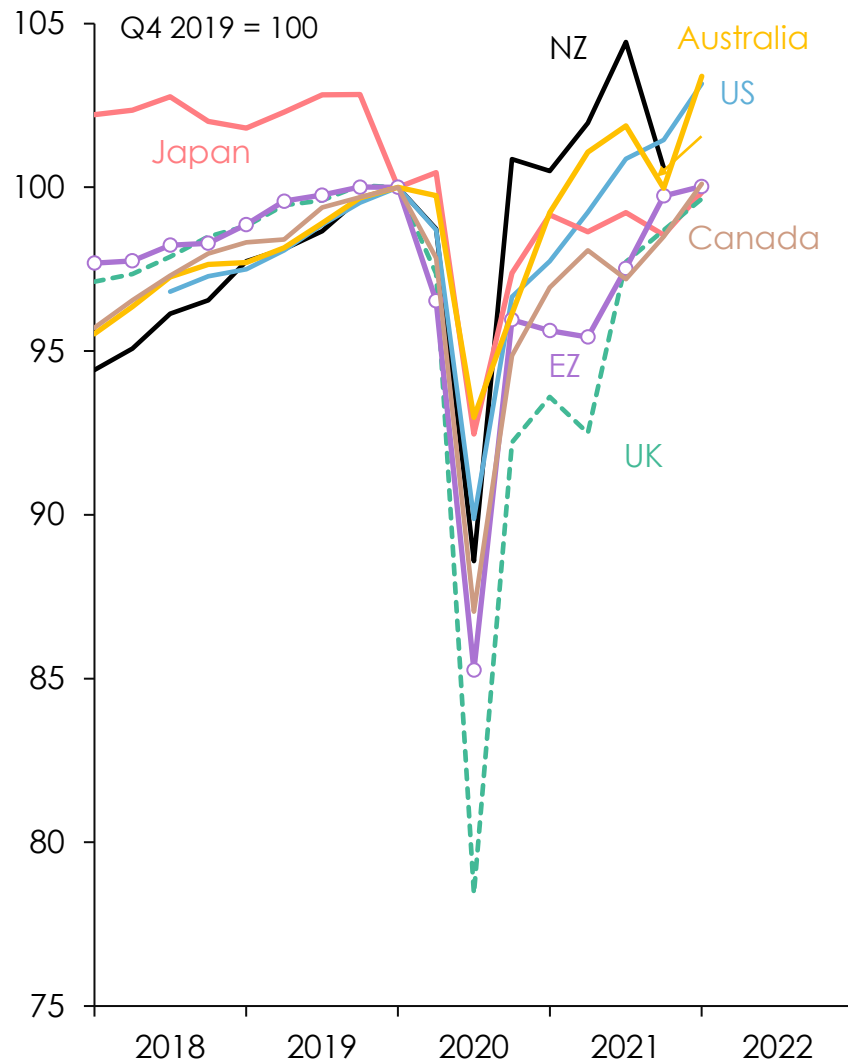


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. March quarter GDP will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

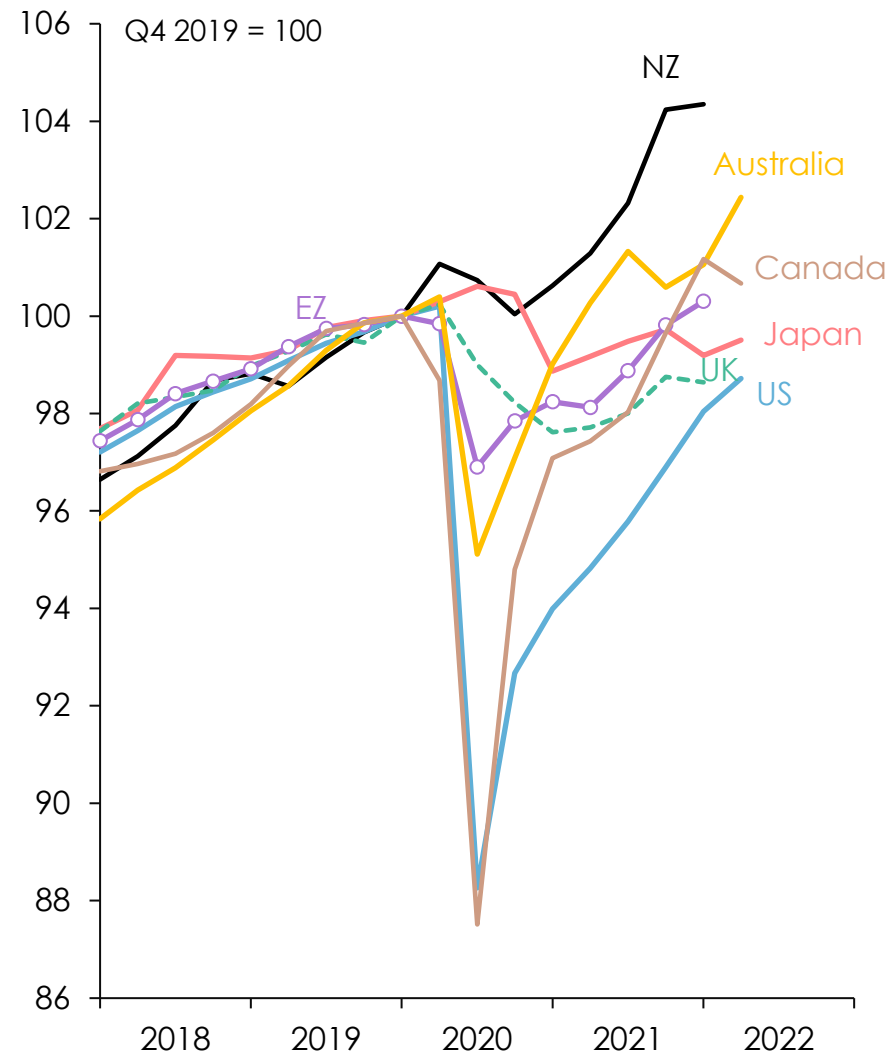
# Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies

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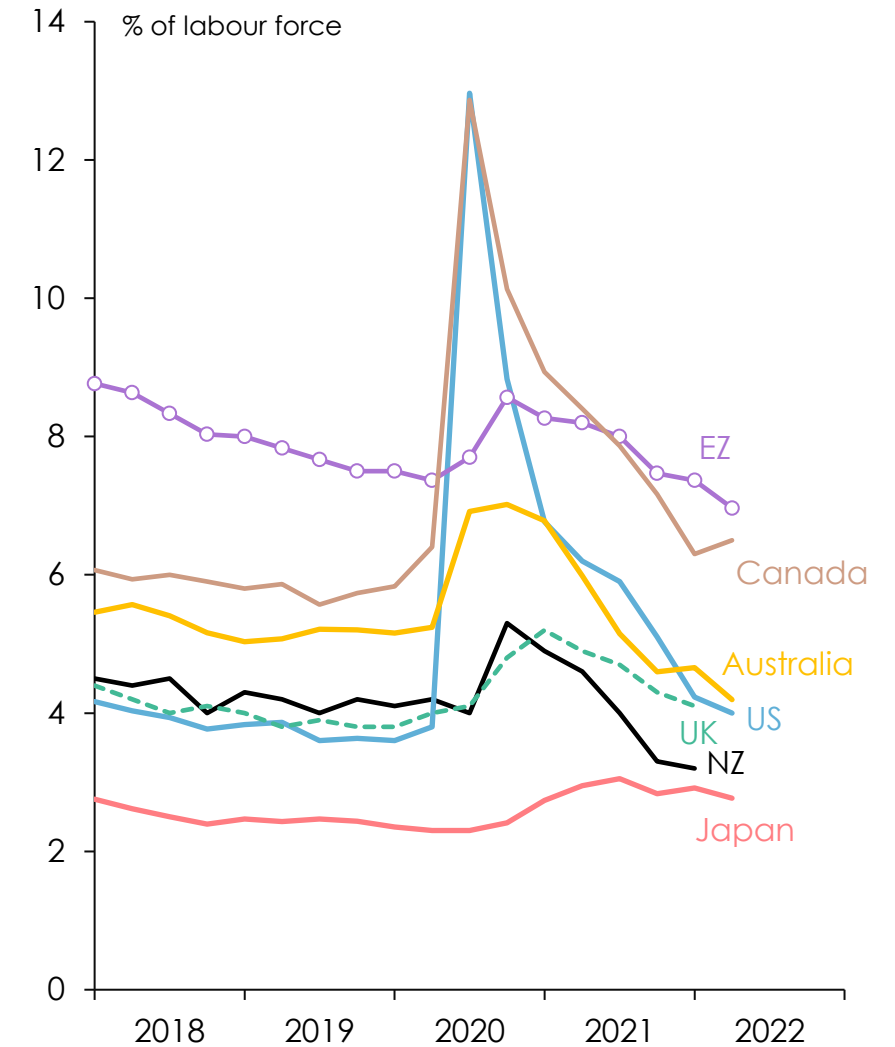
## Level of real GDP



## Employment



## Unemployment

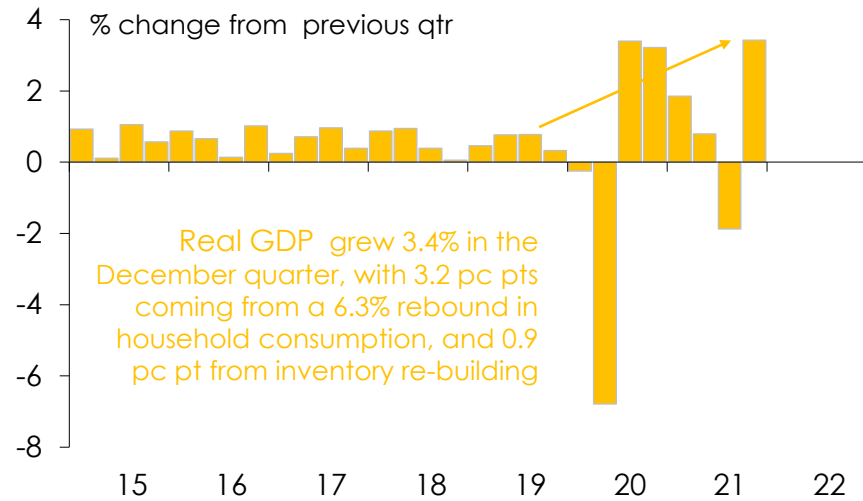


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

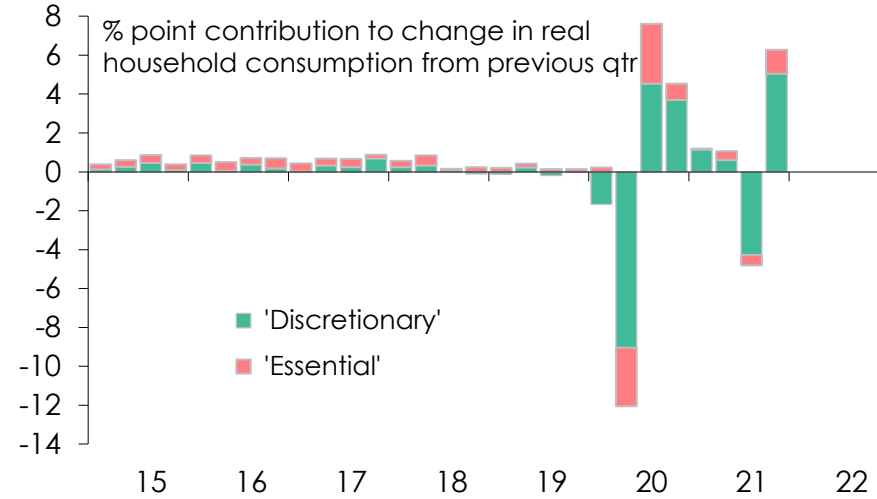
# Real GDP grew 3.4% in the December quarter, fuelled by a surge in post-lockdown discretionary consumption spending and inventory re-building

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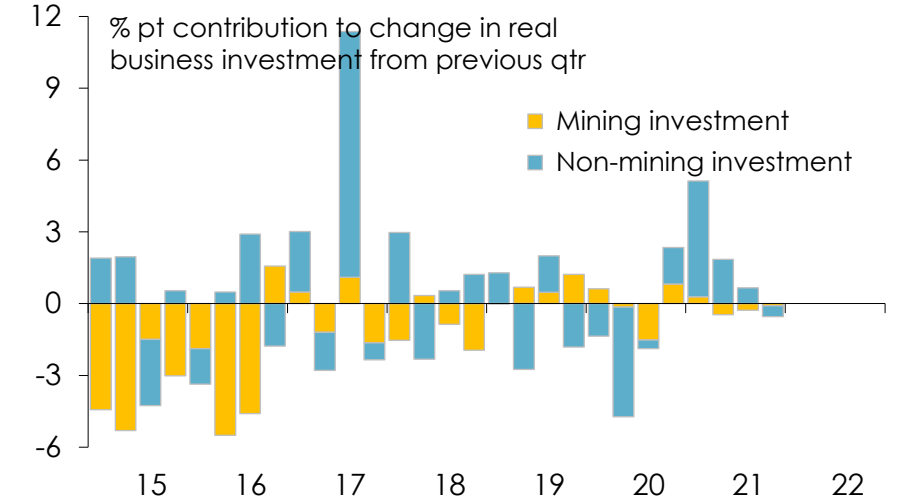
## Quarterly change in real GDP



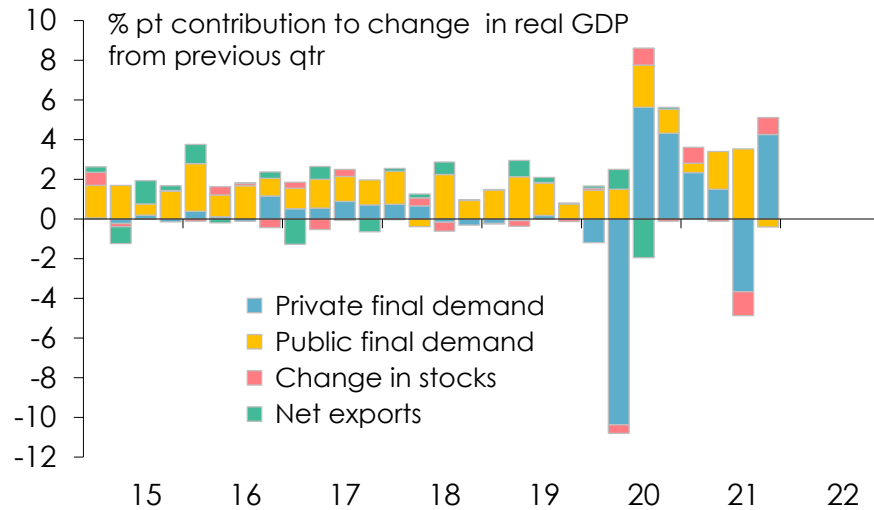
## Household consumption expenditure



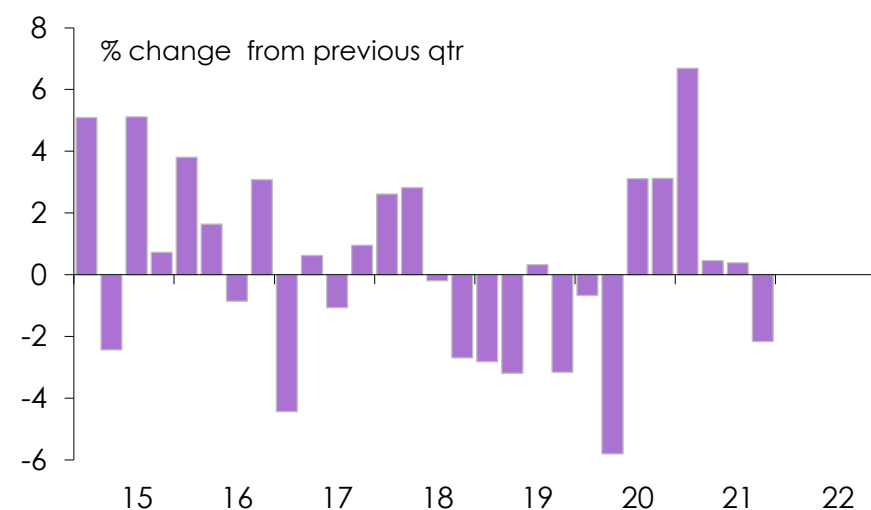
## Business investment expenditure



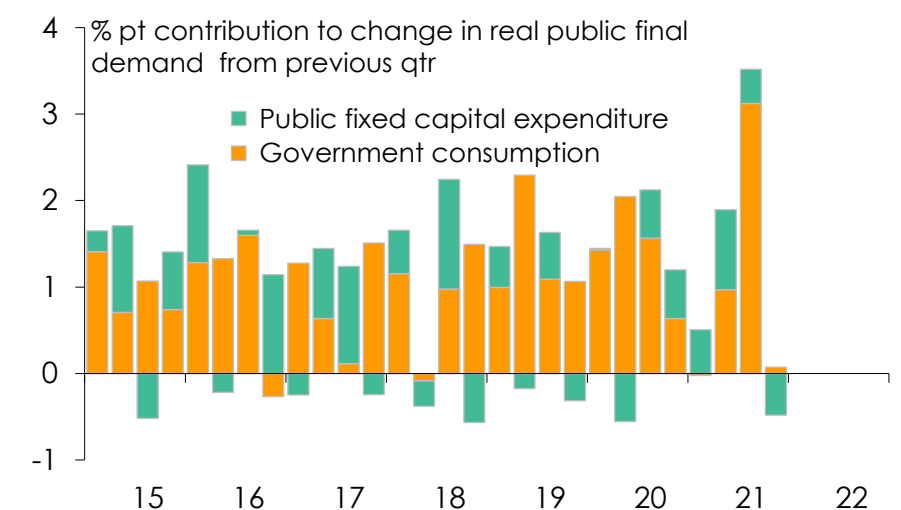
## Contributions to quarterly GDP growth



## Dwelling investment expenditure



## Public expenditure



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

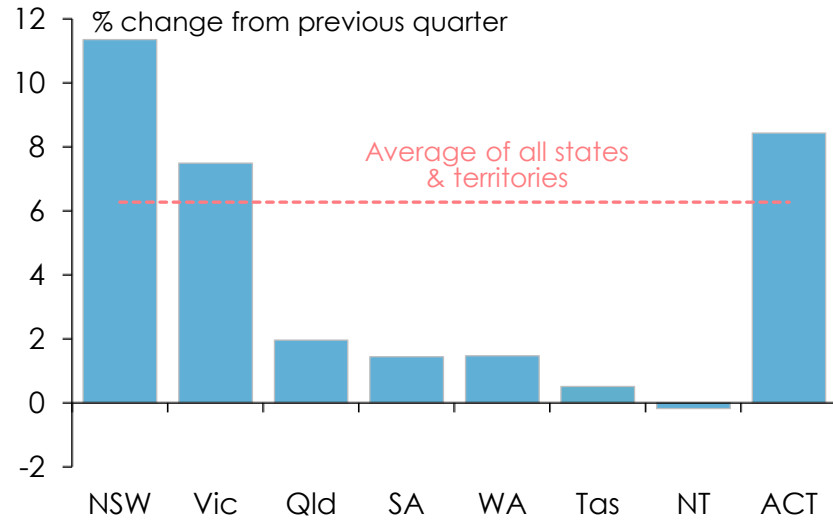
Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021. March quarter national accounts will be released on

1<sup>st</sup> June. [Return to "What's New"](#).

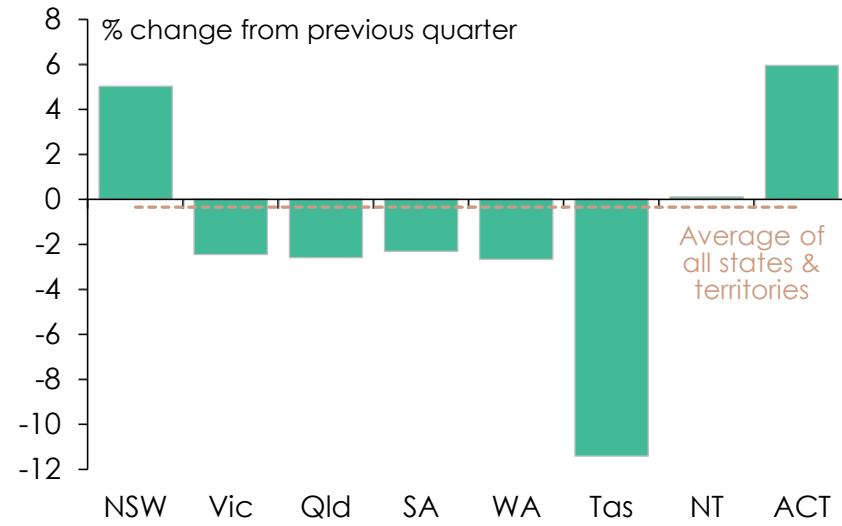
# The December quarter rebound was largely driven by post-lockdown surges in consumer spending in New South Wales, Victoria and the ACT

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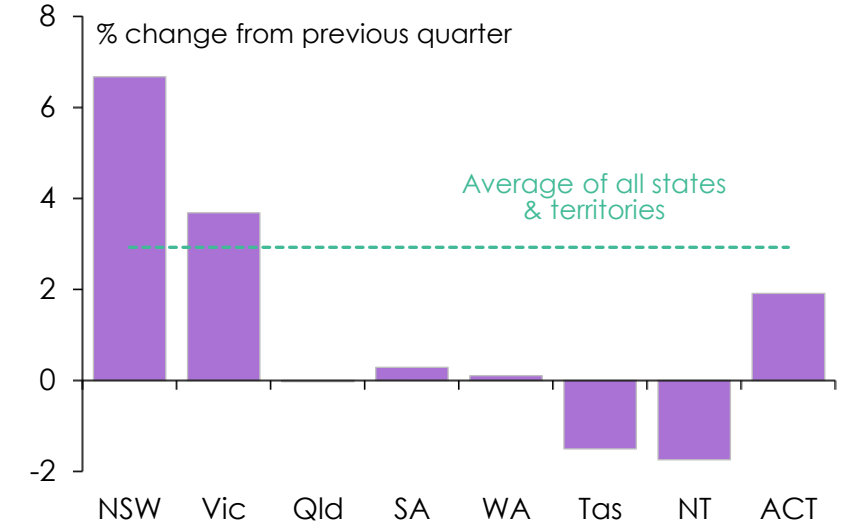
## Household consumption



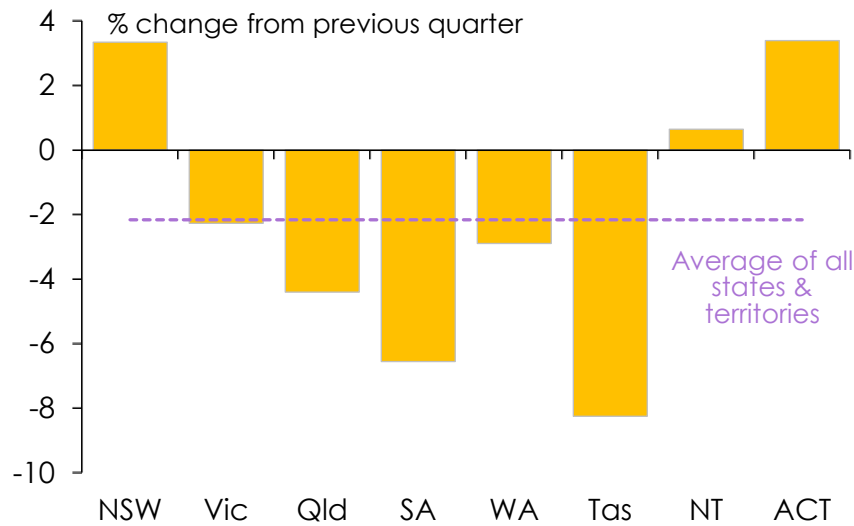
## Business investment



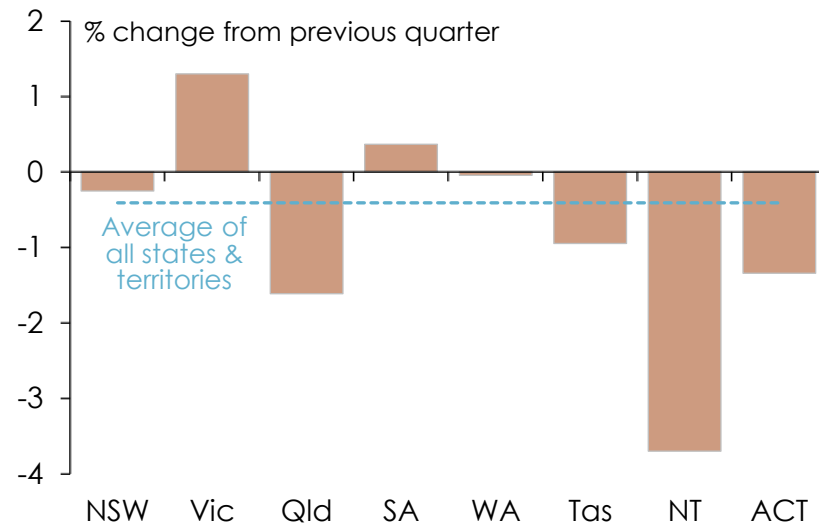
## State final demand



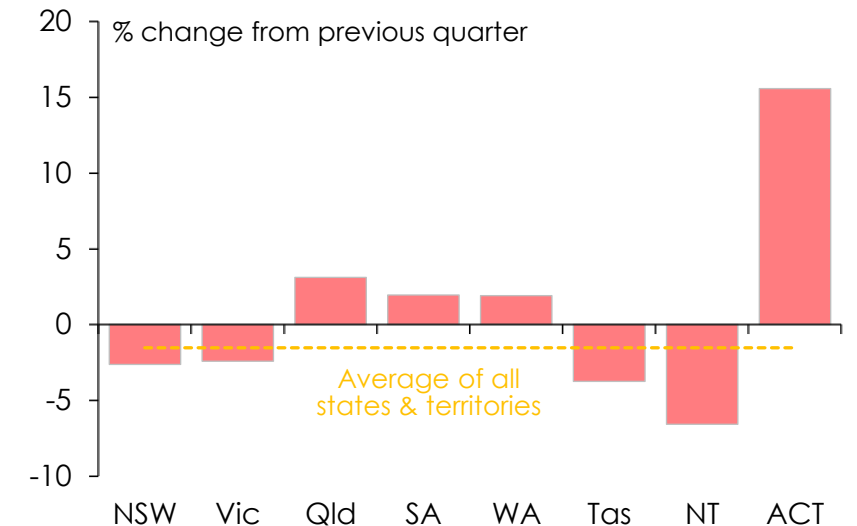
## Dwelling investment



## Public spending



## International exports



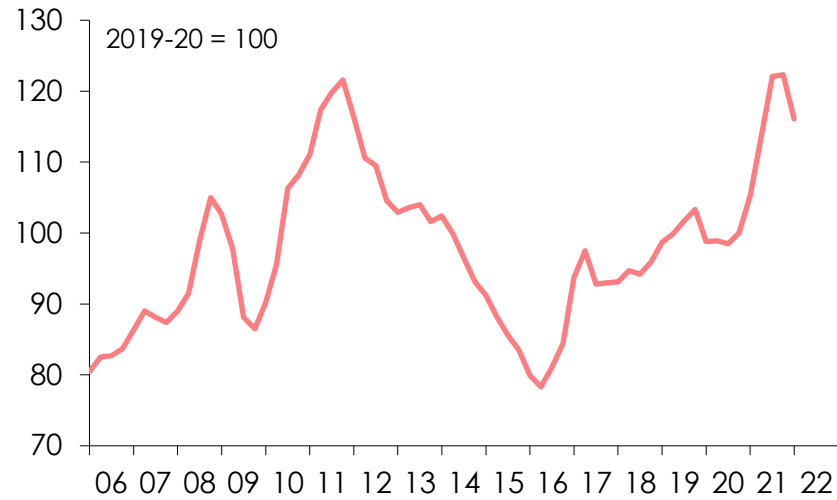
Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; [Balance of Payments and International Investment Position,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



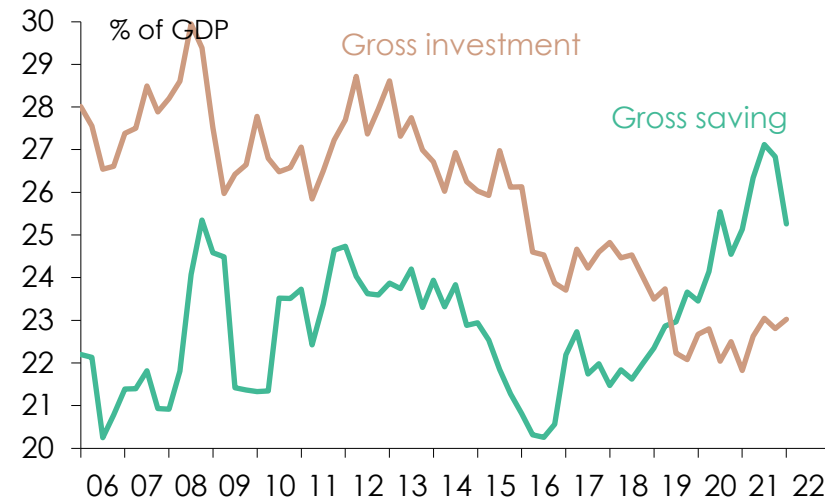
# Australia's terms of trade may have peaked, leading to slower growth in income and lower national saving

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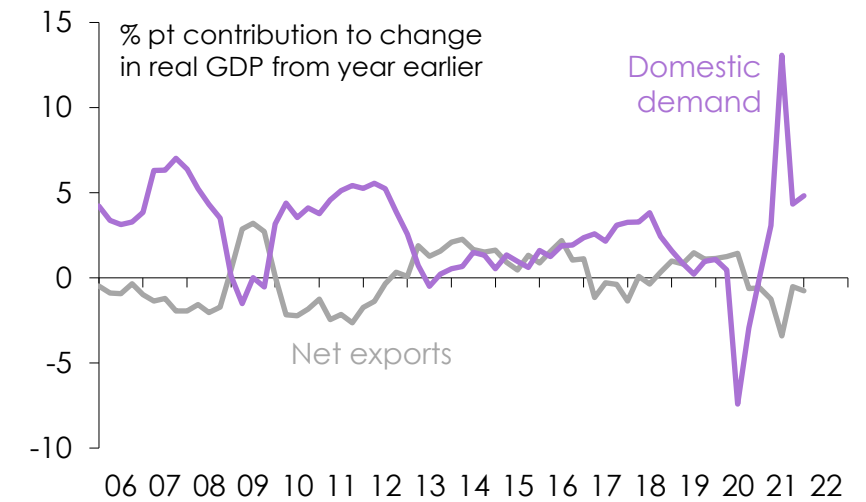
## Terms of trade



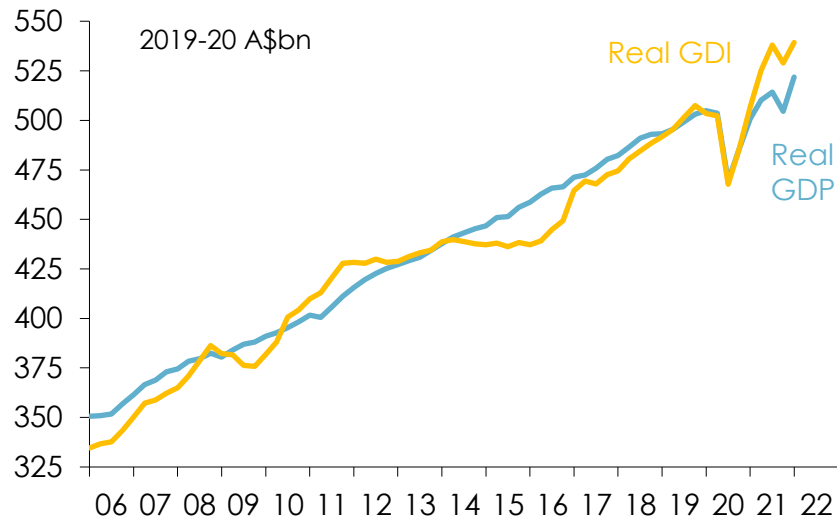
## National saving & investment



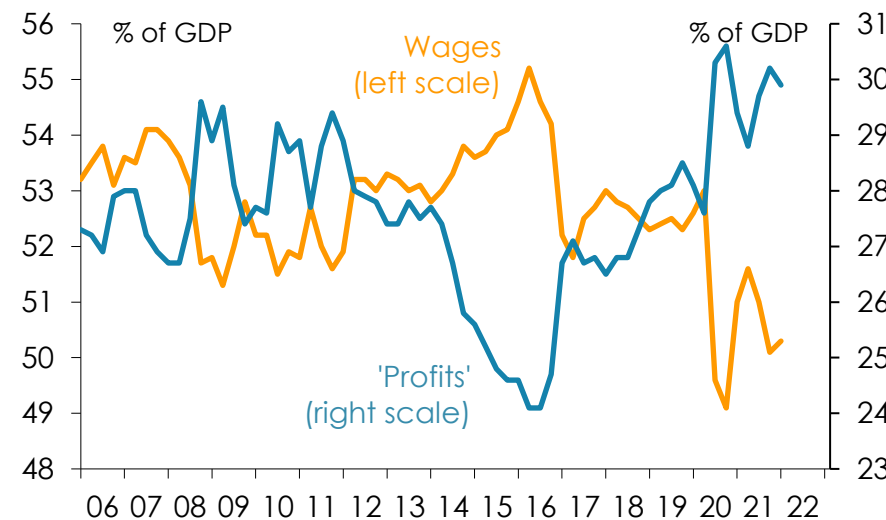
## Domestic demand and net exports



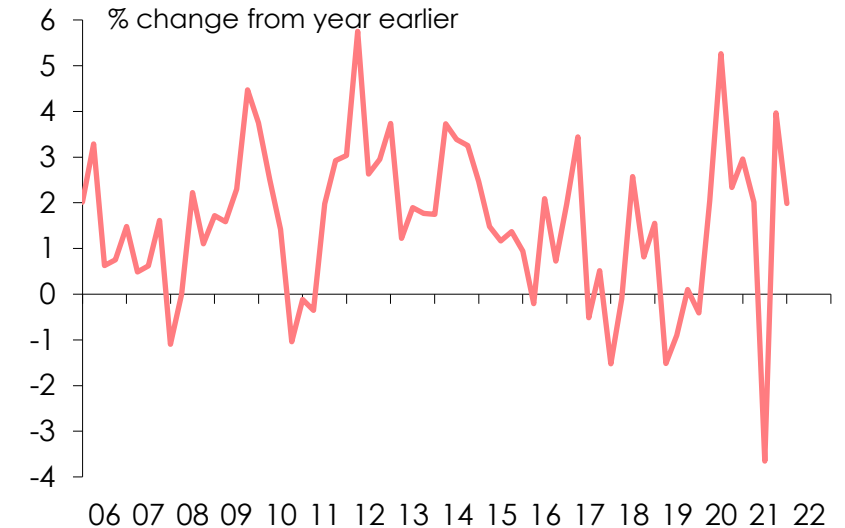
## Real gross domestic income



## Shares of national income



## Labour productivity

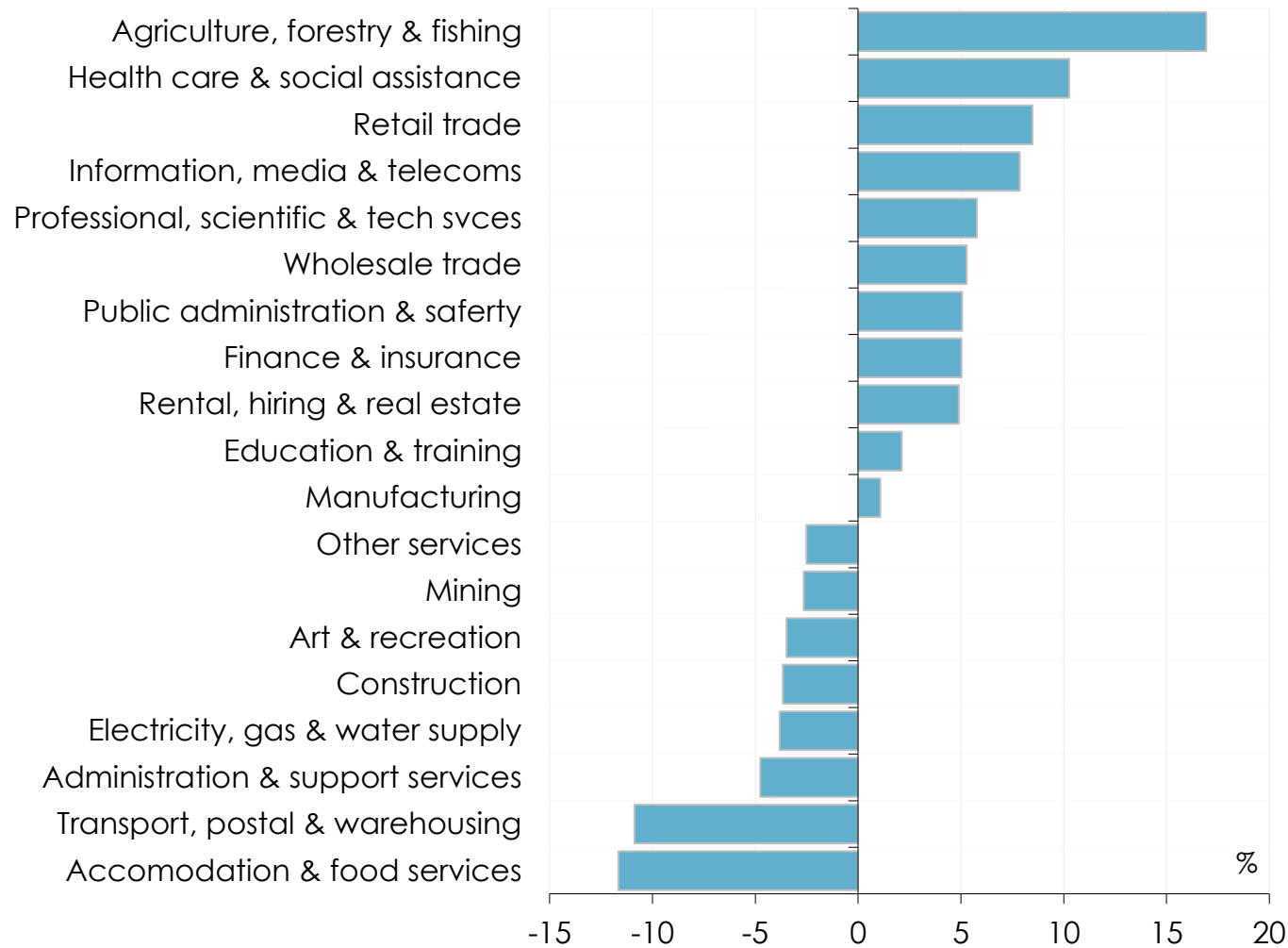


Note: The terms of trade is the ratio of export to import prices (for more see [slide 67](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021.

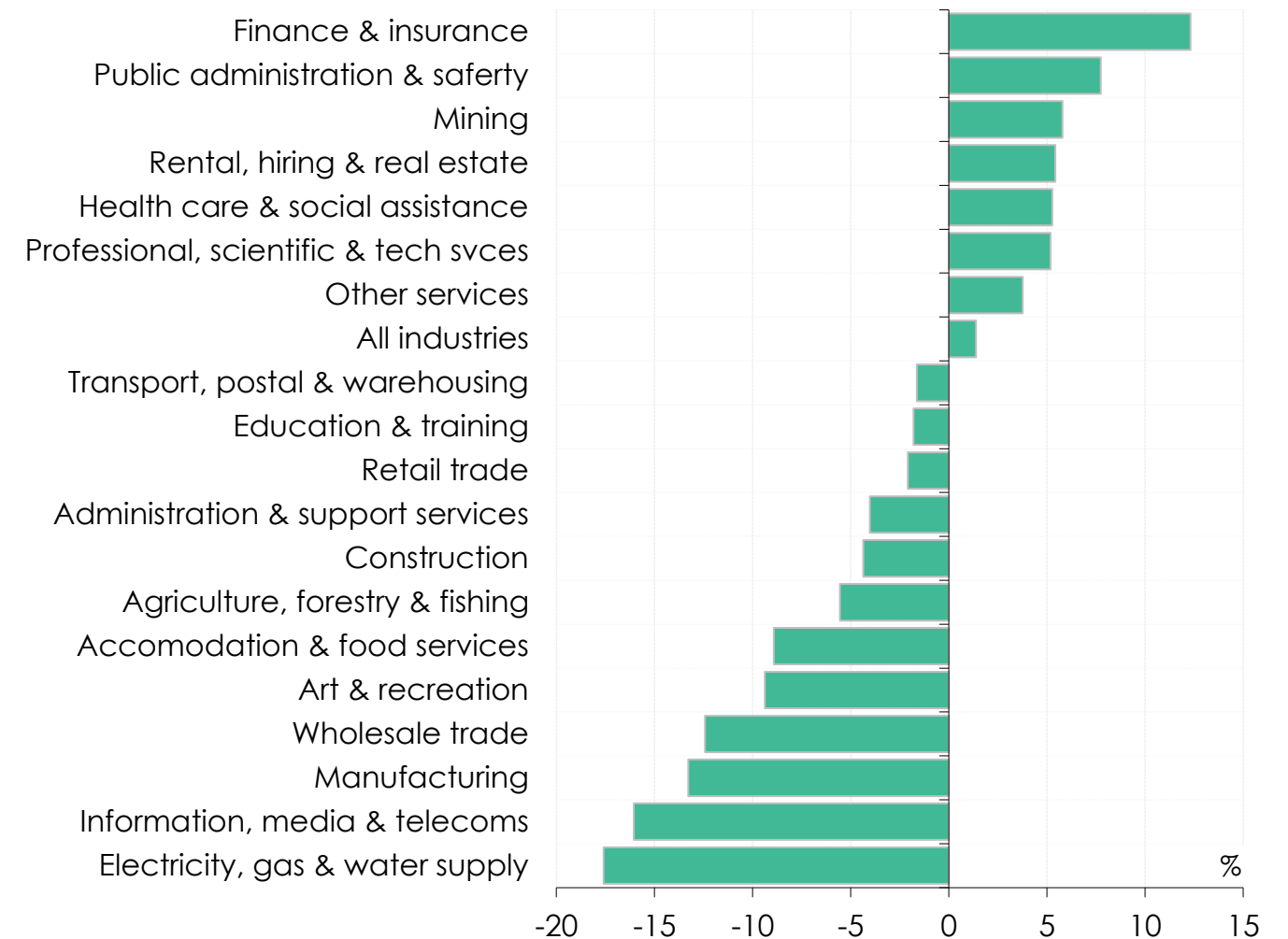
# Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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## Q4 2021 real gross value added by industry – change from pre-pandemic peak



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

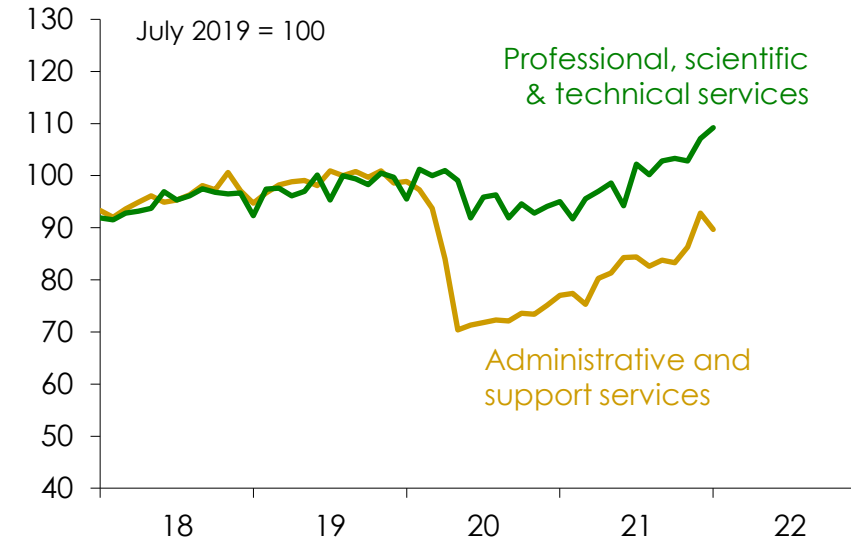
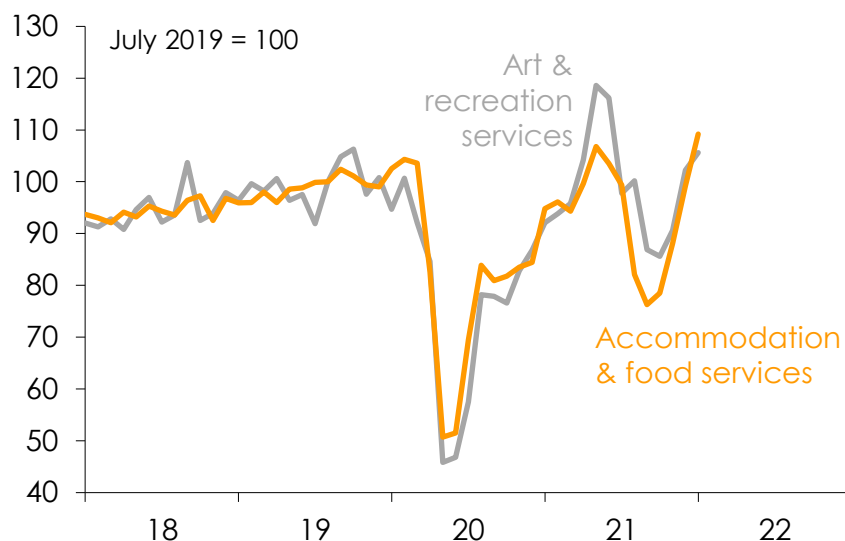
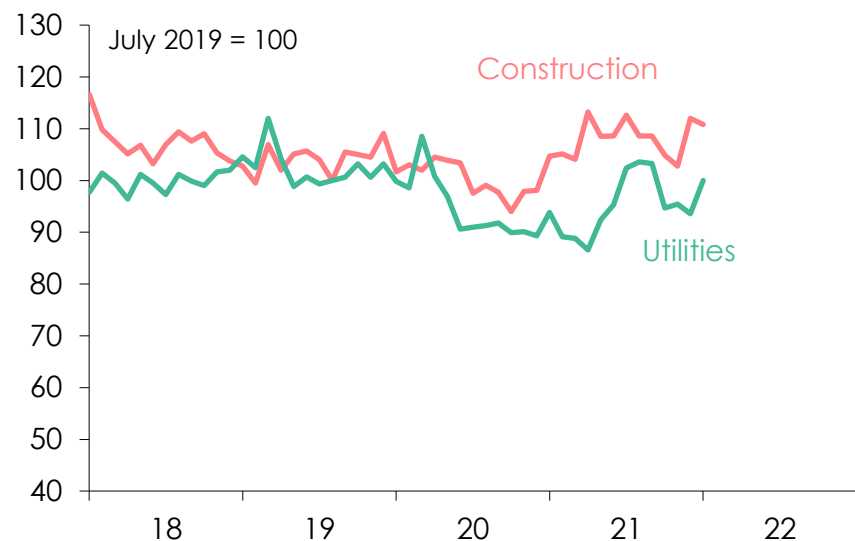
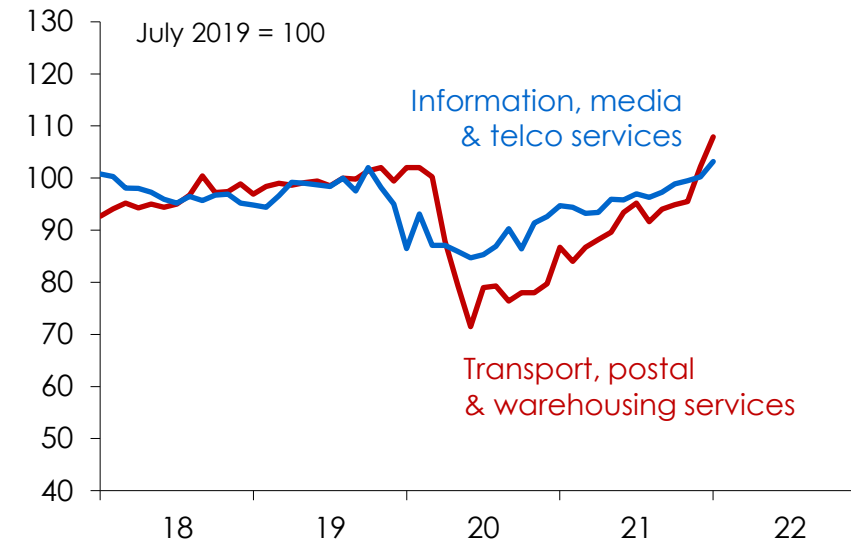
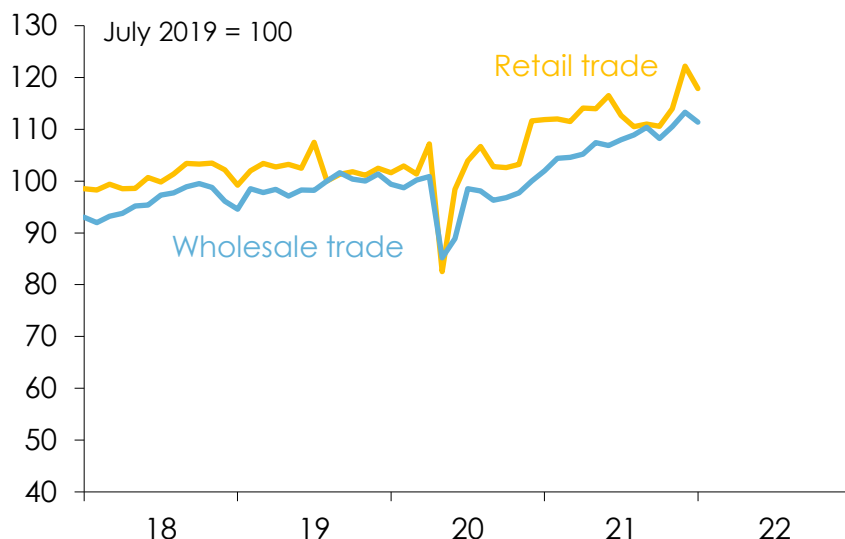
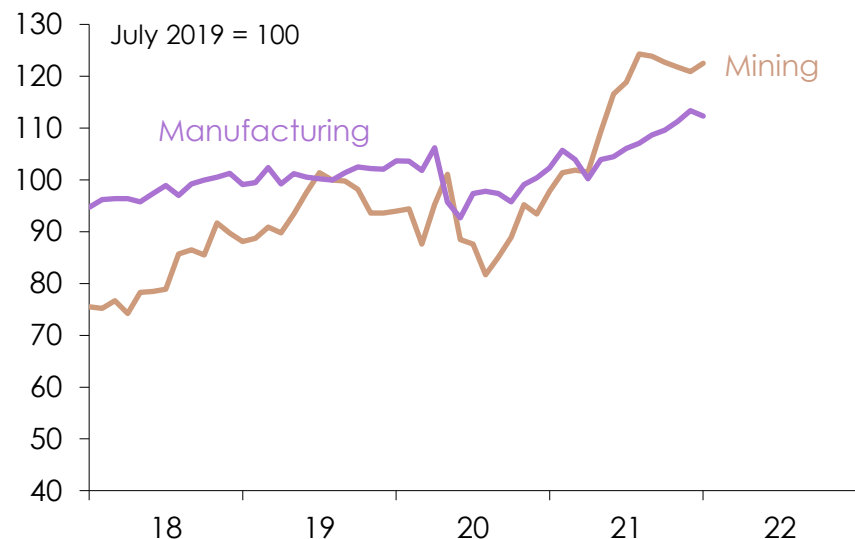


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; and [Labour Force, Australia, Detailed](#), November 2021. GVA by industry data will be updated in the March quarter national accounts to be released on 1<sup>st</sup> June

# 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

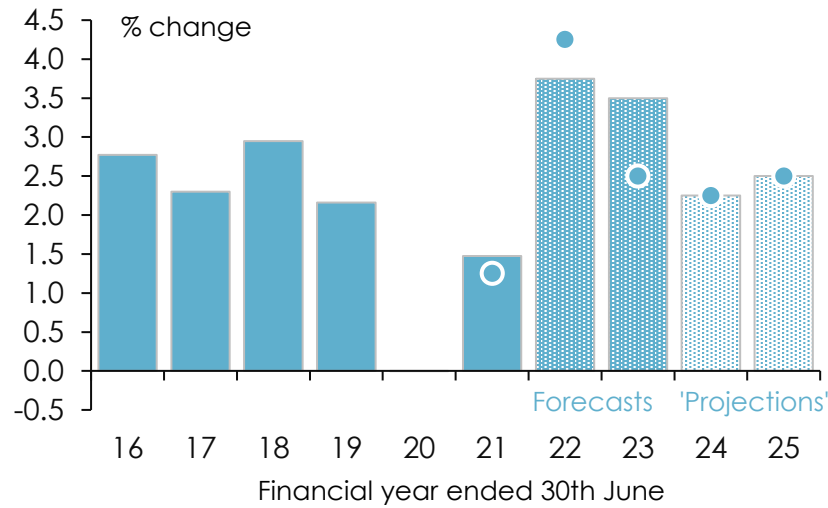


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

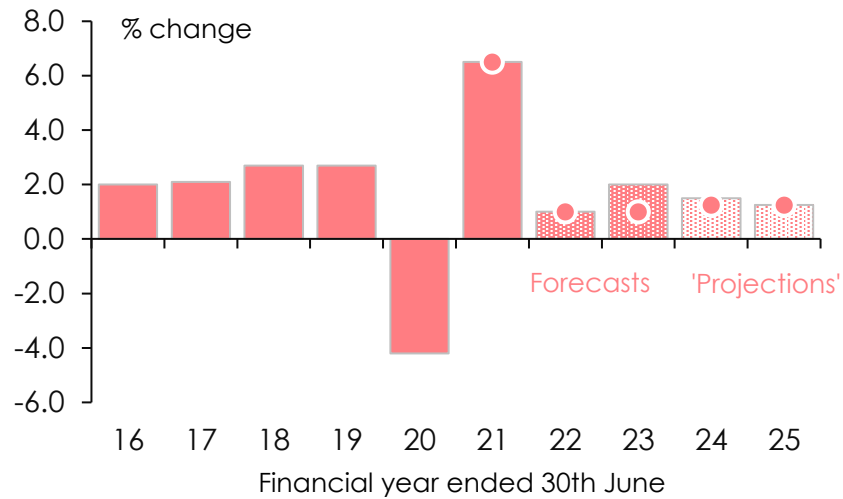
# Treasury revised up its forecasts for economic and employment growth in 2022-23, and for wages growth through 2024-25, in December's MYEFO

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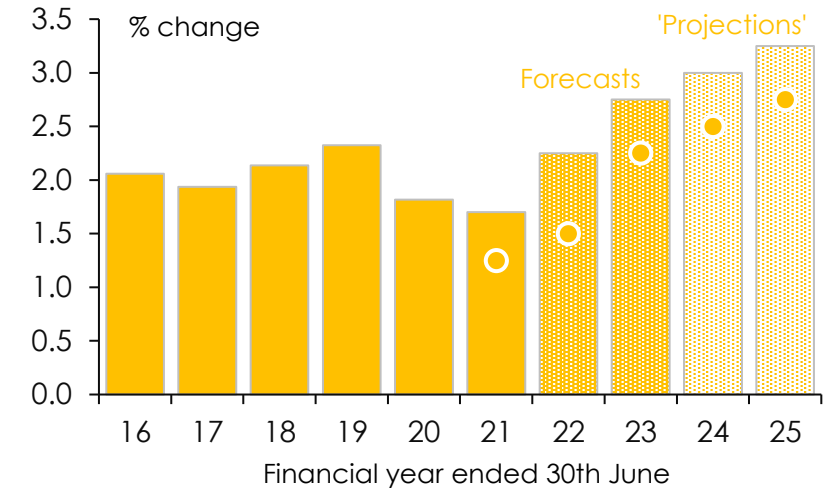
## Real GDP



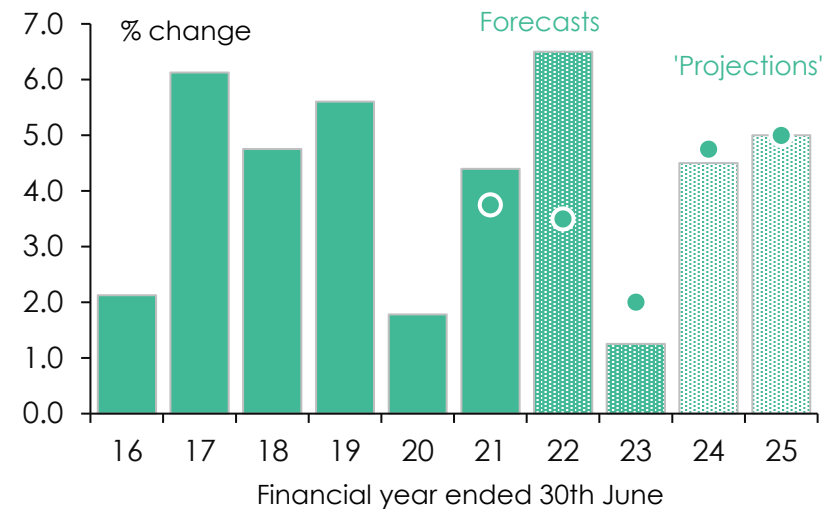
## Employment



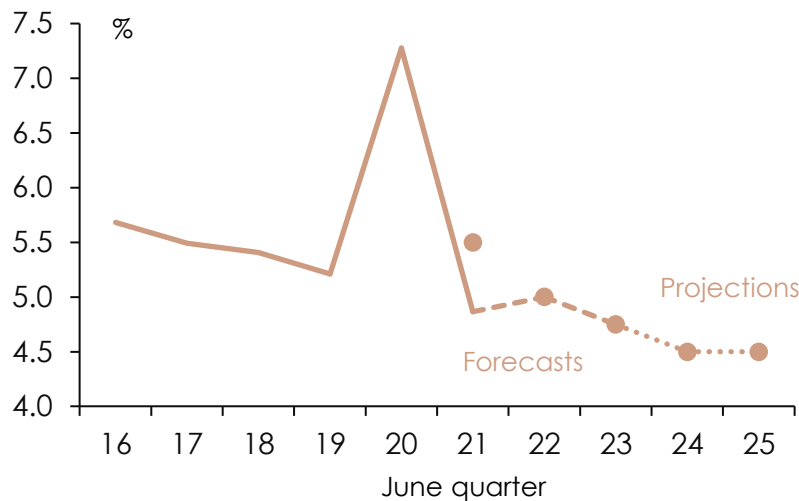
## Wages



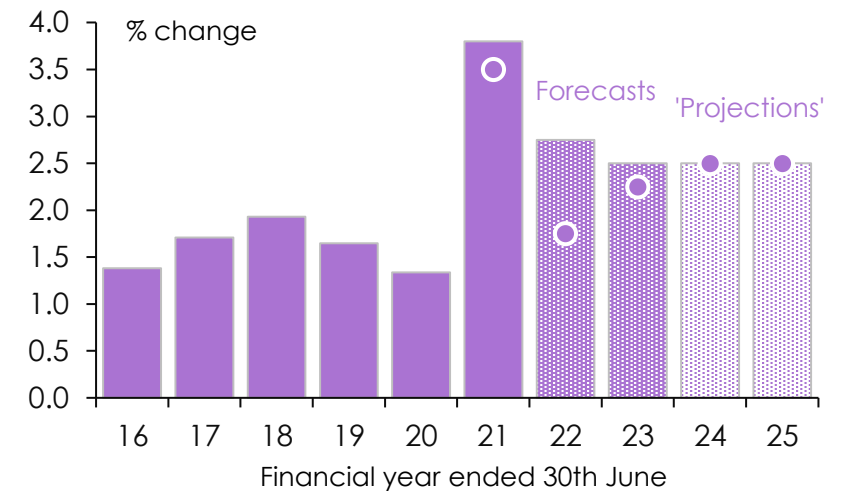
## Nominal GDP



## Unemployment rate



## Consumer prices

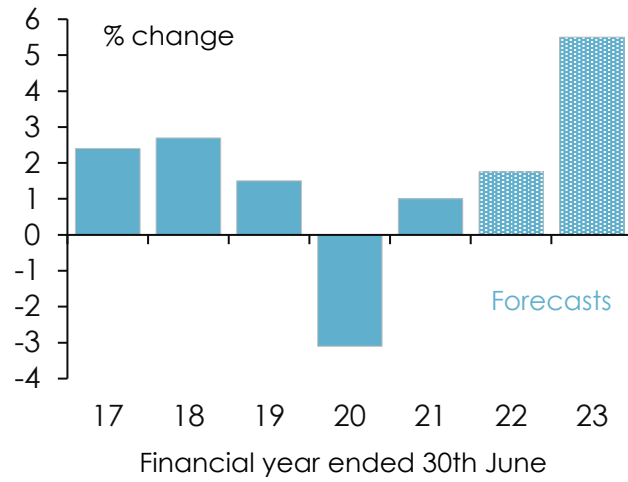


Note: Dots represent forecasts/projections in the 2021-22 Budget presented in May. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to be -41K in 2021-22, +180K in 2022-23, +213K in 2023-24 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 83](#). [Return to "What's New"](#).

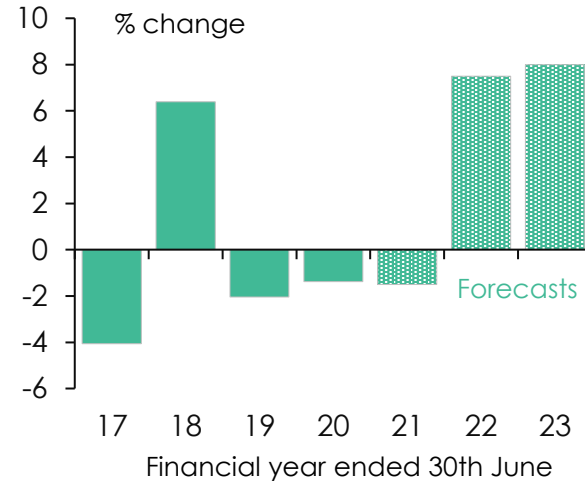
# Treasury expects economic growth to be driven by private consumption and business investment offsetting weaker net exports

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

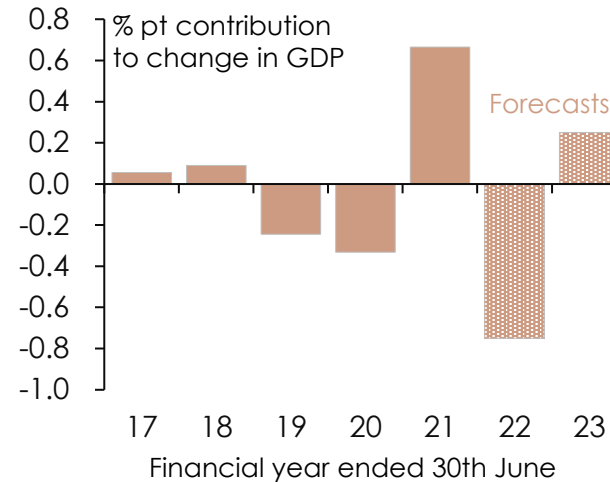
## Household consumption



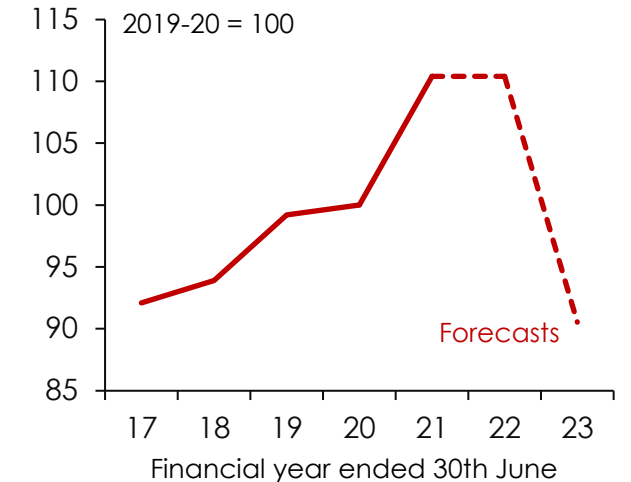
## Business investment



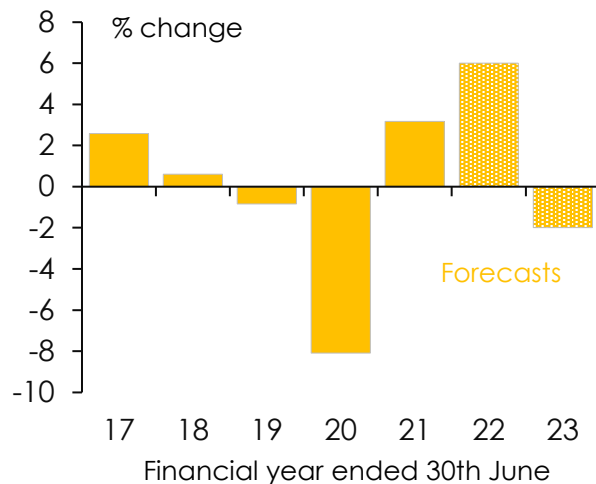
## Change in inventories



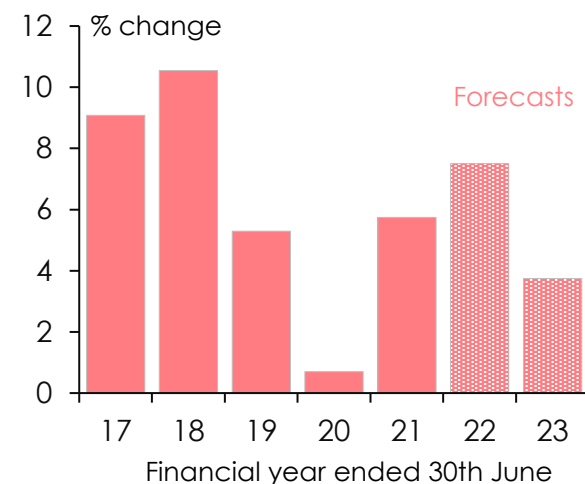
## Terms of trade



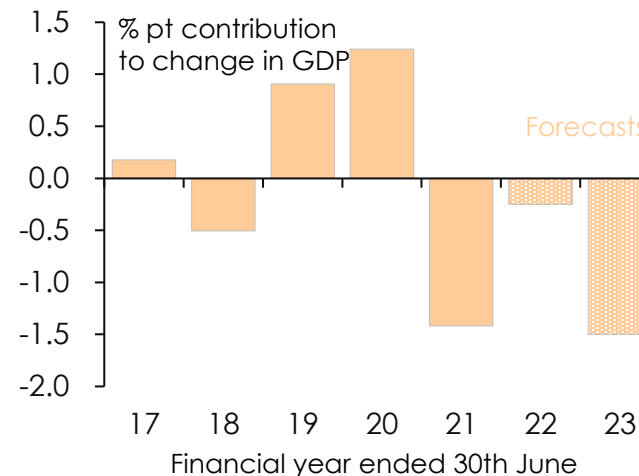
## Dwelling investment



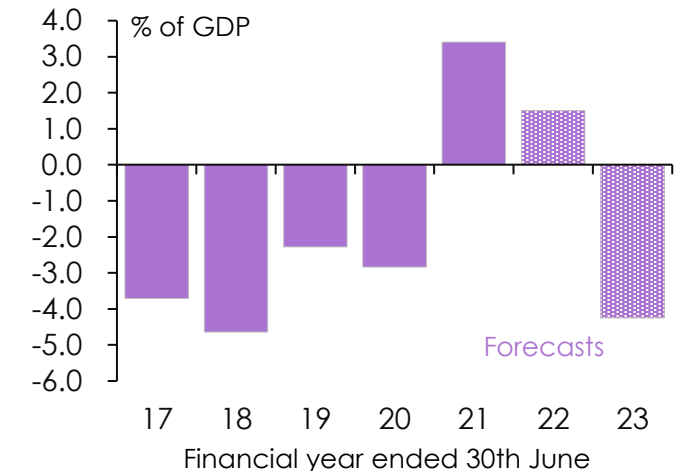
## Public spending



## Net exports



## Current account balance

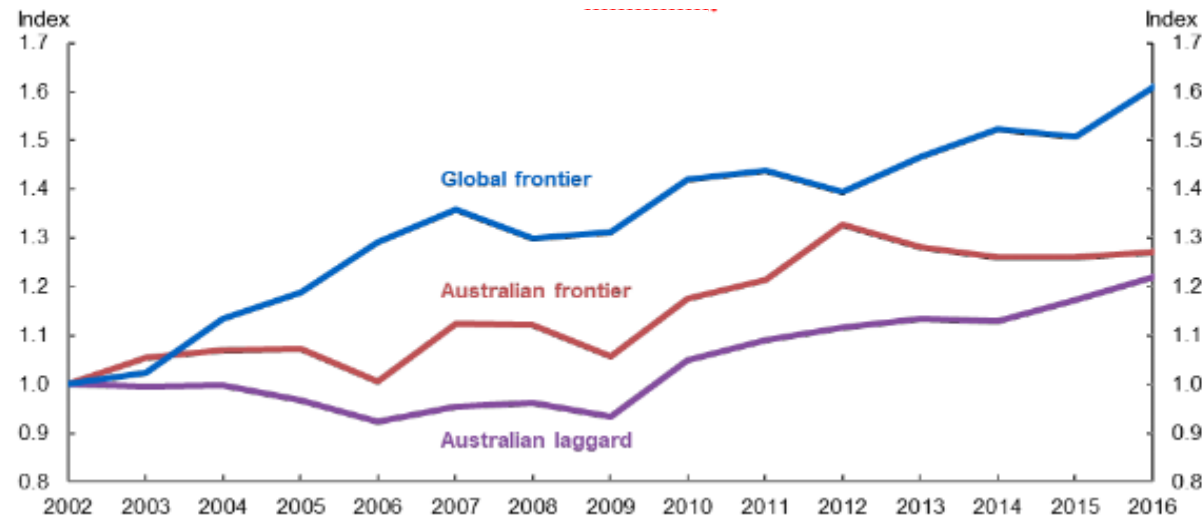


Note: Business investment and public spending exclude transactions in second-hand assets. Net overseas migration assumed to be -41K in 2021-22, and +180K in 2022-23; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by 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"](#).

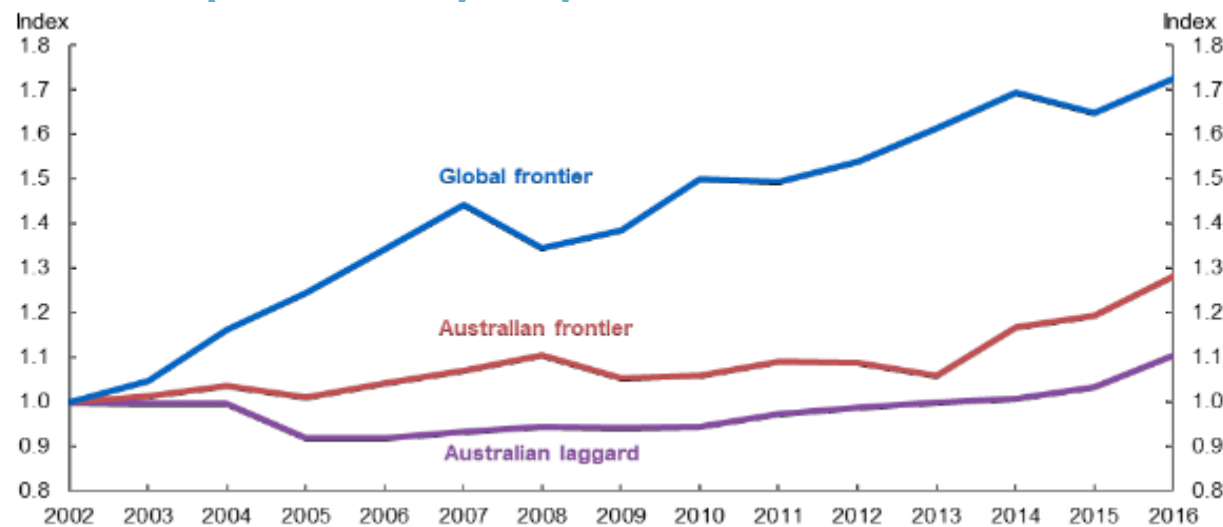
# A new Australian Treasury paper suggests Australia's productivity slowdown is due to a loss of 'business dynamism' and competitive pressures

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## Labour productivity dispersion - manufacturing



## Labour productivity dispersion - services



- ❑ Four Treasury economists recently 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"](#).

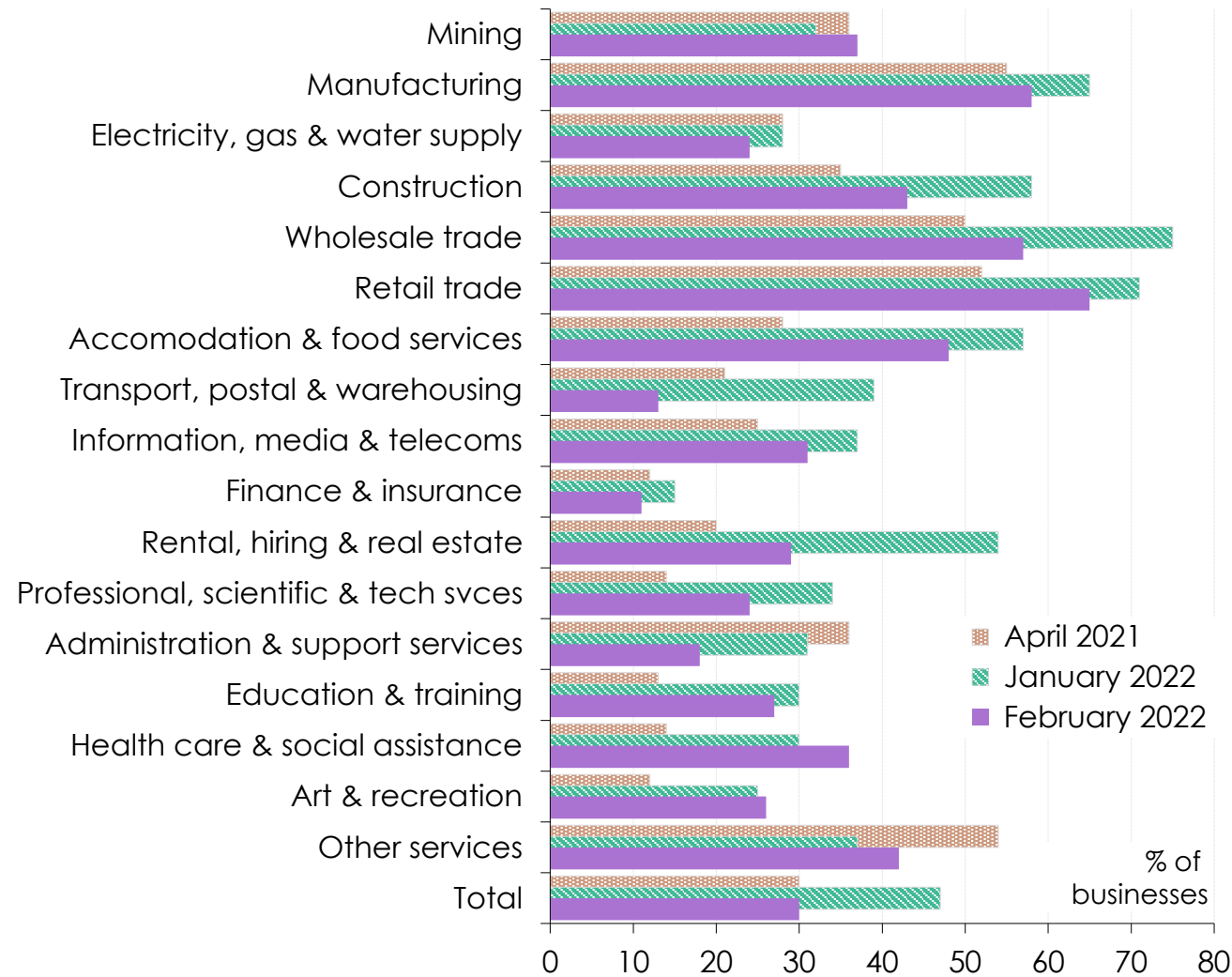


# The business sector

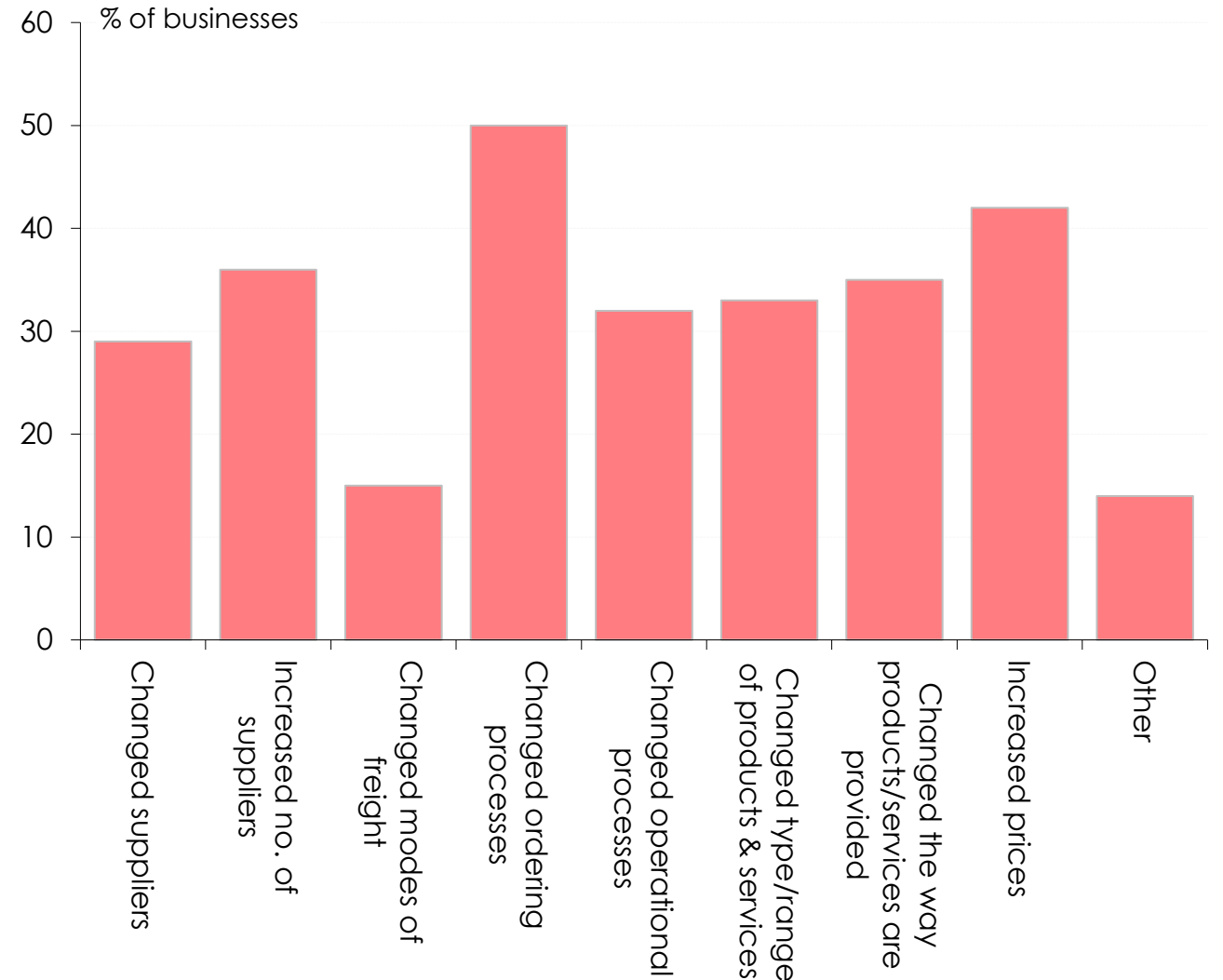
# Supply chain disruptions eased a bit in February but are still adversely affecting almost one-third of all businesses

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

Businesses affected 'to a great extent' by supply chain disruptions, by industry, April 2021, Jan & Feb 2022



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

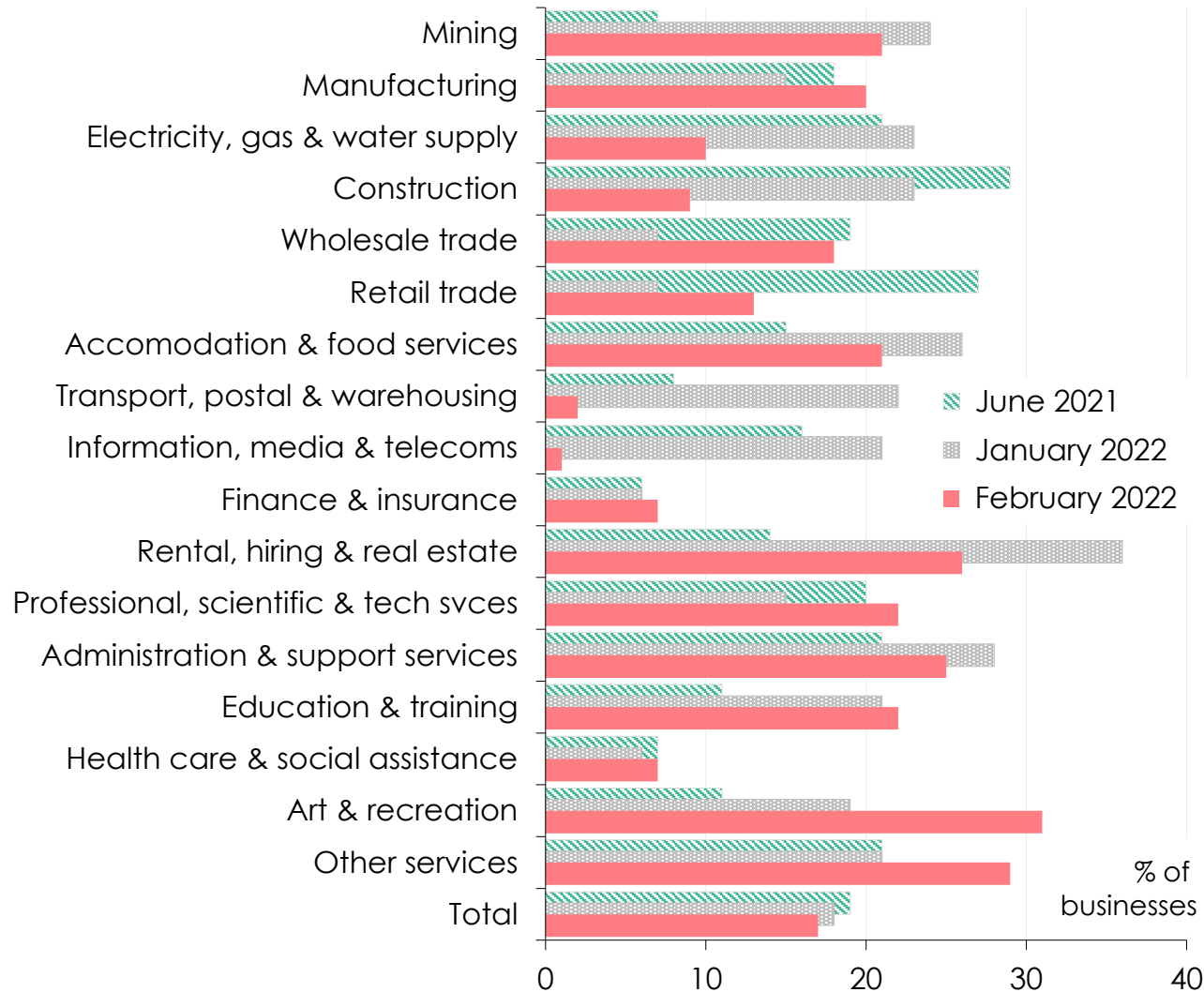




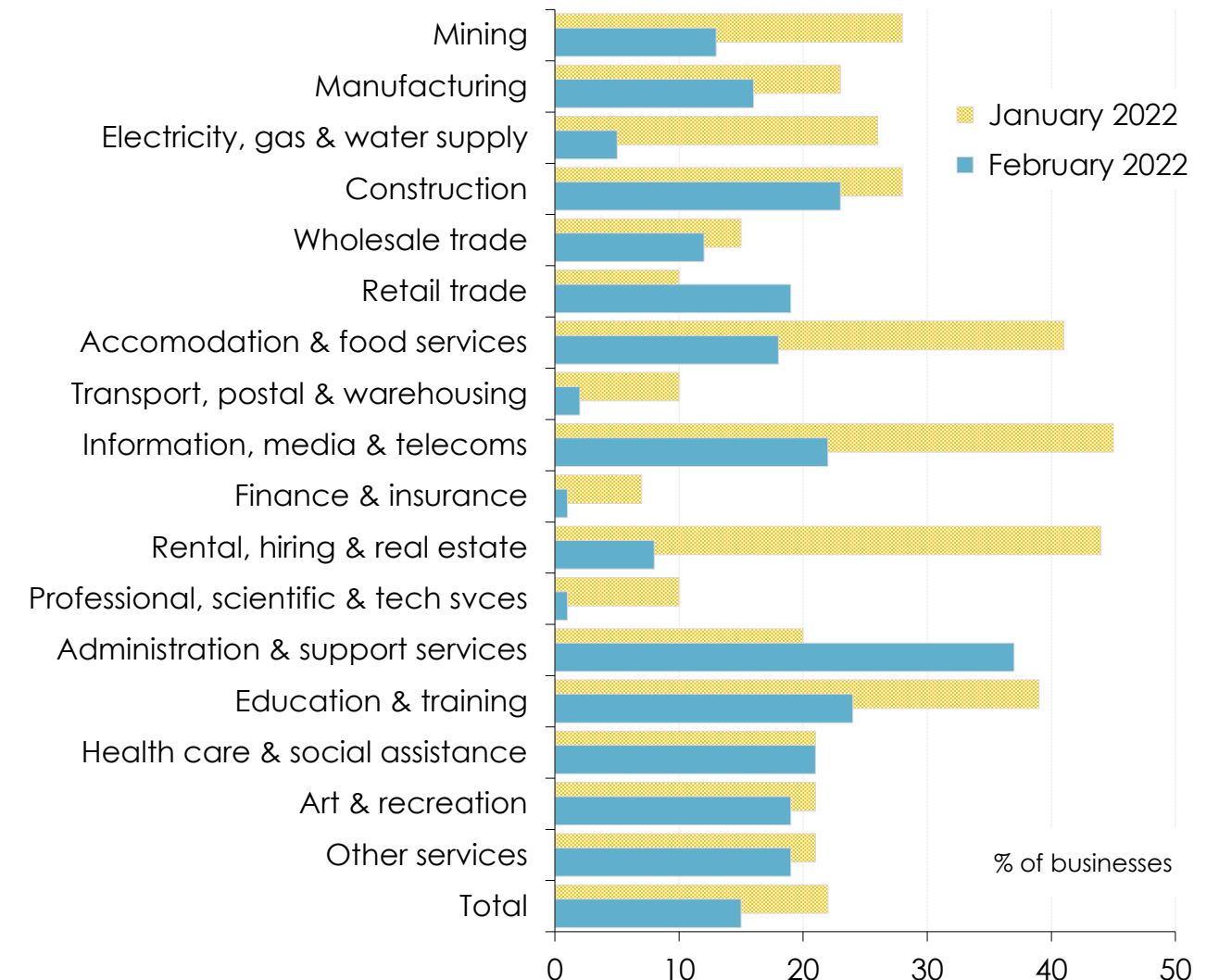
# Fewer businesses were experiencing staff shortages during February, at least in part because fewer employees were affected by Covid

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

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



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

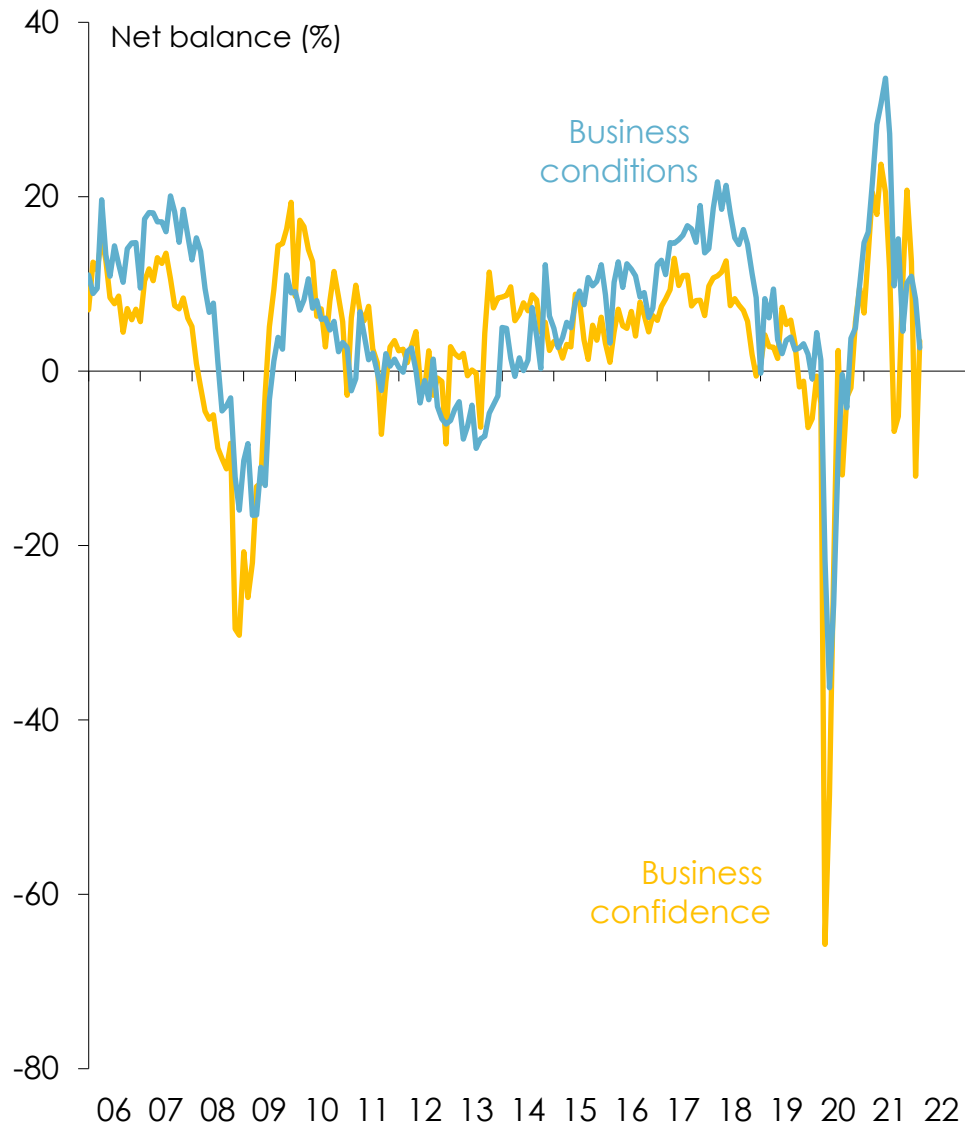


Sources: ABS, [Business conditions and sentiments](#), February 2022. [Return to "What's New"](#).

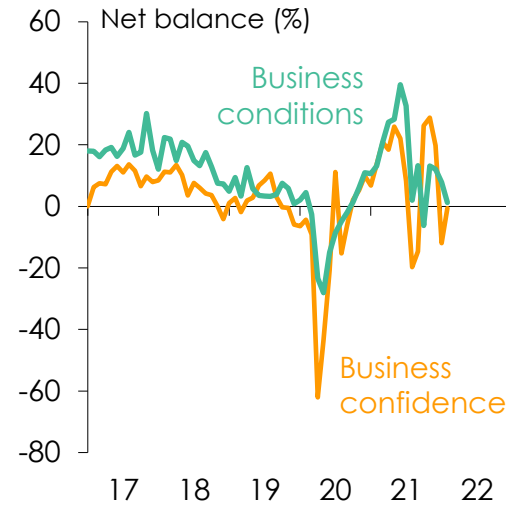
# Business confidence turned around in January, reversing almost two-thirds of December's sharp fall, even though business conditions softened

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

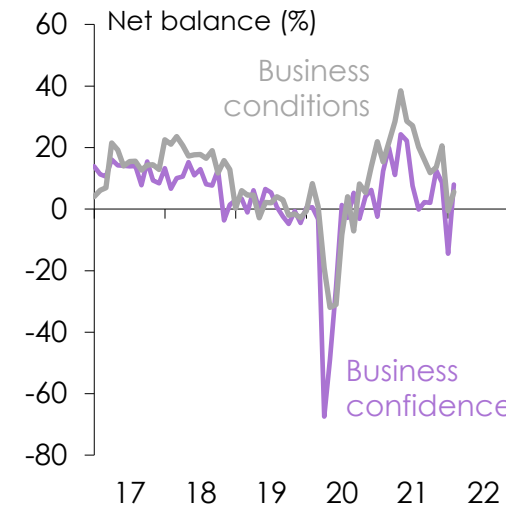
## National business confidence & conditions



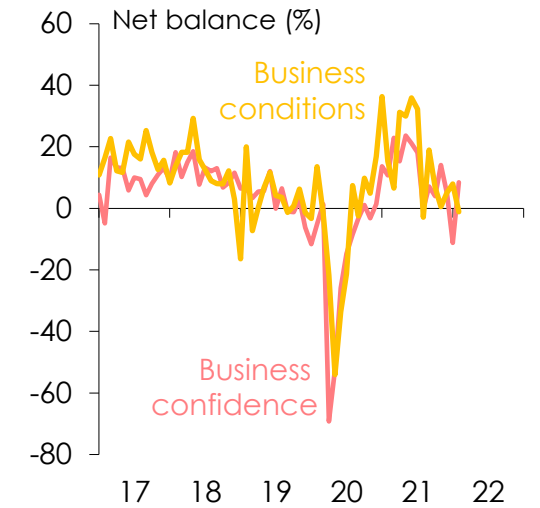
## New South Wales



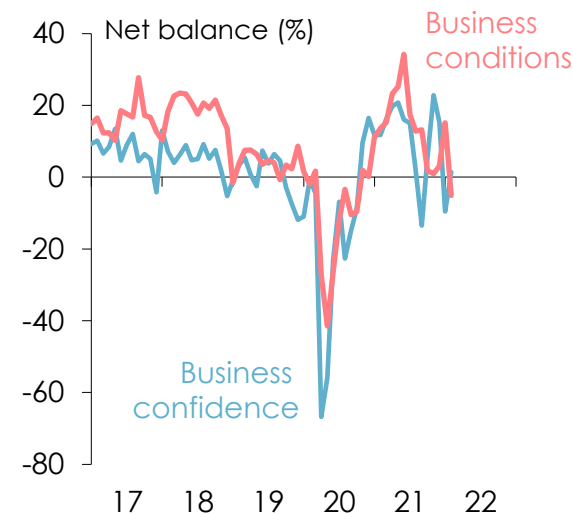
## Queensland



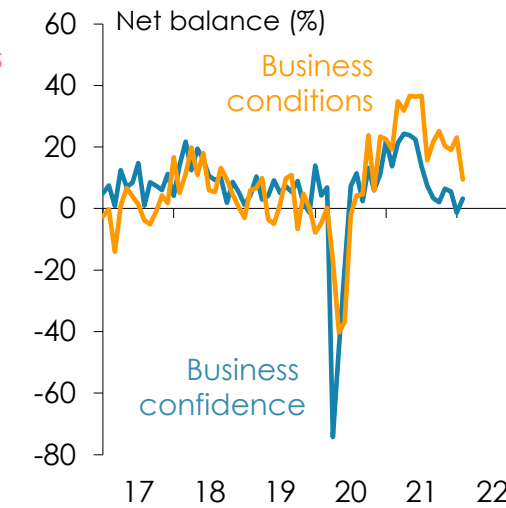
## South Australia



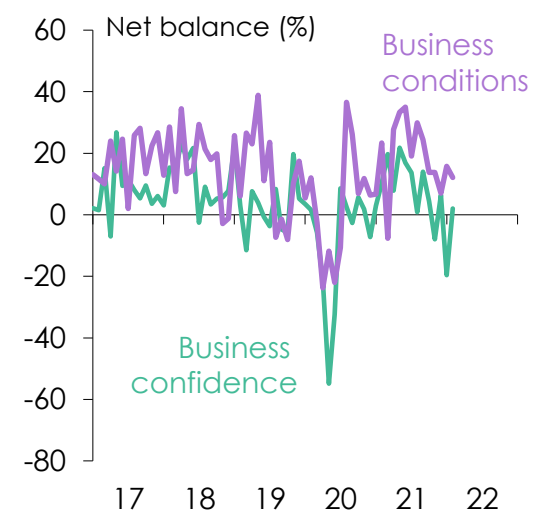
## Victoria



## Western Australia



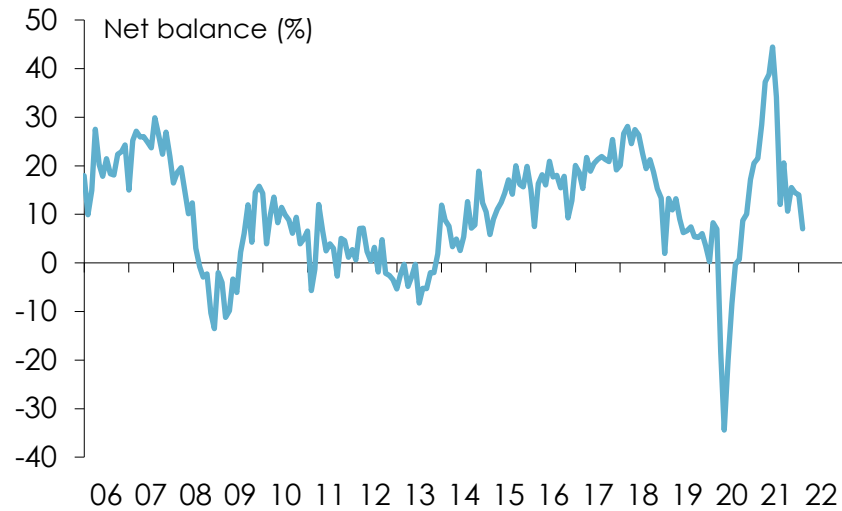
## Tasmania



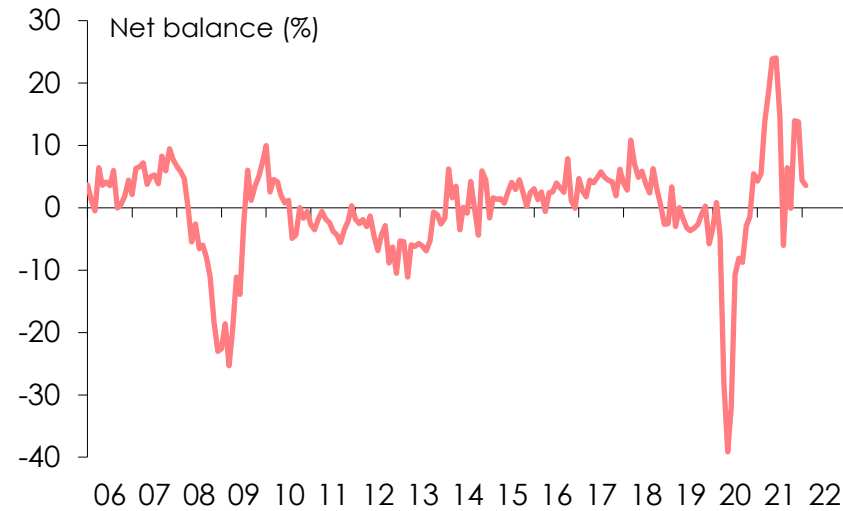
# Business conditions softened further in January due to consumer caution and staff shortages, but not as much as in the 2020 and 2021 lockdowns

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

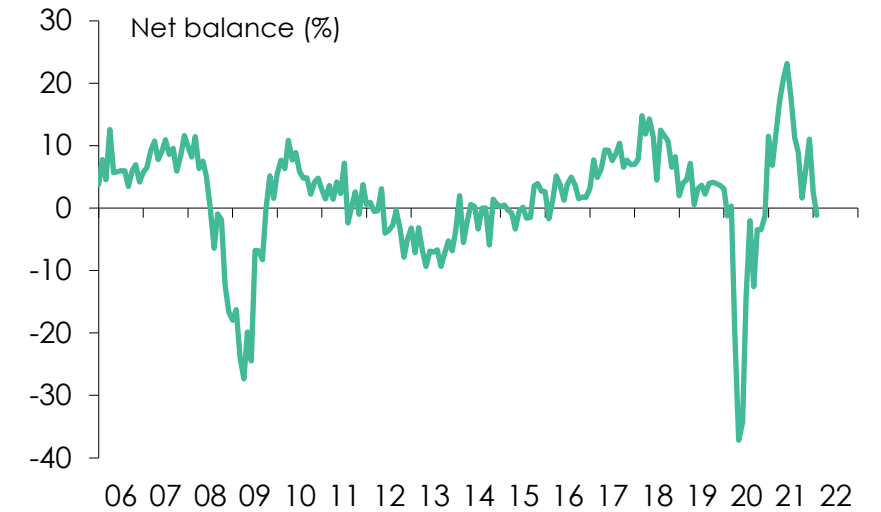
## Trading conditions



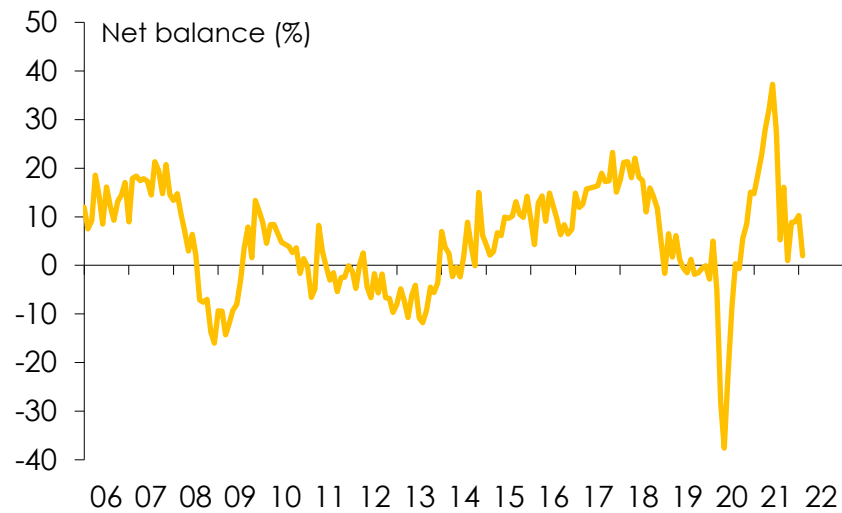
## Forward orders



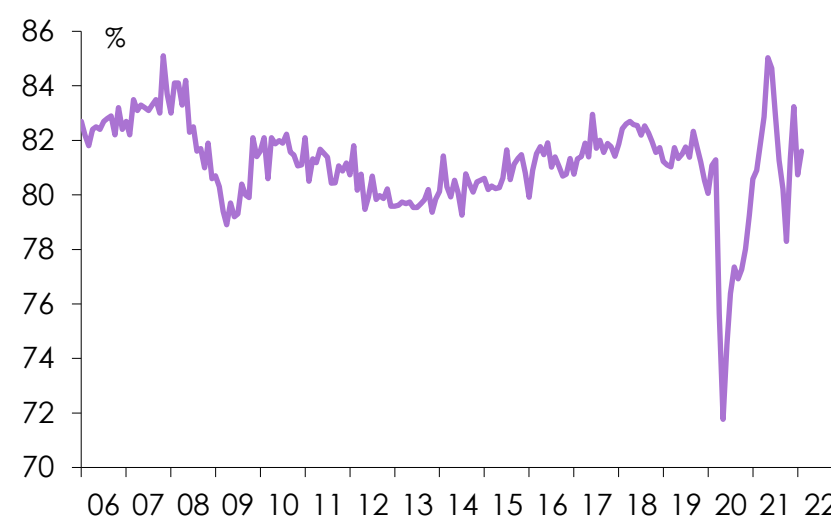
## Employee hiring intentions



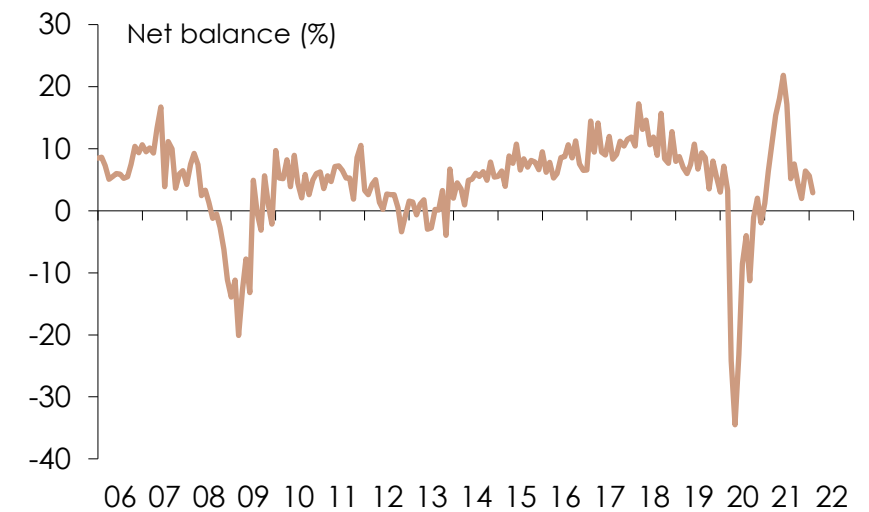
## Profitability



## Capacity utilization



## Capital expenditure intentions

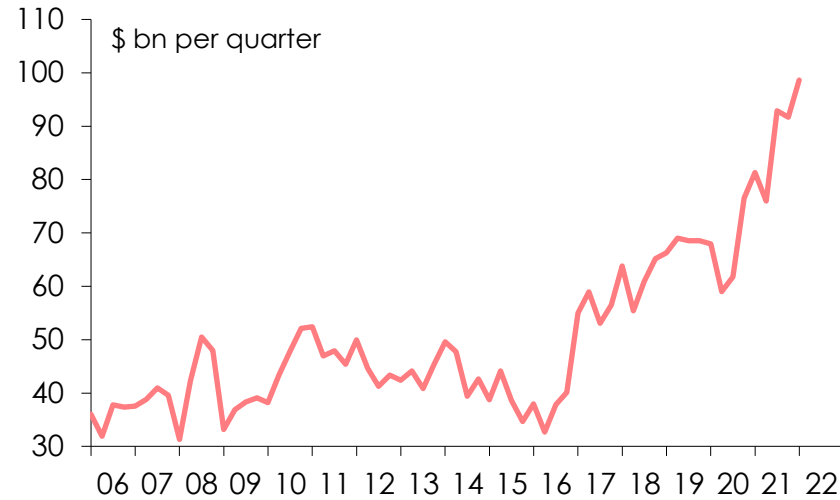


Source: National Australia Bank [Monthly Business Survey](#), January 2022; February survey results will be released on 8<sup>th</sup> March. [Return to "What's New"](#).

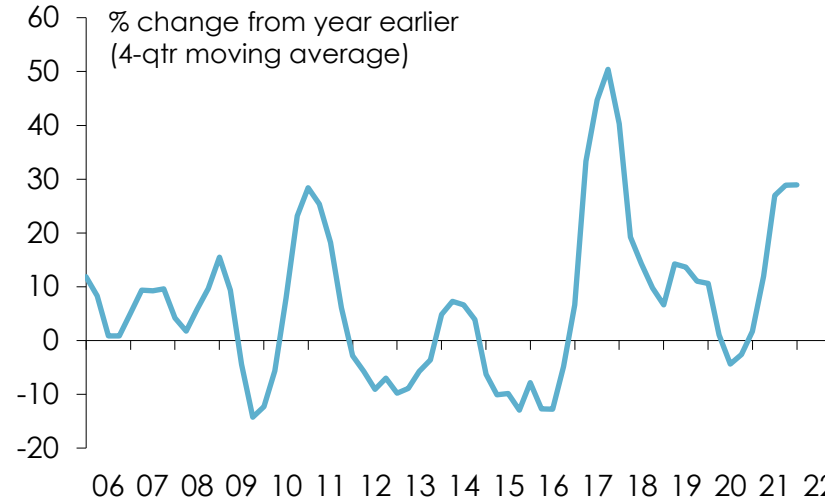
# Company profits have grown strongly over the past five years, largely driven by mining – though manufacturing profits rose 13% in 2021

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

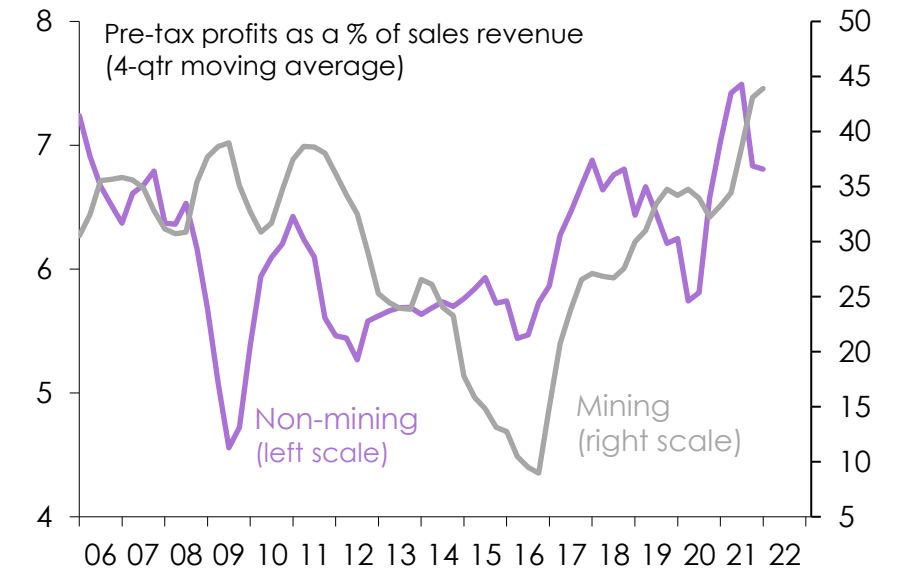
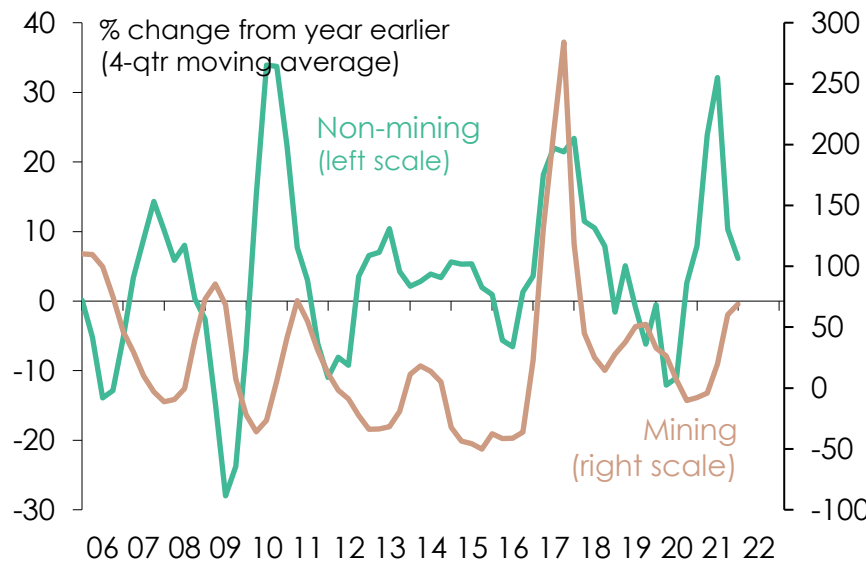
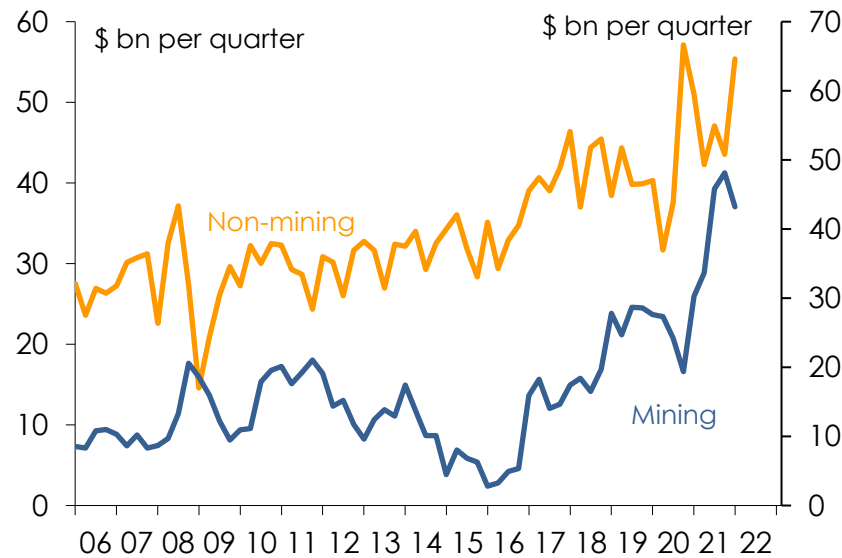
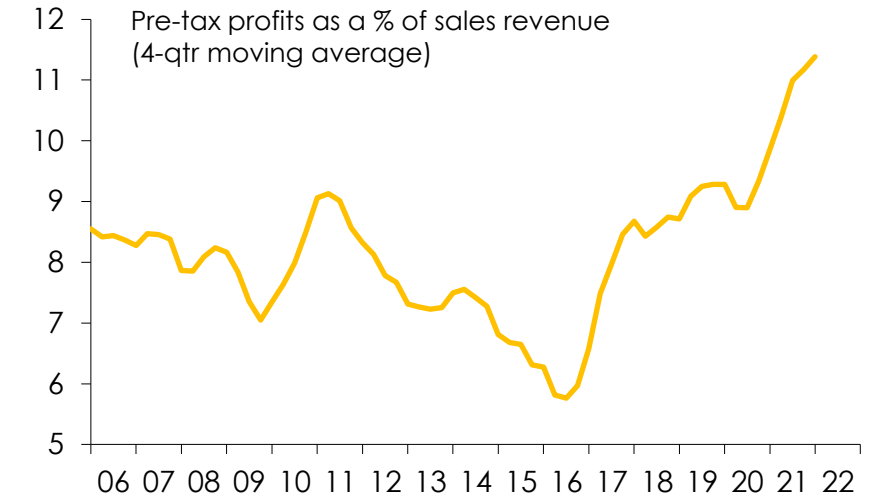
## Pre-tax company profits



## Pre-tax company profits growth



## Pre-tax profit margins

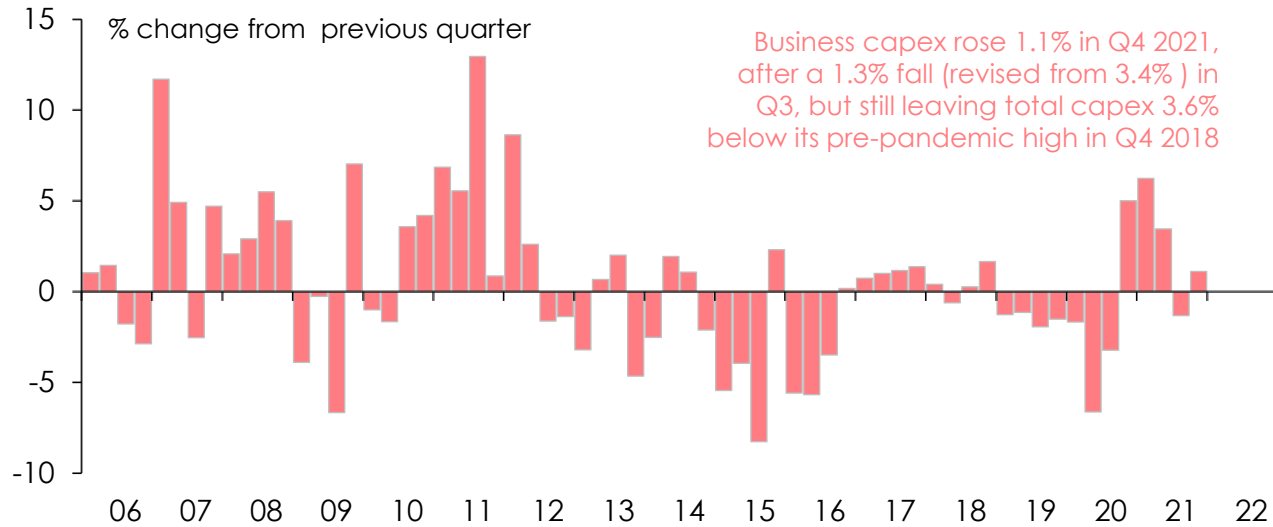


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), December 2021. March quarter data will be released on 31<sup>st</sup> May. [Return to "What's New"](#).

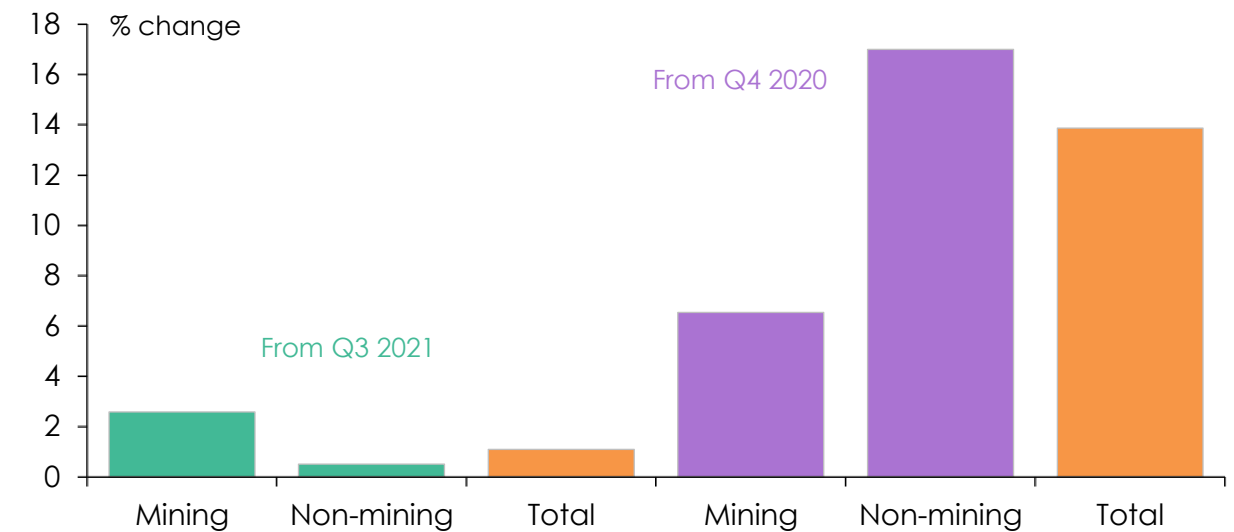
# Business capex rose 1.1% in real terms in Q4 2021, largely driven by the mining sector (in contrast to the earlier part of last year)

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

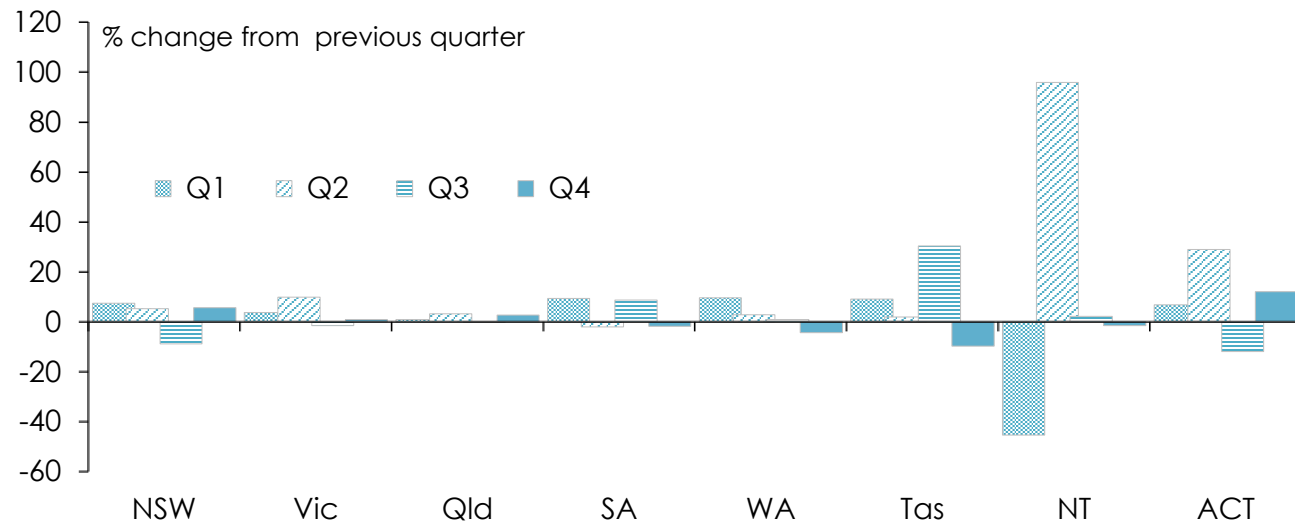
## Real business new fixed capital expenditure



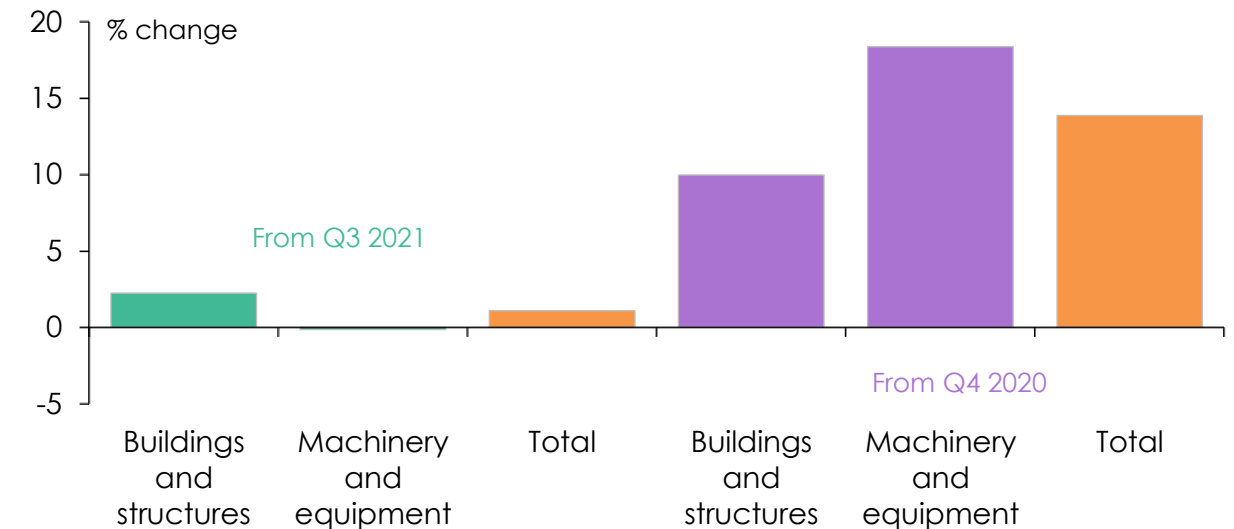
## Real business new fixed capex, by industry, Q4



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



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

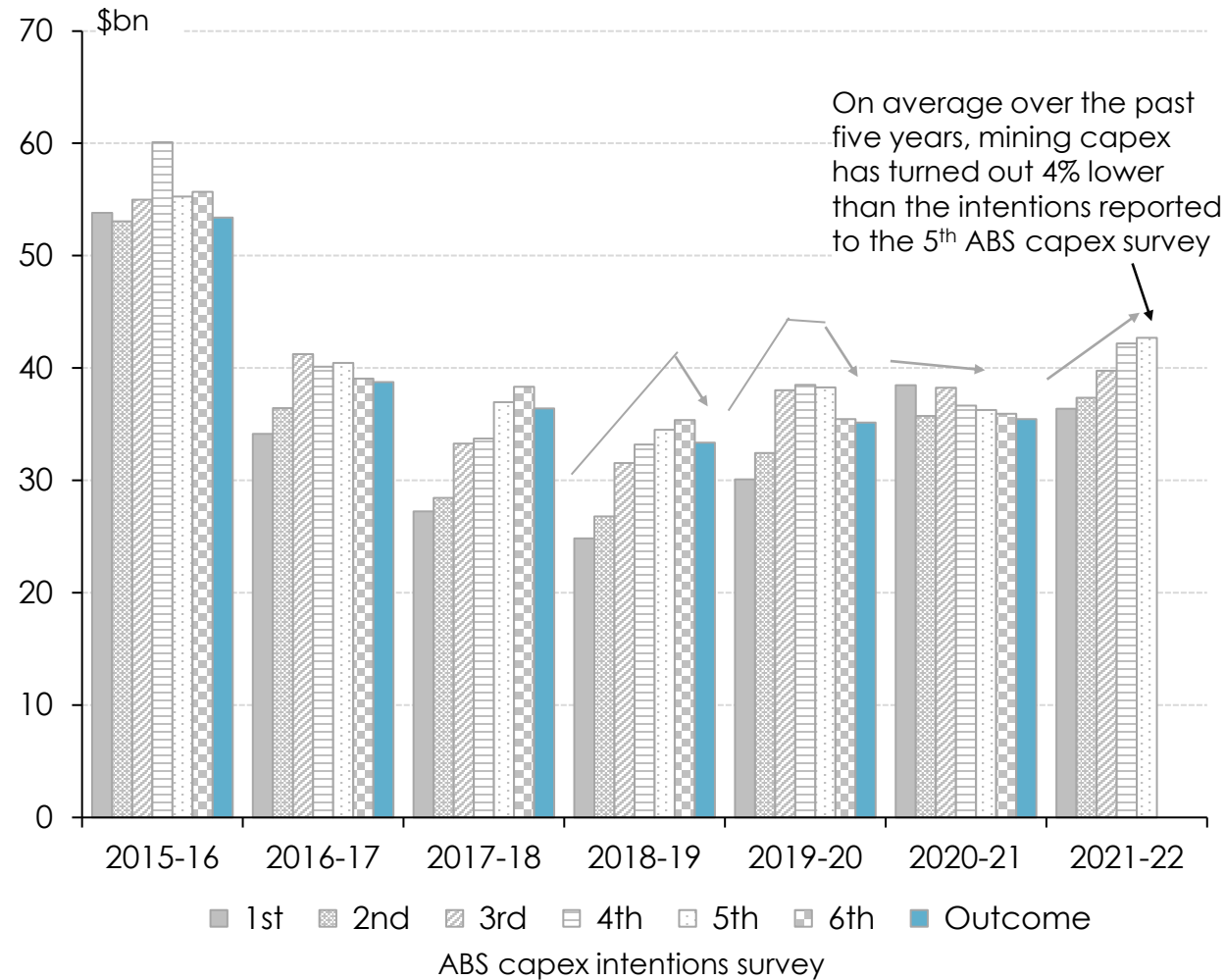


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.  
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 26<sup>th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

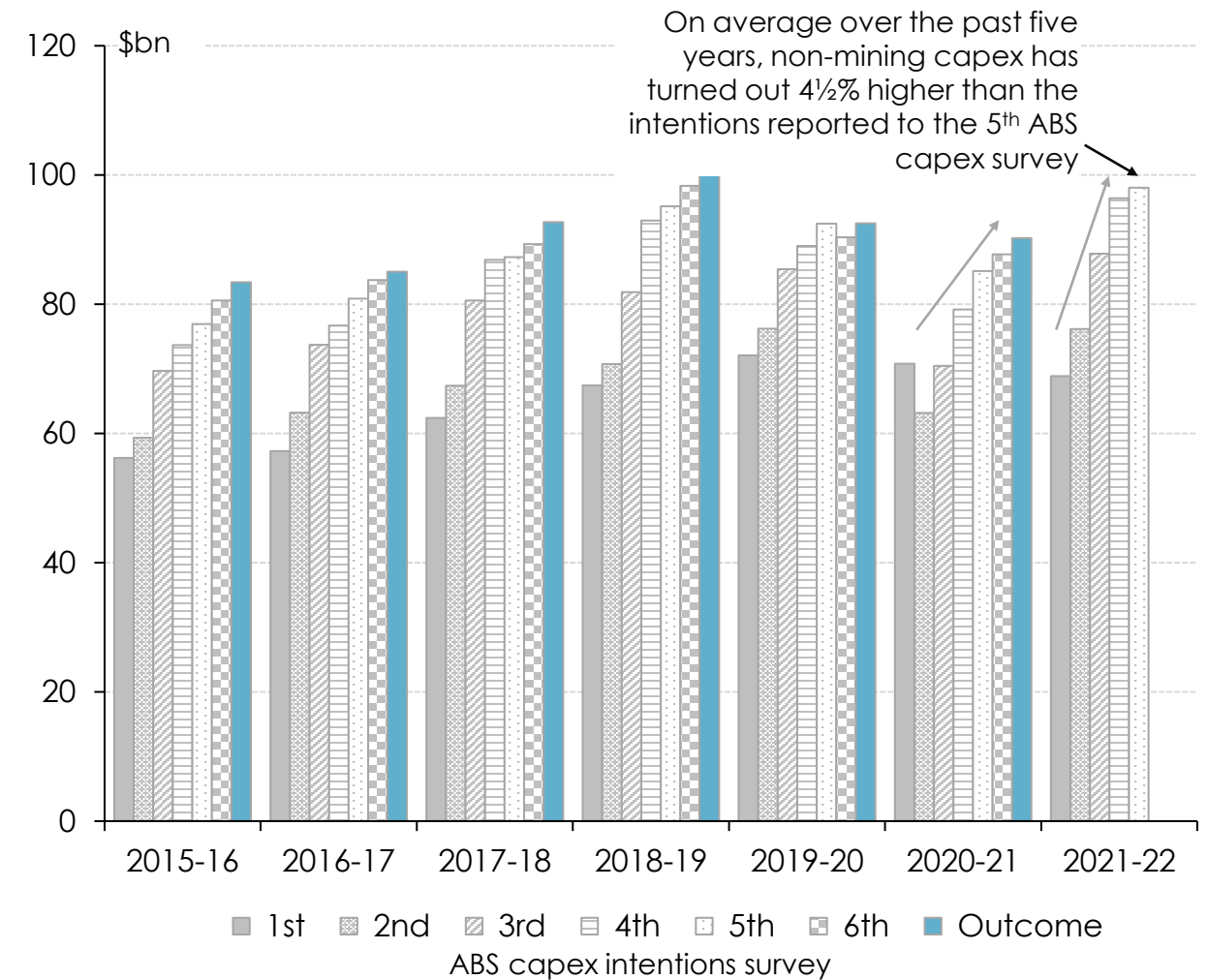
# Businesses revised up their capex plans for 2021-22 by 1.6% over the past three months, pointing to a 14¼% nominal increase in capex for 2021-22

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 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"](#).

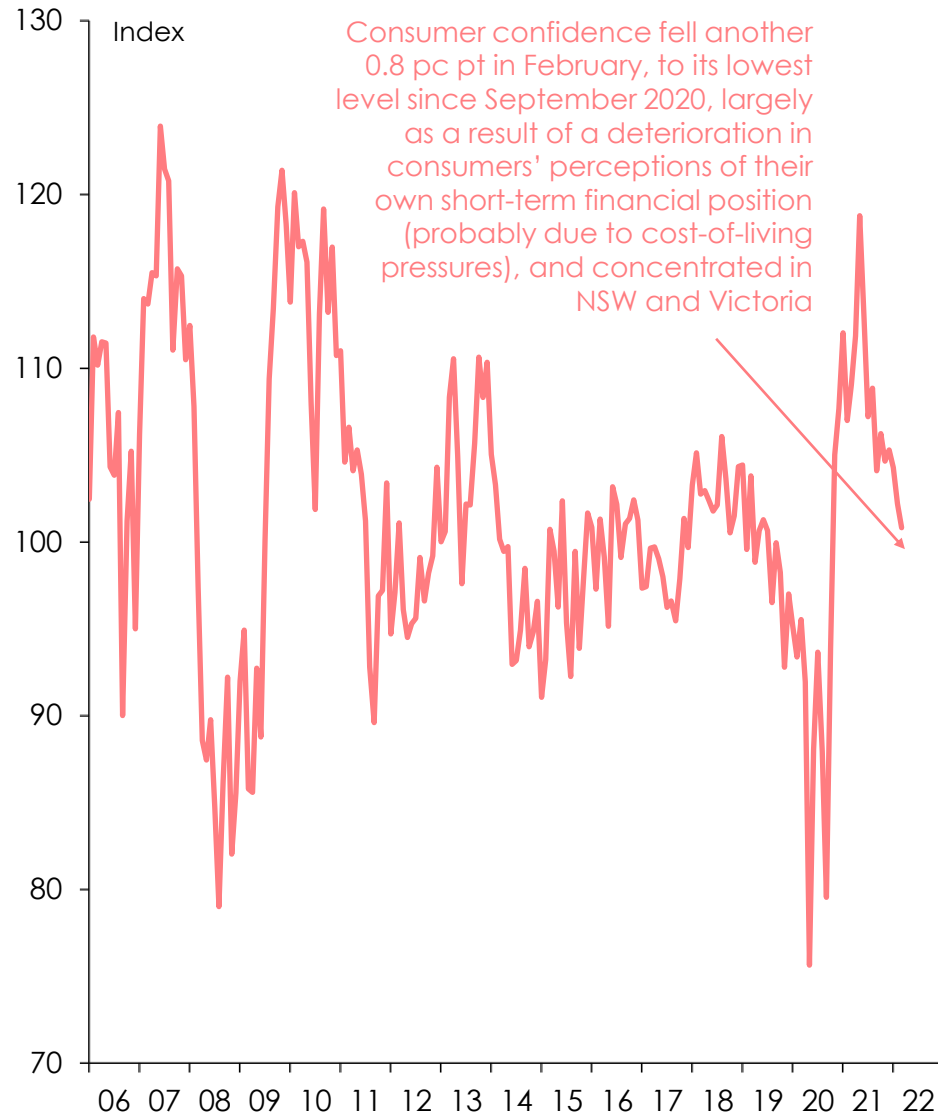
# The household sector and consumer spending



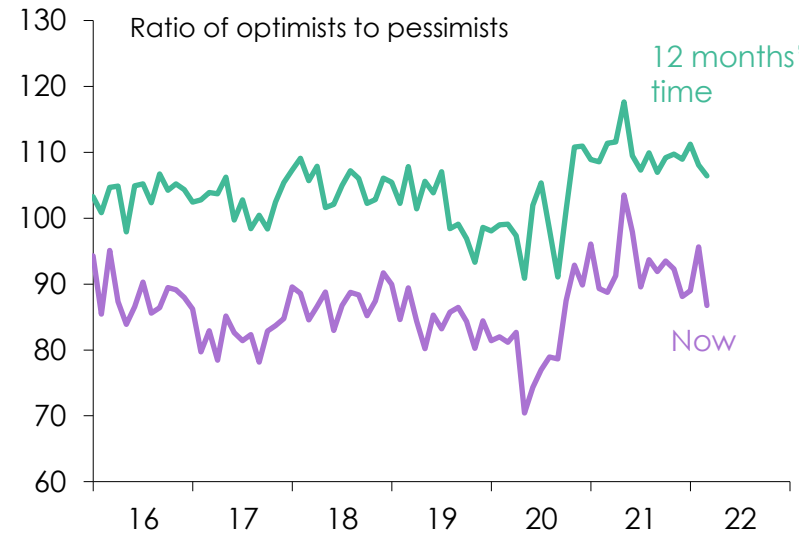
# Consumer confidence fell another 0.8 pc pt in February to a 17-month low, largely as a result of rising cost pressures on household finances

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## Consumer confidence index



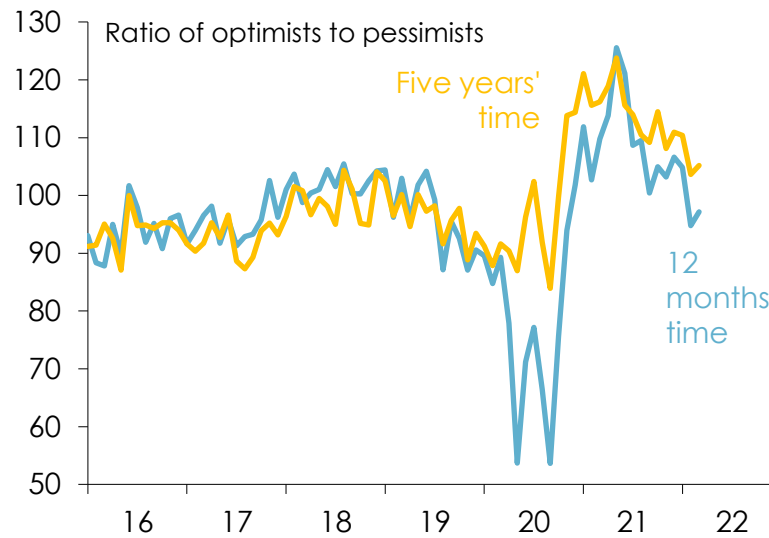
## Household finances assessment



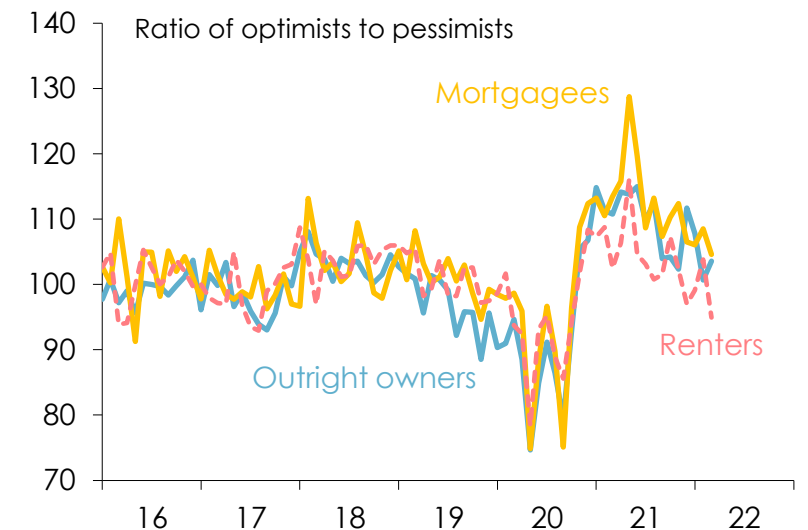
## Buying conditions assessment



## Economic conditions assessment



## Confidence by housing tenure

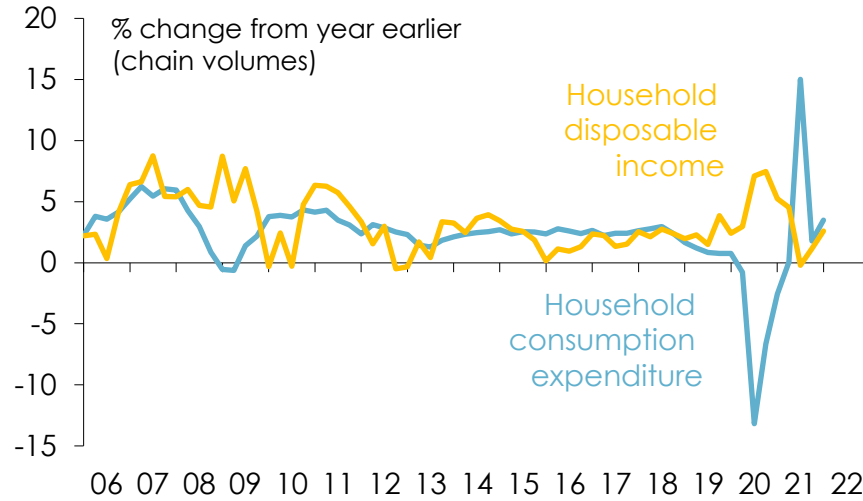




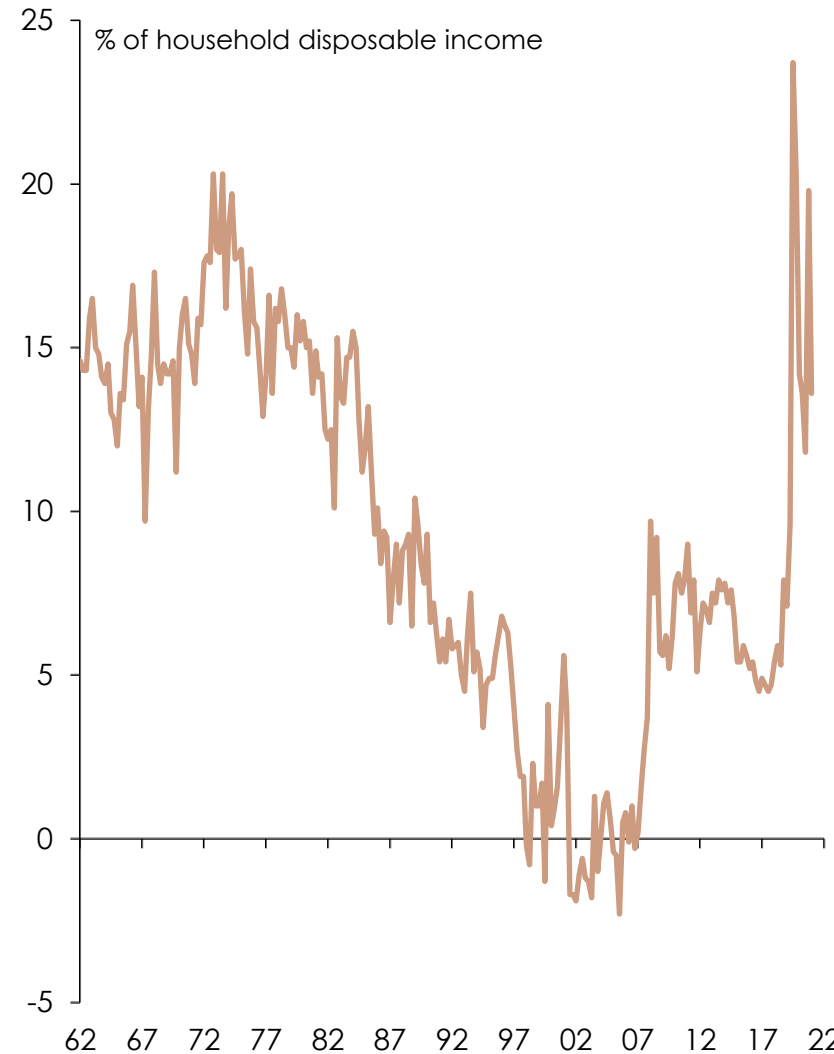
# Household disposable income fell 1.3% in Q4 due to the ending of Covid-related benefit programs, but households cut their savings to fund spending

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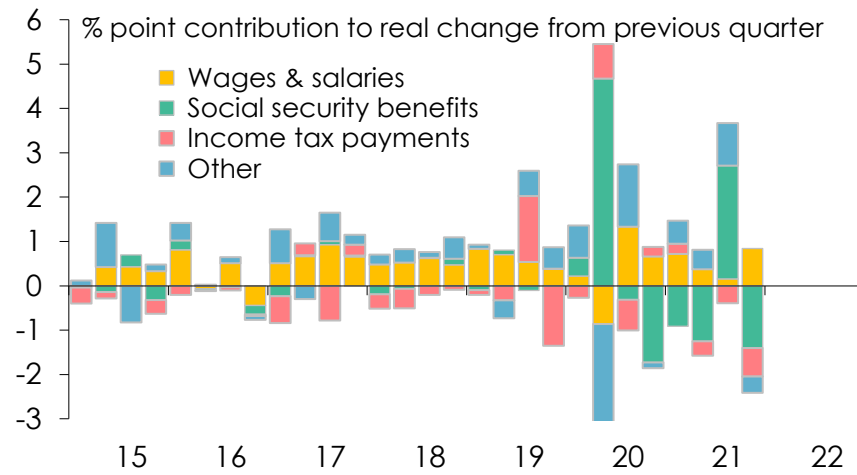
## Household income and spending



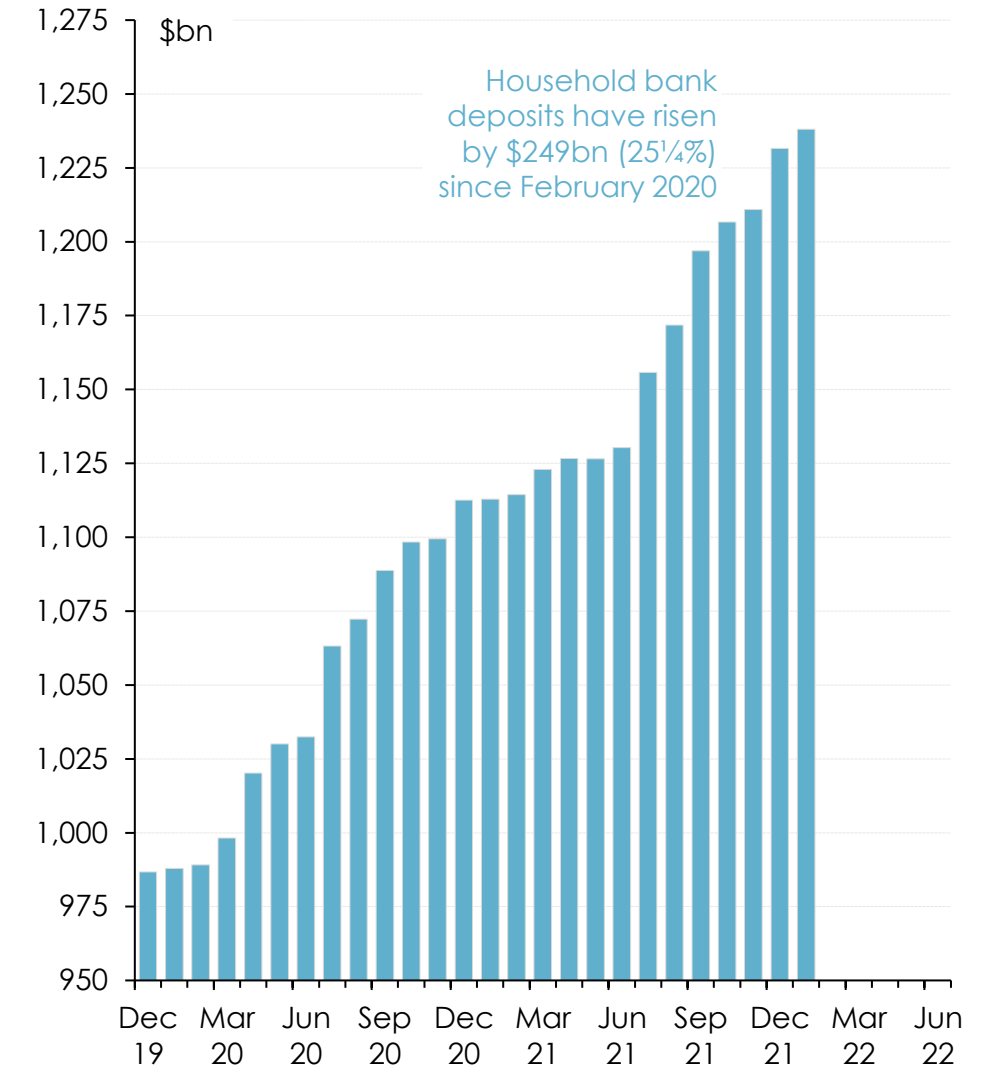
## Household saving ratio



## Sources of household income



## Household bank deposits

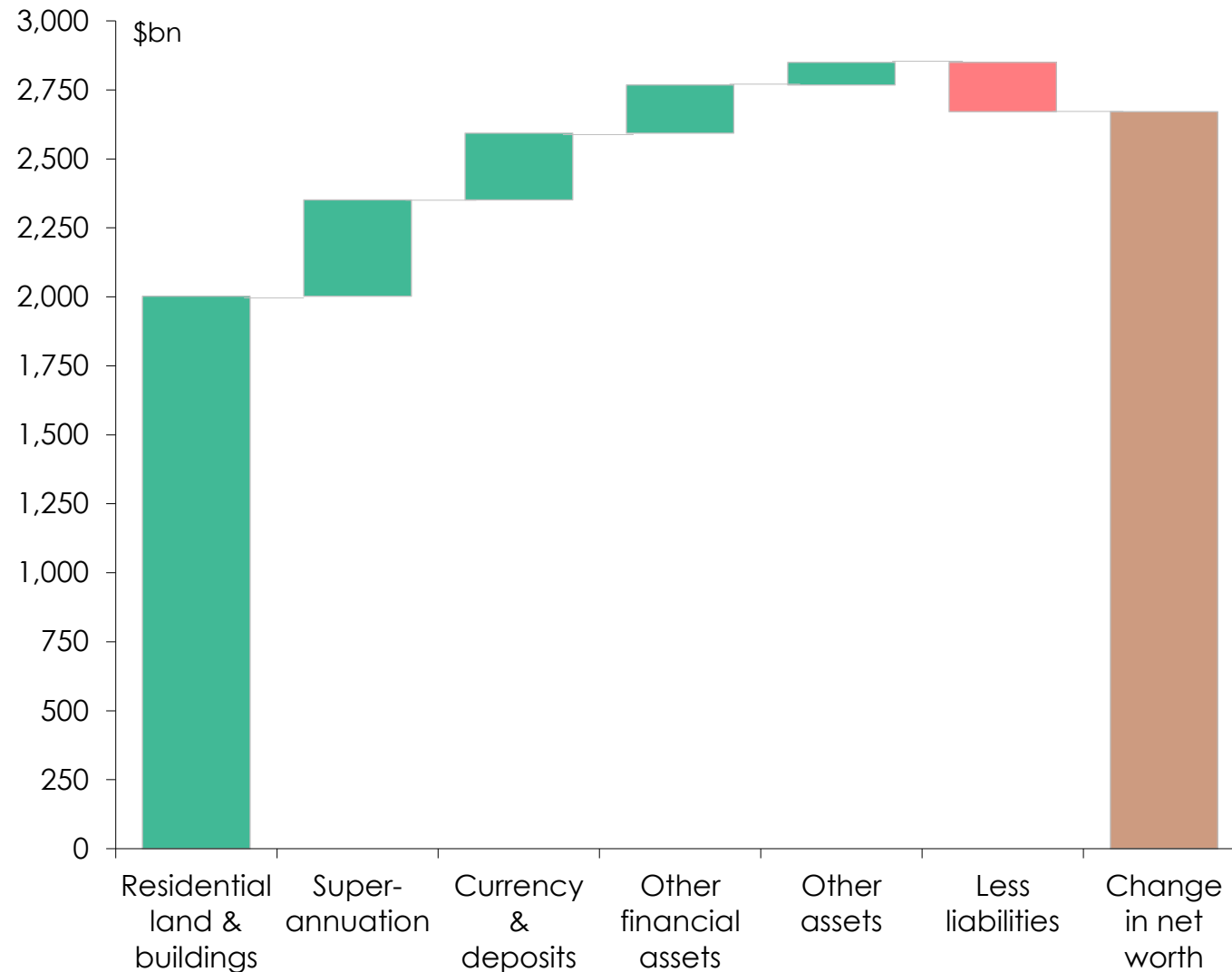


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). March quarter data on household income, spending and saving will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

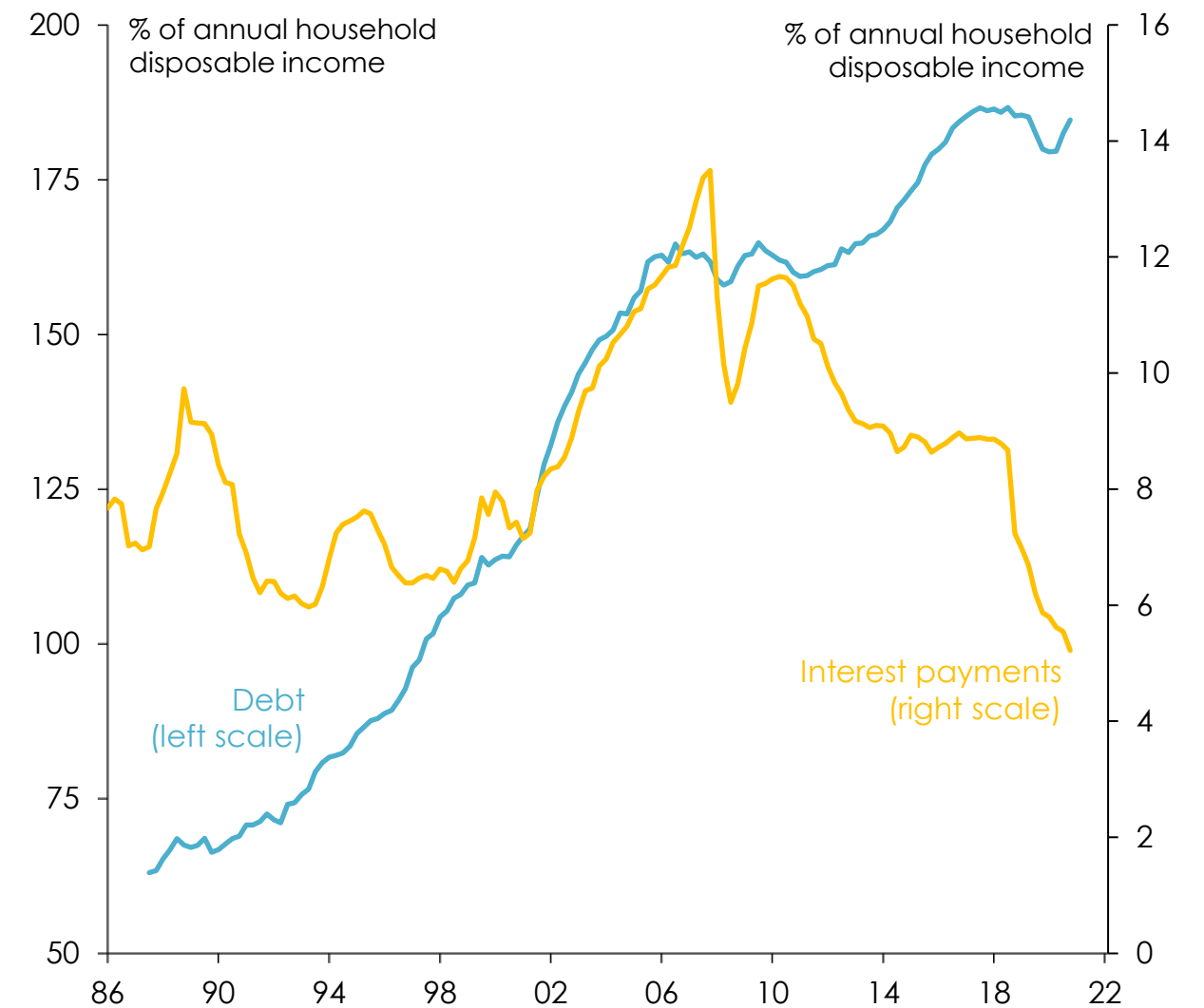
# Household net worth has risen by \$2.7trn (23<sup>3</sup>/<sub>4</sub>%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 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

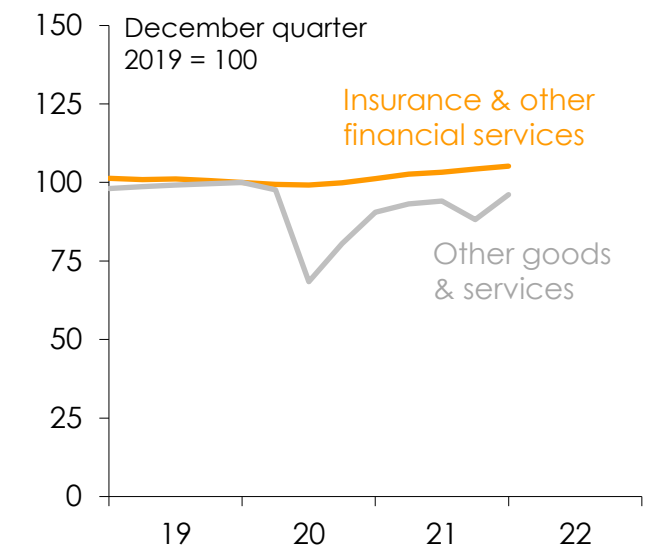
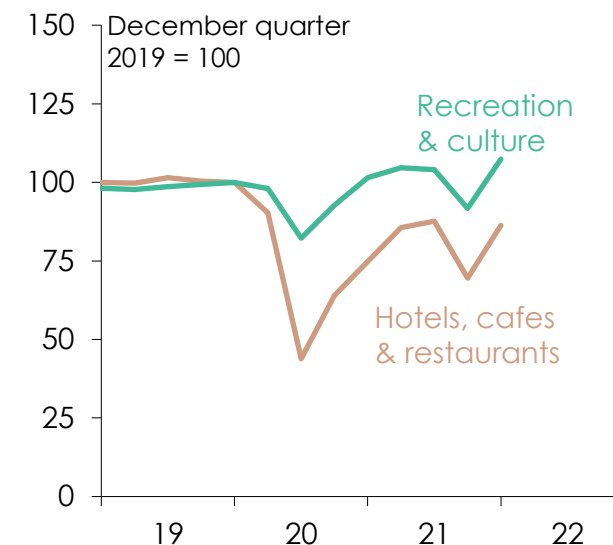
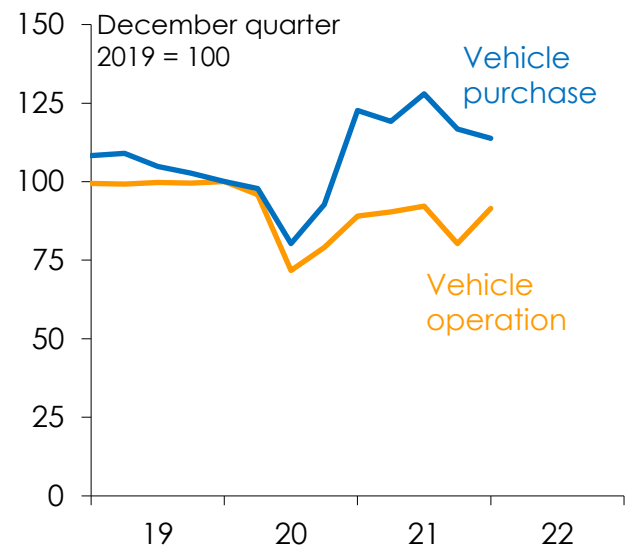
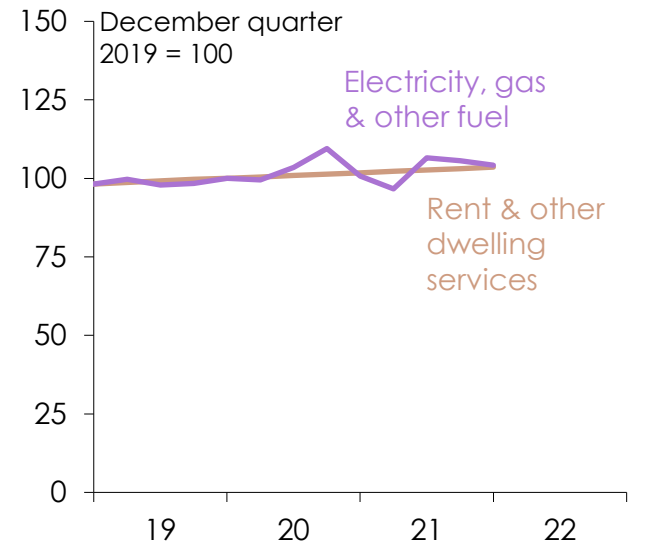
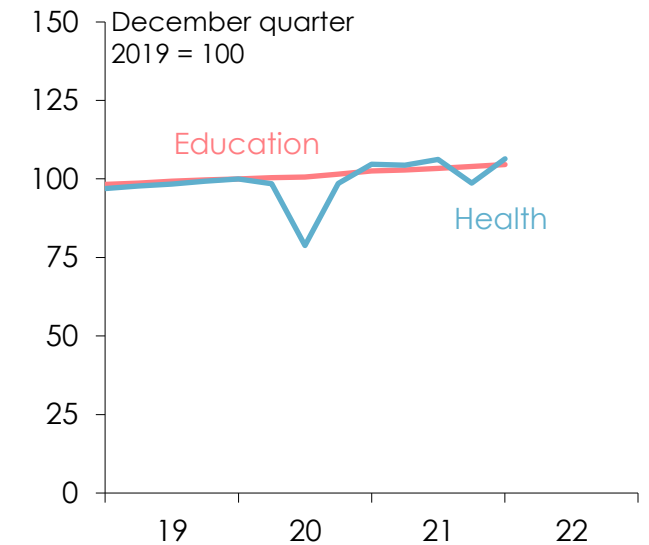
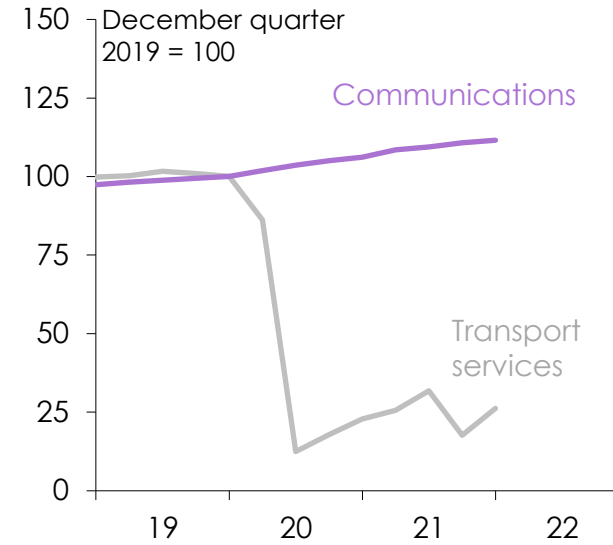
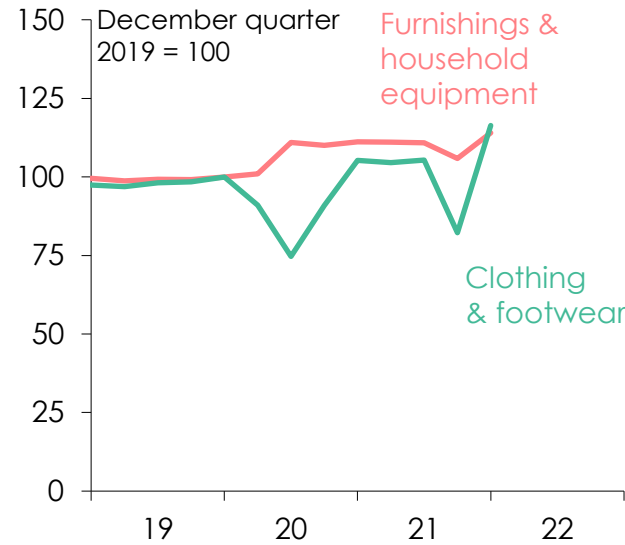
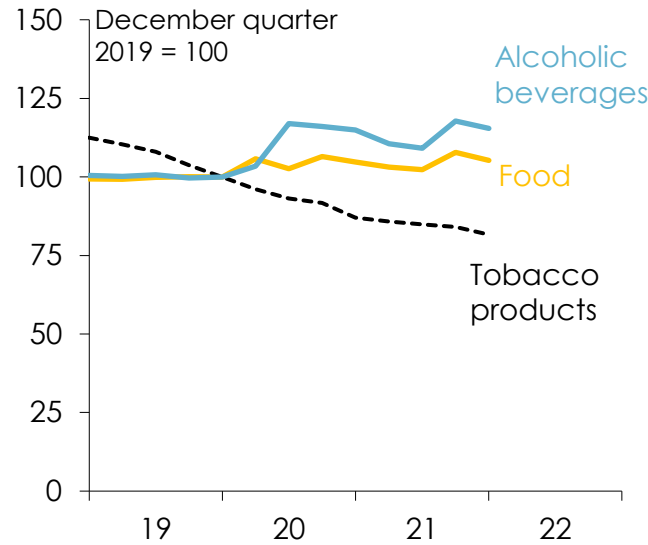


Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; RBA, [Statistical Tables](#) E1 & E2. December quarter data will be released on 31<sup>st</sup> March 2022. [Return to "What's New"](#).

# Fluctuations in consumer spending are largely the result of the effects of lockdowns on discretionary spending patterns

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## Major categories of household consumption spending

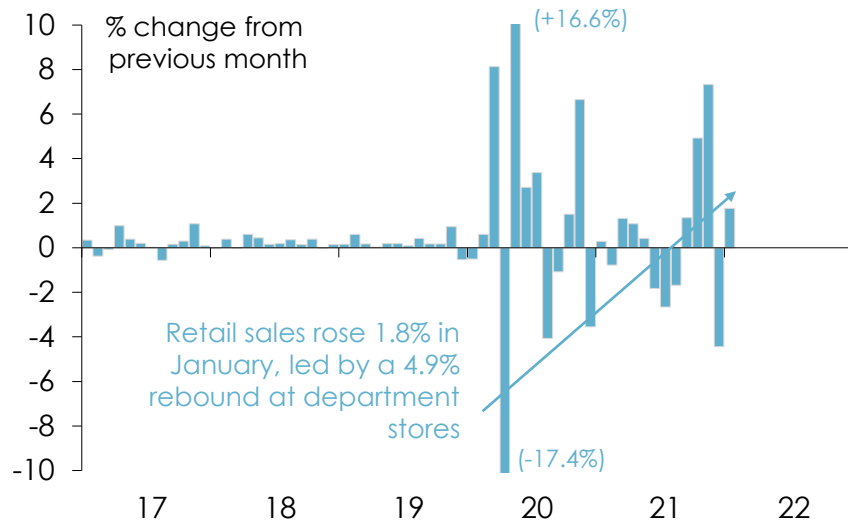


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; March quarter data will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

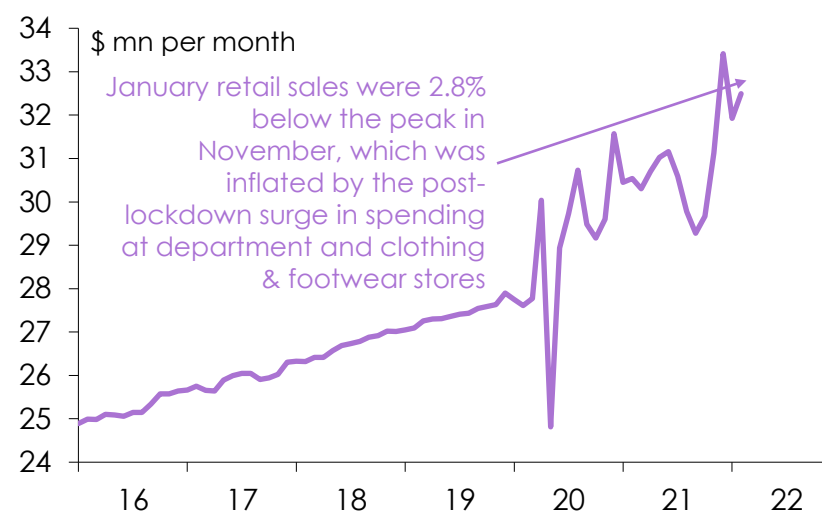
# Retail sales rose 1.8% in January, partly reversing the 4.4% fall in December from the post-lockdown record level of sales in November

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

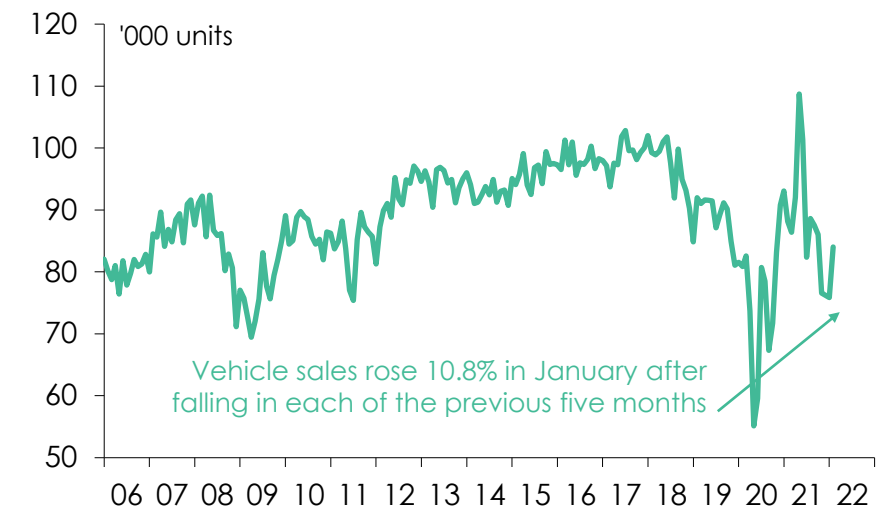
## Monthly retail sales



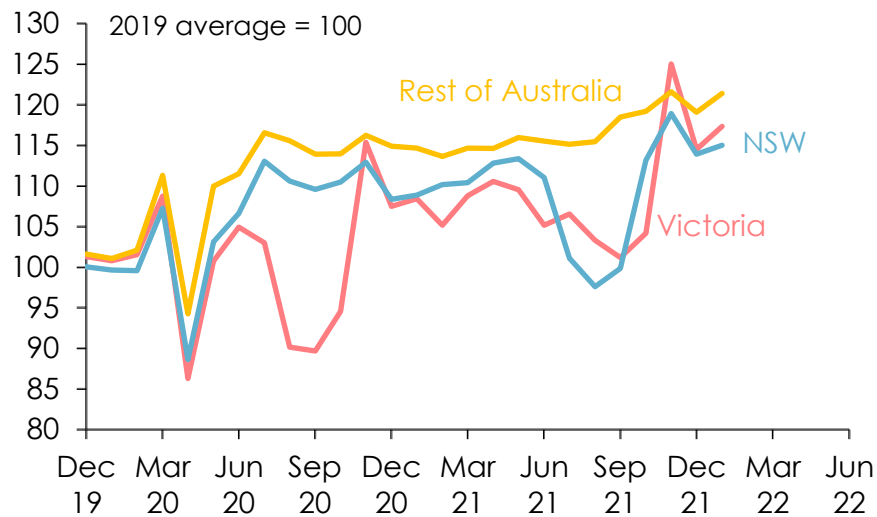
## Level of retail sales



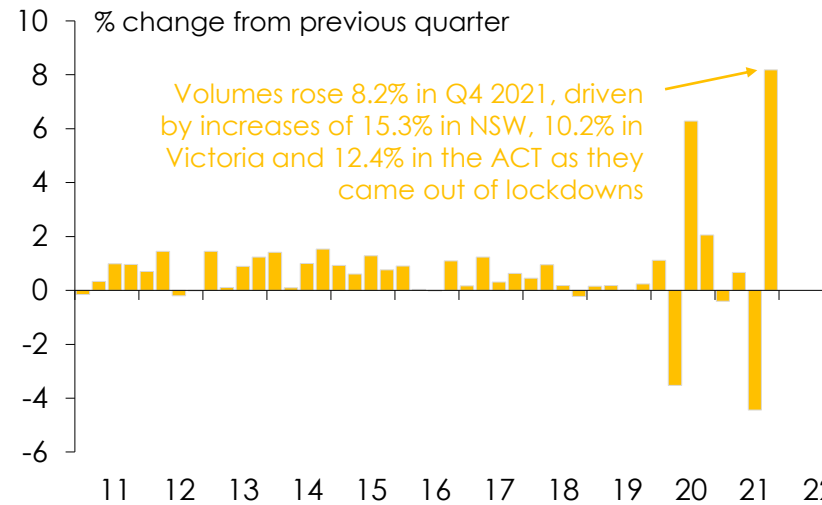
## New motor vehicle sales



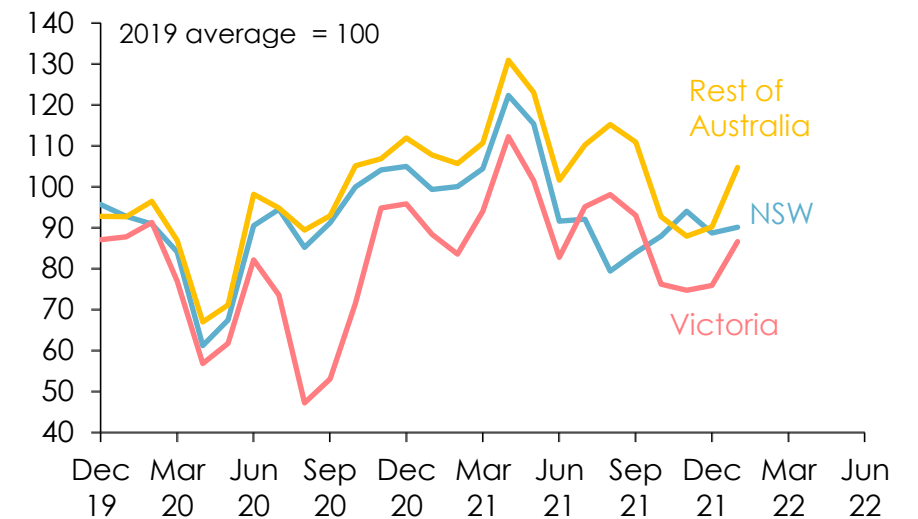
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



## Vehicle sales – NSW, Vic & the rest

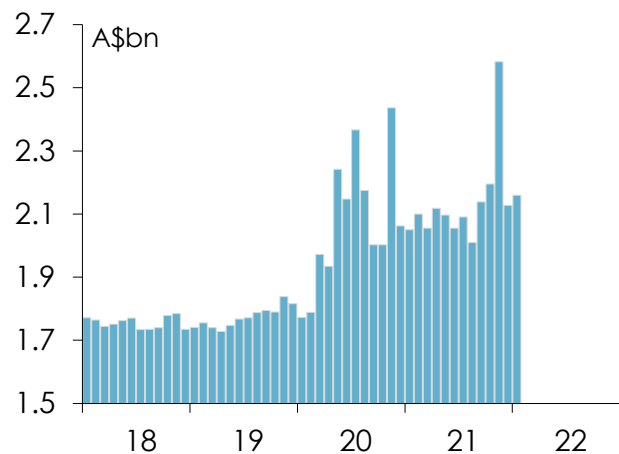


Note: see also [slide 37](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary February retail sales data will be released on 29<sup>th</sup> March; February motor vehicle sales data will be released in the second week of March. [Return to "What's New"](#).

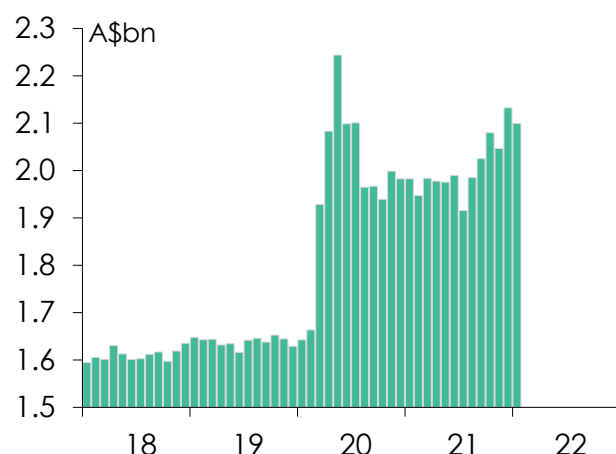
# Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

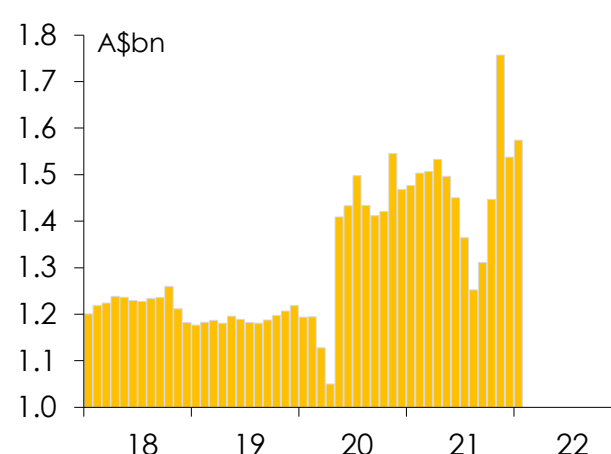
**Electronic & electrical goods**



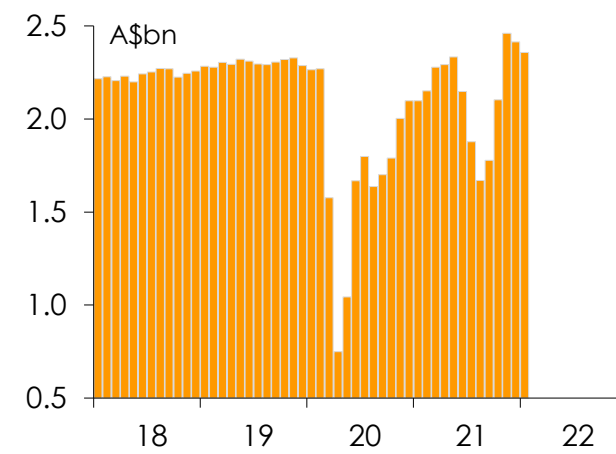
**Hardware, building & garden supplies**



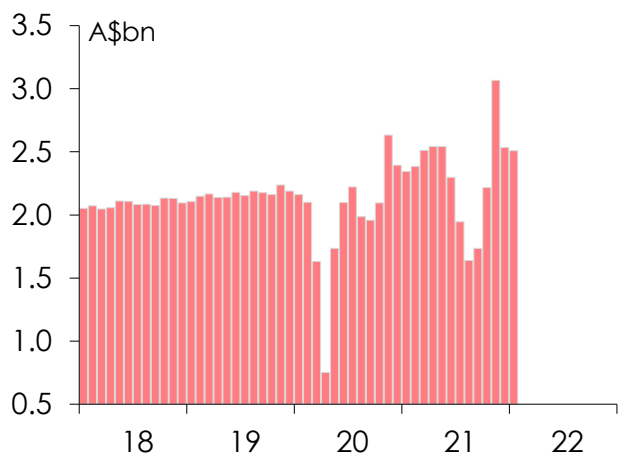
**Floor coverings, furniture, housewares etc**



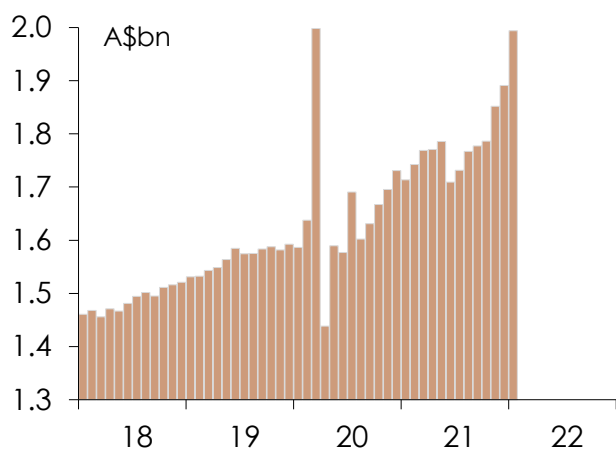
**Cafes and restaurants**



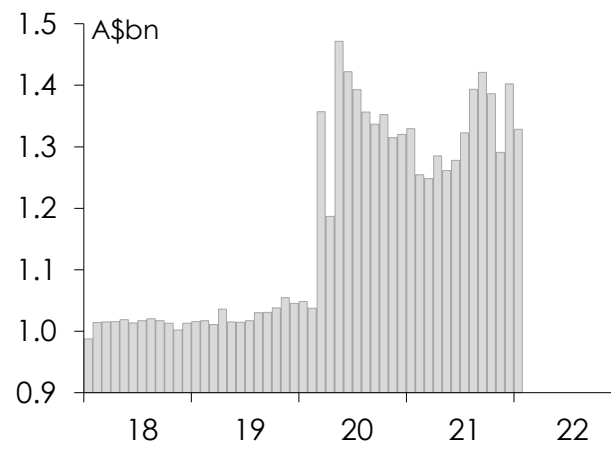
**Clothing, footwear & personal accessories**



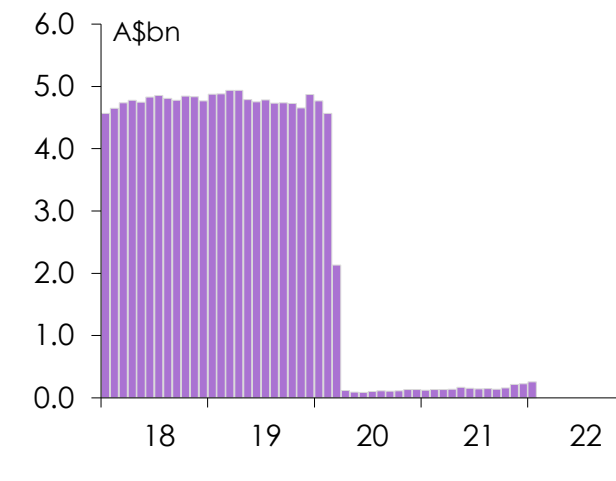
**Pharmaceuticals, cosmetics & toiletries**



**Alcoholic beverages**



**Overseas travel**

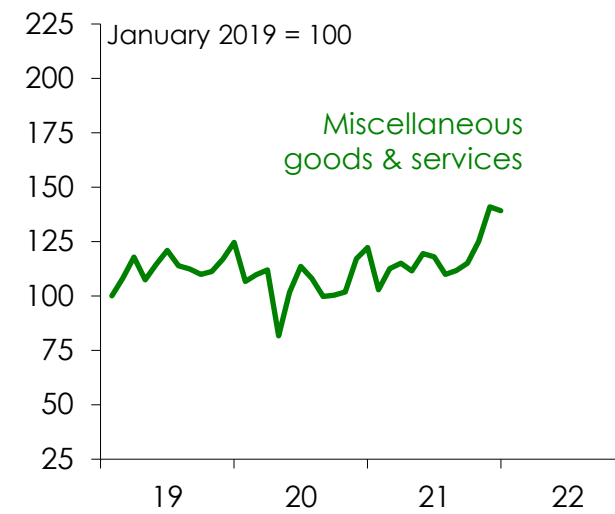
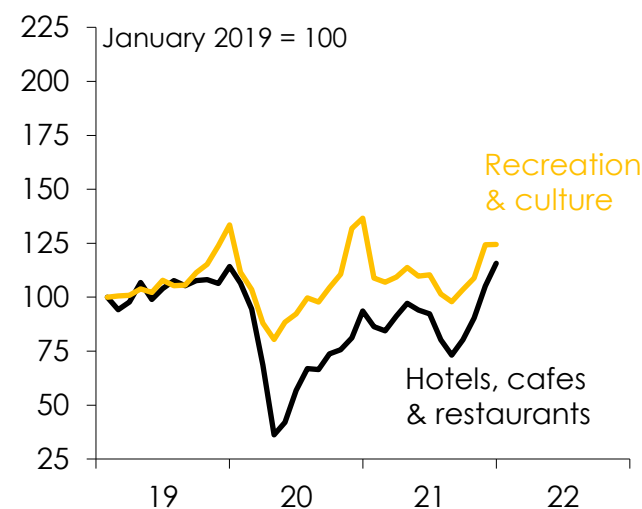
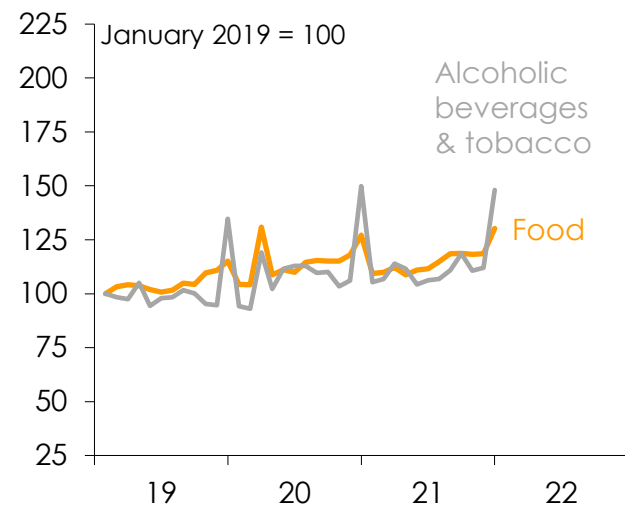


Sources: ABS, [Retail Trade, Australia](#), January 2022 (February data will be released on 4<sup>th</sup> April); and [International Trade in Goods and Services, Australia](#), January. [Return to "What's New"](#).

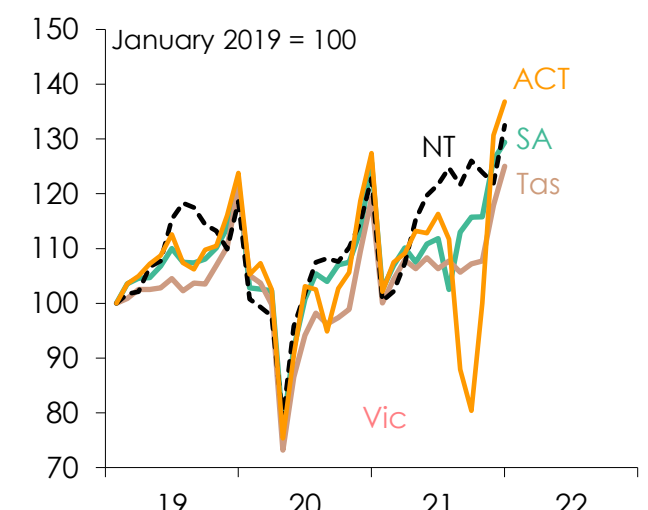
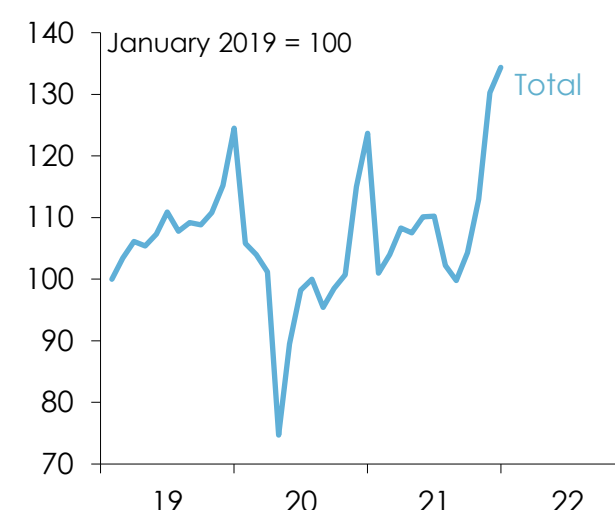
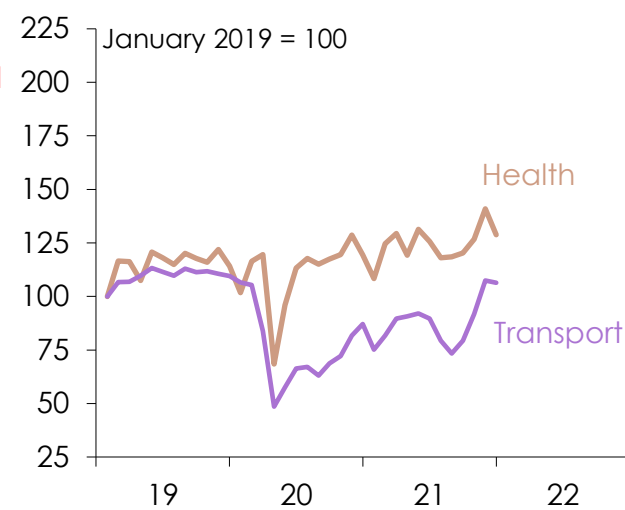
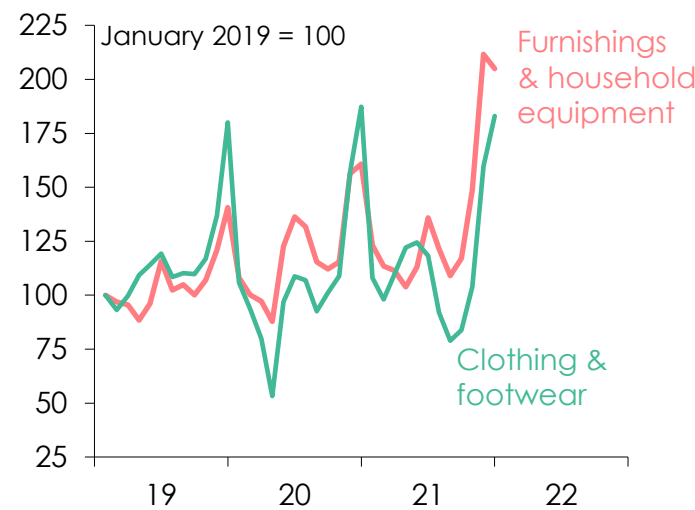
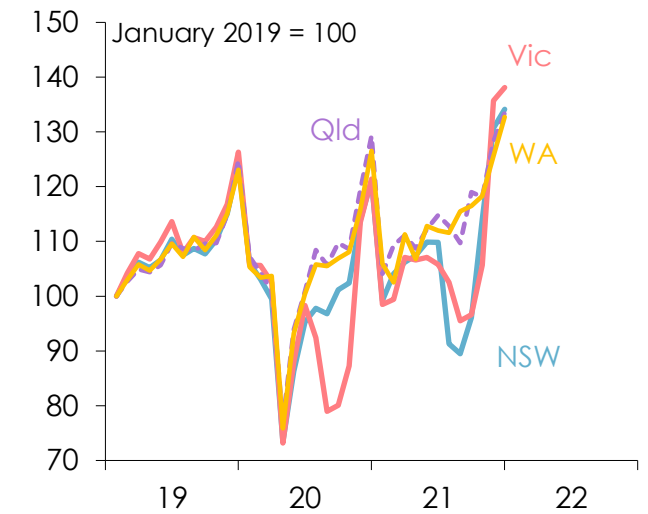
# The ABS' new household spending indicator, based on data from banks, shows how lockdowns affected different categories of spending

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## Household spending by purpose



## By state & territory

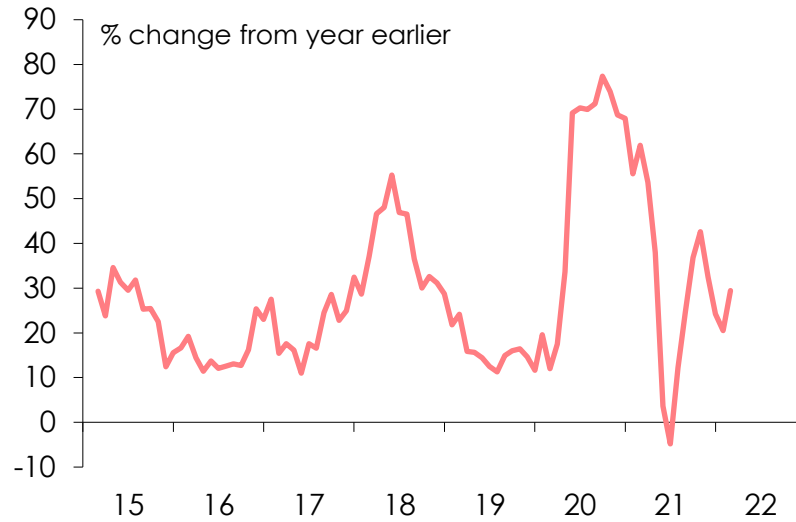


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week. Source: ABS, [Monthly Household Spending Indicator](#), December 2021.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

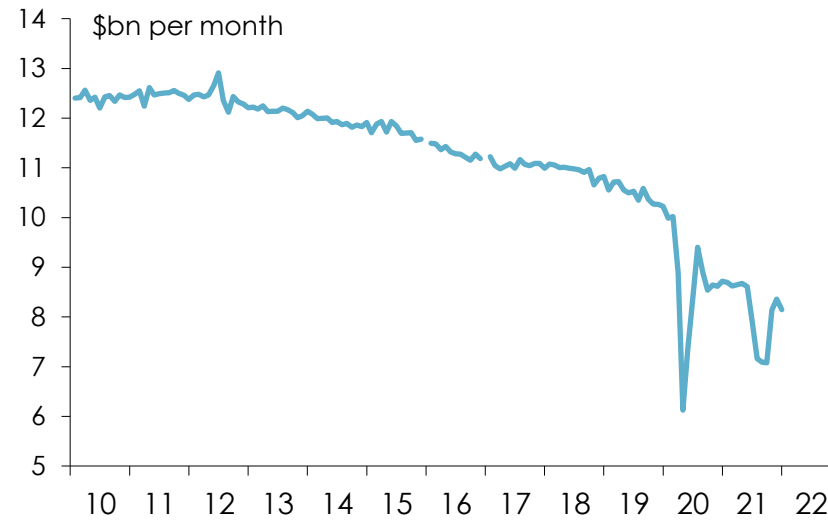
# Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

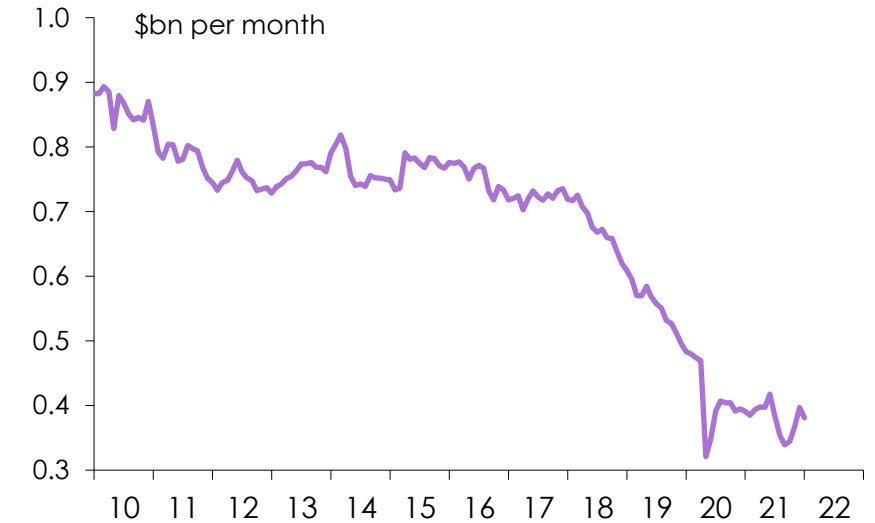
## Growth in online retail sales



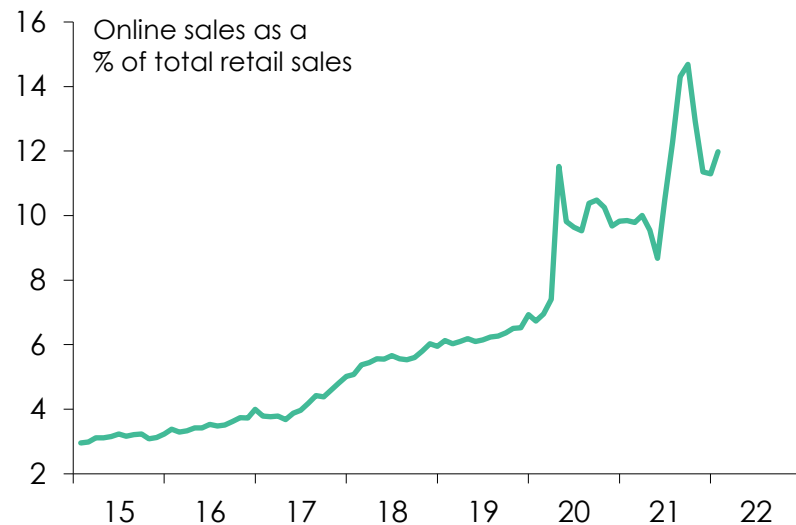
## ATM cash withdrawals



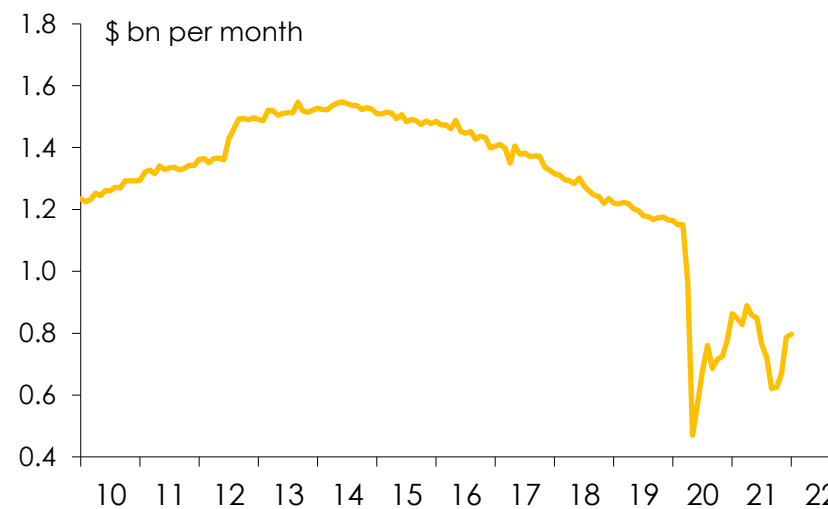
## Credit card cash advances



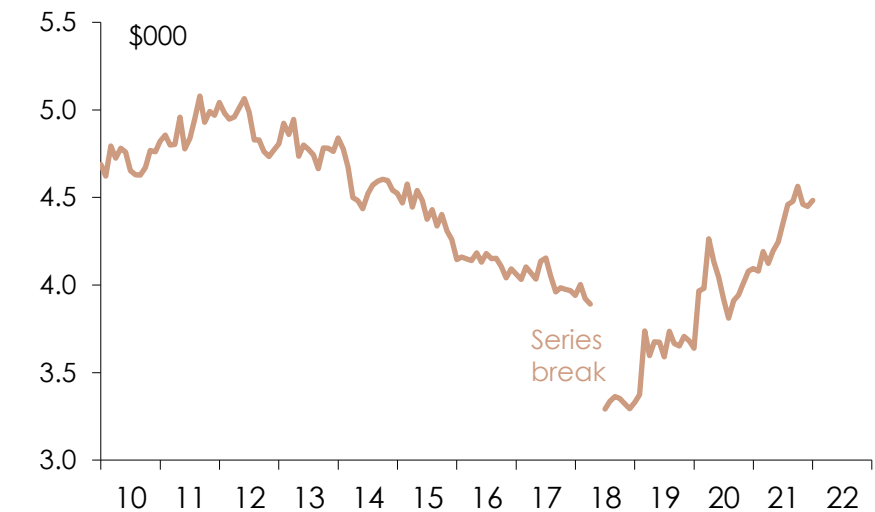
## Online retail 'market share'



## Debit card cash-outs



## Direct entry payments avg value



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

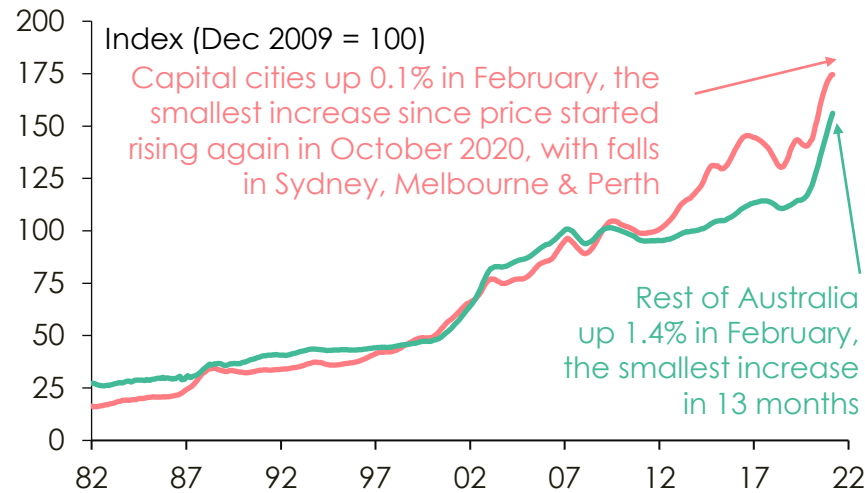
# Housing and the residential property market



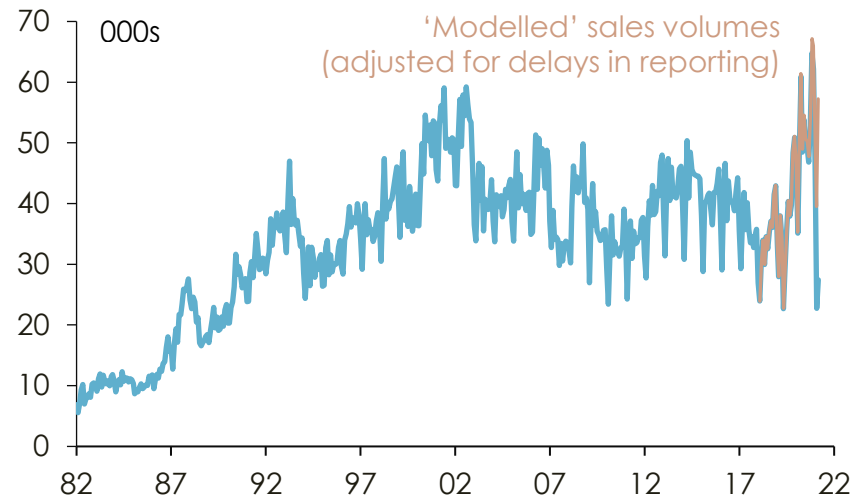
# Property prices rose 'only' 0.4% in February, the smallest increase since October 2020, continuing the slowing in monthly price gains since last June

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

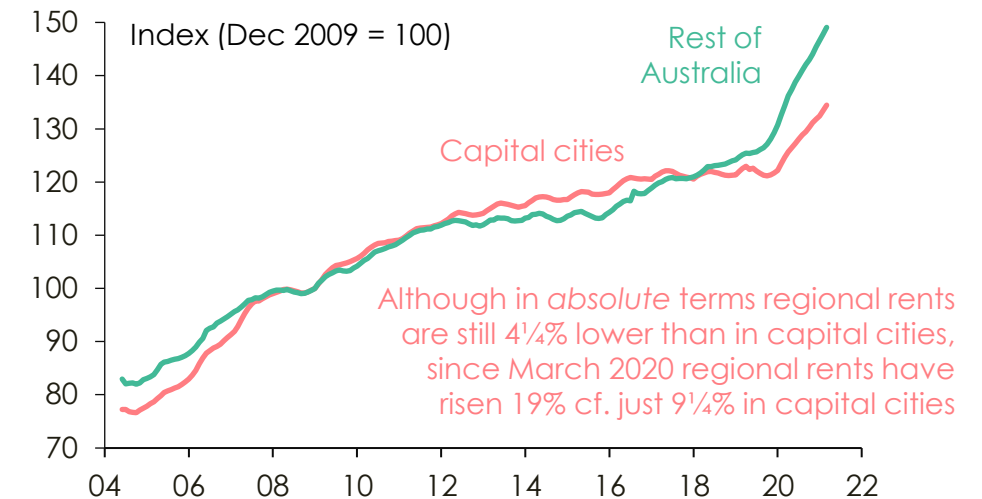
## Residential property prices



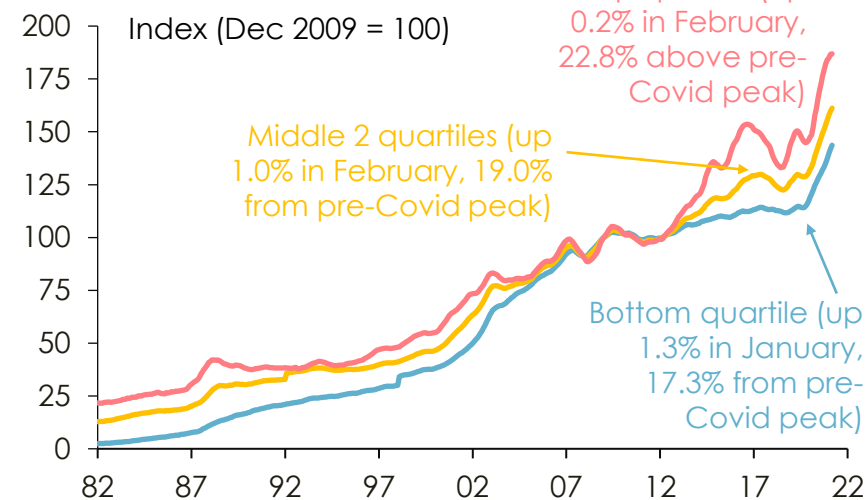
## Residential property sales volumes



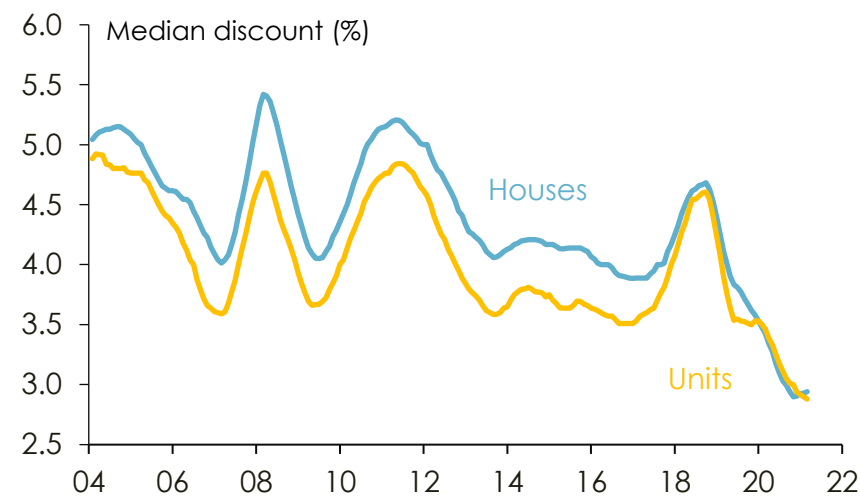
## Residential rents



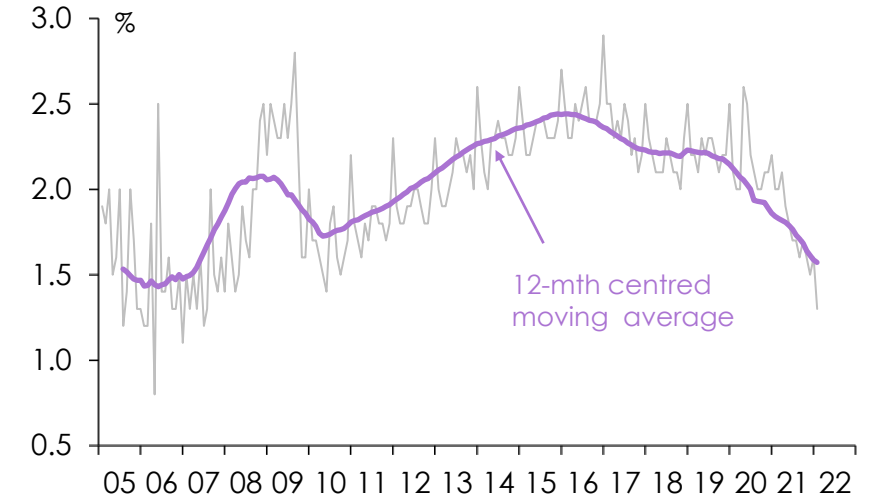
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

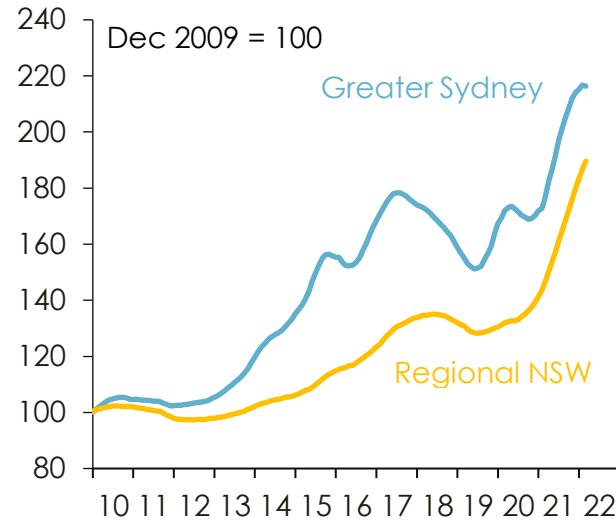


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

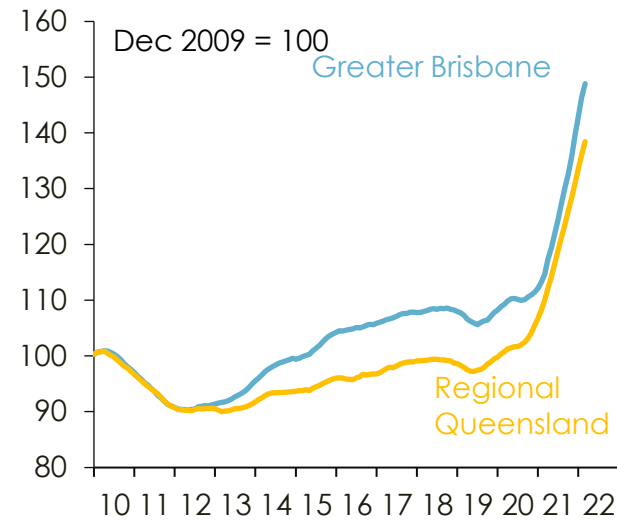
# Property prices fell marginally in February in Sydney, Melbourne and Perth but continued rising rapidly in Brisbane, Adelaide and Hobart

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

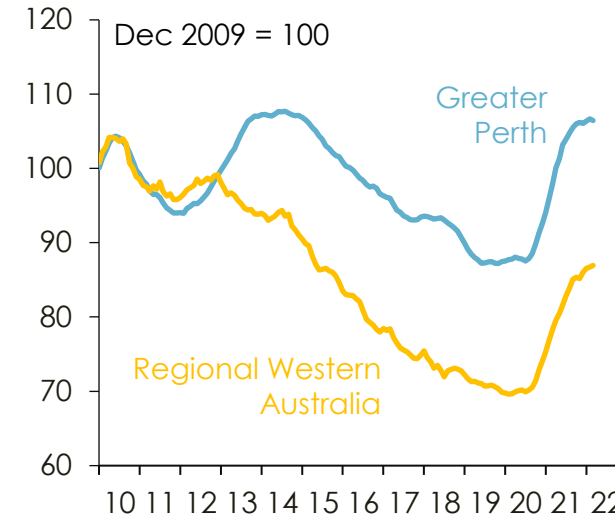
## New South Wales



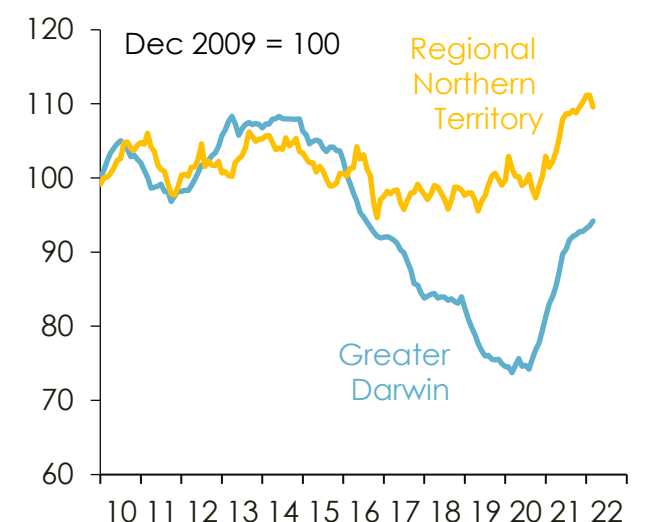
## Queensland



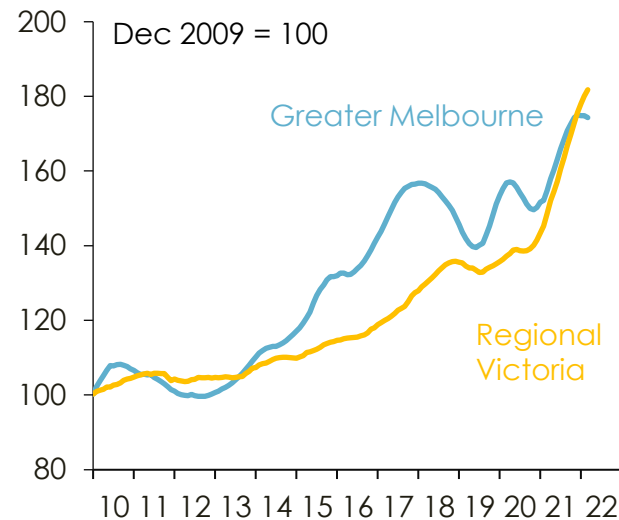
## Western Australia



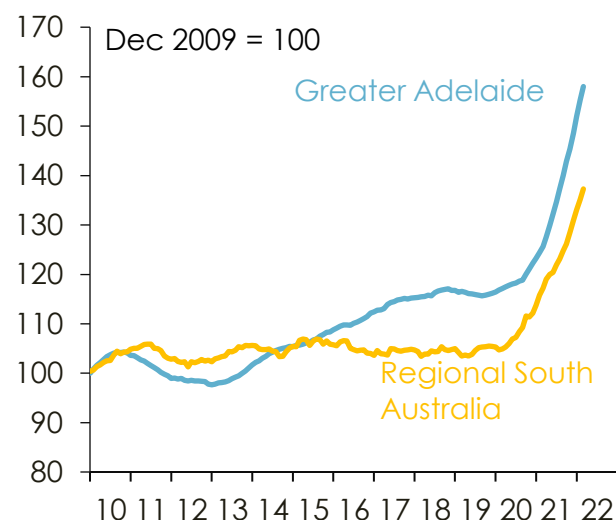
## Northern Territory



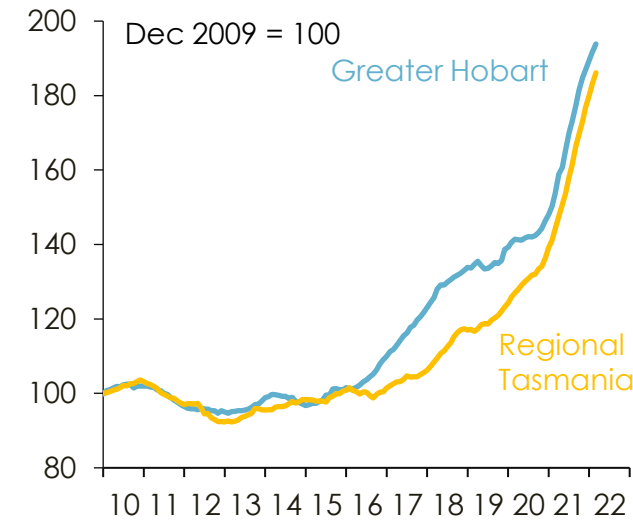
## Victoria



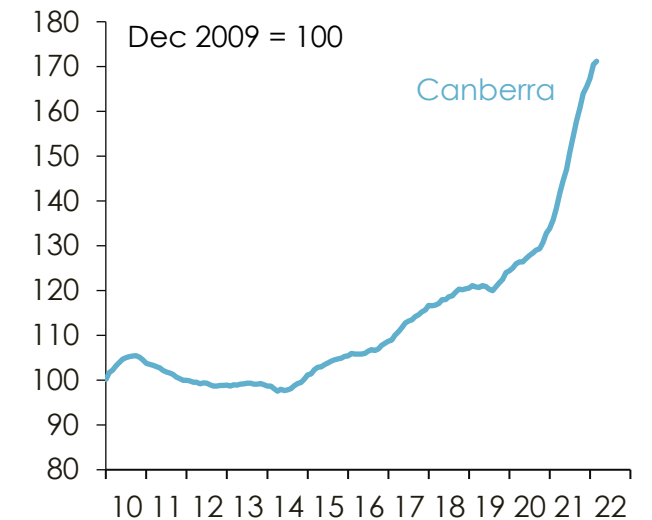
## South Australia



## Tasmania



## Australian Capital Territory

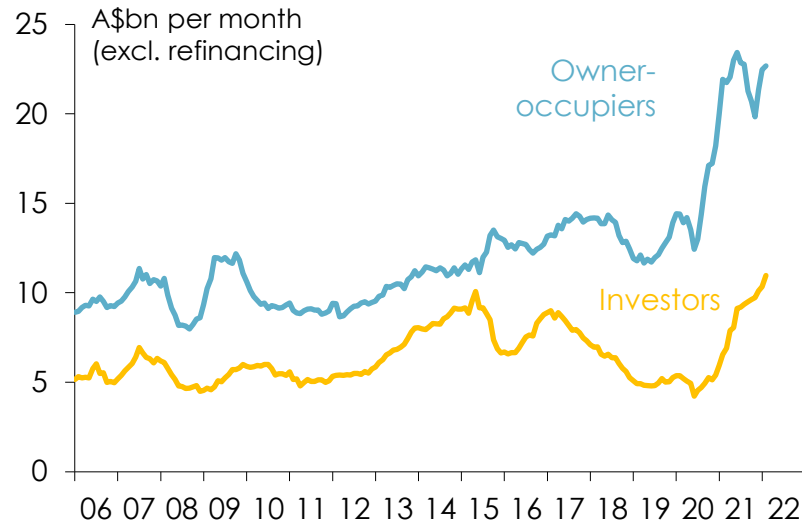


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

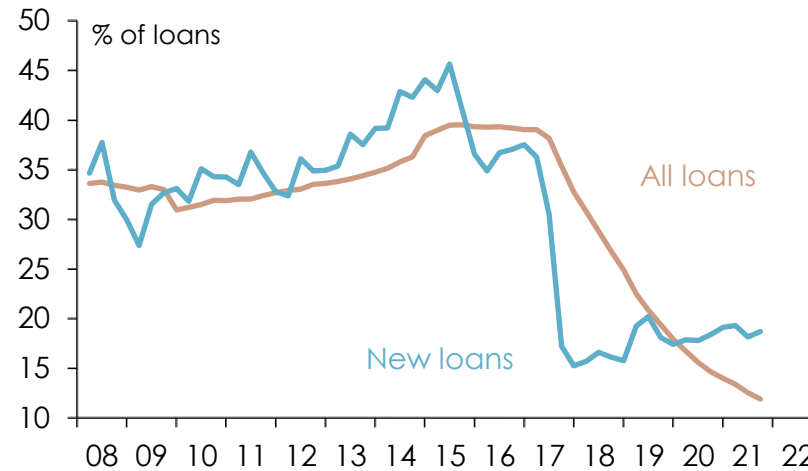
# Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

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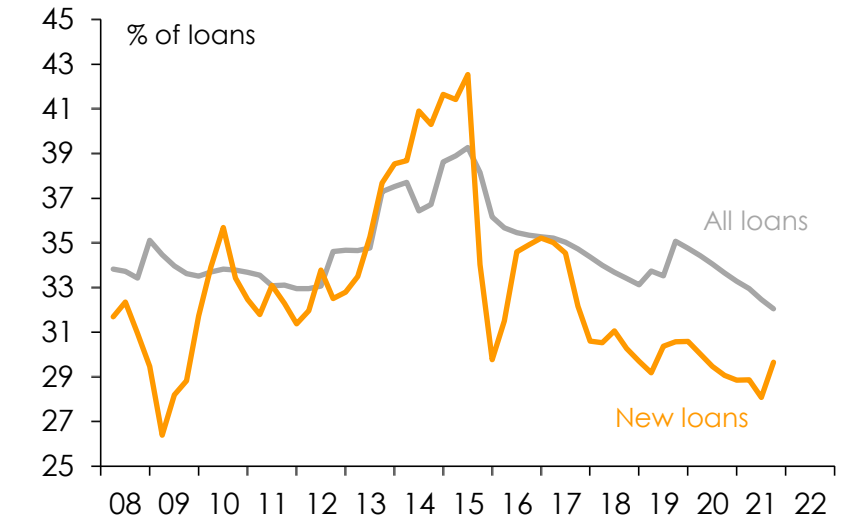
## Housing finance commitments



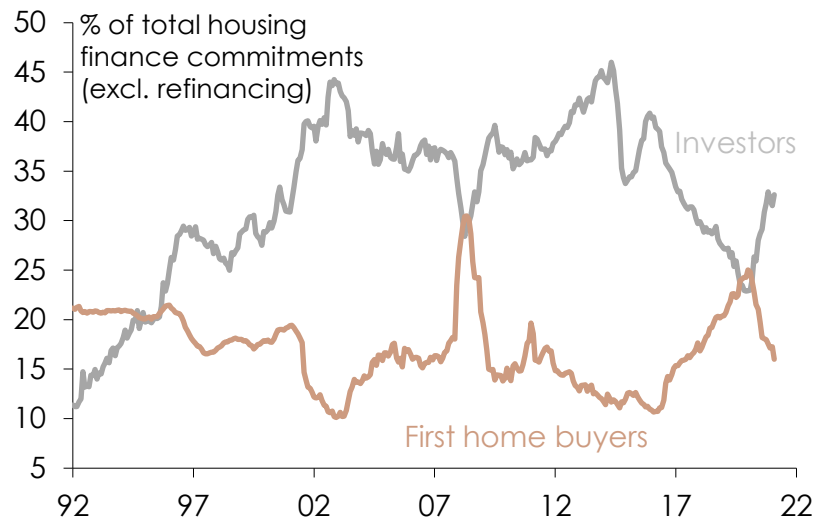
## Interest-only loans



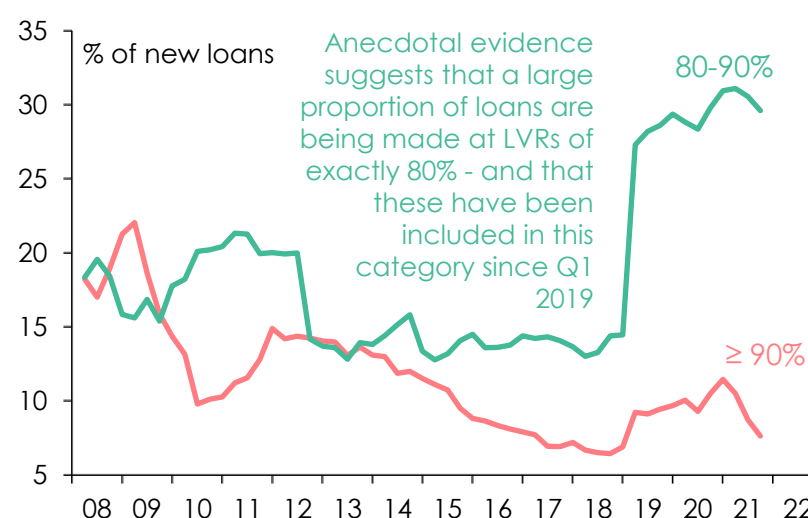
## Loans to investors as a pc of total



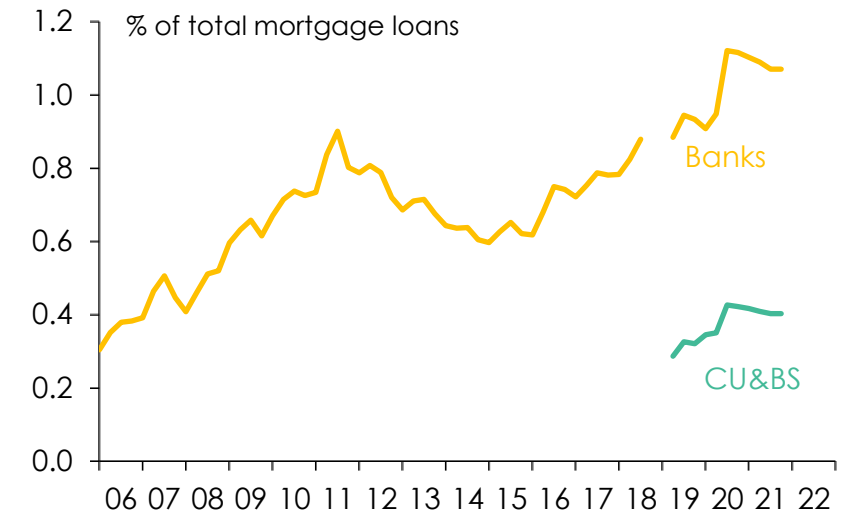
## Shares of housing finance



## High LVR loans as a pc of total



## Non-performing mortgage loans

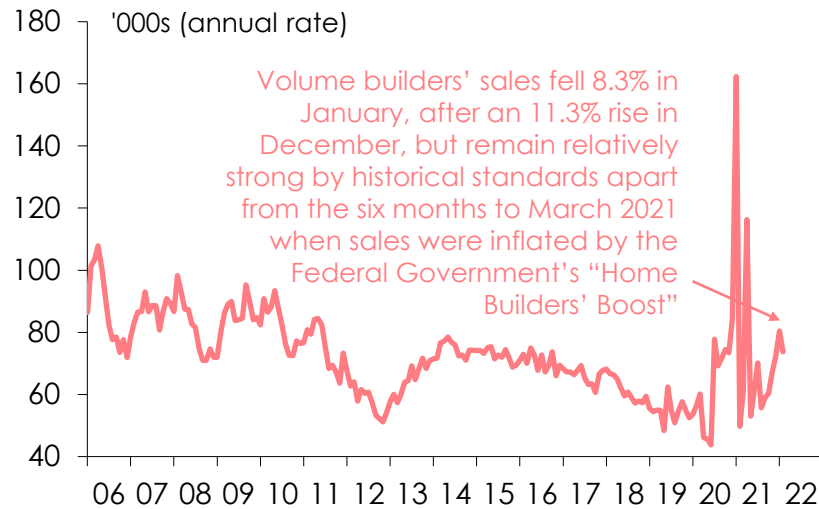


Sources: ABS, [Lending Indicators](#), January; Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). February housing finance data will be released on 1<sup>st</sup> April; APRA data on ADI property exposures for the December quarter will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

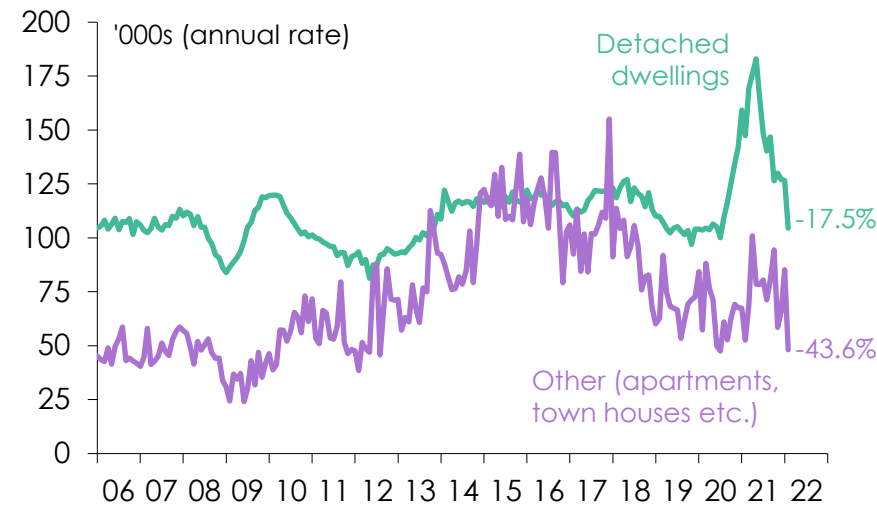
# Residential building fell 28% in January, the largest single-month decline in at least 50 years, with big falls for both detached and multi-unit dwellings

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

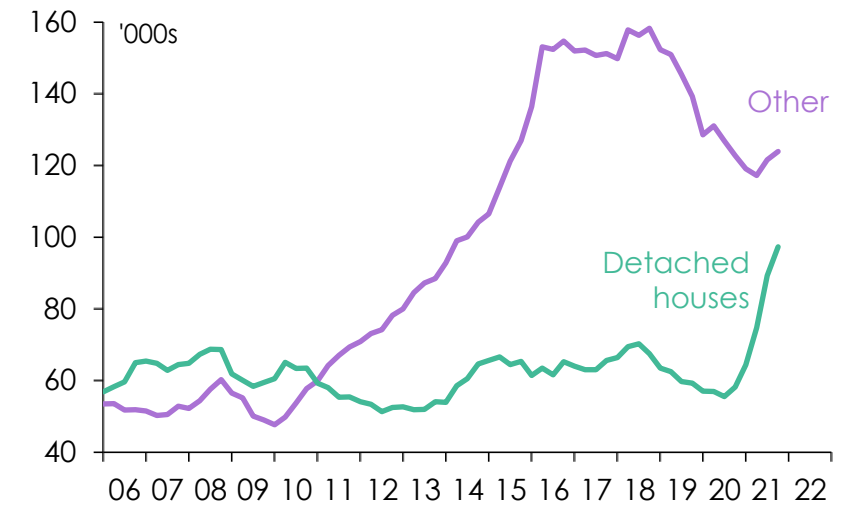
## Large builders' new home sales



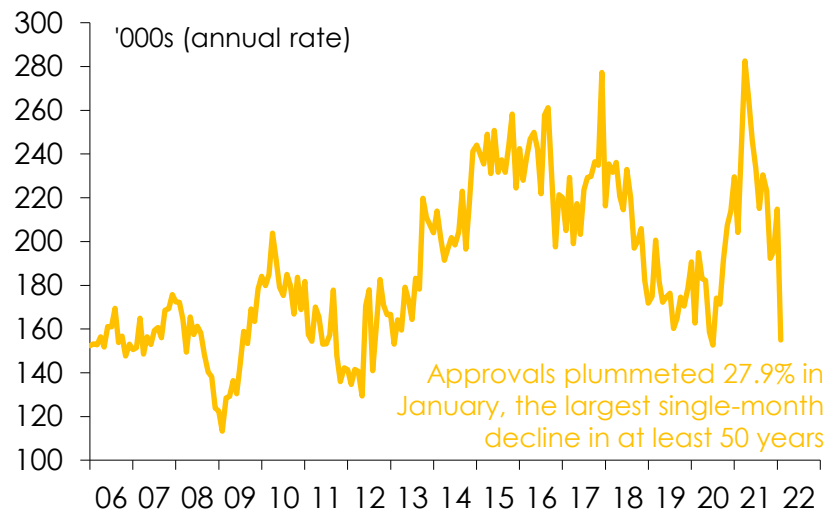
## Building approvals, by type



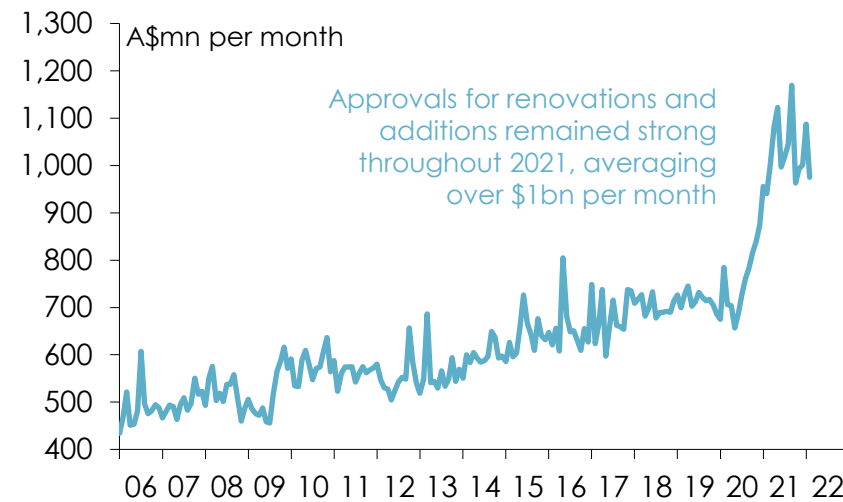
## Dwellings under construction



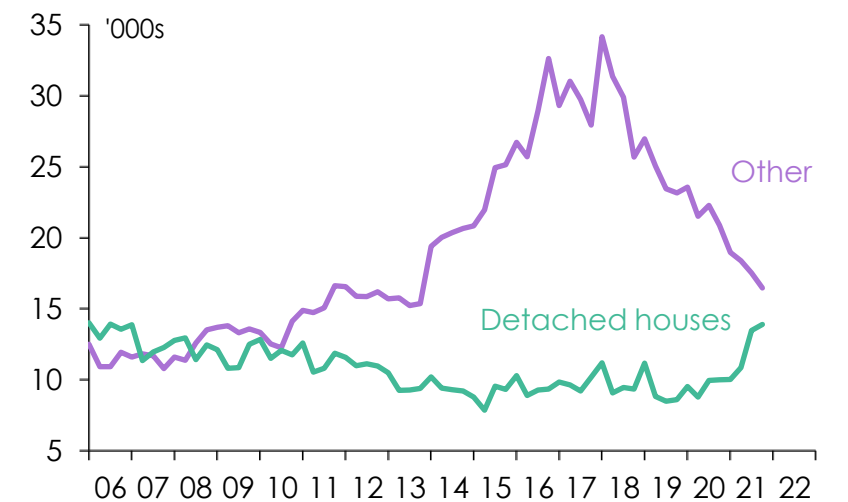
## Residential building approvals



## Alterations & additions approved



## 'Pipeline' of work yet to be started

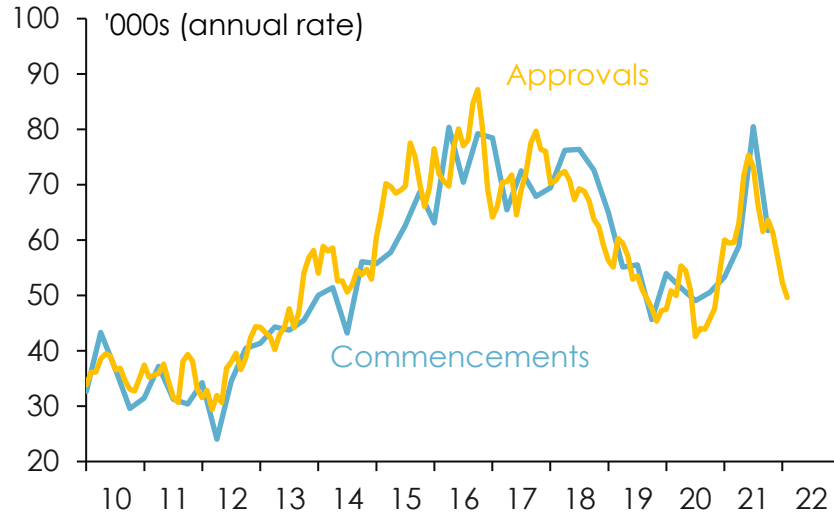


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. February building approvals data will be released on 31<sup>st</sup> March; December quarter dwellings under construction and 'pipeline' data on 13<sup>th</sup> April. [Return to "What's New"](#).

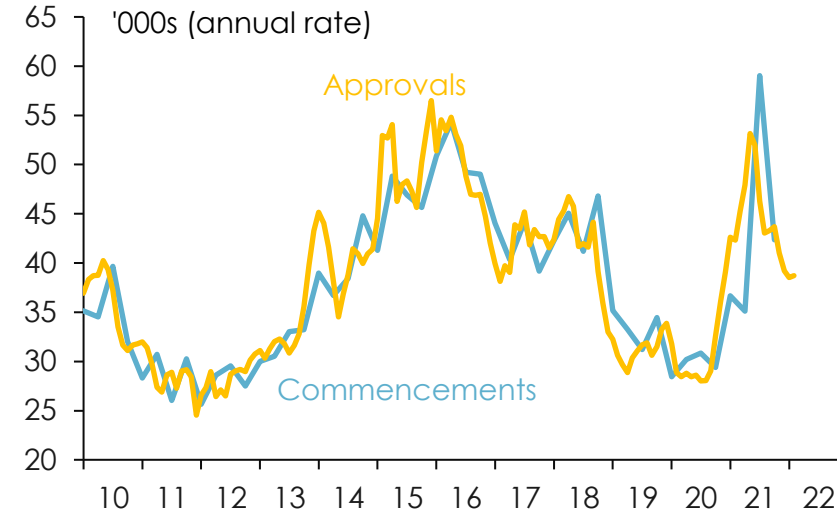
# Residential building approvals fell sharply in every state except Queensland in January

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

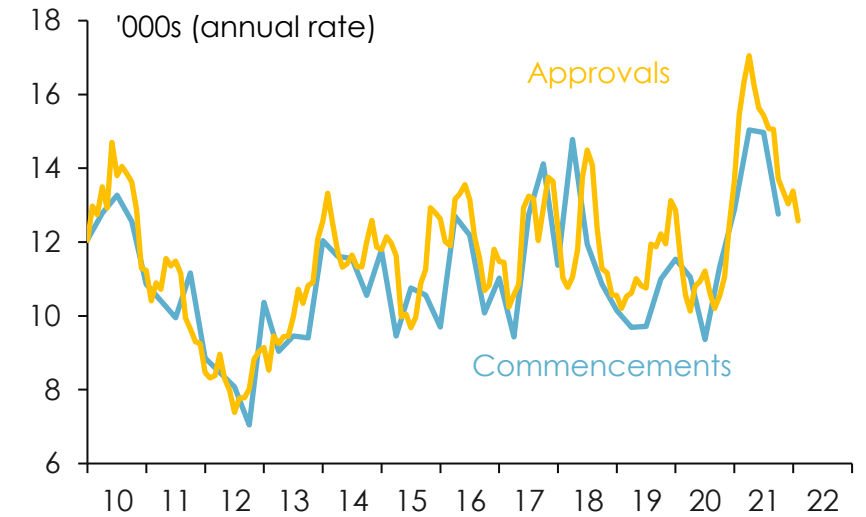
## New South Wales



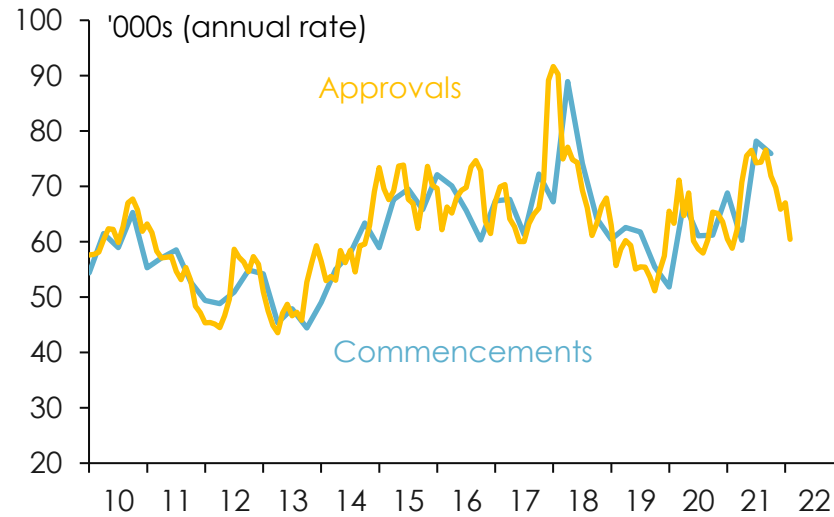
## Queensland



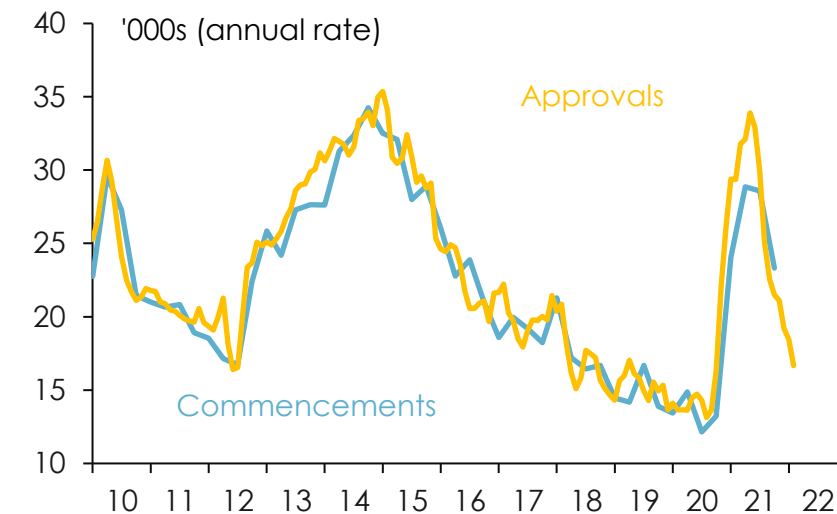
## South Australia



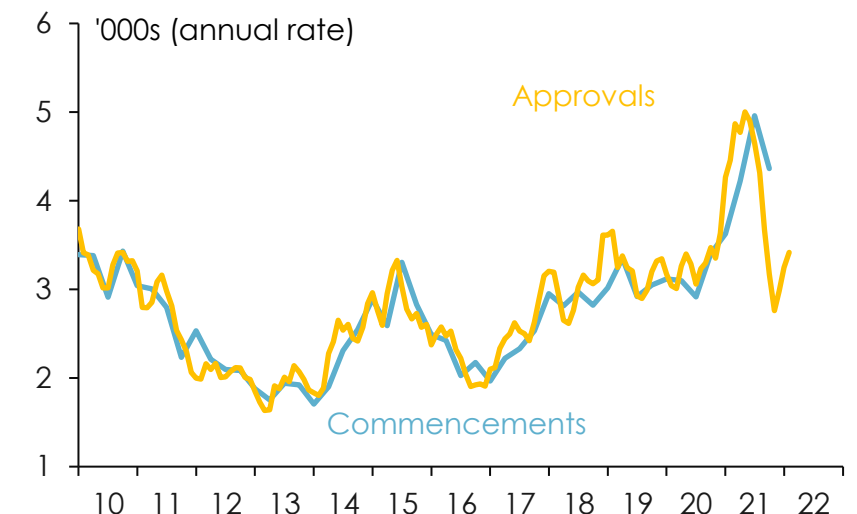
## Victoria



## Western Australia



## Tasmania



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"](#).

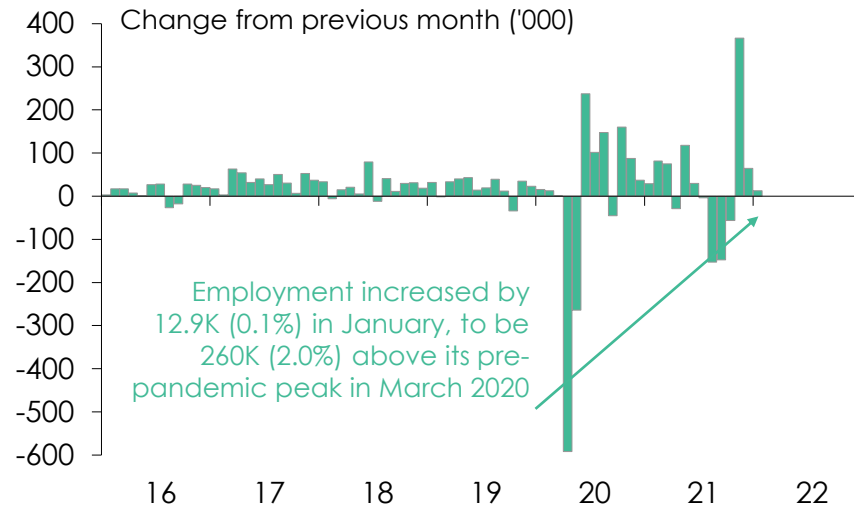
# The labour market



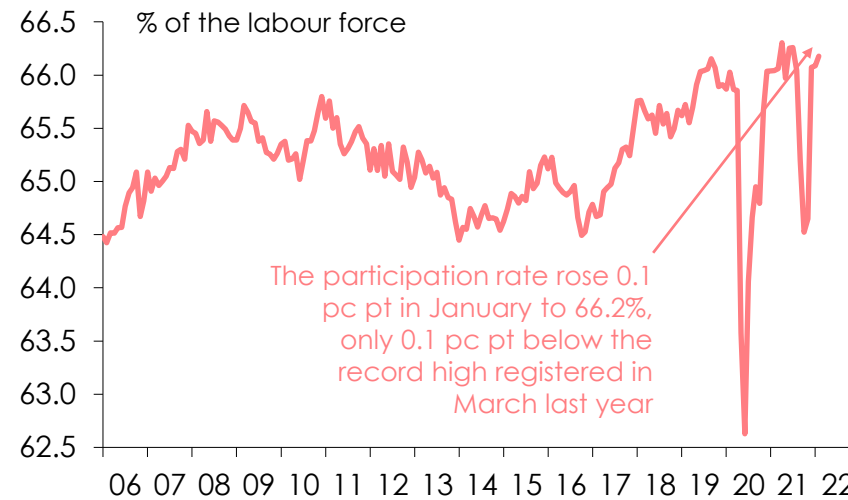
# Employment rose 0.1% in January, but a large number of people weren't able to go to work because of omicron, resulting in an 8.8% fall in hours

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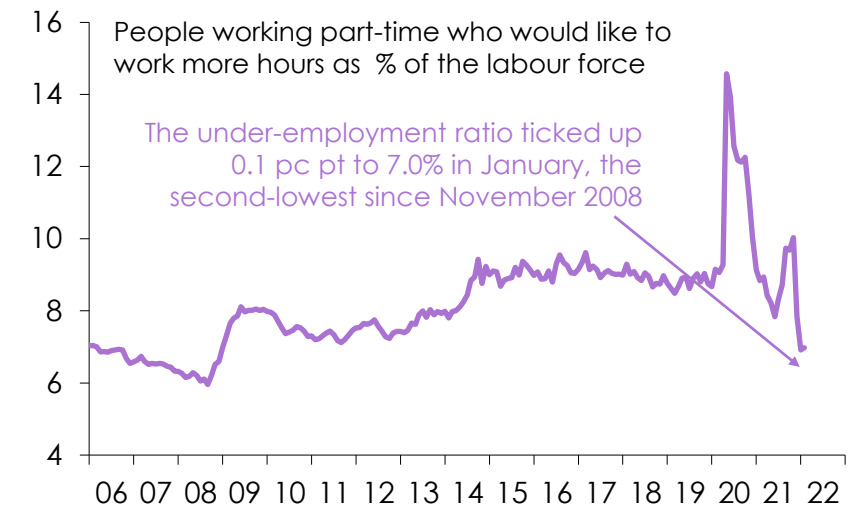
## Employment



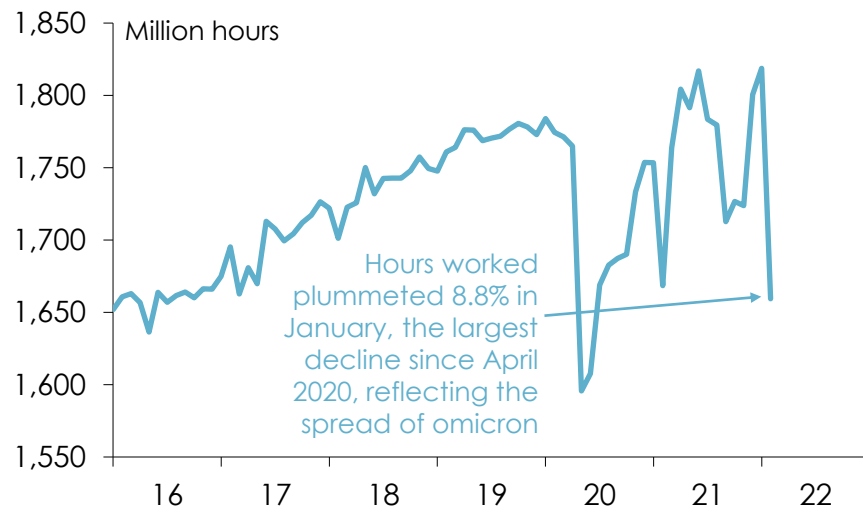
## Labour force participation rate



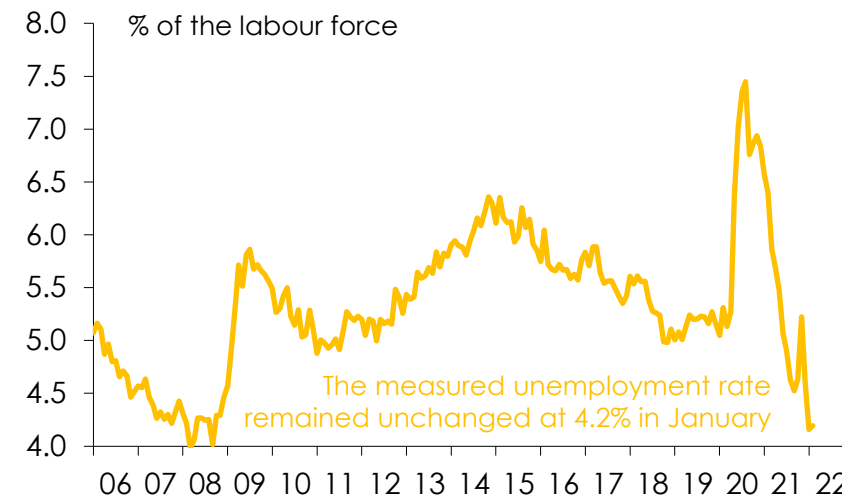
## Under-employment ratio



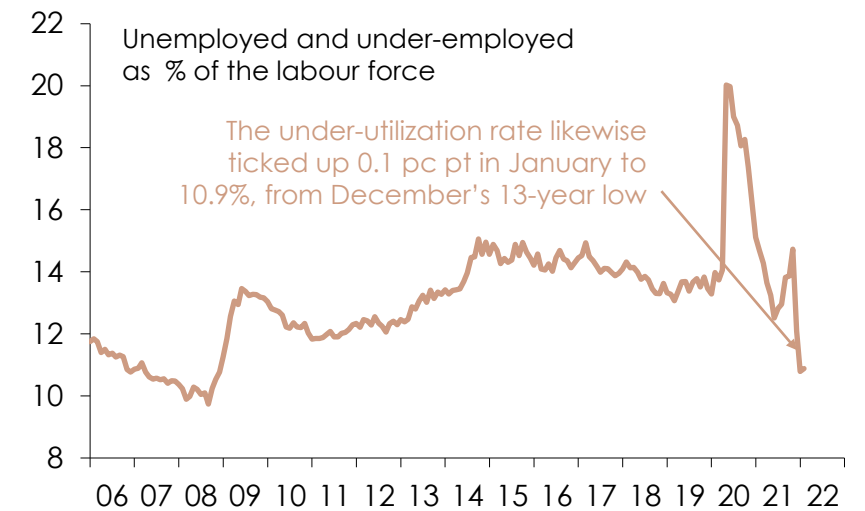
## Total hours worked



## Unemployment rate



## 'Under-utilization' rate

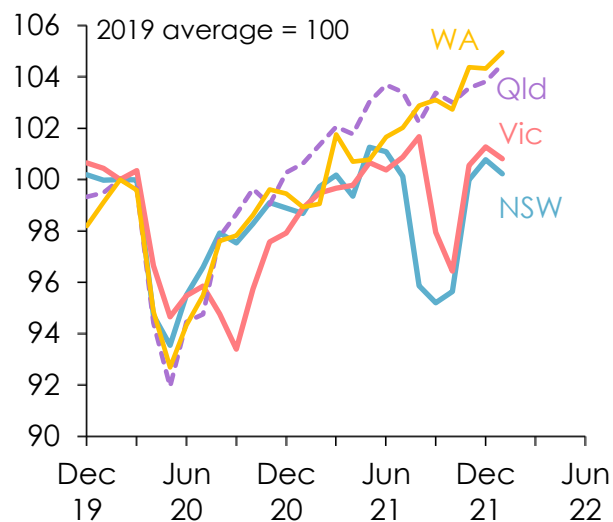


Source: ABS, [Labour Force, Australia](#), January. February data will be released on 17<sup>th</sup> March. [Return to "What's New"](#).

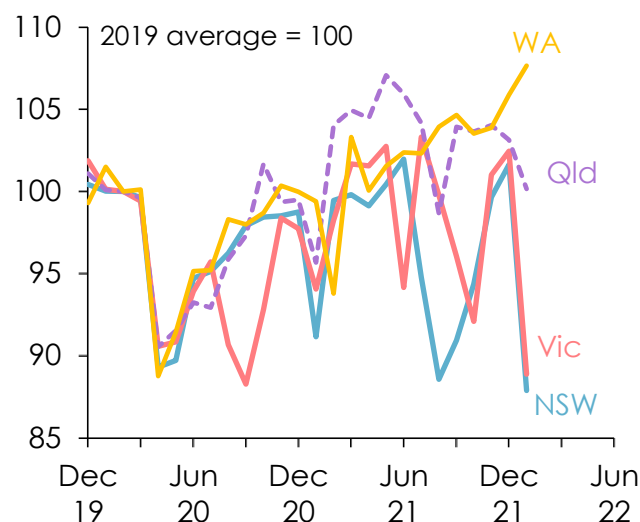
# New South Wales and Victoria again accounted for most of the jobs gains in December – but employment hasn't fully recovered in the ACT

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

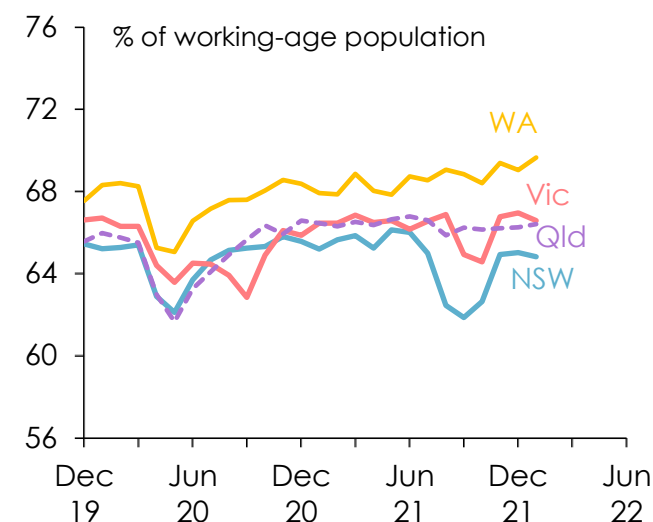
## Employment



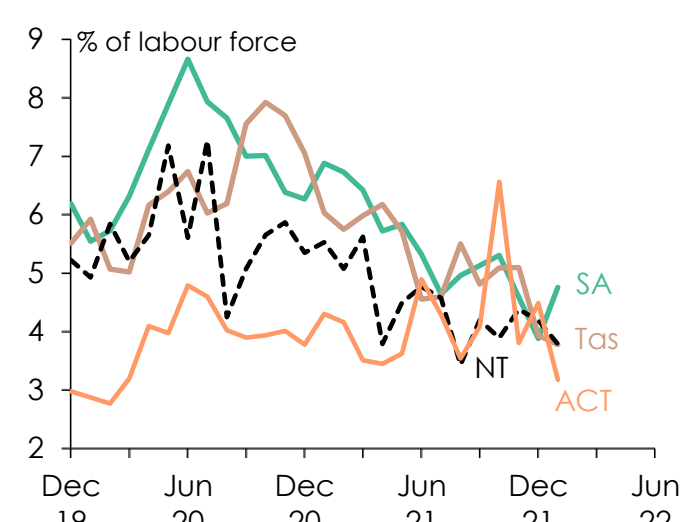
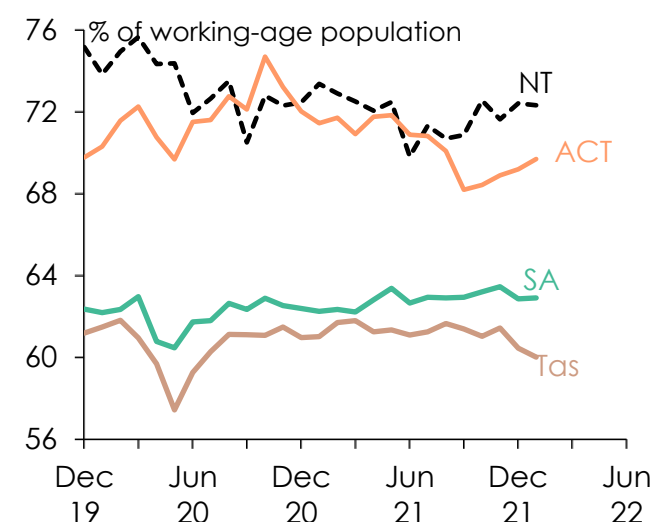
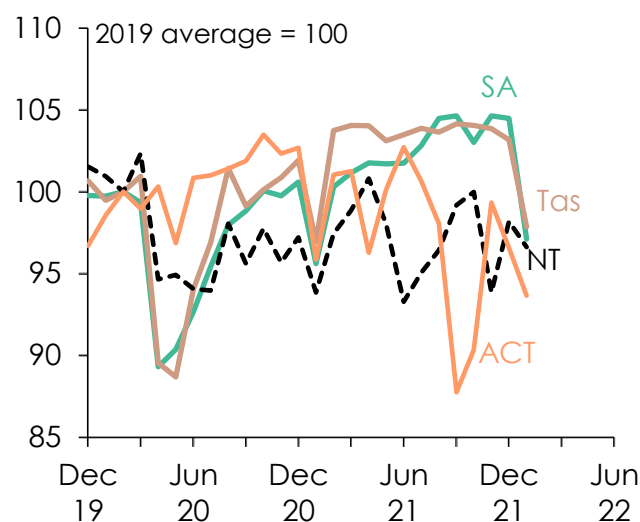
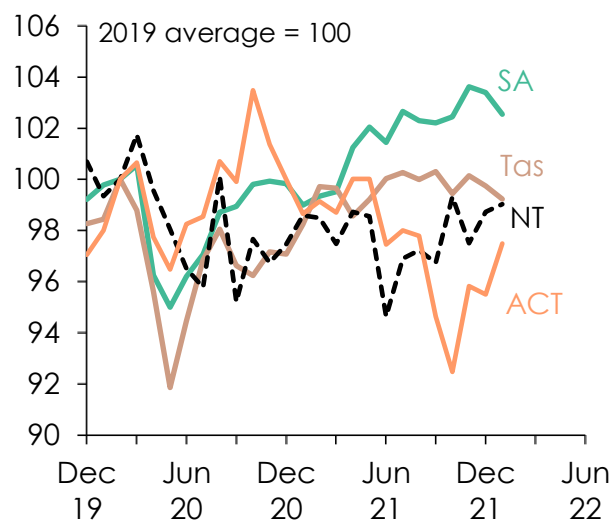
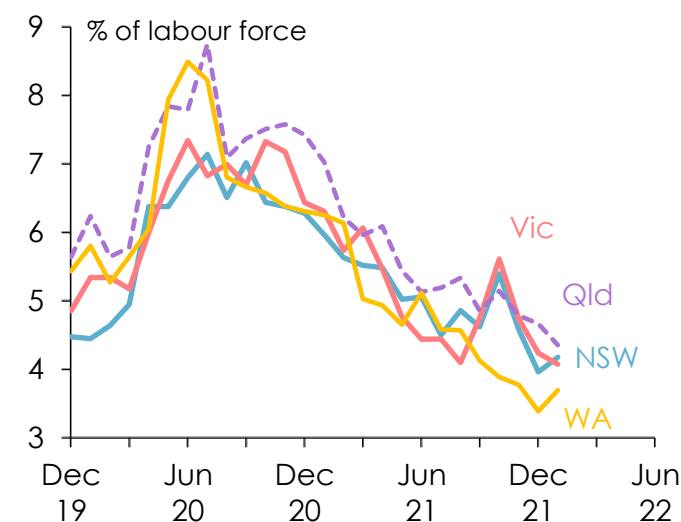
## Hours worked



## Participation rates



## Unemployment rates



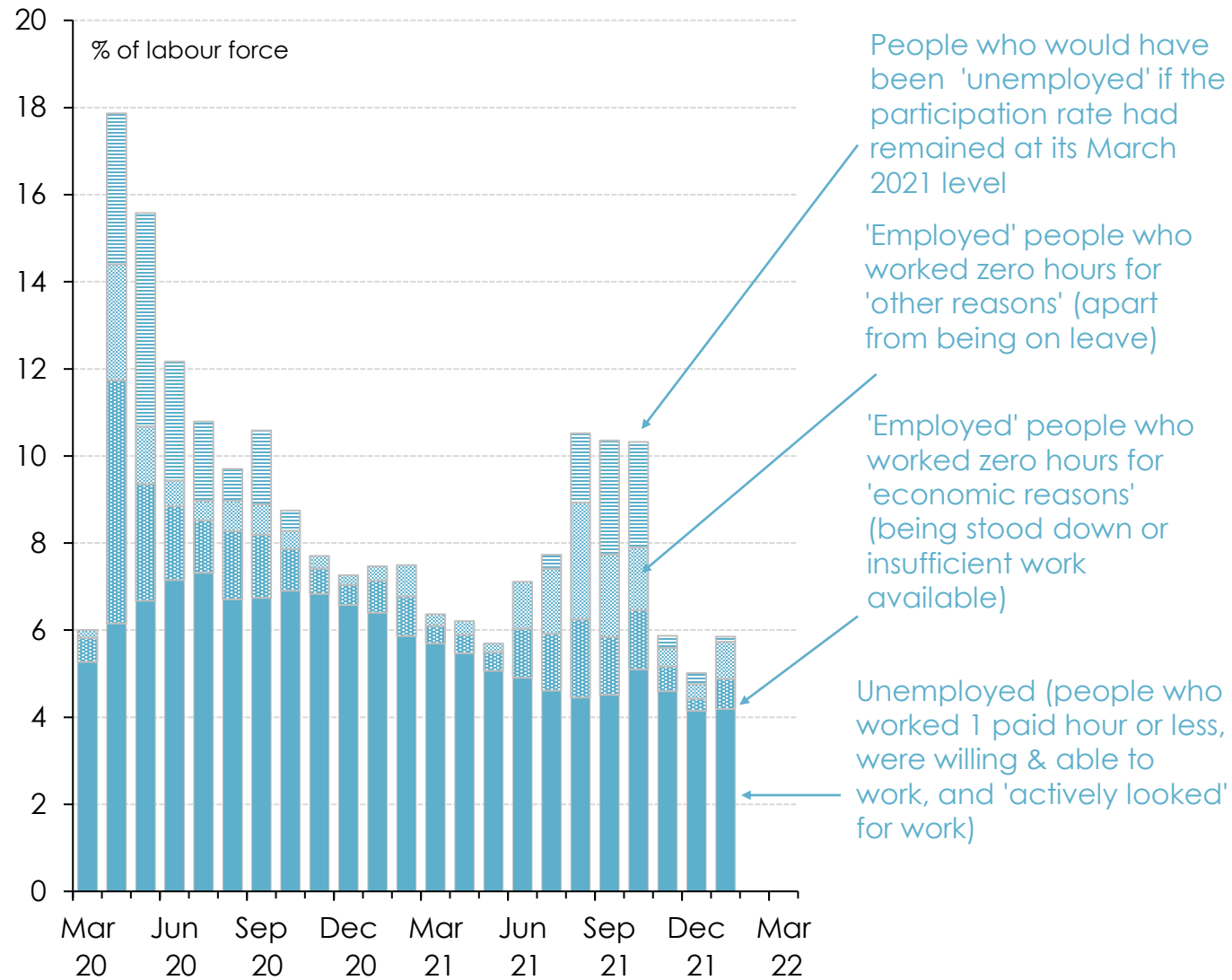
Source: ABS, [Labour Force, Australia](#), January. February data will be released on 17<sup>th</sup> March. [Return to "What's New"](#).



# 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 – 4<sup>TH</sup> MARCH 2022

## Alternative measures of unemployment



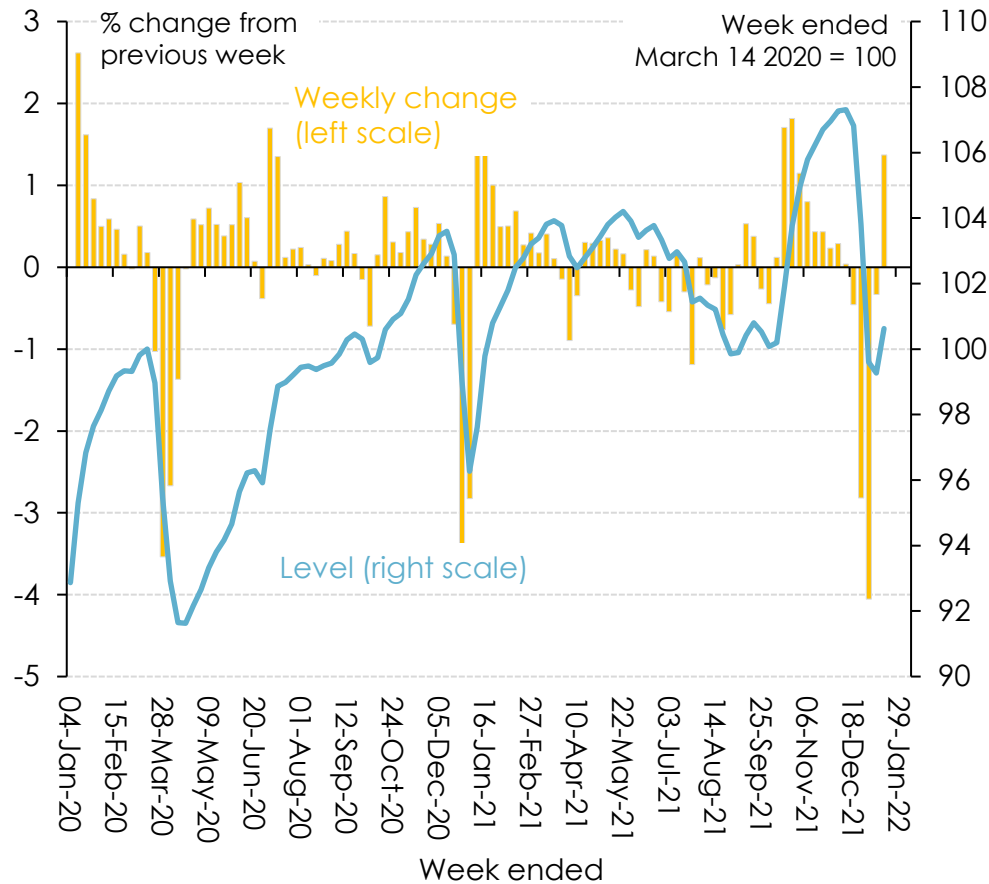
Note: the data on people working zero hours is not seasonally adjusted.  
 Source: ABS, [Labour Force, Australia](#), January. February data will be released on 17<sup>th</sup> March.  
[Return to "What's New"](#).

- ❑ 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

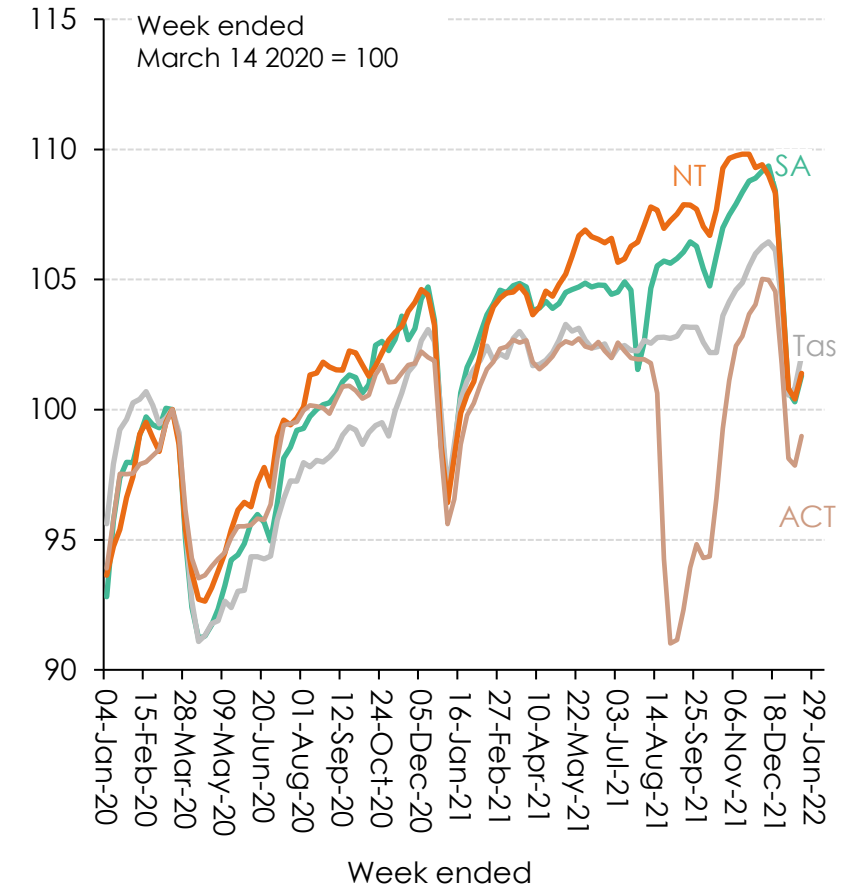
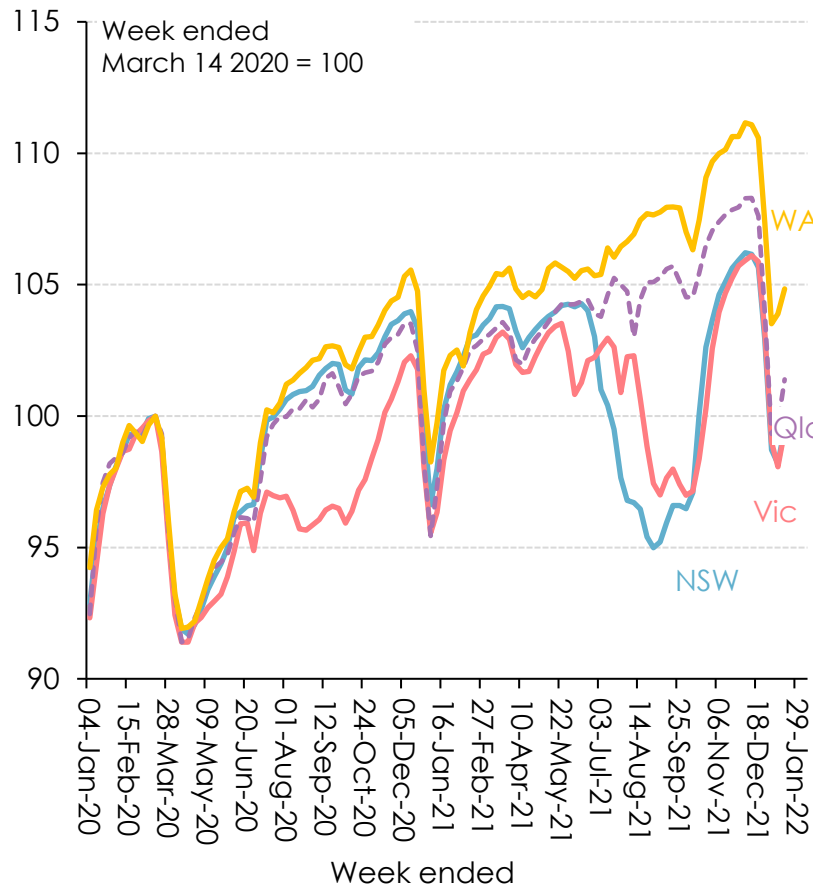
# Payroll jobs recovered less rapidly in the first two weeks of this year from the normal end-year downturn than they did in the first two weeks of 2021

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 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

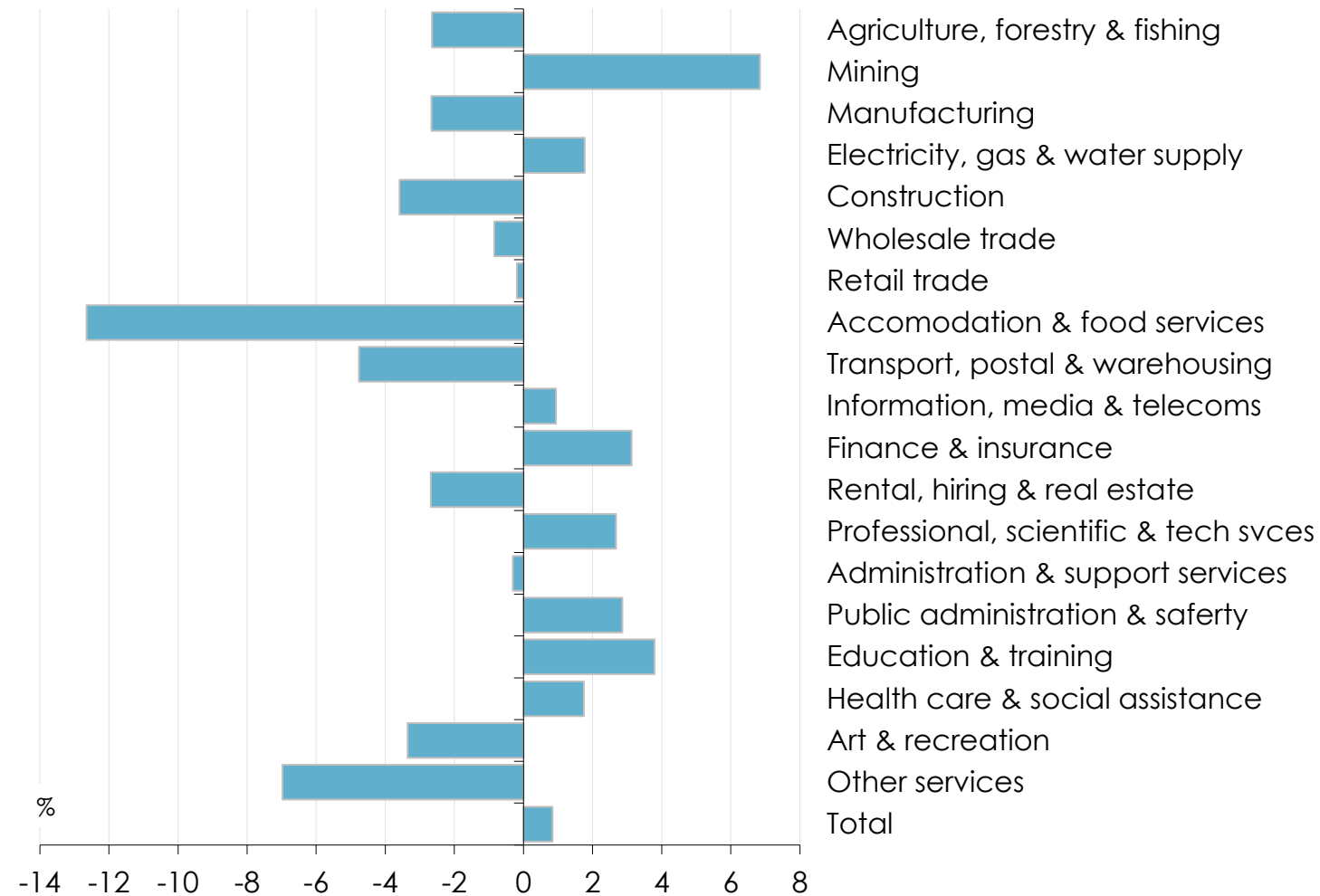
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

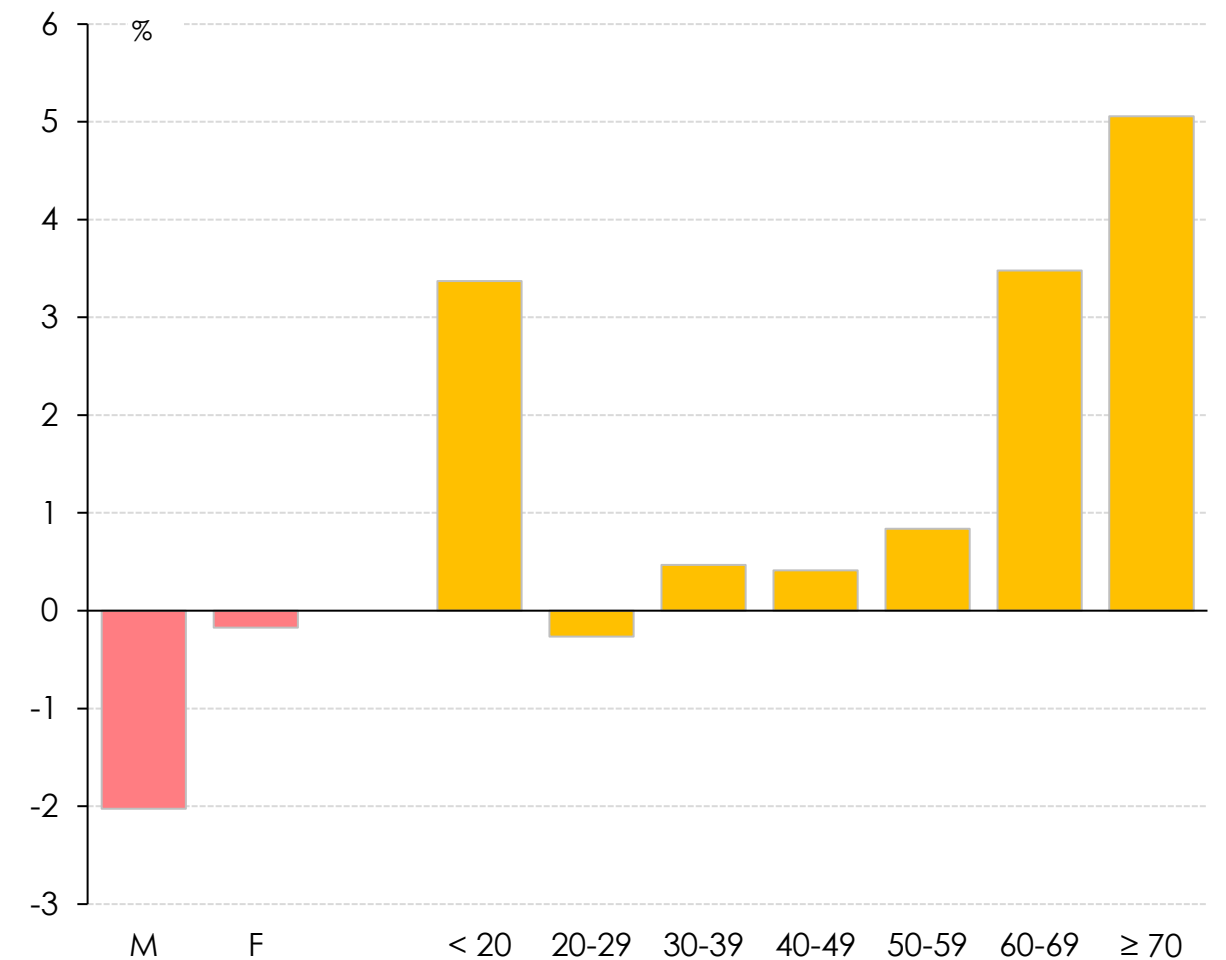
THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## 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

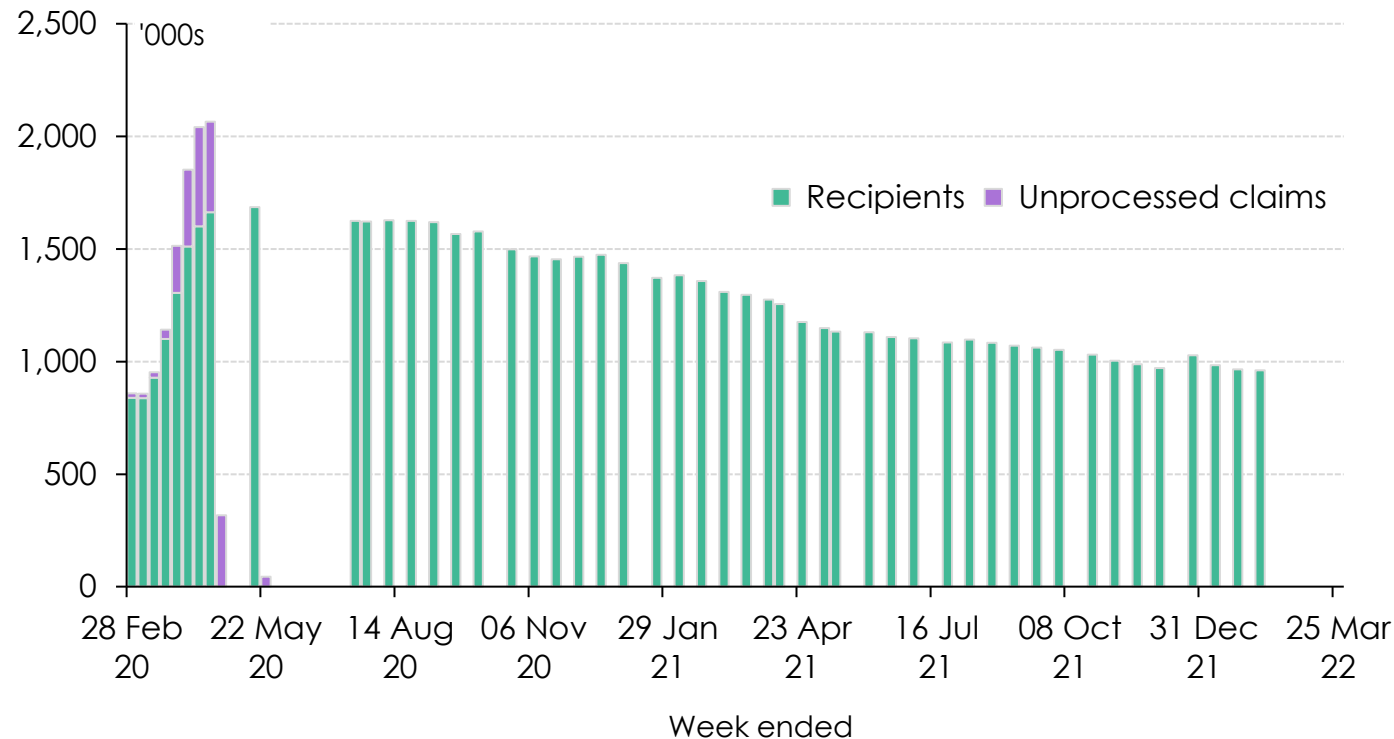


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

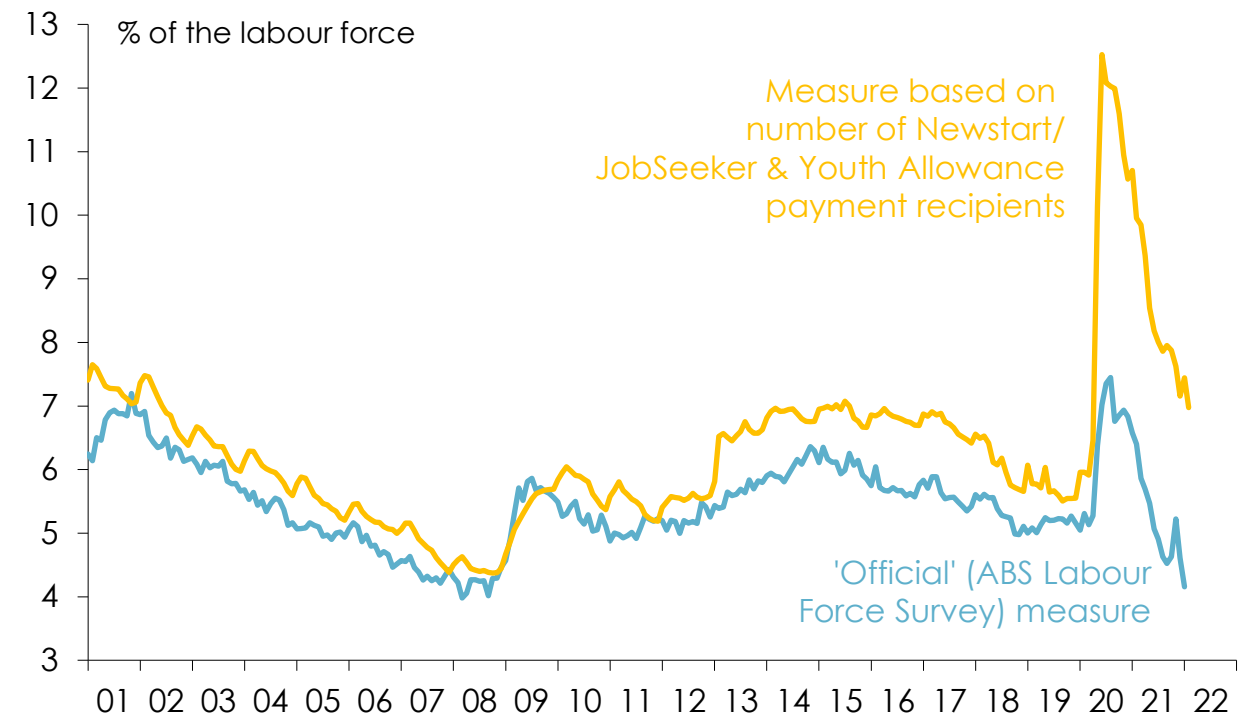
# The number of people receiving joblessness-related income support payments in mid-February was the lowest since the onset of Covid-19

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



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



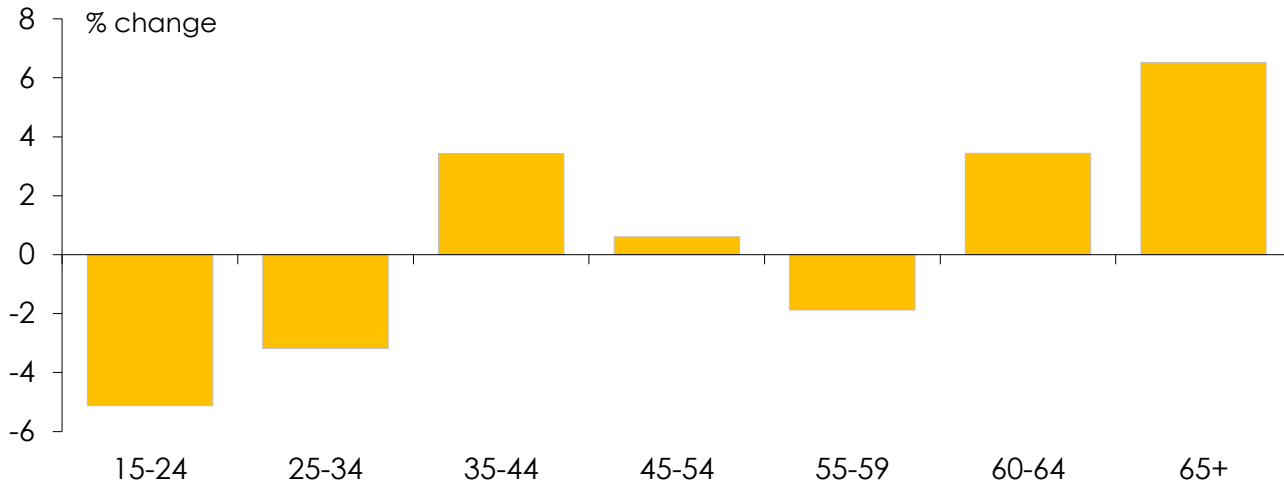
- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government’s responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments 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

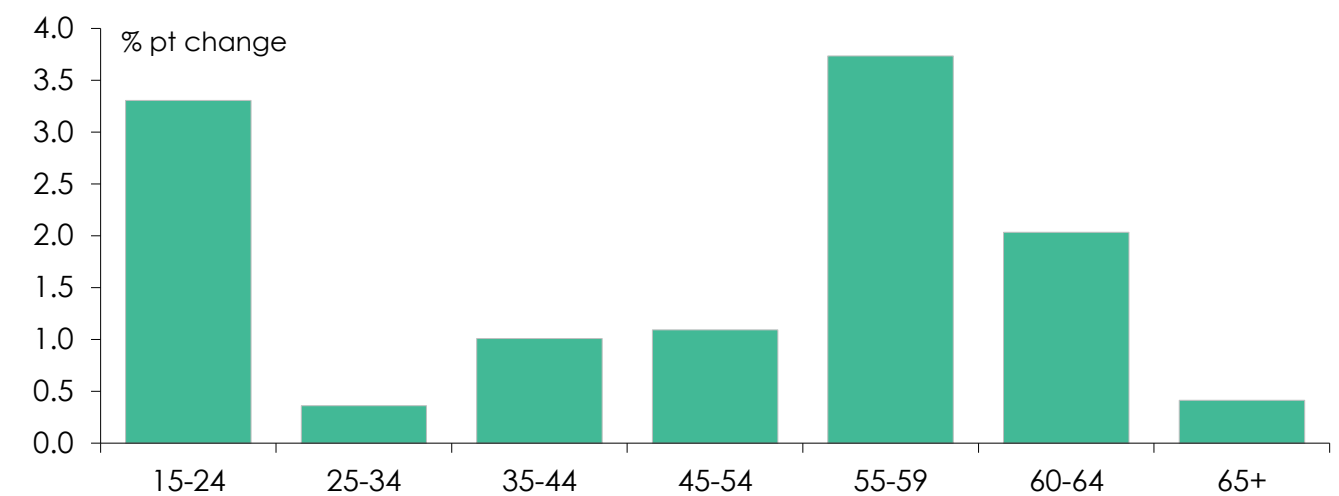
THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

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

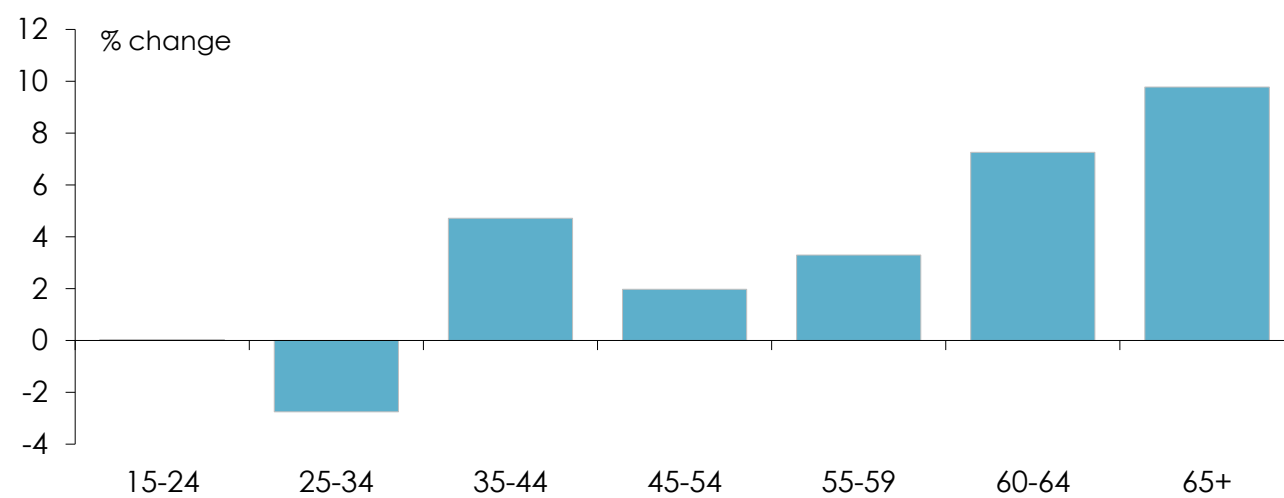
### Civilian working age population



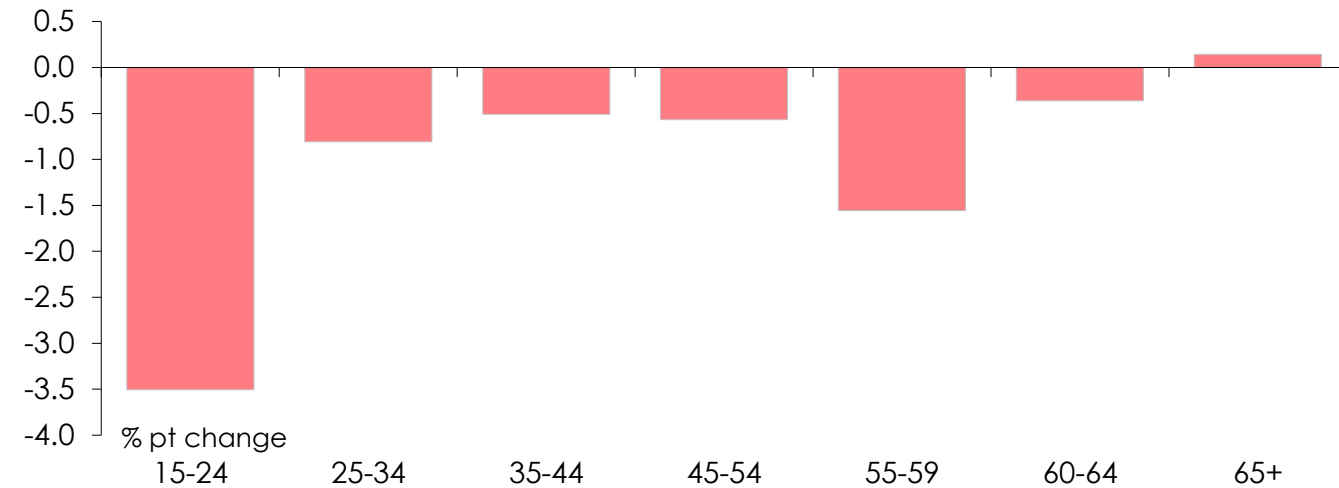
### Employment-population ratio



### Employment



### Unemployment rates



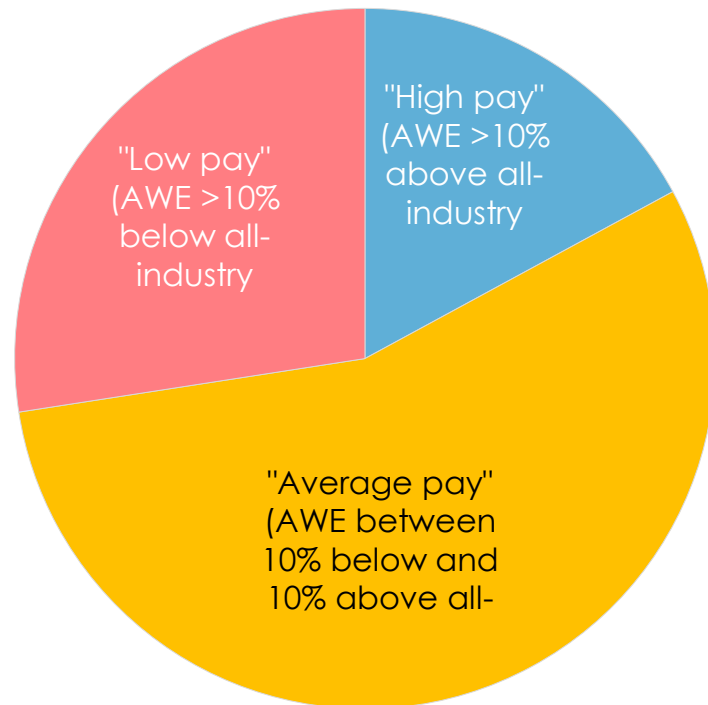
Note: The data from which the above charts are derived isn't seasonally adjusted, hence the need to make comparisons between December 2019 and December 2021.

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

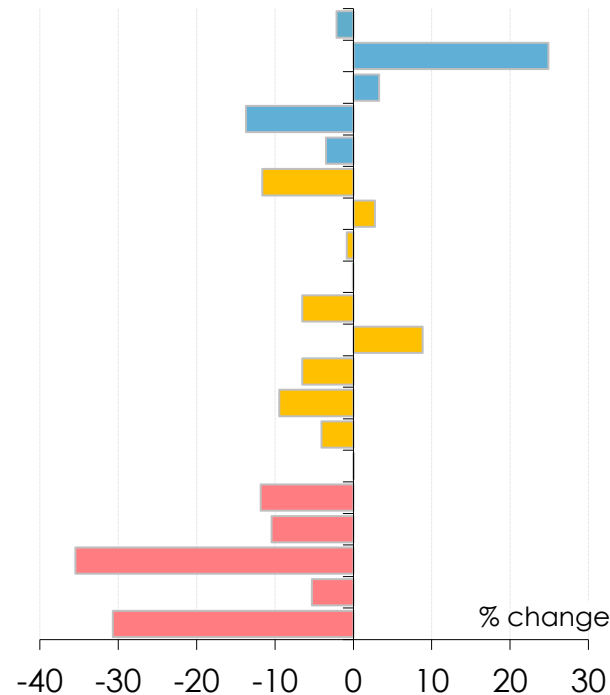
# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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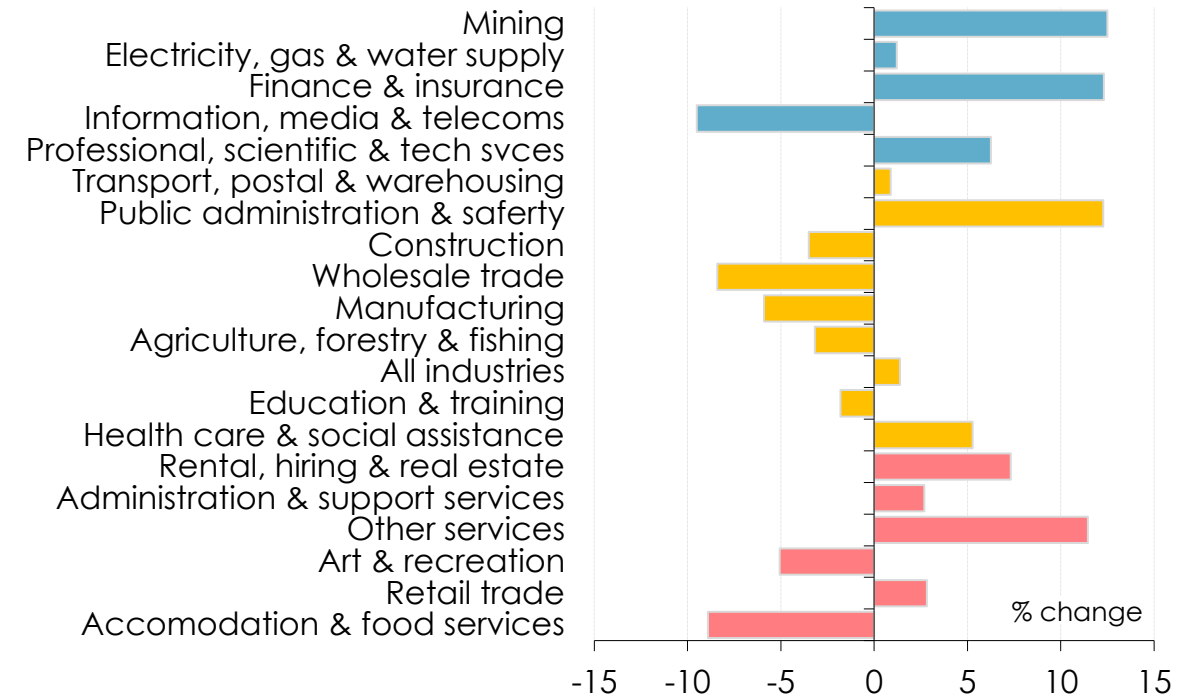
Composition of employment by industry ranked by average weekly earnings, February 2020



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

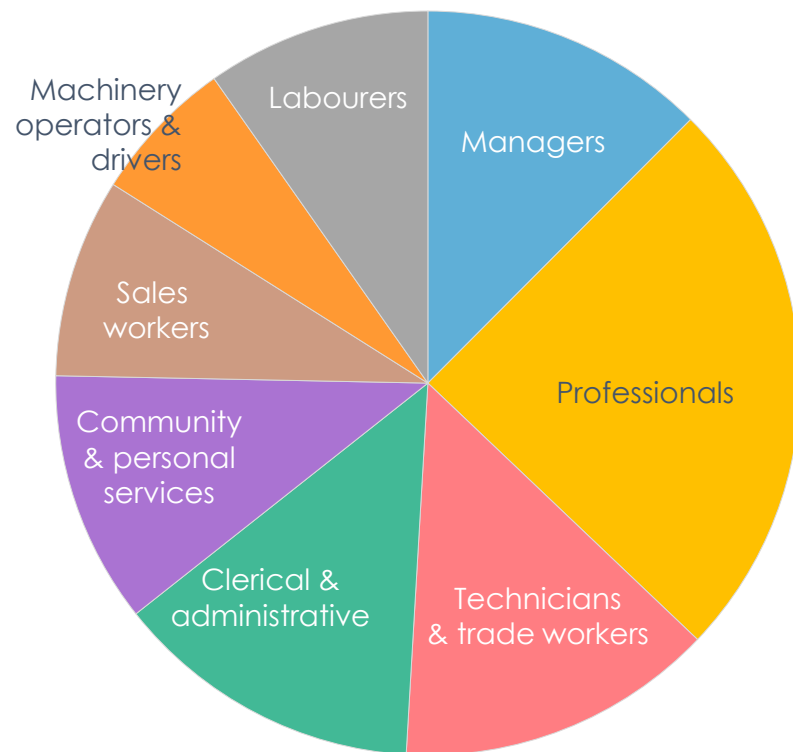
Source: ABS, [Labour Force, Australia, Detailed](#), November 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2022 data will be released on 24<sup>th</sup> March. [Return to "What's New"](#).



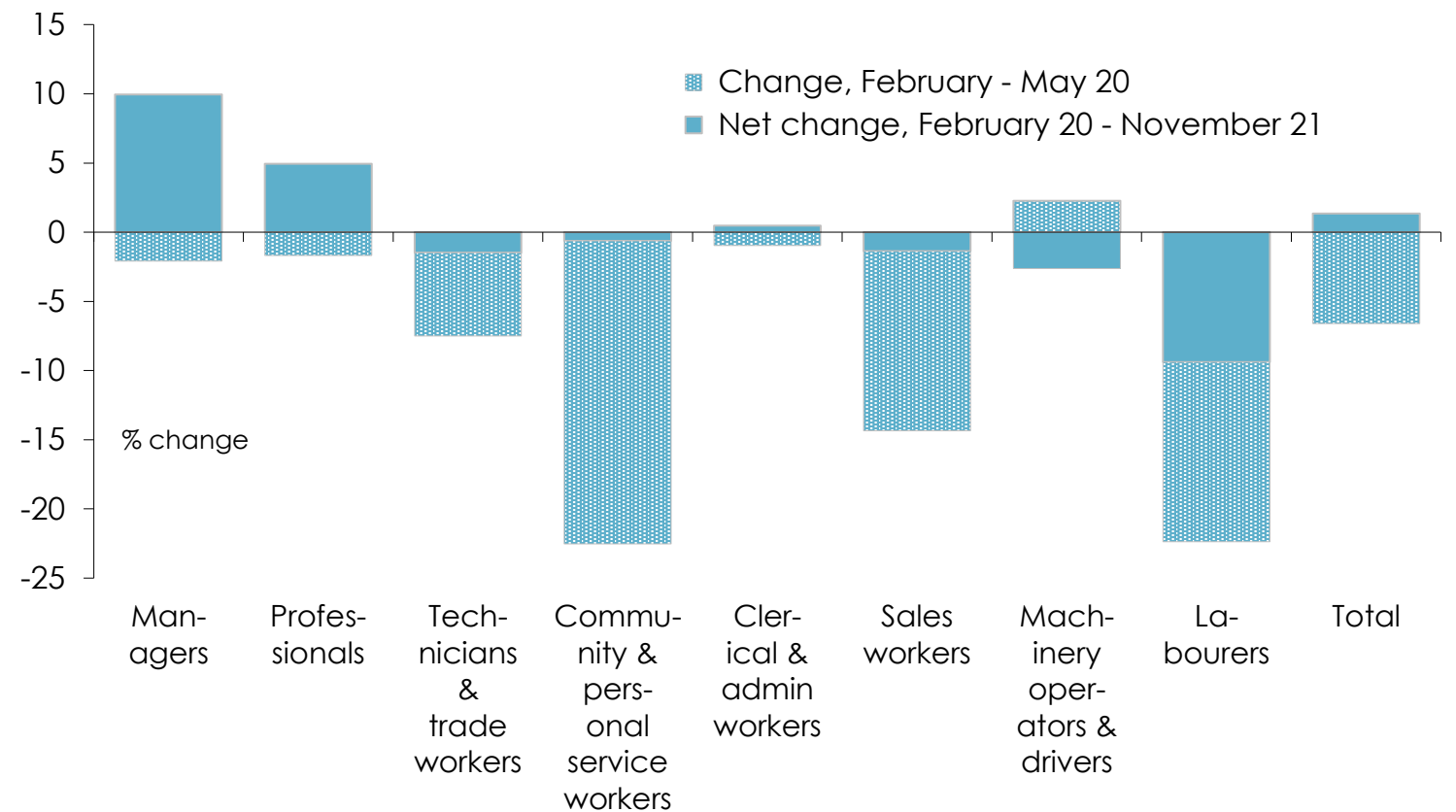
# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



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



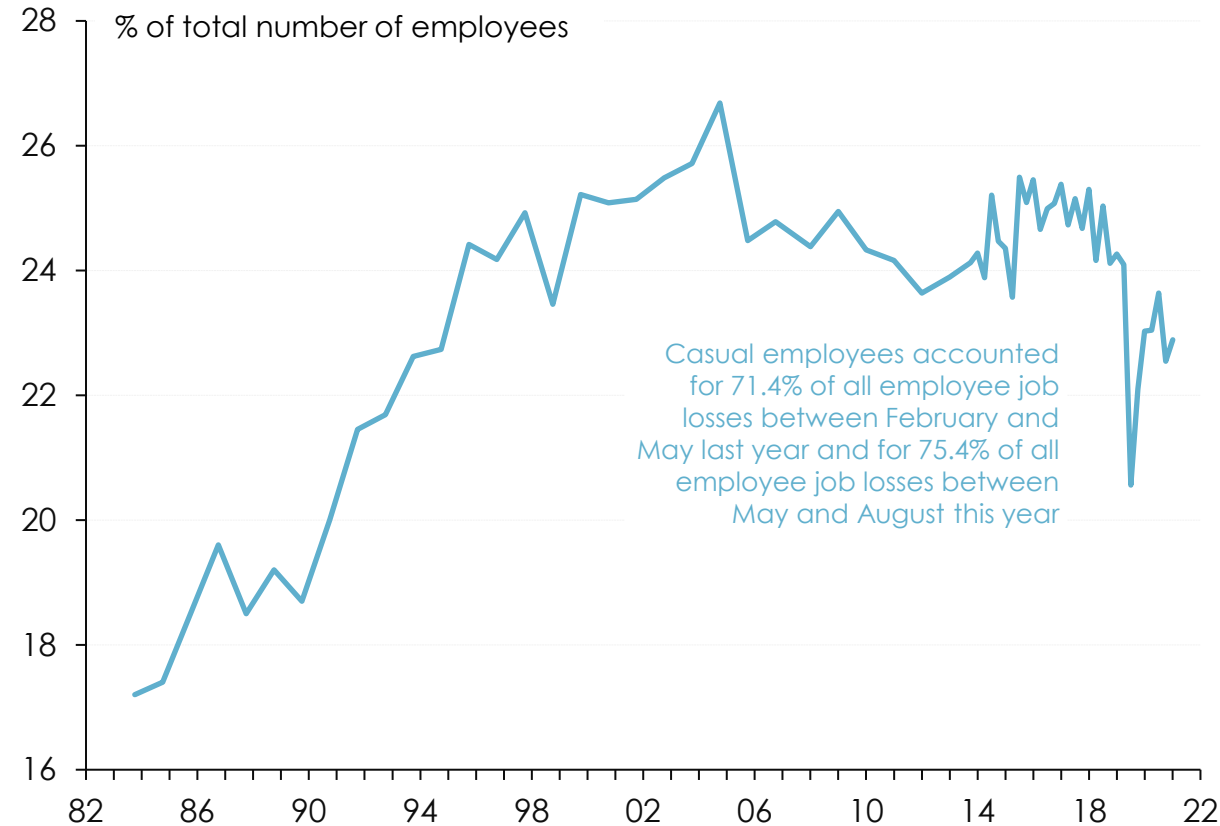
- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 3.8% fewer of them in November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

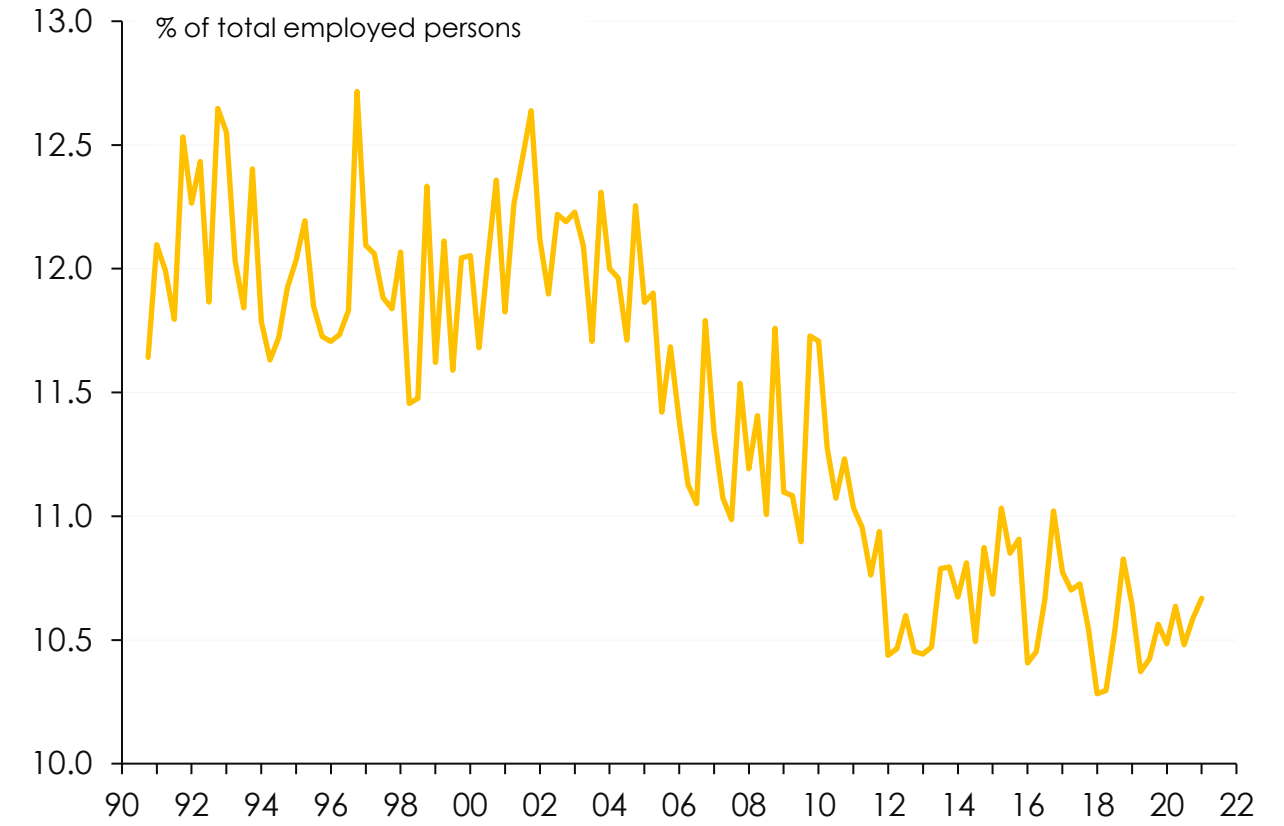
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## 'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



- ❑ **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**

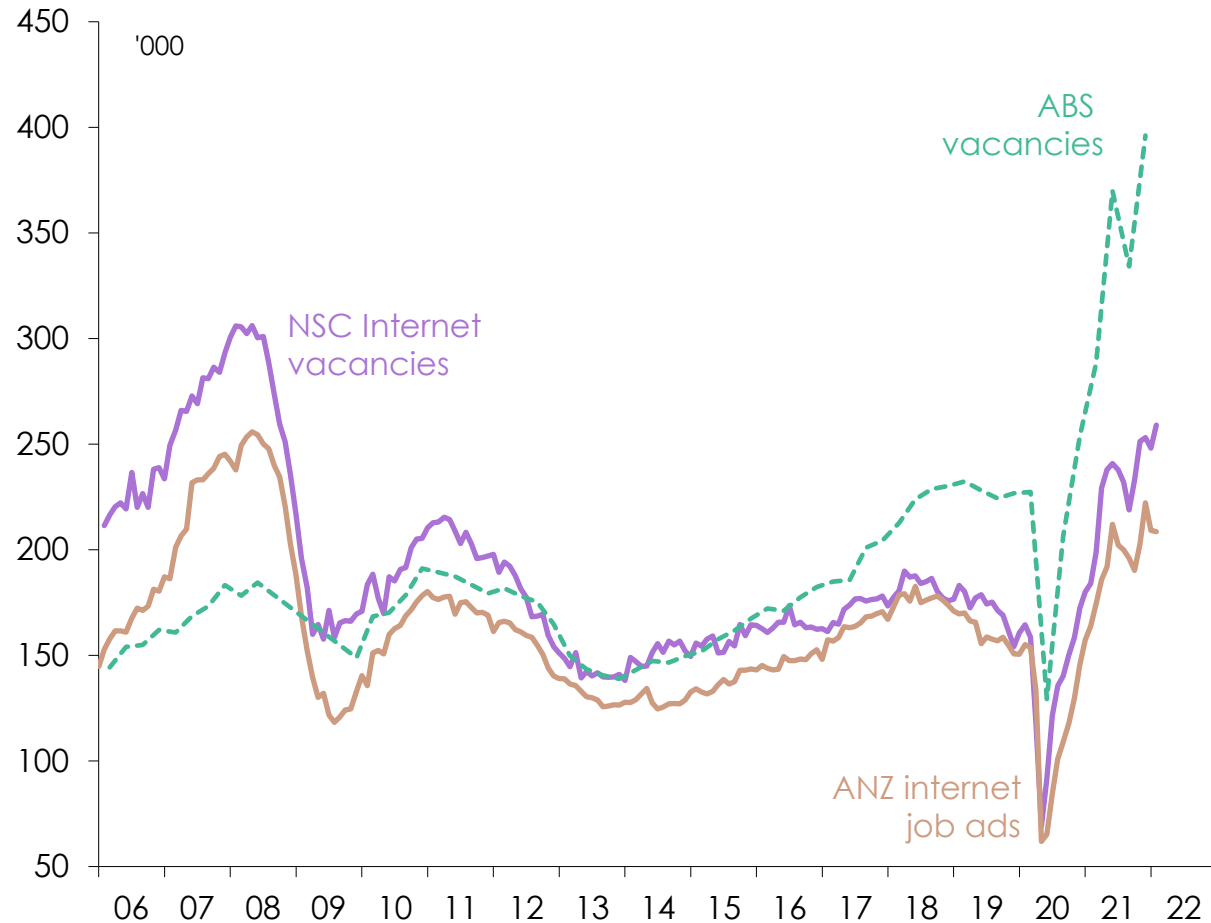
Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents; [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

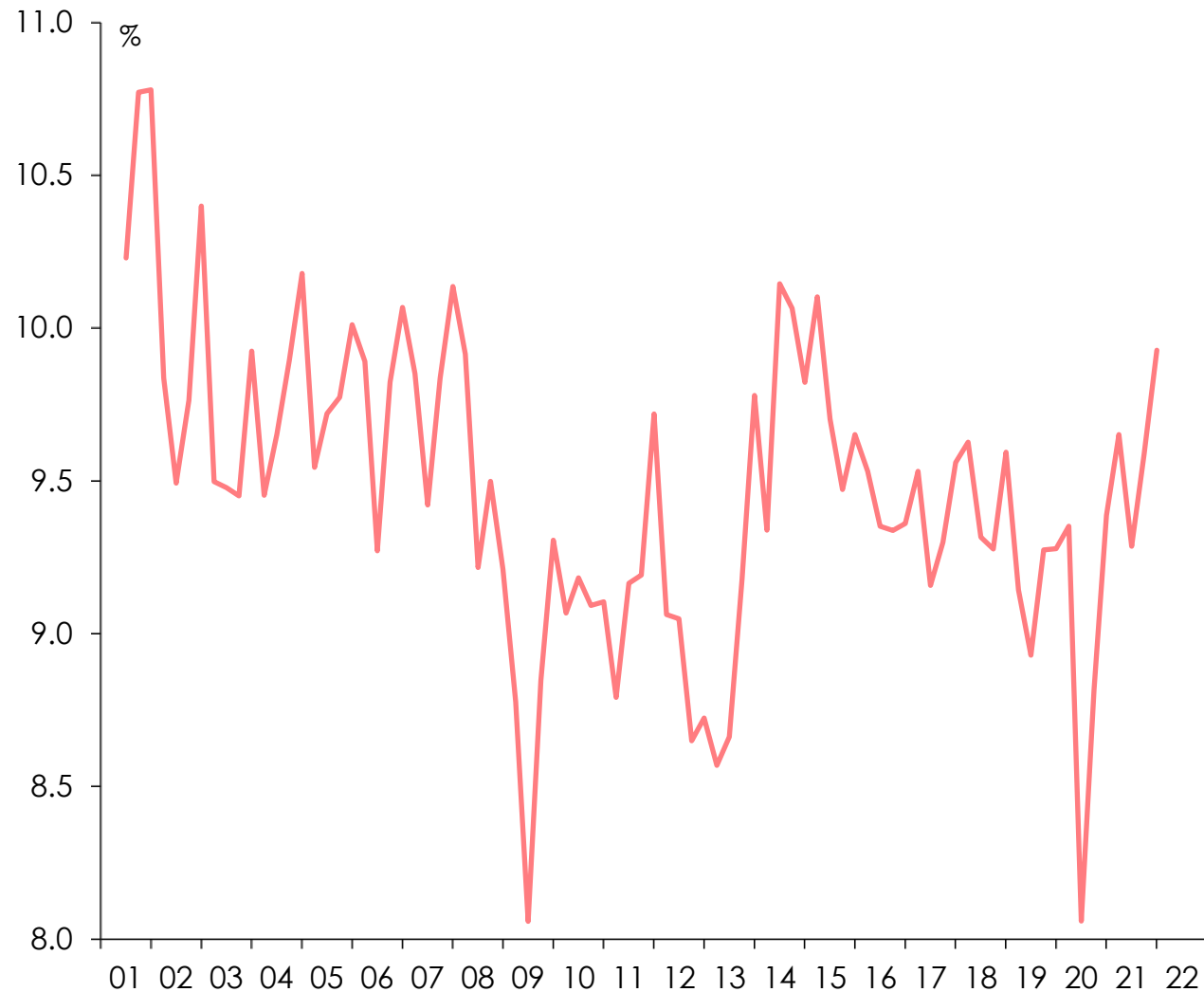


❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

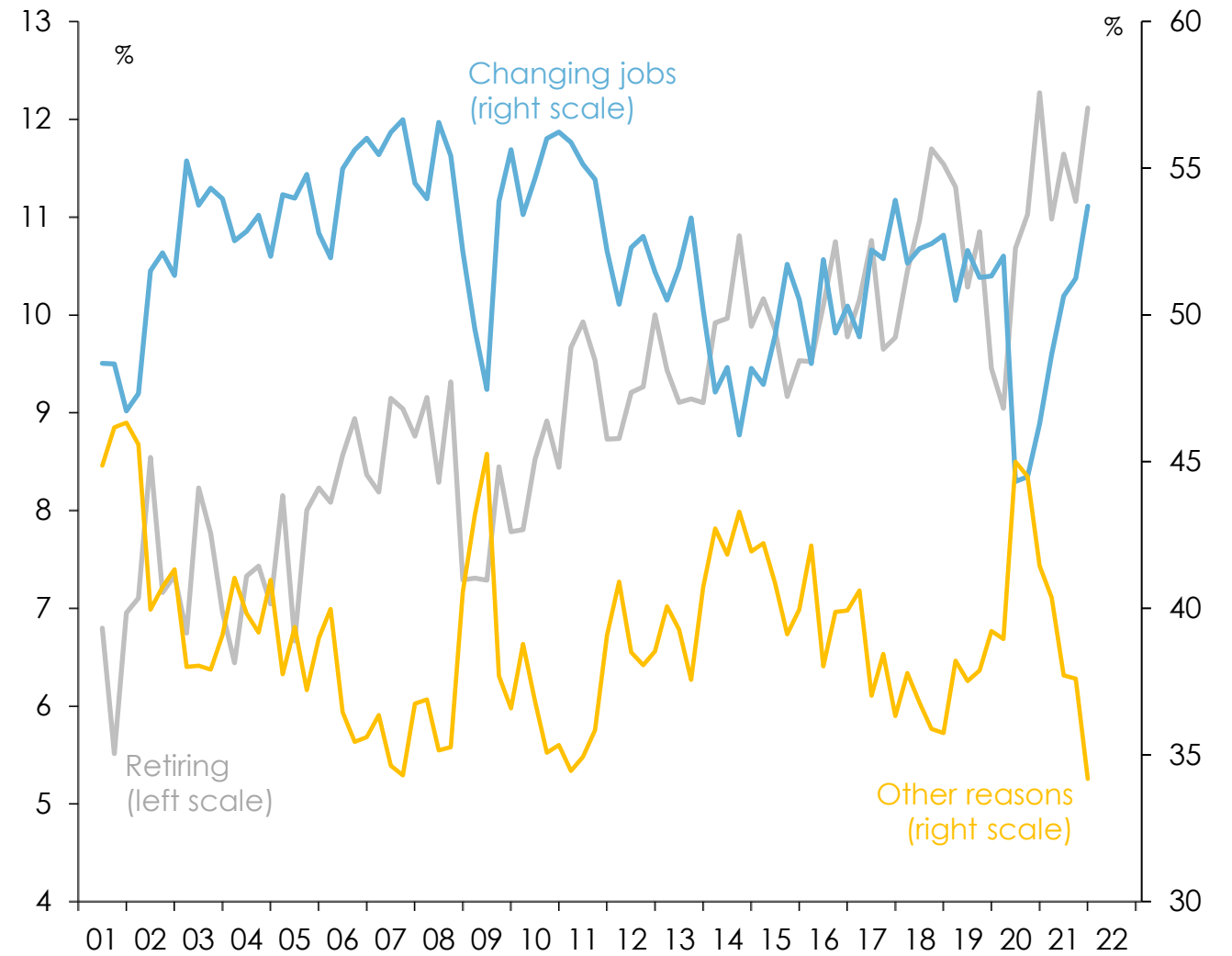
# There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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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



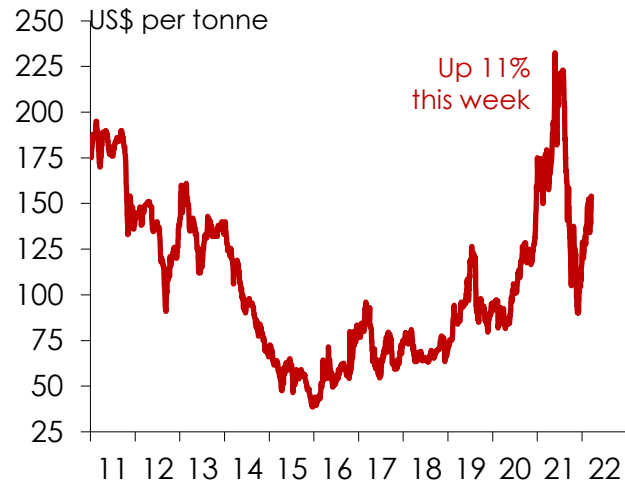
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

# Trade and the balance of payments

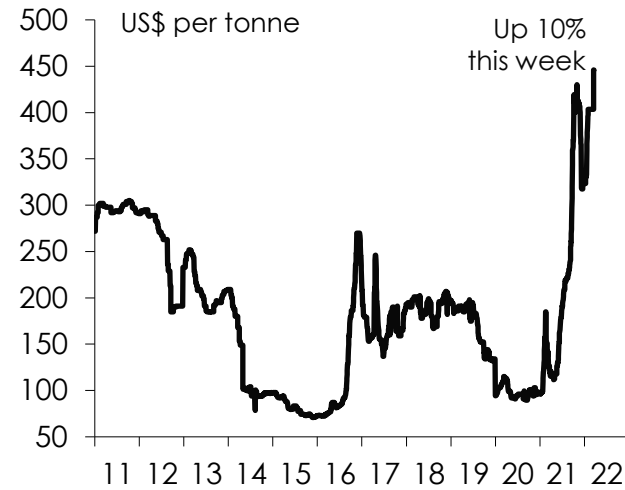
# 'Hard' commodity prices surged this week after Russia's invasion of Ukraine, with oil up 15-20%, thermal coal up 39%, and base metals up 8-12%

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

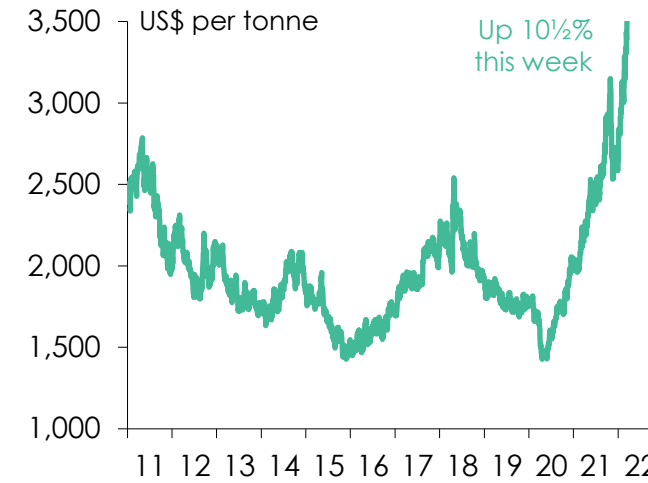
## Iron ore



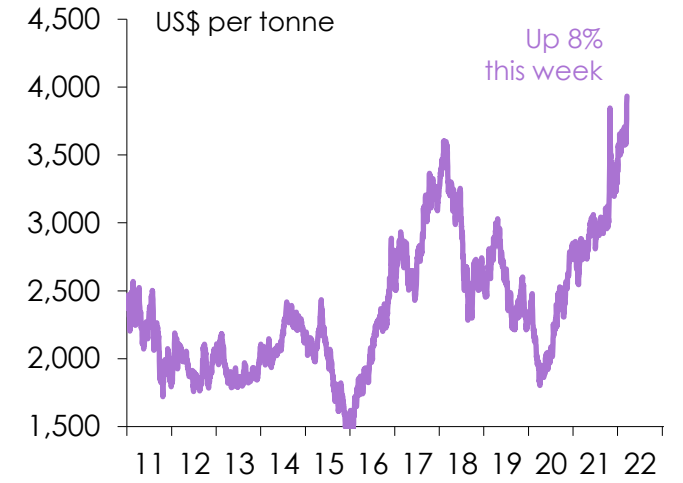
## Metallurgical coal



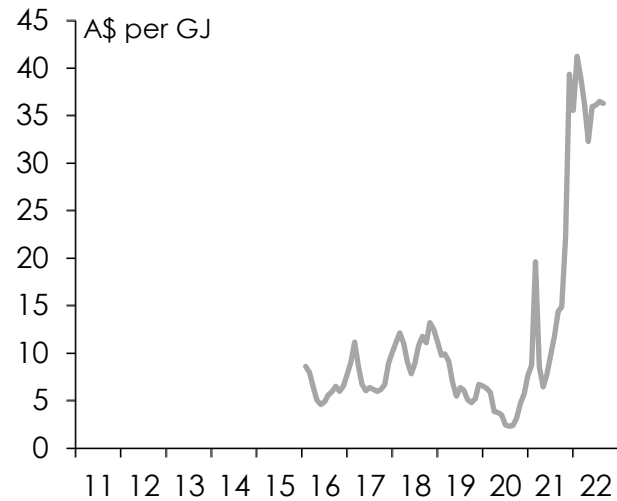
## Aluminium



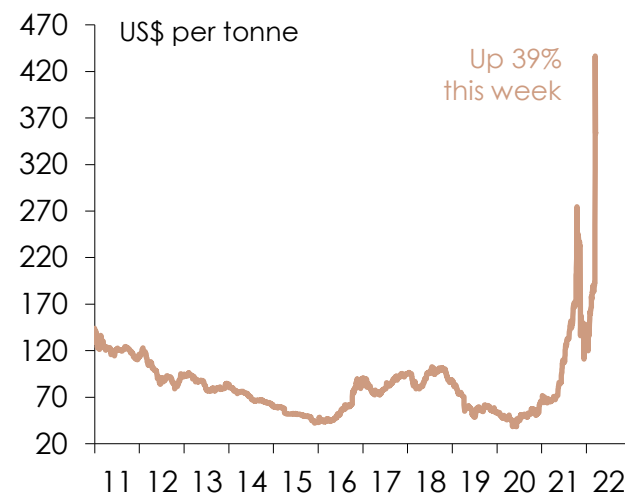
## Zinc



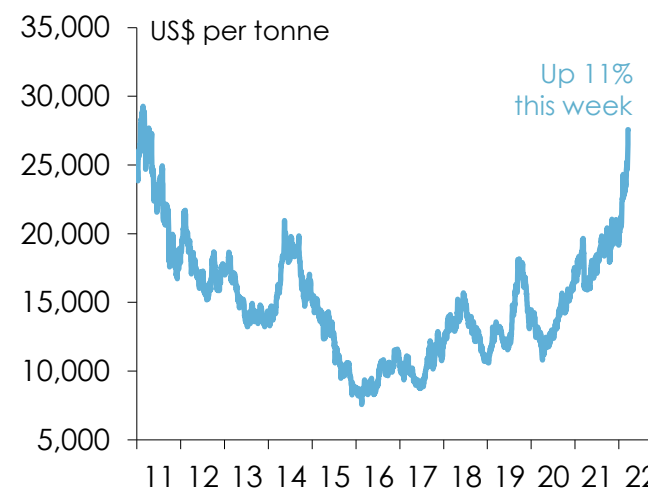
## LNG



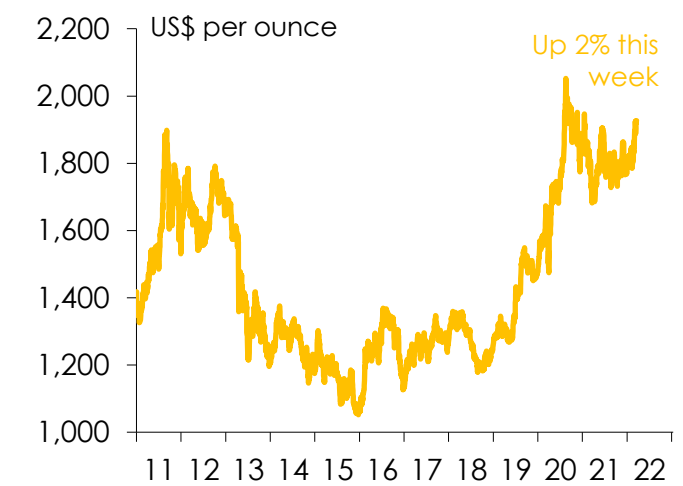
## Thermal coal



## Nickel



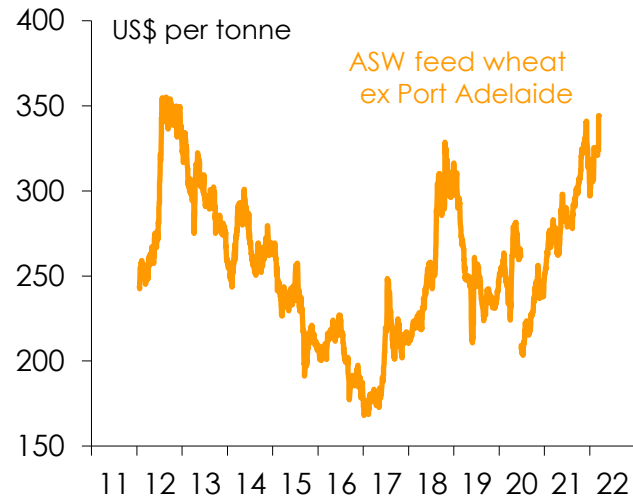
## Gold



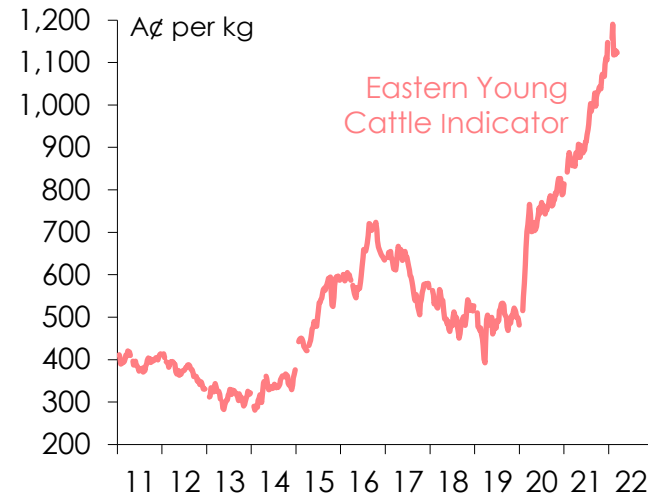
# Australian grain prices rose 4-7% this week in response to Russia's invasion of Ukraine, but other 'soft' commodities were little changed

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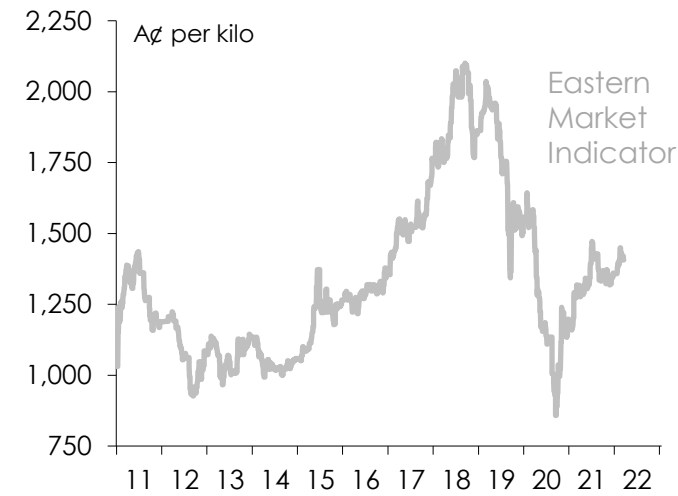
## Wheat



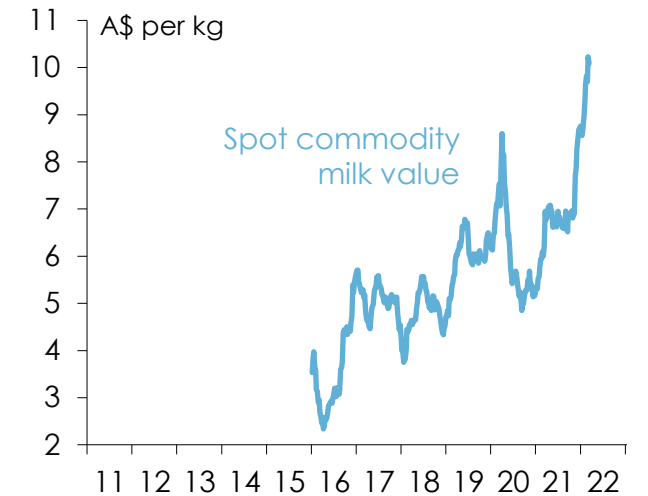
## Beef cattle



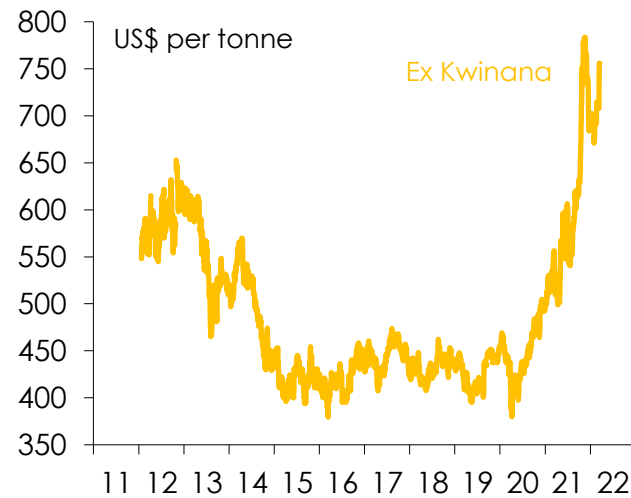
## Wool



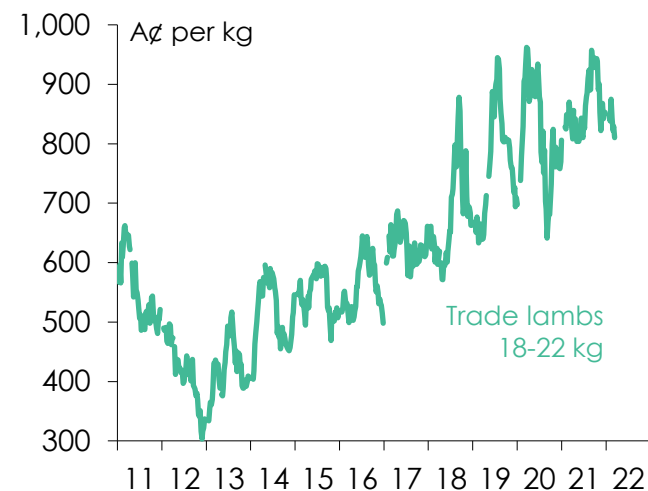
## Milk



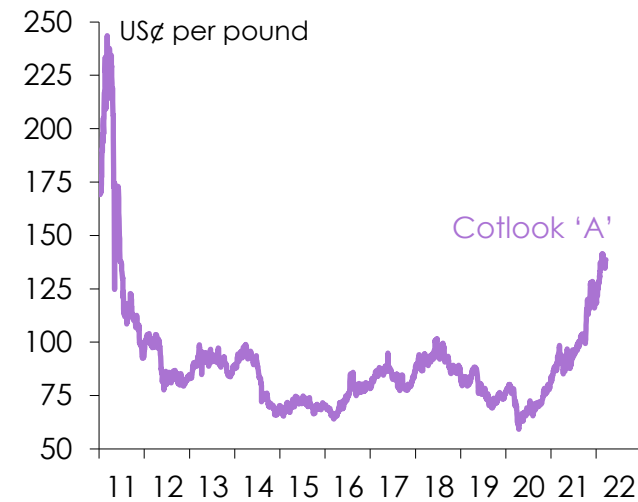
## Canola



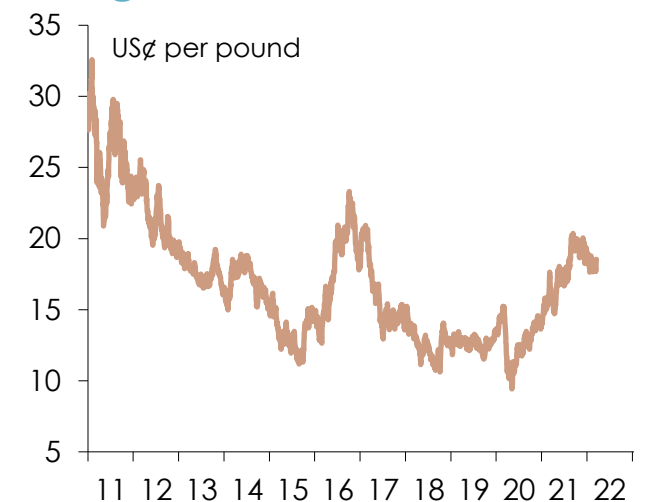
## Sheep



## Cotton



## Sugar

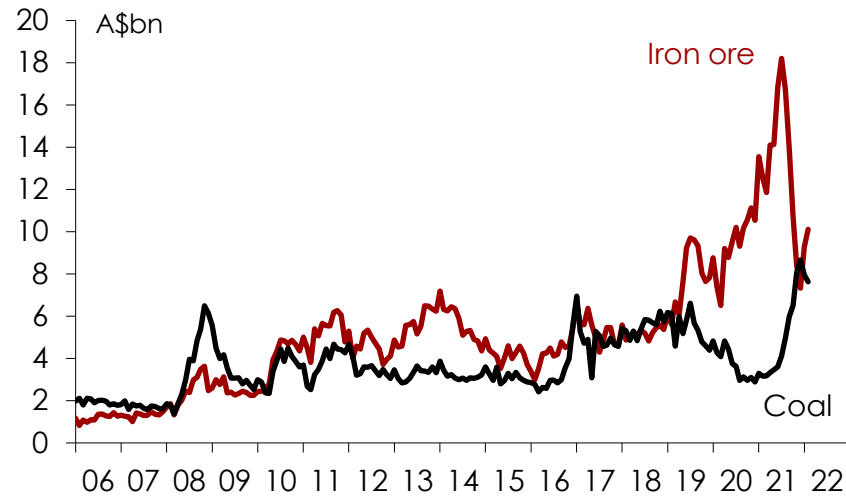


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 4<sup>th</sup> March.  
[Return to "What's New"](#).

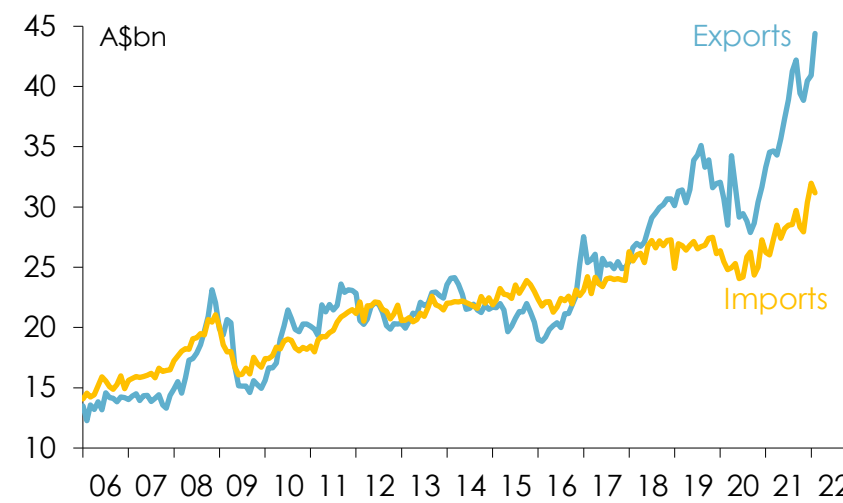
# Australia's trade surplus rose, for the first time in 6 months, by \$4bn to \$12.9 bn in January, with exports up 7.6% and imports down 1.6%

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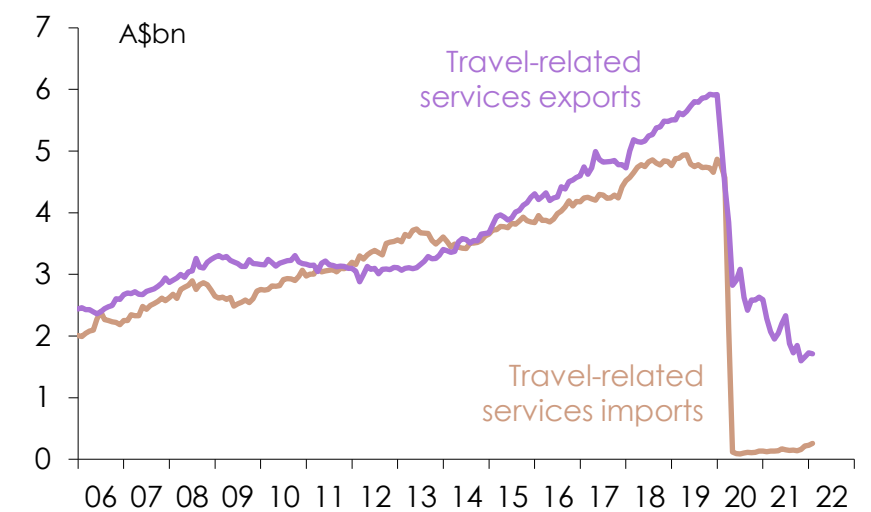
## Iron ore and coal exports



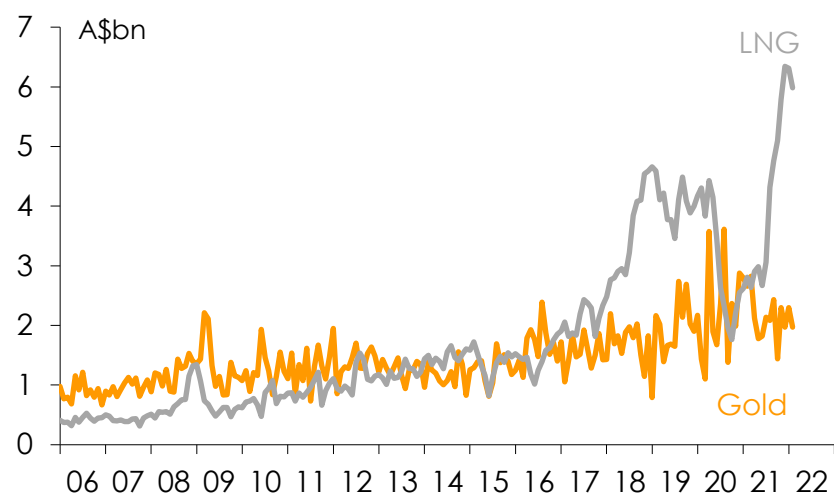
## Merchandise exports and imports



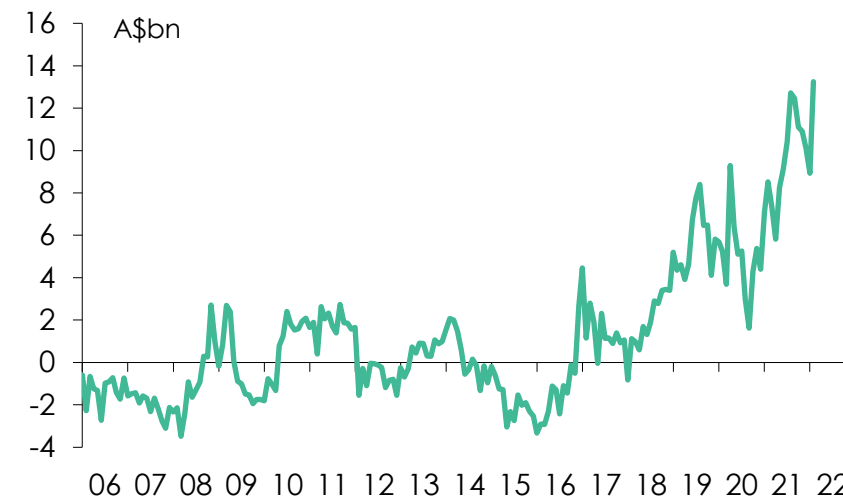
## Tourism-related services trade



## LNG and gold exports



## Merchandise trade balance



## Tourism services trade balance

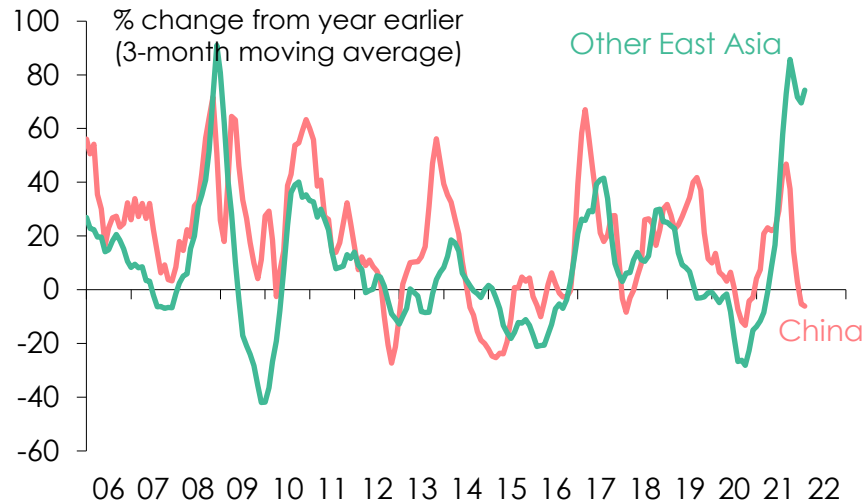


Source: ABS, [International Trade in Goods and Services, Australia](#), January 2021. February data will be released on 7<sup>th</sup> April. [Return to "What's New"](#).

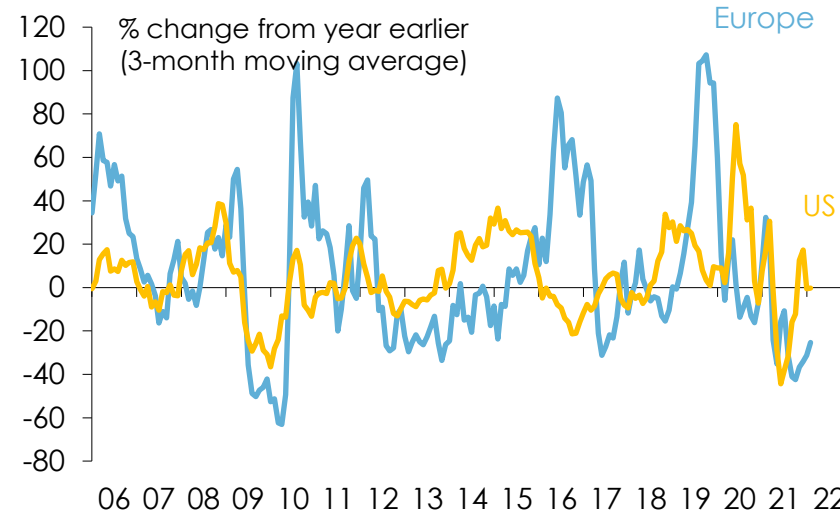
# Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

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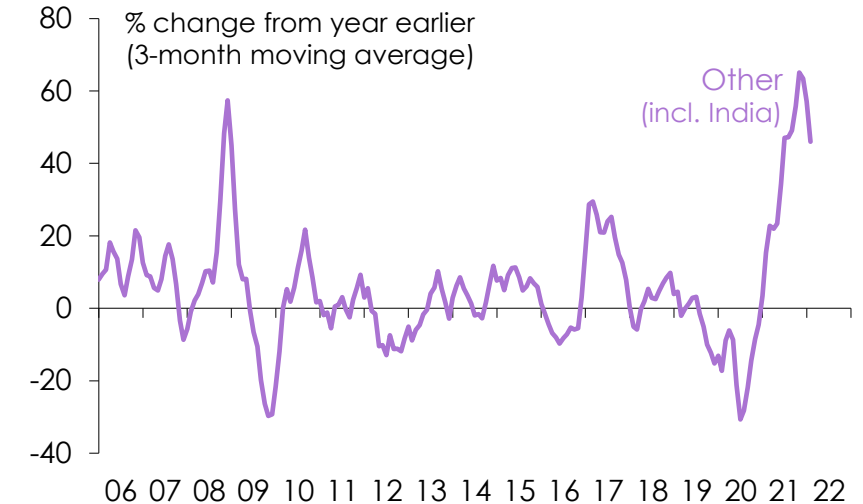
## Merchandise exports – East Asia



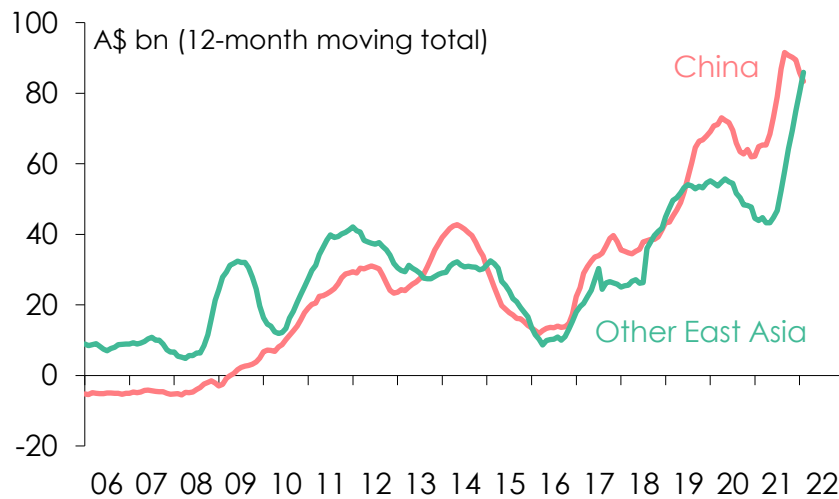
## Merchandise exports – US & Europe



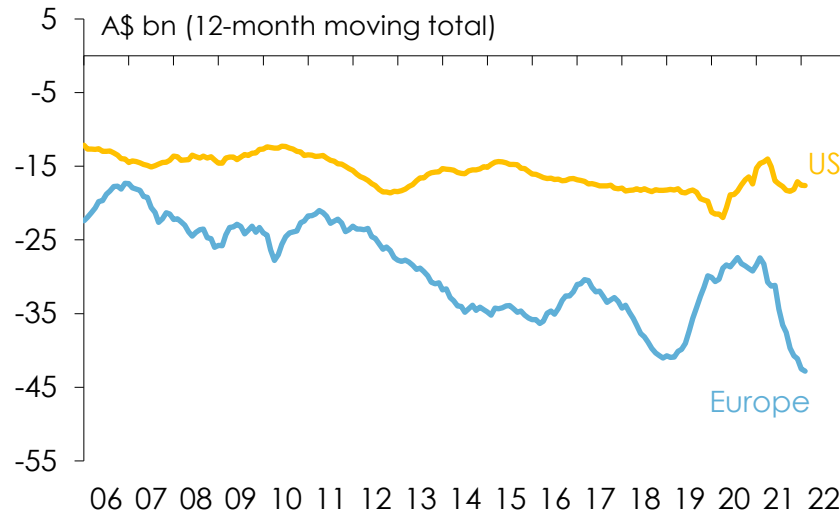
## Merchandise exports – other



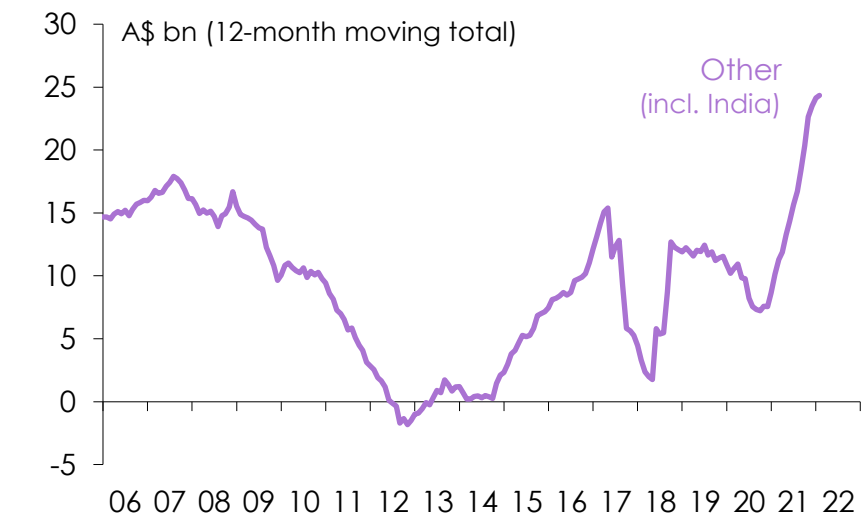
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other



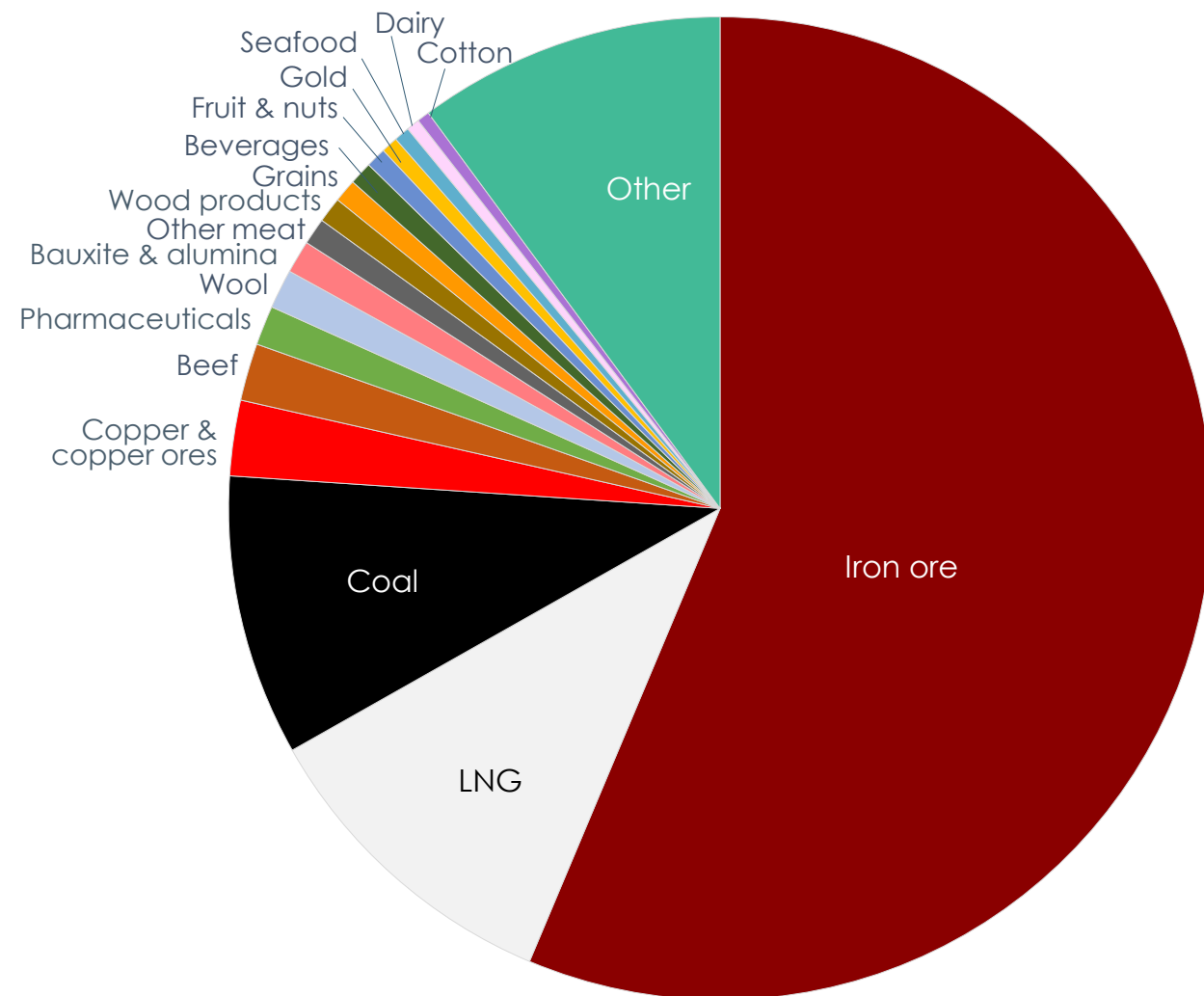
Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS, [International Trade in Goods and Services, Australia](#), January 2021. February data will be released on 7<sup>th</sup> April. [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 last 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.

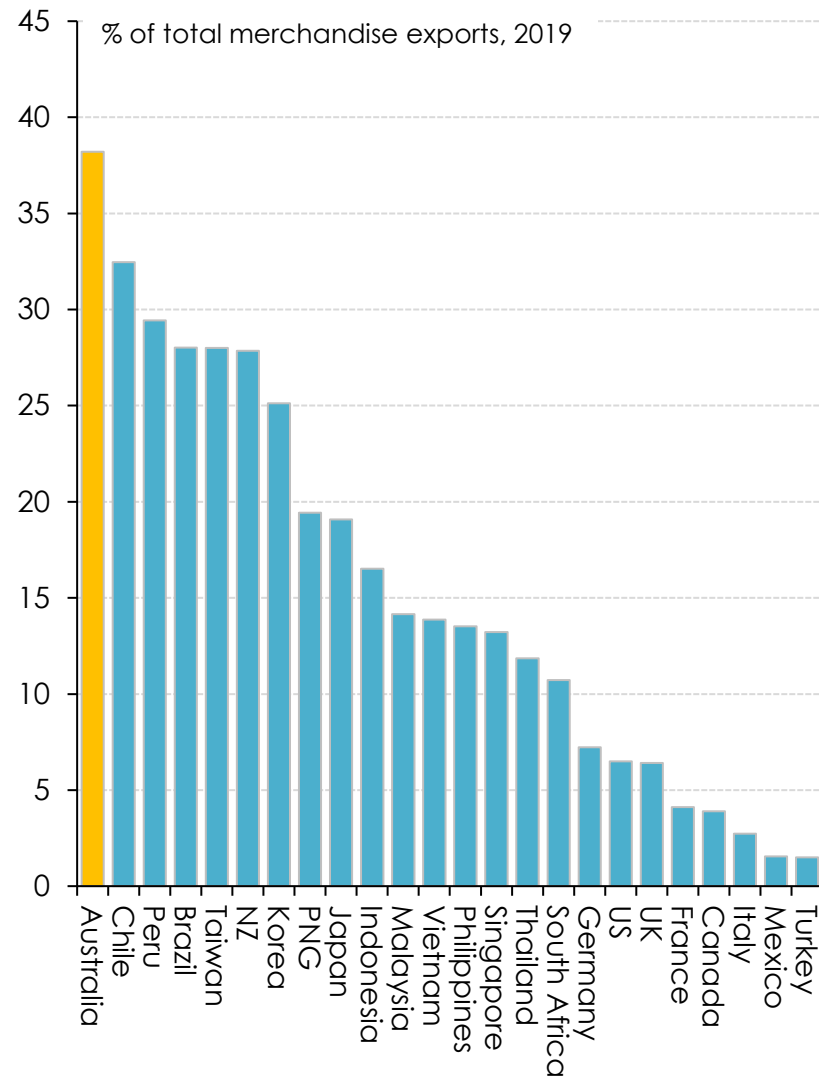
Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna. [Return to "What's New"](#).



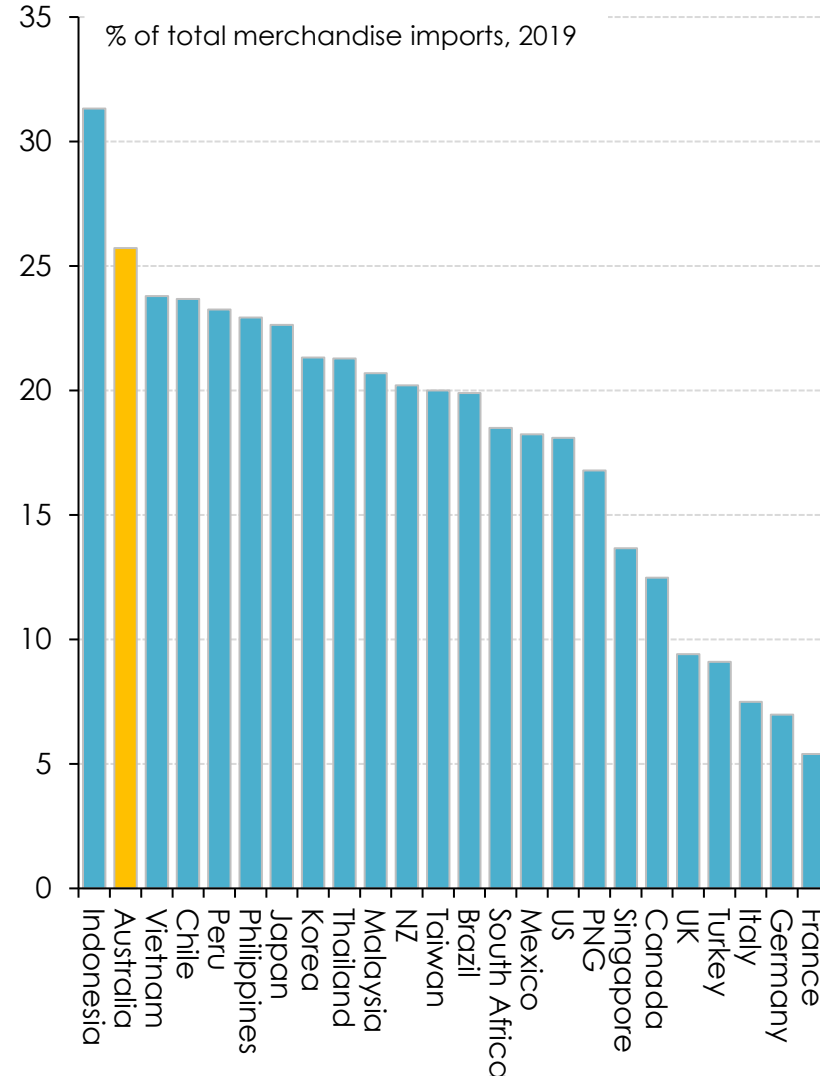
# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

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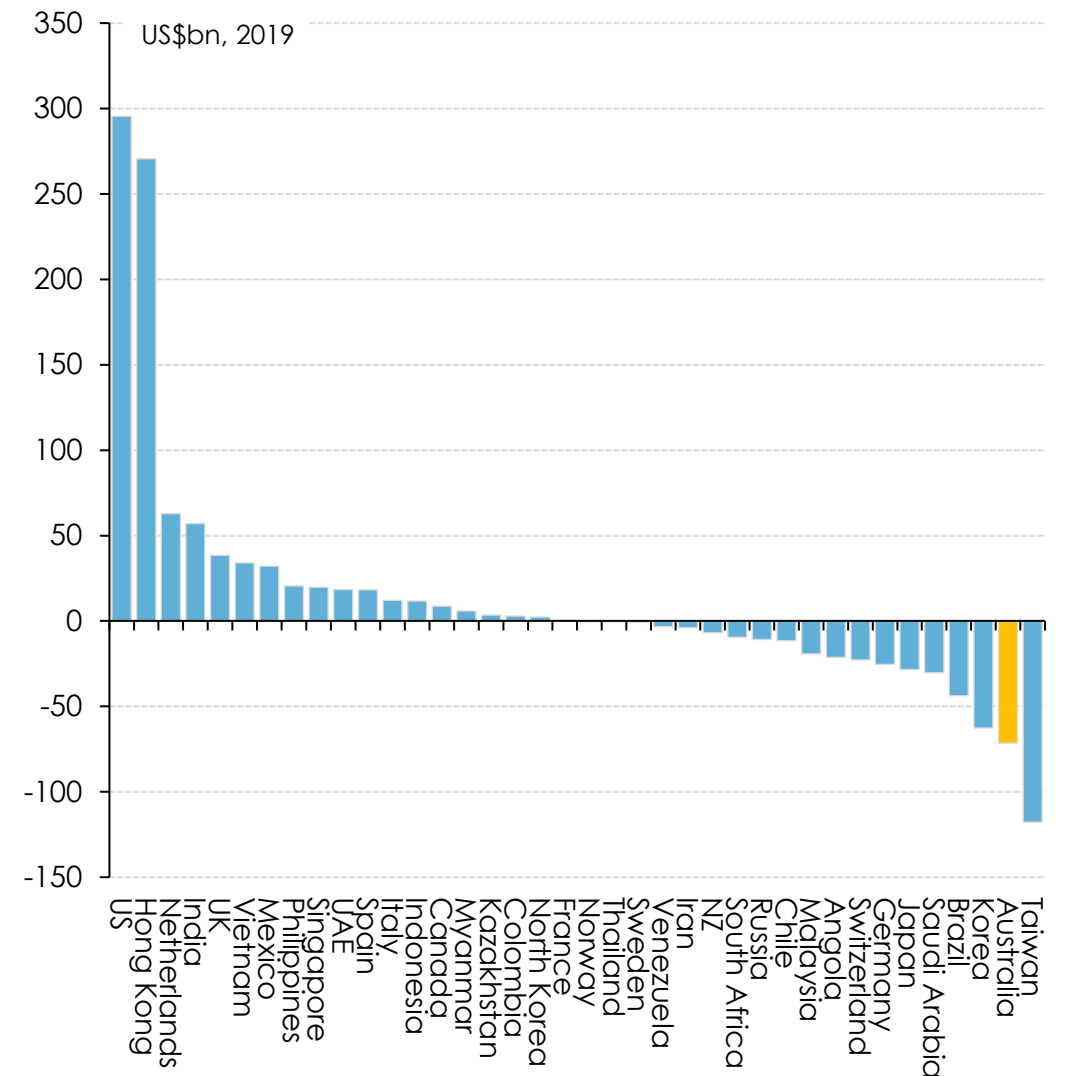
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



## China's bilateral merchandise trade balances

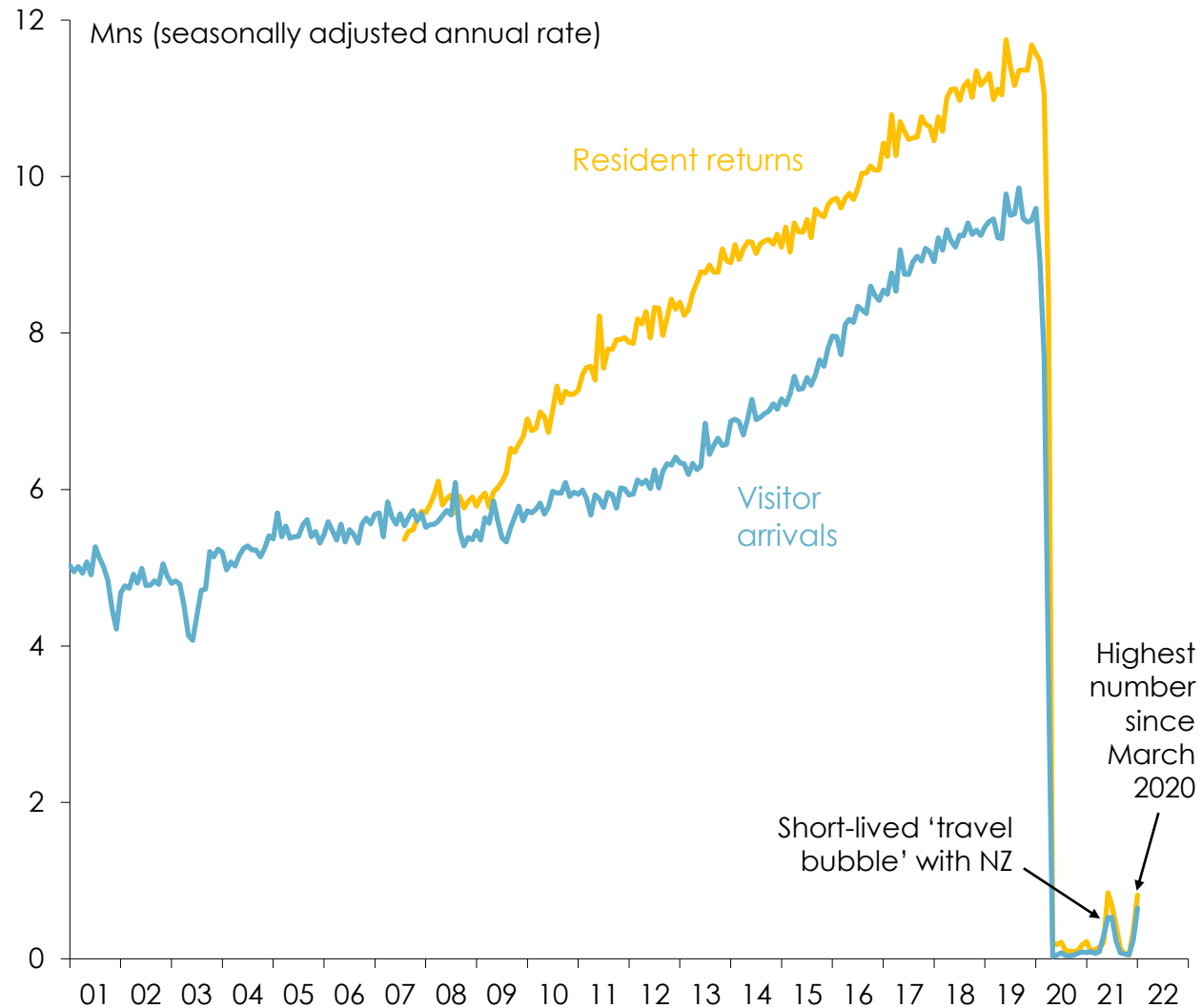


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

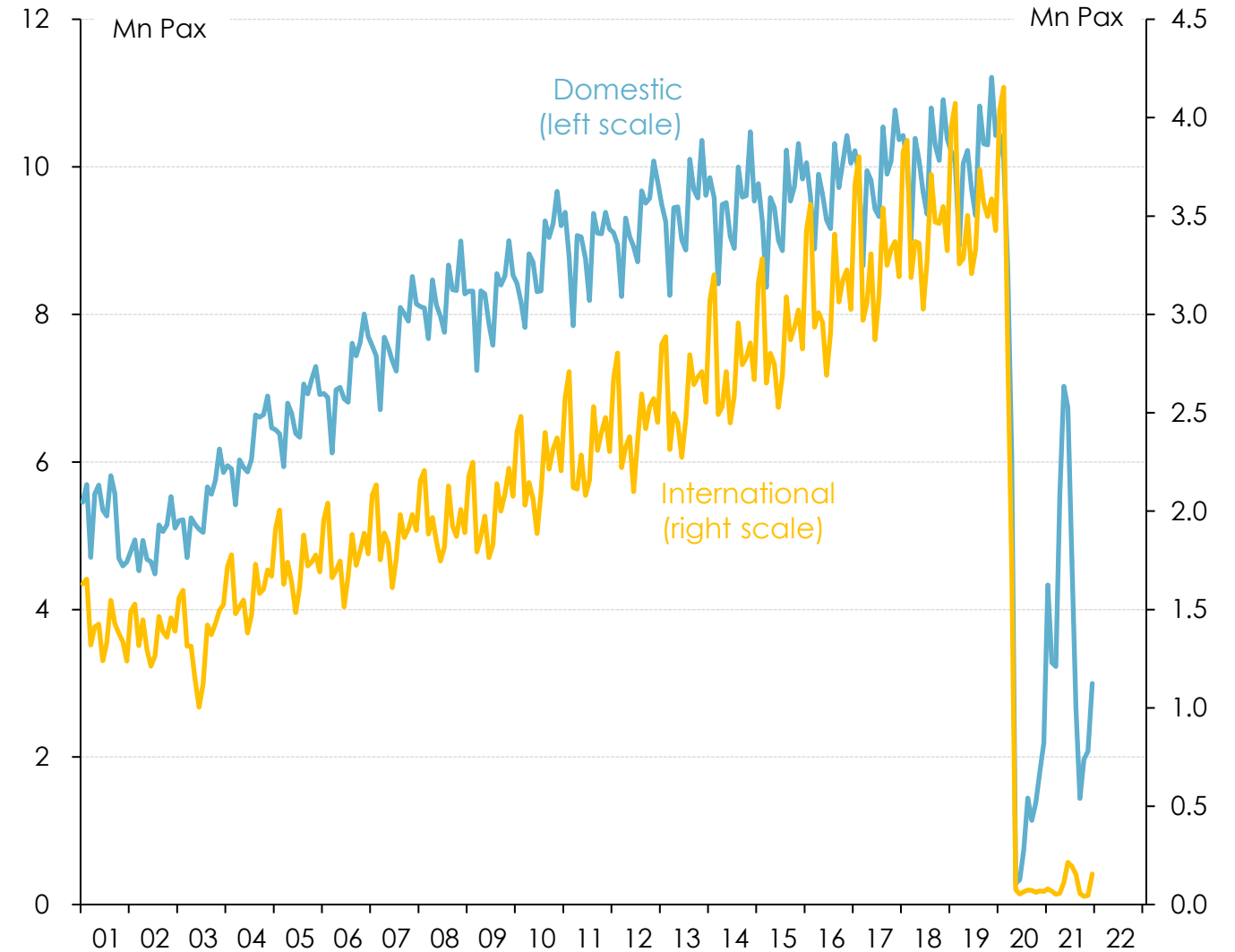
# The re-opening of Australia's international borders this Monday, 21<sup>st</sup> February, should see a faster pick up in arrivals and aviation traffic

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## Short-term visitor arrivals and resident returns



## Airport passenger movements

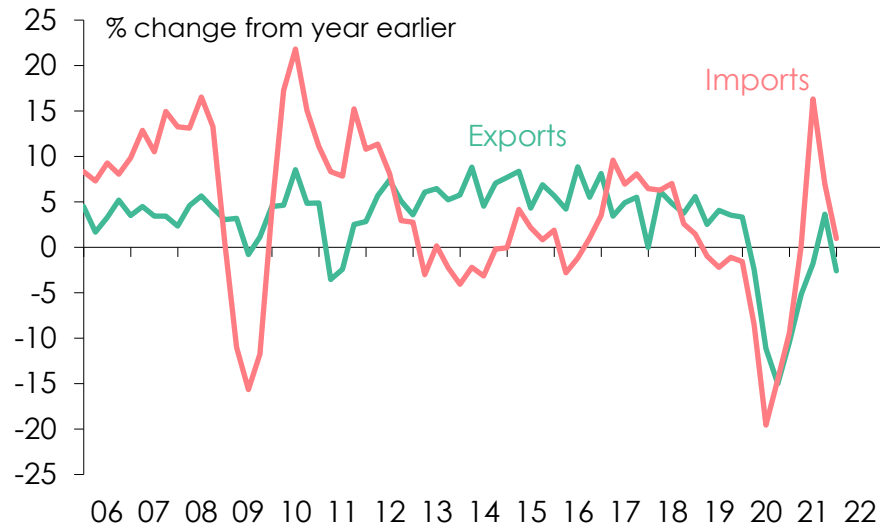


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest 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"](#).

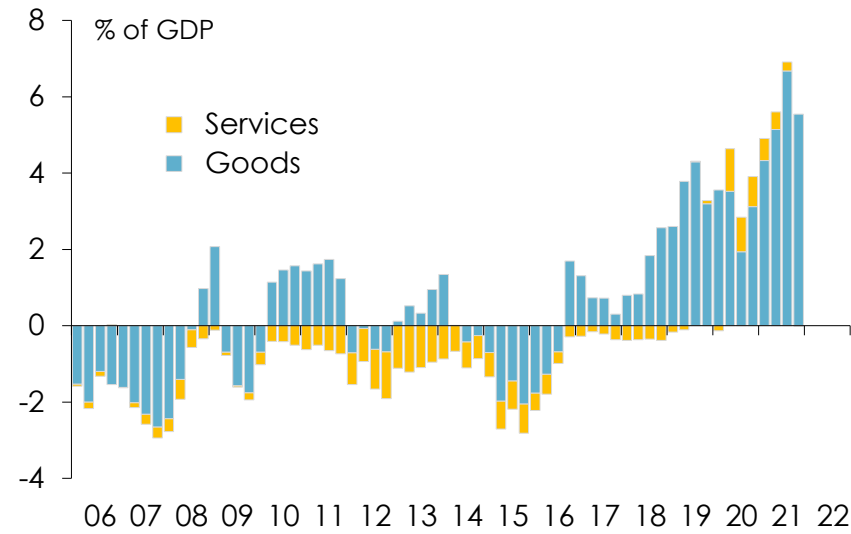
# Australia's current account surplus shrank by nearly half in Q4 last year, with the trade surplus declining and the income deficit increasing

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

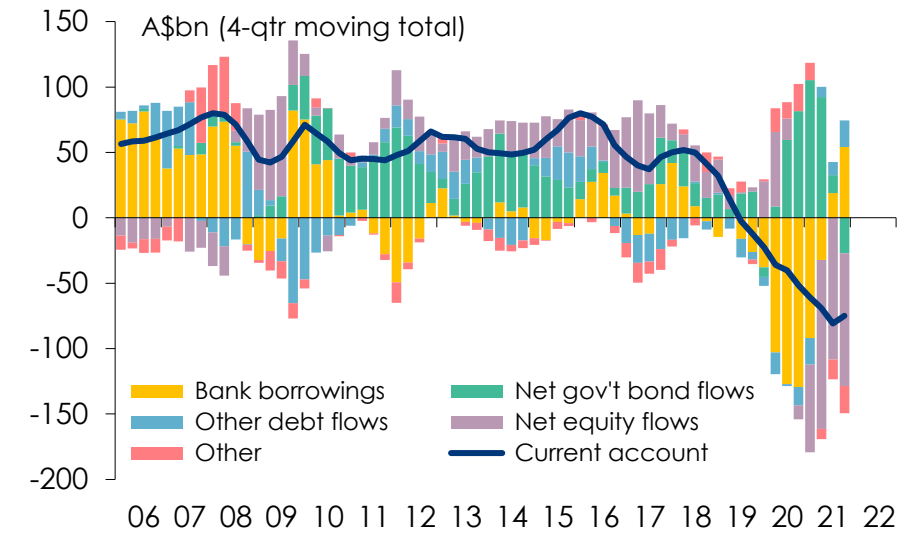
## Export and import volumes



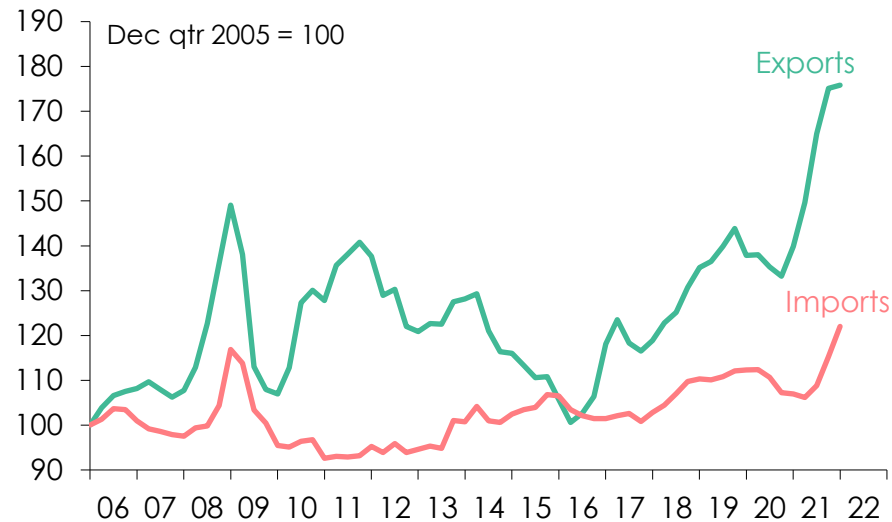
## Goods & services trade balances



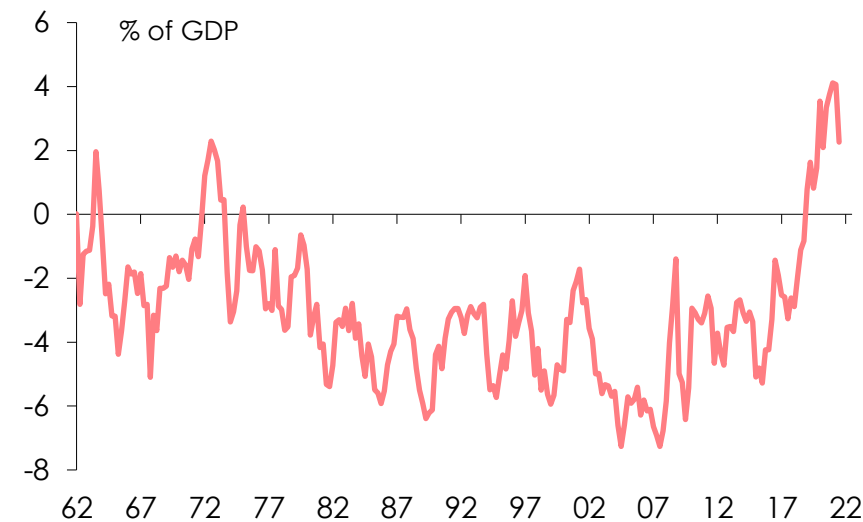
## Capital flows



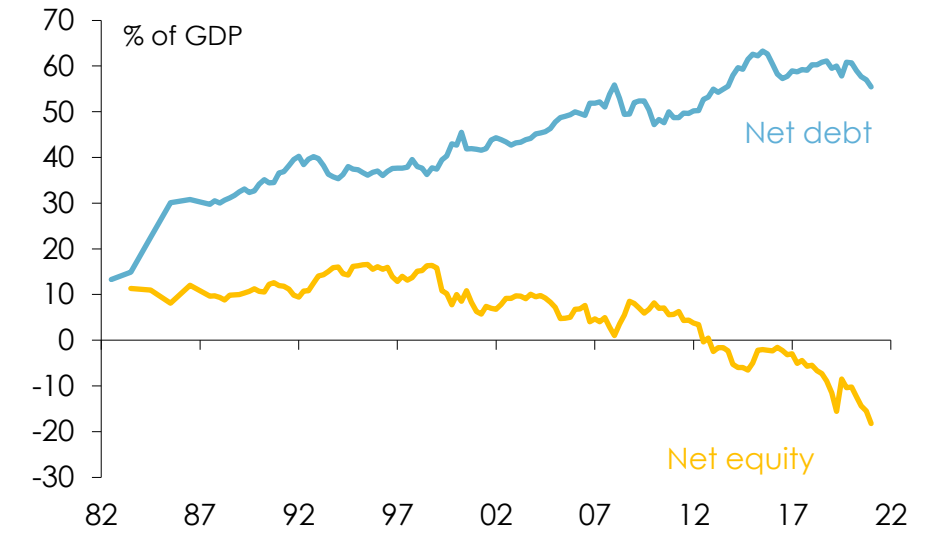
## Export and import prices



## Current account balance



## Net international investment position



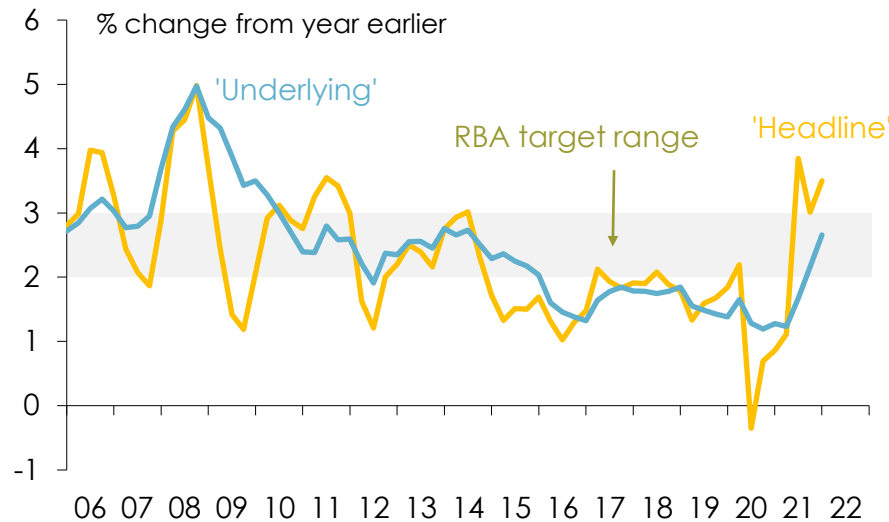
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a positive and net equity assets as a negative. Latest data are for the December quarter 2021; March quarter data will be released on 31<sup>st</sup> May. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

**Inflation**

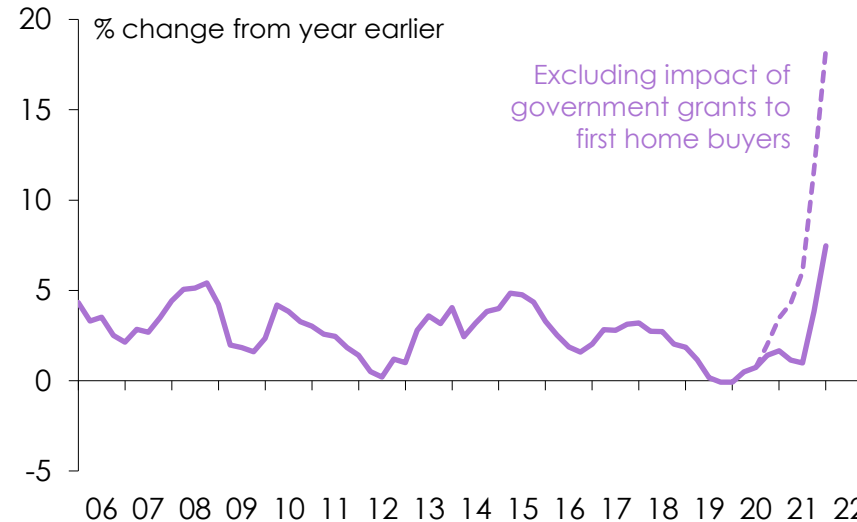
# The December quarter CPI was unequivocally higher than expected, and puts some pressure on the RBA to start raising rates this year

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

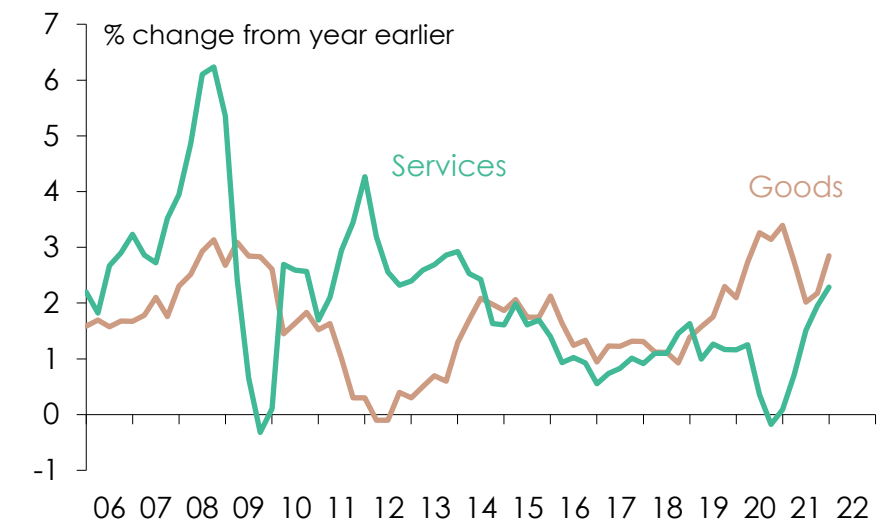
## Consumer prices – annual change



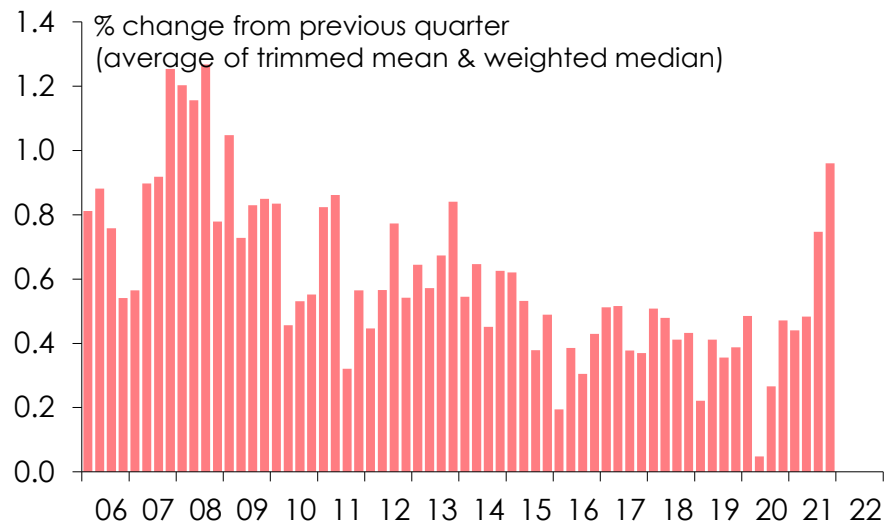
## New dwelling purchase costs



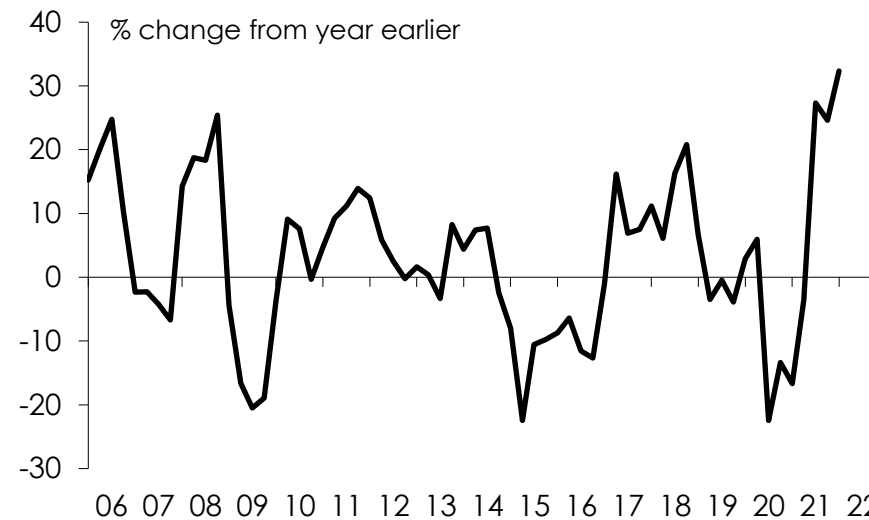
## 'Market' goods vs services



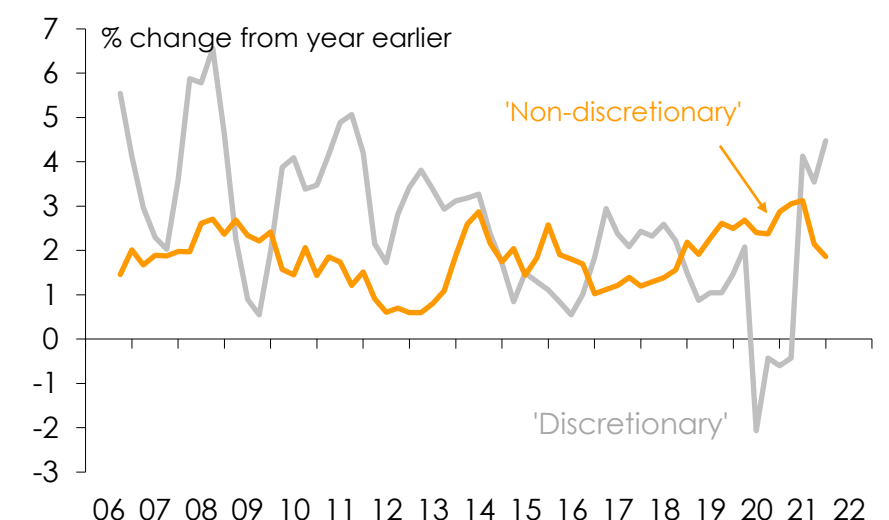
## Quarterly 'underlying' inflation



## Automotive fuel prices



## 'Discretionary' vs 'essential' items

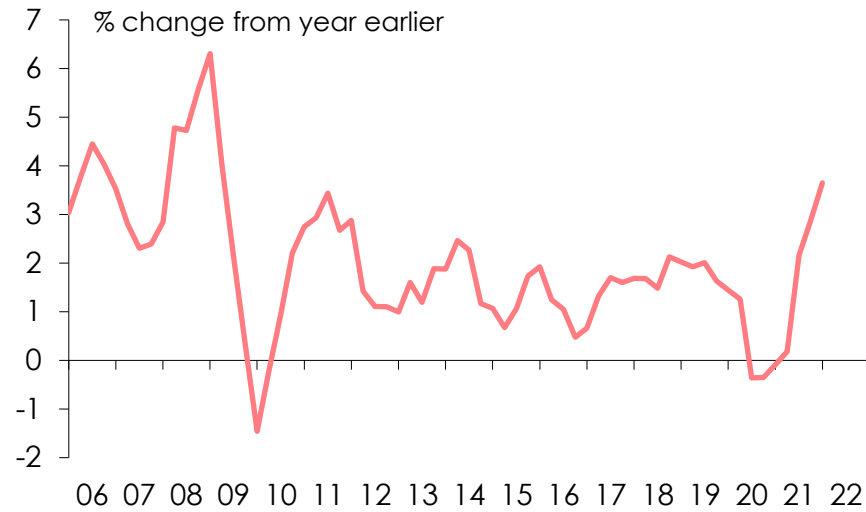


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. 'Market' goods and services exclude 'volatile items' (fruit & vegetables, utilities, property rates & charges, automotive fuel, urban transport services, postal services, child care, health, and education). For 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"](#).

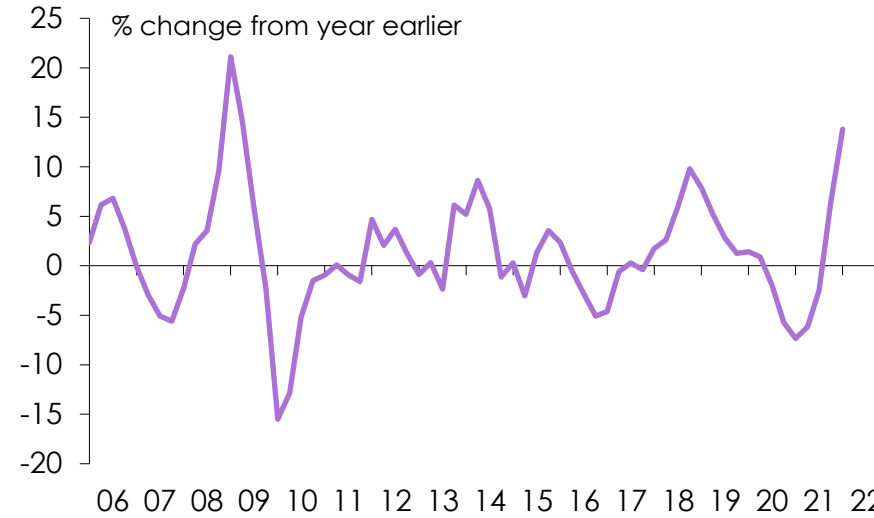
# Domestic 'upstream' price pressures haven't been as intense as in other 'advanced' economies, except in the construction sector

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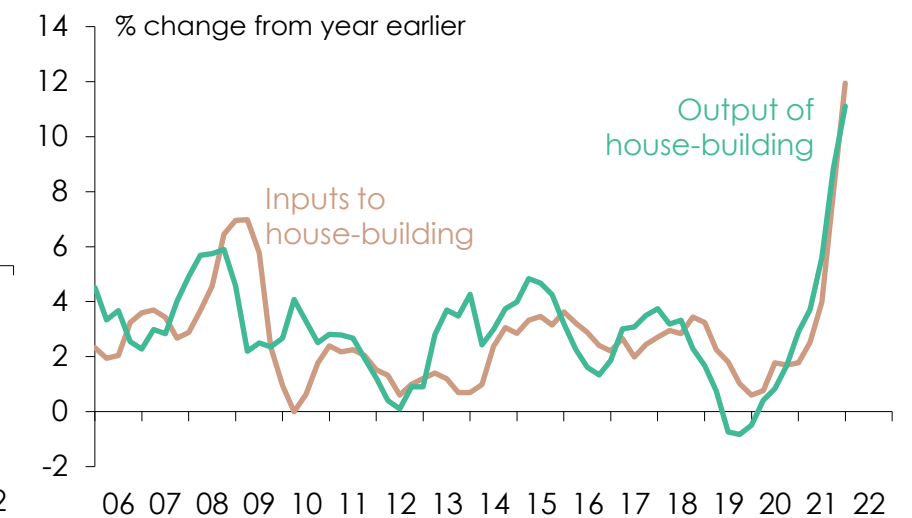
## Producer price index



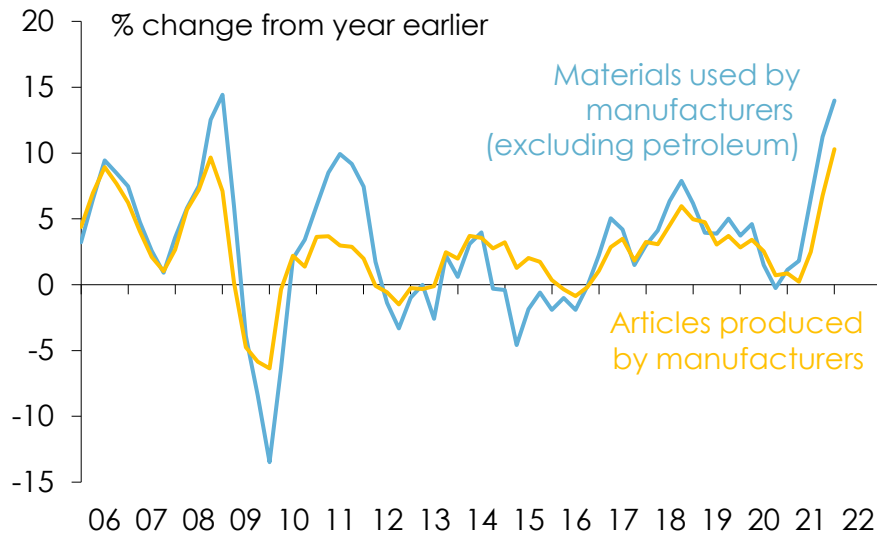
## Import price index



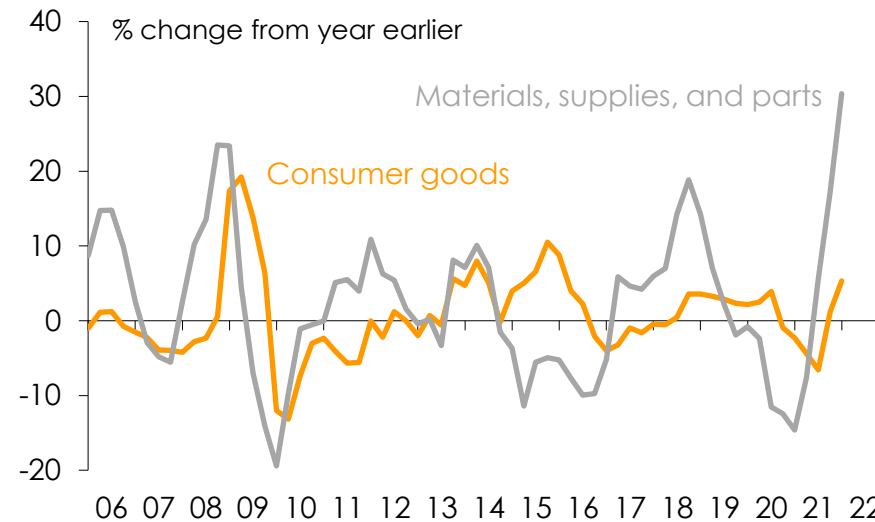
## Construction input & output prices



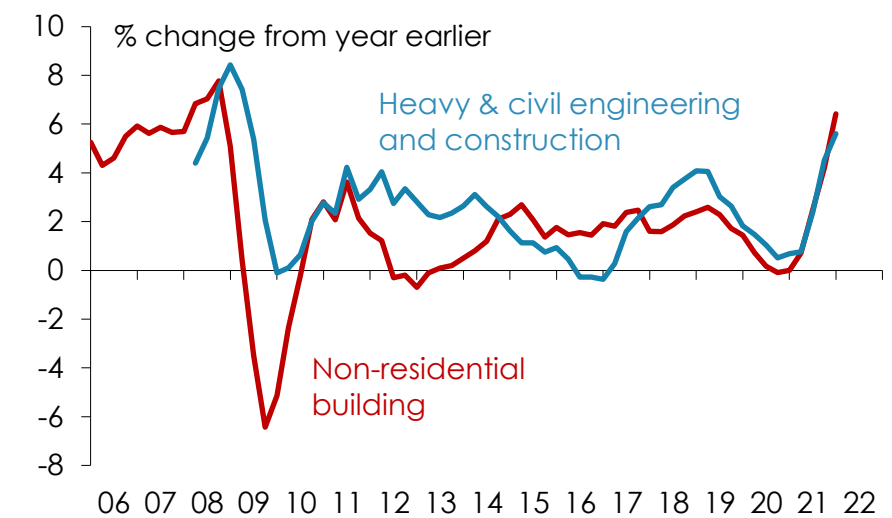
## Manufacturing input & output prices



## Imported consumer goods prices



## Non-residential construction prices



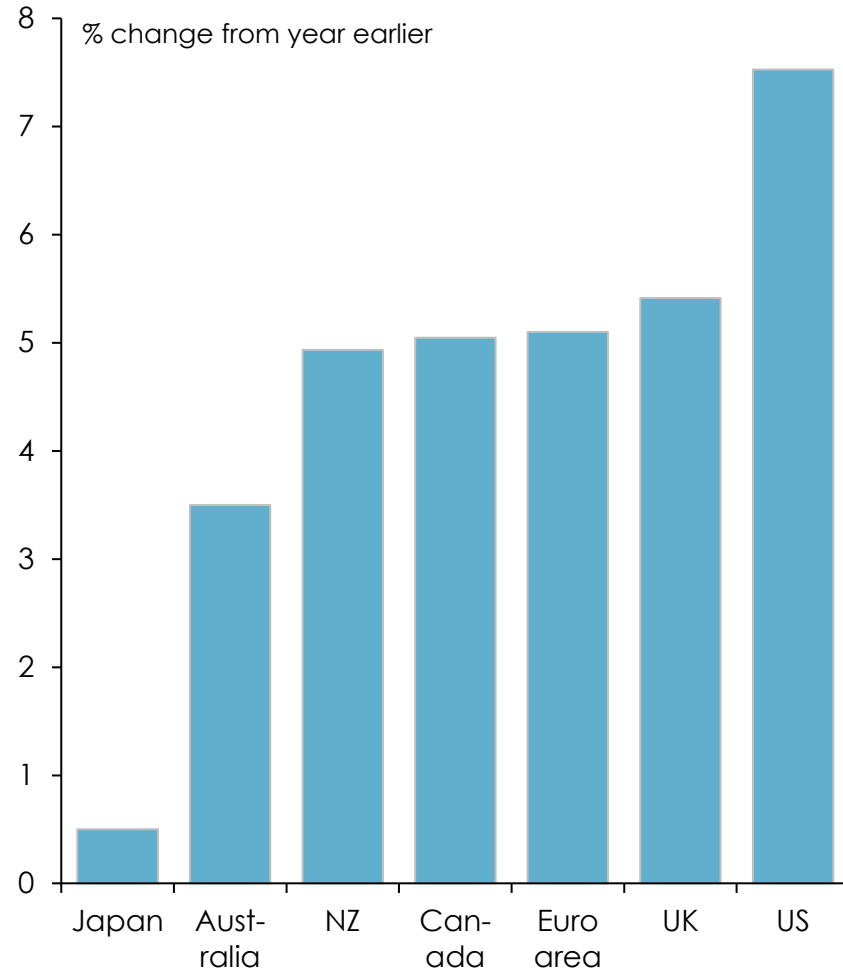
Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), December quarter 2021.

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

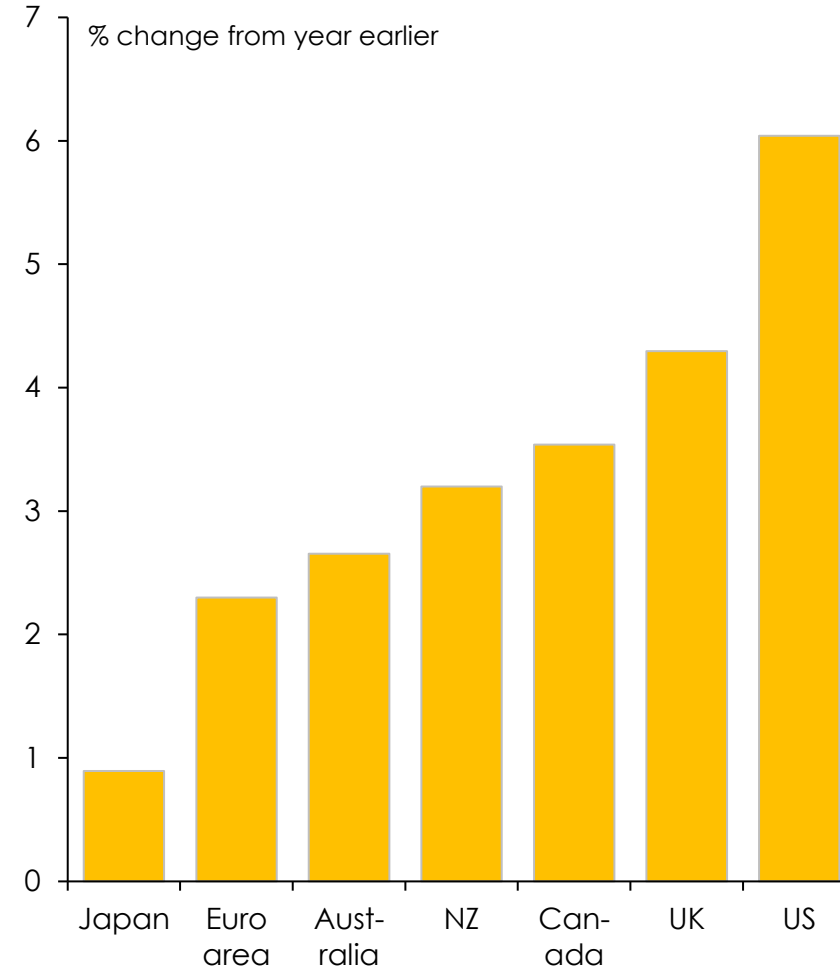
# Although it has surprised to the upside, inflation in Australia hasn't risen nearly as much as in the US, the UK, Canada or New Zealand

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

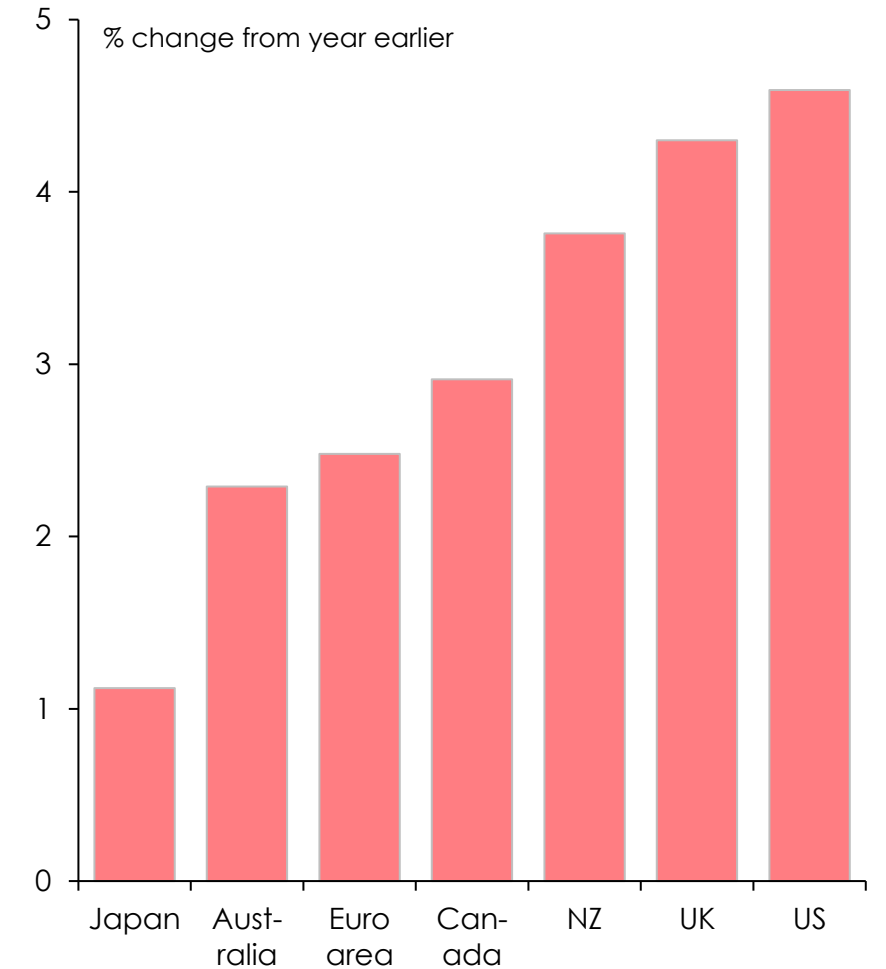
## 'Headline' consumer price inflation



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



## Wage inflation



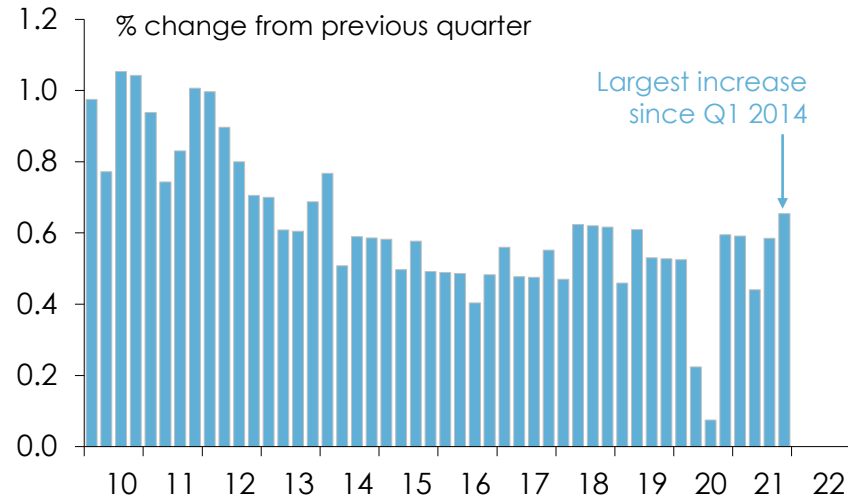
Note: Data are latest available, mostly January or December quarter for CPI inflation, and December or December quarter for wage inflation. 'Core' inflation is CPI excluding food & energy for the US, UK and Canada; trimmed mean for Japan and Australia; and 'sectoral factor model' for NZ. Wage inflation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

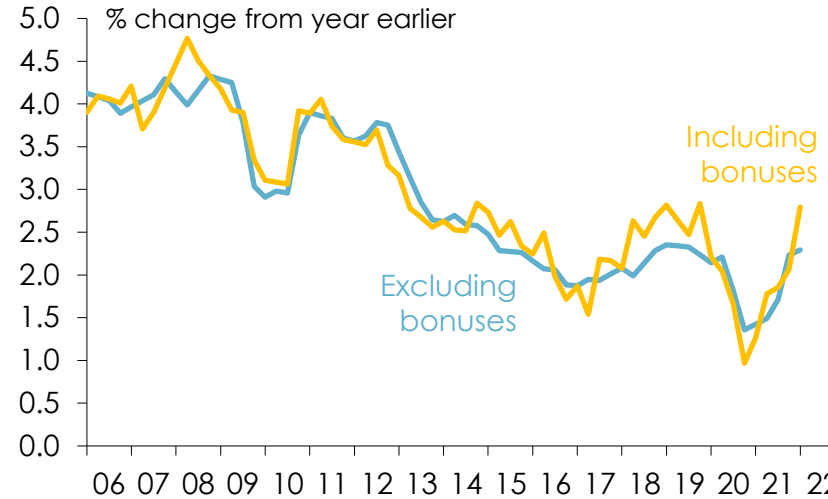
# Wages growth ticked up marginally in the final quarter of 2021 but is yet to break out of the sub-2½% range it's been in since the start of 2015

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

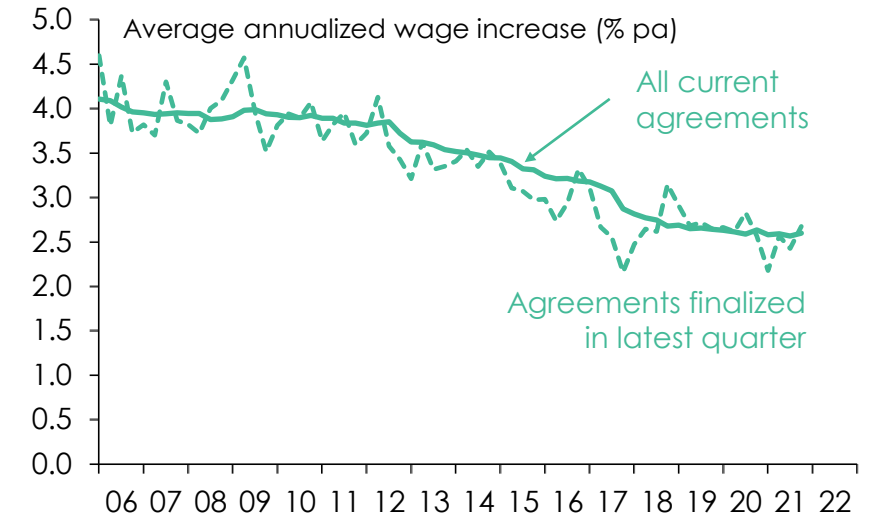
## Wage price index excluding bonuses



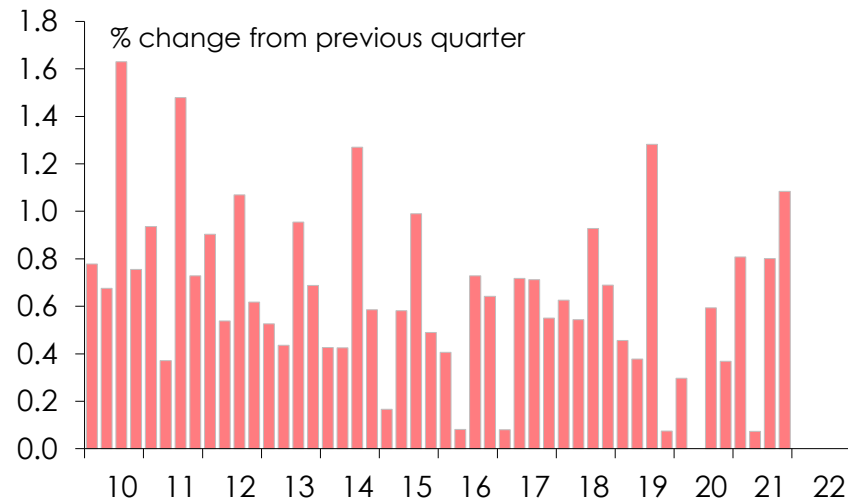
## Wage price index – all sectors



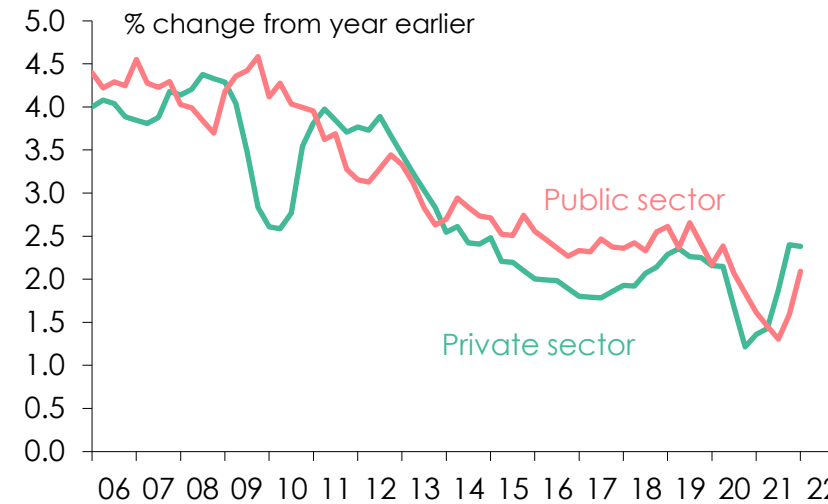
## Enterprise bargaining agreements



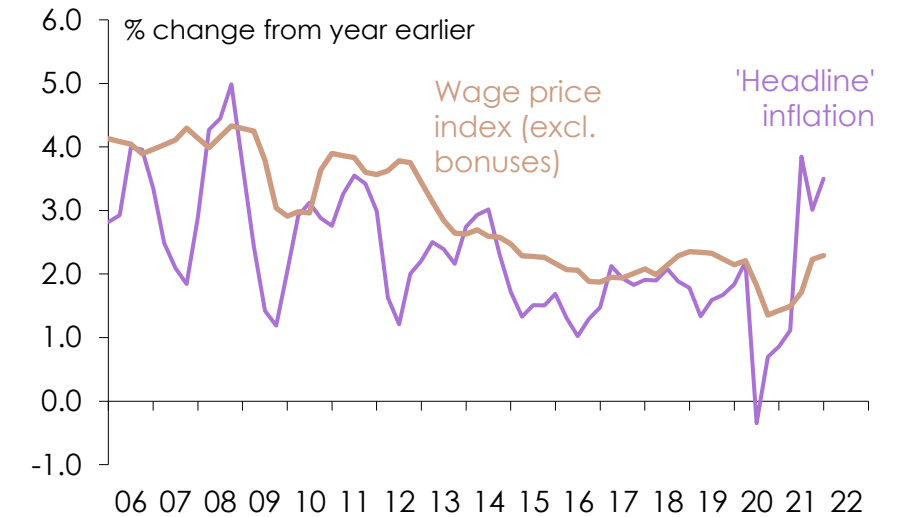
## Wage price index including bonuses



## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation



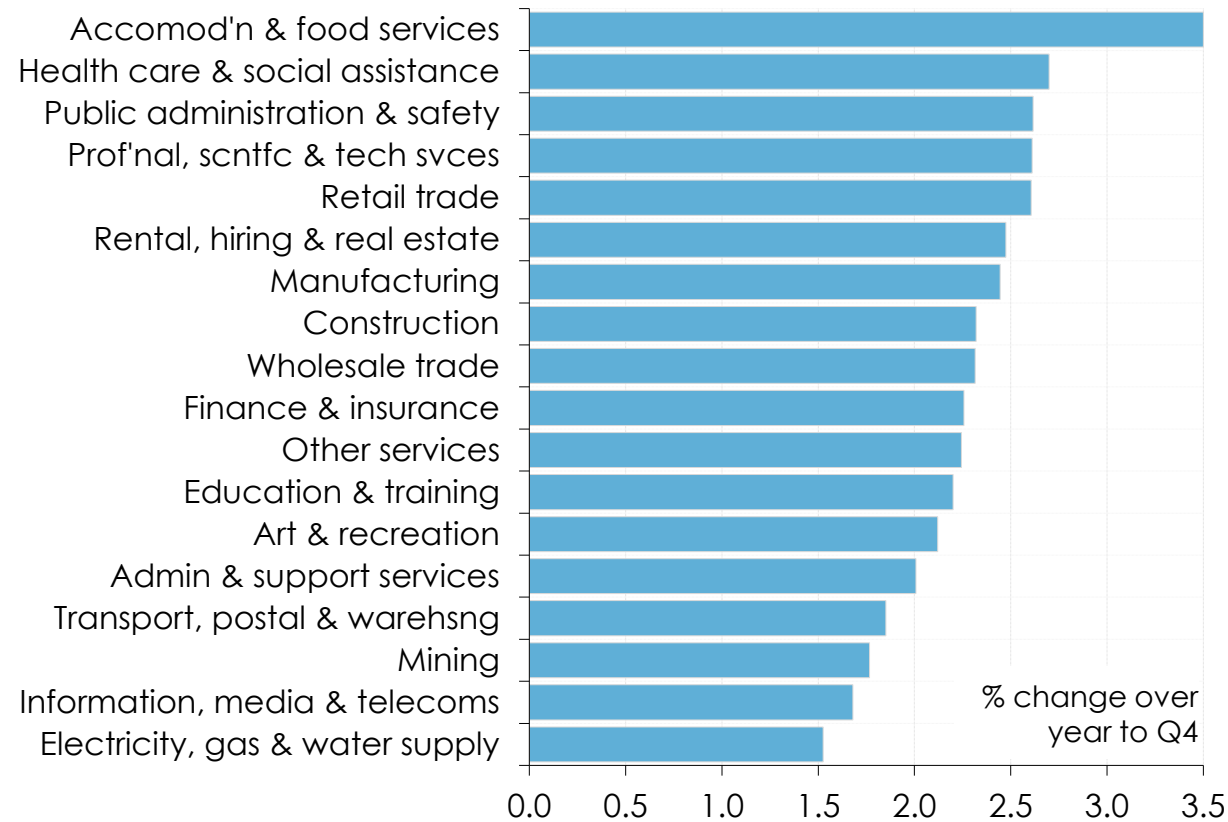
Sources: ABS, [Wage Price Index, Australia](#) Attorney-General's Department, [Trends in Federal Enterprise Bargaining](#); September quarter 2021; March quarter WPI data will be released on 18<sup>th</sup> May. [Return to "What's New"](#).



# 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

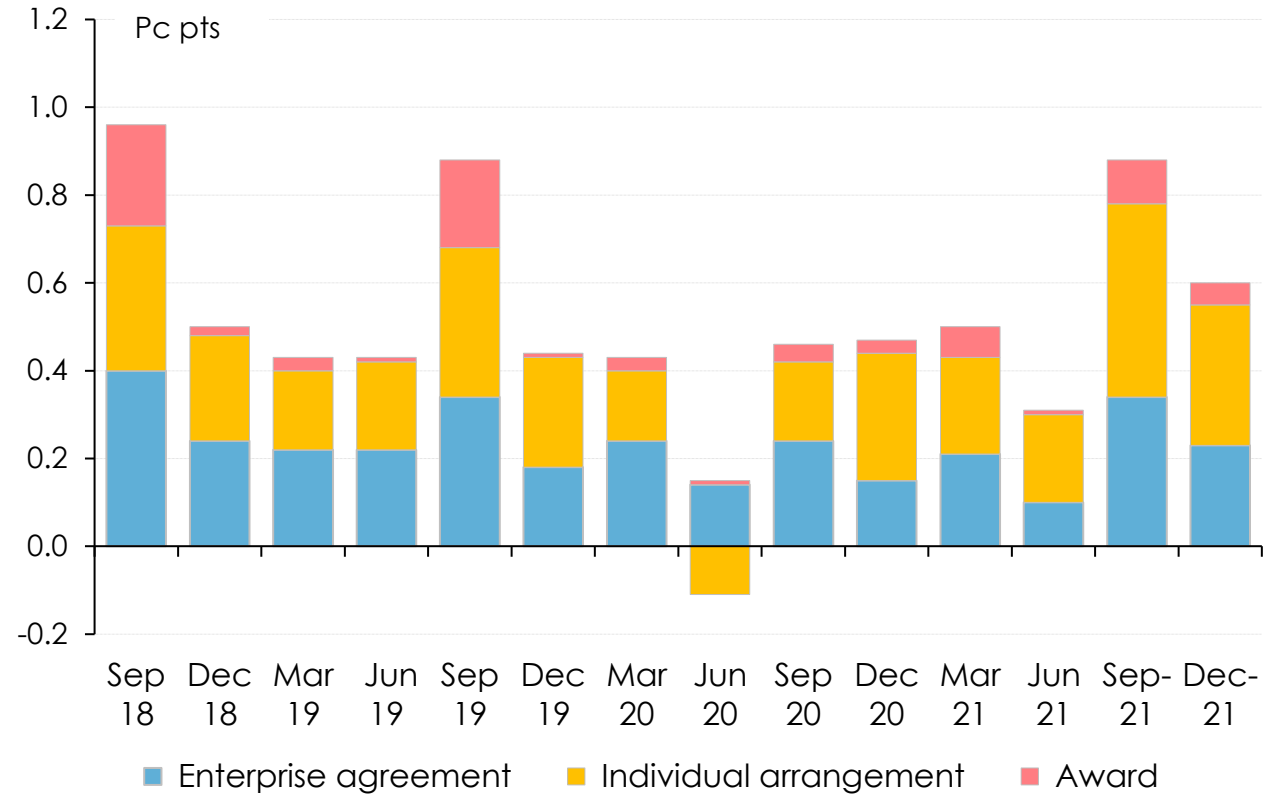
THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## 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

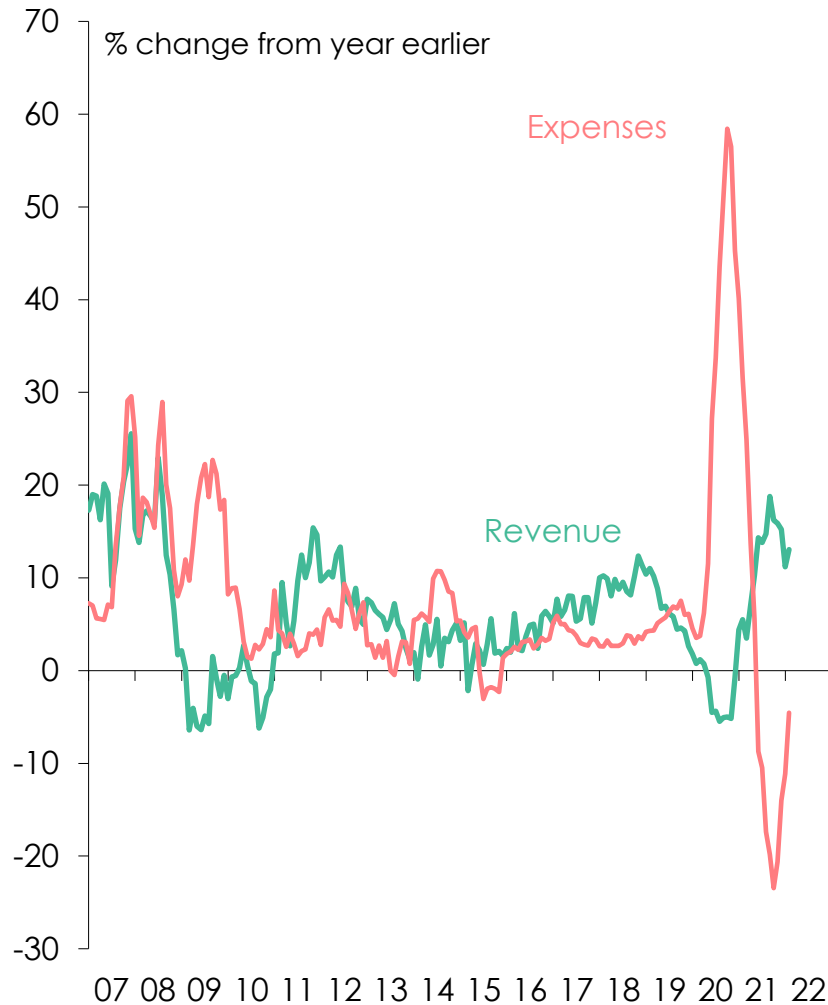
Sources: ABS, [Wage Price Index, Australia](#), December 2021; March quarter WPI data will be released on 18<sup>th</sup> May. [Return to "What's New"](#).

# 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 – 4<sup>TH</sup> MARCH 2022

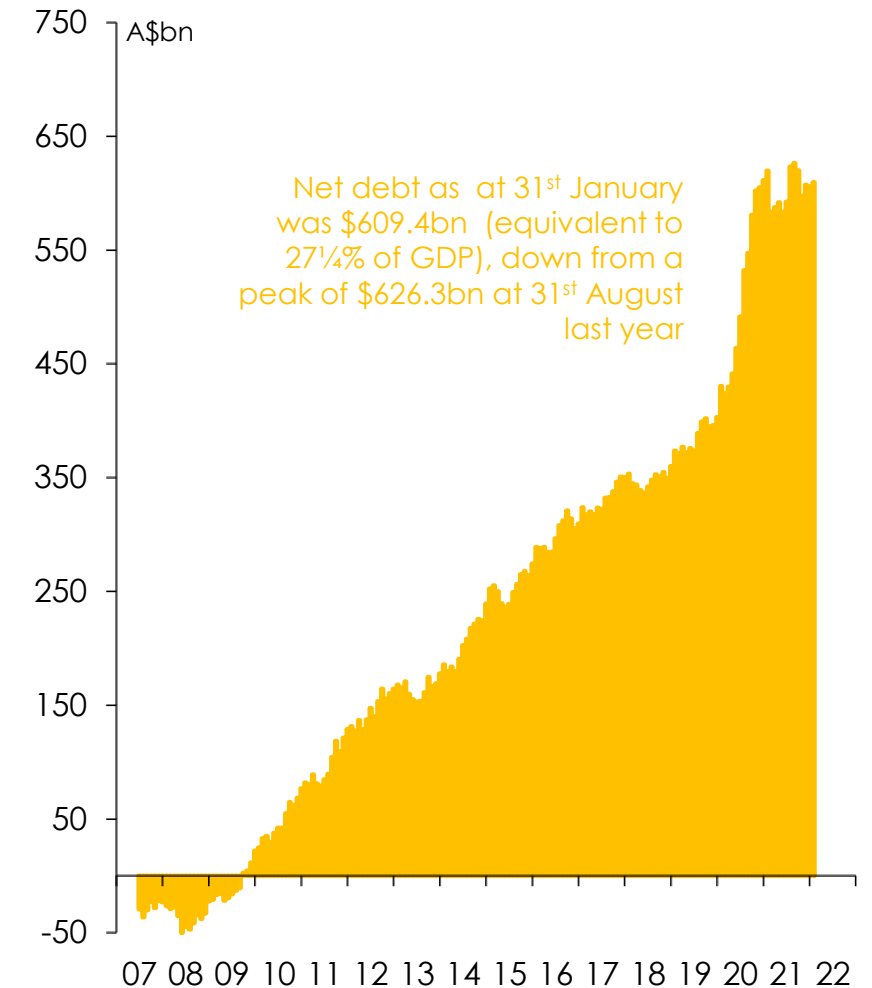
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt



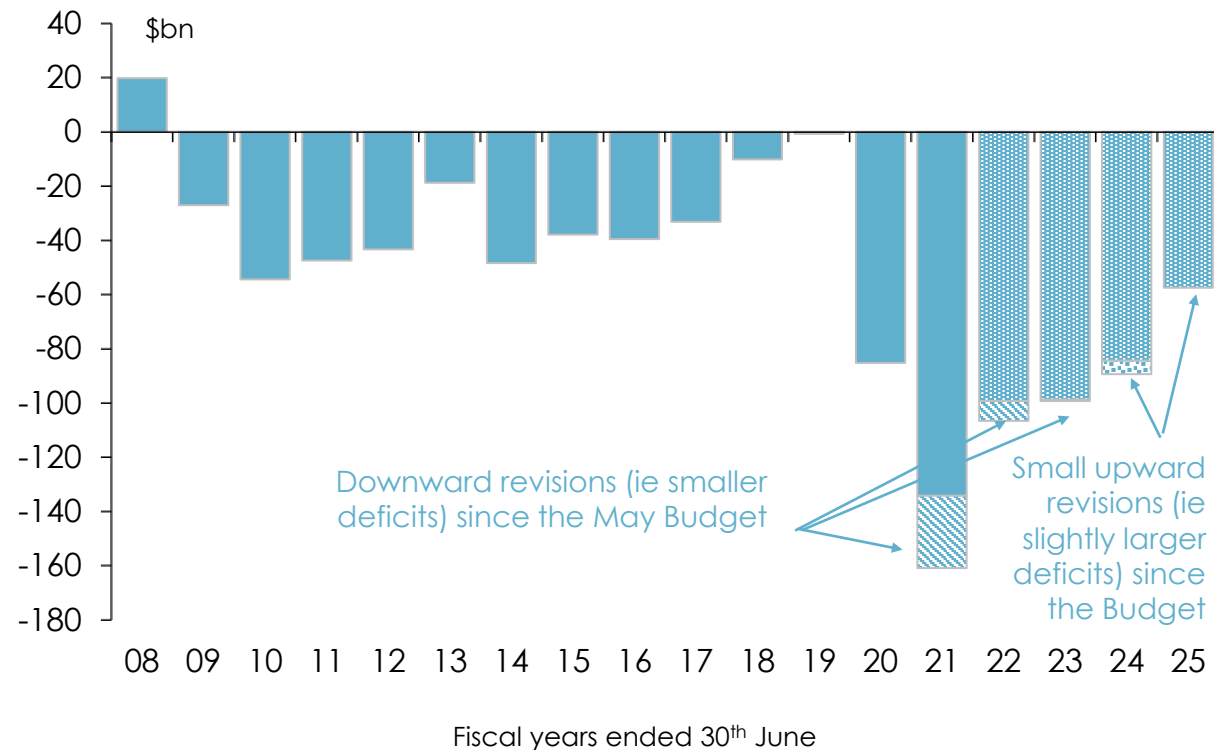
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

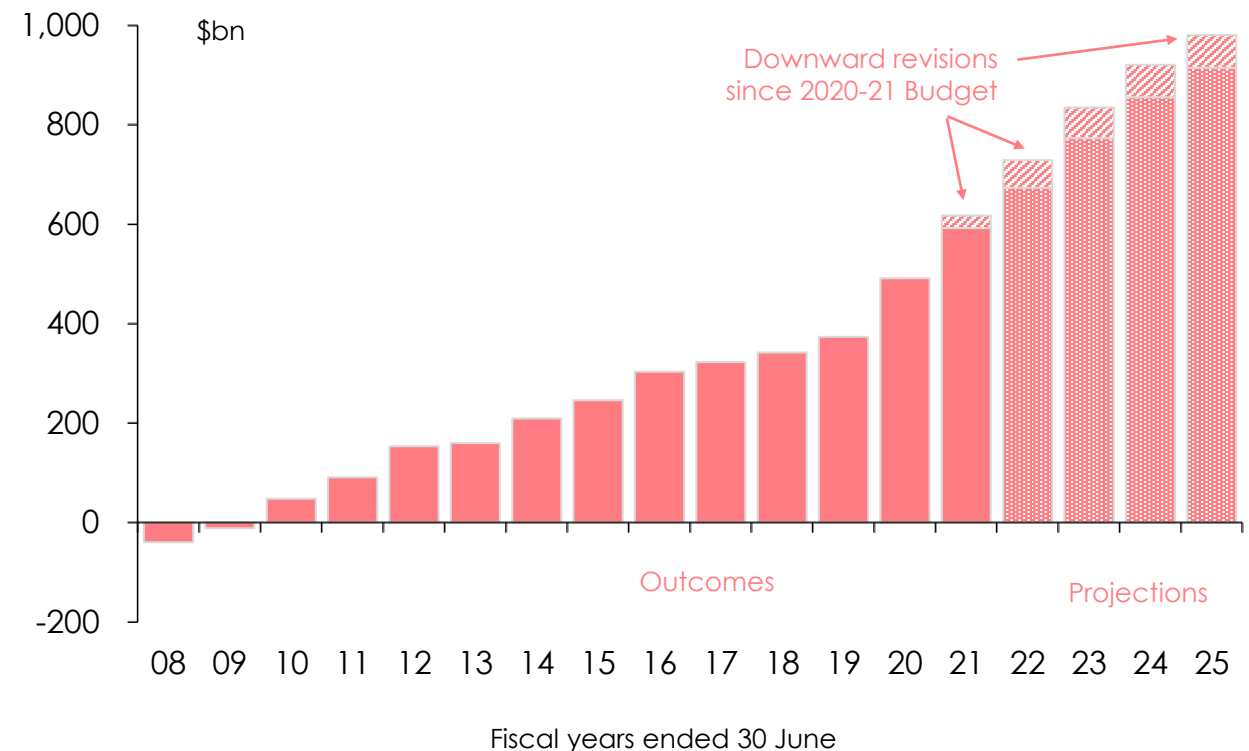
THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

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

### 'Underlying' cash balance



### Net debt



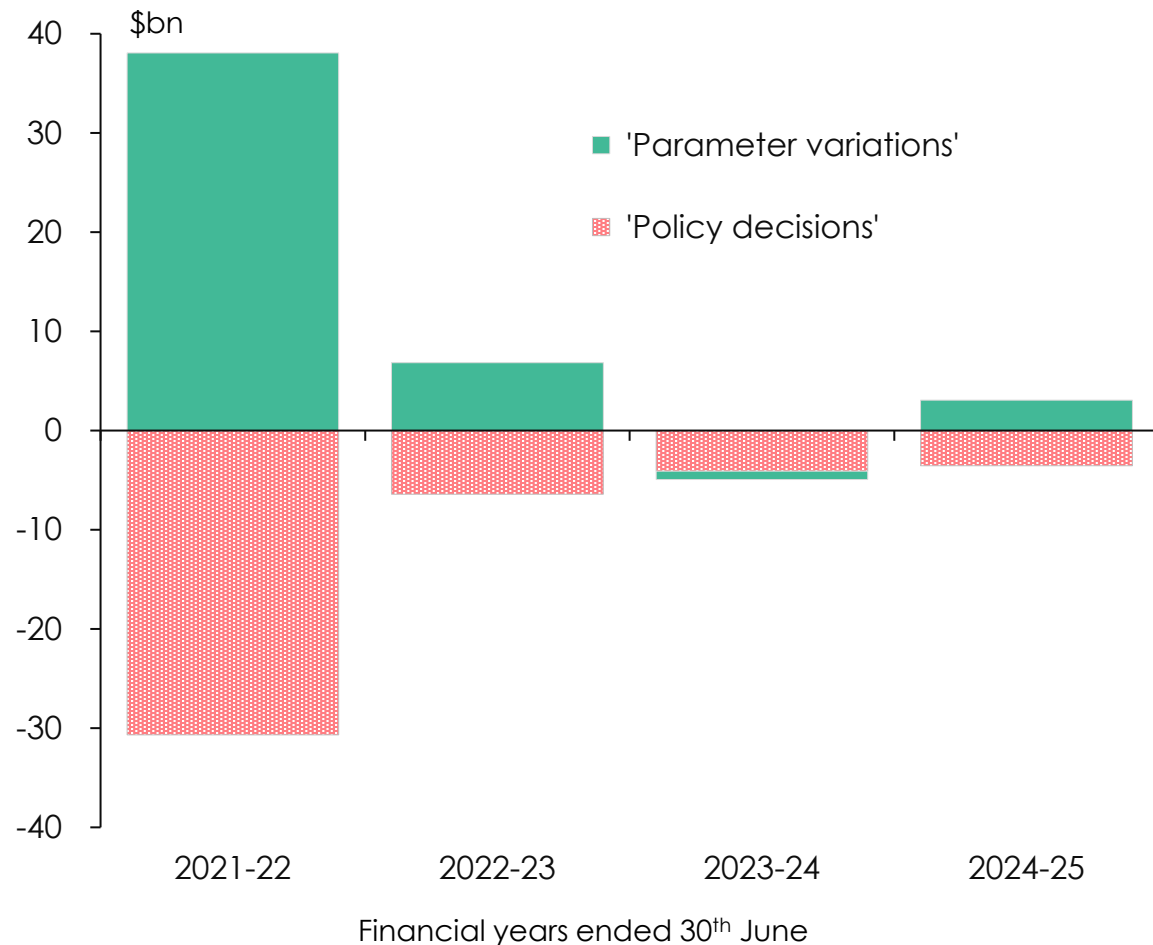
❑ The deficit for 2020-21 of \$134.2bn (6.5% of GDP) was \$27bn less than had been forecast in the May Budget – the deficits for 2021-22 and 2022-23 were revised down by \$7.4bn and \$0.4bn, respectively, while the deficits for 2023-24 and 2024-25 were revised up by \$5bn and \$0.5bn

❑ 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 – 4<sup>TH</sup> MARCH 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

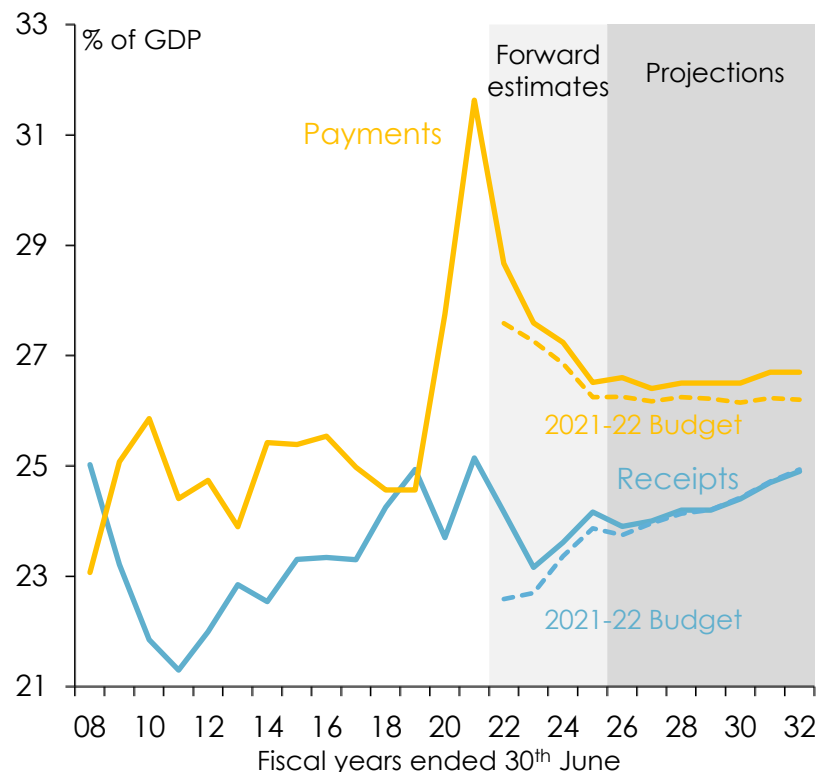
Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021. The 2022-23 Budget will be presented on 29<sup>th</sup> March. [Return to "What's New"](#).

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

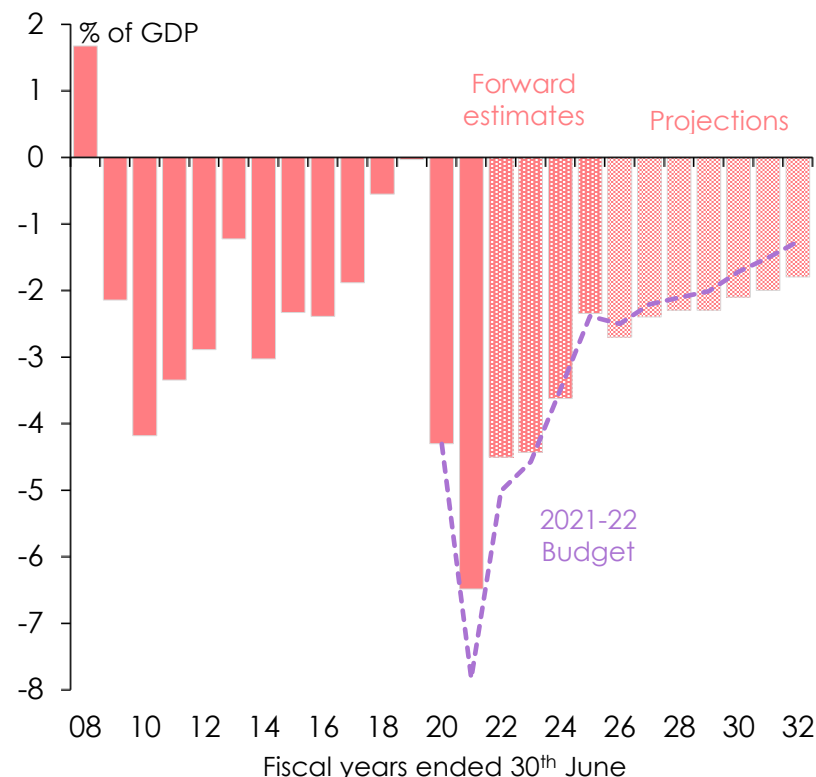
THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

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

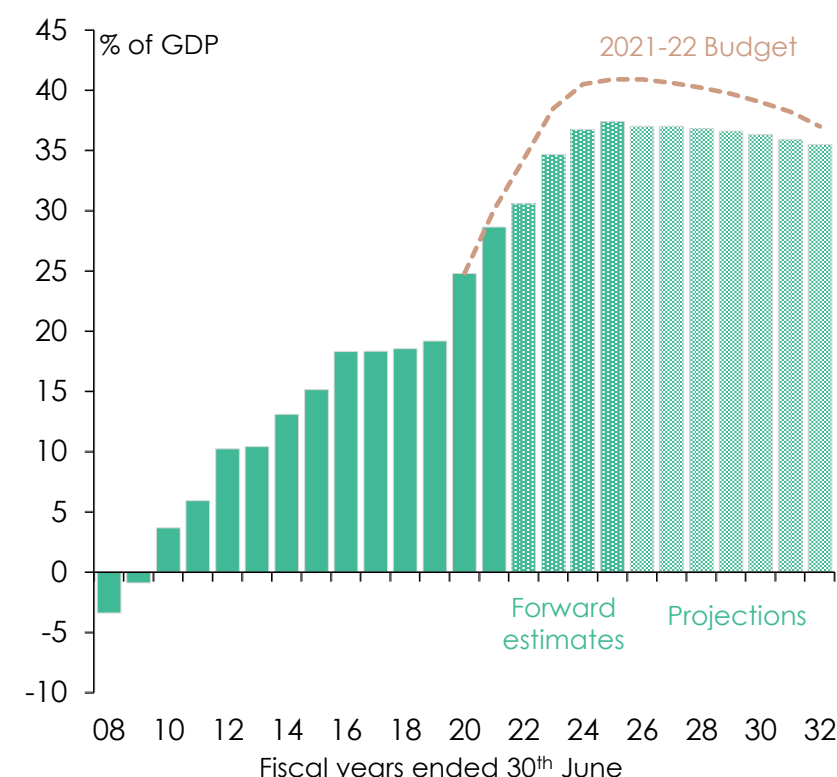
### Receipts & payments



### 'Underlying' cash deficit



### Net debt



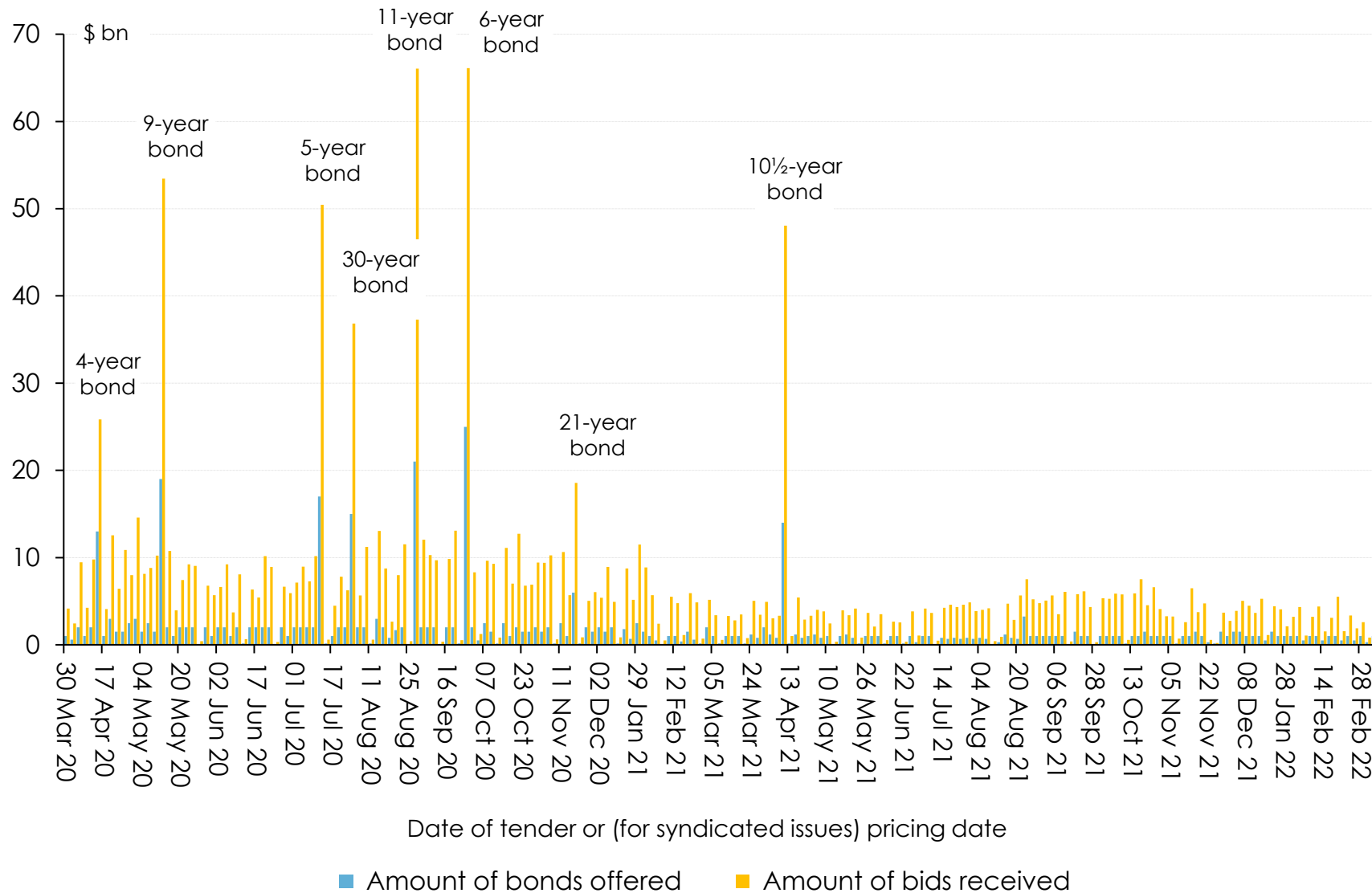
- ❑ MYEFO projects higher spending and revenues over the medium term than in the May Budget (and in the case of spending, significantly higher than in the pre-Covid era) – leading to persistent budget deficits (higher over the medium term than projected in the May Budget) – unless the quite arbitrary 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 \$61bn for \$17¼bn of bonds

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## 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 \$17¼bn of bonds – including this week \$1bn of Nov 2025s, \$1bn of Jun 2031s, and \$300mn of Jun 2051s, for which it received bids totalling \$6.6bn (including \$845mn for the 30-year bonds)
- ❑ So far this financial year, the AOFM has received bids totalling over \$270bn for the \$65.7bn 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 almost \$361½bn 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

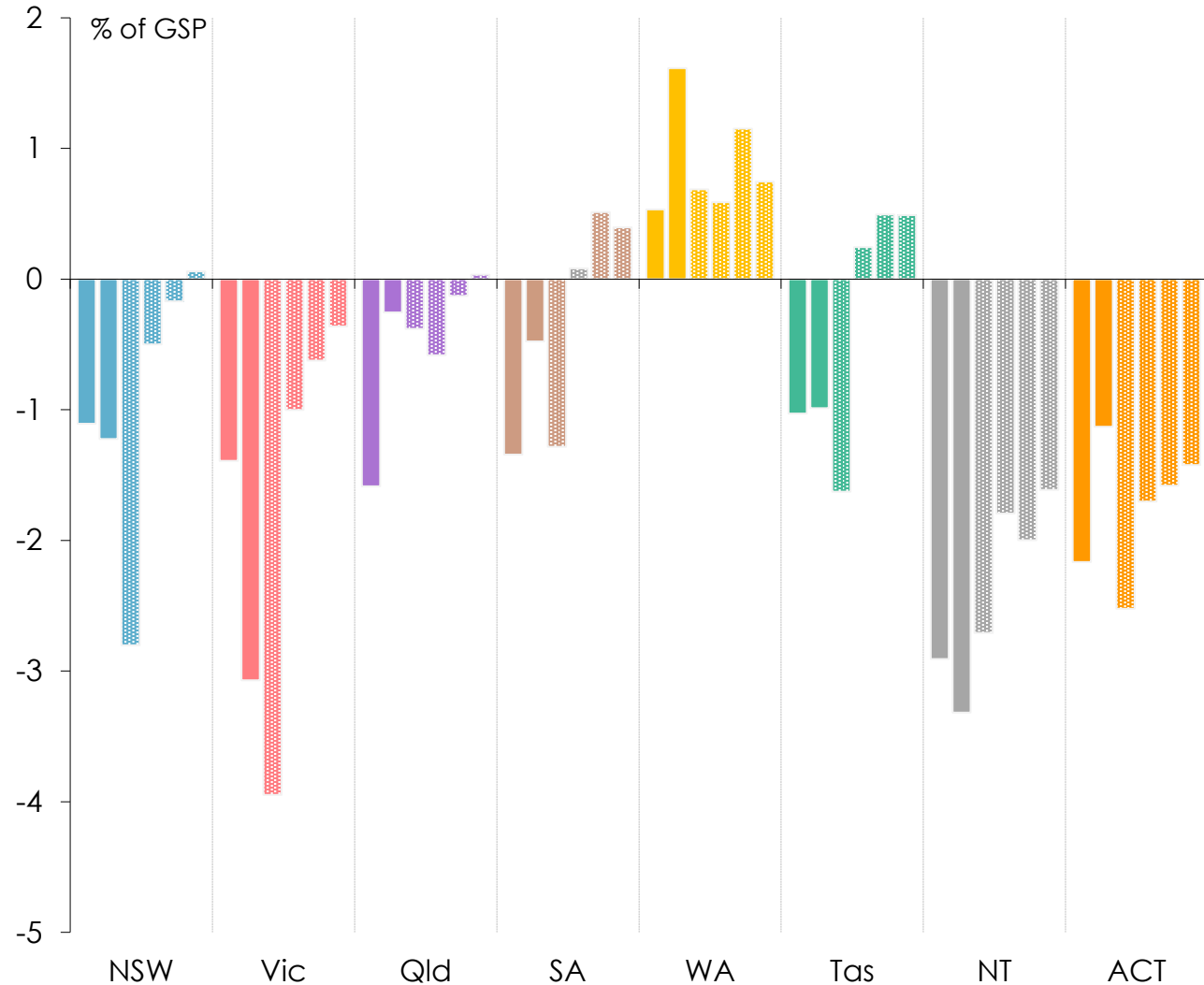
Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).



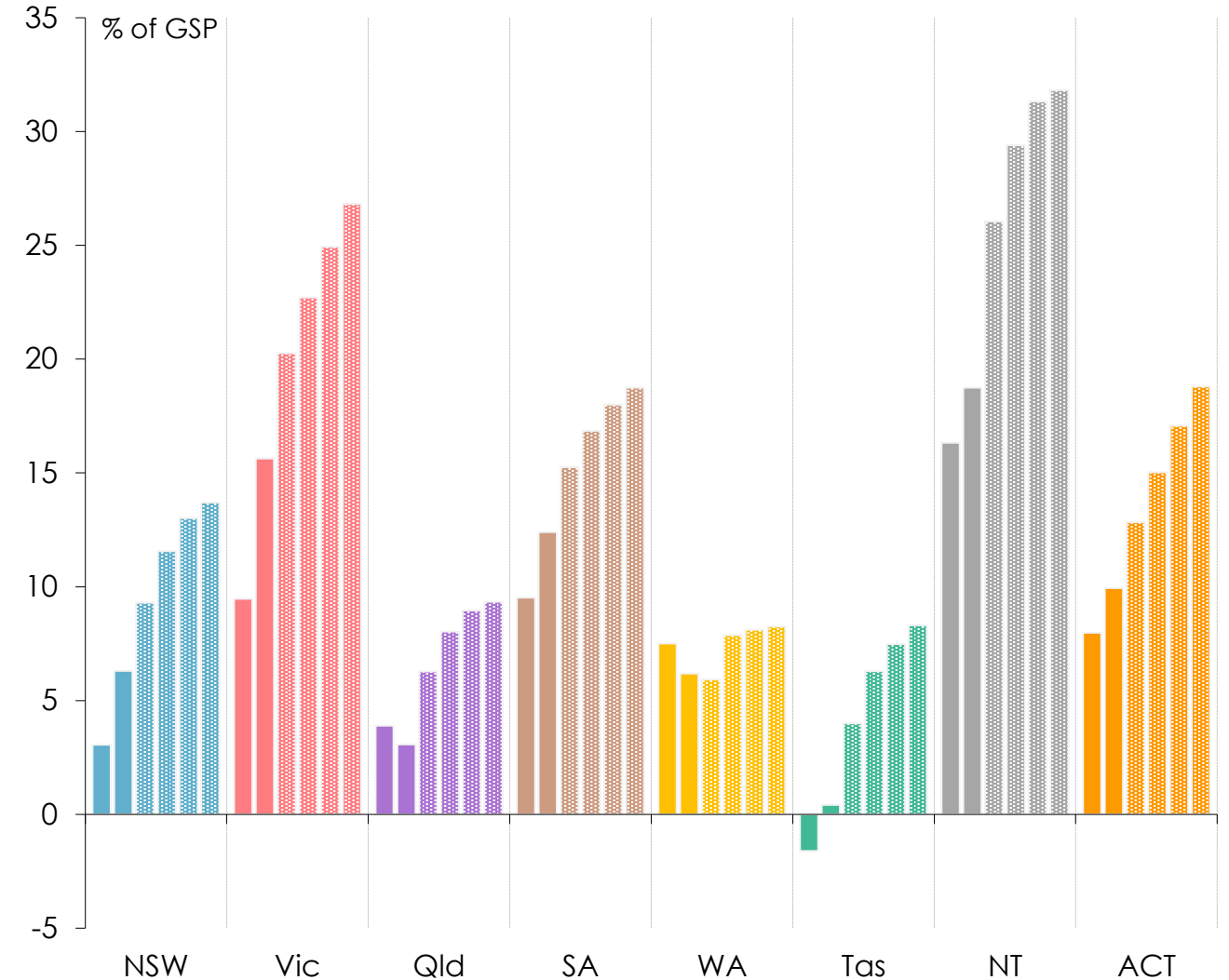
# Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

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## States and territories – ‘net operating balances’



## States and territories – net debt



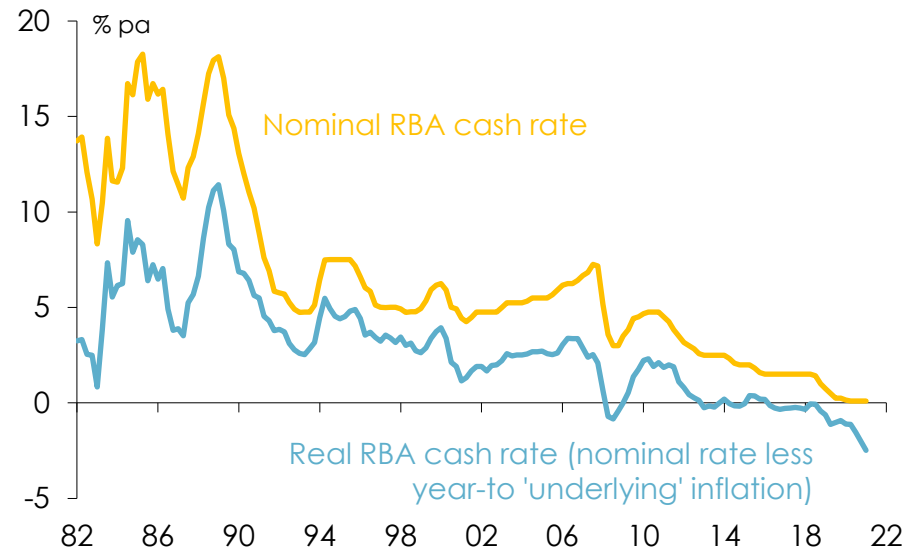
Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than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

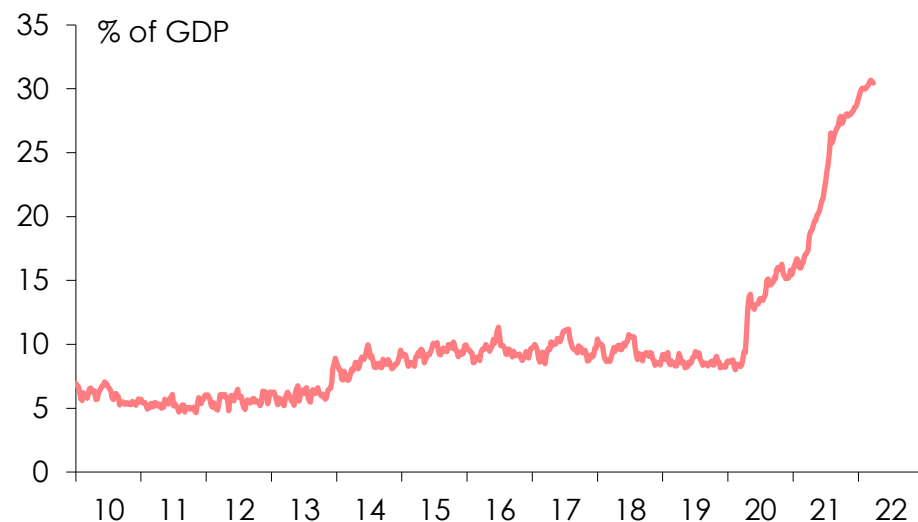
# The RBA left its cash rate unchanged at 0.10% at Tuesday's Board meeting (as expected) and remains in no hurry to start raising rates

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## Reserve Bank cash rate



## Reserve Bank assets as a pc of GDP



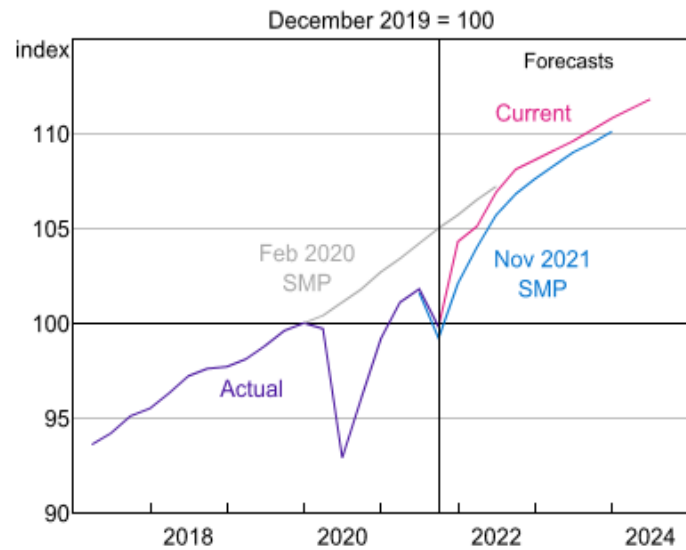
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ As expected, the RBA left its cash rate unchanged at 0.10% at Tuesday's Board meeting
- ❑ In his [post-meeting statement](#) Governor Philip Lowe re-iterated the RBA's skepticism as to whether "actual inflation is sustainably within the 2-3% target range"
  - he observed that "wages growth has picked up but, at the aggregate level, is only around the relatively low rates prevailing before the pandemic"
  - and that "it is likely to be some time yet before growth in labour costs is at a rate consistent with inflation being sustainably at target", with the expected further pick-up as the labour market tightens being "only gradual"
  - the statement appeared to indicate that the RBA was monitoring "broader measures of labour costs" rather than merely the wage price index
- ❑ Governor Lowe also noted that "the war in Ukraine is a major new source of uncertainty", in addition to uncertainty as to "how long it takes to resolve the disruptions to supply chains"
  - he indicated that 'headline' CPI inflation will "spike higher" than the RBA's most recent forecast peak of 3¼% as a result of "higher petrol prices resulting from global developments"
- ❑ The statement concluded by re-emphasizing the RBA's preparedness "to be patient as it monitors how the various factors affecting inflation in Australia evolve"

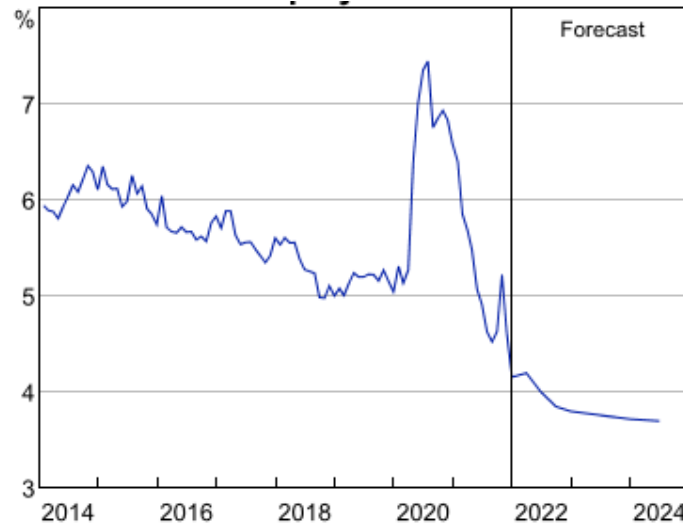
# The RBA upgraded its forecasts for near-term economic growth, lowered its forecasts for unemployment, and raised its forecasts for inflation

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

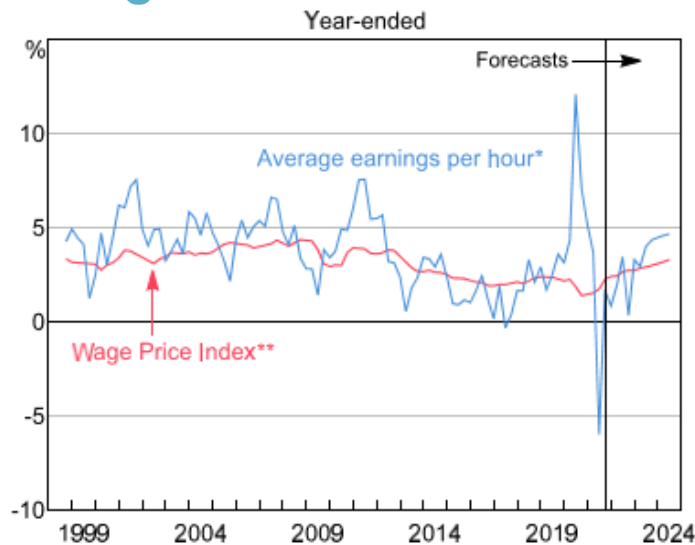
## GDP



## Unemployment



## Wages



## 'Underlying' inflation



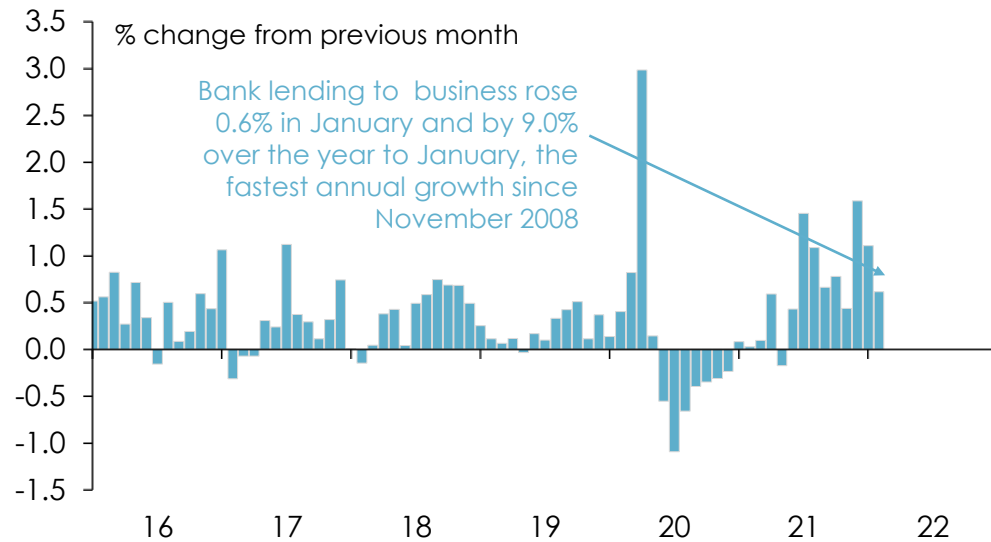
- ❑ In its latest [Statement on Monetary Policy](#), released on 4<sup>th</sup> February, the RBA upwardly revised its near-term real GDP growth forecast – from 4% to 5% over the year to Q2 2022 – but lowered its forecast for the year to Q2 2023 to 2½% (from 3¼%), and slowing further to 2% over the year 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"](#).

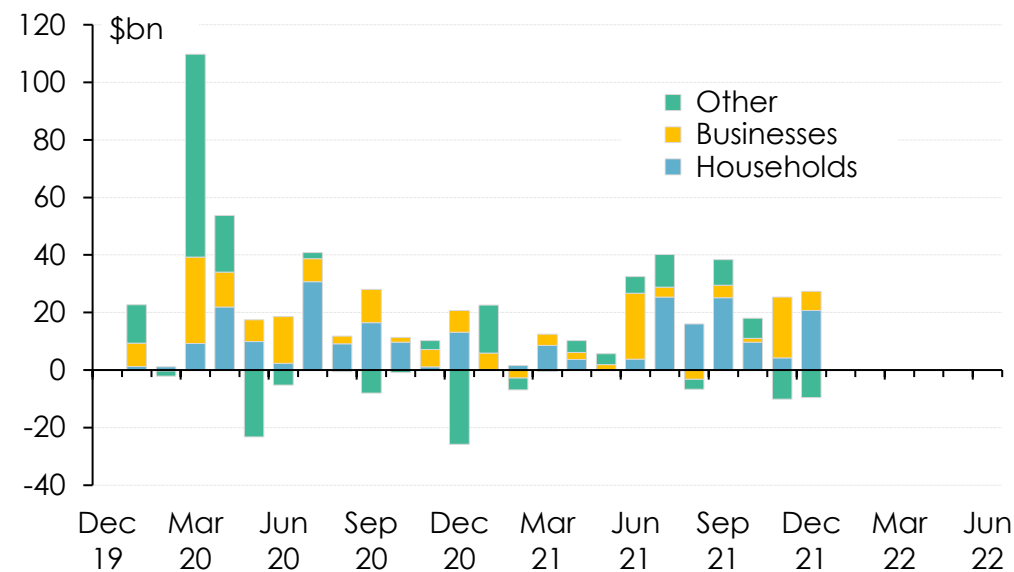
# Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

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## Business credit outstanding



## Monthly change in bank deposits



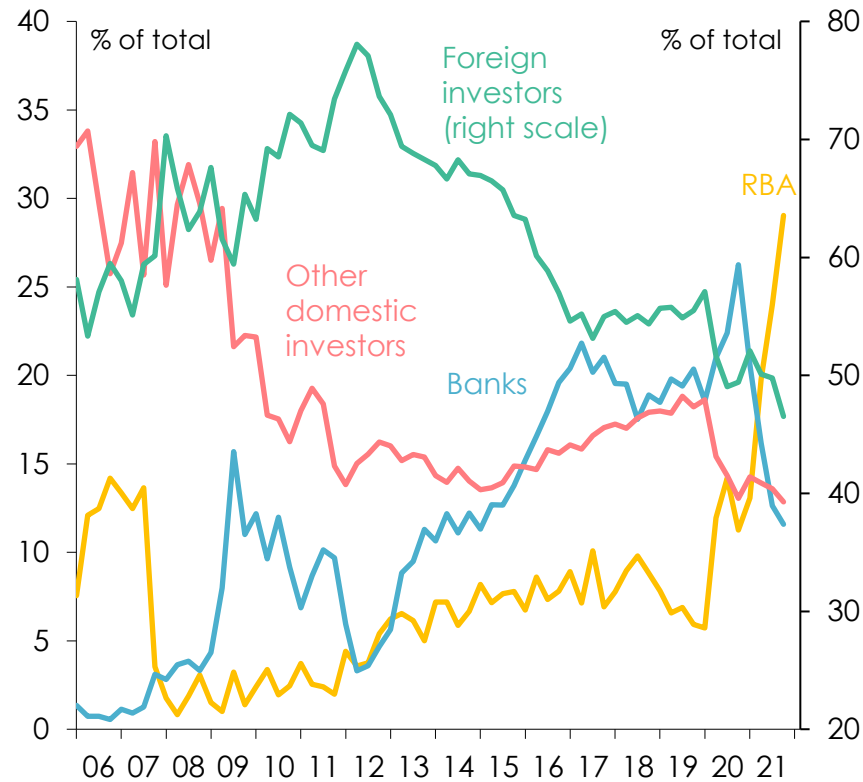
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during last year’s lockdowns
  - over the 12 months to January, bank lending to business grew at its fastest rate since November 2008
- ❑ Banks extended ‘repayment holidays’ to business and home mortgage borrowers who requested it
- ❑ Bank deposits have swelled by \$499bn (23½%) 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 \$249bn (25½%) since February 2019, while business deposits have risen by \$174bn (29¼%)

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%

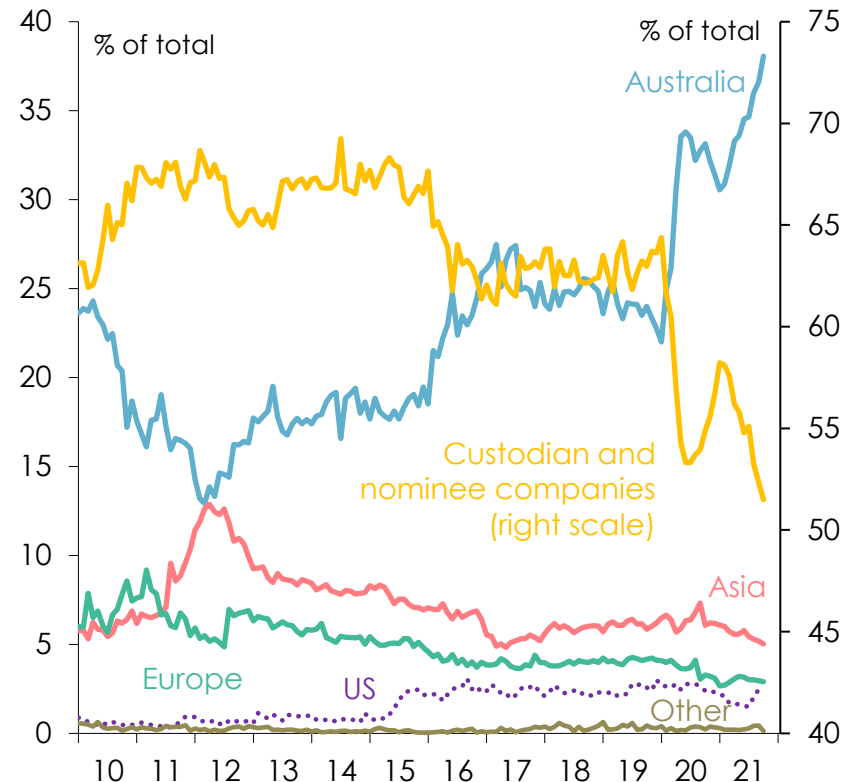
THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

## Holders of Australian Government bonds



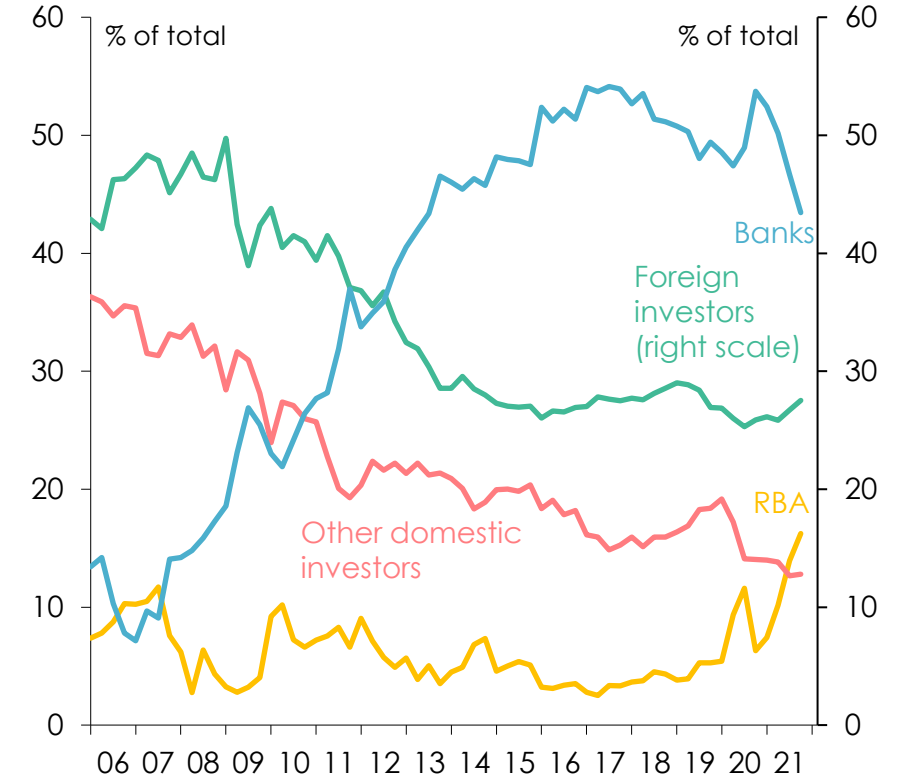
Australian Gov't bonds on issue have increased by \$266bn since the end of 2019 – of which \$225bn (85%) have been absorbed by the RBA, and \$56bn by foreigners, while banks have reduced their holdings by \$13bn

## 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



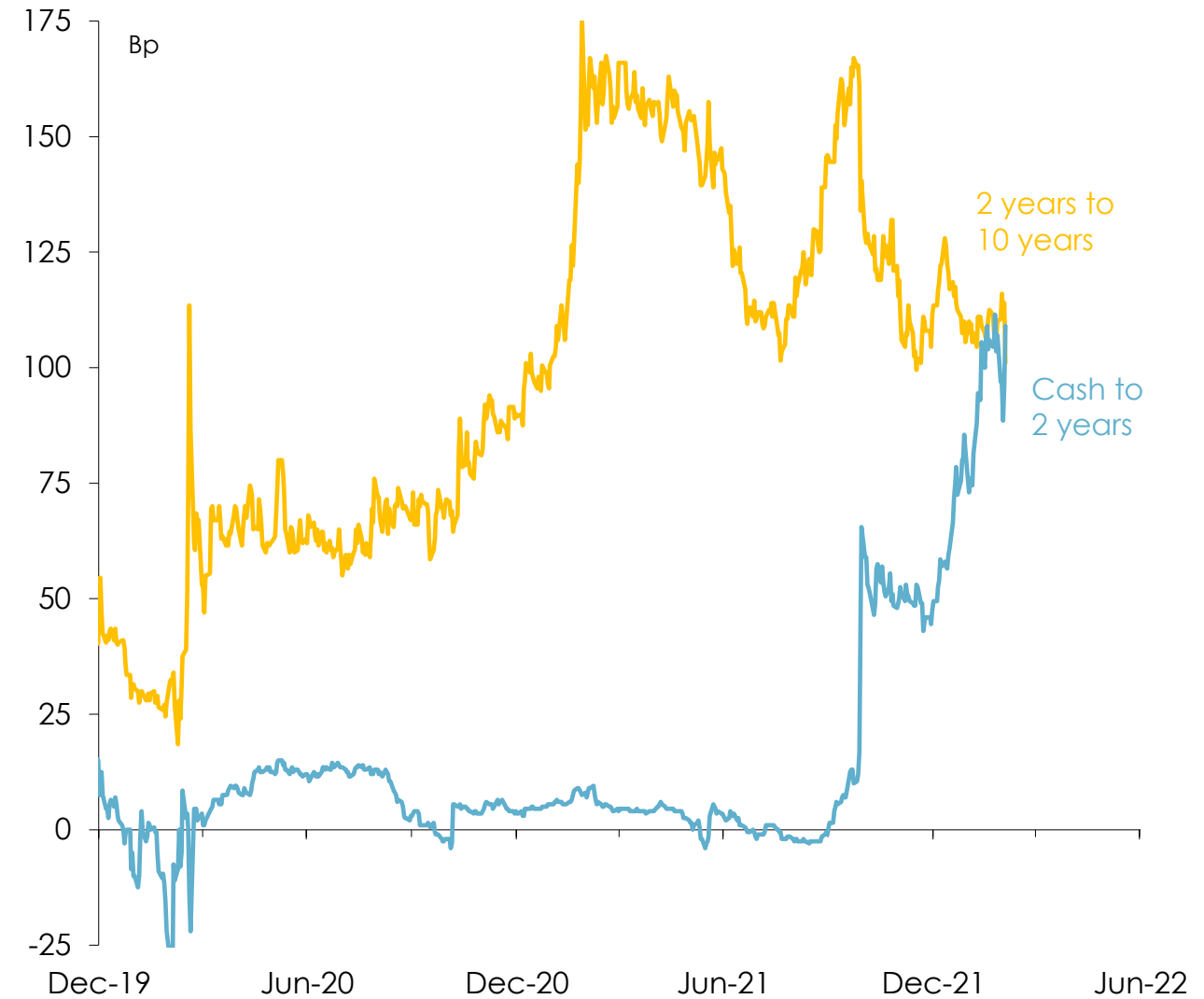
# Financial markets this week further shaded their odds on the RBA hiking rates multiple times this year given Ukraine-induced uncertainties

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## Overnight index swap rates



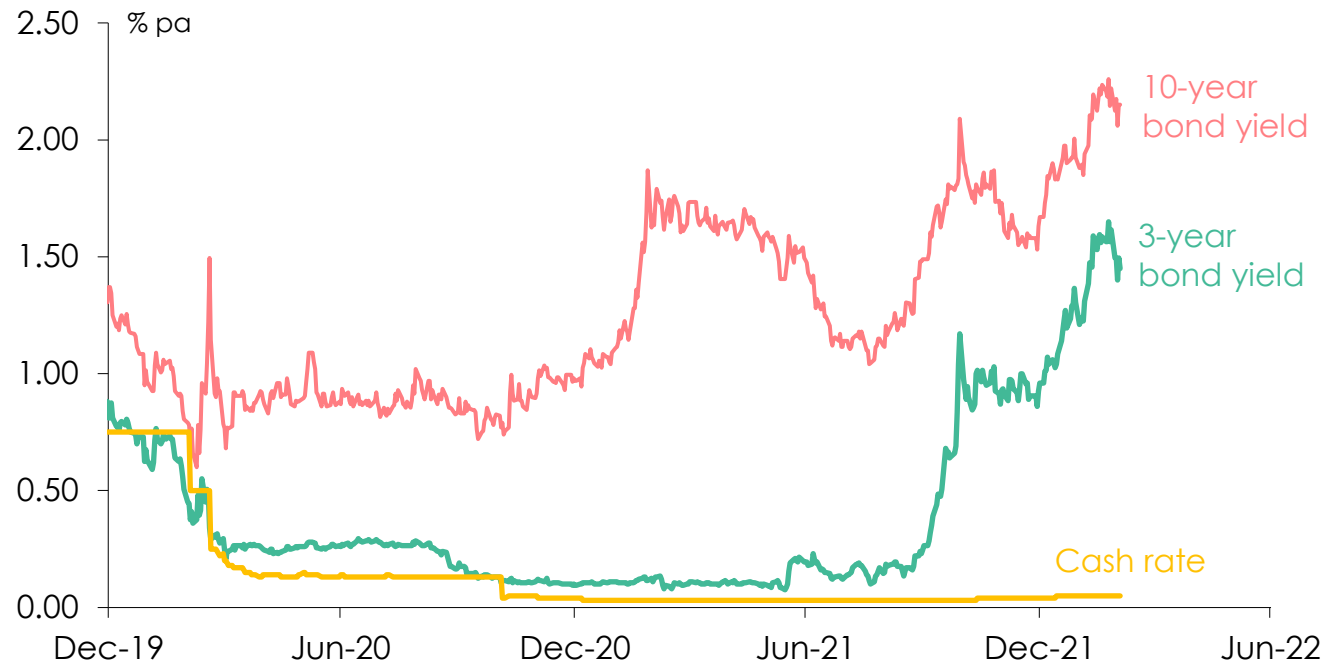
## Yield curves



# Longer-term bond yields eased, in line with global trends, in response to the uncertainties created by Russia's invasion of Ukraine

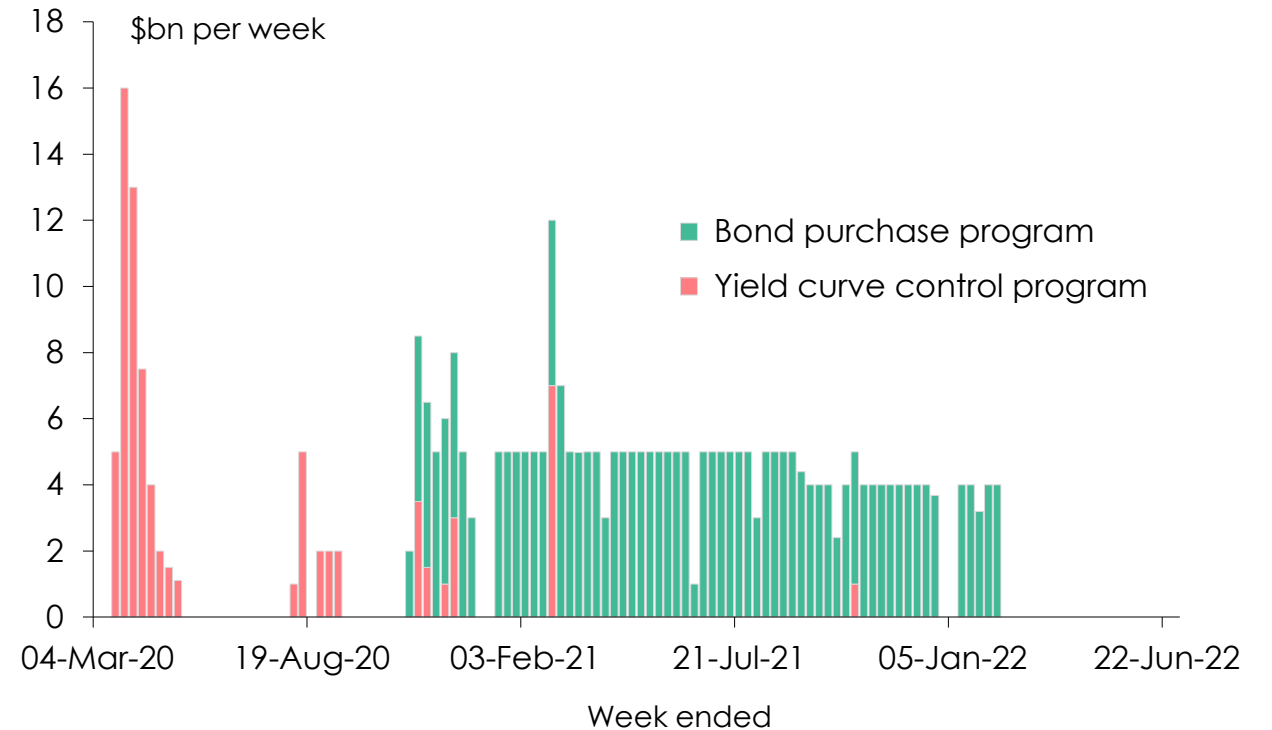
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## Interest rates



- ❑ 3-year bond yields eased 15-20 bp this week as markets became less confident about the prospects for multiple RBA rate hikes later this year given the uncertainties posed by Russia's invasion of Ukraine
- ❑ The 10-year yield eased about 15 bp from the previous week's high of 2.26% in line with global trends, reflecting a belief that central banks may be less assertive in raising rates

## RBA open market bond purchases



- ❑ 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

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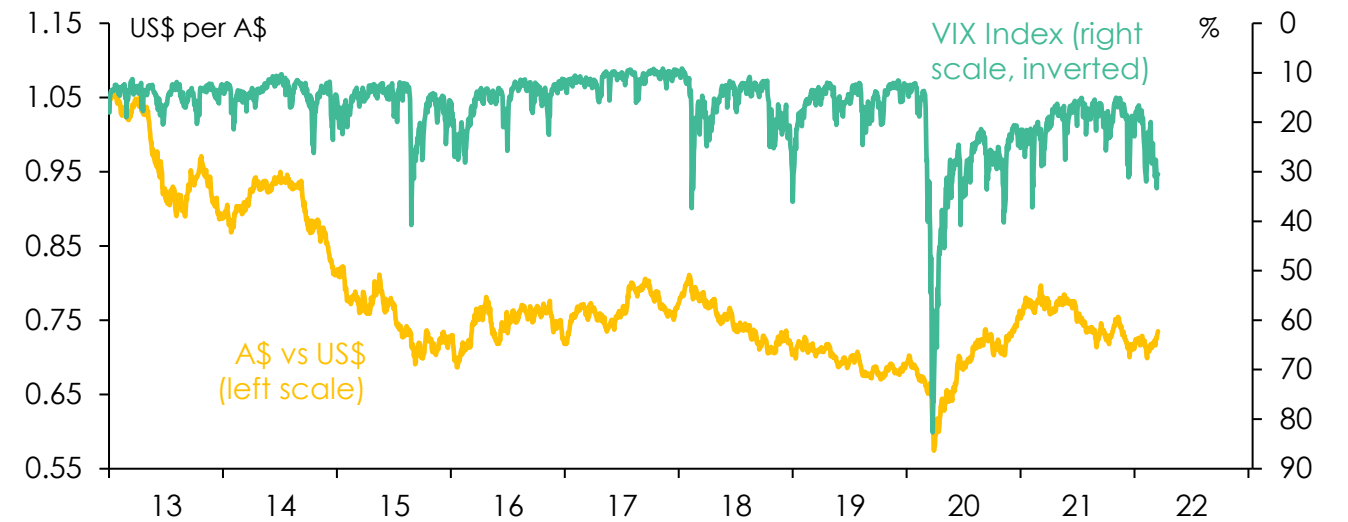
# The A\$ rose more than 1½% against the US\$ this week to US73.5¢, its highest since mid-November last year, aided by stronger commodity prices

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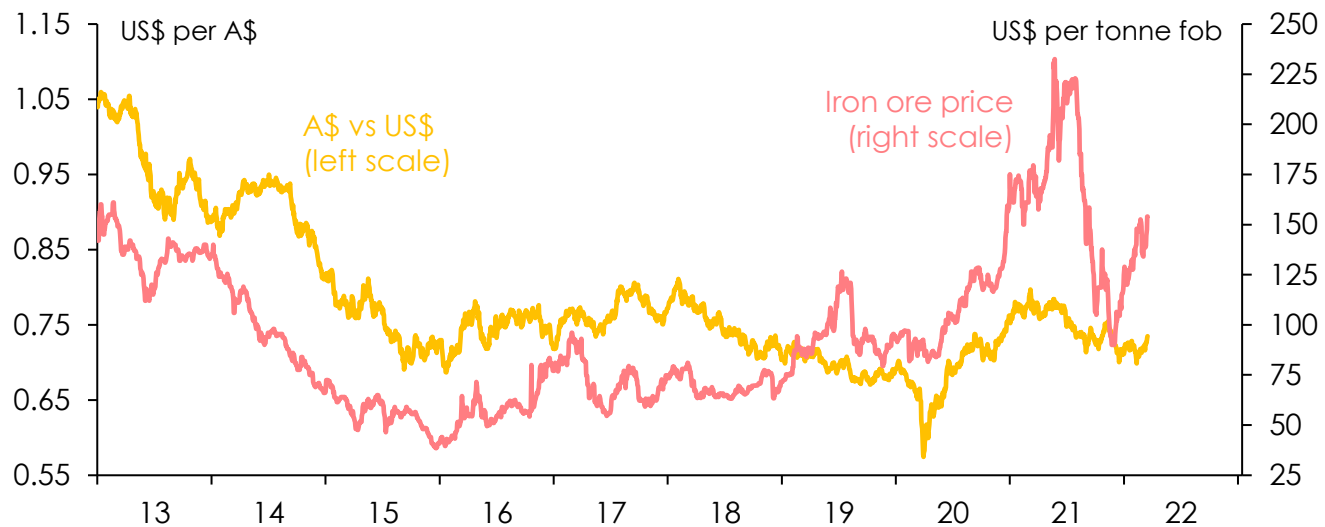
## A\$-US\$ and US\$ trade-weighted index



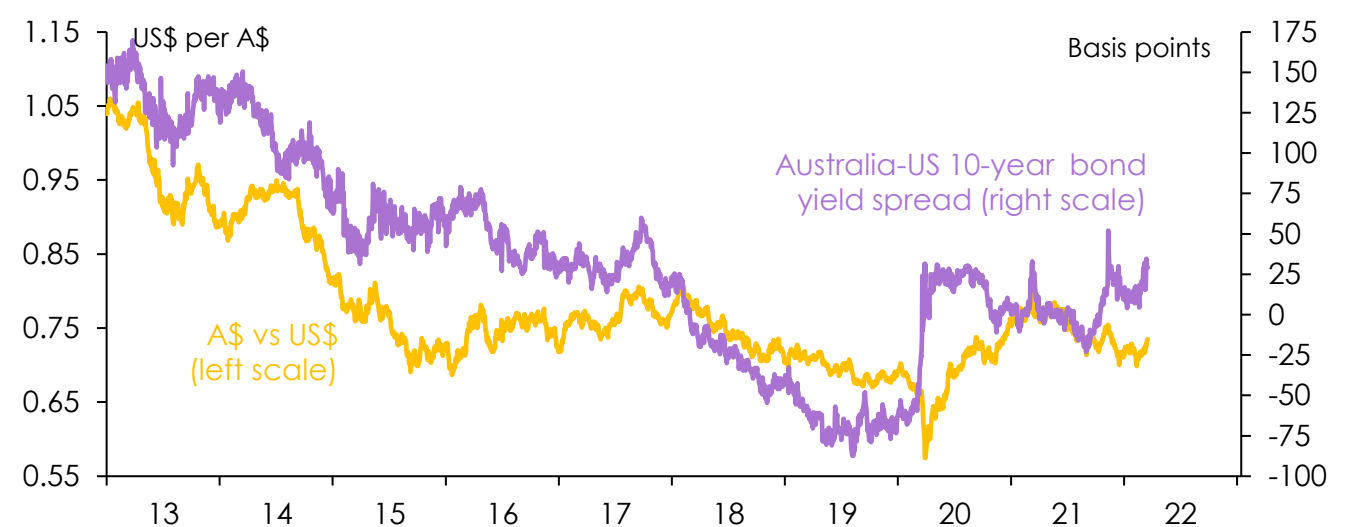
## A\$-US\$ and US equity market volatility



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



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

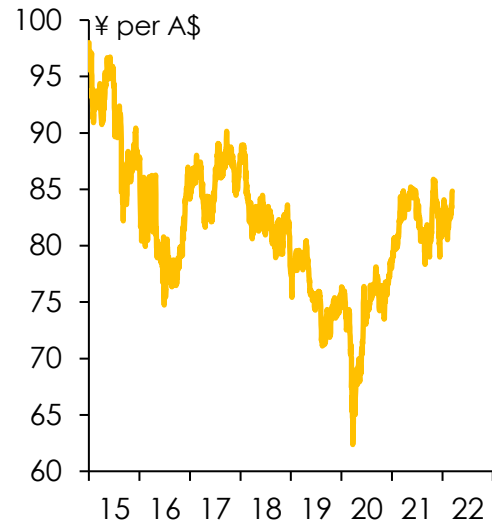


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 4<sup>th</sup> March. [Return to "What's New"](#).

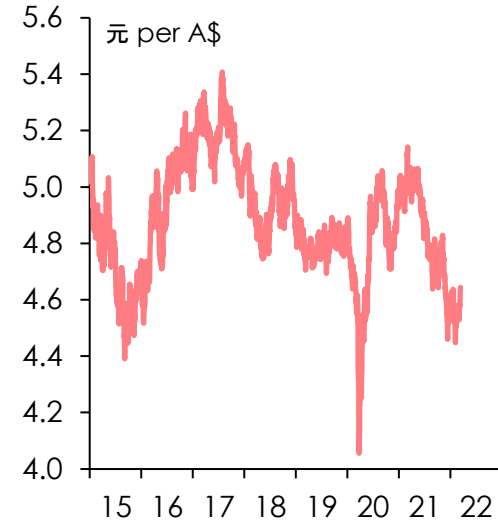
# The A\$ was also stronger against third currencies, rising more than 3½% vs the euro and 2% vs the pound, and 1½-2½% vs Asian currencies

THE AUSTRALIAN ECONOMY THIS WEEK – 4<sup>TH</sup> MARCH 2022

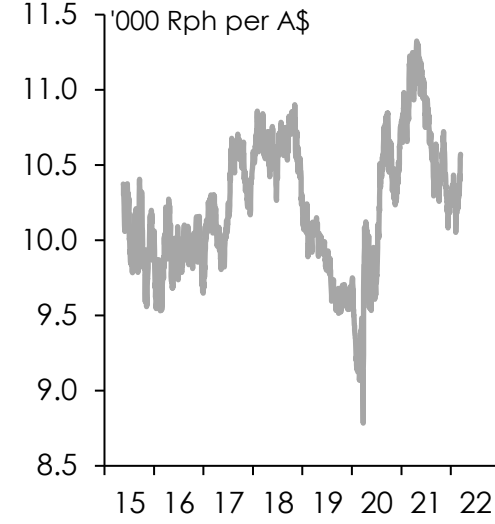
### A\$ vs Japanese yen



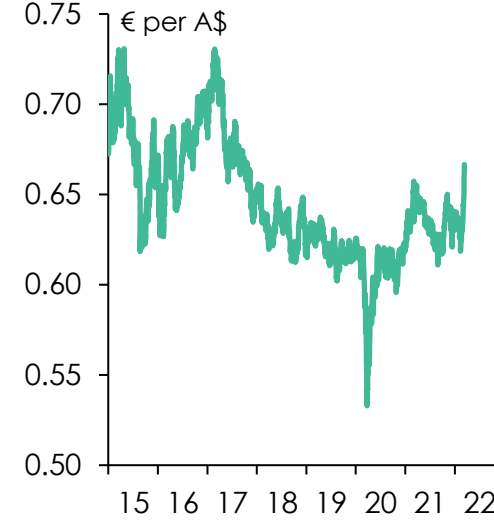
### A\$ vs Chinese yuan



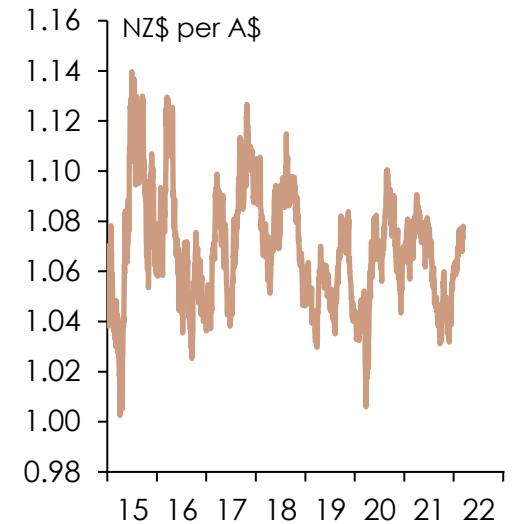
### A\$ vs Indo rupiah



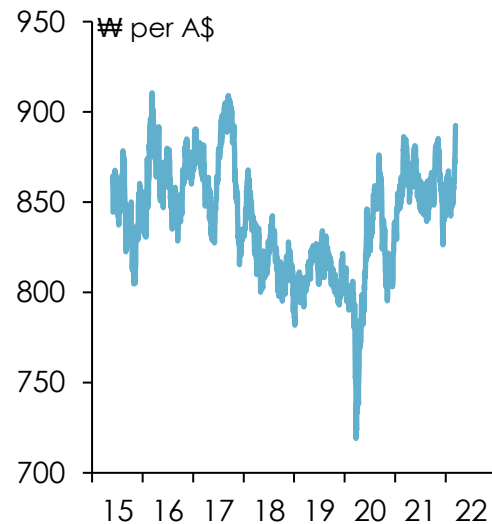
### A\$ vs Euro



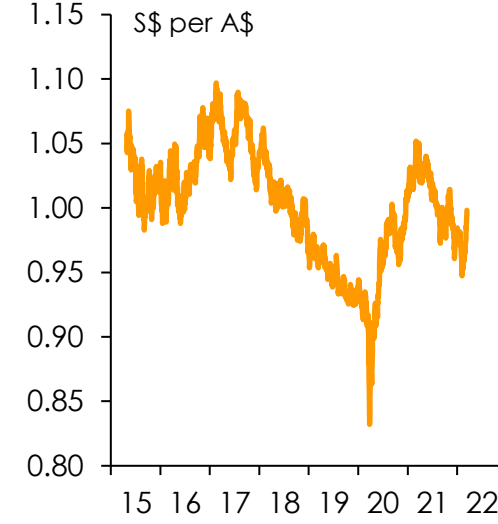
### A\$ vs NZ\$



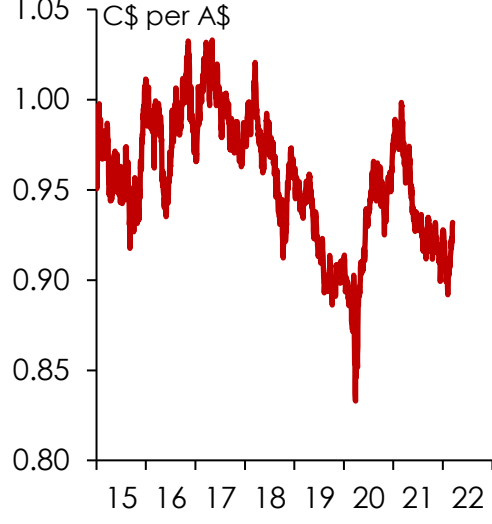
### A\$ vs Korean won



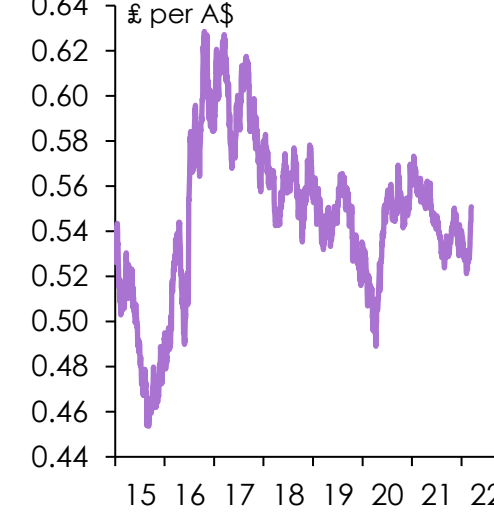
### A\$ vs Singapore \$



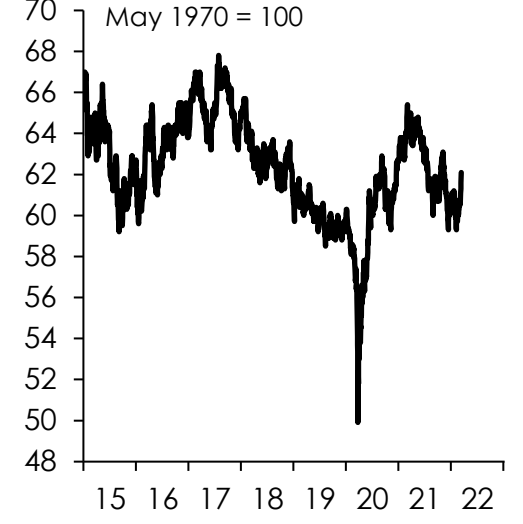
### A\$ vs Canadian \$



### A\$ vs British pound



### A\$ TWI

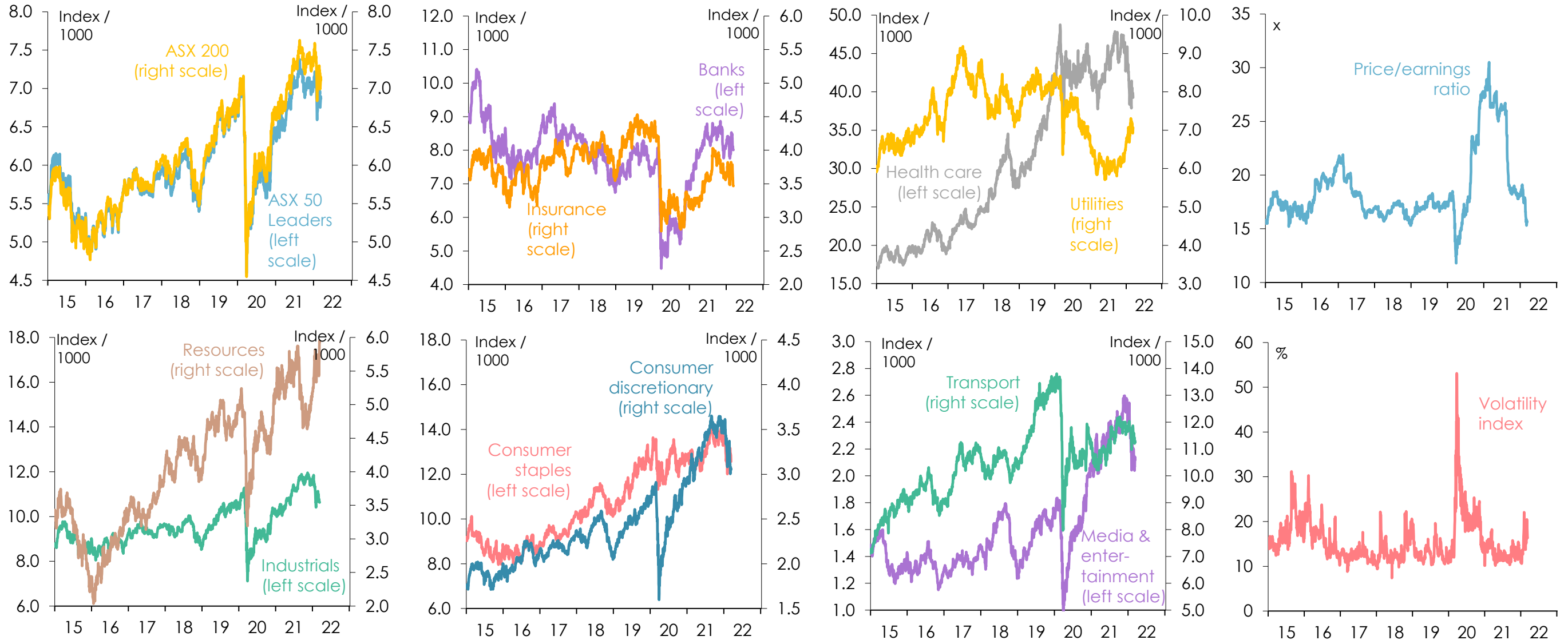


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 4<sup>th</sup> March. [Return to "What's New"](#).

# The ASX rose 1¼% this week, mainly on account of a 9¼% gain in resources stocks, while most industrials stocks continued to decline

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## ASX indices



Sources: Refintiv Datastream. ASX200 and 50 Leaders up to 4<sup>th</sup> March; other indices 3<sup>rd</sup> March. [Return to "What's New"](#).

**Key data and events next week**

# Key data and events for week ended 11<sup>th</sup> March

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<b>Monday 7<sup>th</sup> March</b>	<b>RBA payments system statistics (January); ANZ job advertisements (February)</b>
<b>Tuesday 8<sup>th</sup> March</b>	<b>NAB monthly business survey (business confidence and business conditions) (February)</b>
<b>Wednesday 9<sup>th</sup> March</b>	<b>Westpac-Melbourne Institute consumer confidence (March); weekly payroll jobs (weeks ended 5<sup>th</sup> and 12<sup>th</sup> February); Speech by RBA Governor Philip Lowe to <i>Australian Financial Review</i> Business Summit</b>
<b>Thursday 10<sup>th</sup> March</b>	<b>Westpac-Melbourne Institute household inflation expectations (March)</b>
<b>Friday 11<sup>th</sup> March</b>	<b>Speech by RBA Governor Philip Lowe to Banking 2022 Conference</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

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