



THE AUSTRALIAN ECONOMY THIS WEEK

11TH MARCH 2022

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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- ❑ Large increases in the prices of energy and some food commodities ([slides 62-63](#)) in the wake of Russia's invasion of Ukraine will, if sustained, add to 'headline' inflation and (probably) detract from economic growth (notwithstanding that Australia is a net exporter of coal, LNG and grains) – but that doesn't necessarily mean that interest rates will rise sooner, or by more, than they would have done otherwise ([slide 5](#))
- ❑ The number of new and active Covid-19 cases has risen over the past two weeks ([slide 7](#)), largely reflecting the sharp rise (albeit from a low base) in the number of cases in WA and more gradual increases in NSW, SA and Tasmania ([slide 8](#)) – although the number of hospitalizations and fatalities has continued to decline
- ❑ Business confidence rose further in February, to be 0.8 of a standard deviation above its long-run average, with gains in every state except WA and Tasmania ([slide 28](#)), while all of the elements of business conditions also improved last month, with significant improvements in the (forward-looking) hiring and capex intentions components ([slide 29](#))
- ❑ By contrast, consumer confidence fell more than 4 pc pts in March, with pessimists out-numbering optimists for the first time since September 2020, with sharp rises in petrol prices, the prospect of higher interest rates, and severe flooding in south-east Queensland, northern NSW and parts of Sydney weighing on sentiment ([slide 34](#))
- ❑ The number of payroll jobs rose by 2.8% between mid-January and mid-February, reflecting increases of more than 3% in NSW and Victoria, and of more than 4% in construction ([slide 52](#)) – although there are still fewer payroll jobs in accommodation & food services, transport, rental & real estate services, manufacturing and education & training than prior to the onset of the pandemic ([slide 53](#))
- ❑ The number of people receiving joblessness-related income support payments fell another 11,500 (1.2%) to a new post-Covid low over the second half of February ([slide 54](#))
- ❑ In a highly unusual move, the Deputy Governor of the RBA, Guy Debelle, resigned this week to take up a position in the private sector ([slide 84](#))
- ❑ RBA Governor Philip Lowe re-iterated the central bank's willingness to be "patient" in assessing the need for higher interest rates, emphasizing that inflation hadn't risen as much in Australia as in most other 'advanced' economies ([slide 85](#) and [slide 73](#)), but financial markets ignored him and upgraded their odds on rates rising this year ([slides 90-91](#))
- ❑ Next week's calendar is very light, apart from February employment and unemployment on Thursday, and a state election in South Australia on Saturday ([slide 96](#))

The economic impact of the war in Ukraine

The conflict in Ukraine means higher headline inflation and (probably) weaker economic growth – but not necessarily higher interest rates

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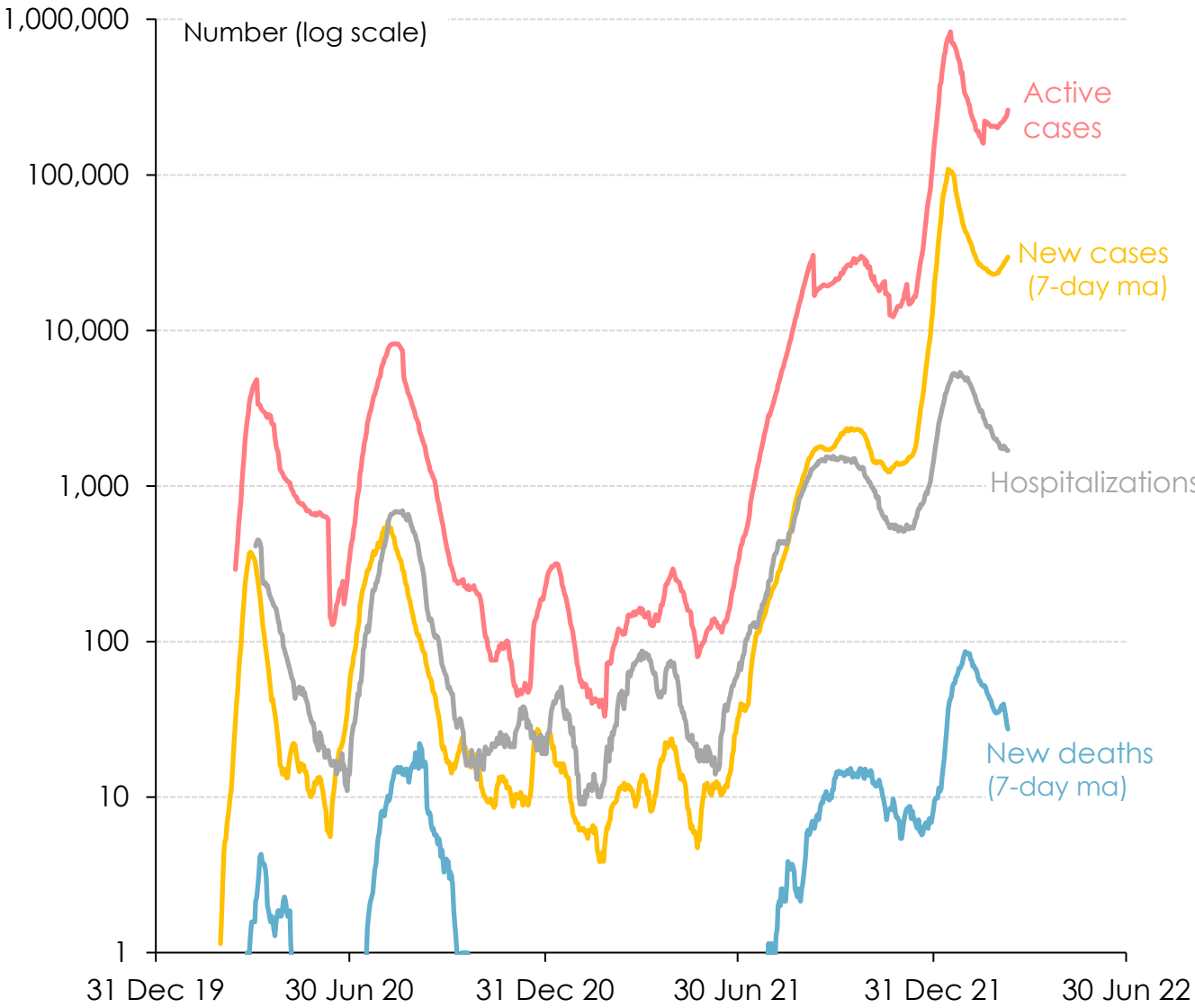
- ❑ The sharp rise in the prices of energy commodities and some food commodities (mostly wheat and other grains) in the aftermath of Russia's invasion of Ukraine will, if sustained, add to 'headline' inflation and detract from economic growth
- ❑ The negative impact on economic growth will likely be smaller for Australia than for most other 'advanced' economies (apart from Canada and Norway, which are oil exporters), because Australia is a significant net exporter of energy commodities (apart from oil) and grains
 - however the additional income from higher prices for coal and LNG will accrue largely to foreign-owned companies (apart from increased coal royalty payments to the NSW and Qld state governments, and increased company tax payments to the Federal government)
- ❑ The impact of higher petrol and food prices on 'headline' inflation doesn't necessarily mean that interest rates will rise sooner, or by more, than they would have done otherwise
 - from the standpoint of households, higher petrol and food prices have a similar impact to an increase in indirect taxes, or in interest rates (albeit distributed differently across households) – that is, in reducing the amount of disposable income available for spending on other goods and services, and hence (all else being equal) reducing upward pressure on the prices of those other goods and services
- ❑ Whether there is any impact on the timing or magnitude of increases in interest rates depends importantly on whether higher petrol and food prices lead in turn to increased 'inflation expectations', and to an acceleration in 'underlying' or 'core' inflation
 - that certainly happened after the 'oil shocks' of the mid- and late-1970s, and in Australia after the large falls in the A\$ in the mid-1980s, but a lot has changed since then, in particular wages are no longer 'indexed' to CPI inflation, and inflation expectations are much more strongly 'anchored' as a result of three decades of 'inflation targeting' by an independent RBA

The virus

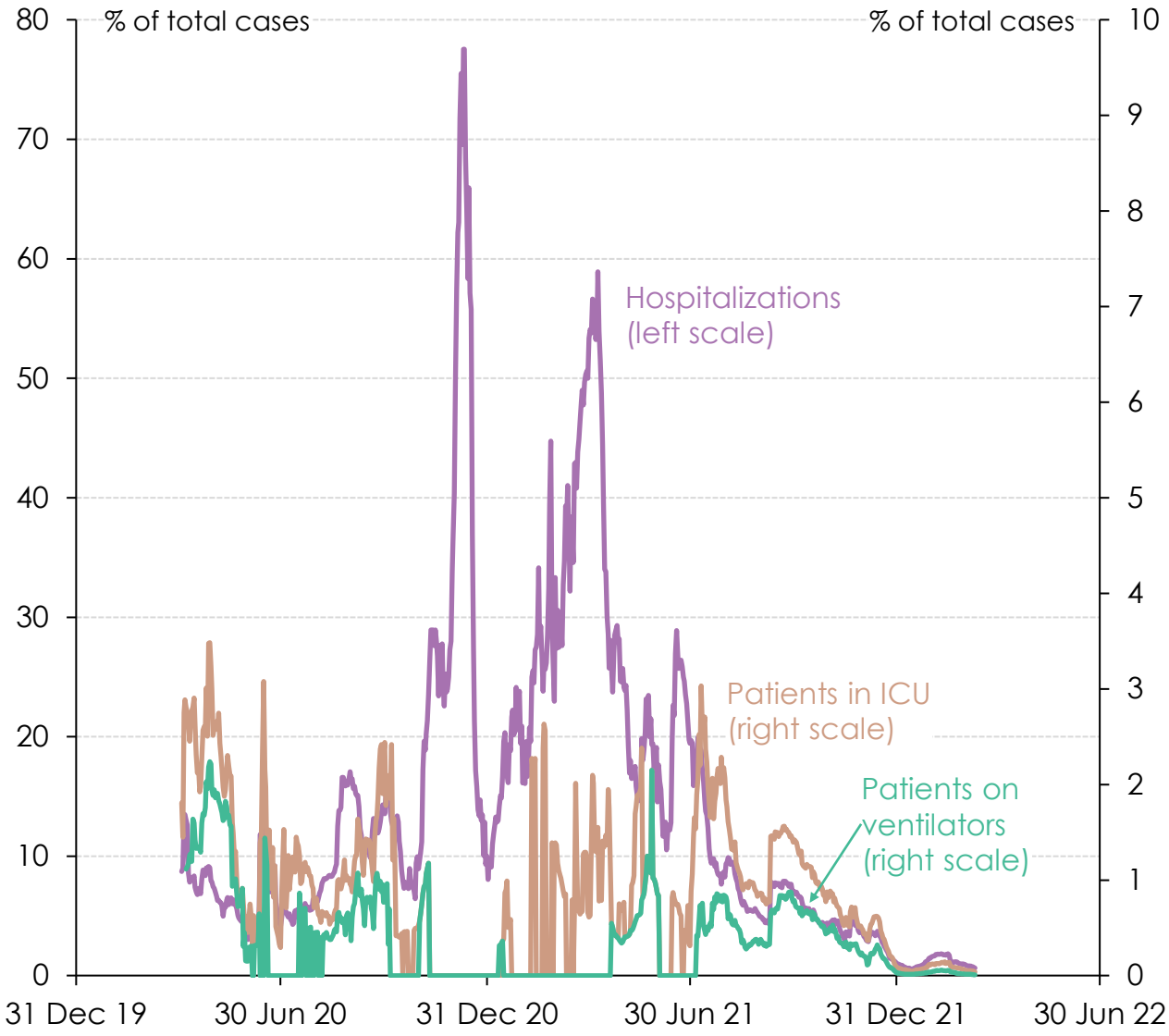
The number of new and active Covid-19 cases has risen over the past three weeks, but the number of hospitalizations and deaths has continued to fall

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Cases, hospitalizations and deaths



Severity of cases

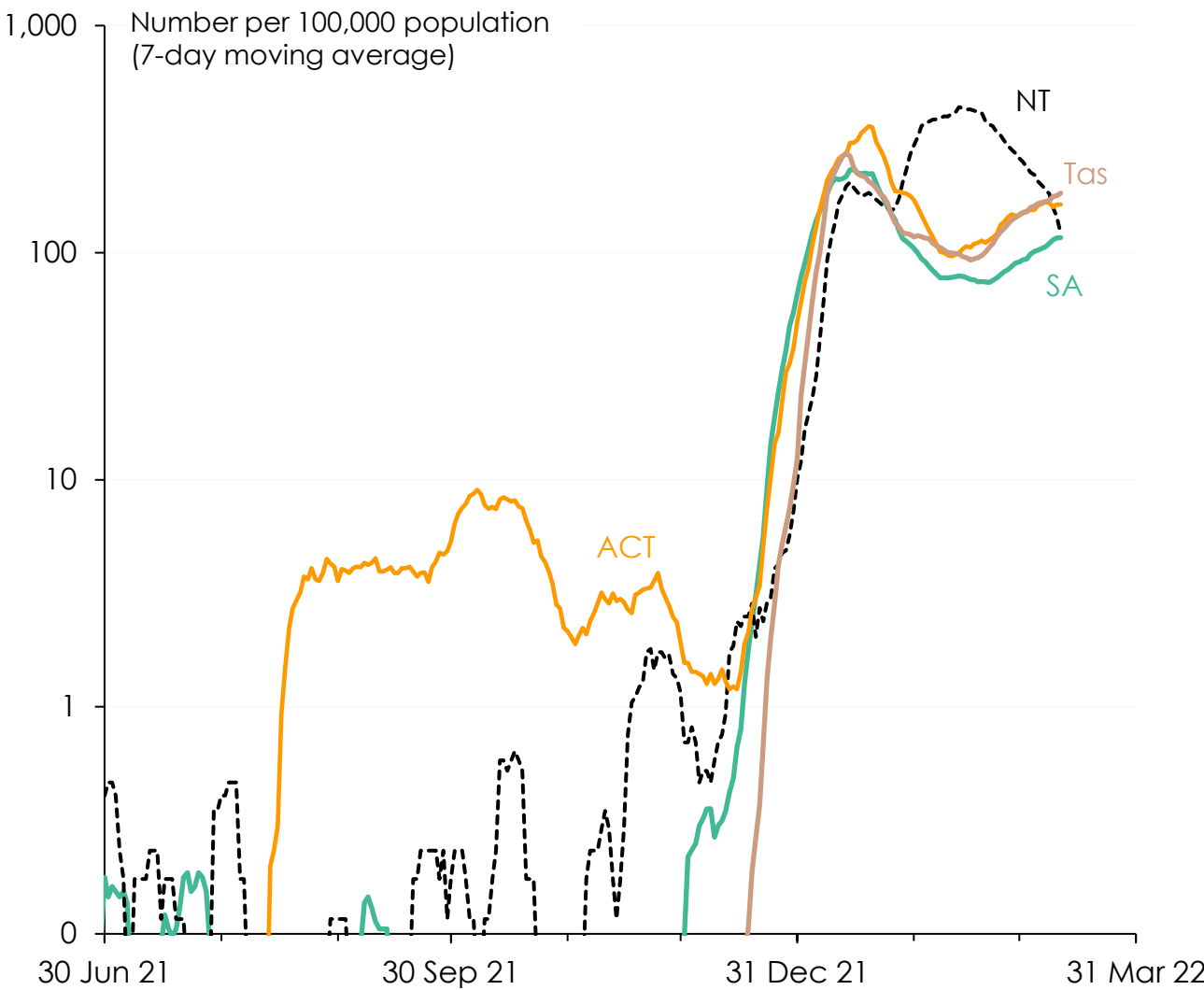
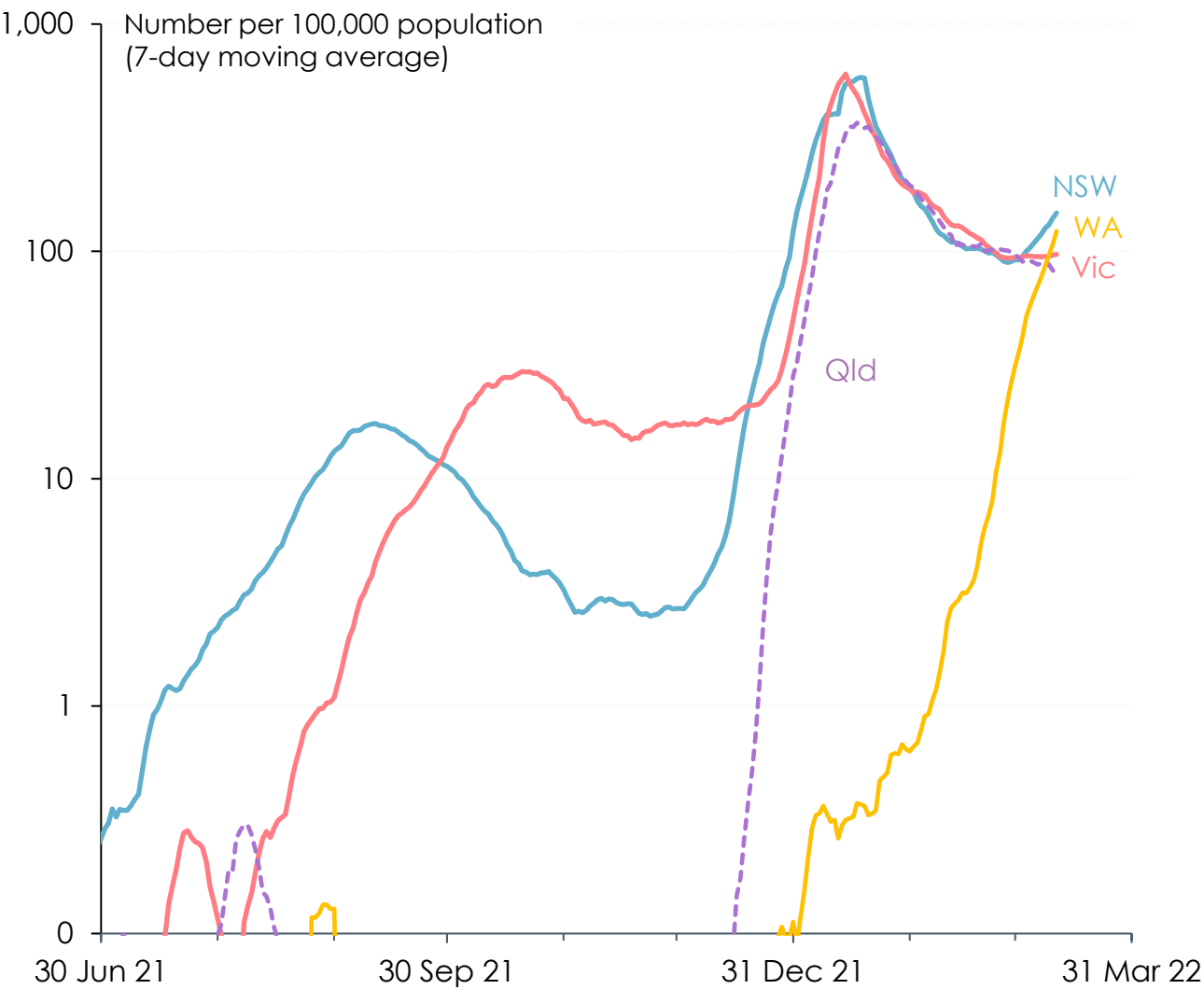


Note: Data up to 11th March. Source: covid19data.com.au. [Return to "What's New"](#).

The increase in the national total of new and active cases largely reflects a sharp rise (from a low base) in WA, and upturns in NSW, SA and Tasmania

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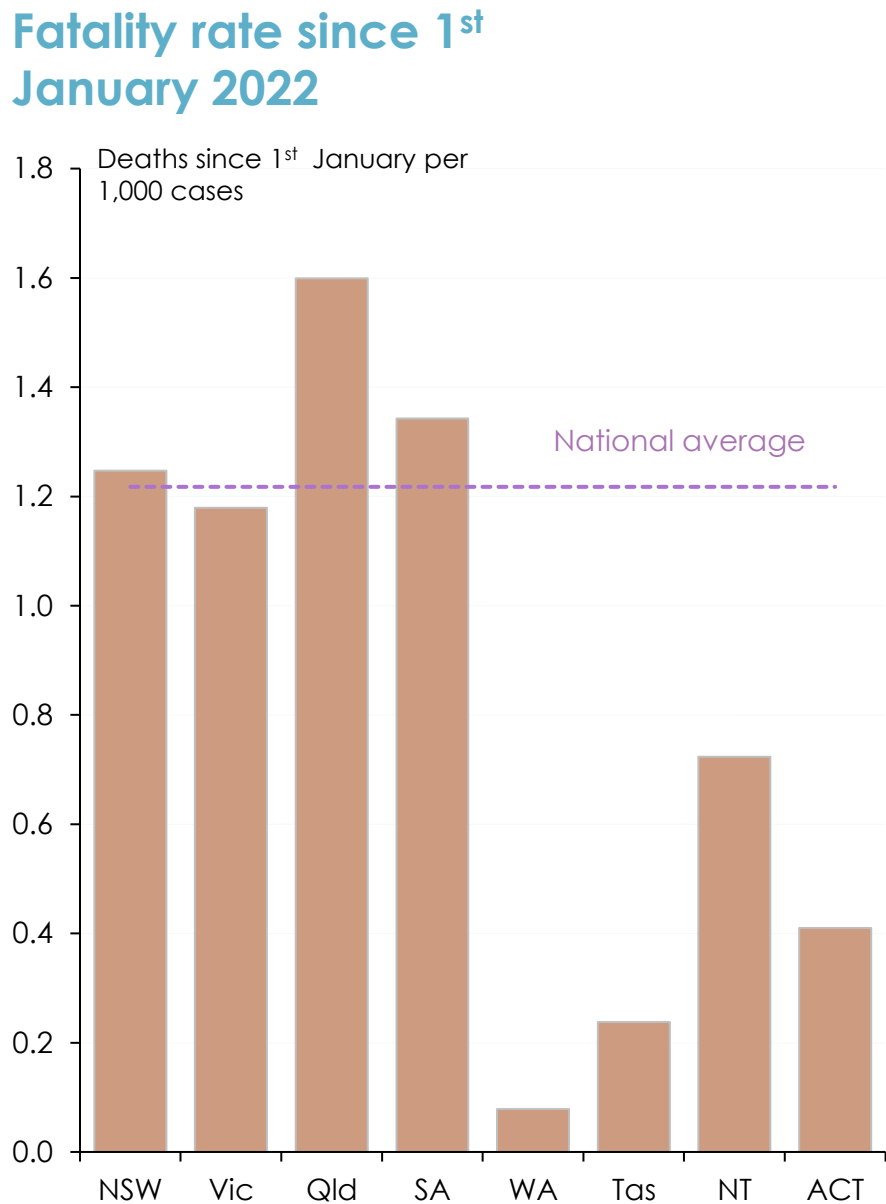
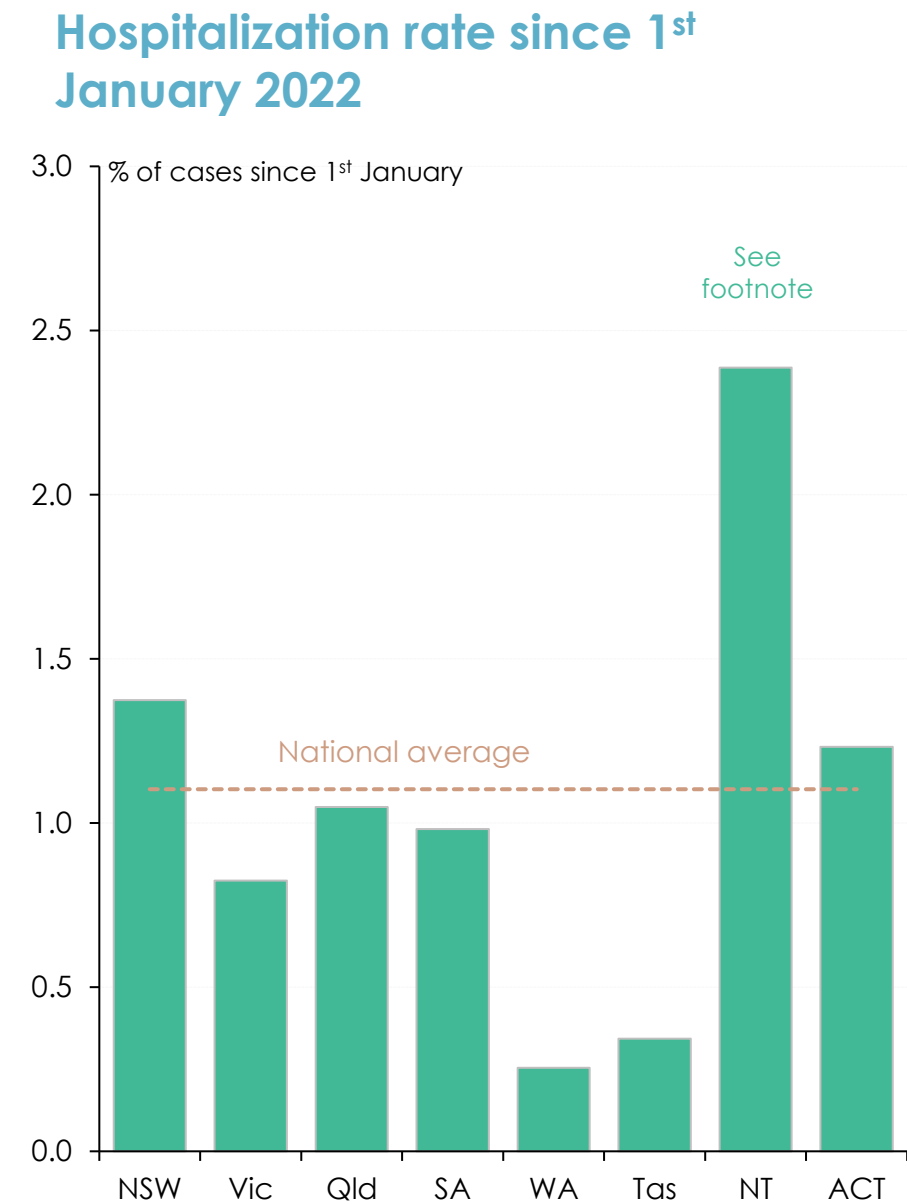
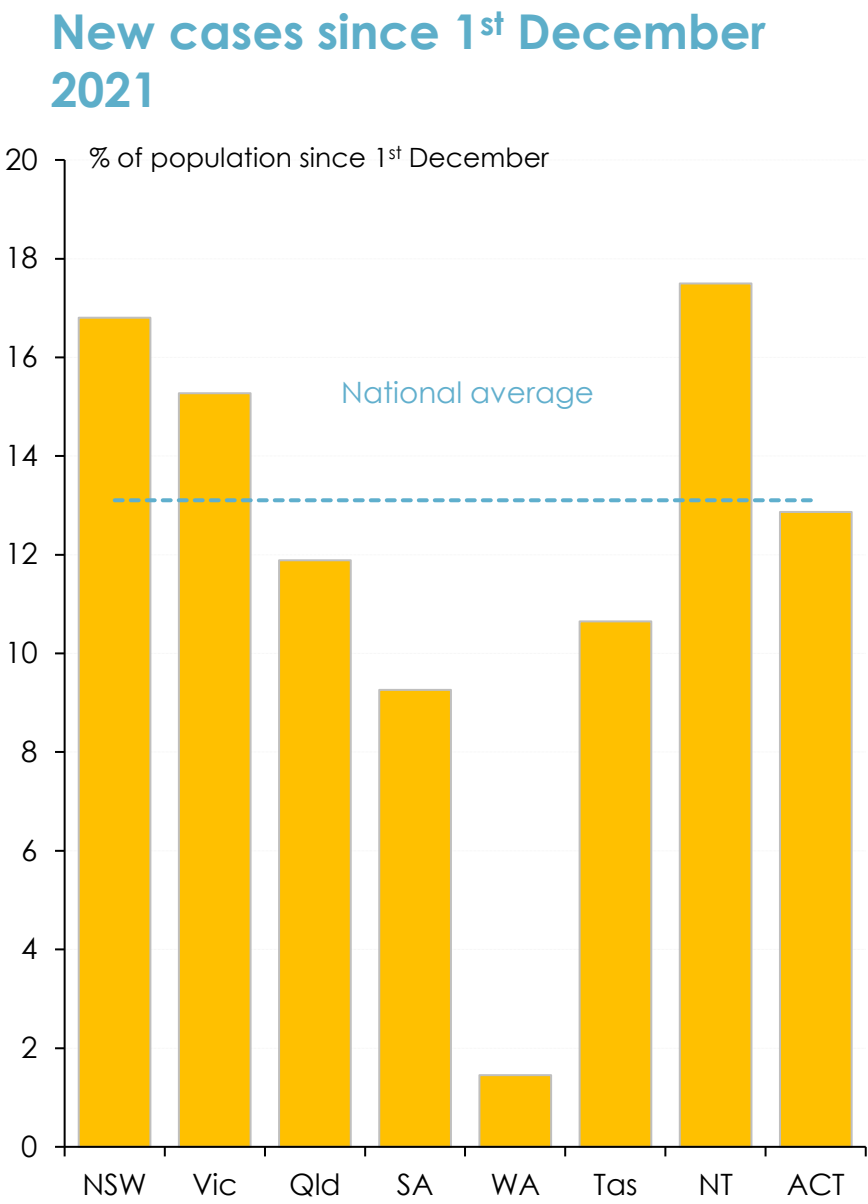
New infections per 100,000 population, states and territories, since 30th June 2021



Note: Data are up 11th March. Source: 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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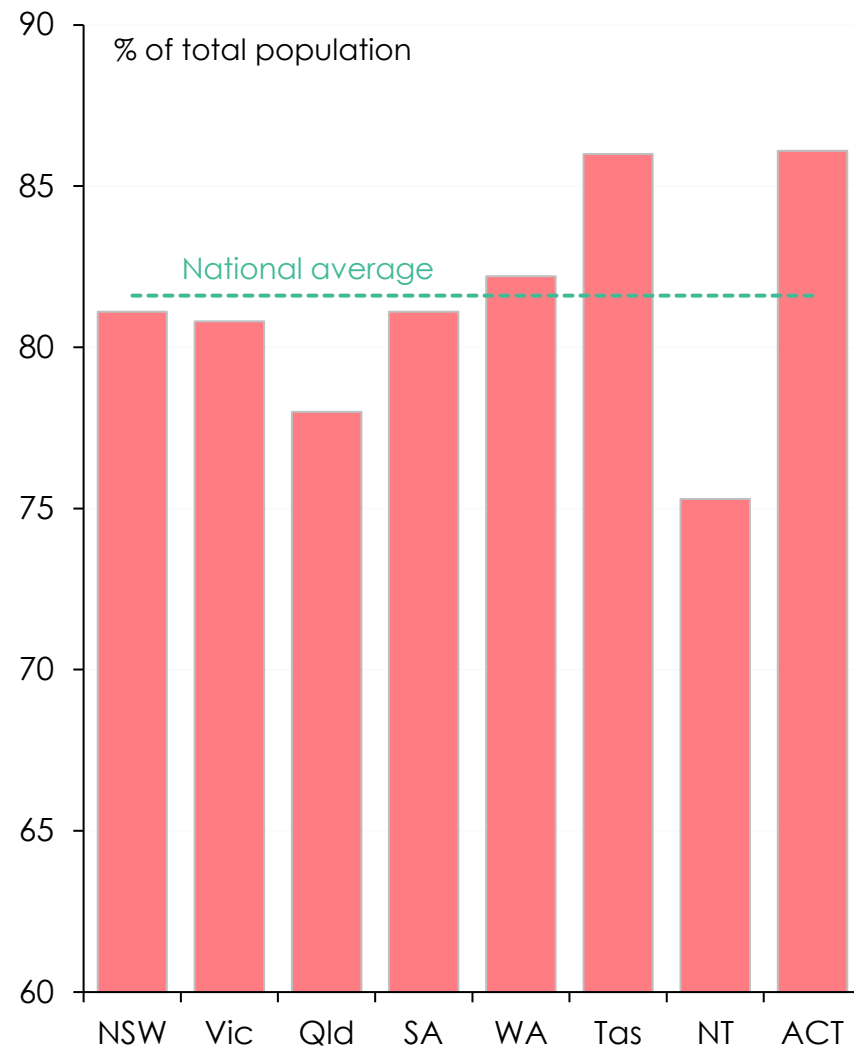


Note: Data are up to 11th March. 1st December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. Source: covid19data.com.au. [Return to "What's New"](#).

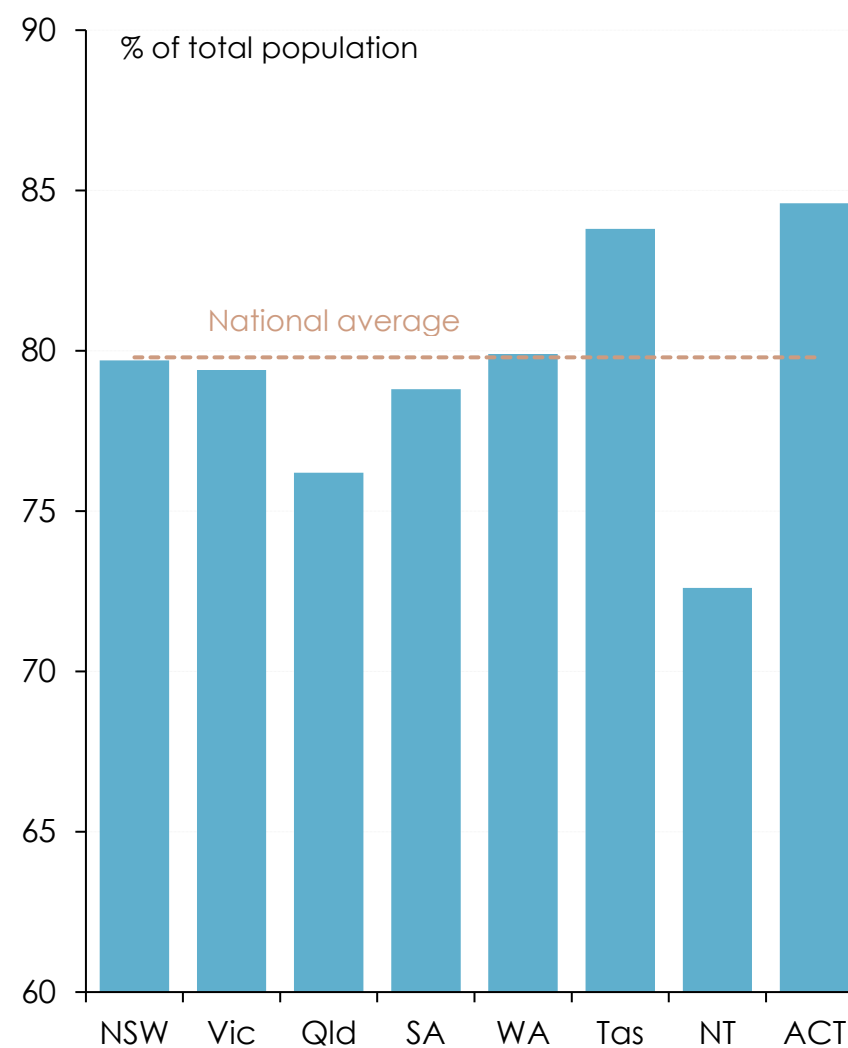
The ACT, Tasmania and more recently WA have had the most successful vaccine rollouts while Queensland and the NT lag

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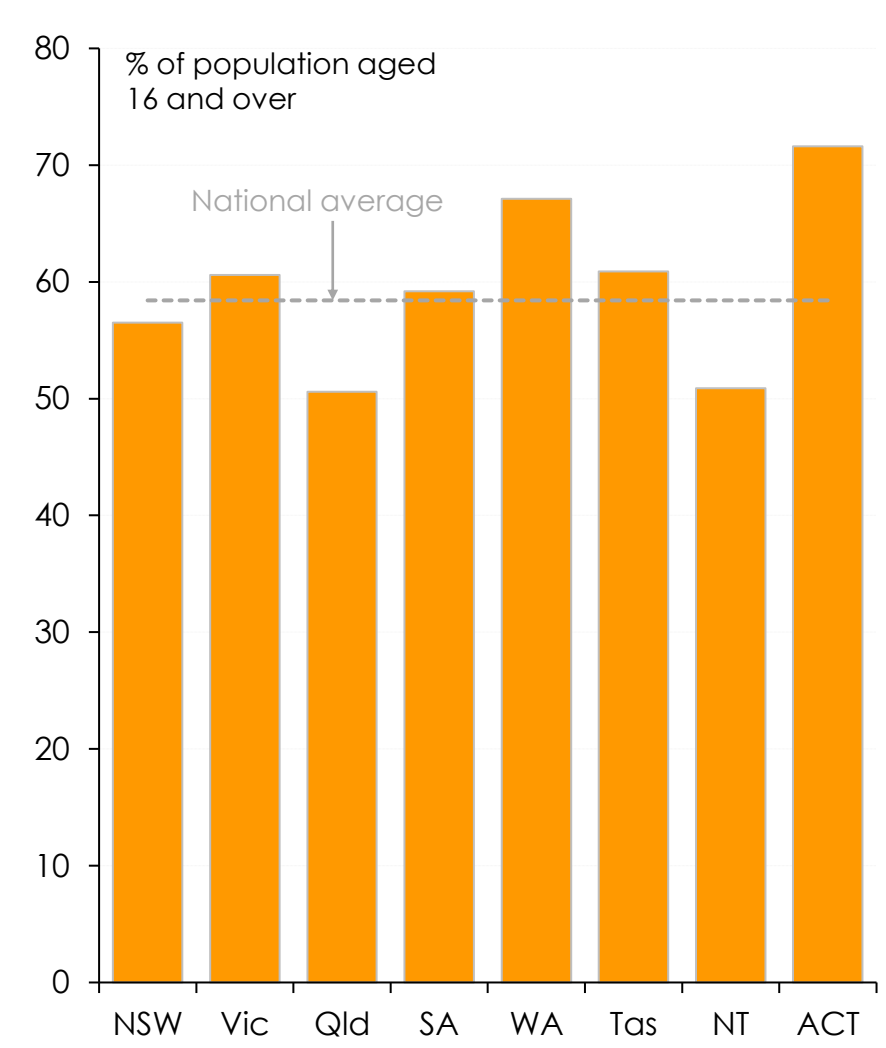
Pc of population who have had at least one vaccination



Pc of population who have had two vaccinations



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

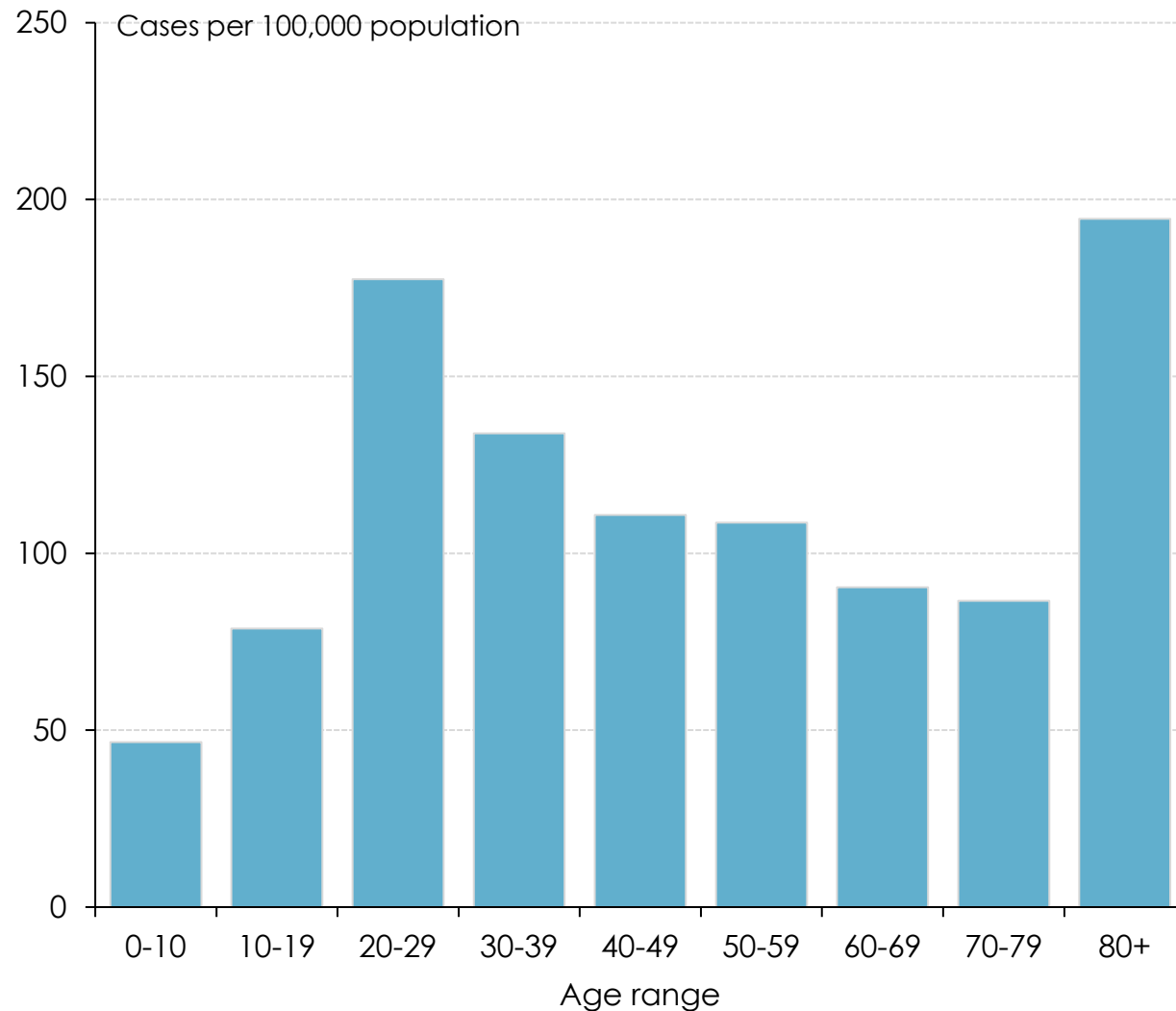


Note: Data are up to 11th March. Source: covid19data.com.au. [Return to "What's New"](#).

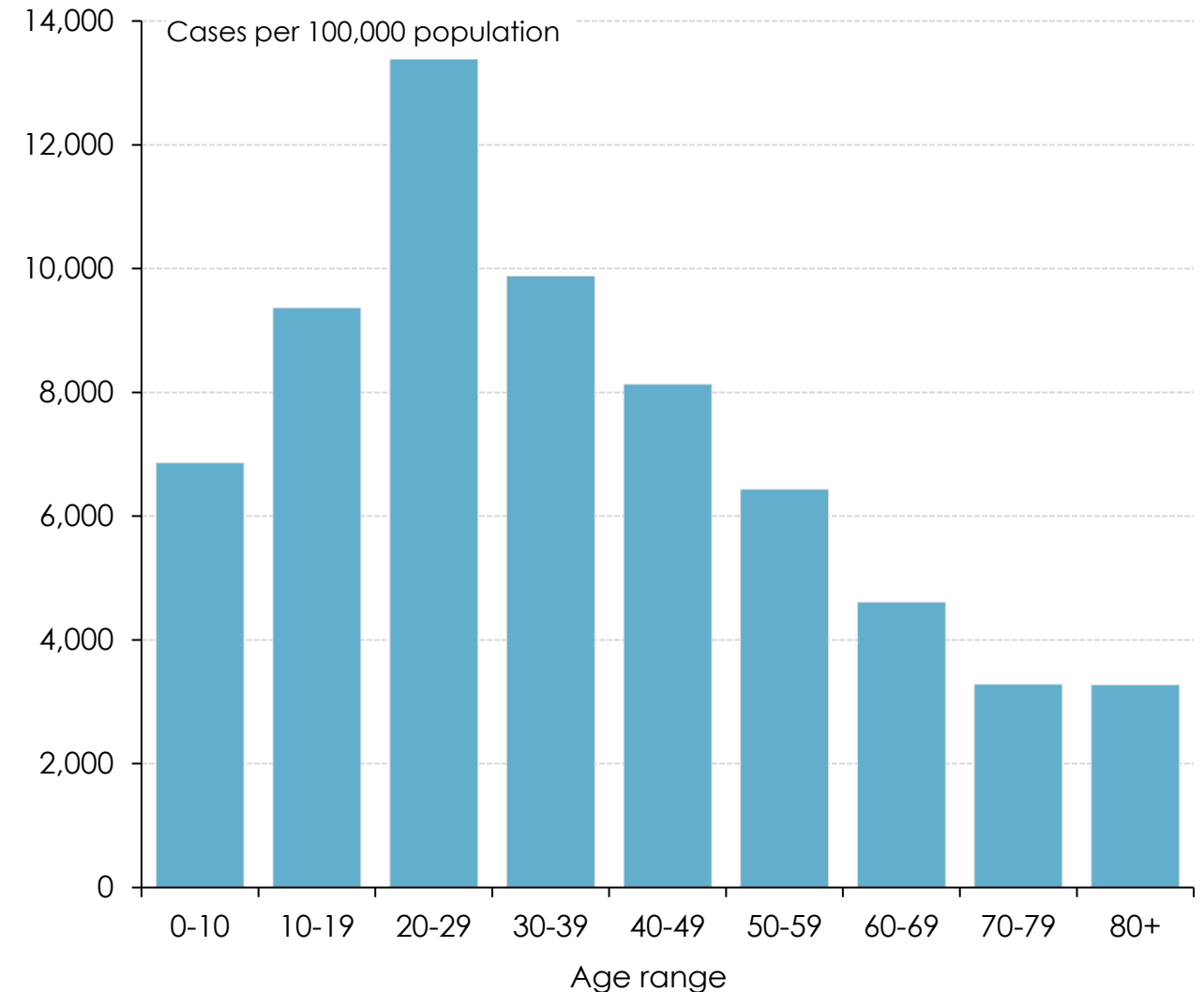
People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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



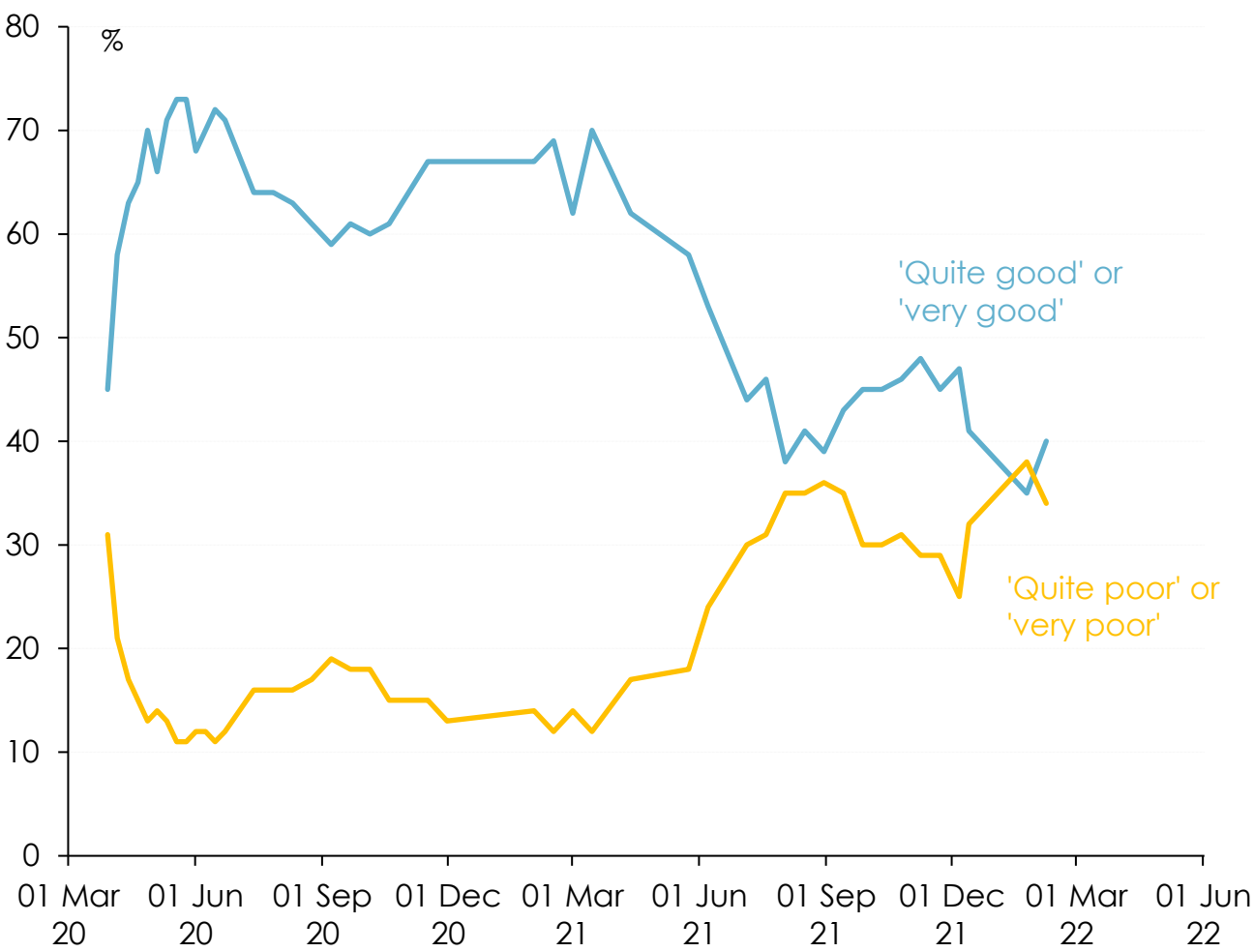
Cumulative confirmed cases per 100,000 population, by age group – since 1st January 2021



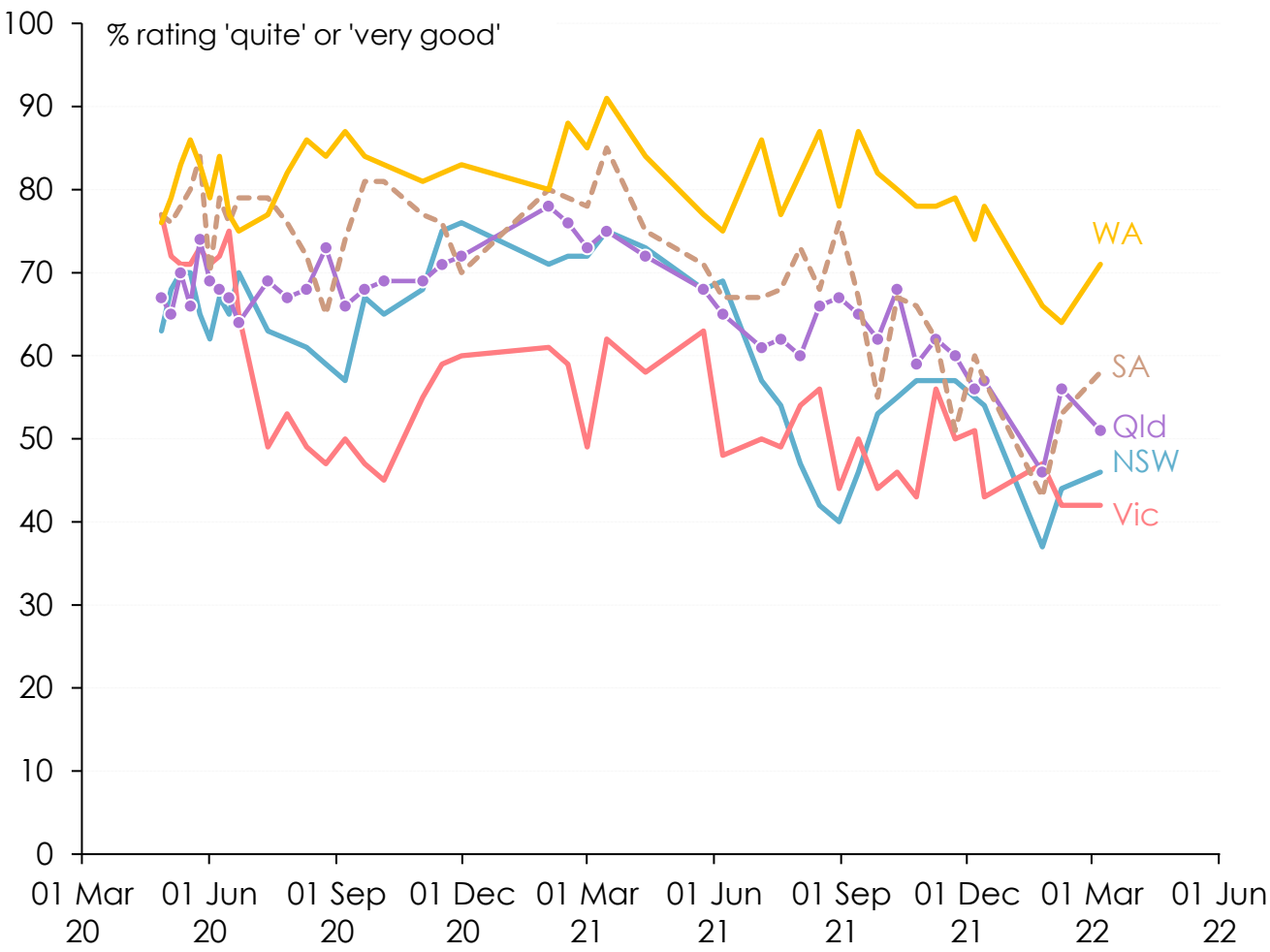
Public approval of the Federal and state governments' handling of Covid remains lower than during the first 15 months of the pandemic

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Approval of Federal Government response to Covid-19



Approval of State Government responses to Covid-19

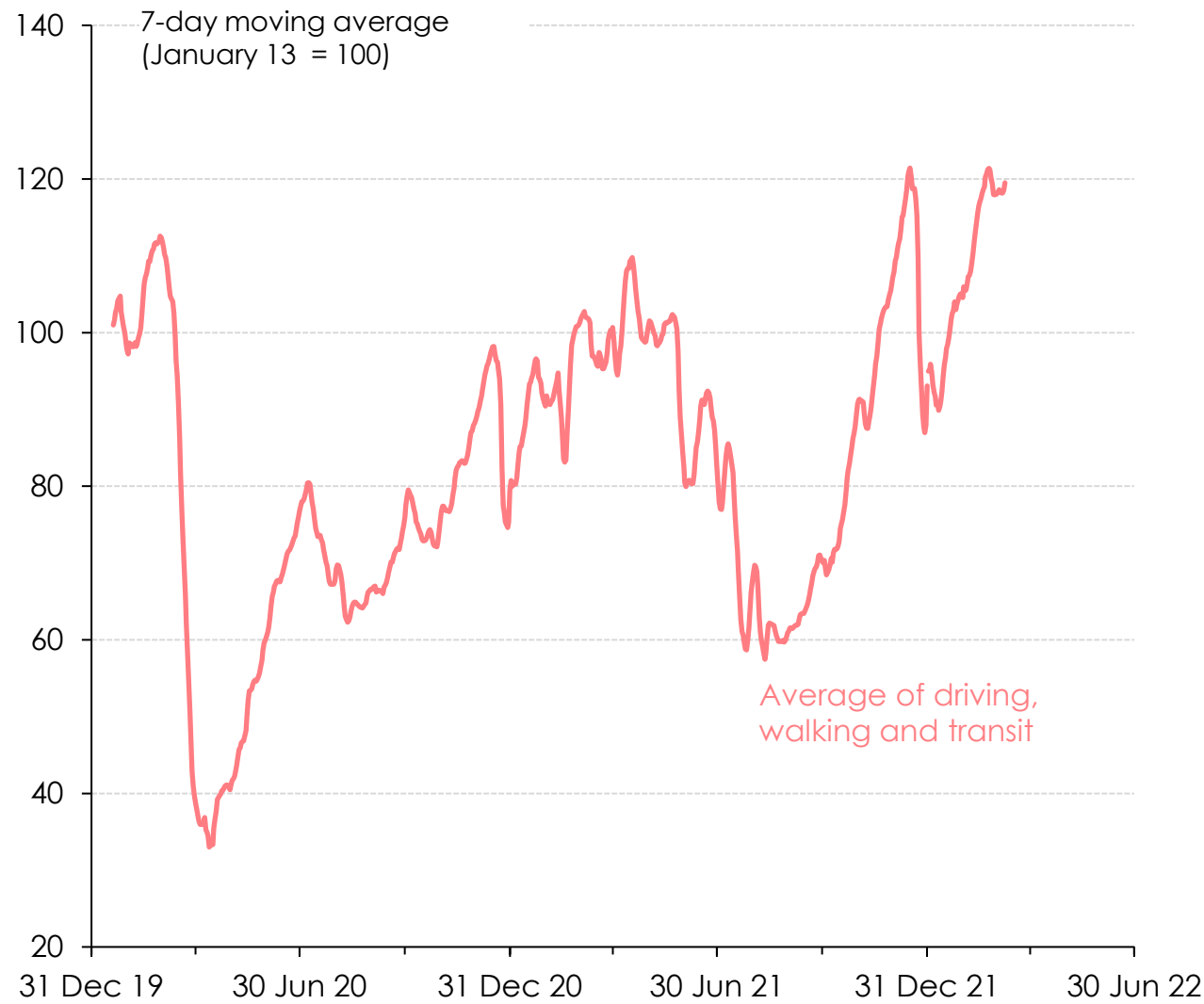


Note: Despite claiming to “track the mood of the nation”, Essential does not conduct polls in Tasmania, nor in either of the two territories.
Sources: Essential Research, [The Essential Report](#), 8th March 2022.

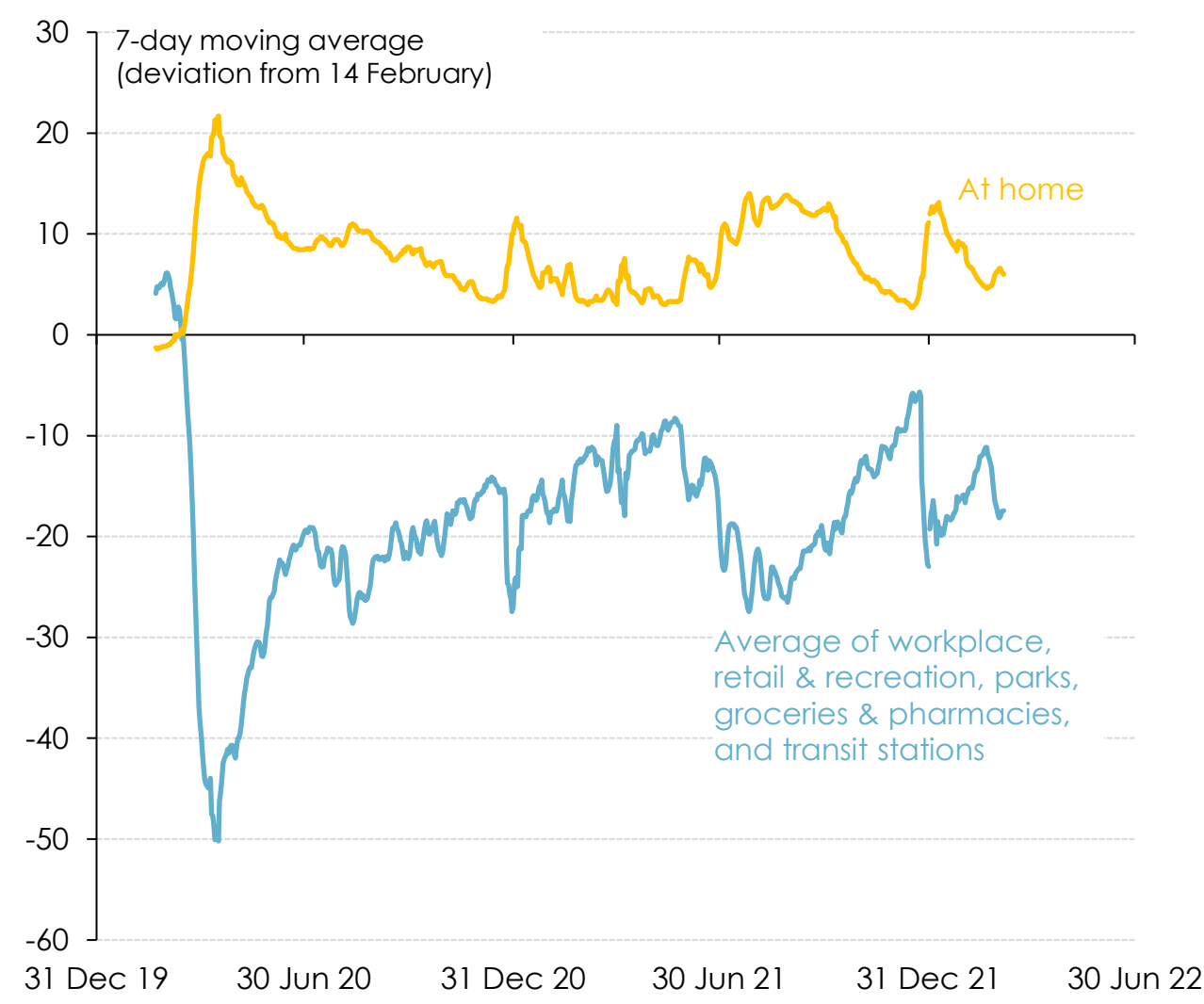
The (partly seasonal) recovery in mobility since mid-January appears to have stalled in the past two weeks

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Apple mobility indicators



Google mobility indicators



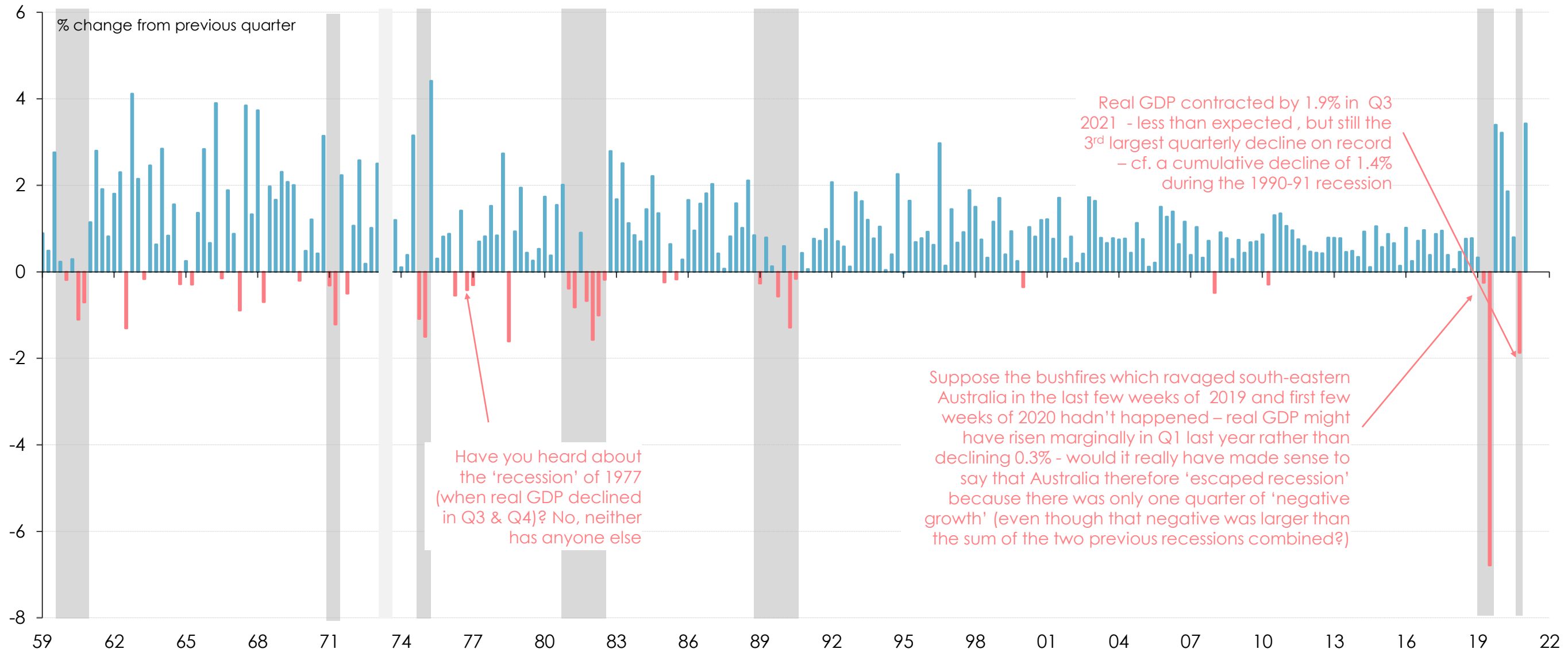
Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 9th March). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 7th March). 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

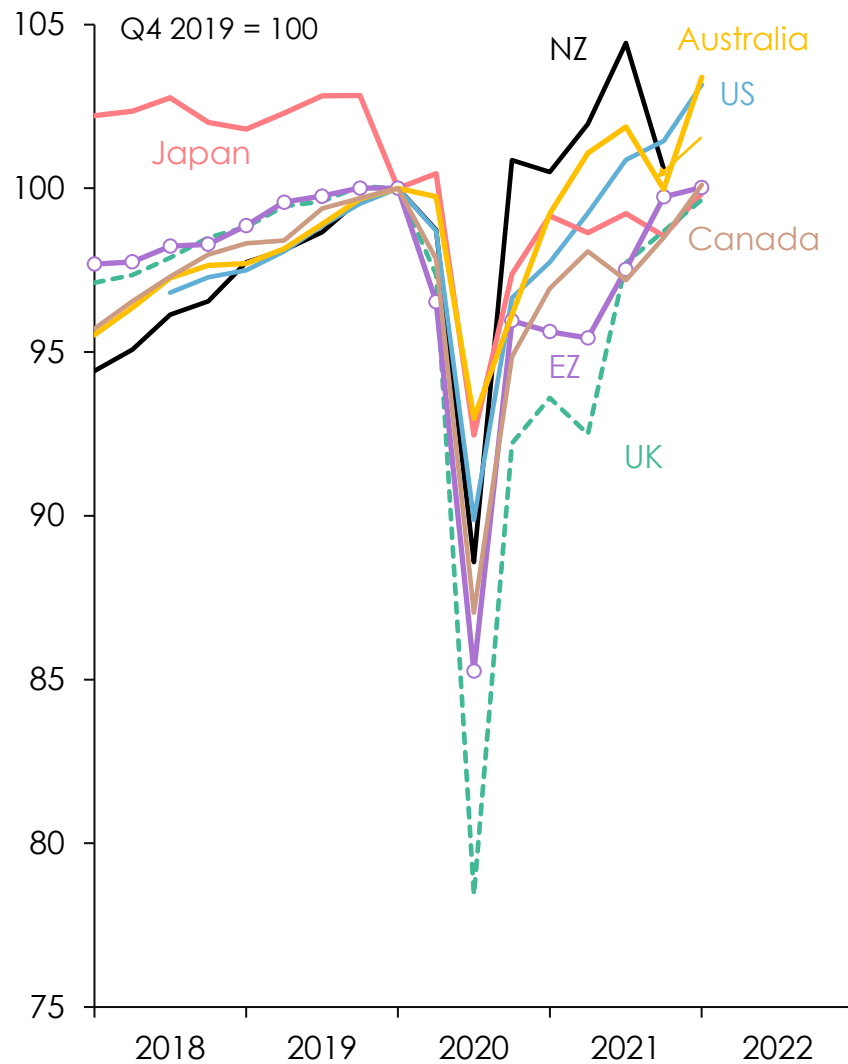


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. March quarter GDP will be released on 1st June. [Return to "What's New"](#).

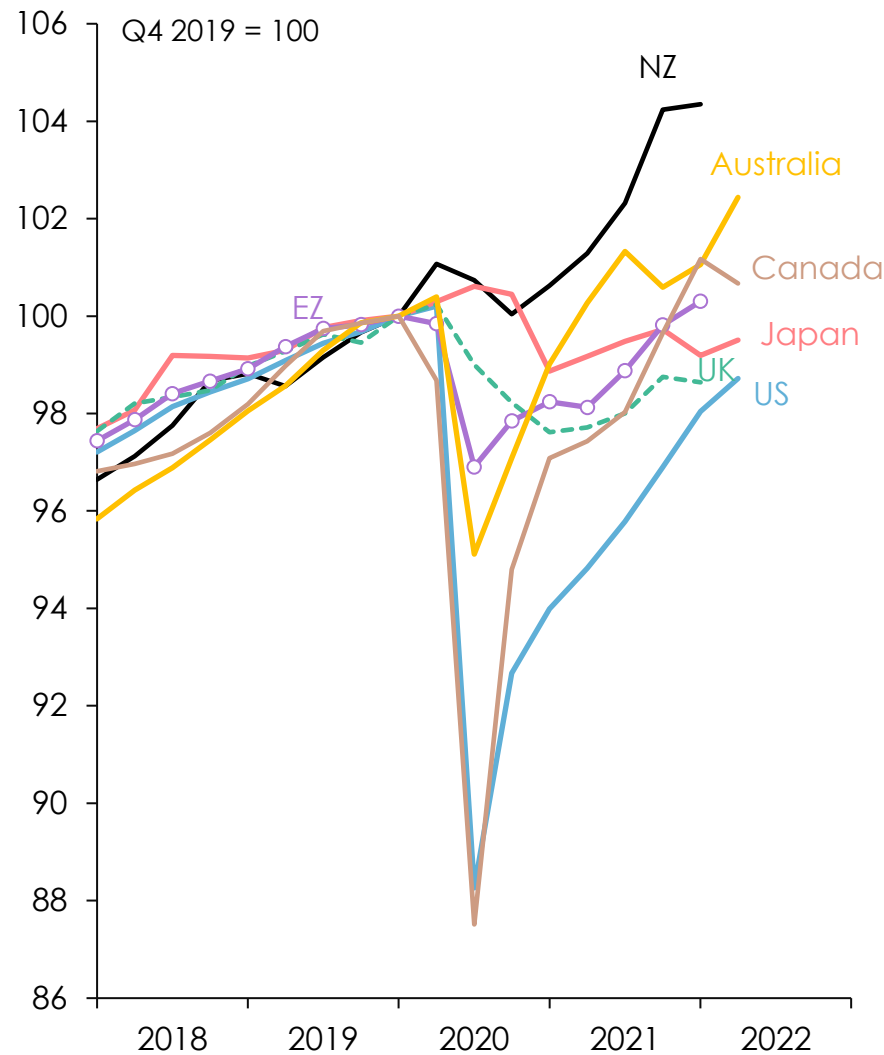
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies

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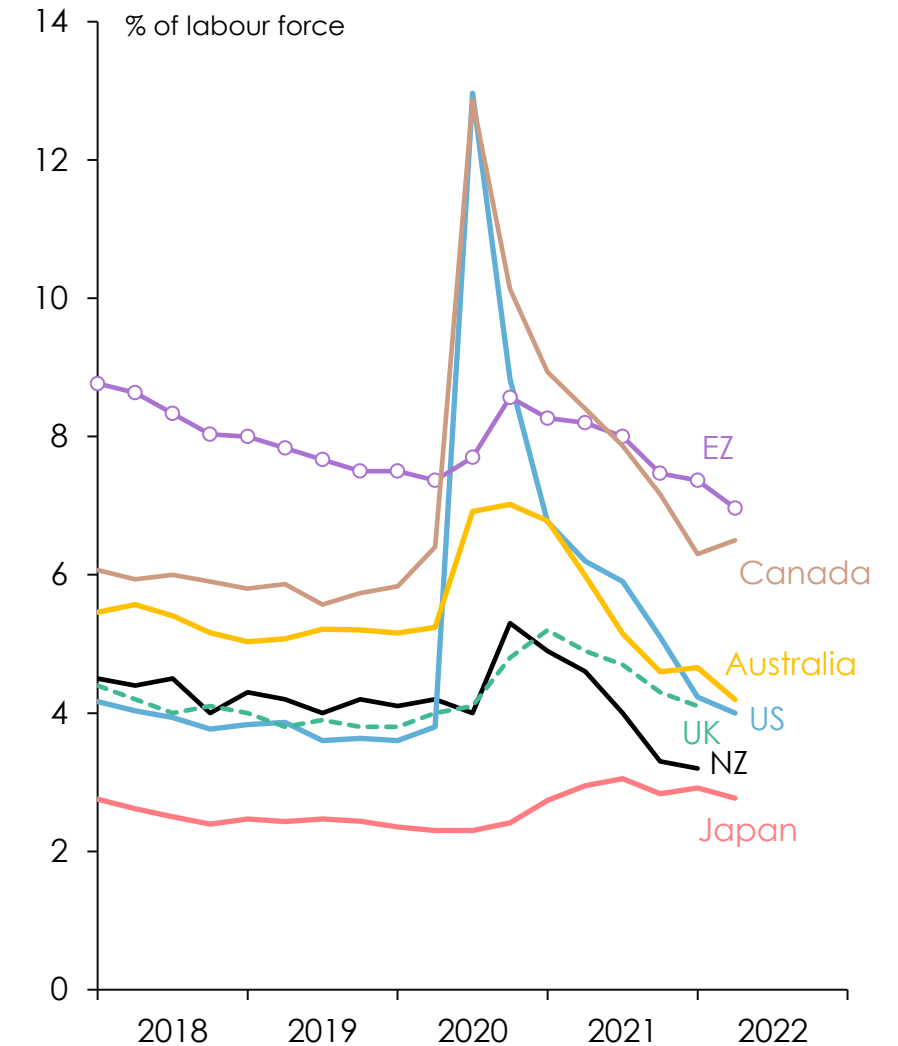
Level of real GDP



Employment



Unemployment

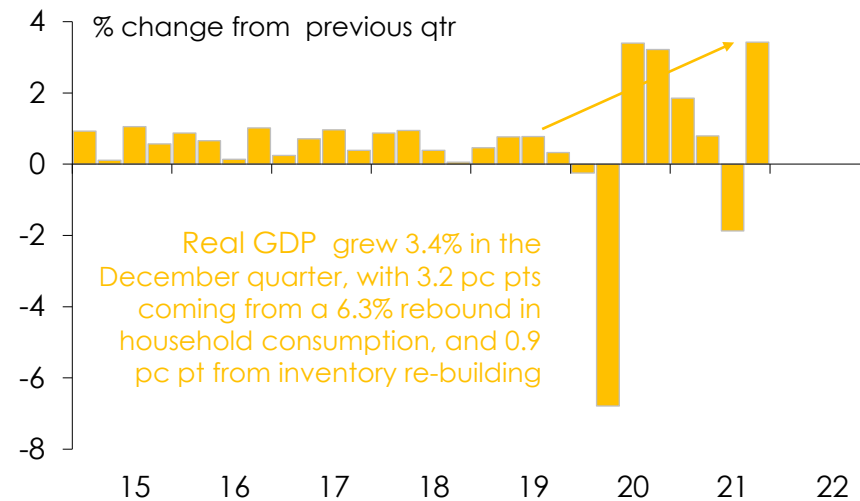


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

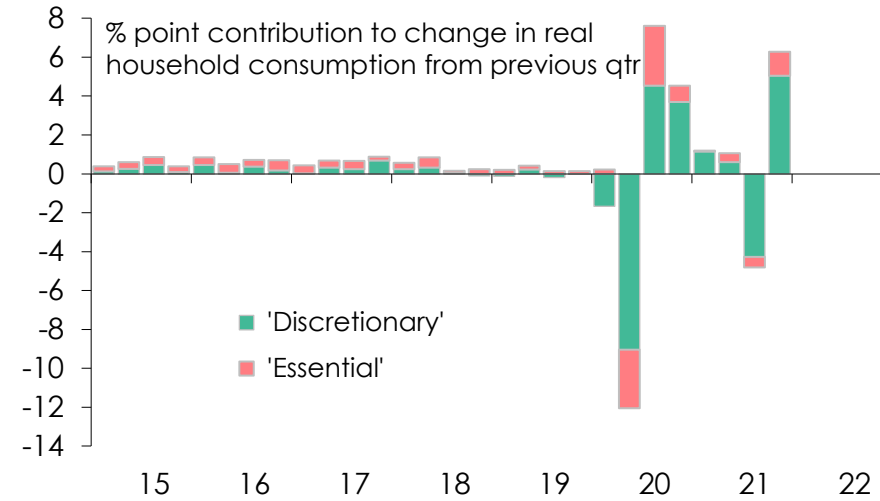
Real GDP grew 3.4% in the December quarter, fuelled by a surge in post-lockdown discretionary consumption spending and inventory re-building

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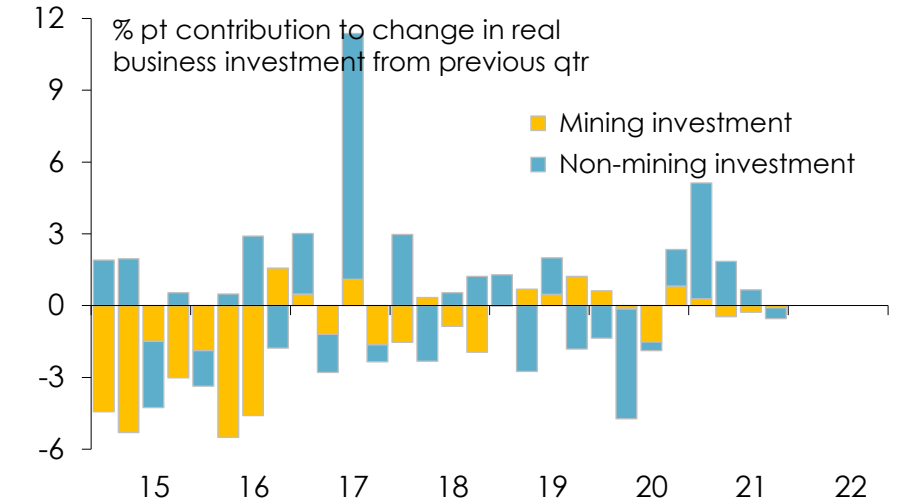
Quarterly change in real GDP



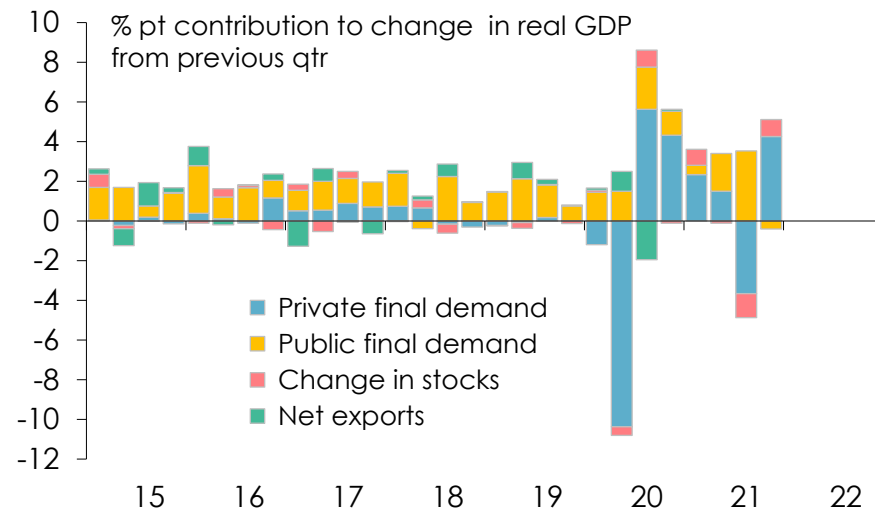
Household consumption expenditure



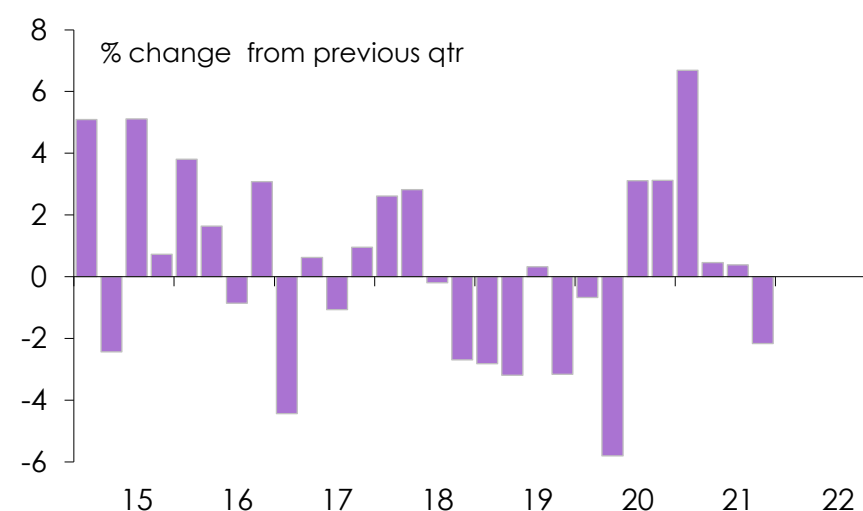
Business investment expenditure



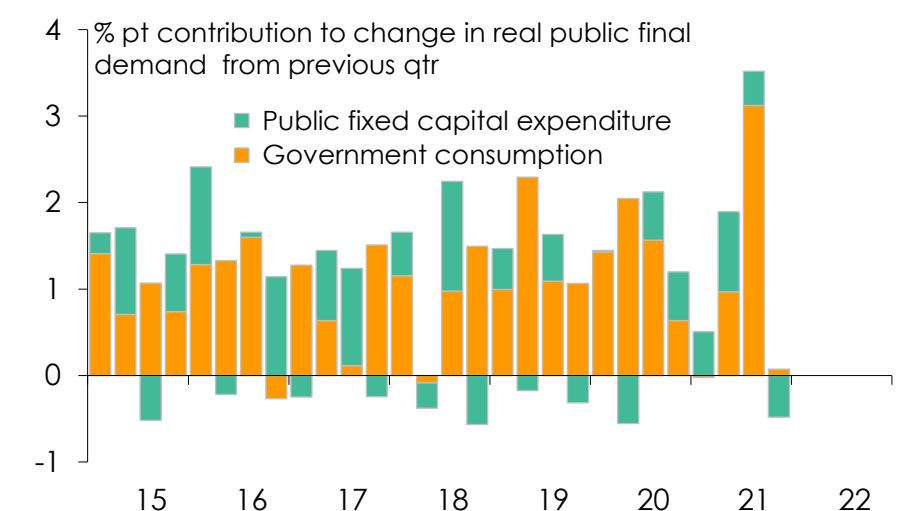
Contributions to quarterly GDP growth



Dwelling investment expenditure



Public expenditure

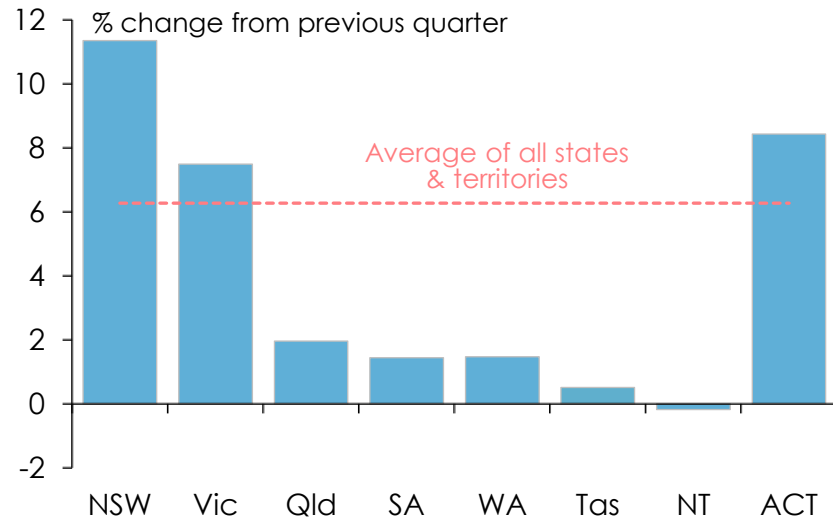


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021. March quarter national accounts will be released on 1st June. [Return to "What's New"](#).

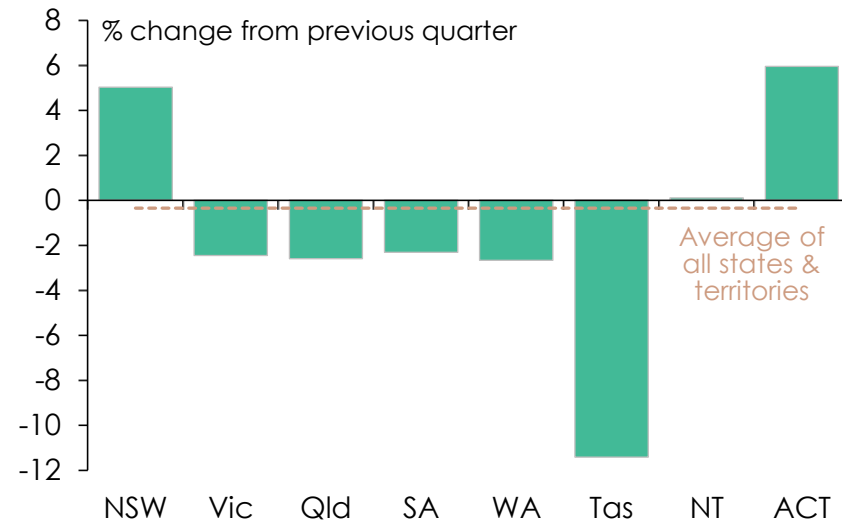
The December quarter rebound was largely driven by post-lockdown surges in consumer spending in New South Wales, Victoria and the ACT

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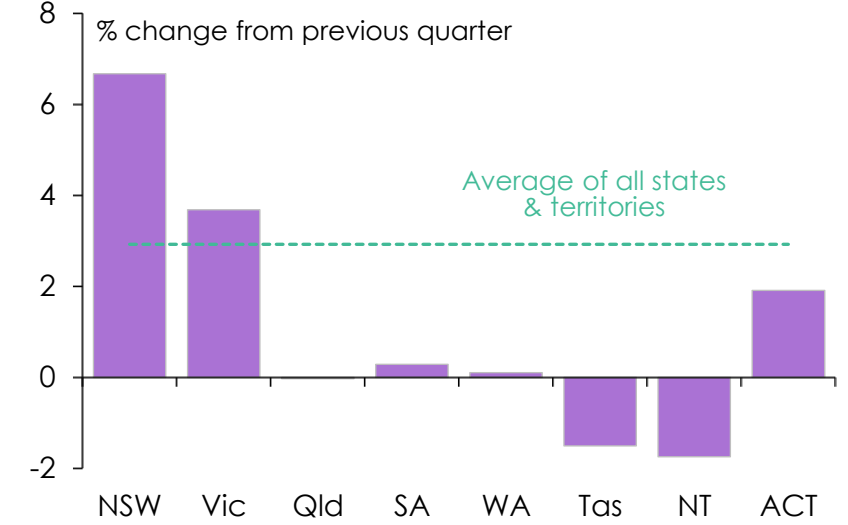
Household consumption



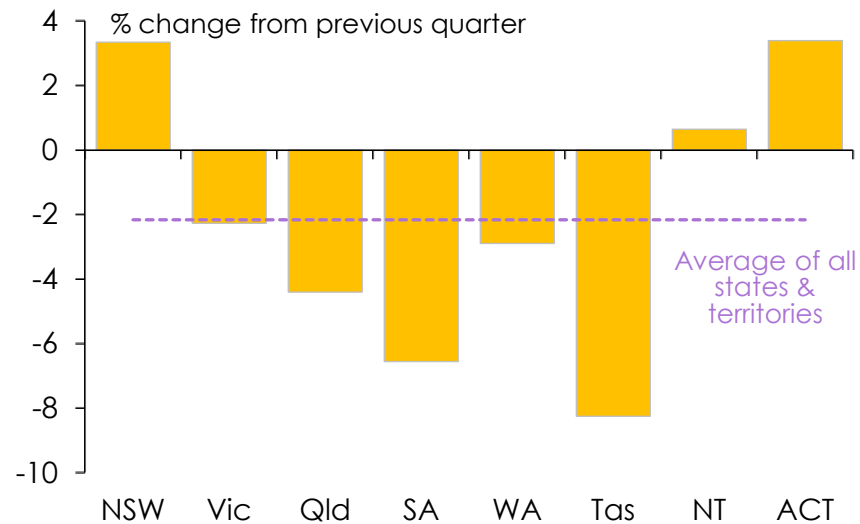
Business investment



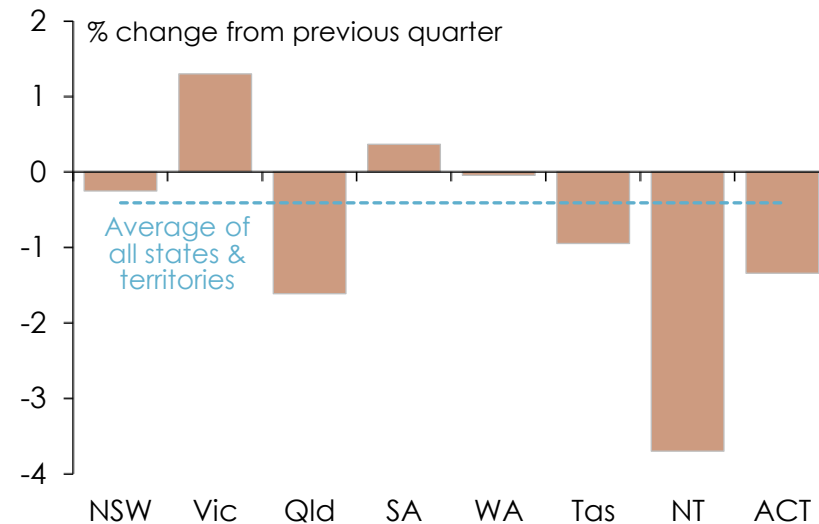
State final demand



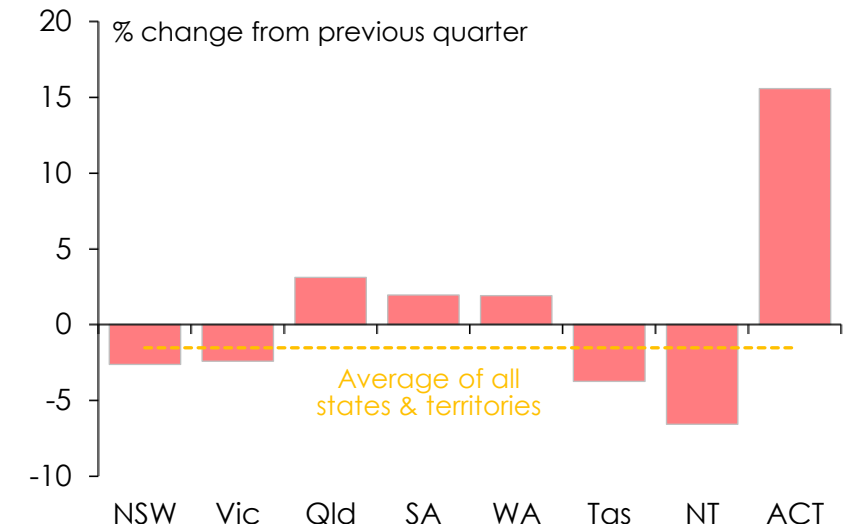
Dwelling investment



Public spending



International exports

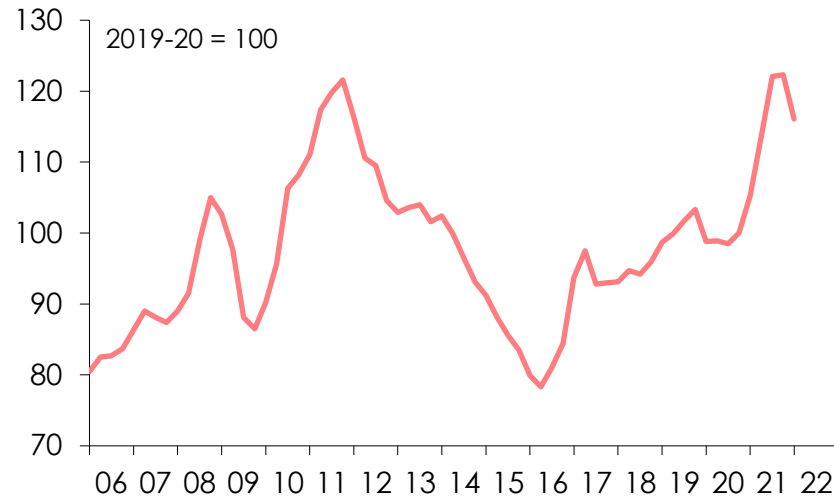


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; [Balance of Payments and International Investment Position,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

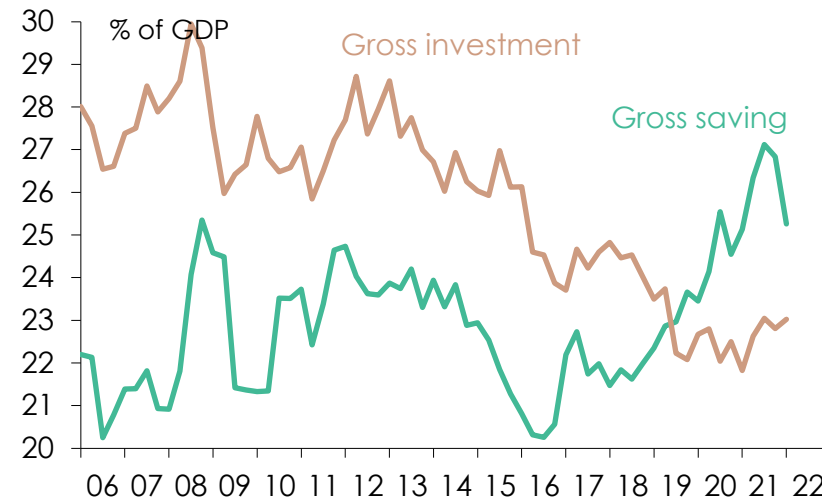
Australia's terms of trade may have peaked, leading to slower growth in income and lower national saving

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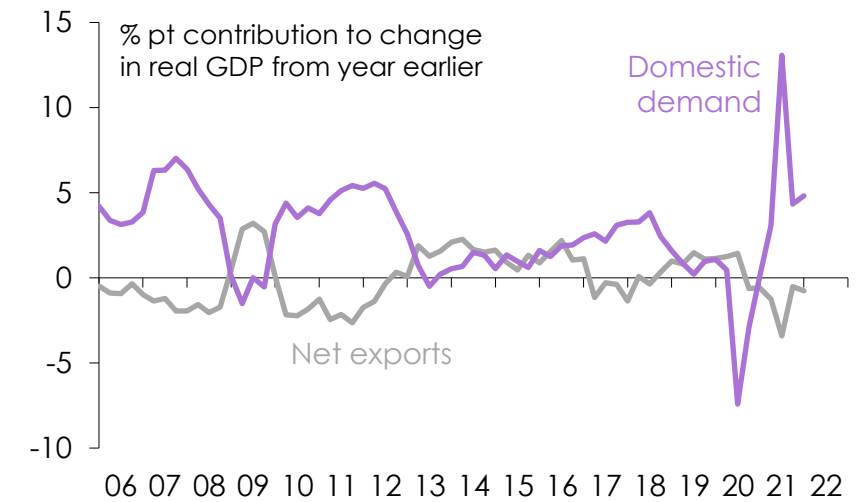
Terms of trade



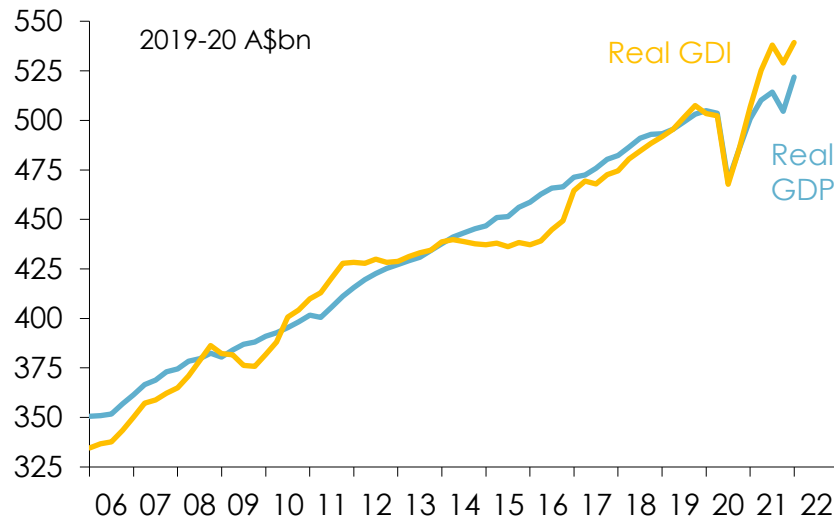
National saving & investment



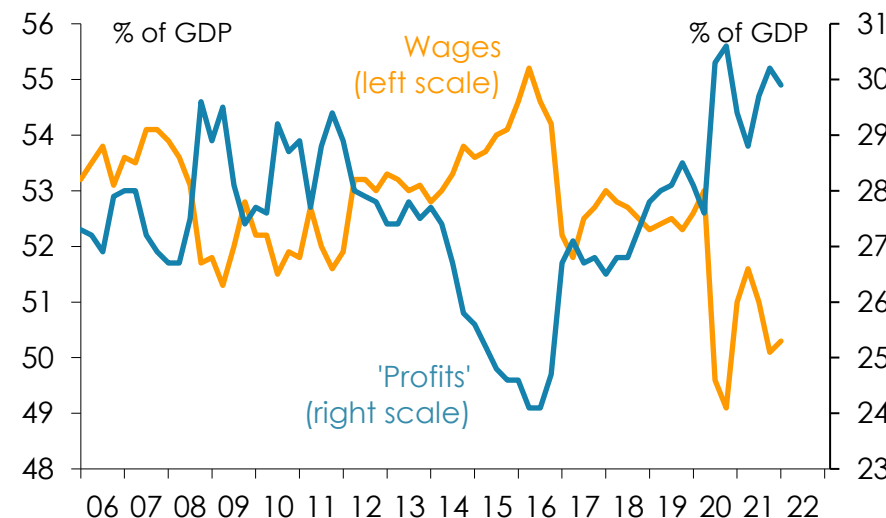
Domestic demand and net exports



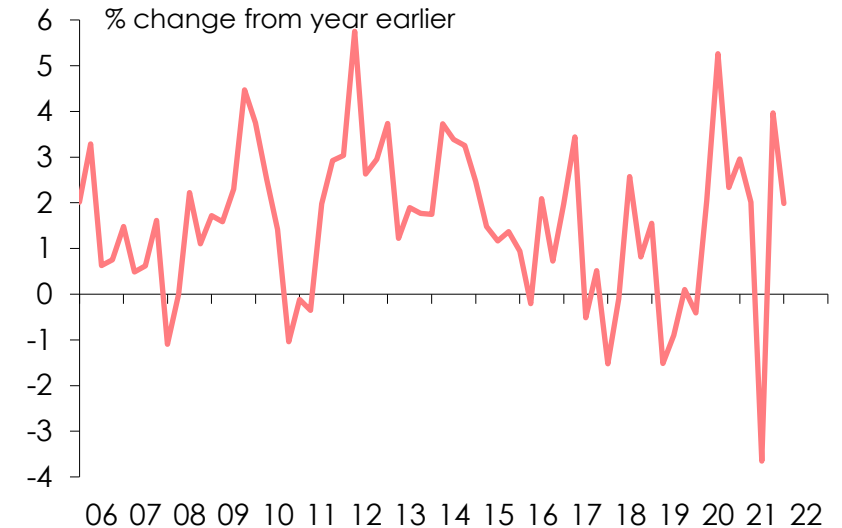
Real gross domestic income



Shares of national income



Labour productivity

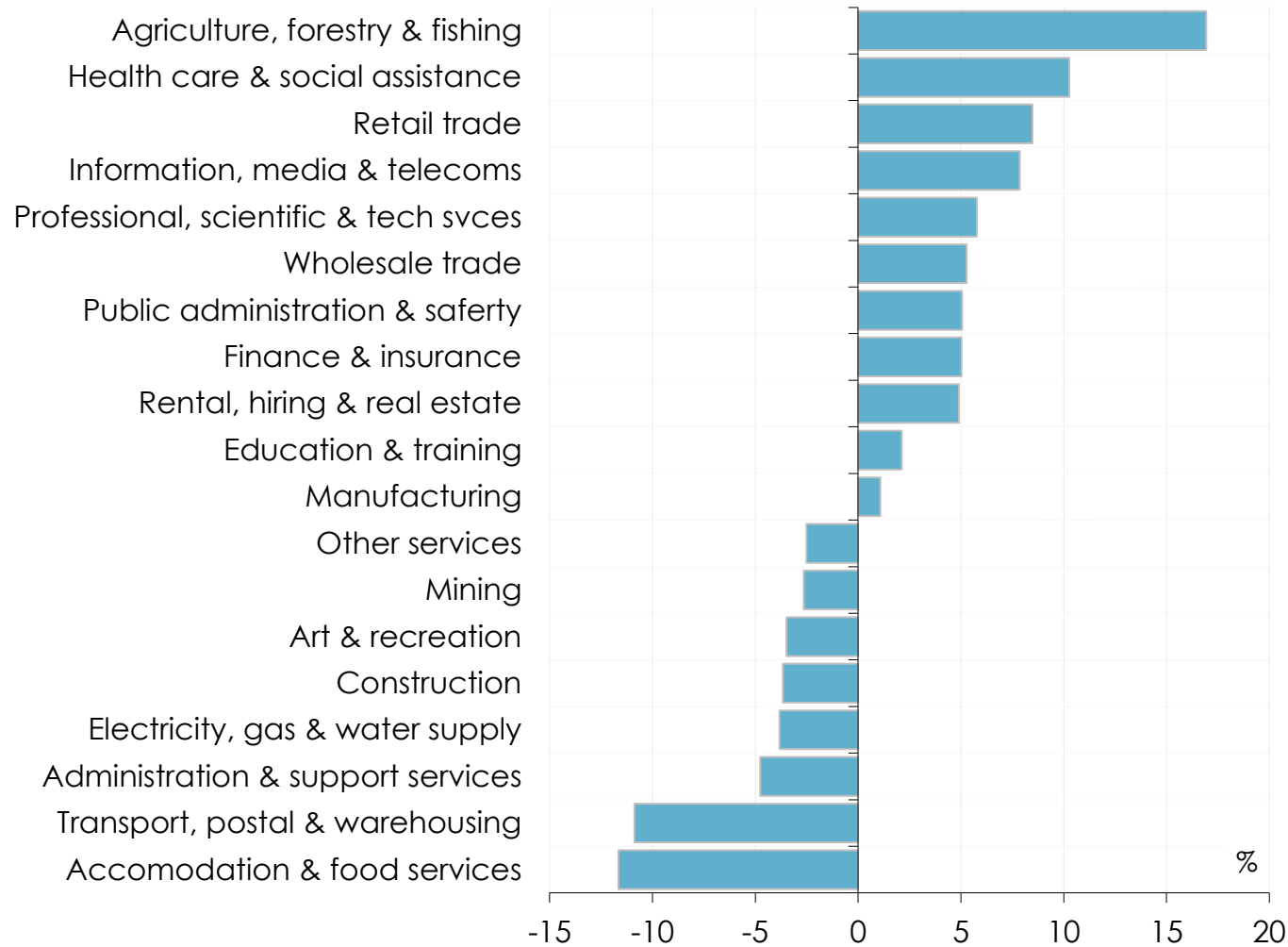


Note: The terms of trade is the ratio of export to import prices (for more see [slide 69](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021.

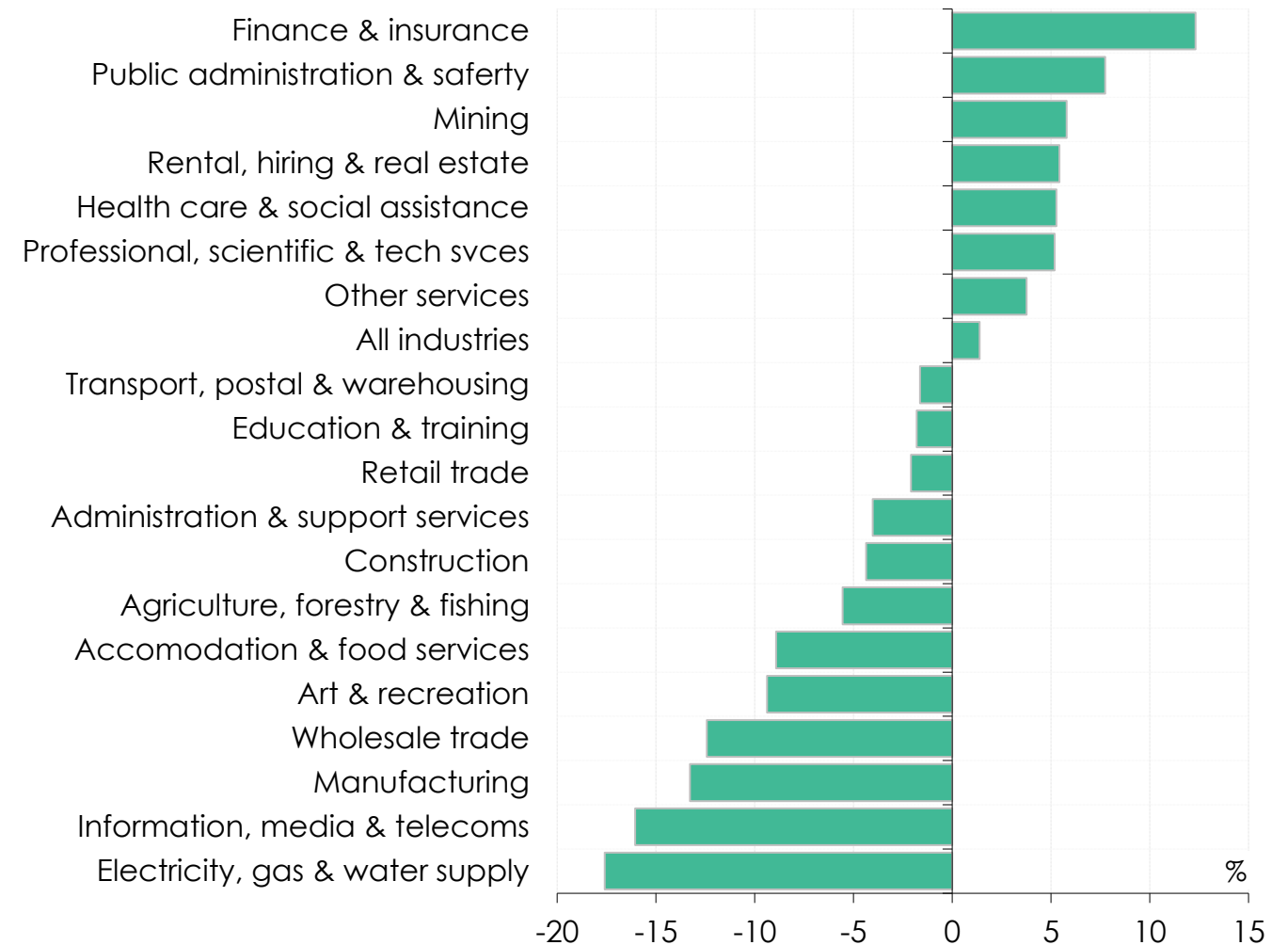
Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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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

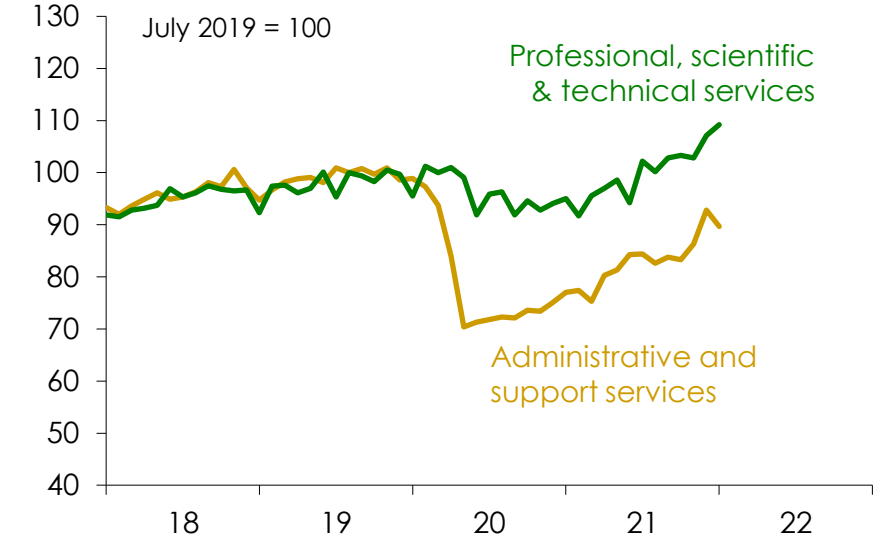
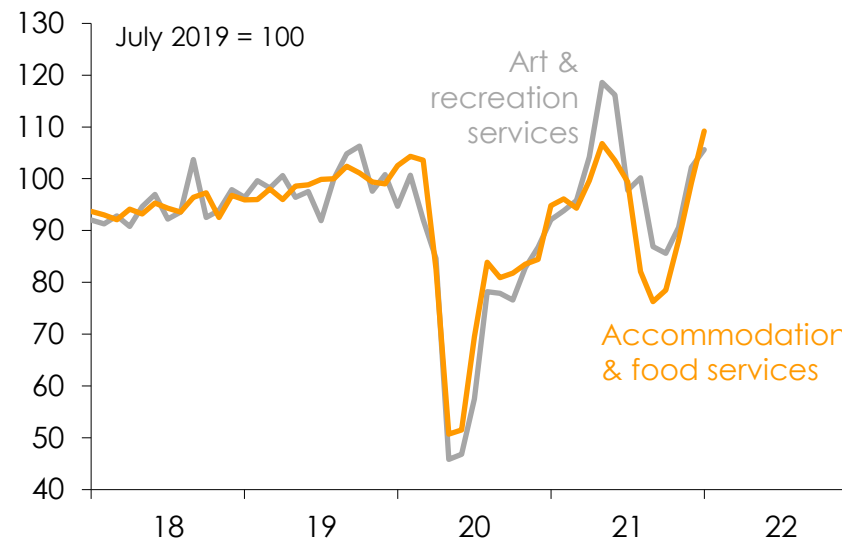
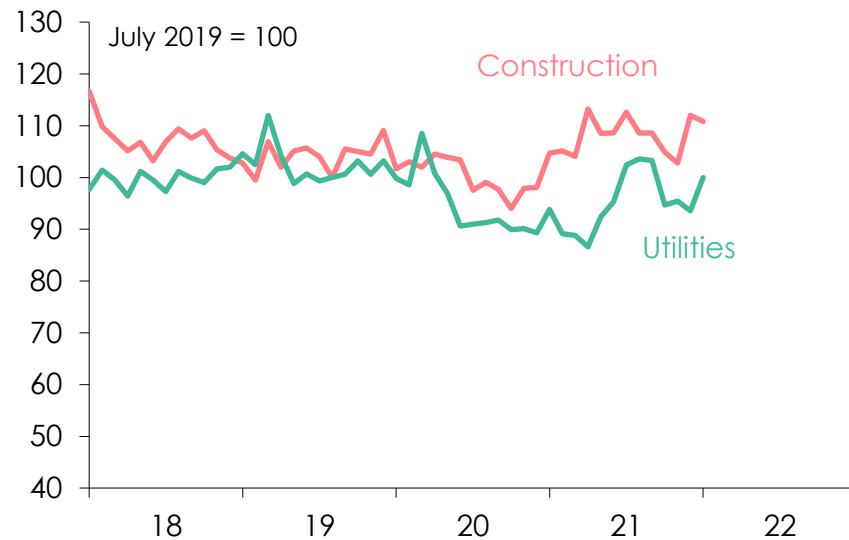
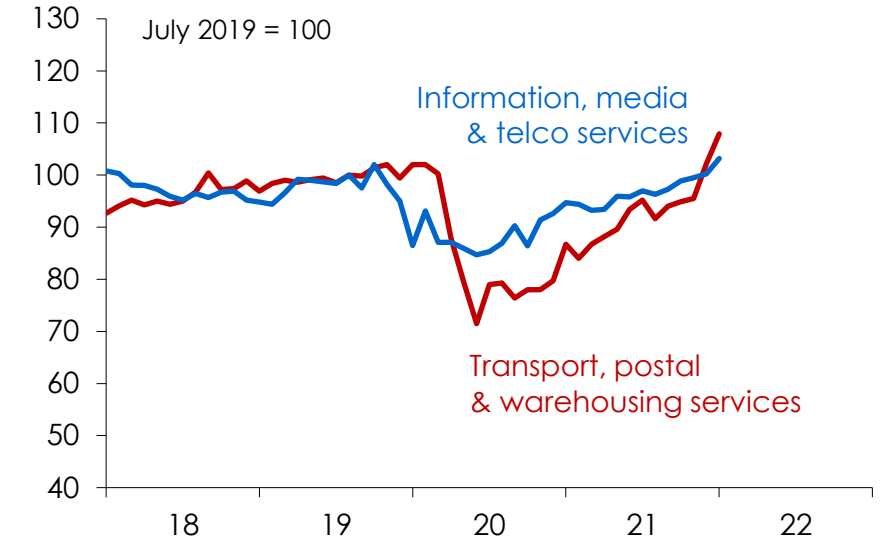
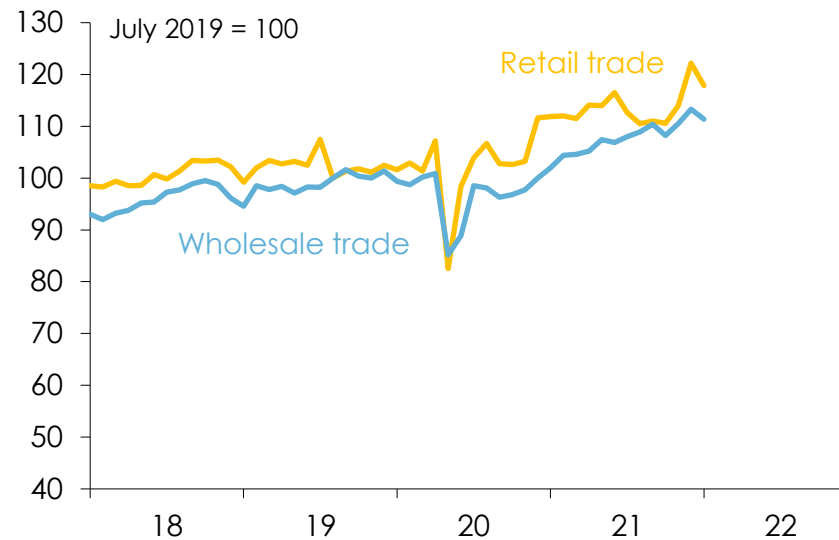
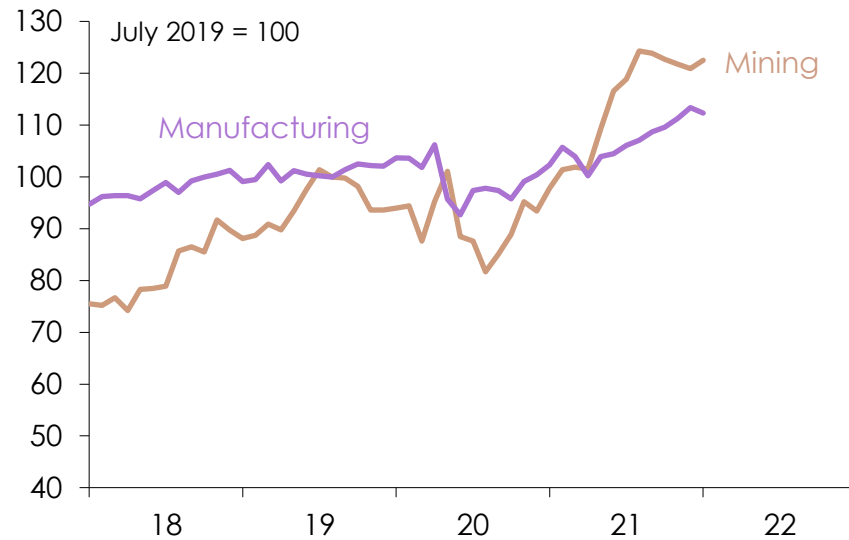


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; and [Labour Force, Australia, Detailed](#), November 2021. GVA by industry data will be updated in the March quarter national accounts to be released on 1st June

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

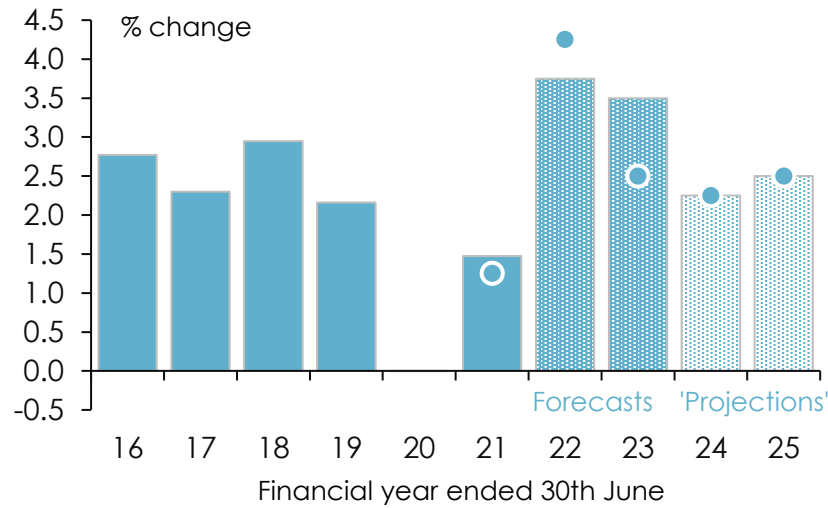


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

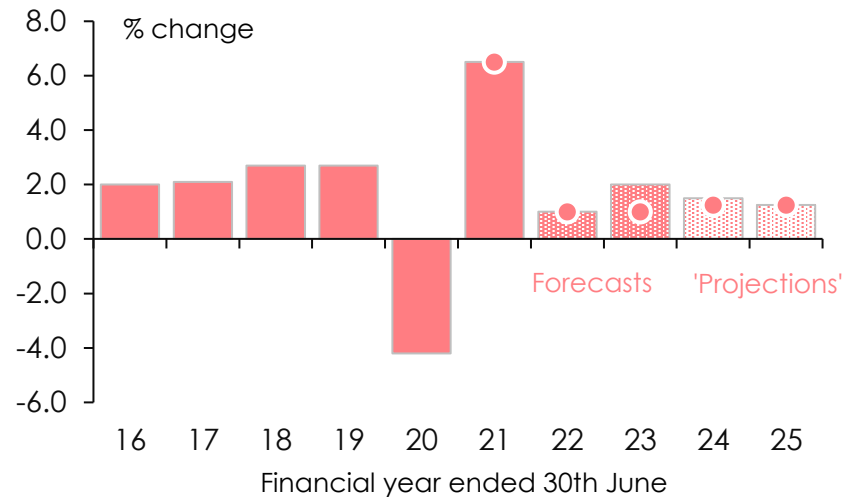
Treasury revised up its forecasts for economic and employment growth in 2022-23, and for wages growth through 2024-25, in December's MYEFO

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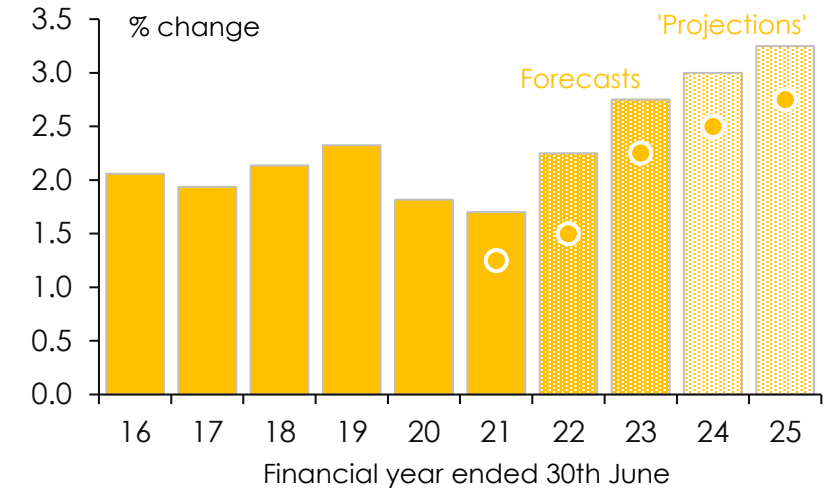
Real GDP



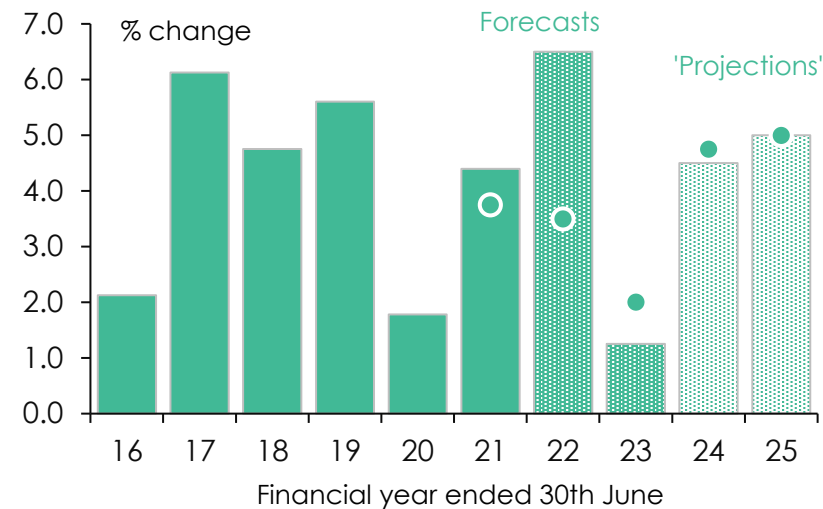
Employment



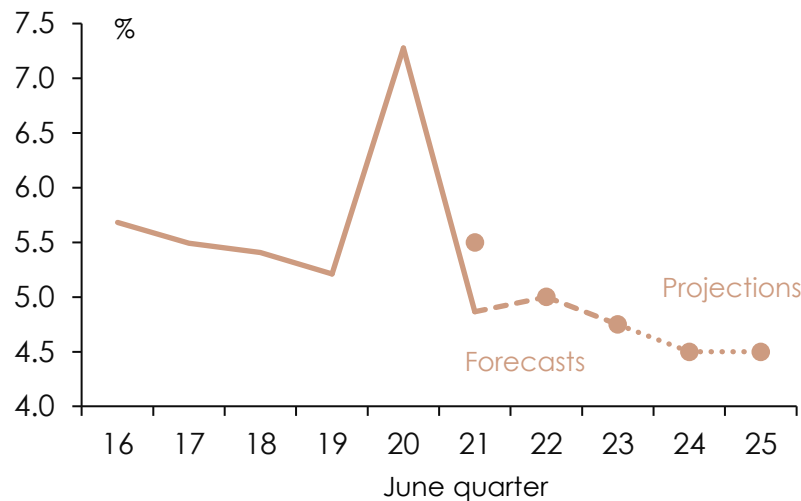
Wages



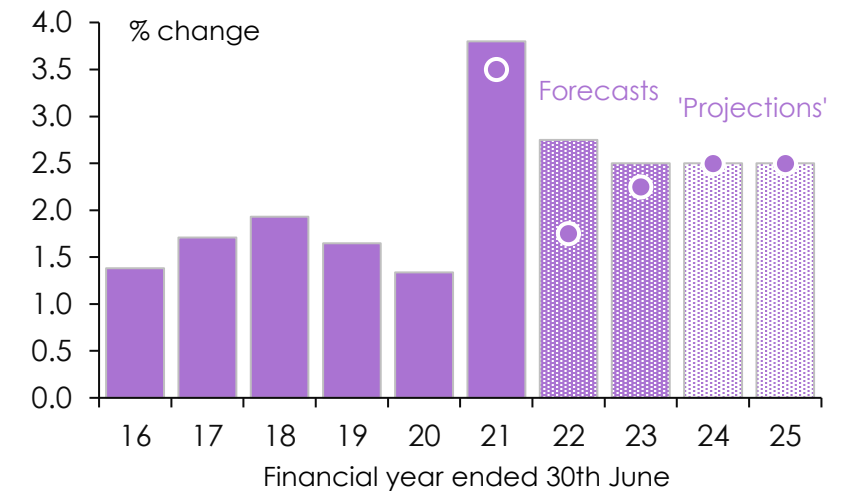
Nominal GDP



Unemployment rate



Consumer prices

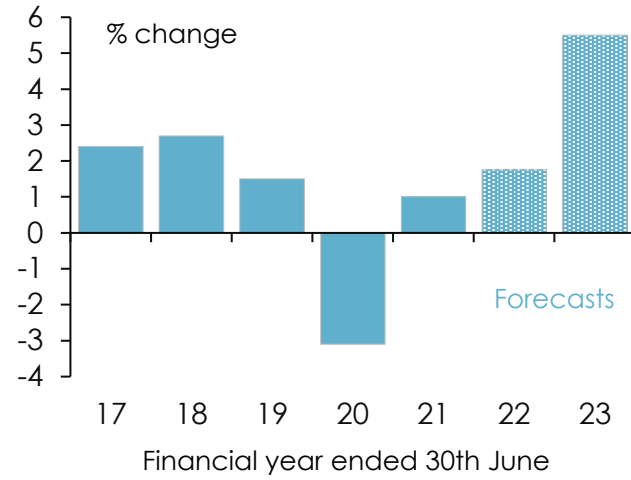


Note: Dots represent forecasts/projections in the 2021-22 Budget presented in May. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to be -41K in 2021-22, +180K in 2022-23, +213K in 2023-24 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](#), 16th December 2021. These forecasts will be up-dated in the 2022-23 Budget to be presented on 29th March. For the RBA's forecasts see [slide 86](#). [Return to "What's New"](#).

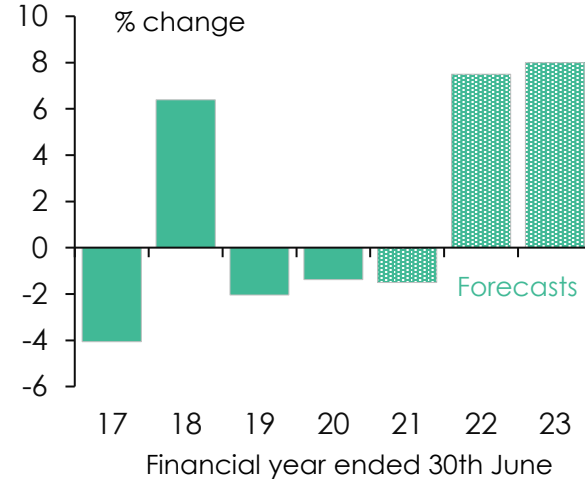
Treasury expects economic growth to be driven by private consumption and business investment offsetting weaker net exports

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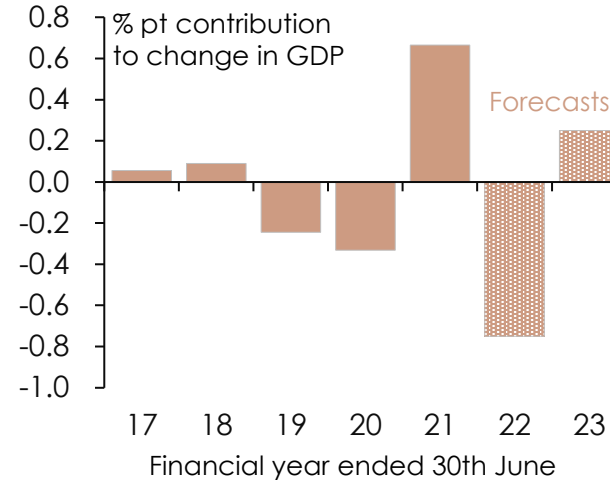
Household consumption



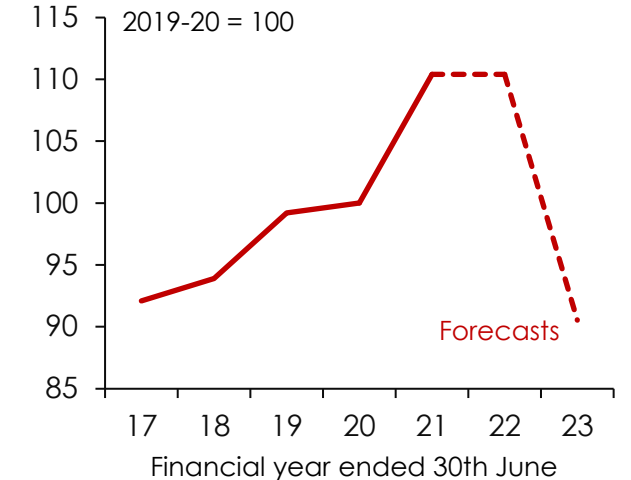
Business investment



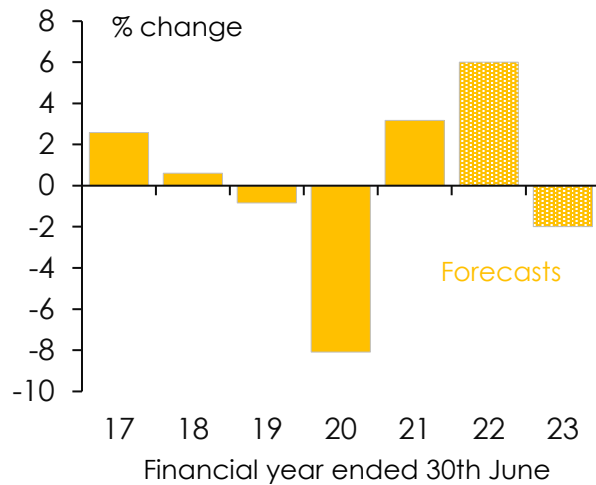
Change in inventories



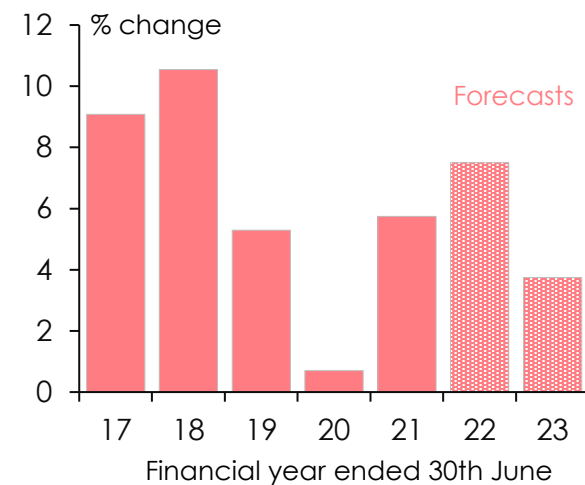
Terms of trade



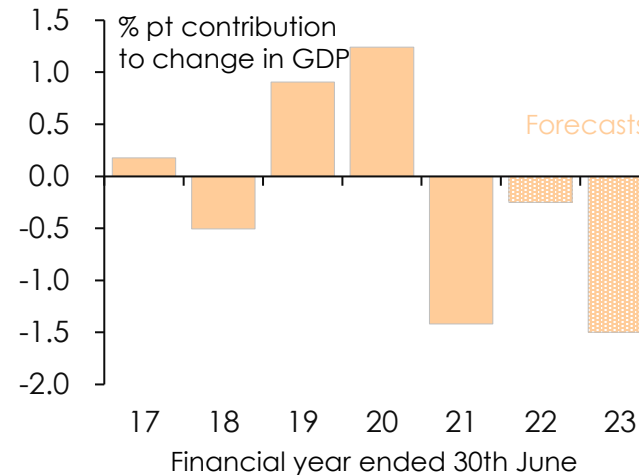
Dwelling investment



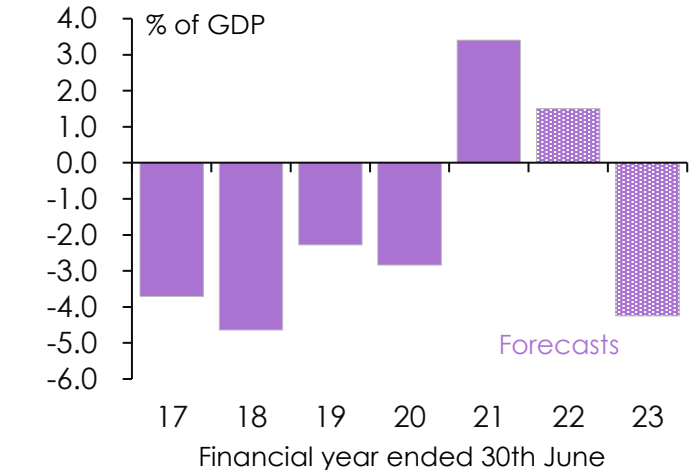
Public spending



Net exports



Current account balance

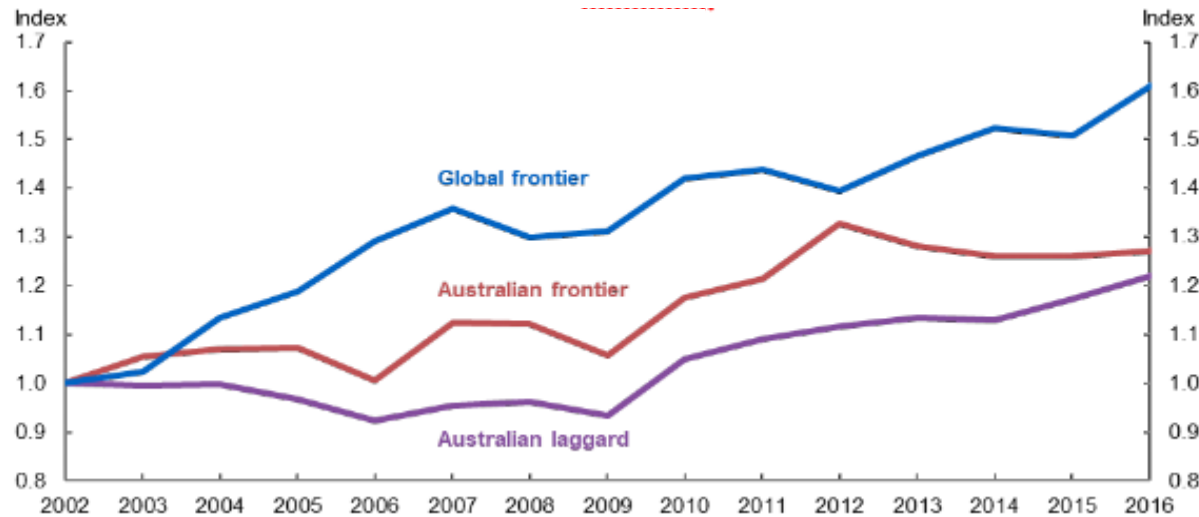


Note: Business investment and public spending exclude transactions in second-hand assets. Net overseas migration assumed to be -41K in 2021-22, and +180K in 2022-23; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by Q2 2022; Tapis oil prices remaining at around US\$83/bbl; and the A\$ remaining at around US75¢. Sources: ABS; Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. These forecasts will be updated in the 2022-23 Budget to be presented on 29th March. [Return to "What's New"](#).

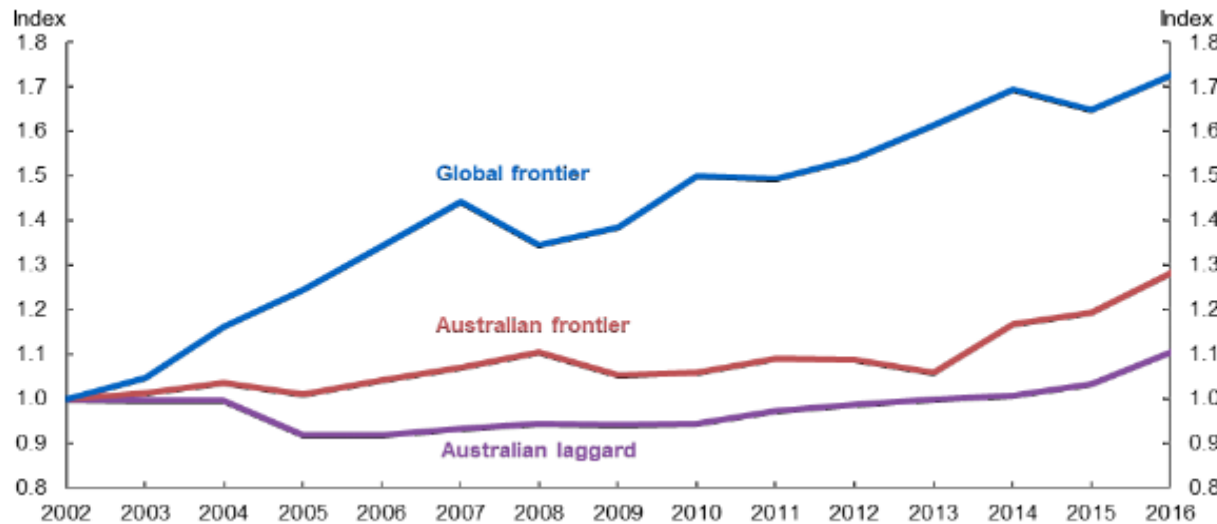
A new Australian Treasury paper suggests Australia's productivity slowdown is due to a loss of 'business dynamism' and competitive pressures

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Labour productivity dispersion - manufacturing



Labour productivity dispersion - services



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"](#).

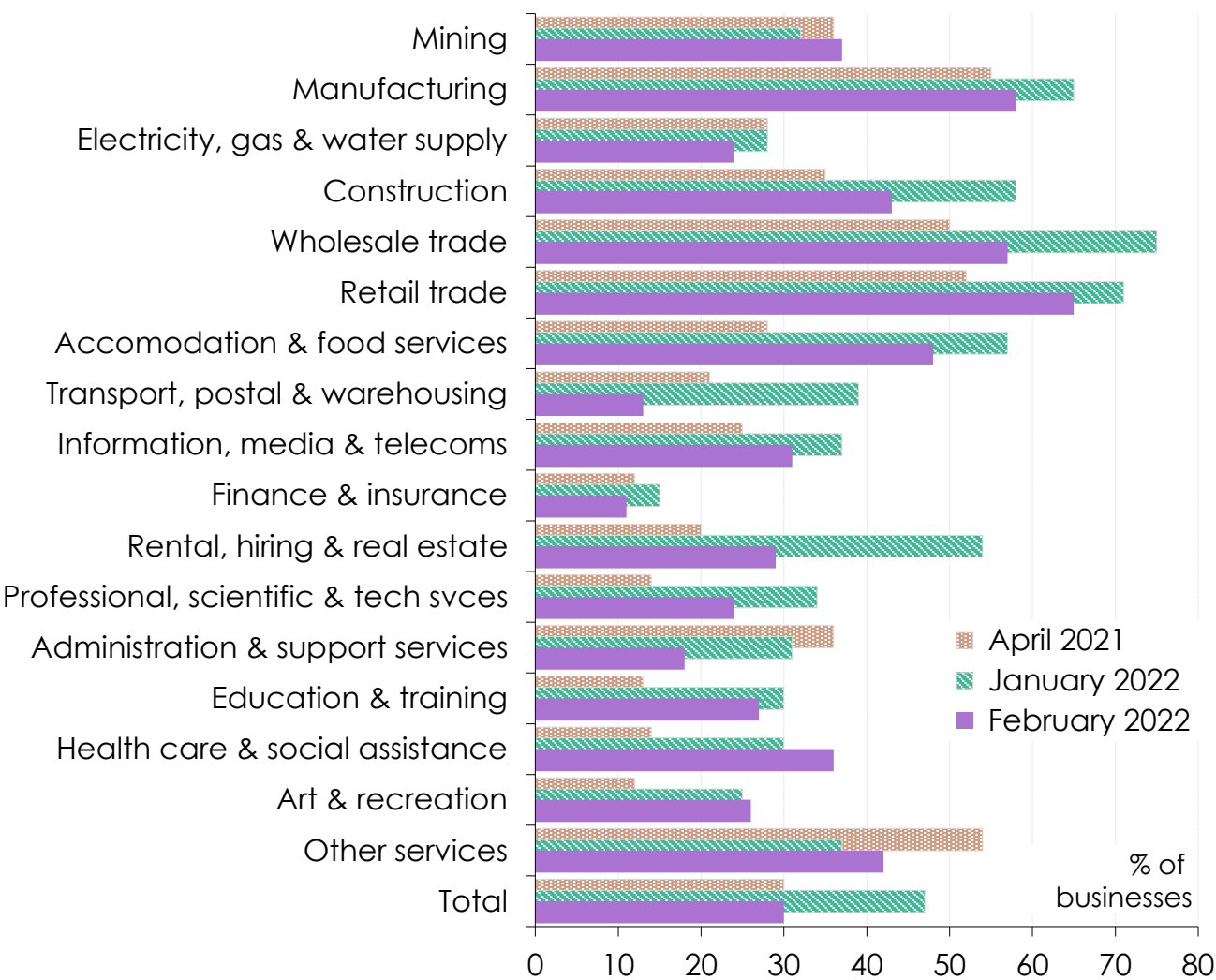
- ❑ Four Treasury economists recently published a [Working Paper](#) showing that the 'gap' between the productivity performance of Australian firms and global 'frontier firms' has widened – especially in non-financial services sectors – with Australian firms 'catching up' more slowly than previously, 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

The business sector

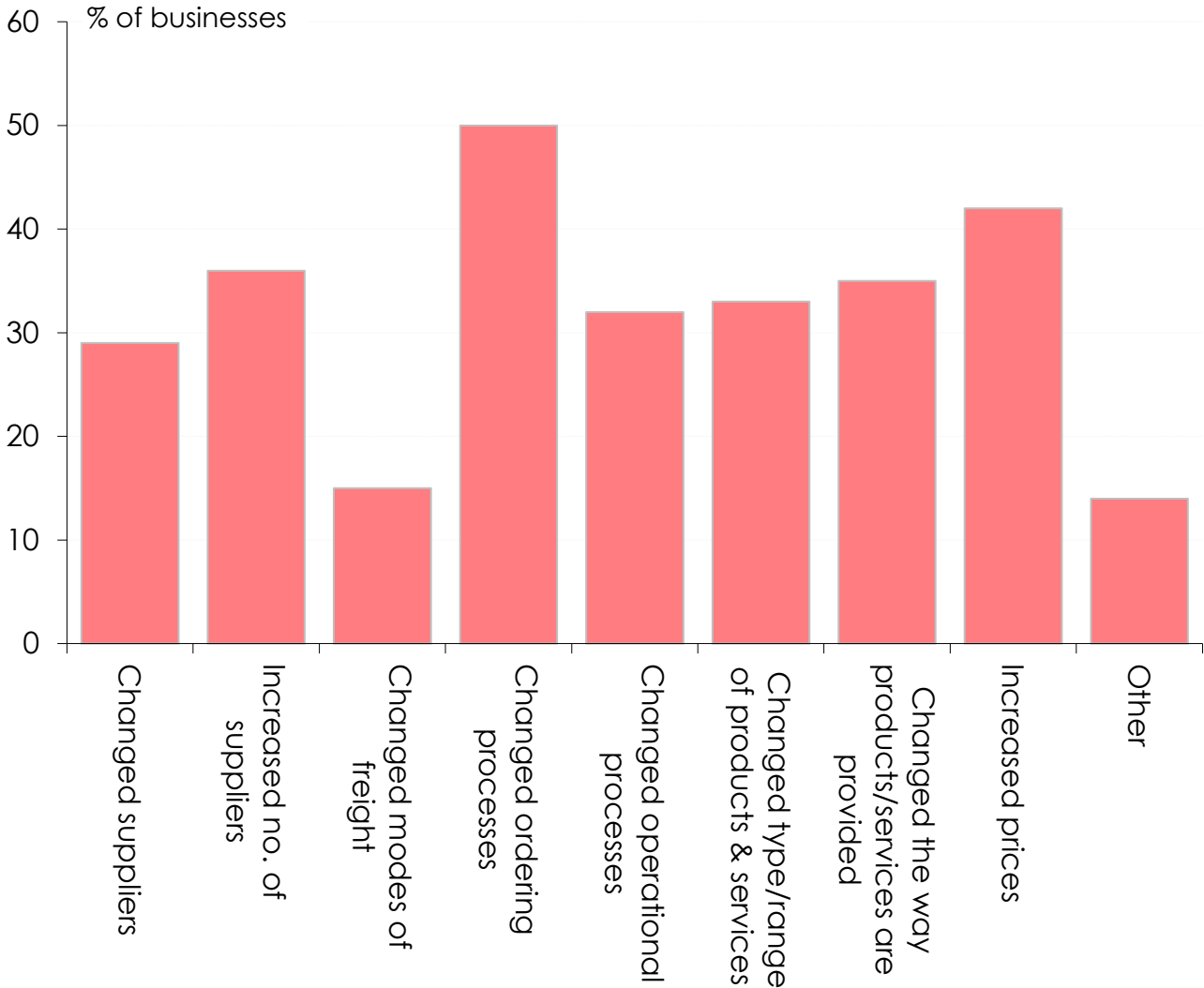
Supply chain disruptions eased a bit in February but are still adversely affecting almost one-third of all businesses

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH 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

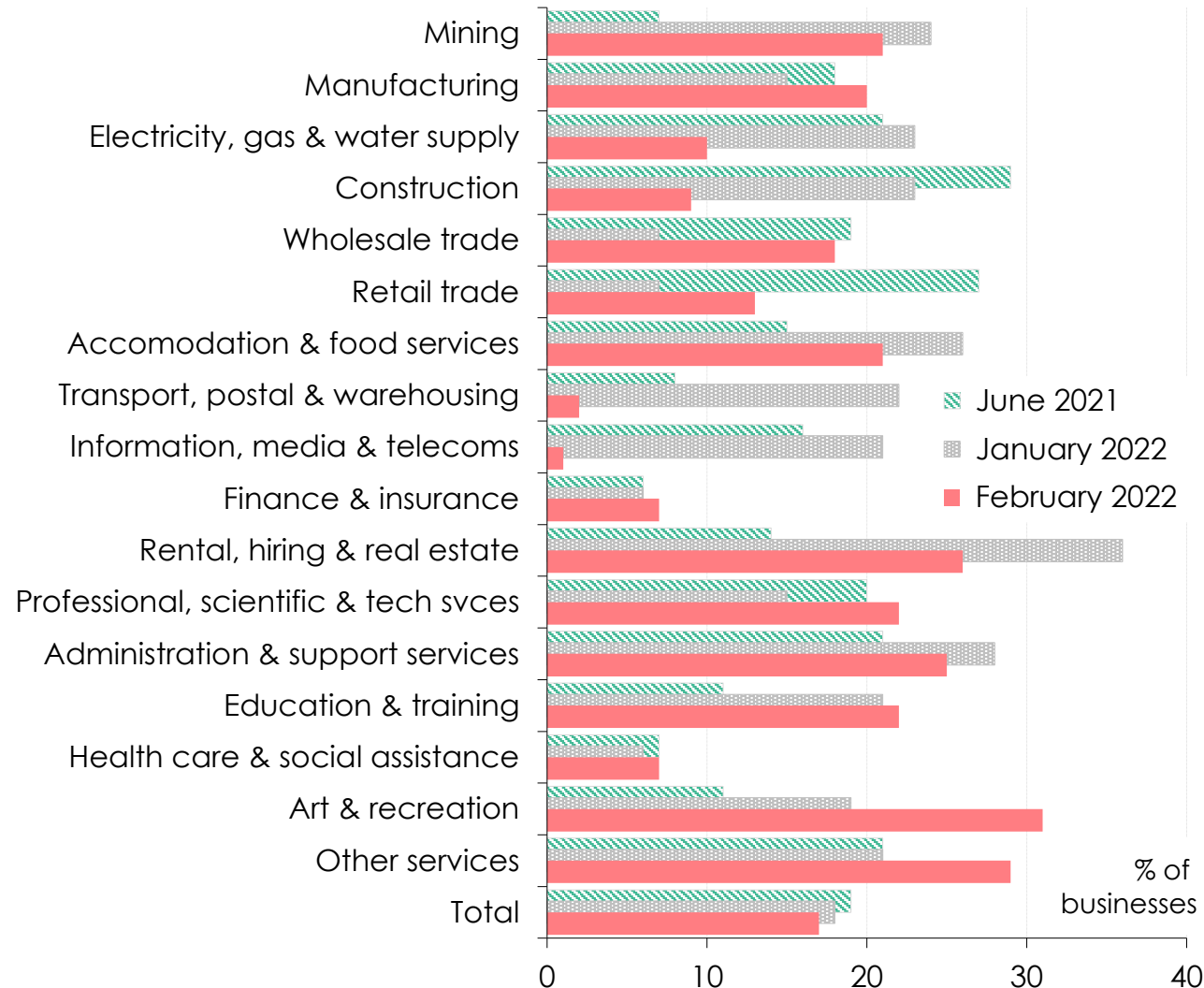


Sources: ABS, [Business conditions and sentiments](#), February 2022. [Return to "What's New"](#).

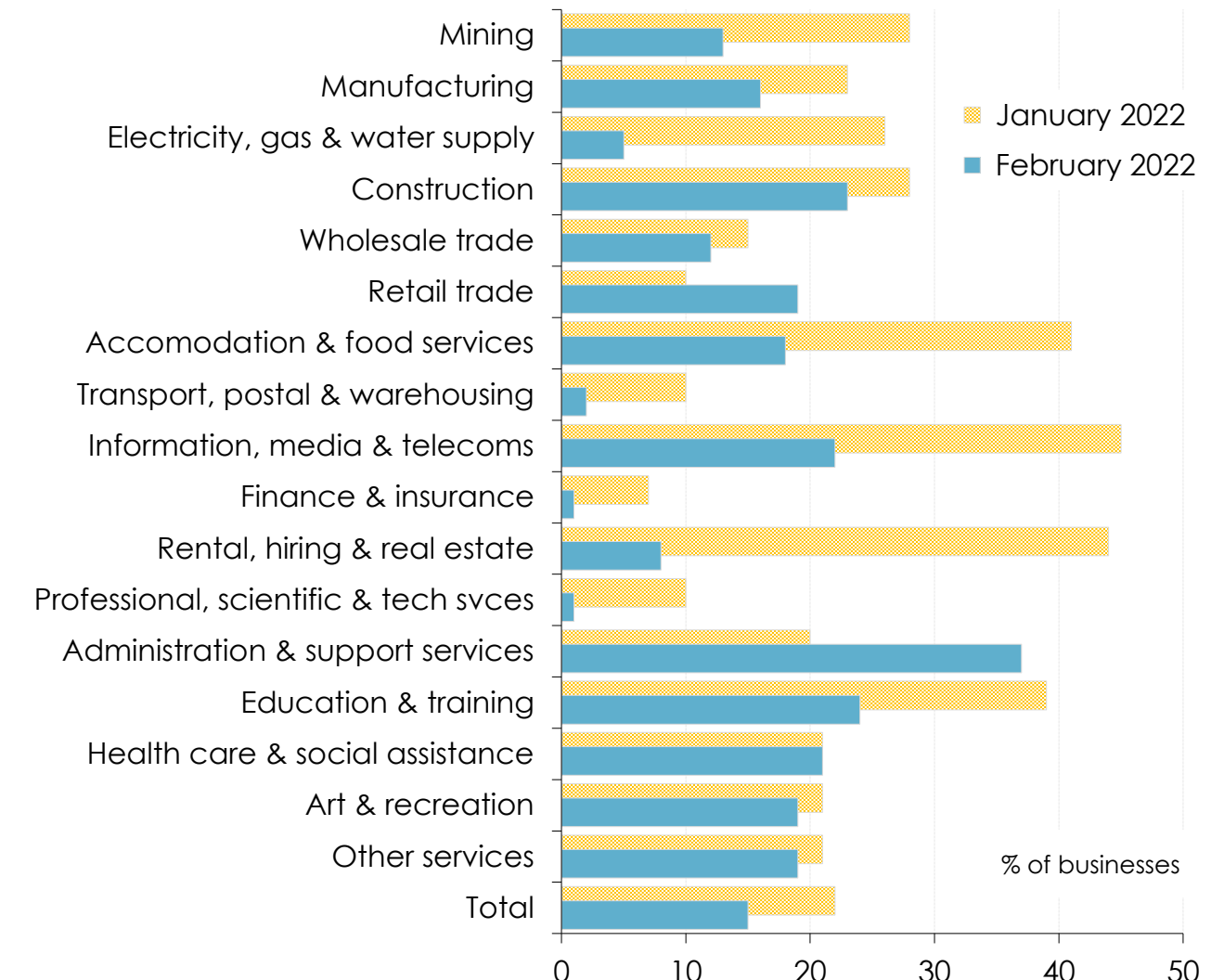
Fewer businesses were experiencing staff shortages during February, at least in part because fewer employees were affected by Covid

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

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



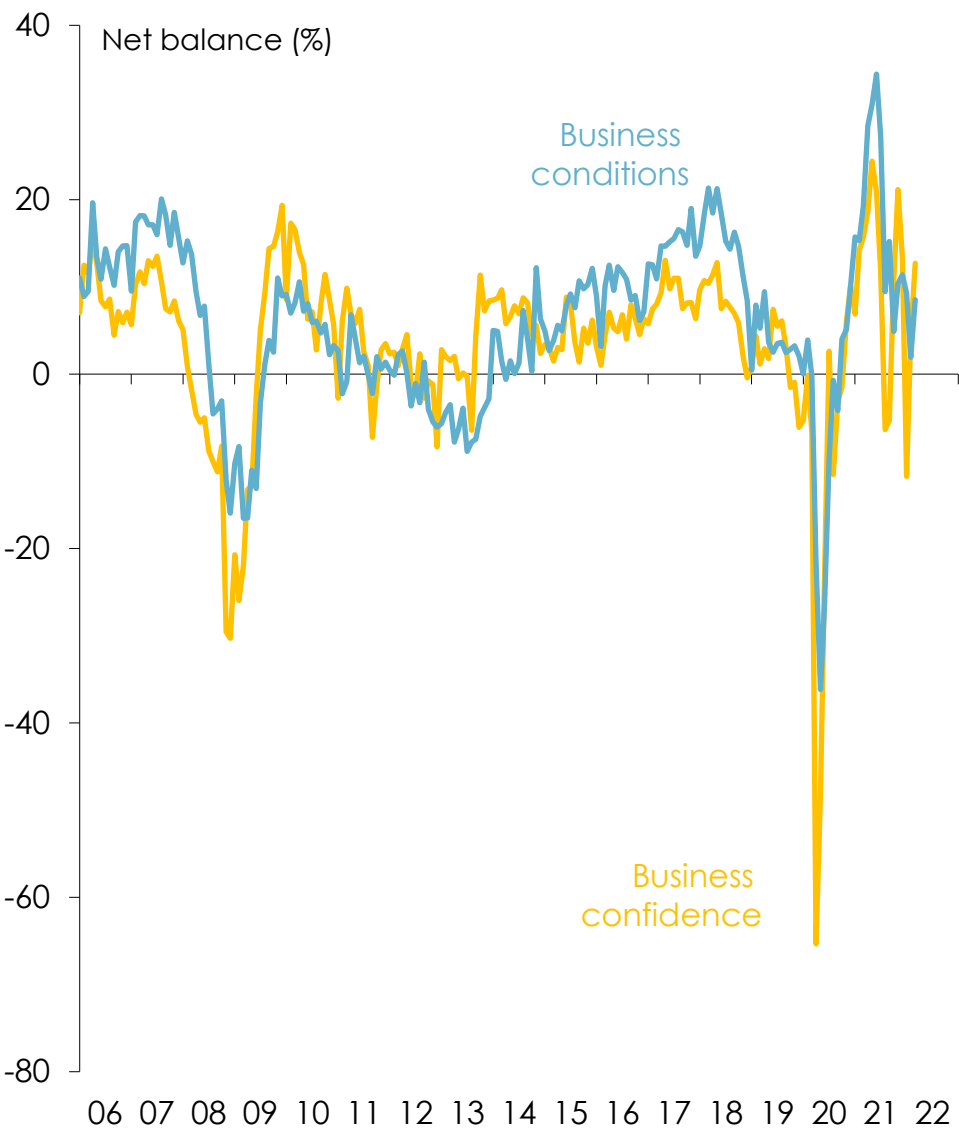
Businesses with employees unavailable due to Covid-related factors, January and February 2022



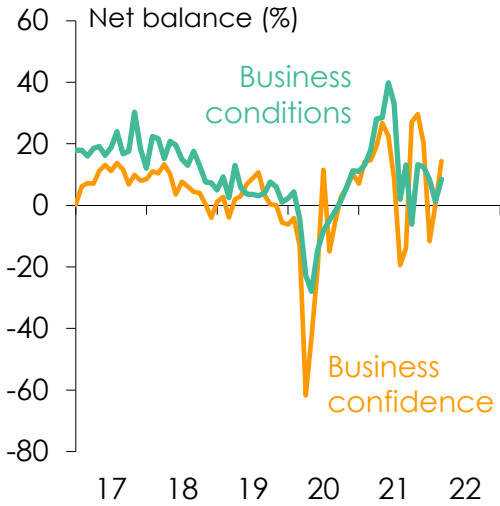
Business confidence and conditions improved further in February as the ‘omicron wave’ continued to ebb

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

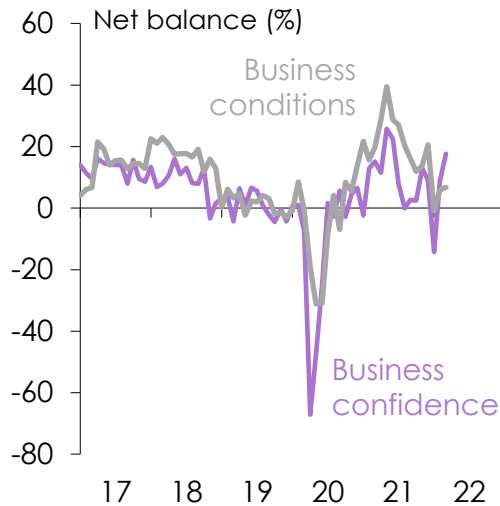
National business confidence & conditions



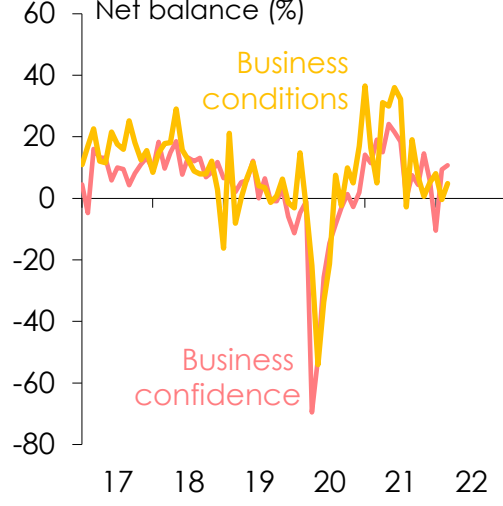
New South Wales



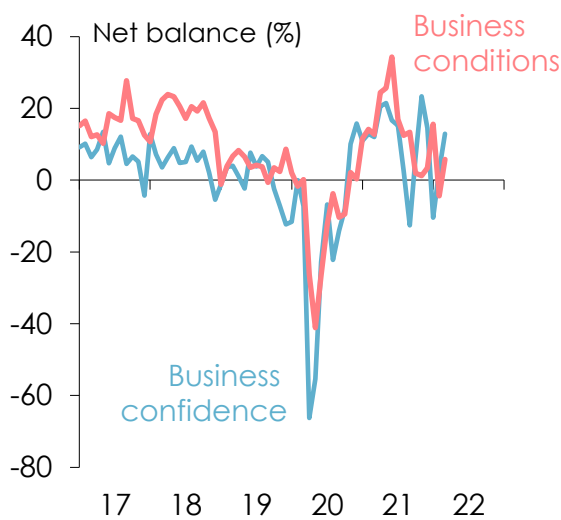
Queensland



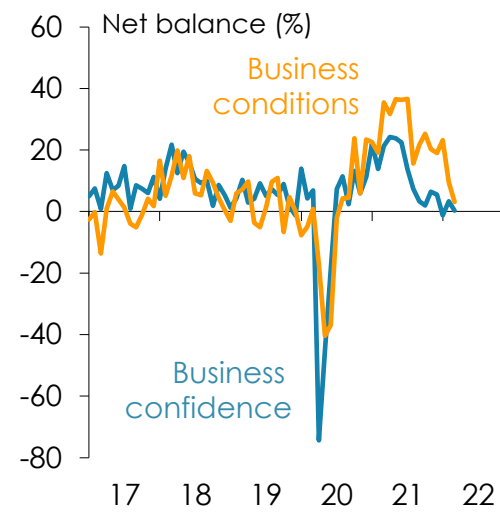
South Australia



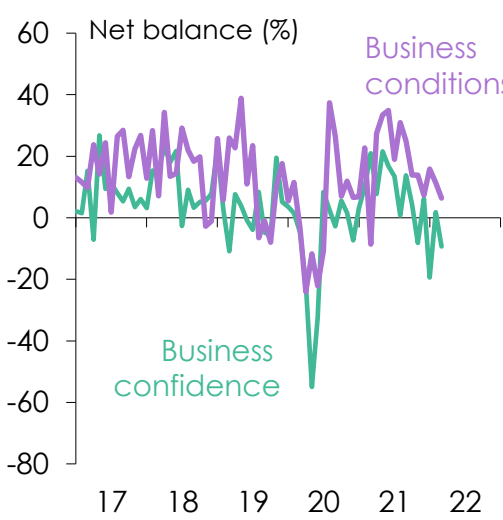
Victoria



Western Australia



Tasmania

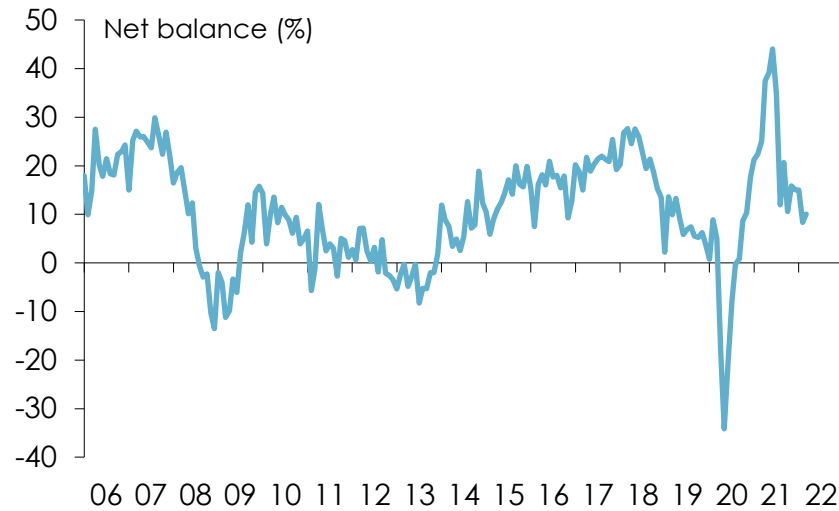


Sources: National Australia Bank [Monthly Business Survey](#), February 2022; March survey results will be released on 12th April. [Return to "What's New"](#).

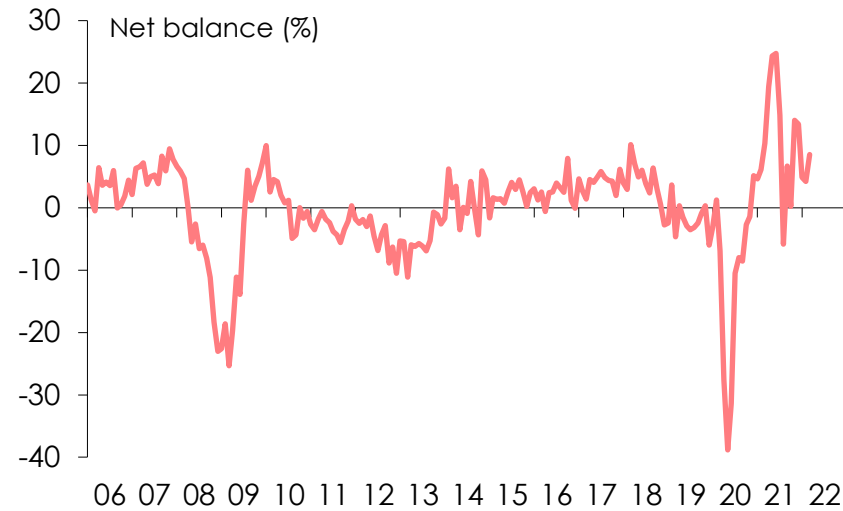
All of the elements of business conditions improved in February, in particular the forward-looking hiring and capex intentions components

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

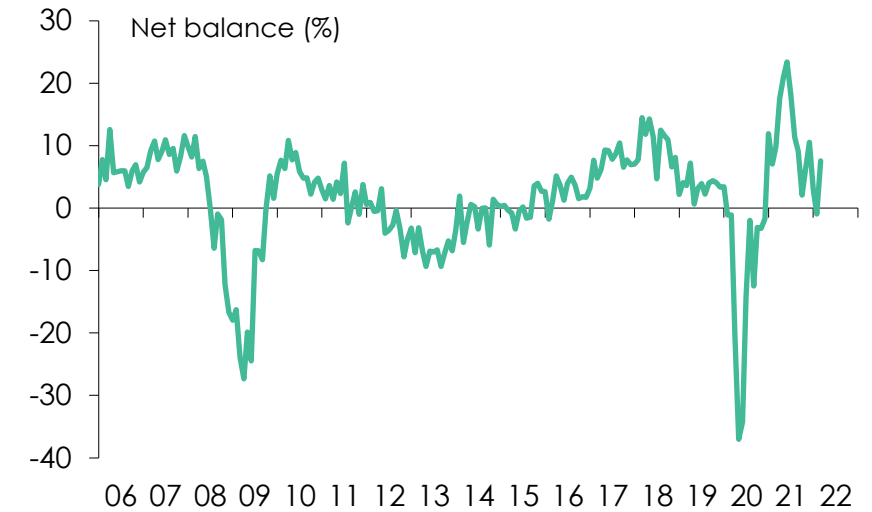
Trading conditions



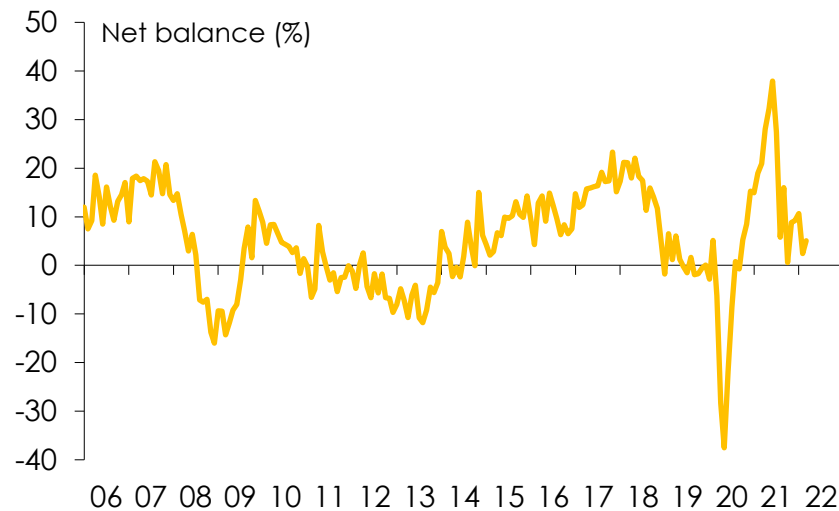
Forward orders



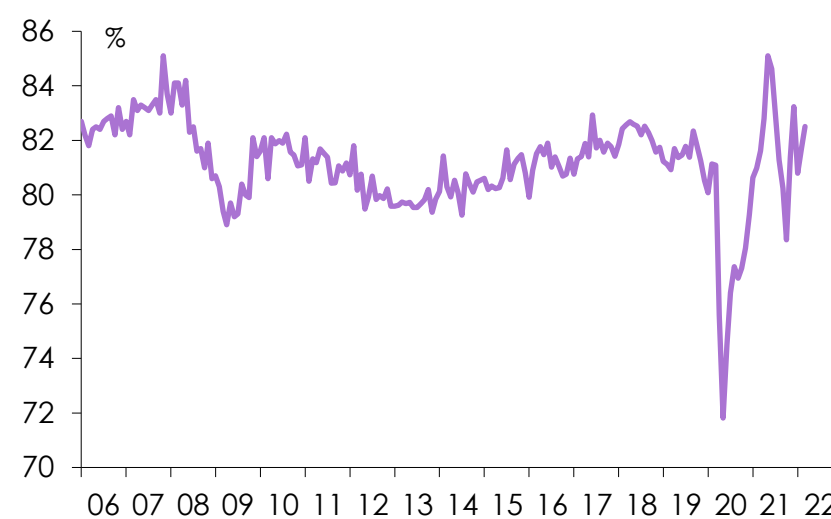
Employee hiring intentions



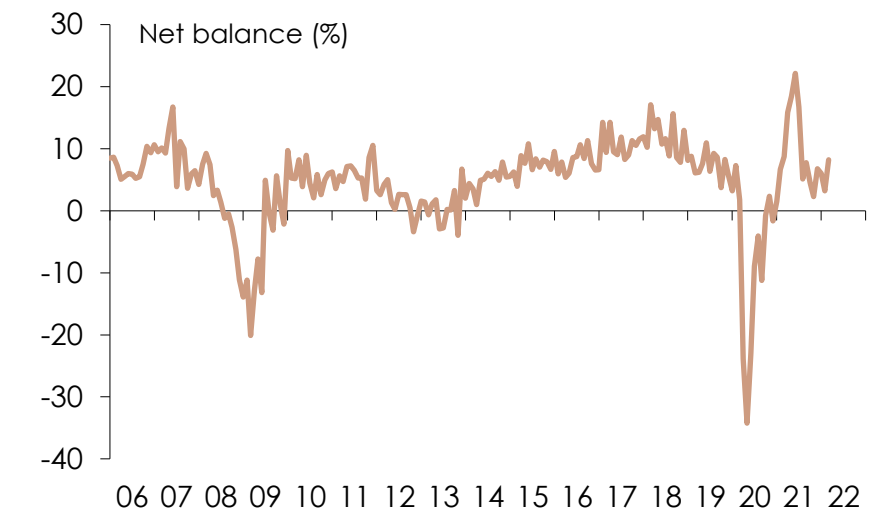
Profitability



Capacity utilization



Capital expenditure intentions

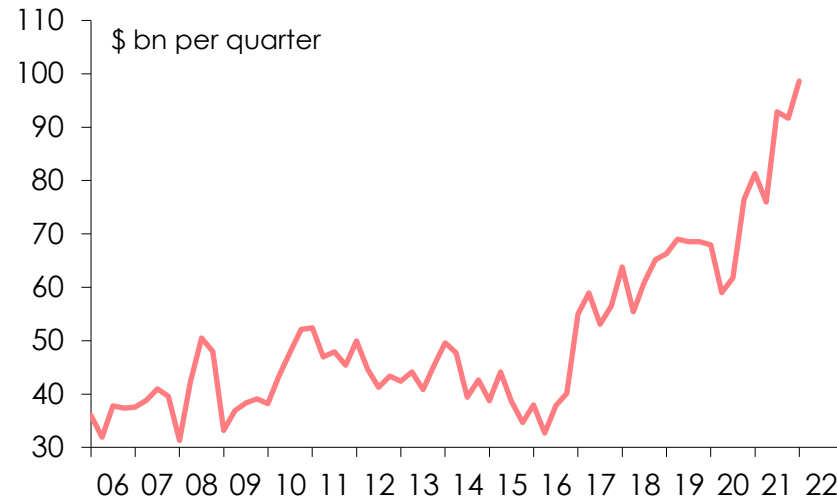


Source: National Australia Bank [Monthly Business Survey](#), February 2022; March survey results will be released on 12th April. [Return to "What's New"](#).

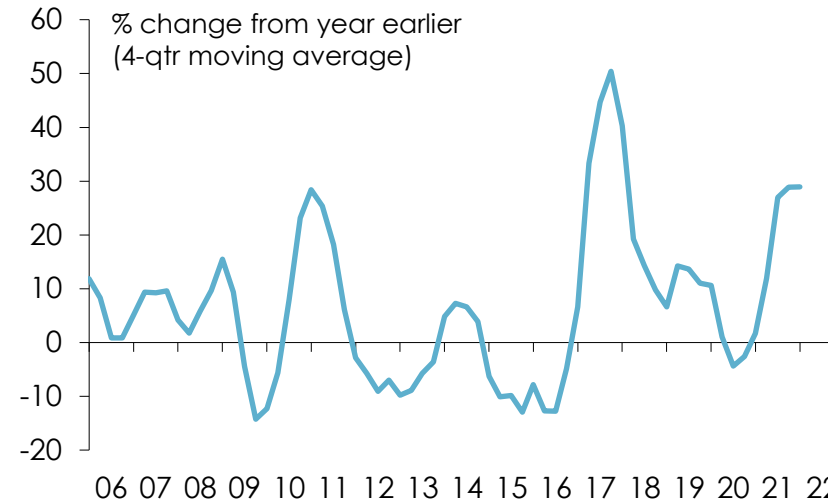
Company profits have grown strongly over the past five years, largely driven by mining – though manufacturing profits rose 13% in 2021

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

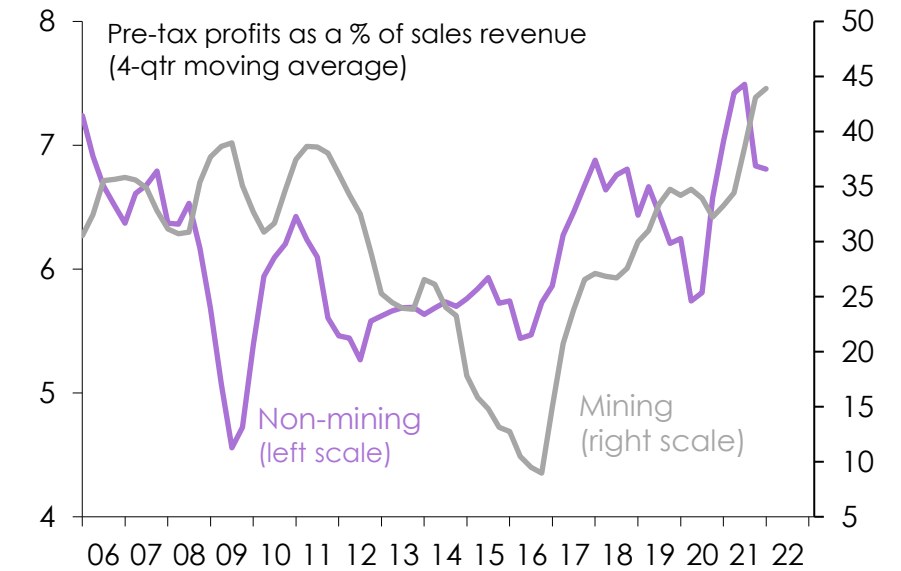
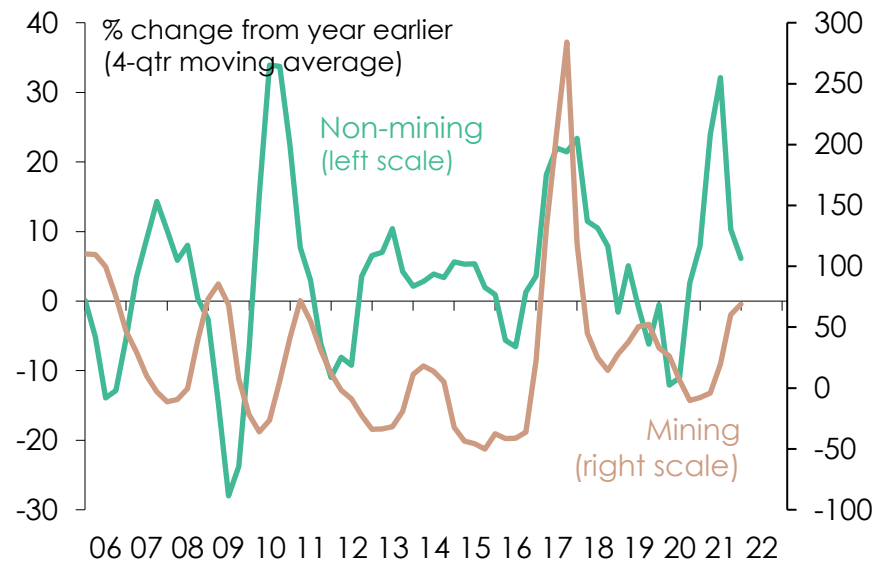
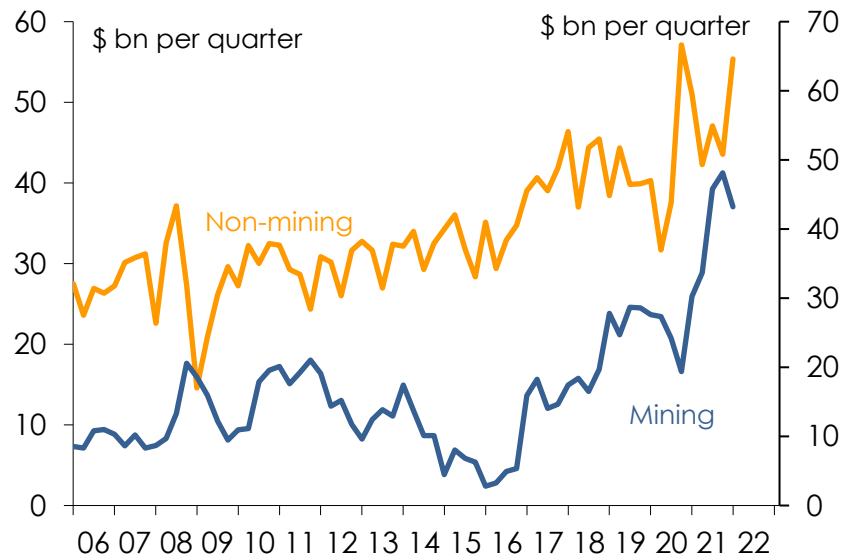
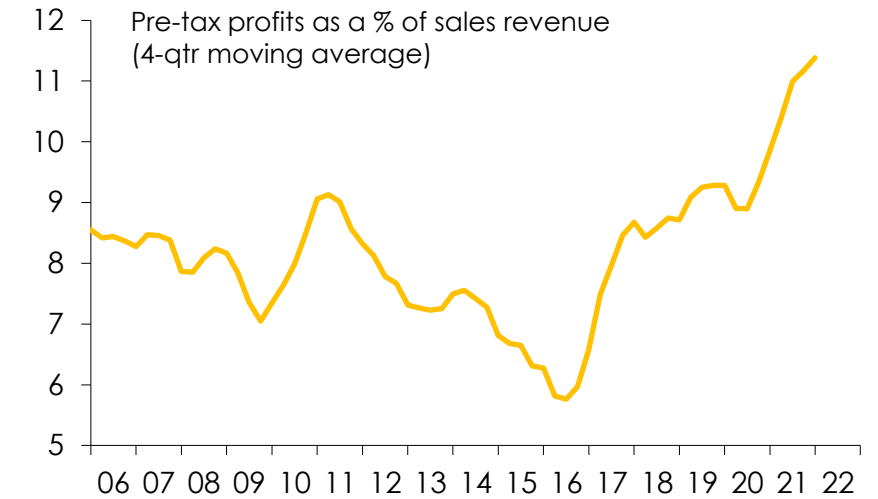
Pre-tax company profits



Pre-tax company profits growth



Pre-tax profit margins

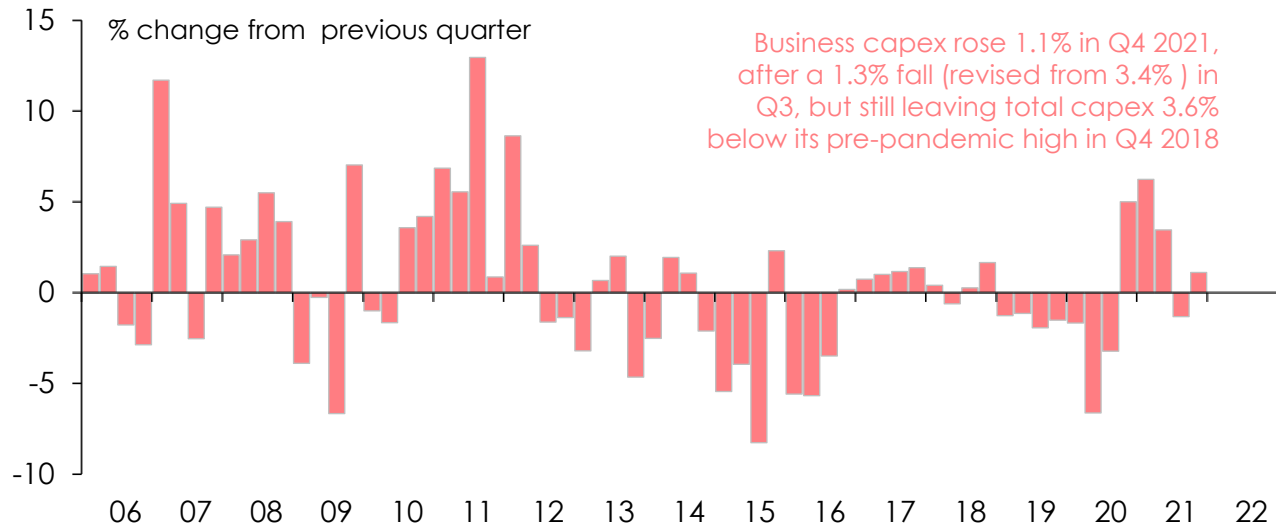


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), December 2021. March quarter data will be released on 31st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

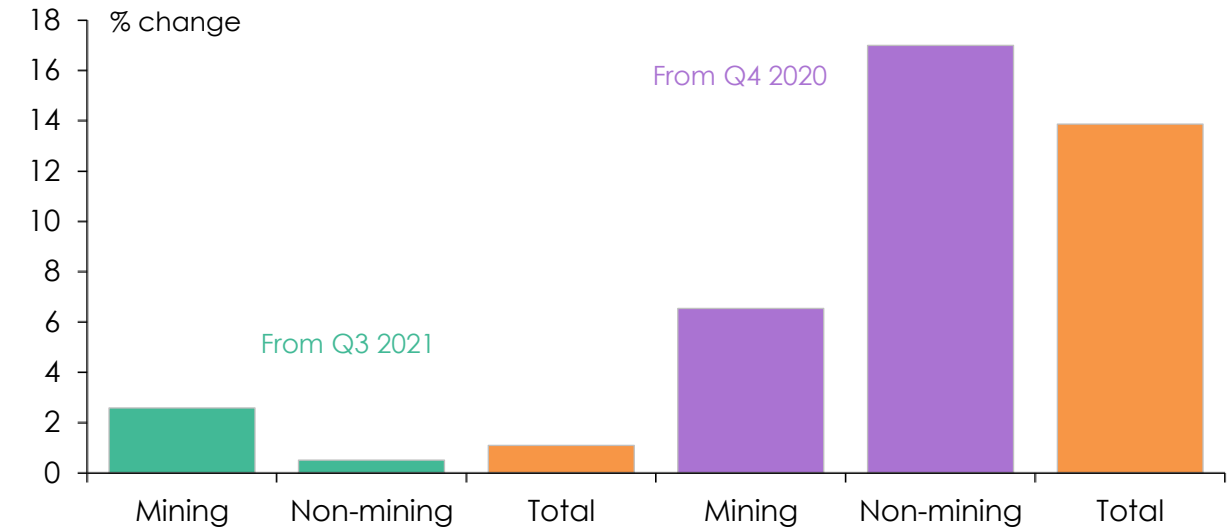
Business capex rose 1.1% in real terms in Q4 2021, largely driven by the mining sector (in contrast to the earlier part of last year)

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

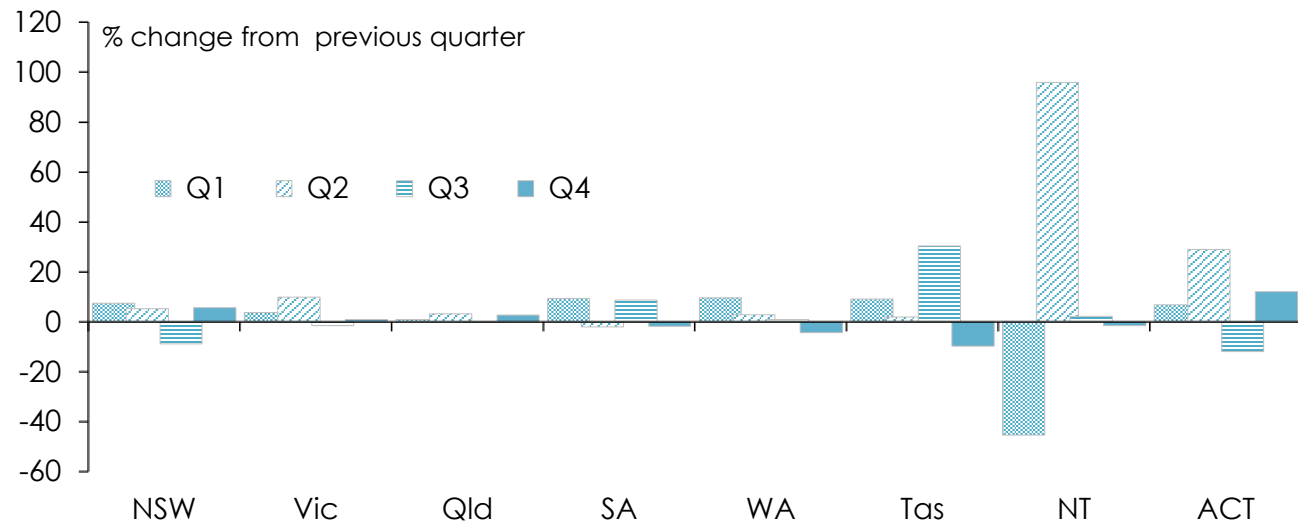
Real business new fixed capital expenditure



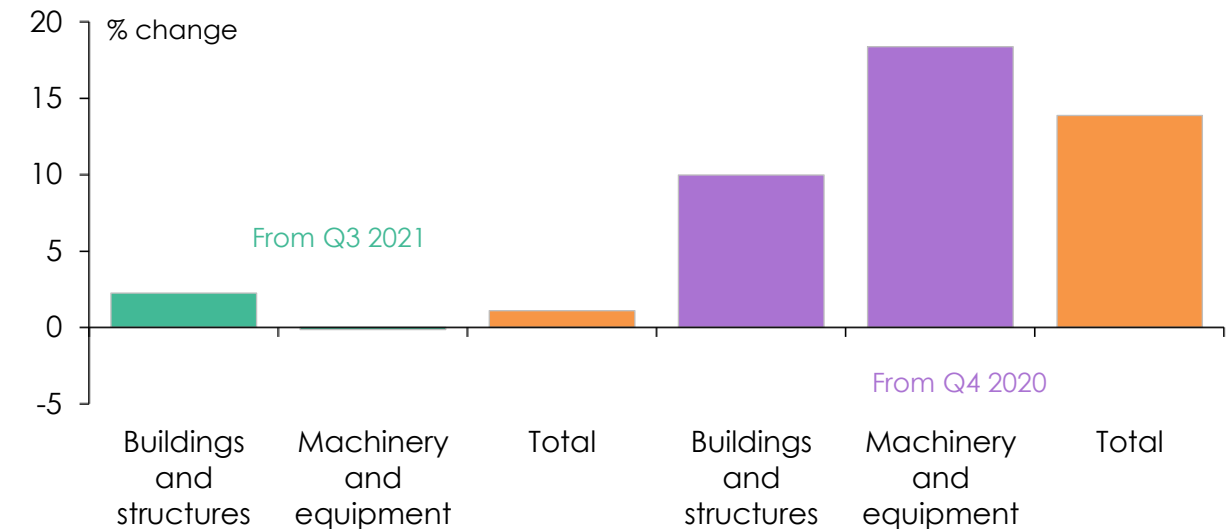
Real business new fixed capex, by industry, Q4



Real business new fixed capex, by state, 2021



Real business new fixed capex, by asset, Q4



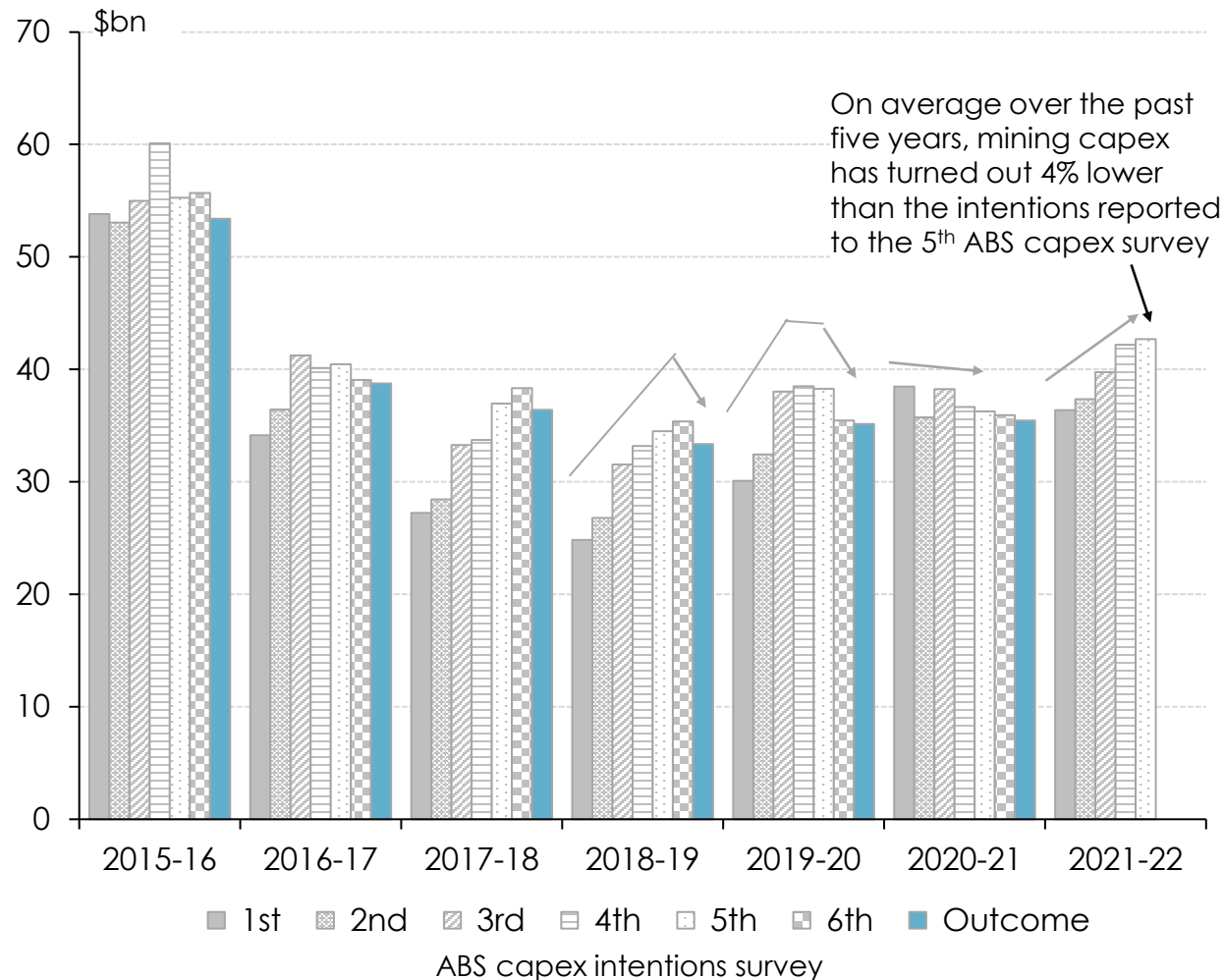
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 26th May. [Return to "What's New"](#).

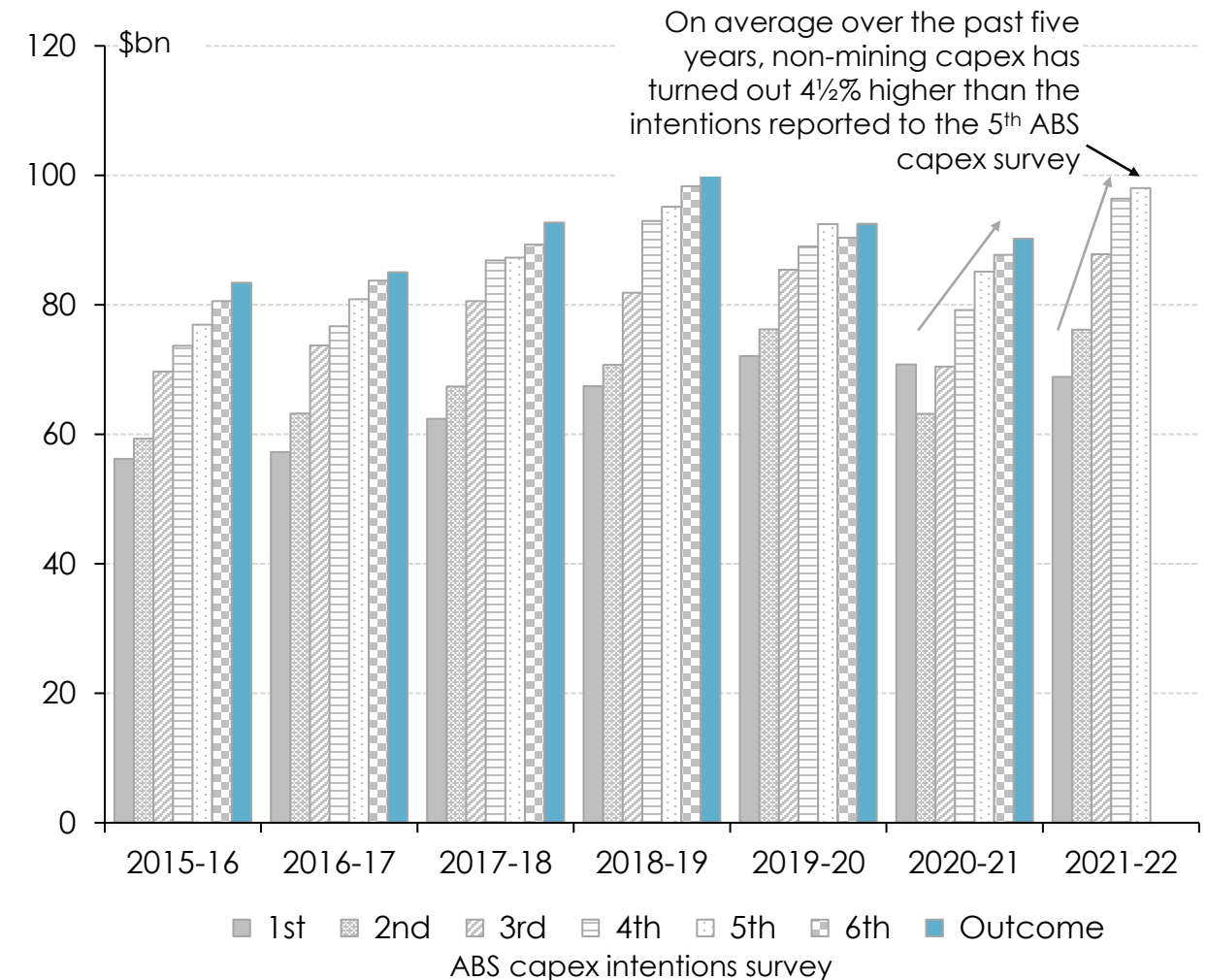
Businesses revised up their capex plans for 2021-22 by 1.6% over the past three months, pointing to a 14¼% nominal increase in capex for 2021-22

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH 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.

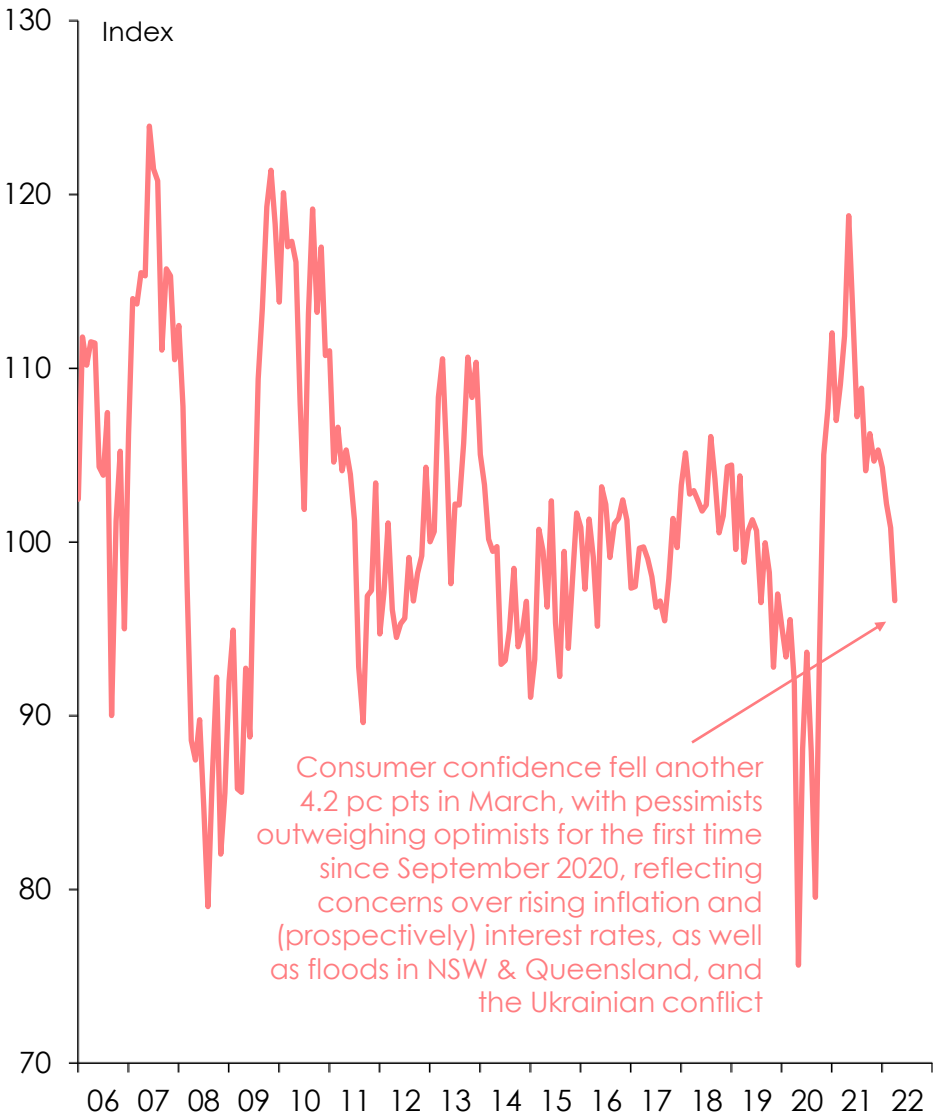
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); the 6th capex survey for 2021-22 will be released on 25th May. [Return to "What's New"](#).

The household sector and consumer spending

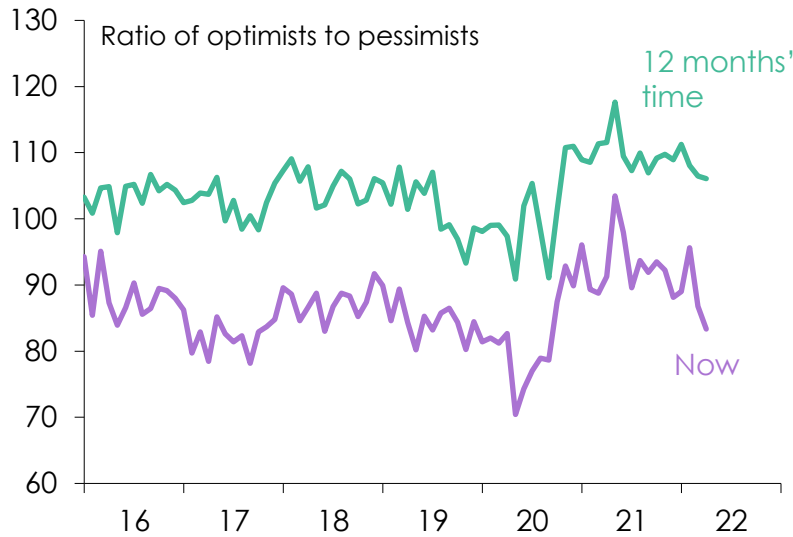
Consumer confidence fell another 4.2 pc pts in March to its lowest level since September 2020, weighed down by floods, inflation and the Ukraine conflict

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Consumer confidence index



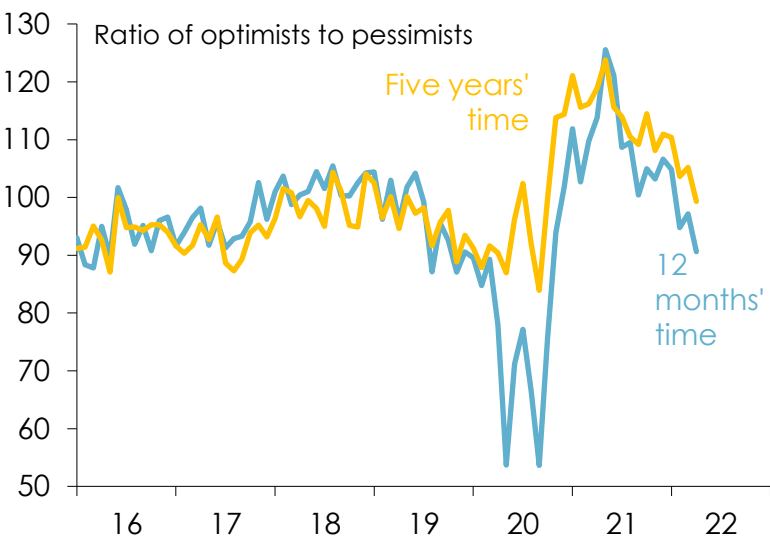
Household finances assessment



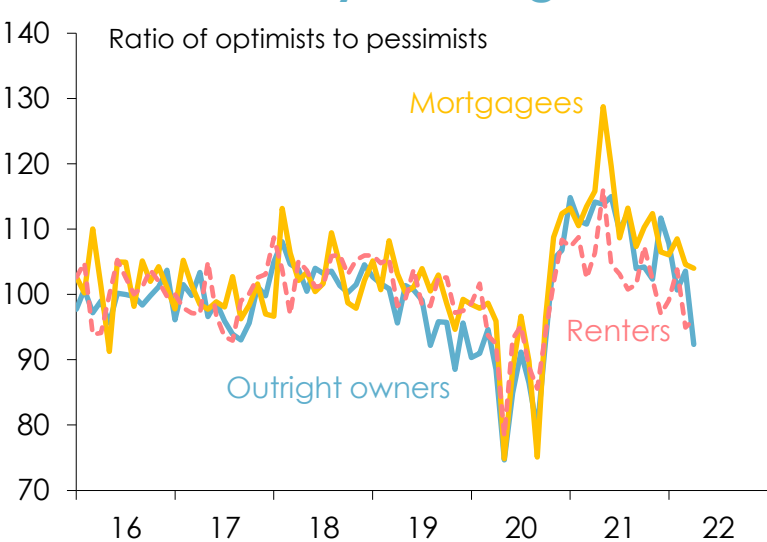
Buying conditions assessment



Economic conditions assessment



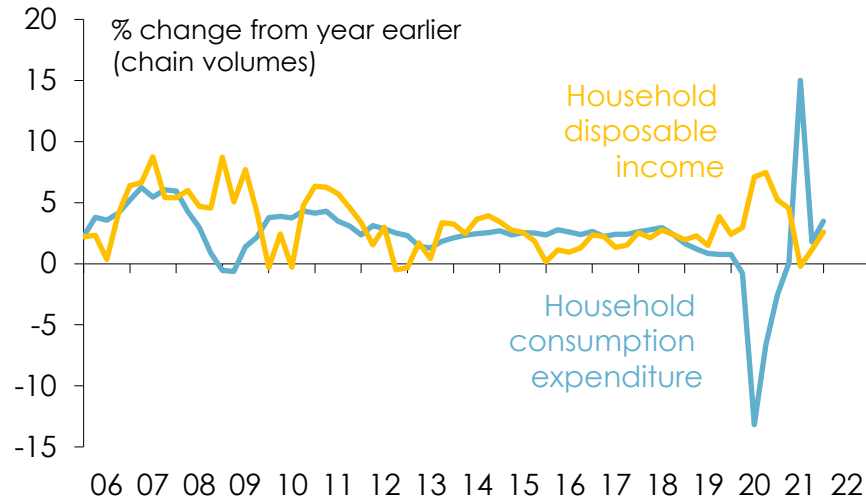
Confidence by housing tenure



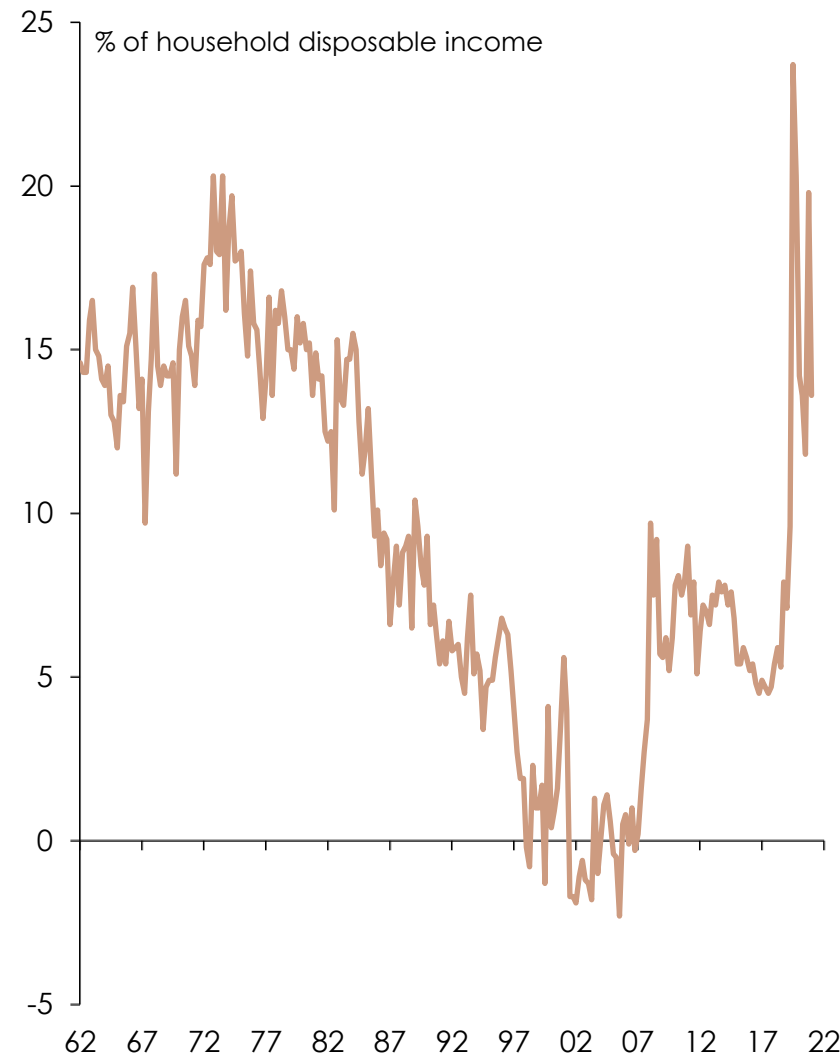
Household disposable income fell 1.3% in Q4 due to the ending of Covid-related benefit programs, but households cut their savings to fund spending

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

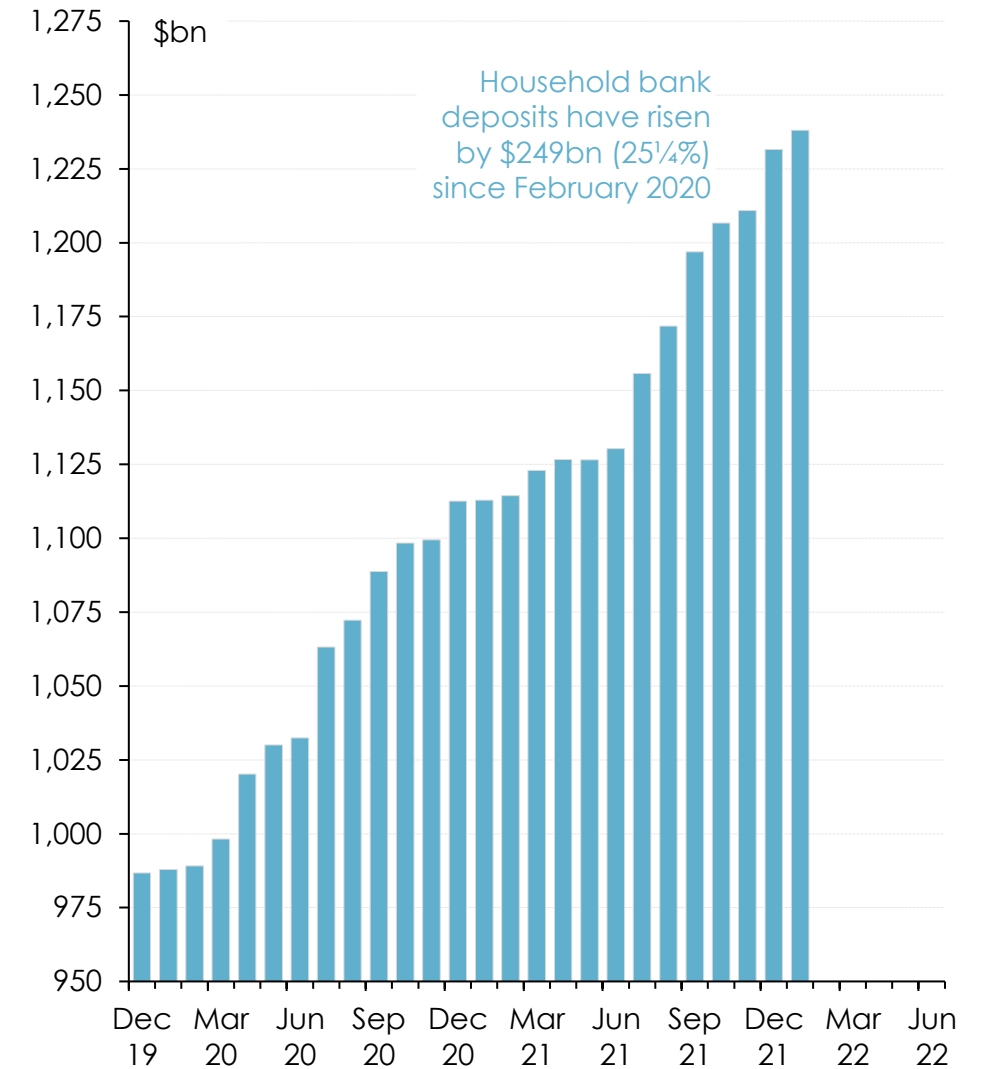
Household income and spending



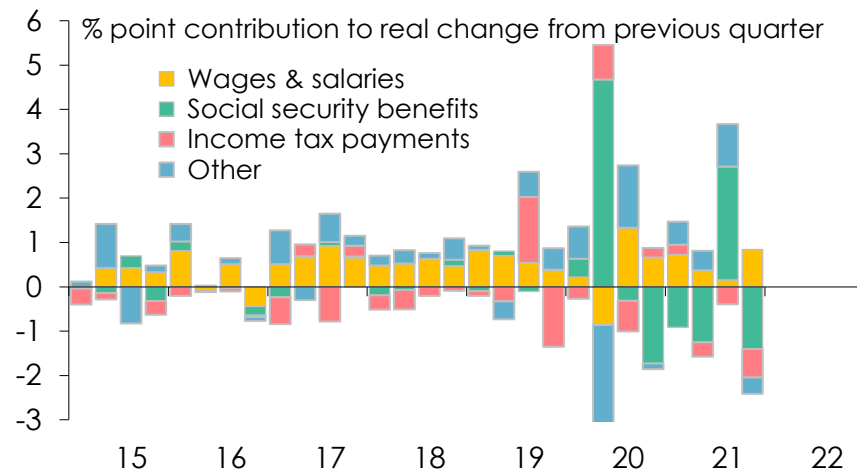
Household saving ratio



Household bank deposits



Sources of household income

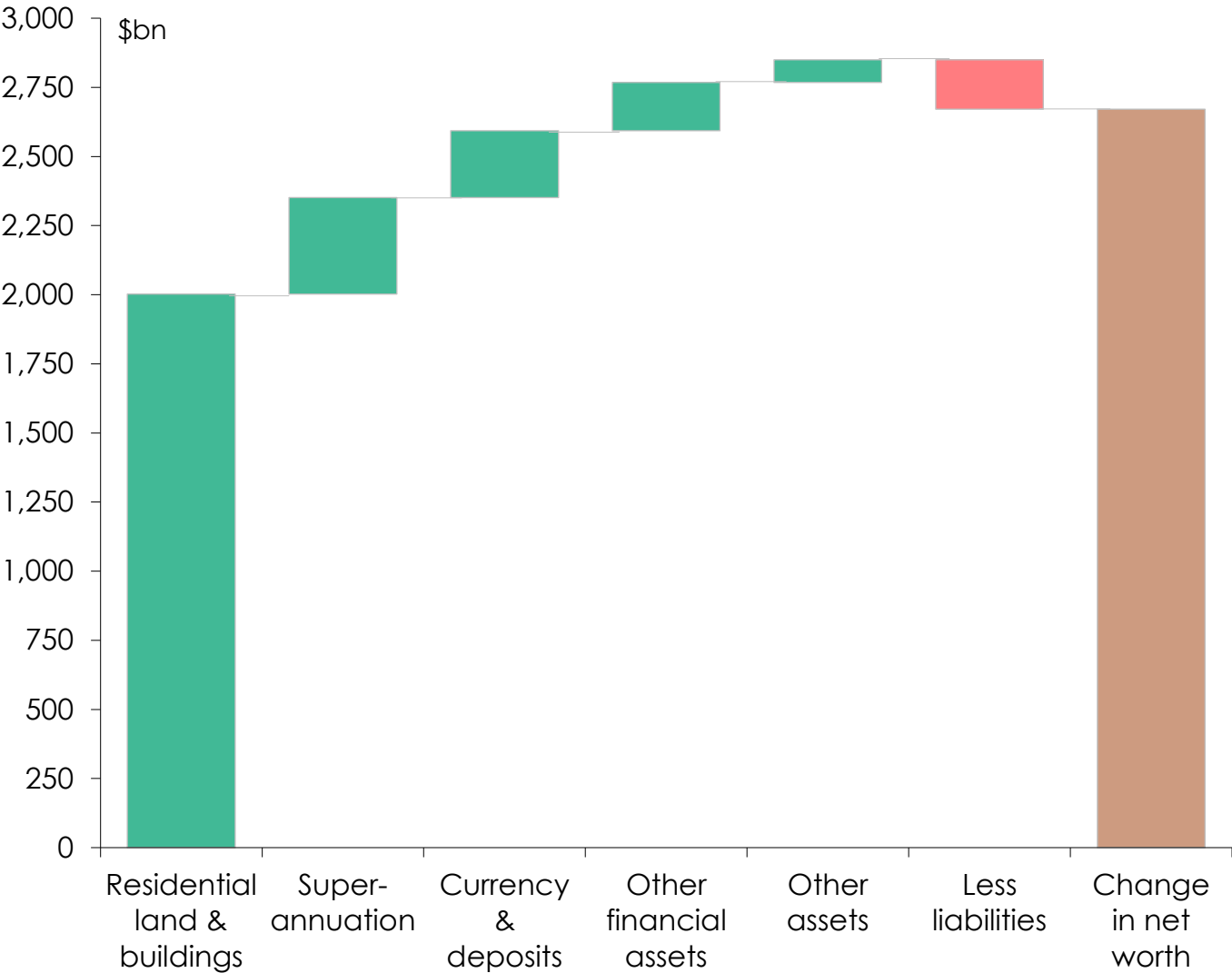


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#), March quarter data on household income, spending and saving will be released on 1st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

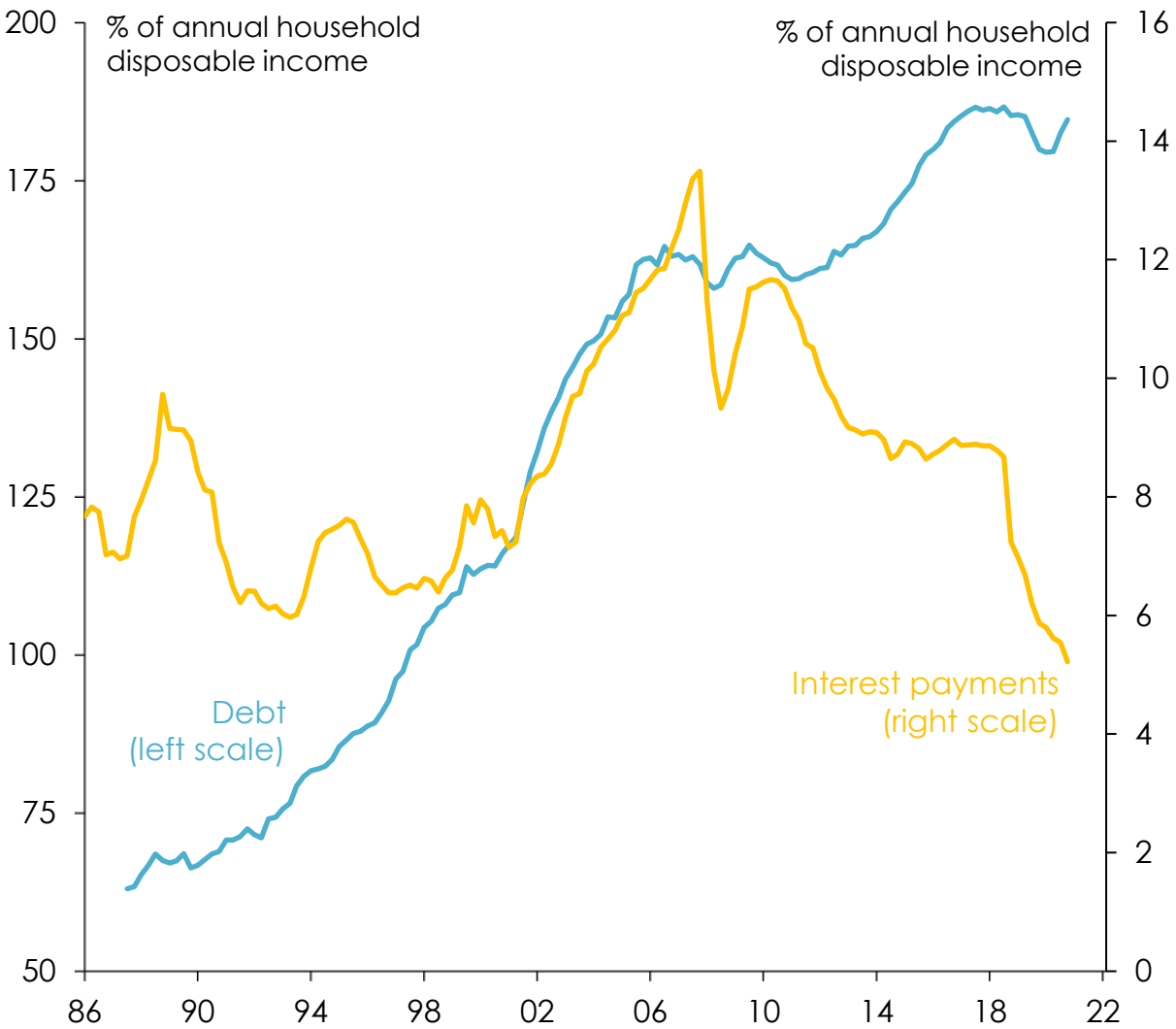
Household net worth has risen by \$2.7trn (23¾%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH 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

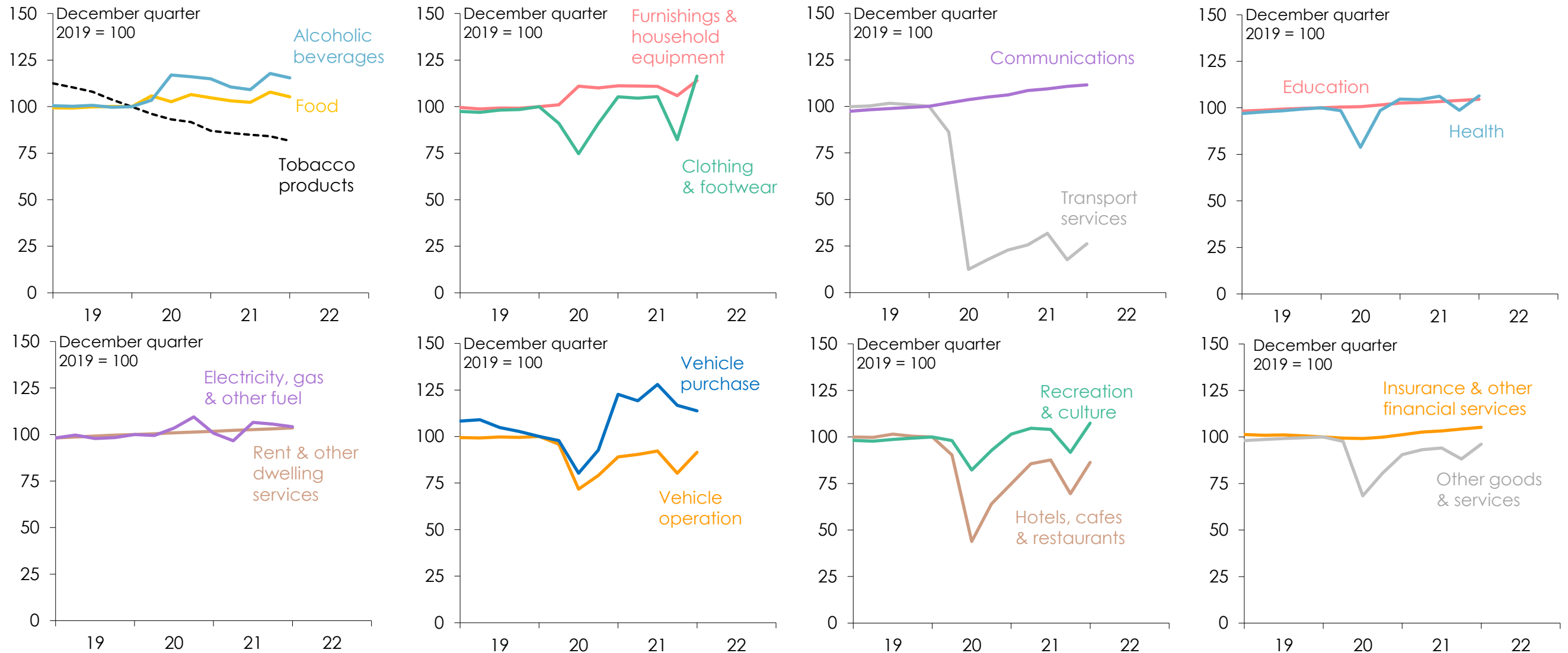


Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; RBA, [Statistical Tables](#) E1 & E2. December quarter data will be released on 31st March 2022.
[Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Major categories of household consumption spending

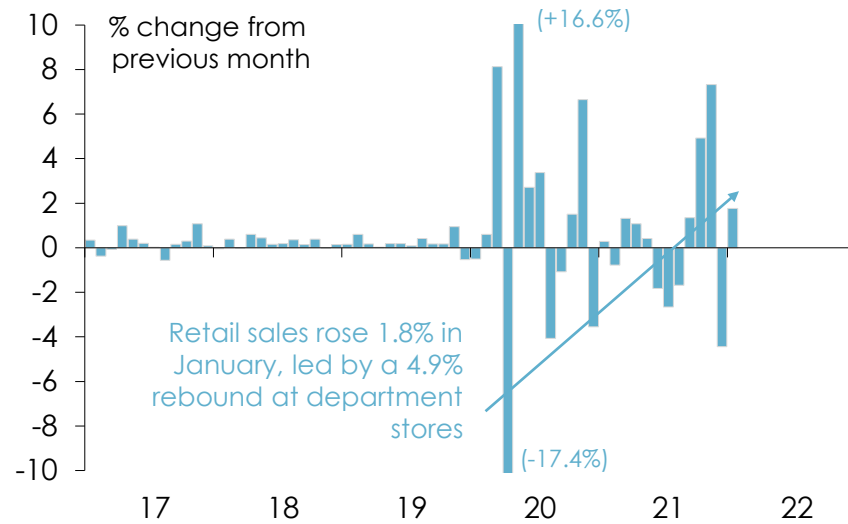


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; March quarter data will be released on 1st June. [Return to "What's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

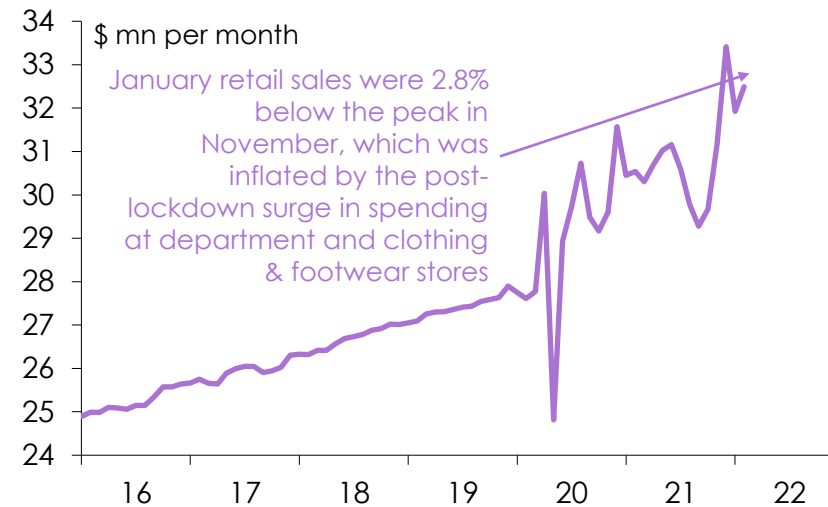
Retail sales rose 1.8% in January, partly reversing the 4.4% fall in December from the post-lockdown record level of sales in November

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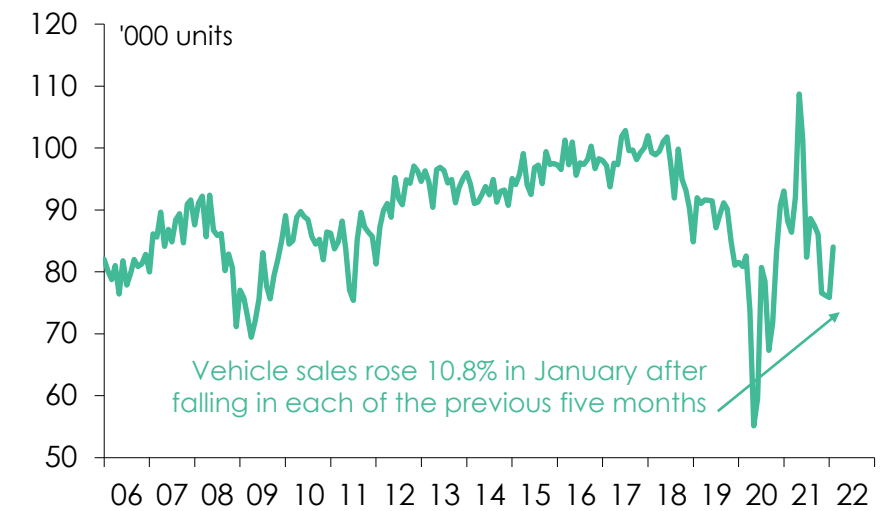
Monthly retail sales



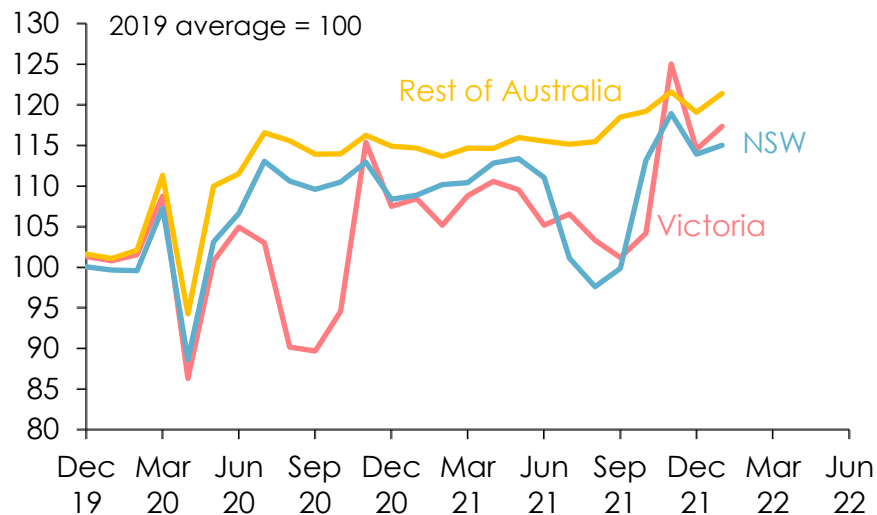
Level of retail sales



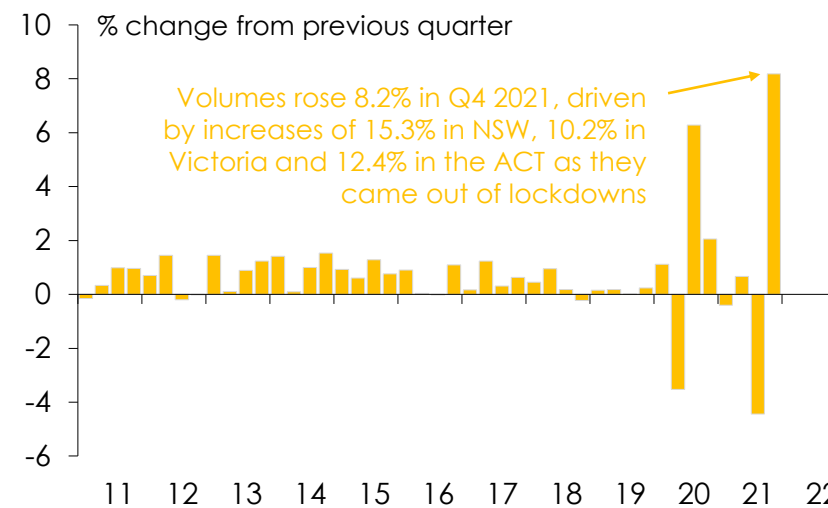
New motor vehicle sales



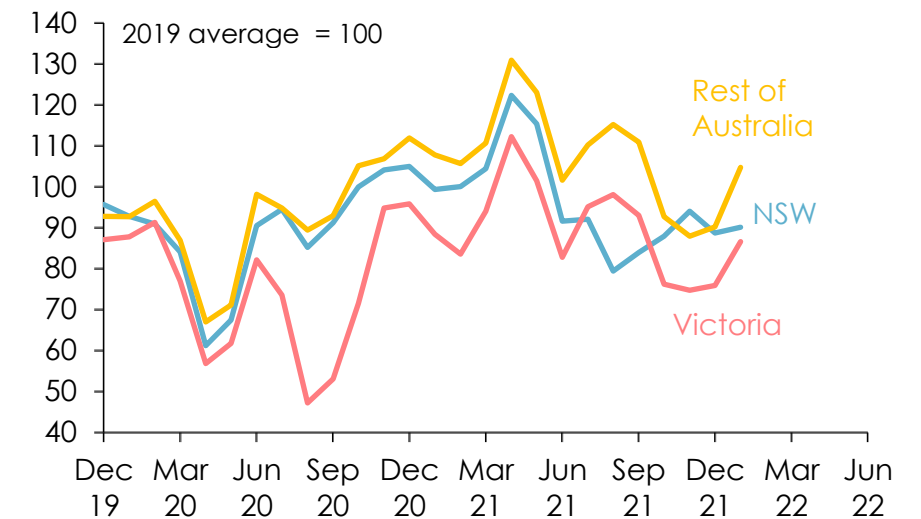
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



Vehicle sales – NSW, Vic & the rest

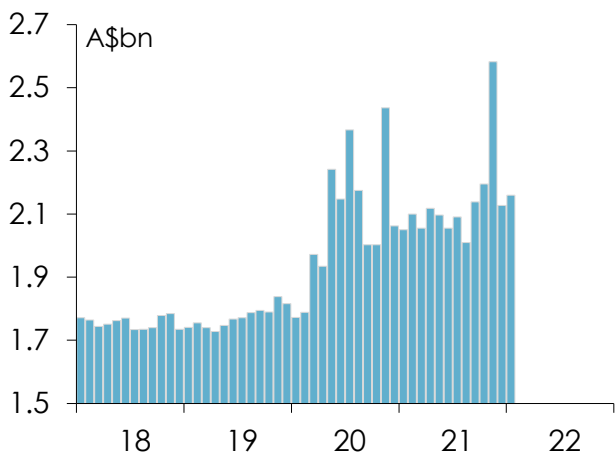


Note: see also [slide 39](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary February retail sales data will be released on 29th March; February motor vehicle sales data will be released in the second week of March. [Return to "What's New"](#).

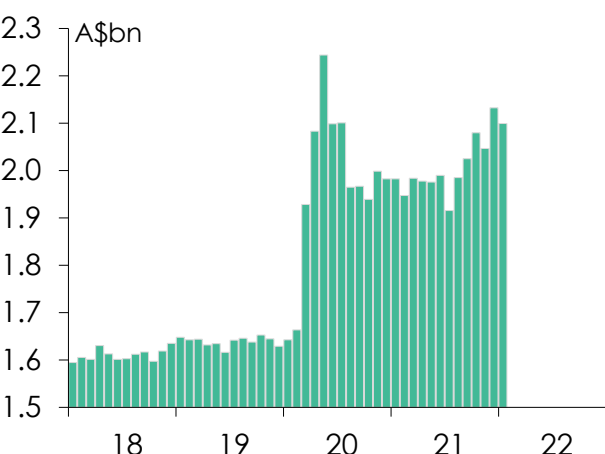
Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

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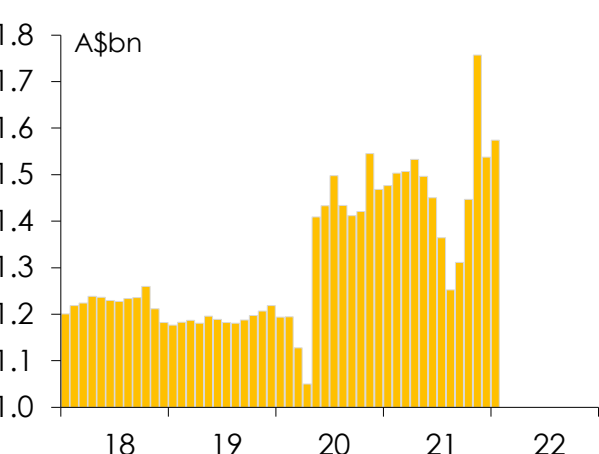
Electronic & electrical goods



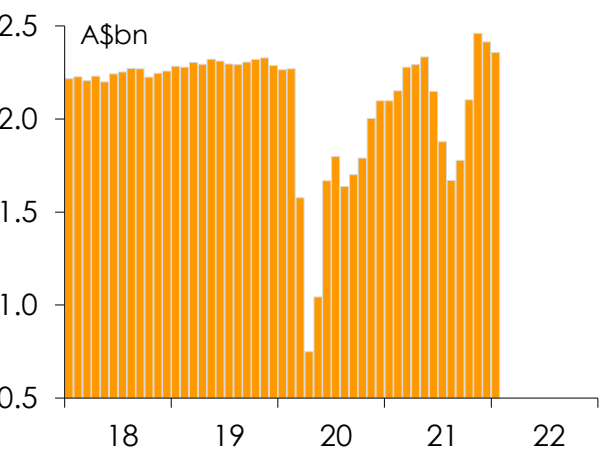
Hardware, building & garden supplies



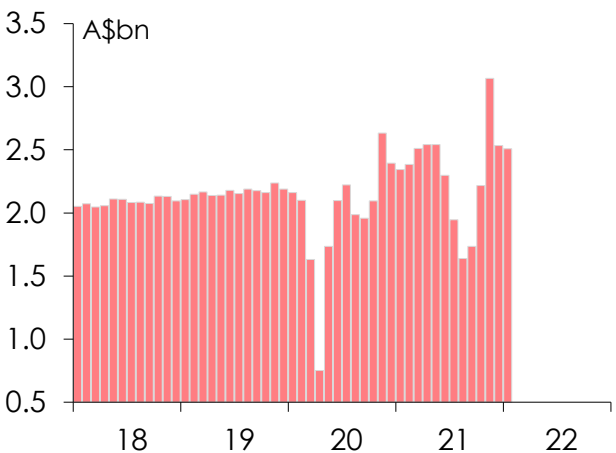
Floor coverings, furniture, housewares etc



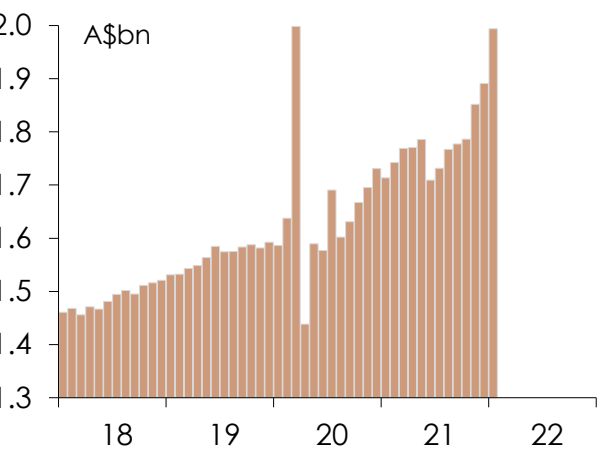
Cafes and restaurants



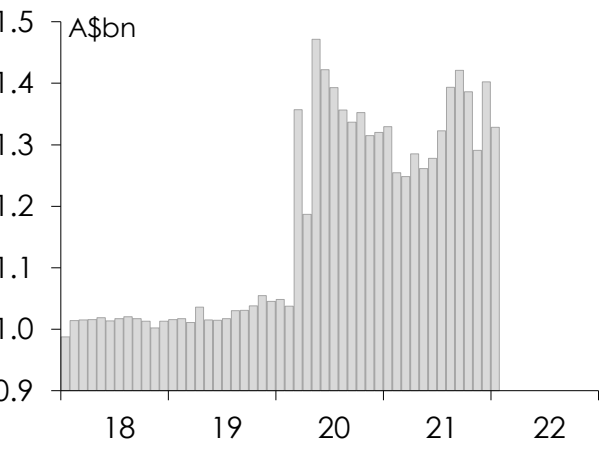
Clothing, footwear & personal accessories



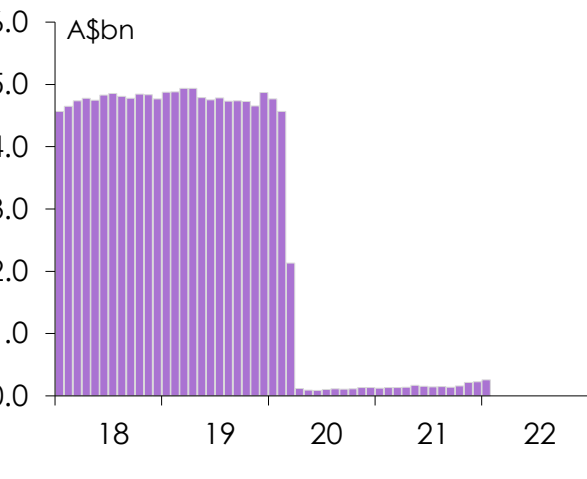
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

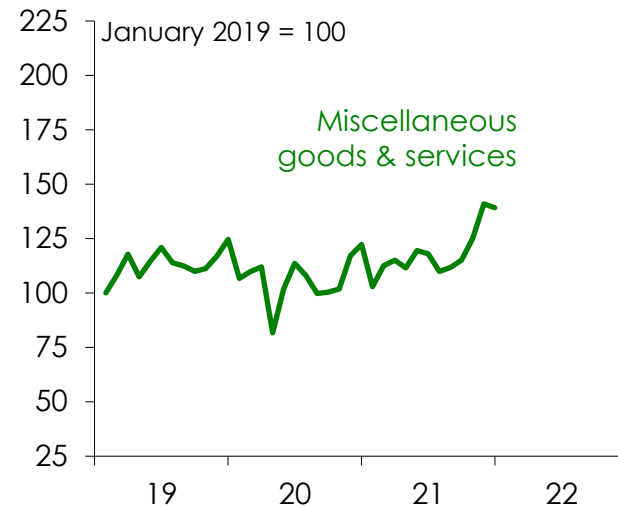
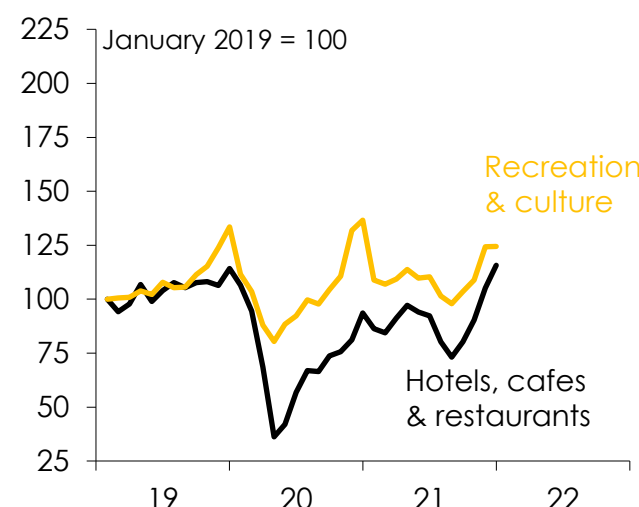
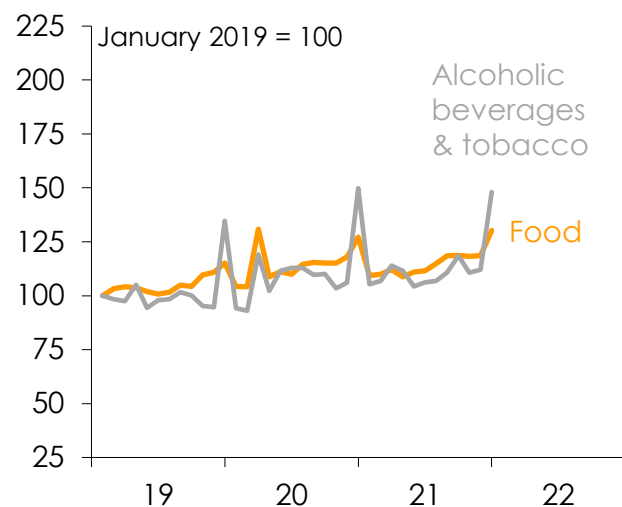


Sources: ABS, [Retail Trade, Australia](#), January 2022 (February data will be released on 4th April); and [International Trade in Goods and Services, Australia](#), January. [Return to "What's New"](#).

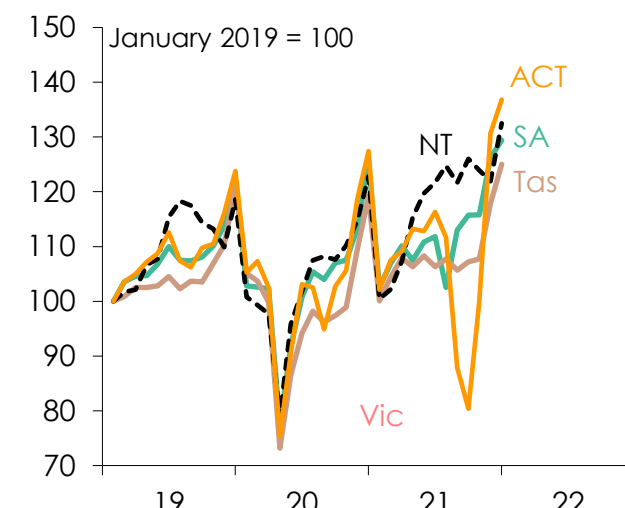
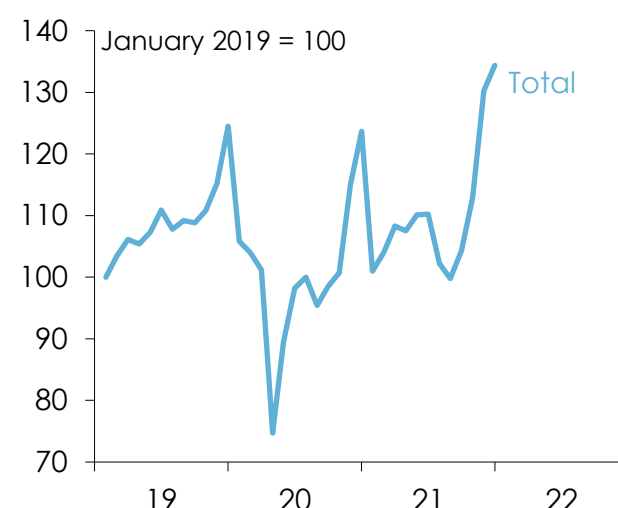
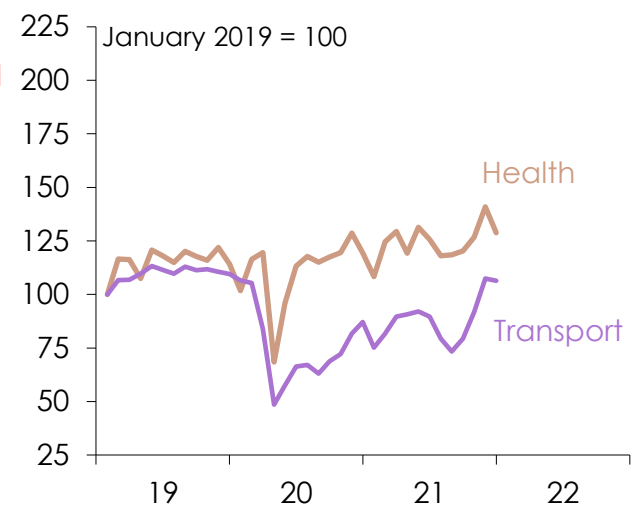
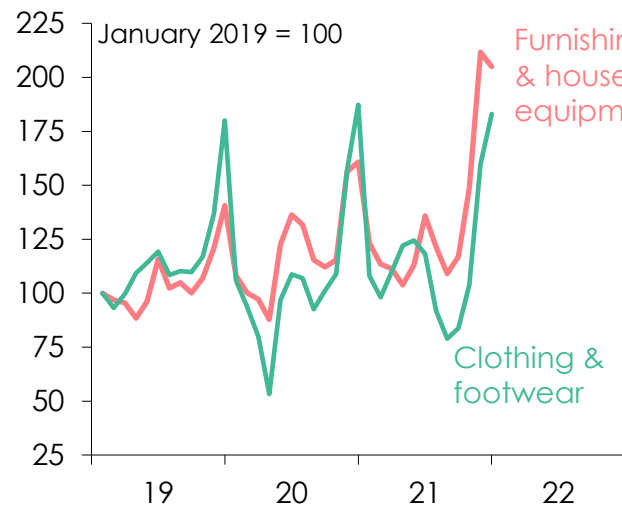
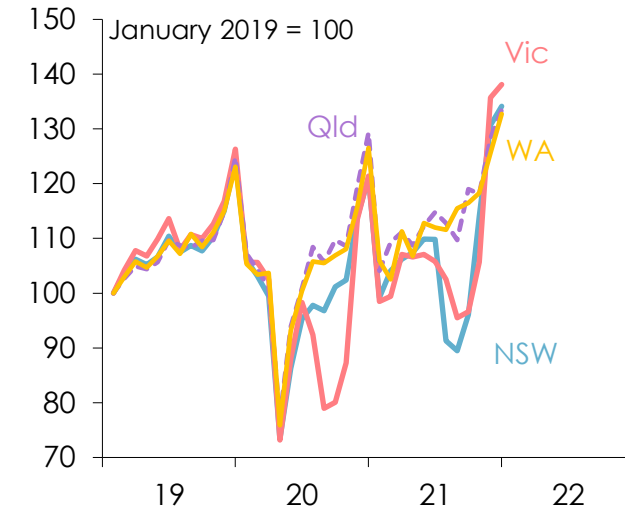
The ABS' new household spending indicator, based on data from banks, shows how lockdowns affected different categories of spending

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Household spending by purpose



By state & territory

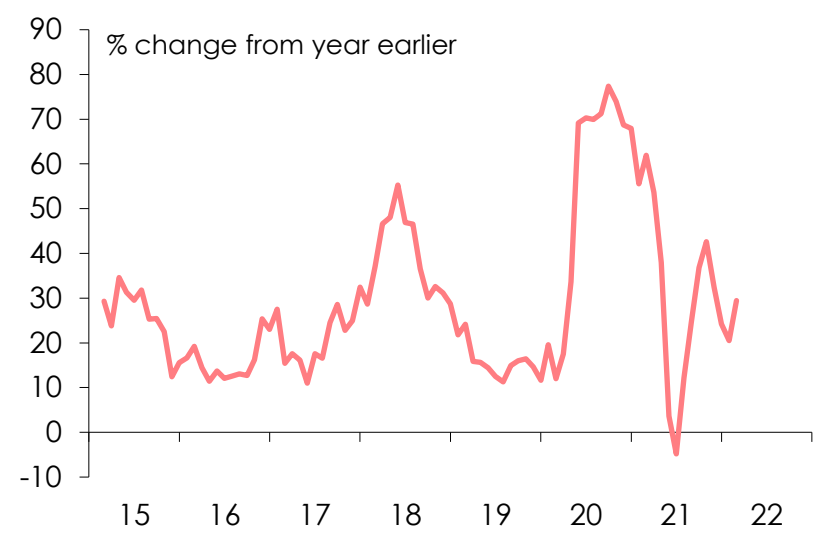


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week. Source: ABS, [Monthly Household Spending Indicator](#), December 2021.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

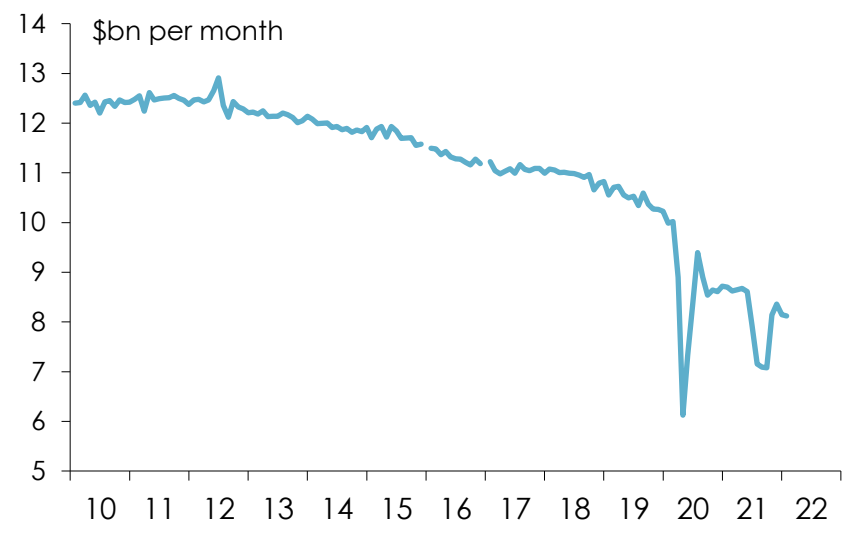
Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

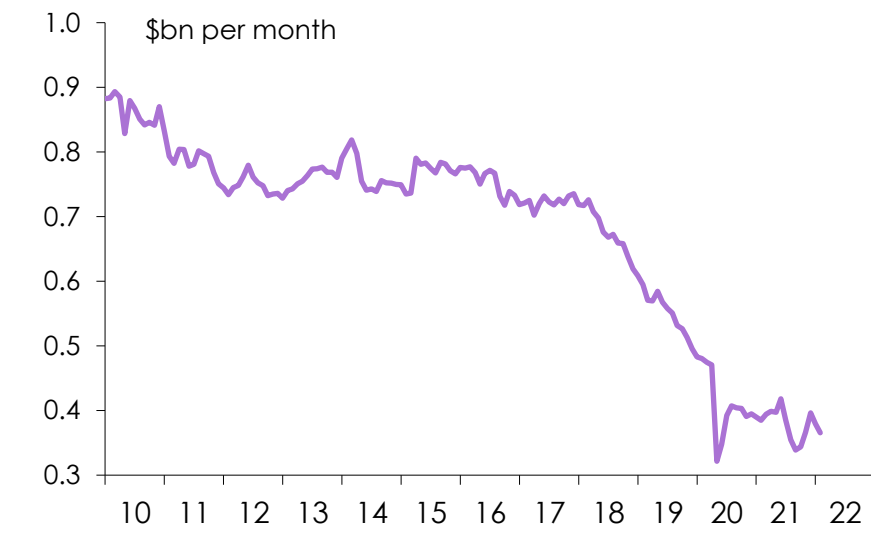
Growth in online retail sales



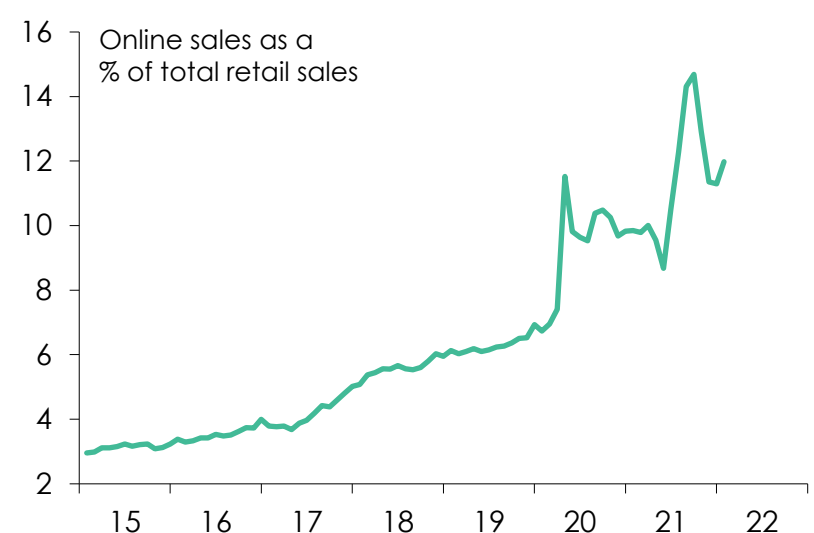
ATM cash withdrawals



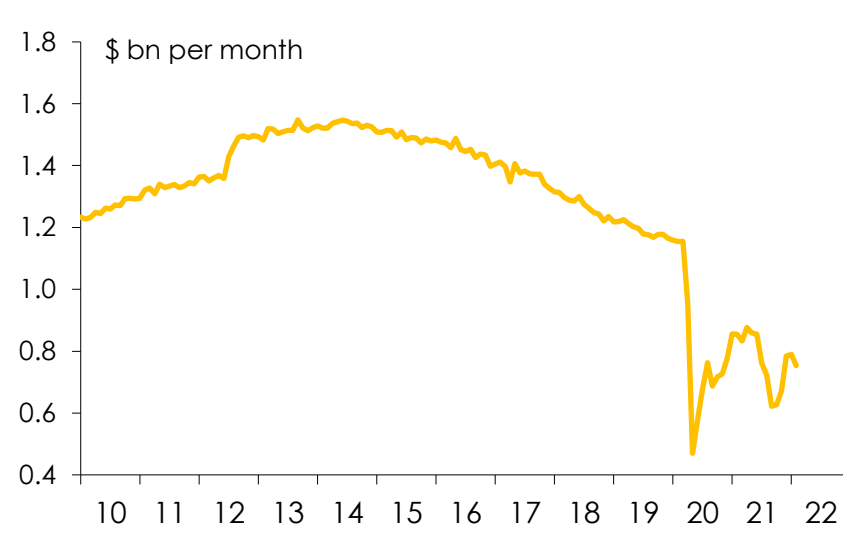
Credit card cash advances



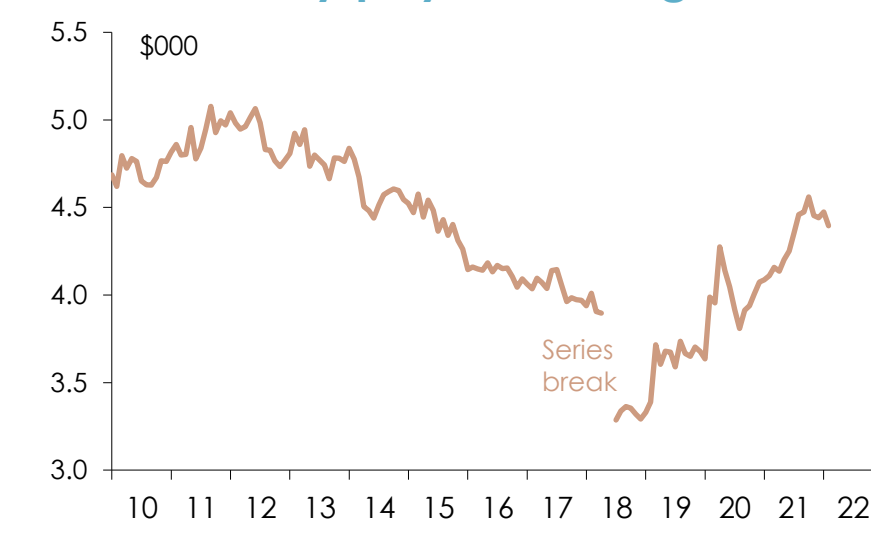
Online retail 'market share'



Debit card cash-outs



Direct entry payments avge value



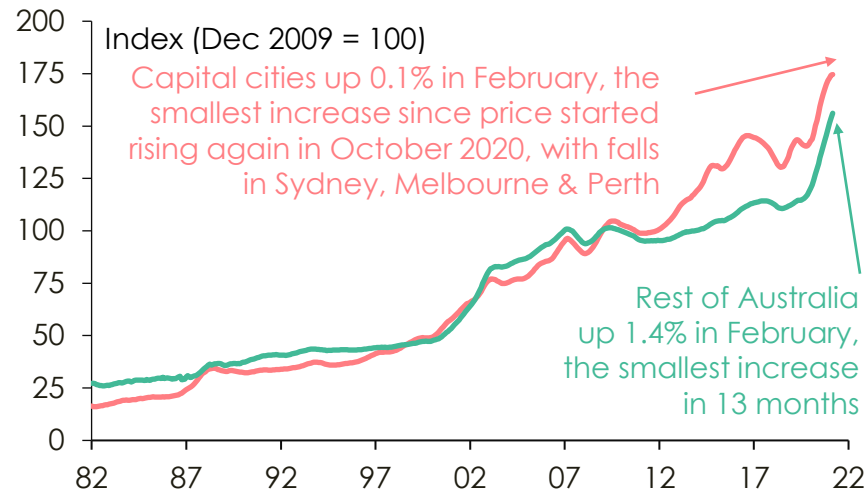
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales payments system data are for January. February online retail sales data will be published on 4th April and February payments system data will both be published on 7th April. [Return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

Housing and the residential property market

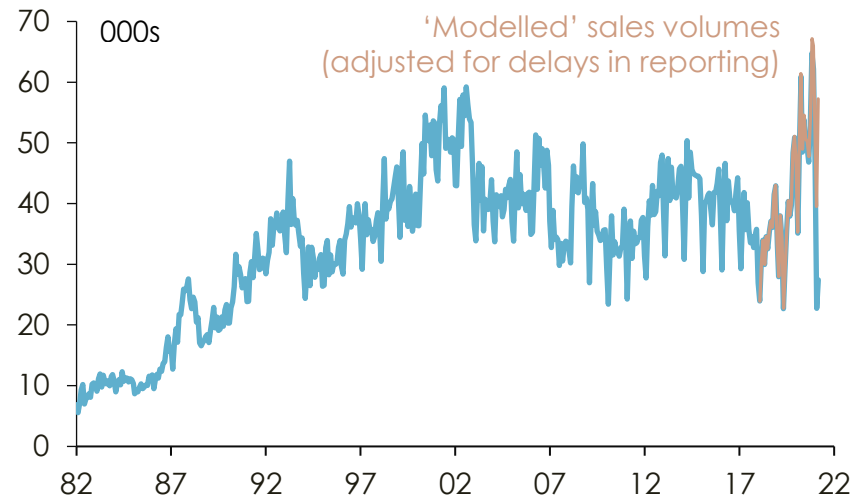
Property prices rose 'only' 0.4% in February, the smallest increase since October 2020, continuing the slowing in monthly price gains since last June

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

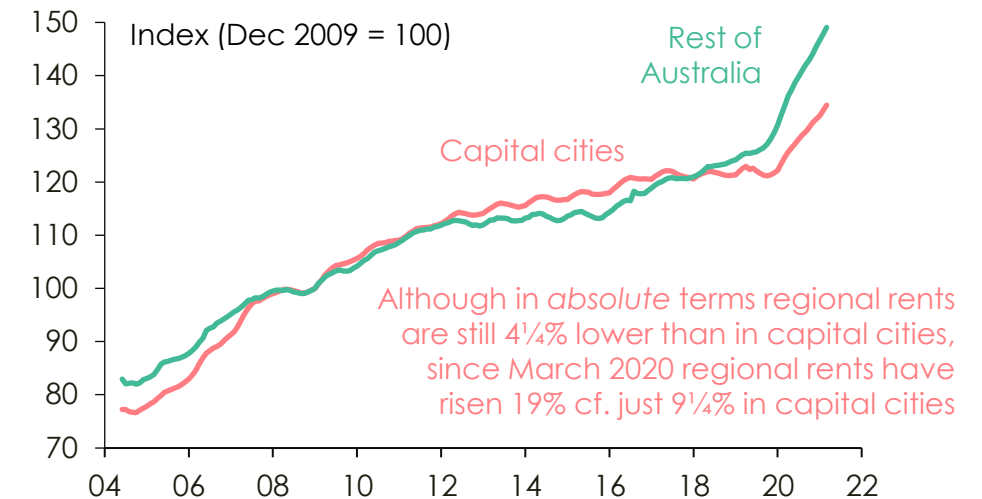
Residential property prices



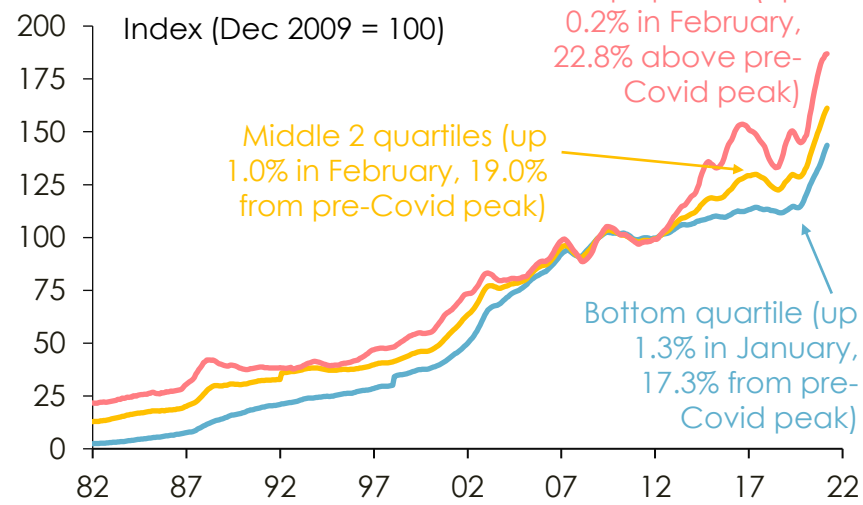
Residential property sales volumes



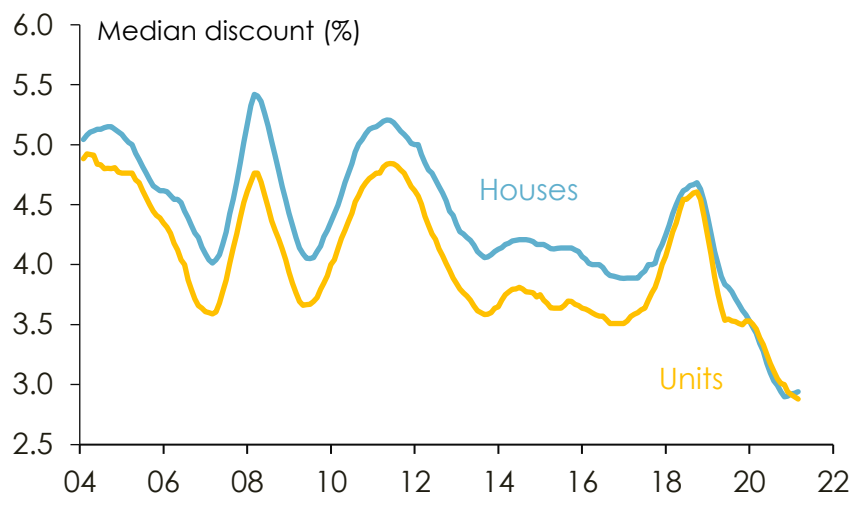
Residential rents



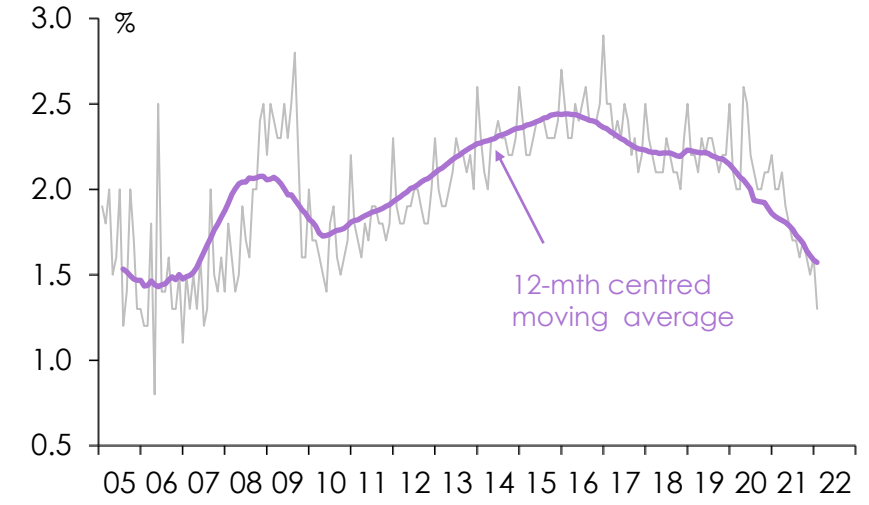
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

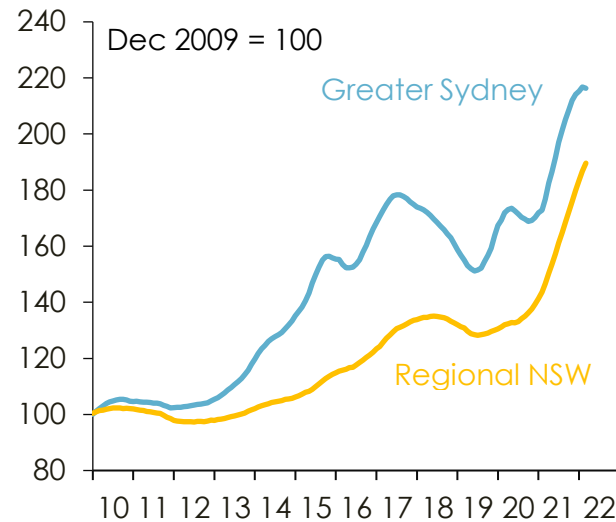


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

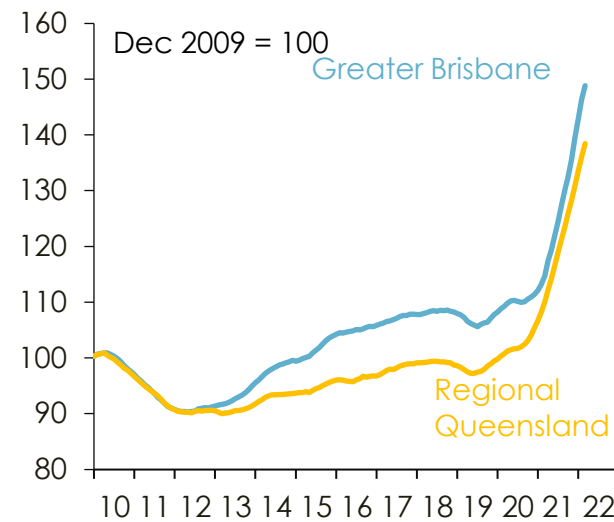
Property prices fell marginally in February in Sydney, Melbourne and Perth but continued rising rapidly in Brisbane, Adelaide and Hobart

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

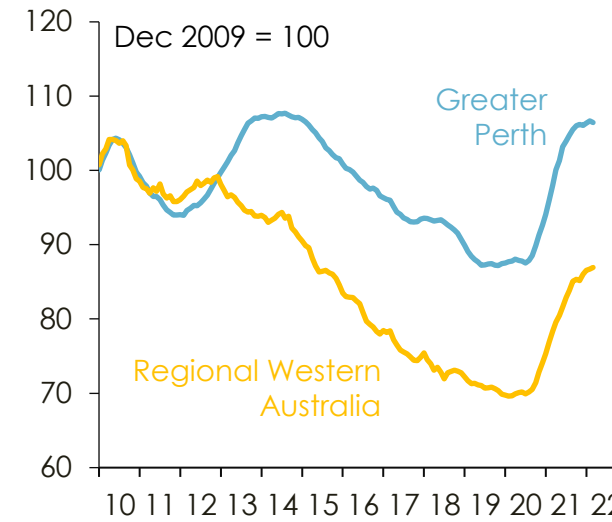
New South Wales



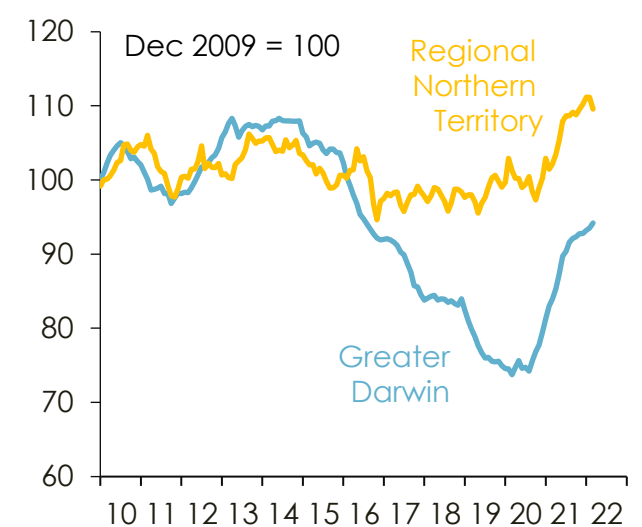
Queensland



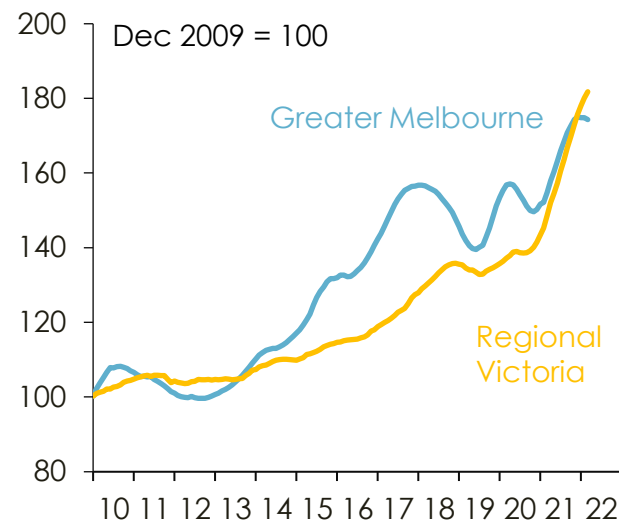
Western Australia



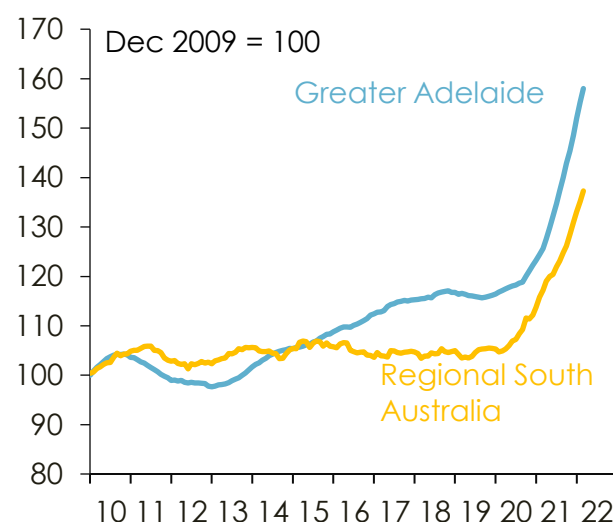
Northern Territory



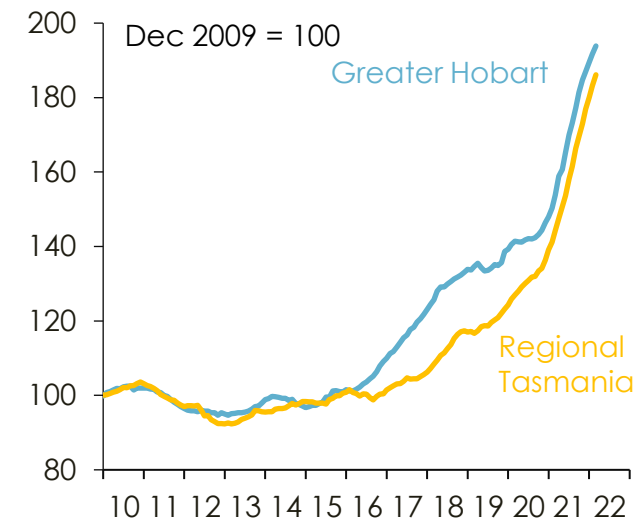
Victoria



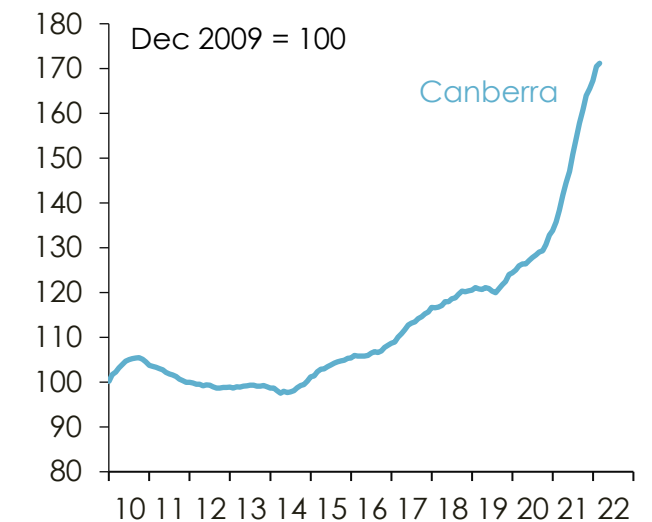
South Australia



Tasmania



Australian Capital Territory



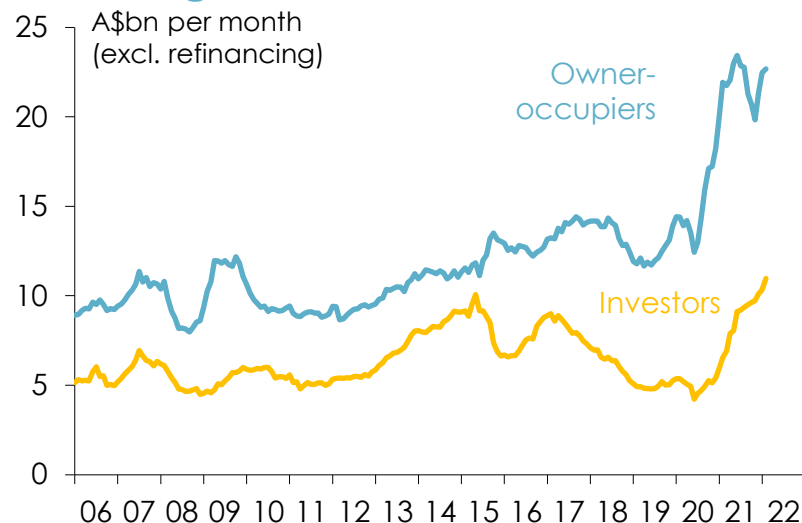
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

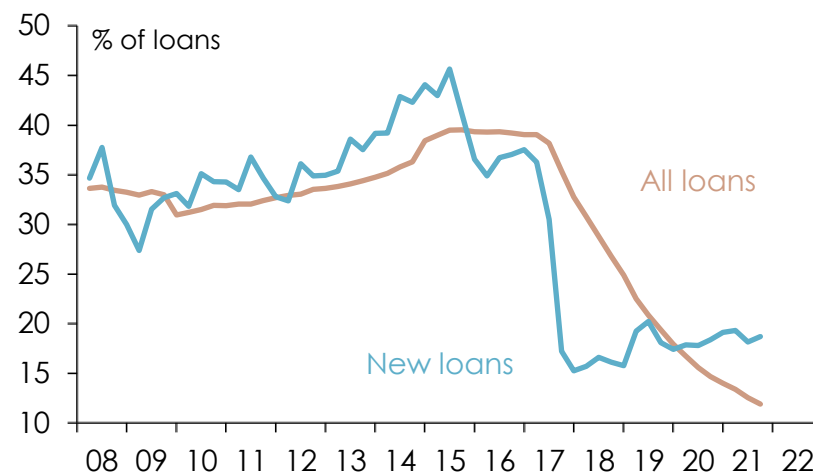
Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

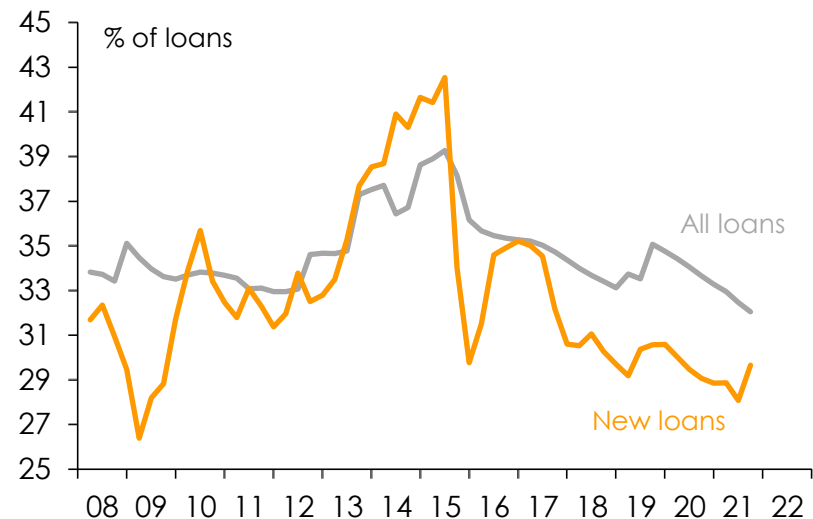
Housing finance commitments



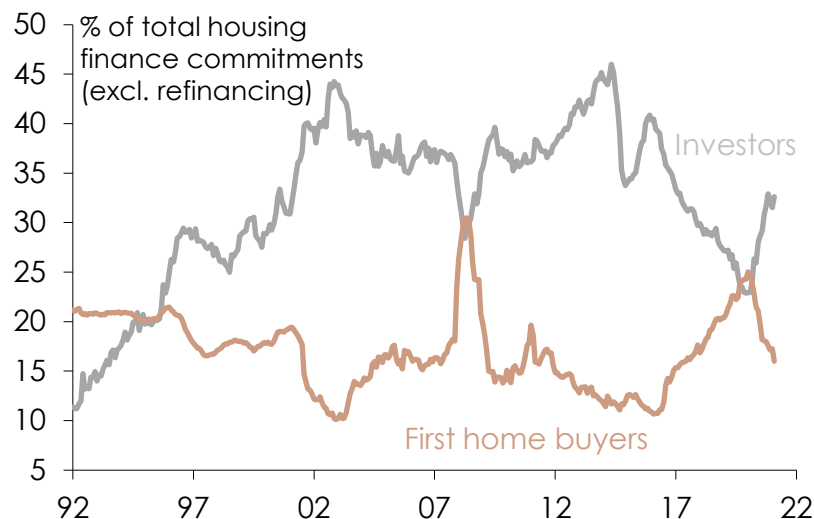
Interest-only loans



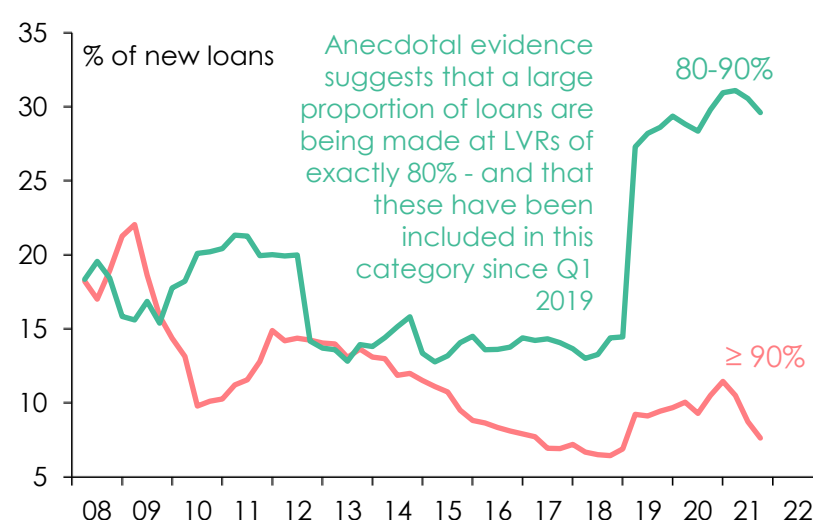
Loans to investors as a pc of total



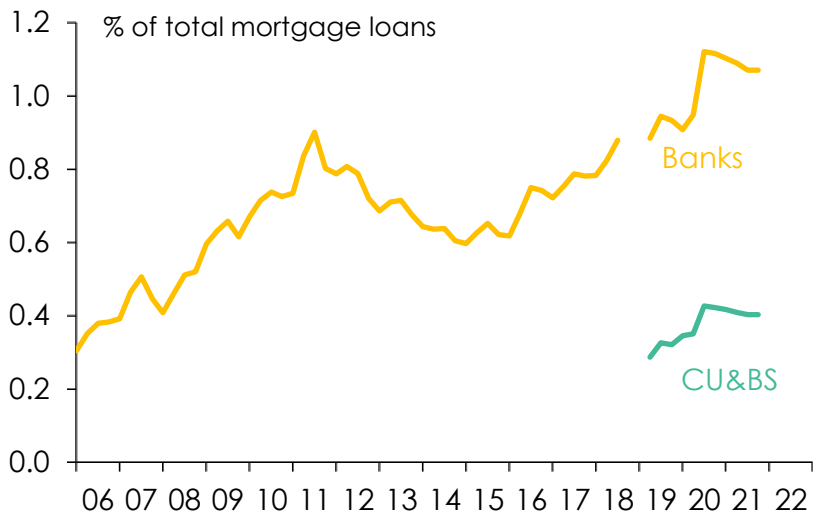
Shares of housing finance



High LVR loans as a pc of total



Non-performing mortgage loans

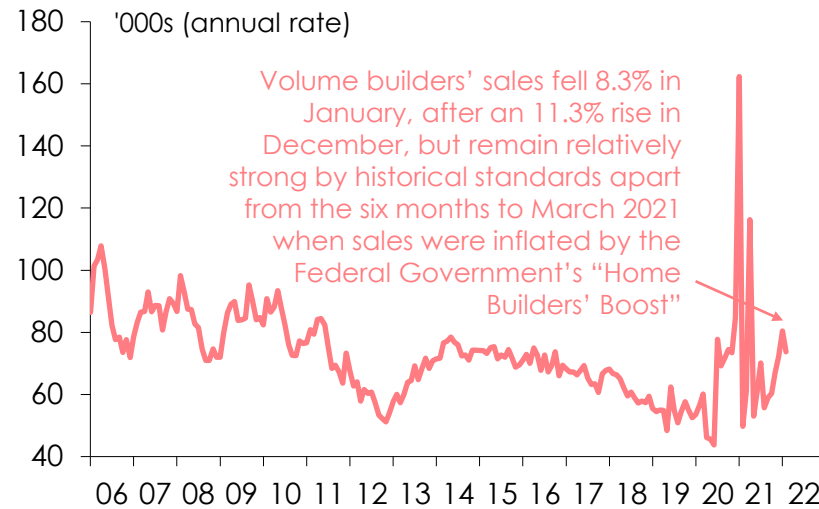


Sources: ABS, [Lending Indicators](#), January; Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). February housing finance data will be released on 1st April; APRA data on ADI property exposures for the December quarter will be released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

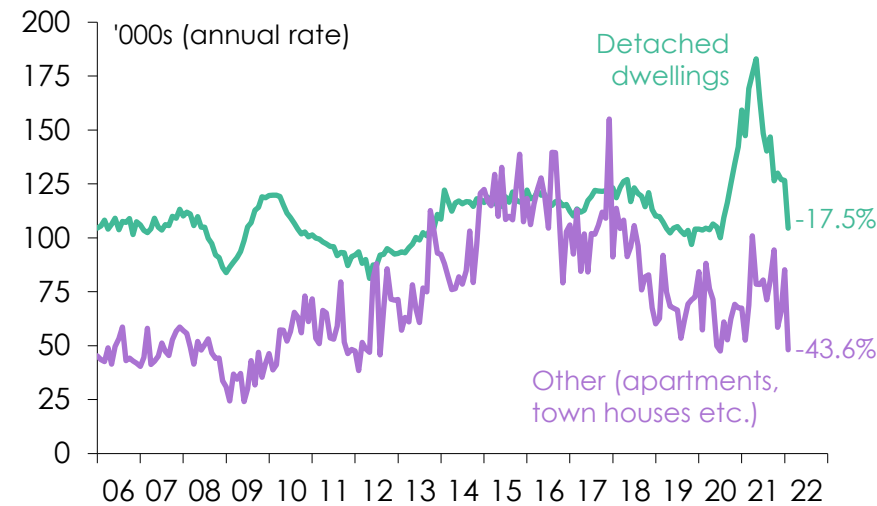
Residential building fell 28% in January, the largest single-month decline in at least 50 years, with big falls for both detached and multi-unit dwellings

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

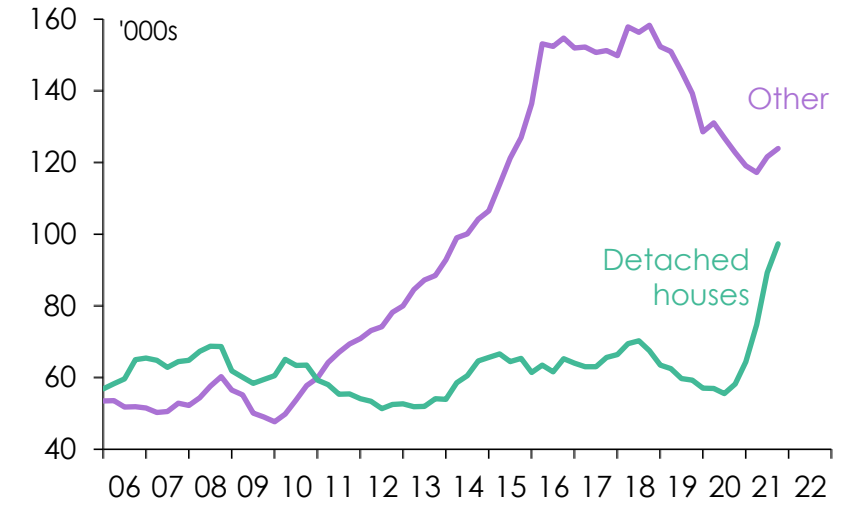
Large builders' new home sales



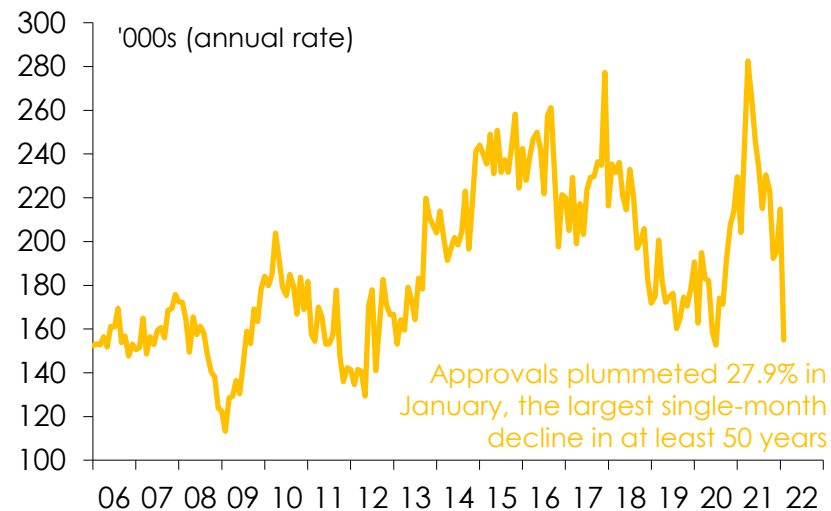
Building approvals, by type



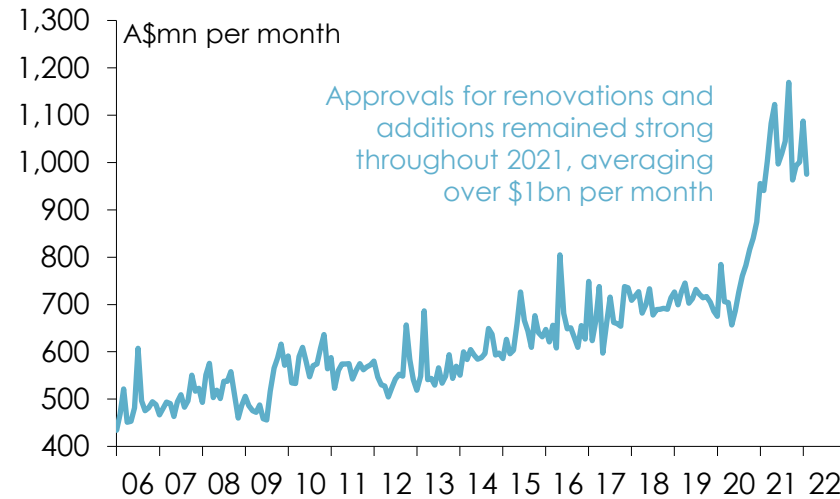
Dwellings under construction



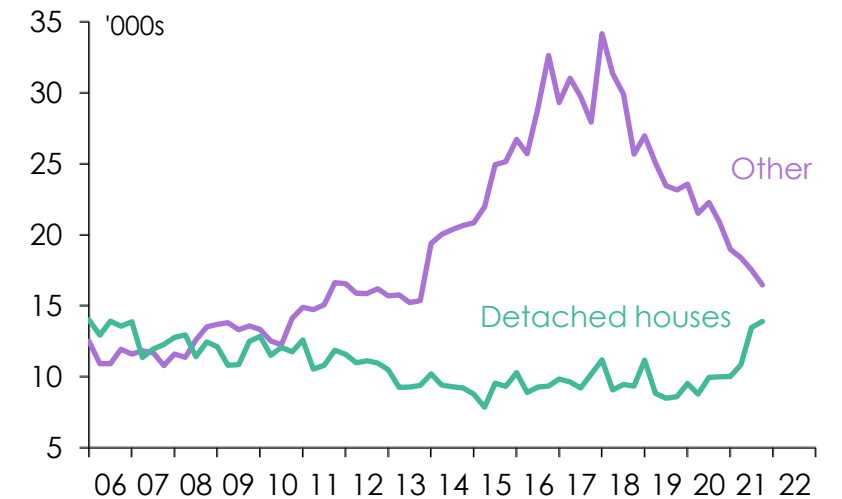
Residential building approvals



Alterations & additions approved



'Pipeline' of work yet to be started

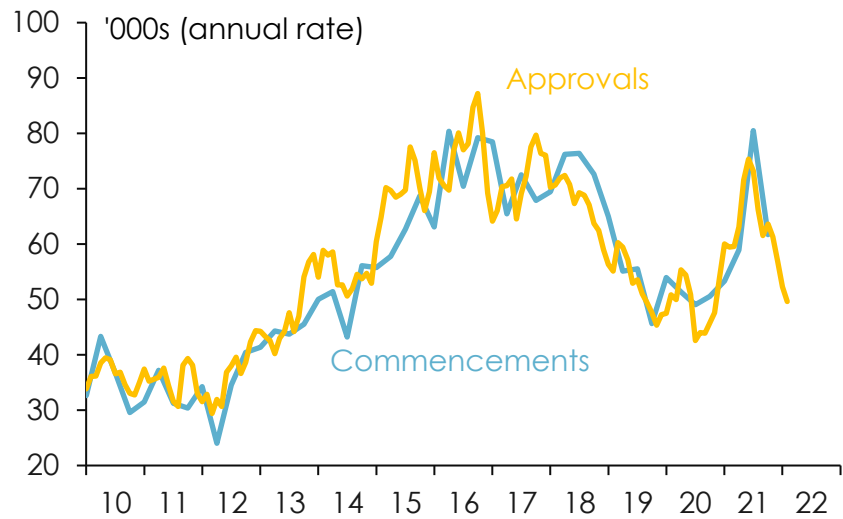


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. February building approvals data will be released on 31st March; December quarter dwellings under construction and 'pipeline'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

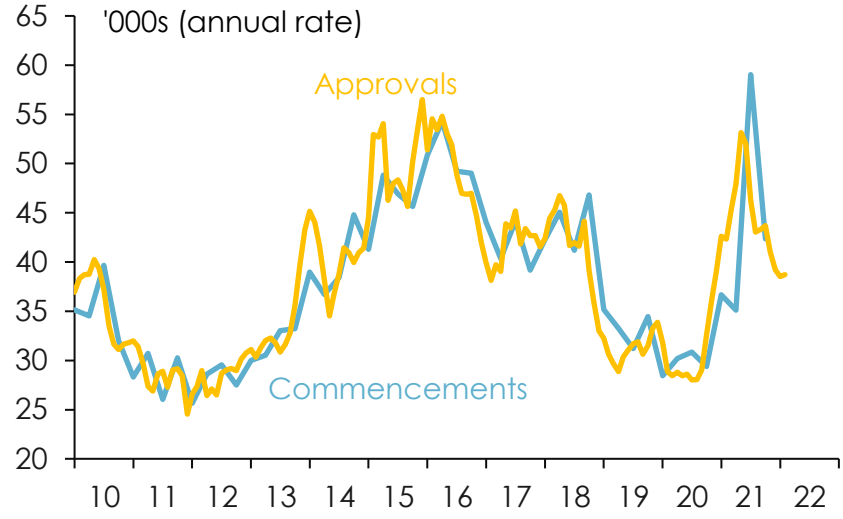
Residential building approvals fell sharply in every state except Queensland in January

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

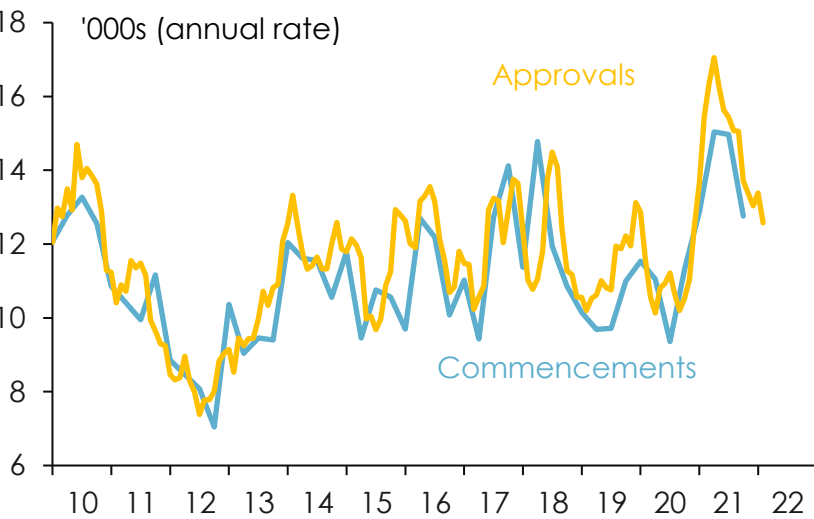
New South Wales



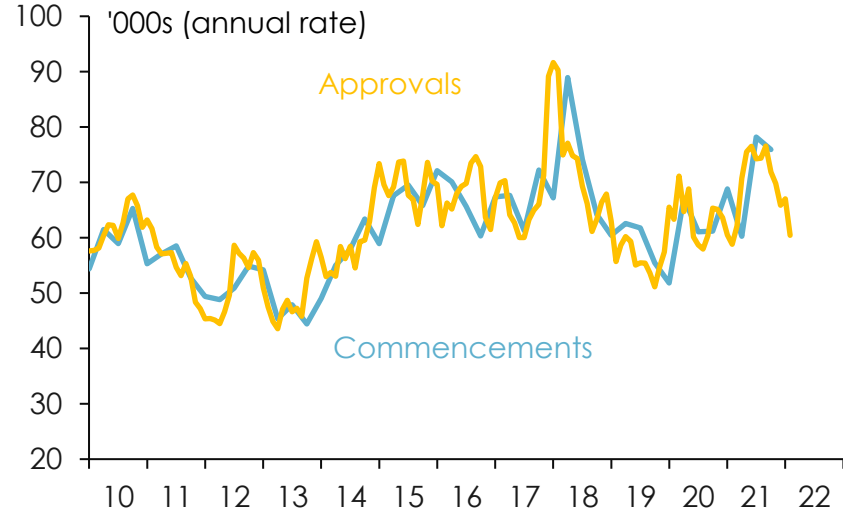
Queensland



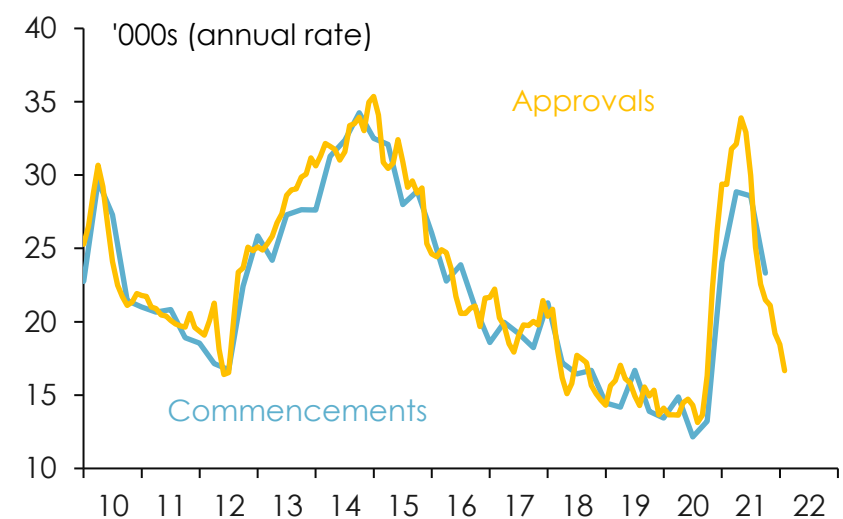
South Australia



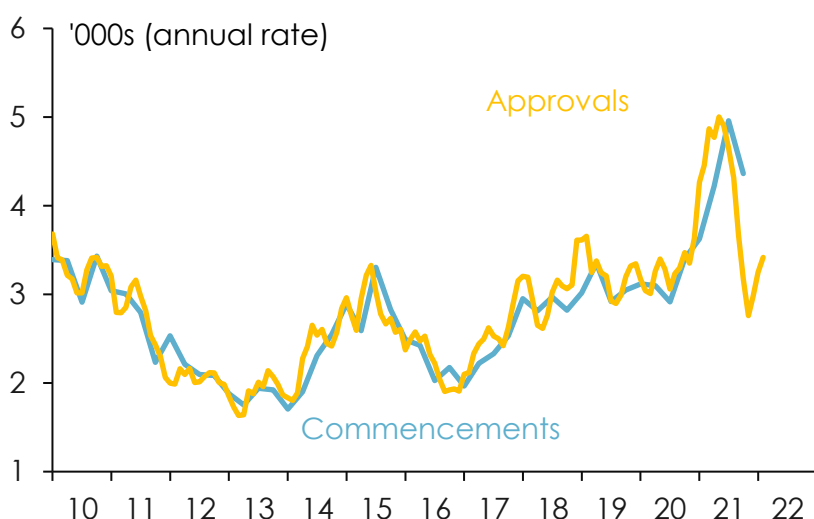
Victoria



Western Australia



Tasmania



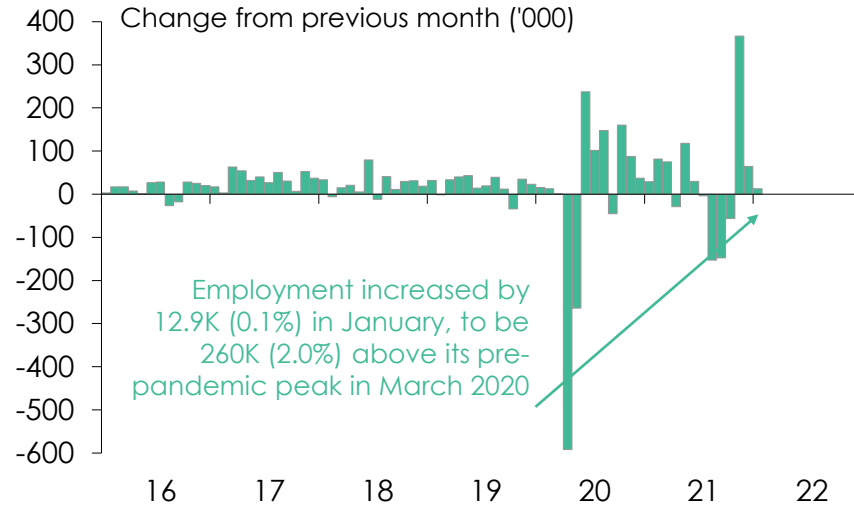
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly.
Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to "What's New"](#).

The labour market

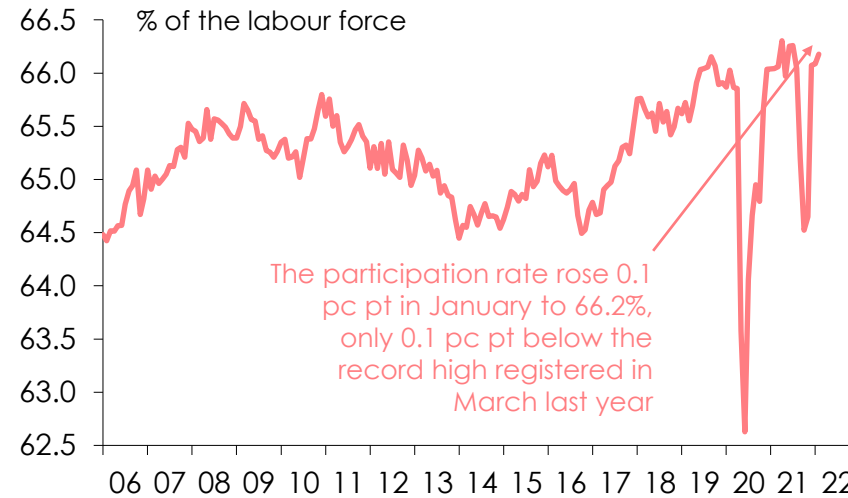
Employment rose 0.1% in January, but a large number of people weren't able to go to work because of omicron, resulting in an 8.8% fall in hours

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

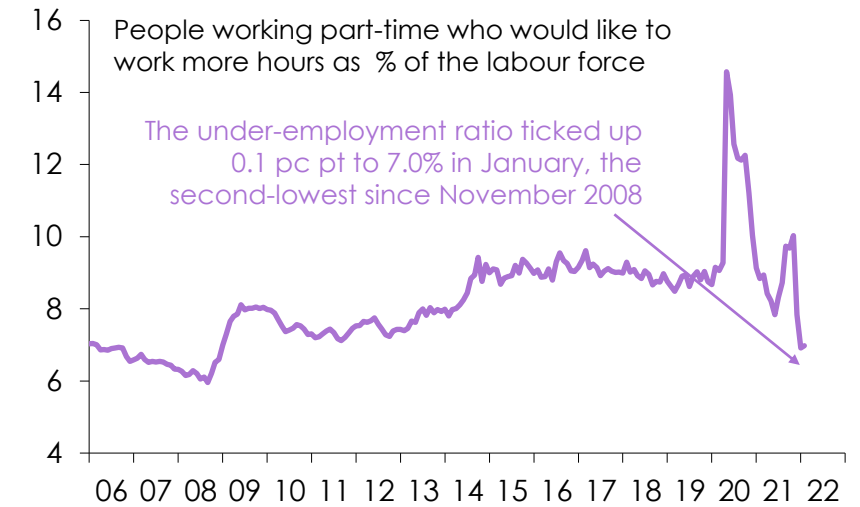
Employment



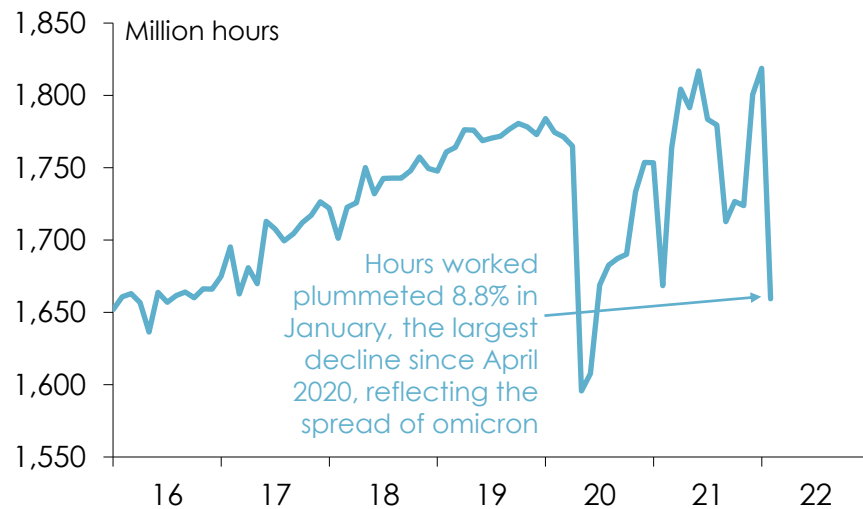
Labour force participation rate



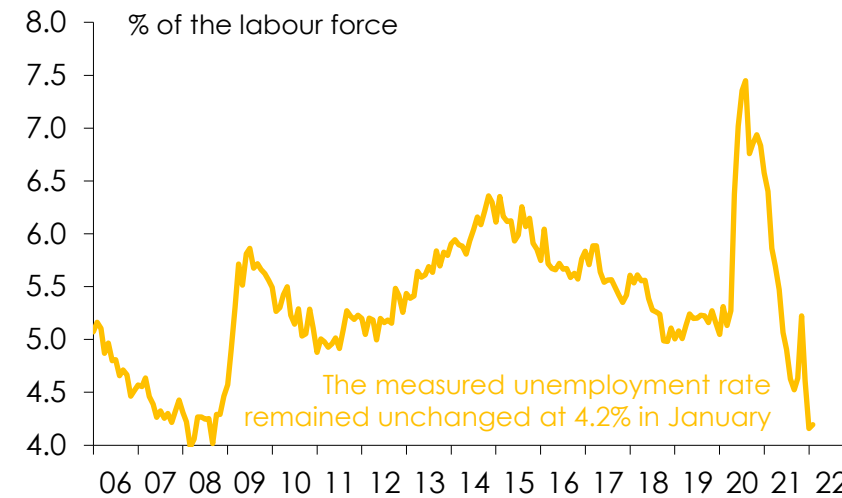
Under-employment ratio



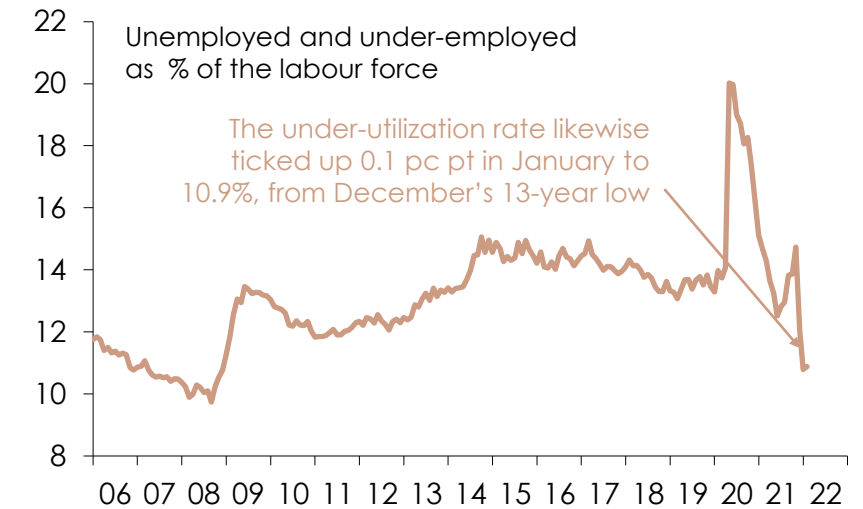
Total hours worked



Unemployment rate



'Under-utilization' rate

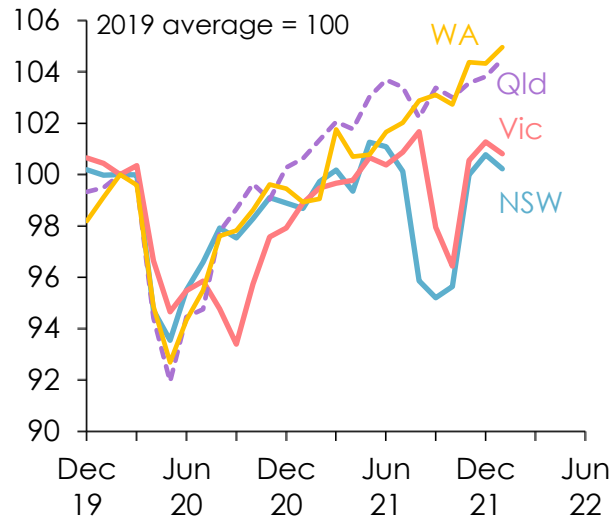


Source: ABS, [Labour Force, Australia](#), January. February data will be released on 17th March. [Return to "What's New"](#).

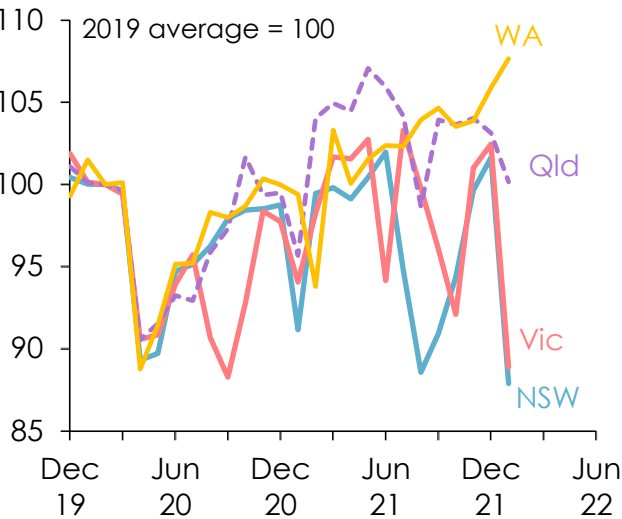
New South Wales and Victoria again accounted for most of the jobs gains in December – but employment hasn't fully recovered in the ACT

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

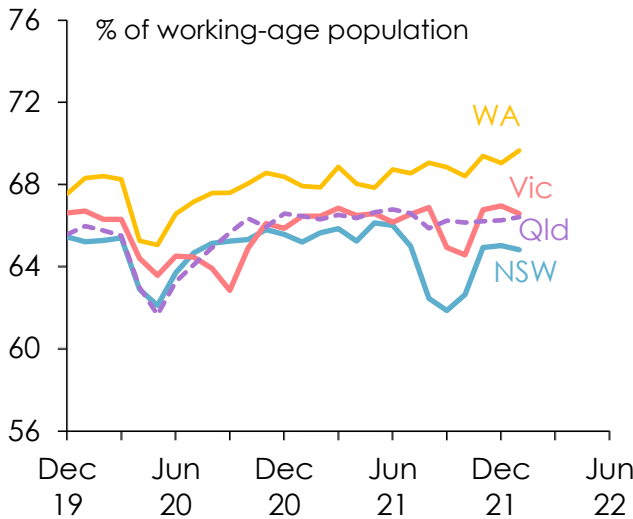
Employment



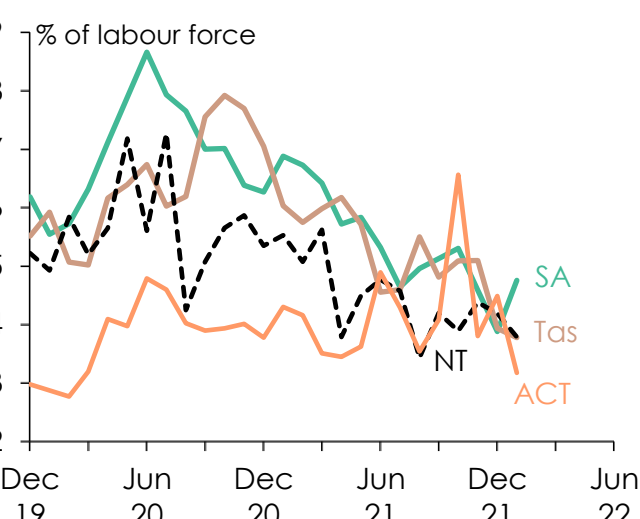
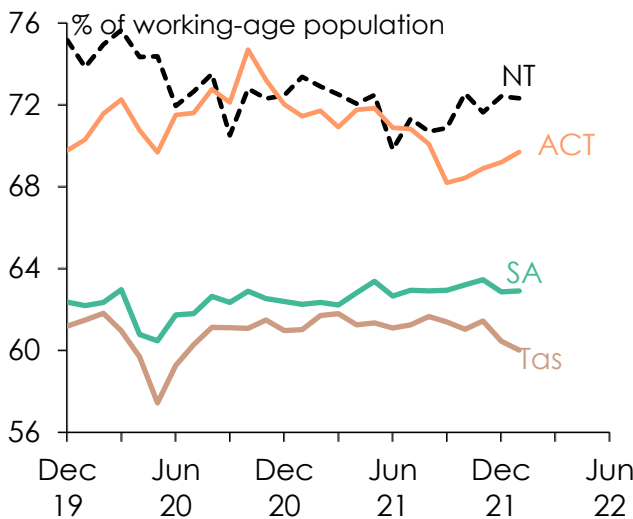
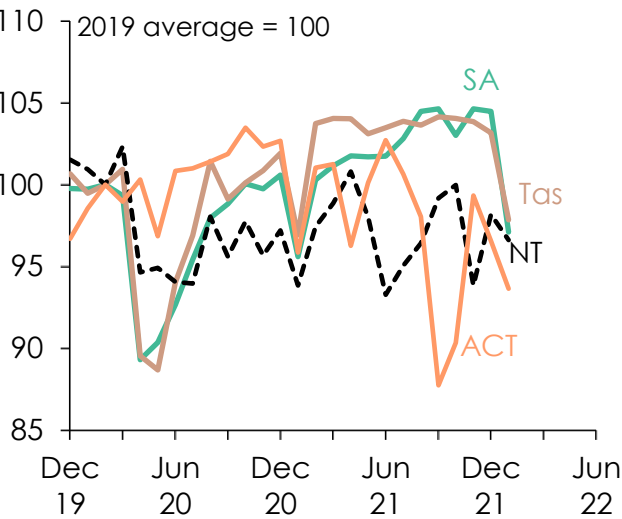
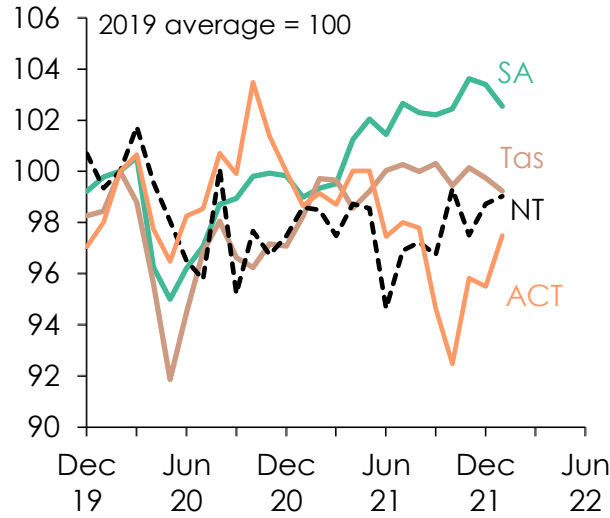
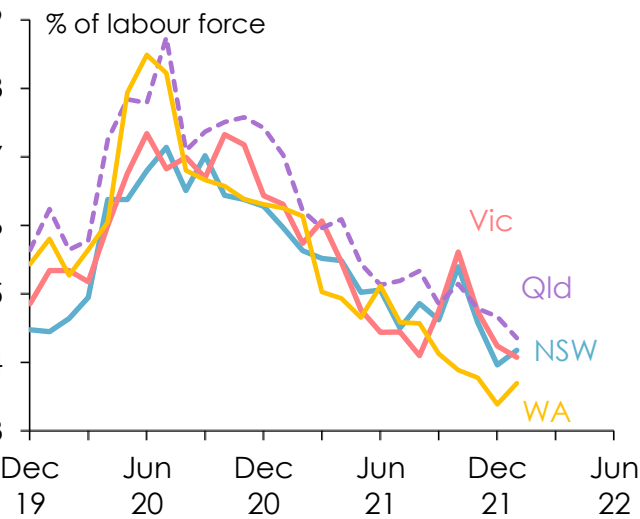
Hours worked



Participation rates



Unemployment rates



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 – 11TH 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 17th March.

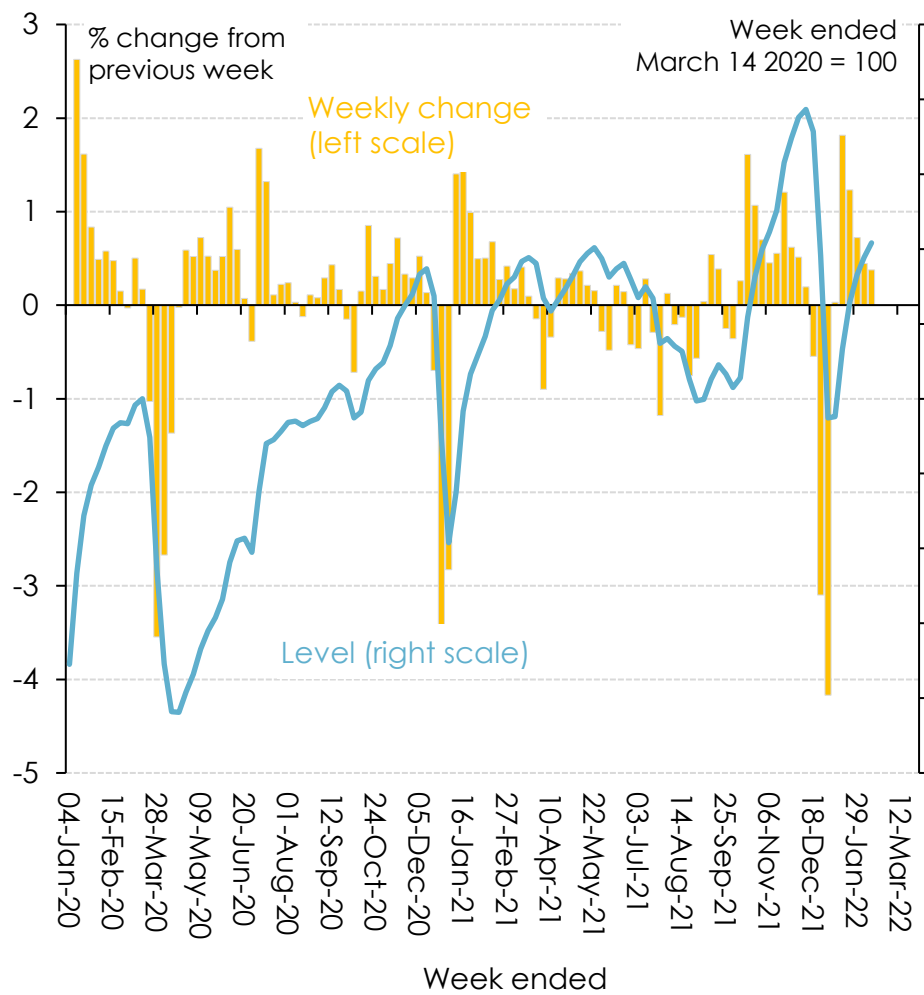
[Return to "What's New"](#).

- ❑ 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 for '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

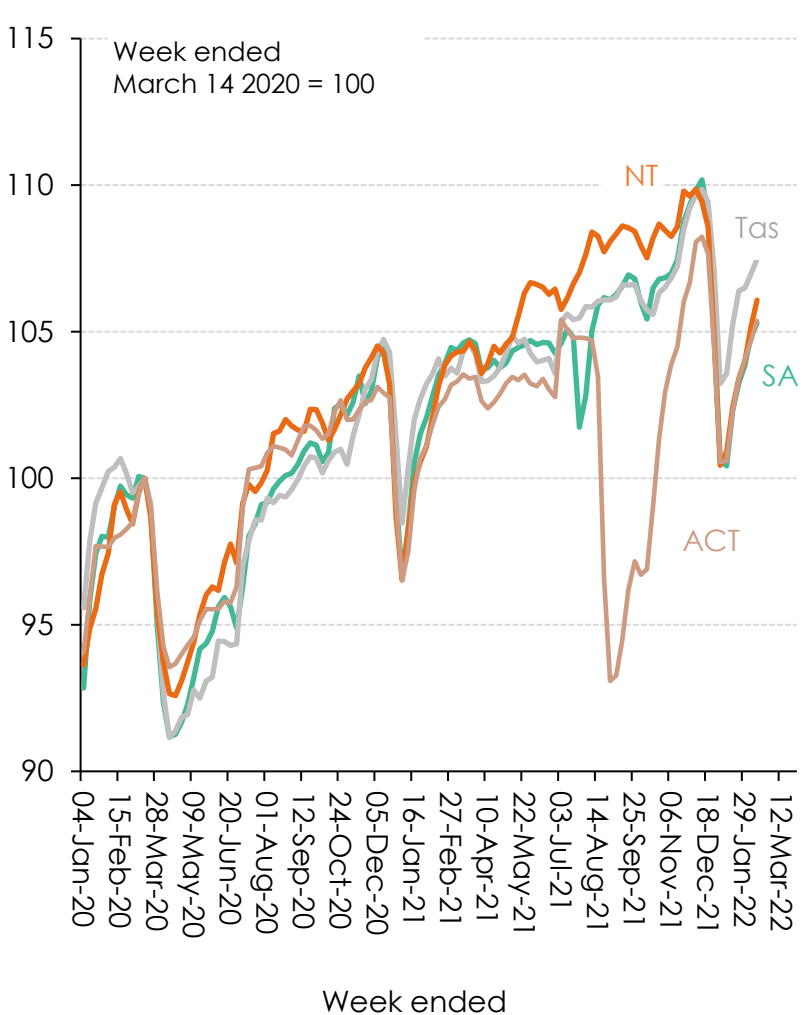
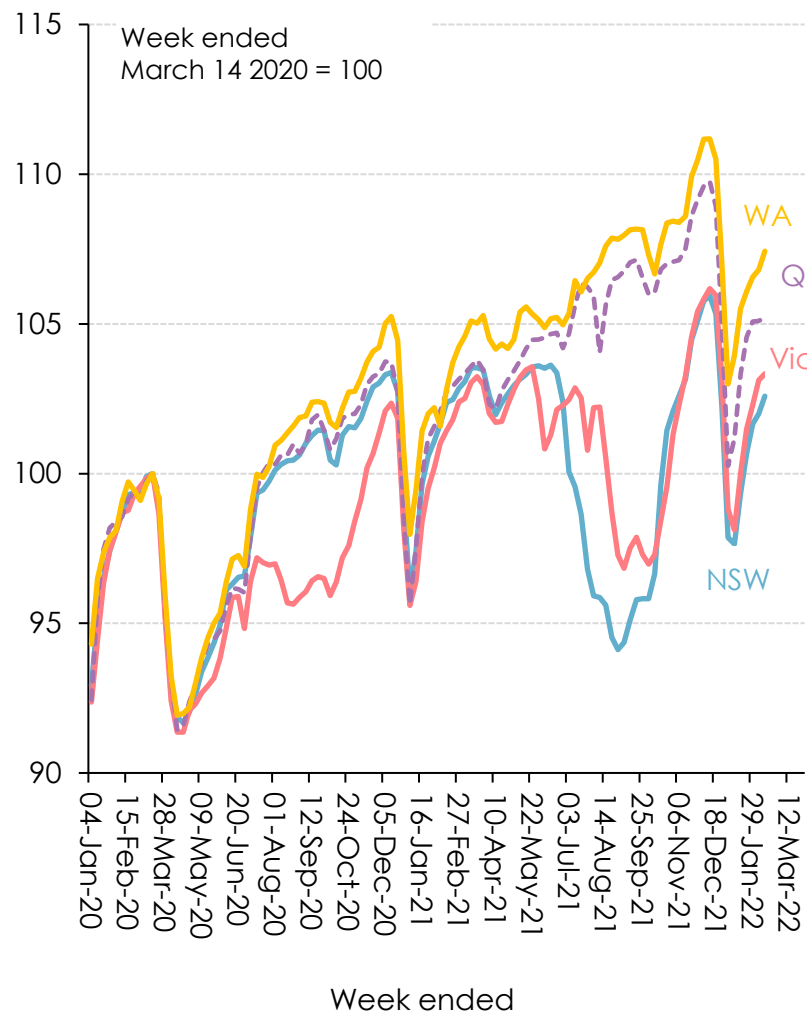
Payroll jobs rose 2.8% between mid-January and mid-February, with gains of more than 3% in NSW & Victoria, and more than 4% in construction

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



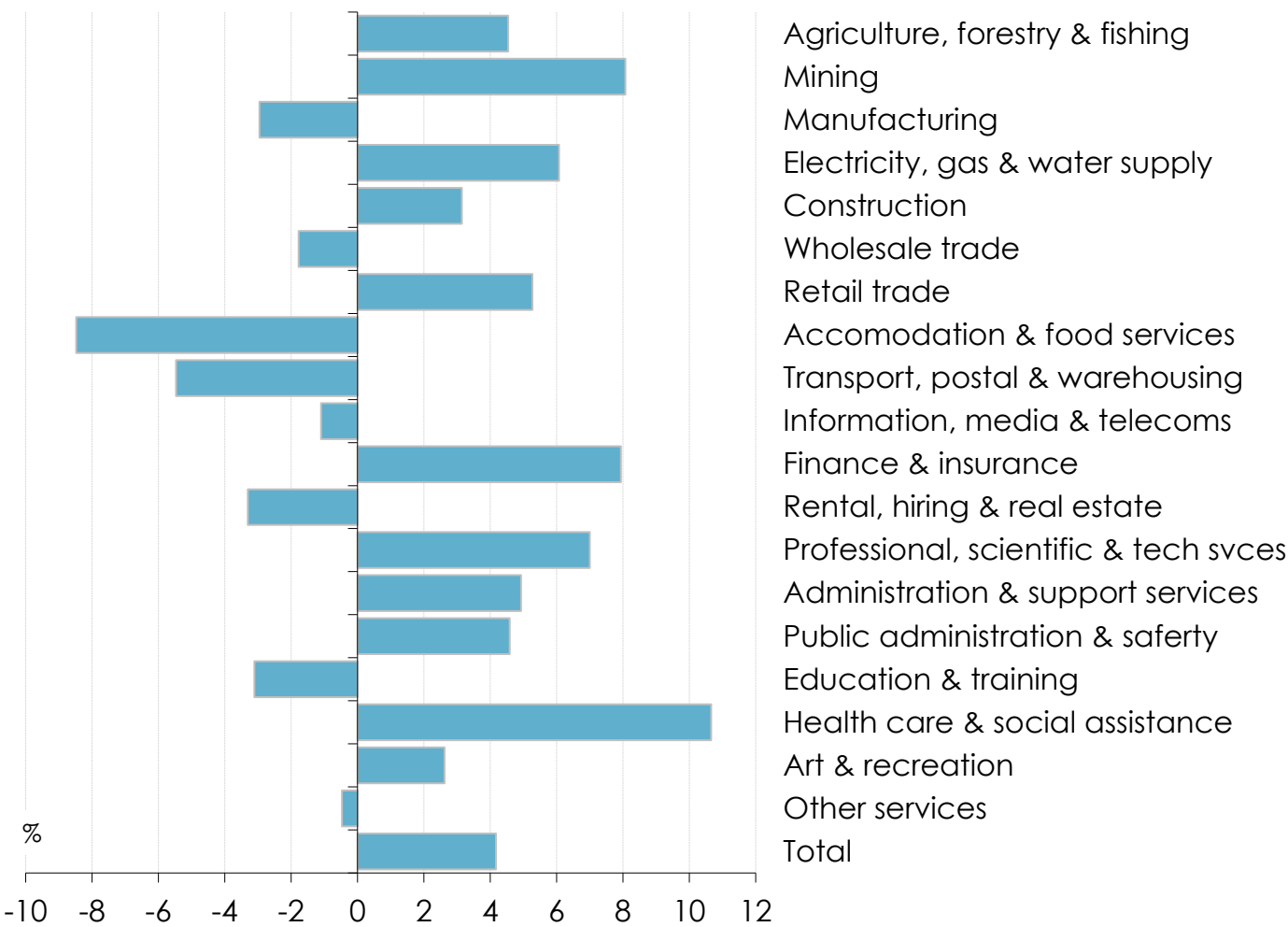
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

There are still fewer payroll jobs in hospitality, transport, manufacturing, wholesaling, rental & real estate and education & training than pre-Covid

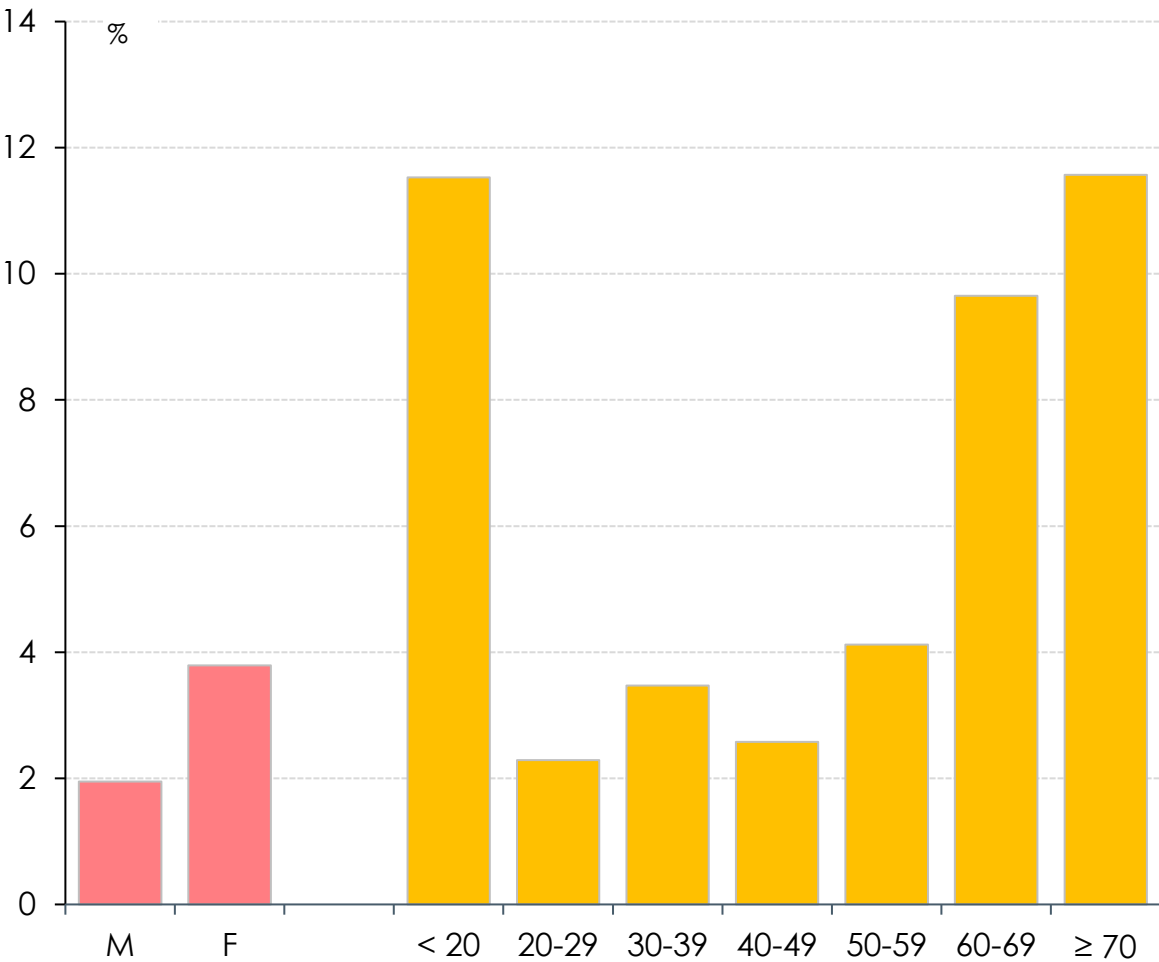
THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Net change in payroll jobs between week ended 14th March 2020 and week ended 12th February 2022

By industry



By gender and age

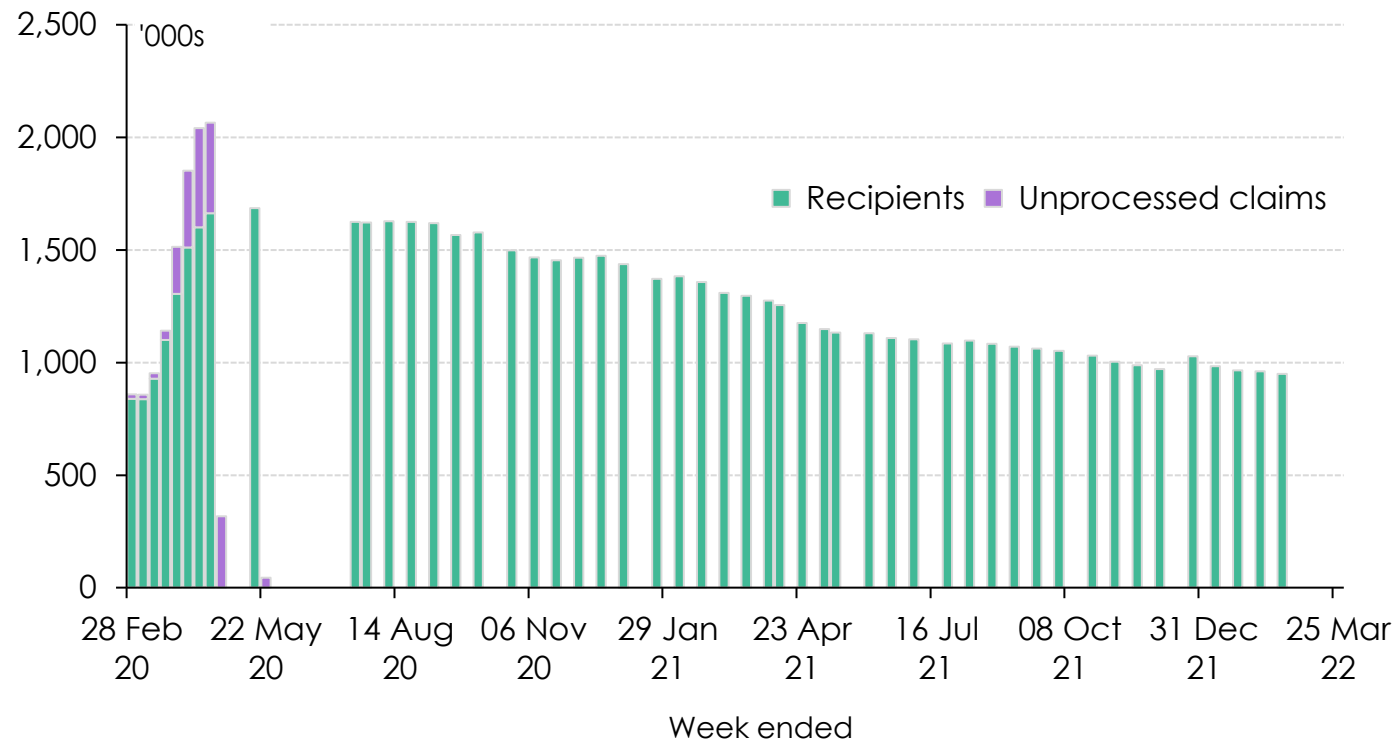


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

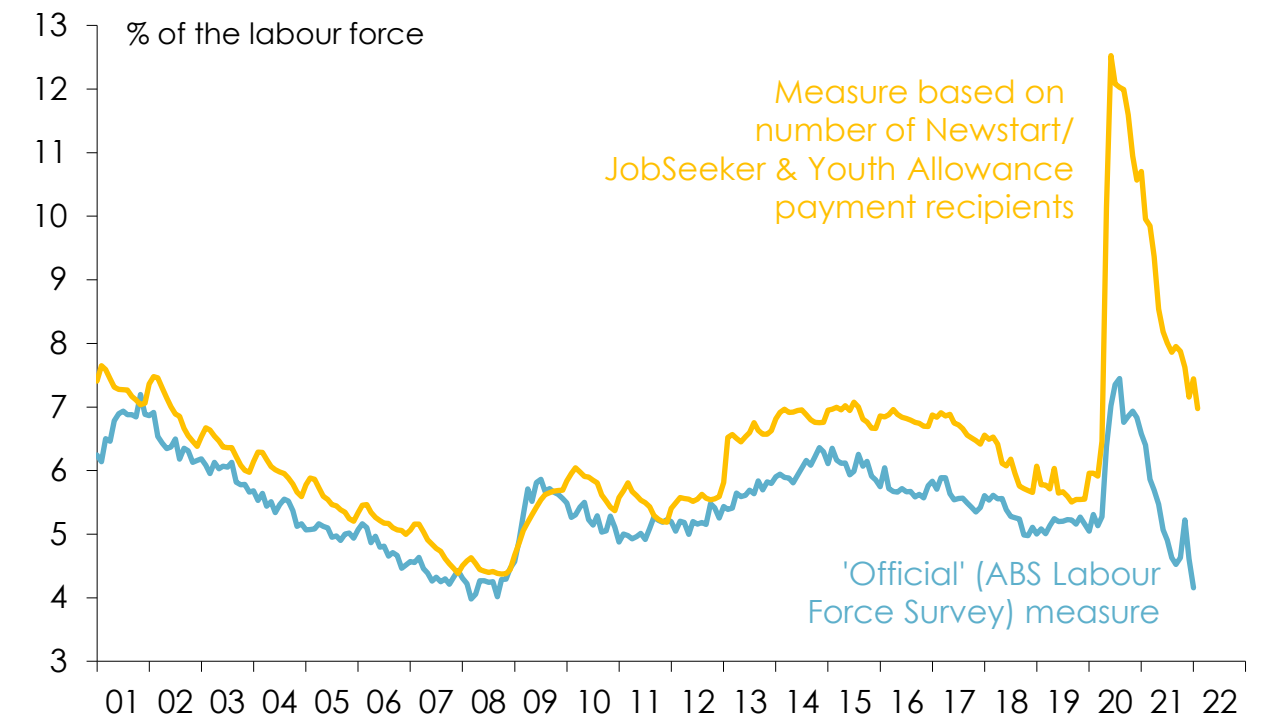
The number of people receiving joblessness-related income support payments in late February was the lowest since the onset of Covid-19

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

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



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

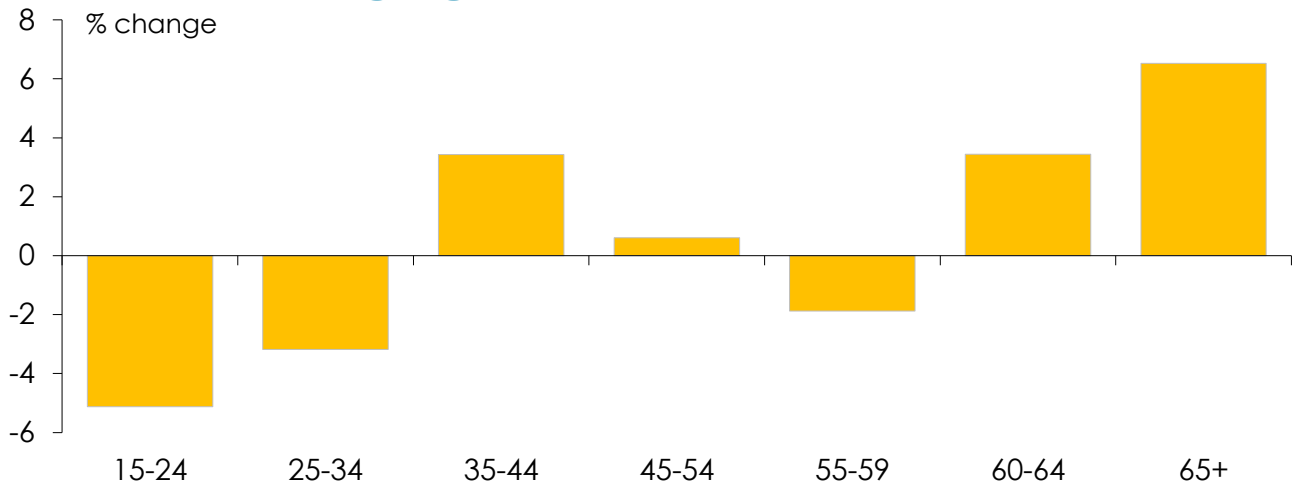


- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by 11,480 (1.2%) between 11th and 28th February - the lowest number since 20th March 2020, ie since the onset of Covid-19

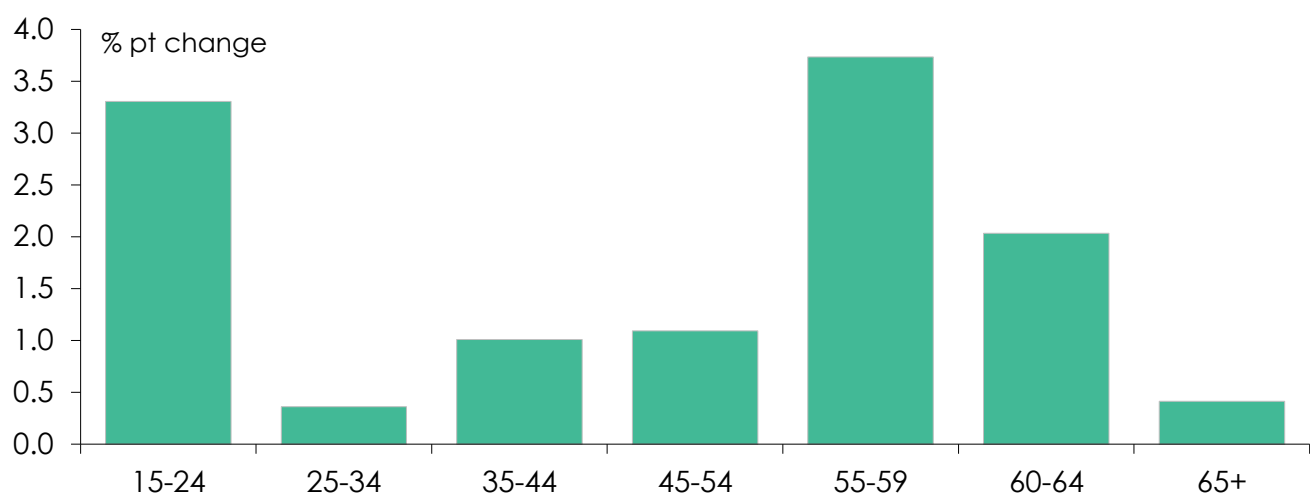
The decline in employment among young people over the past two years reflects the fact that many of them (students?) have left the country

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

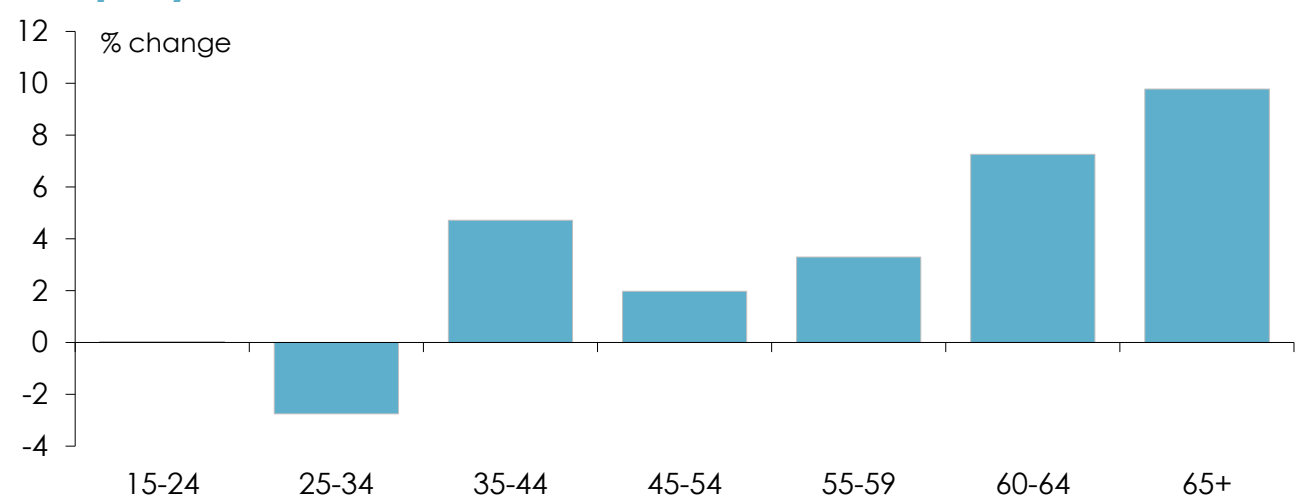
Changes over the two years to January 2022, by age groups
Civilian working age population



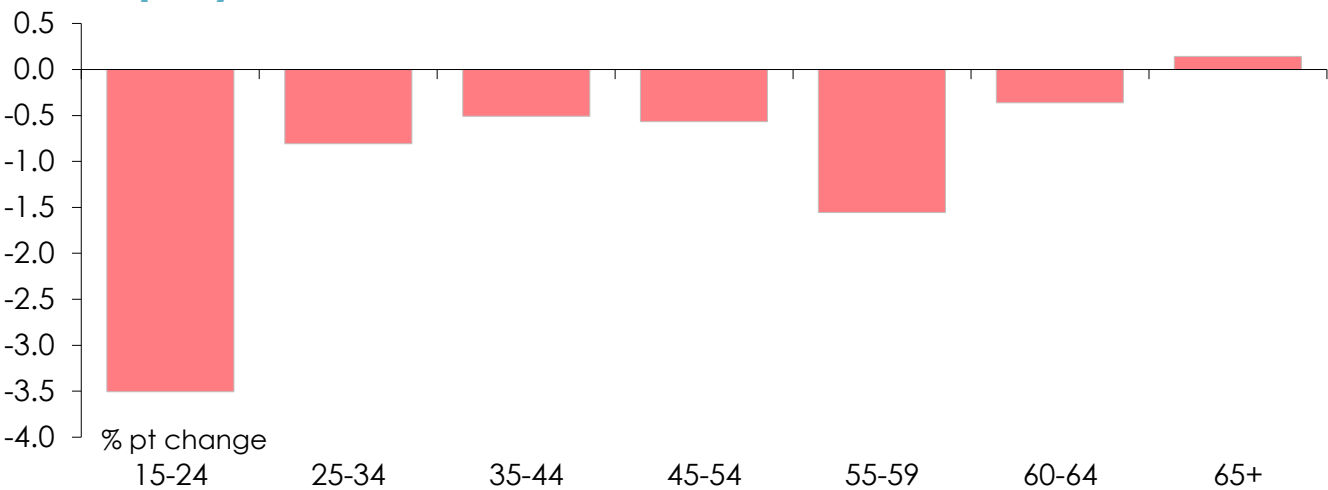
Employment-population ratio



Employment



Unemployment rates

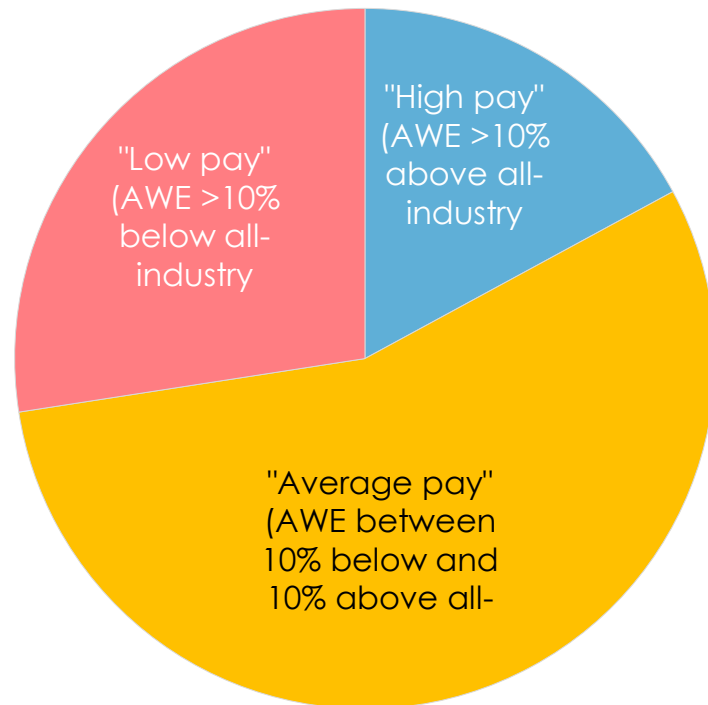


Note: The data from which the above charts are derived isn't seasonally adjusted, hence the need to make comparisons between December 2019 and December 2021.
Source: ABS, [Labour Force, Australia, Detailed](#), January 2022; February data will be released on 24th March. [Return to "What's New"](#).

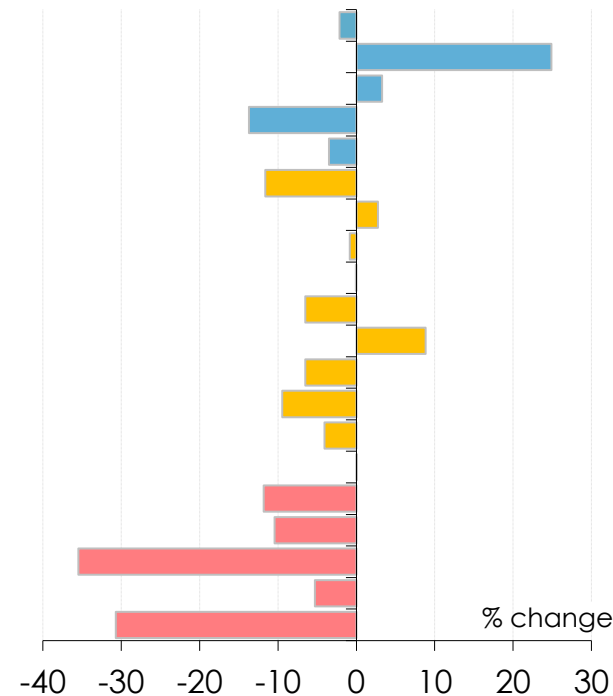
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

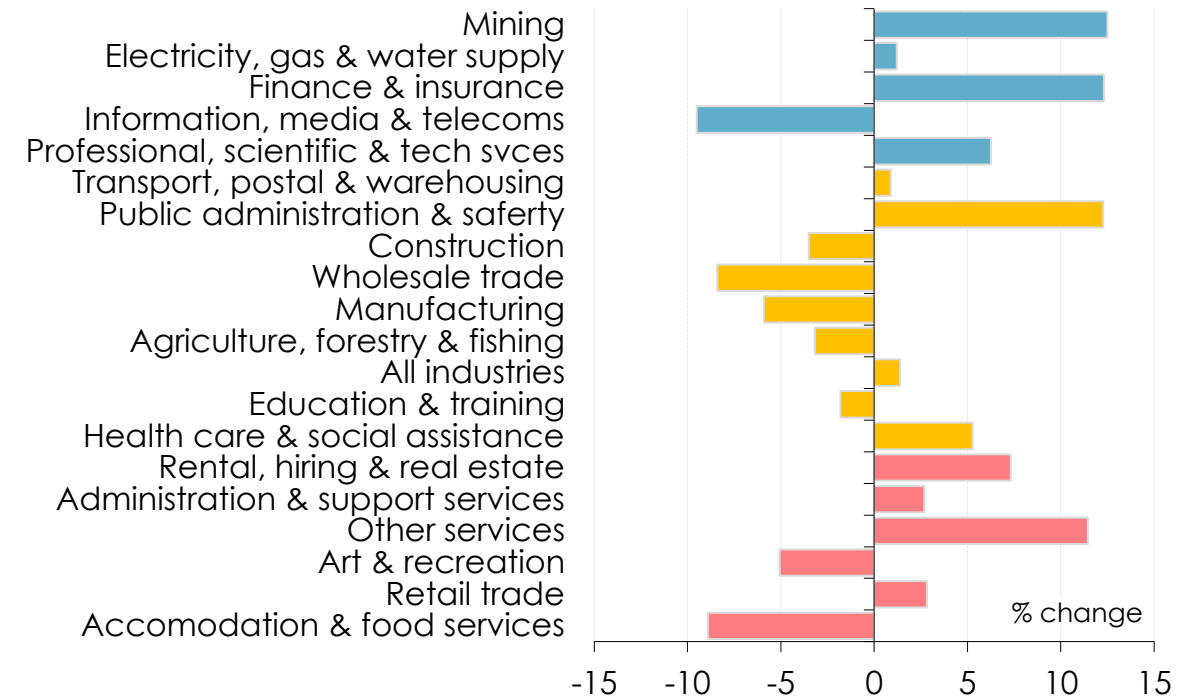
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry
February-May 2020



February 2020 – November 2021



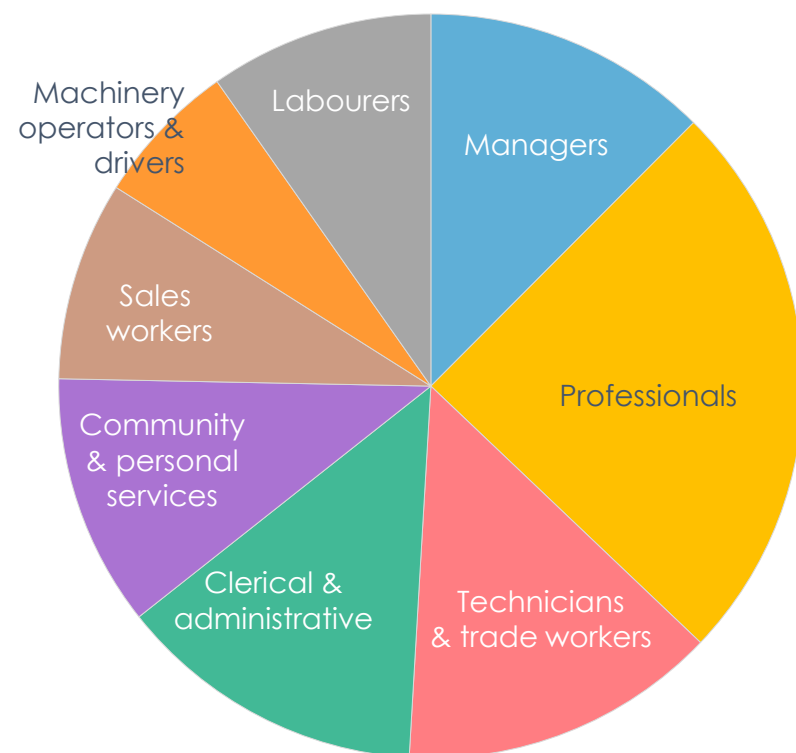
- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and 89% of job losses between May and August this year – and despite the recovery in November, employment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

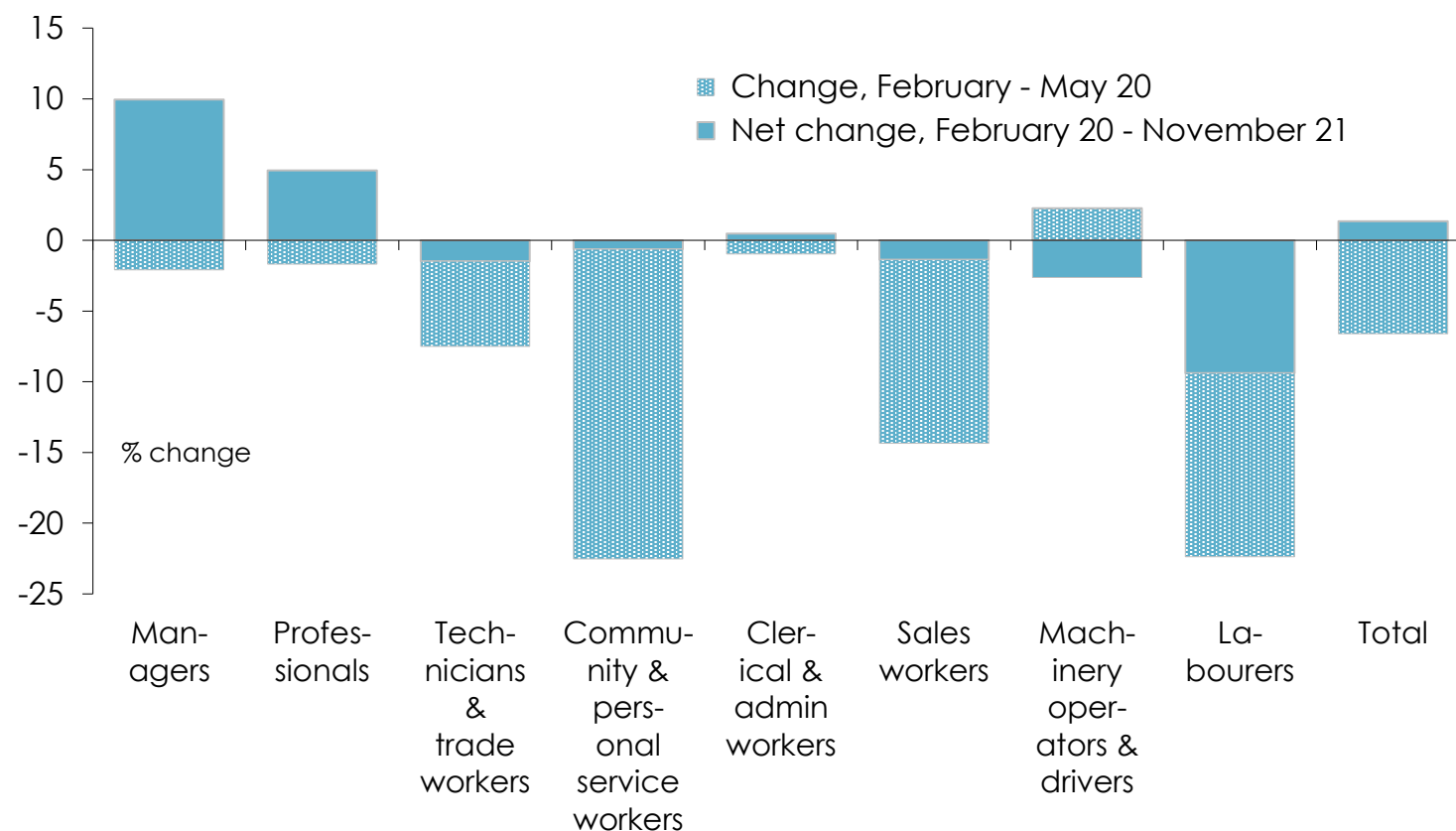
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Employment by major occupation category, February 2020



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



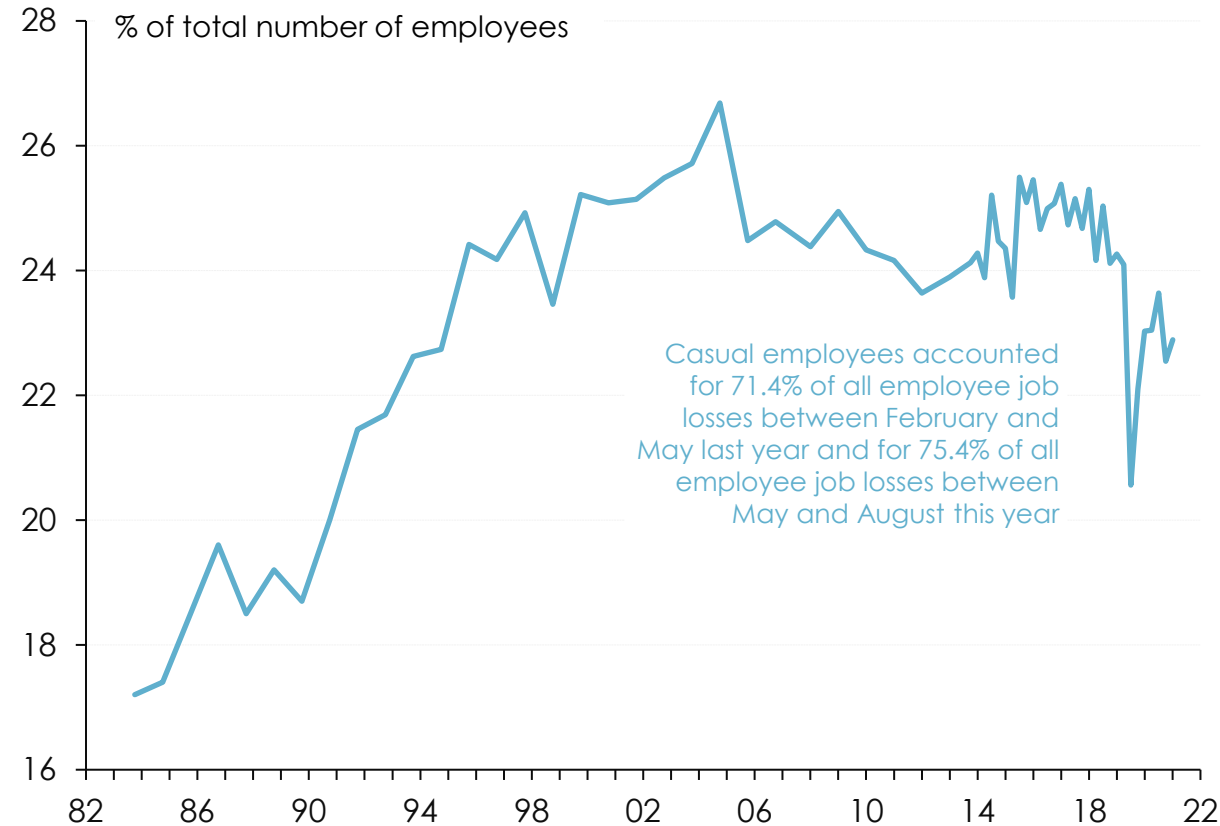
- ❑ Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 3.8% fewer of them in November 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 24th March. [Return to "What's New"](#).

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

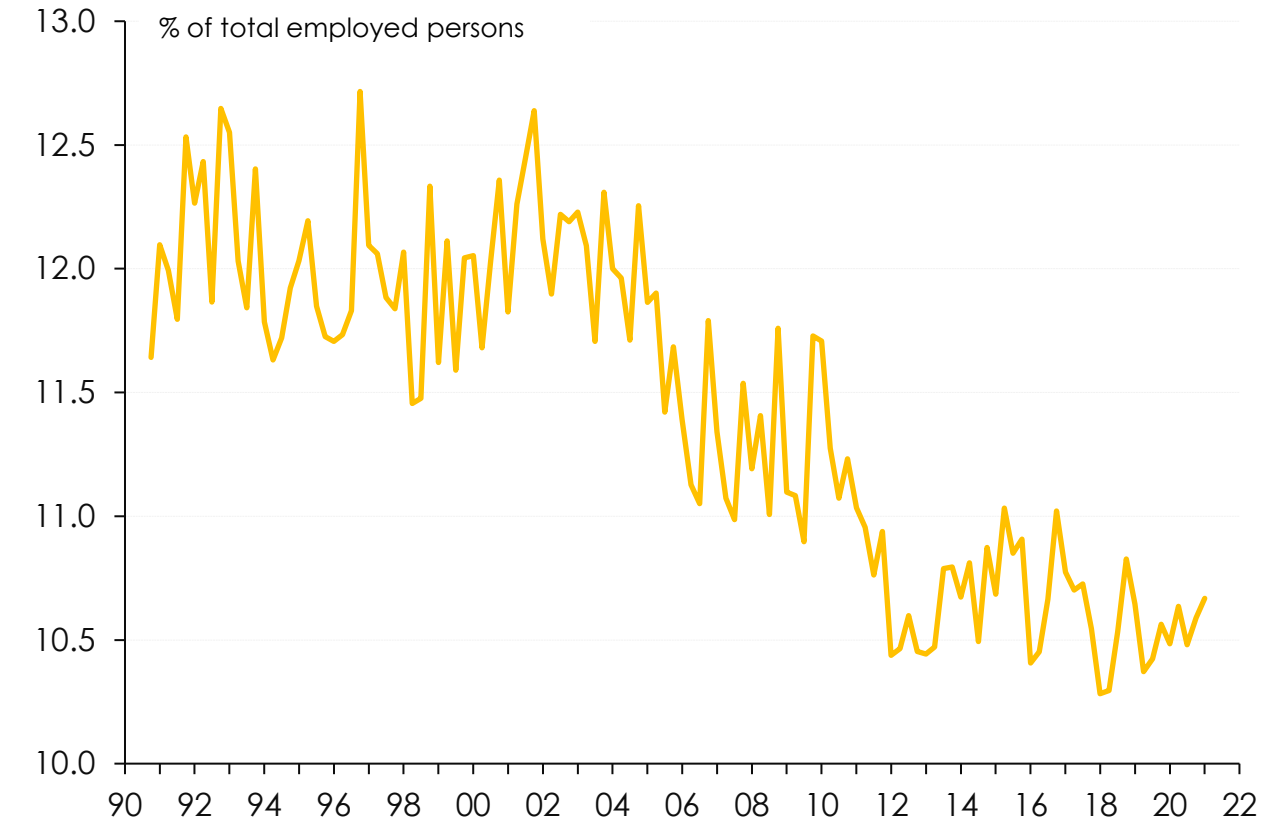
THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

'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



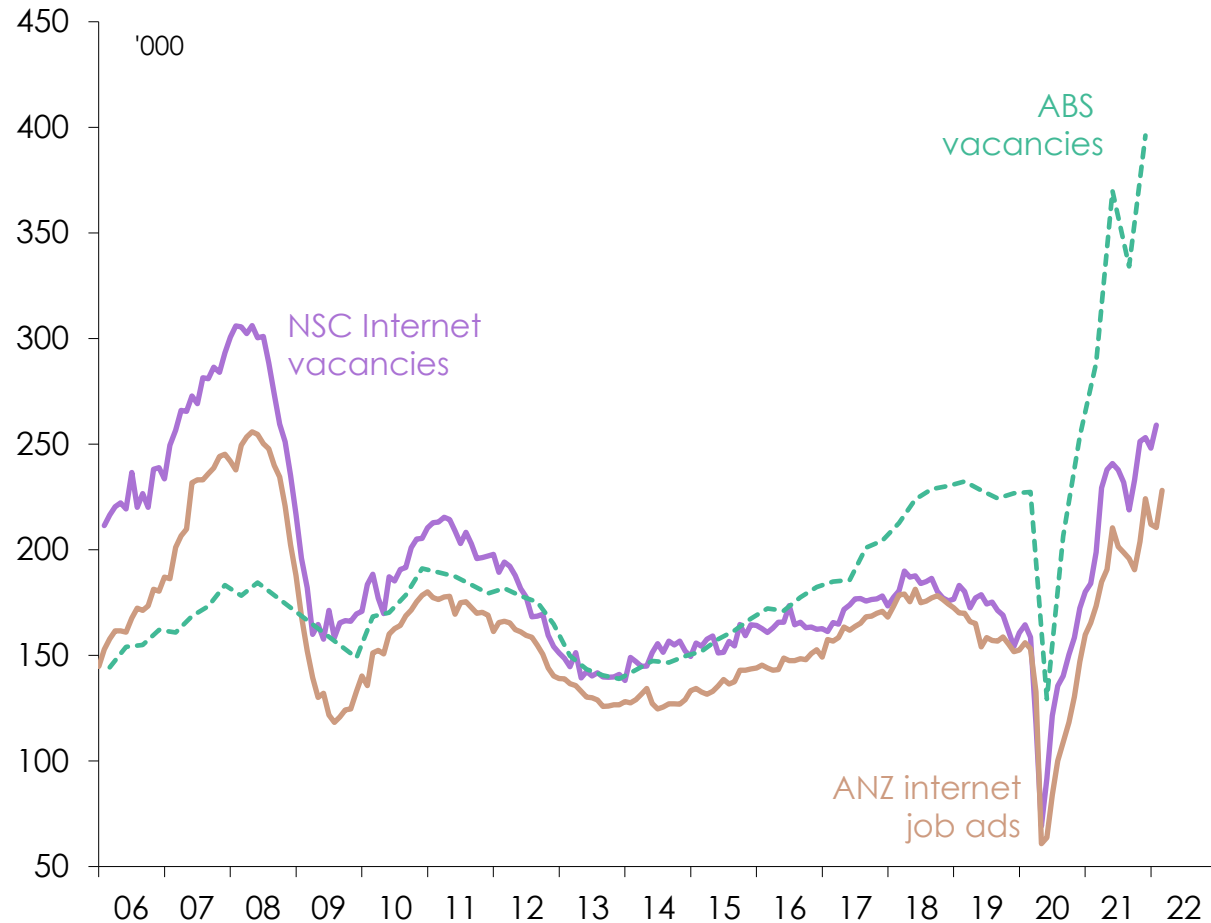
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Measures of job vacancies



- ❑ Job vacancies are at their highest level since before the GFC (or ever, according to the ABS count)

Ratio of unemployed people to job vacancies

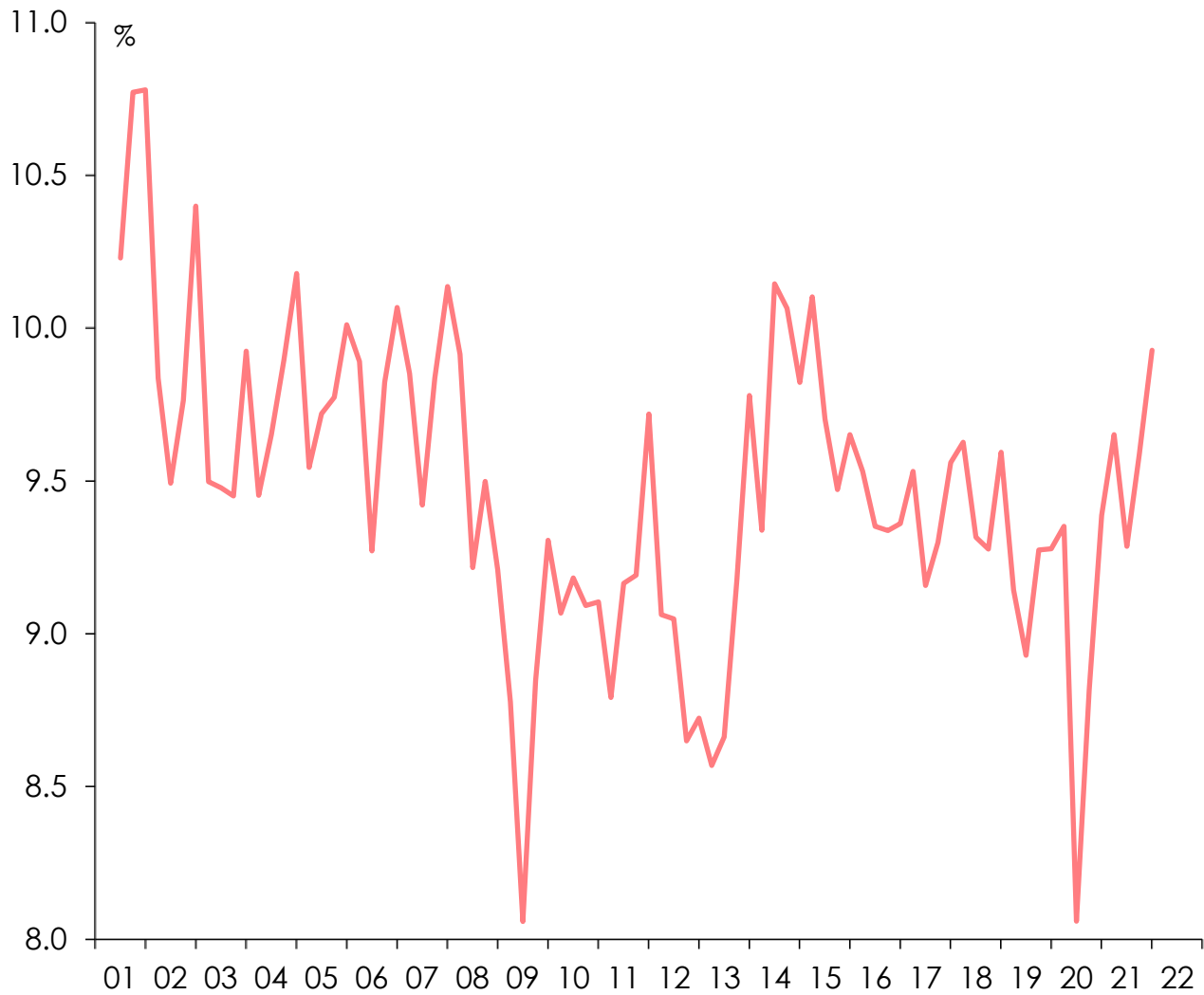


- ❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

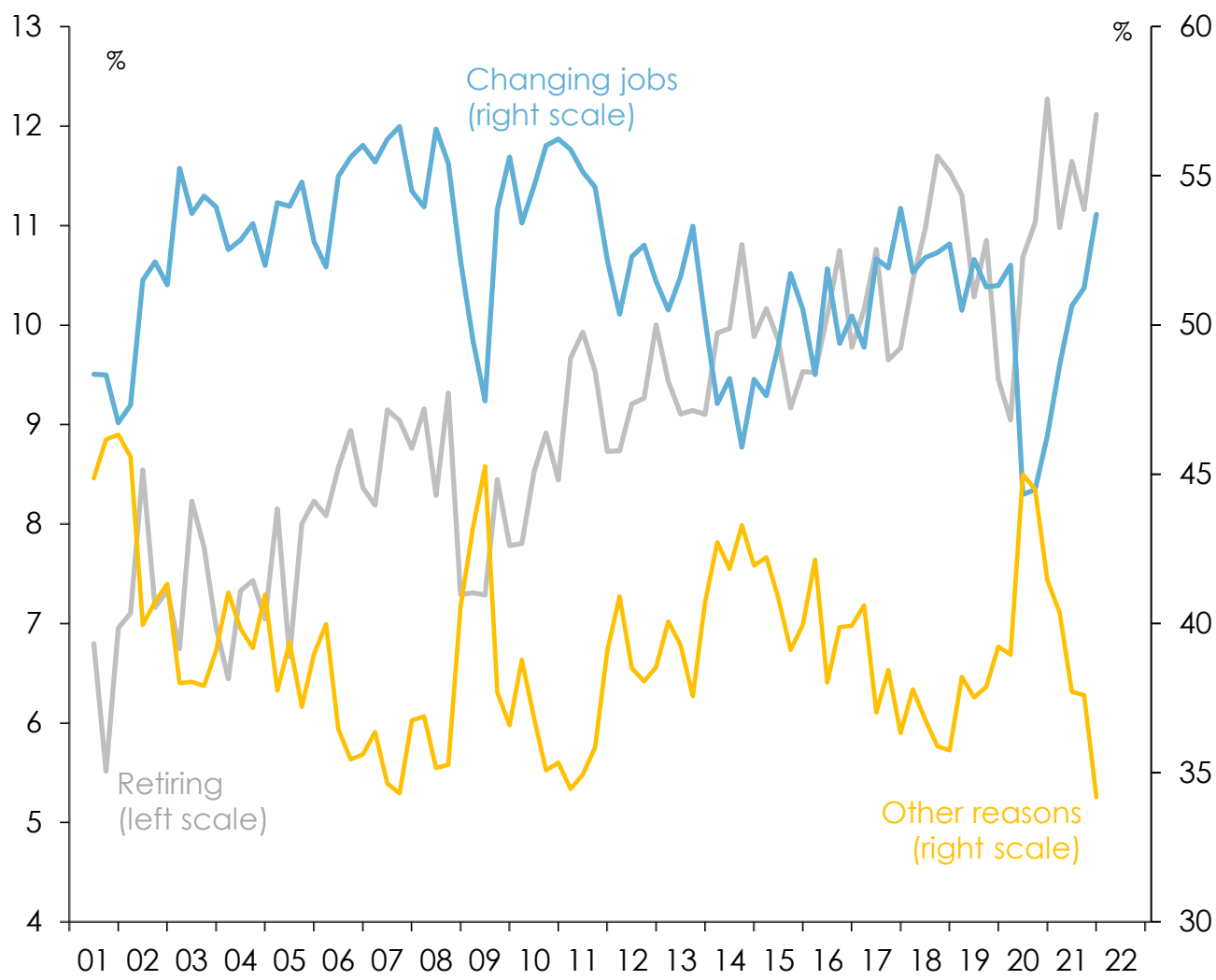
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

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



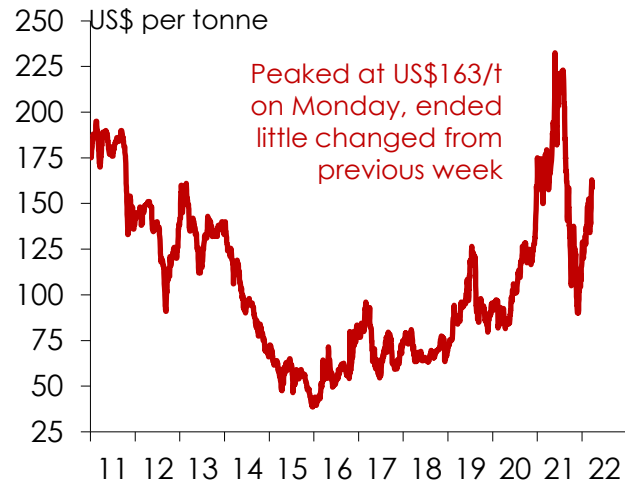
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

Trade and the balance of payments

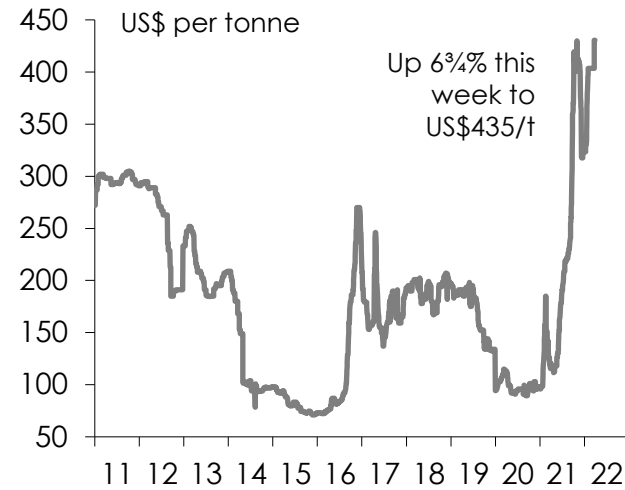
Energy, iron ore and most base metal prices gave up some of their earlier gains over the second half of this week, except for nickel up over 60%

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

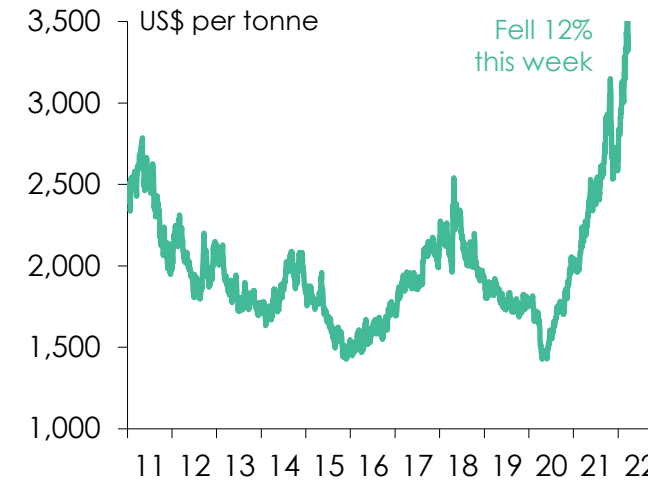
Iron ore



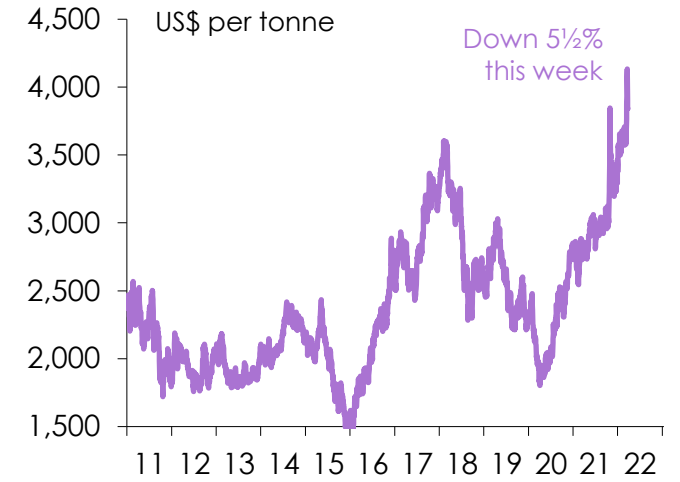
Metallurgical coal



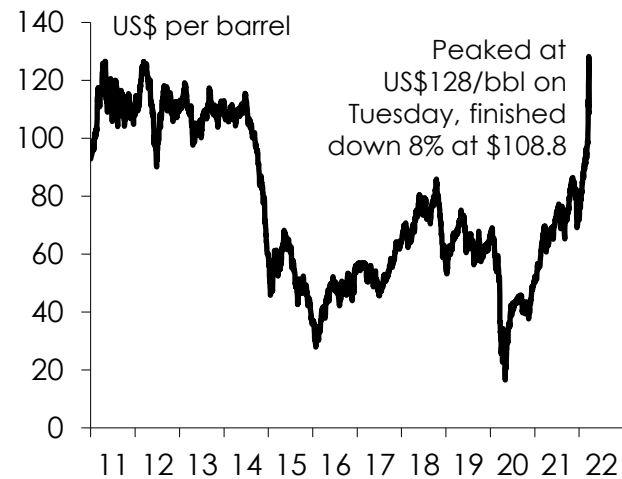
Aluminium



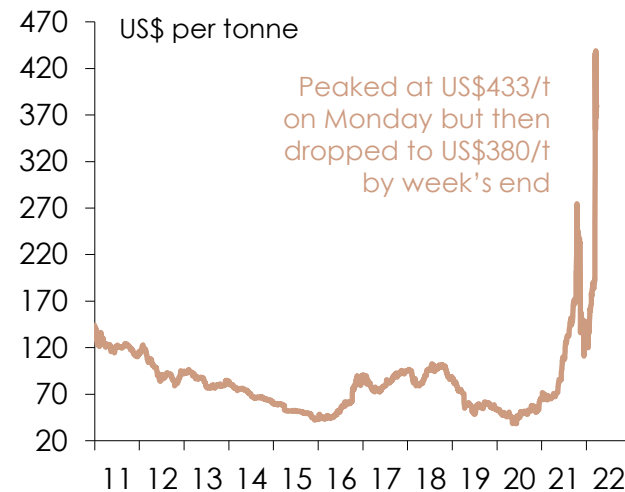
Zinc



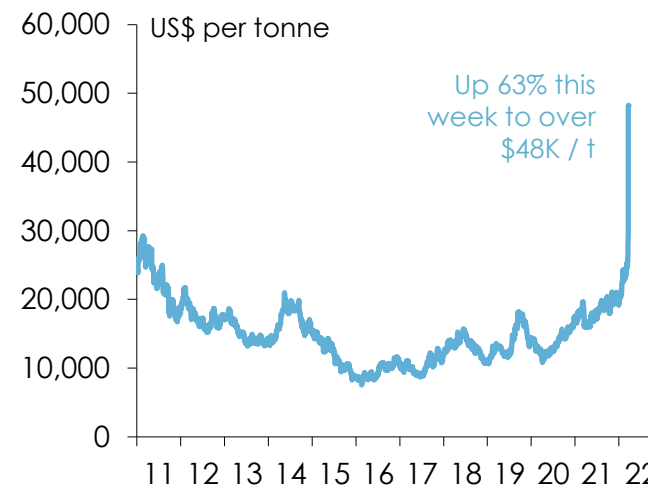
Crude oil



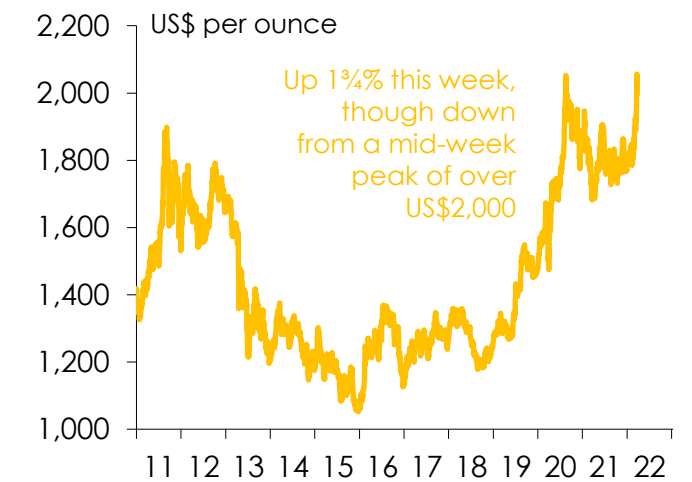
Thermal coal



Nickel



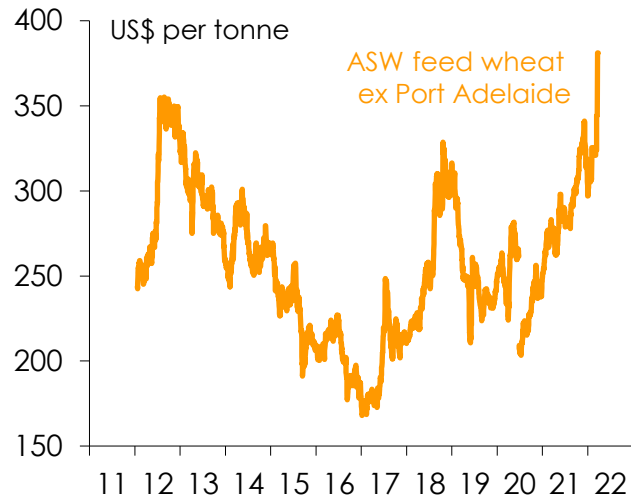
Gold



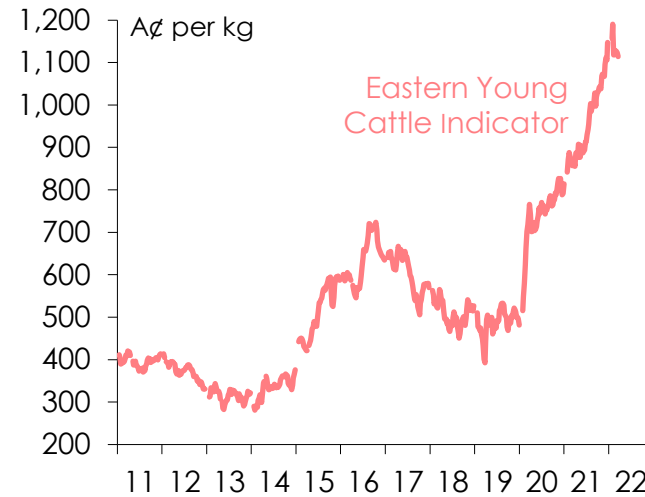
Australian grain prices rose another 8½-10½% this week, but meat and other agricultural commodity prices were flat to down slightly

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

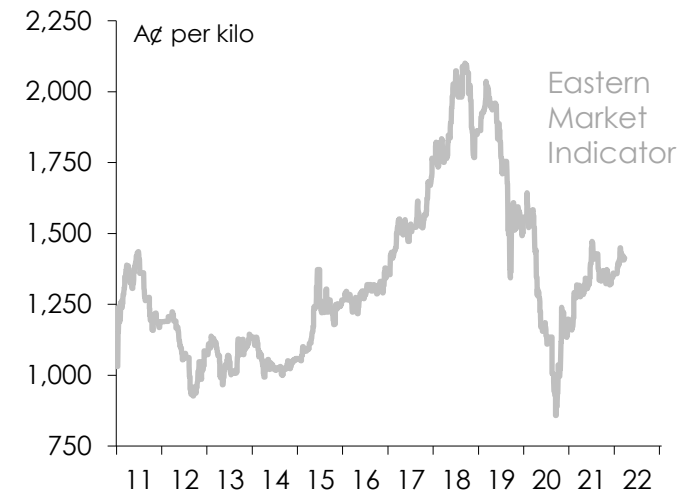
Wheat



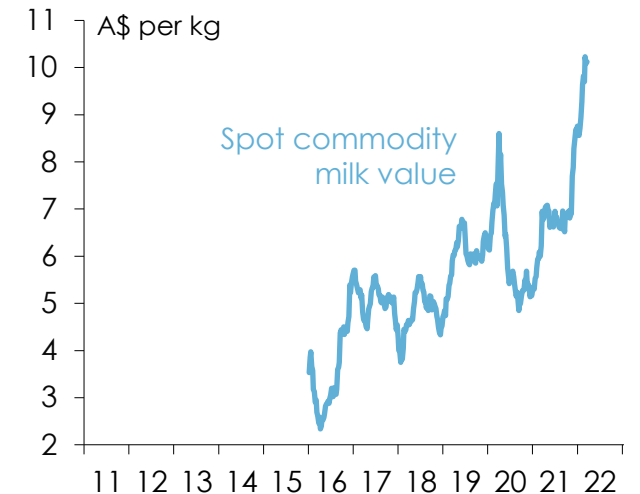
Beef cattle



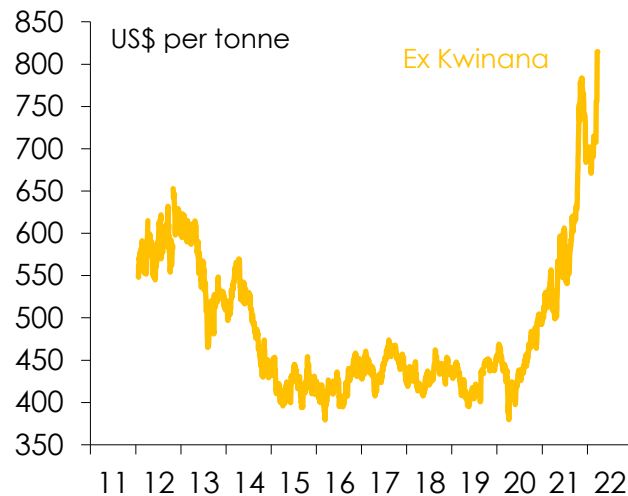
Wool



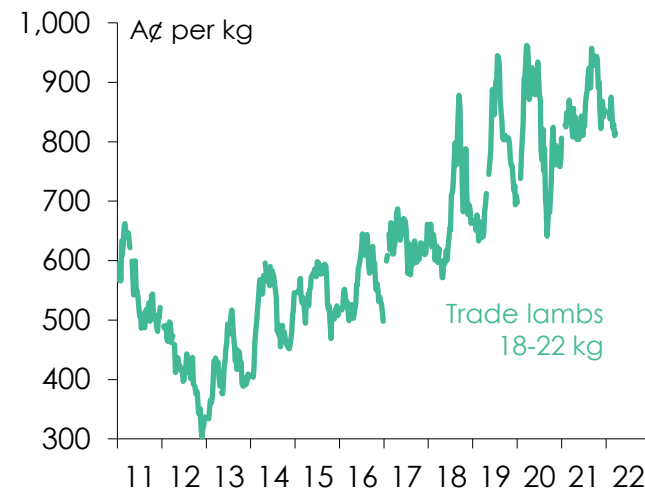
Milk



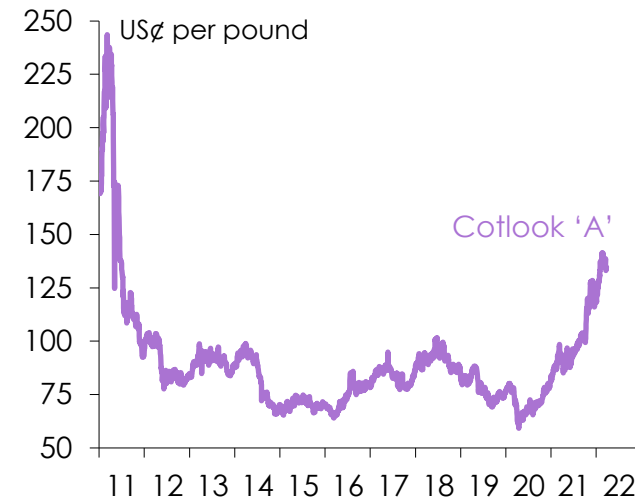
Canola



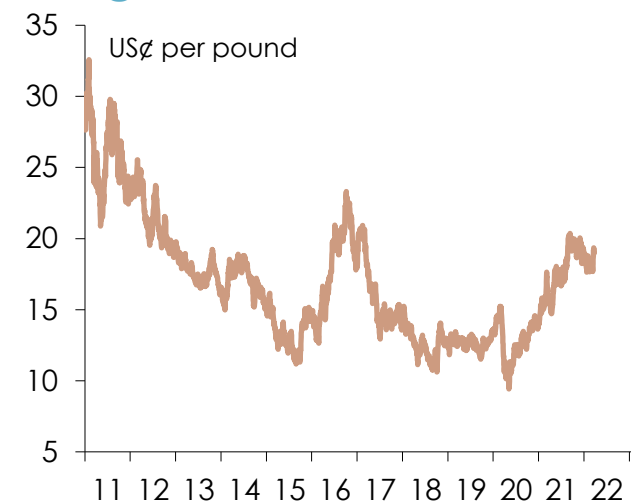
Sheep



Cotton



Sugar

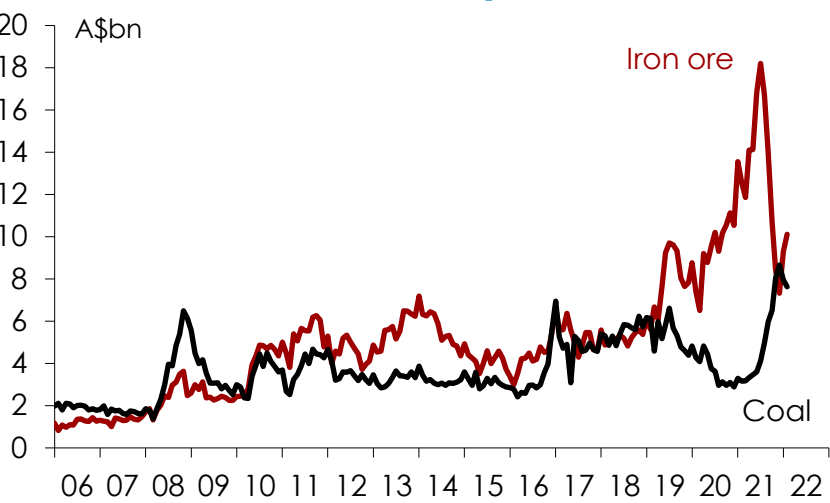


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 11th March.
[Return to "What's New"](#).

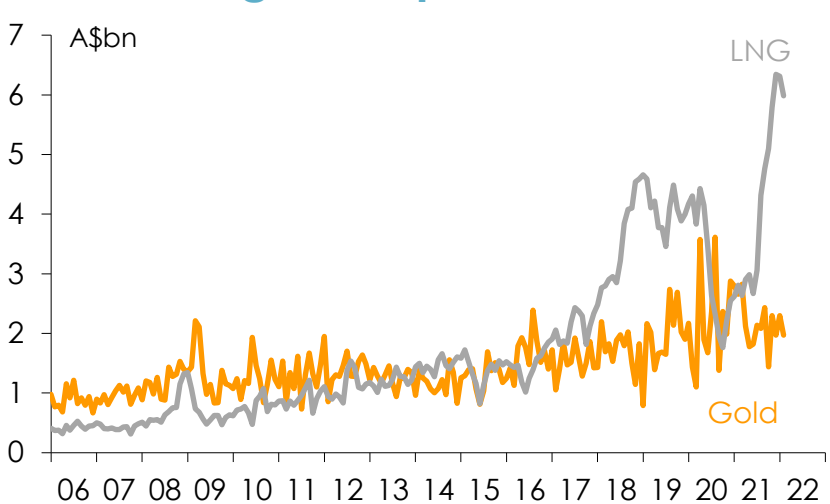
Australia's trade surplus rose, for the first time in 6 months, by \$4bn to \$12.9 bn in January, with exports up 7.6% and imports down 1.6%

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

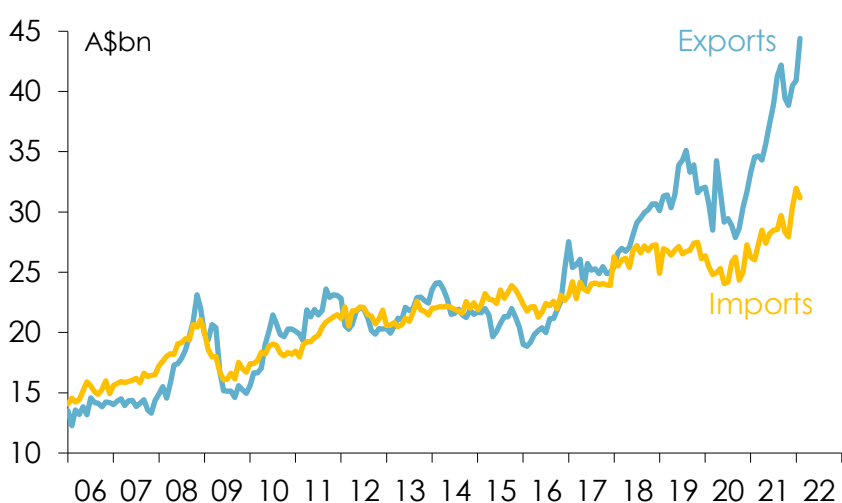
Iron ore and coal exports



LNG and gold exports



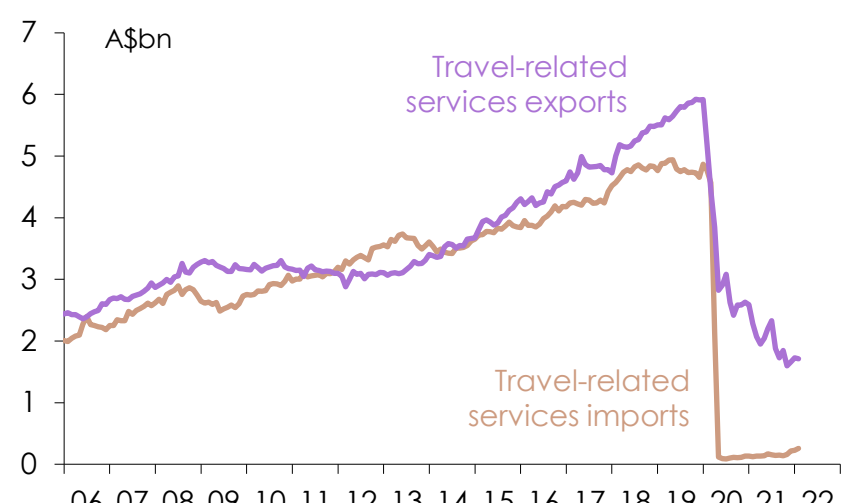
Merchandise exports and imports



Merchandise trade balance



Tourism-related services trade



Tourism services trade balance

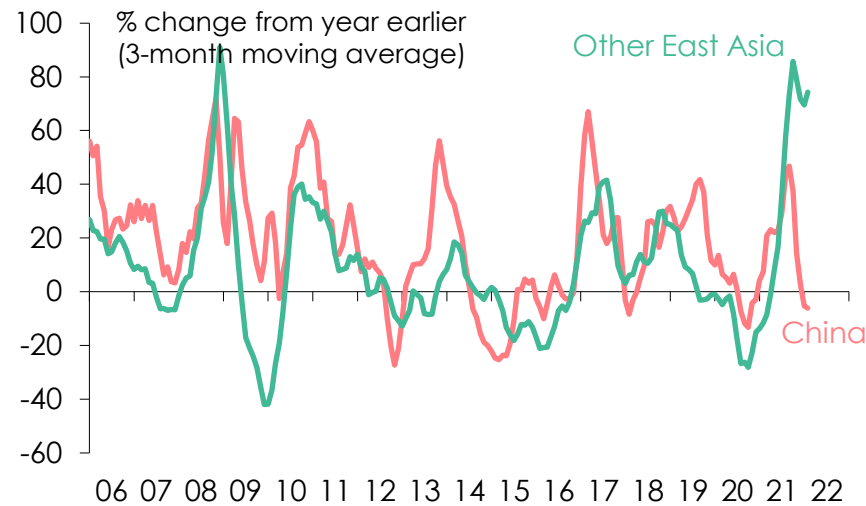


Source: ABS, [International Trade in Goods and Services, Australia](#), January 2021. February data will be released on 7th April. [Return to "What's New"](#).

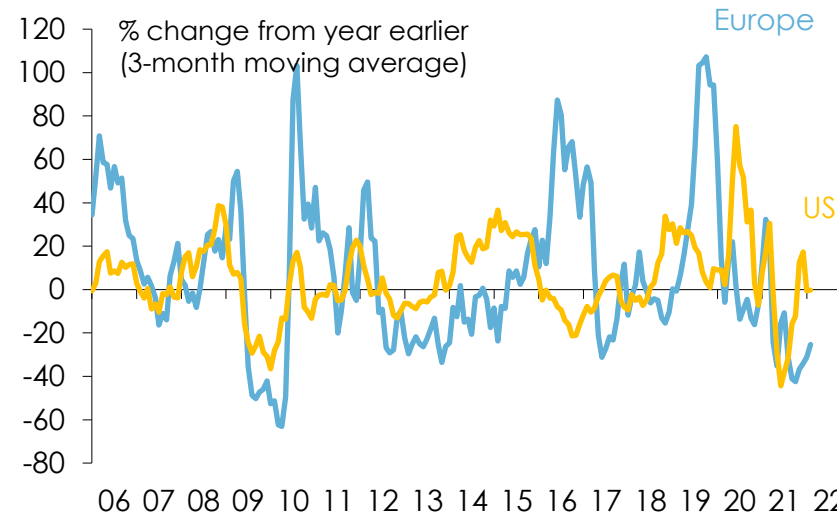
Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

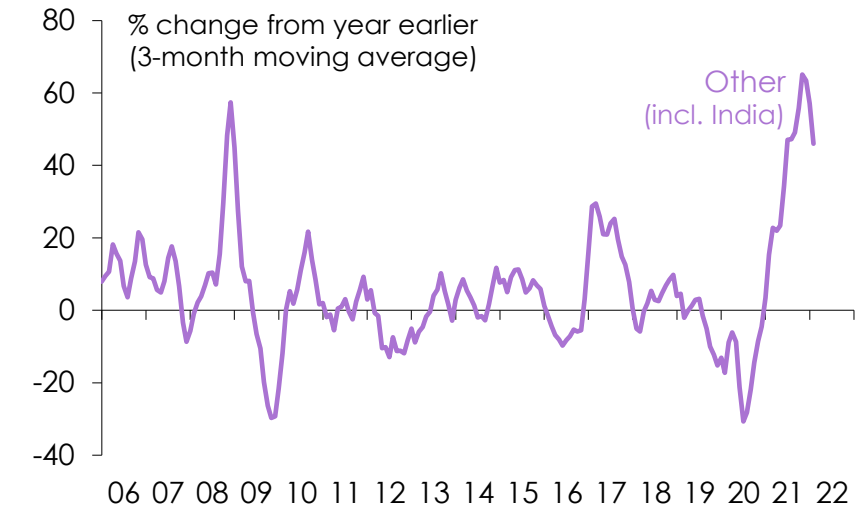
Merchandise exports – East Asia



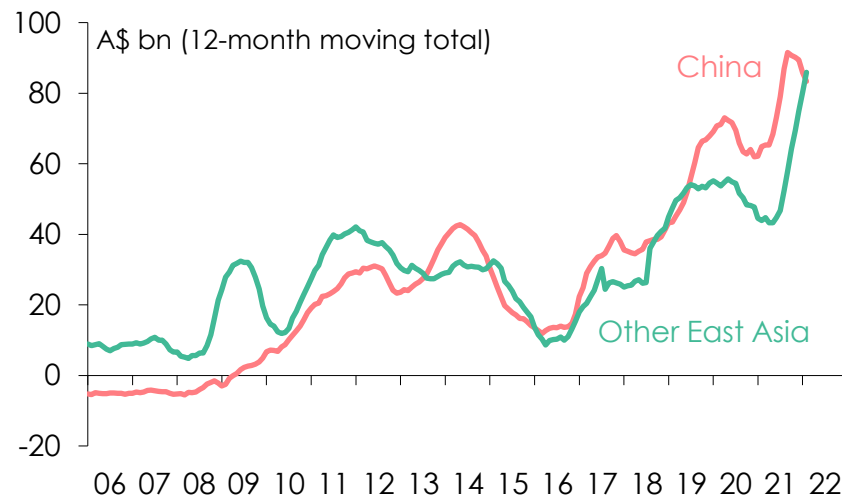
Merchandise exports – US & Europe



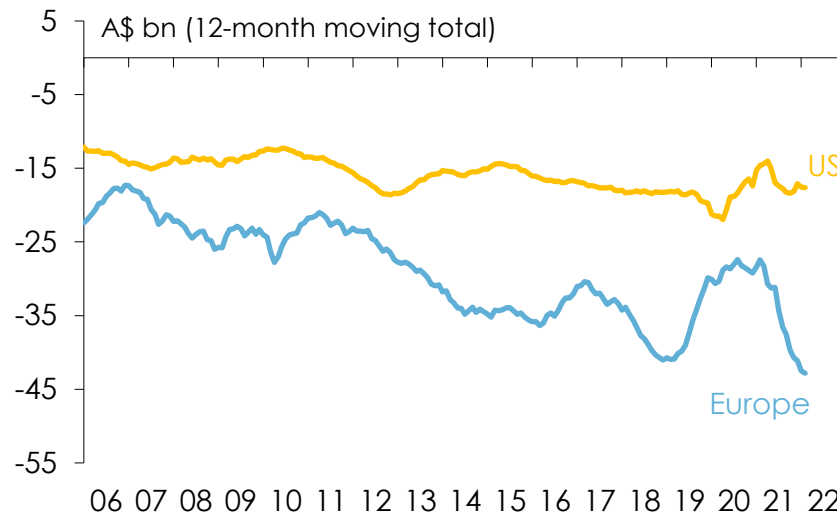
Merchandise exports – other



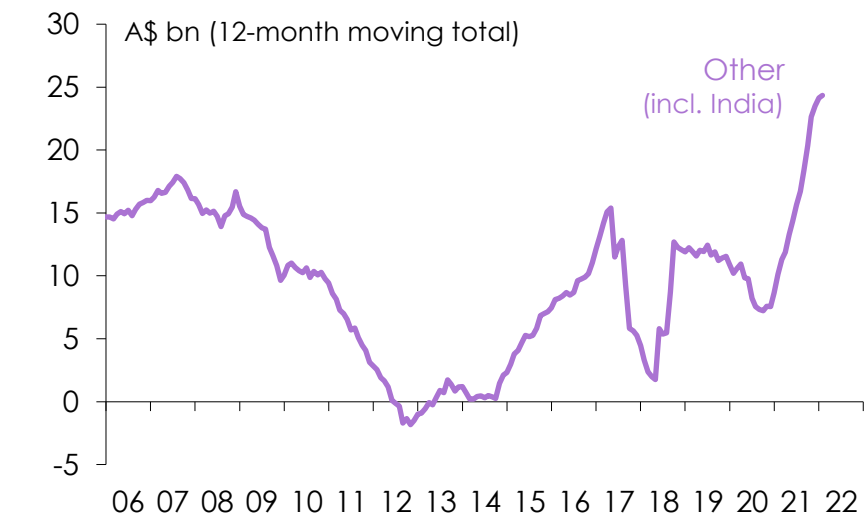
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

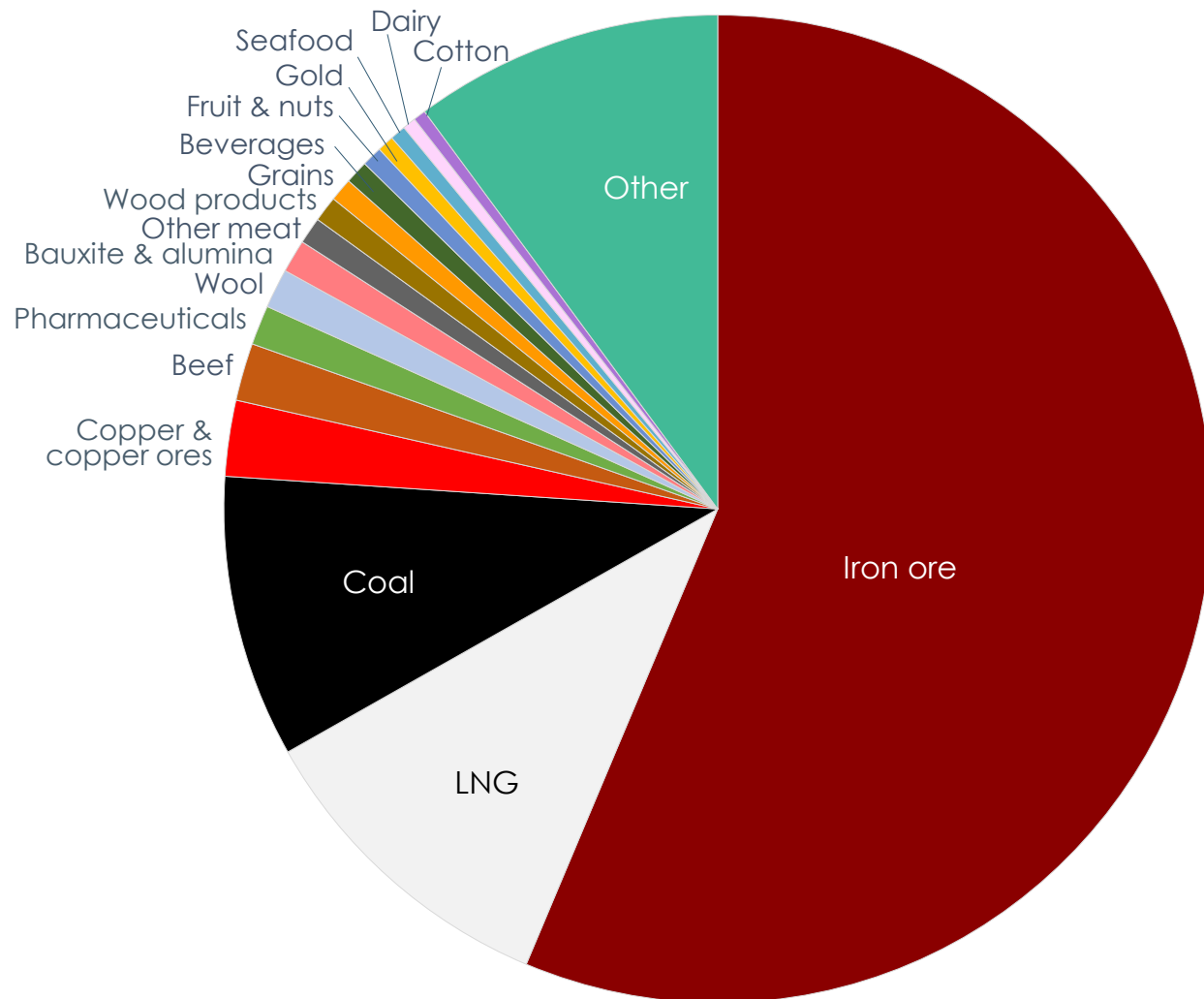


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS,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

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

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 month 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

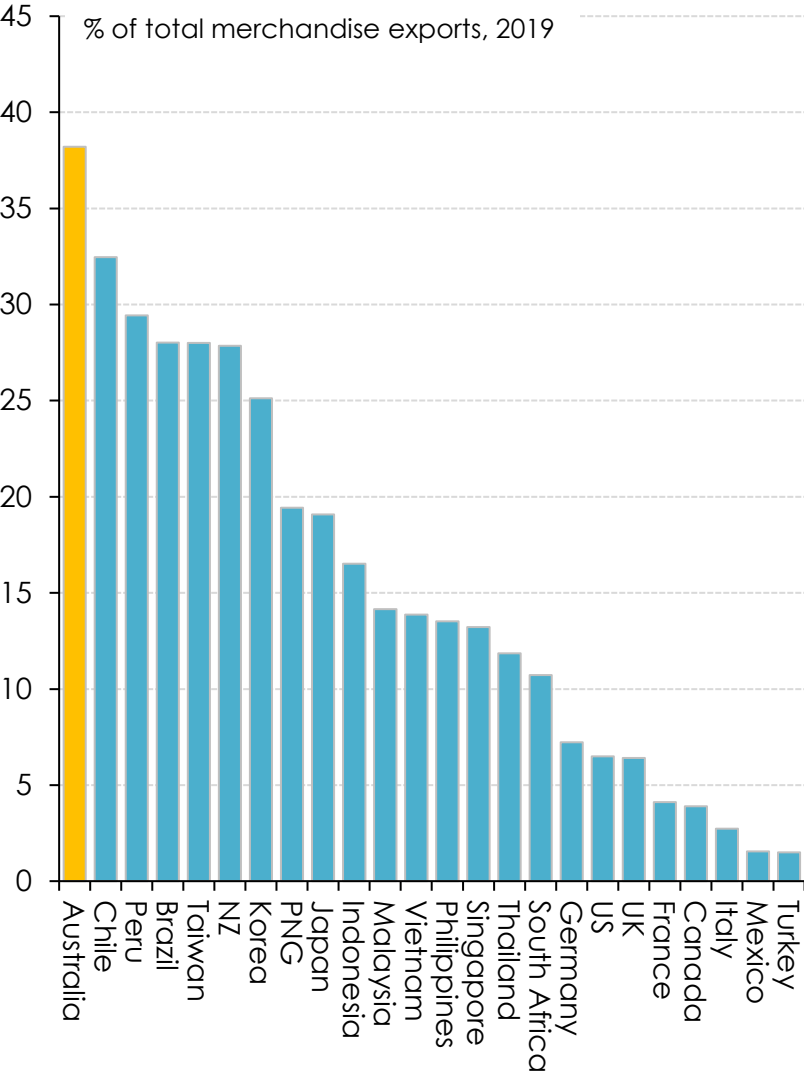
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

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

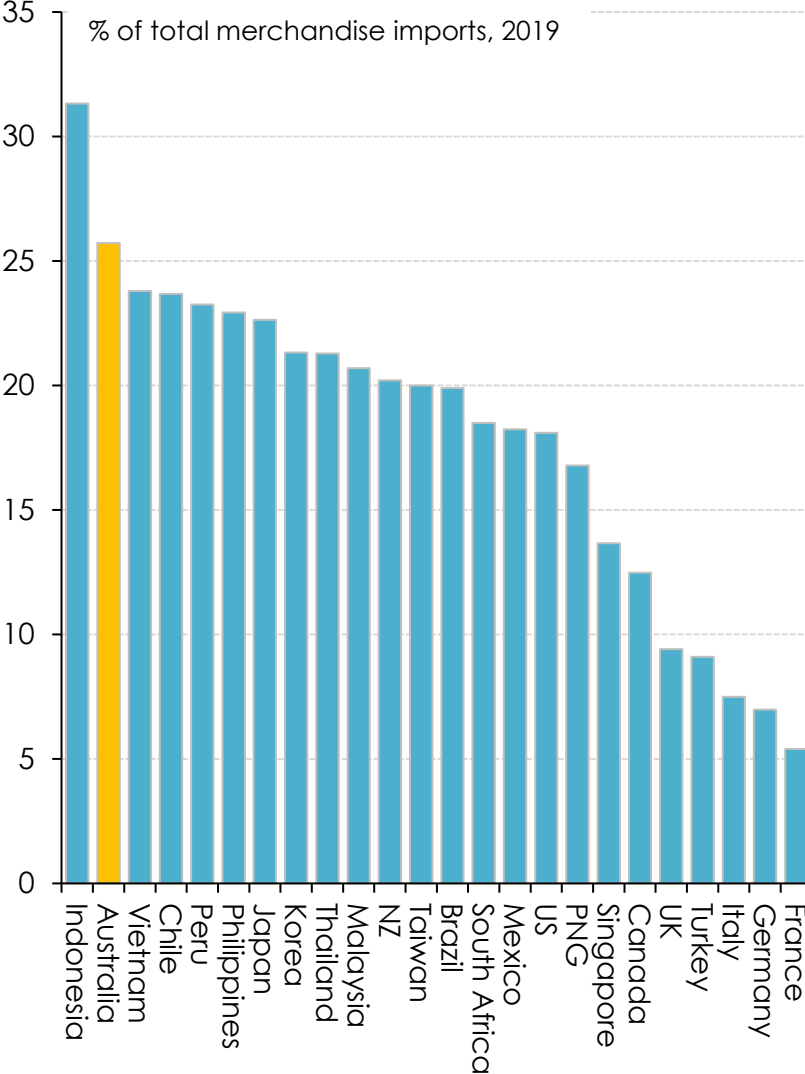
China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

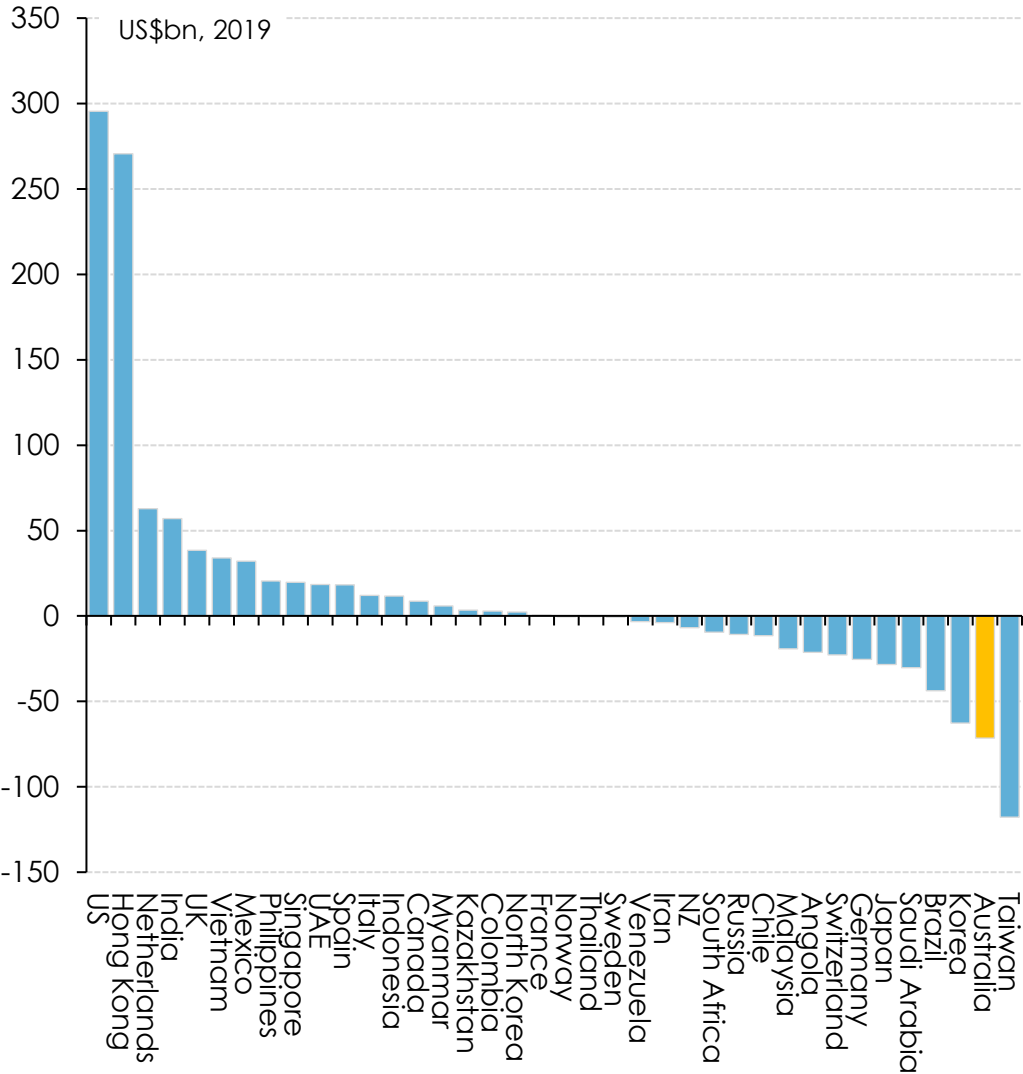
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



China's bilateral merchandise trade balances

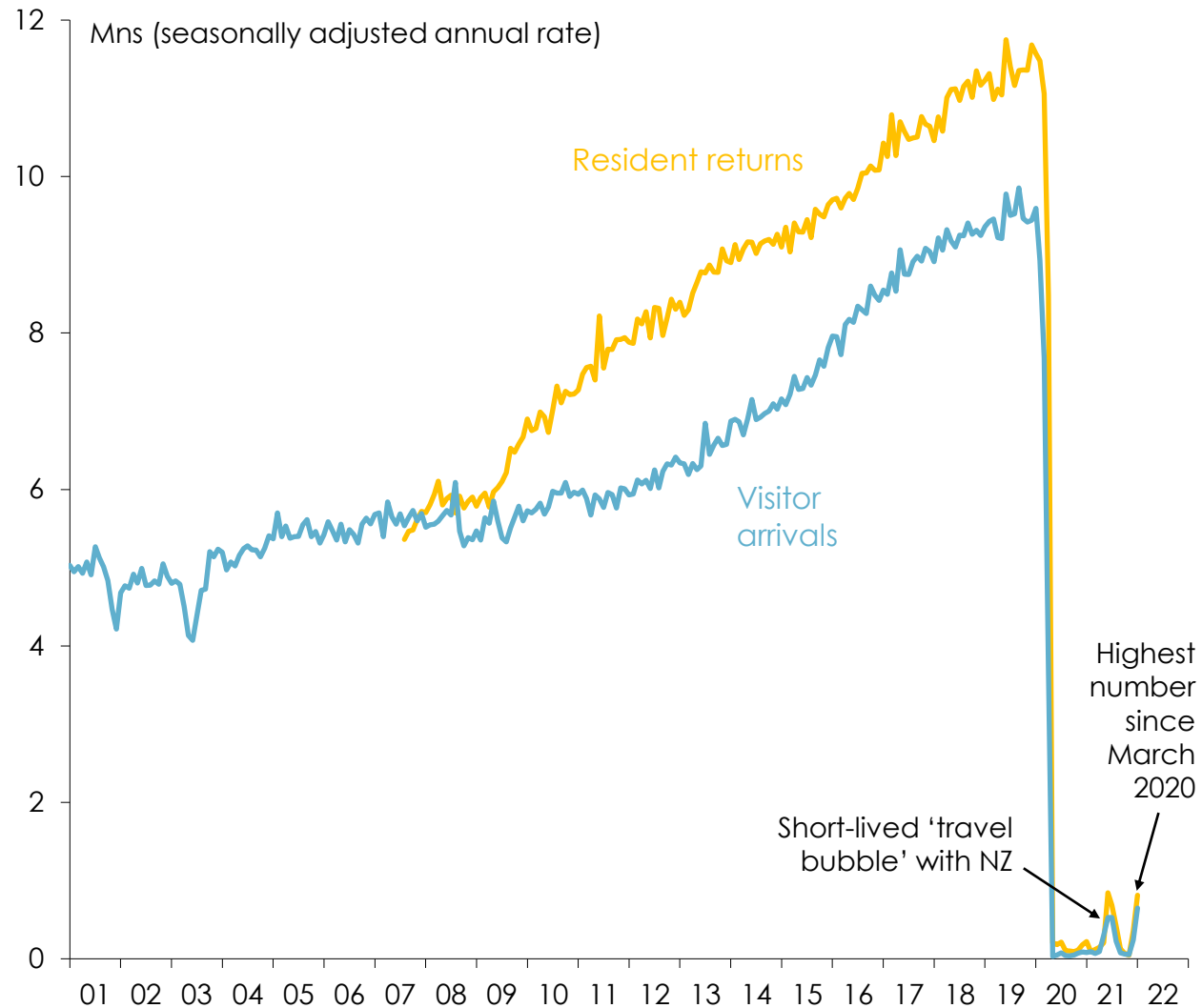


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

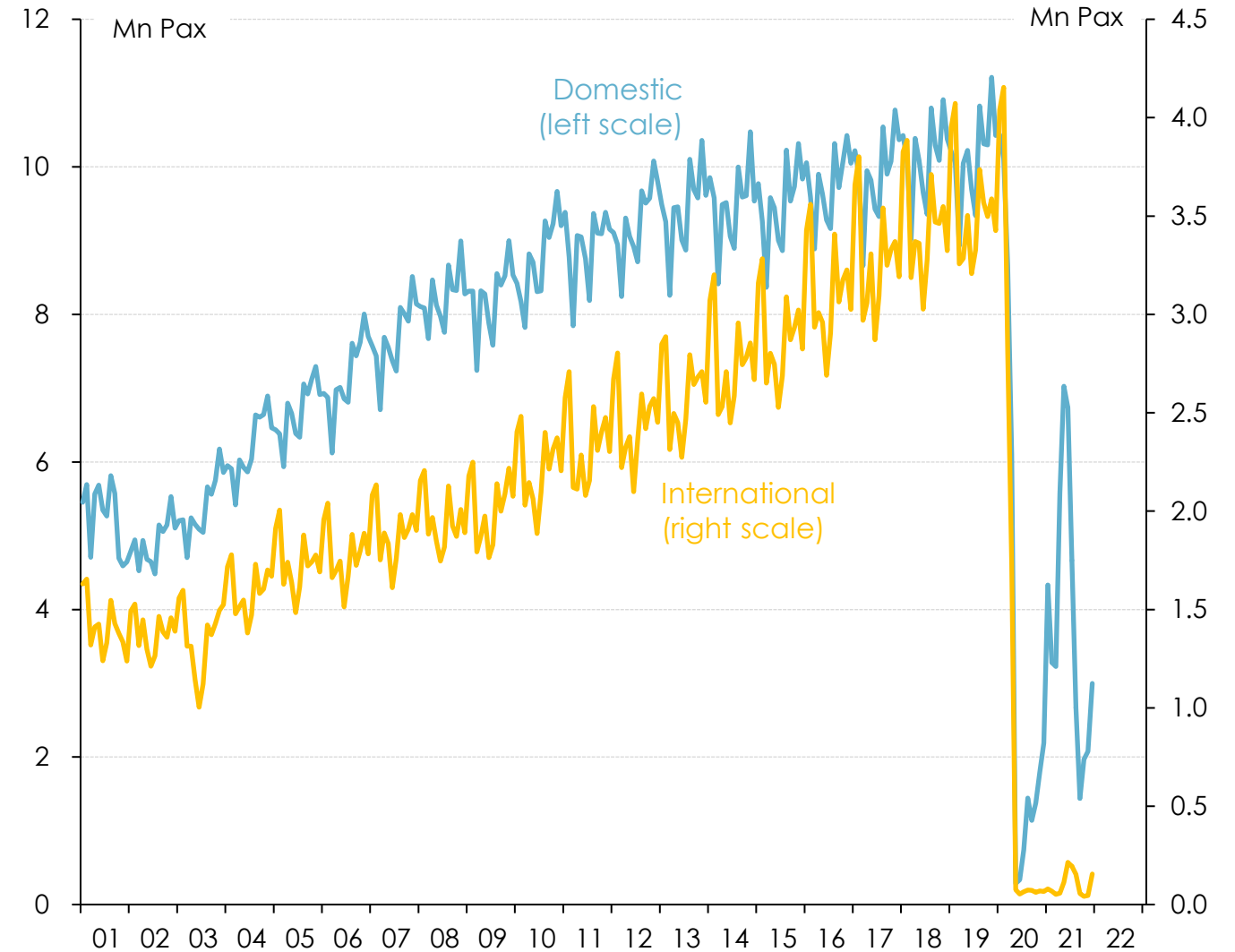
The re-opening of Australia's international borders this Monday, 21st February, should see a faster pick up in arrivals and aviation traffic

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Short-term visitor arrivals and resident returns



Airport passenger movements

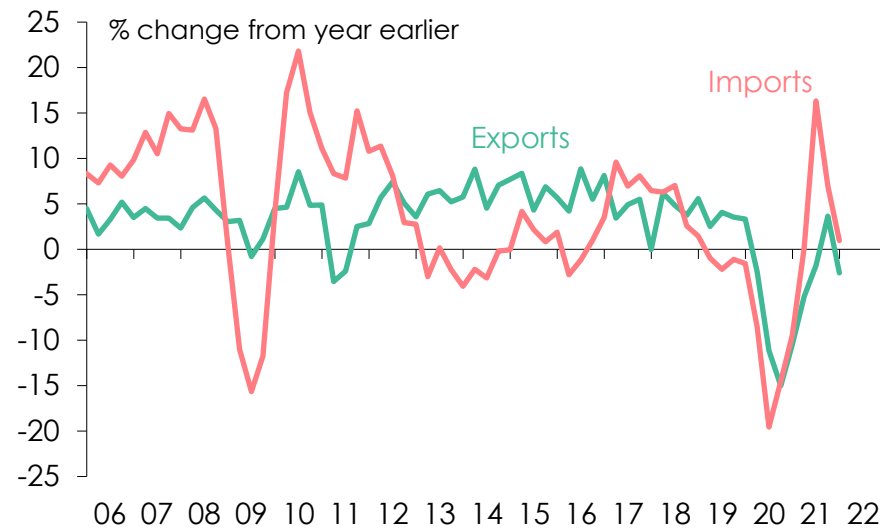


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

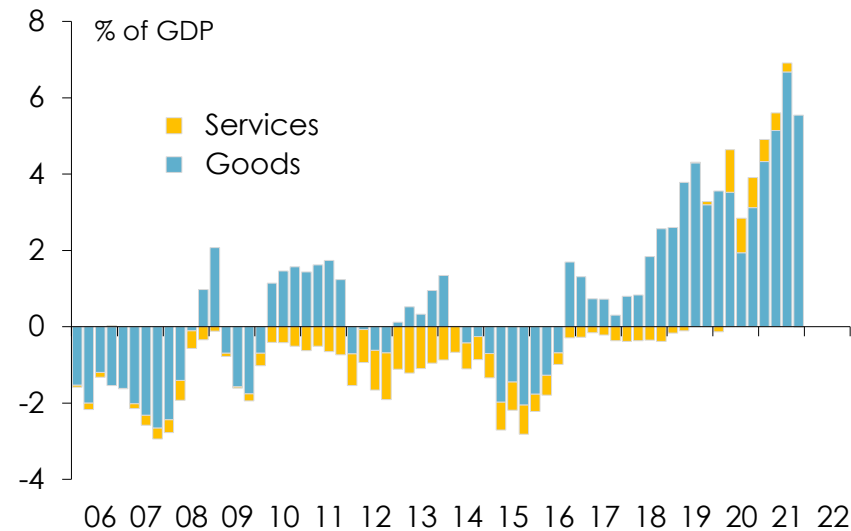
Australia's current account surplus shrank by nearly half in Q4 last year, with the trade surplus declining and the income deficit increasing

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

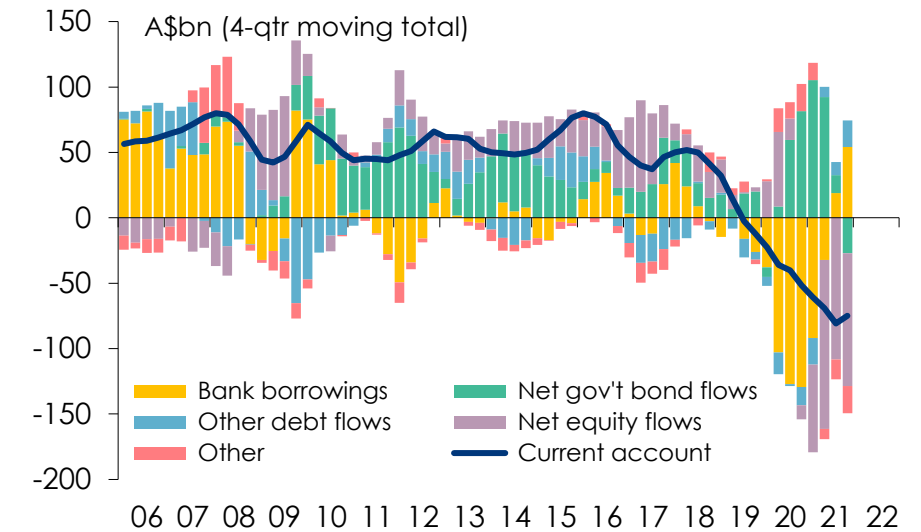
Export and import volumes



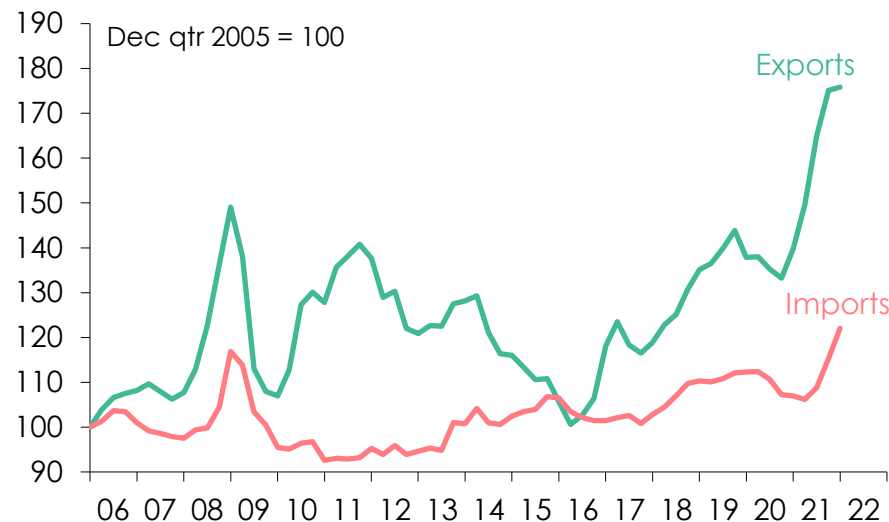
Goods & services trade balances



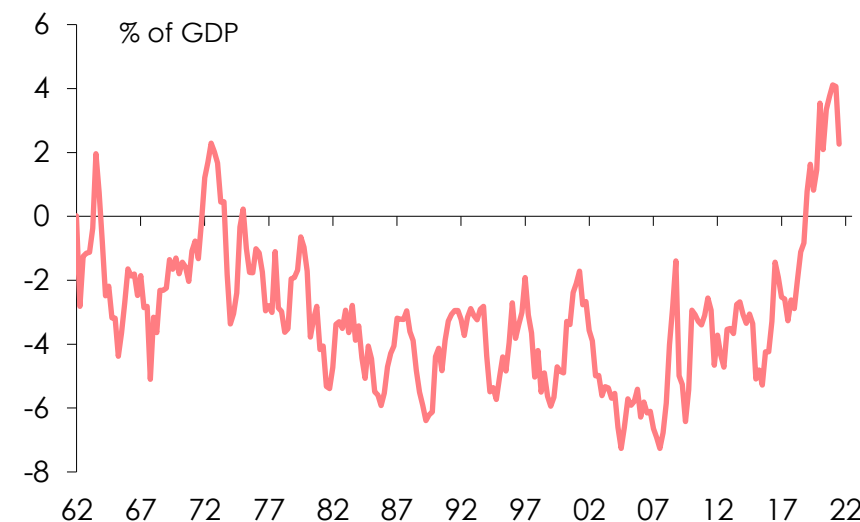
Capital flows



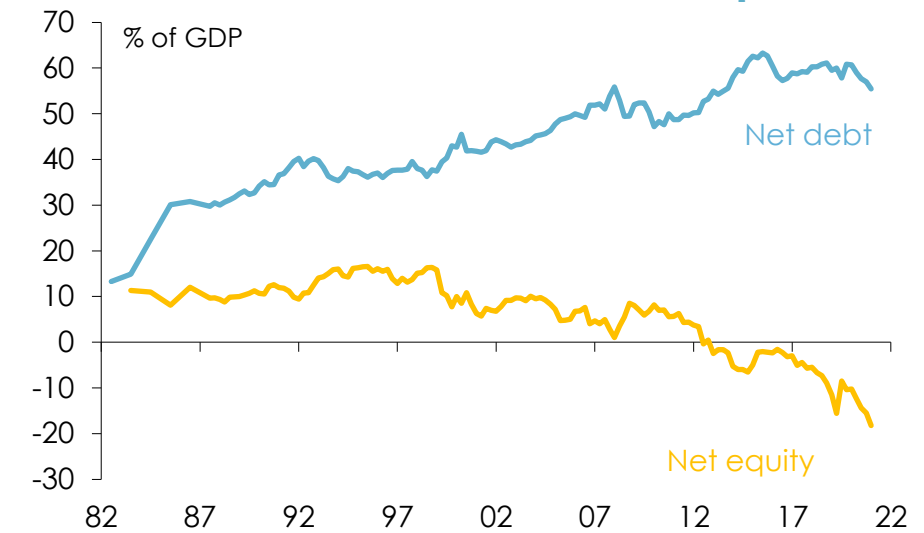
Export and import prices



Current account balance



Net international investment position



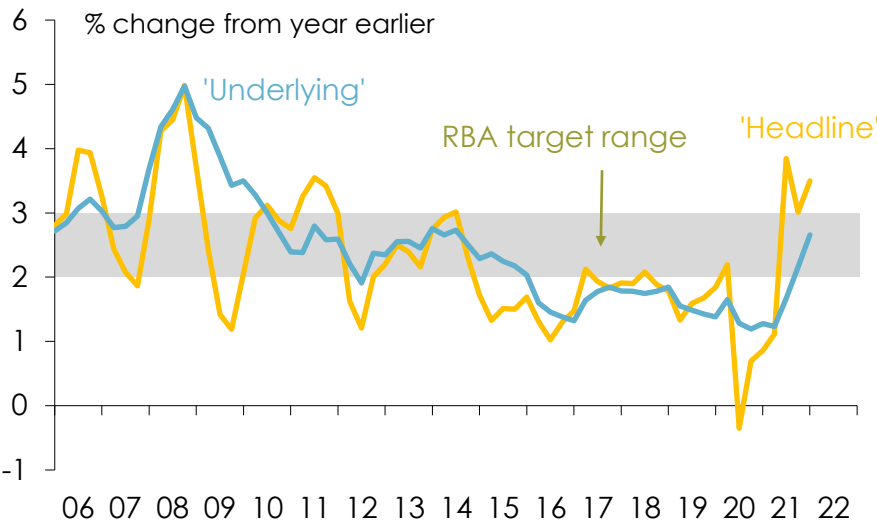
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

Inflation

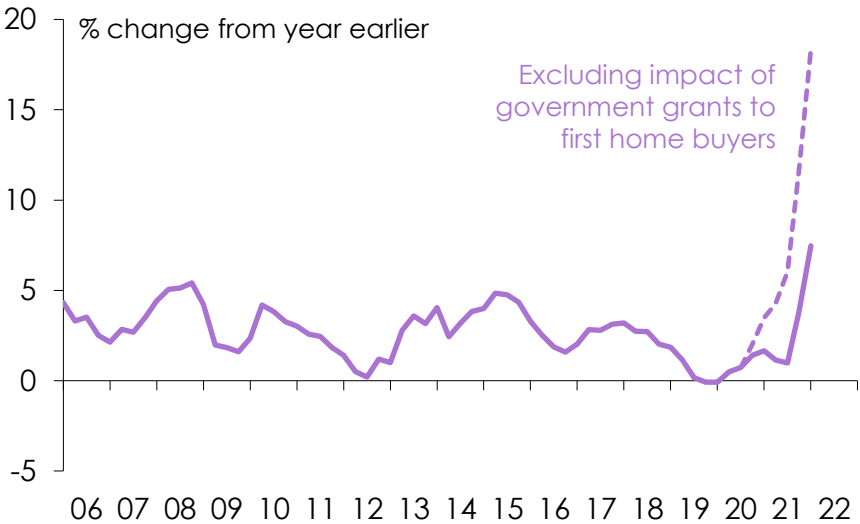
The December quarter CPI was unequivocally higher than expected, and puts some pressure on the RBA to start raising rates this year

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

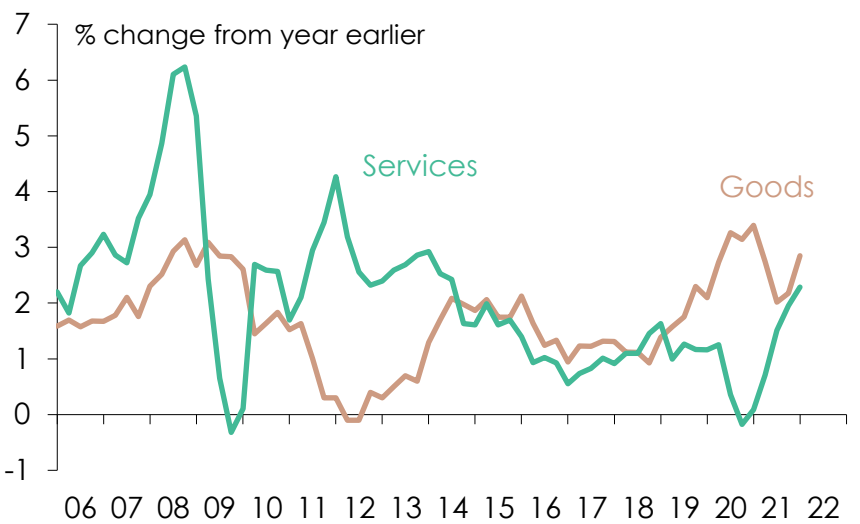
Consumer prices – annual change



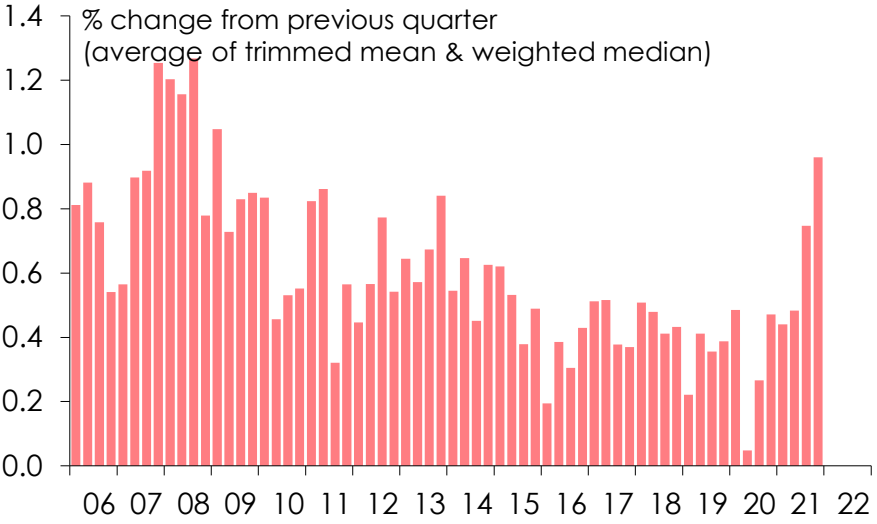
New dwelling purchase costs



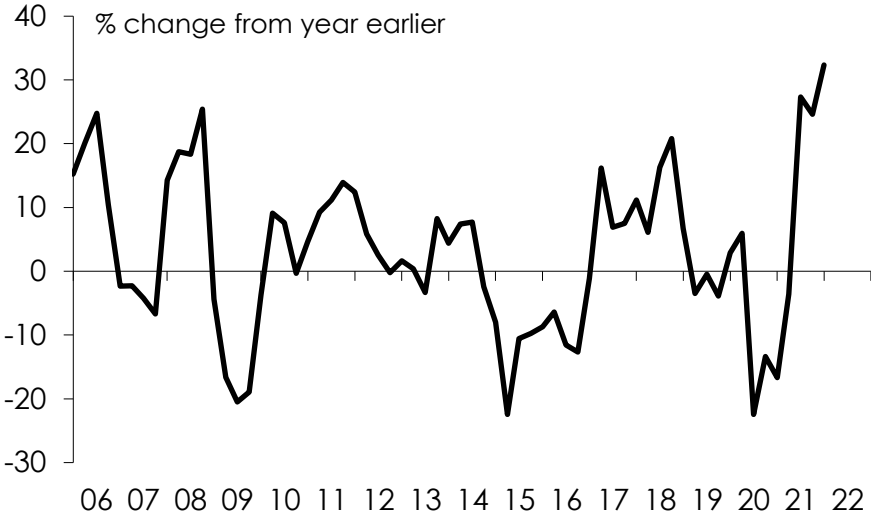
'Market' goods vs services



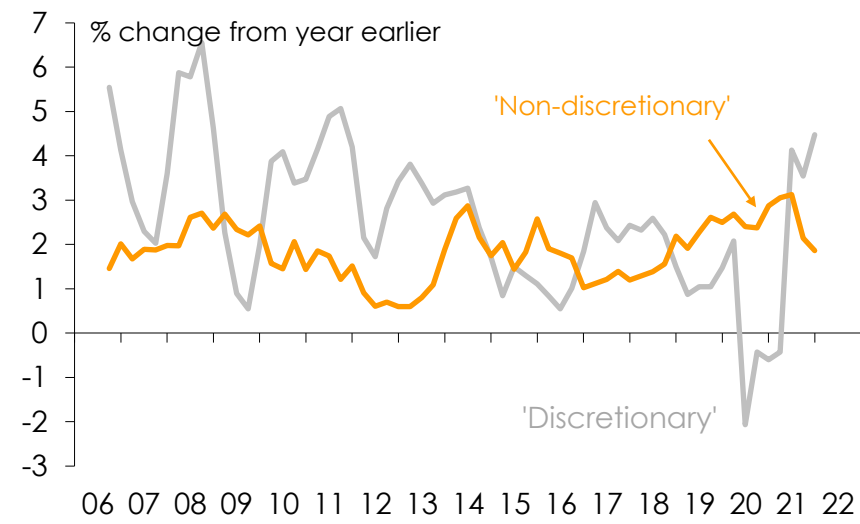
Quarterly 'underlying' inflation



Automotive fuel prices



'Discretionary' vs 'essential' items

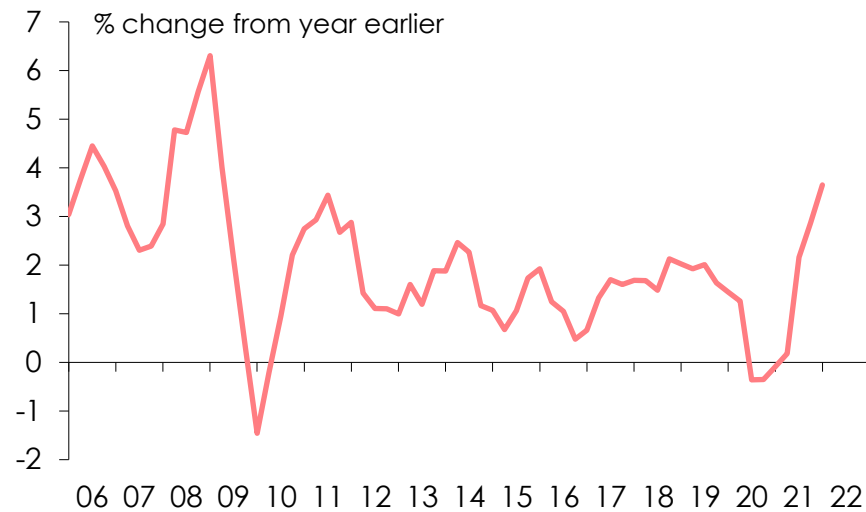


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. 'Market' goods and services exclude 'volatile items' (fruit & vegetables, utilities, property rates & charges, automotive fuel, urban transport services, postal services, child care, health, and education). For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

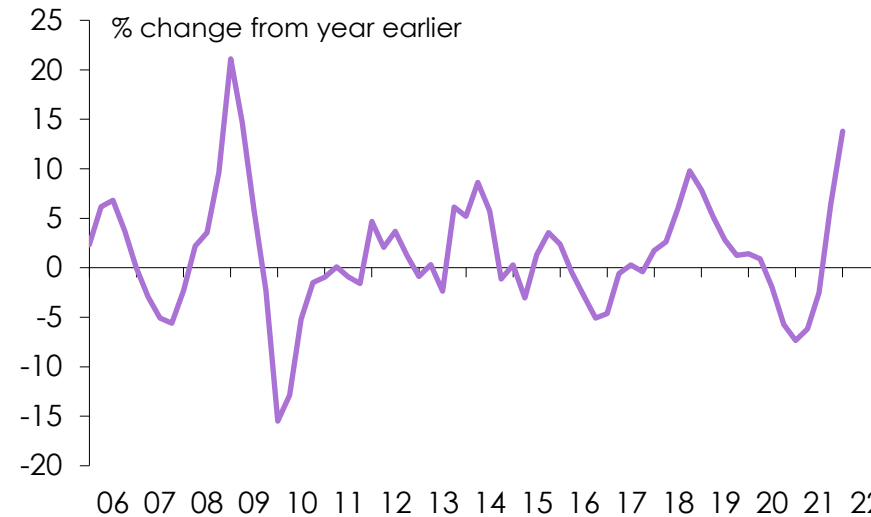
Domestic 'upstream' price pressures haven't been as intense as in other 'advanced' economies, except in the construction sector

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

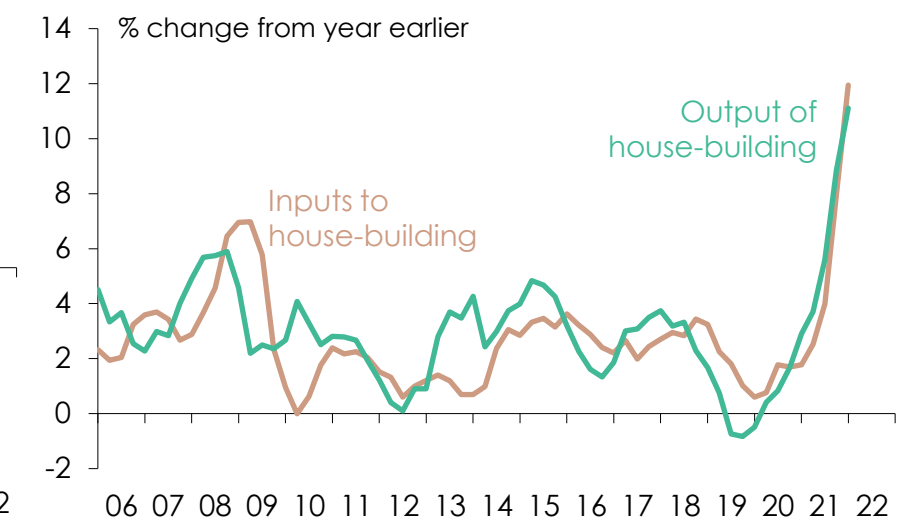
Producer price index



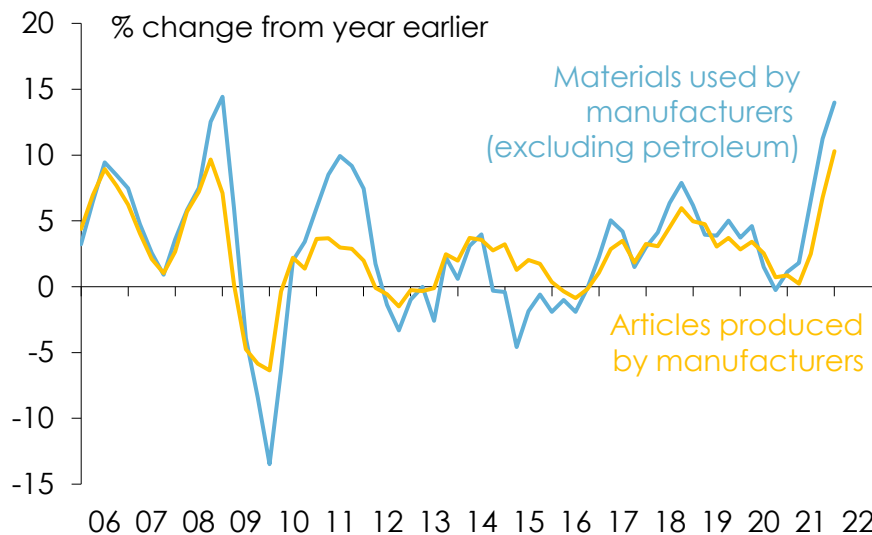
Import price index



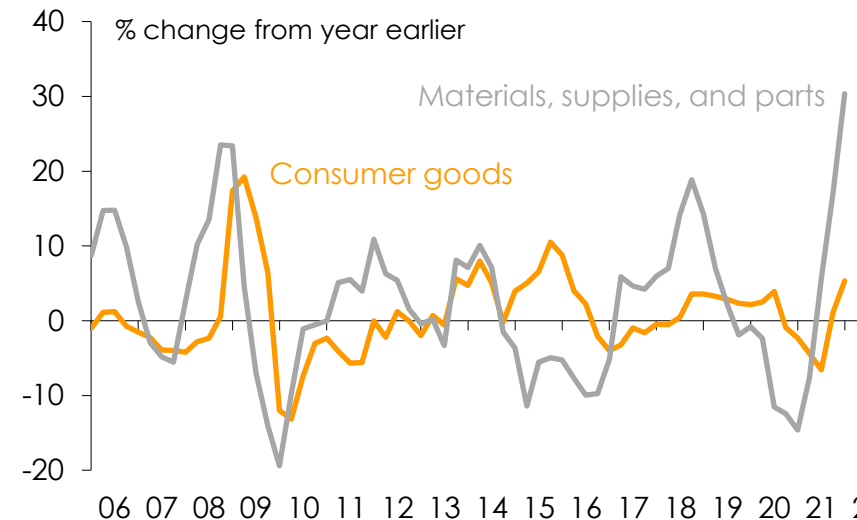
Construction input & output prices



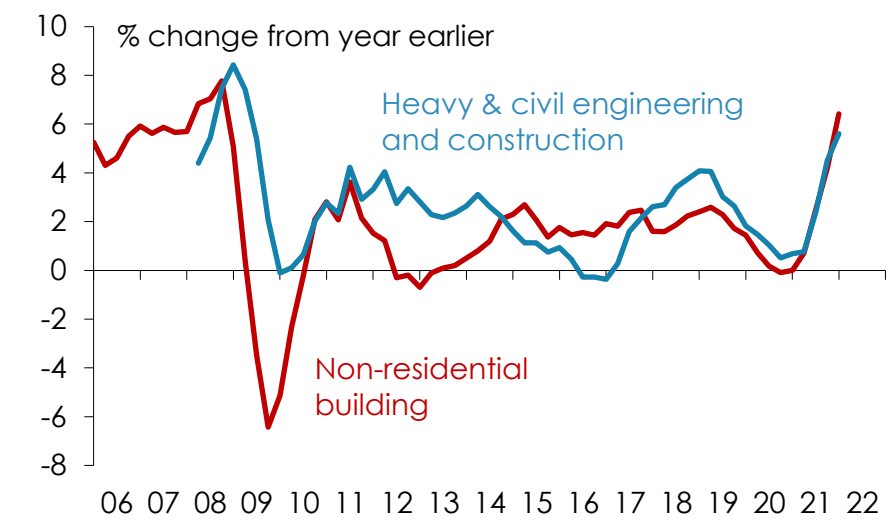
Manufacturing input & output prices



Imported consumer goods prices



Non-residential construction prices

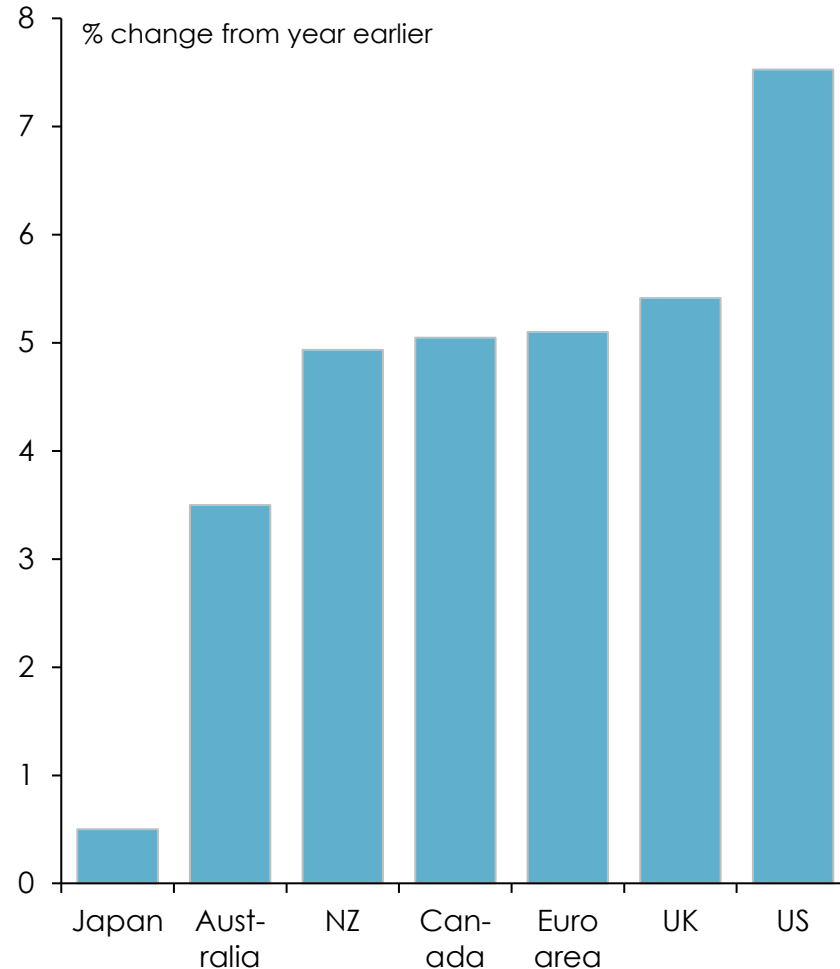


Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), December quarter 2021.
[Return to "What's New"](#).

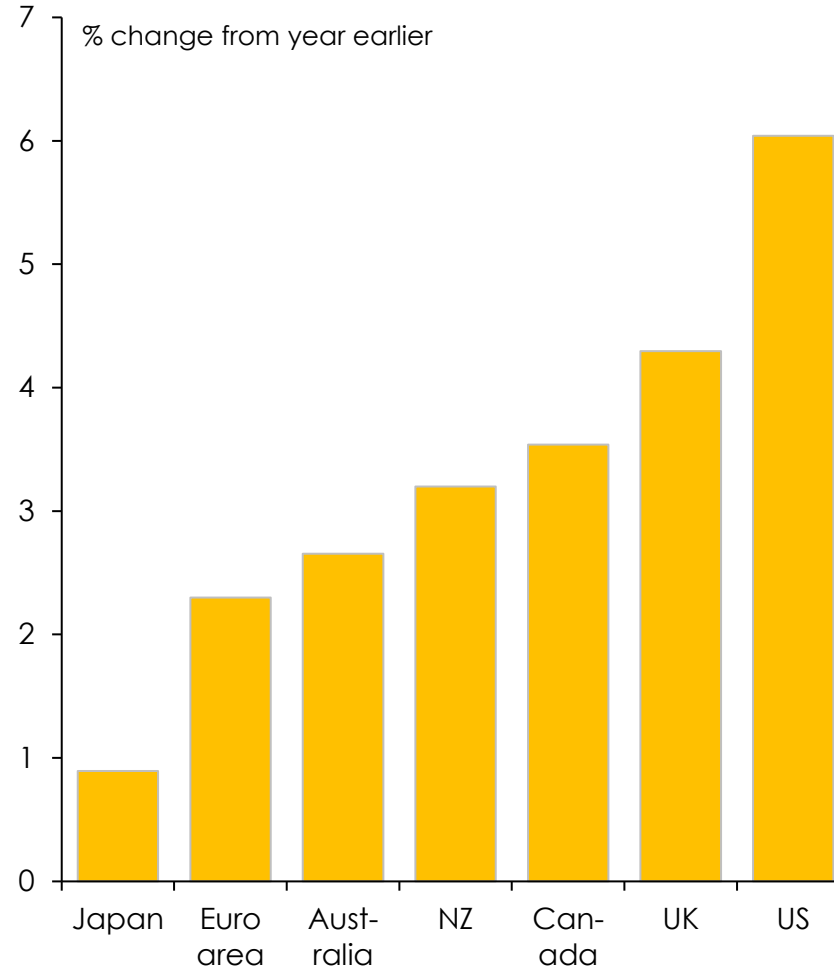
Although it has surprised to the upside, inflation in Australia hasn't risen nearly as much as in the US, the UK, Canada or New Zealand

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

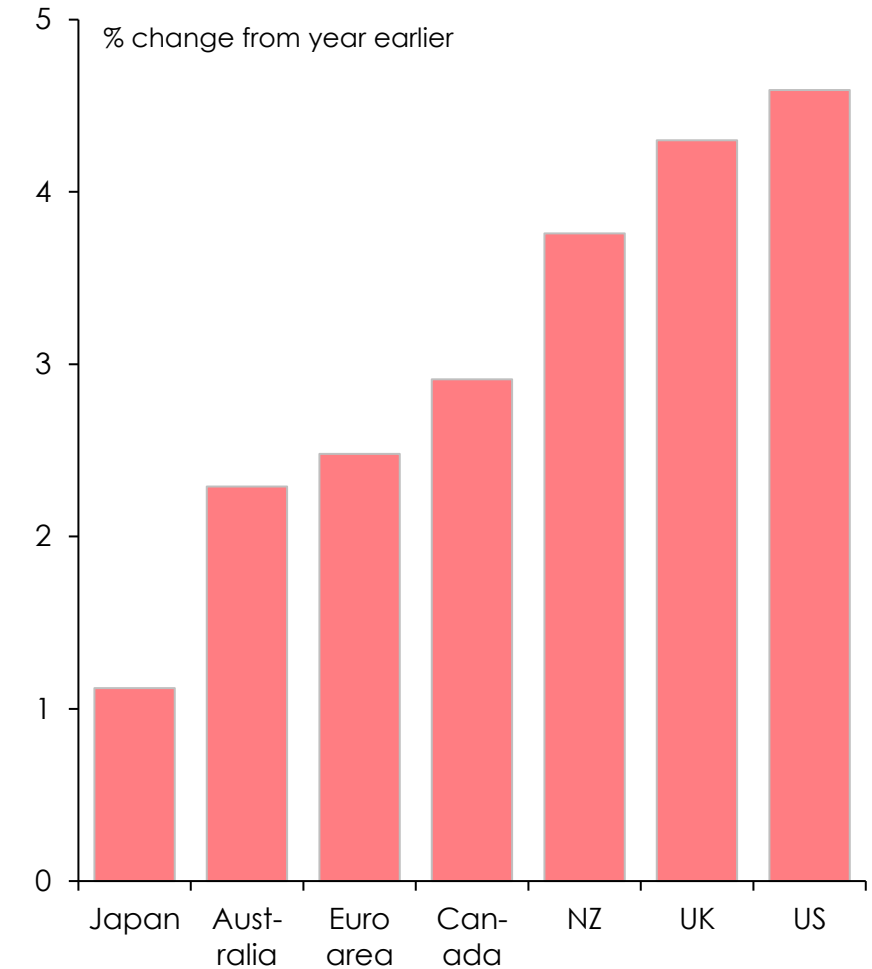
'Headline' consumer price inflation



'Underlying' or 'core' consumer price inflation



Wage inflation



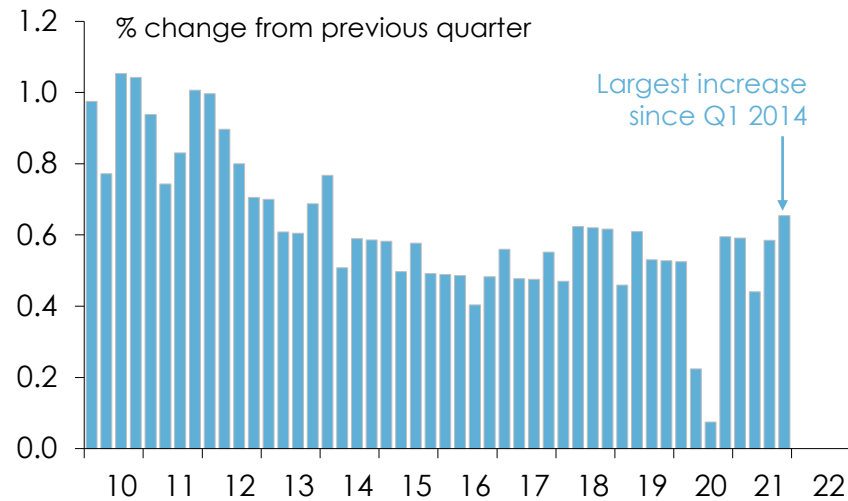
Note: Data are latest available, mostly January or December quarter for CPI inflation, and December or December quarter for wage inflation. 'Core' inflation is CPI excluding food & energy for the US, UK and Canada; trimmed mean for Japan and Australia; and 'sectoral factor model' for NZ. Wage inflation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

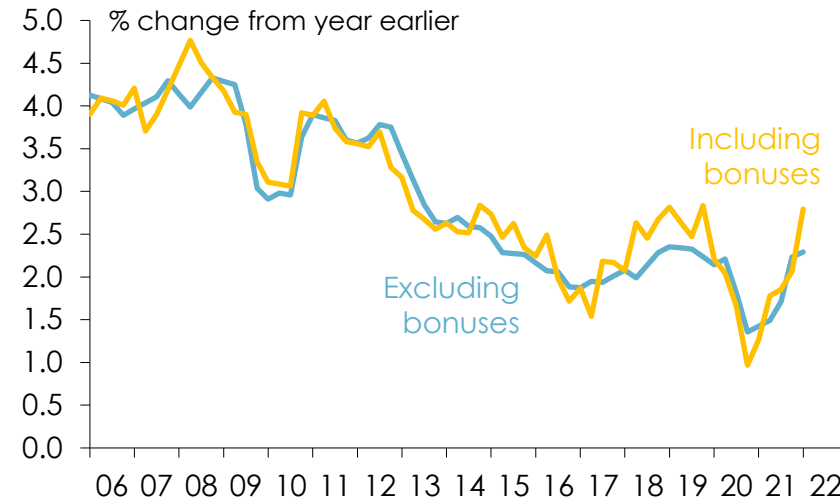
Wages growth ticked up marginally in the final quarter of 2021 but is yet to break out of the sub-2½% range it's been in since the start of 2015

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

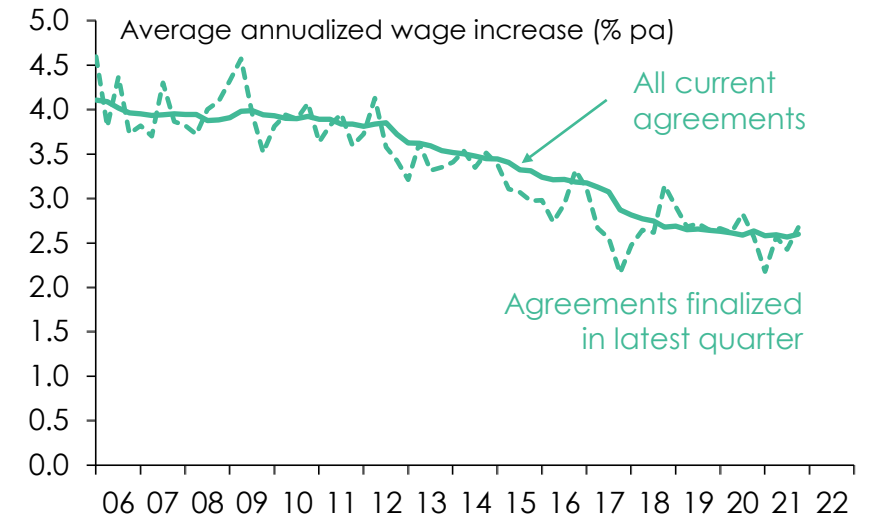
Wage price index excluding bonuses



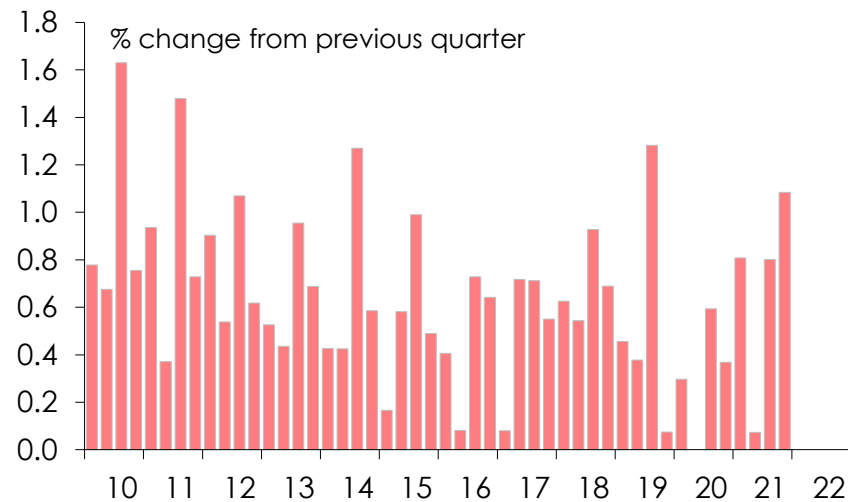
Wage price index – all sectors



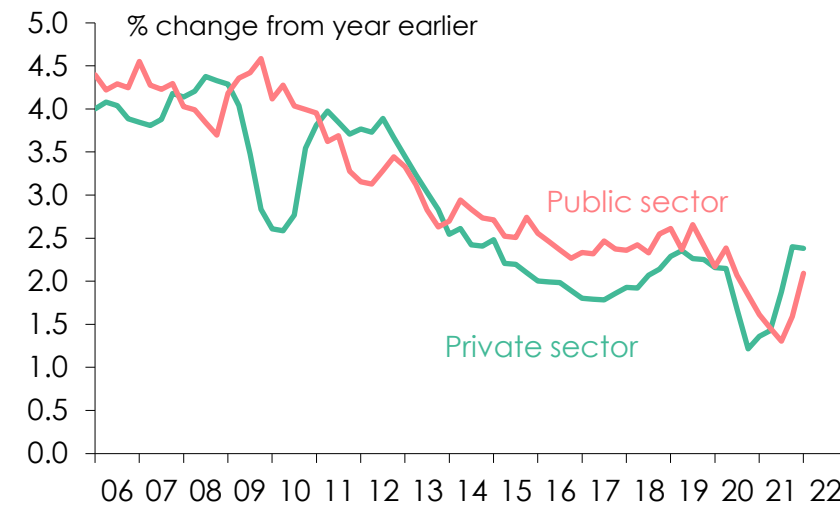
Enterprise bargaining agreements



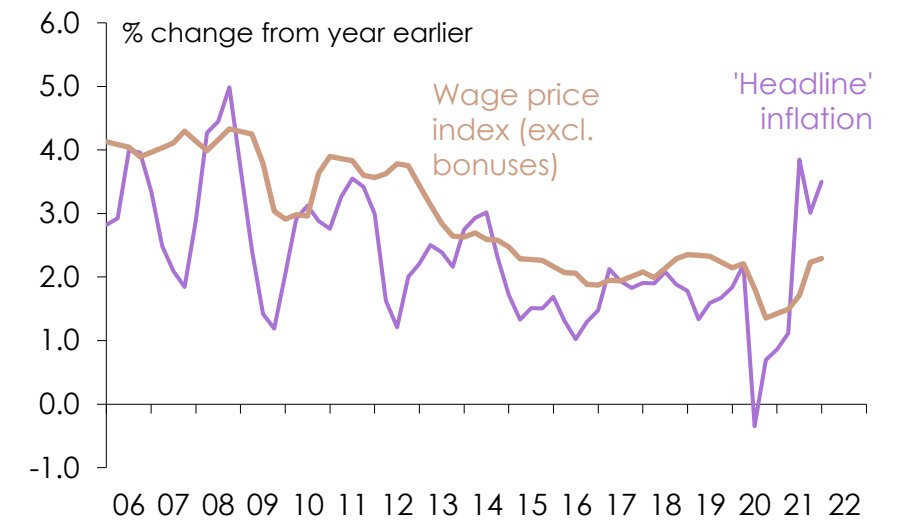
Wage price index including bonuses



WPI – private vs public sectors



WPI and 'underlying' CPI inflation

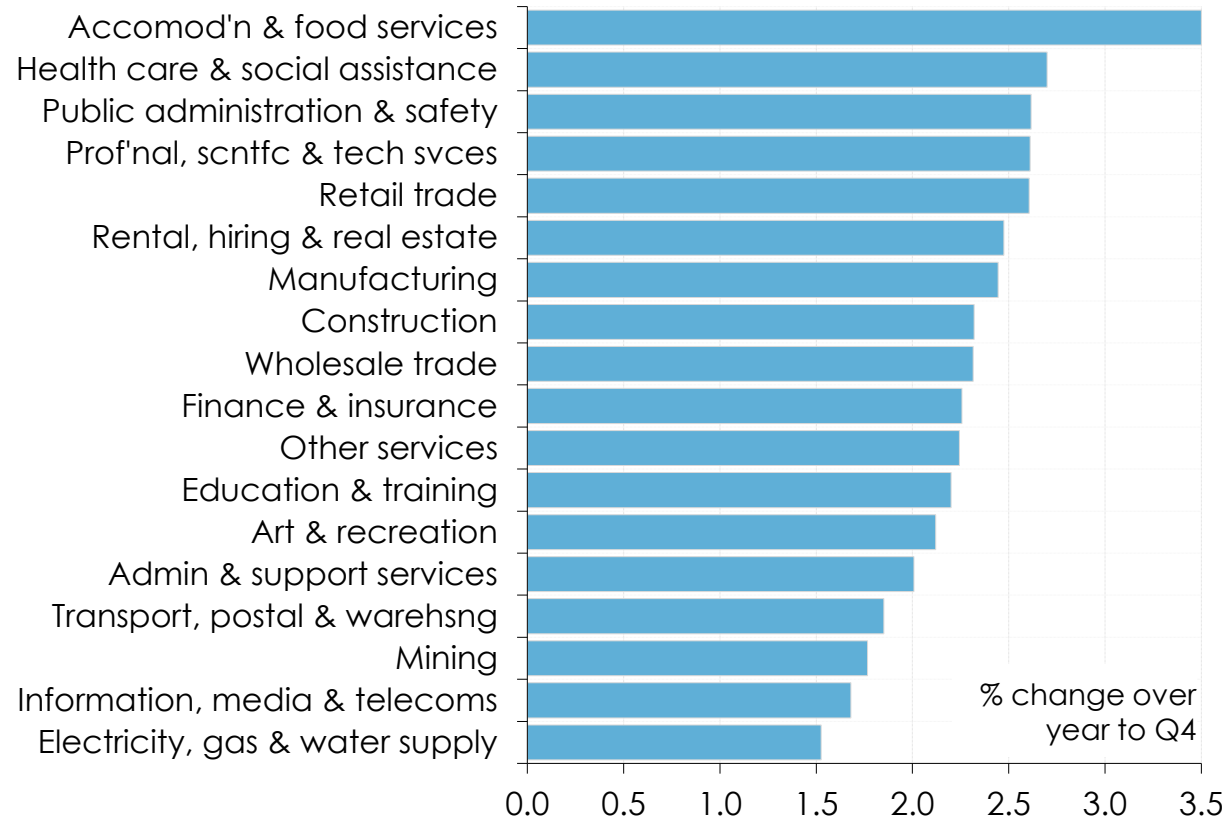


Sources: ABS, [Wage Price Index, Australia](#) Attorney-General's Department, [Trends in Federal Enterprise Bargaining](#); September quarter 2021; March quarter WPI data will be released on 18th May. [Return to "What's New"](#).

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

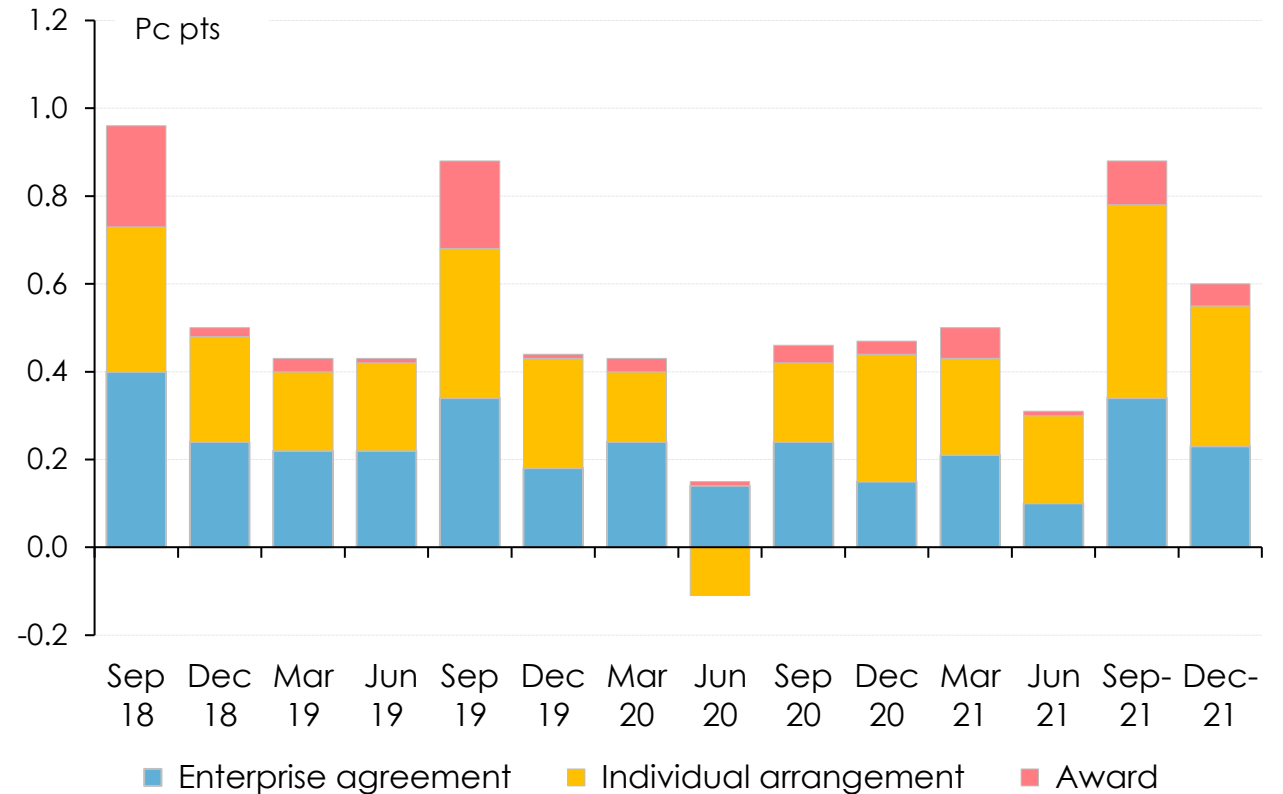
THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

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

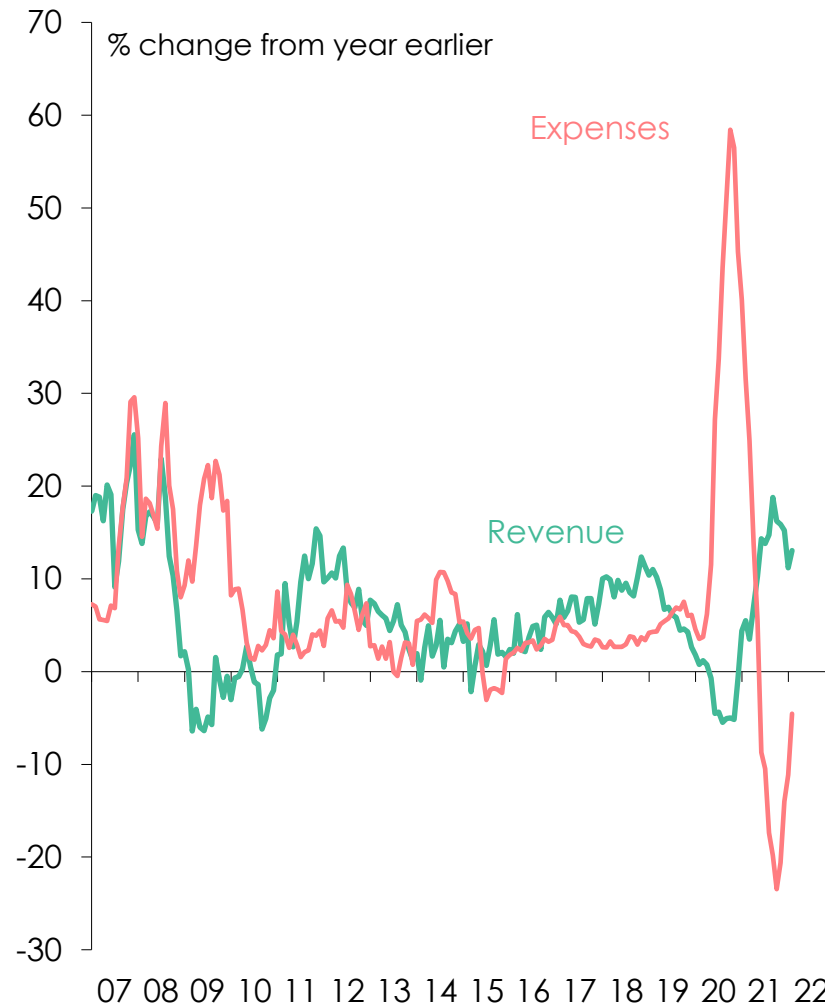
Sources: ABS, [Wage Price Index, Australia](#), December 2021; March quarter WPI data will released on 18th May. [Return to "What's New"](#).

Fiscal policy

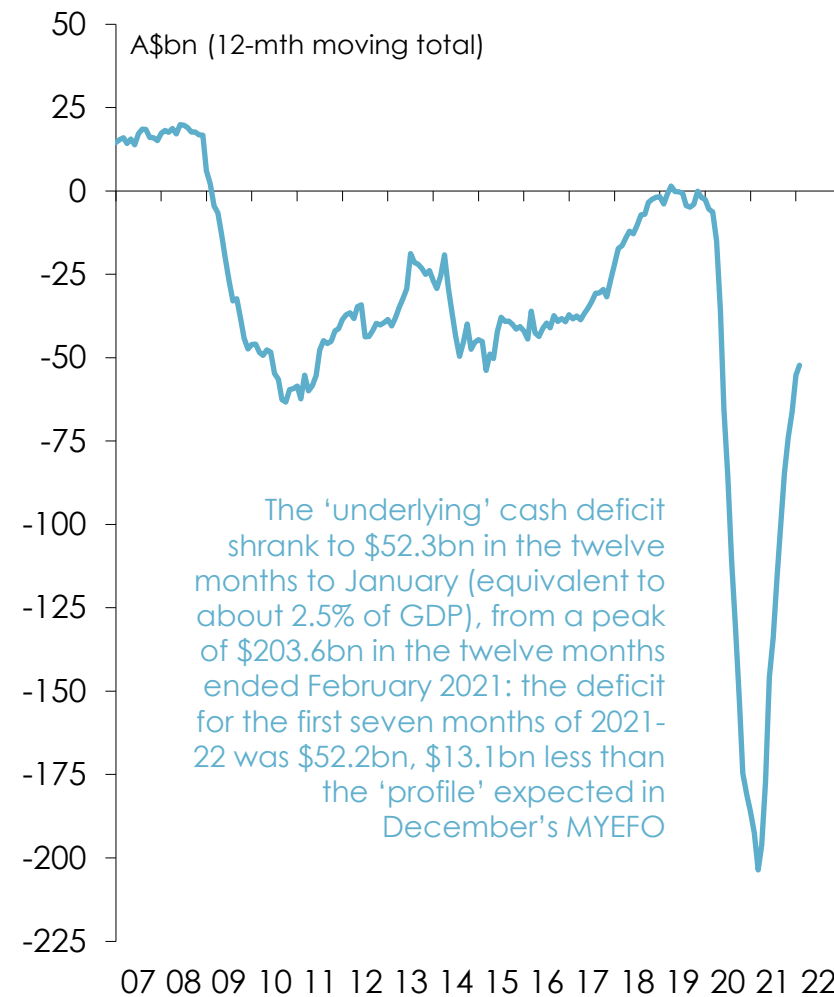
The Federal budget deficit is declining rapidly, thanks largely to buoyant tax revenues, and net debt appears to have stabilized

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

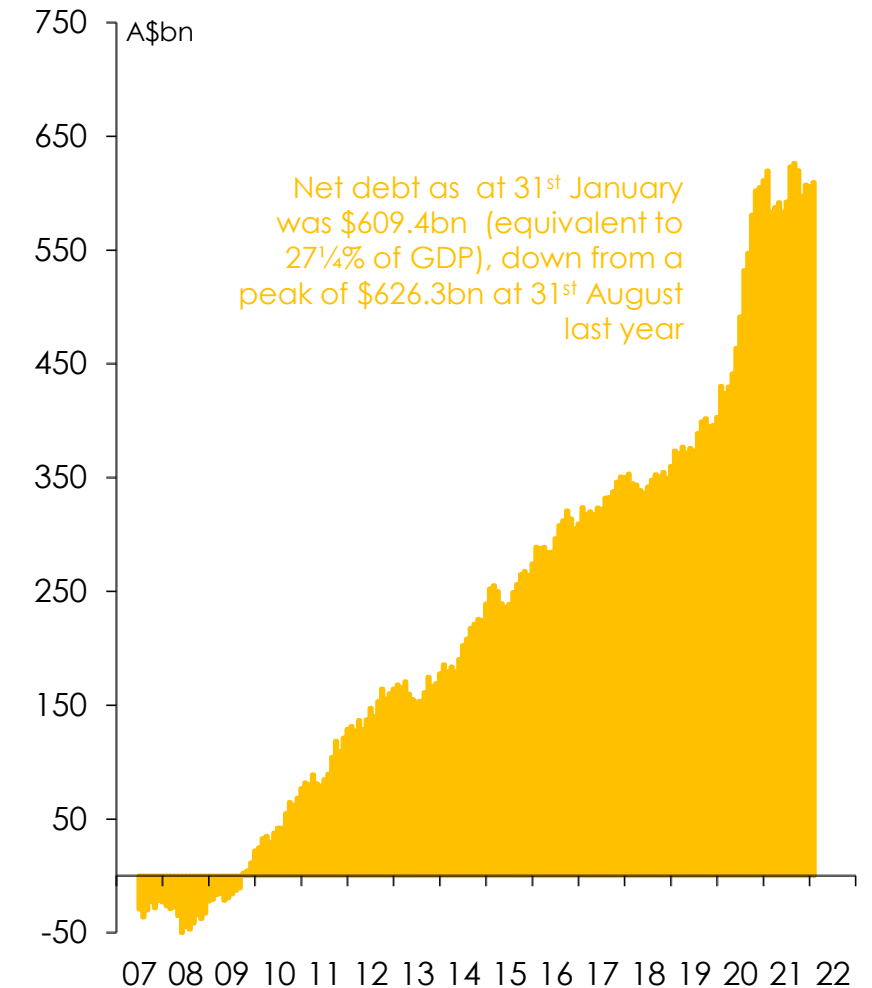
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



Australian Government net debt



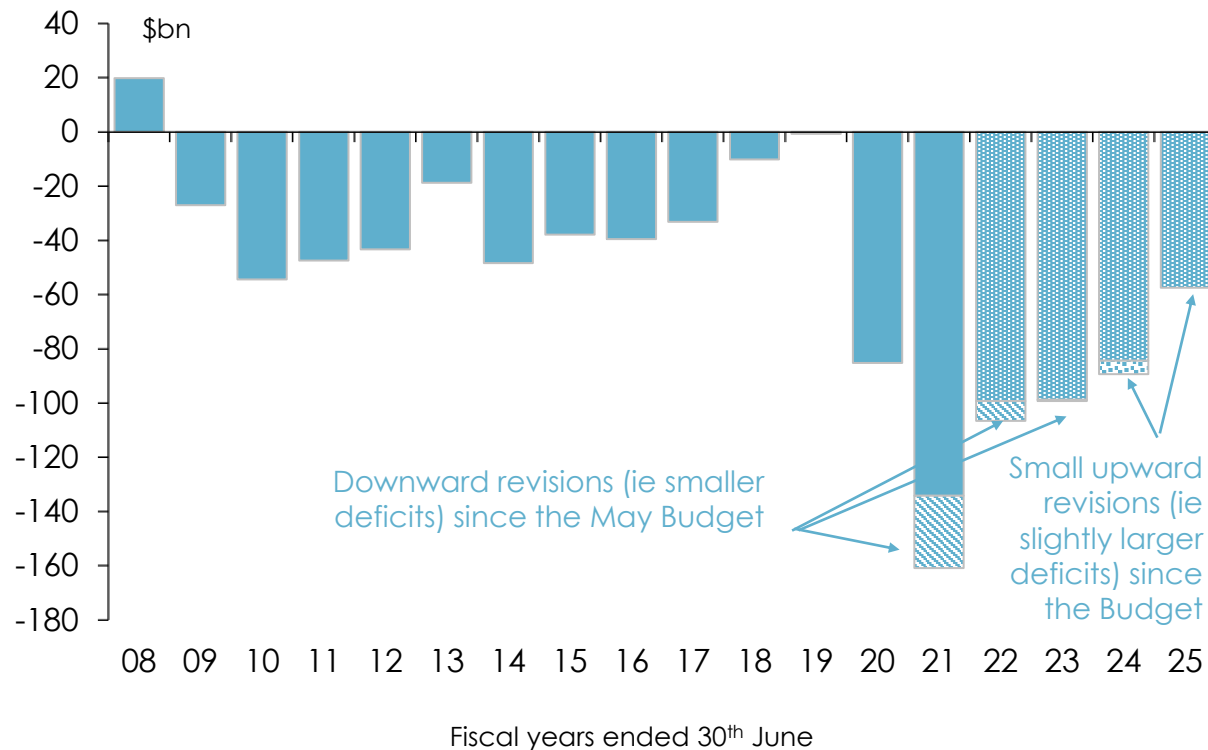
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

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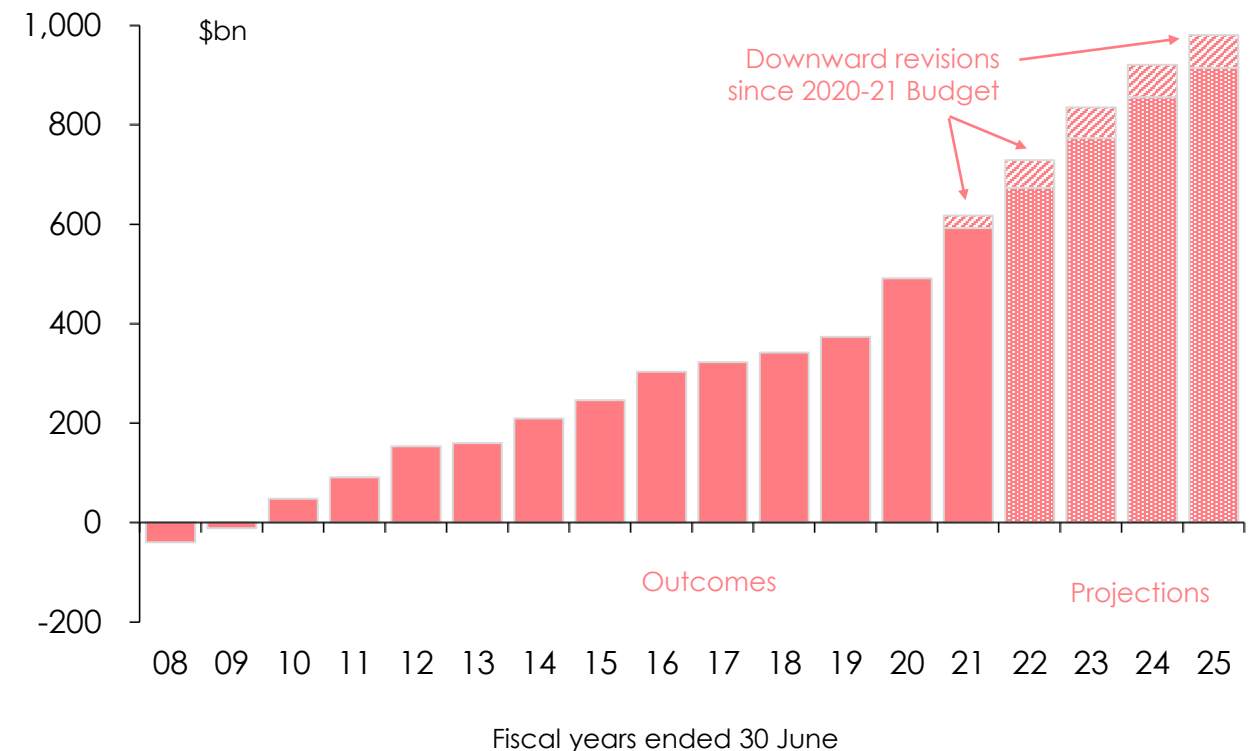
2021-22 MYEFO forward estimates of the 'underlying' cash balance and net debt

'Underlying' cash balance



- ❑ 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

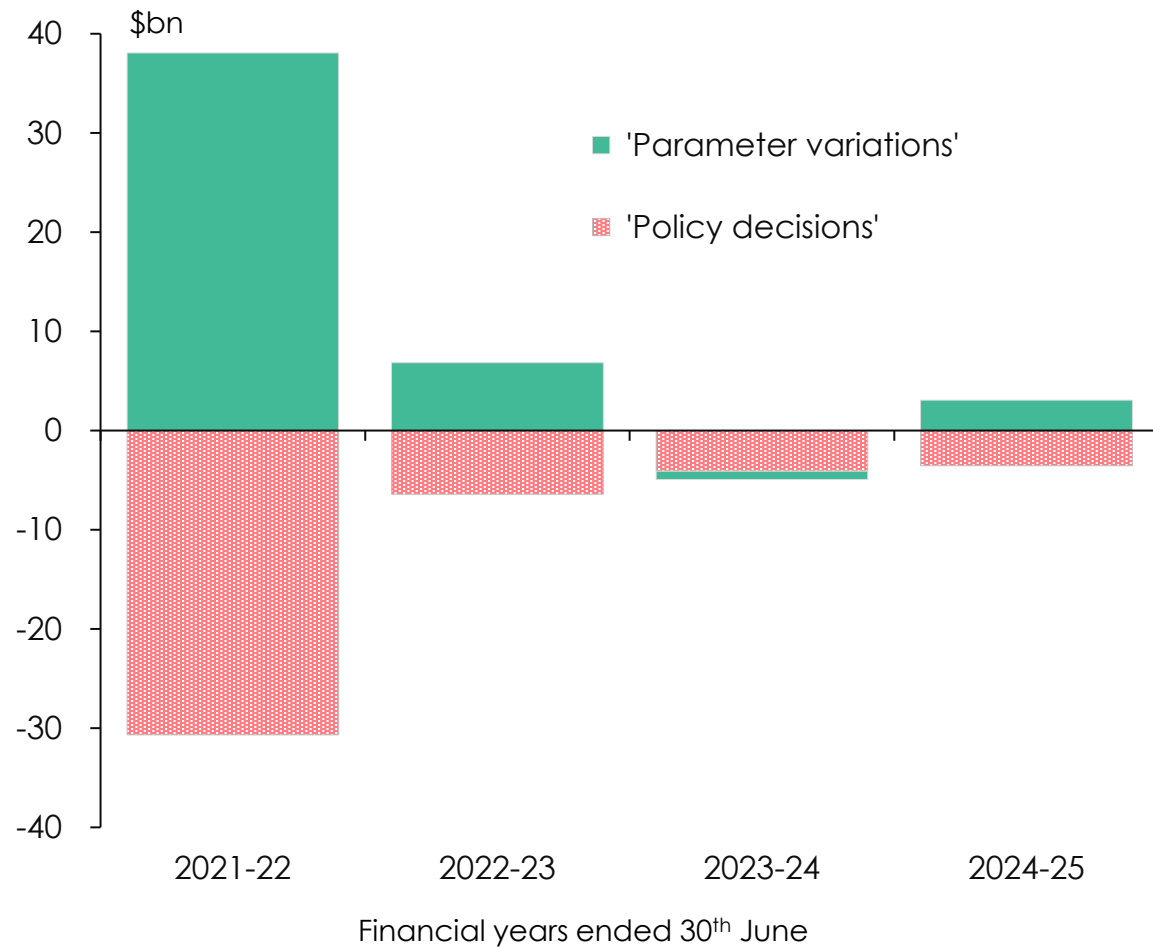


- ❑ Net debt as at 30th June 2021 was \$25bn less than had been forecast in May – and the forecast for net debt as at 30th June 2025 has been revised down by \$66bn, to \$915bn (37.4% of GDP)

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

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



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

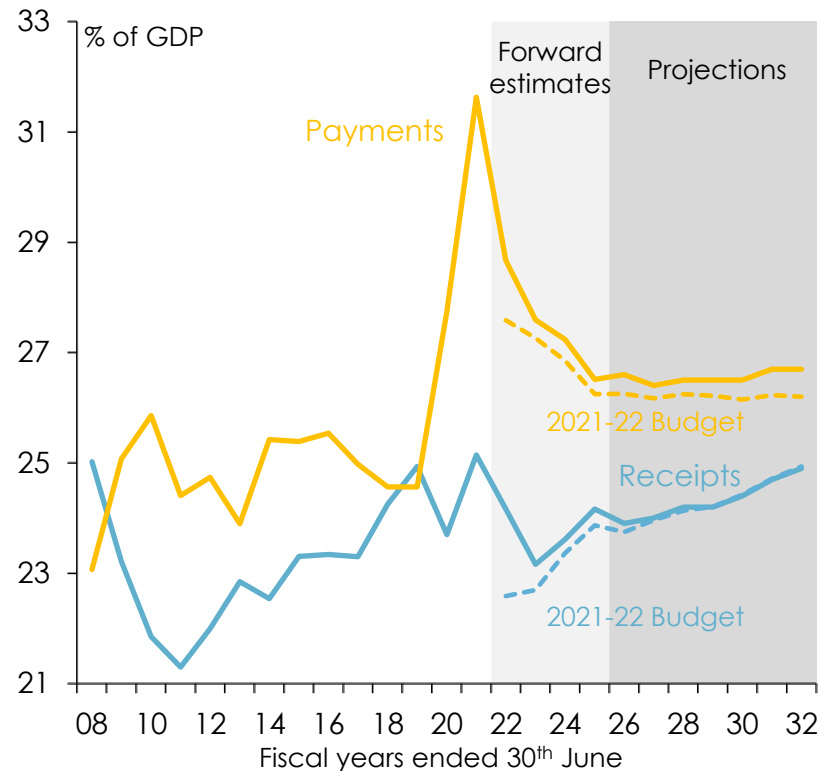
Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. The 2022-23 Budget will be presented on 29th March.
[Return to "What's New"](#).

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

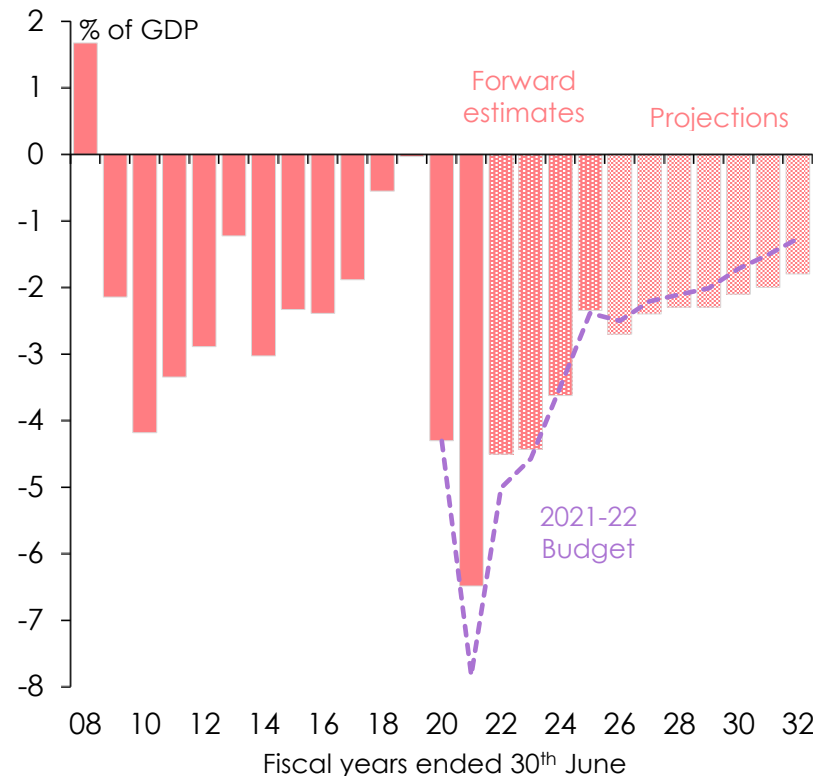
THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

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

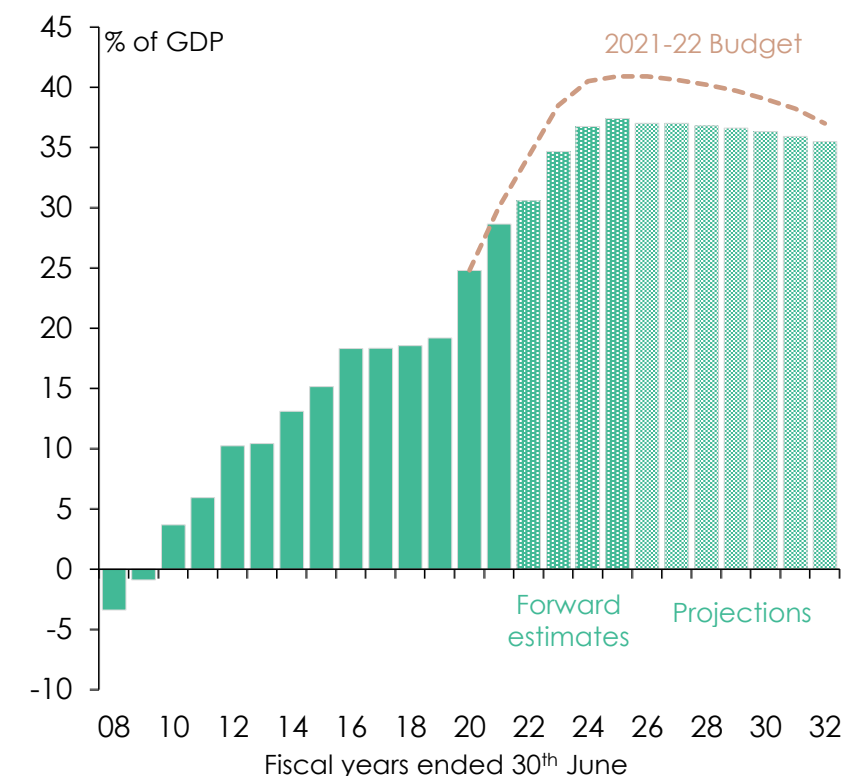
Receipts & payments



'Underlying' cash deficit



Net debt



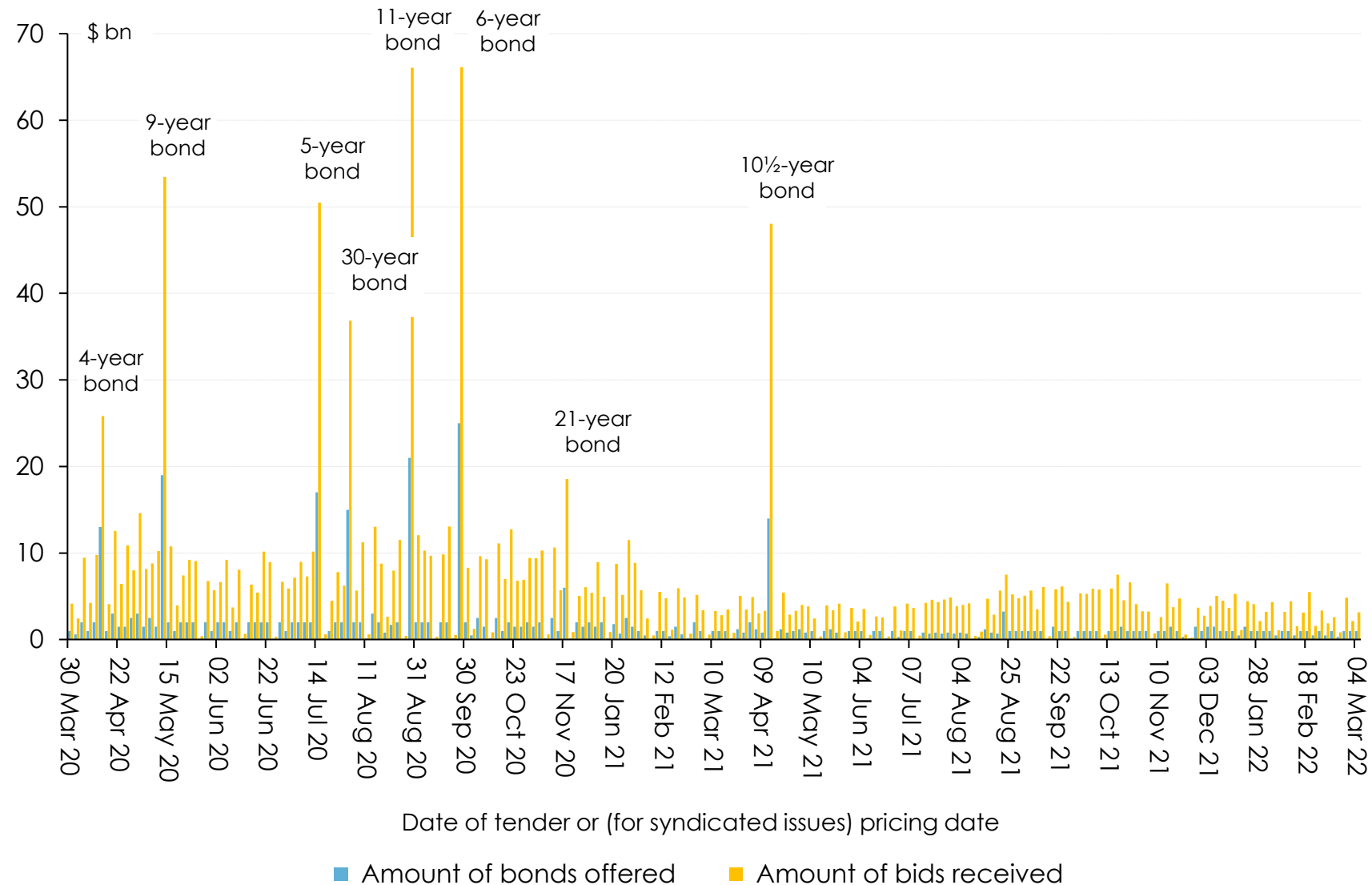
- ❑ MYEFO projects higher spending and revenues over the medium term than in the May Budget (and in the case of spending, significantly higher than in the pre-Covid era) – leading to persistent budget deficits (higher over the medium term than projected in the May Budget) – unless the quite arbitrary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

The Government continues to find a ready appetite for its bond issuance – in the past six weeks it has received bids of \$67½bn for \$19¼bn of bonds

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Australian government bond issuance since March 2020



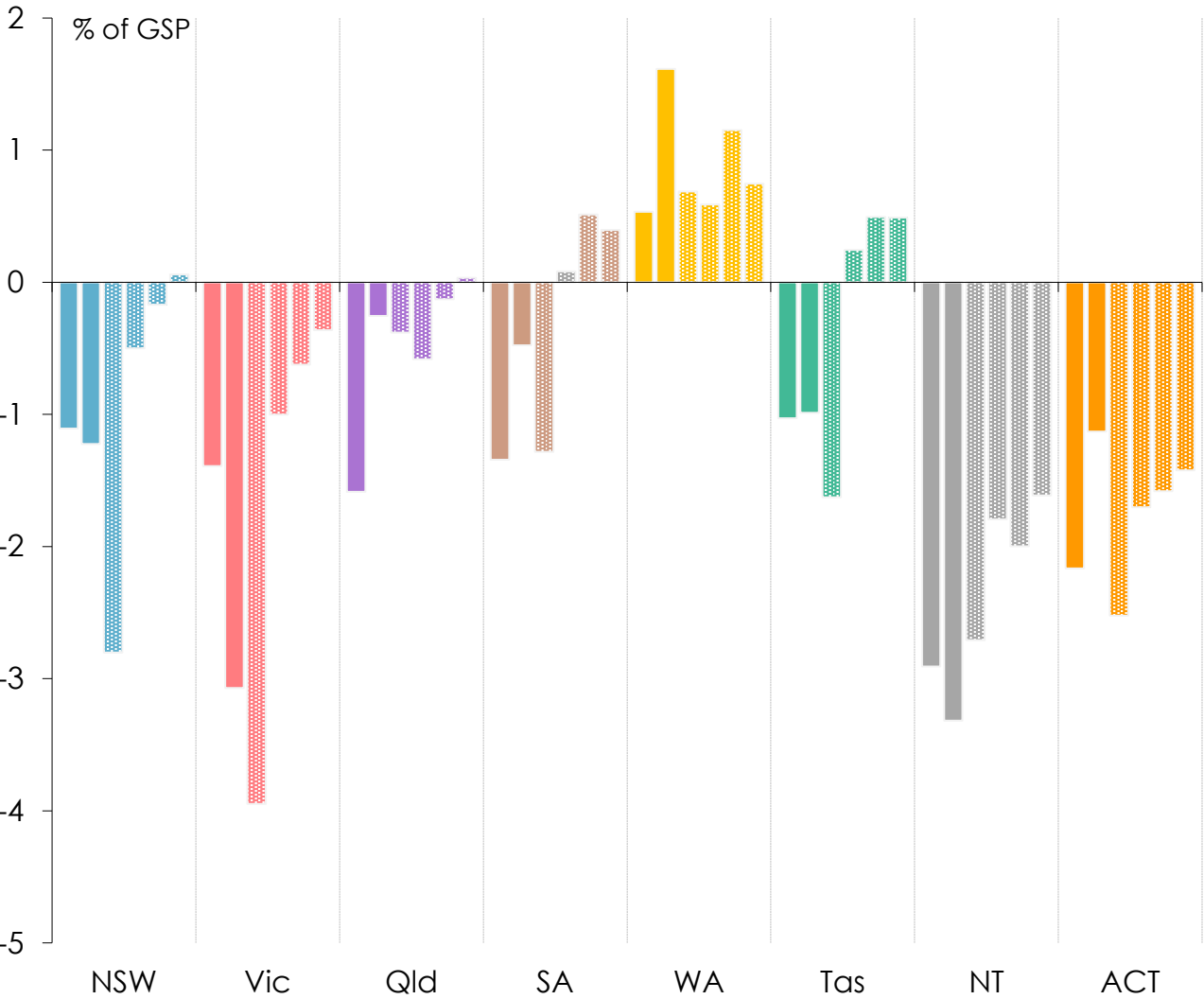
- On 7th January AOFM indicated it would issue about \$61bn of Treasury bonds, and \$5-5½bn of indexed bonds, over the six months to June
- Since resuming auctions on 12th January, the AOFM has sold \$19¼bn of bonds – including this week \$1bn of Jun 2031s and \$1bn of Nov 2032s, for which it received bids totalling \$5.3bn
- So far this financial year, the AOFM has received bids totalling over \$277bn for the \$66.7bn of bonds it has offered for sale – a ‘coverage ratio’ of 4.2 times, cf. 3¾ times during the 2020-21 financial year
- \$10bn of bonds issued since the onset of the pandemic, at an average yield of 0.21%, will mature on 21st November this year – recent 2-year bonds have been issued at yields of close to 1.50%

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

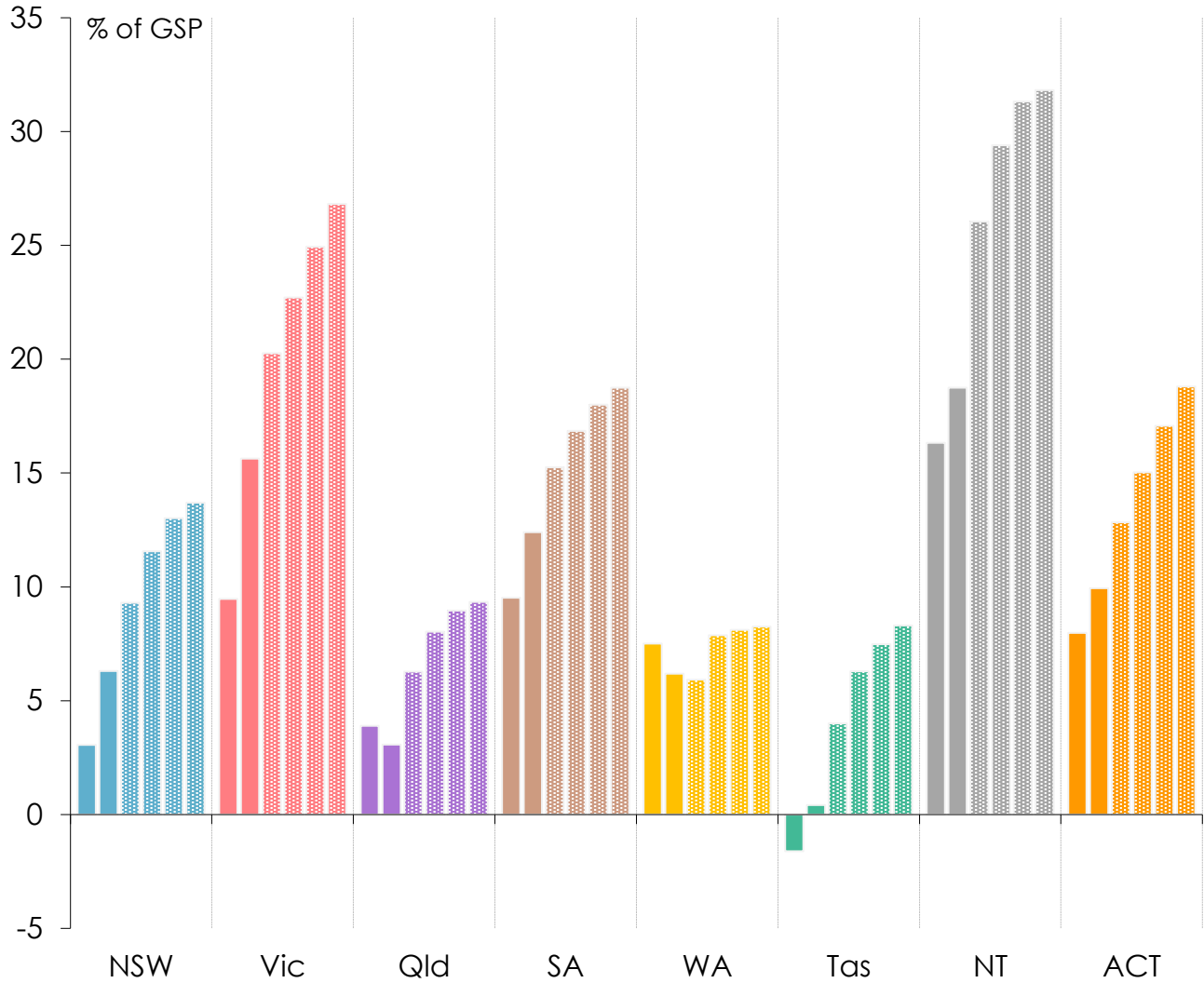
Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

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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 Deputy Governor of the RBA resigned this week to take up a position in the private sector

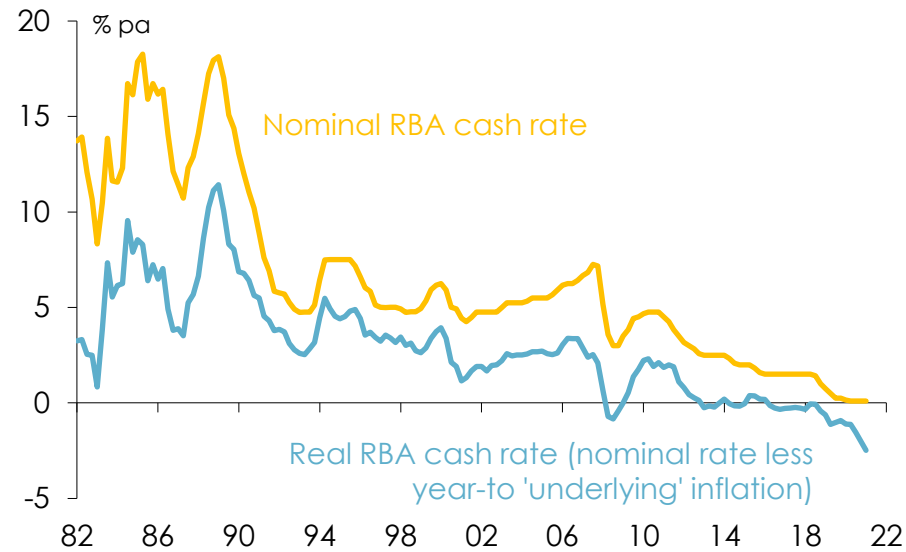
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- ❑ The Reserve Bank's Deputy Governor, Dr Guy Debelle, [resigned](#) this week to take up a position as Chief Financial Officer at [Fortescue Future Industries](#), a company founded by Western Australian iron ore magnate Andrew Forrest which describes itself as “a global green energy and product company committed to producing zero-emission green hydrogen from 100 per cent renewable sources” and a “a developer, financier and operator investing in zero-emission resources to produce renewable energy at a scale equal to the oil and gas super majors”
- ❑ [Dr Debelle](#) became Deputy Governor in September 2016, having been at the RBA since 1994 (and previously at the Australian Treasury), and serving as Assistant Governor (Financial Markets) from 2007 until 2016, leading the RBA's response to the global financial crisis
 - he had also spent time at the IMF (1995-97) and BIS (2004), and subsequently chaired the BIS' Markets Committee (2013-17) and Foreign Exchange Working Group (2015-17) as well as the [Global Foreign Exchange Committee](#) (2019-2021)
- ❑ He would have been the logical successor to the present Governor Philip Lowe, whose current term expires in September next year – although if Dr Lowe had sought to serve at least part of a second term he would almost certainly have been re-appointed (as were his predecessors Ian Macfarlane and Glenn Stevens, both of whom served an additional three years as Governor)
- ❑ The most likely internal candidates to succeed Dr Debelle as Deputy Governor (and eventually Dr Lowe as Governor) would appear to be [Dr Luci Ellis](#), Assistant Governor (Economic) – effectively the RBA's Chief Economist, and the position held by each of the past three Governors before becoming Deputy Governor; [Dr Christopher Kent](#), Assistant Governor (Financial Markets); and [Michele Bullock](#), Assistant Governor (Financial System)
- ❑ However, it is possible that the Government may consider an external appointment (something which has only happened once before at the upper echelons of the RBA), either before or after an external review of the Bank's charter and performance which now appears to be a bi-partisan position

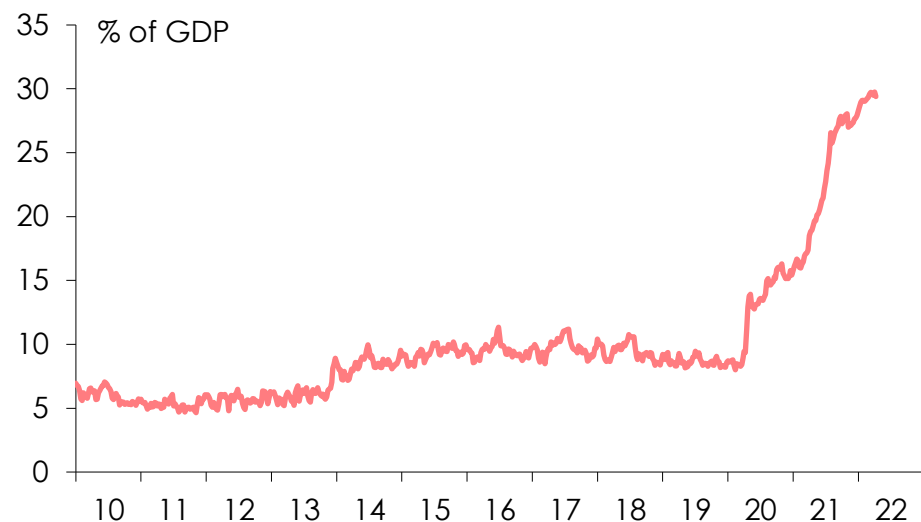
The RBA left its cash rate unchanged at 0.10% at this month's Board meeting (as expected) and remains in no hurry to start raising rates

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Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



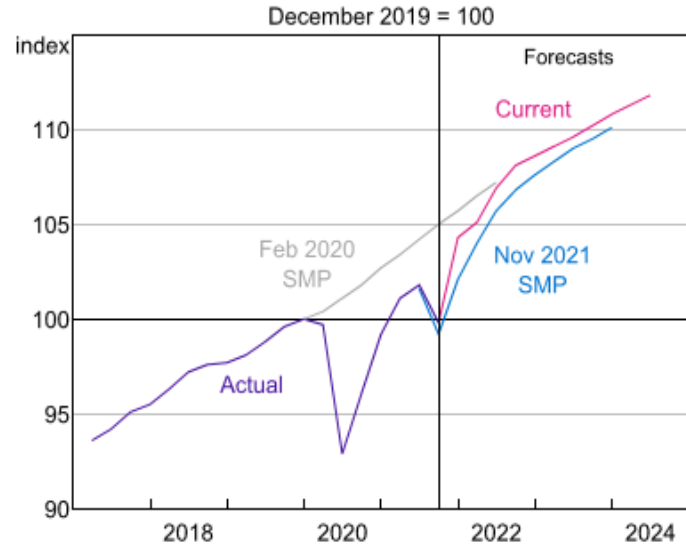
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ As expected, the RBA left its cash rate unchanged at 0.10% at this month's Board meeting
- ❑ In a [speech](#) on Wednesday, Governor Philip Lowe re-iterated the RBA's view that inflation hasn't risen nearly as much as in other 'advanced' economies
 - in particular, household energy prices have risen “only modestly” compared with the US (and Europe), the surge in demand for goods during the pandemic “has been less pronounced” in Australia than in the US, and wages are increasing “at a similar rate to before the pandemic”, in contrast to the US and the UK where “wages are rising much more quickly than they were previously”
- ❑ He also re-iterated that the RBA isn't yet persuaded that Australian inflation is “sustainably in the 2-3% target range”
 - inflation has “just reached the midpoint of the target range for the first time in over seven years”, and has done so “on the back of very large disruptions to supply chains and distribution networks, some of which are expected to ease” and “when aggregate wages growth is no higher than it was before the pandemic, which was associated with inflation being persistently below target”
- ❑ Hence, while conceding that “it is plausible that the cash rate will be increased this year”, he again stressed that the RBA “can take the time to assess incoming information and review how the uncertainties are resolved

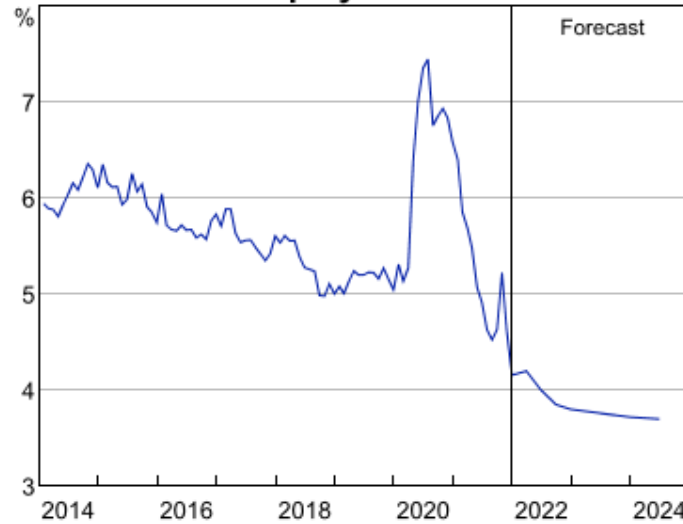
The RBA upgraded its forecasts for near-term economic growth, lowered its forecasts for unemployment, and raised its forecasts for inflation

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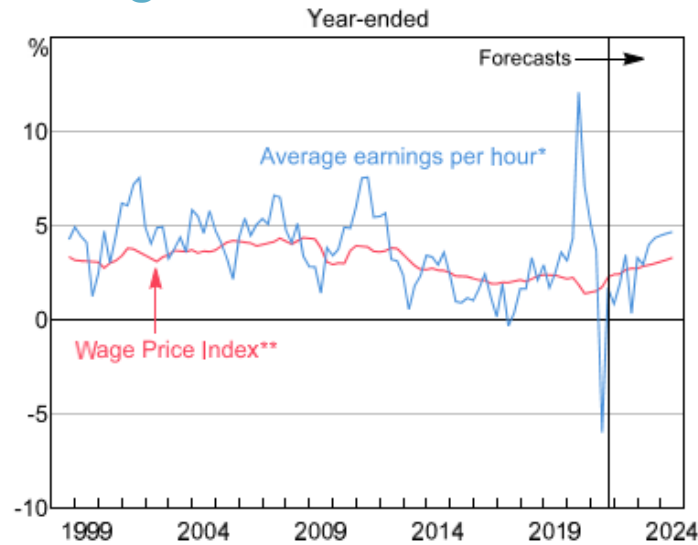
GDP



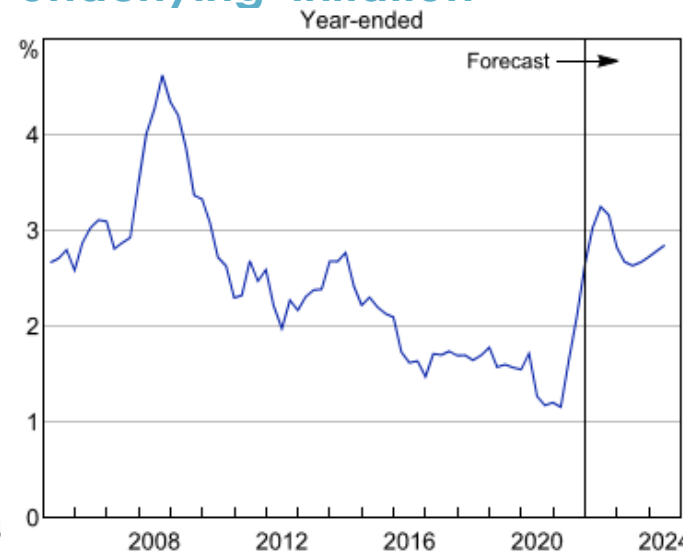
Unemployment



Wages



'Underlying' inflation



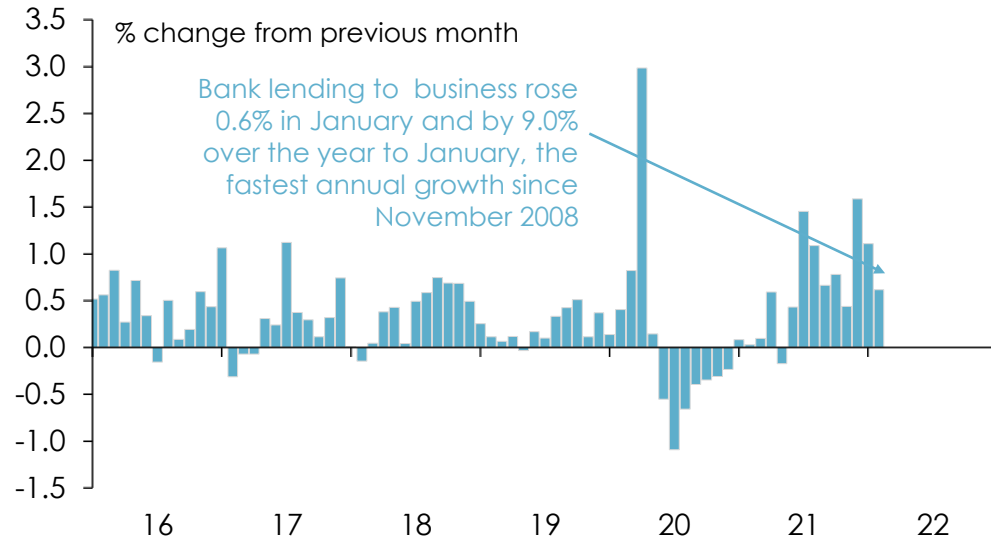
- ❑ In its latest [Statement on Monetary Policy](#), released on 4th February, the RBA upwardly revised its near-term real GDP growth forecast – from 4% to 5% over the year to Q2 2022 – but lowered its forecast for the year to Q2 2023 to 2½% (from 3¼%), and slowing further to 2% over the year to Q2 2024
- ❑ 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](#), 4th February. The RBA's next set of forecasts will be published on 6th May. [Return to "What's New"](#).

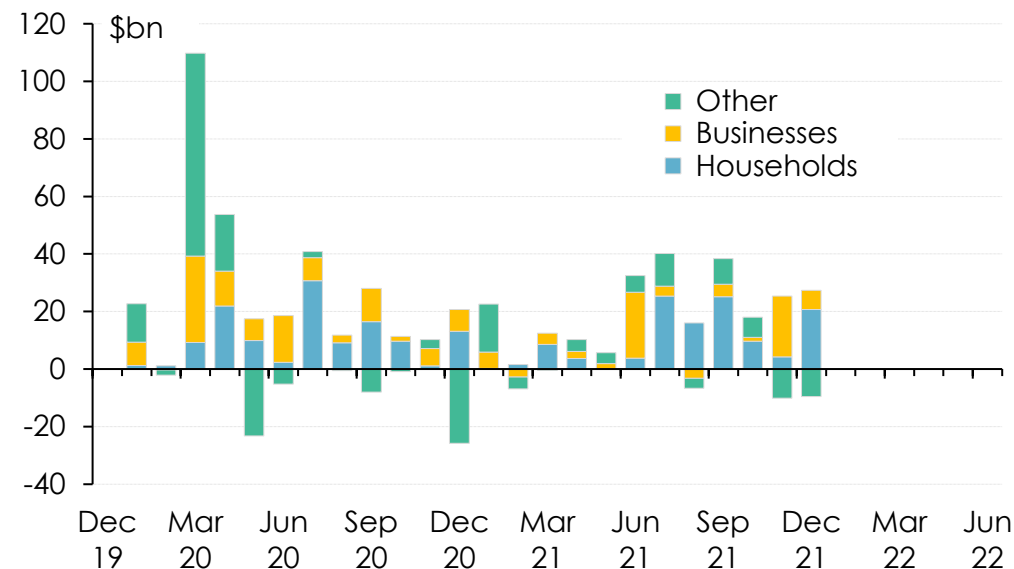
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

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Business credit outstanding



Monthly change in bank deposits



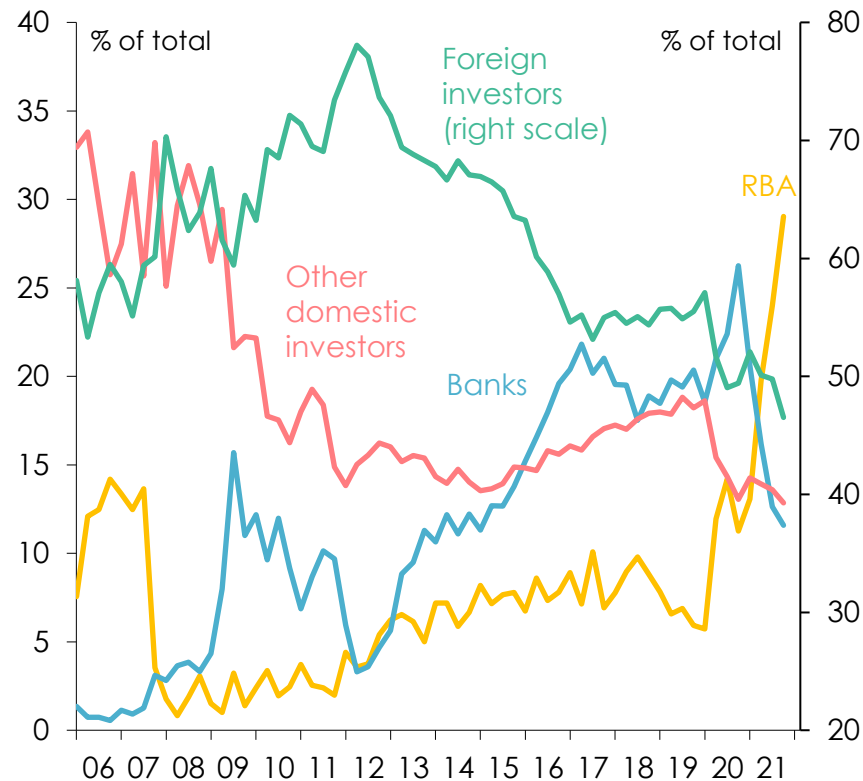
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during last year's lockdowns
 - over the 12 months 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%

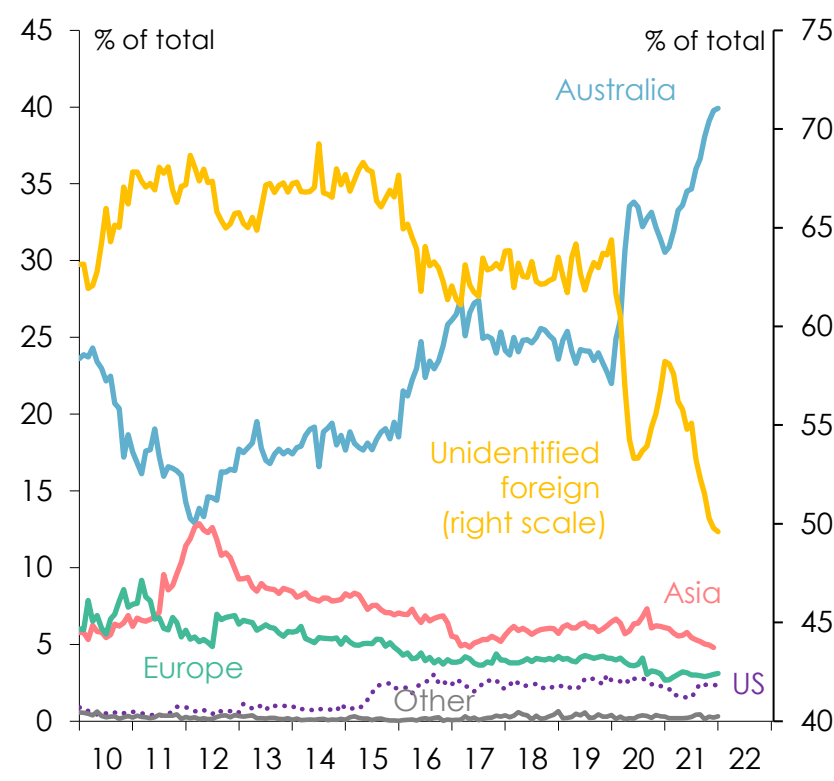
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Holder of Australian Government bonds



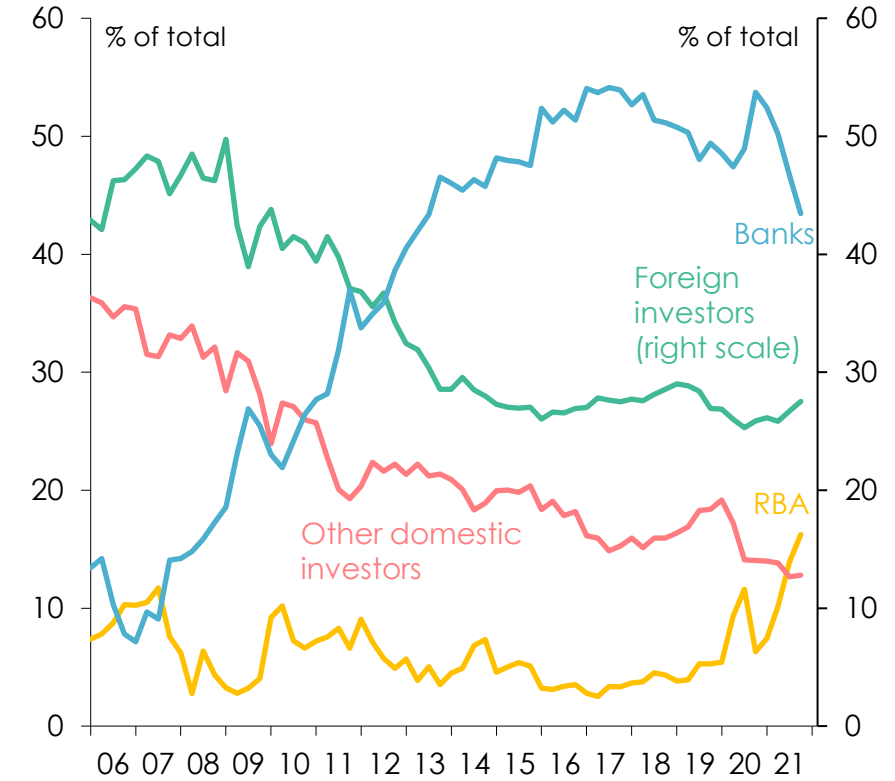
Australian Gov't bonds on issue have increased by \$266bn since the end of 2019 – of which \$225bn (85%) have been absorbed by the RBA, and \$56bn by foreigners, while banks have reduced their holdings by \$13bn

Nationality of Australian Government bond holders



Domestic holdings of Australian Gov't bonds (including RBA) rose by \$95bn during 2021 while identified foreign holdings fell \$1bn – and unidentified holdings (which include many foreigners) fell by \$46bn

Holder of State and Territory Government bonds



State & Territory Gov't bonds on issue increased have increased by \$129bn since the end of 2019, of which \$53bn have been absorbed by the RBA, \$41bn by banks and \$37bn by foreigners

Australian financial markets

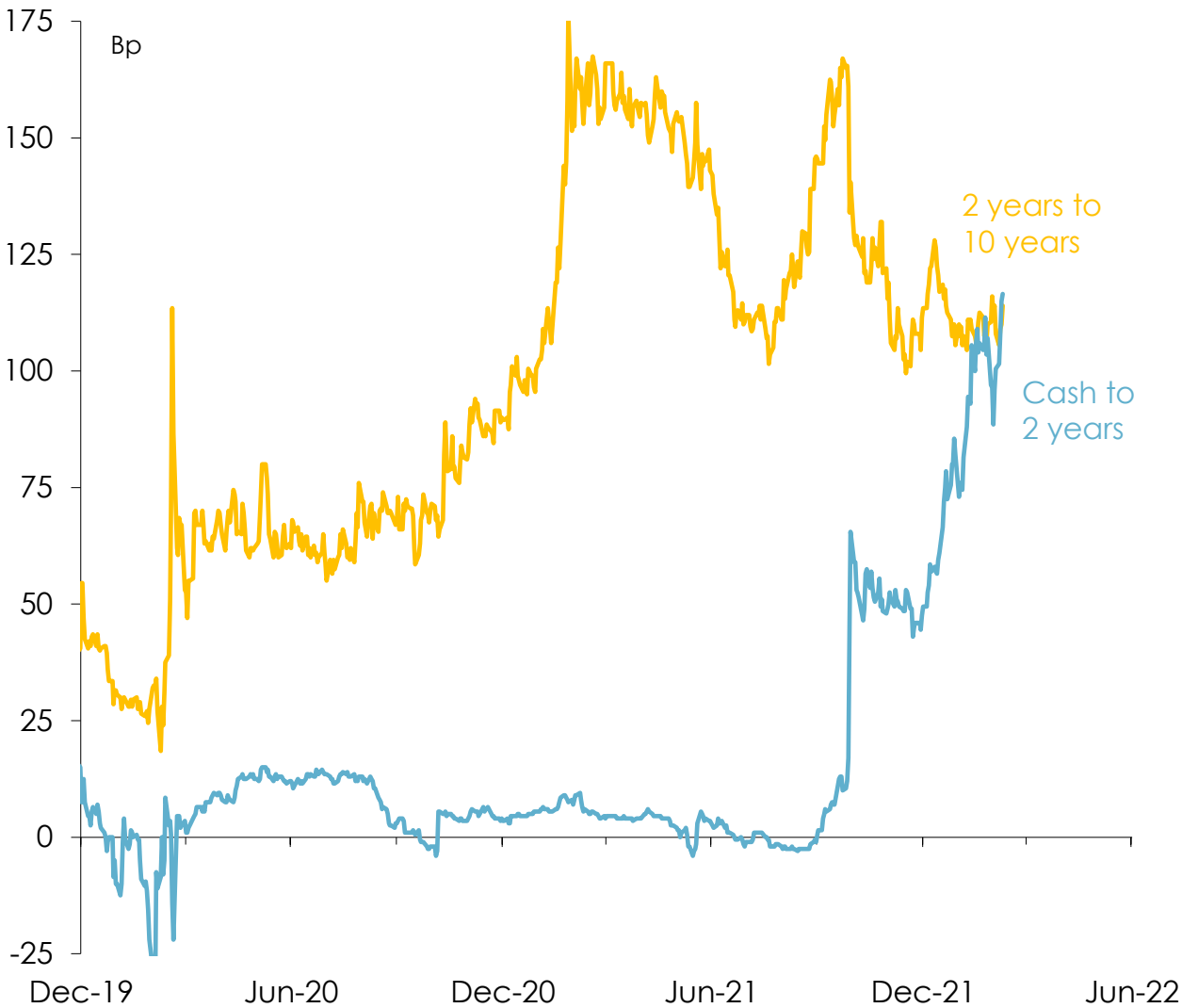
Financial markets upgraded the odds attaching to RBA rate hikes this year despite Governor Lowe's repeated insistence that it is in no hurry

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Overnight index swap rates



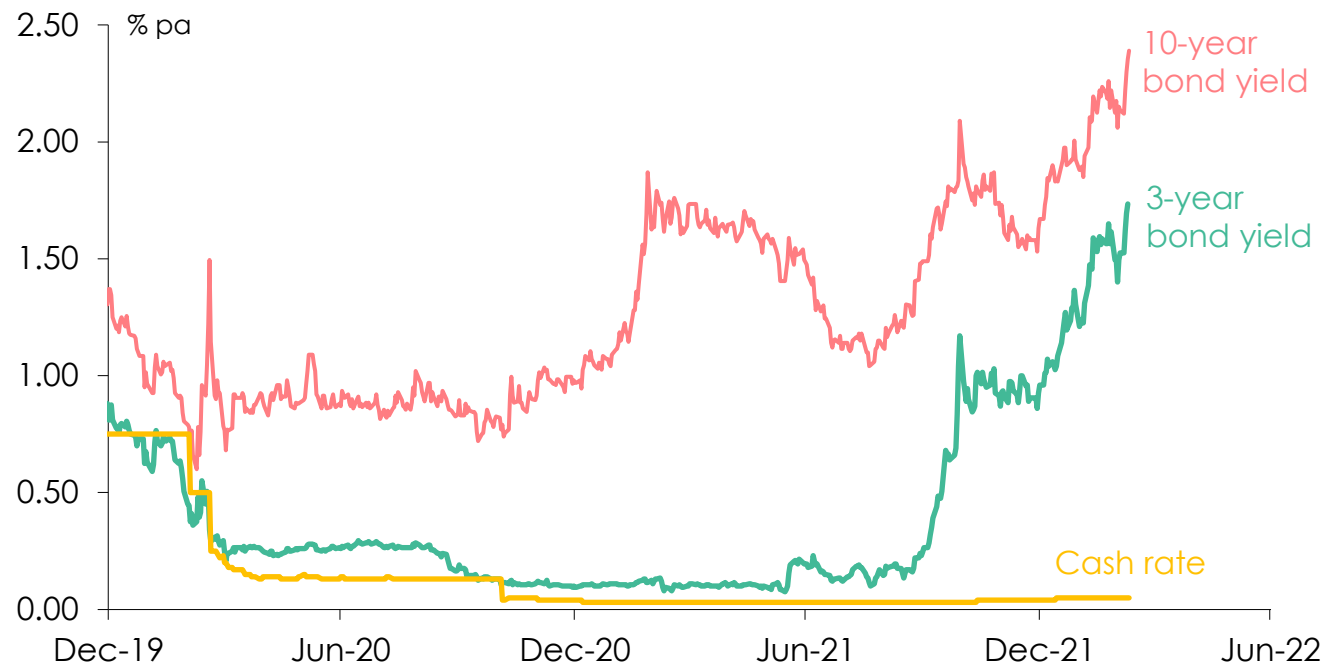
Yield curves



Longer-term bond yields rose in line with the global trend and local market sentiment discounting the RBA's insistence it's in no hurry to raise rates

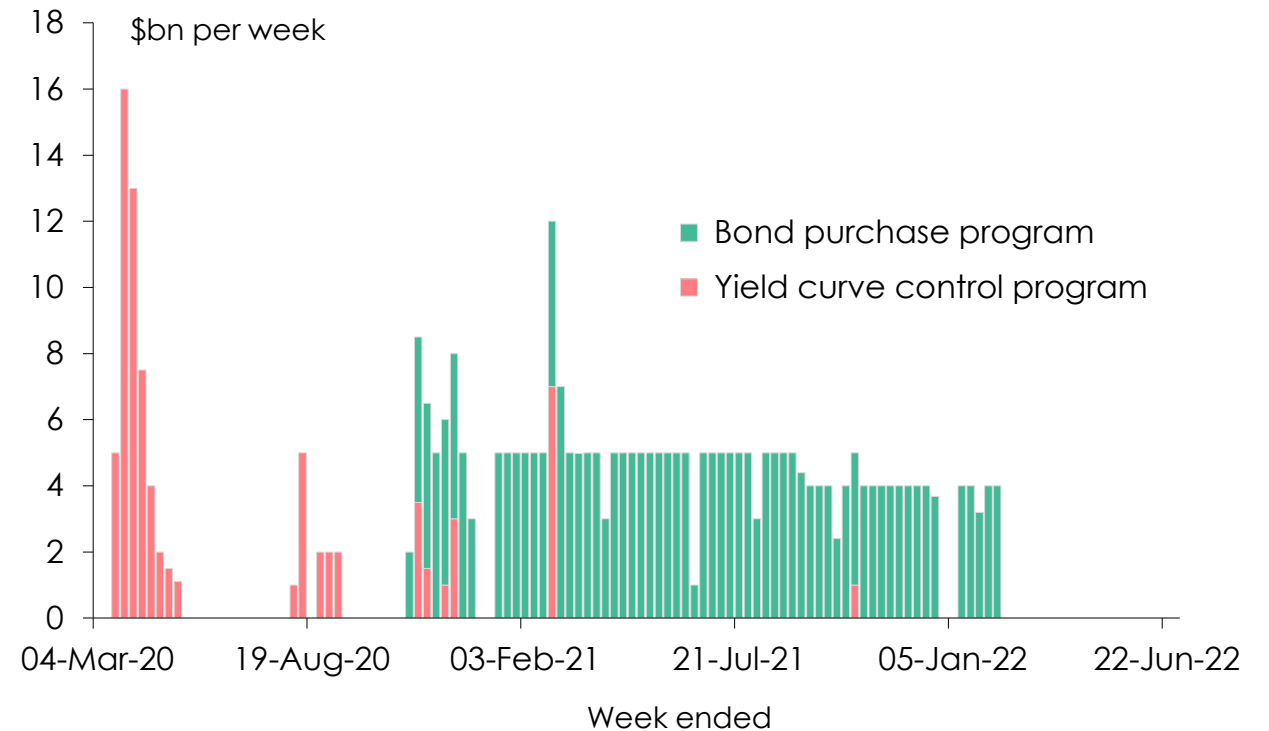
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Interest rates



- ❑ 3-year bond yields rose 20bp this week, to 1.75%, their highest level since the end of 2019, as market participants discounted RBA Governor Lowe's most recent insistence that the RBA Board will be "patient" in assess the case for higher rates
- ❑ The 10-year yield rose 25bp, to 2.39%, the highest since mid-December 2018, with the spread over US Treasuries widening above 40 bp for only the second time since July 2017 (the previous instance in October last year lasted one day)

RBA open market bond purchases



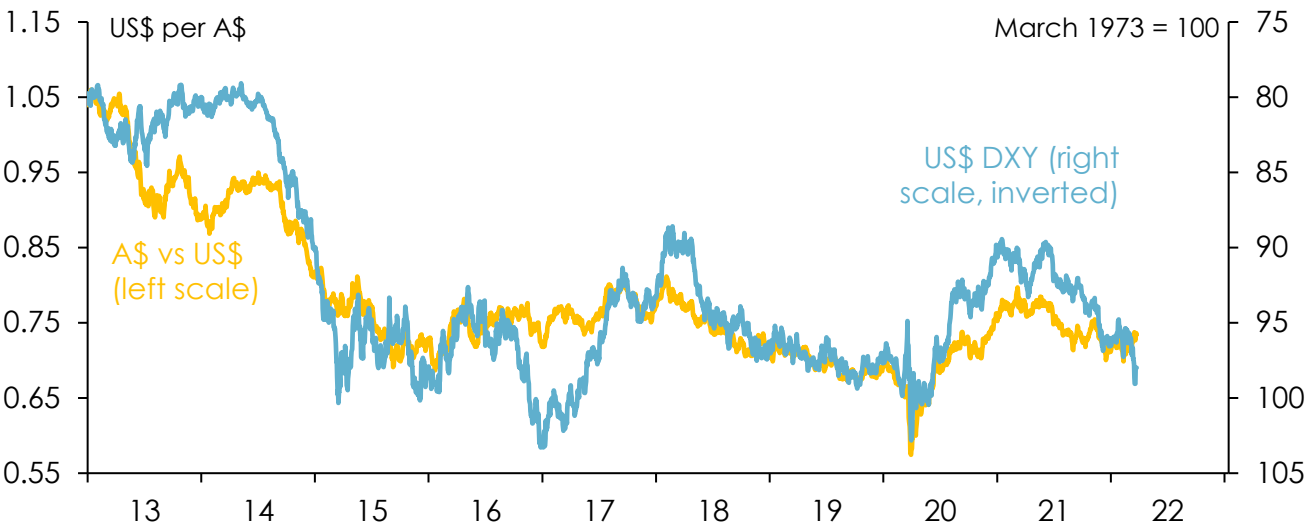
- ❑ The RBA purchased its final \$4bn of bonds under its now-terminated Bond Purchase Program in the second week of February, bringing the total amount of purchases under it to just under \$281bn, which together with purchases of \$80bn under the 3-year yield curve target program which was discontinued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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

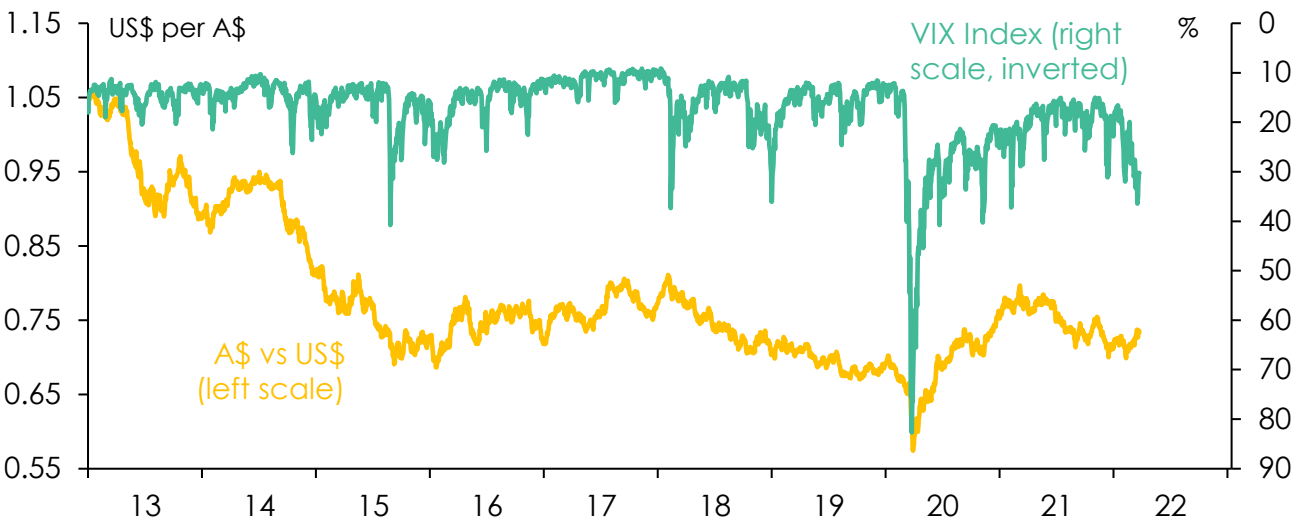
The A\$ remained above US73¢ for most of this week, despite a stronger US\$, supported by higher commodity prices and a wider interest rate spread

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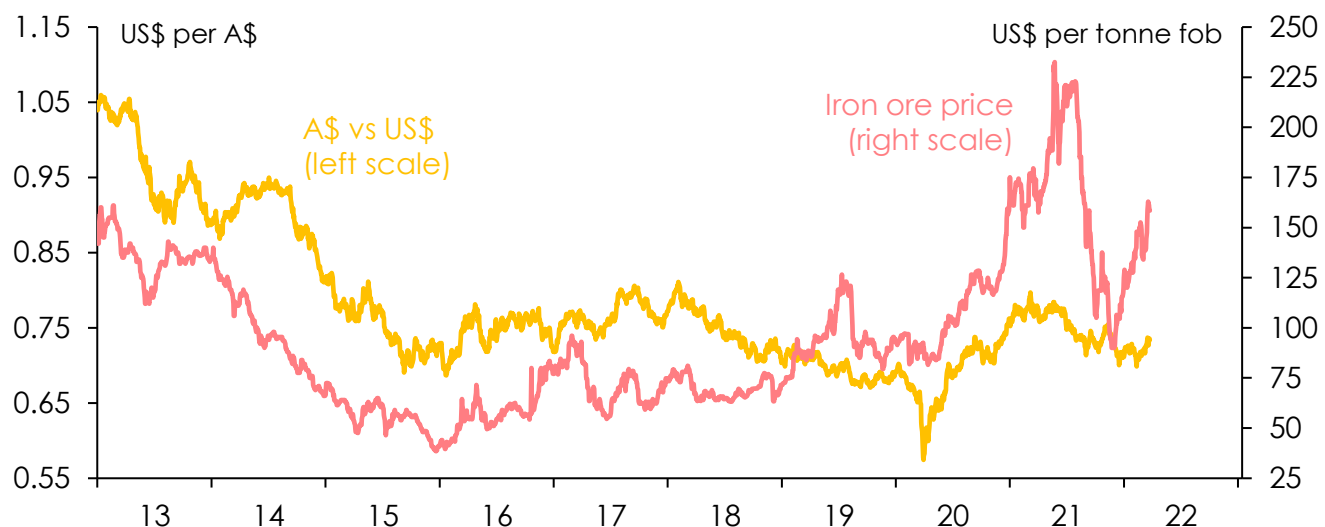
A\$-US\$ and US\$ trade-weighted index



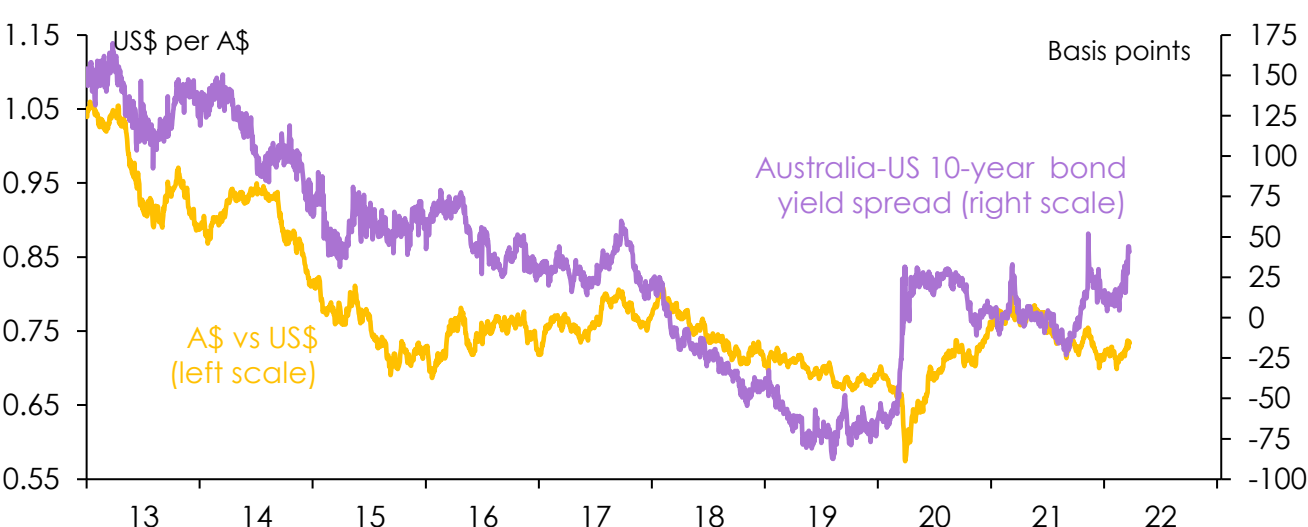
A\$-US\$ and US equity market volatility



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



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

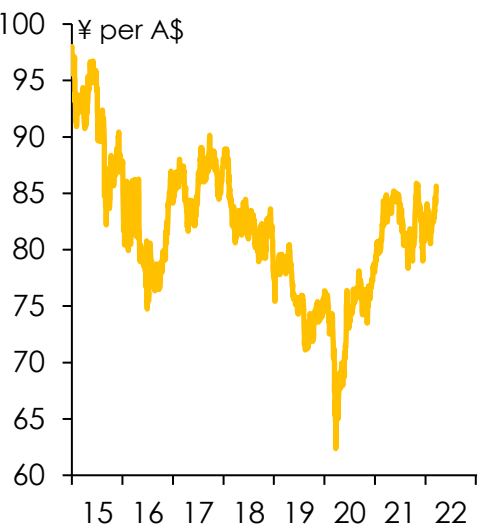


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 11th March. [Return to "What's New"](#).

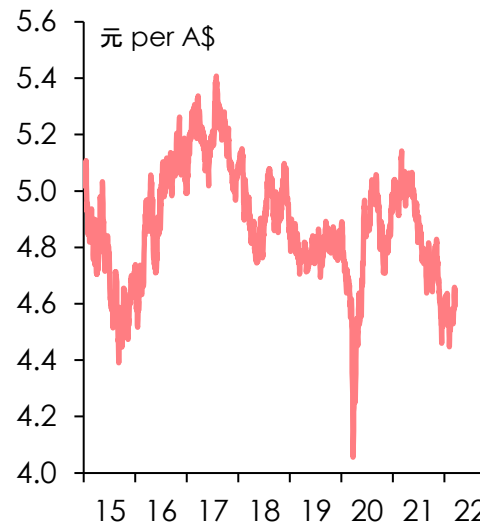
The A\$ was mixed against third currencies, losing 1¼% vs the euro and ¼% vs the yuan and NZ\$, but gaining 1¼% vs the yen and almost ¾% vs sterling

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

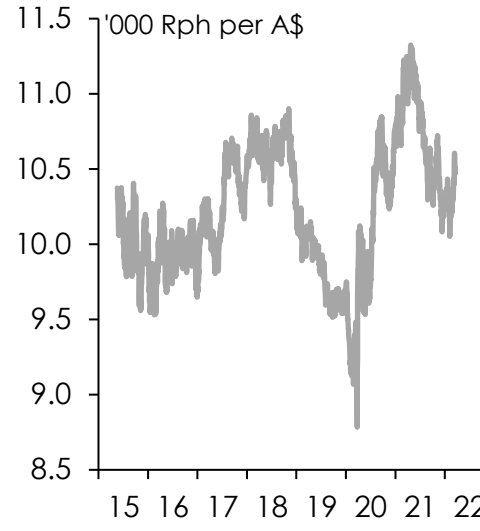
A\$ vs Japanese yen



A\$ vs Chinese yuan



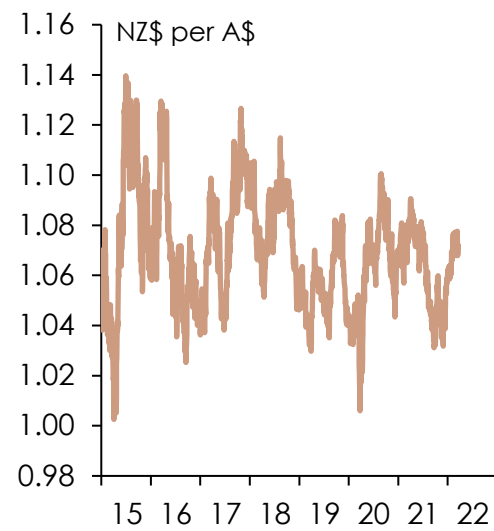
A\$ vs Indo rupiah



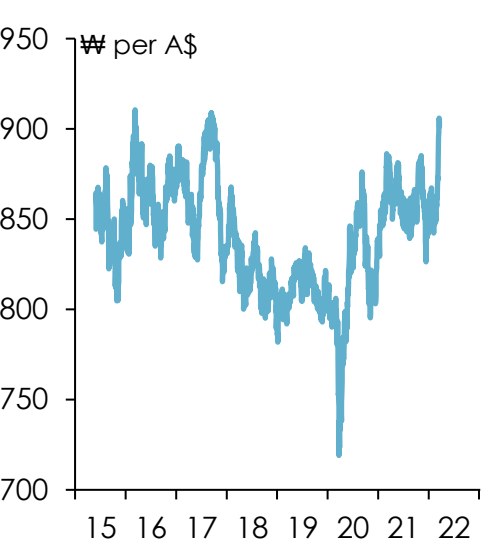
A\$ vs Euro



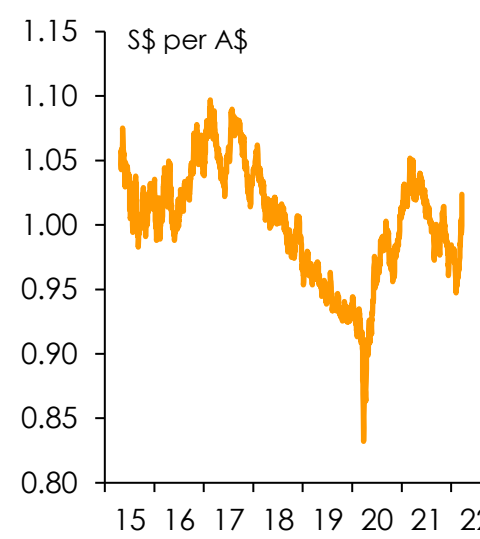
A\$ vs NZ\$



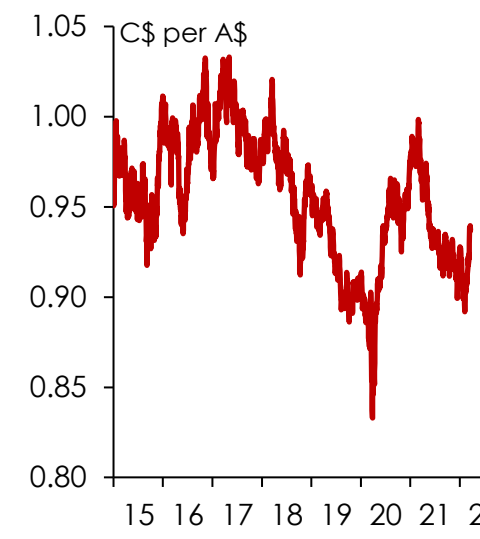
A\$ vs Korean won



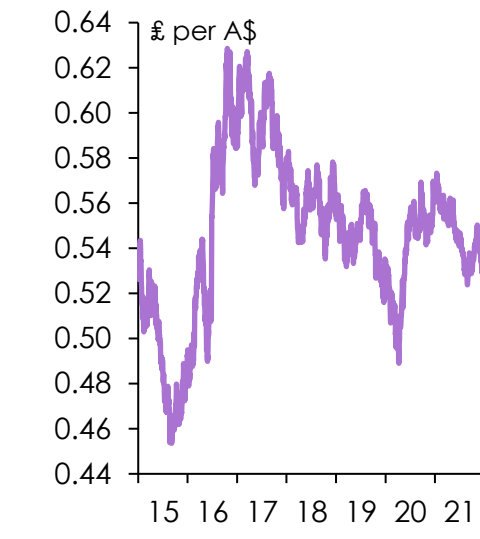
A\$ vs Singapore \$



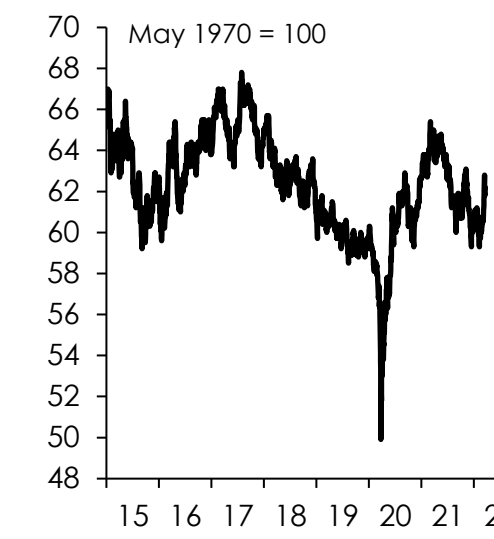
A\$ vs Canadian \$



A\$ vs British pound



A\$ TWI



The ASX eased ¾% this week, largely due to resources stocks falling 3¾% after gaining 9½% the previous week

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

ASX indices



Key data and events next week

Key data and events for week ended 18th March

THE AUSTRALIAN ECONOMY THIS WEEK – 11TH MARCH 2022

Tuesday 15th March	Monthly business turnover (January); minutes of March RBA Board meeting
Wednesday 16th March	Overseas arrivals & departures (January); household impacts of Covid-19 survey (February); Westpac leading economic indicators index (February)
Thursday 17th March	Employment, unemployment and hours worked (February); population (September 2021);
Friday 18th March	Experimental tourism satellite accounts (December quarter 2021)
Saturday 19th March	South Australian state election

Note: This calendar includes data releases and policy events which are likely to be included in next week's edition of this Chart Pack. [Return to "What's New"](#).

Important information

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

Corinna Economic Advisory is a partner (with Llewellyn Consulting, of 1 St Andrews Hill, London EC4V 5BY, United Kingdom) in Independent Economics.

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