



# THE AUSTRALIAN ECONOMY THIS WEEK

25<sup>TH</sup> MARCH 2022

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

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# What's new?

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- ❑ Energy, metals & grain prices were firmer this week as the conflict in Ukraine continued ([slides 65-66](#)); those increases, if sustained, will add to 'headline' inflation and (probably) detract from economic growth (notwithstanding that Australia is a net exporter of coal, LNG & 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 continued to rise with the spread of the BA.2 subvariant of 'omicron' ([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 has been fairly steady, and the number of fatalities has continued to decline
- ❑ A federal election has to be held no later than 21<sup>st</sup> May this year – and if it's to be held on that date, must be officially called no later than 18<sup>th</sup> April ([slide 15](#)): most opinion polls suggest that a change of government is likely whenever the election is held ([slide 16](#)), but they said the same thing ahead of the 2019 election and the out-turn was rather different
- ❑ The Government hopes that the 2022-23 Budget to be presented (earlier than usual) this coming Tuesday evening will improve its prospects at the election – particularly through measures aimed at assisting households with 'cost-of-living increases' – while also including downward revisions to previous forecasts of the budget deficit and net debt ([slides 81-85](#)); the Budget will also include upward revisions to Treasury's forecasts for nominal and real GDP growth, and wage and price inflation, and a downward revision to forecasts for unemployment (to less than 4%) ([slides 25-26](#))
- ❑ More detailed results from the ABS' February labour force survey show that employment remains below pre-pandemic levels in 8 out of 19 industry sectors ([slide 23](#)), with the biggest shortfalls in sectors with below-average pay levels ([slide 59](#))
- ❑ The detailed labour force survey results also show that there are still fewer community service workers, sales workers and labourers employed than in February 2020, whereas by contrast employment of managers and professionals is up by more than 10% ([slide 60](#))
- ❑ In contrast to the United States, there's no evidence of a 'great resignation' happening in Australia ([slide 63](#))
- ❑ The smaller increase in inflation in Australia than in most other 'advanced' economies since the middle of last year reflects falls (at least up to the December quarter) in prices of clothing and household appliances, and smaller increases in prices of food, electricity, motor vehicles and furniture than in most other 'advanced' economies ([slide 77](#))
- ❑ The latest report from the Commonwealth Grants Commission highlights just how much the long-standing principles for distributing GST revenues among the states and territories have been corrupted by the Federal Government in order to appease WA ([slide 88](#))
- ❑ Financial markets continue to price several interest rate hikes by the RBA in the second half of this year ([slide 95-96](#)) – which along with firmer commodity prices helped push the A\$ above US75¢ ([slide 97](#))

# 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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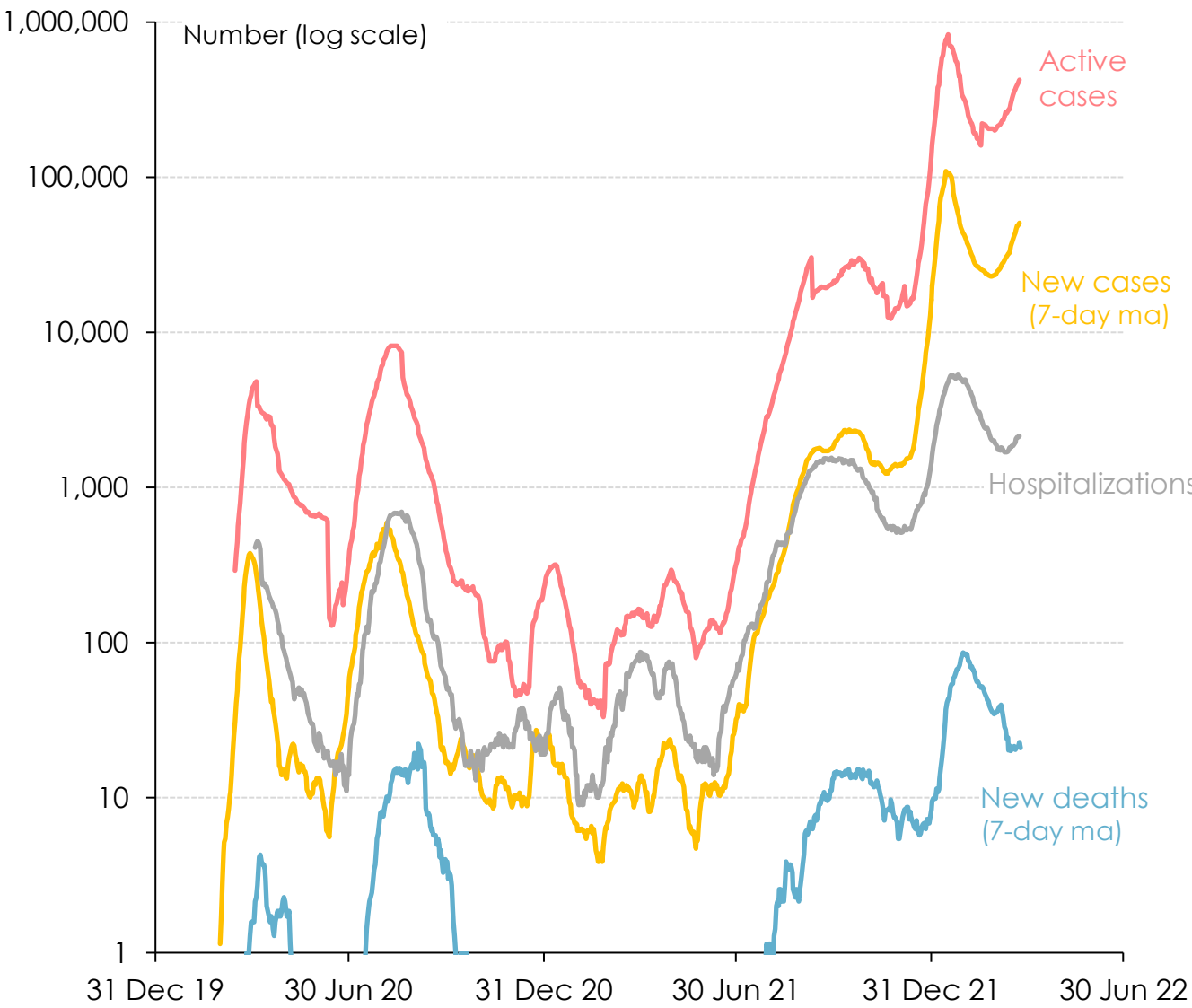
- ❑ The sharp rise in the prices of energy commodities and some food commodities (mostly wheat and other grains) in the wake of the Ukraine conflict will, if sustained, add to ‘headline’ inflation and detract from economic growth
- ❑ The negative impact on economic growth will likely be smaller for Australia 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) –
  - households will be unequivocally worse off: and next week’s Federal Budget will almost certainly include measures aimed at assisting households with ‘cost-of-living’ increases, including a \$250 cash payment and a temporary cut in fuel excise
- ❑ 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 (as explicitly recognized by the [Bank of England](#) when raising rates last week)
- ❑ 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**

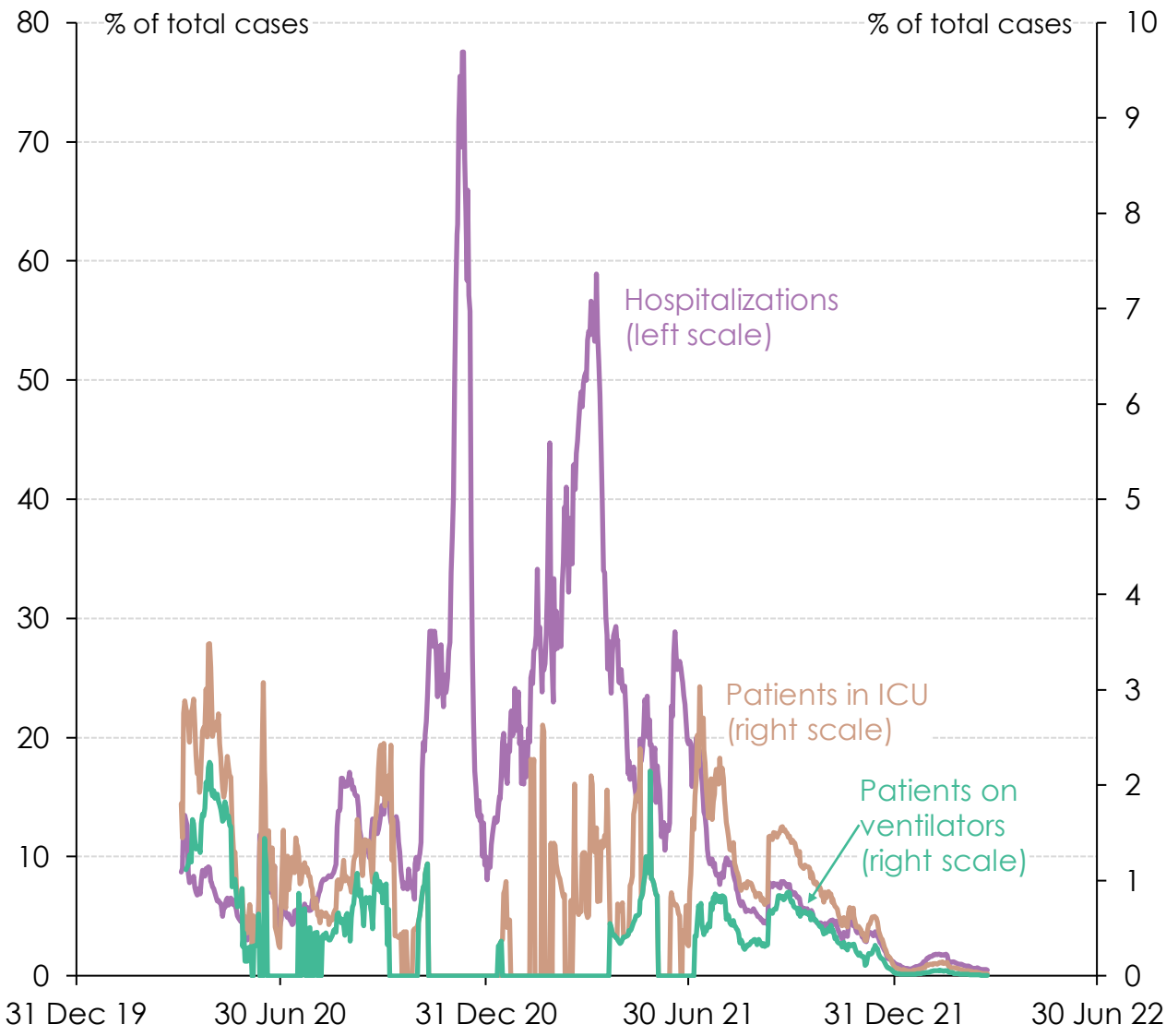
# The number of new & active Covid-19 cases continues to rise, reflecting the spread of the BA.2 subvariant, but hospitalizations and deaths remain low

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## Cases, hospitalizations and deaths



## Severity of cases

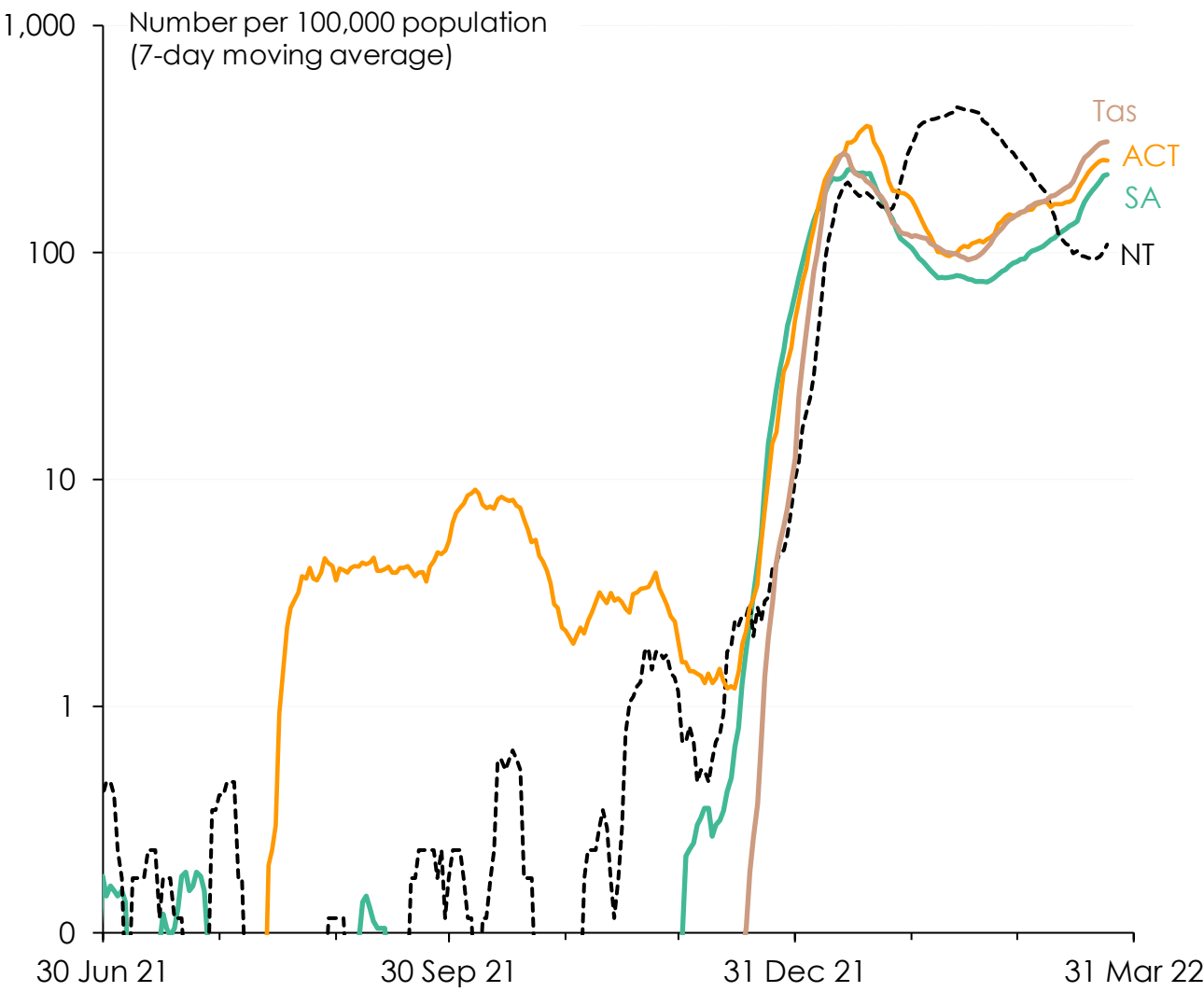
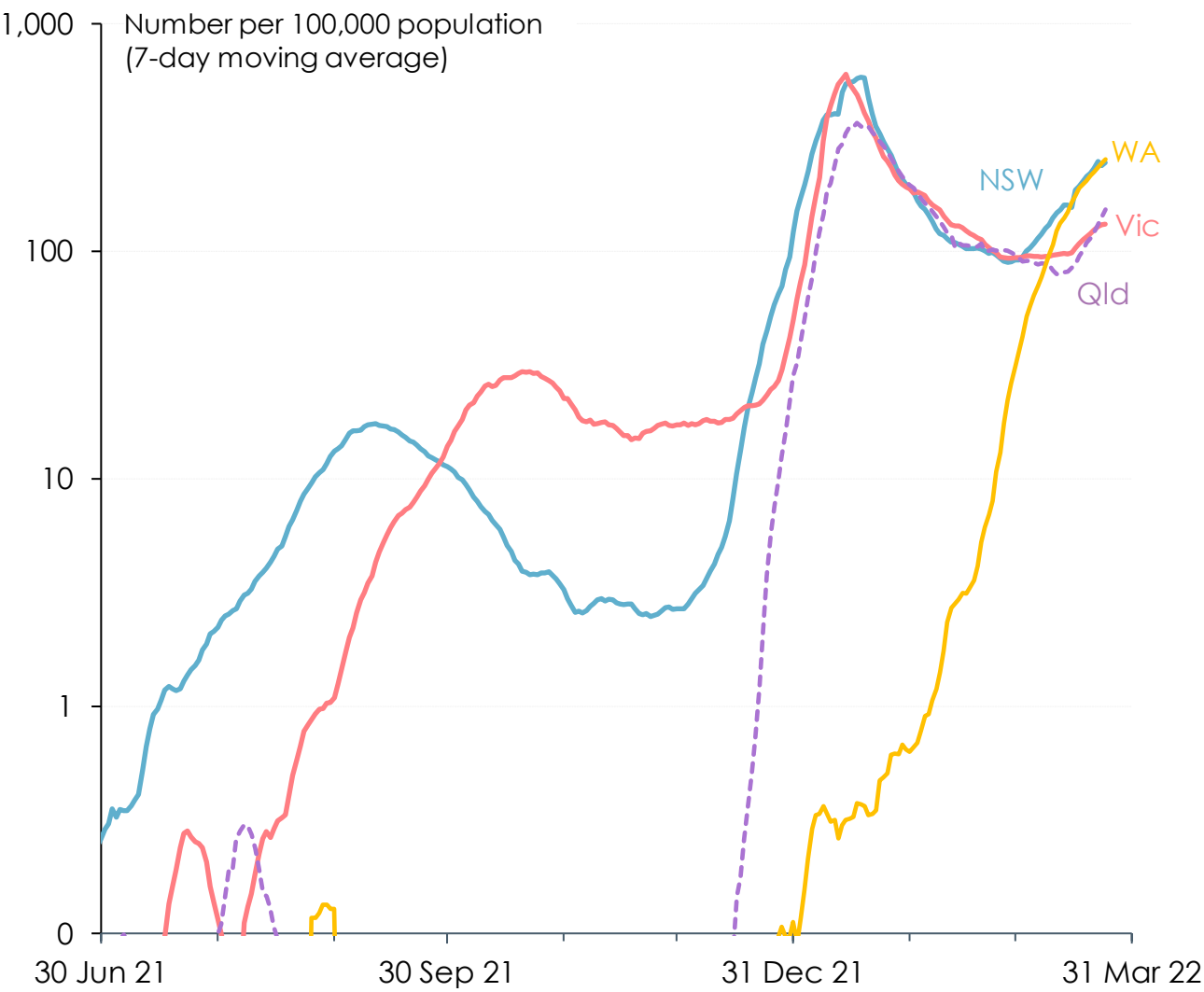


Note: Data up to 24<sup>th</sup> March. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# 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 30<sup>th</sup> June 2021

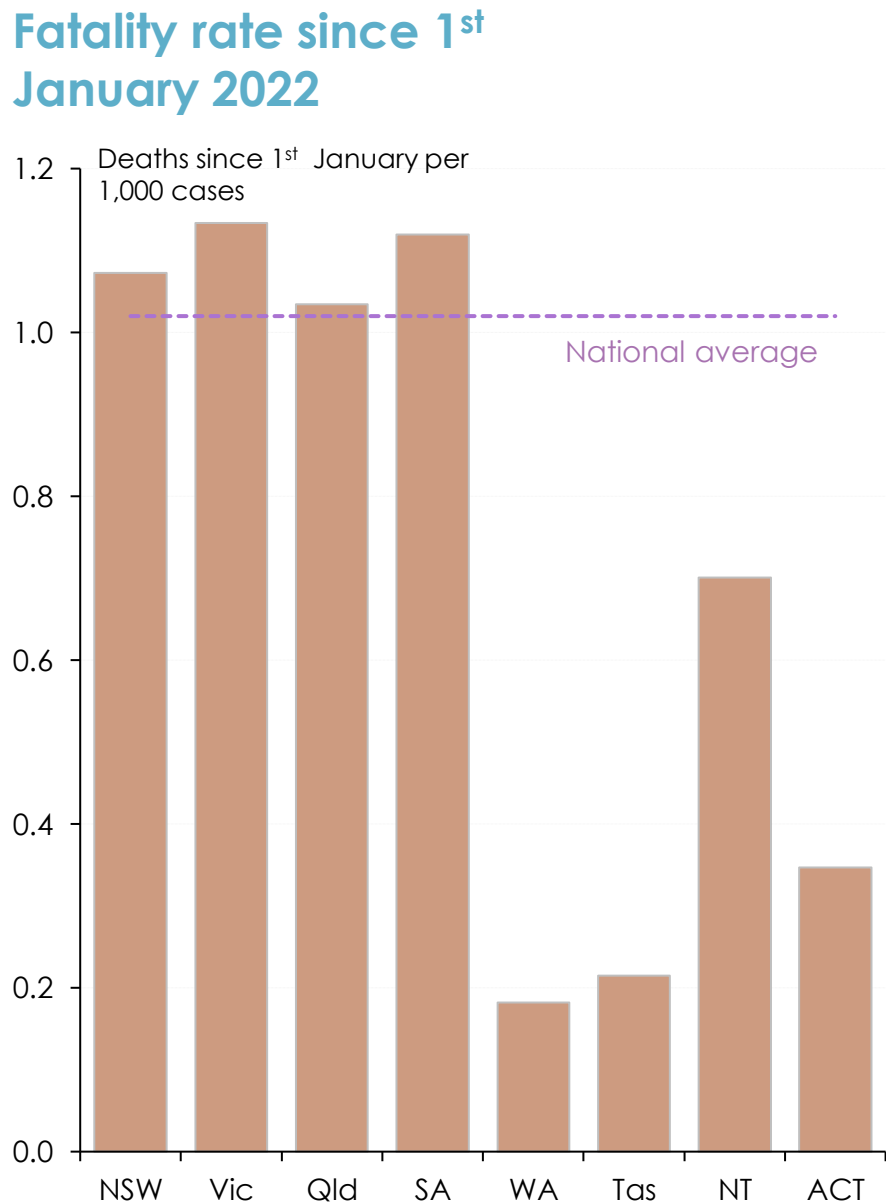
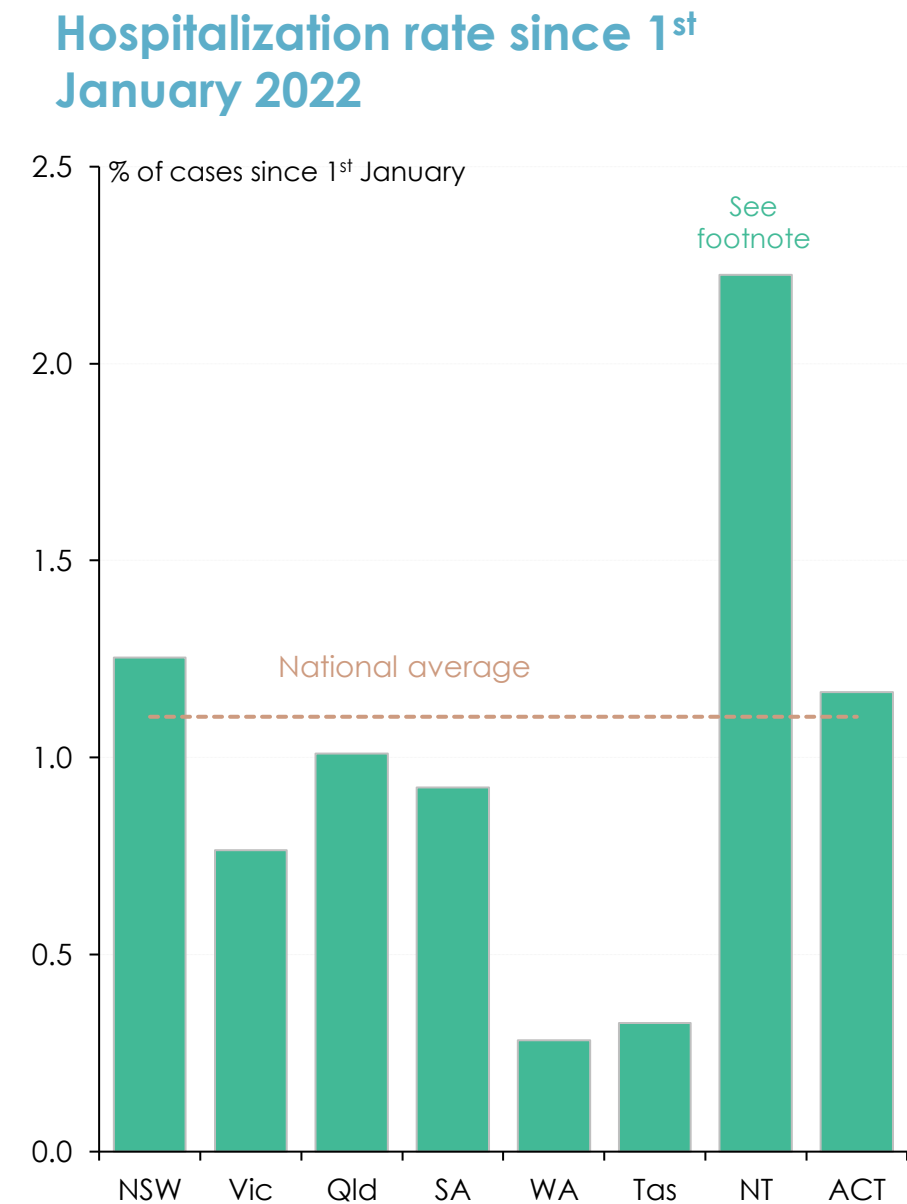
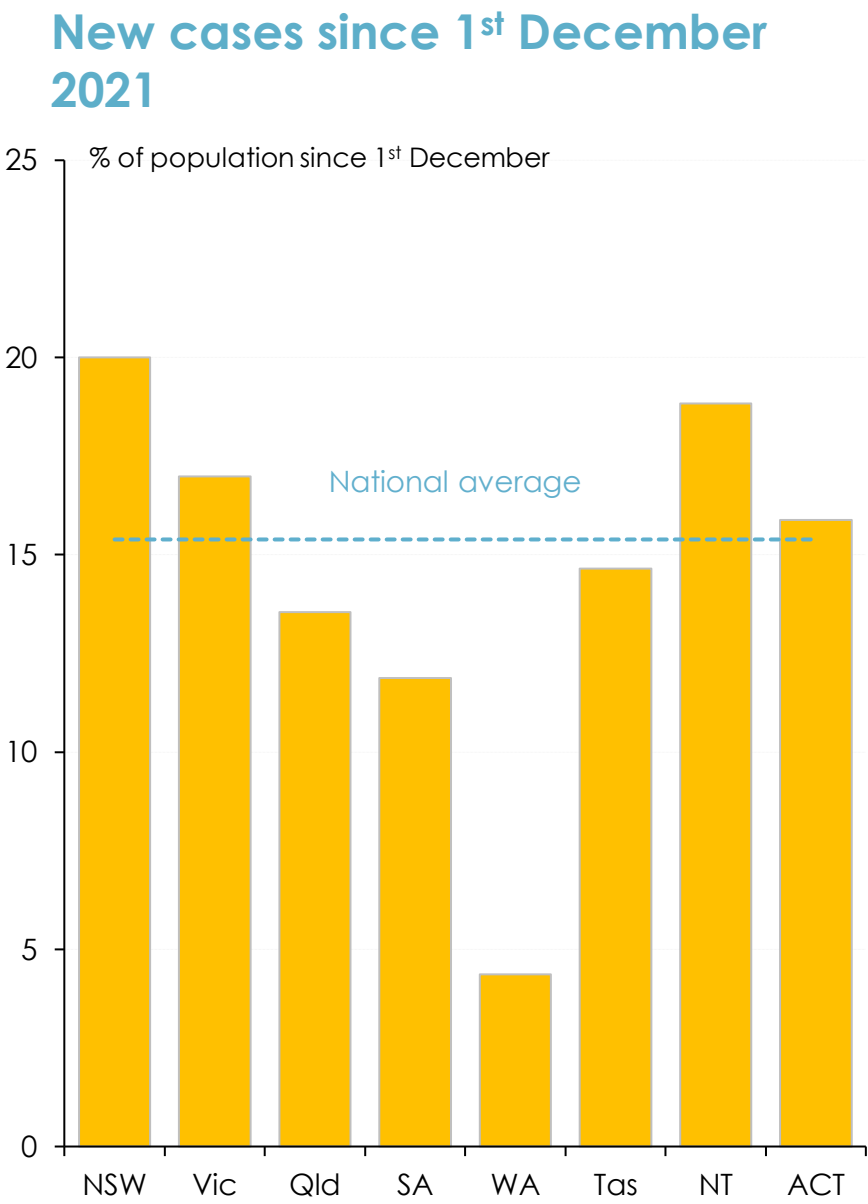


Note: Data are up 25<sup>th</sup> March for NSW, Victoria & Tasmania; 24<sup>th</sup> March for other states and the territories. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).



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

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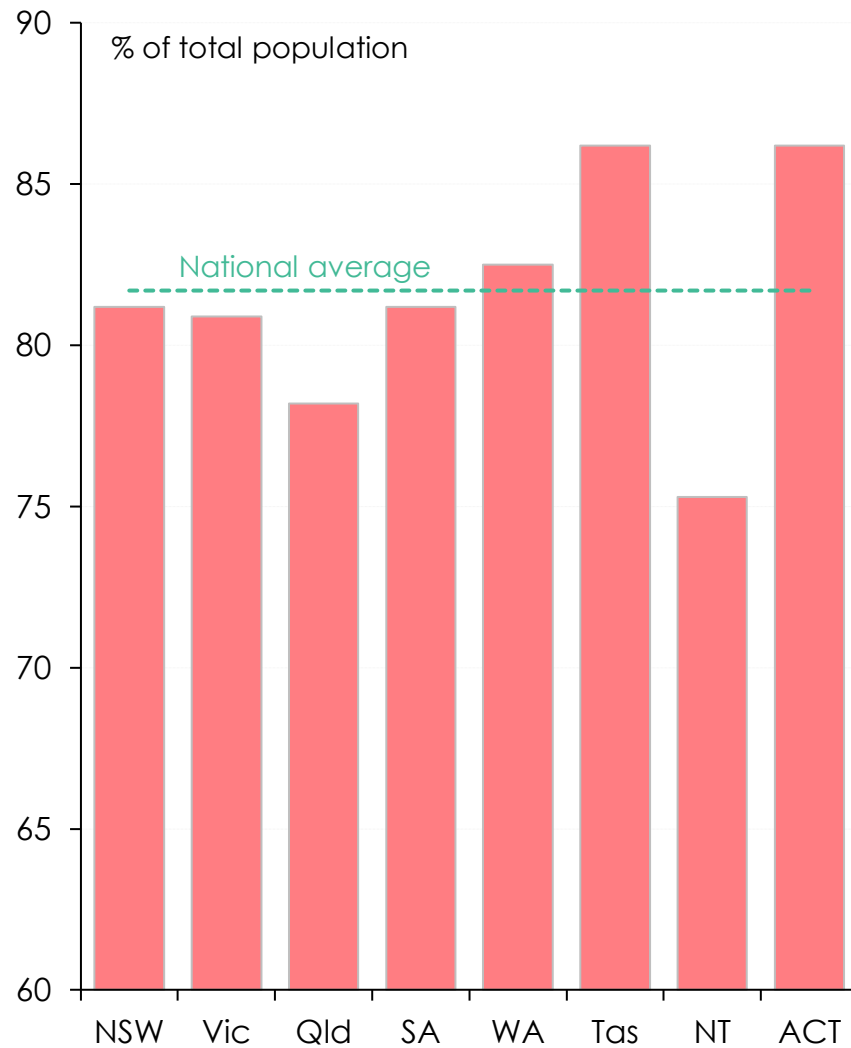


Note: Data are up to 24<sup>th</sup> March. 1<sup>st</sup> December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards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

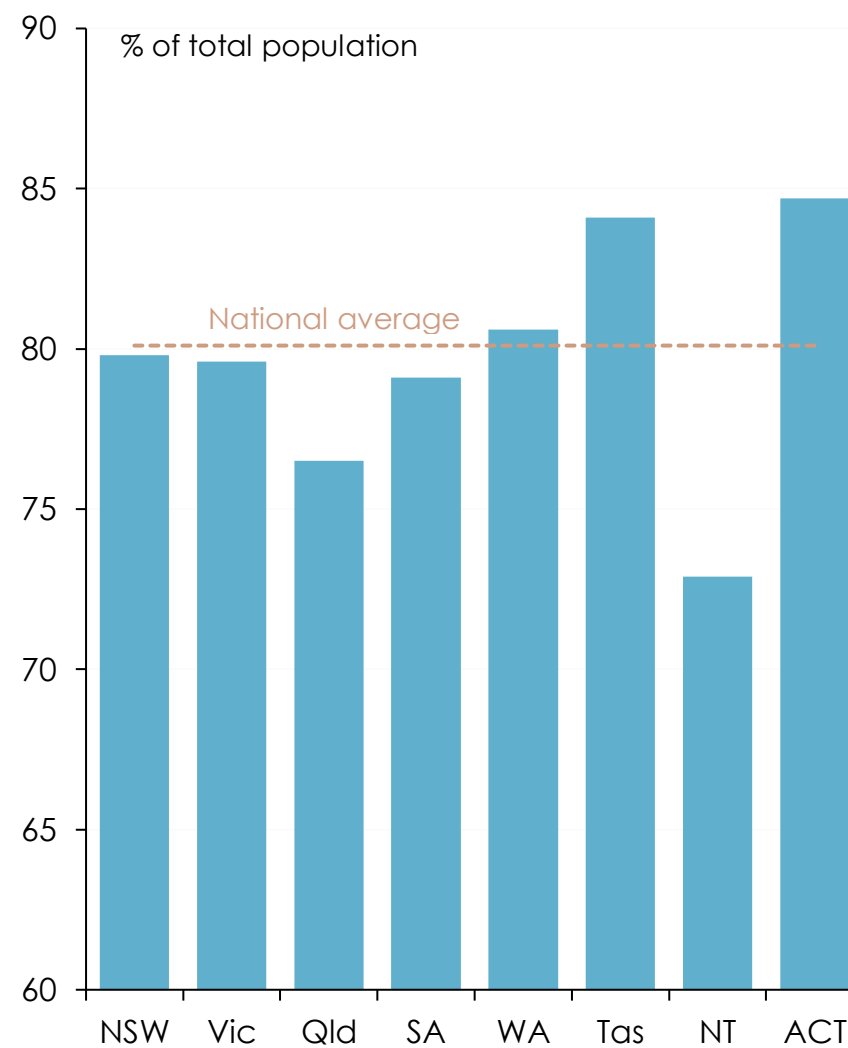
# The ACT, Tasmania and more recently WA have had the most successful vaccine rollouts while Queensland and the NT lag

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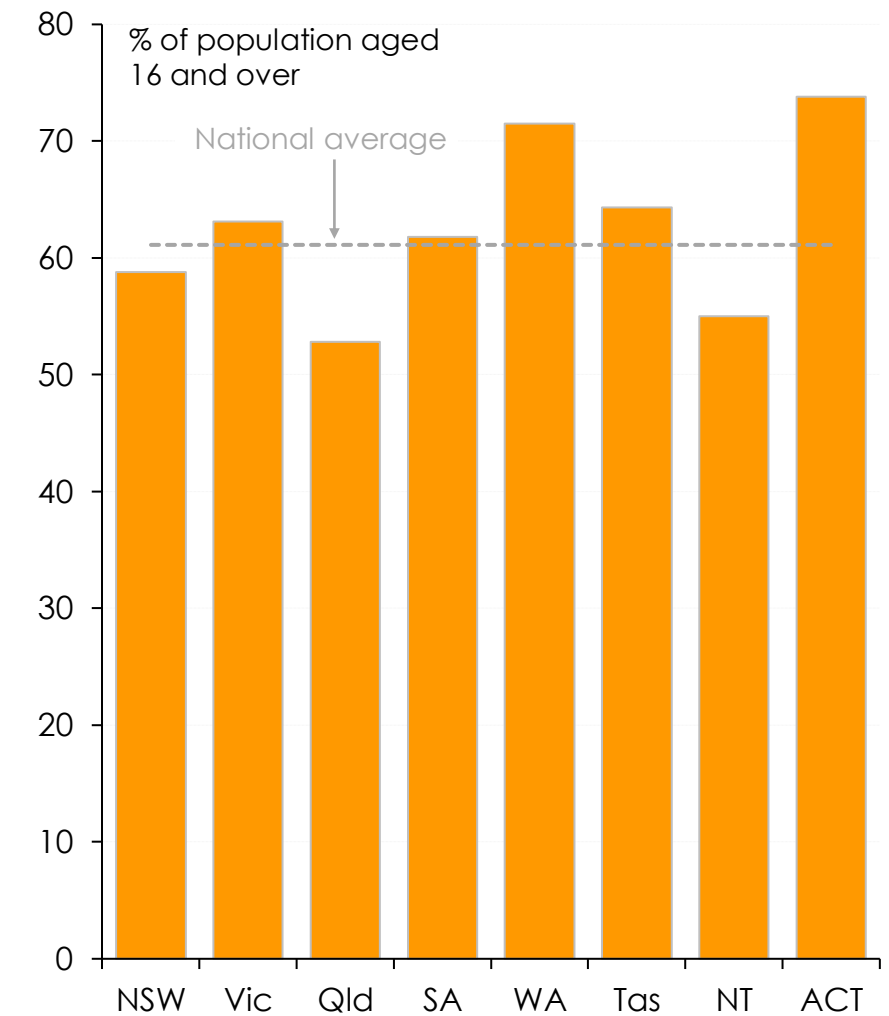
## Pc of population who have had at least one vaccination



## Pc of population who have had two vaccinations



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

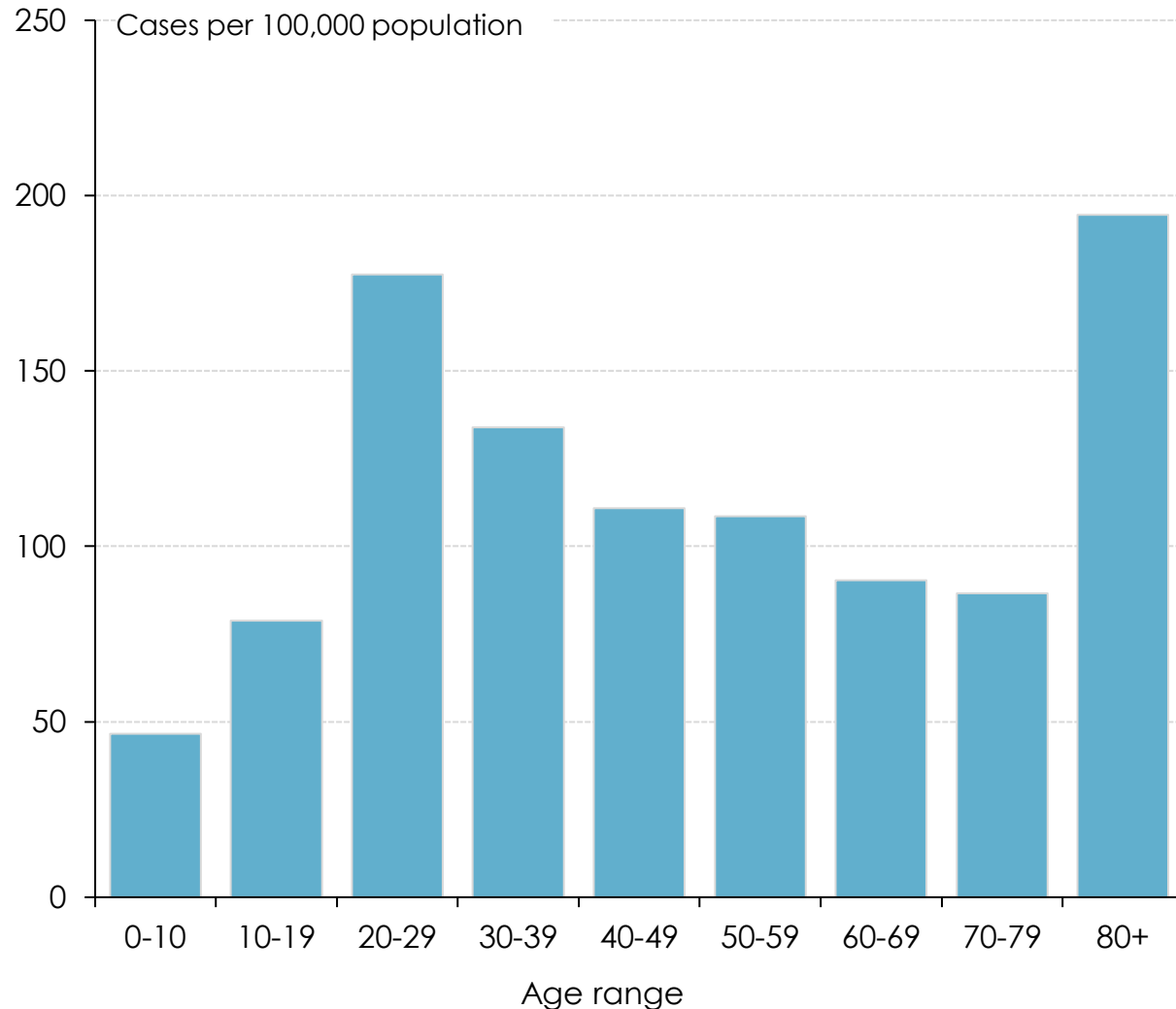


Note: Data are up to 24<sup>th</sup> March. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

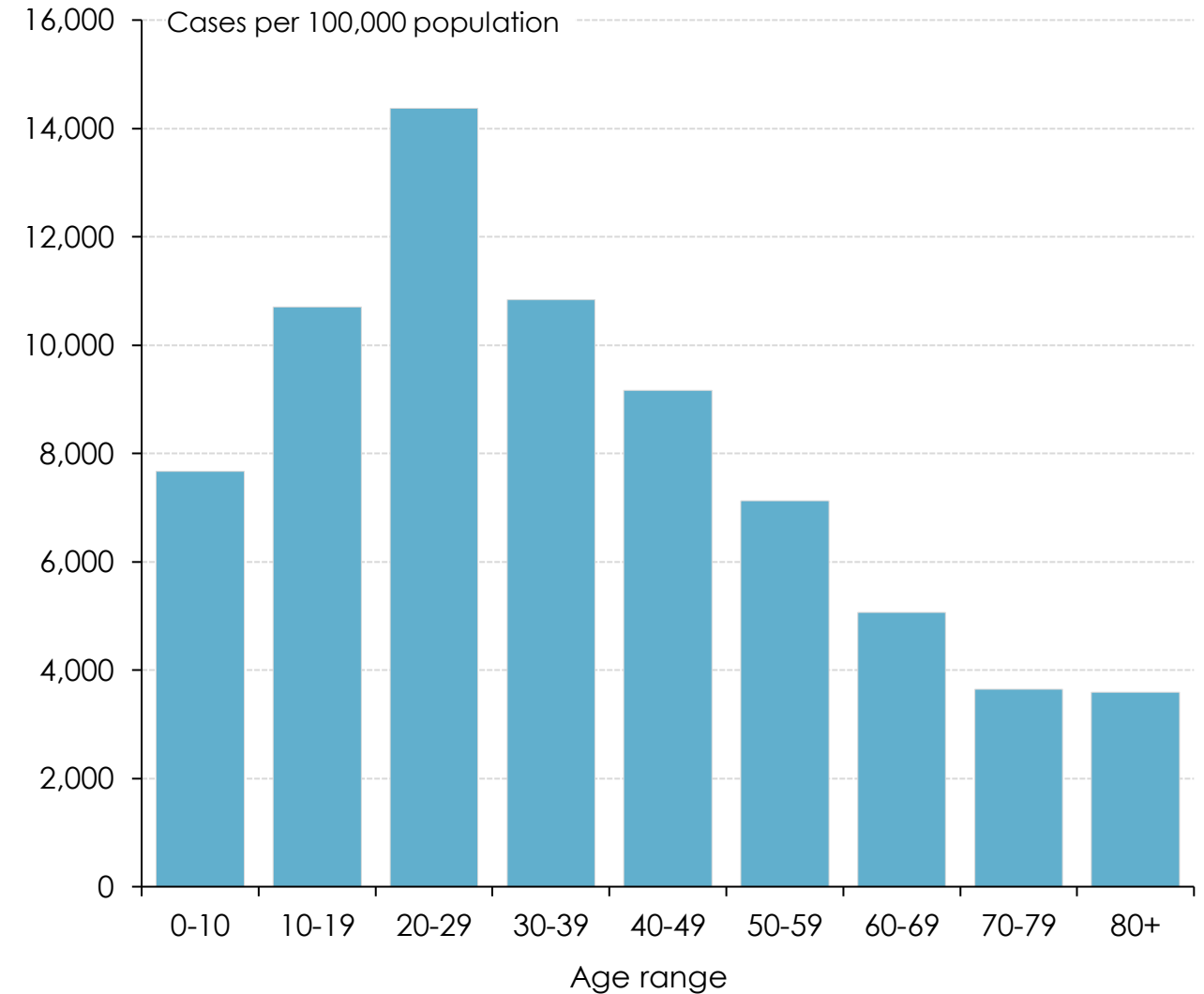
# People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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



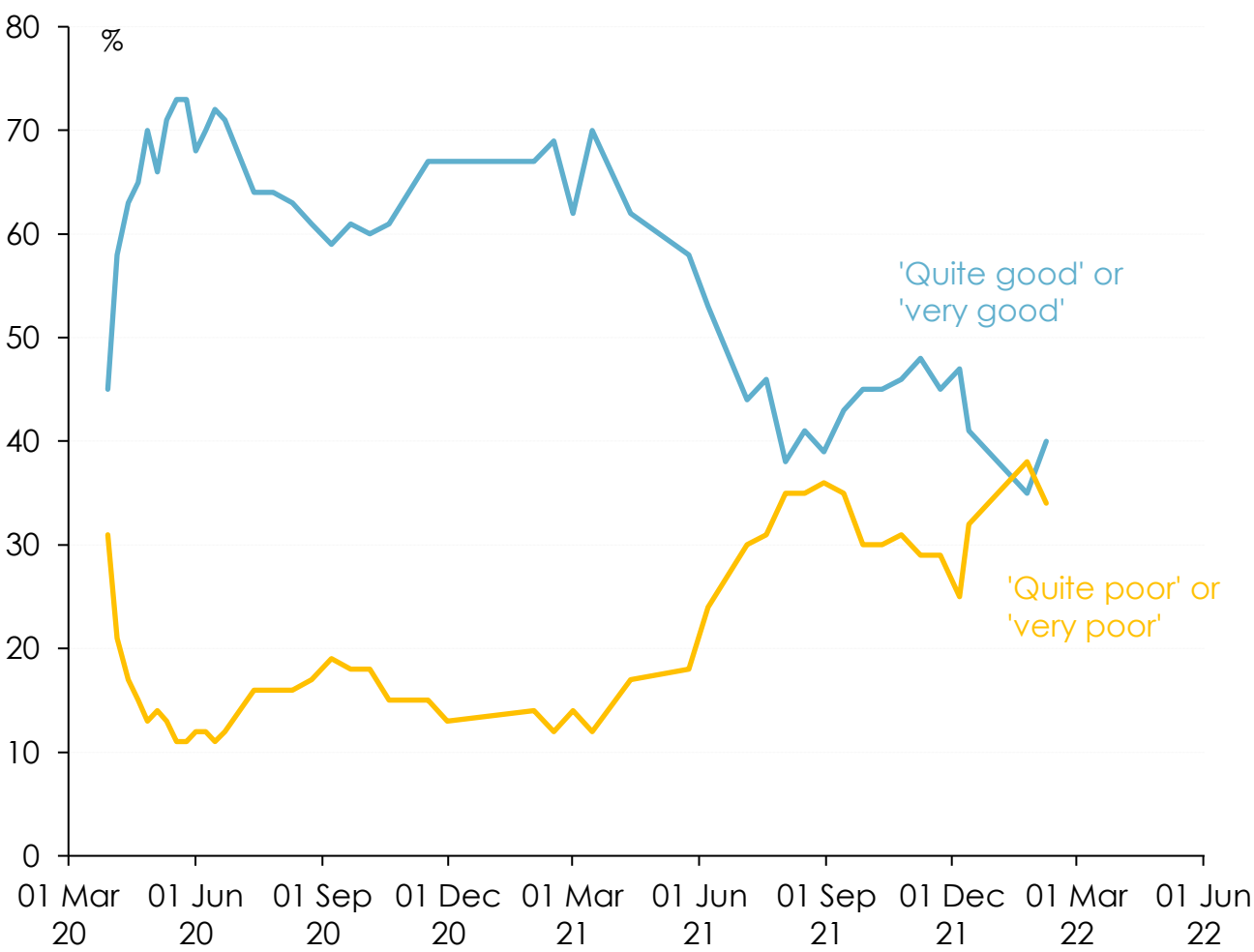
## Cumulative confirmed cases per 100,000 population, by age group – since 1<sup>st</sup> January 2021



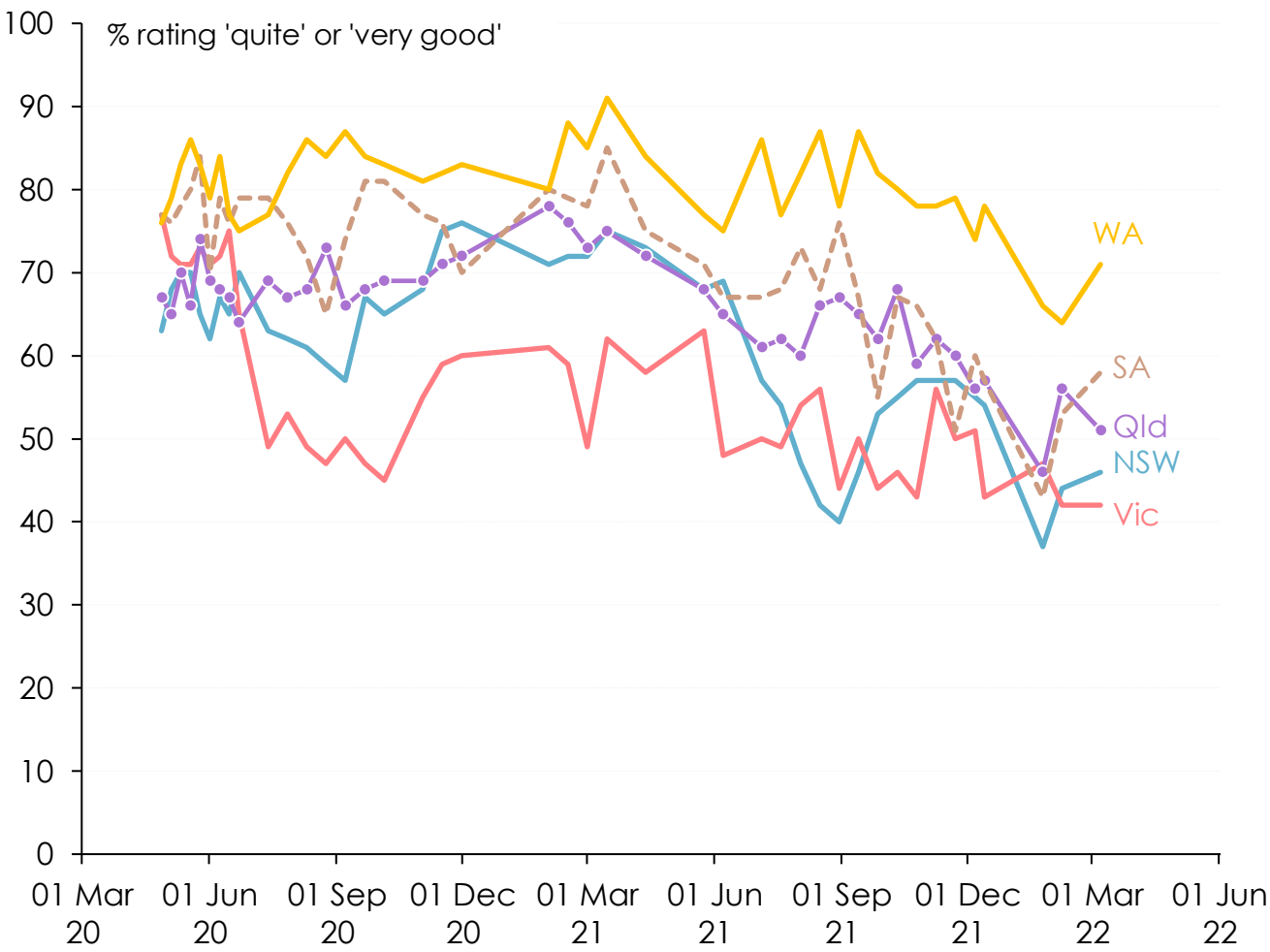
# Public approval of the Federal and state governments' handling of Covid remains lower than during the first 15 months of the pandemic

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### Approval of Federal Government response to Covid-19



### Approval of State Government responses to Covid-19

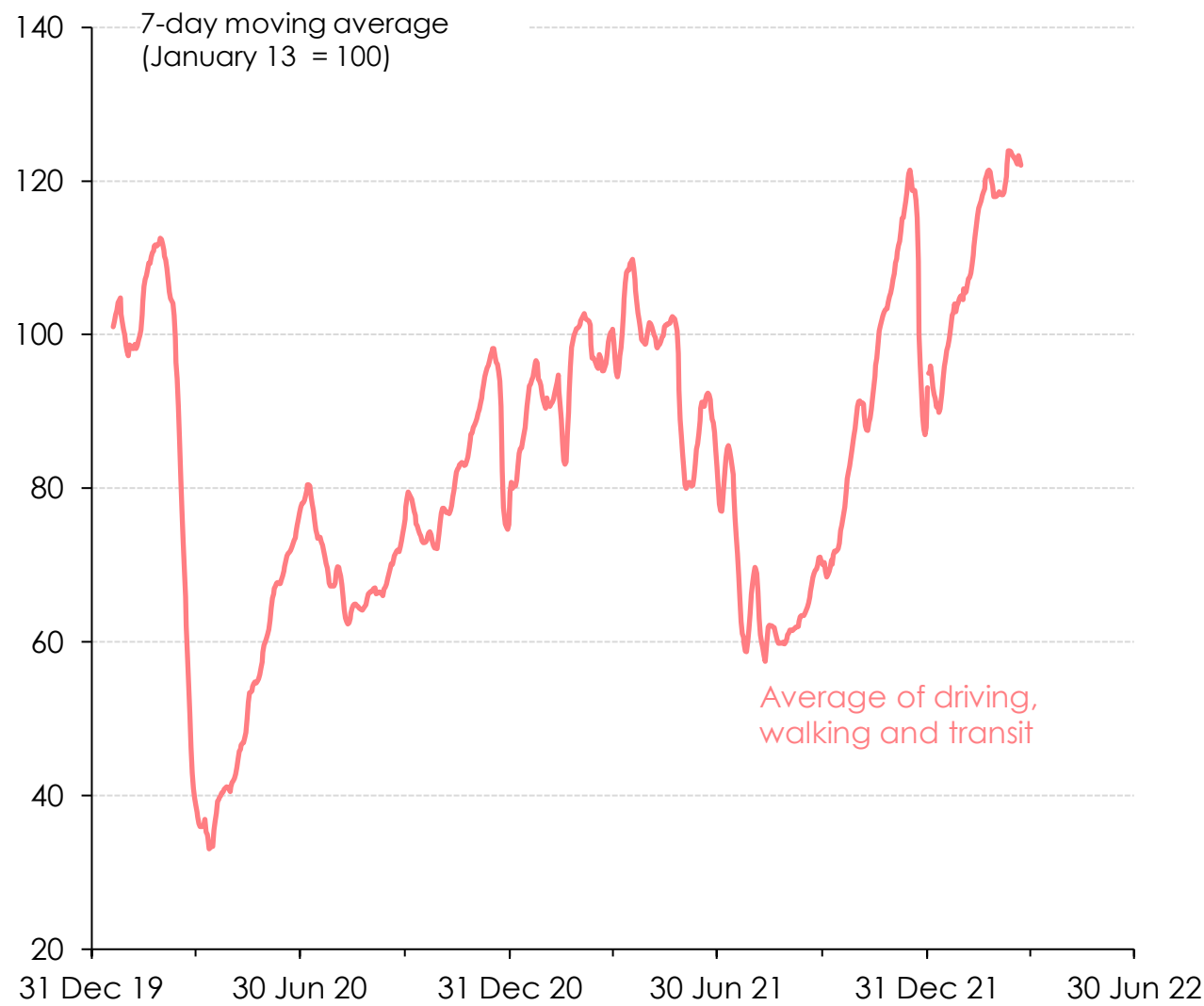


Note: Despite claiming to “track the mood of the nation”, Essential does not conduct polls in Tasmania, nor in either of the two territories.  
Sources: Essential Research, [The Essential Report](#), 8<sup>th</sup> March 2022.

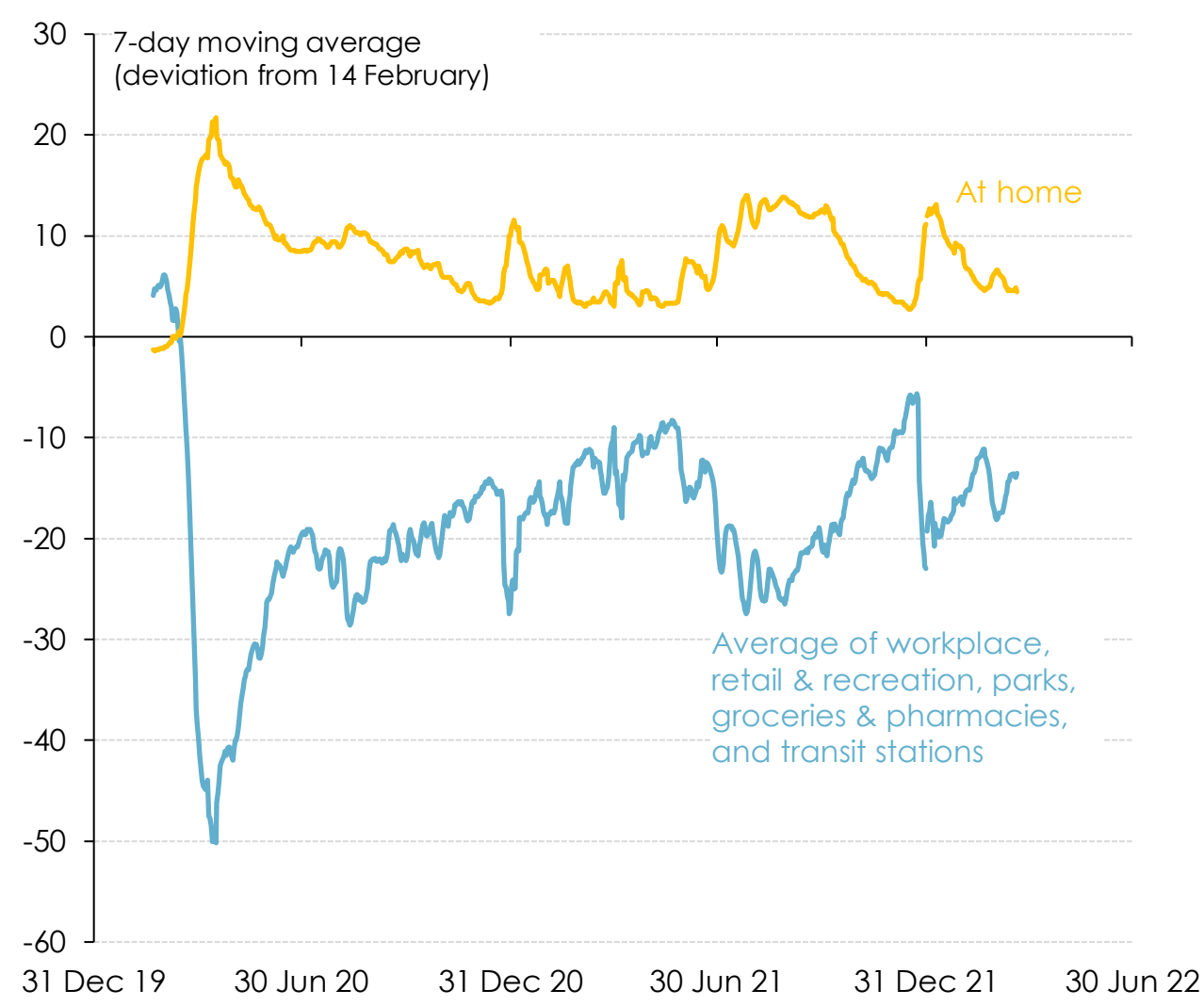
# The (partly seasonal) recovery in mobility since mid-January appears to have lost some momentum in the past four weeks

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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 23<sup>rd</sup> 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 21<sup>st</sup> March). Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

# The upcoming Federal election

# A federal election has to be held no later than 21<sup>st</sup> May – and that probably is the most likely date

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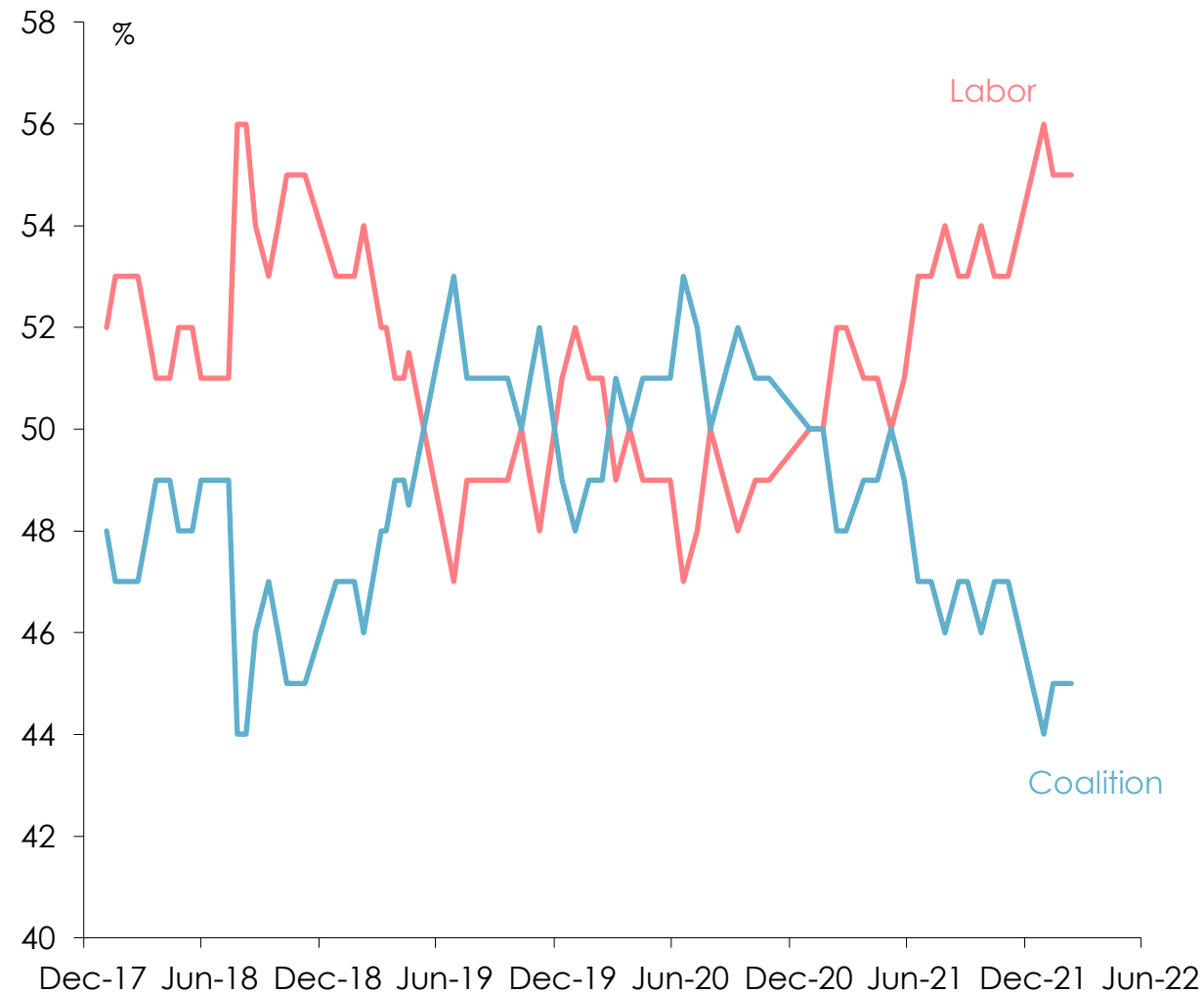
- ❑ **The latest date at which an election for the House of Representatives and half the Senate can be held is 21<sup>st</sup> May**
  - which means, having regard to the minimum of 33 days required under the *Electoral Act* between the ‘issuing of writs’ for (ie, calling) an election and polling day, the latest an election can be called is 18<sup>th</sup> April
  - subject to those requirements, the timing of the election is entirely up to the discretion of the Prime Minister
- ❑ **The incumbent Liberal-National Party Coalition Government led (since August 2018) by Prime Minister Scott Morrison holds 77 seats in the current 151-member House of Representatives, the Labor Party Opposition led by Anthony Albanese holds 68 seats, and six seats are held by minor parties or independents**
  - after a redistribution of electoral boundaries since the last election, the Government is notionally defending 76 seats and the Opposition holds 69
  - so the Government can’t afford to lose any seats if it is to retain its majority (although it seems probable that at least one, and possibly two, of the current independents, would, if re-elected, support a minority Coalition Government)
  - conversely the Opposition needs to win at least six seats (net of any losses) if it is to form a majority government
  - there are at least 21 independents running in apparently ‘safe’ Liberal seats, on platforms focussed on more ambitious climate change policies, seeking to emulate the success of two of the independents in the current Parliament: one potential source of uncertainty is which party these independents would, if elected, support in the event that neither major party wins a majority in its own right
- ❑ **Opinion polls currently suggest that Labor will win the election, whenever it is held (see [next slide](#))**
  - but they also said that Labor would win the last election in 2019, and they were wrong (although they were right about last weekend’s State election in South Australia)
- ❑ **Of the 40 Senate vacancies to be filled at the upcoming election, 20 are currently held by the Coalition, 14 by Labor, 3 by the Greens and 3 by other minor parties**
  - neither major party is likely to control the Senate in the next Parliament

# Opinion polls suggest that there will be a change of government at the upcoming election – but they said that in 2019, and were wrong

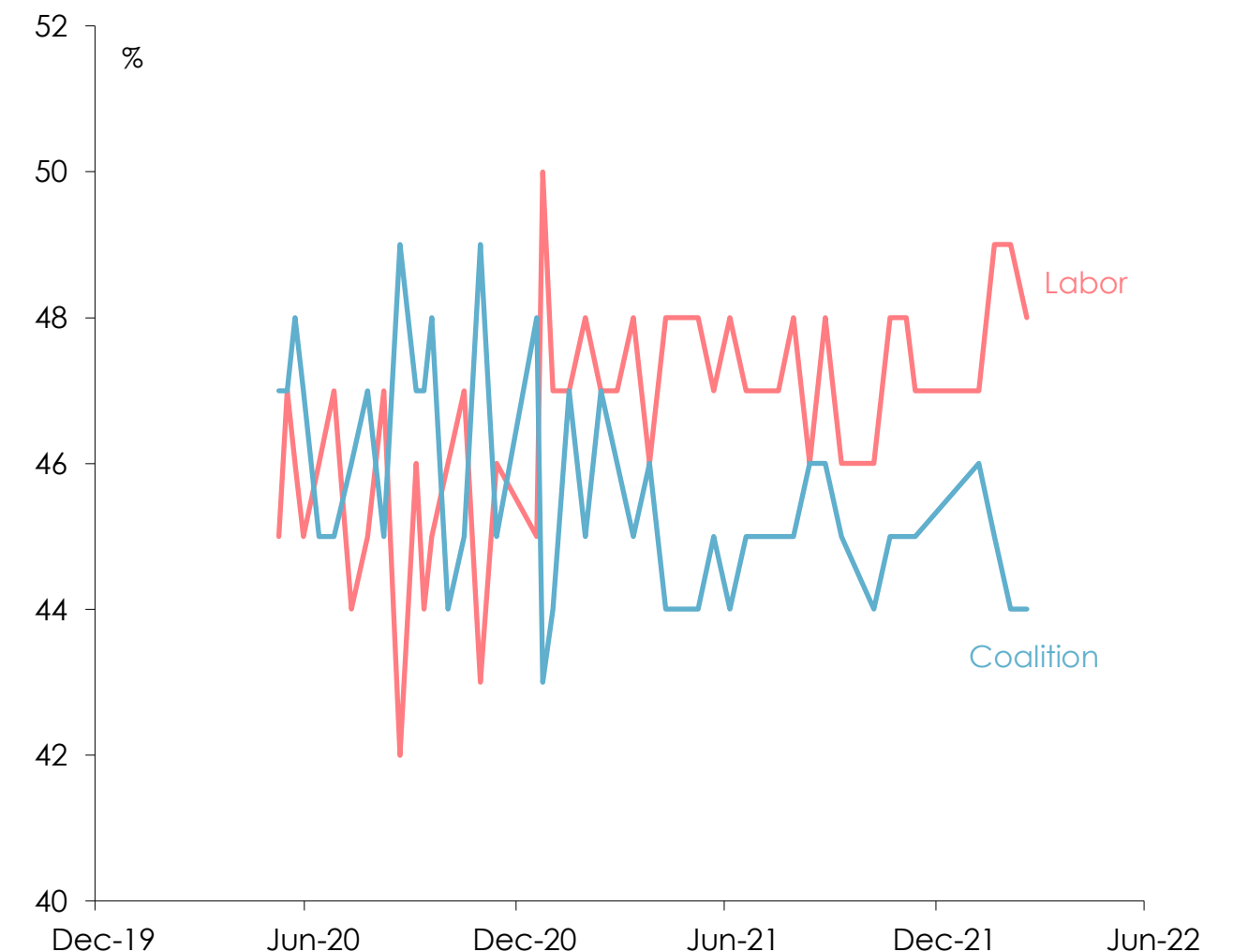
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## Two-party-preferred vote according to opinion polls

### Newspoll-YouGov



### Essential



Sources: YouGov via [The Australian](#); Essential Media via [The Guardian](#).

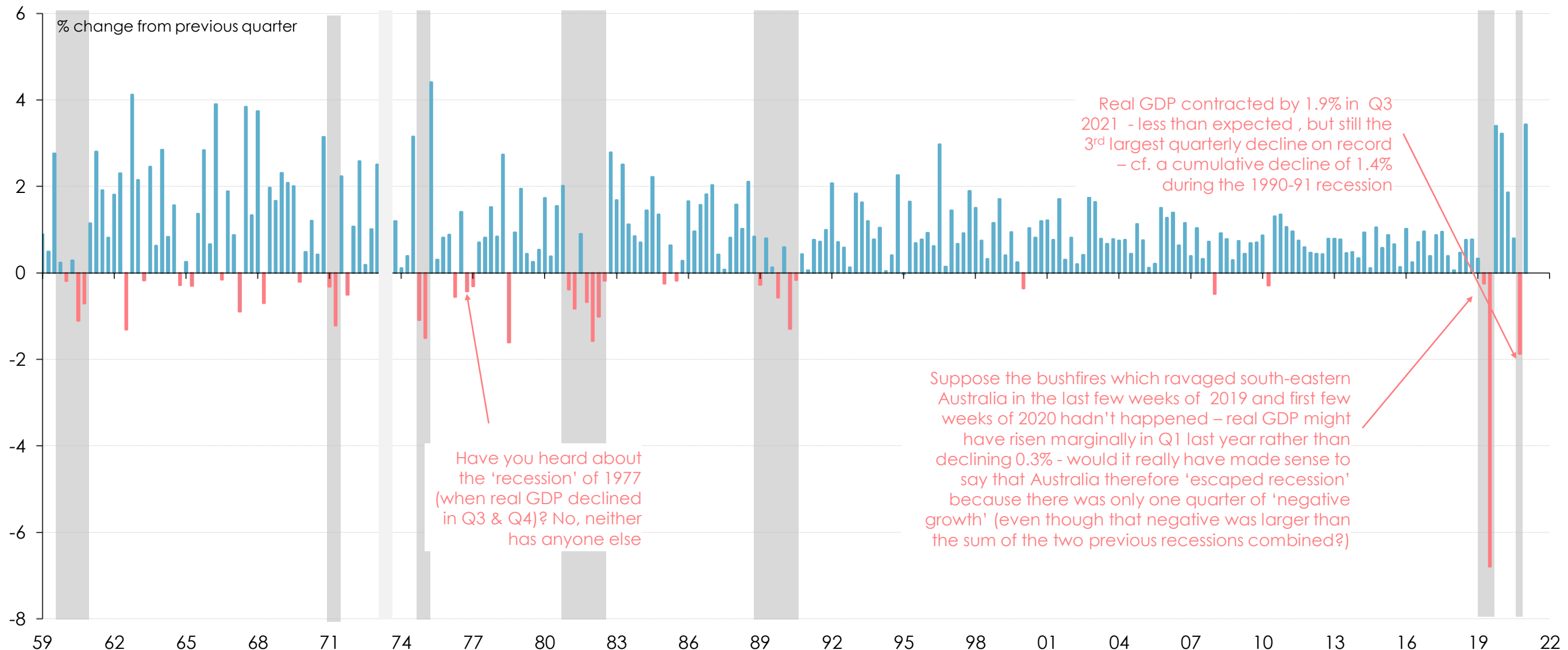


# Broad trends in the Australian economy

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

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

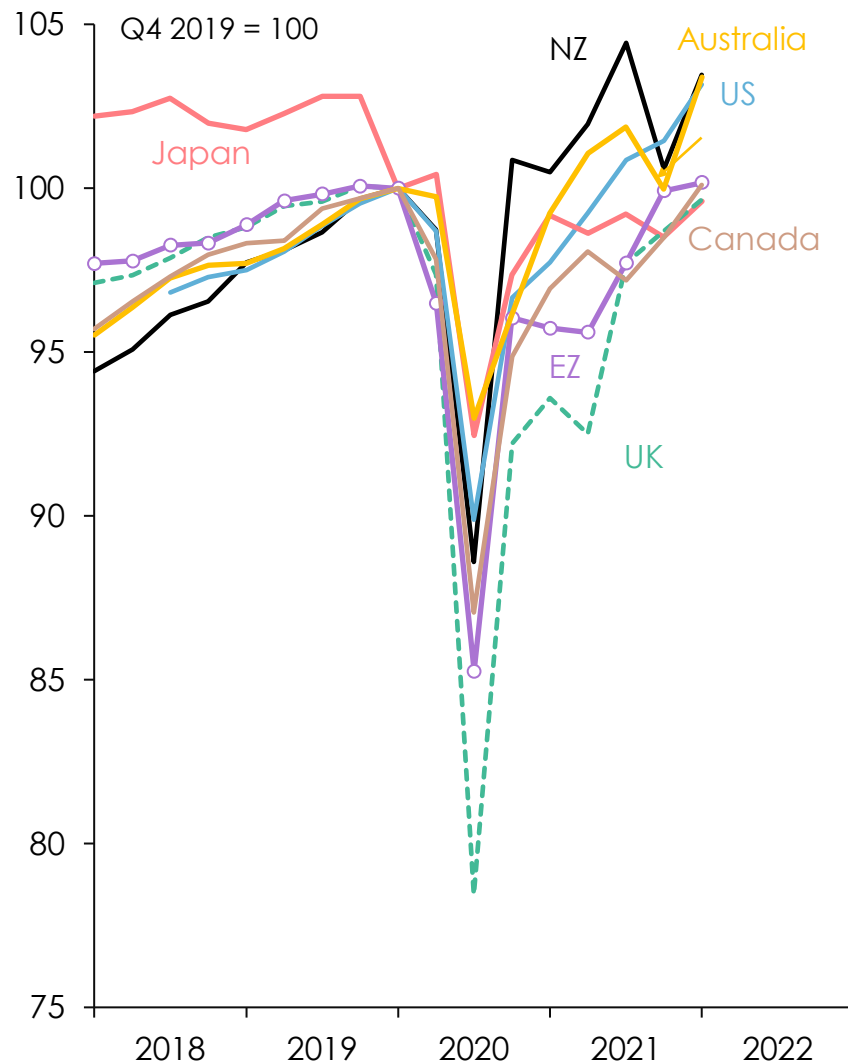


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. March quarter GDP will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

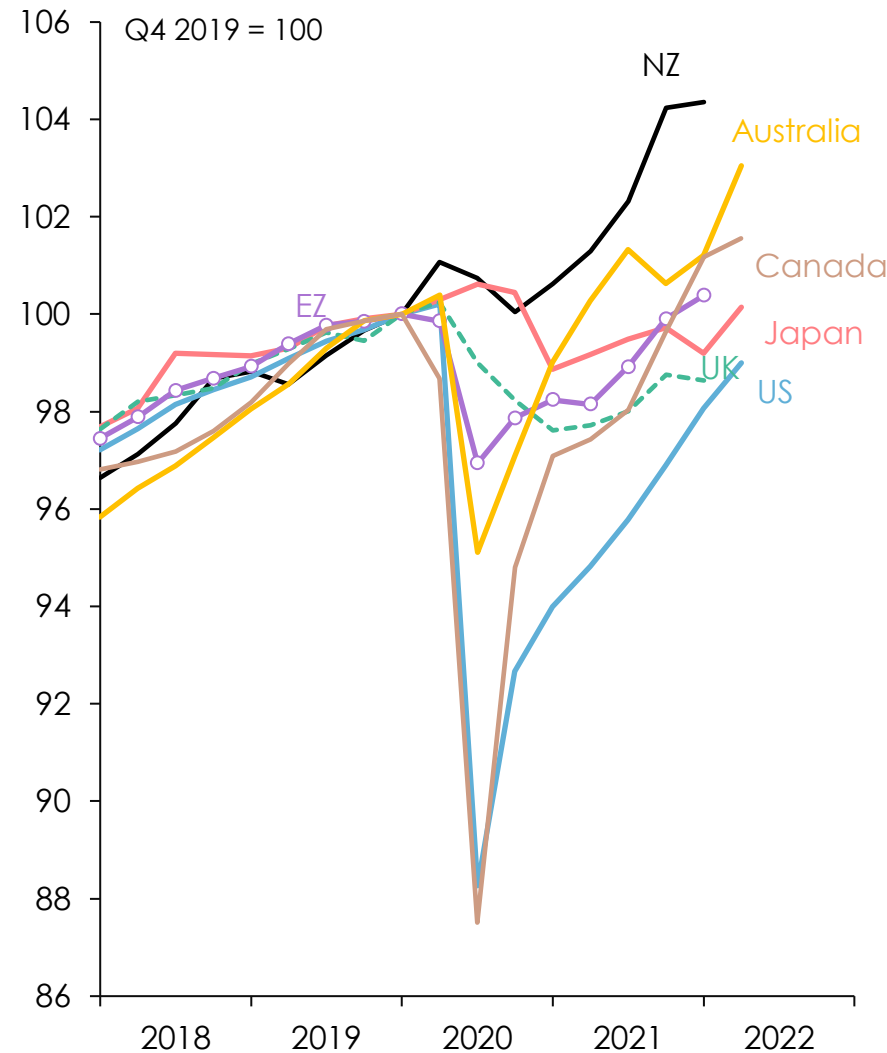
# Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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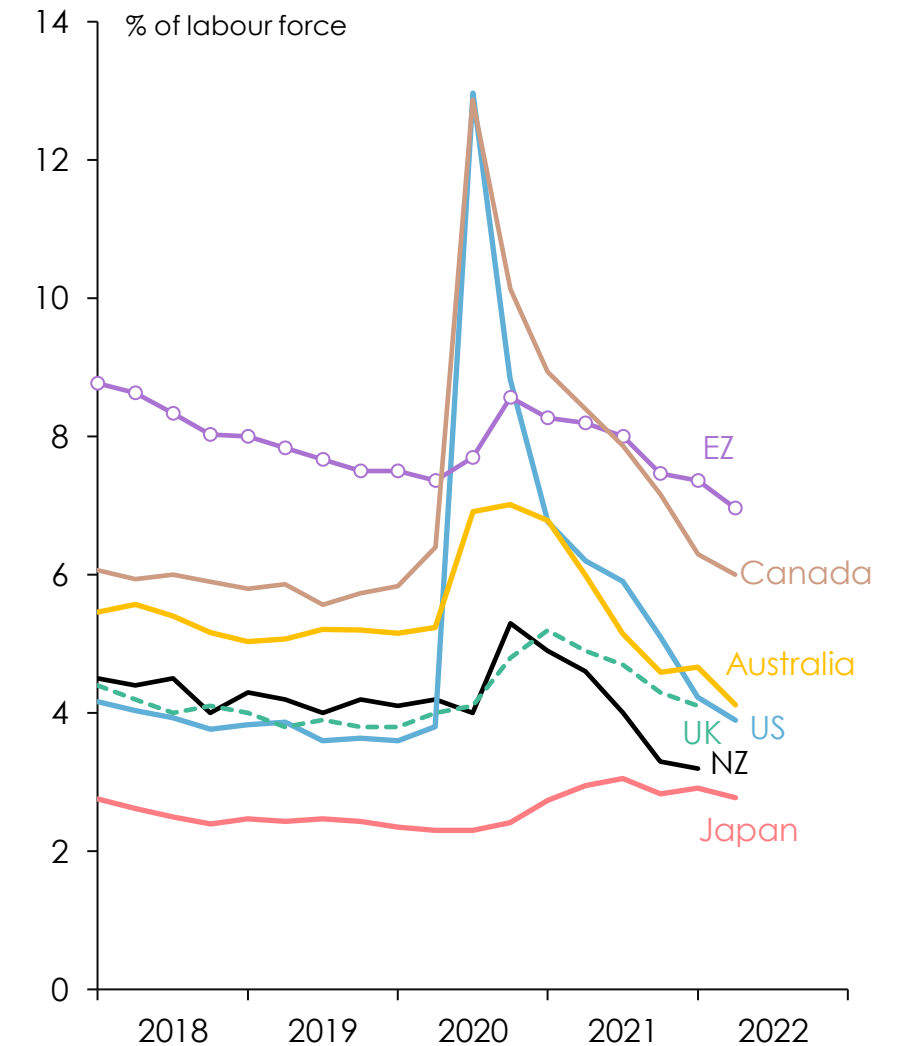
## Level of real GDP



## Employment



## Unemployment

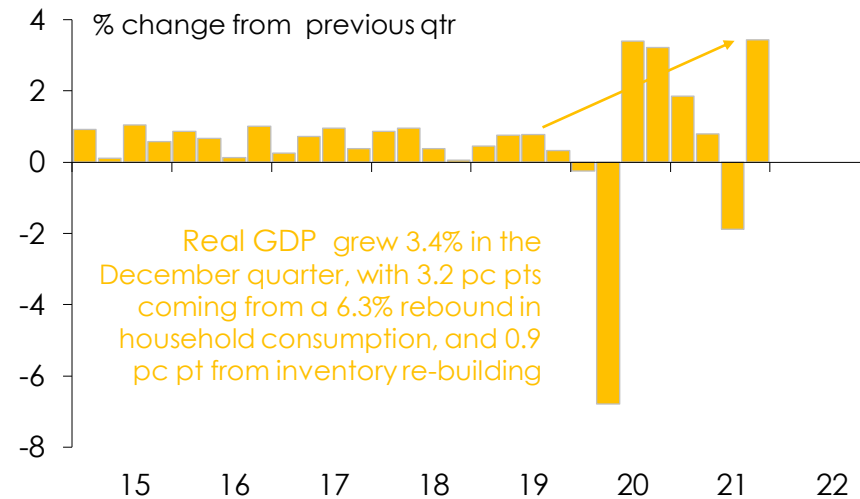


Sources: [ABS](#) ; [Statistics NZ](#) ; [US Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

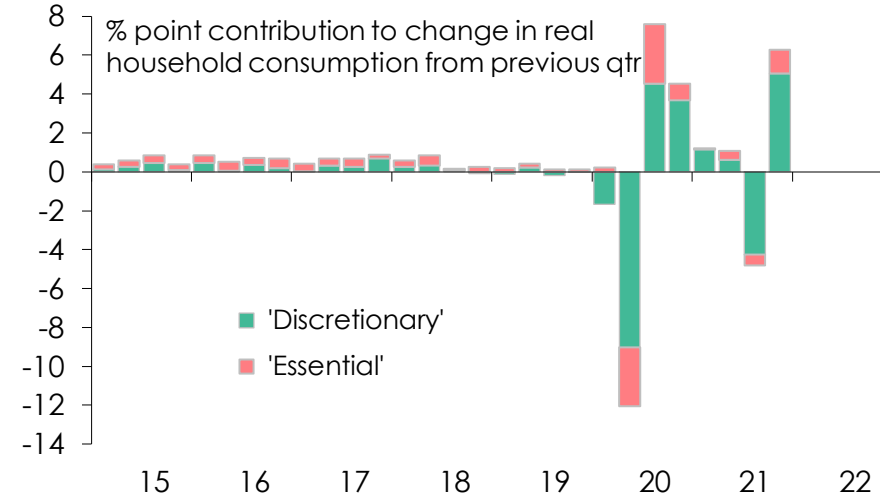
# Real GDP grew 3.4% in the December quarter, fuelled by a surge in post-lockdown discretionary consumption spending and inventory re-building

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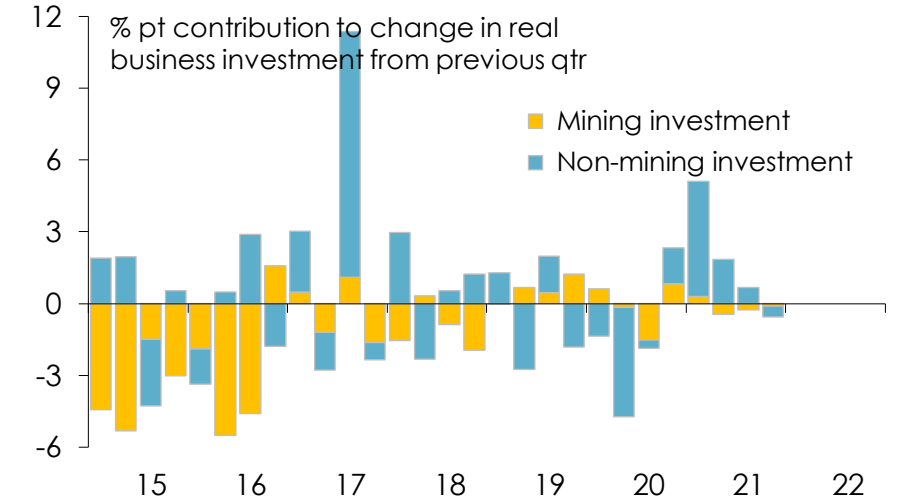
## Quarterly change in real GDP



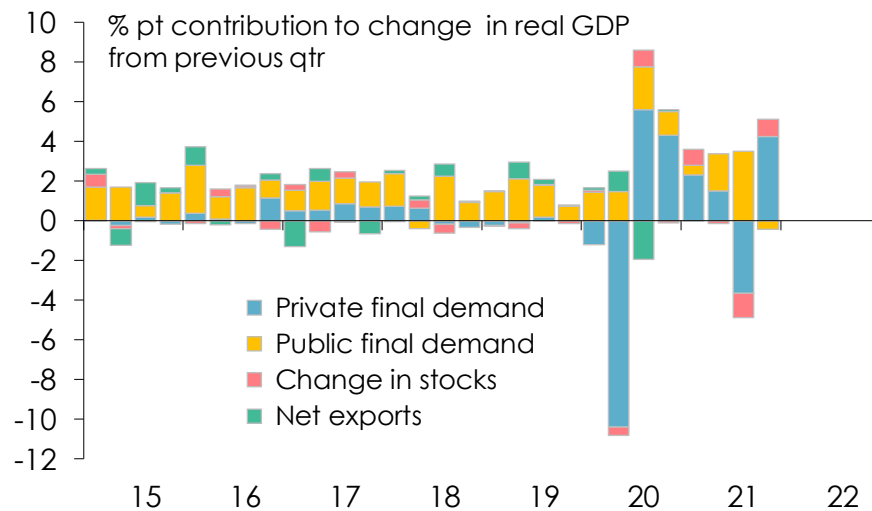
## Household consumption expenditure



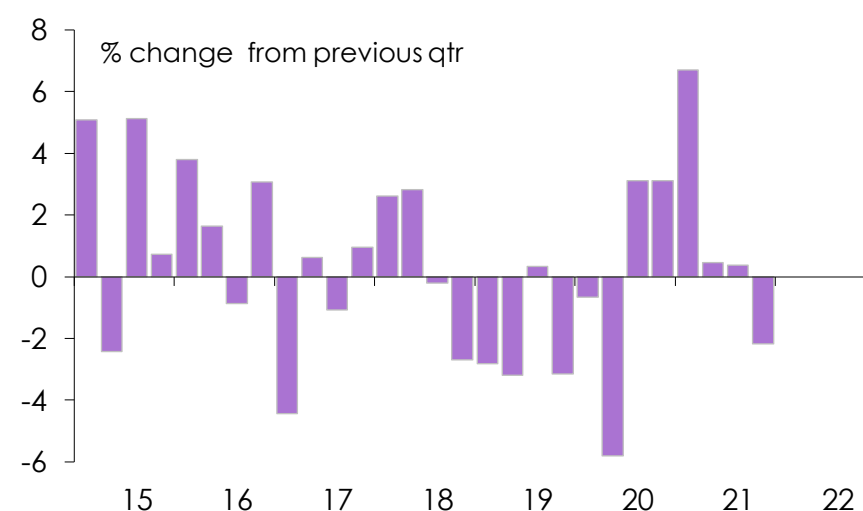
## Business investment expenditure



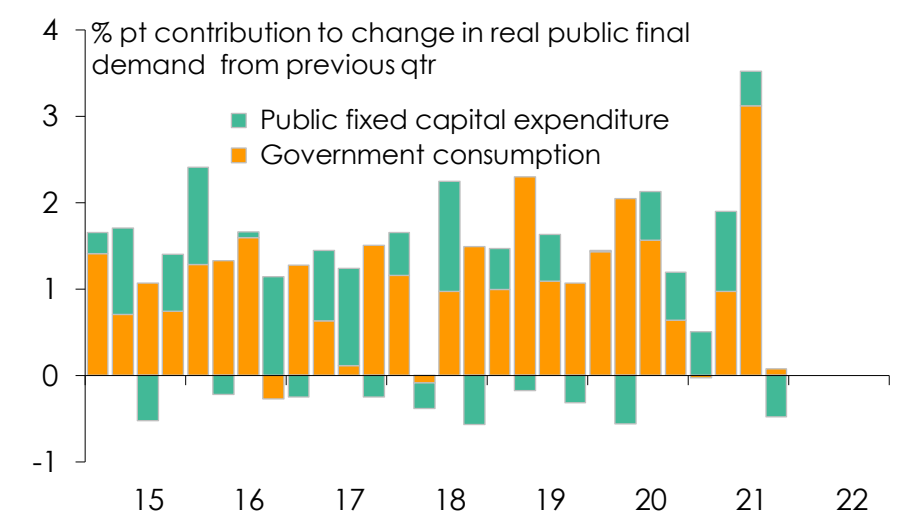
## Contributions to quarterly GDP growth



## Dwelling investment expenditure



## Public expenditure

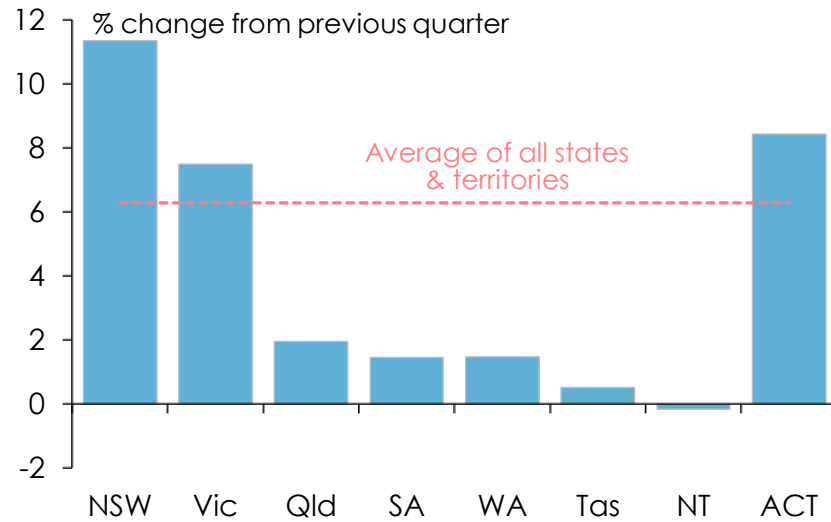


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021. March quarter national accounts will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

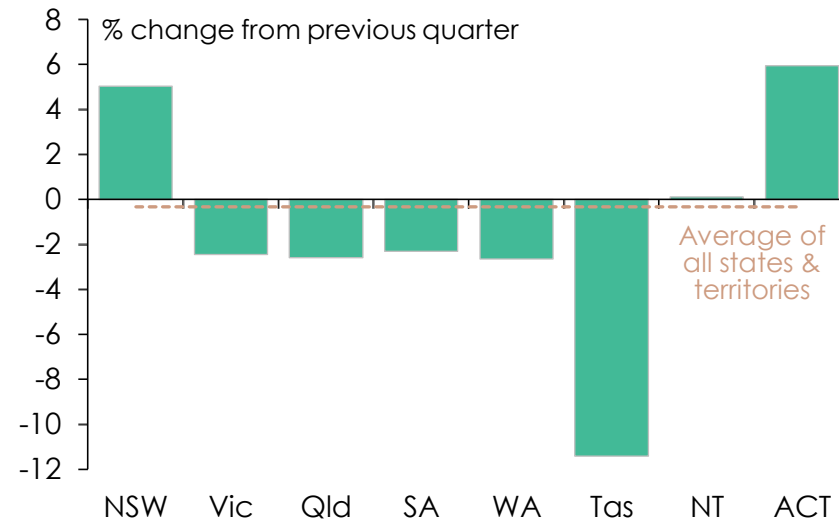
# The December quarter rebound was largely driven by post-lockdown surges in consumer spending in New South Wales, Victoria and the ACT

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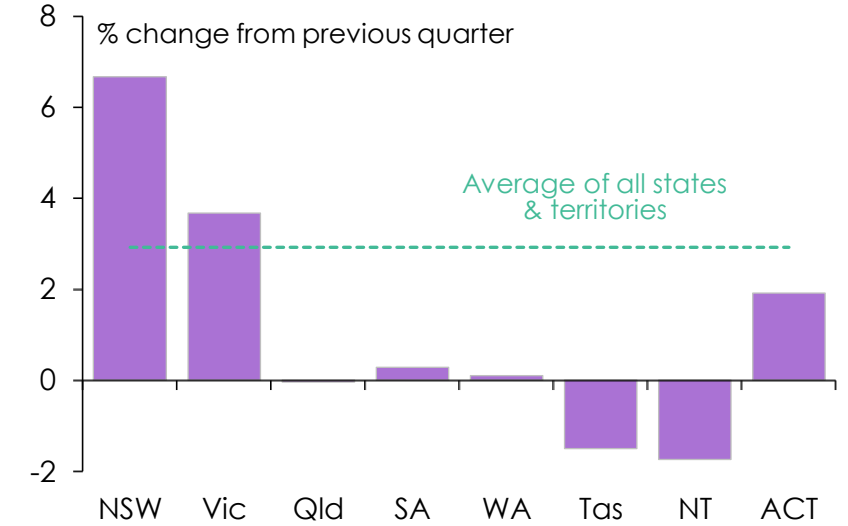
## Household consumption



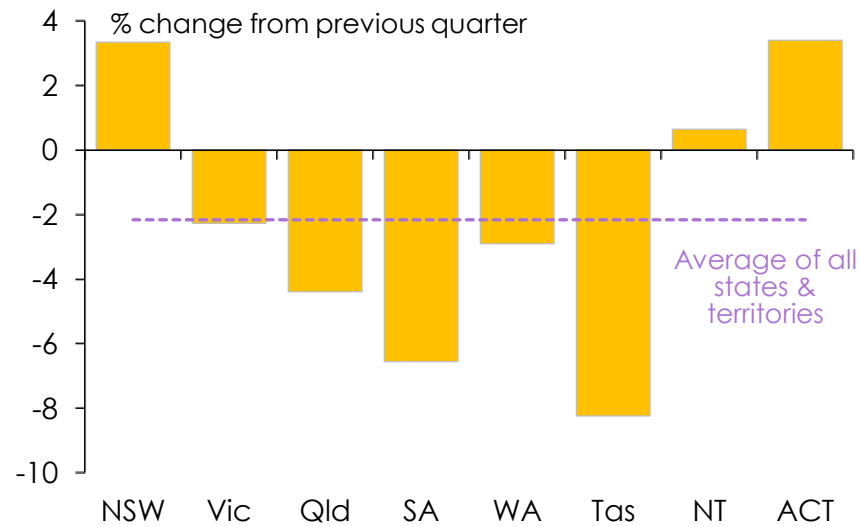
## Business investment



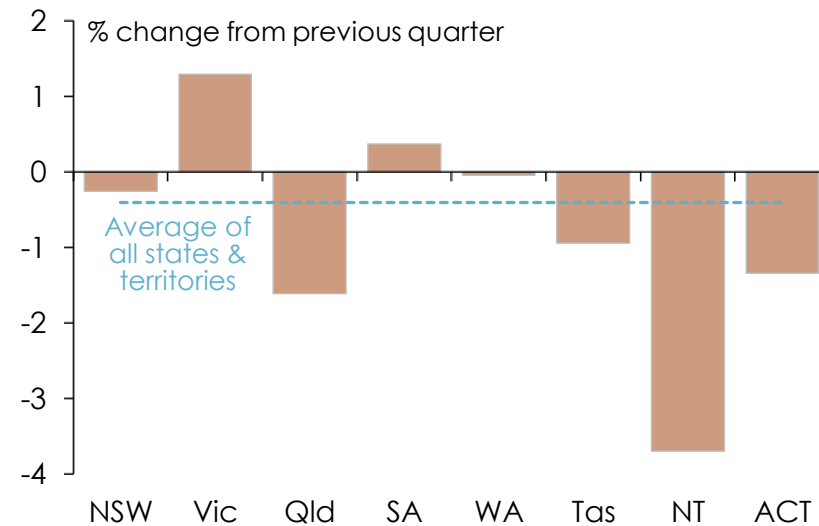
## State final demand



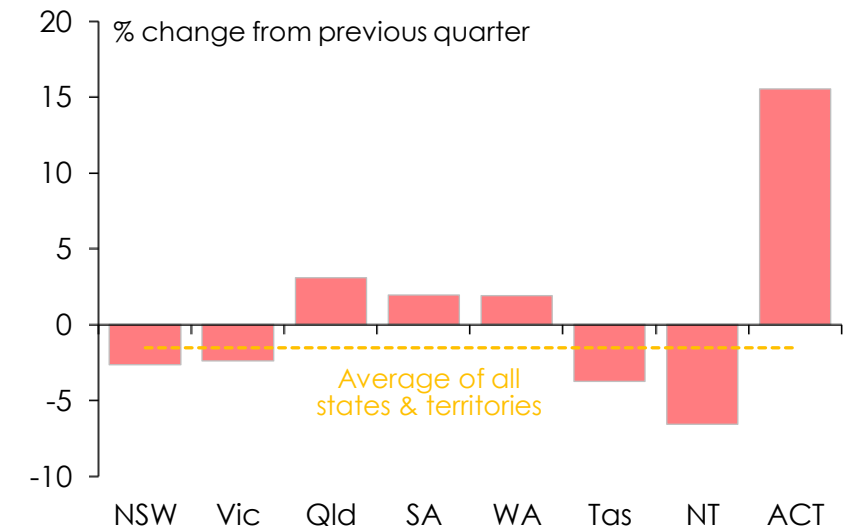
## Dwelling investment



## Public spending



## International exports

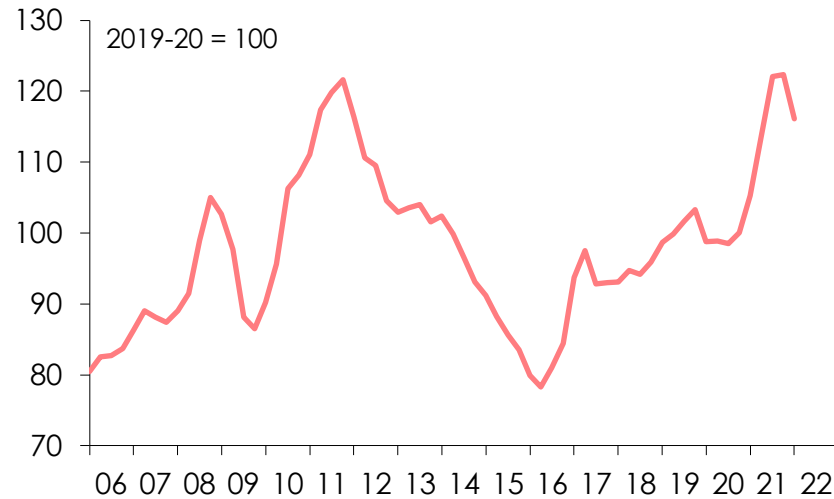


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; [Balance of Payments and International Investment Position,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

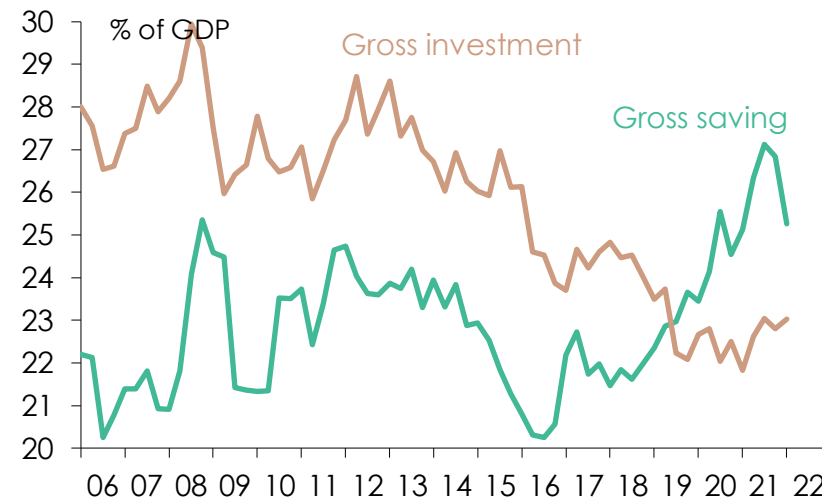
# Australia's terms of trade may have peaked, leading to slower growth in income and lower national saving

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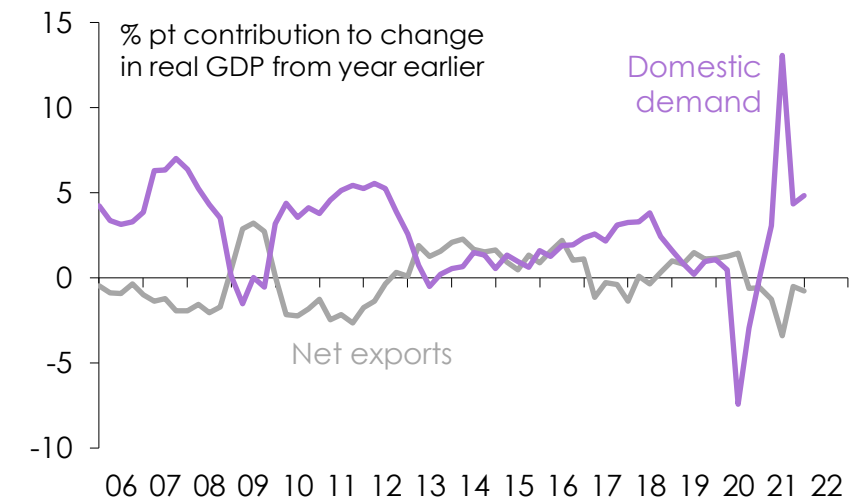
## Terms of trade



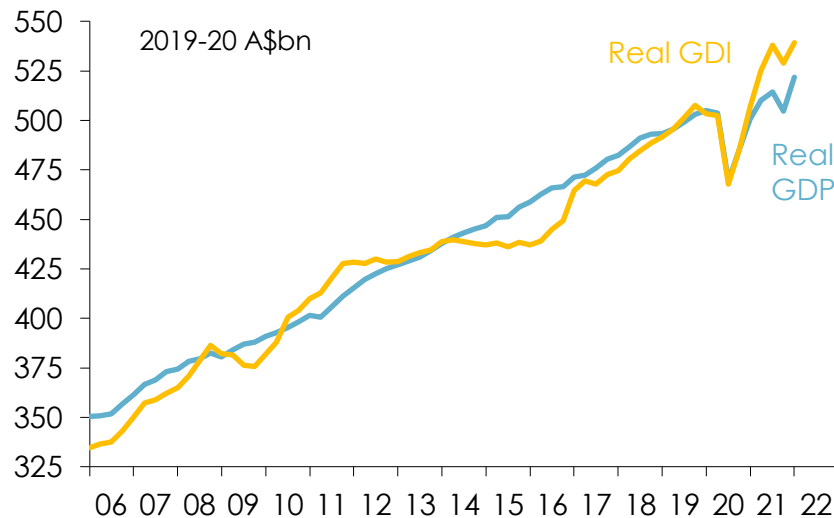
## National saving & investment



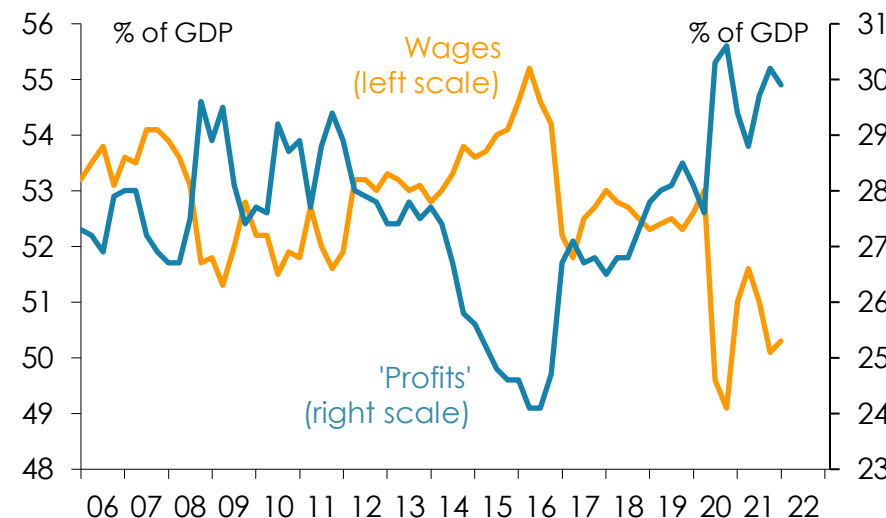
## Domestic demand and net exports



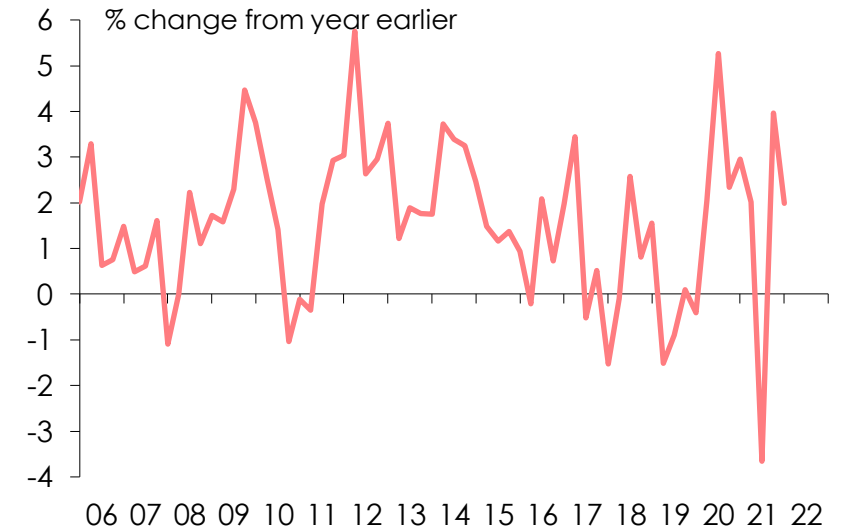
## Real gross domestic income



## Shares of national income



## Labour productivity

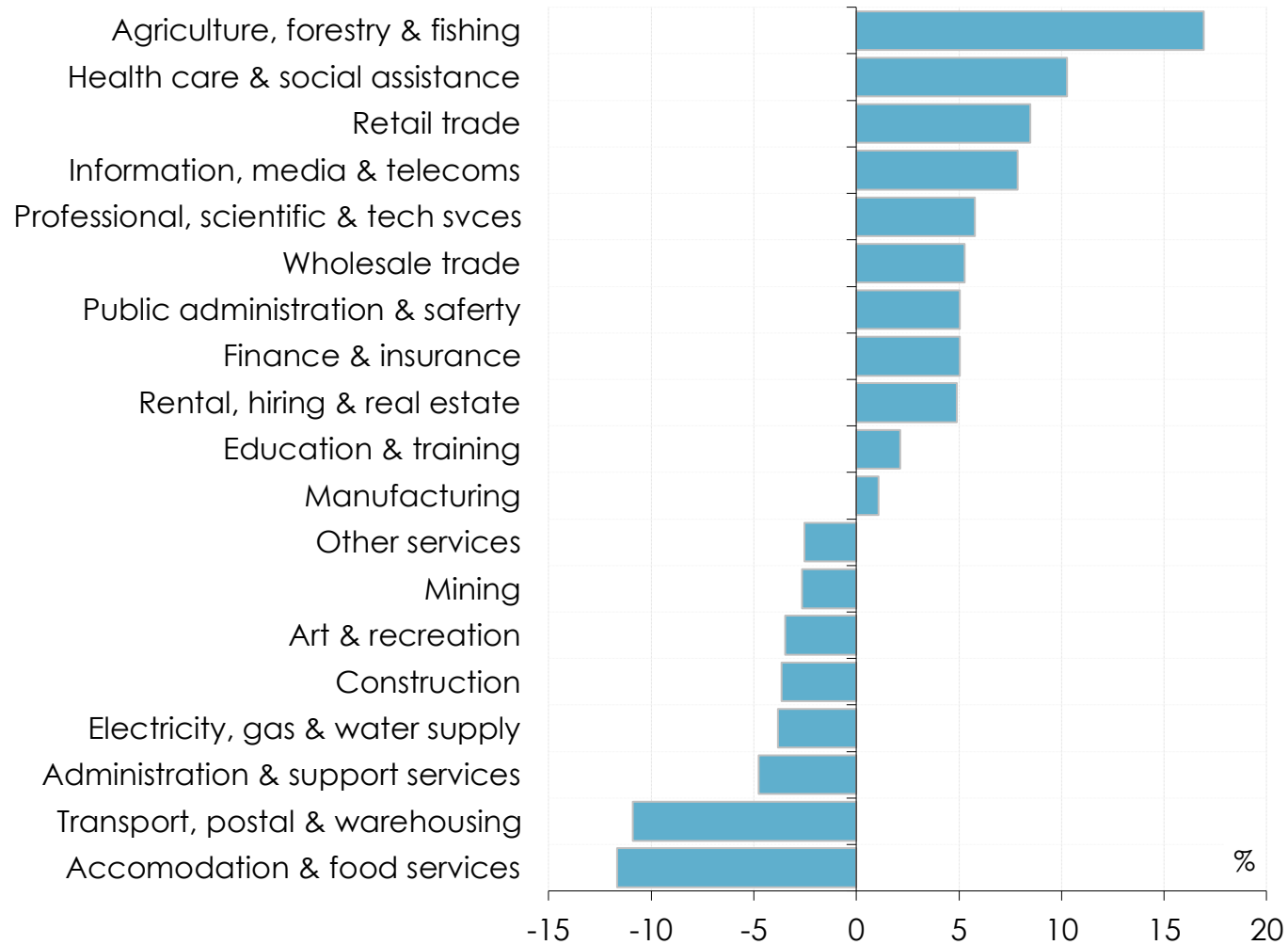


Note: The terms of trade is the ratio of export to import prices (for more see [slide 72](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021.

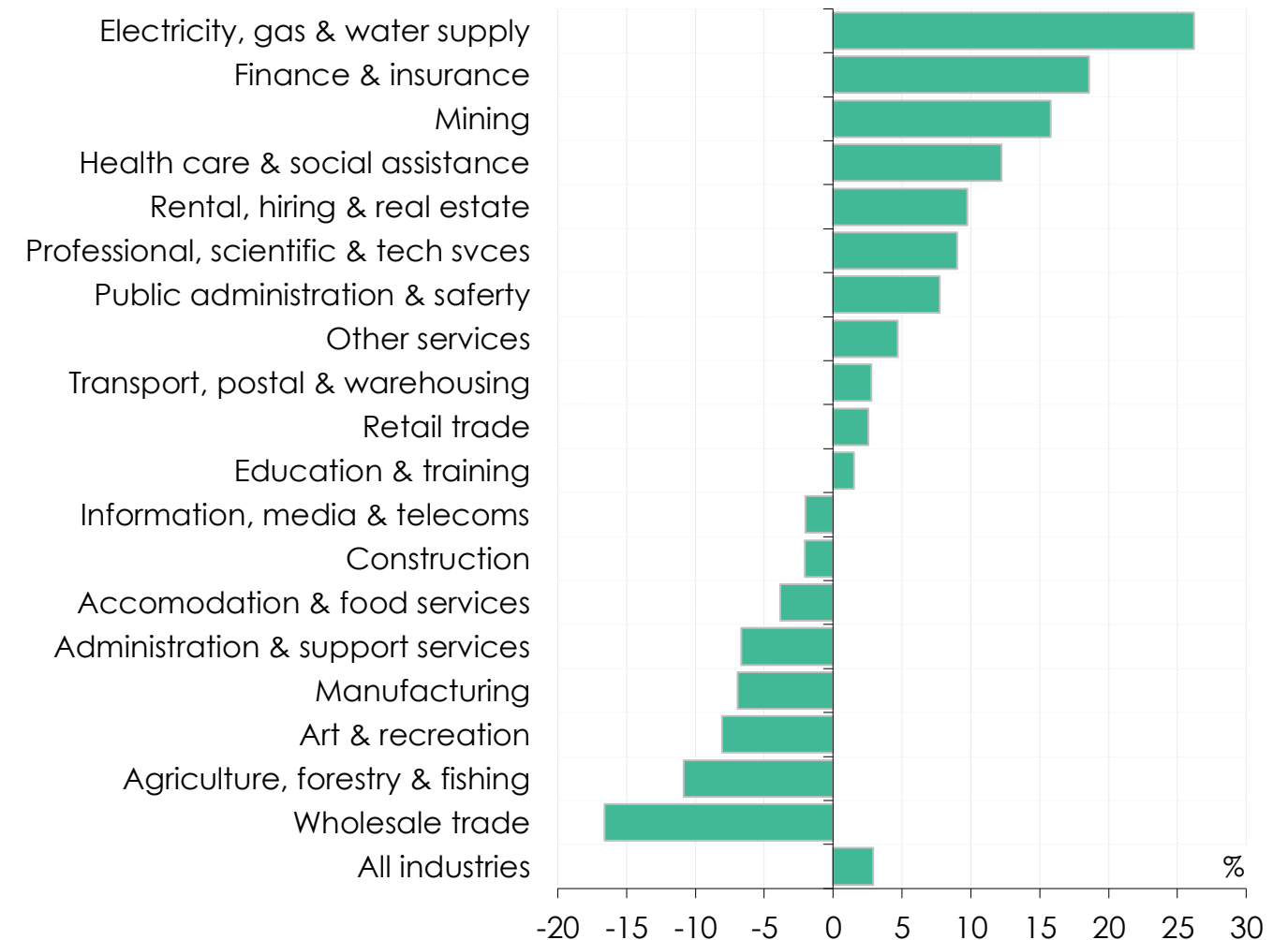
# Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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



## Q1 2022 employment by industry – change from pre-pandemic peak

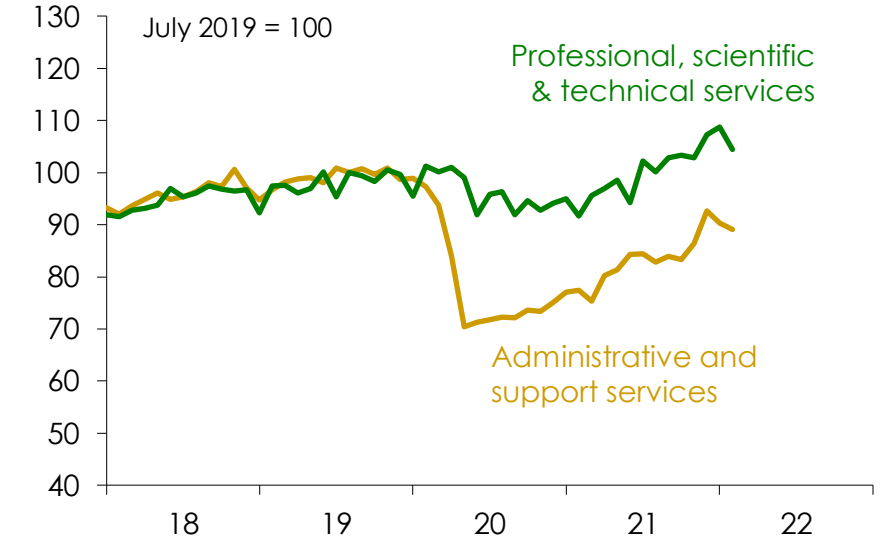
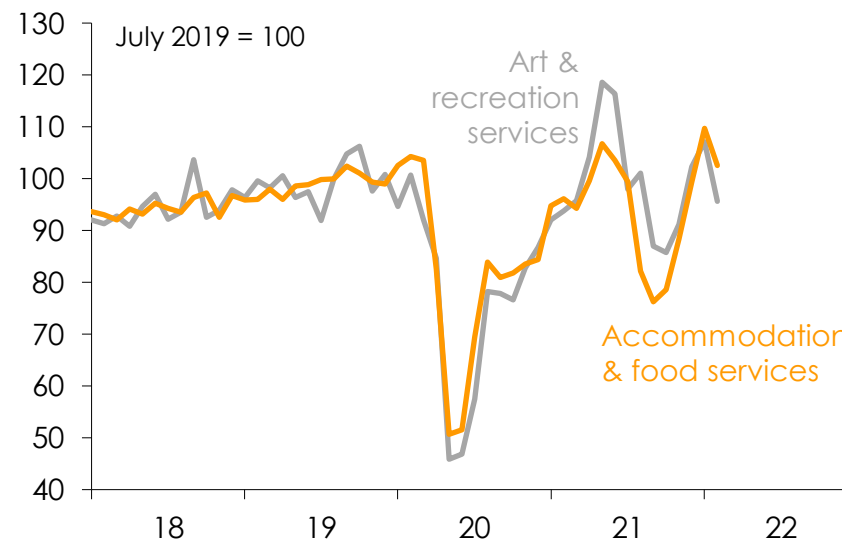
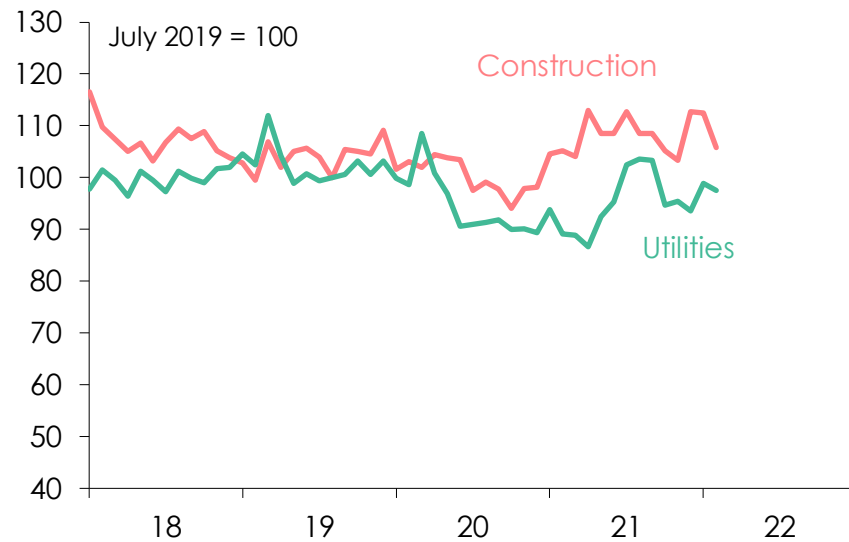
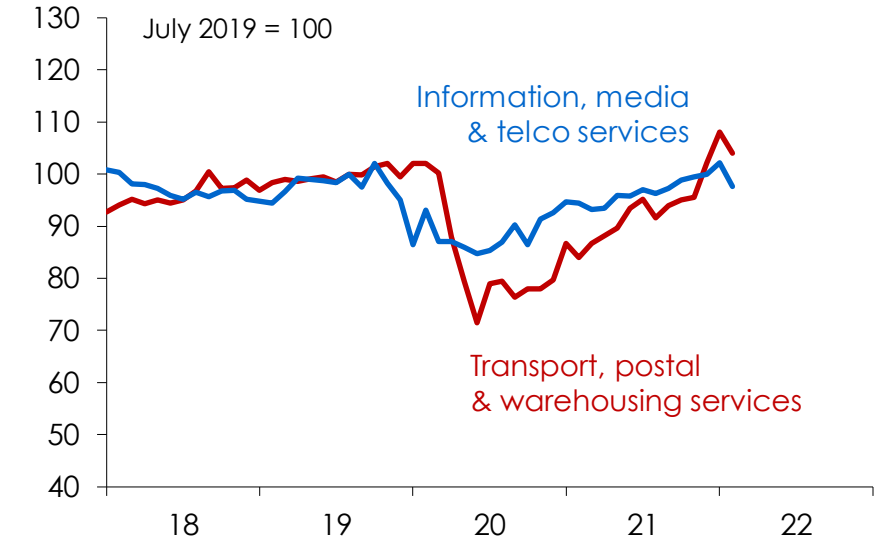
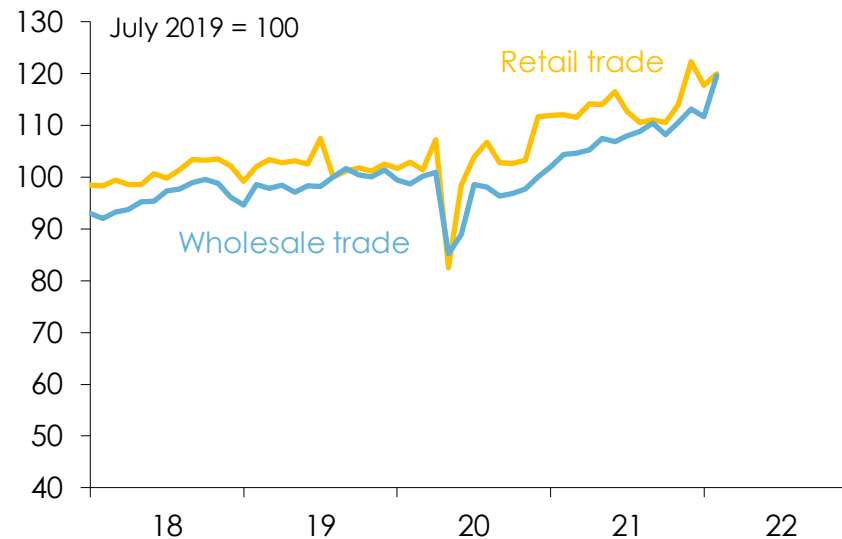
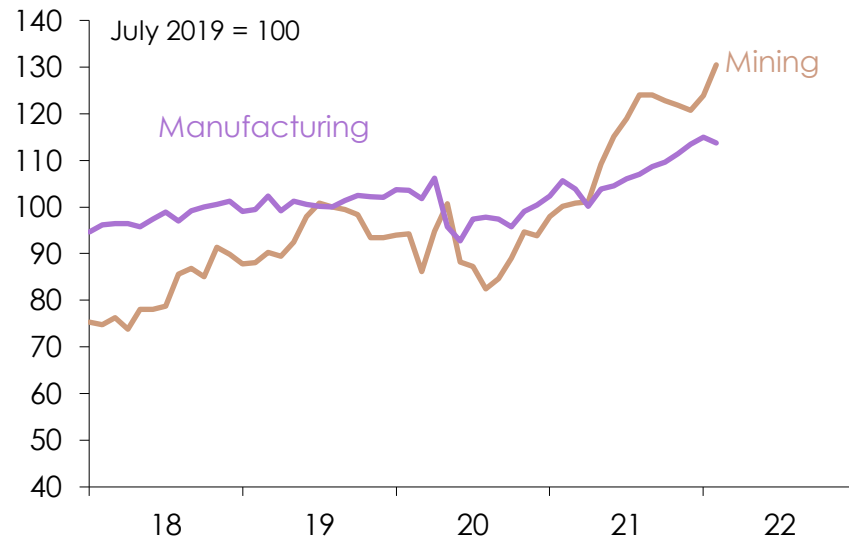


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; and [Labour Force, Australia, Detailed](#), February 2022.  
GVA by industry data will be updated in the March quarter national accounts to be released on 1<sup>st</sup> June

# Only 3 out of 13 sectors experienced a rise in turnover in January, with large falls in arts & recreation, hospitality, construction and ICT

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

## Indicators of business turnover, by industry



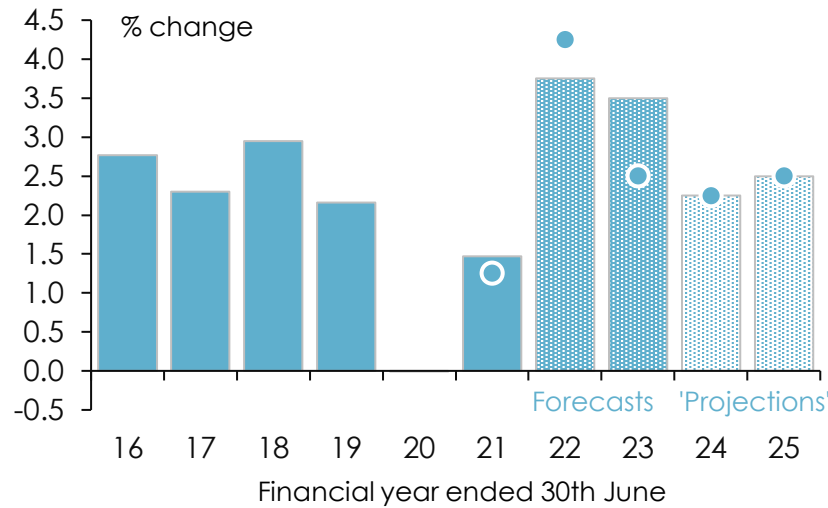
Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), January 2021. February data will be released on 8<sup>th</sup> April. [Return to "What's New"](#).



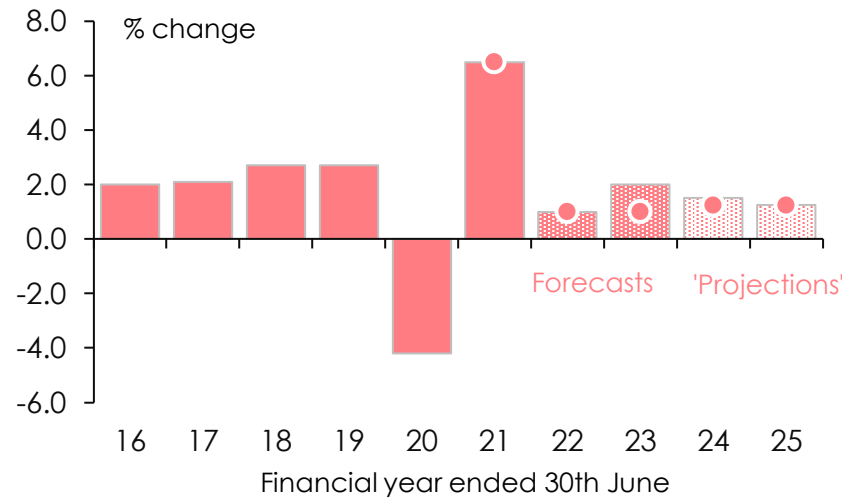
# Treasury will raise its forecasts for real & nominal GDP growth, and wage & price inflation, in Tuesday's Budget, and unemployment of less than 4%

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

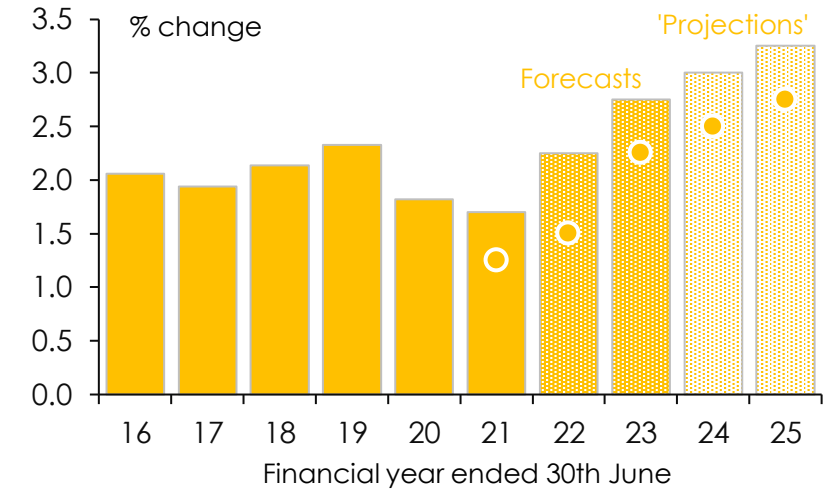
## Real GDP



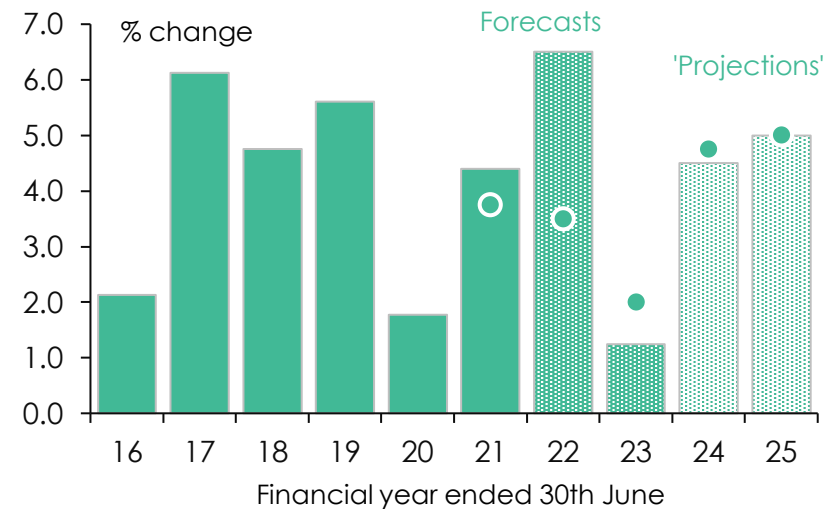
## Employment



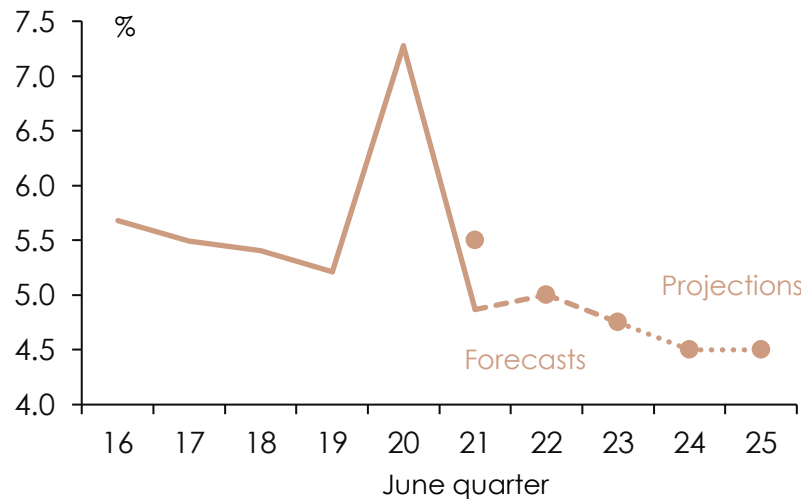
## Wages



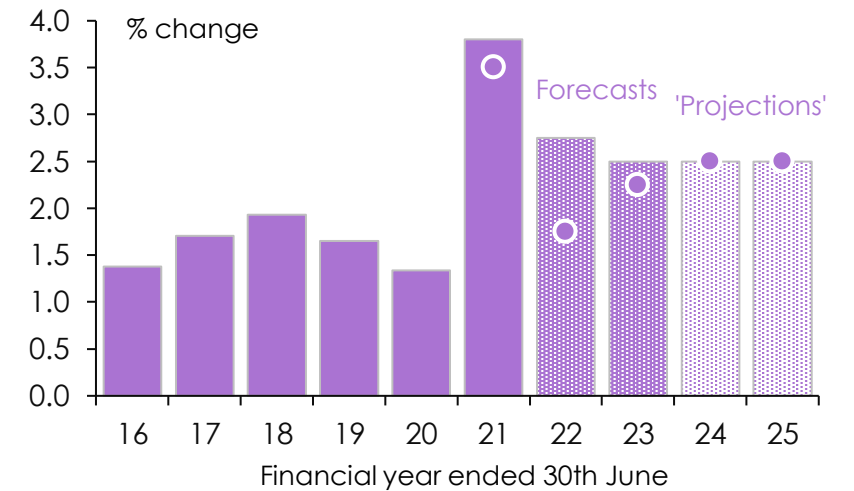
## Nominal GDP



## Unemployment rate



## Consumer prices

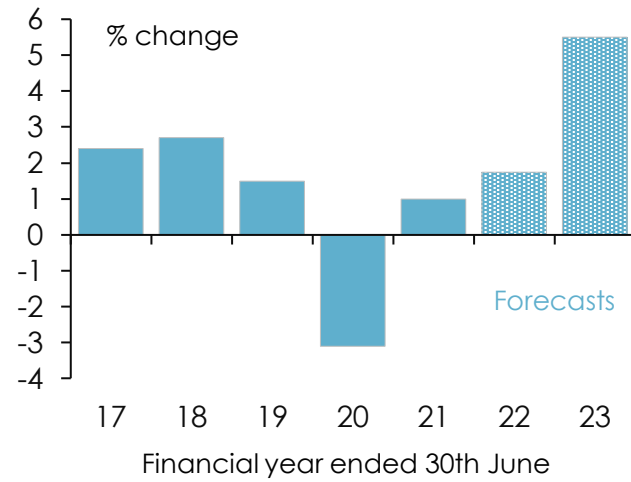


Note: Dots represent forecasts/projections in the 2021-22 Budget presented in May. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to be -41K in 2021-22, +180K in 2022-23, +213K in 2023-24 and +235K in 2024-25; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by Q2 2022; Tapis oil prices remaining at around US\$83/bbl; and the A\$ remaining at around US75¢. Sources: ABS; Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021. These forecasts will be up-dated in the 2022-23 Budget to be presented on 29<sup>th</sup> March. For the RBA's forecasts see [slide 91](#). [Return to "What's New"](#).

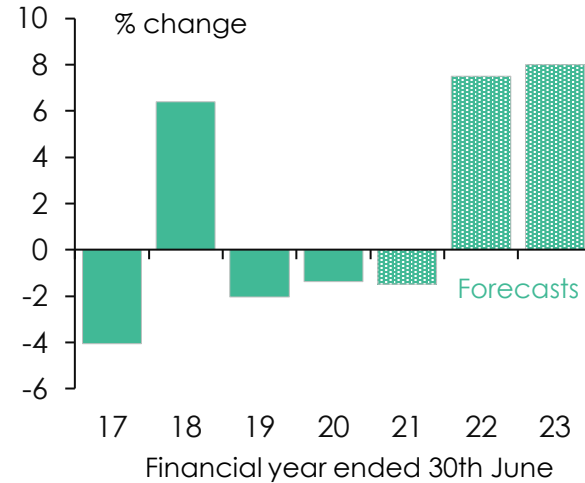
# Tuesday's Budget will incorporate upward revisions to previous forecasts for household consumption, the terms of trade and the current account

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

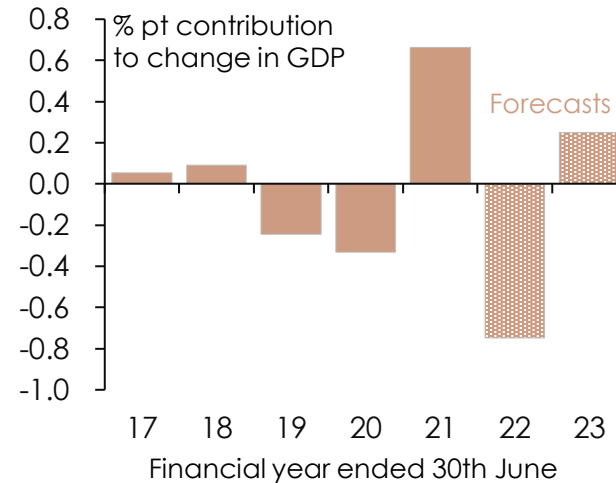
## Household consumption



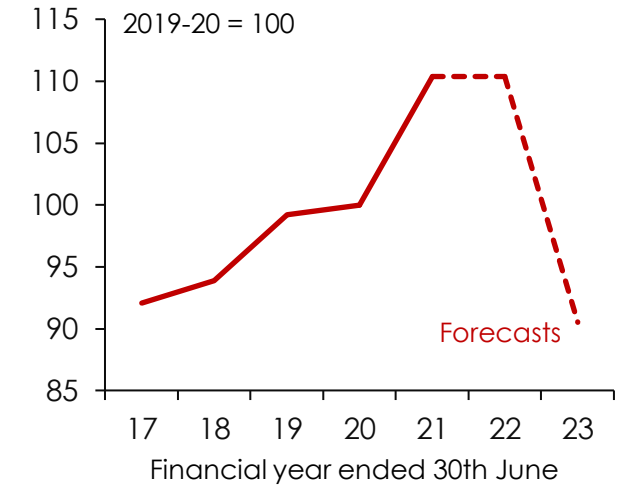
## Business investment



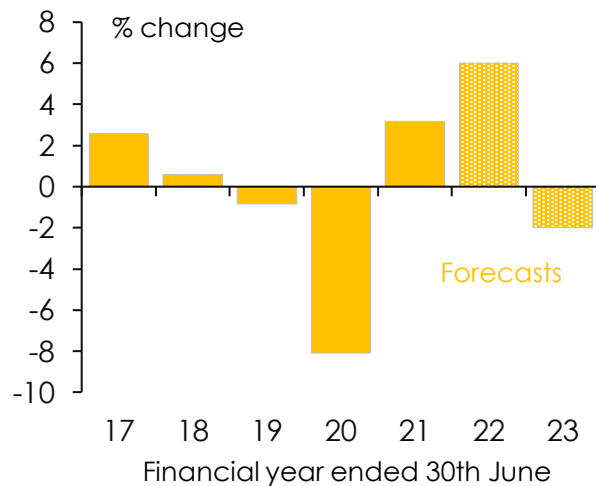
## Change in inventories



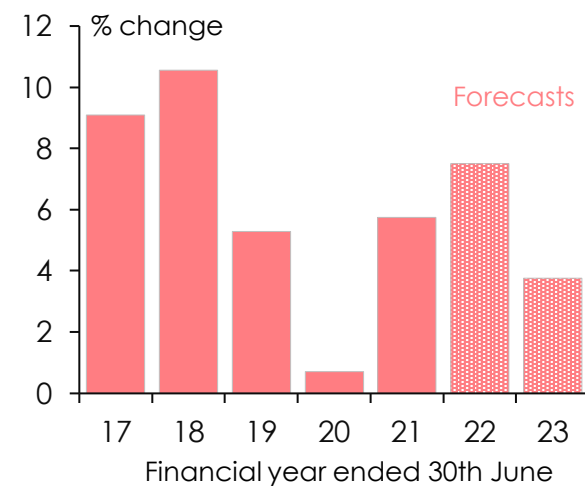
## Terms of trade



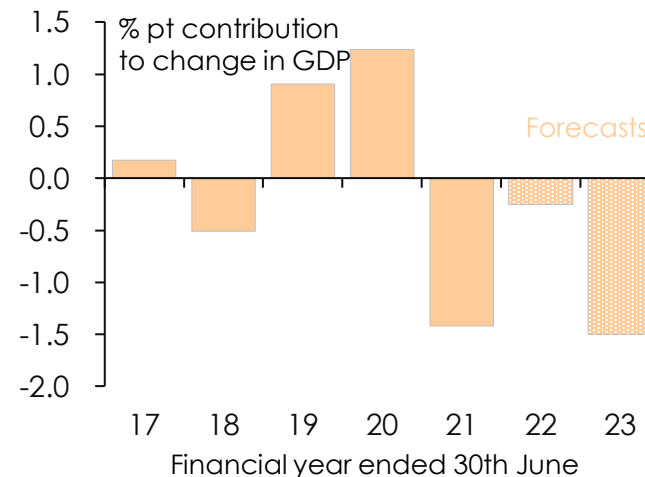
## Dwelling investment



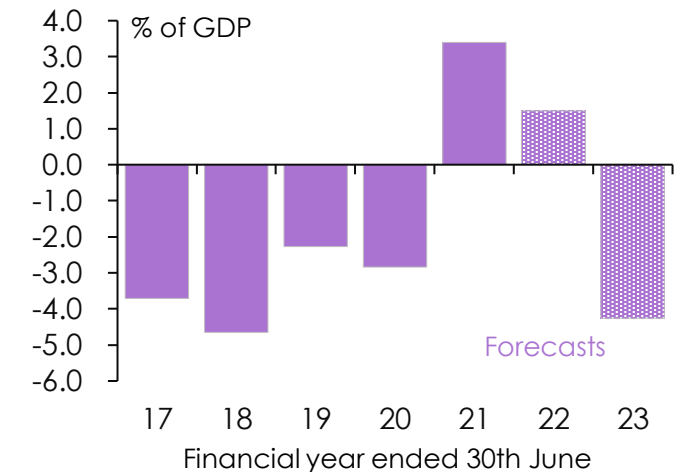
## Public spending



## Net exports



## Current account balance

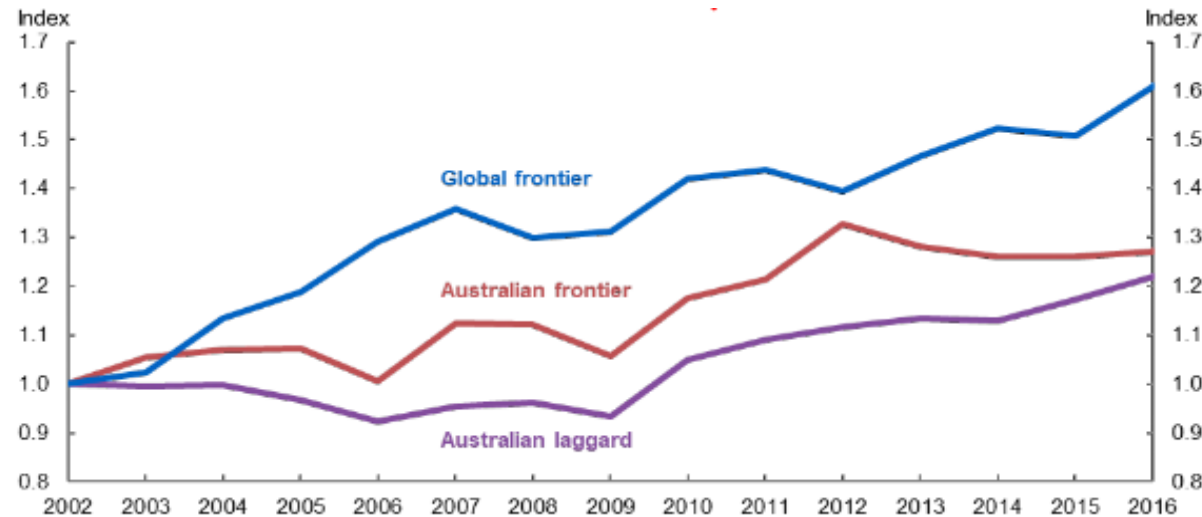


Note: Business investment and public spending exclude transactions in second-hand assets. Net overseas migration assumed to be -41K in 2021-22, and +180K in 2022-23; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by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

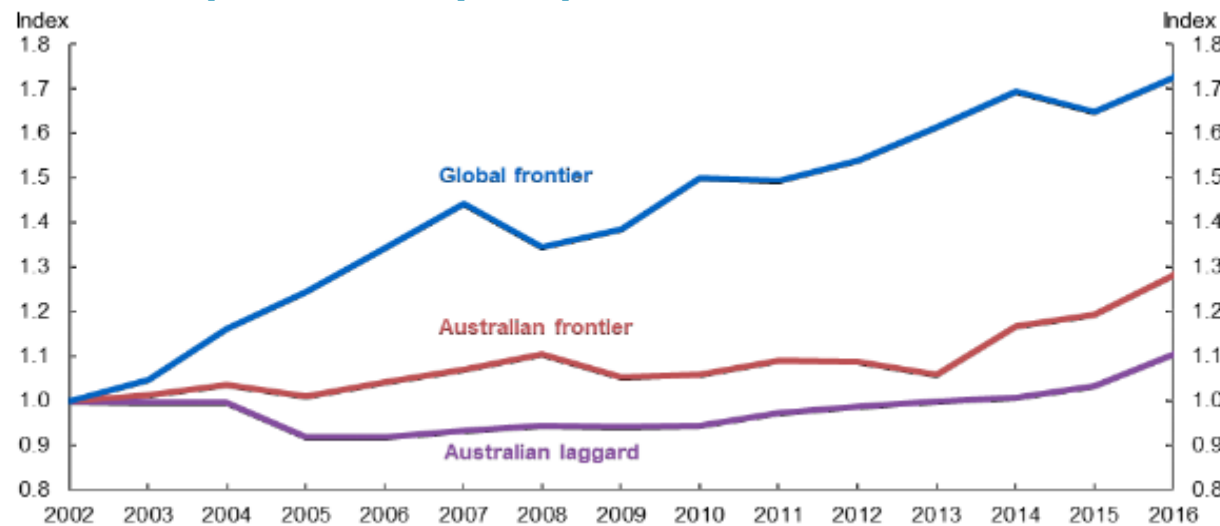
# A new Australian Treasury paper suggests Australia's productivity slowdown is due to a loss of 'business dynamism' and competitive pressures

THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> 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"](#).

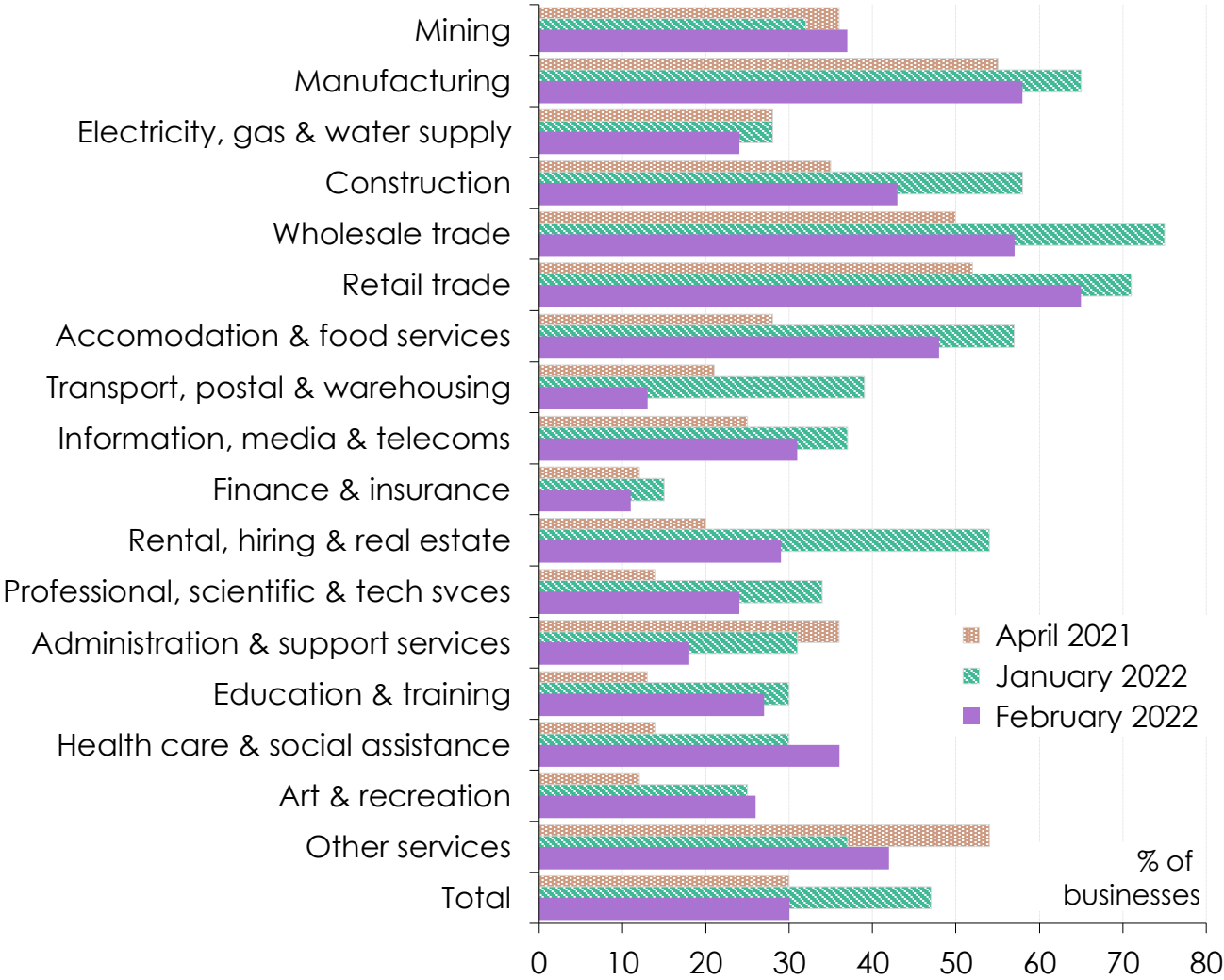
- ❑ Four Treasury economists recently published a [Working Paper](#) showing that the 'gap' between the productivity performance of Australian firms and global 'frontier firms' has widened – especially in non-financial services sectors – with Australian firms 'catching up' more slowly than previously,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

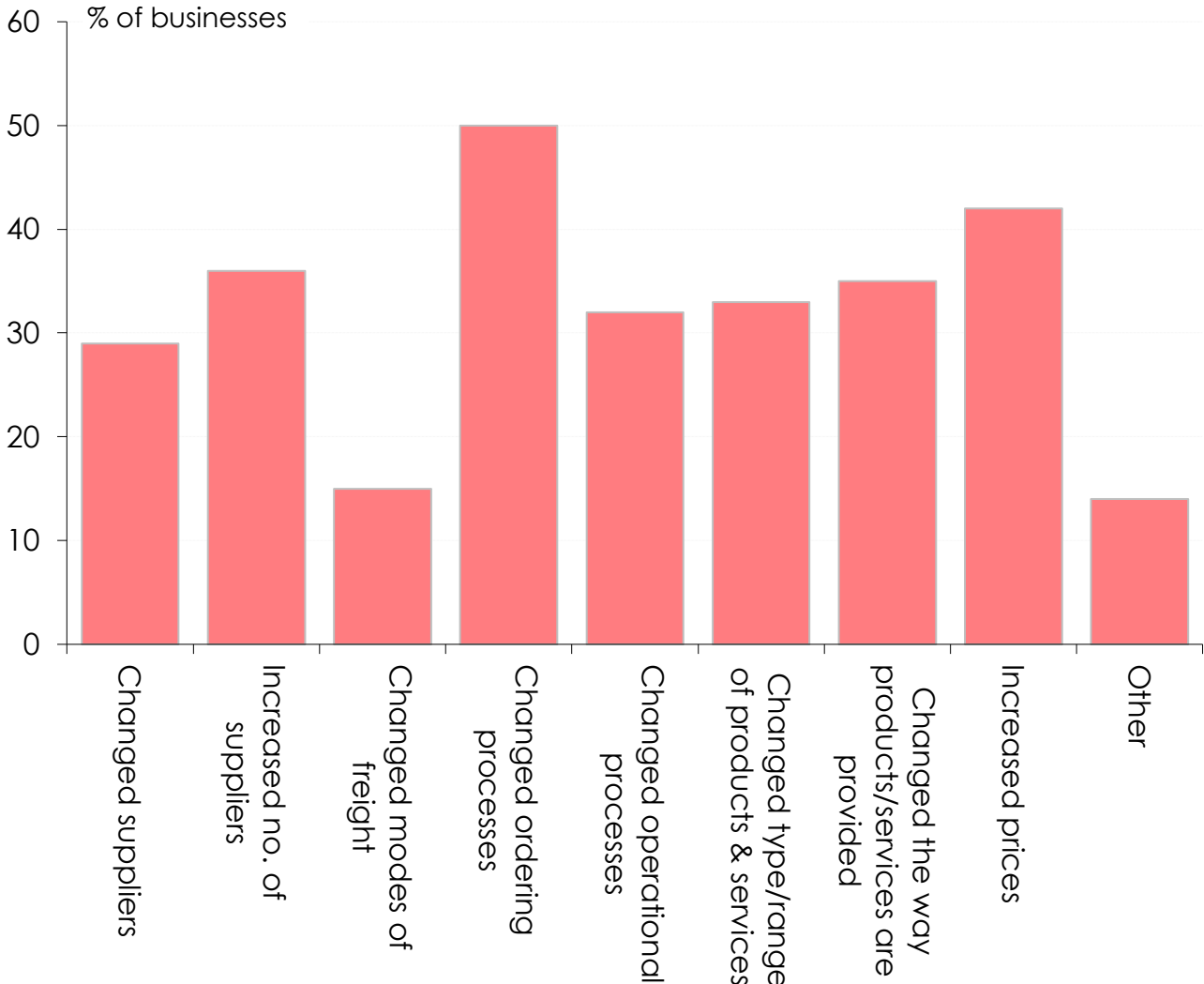
# Supply chain disruptions eased a bit in February but are still adversely affecting almost one-third of all businesses

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

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



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

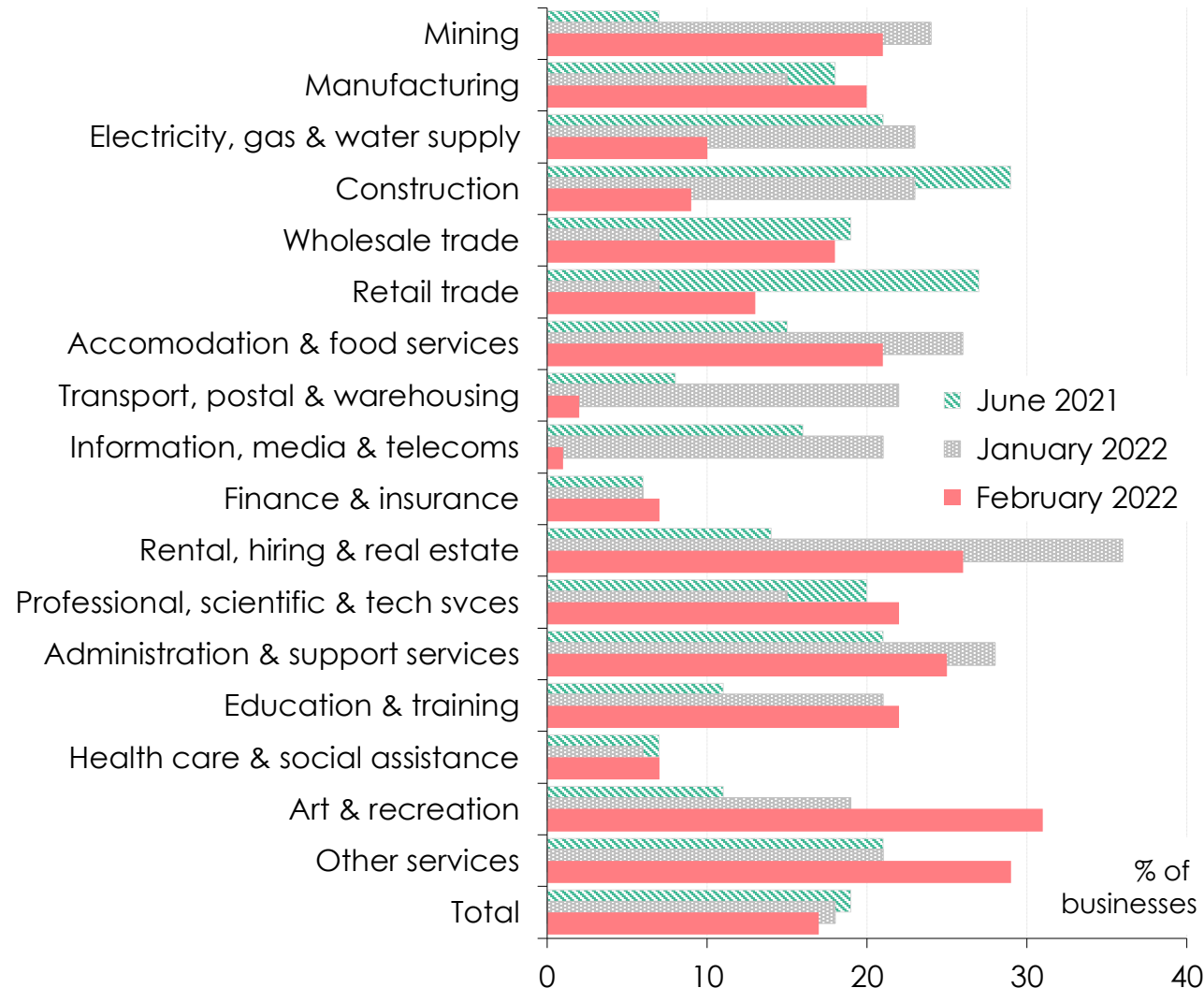


Sources: ABS, [Business conditions and sentiments](#), February 2022. March survey data will be released on 31<sup>st</sup> March. [Return to "What's New"](#).

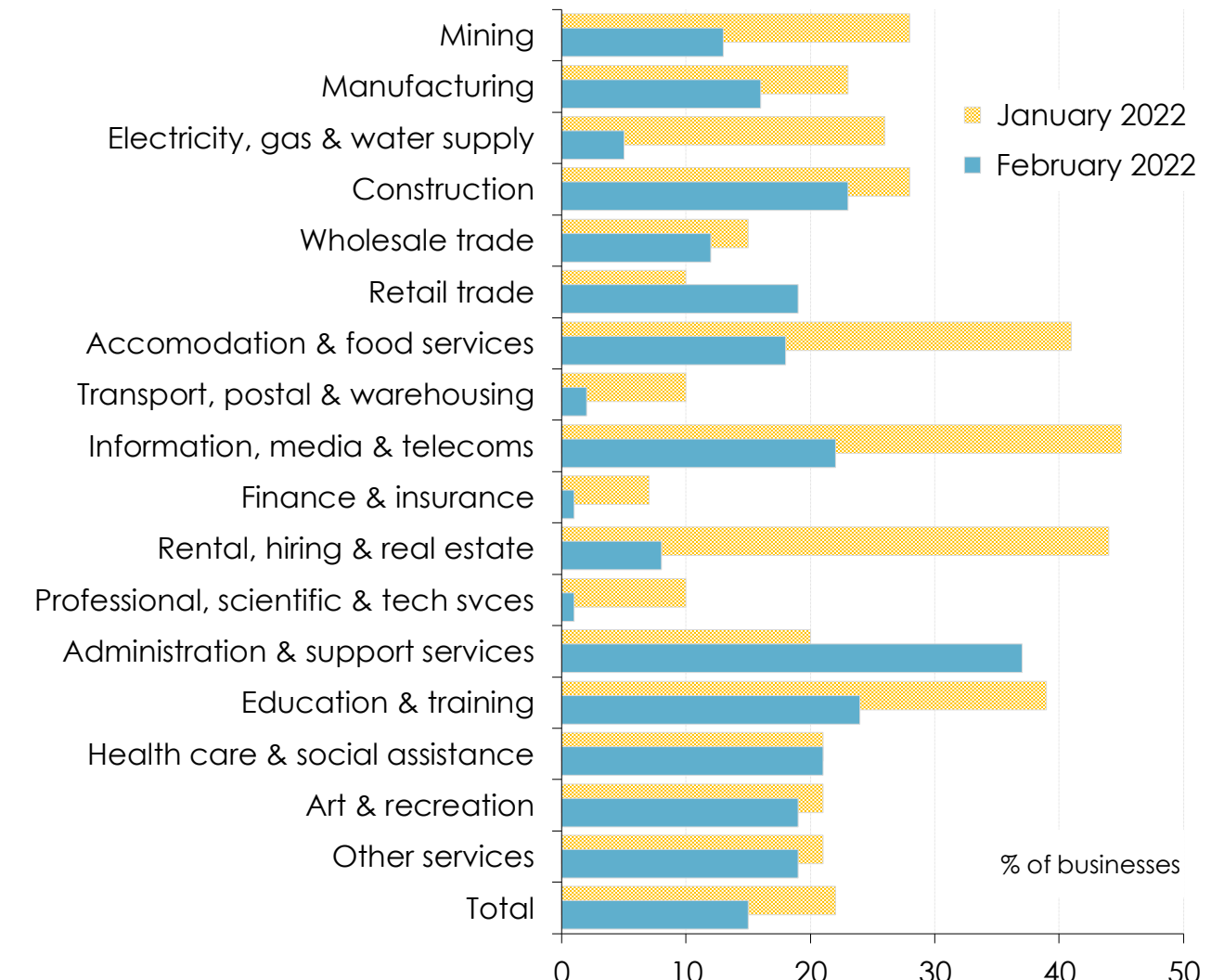
# Fewer businesses were experiencing staff shortages during February, at least in part because fewer employees were affected by Covid

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## 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

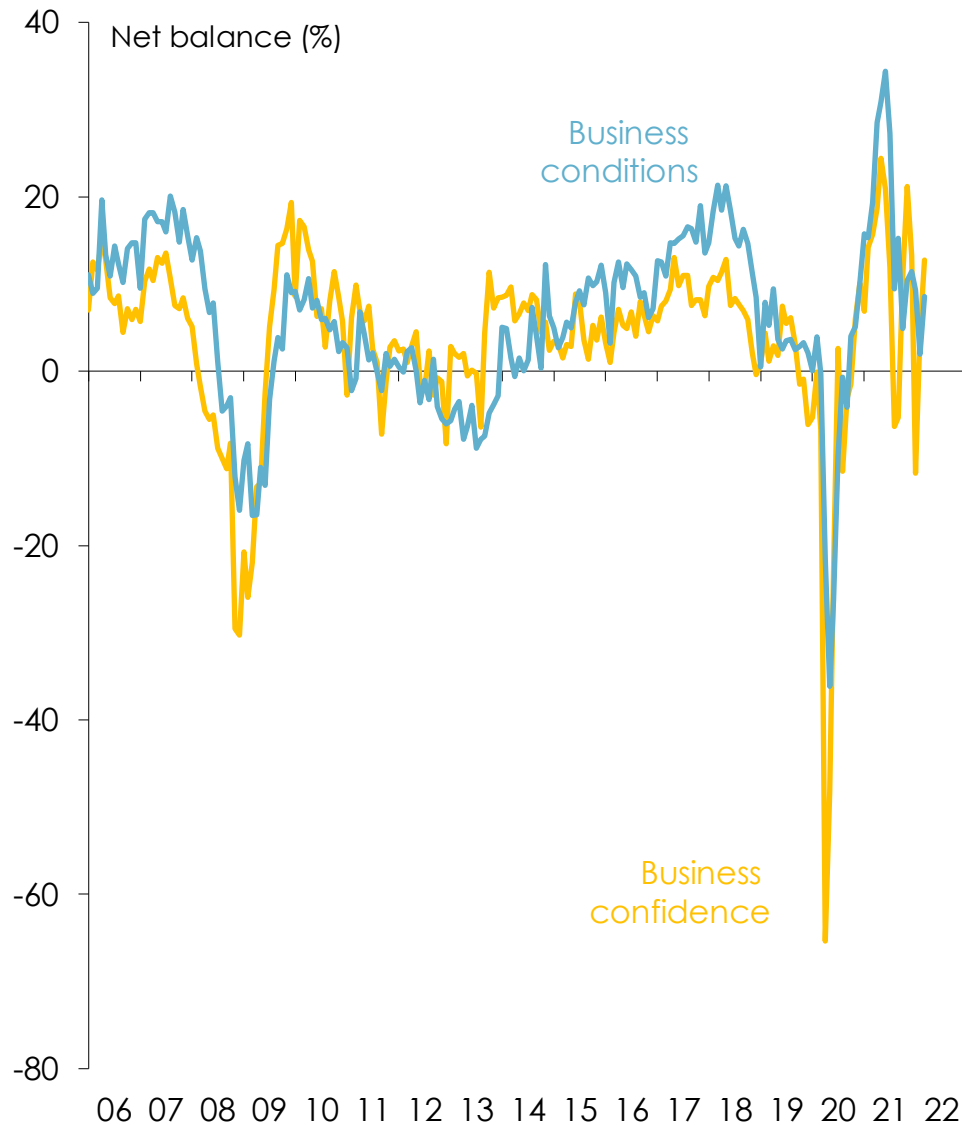




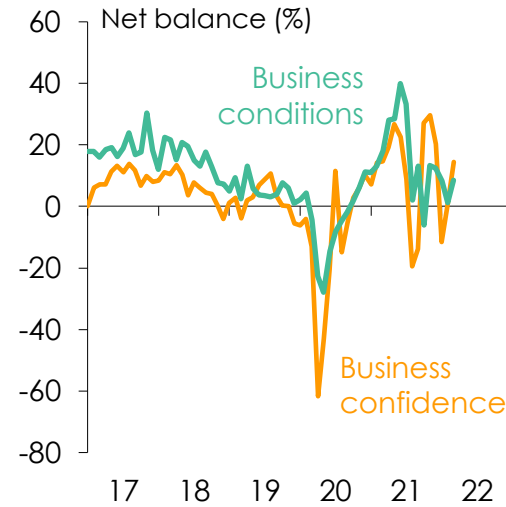
# Business confidence and conditions improved further in February as the 'omicron wave' continued to ebb

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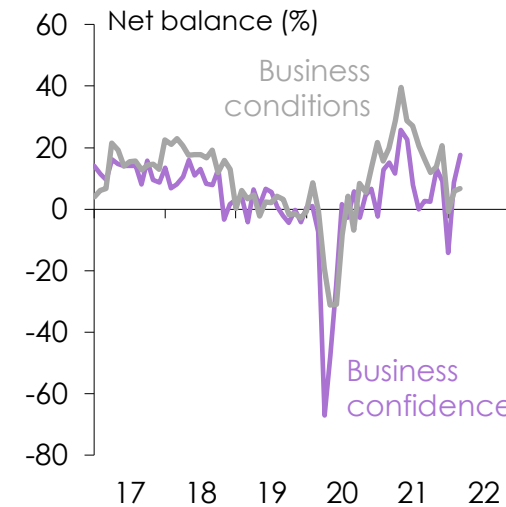
## National business confidence & conditions



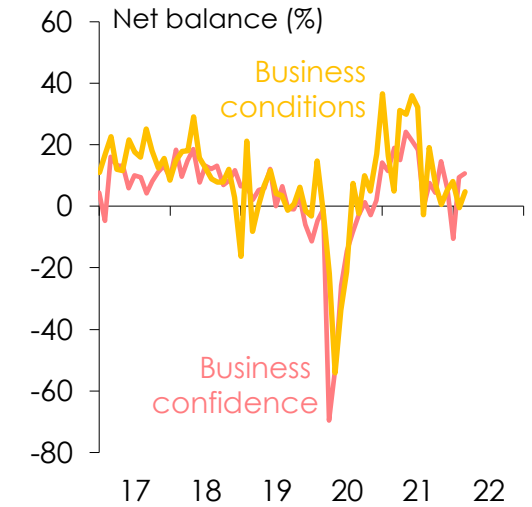
## New South Wales



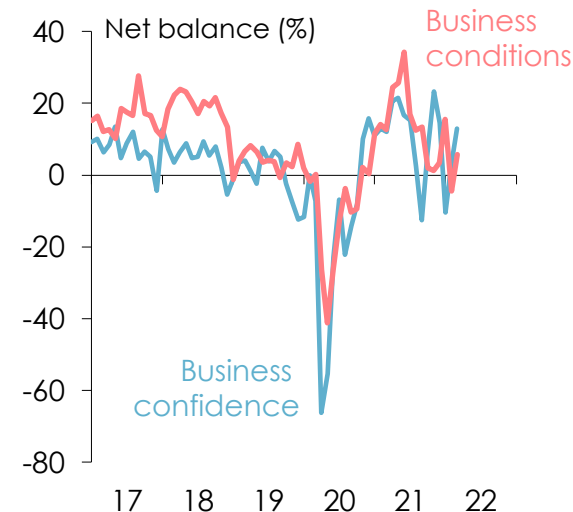
## Queensland



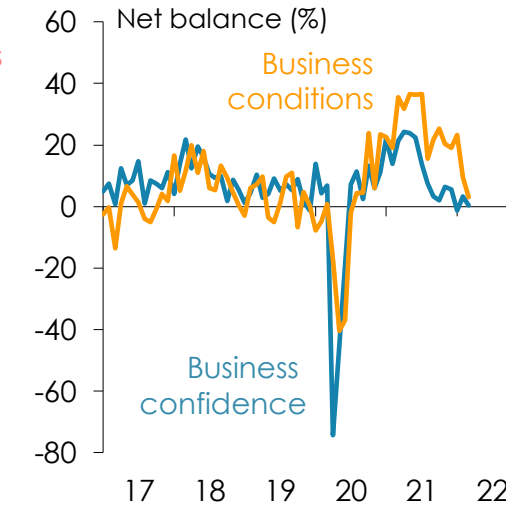
## South Australia



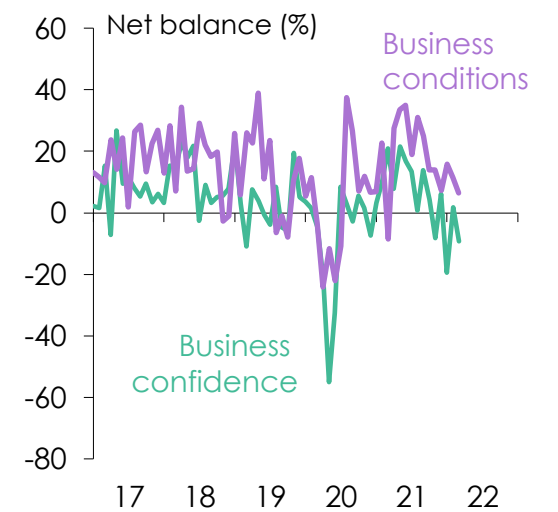
## Victoria



## Western Australia



## Tasmania

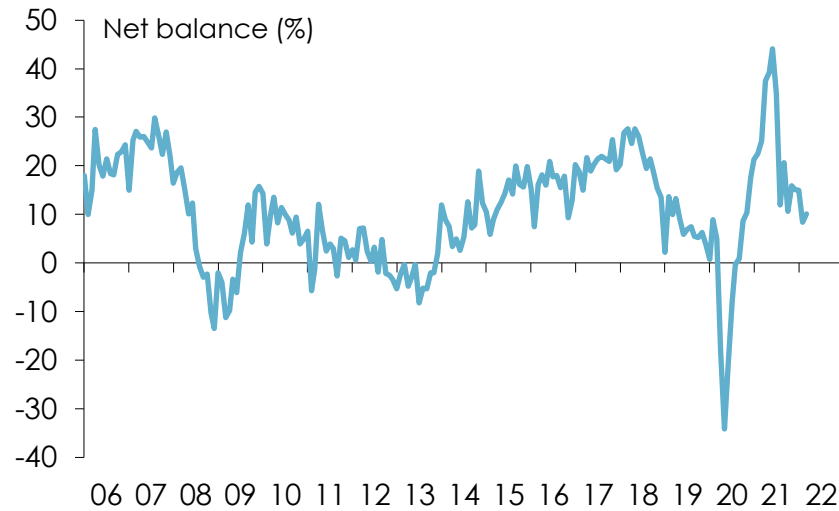


Sources: National Australia Bank [Monthly Business Survey](#), February 2022; March survey results will be released on 12<sup>th</sup> April. [Return to "What's New"](#).

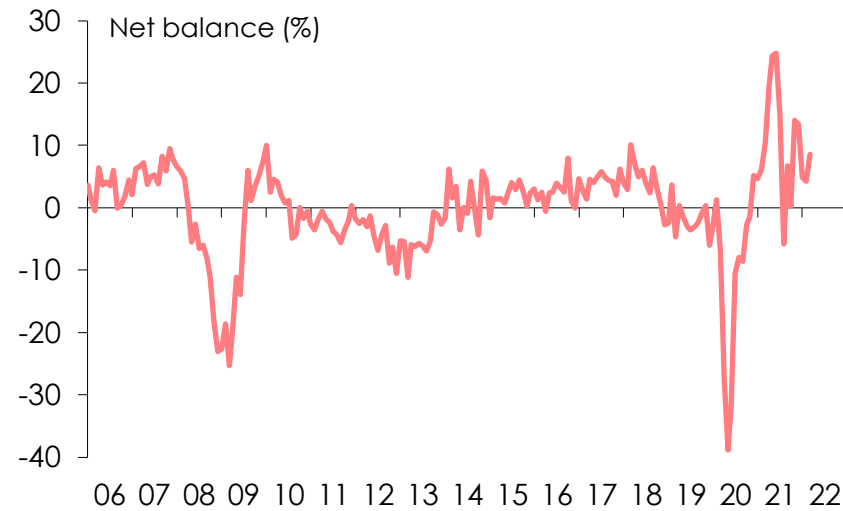
# All of the elements of business conditions improved in February, in particular the forward-looking hiring and capex intentions components

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

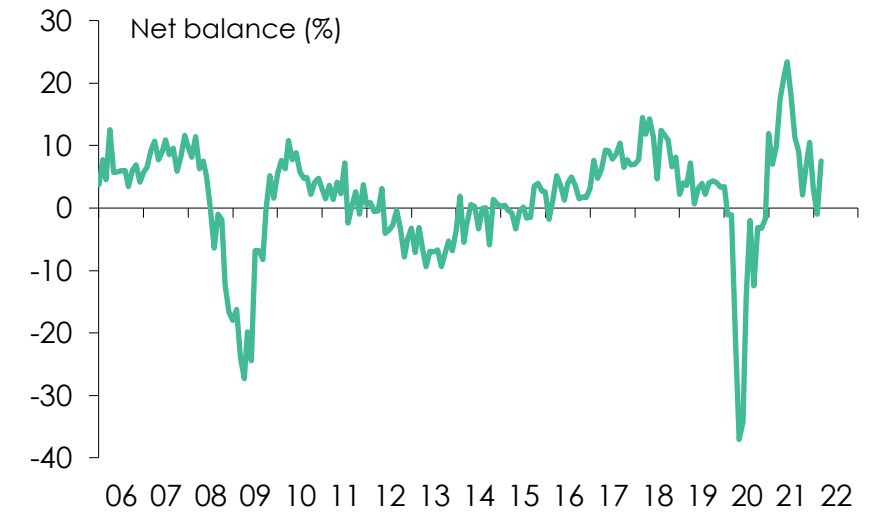
## Trading conditions



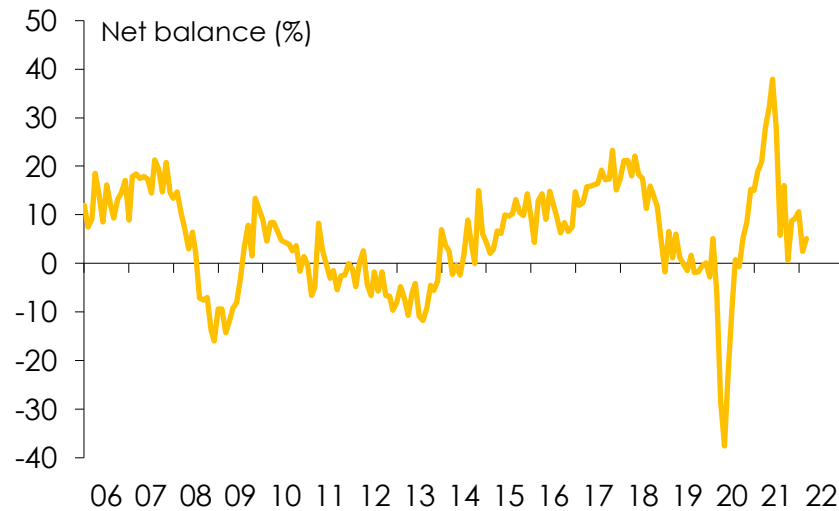
## Forward orders



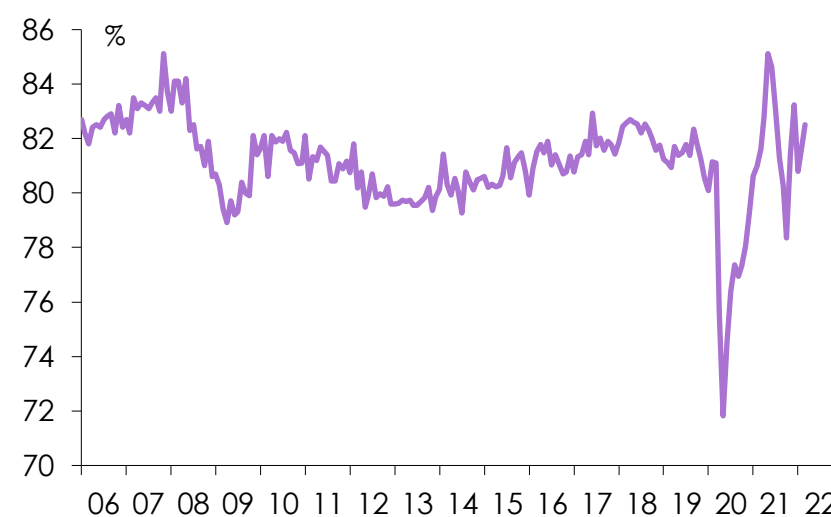
## Employee hiring intentions



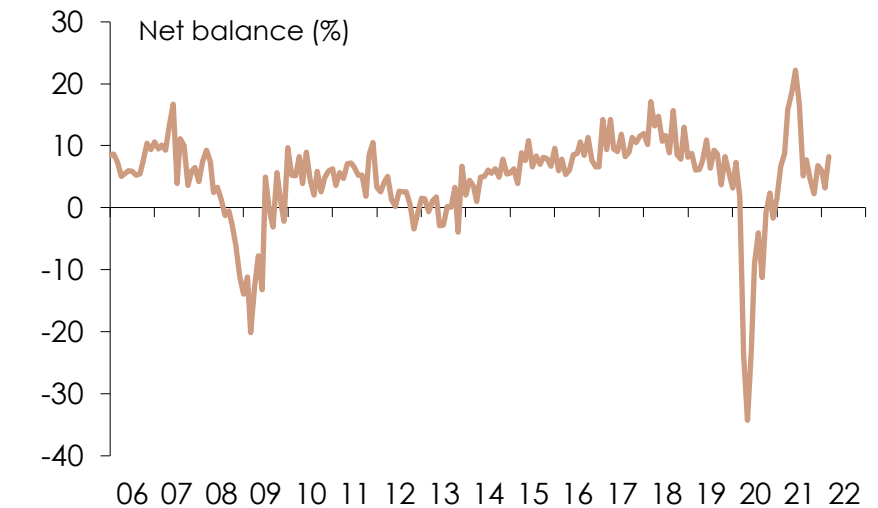
## Profitability



## Capacity utilization



## Capital expenditure intentions



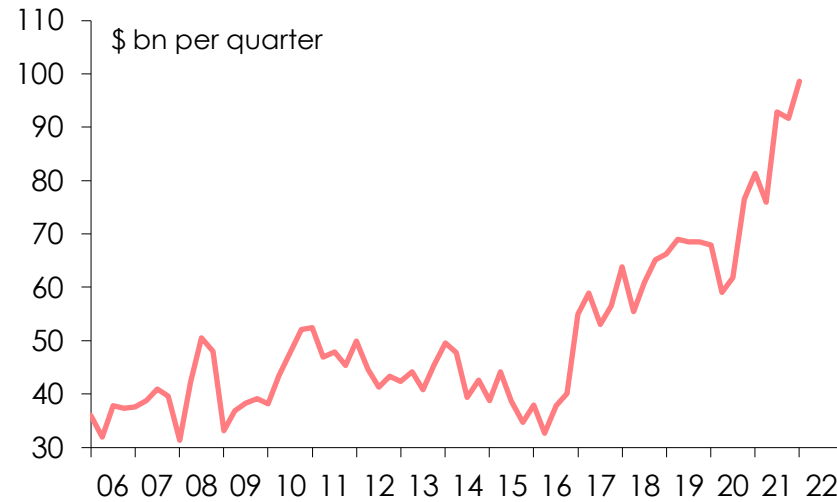
Source: National Australia Bank [Monthly Business Survey](#), February 2022; March survey results will be released on 12<sup>th</sup> April. [Return to "What's New"](#).



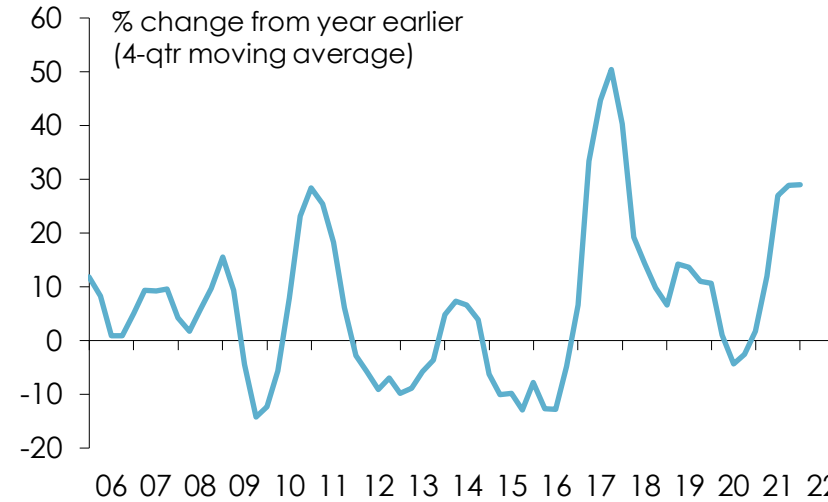
# Company profits have grown strongly over the past five years, largely driven by mining – though manufacturing profits rose 13% in 2021

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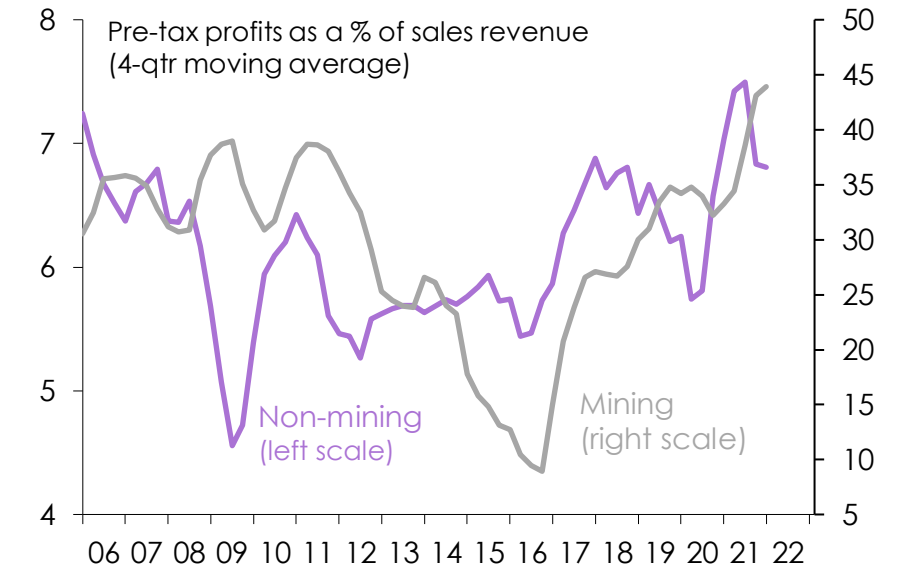
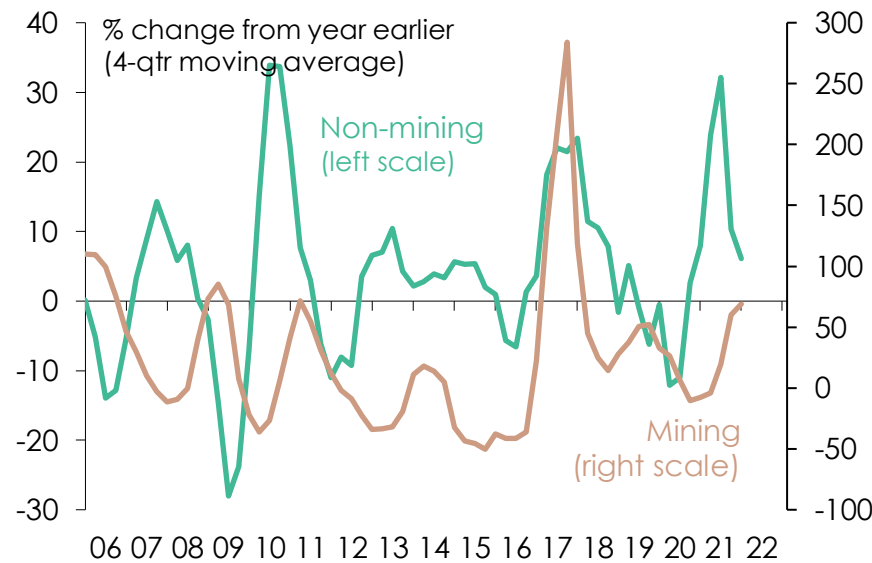
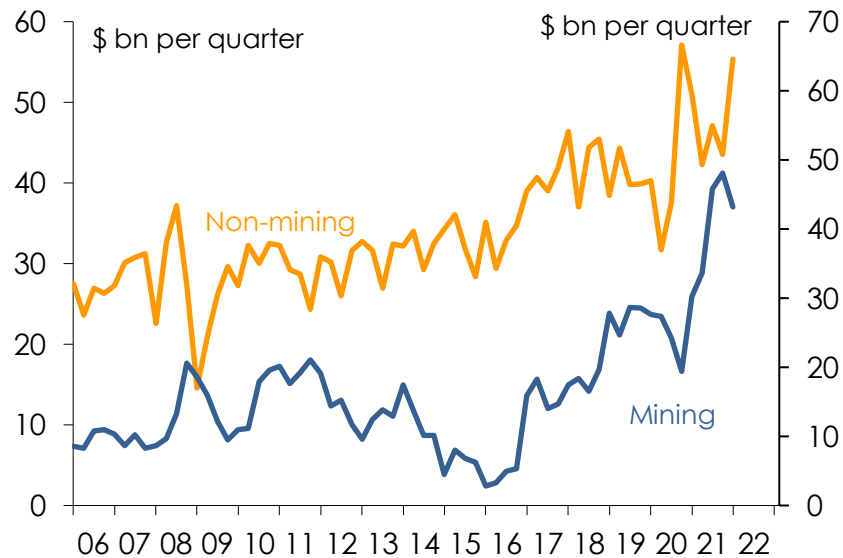
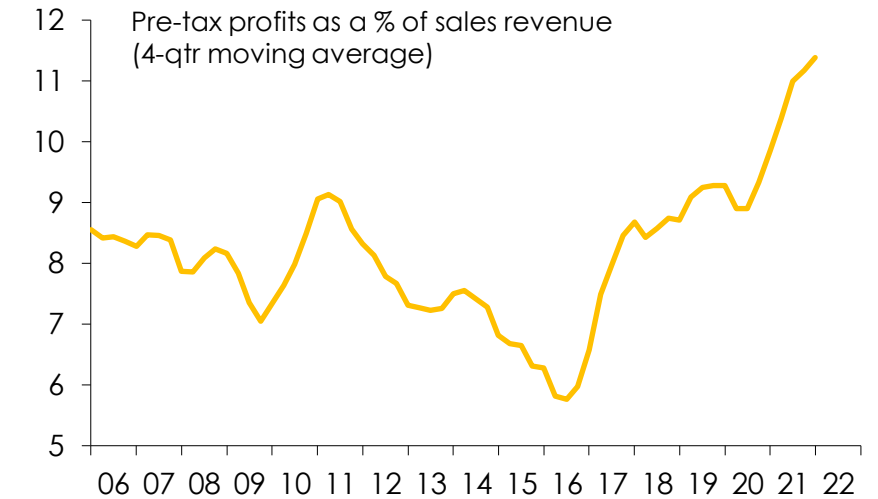
## Pre-tax company profits



## Pre-tax company profits growth



## Pre-tax profit margins

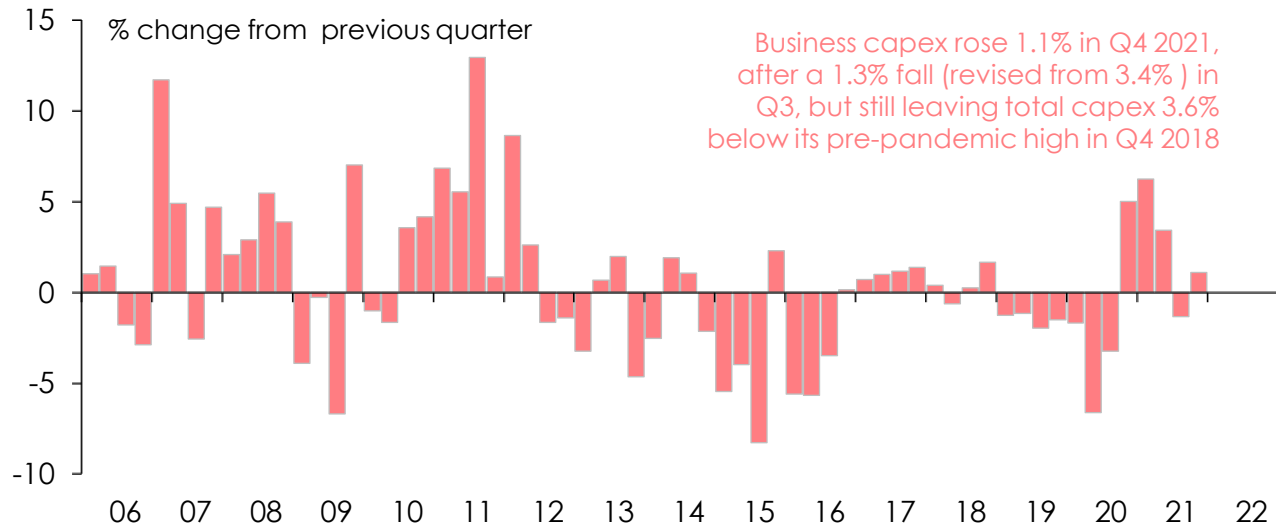


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), December 2021. March quarter data will be released on 31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

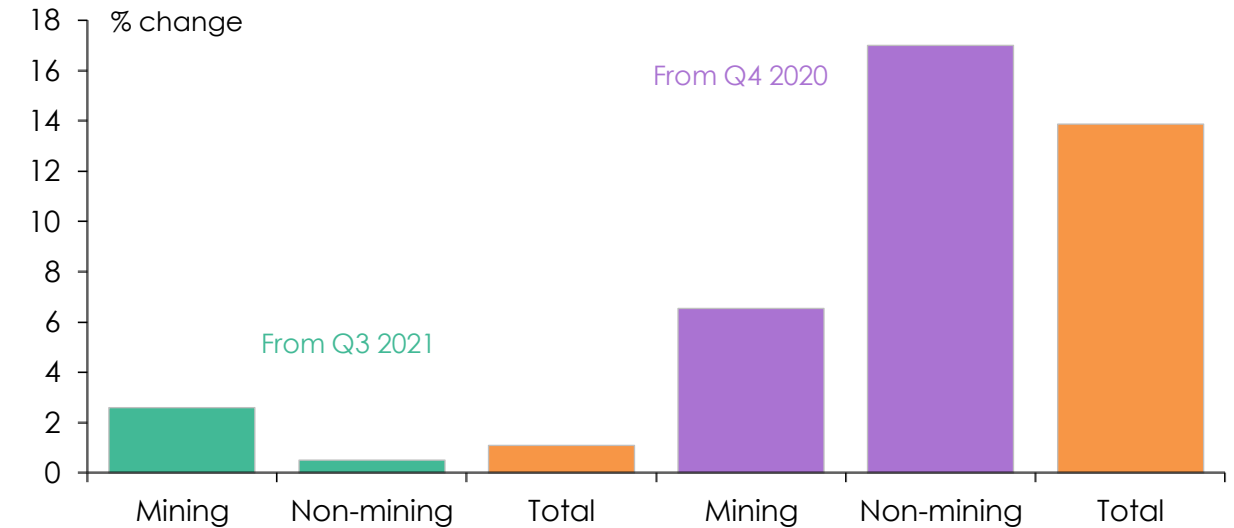
# Business capex rose 1.1% in real terms in Q4 2021, largely driven by the mining sector (in contrast to the earlier part of last year)

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

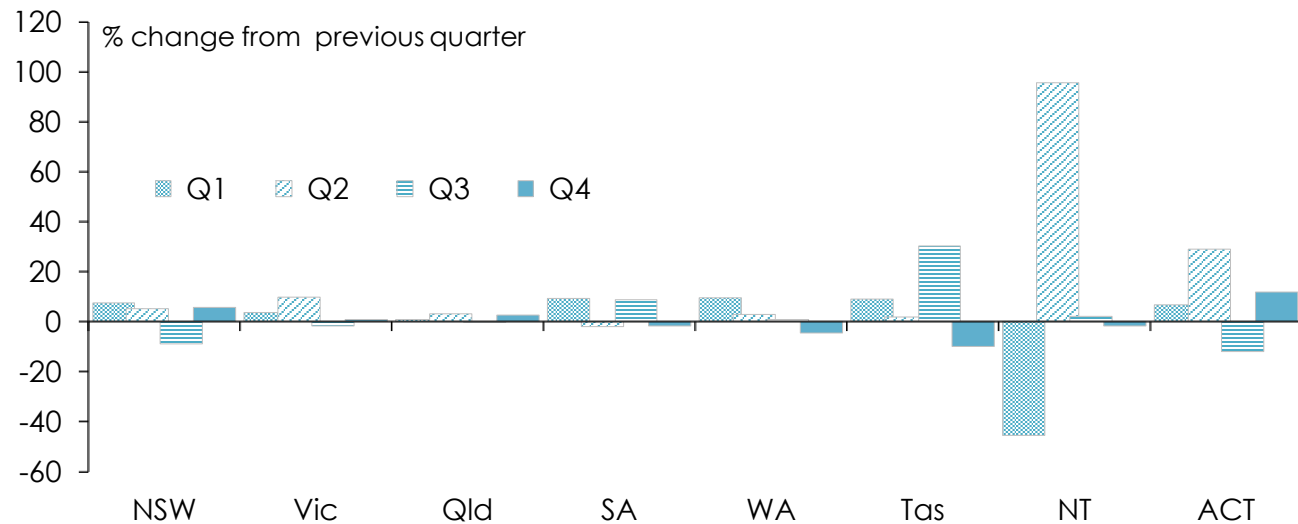
## Real business new fixed capital expenditure



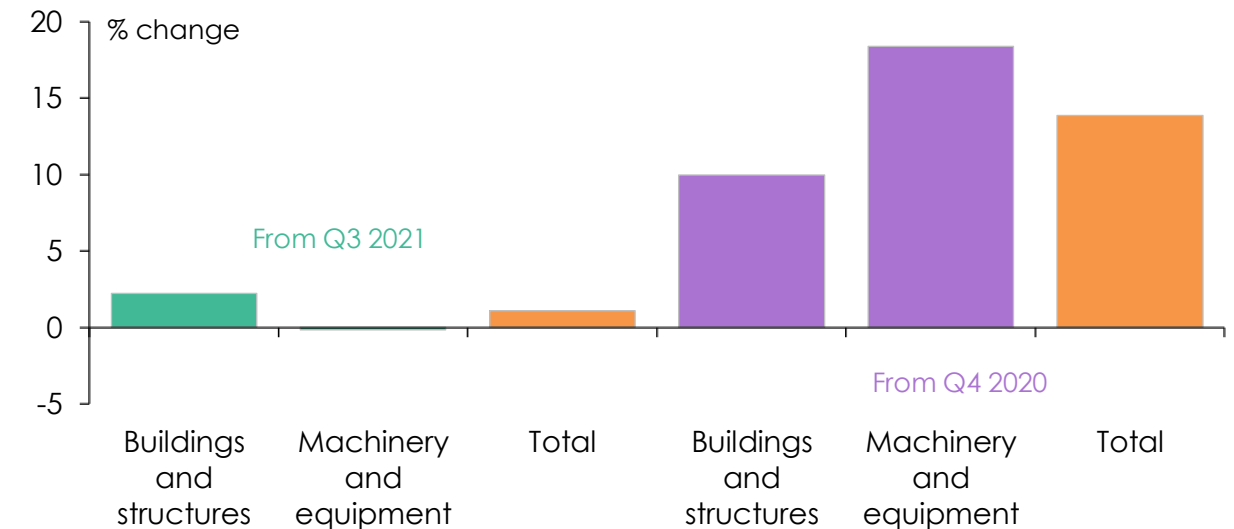
## Real business new fixed capex, by industry, Q4



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



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



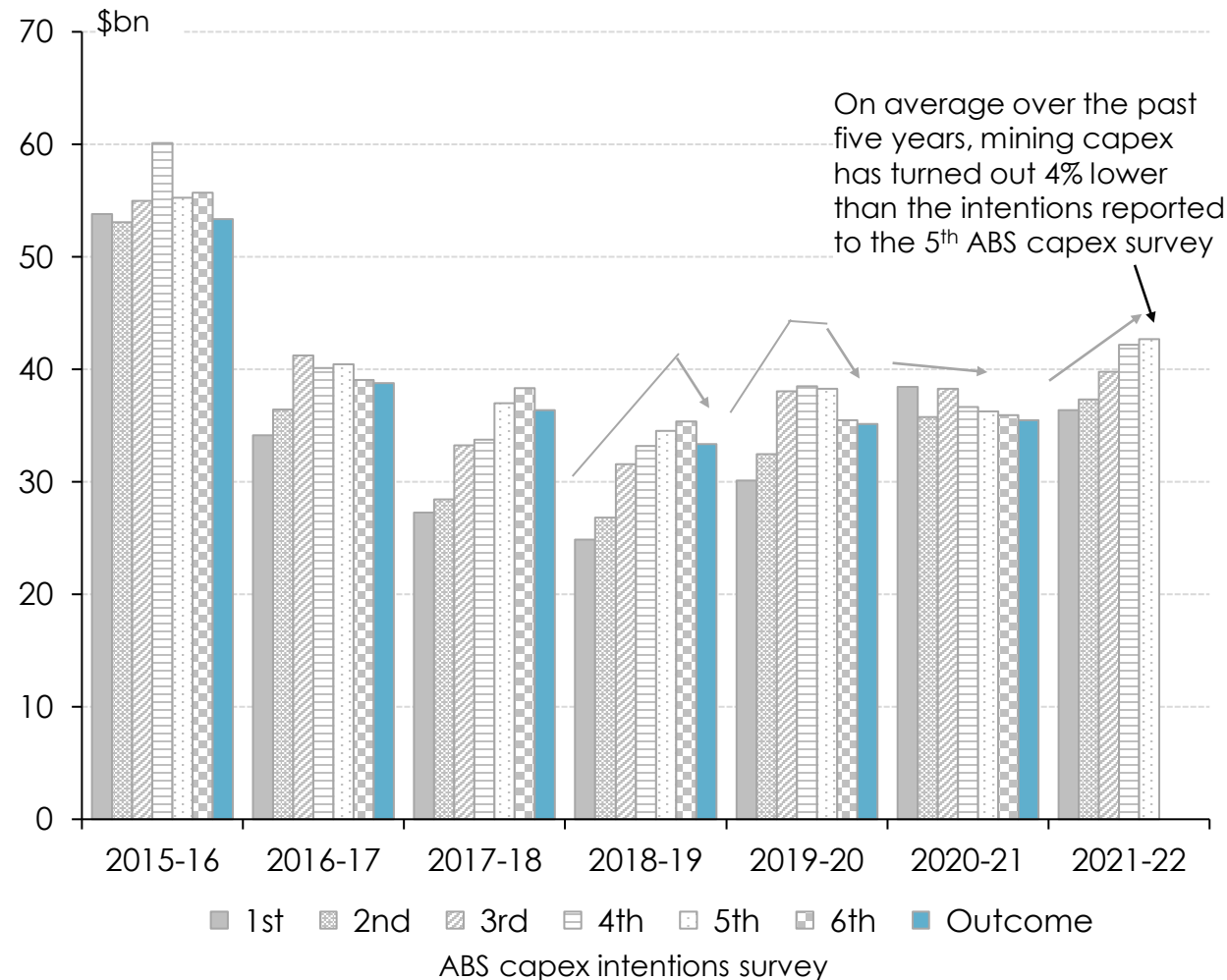
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

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

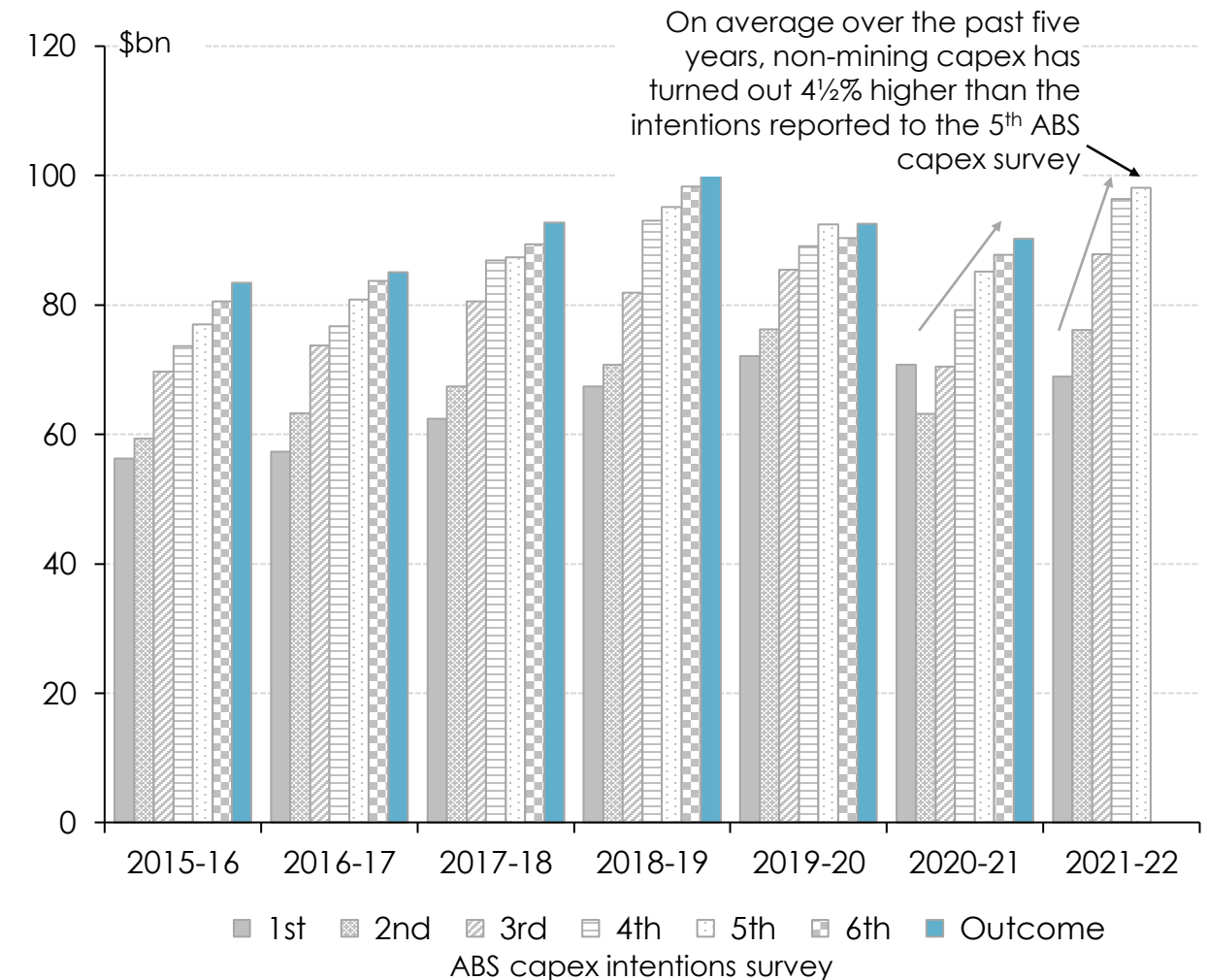
# Businesses revised up their capex plans for 2021-22 by 1.6% over the past three months, pointing to a 14¼% nominal increase in capex for 2021-22

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

## Capital expenditure intentions - mining



## Capital expenditure intentions – non-mining



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

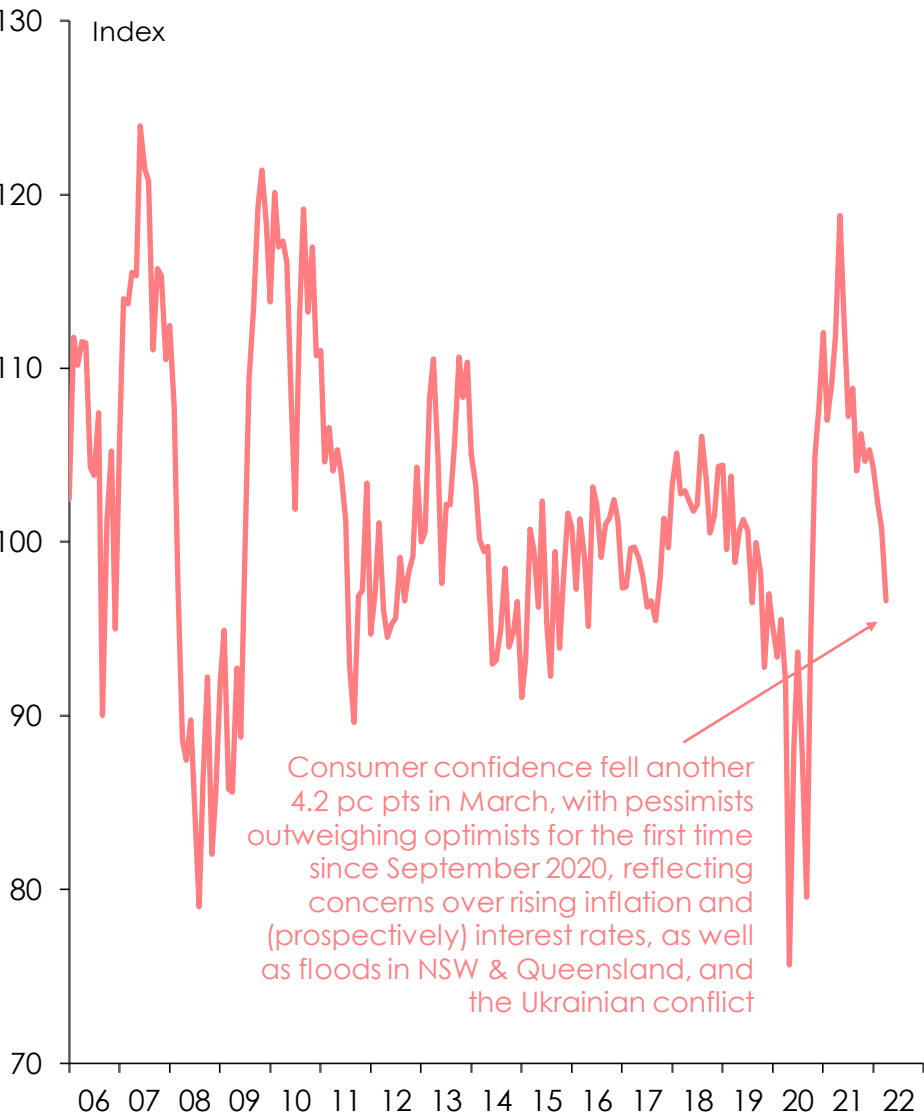
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); the 6<sup>th</sup> capex survey for 2021-22 will be released on 25<sup>th</sup> May. [Return to "What's New"](#).

# The household sector and consumer spending

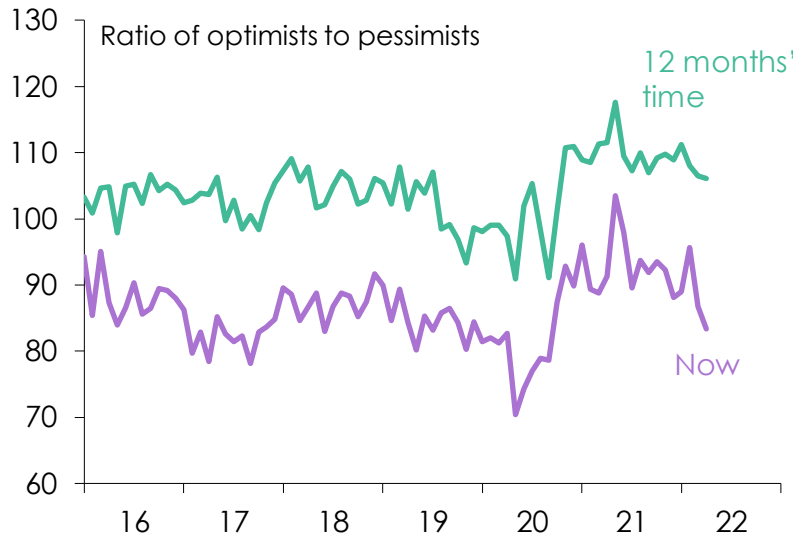
# Consumer confidence fell another 4.2 pc pts in March to its lowest level since September 2020, weighed down by floods, inflation and the Ukraine conflict

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

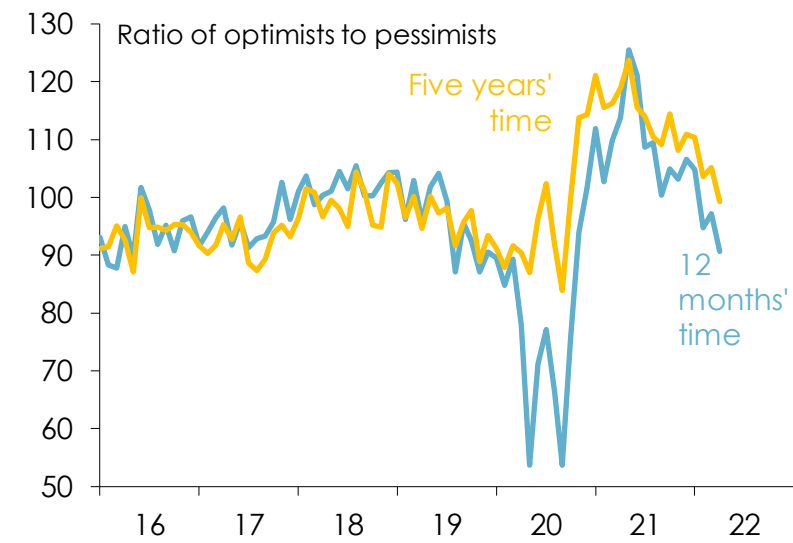
## Consumer confidence index



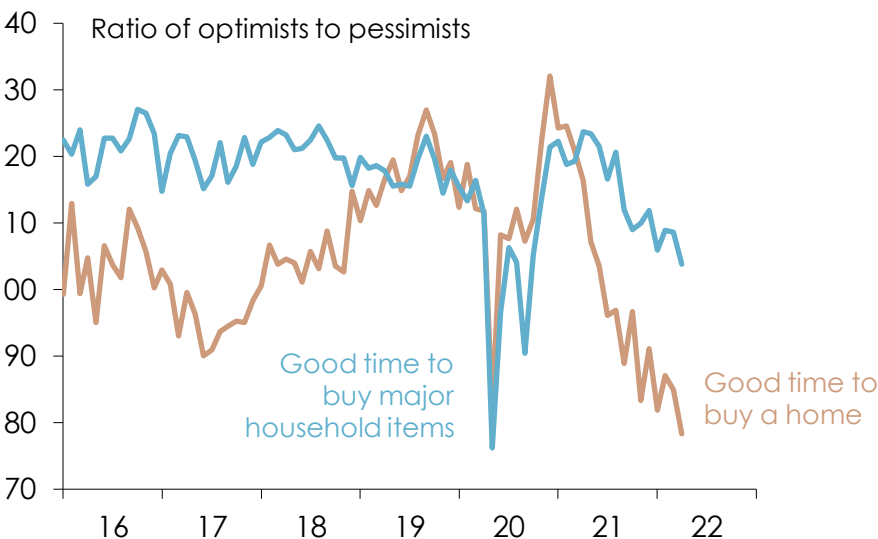
## Household finances assessment



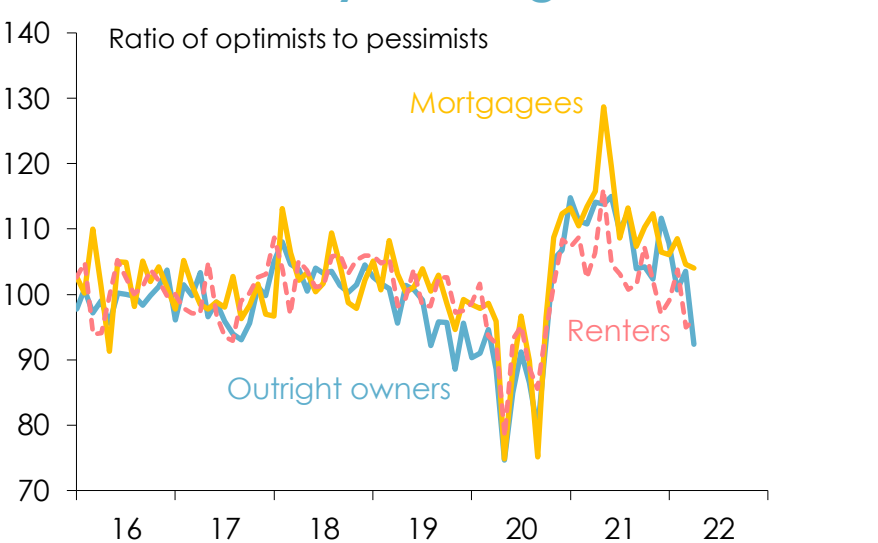
## Economic conditions assessment



## Buying conditions assessment



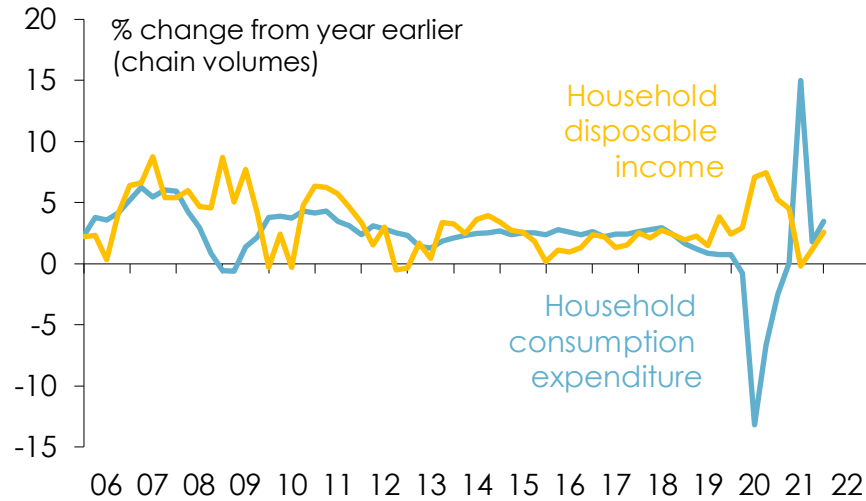
## Confidence by housing tenure



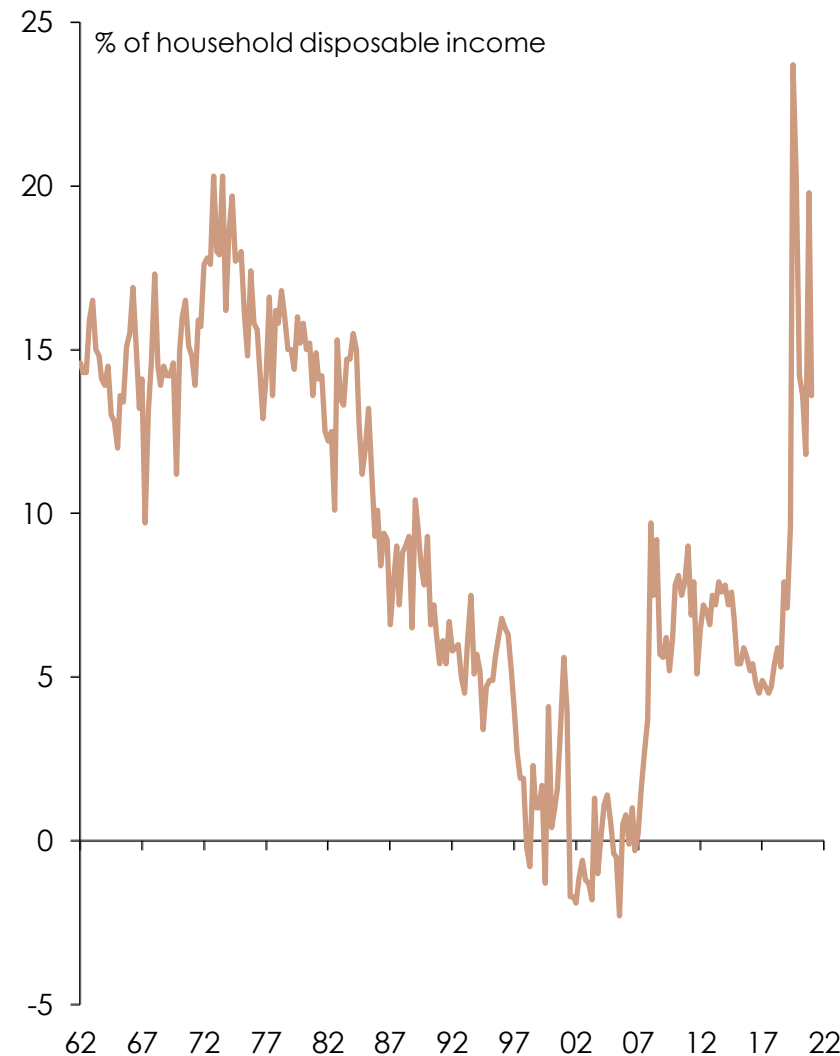
# Household disposable income fell 1.3% in Q4 due to the ending of Covid-related benefit programs, but households cut their savings to fund spending

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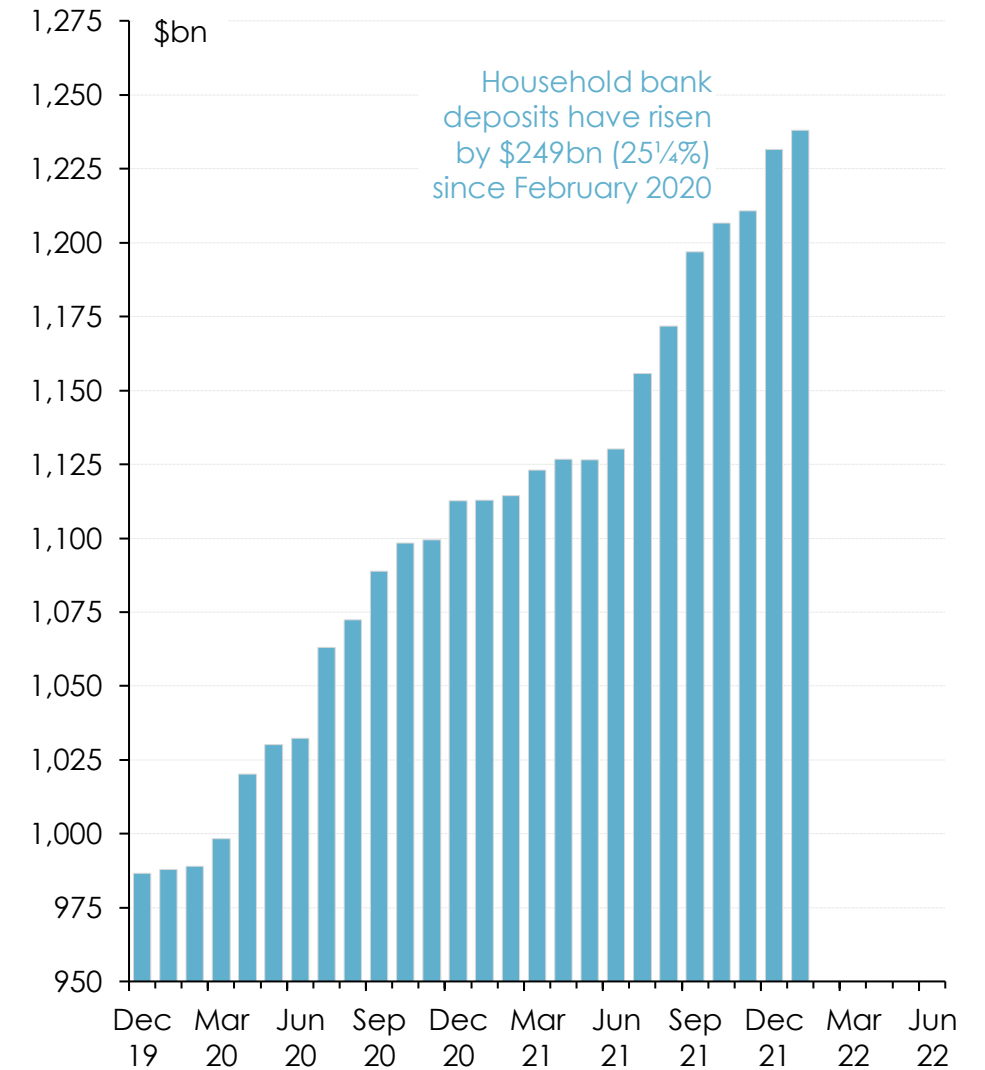
## Household income and spending



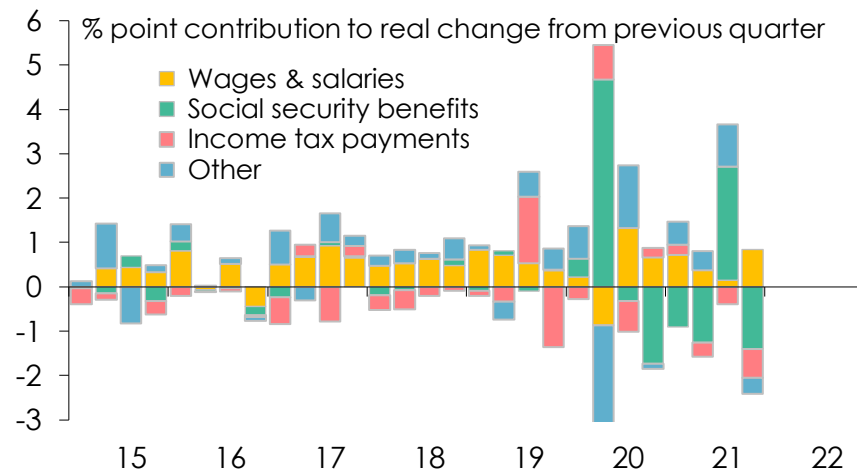
## Household saving ratio



## Household bank deposits



## Sources of household income

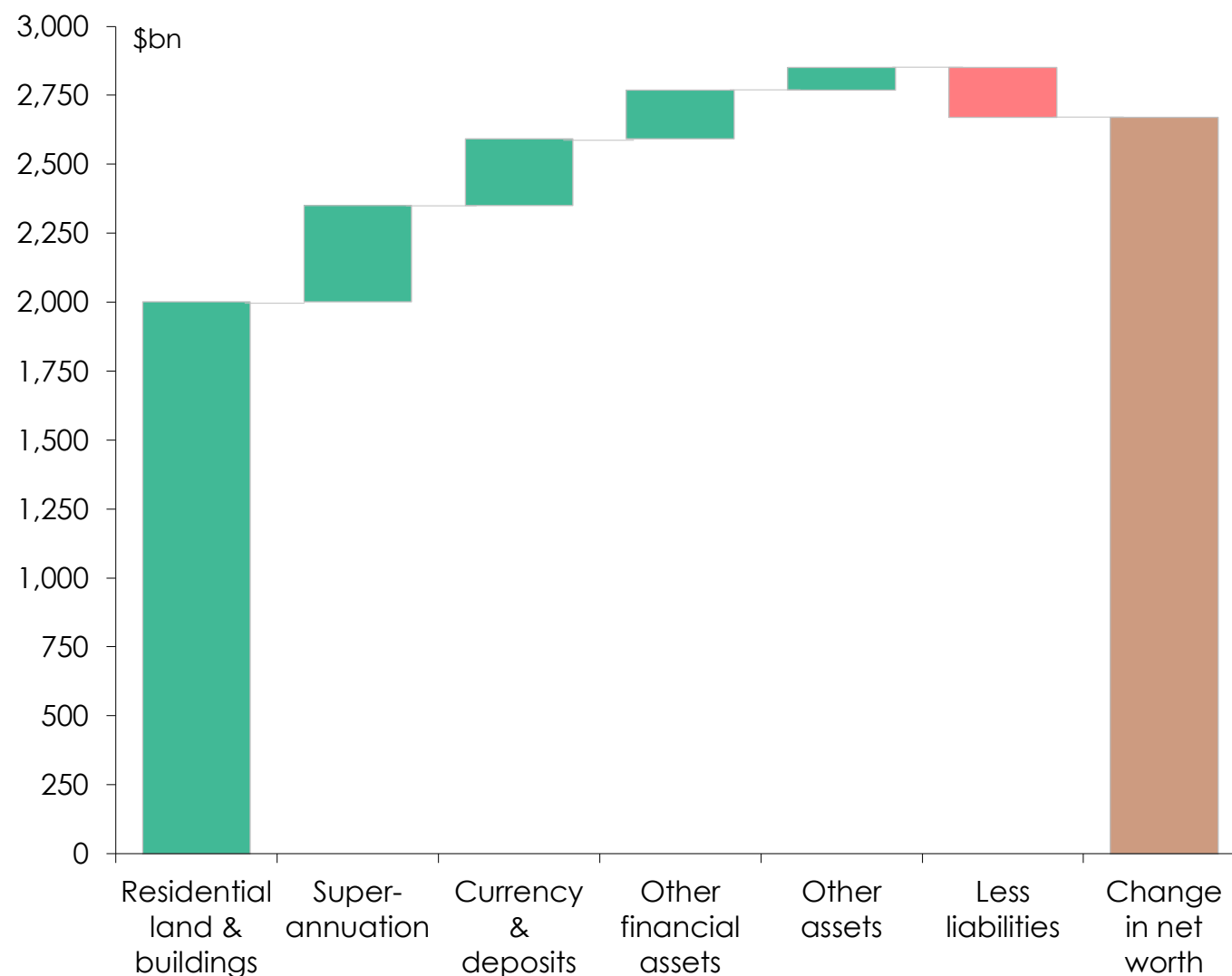


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). March quarter data on household income, spending and saving will be released on 1<sup>st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

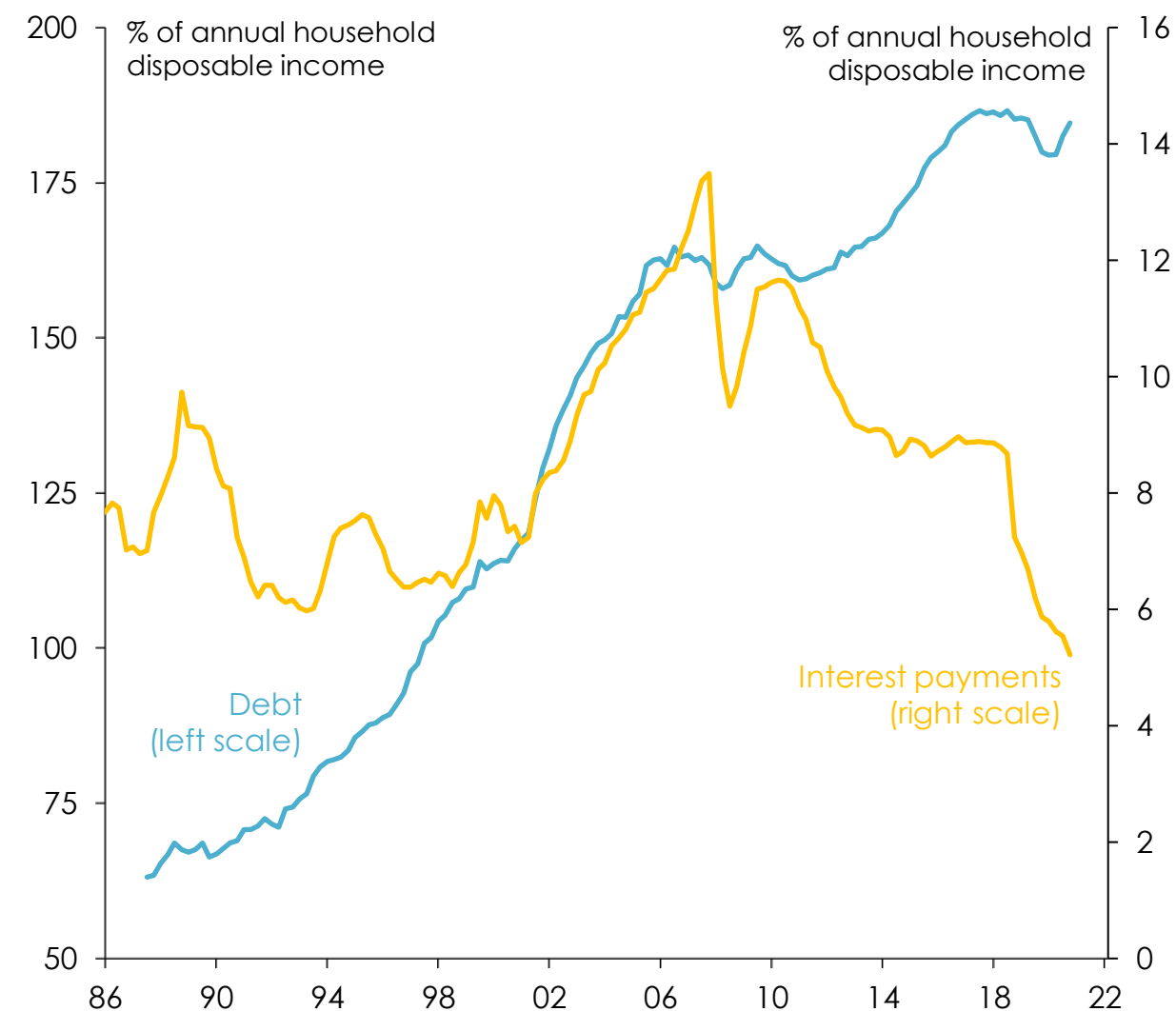
# Household net worth has risen by \$2.7trn (23¾%) since the end of 2019, while debt service payments have fallen as a pc of income

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

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



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



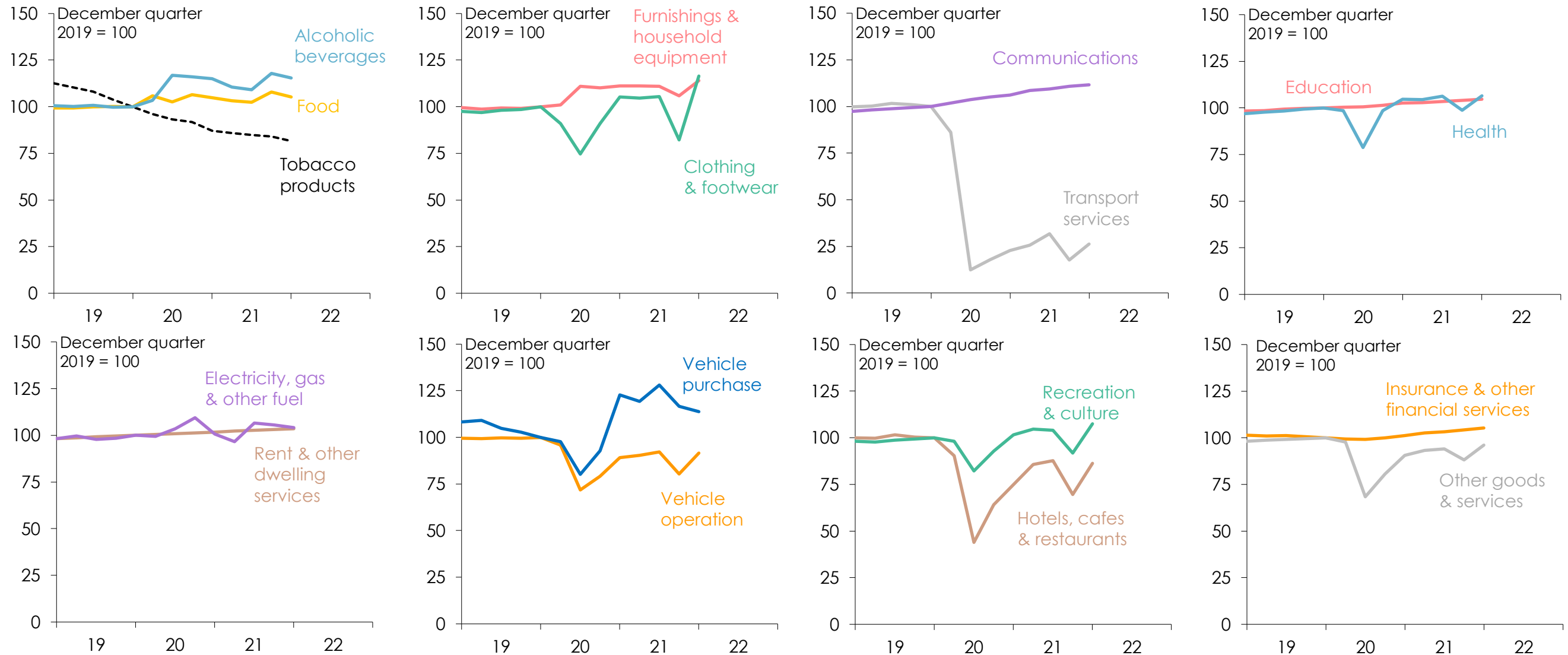
Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; RBA, [Statistical Tables](#) E1 & E2. December quarter data will be released on 31<sup>st</sup> March 2022.  
[Return to "What's New"](#).



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

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

## Major categories of household consumption spending



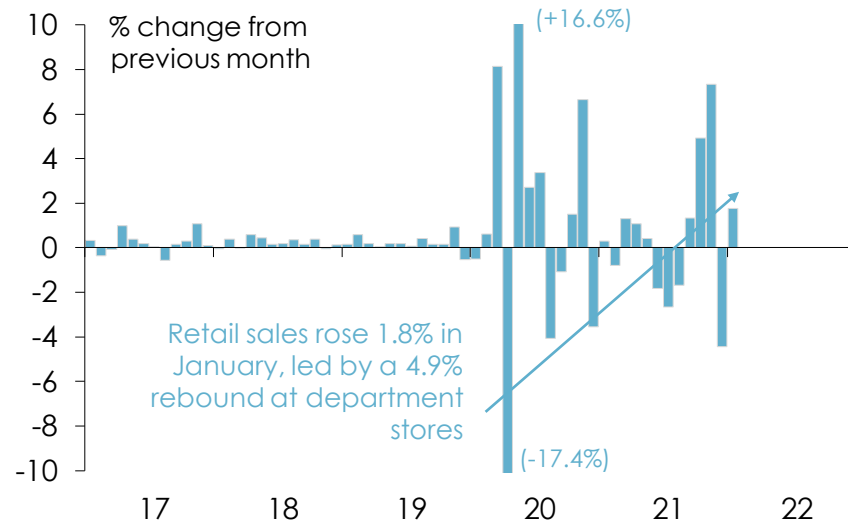
Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; March quarter data will be released on 1<sup>st</sup> June. [Return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



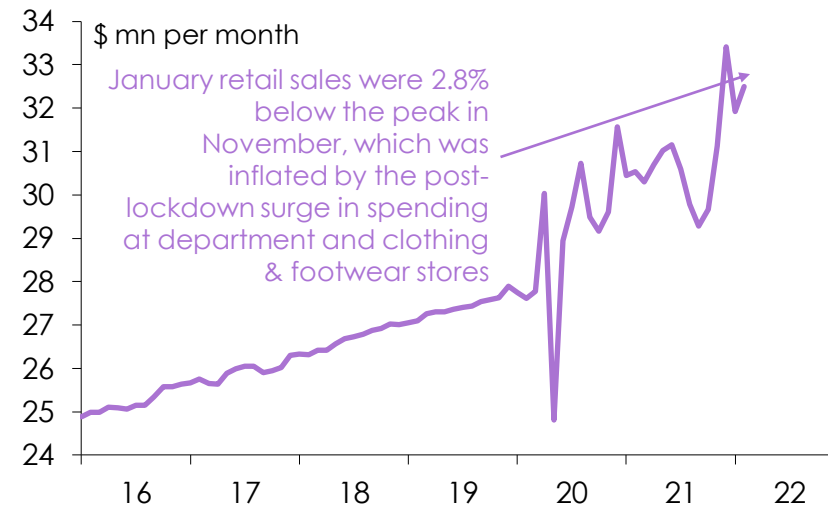
# Motor vehicle sales rose another 4% in February, to their highest level in six months, with increases in all states except Tasmania and the ACT

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

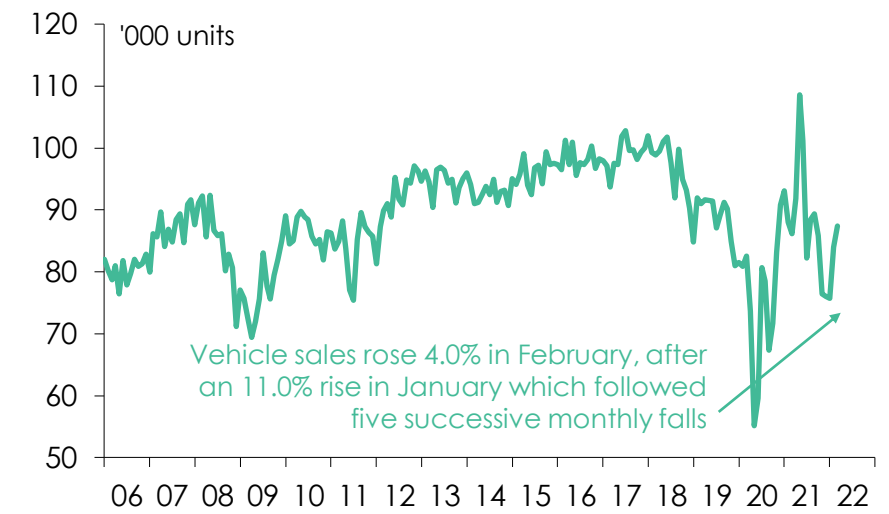
## Monthly retail sales



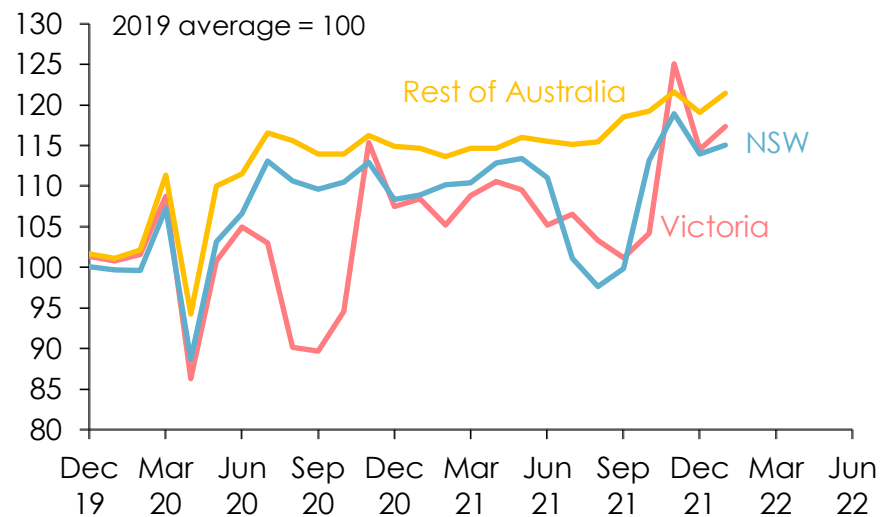
## Level of retail sales



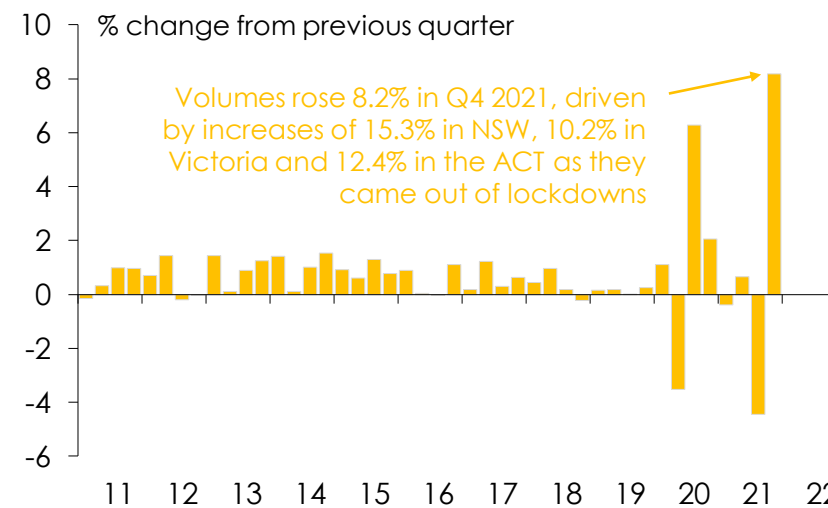
## New motor vehicle sales



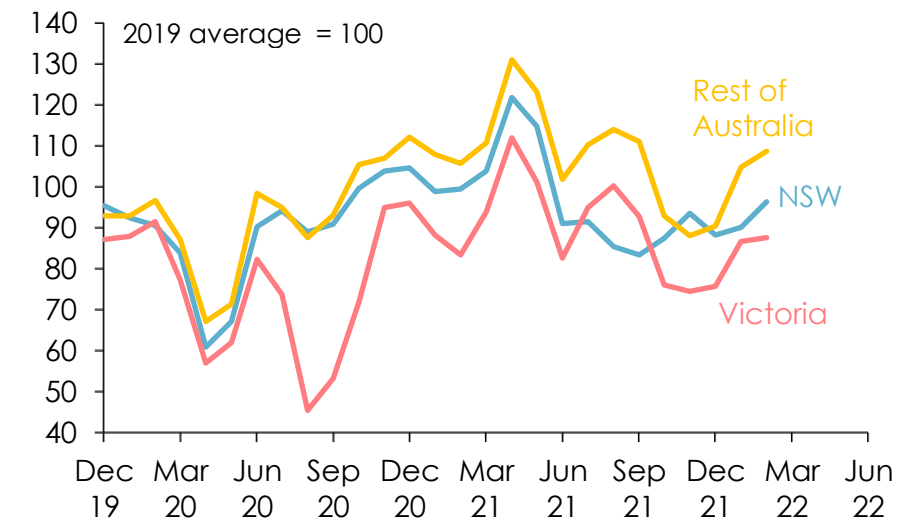
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



## Vehicle sales – NSW, Vic & the rest

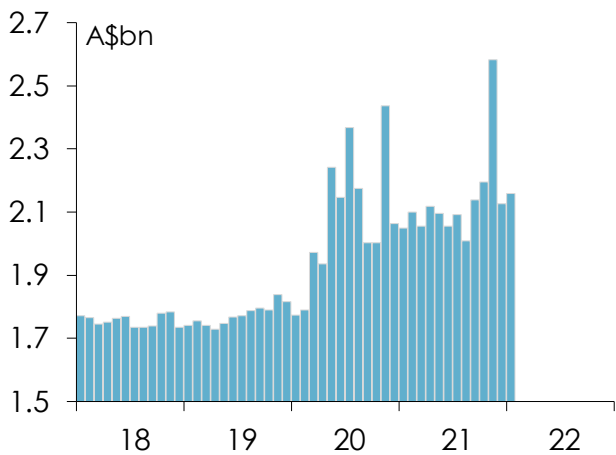


Note: see also [slide 42](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary February retail sales data will be released on 29<sup>th</sup> March; March motor vehicle sales data will be released in the second week of April. [Return to "What's New"](#).

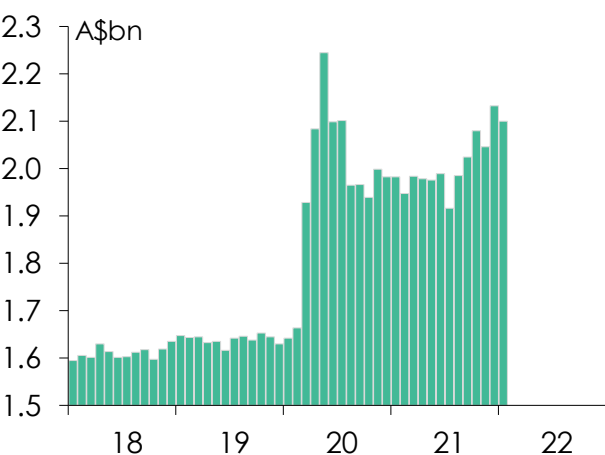
# Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

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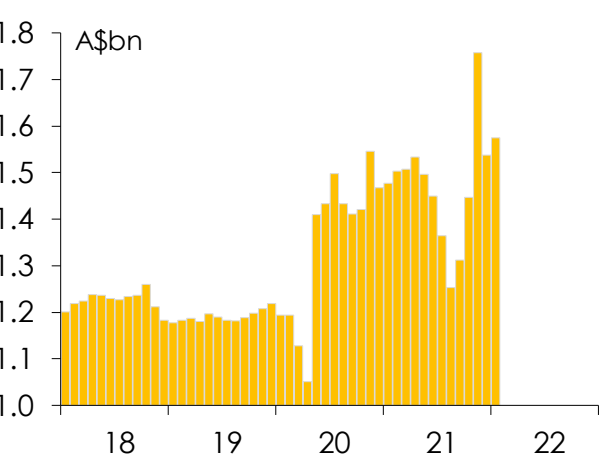
## Electronic & electrical goods



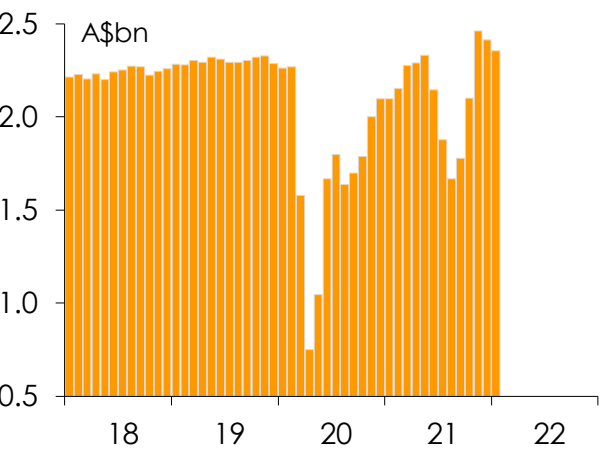
## Hardware, building & garden supplies



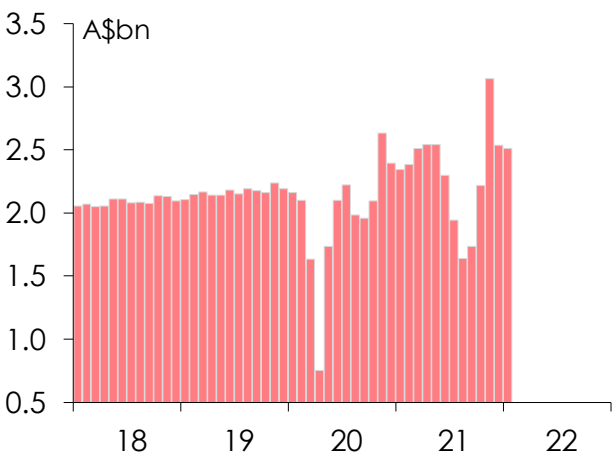
## Floor coverings, furniture, housewares etc



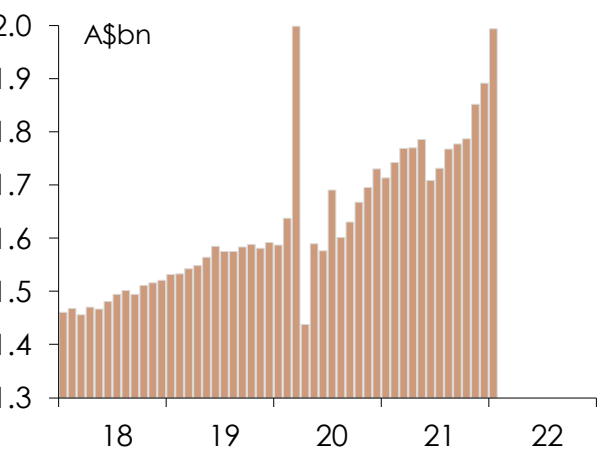
## Cafes and restaurants



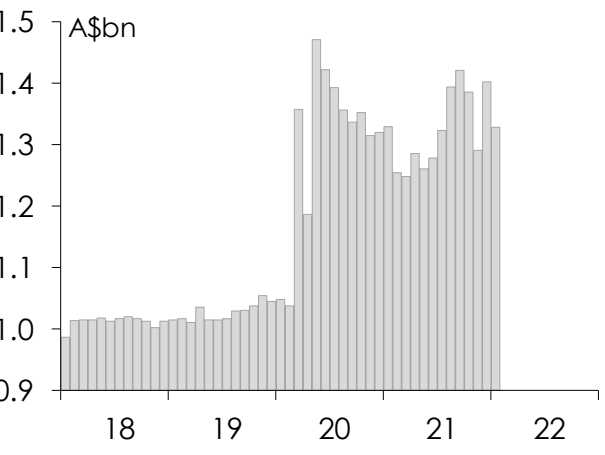
## Clothing, footwear & personal accessories



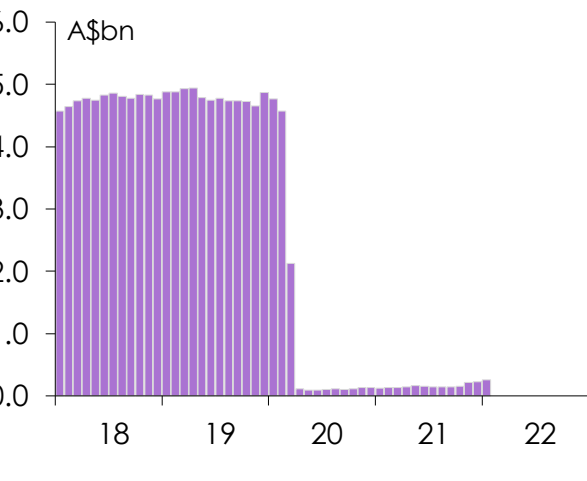
## Pharmaceuticals, cosmetics & toiletries



## Alcoholic beverages



## Overseas travel

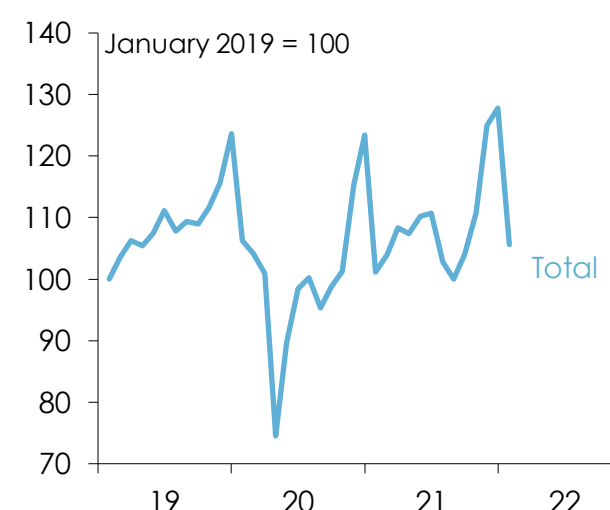
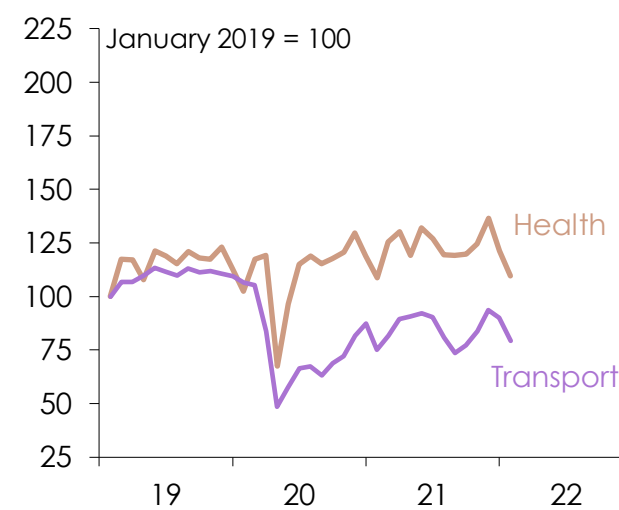
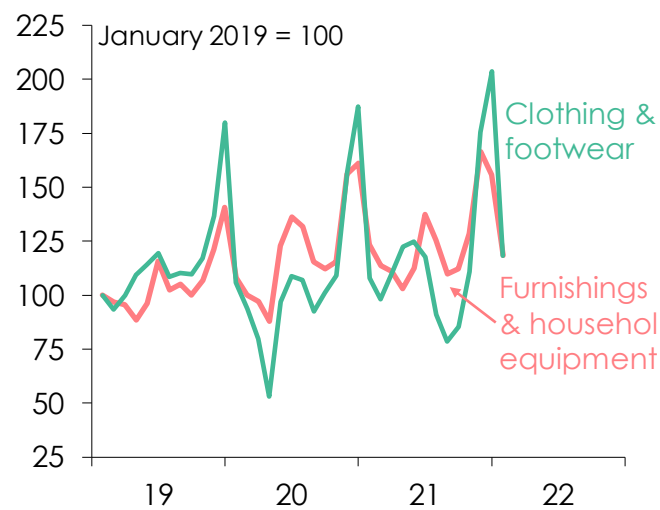
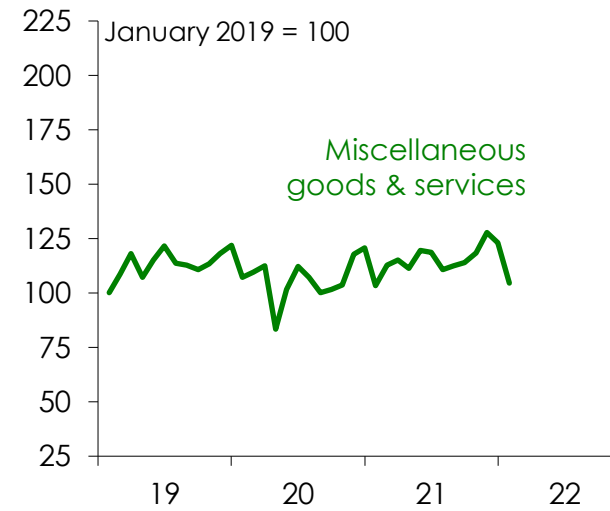
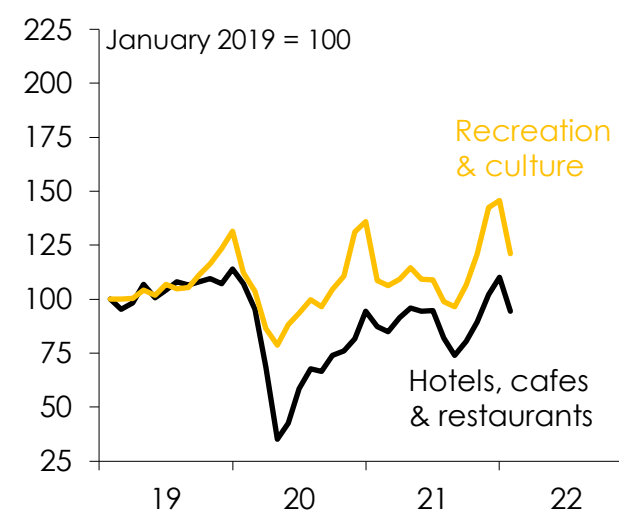
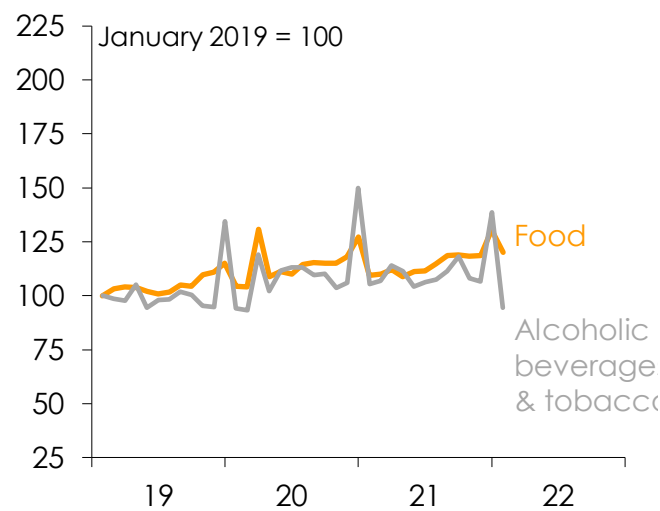


Sources: ABS, [Retail Trade, Australia](#), January 2022 (the detailed February data on which the above charts are based will be released on 4<sup>th</sup> April); and [International Trade in Goods and Services, Australia](#), January. [Return to "What's New"](#).

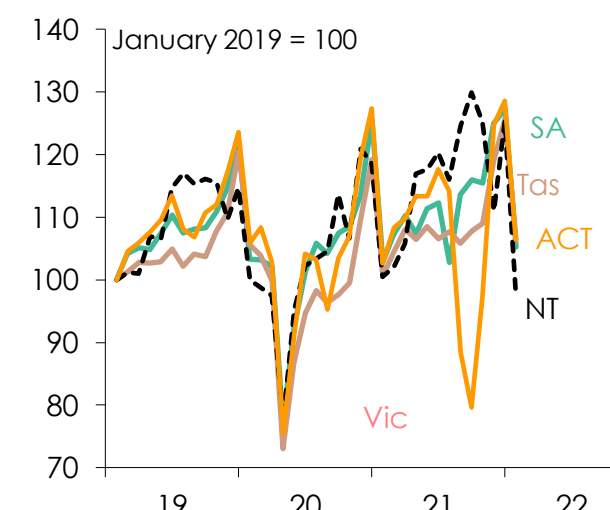
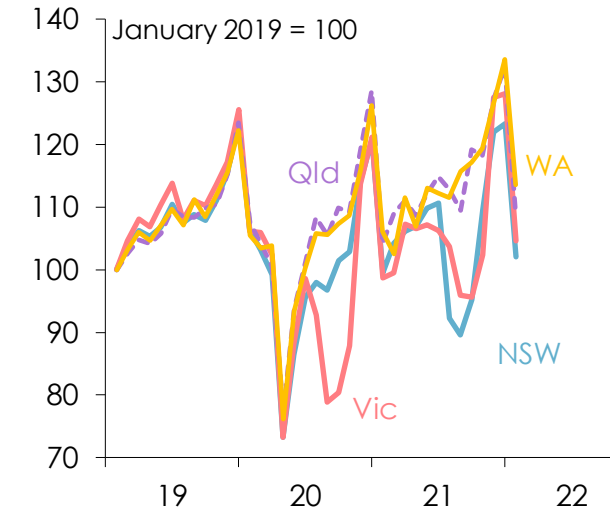
# Household spending (as measured by the new ABS indicator based on bank transactions data) was 4.3% higher in January than a year earlier

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

## Household spending by purpose



## By state & territory

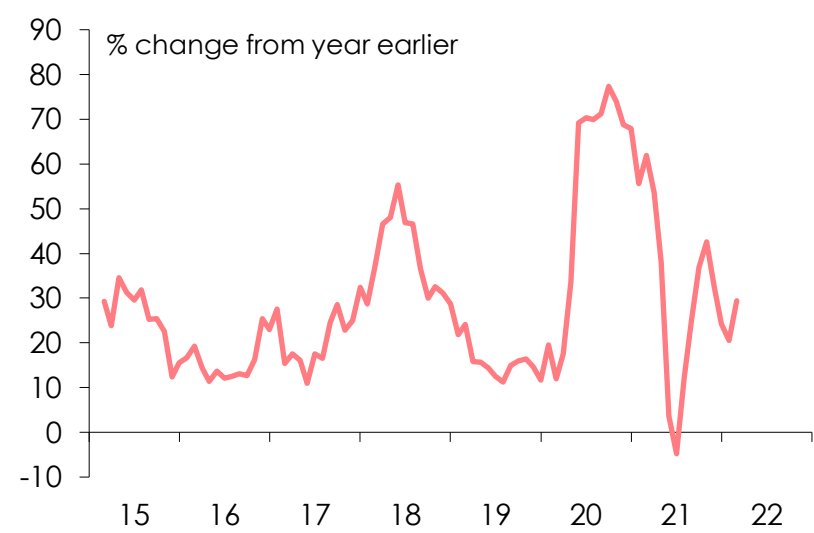


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, retail sales data are, and hence the ABS advises focussing on ‘through the year’ rather than month-to-month comparisons. Source: ABS, [Monthly Household Spending Indicator](#), January 2022. The ABS intends initially to publish this index eight weeks after the end of each month, and “over time” to reduce this publication lag. February data will be released on 19<sup>th</sup> April.

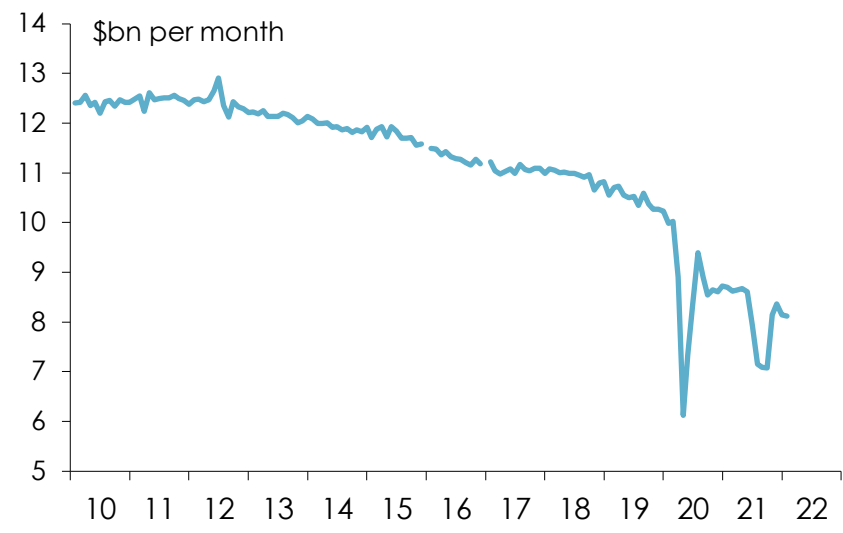
# Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

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

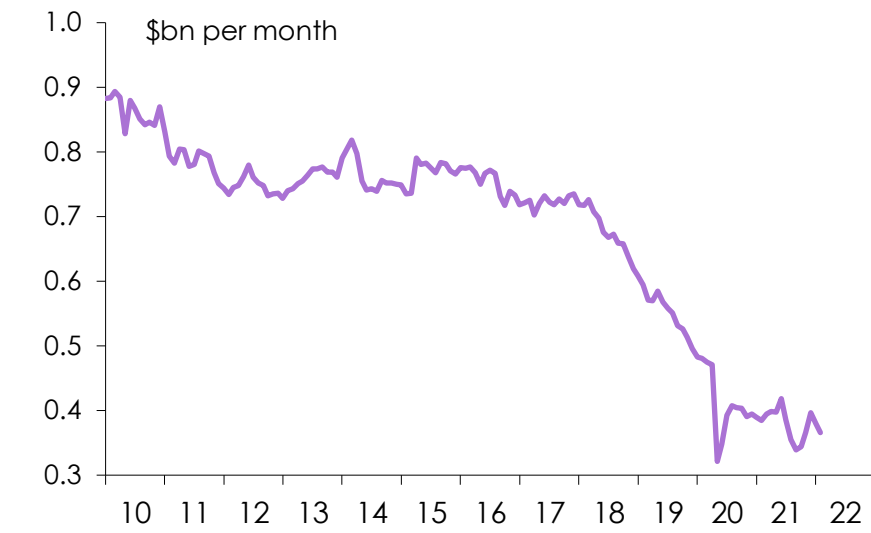
Growth in online retail sales



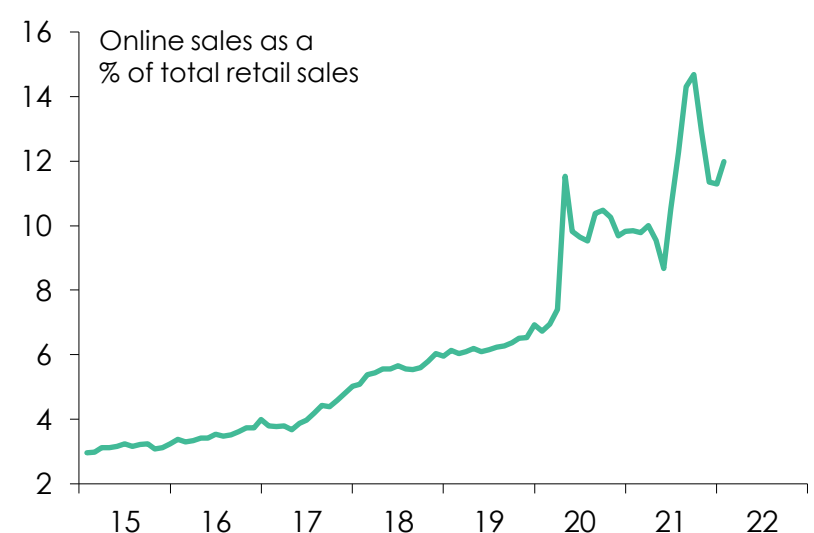
ATM cash withdrawals



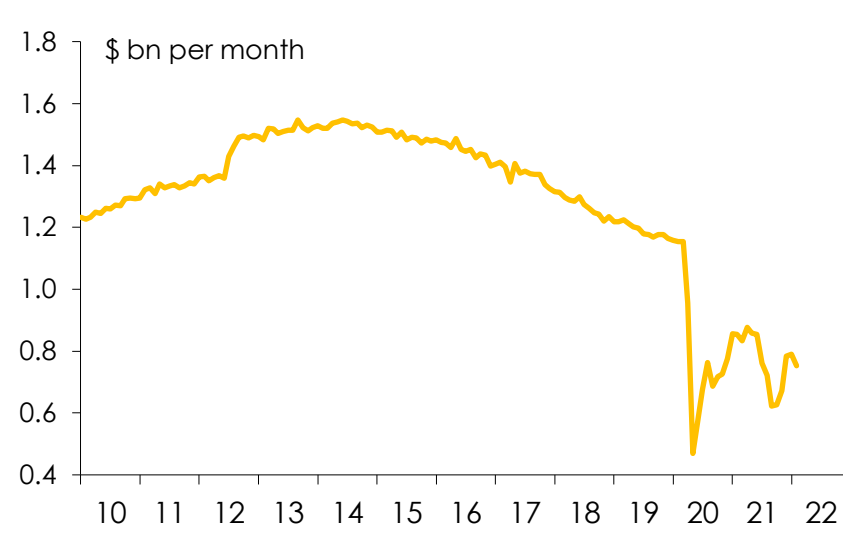
Credit card cash advances



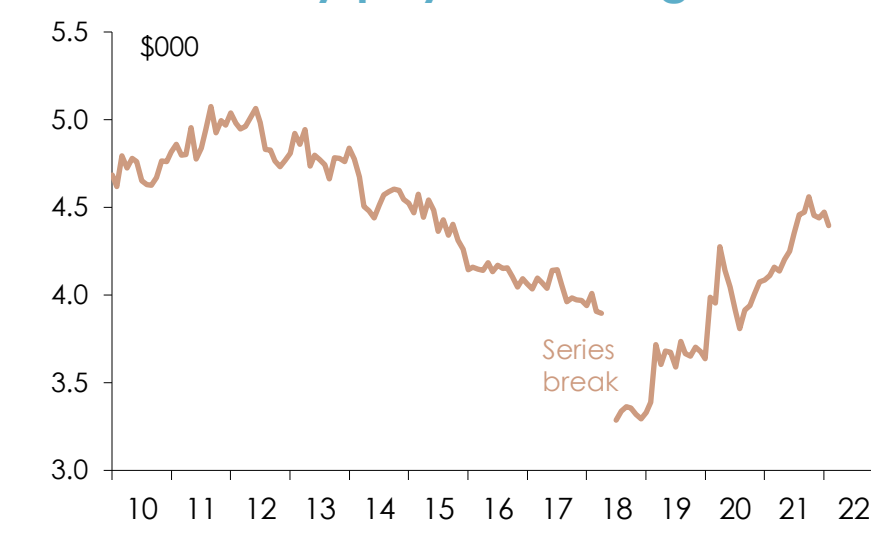
Online retail 'market share'



Debit card cash-outs



Direct entry payments avg value



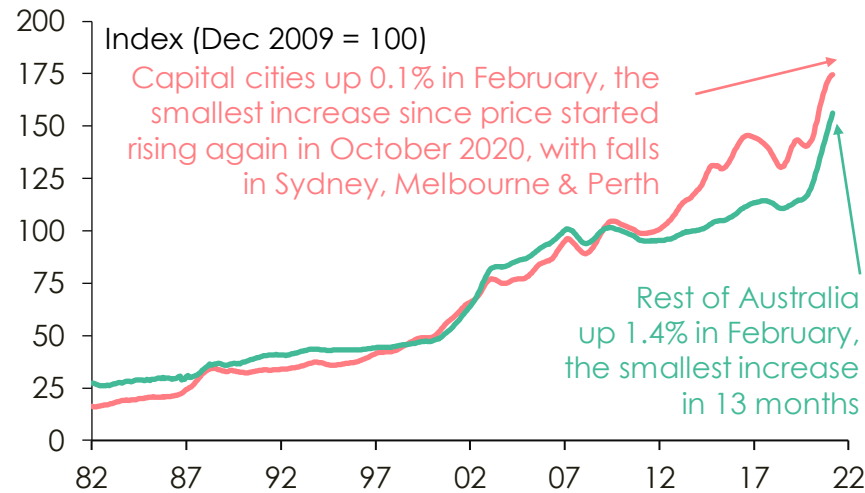
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales payments system data are for January. February online retail sales data will be published on 4<sup>th</sup> April and February payments system data on 7<sup>th</sup> April. [Return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

# Housing and the residential property market

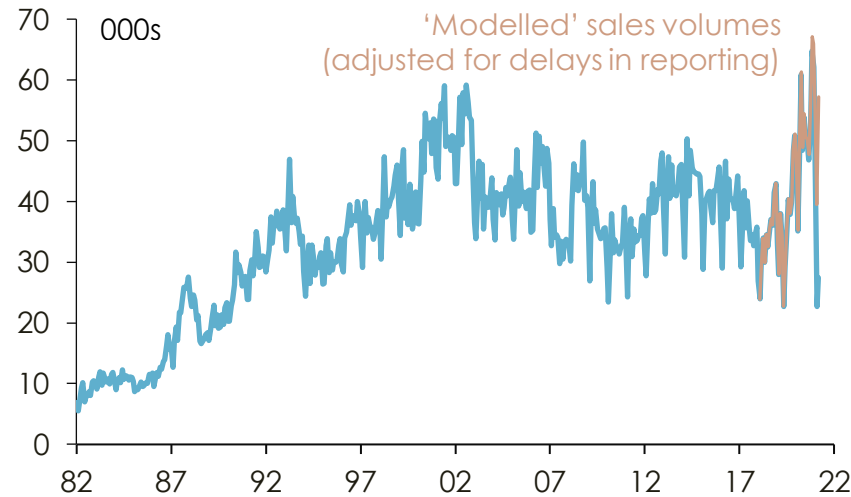
# Property prices rose 'only' 0.4% in February, the smallest increase since October 2020, continuing the slowing in monthly price gains since last June

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

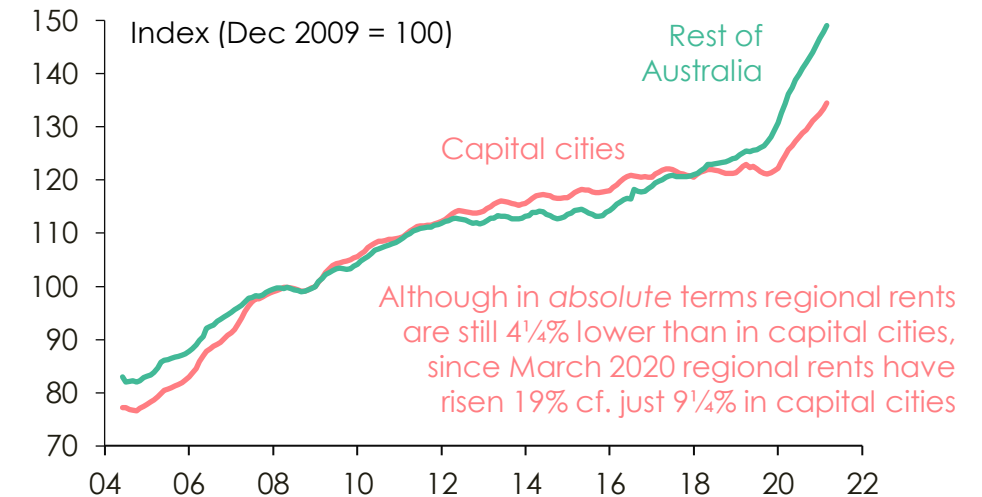
## Residential property prices



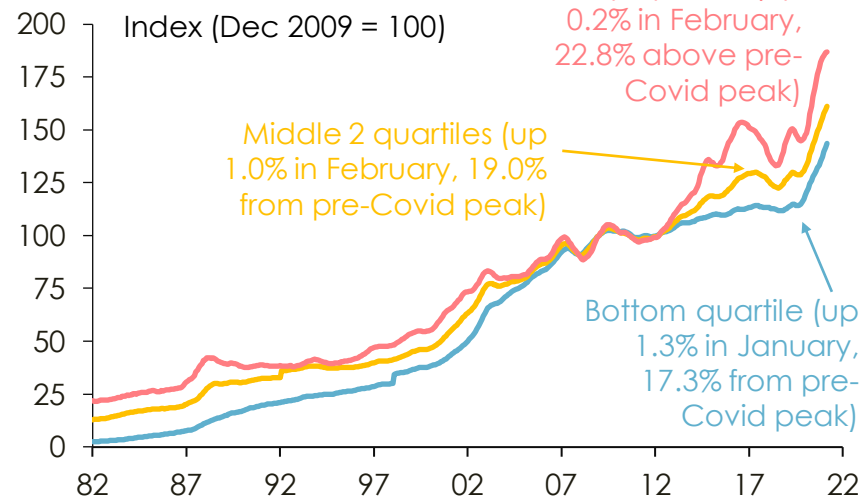
## Residential property sales volumes



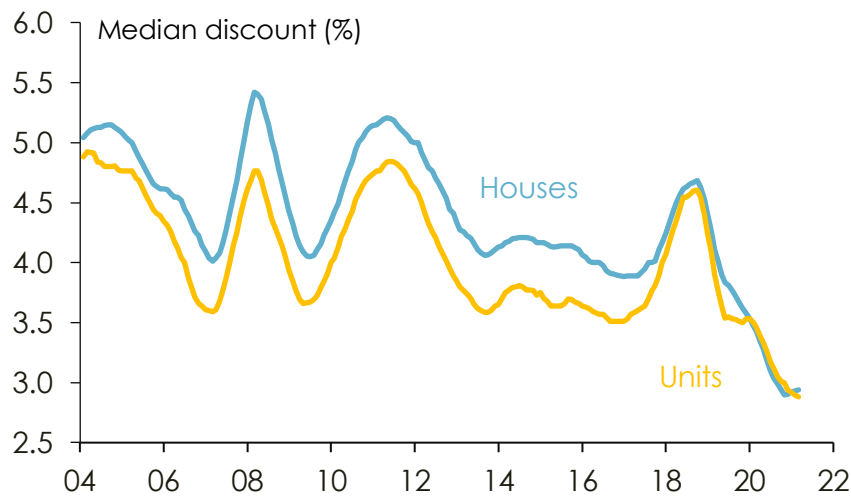
## Residential rents



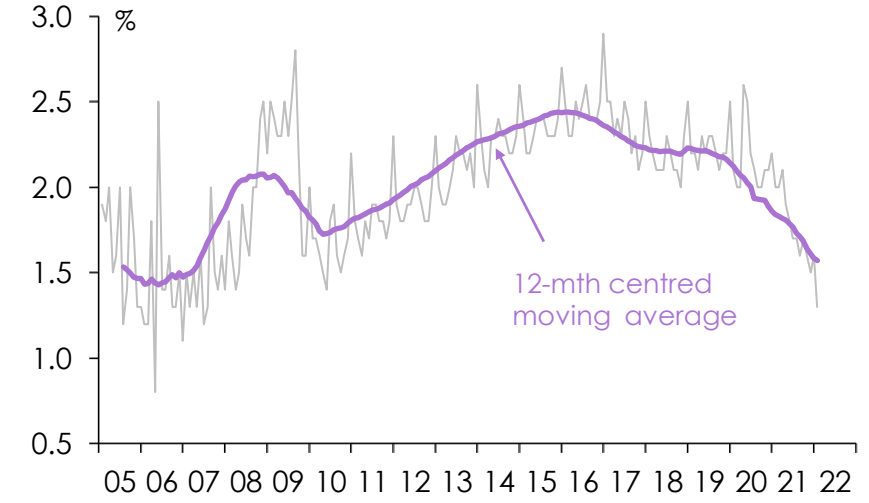
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

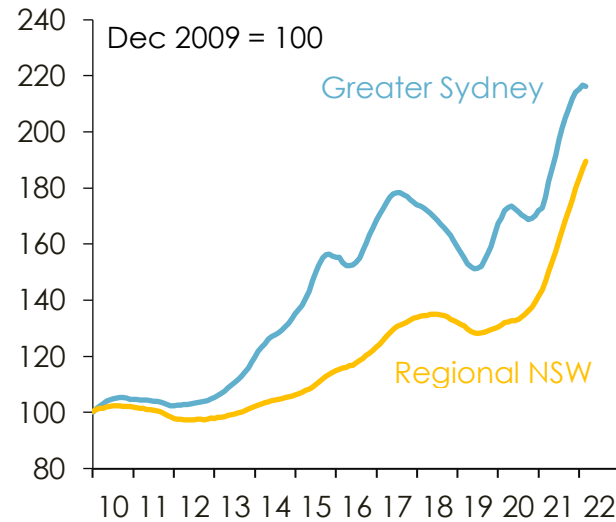


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

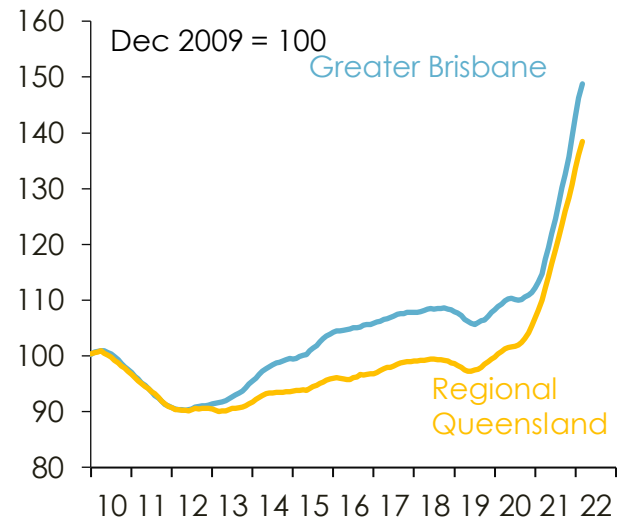
# Property prices fell marginally in February in Sydney, Melbourne and Perth but continued rising rapidly in Brisbane, Adelaide and Hobart

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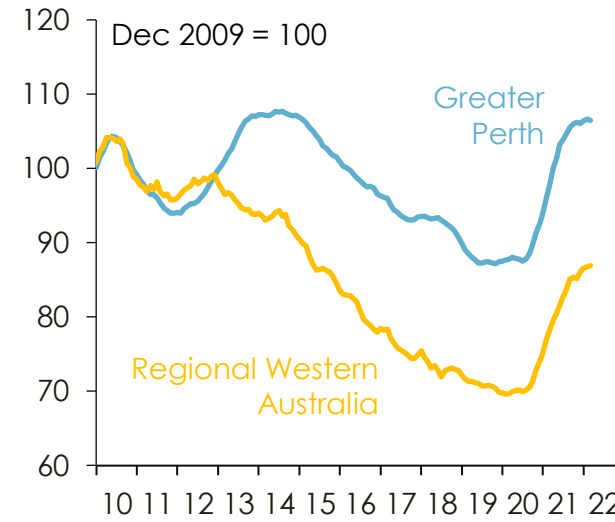
## New South Wales



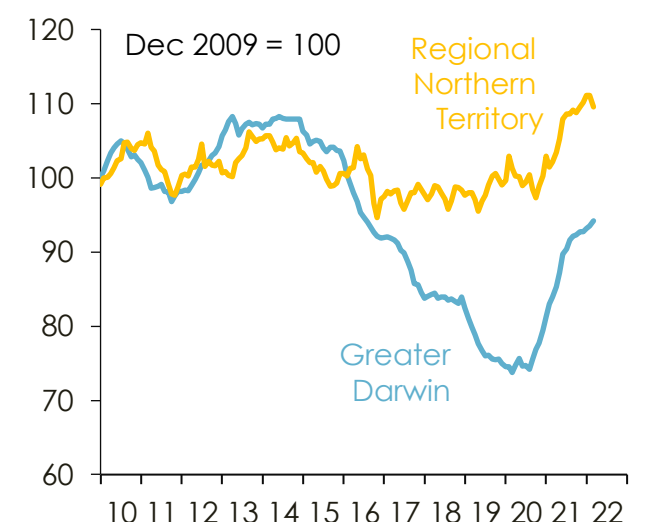
## Queensland



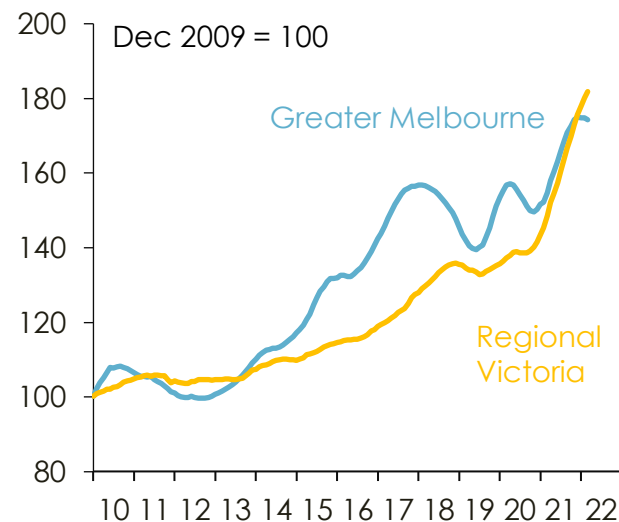
## Western Australia



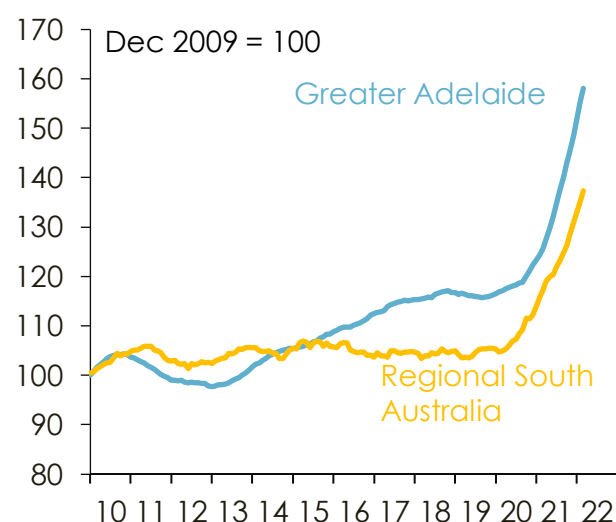
## Northern Territory



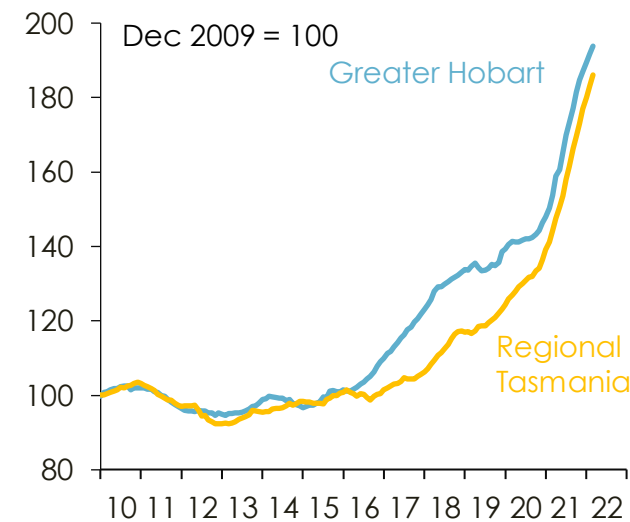
## Victoria



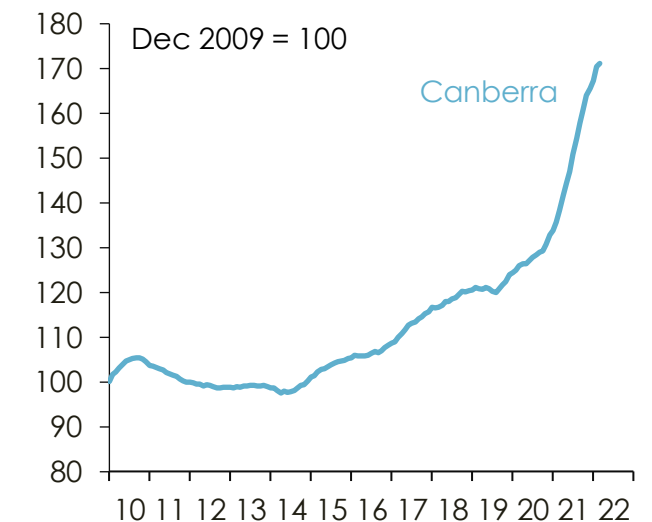
## South Australia



## Tasmania



## Australian Capital Territory



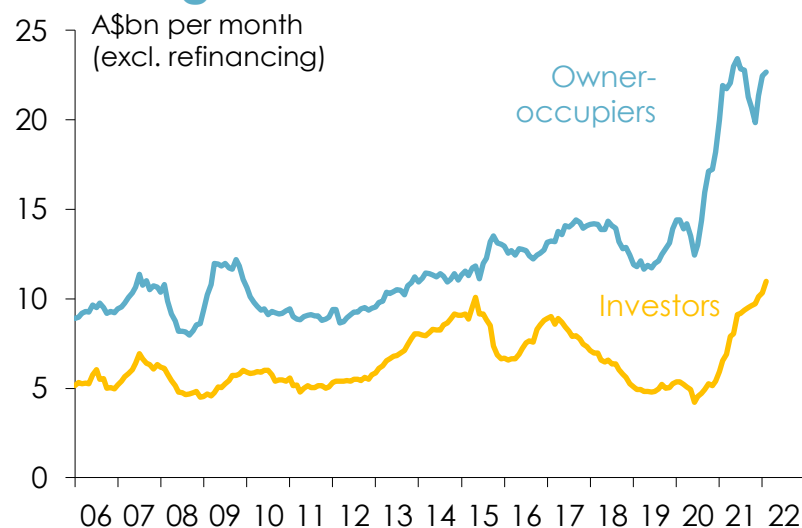
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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



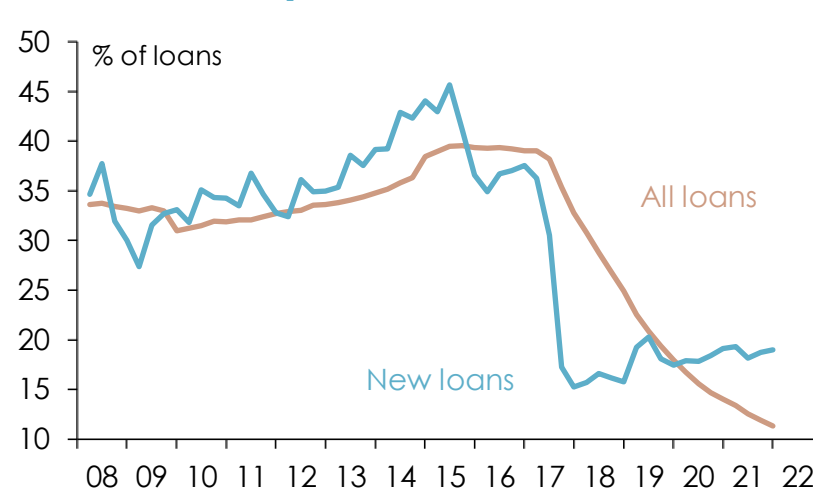
# Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

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

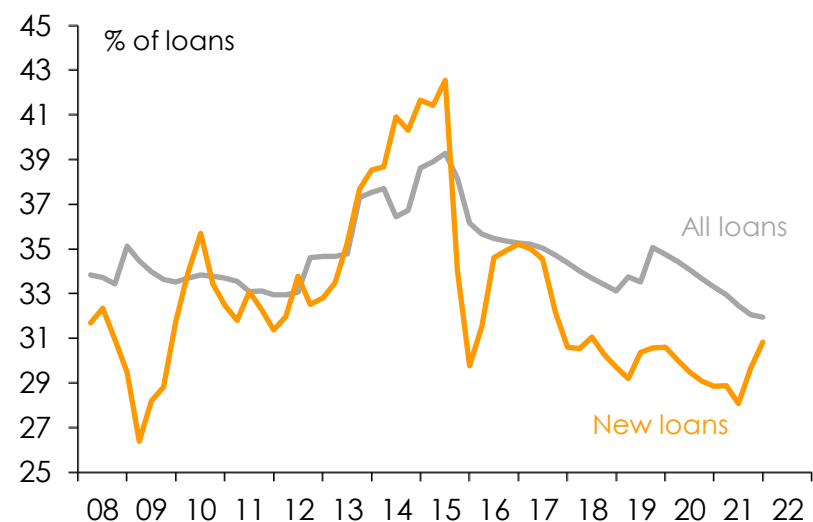
## Housing finance commitments



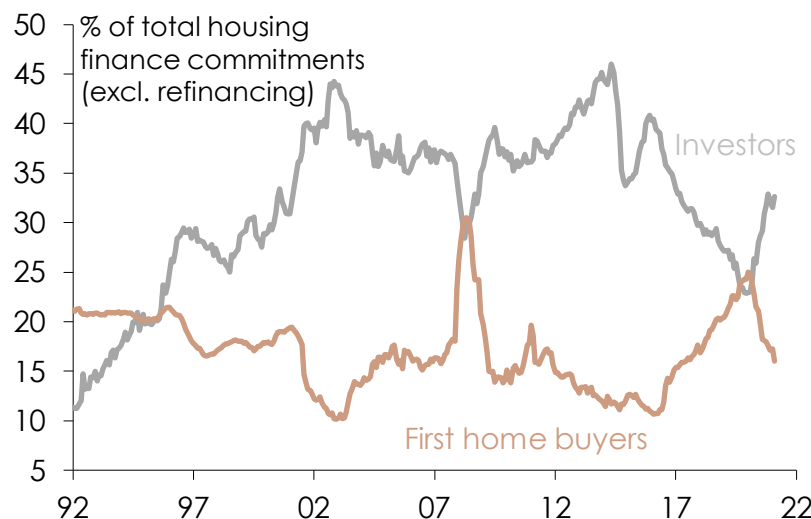
## Interest-only loans



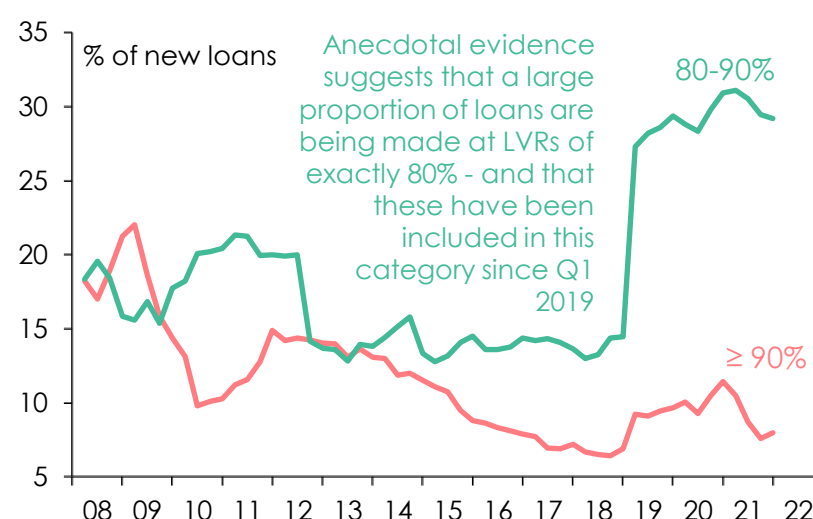
## Loans to investors as a pc of total



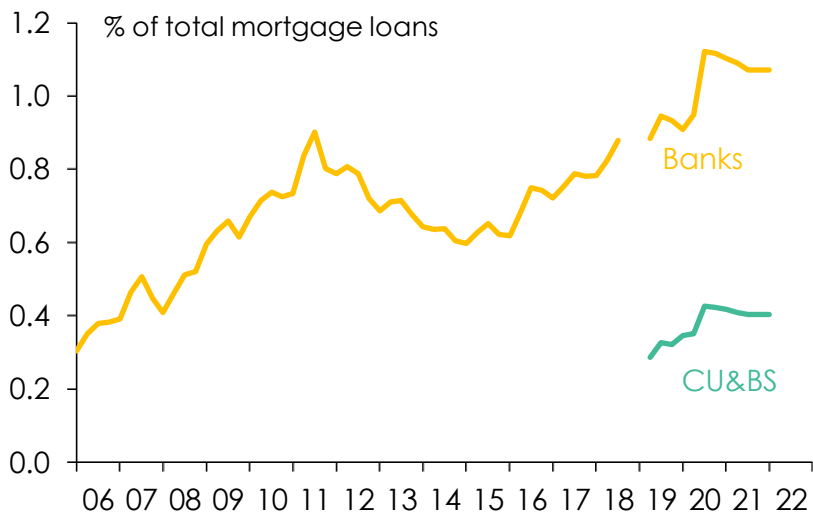
## Shares of housing finance



## High LVR loans as a pc of total



## Non-performing mortgage loans



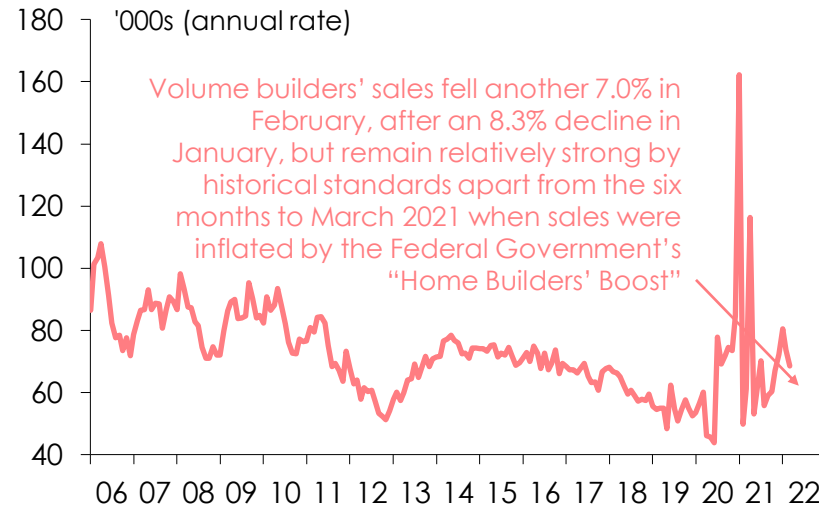
Sources: ABS, [Lending Indicators](#), January; Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). February housing finance data will be released on 1<sup>st</sup> April; APRA data on ADI property exposures for the March quarter will be released on 14<sup>th</sup> June. [Return to "What's New"](#).



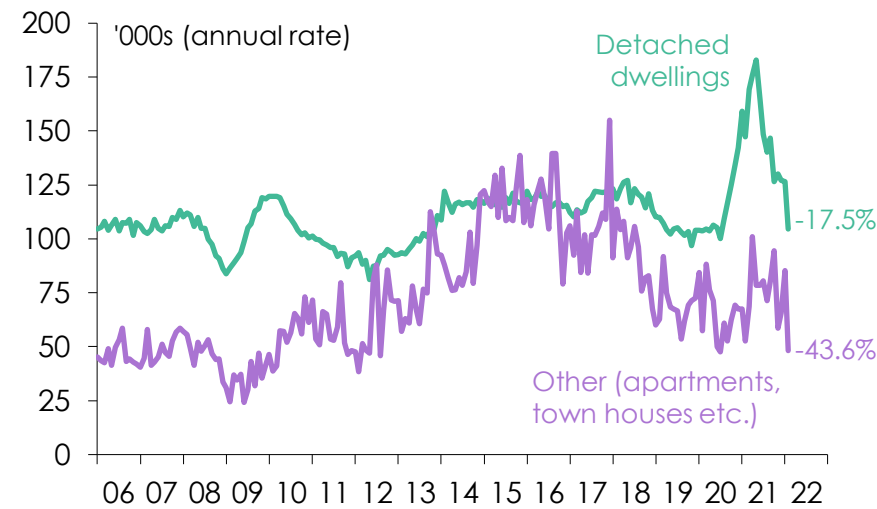
# Residential building fell 28% in January, the largest single-month decline in at least 50 years, with big falls for both detached and multi-unit dwellings

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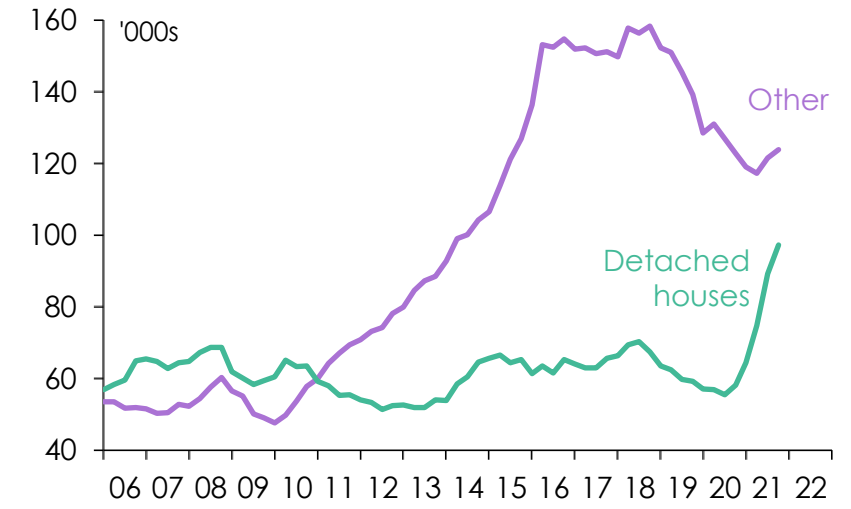
## Large builders' new home sales



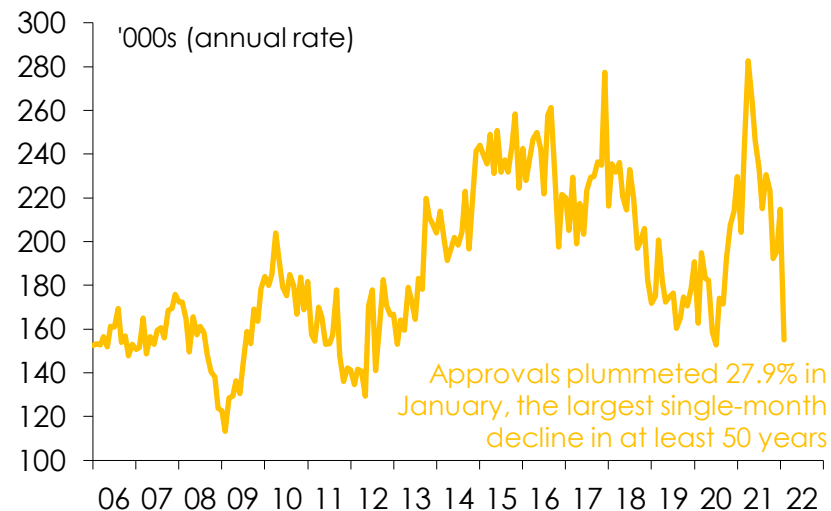
## Building approvals, by type



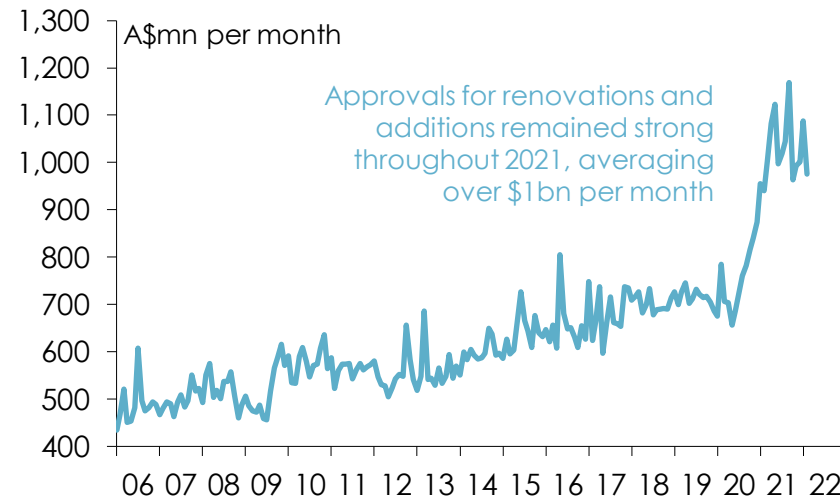
## Dwellings under construction



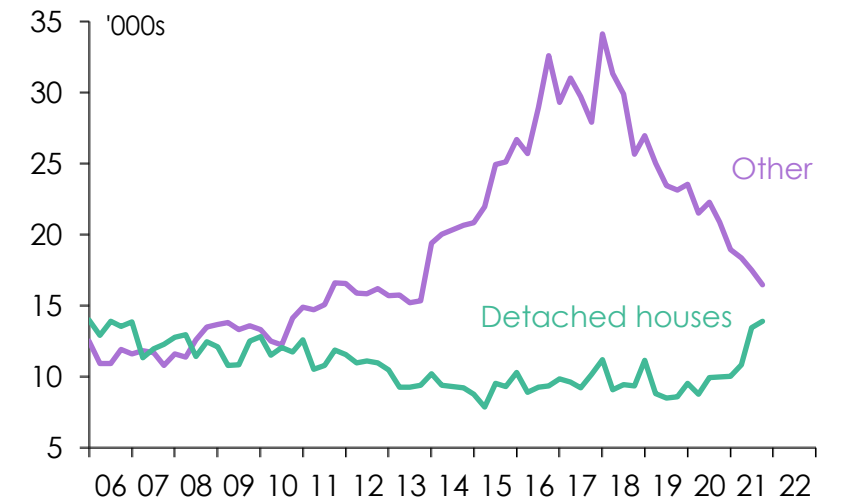
## Residential building approvals



## Alterations & additions approved



## 'Pipeline' of work yet to be started

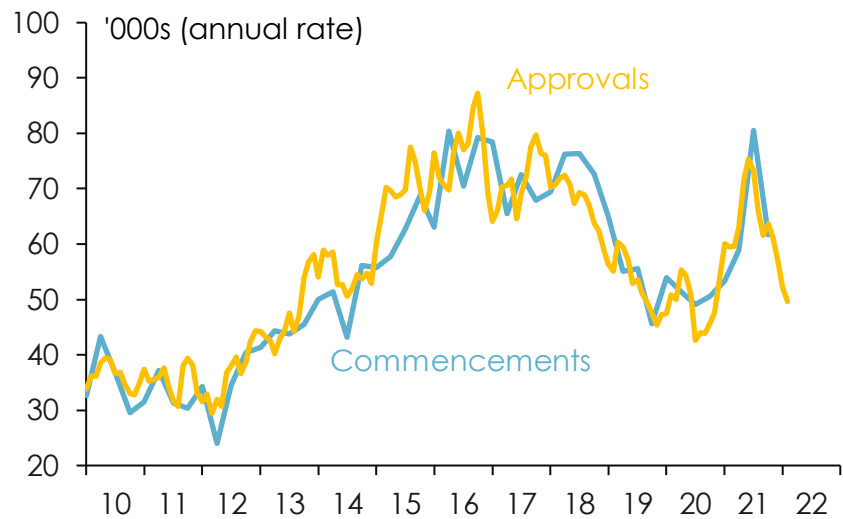


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. February building approvals data will be released on 31<sup>st</sup> March; December quarter dwellings under construction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

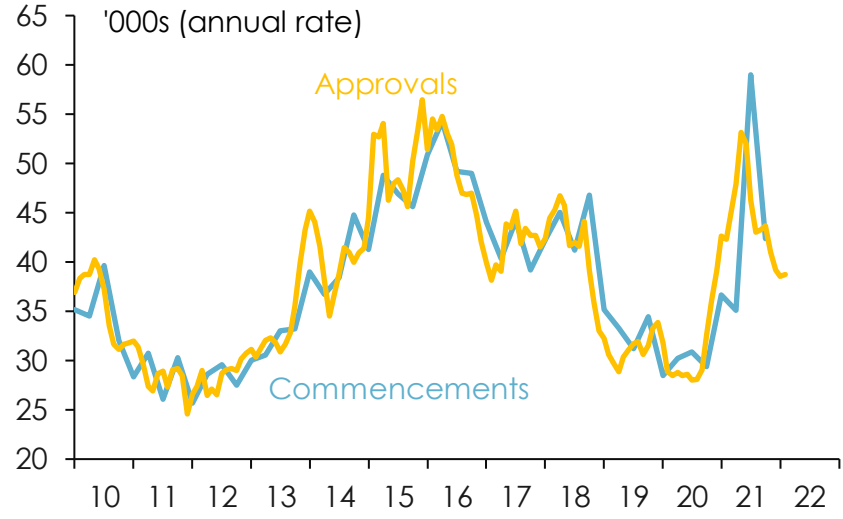
# Residential building approvals fell sharply in every state except Queensland in January

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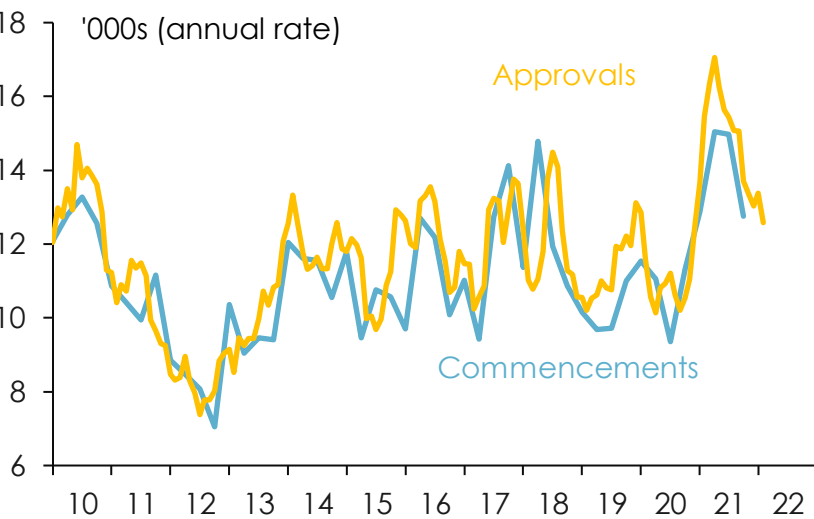
## New South Wales



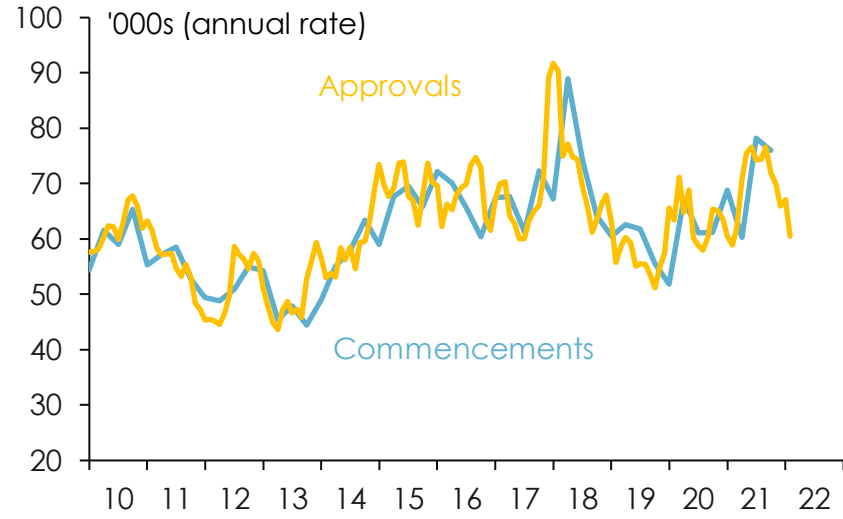
## Queensland



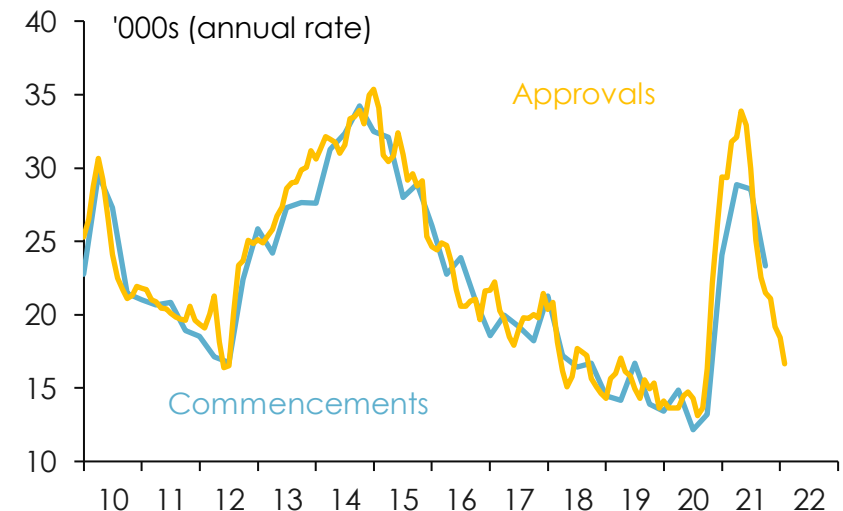
## South Australia



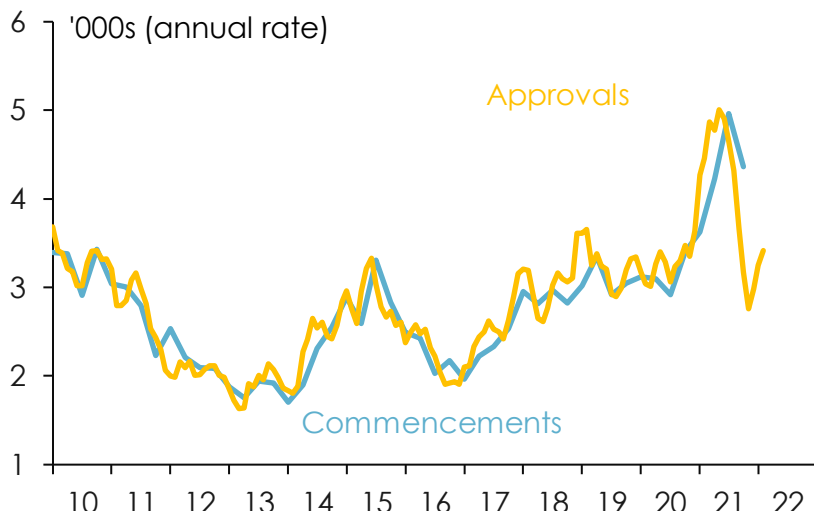
## Victoria



## Western Australia



## Tasmania



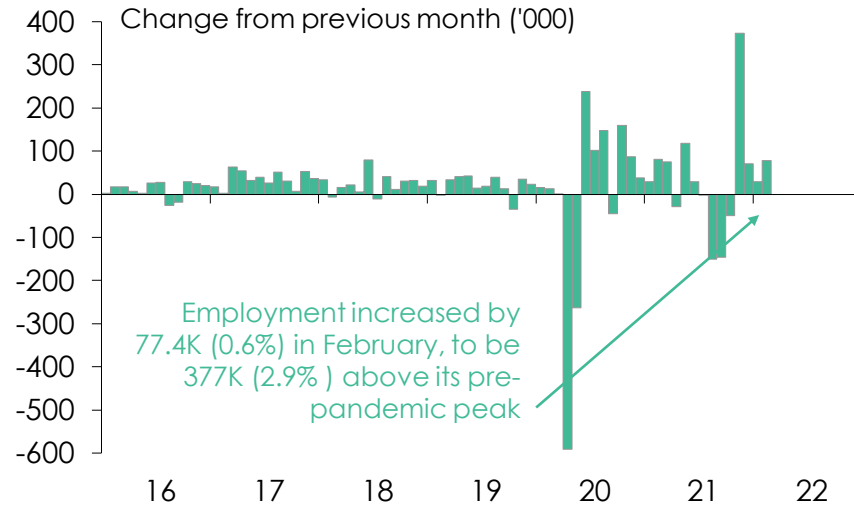
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly.  
Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to "What's New"](#).

# The labour market

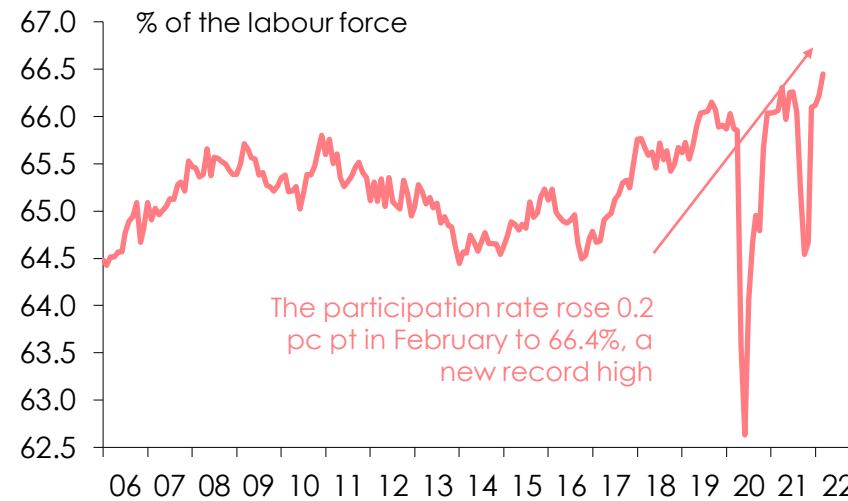
# Employment rose another 0.6% in February, hours work recovered from the omicron-induced 'shadow lockdown' and unemployment fell to 4.0%

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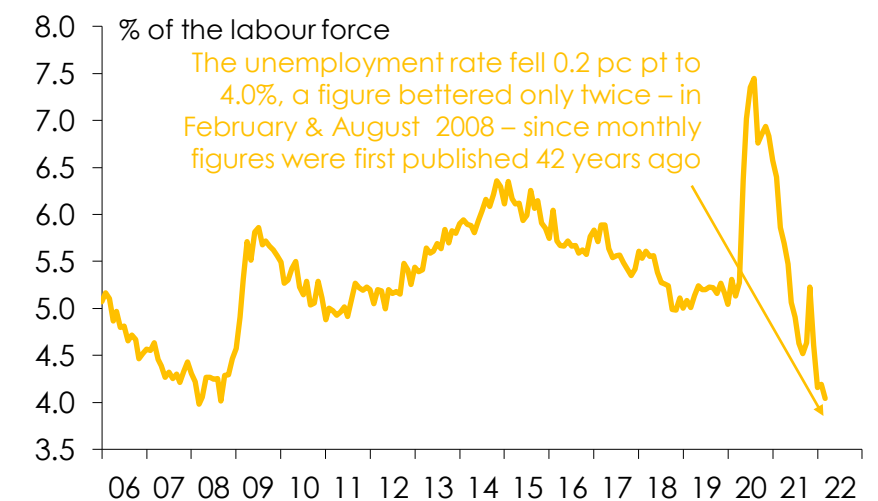
## Employment



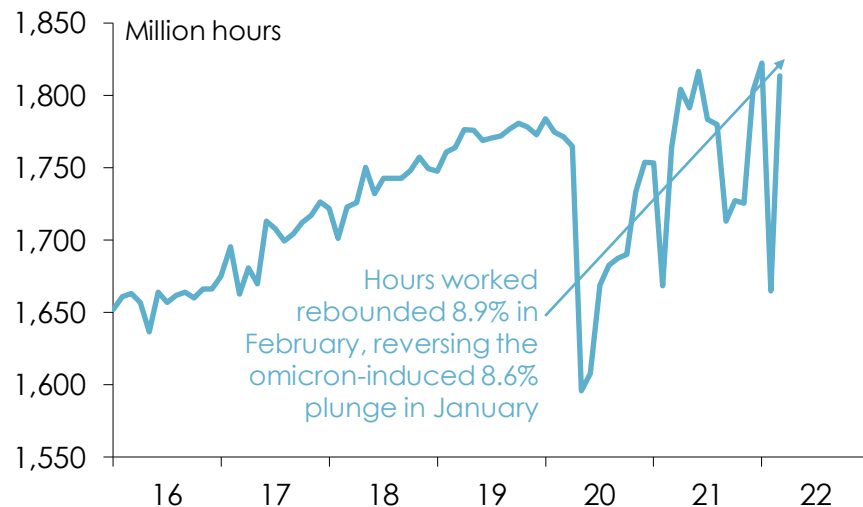
## Labour force participation rate



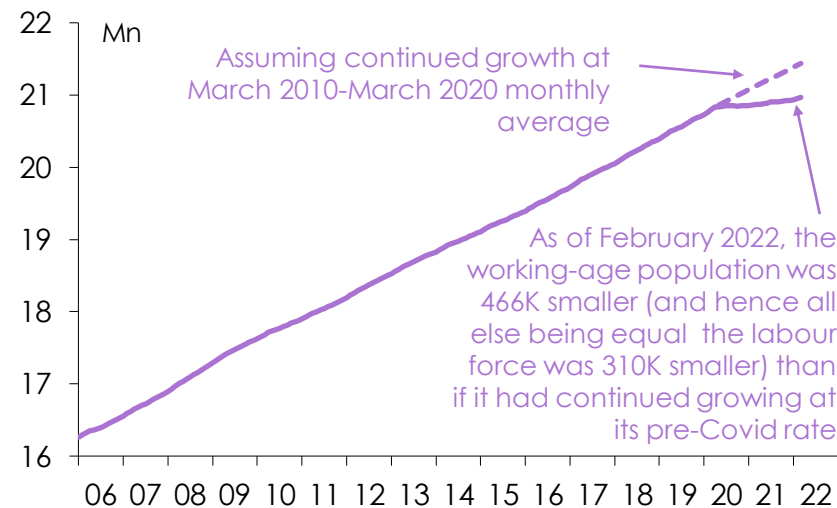
## Unemployment rate



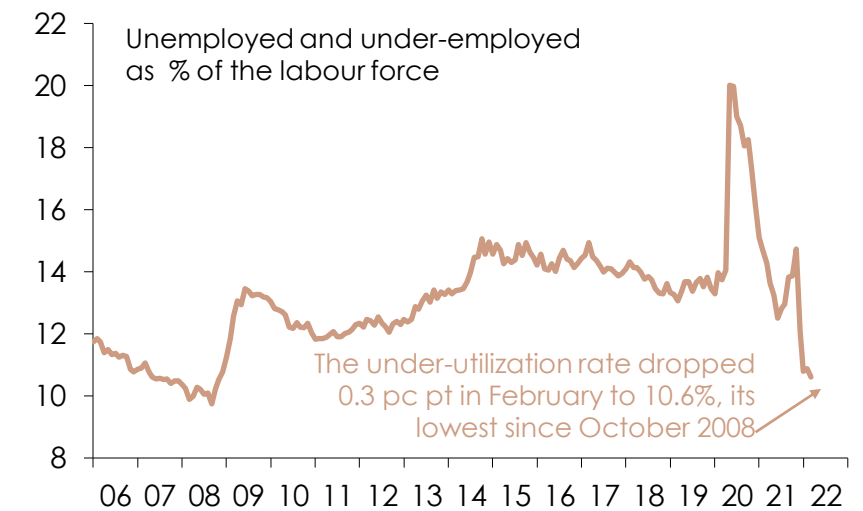
## Total hours worked



## Civilian working-age population



## 'Under-utilization' rate

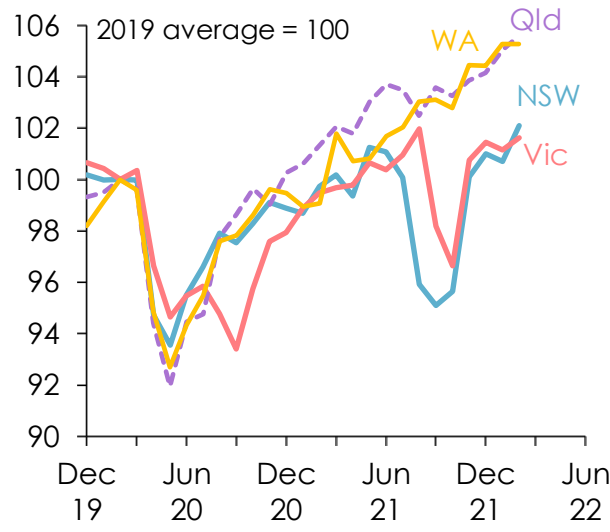


Source: ABS, [Labour Force, Australia](#), February. March data will be released on 14<sup>th</sup> April. [Return to "What's New"](#).

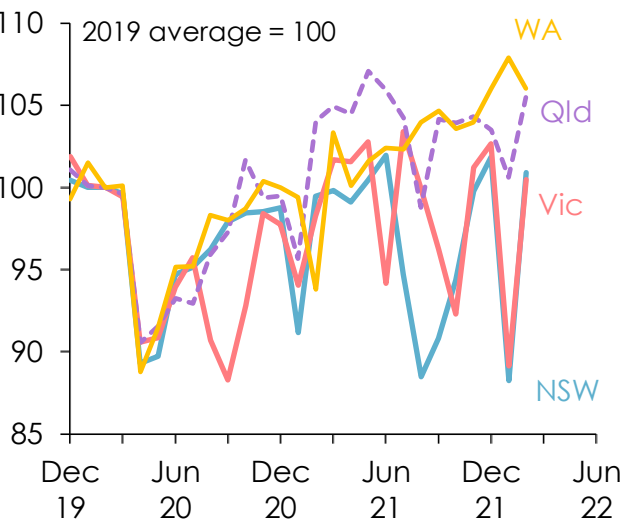
# 75% of February's job gains were in NSW, where unemployment fell to a record low of 3.7% - unemployment also below 4% in Tasmania, NT and ACT

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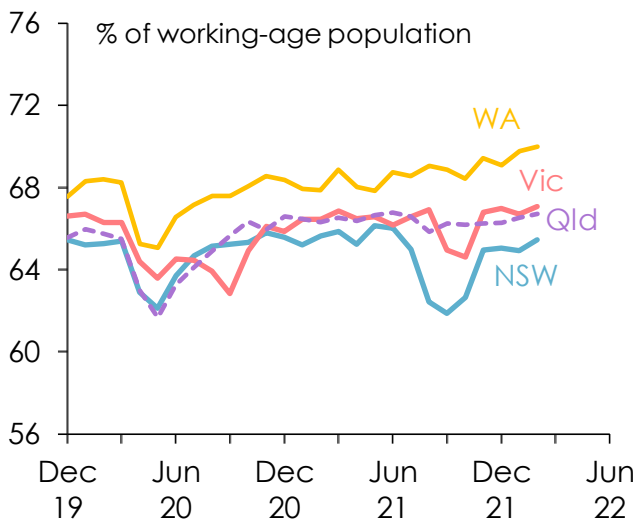
Employment



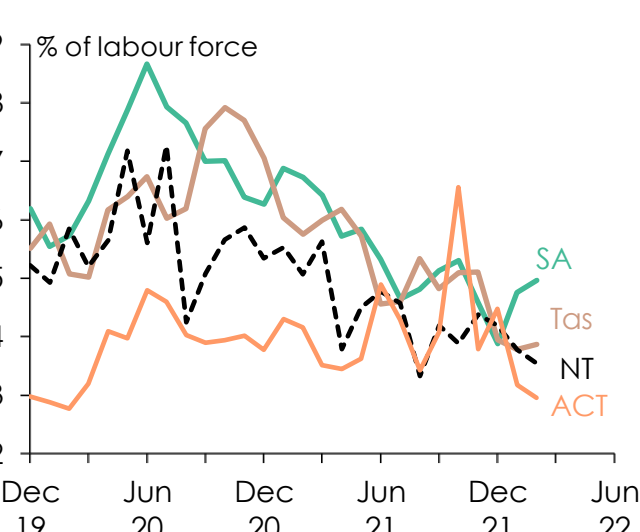
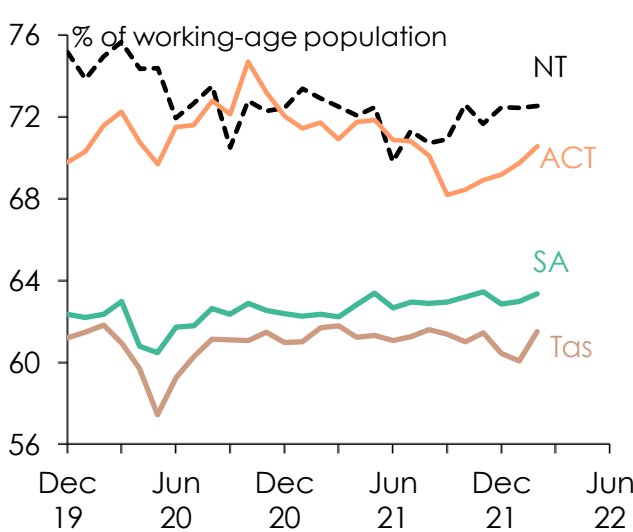
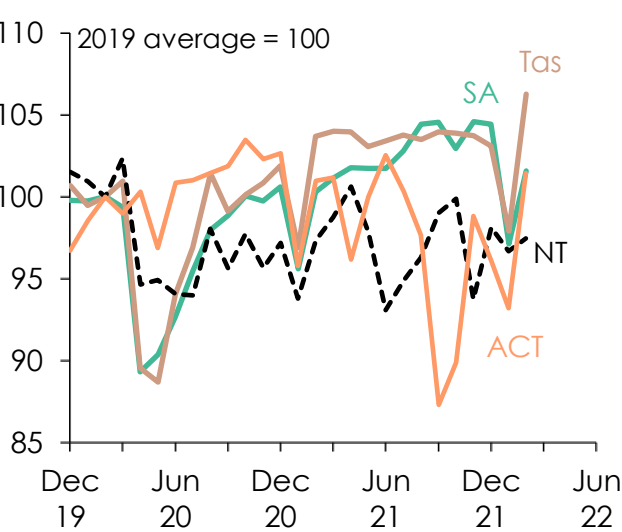
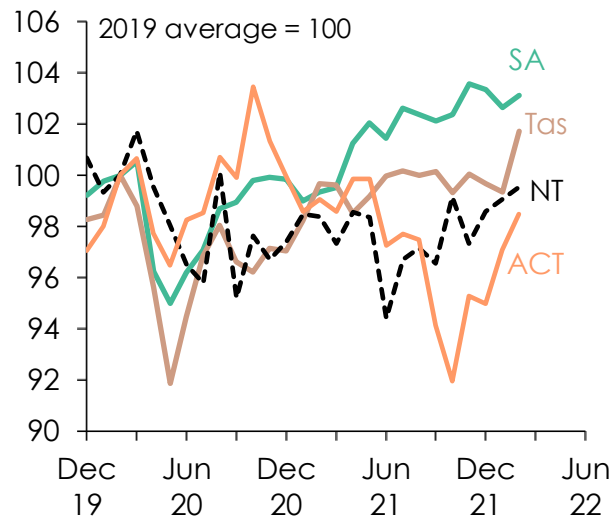
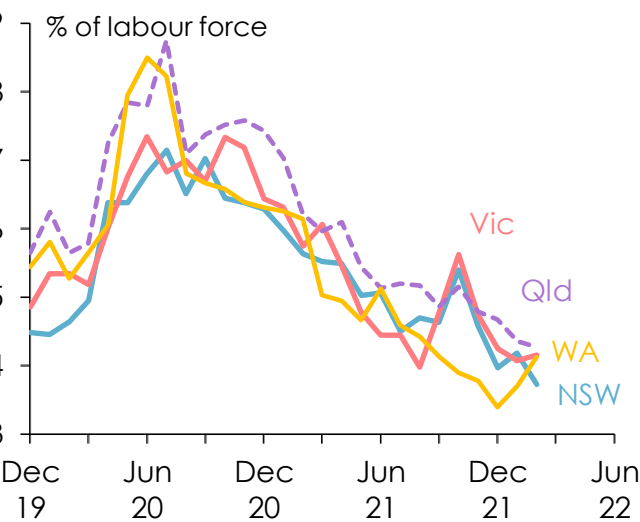
Hours worked



Participation rates



Unemployment rates

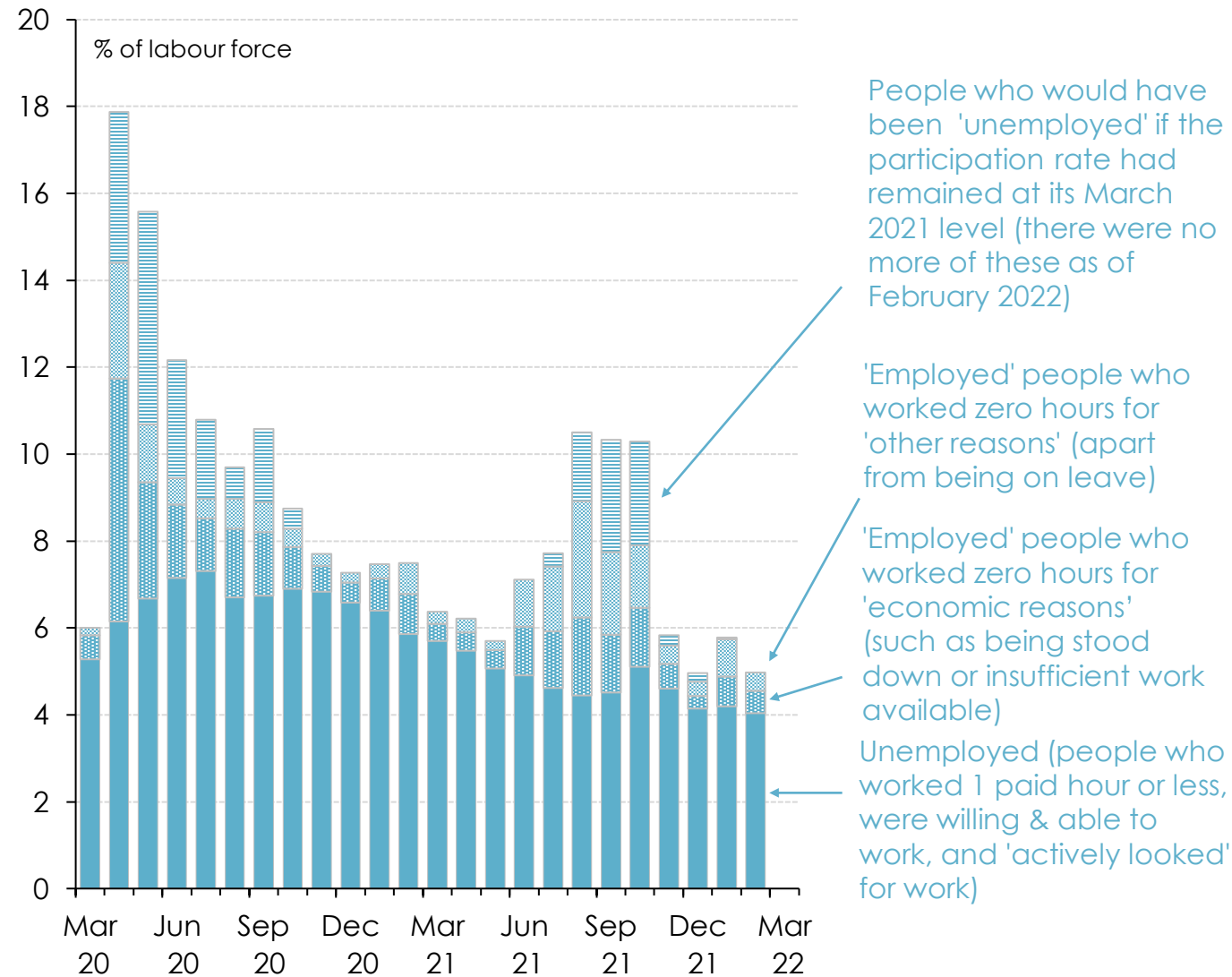


Source: ABS, [Labour Force, Australia](#), February. March data will be released on 14<sup>th</sup> April. [Return to "What's New"](#).

# The 'effective' unemployment rate fell to 5.0% in February from 5.8% in January and over 10% in August-October last year

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## The 'effective' unemployment rate



Note: the data on people working zero hours is not seasonally adjusted.

Source: ABS, [Labour Force, Australia](#), January. February data will be released on 17<sup>th</sup> March.

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- Just under 72K people were counted as 'employed' despite having worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') in February, down from almost 97K in January (and a most recent peak of 249K in August last year)
- There were another 59K people counted as 'employed' despite also working zero hours for reasons other than 'economic' ones, or having been on some form of leave, down from 118K in January and a most recent peak of 371K last August
- The number of people who (at face value) 'dropped out' of the workforce after the lockdowns began in NSW, and then Victoria and the ACT, and thus weren't counted as 'unemployed', peaked at 358K in September last year – but has fallen to zero as of February
- Adding these to the 'official' tally of unemployed, the 'effective' unemployment rate peaked most recently at 10.5% last August, remained at 10.3% in September and October, fell to 5.0% in December, rose to 5.8% in January as a result of the 'shadow lockdown' induced by the spread of the omicron variant, but fell back to 5.0% in February
- Note that the January estimate didn't include the larger-than-usual (by at least 500K) number of people taking annual leave that month, or the (roughly) 300K more than usual number of people working zero hours because they were on sick leave – the former number was down to 'normal' levels in February but the latter was still about 90K above the average for the period since April 2020

**SAUL ESLAKE**

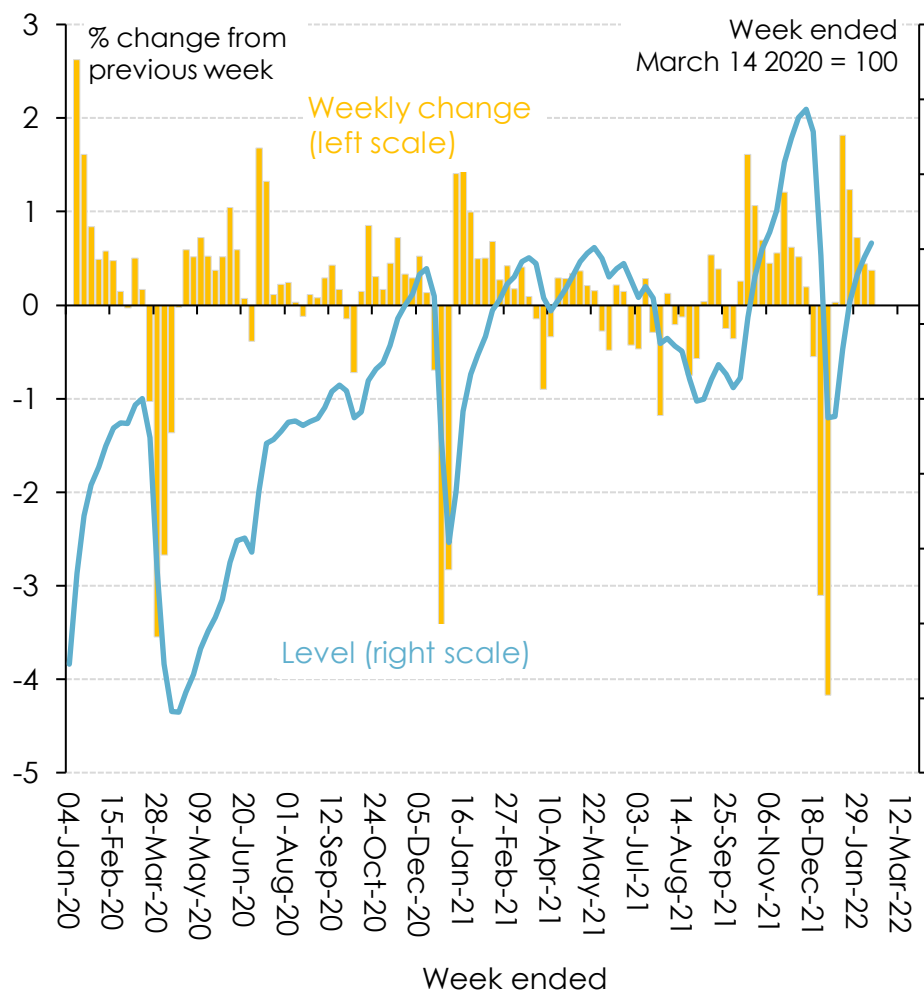
CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS



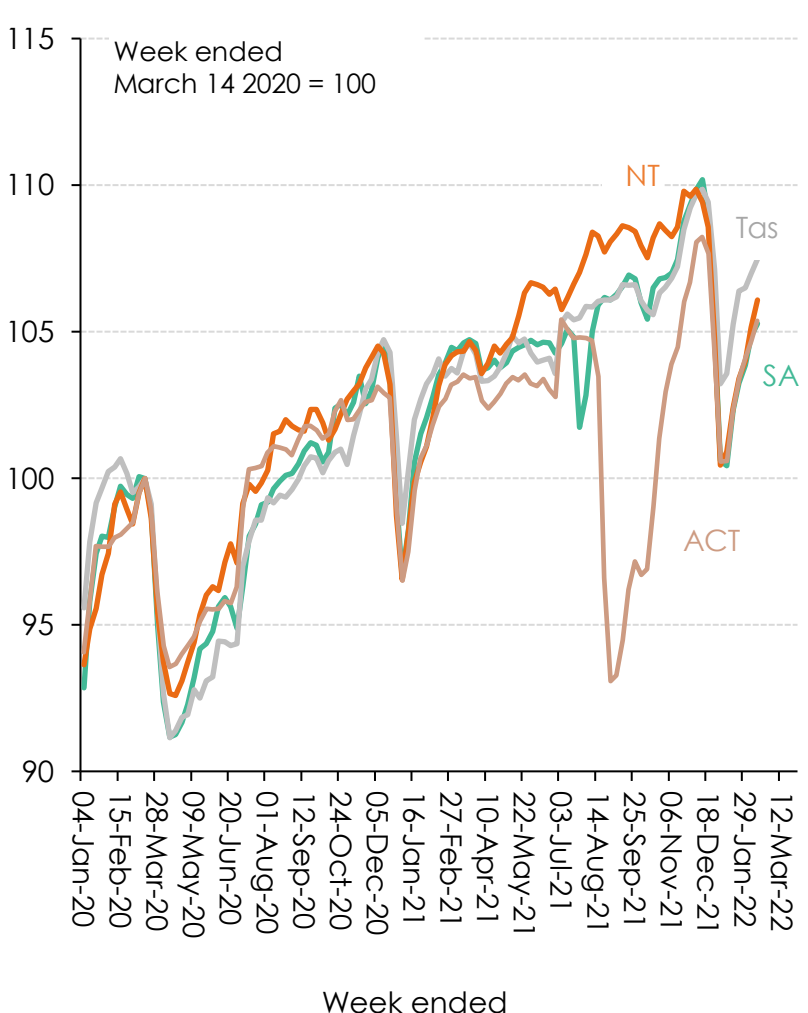
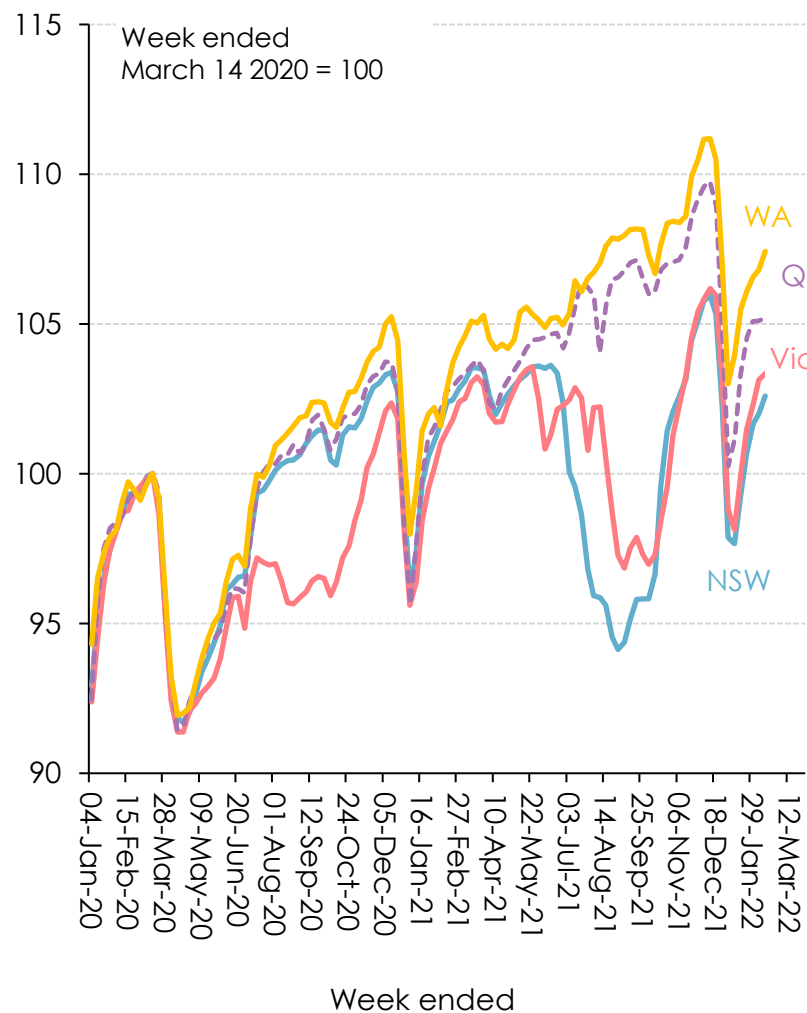
# Payroll jobs rose 2.8% between mid-January and mid-February, with gains of more than 3% in NSW & Victoria, and more than 4% in construction

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

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



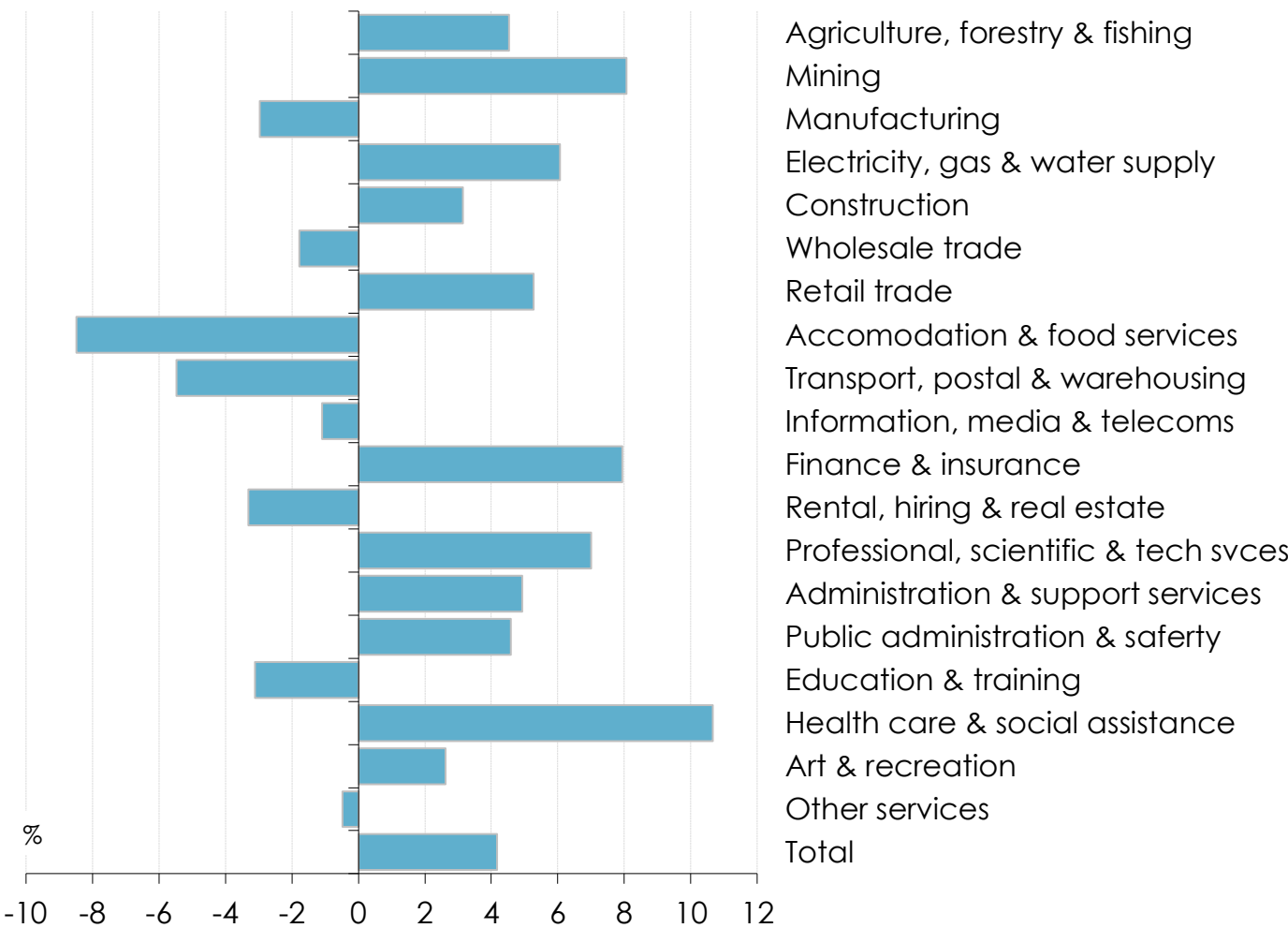
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

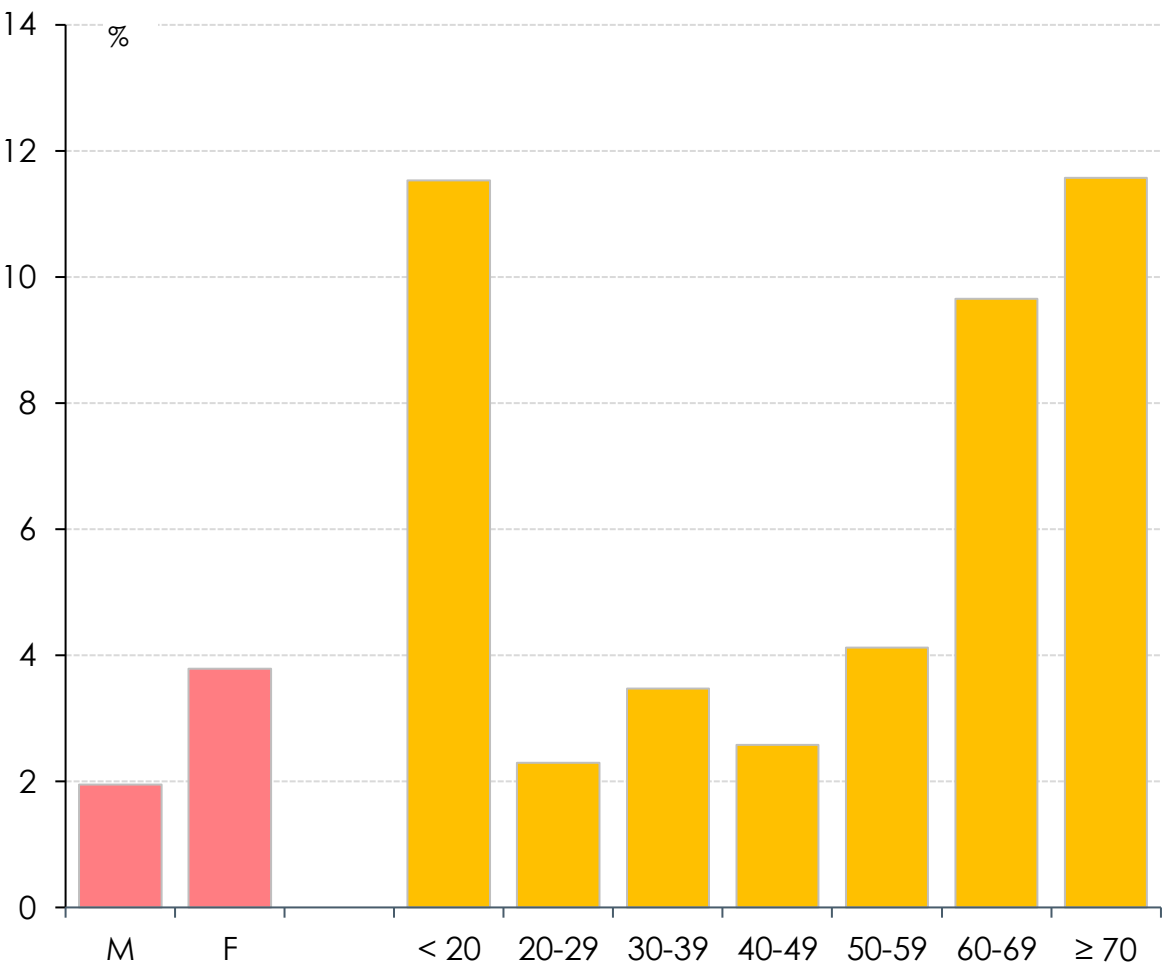
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> MARCH 2022

## Net change in payroll jobs between week ended 14<sup>th</sup> March 2020 and week ended 12<sup>th</sup> February 2022

### By industry



### By gender and age



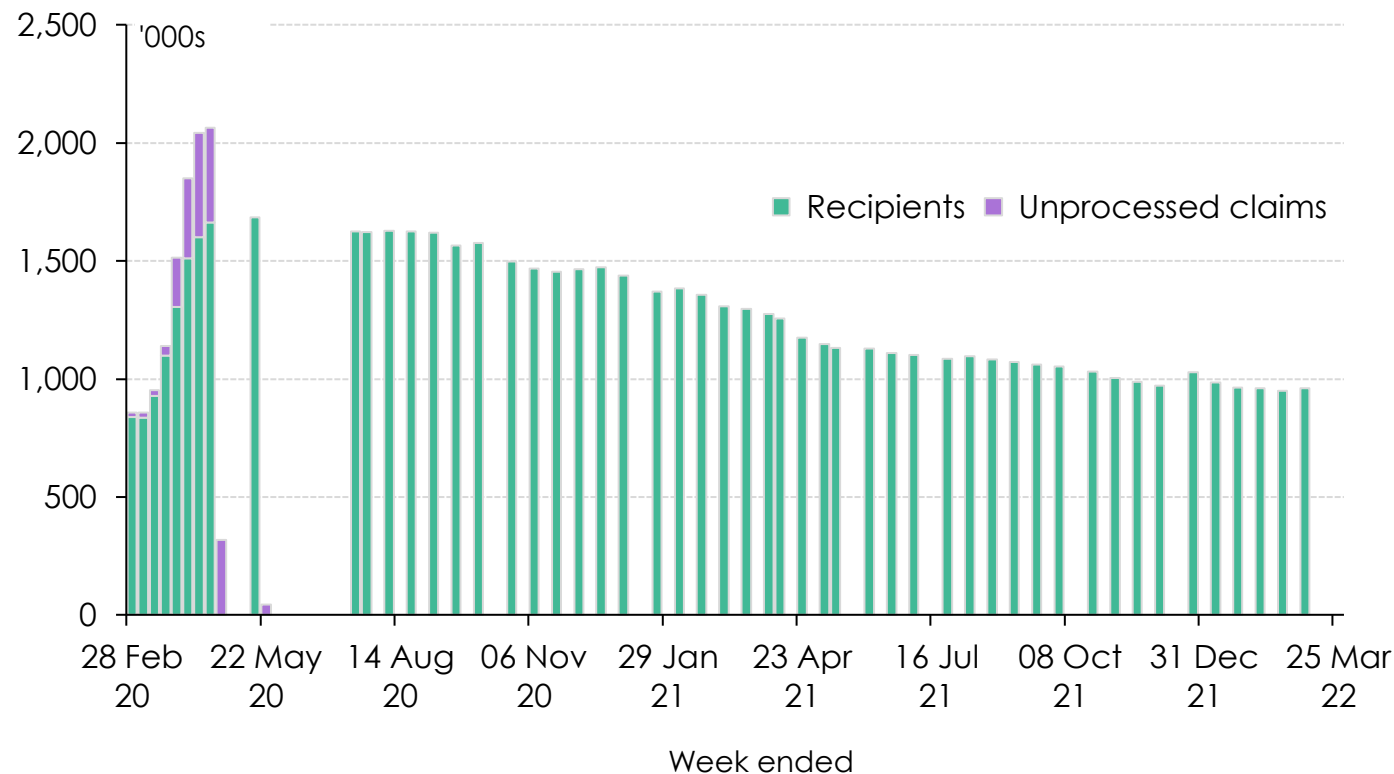
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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



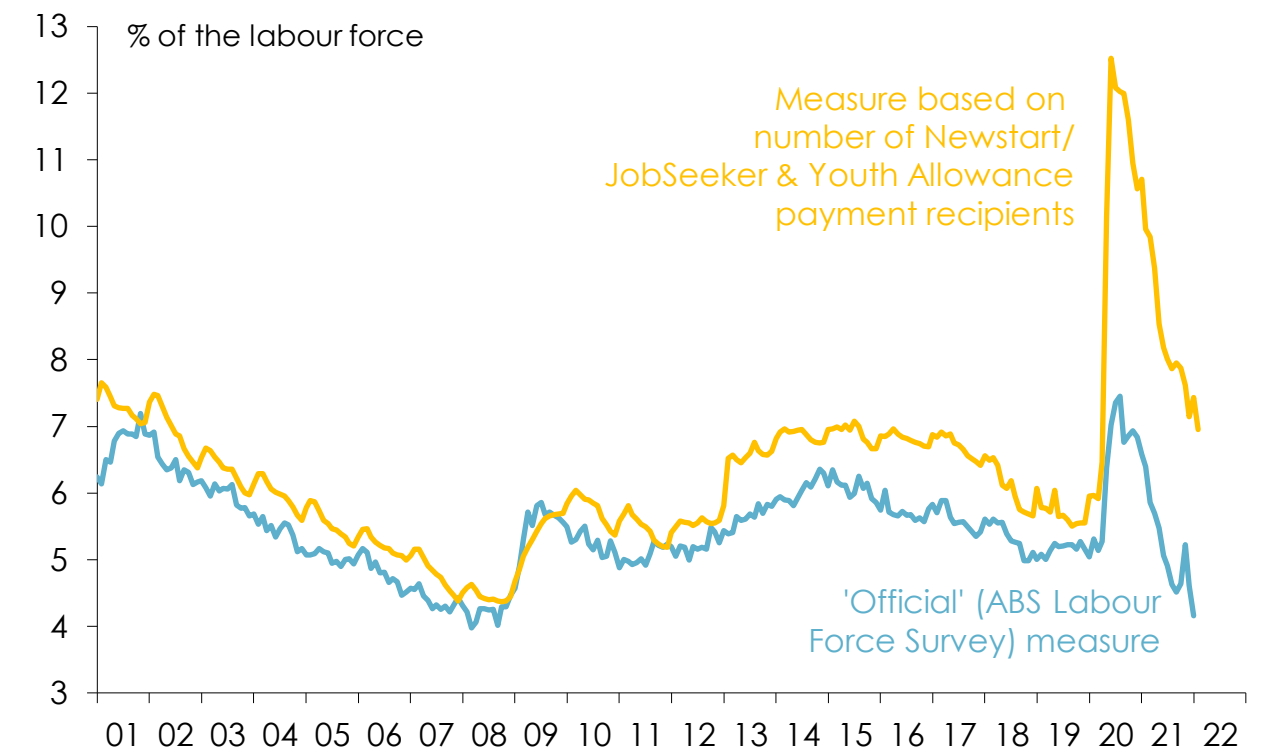
# The number of people receiving joblessness-related income support payments rose over the first two weeks of March, for the first time this year

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



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



- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments rose by 11,430 (1.2%) between 25<sup>th</sup> February and 11<sup>th</sup> March – the first increase since the last fortnight of 2021

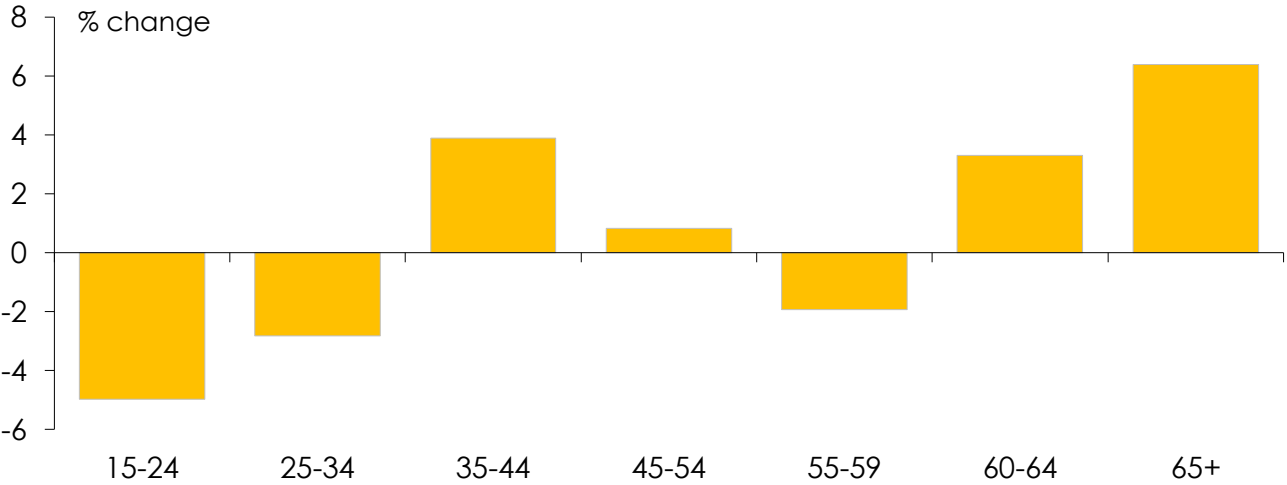
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). [Return to "What's New"](#).

# There are 268K (3.8%) fewer 15-34 year-olds in Australia than there were two years ago – which has helped speed reductions in unemployment

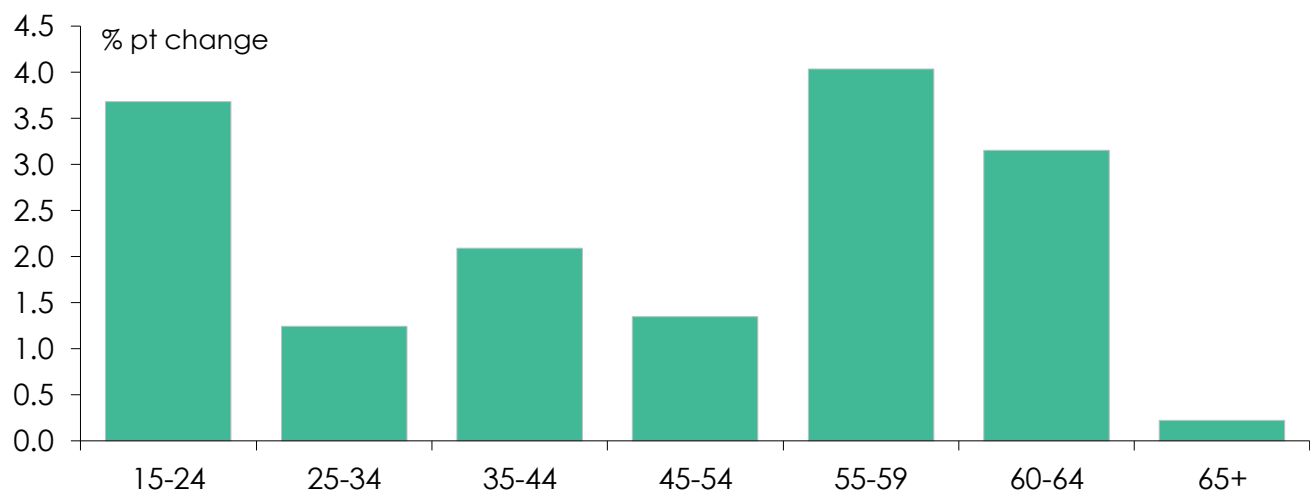
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> MARCH 2022

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

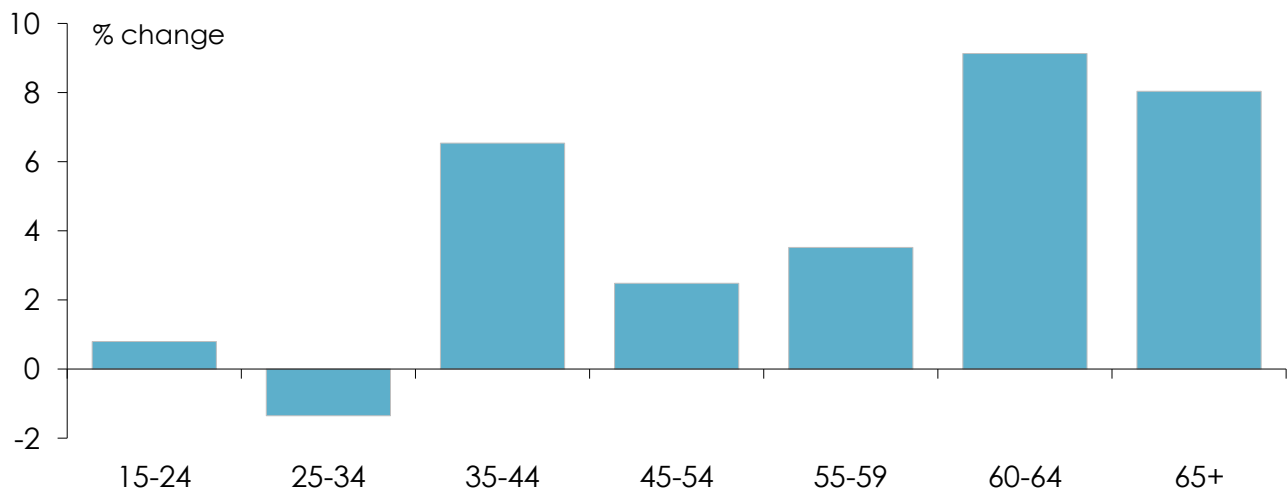
### Civilian working age population



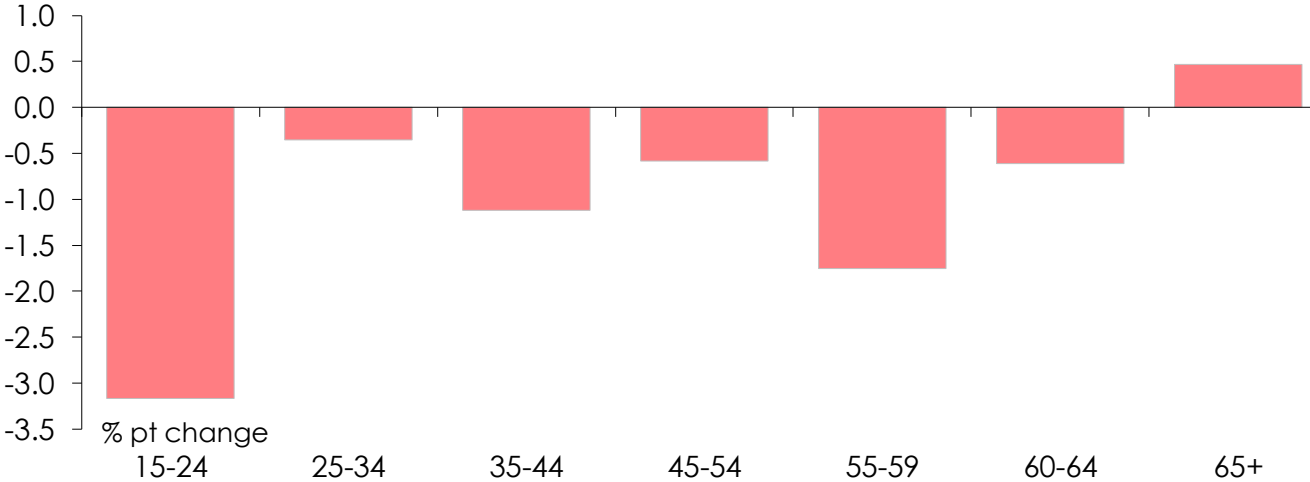
### Employment-population ratio



### Employment



### Unemployment rates

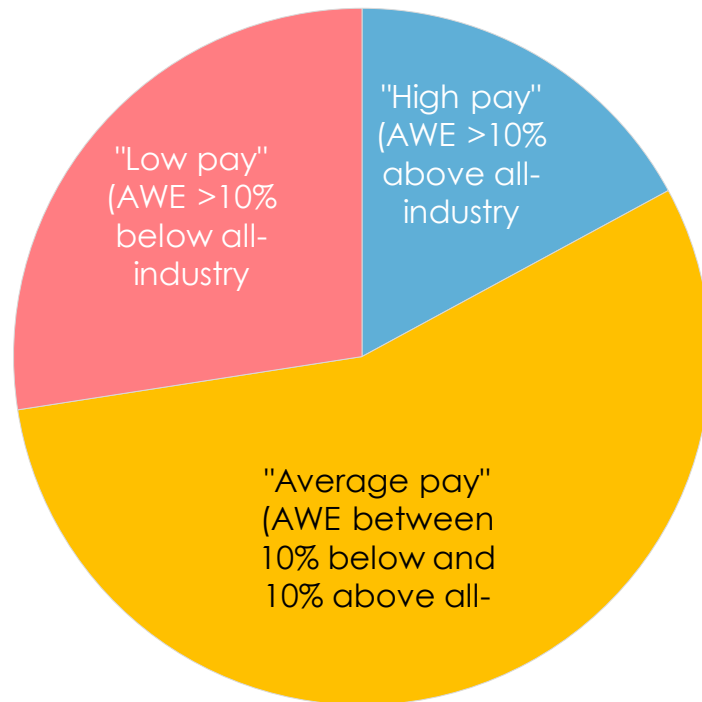


Note: The data from which the above charts are derived isn't seasonally adjusted, hence the need to make comparisons between February 2020 and February 2022.  
Source: ABS, [Labour Force, Australia, Detailed](#), February; March data will be released on 21<sup>st</sup> April. [Return to "What's New"](#).

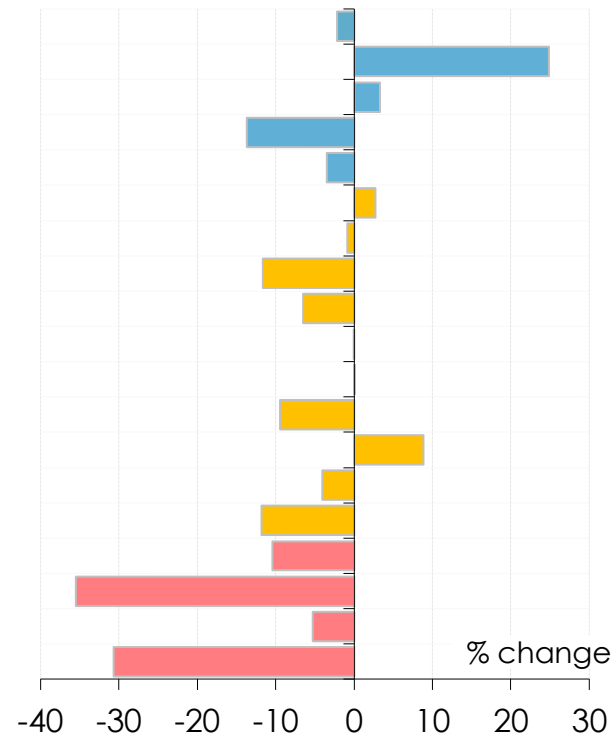
# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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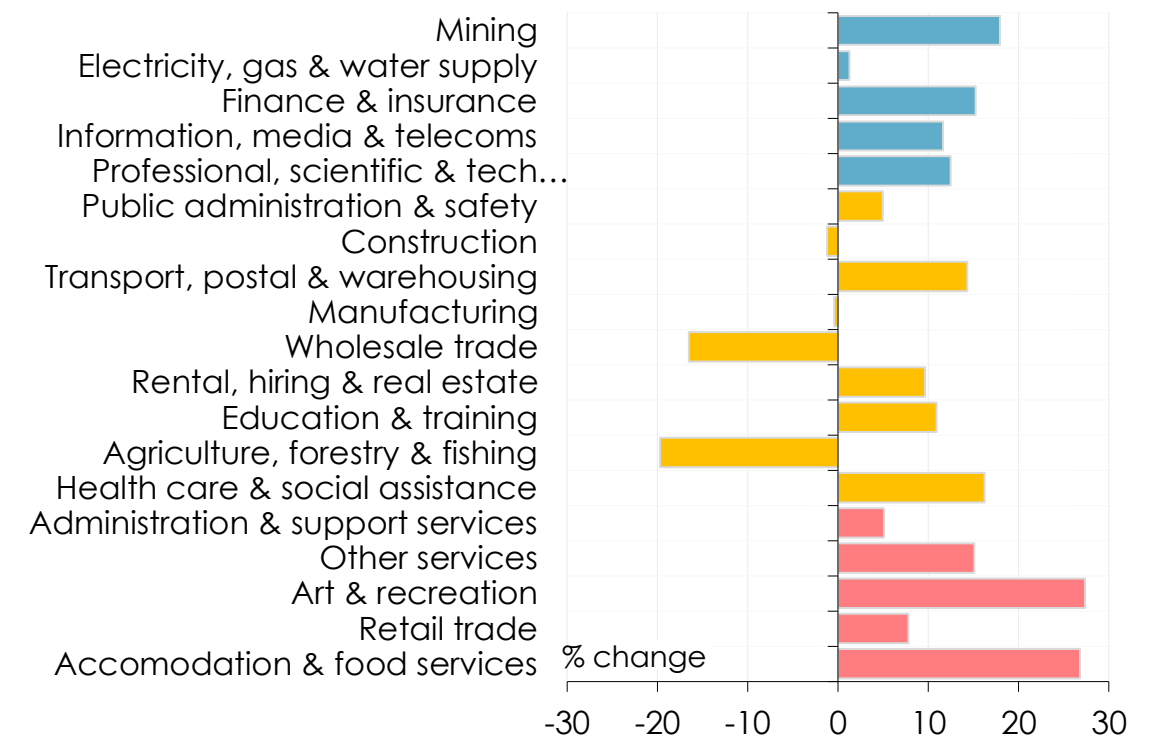
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry  
February-May 2020



February 2020 – February 2022



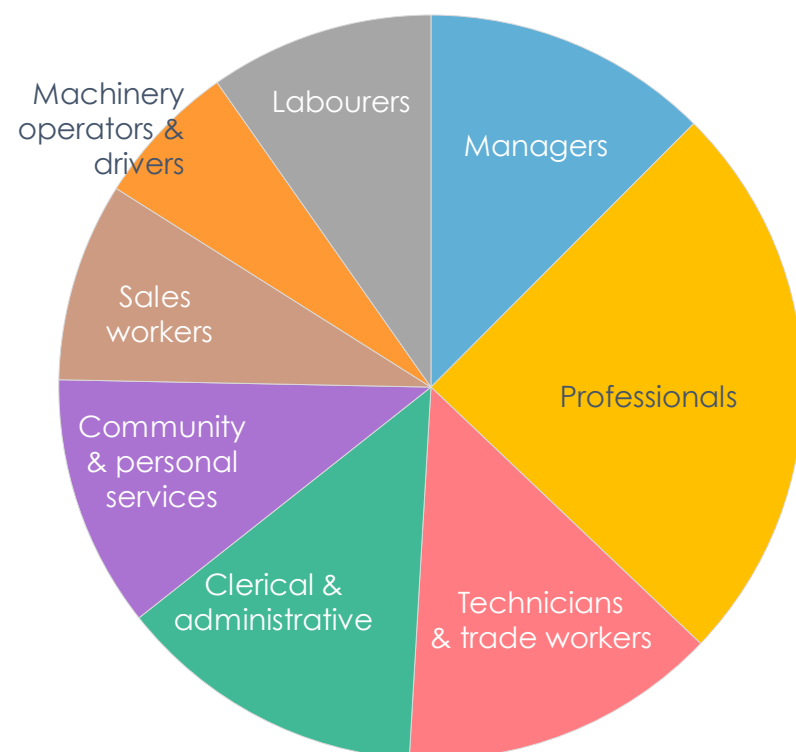
- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May 2020 – and 86% of job losses between May and August 2021 – and despite the recovery in total employment since October last year, employment in these industries is still 0.2% below where it has been in February 2020
- ❑ By contrast employment in “high pay” industries (17% of the pre-pandemic workforce) was 11.8% higher in February than it had been in February 2020

Source: ABS, [Labour Force, Australia, Detailed](#), February 2022 and [Average Weekly Earnings, Australia](#), November 2021. Labour force survey data on employment by occupation are available only for the middle month of each quarter: May data will be released on 23<sup>rd</sup> June. [Return to "What's New"](#).

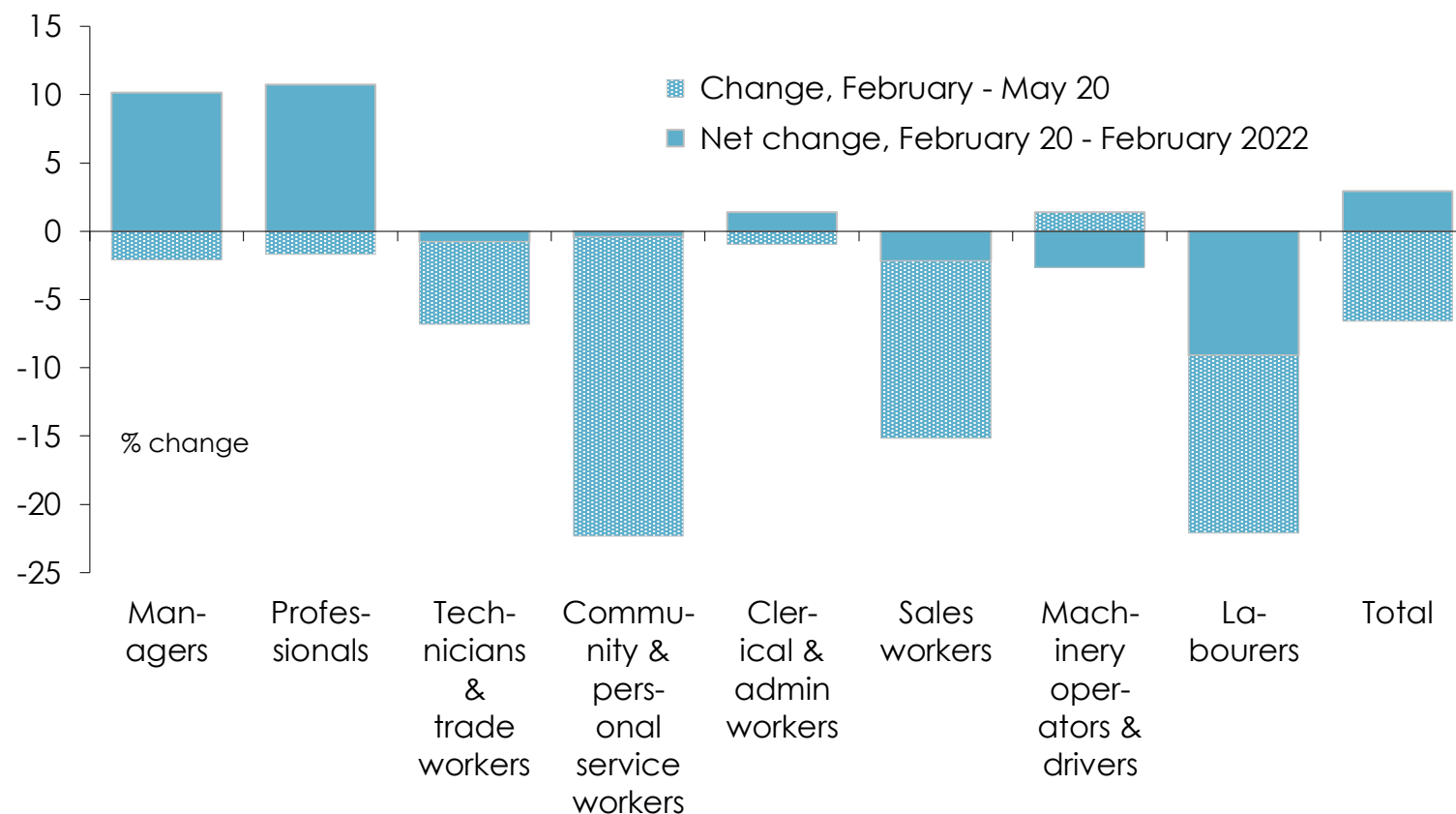
# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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## Employment by major occupation category, February 2020



## Change in employment between February 2020 and February 2022, 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 2020 – and for 71% of job losses between May and August 2021 – and there were 3.8% fewer of them in February this year than in February 2020
- ❑ ... whereas there are now 10.5% more employed managers and professionals than there were in February 2020

Source: ABS, [Labour Force, Australia, Detailed](#), February 2022. Labour force survey data on employment by occupation are available only for the middle month of each quarter: May data will be released on 23<sup>rd</sup> June. [Return to "What's New"](#).

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

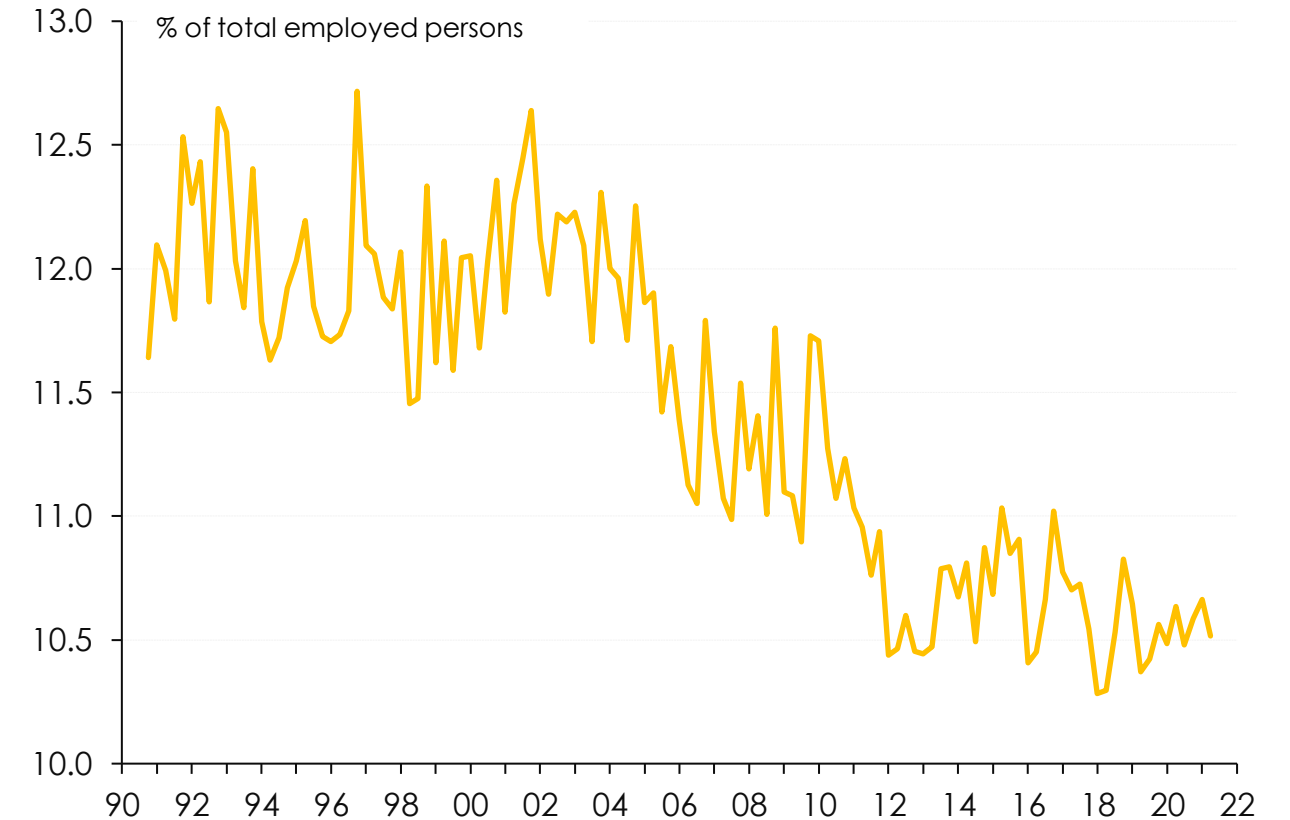
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## 'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



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

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



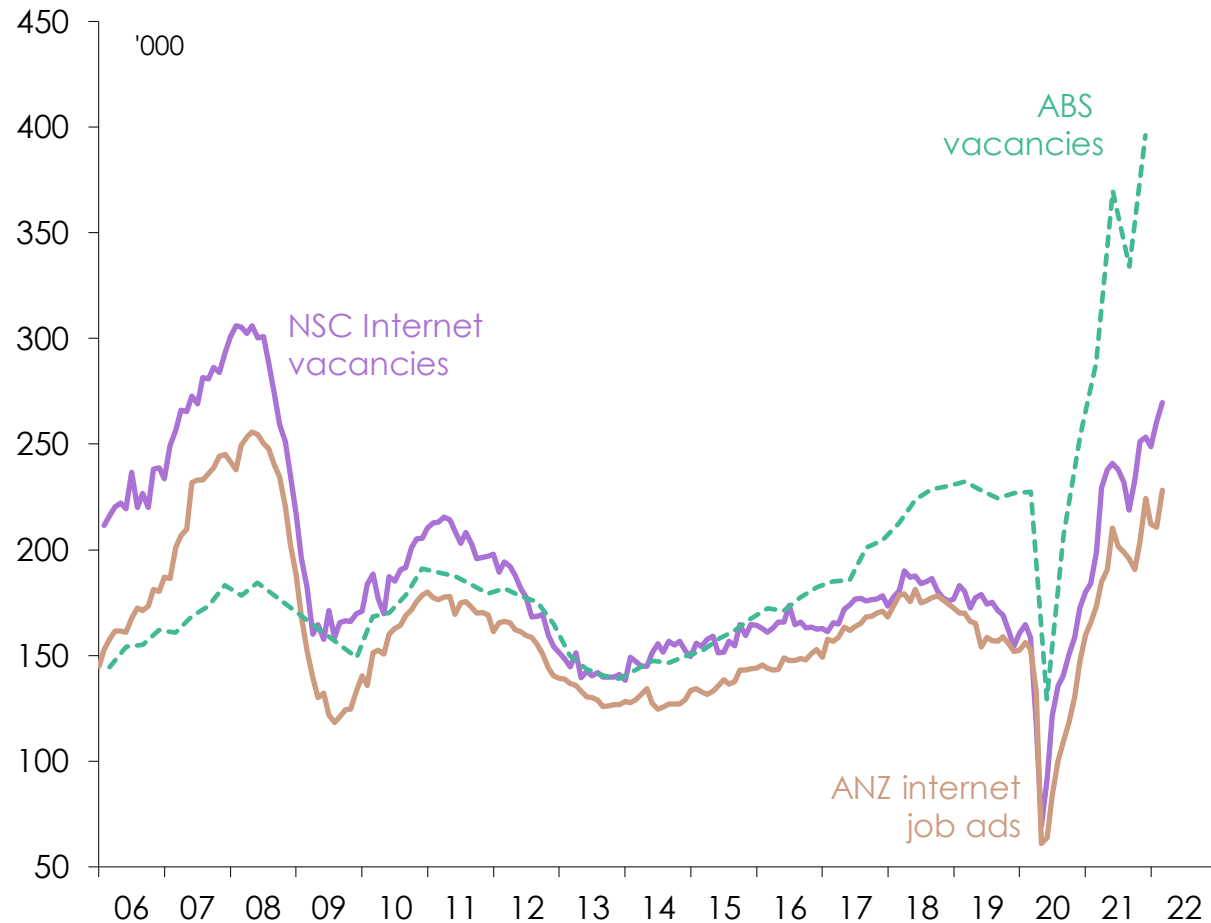
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

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

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## Measures of job vacancies



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

## Ratio of unemployed people to job vacancies

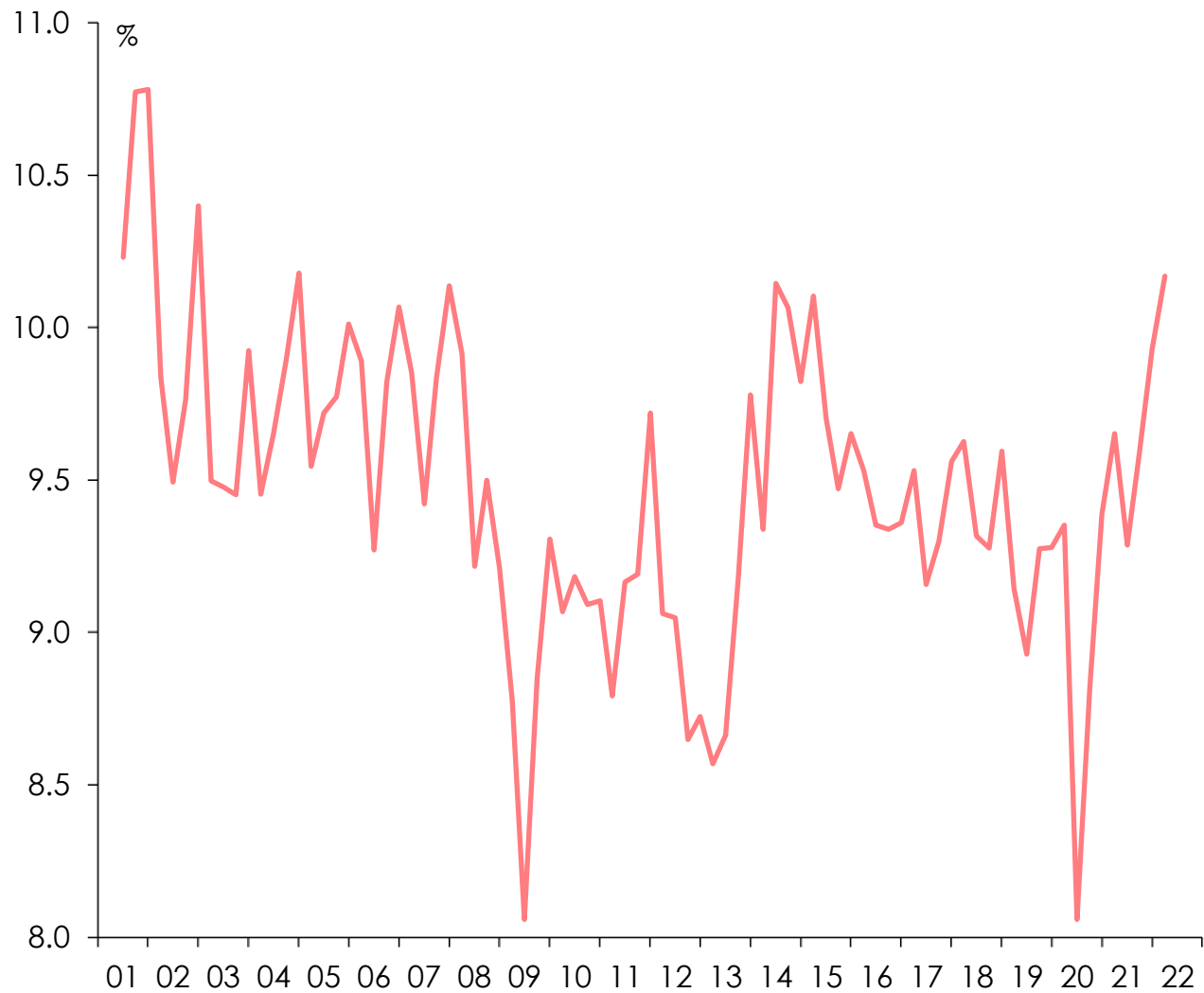


- ❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

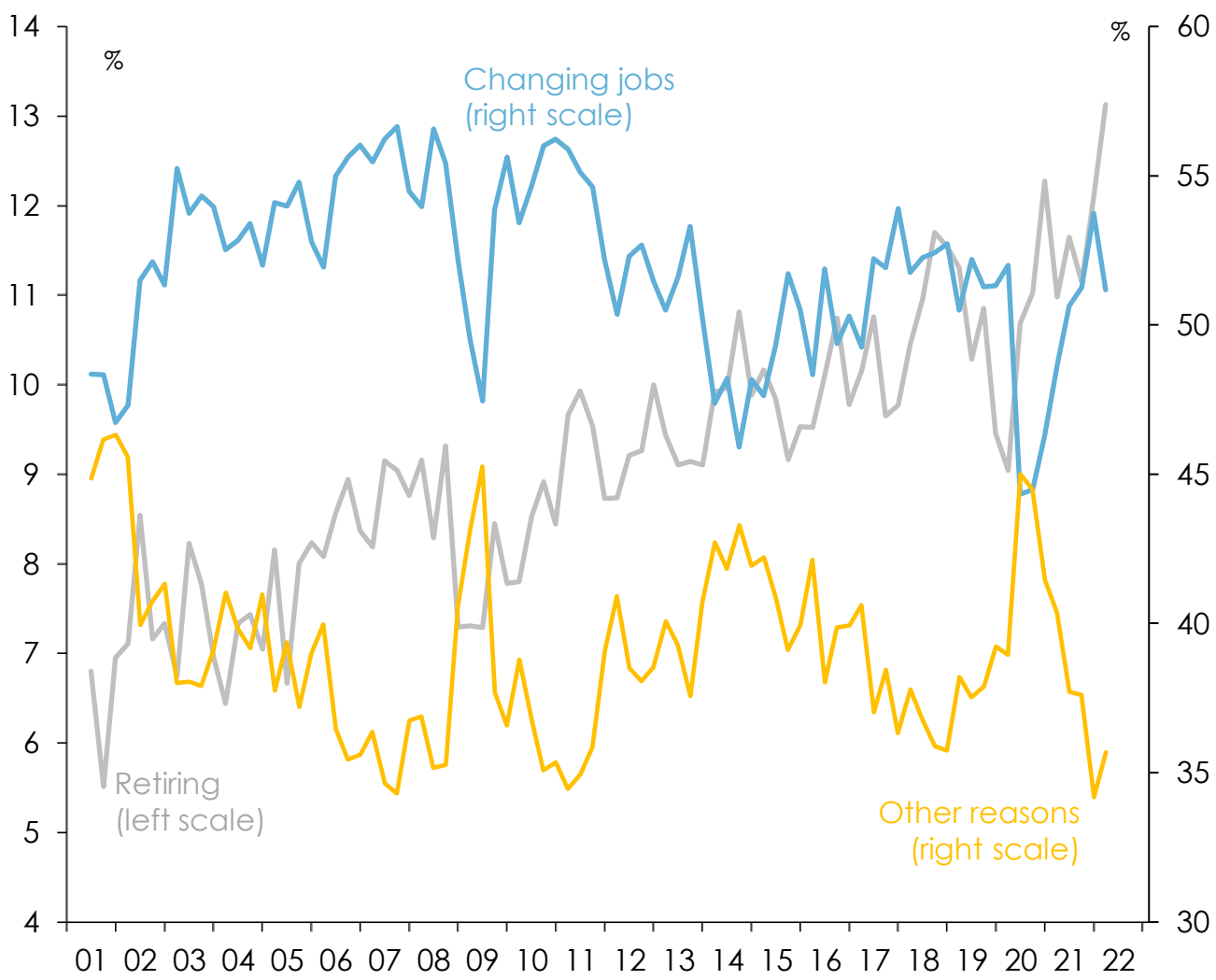
# There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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



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



Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table 17](#), February 2022.

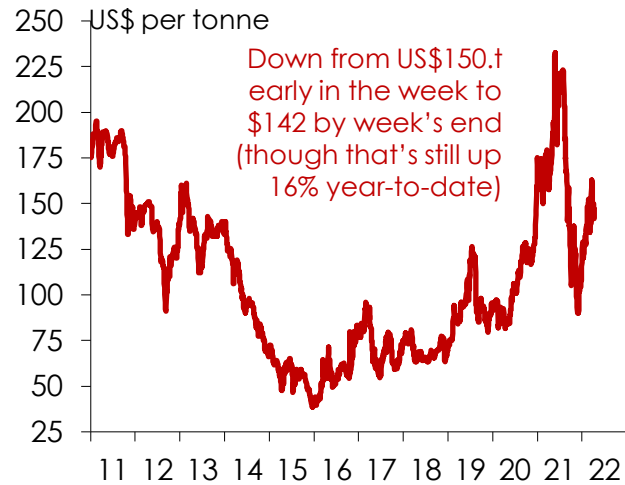
# Trade and the balance of payments



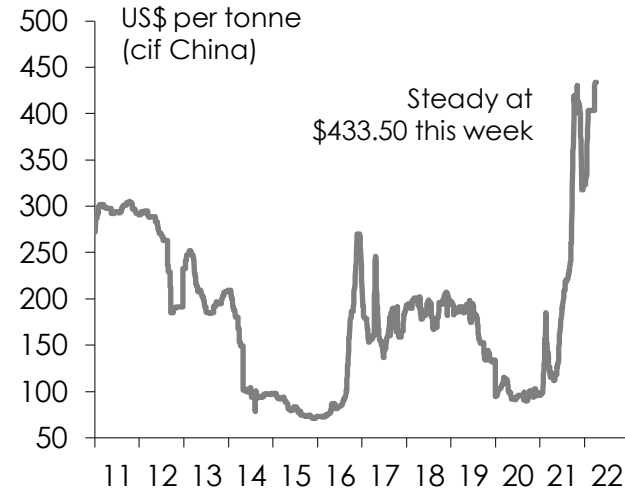
# Commodity prices fell over the first half of this week, with oil dropping below US\$100/bbl, but rose again over the last two days

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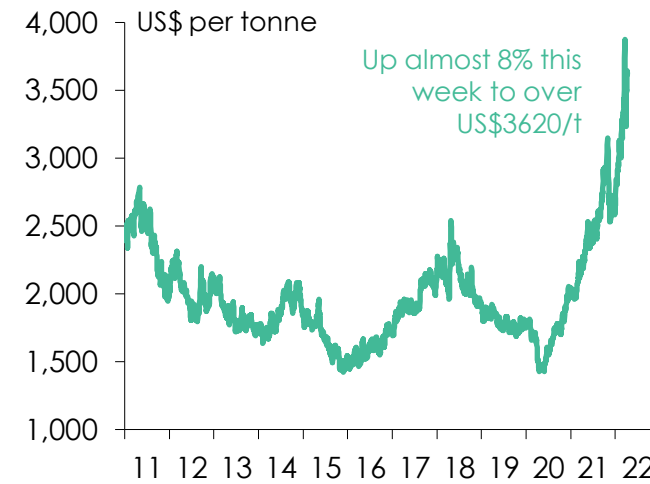
## Iron ore



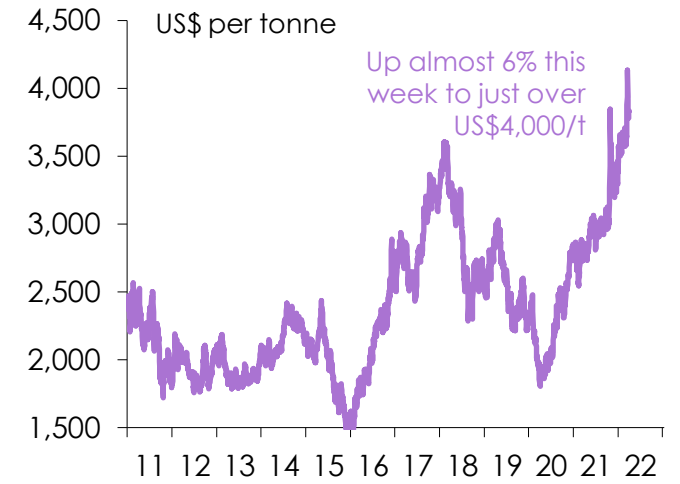
## Metallurgical coal



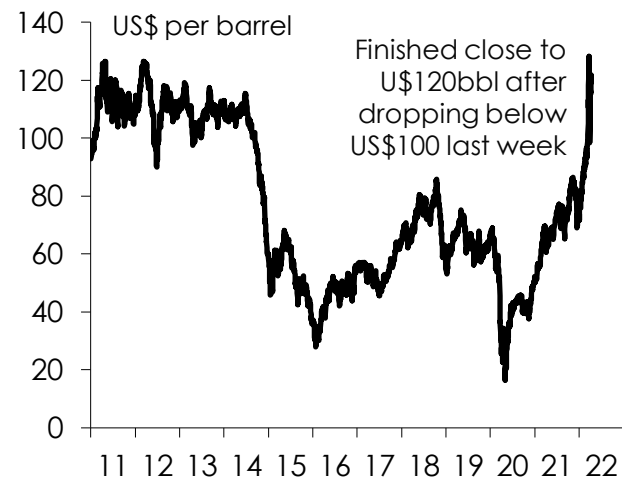
## Aluminium



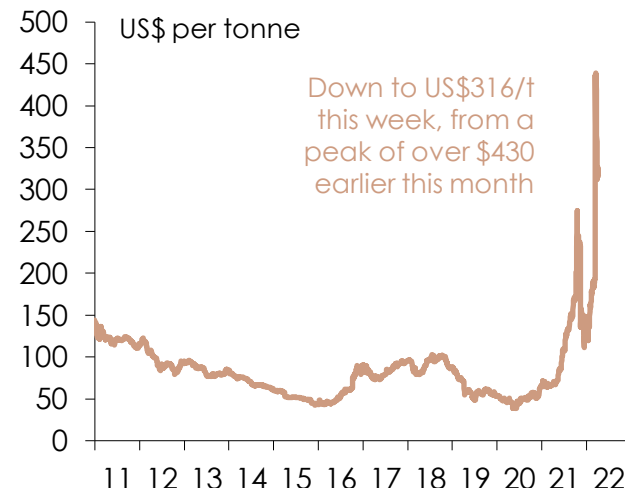
## Zinc



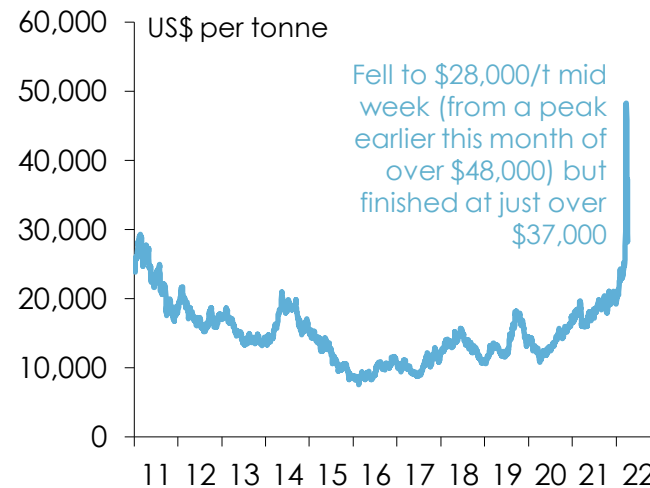
## Crude oil



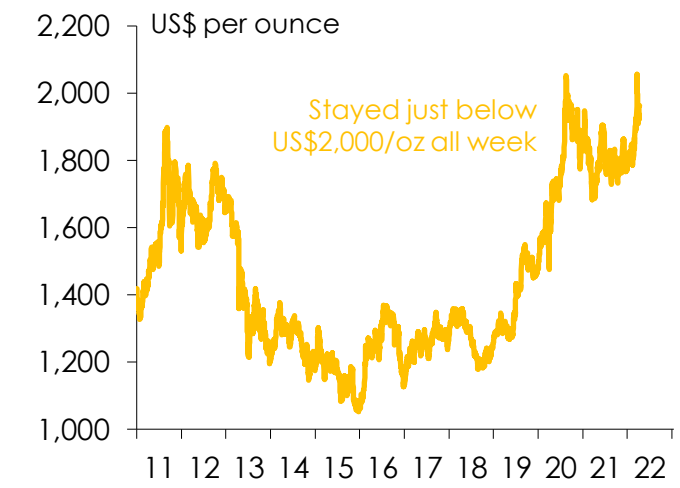
## Thermal coal



## Nickel



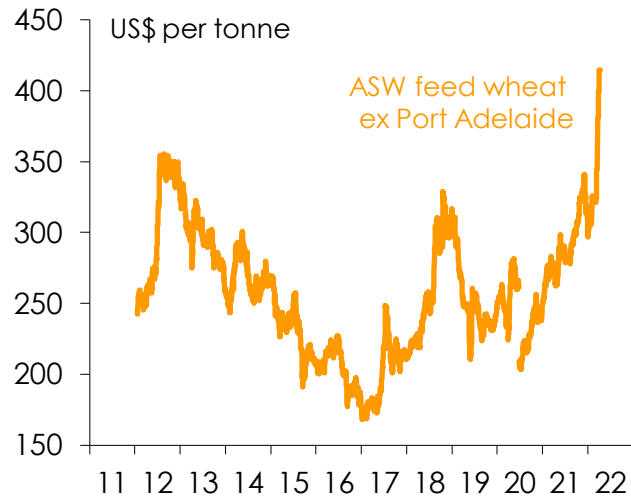
## Gold



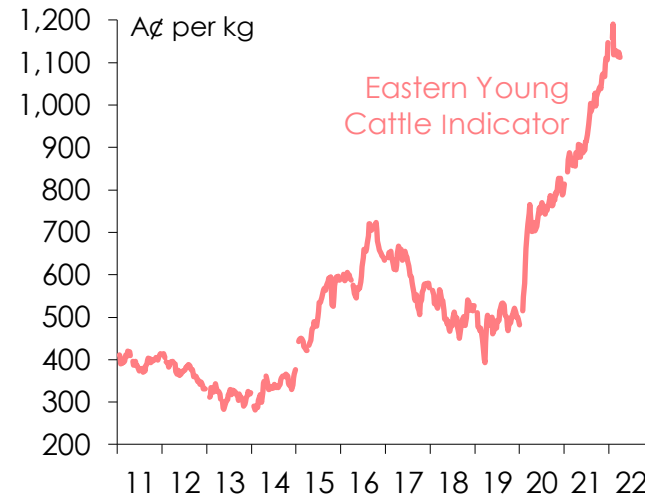
# Australian grain prices rose further this week, cotton was up 6% and milk prices remained elevated, but livestock prices continued to edge lower

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## Wheat



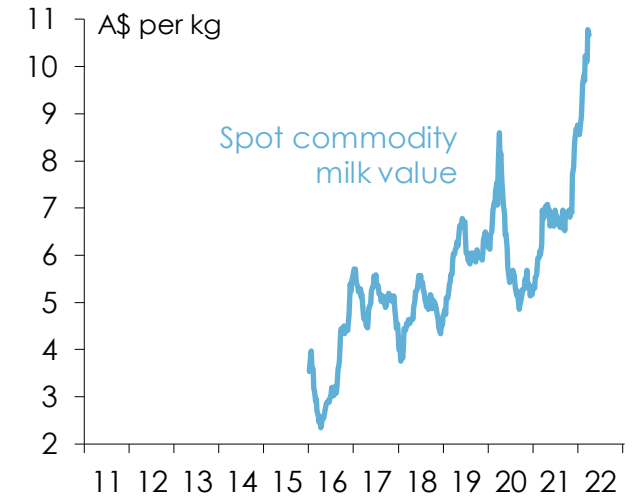
## Beef cattle



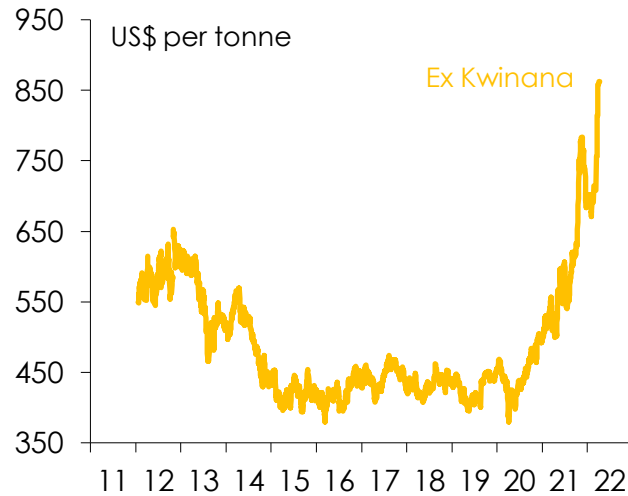
## Wool



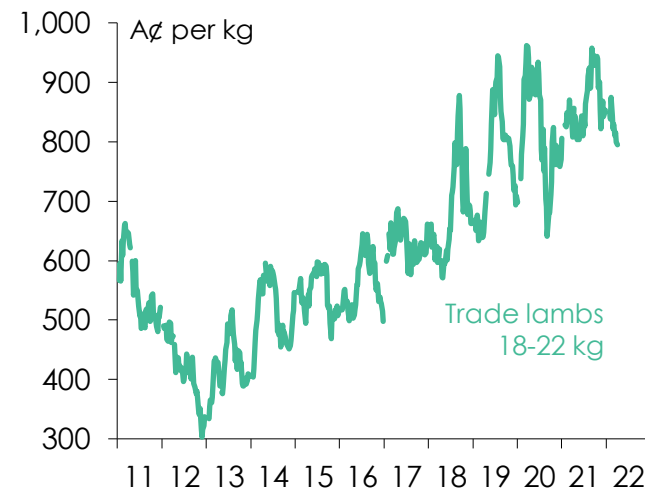
## Milk



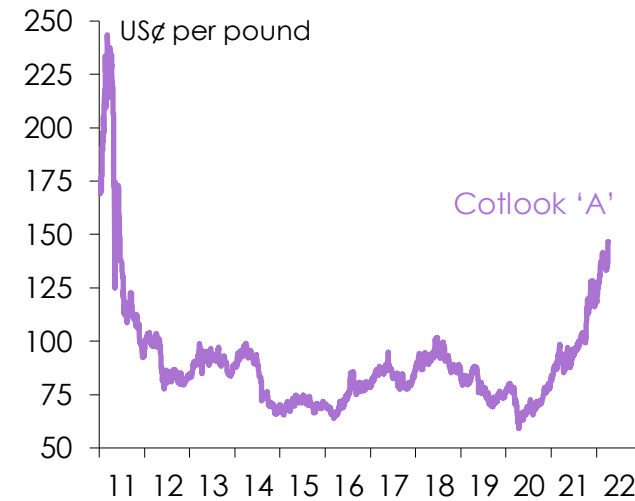
## Canola



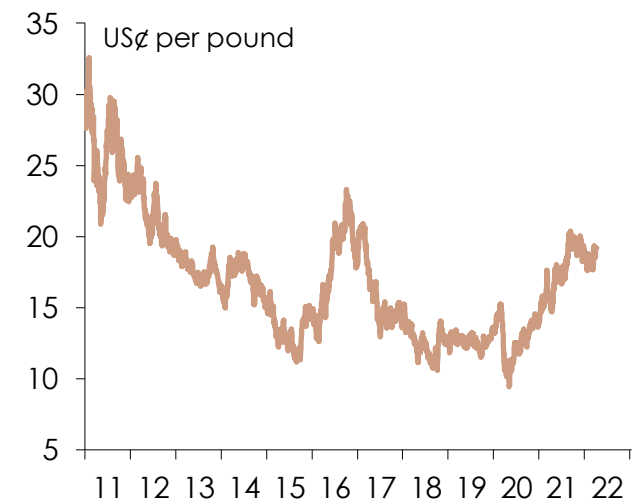
## Sheep



## Cotton



## Sugar

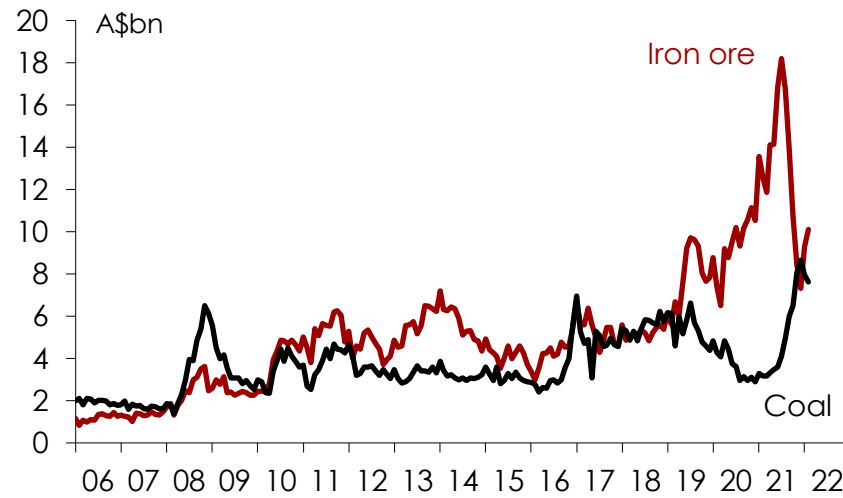


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation,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

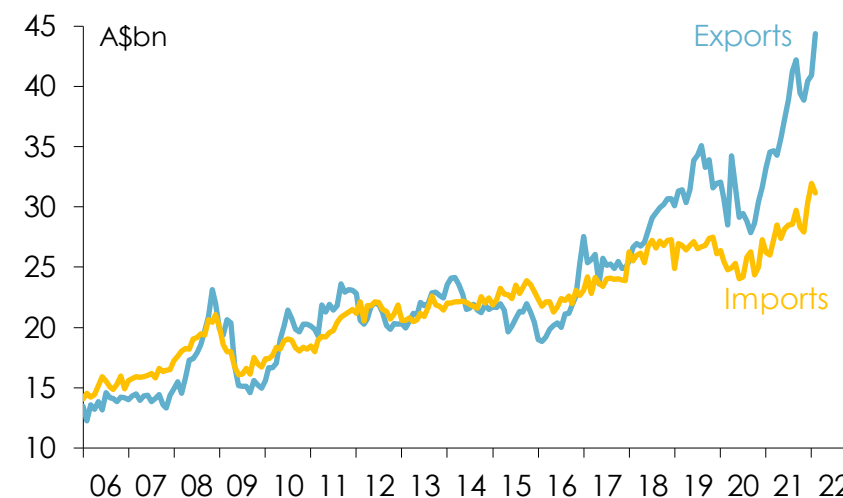
# Australia's trade surplus rose, for the first time in 6 months, by \$4bn to \$12.9 bn in January, with exports up 7.6% and imports down 1.6%

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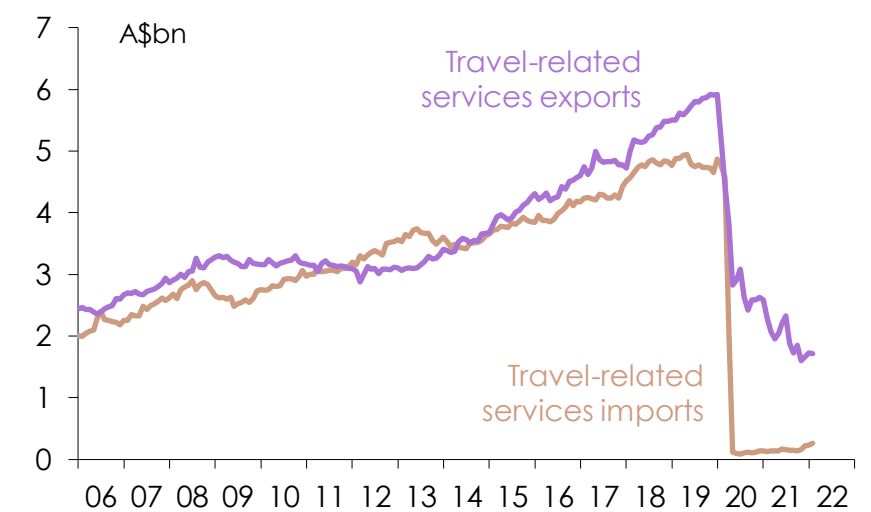
## Iron ore and coal exports



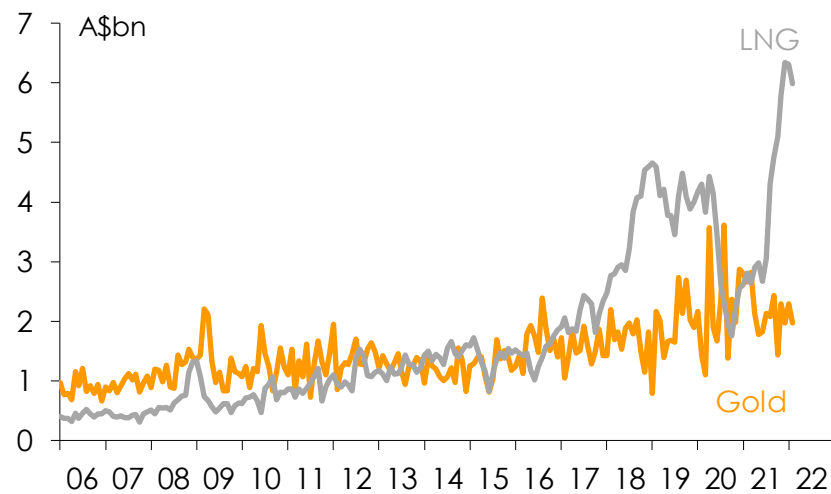
## Merchandise exports and imports



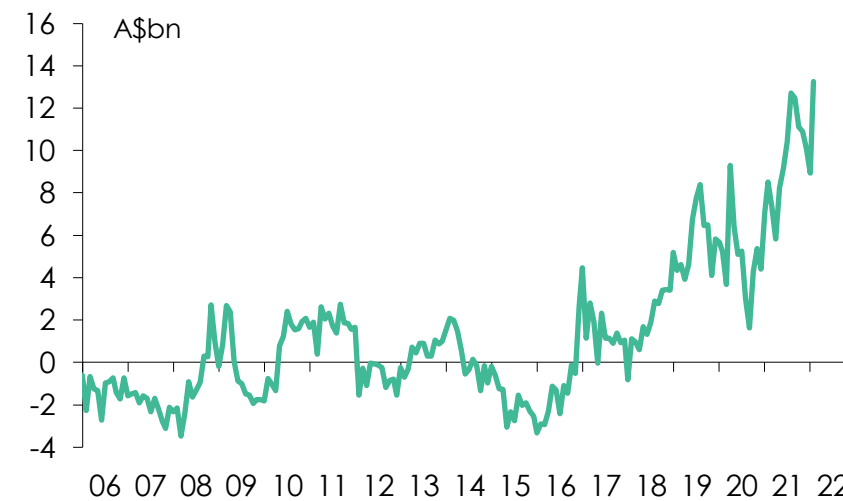
## Tourism-related services trade



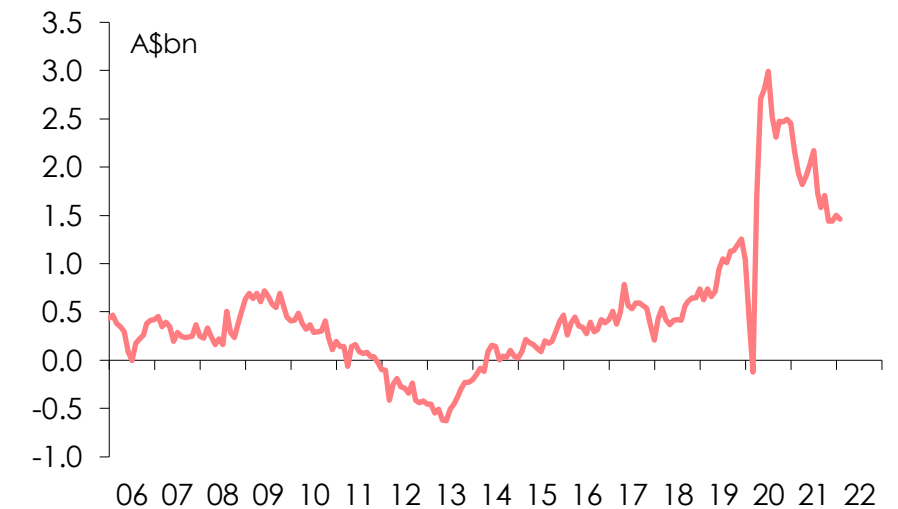
## LNG and gold exports



## Merchandise trade balance



## Tourism services trade balance

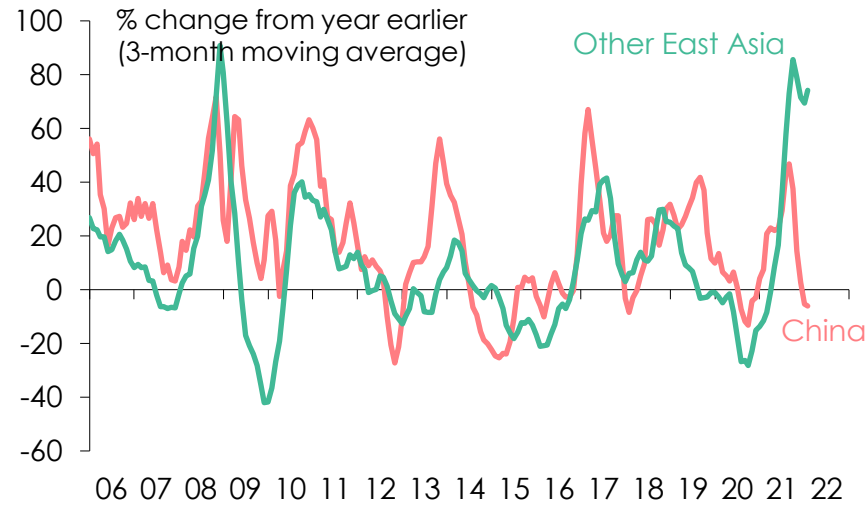


Source: ABS, [International Trade in Goods and Services, Australia](#), January 2021. February data will be released on 7<sup>th</sup> April. [Return to "What's New"](#).

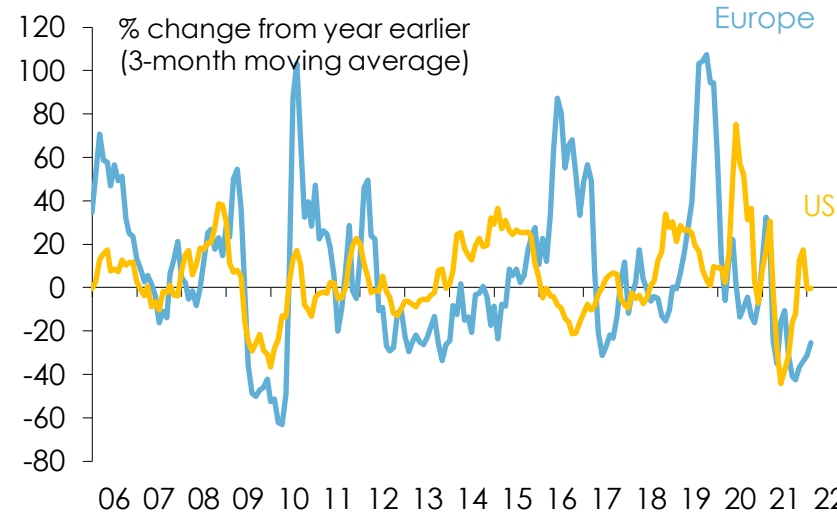
# Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

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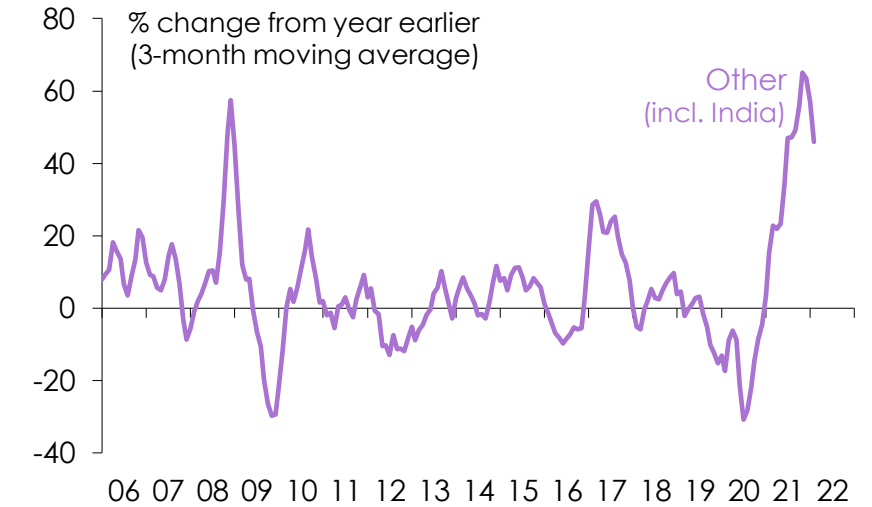
## Merchandise exports – East Asia



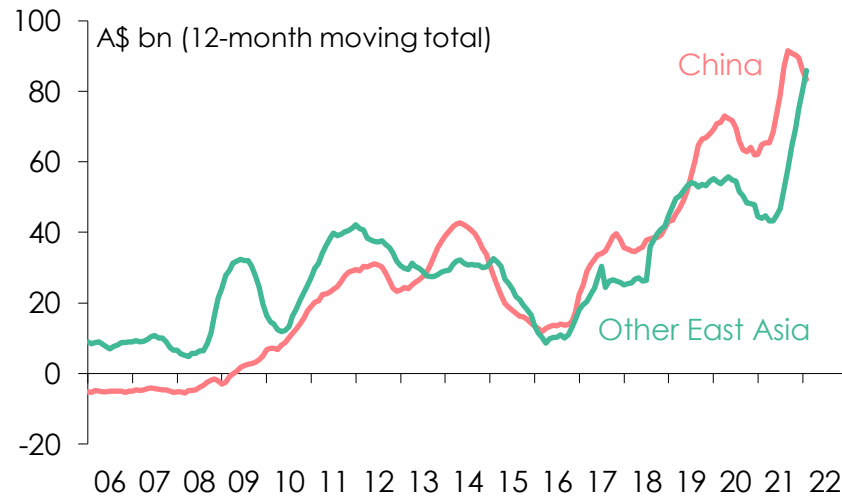
## Merchandise exports – US & Europe



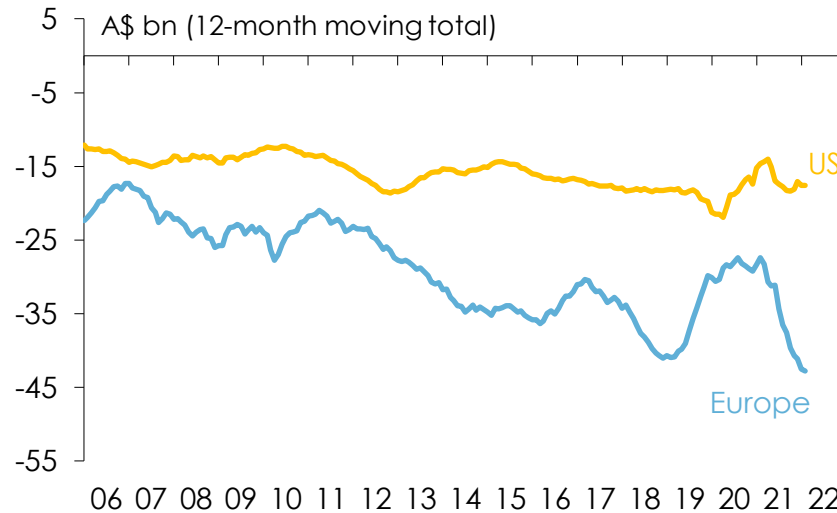
## Merchandise exports – other



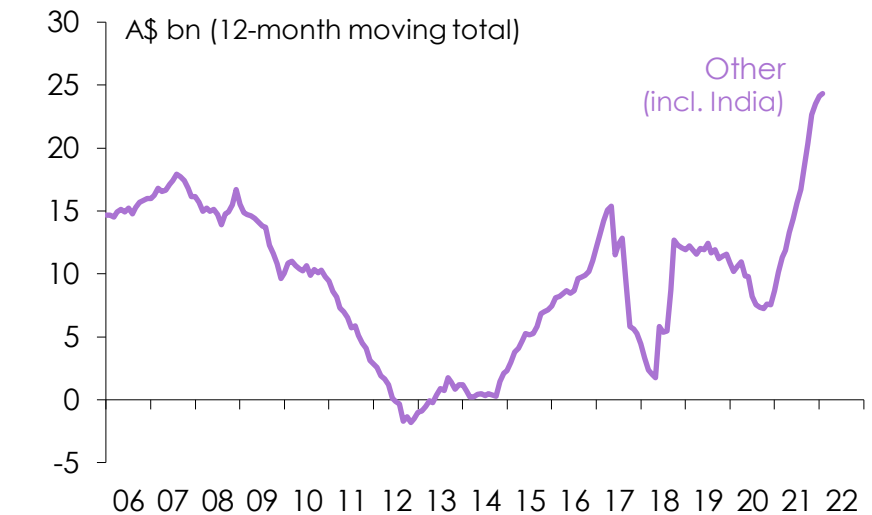
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other

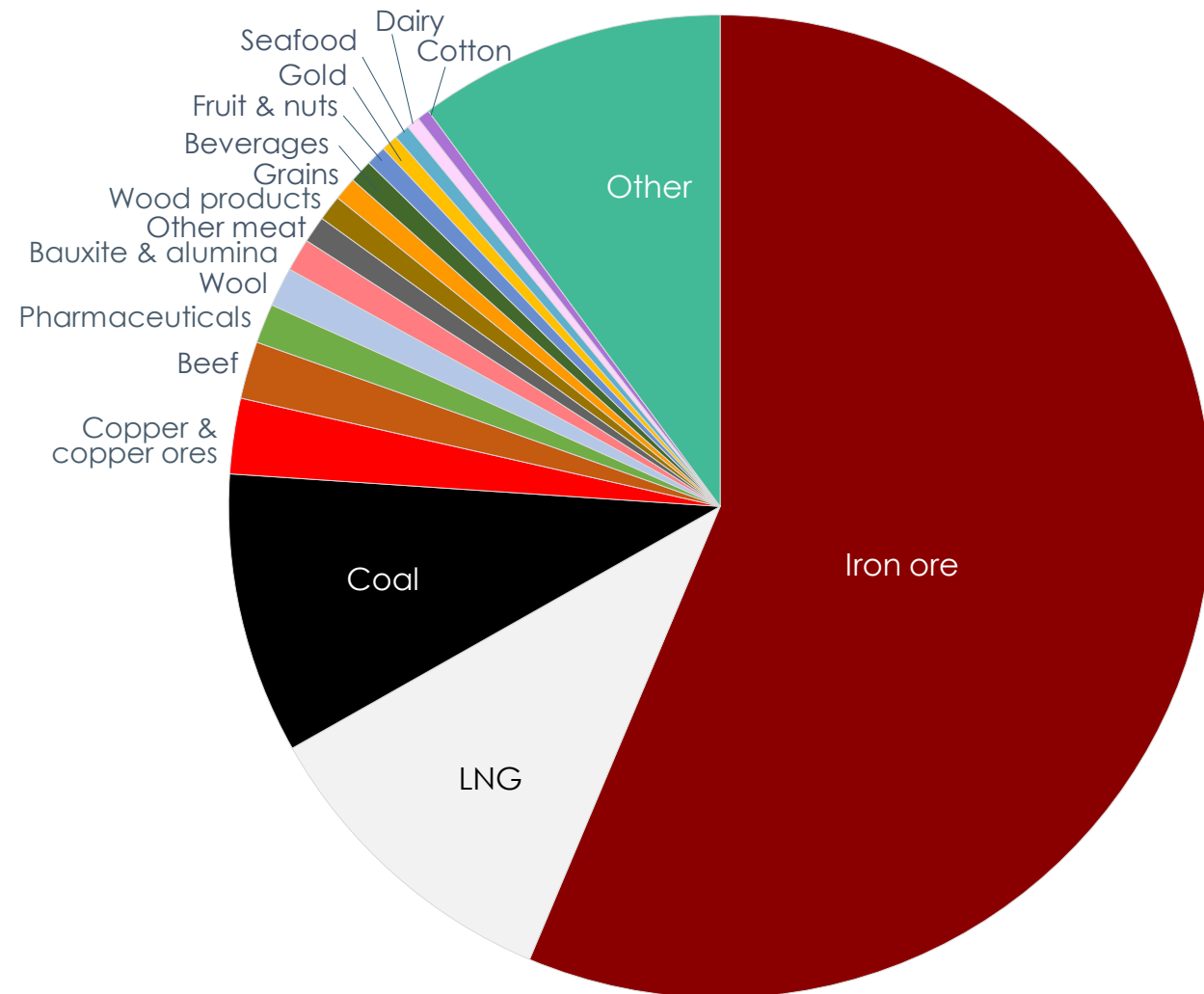


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS,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

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

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## Australia's merchandise exports to China, 2019-20



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

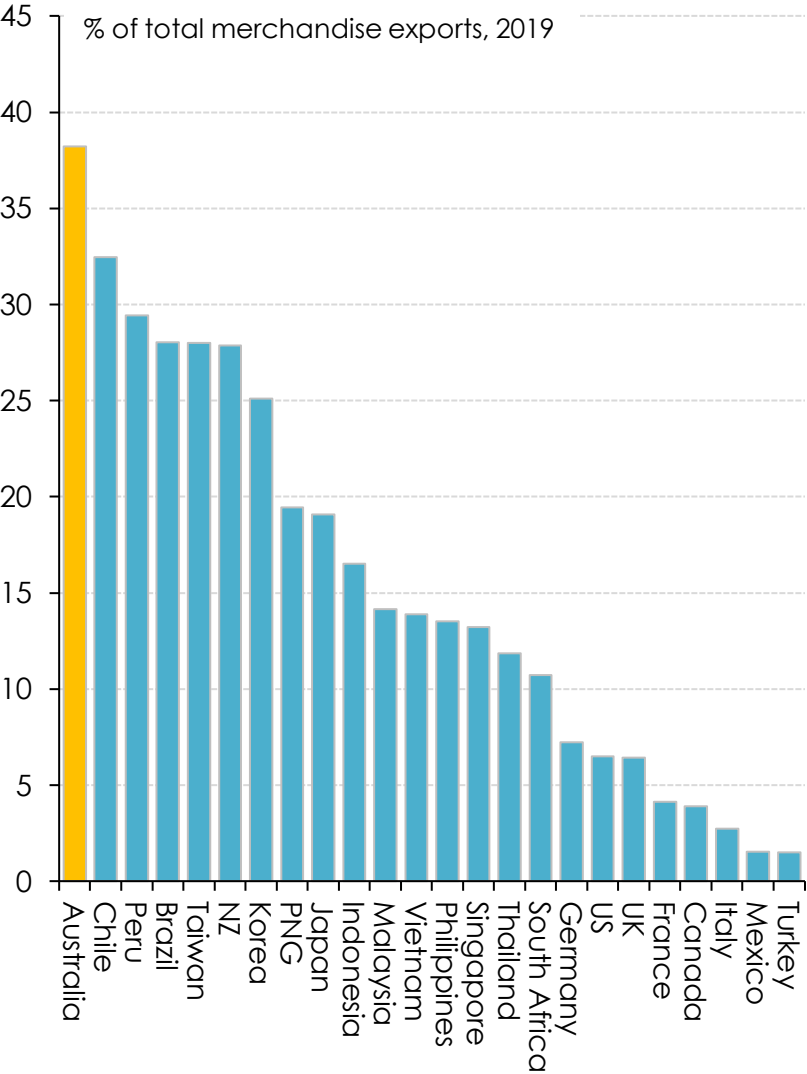
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

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

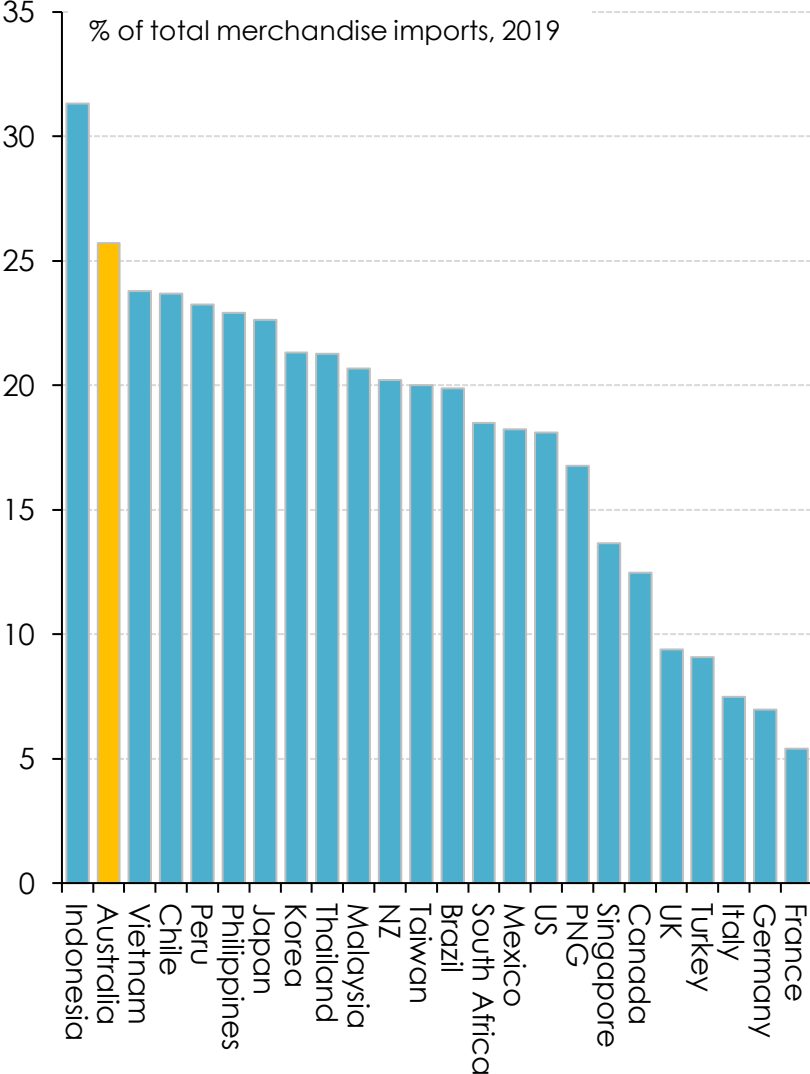
# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

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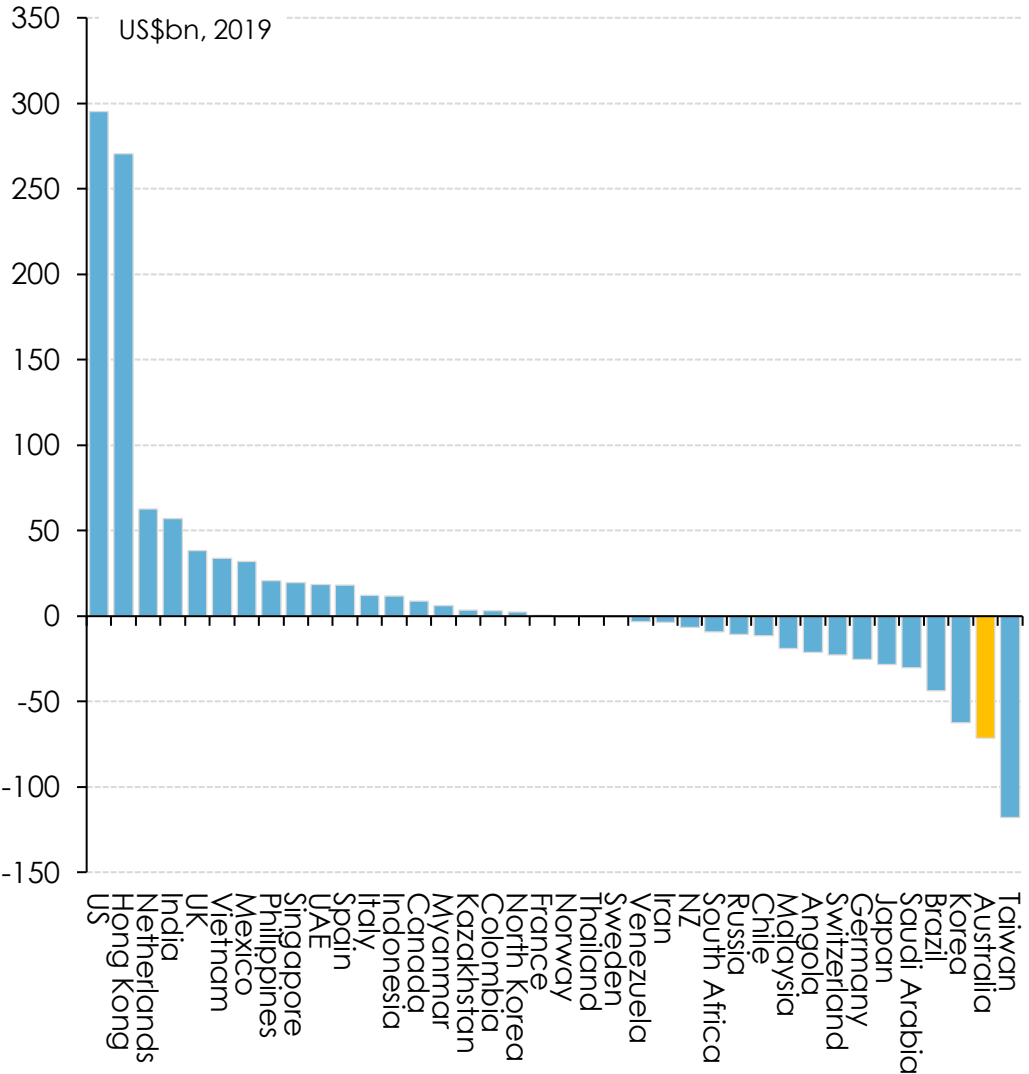
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



## China's bilateral merchandise trade balances



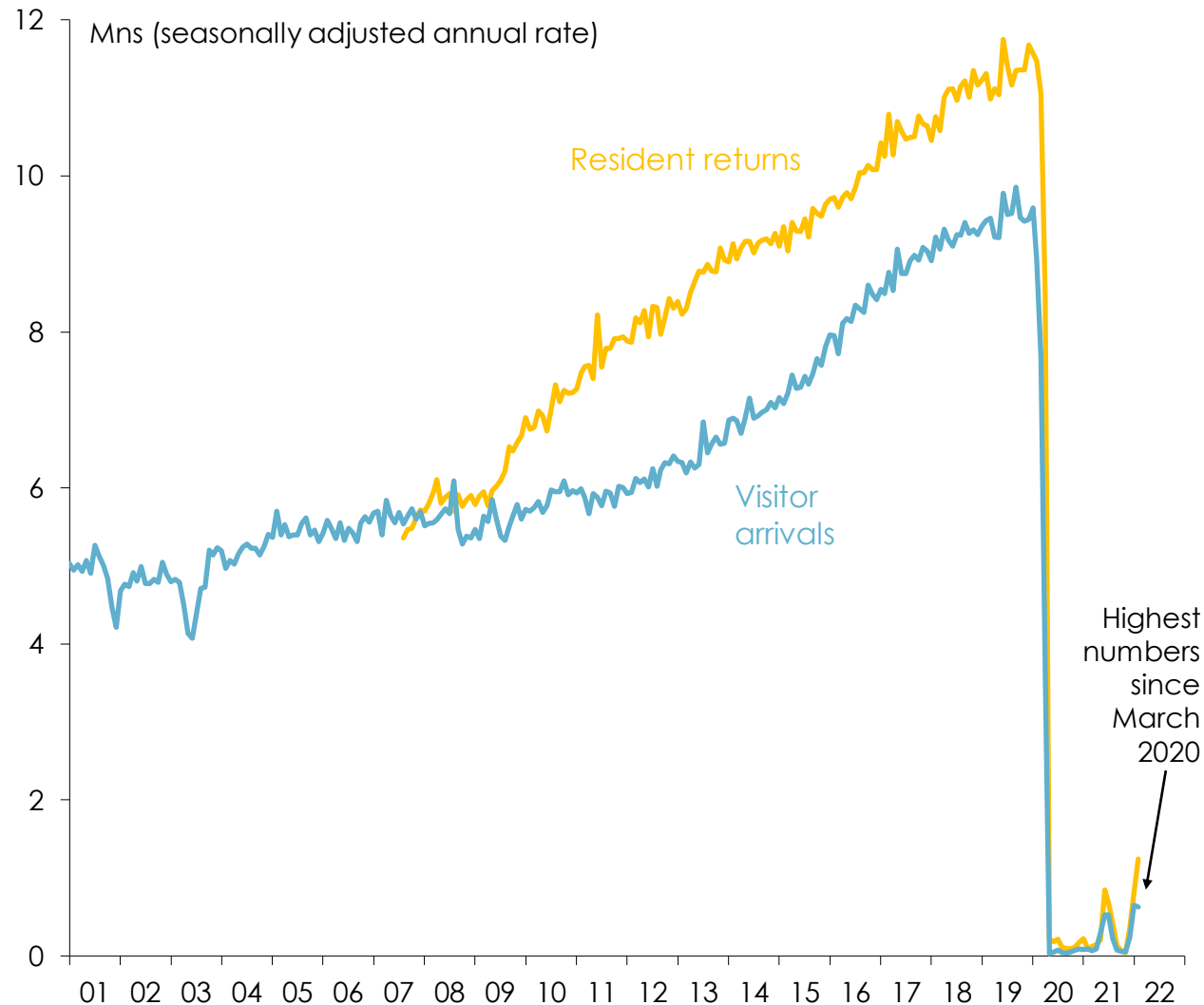
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).



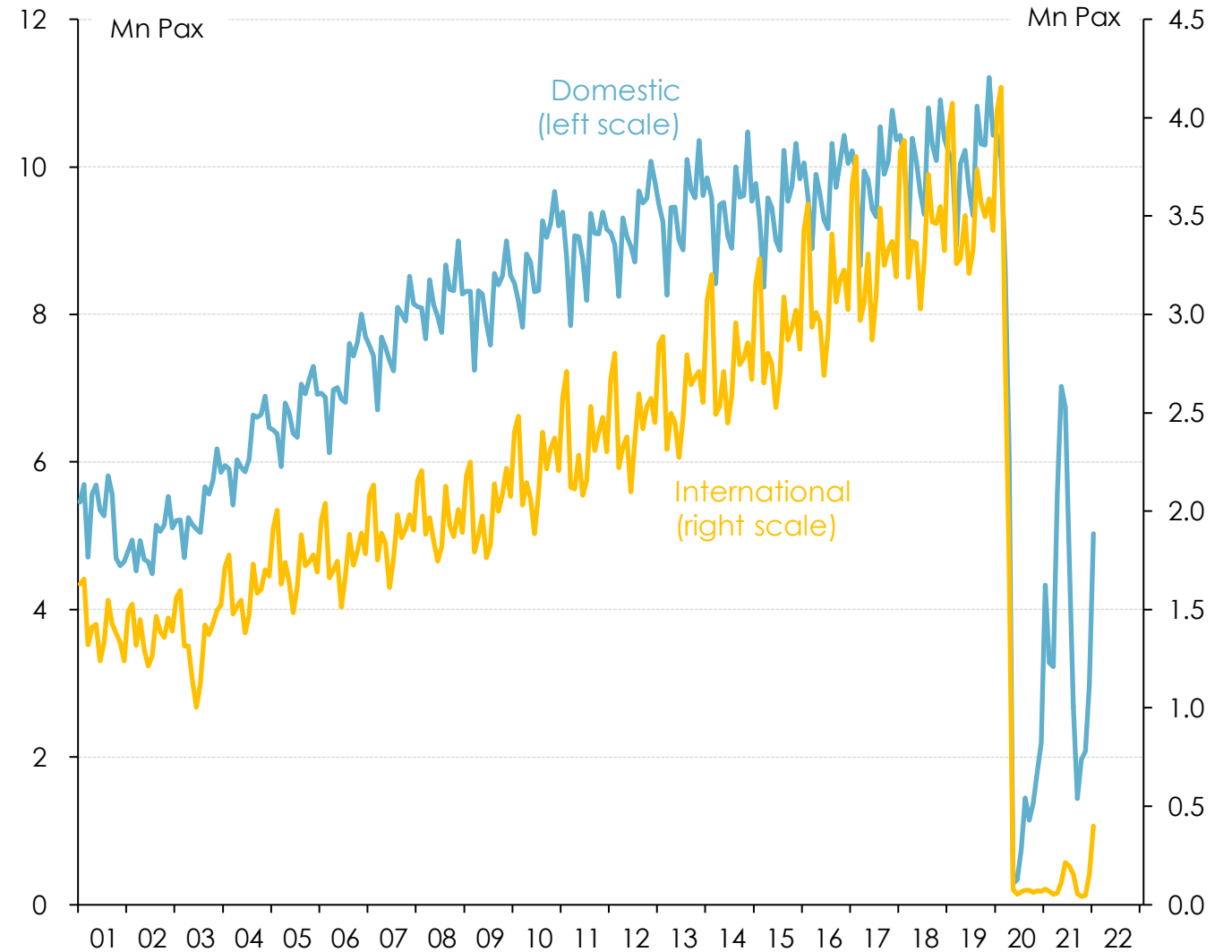
# The re-opening of Australia's international and interstate borders has seen a pick-up in international arrivals & departures and in airport movements

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## Short-term visitor arrivals and resident returns



## Airport passenger movements

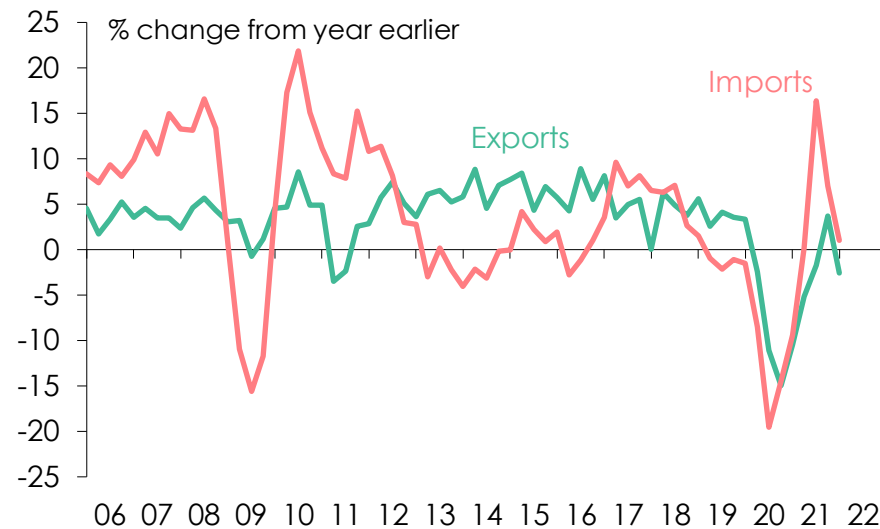


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest ABS data on arrivals and departures are for January 2022; latest BITRE data on airport passenger movements are for December 2021. Sources: [ABS](#); [Bureau of Industry, Transport and Regional Economics \(BITRE\)](#); Corinna. [Return to "What's New"](#).

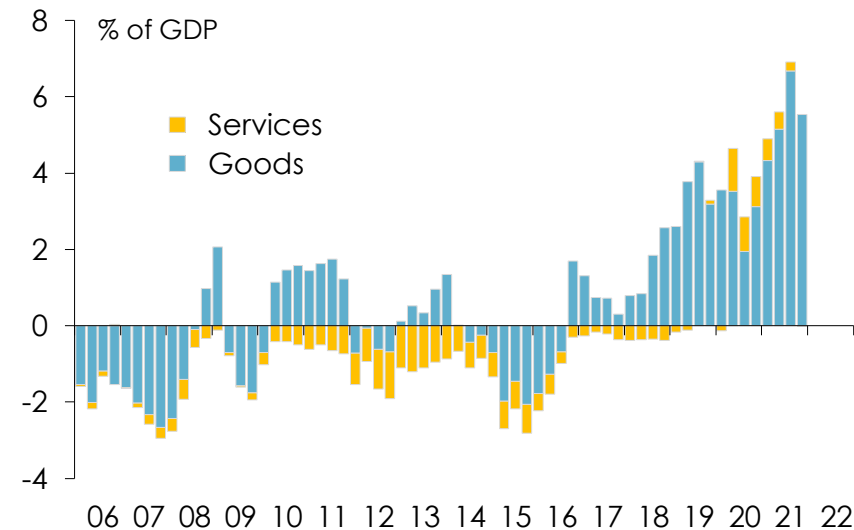
# Australia's current account surplus shrank by nearly half in Q4 last year, with the trade surplus declining and the income deficit increasing

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

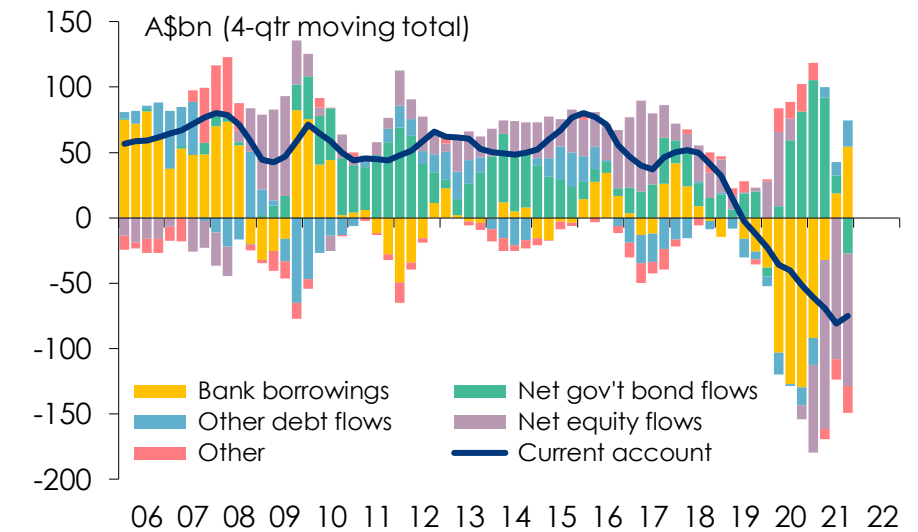
## Export and import volumes



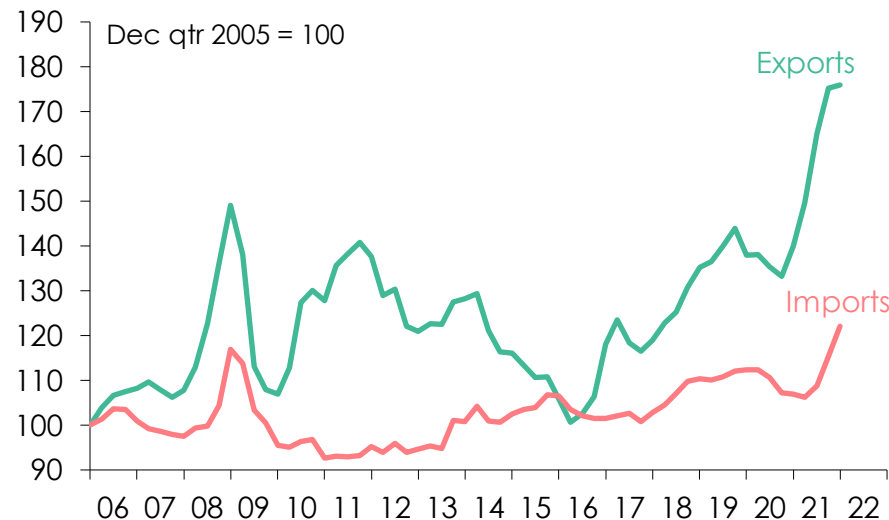
## Goods & services trade balances



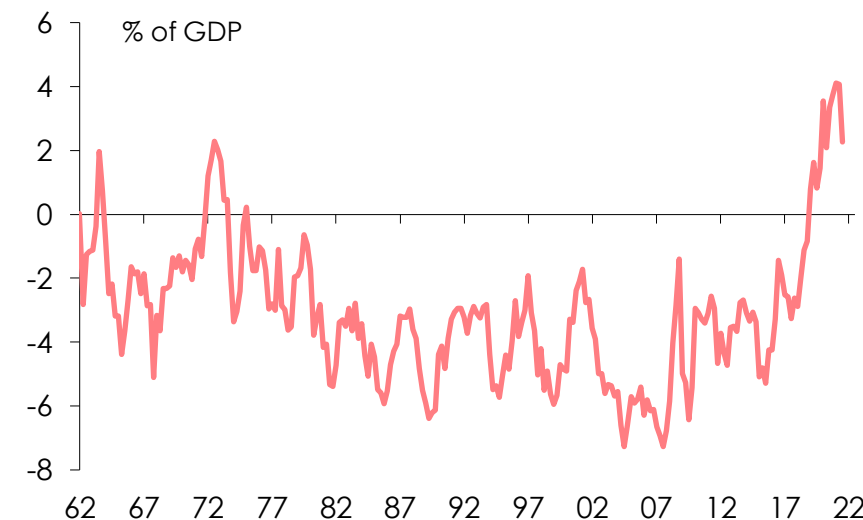
## Capital flows



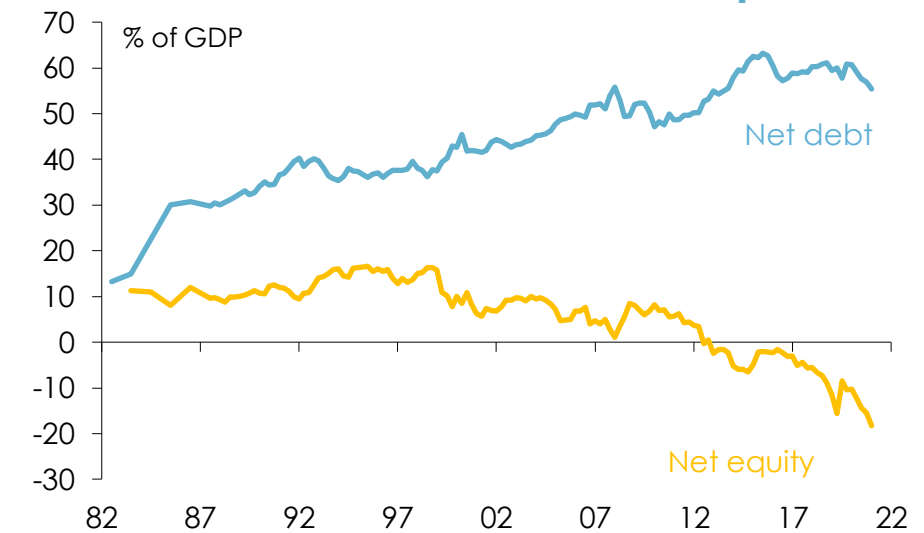
## Export and import prices



## Current account balance



## Net international investment position



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

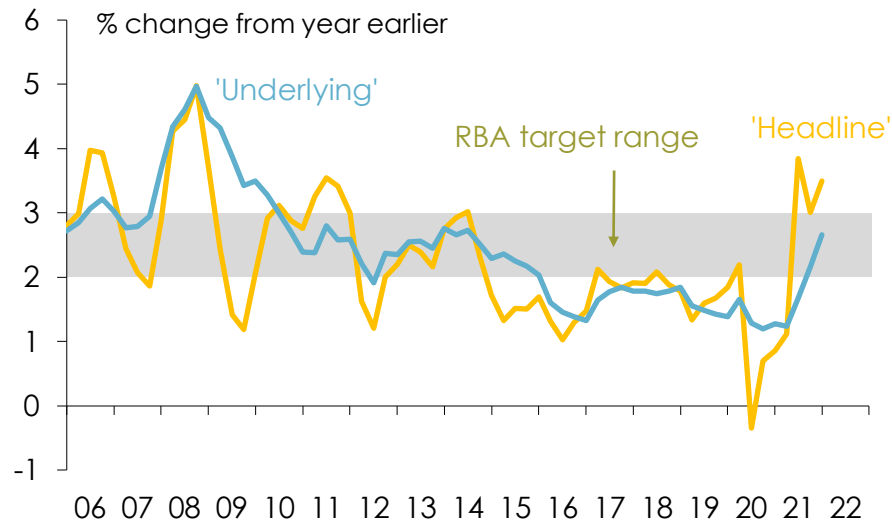


# Inflation

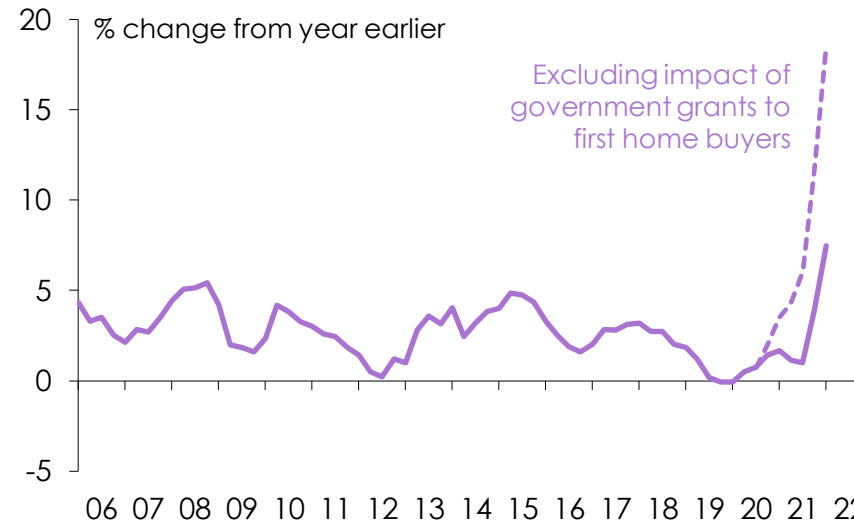
# The December quarter CPI was unequivocally higher than expected, and puts some pressure on the RBA to start raising rates this year

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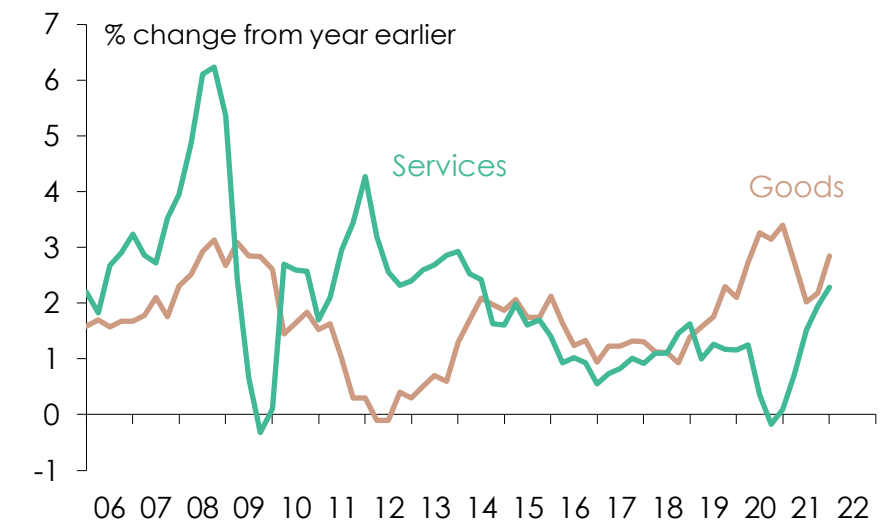
## Consumer prices – annual change



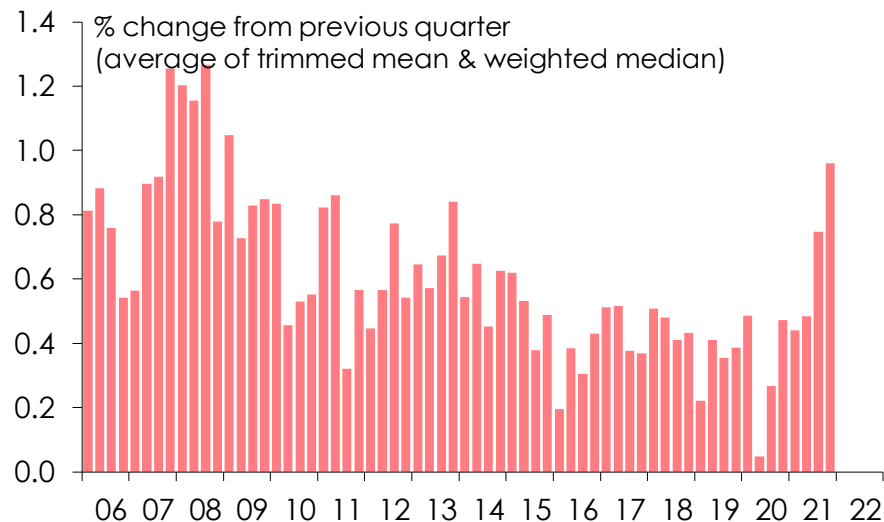
## New dwelling purchase costs



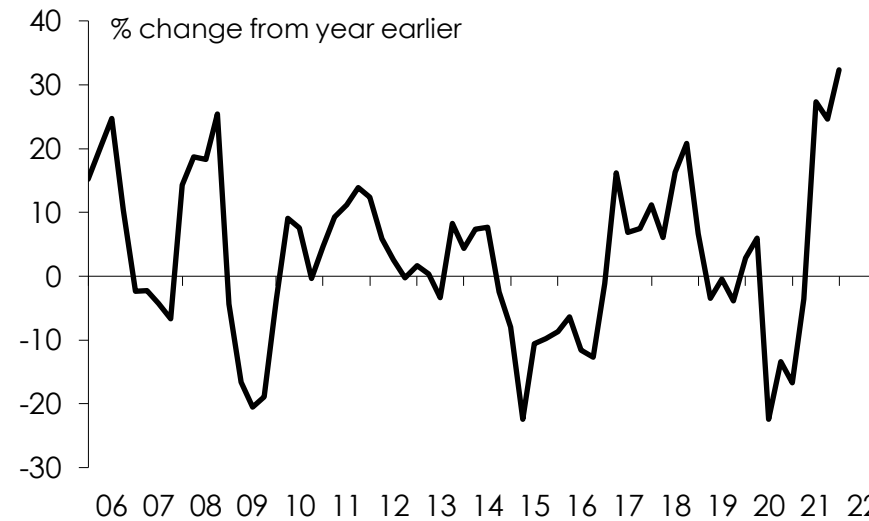
## 'Market' goods vs services



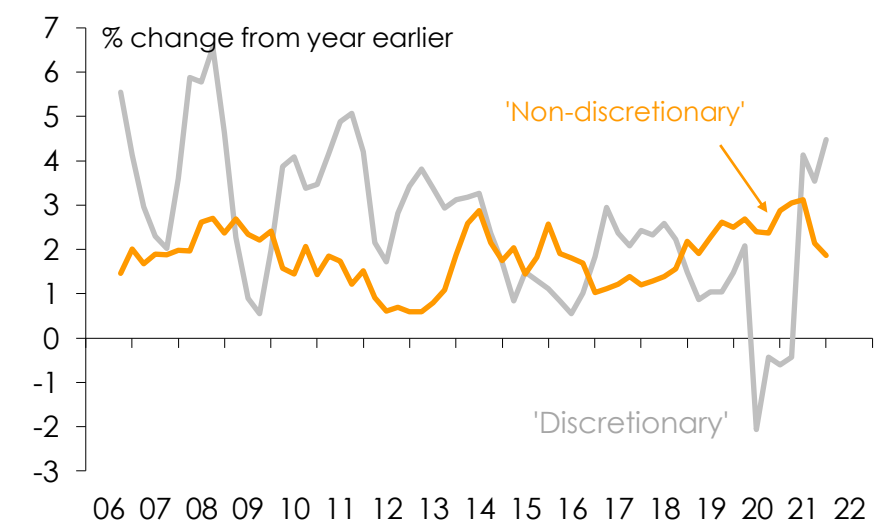
## Quarterly 'underlying' inflation



## Automotive fuel prices



## 'Discretionary' vs 'essential' items

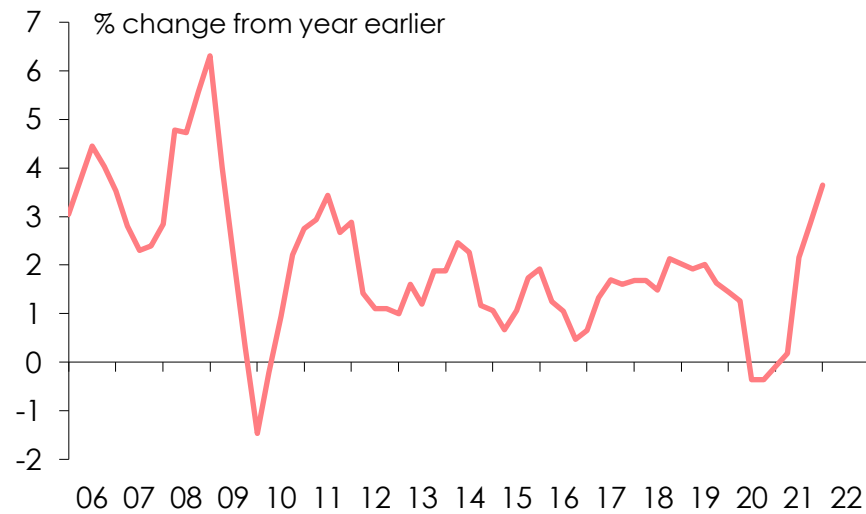


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. 'Market' goods and services exclude 'volatile items' (fruit & vegetables, utilities, property rates & charges, automotive fuel, urban transport services, postal services, child care, health, and education). For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

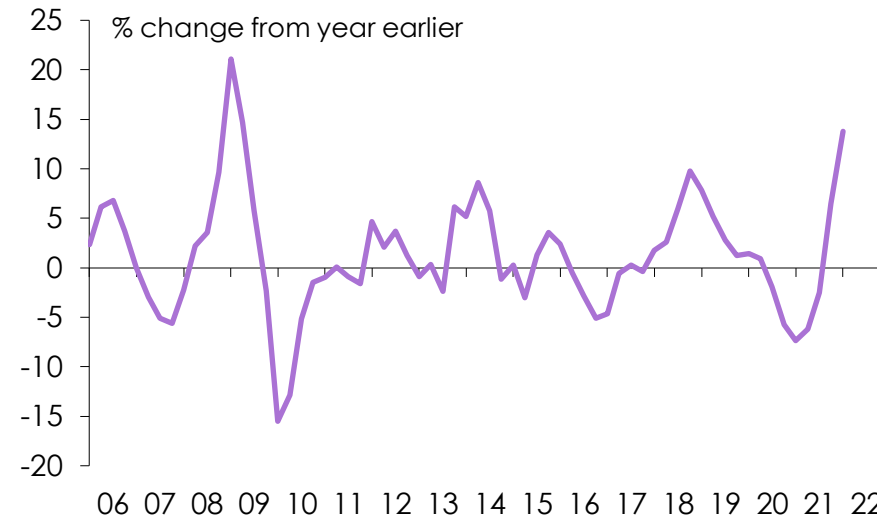
# Domestic 'upstream' price pressures haven't been as intense as in other 'advanced' economies, except in the construction sector

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

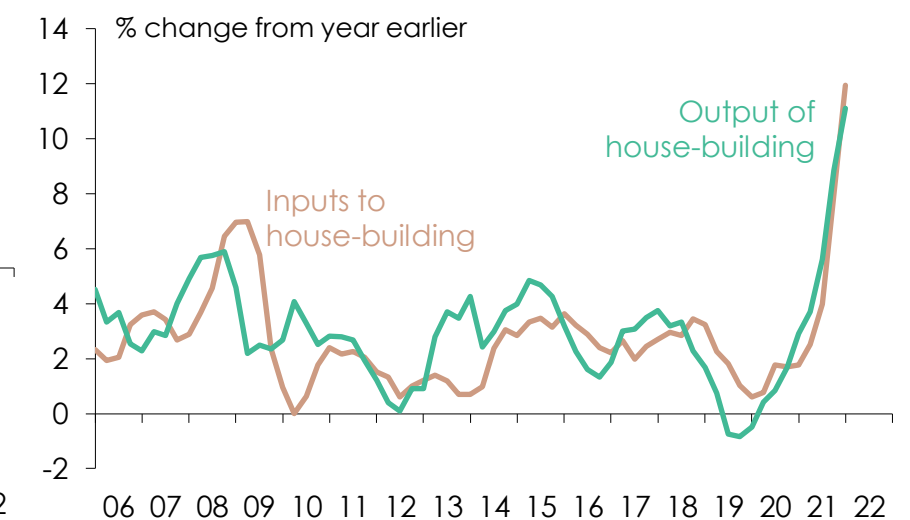
## Producer price index



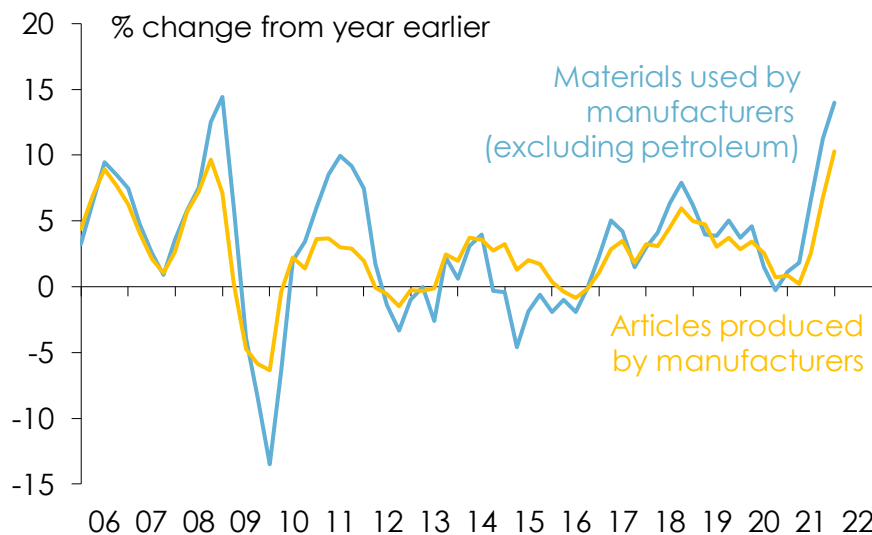
## Import price index



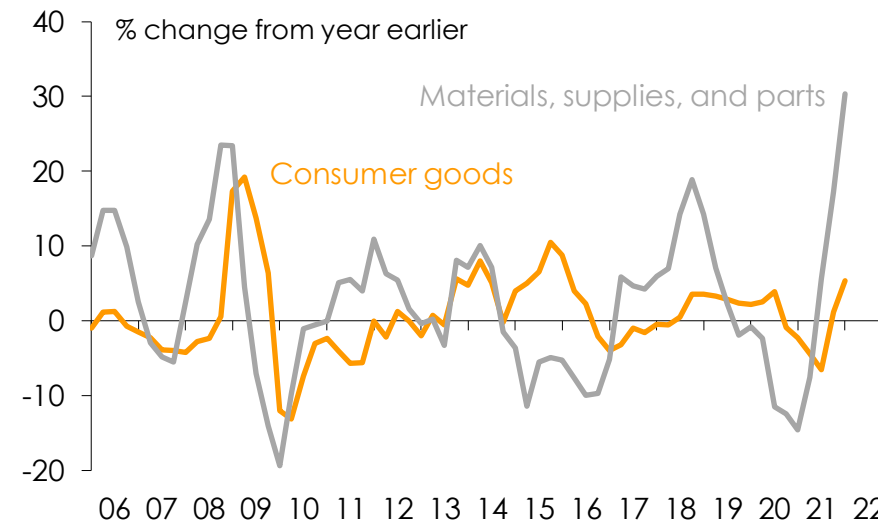
## Construction input & output prices



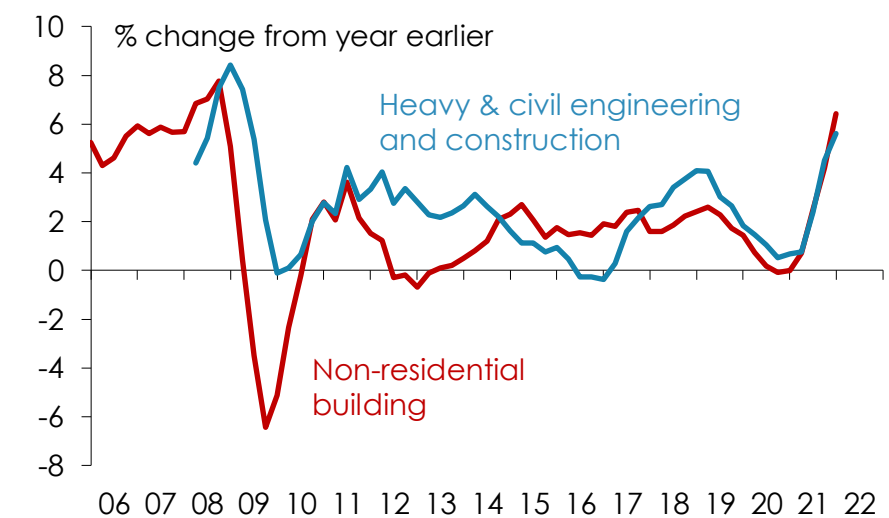
## Manufacturing input & output prices



## Imported consumer goods prices



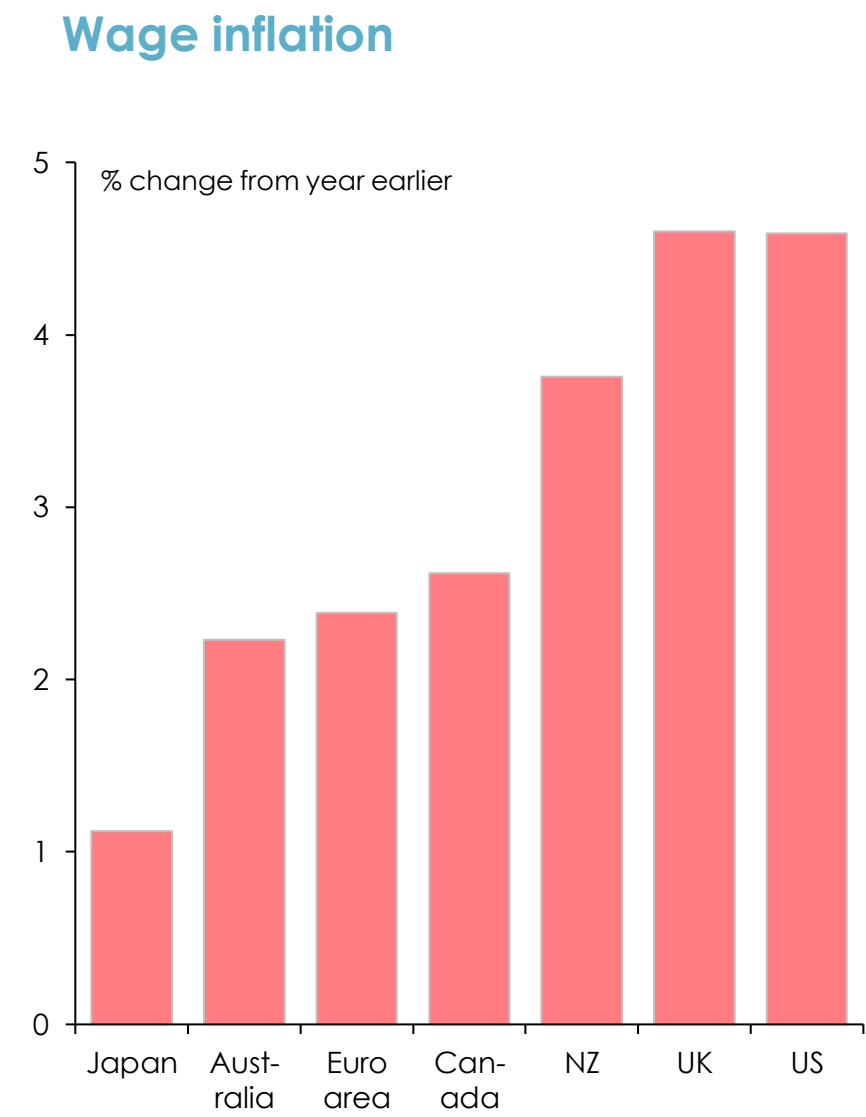
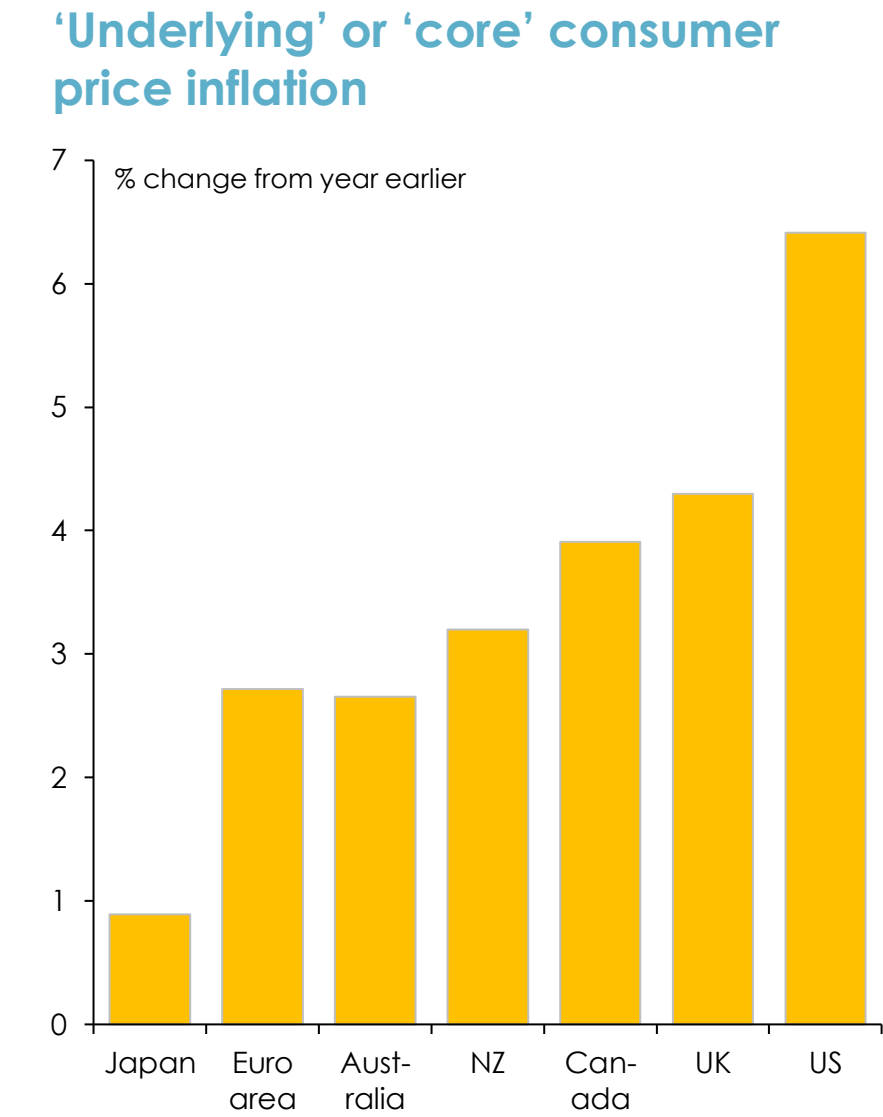
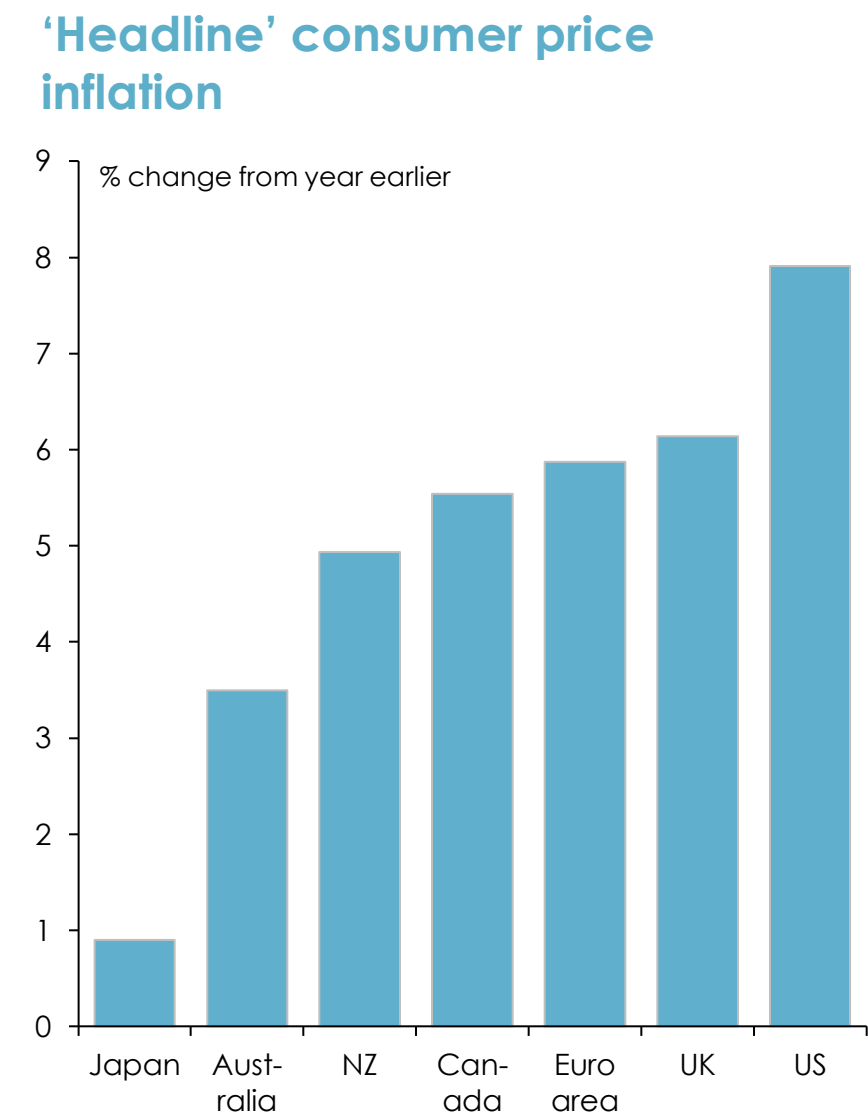
## Non-residential construction prices



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

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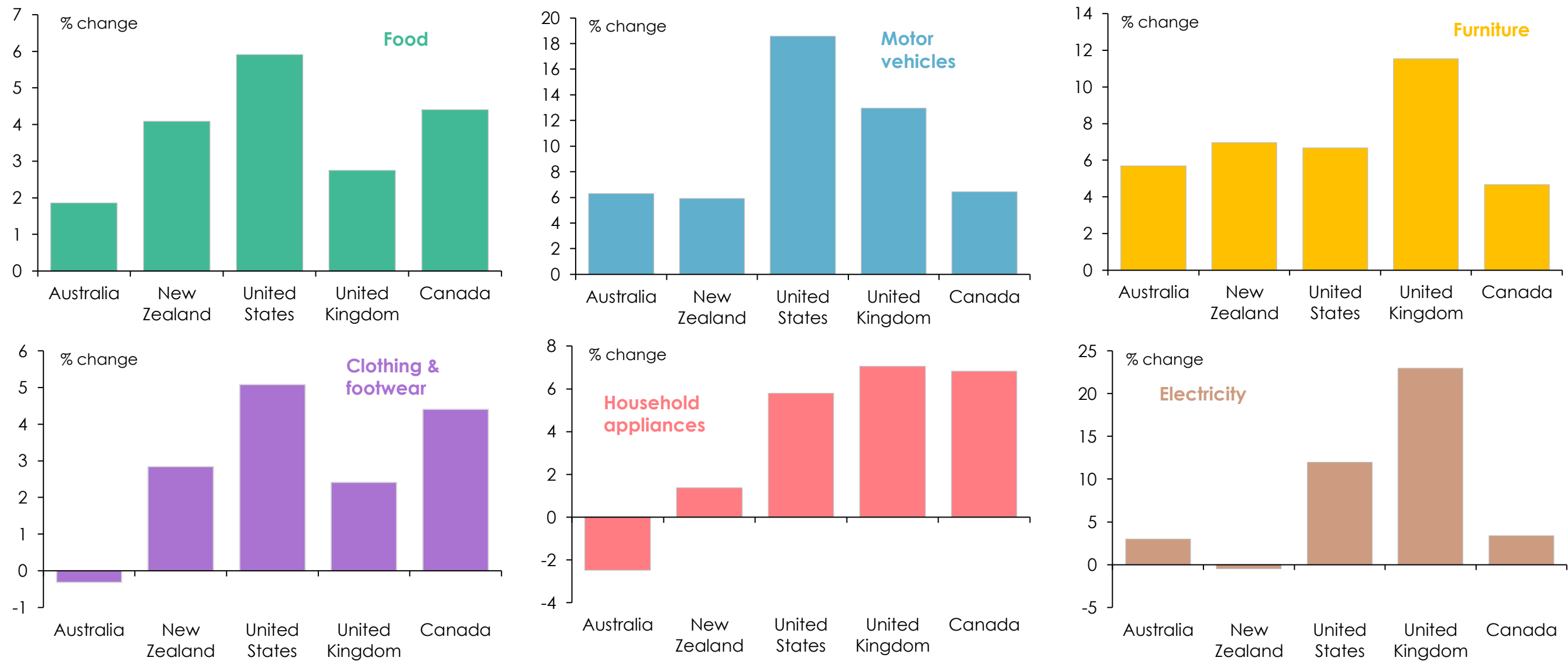
*Note:* Data are latest available, mostly February or December quarter for CPI inflation, and December or December quarter for wage inflation. 'Core' inflation is CPI excluding food & energy for the US, UK and Canada; trimmed mean for Japan and Australia; and 'sectoral factor model' for NZ. Wage inflation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

# Many of the contributors to sharp rises in inflation in other countries haven't been experienced to the same extent (or at all) in Australia

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Changes in prices of selected items over the year to the December quarter 2021

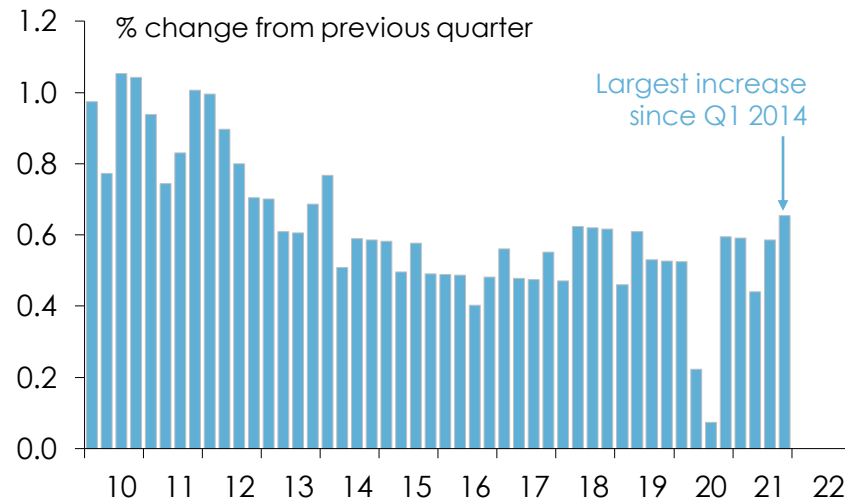


Sources: [Australian Bureau of Statistics](#); [Statistics New Zealand](#); [US Bureau of Labor Statistics](#); [UK Office for National Statistics](#); [Statistics Canada](#).

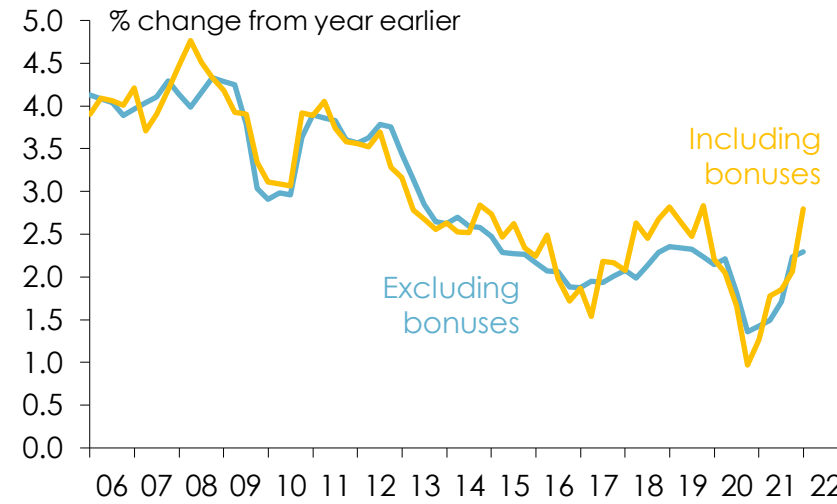
# Wages growth ticked up marginally in the final quarter of 2021 but is yet to break out of the sub-2½% range it's been in since the start of 2015

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

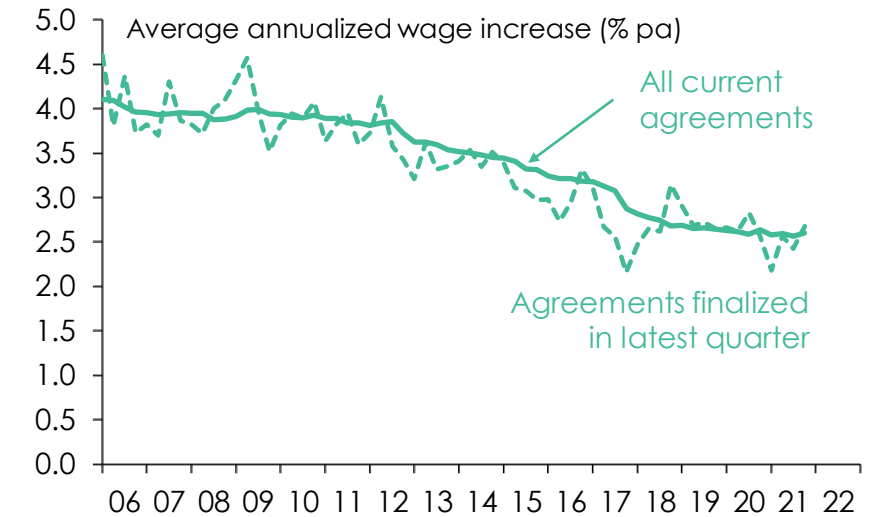
## Wage price index excluding bonuses



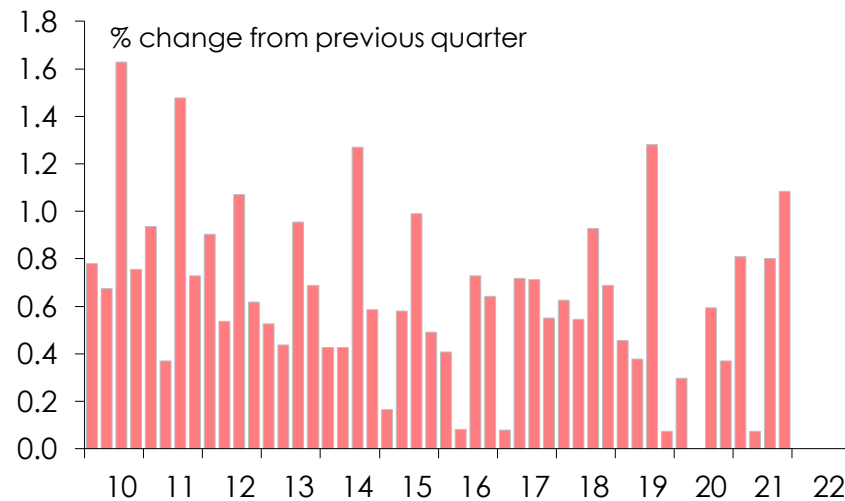
## Wage price index – all sectors



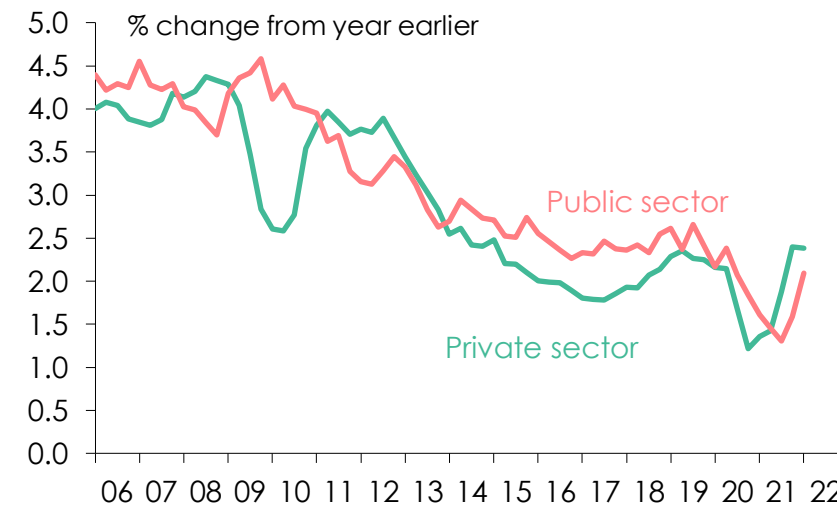
## Enterprise bargaining agreements



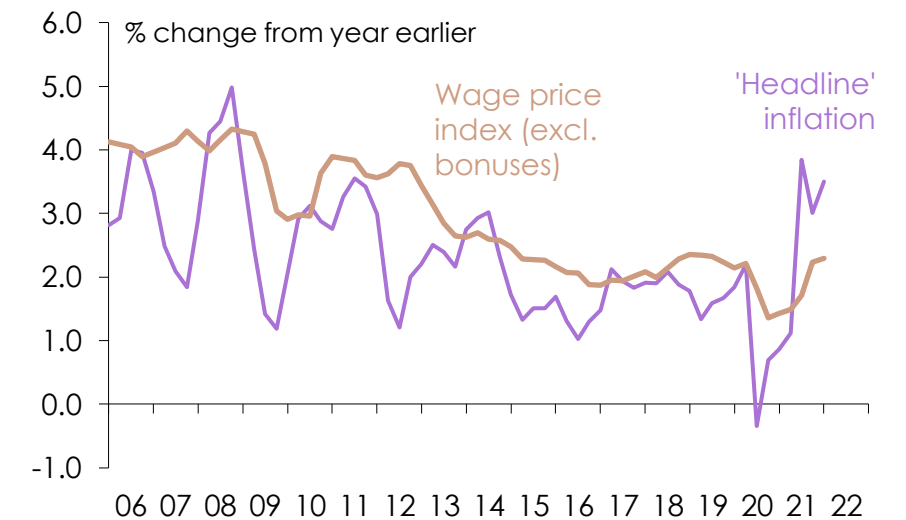
## Wage price index including bonuses



## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation

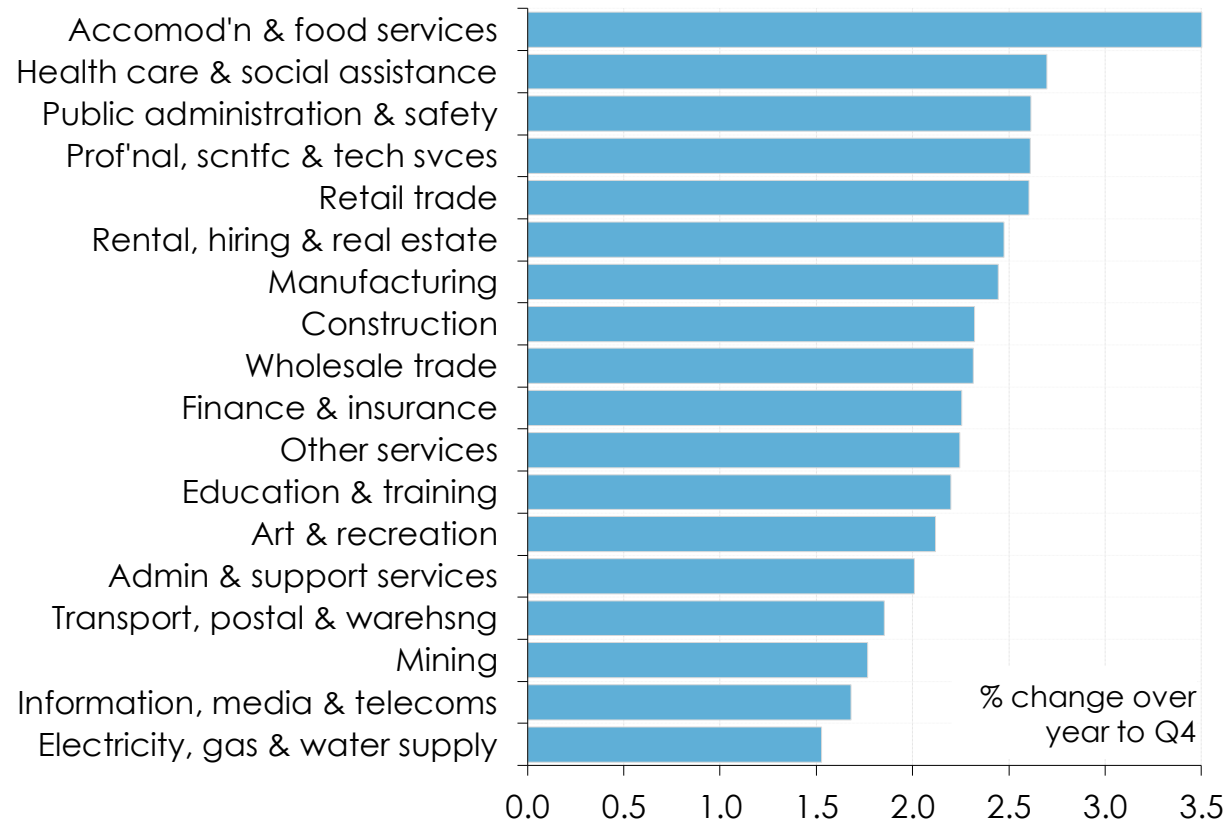


Sources: ABS, [Wage Price Index, Australia](#) Attorney-General's Department, [Trends in Federal Enterprise Bargaining](#); September quarter 2021; March quarter WPI data will be released on 18<sup>th</sup> May. [Return to "What's New"](#).

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

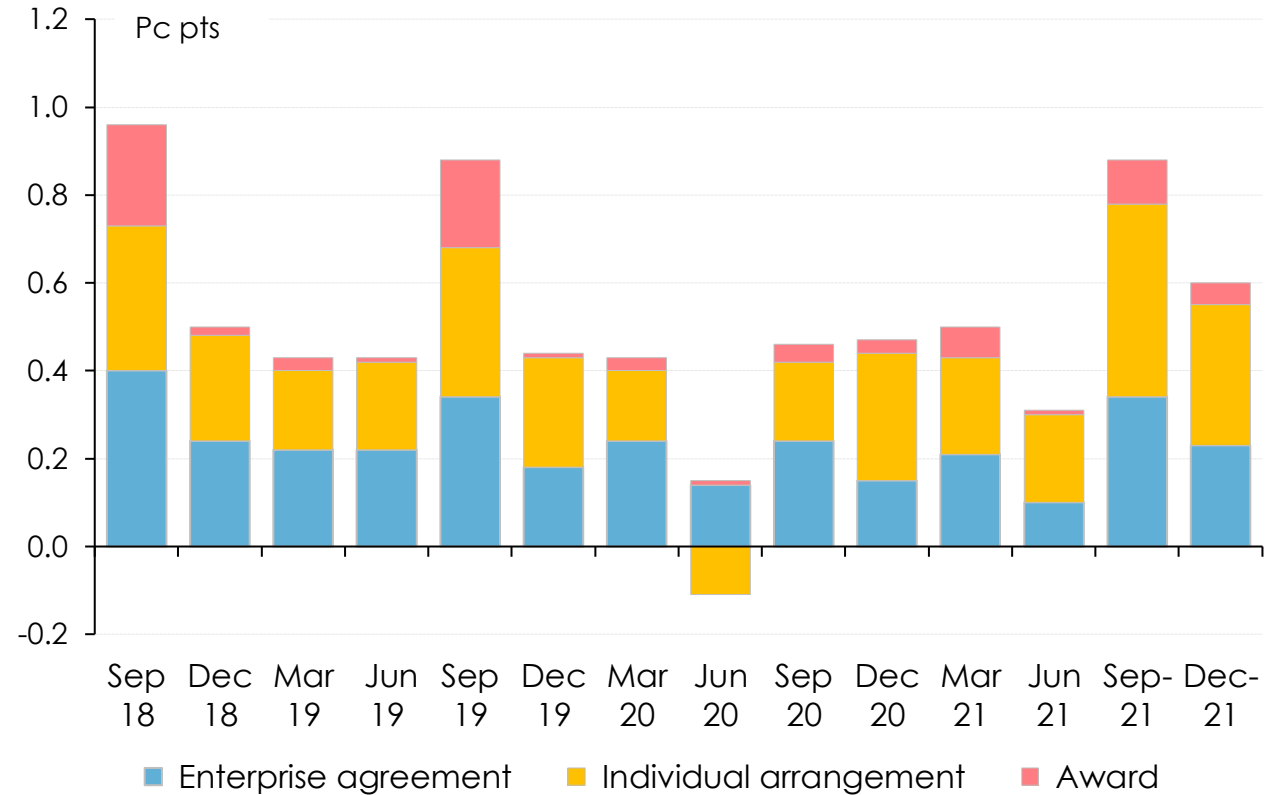
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> MARCH 2022

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



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

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



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

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



**Fiscal policy**

# This Tuesday's 2022-23 Federal Budget will seek to “stabilize and then reduce” debt as percentage of GDP without running budget surpluses

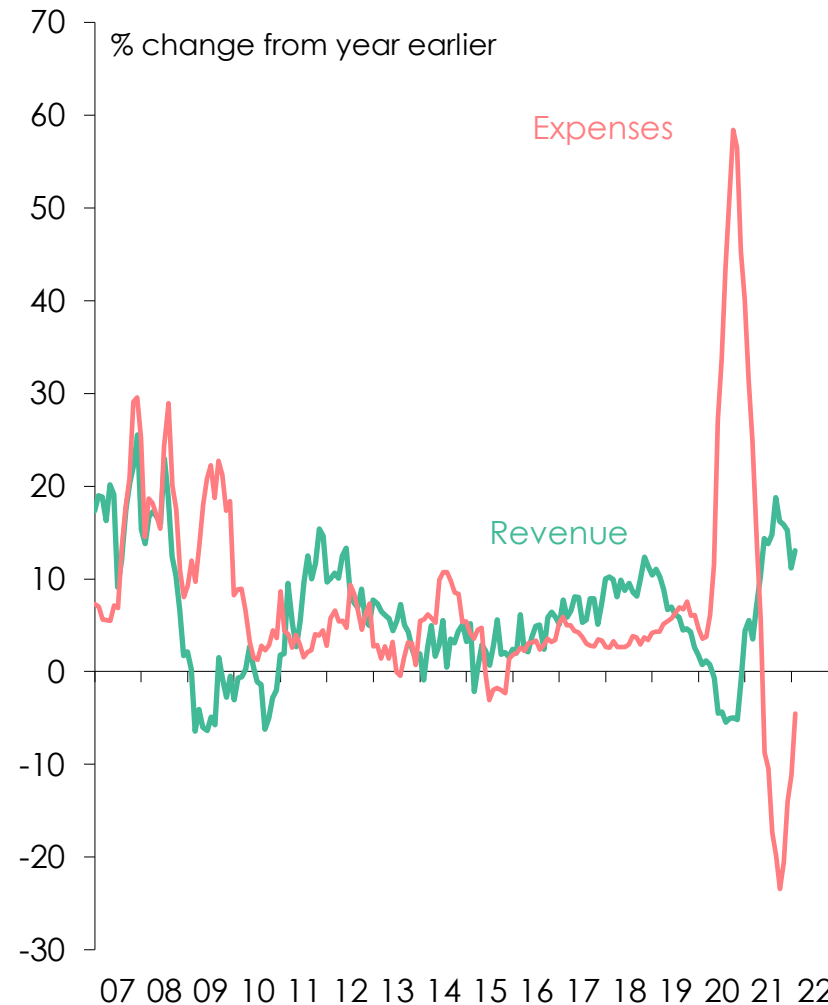
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> MARCH 2022

- ❑ Treasurer Josh Frydenberg previewed the forthcoming Federal Budget (to be presented this Tuesday evening because an election must be held before 21<sup>st</sup> May) in a [speech](#) to a business group last Friday (18<sup>th</sup> March)
- ❑ He foreshadowed that the Budget would contain “further measures to support families to meet the cost of living pressures, in a targeted and proportionate way” ...
- ❑ ... but that the main emphasis of the Budget would be to embark on “the next phase” of the Government’s fiscal strategy, to “stabilize and then reduce [public] debt as a share of the economy”
  - the fiscal strategy will be based on the principle expounded by former IMF Chief Economist Olivier Blanchard in his [2019 American Economic Association Presidential Address](#) that public debt can be carried without inevitably leading to higher taxes if interest rates on public debt are, and are expected to remain, below the growth rate of nominal GDP
  - the Treasurer said this means that “by growing [the] economy we can maintain a steady and declining ratio of debt to GDP even without running budget surpluses”
- ❑ The Treasurer argued that “a sharp and sudden tightening in the fiscal settings would likely be counter-productive, undermining the economic recovery and ultimately hurting the Budget”
  - whereas Australia’s previous experience with “fiscal consolidations” – after the two World Wars, the Great Depression, and the recessions of the mid-1970s, early 1980s and early 1990s – “is that they are almost always achieved gradually and are underpinned by a strong economy and genuine fiscal discipline”
- ❑ He hinted that stronger economic growth, lower unemployment and higher commodity prices than assumed in last December’s MYEFO will result in a “substantial improvement in the budget bottom line” compared with the MYEFO forecasts (see [slide 83](#))
- ❑ He also stated that the ‘cap’ on tax revenues at 23.9% of GDP (the ratio during the final two terms of the Howard Government) remains a “key element” of the Government’s fiscal strategy

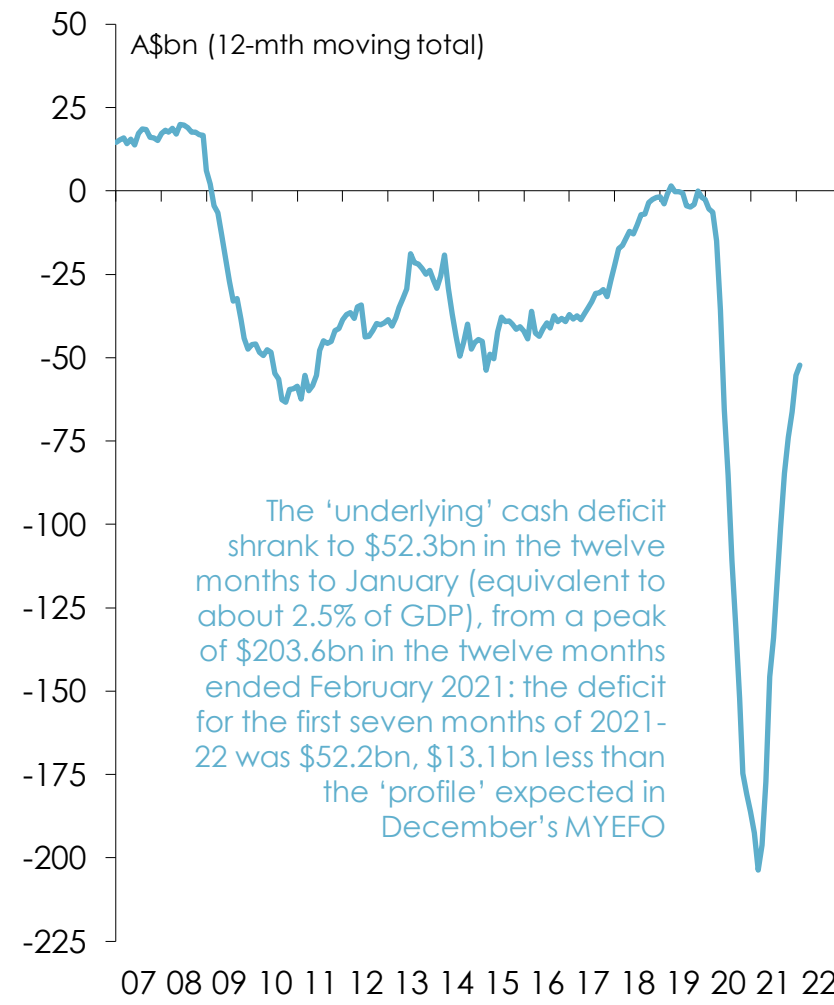
# The Federal budget deficit is declining rapidly, thanks largely to buoyant tax revenues, and net debt appears to have stabilized

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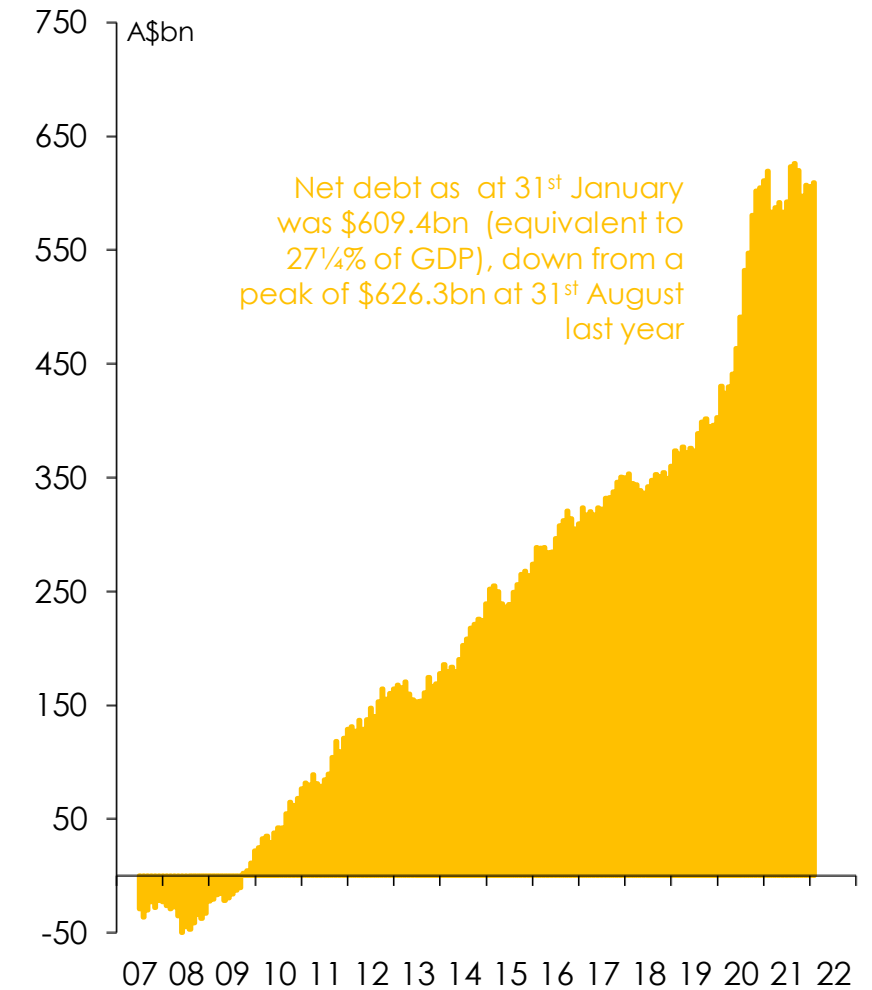
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt



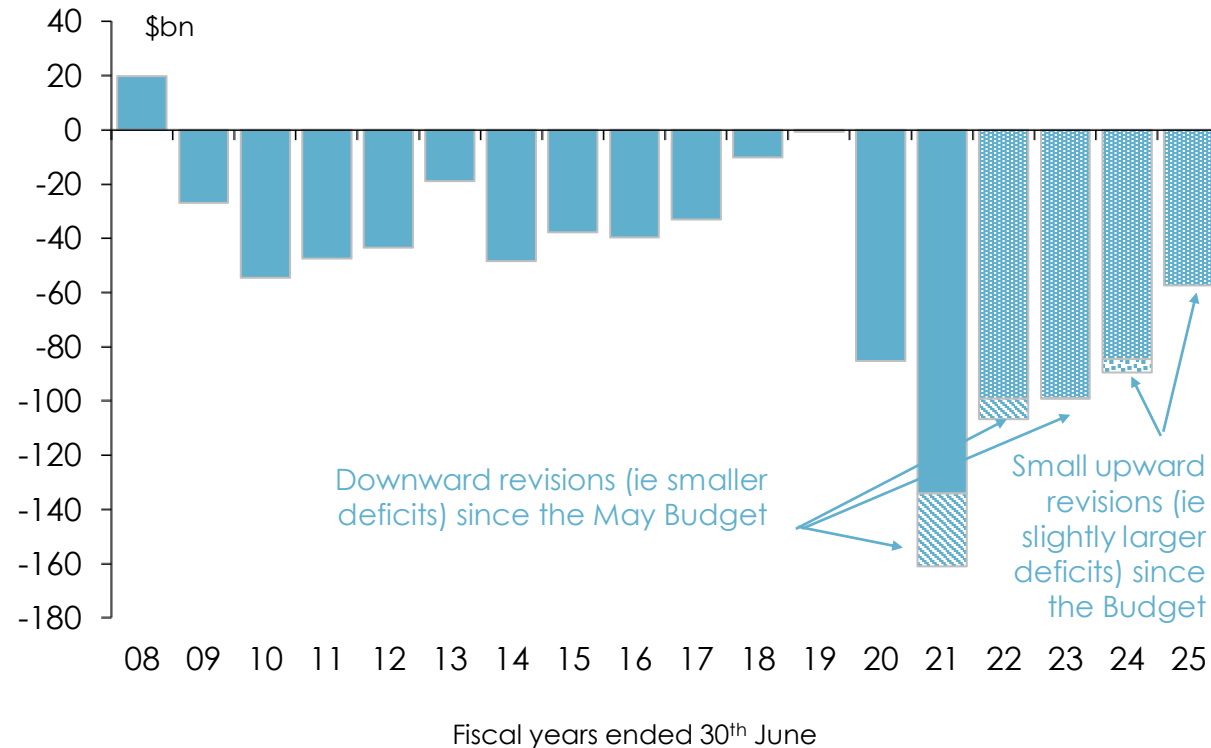
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

# This Tuesday's 2022-23 Federal Budget will use upward revisions to revenue forecasts to project lower deficits and net debt than in December's MYEFO

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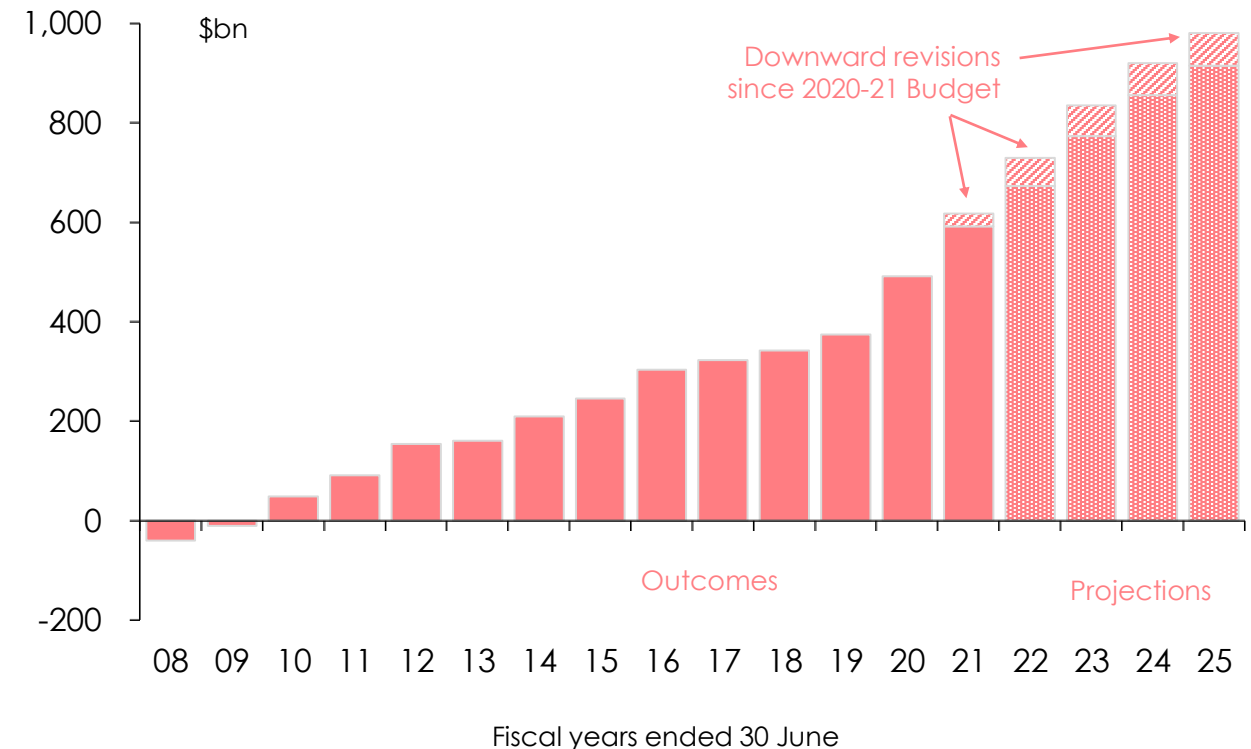
## 2021-22 MYEFO forward estimates of the 'underlying' cash balance and net debt

### 'Underlying' cash balance



- MYEFO's forecast 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 & 2022-23 were revised down by \$7.4bn and \$0.4bn, respectively, while the deficits for 2023-24 & 2024-25 were revised up by \$5bn and \$0.5bn

### Net debt

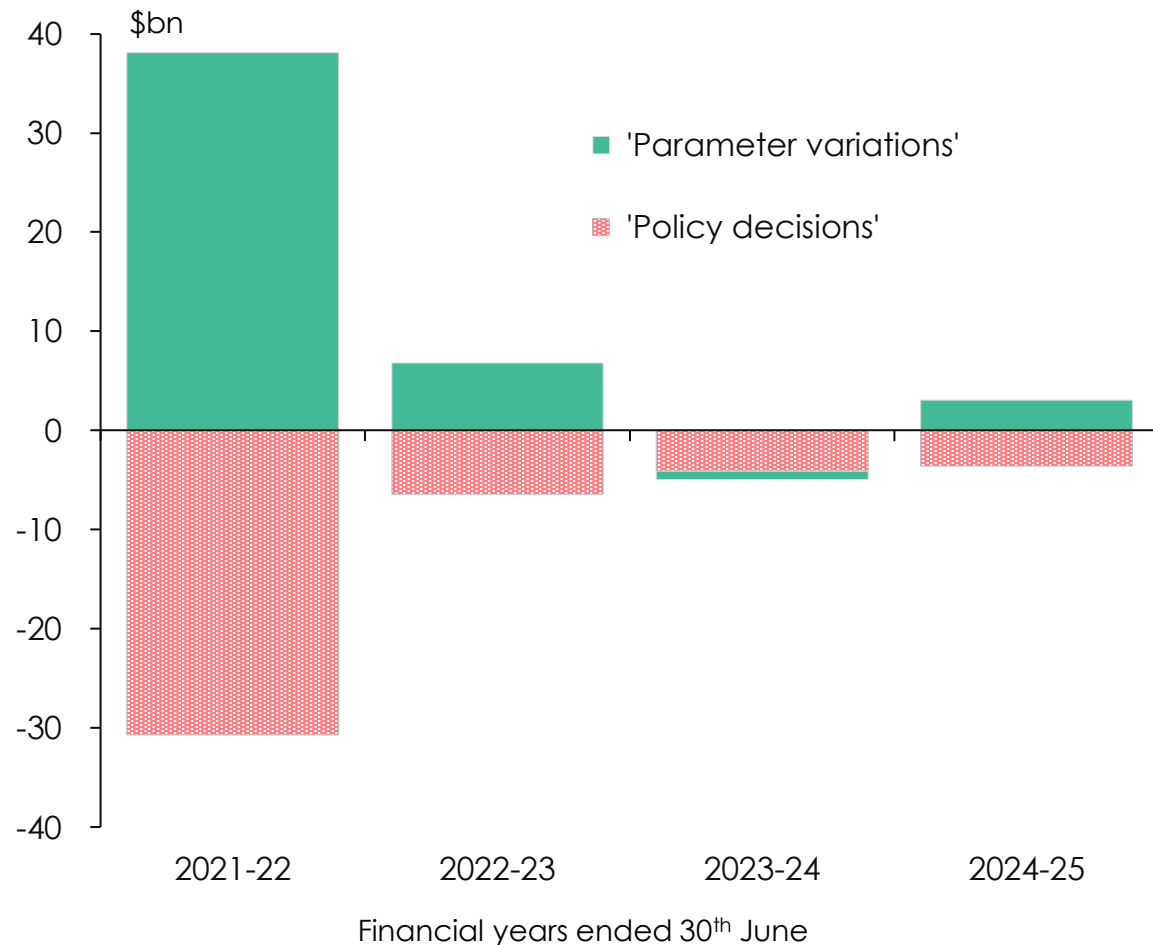


- MYEFO's forecast for net debt as at 30<sup>th</sup> June 2021 was \$25bn less than had been forecast in last year's Budget – and the forecast for net debt as at 30<sup>th</sup> June 2025 was revised down by \$66bn, to \$915bn (37.4% of GDP)

# However, as it did in MYEFO, a significant proportion of the upward revisions to revenue will be used to fund new spending or tax measures

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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 – between last year's Budget and December's MYEFO 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 between May and December last year 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 was a mere \$2.3bn

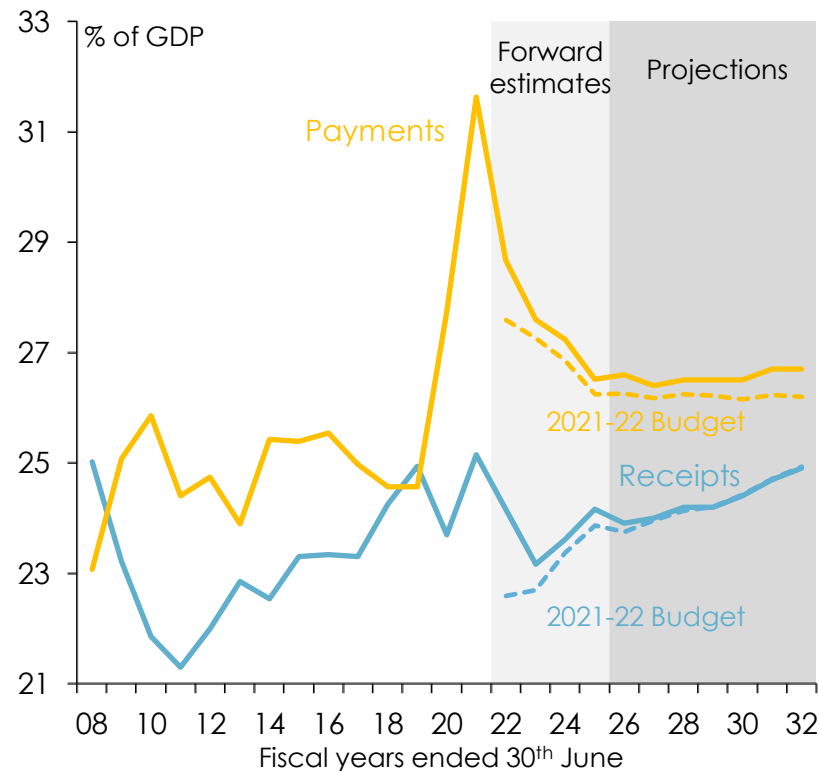
Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021. The 2022-23 Budget will be presented on 29<sup>th</sup> March.  
[Return to "What's New"](#).

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

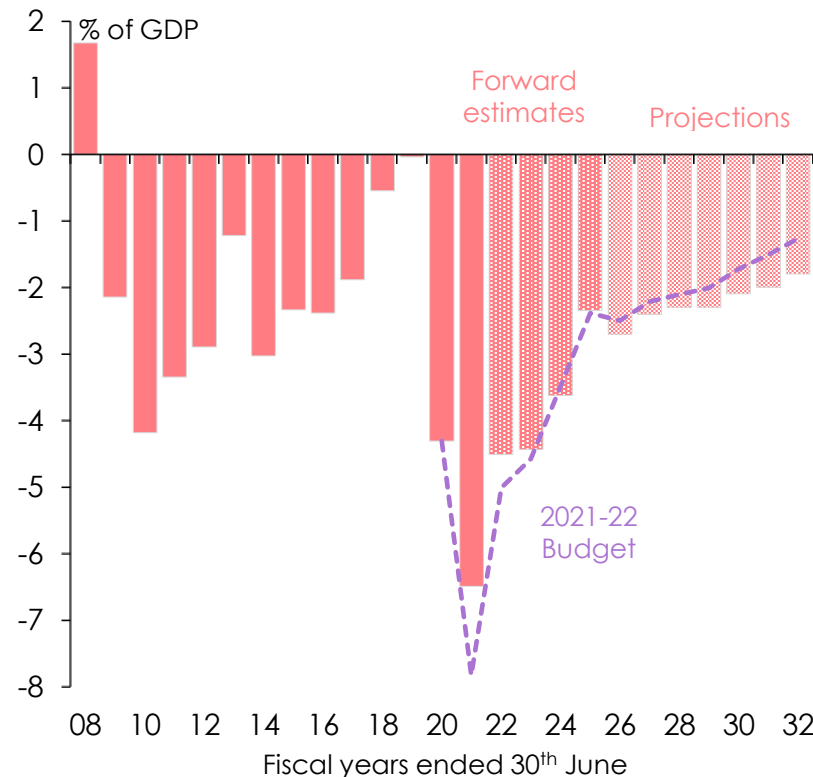
THE AUSTRALIAN ECONOMY THIS WEEK – 25<sup>TH</sup> MARCH 2022

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

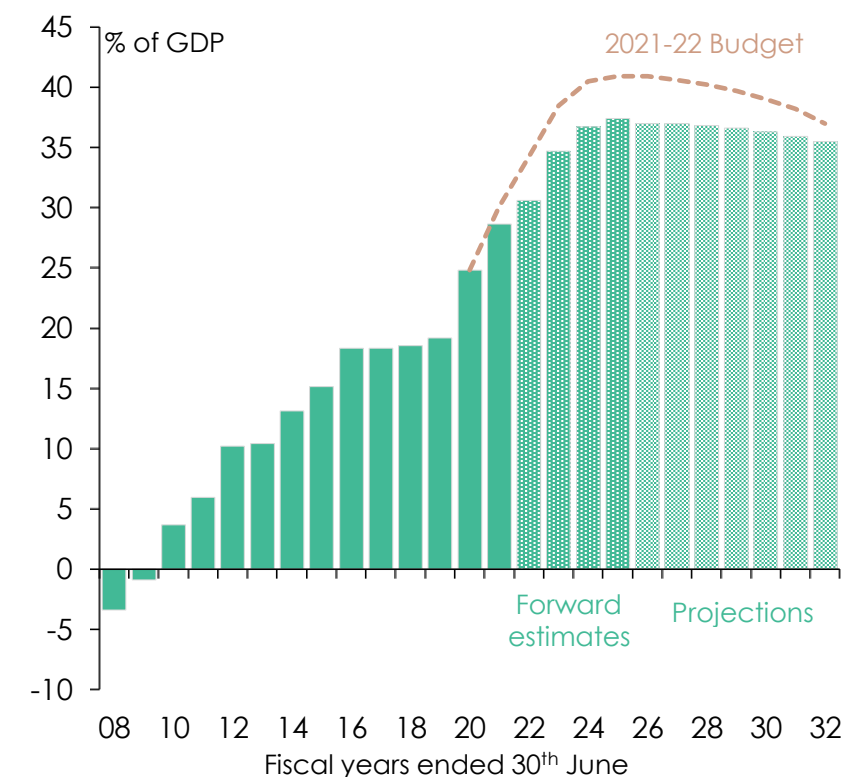
### Receipts & payments



### 'Underlying' cash deficit



### Net debt



- ❑ The Treasurer has indicated that Tuesday's Budget will not foreshadow a 'return to surplus', either over the four-year 'forward estimates' period or over the 'medium term' – rather, the objective will be to reduce debt as a proportion of GDP over time (see [slide 81](#))
- ❑ While interest rates remain low by historical standards the government can 'afford' to run deficits averaging 2¼% of GDP – but at the expense of not building 'buffers' to use in response to the next 'shock', whenever it comes

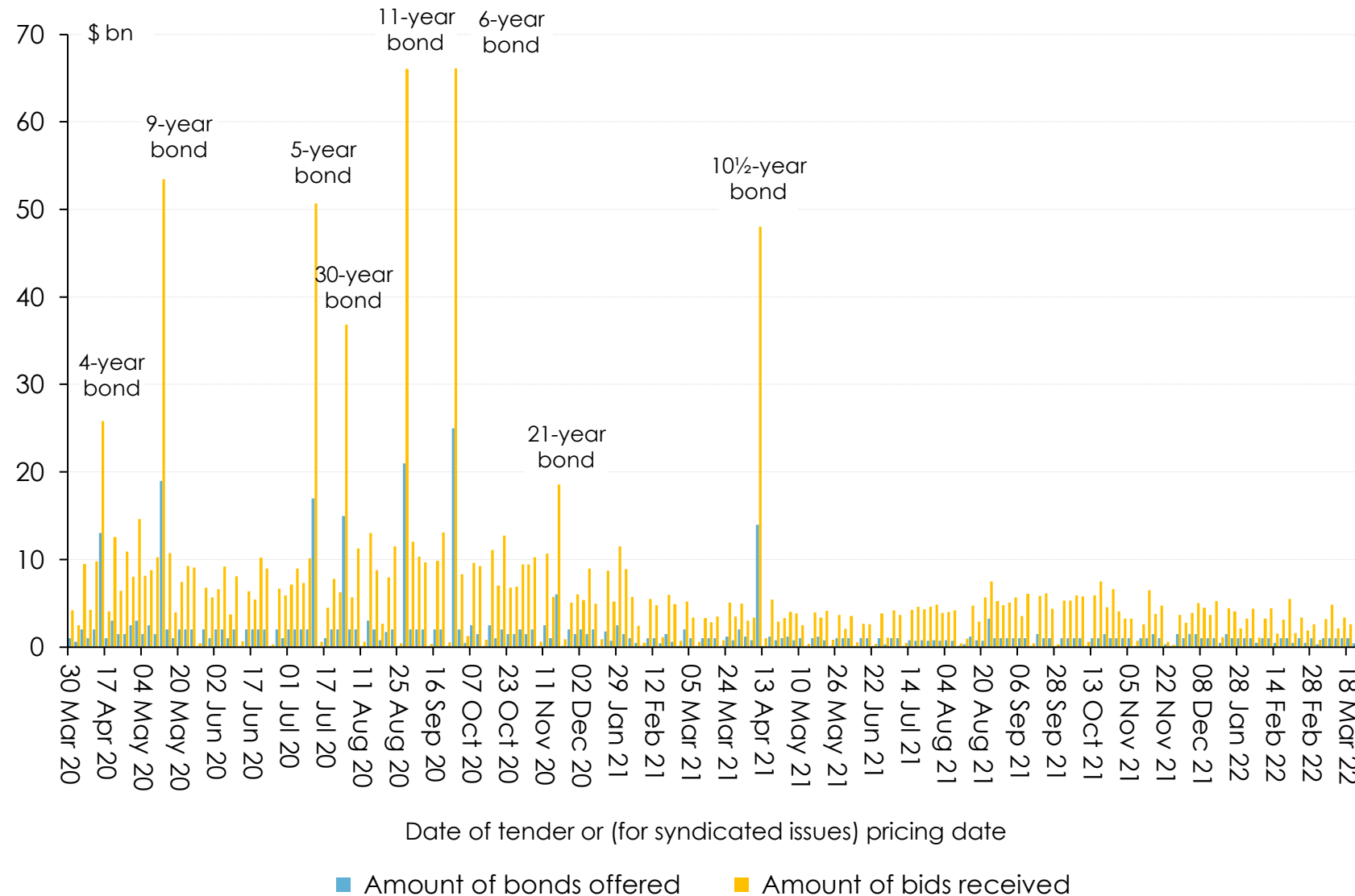
Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021. The 2022-23 Budget will be presented on 29<sup>th</sup> March. [Return to "What's New"](#).



# The Government continues to find a ready appetite for its bond issuance – in the past seven weeks it has received bids of \$81bn for \$23¾bn of bonds

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## Australian government bond issuance since March 2020



- On 7<sup>th</sup> January AOFM indicated it would issue about \$61bn of Treasury bonds, and \$5-5½bn of indexed bonds, over the six months to June
- Since resuming auctions on 12<sup>th</sup> January, the AOFM has sold \$23¾bn of bonds – including this week \$1bn of Nov 2024s, \$1bn of Nov 2031s, and \$400mn of June 2039s, for which it received bids totalling over \$7½bn (including \$905mn for the 2039s)
- So far this financial year, the AOFM has received bids totalling almost \$291bn for the \$71.1bn of bonds it has offered for sale – a 'coverage ratio' of 4.1 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 21<sup>st</sup> November this year – recent 2-year bonds have been issued at yields of close to 1.50%

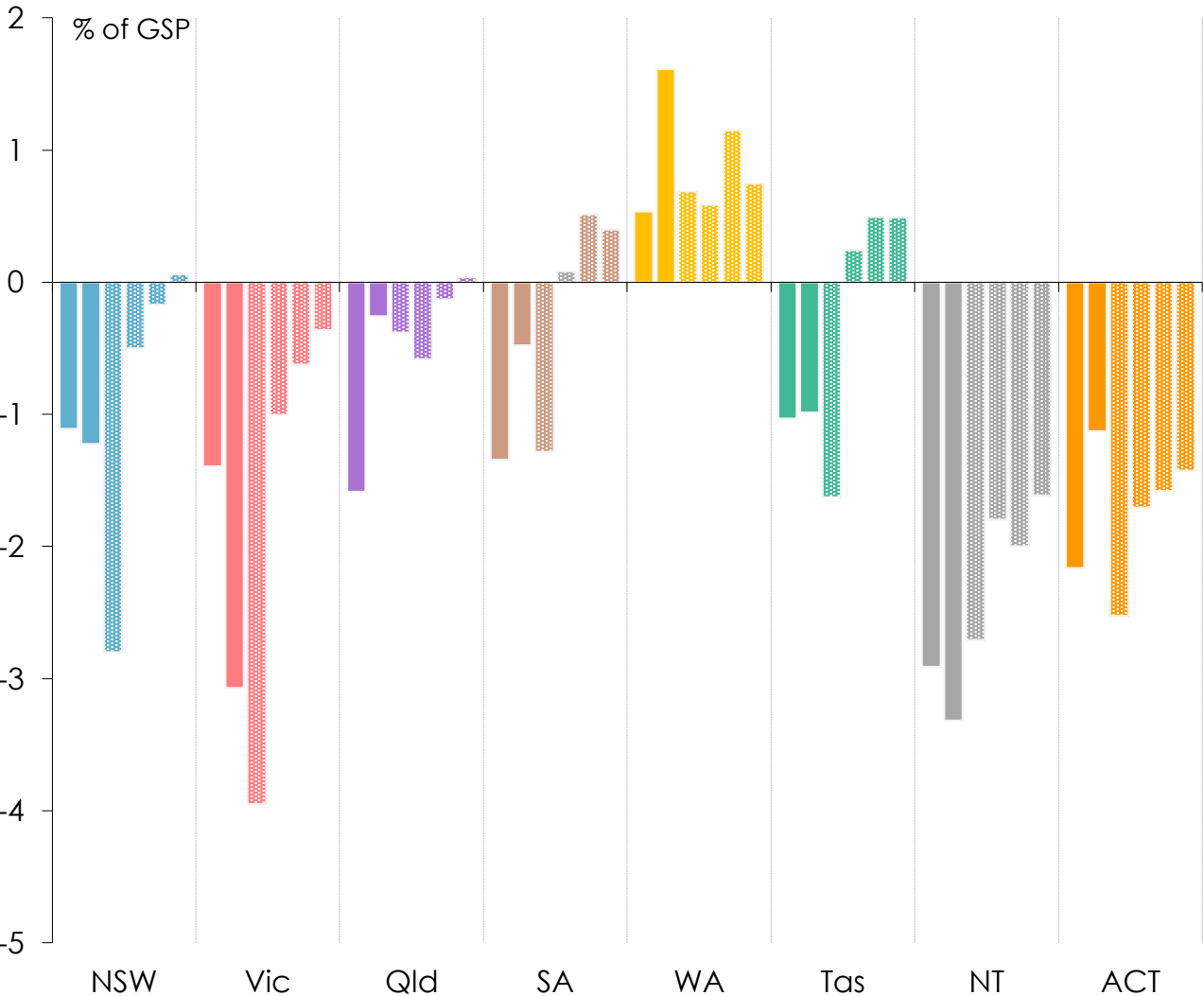
Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).



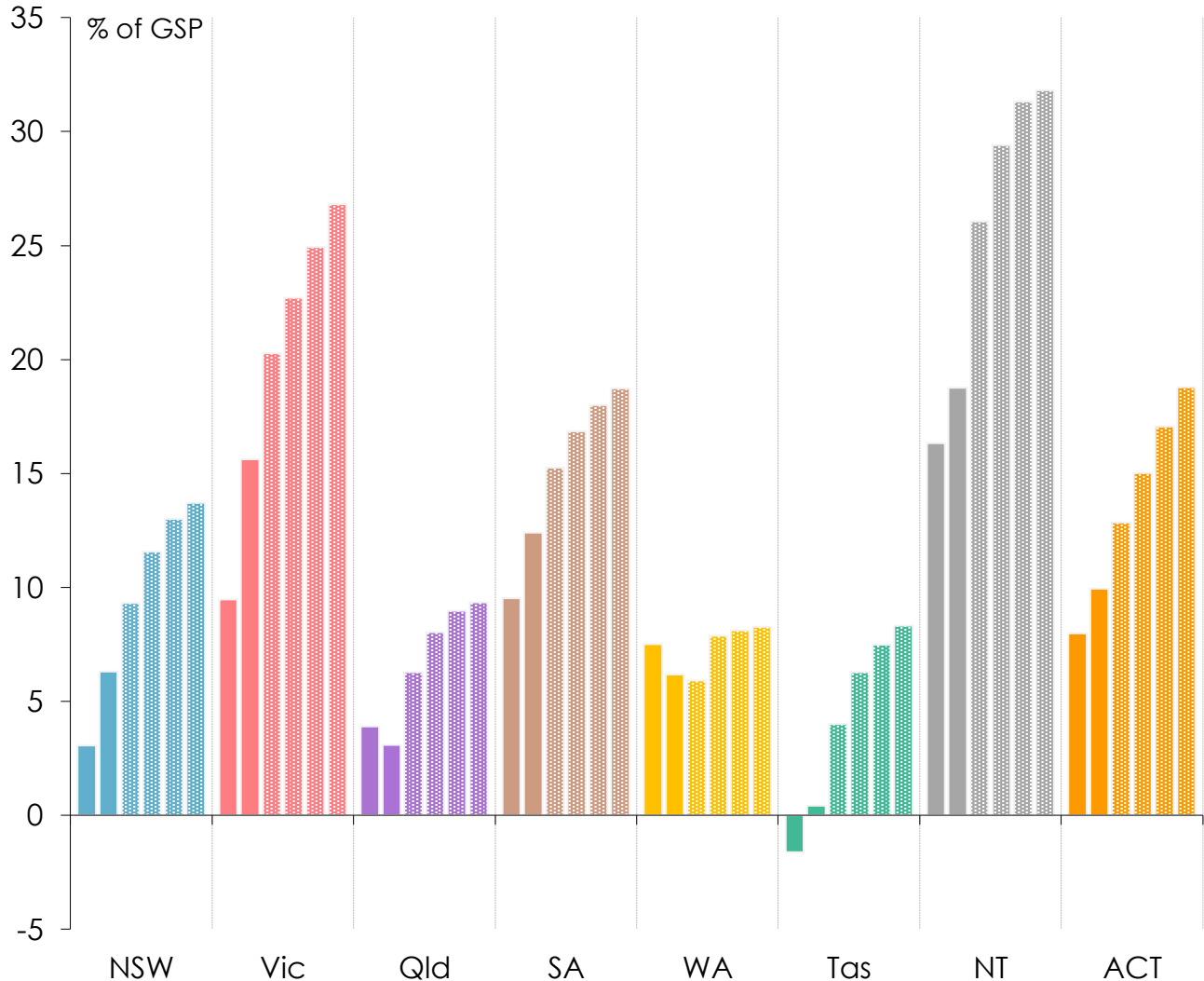
# Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

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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.

# The Grants Commission's latest report on distribution of GST revenues is a 'gift' to Western Australia – entirely as a result of the 2018 'dirty deal'

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- ❑ The Commonwealth Grants Commission on Friday released its latest [Update](#) of the 'relativities' to be used in determining the distribution of revenues from the GST among Australia's states and territories
- ❑ Historically (since the early 1980s), Federal 'untied' grants to states and territories – and since they were replaced in 2000 with the revenue from the GST – have been distributed so as to 'equalize' the fiscal capacities of the states and territories: that is, to put them in a position whereby they can, if they choose, to provide a similar standard and range of services to their citizens as the average of all states and territories, by imposing a similar 'burden' of taxes and charges on their citizens
- ❑ This distribution was based on a detailed annual examination of each state and territory's "revenue-raising capacity" and "expenditure needs"
- ❑ These long-standing principles were 'thrown overboard' by the Morrison Government in 2018, in response to repeated complaints from Western Australia – whose share of GST revenues had dropped to a hitherto unprecedented low (relative to its share of Australia's population) as a result of the 'mining boom', which had made it the richest state (as measured by per capita gross state product) in Australia by a bigger margin than any other state had ever been, and enormously enhanced its capacity to raise revenue from mining royalties
- ❑ Under this 'deal', which is being 'phased in' over the years 2021-22 to 2026 -27, WA's share of GST revenues cannot be less than 70% (or from 2024-25, 75%) of what it would have obtained under a notional 'equal per capita' distribution of those revenues, irrespective of its 'fiscal capacity'
- ❑ As shown in the table above, the effect of this 'deal' is to lift WA's share of GST revenues by 2.9 pc points in 2022-23 – implying that it will receive an additional \$2.5bn, or 57% of the increase in the Grants Commission's estimate of the total GST 'pool' – even though based on the Commission's estimates of each state and territory's fiscal capacity, WA's share *should* have gone down by \$1.4bn because of the huge increase in WA's revenue-raising capacity as a result of sky-high iron ore prices
- ❑ The Federal Government will have to 'top up' the GST pool – almost inevitably by more than the \$2.4bn in 2022-23 provided in December's MYEFO – in order to fulfil the 'transitional guarantee' which formed part of this 'deal' that, until 2026-27, no other state or territory will be get less under these arrangements than it would have under the previous arrangements
- ❑ It's scandalous that the Federal Government has to run bigger deficits than it otherwise would in order to finance these transfers to the only government in Australia which is running, and expects to keep running, budget surpluses

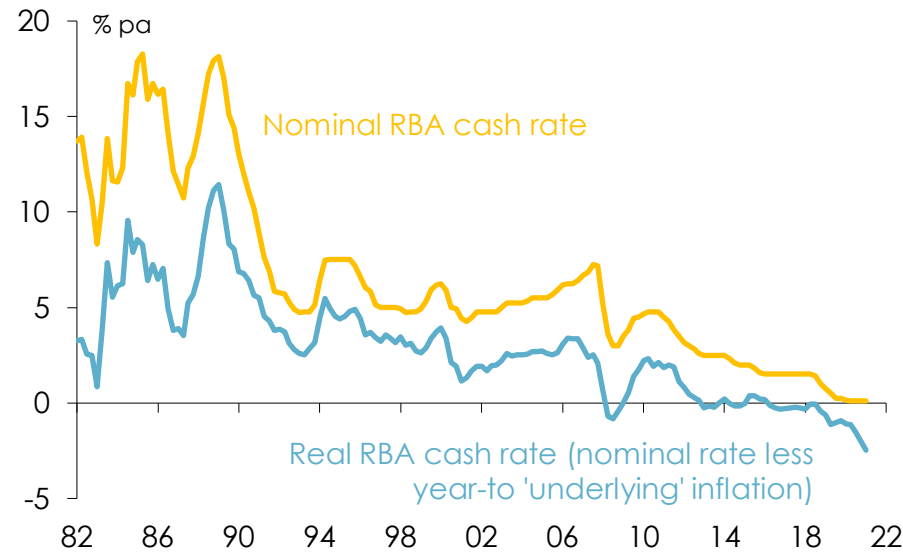
	GST relativities		GST shares		GST distribution	
	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23
			%	%	\$m	\$m
New South Wales	0.95617	0.95065	30.3	30.0	22,107	23,218
Victoria	0.92335	0.85861	23.8	22.2	17,411	17,167
Queensland	1.05918	1.03377	21.5	21.2	15,739	16,384
Western Australia	0.41967	0.70000	4.4	7.3	3,199	5,682
South Australia	1.34719	1.28411	9.3	8.9	6,785	6,865
Tasmania	1.96067	1.85360	4.1	3.9	3,024	3,035
Australian Capital Territory	1.16266	1.09250	2.0	1.8	1,426	1,421
Northern Territory	4.79985	4.86988	4.6	4.7	3,379	3,644
<b>Total</b>	<b>1.00000</b>	<b>1.00000</b>	<b>100.0</b>	<b>100.0</b>	<b>73,070</b>	<b>77,416</b>

# Monetary policy and the RBA

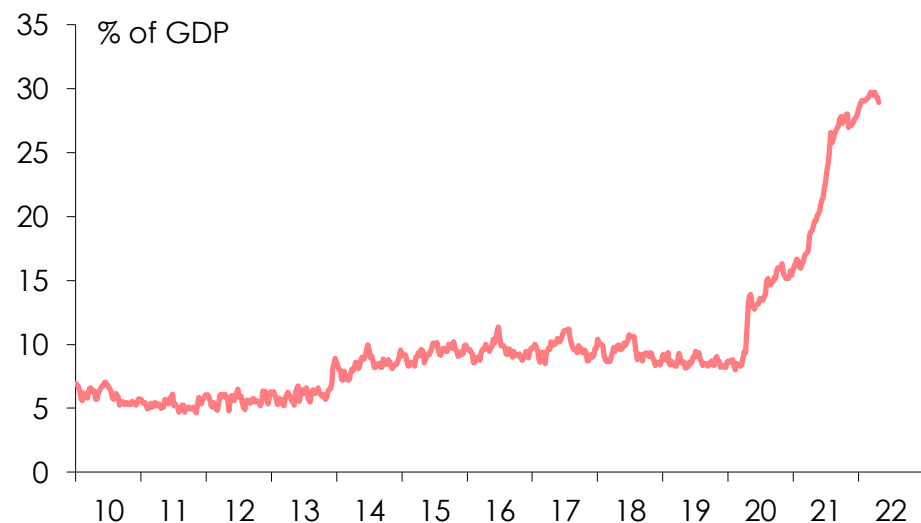
# The RBA left its cash rate unchanged at 0.10% at this month's Board meeting (as expected) and remains in no hurry to start raising rates

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## Reserve Bank cash rate



## Reserve Bank assets as a pc of GDP



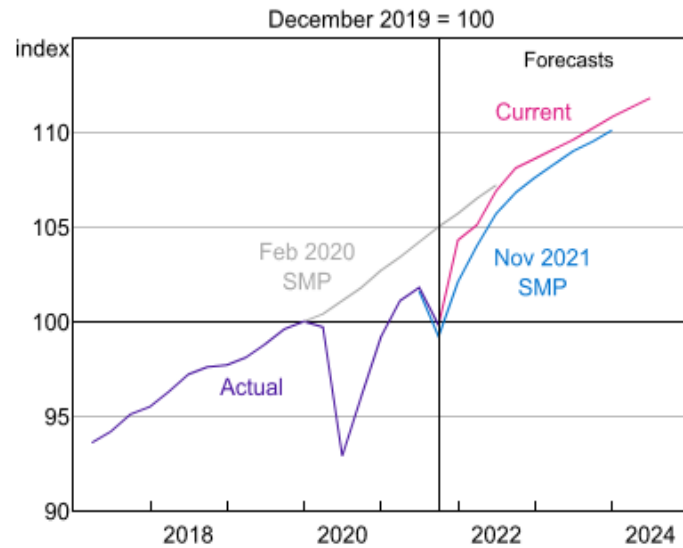
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ As expected, the RBA left its cash rate unchanged at 0.10% at this month's Board meeting
- ❑ In a [speech](#) on 10<sup>th</sup> March, 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

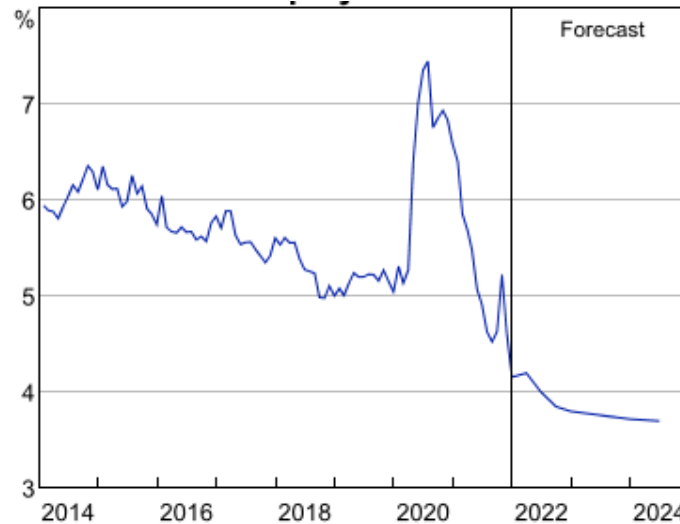
# Last month the RBA upgraded its forecasts for near-term economic growth, lowered its forecasts for unemployment, and raised its forecasts for inflation

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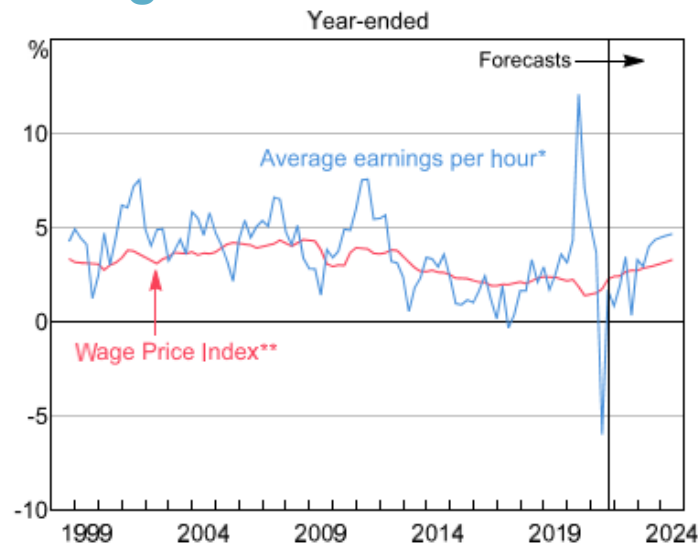
## GDP



## Unemployment



## Wages



## 'Underlying' inflation



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

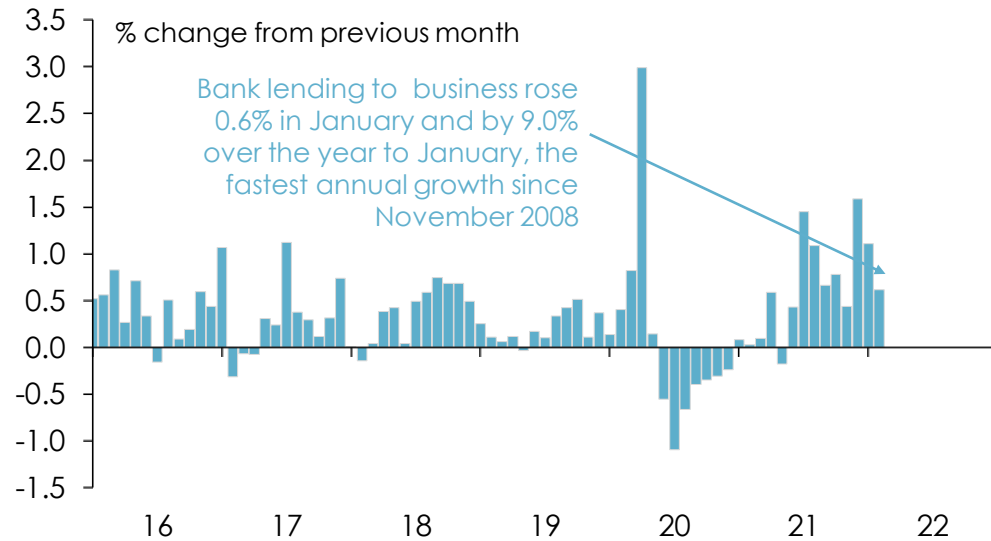
Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 4<sup>th</sup> February. The RBA's next set of forecasts will be published on 6<sup>th</sup> May. [Return to "What's New"](#).



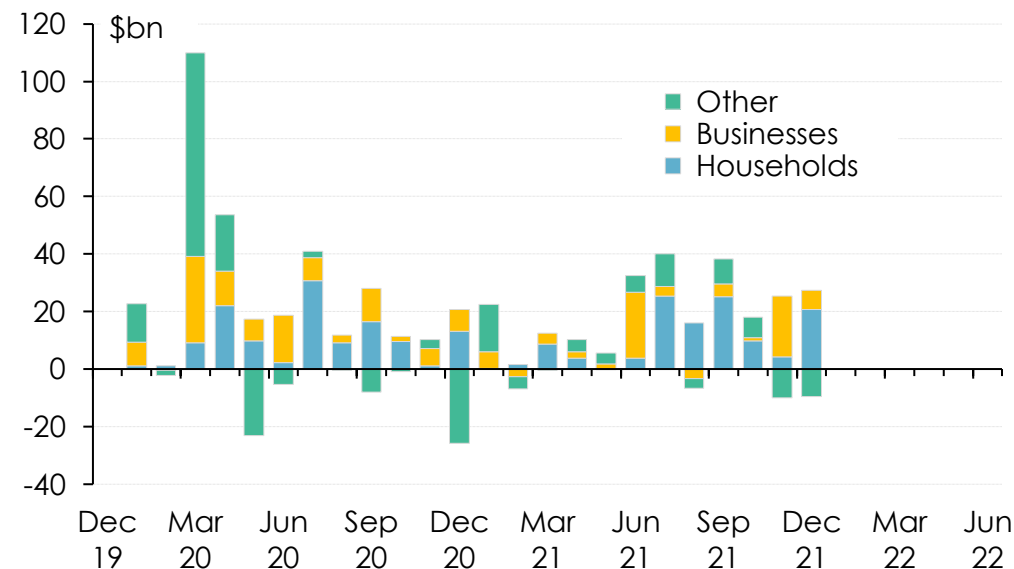
# Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

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## Business credit outstanding



## Monthly change in bank deposits



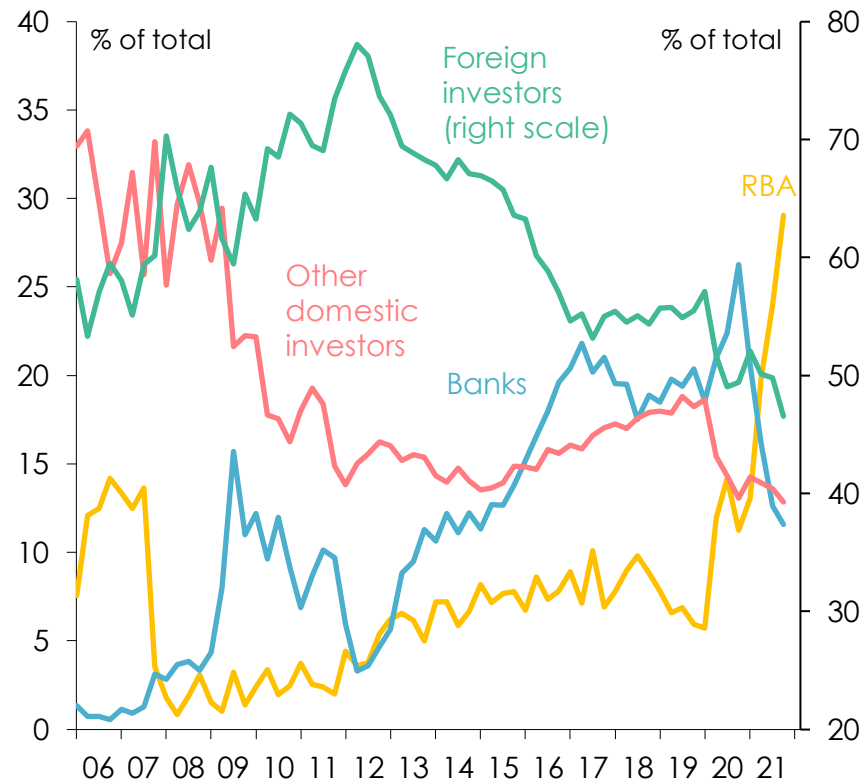
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since the beginning of 2019 (when the RBA started cutting rates again)
  - Small business overdraft and term loan rates have fallen by 113 and 134 bp respectively since January 2019, cf. a 65 bp reduction in the RBA's cash rate and a 90bp decline in average bank deposit interest rates
- ❑ 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%

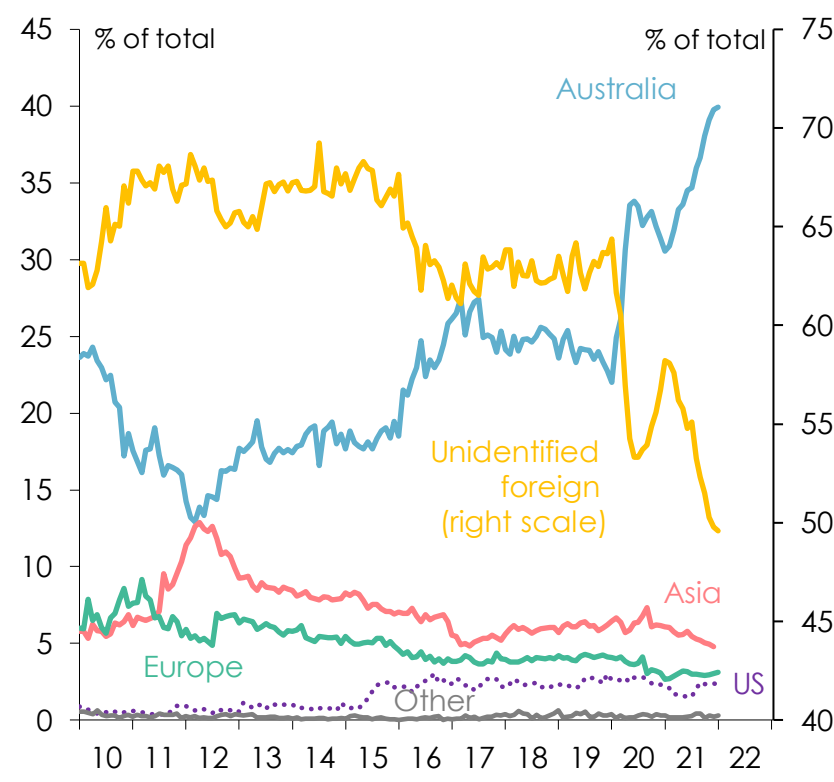
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## Holder of Australian Government bonds



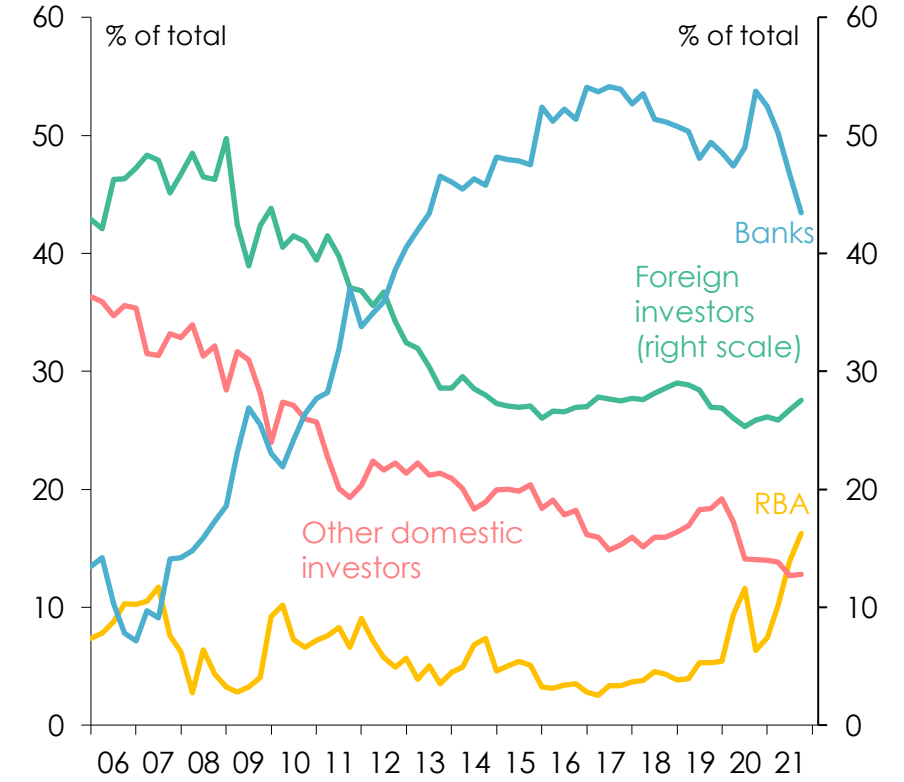
Australian Gov't bonds on issue have increased by \$266bn since the end of 2019 – of which \$225bn (85%) have been absorbed by the RBA, and \$56bn by foreigners, while banks have reduced their holdings by \$13bn

## 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

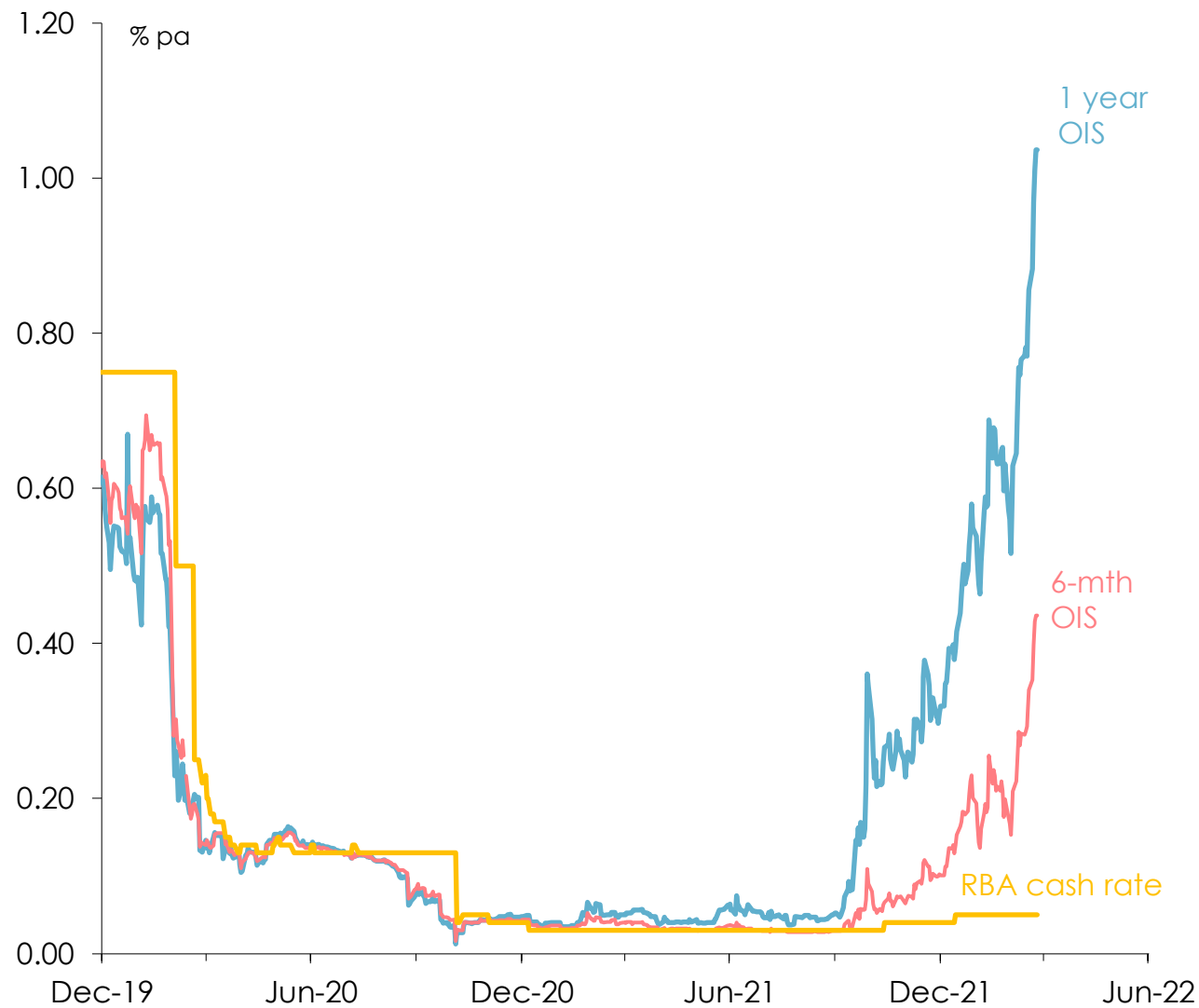


# Australian financial markets

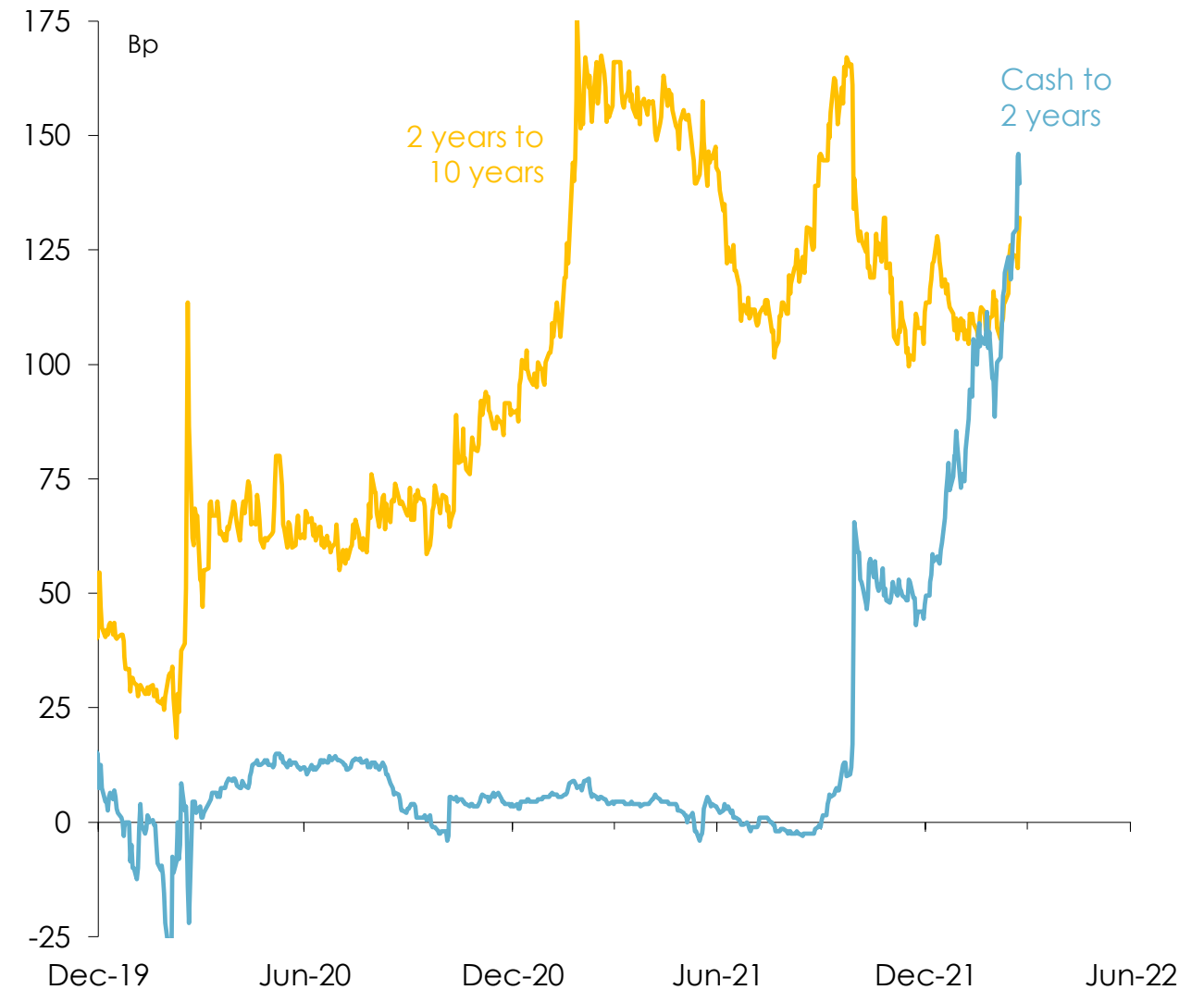
# Financial markets further upgraded the odds attaching to RBA rate hikes this year despite Governor Lowe's repeated insistence that it is in no hurry

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## Overnight index swap rates



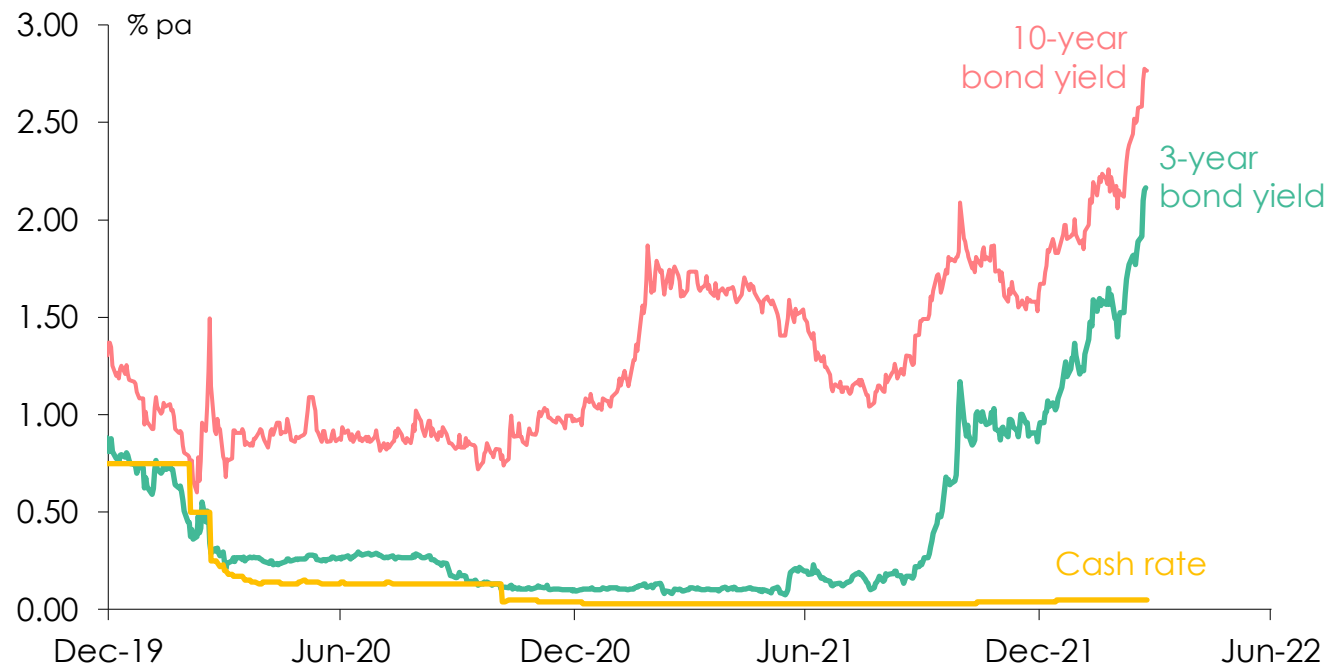
## Yield curves



# Longer-term bond yields continued to rise, partly reflecting global trends but also the market's strengthening expectations of RBA rate hikes

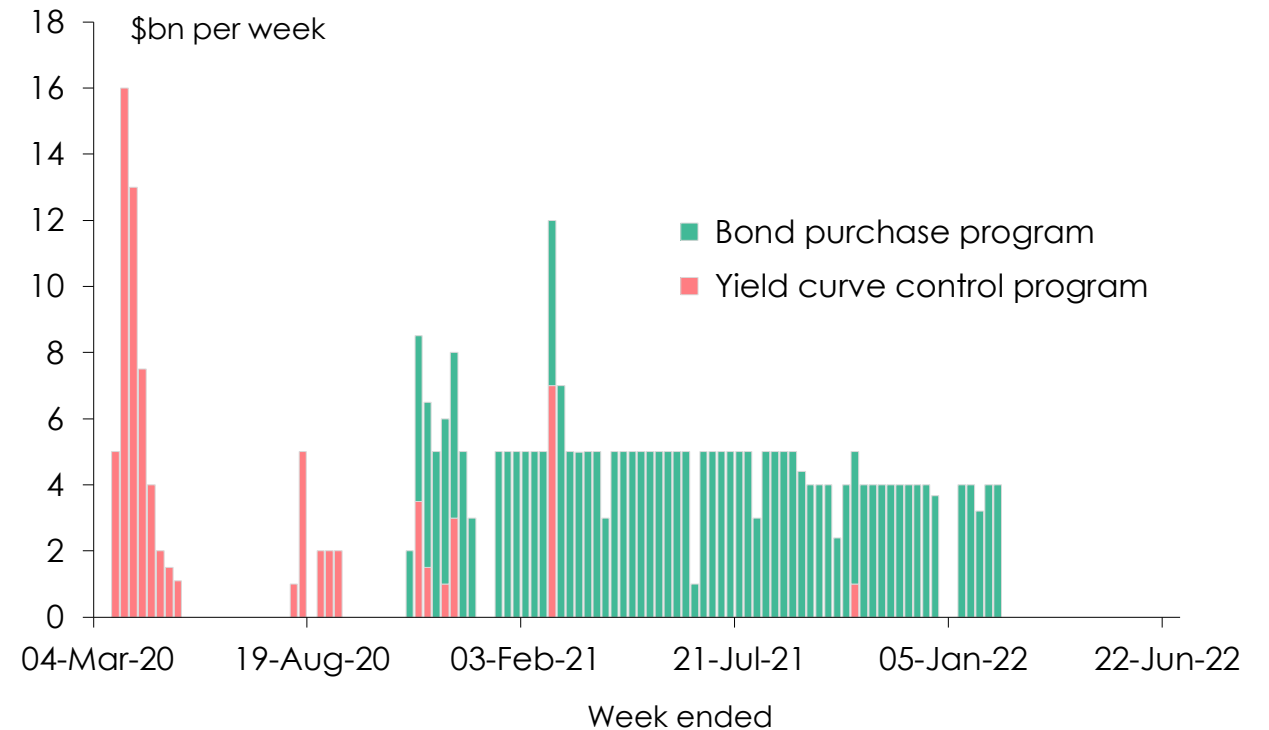
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## Interest rates



- ❑ 3-year bond yields moved above 2% this week, for the first time since November 2018, as market participants continued to discount 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 climbed to 2.78% this week, the highest since late November 2018, although the spread to US 10-years remained fairly steady at just over 40 basis points

## RBA open market bond purchases

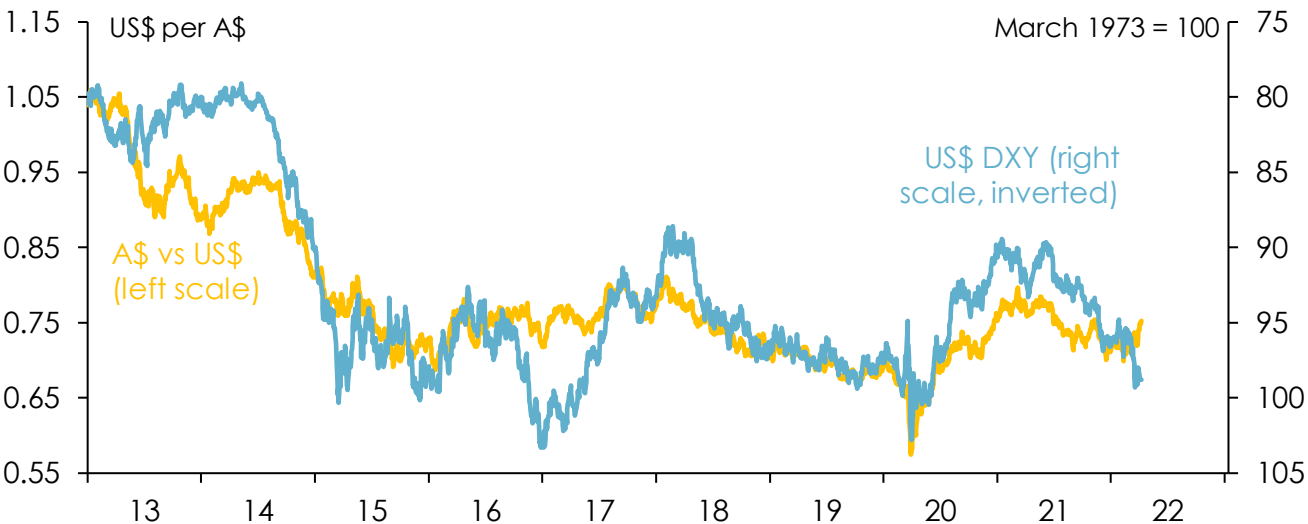


- ❑ The RBA purchased its final \$4bn of bonds under its now-terminated Bond Purchase Program in the second week of February, bringing the total amount of purchases under it to just under \$281bn, which together with purchases of \$80bn under the 3-year yield curve target program which was discontinued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

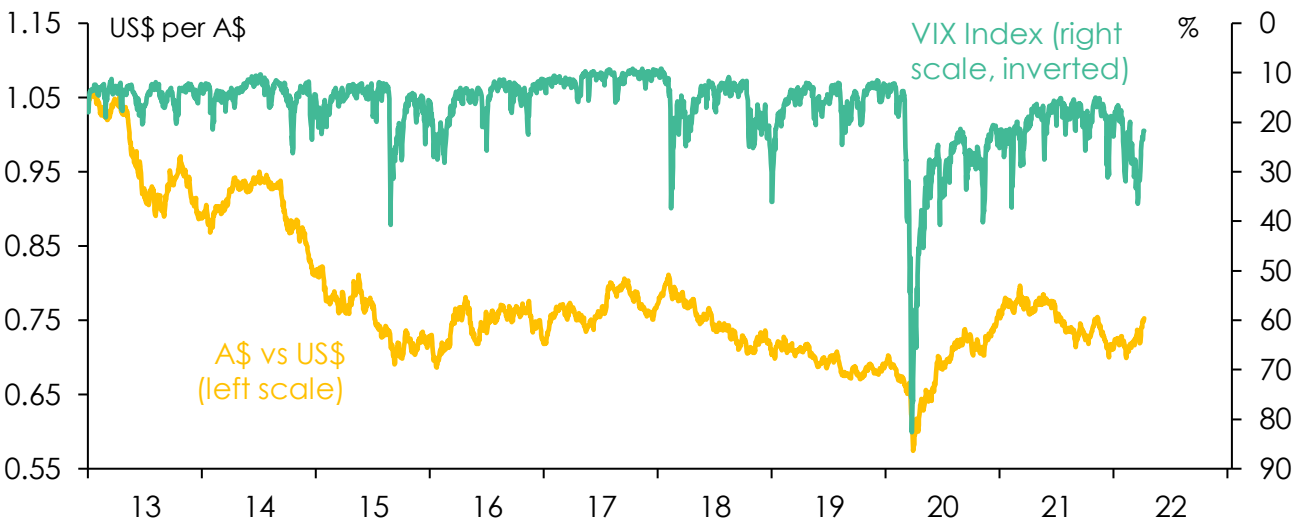
# The A\$ finished above US75¢ this week for the first time since late October last year, supported by elevated commodity prices and wider yield spreads

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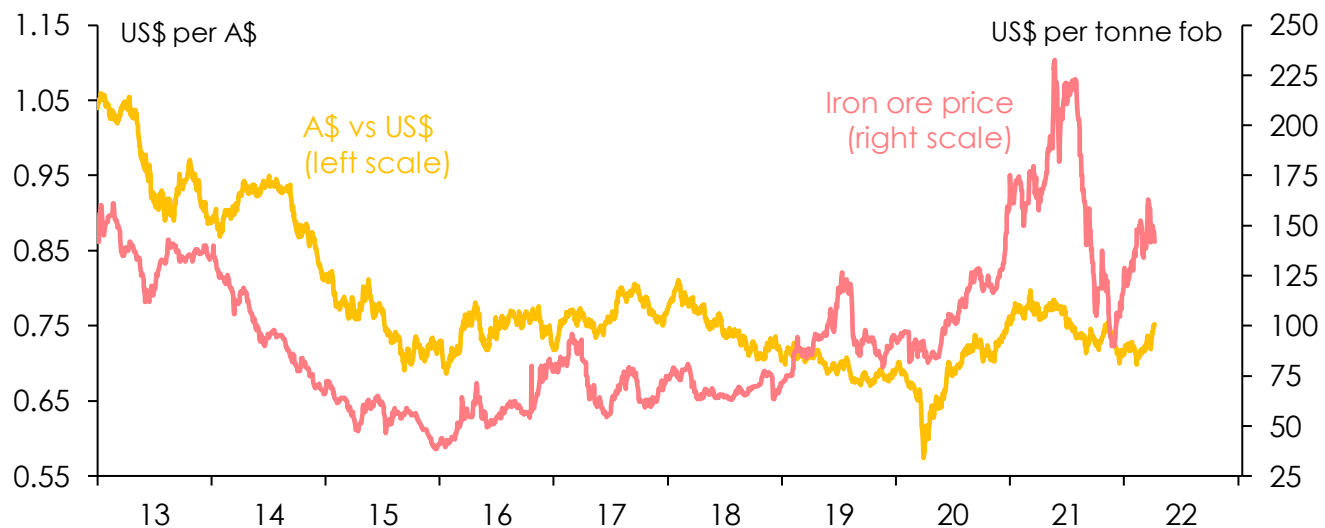
## A\$-US\$ and US\$ trade-weighted index



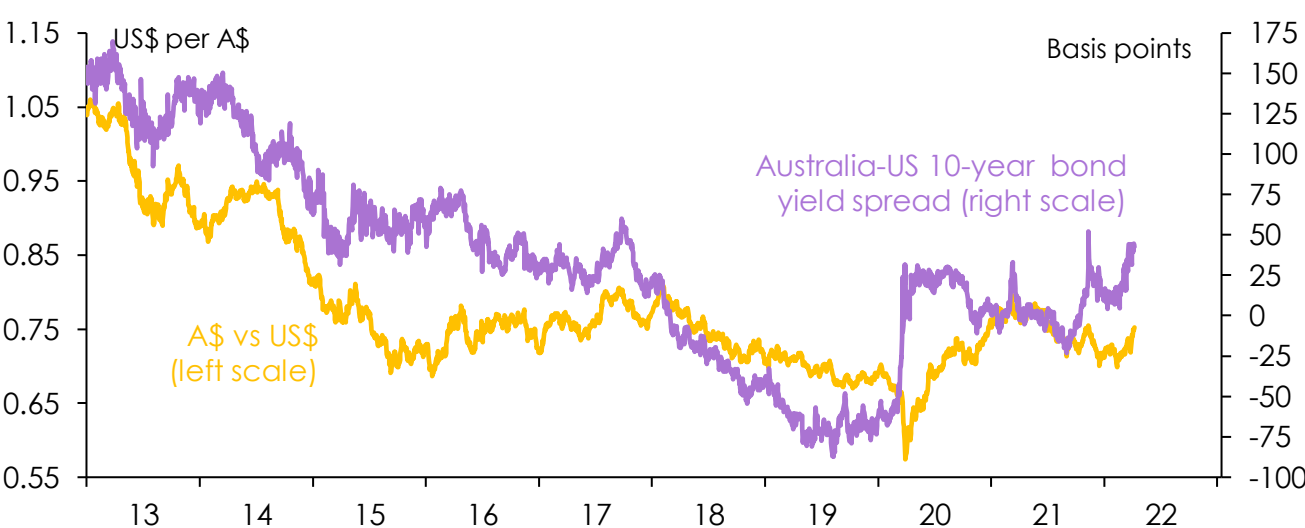
## A\$-US\$ and US equity market volatility



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



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

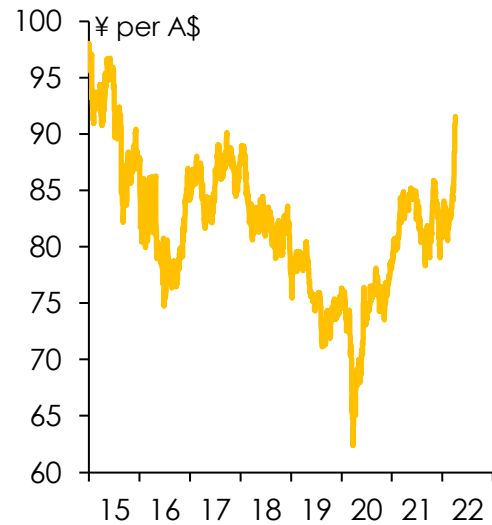


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion.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

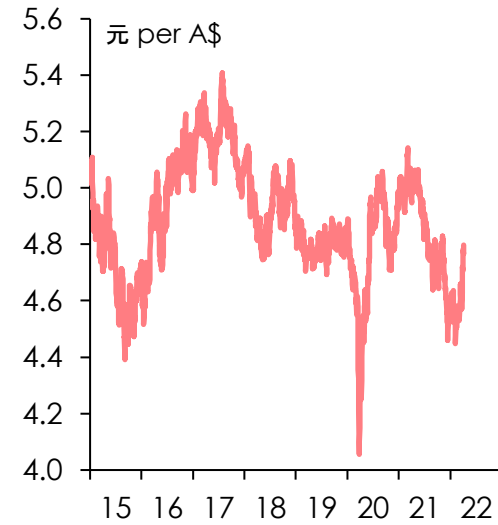
# The A\$ also did well against third currencies, rising 3½% vs the yen to over ¥90 for the first time since 2015, and 2¼% in trade-weighted terms

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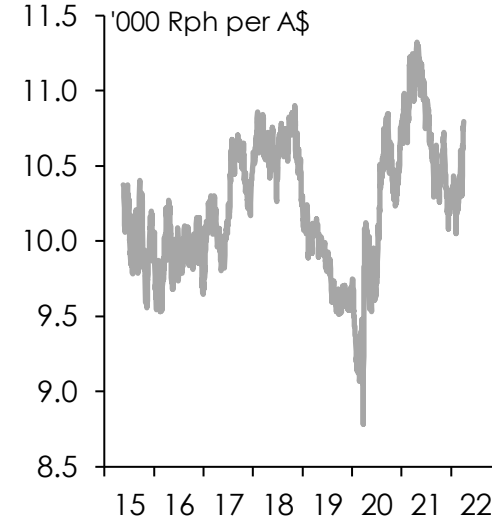
## A\$ vs Japanese yen



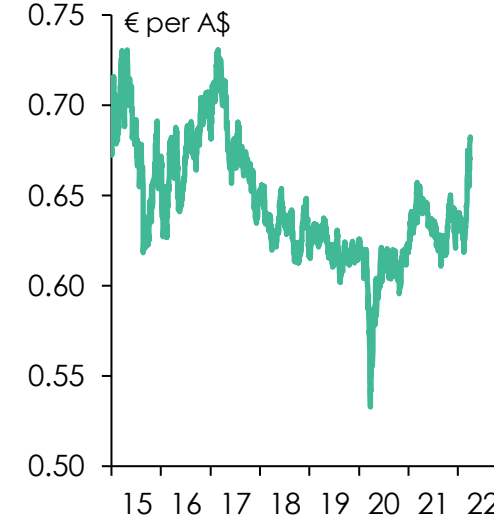
## A\$ vs Chinese yuan



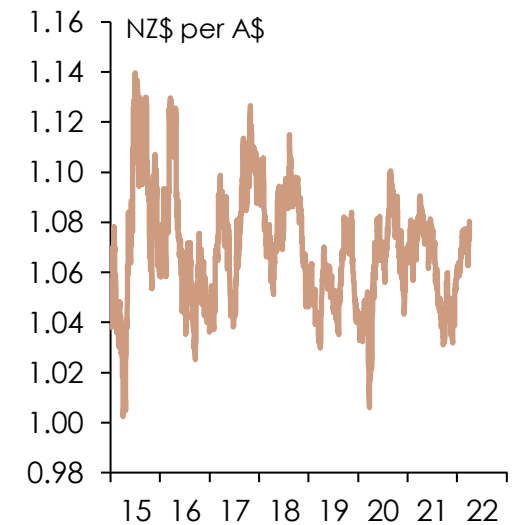
## A\$ vs Indo rupiah



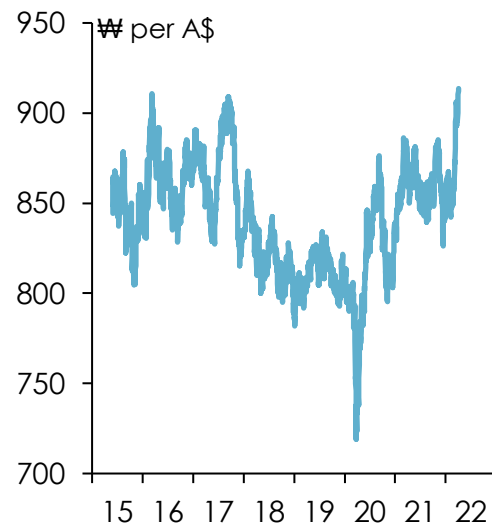
## A\$ vs Euro



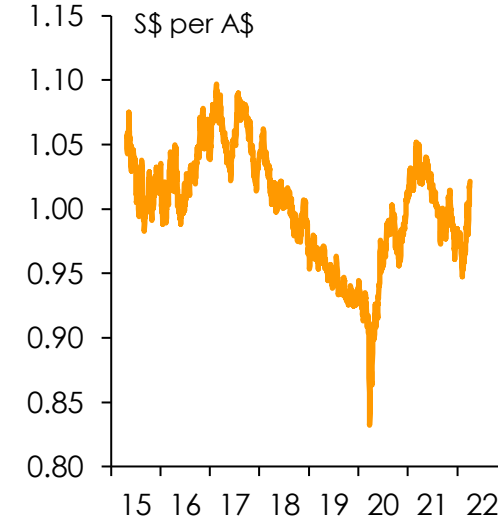
## A\$ vs NZ\$



## A\$ vs Korean won



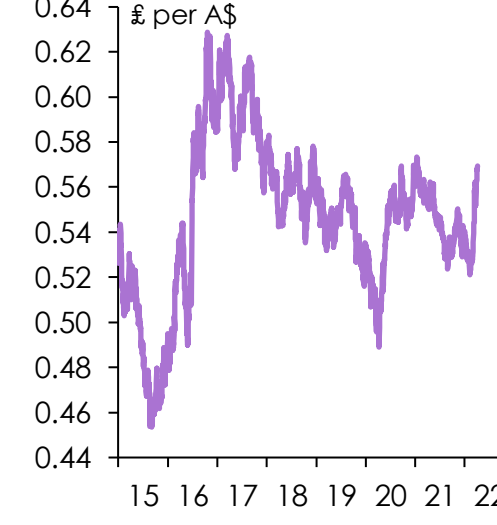
## A\$ vs Singapore \$



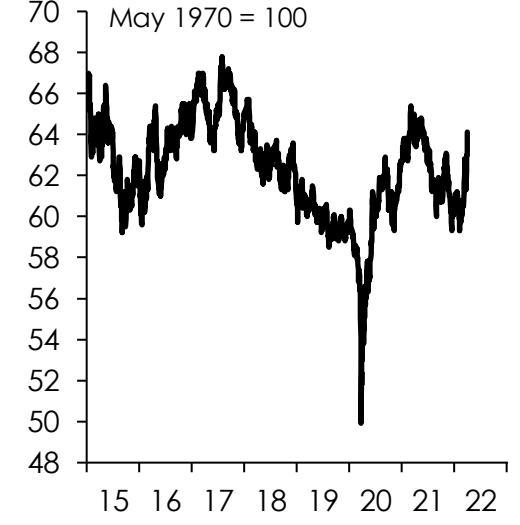
## A\$ vs Canadian \$



## A\$ vs British pound



## A\$ TWI

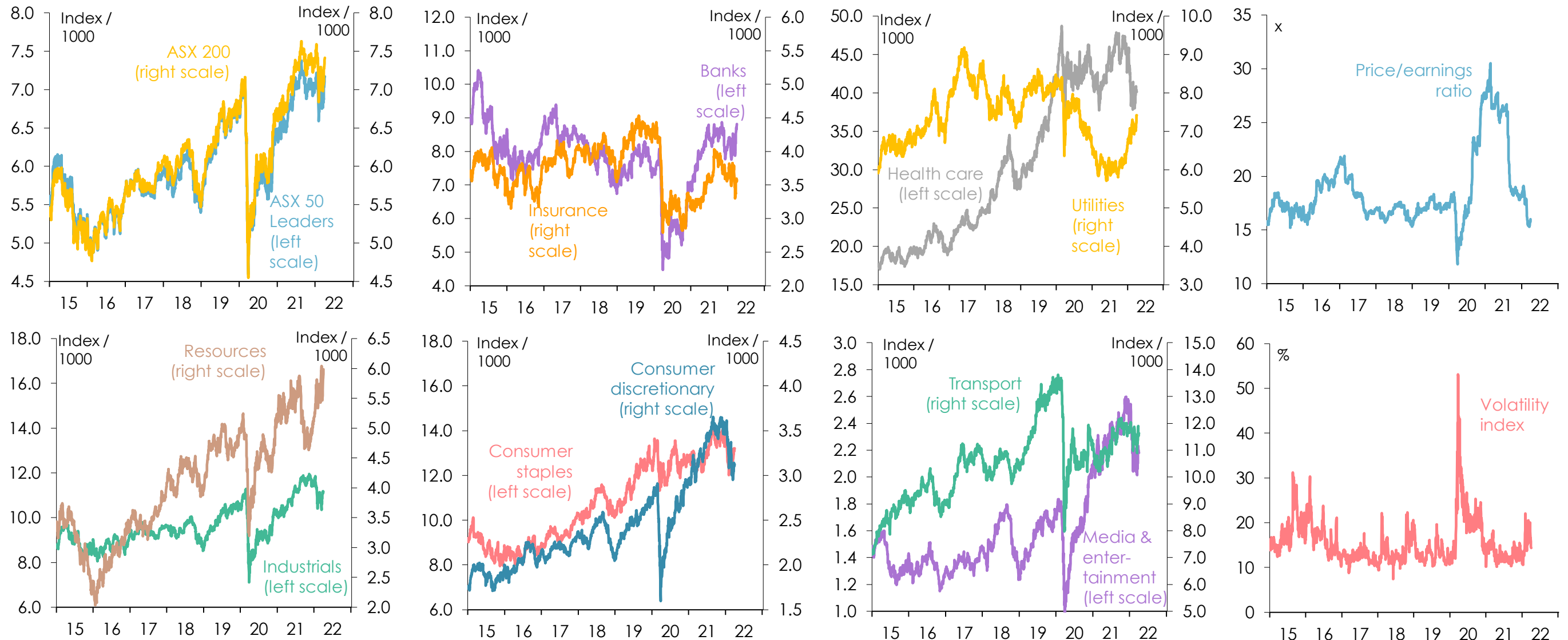


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 25<sup>th</sup> March. [Return to "What's New"](#).

# The ASX rose another 1¾% this week, with particularly strong gains in resources and utilities stocks, though some industrial sectors lost ground

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## ASX indices



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

# Key data and events next week



# Key data and events for week ended 1<sup>st</sup> April

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Tuesday 29 <sup>th</sup> March	Preliminary retail trade (January); regional population statistics (2020-21); <b>2022-23 Federal Budget</b>
Wednesday 30 <sup>th</sup> March	Engineering construction activity (December quarter 2021);
Thursday 31 <sup>st</sup> March	Building approvals (January); job vacancies (February); finance and wealth accounts (December quarter 2021); business conditions and sentiments survey (March); monetary and credit aggregates (February)
Friday 1 <sup>st</sup> April	Ai Group's manufacturing PMI (March); CoreLogic residential property prices (March); housing finance (January); RBA commodity price indexes (March)

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

## Important information

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