



THE AUSTRALIAN ECONOMY THIS WEEK

8TH APRIL 2022

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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- ❑ The Reserve Bank left the official cash rate unchanged at 0.10% at Tuesday's Board meeting, as universally expected, but it dropped the previous references to its preparedness to be "patient" in assessing whether 'underlying' inflation was "sustainably" within its 2-3% target range, and opened the door to raising rates at its June meeting, after the release of the March quarter CPI (on 27th April) and wage price index (on 18th May) – which will also be after the forthcoming Federal election ([slide 98](#))
- ❑ Financial markets are now pricing 125 basis points of increases in the RBA's cash rate over the next 12 months ([slides 104-105](#))
- ❑ The Reserve Bank's latest *Financial Stability Review*, released on Friday, concludes that "the majority of indebted households are well placed to manage higher minimum loan repayments" ([slide 99](#))
- ❑ The date of the next election will be announced some time in the next 10 days (no later than 18th April), and is likely to be either 14th or 21st May: opinion polls continue to suggest that a change of government is likely (although they incorrectly suggested the same ahead of the last election in 2019), despite a small improvement in the Government's standing after the Budget ([slide 16](#))
- ❑ Australia's surplus on trade in goods and services shrank by \$4.3bn, to \$7.5bn, in February, the smallest since March last year, reflecting a 12% increase in imports (including large increases in imports of consumer goods, fuels and industrial inputs) as against a 0.2% rise in exports ([slide 68](#))
- ❑ Payroll employment rose 0.2% over the first two weeks of March, after falling 0.4% during the last two weeks of February, to be 4.0% above its pre-pandemic level ([slide 56](#)), although employment in several sectors remains below pre-pandemic levels ([slide 57](#))
- ❑ The number of people receiving joblessness-related income support payments fell 2¾% in the second half of March, to its lowest level since the beginning of the pandemic, although it's still 11¾% above its pre-pandemic level, despite the unemployment rate in February being 1.2 pc pt below its pre-pandemic level ([slide 58](#))
- ❑ Australian consumers continued to spend at well-above pre-pandemic levels on a wide range of household goods, clothing, pharmaceutical and cosmetic products, and alcohol, in February, notwithstanding 'cost of living pressures' ([slide 43](#))
- ❑ Every sector of the Australian economy experienced an increase in turnover in February, the first time this has happened since December 2020 ([slide 25](#))
- ❑ March business confidence, April consumer confidence and March labour force survey are the main events next week ([slide 110](#))

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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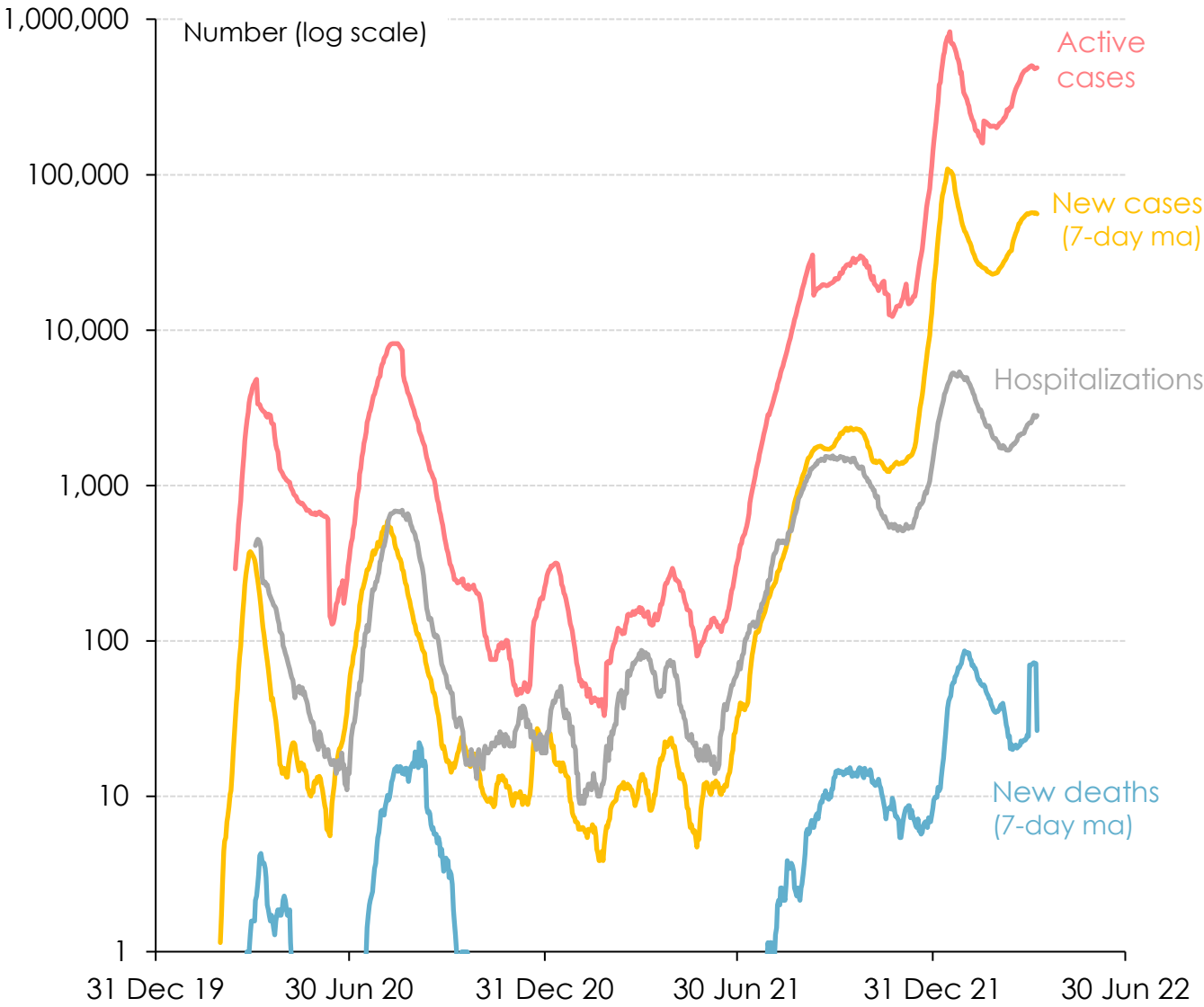
- ❑ The sharp rise in the prices of energy commodities and some food commodities (mostly wheat and other grains) in the wake of the Ukraine conflict will, if sustained, add to ‘headline’ inflation and detract from economic growth
- ❑ The negative impact on economic growth will likely be smaller for Australia 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 month)
- ❑ 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

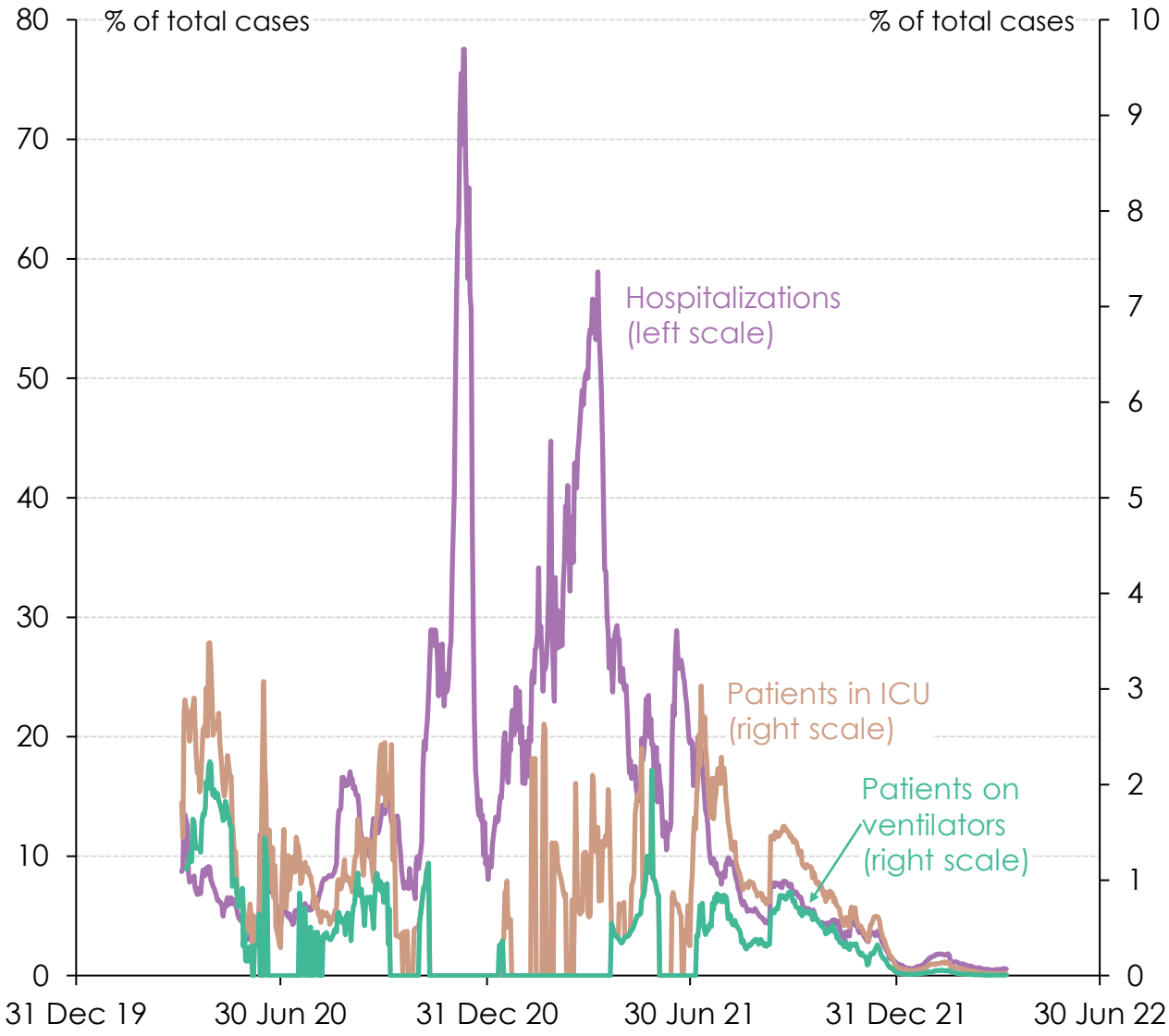
The upward trend in new and active cases since mid-February appears to have ‘levelled out’ over the past week

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Cases, hospitalizations and deaths



Severity of cases

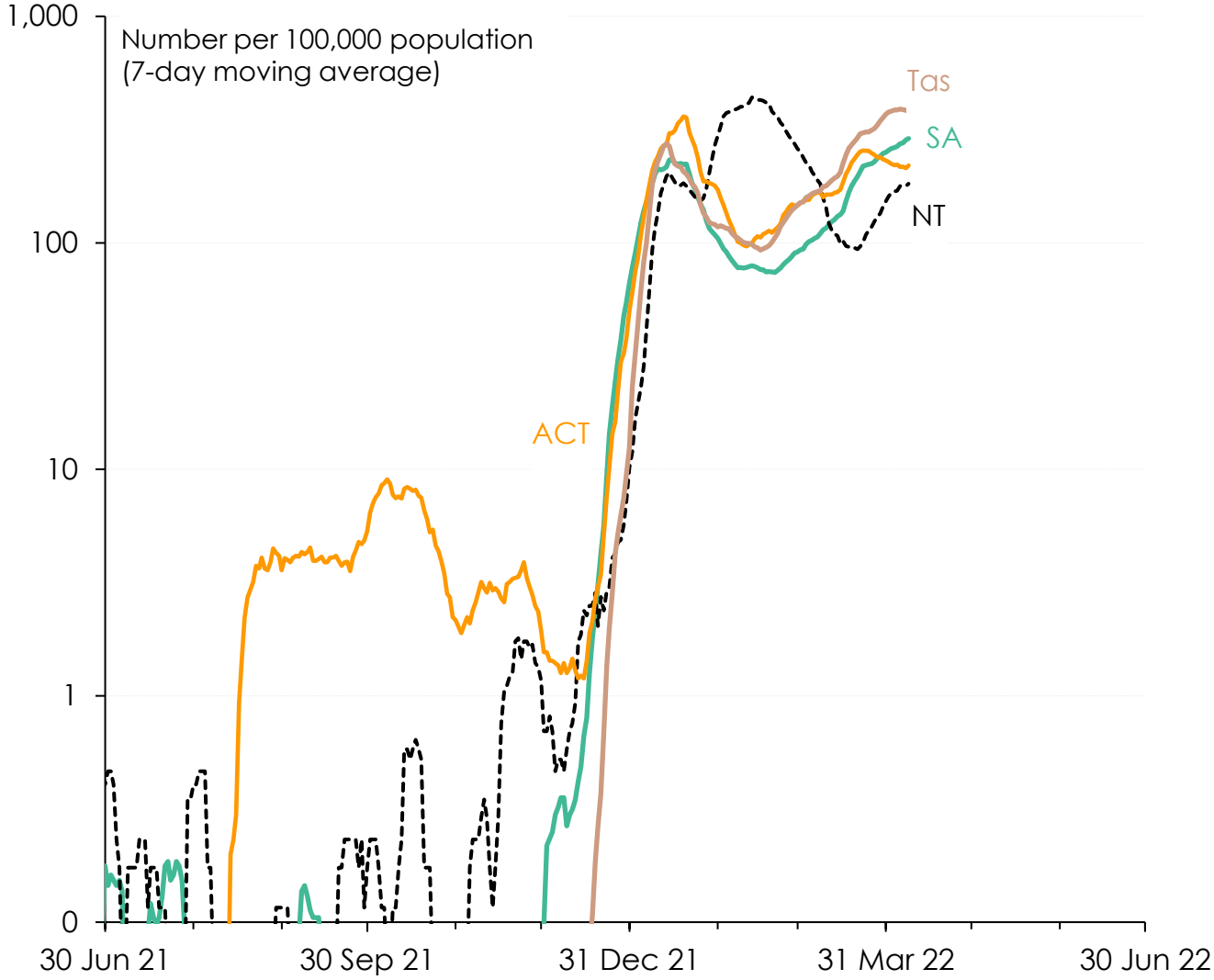
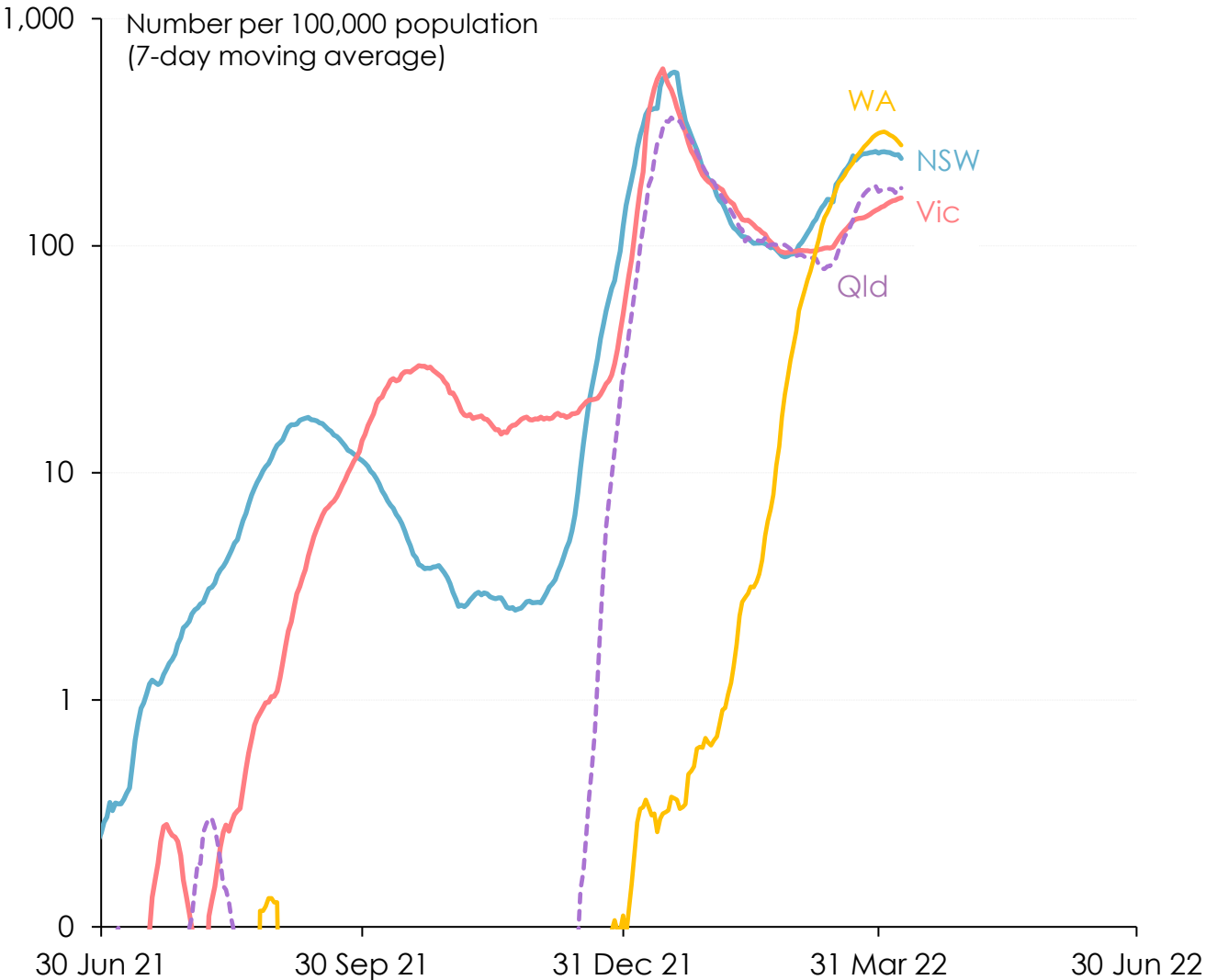


Note: The ‘spike’ in new deaths in the first week of April resulted from the addition of 334 deaths to NSW’s total on 1st April. Data up to 8th April.
Source: covid19data.com.au. [Return to "What's New"](#).

The increase in new case numbers since mid-February was largely driven by WA, and to a lesser extent NSW, but it has ‘levelled out’ in all states

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

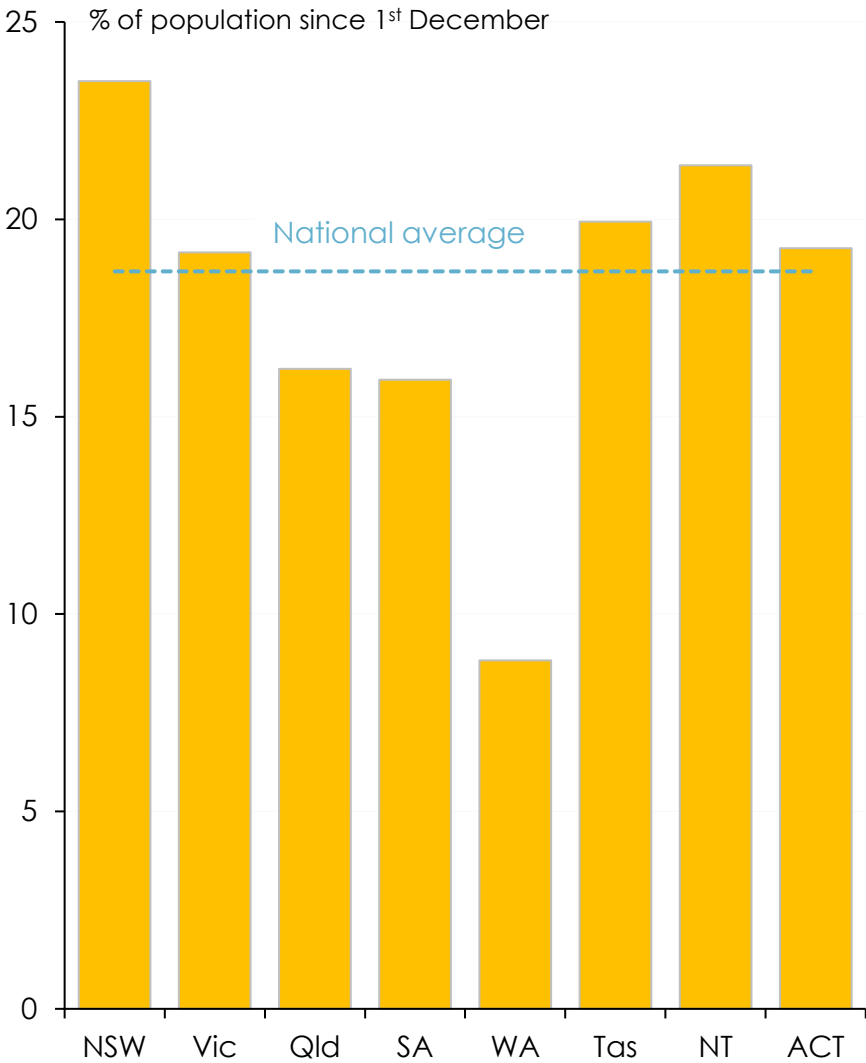


Note: Data are up to 8th April. Source: covid19data.com.au. [Return to "What's New"](#).

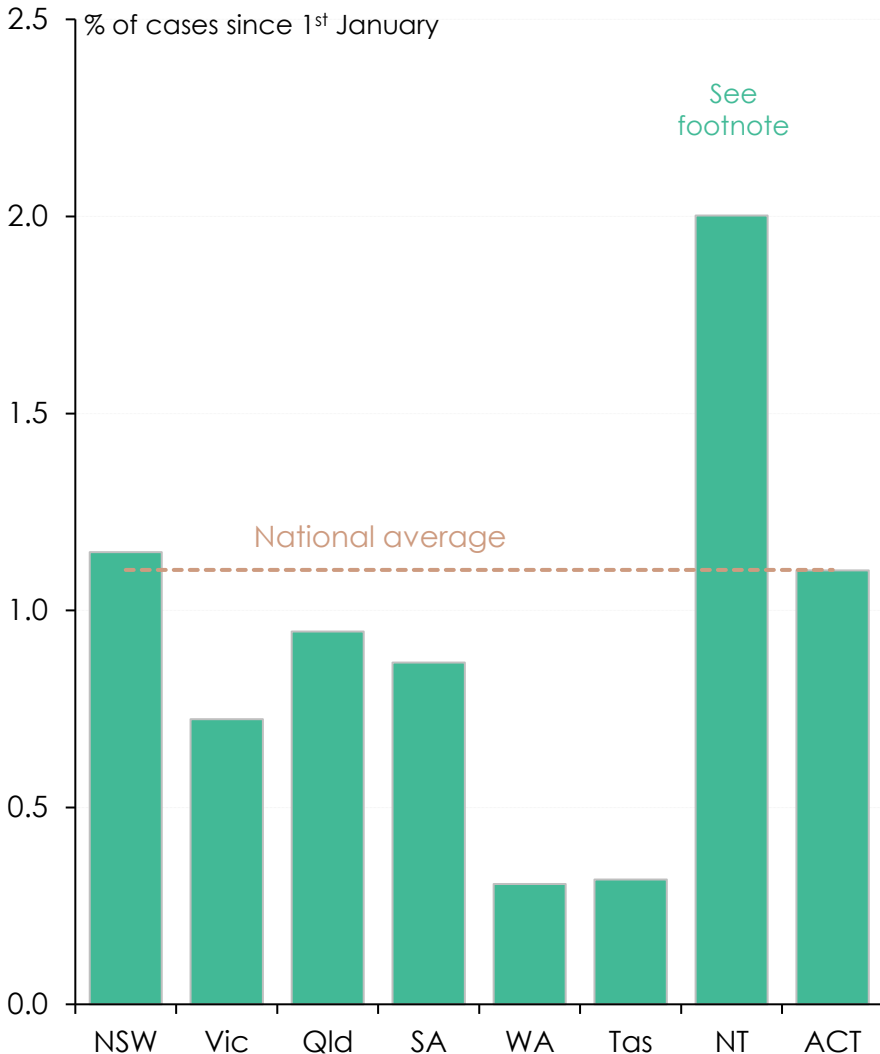
The omicron outbreak has been less serious in Western Australia and Tasmania than in the rest of Australia

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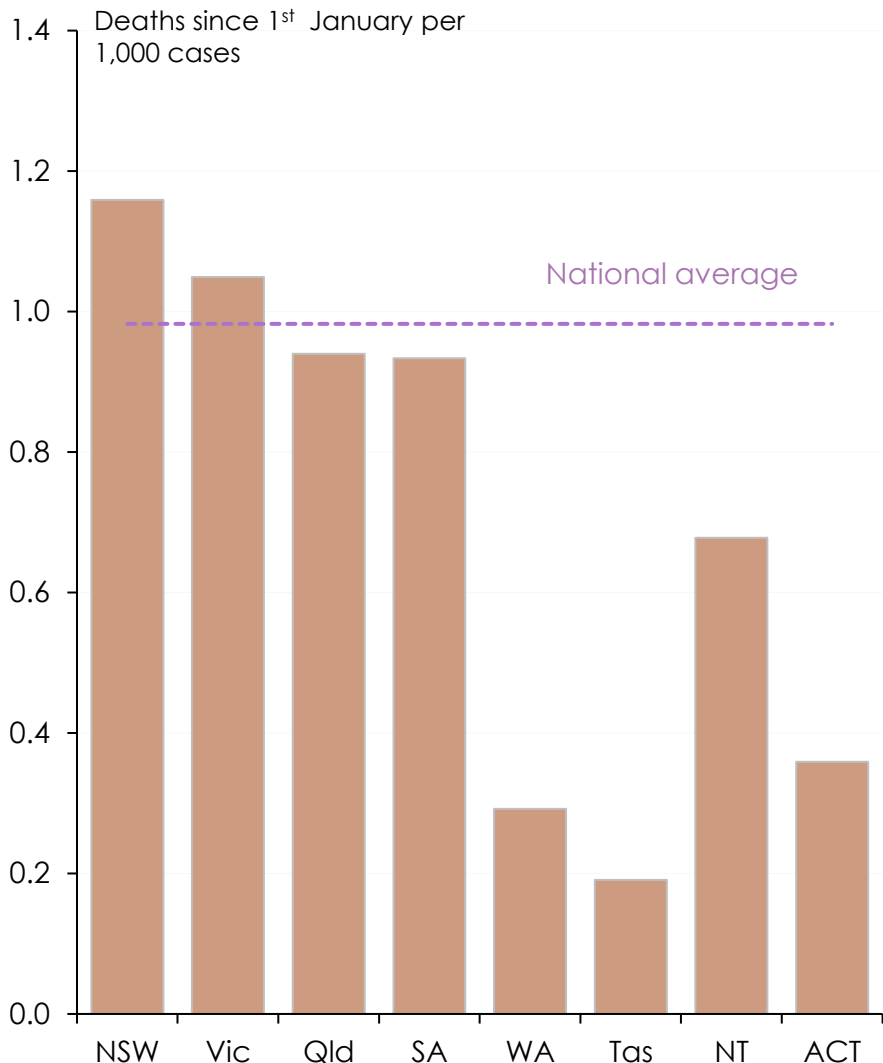
New cases since 1st December 2021



Hospitalization rate since 1st January 2022



Fatality rate since 1st January 2022

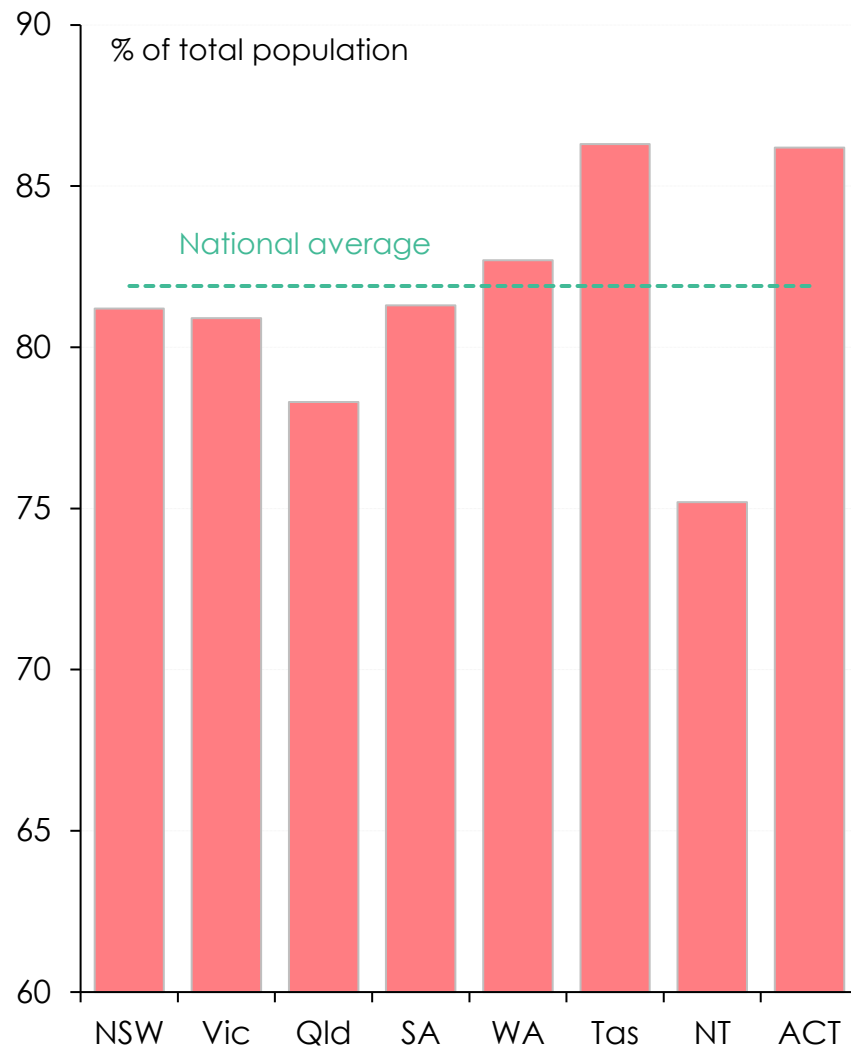


Note: Data are up to 8th April. 1st December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. NSW added 334 deaths to its tally on 1st April. Source: covid19data.com.au. [Return to "What's New"](#).

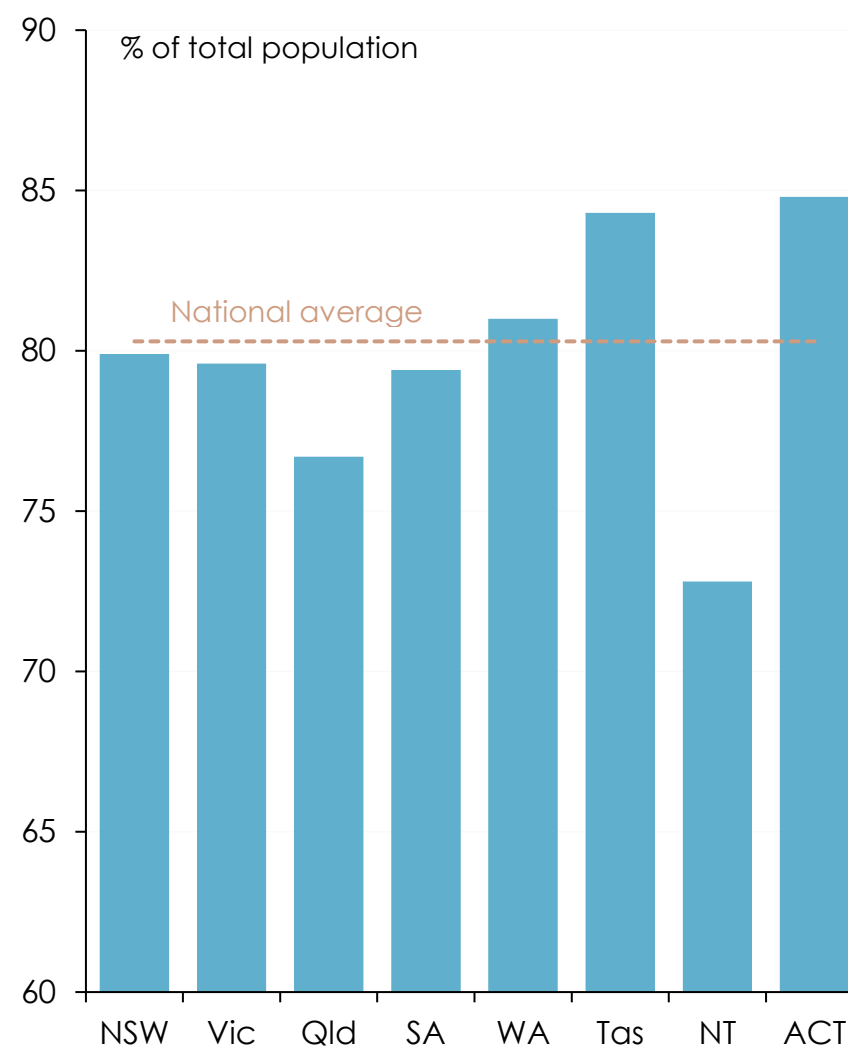
The ACT, Tasmania and more recently WA have had the most successful vaccine rollouts while Queensland and the NT lag

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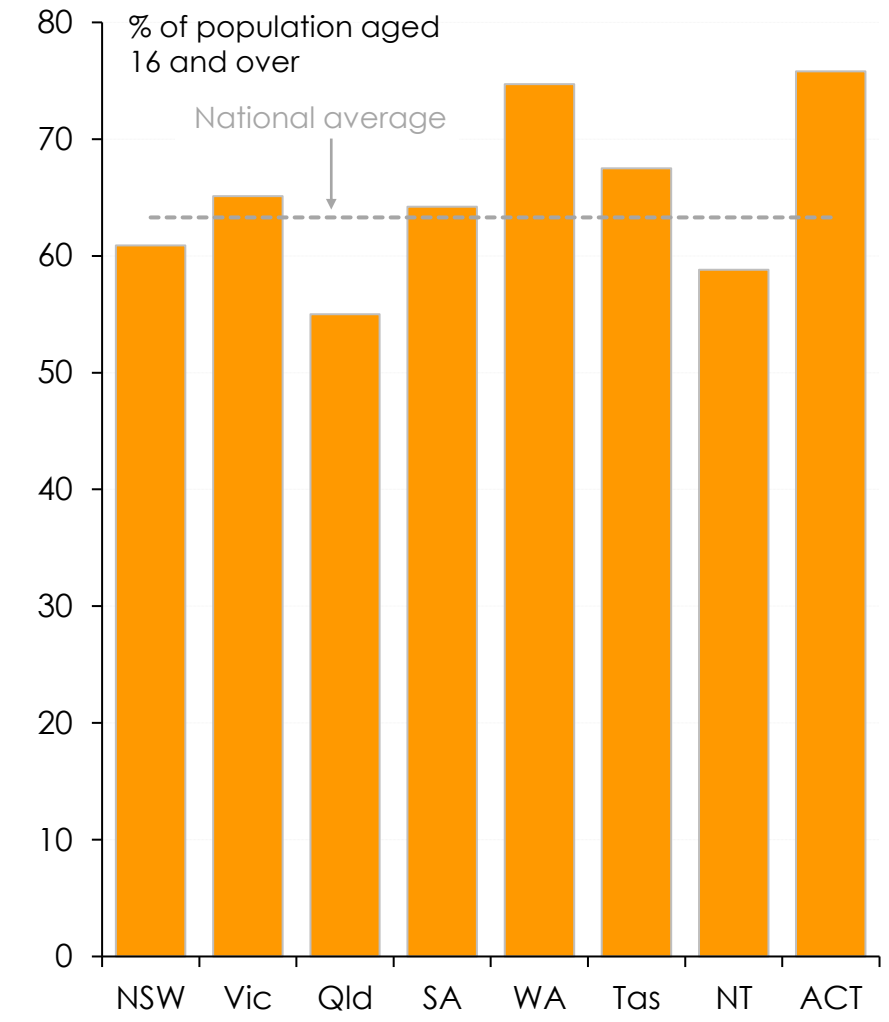
Pc of population who have had at least one vaccination



Pc of population who have had two vaccinations



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

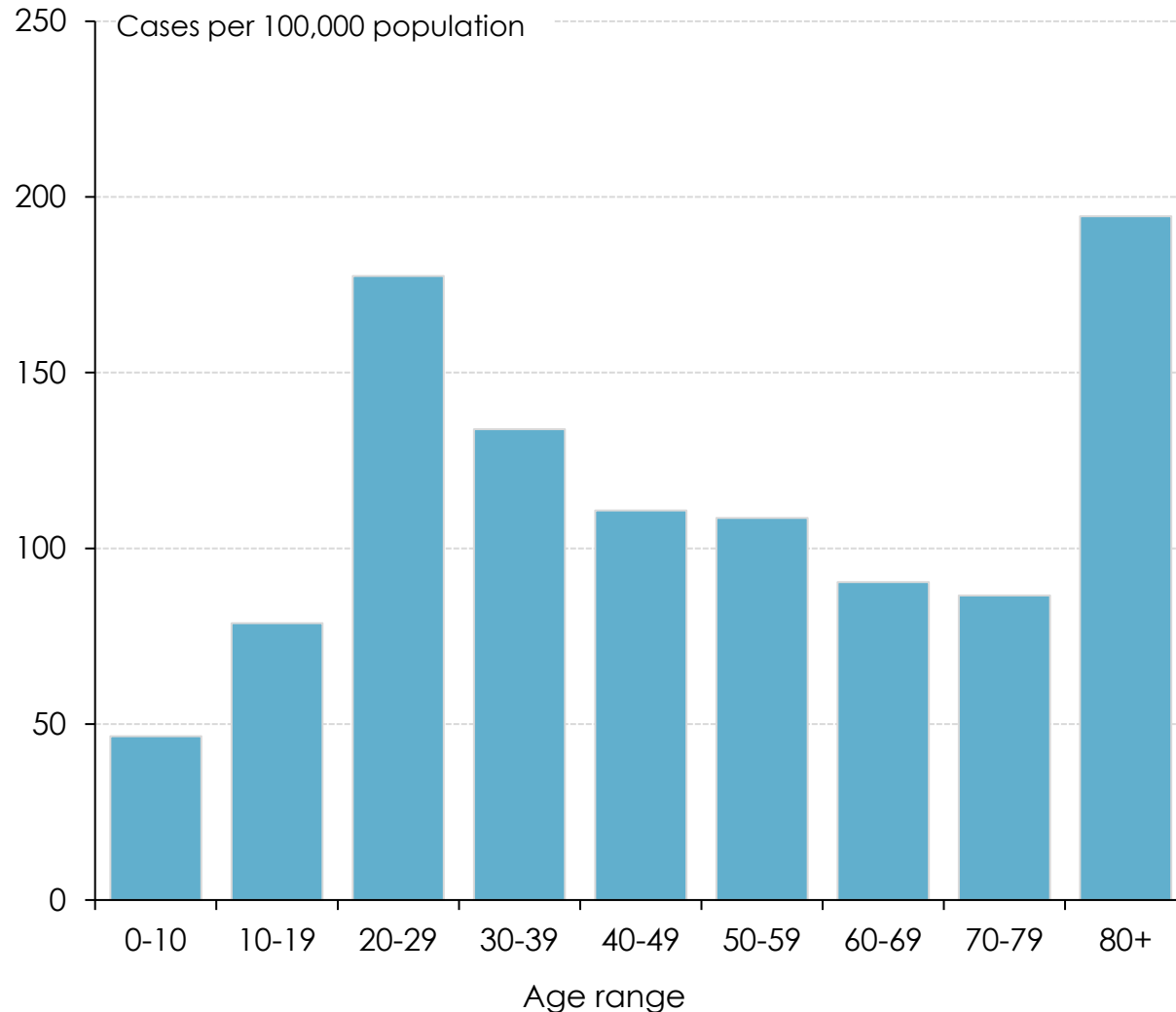


Note: Data are up to 8th April (except for ACT, 1st April). Source: covid19data.com.au. [Return to "What's New"](#).

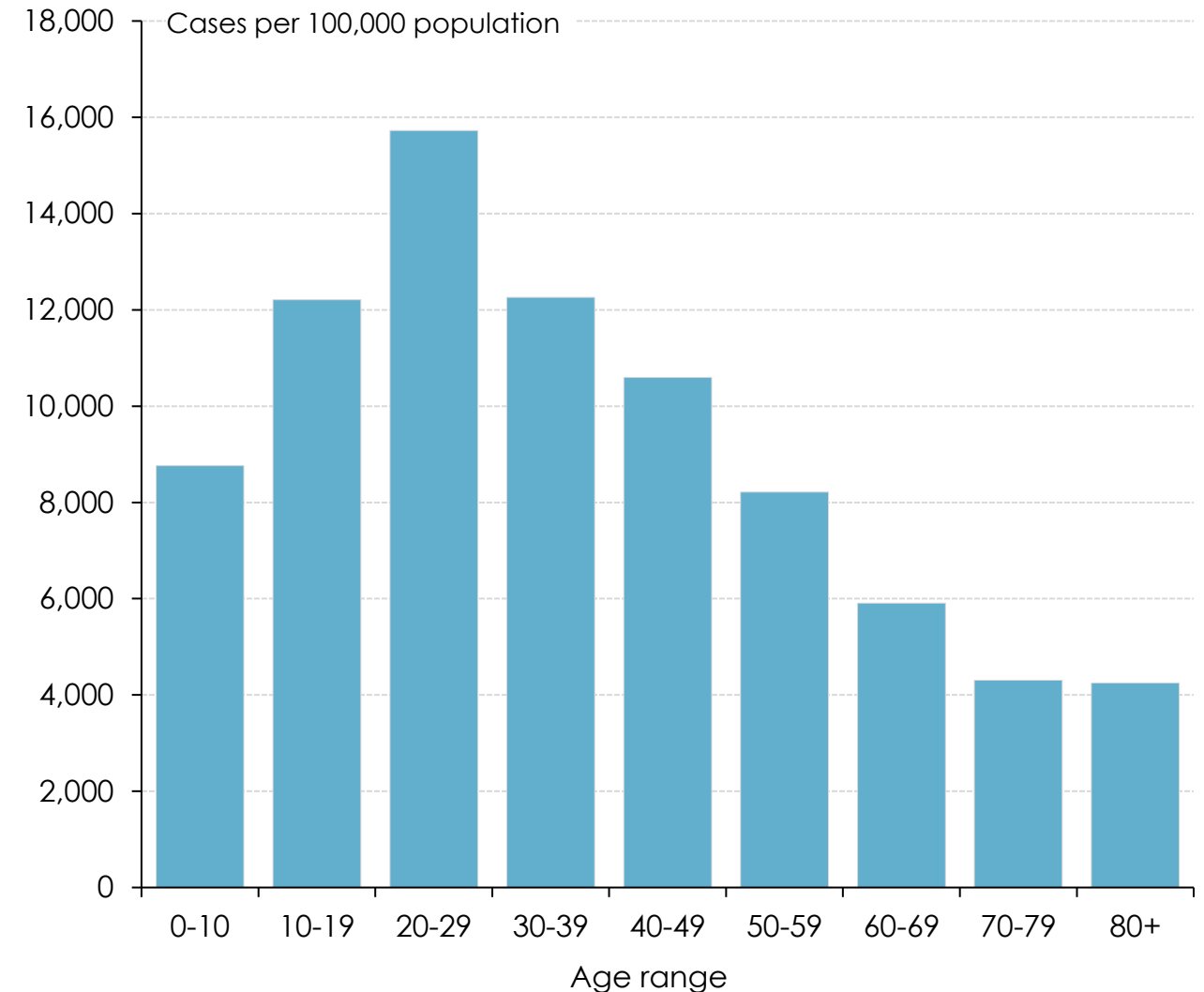
People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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



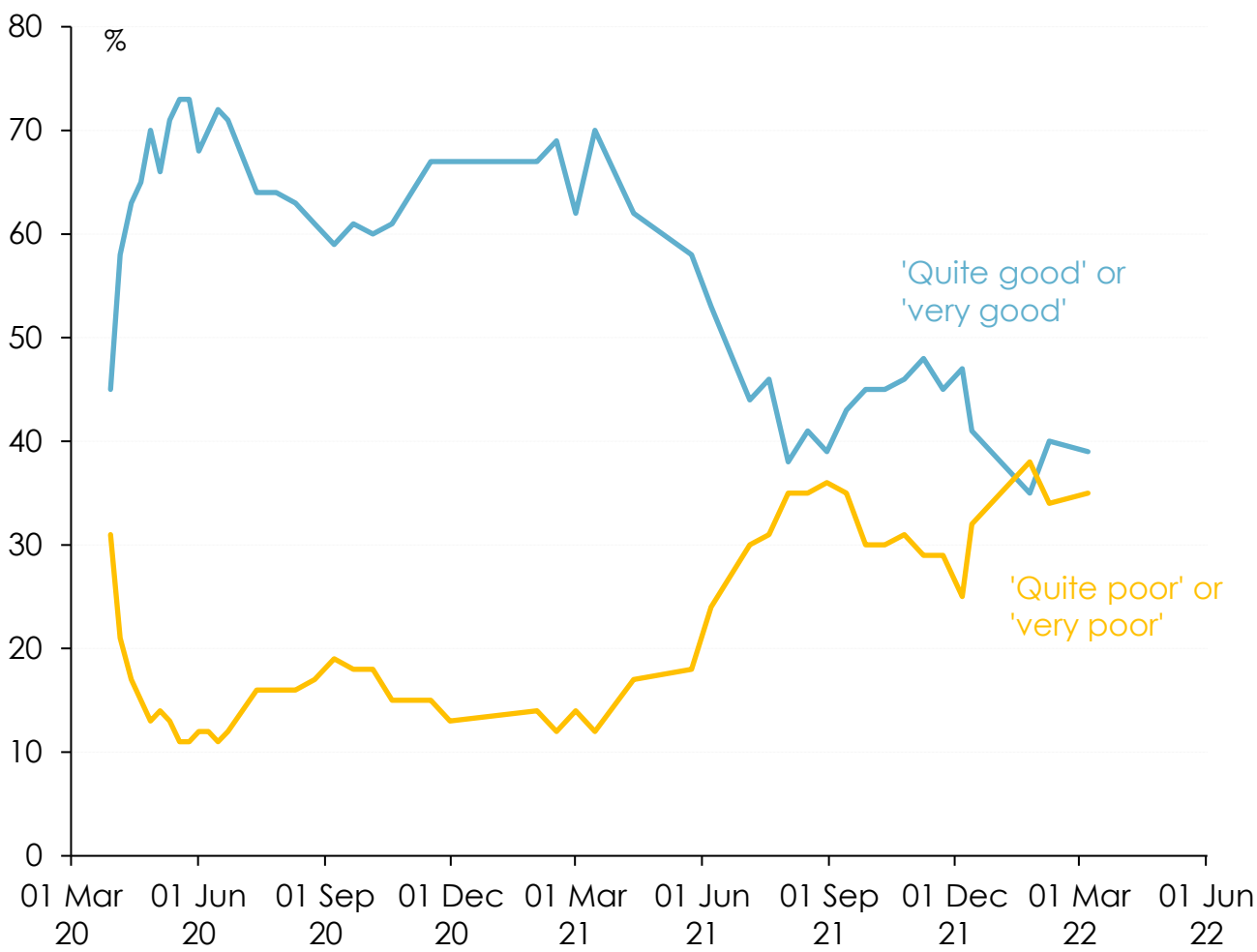
Cumulative confirmed cases per 100,000 population, by age group – since 1st January 2021



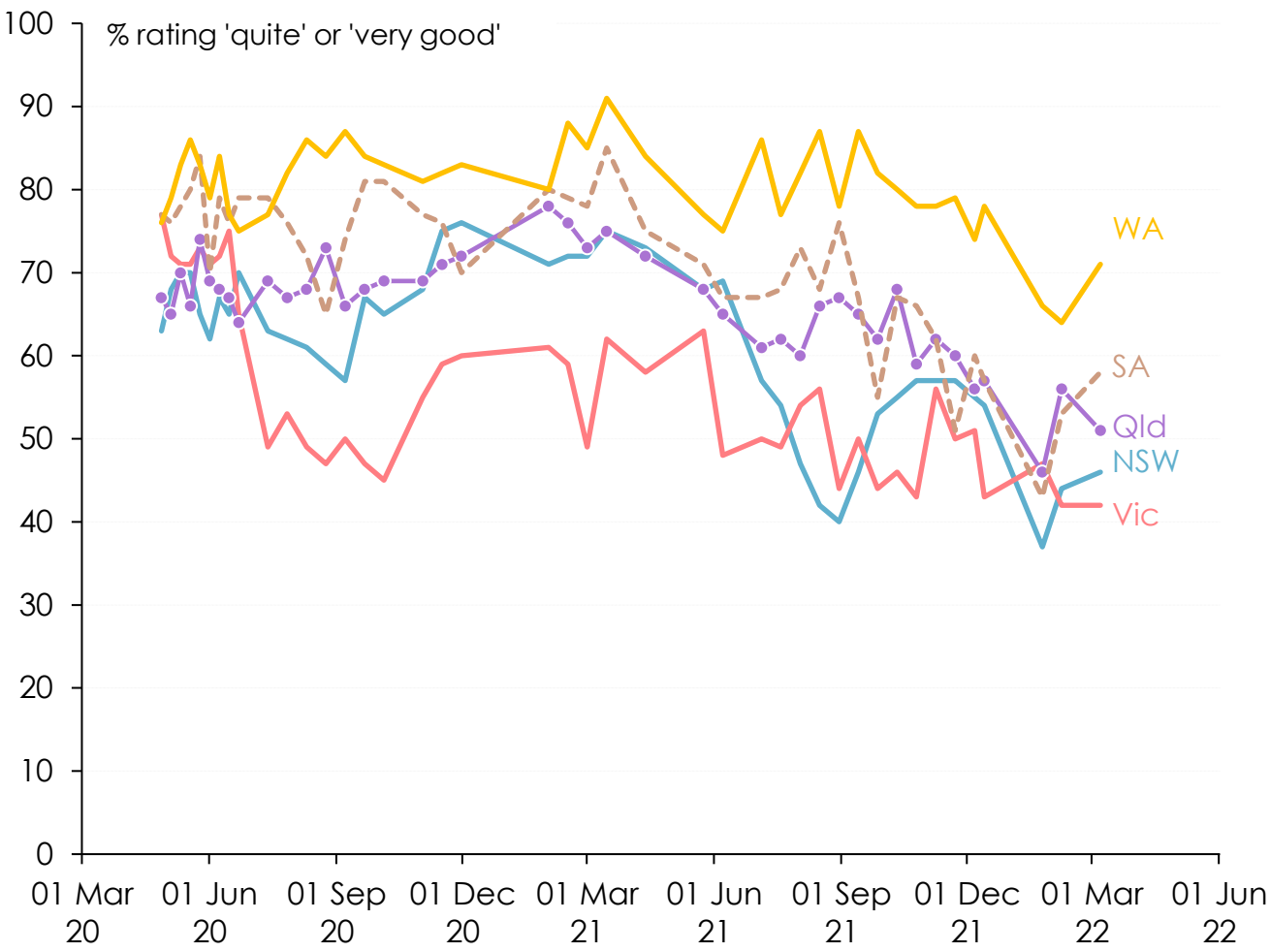
Public approval of the Federal and state governments' handling of Covid remains lower than during the first 15 months of the pandemic

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Approval of Federal Government response to Covid-19



Approval of State Government responses to Covid-19

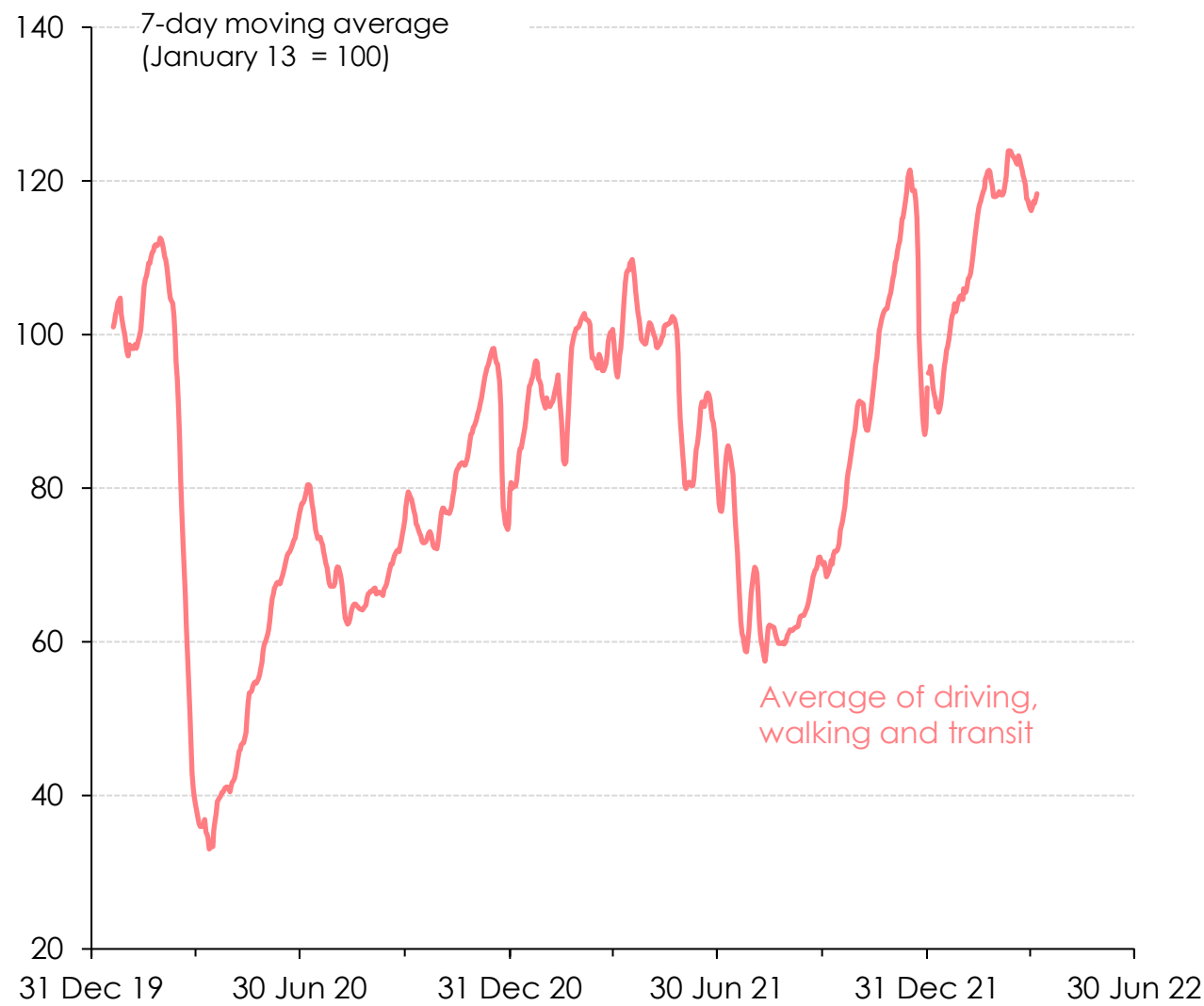


Note: Despite claiming to “track the mood of the nation”, Essential does not conduct polls in Tasmania, nor in either of the two territories.
Sources: Essential Research, [The Essential Report](#), 31st March 2022.

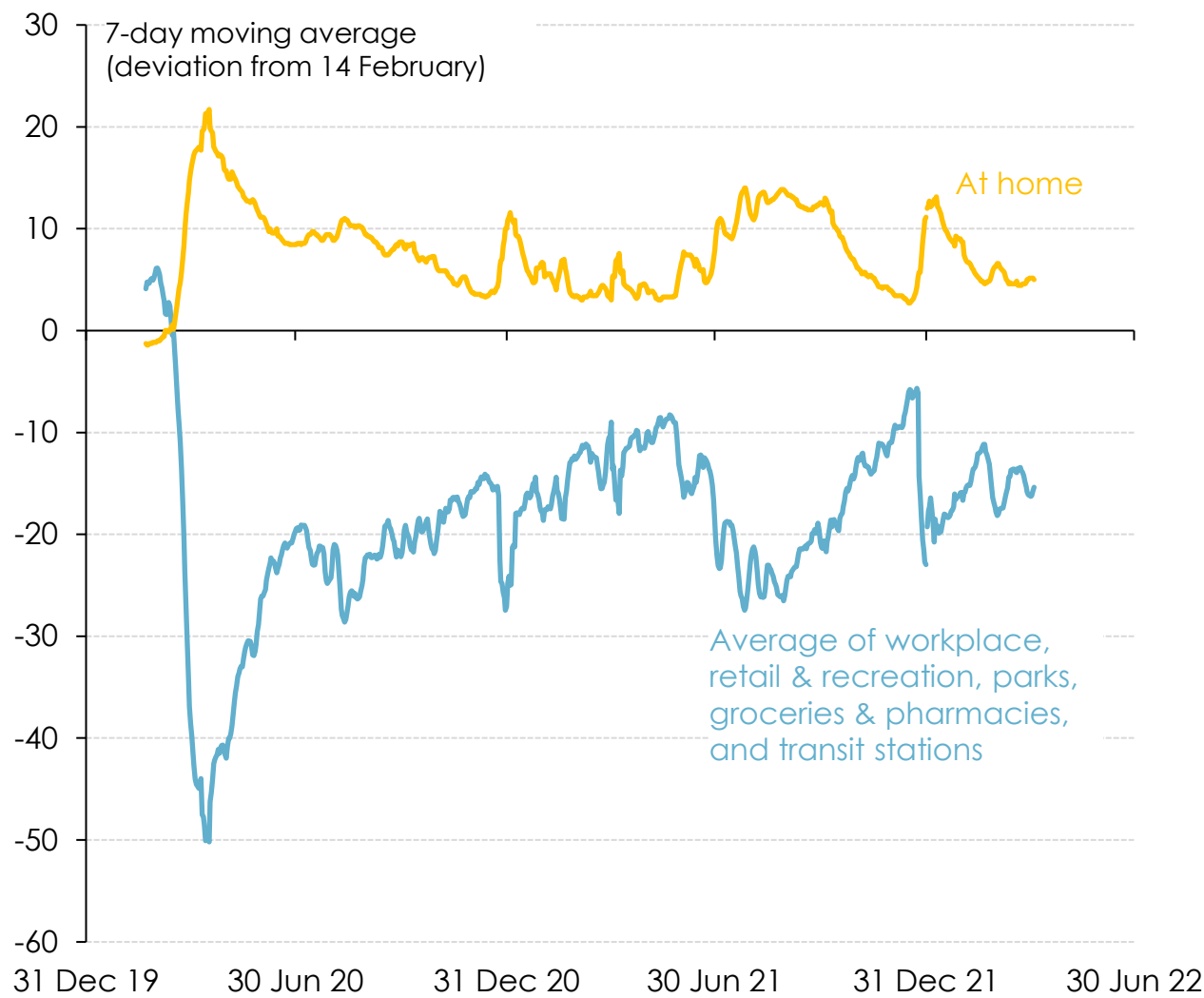
Mobility appears to have picked up a little in the past week, after ‘stalling’ during the surge in omicron cases from mid-February through late March

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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 6th April). 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 4th April). Apple has indicated that it will cease publication of its mobility indicators with effect from 14th April. Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

The upcoming Federal election

The election has to be called some time within the next ten days, for either 14th or 21st May

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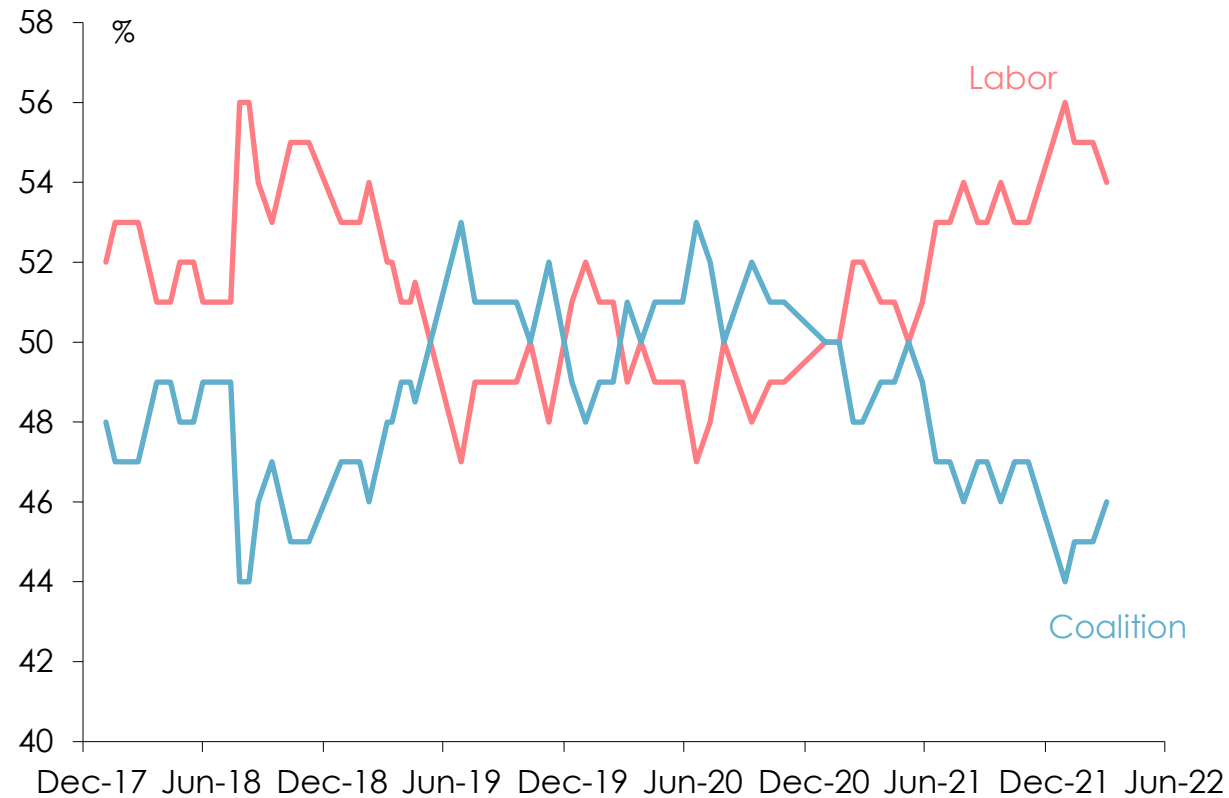
- ❑ **The latest date at which an election for the House of Representatives and half the Senate can be held is 21st May**
 - which means, having regard to the minimum of 33 days required under the *Electoral Act* between the ‘issuing of writs’ for (ie, calling) an election and polling day, the latest an election can be called is 18th 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 month’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

The Government's opinion poll ratings have improved since the recent Budget, but Labor is still well ahead (as it was going into the 2019 election)

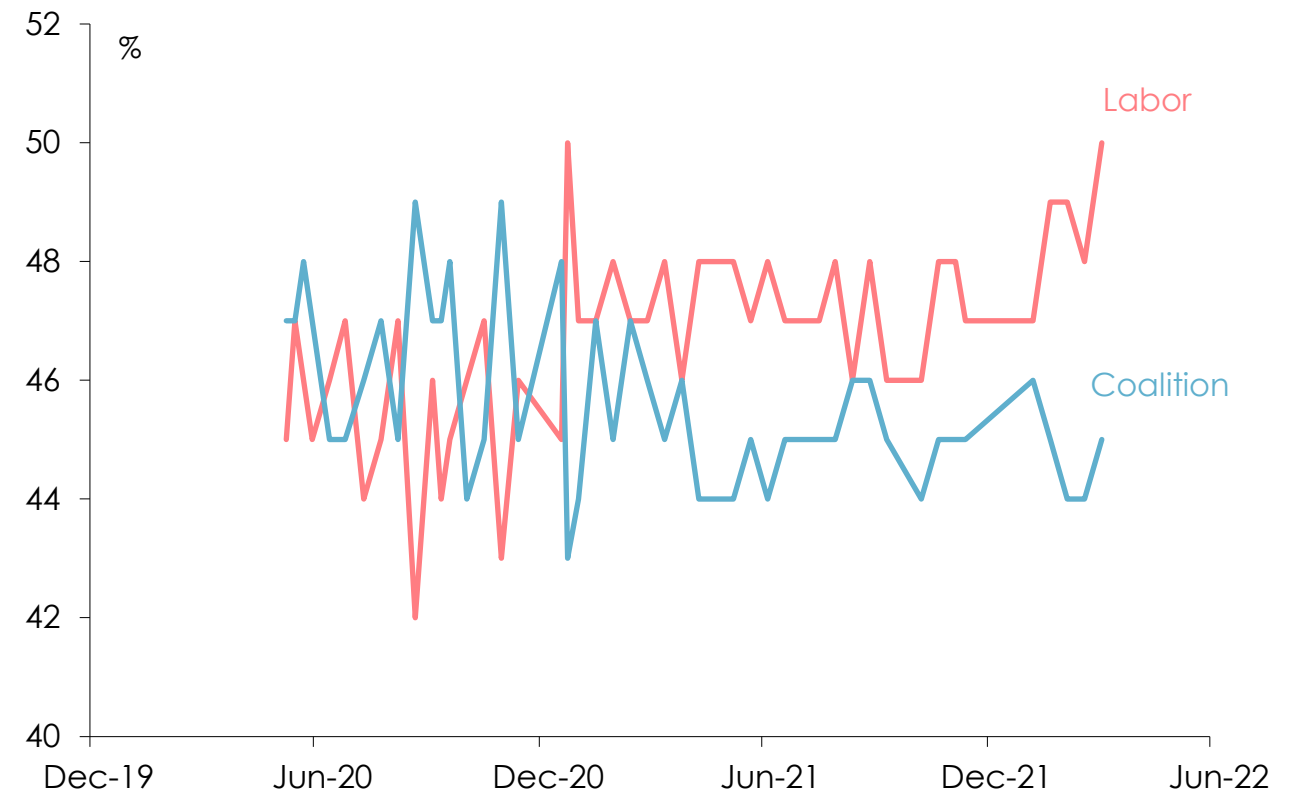
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Two-party-preferred vote according to opinion polls

Newspoll-YouGov



Essential



- ❑ The above polls show the major parties' share of the 'two-party preferred' vote, that is, after notionally allocating the preferences of respondents indicating they'd give their first vote to minor parties or independents – both polls shown above indicate that both major parties' 'primary vote' is below 40%, which if replicated at the election means that independent and minor party preference flows may be crucial to the final outcome

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

What differences might there be under a Federal Labor Government?

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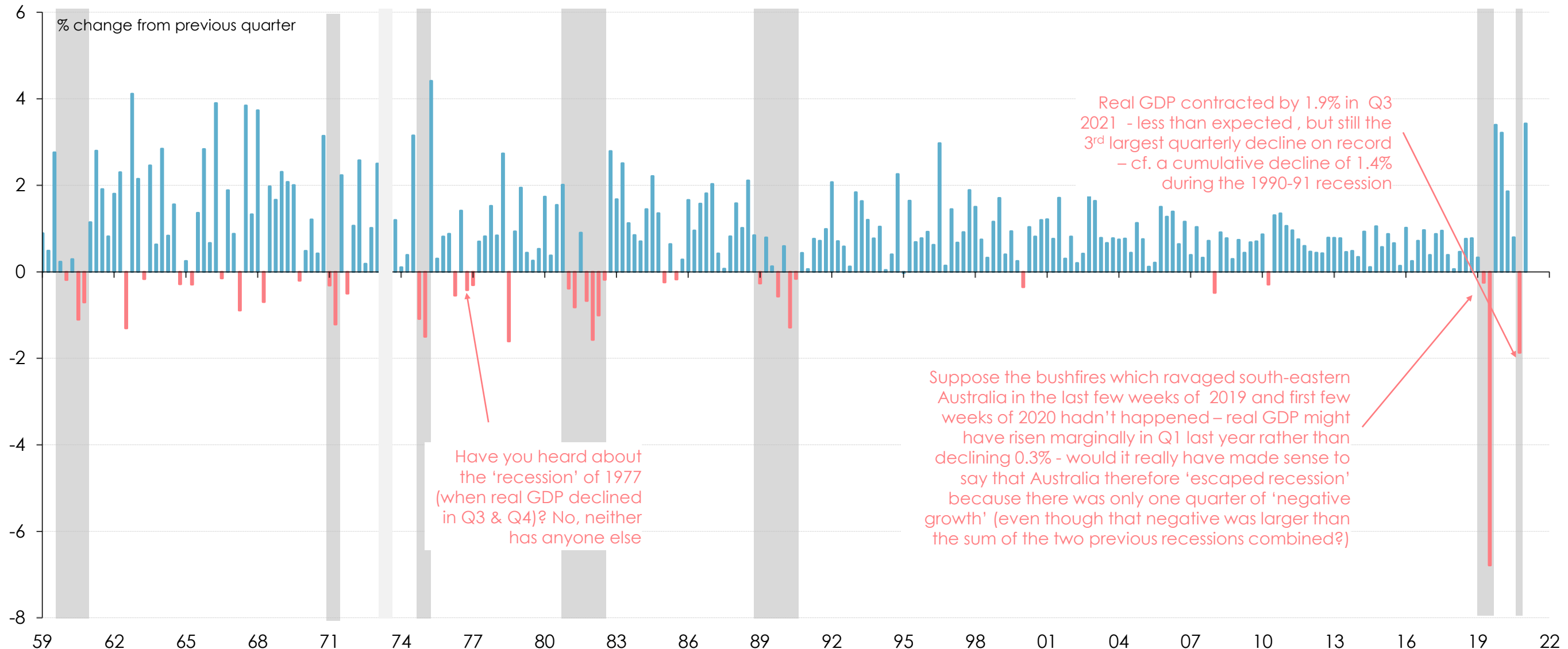
- ❑ One of the clear lessons of Australian political history over the last three or more decades is that Oppositions cannot win elections on platforms of major reform which entail ‘losers’ as well as ‘winners’
 - the Government of the day will almost always be able to use the vastly greater resources at its disposal to mount ‘scare campaigns’ against an opposition which tries to do that
 - having forgotten that lesson in 2019 (like the Liberals did in 1993), Labor is running an unambiguously ‘small target’ strategy ahead of this election (like the Liberals under John Howard did in 1996)
- ❑ Among the policies which Labor has already announced are
 - improved standards of care in aged care facilities, at a cost of \$2.5bn, together with support for higher wages for aged care workers (cost depending on the findings of a current Fair Work Commission hearing, but could be up to \$4bn per annum)
 - ‘cheaper childcare’ – an increase in the maximum subsidy rate to 90%, with higher and smoother ‘taper’ rates
 - a \$20bn investment in electricity transmission systems which it claims will reduce network charges, combined with a more ambitious renewable energy target (82% of generation by 2030) which it claims will reduce average annual electricity charges by \$378 pa by 2030
 - 45,000 new free TAFE training places and up to 20,000 more university places
 - \$2.4bn investment in ‘better broadband’ including expanding full-fibre NBN access to 1.5 mn premises
 - a \$10bn off-budget ‘Housing Australia Future Fund’ to build around 20,000 additional social housing dwellings and 10,000 ‘affordable’ properties for ‘frontline’ workers over five years
 - tougher tax rules for multi-national corporations (though no details have been given)
- ❑ Now that last month’s Budget has ‘set the parameters’ for political parties’ spending ambitions, Labor is likely to detail more policies between now and the election date
- ❑ A Labor Government would probably support larger increases in the minimum wage, and allow larger increases in public sector pay – it may also cut back the intake of unskilled migrants

Broad trends in the Australian economy

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

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Quarterly growth in Australian real GDP, 1959-2021

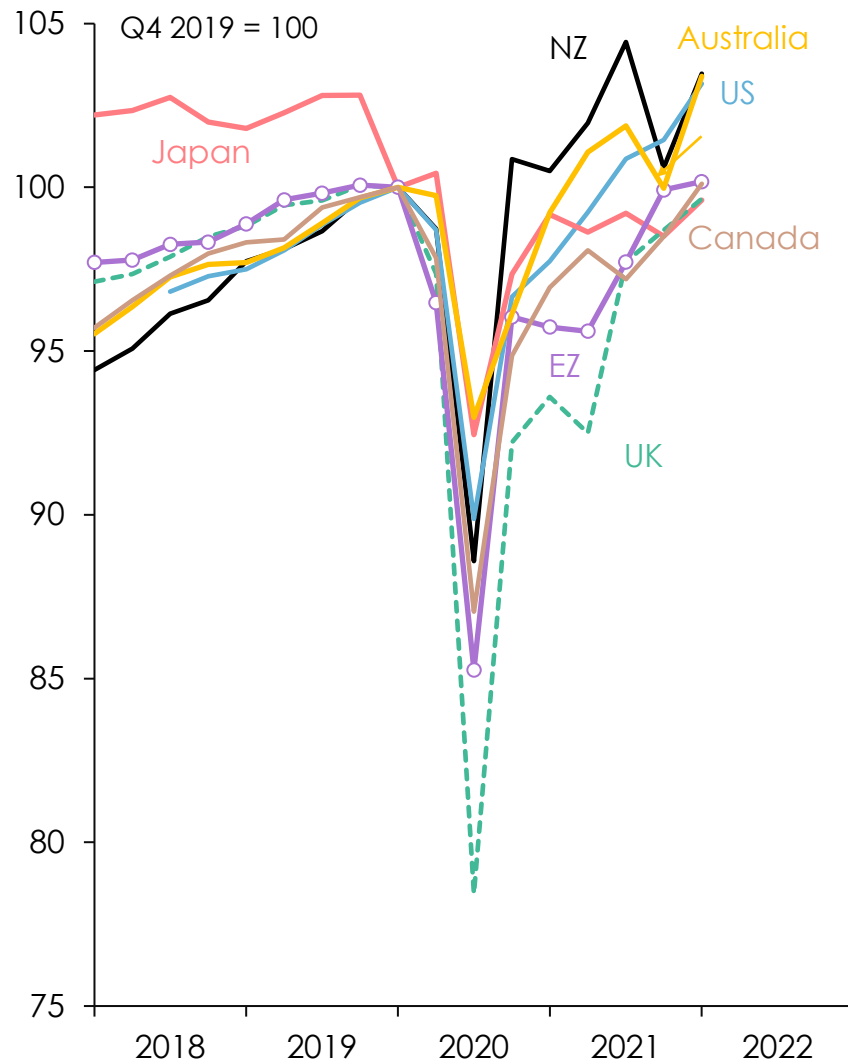


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. March quarter GDP will be released on 1st June. [Return to "What's New"](#).

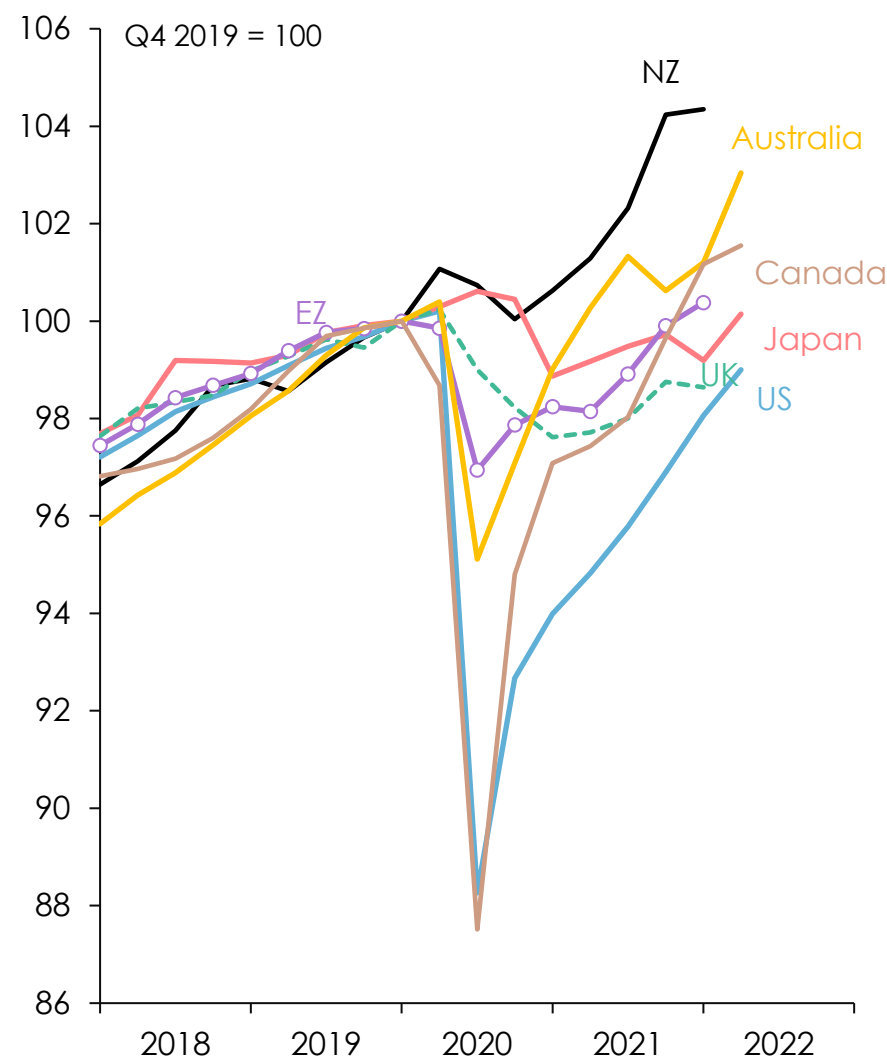
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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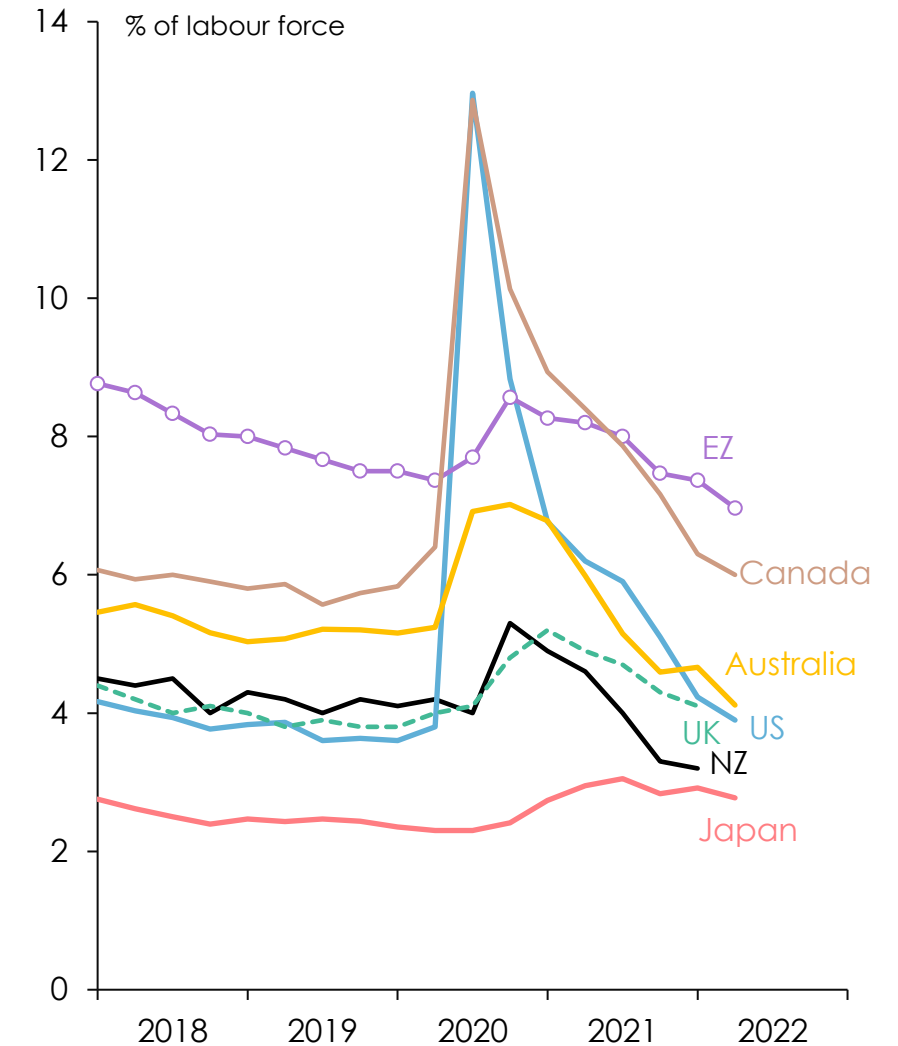
Level of real GDP



Employment



Unemployment

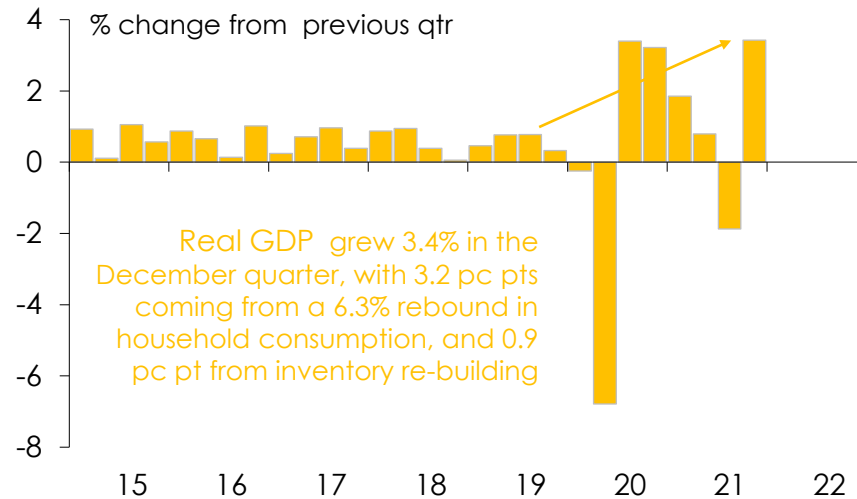


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

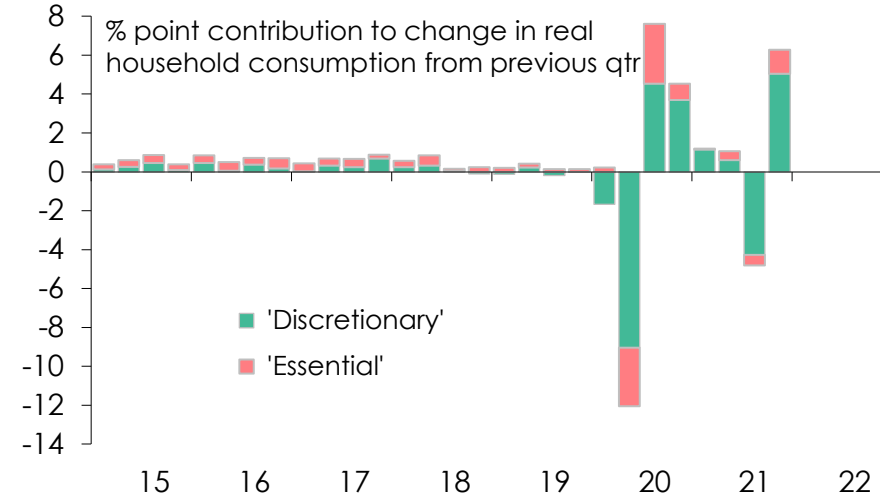
Real GDP grew 3.4% in the December quarter, fuelled by a surge in post-lockdown discretionary consumption spending and inventory re-building

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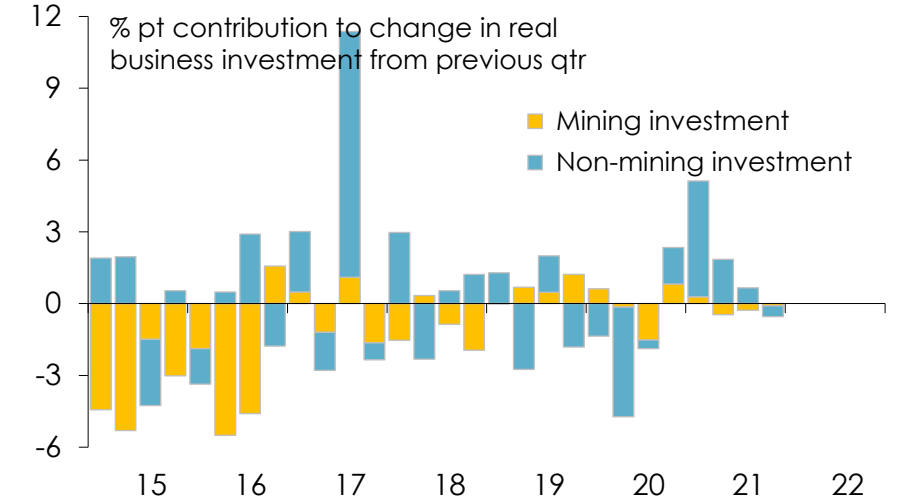
Quarterly change in real GDP



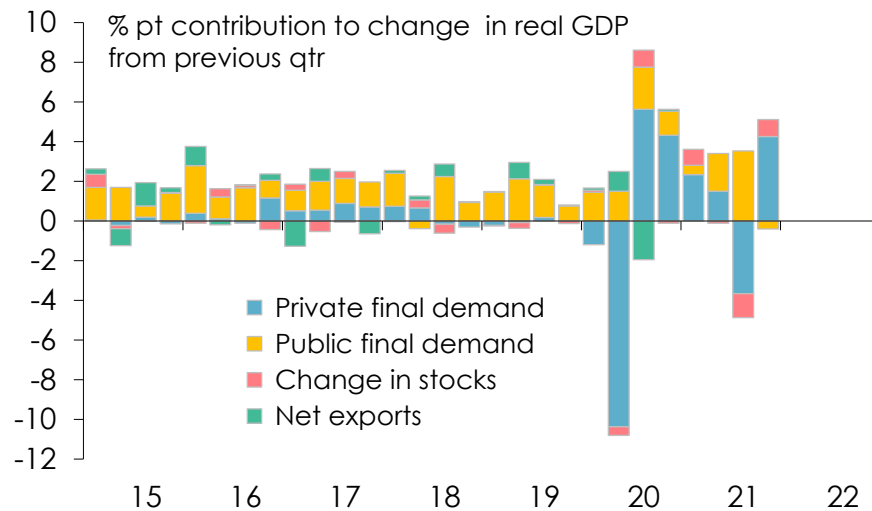
Household consumption expenditure



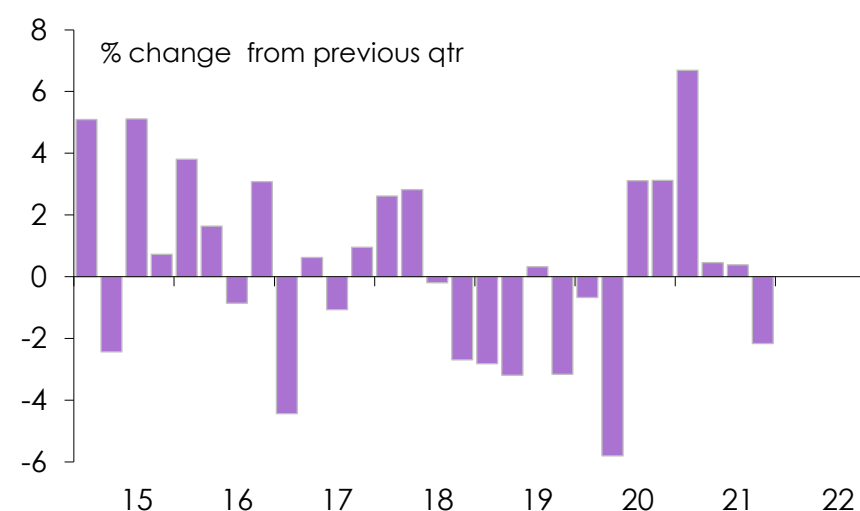
Business investment expenditure



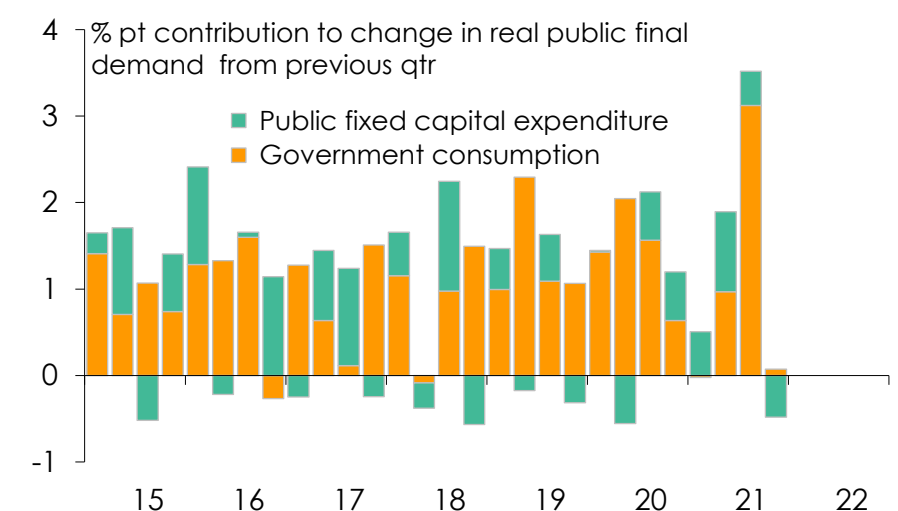
Contributions to quarterly GDP growth



Dwelling investment expenditure



Public expenditure

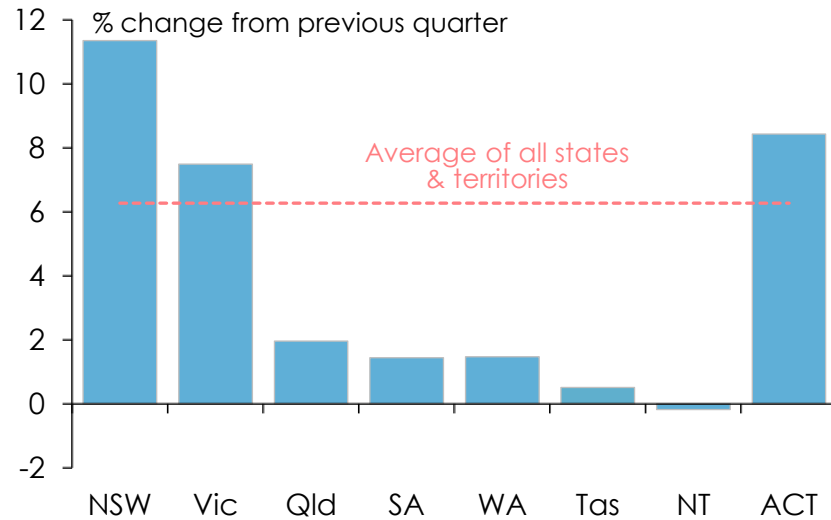


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021. March quarter national accounts will be released on 1st June. [Return to "What's New"](#).

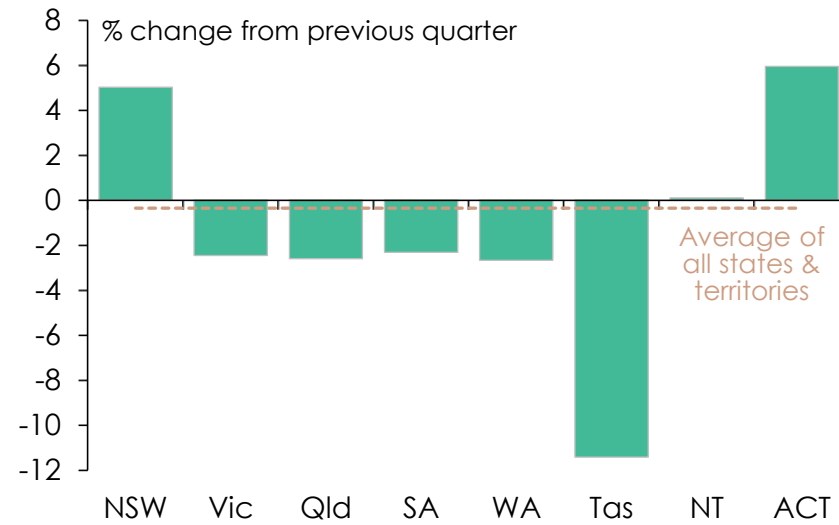
The December quarter rebound was largely driven by post-lockdown surges in consumer spending in New South Wales, Victoria and the ACT

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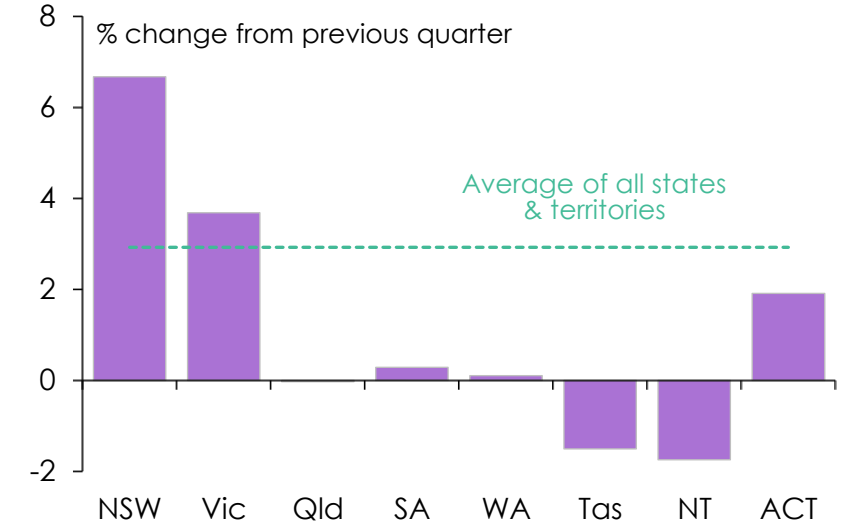
Household consumption



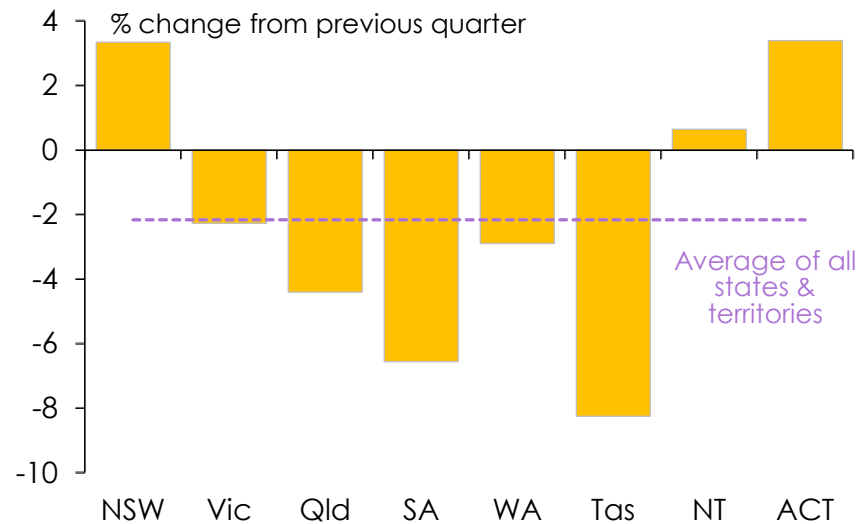
Business investment



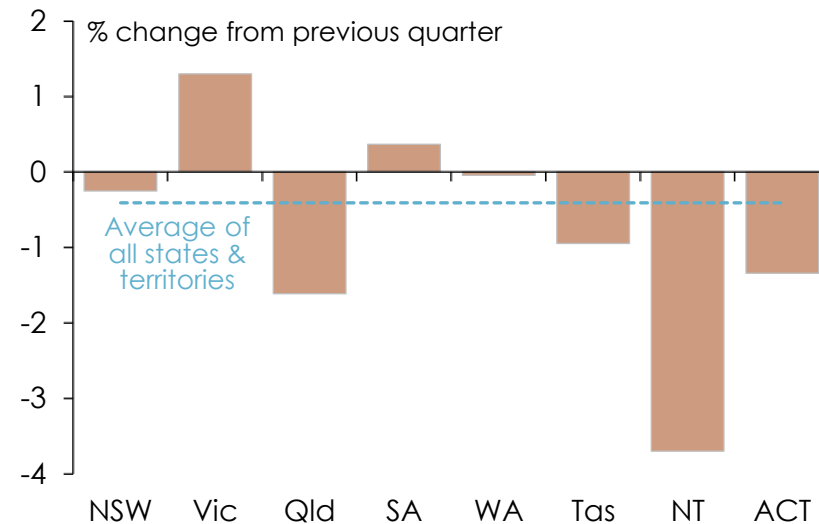
State final demand



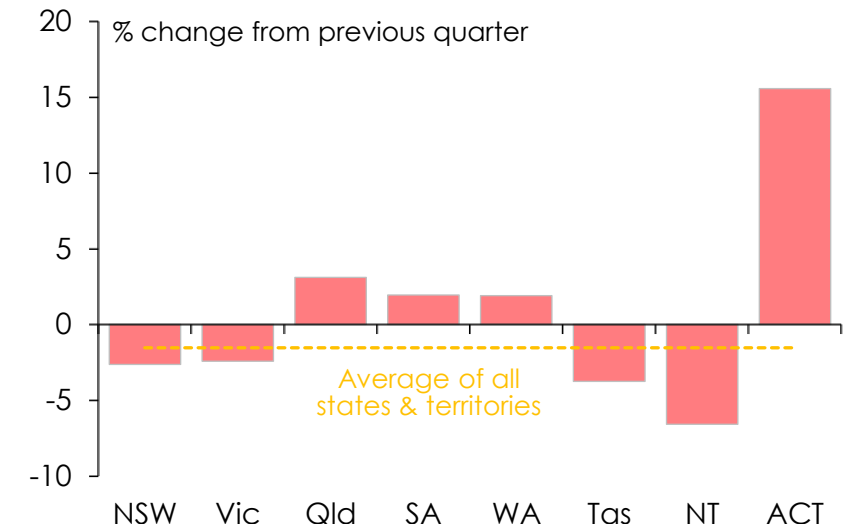
Dwelling investment



Public spending



International exports

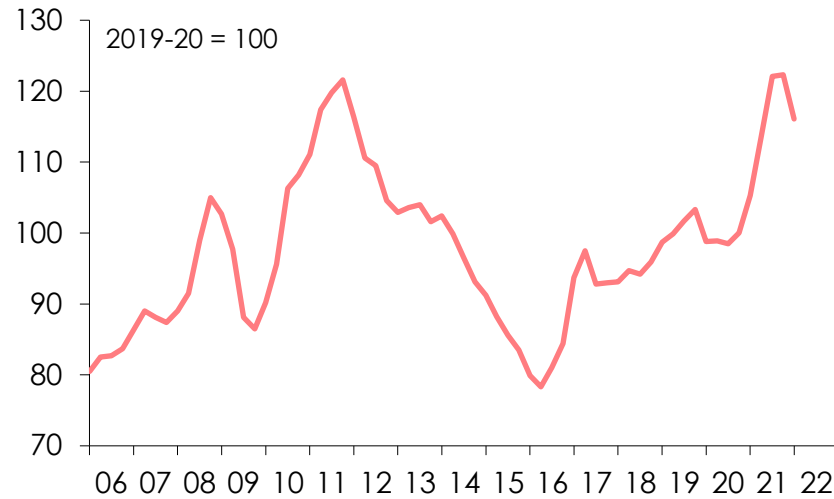


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; [Balance of Payments and International Investment Position,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

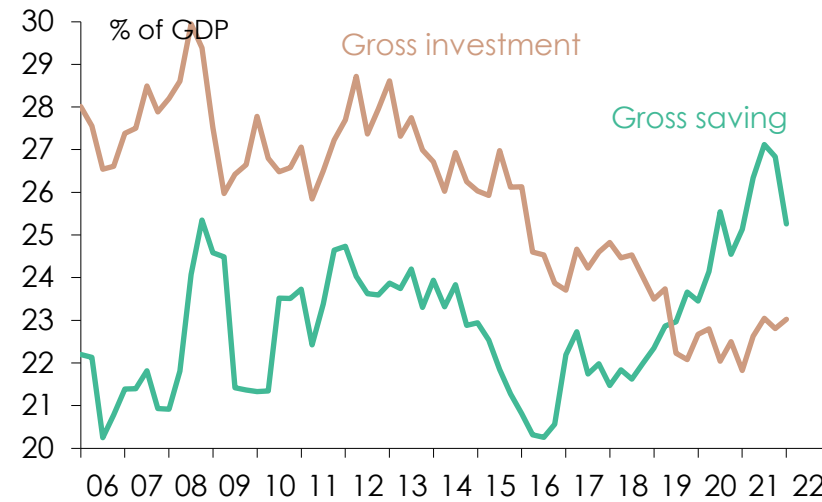
Australia's terms of trade may have peaked, leading to slower growth in income and lower national saving

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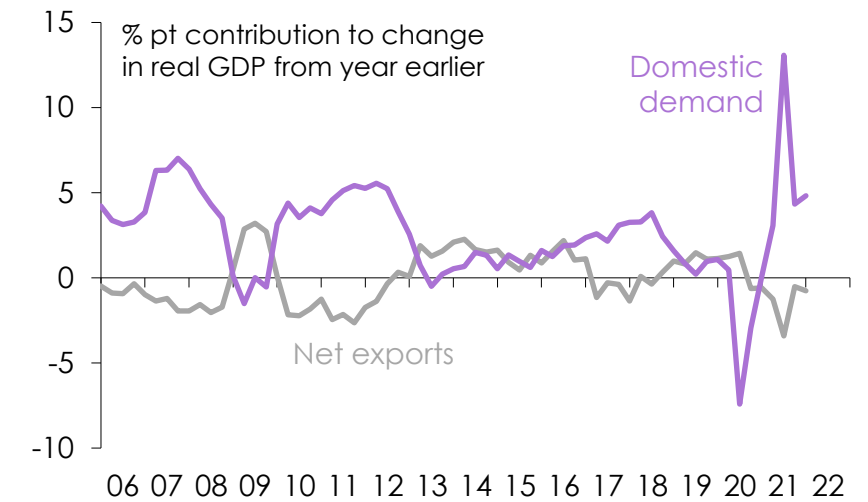
Terms of trade



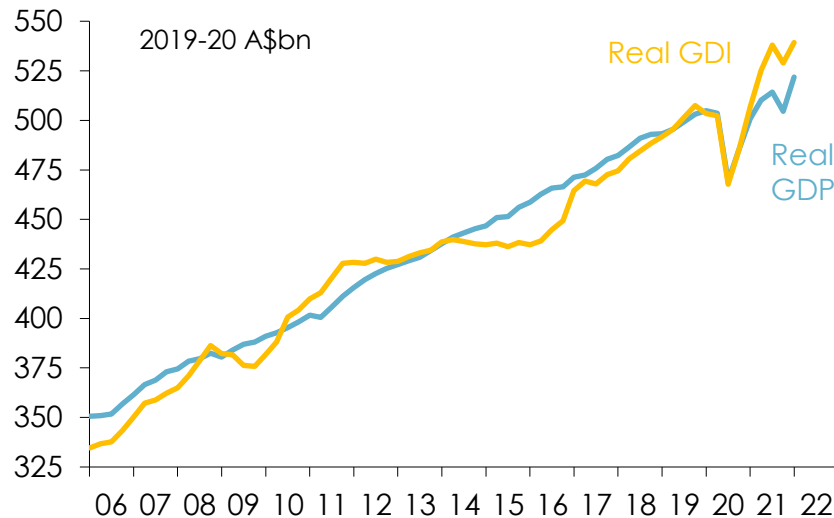
National saving & investment



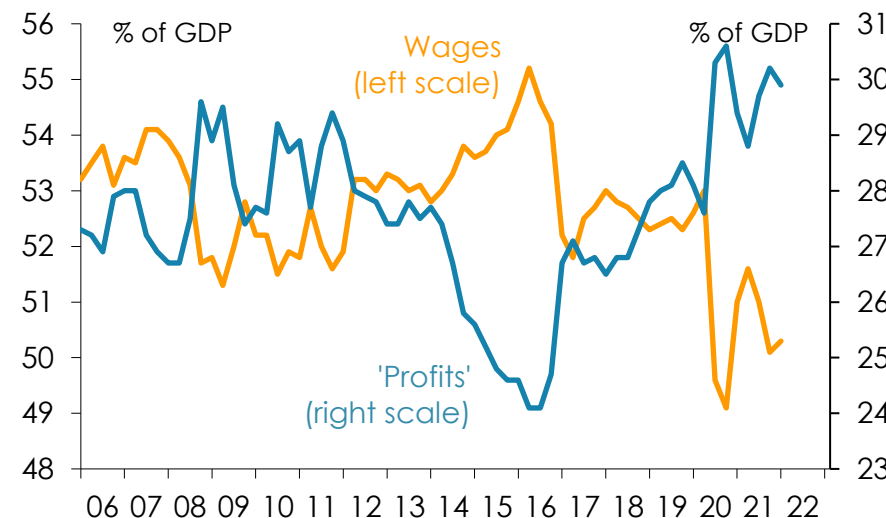
Domestic demand and net exports



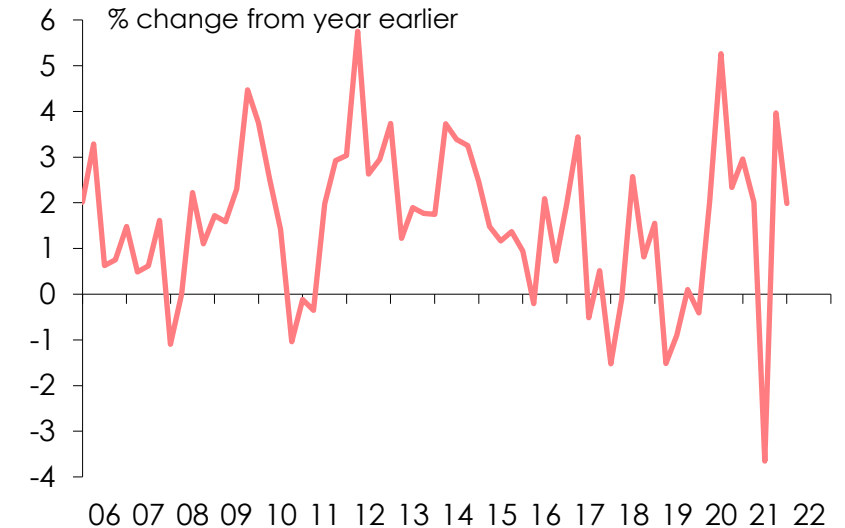
Real gross domestic income



Shares of national income



Labour productivity

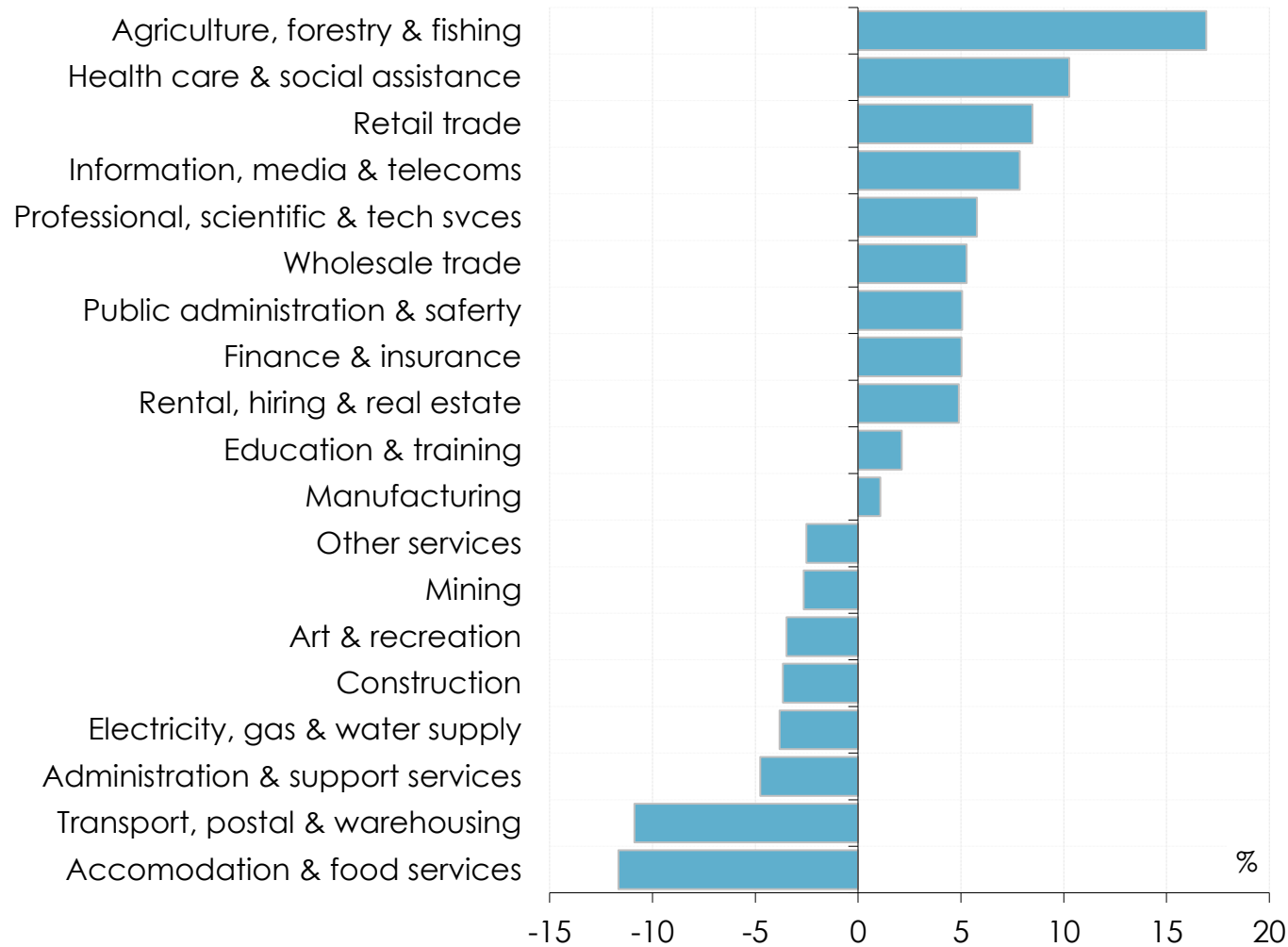


Note: The terms of trade is the ratio of export to import prices (for more see [slide 73](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021.

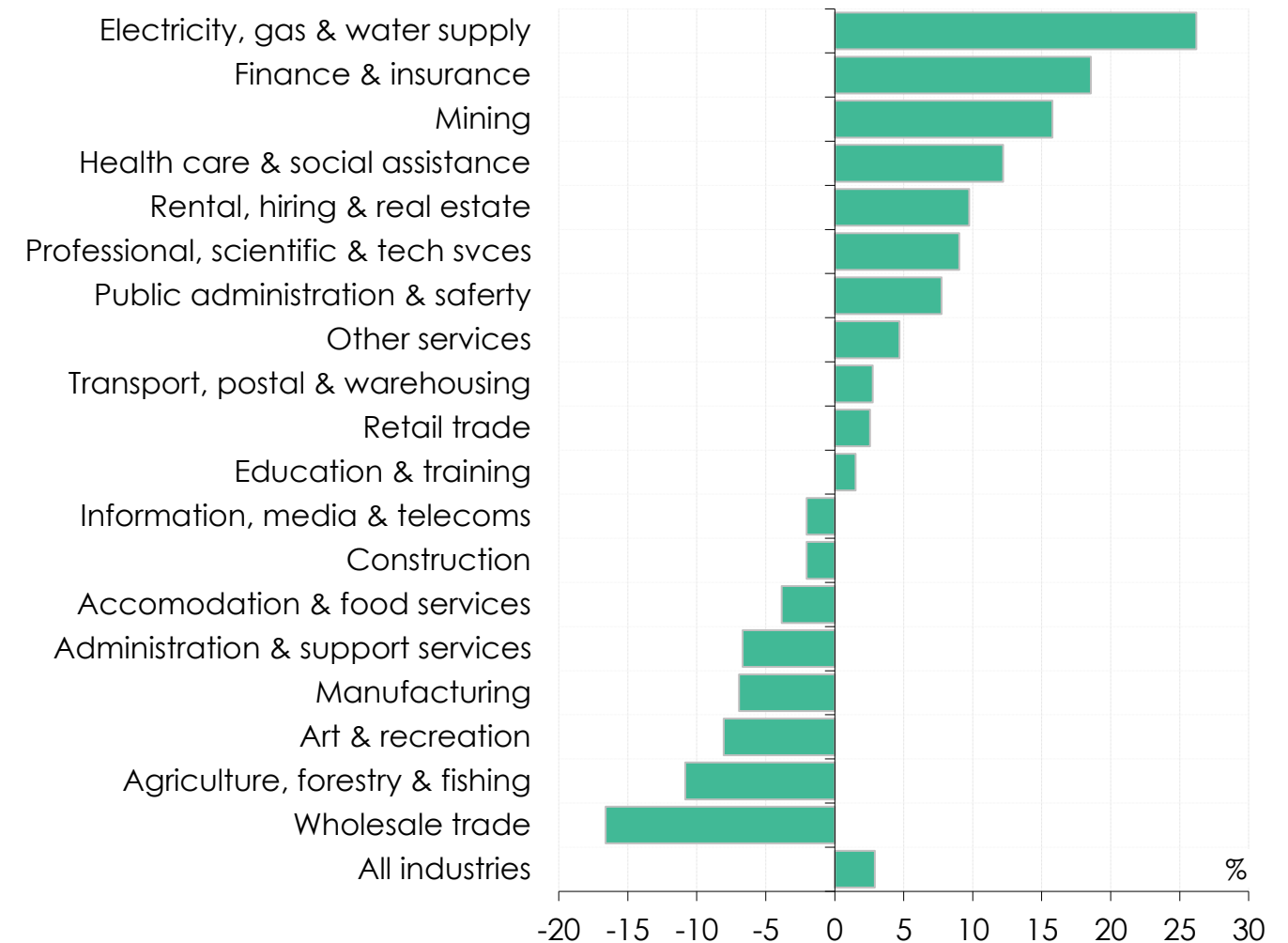
Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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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

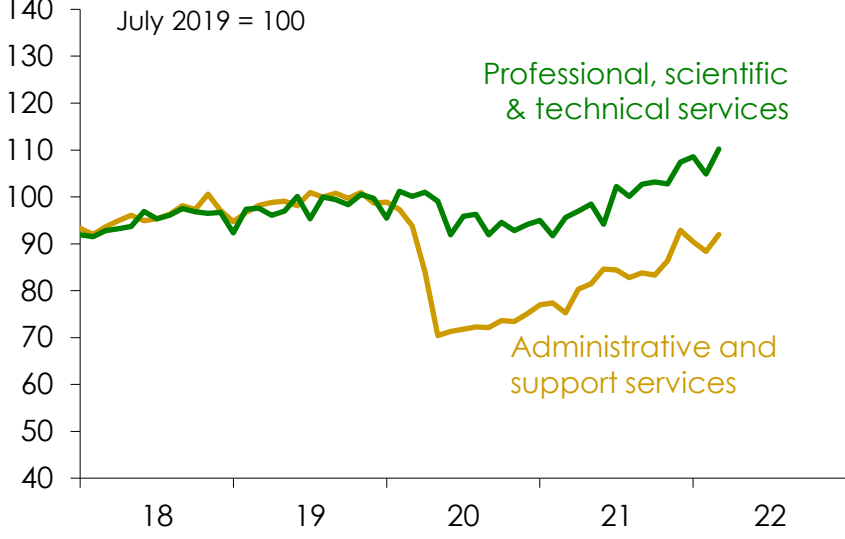
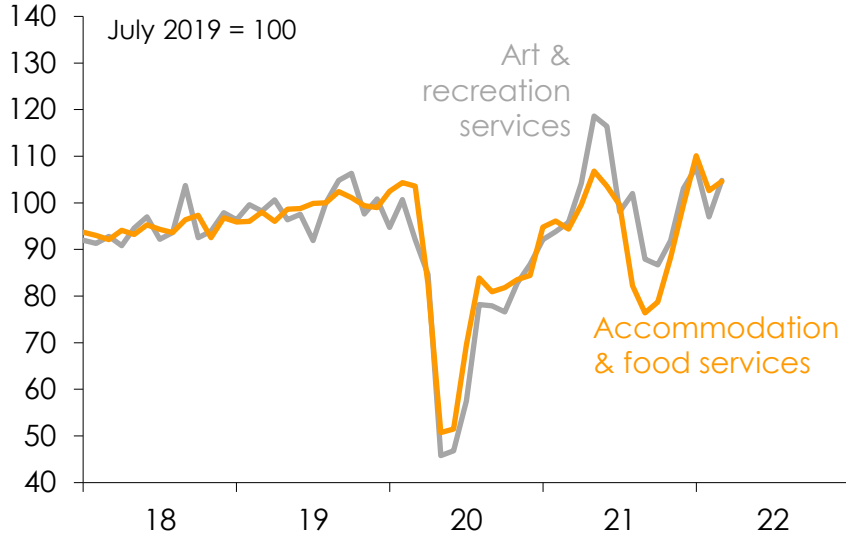
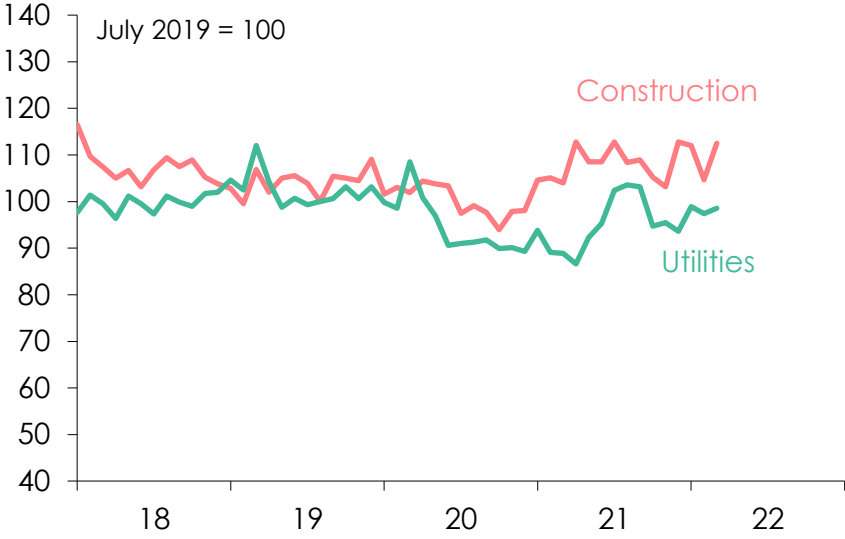
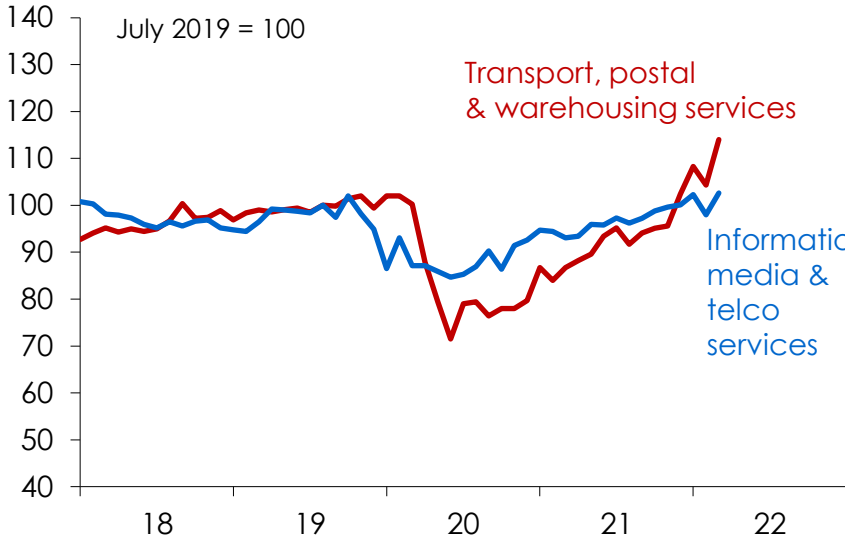
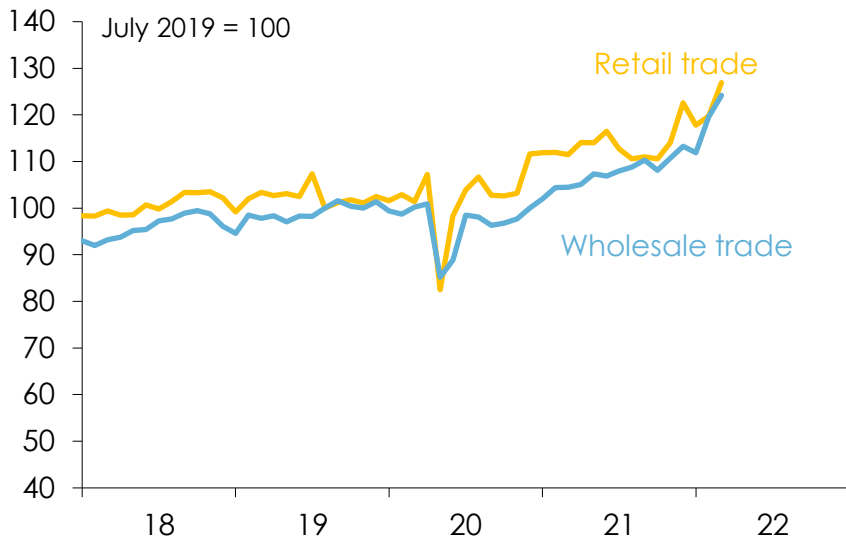
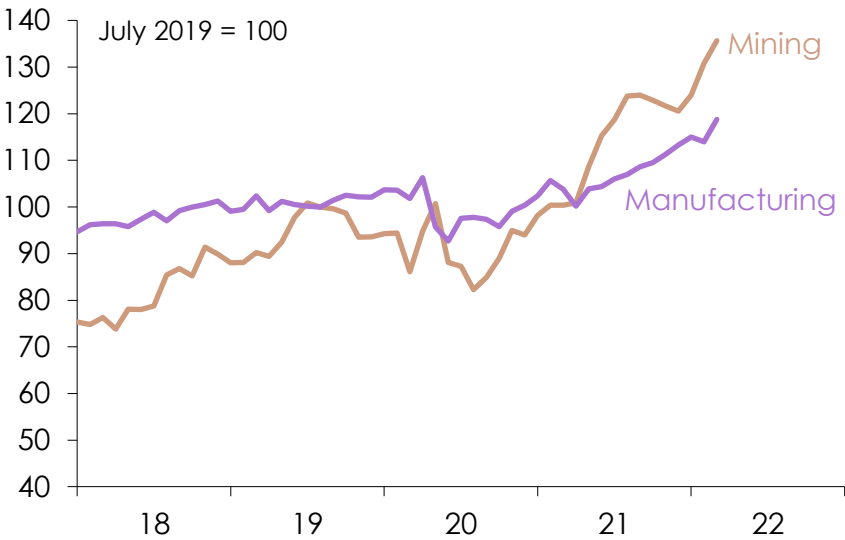


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; and [Labour Force, Australia, Detailed](#), February 2022.
GVA by industry data will be updated in the March quarter national accounts to be released on 1st June

Every sector of the economy recorded an increase in turnover in February, the first time that's happened since December 2020

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Indicators of business turnover, by industry

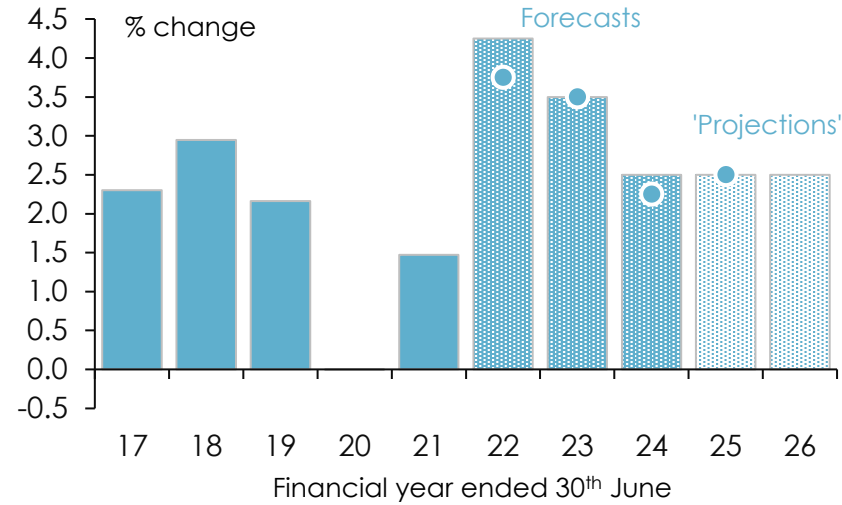


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

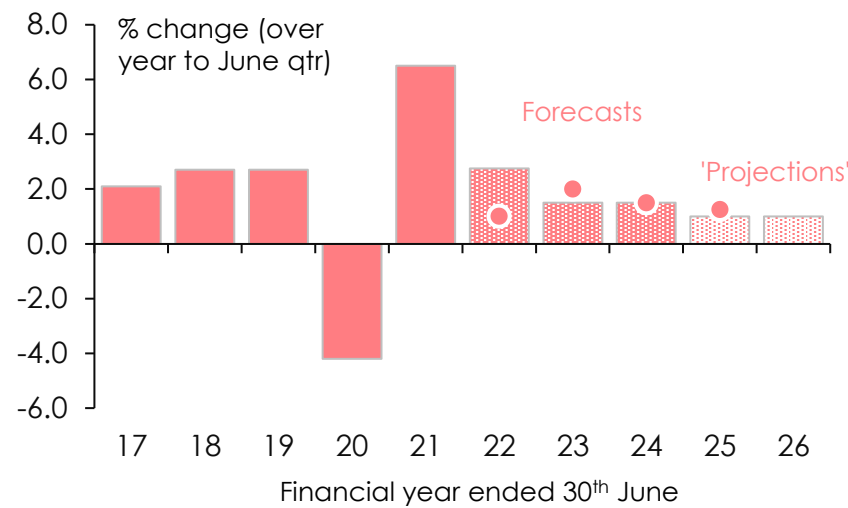
Treasury's Budget forecasts expect faster real (and especially nominal) GDP growth in 2021-22, with unemployment falling below 4% by Q3 this year

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

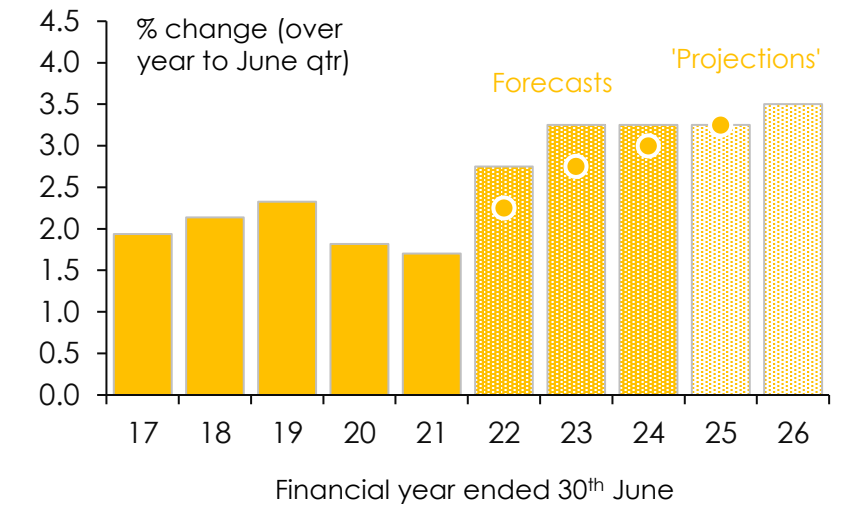
Real GDP



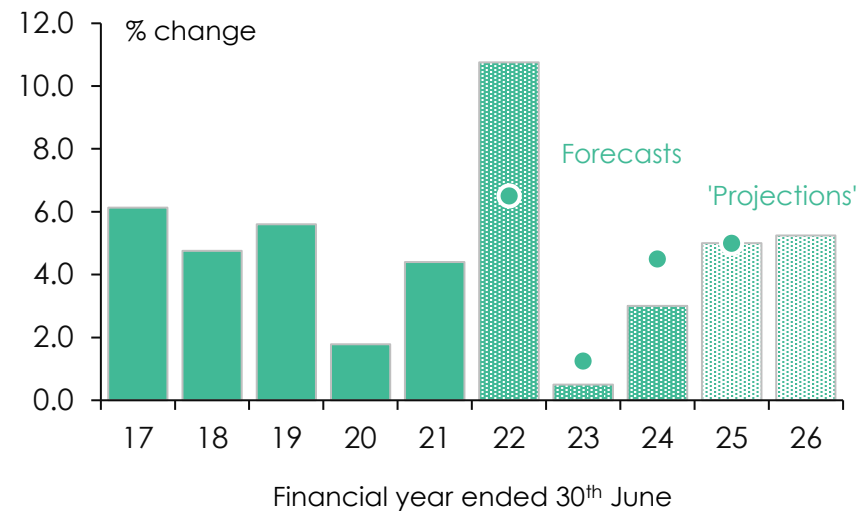
Employment



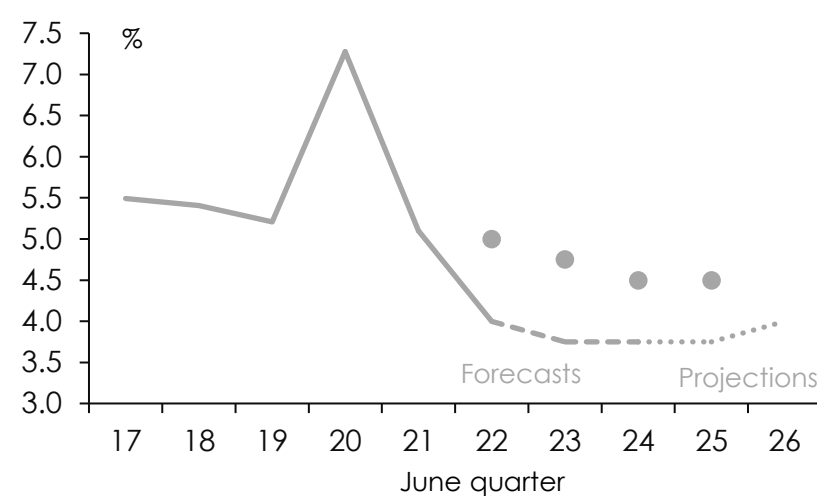
Wage price index



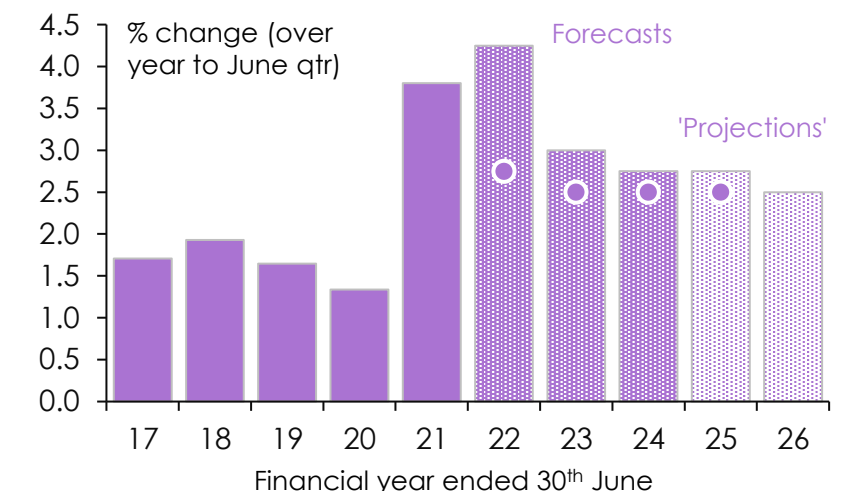
Nominal GDP



Unemployment rate



Consumer price index

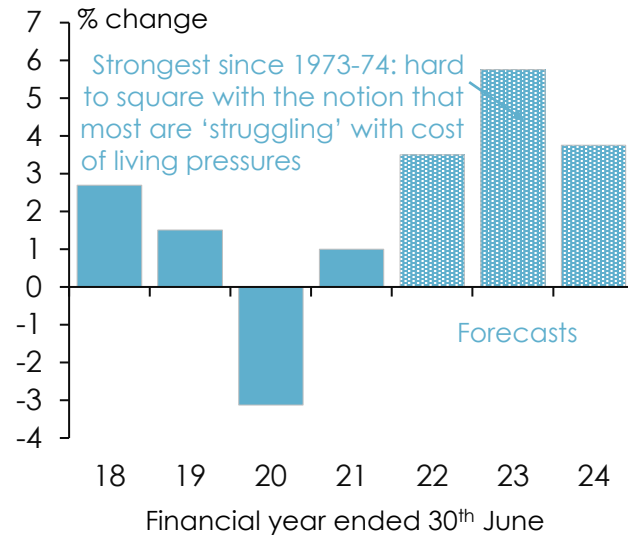


Note: Dots represent the forecasts and projections from the 2021-22 Mid-Year Economic & Fiscal Outlook (MYEFO) published in December last year. 'Forecasts' are Treasury's 'best endeavours' estimates for the current and following two financial years. 'Projections' for 2024-25 and 2025-26 are *not* forecasts, but rather are based on assumptions about the path by which output converges on its 'potential' level. Iron ore price assumed to fall to US\$55/t FoB by Q3 2022; metallurgical and thermal coal prices to US\$130/t and \$60/t respectively by Q3 2022; and Tapis oil prices to \$100/bbl by Q3 2022. Sources: ABS; 2021-22 [MYEFO](#) and 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29th March 2022.

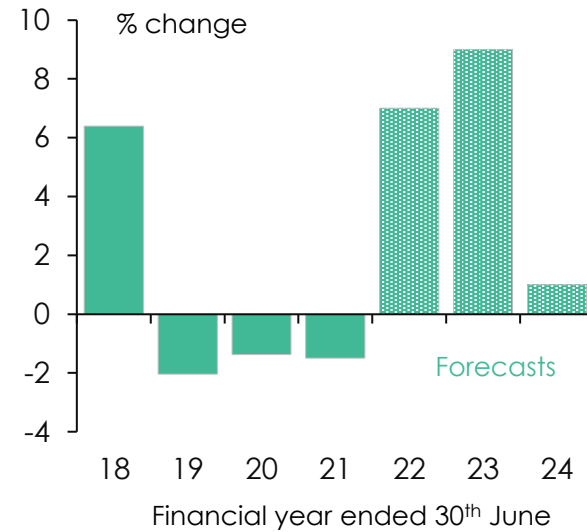
Consumer spending and, until 2023-24, residential and business investment, are forecast to be the main drivers of economic growth

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

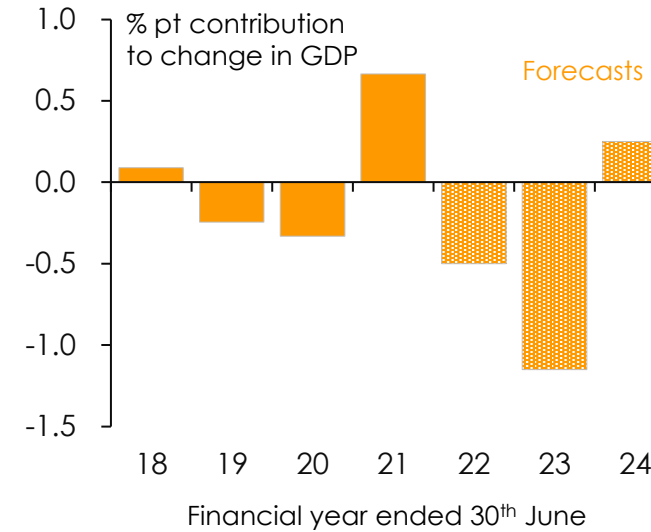
Household consumption



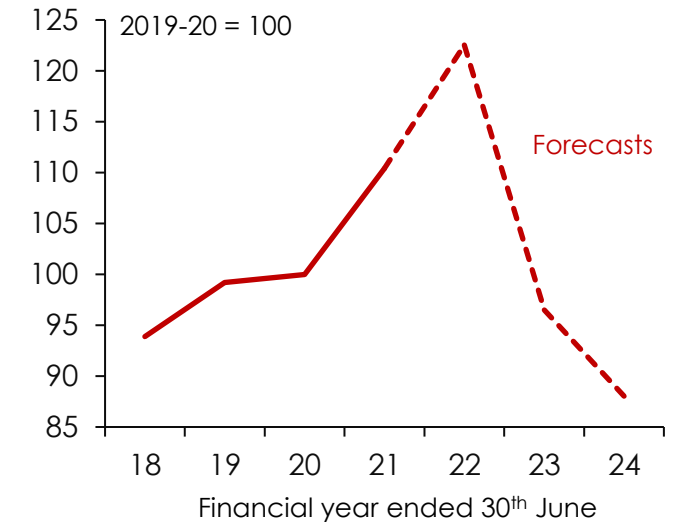
Business investment



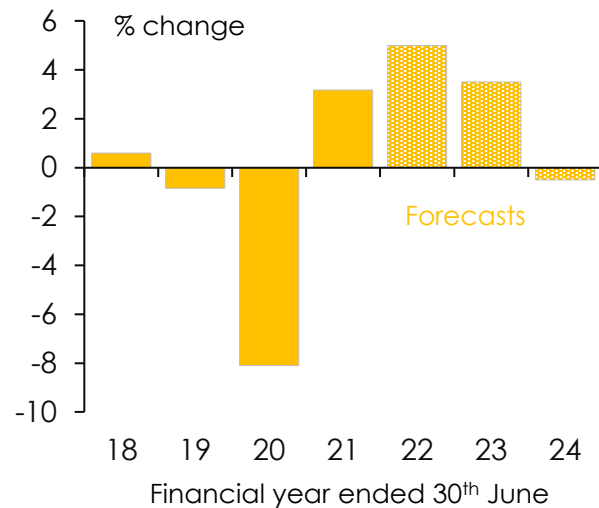
Change in inventories



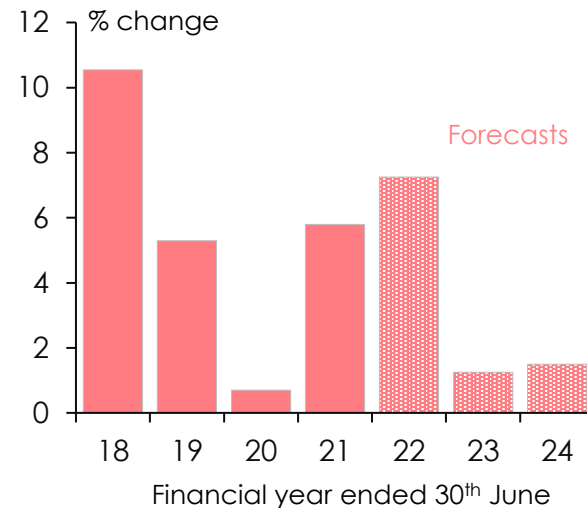
Terms of trade



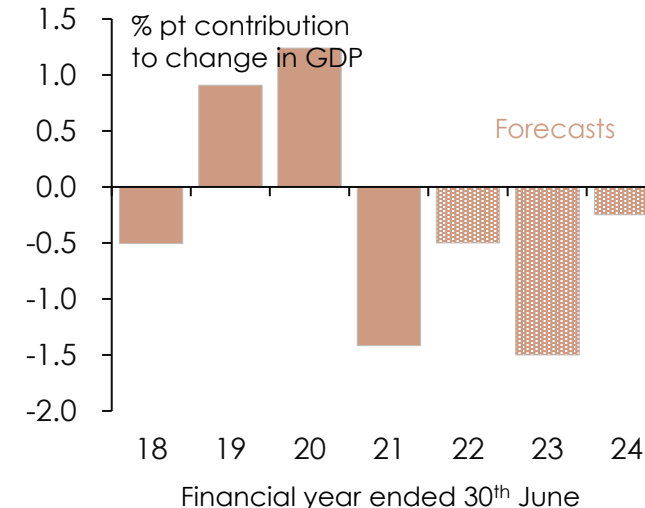
Dwelling investment



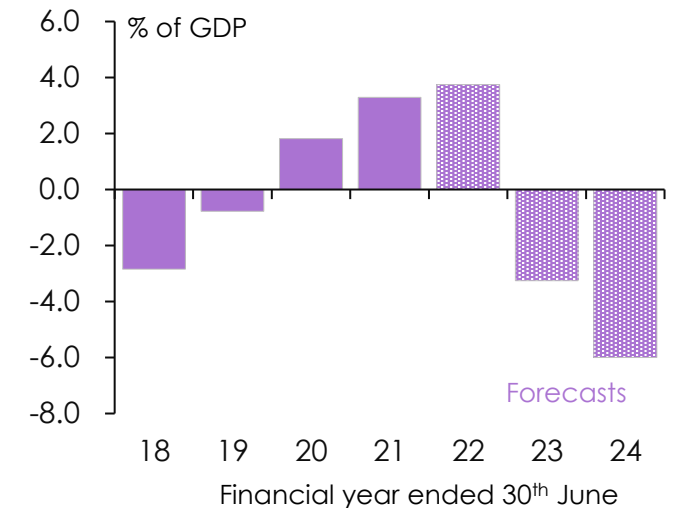
Public spending



Net exports



Current account balance

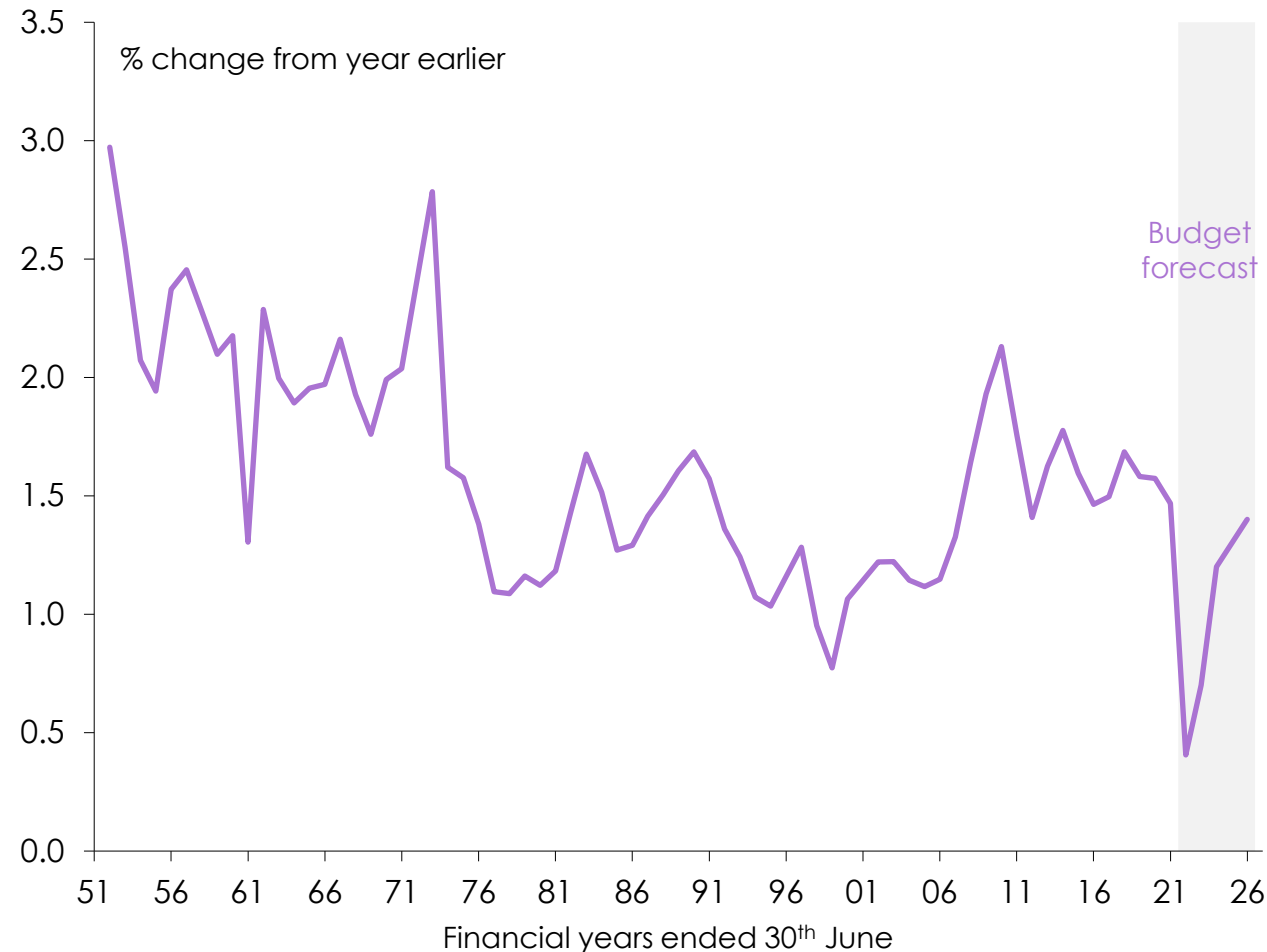


Note: The iron ore price is assumed to fall to US\$55/t fob by Q3 2022; metallurgical and thermal coal prices to US\$130/t and \$60/t respectively by Q3 2022; and Tapis oil prices to \$100/bbl by Q3 2022. Sources: ABS; 2021-22 [MYEFO](#) and 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29th March 2022.

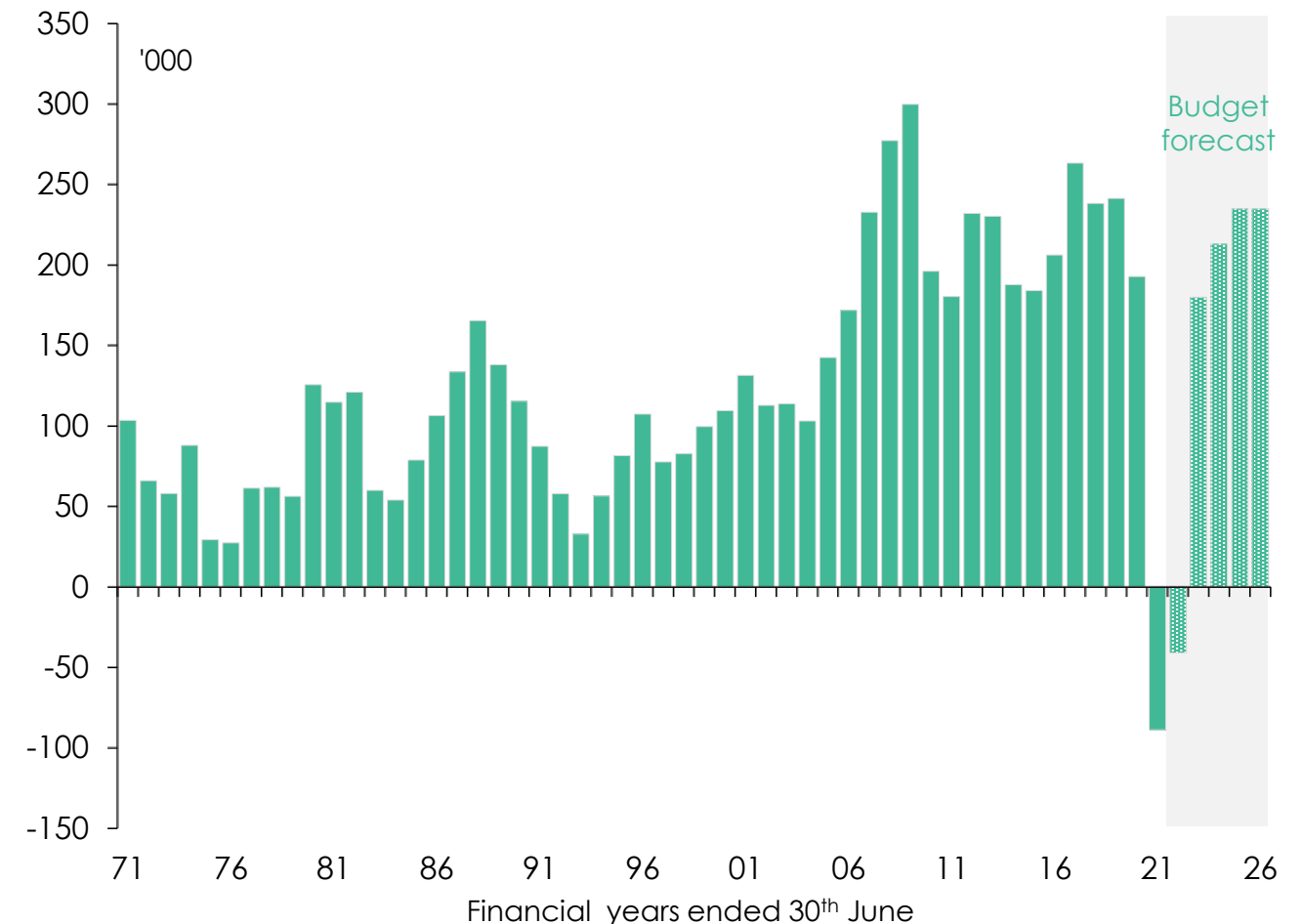
An important assumption underlying the Budget forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Population growth



Net overseas migration



- ❑ **Net overseas migration may not return to pre-Covid levels as quickly as the Budget assumes (or at all) if (a) China actively discourages students from coming to Australia (as it may well); and (b) if prospective migrants' views of Australia as a desirable destination has been adversely affected by the way in which Australia 'managed' its border controls during Covid (as they may well have been)**

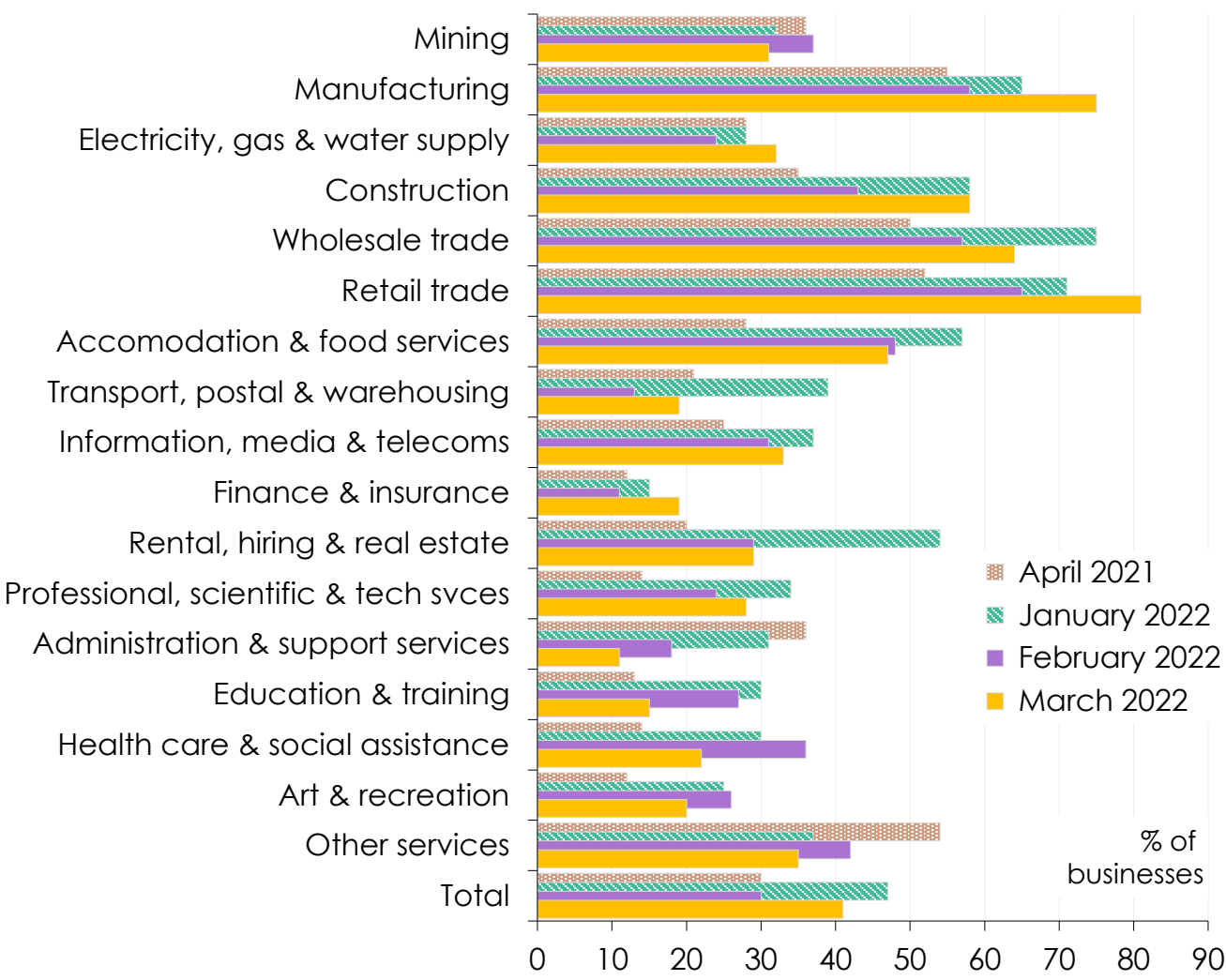
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29th March 2022.

The business sector

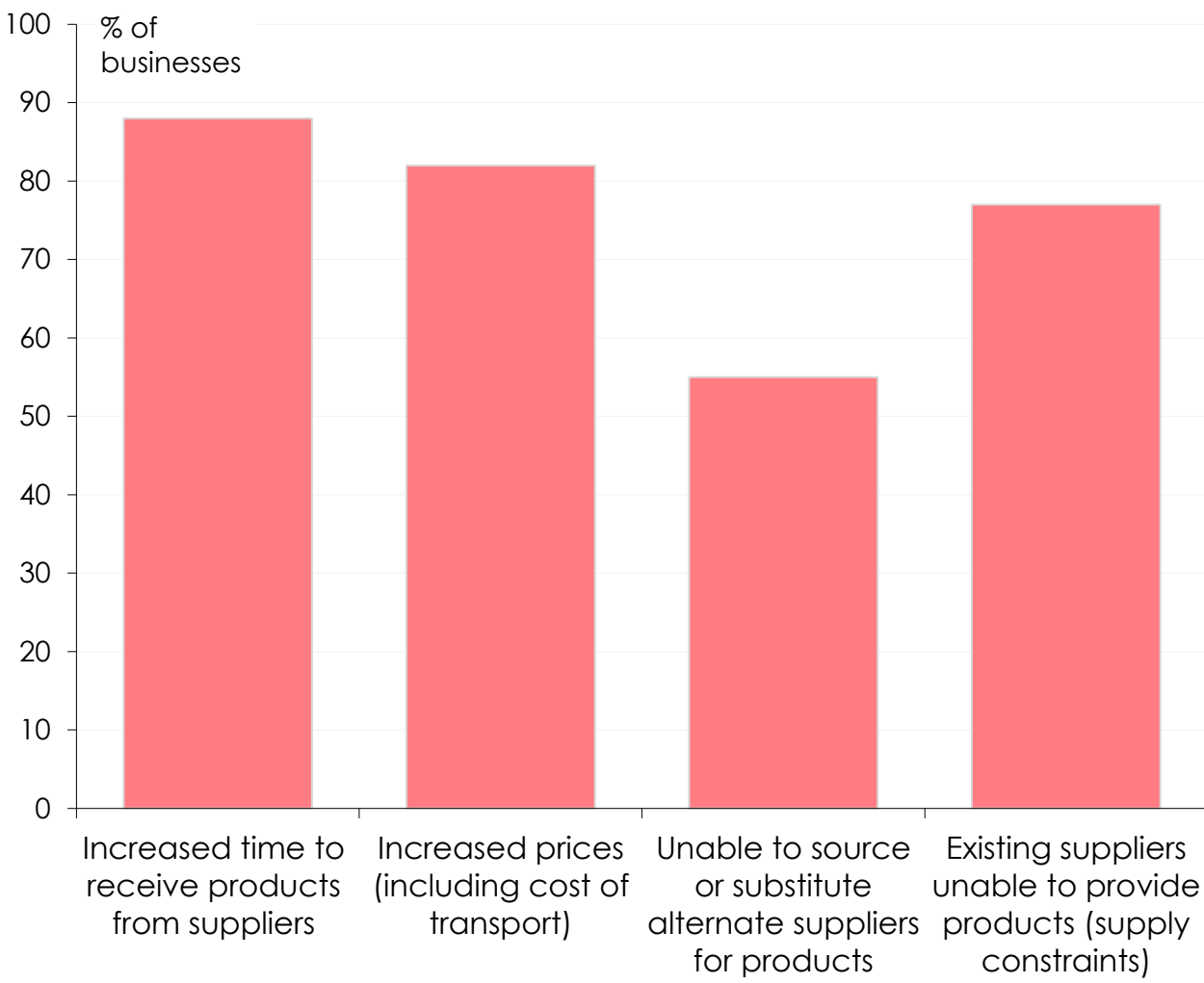
Supply chain disruptions eased a bit more in March, but are still affecting 37% of all businesses

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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



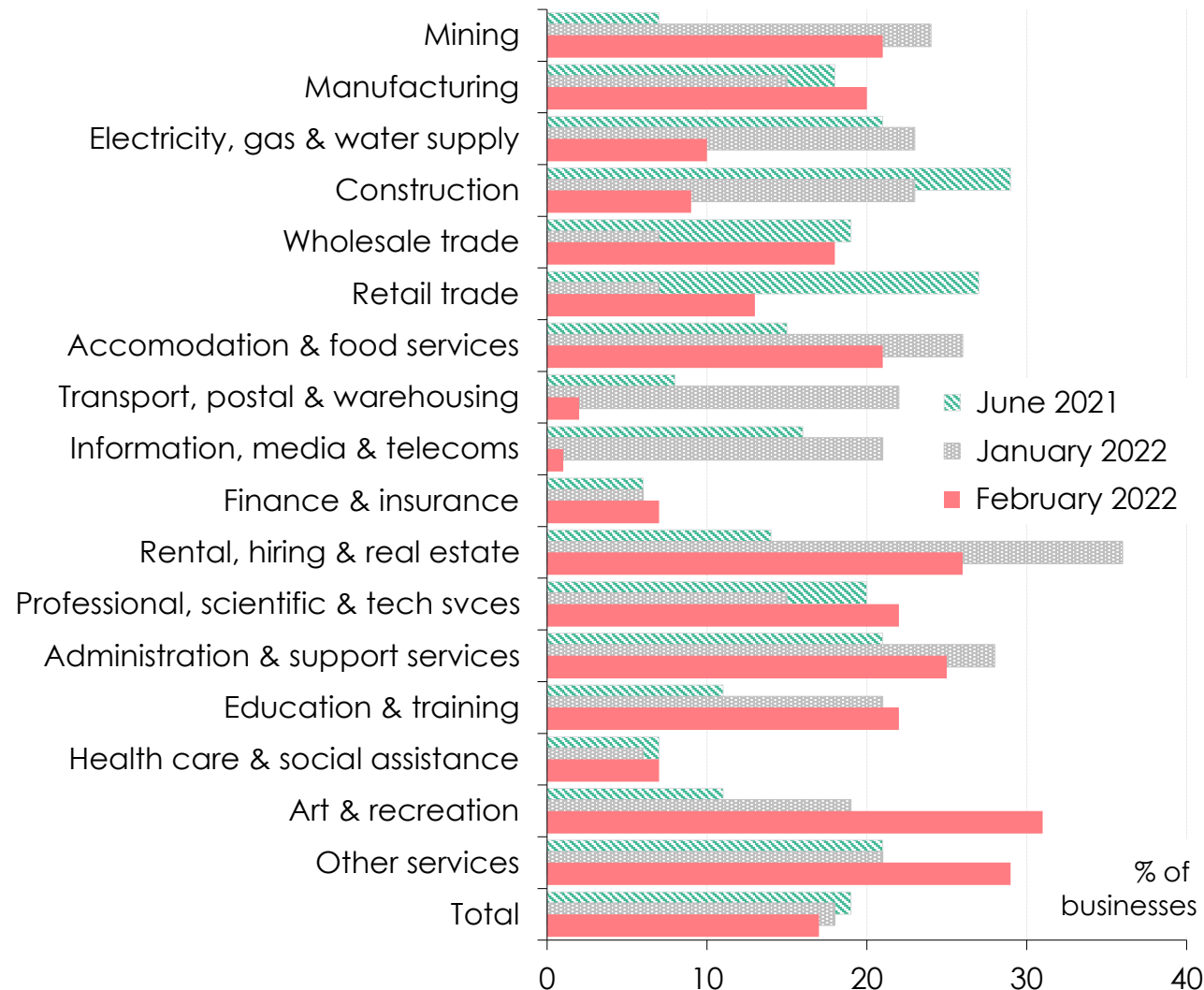
Impact of supply chain disruptions on businesses, March 2022



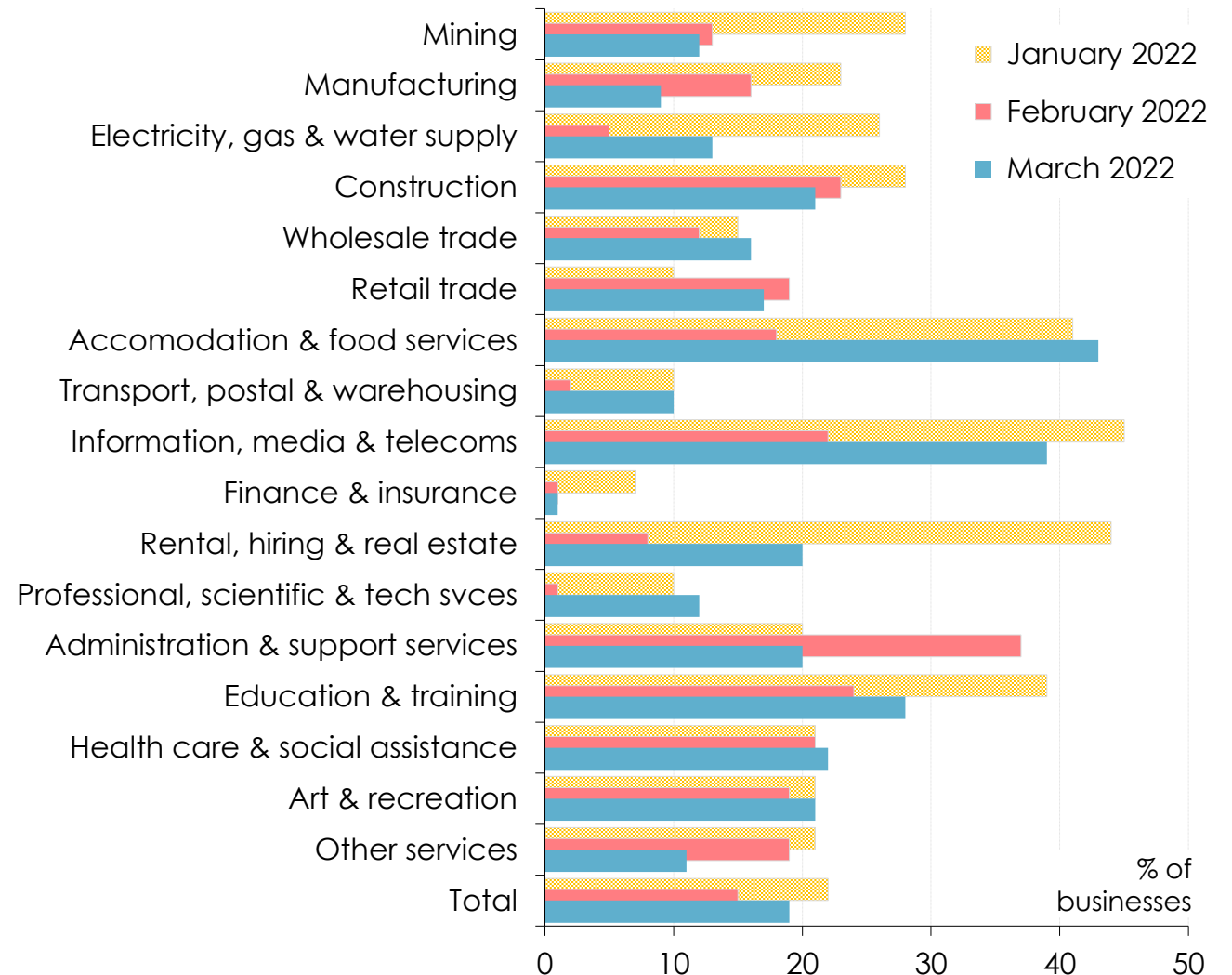
19% of all businesses (including 58% of large businesses) experienced staff absences due to Covid, up from 15% in February

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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



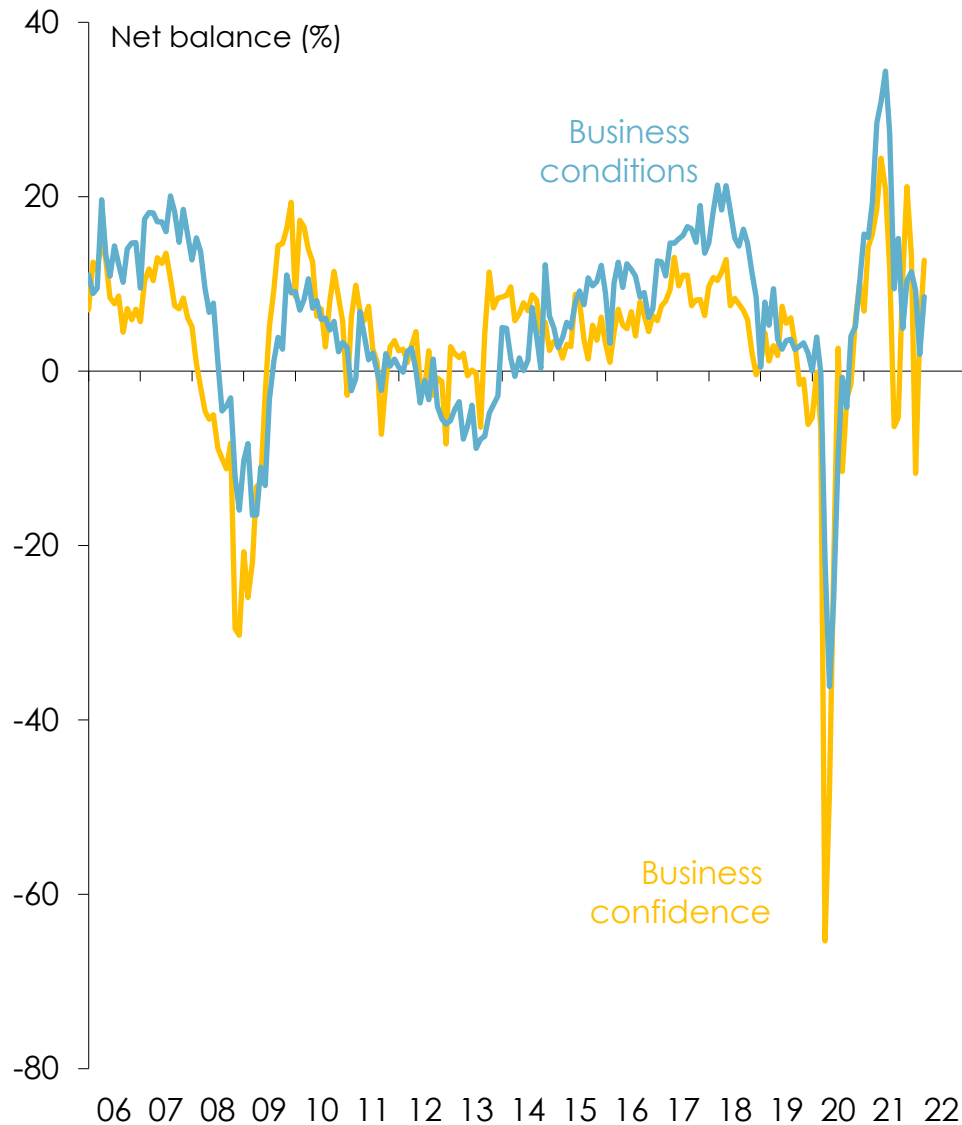
Businesses with employees unavailable due to Covid-related factors, January, February & March 2022



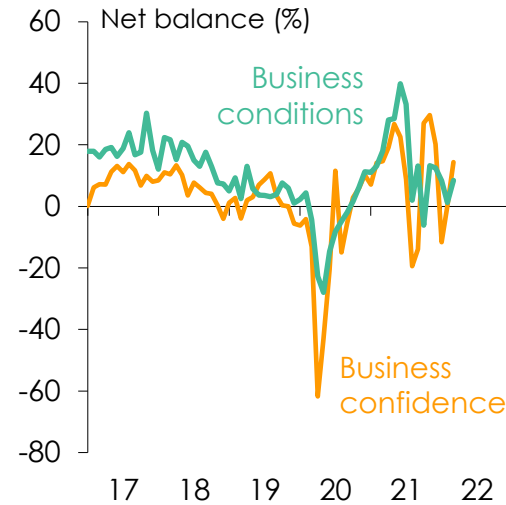
Business confidence and conditions improved further in February as the 'omicron wave' continued to ebb

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

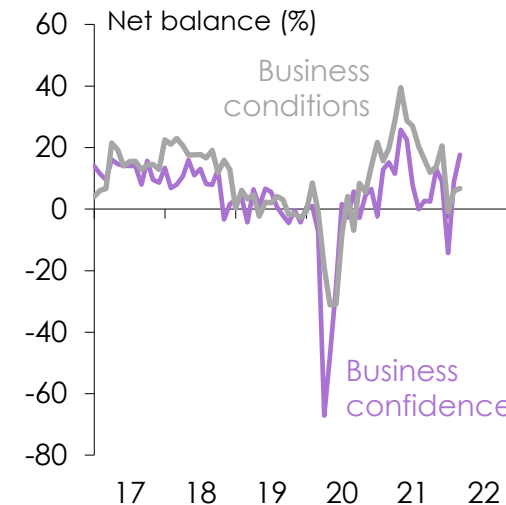
National business confidence & conditions



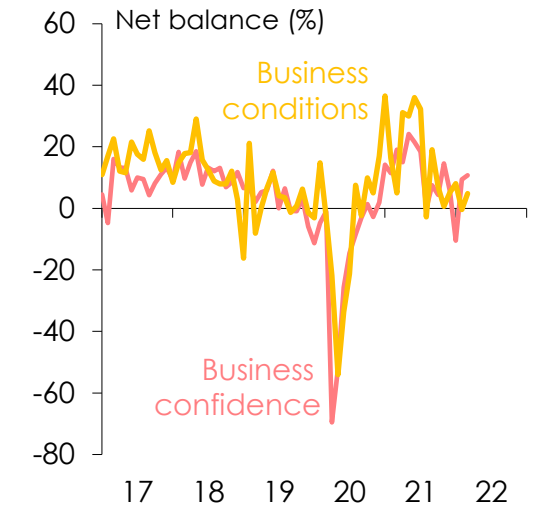
New South Wales



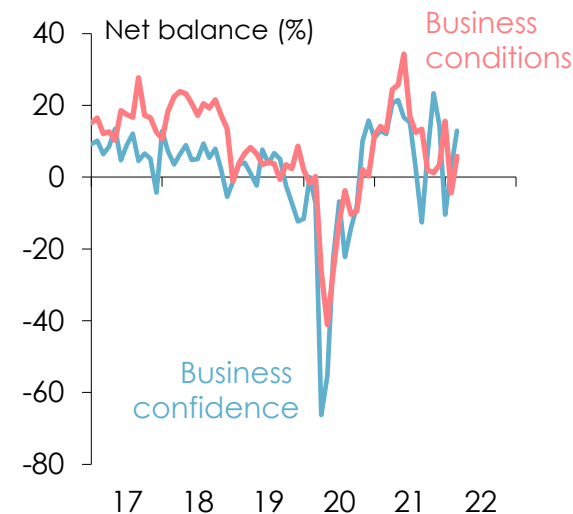
Queensland



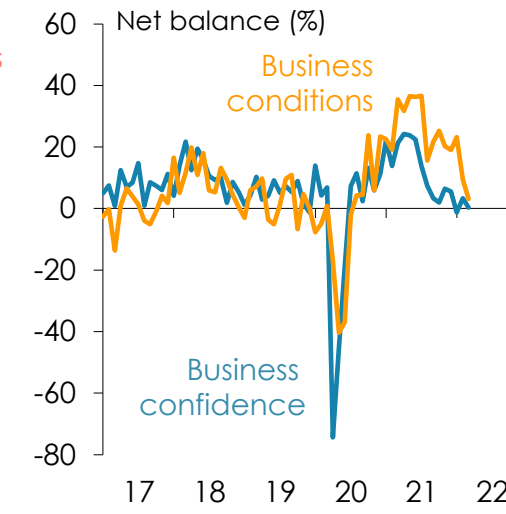
South Australia



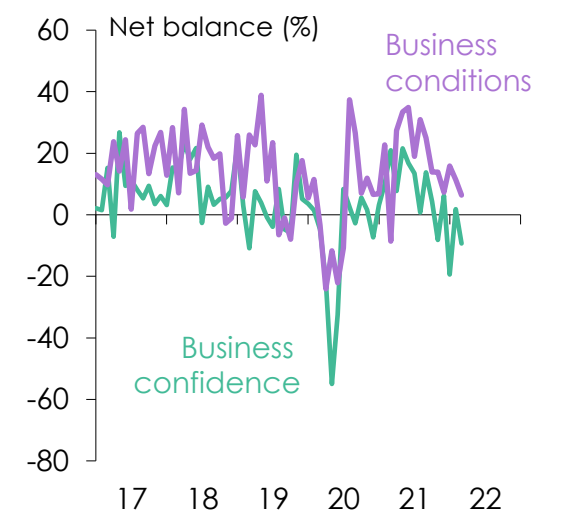
Victoria



Western Australia



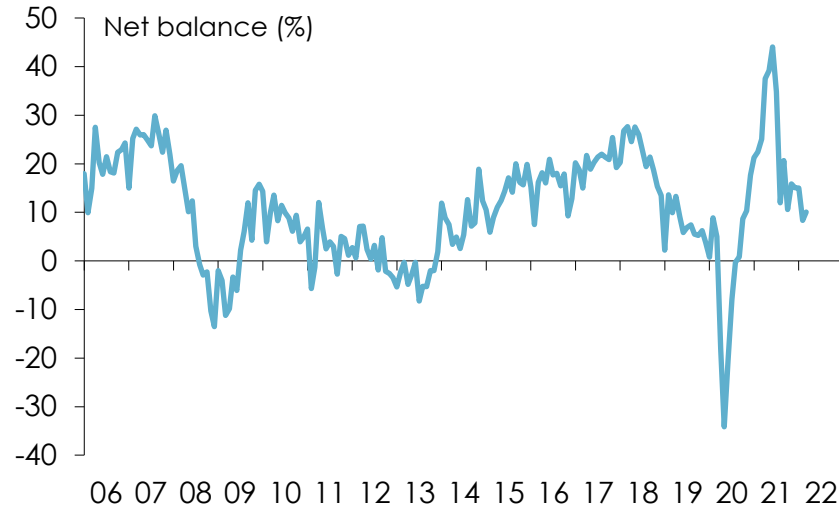
Tasmania



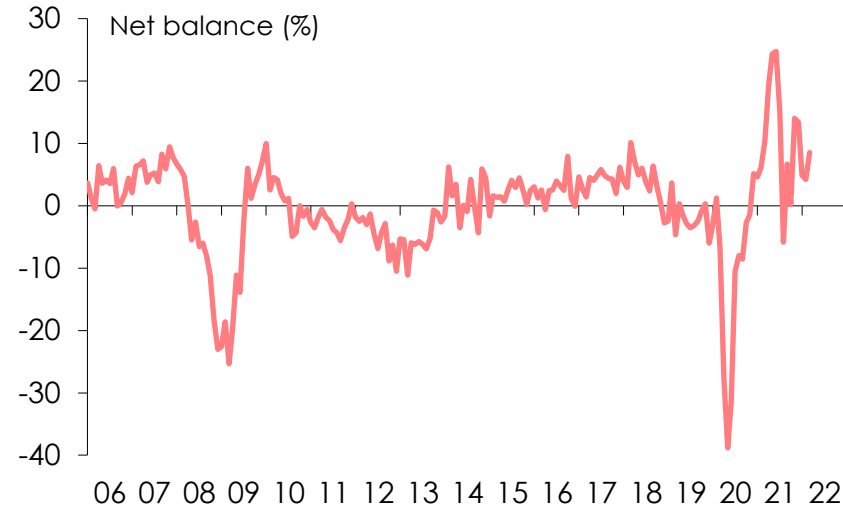
All of the elements of business conditions improved in February, in particular the forward-looking hiring and capex intentions components

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

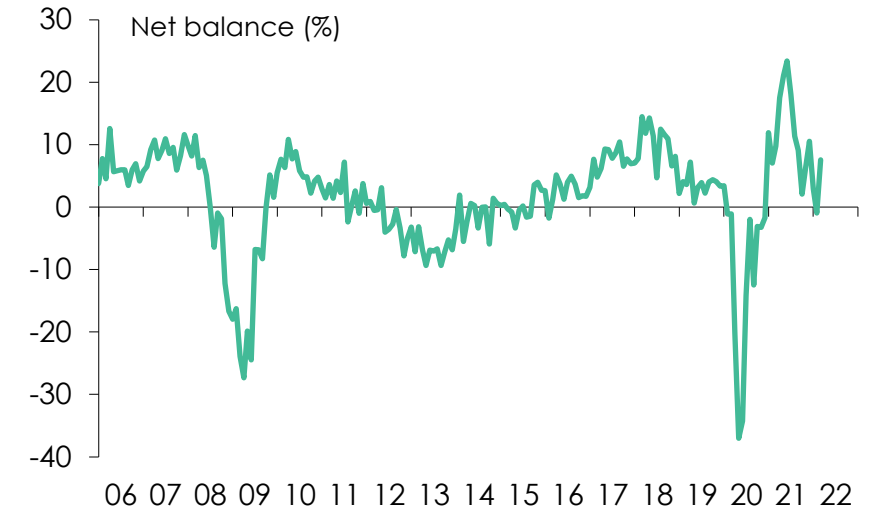
Trading conditions



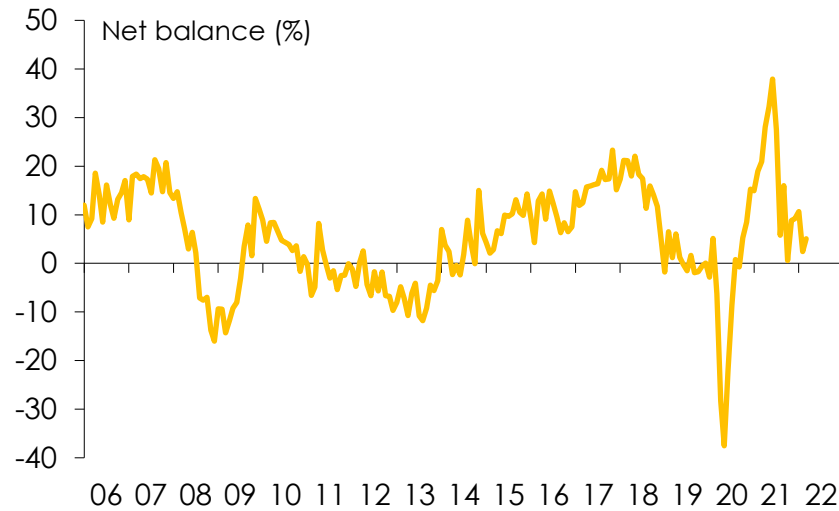
Forward orders



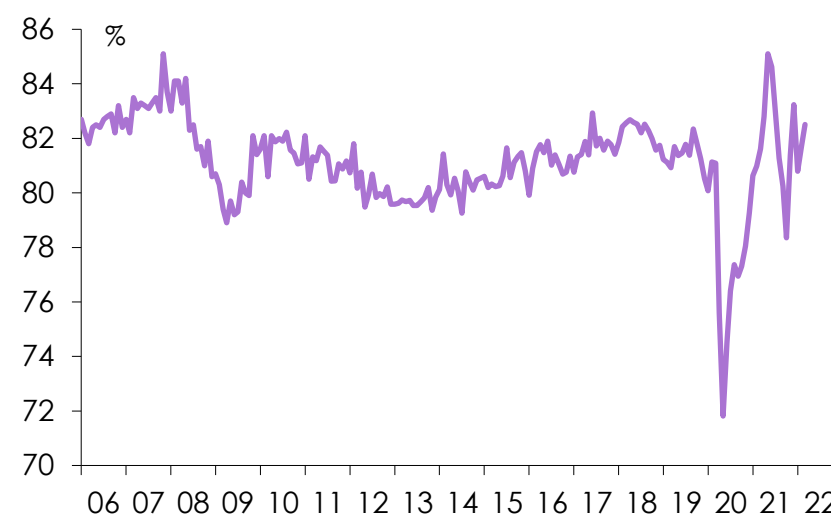
Employee hiring intentions



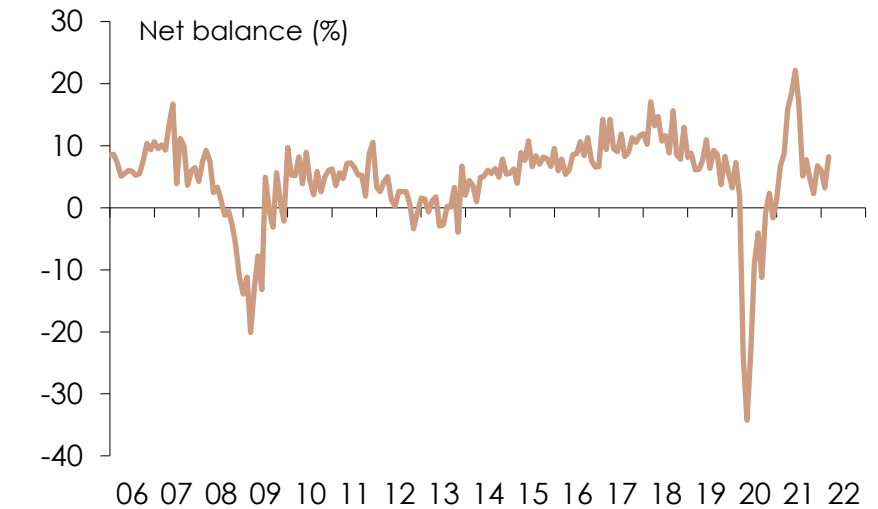
Profitability



Capacity utilization



Capital expenditure intentions

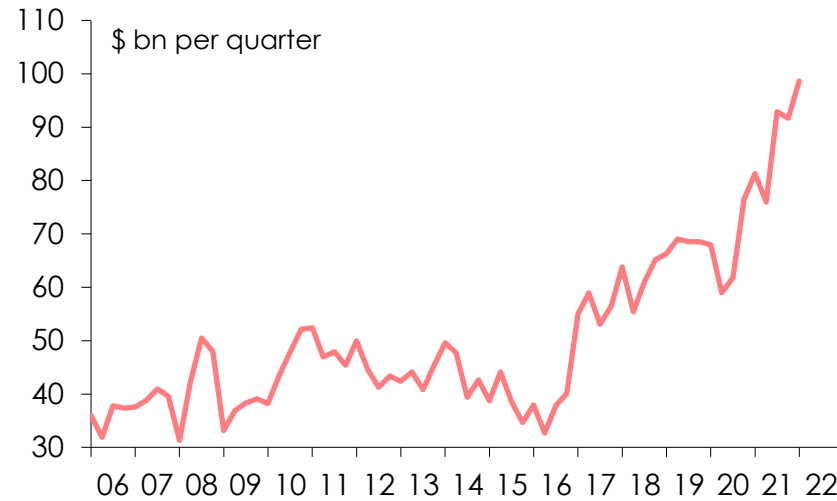


Source: National Australia Bank [Monthly Business Survey](#), February 2022; March survey results will be released on 12th April. [Return to "What's New"](#).

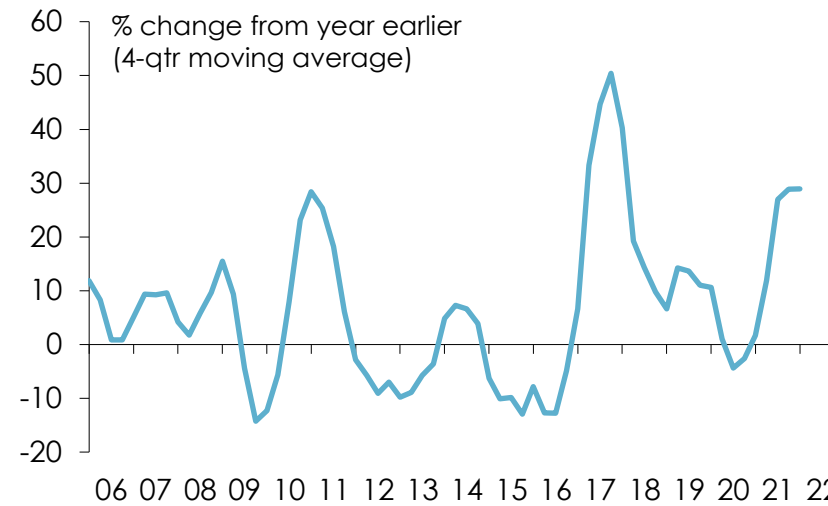
Company profits have grown strongly over the past five years, largely driven by mining – though manufacturing profits rose 13% in 2021

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

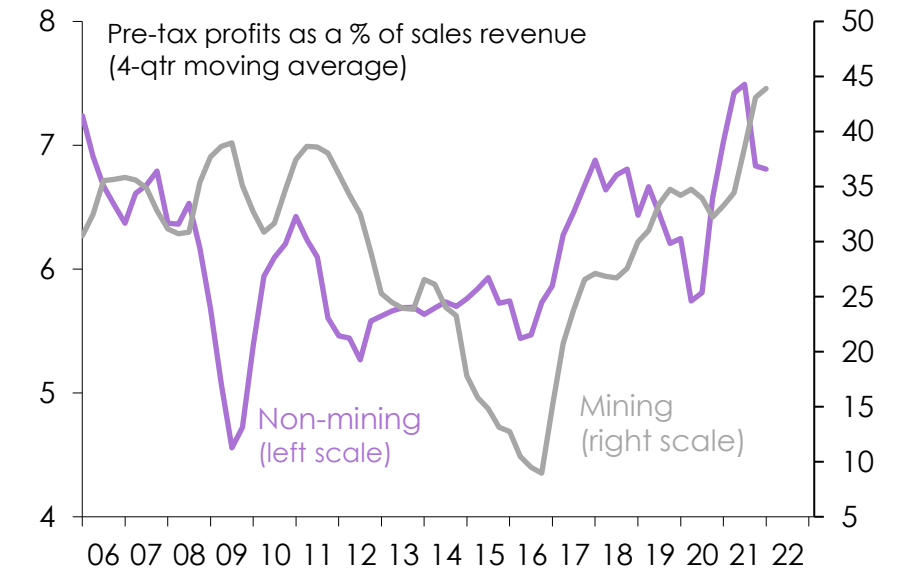
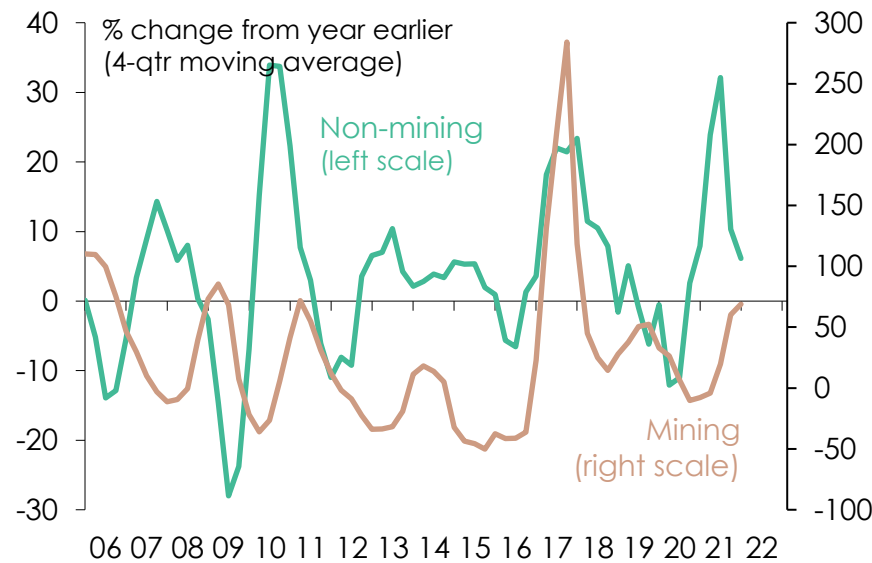
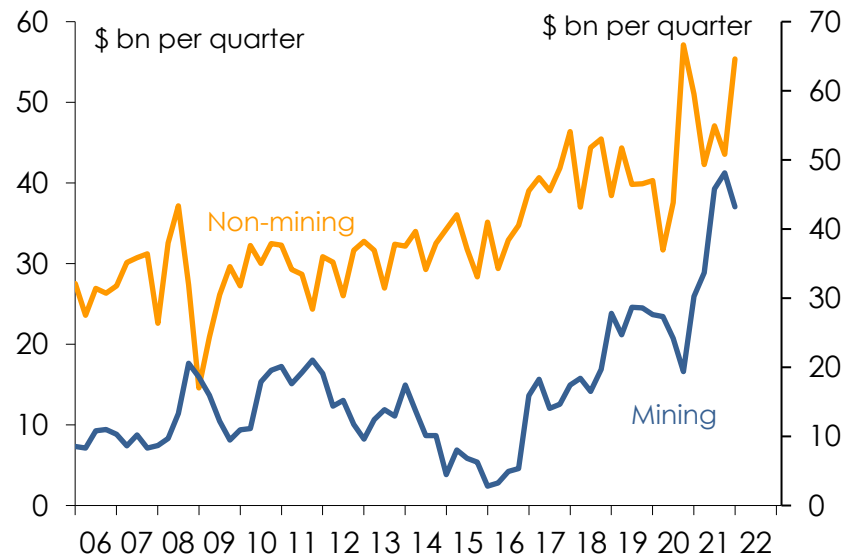
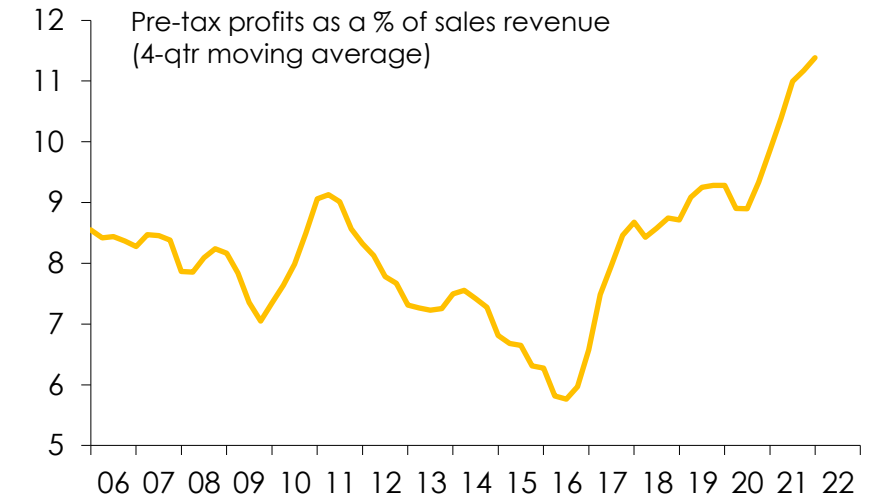
Pre-tax company profits



Pre-tax company profits growth



Pre-tax profit margins

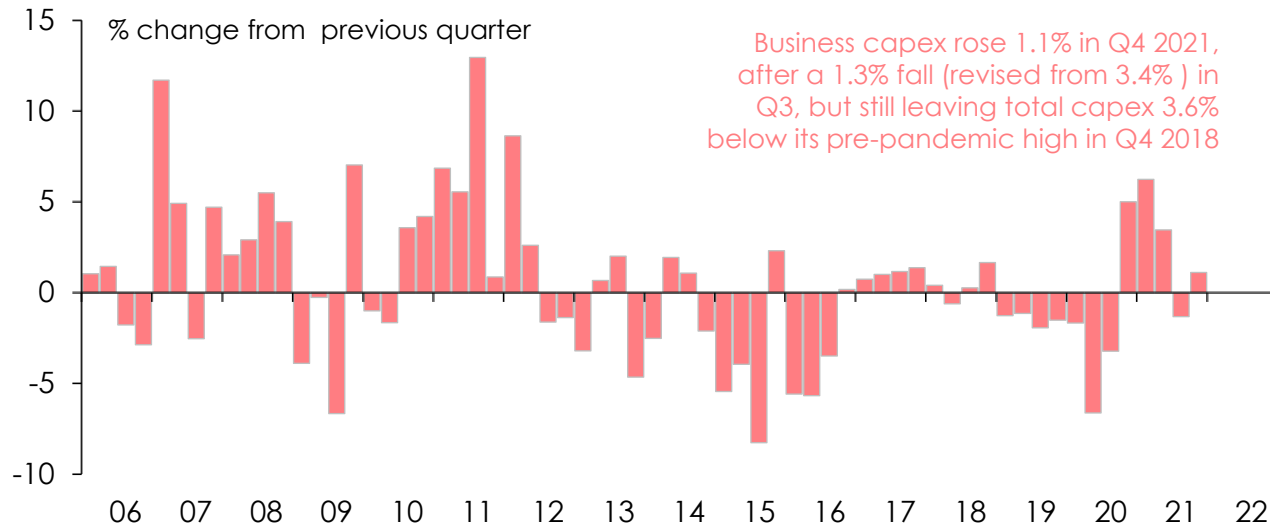


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), December 2021. March quarter data will be released on 31st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

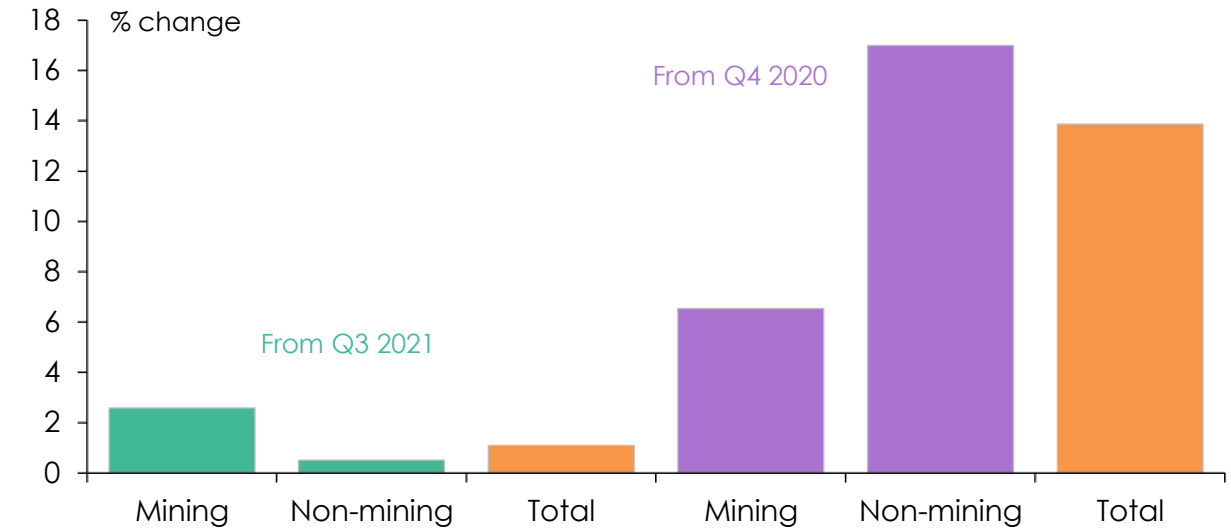
Business capex rose 1.1% in real terms in Q4 2021, largely driven by the mining sector (in contrast to the earlier part of last year)

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

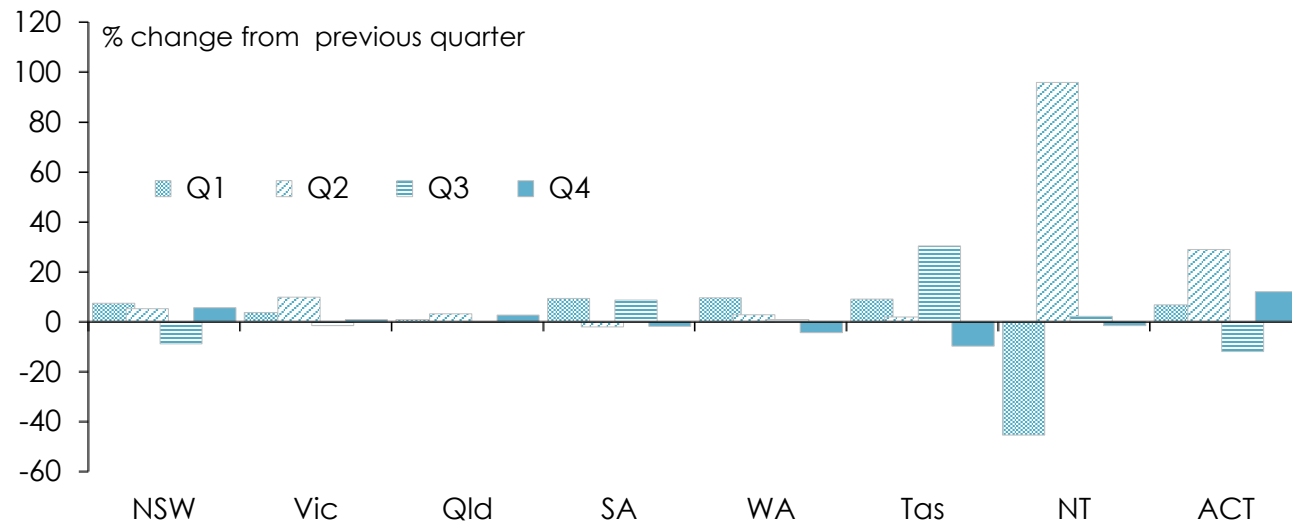
Real business new fixed capital expenditure



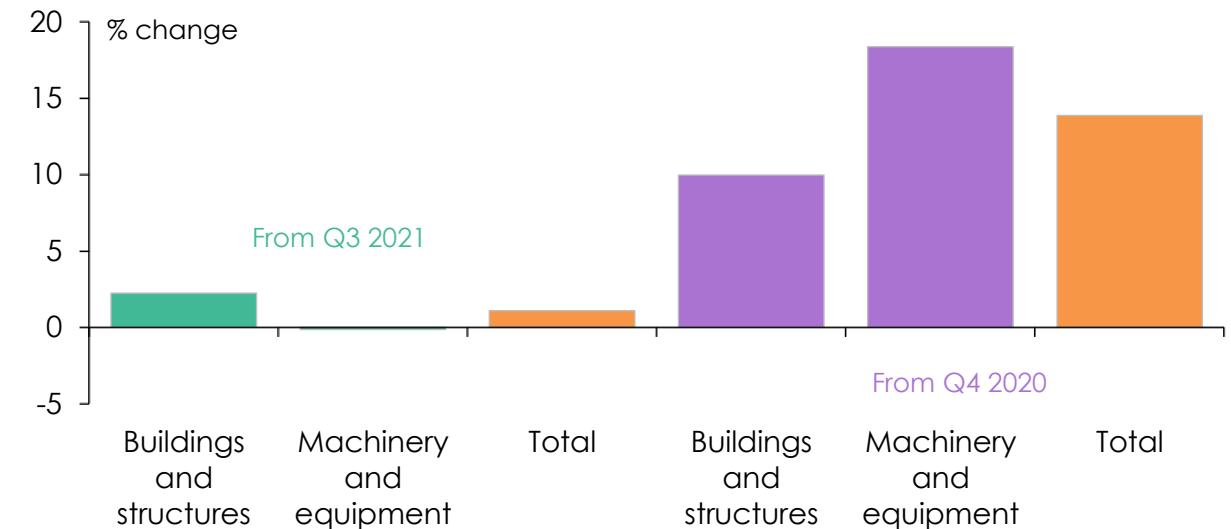
Real business new fixed capex, by industry, Q4



Real business new fixed capex, by state, 2021



Real business new fixed capex, by asset, Q4



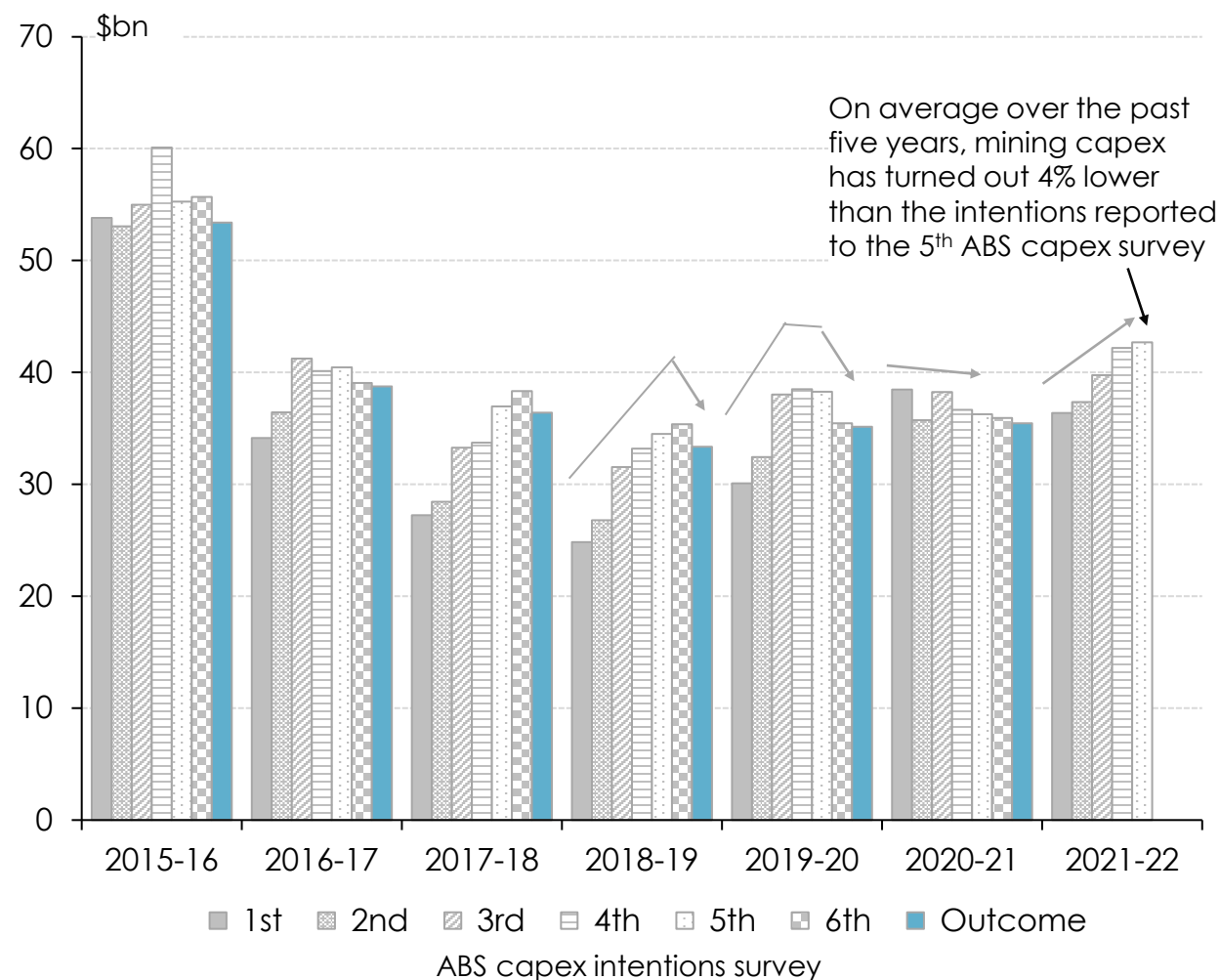
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

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

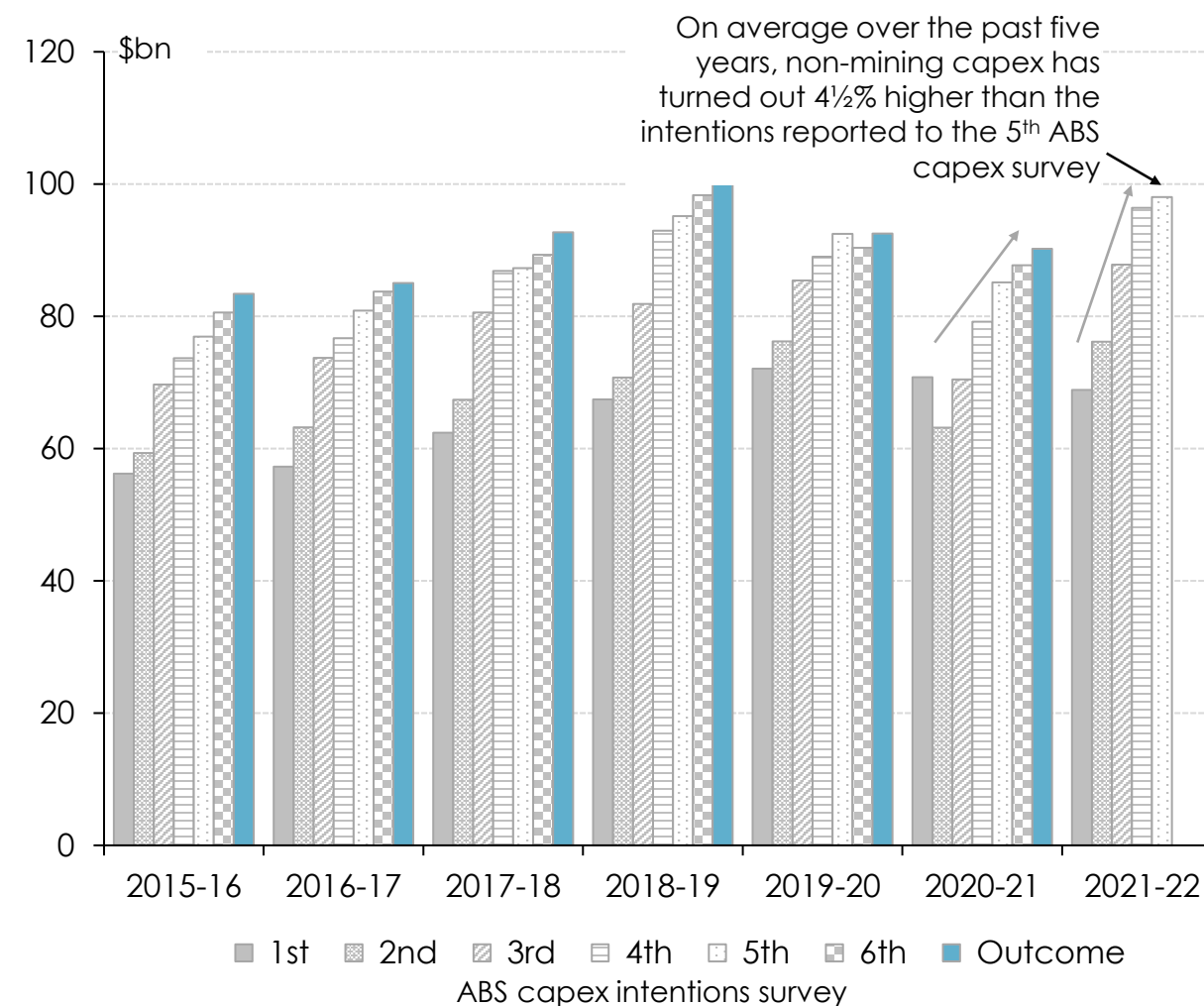
Businesses revised up their capex plans for 2021-22 by 1.6% over the past three months, pointing to a 14¼% nominal increase in capex for 2021-22

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining



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

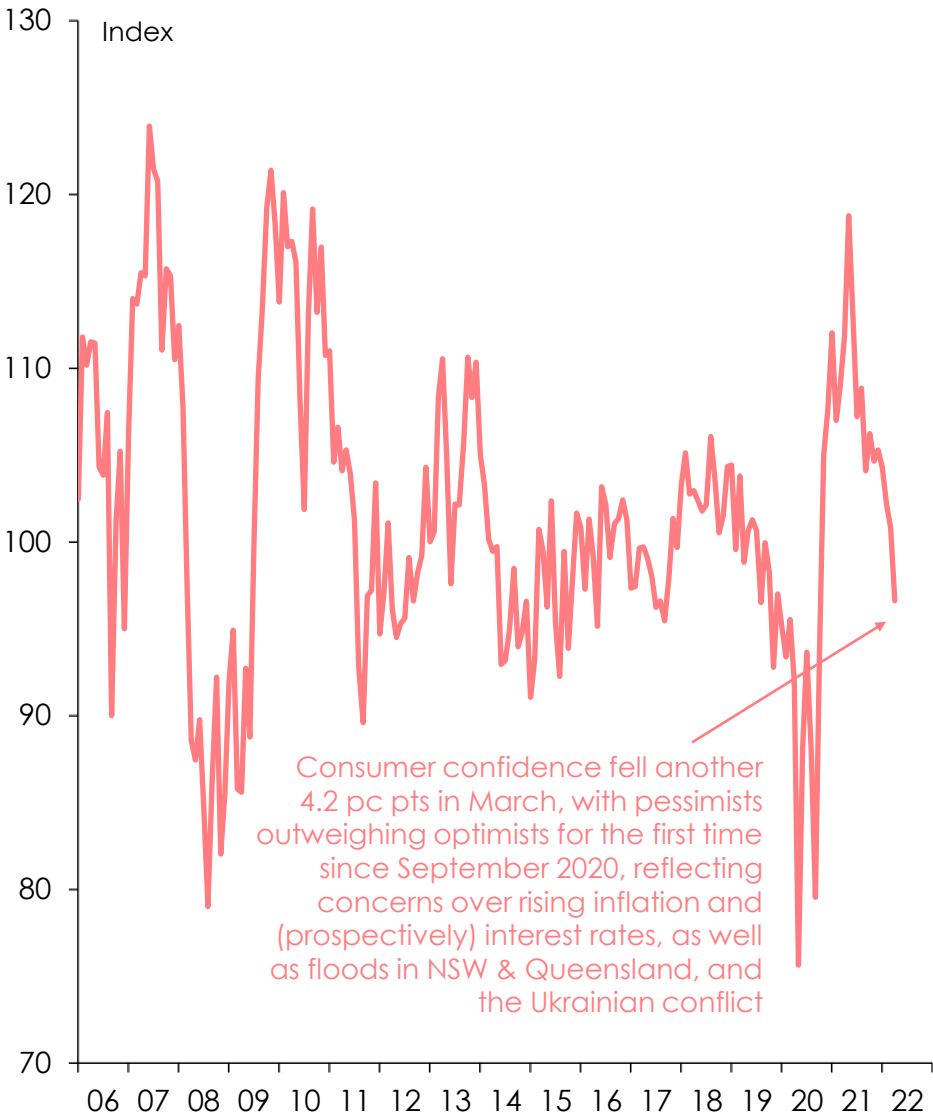
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); the 6th capex survey for 2021-22 will be released on 25th May. [Return to "What's New"](#).

The household sector and consumer spending

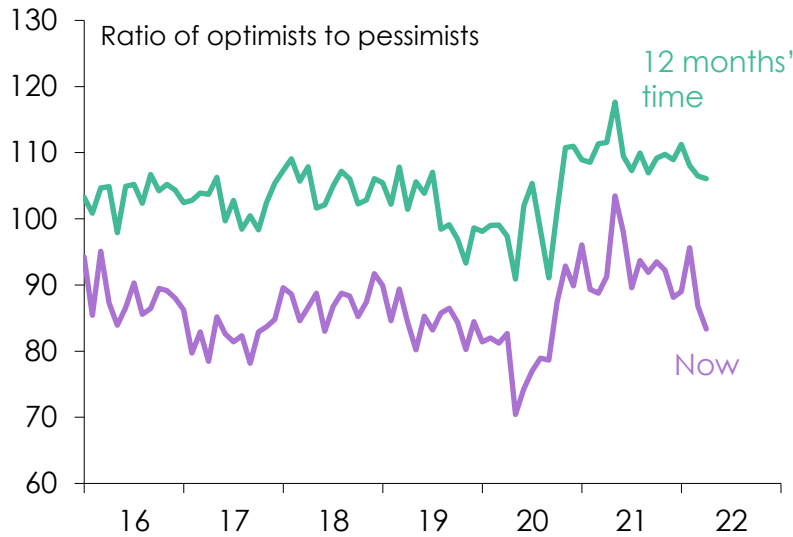
Consumer confidence fell another 4.2 pc pts in March to its lowest level since September 2020, weighed down by floods, inflation and the Ukraine conflict

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

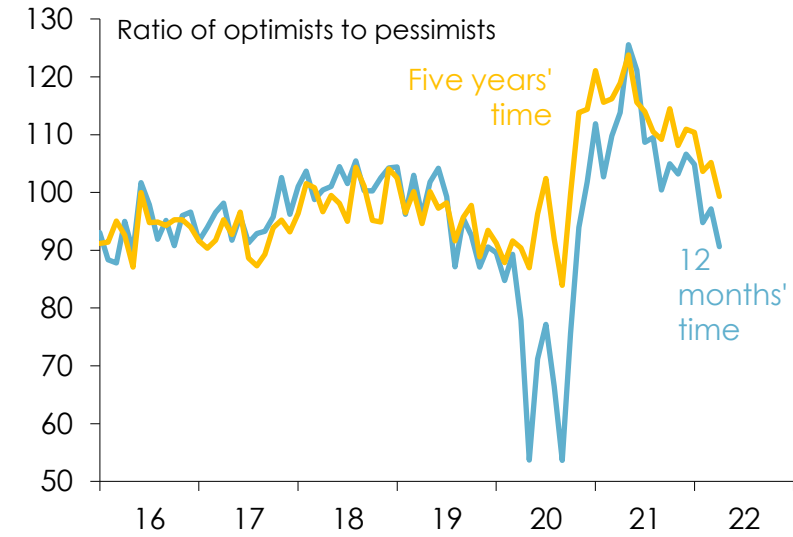
Consumer confidence index



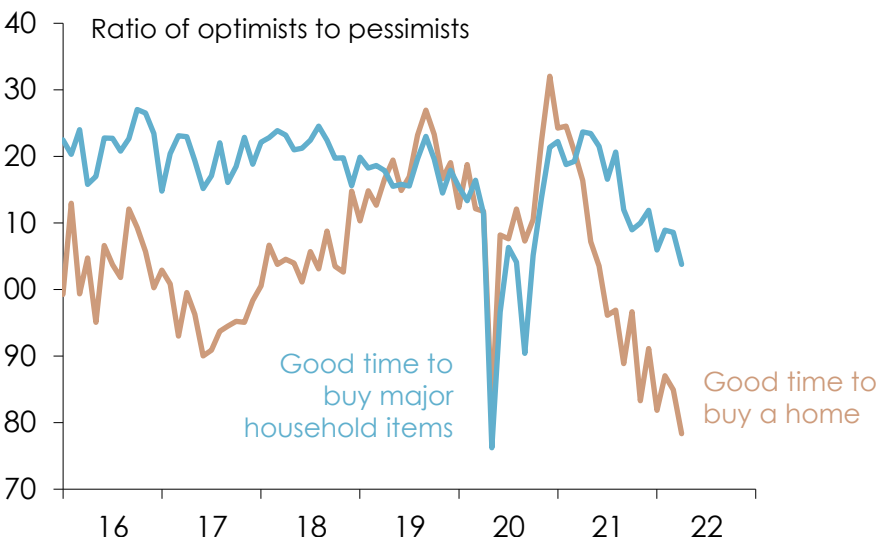
Household finances assessment



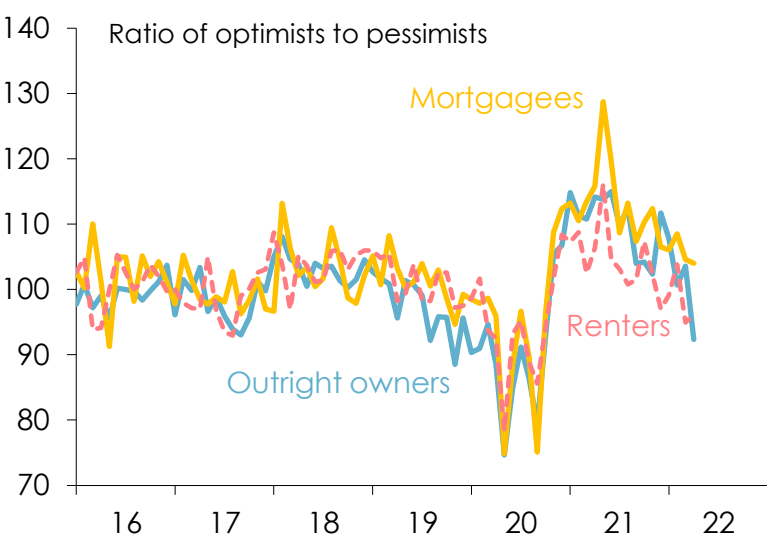
Economic conditions assessment



Buying conditions assessment



Confidence by housing tenure

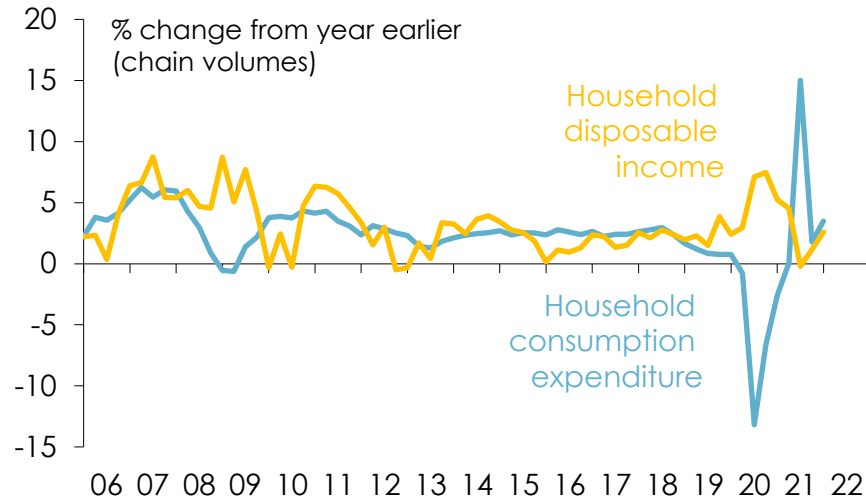


Source: [Westpac Banking Corporation](#). April consumer confidence will be released on 13th April. [Return to "What's New"](#).

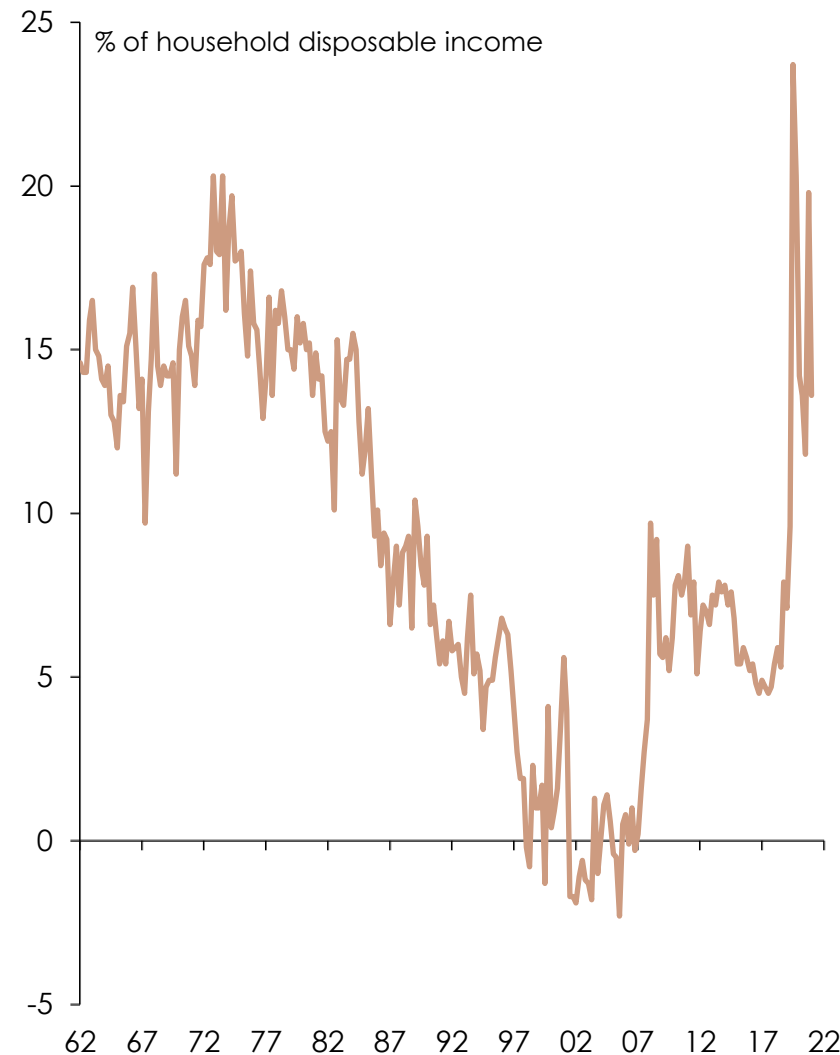
Household bank deposits have increased by \$255bn (almost 26%) since just before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

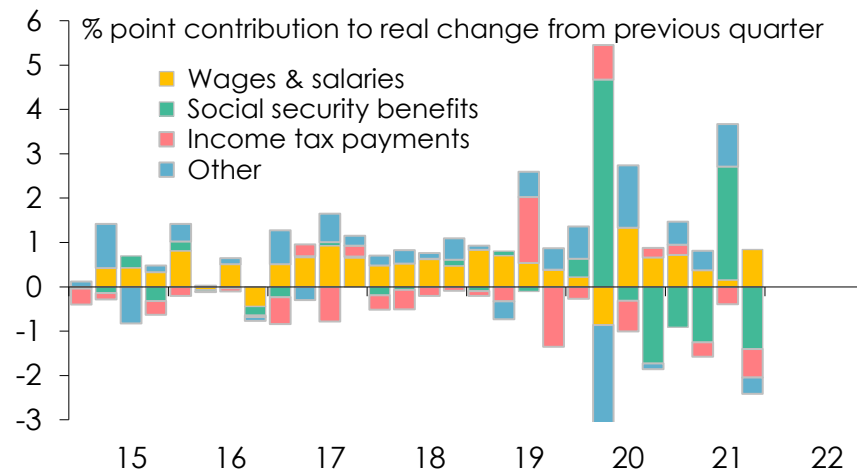
Household income and spending



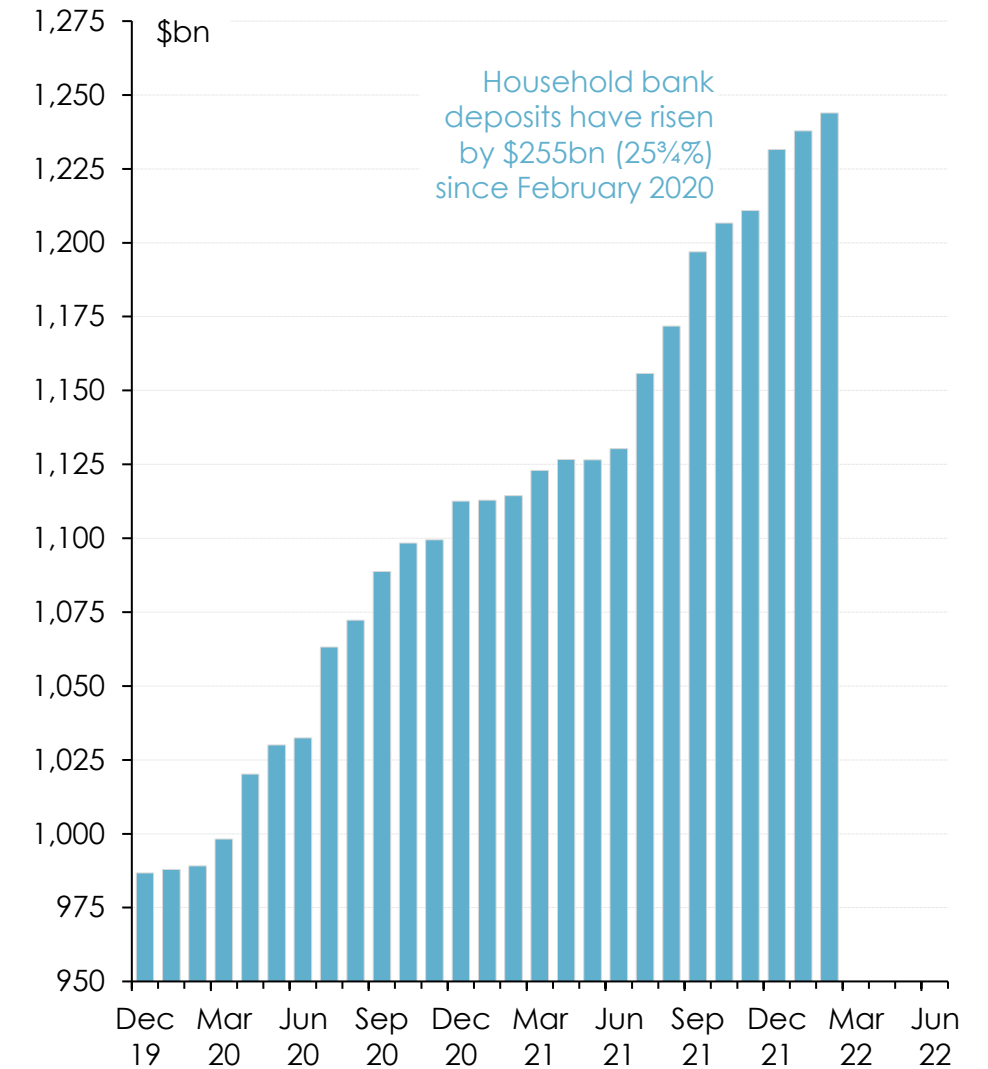
Household saving ratio



Sources of household income



Household bank deposits

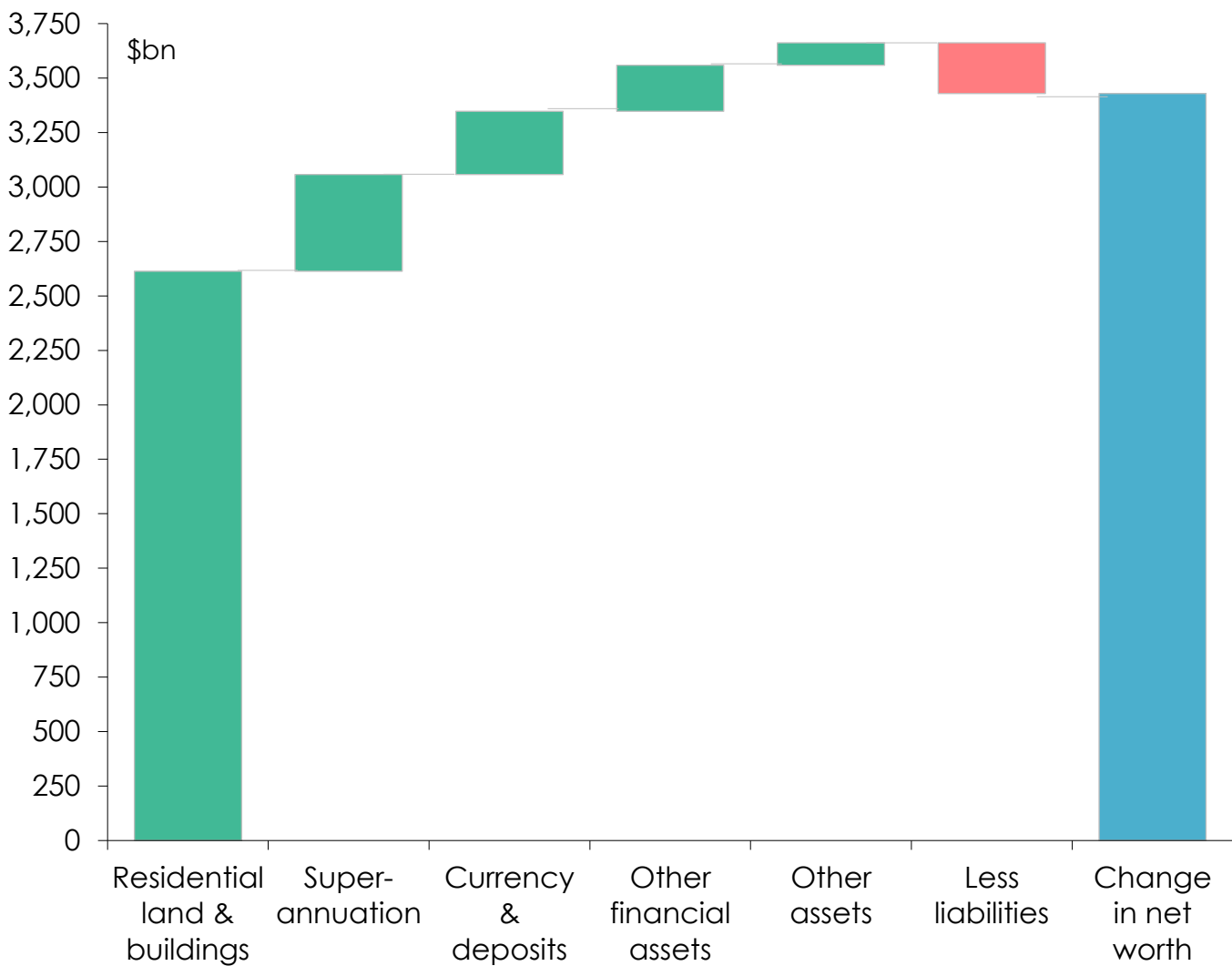


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#), March quarter data on household income, spending and saving will be released on 1st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

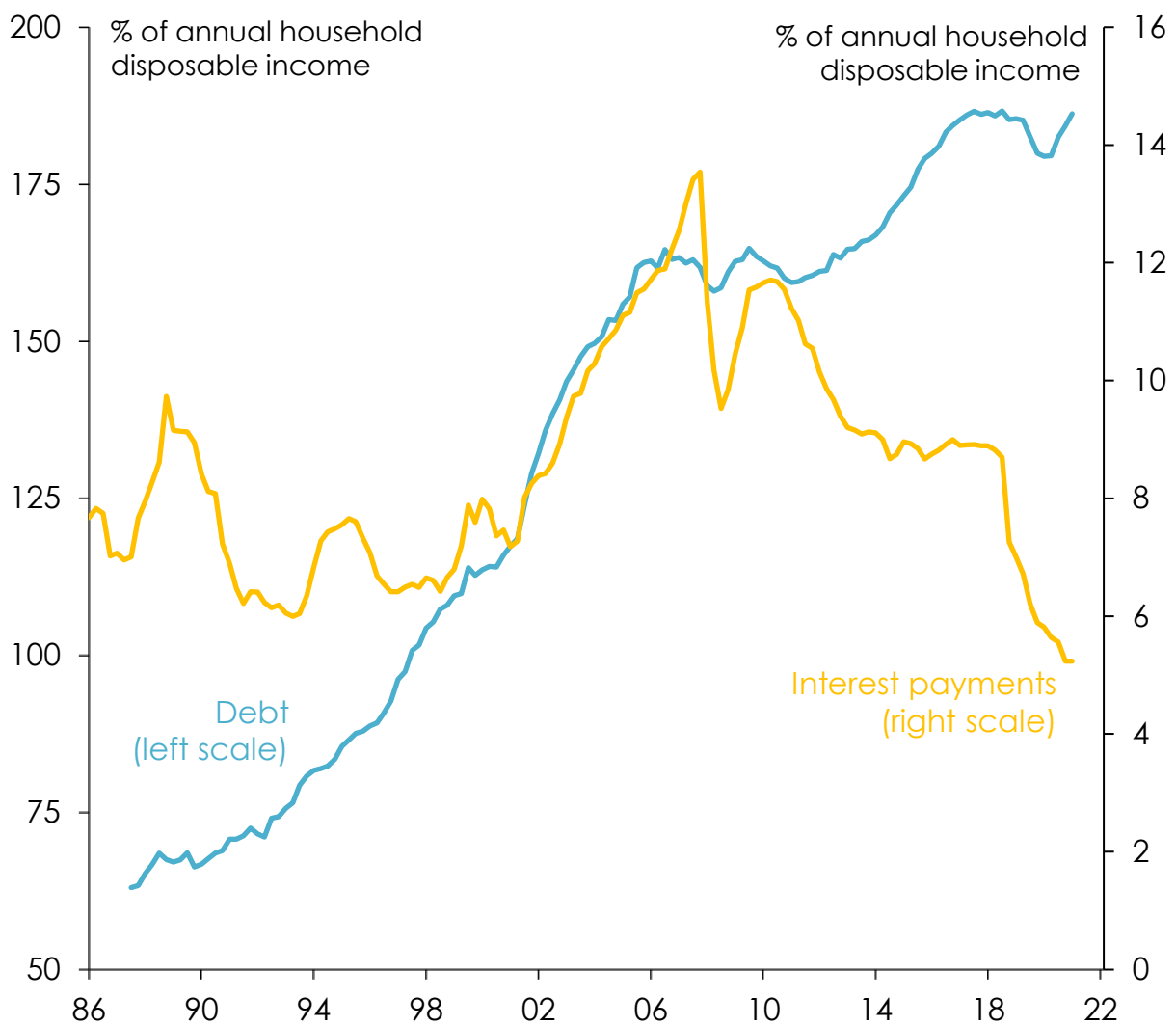
Household net worth has risen by \$3.4trn (25%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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



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

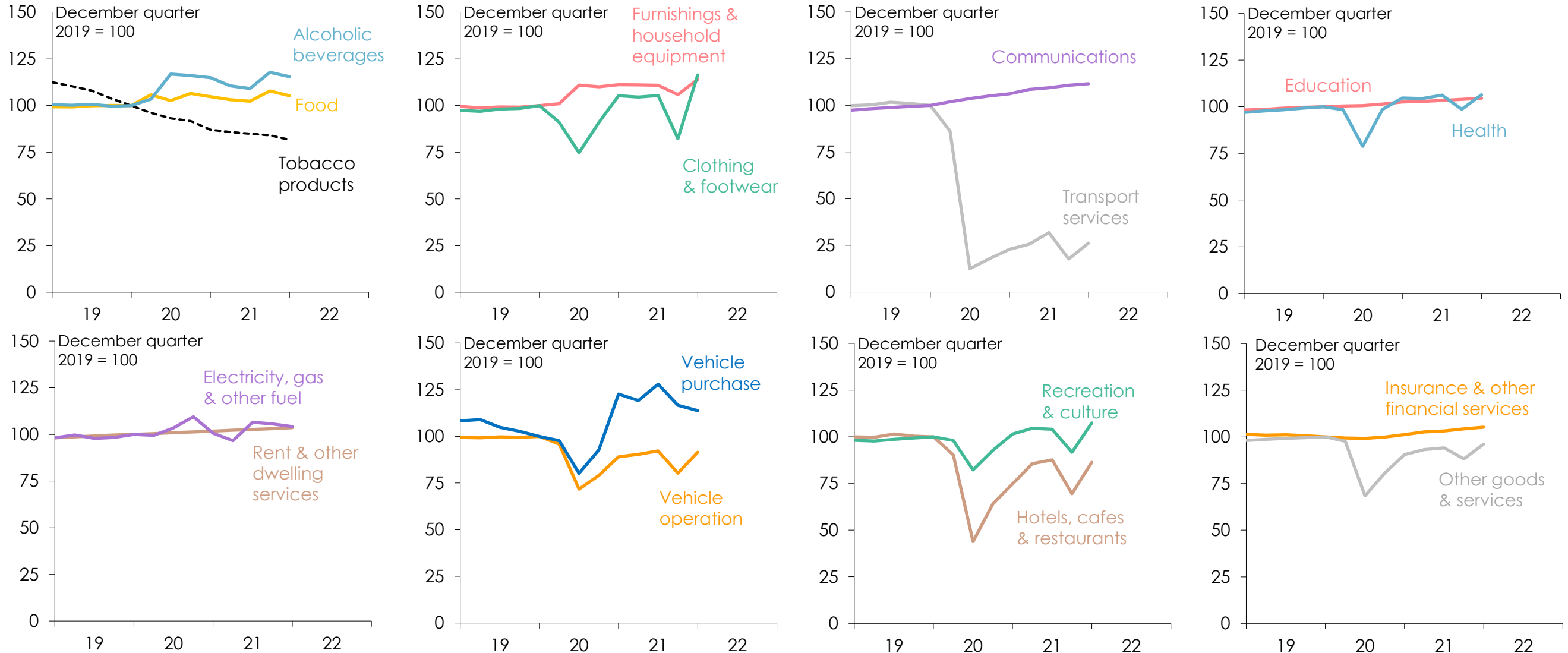


Sources: ABS, [Finance and Wealth Accounts](#), December quarter 2021; RBA, [Statistical Tables](#) E1 & E2. March quarter data will be released on 23rd June. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Major categories of household consumption spending

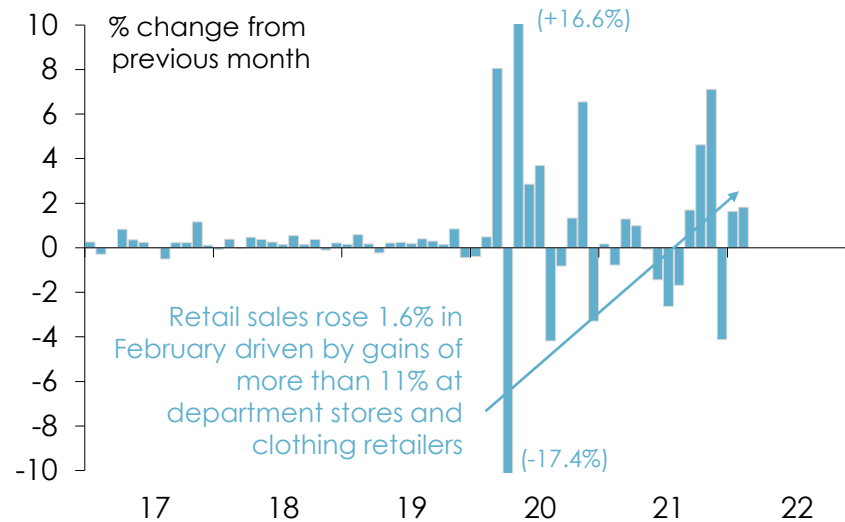


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; March quarter data will be released on 1st June. [Return to "What's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

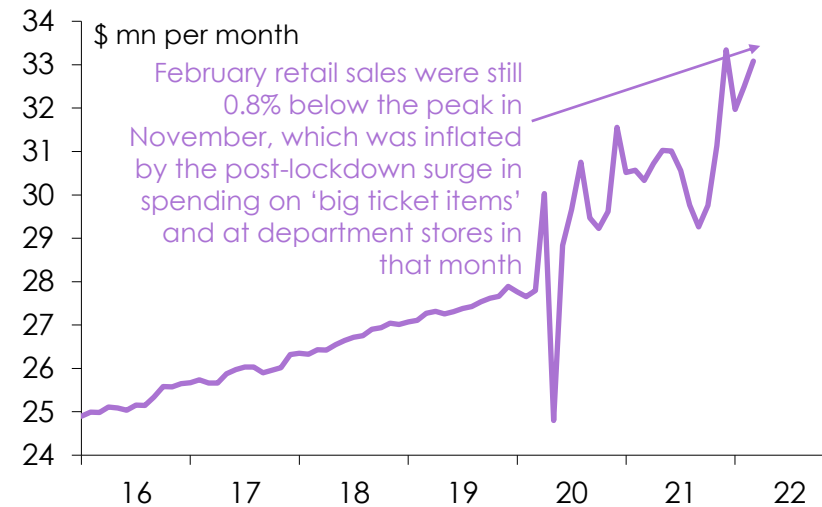
Retail sales rose another 1.6% in February, driven by double-digit increases in sales at department stores, and clothing retailers

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

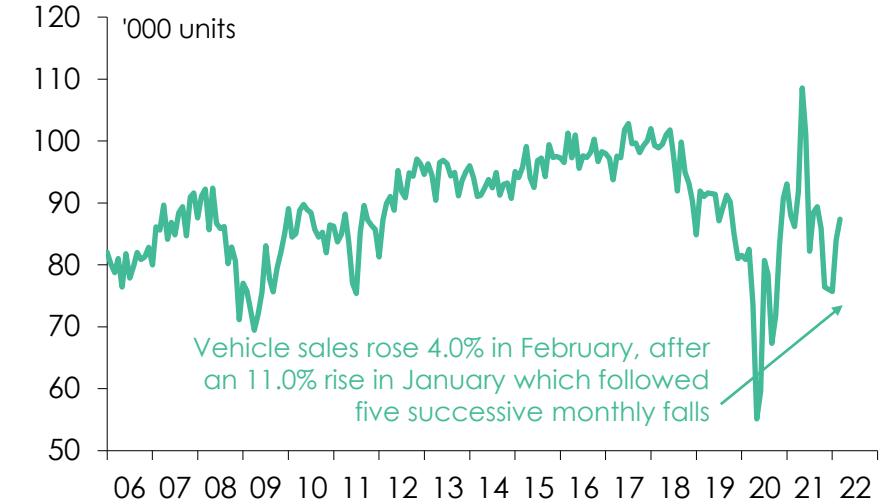
Monthly retail sales



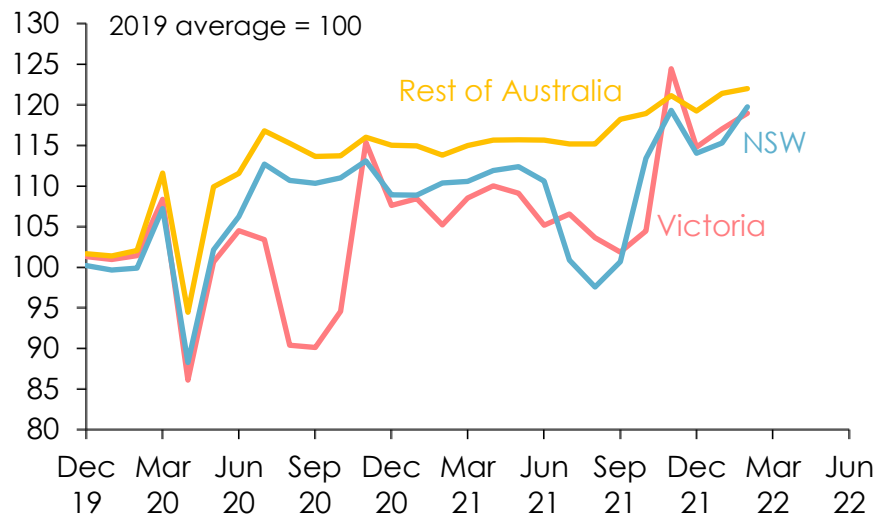
Level of retail sales



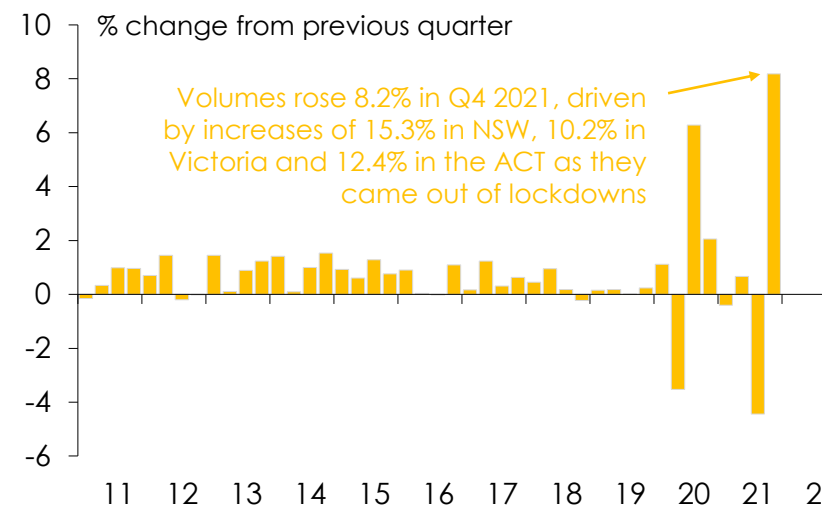
New motor vehicle sales



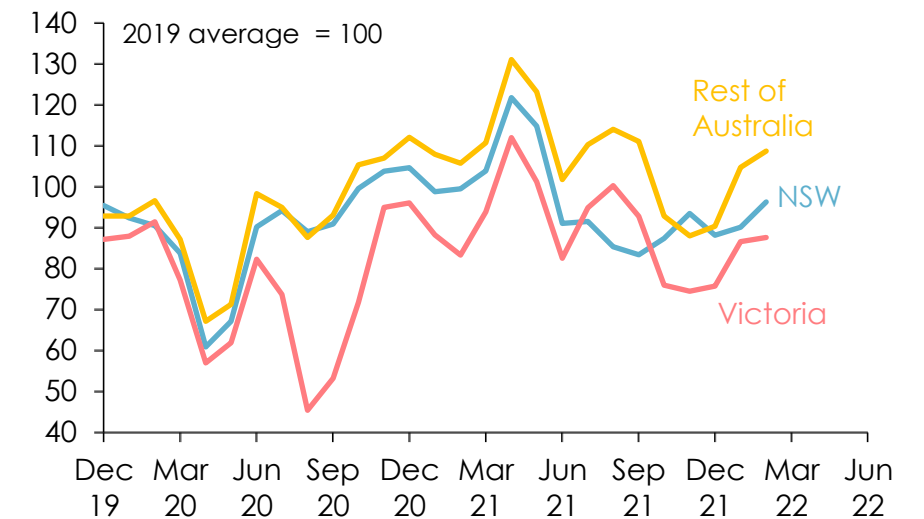
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



Vehicle sales – NSW, Vic & the rest

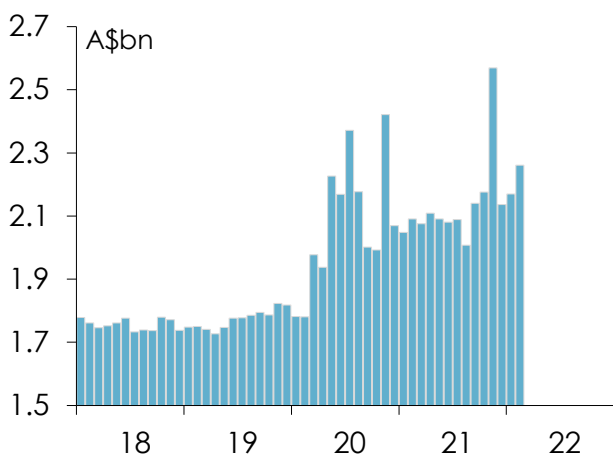


Note: see also [slide 43](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary February retail sales data will be released on 29th March; March motor vehicle sales data will be released in the second week of April. [Return to "What's New"](#).

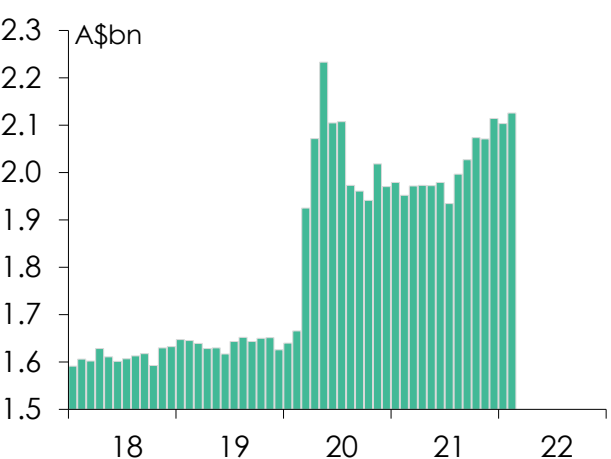
Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

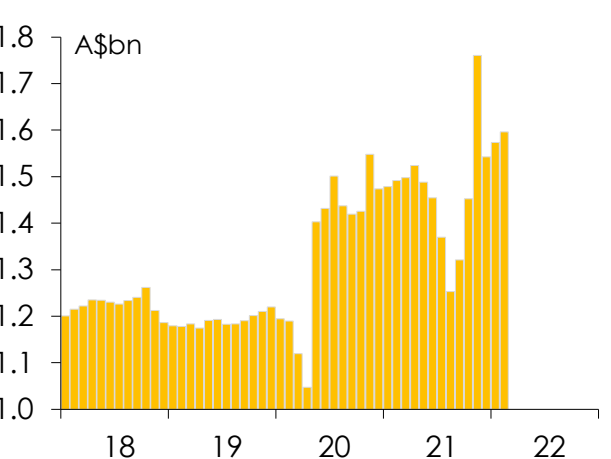
Electronic & electrical goods



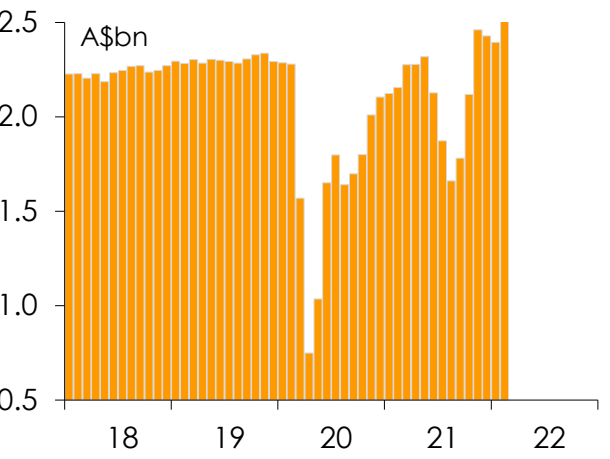
Hardware, building & garden supplies



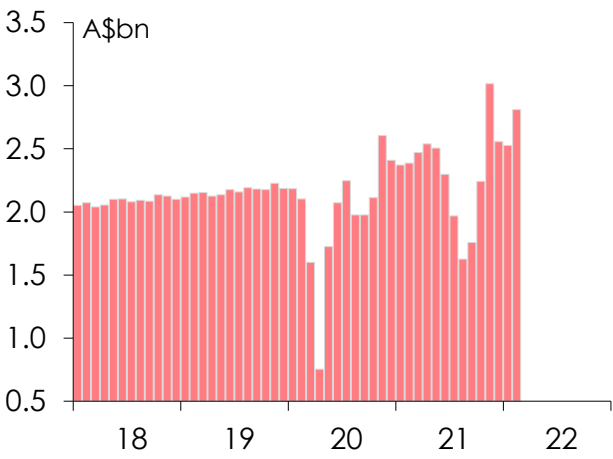
Floor coverings, furniture, housewares etc



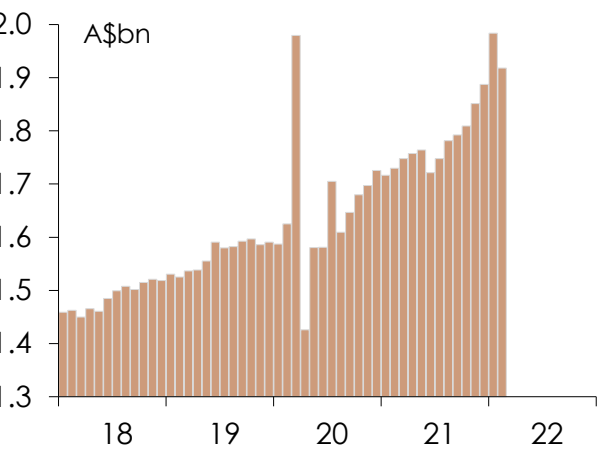
Cafes and restaurants



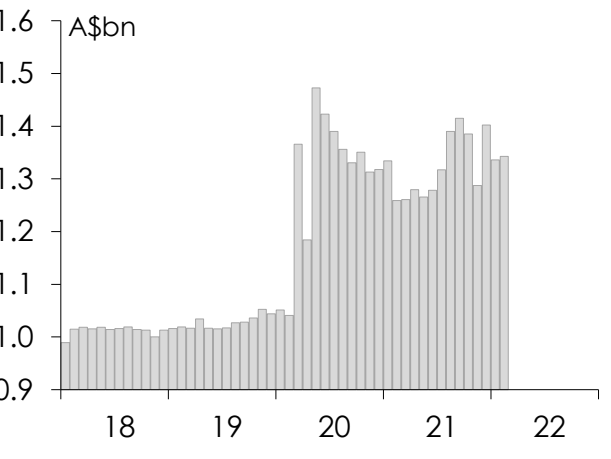
Clothing, footwear & personal accessories



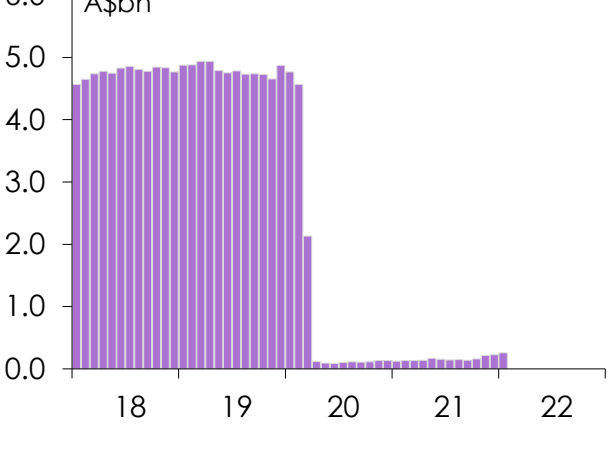
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

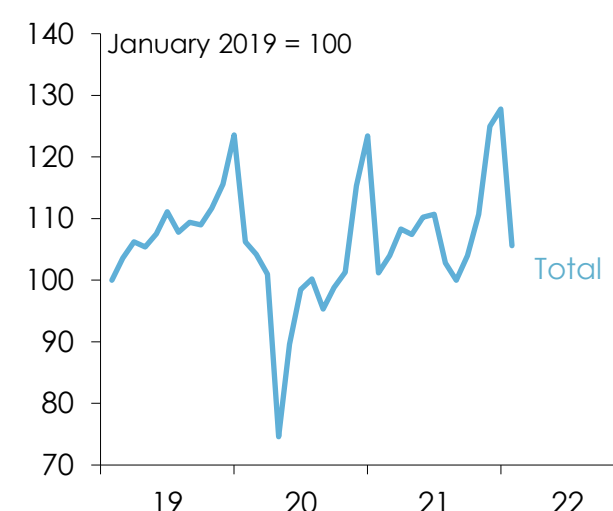
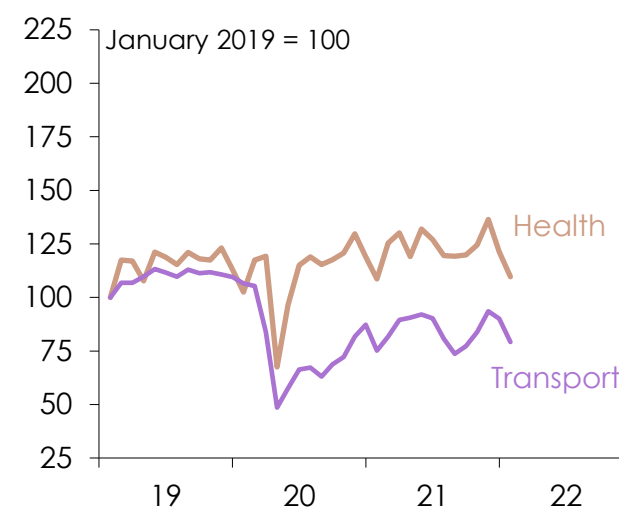
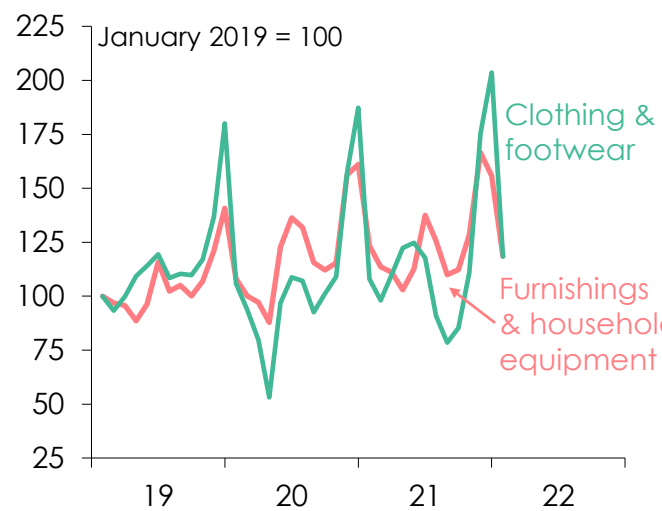
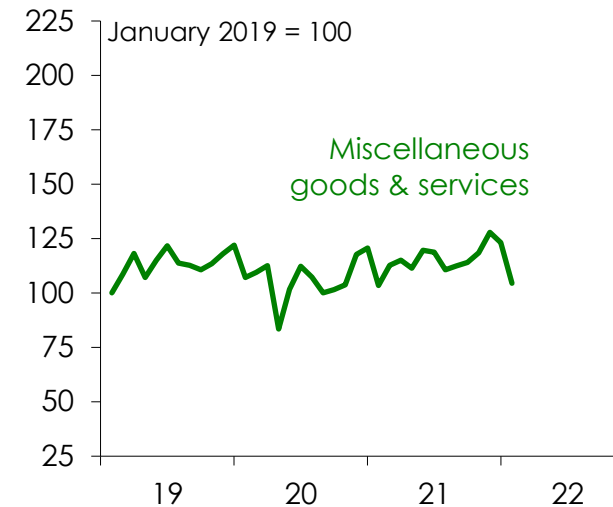
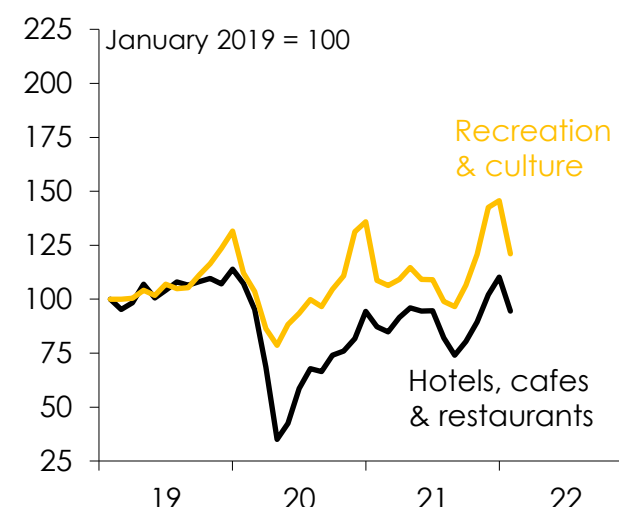
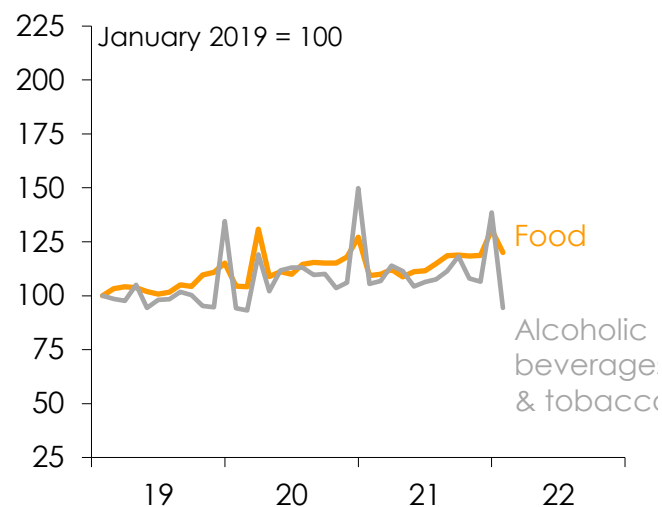


Sources: ABS, [Retail Trade, Australia](#), February 2022 (the detailed March data on which the above charts are based will be released on 10th May); and [International Trade in Goods and Services, Australia](#), January. [Return to "What's New"](#).

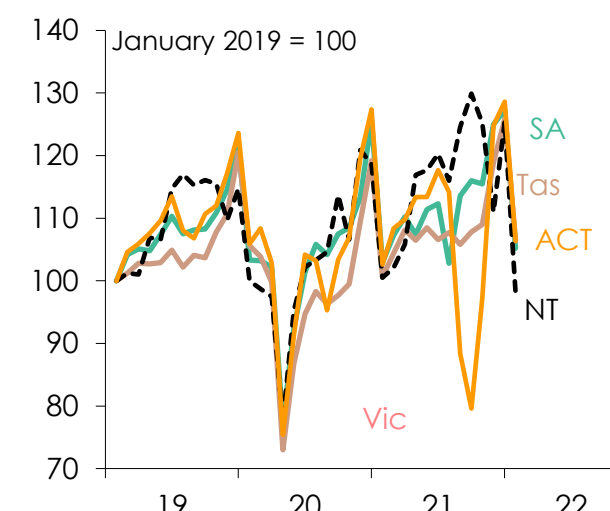
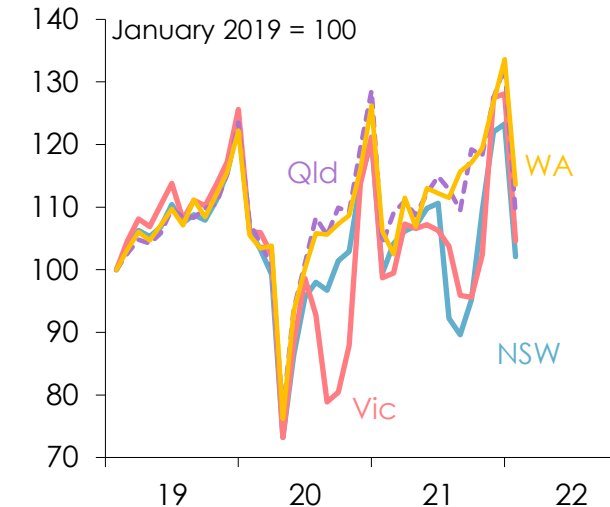
Household spending (as measured by the new ABS indicator based on bank transactions data) was 4.3% higher in January than a year earlier

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Household spending by purpose



By state & territory

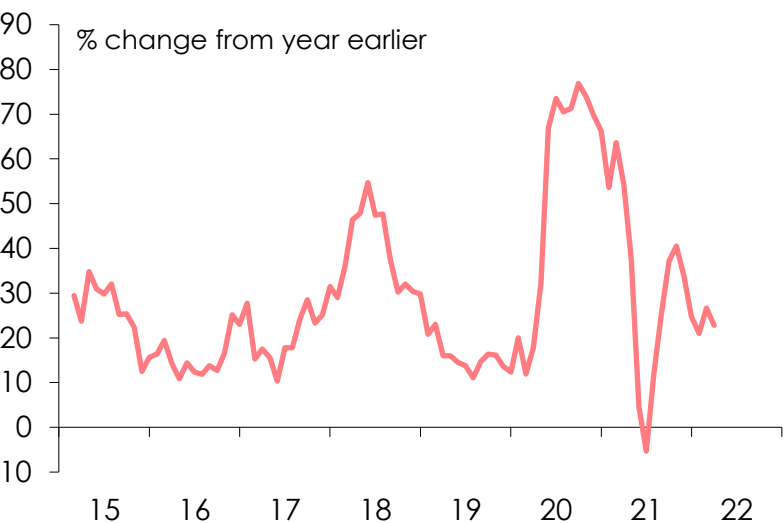


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, 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 19th April.

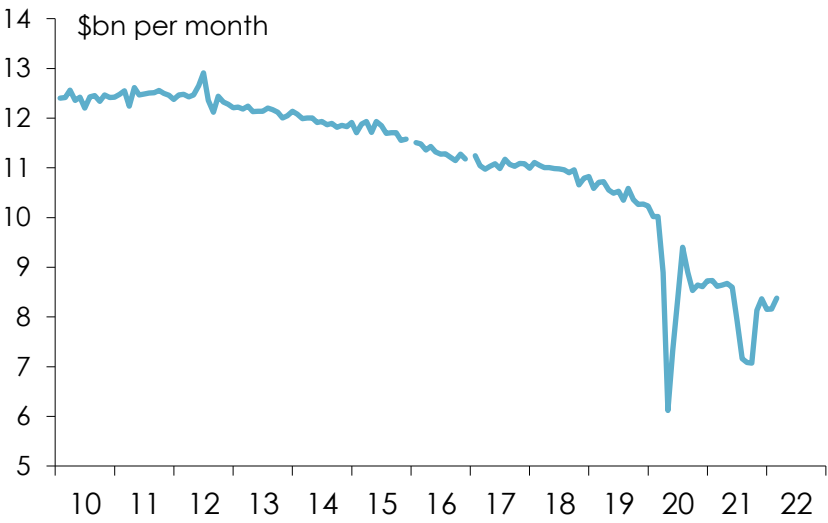
Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

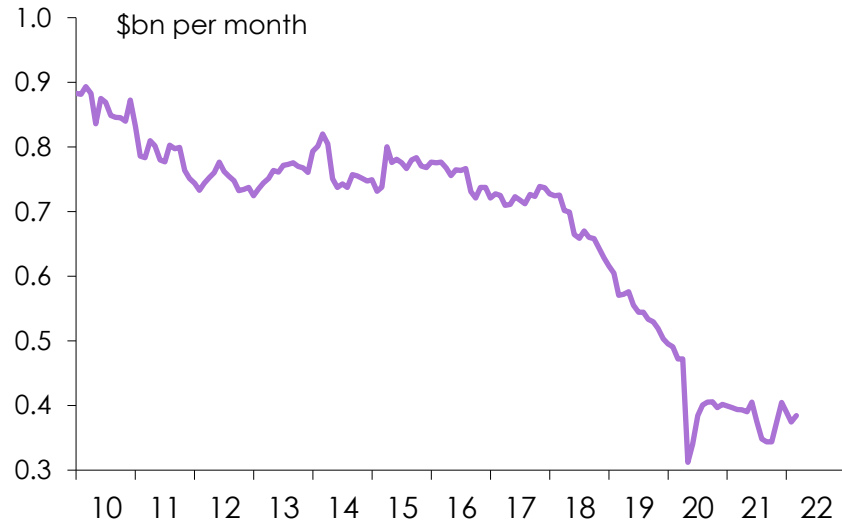
Growth in online retail sales



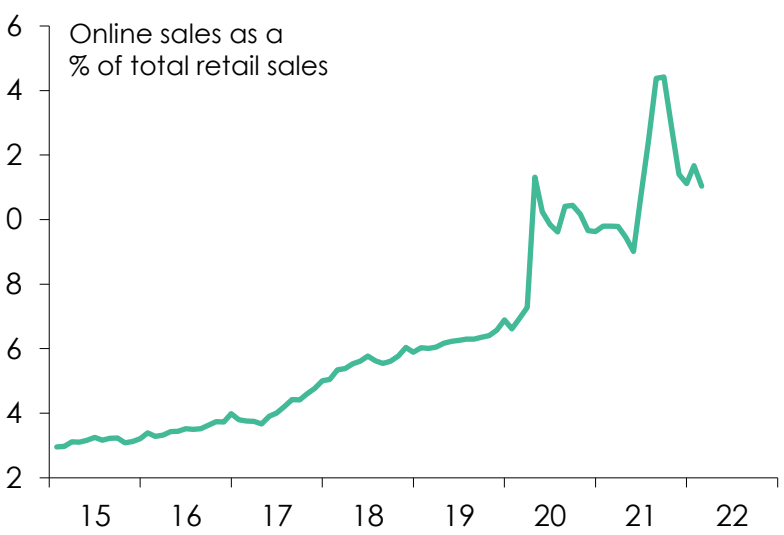
ATM cash withdrawals



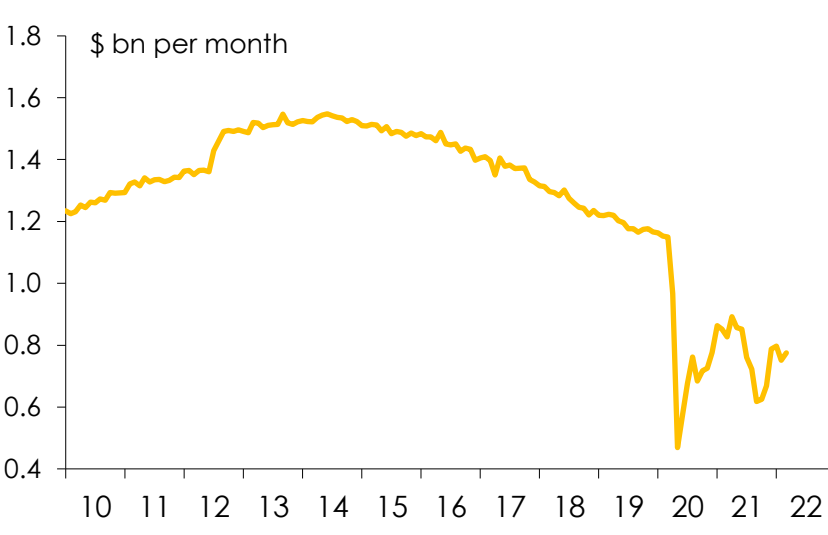
Credit card cash advances



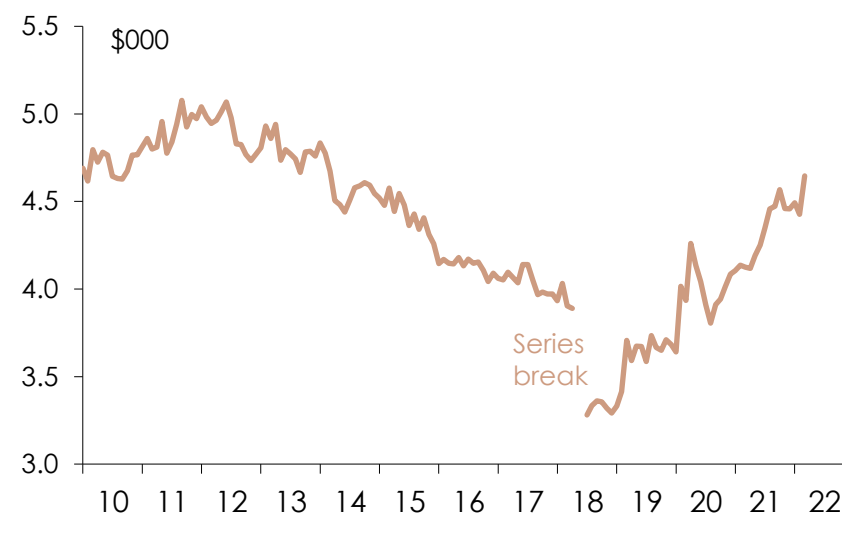
Online retail 'market share'



Debit card cash-outs



Direct entry payments avge value



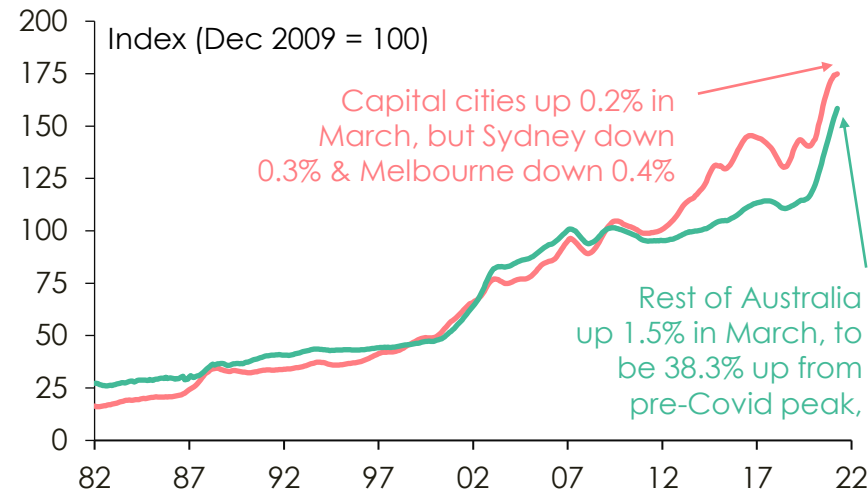
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales and payments system data are for February. March online retail sales data will be published on 10th May and March payments system data on 9th May. [Return to "What's New"](#).

Housing and the residential property market

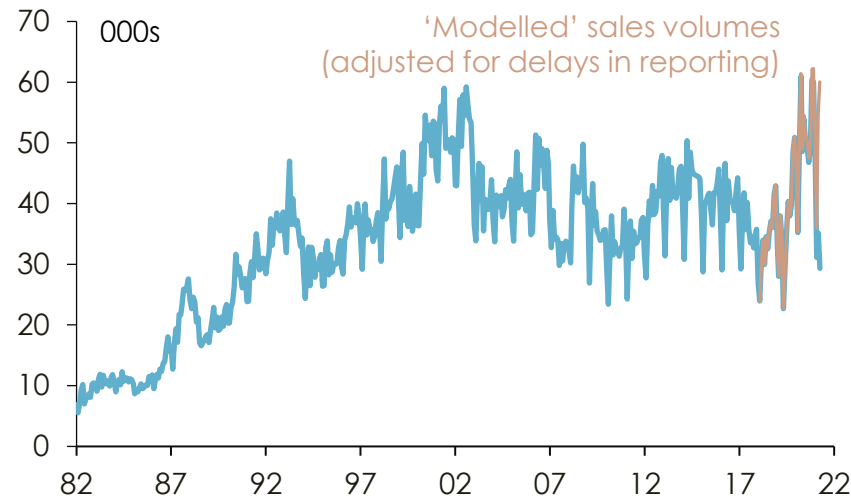
Property prices rose 0.5% in March, with small falls in Sydney & Melbourne outweighed by large gains in Brisbane, Adelaide and regional cities

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

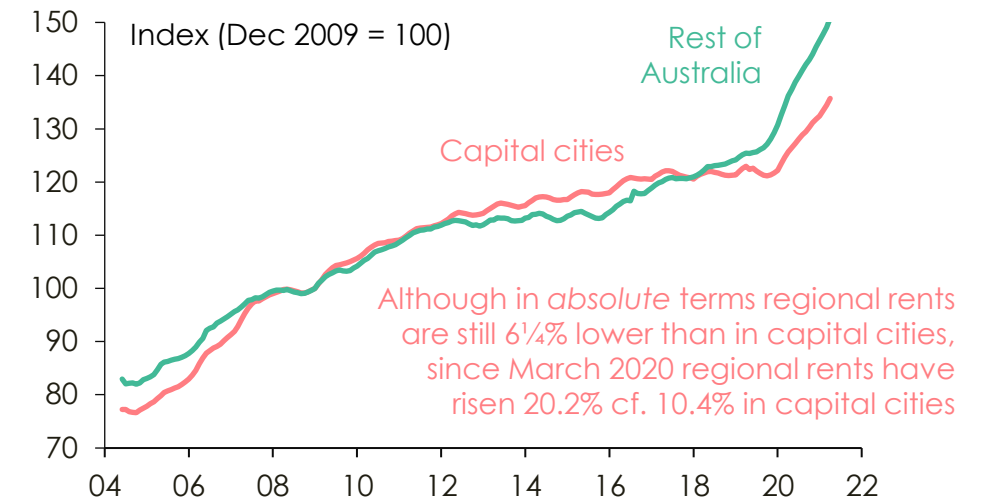
Residential property prices



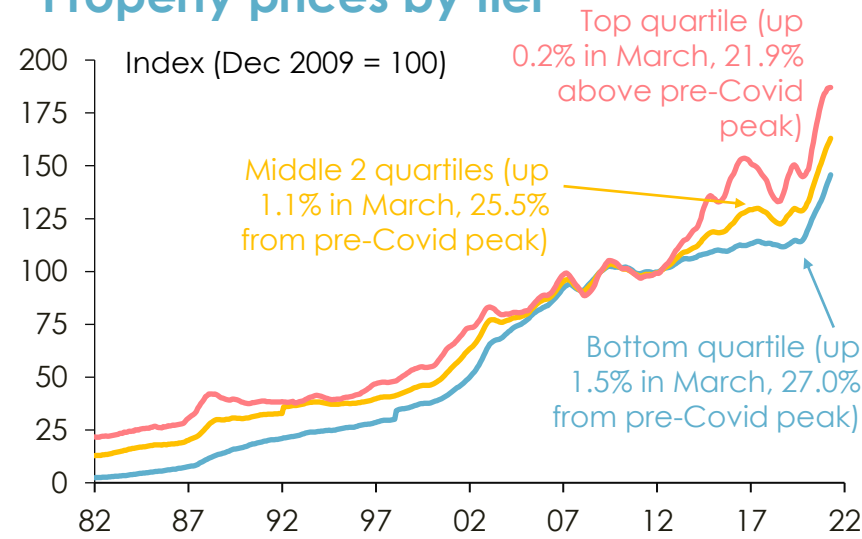
Residential property sales volumes



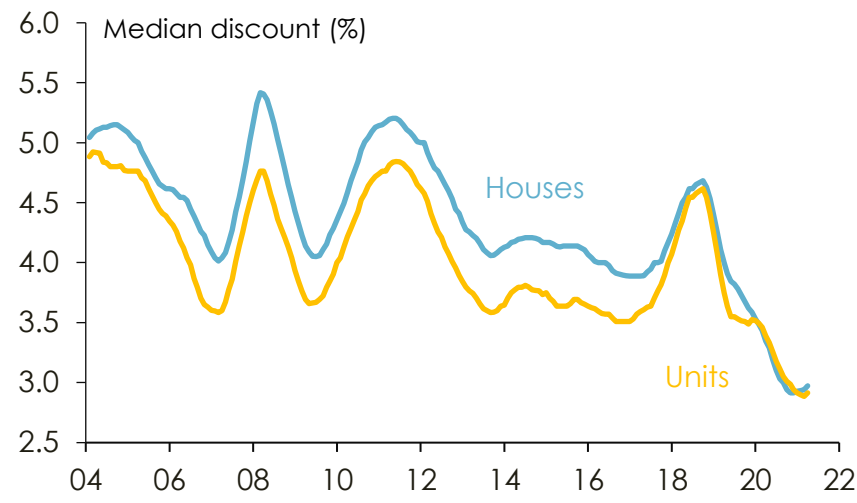
Residential rents



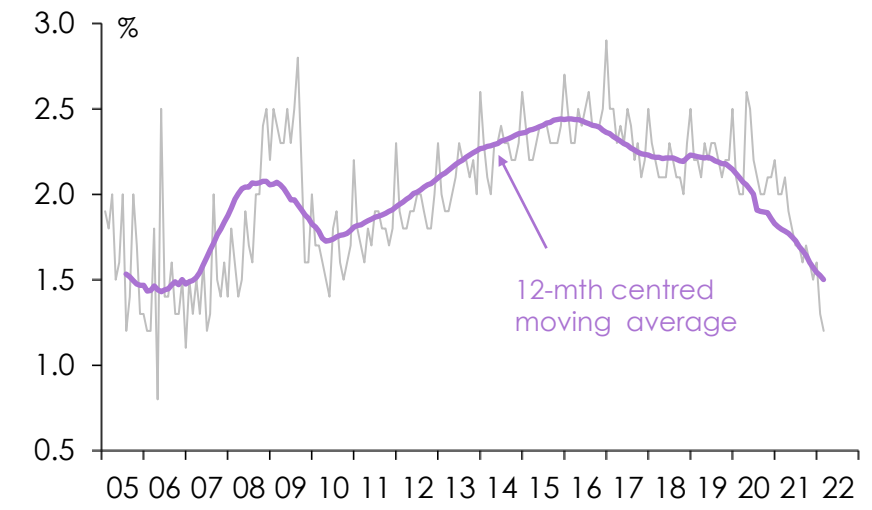
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

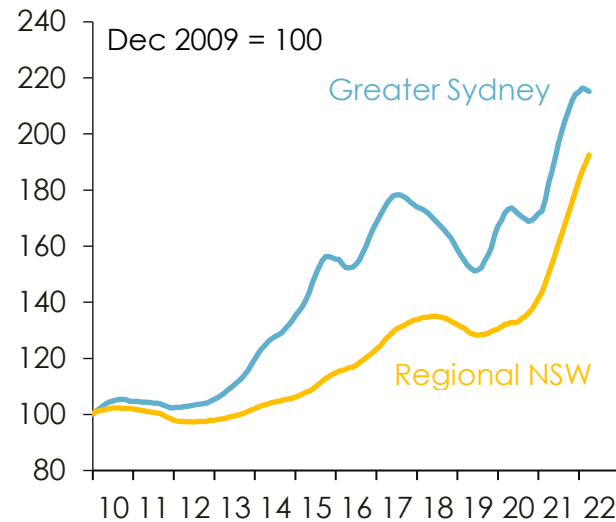


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of 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 March (except for vacancy rates which is February). April prices, sales volumes and rents data will be released on 2nd May. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

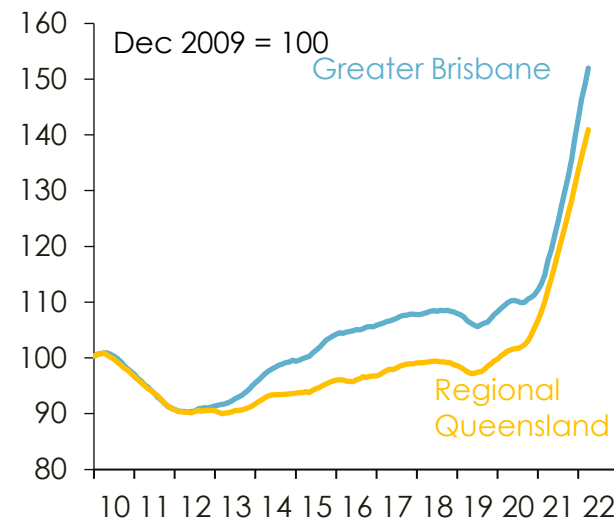
Melbourne prices fell in March for the 4th month in a row, and in Sydney for the first time since September 2020 – but they're still rising everywhere else

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

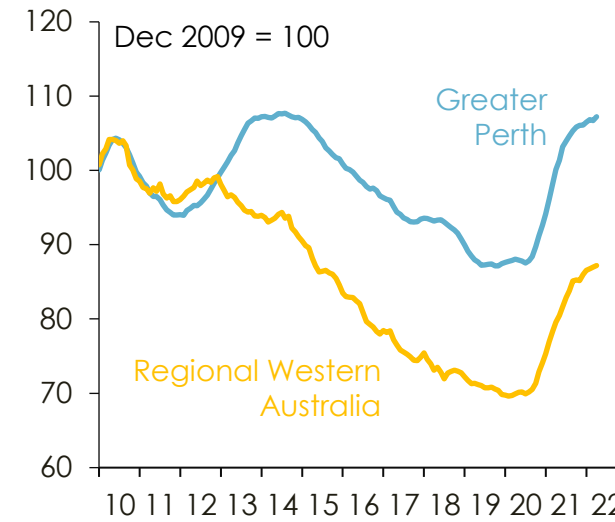
New South Wales



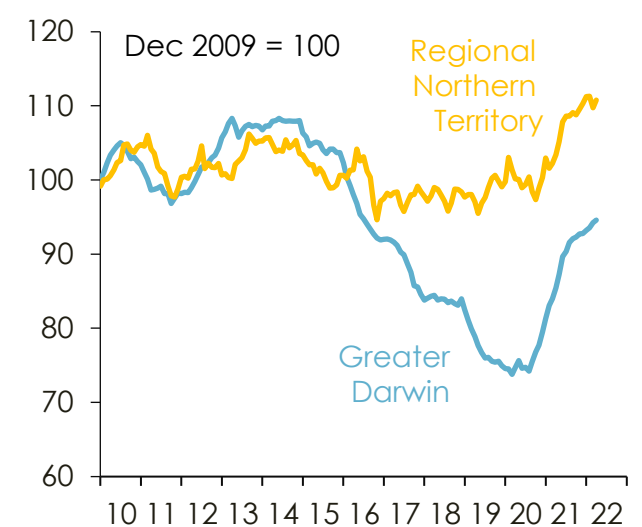
Queensland



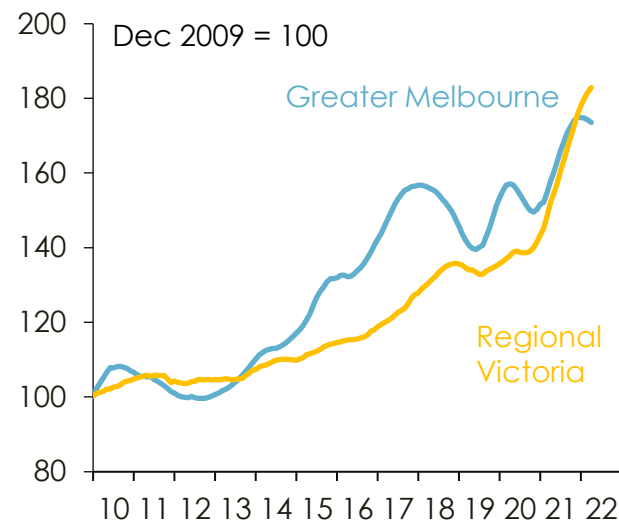
Western Australia



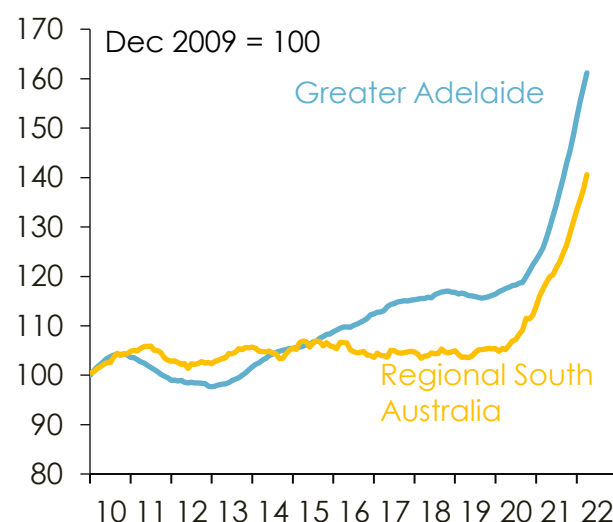
Northern Territory



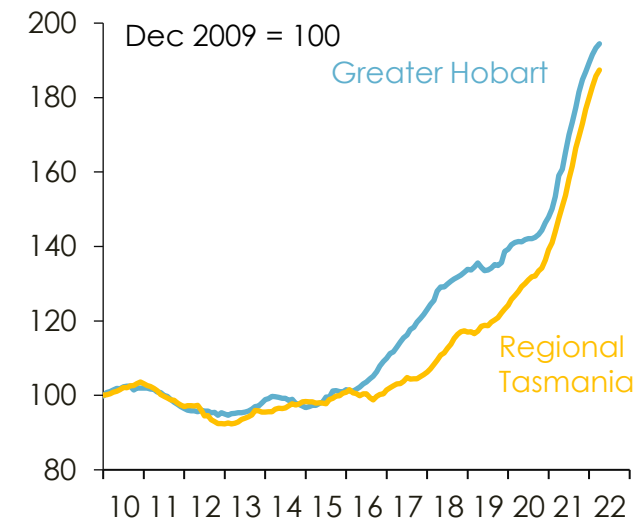
Victoria



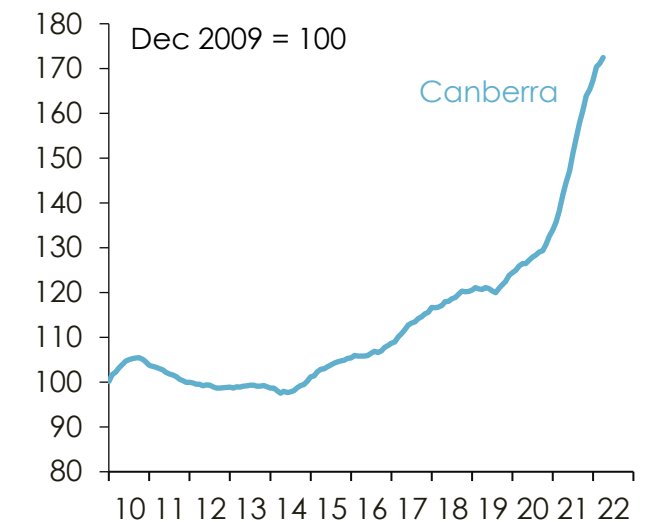
South Australia



Tasmania



Australian Capital Territory

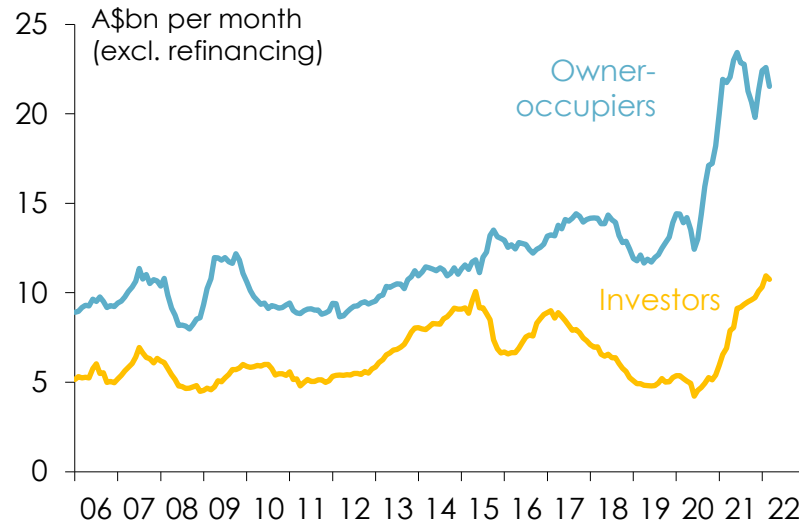


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states have different vertical scales. Latest data are for March; April data will be released on 2nd May. Source: [CoreLogic](#). [Return to "What's New"](#).

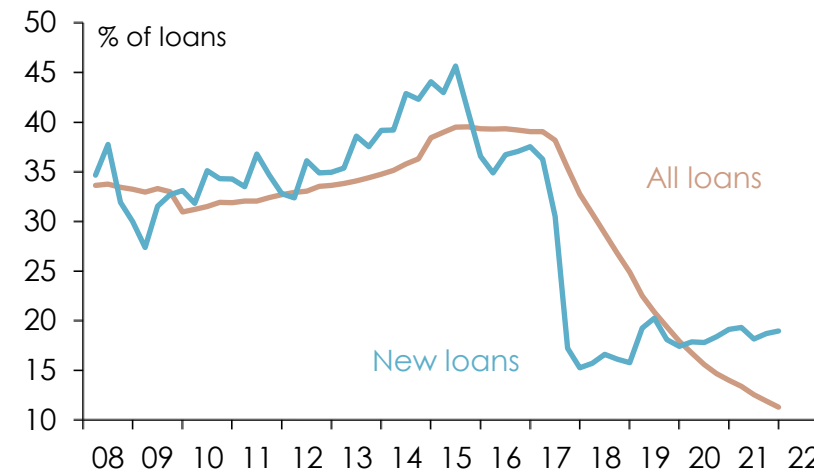
Housing finance commitments fell 3.7% in February, the first decline in four months, with lending to FHBs down 9.7% to its lowest level since July 2020

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

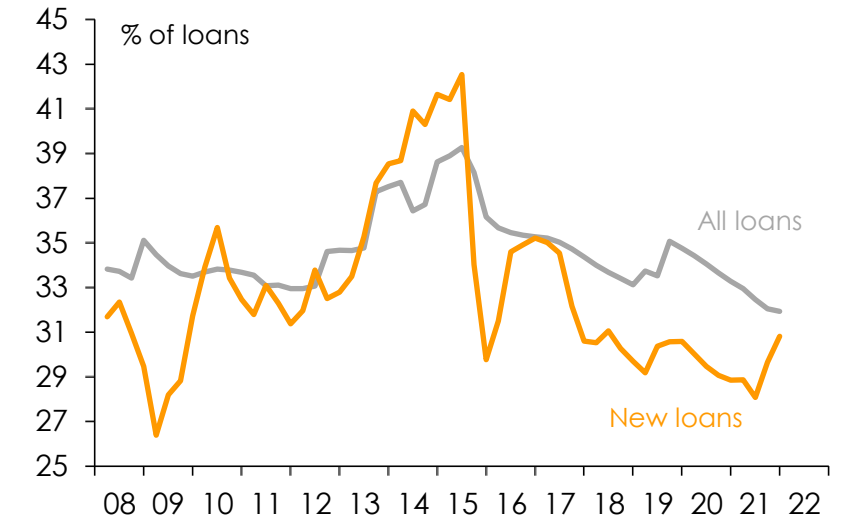
Housing finance commitments



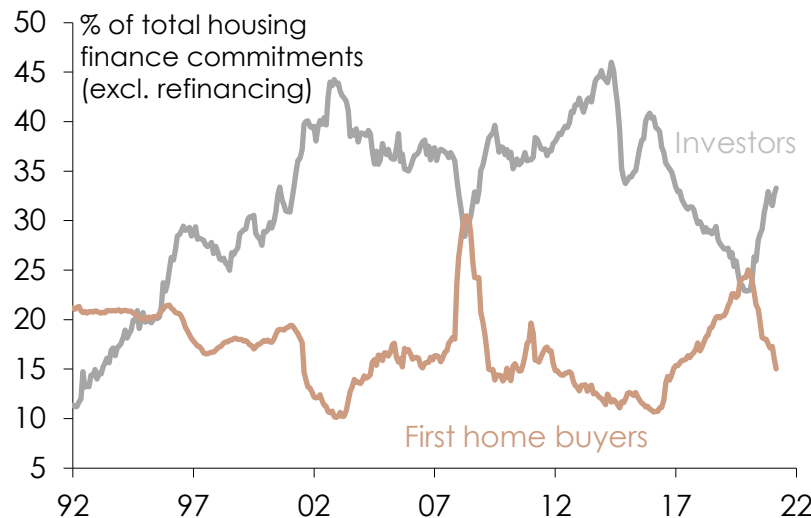
Interest-only loans



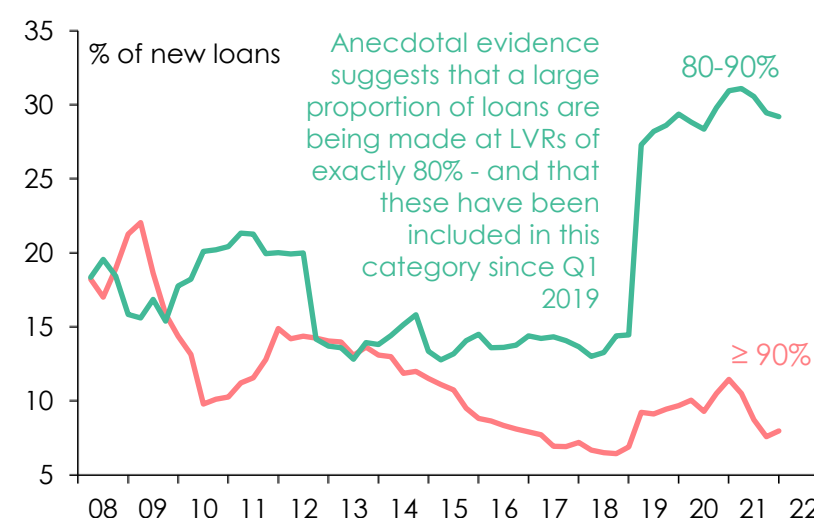
Loans to investors as a pc of total



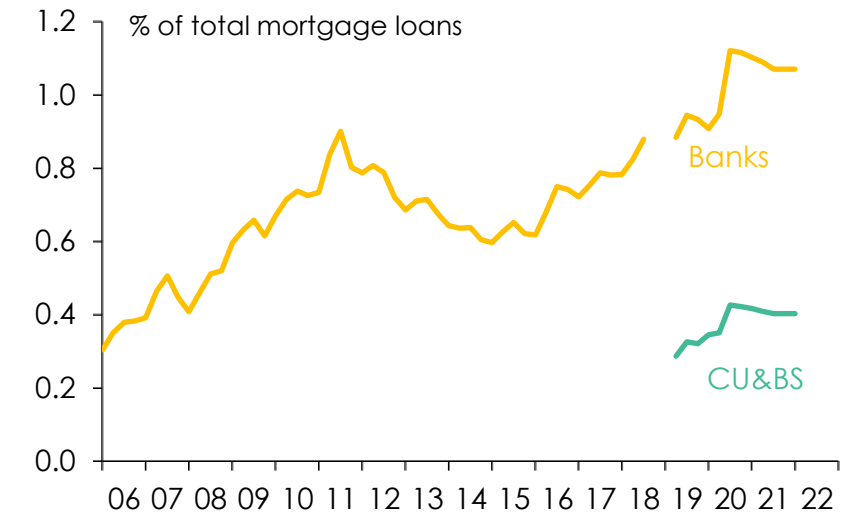
Shares of housing finance



High LVR loans as a pc of total



Non-performing mortgage loans

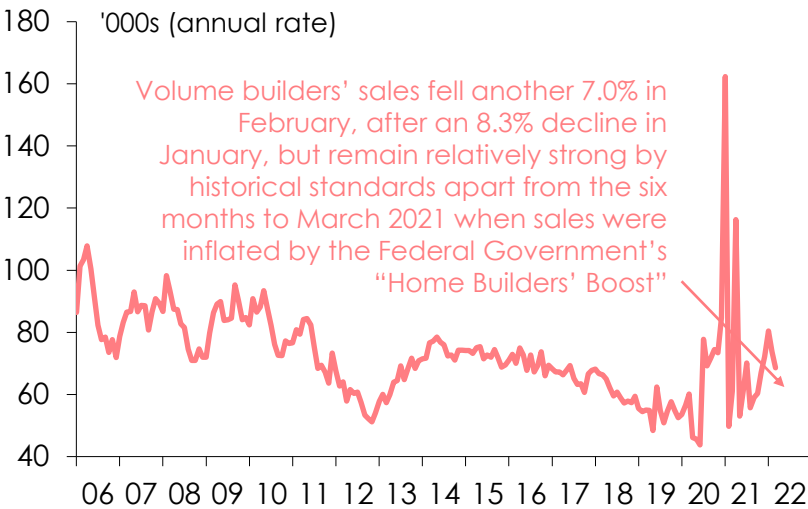


Sources: ABS, [Lending Indicators](#), February; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). March housing finance data will be released on 4th May; APRA data on ADI property exposures for the March quarter will be released on 14th June. [Return to "What's New"](#).

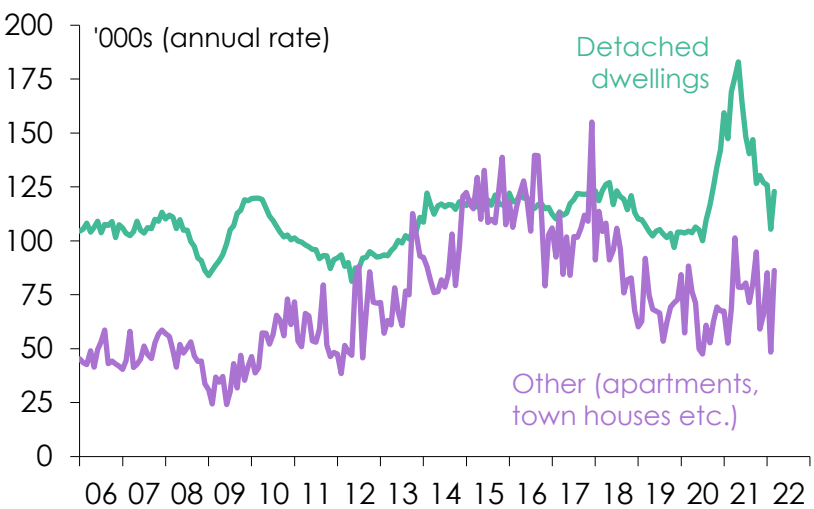
Residential building approvals rebounded 43.5% in February, more than reversing January's 27.1% plunge: looks like a seasonal adjustment problem

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

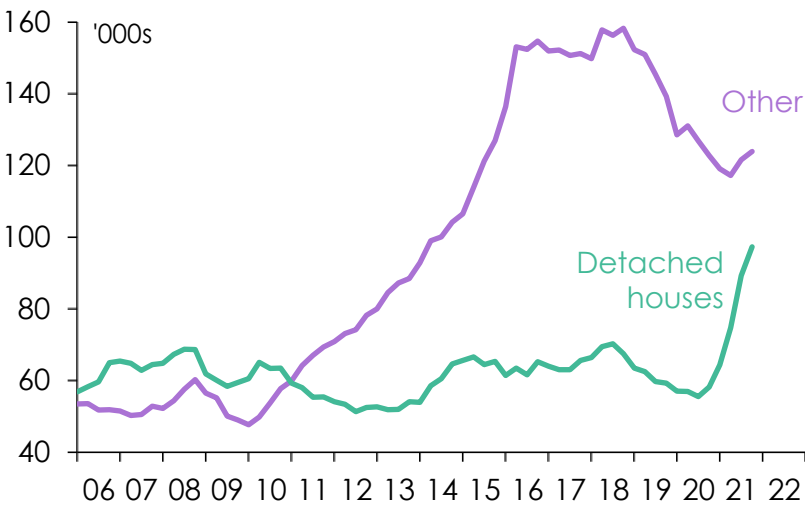
Large builders' new home sales



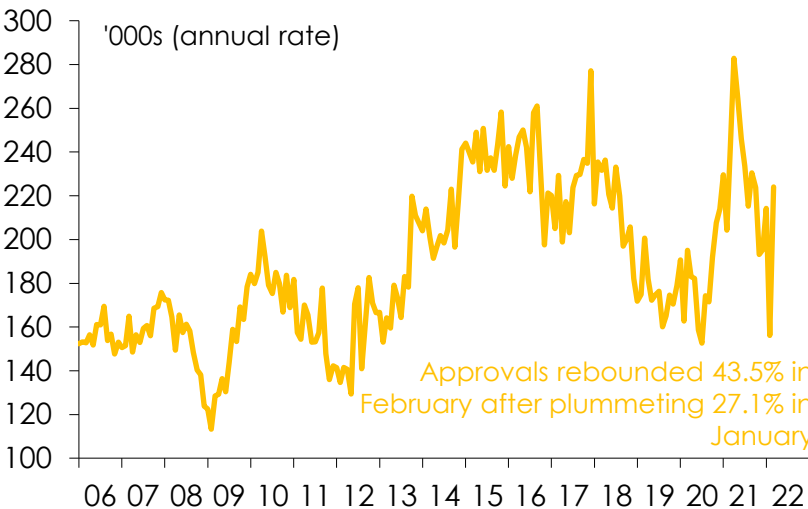
Building approvals, by type



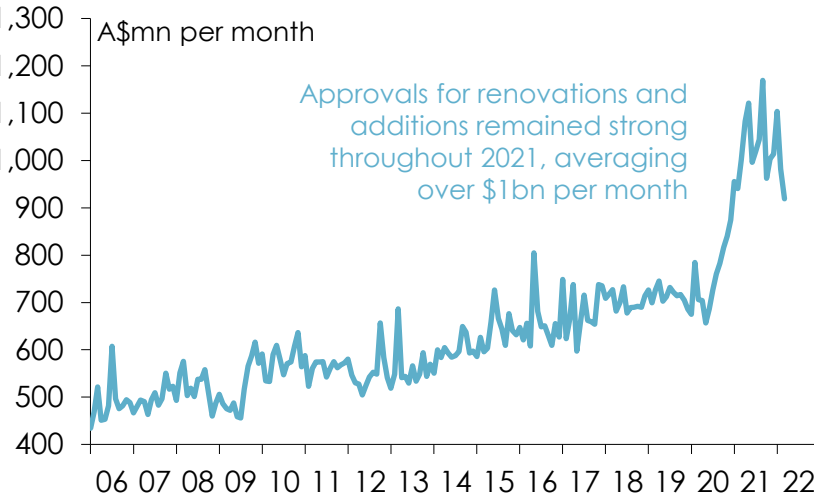
Dwellings under construction



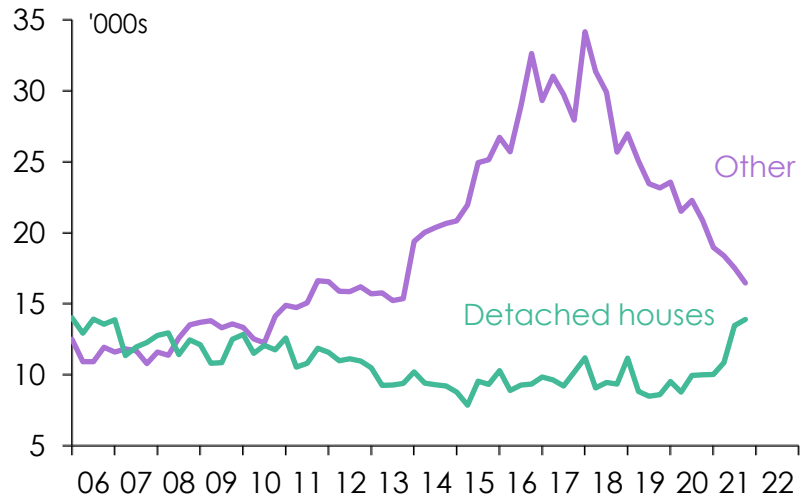
Residential building approvals



Alterations & additions approved



'Pipeline' of work yet to be started

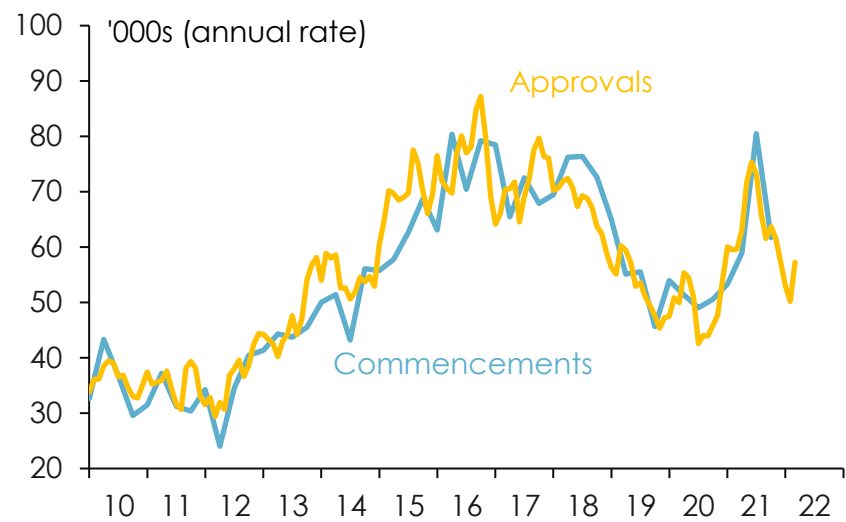


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. March building approvals data will be released on 5th May; December quarter dwellings under construction and 'pipeline' data on 13th April. [Return to "What's New"](#).

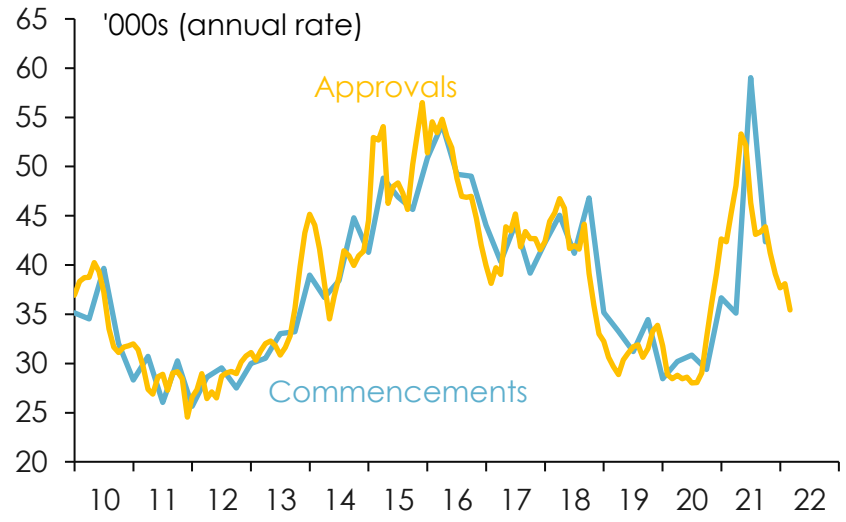
Residential building approvals rose strongly in February in every state except Queensland (where they rose rather than fell in January)

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

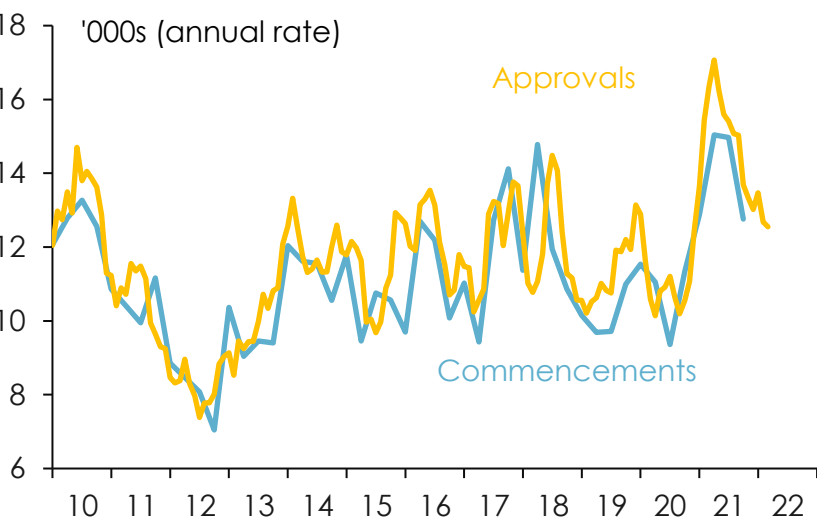
New South Wales



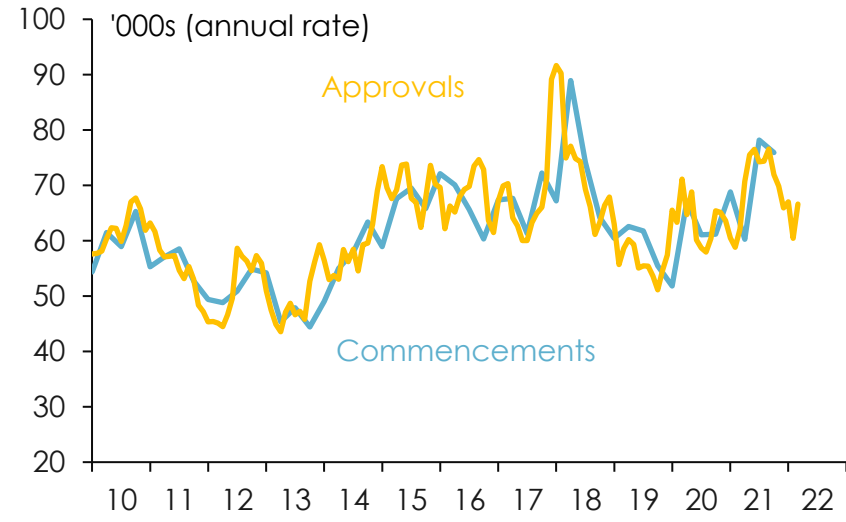
Queensland



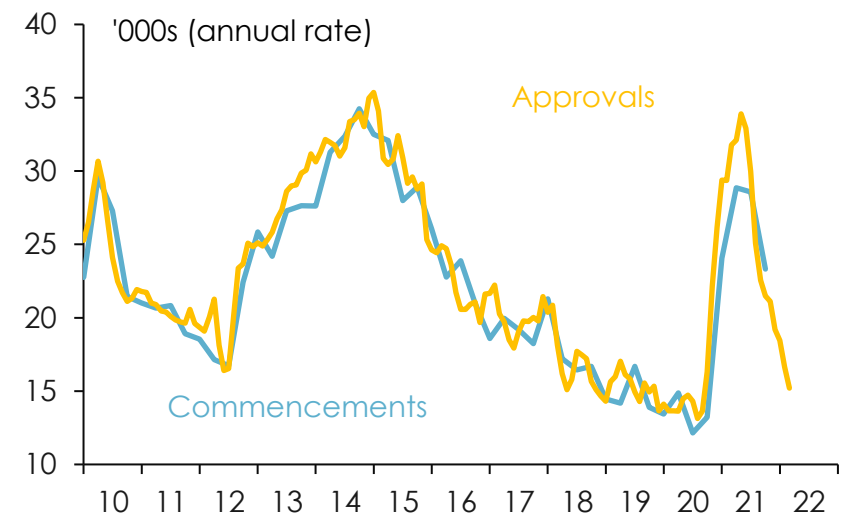
South Australia



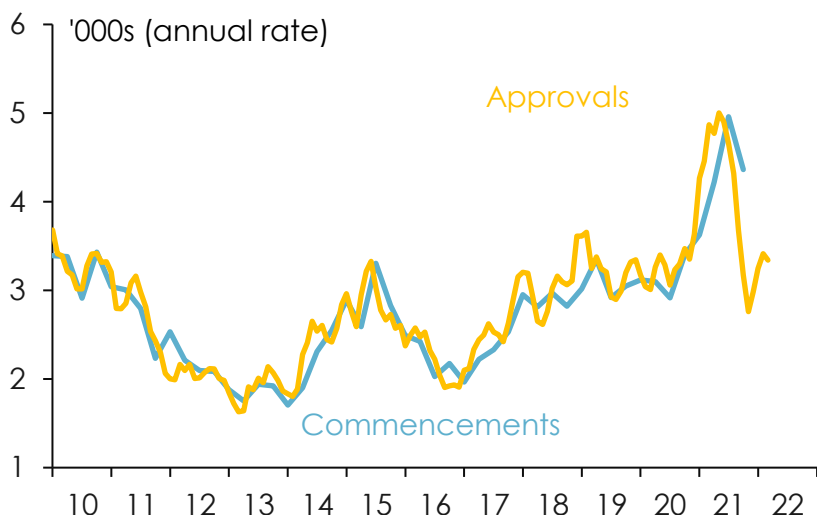
Victoria



Western Australia



Tasmania



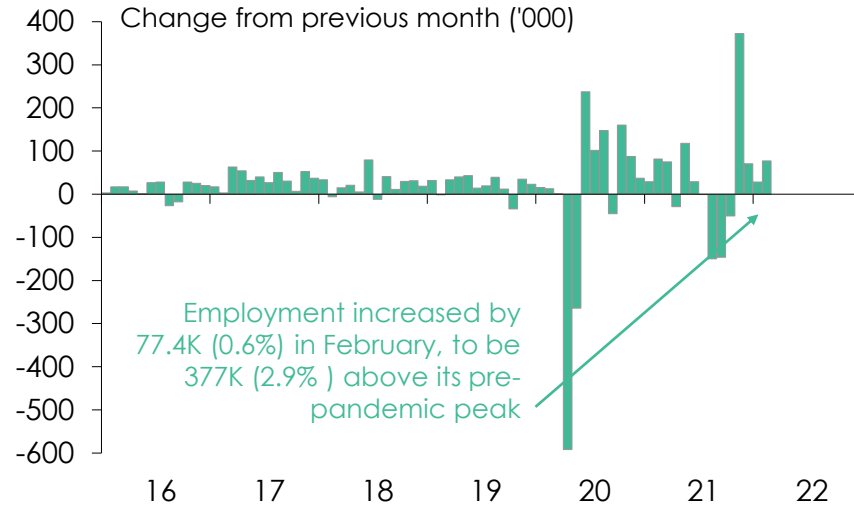
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly (and the most recent data is for the September quarter last year). Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to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

The labour market

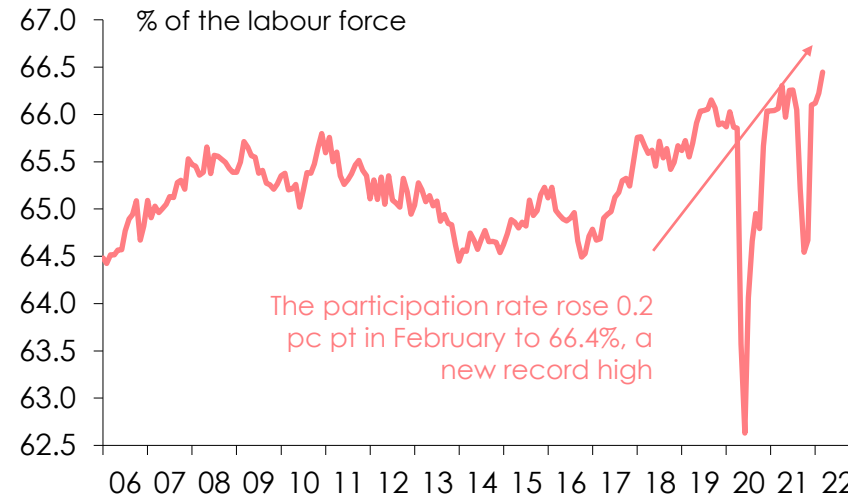
Employment rose another 0.6% in February, hours work recovered from the omicron-induced 'shadow lockdown' and unemployment fell to 4.0%

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

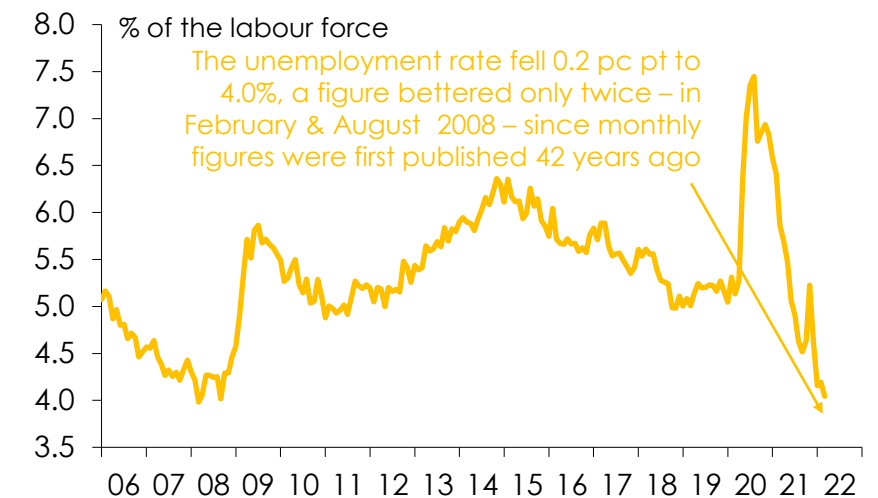
Employment



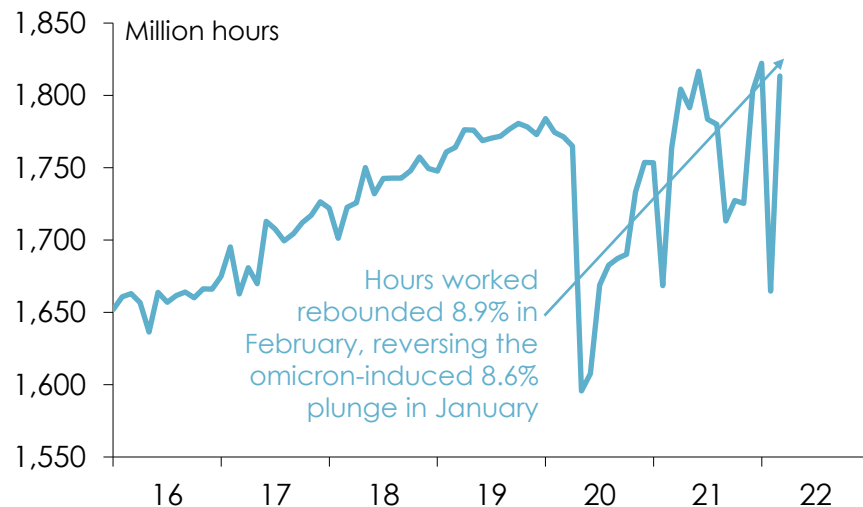
Labour force participation rate



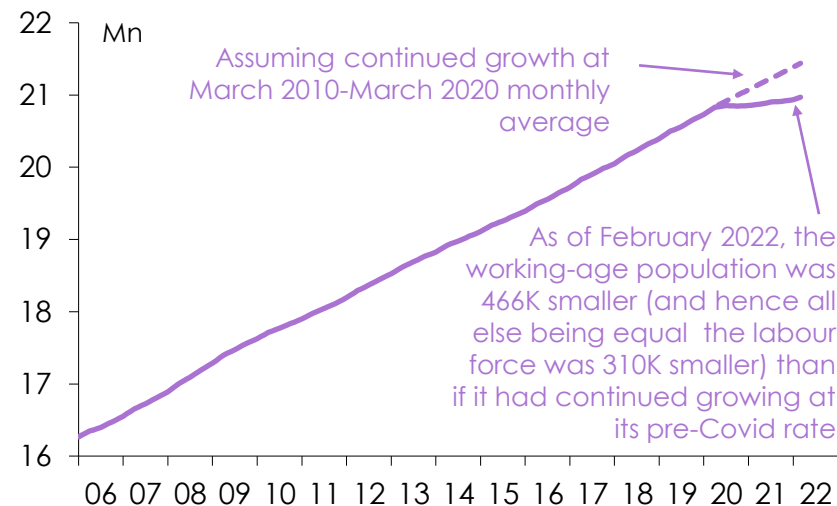
Unemployment rate



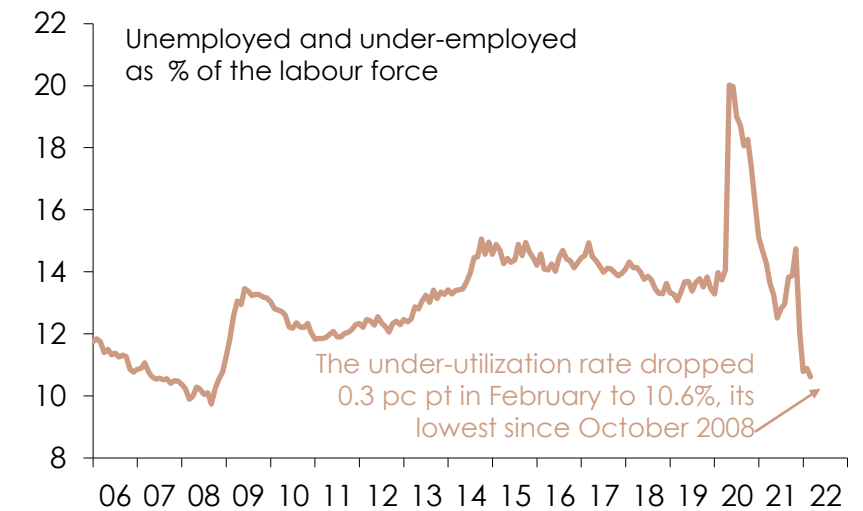
Total hours worked



Civilian working-age population



'Under-utilization' rate

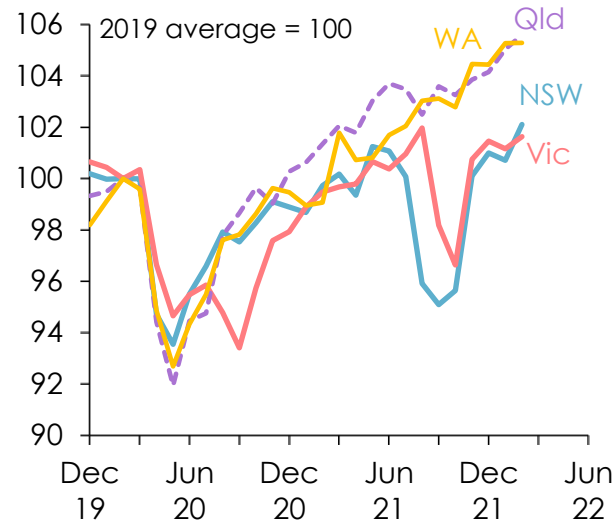


Source: ABS, [Labour Force, Australia](#), February. March data will be released on 14th April. [Return to "What's New"](#).

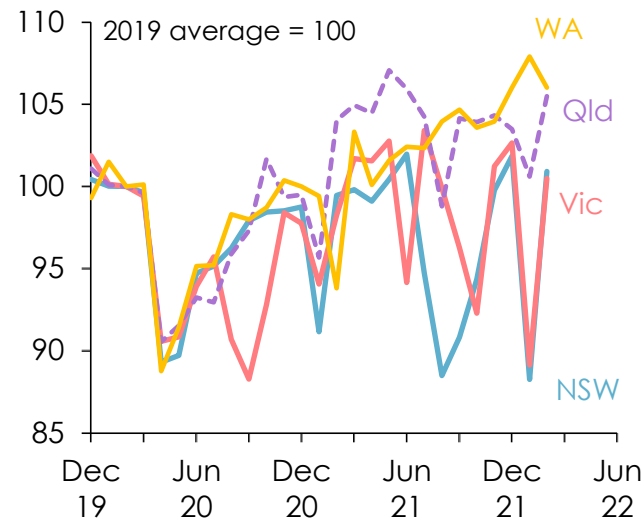
75% of February's job gains were in NSW, where unemployment fell to a record low of 3.7% - unemployment also below 4% in Tasmania, NT and ACT

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

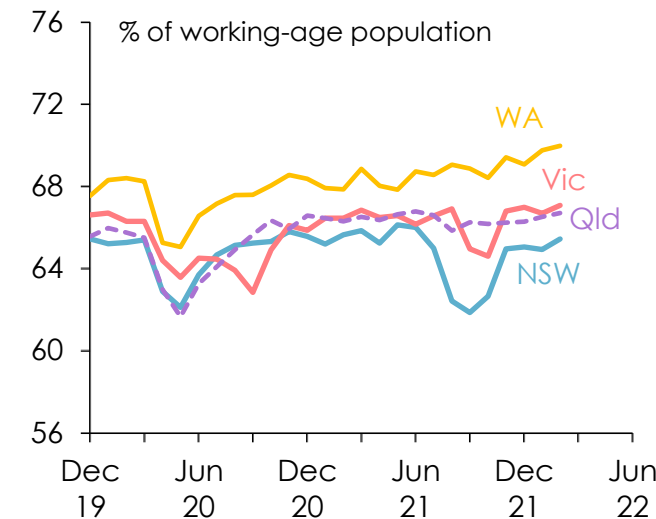
Employment



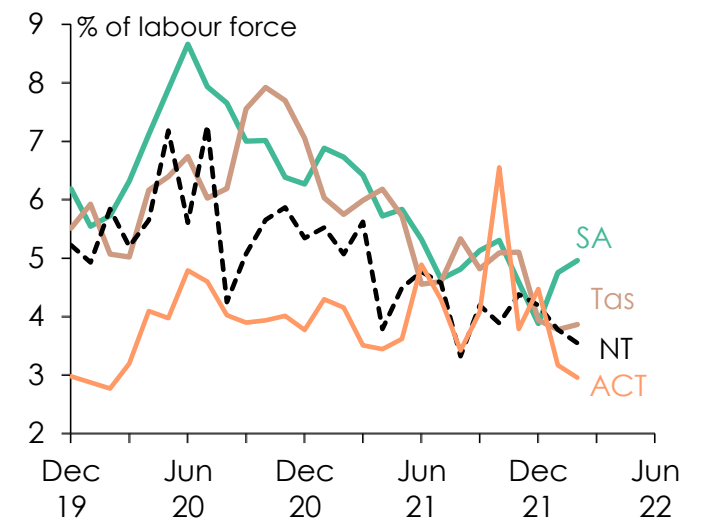
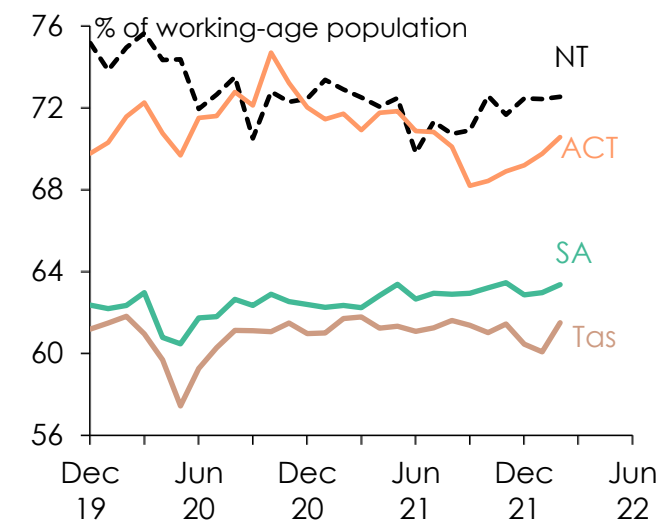
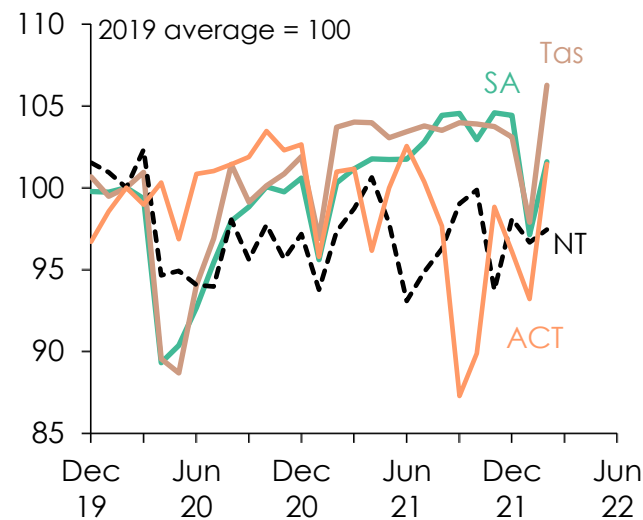
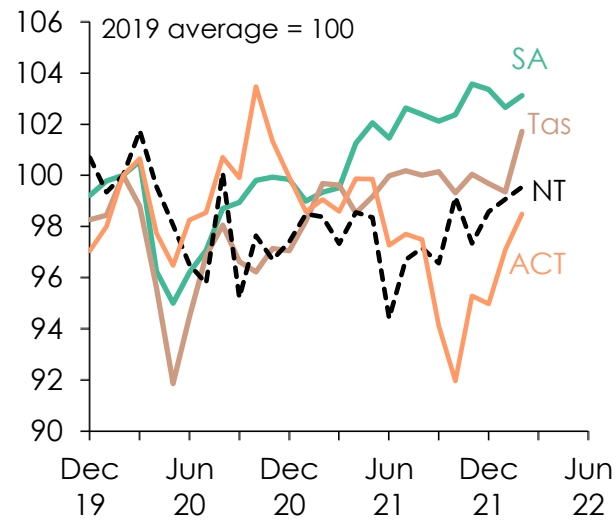
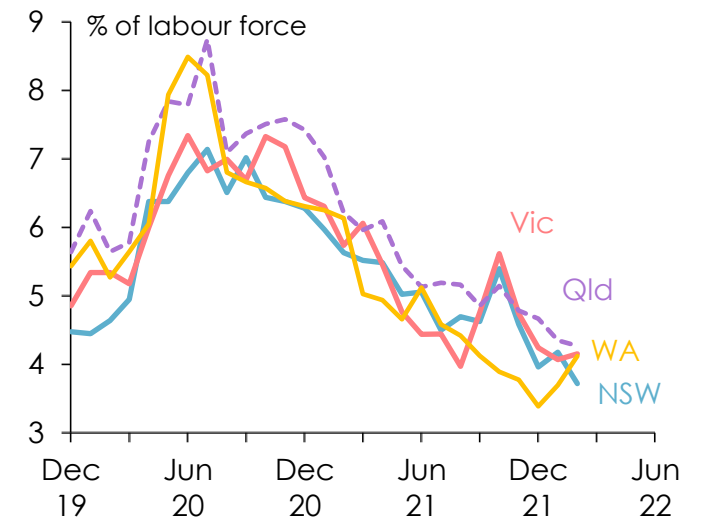
Hours worked



Participation rates



Unemployment rates



Source: ABS, [Labour Force, Australia](#), February. March data will be released on 14th 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

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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 17th March.

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

- 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

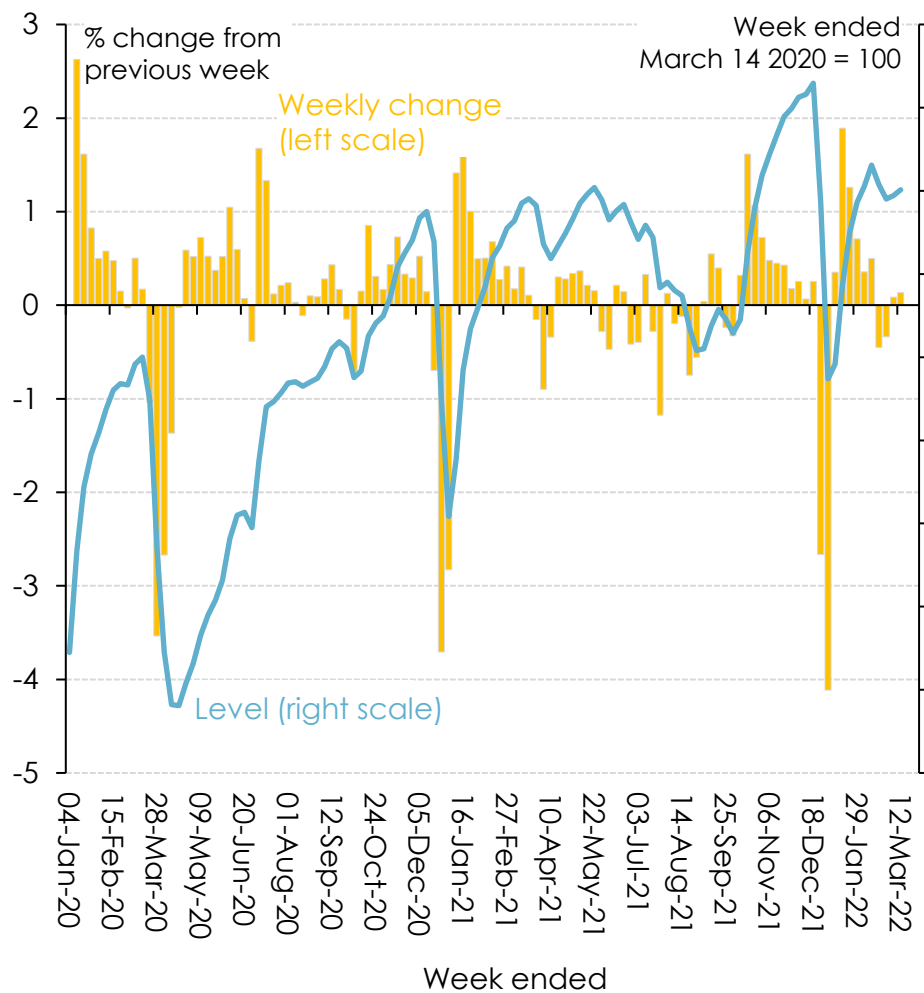
SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

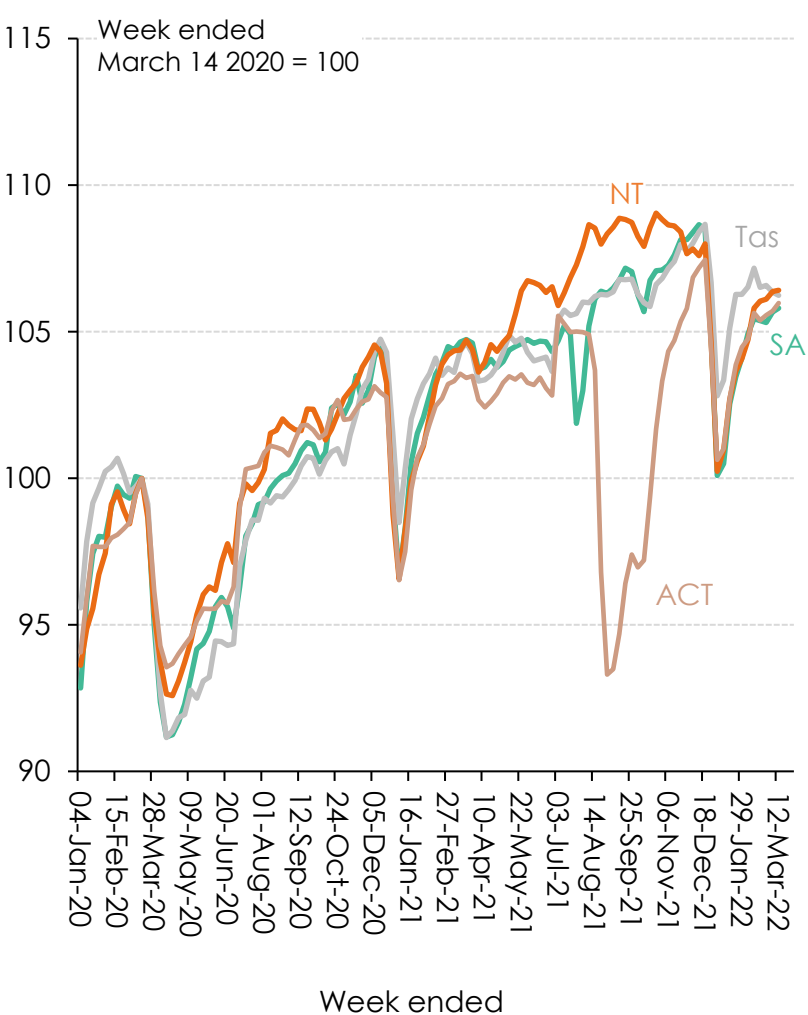
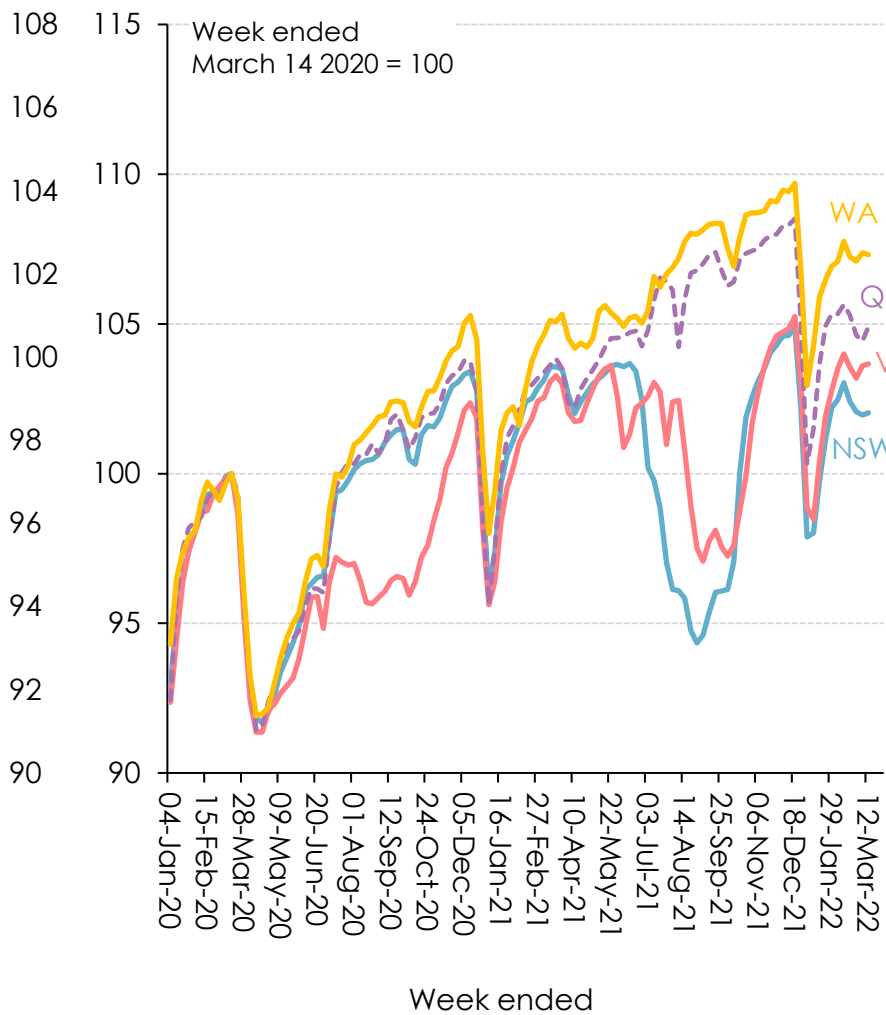
Payroll jobs rose 0.2% over the first two weeks of March, after falling 0.8% over the last two weeks of February, to be 4% up on the pre-pandemic level

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



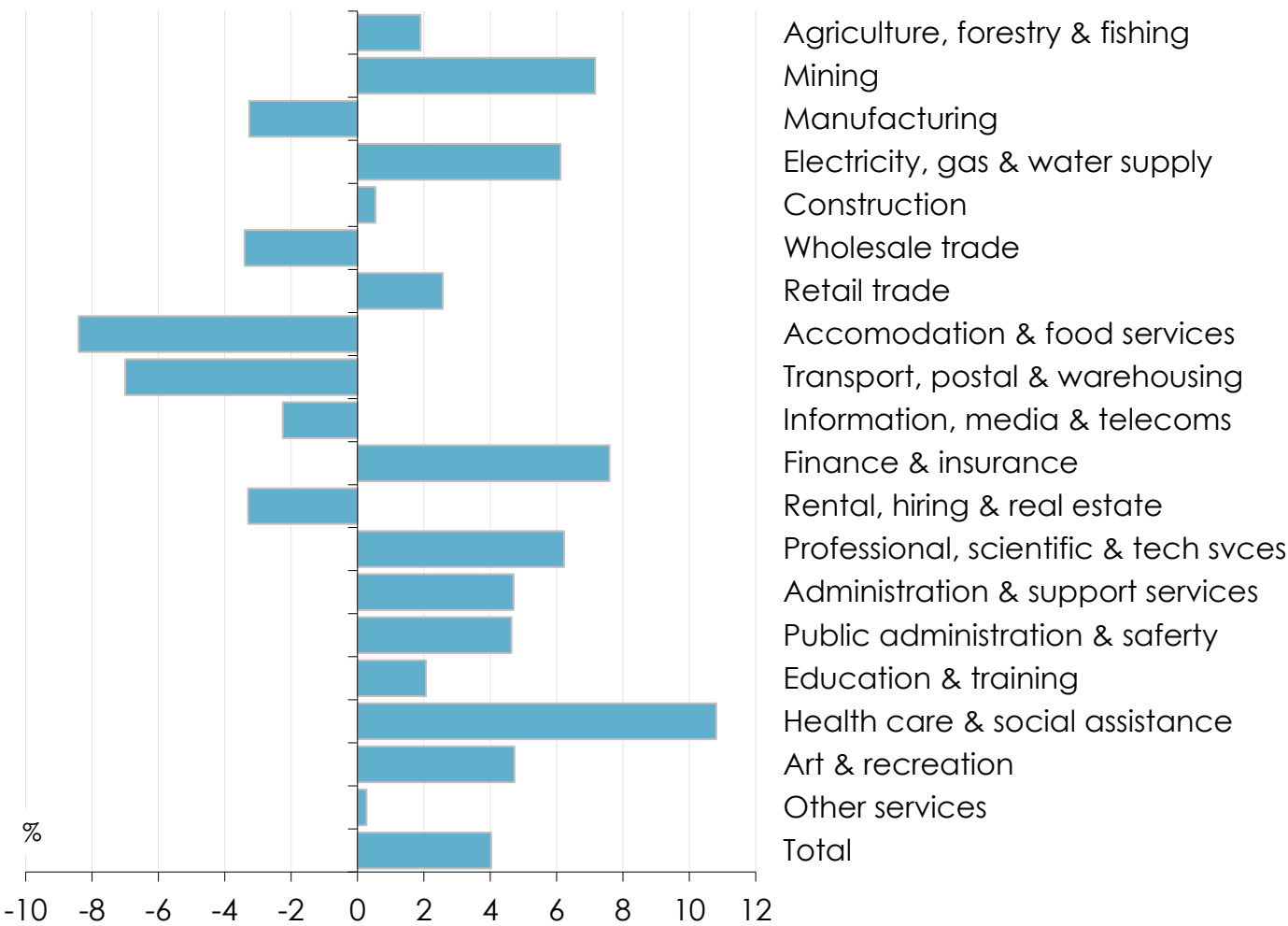
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

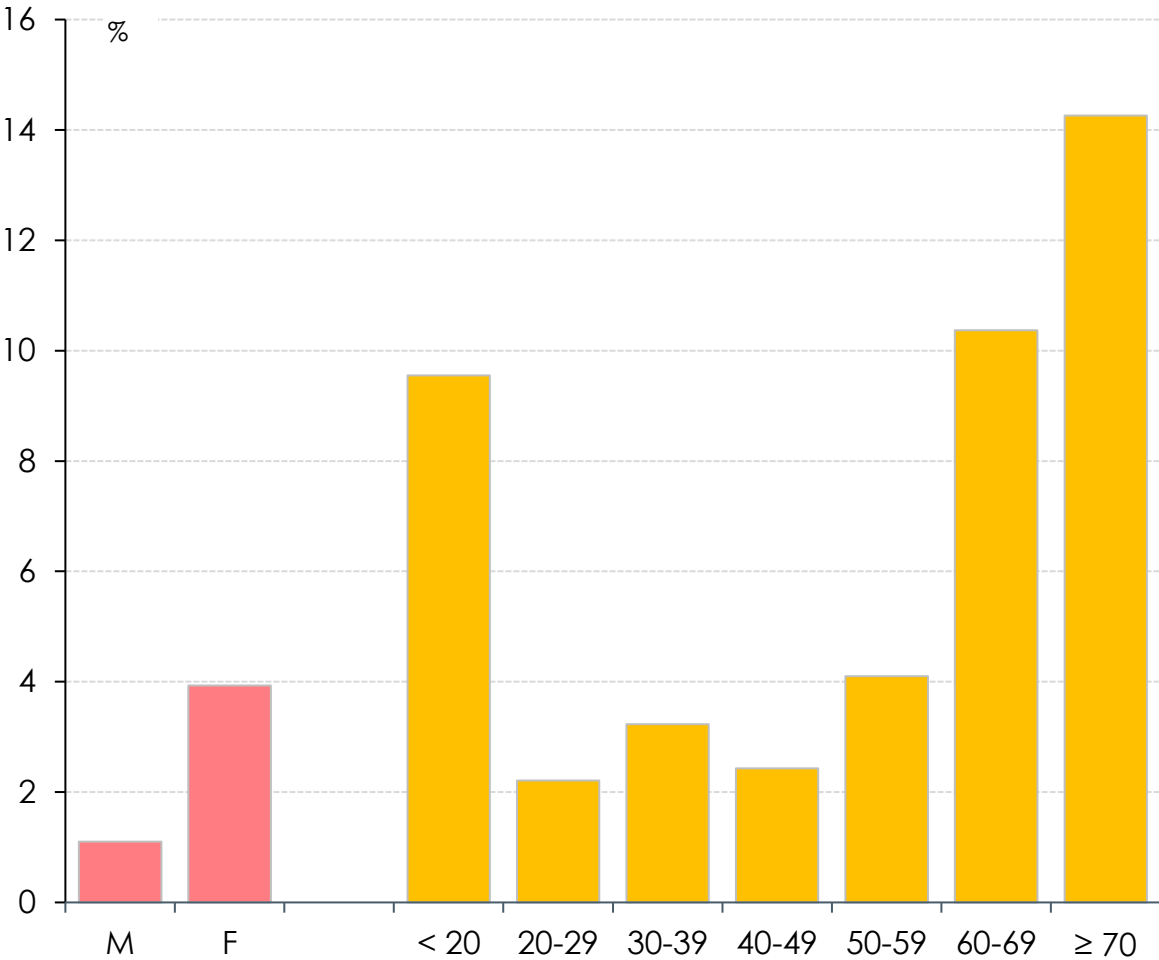
THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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

By industry



By gender and age

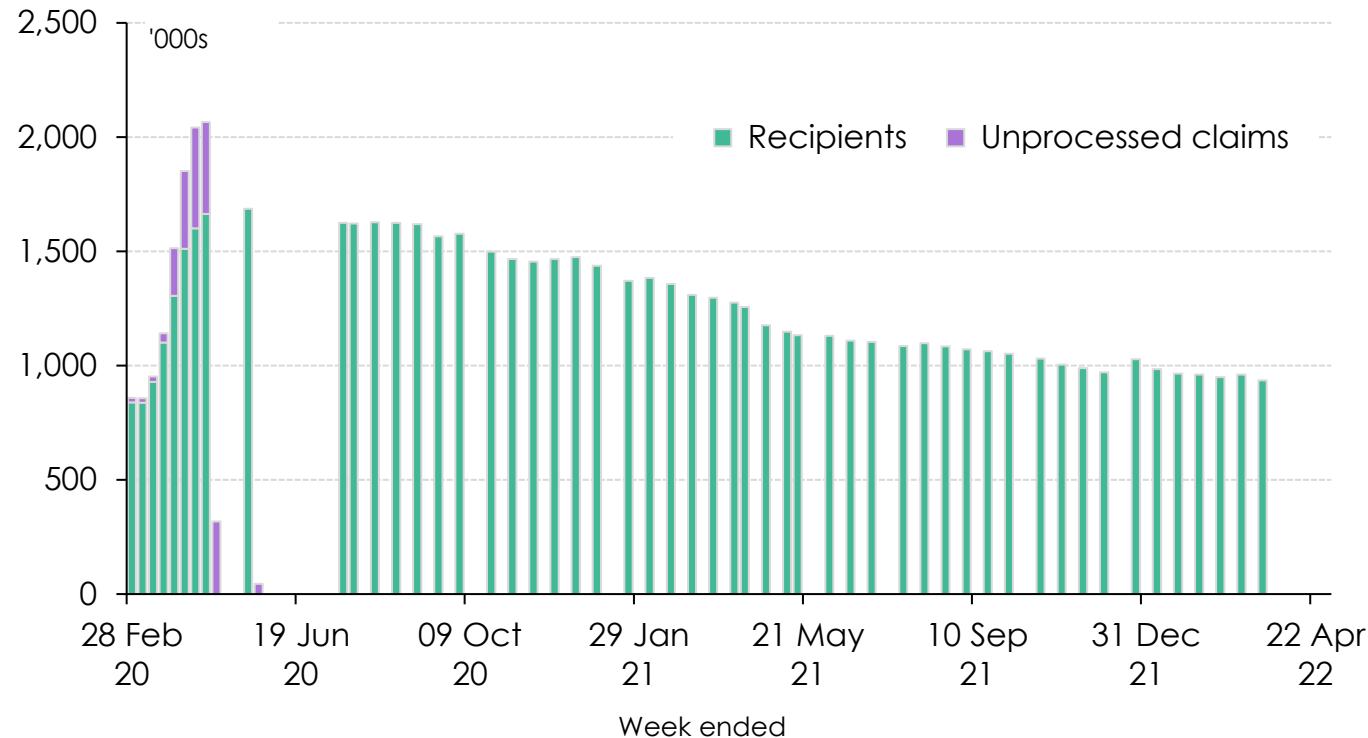


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

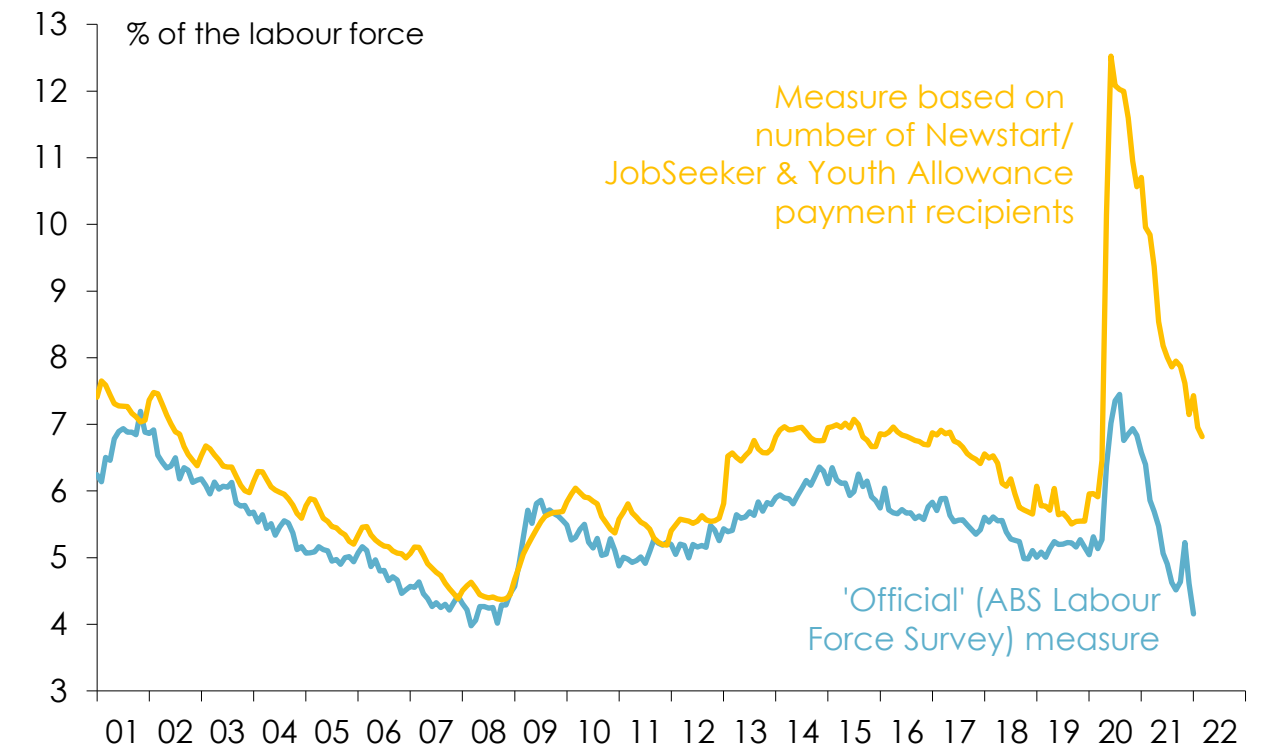
The number of people receiving joblessness-related income support payments is still 11¾% above its pre-pandemic level

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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



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



- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by 26,082 (2.7%) between 11th and 25th March, to its lowest level since the onset of the pandemic, though it is still 11¾% above the pre-pandemic level

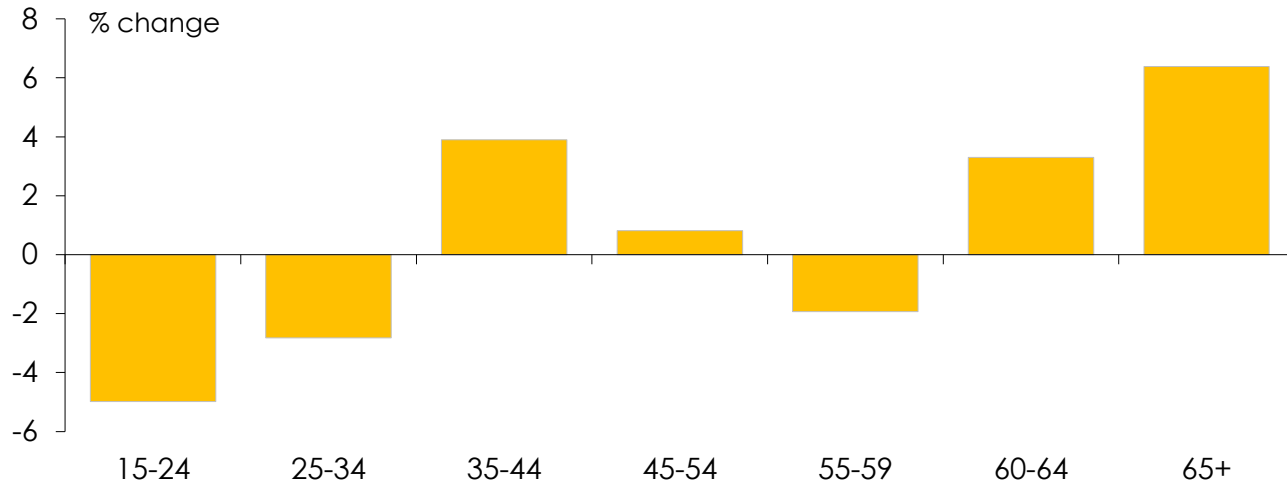
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). [Return to "What's New"](#).

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

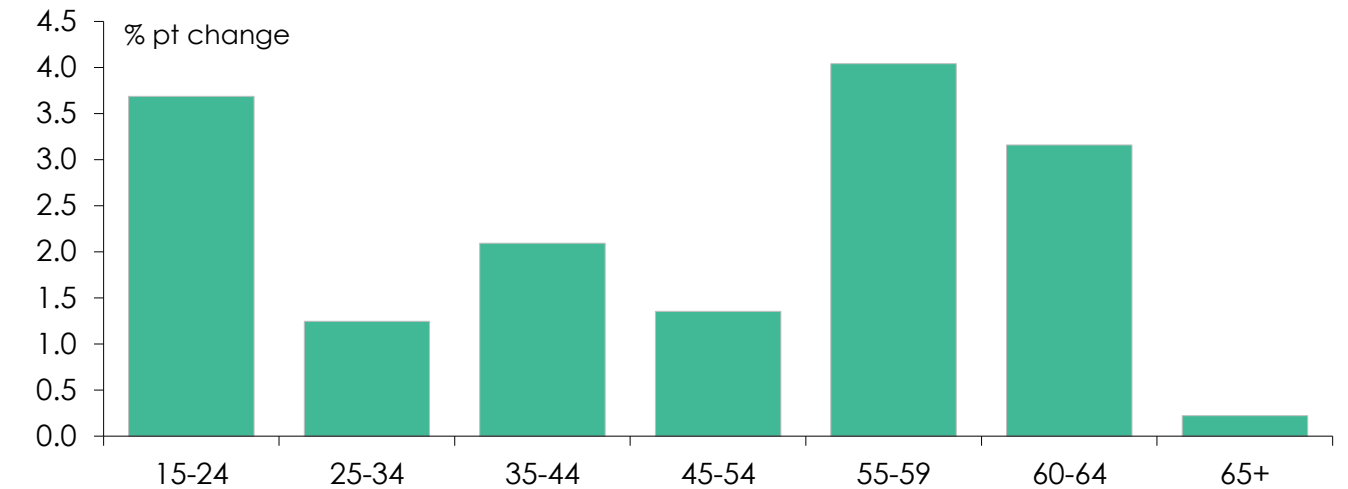
THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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

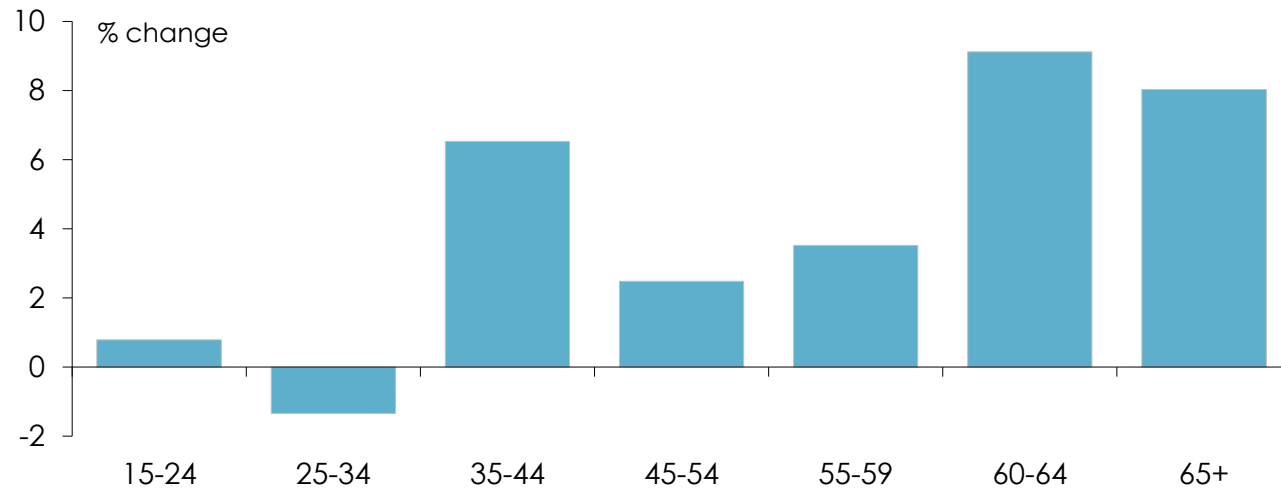
Civilian working age population



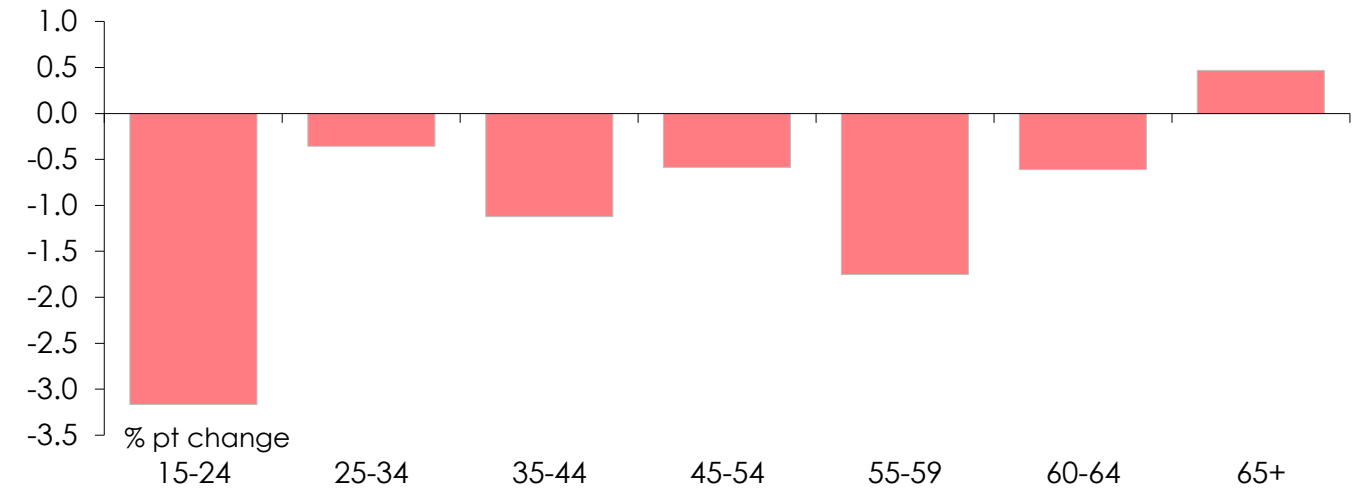
Employment-population ratio



Employment



Unemployment rates



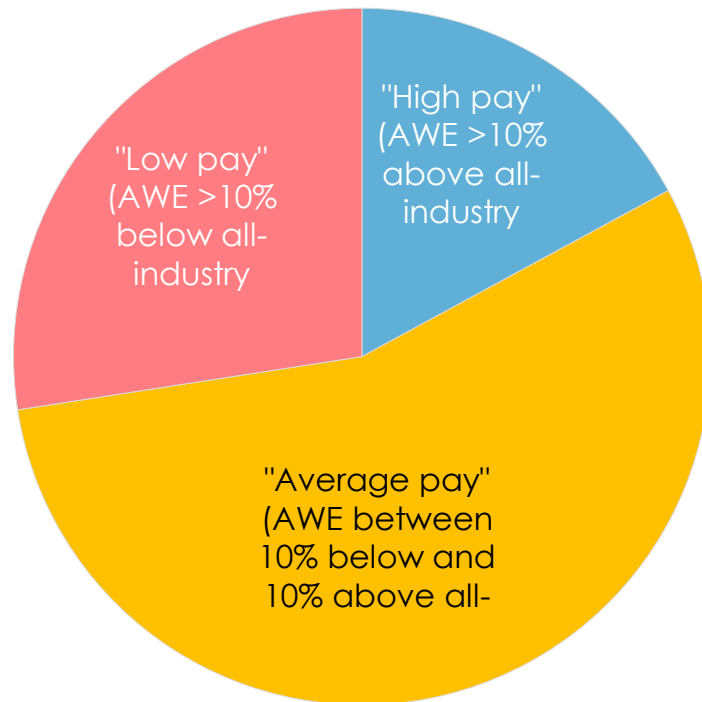
Note: The data from which the above charts are derived isn't seasonally adjusted, hence the need to make comparisons between February 2020 and February 2022.

Source: ABS, [Labour Force, Australia, Detailed](#), February; March data will be released on 21st April. [Return to "What's New"](#).

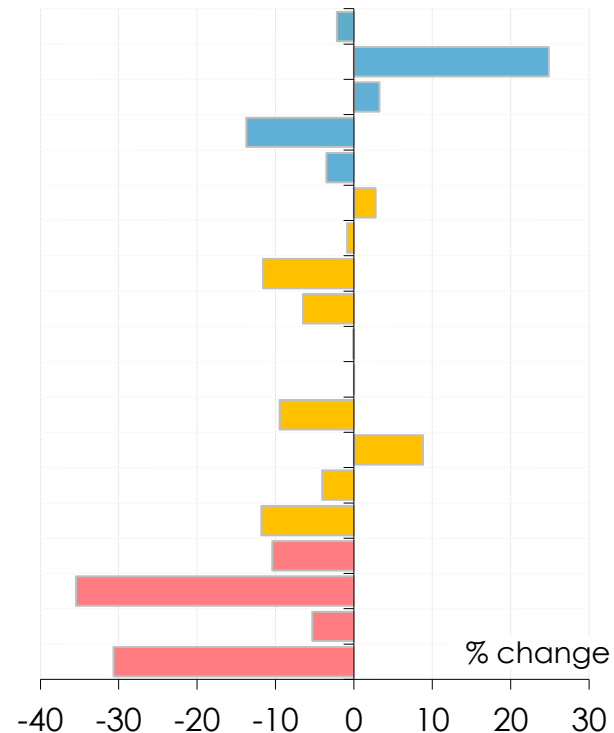
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

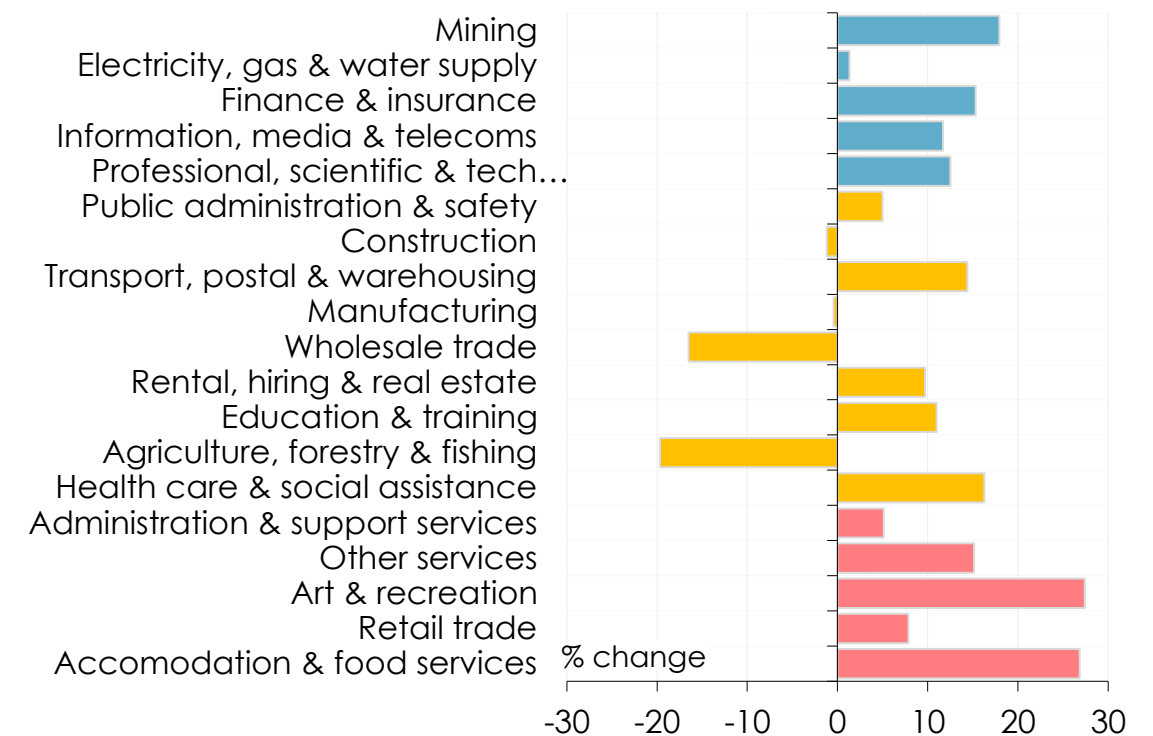
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry
February-May 2020



February 2020 – February 2022



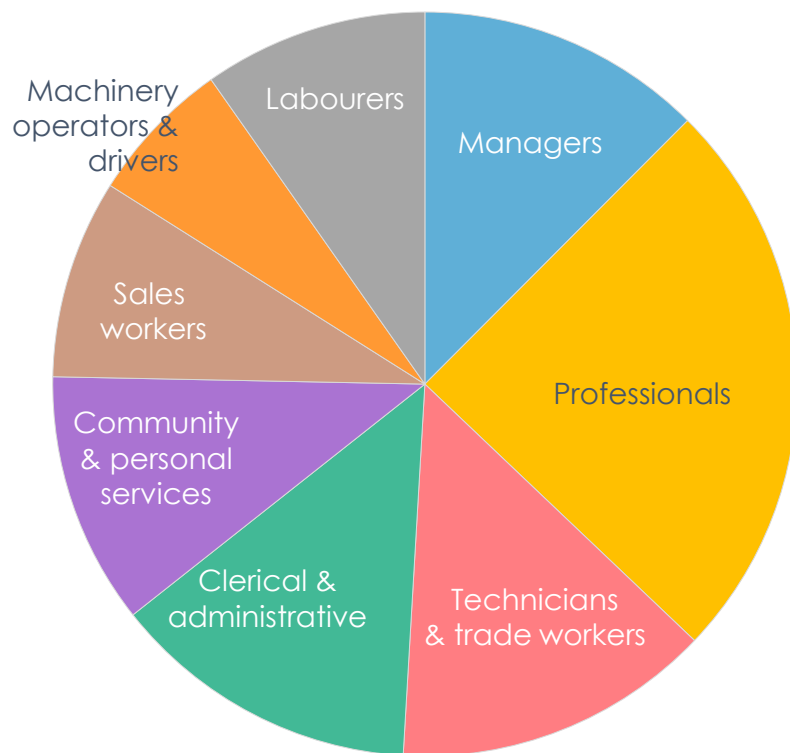
- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May 2020 – and 86% of job losses between May and August 2021 – and despite the recovery in total employment since October 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 23rd June. [Return to "What's New"](#).

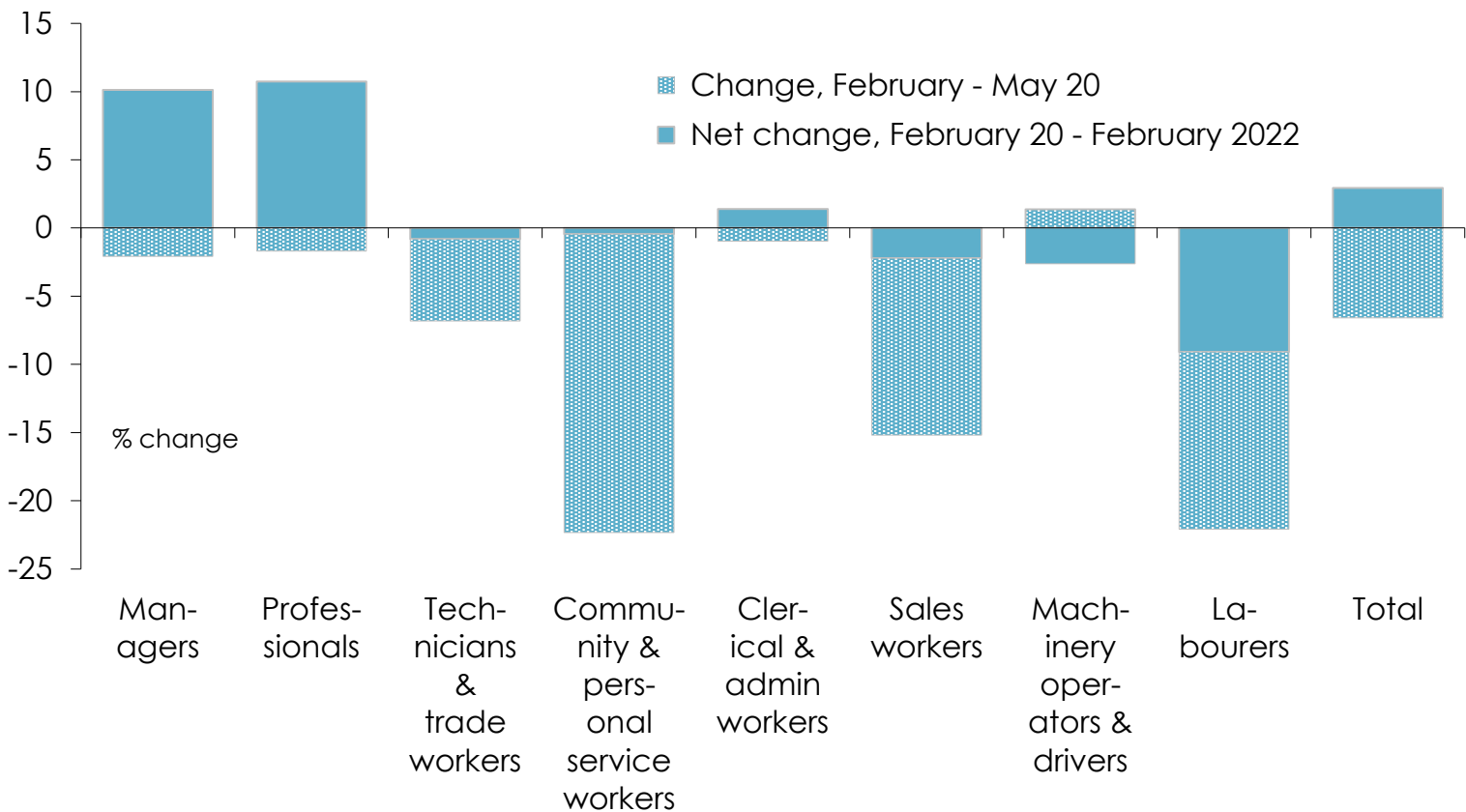
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Employment by major occupation category, February 2020



Change in employment between February 2020 and February 2022, by occupation



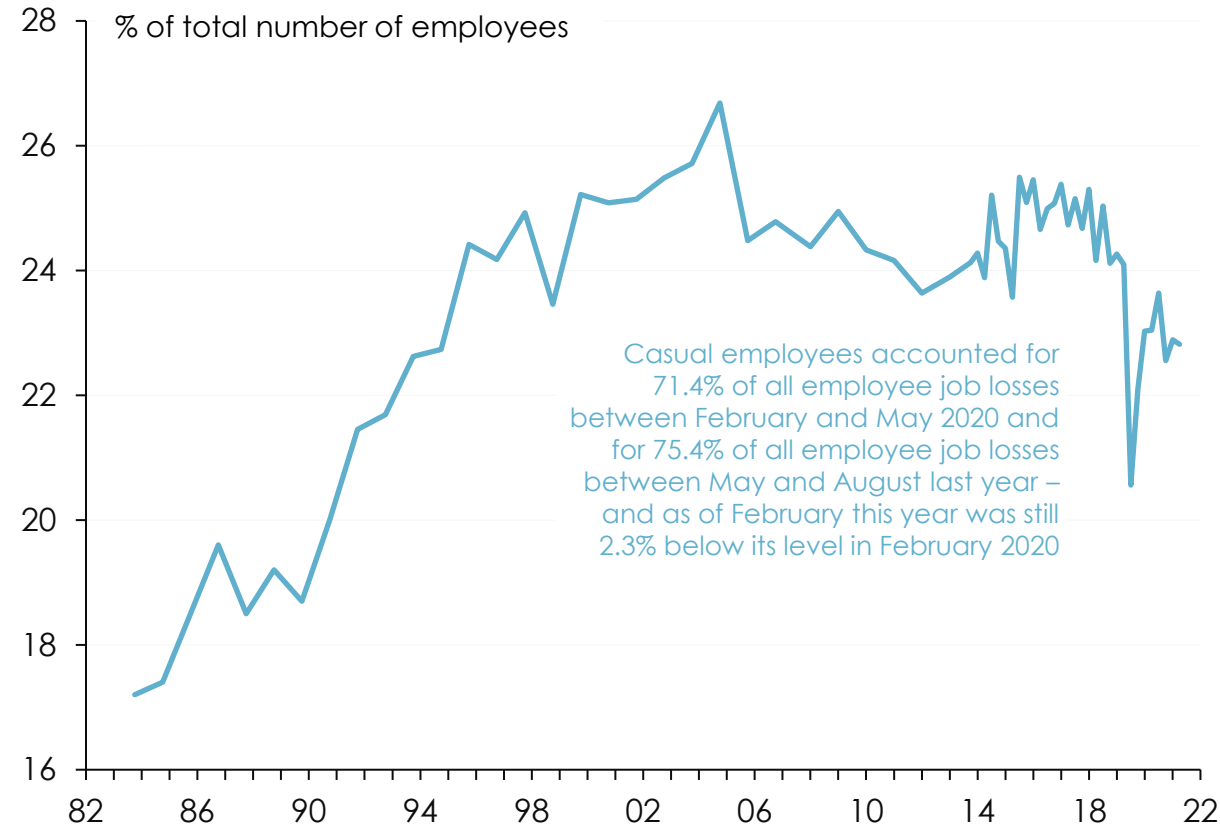
- ❑ Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May 2020 – and for 71% of job losses between May and August 2021 – and there were 3.8% fewer of them in February this year than 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 23rd 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

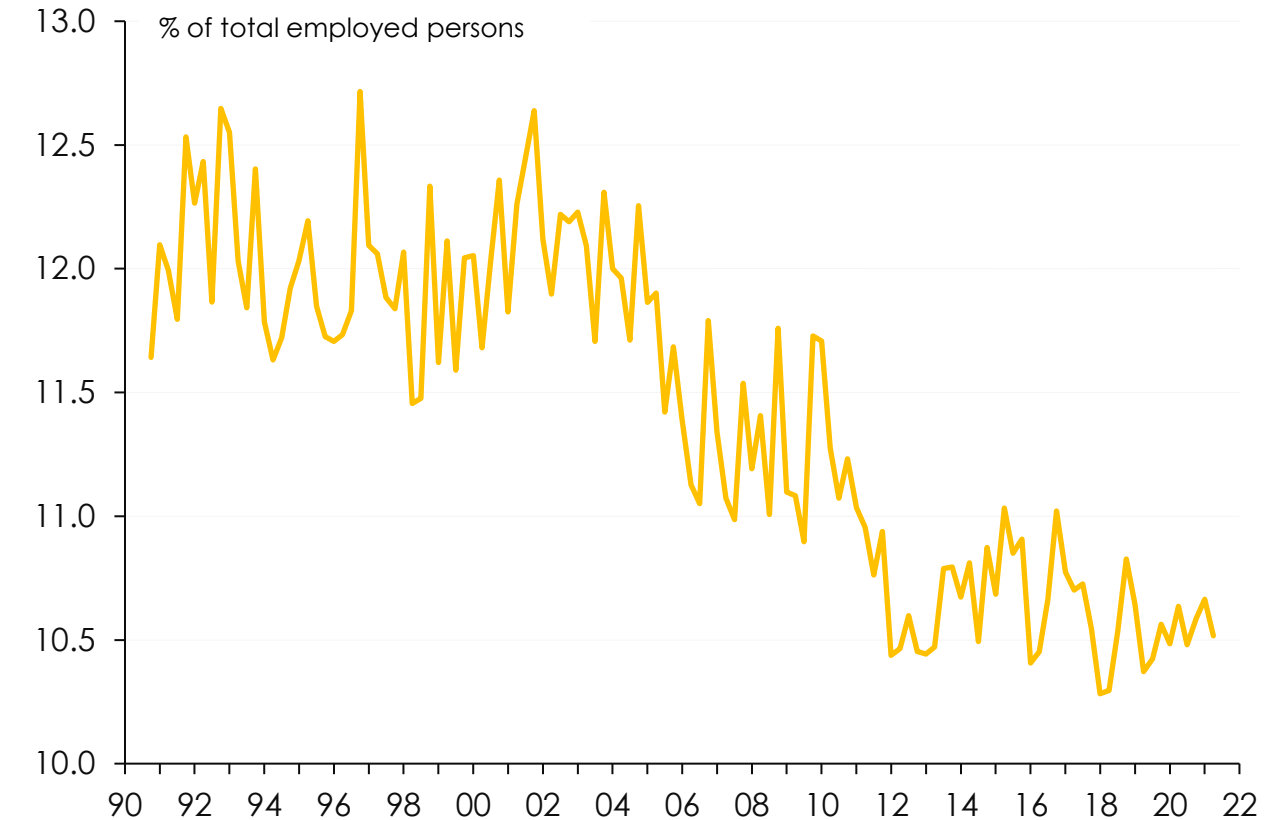
THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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



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

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



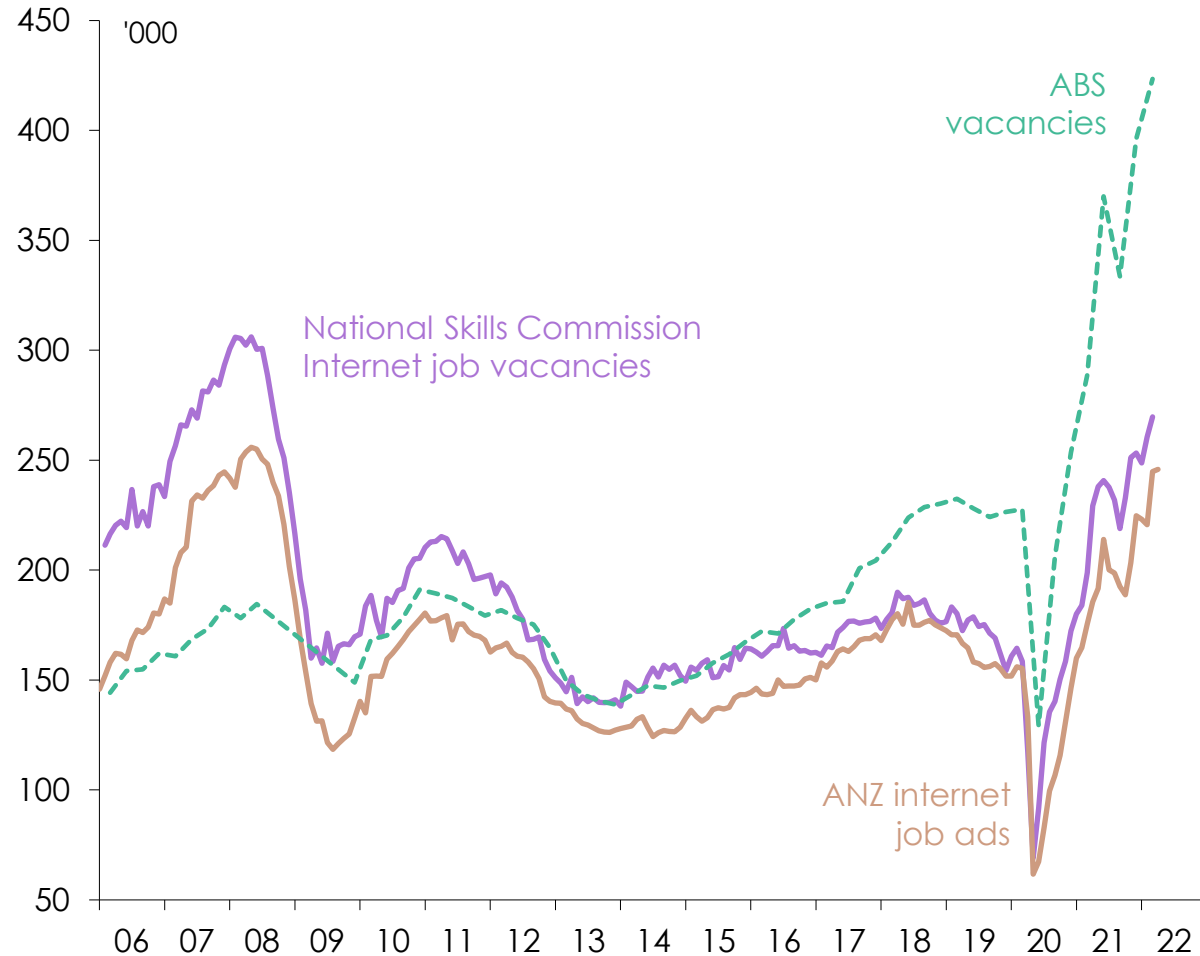
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

In February there were just 14 unemployed people for every 10 job vacancies – the lowest ratio since at least February 1978

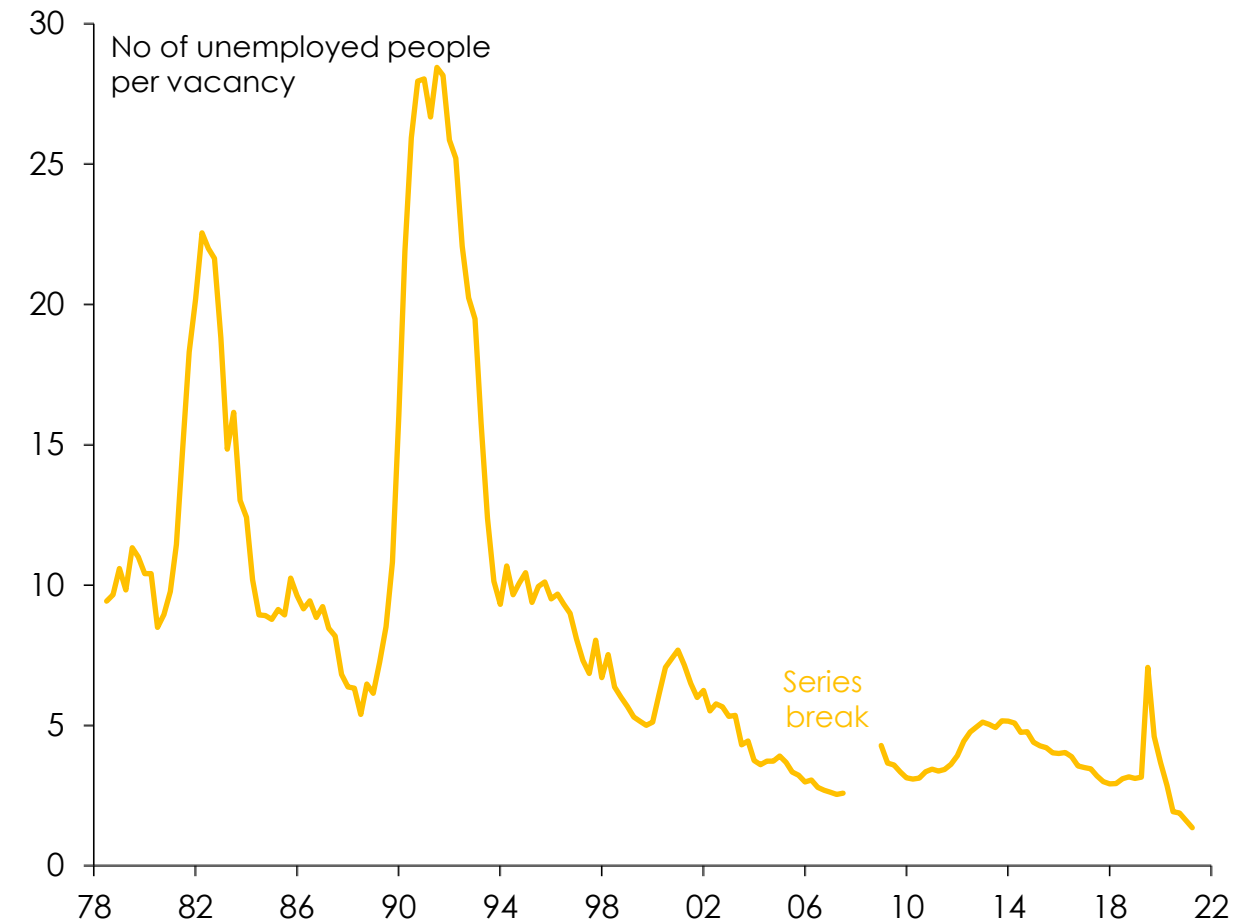
THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Measures of job vacancies



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

Ratio of unemployed people to job vacancies

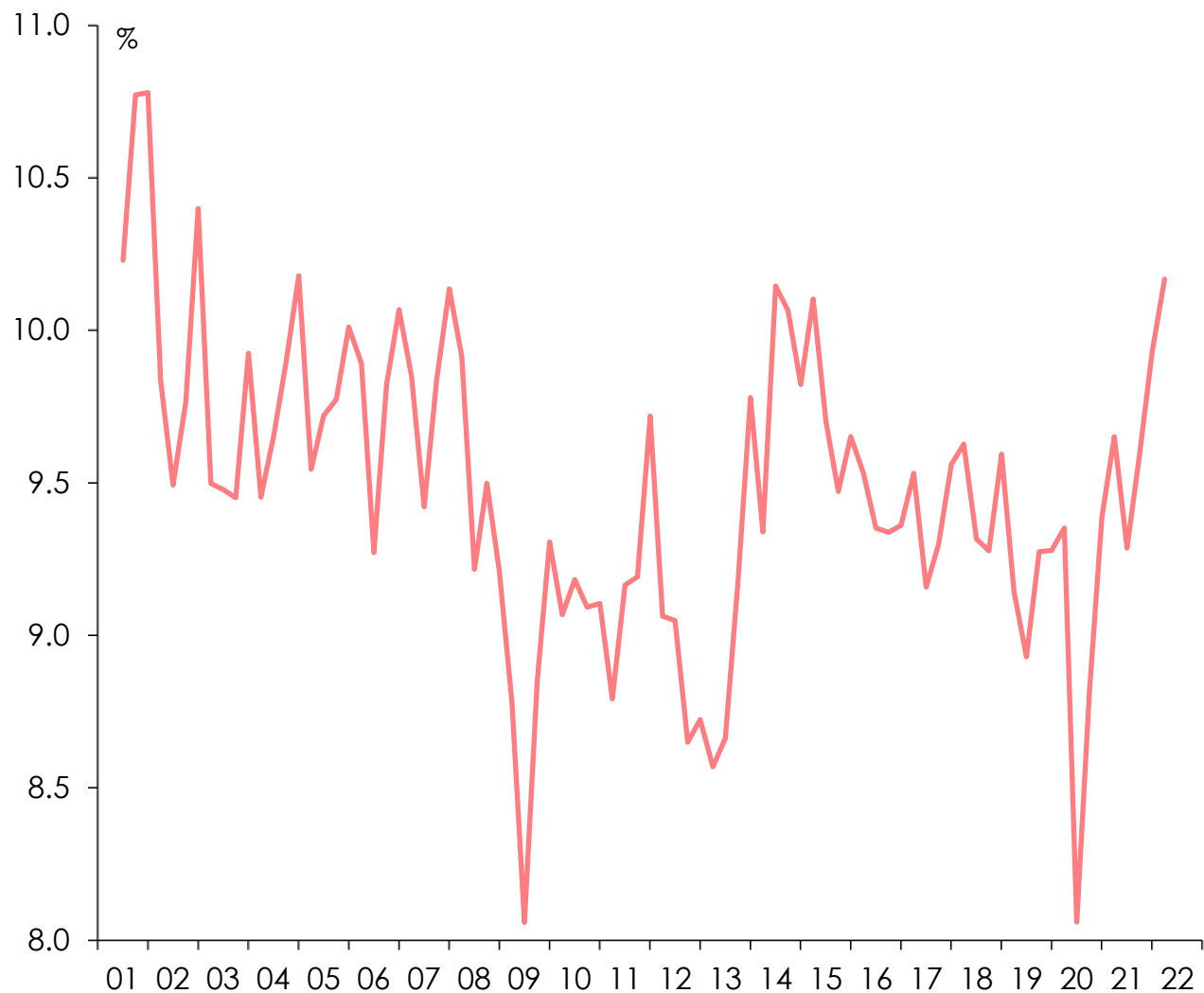


- ❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

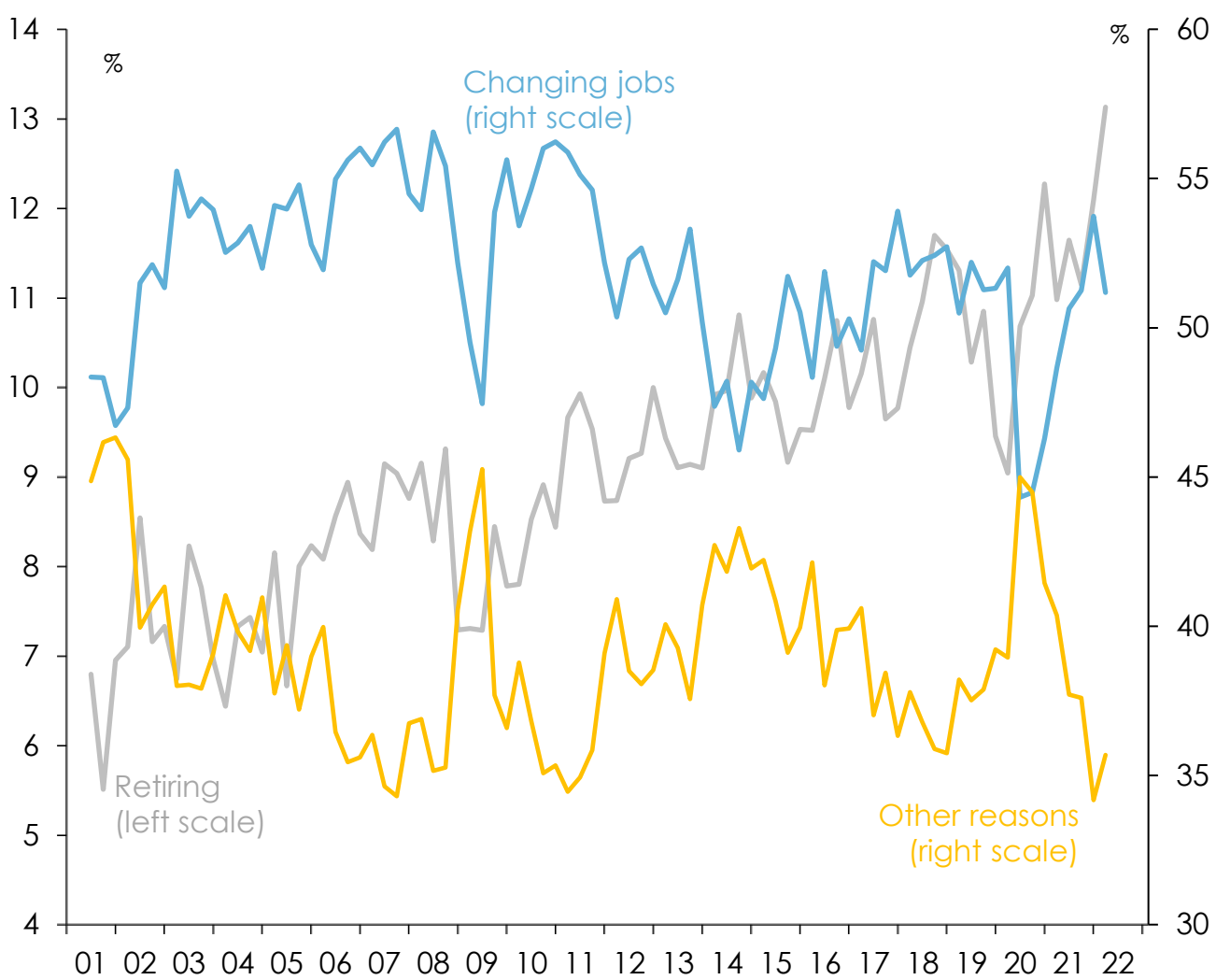
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

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



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



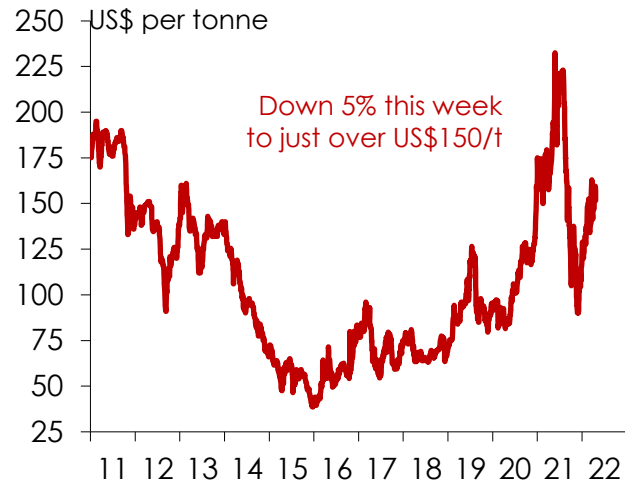
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

Trade and the balance of payments

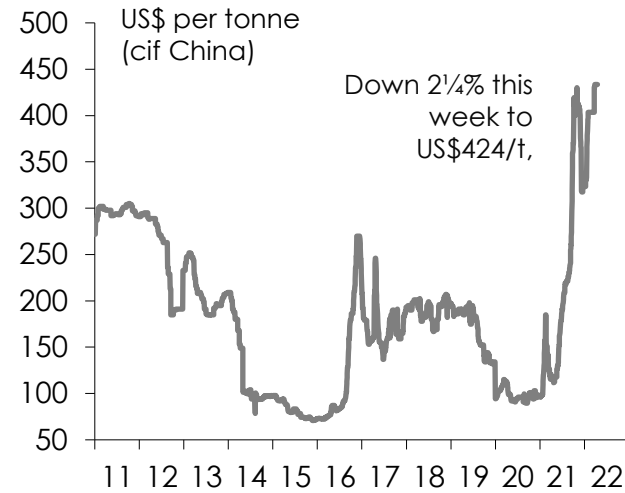
Most 'hard' commodity prices were down slightly this week, except for thermal coal and nickel – though all are up from pre-Ukraine war levels

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

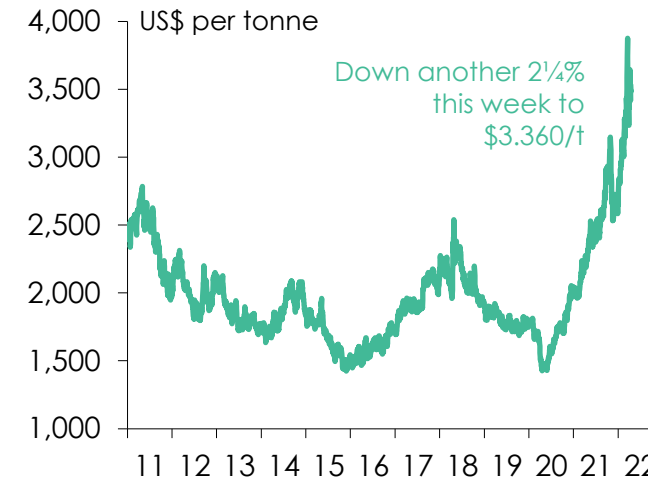
Iron ore



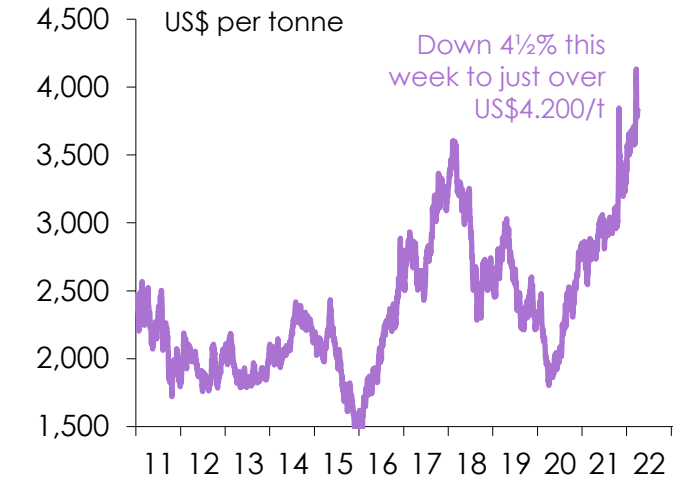
Metallurgical coal



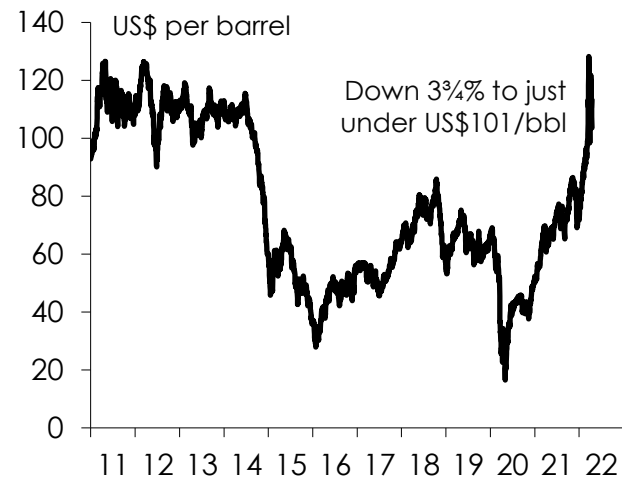
Aluminium



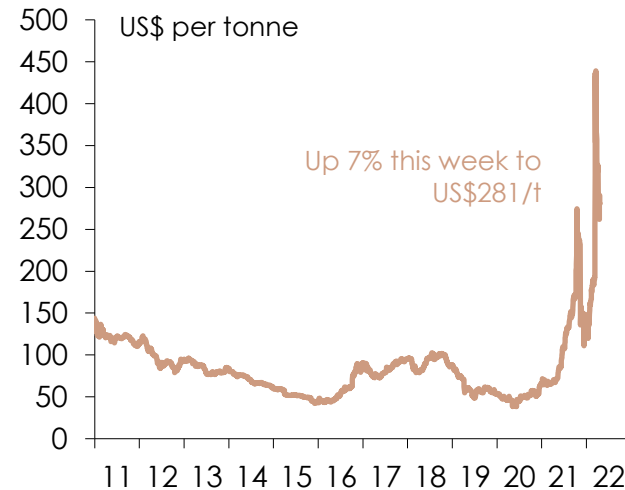
Zinc



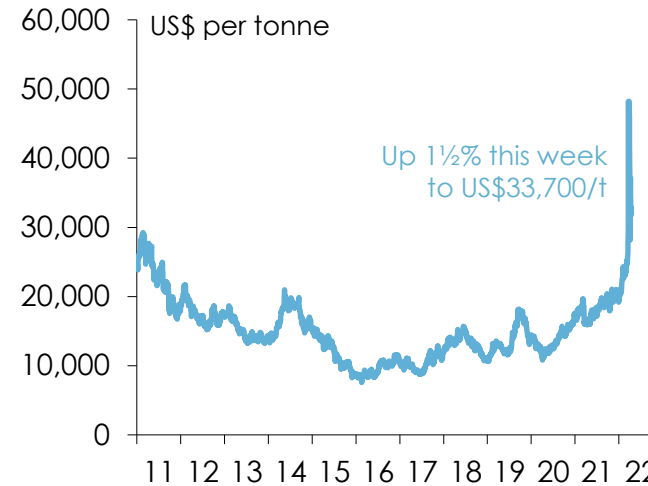
Brent crude oil



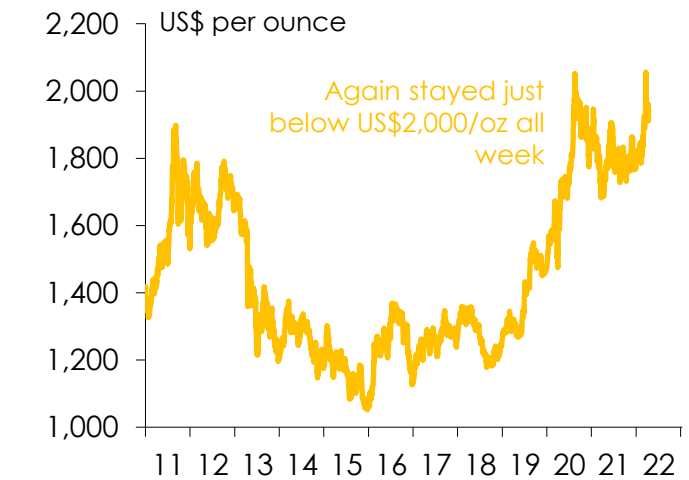
Thermal coal



Nickel



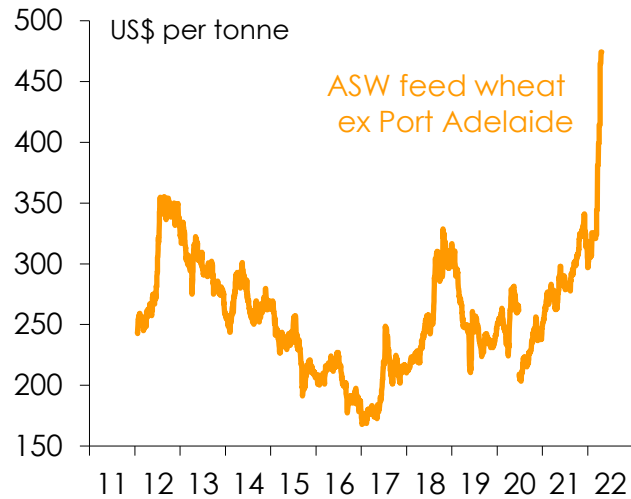
Gold



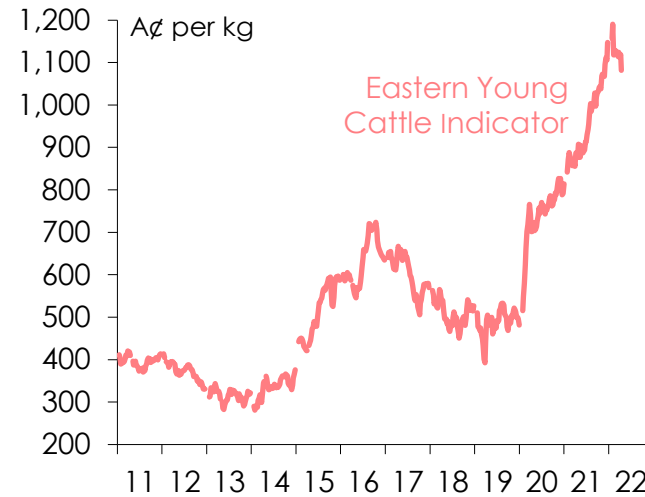
Grain prices rose further this week (with wheat now up 53% since the start of the year), but fibre and livestock prices fell

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

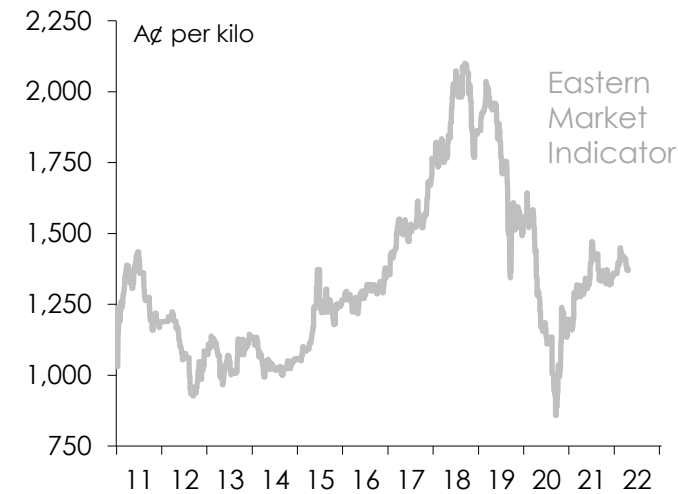
Wheat



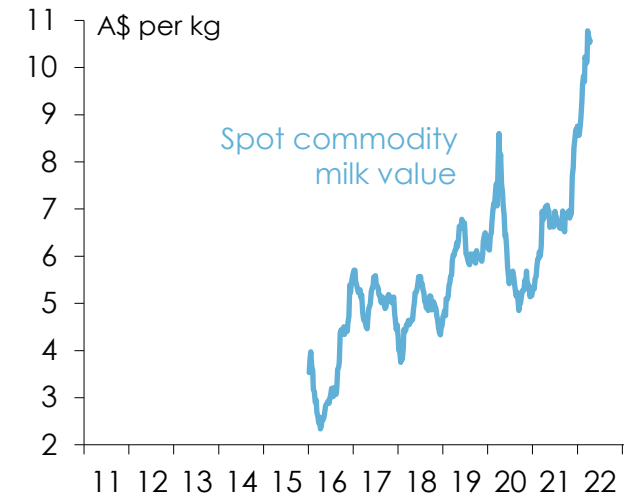
Beef cattle



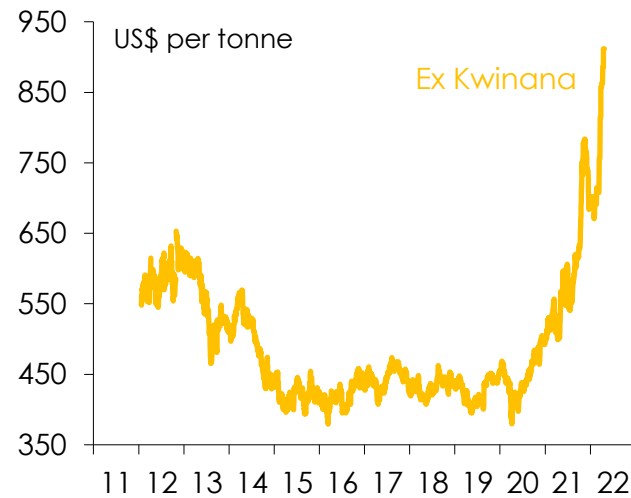
Wool



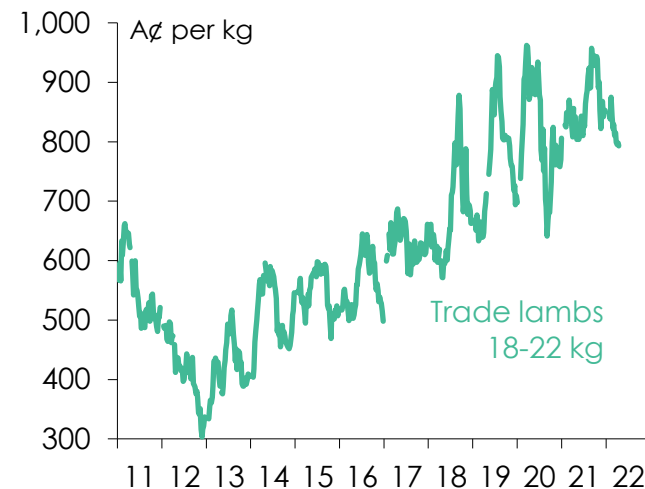
Milk



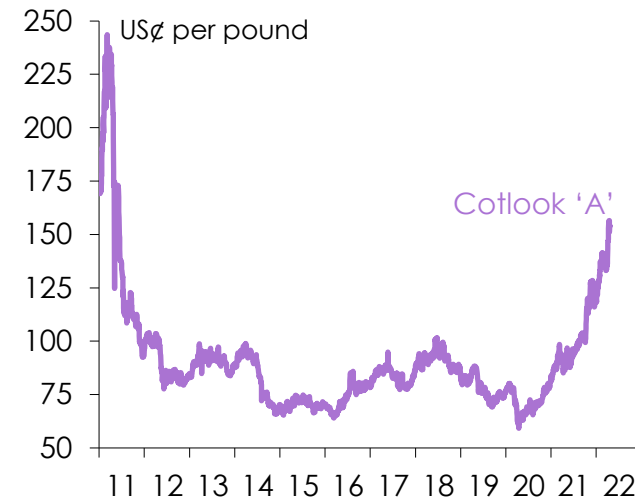
Canola



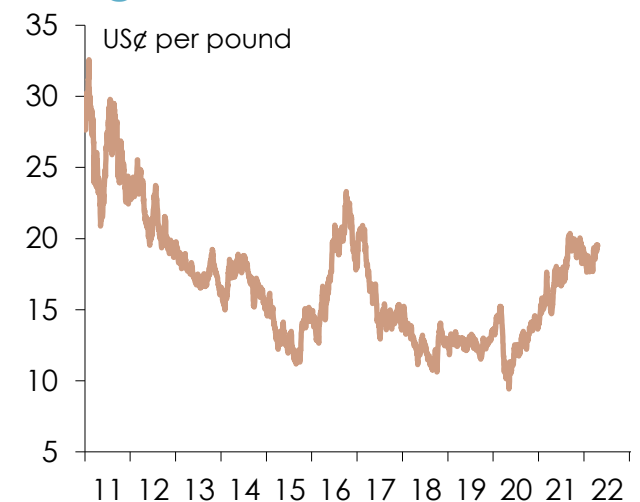
Sheep



Cotton



Sugar

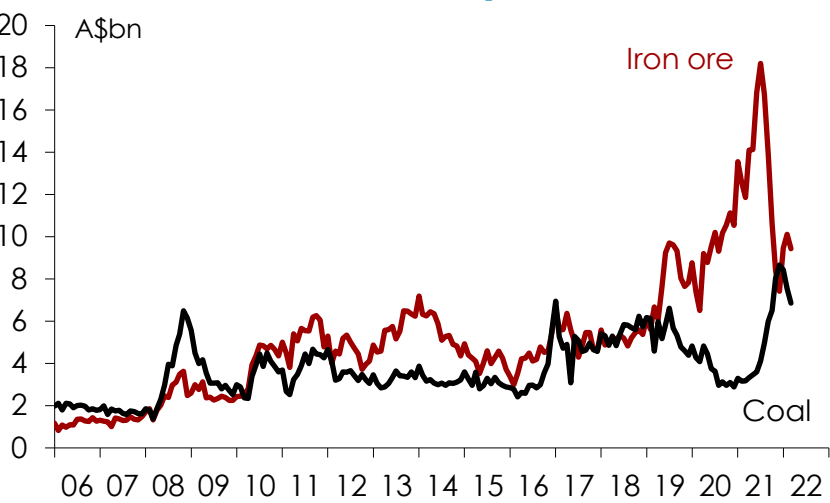


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 8th April.
[Return to "What's New"](#).

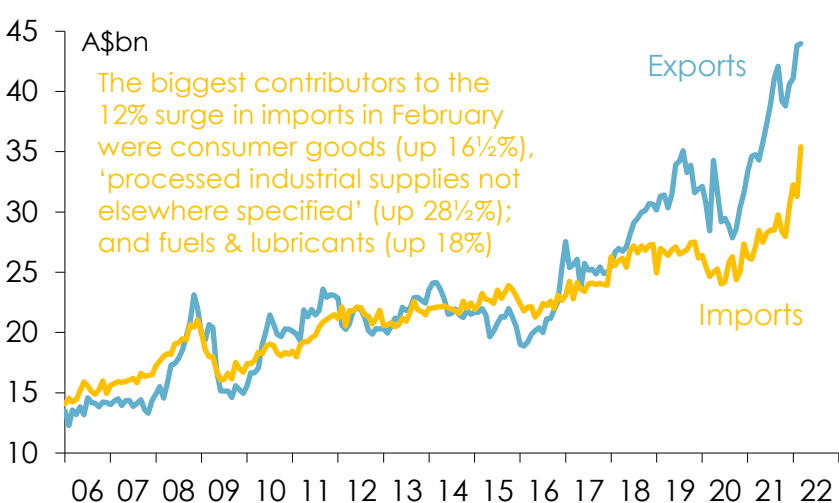
Australia's trade surplus shrank by \$4.3bn to \$7.5bn in February, the smallest in 11 months, reflecting a 12% surge imports

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

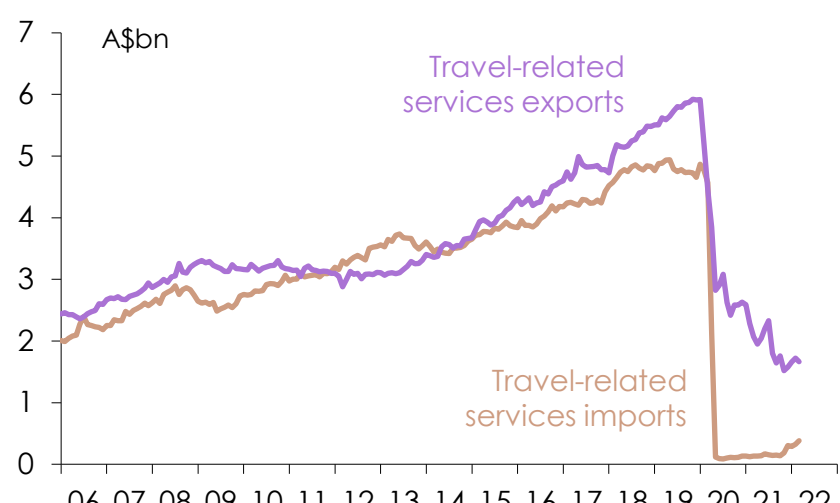
Iron ore and coal exports



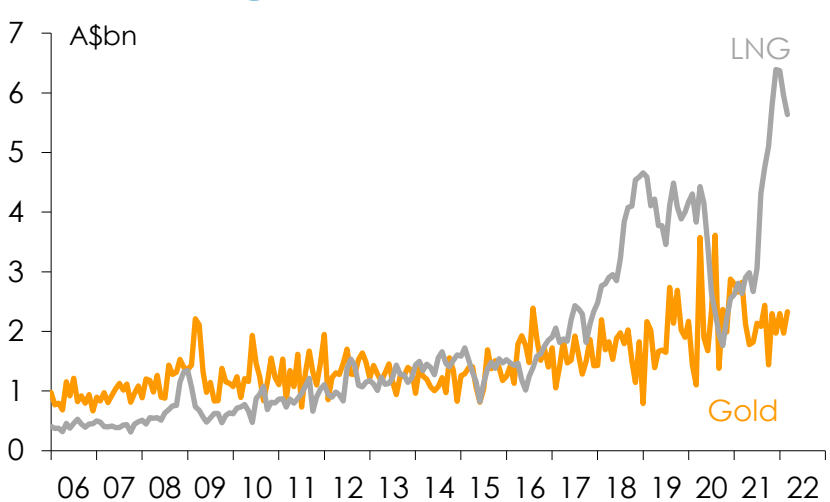
Merchandise exports and imports



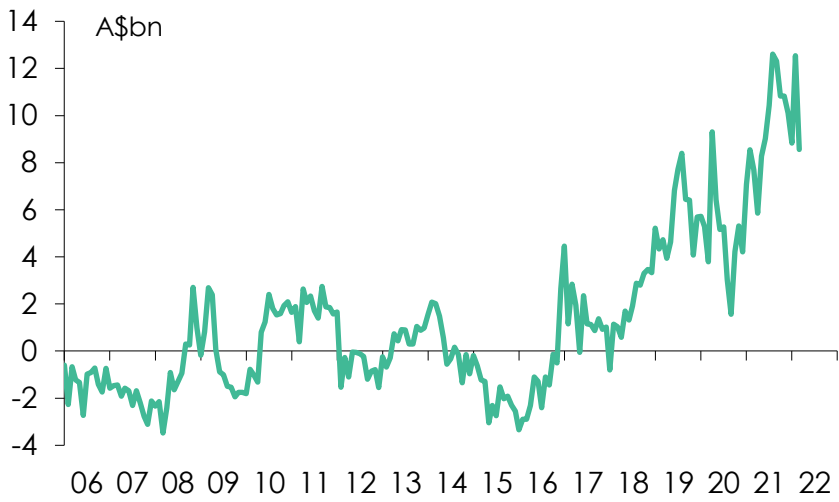
Tourism-related services trade



LNG and gold exports



Merchandise trade balance



Tourism services trade balance

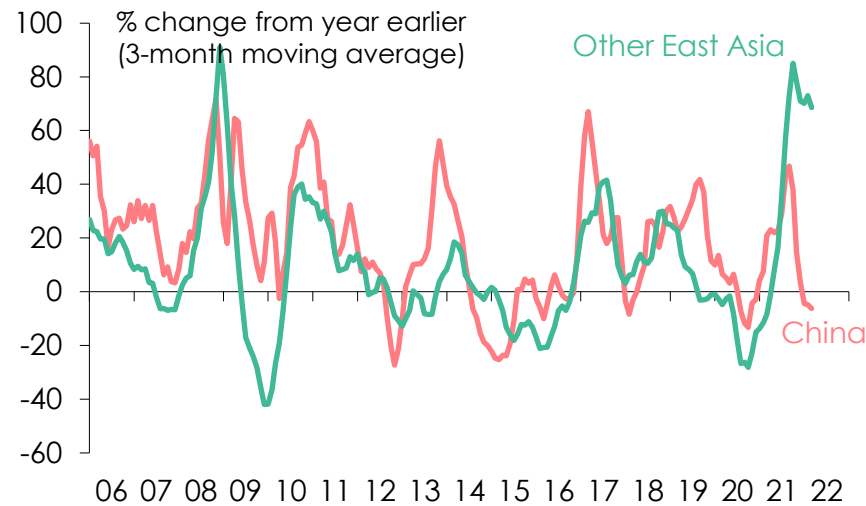


Source: ABS, [International Trade in Goods and Services, Australia](#), February 2021. March data will be released on 5th May. [Return to "What's New"](#).

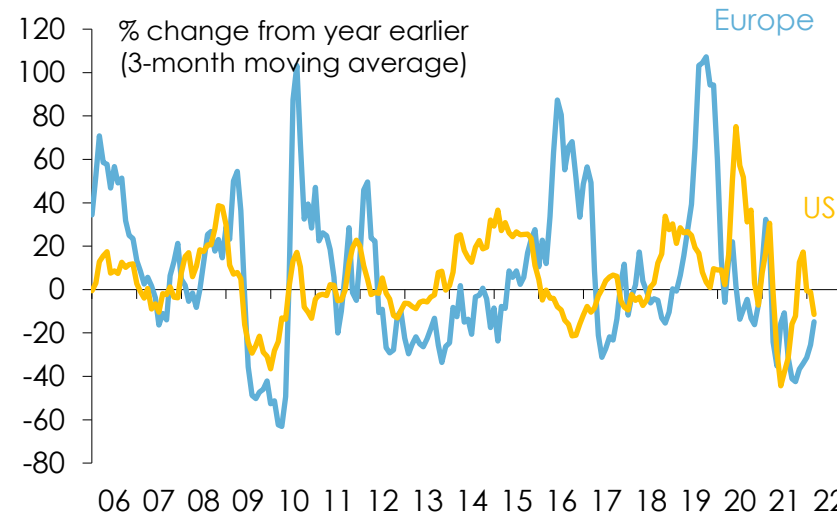
Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

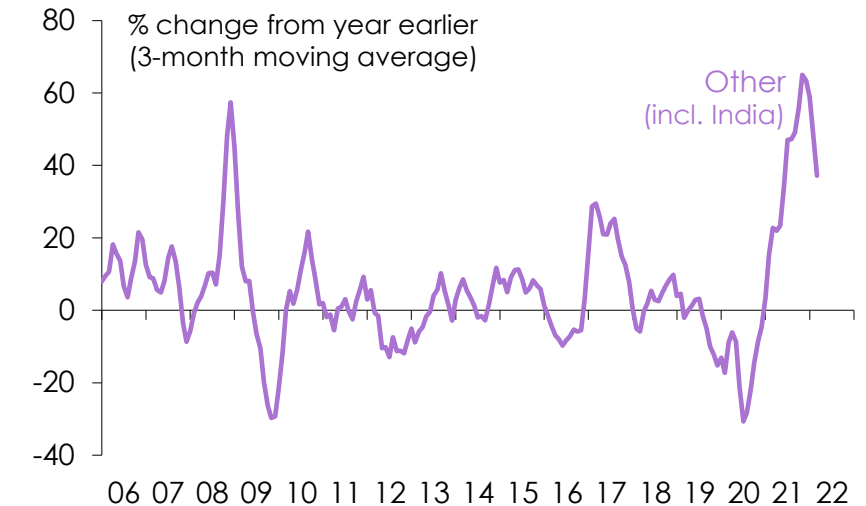
Merchandise exports – East Asia



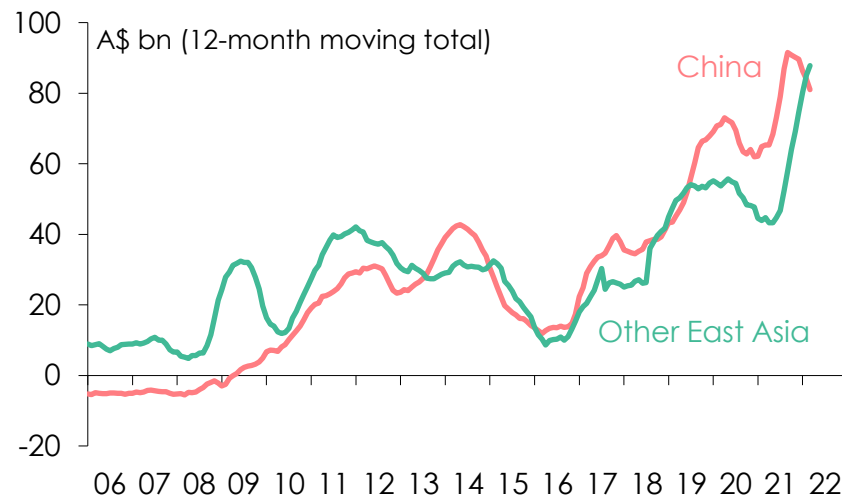
Merchandise exports – US & Europe



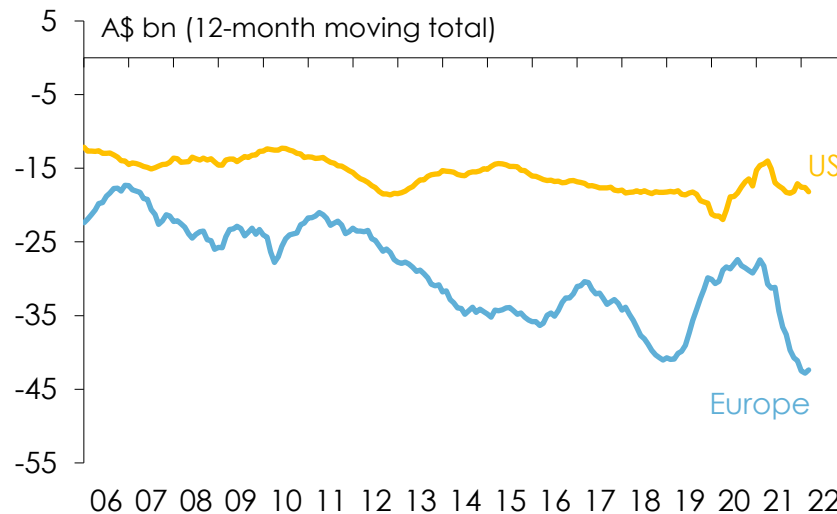
Merchandise exports – other



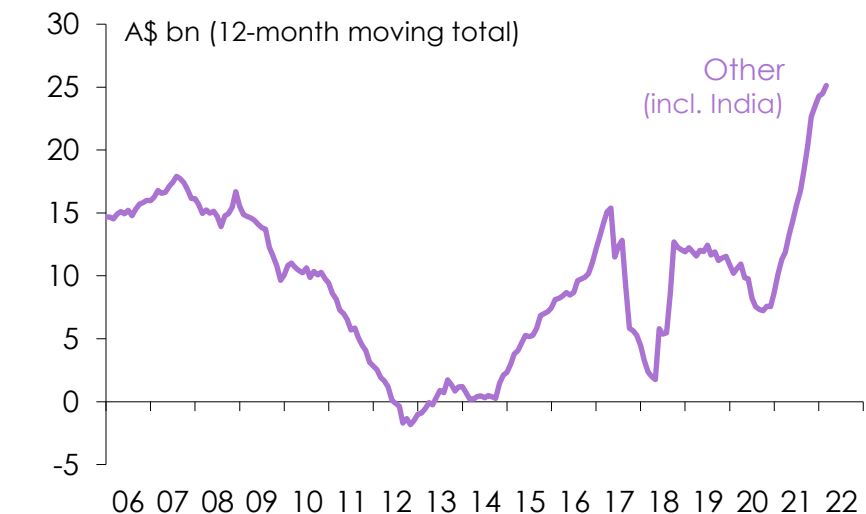
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

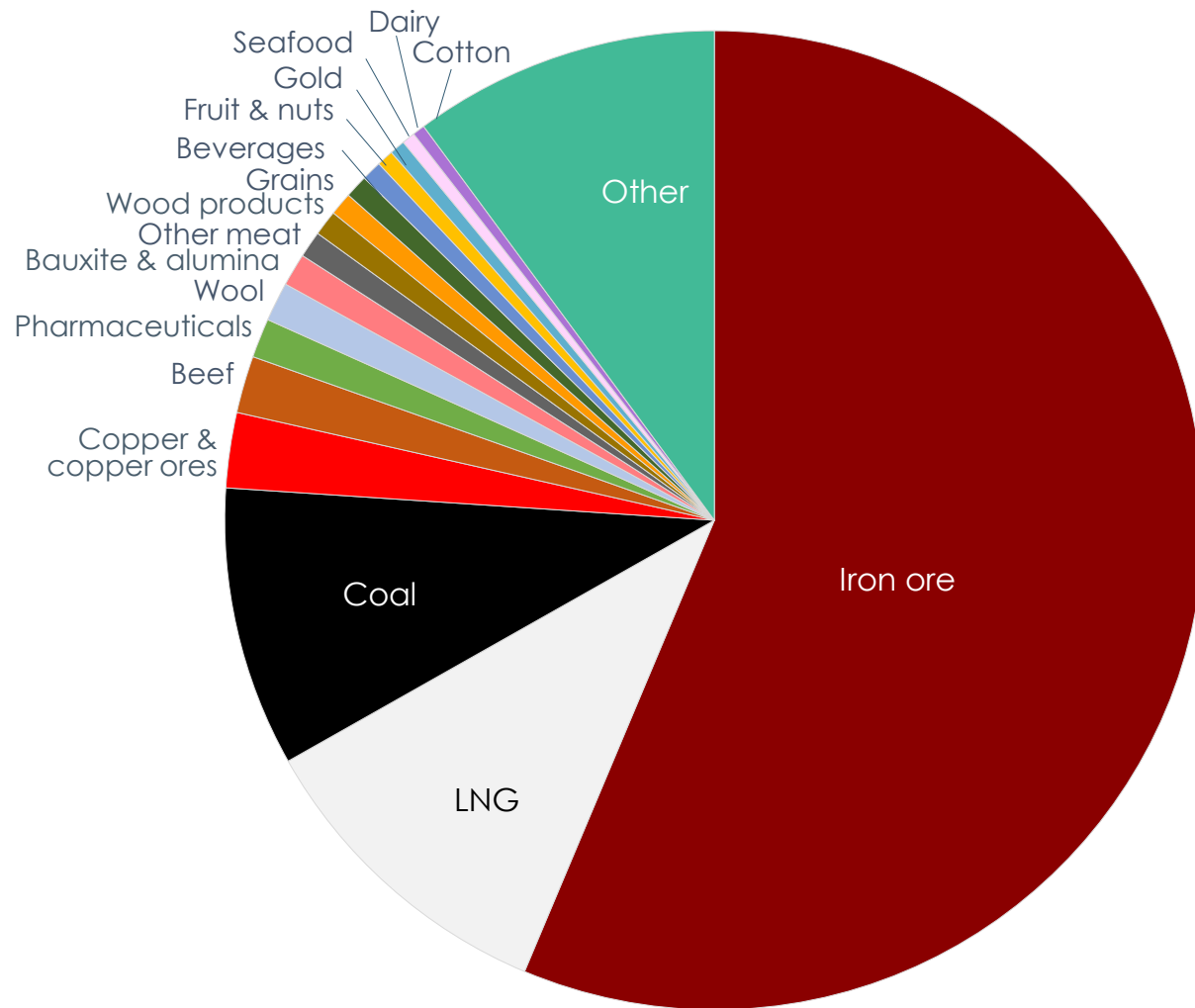


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS, [International Trade in Goods and Services, Australia](#), February 2022. March data will be released on 5th May. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Australia's merchandise exports to China, 2019-20



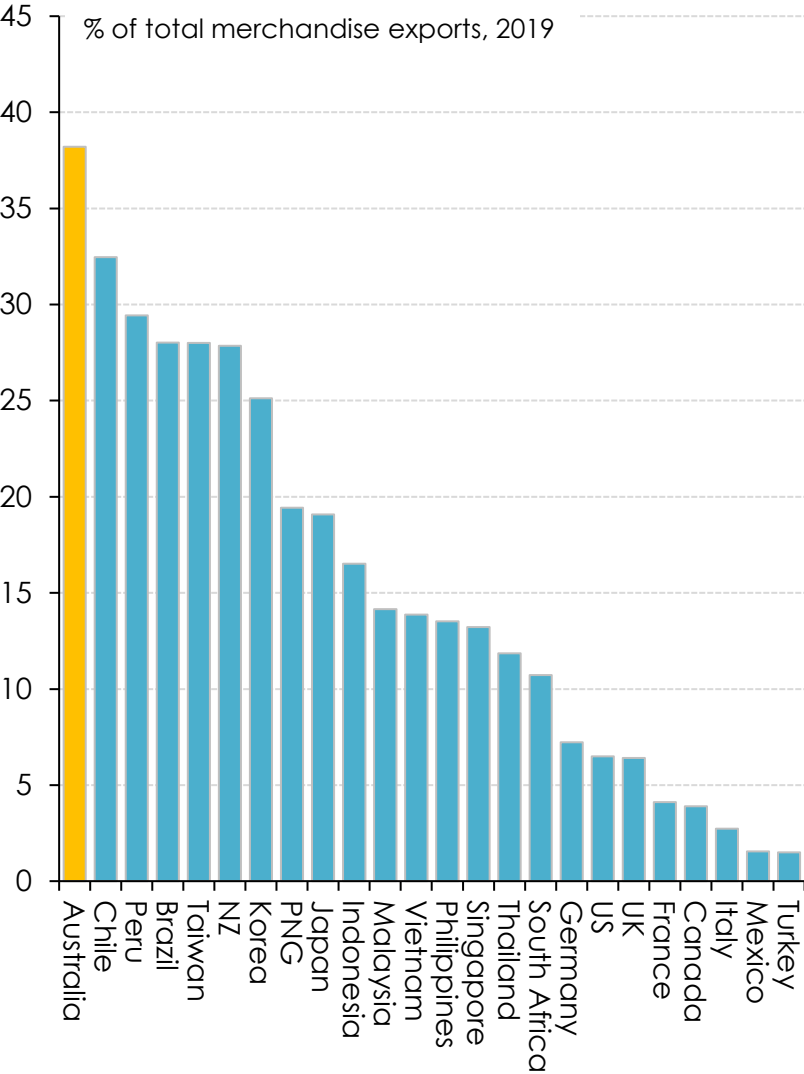
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items. Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna, [Return to "What's New"](#).

- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
 - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019 (of which tourism & education accounted for over 90%)
- ❑ China has no real alternatives to Australian iron ore in the near term – but a wide range of other Australian products have been 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” – a view which has intensified after the announcement in September 2021 of [a new defence pact](#) with the US and UK
- ❑ Bilateral relations deteriorated further this month with China signing an [agreement with the Solomon Islands](#) which may lead to the establishment there of a military presence; and the secret trial in Beijing of [Australian-Chinese journalist Cheng Lei](#) on charges of ‘divulging state secrets’

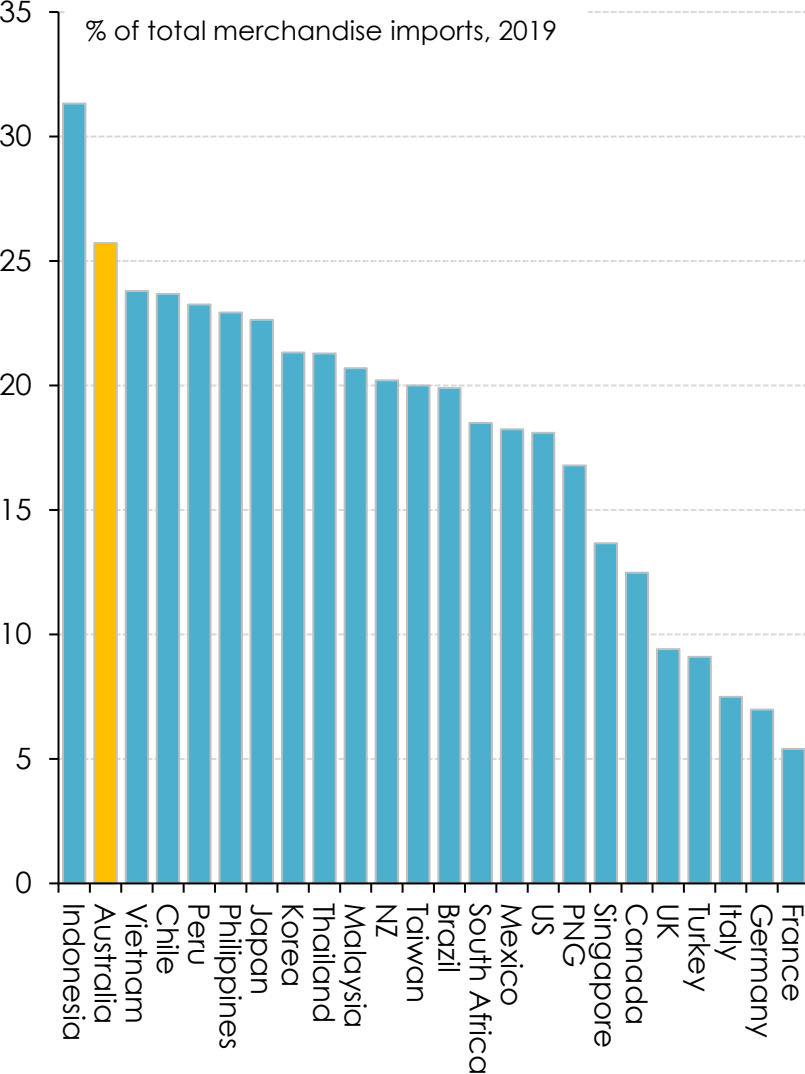
China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

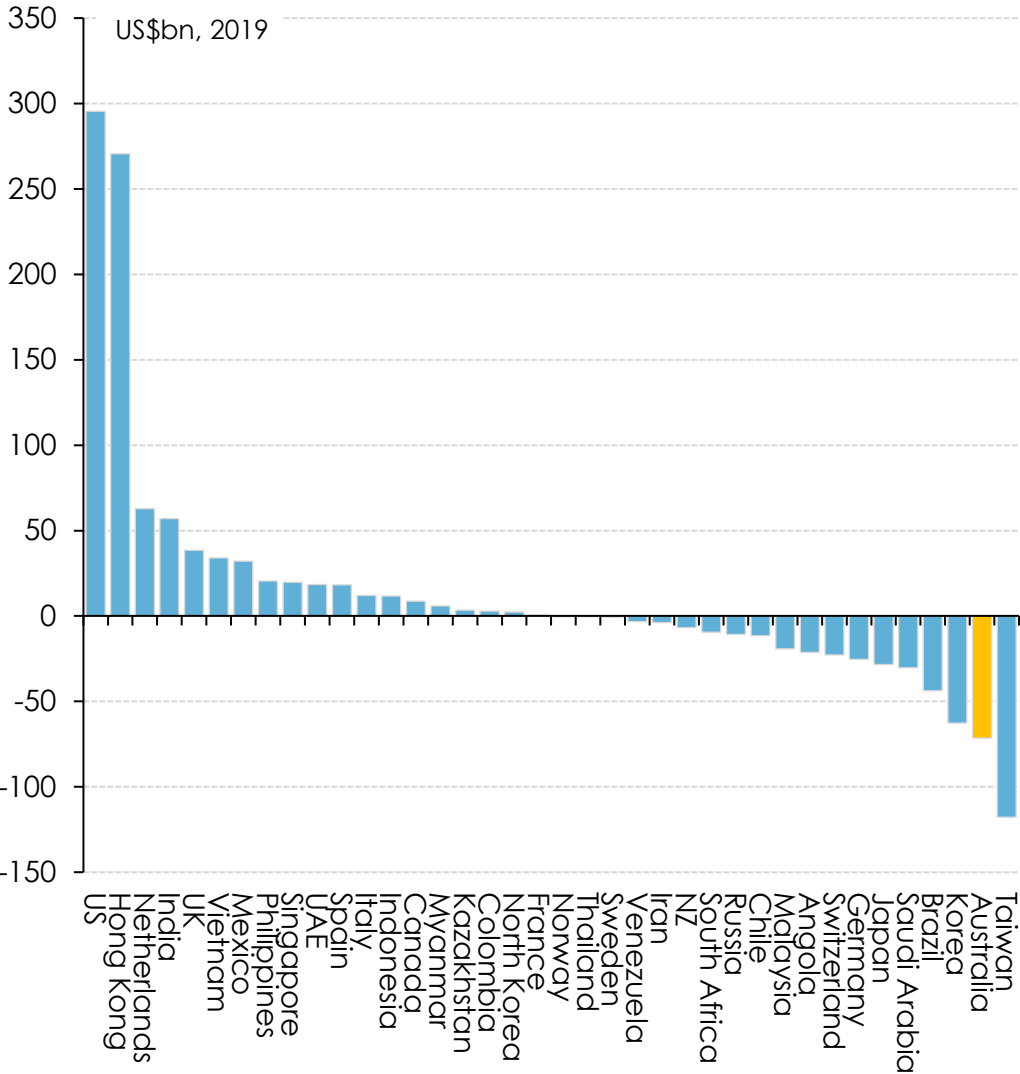
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



China's bilateral merchandise trade balances

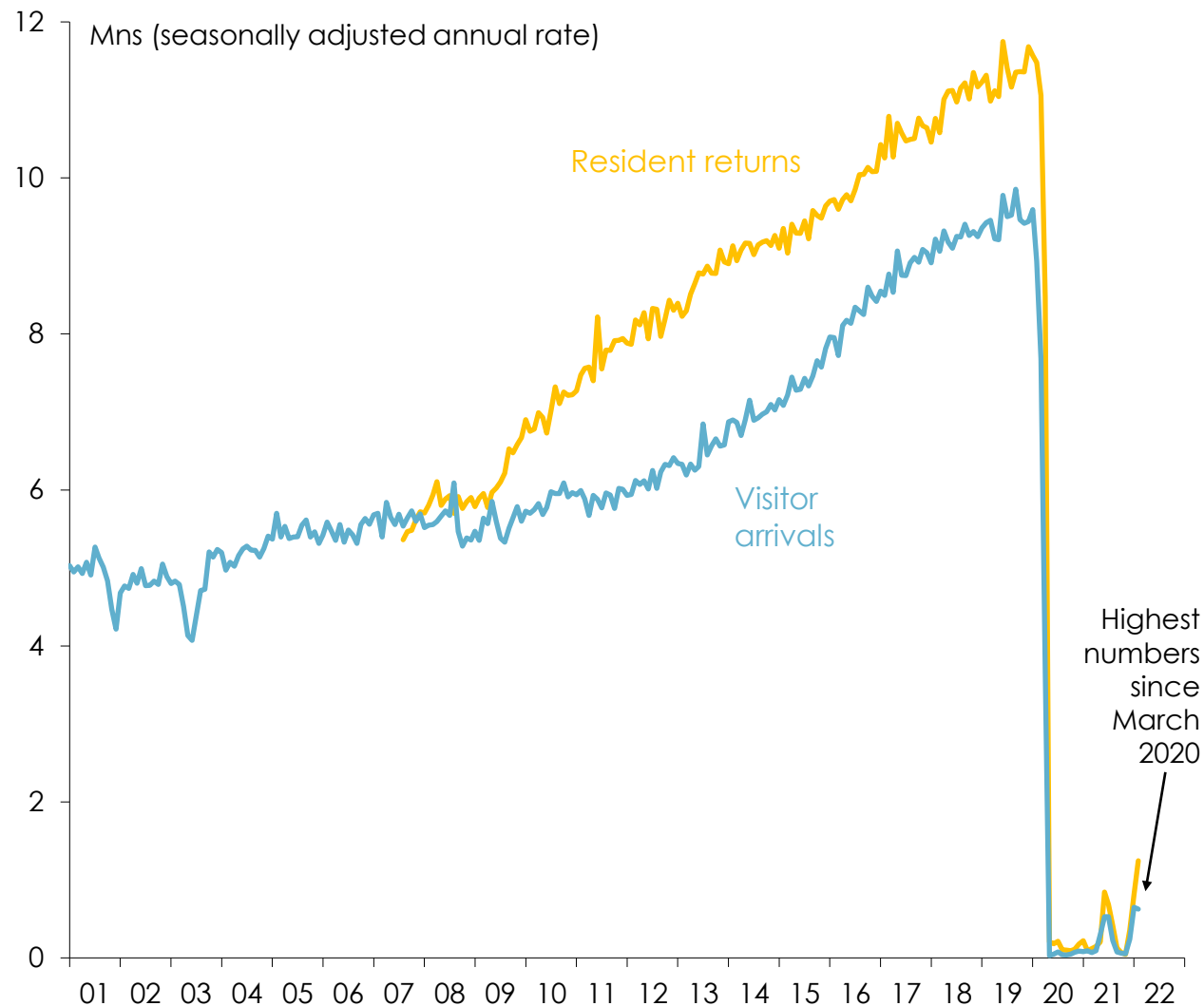


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

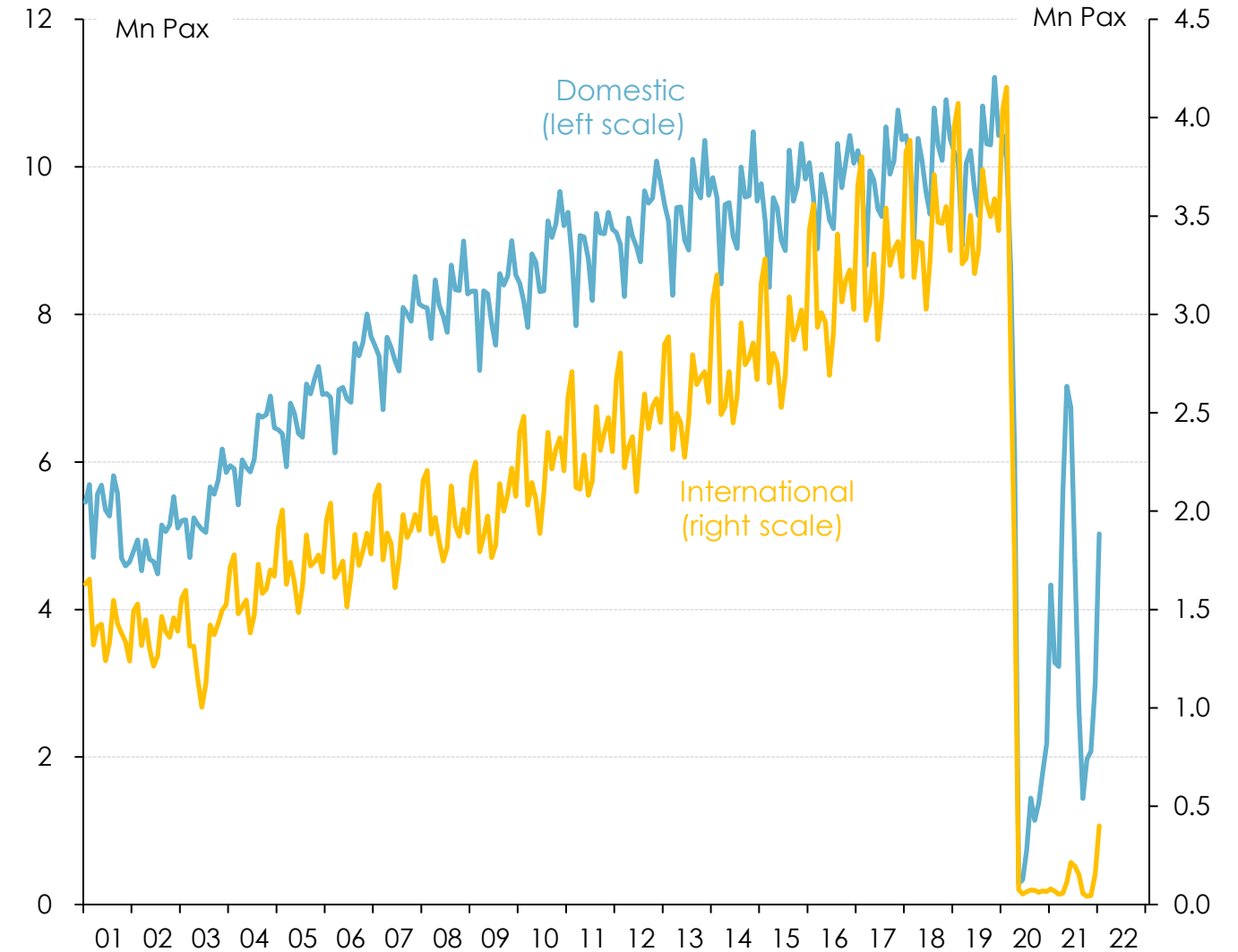
The re-opening of Australia's international and interstate borders has seen a pick-up in international arrivals & departures and in airport movements

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Short-term visitor arrivals and resident returns



Airport passenger movements

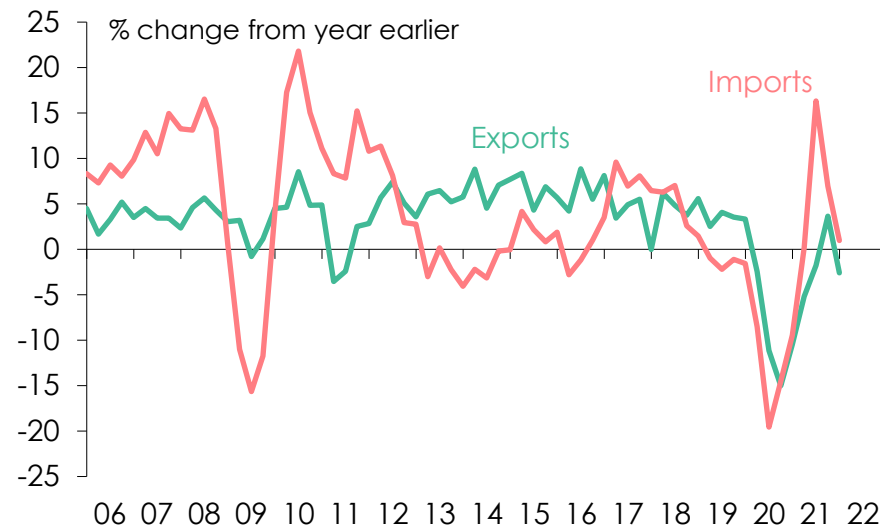


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

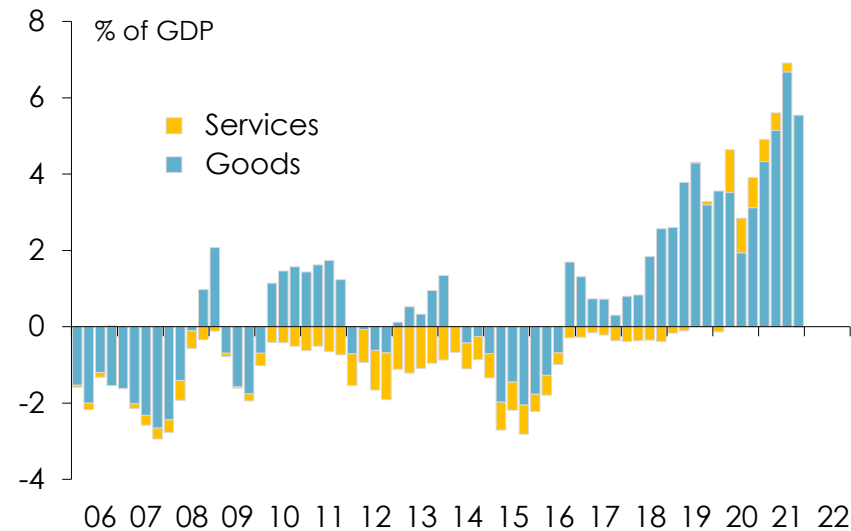
Australia's current account surplus shrank by nearly half in Q4 last year, with the trade surplus declining and the income deficit increasing

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

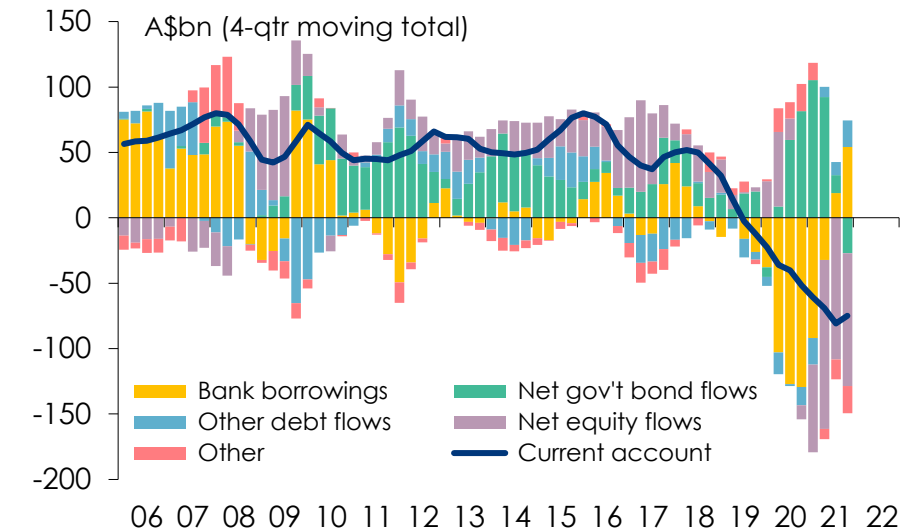
Export and import volumes



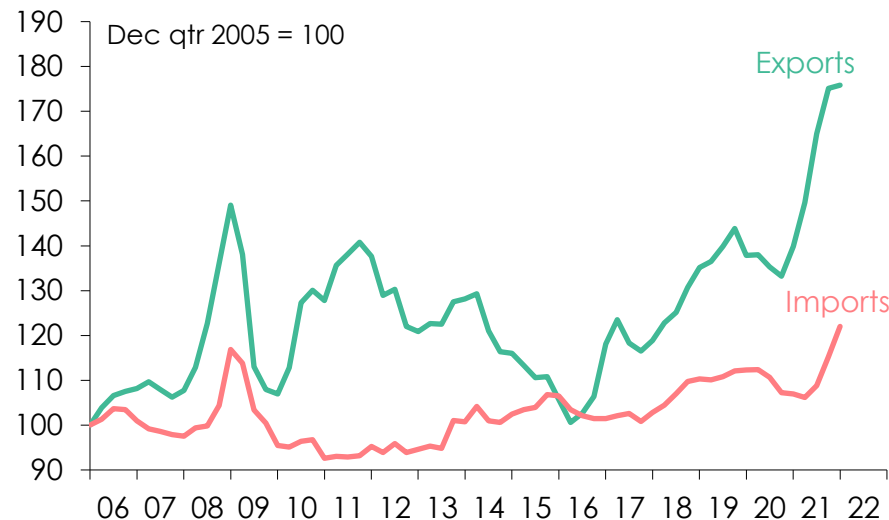
Goods & services trade balances



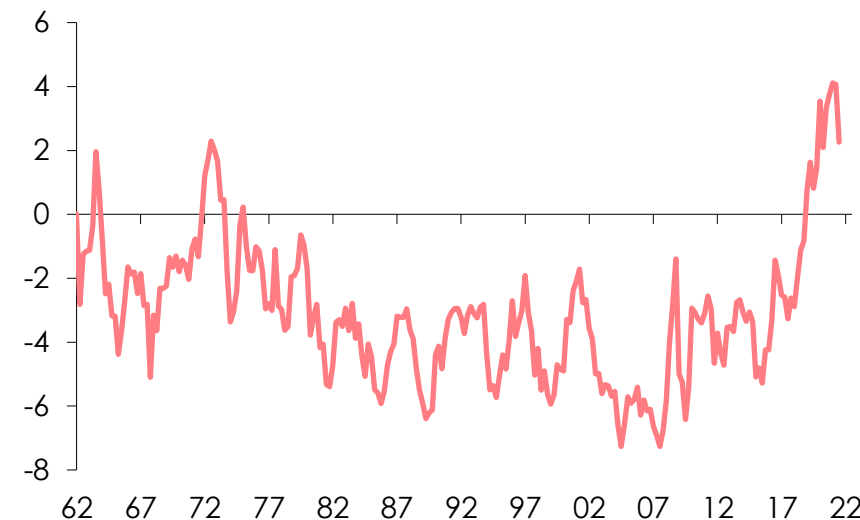
Capital flows



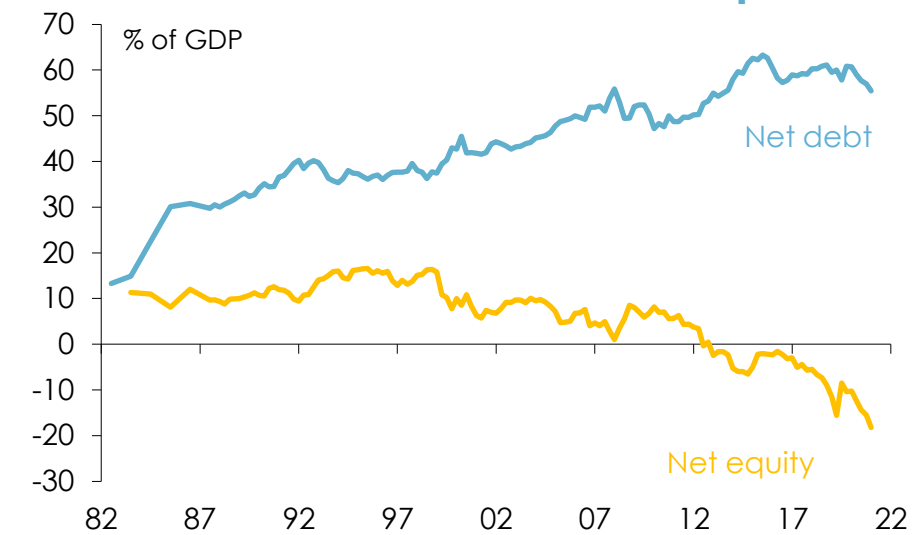
Export and import prices



Current account balance



Net international investment position



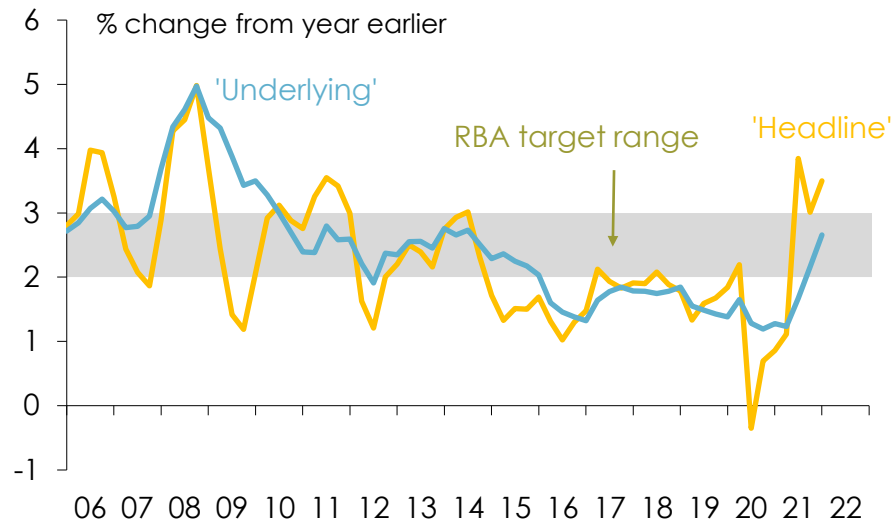
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

Inflation

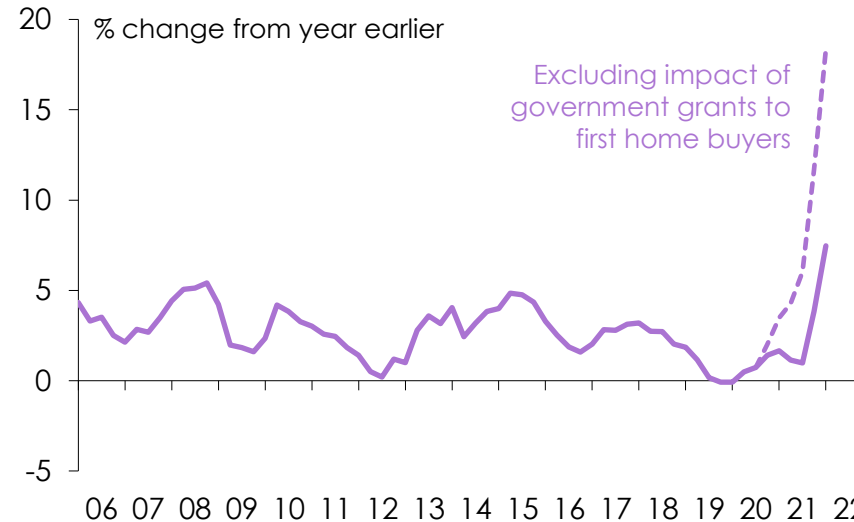
The December quarter CPI was unequivocally higher than expected, and puts some pressure on the RBA to start raising rates this year

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

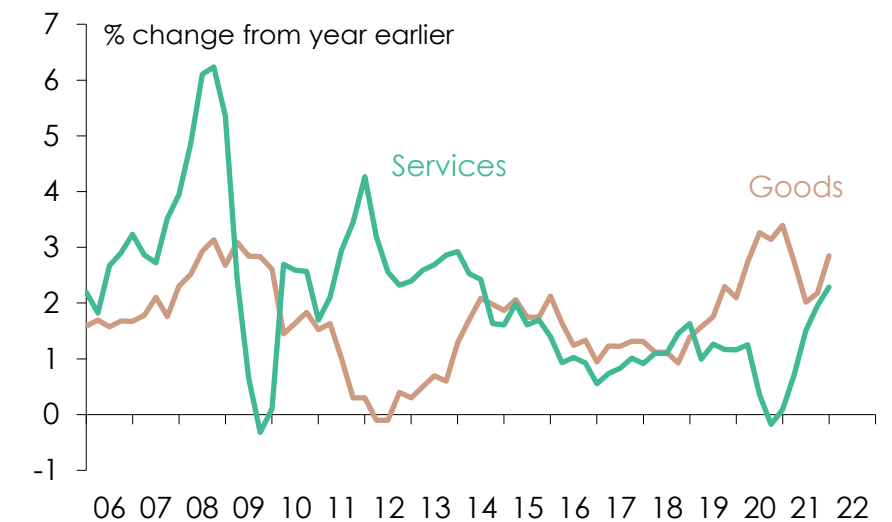
Consumer prices – annual change



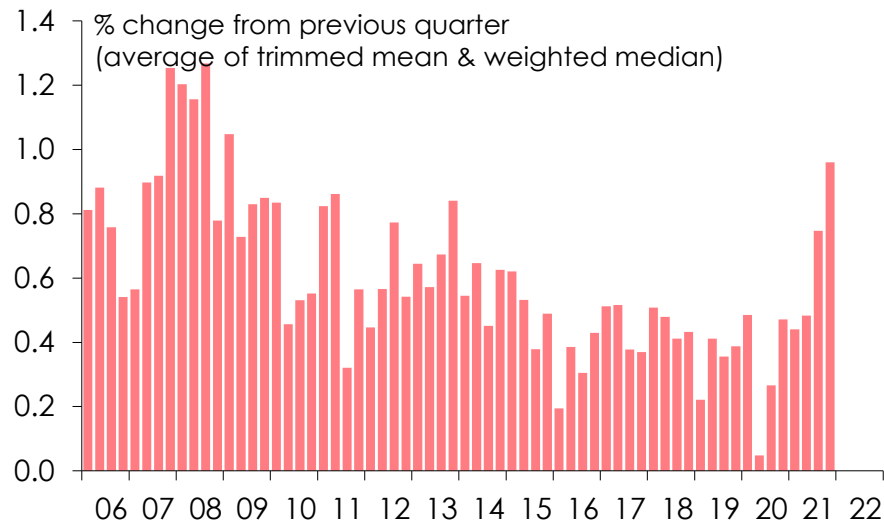
New dwelling purchase costs



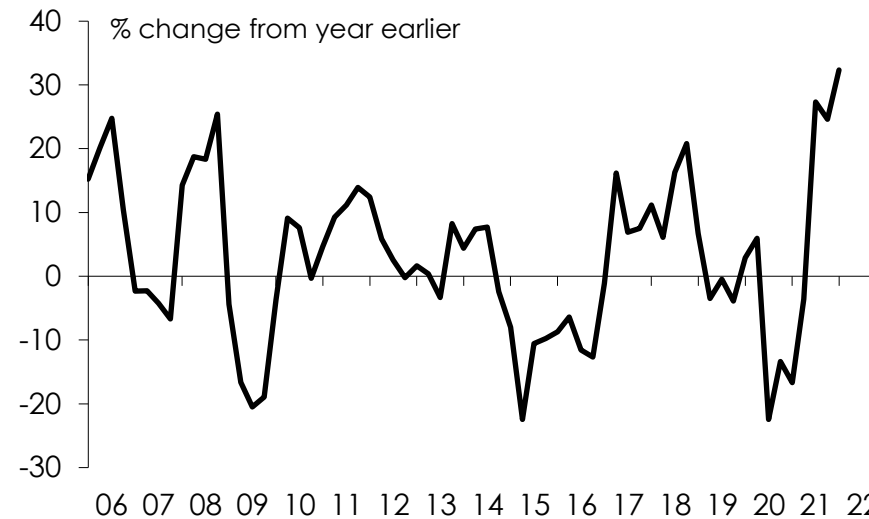
'Market' goods vs services



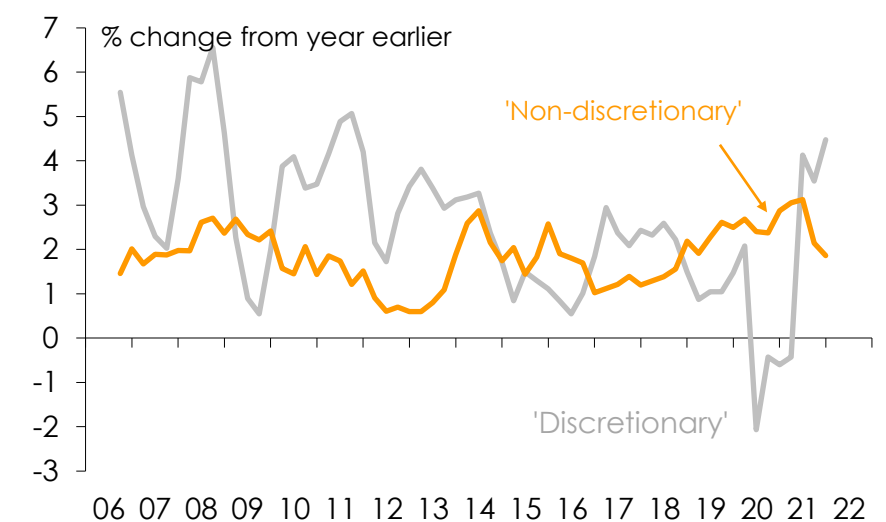
Quarterly 'underlying' inflation



Automotive fuel prices



'Discretionary' vs 'essential' items

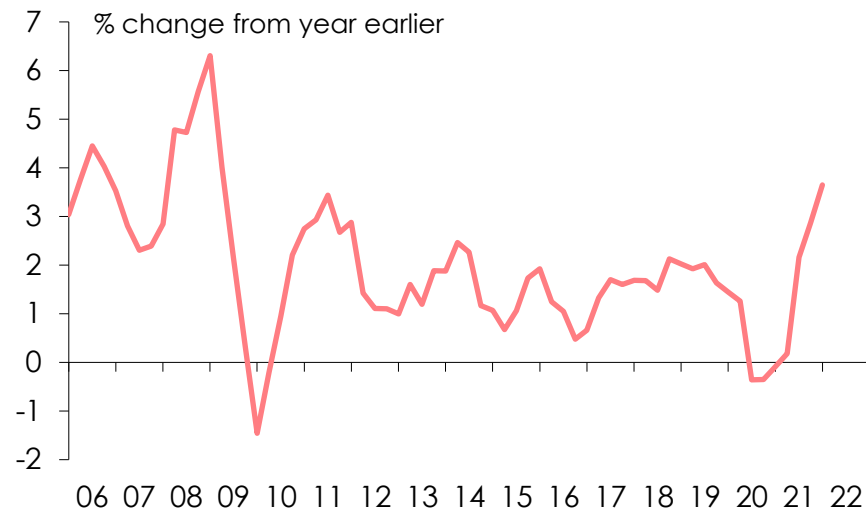


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. 'Market' goods and services exclude 'volatile items' (fruit & vegetables, utilities, property rates & charges, automotive fuel, urban transport services, postal services, child care, health, and education). For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

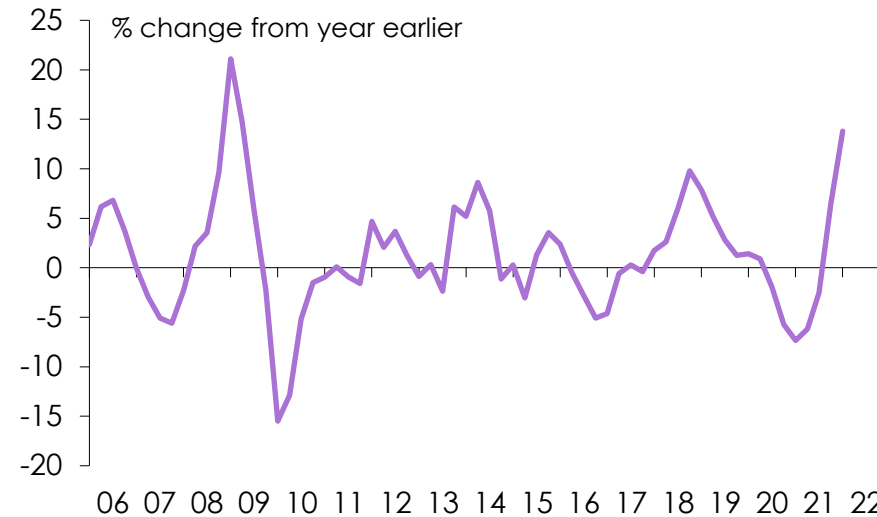
Domestic 'upstream' price pressures haven't been as intense as in other 'advanced' economies, except in the construction sector

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

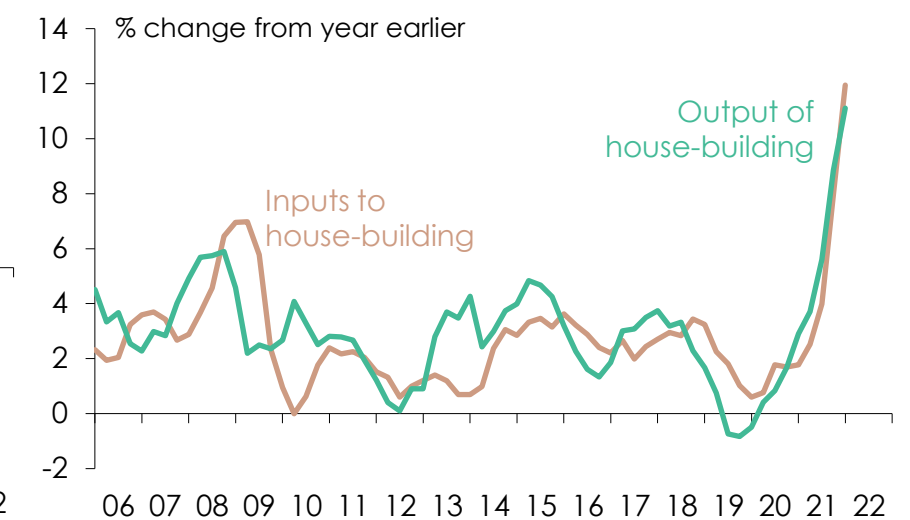
Producer price index



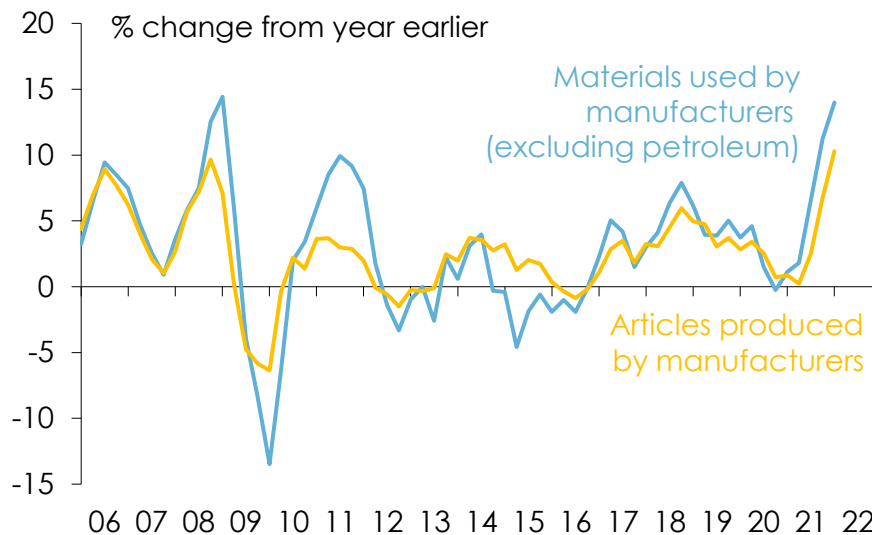
Import price index



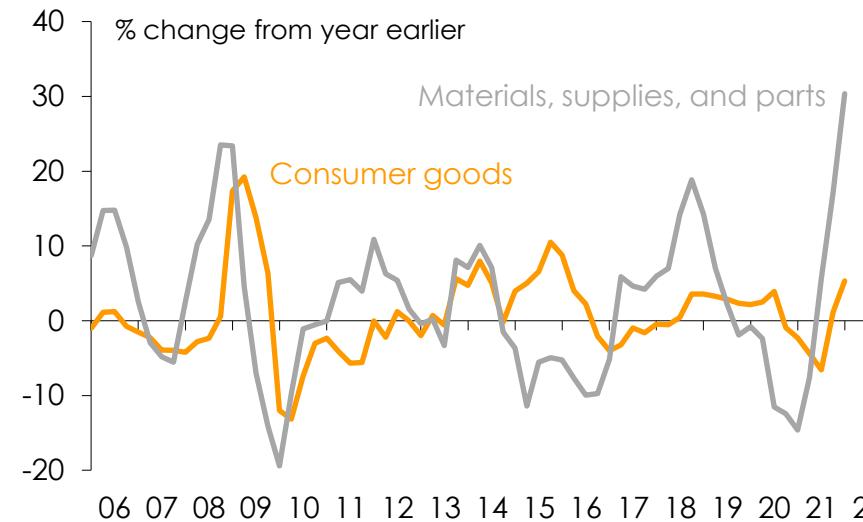
Construction input & output prices



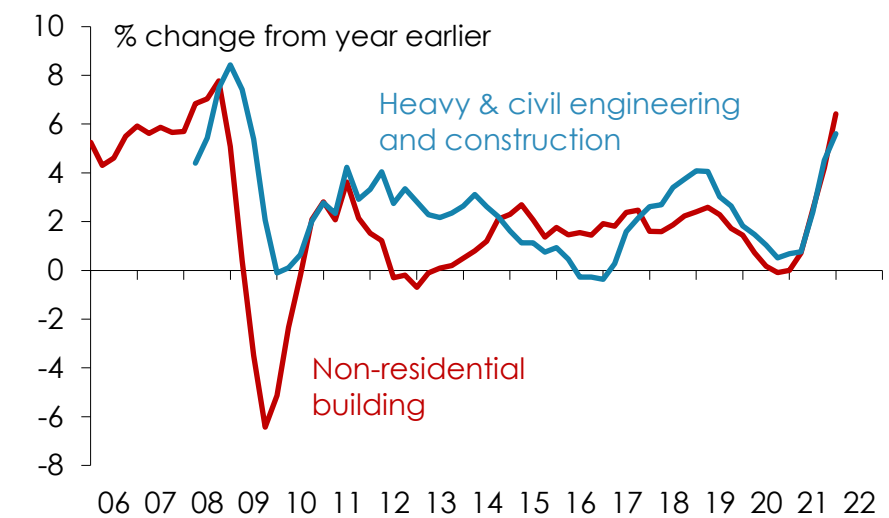
Manufacturing input & output prices



Imported consumer goods prices



Non-residential construction prices



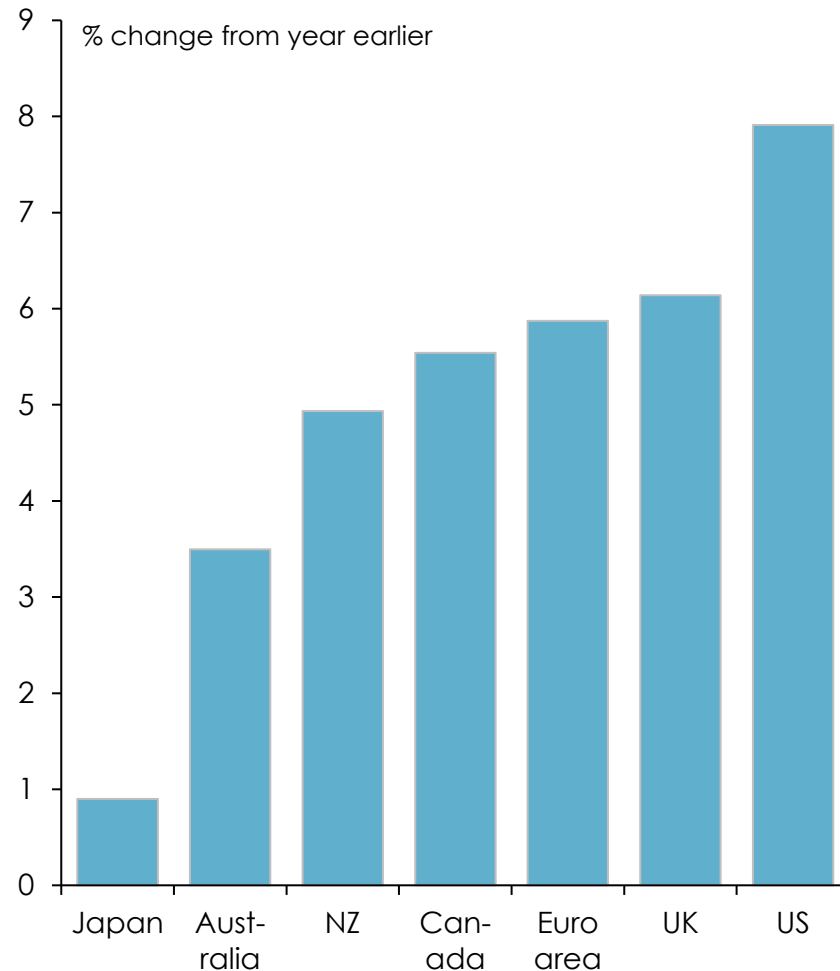
Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), December quarter 2021.

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

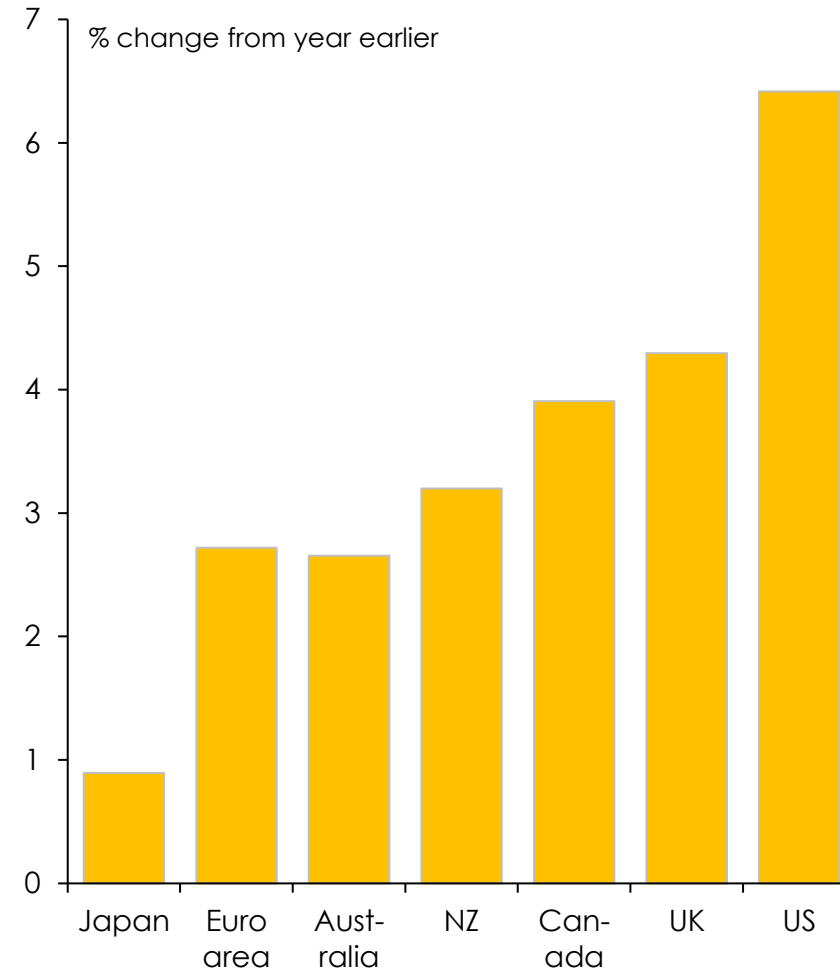
Although it has surprised to the upside, inflation in Australia hasn't risen nearly as much as in the US, the UK, Canada or New Zealand

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

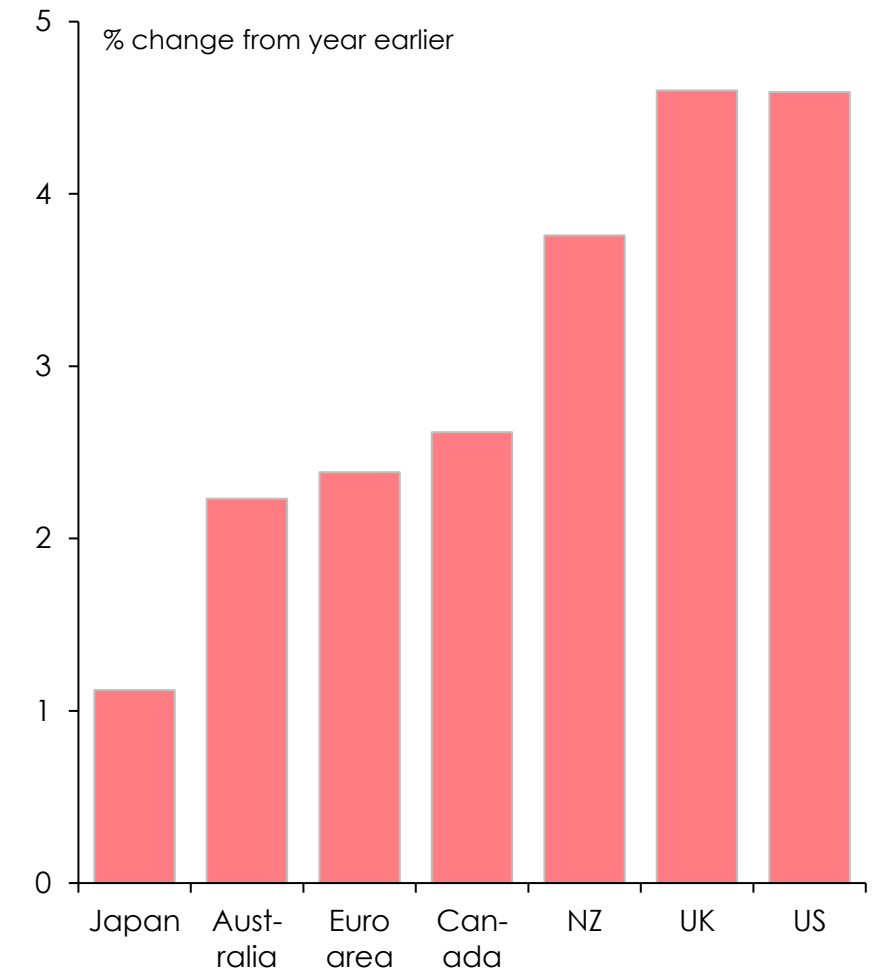
'Headline' consumer price inflation



'Underlying' or 'core' consumer price inflation



Wage inflation

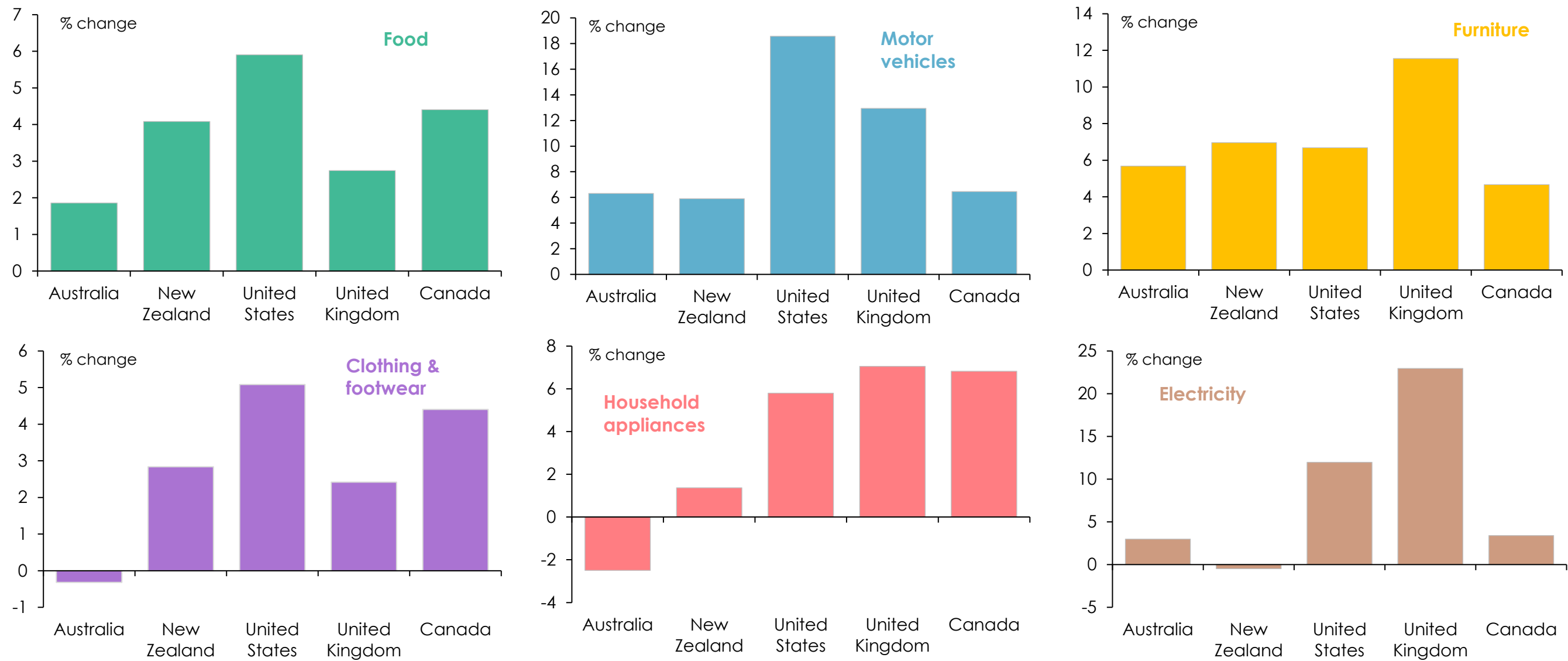


Note: Data are latest available, mostly February or December quarter for CPI inflation, and December or December quarter for wage inflation. 'Core' inflation is CPI excluding food & energy for the US, UK and Canada; trimmed mean for Japan and Australia; and 'sectoral factor model' for NZ. Wage inflation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

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](#).

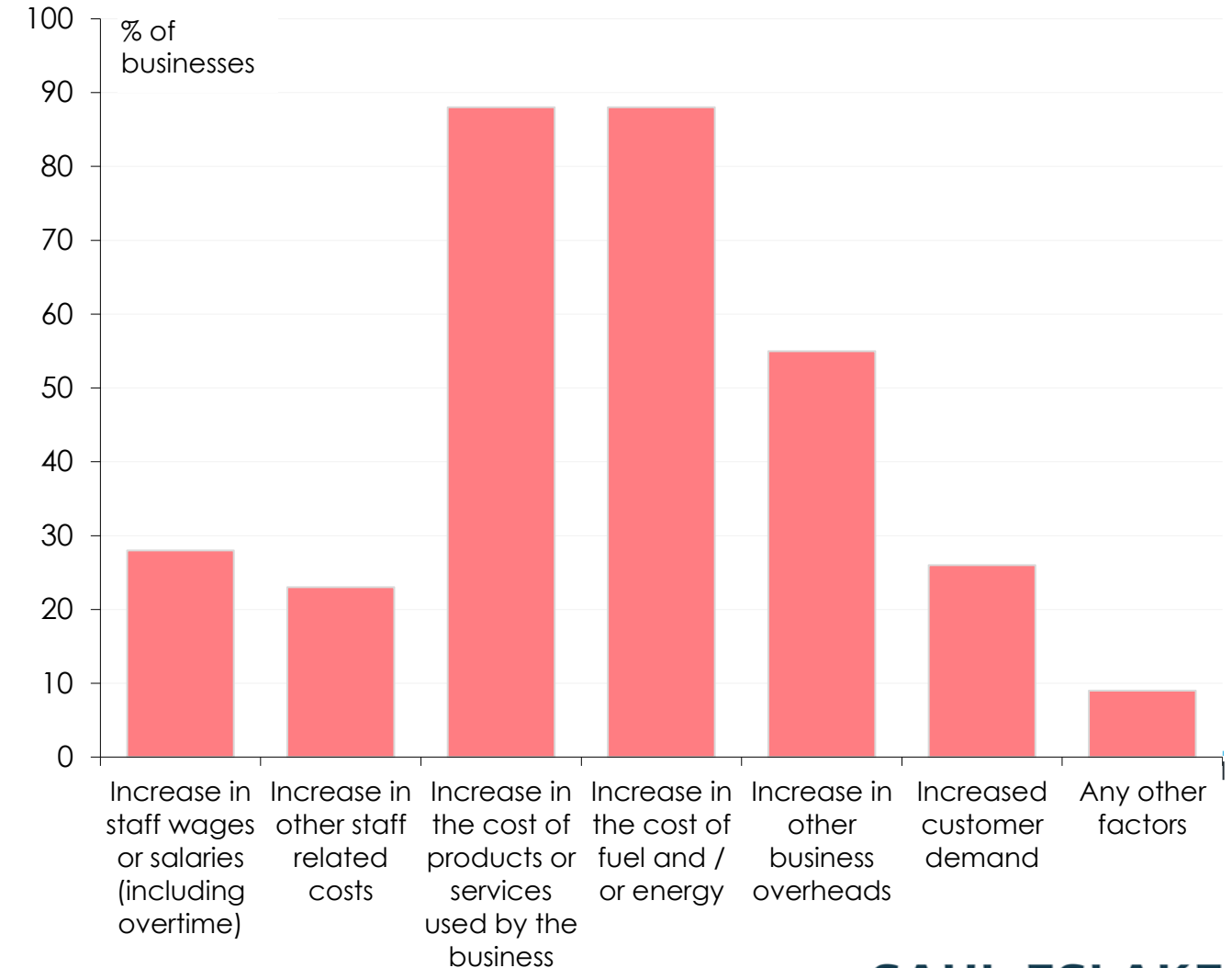
39% of businesses (including 59% of retailers) are planning to raise prices 'more than usual' in the next 3 months – but not because of labour costs

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Businesses planning to raise prices 'more than usual' over the next three months, March 2022



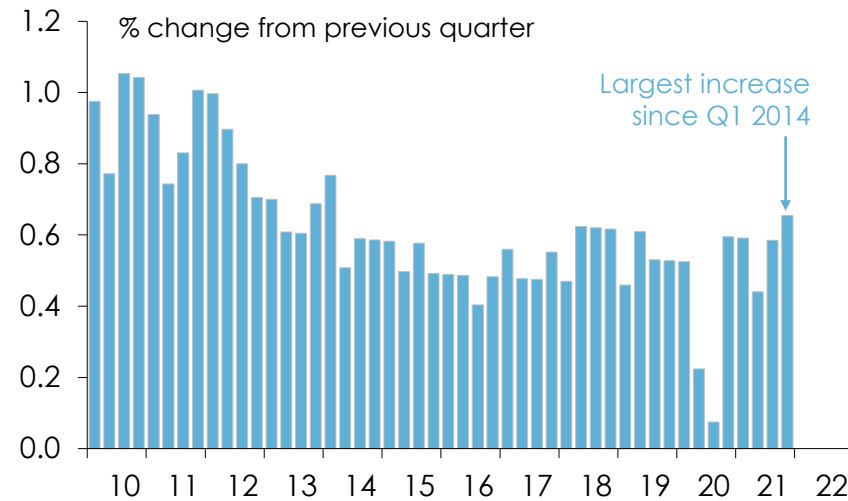
Factors contributing to businesses expecting to raise prices, March 2022



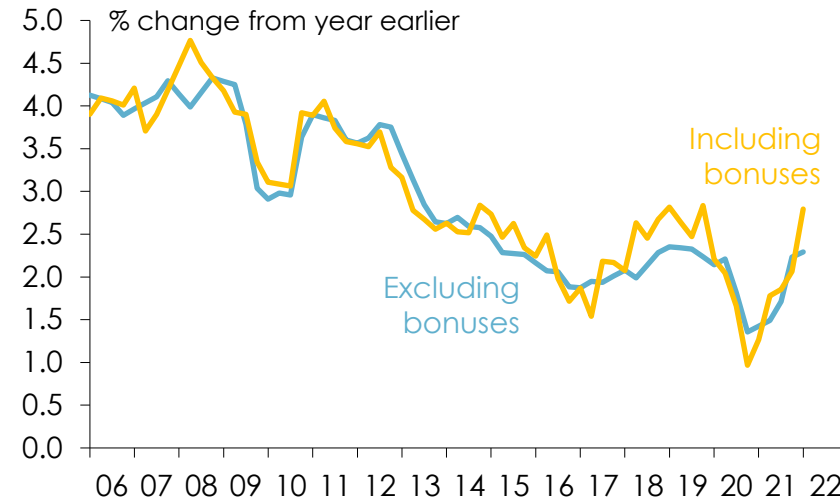
Wages growth ticked up marginally in the final quarter of 2021 but is yet to break out of the sub-2½% range it's been in since the start of 2015

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

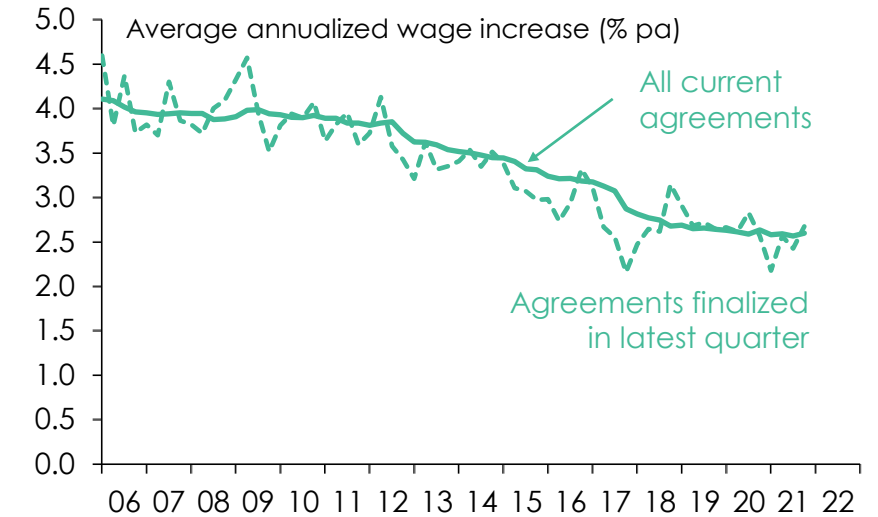
Wage price index excluding bonuses



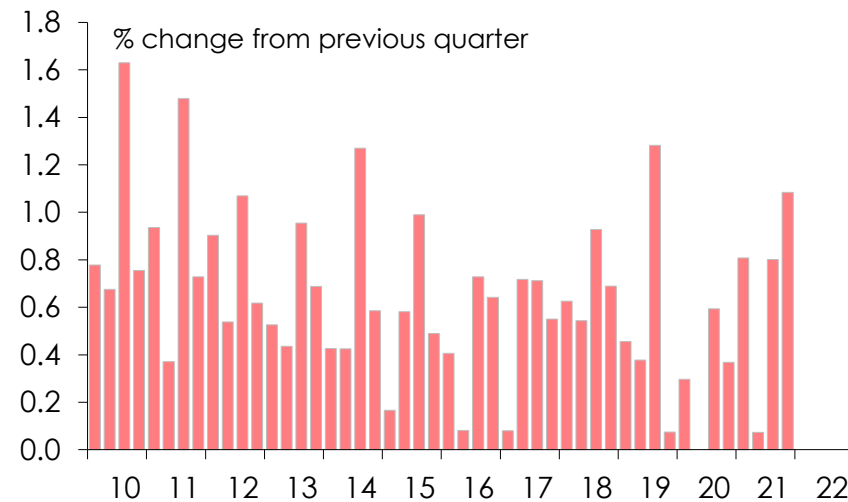
Wage price index – all sectors



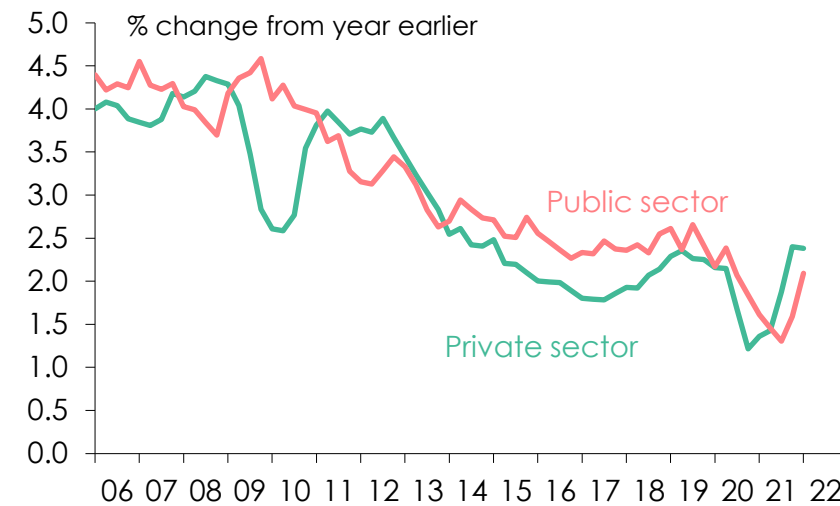
Enterprise bargaining agreements



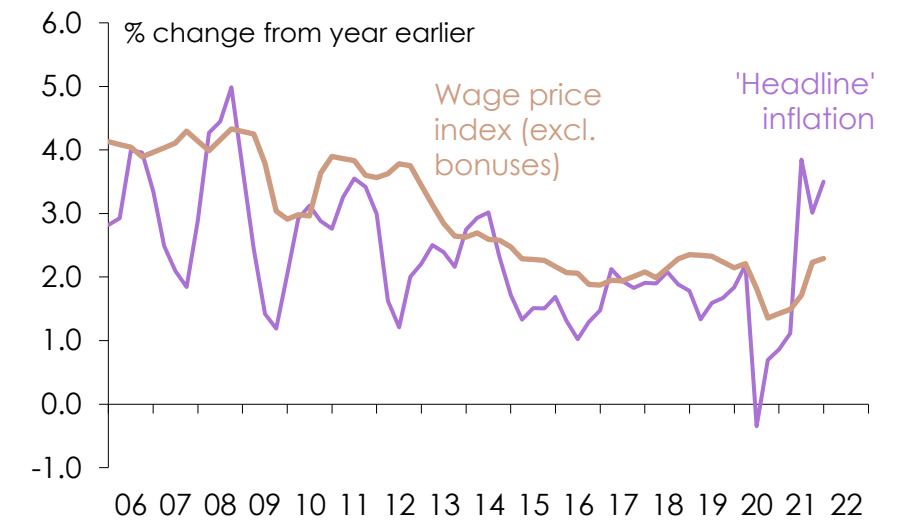
Wage price index including bonuses



WPI – private vs public sectors



WPI and 'underlying' CPI inflation

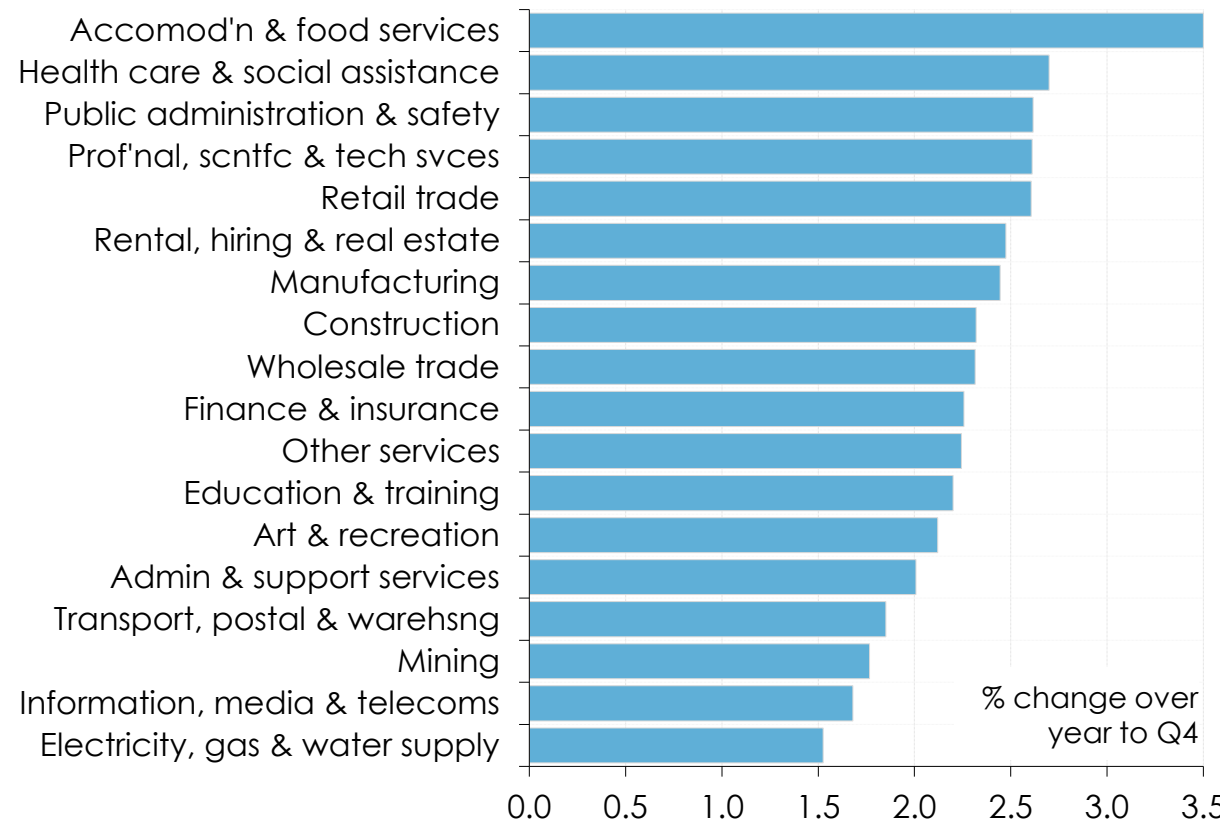


Sources: ABS, [Wage Price Index, Australia](#) Attorney-General's Department, [Trends in Federal Enterprise Bargaining](#); September quarter 2021; March quarter WPI data will be released on 18th May. [Return to "What's New"](#).

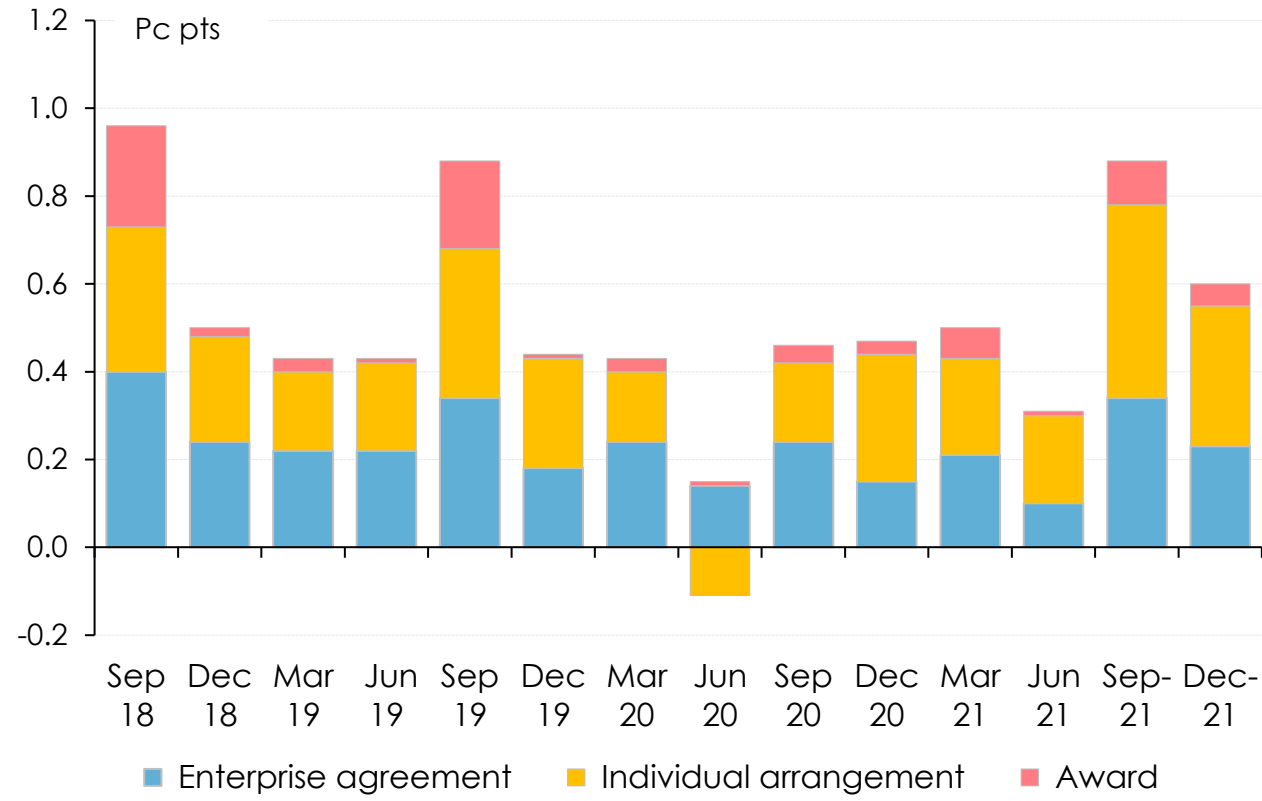
Employers in some sectors affected by staff shortages do appear to have lifted wages a bit during Q4 but it's far from across-the-board

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Increase in wage price index over year to Q4 by sector



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



❑ 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

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

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

Fiscal policy

The 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 – 8TH APRIL 2022

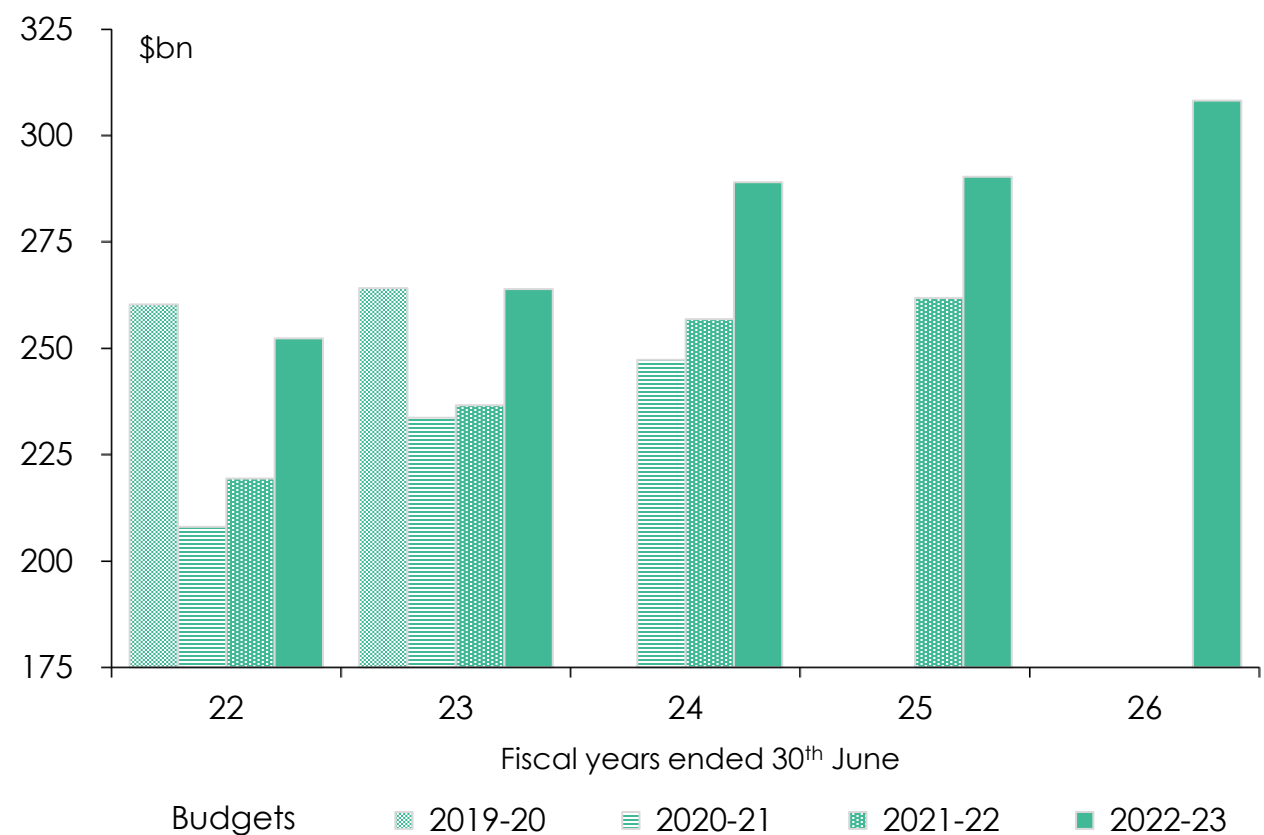
- ❑ The 2022-23 Budget – presented on 29th March, earlier than usual to accommodate the timetable for the federal elections which must be announced no later than 18th April and held no later than 21st May – seeks to implement the ‘second phase’ of the Government’s fiscal strategy (which stresses reducing net debt as a percentage of GDP primarily via economic growth without pursuing a ‘return to surplus’) whilst also ~~enhancing the Government’s re-election prospects~~ responding to “cost of living pressures” without putting additional upward pressure on inflation
- ❑ Accomplishing these potentially conflicting objectives was made considerably easier by substantial upward revisions to forward estimates of revenue thanks to higher commodity prices and stronger-than-previously-forecast growth in economic activity and employment ([slides 84-85](#))
- ❑ These allowed the Budget to provide some \$7bn by way of short-term assistance to low-income households (via one-off cash payments and additional tax rebate to low- and middle-income taxpayers) and motorists more generally (via a six-month 50% reduction in fuel excise), and a range of other spending (see [slide 87](#)) whilst also foreshadowing budget deficits over the five years to 2025-26 \$104bn (25%) lower than had been projected last December ([slide 88](#))
 - overall, the spending and revenue decisions in the 2022-23 Budget amount to a much smaller discretionary stimulus than those in the last Budget of the Howard Government in 2007, in broadly similar electoral and economic circumstances
 - which is not to say that all of the measures in the Budget represent ‘good policy’ – some do, some don’t ([slide 89](#))
- ❑ The medium-term budget outlook is also significantly improved, although the budget will remain in deficit through at least 2032-33 ([slide 91](#)): any eventual return to surplus will probably require tax increases ([slide 93](#))
- ❑ The cost to the Federal Budget of one of the worst public policy decisions of the past two decades – the corruption of the long-standing principles governing the distribution of revenue from the GST among the states and territories in order to curry favour with voters in Australia’s richest state, Western Australia, has blown out to almost \$20bn ([slide 96](#))

Higher commodity prices, and stronger growth in economic activity and employment have resulted in large upward revisions to revenue forecasts

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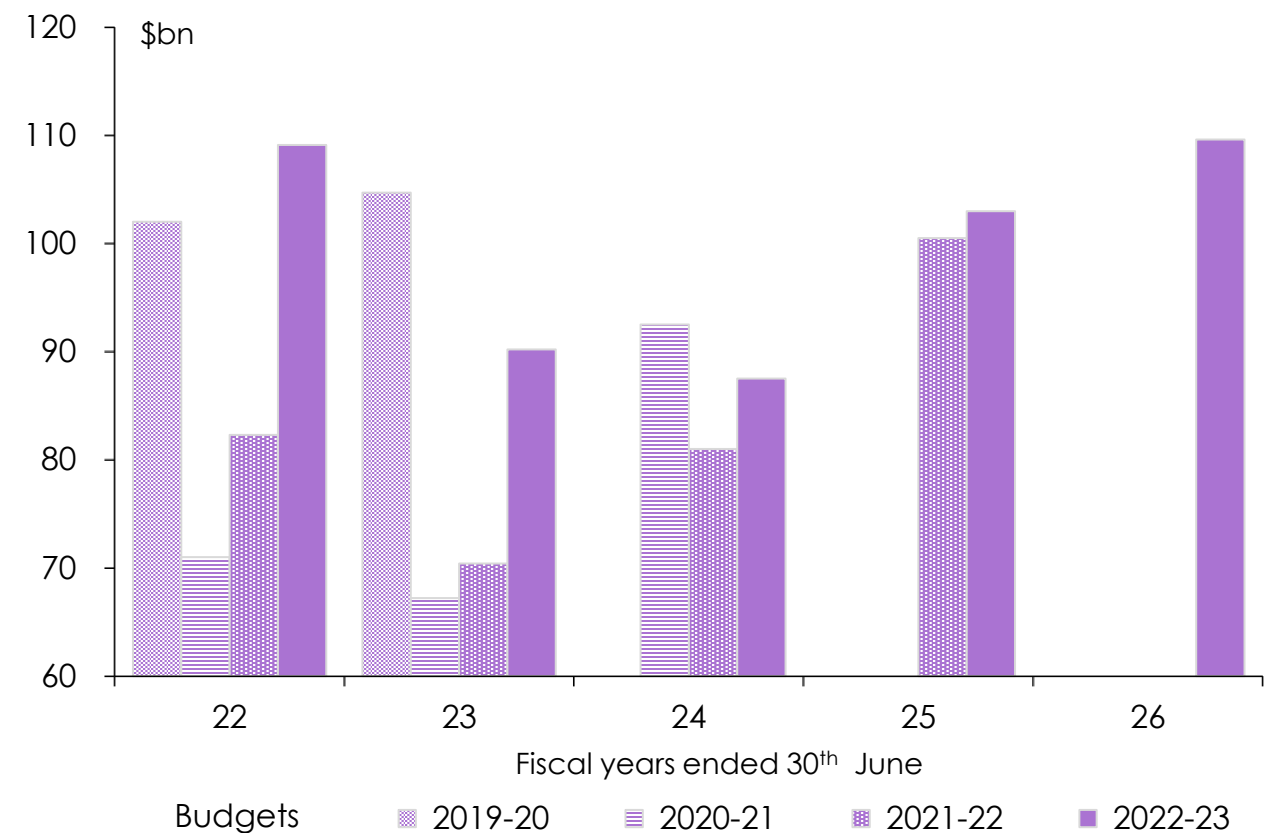
Successive budget estimates of personal and company income tax collections

Personal income tax



❑ Forward estimates of personal income tax collections for the years 2021-22 through 2023-24 have been revised up by \$92bn since last year's Budget, and by \$116bn since the 2020-21 Budget

Company income tax



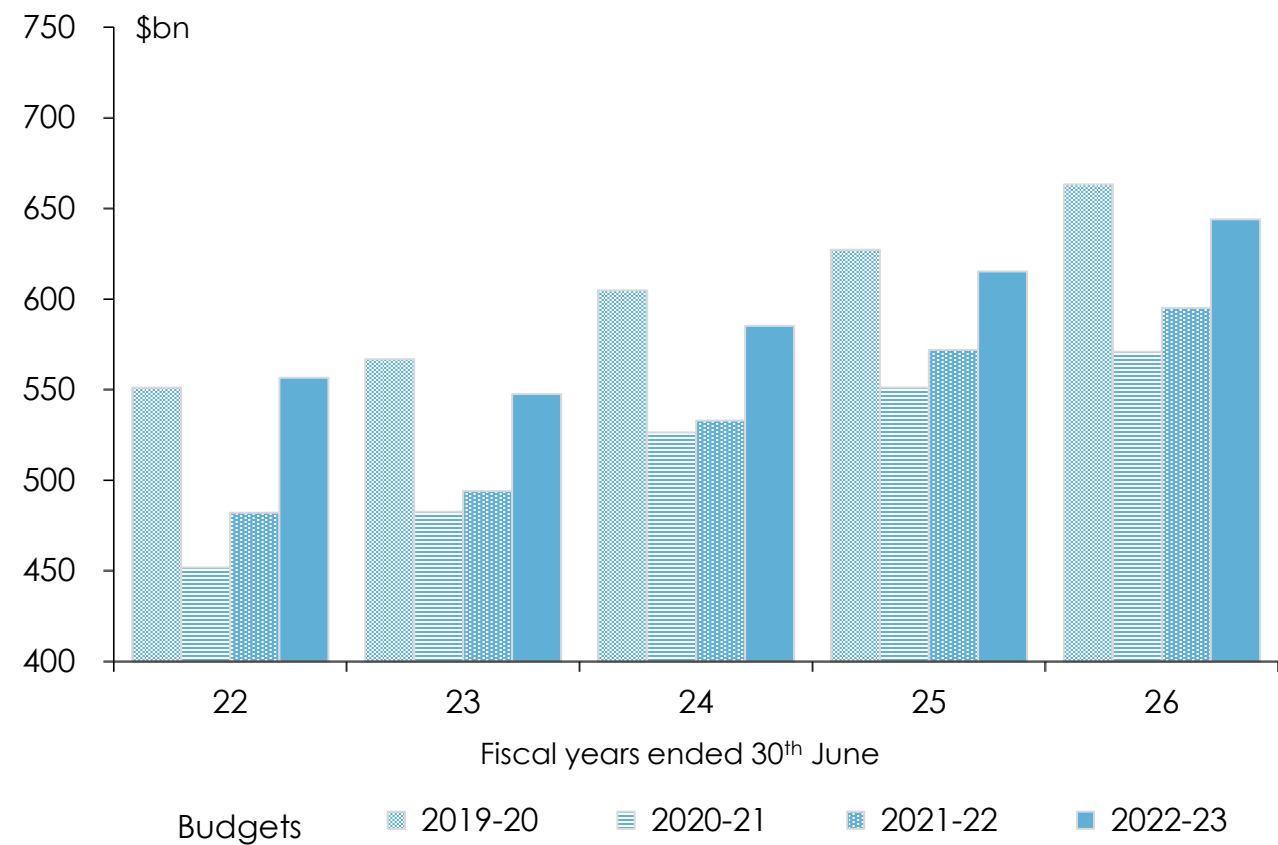
❑ Forward estimates of company income tax collections for the years 2021-22 through 2023-24 have been revised up by \$53bn since last year's Budget, and by \$56bn since the 2020-21 Budget

Revenue forecasts have been revised upwards by much bigger amounts than spending projections

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

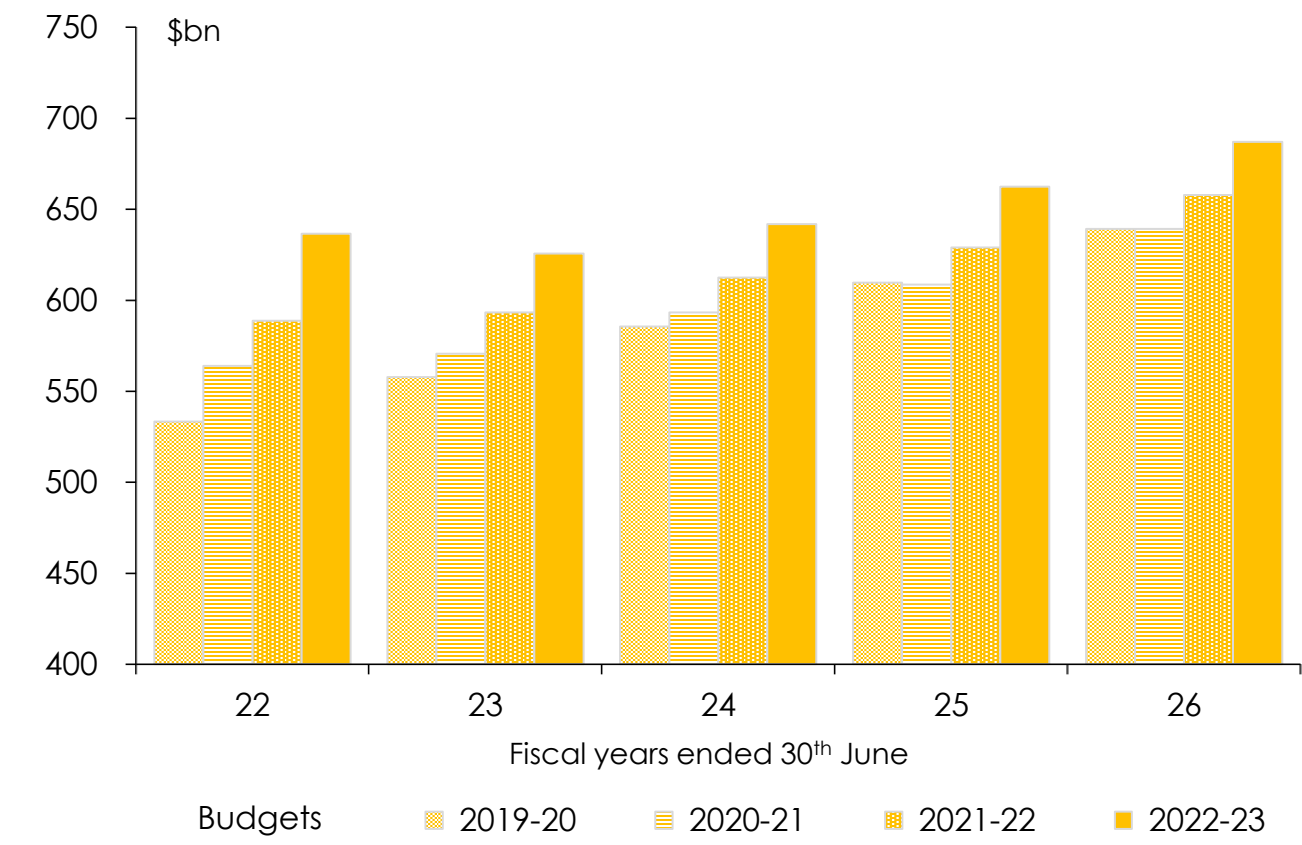
Successive budget estimates of receipts and payments

Receipts



❑ Revenue projections for the five years to 2025-26 have been revised upwards by \$164bn compared with last December's MYEFO, \$273bn compared with last year's Budget, and \$366bn compared with the 2020-21 Budget

Payments



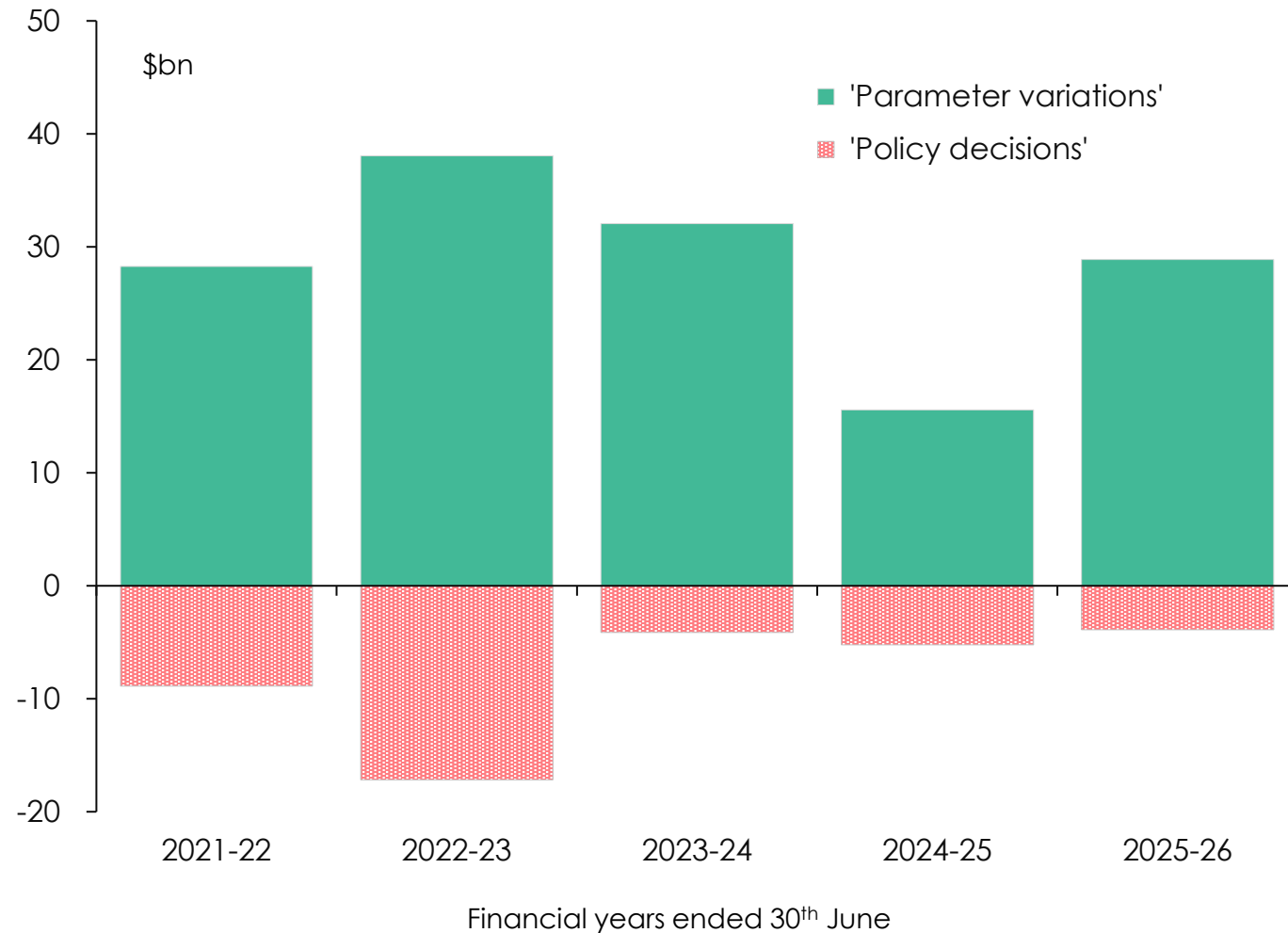
❑ Payments projections for the five years to 2025-26 have been revised upwards by only \$40bn since MYEFO, by \$172bn compared with last year's Budget, and \$278bn compared with the 2020-21 Budget

Source: Australian Government, 2022-23 [Budget Paper No. 1, Statement No 3](#), 29th March 2022 (and previous issues). [Return to "What's New"](#).

The increase in the deficits forecast for 2022-23 and 2023-24 is the result of conscious policy decisions to increase spending and cut taxes

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Sources of the changes in forward estimates of the 'underlying cash balance' between the 2021-22 MYEFO and the 2022-23 Budget



- ❑ The budget affects the economy (through the 'policy decisions' which the Government makes as it puts the Budget together) – but the economy also affects the Budget (via what the Budget Papers call 'parameter variations' in receipts and payments)
- ❑ 'Parameter variations' between last December's Mid-Year Economic & Fiscal Outlook (MYEFO) and this year's Budget improved the 'bottom line' over the five years to 2024-25 by a total of \$143bn
 - 'parameter variations' in revenue projections improved the 'bottom line' by \$153bn, but 'parameter variations' in payments projections worsened it by \$10bn
- ❑ 'Policy decisions' absorbed \$39bn of those windfall 'parameter variations' over the five years to 2025-26
 - of which, revenue reductions accounted for almost \$8bn, and new spending \$31½bn
- ❑ ... leaving \$104bn to be applied to reducing the deficits in prospect for the five years to 2025-26

Overall, the ‘policy decisions’ in this year’s Budget are relatively small, especially considering it’s a pre-election Budget

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Budget impact of major ‘policy decisions’ funded in the 2022-23 Budget

	\$ million					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Revenue measures -						
Cost of living tax offset		3,900	200			4,100
Fuel excise tax cut	1,870	1,105				2,975
Small business incentives			680	630	340	1,650
Change to uplift factor for tax instalments		1,850	-1,850			0
Tax Avoidance Task Force extension			-481	-926	-727	-2,134
Spending measures -						
Covid measures	2,808	2,090	12	3	3	4,916
Infrastructure investment		601	1,334	1,384	1,013	4,332
New PBS listings	178	647	587	507	519	2,438
Regional Accelerator Program		435	559	521	280	1,795
Women's economic security, health & safety	40	148	429	511	526	1,653
Skills development	-20	379	389	466	253	1,467
Energy Security & Regional Development		119	219	473	596	1,407
Flood assistance	154	1,196				1,350
Regional telecoms	480	104	177	175	183	1,119
Defence	188	-15	260	279	58	770
Other	2,355	3,655	1,033	990	1,961	9,994
Total	8,052	16,214	3,547	5,013	5,005	37,831

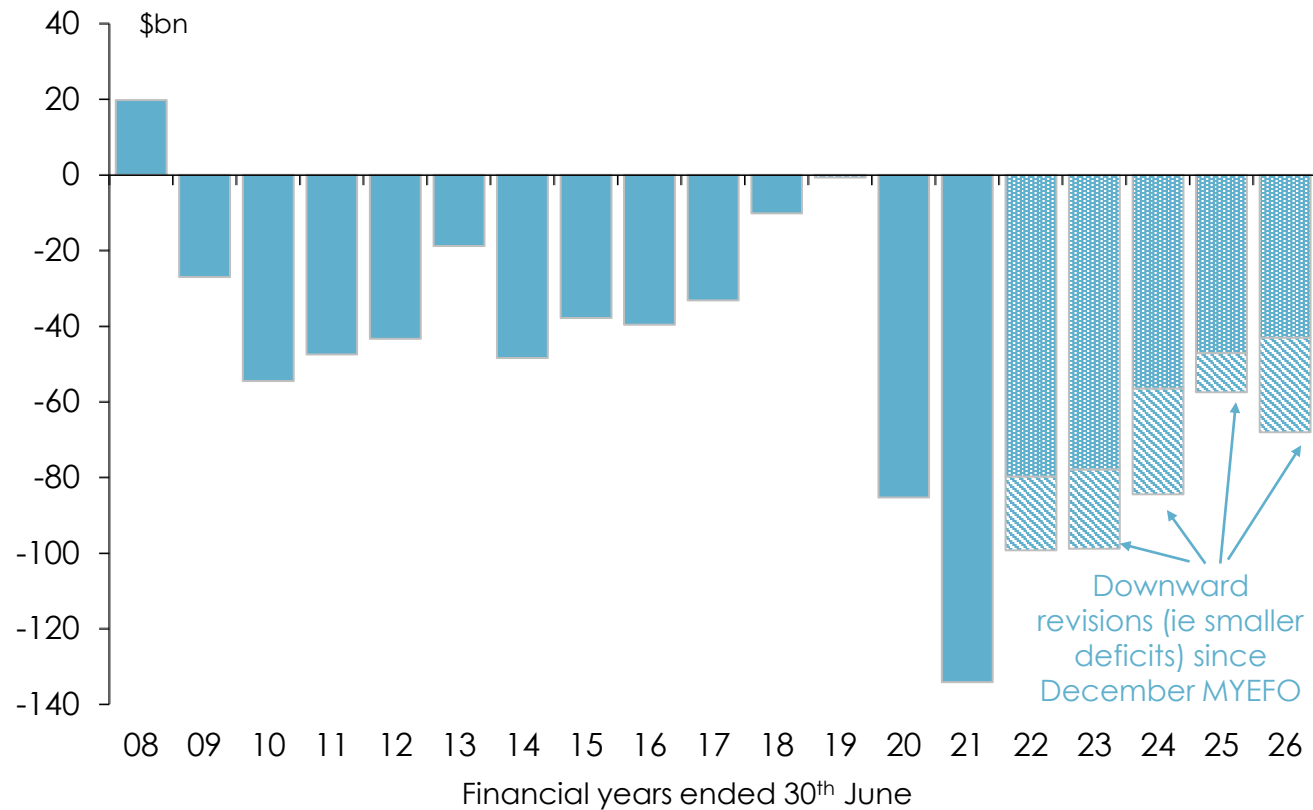
- ❑ The discretionary policy measures in the Budget are, in total, relatively small – especially considering that it’s a ‘pre-election’ Budget
- ❑ The ‘net stimulus’ implied by the ‘policy decisions’ contained in the Budget is equivalent to 0.4% of GDP in 2021-22, 0.7% of GDP in 2022-23, and 0.2% of GDP in 2023-24 and 2024-25
- ❑ By contrast, the Howard Government’s policy decisions in the lead-up to the 2007 elections were equivalent to a net stimulus of 1.3% of GDP in 2007-08, and 2.1-2.5% of GDP in each of the following three years
- ❑ So this Budget does put some additional upward pressure on inflation and hence interest rates, but it’s fairly small

As a result, the budget deficits for the current and next four financial years have been revised down by a total of \$104bn, and net debt by \$86bn

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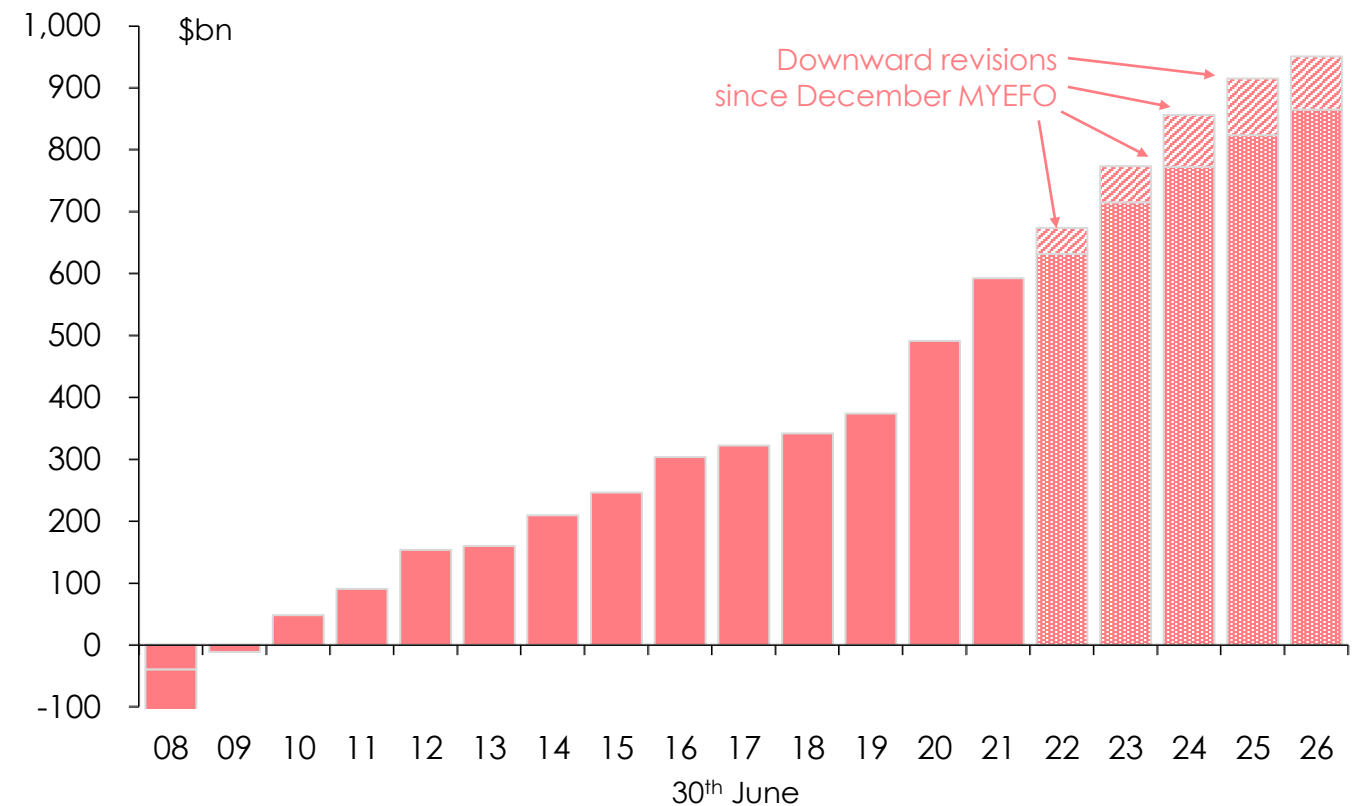
2022-23 Budget forward estimates compared with those from December's MYEFO

'Underlying' cash balance



- ❑ The deficits for the five financial years 2021-22 through 2025-26 have been revised down by a total of \$103.7bn (or 25%) from those projected in last December's Mid-Year Economic and Fiscal Outlook

Net debt



- ❑ The forecast for net debt as at 30th June 2026 has been revised down by \$86bn (9%) from that in last December's Mid-Year Economic and Fiscal Outlook

That's not to say that all the measures in the Budget are 'good'

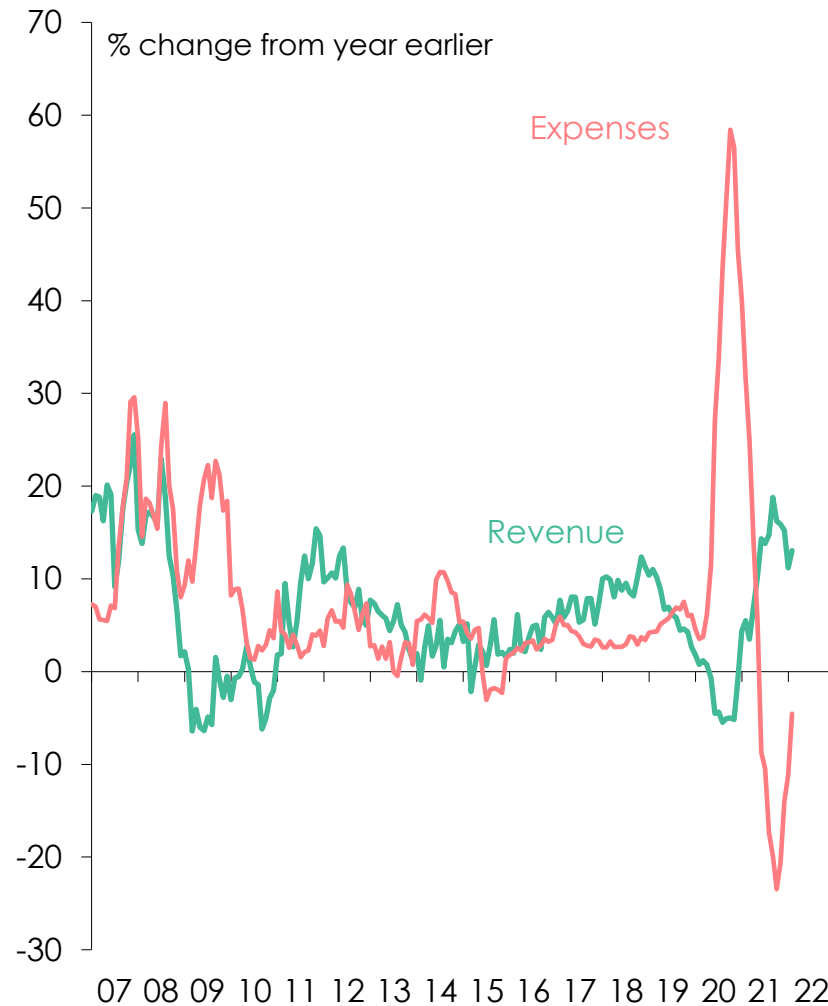
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- ❑ There can be no reasonable objection to targeted measures aimed at assisting lower-income households cope with increases in their 'cost of living' arising from higher fuel and food prices
 - such measures were explicitly endorsed by [the OECD](#) in its assessment of the impact of the Ukraine conflict
 - the one-off cash payment to pensioners and other social security beneficiaries, and the one-time addition to the “Low & Middle Income Tax Offset”, are appropriately targeted and time-limited responses to cost-of-living pressures
- ❑ Likewise it's entirely appropriate that the Federal Government provide generous assistance to households and businesses affected by the recent severe floods in northern NSW and south-eastern Queensland
- ❑ However it's far from clear that all households are in need of assistance to cope with higher fuel and food prices
 - Australians have squirreled away an additional \$249bn in bank deposits since just before the onset of the pandemic – what are they supposed to be used for? Treasury notes that households' “strong financial position [will] allow households to comfortably normalize [sic] the household savings rate” with household consumption spending forecast to grow by 5¾% in 2022-23
 - the 50% cut in fuel excise for 6 months is poorly targeted (benefiting all fuel users irrespective of their financial situation) and may prove politically difficult to reverse (as have previous reductions in fuel excise)
- ❑ There are *yet more* new tax preferences for 'small business' – this time for investments in digital technology and skills training – despite all the evidence that existing preferential tax treatment for small businesses has had no net benefit in terms of boosting employment, investment or innovation
 - no matter how often politicians chant the mantra, small business is not the 'engine room of the economy'
- ❑ The measures purportedly directed at boosting home ownership – increases in the number of people able to get government guarantees for that part of the required deposit that they can't accumulate themselves – will add (at the margin) to upward pressure on house prices, privilege some would-be first-time buyers at the expense of others, and potentially expose some successful buyers to additional risk if house prices fall

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

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

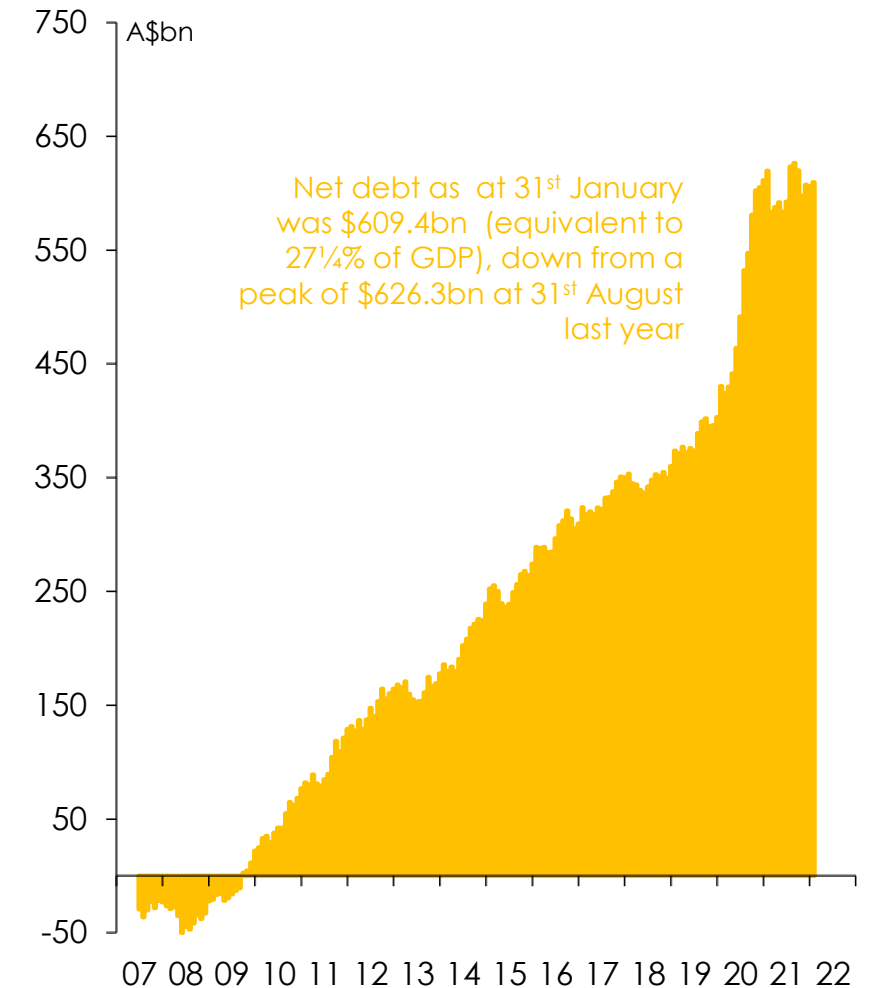
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



Australian Government net debt



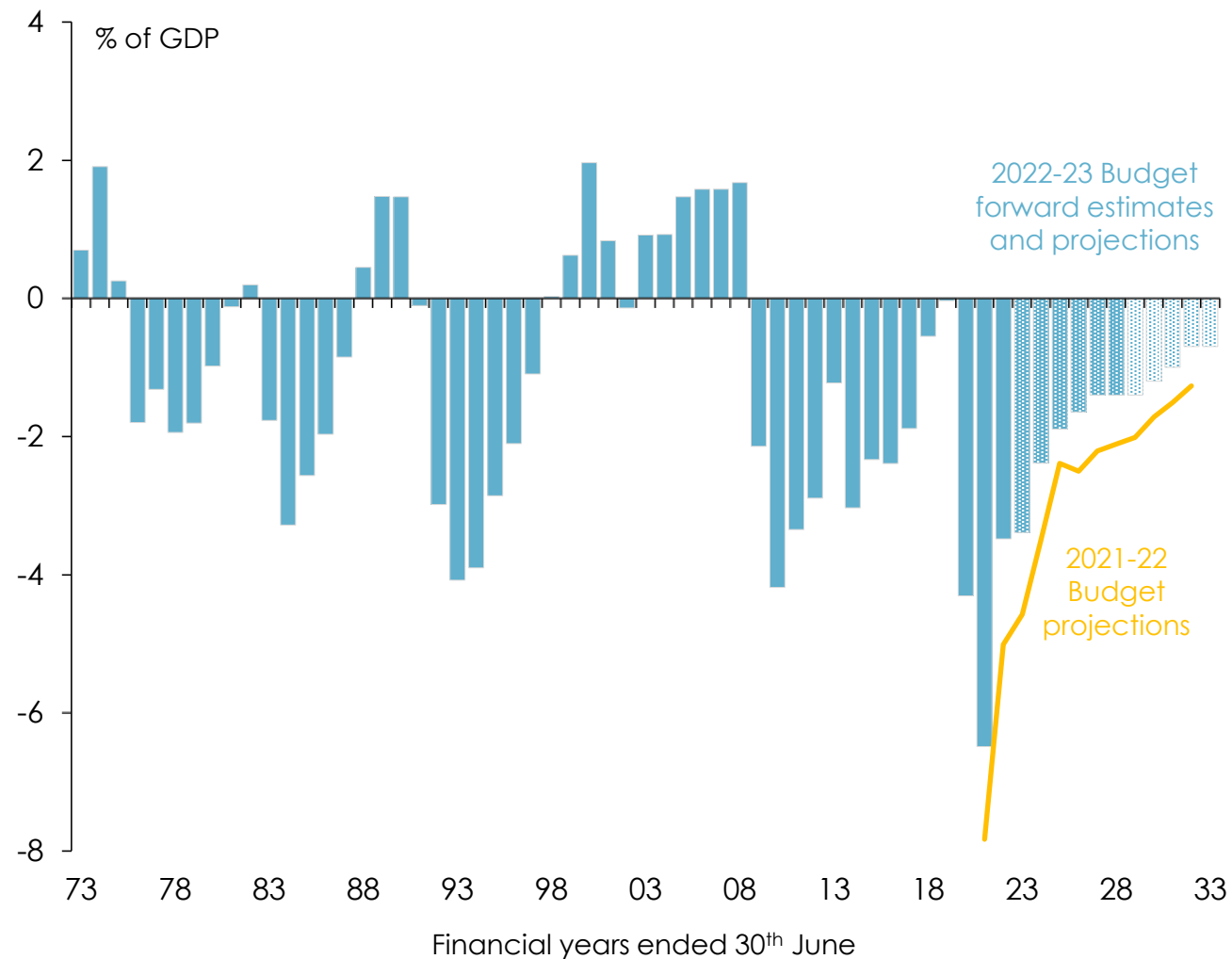
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

The medium-term deficit and debt projections are also improved – although the Government has no plans to return the budget to surplus

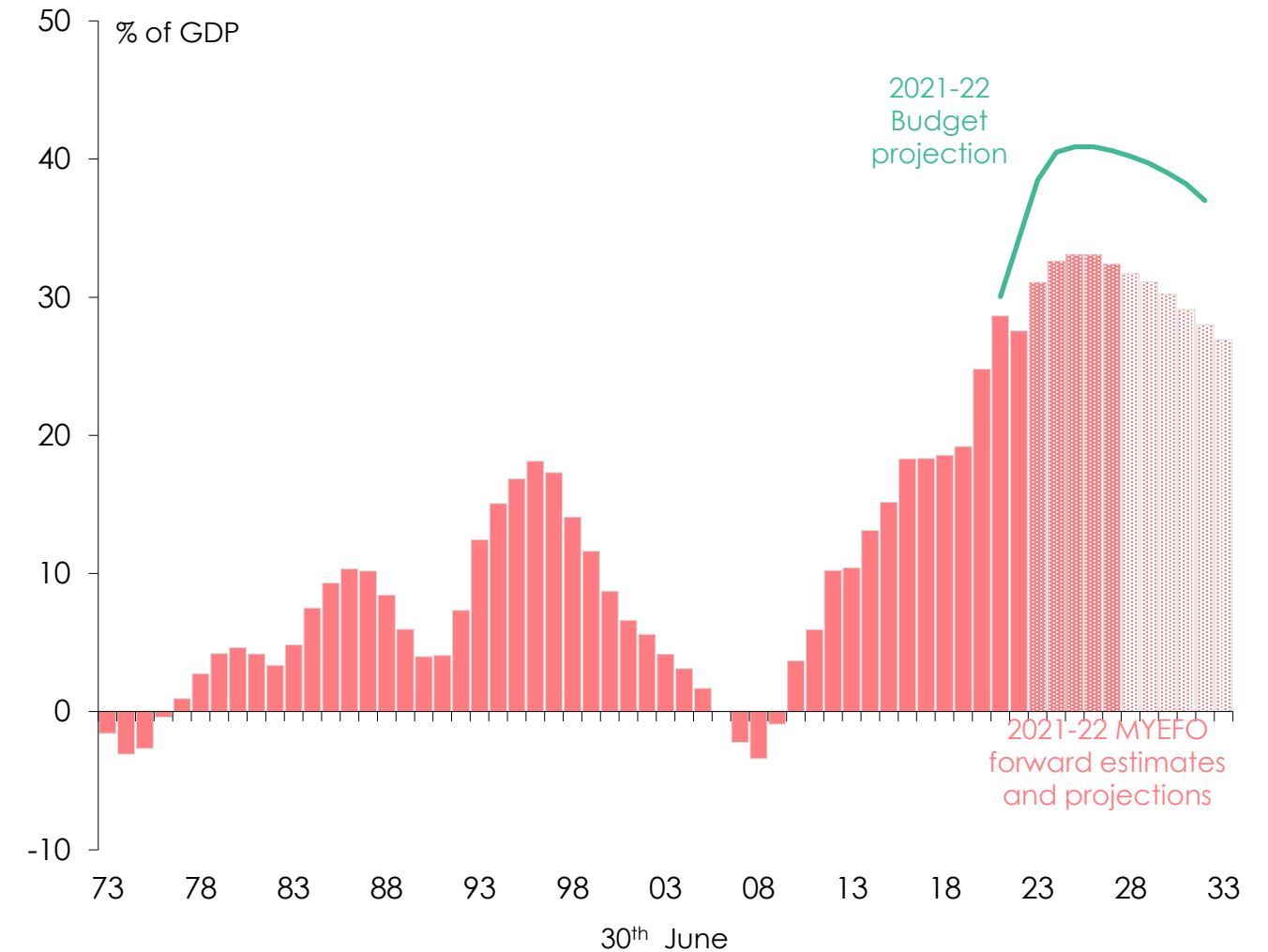
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‘Medium-term’ projections of the ‘underlying cash balance’ and net debt

‘Underlying’ cash balance



Net debt

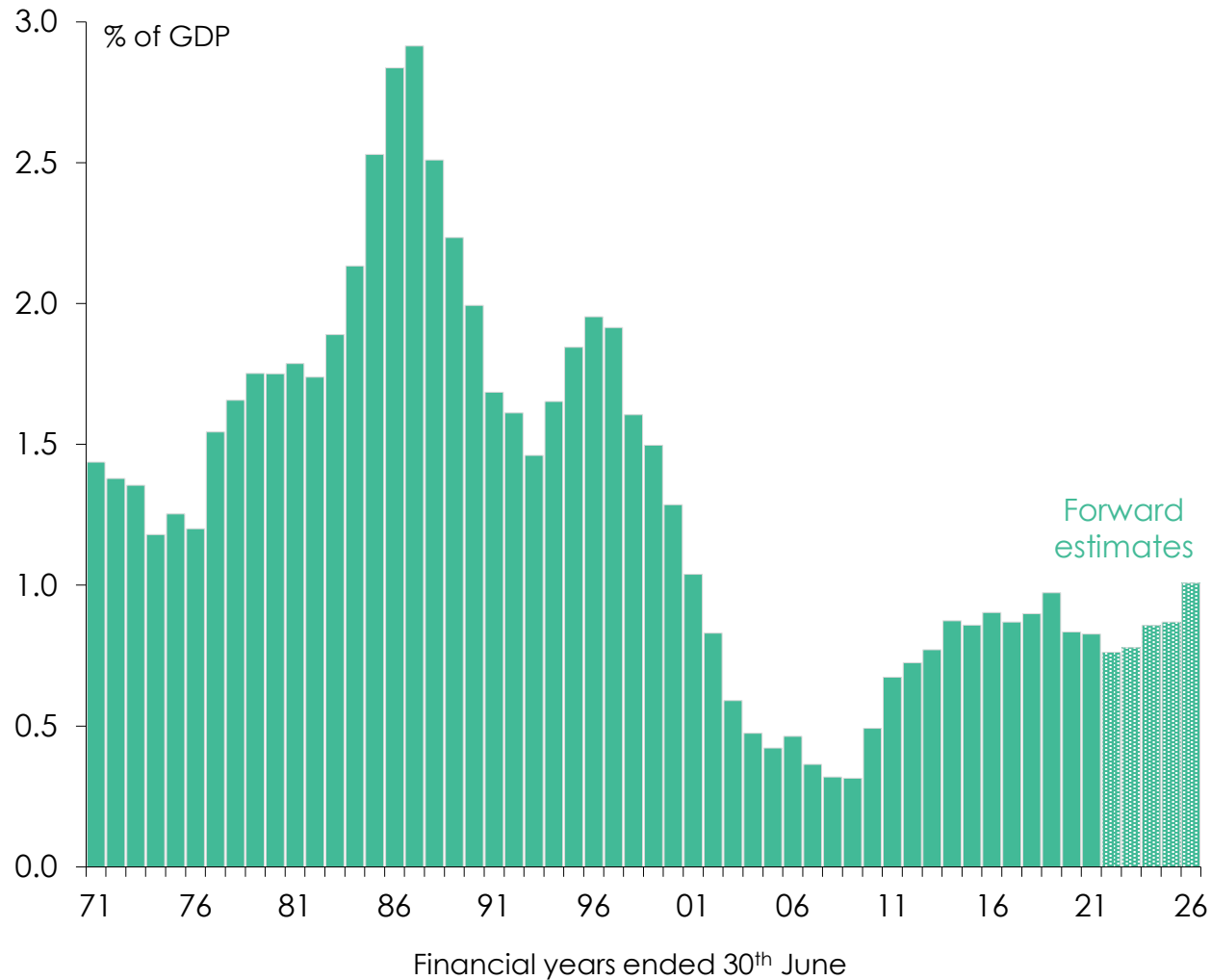


Source: Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 3](#) and [Statement No. 10](#), 29th March 2022. [Return to "What's New"](#).

The Government can comfortably service its historically high levels of debt as long as interest rates are lower than the rate of economic growth

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Australian Government gross interest payments as a percentage of GDP



Average interest rate on Australian government debt vs growth rate of nominal GDP

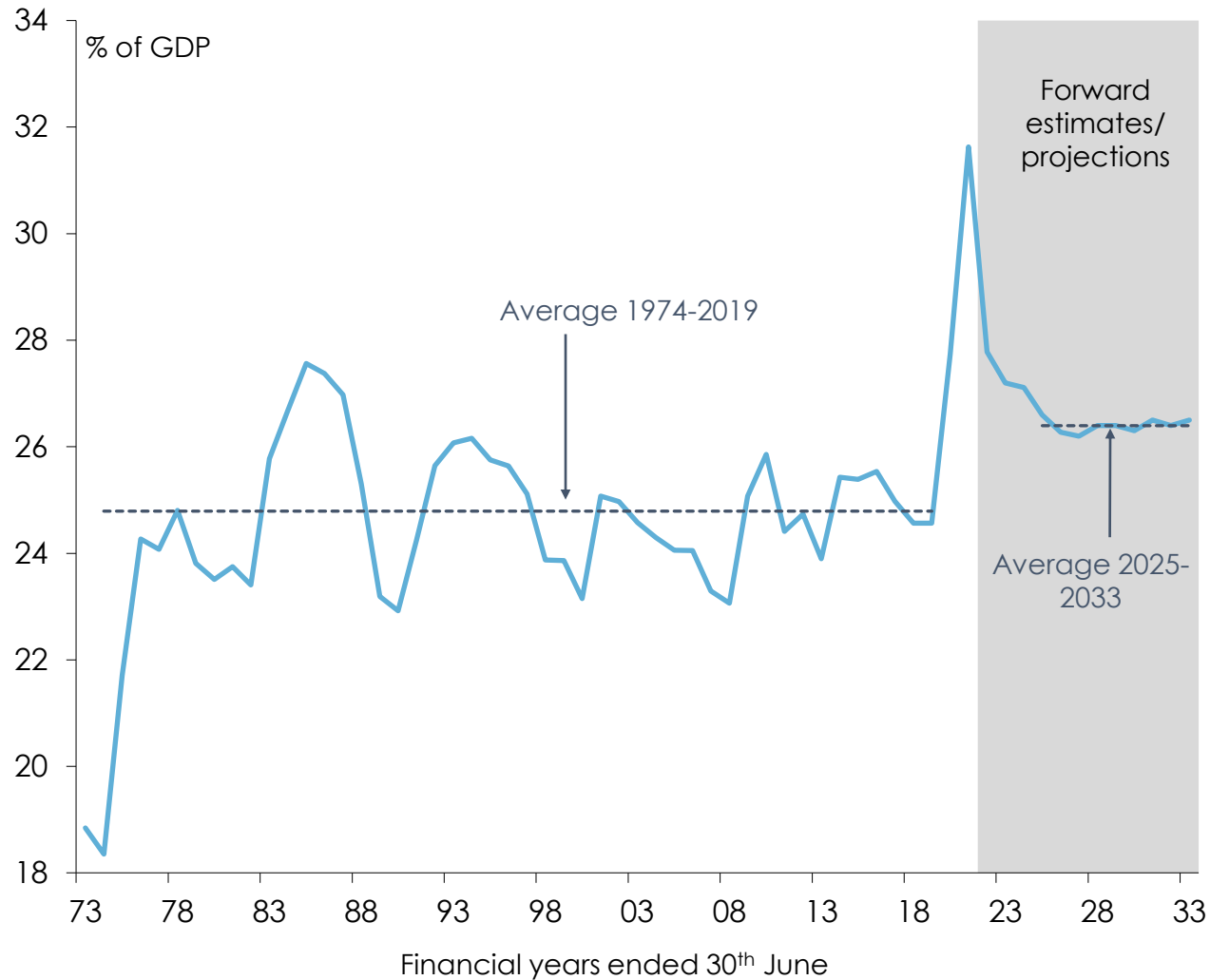


Source: Australian Government, 2022-23 [Budget Paper No. 1](#), [Statement No. 3](#), [Statement No. 6](#) and [Statement No. 10](#), 29th March 2022. [Return to "What's New"](#).

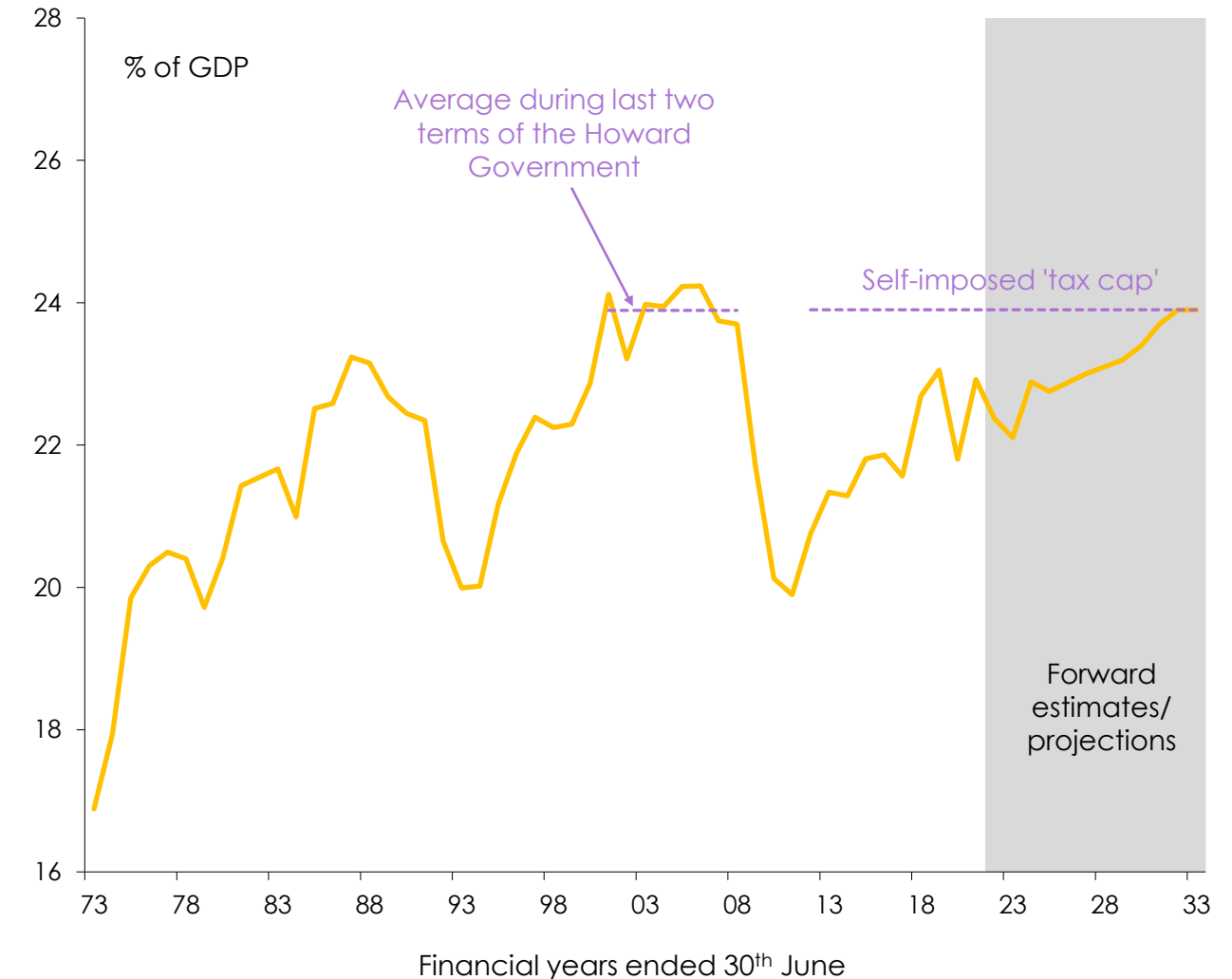
Ultimately, some future government is likely to have to bust the (quite arbitrary) 'cap' on tax revenue as a percentage of GDP

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'Underlying' cash payments as a pc of GDP



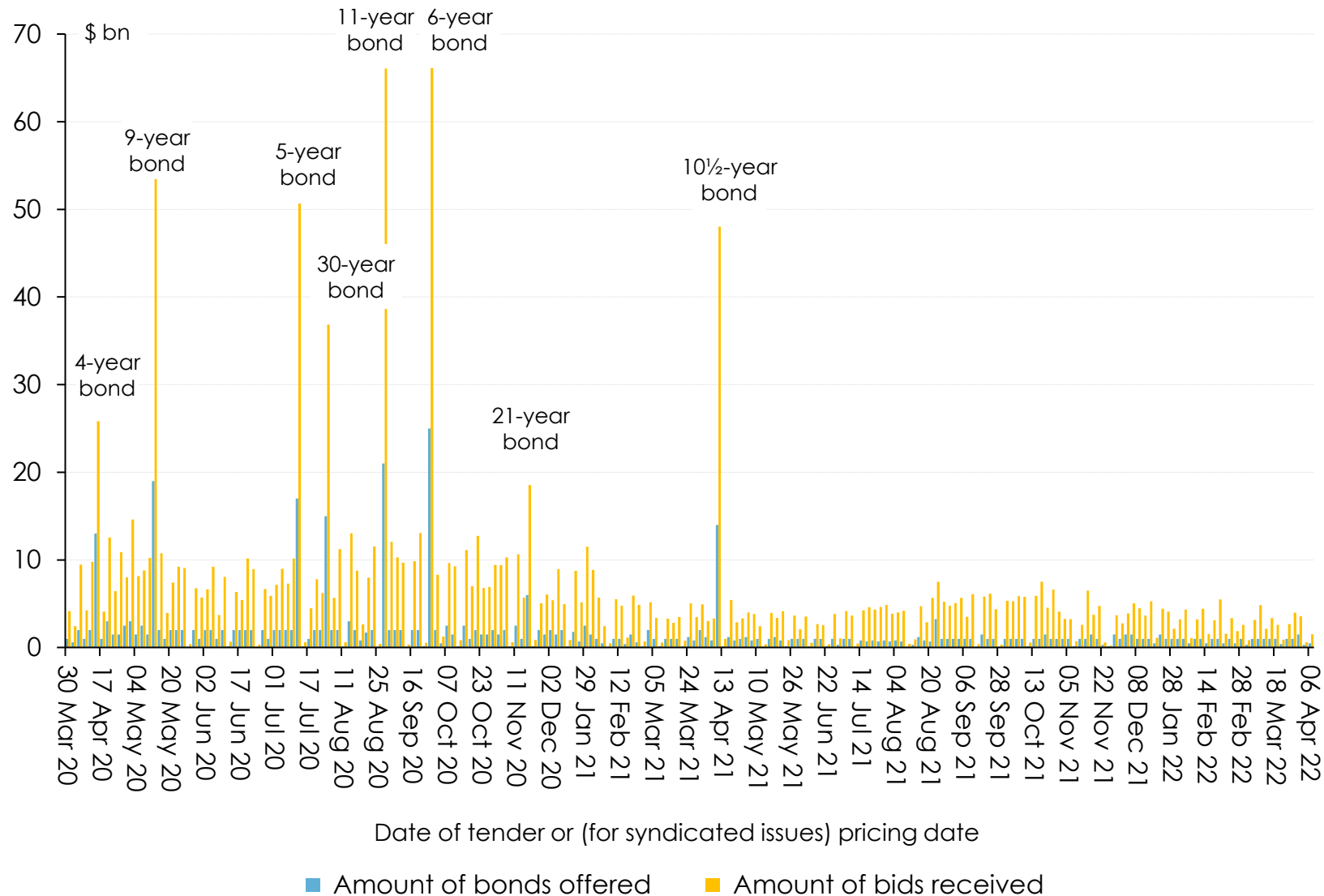
Taxation receipts as a pc of GDP



The Government continues to have no trouble selling new debt, but the 'bid cover ratio' has slipped, and it's having to pay noticeably higher yields

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Australian government bond issuance since March 2020



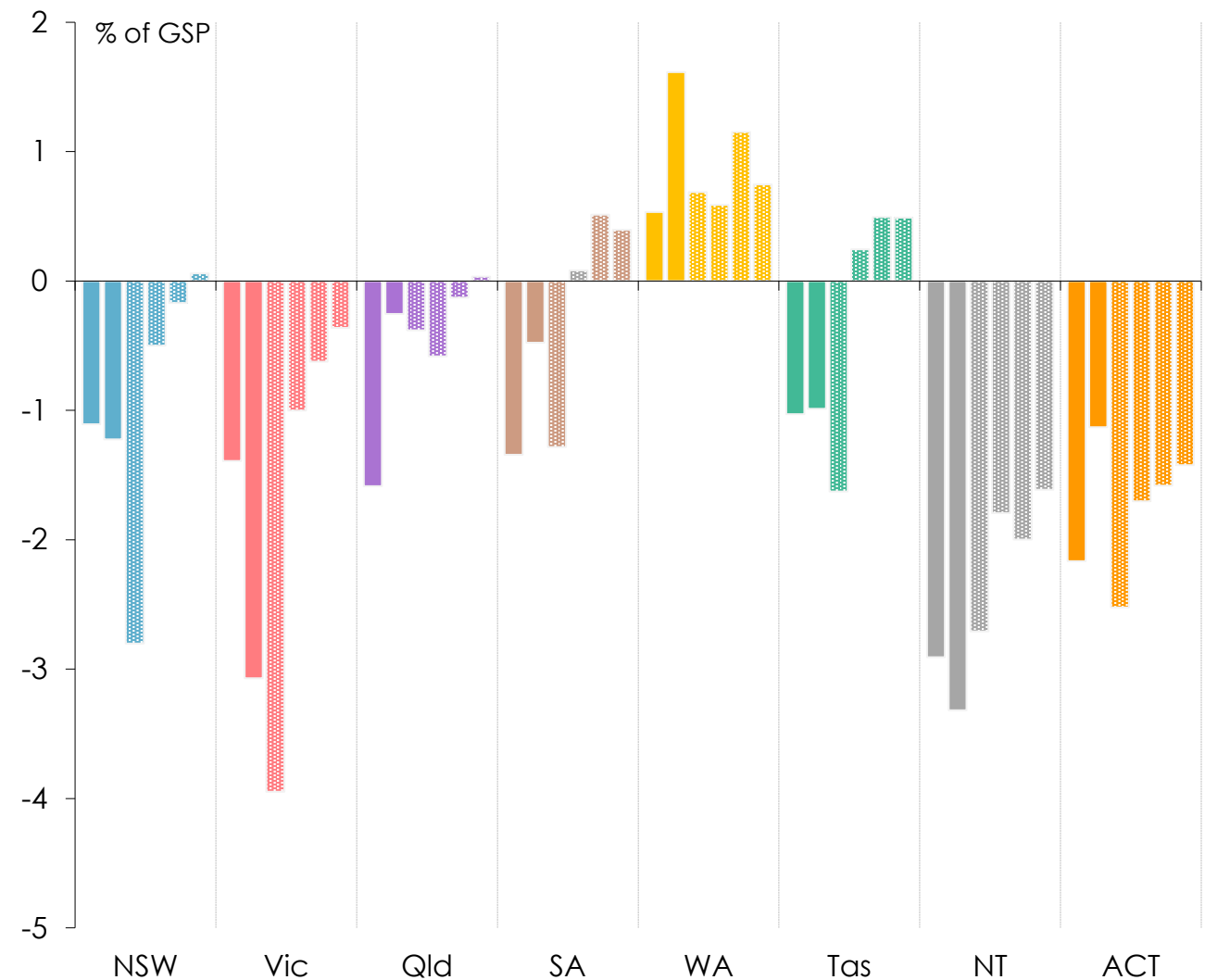
- Since resuming auctions on 12th January, the AOFM has sold \$26bn of bonds – including this week only \$500mn of May 2030s
- Although AOFM continues to have no difficulty issuing new debt, the 'coverage ratio' (the ratio of bids received to bonds offered) has slipped from 4.3x in the first seven months of 2021-22 to 3.3x over the past two months
- And AOFM is having to pay higher yields
 - when June 2051s were first offered in July 2020, they sold at an average yield of 1.94%
 - when they were last offered at the beginning of March, they sold at an average yield of 2.63%
 - the most recent offering of these bonds, on 1st April, was sold at an average yield of 3.21%
 - similarly, at the last auction of April 2024s, in December last year, the average issue yield was 0.67%: on 30th March the same bonds were sold at an average yield of 1.92%

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

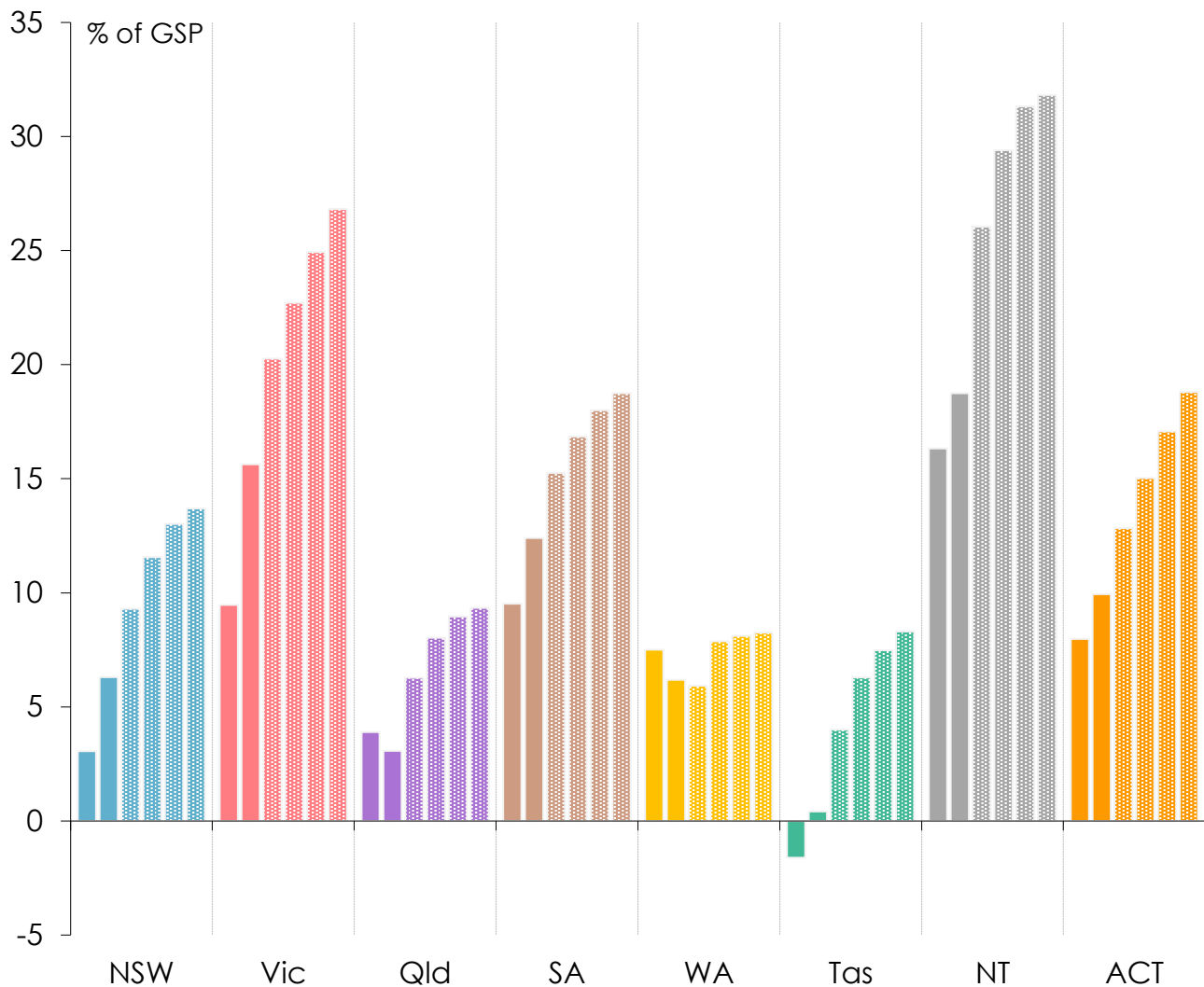
Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

States and territories – ‘net operating balances’



States and territories – net debt

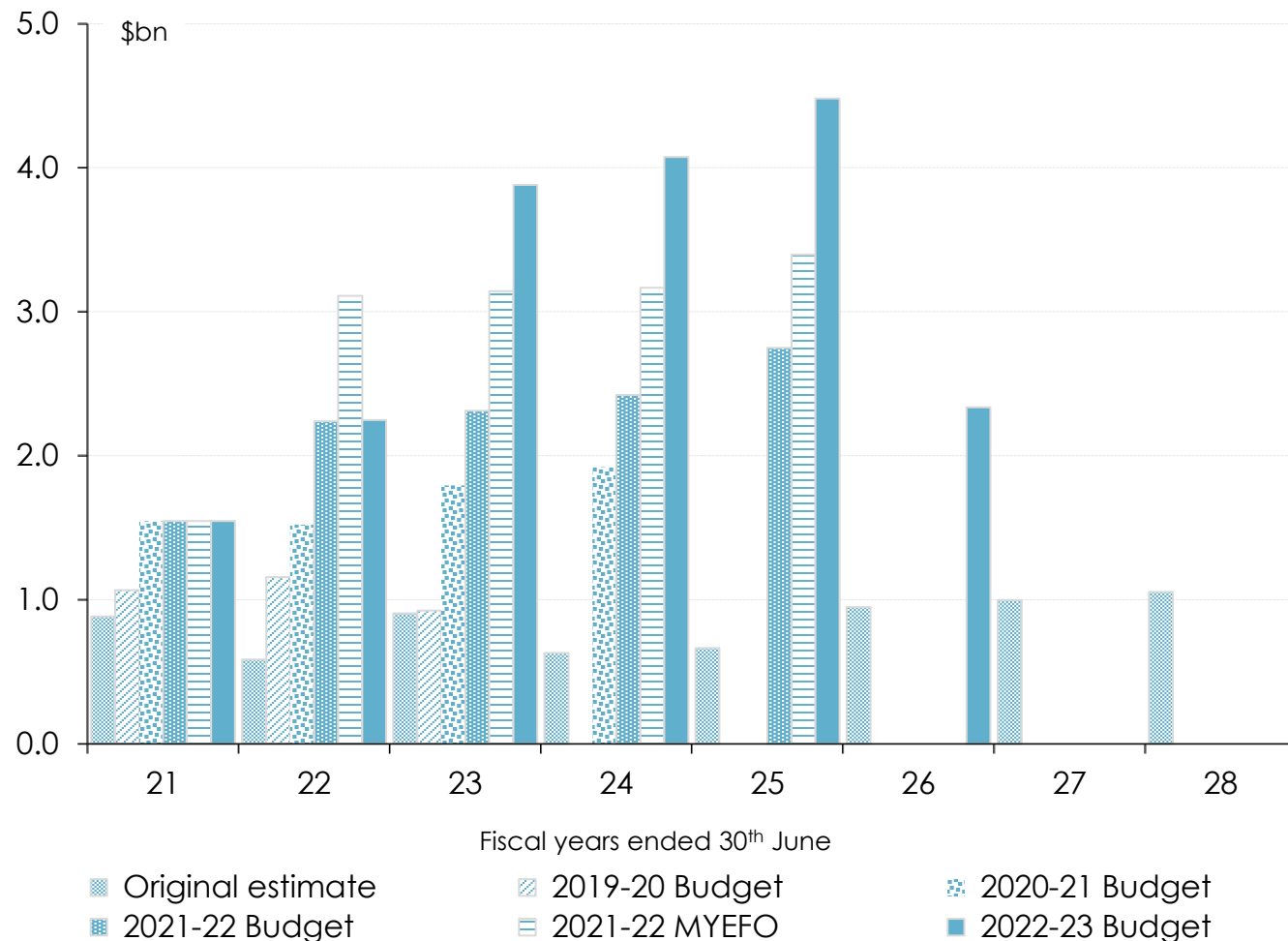


Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than 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 cost of giving WA more revenue from the GST than it 'deserves' keeps getting higher

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Successive estimates of the cost to the Federal Budget of the 'transition' to the new GST revenue-sharing arrangements 'agreed to' in 2018



- ❑ The 2022-23 Budget Papers put the cost to the Federal Budget of the 'deal' imposed on the states and territories in 2018, in order to appease Western Australia's demands for larger share of GST revenues than it was 'entitled' to under the long-standing principles hitherto used by the Grants Commission to recommend how that revenue should be distributed among the states and territories, at \$18.6bn over the six years to 2025-26
 - this is four times the original estimate of \$4.6bn
 - because the iron ore price has stayed much higher than assumed when the original estimate was made,
 - so the 'guarantee' that no other state would be worse off while WA never gets less than 70% of what it would have obtained under a notional 'equal per capita' distribution has become much more expensive
- ❑ It's simply scandalous that the Federal Government has to add almost \$20bn to its deficits in order to transfer a similar amount to the only government in Australia which is running budget surpluses

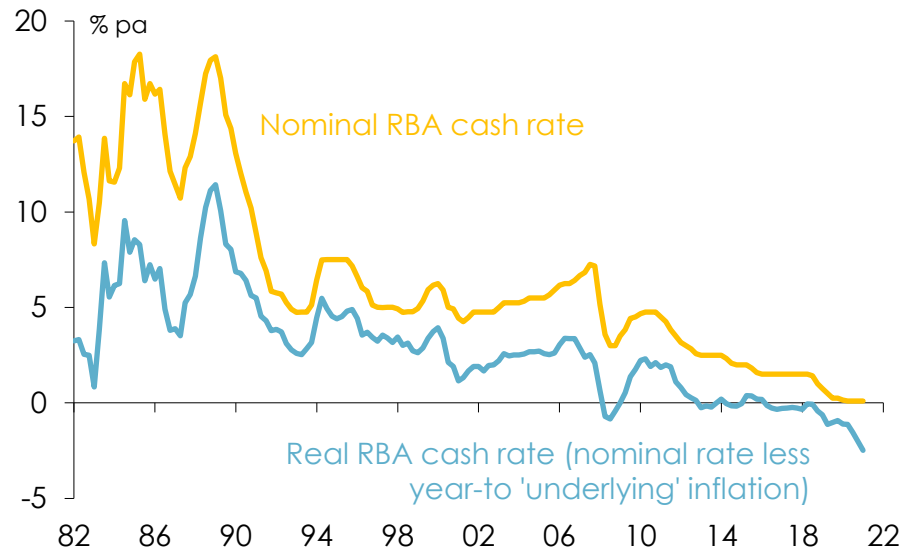
Sources: Australian Government, [Interim response to Productivity Commission inquiry into horizontal fiscal equalization](#), 5th July 2018; and 2022-23 [Budget Paper No. 3: Federal Financial Relations](#), 29th March 2022. [Return to "What's New"](#).

Monetary policy and the RBA

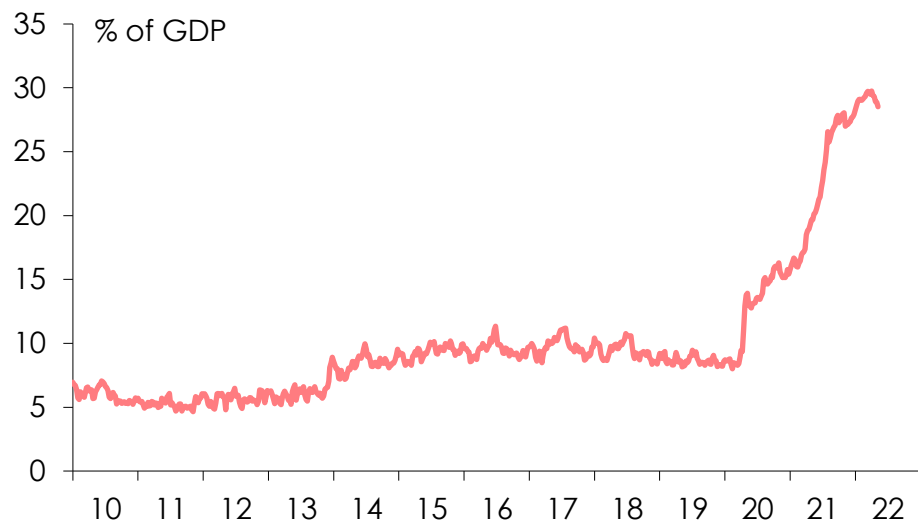
The RBA left the cash rate unchanged at 0.10% this week, but signalled that rates could be raised for the first time as early as June

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Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



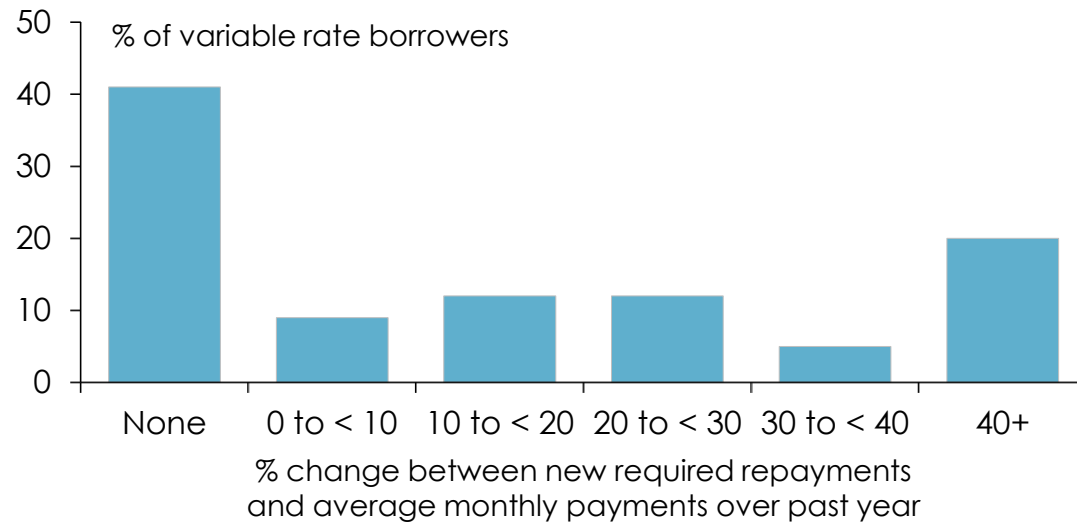
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ The RBA left its monetary policy settings unchanged, as expected, at Tuesday's Board meeting
- ❑ However there were some important changes in the wording of Governor Philip Lowe's [post-meeting statement](#) which suggest that the RBA is contemplating starting to lift interest rates sooner than it had previously indicated
 - in particular, there was no reference (as there had been in every post-meeting statement between November and March) to the Board's preparedness to be "patient" in assessing whether 'underlying' inflation was "sustainably" within the RBA's 2-3% target range
- ❑ Instead, after noting that there will be "a further lift in inflation over coming quarters" and that "a further [albeit only gradual] pick-up in aggregate wages growth and broader measures of labour costs is in prospect", Governor Lowe said the Board will "over coming months" assess "important additional evidence ... on both inflation and the evolution of labour costs"
 - this would appear to be a reference to the March quarter CPI (to be released on 27th April) and the March quarter wage price index (18th May)
- ❑ That could mean that if the March quarter CPI shows a much larger-than-expected rise in inflation, the Board could raise rates for the first time at its May meeting – though that would be just days before the election – or, probably more likely, at the June meeting
 - although it's still by no means certain that the Q1 WPI data will provide the 'smoking gun' for a rate increase

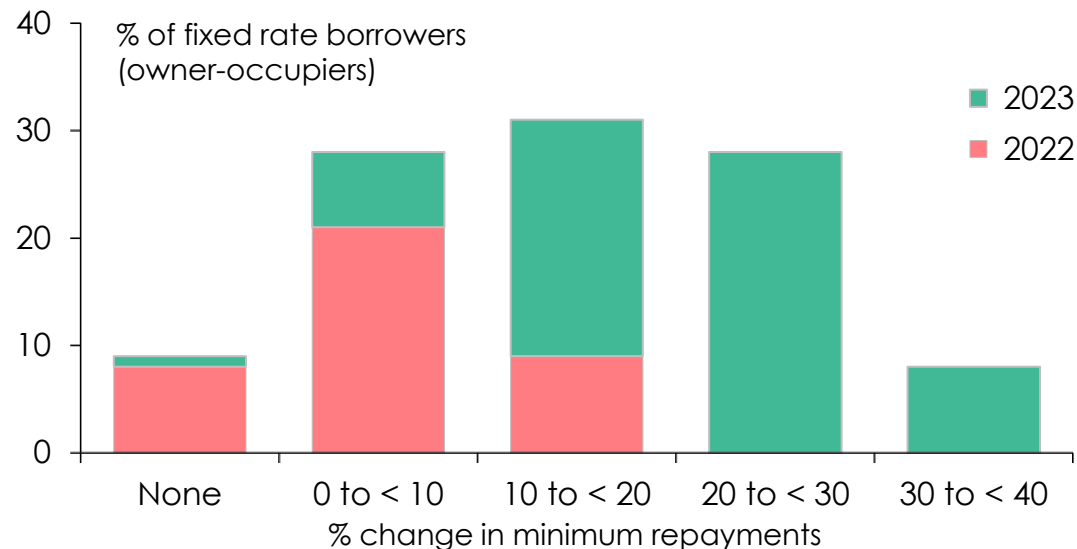
The RBA's latest *Financial Stability Review* out today gives some idea of household sensitivity to prospective increases in interest rates

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Repayment increases for variable-rate loans



Repayment changes on expiring fixed-rate loans



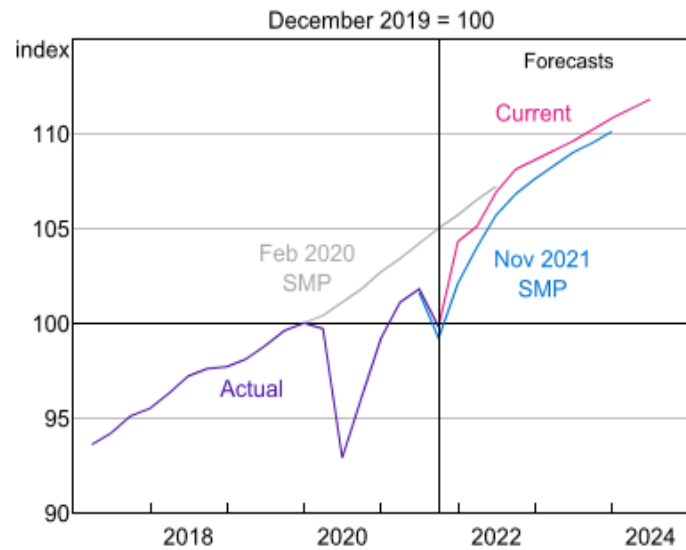
- ❑ 60% of all mortgage borrowers have variable-rate loans
- ❑ The RBA estimates that if variable mortgage rates were to rise by 200bp, just over 40% of those borrowers would not have to increase their monthly payments (because they've been paying more than contractually required)
 - whereas about 25% of these borrowers would see their repayments increase by more than 30% - although around half of these have 'excess payment buffers' equivalent to one year's worth of current repayments which could smooth that transition
- ❑ With a 200bp increase in variable rates, the share of borrowers with a debt service ratio of over 30% would increase from around 10% to just under 20%
- ❑ The share of mortgage borrowers with fixed rate loans has doubled, to 40%, since the beginning of 2020
 - about ¾ of those loans expire by the end of 2023
- ❑ The RBA estimates that about 90% of fixed rate loans due to expire by the end of 2023 will face increased repayments
 - though for more than half these borrowers, the increase in repayments would be less than 20% from current levels
- ❑ The RBA concludes that “the majority of indebted households are well placed to manage higher minimum loan repayments”

Source: Reserve Bank of Australia, [Financial Stability Review](#), 8th April 2022, pp. 27-28.
[Return to "What's New"](#).

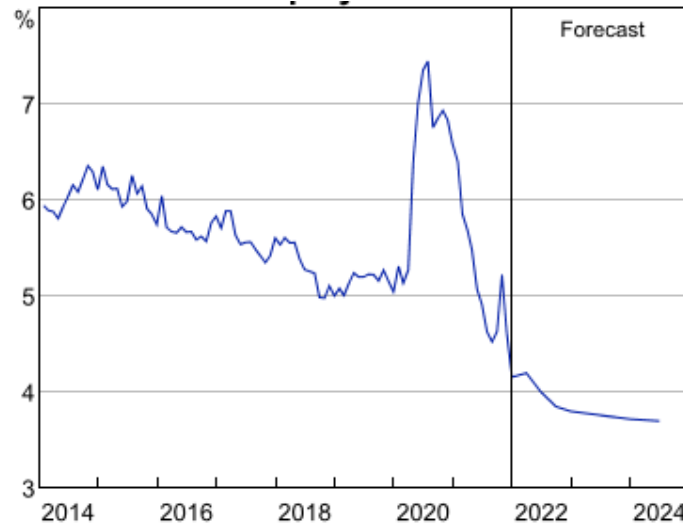
In February the RBA upgraded its forecasts for near-term economic growth, lowered its forecasts for unemployment, and raised its forecasts for inflation

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

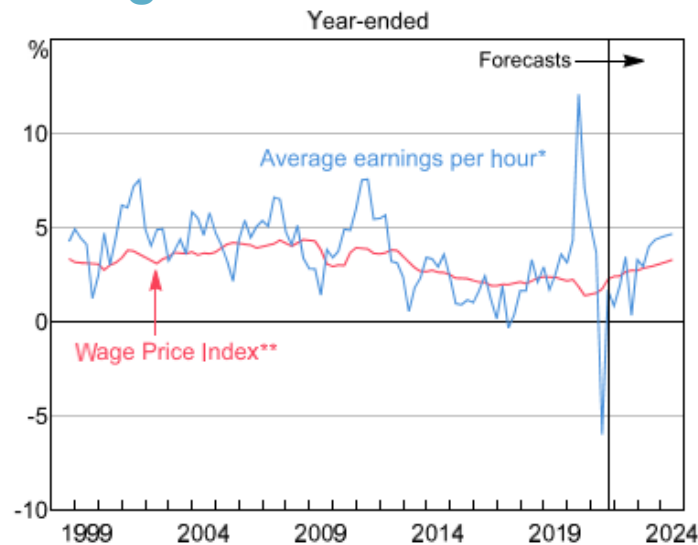
GDP



Unemployment



Wages



'Underlying' inflation



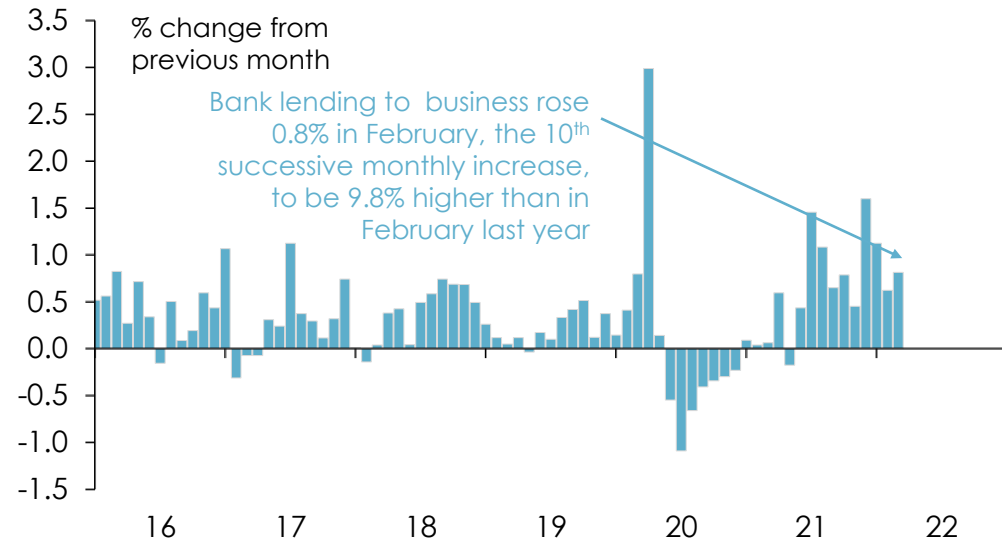
- ❑ In its latest [Statement on Monetary Policy](#), released on 4th February, the RBA upwardly revised its near-term real GDP growth forecast – from 4% to 5% over the year to Q2 2022 – but lowered its forecast for the year to Q2 2023 to 2½% (from 3¼%), and slowing further to 2% over the year to Q2 2024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

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

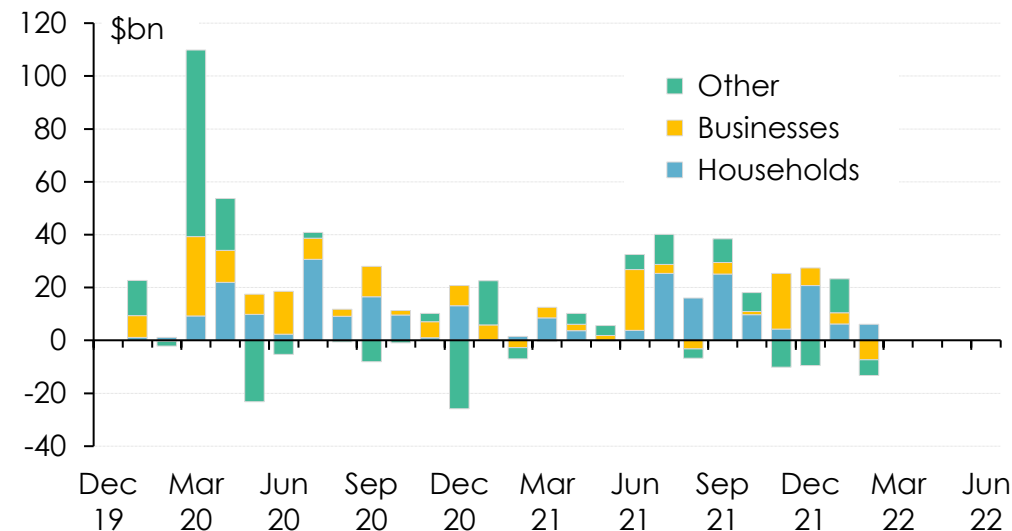
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Business credit outstanding



Monthly change in bank deposits



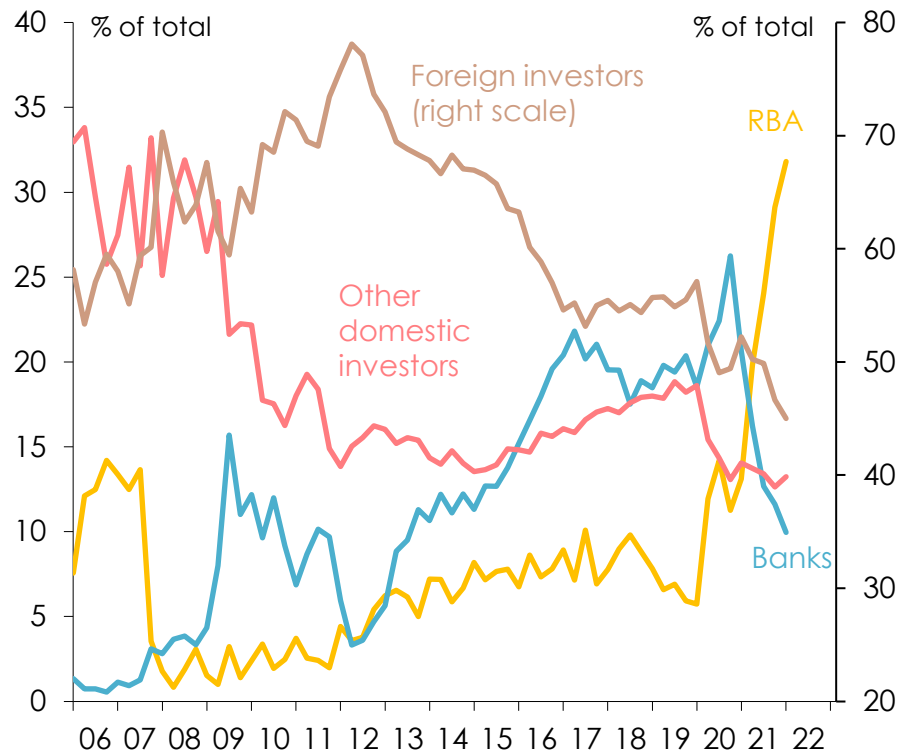
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since the beginning of 2019 (when the RBA started cutting rates again)
 - Small business overdraft and term loan rates have fallen by 113 and 134 bp respectively since January 2019, cf. a 65 bp reduction in 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 February, 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 \$491bn (23¼%) 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 \$255bn (25¾%) since February 2019, while business deposits have risen by \$168bn (28¼%)

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The RBA has (indirectly) absorbed 79% of the increase in government debt since the end of 2019, foreign investors 9% and banks 3%

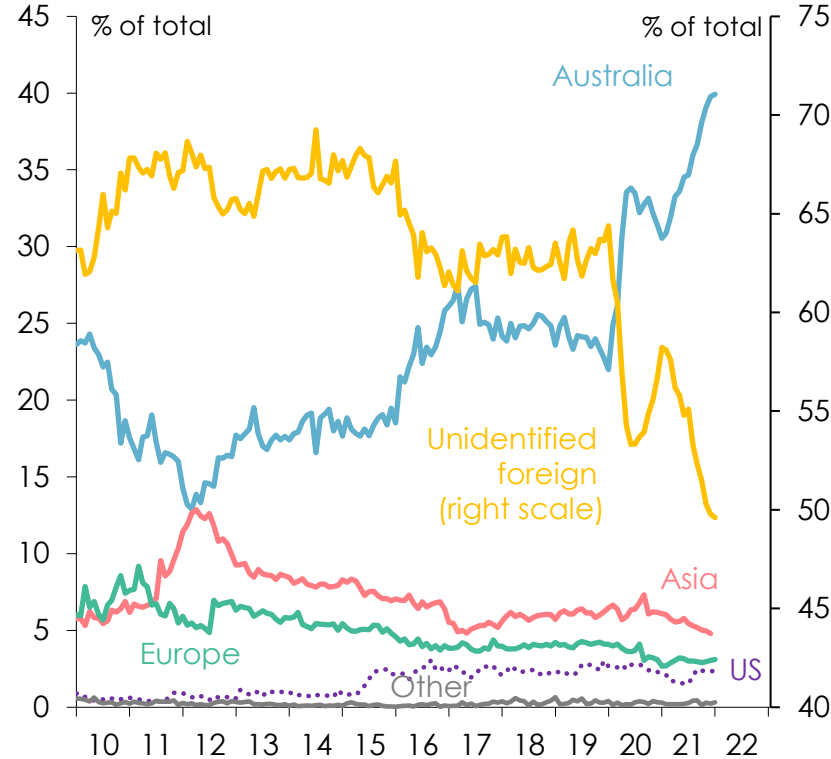
THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Holder of Australian Government bonds



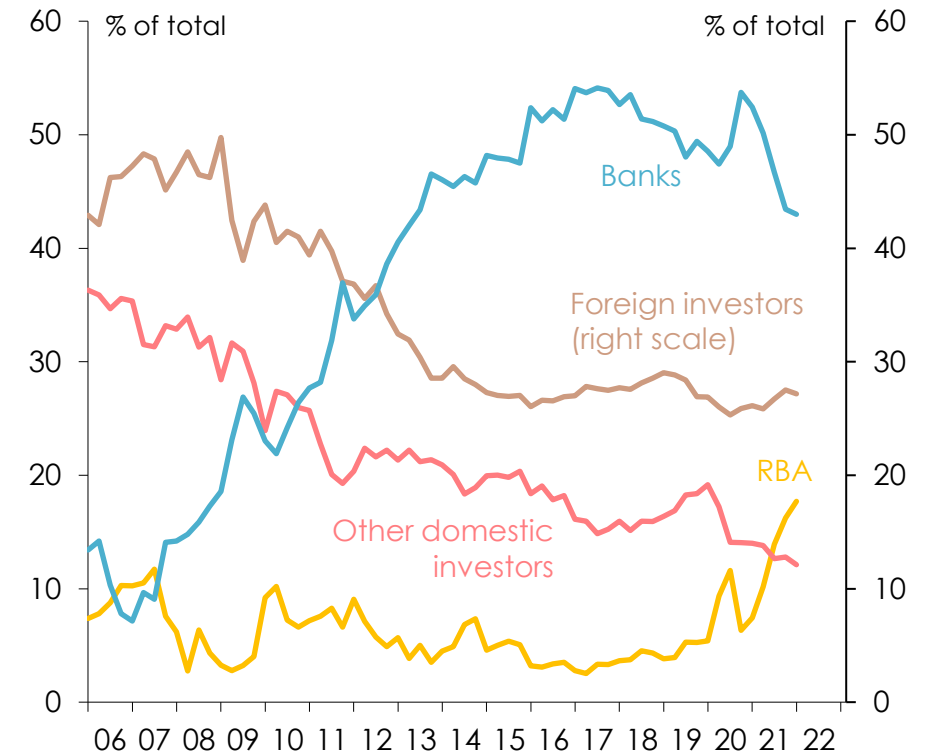
Australian Gov't bonds on issue have increased by \$252bn since the end of 2019 – of which \$246bn (97%) have been absorbed by the RBA, and \$37bn by foreigners, while banks have reduced their holdings by \$29bn

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



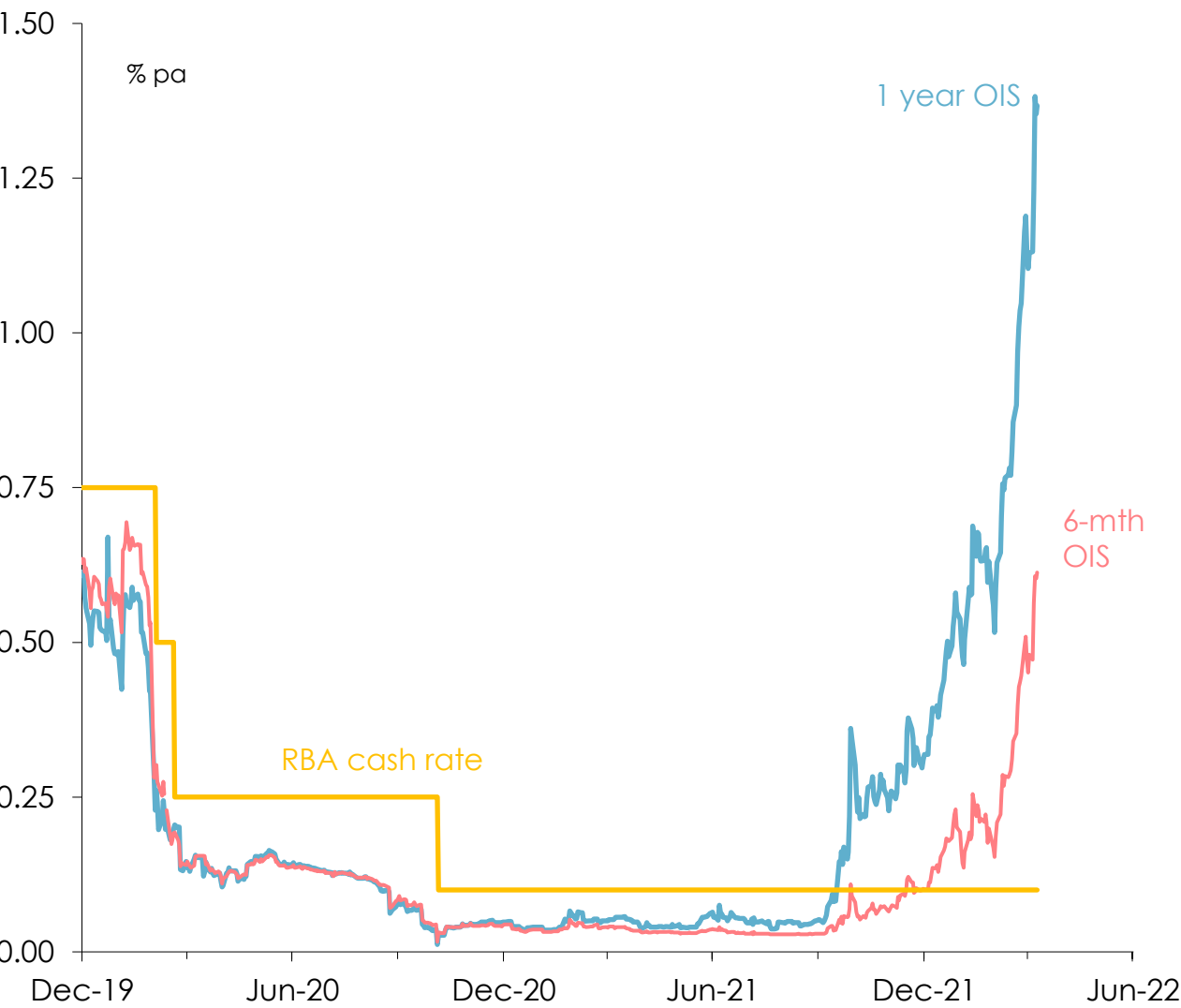
State & Territory Gov't bonds on issue increased have increased by \$134bn since the end of 2019, of which \$60bn have been absorbed by the RBA, \$41bn by banks and \$37bn by foreigners

Australian financial markets

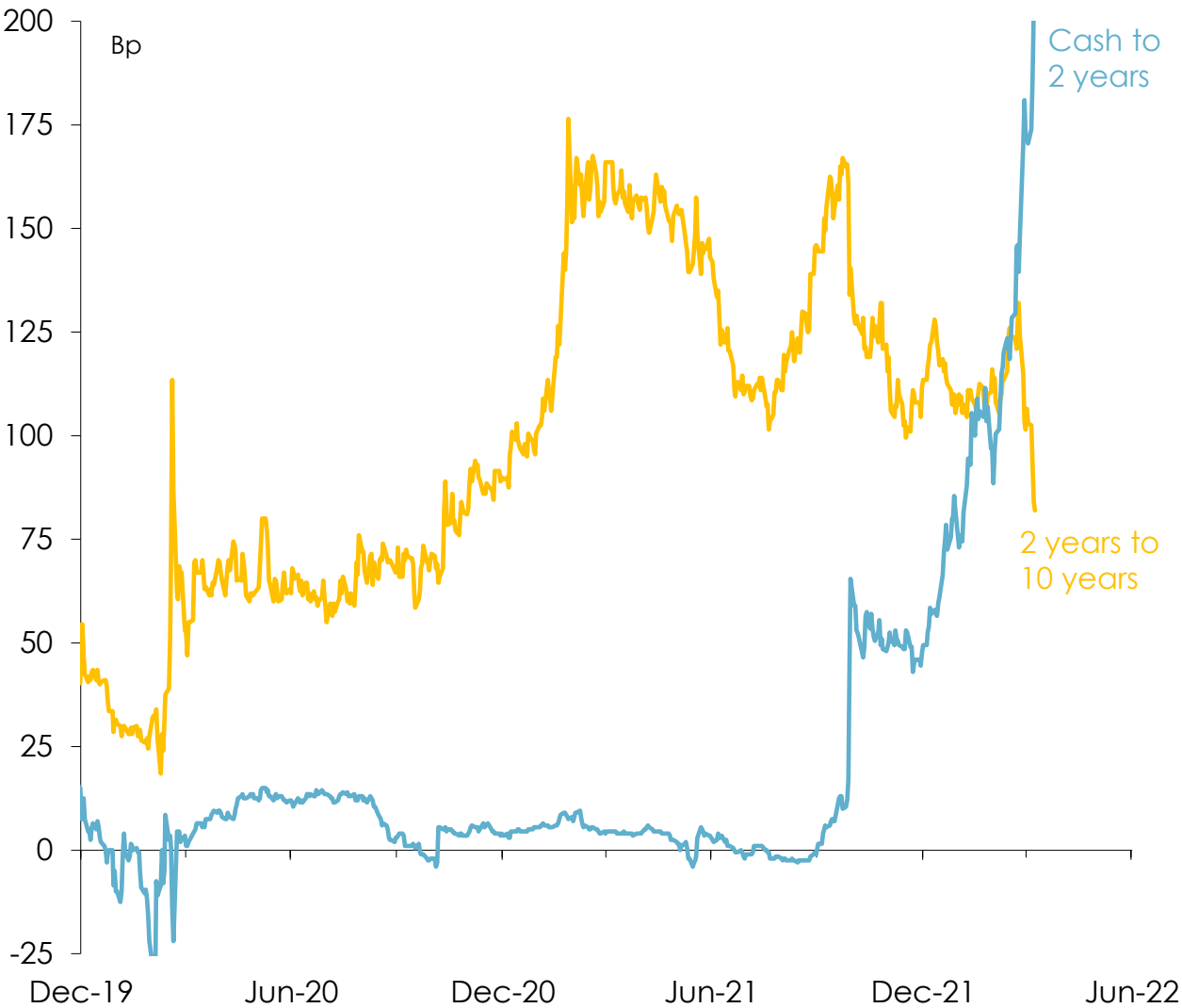
Financial markets are now pricing RBA rate hikes totalling 125 basis points over the next 12 months

THE AUSTRALIAN ECONOMY THIS WEEK – 8TH APRIL 2022

Overnight index swap rates



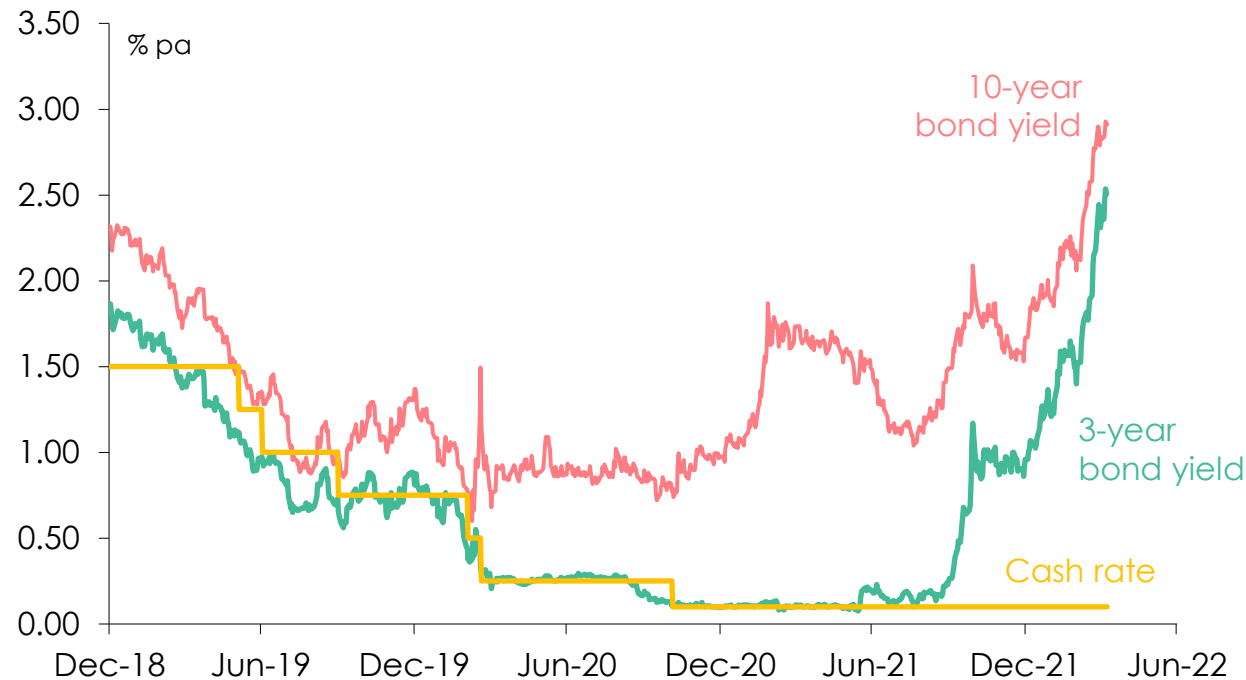
Yield curves



Longer-term bond yields rose further this week, largely following the upward trend in US yields

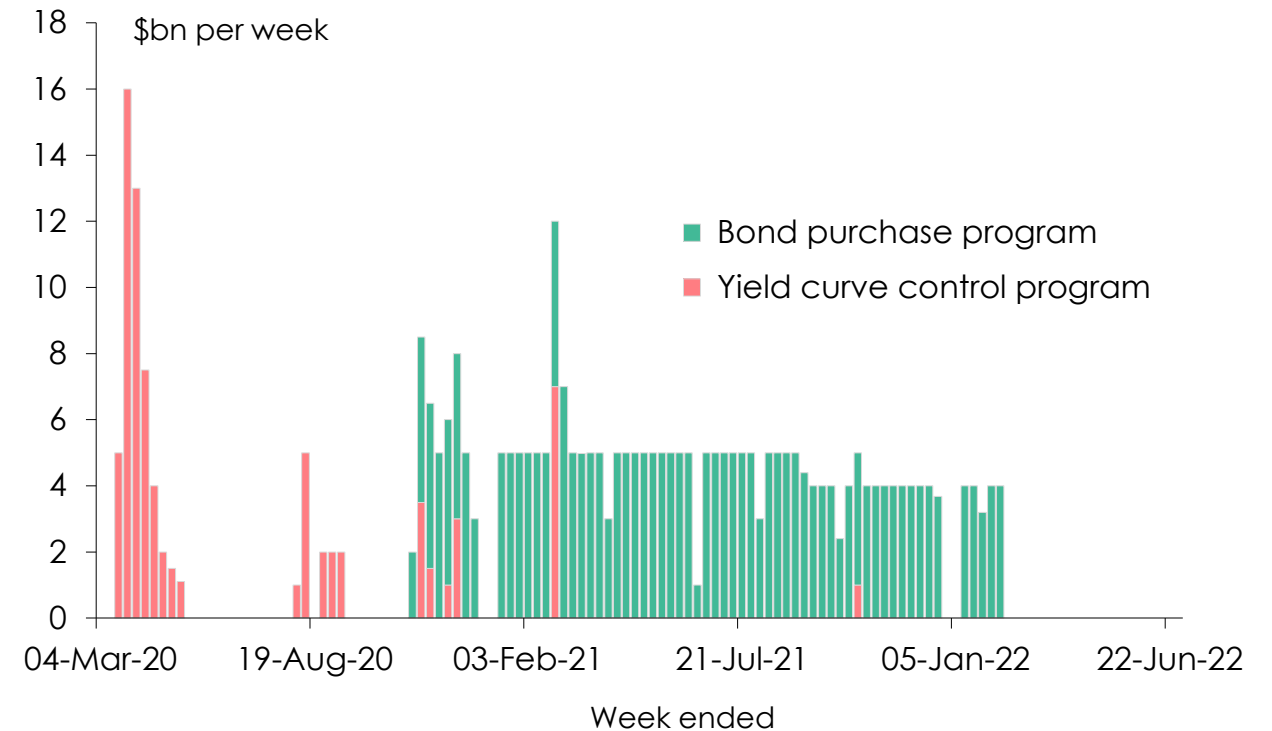
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Interest rates



- ❑ 3-year bond yields climbed above 2.5% this week, for the first time since late November 2014, after the RBA appeared to signal the possibility of a rate hike in June ([slide 98](#))
- ❑ The 10-year yield rose above 2.90%, for the first time since November 2015 – although this was driven primarily by rising US bond yields, and the spread between Australian and US 10-year yields narrowed from 50 bp at the end of last week to 30 bp at the end of this week

RBA open market bond purchases

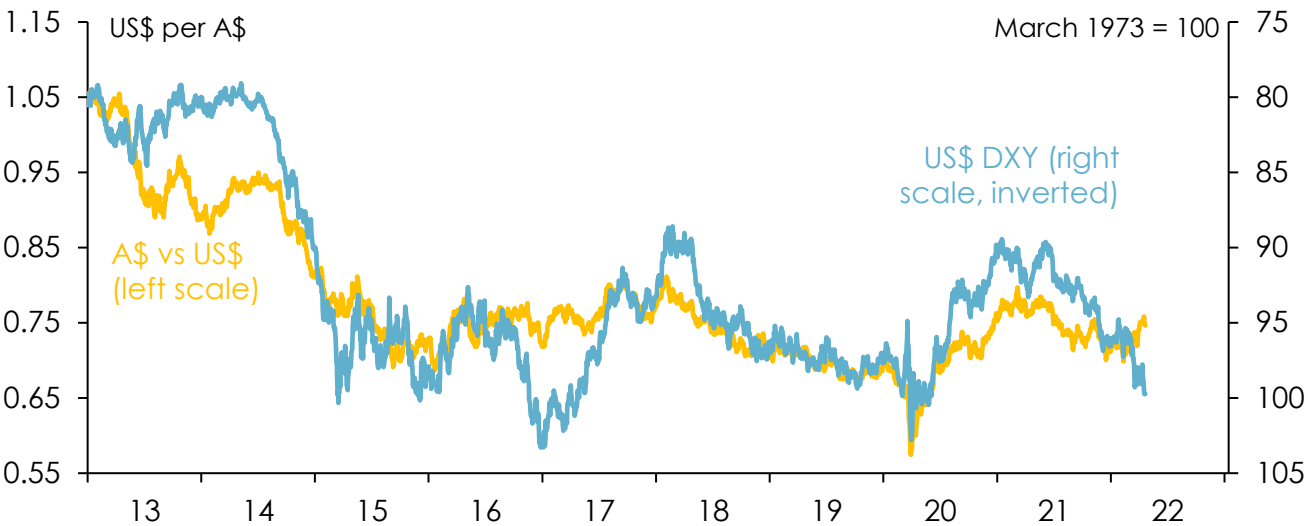


- ❑ The RBA purchased its final \$4bn of bonds under its now-terminated Bond Purchase Program in the second week of February, bringing the total amount of purchases under it to just under \$281bn, which together with purchases of \$80bn under the 3-year yield curve target program which was discontinued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

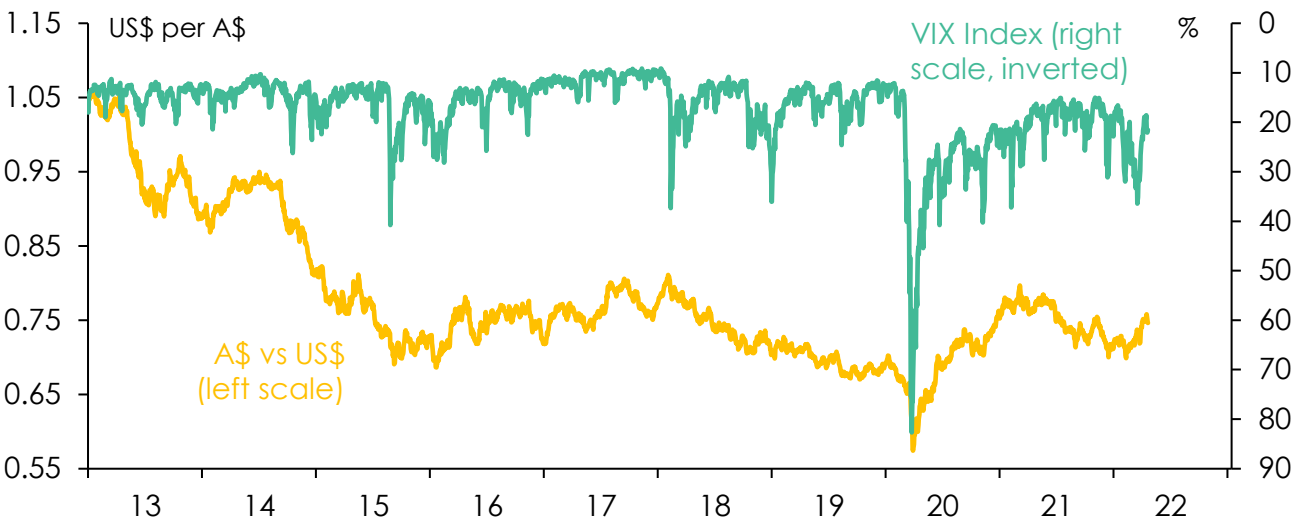
The A\$ popped back above US75¢ earlier this week, but finished down ½% at US74.6 against a stronger US\$, and a narrower interest rate spread

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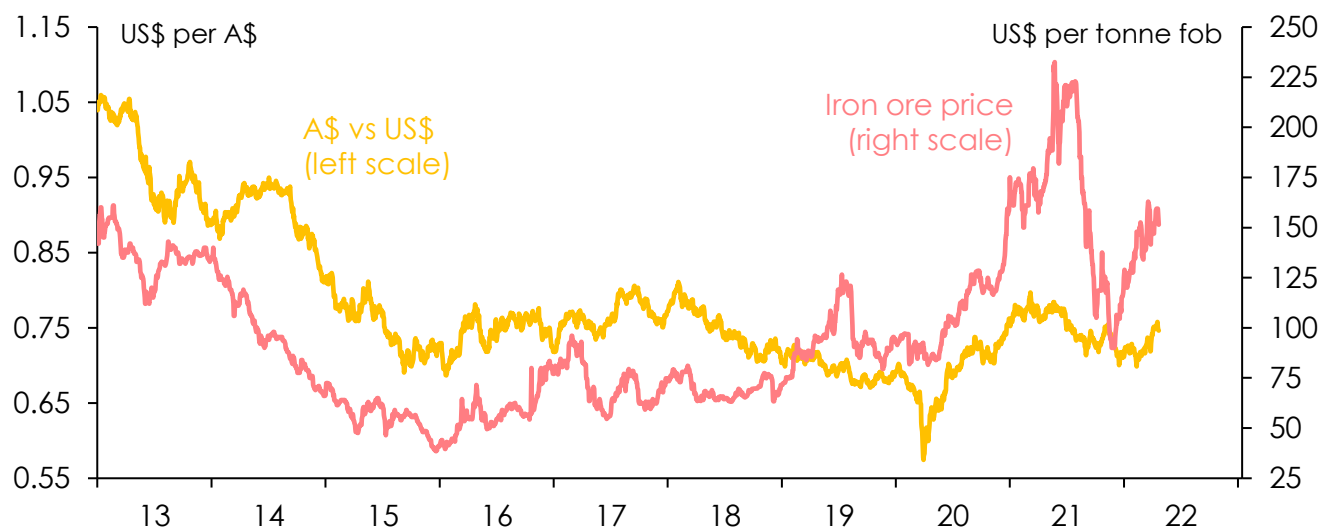
A\$-US\$ and US\$ trade-weighted index



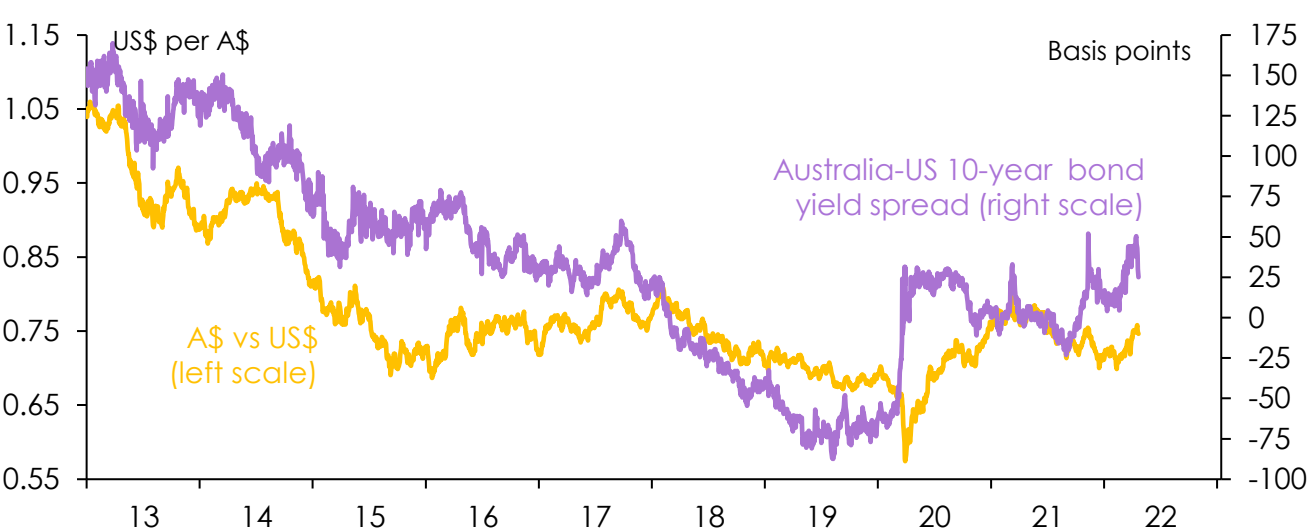
A\$-US\$ and US equity market volatility



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



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

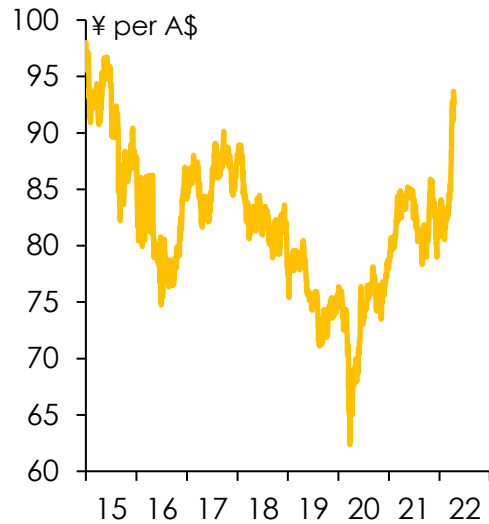


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 8th April. [Return to "What's New"](#).

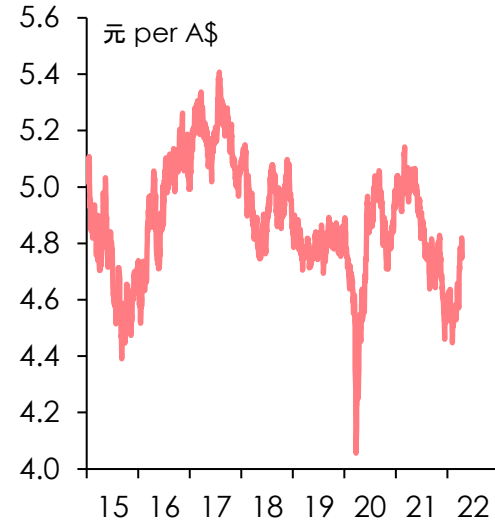
The A\$ rose more than 1% against the euro this week, $\frac{3}{4}\%$ vs the yen and $\frac{1}{2}\%$ vs the NZ\$, but slipped against the yuan, rupiah and Sing \$

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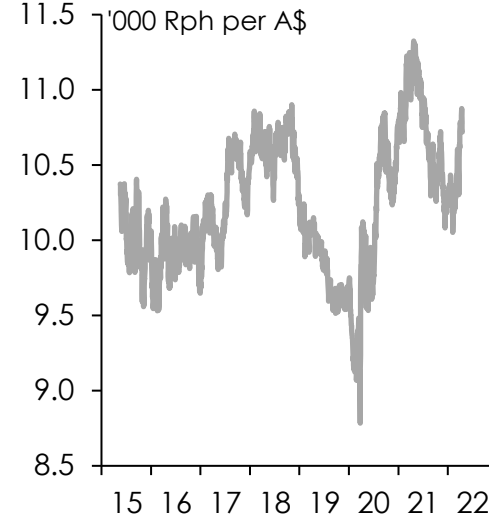
A\$ vs Japanese yen



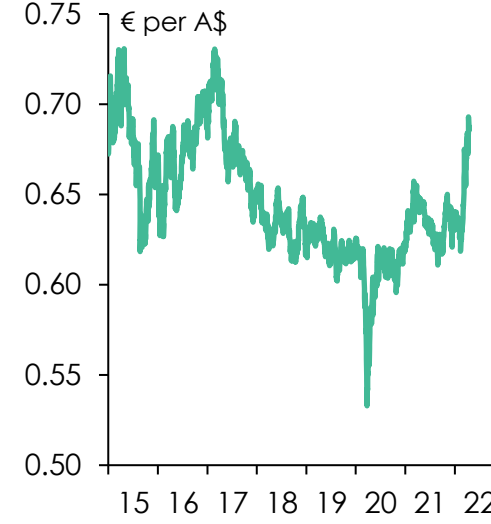
A\$ vs Chinese yuan



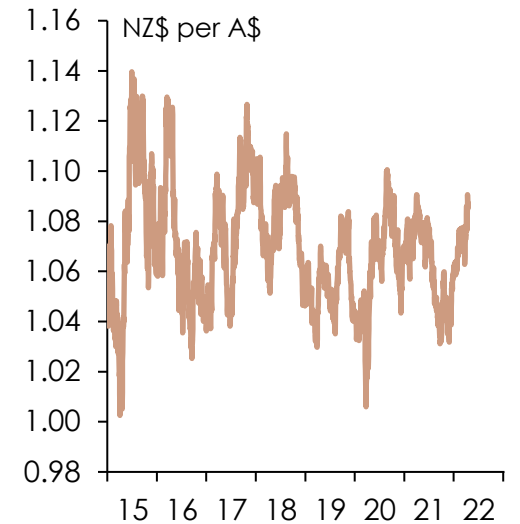
A\$ vs Indo rupiah



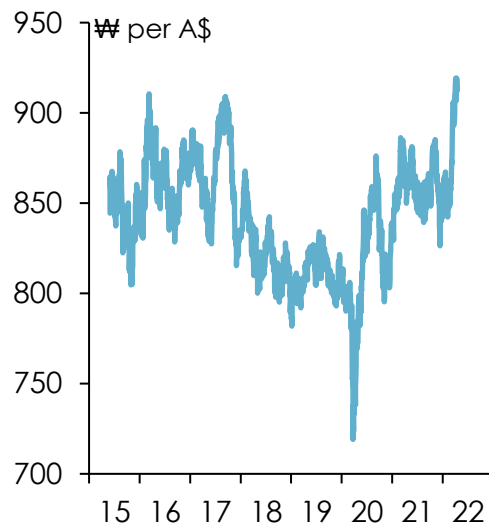
A\$ vs Euro



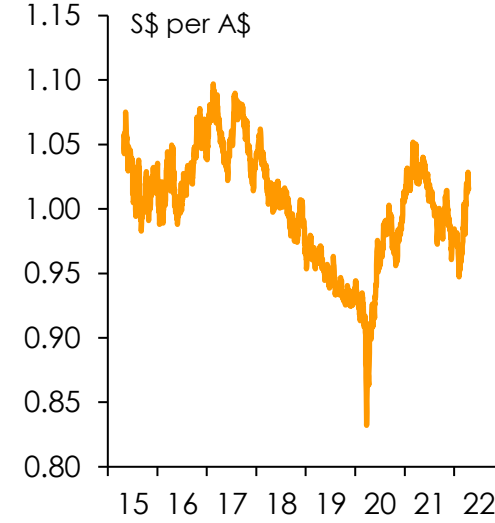
A\$ vs NZ\$



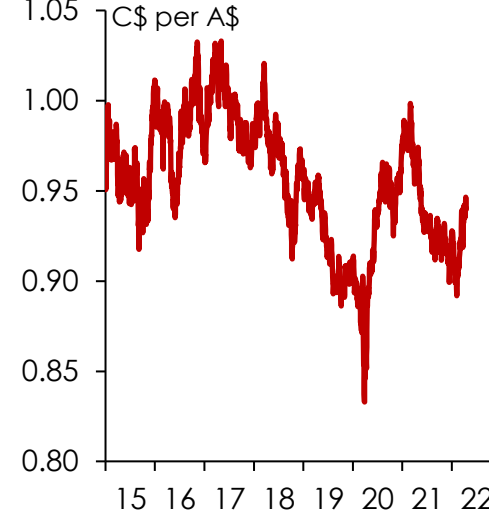
A\$ vs Korean won



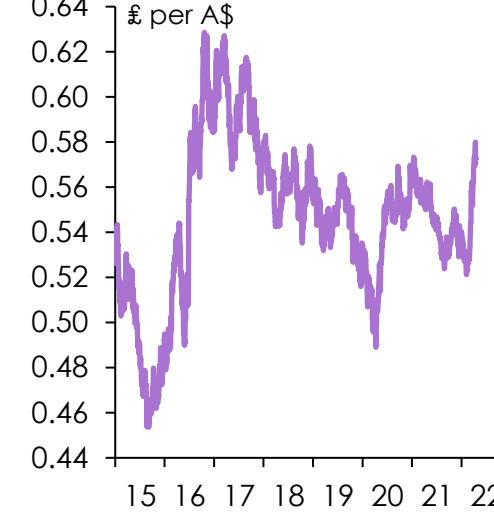
A\$ vs Singapore \$



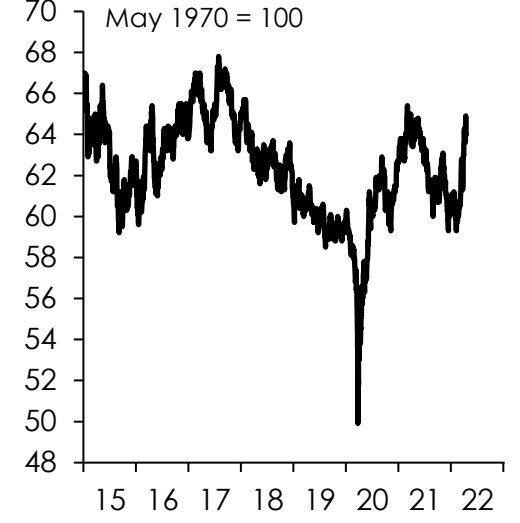
A\$ vs Canadian \$



A\$ vs British pound



A\$ TWI

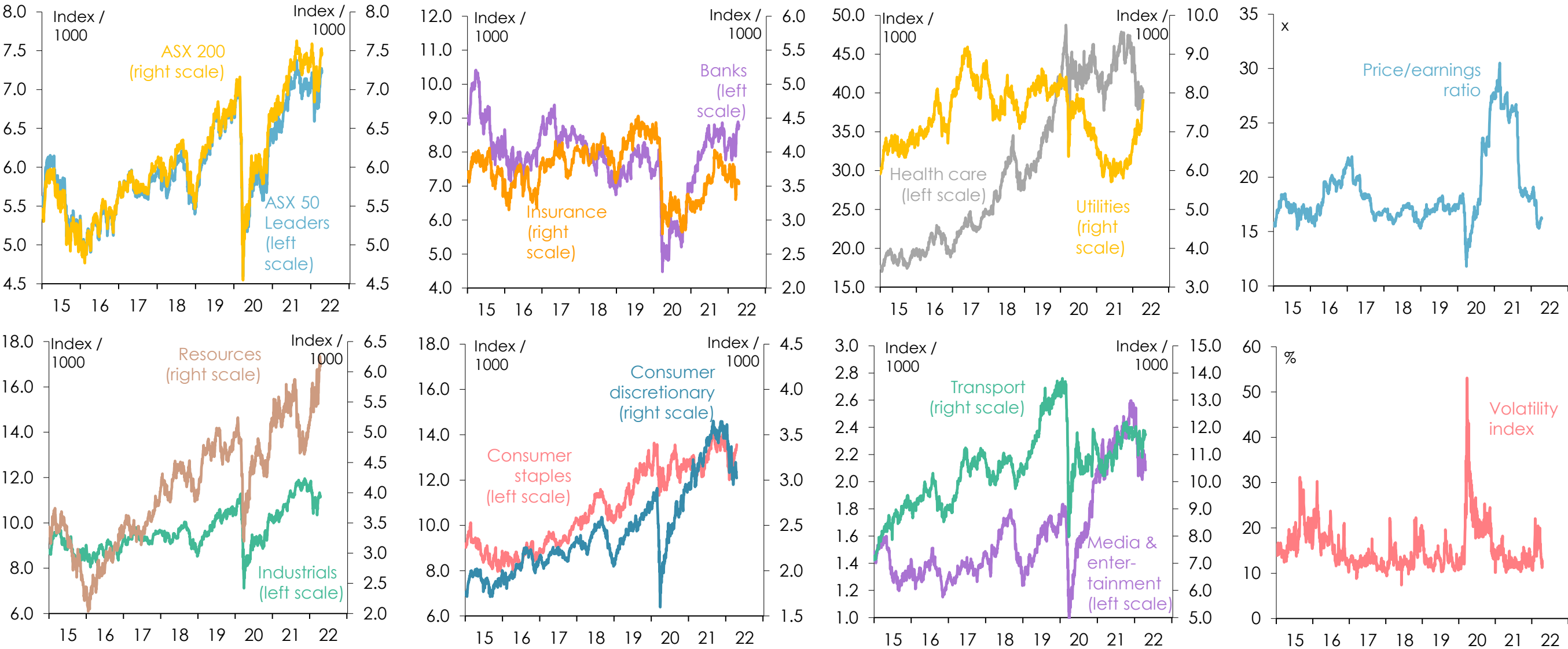


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 8th April. [Return to "What's New"](#).

The ASX rose finished down 0.2% this week after falling mid-week in line with setbacks in global markets, to be down 0.1% year to date

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ASX indices



Key data and events next week

Key data and events for week ended 15th April

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Tuesday 12th April	March NAB survey business conditions and confidence; February overseas arrivals and departures
Wednesday 13th April	April Westpac-Melbourne Institute consumer confidence; December quarter 2021 building activity (including dwelling commencements and completions)
Thursday 14th April	March labour force survey (employment and unemployment); April household inflation expectations
Some time this week	Announcement of the date of the federal election (either 14th or 21st May)
State Budgets	Victoria – 3rd May Northern Territory – May Western Australia – May Tasmania – 26th May New South Wales – June Queensland – June ACT – June

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

Important information

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

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

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