



# THE AUSTRALIAN ECONOMY THIS WEEK

22<sup>ND</sup> APRIL 2022

**SAUL ESLAKE**

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

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# The Federal election

# The Federal election will be held on 21<sup>st</sup> May

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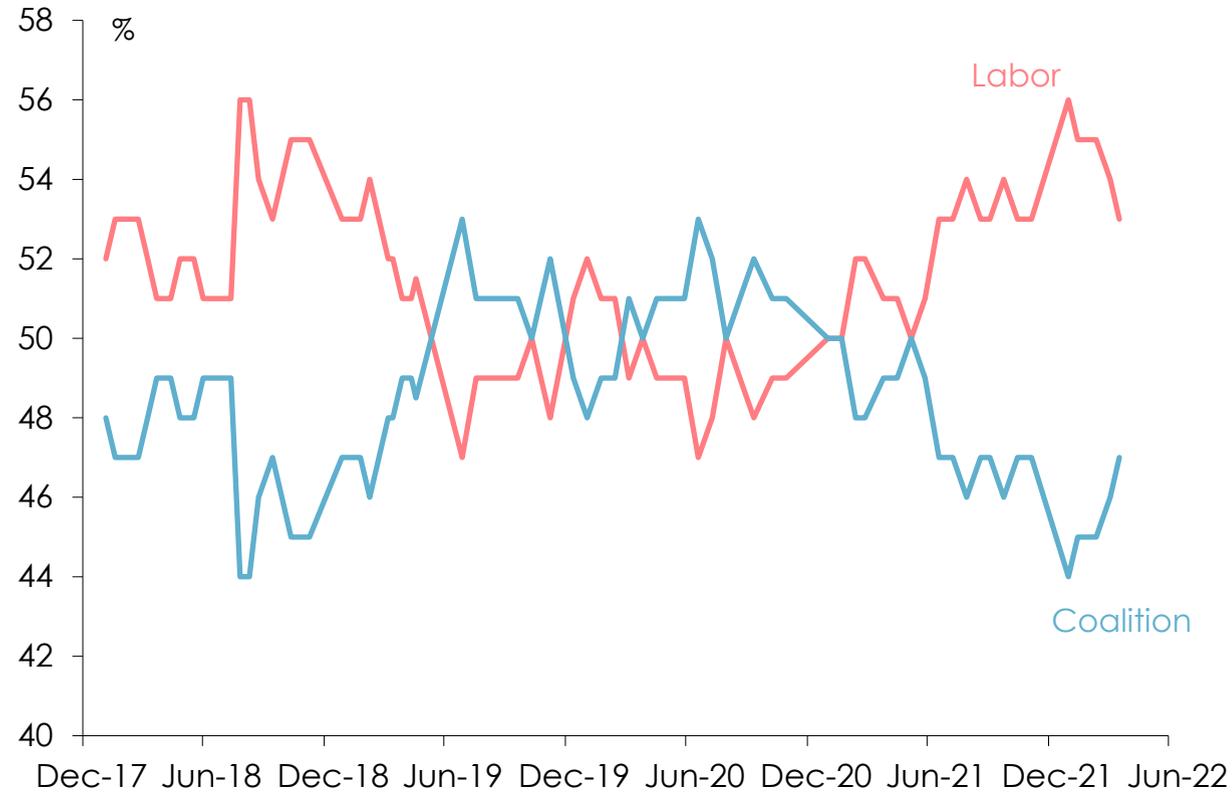
- ❑ **The Federal election (for the House of Representatives and half the Senate) will be held on Saturday 21<sup>st</sup> May**
  - the latest possible date on which it could have been held
- ❑ **The incumbent Liberal-National Party Coalition Government led (since August 2018) by Prime Minister Scott 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
- ❑ **Since midway through last year, most opinion polls have suggested that the Labor Party would win the election, whenever it was held – although Labor's lead has narrowed over the first two weeks of the campaign ([next slide](#))**
  - the polls 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)
  - an important potential source of error in opinion polls is how they notionally allocate the preferences of respondents who indicate their primary vote will go to minor parties or independents
- ❑ **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 Coalition has made up some ground against Labor during the first two weeks of the campaign though it's still behind in the 2PP vote

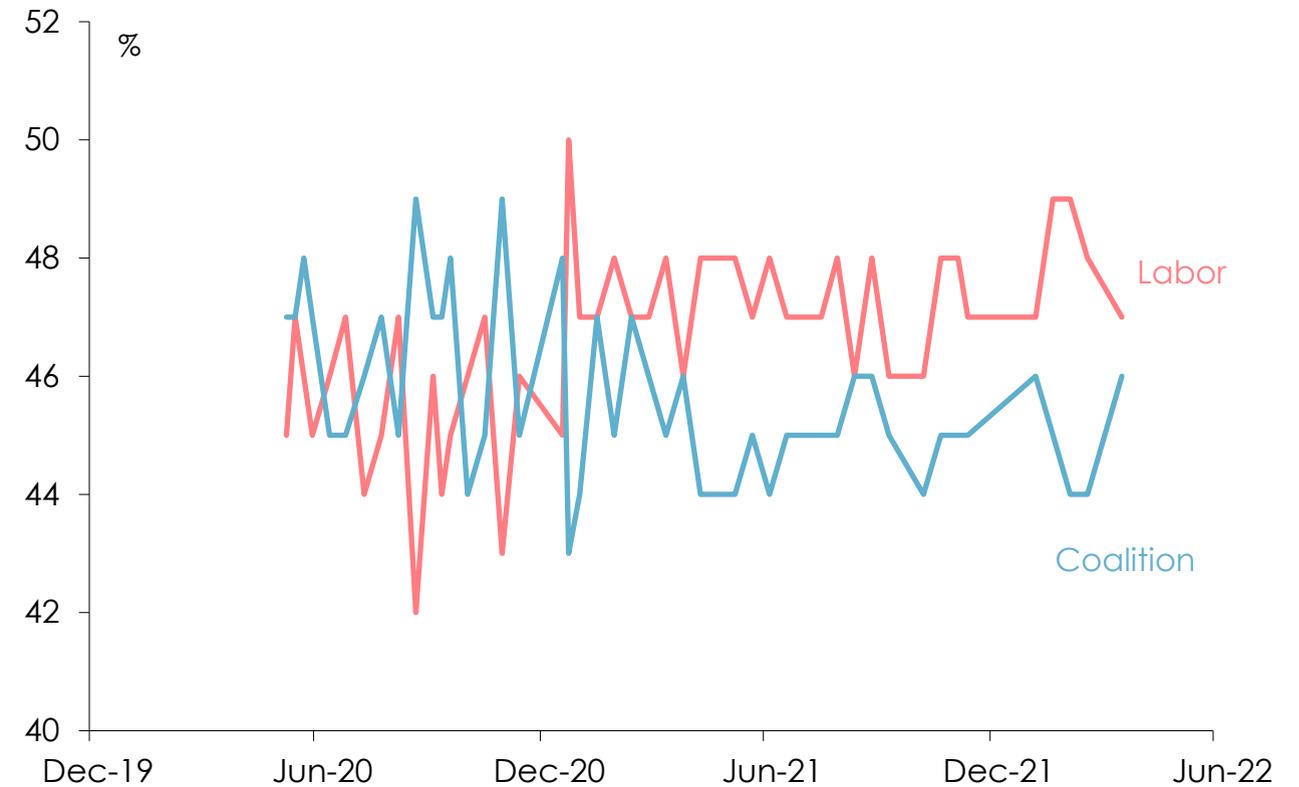
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## Two-party-preferred vote according to opinion polls

### Newspoll-YouGov



### Essential

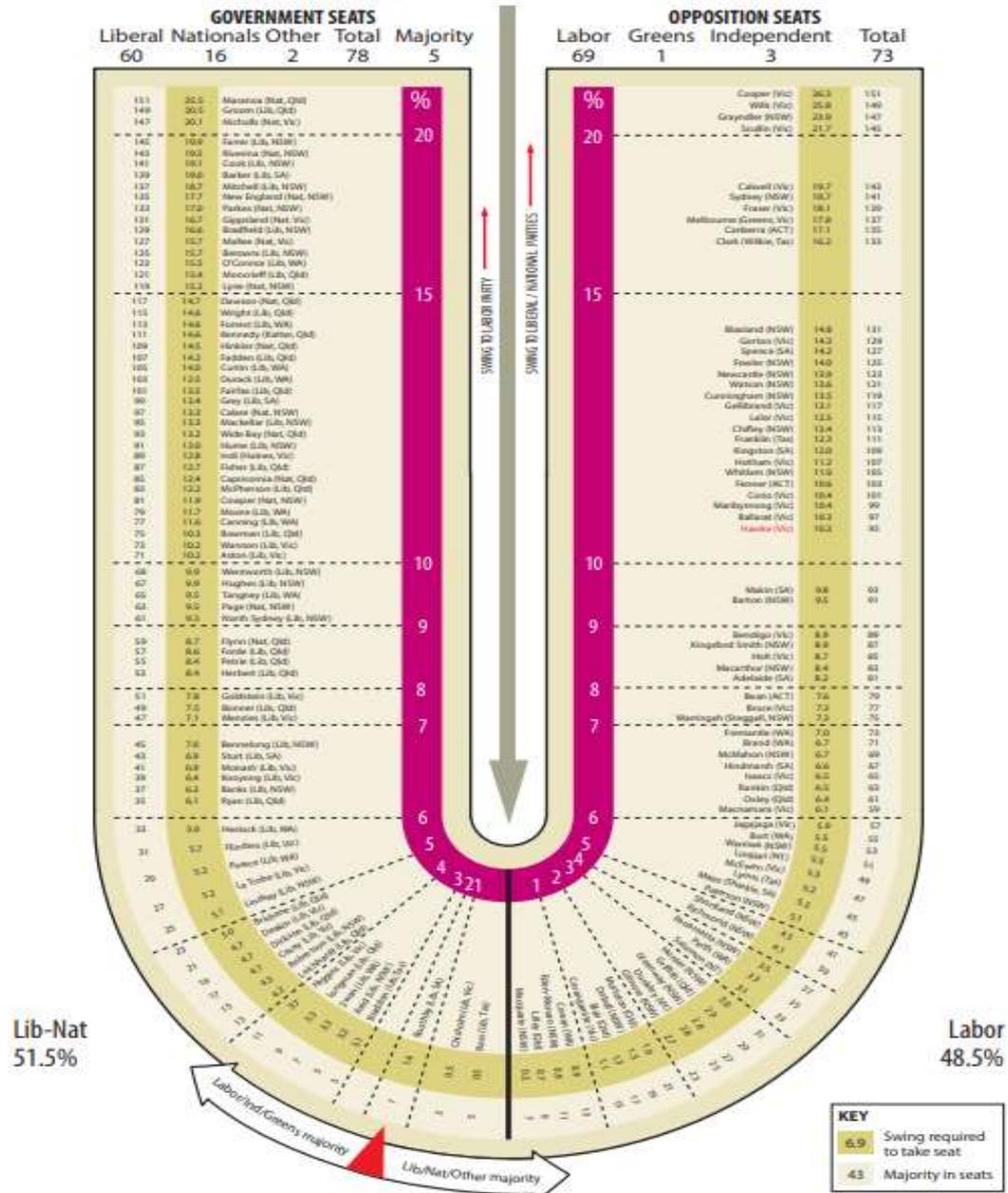


- ❑ The above polls show the major parties' share of the 'two-party preferred' vote, that is, after notionally allocating the preferences of respondents indicating they'd give their first vote to minor parties or independents – both polls shown above indicate that both major parties' 'primary vote' is 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](#).

# National opinion poll results may provide a poor guide to the outcome of this election (as they did in 2019, but for possibly different reasons)

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- ❑ Elections for Australia’s House of Representatives aren’t won by the party (or parties) which win(s) a majority of the (two-party-preferred) national vote
  - they’re won by the party (or parties) which win a majority of the 151 seats – each of which is the subject of an individual contest
- ❑ ‘Swings’ from Labor to the Liberal-National Coalition and vice versa are rarely uniform across the country, but can vary widely from state to state and in individual seats depending on state, local and personal factors
- ❑ Of particular importance in the 2022 election campaign, Labor has more seats which are vulnerable to anti-Labor swings than the Coalition has seats which are vulnerable to anti-Coalition swings
  - the Coalition only holds two seats with margins of less than 1%, and another two with margins of between 1 and 3% - whereas Labor is defending four seats on margins of less than 1%, and another eight on margins of between 1 and 3%
- ❑ Opinion polls suggest that the ‘primary’ (first preference) vote for each of the major parties may be as low as 34-36% - the lowest ever recorded
  - which means that the preferences of voters whose first vote goes to minor parties or independents may be crucial in more seats than usual
- ❑ To win a seat independents usually need to come at least second on primary votes, and then attract the lion’s share of the lower-ranked major party candidate

# What policy differences might there be if Labor were to form government after the election?

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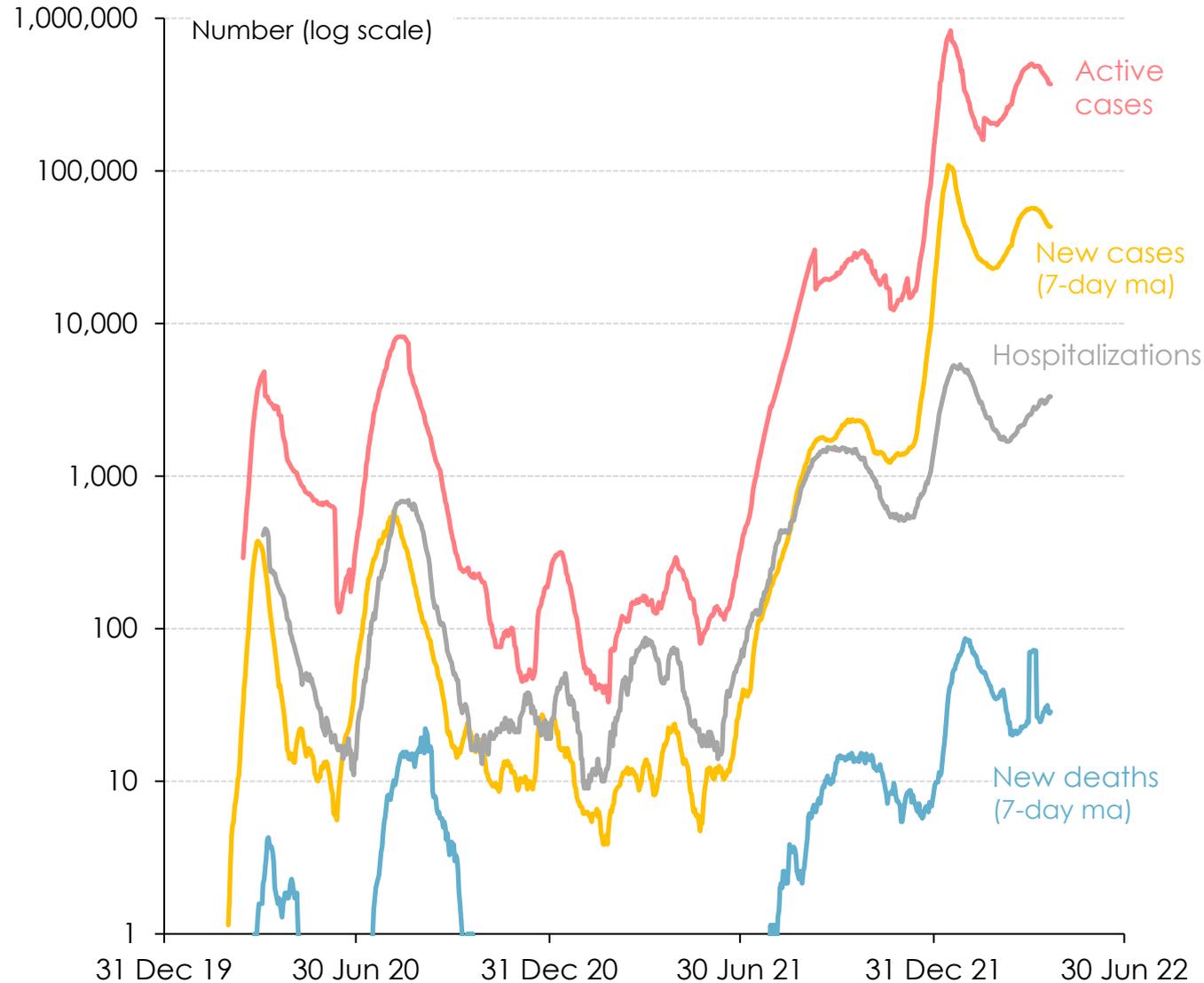
- ❑ **One of the clear lessons of Australian political history over the last three or more decades is that Oppositions cannot win elections on platforms of major reform which entail ‘losers’ as well as ‘winners’**
  - the Government of the day will almost always be able to use the vastly greater resources 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**

**The virus**

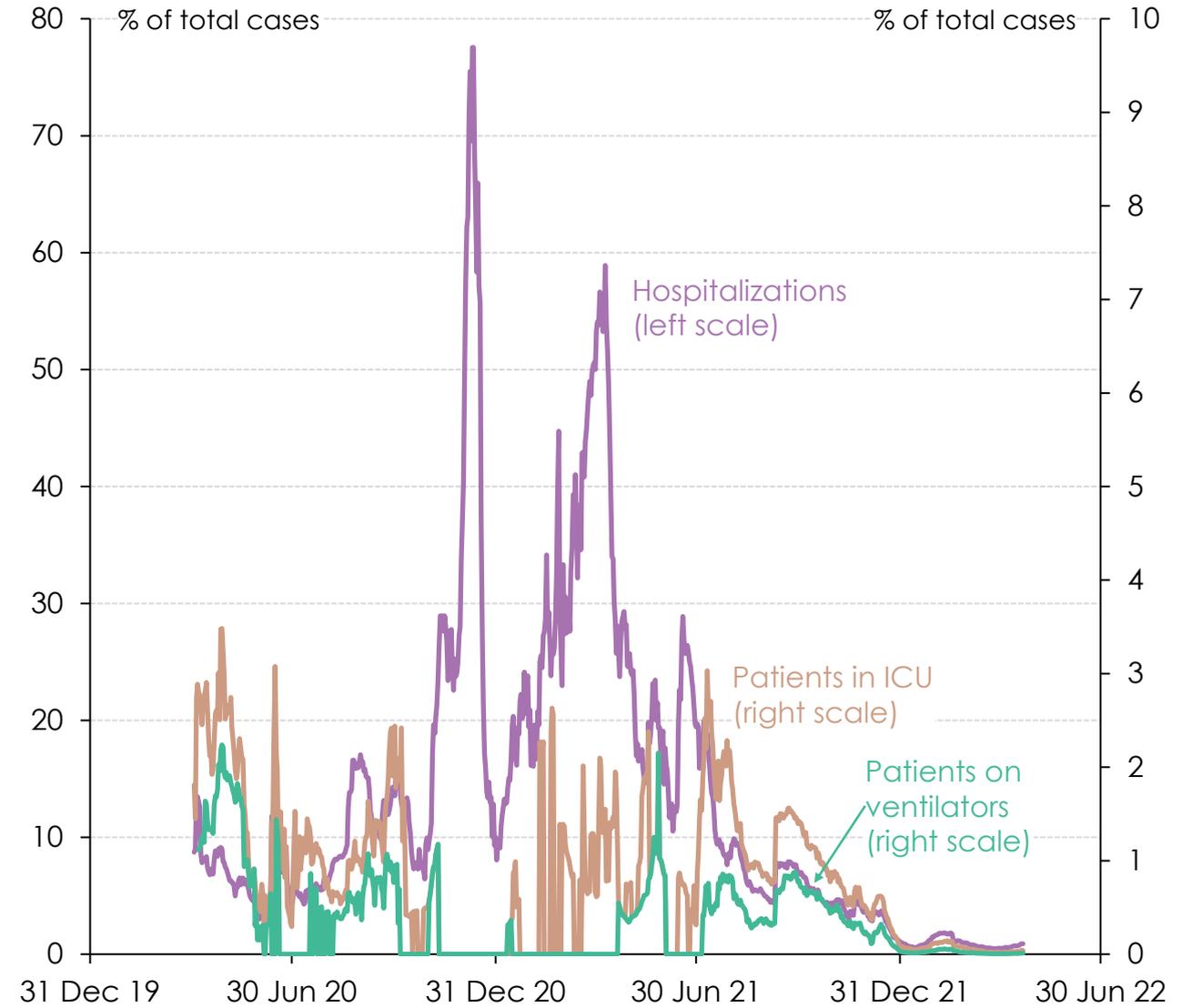
# New and active case numbers appear to have passed another peak since mid-April, with hospitalization and fatality rates remaining very low

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## Cases, hospitalizations and deaths



## Severity of cases



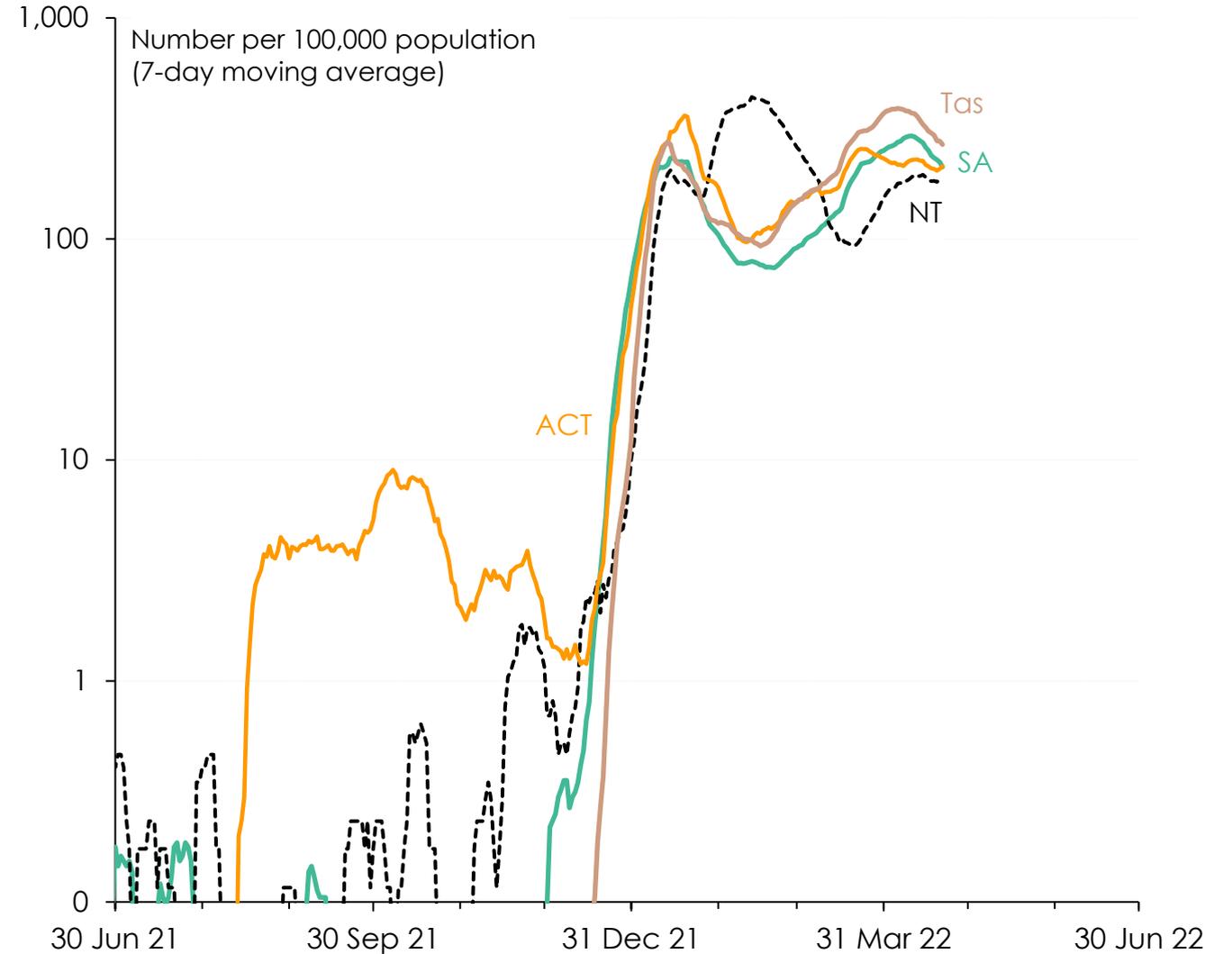
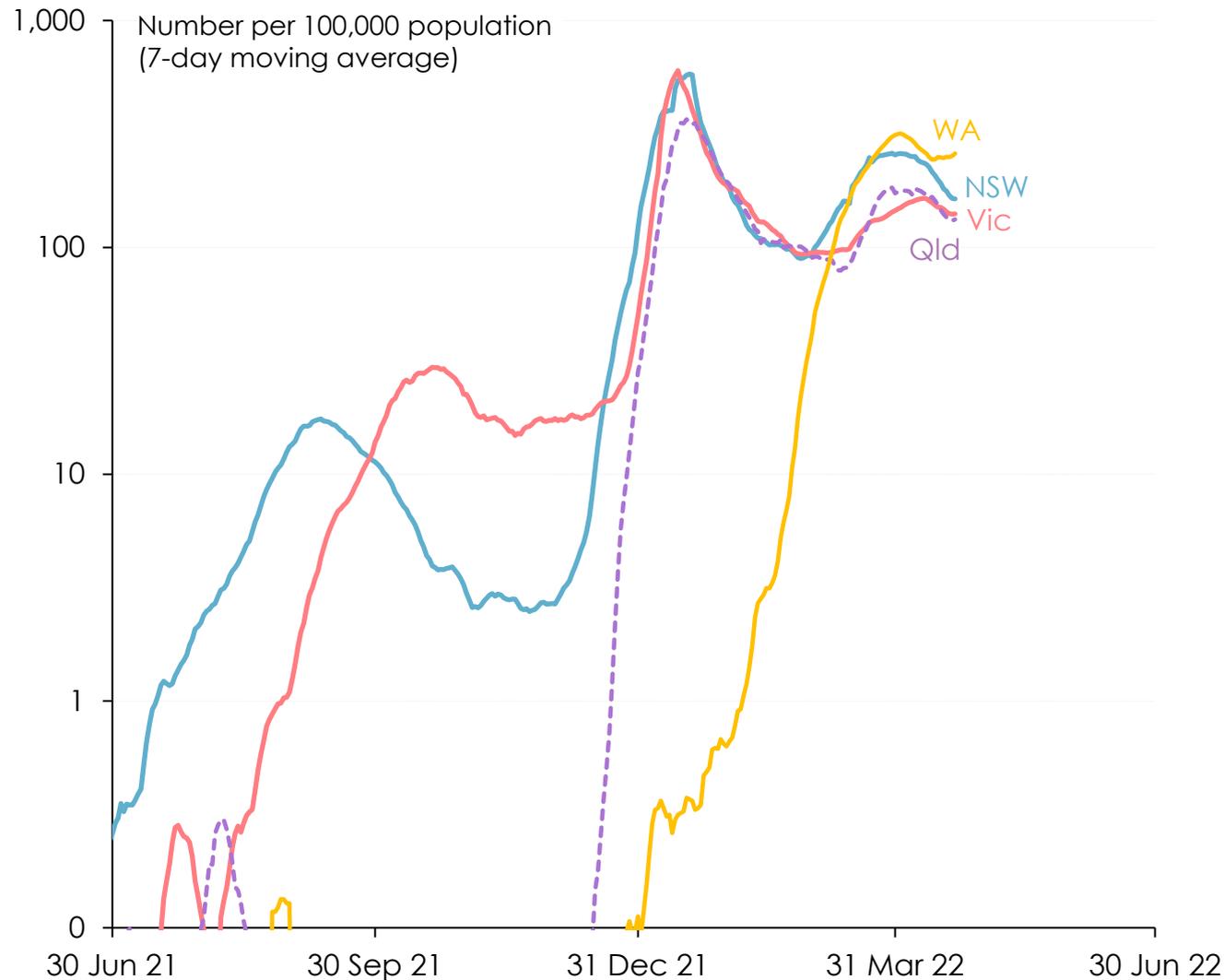
Note: The 'spike' in new deaths in the first week of April resulted from the addition of 334 deaths to NSW's total on 1st April. Data up to 21<sup>st</sup> April.

Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# The number of new infections is declining everywhere except in Western Australia

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

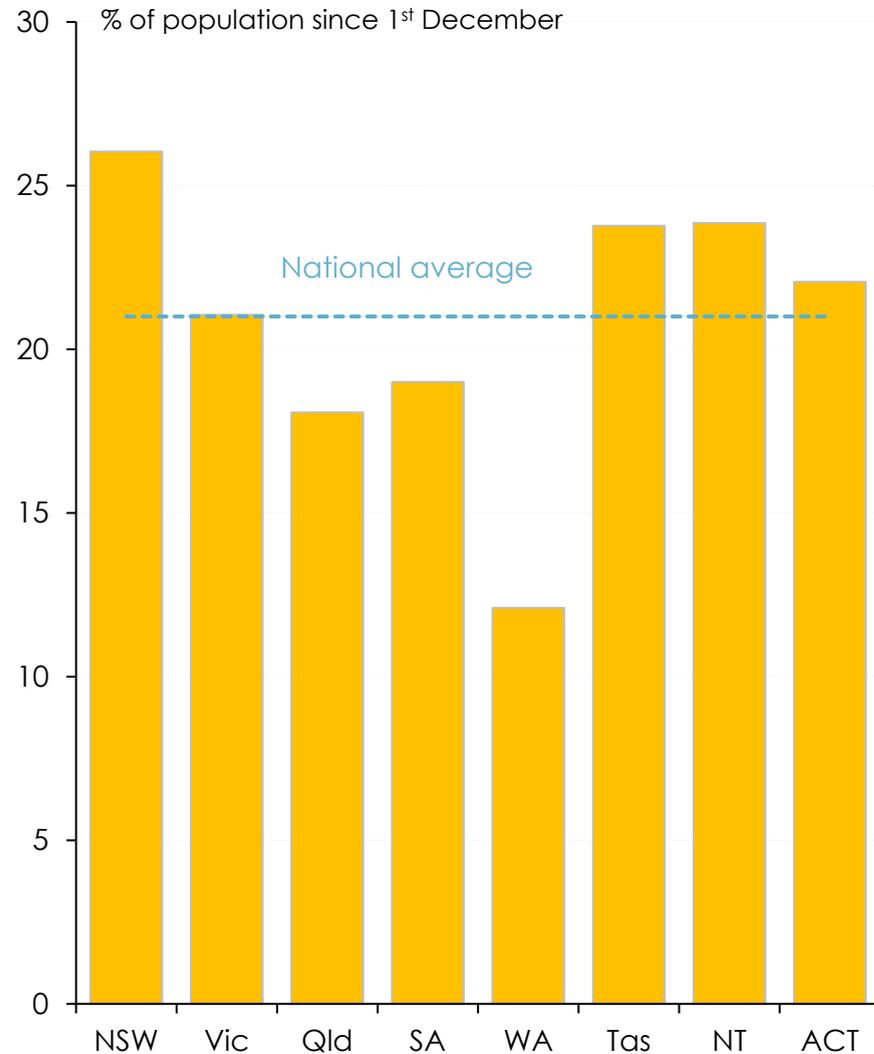


Note: Data are up to 21<sup>st</sup> April. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

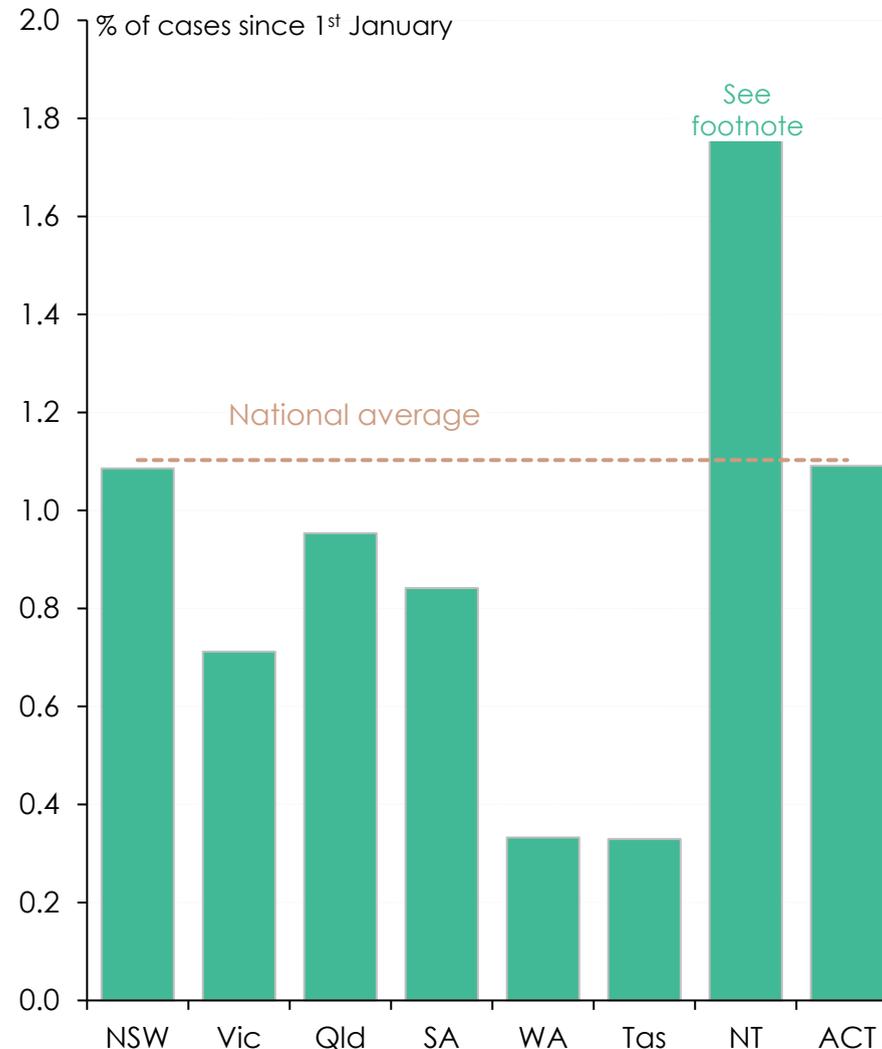
# The omicron outbreak has been less serious in Western Australia and Tasmania than in the rest of Australia

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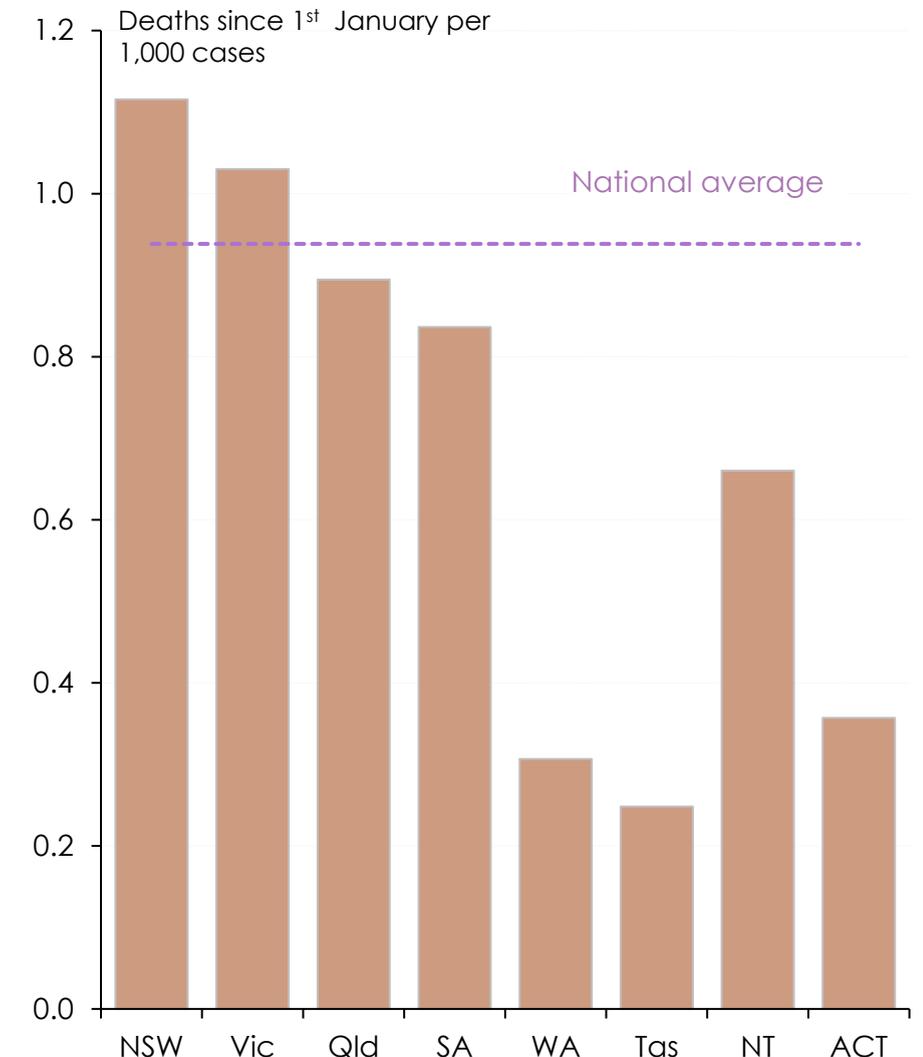
## New cases since 1<sup>st</sup> December 2021



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



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

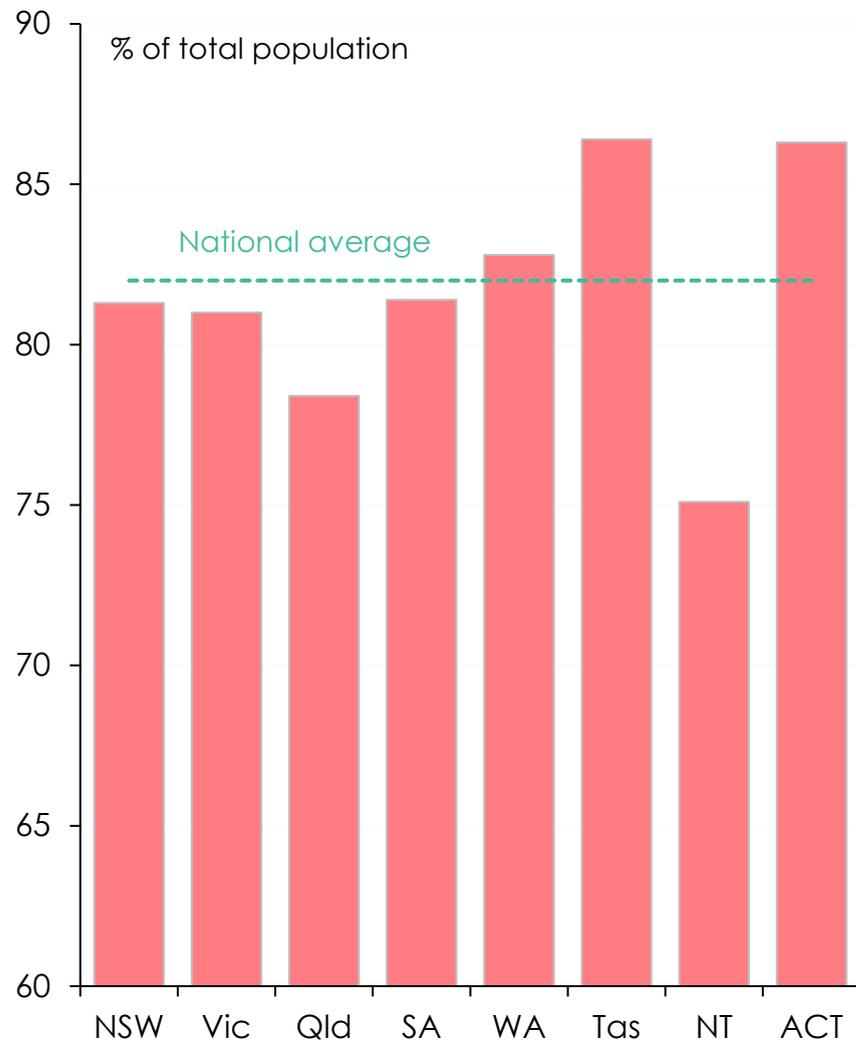


Note: Data are up to 21<sup>st</sup> April. 1<sup>st</sup> December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. NSW added 334 deaths to its tally on 1<sup>st</sup> April. Source: [covid19data.com.au](https://covid19data.com.au). Return to "What's New".

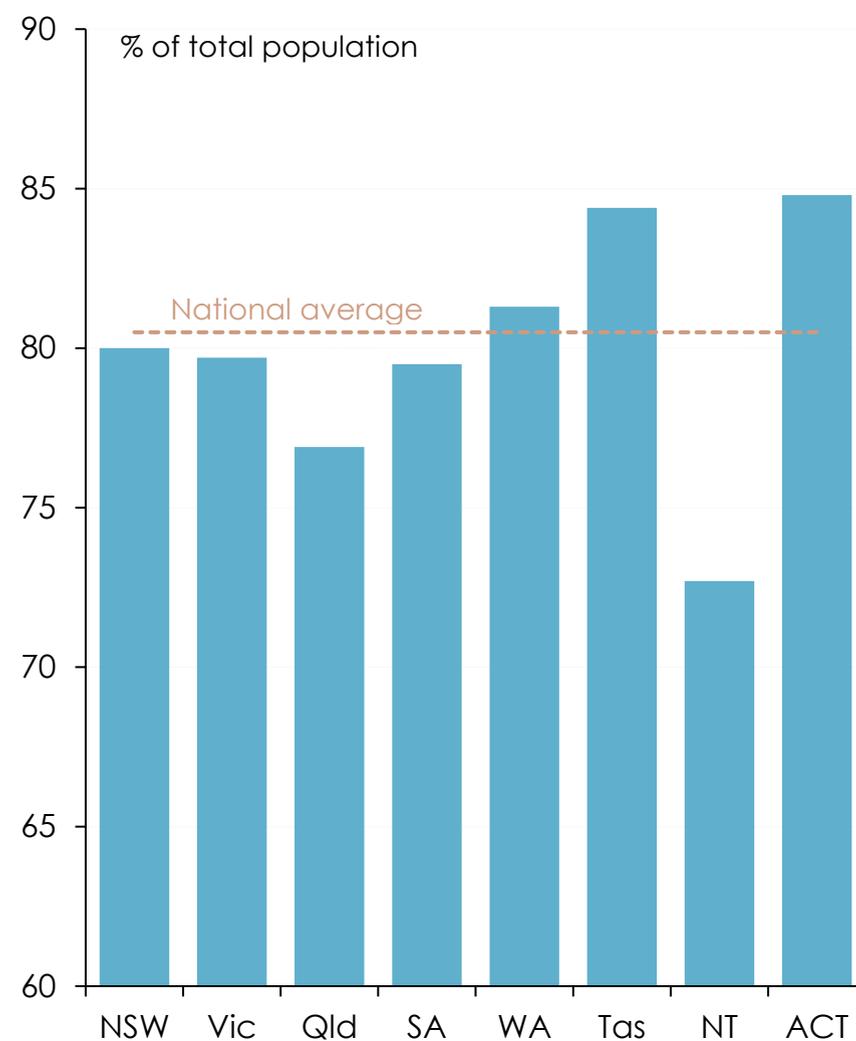
# The ACT, Tasmania and more recently WA have had the most successful vaccine rollouts while Queensland and the NT lag

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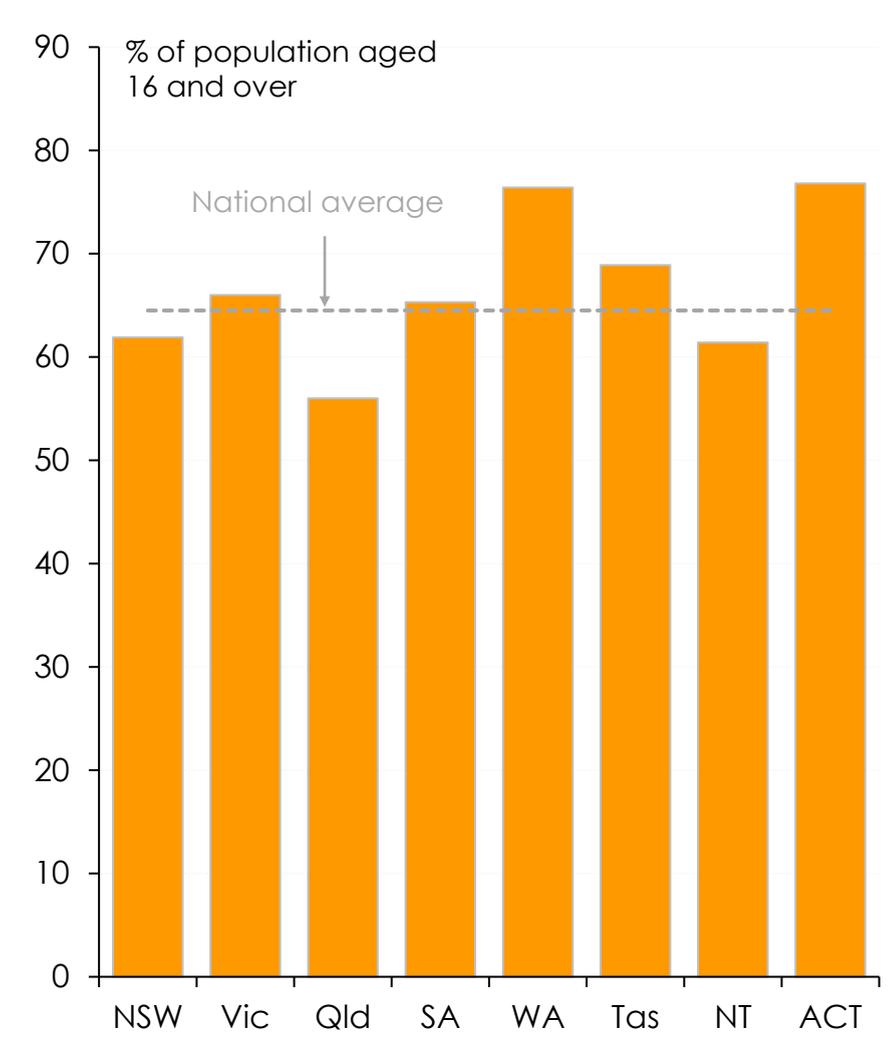
## Pc of population who have had at least one vaccination



## Pc of population who have had two vaccinations



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

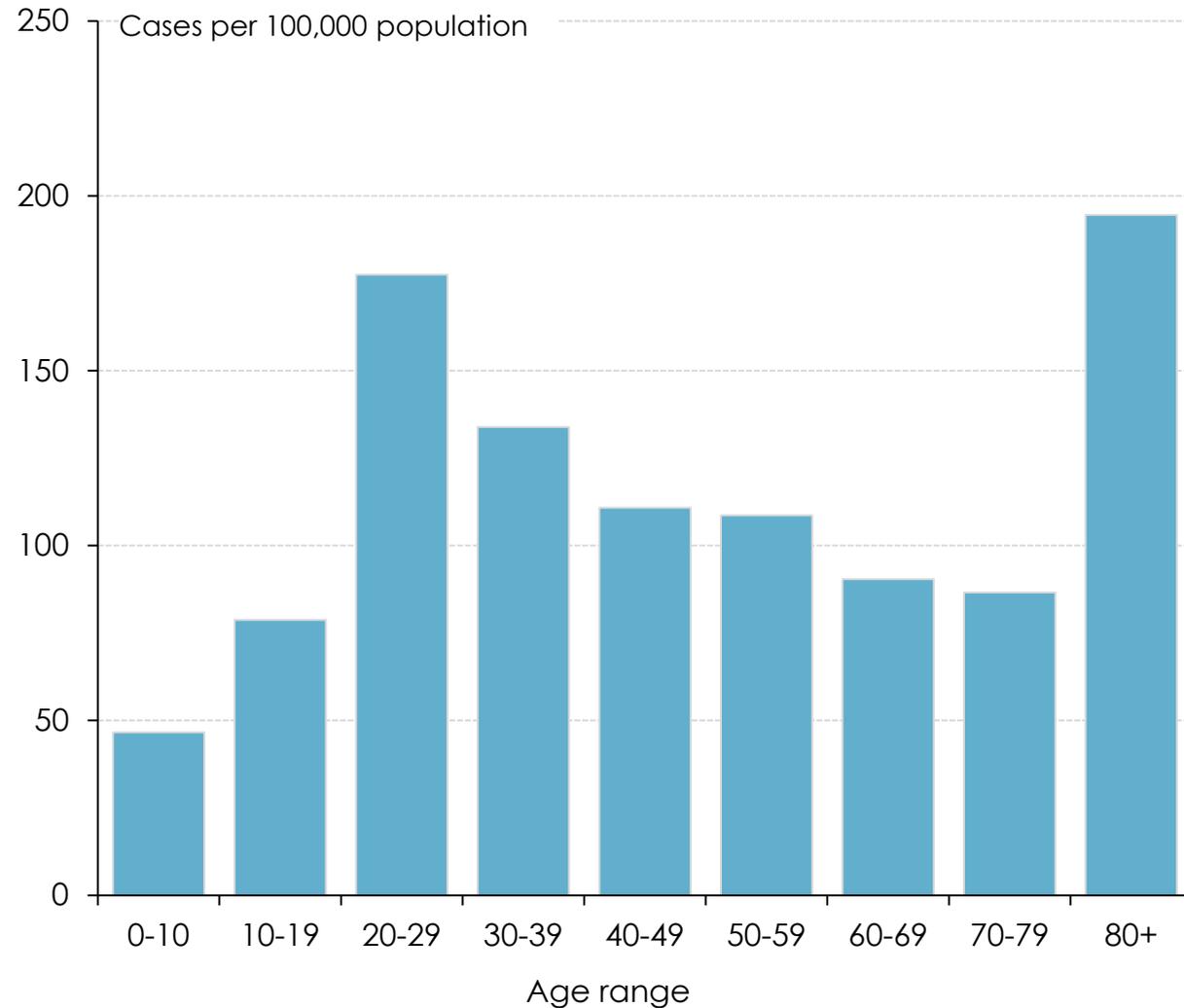


Note: Data are up to 21<sup>st</sup> April (except for ACT, 1<sup>st</sup> April). Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

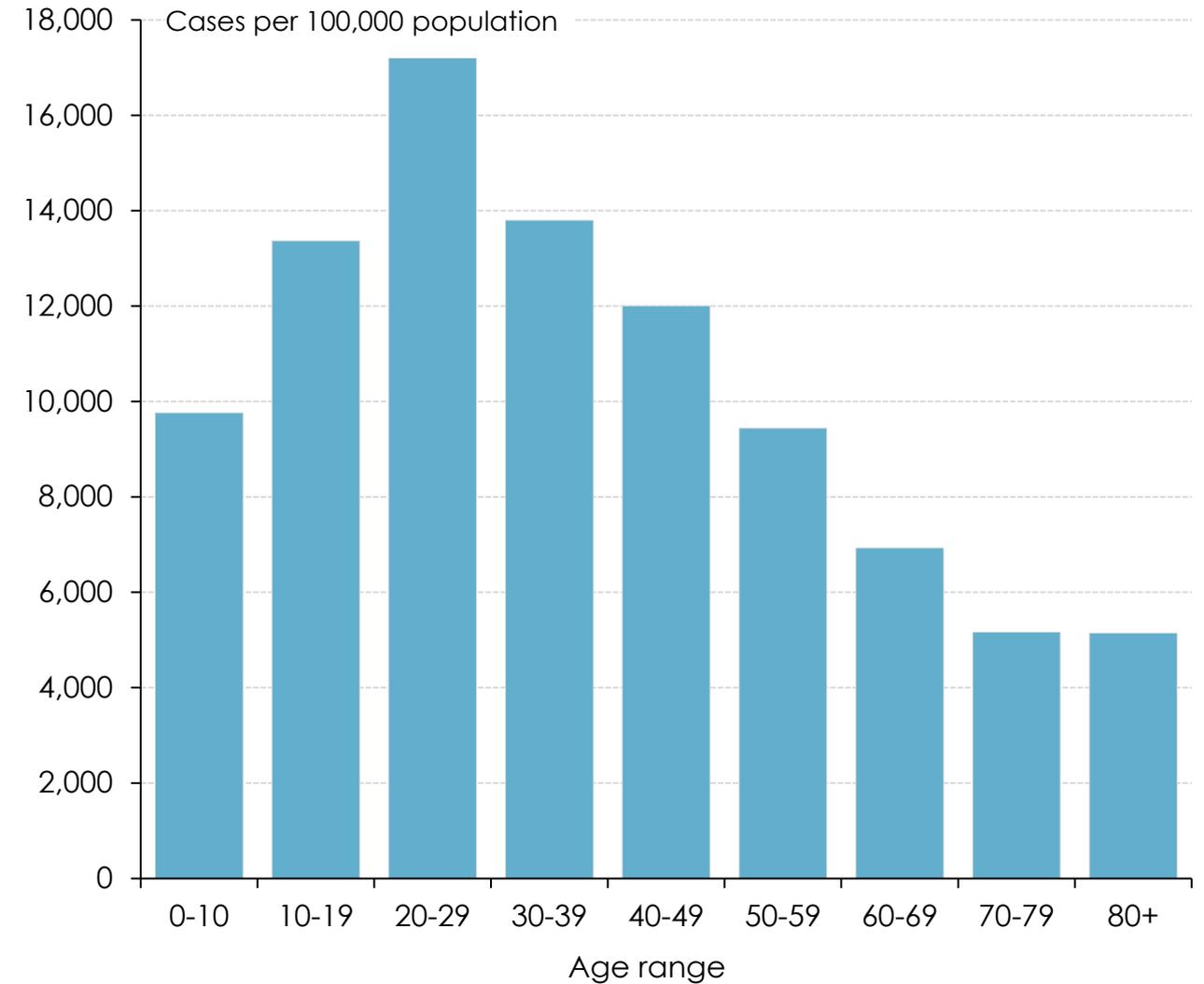
# People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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



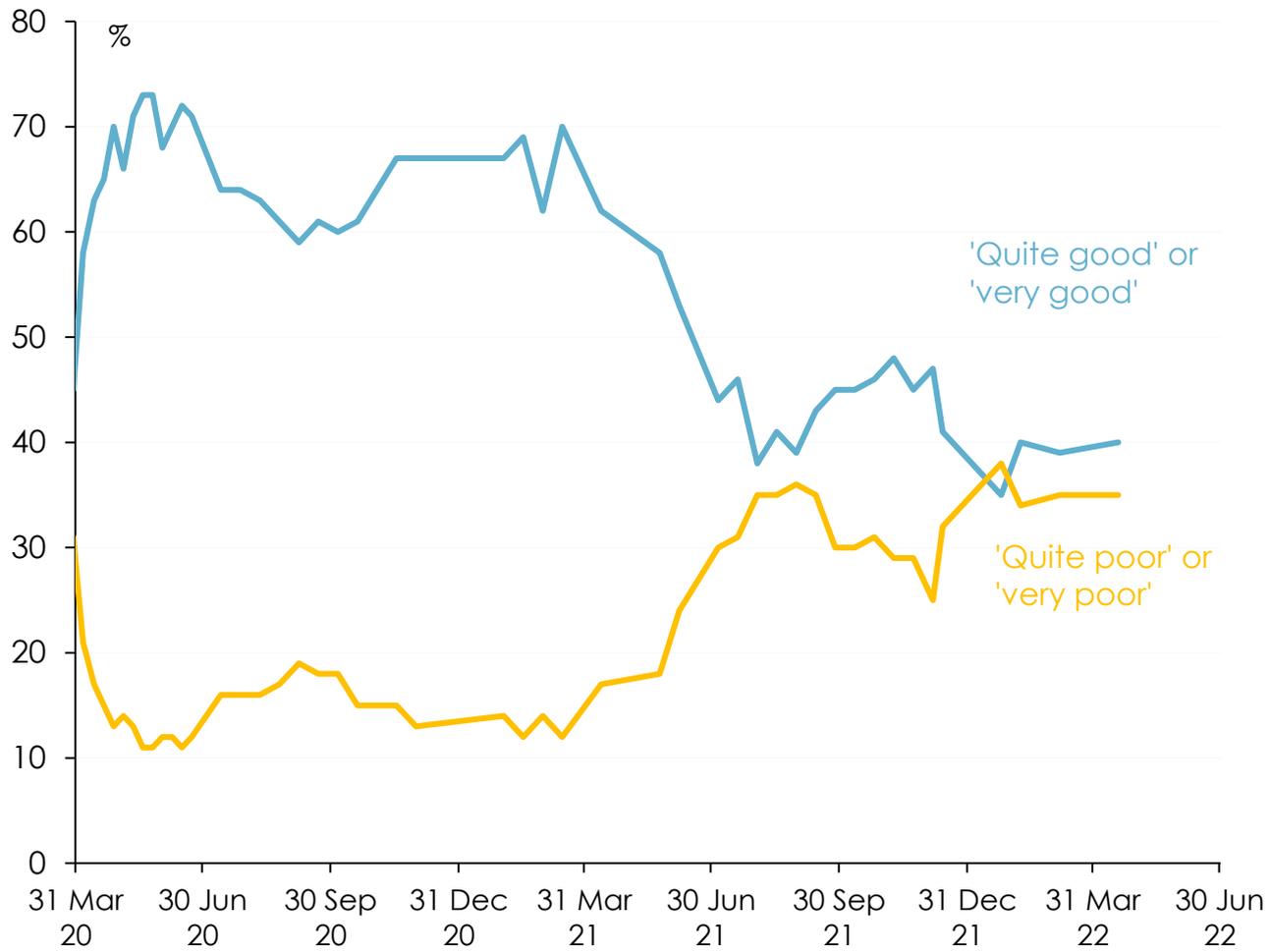
## Cumulative confirmed cases per 100,000 population, by age group – since 1<sup>st</sup> January 2021



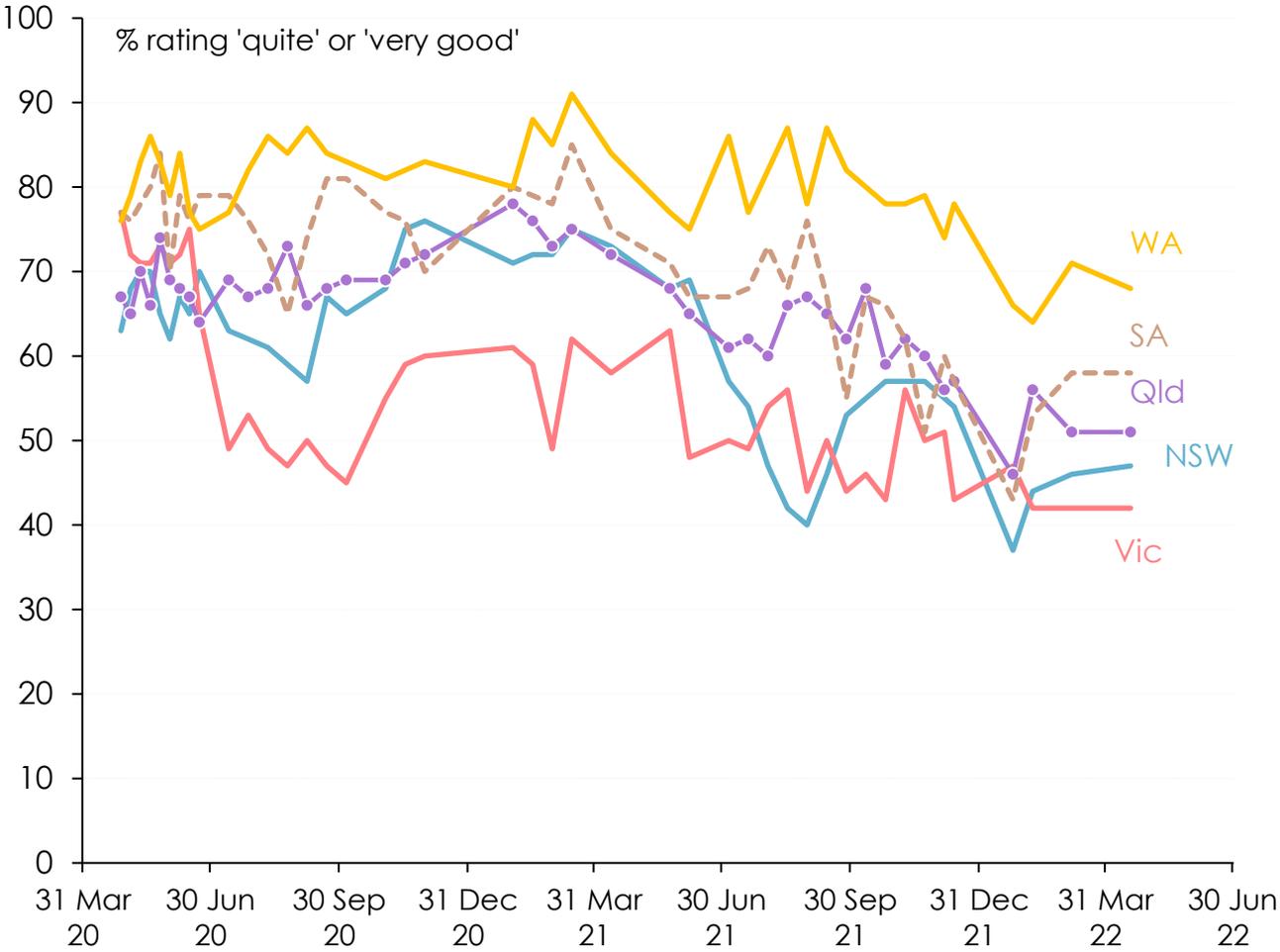
# Public approval of the Federal and state governments' handling of Covid remains lower than during the first 15 months of the pandemic

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## Approval of Federal Government response to Covid-19



## Approval of State Government responses to Covid-19



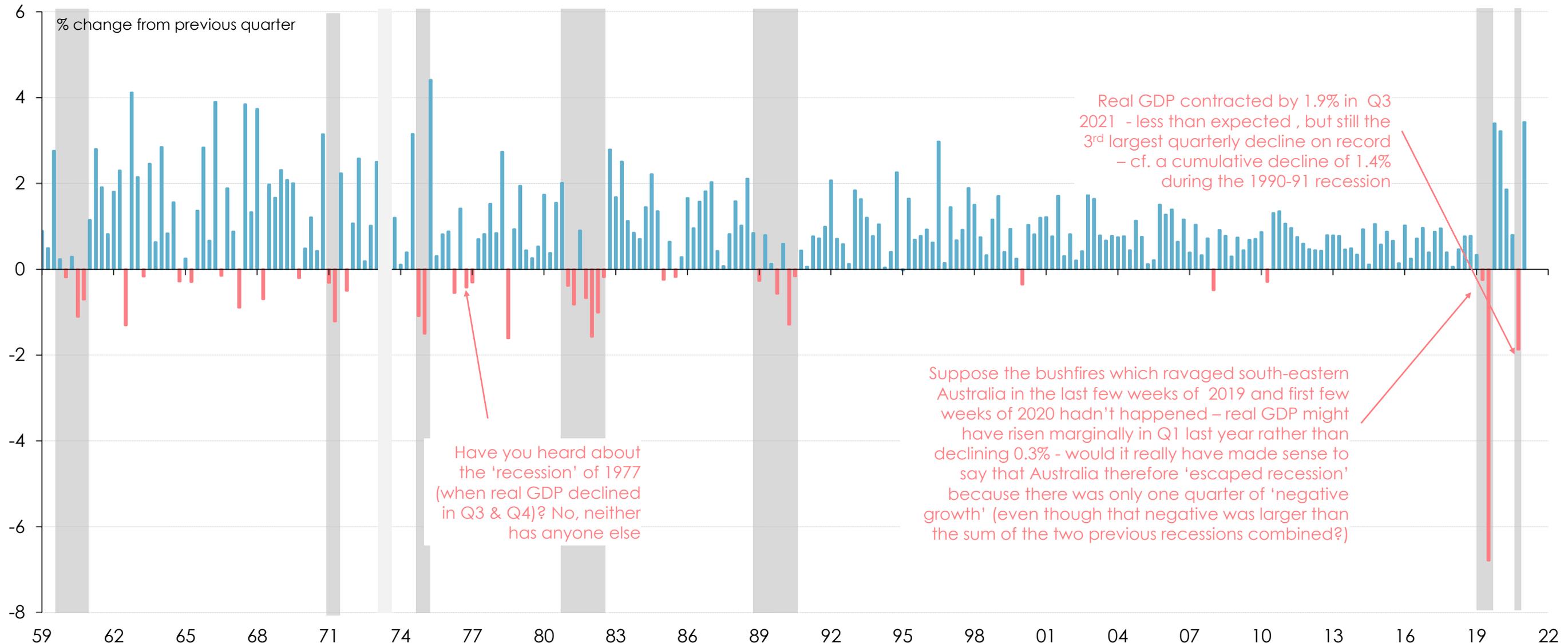
Note: Despite claiming to "track the mood of the nation", Essential does not conduct polls in Tasmania, nor in either of the two territories.  
Sources: Essential Research, [The Essential Report](#), 20<sup>TH</sup> April 2022.

# Broad trends in the Australian economy

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

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

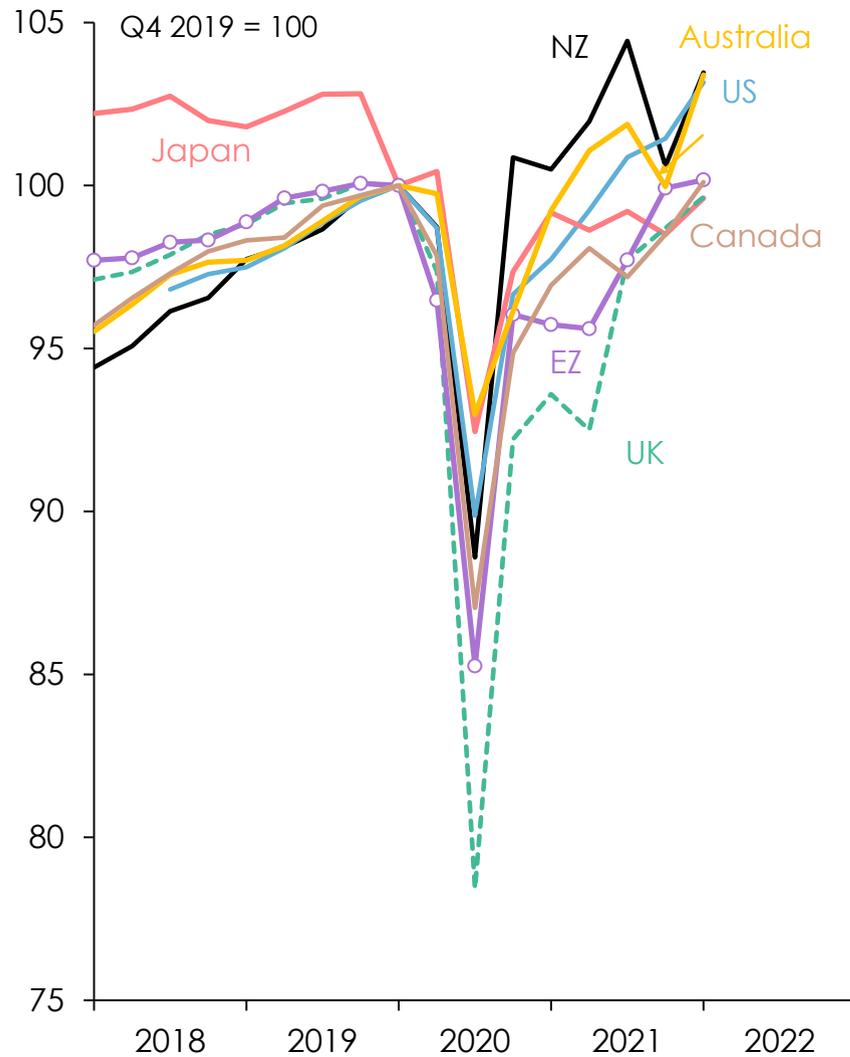


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. March quarter GDP will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

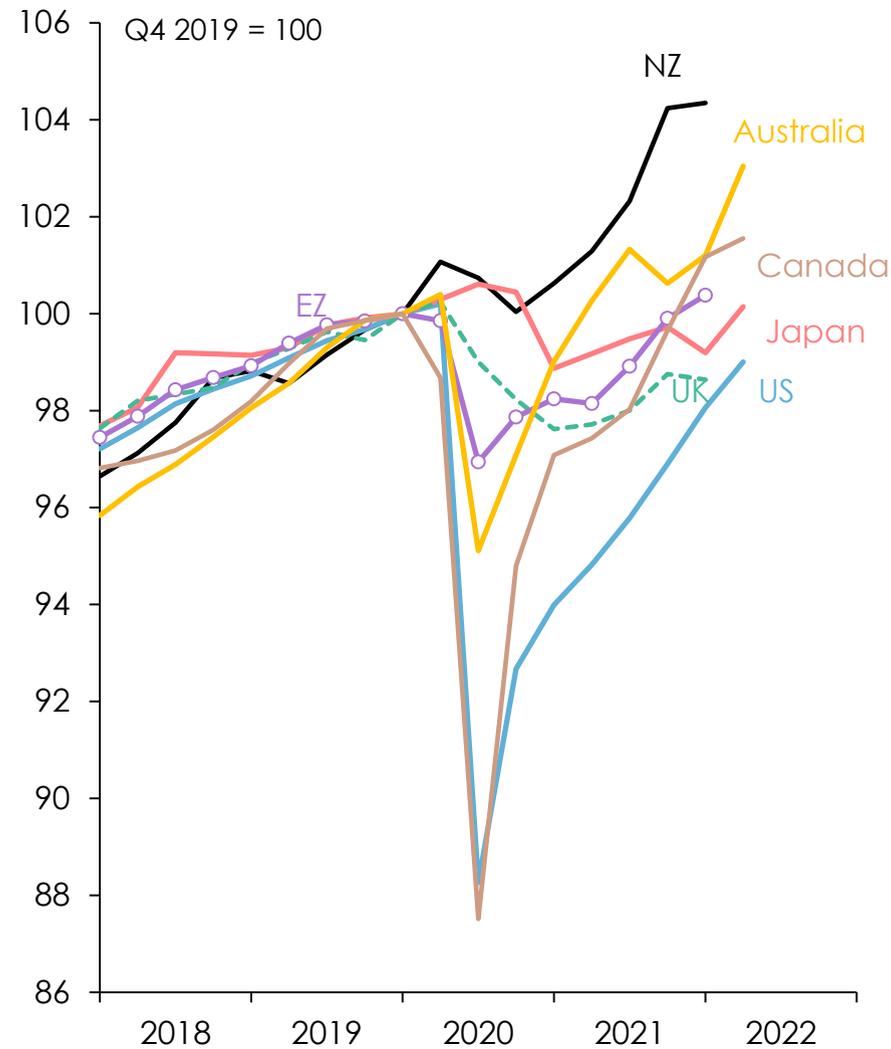
# Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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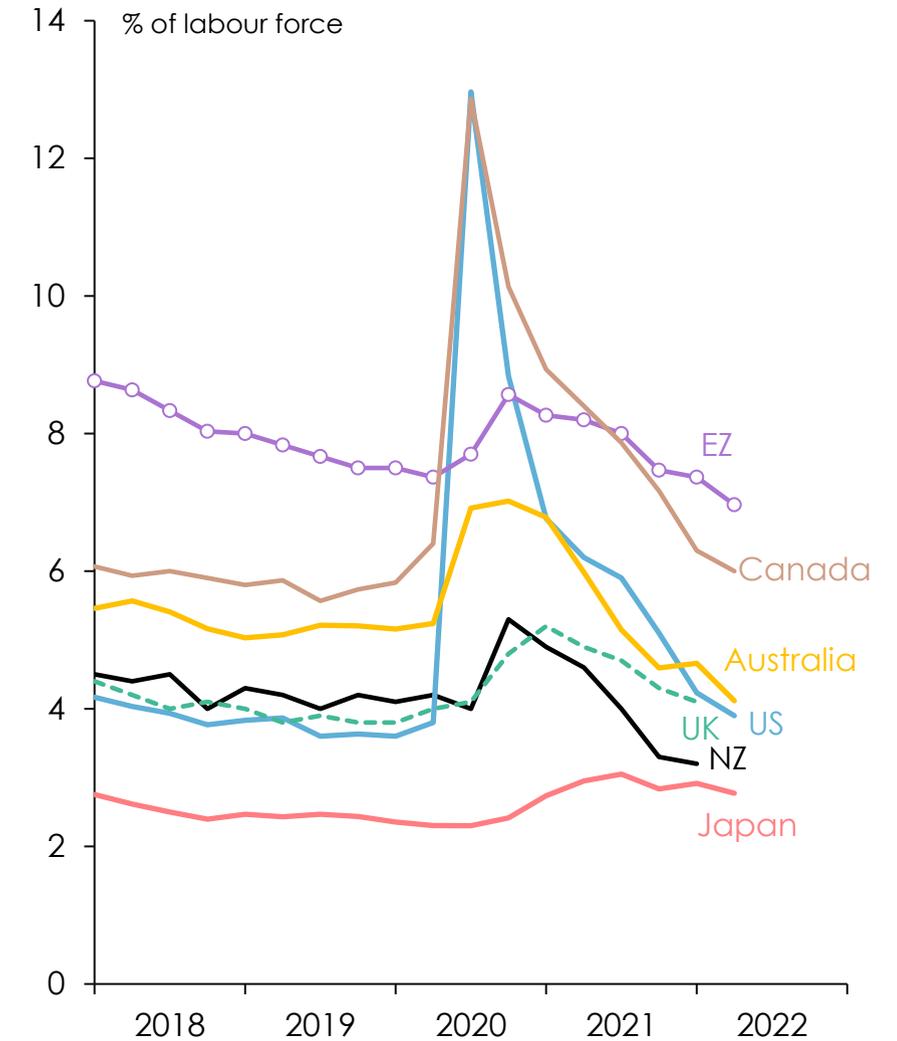
## Level of real GDP



## Employment



## Unemployment

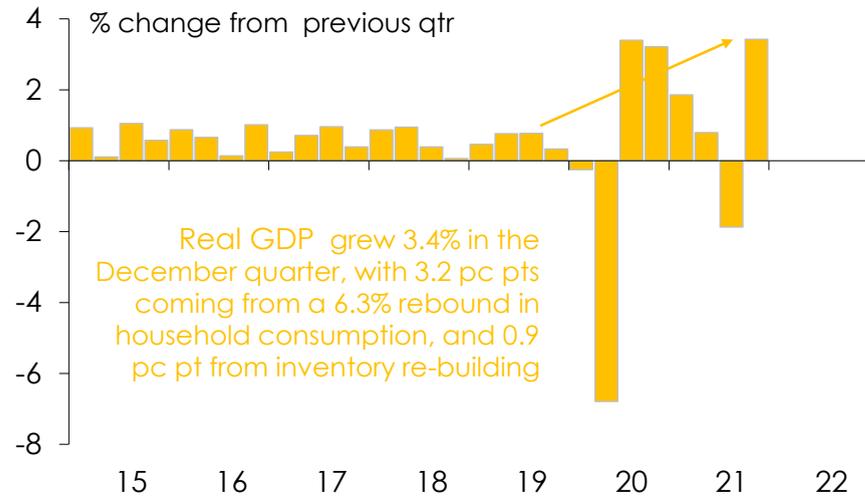


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

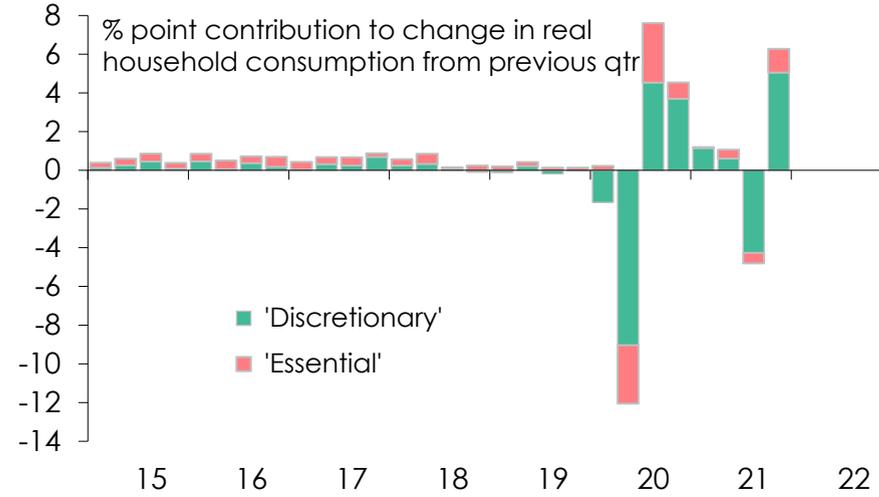
# Real GDP grew 3.4% in the December quarter, fuelled by a surge in post-lockdown discretionary consumption spending and inventory re-building

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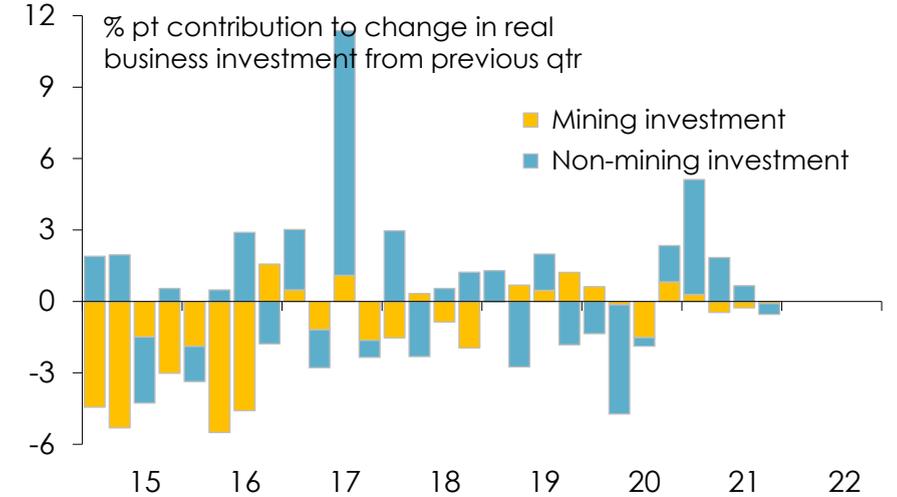
## Quarterly change in real GDP



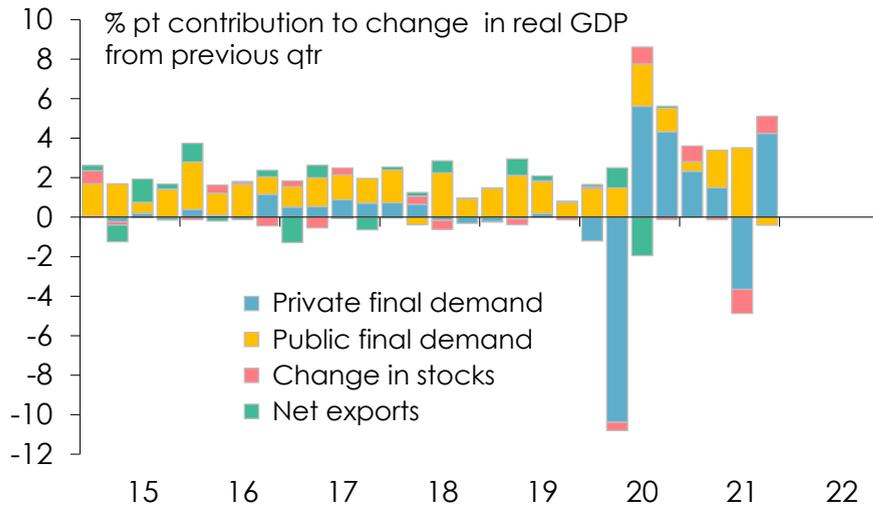
## Household consumption expenditure



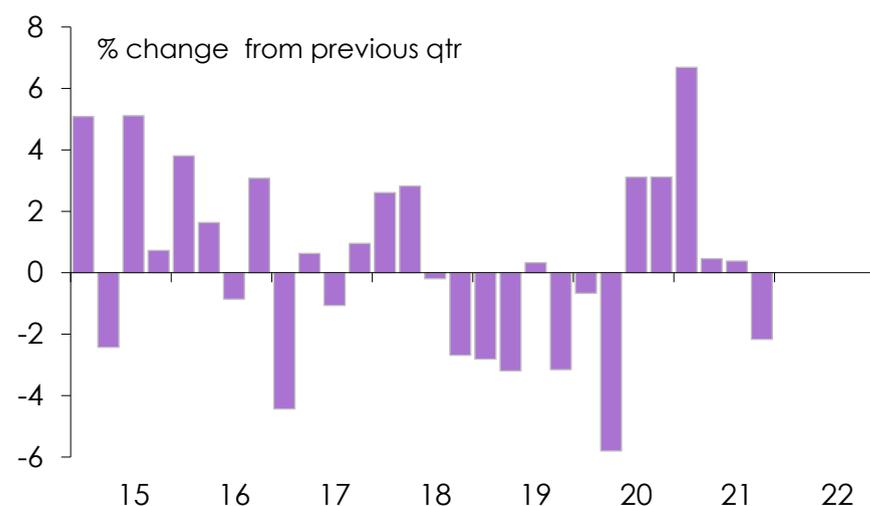
## Business investment expenditure



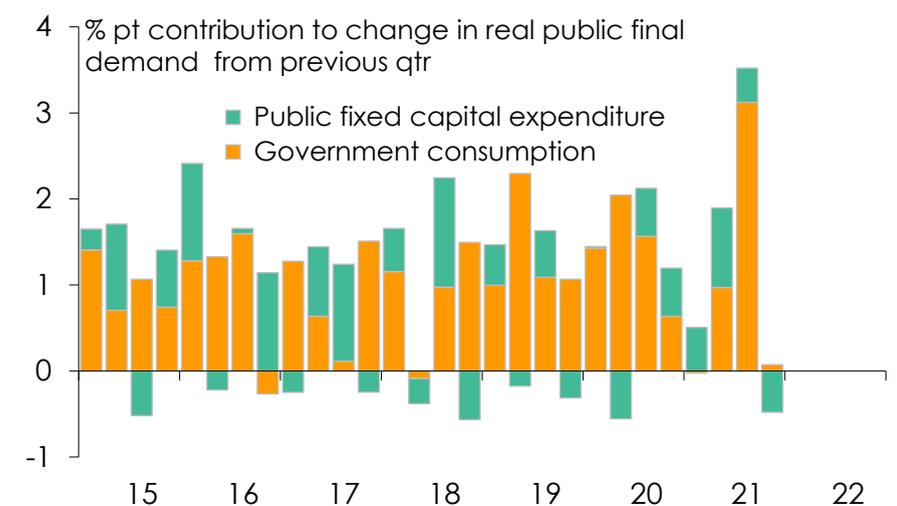
## Contributions to quarterly GDP growth



## Dwelling investment expenditure



## Public expenditure

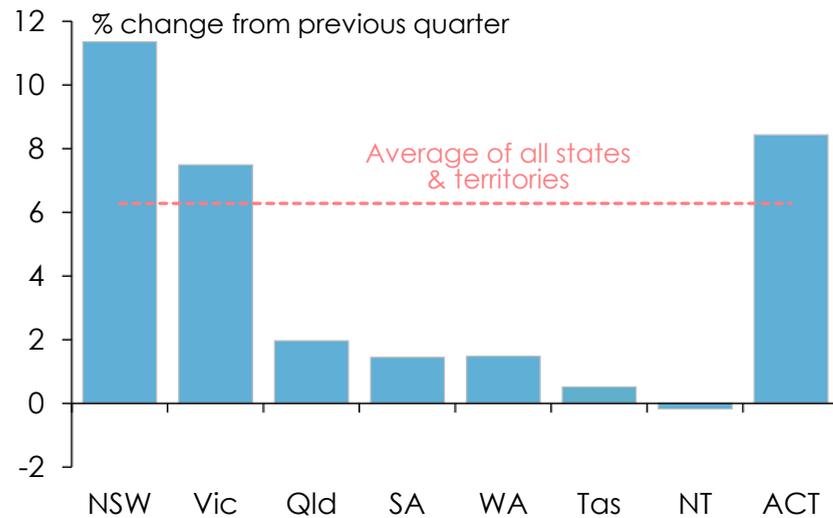


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021. March quarter national accounts will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

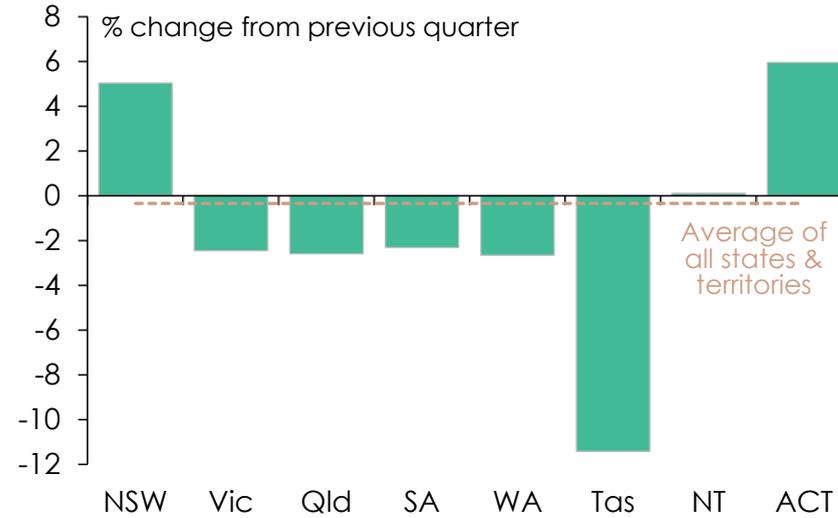
# The December quarter rebound was largely driven by post-lockdown surges in consumer spending in New South Wales, Victoria and the ACT

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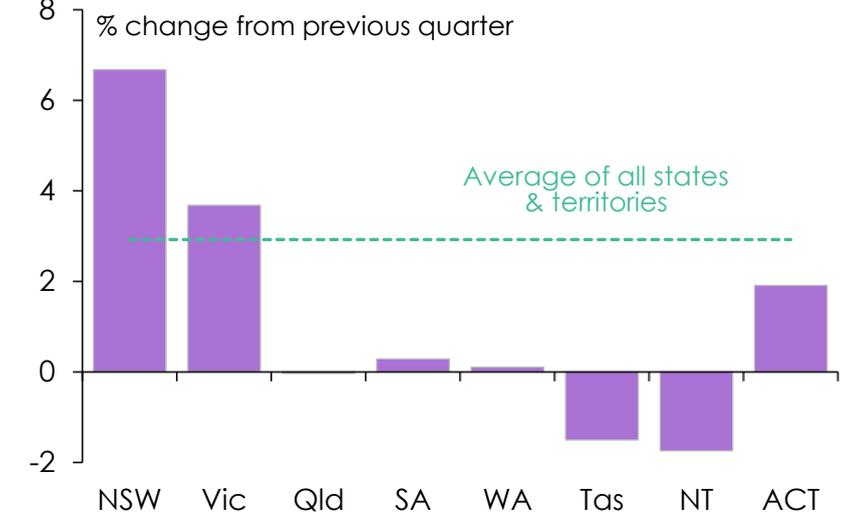
## Household consumption



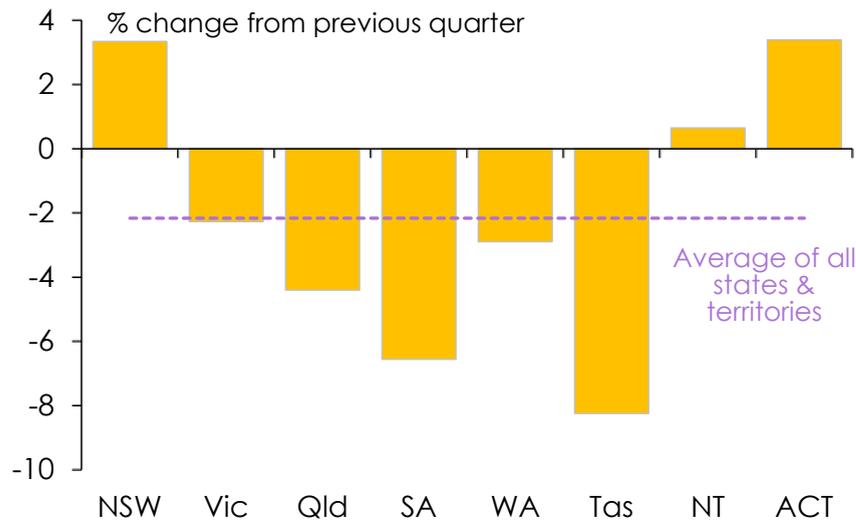
## Business investment



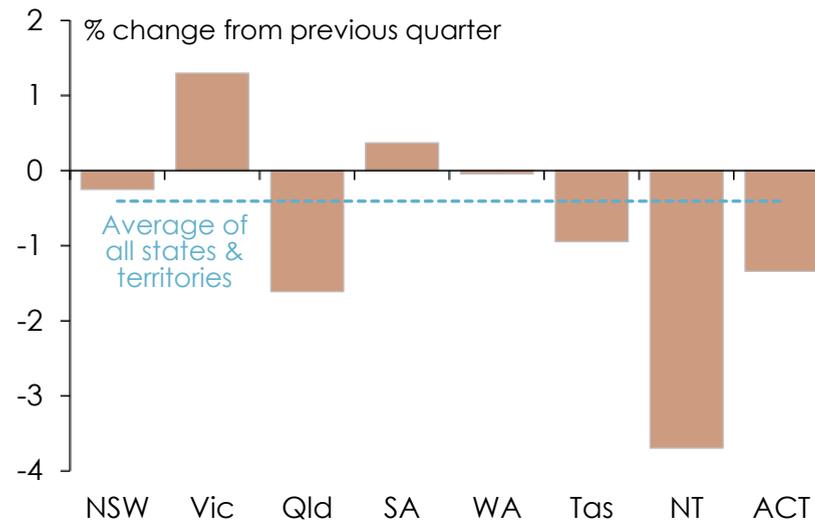
## State final demand



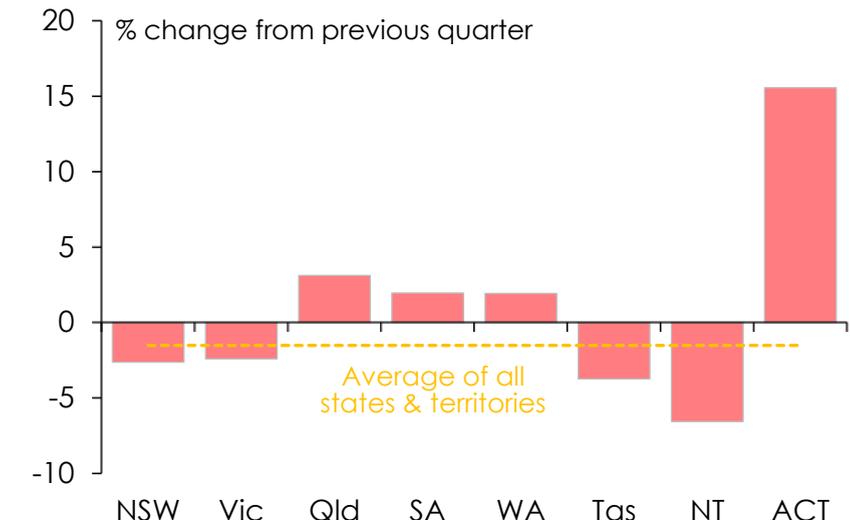
## Dwelling investment



## Public spending



## International exports

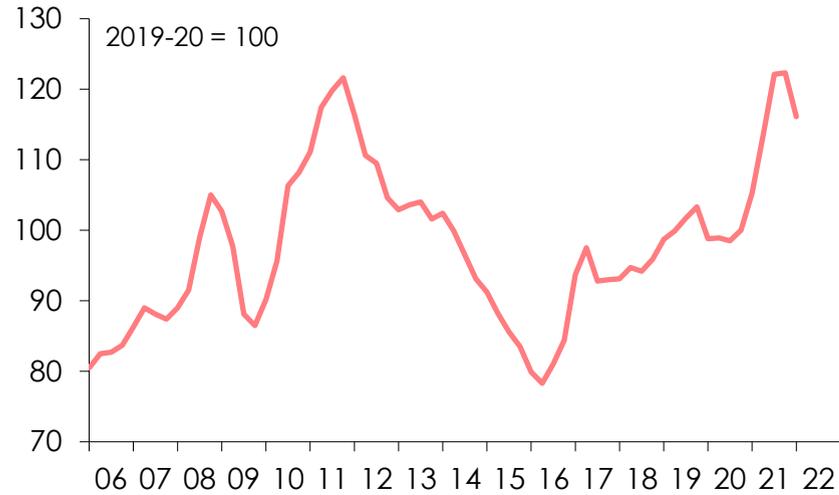


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; [Balance of Payments and International Investment Position,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

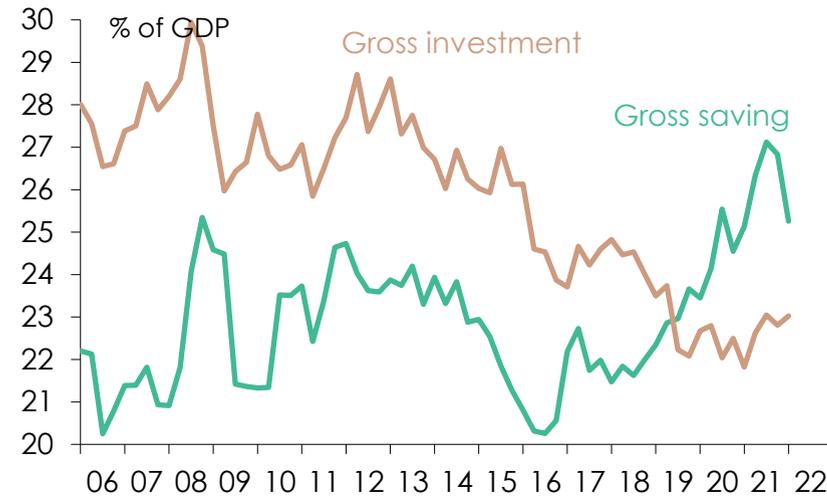
# Australia's terms of trade may have peaked, leading to slower growth in income and lower national saving

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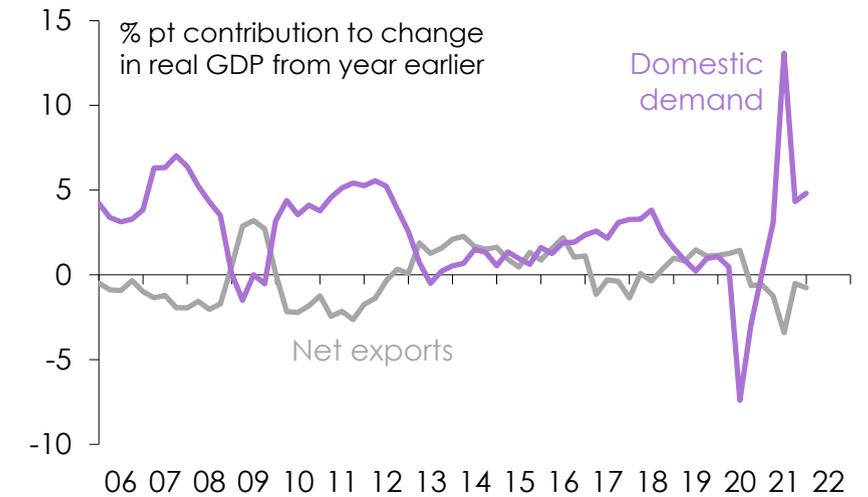
## Terms of trade



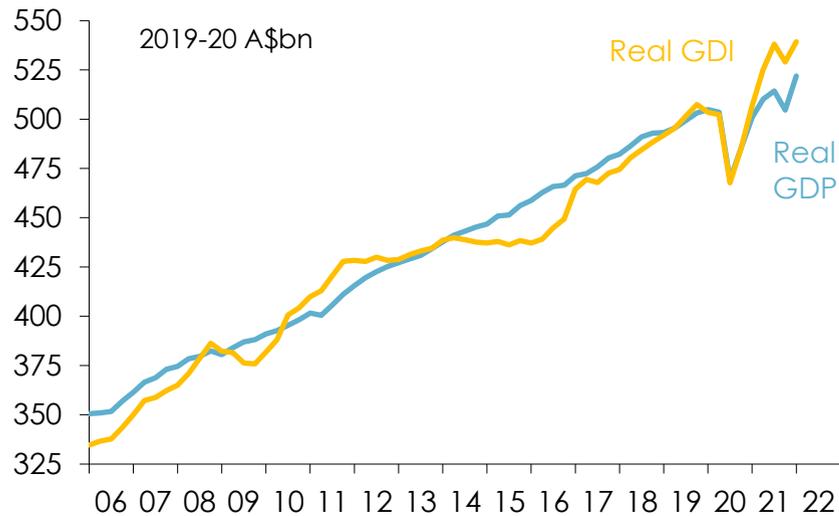
## National saving & investment



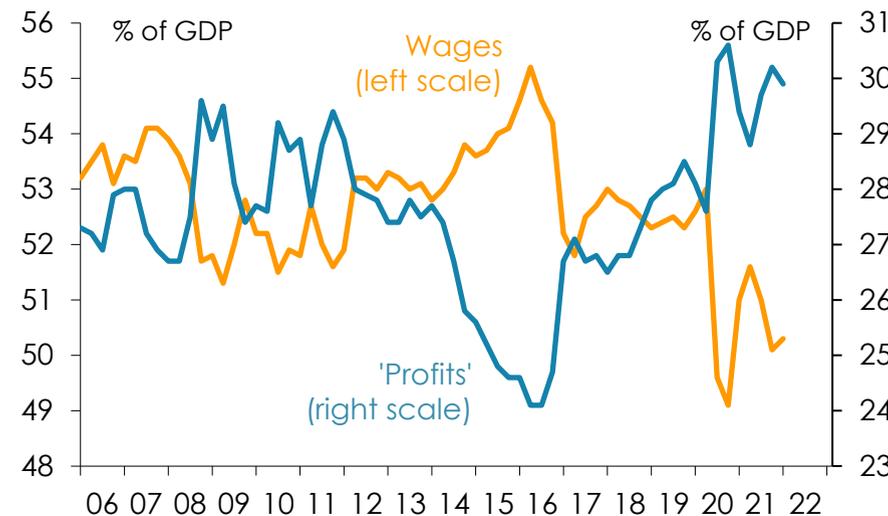
## Domestic demand and net exports



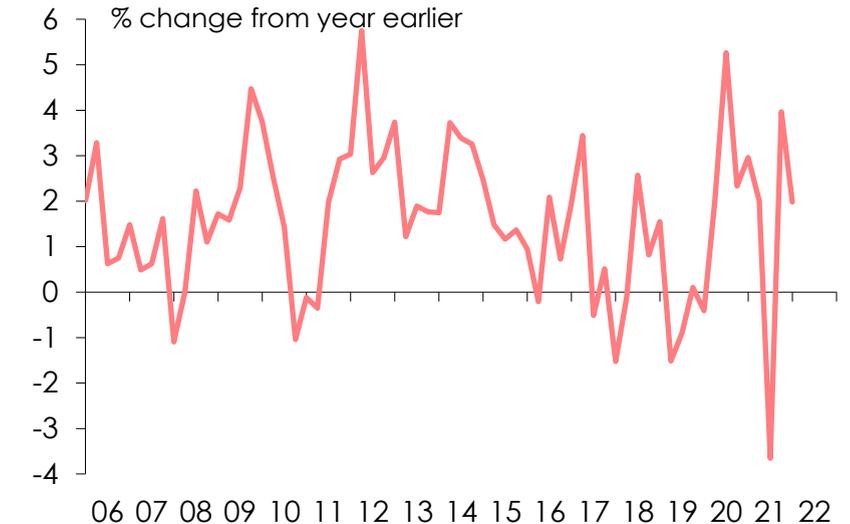
## Real gross domestic income



## Shares of national income



## Labour productivity

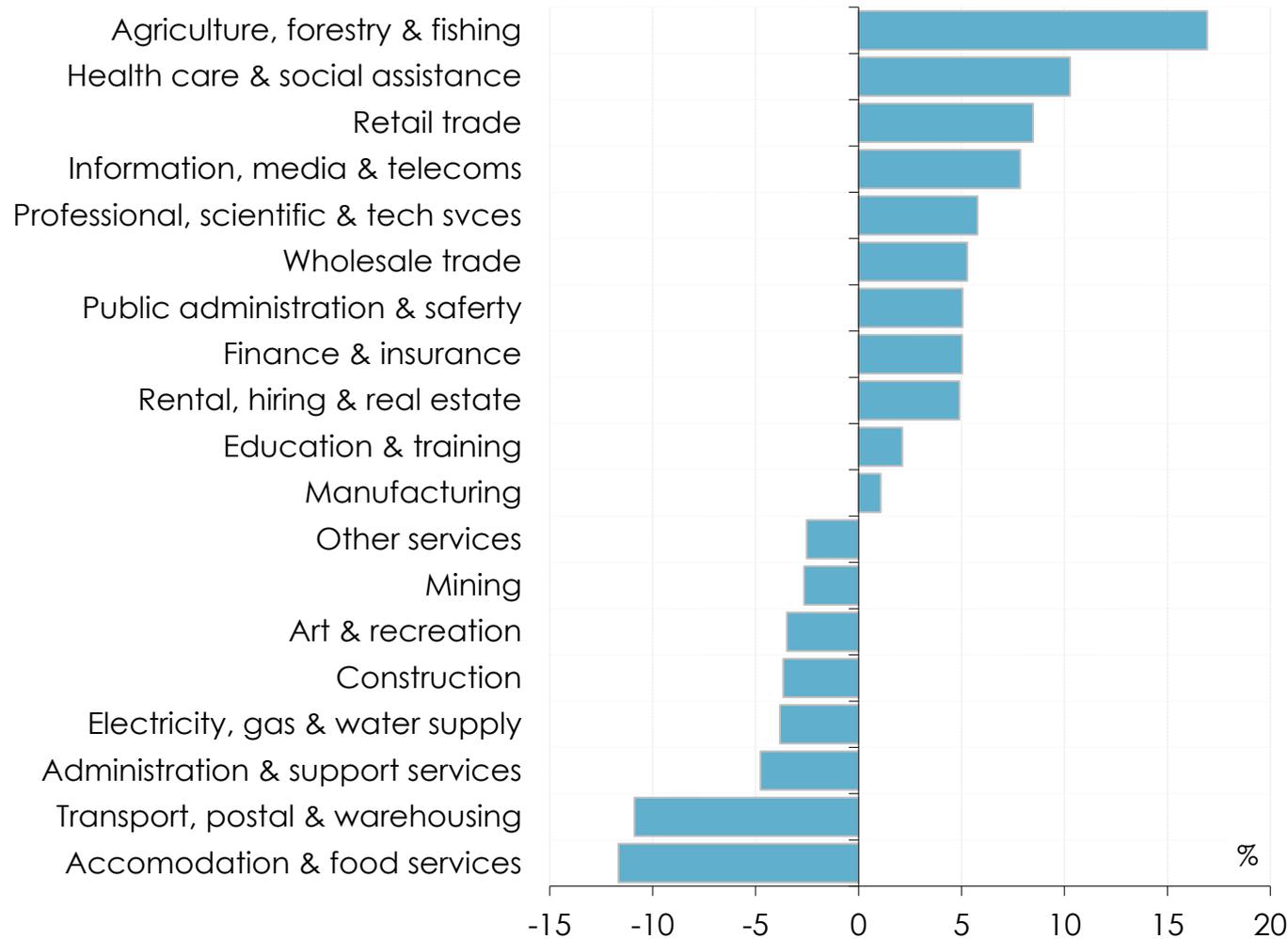


Note: The terms of trade is the ratio of export to import prices (for more see [slide 71](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021.

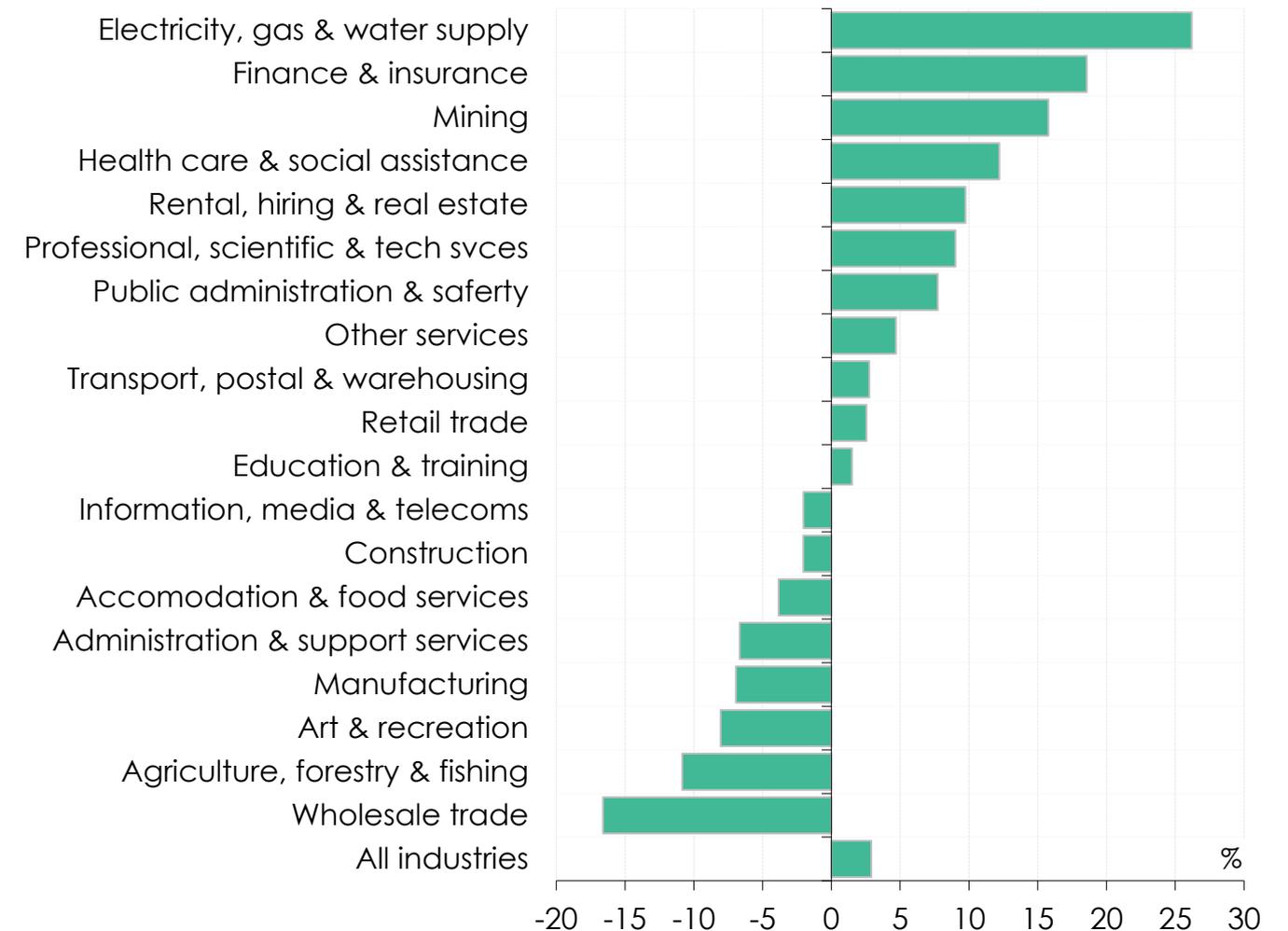
# Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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



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

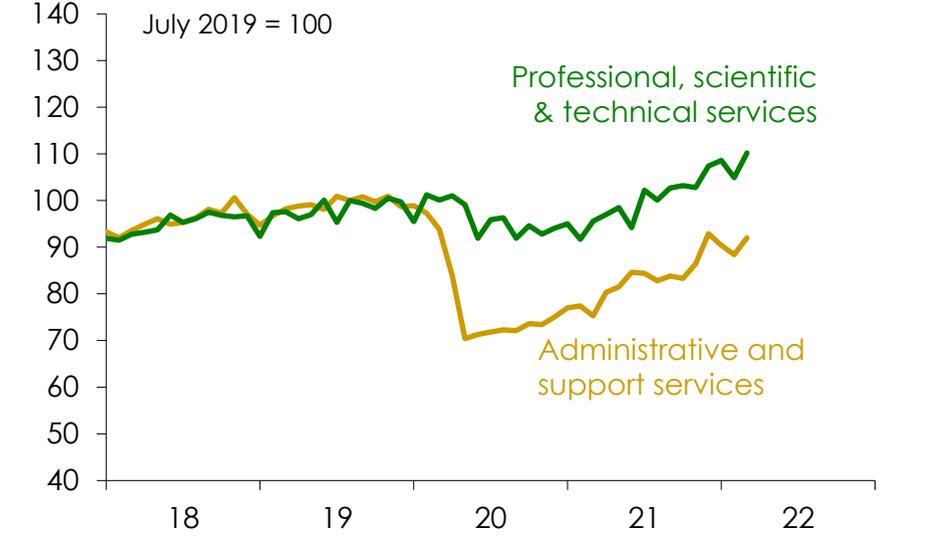
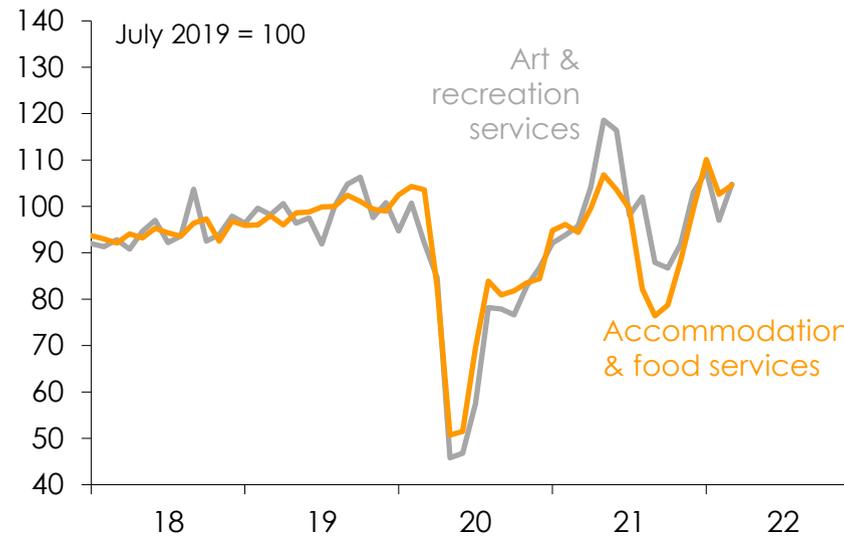
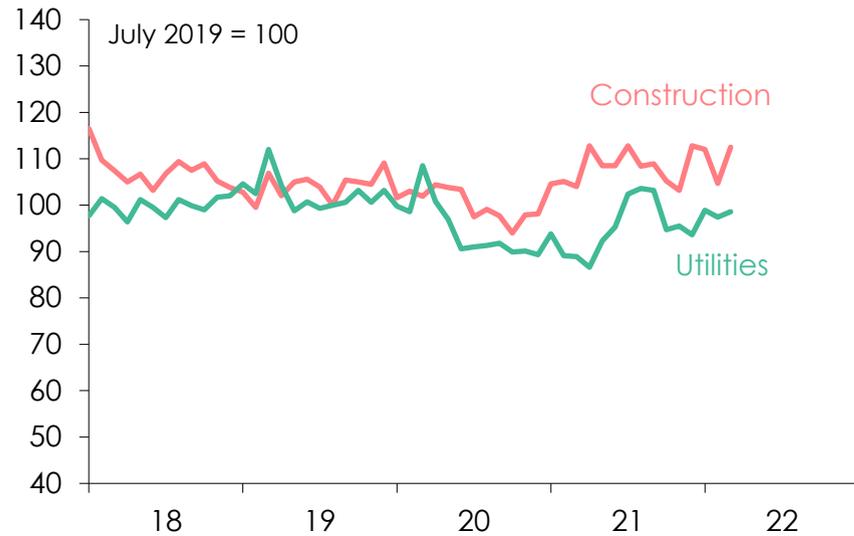
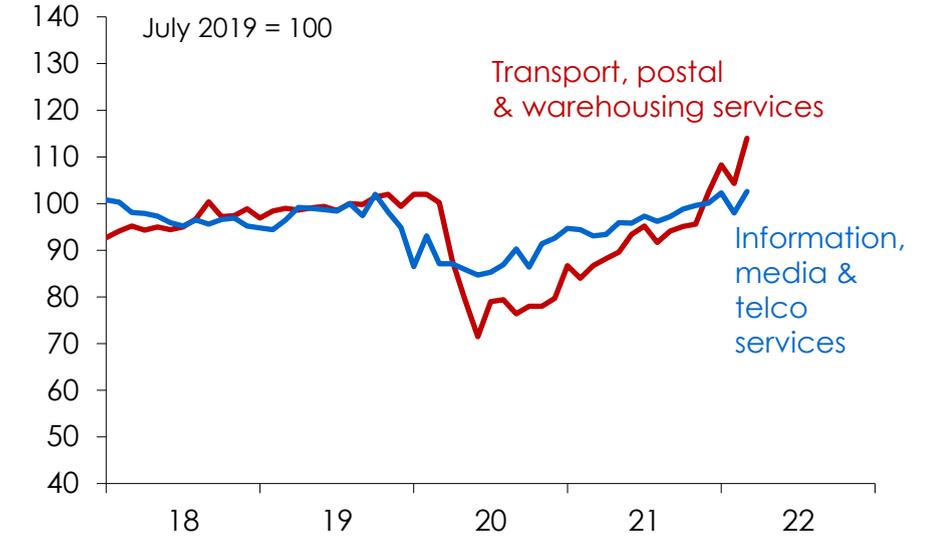
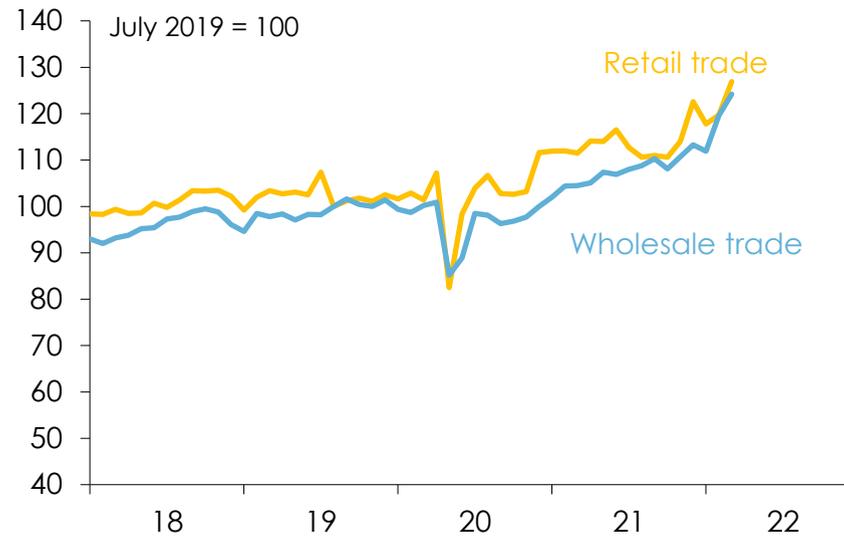
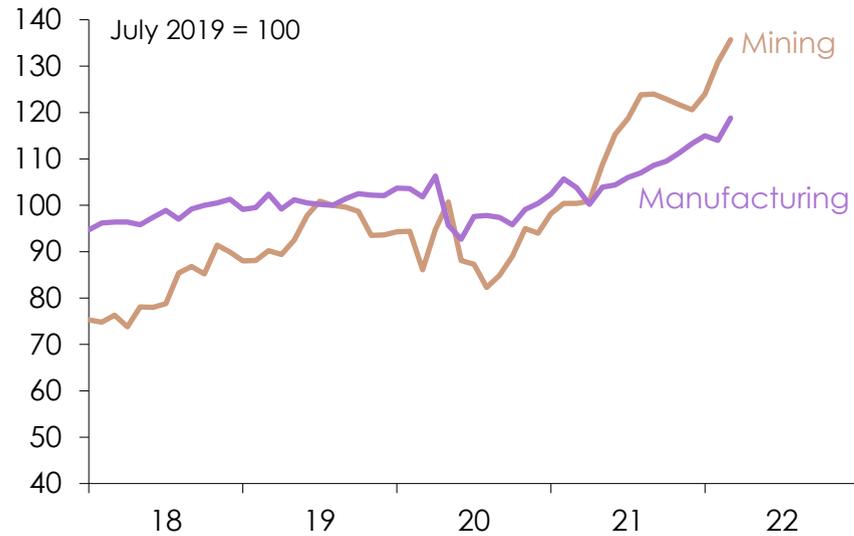


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; and [Labour Force, Australia, Detailed](#), February 2022. GVA by industry data will be updated in the March quarter national accounts to be released on 1<sup>st</sup> June

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

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## Indicators of business turnover, by industry

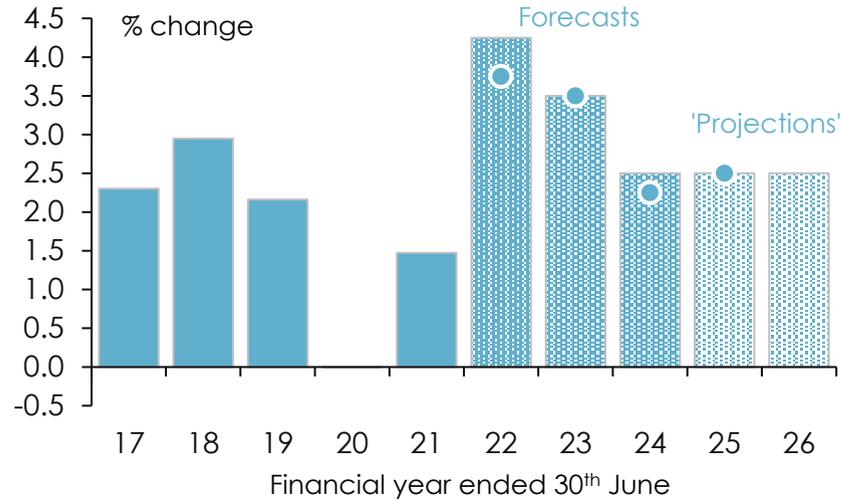


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

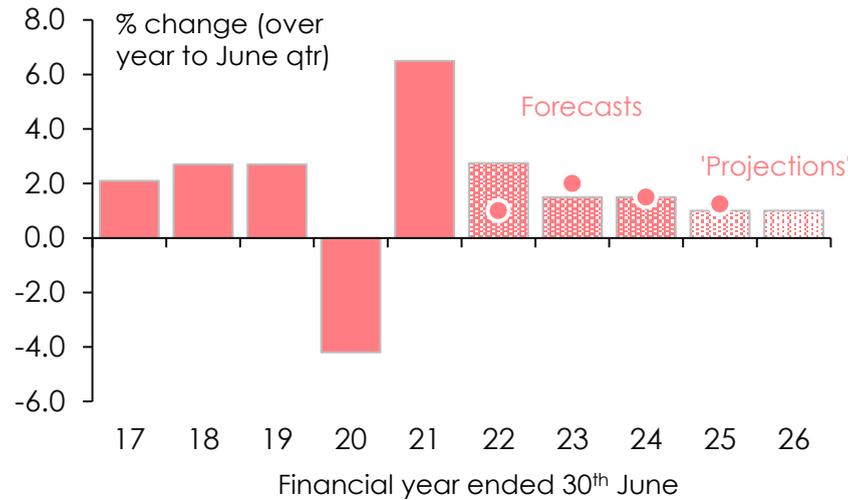
# Treasury's Budget forecasts expect faster real (and especially nominal) GDP growth in 2021-22, with unemployment falling below 4% by Q3 this year

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

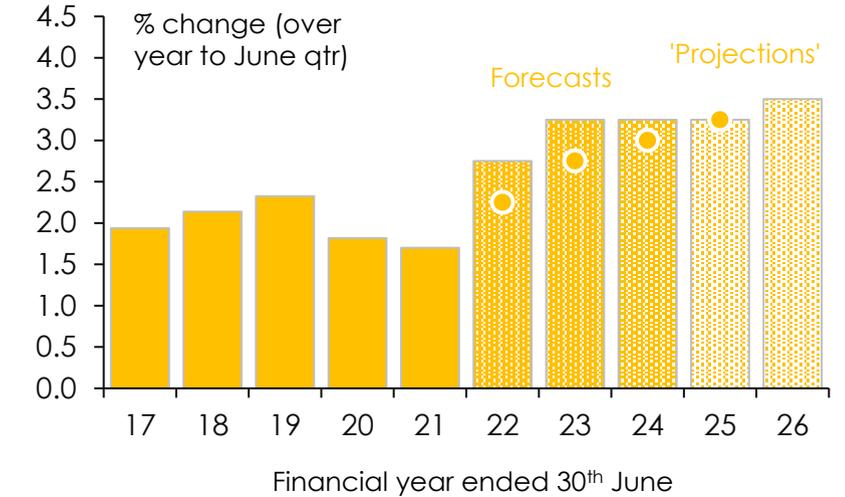
## Real GDP



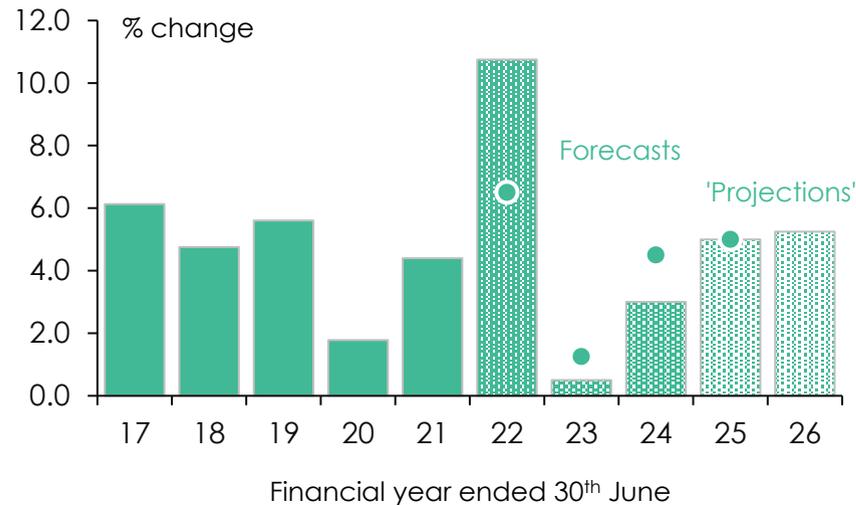
## Employment



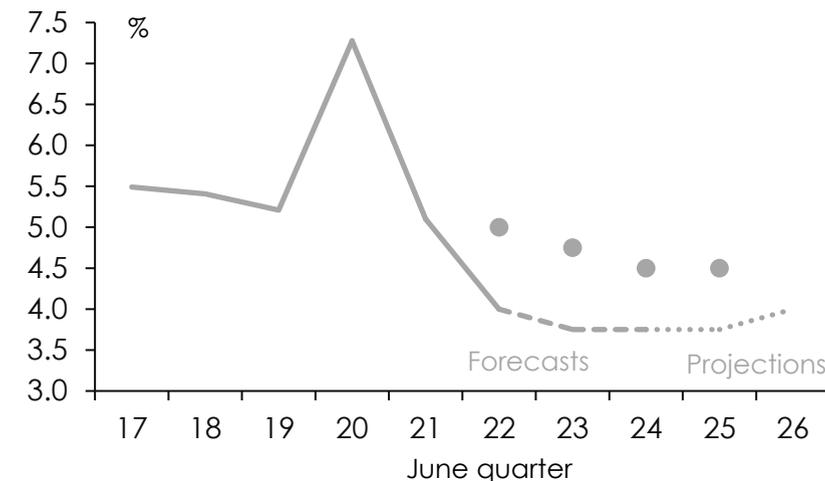
## Wage price index



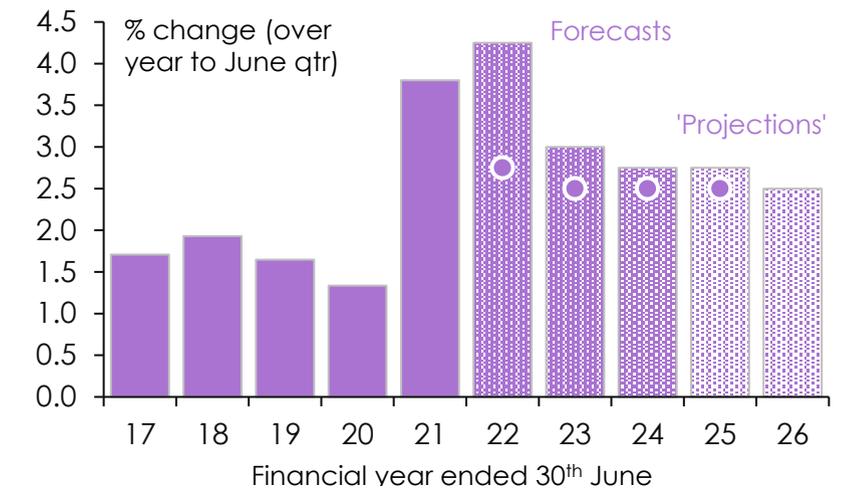
## Nominal GDP



## Unemployment rate



## Consumer price index

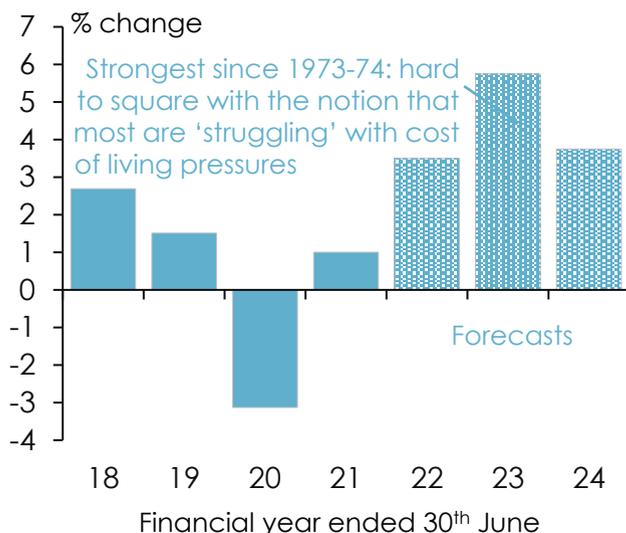


Note: Dots represent the forecasts and projections from the 2021-22 Mid-Year Economic & Fiscal Outlook (MYEFO) published in December last year. 'Forecasts' are Treasury's 'best endeavours' estimates for the current and following two financial years. 'Projections' for 2024-25 and 2025-26 are not forecasts, 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](#), 29<sup>th</sup> March 2022.

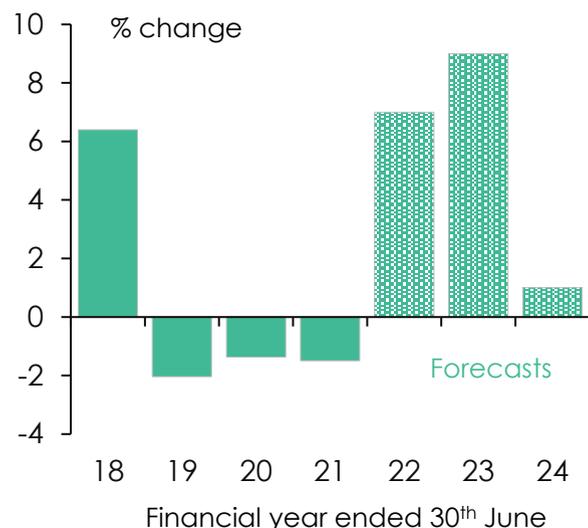
# Consumer spending and, until 2023-24, residential and business investment, are forecast to be the main drivers of economic growth

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

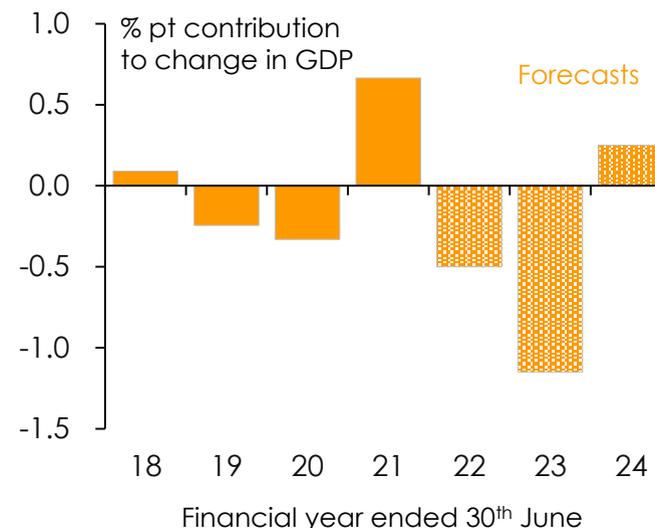
## Household consumption



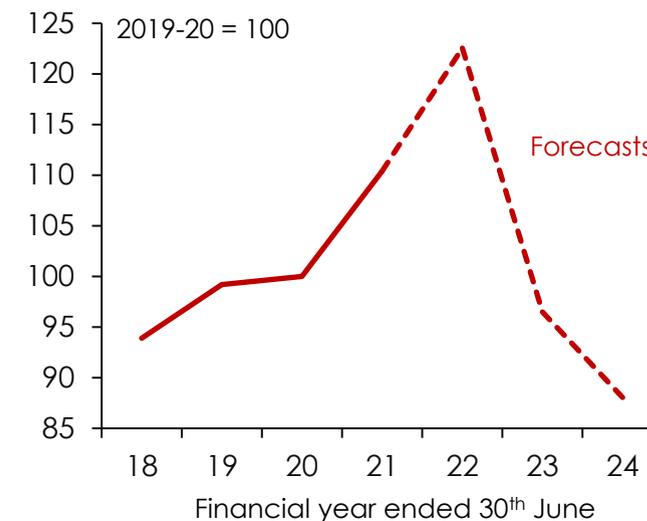
## Business investment



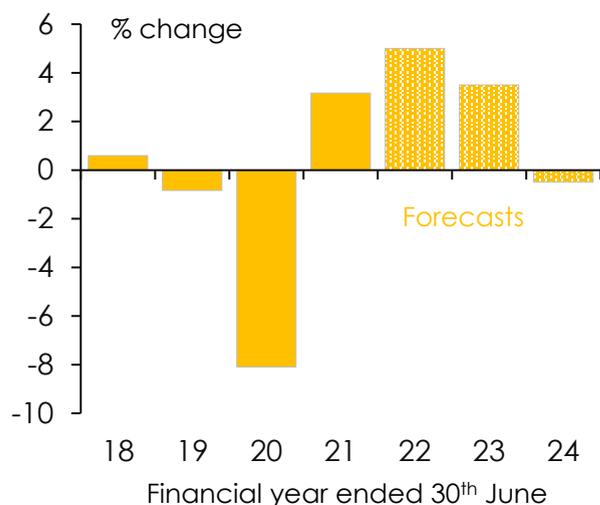
## Change in inventories



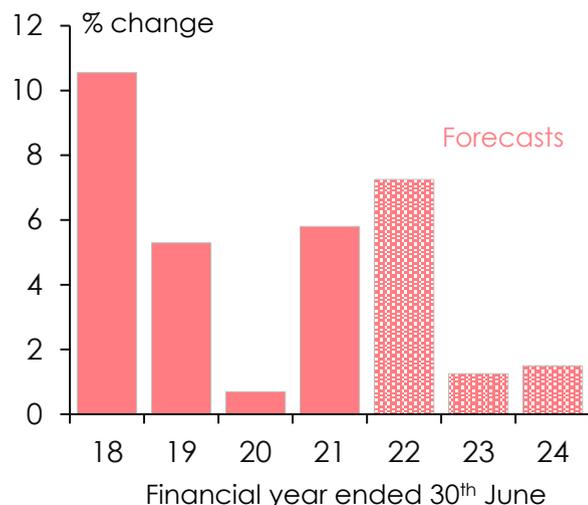
## Terms of trade



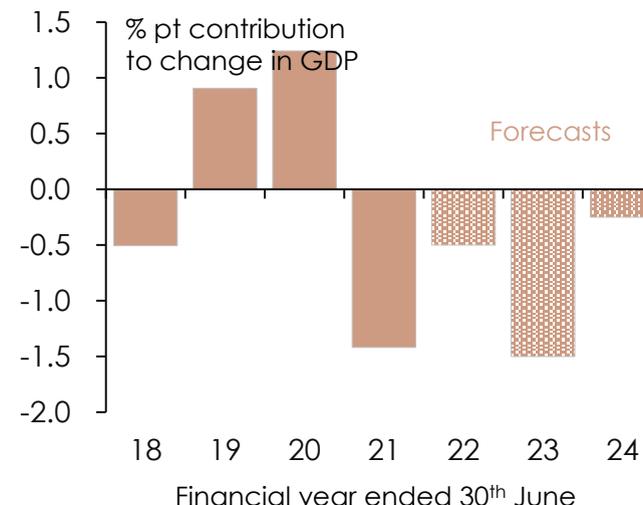
## Dwelling investment



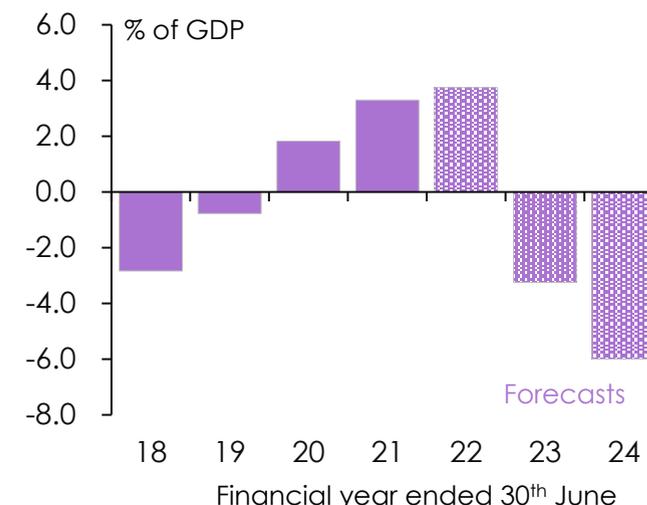
## Public spending



## Net exports



## Current account balance

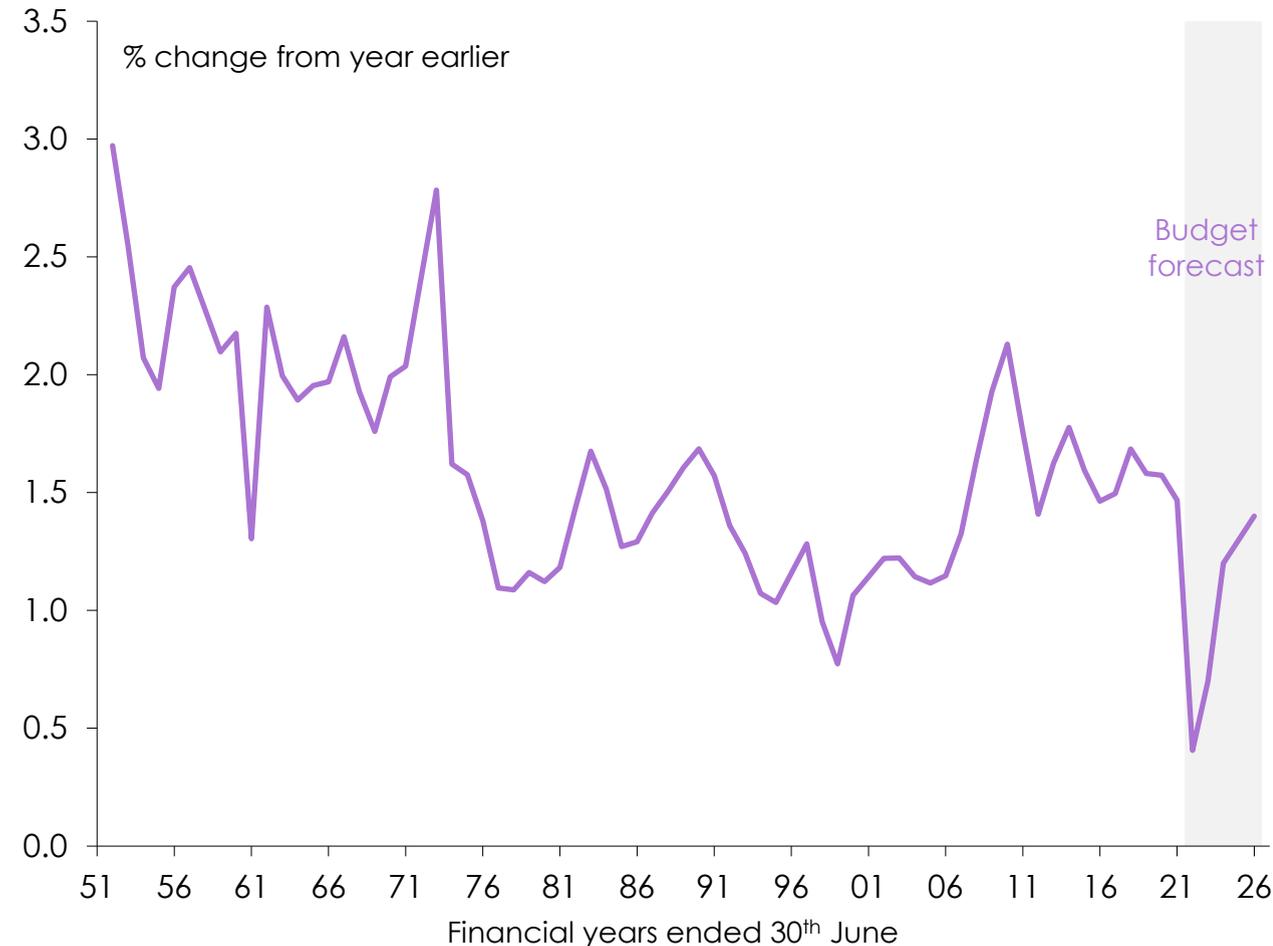


Note: The iron ore price is assumed to fall to US\$55/t fob by Q3 2022; metallurgical and thermal coal prices to US\$130/t and \$60/t respectively by Q3 2022; and Tapis oil prices to \$100/bbl by Q3 2022. Sources: ABS; 2021-22 [MYEFO](#) and 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29<sup>th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

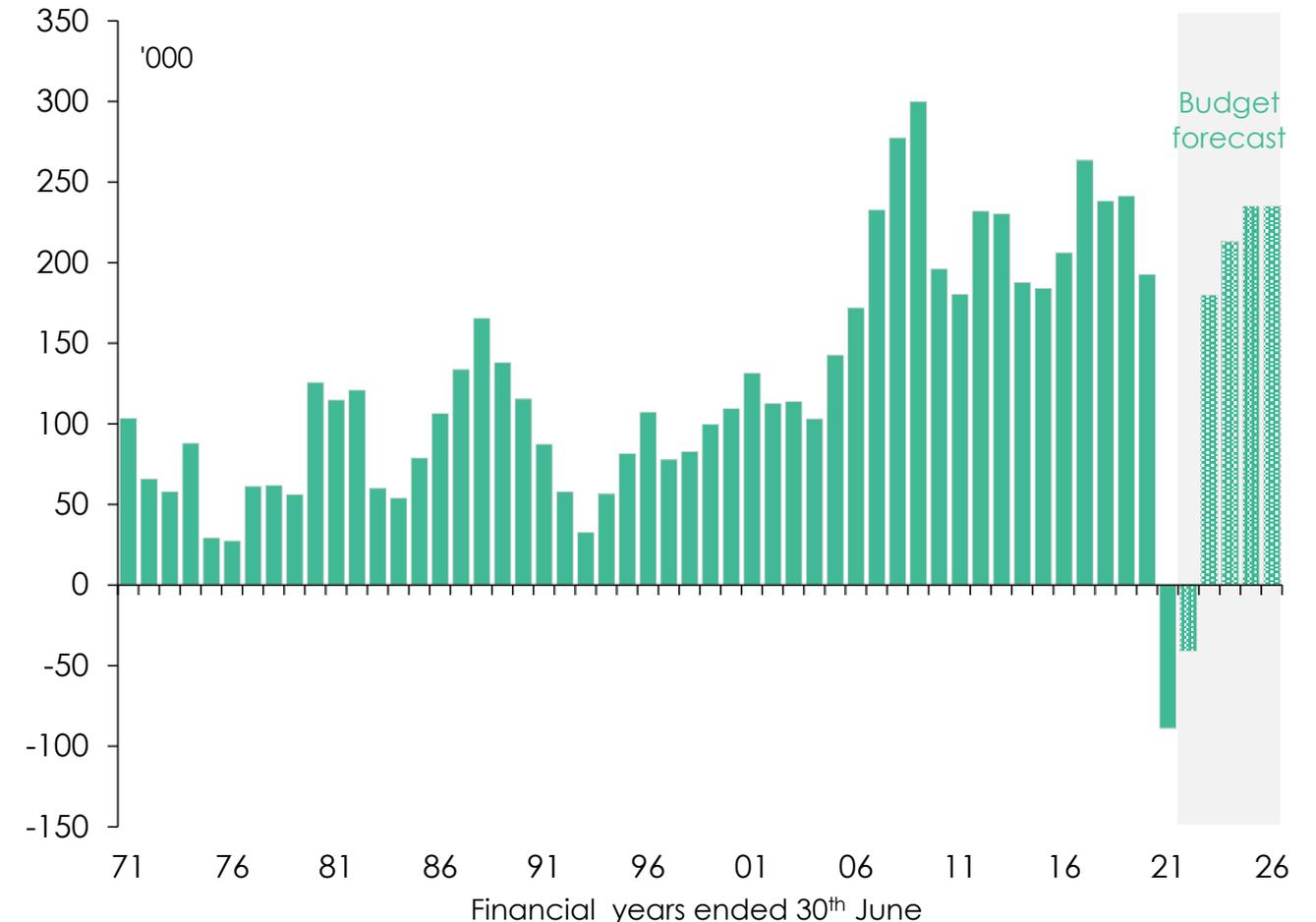
# An important assumption underlying the Budget forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> 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)

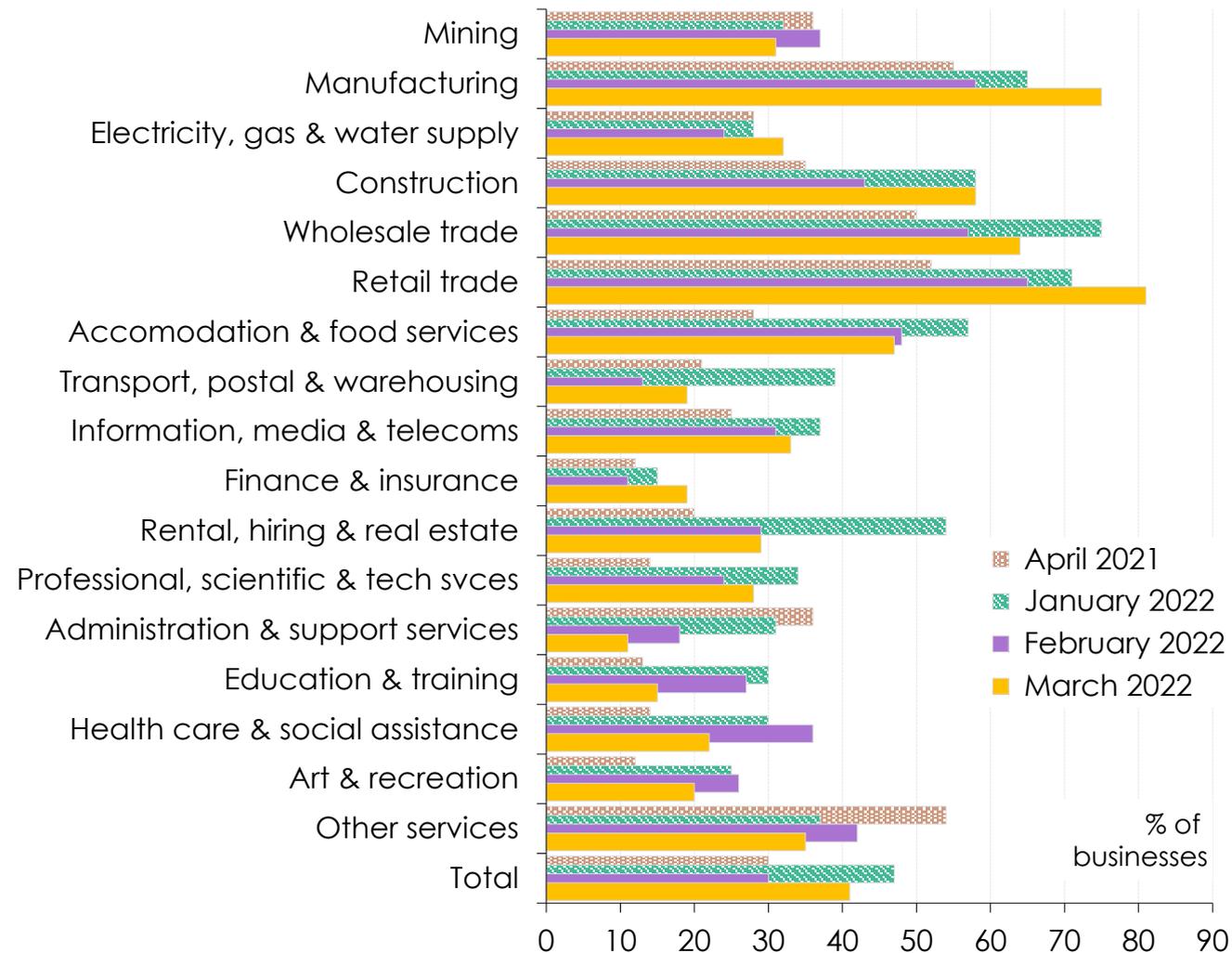
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29<sup>th</sup> March 2022.

# The business sector

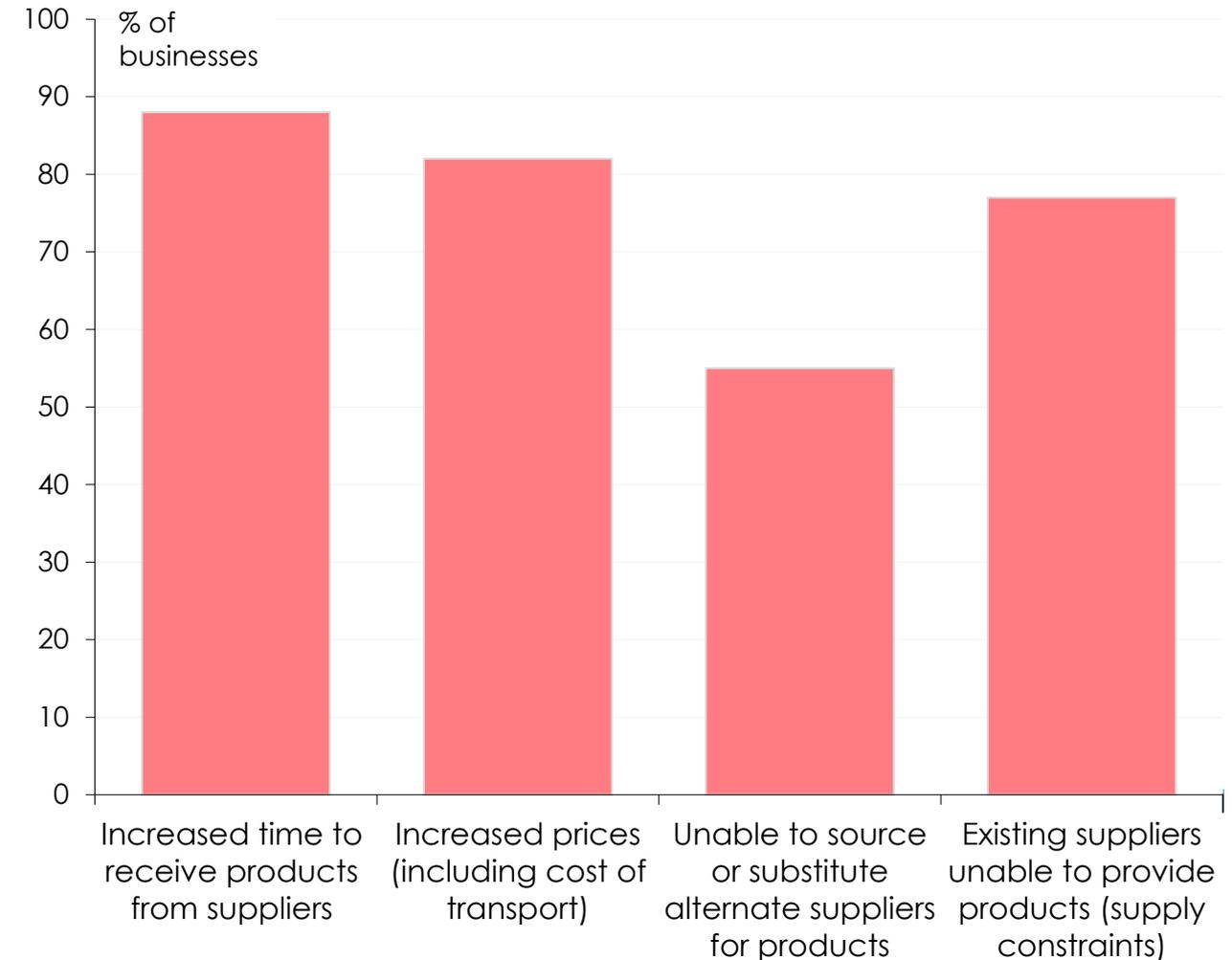
# Supply chain disruptions eased a bit more in March, but are still affecting 37% of all businesses

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

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



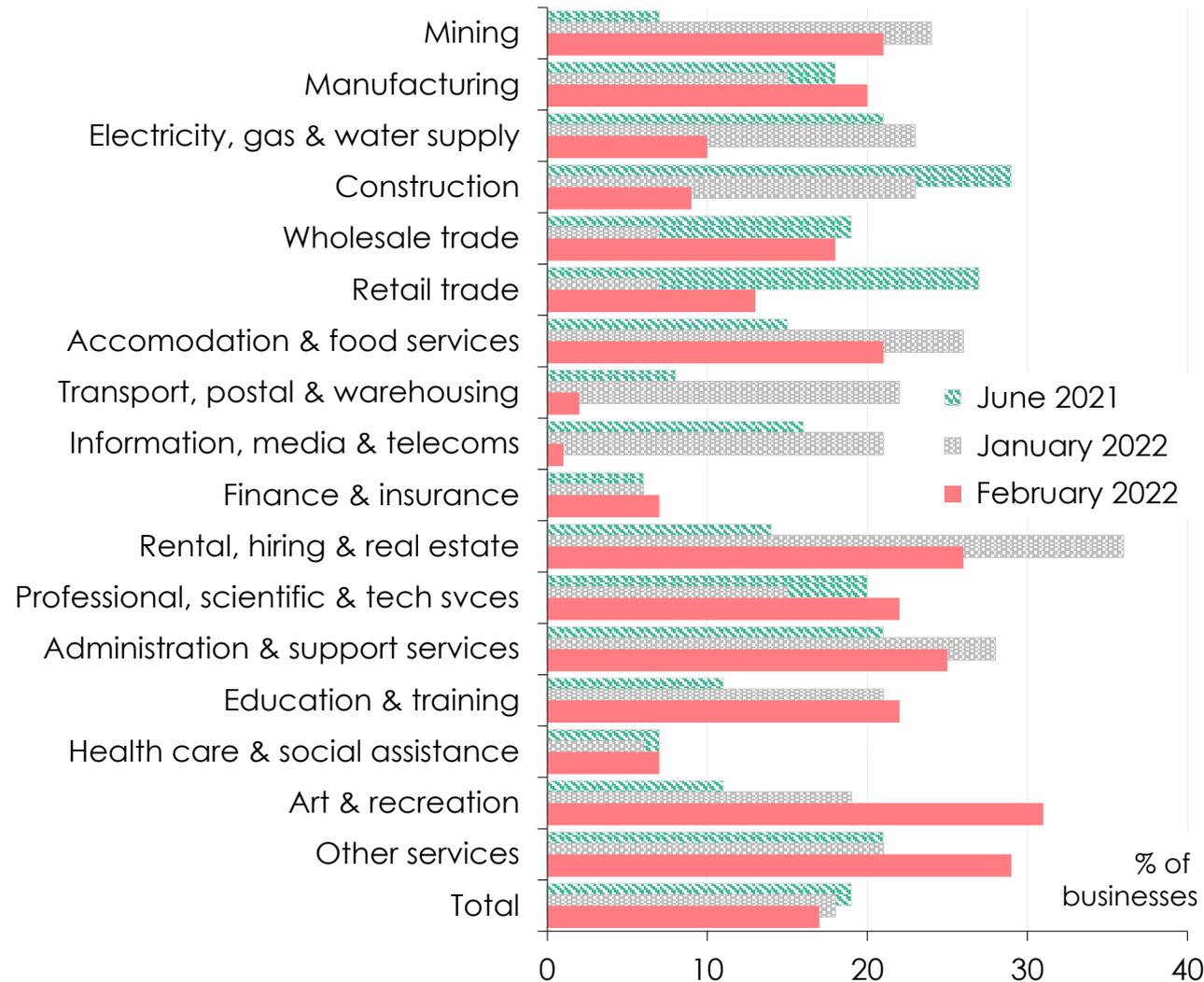
## Impact of supply chain disruptions on businesses, March 2022



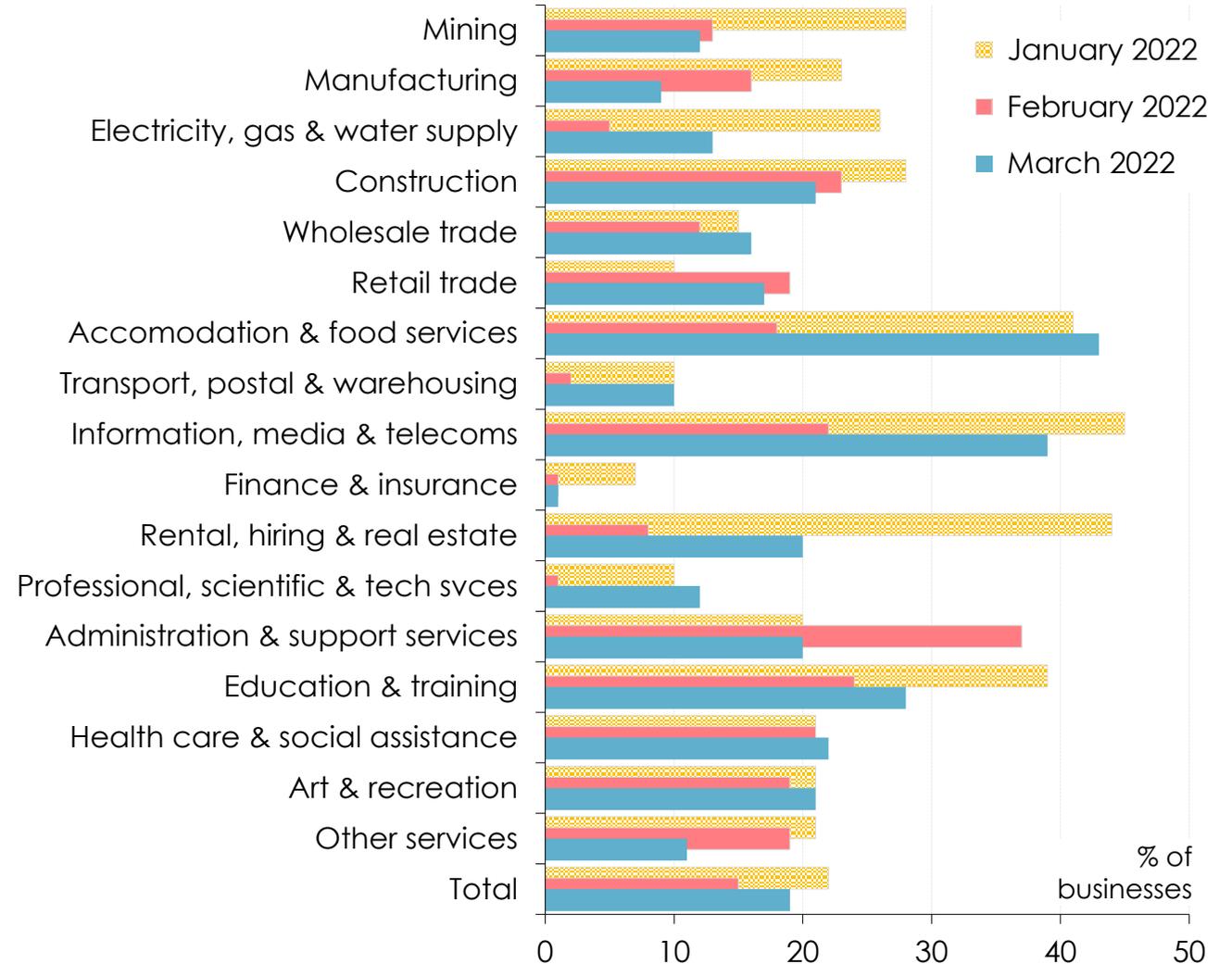
# 19% of all businesses (including 58% of large businesses) experienced staff absences due to Covid, up from 15% in February

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

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



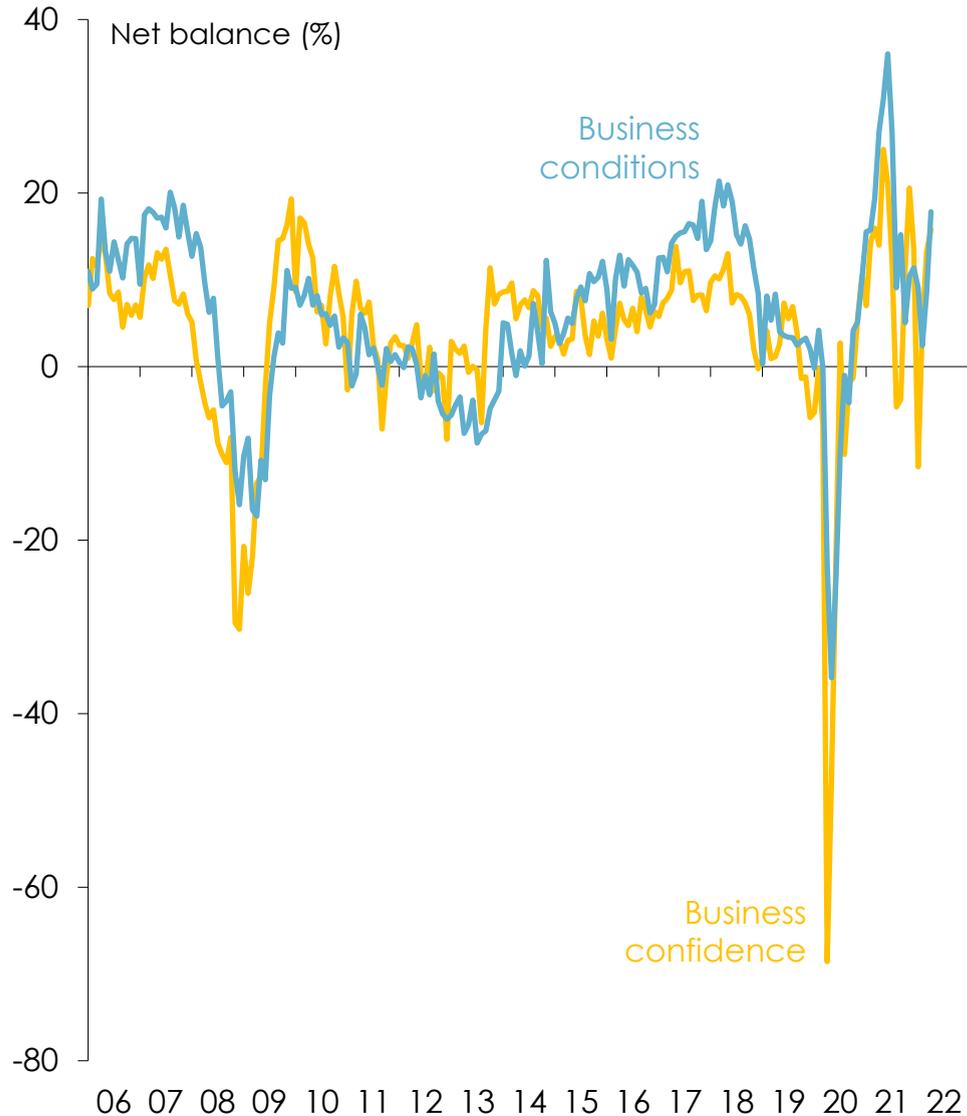
## Businesses with employees unavailable due to Covid-related factors, January, February & March 2022



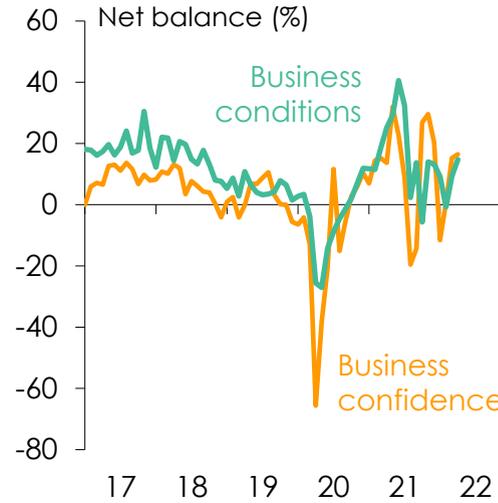
# Business confidence and conditions improved further again in March (with gains in every state except Qld), to be well above their long-run averages

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

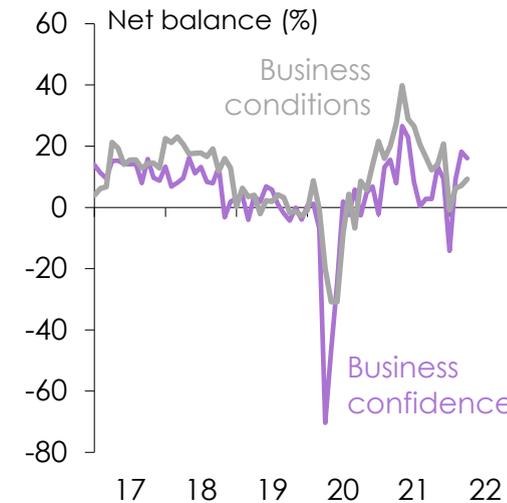
## National business confidence & conditions



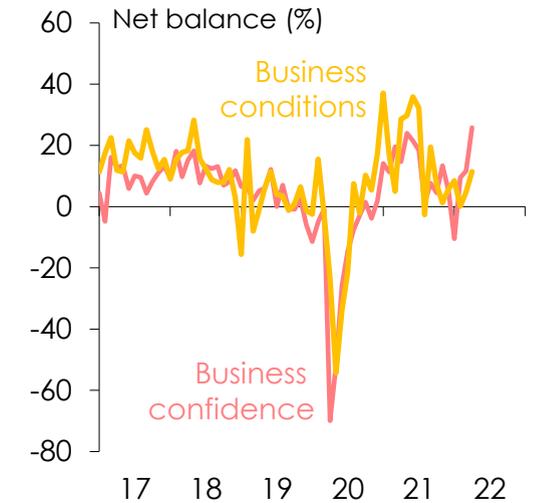
## New South Wales



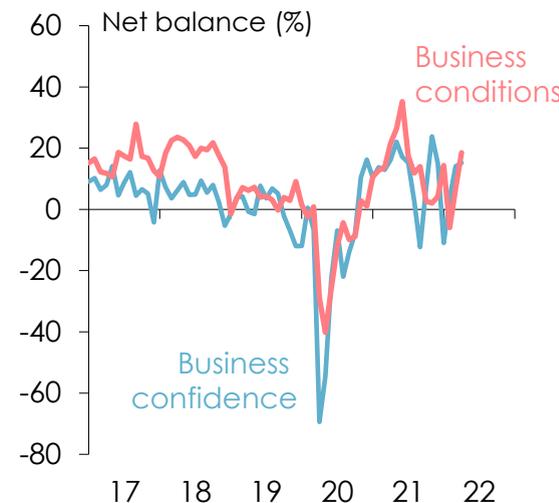
## Queensland



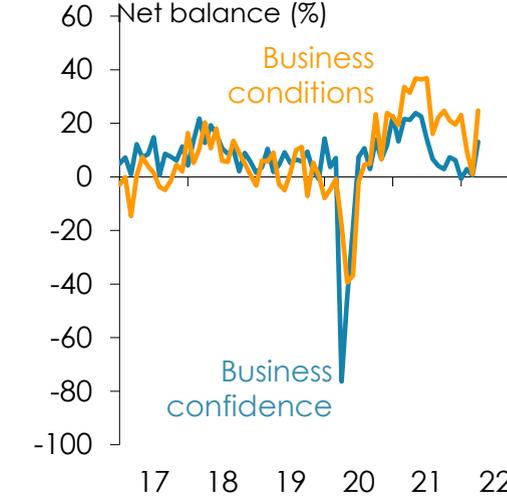
## South Australia



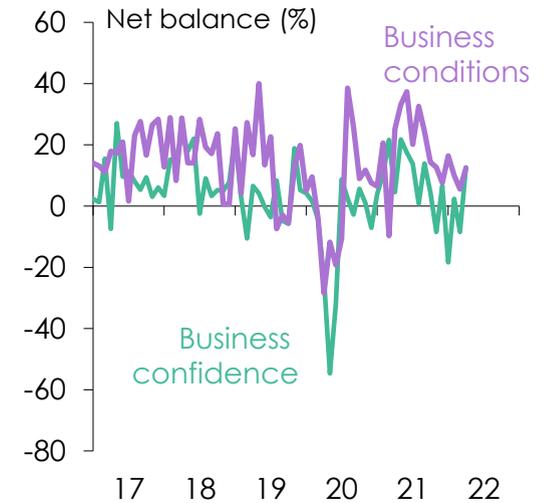
## Victoria



## Western Australia



## Tasmania

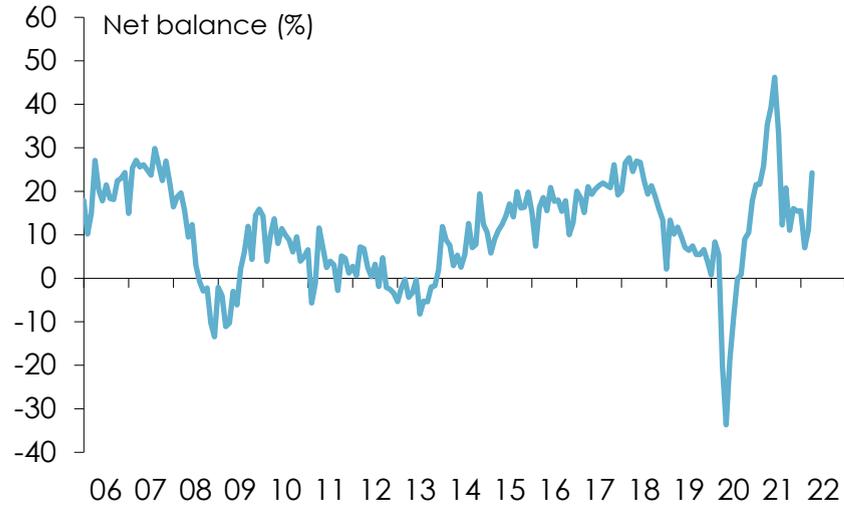


Sources: National Australia Bank [Monthly Business Survey](#), March 2022; April survey results will be released on 10<sup>th</sup> May. [Return to "What's New"](#).

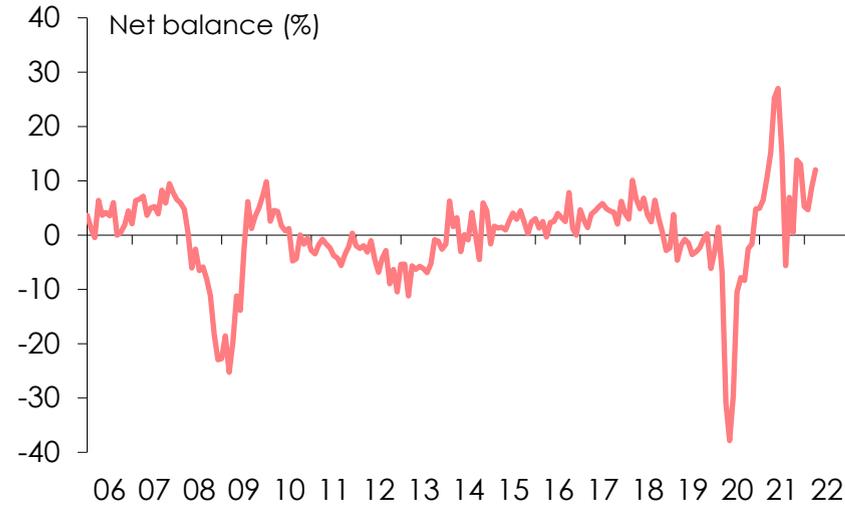
# All of the elements of business conditions improved in March, except for capex intentions

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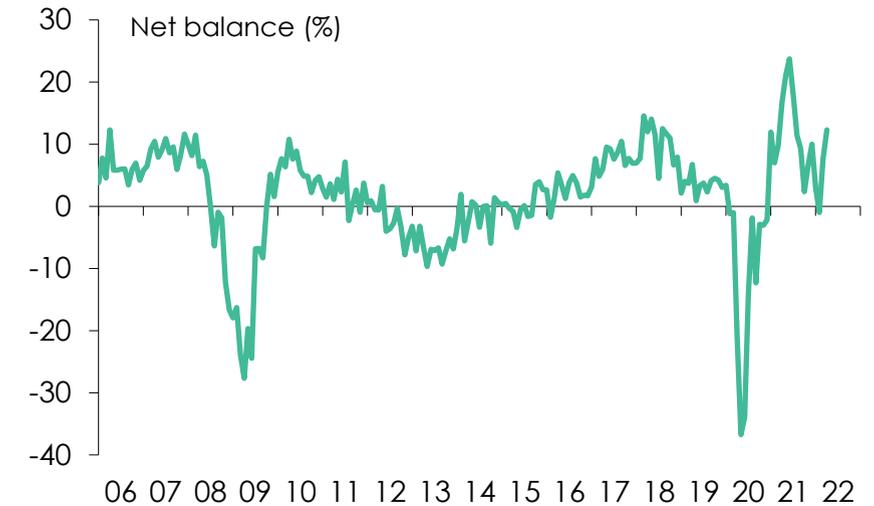
## Trading conditions



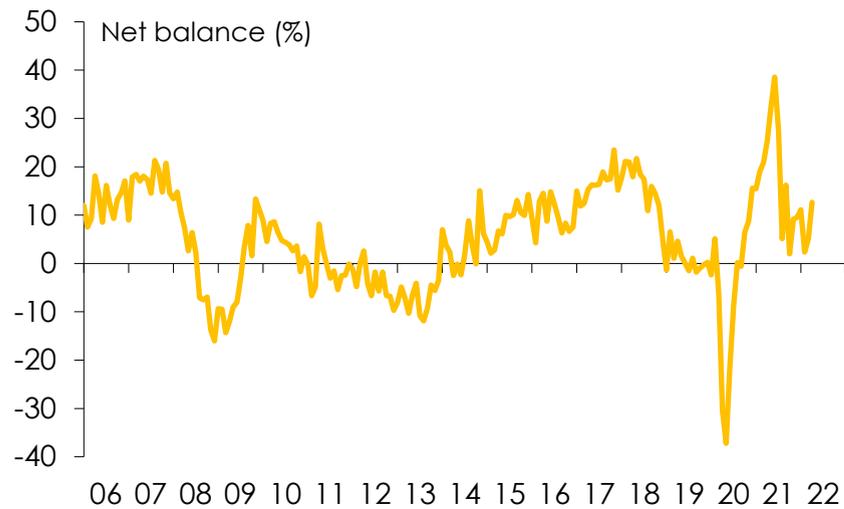
## Forward orders



## Employee hiring intentions



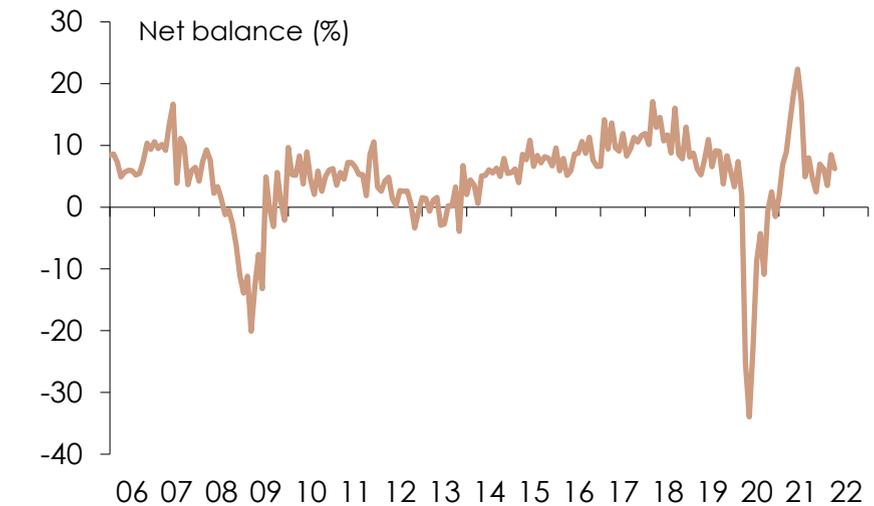
## Profitability



## Capacity utilization



## Capital expenditure intentions

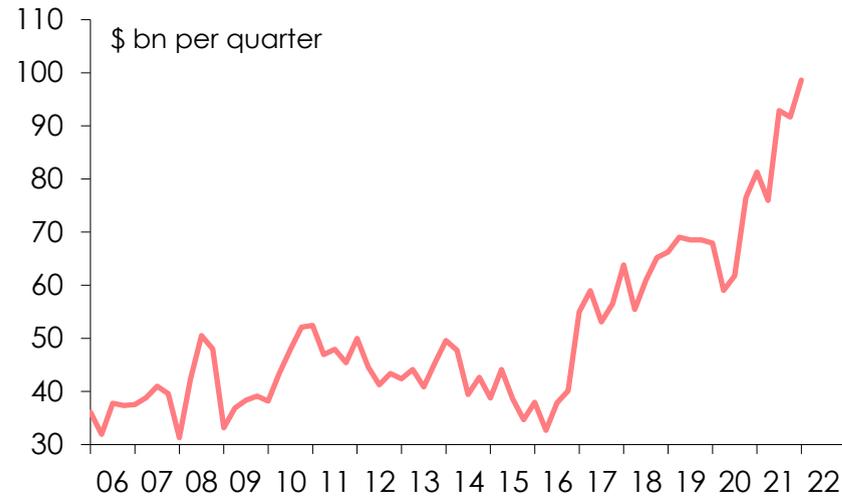


Source: National Australia Bank [Monthly Business Survey](#), March 2022; April survey results will be released on 10<sup>th</sup> May. [Return to "What's New"](#).

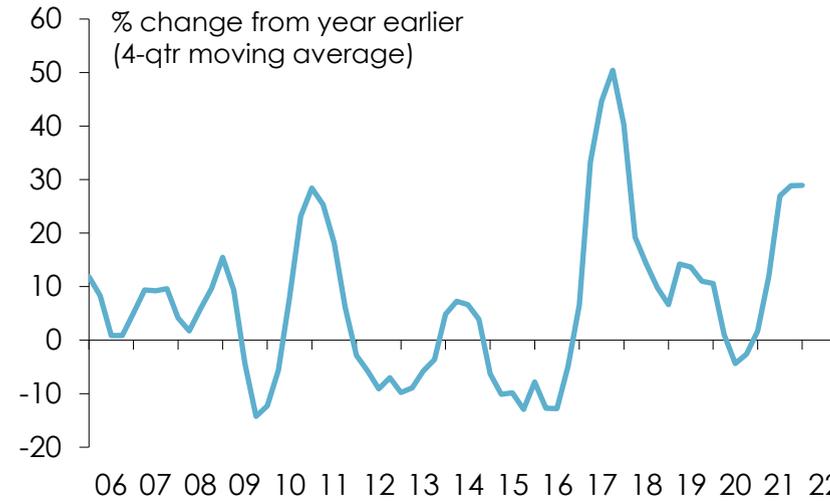
# Company profits have grown strongly over the past five years, largely driven by mining – though manufacturing profits rose 13% in 2021

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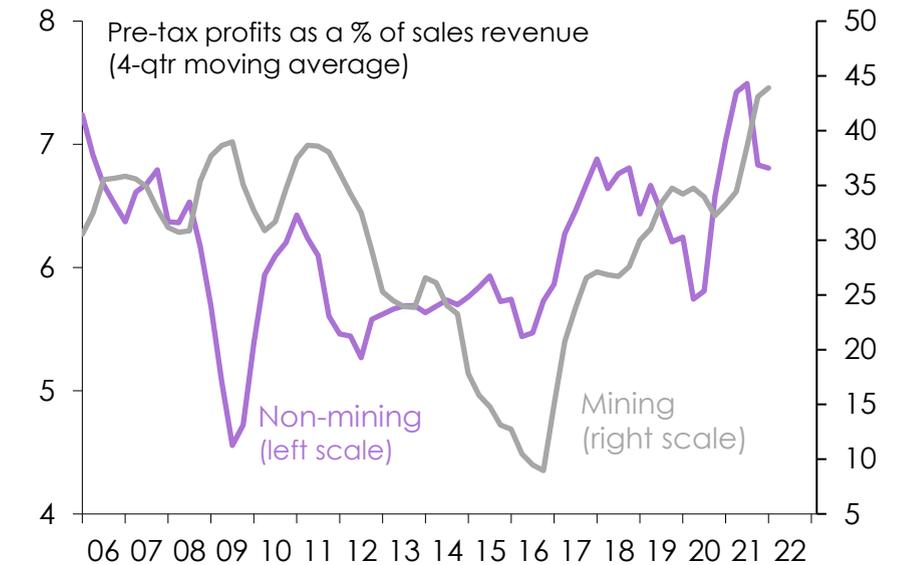
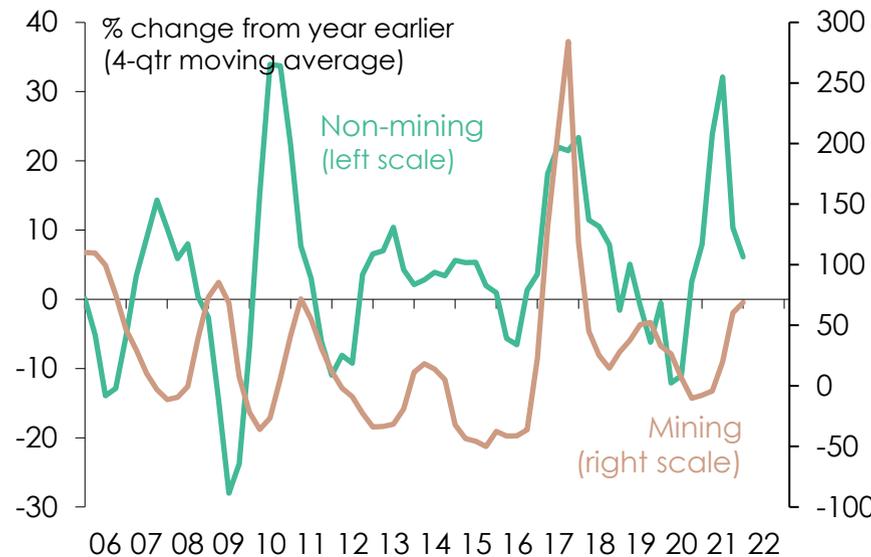
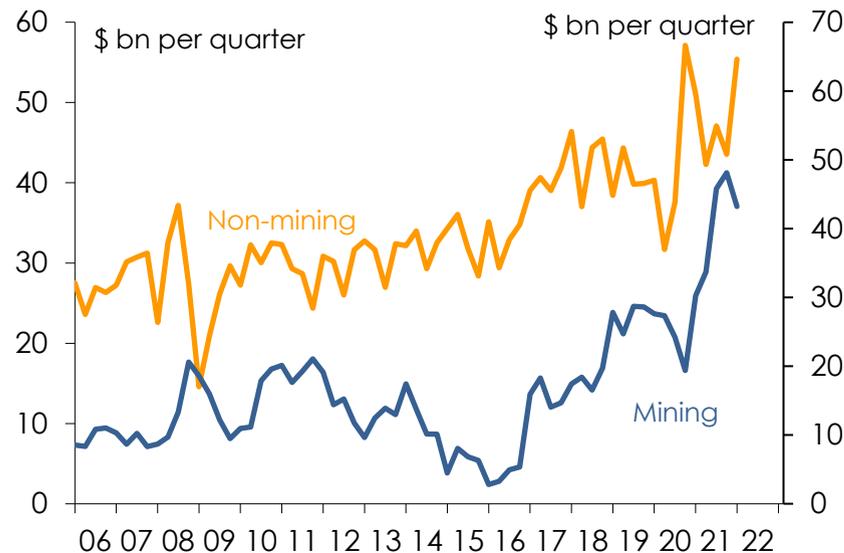
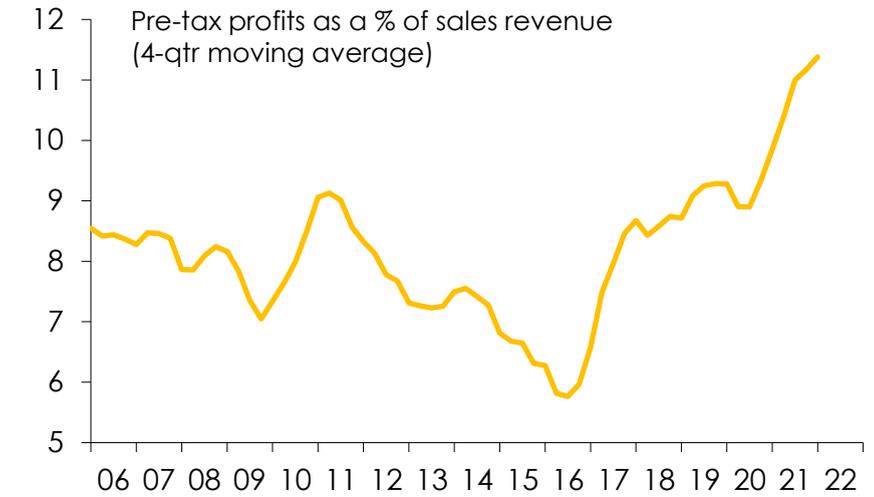
## Pre-tax company profits



## Pre-tax company profits growth



## Pre-tax profit margins

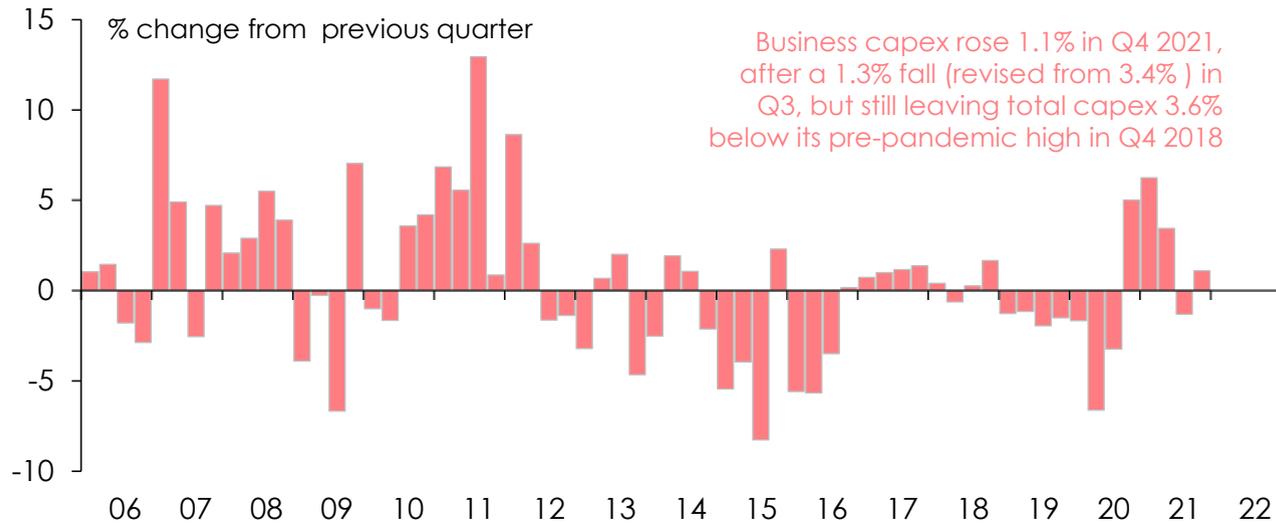


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), December 2021. March quarter data will be released on 31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

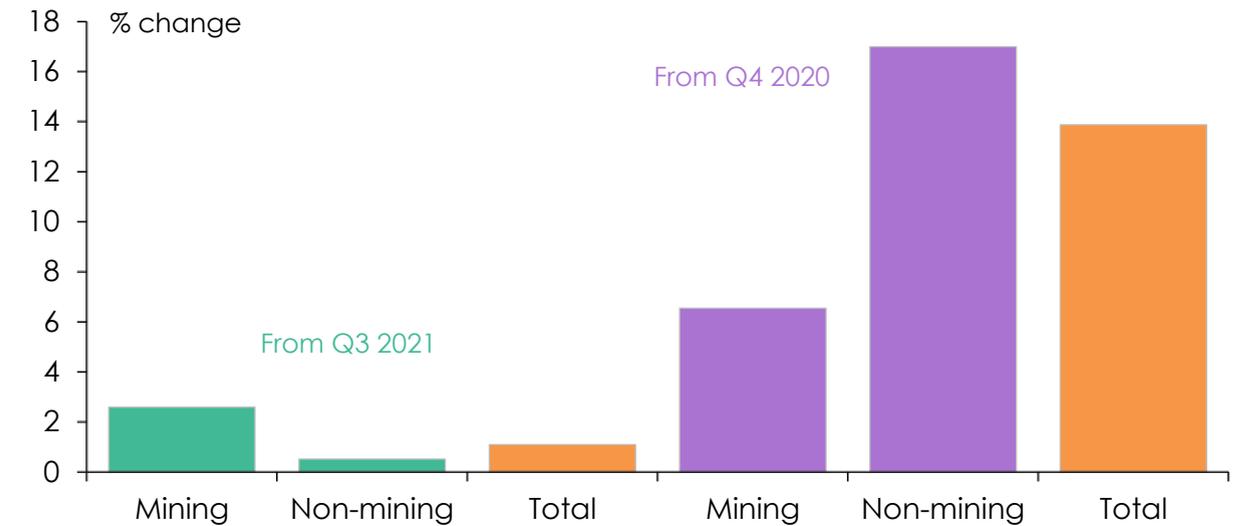
# Business capex rose 1.1% in real terms in Q4 2021, largely driven by the mining sector (in contrast to the earlier part of last year)

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

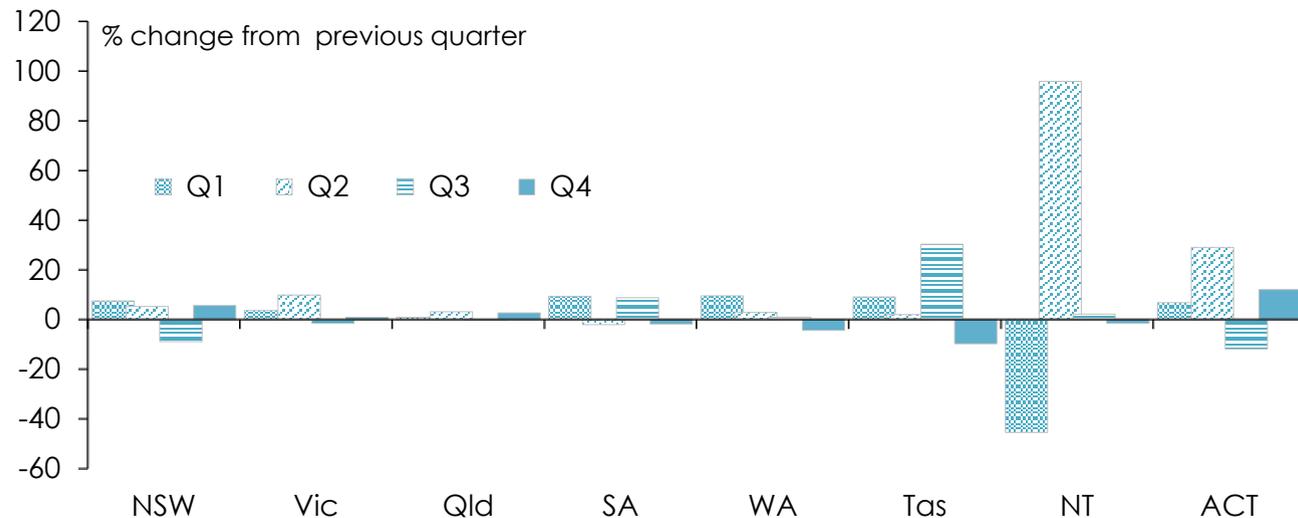
## Real business new fixed capital expenditure



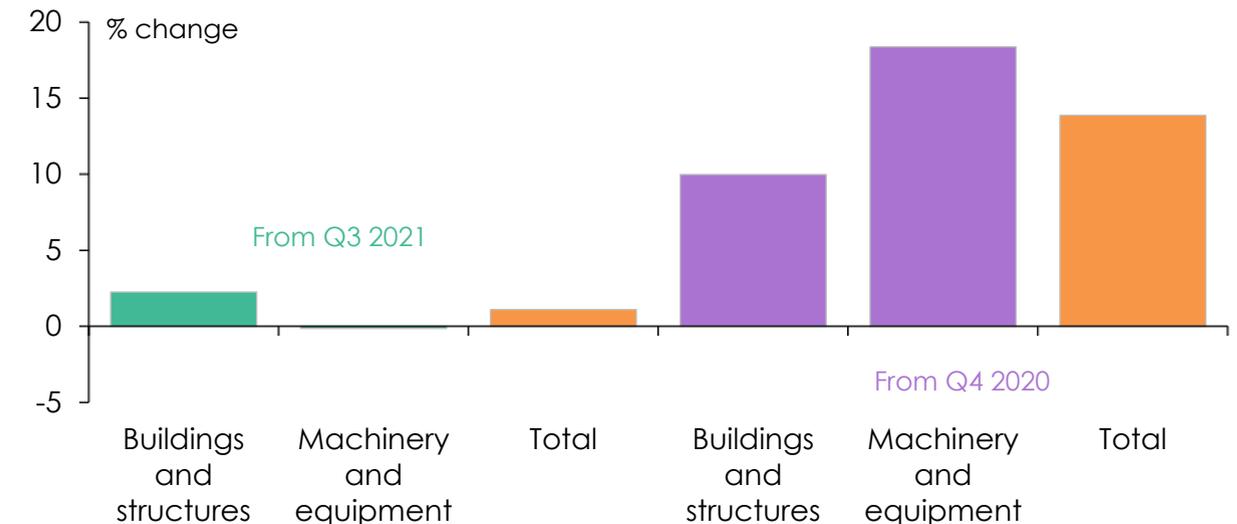
## Real business new fixed capex, by industry, Q4



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



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

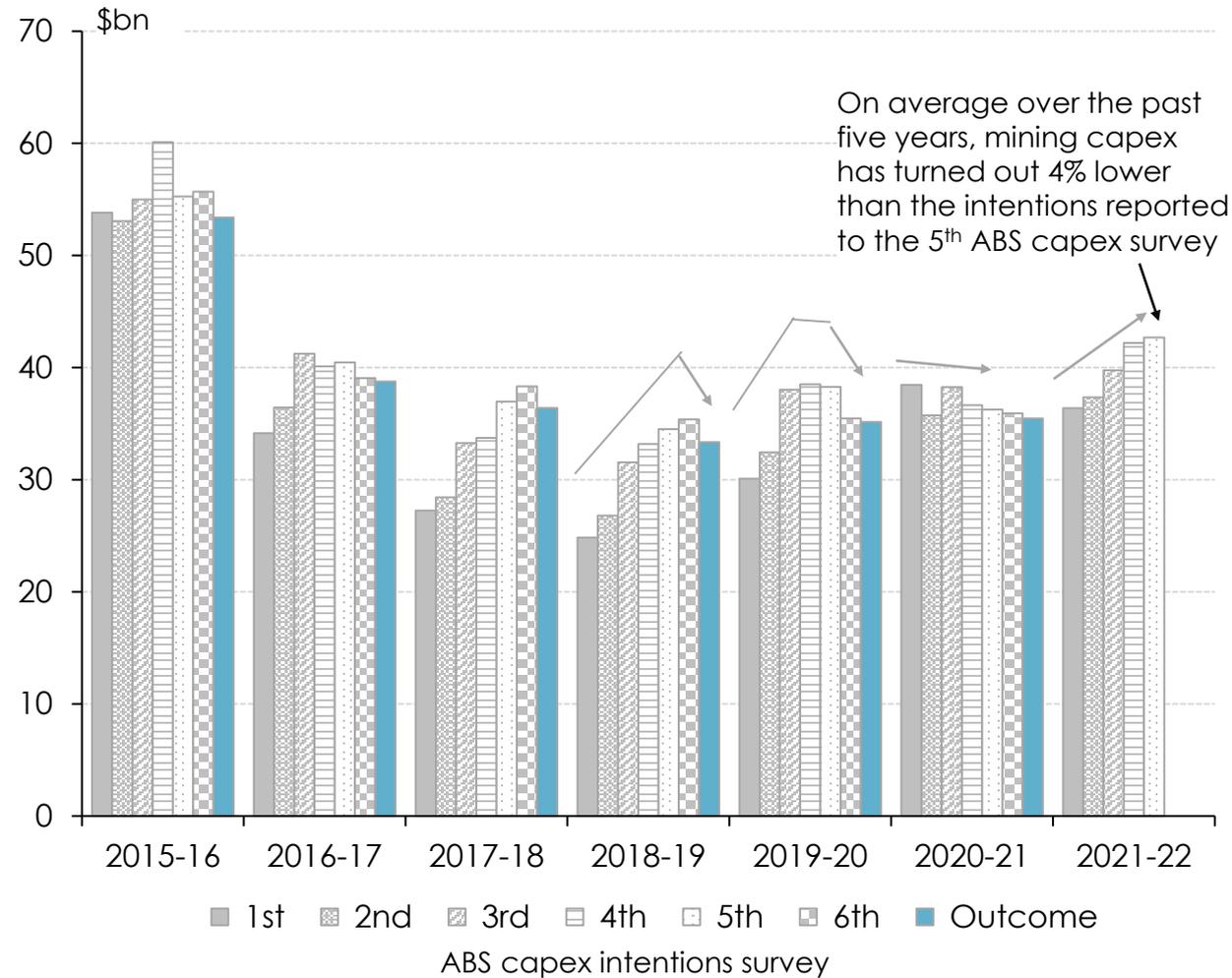


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.  
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 26<sup>th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

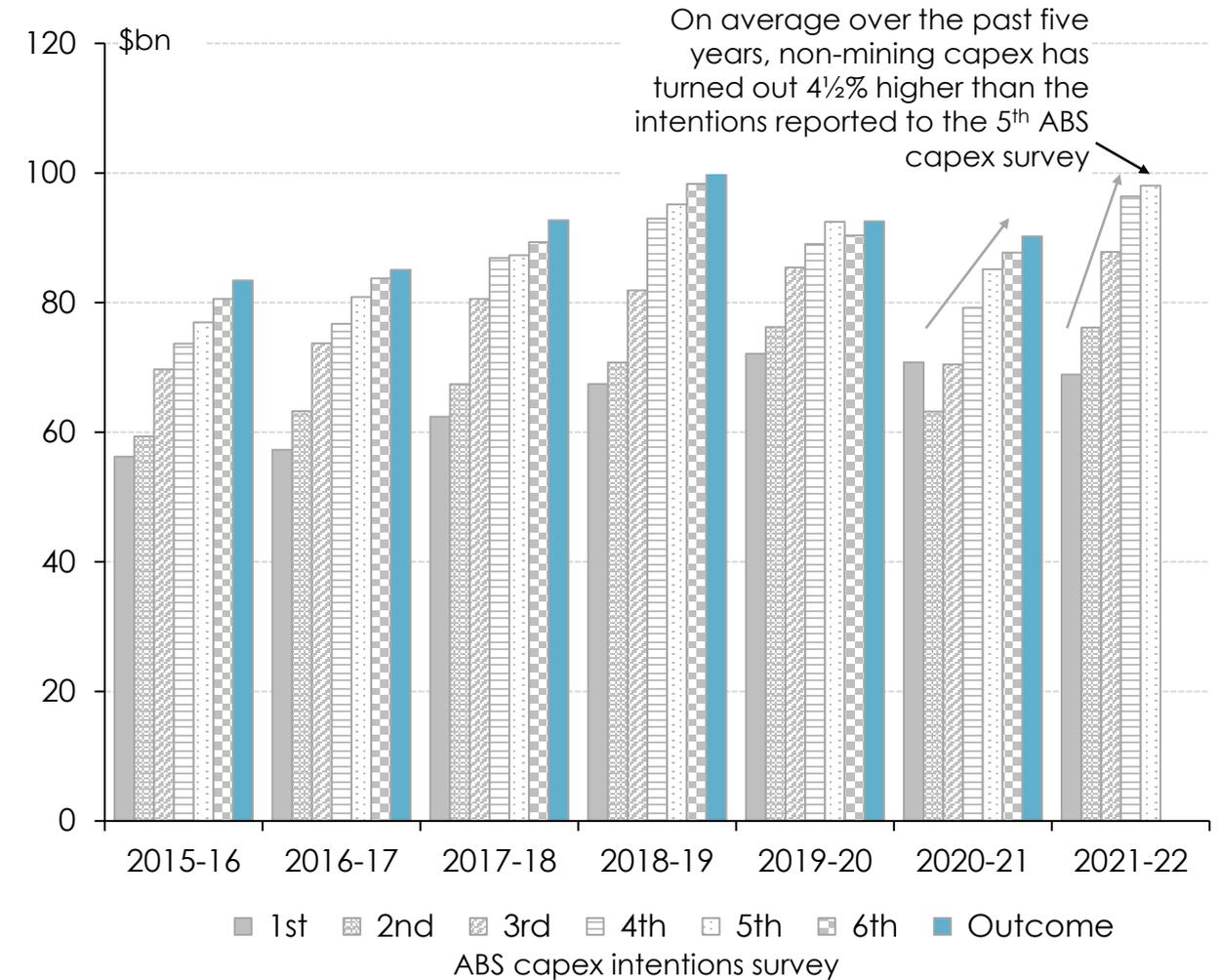
# Businesses revised up their capex plans for 2021-22 by 1.6% over the past three months, pointing to a 14¼% nominal increase in capex for 2021-22

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## Capital expenditure intentions - mining



## Capital expenditure intentions – non-mining



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

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

# The household sector and consumer spending

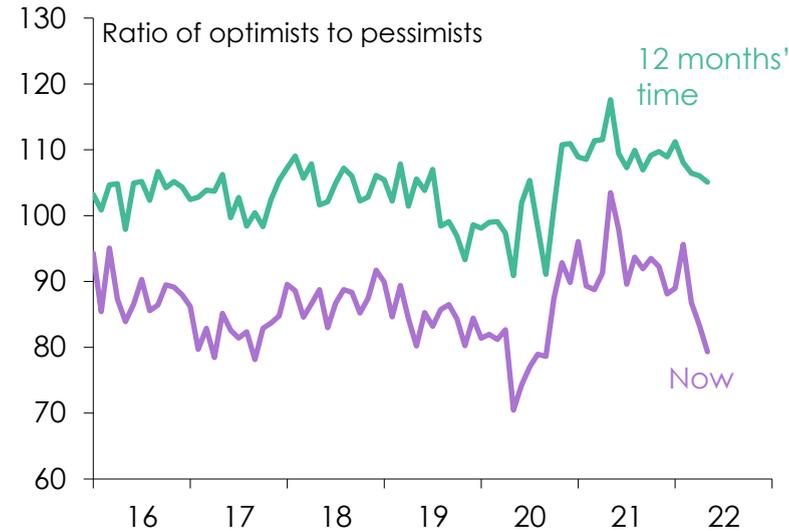
# Consumer confidence fell another 0.8 pc pt in April, mainly as a result of rising prices and fears of imminent increases in interest rates

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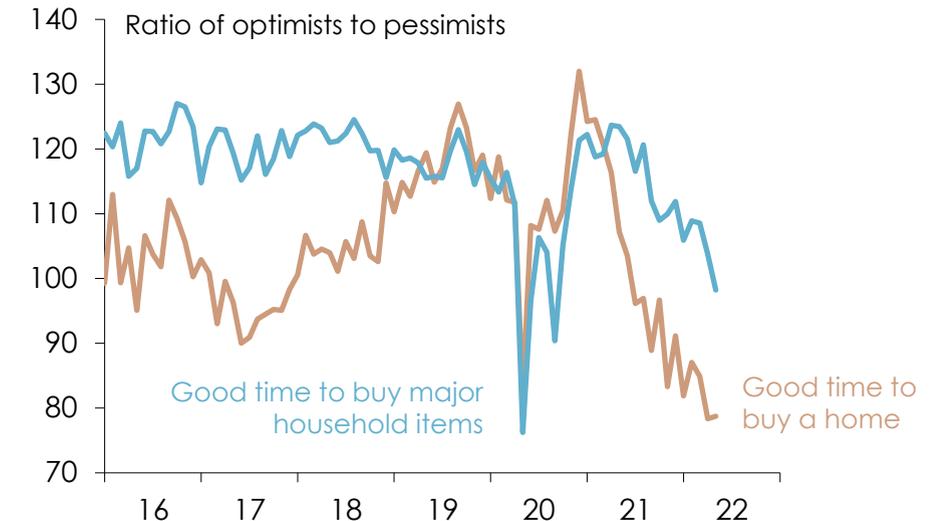
## Consumer confidence index



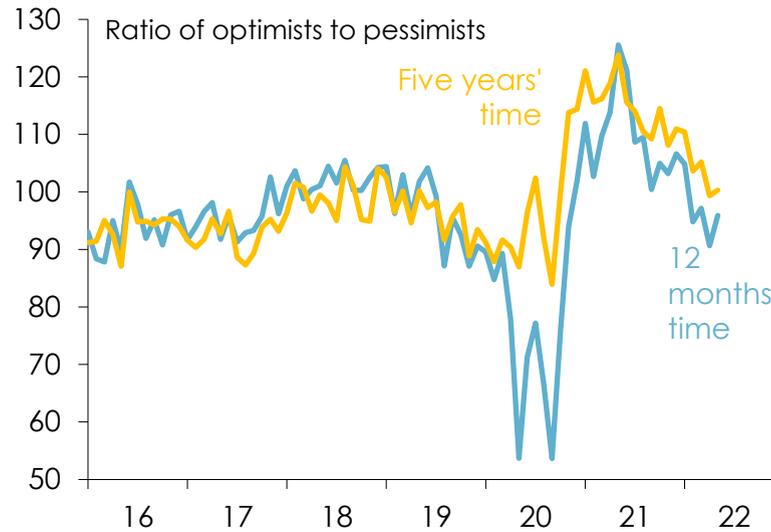
## Household finances assessment



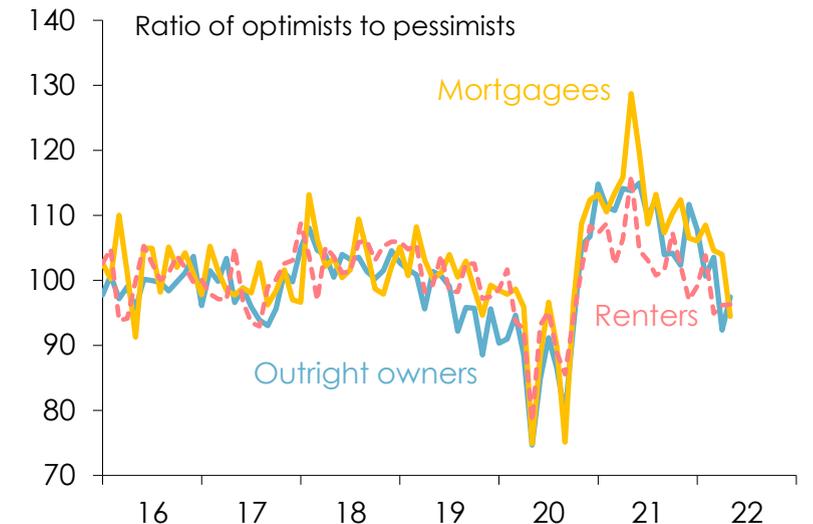
## Buying conditions assessment



## Economic conditions assessment



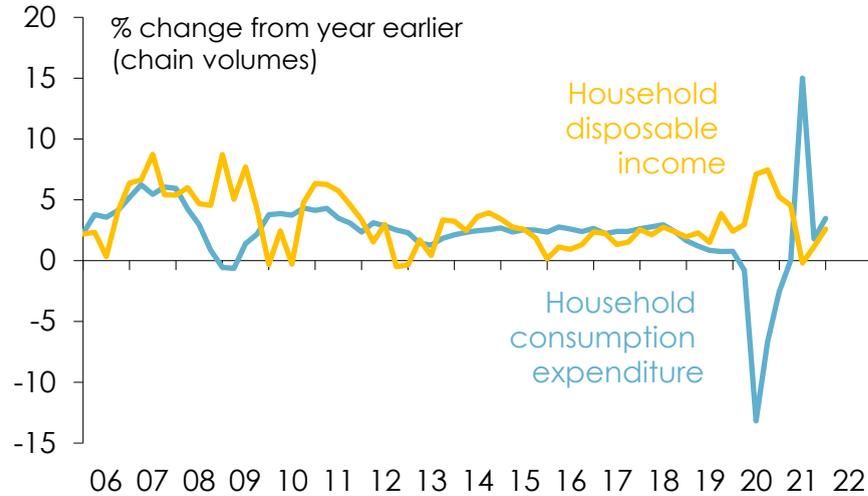
## Confidence by housing tenure



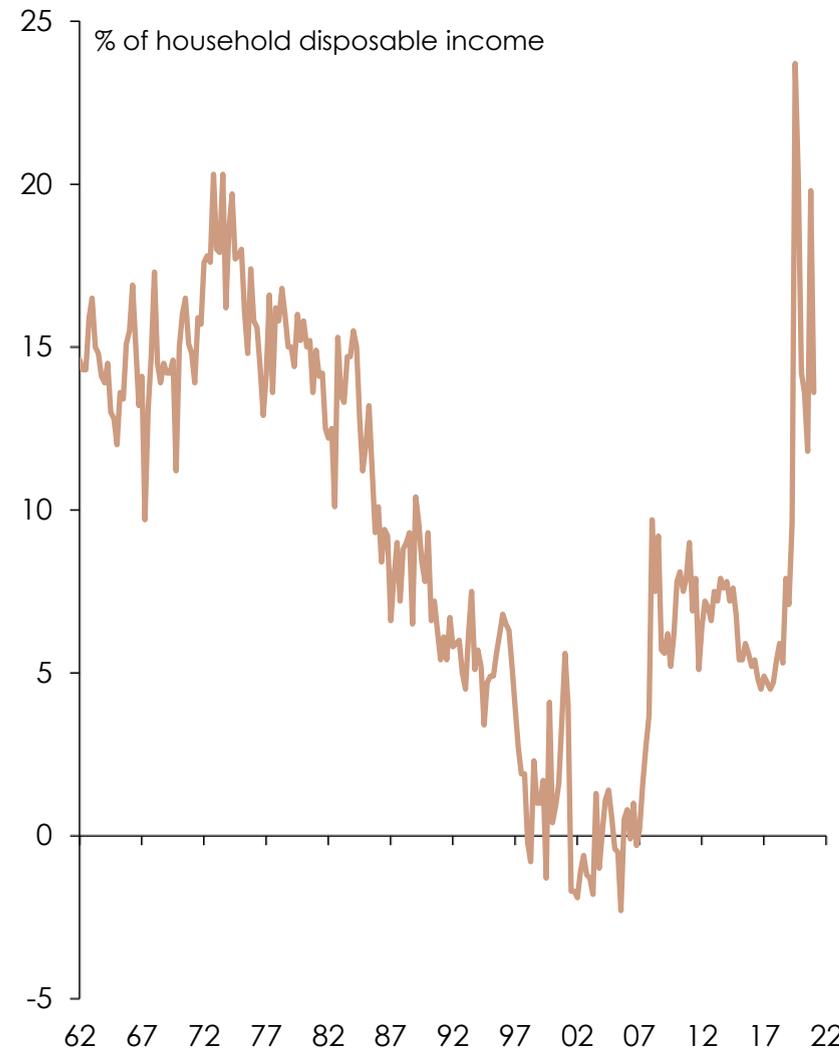
# Household bank deposits have increased by \$255bn (almost 26%) since just before the onset of the pandemic

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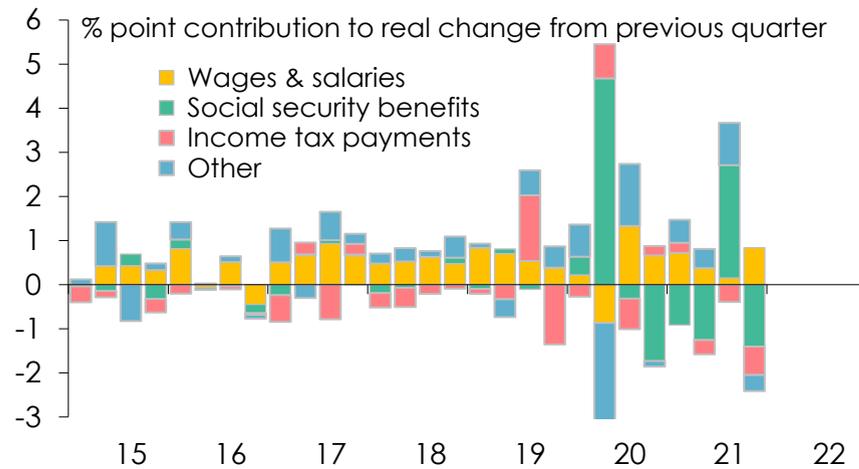
## Household income and spending



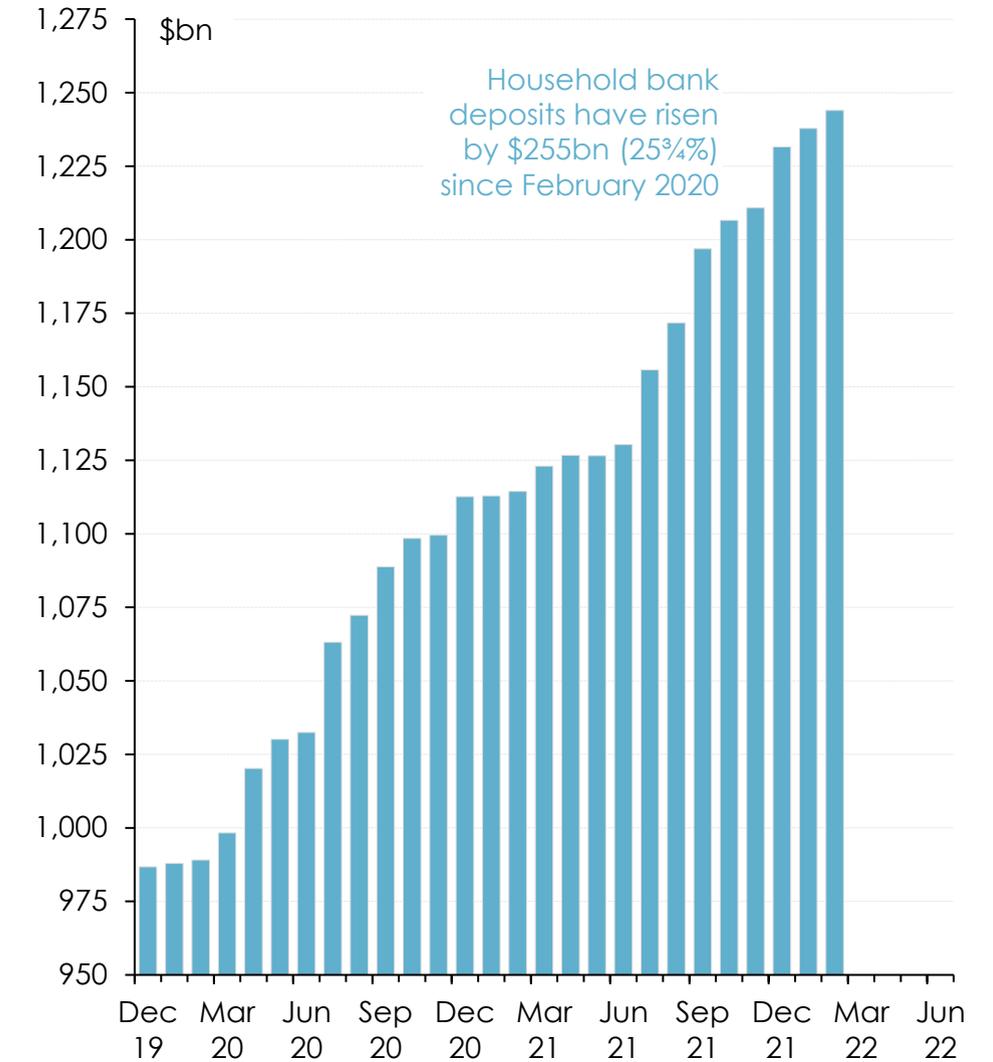
## Household saving ratio



## Sources of household income



## Household bank deposits

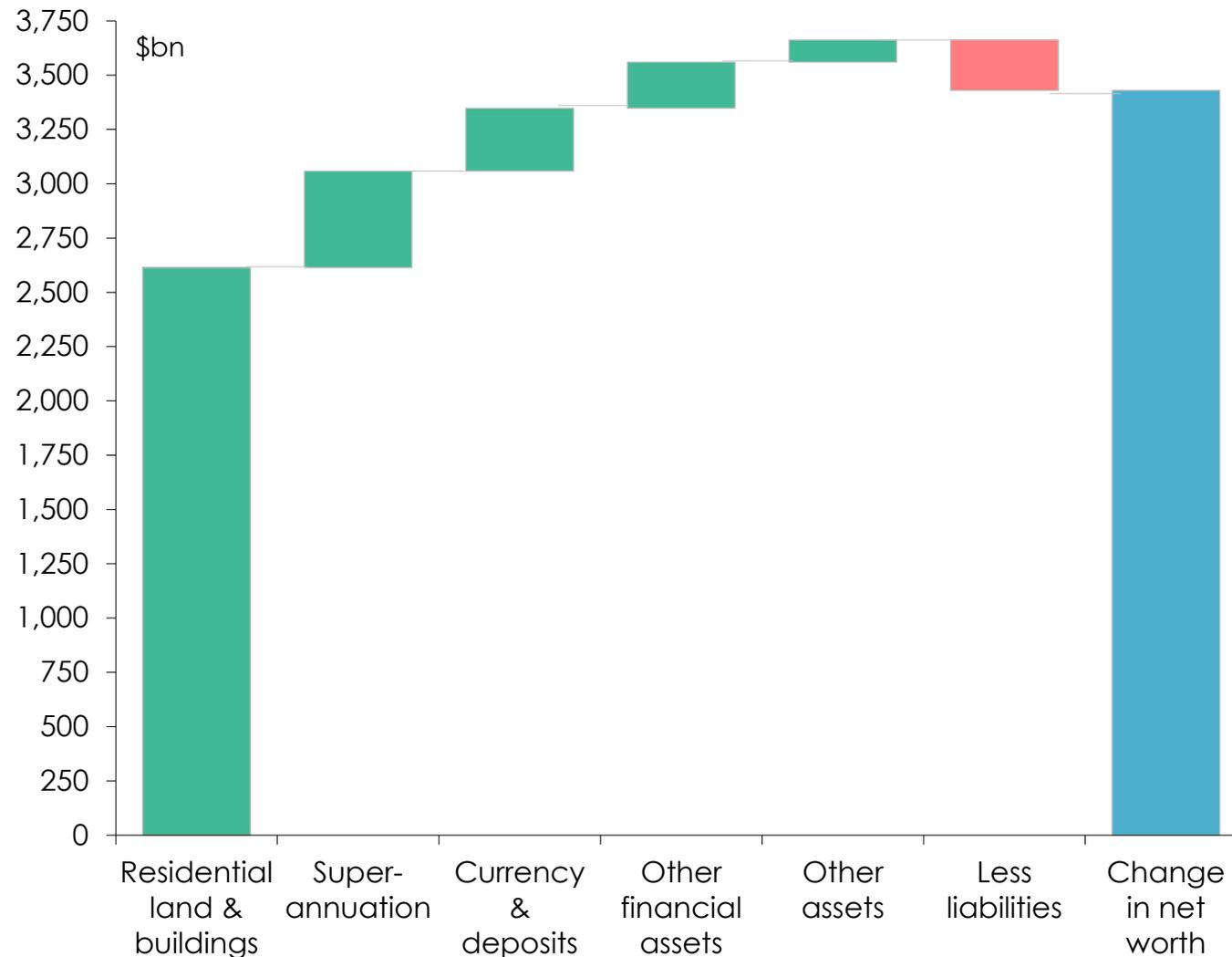


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). March quarter data on household income, spending and saving will be released on 1<sup>st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

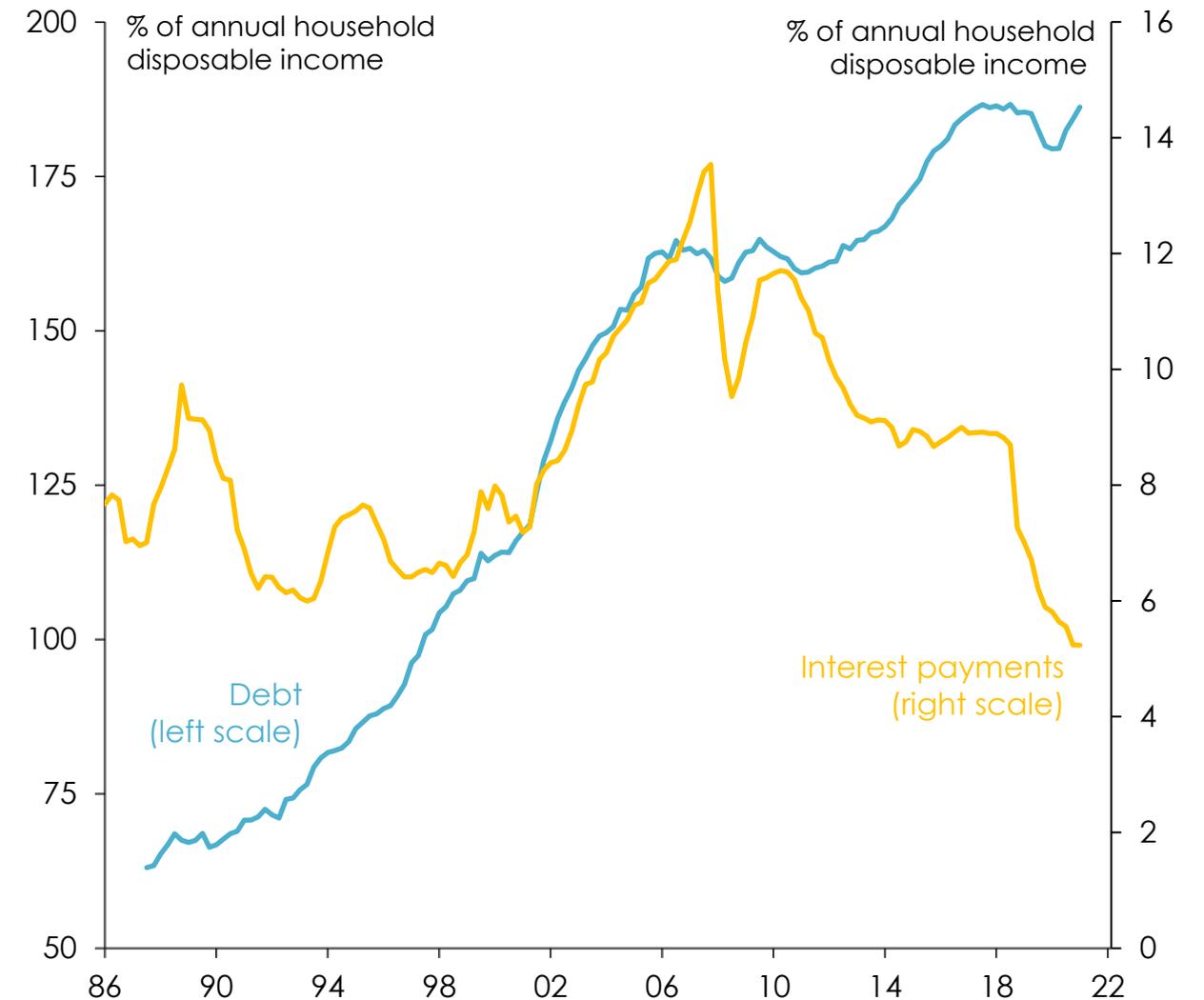
# Household net worth has risen by \$3.4trn (25%) since the end of 2019, while debt service payments have fallen as a pc of income

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



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

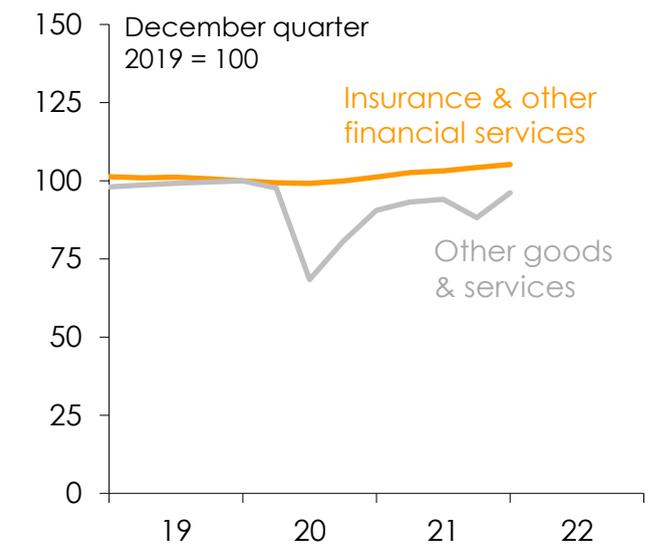
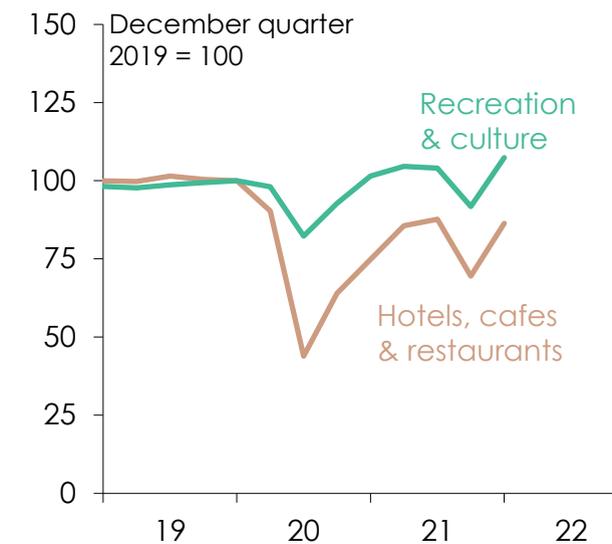
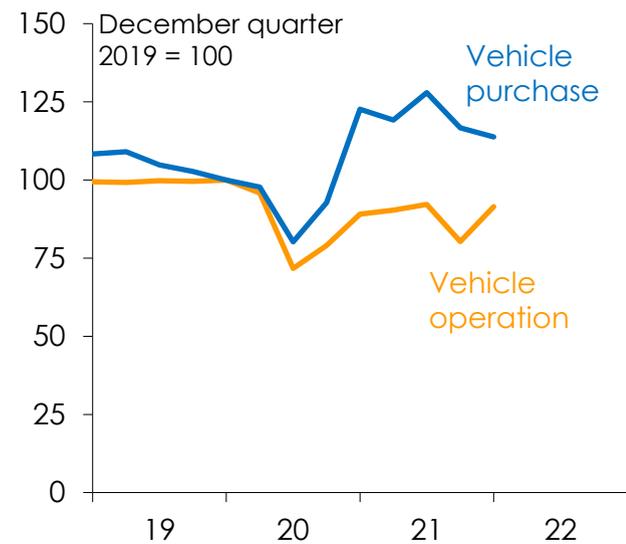
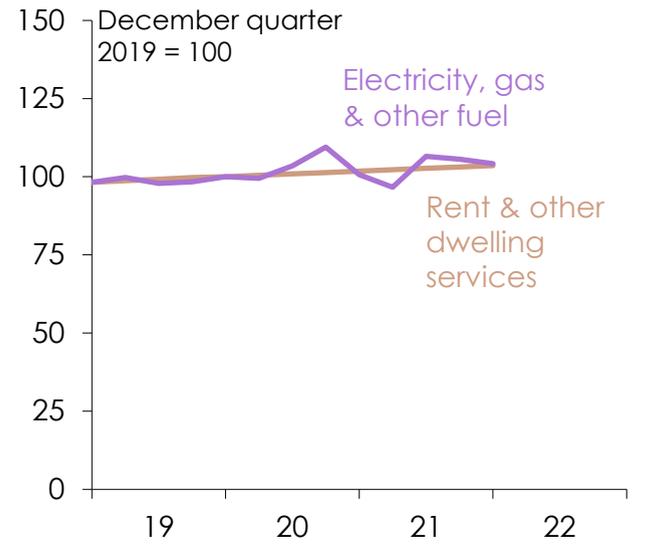
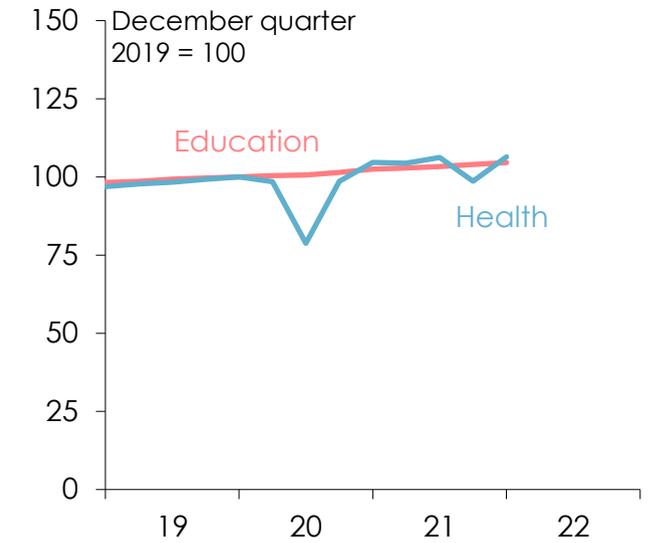
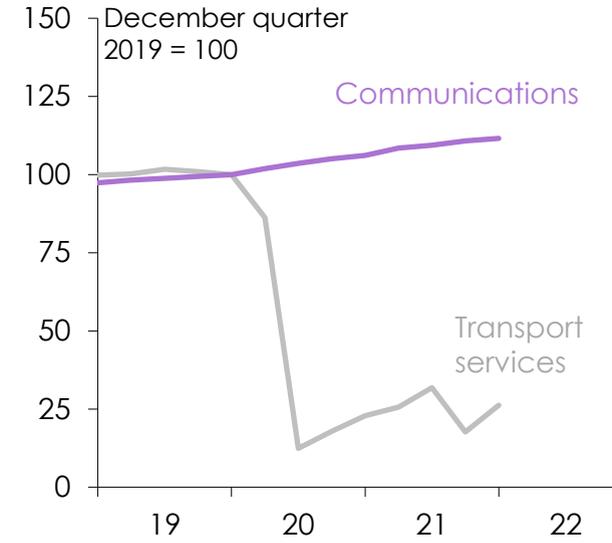
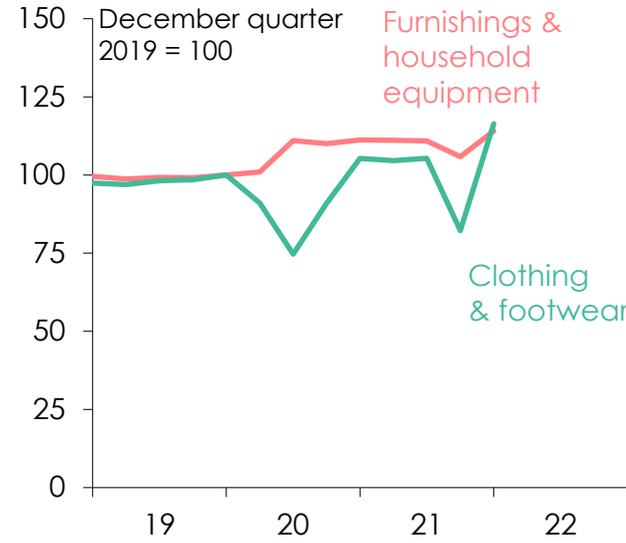
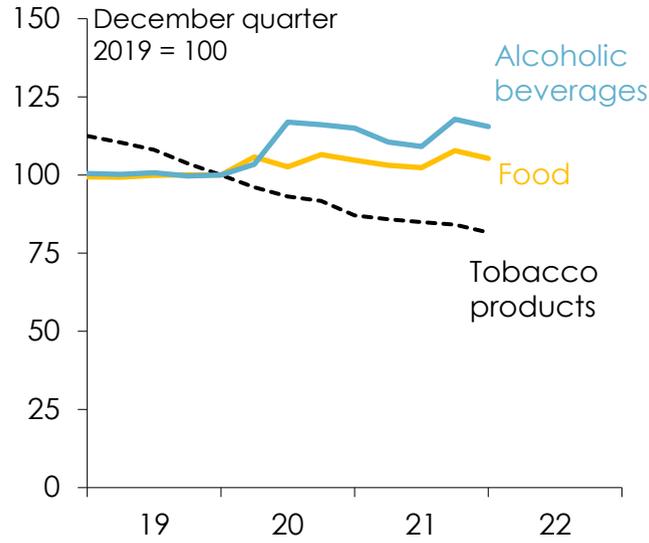


Sources: ABS, [Finance and Wealth Accounts](#), December quarter 2021; RBA, [Statistical Tables](#) E1 & E2. March quarter data will be released on 23<sup>rd</sup> June. [Return to "What's New"](#).

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

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## Major categories of household consumption spending

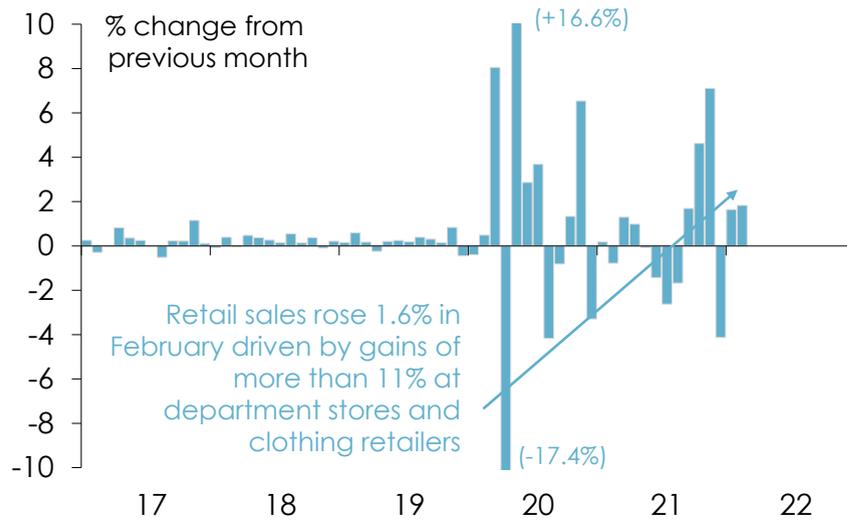


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; March quarter data will be released on 1<sup>st</sup> June. [Return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

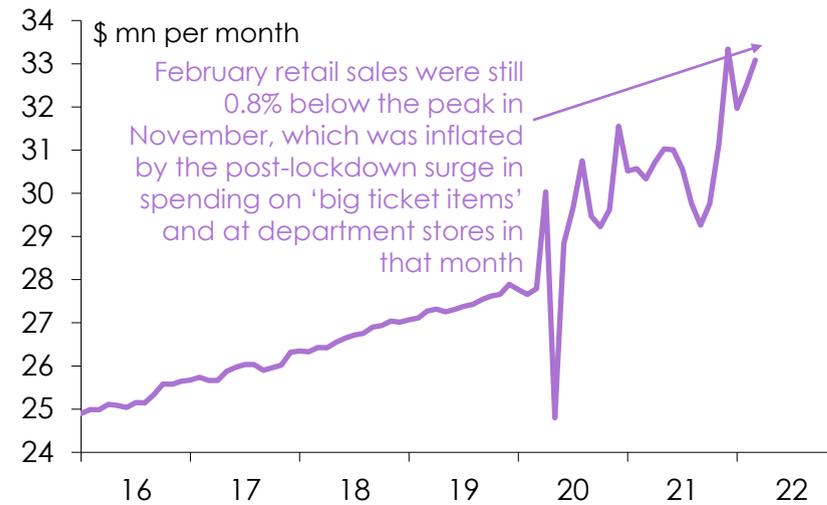
# Motor vehicle sales rose 6.3% in March, the third consecutive increase

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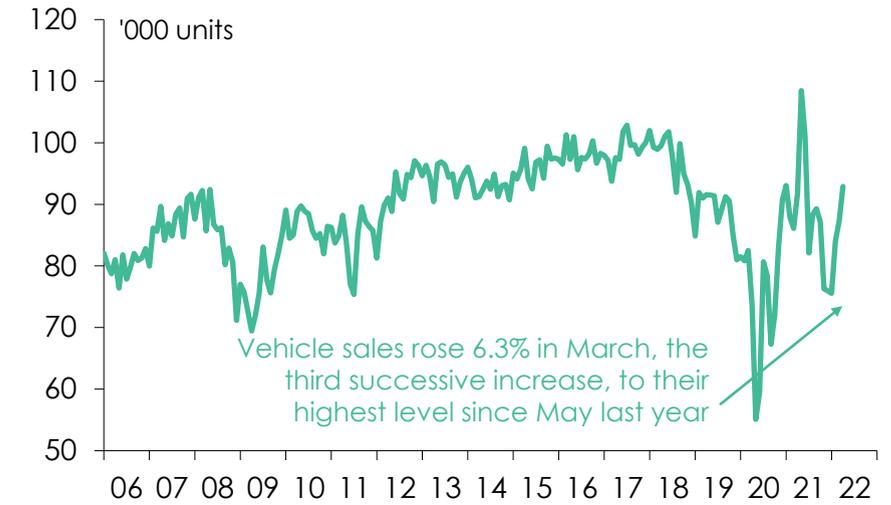
## Monthly retail sales



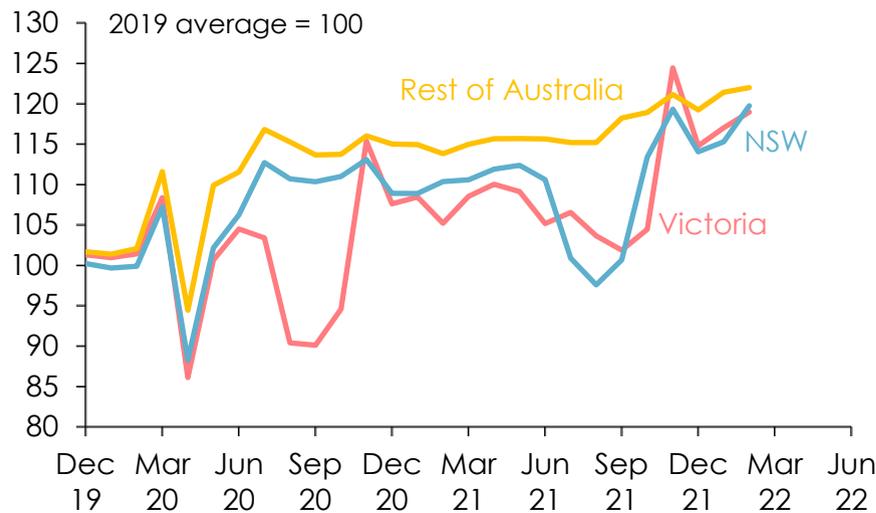
## Level of retail sales



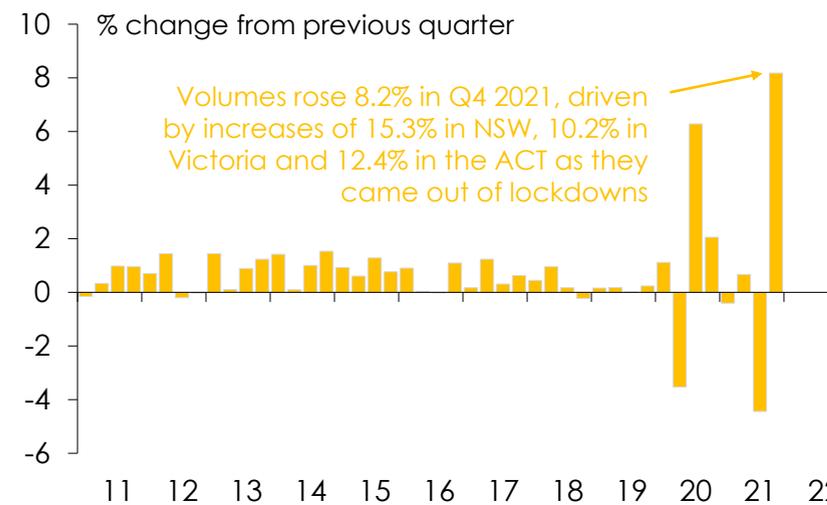
## New motor vehicle sales



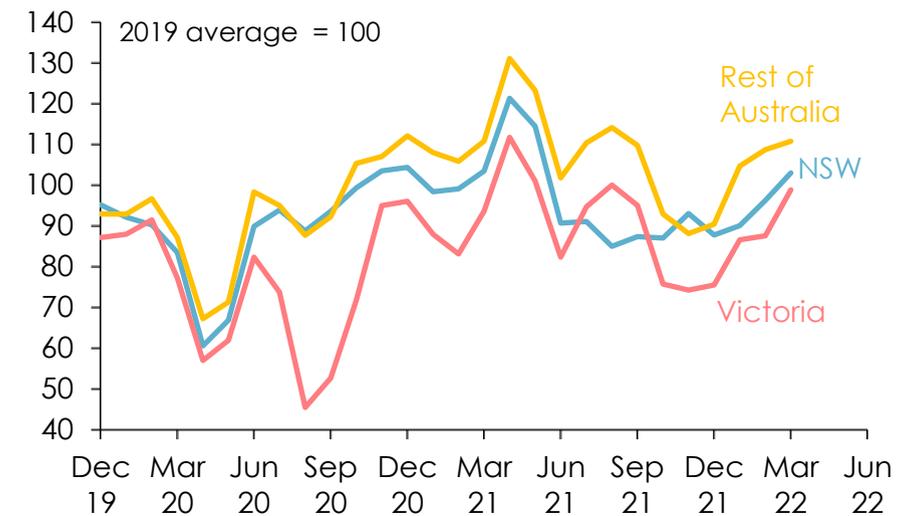
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



## Vehicle sales – NSW, Vic & the rest

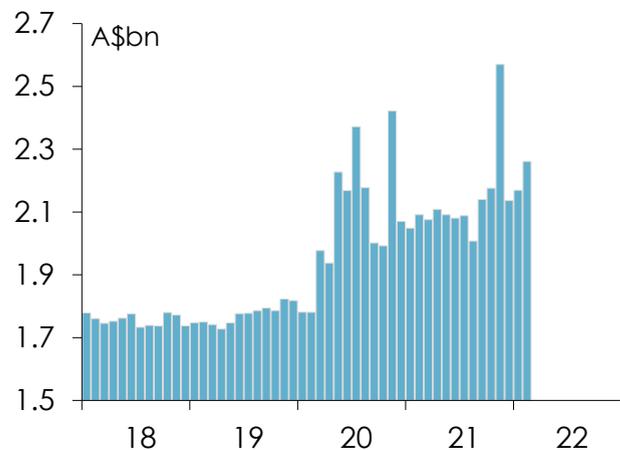


Note: see also [slide 41](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary February retail sales data will be released on 29<sup>th</sup> March; April motor vehicle sales data will be released in the second week of May. [Return to "What's New"](#).

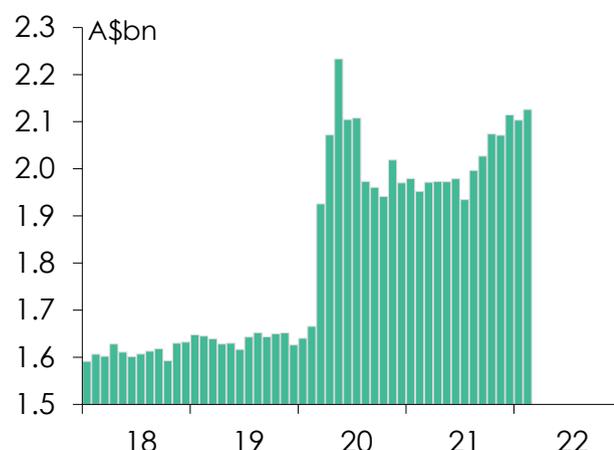
# Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

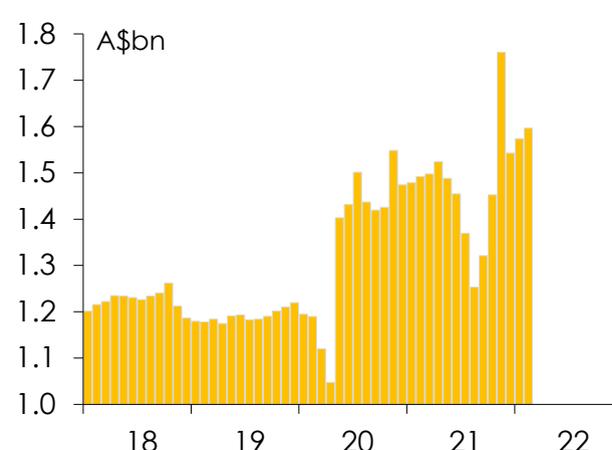
**Electronic & electrical goods**



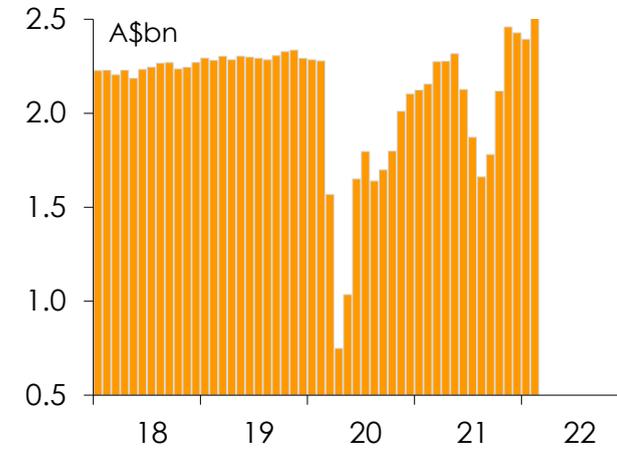
**Hardware, building & garden supplies**



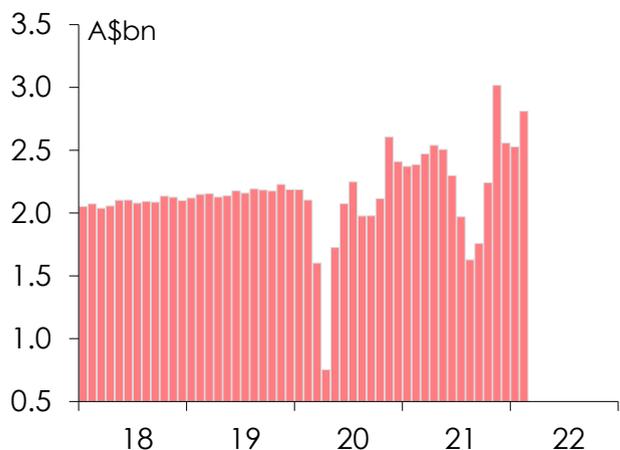
**Floor coverings, furniture, housewares etc**



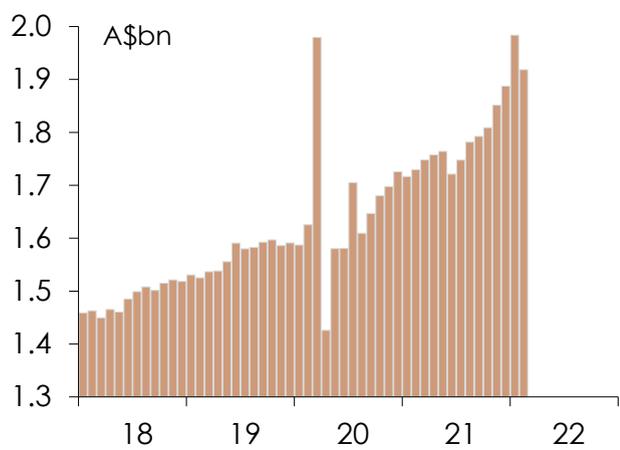
**Cafes and restaurants**



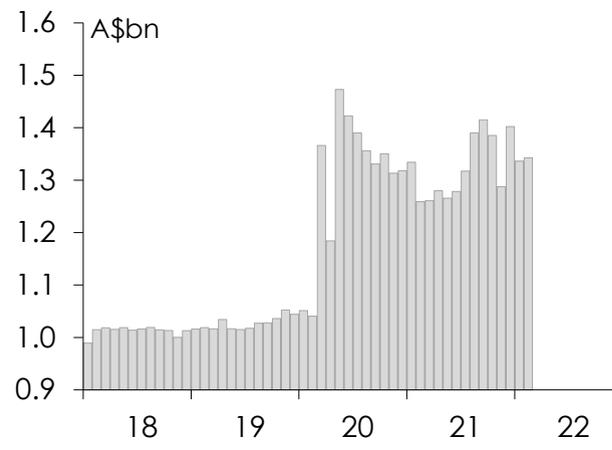
**Clothing, footwear & personal accessories**



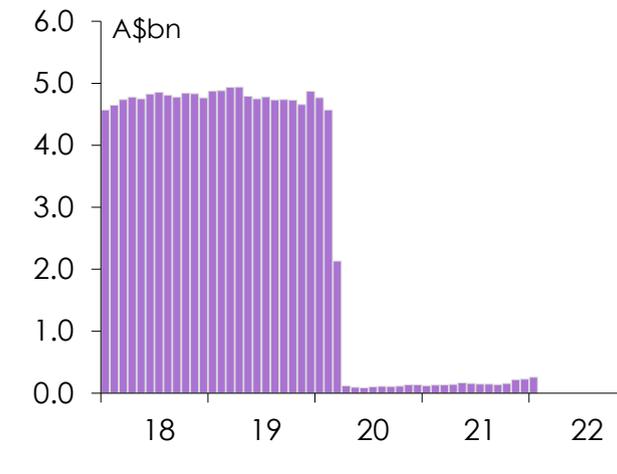
**Pharmaceuticals, cosmetics & toiletries**



**Alcoholic beverages**



**Overseas travel**

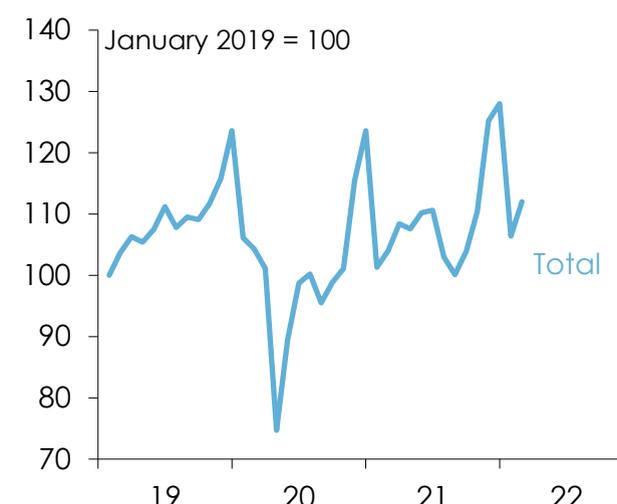
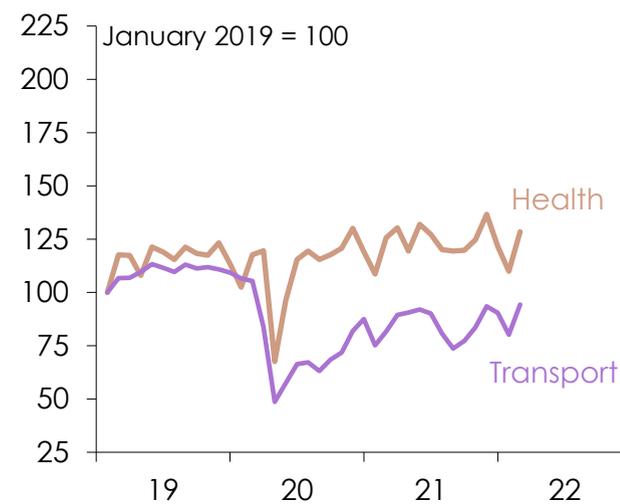
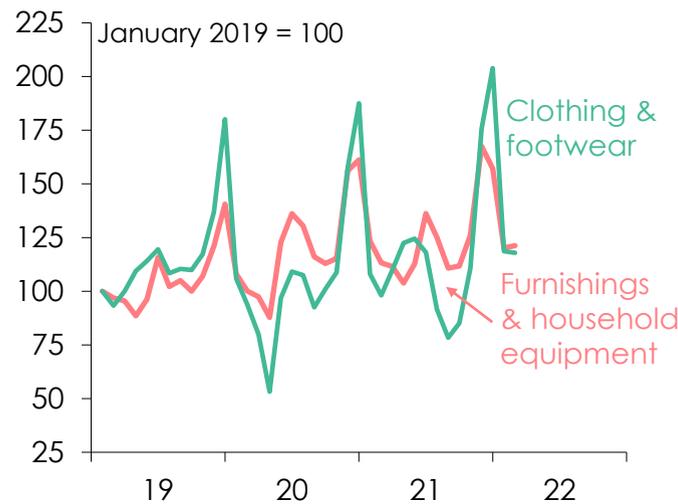
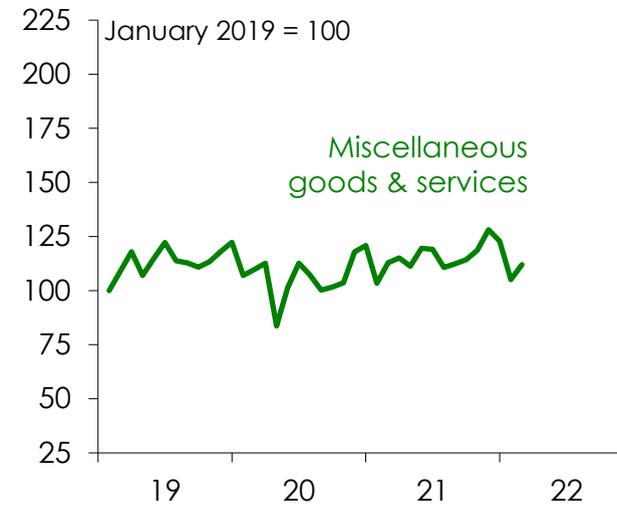
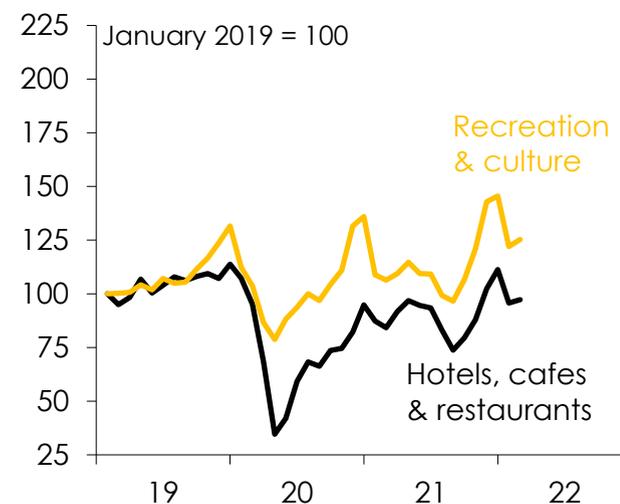
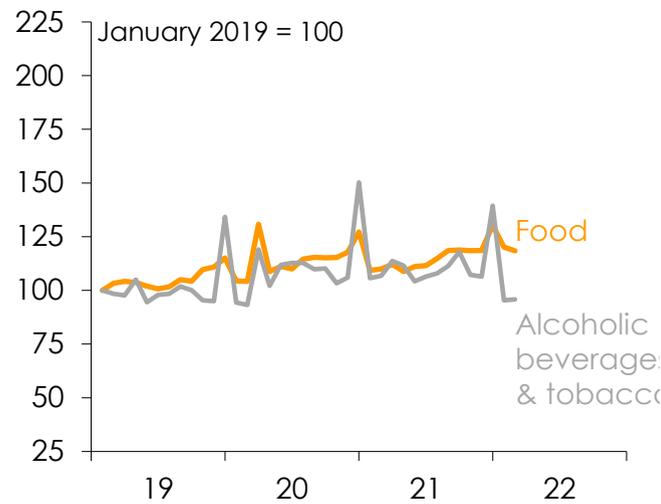


Sources: ABS, [Retail Trade, Australia](#), February 2022 (the detailed March data on which the above charts are based will be released on 10<sup>th</sup> May); and [International Trade in Goods and Services, Australia](#), January. [Return to "What's New"](#).

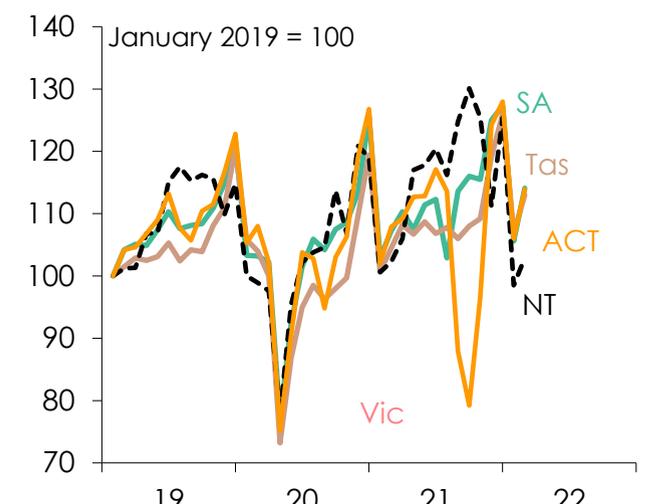
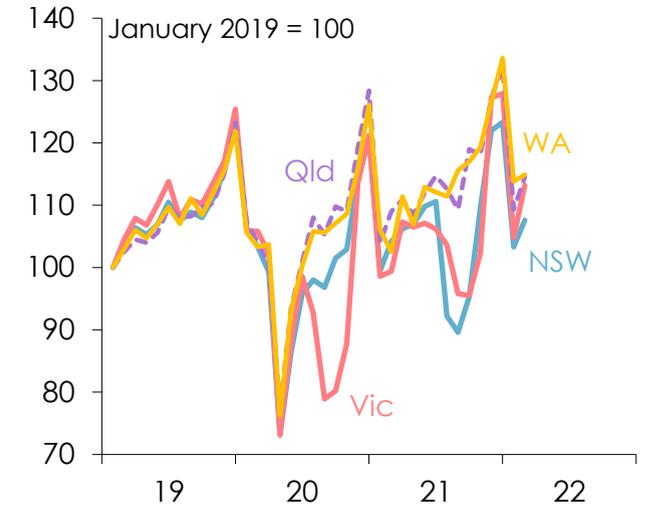
# Household spending (as measured by the new ABS indicator based on bank transactions data) was 7.7% higher in February than a year earlier

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

## Household spending by purpose



## By state & territory

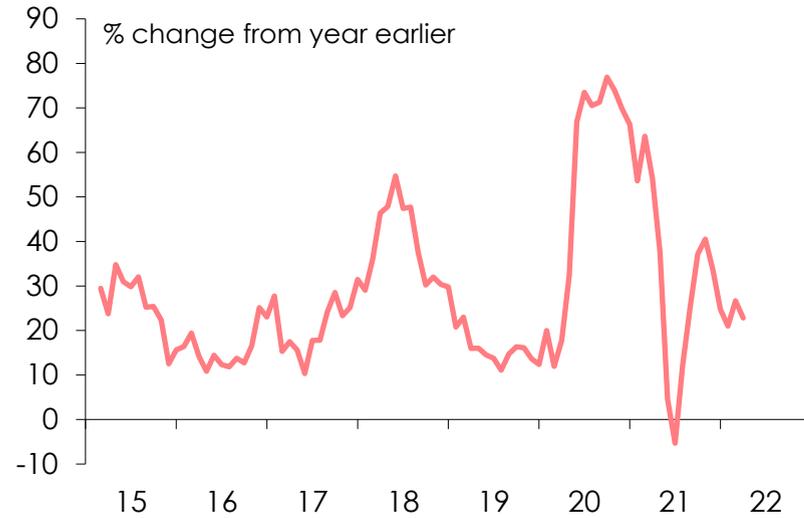


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, 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](#), February 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 23<sup>rd</sup> May.

# 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 – 22<sup>ND</sup> APRIL 2022

## Growth in online retail sales



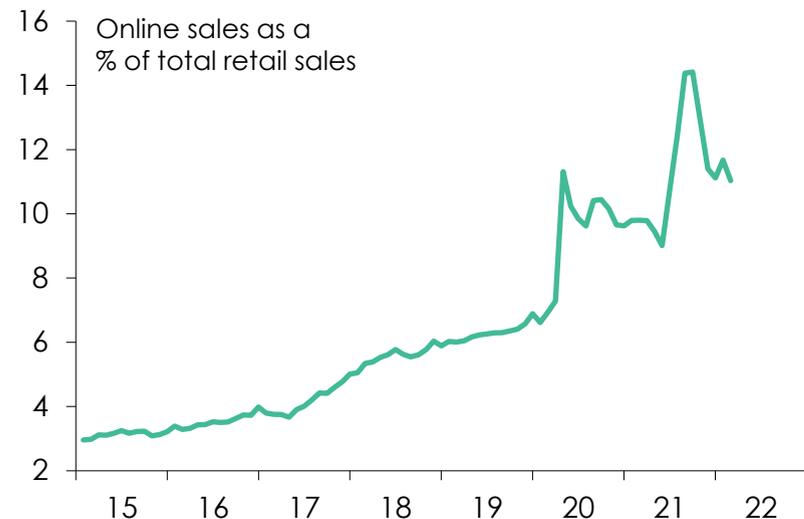
## ATM cash withdrawals



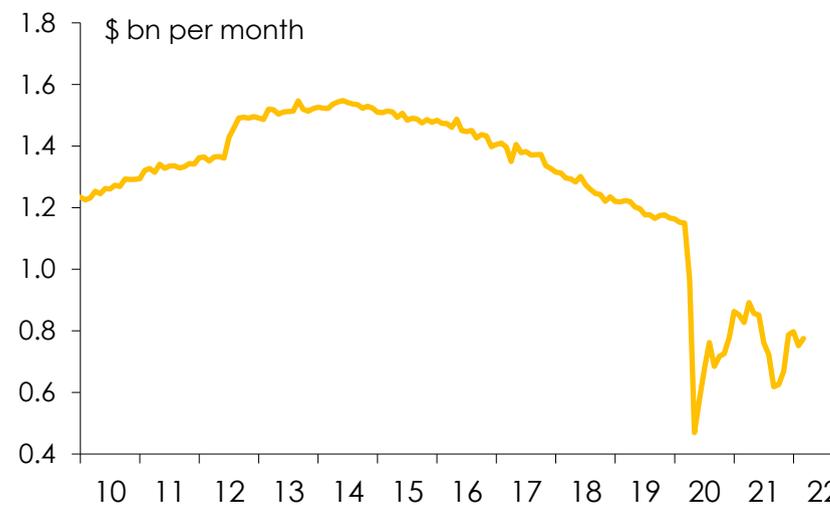
## Credit card cash advances



## Online retail 'market share'



## Debit card cash-outs



## Direct entry payments avg value



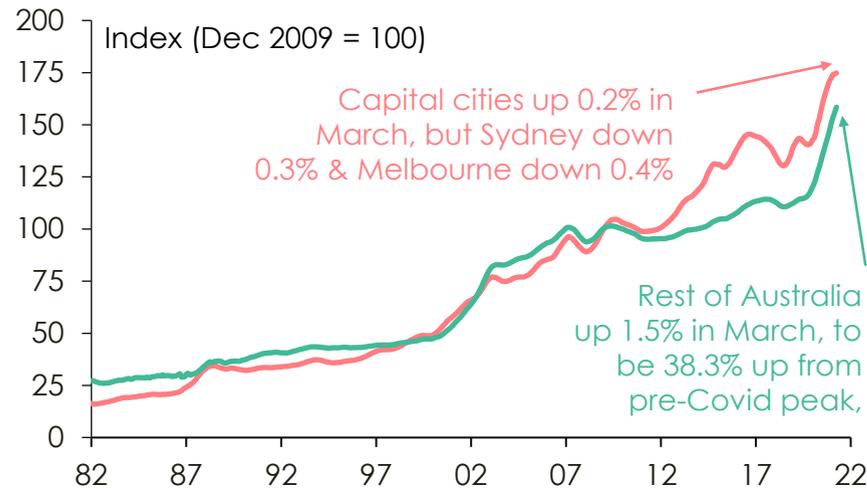
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales and payments system data are for February. March online retail sales data will be published on 10<sup>th</sup> May and March payments system data on 9<sup>th</sup> May. [Return to "What's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

# Housing and the residential property market

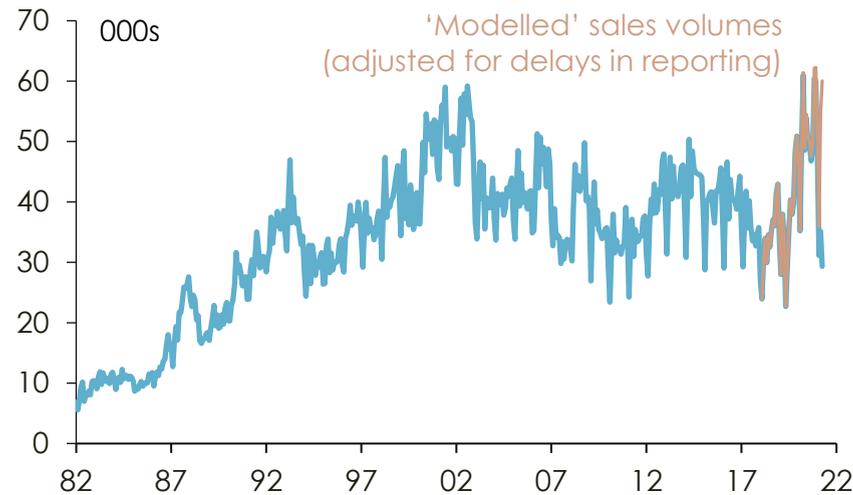
# Property prices rose 0.5% in March, with small falls in Sydney & Melbourne outweighed by large gains in Brisbane, Adelaide and regional cities

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

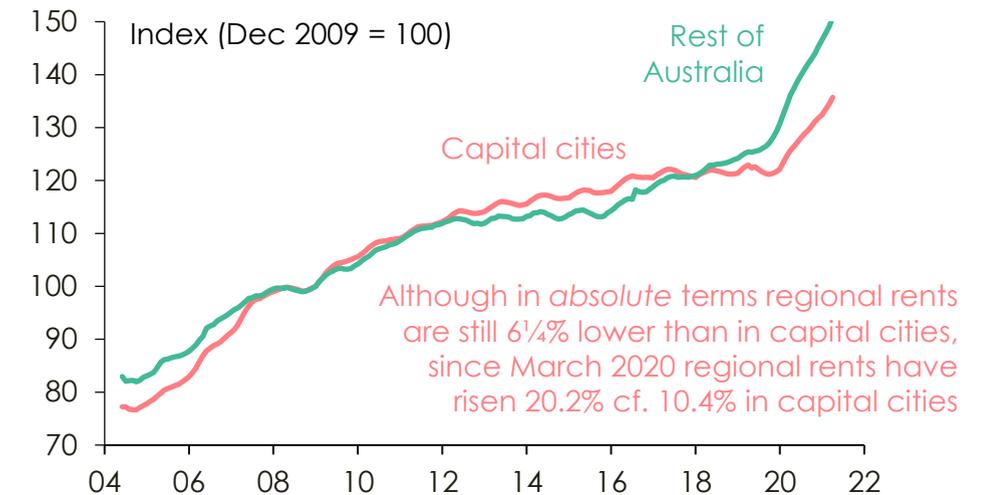
## Residential property prices



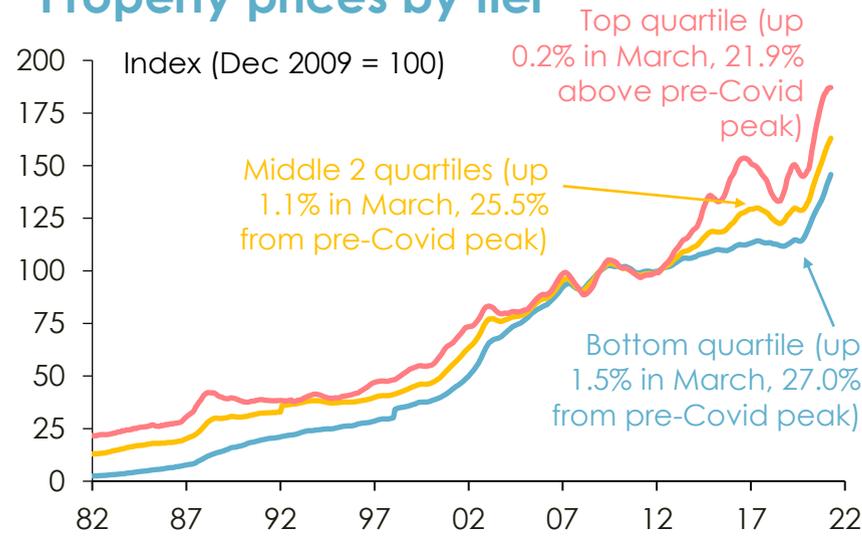
## Residential property sales volumes



## Residential rents



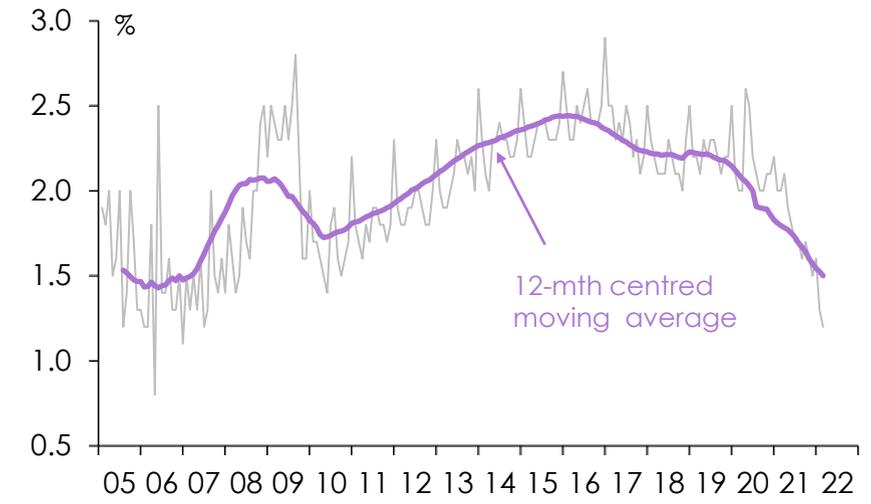
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

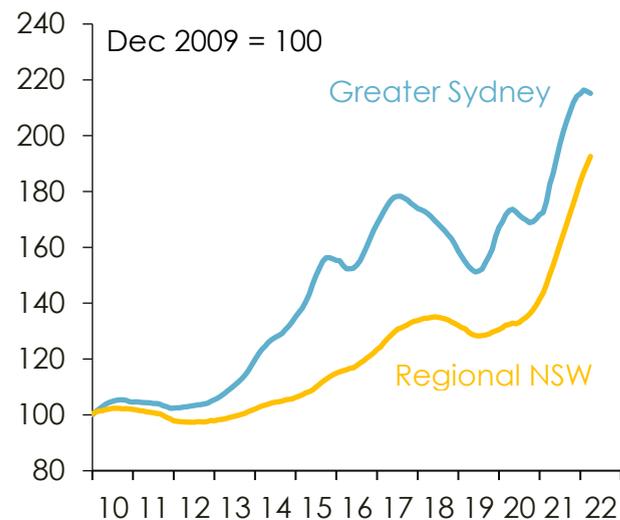


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of 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 2<sup>nd</sup> May. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

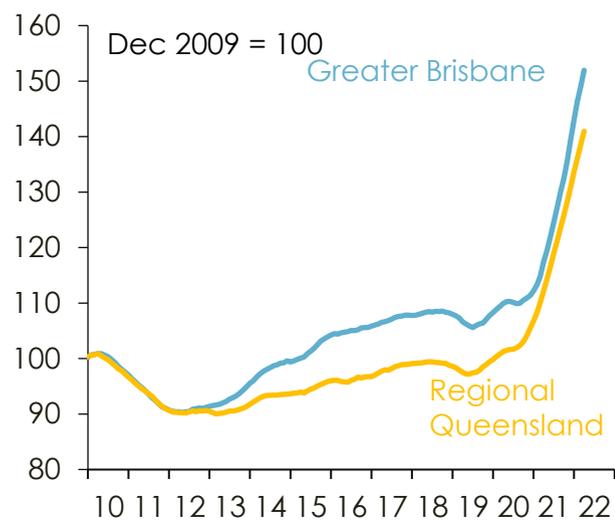
# Melbourne prices fell in March for the 4<sup>th</sup> month in a row, and in Sydney for the first time since September 2020 – but they're still rising everywhere else

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

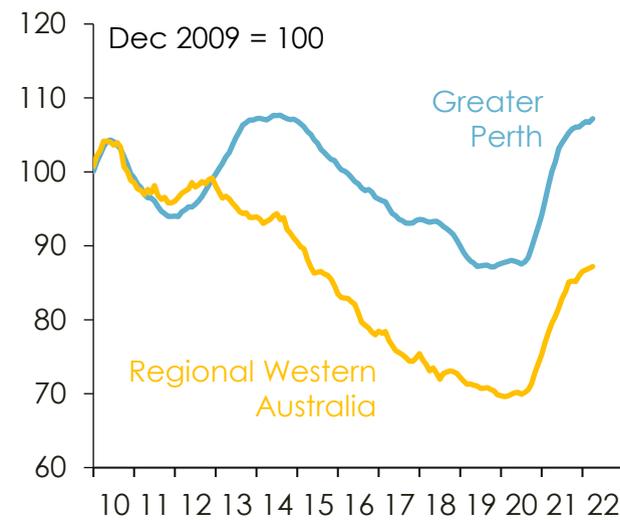
## New South Wales



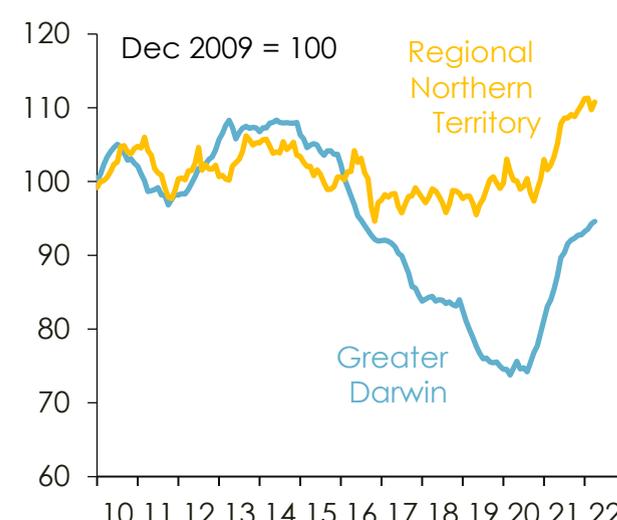
## Queensland



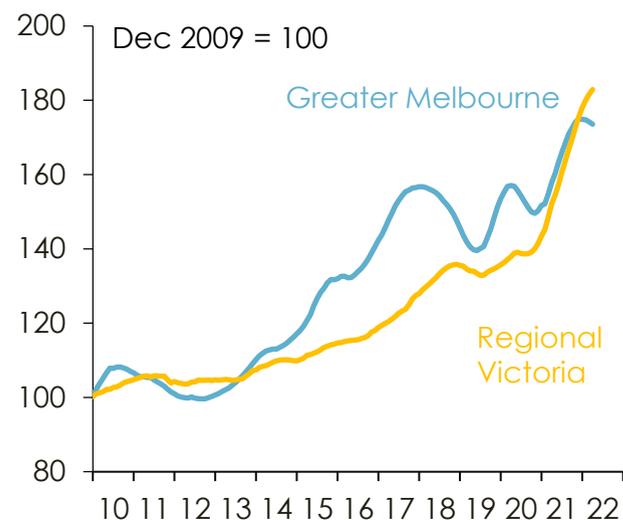
## Western Australia



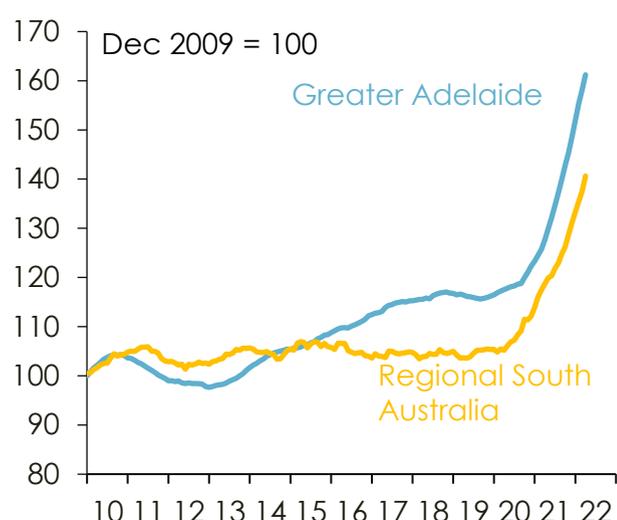
## Northern Territory



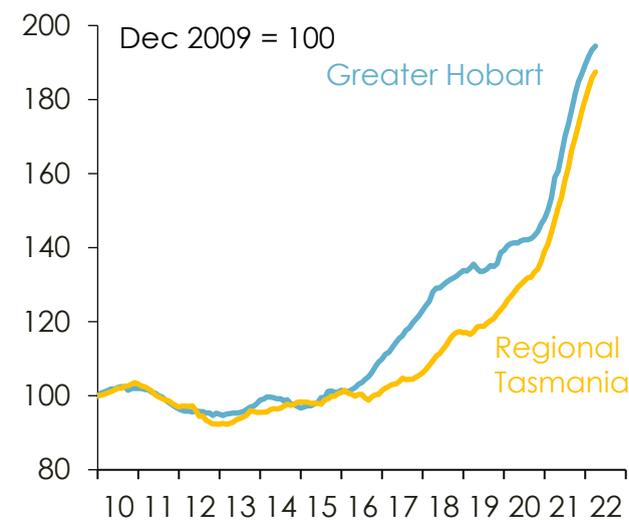
## Victoria



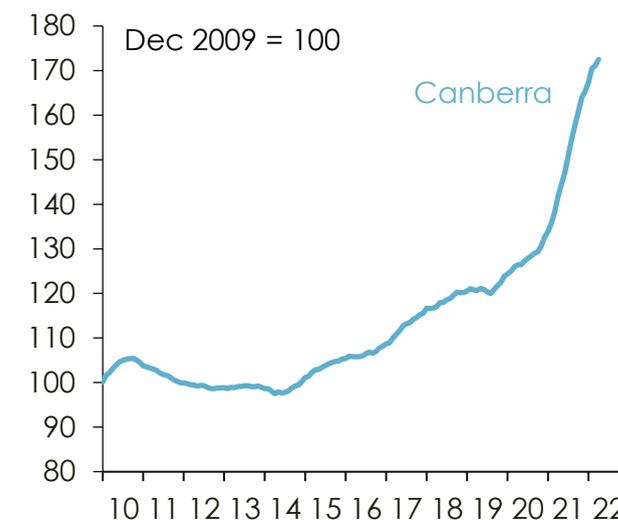
## South Australia



## Tasmania



## Australian Capital Territory

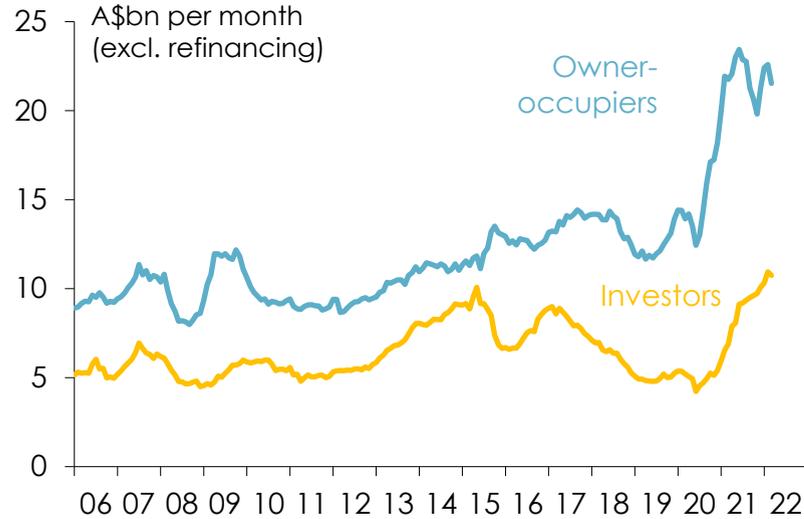


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

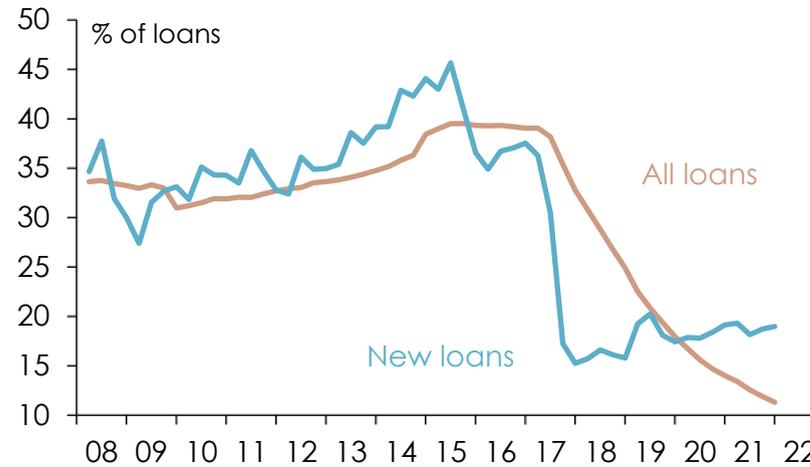
# Housing finance commitments fell 3.7% in February, the first decline in four months, with lending to FHBs down 9.7% to its lowest level since July 2020

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

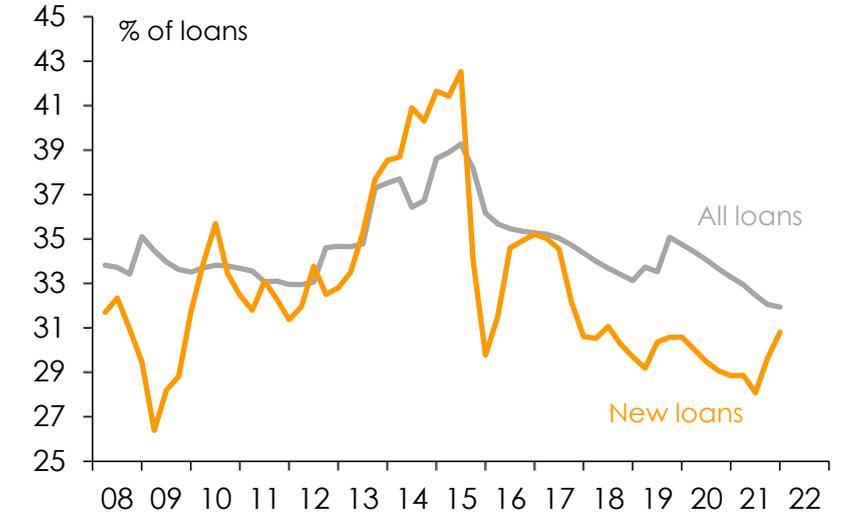
## Housing finance commitments



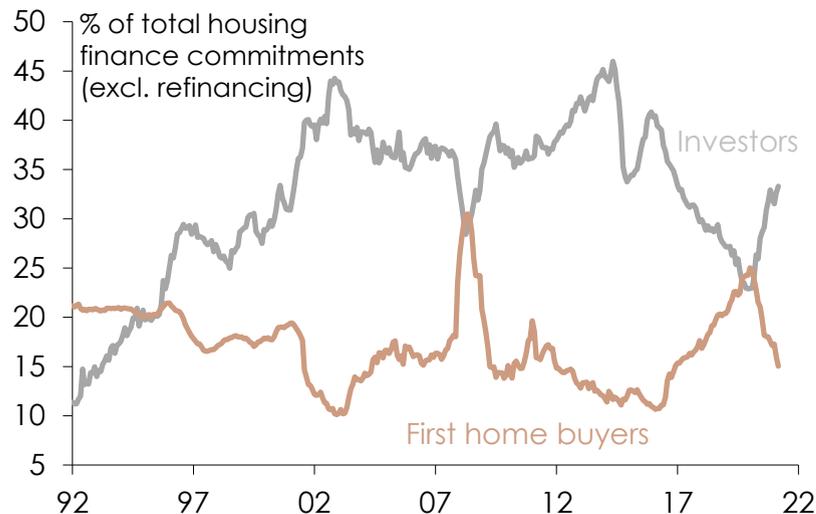
## Interest-only loans



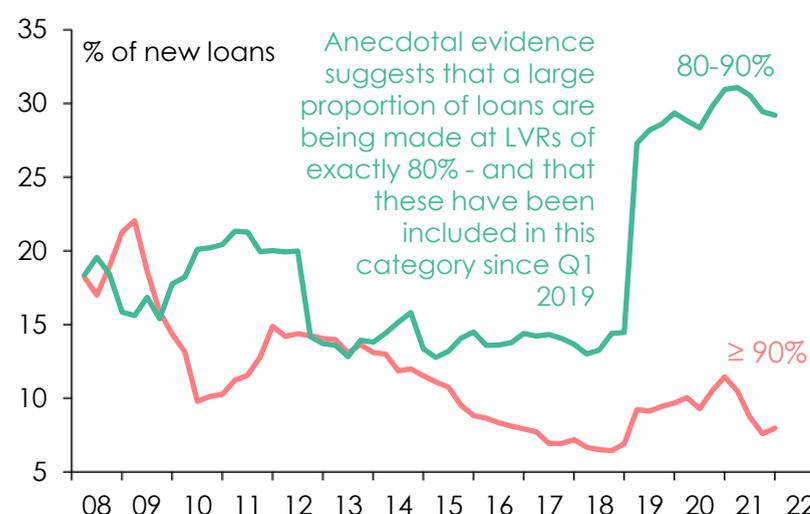
## Loans to investors as a pc of total



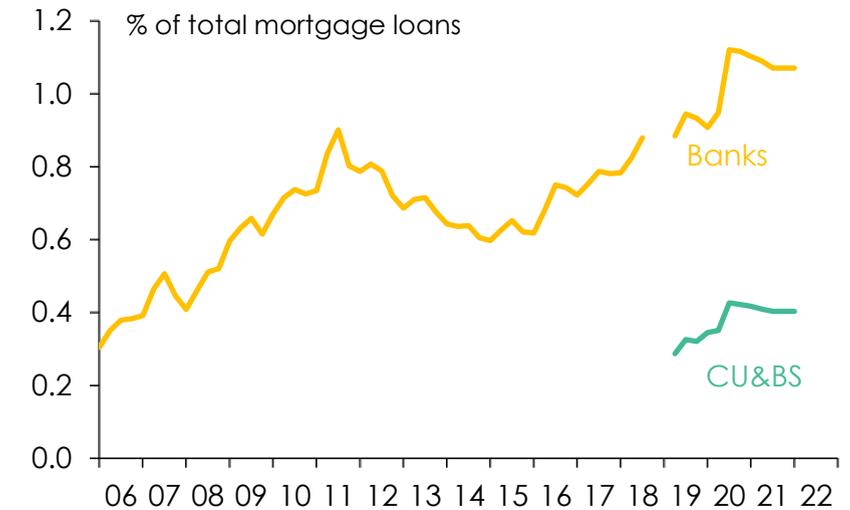
## Shares of housing finance



## High LVR loans as a pc of total



## Non-performing mortgage loans

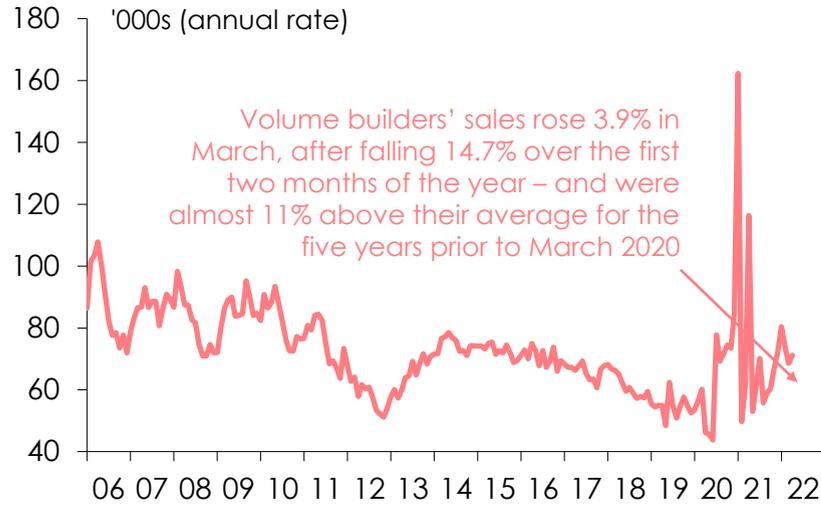


Sources: ABS, [Lending Indicators](#), February; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). March housing finance data will be released on 4<sup>th</sup> May; APRA data on ADI property exposures for the March quarter will be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

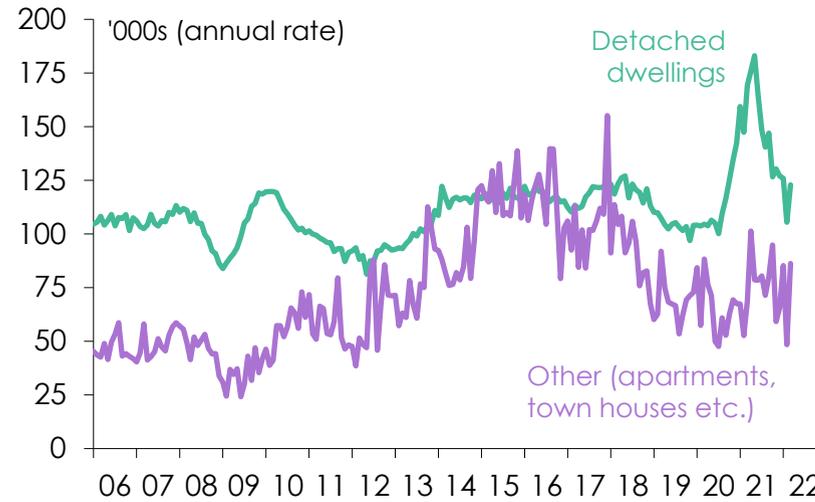
# Residential building approvals rebounded 43.5% in February, more than reversing January's 27.1% plunge: looks like a seasonal adjustment problem

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

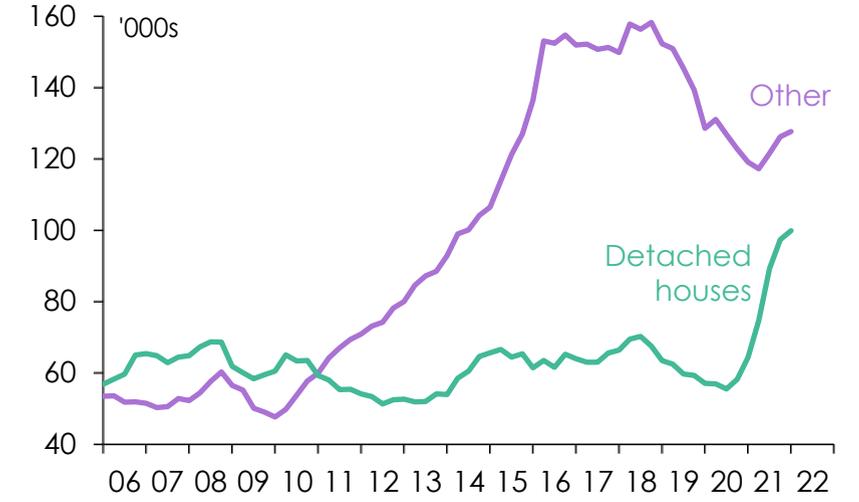
## Large builders' new home sales



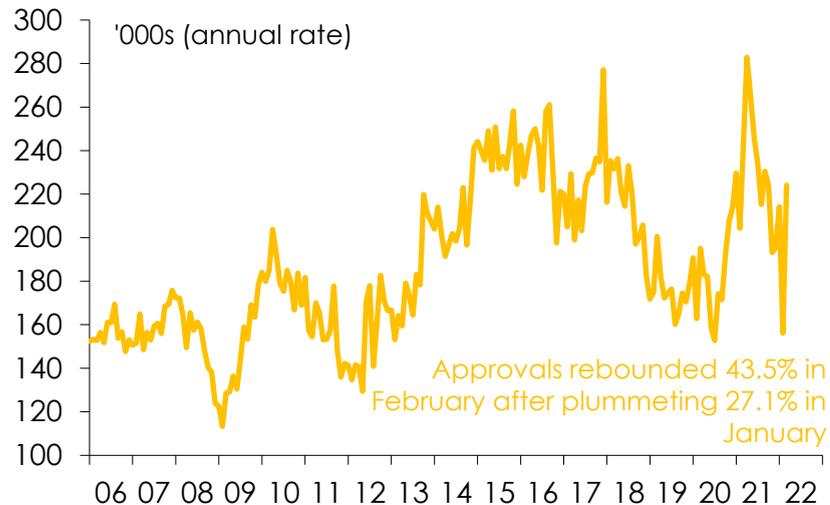
## Building approvals, by type



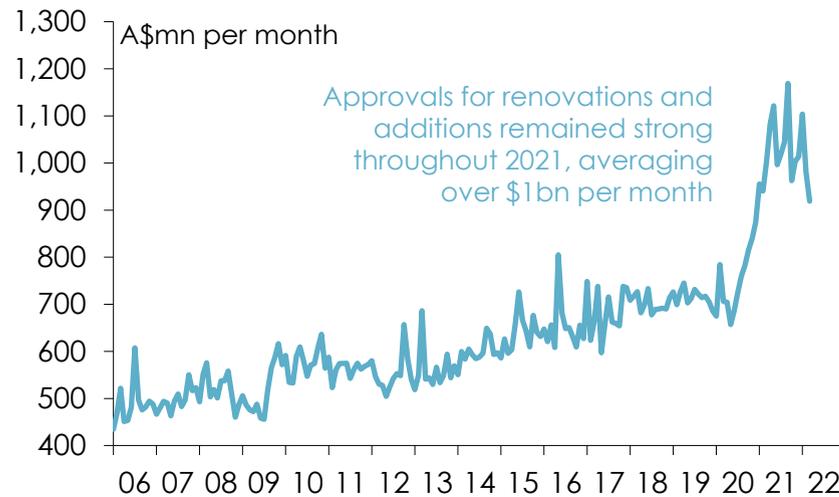
## Dwellings under construction



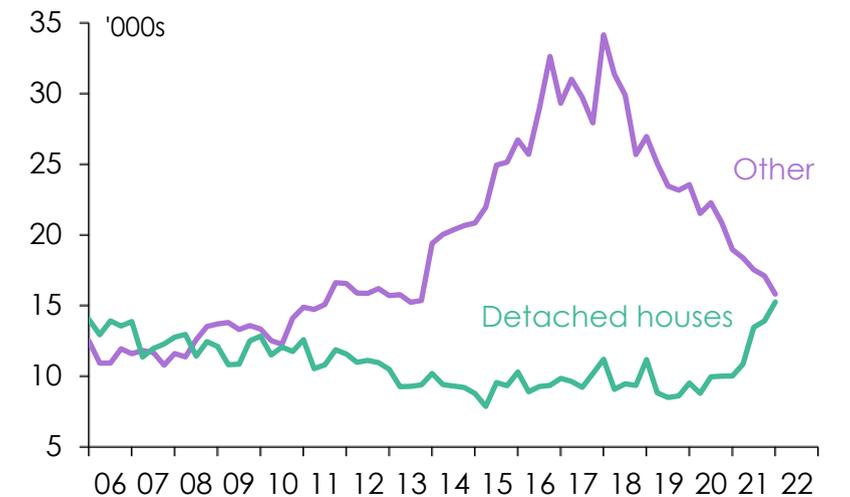
## Residential building approvals



## Alterations & additions approved



## 'Pipeline' of work yet to be started

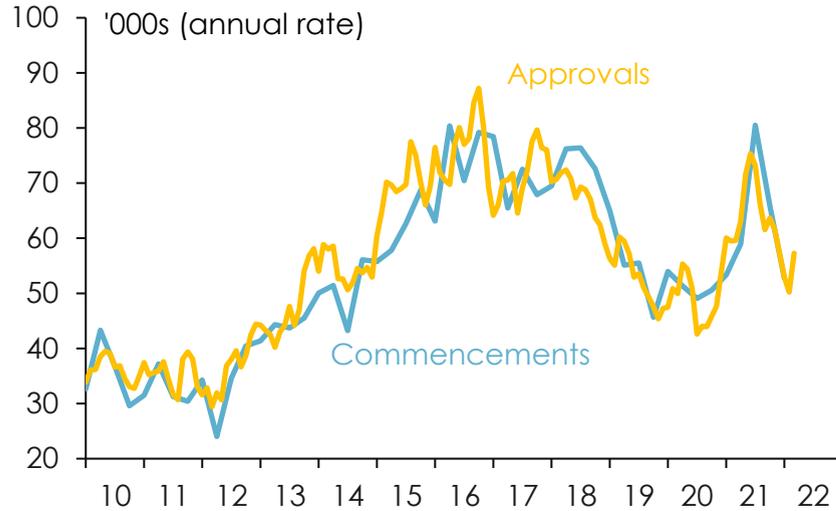


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. March building approvals data will be released on 5<sup>th</sup> May; March quarter dwellings under construction and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

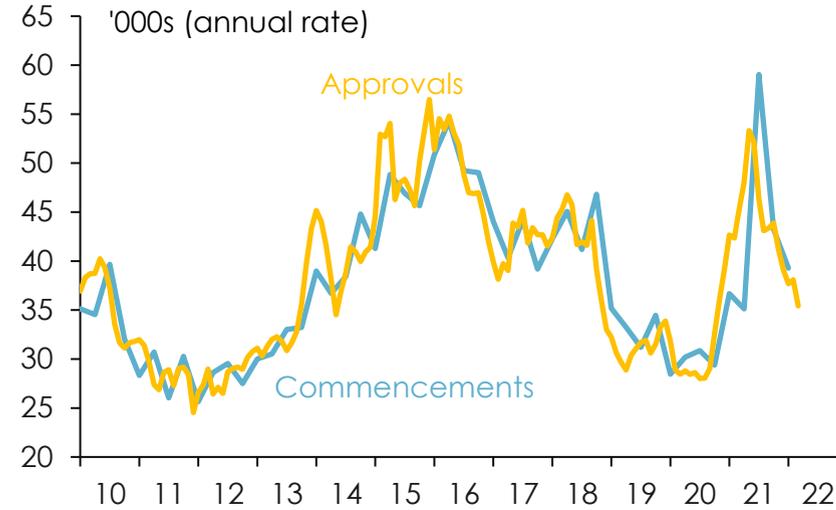
# Residential building approvals rose strongly in February in every state except Queensland (where they rose rather than fell in January)

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

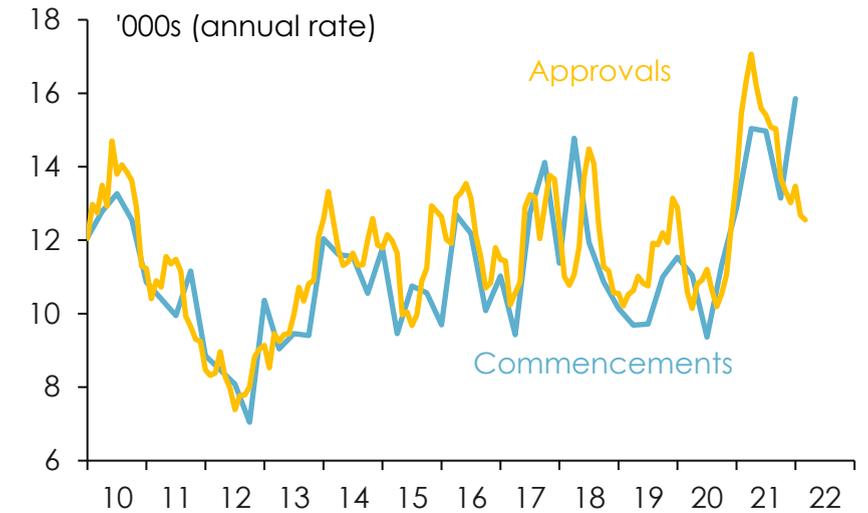
## New South Wales



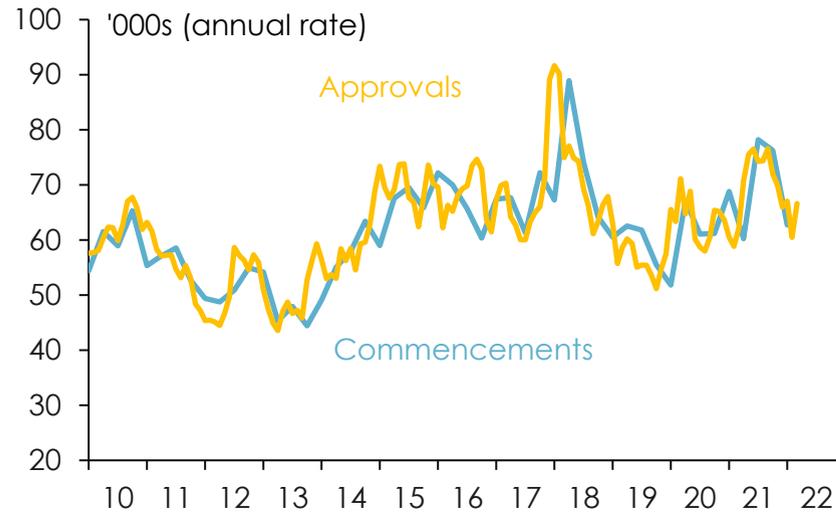
## Queensland



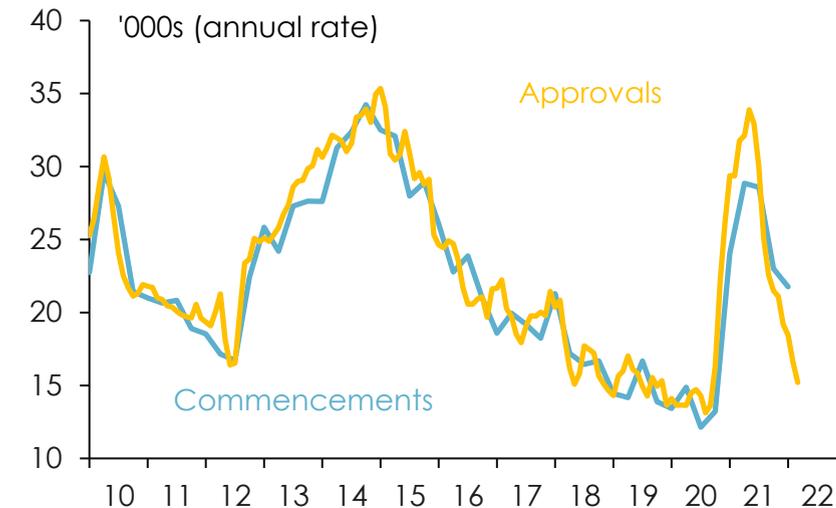
## South Australia



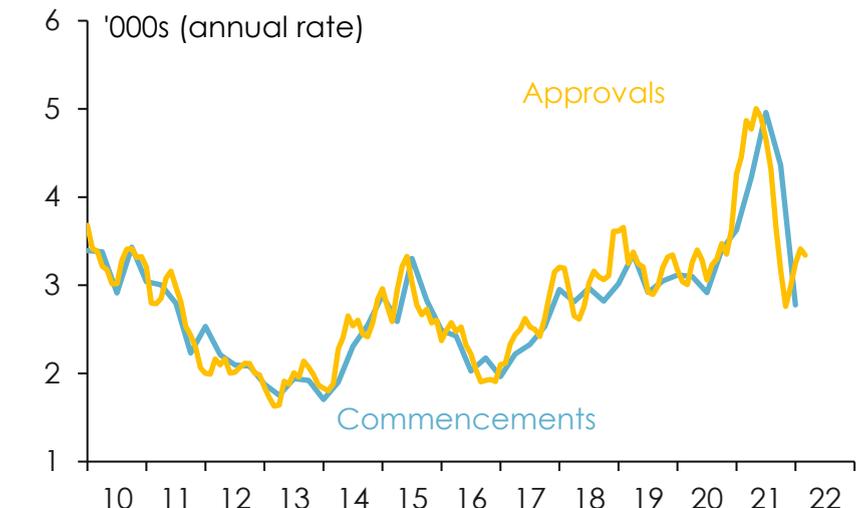
## Victoria



## Western Australia



## Tasmania



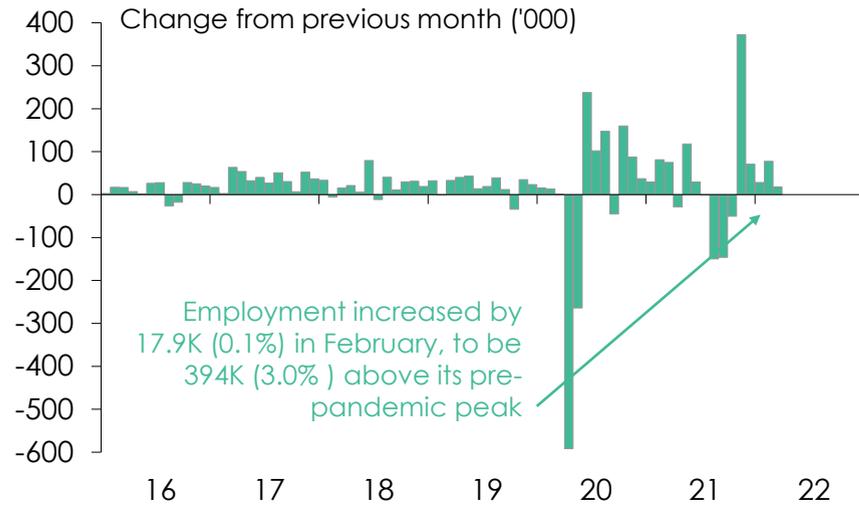
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly (and the most recent data is for the September quarter last year). Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to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

# The labour market

# Employment rose another 0.1% in March, and the unemployment rate fell 0.1% to 3.95%, the lowest it has been since August 1974

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

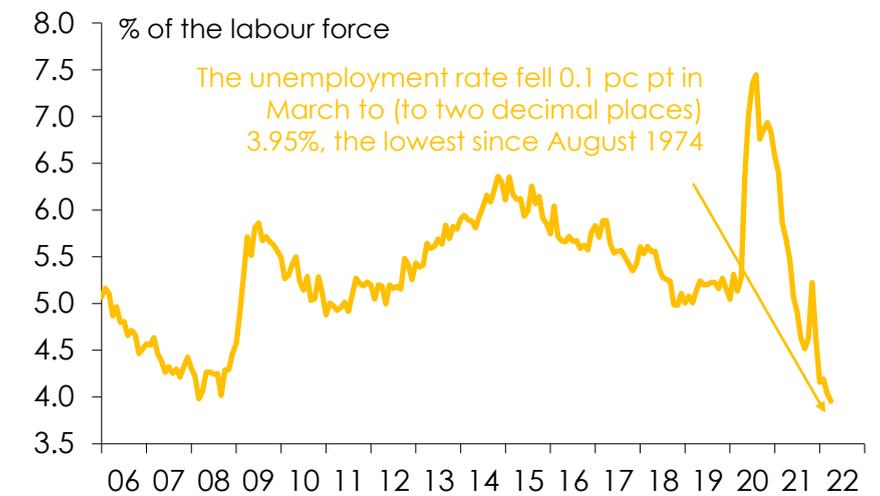
## Employment



## Labour force participation rate



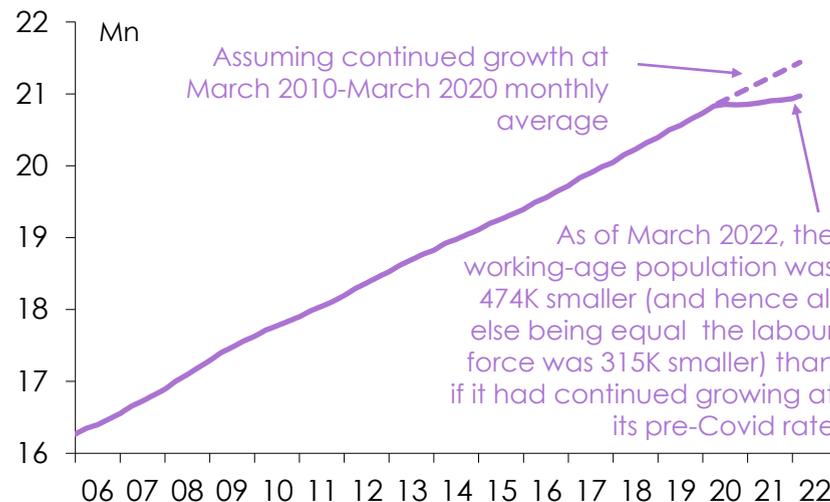
## Unemployment rate



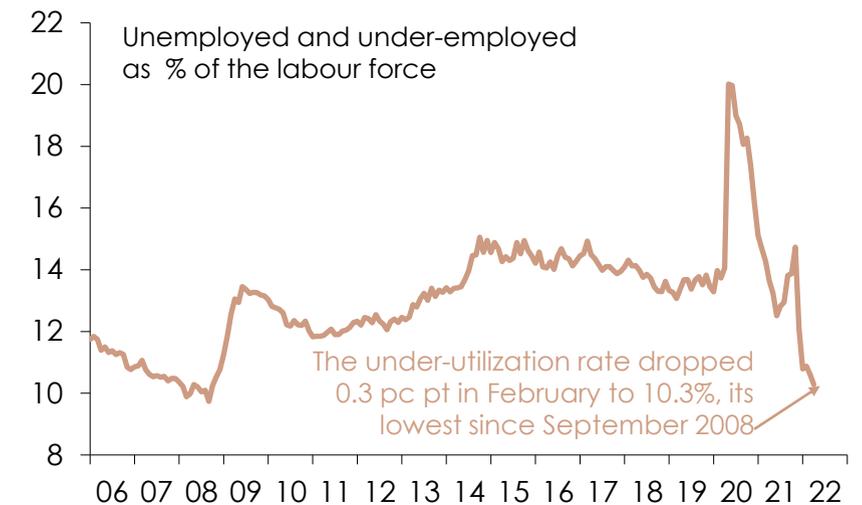
## Total hours worked



## Civilian working-age population



## 'Under-utilization' rate

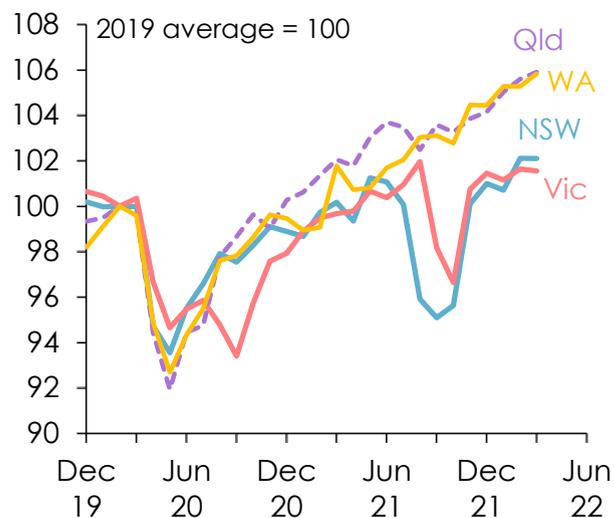


Source: ABS, [Labour Force, Australia](#), March. March data will be released on 19<sup>th</sup> May. [Return to "What's New"](#).

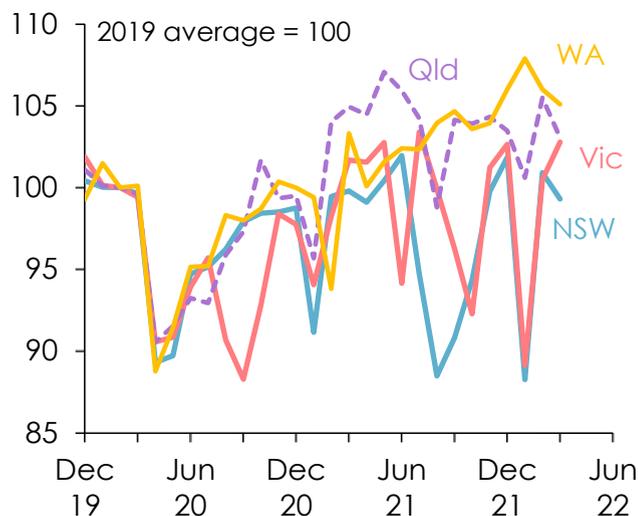
# 75% of February's job gains were in NSW, where unemployment fell to a record low of 3.7% - unemployment also below 4% in Tasmania, NT and ACT

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

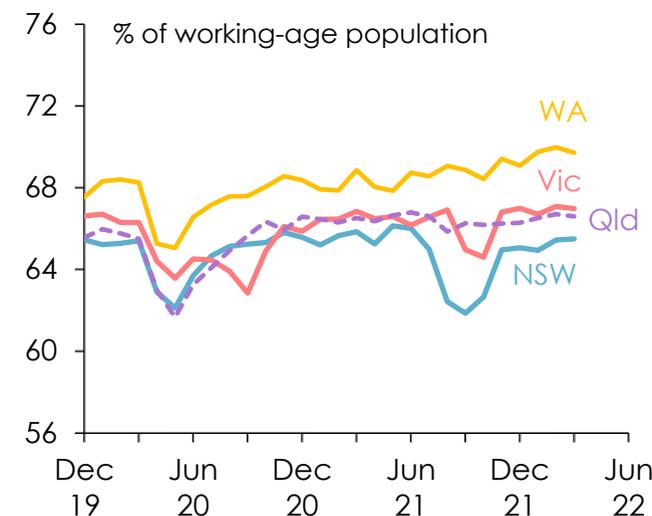
## Employment



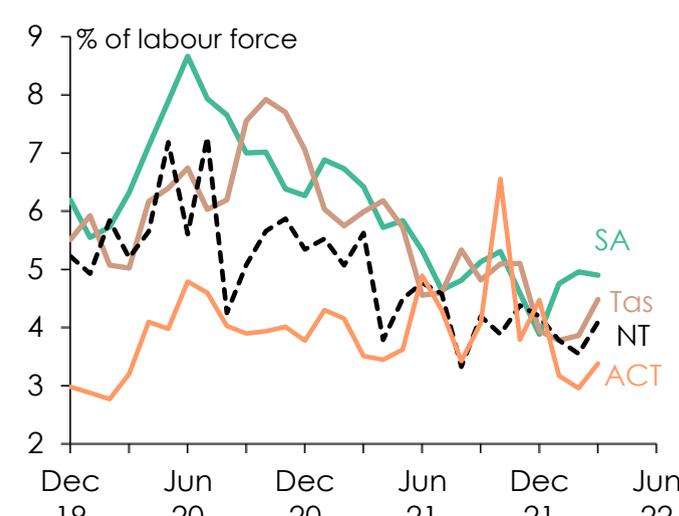
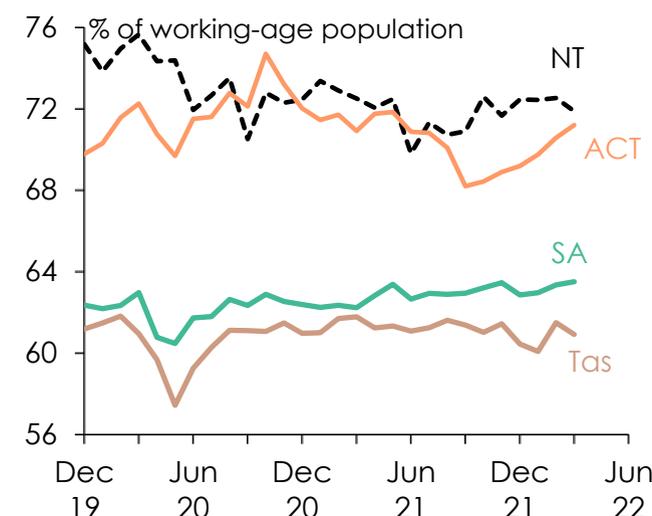
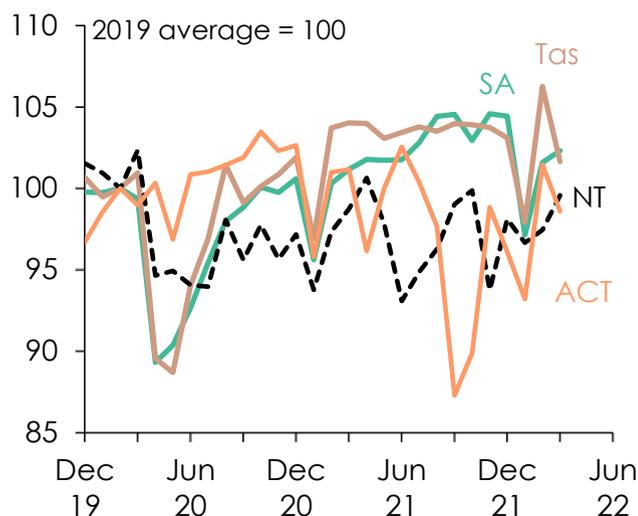
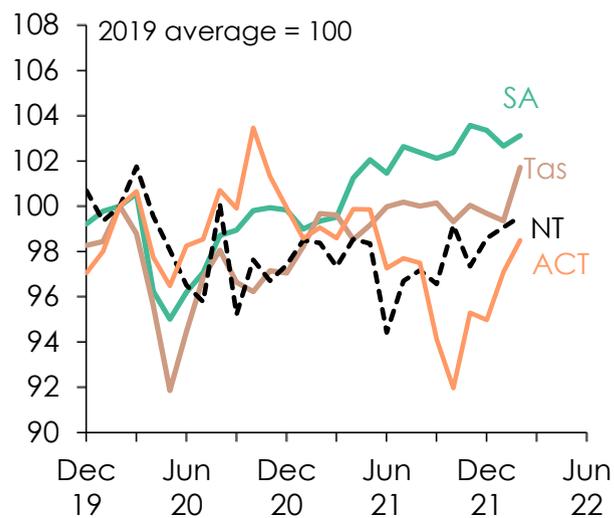
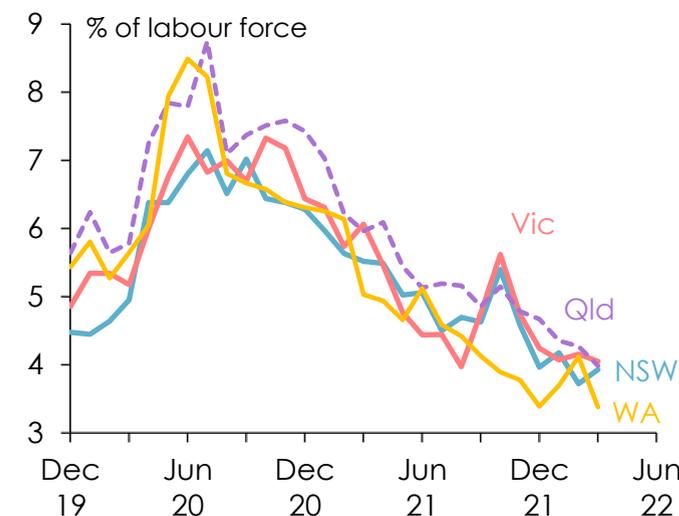
## Hours worked



## Participation rates



## Unemployment rates

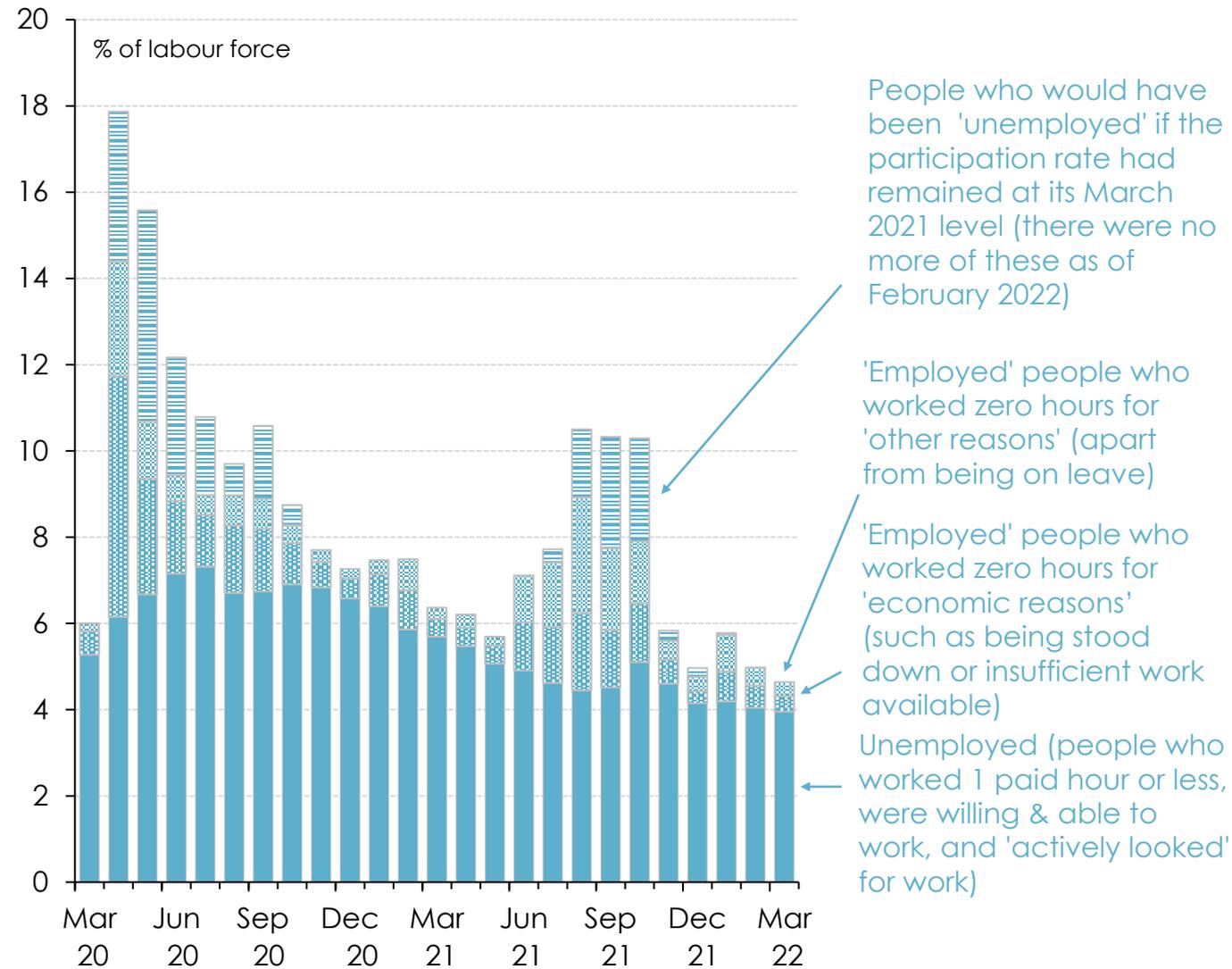


Source: ABS, [Labour Force, Australia](#), March. April data will be released on 19<sup>th</sup> May. [Return to "What's New"](#).

# The 'effective' unemployment rate fell to 4.6% in March from 5.0% in February and over 10% in August-October last year

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

## The 'effective' unemployment rate



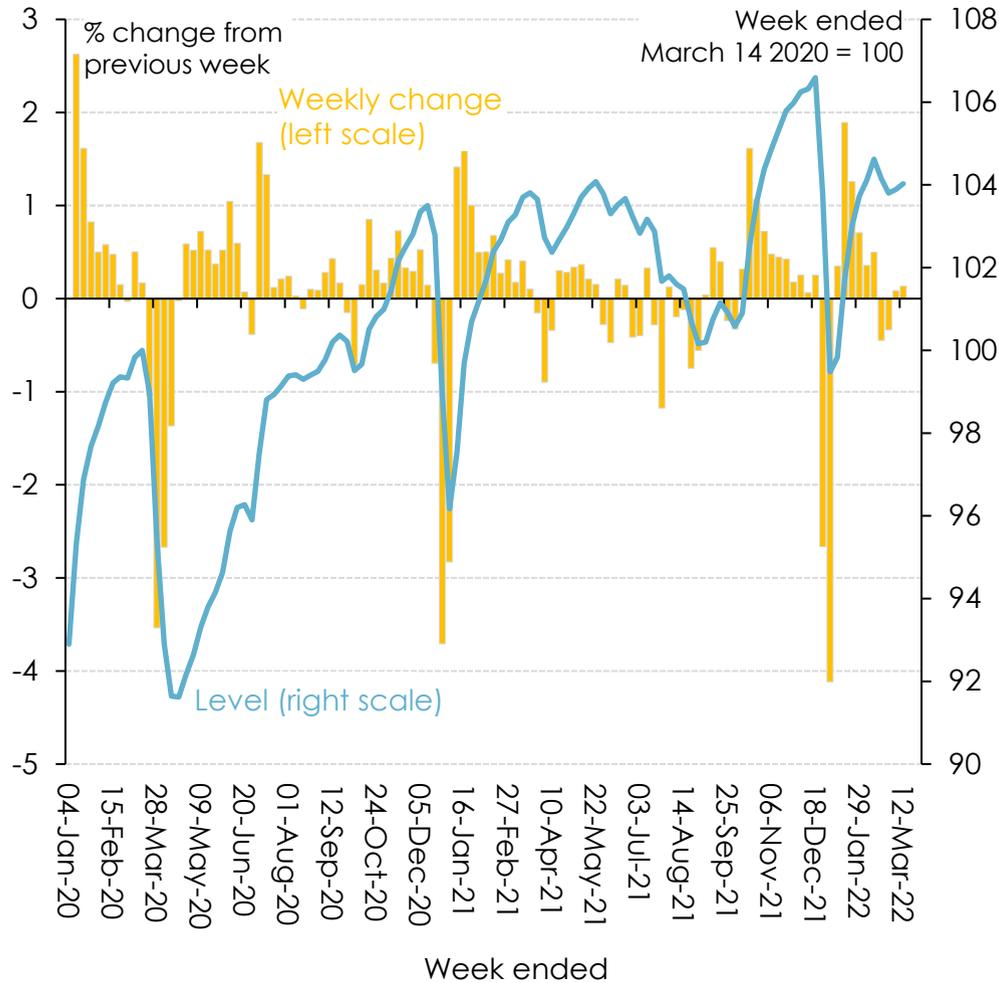
- ❑ 50K people were counted as 'employed' despite having worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') in February, down from 72K in February and 97K in January (and a most recent peak of 249K in August last year)
- ❑ There were another 46K people counted as 'employed' despite also working zero hours for reasons other than 'economic' ones, or having been on some form of leave, down from 59K in February and 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 and to 4.6% in March
- ❑ 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 is still about 90K above the average for the period since April 2020

Note: the data on people working zero hours is not seasonally adjusted.  
 Source: ABS, [Labour Force, Australia](#), March. April data will be released on 19<sup>th</sup> May.  
[Return to "What's New"](#).

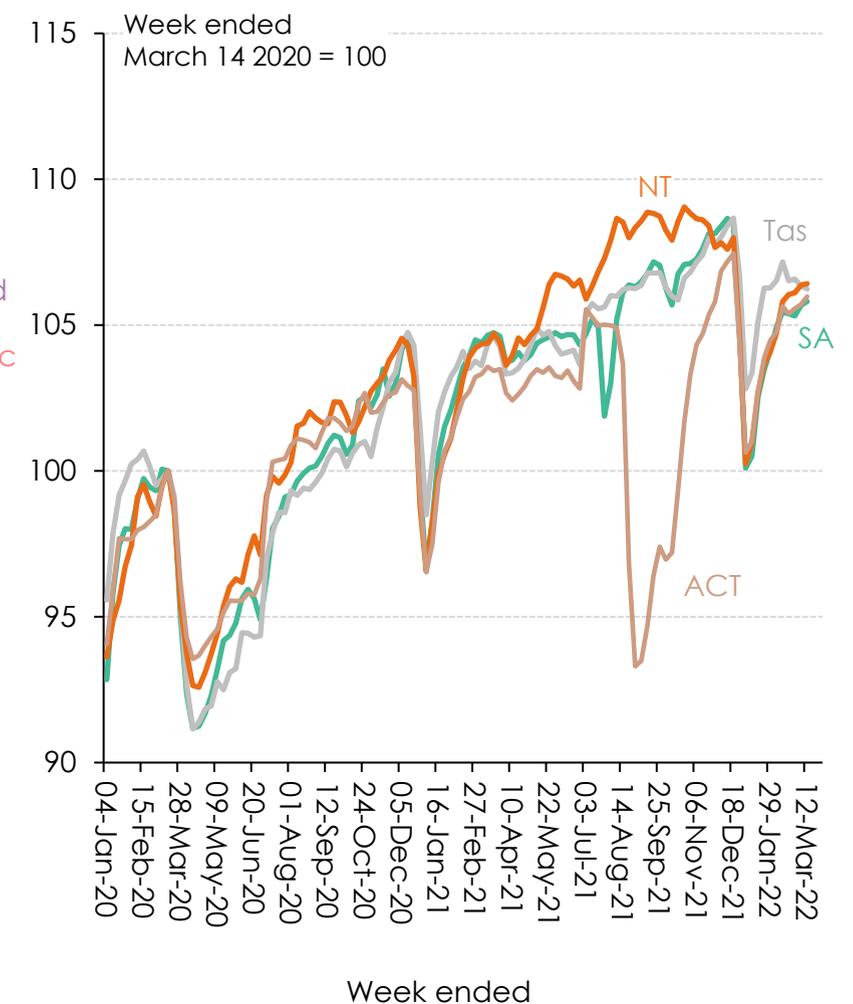
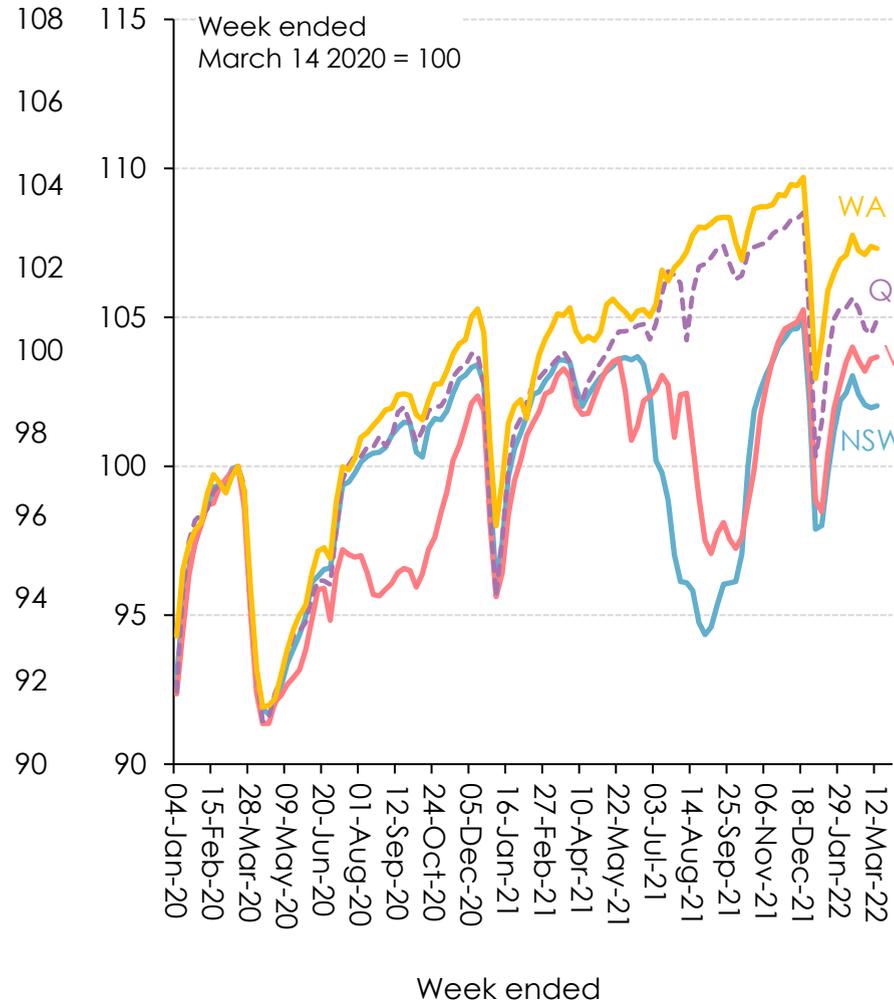
# Payroll jobs rose 0.2% over the first two weeks of March, after falling 0.8% over the last two weeks of February, to be 4% up on the pre-pandemic level

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

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



## Payroll jobs by State & Territory



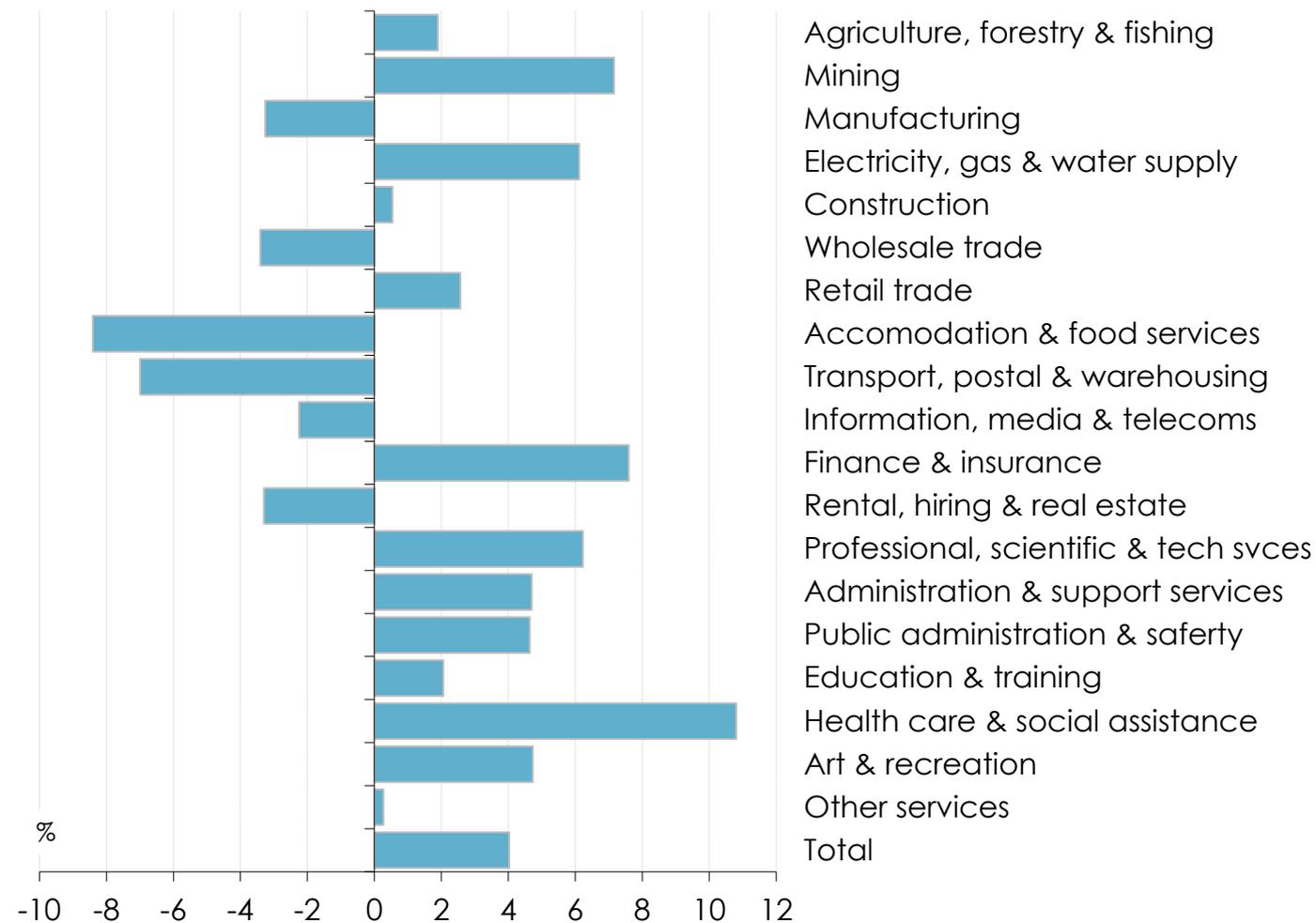
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

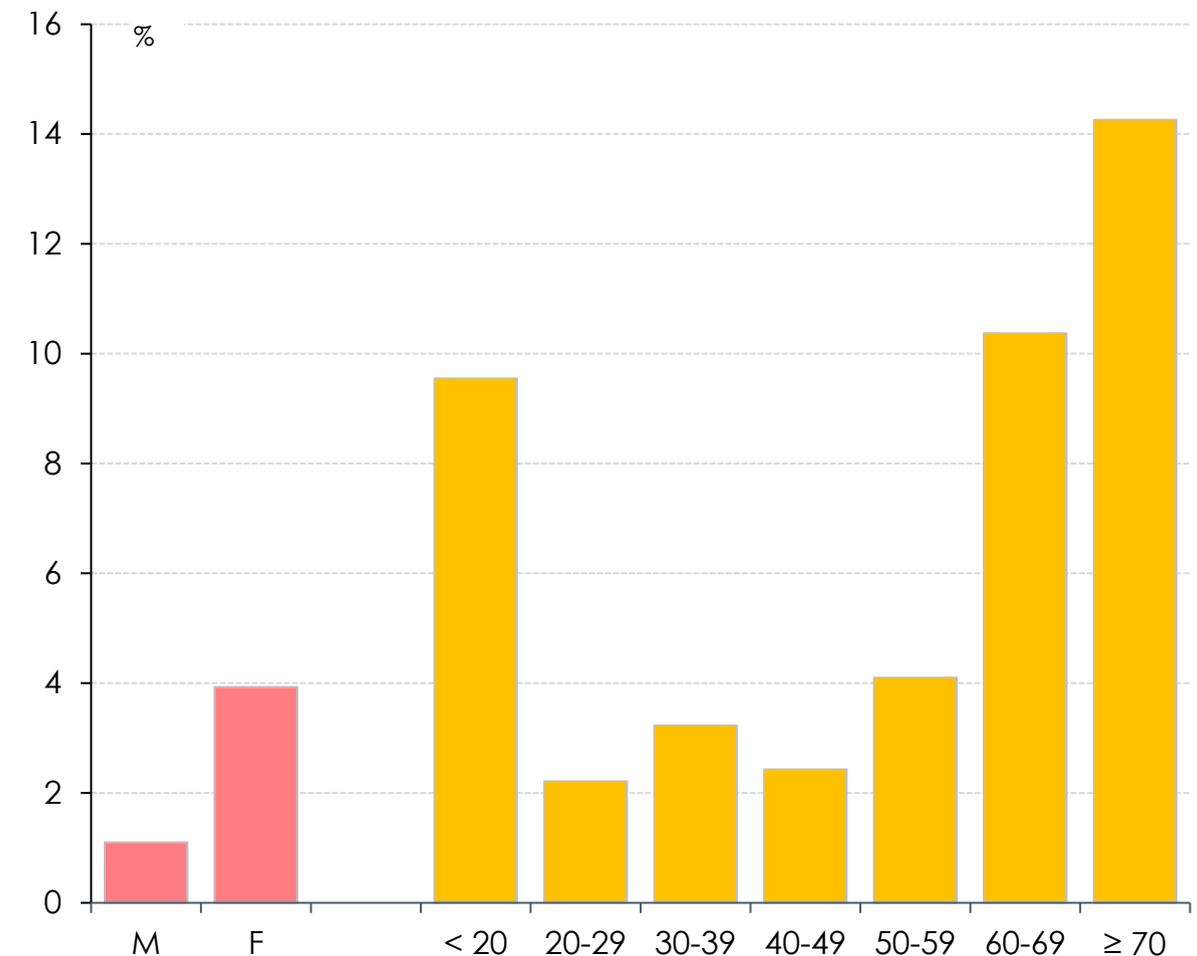
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## Net change in payroll jobs between week ended 14<sup>th</sup> March 2020 and week ended 12<sup>th</sup> March 2022

### By industry



### By gender and age

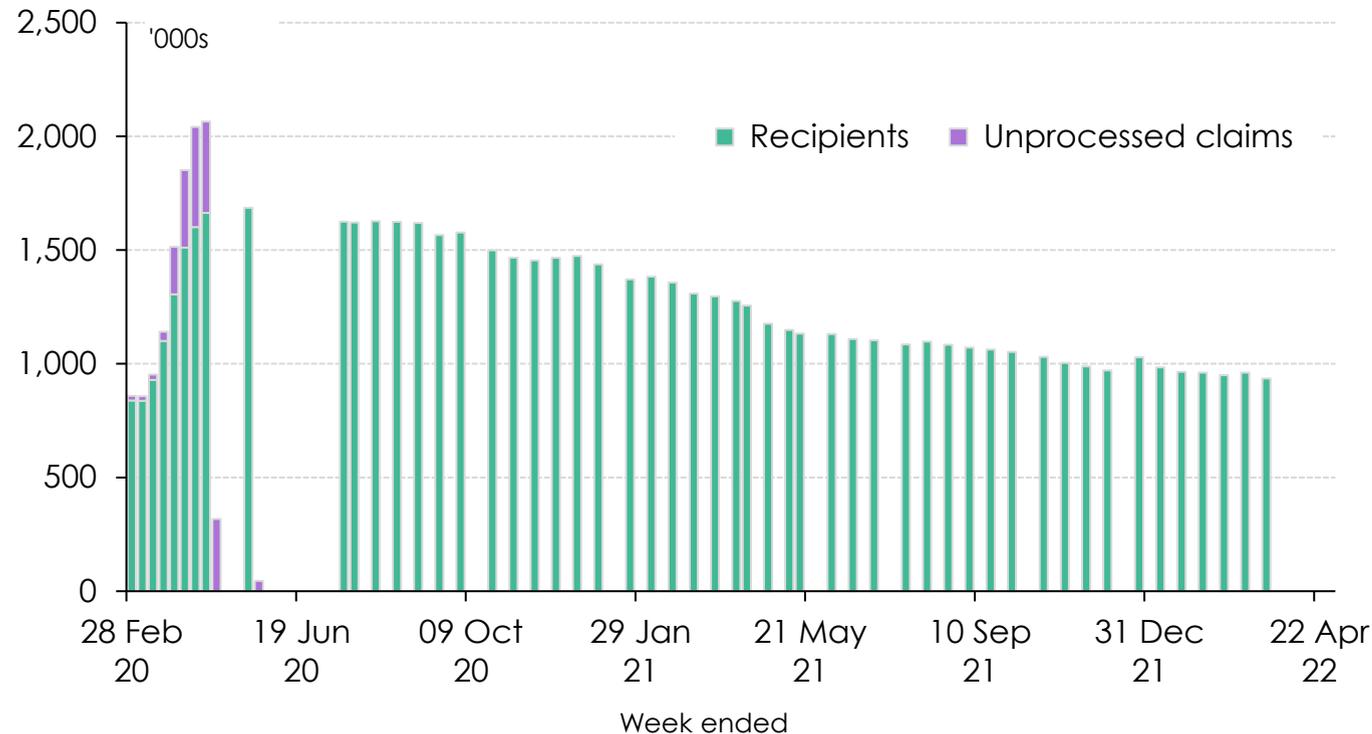


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

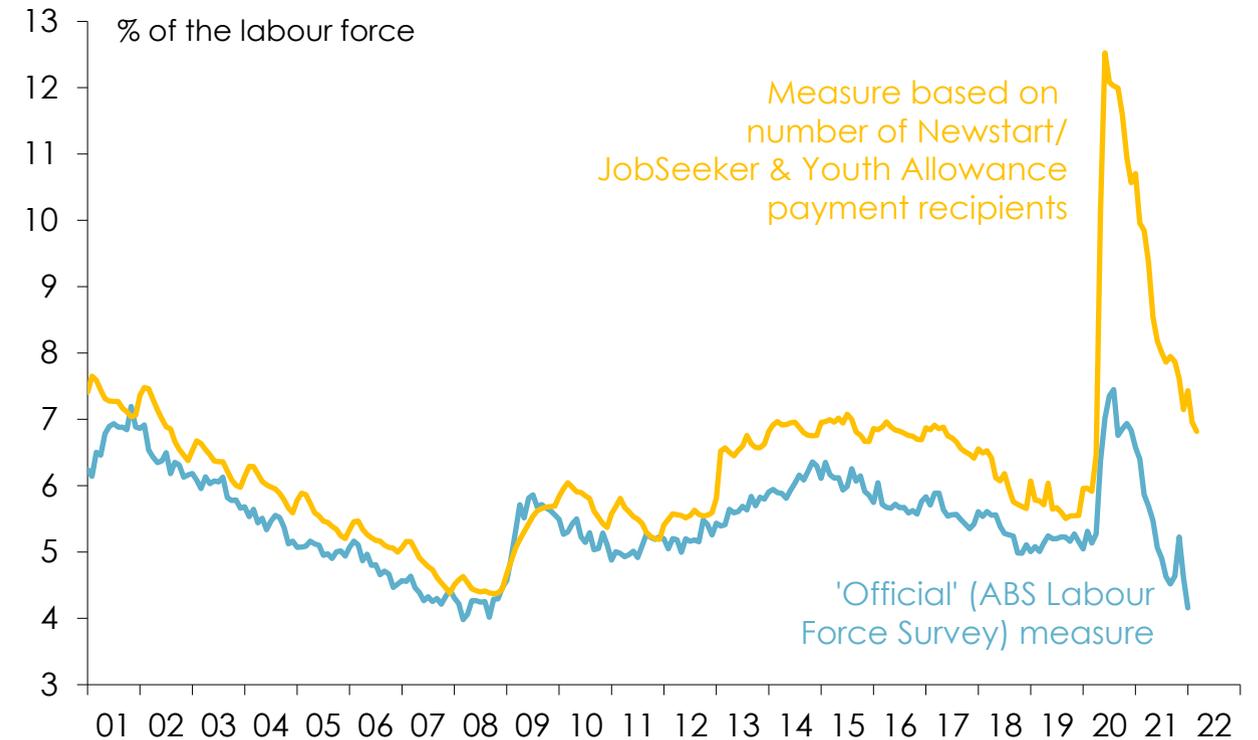
# The number of people receiving joblessness-related income support payments is still 11<sup>3</sup>/<sub>4</sub>% above its pre-pandemic level

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



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



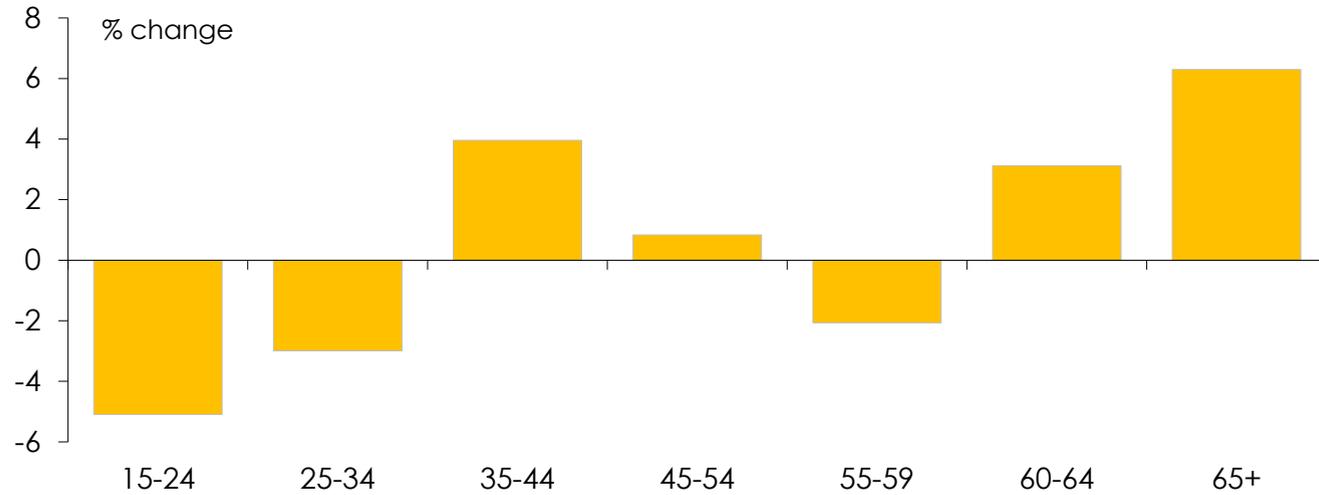
- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government’s responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by 26,082 (2.7%) between 11<sup>th</sup> and 25<sup>th</sup> March, to its lowest level since the onset of the pandemic, though it is still 11<sup>3</sup>/<sub>4</sub>% 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"](#).

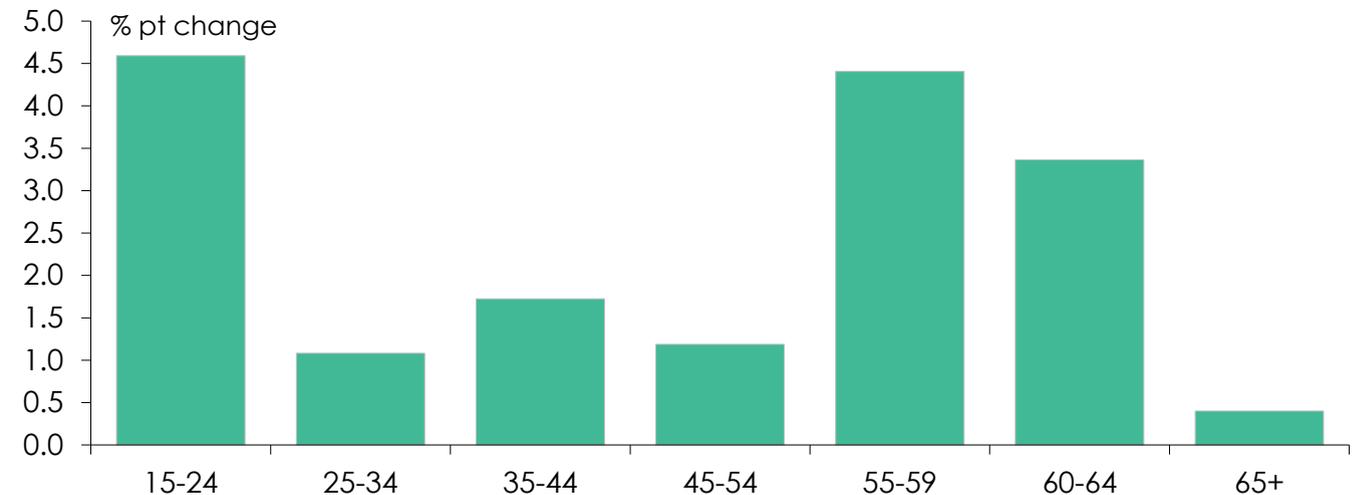
# There are 278K (4%) fewer 15-34 year-olds in Australia than there were two years ago – which has helped speed reductions in unemployment

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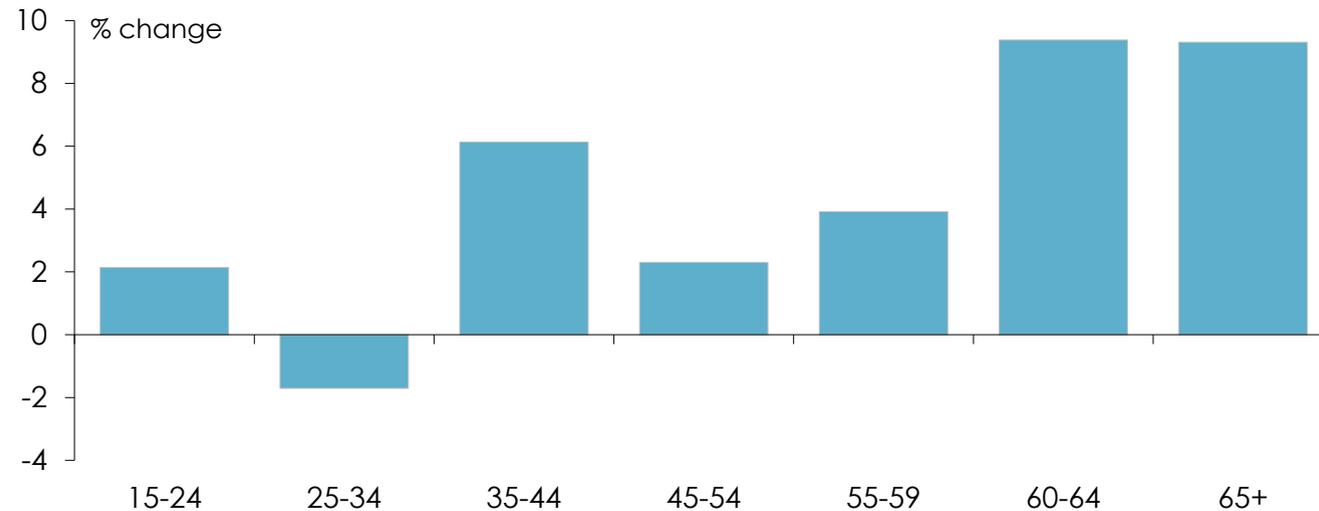
## Changes over the two years to March 2022, by age groups Civilian working age population



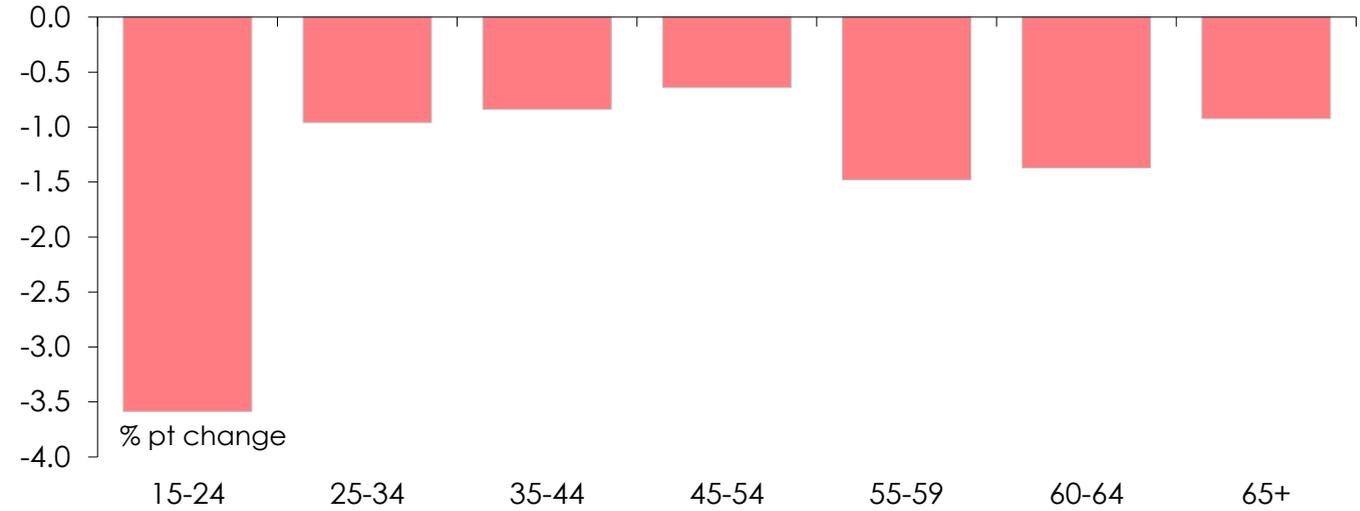
## Employment-population ratio



## Employment



## Unemployment rates



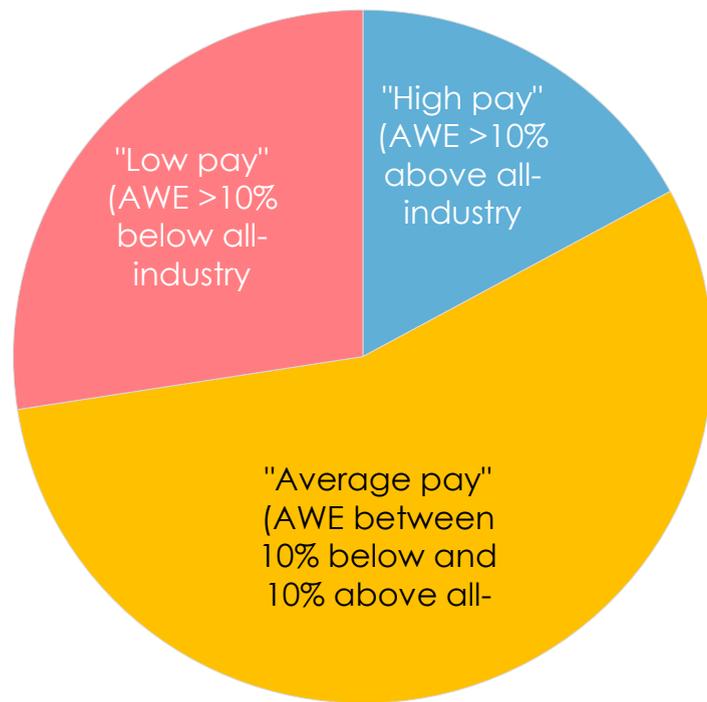
Note: The data from which the above charts are derived isn't seasonally adjusted, hence the need to make comparisons between February 2020 and February 2022.

Source: ABS, [Labour Force, Australia, Detailed](#), March; April data will be released on 26<sup>th</sup> May. [Return to "What's New"](#).

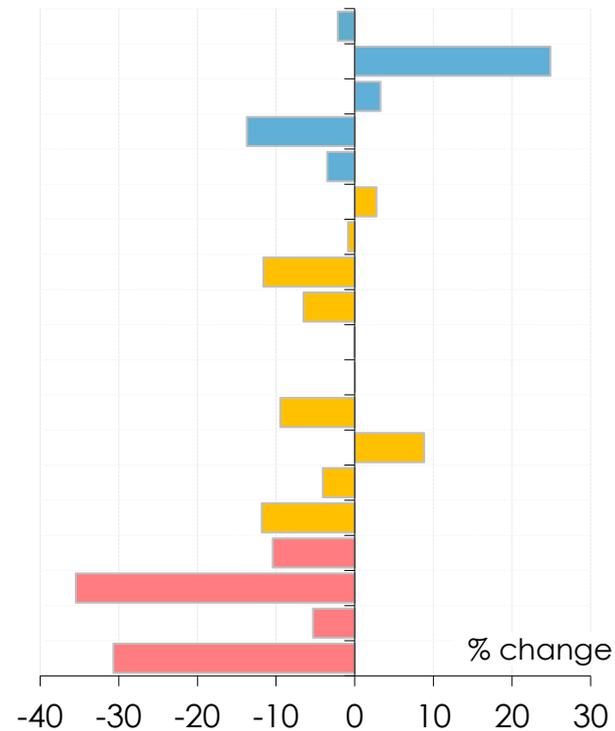
# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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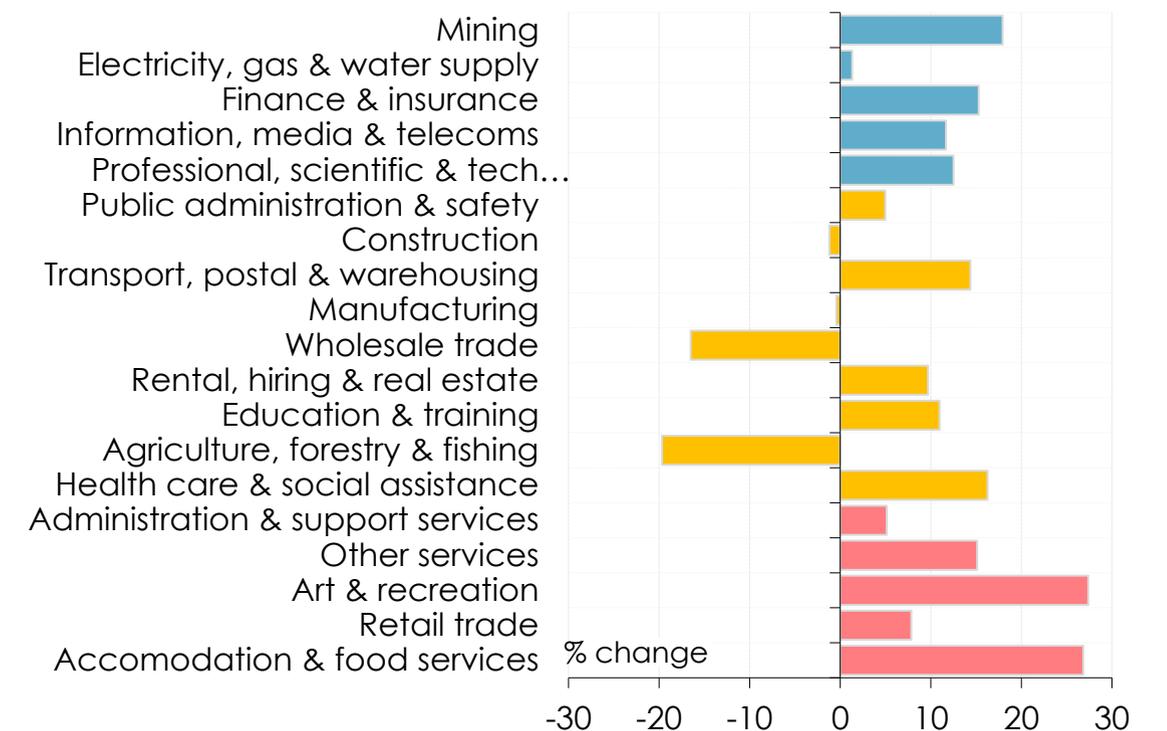
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry February-May 2020



February 2020 – February 2022



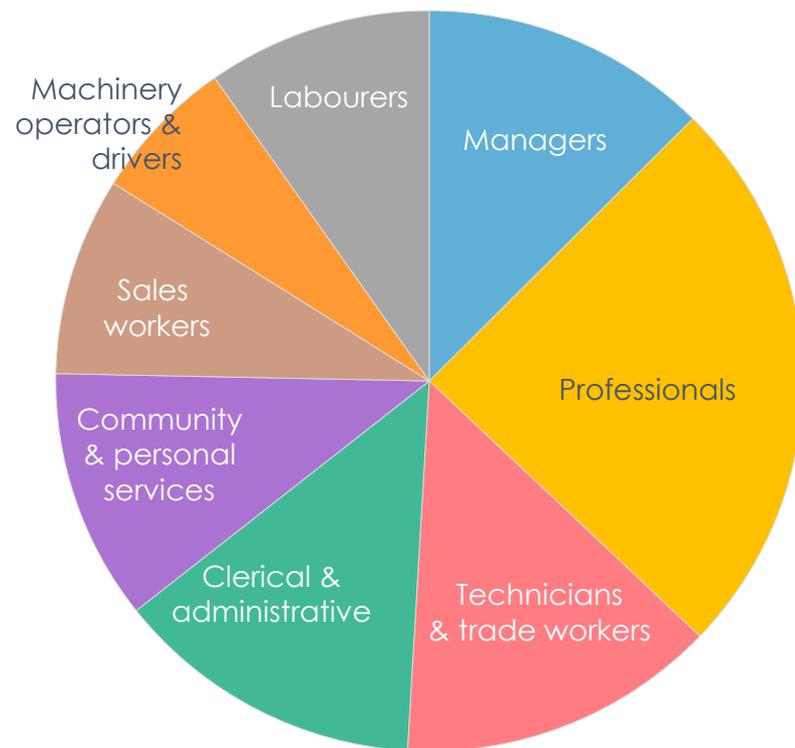
- Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May 2020 – and 86% of job losses between May and August 2021 – and despite the recovery in total employment since October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

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

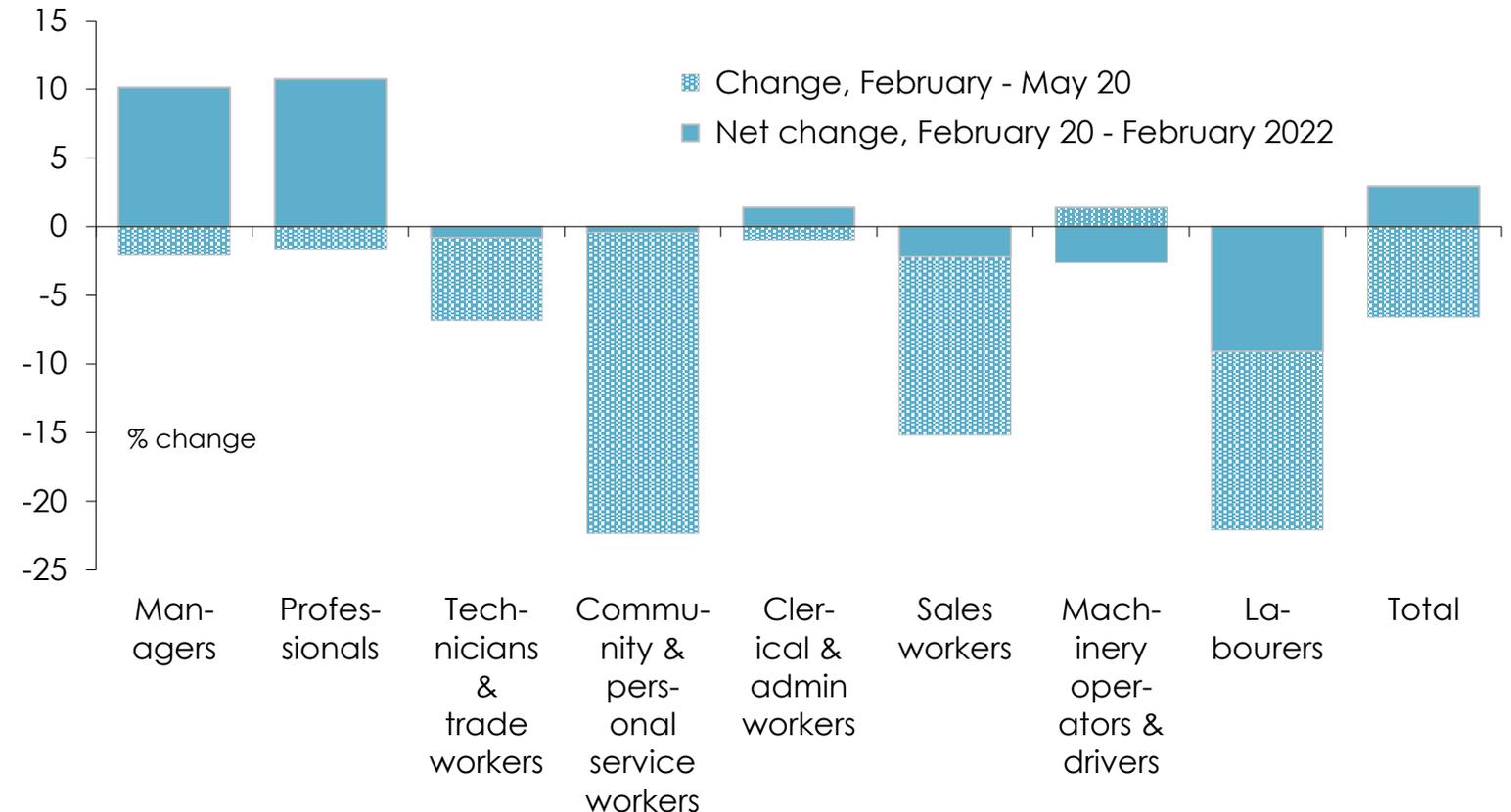
# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



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



- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May 2020 – and for 71% of job losses between May and August 2021 – and there were 3.8% fewer of them in February this year than in February 2020
- ... whereas there are now 10.5% more employed managers and professionals than there were in February 2020

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

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

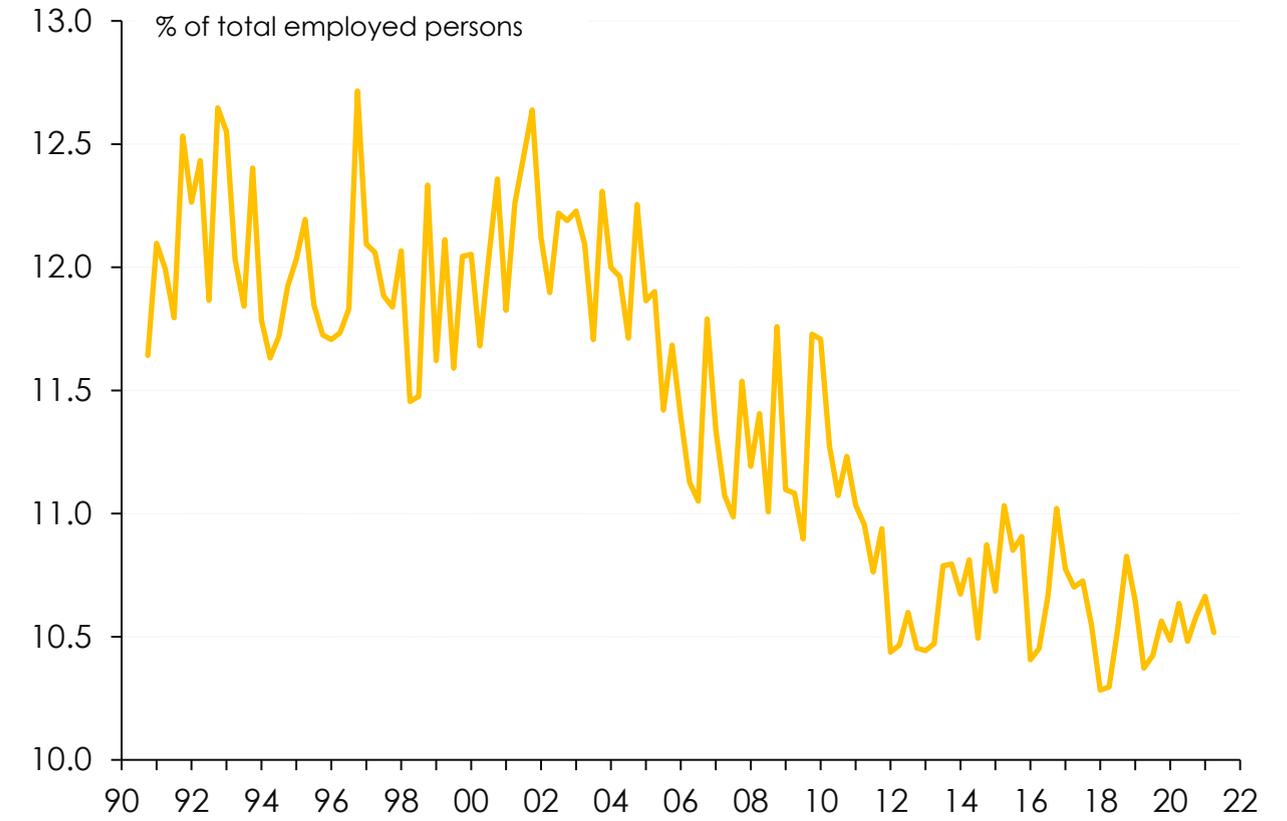
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## 'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



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

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



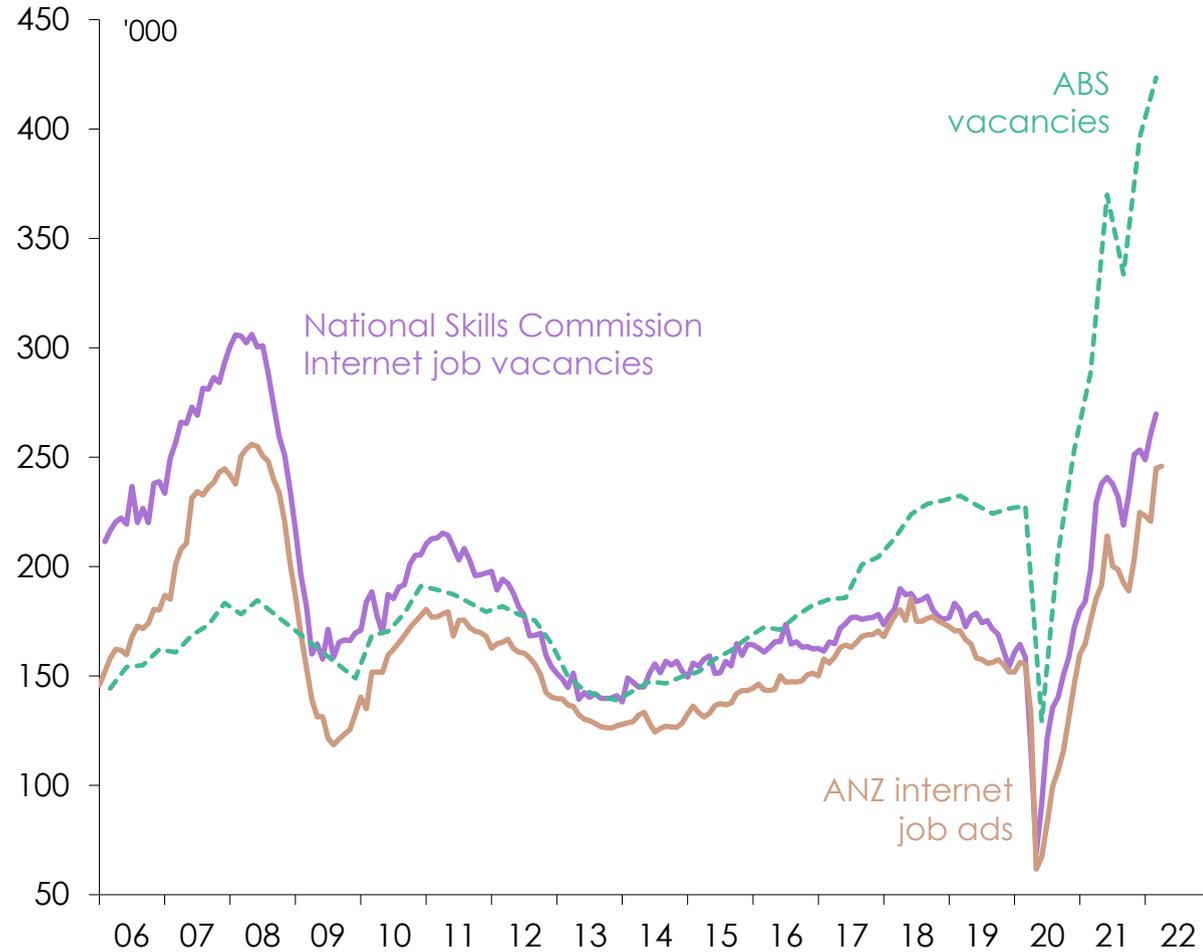
- ❑ **'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession**

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

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

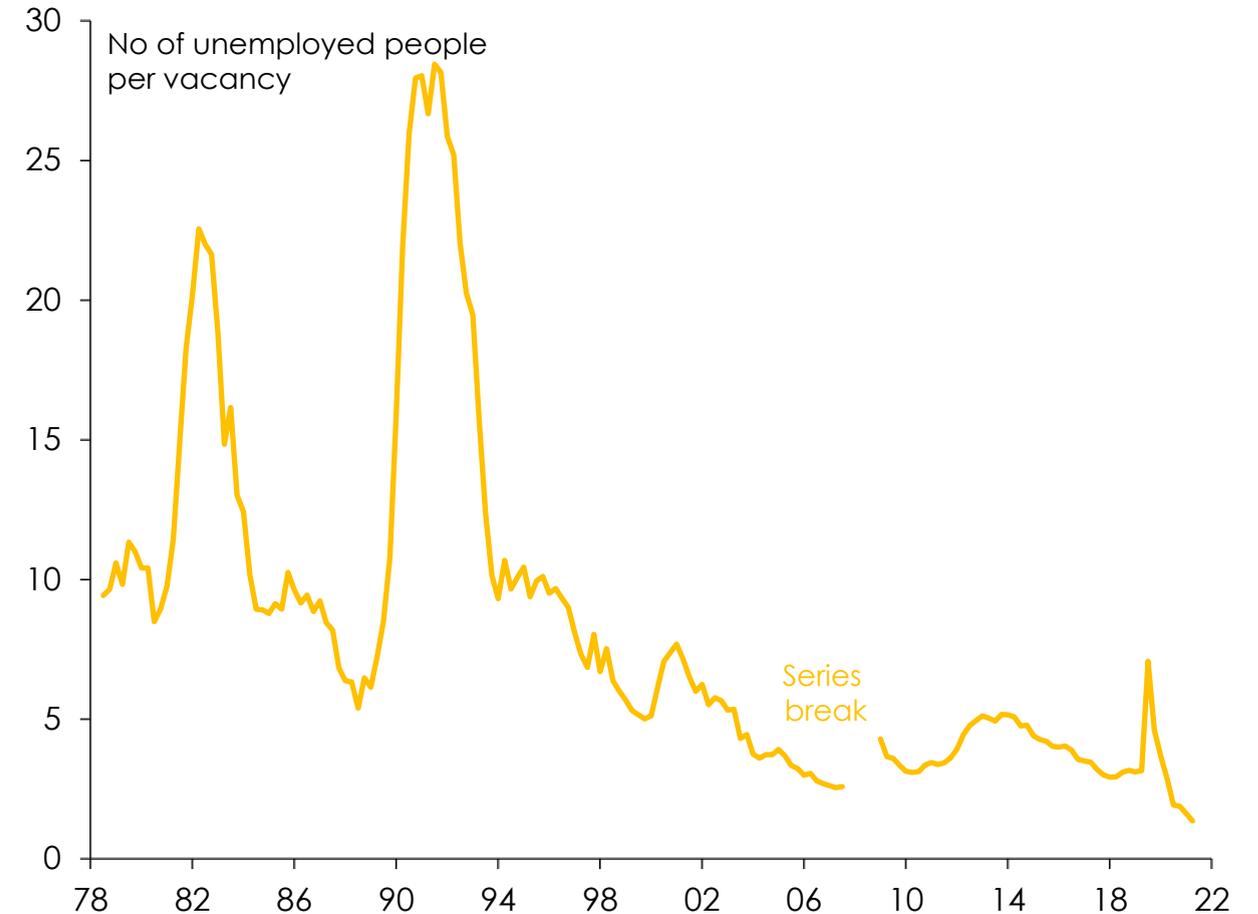
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## Measures of job vacancies



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

## Ratio of unemployed people to job vacancies

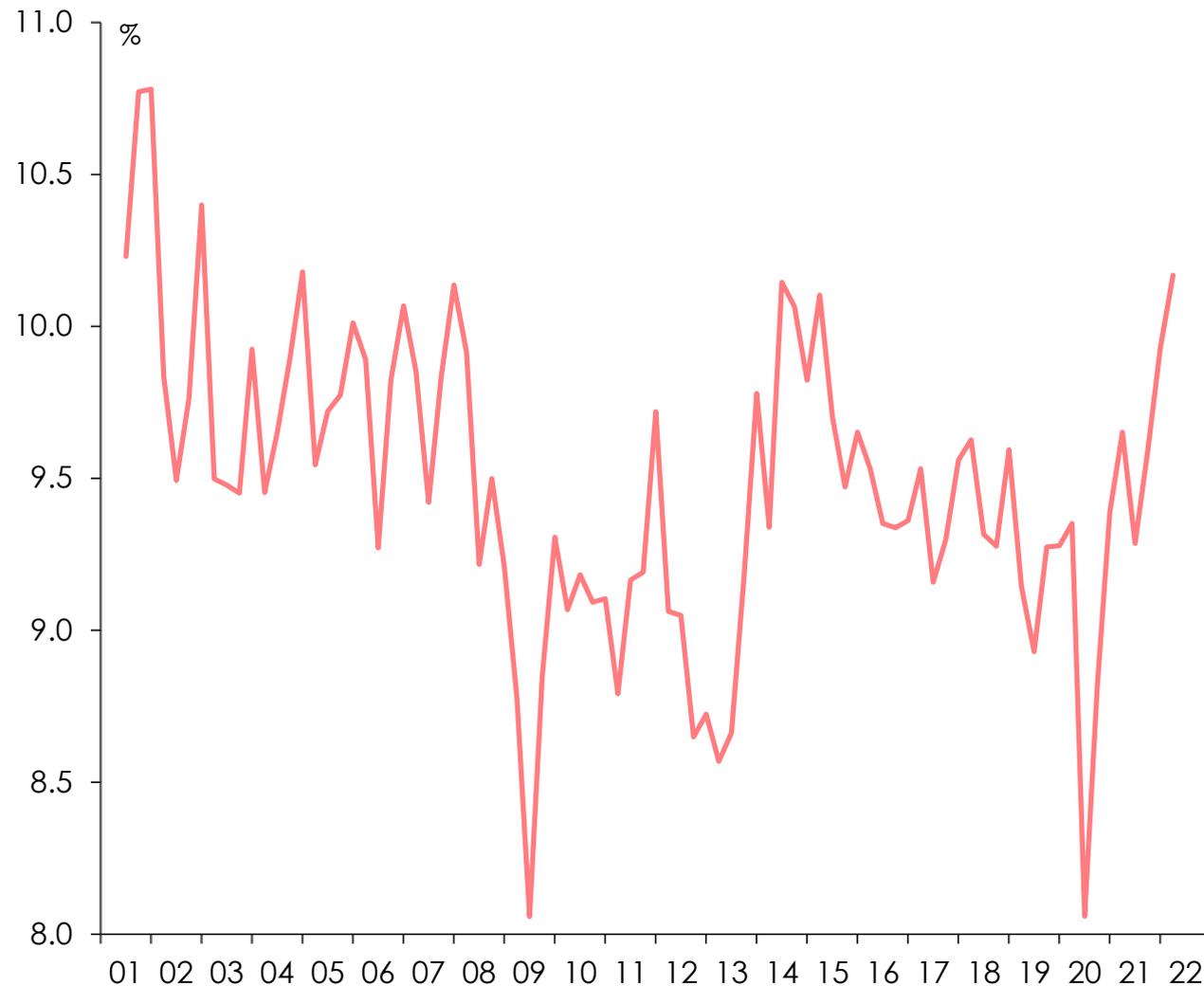


☐ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

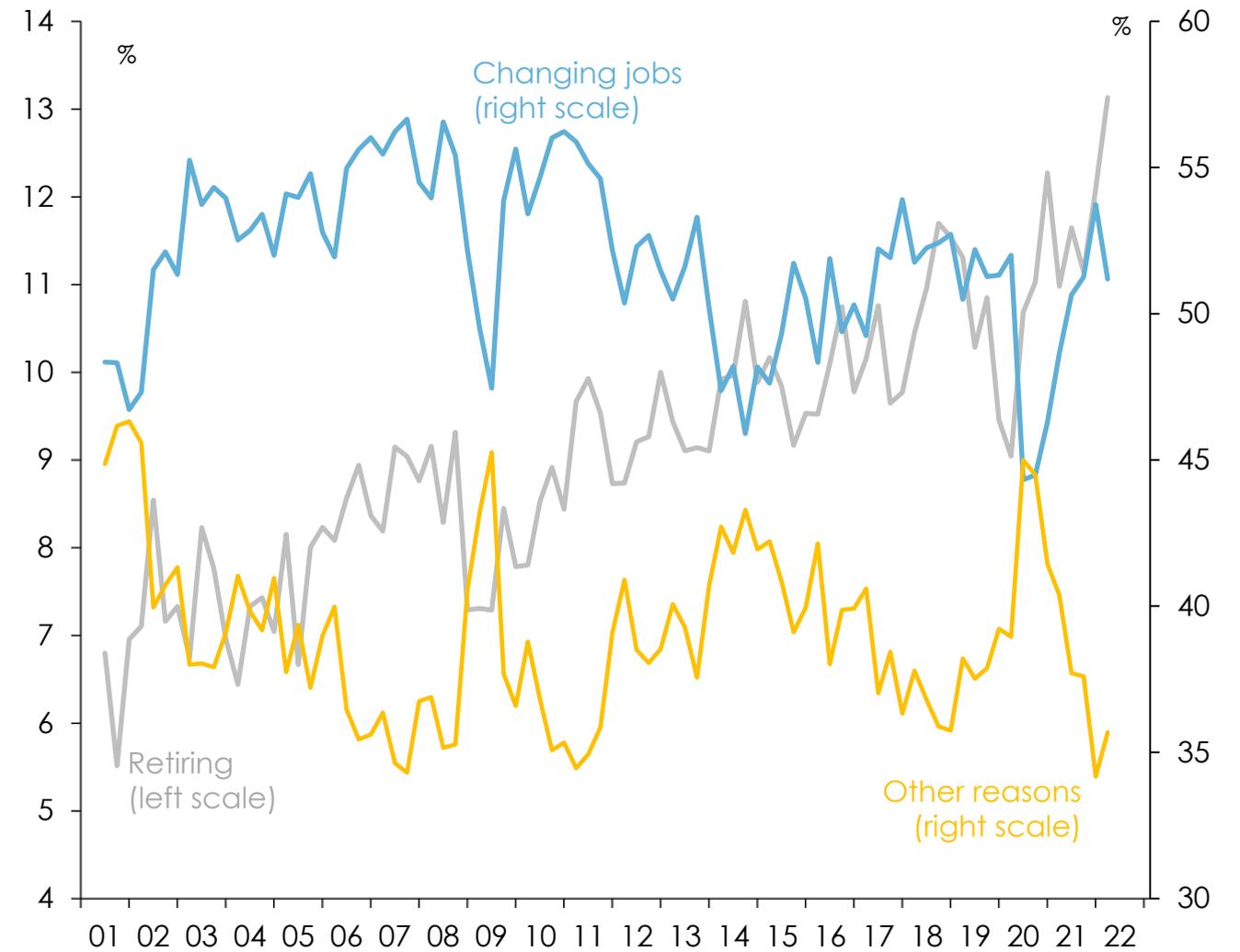
# There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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



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



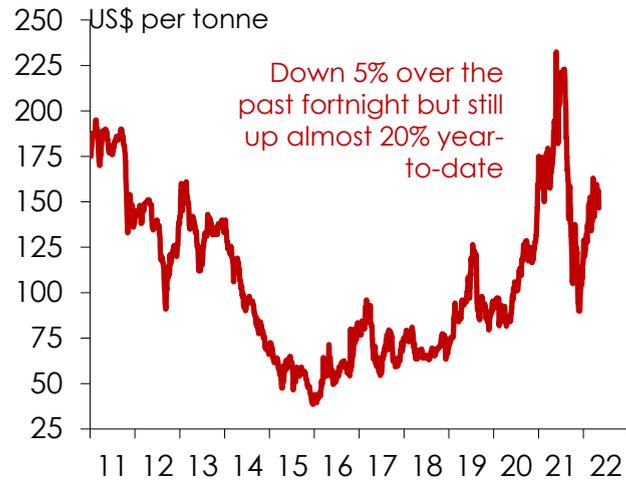
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

# Trade and the balance of payments

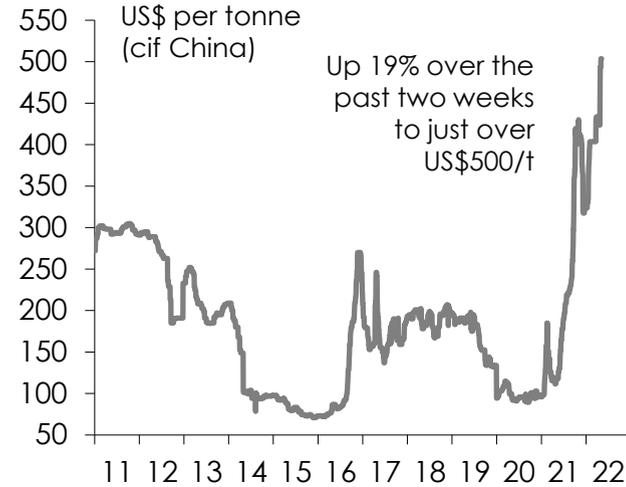
# Most 'hard' commodity prices were down slightly this week, except for thermal coal and nickel – though all are up from pre-Ukraine war levels

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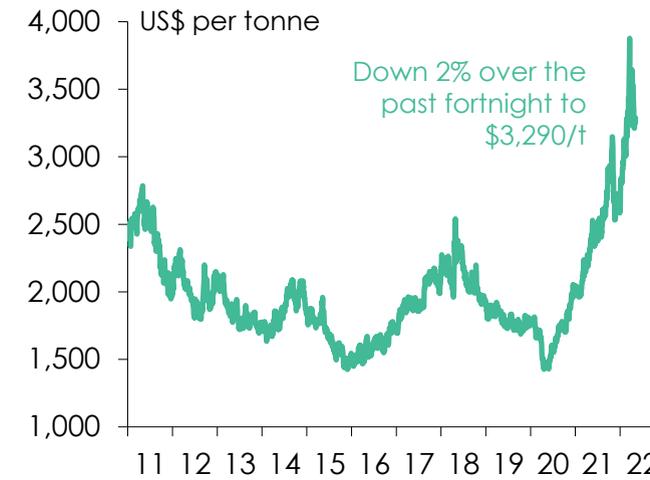
## Iron ore



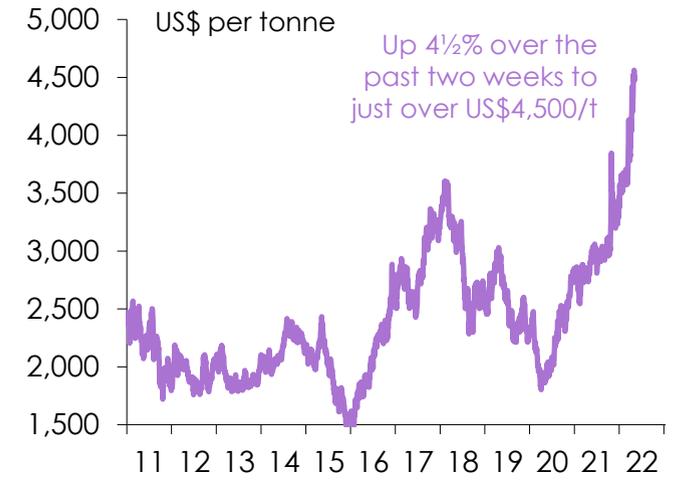
## Metallurgical coal



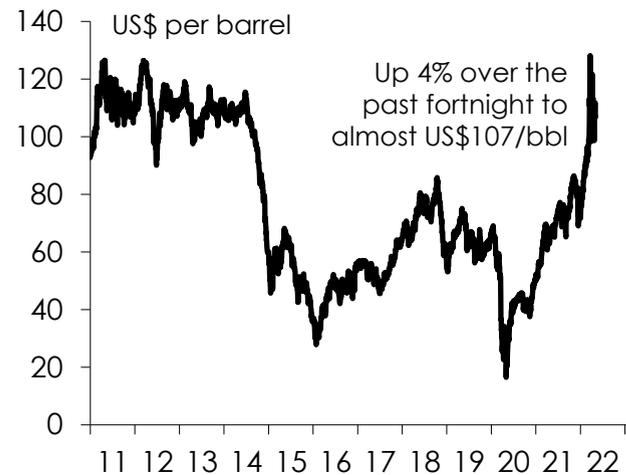
## Aluminium



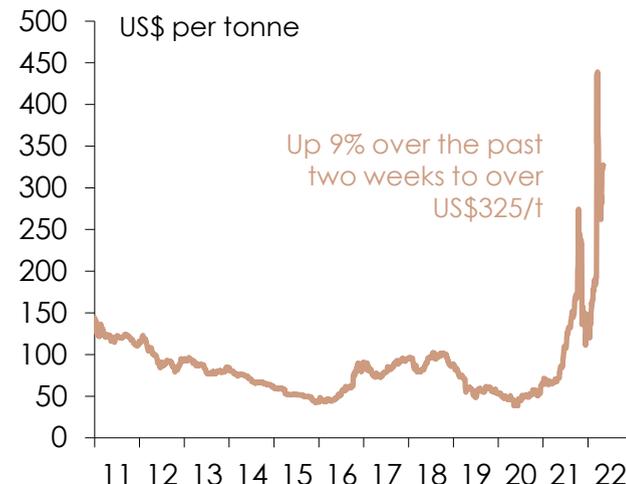
## Zinc



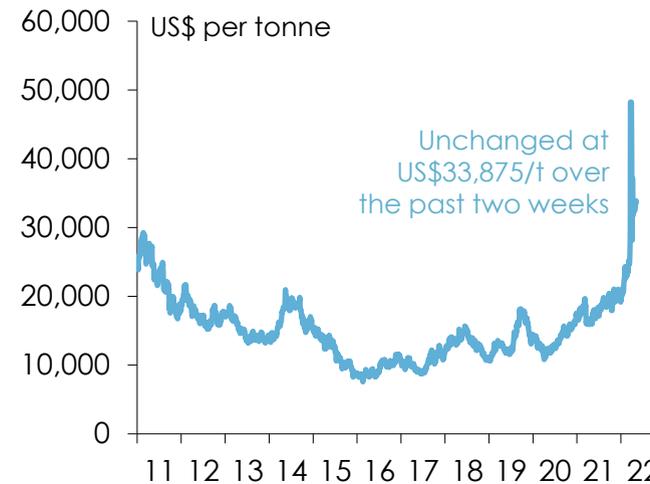
## Brent crude oil



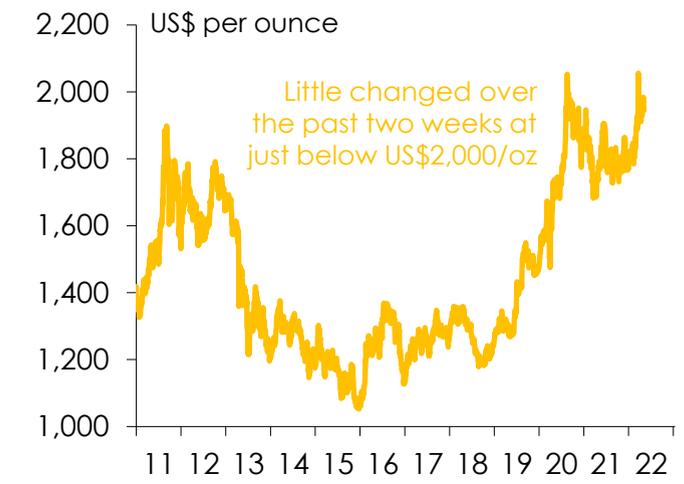
## Thermal coal



## Nickel



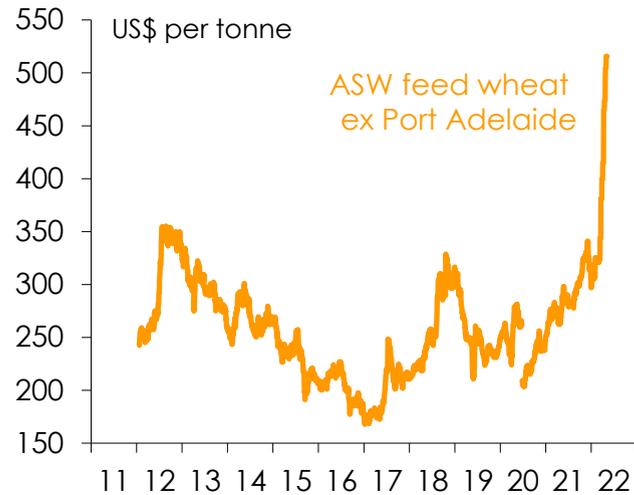
## Gold



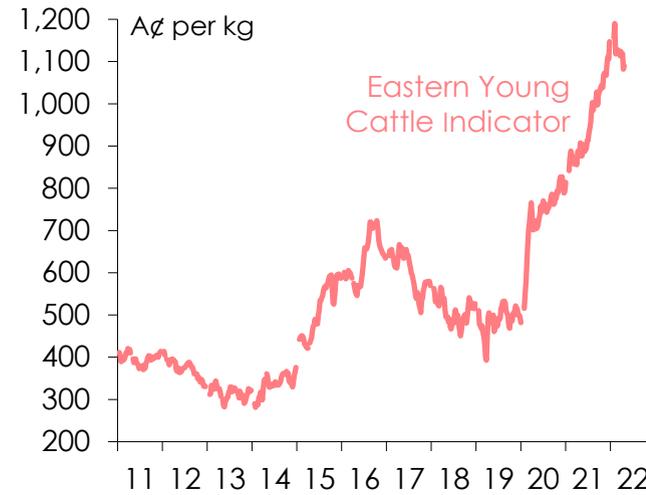
# Wheat and cotton prices have risen over the past fortnight but most other agricultural commodity prices have been flat or down slightly

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## Wheat



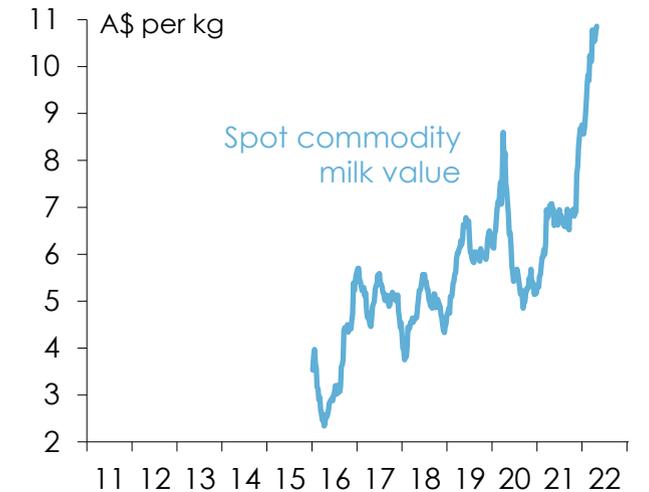
## Beef cattle



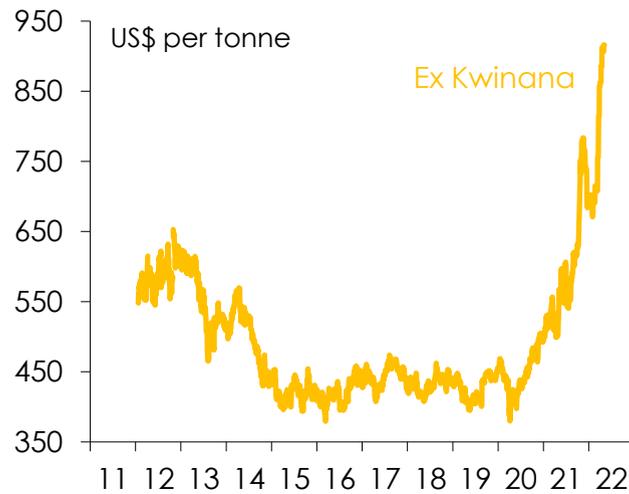
## Wool



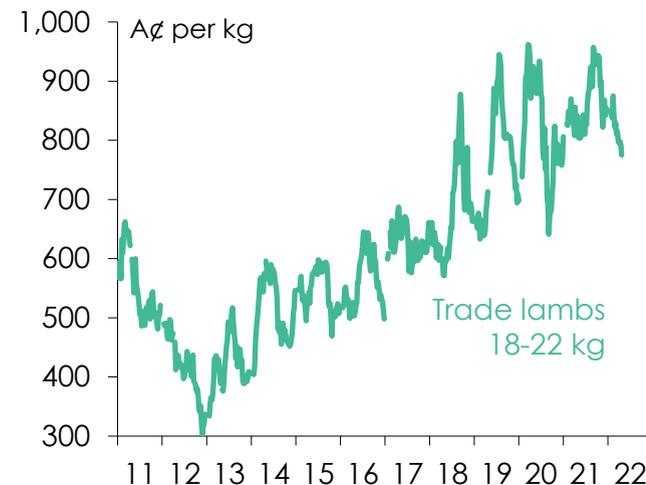
## Milk



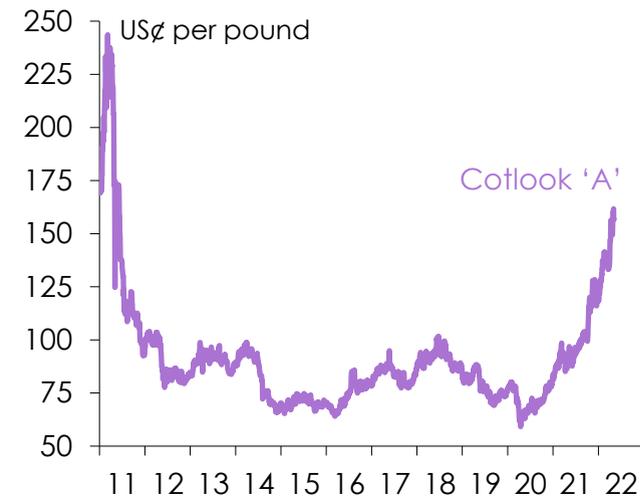
## Canola



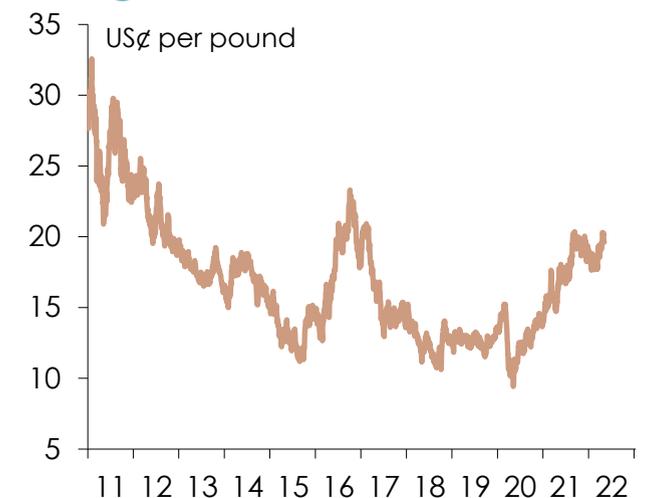
## Sheep



## Cotton



## Sugar

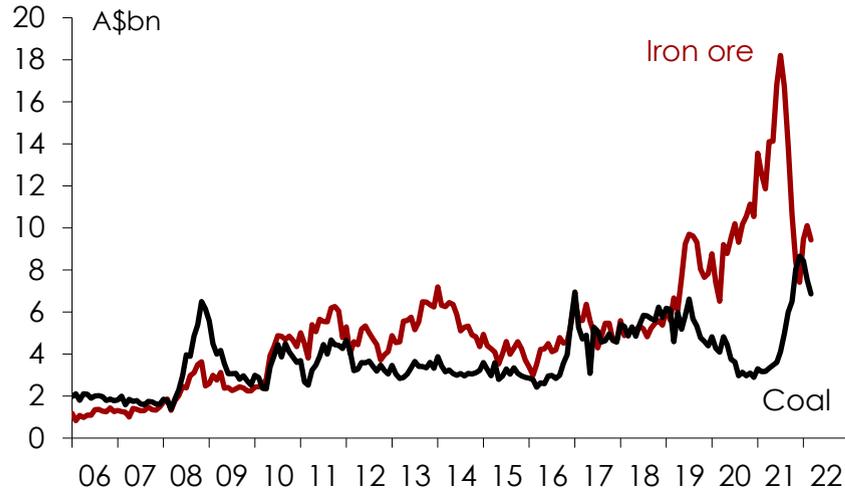


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation,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

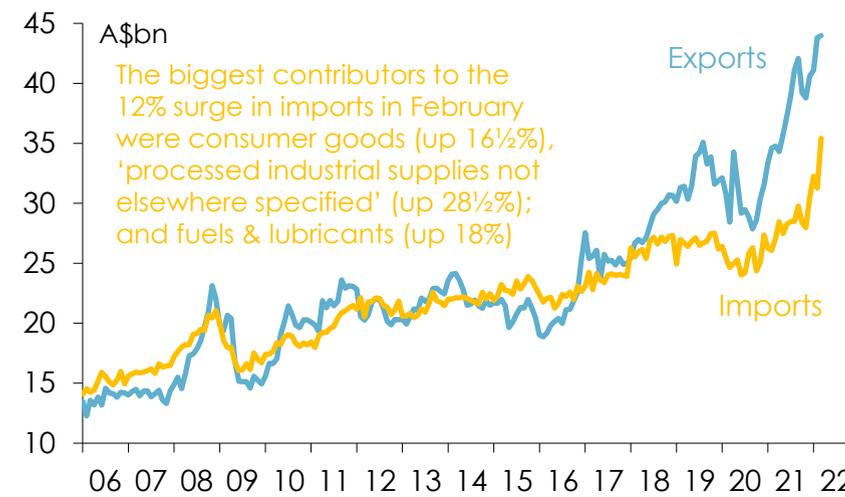
# Australia's trade surplus shrank by \$4.3bn to \$7.5bn in February, the smallest in 11 months, reflecting a 12% surge imports

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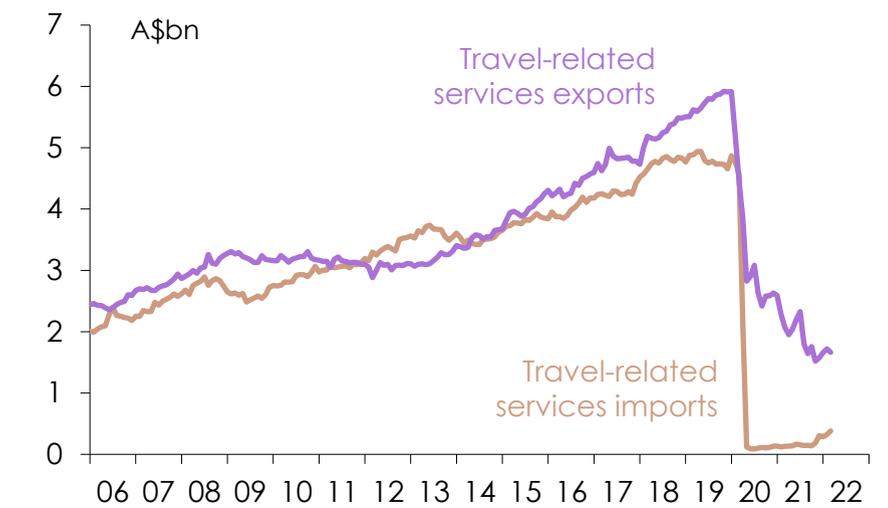
## Iron ore and coal exports



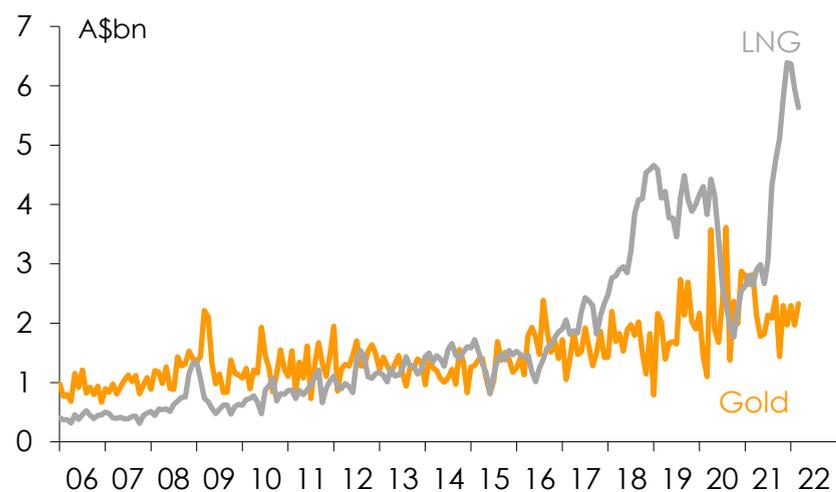
## Merchandise exports and imports



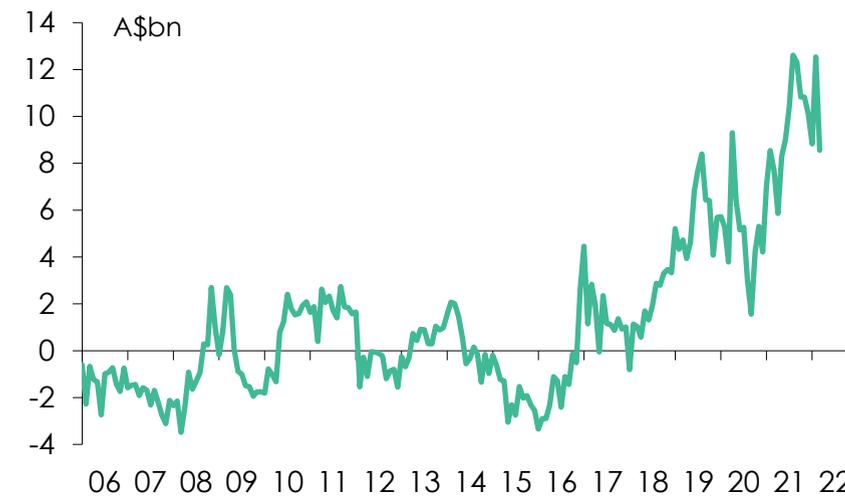
## Tourism-related services trade



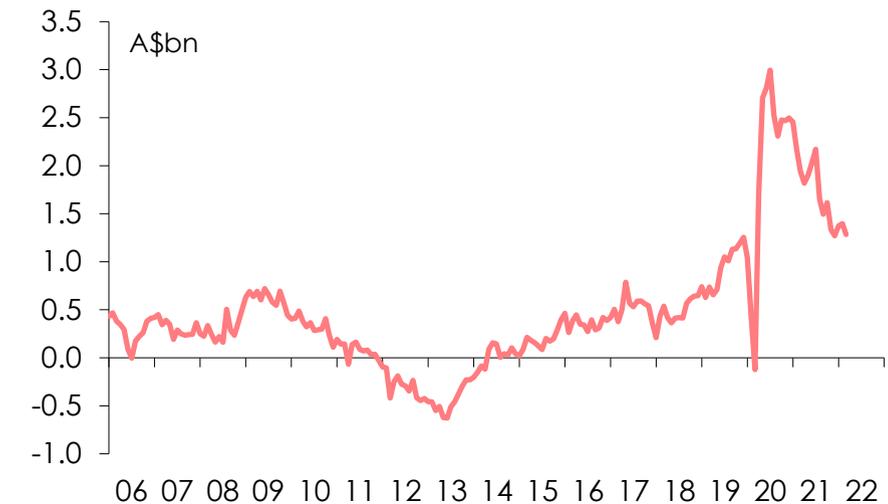
## LNG and gold exports



## Merchandise trade balance



## Tourism services trade balance

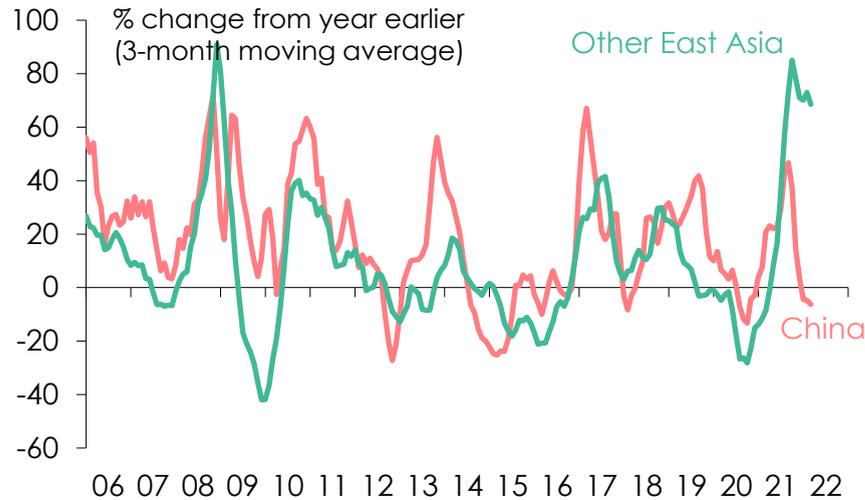


Source: ABS, [International Trade in Goods and Services, Australia](#), February 2021. March data will be released on 5<sup>th</sup> May. [Return to "What's New"](#).

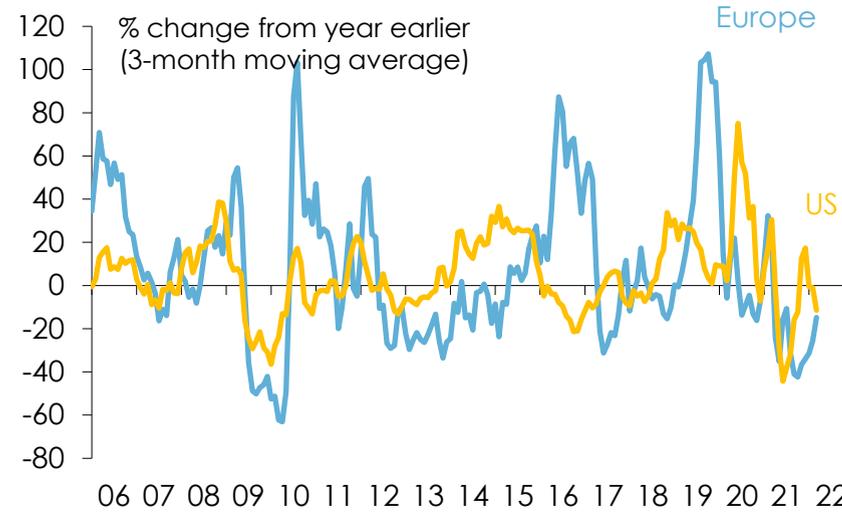
# Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

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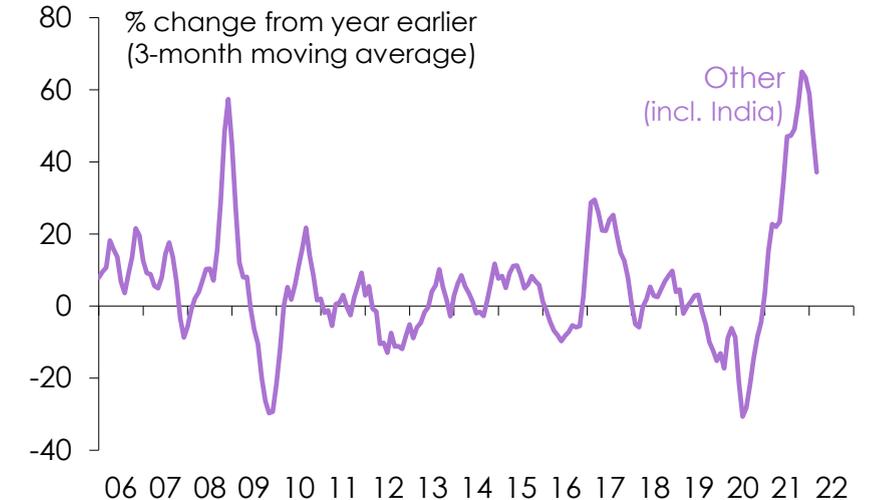
## Merchandise exports – East Asia



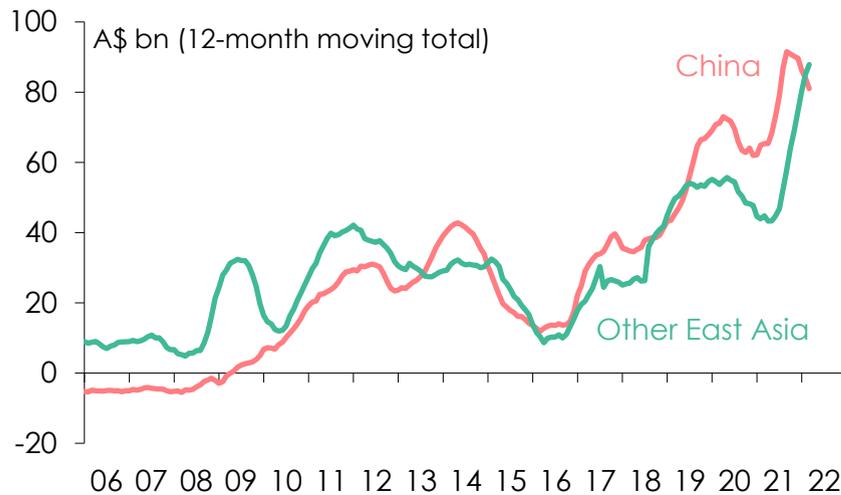
## Merchandise exports – US & Europe



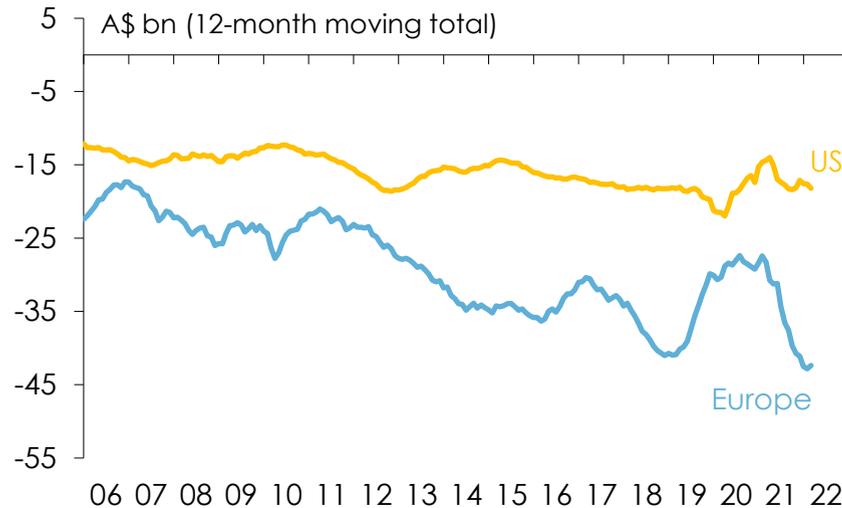
## Merchandise exports – other



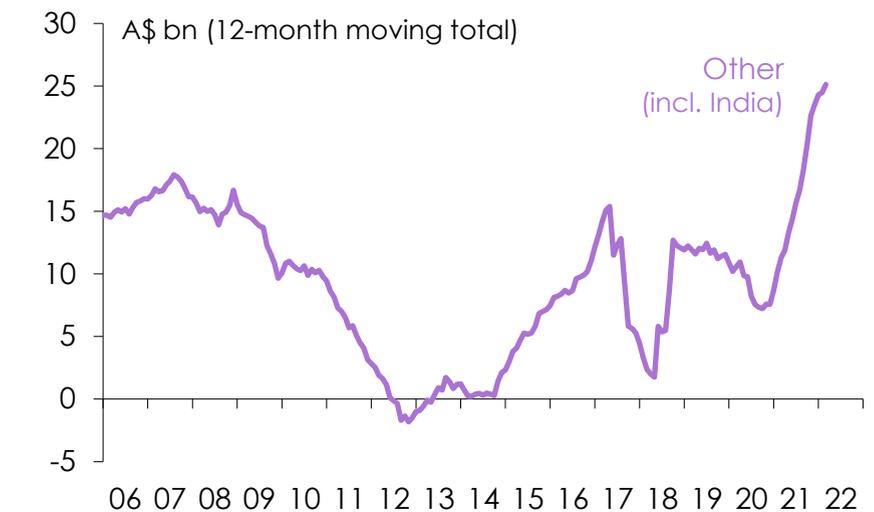
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other

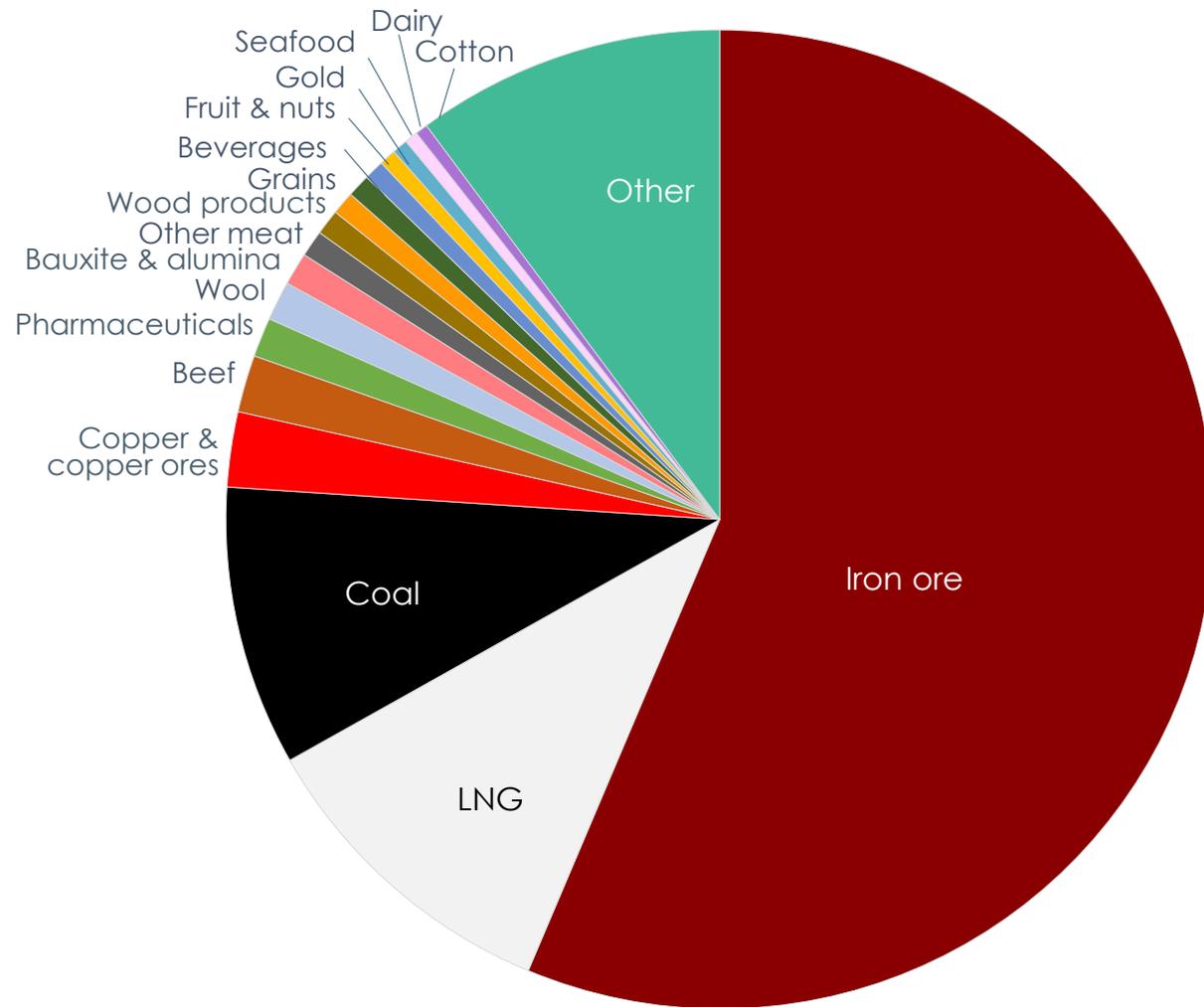


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS,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

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



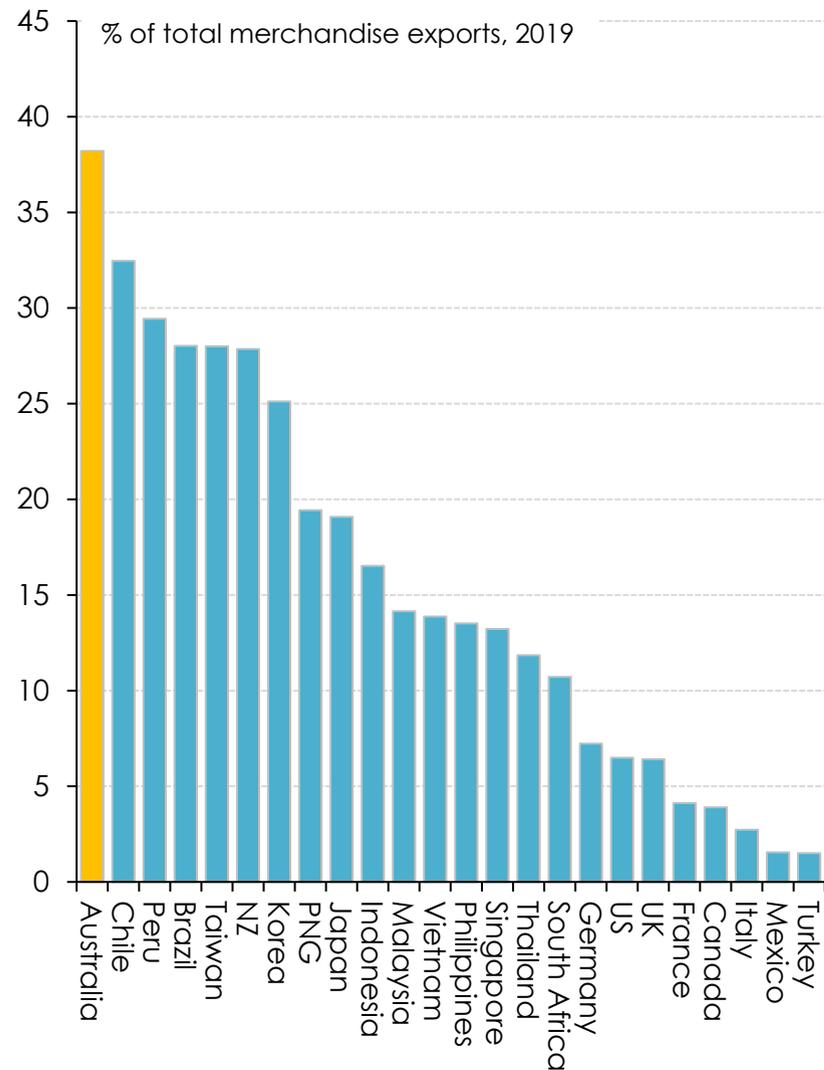
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items. Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna. [Return to "What's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

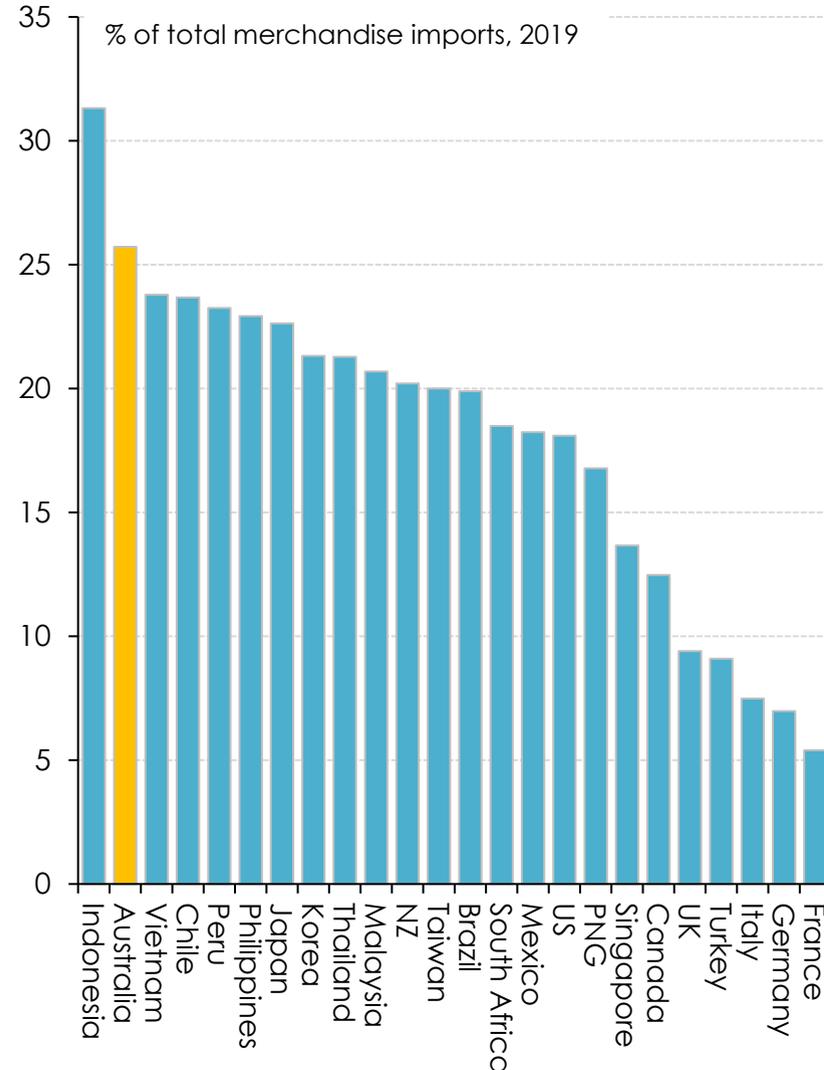
# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

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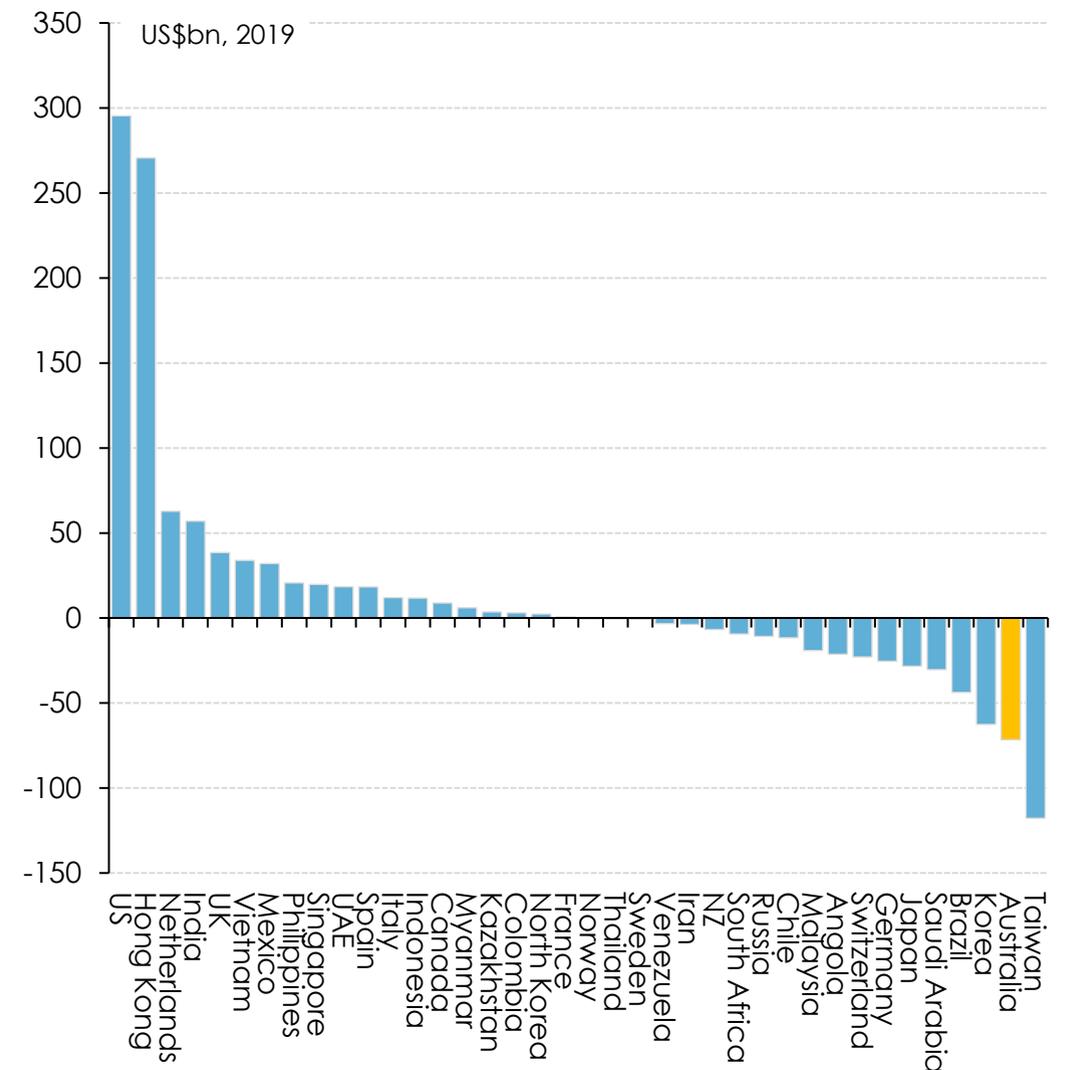
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



## China's bilateral merchandise trade balances

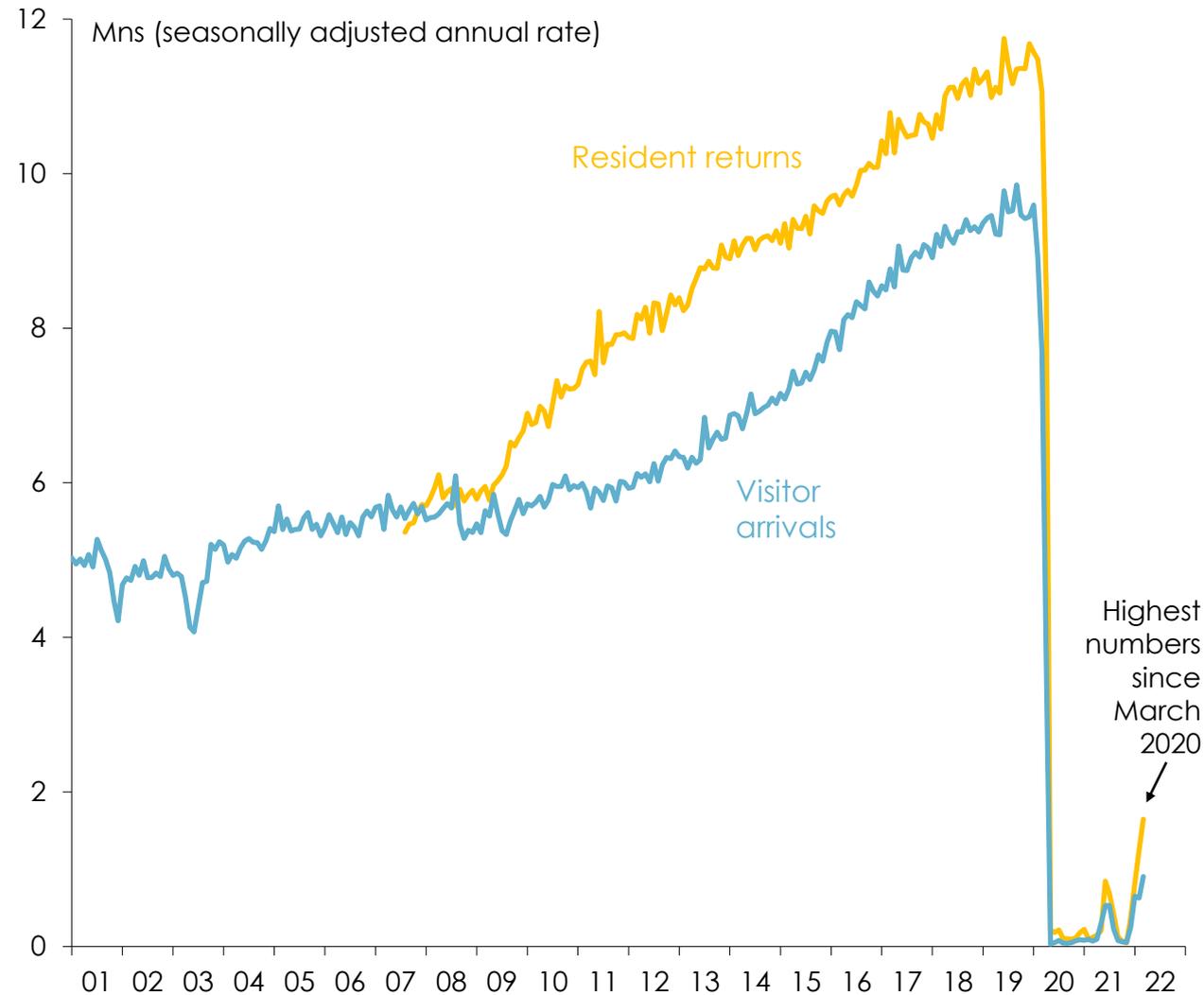


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

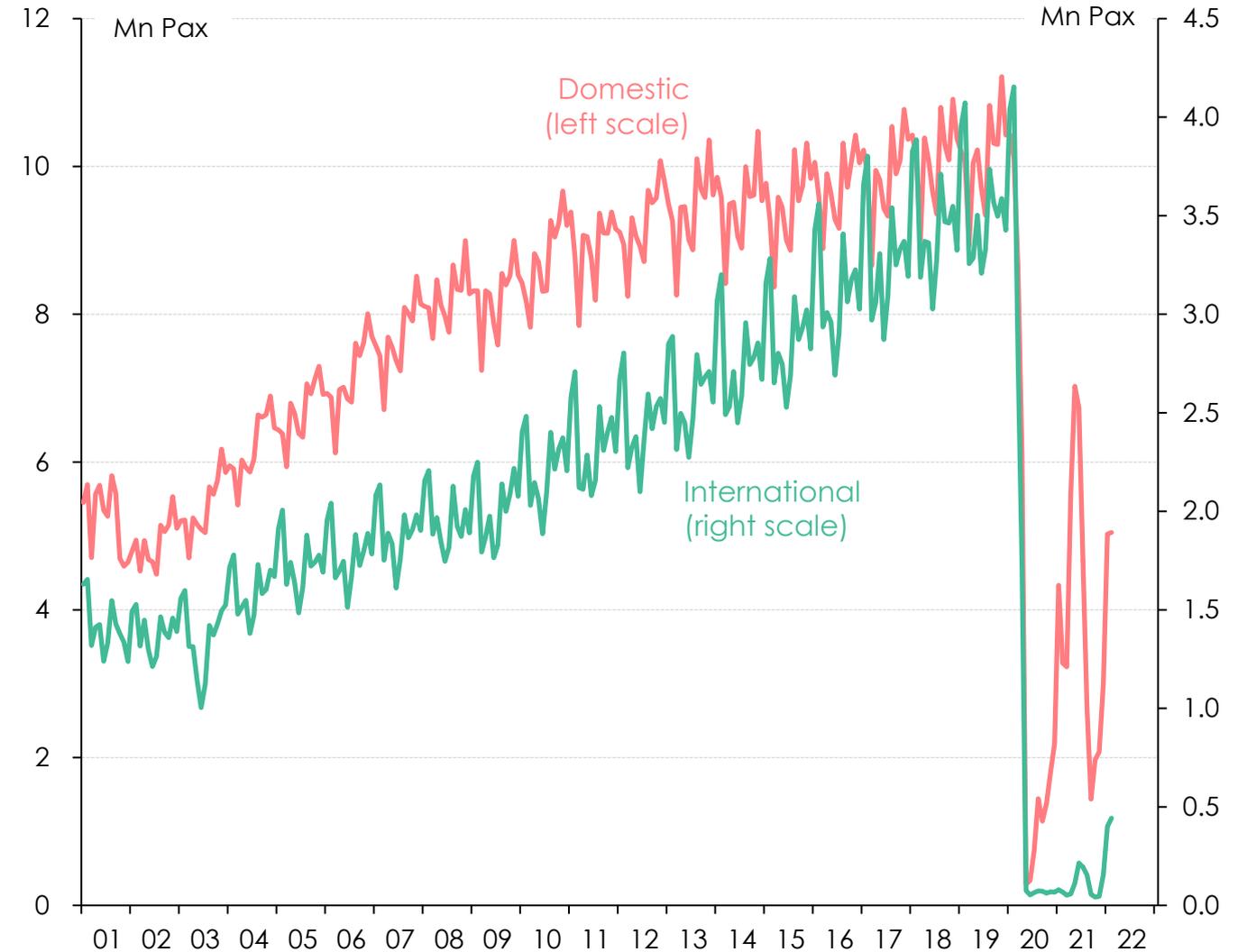
# The re-opening of Australia's international and interstate borders has seen a pick-up in international arrivals & departures and in airport movements

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## Short-term visitor arrivals and resident returns



## Airport passenger movements

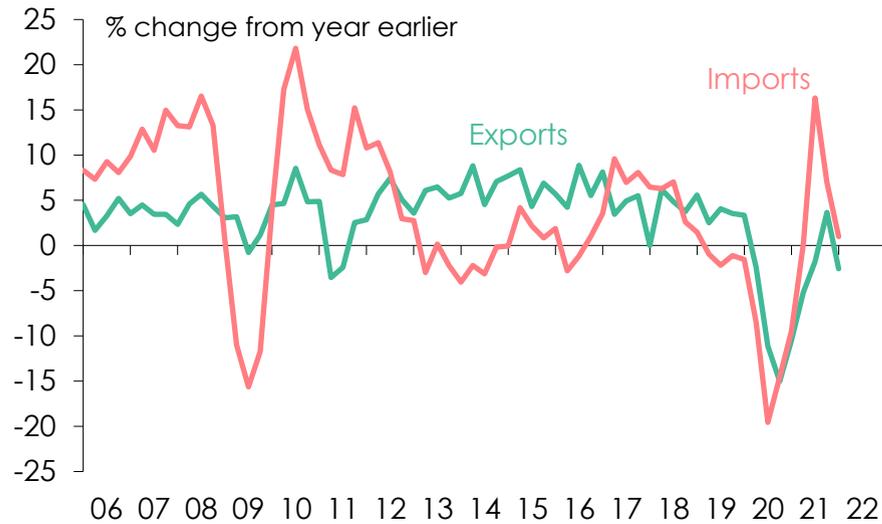


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

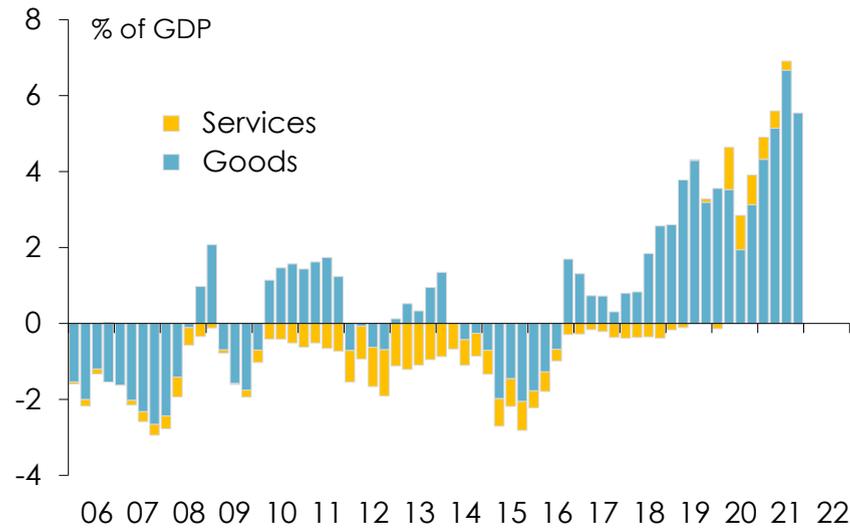
# Australia's current account surplus shrank by nearly half in Q4 last year, with the trade surplus declining and the income deficit increasing

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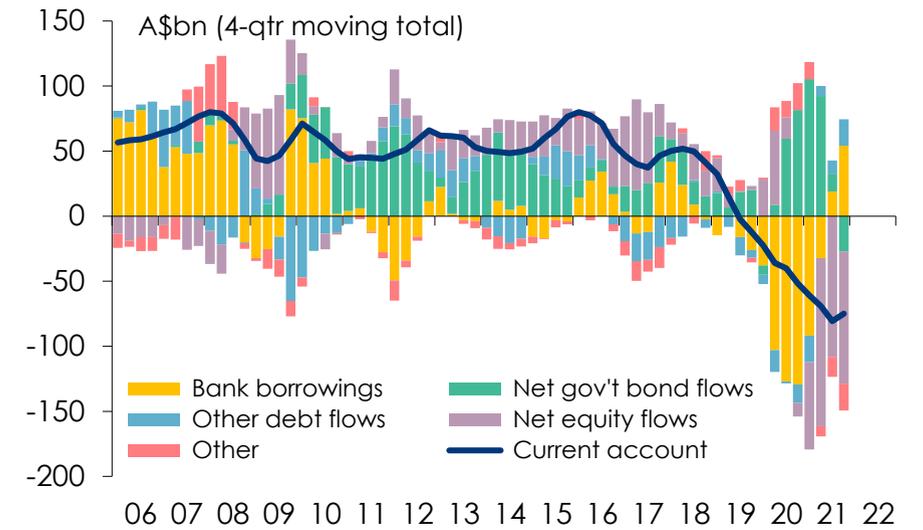
## Export and import volumes



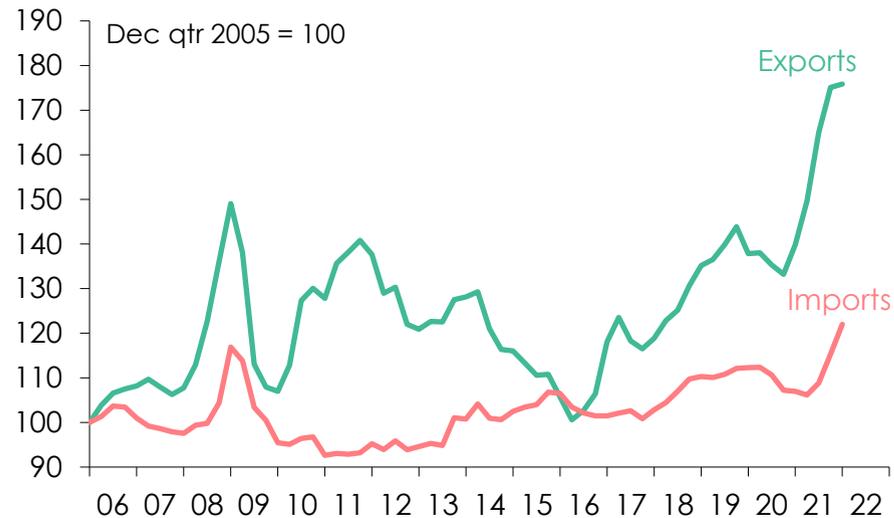
## Goods & services trade balances



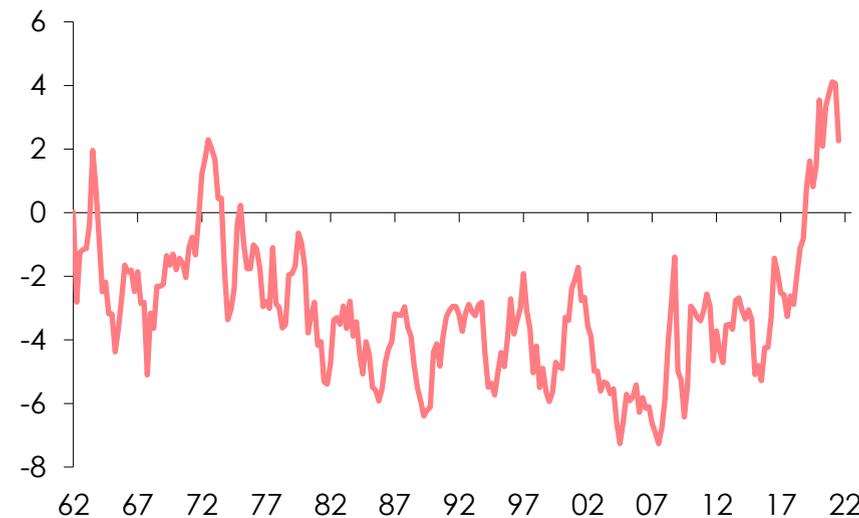
## Capital flows



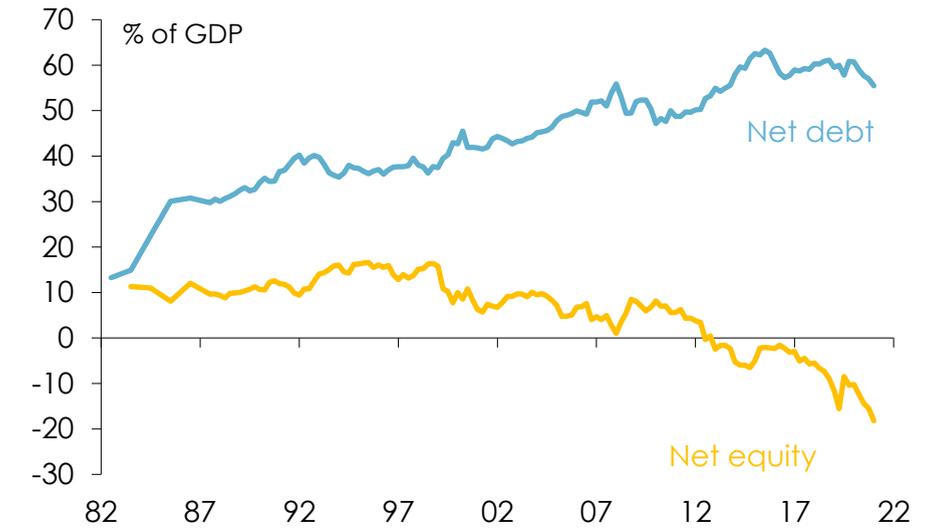
## Export and import prices



## Current account balance



## Net international investment position



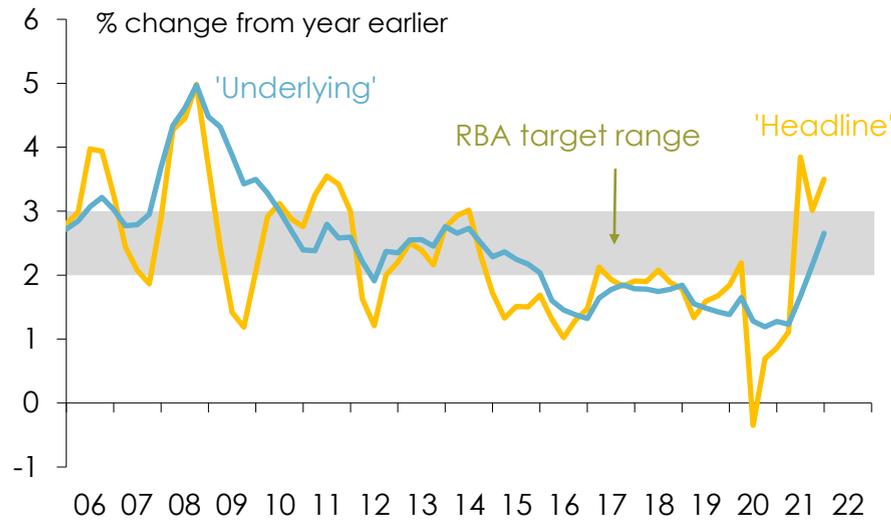
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

# Inflation

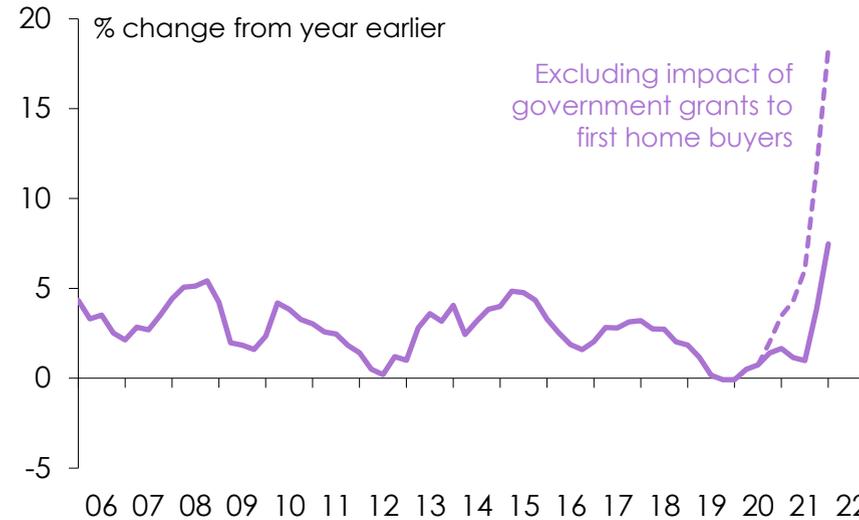
# 'Headline' inflation is likely to have risen to well above 4%, and 'underlying' inflation to close to 3½%, in the March quarter data due Wednesday

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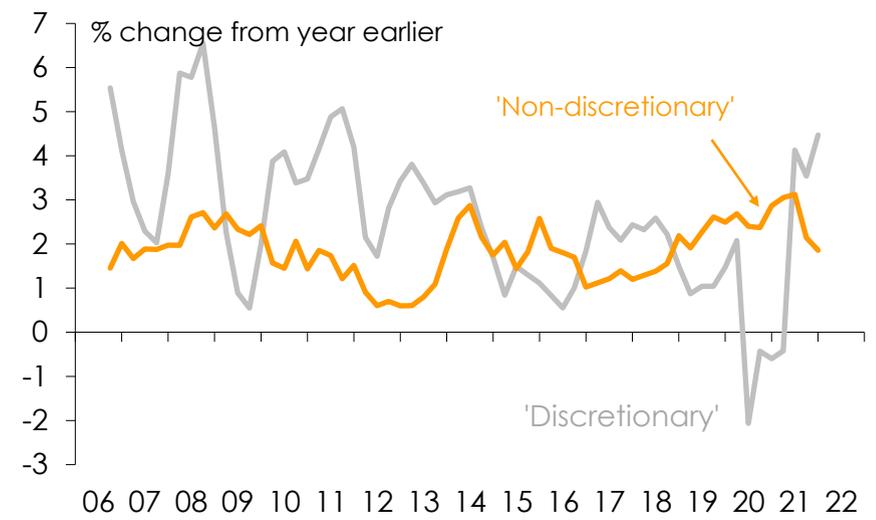
## Consumer prices – annual change



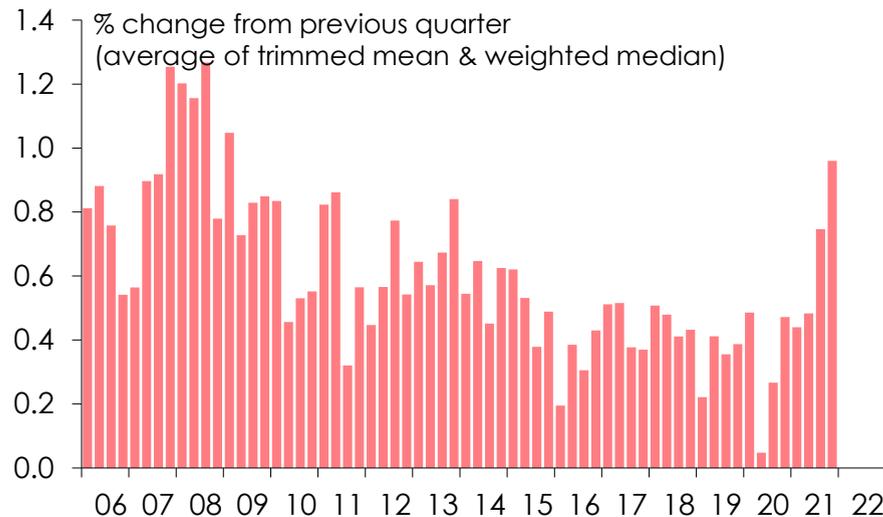
## New dwelling purchase costs



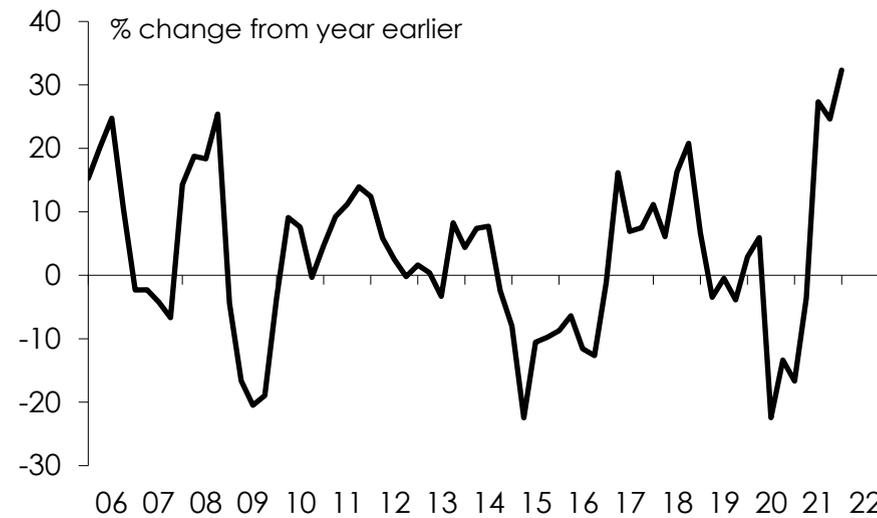
## 'Discretionary' vs 'essential' items



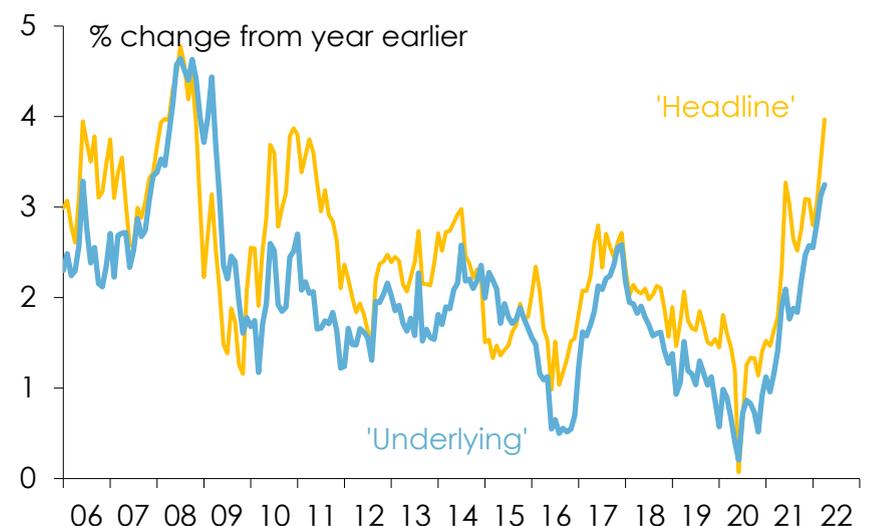
## Quarterly 'underlying' inflation



## Automotive fuel prices



## Melbourne Institute monthly inflation

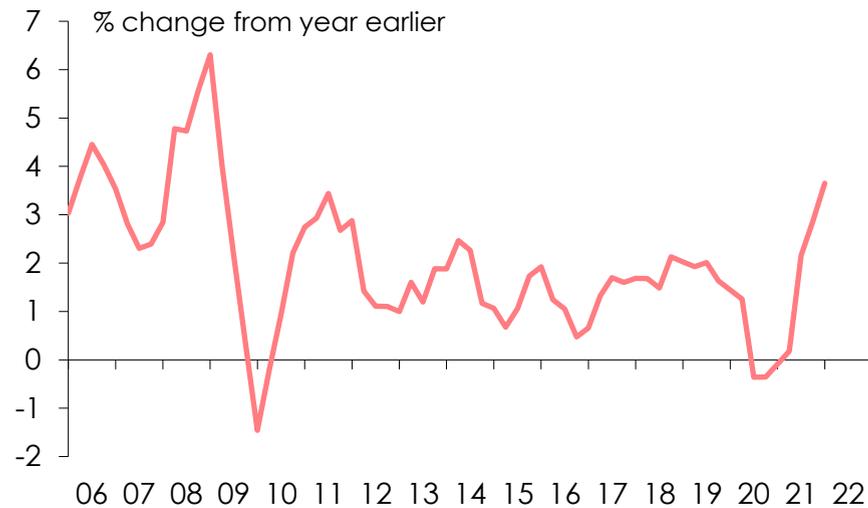


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. For definitions of 'discretionary' and 'non-discretionary' items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), December (March quarter CPI will be released this Wednesday); Melbourne Institute for Applied Economic & Social Research, [Monthly Inflation Gauge](#). [Return to "What's New"](#).

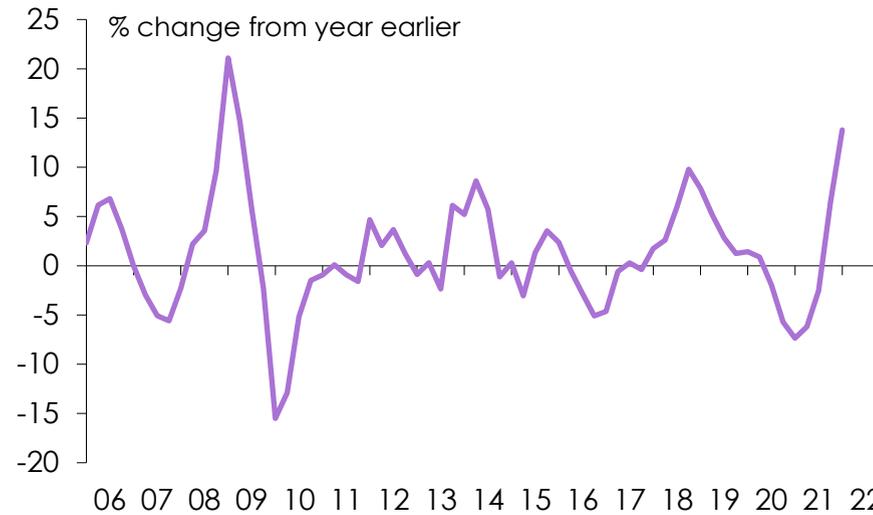
# Domestic 'upstream' price pressures haven't been as intense as in other 'advanced' economies, except in the construction sector

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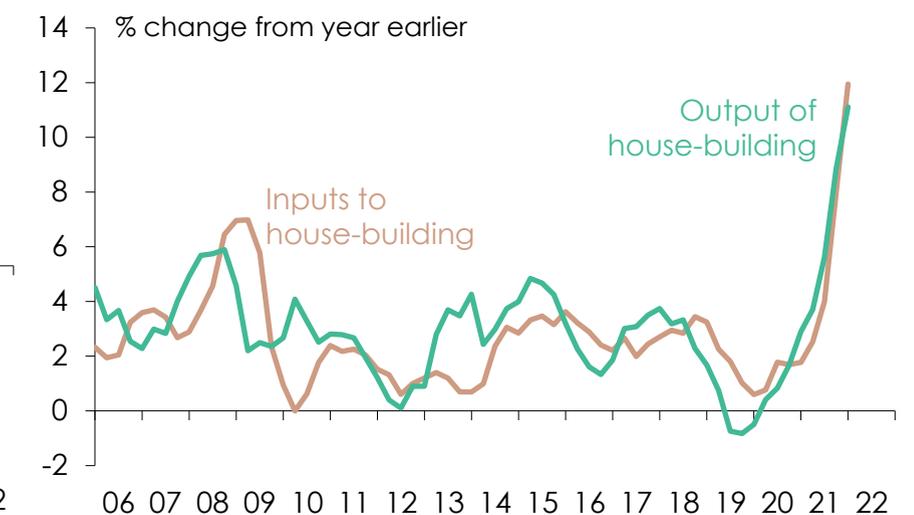
## Producer price index



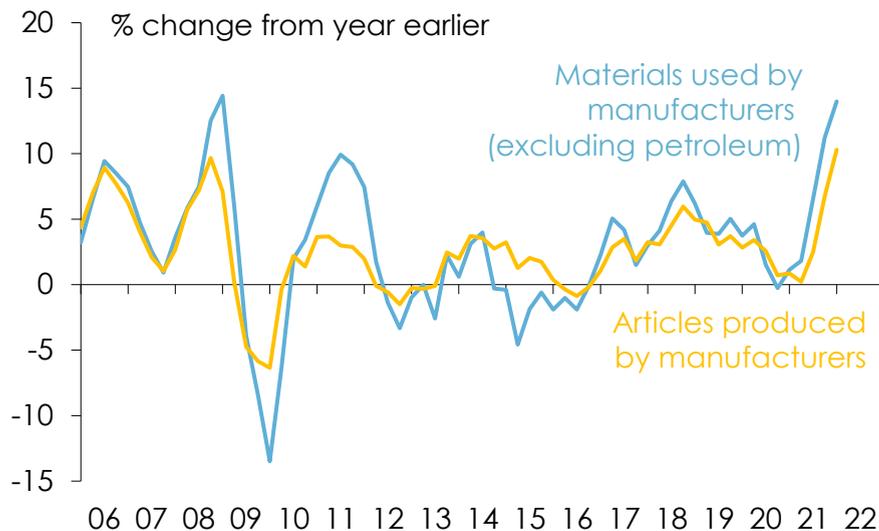
## Import price index



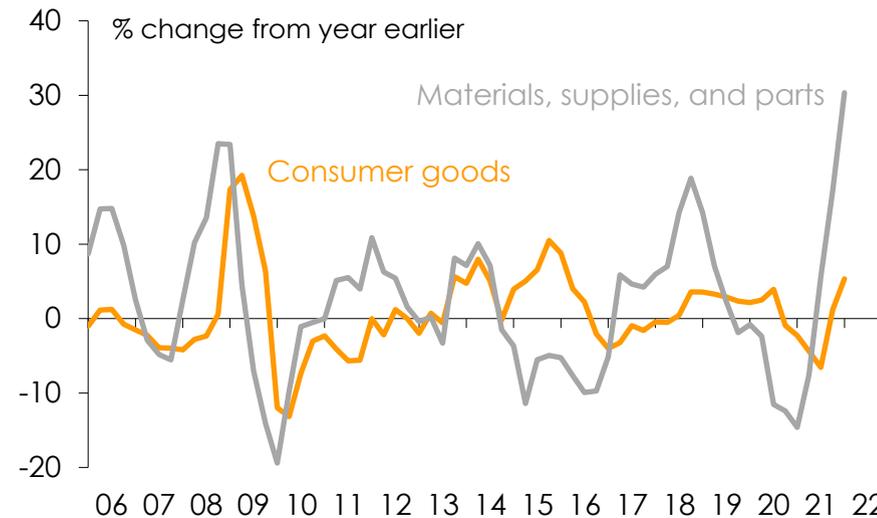
## Construction input & output prices



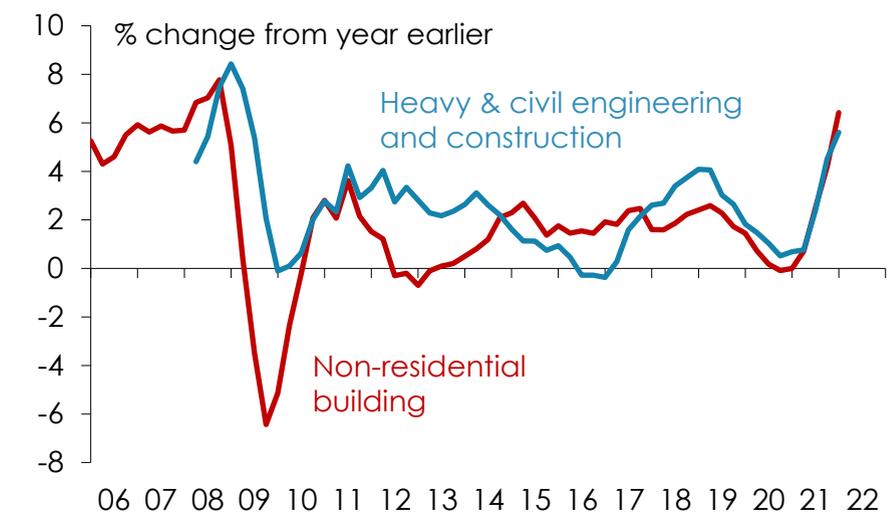
## Manufacturing input & output prices



## Imported consumer goods prices



## Non-residential construction prices

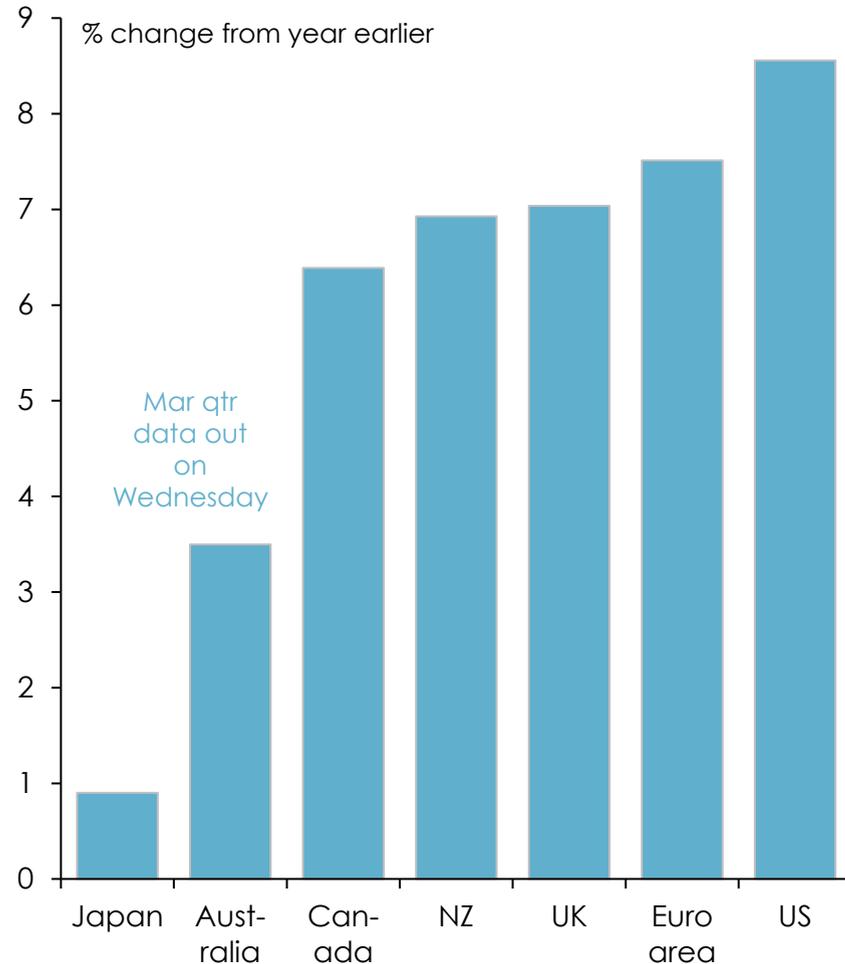


Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), December quarter 2021. March quarter import and producer price indices will be released this coming Thursday and Friday, respectively. [Return to "What's New"](#).

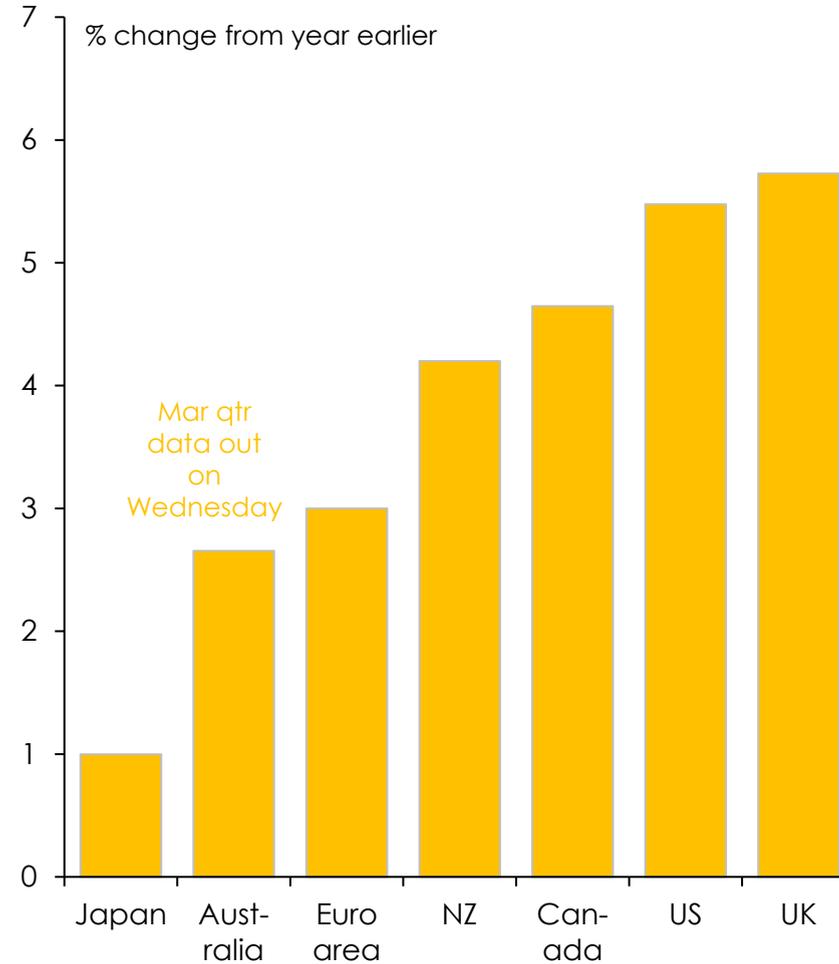
# Although it has surprised to the upside, inflation in Australia hasn't risen nearly as much as in the US, the UK, Canada or New Zealand

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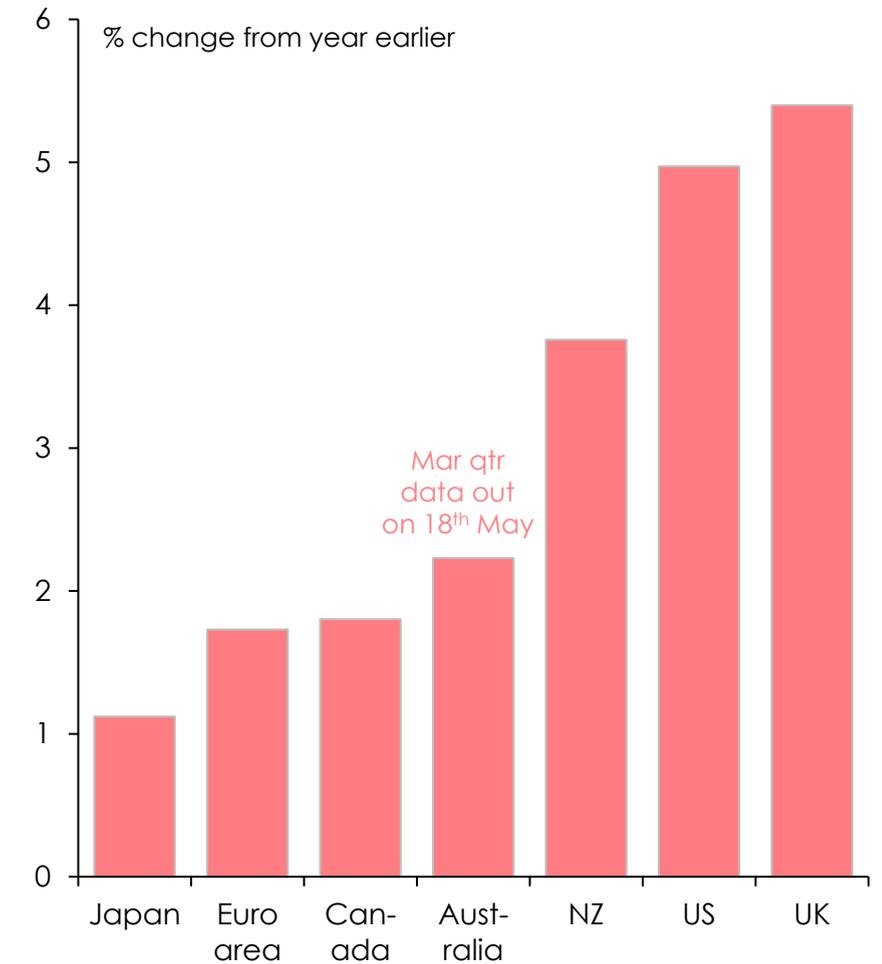
## 'Headline' consumer price inflation



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



## Wage inflation

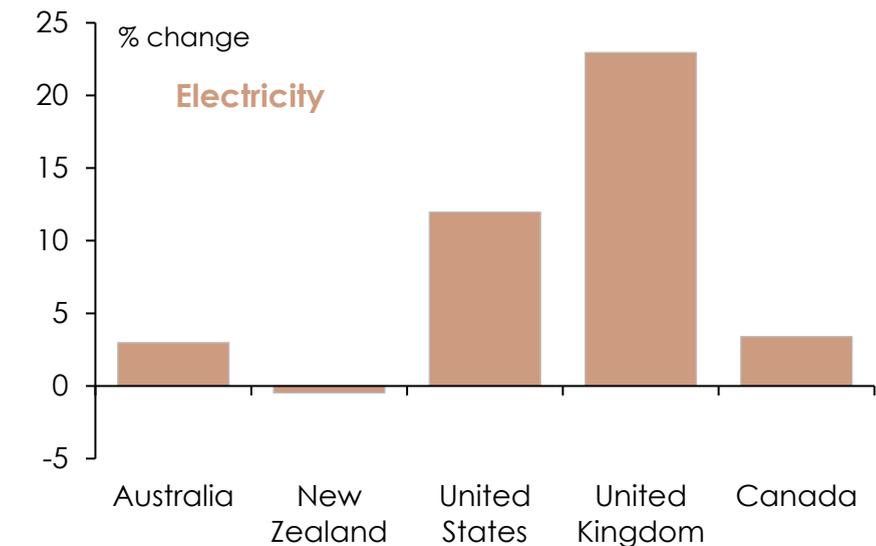
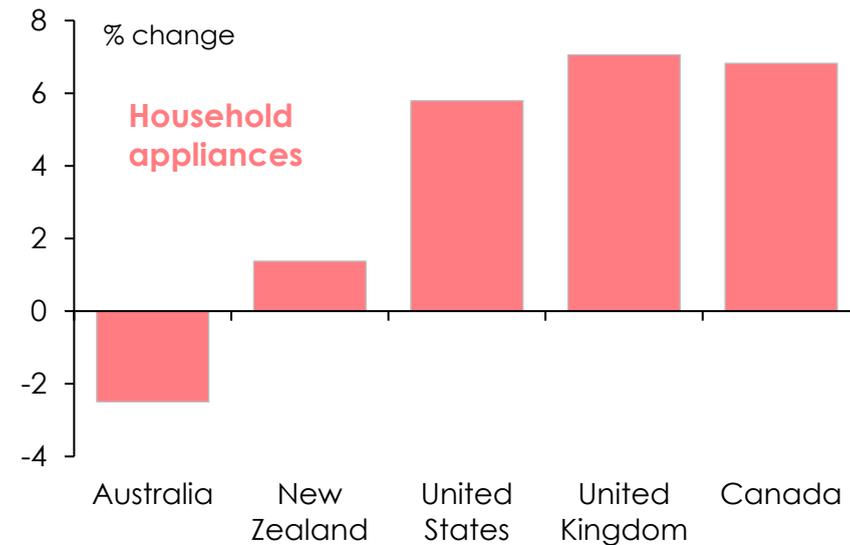
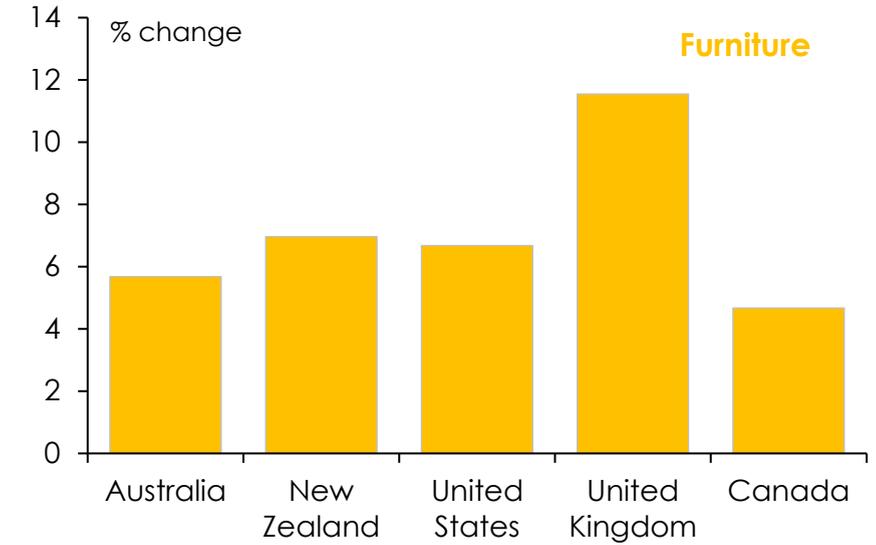
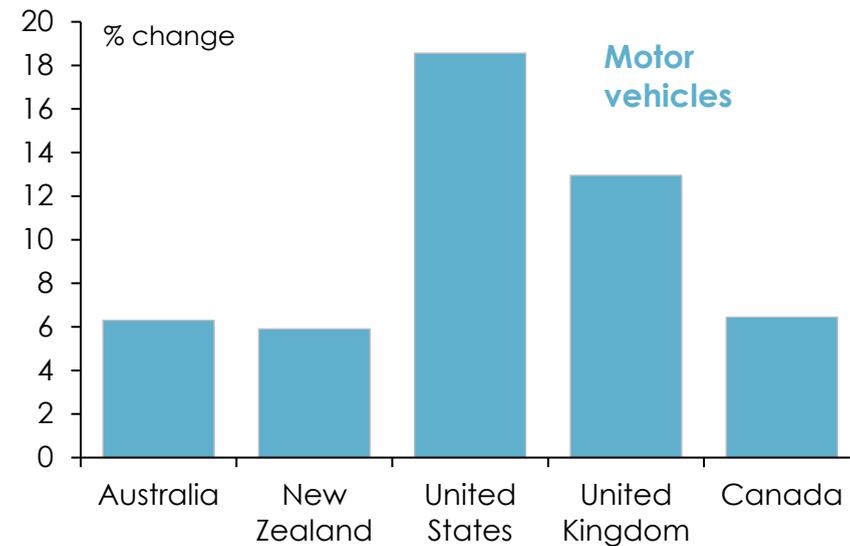
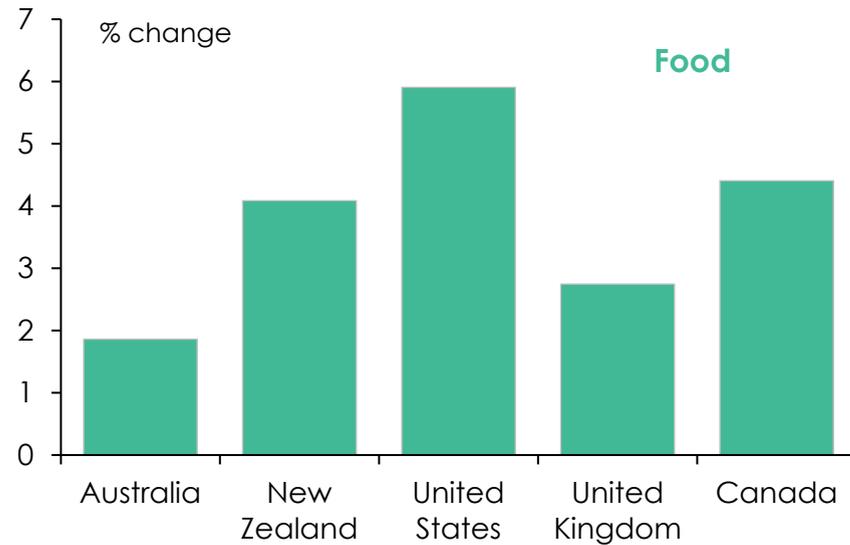


Note: Data are latest available, mostly March or March quarter for CPI inflation (except for Australia, which is still December quarter) and February or March for wage inflation (except for Australia & NZ which are December quarter). 'Core' inflation is CPI excluding food & energy for the US, UK and Canada; trimmed mean for Japan and Australia; and 'sectoral factor model' for NZ. Wage inflation is average hourly earnings for Japan, the UK and Canada (and hence affected by changes in workforce composition), and wage price index or equivalent for the US, euro area and Australia. Sources: [ABS](#); [US Bureau of Labor Statistics](#); [Eurostat](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Statistics New Zealand](#) and [Reserve Bank of New Zealand](#). [Return to "What's New"](#).

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

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

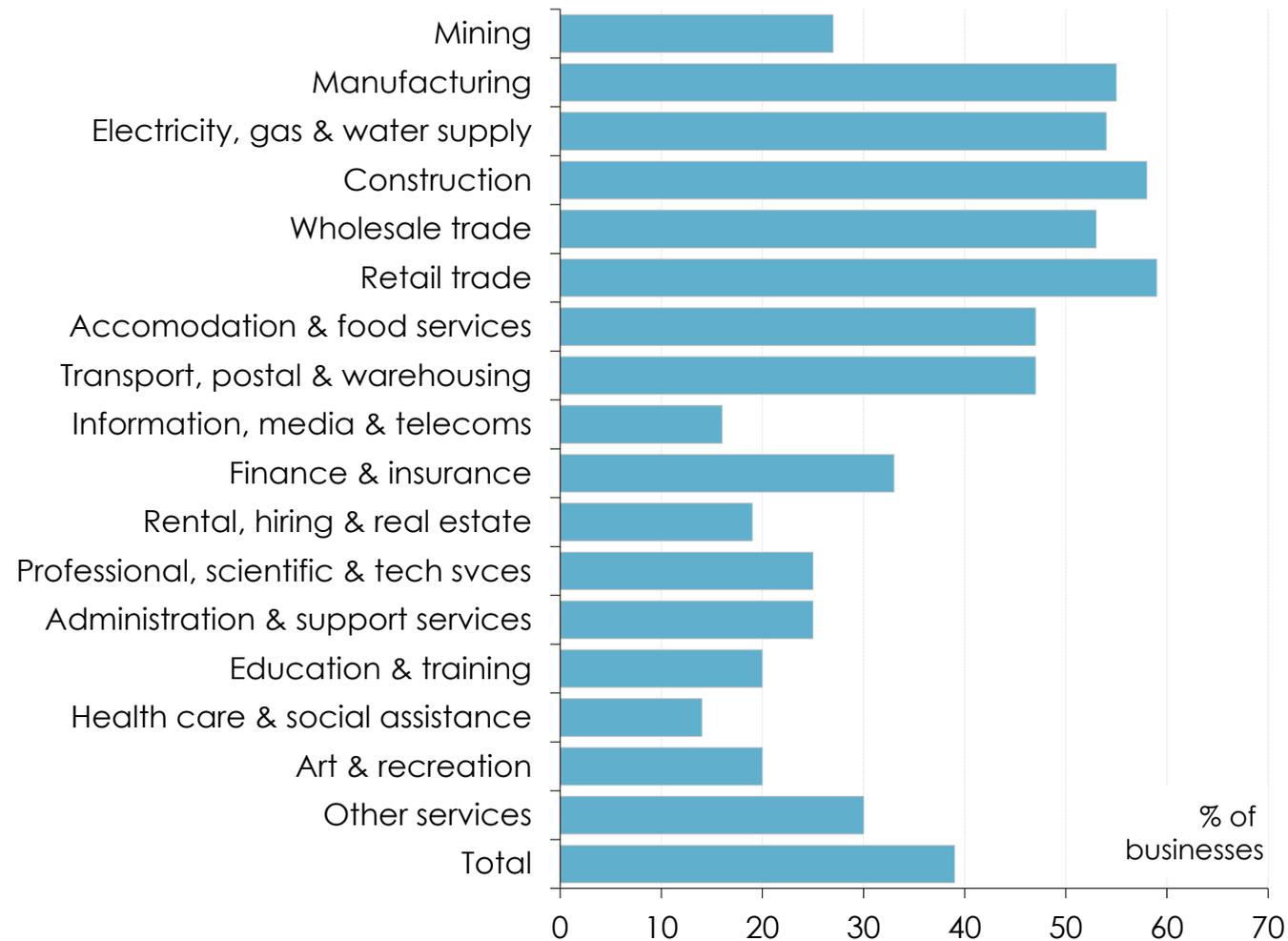


Sources: [Australian Bureau of Statistics](#); [Statistics New Zealand](#); [US Bureau of Labor Statistics](#); [UK Office for National Statistics](#); [Statistics Canada](#).

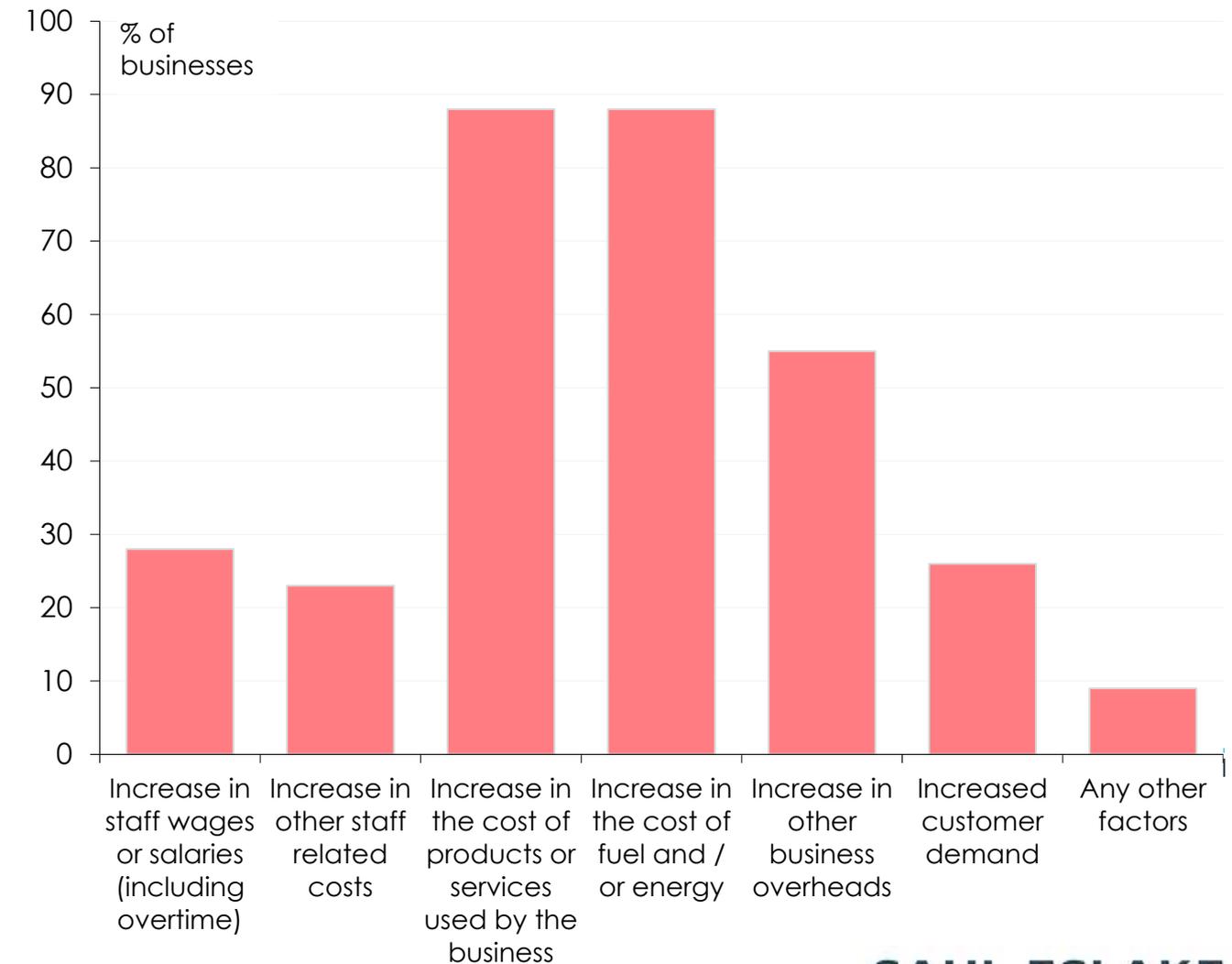
# 39% of businesses (including 59% of retailers) are planning to raise prices 'more than usual' in the next 3 months – but not because of labour costs

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



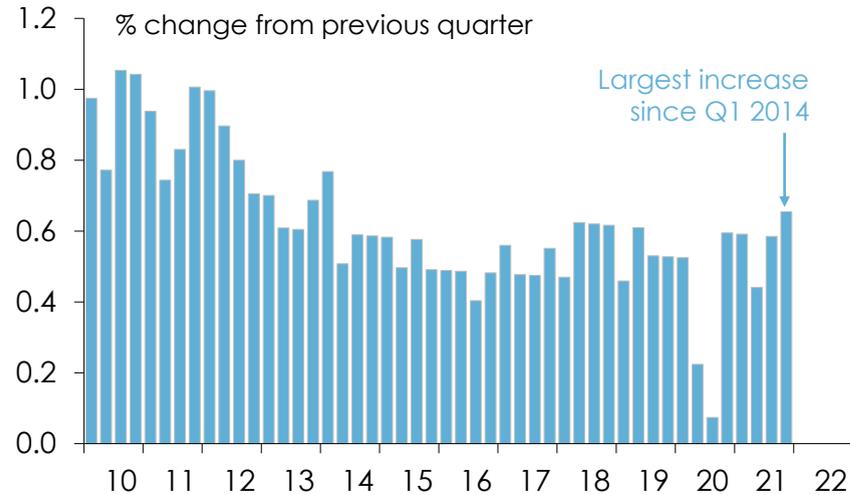
## Factors contributing to businesses expecting to raise prices, March 2022



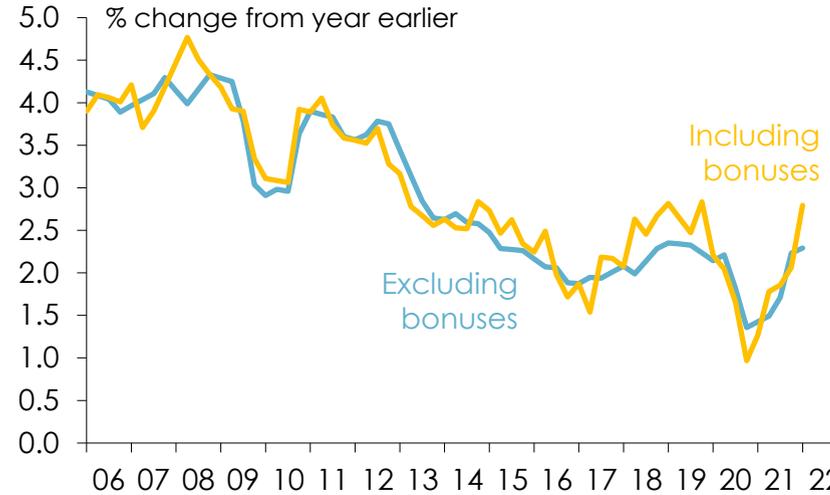
# Wages growth ticked up marginally in the final quarter of 2021 but is yet to break out of the sub-2½% range it's been in since the start of 2015

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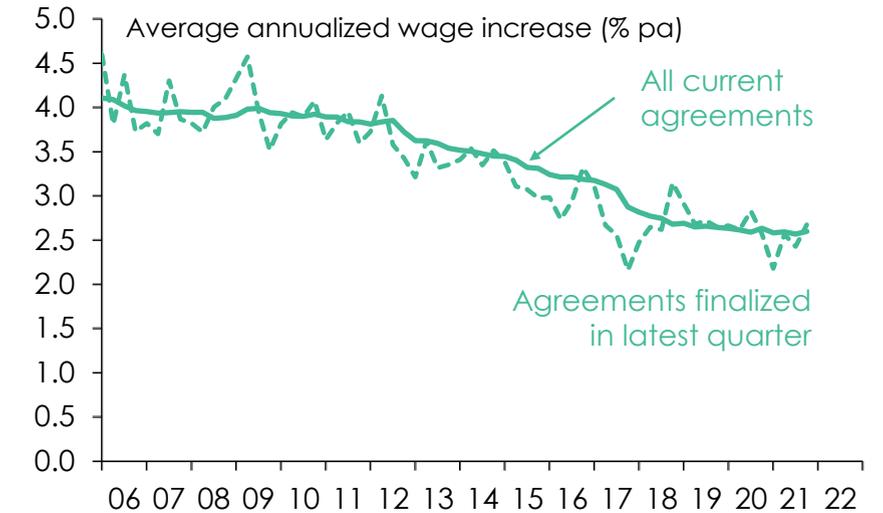
## Wage price index excluding bonuses



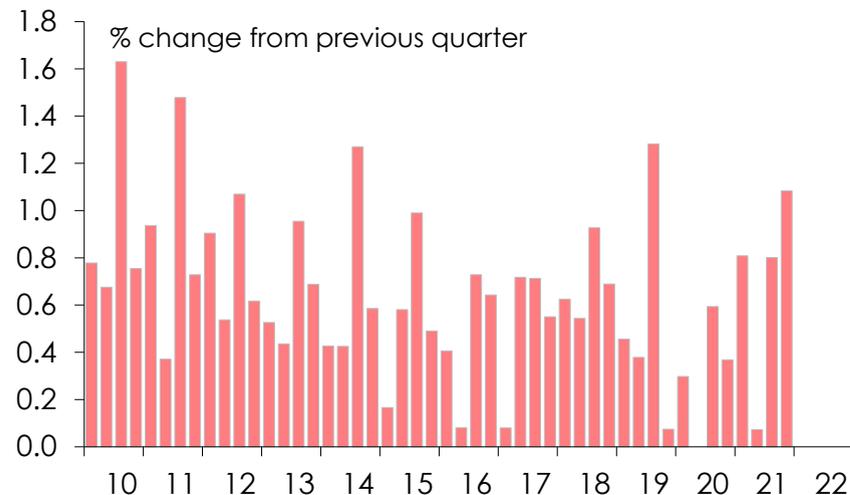
## Wage price index – all sectors



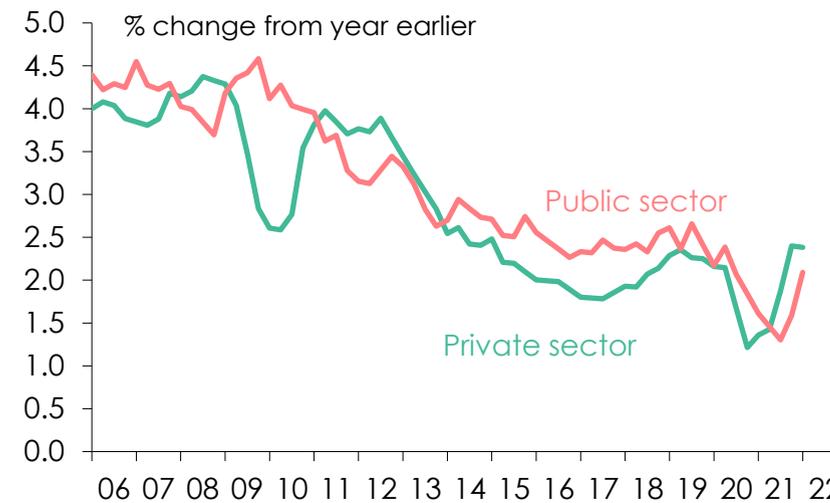
## Enterprise bargaining agreements



## Wage price index including bonuses



## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation

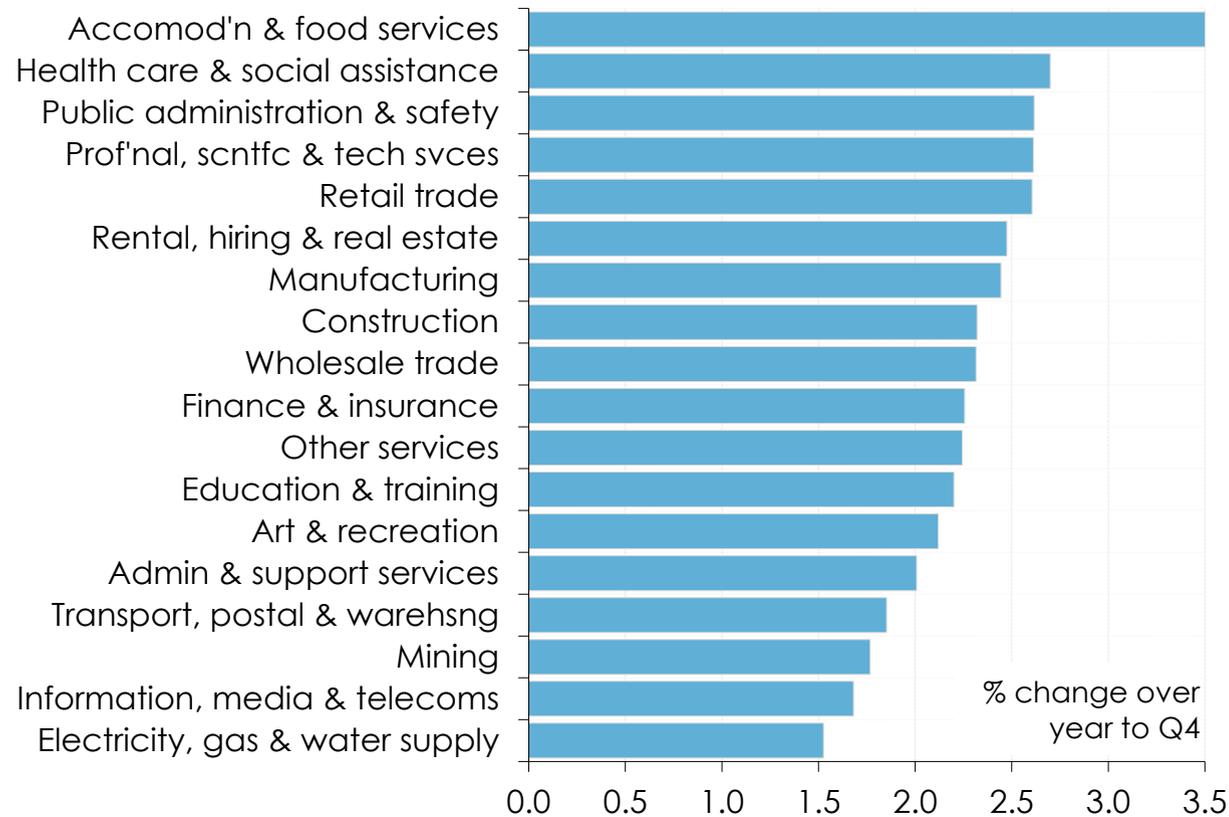


Sources: ABS, [Wage Price Index, Australia](#) Attorney-General's Department, [Trends in Federal Enterprise Bargaining](#); September quarter 2021; March quarter WPI data will be released on 18<sup>th</sup> May. [Return to "What's New"](#).

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

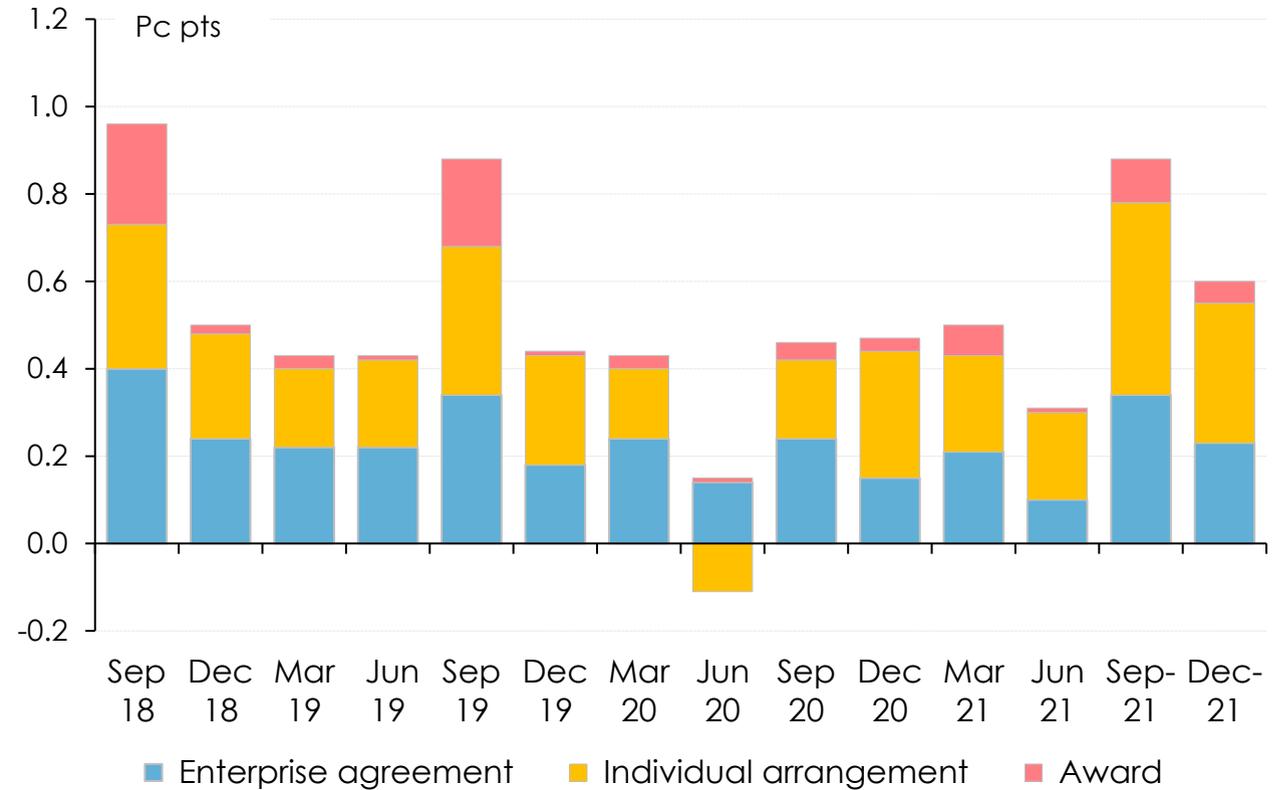
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## Increase in wage price index over year to Q4 by sector



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

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



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

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

# Fiscal policy

# The Pre-Election Economic & Fiscal Outlook (PEFO) released this week contained no major changes to the Budget's economic & fiscal projections

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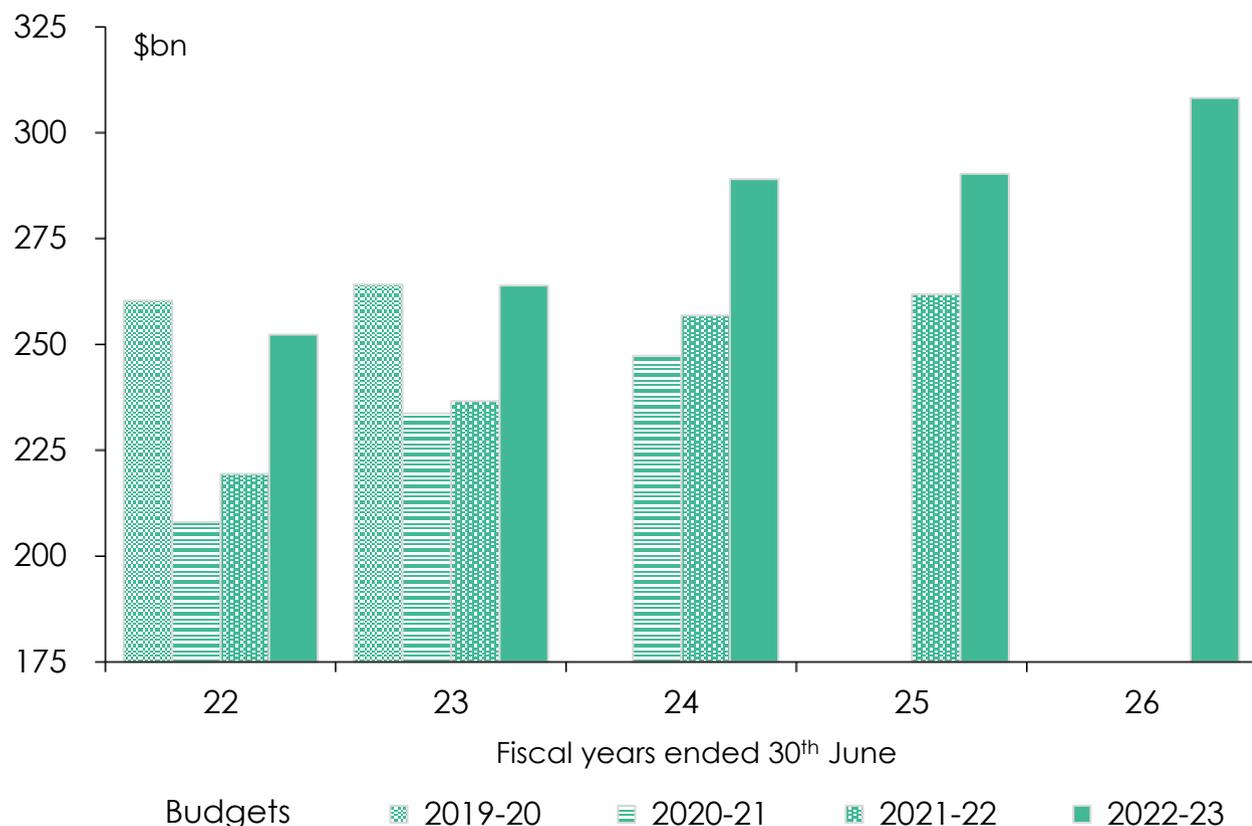
- ❑ The 2022-23 Budget – presented on 29<sup>th</sup> March, earlier than usual in advance of the election to be held on 21<sup>st</sup> May – seeks to implement the ‘second phase’ of the Government’s fiscal strategy (which stresses reducing net debt as a percentage of GDP primarily via economic growth without pursuing a ‘return to surplus’) whilst also 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 82-83](#))
- ❑ 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 85](#)) whilst also foreshadowing budget deficits over the five years to 2025-26 \$104bn (25%) lower than had been projected last December ([slide 86](#))
  - 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 87](#))
- ❑ The medium-term budget outlook is also significantly improved, although the budget will remain in deficit through at least 2032-33 ([slide 90](#)): any eventual return to surplus will probably require tax increases ([slide 91](#))
- ❑ The [Pre-Election Economic and Fiscal Outlook](#) (PEFO) released this week by the Departments of Treasury and Finance makes no changes to the economic assumptions underlying the Budget, and only very minor changes to the forecasts of the major budget aggregates – ‘underlying’ cash deficits are now forecast to total \$224.5bn over the four years to 2025-26, just \$180mn less than projected in the Budget
  - although it did note that the “structural budget balance has undergone a deterioration since the onset of the pandemic”

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

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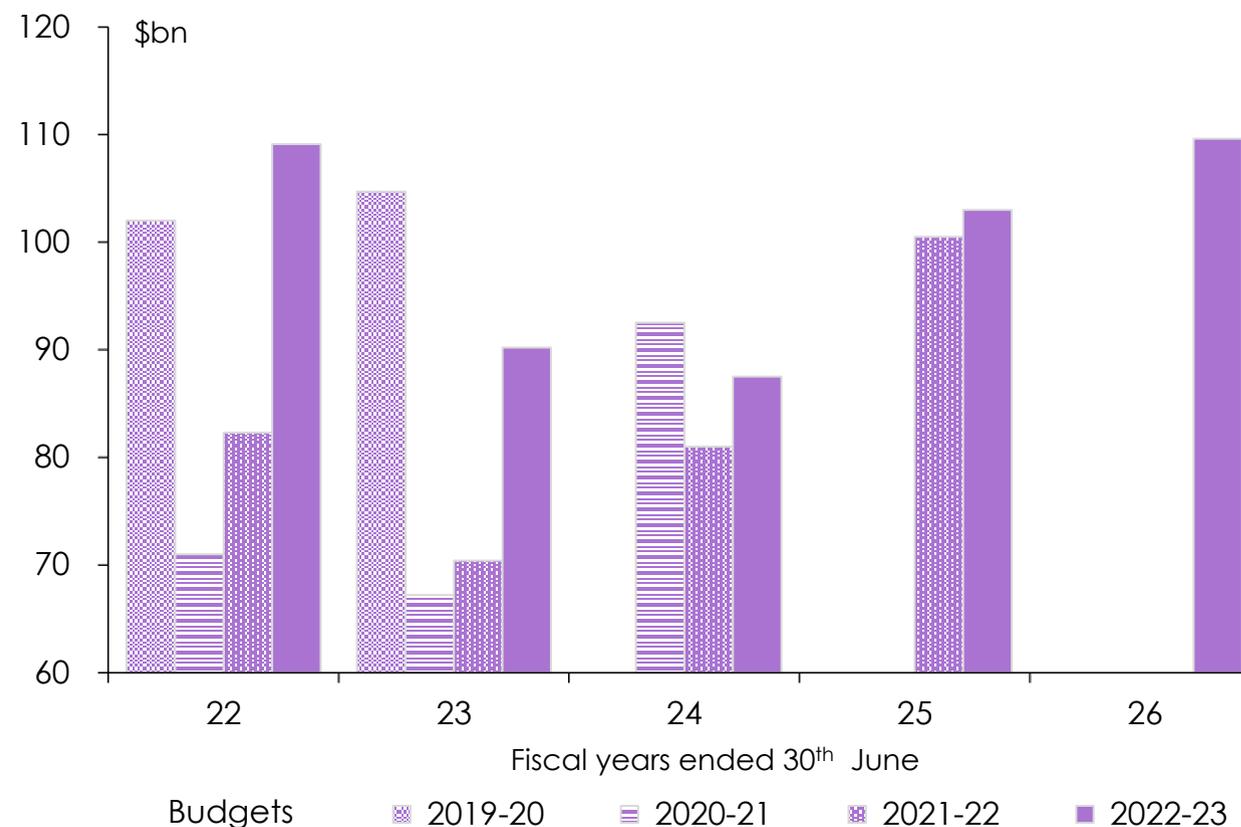
## Successive budget estimates of personal and company income tax collections

### 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



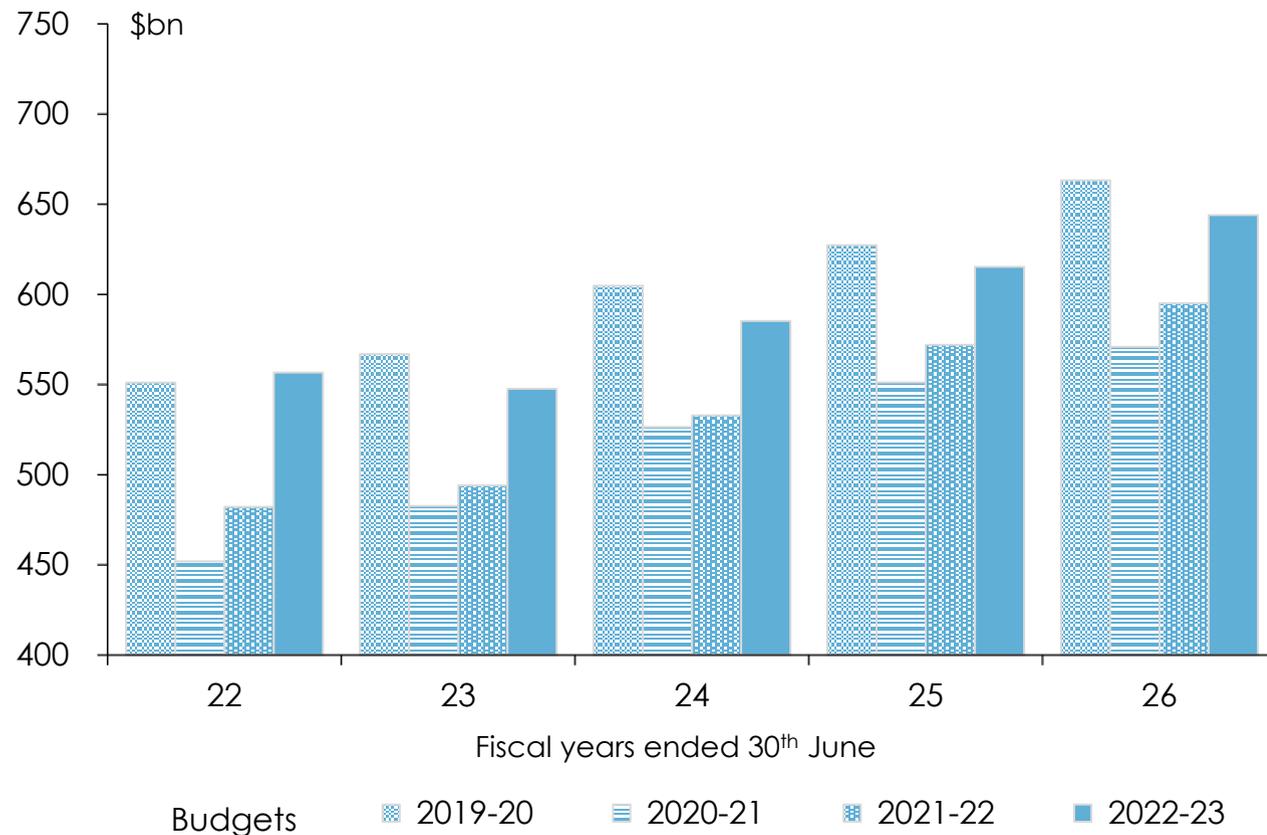
□ Forward estimates of company income tax collections for the years 2021-22 through 2023-24 have been revised up by \$53bn since last year's Budget, and by \$56bn since the 2020-21 Budget

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

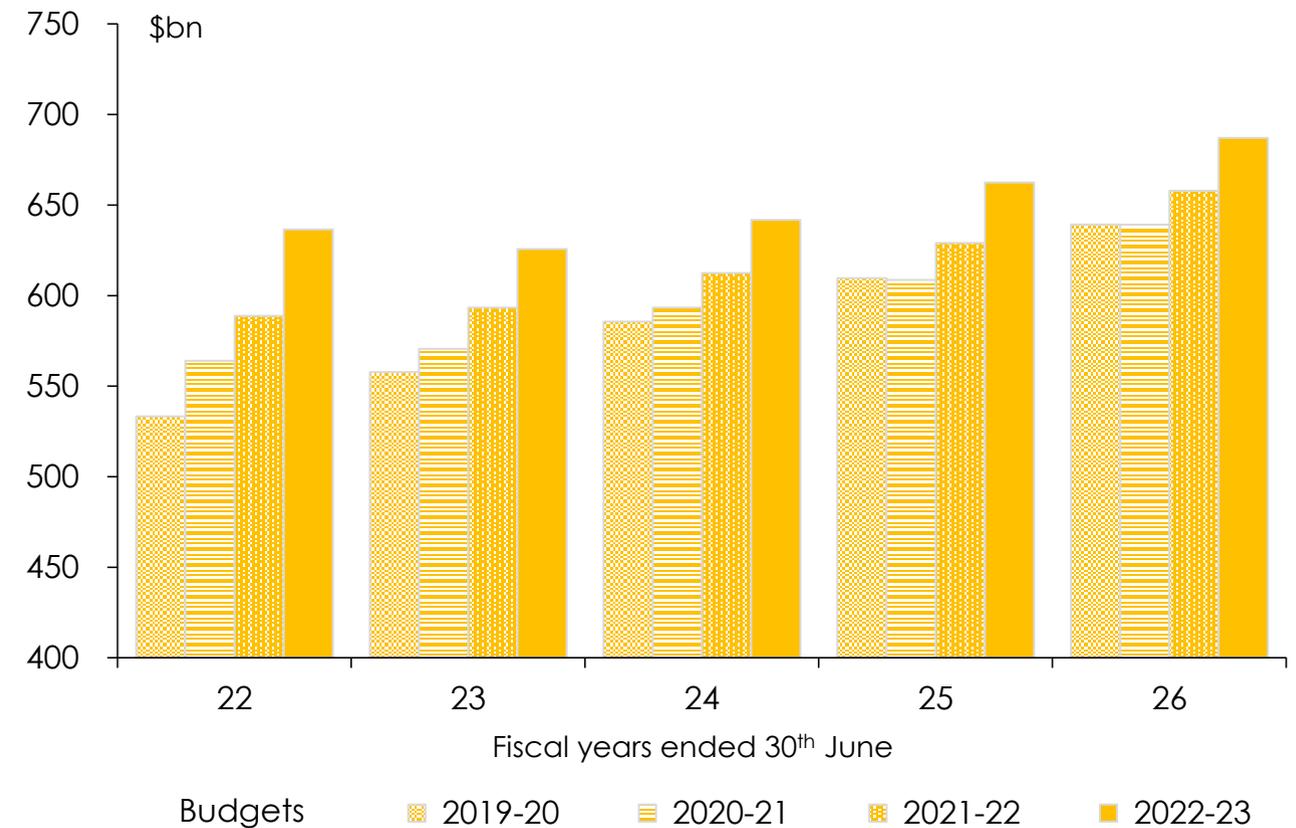
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## Successive budget estimates of receipts and payments

### Receipts



### Payments



□ 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

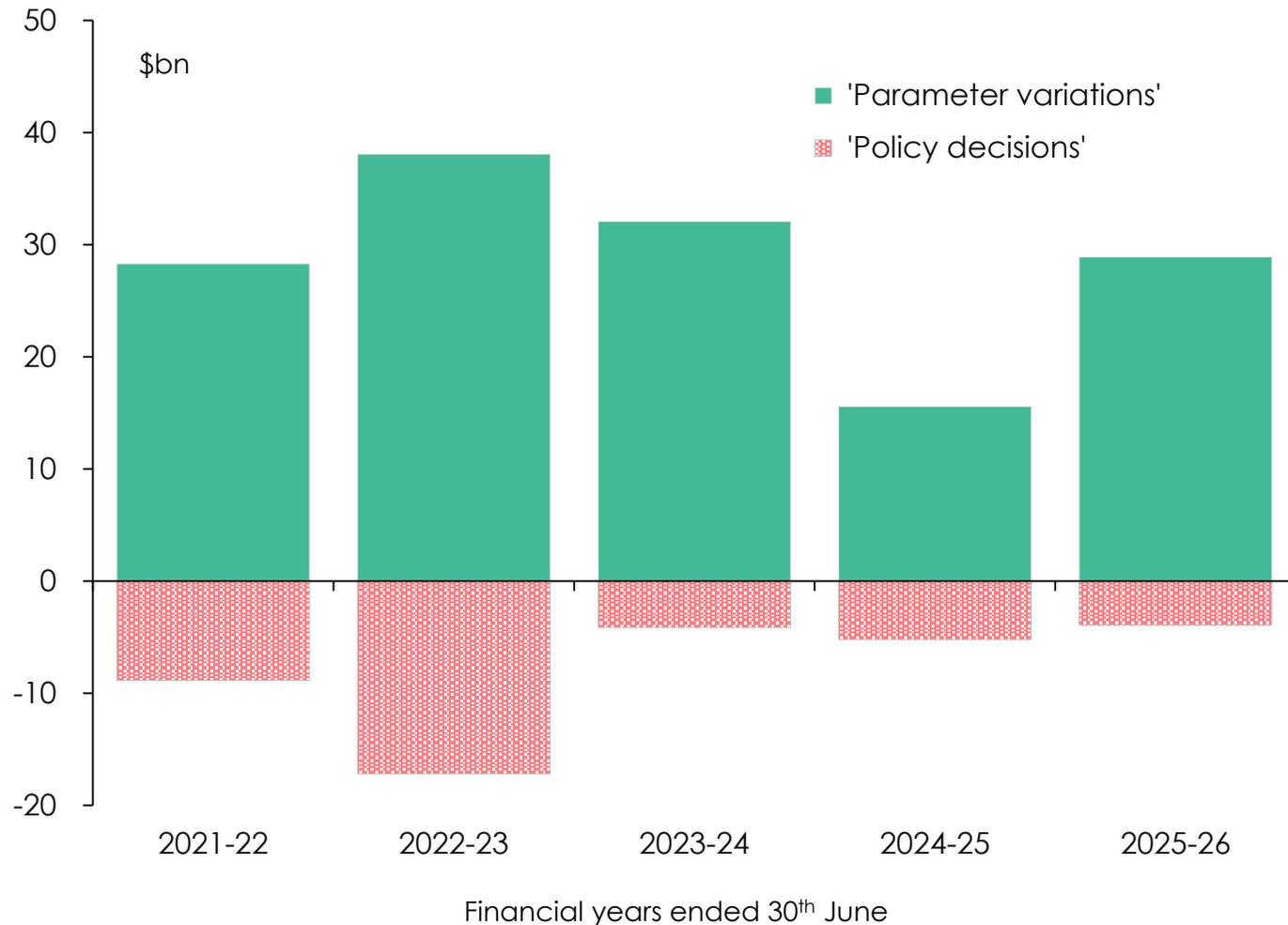
□ Payments projections for the five years to 2025-26 have been revised upwards by only \$40bn since MYEFO, by \$172bn compared with last year's Budget, and \$278bn compared with the 2020-21 Budget

Sources: Australian Government, 2022-23 [Budget Paper No. 1, Statement No 3](#), 29<sup>th</sup> March 2022 (and previous issues); and [Pre-election Economic and Fiscal Outlook 2022](#), 20<sup>th</sup> April 2022. [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

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## 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
<b>Revenue measures -</b>						
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
<b>Spending measures -</b>						
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
<b>Total</b>	<b>8,052</b>	<b>16,214</b>	<b>3,547</b>	<b>5,013</b>	<b>5,005</b>	<b>37,831</b>

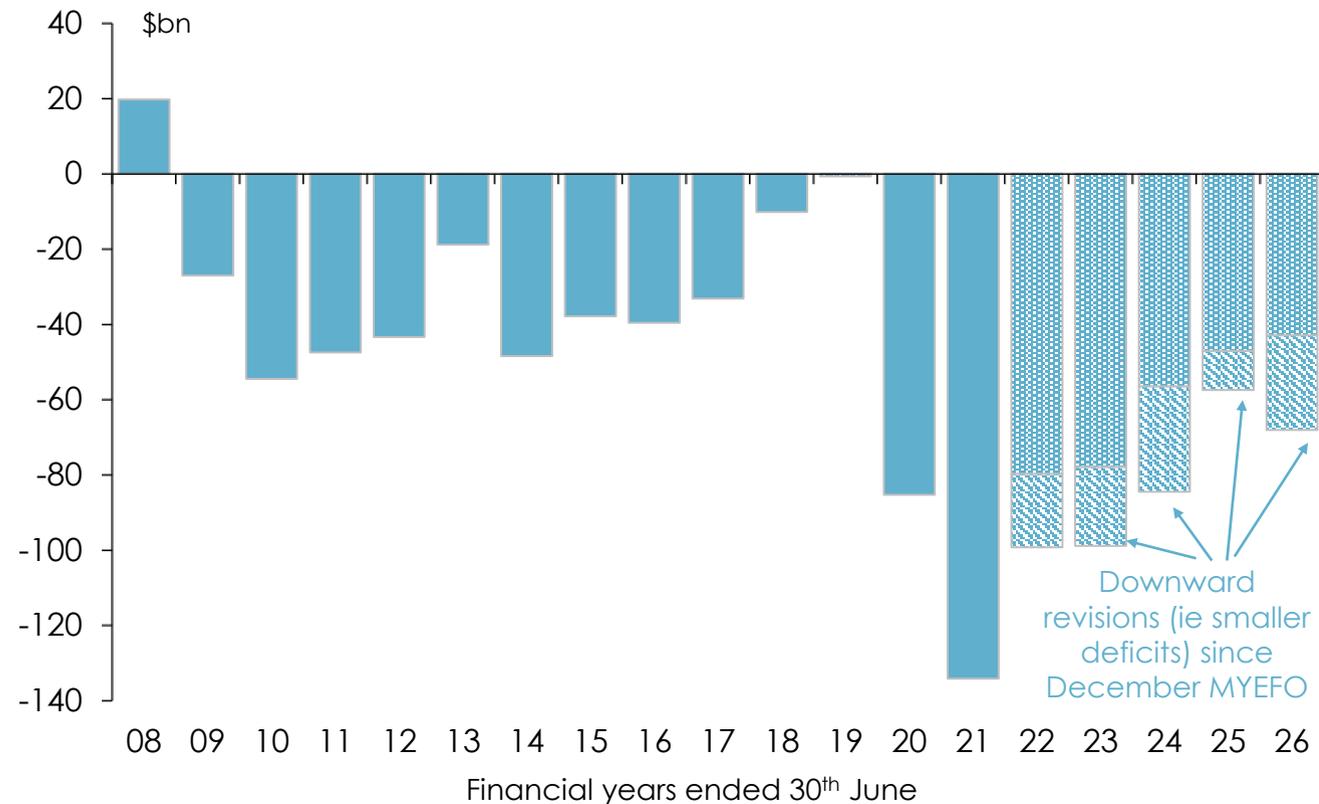
- ❑ The discretionary policy measures in the Budget are, in total, relatively small – especially considering that it’s a ‘pre-election’ Budget
- ❑ The ‘net stimulus’ implied by the ‘policy decisions’ contained in the Budget is equivalent to 0.4% of GDP in 2021-22, 0.7% of GDP in 2022-23, and 0.2% of 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

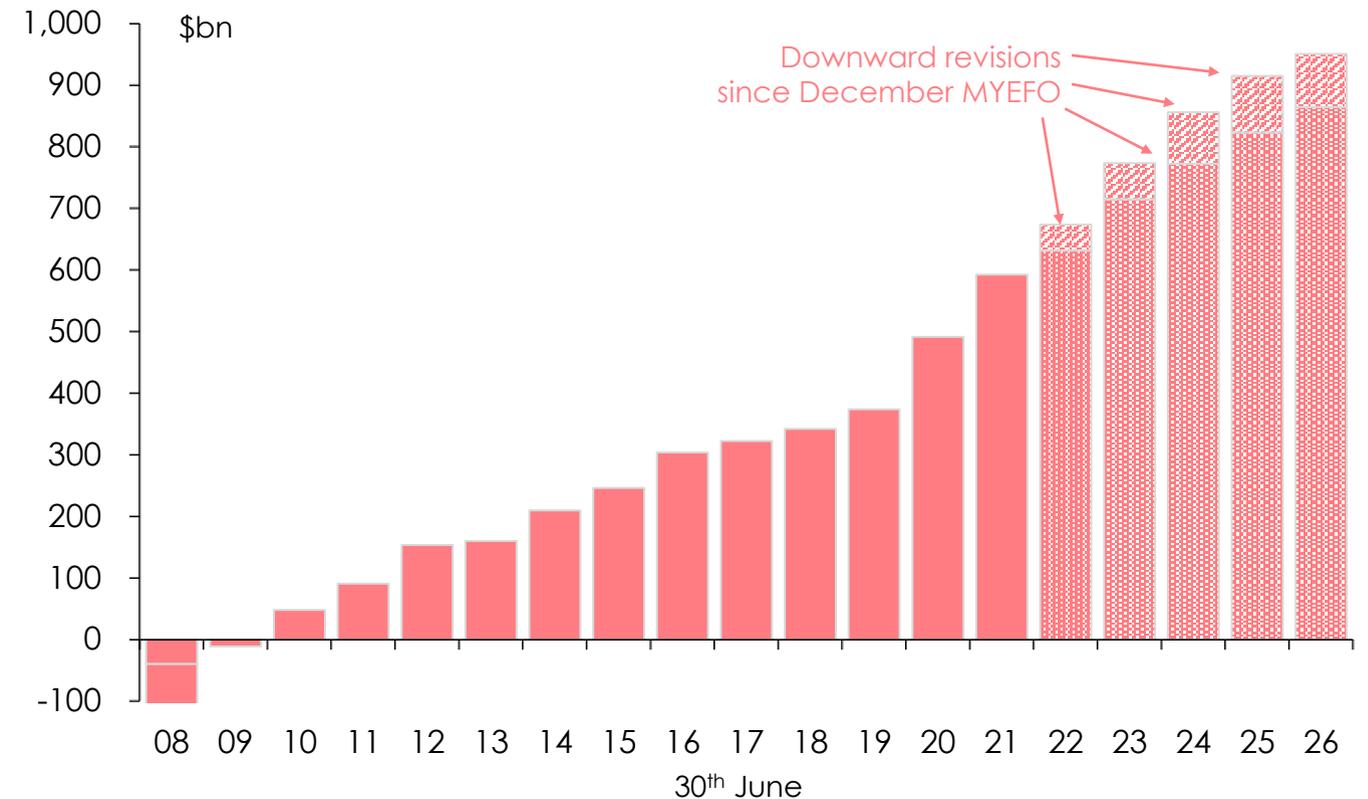
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## 2022-23 Budget forward estimates compared with those from December's MYEFO

### 'Underlying' cash balance



### Net debt



□ 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

□ The forecast for net debt as at 30<sup>th</sup> 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'

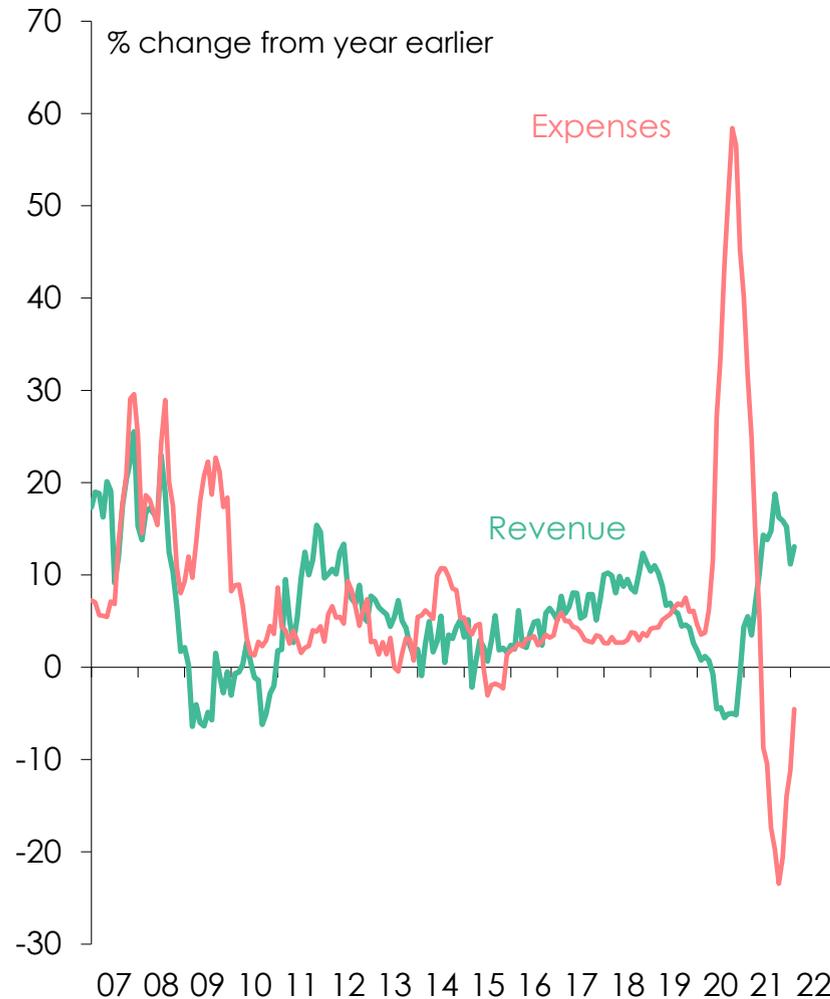
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- ❑ There can be no reasonable objection to targeted measures aimed at assisting lower-income households cope with increases in their 'cost of living' arising from higher fuel and food prices
  - such measures were explicitly endorsed by [the OECD](#) 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 5<sup>3</sup>/<sub>4</sub>% 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

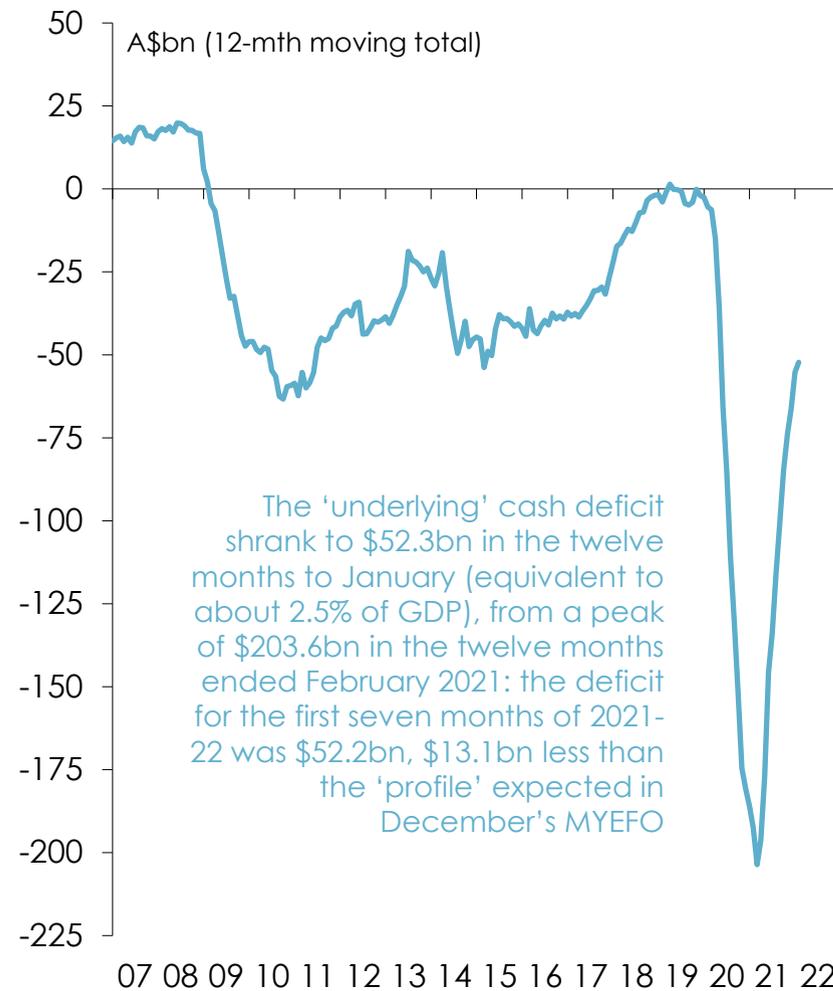
# The Federal budget deficit is declining rapidly, thanks largely to buoyant tax revenues, and net debt appears to have stabilized

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

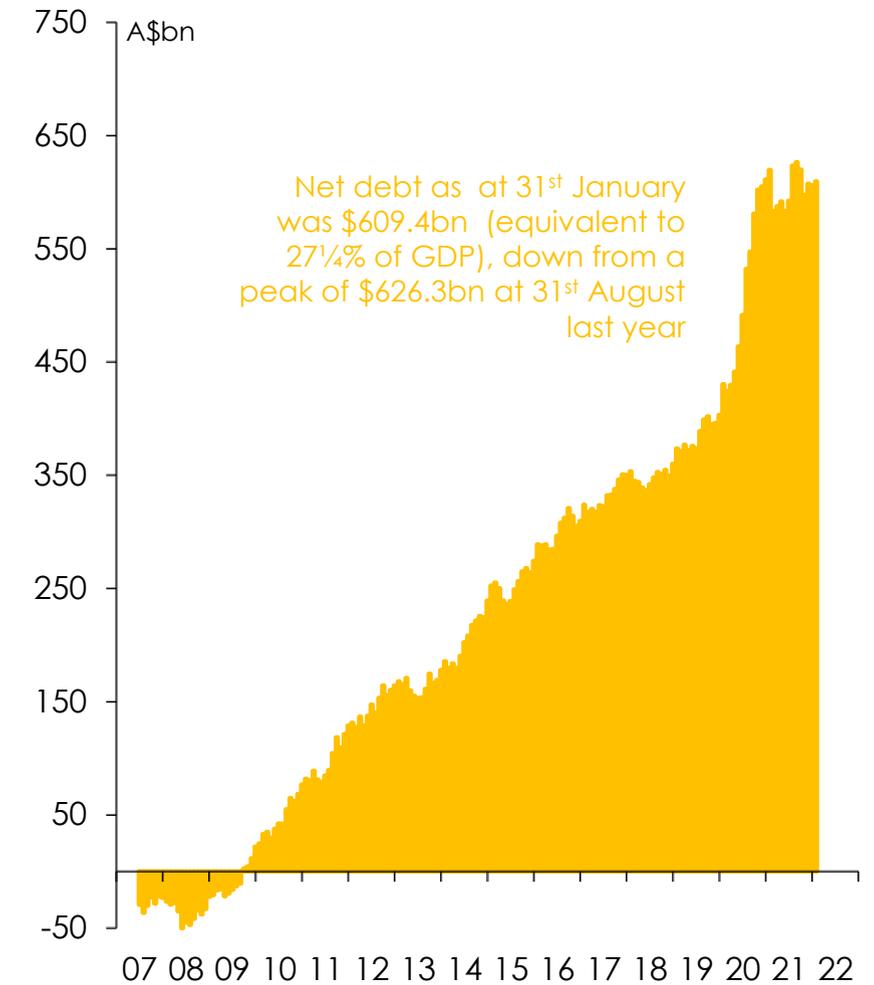
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt



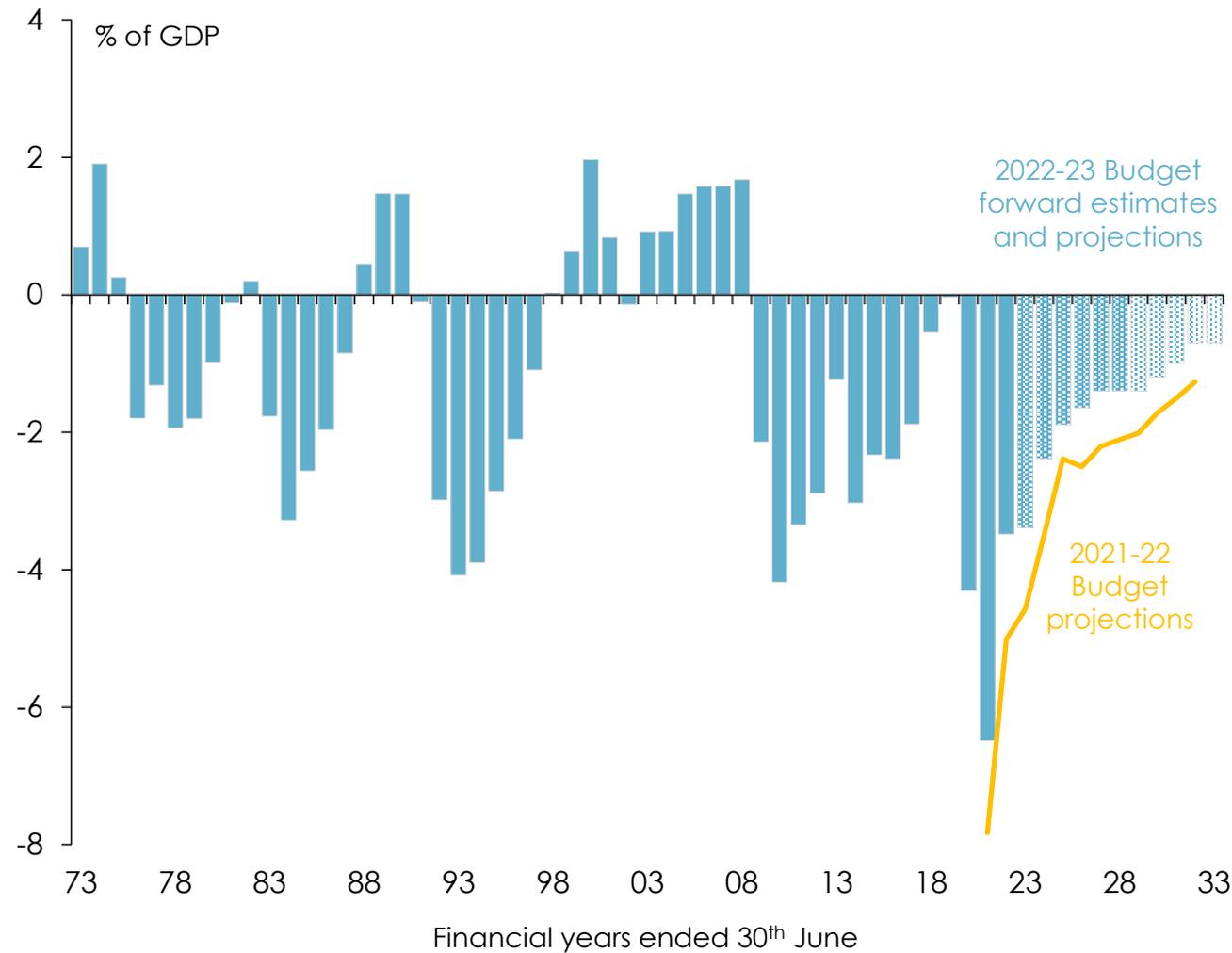
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

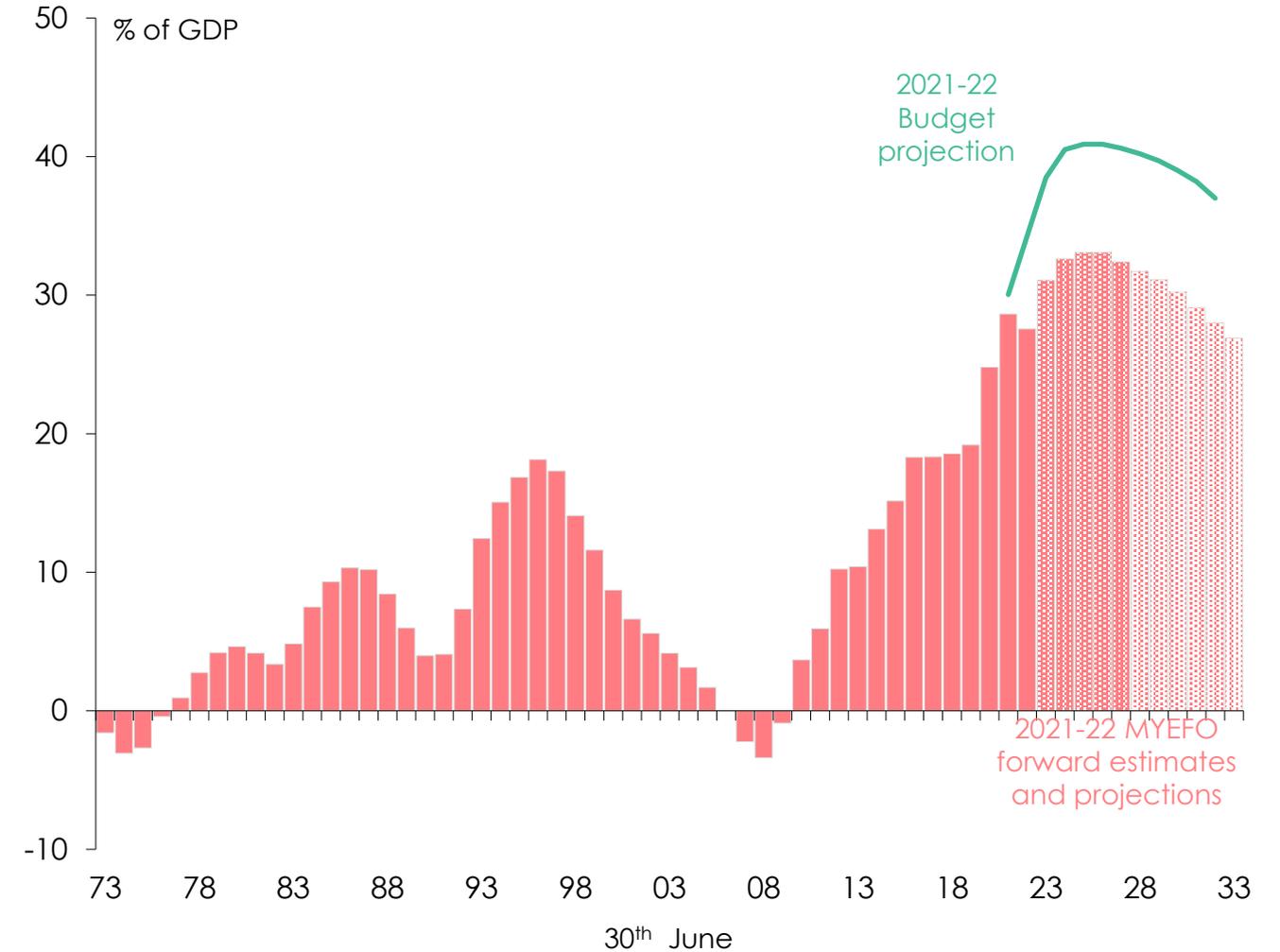
THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

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

### ‘Underlying’ cash balance



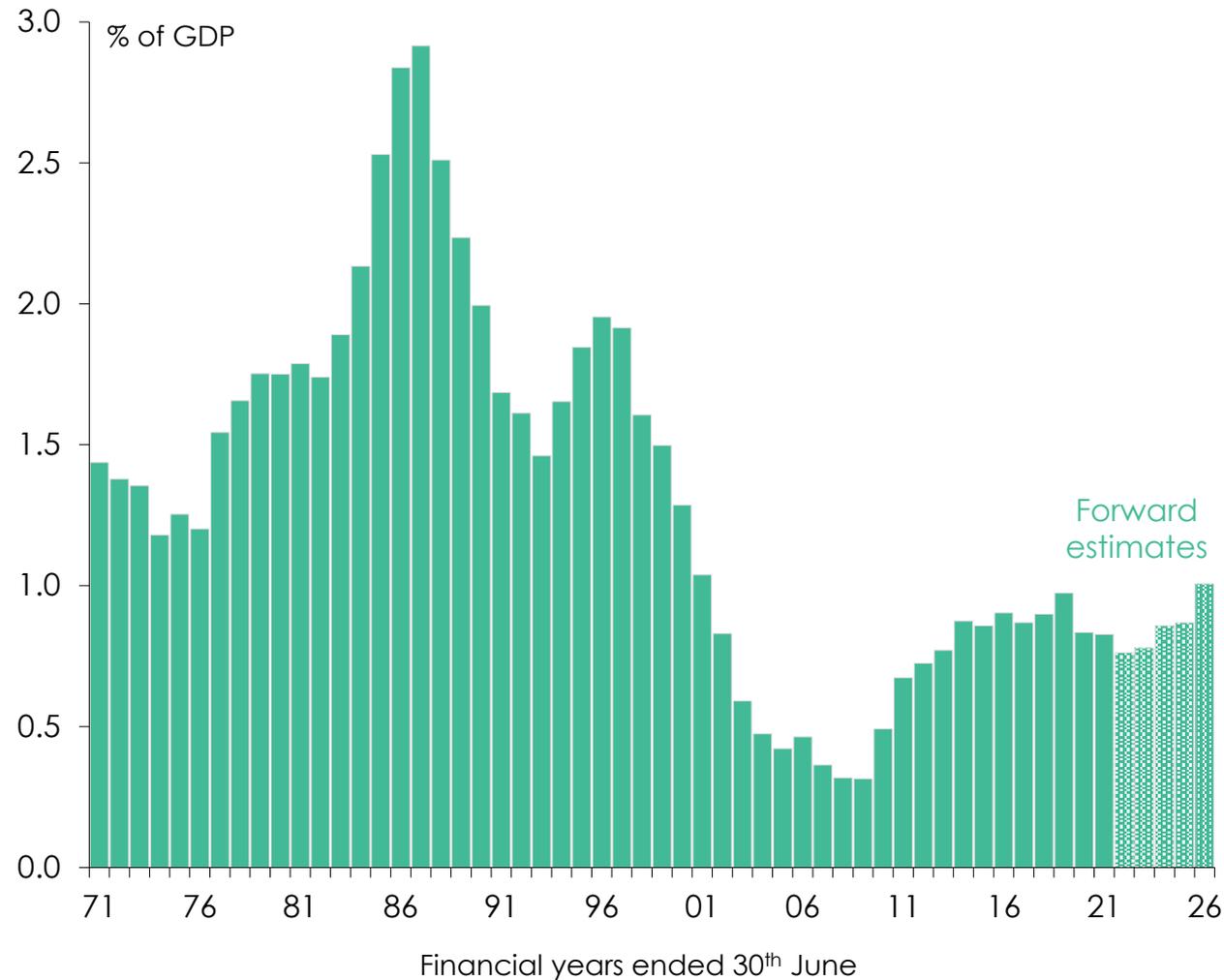
### Net debt



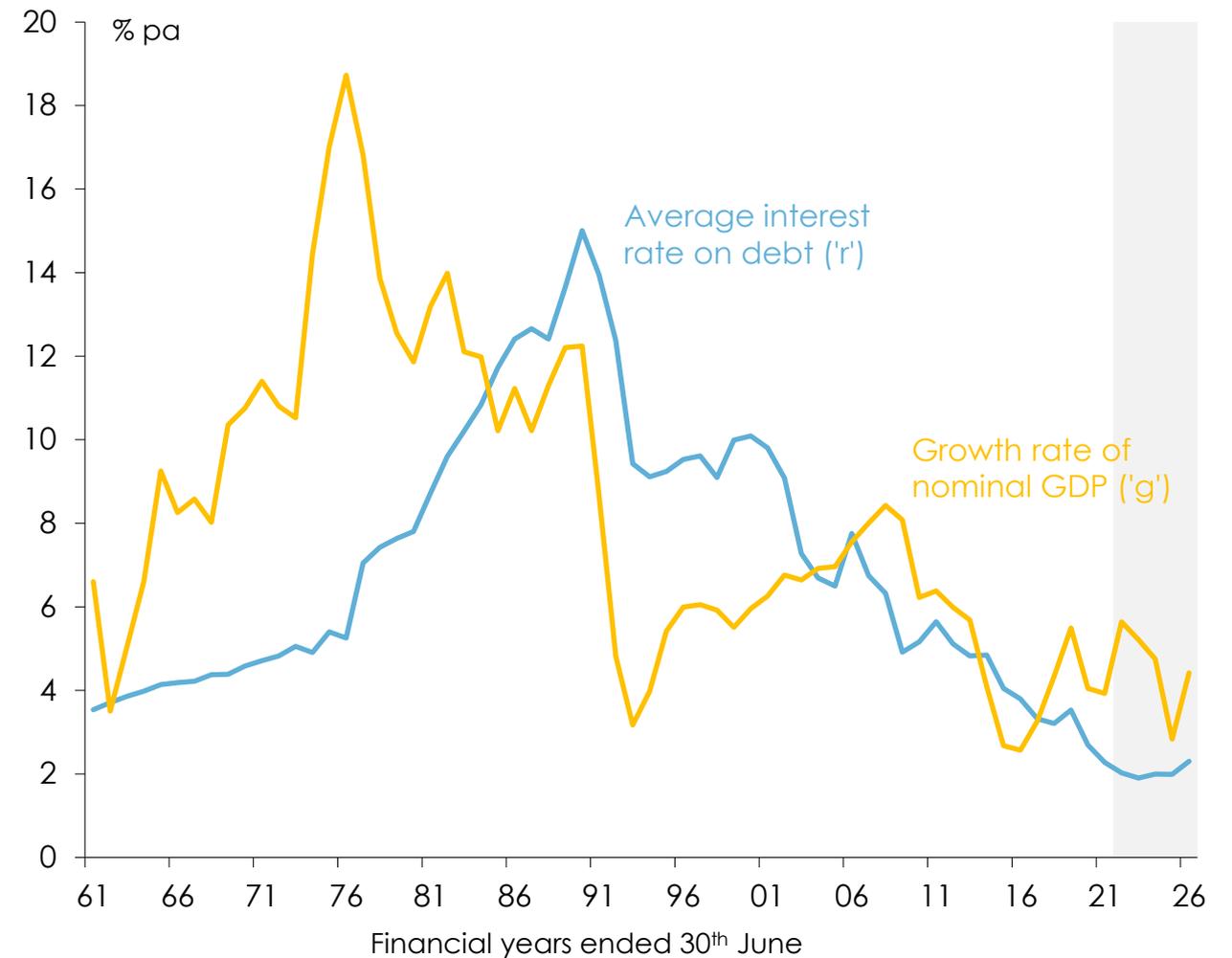
# The Government can comfortably service its historically high levels of debt as long as interest rates are lower than the rate of economic growth

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

## Australian Government gross interest payments as a percentage of GDP



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

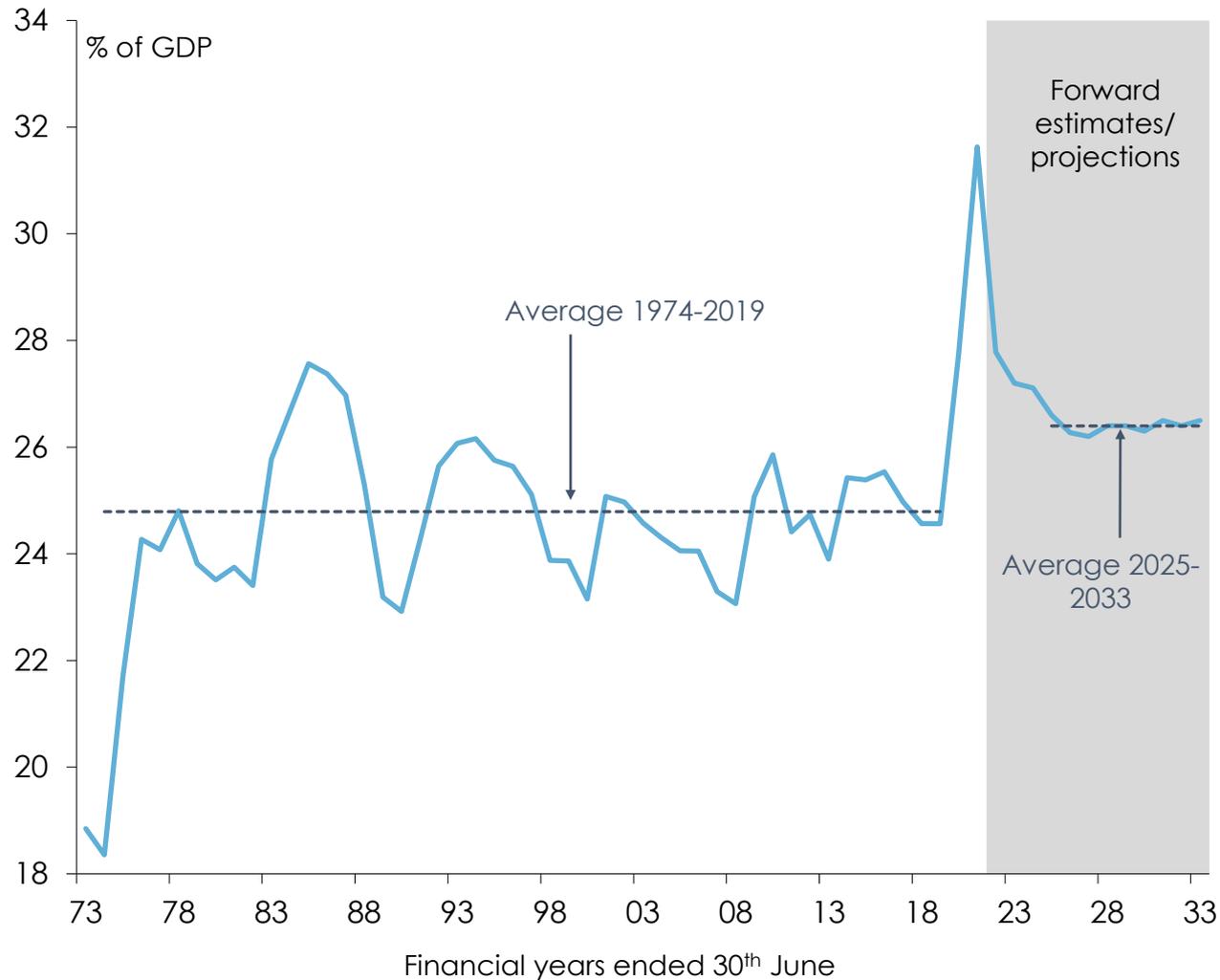


Source: Australian Government, 2022-23 [Budget Paper No. 1](#), [Statement No. 3](#), [Statement No. 6](#) and [Statement No. 10](#), 29th March 2022. [Return to "What's New"](#).

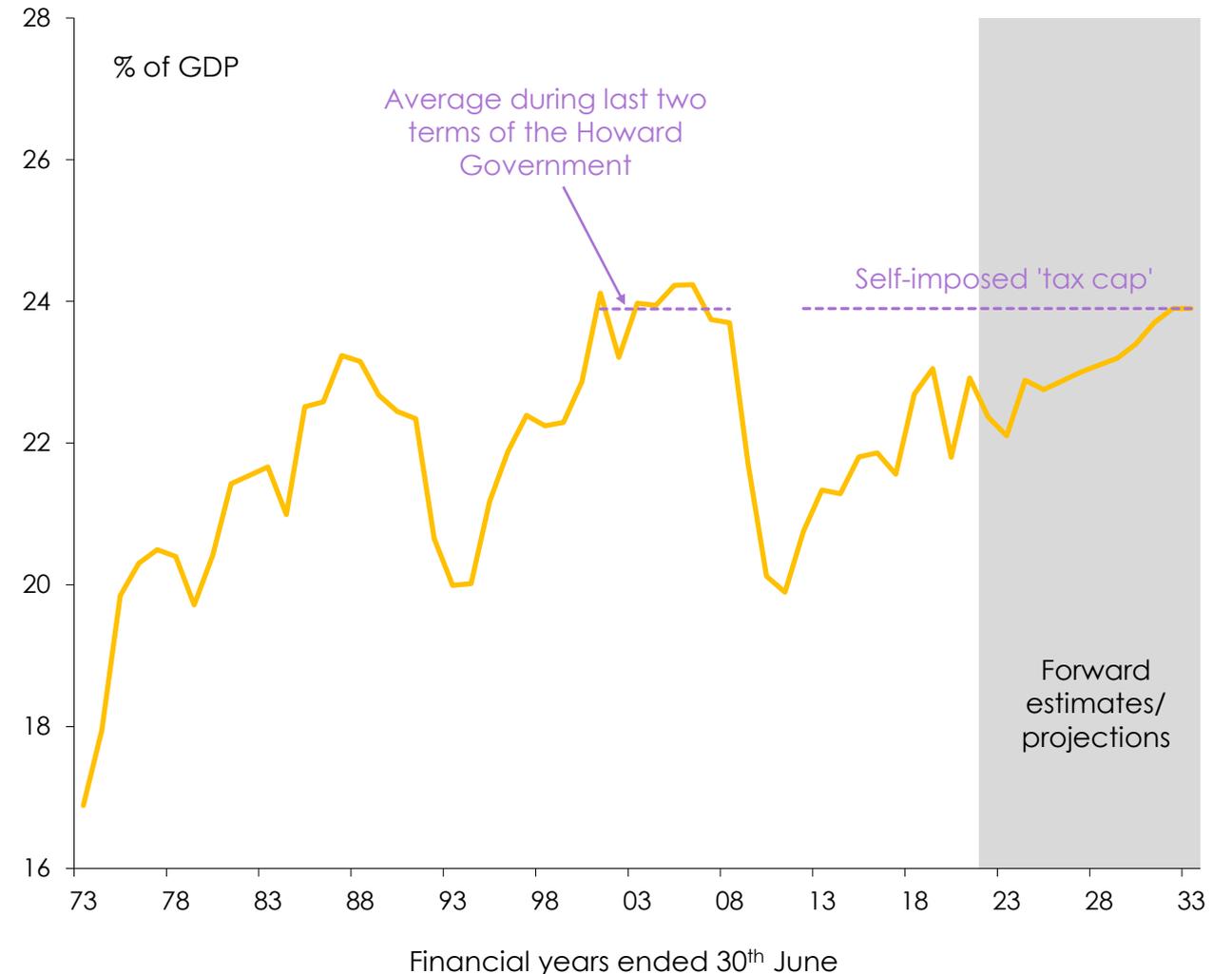
# Ultimately, some future government is likely to have to bust the (quite arbitrary) 'cap' on tax revenue as a percentage of GDP

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

## 'Underlying' cash payments as a pc of GDP



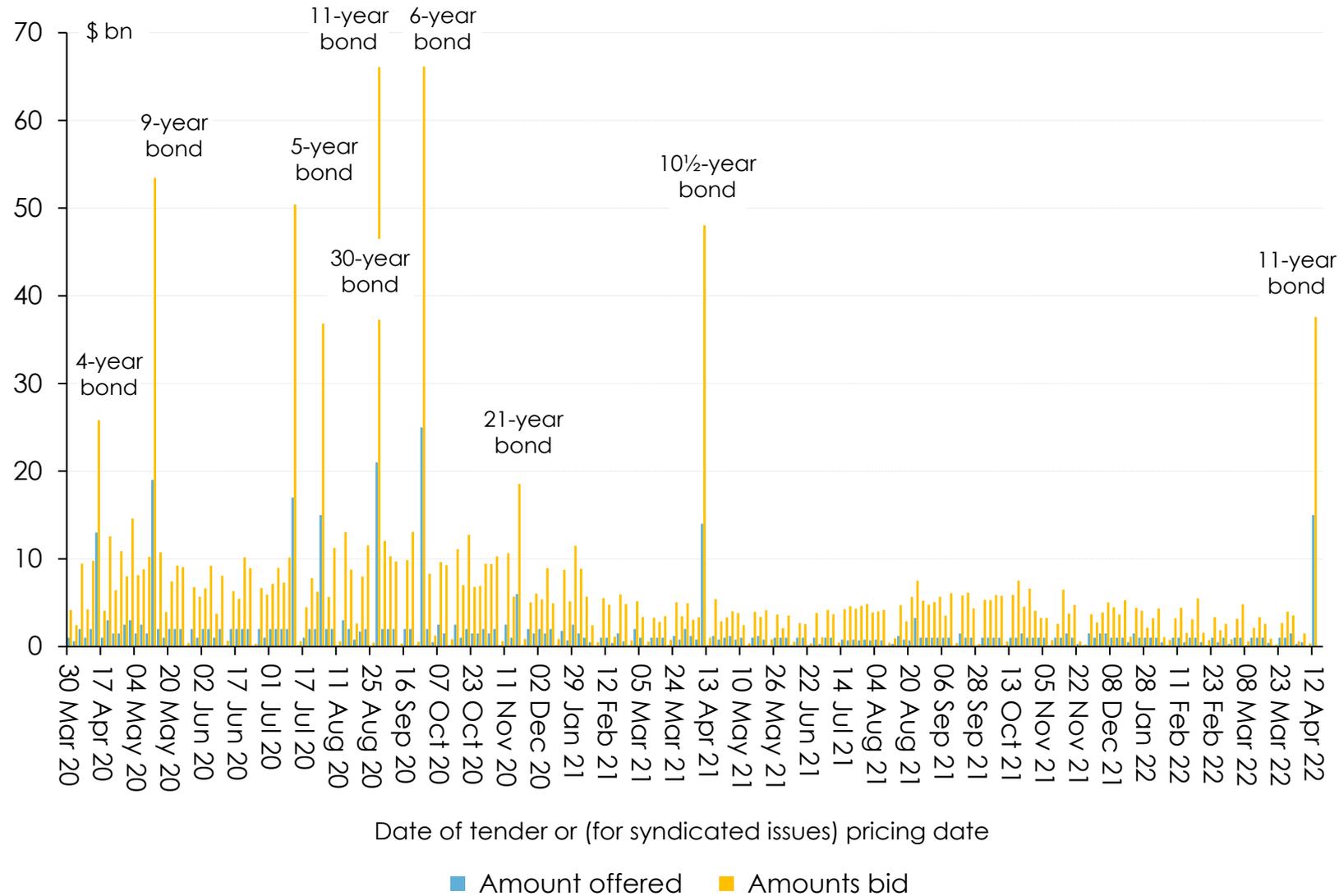
## Taxation receipts as a pc of GDP



# 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



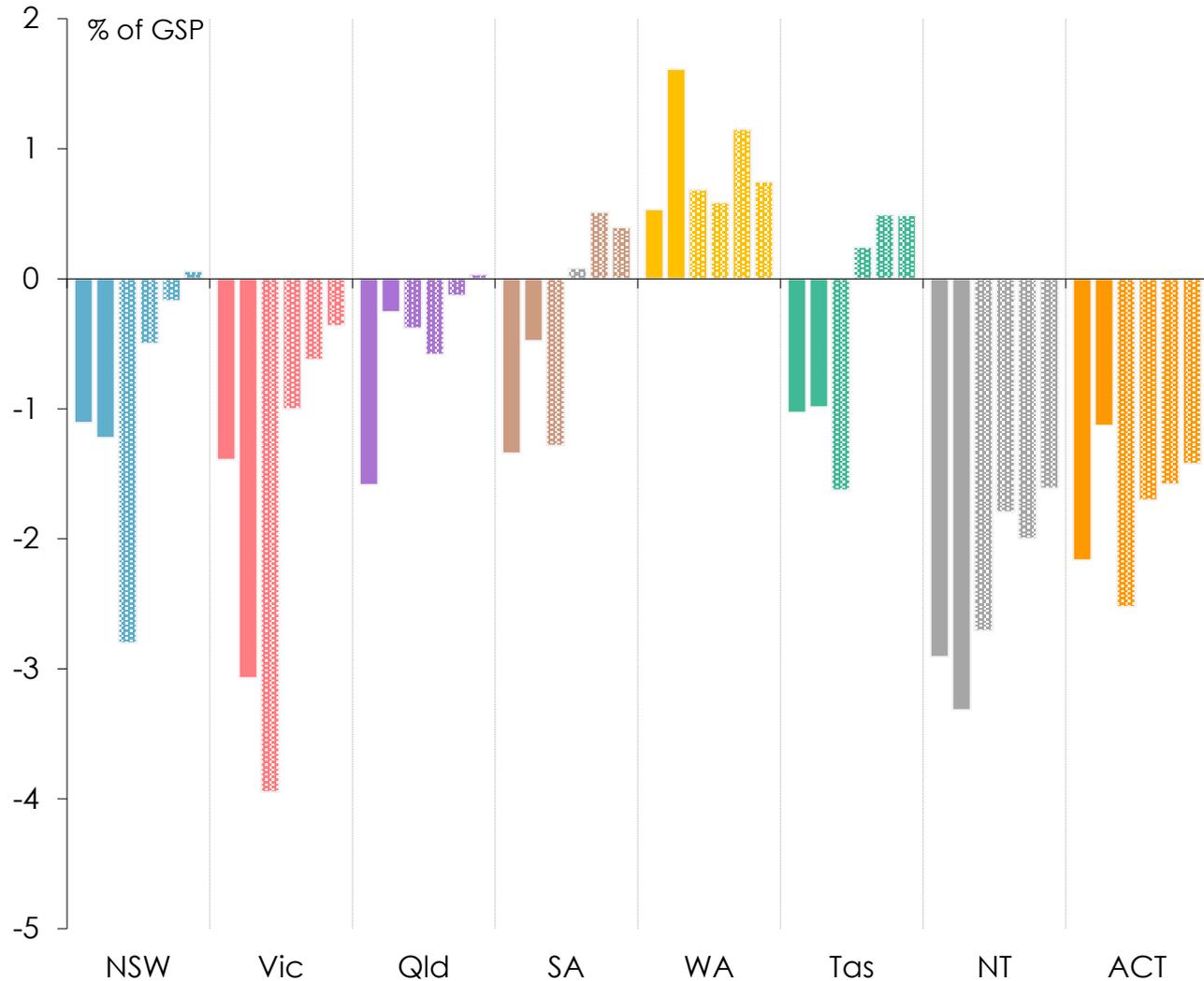
- Since resuming auctions on 12<sup>th</sup> January, the AOFM has sold \$42bn of bonds – including during the past fortnight \$15bn of November 2033 through a syndicated issue (the first in 12 months)
- Although AOFM continues to have no difficulty issuing new debt, the 'coverage ratio' (the ratio of bids received to bonds offered) has slipped from 4.3x in the first seven months of 2021-22 to less than 3x over the past 3 months
- And AOFM is having to pay higher yields
  - the weighted average yield on the November 2033s was 3.14%, cf. 2.26% on \$1bn of April 2033s issued in mid-February this year, and 1.75% on \$1bn of April 2033s issued on 1<sup>st</sup> December last year
- Treasury noted in this week's [Pre-election Economic and Fiscal Outlook 2022](#) that if the increase in bond yields since the Budget were to be sustained, "interest payments on government securities as a share of GDP would be about 0.1 pc pt higher in 2025-26 than estimated in the Budget"

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

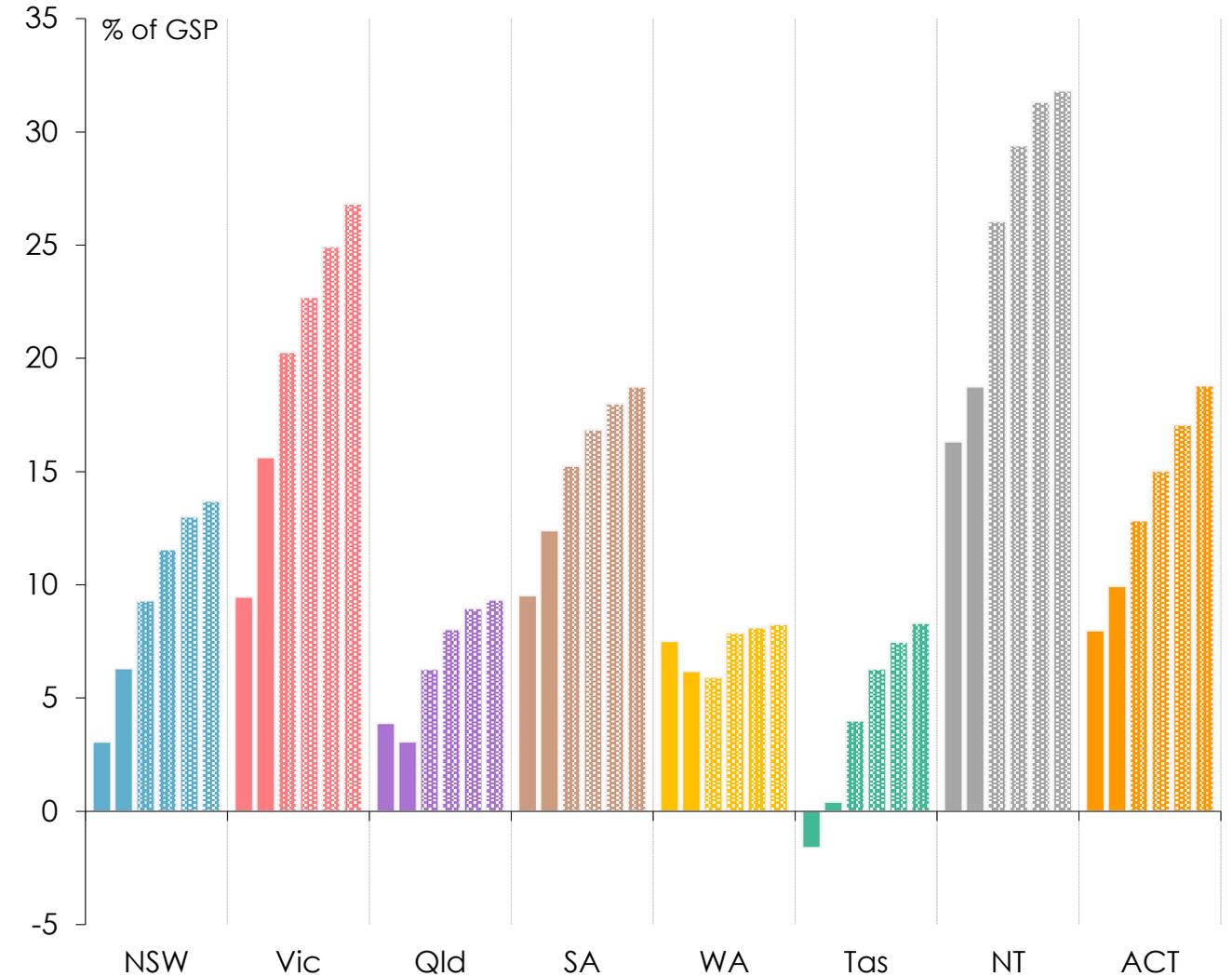
# Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

THE AUSTRALIAN ECONOMY THIS WEEK – 22<sup>ND</sup> APRIL 2022

## States and territories – ‘net operating balances’



## States and territories – net debt

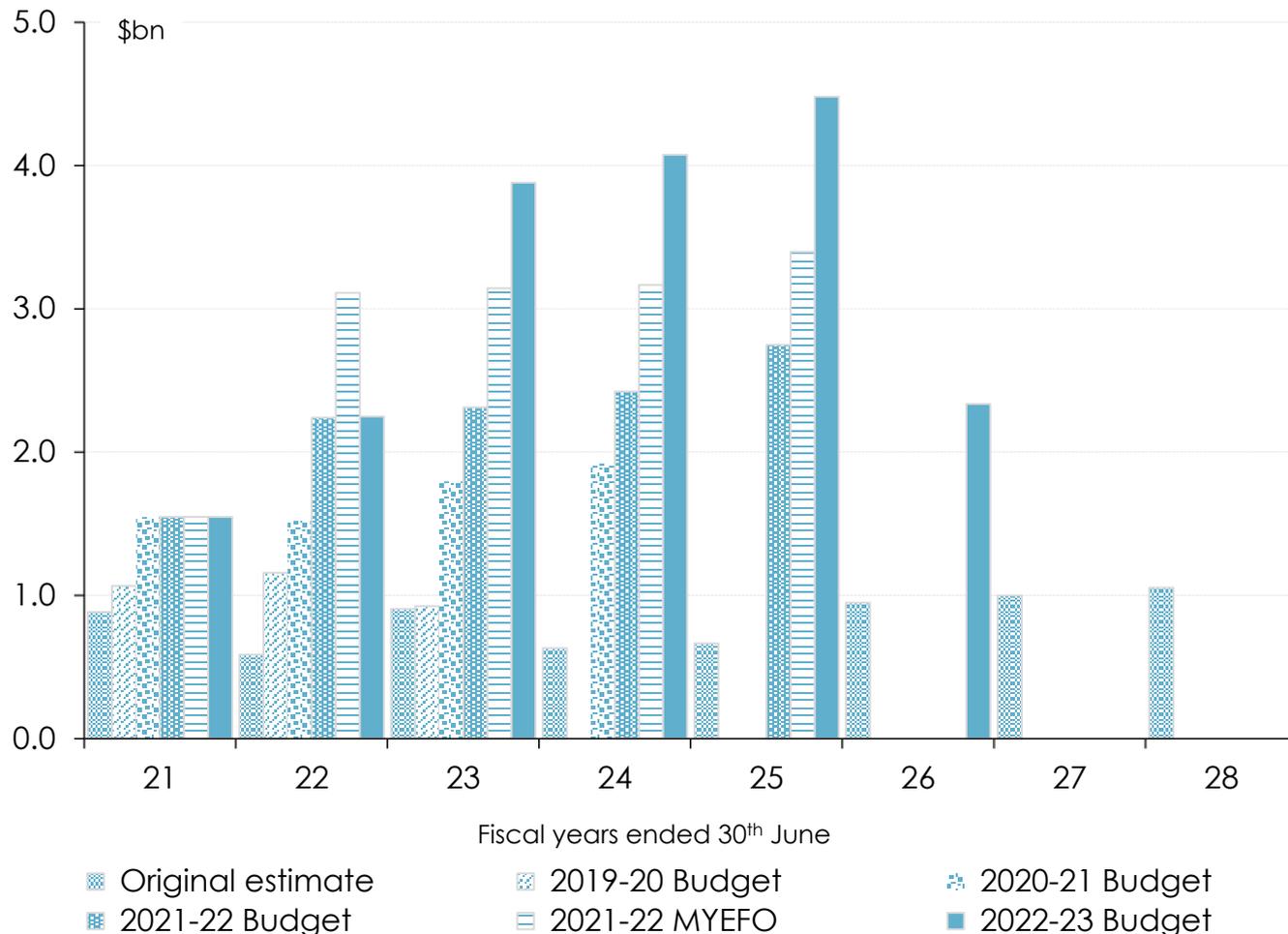


Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than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

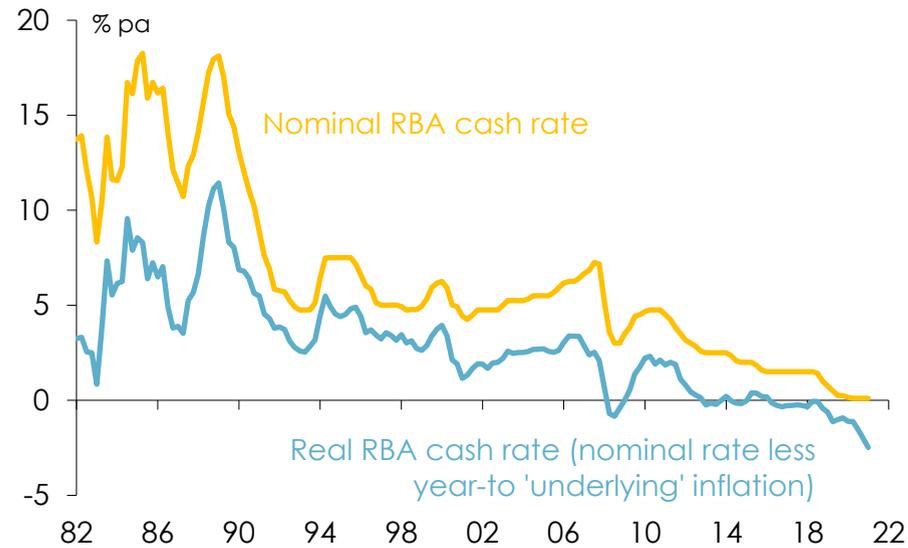
Sources: Australian Government, [Interim response to Productivity Commission inquiry into horizontal fiscal equalization](#), 5<sup>th</sup> July 2018; and 2022-23 [Budget Paper No. 3: Federal Financial Relations](#), 29<sup>th</sup> March 2022. [Return to "What's New"](#).

# Monetary policy and the RBA

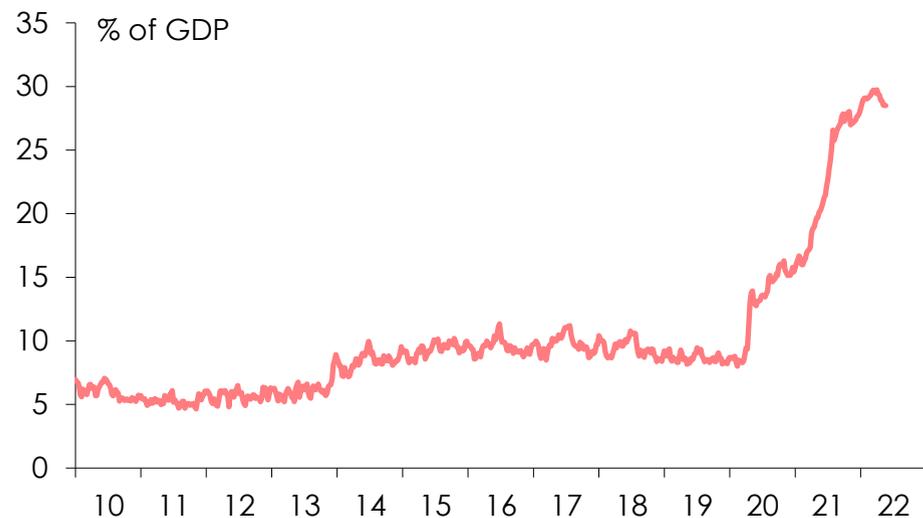
# The RBA left the cash rate unchanged at 0.10% this month, but signalled that rates could be raised for the first time as early as June

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## Reserve Bank cash rate



## Reserve Bank assets as a pc of GDP



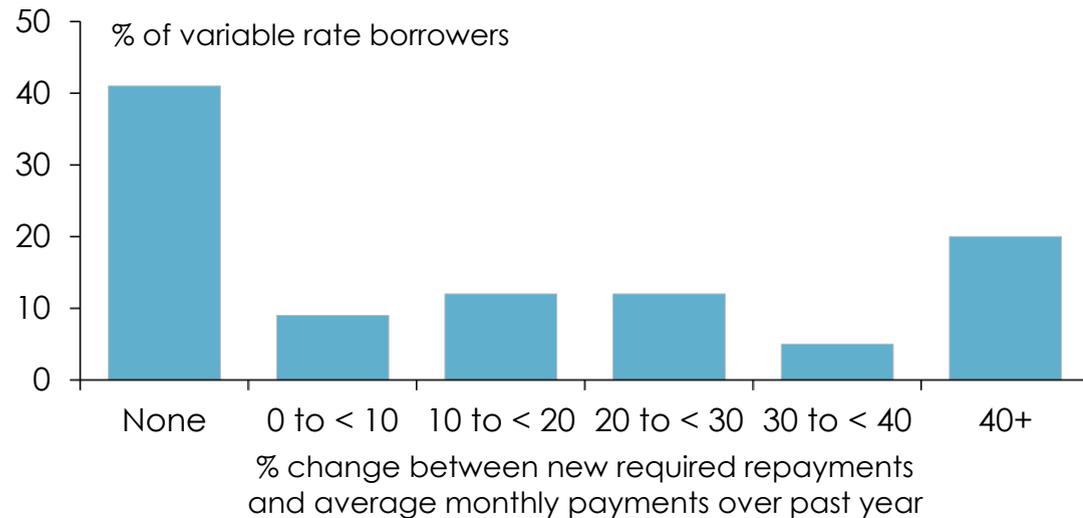
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ The RBA left its monetary policy settings unchanged, as expected, at this month'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 27<sup>th</sup> April) and the March quarter wage price index (18<sup>th</sup> May)
- ❑ The [minutes](#) of this month's meeting, released last Tuesday, show that the Board viewed "these developments [as] hav[ing] brought forward the likely timing of the first increase in interest rates"
  - although it's still by no means certain that the Q1 WPI data will provide the 'smoking gun' for a rate increase

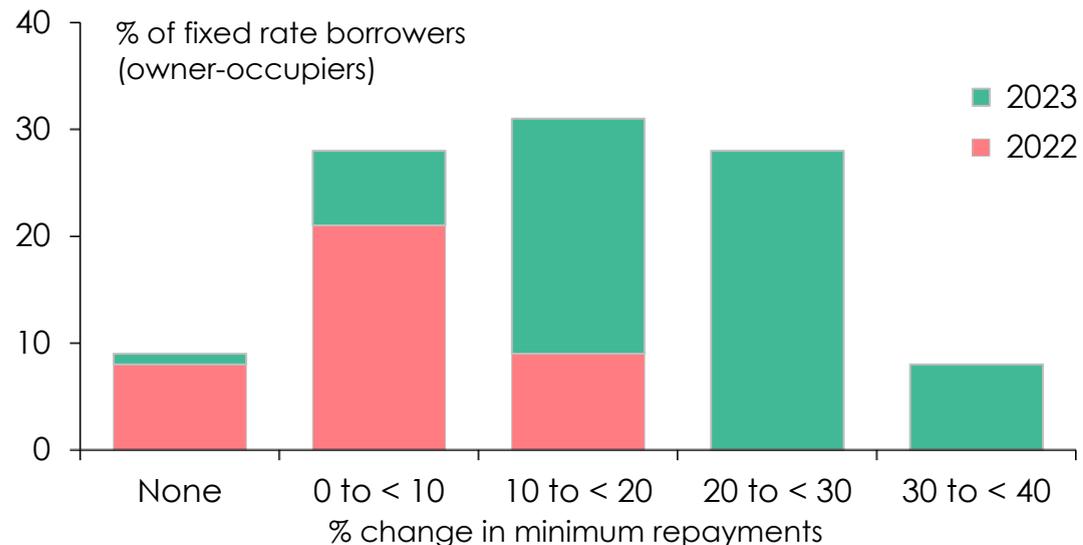
# The RBA's latest *Financial Stability Review* gives some idea of household sensitivity to prospective increases in interest rates

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## Repayment increases for variable-rate loans



## Repayment changes on expiring fixed-rate loans



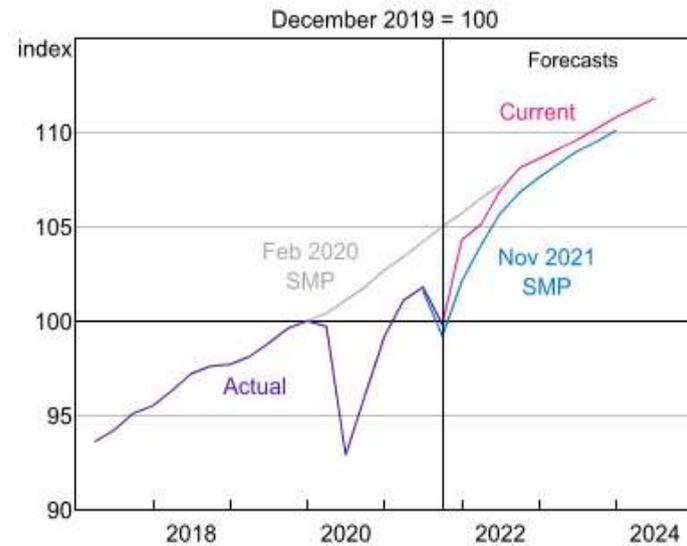
- ❑ 60% of all mortgage borrowers have variable-rate loans
- ❑ The RBA estimates that if variable mortgage rates were to rise by 200bp, just over 40% of those borrowers would not have to increase their monthly payments (because they've been paying more than contractually required)
  - whereas about 25% 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](#), 8<sup>th</sup> April 2022, pp. 27-28. [Return to "What's New"](#).

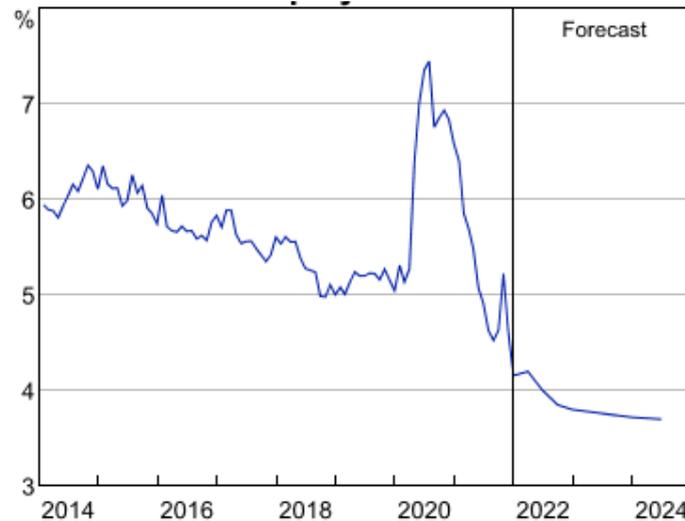
# In February the RBA upgraded its forecasts for near-term economic growth, lowered its forecasts for unemployment, and raised its forecasts for inflation

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## GDP



## Unemployment



## Wages



## 'Underlying' inflation



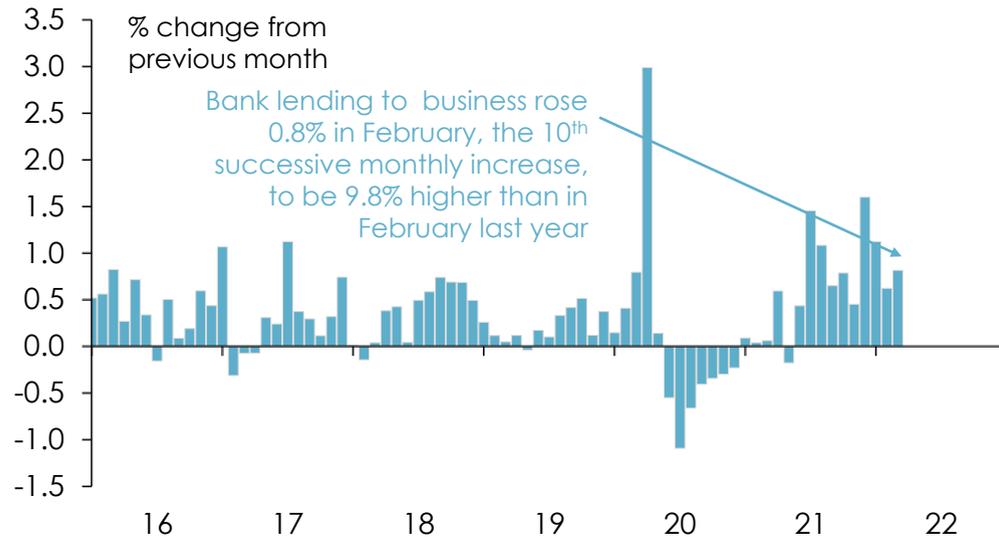
- ❑ In its latest [Statement on Monetary Policy](#), released on 4<sup>th</sup> February, the RBA upwardly revised its near-term real GDP growth forecast – from 4% to 5% over the year to Q2 2022 – but lowered its forecast for the year to Q2 2023 to 2½% (from 3¼%), and slowing further to 2% over the year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

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

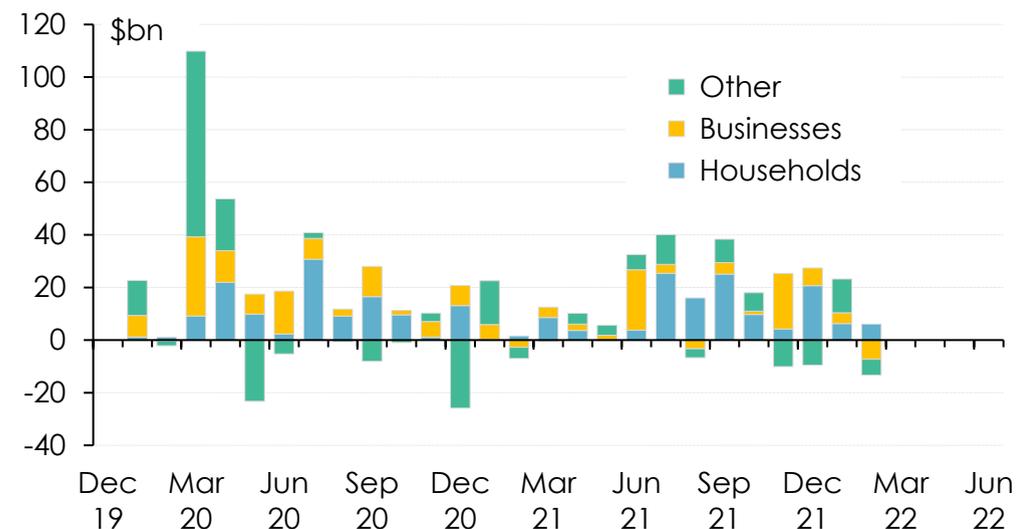
# Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

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## Business credit outstanding



## Monthly change in bank deposits

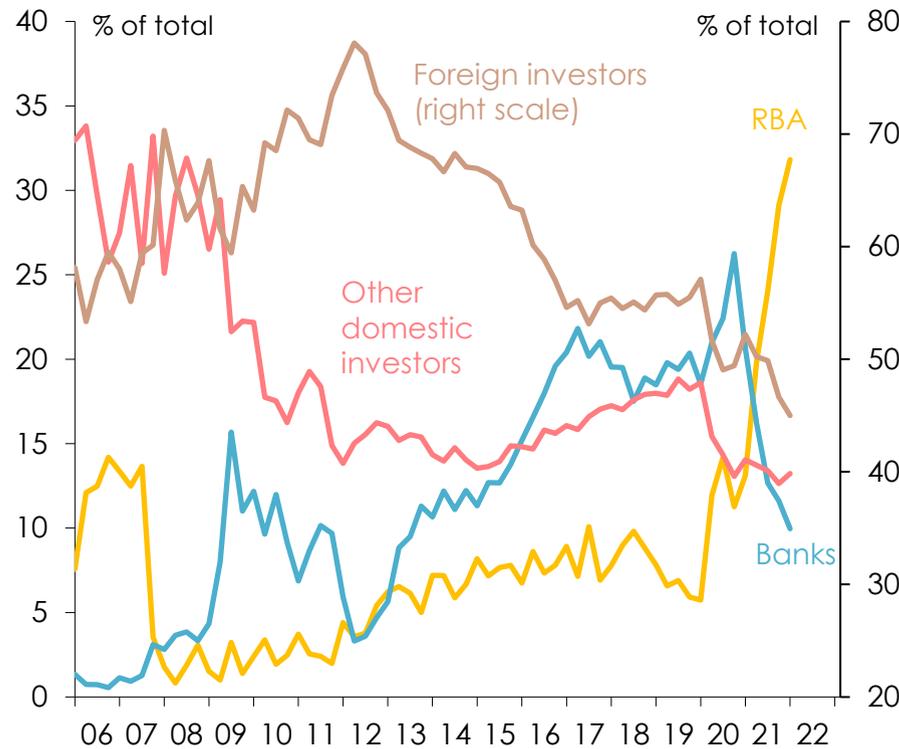


- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since the beginning of 2019 (when the RBA started cutting rates again)
  - Small business overdraft and term loan rates have fallen by 113 and 134 bp respectively since January 2019, cf. a 65 bp reduction in the RBA's cash rate and a 90bp decline in average bank deposit interest rates
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during last year's lockdowns
  - over the 12 months to 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%)

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

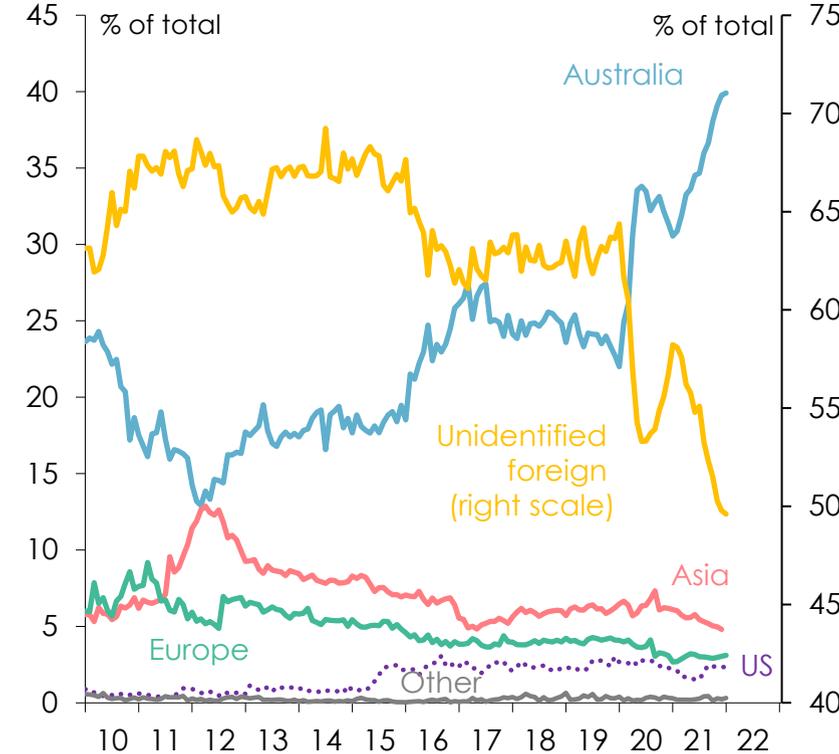
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## Holder of Australian Government bonds



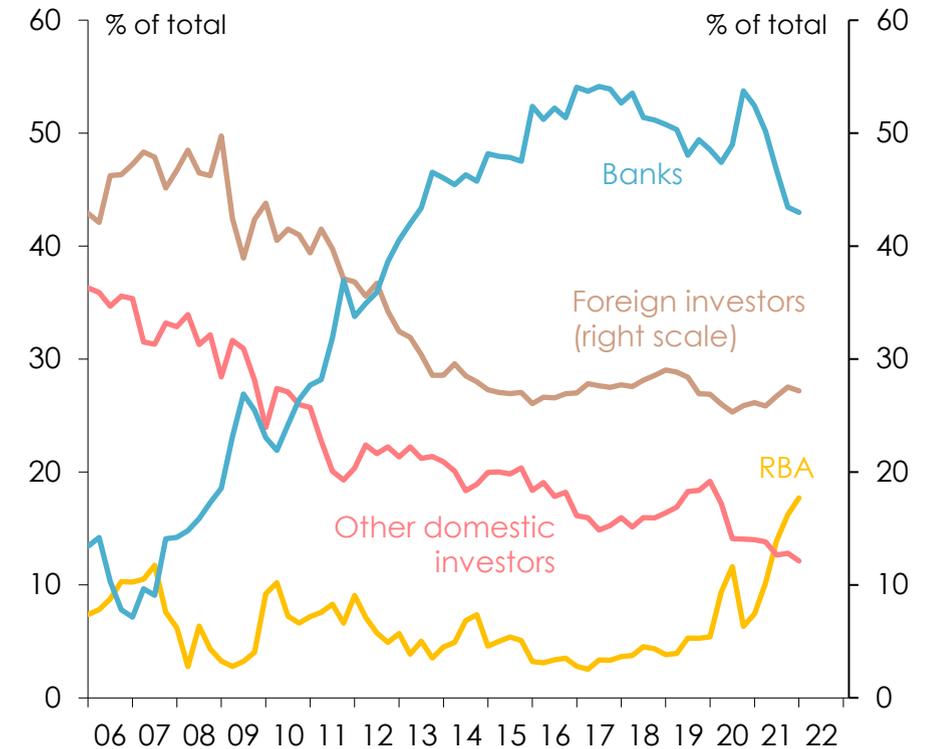
Australian Gov't bonds on issue have increased by \$252bn since the end of 2019 – of which \$246bn (97%) have been absorbed by the RBA, and \$37bn by foreigners, while banks have reduced their holdings by \$29bn

## 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

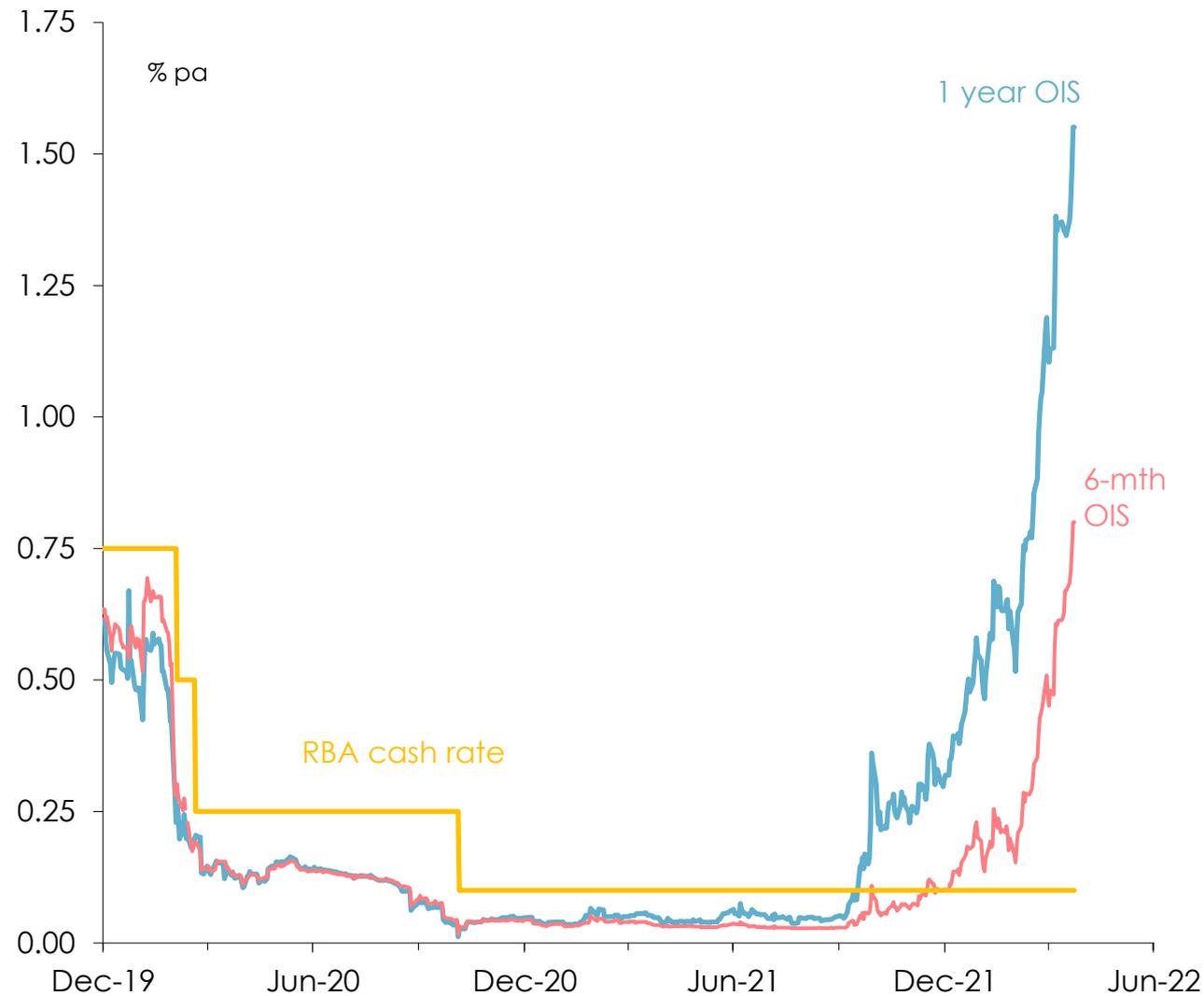
Sources: ABS, [Finance and Wealth Accounts](#), December quarter 2021; [Australian Office of Financial Management](#). March quarter data will be released on 23<sup>rd</sup> June. [Return to "What's New"](#).

# Australian financial markets

# Financial markets are now pricing RBA rate hikes totalling 150 basis points over the next 12 months and 200 bp over the next two years

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## Overnight index swap rates



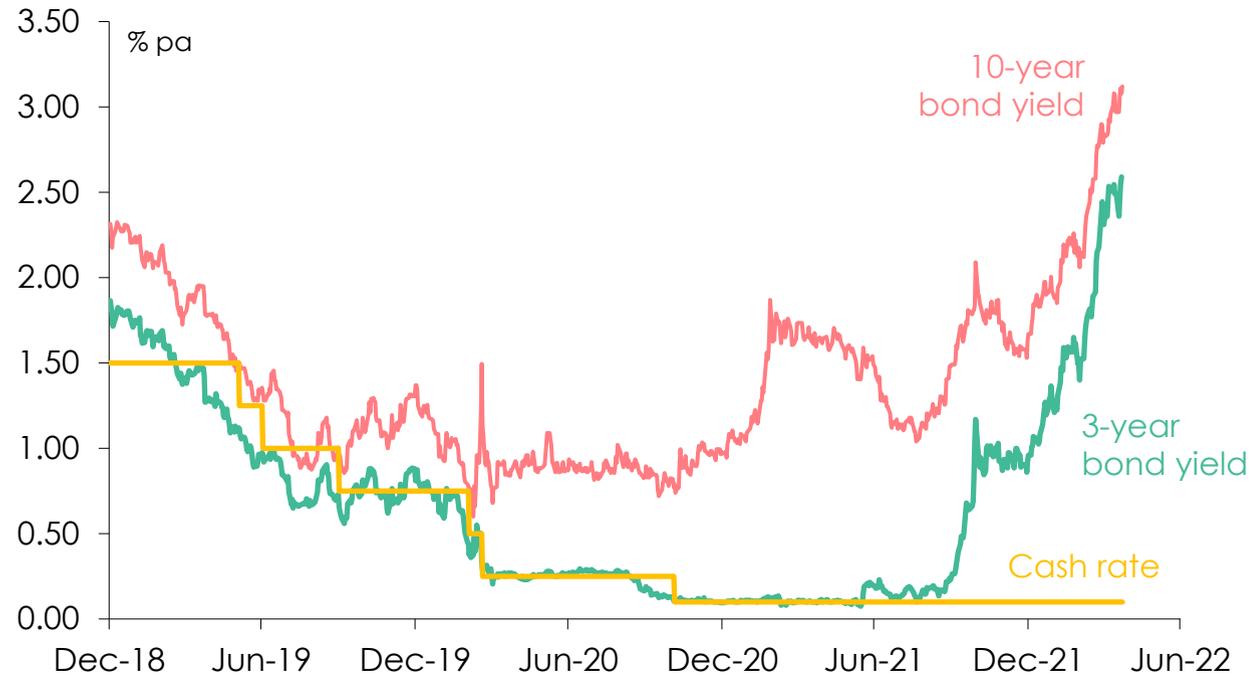
## Yield curves



# Short-term bond yields have risen further over the past 2 weeks on market pricing of a more hawkish RBA, while 10-year yields have followed the US

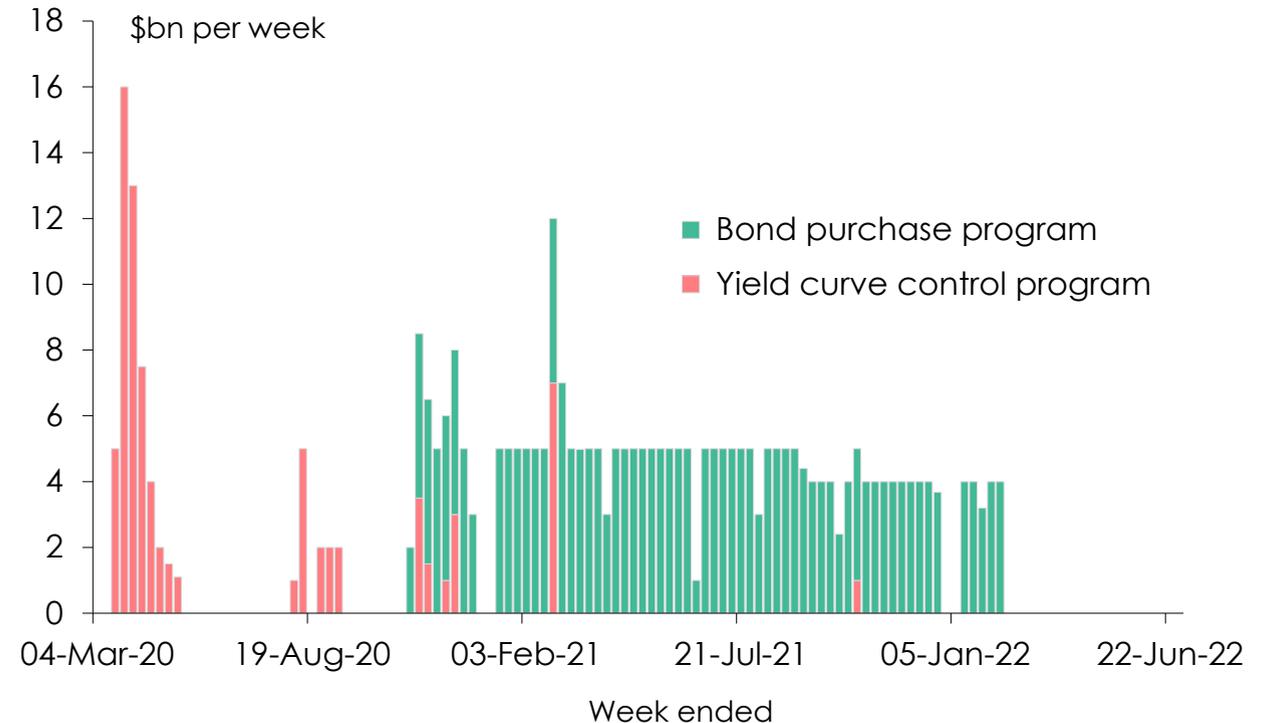
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## Interest rates



- ❑ 3-year bond yields reached 2¼% this week, for the first time since just before Christmas 2014, as markets continued to price earlier and bigger RBA tightening ([slide 96](#))
- ❑ The 10-year yield traded above 3% at the beginning of the week before Easter, for the first time since 19<sup>th</sup> December 2014, reaching 3.12% by the end of last week – though this was largely driven by higher US yields, with the 10-year Australia-US spread down to about 20bp from over 40bp in mid-March

## RBA open market bond purchases

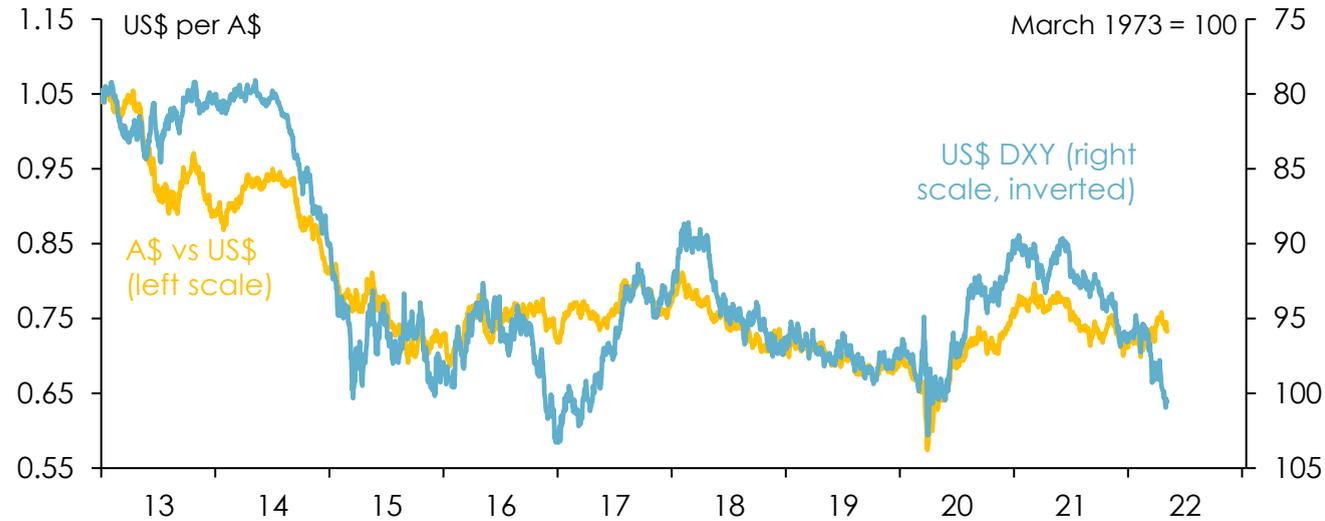


- ❑ The RBA purchased its final \$4bn of bonds under its now-terminated Bond Purchase Program in the second week of February, bringing the total amount of purchases under it to just under \$281bn, which together with purchases of \$80bn under the 3-year yield curve target program which was discontinued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

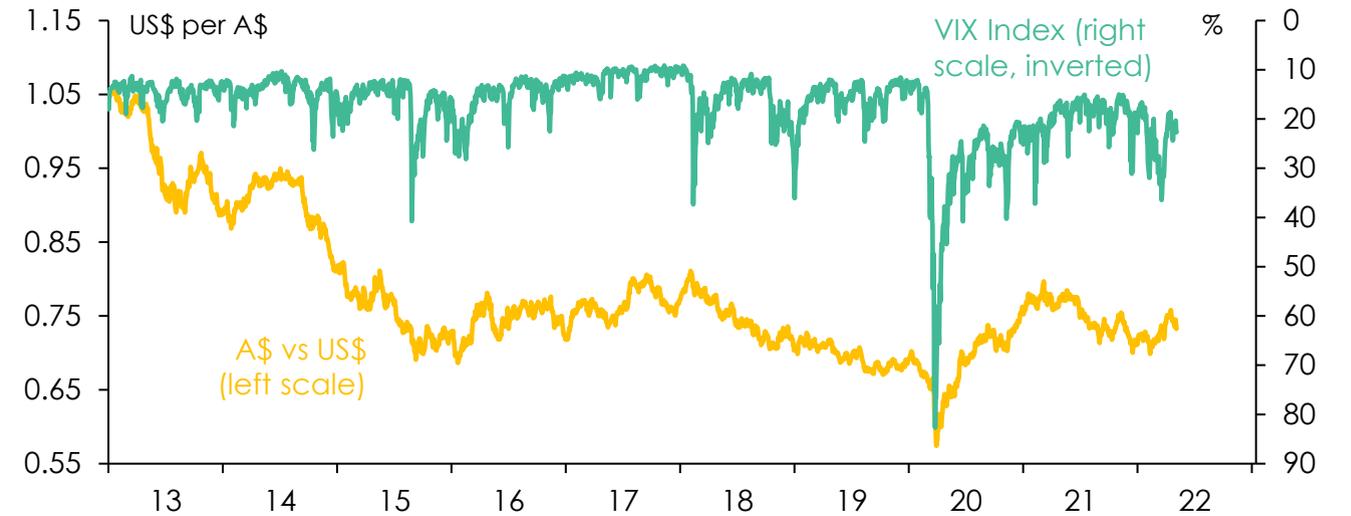
# The A\$ finished this week at US73<sup>1</sup>/<sub>4</sub>¢, down from a most recent peak of 75<sup>3</sup>/<sub>4</sub>¢ in early April, reflecting a firmer US\$ and narrower yield spreads

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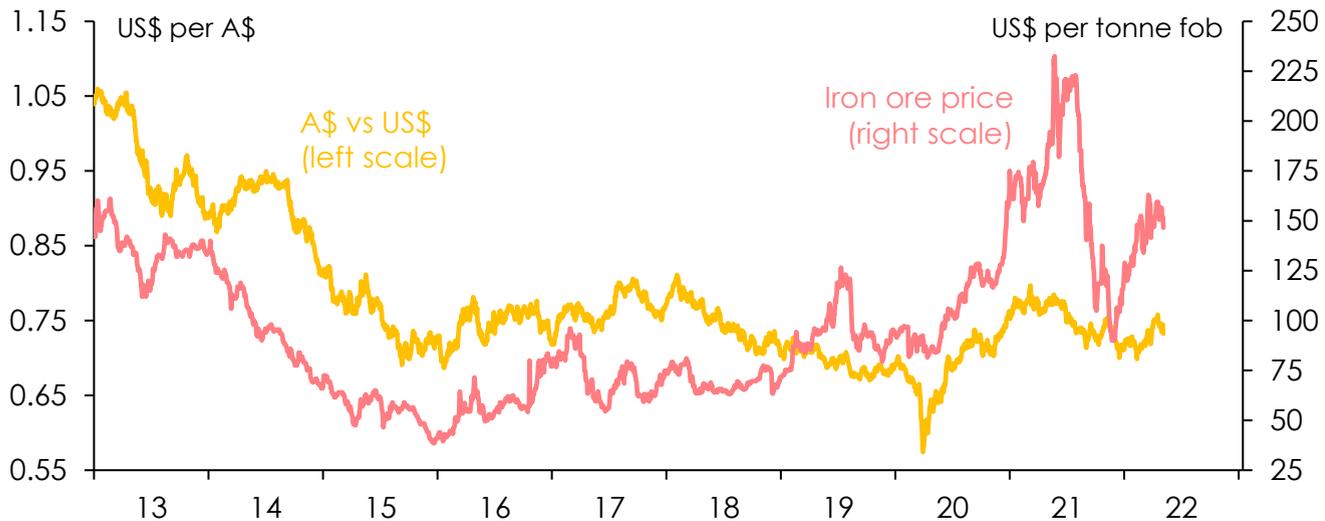
## A\$-US\$ and US\$ trade-weighted index



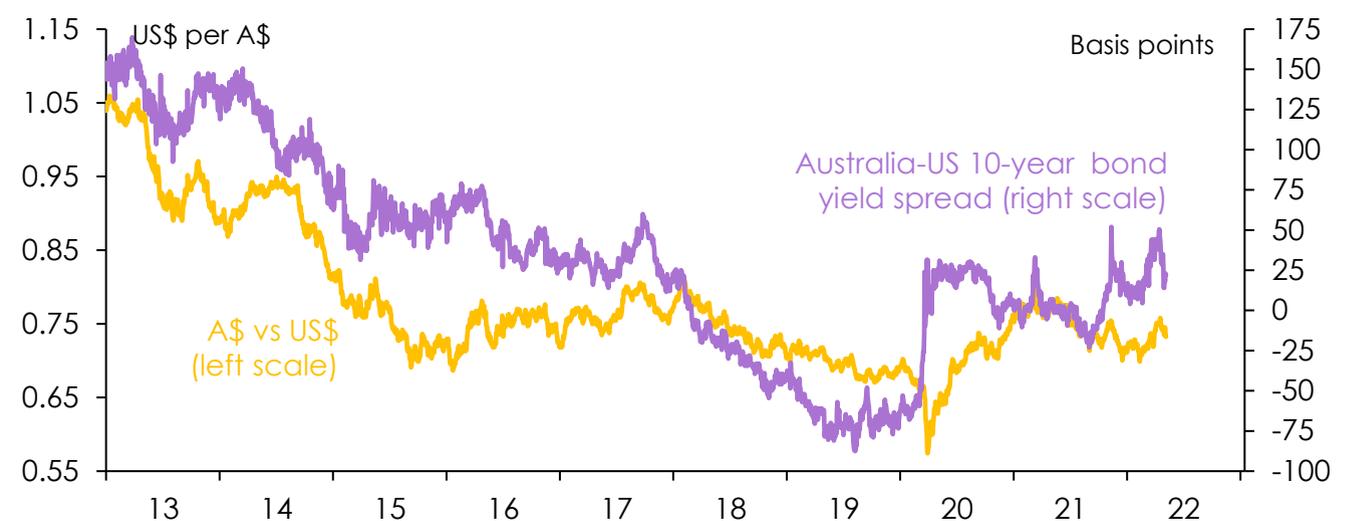
## A\$-US\$ and US equity market volatility



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



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



Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 21<sup>st</sup> April. [Return to "What's New"](#).

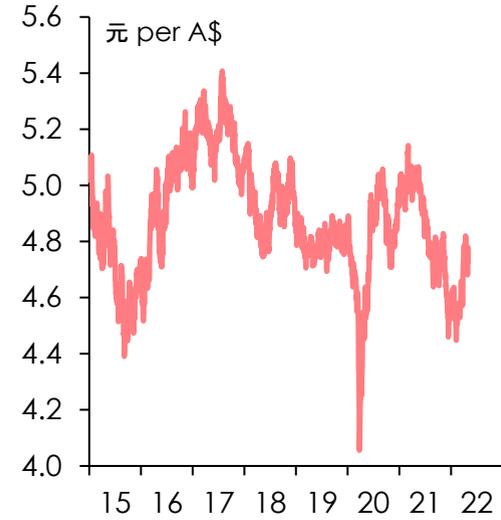
# The A\$ has also fallen against most third currencies over the past fortnight, other than then yen (against which it's gained 1%) and the NZ\$ (½%)

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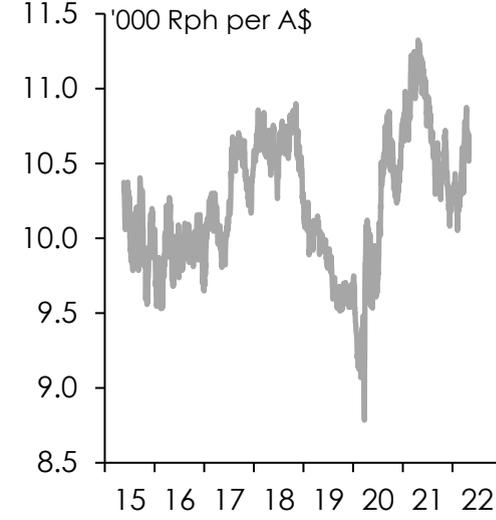
### A\$ vs Japanese yen



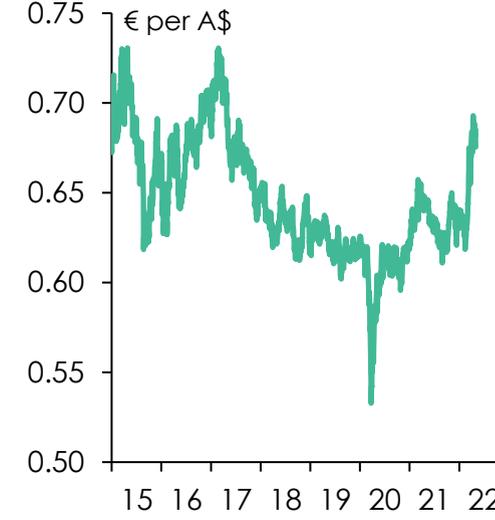
### A\$ vs Chinese yuan



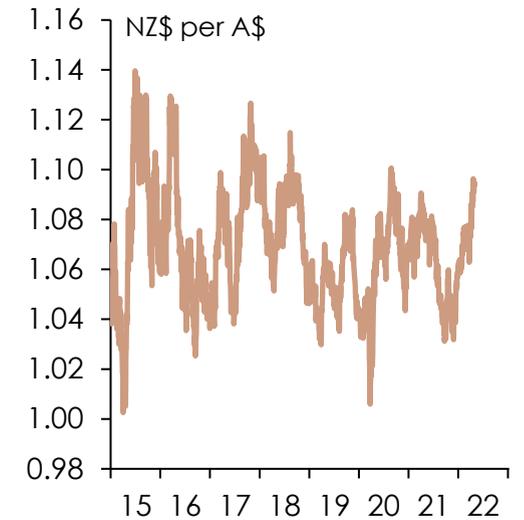
### A\$ vs Indo rupiah



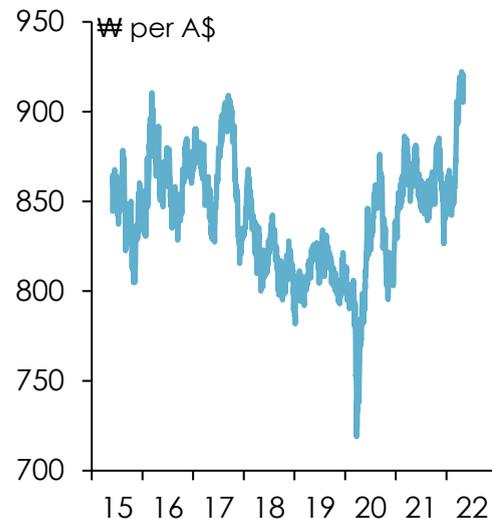
### A\$ vs Euro



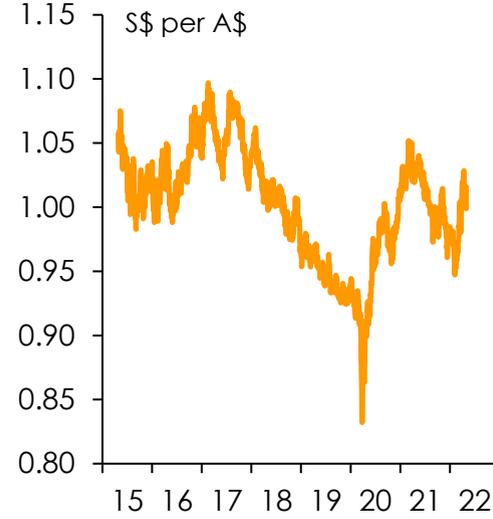
### A\$ vs NZ\$



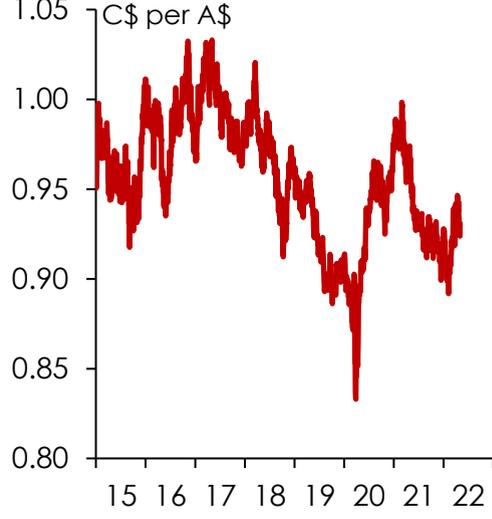
### A\$ vs Korean won



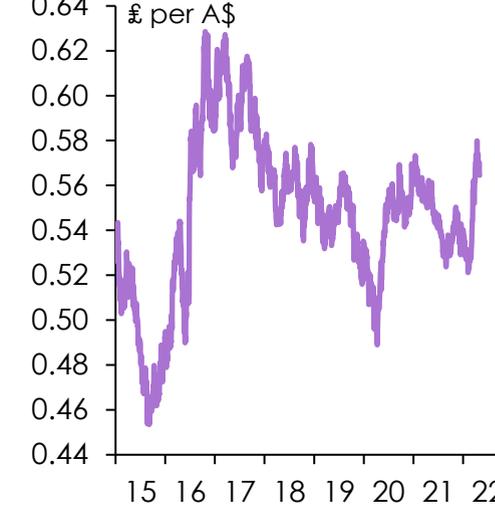
### A\$ vs Singapore \$



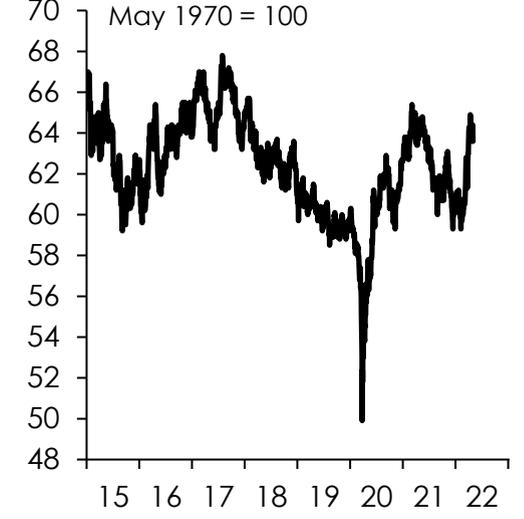
### A\$ vs Canadian \$



### A\$ vs British pound



### A\$ TWI

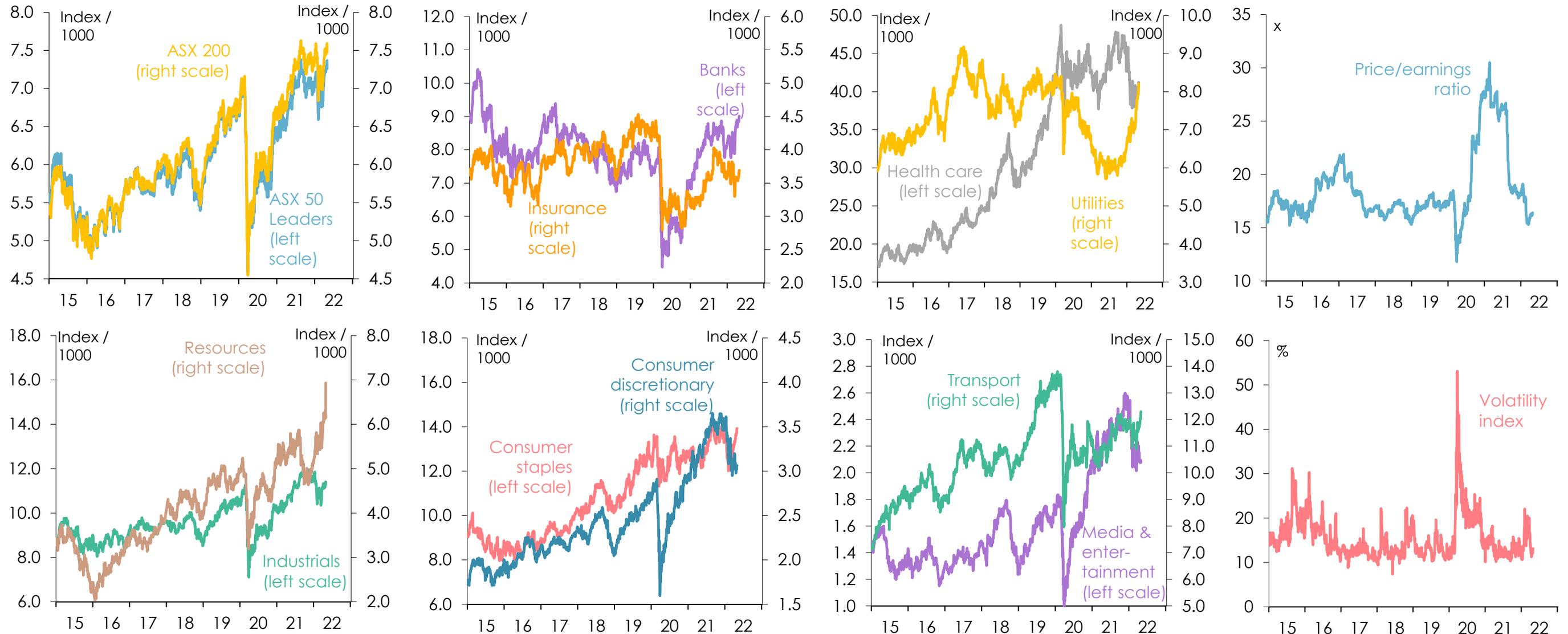


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 21<sup>st</sup> April. [Return to "What's New"](#).

# The ASX fell 1½% on Friday, after Fed Chair Powell signalled a possible 50 bp rate hike next month, erasing the previous two weeks' gains

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## ASX indices



Sources: Refinitiv Datastream. ASX200 and 50 Leaders up to 22<sup>nd</sup> April; other indices 21<sup>st</sup> April. [Return to "What's New"](#).

**Key data and events next week**

# Key data and events for week ended 29<sup>th</sup> April

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Tuesday 26 <sup>th</sup> April	2020-21 Government finance statistics
Wednesday 27 <sup>th</sup> April	<b>March quarter consumer price index</b>
Thursday 28 <sup>th</sup> April	March quarter export and import price indexes; April business conditions and sentiments; 2019-20 household income and wealth
Friday 29 <sup>th</sup> April	March quarter producer price indexes; March money and credit aggregates
State Budgets	Victoria – 3 <sup>rd</sup> May Northern Territory – May Western Australia – May Tasmania – 26 <sup>th</sup> May New South Wales – 21 <sup>st</sup> June Queensland – 21 <sup>st</sup> June ACT – June South Australia – not known but likely to be late after change of government at last month's election

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

## Important information

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