



# THE AUSTRALIAN ECONOMY THIS WEEK

13<sup>TH</sup> MAY 2022

**SAUL ESLAKE**

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

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# What's new?

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- ❑ Latest opinion polls suggest that Labor has widened its lead over the Liberal-National Coalition in the nationwide two-party preferred vote with one week to go before the election next Saturday – although that doesn't determine the election outcome – but betting markets (which have a better track record than opinion polls in picking election outcomes) also point to a Labor victory ([slides 6-7](#))
- ❑ A change of government on Saturday would not result in nearly as many policy changes as would have occurred had Labor won in 2019, given the 'small target' strategy it has pursued in the lead-up to this year's election – but there will be some differences, especially (as spotlighted during the past week) with regard to wages ([slide 8](#))
- ❑ The number of new Covid-19 cases remains high, albeit below its most recent peaks, largely due to the continuing rise in new infections in Western Australia, although hospitalization and fatality rates (as a proportion of active case numbers) remain low ([slides 10-11](#))
- ❑ Business confidence (as measured by the National Australia Bank's monthly business survey) weakened in April, despite a further improvement in business conditions ([slides 29-30](#))
- ❑ The picture painted by the NAB survey is backed up by the ABS' new business turnover indicator, which showed increases in turnover in all but one of the 13 sectors covered by it in March, after all 13 reported increased turnover in February ([slide 24](#))
- ❑ Consumer confidence fell sharply in May, to its lowest level since August 2020, in the aftermath of this month's first RBA rate hike since November 2010 – although (curiously) the fall was greater among renter households than households with mortgages ([slide 35](#))
- ❑ The volume of retail sales rose another 1.2% in the March quarter, which after the 7.9% post-lockdown splurge in the December quarter lifted retail sales volume to 9.3% above its pre-pandemic peak ([slide 39](#)) – a result which seems inconsistent with the 'conventional wisdom' that the vast majority of Australian households are 'struggling' with 'cost-of-living' pressures, as does the continued high level of spending on 'discretionary' items according to detailed retail sales figures for March ([slide 40](#)), but does help explain why businesses are able to pass on cost increases to consumers in the form of higher prices
- ❑ Western Australia's 2022-23 State Budget again highlights how buoyant mineral royalty revenues (resulting primarily from high iron ore prices) are enabling it (unlike the Federal Government or any other state or territory) to project on-going budget surpluses and declining net debt ([slide 92](#)) on top of which it also benefits from changes to GST revenue-sharing arrangements imposed (at WA's behest) by the Federal Government at a cost to the Federal Budget of almost \$19bn over six years ([slide 93](#))
- ❑ The Northern Territory's 2022-23 Budget presents a rather less dire picture of its finances than in recent years ([slide 94](#))
- ❑ The A\$ dropped below US69¢ this week for the first time since June 2020, on US\$ strength and lower commodity prices ([slides 104-105](#))
- ❑ Highlights of next week's calendar are March quarter wage price index, April labour force data and Saturday's federal election ([slide 108](#))

# The Federal election

# The Federal election will be held next Saturday, 21<sup>st</sup> May

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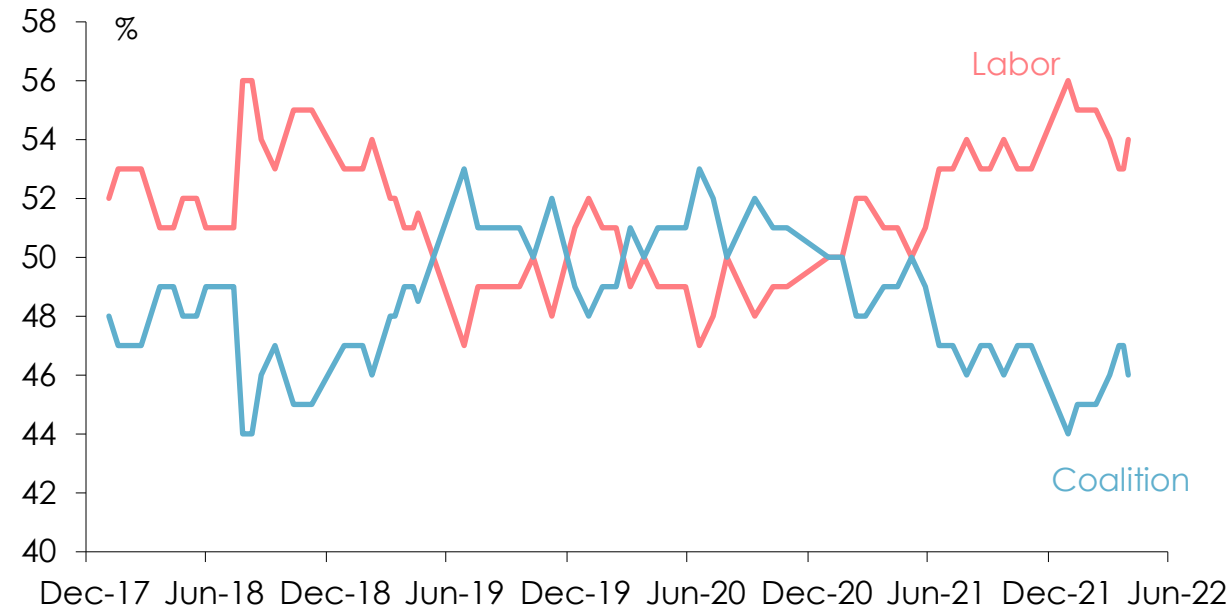
- ❑ **The Federal election (for the House of Representatives and half the Senate) will be held on Saturday 21<sup>st</sup> May**
  - the latest possible date on which it could have been held
- ❑ **The incumbent Liberal-National Party Coalition Government led (since August 2018) by Prime Minister Scott 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, as have betting markets ([next slide](#))**
  - the polls also said that Labor would win the last election in 2019, and they were wrong (although they were right about the State election in South Australia in March)
  - 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

# Opinion polls and betting markets continue to suggest that Labor is likely to win the election

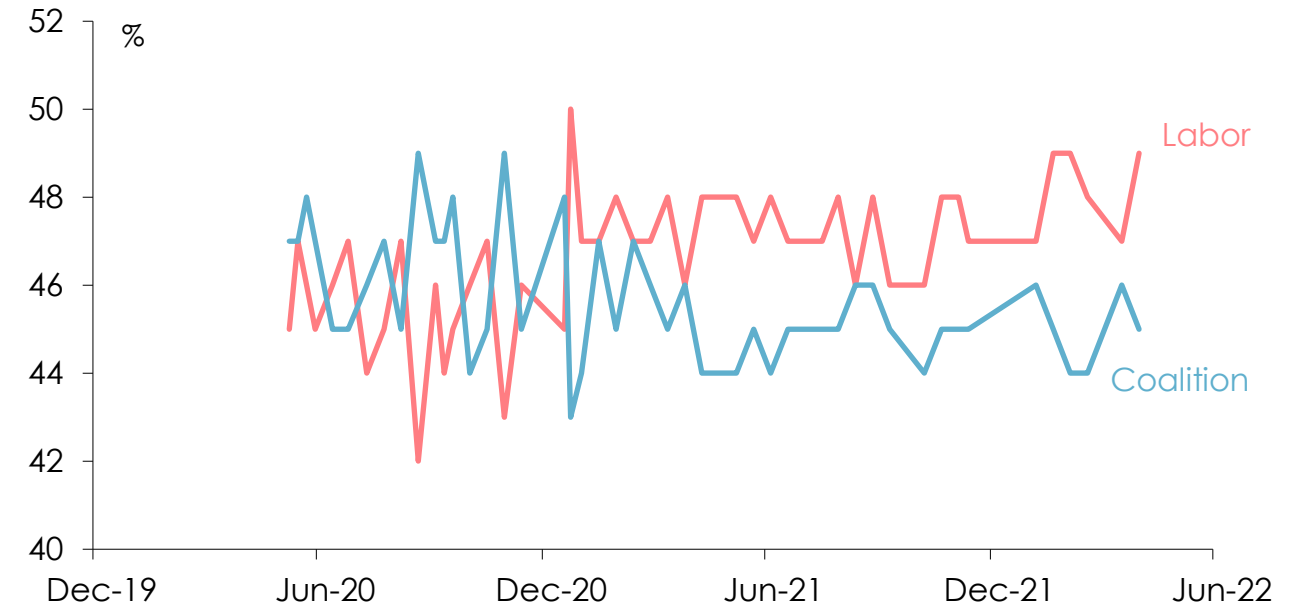
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## Two-party-preferred vote according to opinion polls

### Newspoll-YouGov



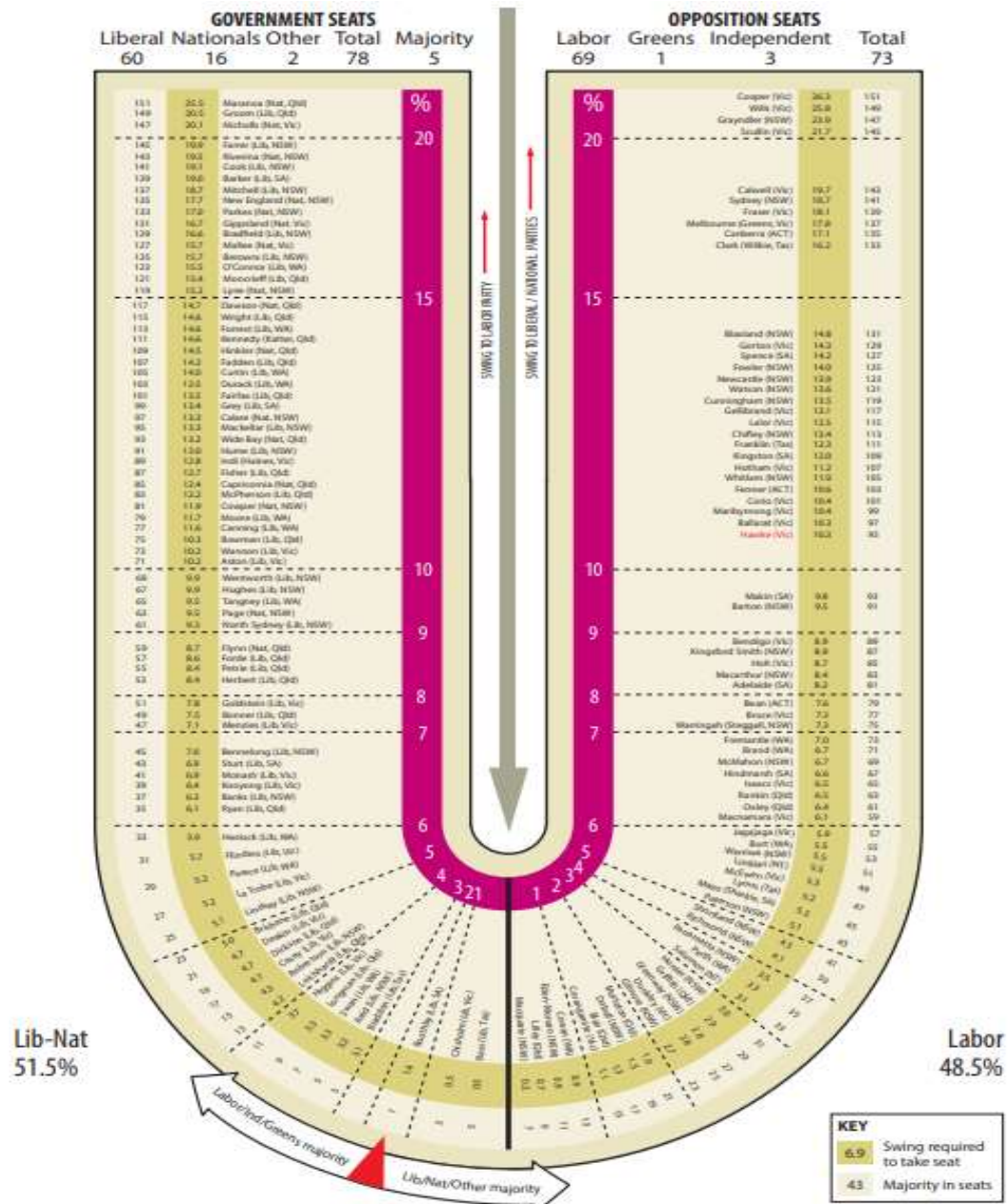
### Essential



- ❑ The above polls show the major parties' share of the 'two-party preferred' vote, that is, after notionally allocating the preferences of respondents indicating they'd give their first vote to minor parties or independents – both polls shown above indicate that both major parties' 'primary vote' is well below 40%, which if replicated at the election means that independent and minor party preference flows may be crucial to the final outcome
- ❑ Betting markets – which have [a better track record](#) than opinion polls in 'picking' election results – continue to put a 71% probability on Labor winning the election (unchanged from last week, but up from 58% at the beginning of the campaign) cf. a 38% probability of a Coalition victory

# 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
  - a national ‘shared equity’ scheme allowing up to 10,000 applicants per annum to purchase new or established homes with up to 30% or 40% government equity, subject to income tests and property value caps
  - 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
  - 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
  - tougher tax rules for multi-national corporations (limiting debt-related deductions and payments for intellectual property located in tax havens) to raise an estimated \$1.9 bn over the four years to 2025-26
- ❑ This week Labor indicated it would support union calls for a 5.1% increase in the minimum wage
- ❑ Labor & the Coalition will release ‘full costings’ this coming week, a few days before the election

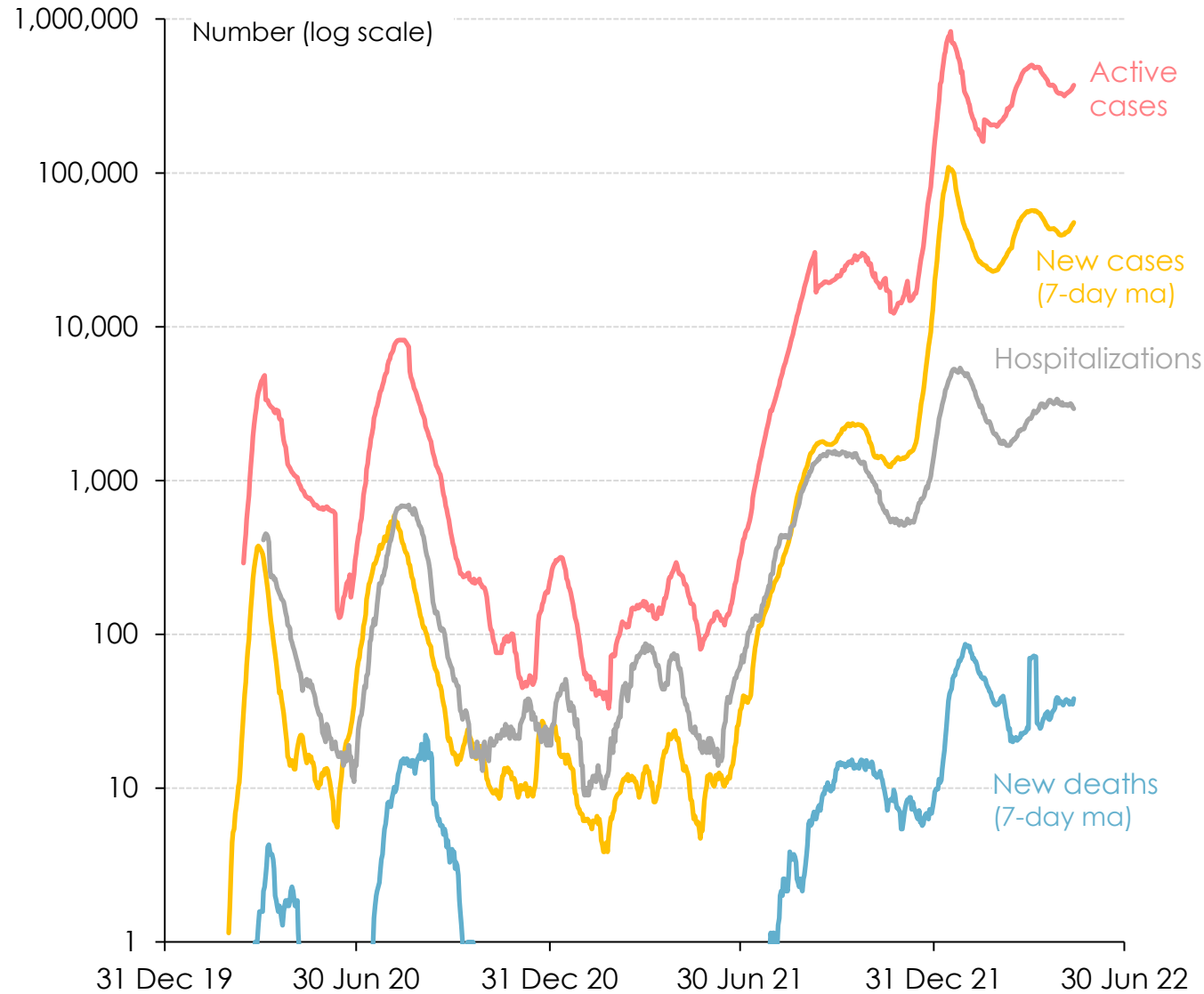


**The virus**

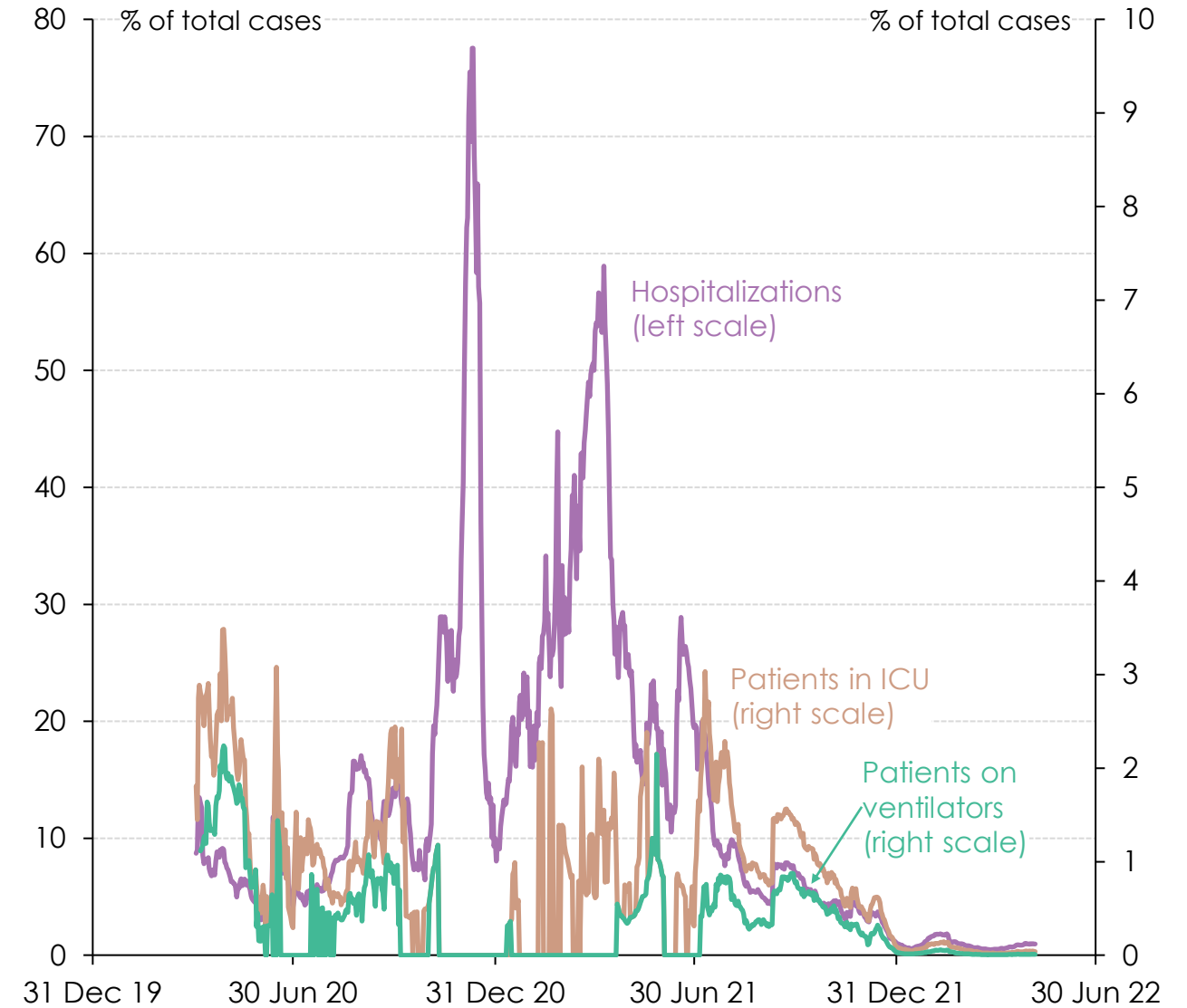
# New & active case numbers have passed their peak but seem to be stabilizing at a high level, even though hospitalization & fatality rates are low

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## Cases, hospitalizations and deaths



## Severity of cases



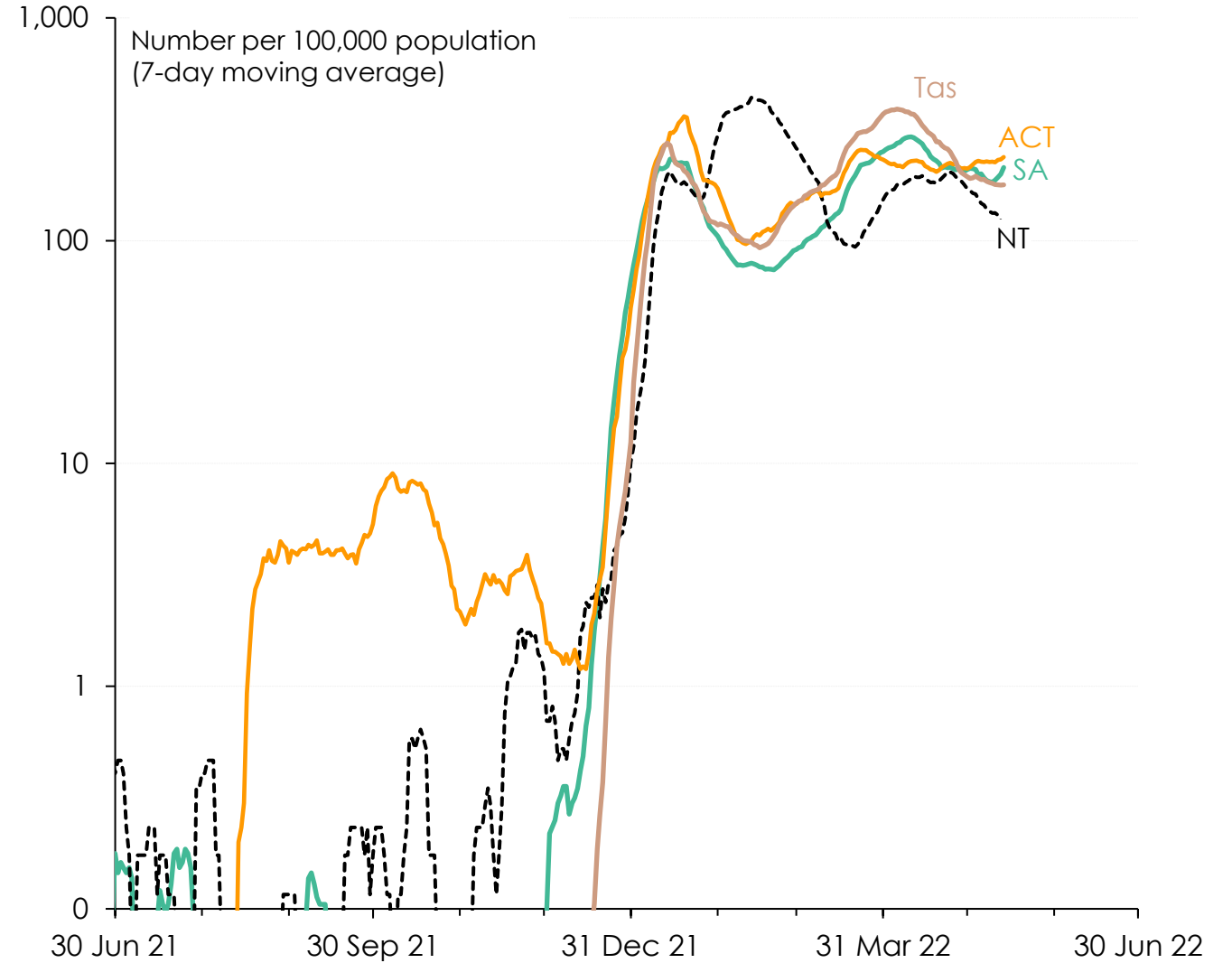
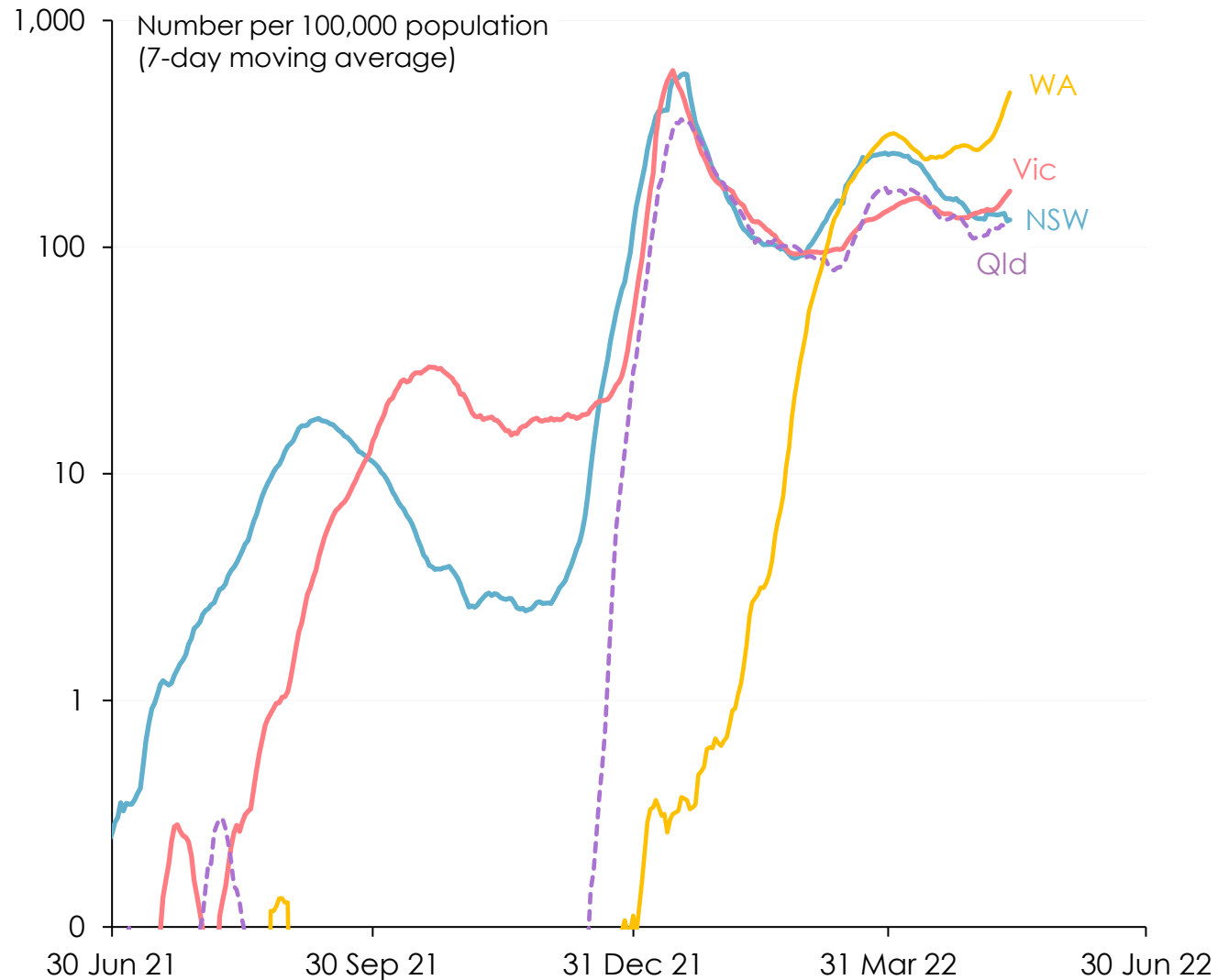
Note: The 'spike' in new deaths in the first week of April resulted from the addition of 334 deaths to NSW's total on 1st April. Data up to 13<sup>th</sup> May.

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

# New case numbers are still rising in Western Australia, and have also ticked up more recently in Victoria, South Australia and the ACT

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

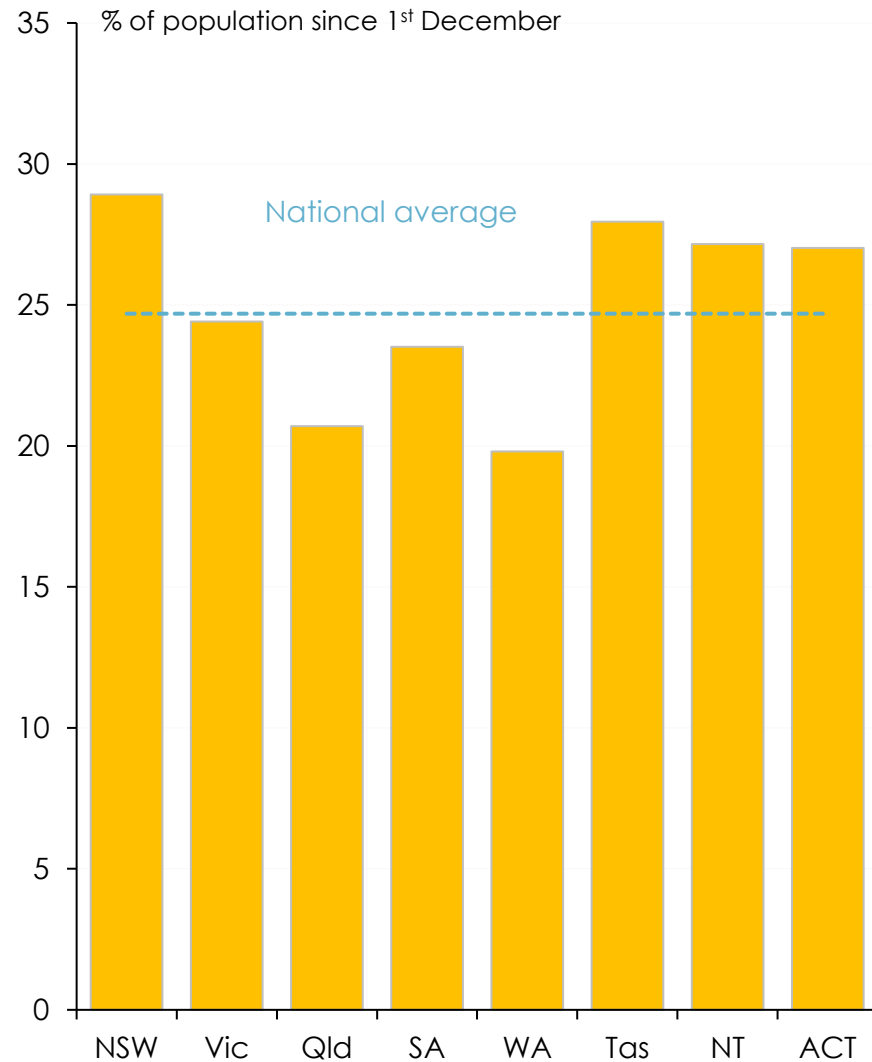


Note: Data are up to 13<sup>th</sup> May. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

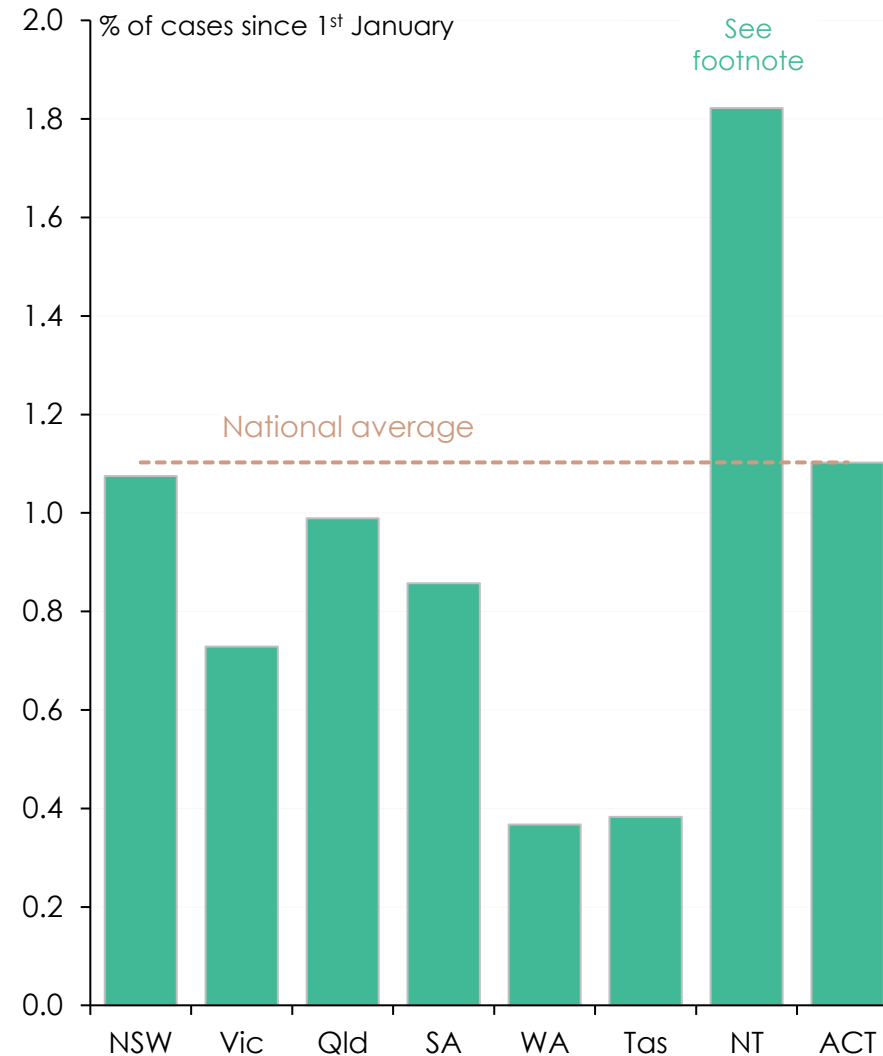
# The omicron outbreak has been less serious in Western Australia and Tasmania than in the rest of Australia

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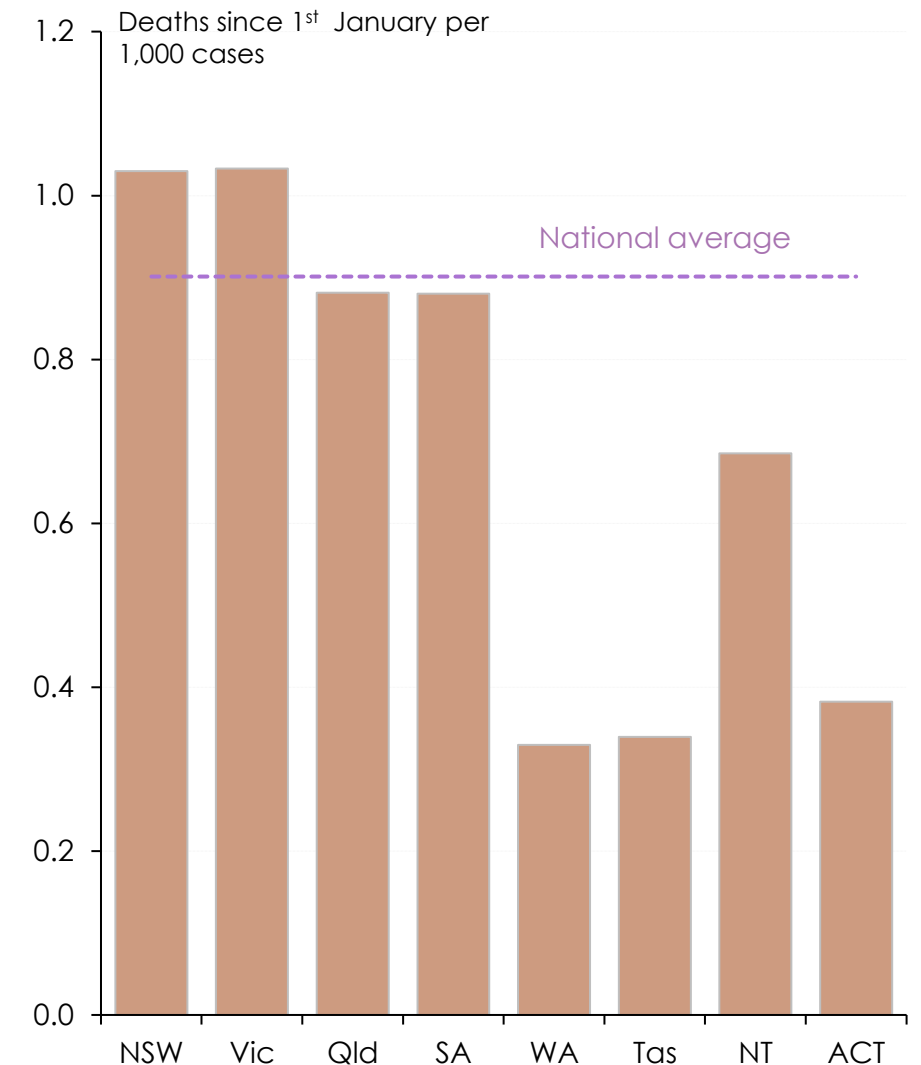
## New cases since 1<sup>st</sup> December 2021



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



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

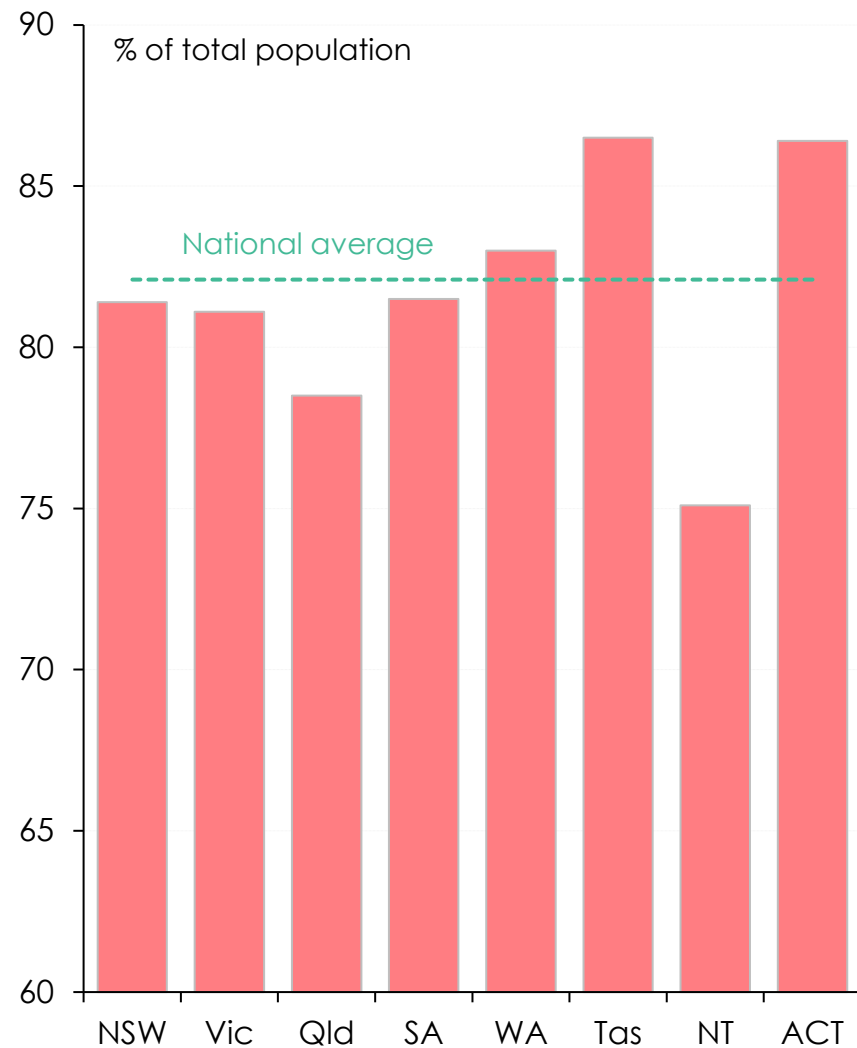


Note: Data are up to 13<sup>th</sup> May. 1<sup>st</sup> December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards 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"](#).

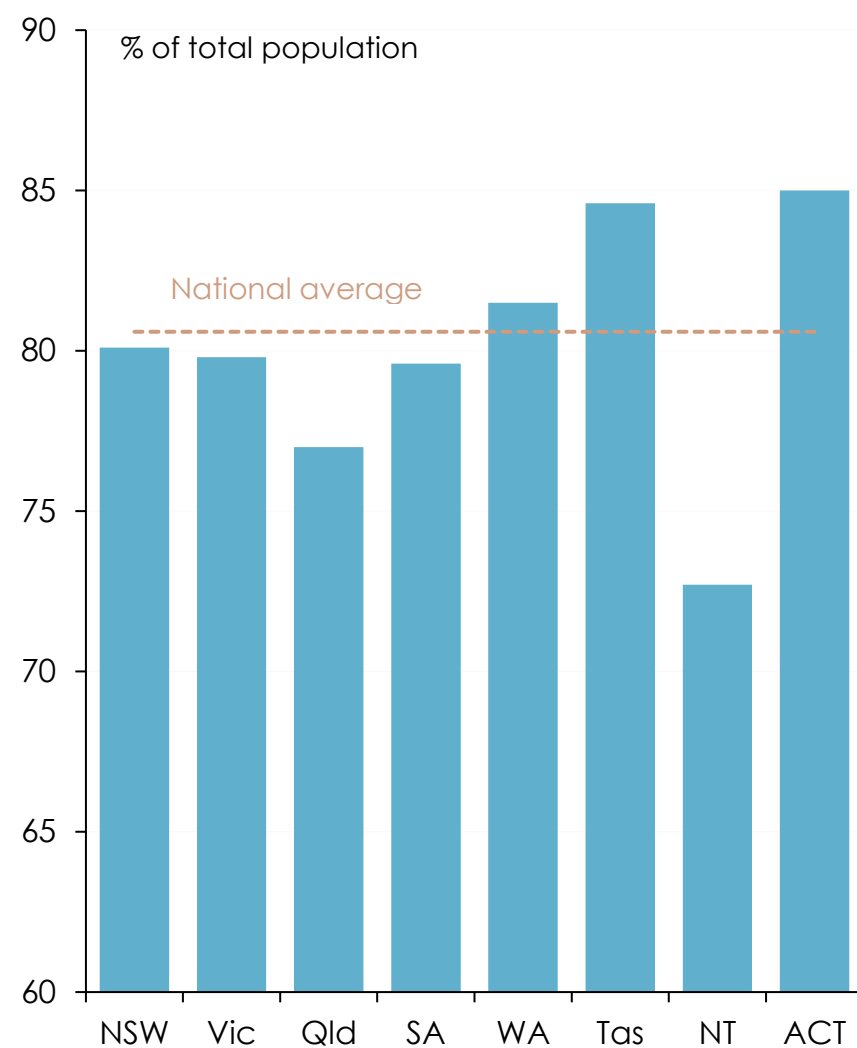
# The ACT, Tasmania and more recently WA have had the most successful vaccine rollouts while Queensland and the NT lag

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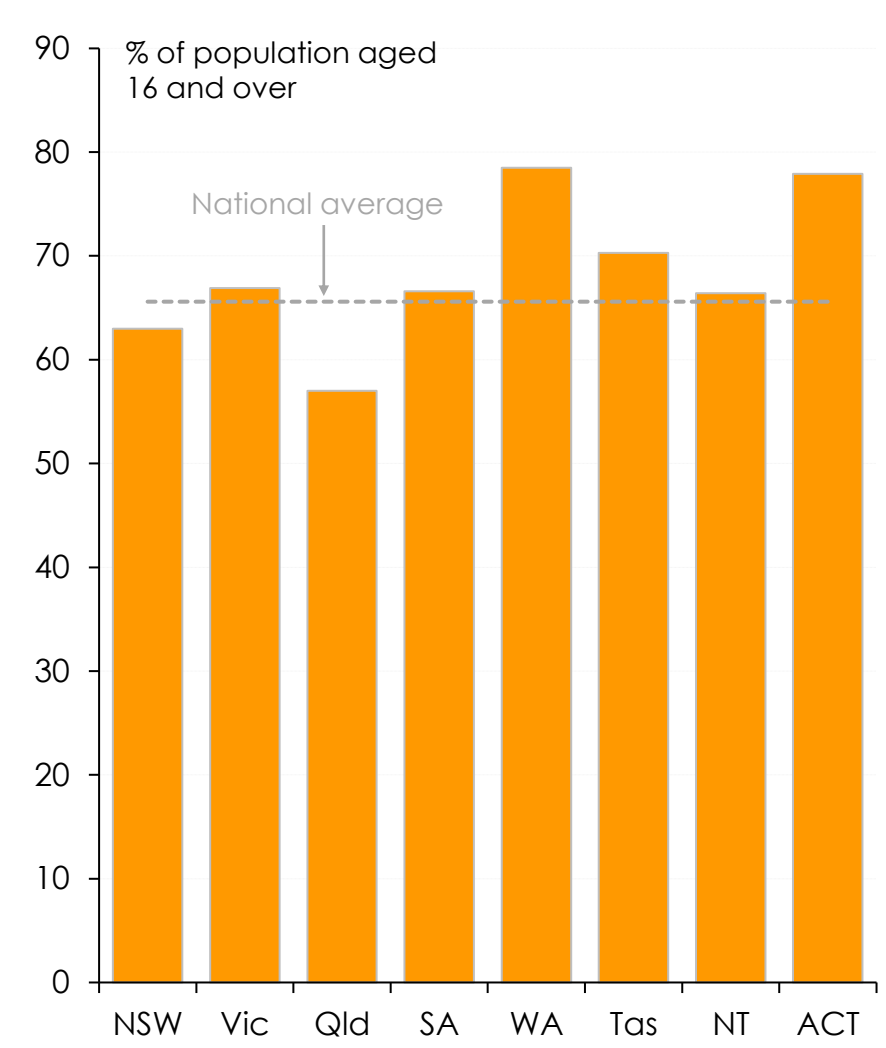
## Pc of population who have had at least one vaccination



## Pc of population who have had two vaccinations



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

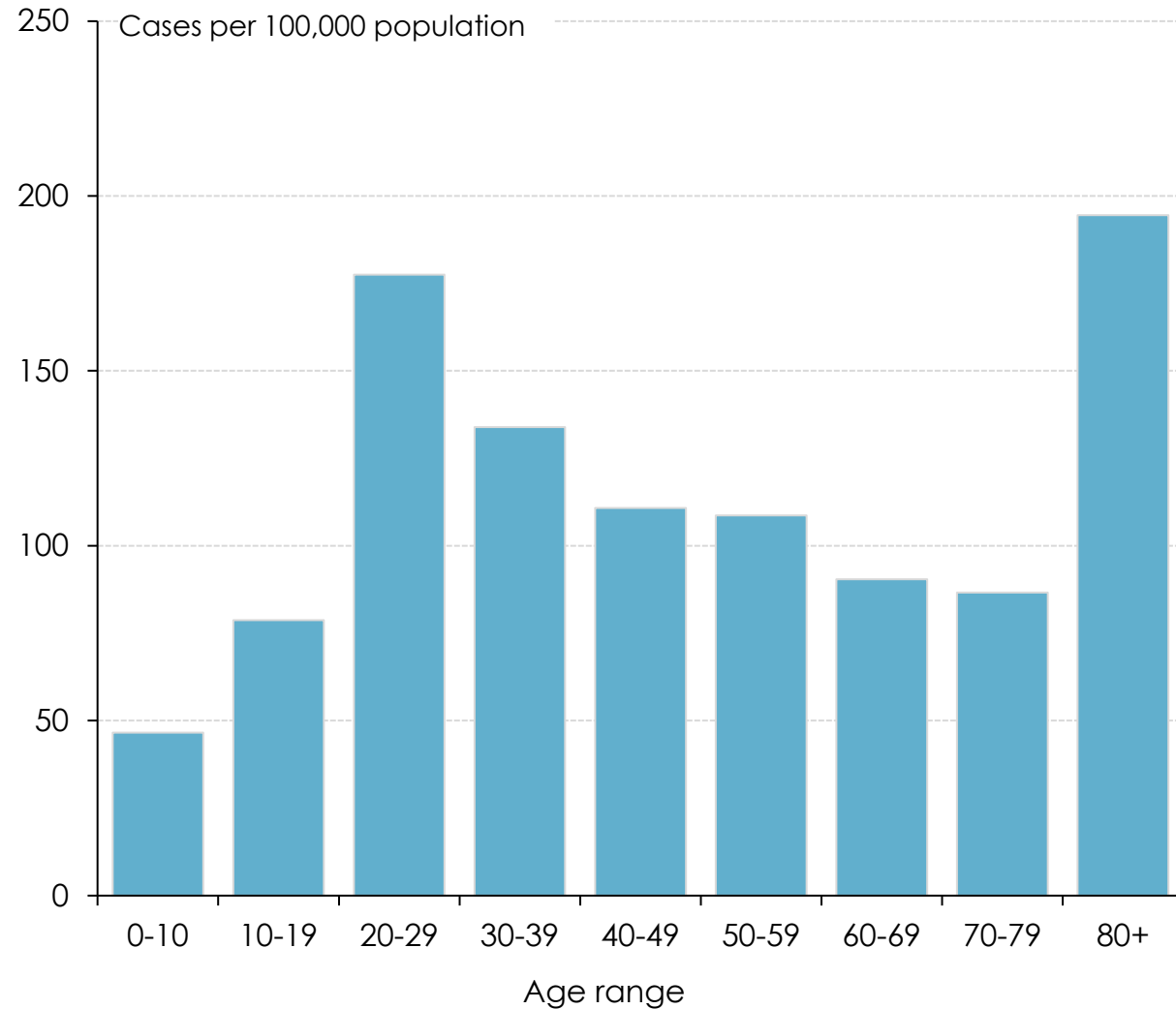


Note: Data are up to 13<sup>th</sup> May. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

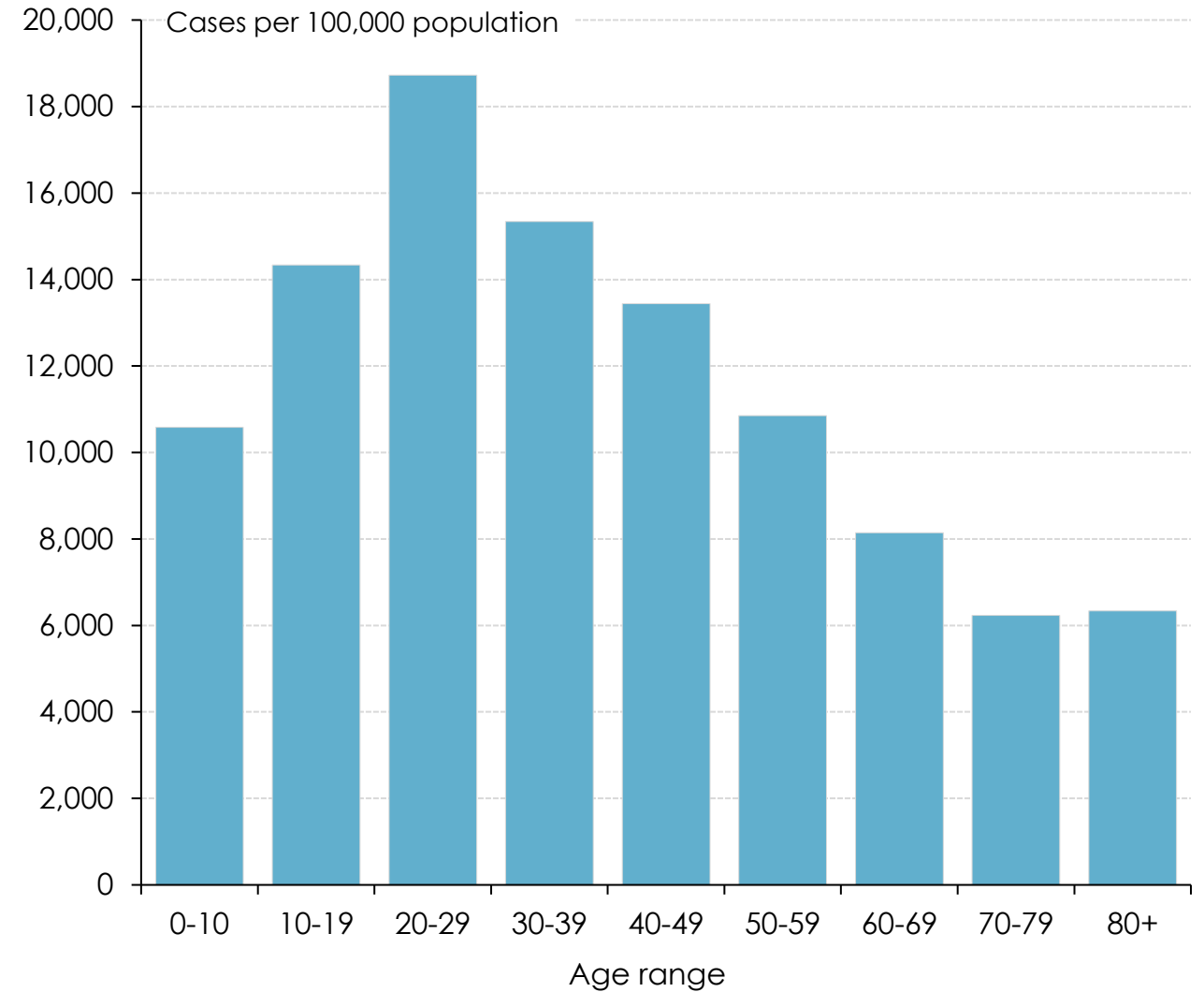
# People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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



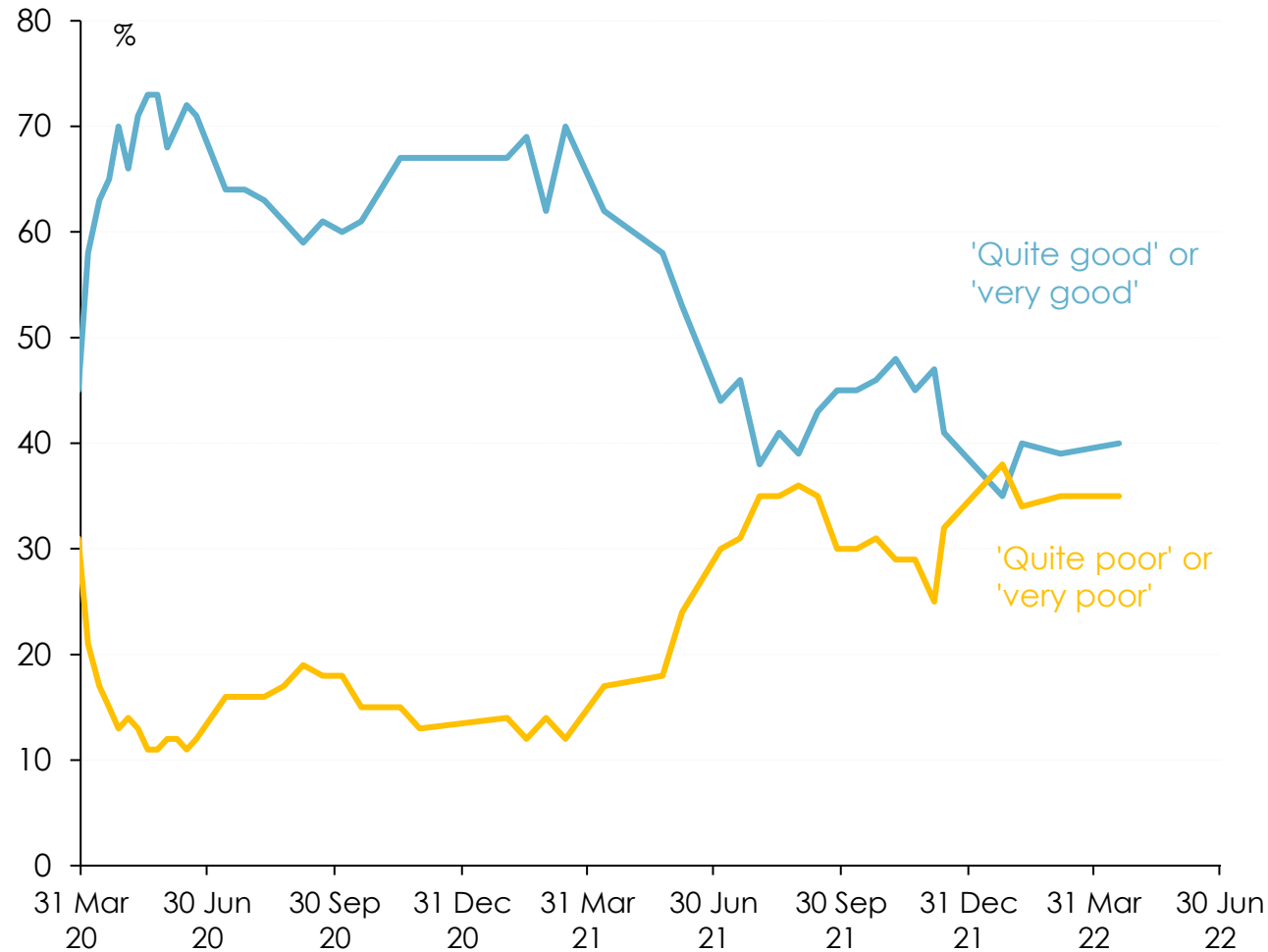
## Cumulative confirmed cases per 100,000 population, by age group – since 1<sup>st</sup> January 2021



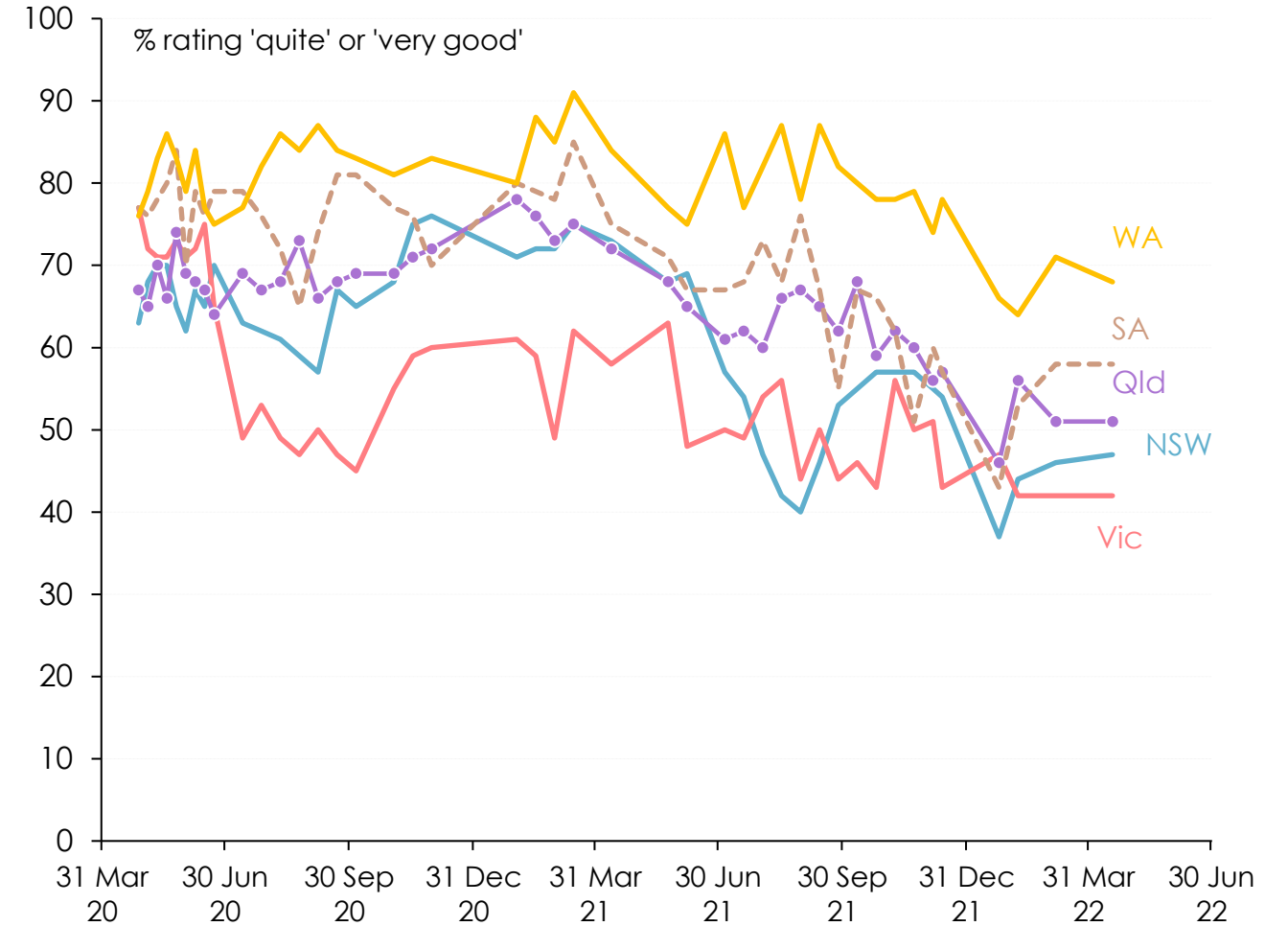
# Public approval of the Federal and state governments' handling of Covid remains lower than during the first 15 months of the pandemic

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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.

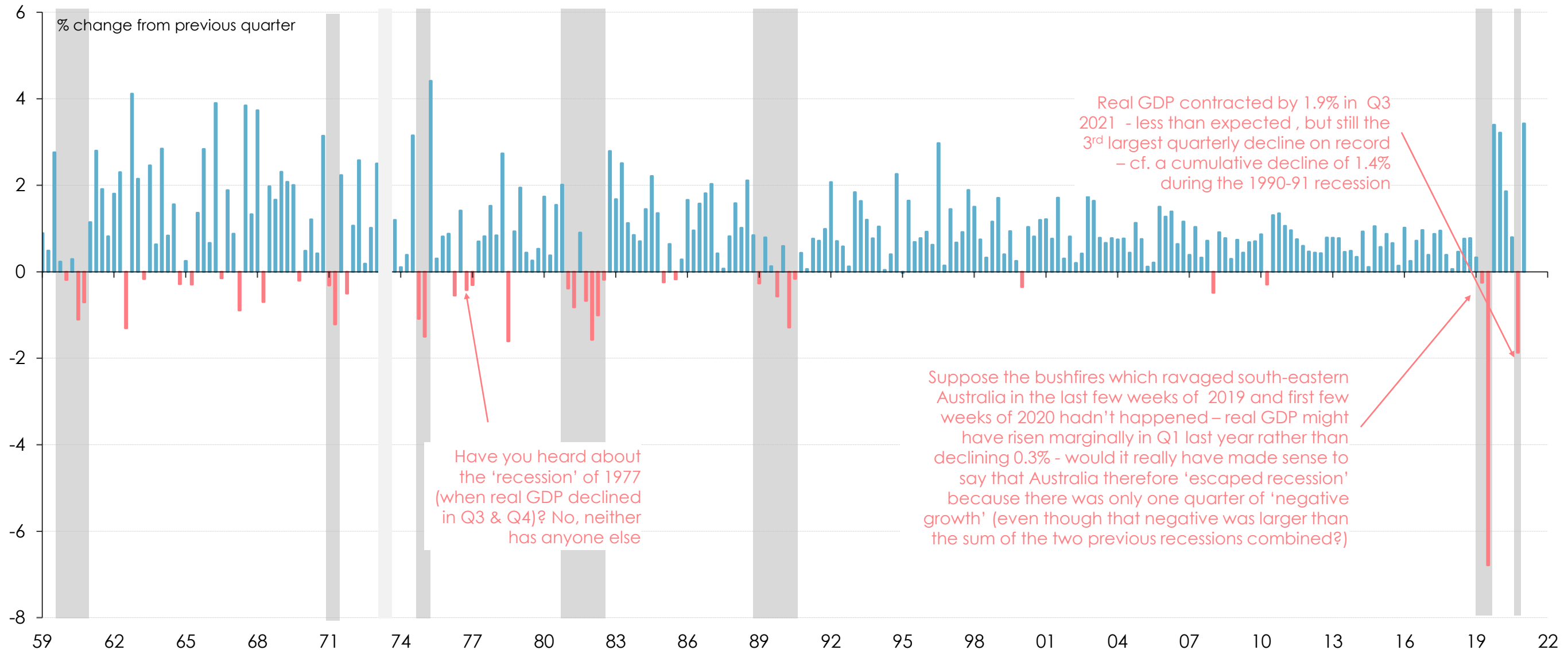
# Broad trends in the Australian economy



# 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

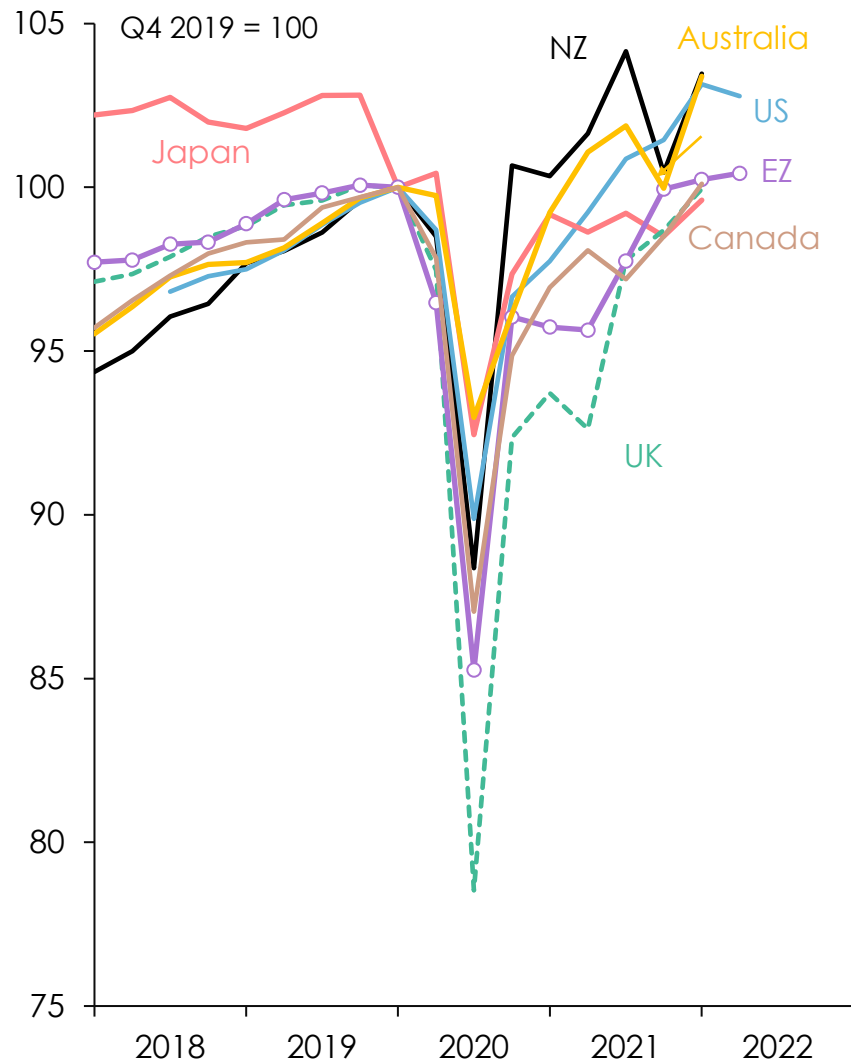


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. March quarter GDP will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

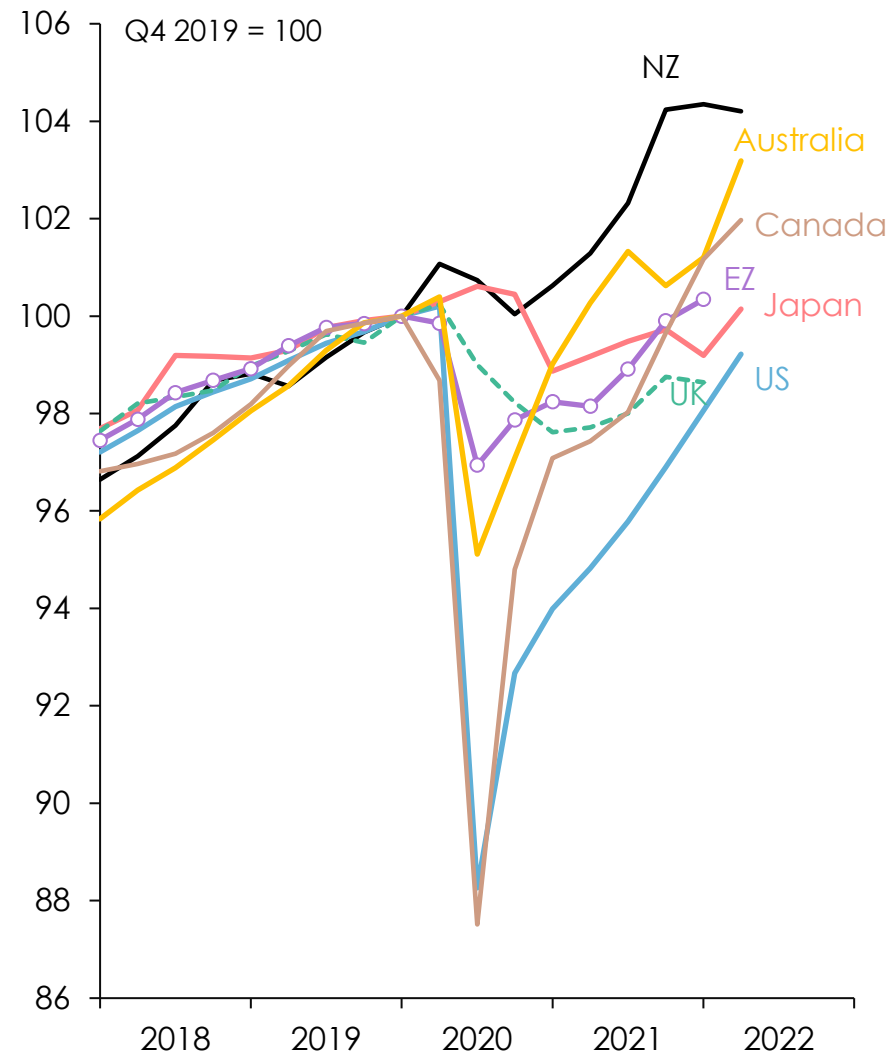
# Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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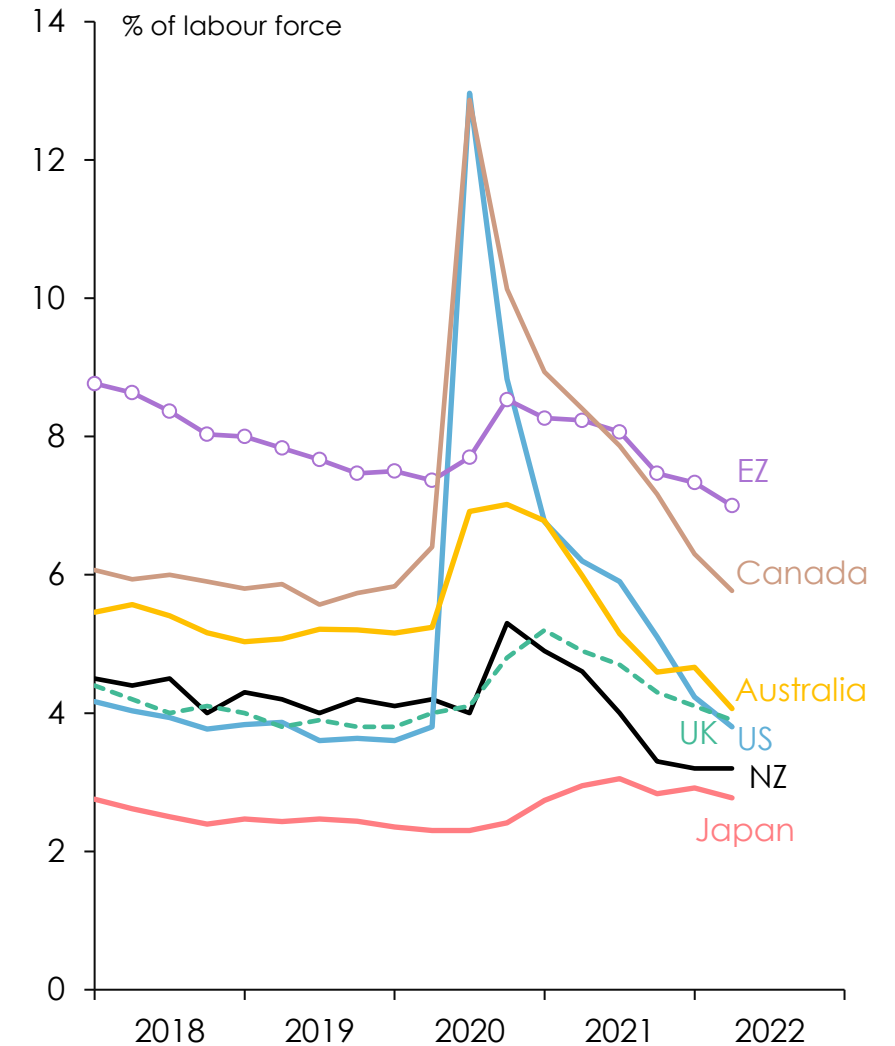
## Level of real GDP



## Employment



## Unemployment

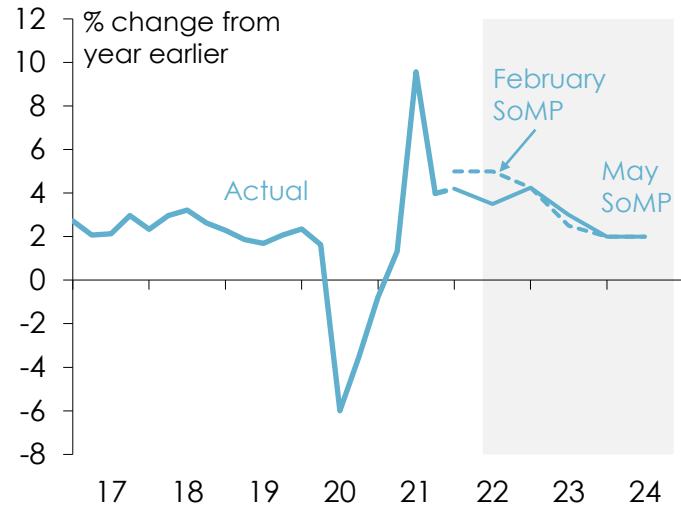


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

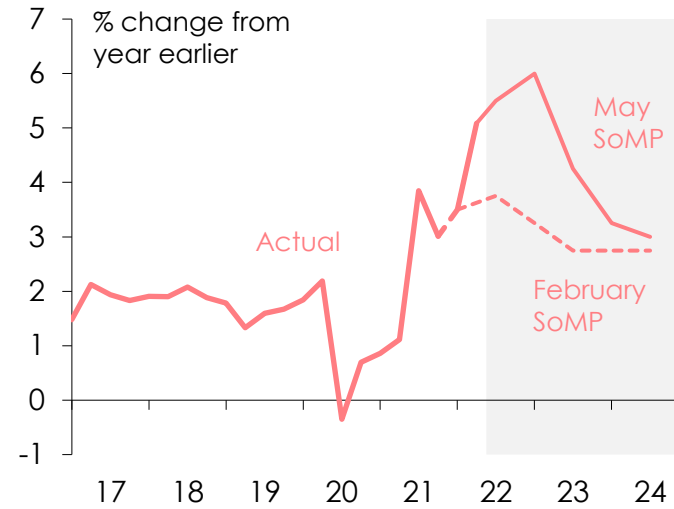
# The RBA has revised its inflation forecasts substantially upwards in the wake of the much higher-than-expected March quarter CPI outcome

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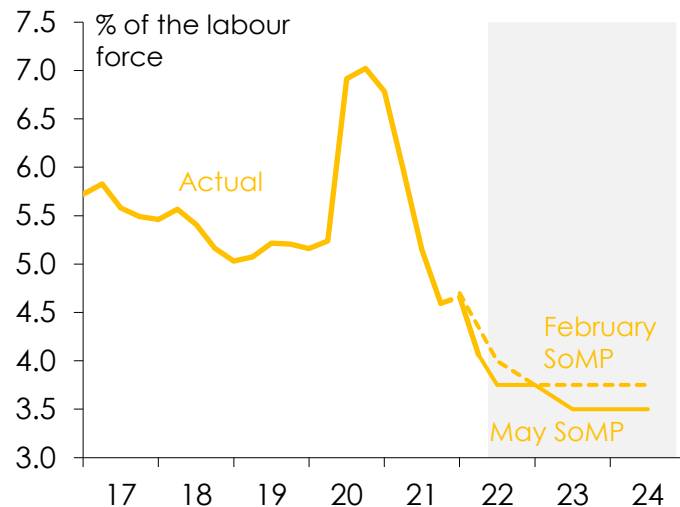
## GDP



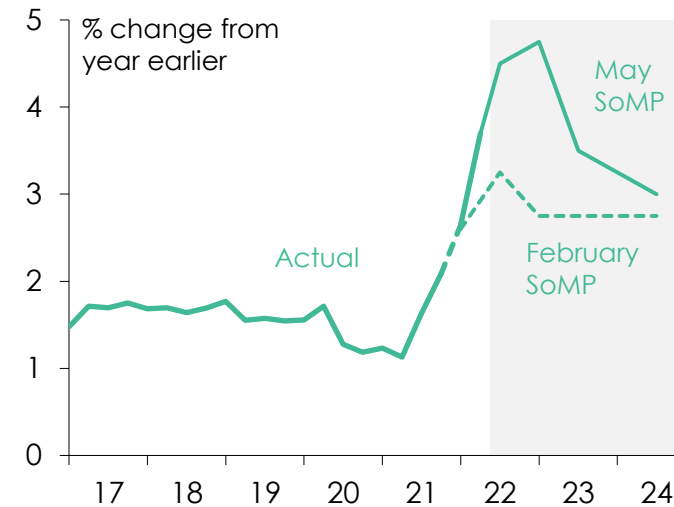
## 'Headline' inflation



## Unemployment



## 'Underlying' inflation



❑ The RBA's latest [Statement on Monetary Policy](#) released on Friday made only marginal changes to its outlook for economic activity and employment

- real GDP is still expected to grow 4¼% through 2022 led by strong growth in household consumption (aided by a reduction in saving from current very high levels) and non-mining business investment, before slowing to 2% over the course of 2023
- the unemployment rate is expected to drop to 3½% by Q2 next year and remain there through Q2 2024

❑ However the RBA has substantially raised its inflation forecasts

- 'headline' inflation is expected to peak at 6% in the second half of this year, before declining to 3% over the following 18 months
- while 'underlying' inflation (as measured by the trimmed mean) is now expected to peak at 4¾% in Q4 this year, and remain above the 2-3% target band until mid-2024

❑ The RBA expects the "primary driver of inflation outcomes" to shift from "upstream non-labour cost pressures" towards "domestically generated pressures from a tight labour market"

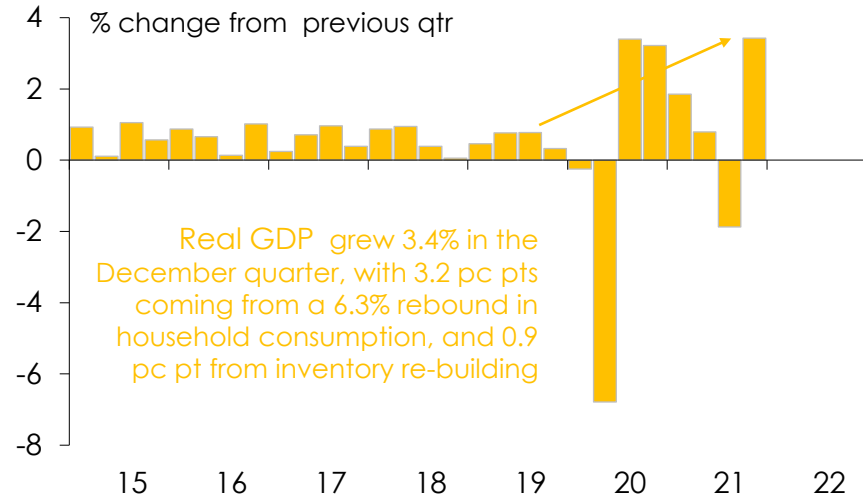
- the wage price index is now expected to rise by about 3% over 2022 and by 3¾% over the year to Q2 2024, with broader measures of earnings rising more rapidly

Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 6<sup>th</sup> May. The RBA's next set of forecasts will be published on Friday 5<sup>th</sup> August. [Return to "What's New"](#).

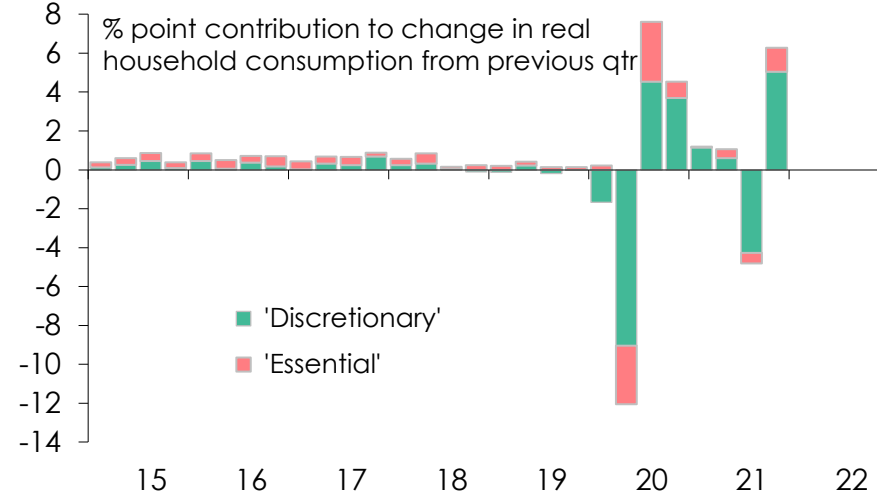
# Real GDP grew 3.4% in the December quarter, fuelled by a surge in post-lockdown discretionary consumption spending and inventory re-building

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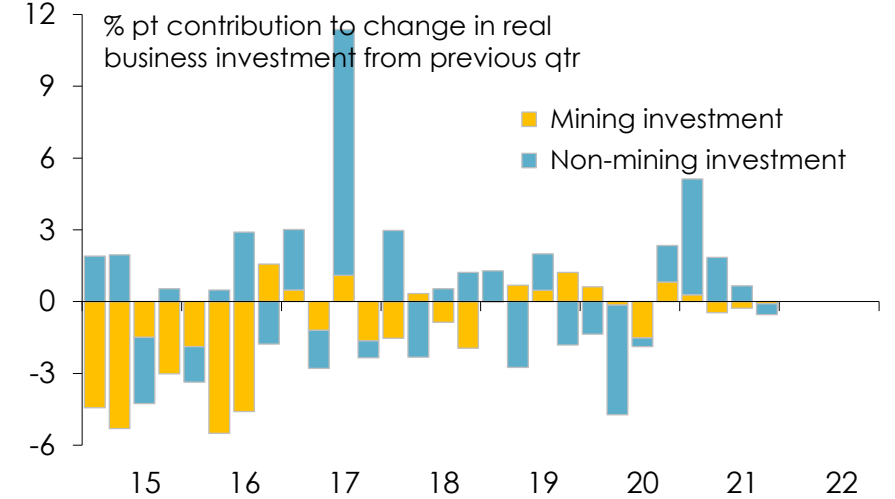
## Quarterly change in real GDP



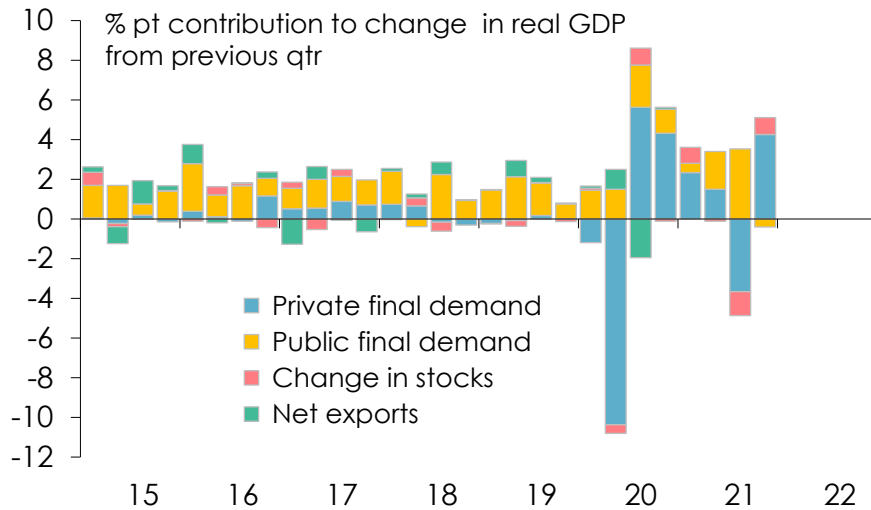
## Household consumption expenditure



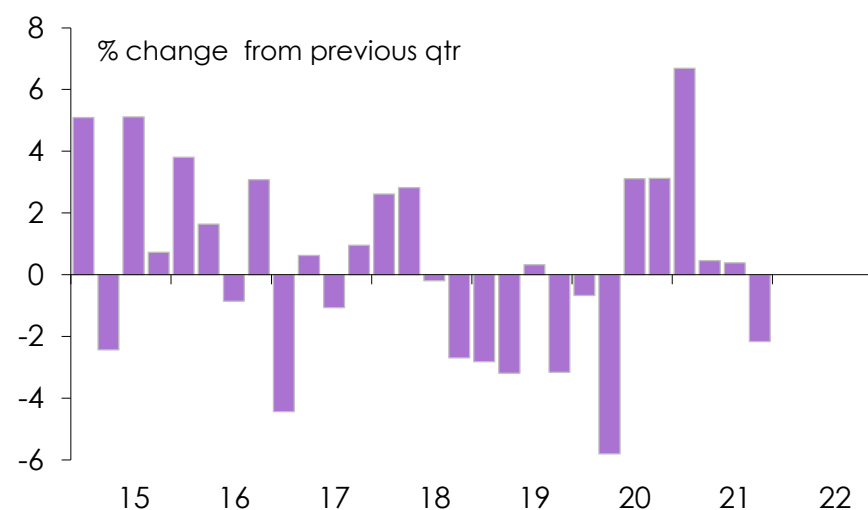
## Business investment expenditure



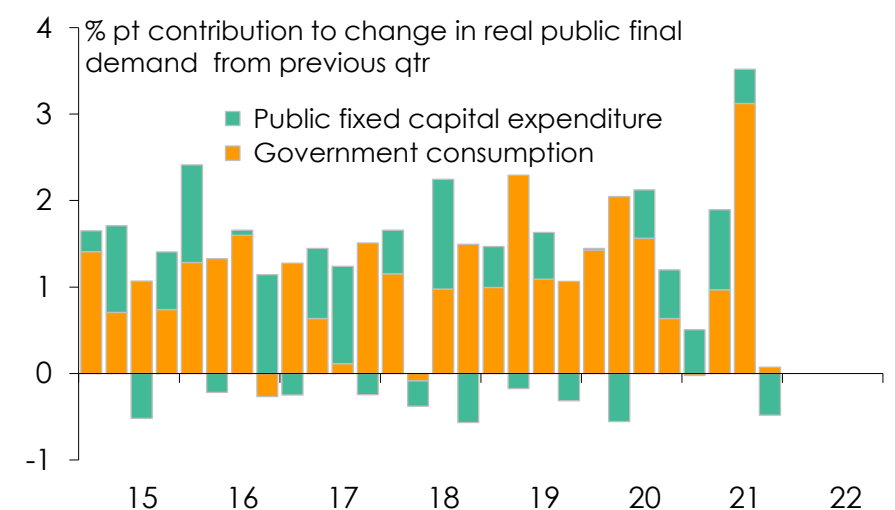
## Contributions to quarterly GDP growth



## Dwelling investment expenditure



## Public expenditure

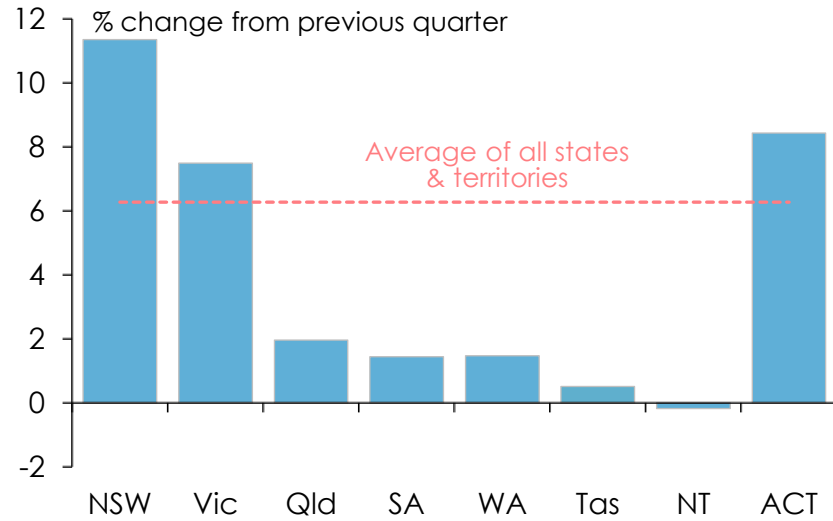


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021. March quarter national accounts will be released on 1<sup>st</sup> June. [Return to "What's New"](#).

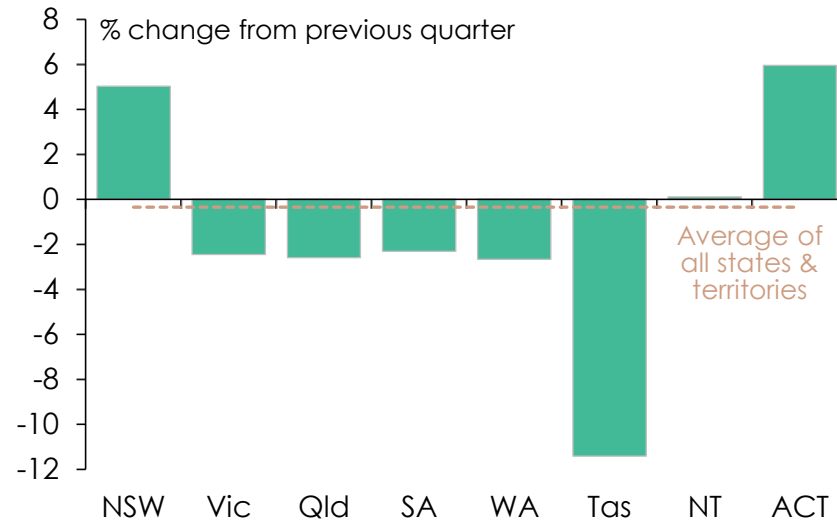
# The December quarter rebound was largely driven by post-lockdown surges in consumer spending in New South Wales, Victoria and the ACT

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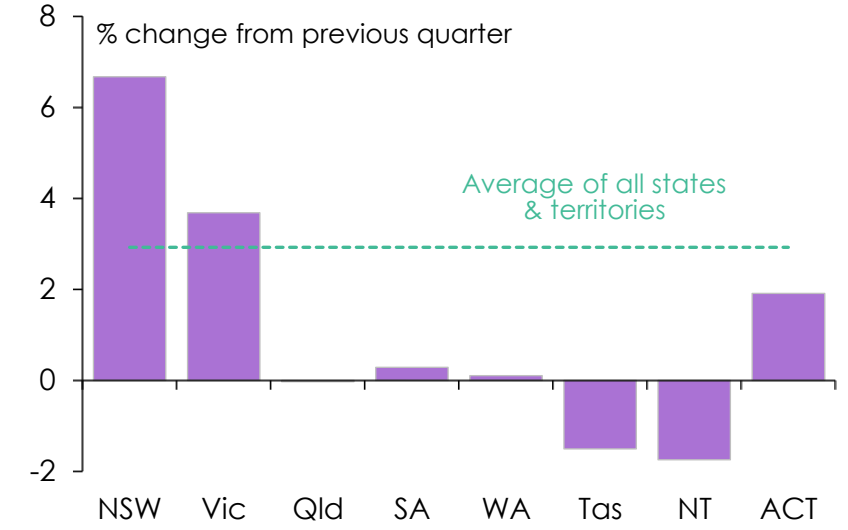
## Household consumption



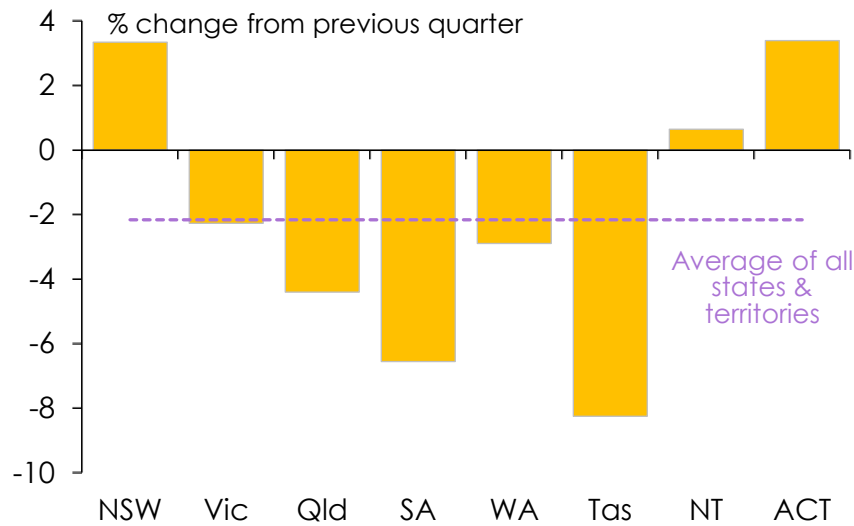
## Business investment



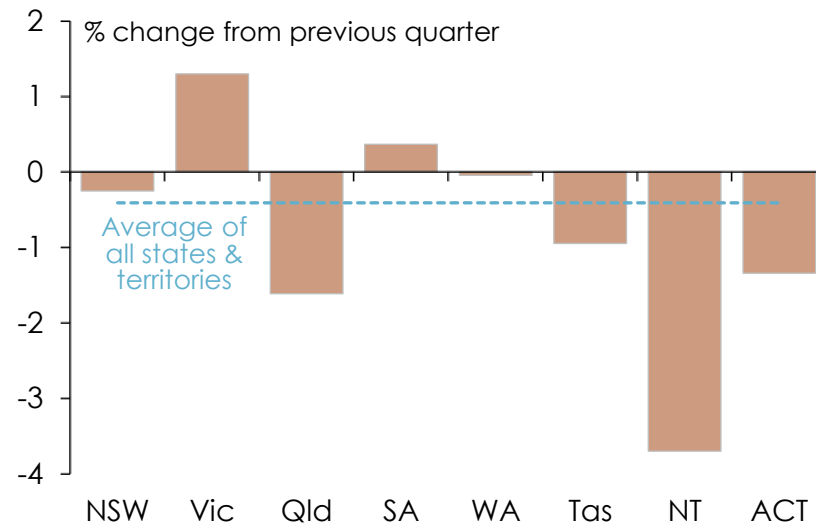
## State final demand



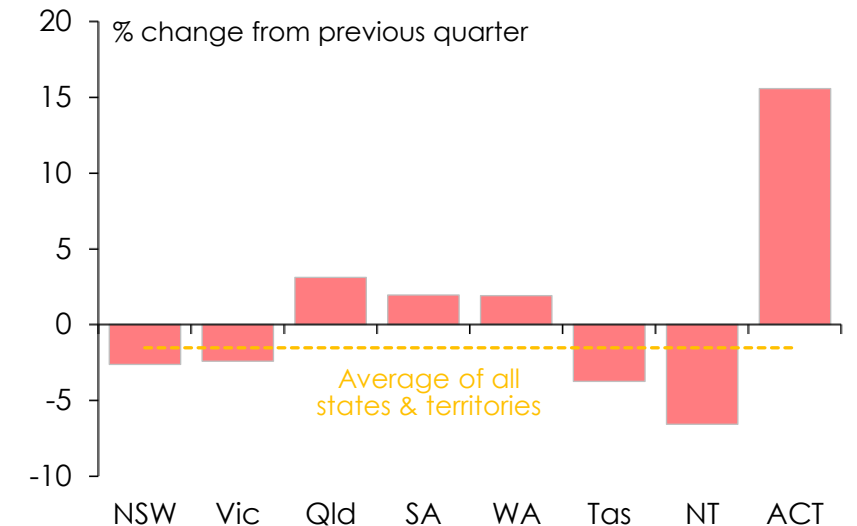
## Dwelling investment



## Public spending



## International exports

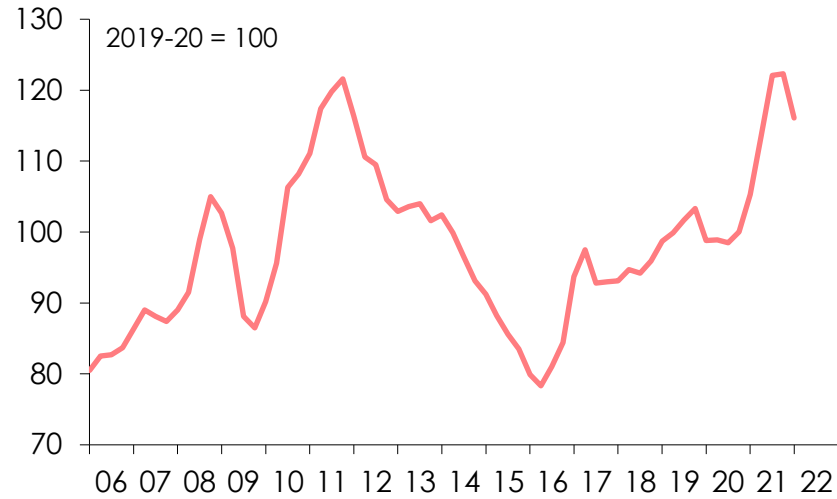


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; [Balance of Payments and International Investment Position,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

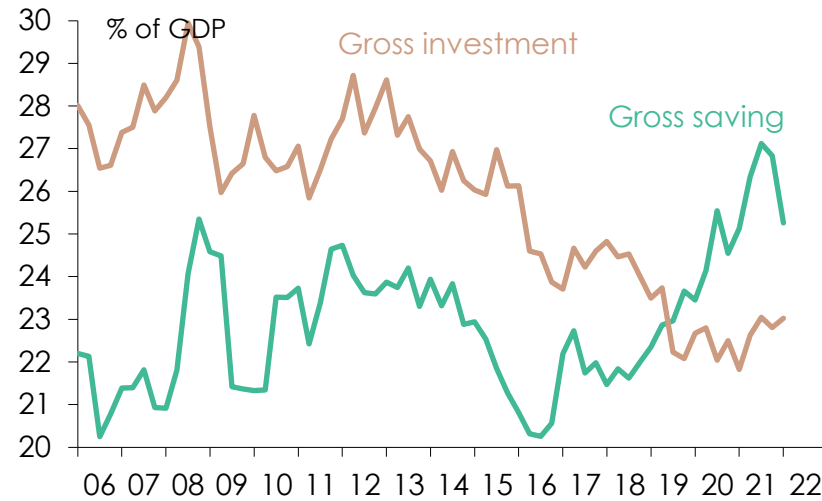
# Australia's terms of trade may have peaked, leading to slower growth in income and lower national saving

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

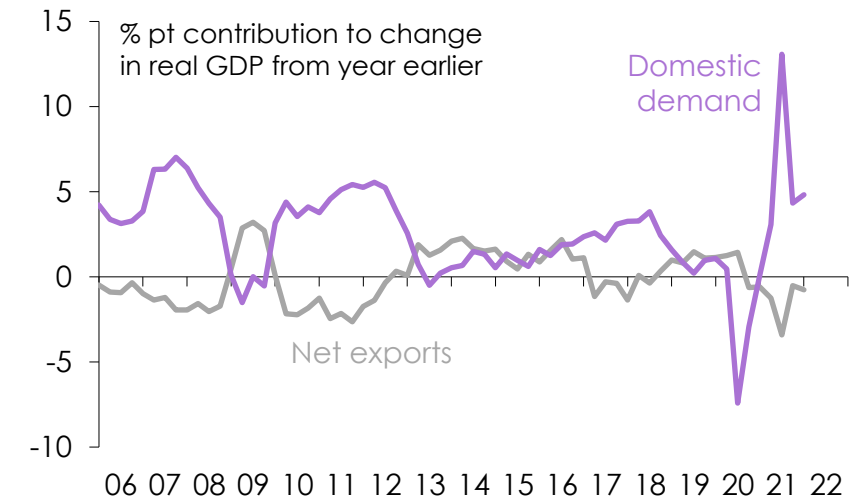
## Terms of trade



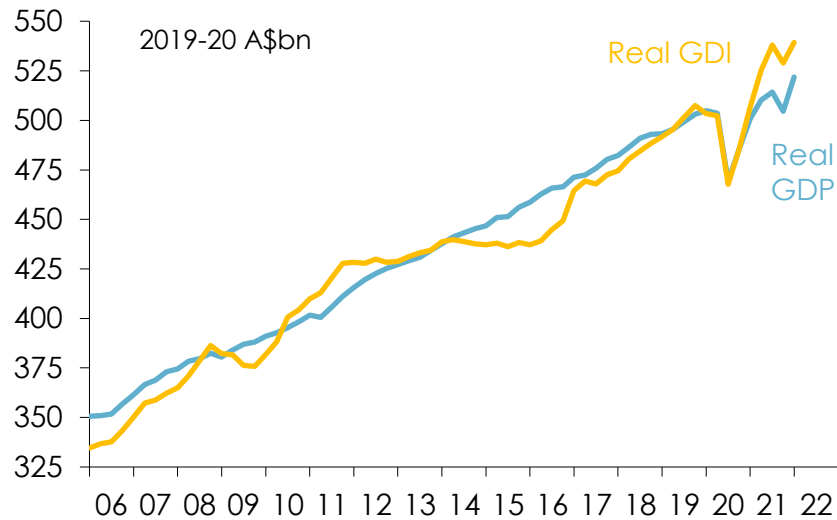
## National saving & investment



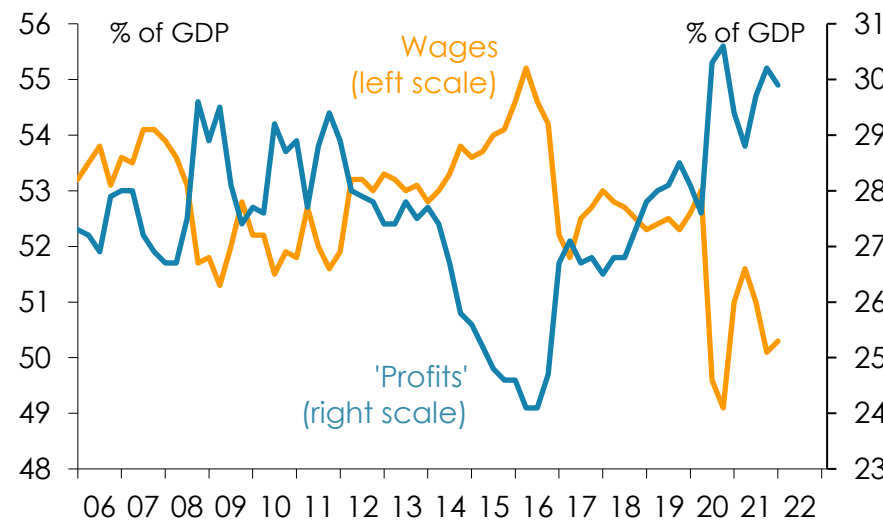
## Domestic demand and net exports



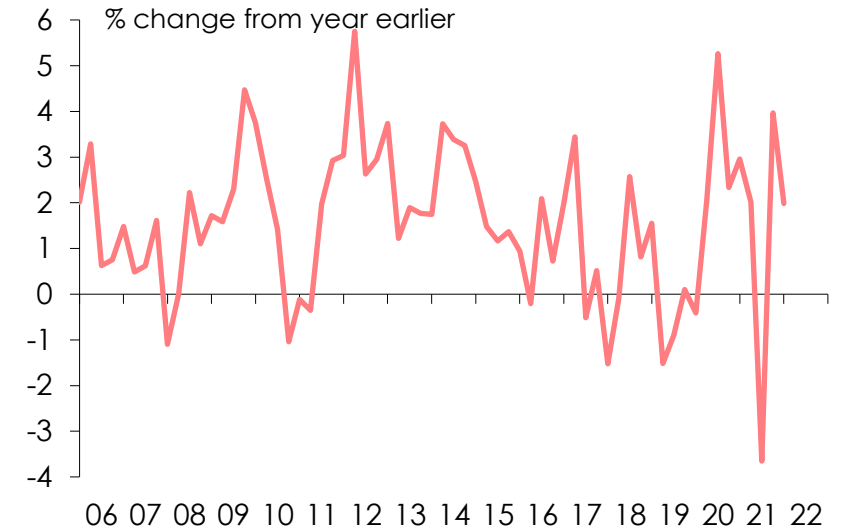
## Real gross domestic income



## Shares of national income



## Labour productivity

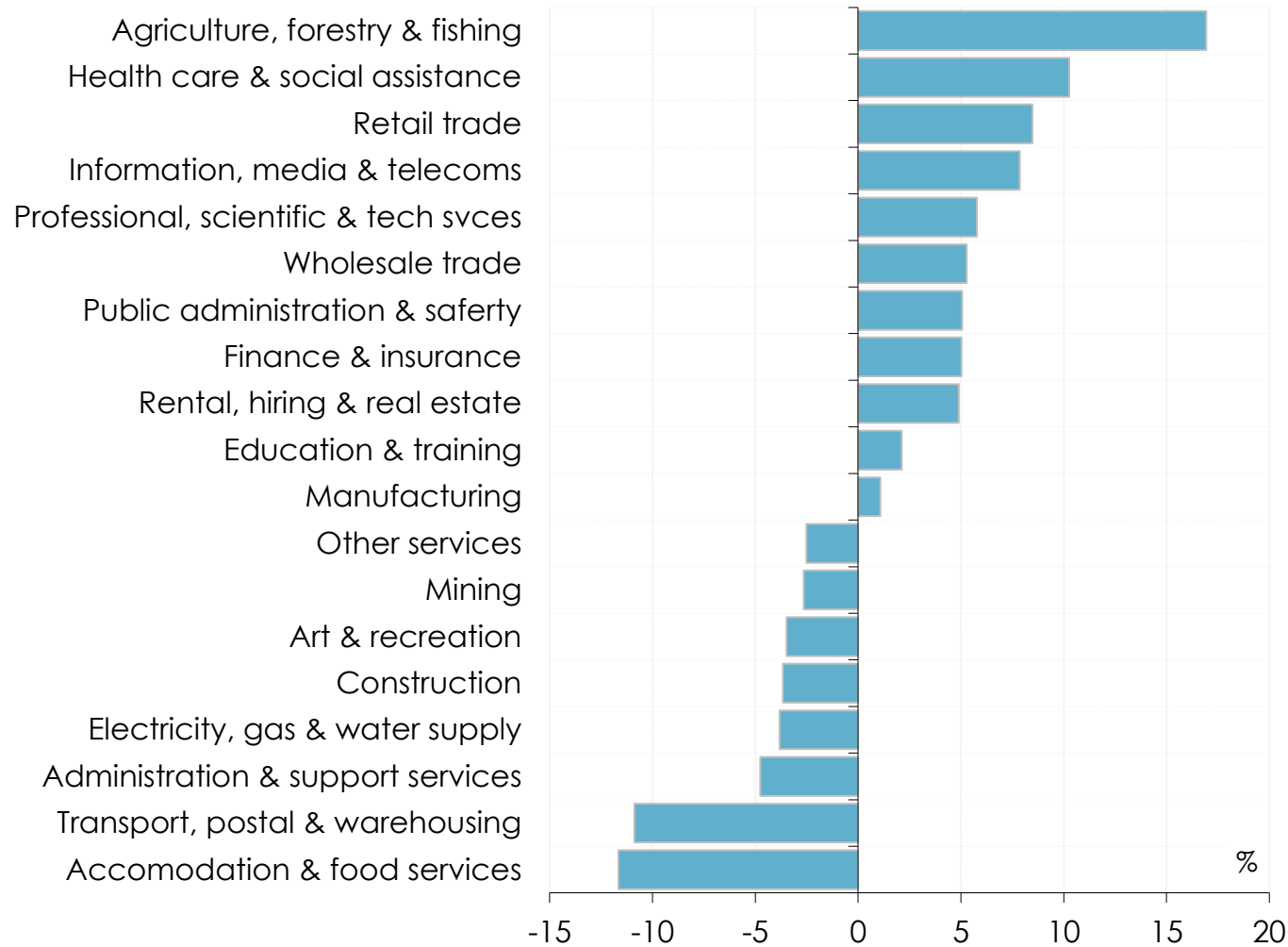


Note: The terms of trade is the ratio of export to import prices (for more see [slide 70](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021.

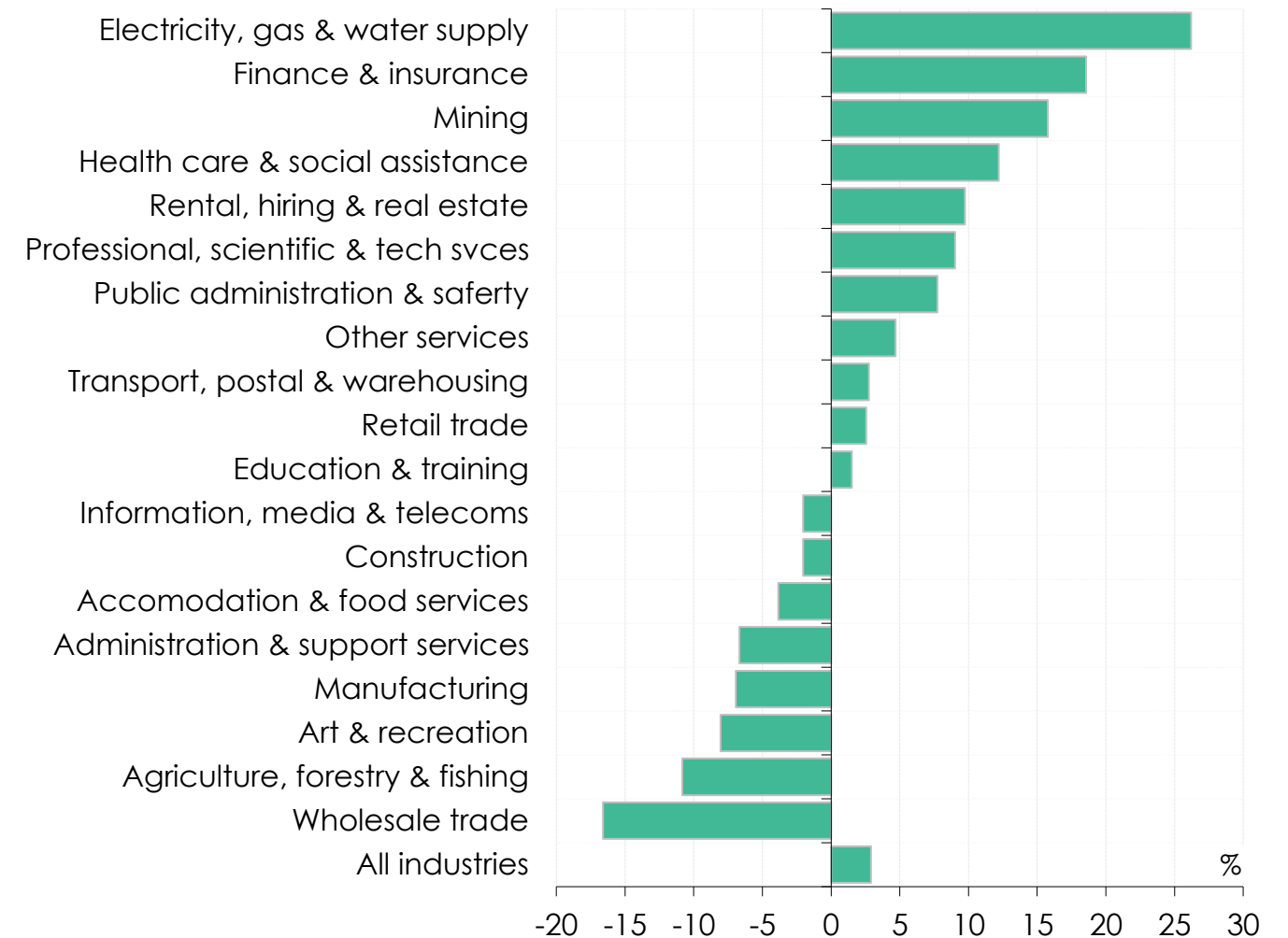
# Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



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

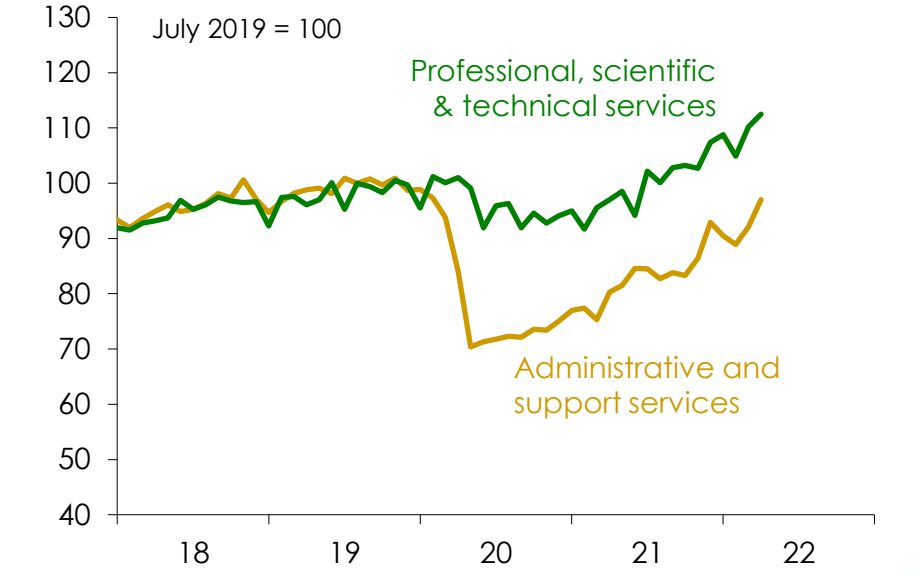
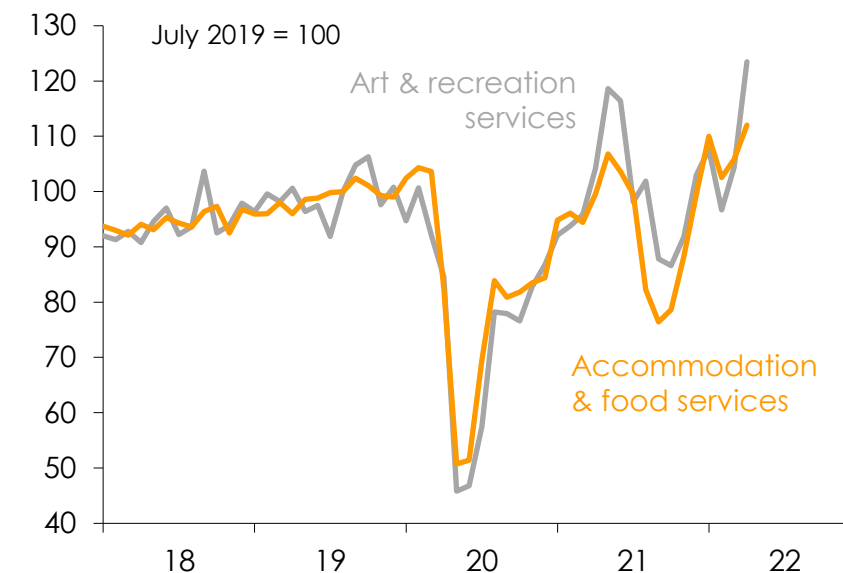
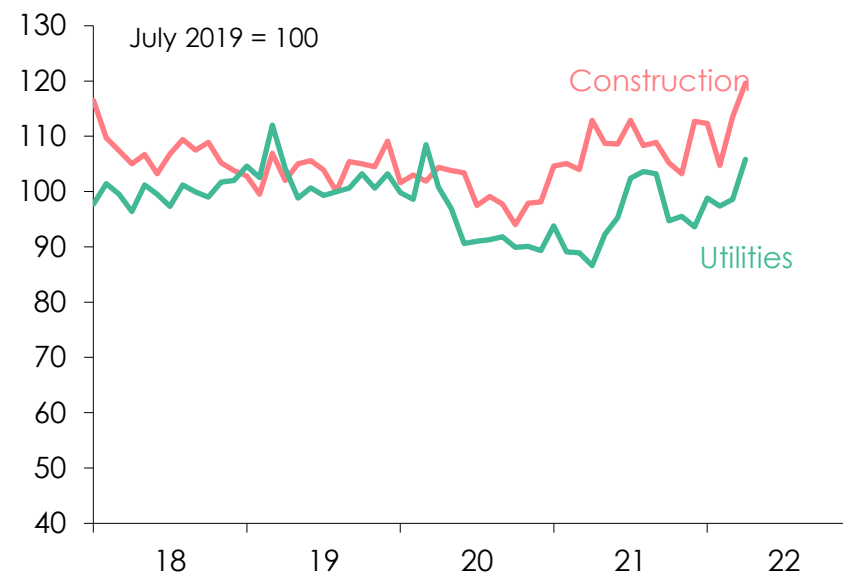
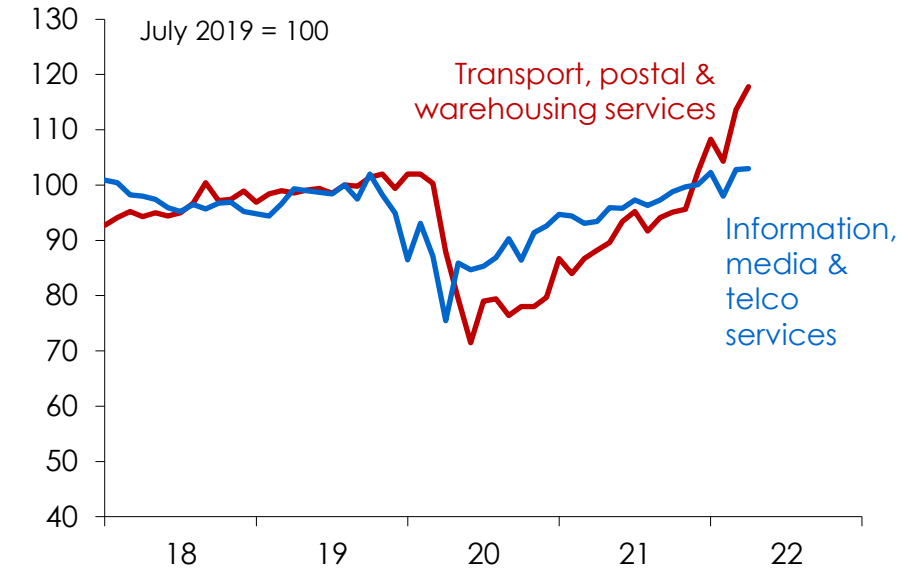
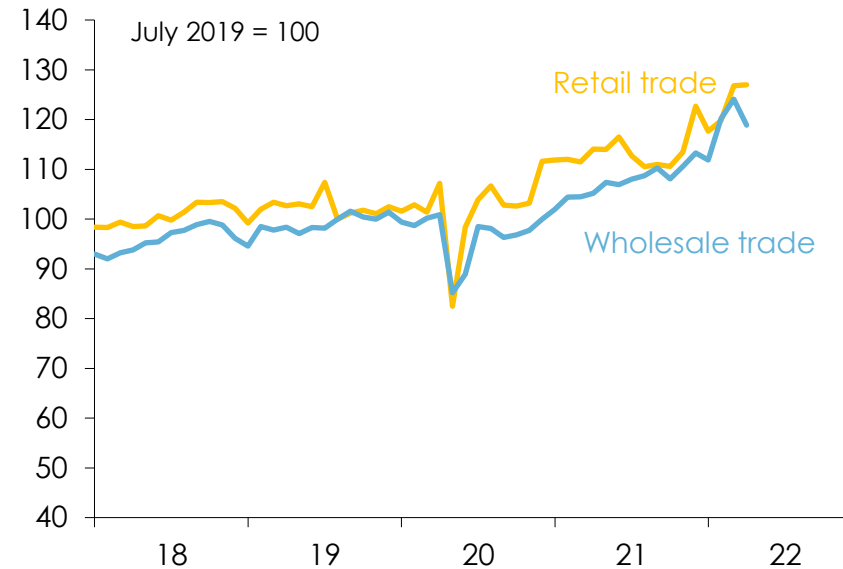
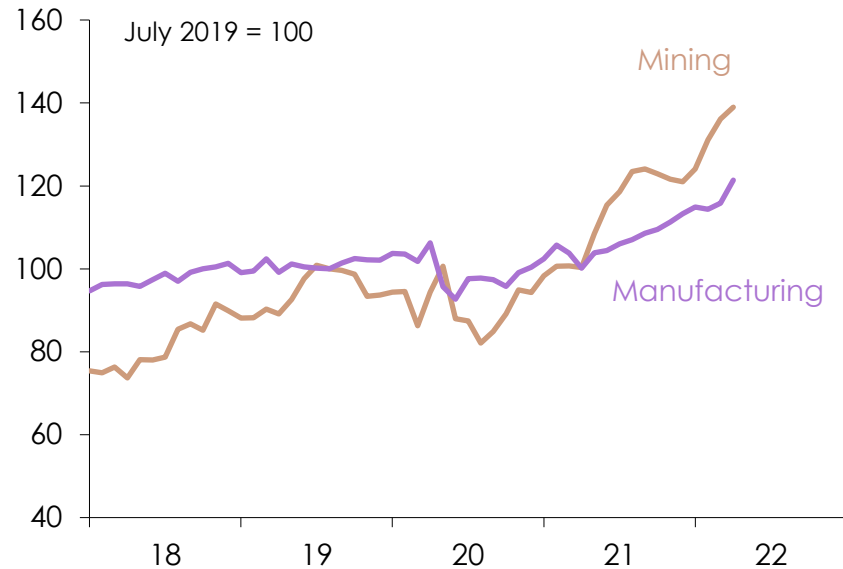


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; and [Labour Force, Australia, Detailed](#), February 2022. GVA by industry data will be updated in the March quarter national accounts to be released on 1<sup>st</sup> June

# Every sector of the economy except wholesaling recorded an increase in turnover in March, after all sectors did in February

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## Indicators of business turnover, by industry



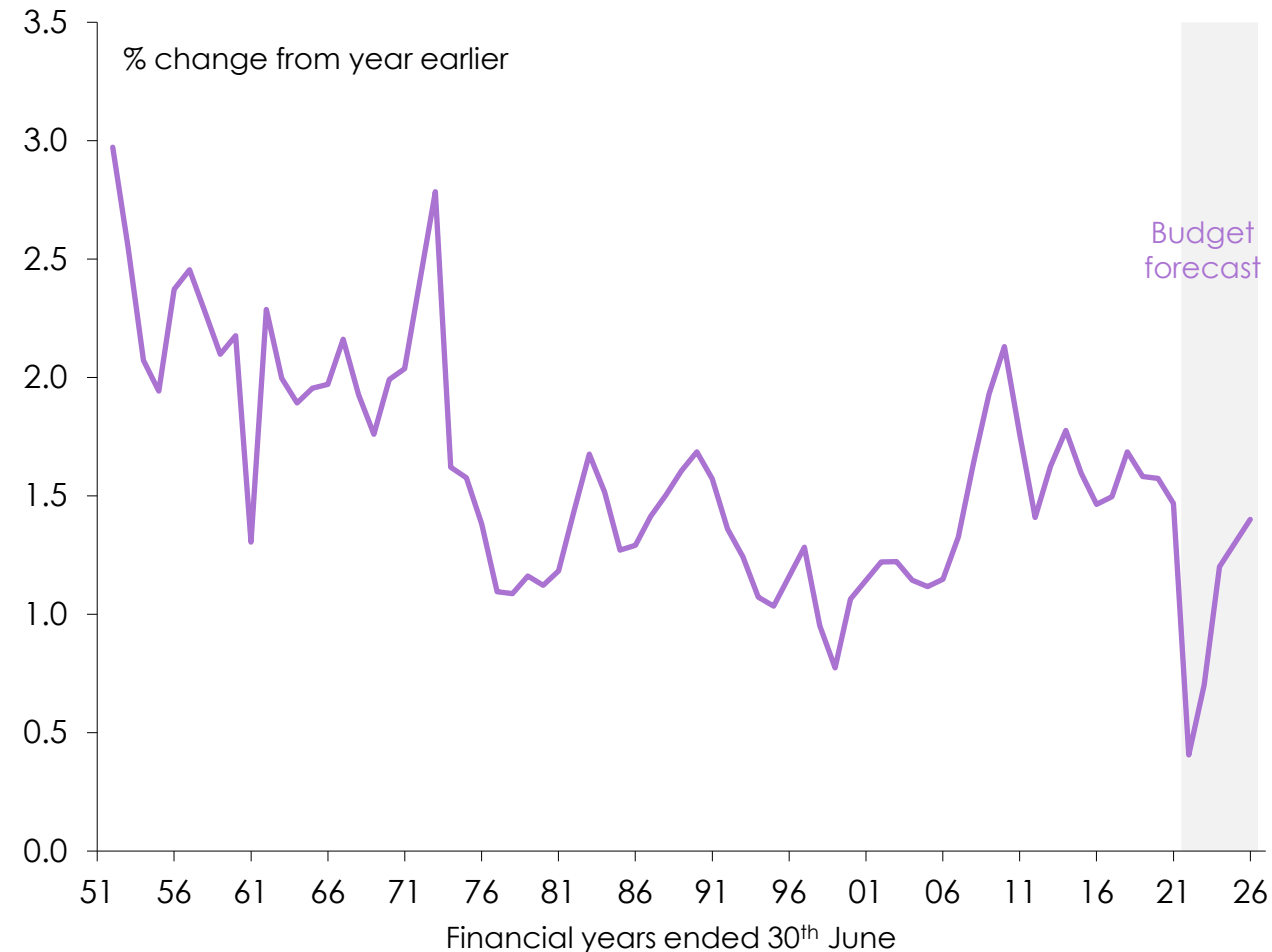
Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), March 2022. April data will be released on 10<sup>th</sup> June. [Return to "What's New"](#).



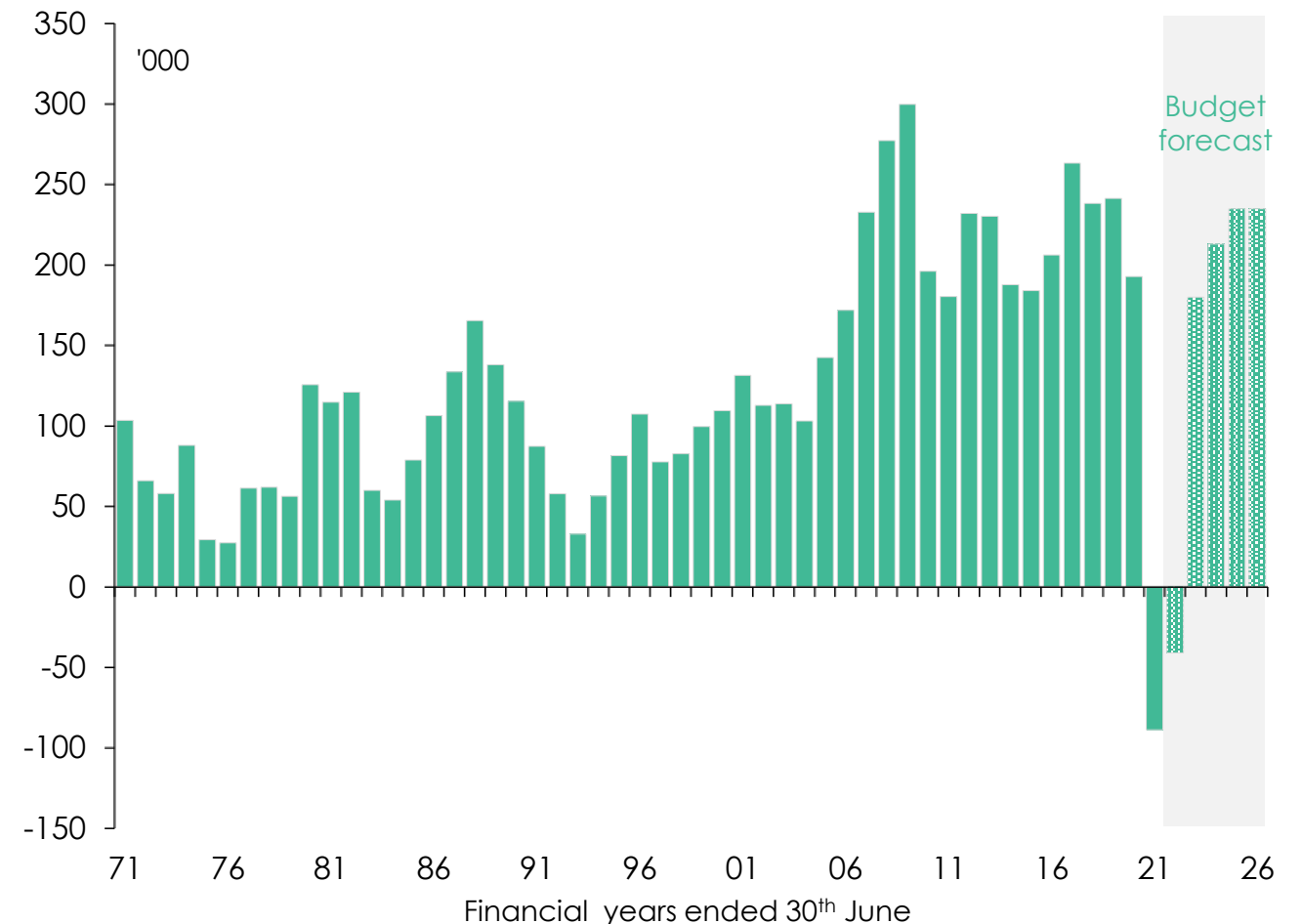
# An important assumption underlying 'official' forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 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)

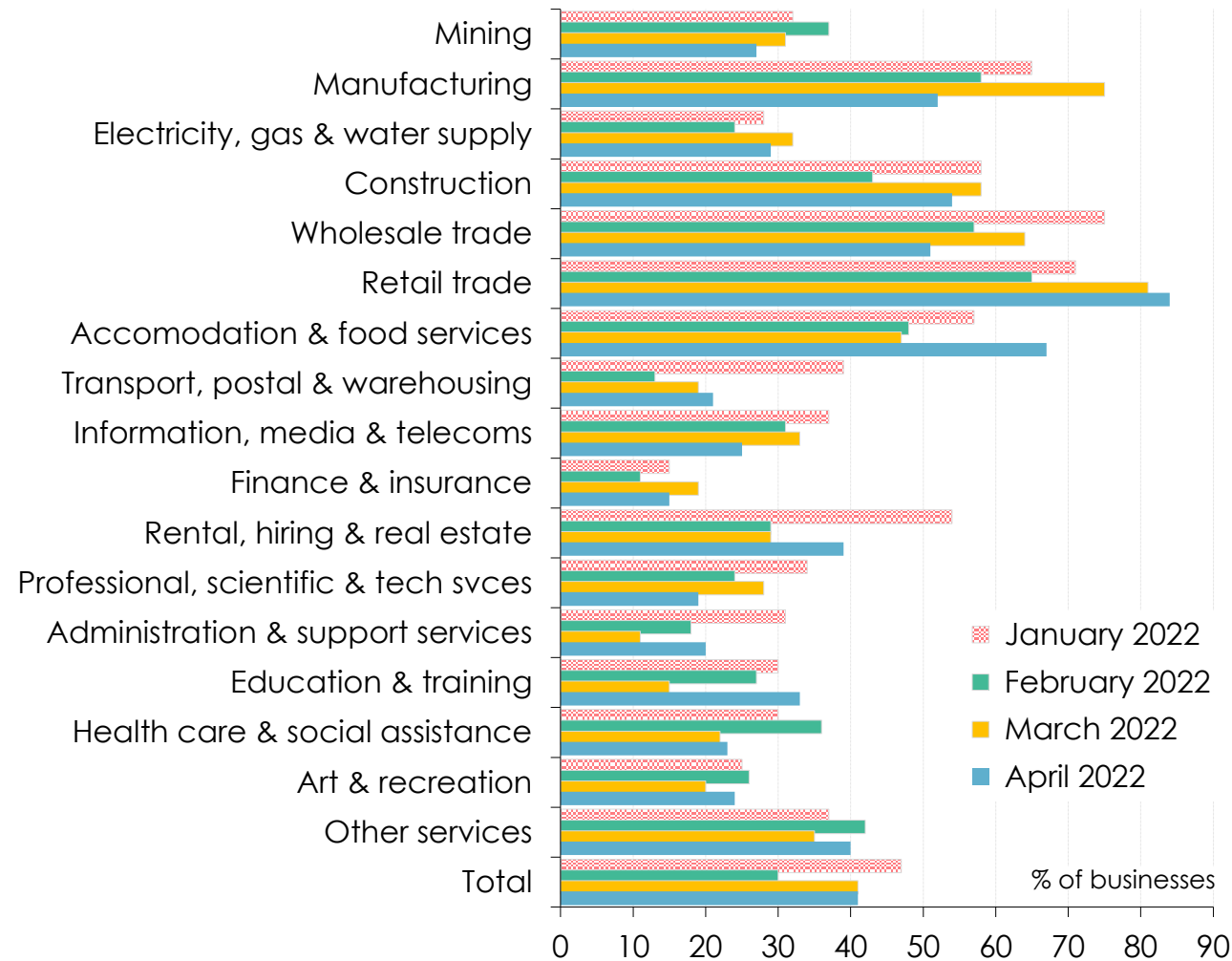
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29<sup>th</sup> March 2022.

# The business sector

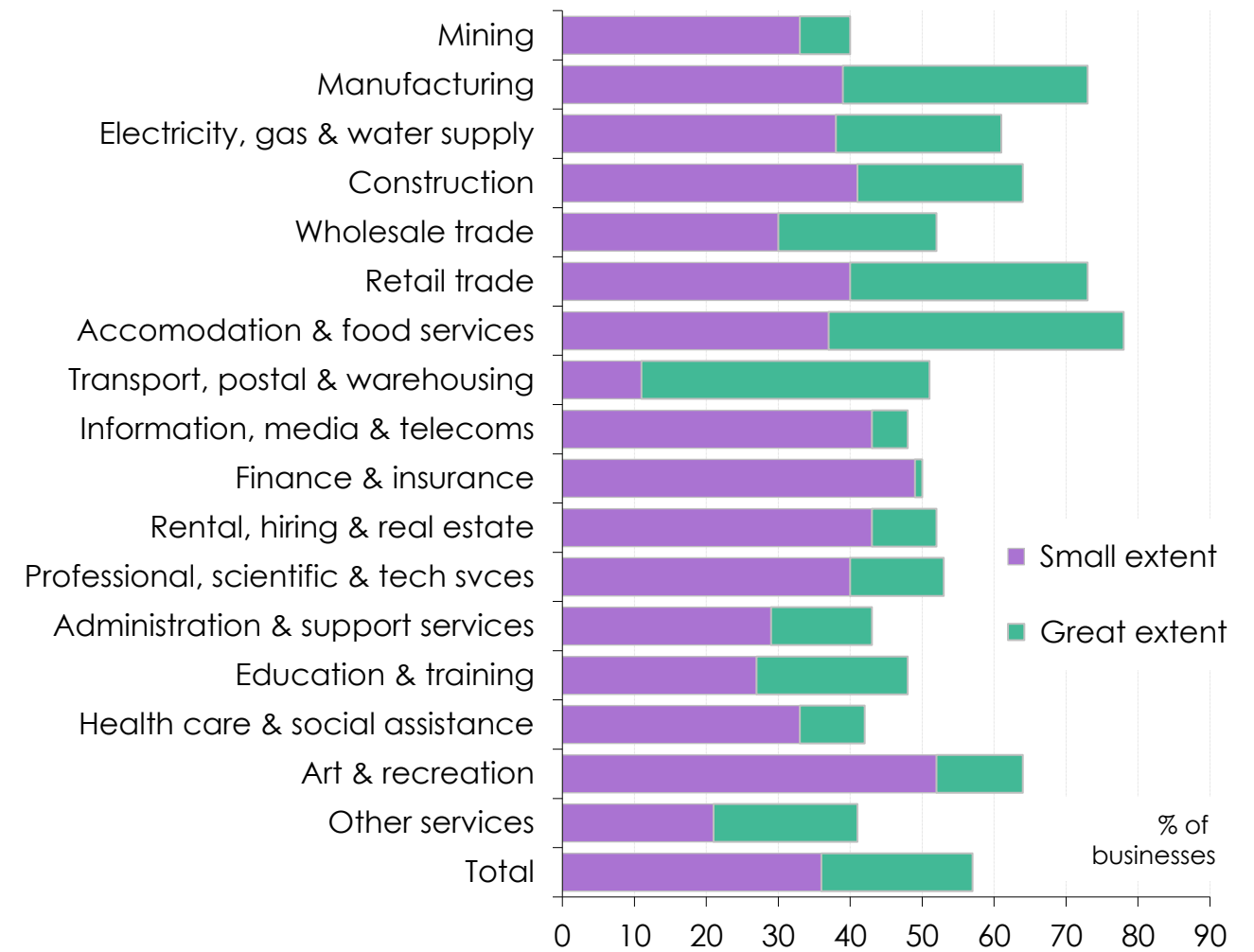
# 41% of businesses were still experiencing supply chain disruptions in April, and 57% have experienced cost increases to at least some extent

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## Businesses affected 'to a great extent' by supply chain disruptions, by industry, January-April 2022



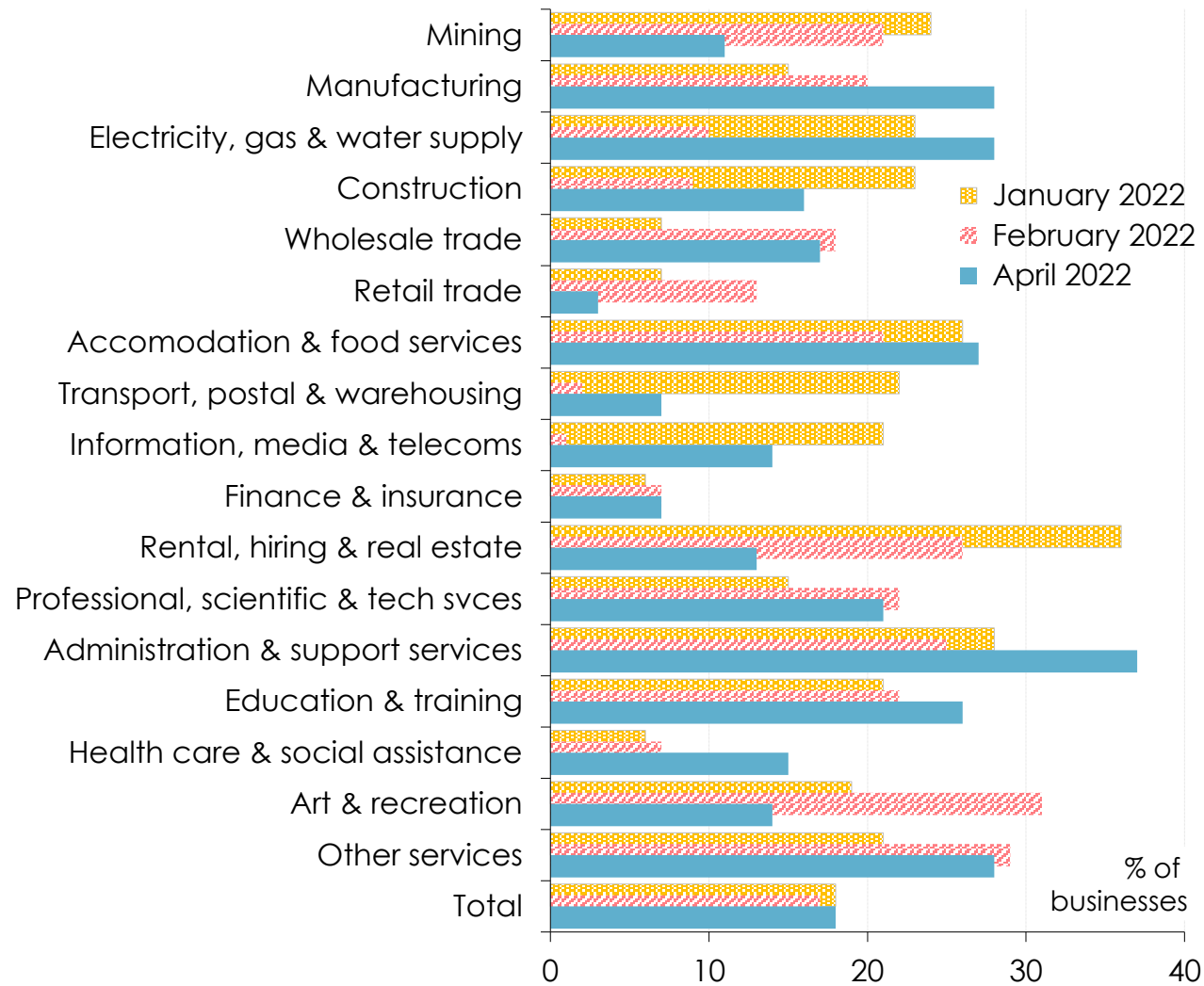
## Extent to which 'cost of doing business' has increased over three months to April



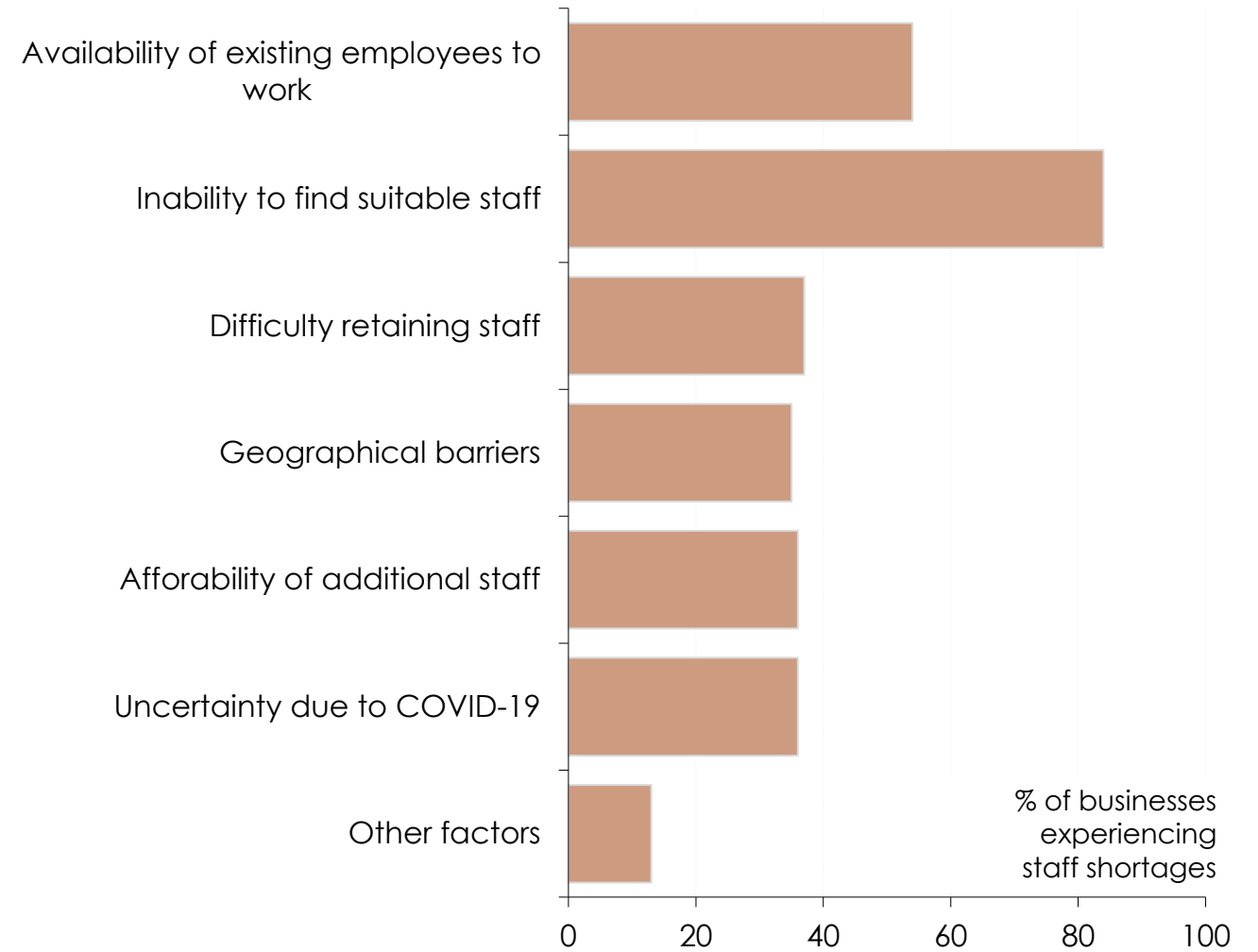
# The proportion of businesses experiencing staff shortages hasn't changed much over the past three months, though it's more acute in some sectors

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



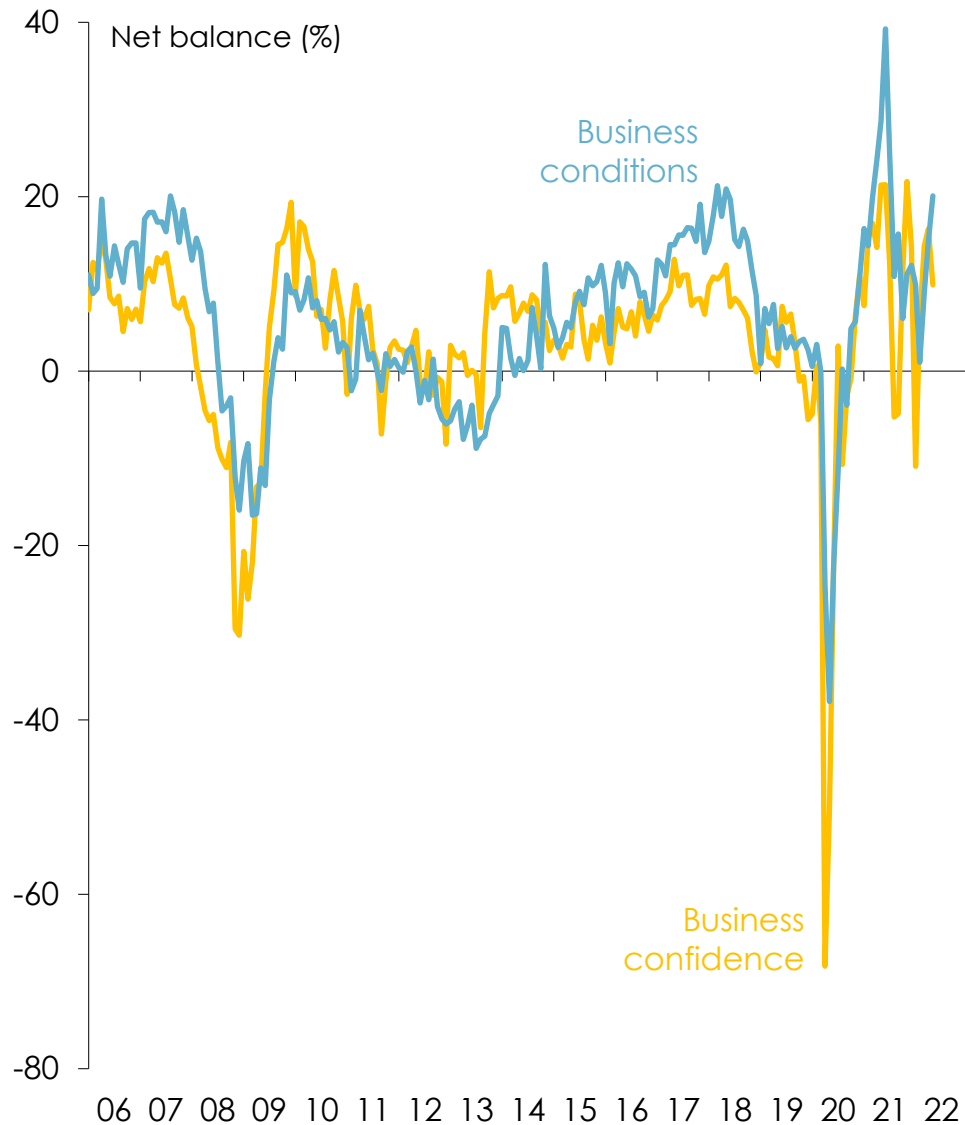
## Factors influencing staffing levels for businesses with insufficient employees, April 2022



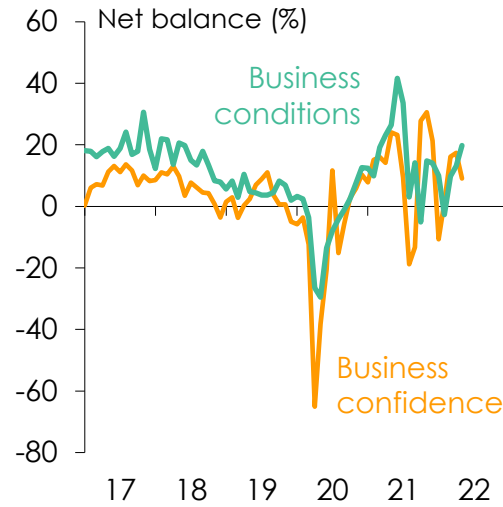
# Business conditions improved in April, in every state except Tasmania, while business confidence eased a little (though remaining above average)

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

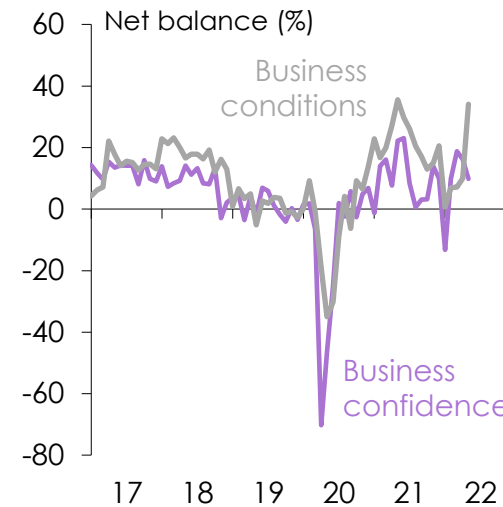
## National business confidence & conditions



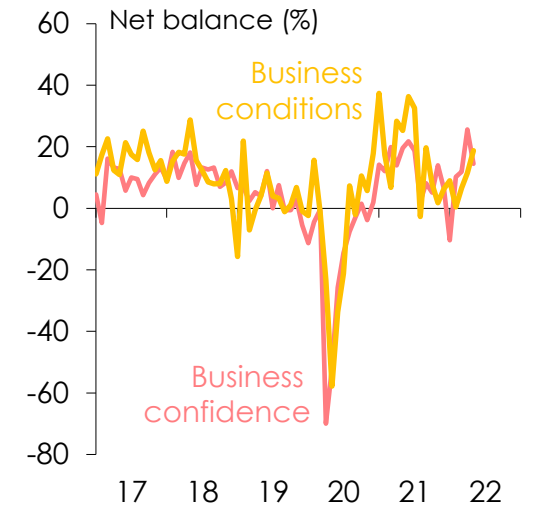
## New South Wales



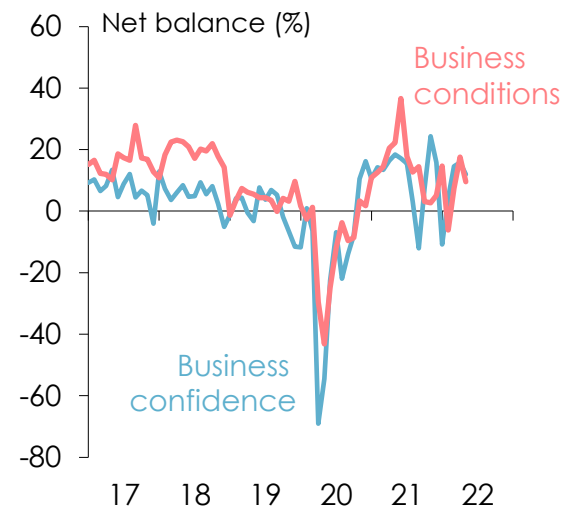
## Queensland



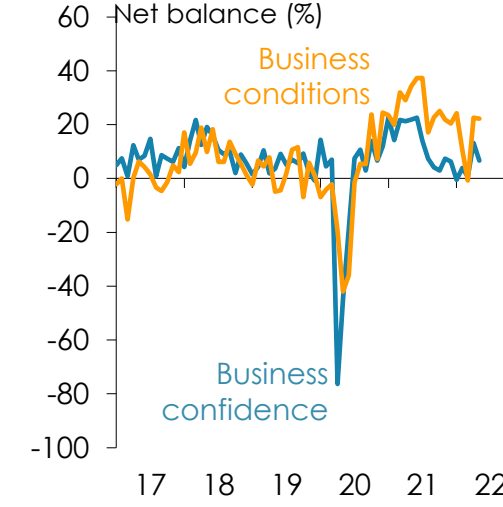
## South Australia



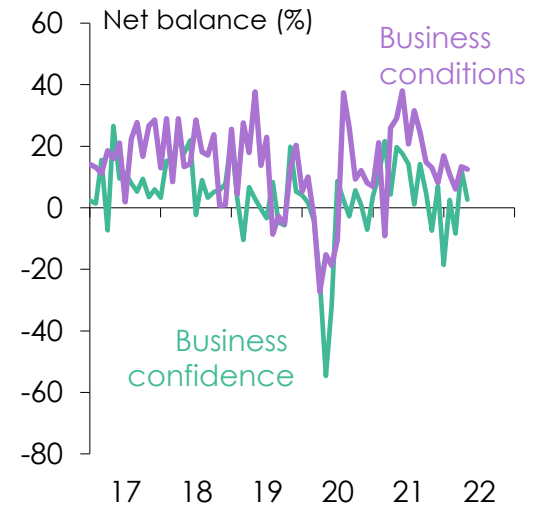
## Victoria



## Western Australia



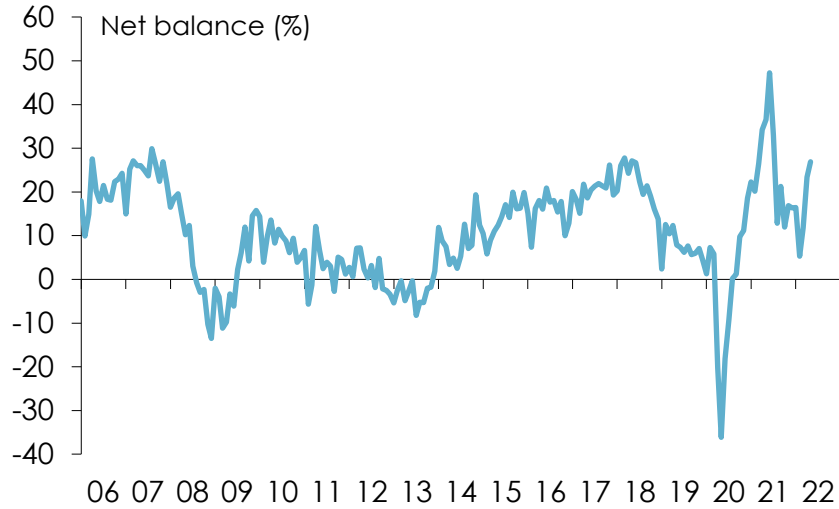
## Tasmania



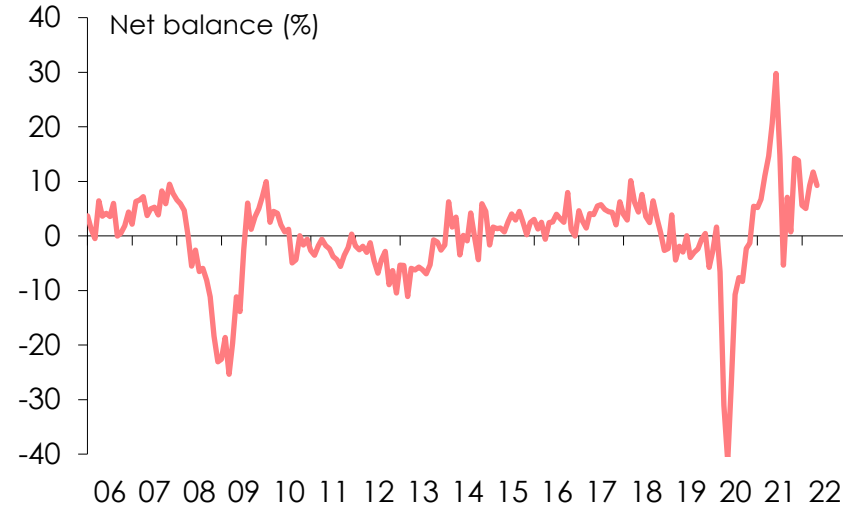
# All of the elements of business conditions improved in April except for forward orders and hiring intentions, which fell marginally

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

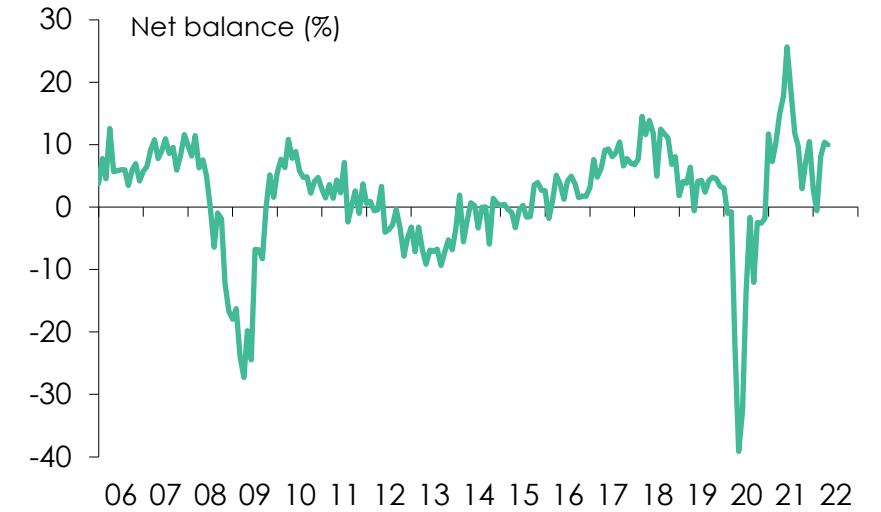
## Trading conditions



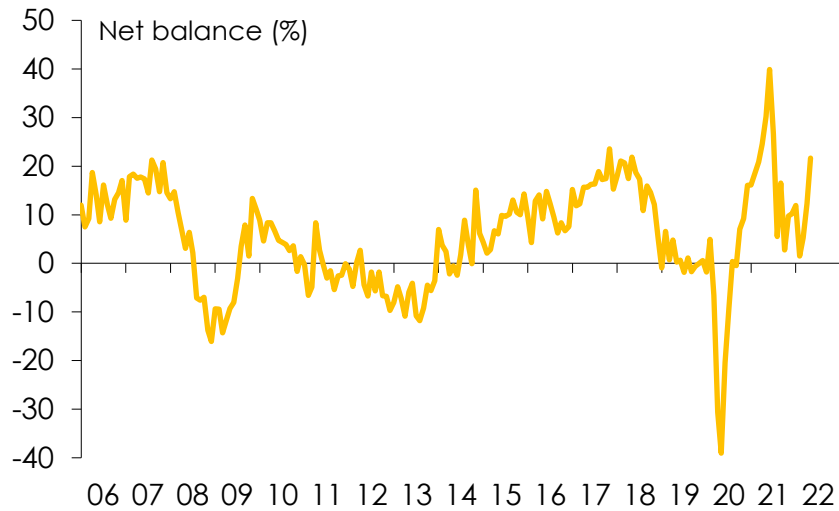
## Forward orders



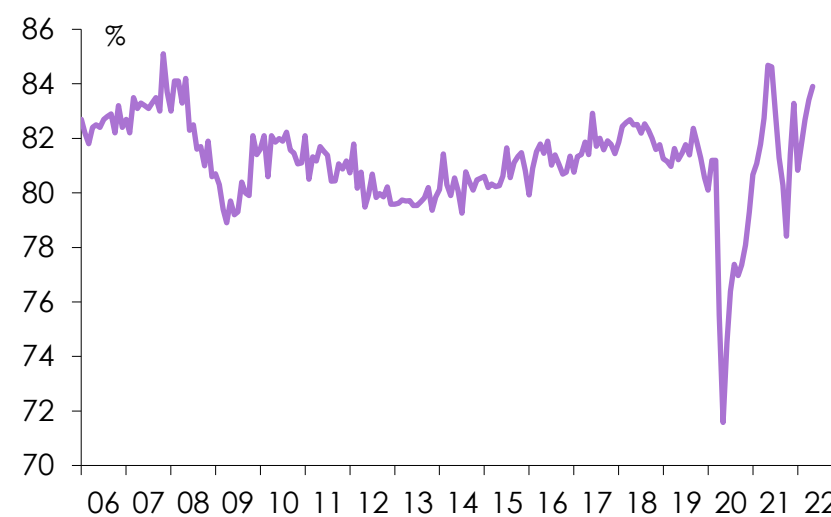
## Employee hiring intentions



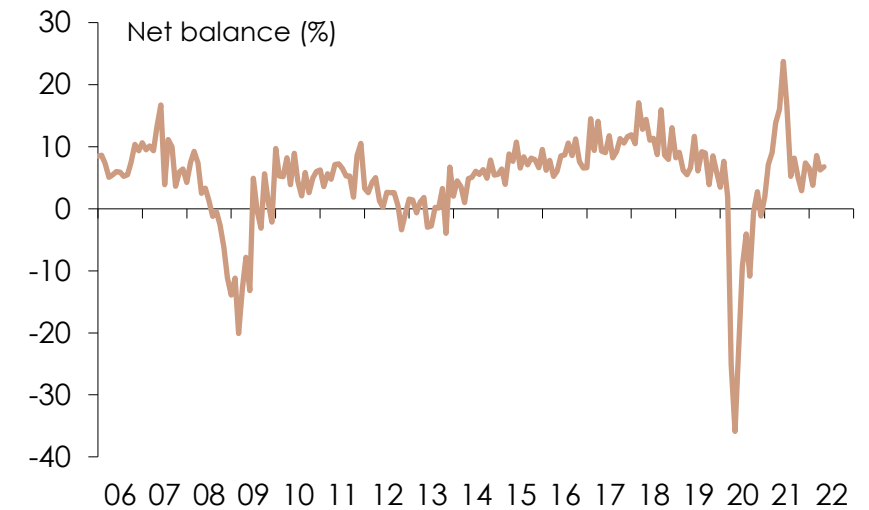
## Profitability



## Capacity utilization



## Capital expenditure intentions

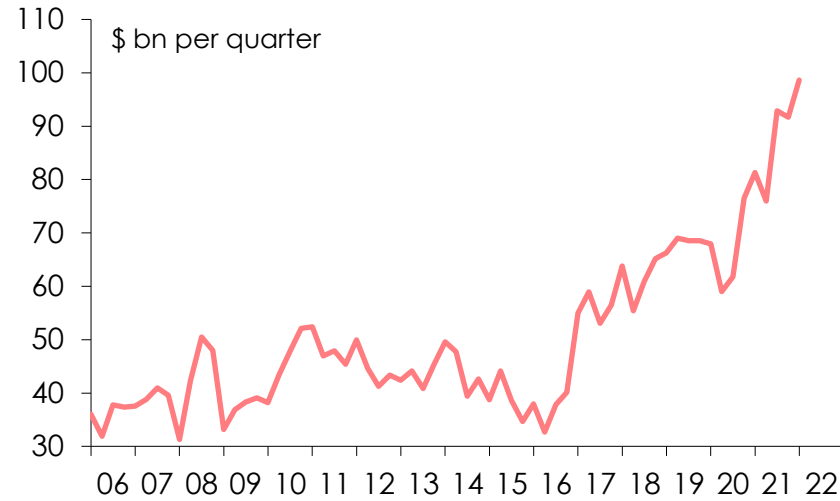


Source: National Australia Bank [Monthly Business Survey](#), April 2022; May survey results will be released on 9<sup>th</sup> June. [Return to "What's New"](#).

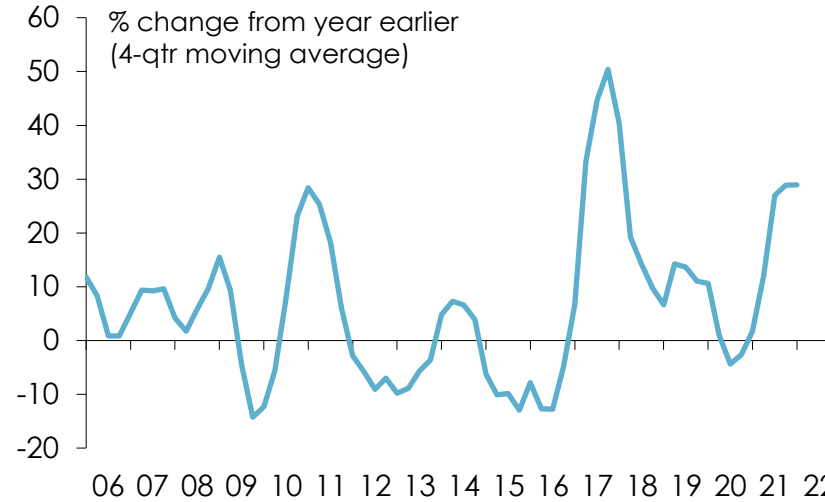
# Company profits have grown strongly over the past five years, largely driven by mining – though manufacturing profits rose 13% in 2021

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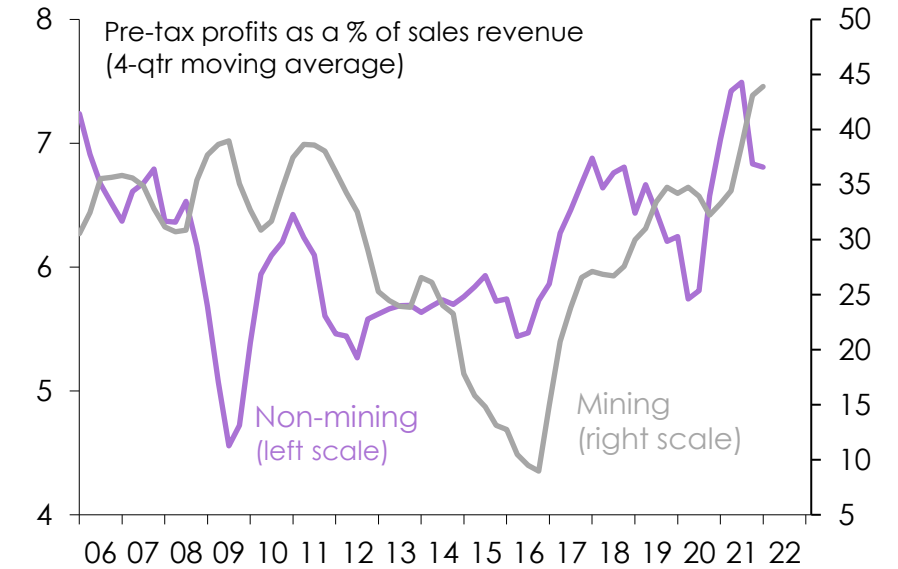
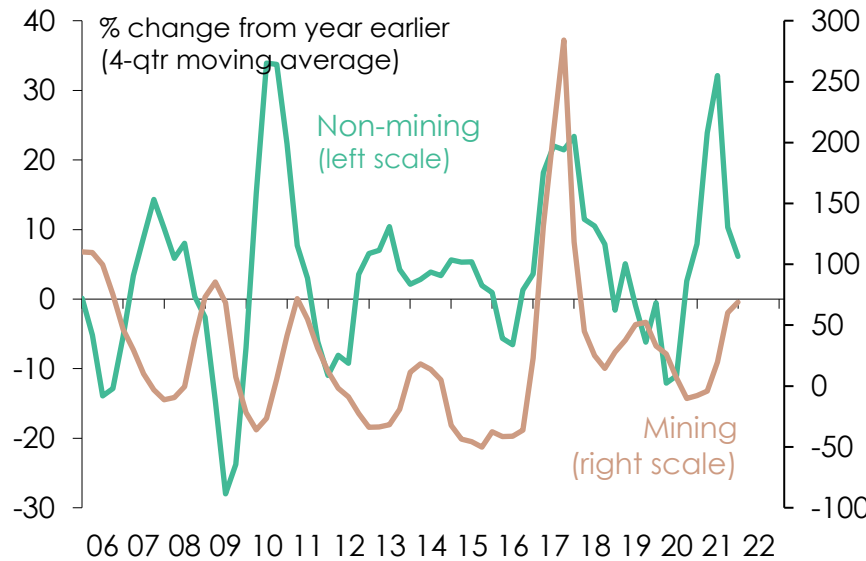
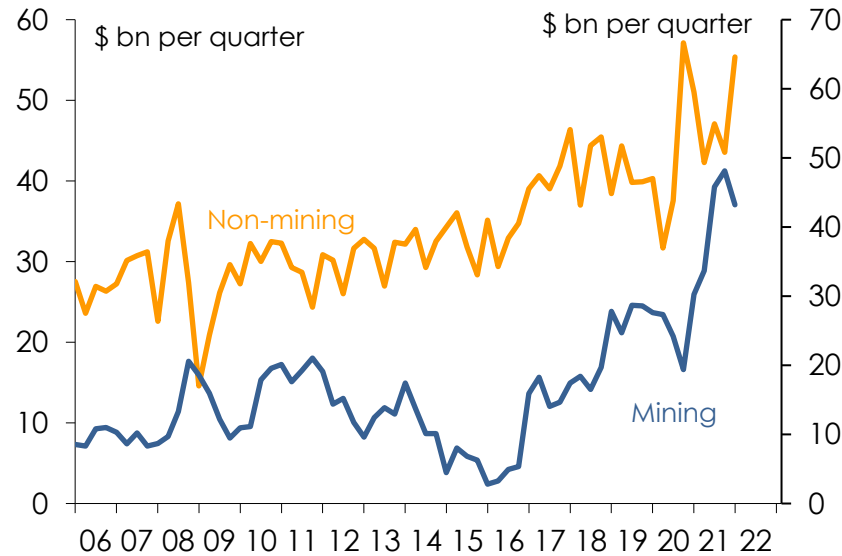
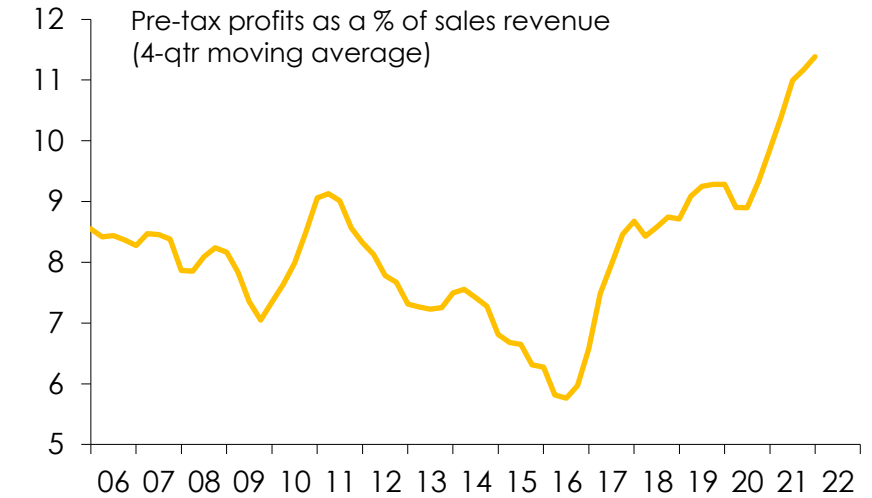
## Pre-tax company profits



## Pre-tax company profits growth



## Pre-tax profit margins

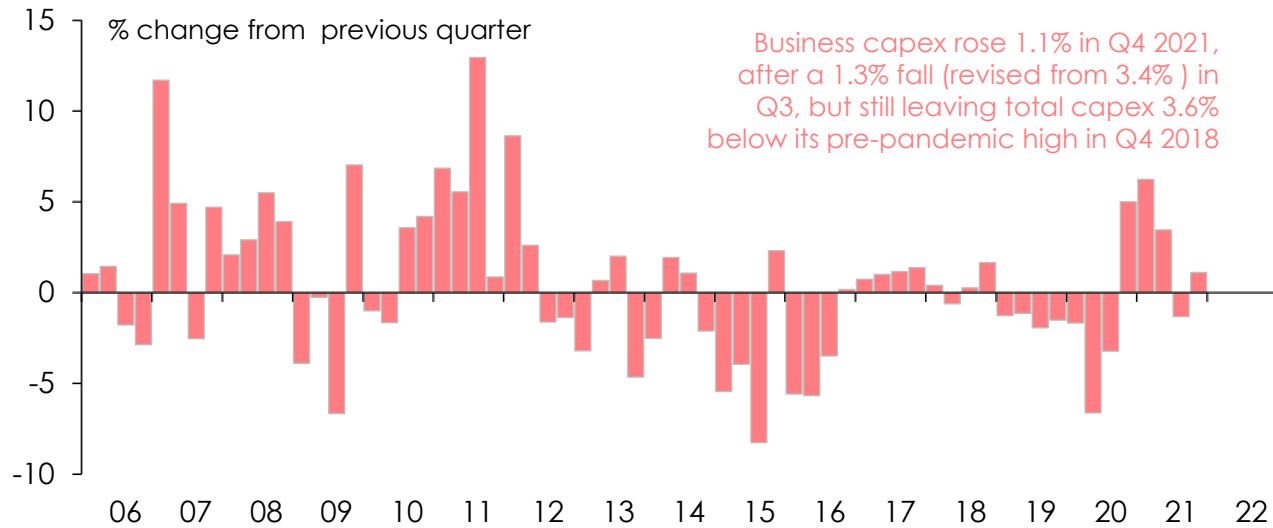


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), December 2021. March quarter data will be released on 31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

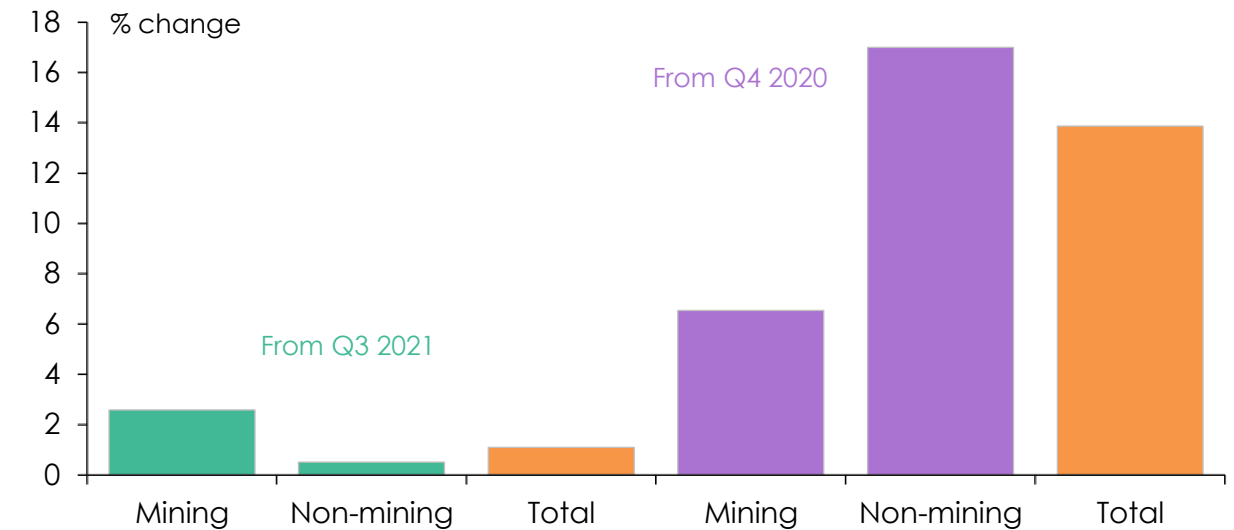
# Business capex rose 1.1% in real terms in Q4 2021, largely driven by the mining sector (in contrast to the earlier part of last year)

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

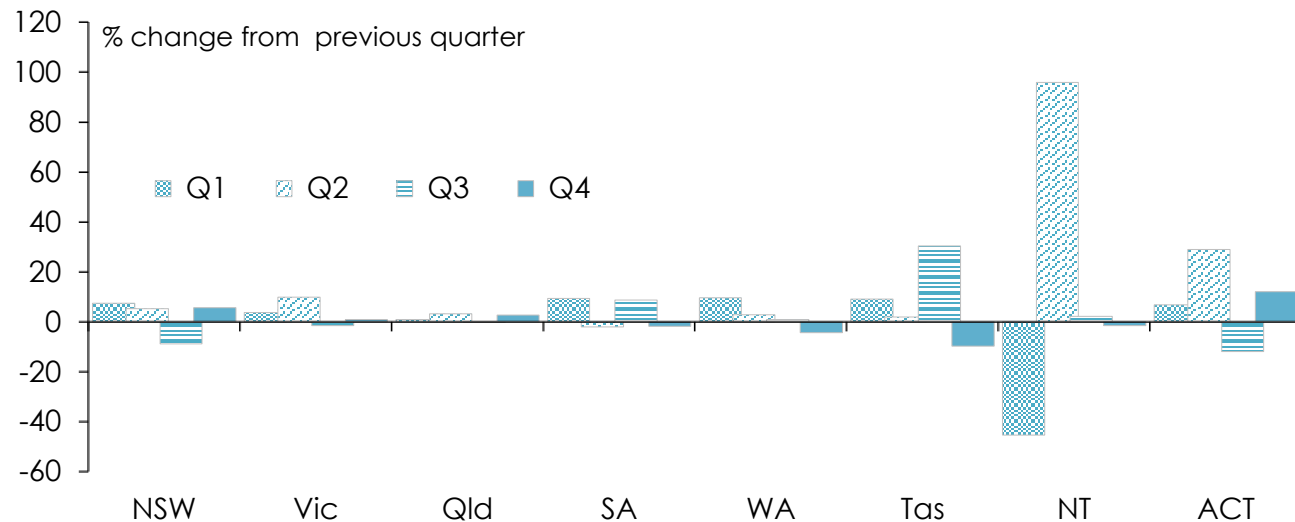
## Real business new fixed capital expenditure



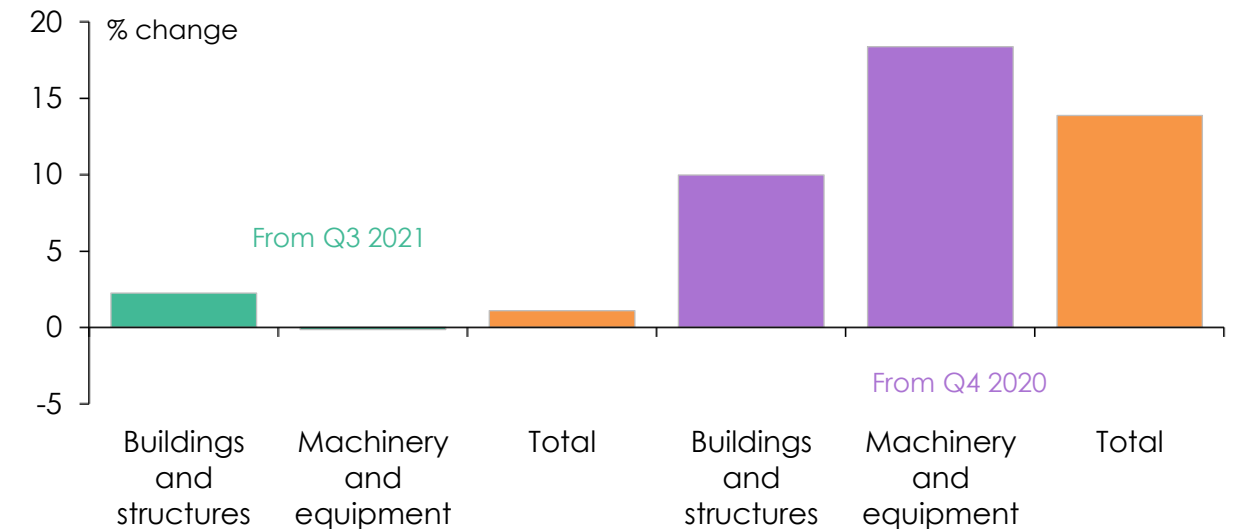
## Real business new fixed capex, by industry, Q4



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



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



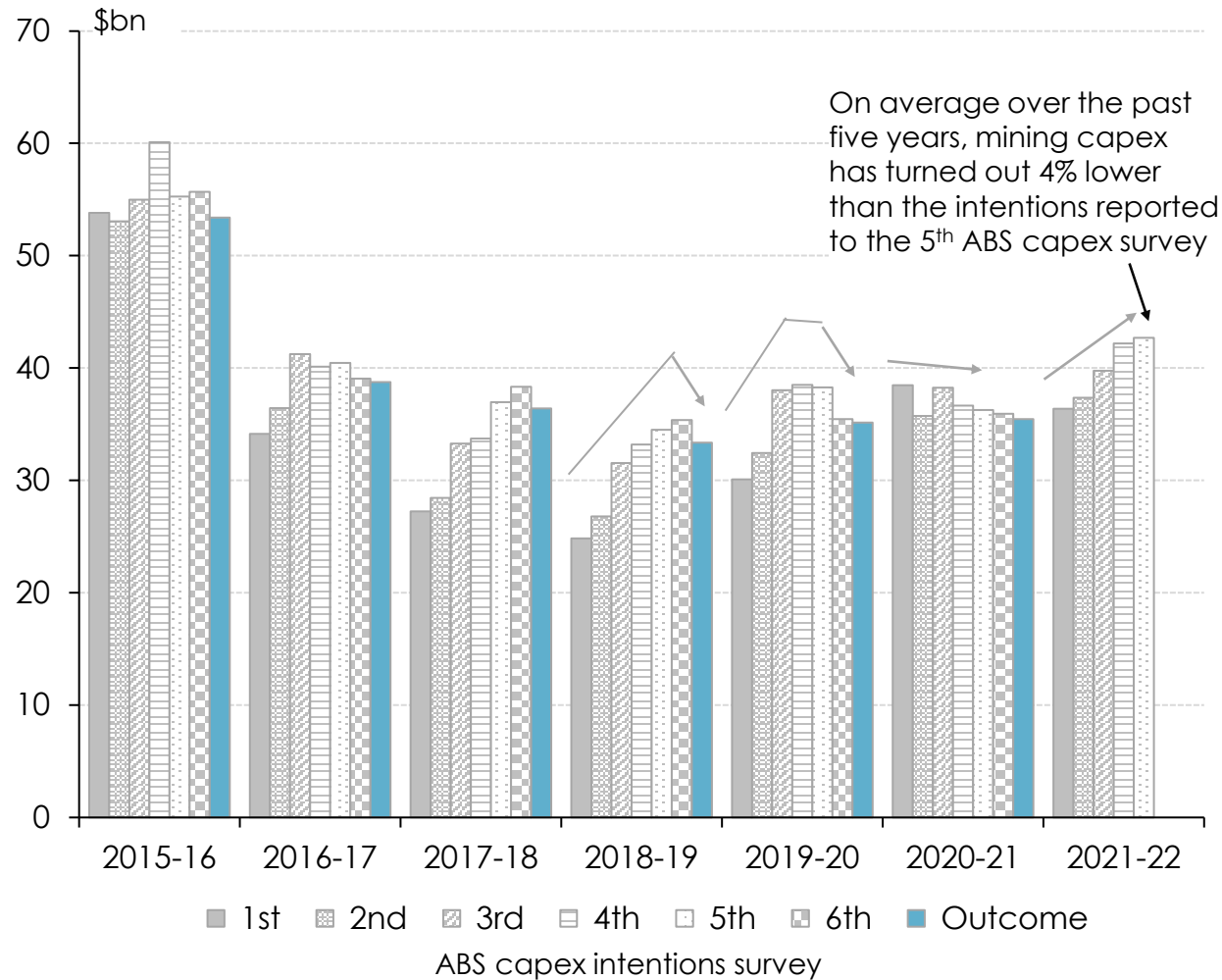
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.  
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 26<sup>th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



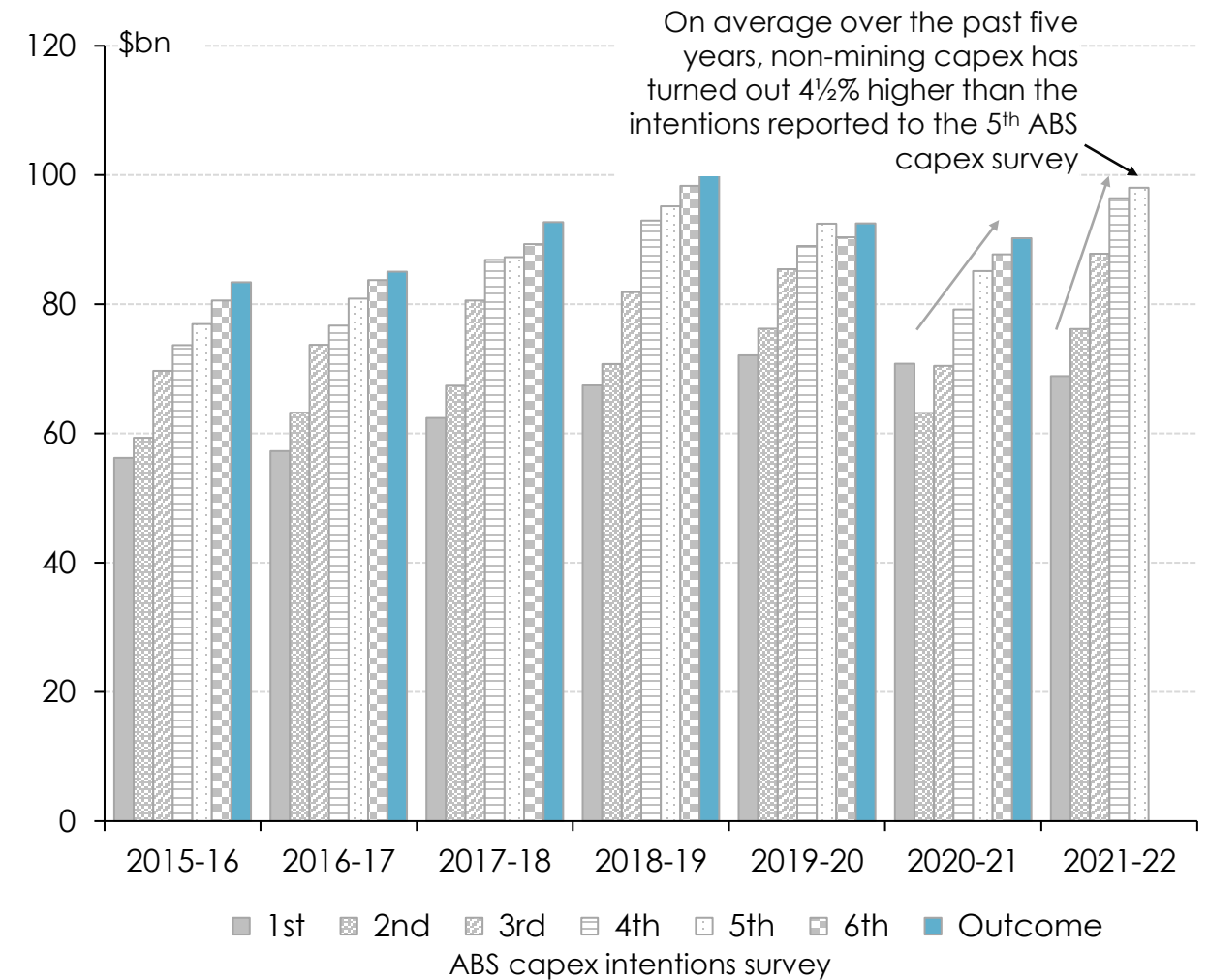
# Businesses revised up their capex plans for 2021-22 by 1.6% over the past three months, pointing to a 14¼% nominal increase in capex for 2021-22

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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.

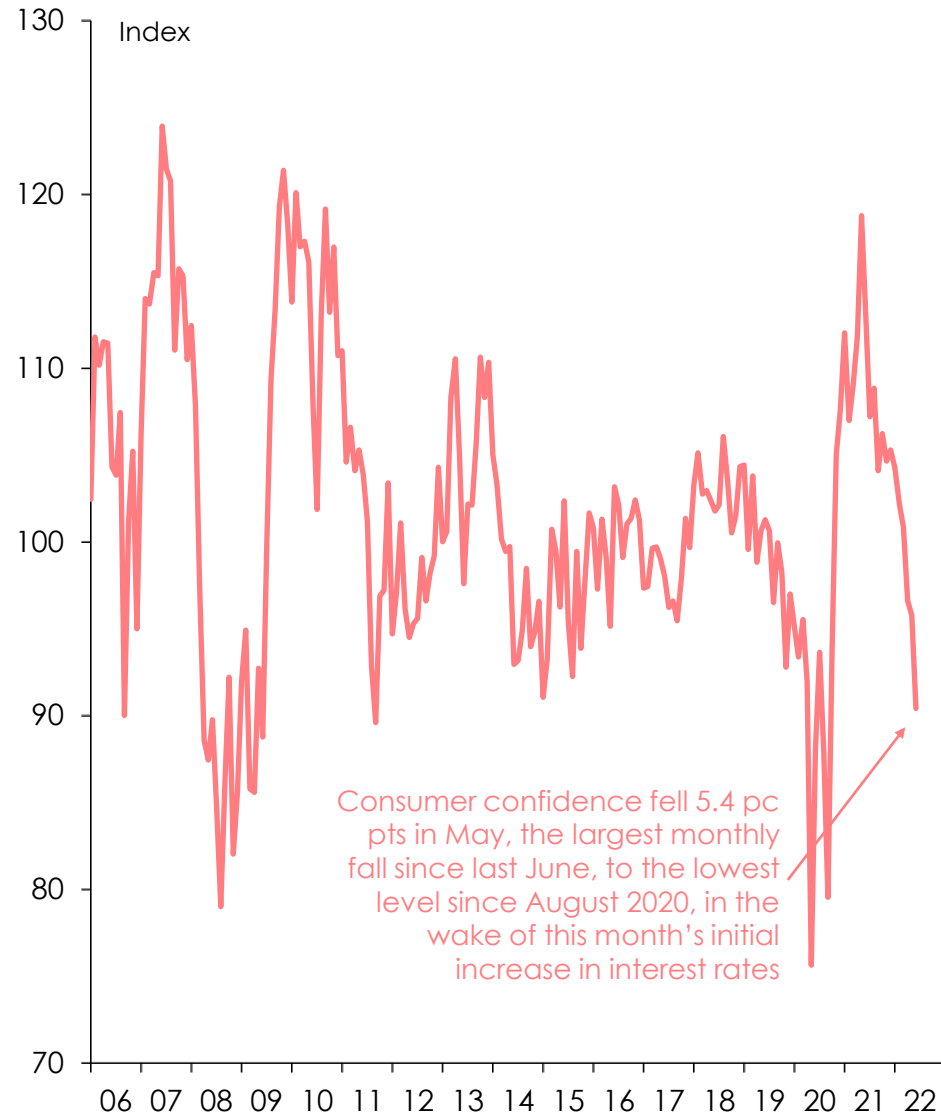
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); the 6<sup>th</sup> capex survey for 2021-22 will be released on 25<sup>th</sup> May. [Return to "What's New"](#).

# The household sector and consumer spending

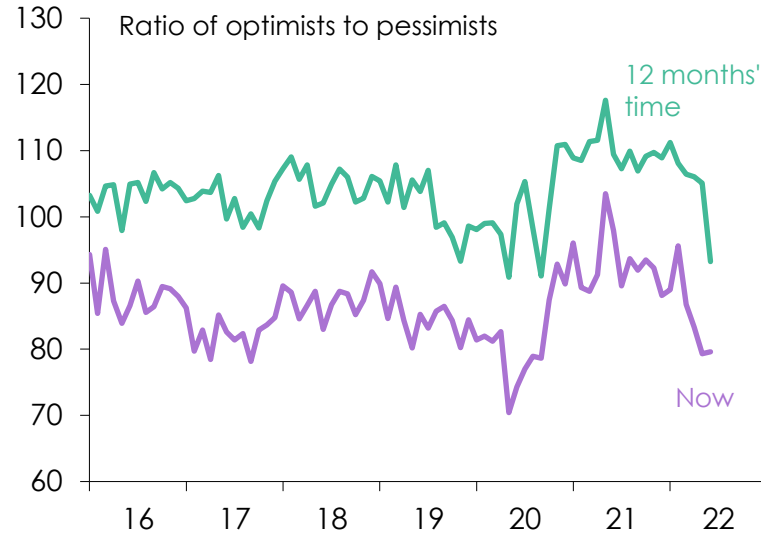
# Not surprisingly, consumer confidence fell sharply in the aftermath of the RBA's rate increase earlier this month

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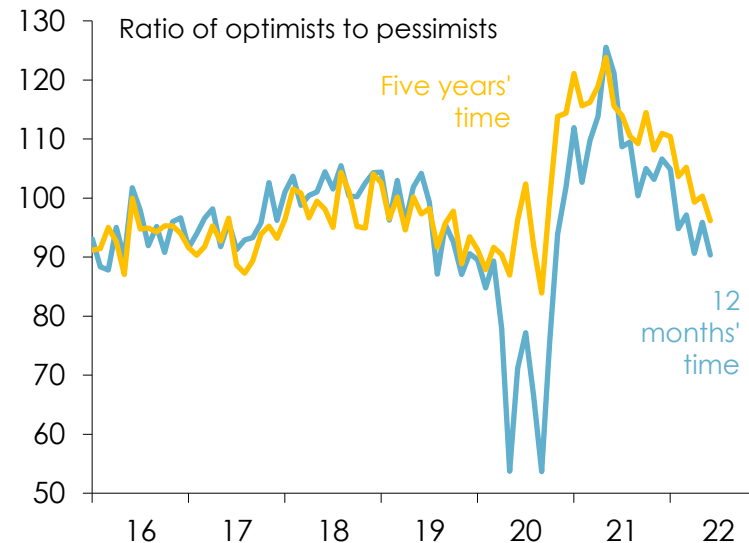
## Consumer confidence index



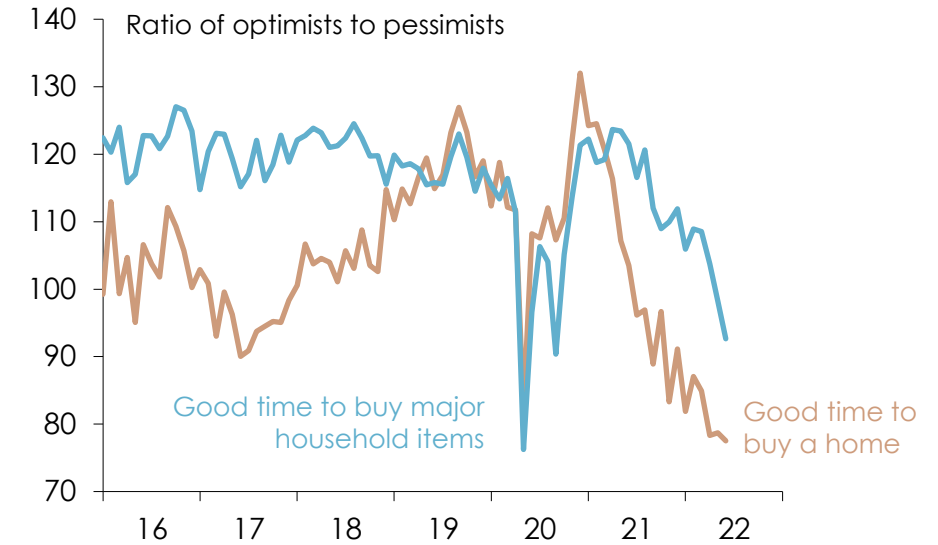
## Household finances assessment



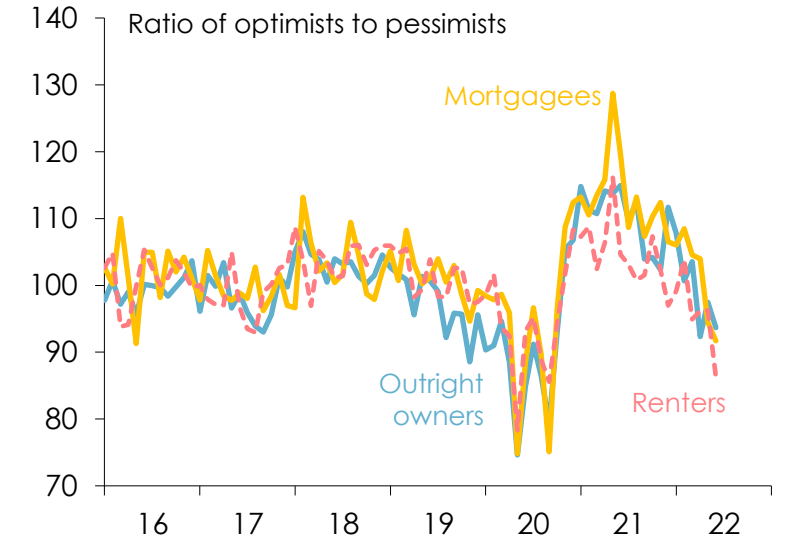
## Economic conditions assessment



## Buying conditions assessment



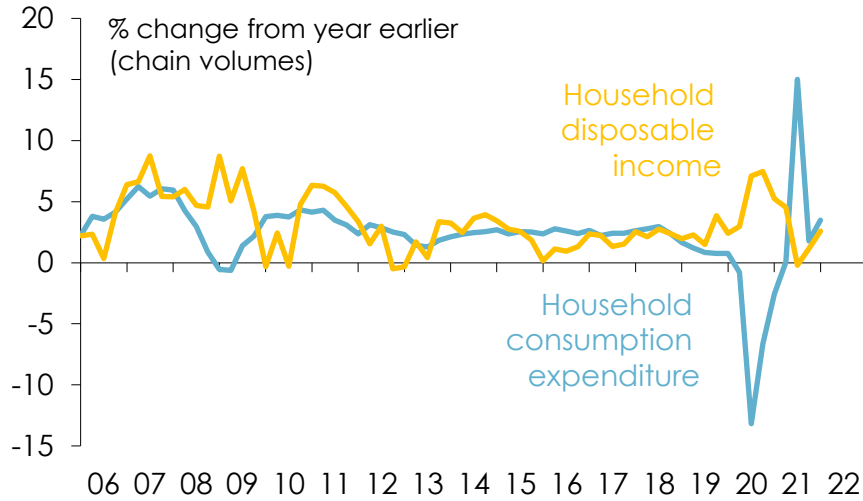
## Confidence by housing tenure



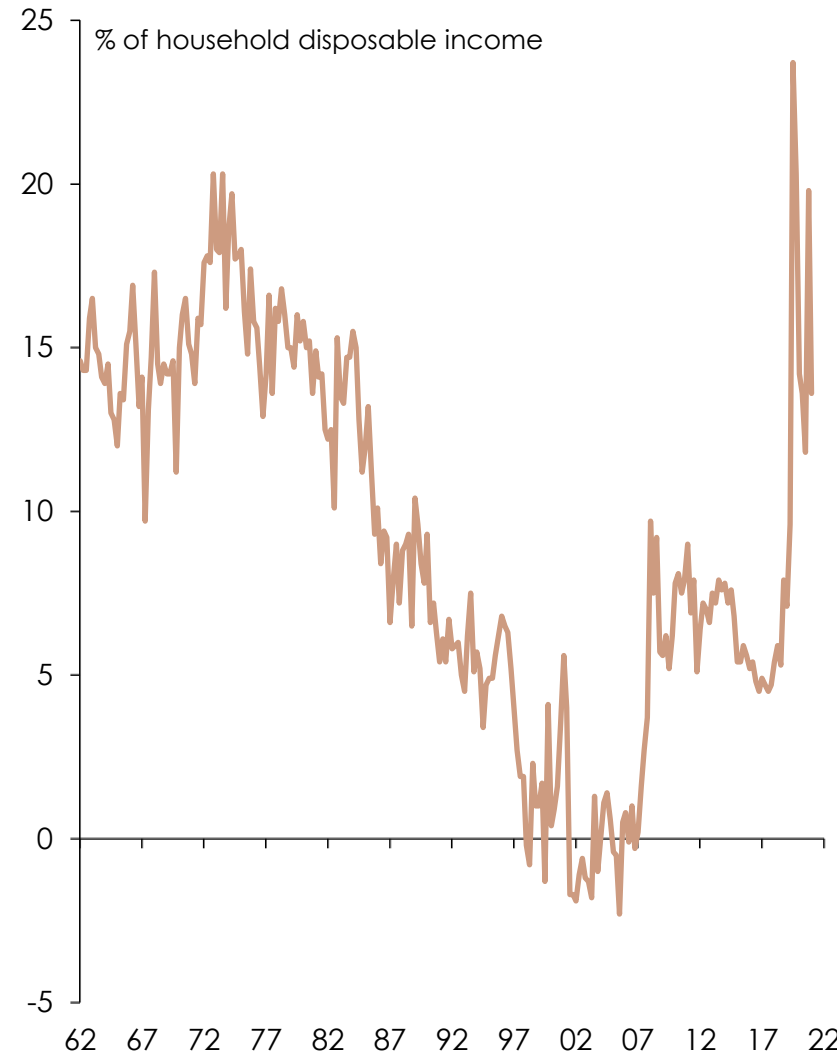
# Household bank deposits have increased by \$273bn (27½%) since just before the onset of the pandemic

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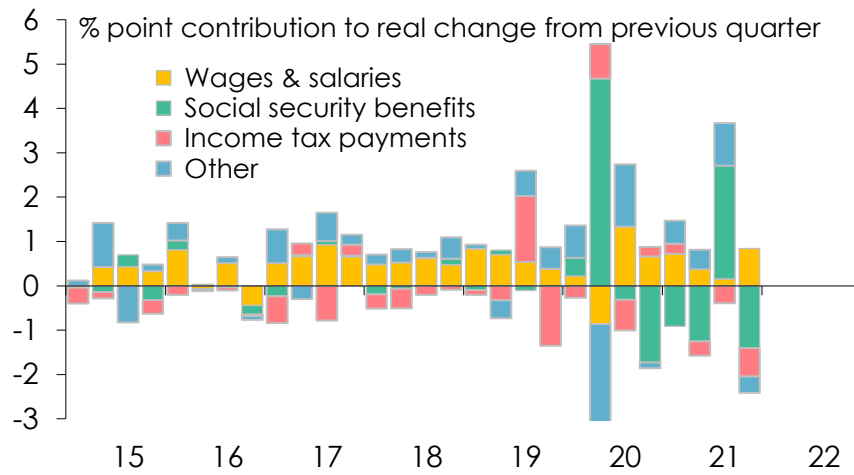
## Household income and spending



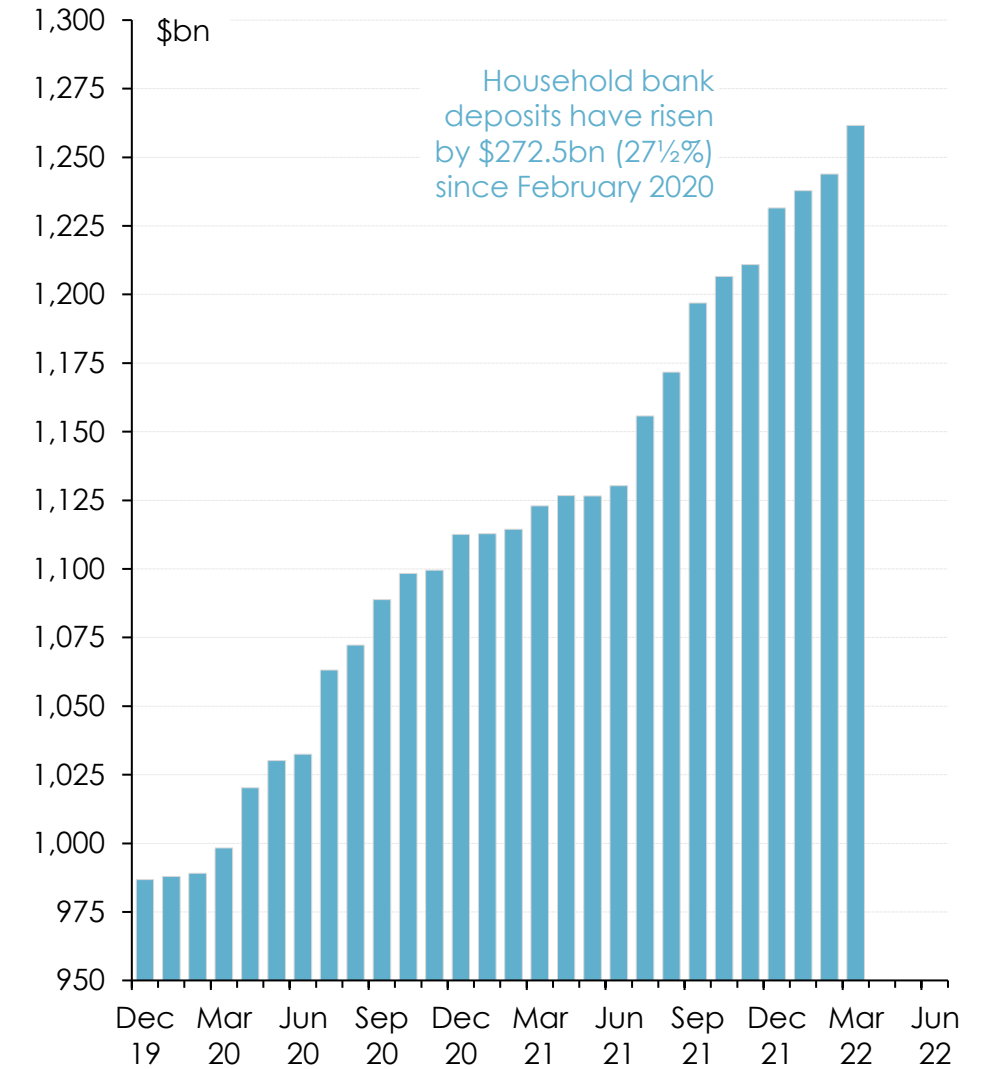
## Household saving ratio



## Sources of household income



## Household bank deposits

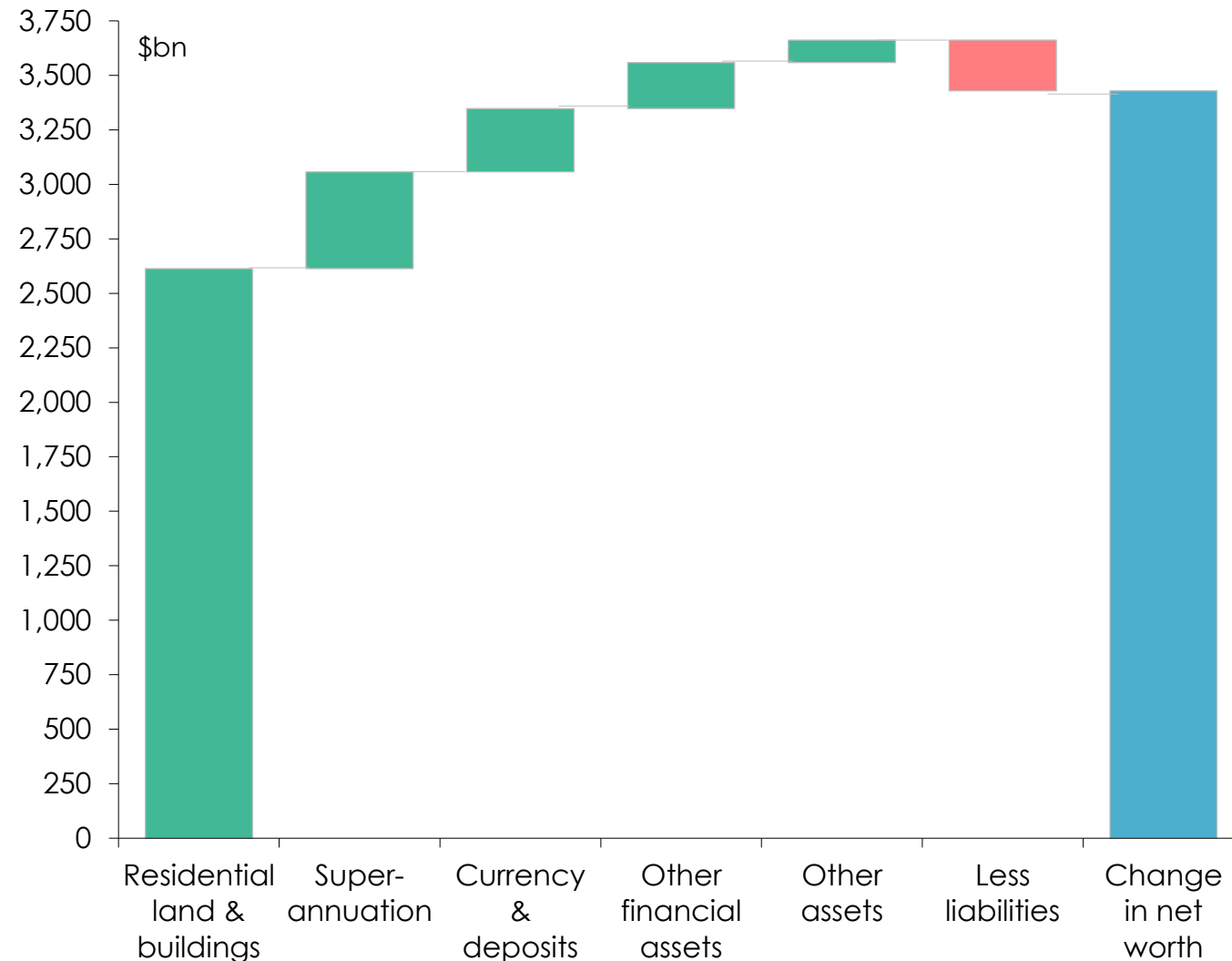


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). March quarter data on household income, spending and saving will be released on 1<sup>st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

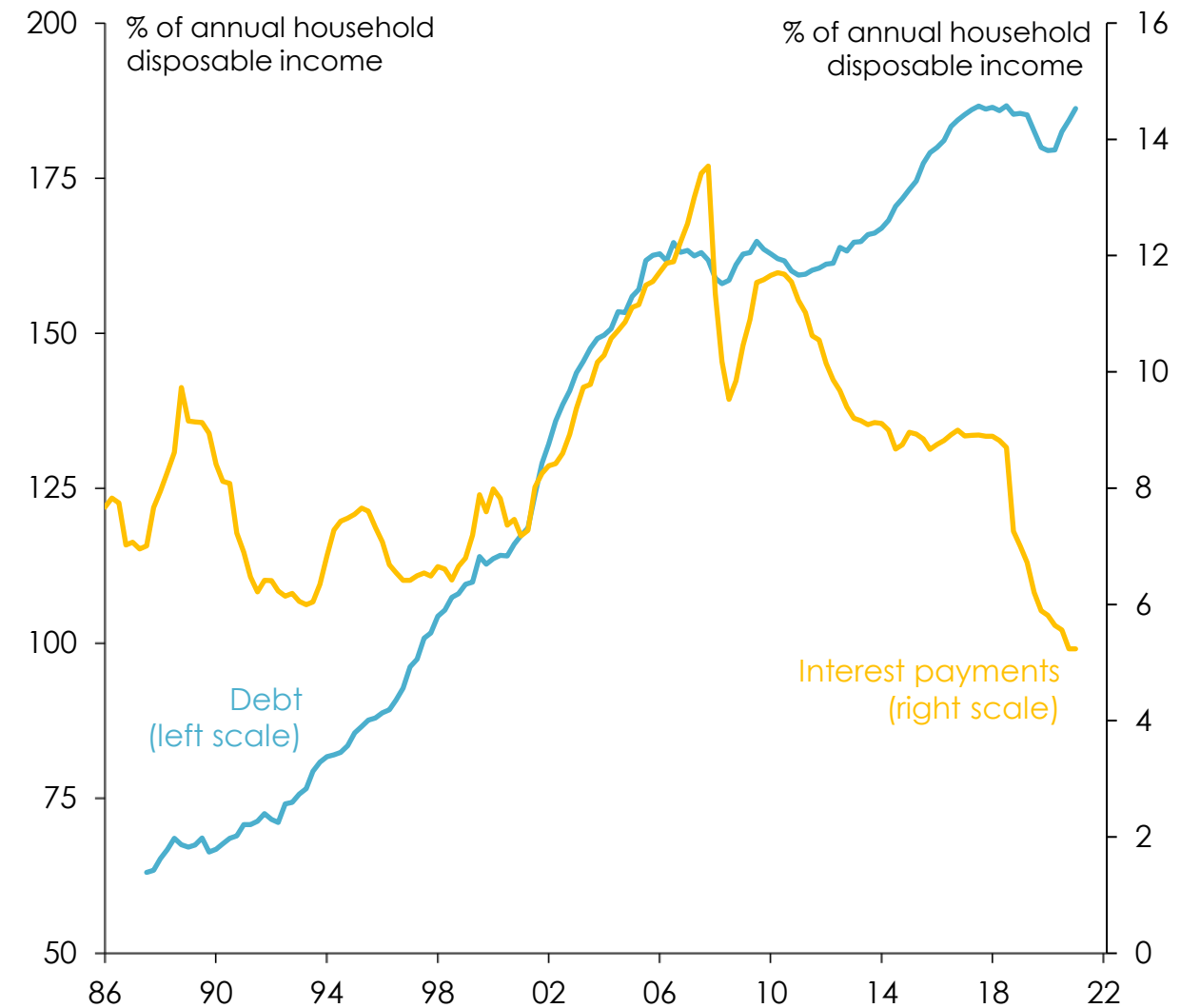
# Household net worth has risen by \$3.4trn (25%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



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

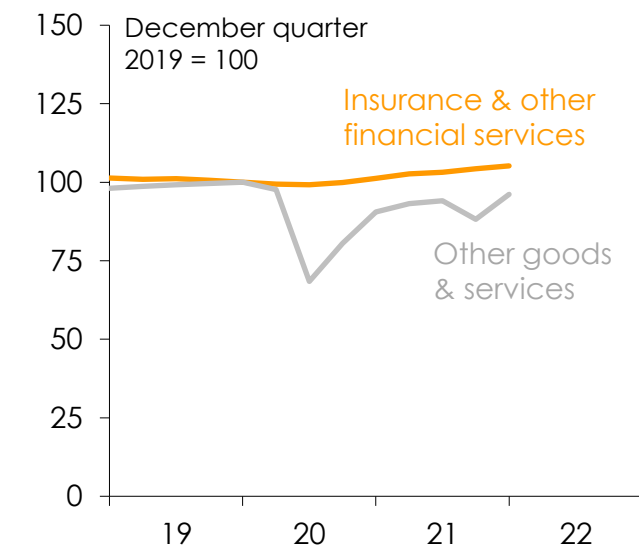
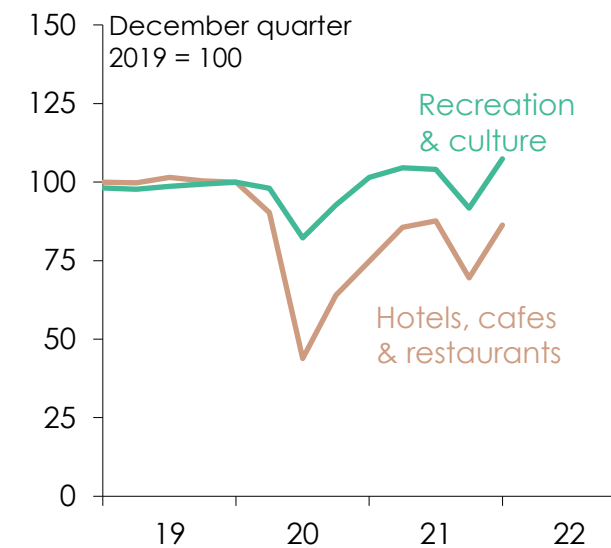
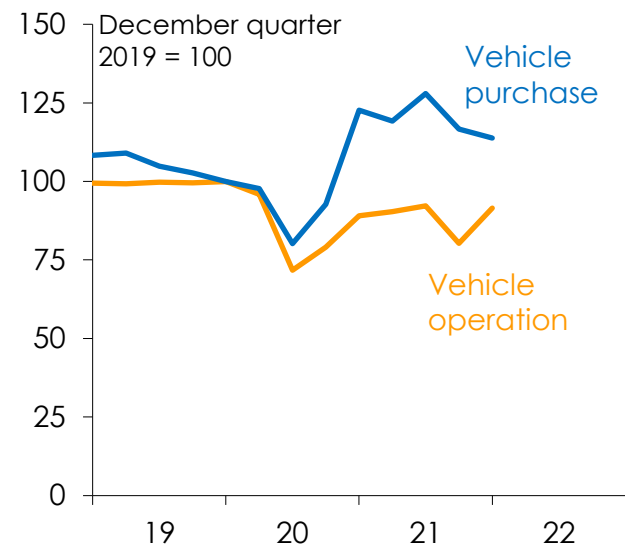
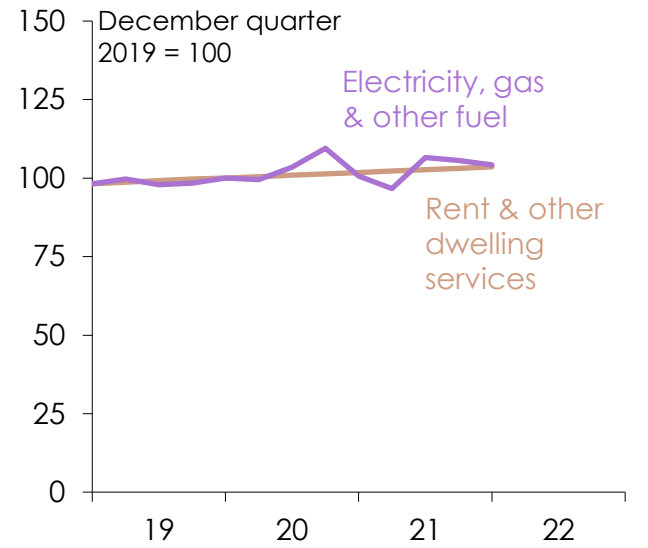
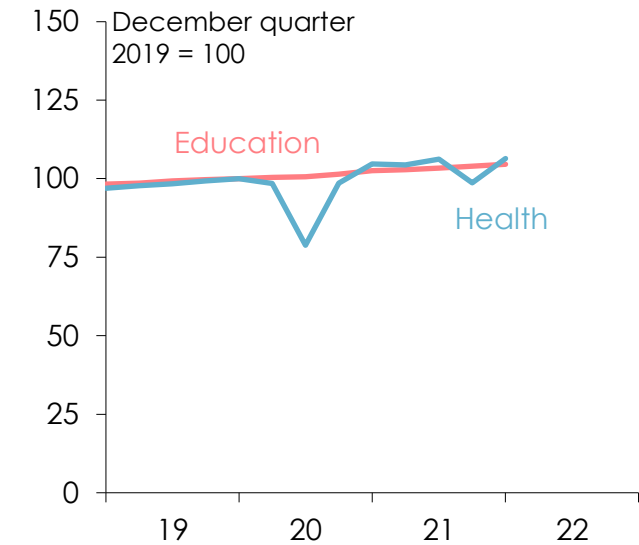
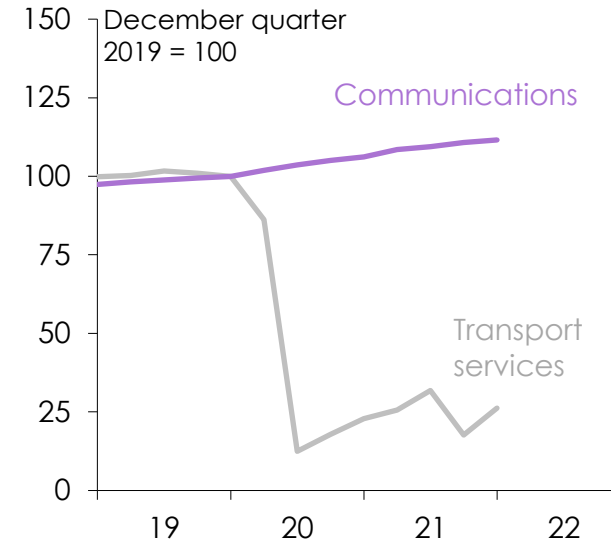
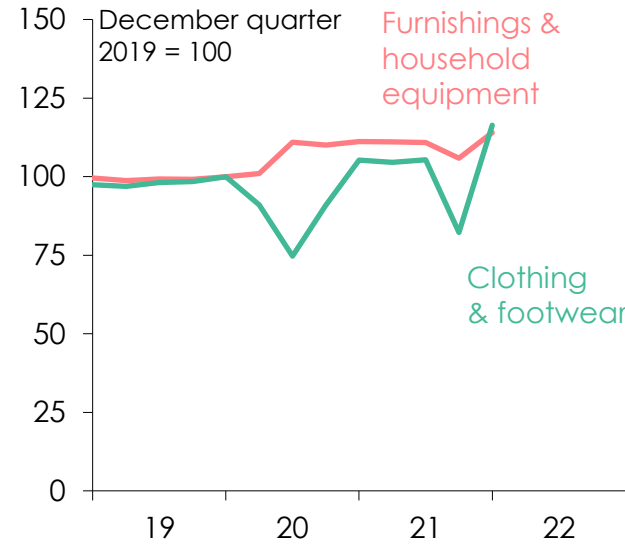
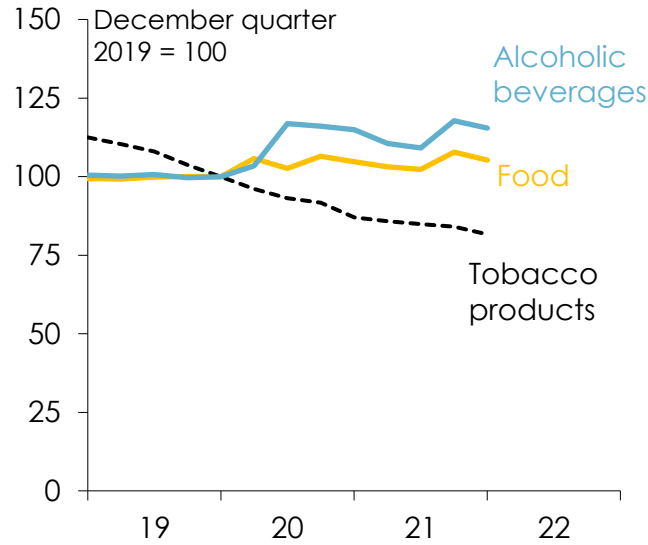


Sources: ABS, [Finance and Wealth Accounts](#), December quarter 2021; RBA, [Statistical Tables](#) E1 & E2. March quarter data will be released on 23<sup>rd</sup> June. [Return to "What's New"](#).

# 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

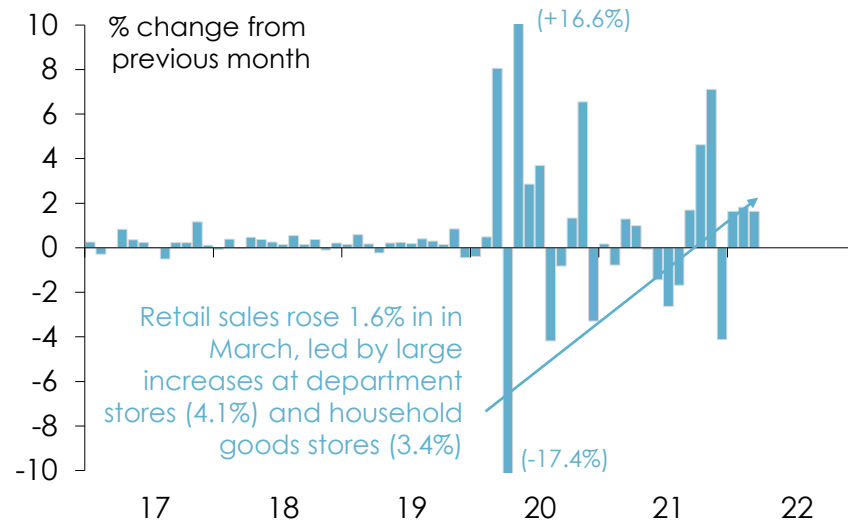


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; March quarter data will be released on 1<sup>st</sup> June. [Return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

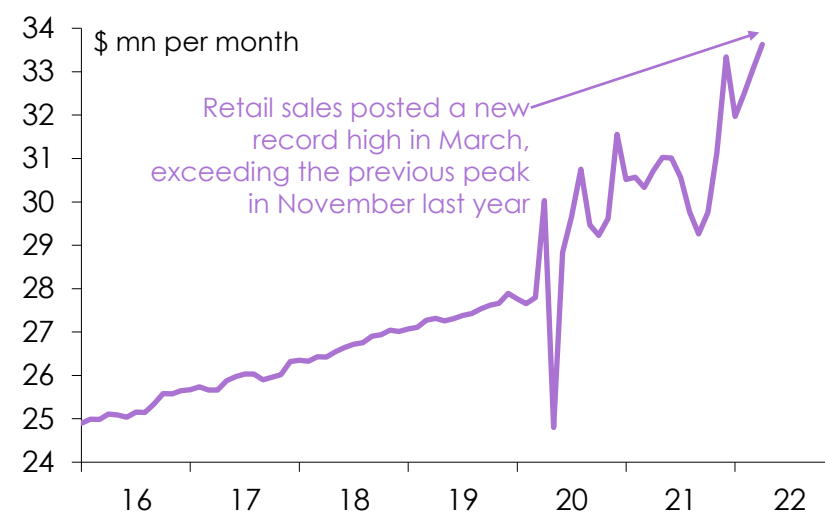
# The volume of retail sales rose another 1.2% in the March quarter, led by big gains at department & clothing stores as well as cafes & restaurants

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

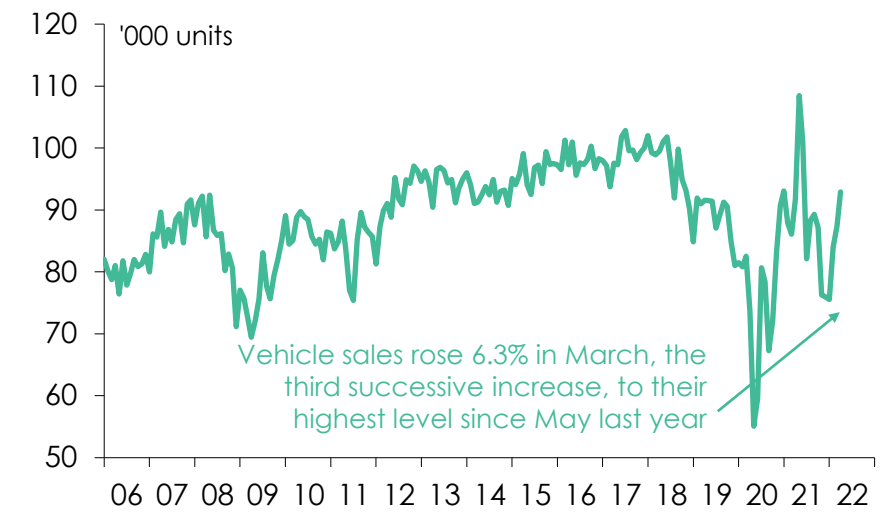
## Monthly retail sales



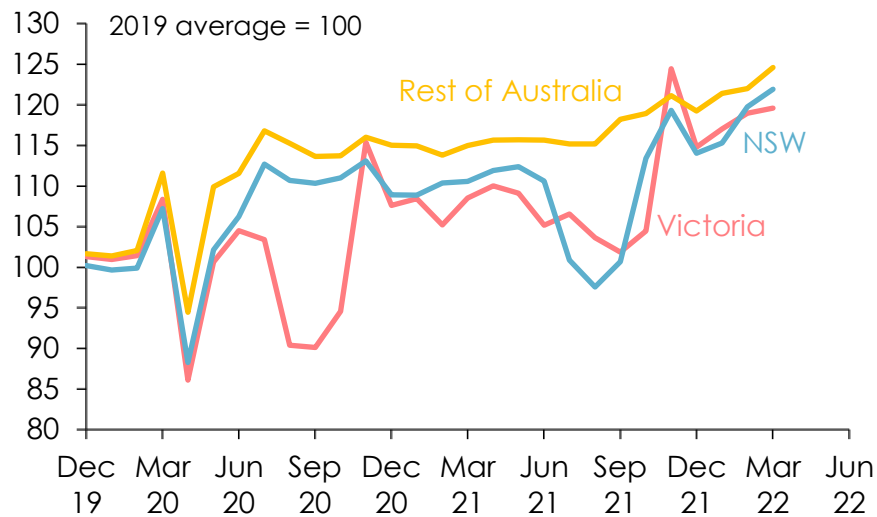
## Level of retail sales



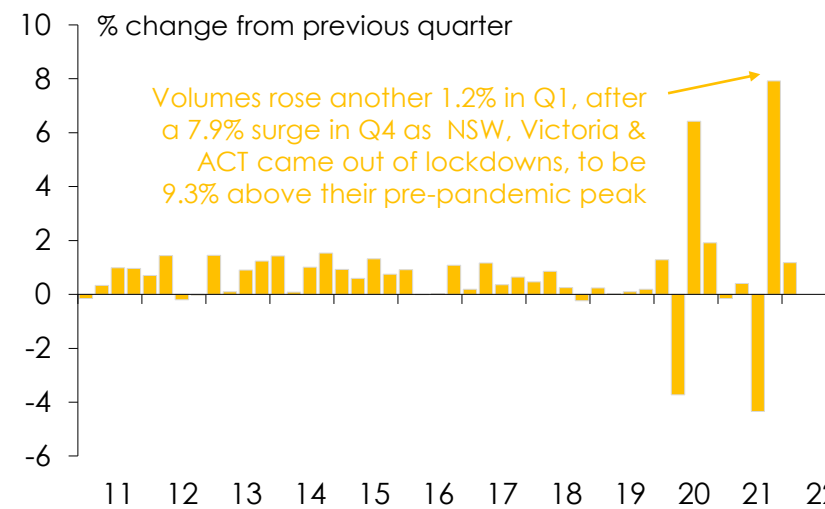
## New motor vehicle sales



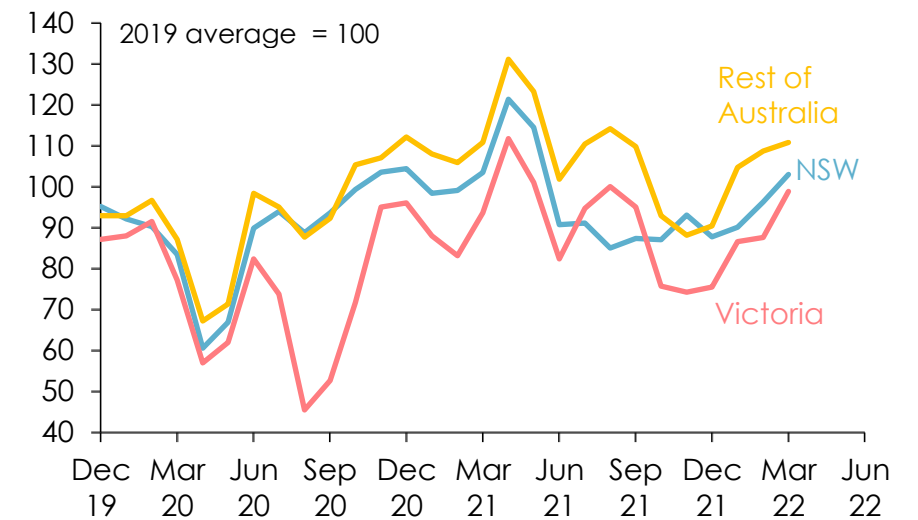
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



## Vehicle sales – NSW, Vic & the rest

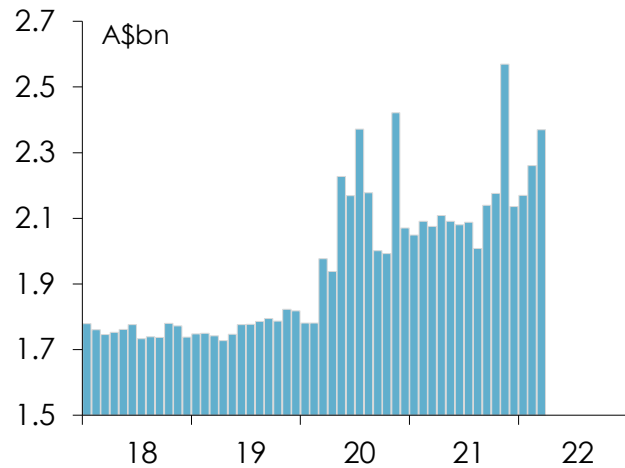


Note: see also [slide 40](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary April retail sales data will be released on 27<sup>th</sup> May; April motor vehicle sales data will be released in the second week of May. [Return to "What's New"](#).

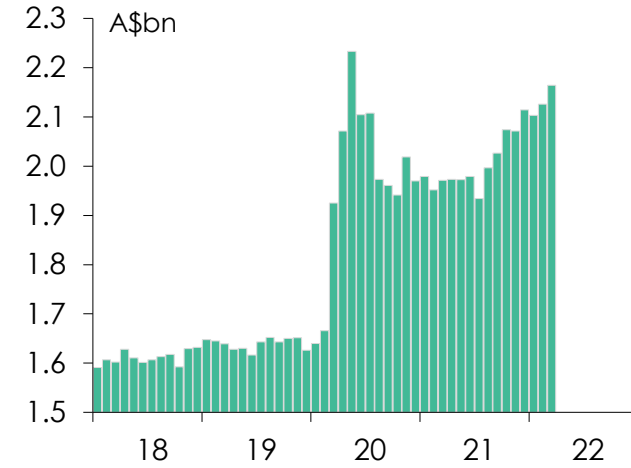
# Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

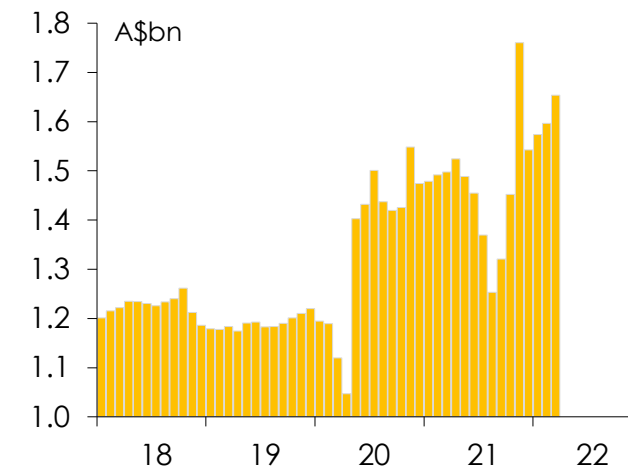
### Electronic & electrical goods



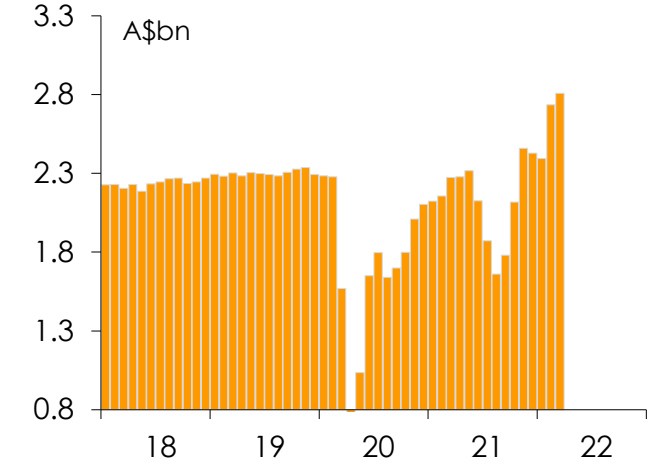
### Hardware, building & garden supplies



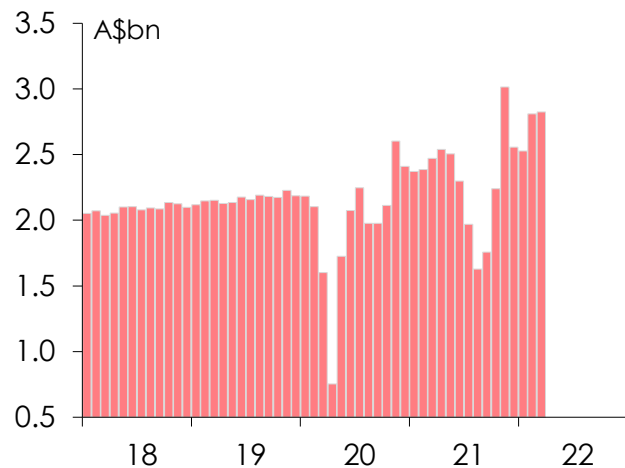
### Floor coverings, furniture, housewares etc



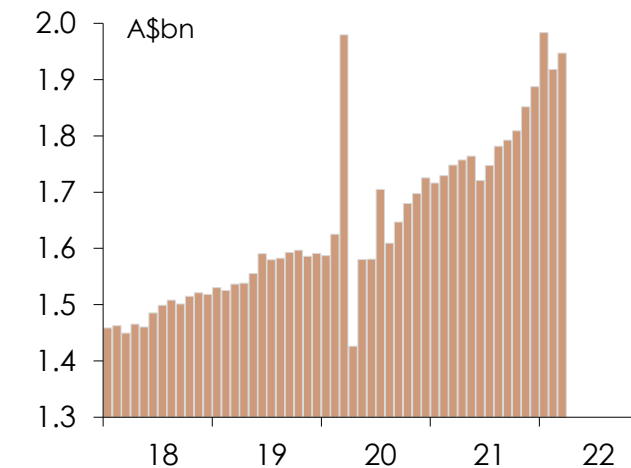
### Cafes and restaurants



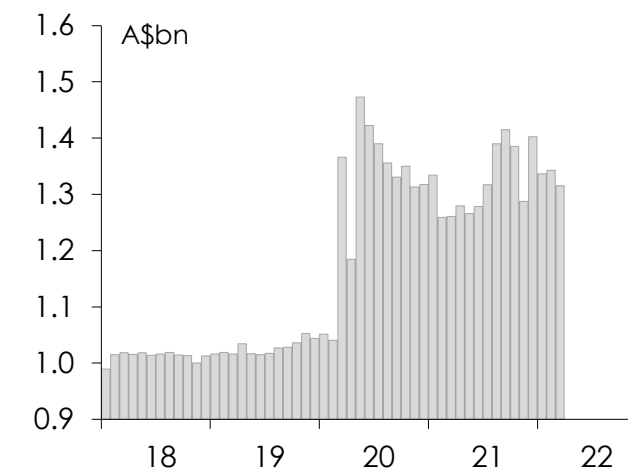
### Clothing, footwear & personal accessories



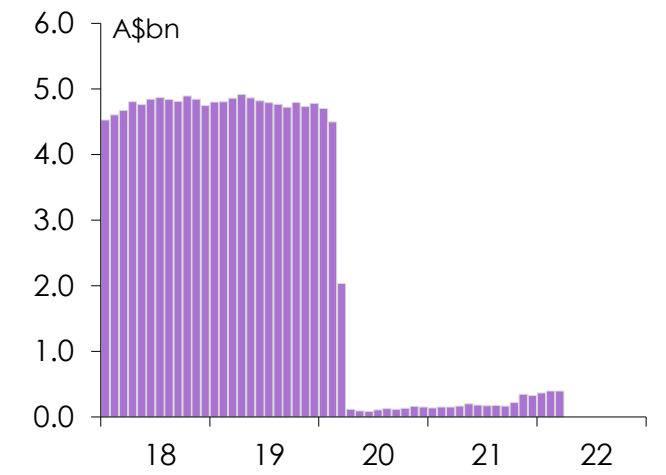
### Pharmaceuticals, cosmetics & toiletries



### Alcoholic beverages



### Overseas travel



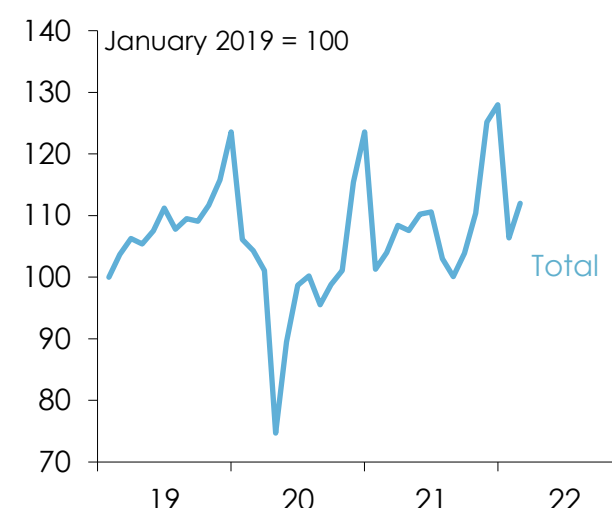
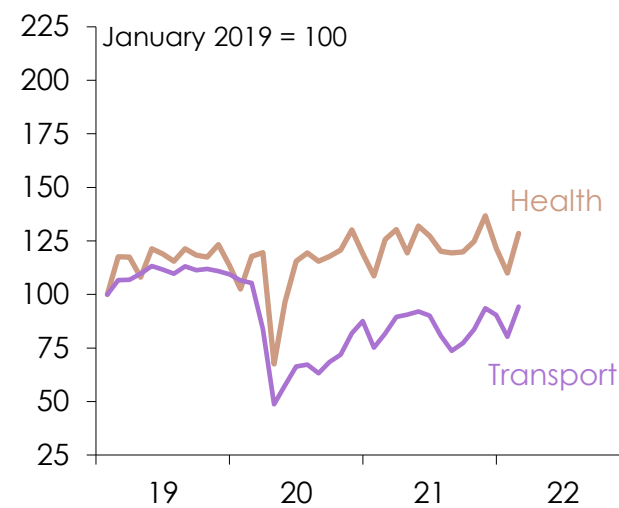
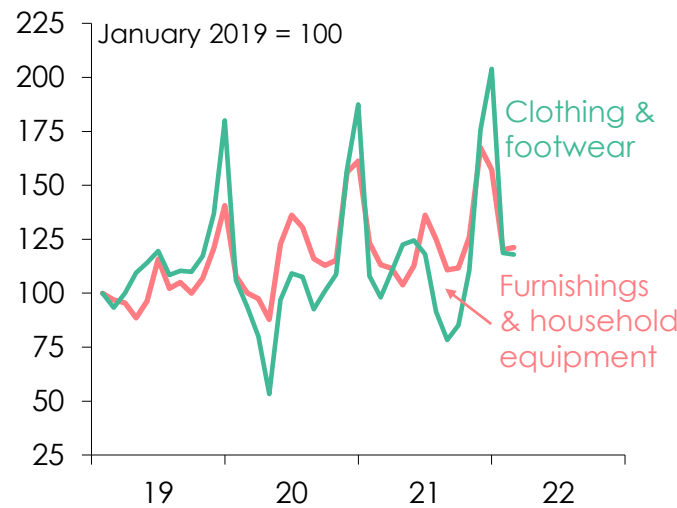
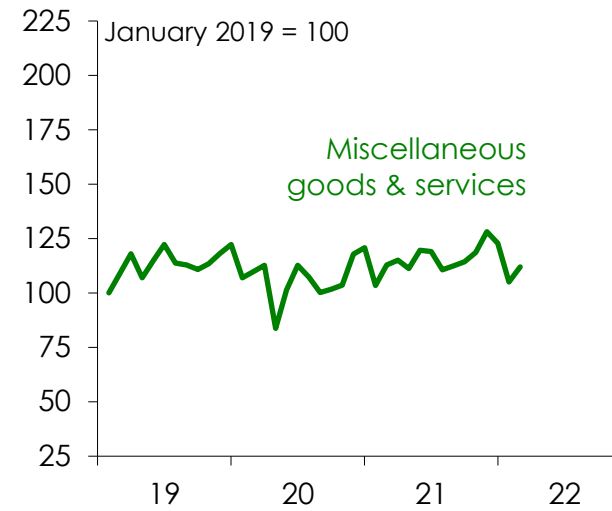
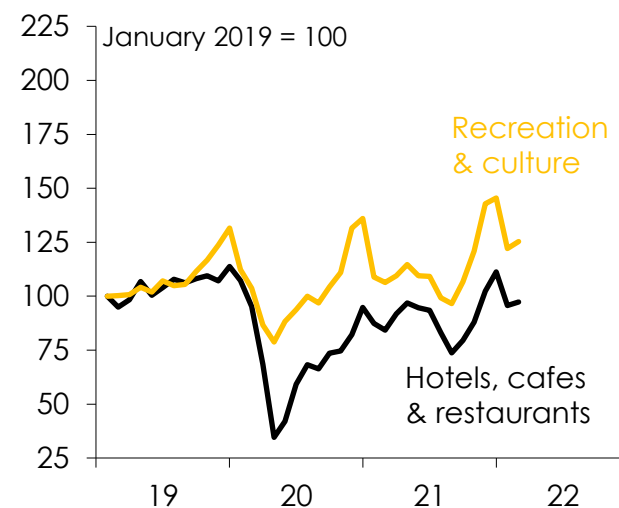
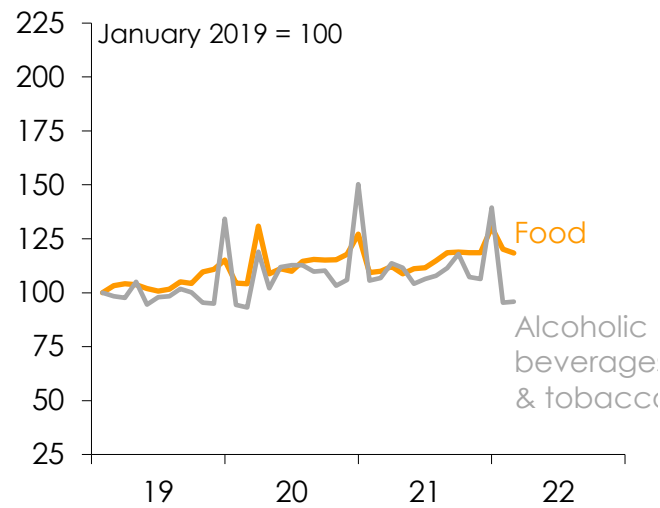
Sources: ABS, [Retail Trade, Australia](#), March 2022 (detailed April data on which the above charts are based will be released on 2<sup>nd</sup> June); and [International Trade in Goods and Services, Australia](#), March 2022. [Return to "What's New"](#).



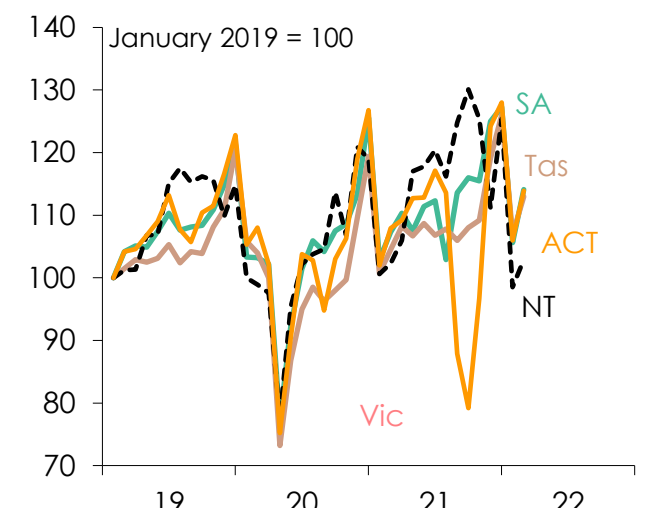
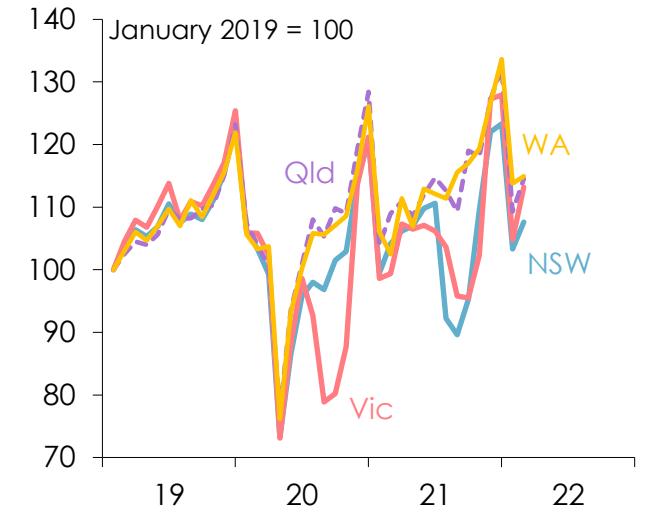
# Household spending (as measured by the new ABS indicator based on bank transactions data) was 7.7% higher in February than a year earlier

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## Household spending by purpose



## By state & territory

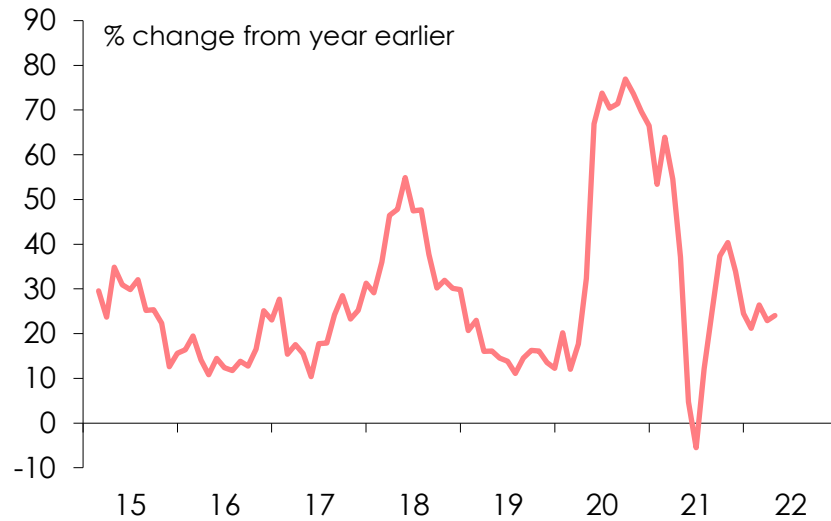


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg,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

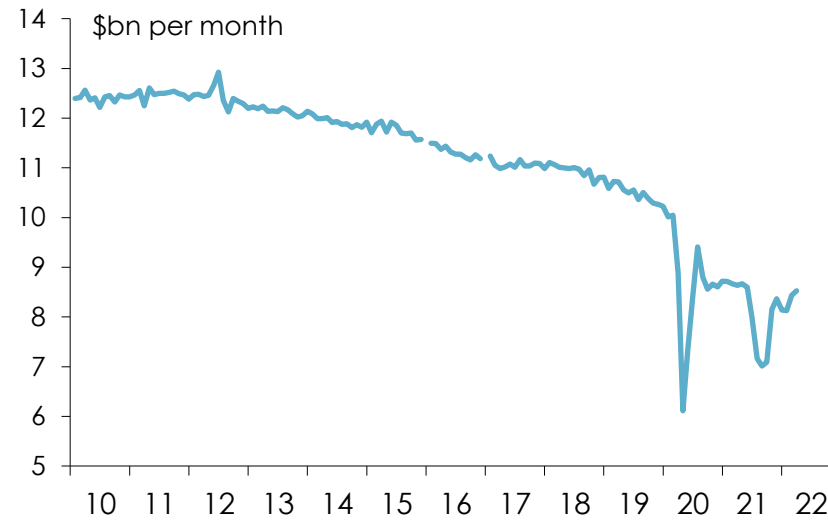
# Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

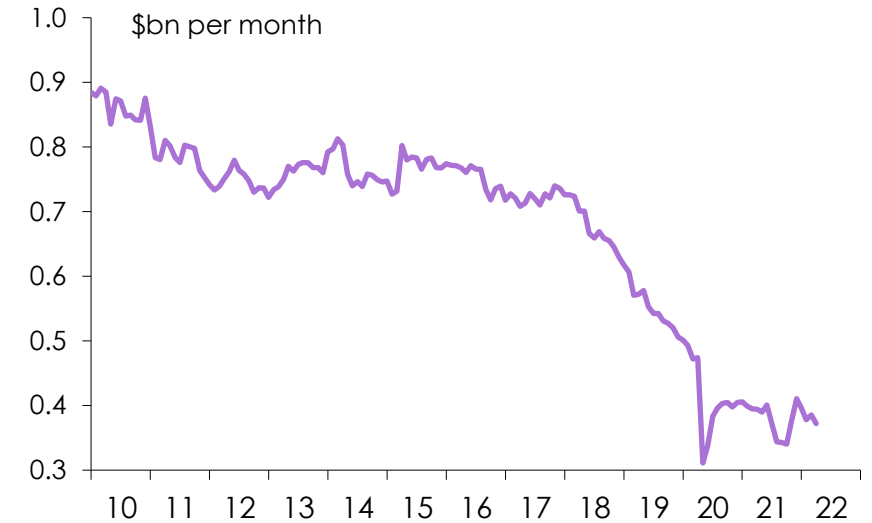
## Growth in online retail sales



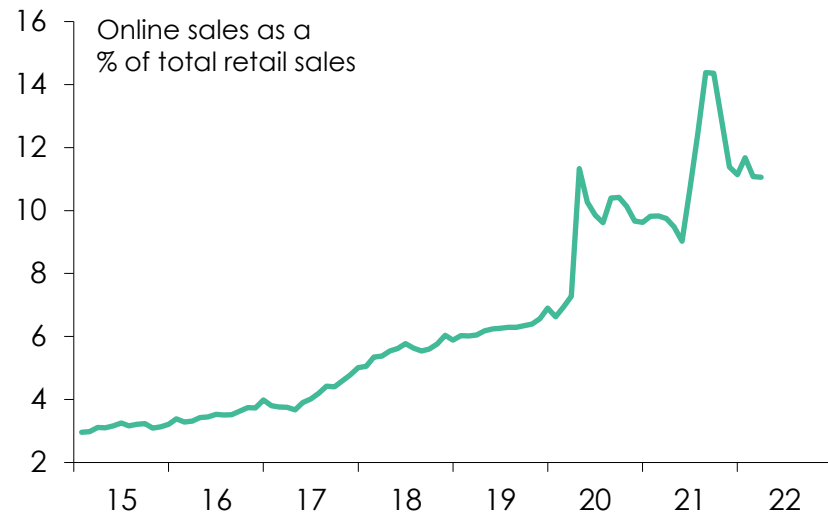
## ATM cash withdrawals



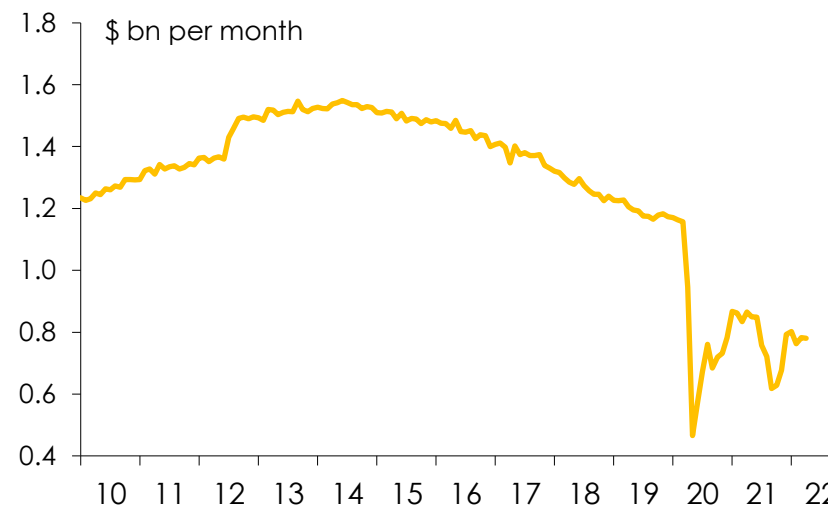
## Credit card cash advances



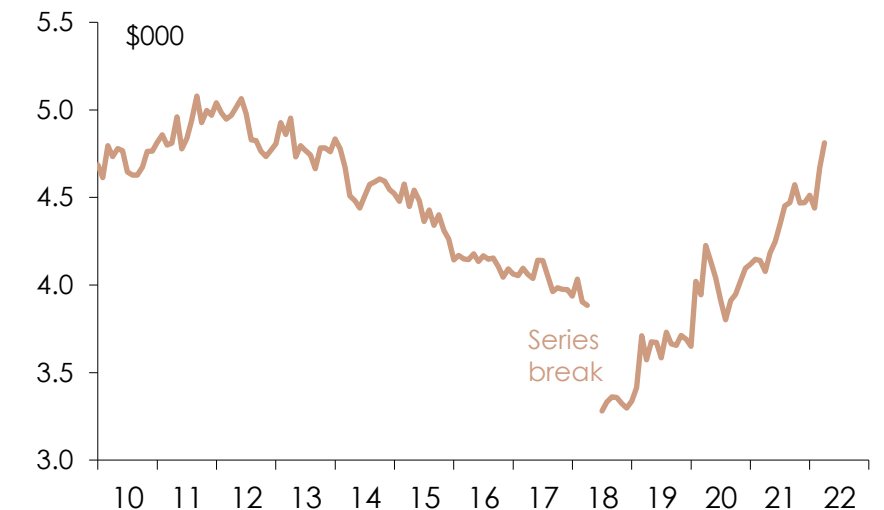
## Online retail 'market share'



## Debit card cash-outs



## Direct entry payments avg value



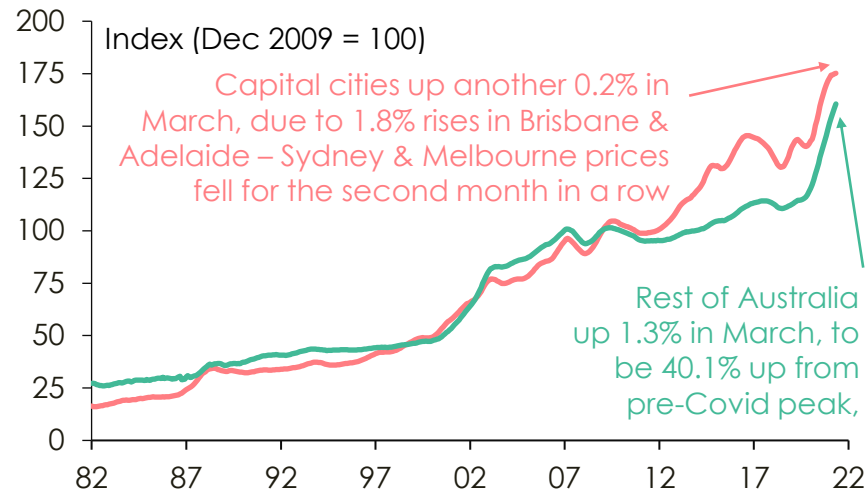
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales and payments system data are for March. April online retail sales data will be published on 2<sup>nd</sup> June, and April payments system data on 7<sup>th</sup> June. [Return to "What's New"](#).

# Housing and the residential property market

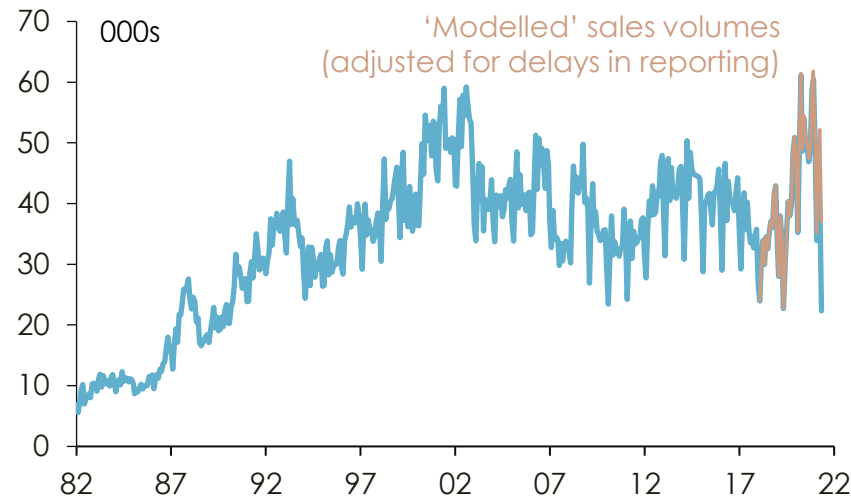
# Property prices across Australia rose an average of 0.5% in April, despite falls in both Sydney & Melbourne, to be 25.2% above their pre-Covid peak

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

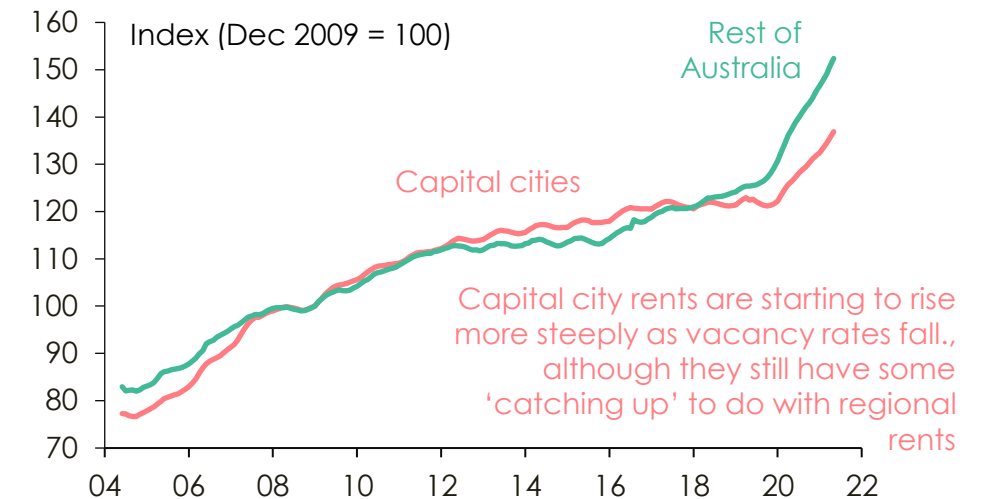
## Residential property prices



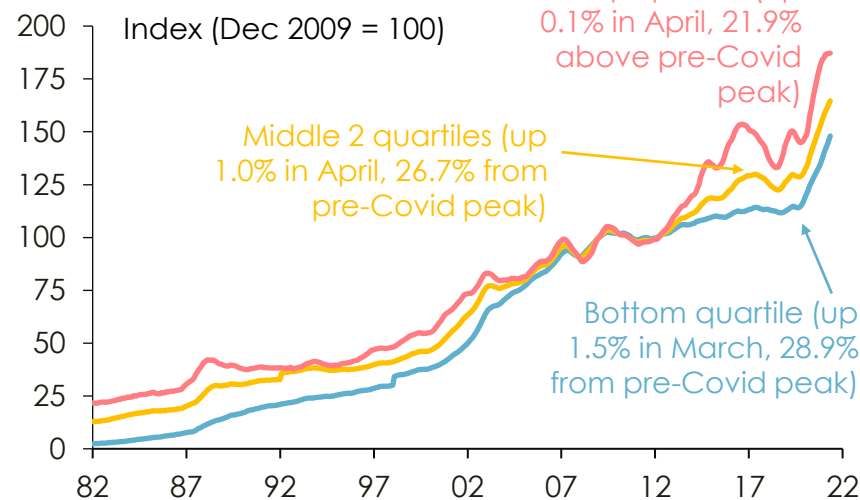
## Residential property sales volumes



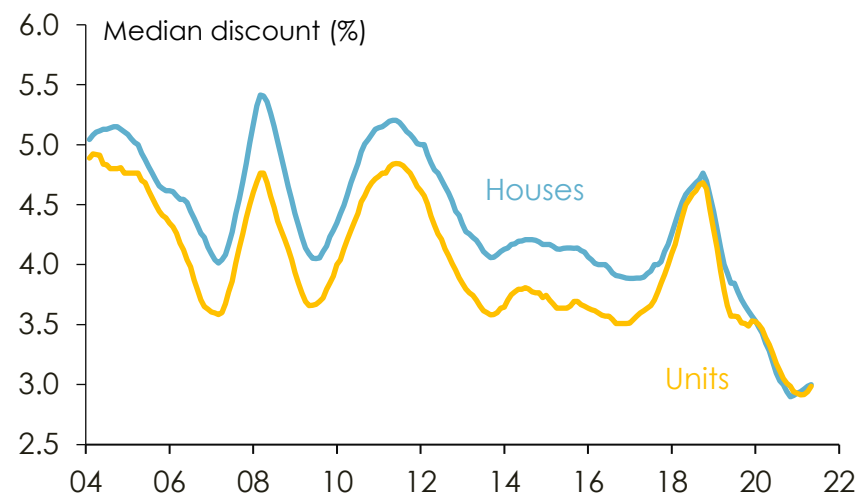
## Residential rents



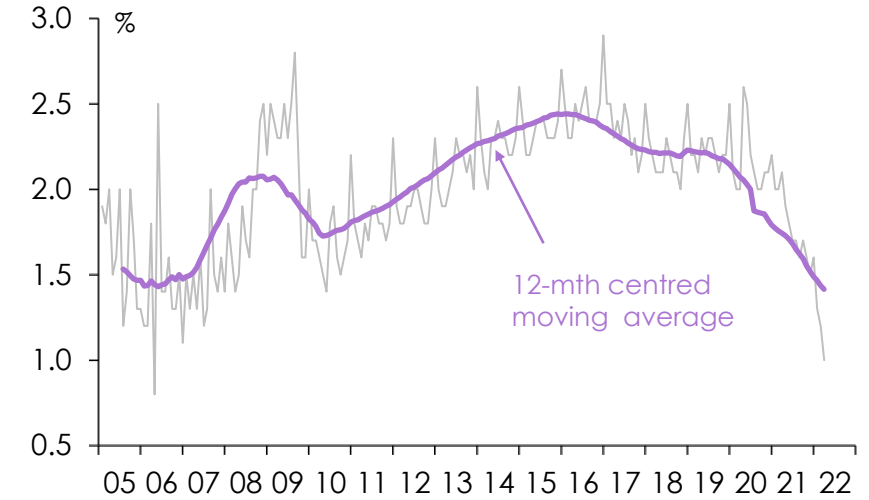
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

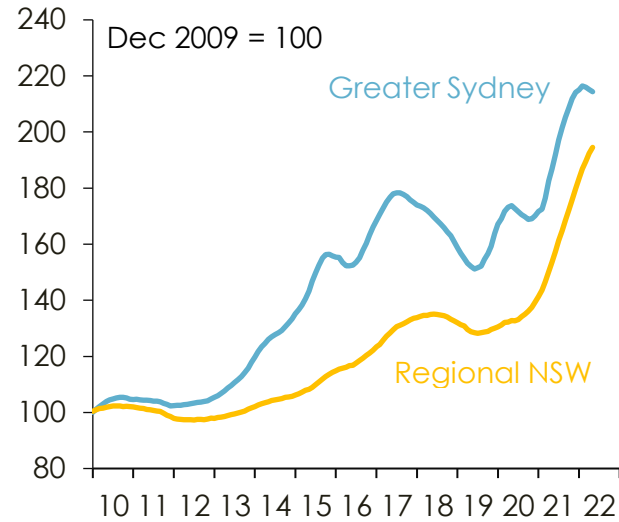


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

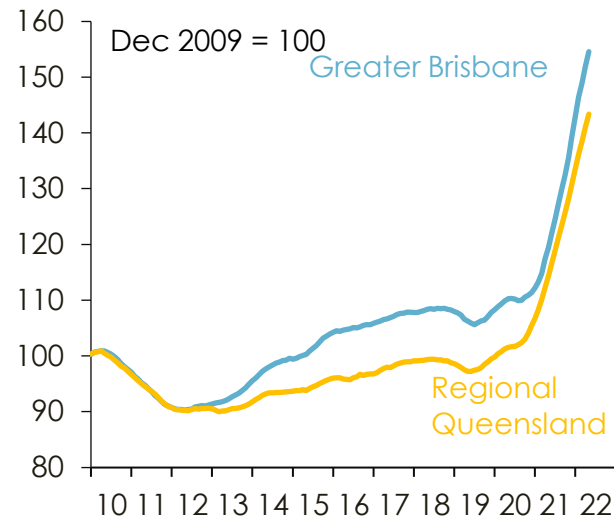
# Sydney & Melbourne prices have fallen by 1.0% and 0.7% respectively over the past three months, but are still rising elsewhere in Australia

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

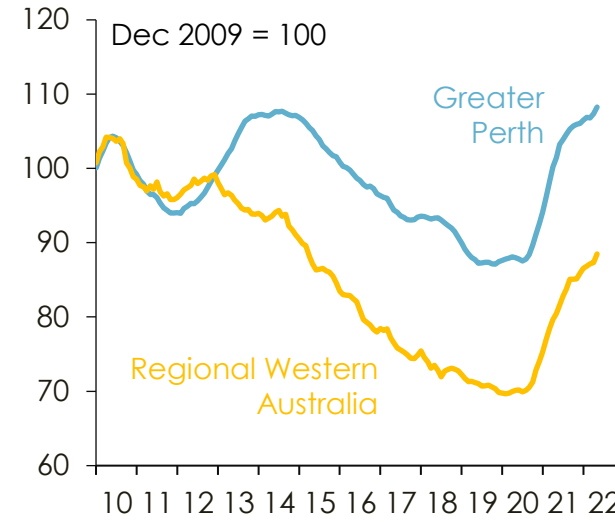
## New South Wales



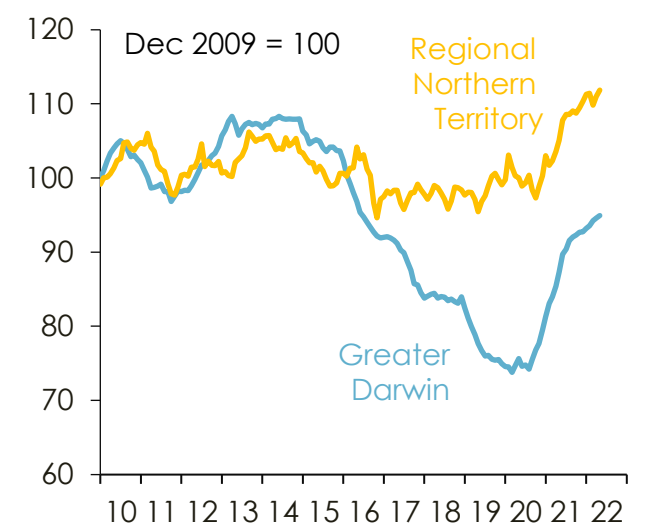
## Queensland



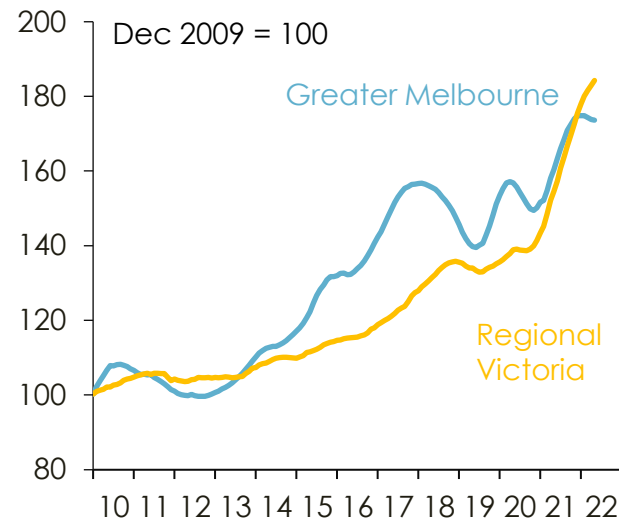
## Western Australia



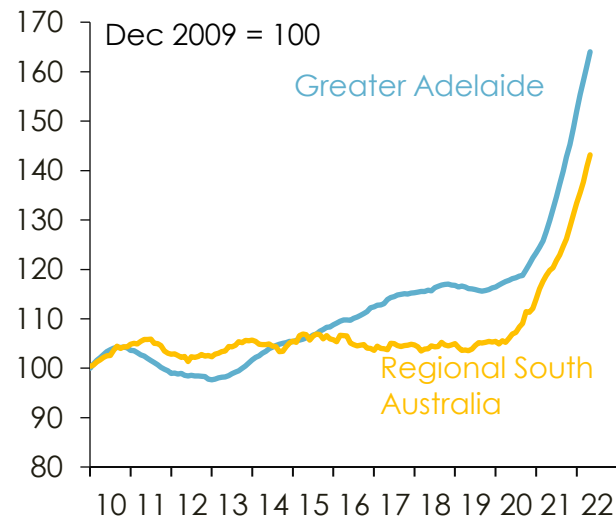
## Northern Territory



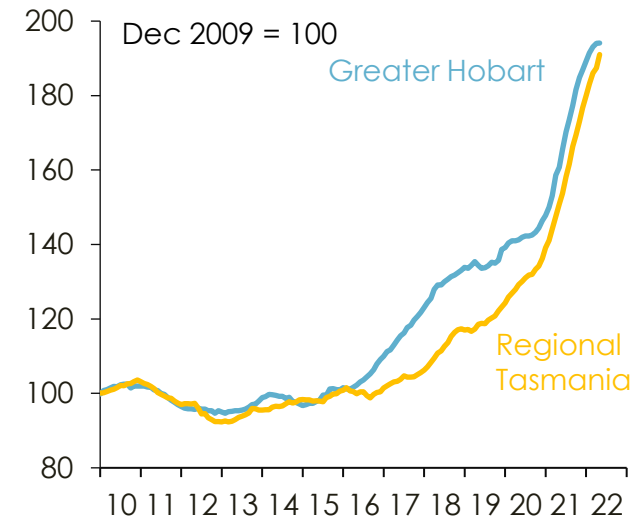
## Victoria



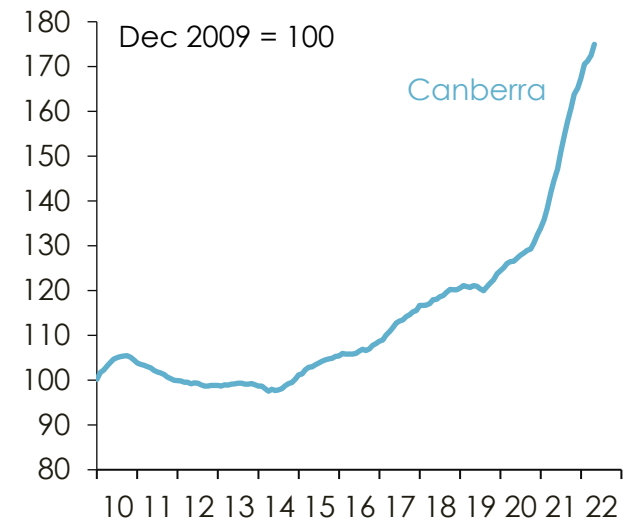
## South Australia



## Tasmania



## Australian Capital Territory

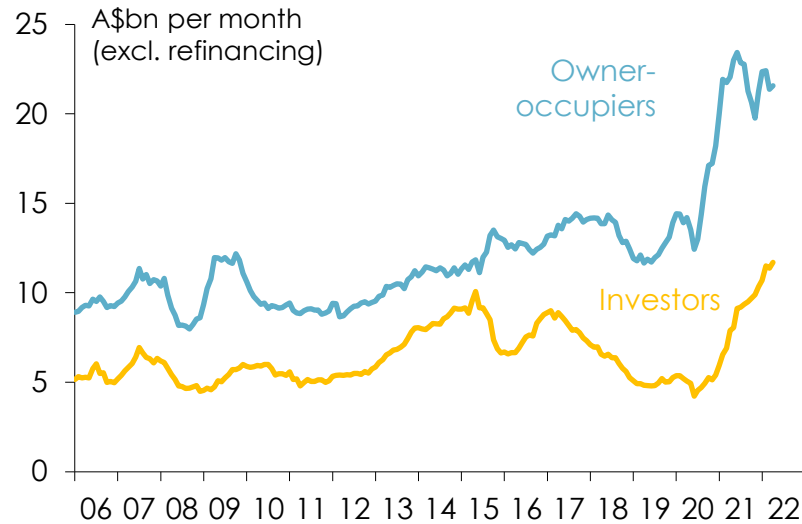


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

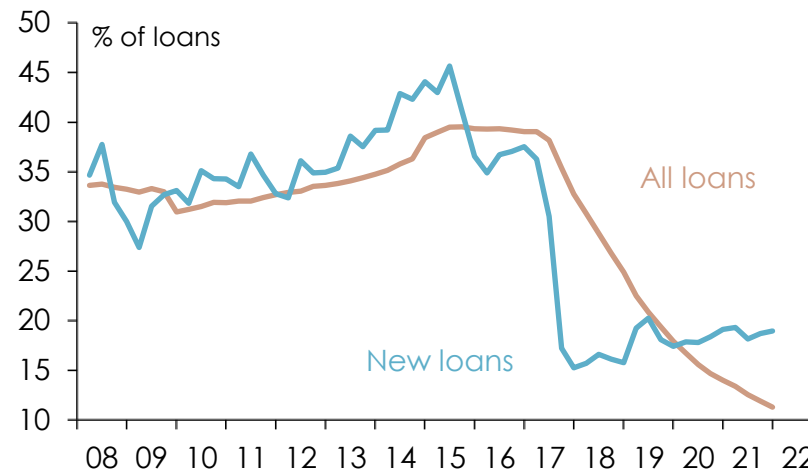
# Housing finance commitments rose 1.6% in March, with commitments to investors up 2.9% and to owner-occupiers up 0.9%

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

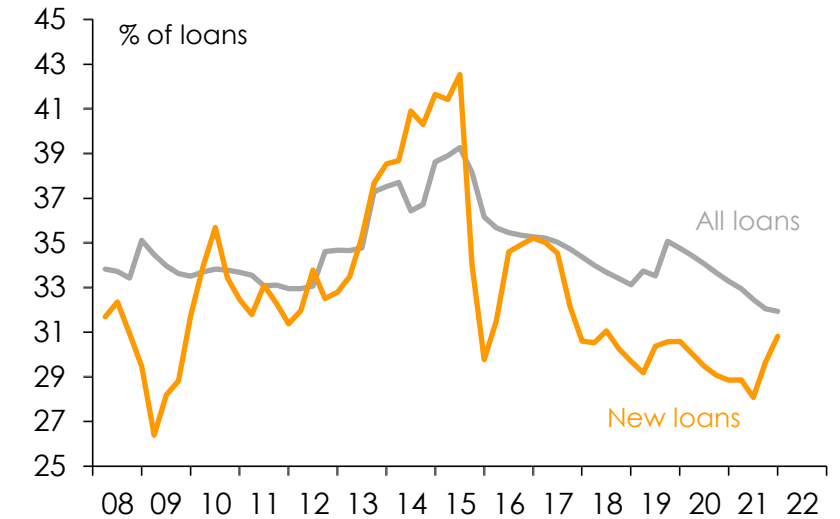
## Housing finance commitments



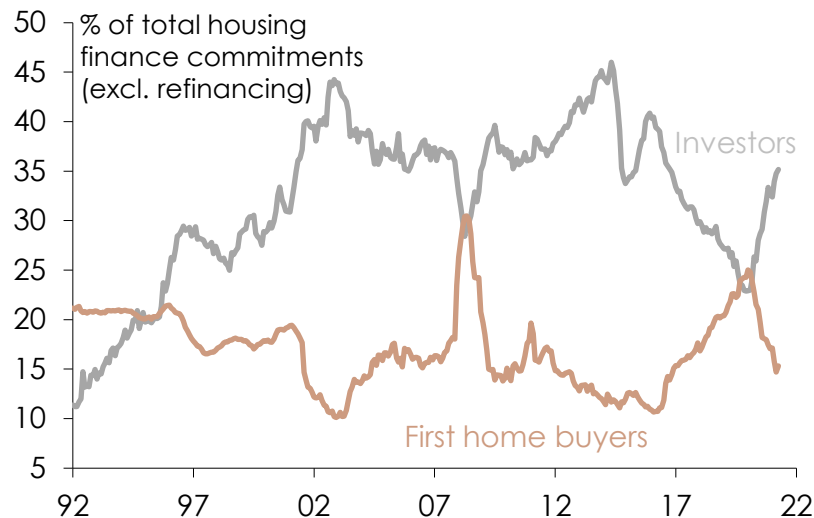
## Interest-only loans



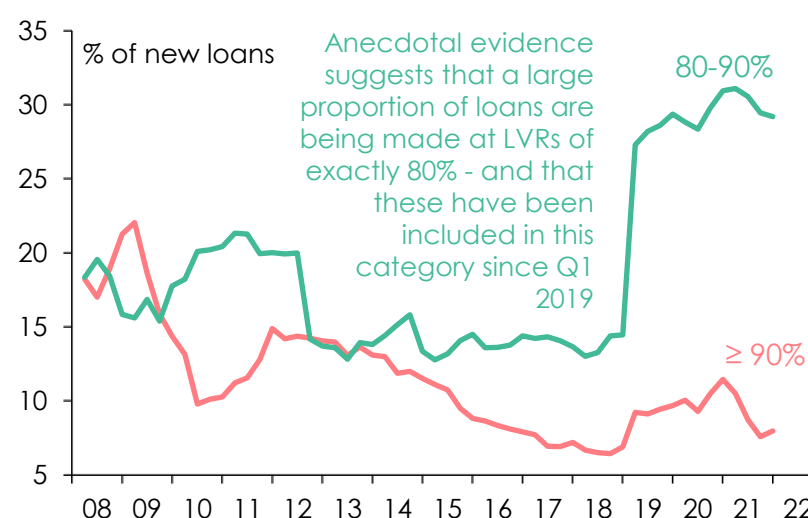
## Loans to investors as a pc of total



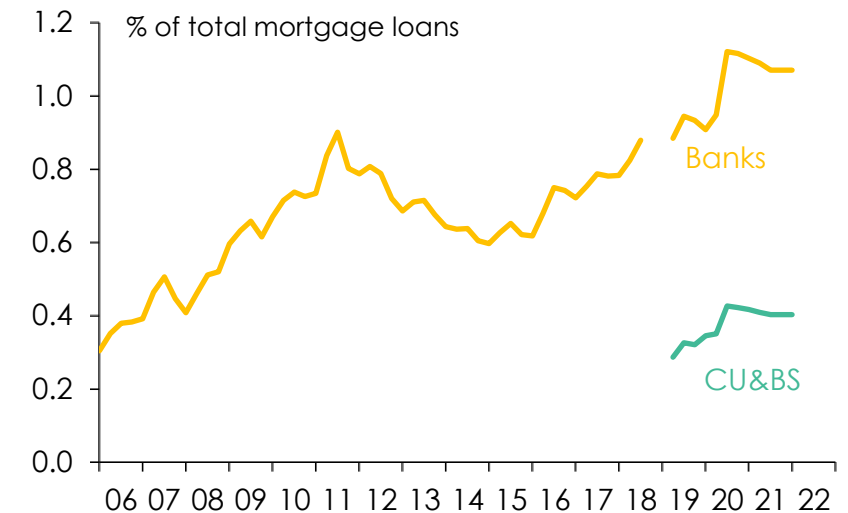
## Shares of housing finance



## High LVR loans as a pc of total



## Non-performing mortgage loans

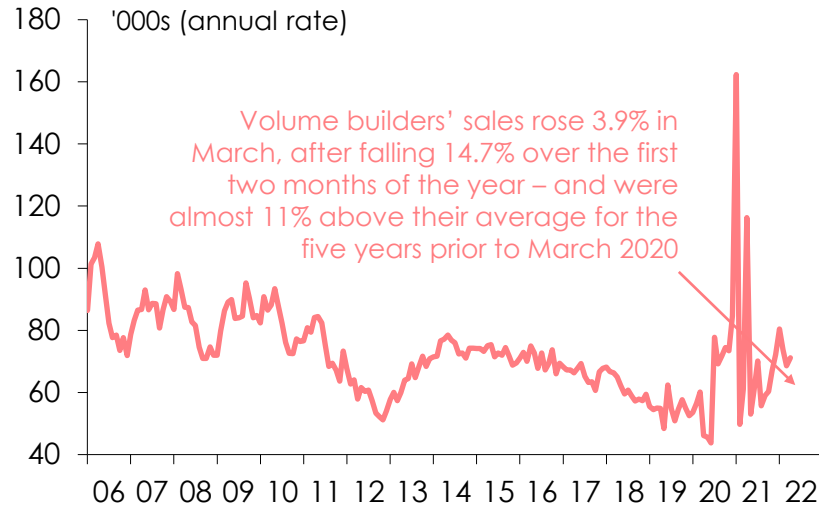


Sources: ABS, [Lending Indicators](#), March; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). April housing finance data will be released on 3<sup>rd</sup> June; APRA data on ADI property exposures for the March quarter will be released on 14<sup>th</sup> June. [Return to "What's New"](#).

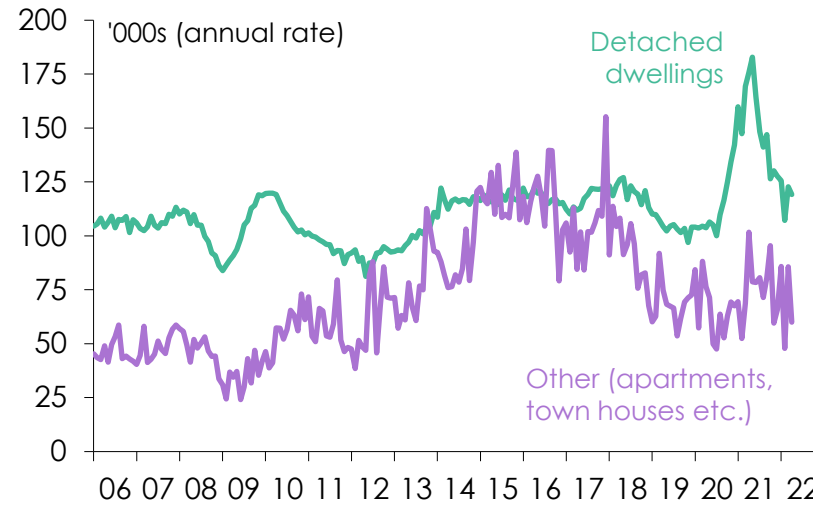
# Residential building approvals fell 18.5% in March, partly reversing a 42% fall in February, which in turn followed a 26.6% rise in January

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

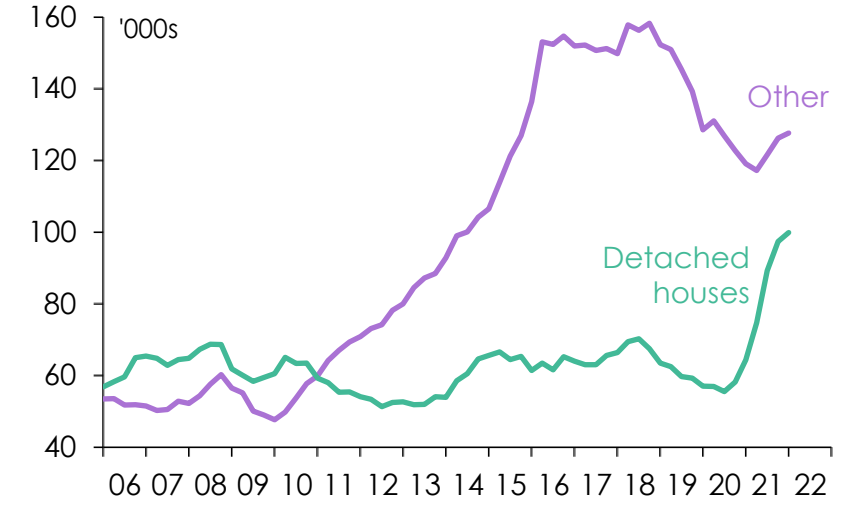
## Large builders' new home sales



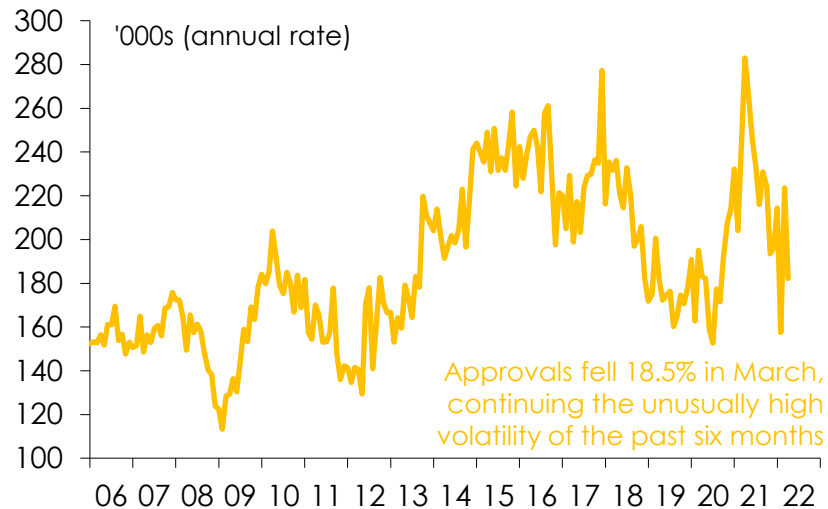
## Building approvals, by type



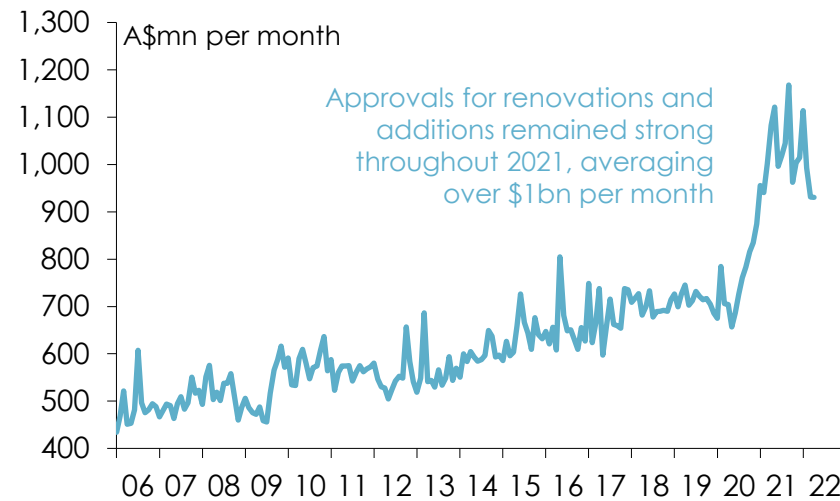
## Dwellings under construction



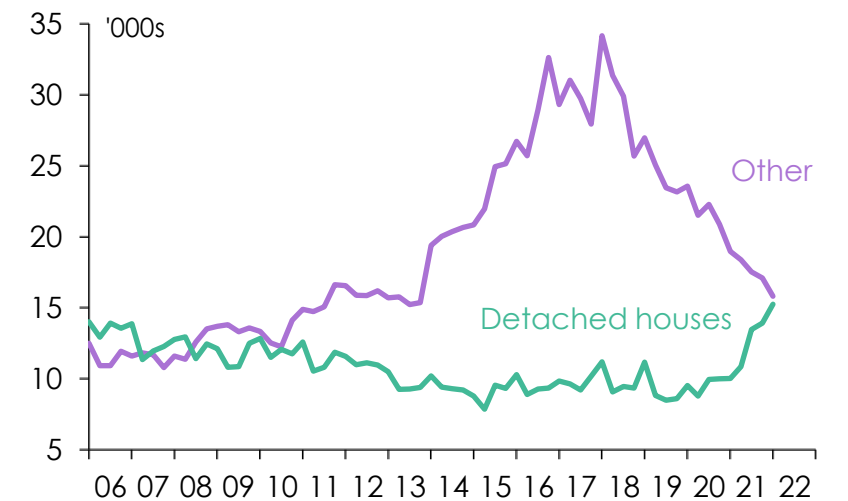
## Residential building approvals



## Alterations & additions approved



## 'Pipeline' of work yet to be started

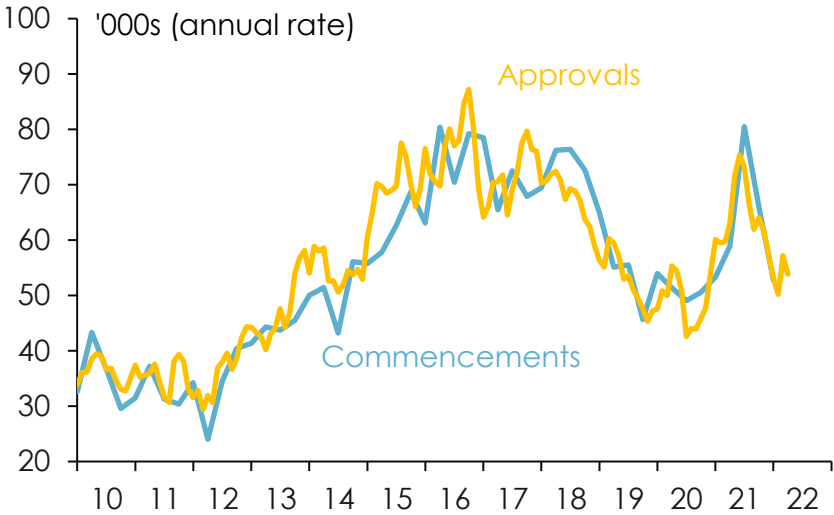


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. April building approvals data will be released on 31<sup>st</sup> May; March quarter dwellings under construction and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

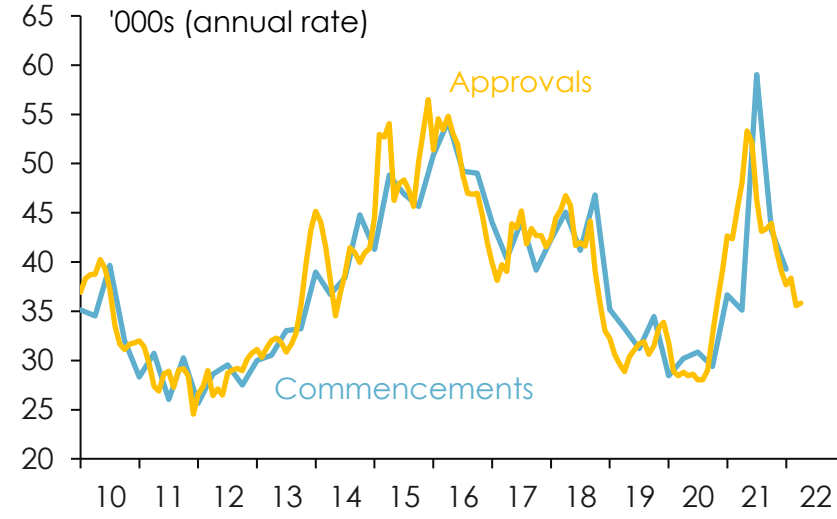
# Residential building approvals have weakened most from last year's peaks in Western Australia, Queensland, South Australia & New South Wales

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

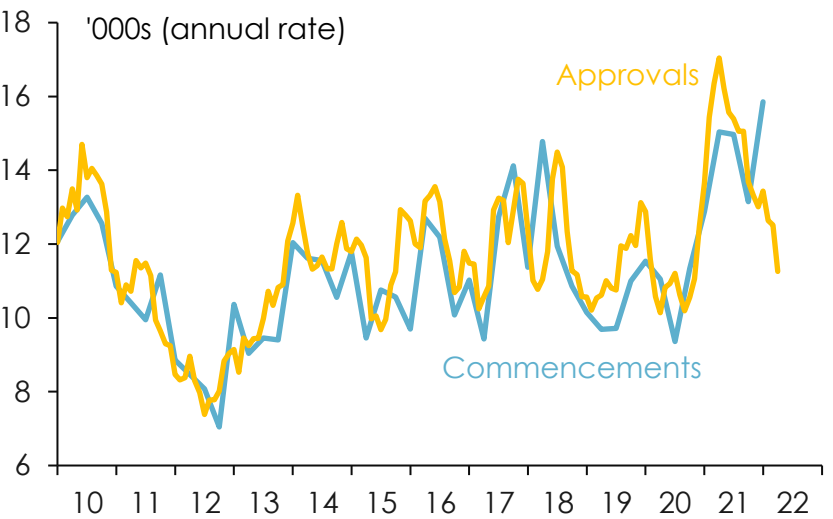
## New South Wales



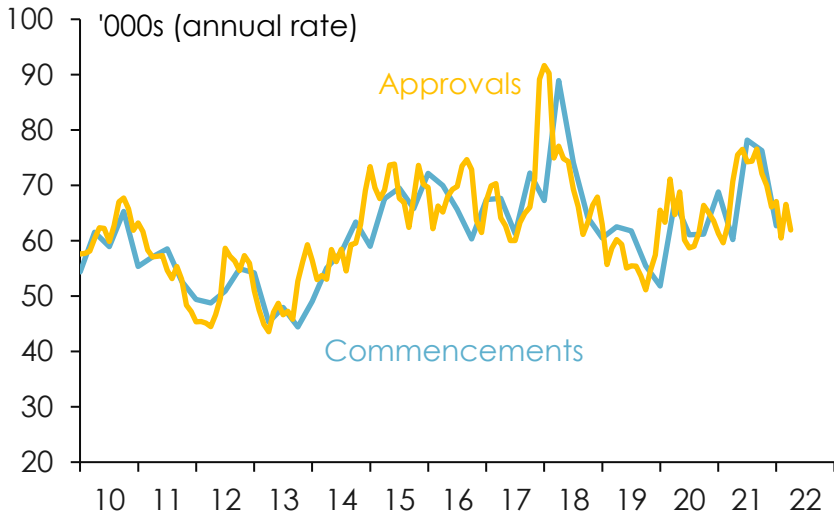
## Queensland



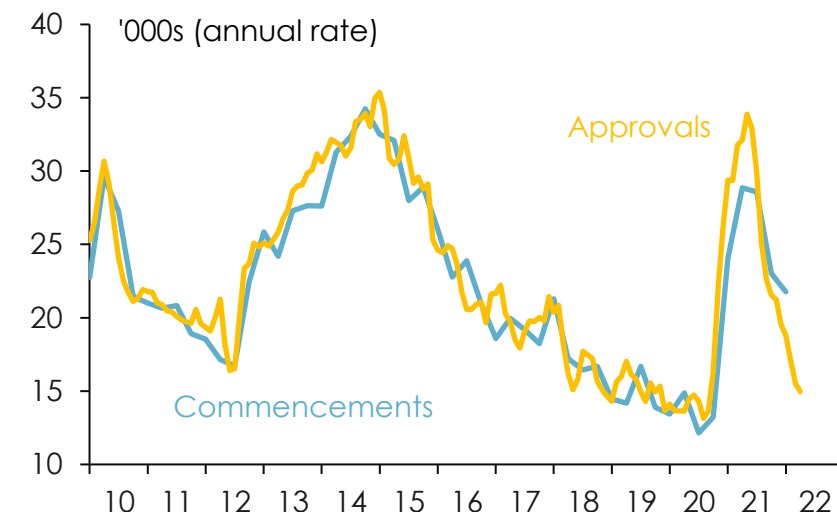
## South Australia



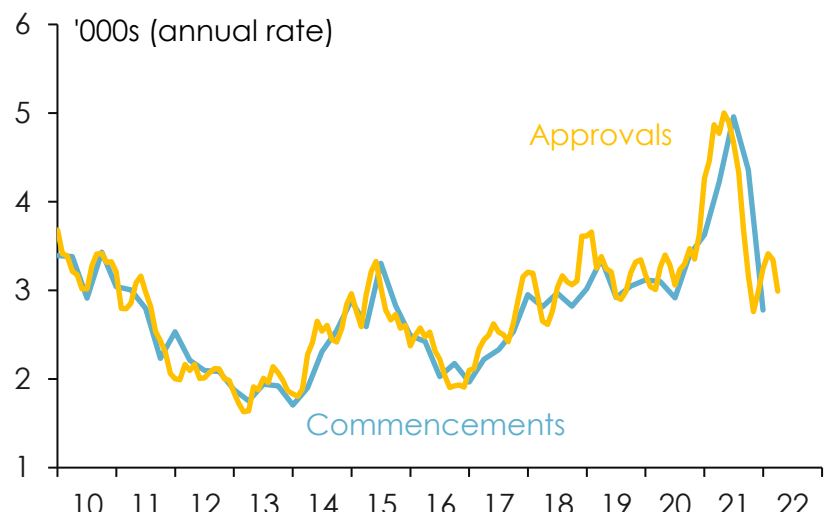
## Victoria



## 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"](#).

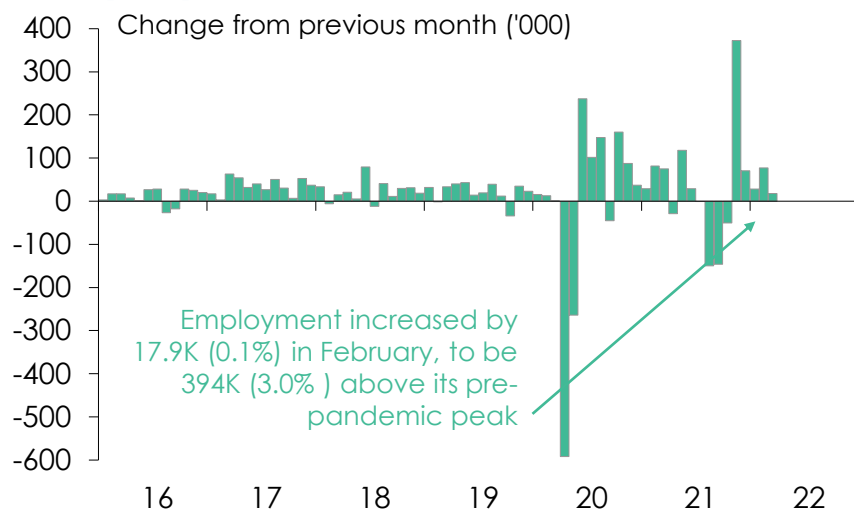


# The labour market

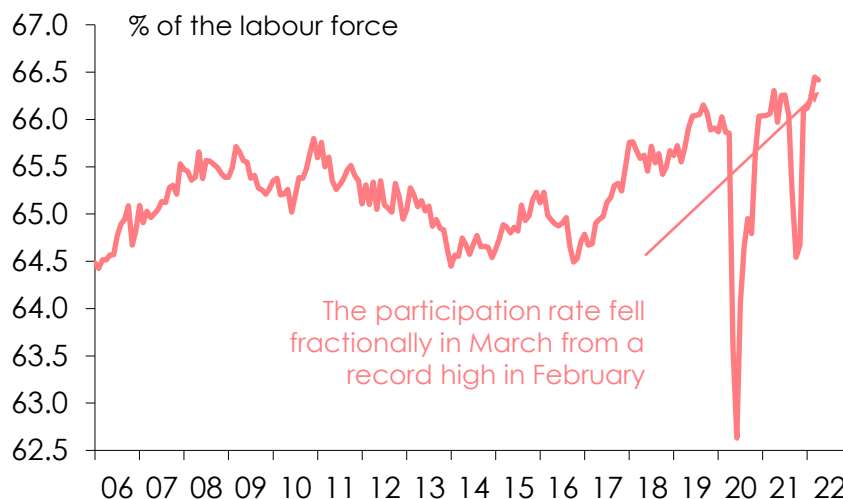
# Employment rose another 0.1% in March, and the unemployment rate fell 0.1% to 3.95%, the lowest it has been since August 1974

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

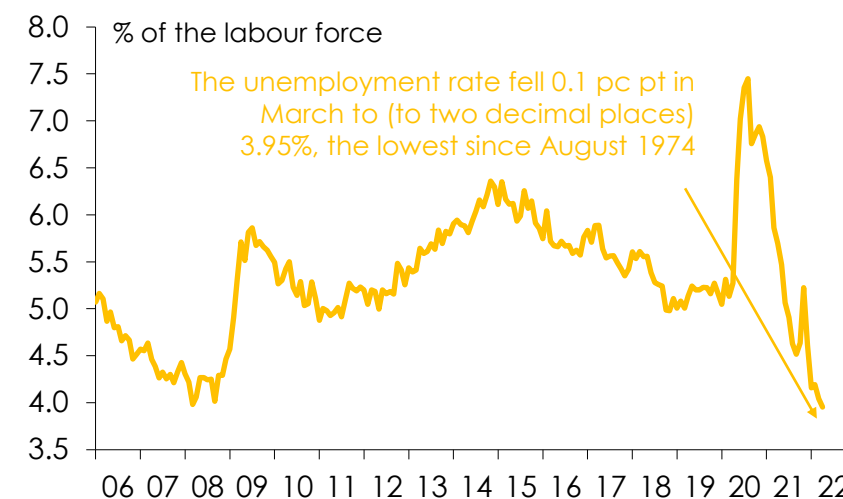
## Employment



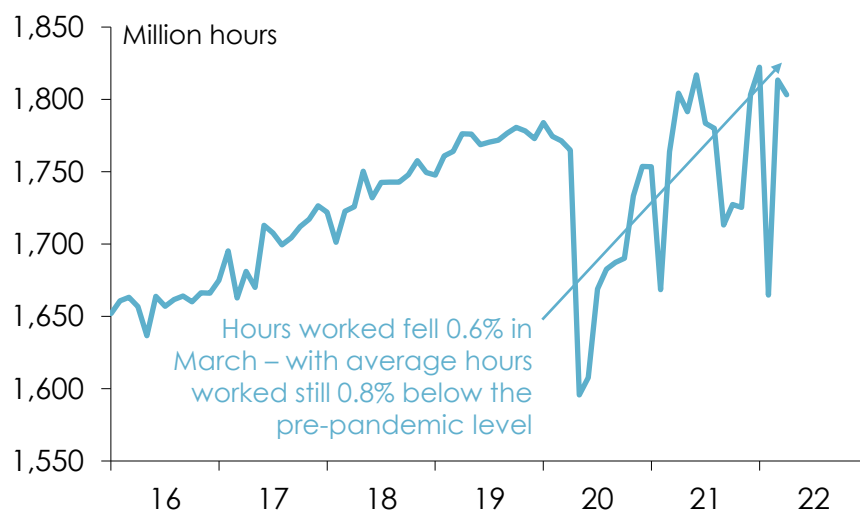
## Labour force participation rate



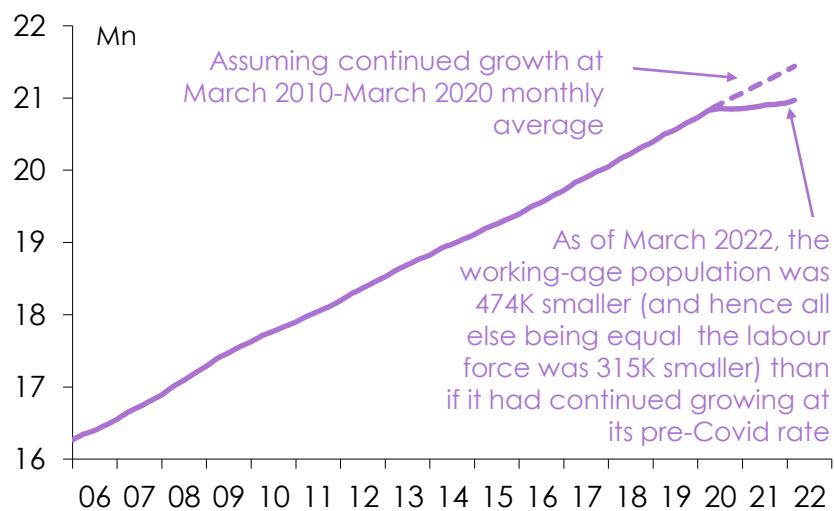
## Unemployment rate



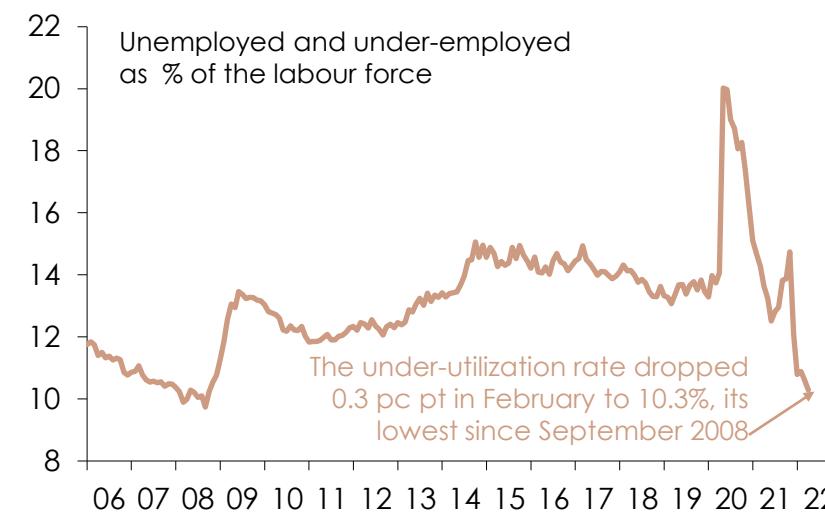
## Total hours worked



## Civilian working-age population



## 'Under-utilization' rate

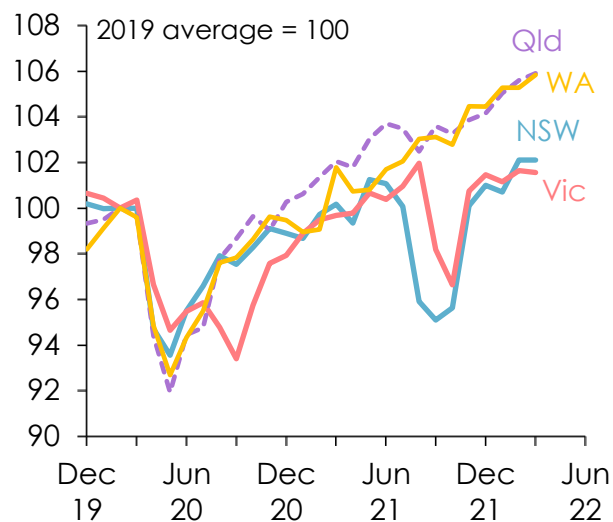


Source: ABS, [Labour Force, Australia](#), March. April data will be released on 19<sup>th</sup> May. [Return to "What's New"](#).

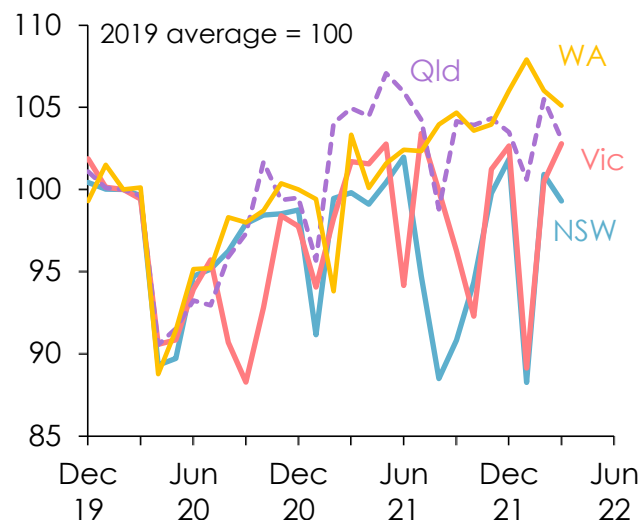
# 75% of February's job gains were in NSW, where unemployment fell to a record low of 3.7% - unemployment also below 4% in Tasmania, NT and ACT

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

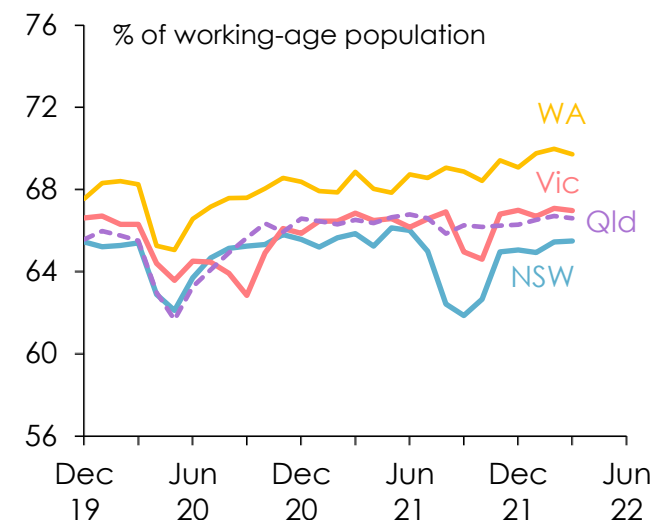
## Employment



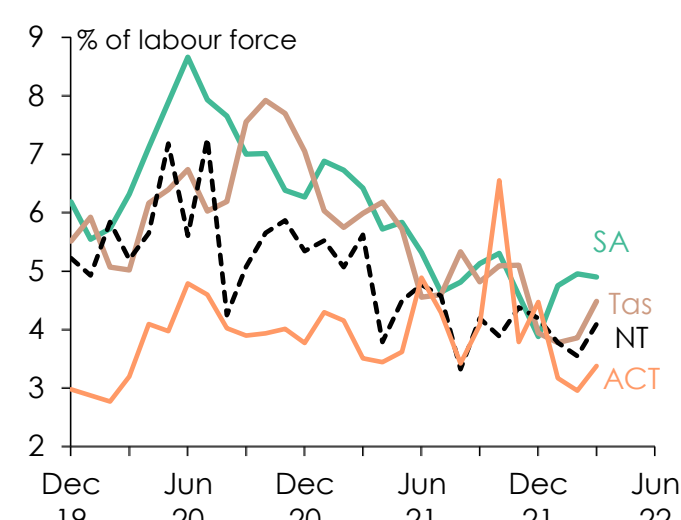
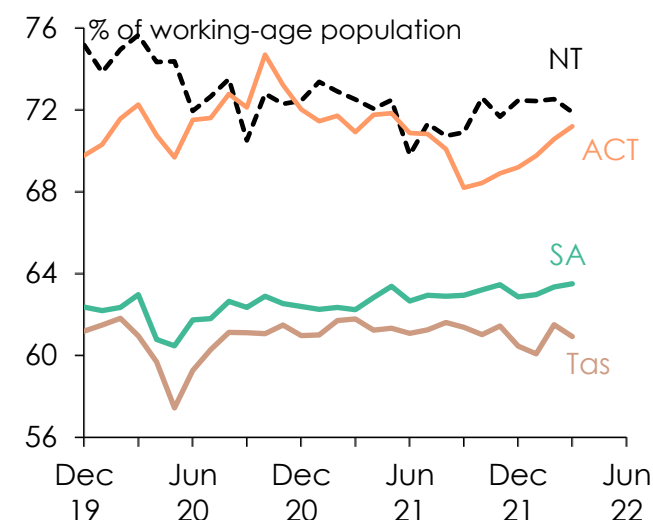
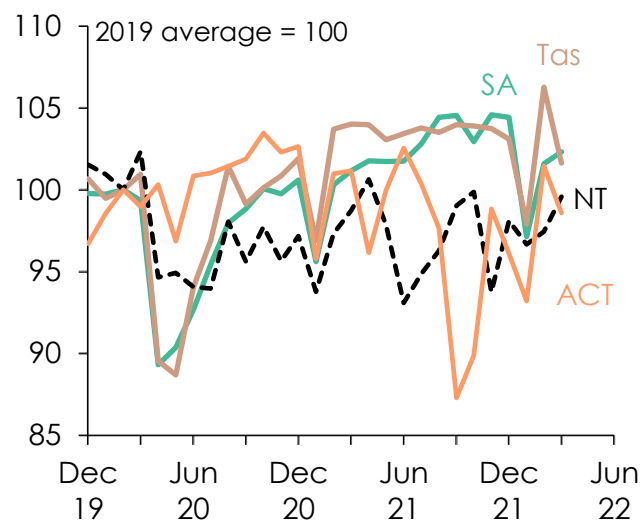
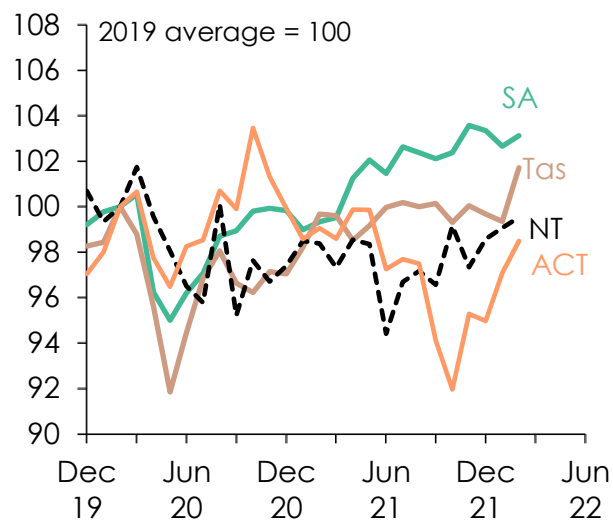
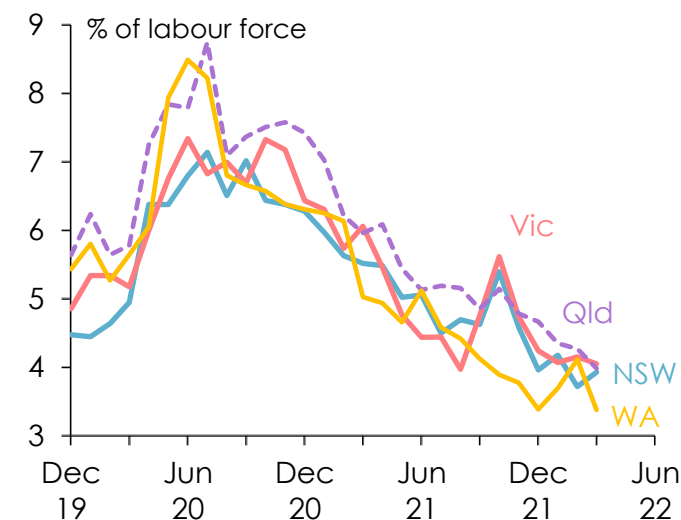
## Hours worked



## 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 – 13<sup>TH</sup> MAY 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.

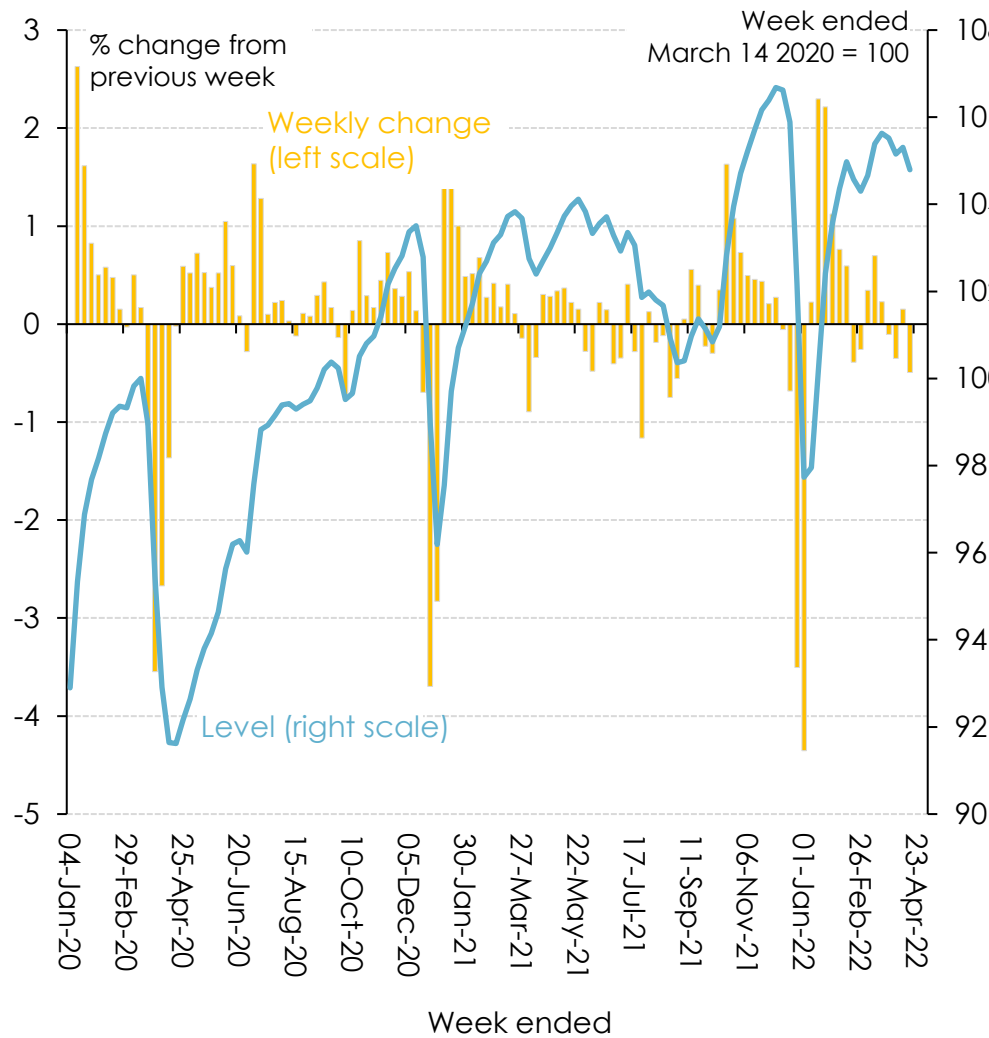
Source: ABS, [Labour Force, Australia](#), March. April data will be released on 19<sup>th</sup> May.

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

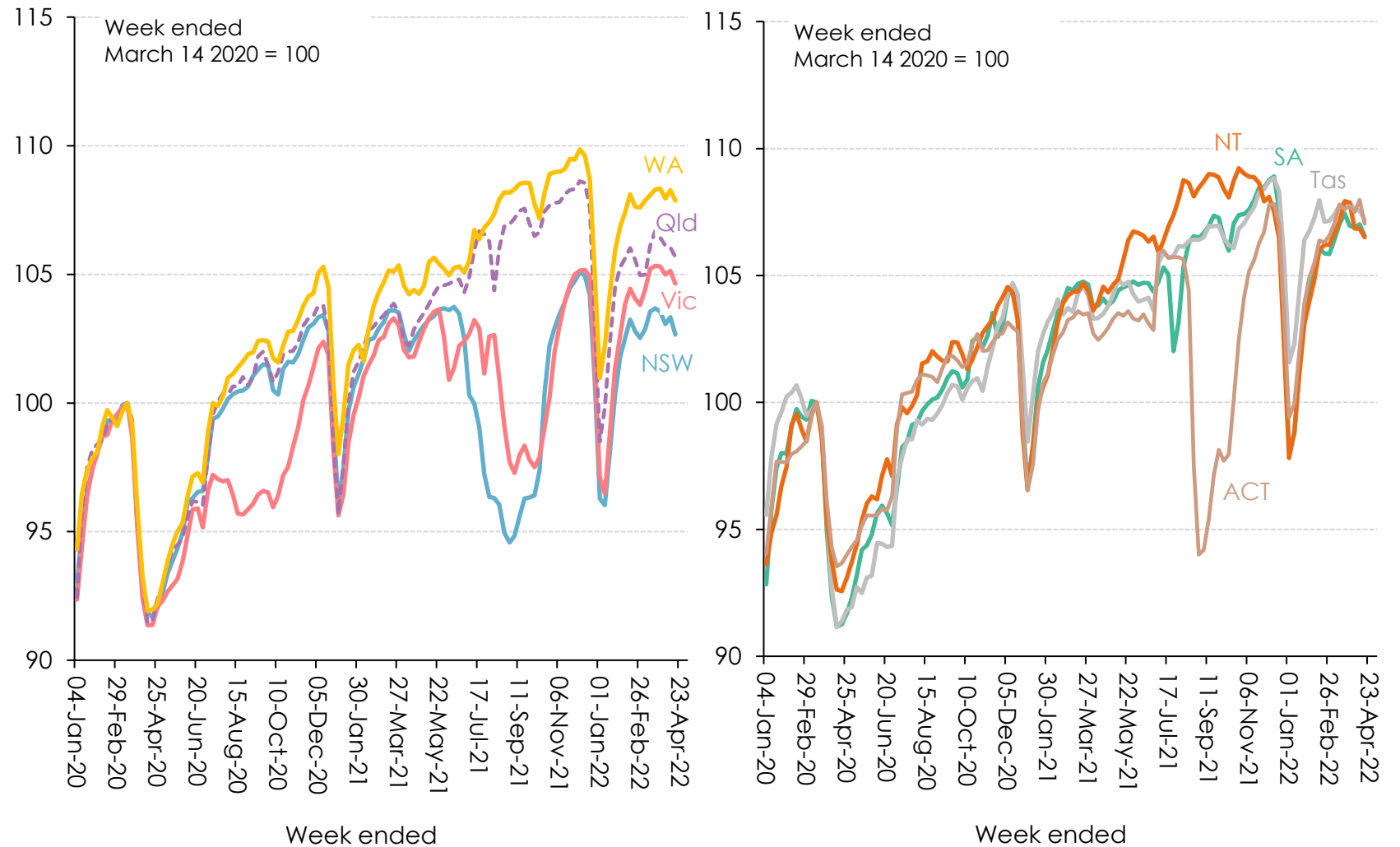
# The number of payroll jobs fell by 0.8% between mid-March and mid-April, although at least some of the decline may have been seasonal

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



## Payroll jobs by State & Territory



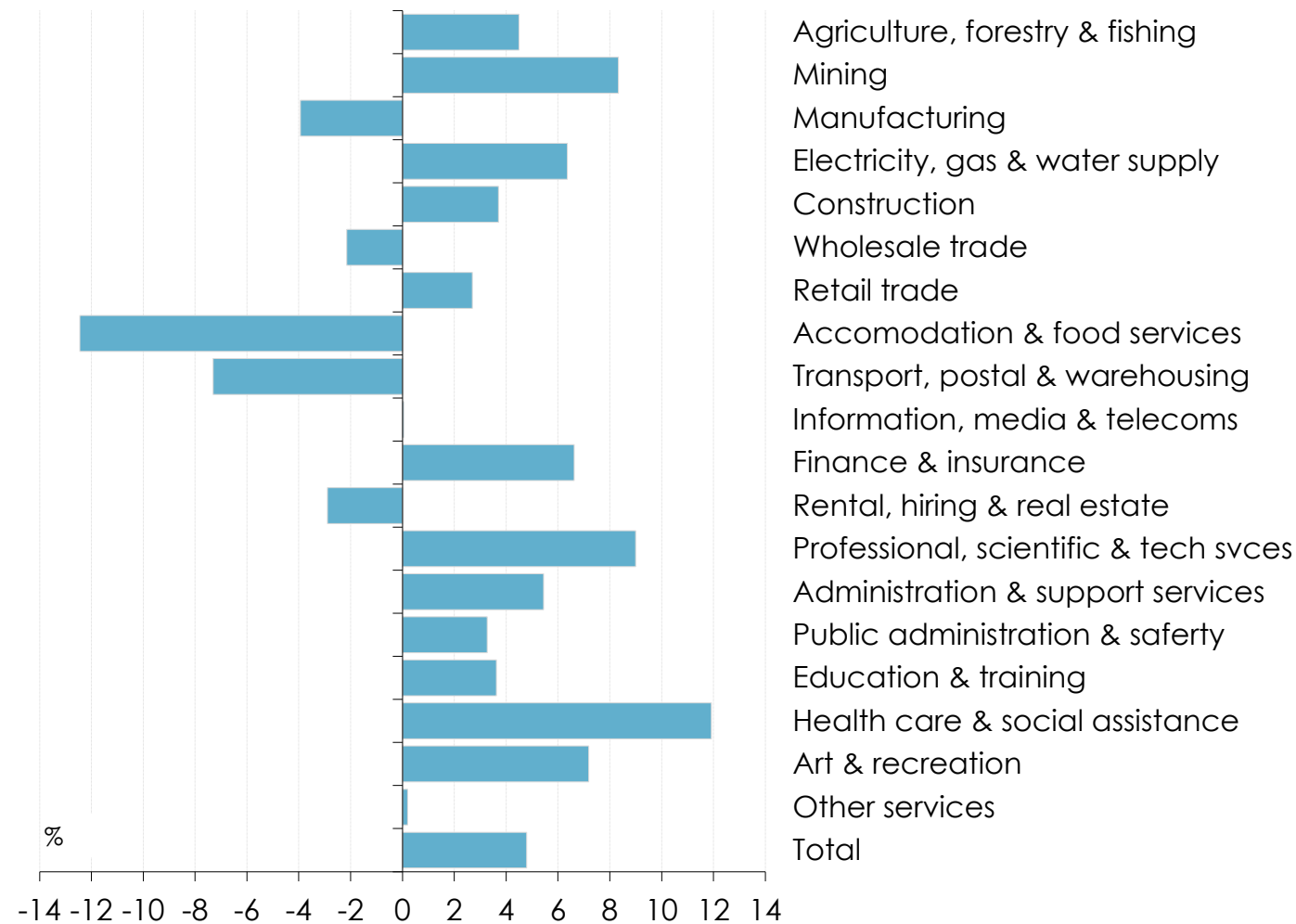
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

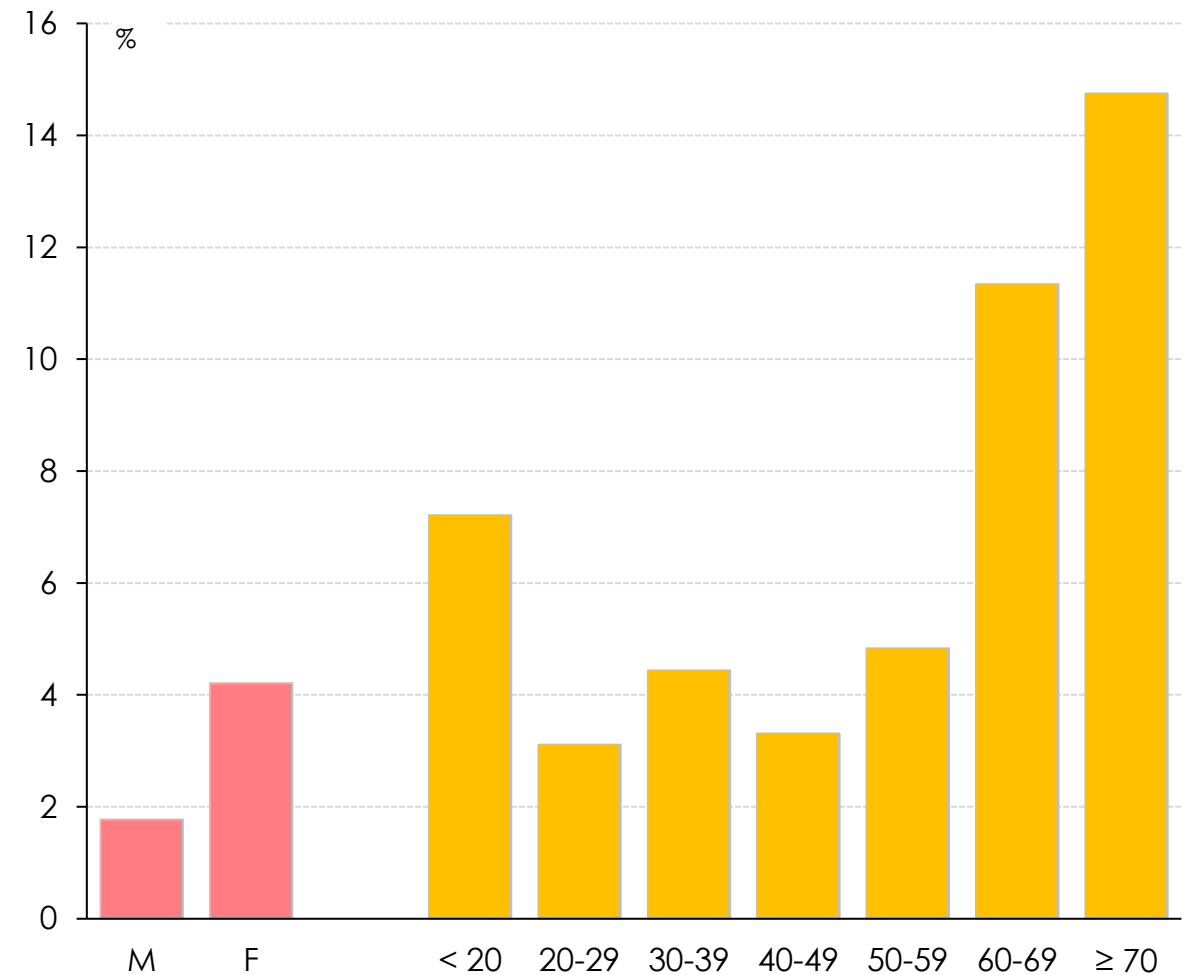
THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## Net change in payroll jobs between week ended 14<sup>th</sup> March 2020 and week ended 16<sup>th</sup> April 2022

### By industry



### By gender and age

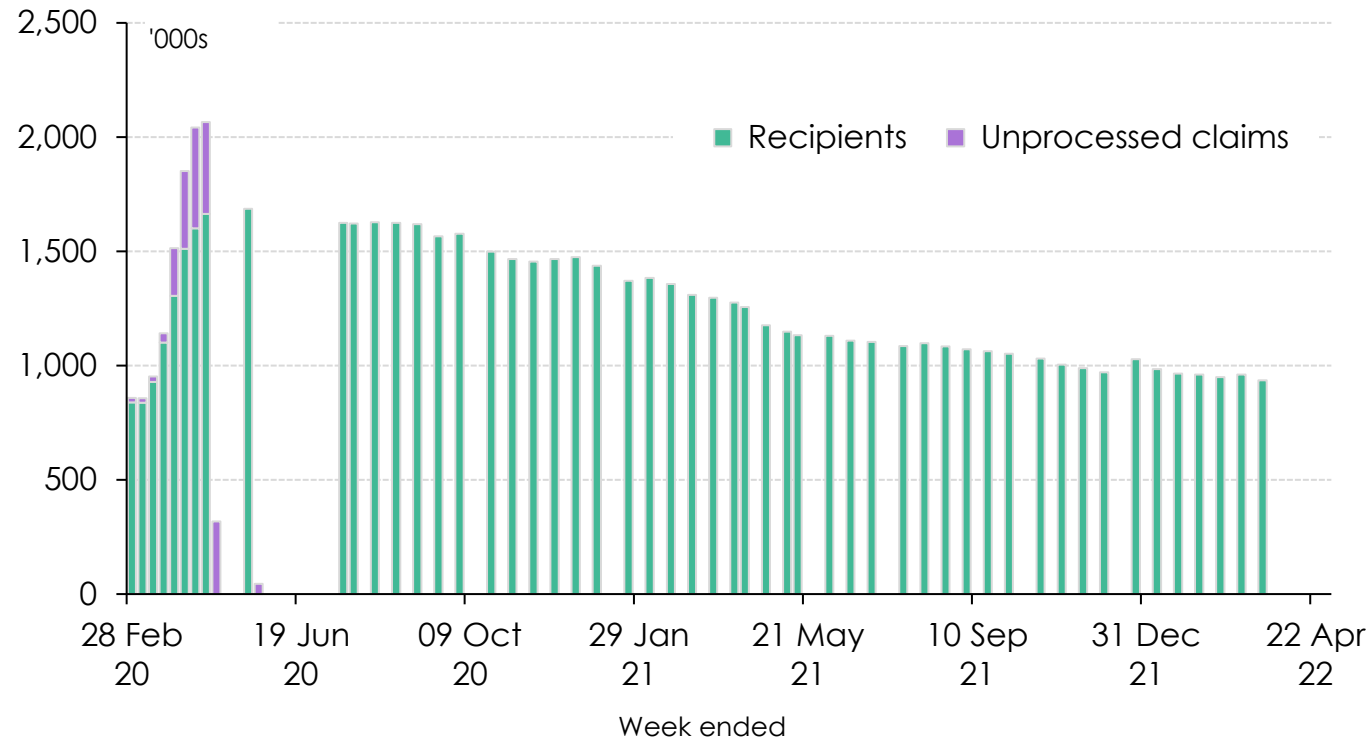


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

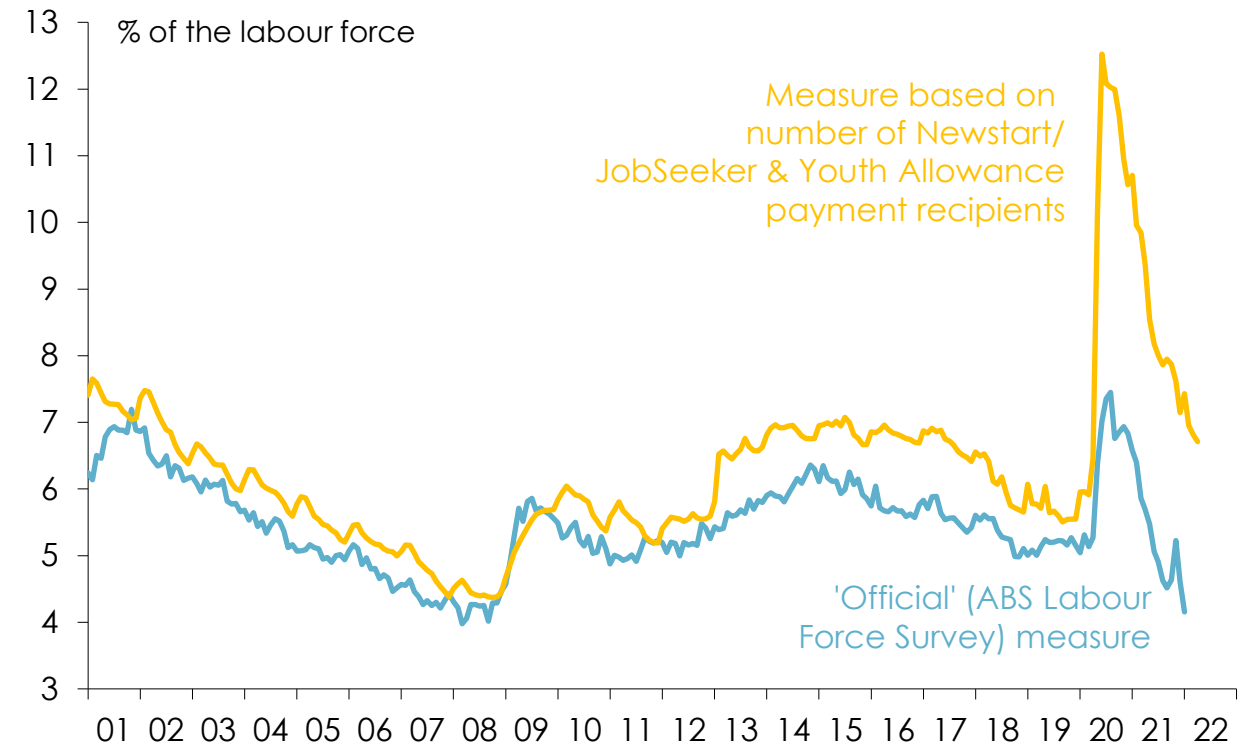
# The number of people receiving joblessness-related income support payments is still 11<sup>3</sup>/<sub>4</sub>% above its pre-pandemic level

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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

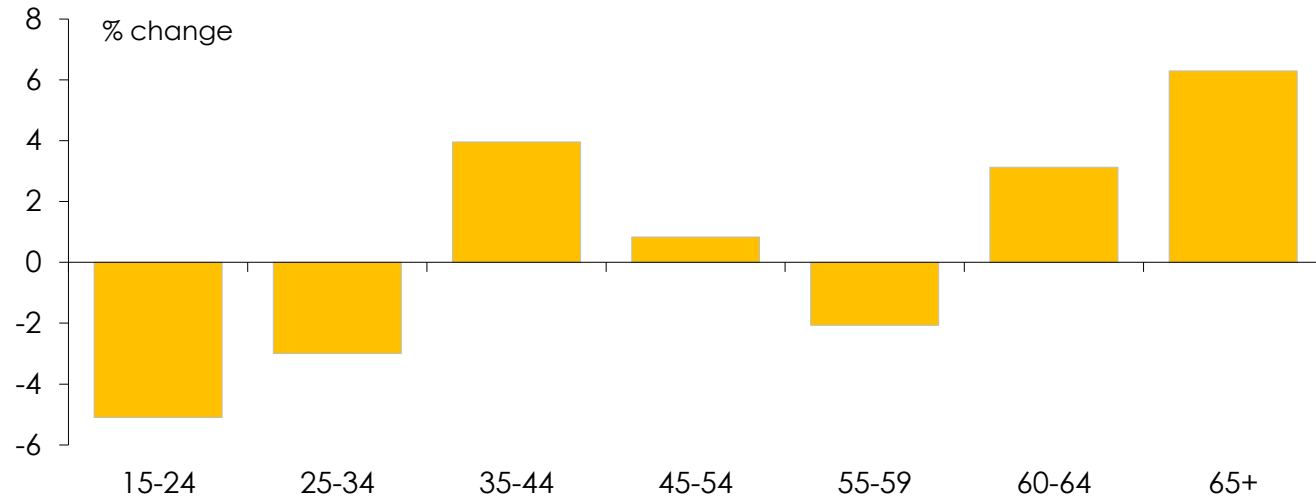
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). [Return to "What's New"](#).

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

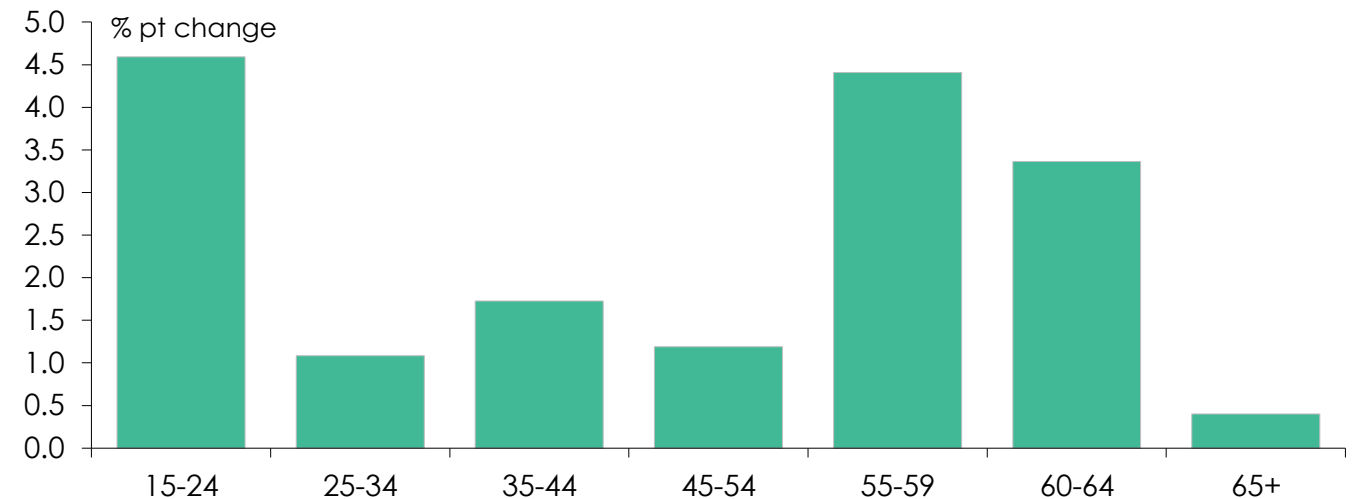
THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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

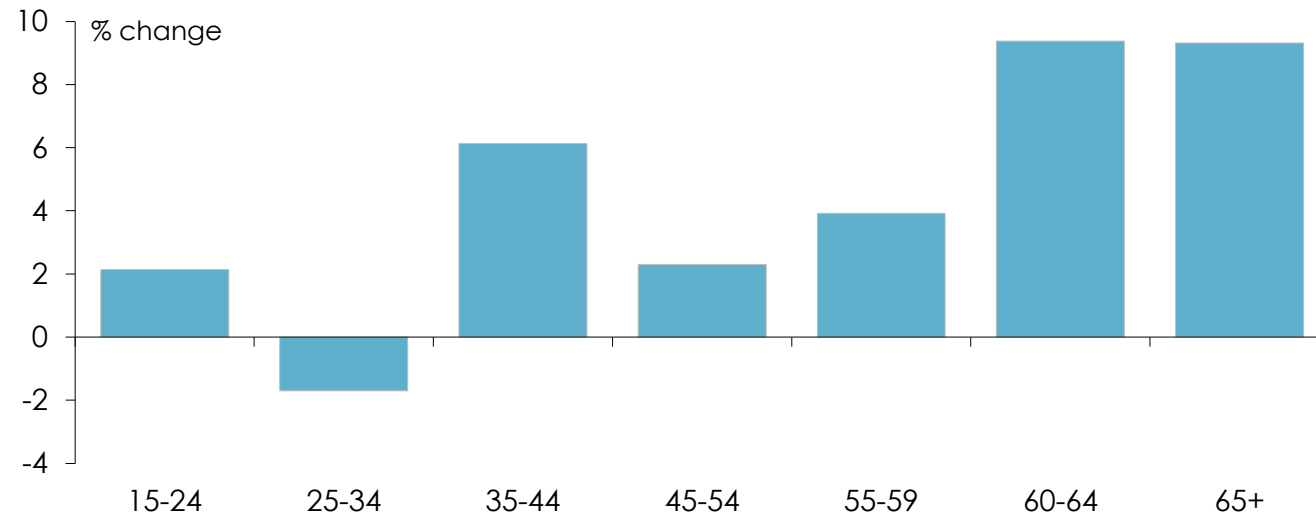
### Civilian working age population



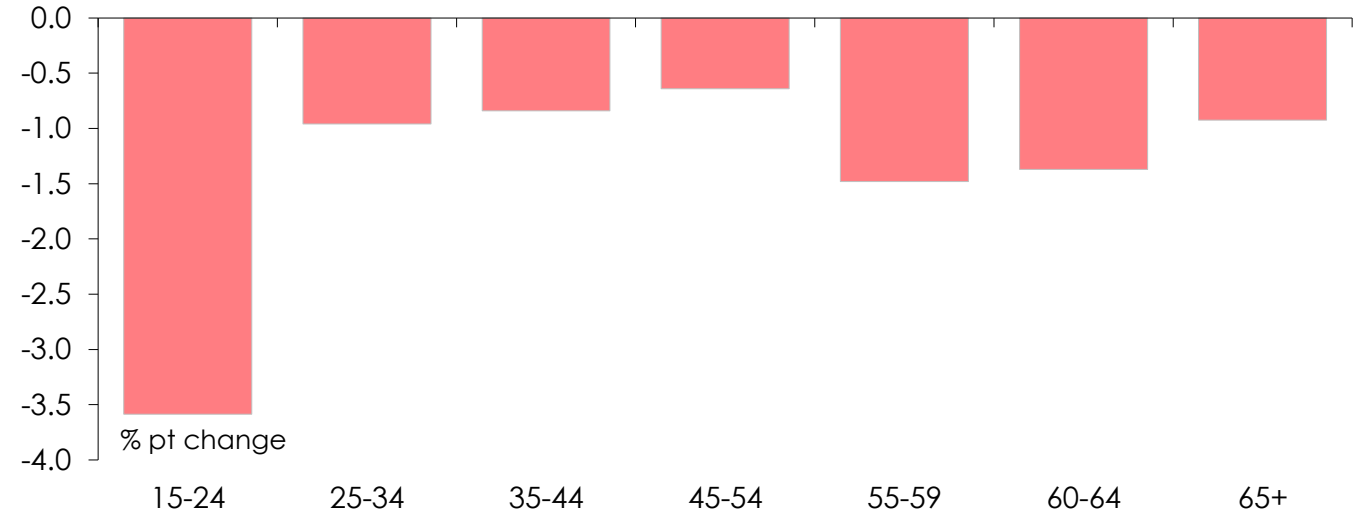
### Employment-population ratio



### 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.

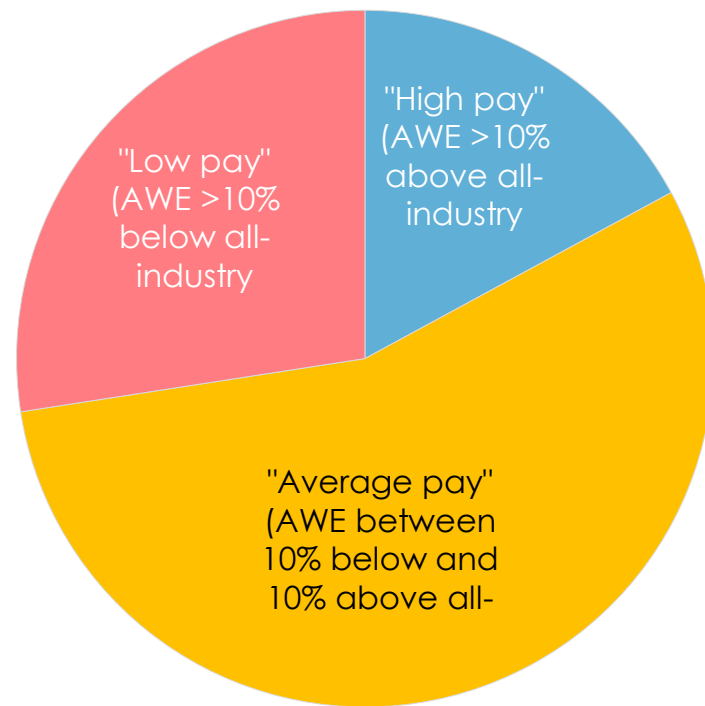
Source: ABS, [Labour Force, Australia, Detailed](#), March; April data will be released on 26<sup>th</sup> May. [Return to "What's New"](#).



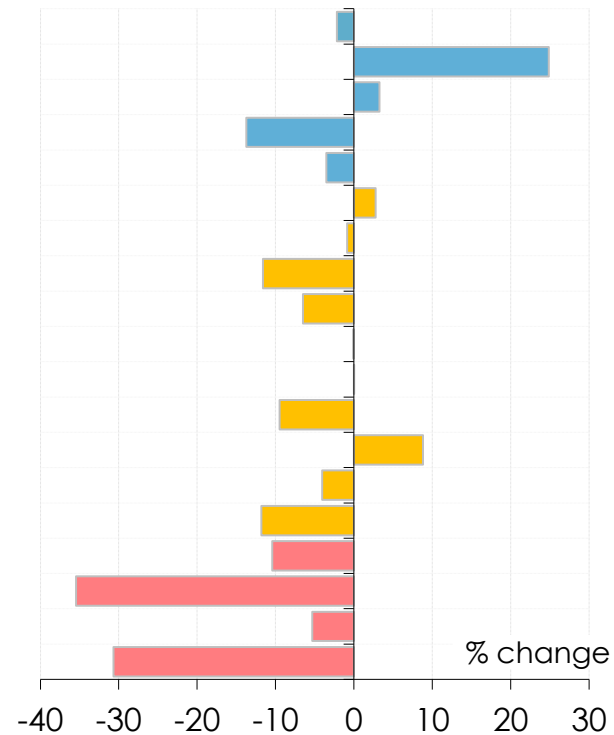
# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

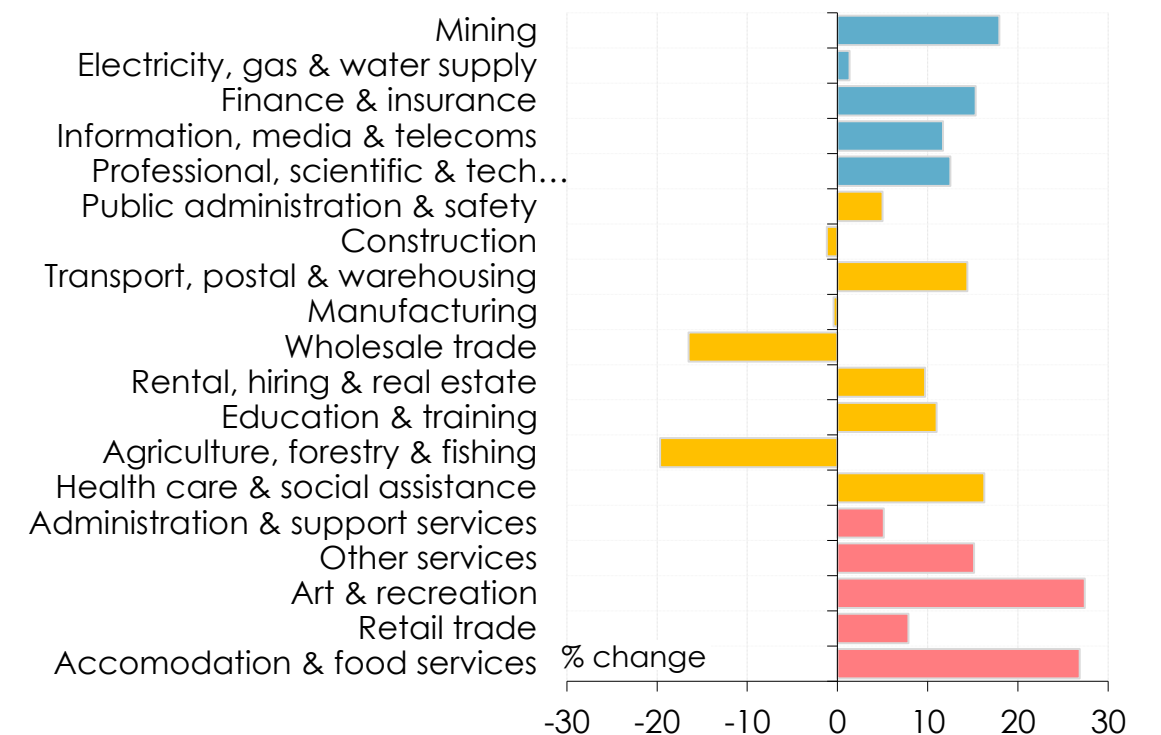
## Composition of employment by industry ranked by average weekly earnings, February 2020



## Change in employment by industry February-May 2020



## February 2020 – February 2022



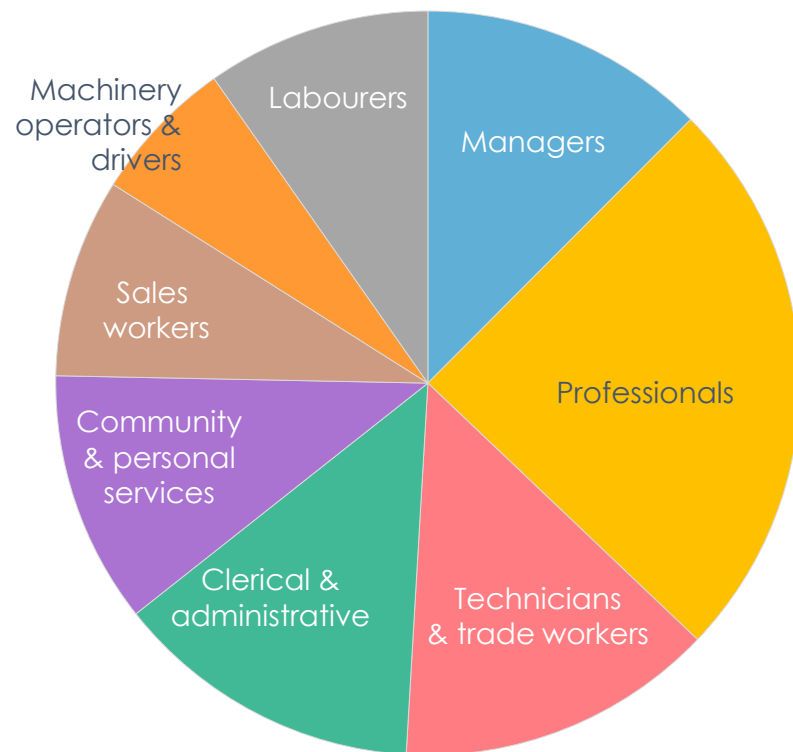
- Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May 2020 – and 86% of job losses between May and August 2021 – and despite the recovery in total employment since October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

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

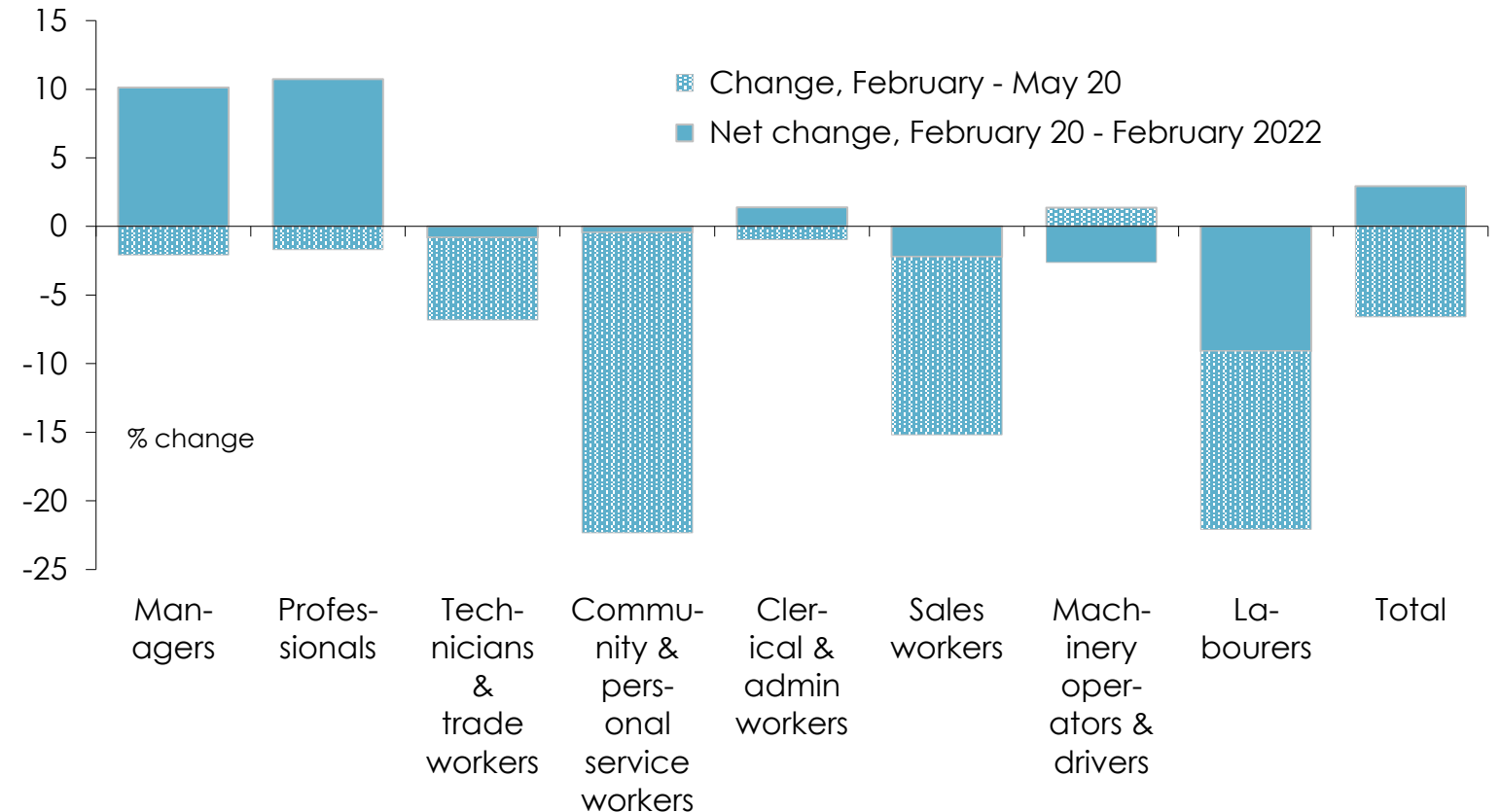
# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



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



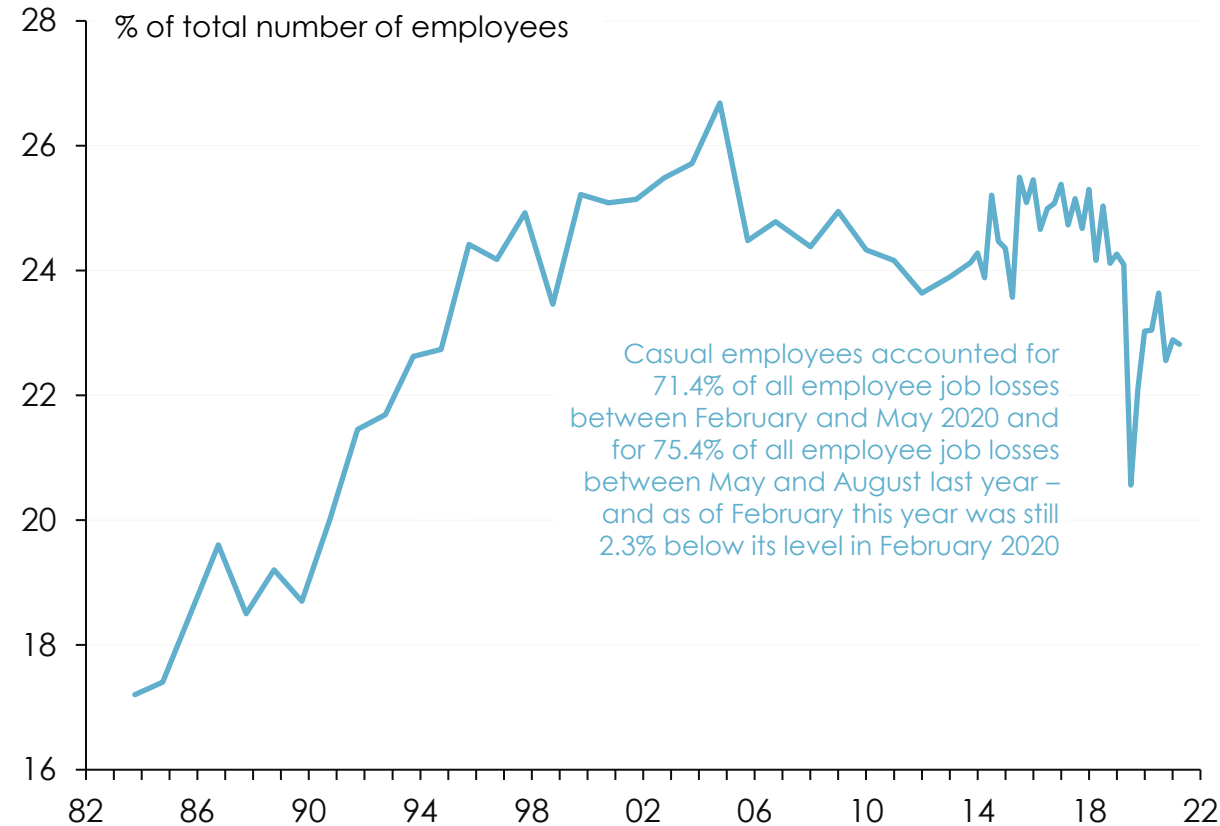
- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May 2020 – and for 71% of job losses between May and August 2021 – and there were 3.8% fewer of them in February this year than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



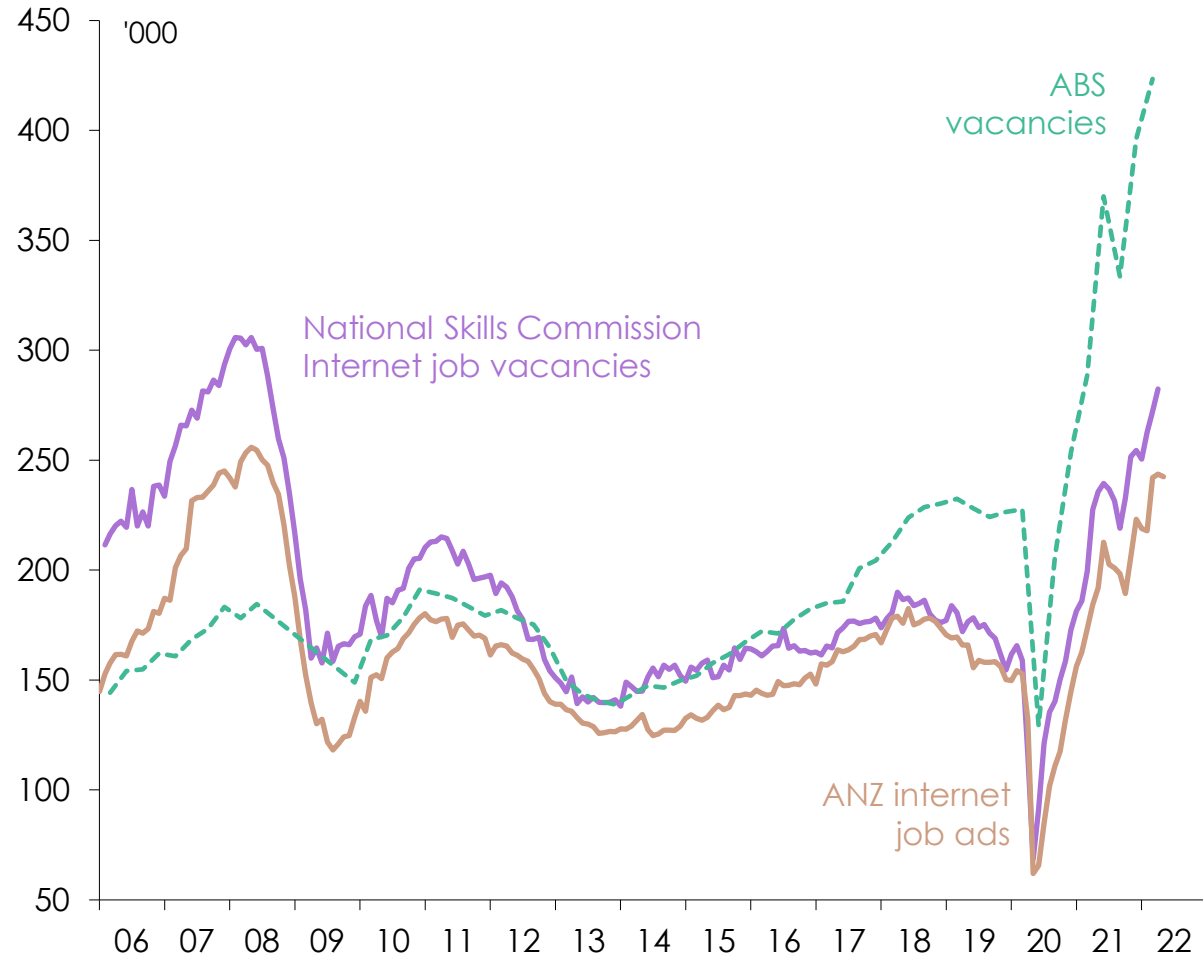
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

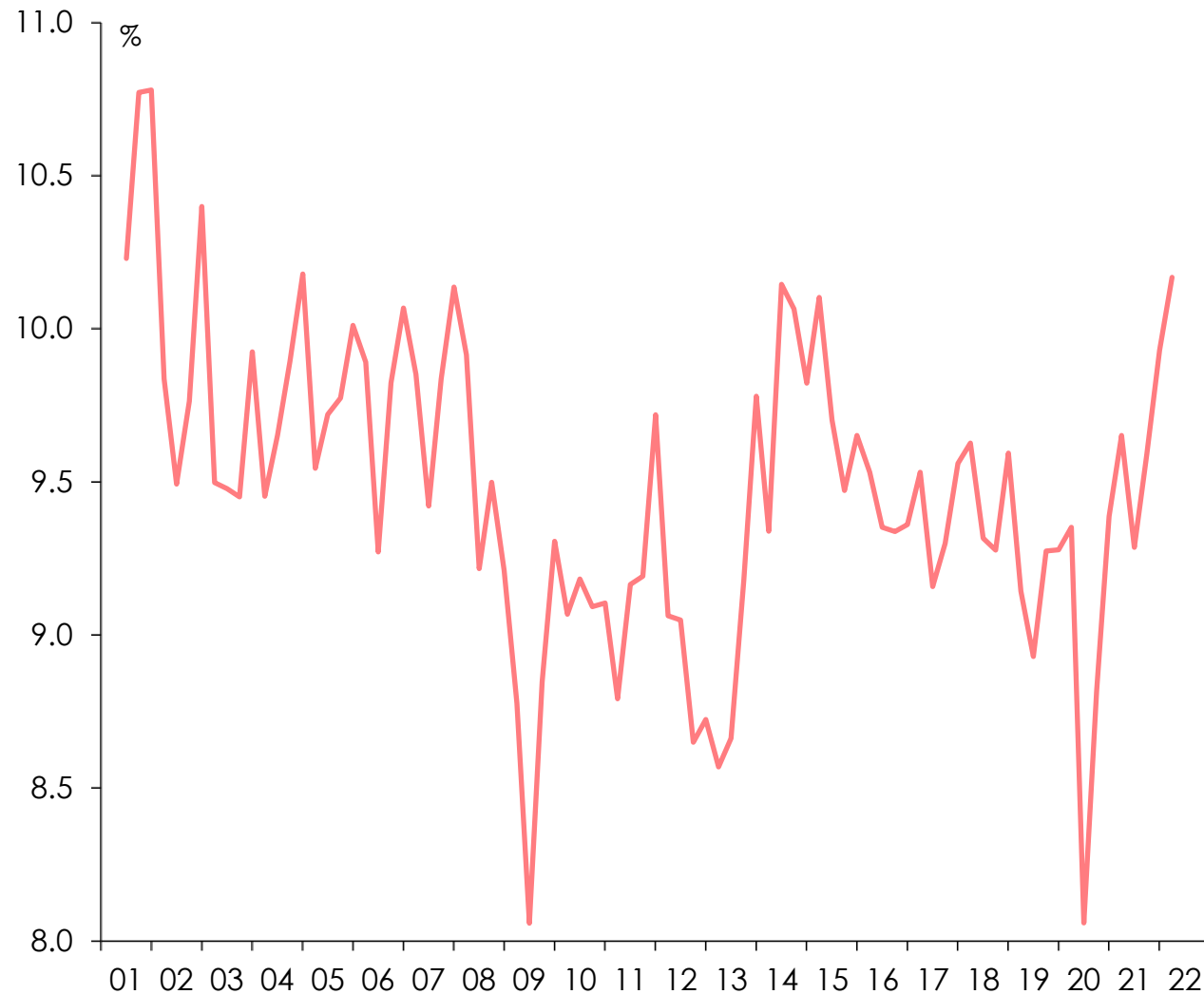


☐ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

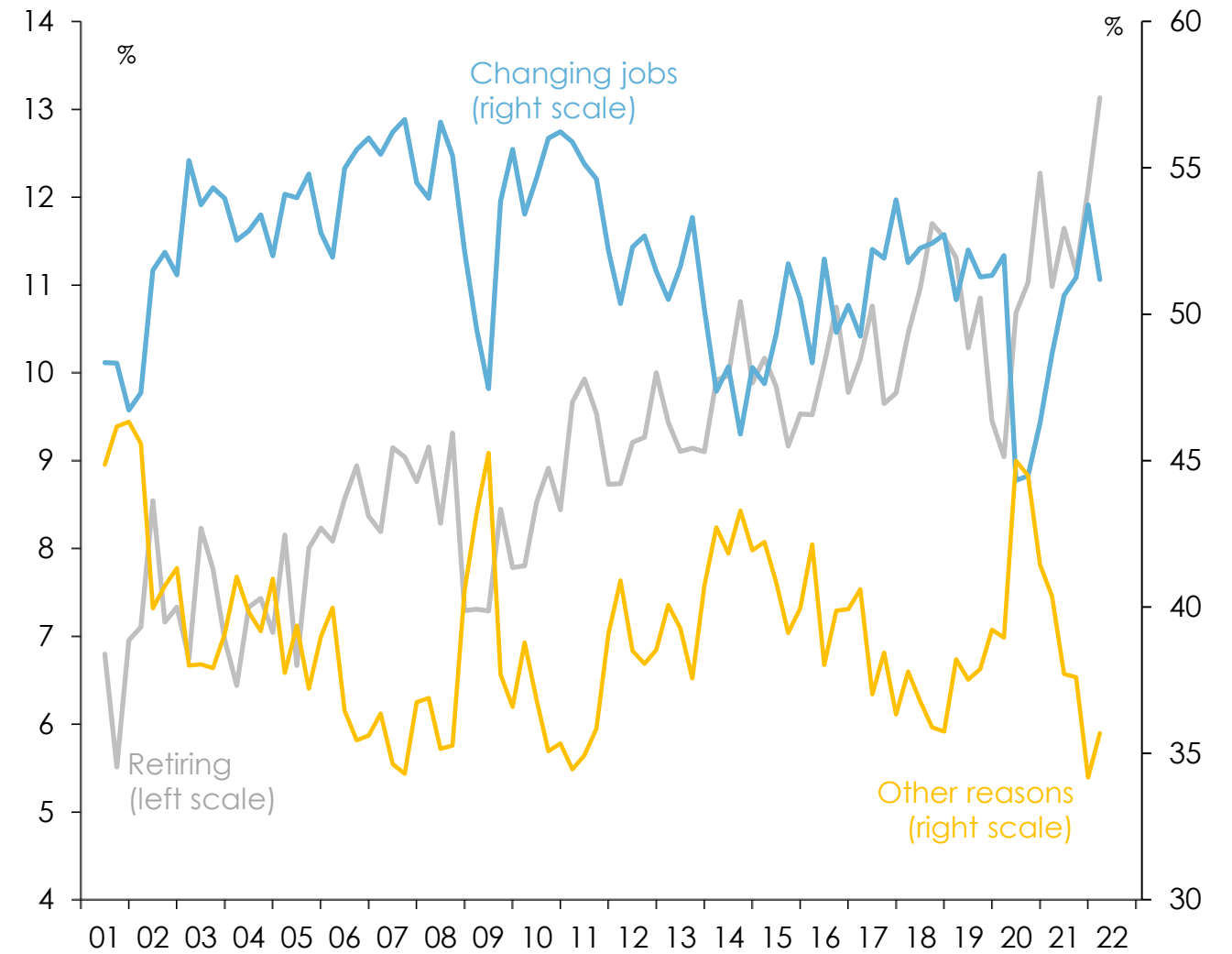
# There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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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



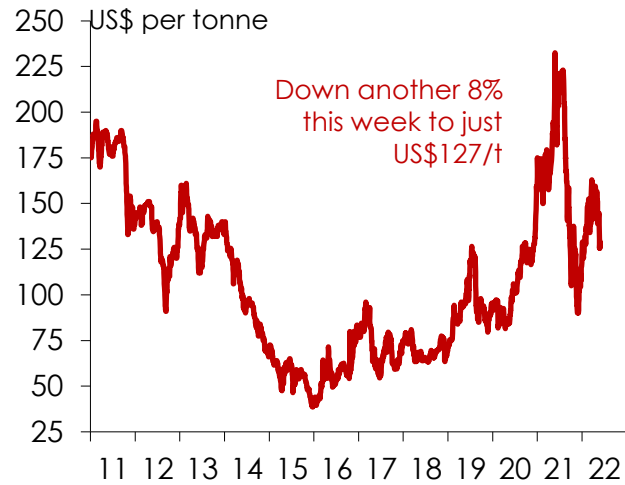
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

# Trade and the balance of payments

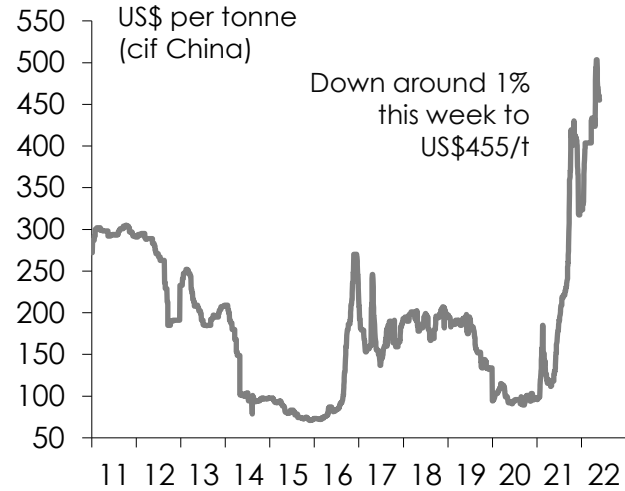
# Thermal coal prices rose 5% this week, but iron ore and base metal prices fell significantly for the second week in a row

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

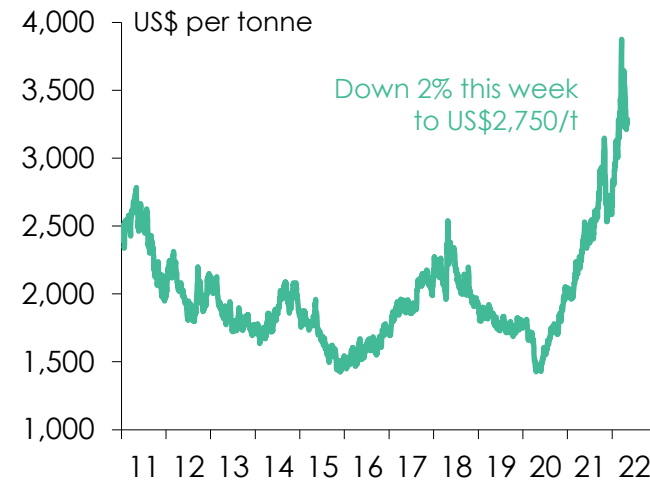
## Iron ore



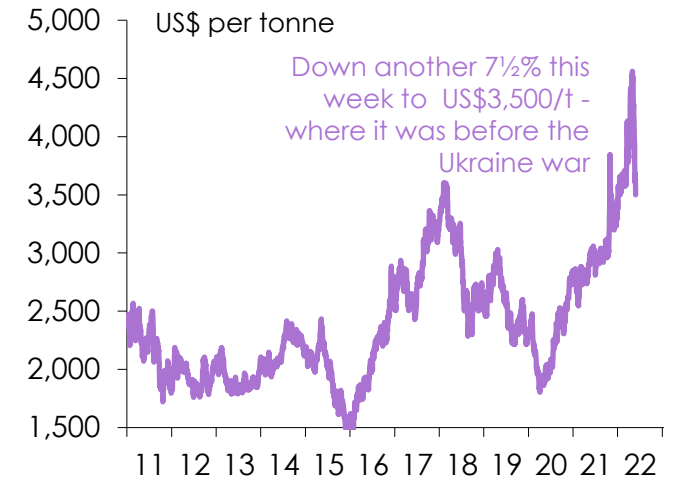
## Metallurgical coal



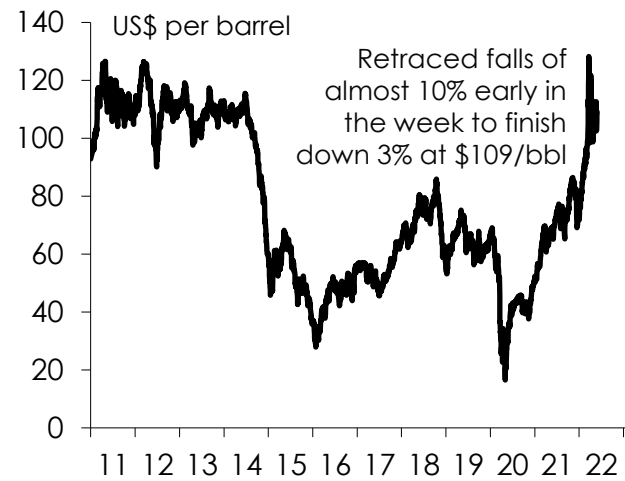
## Aluminium



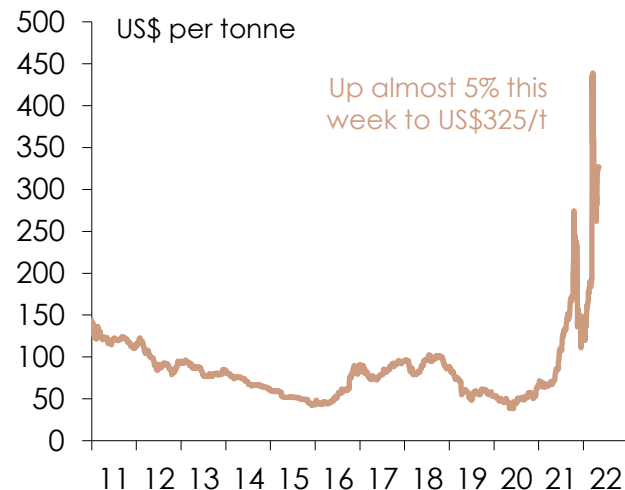
## Zinc



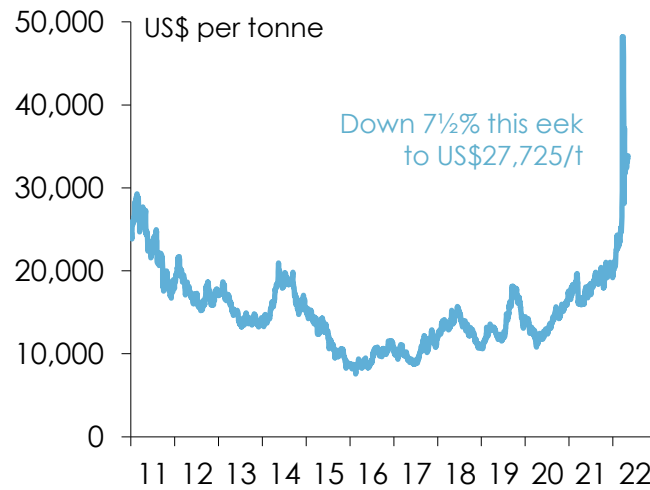
## Brent crude oil



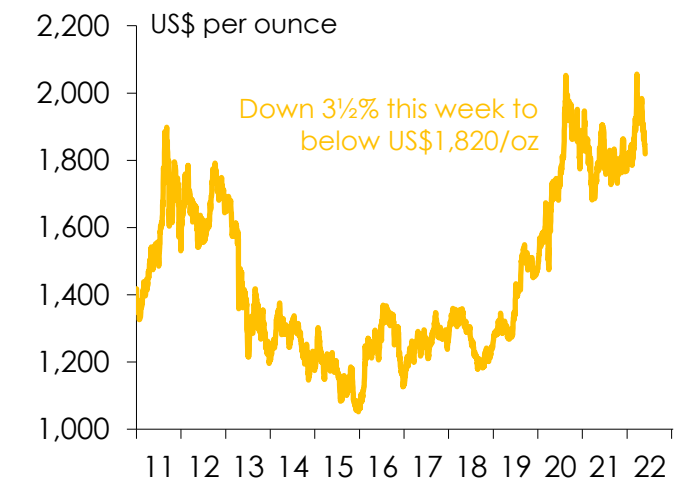
## Thermal coal



## Nickel



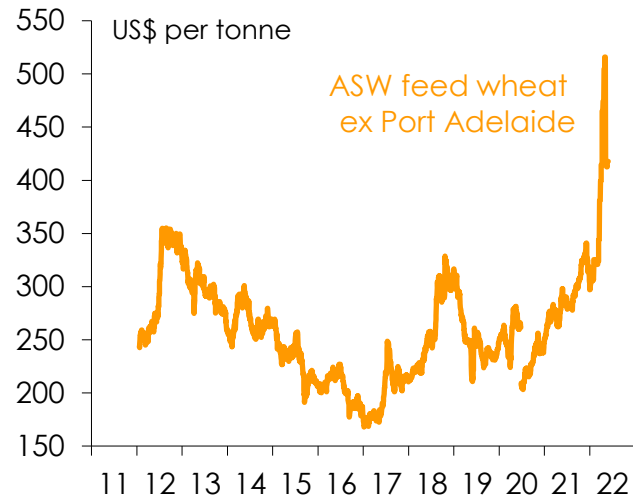
## Gold



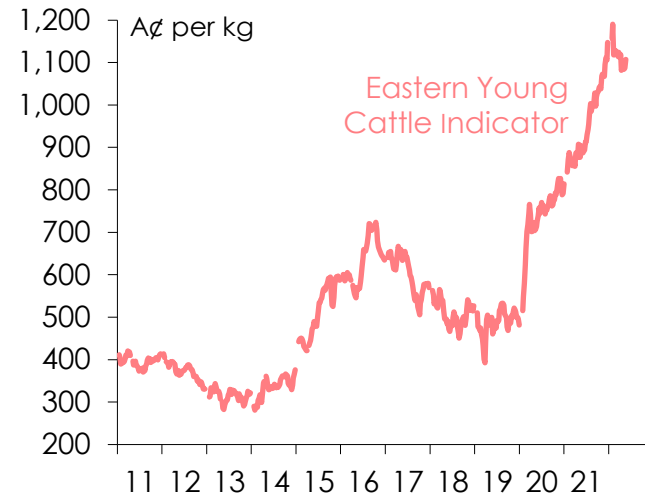
# Grain and livestock prices were a little firmer this week, as was wool, but cotton and milk price eased after several weeks of strong gains

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

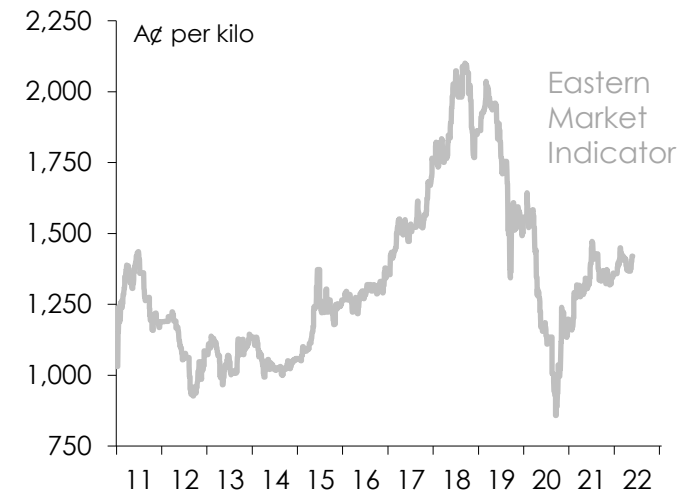
## Wheat



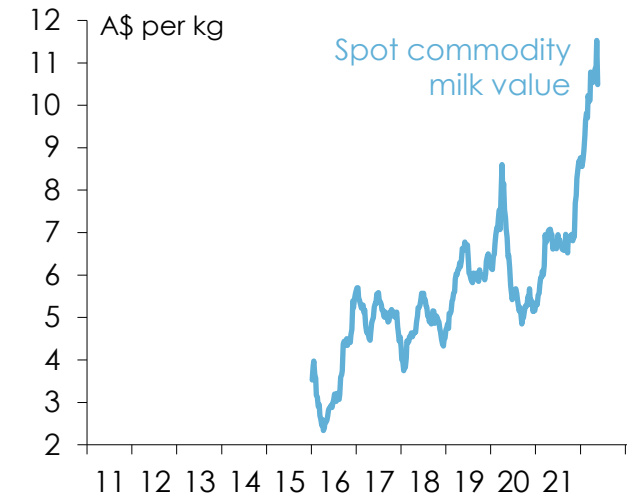
## Beef cattle



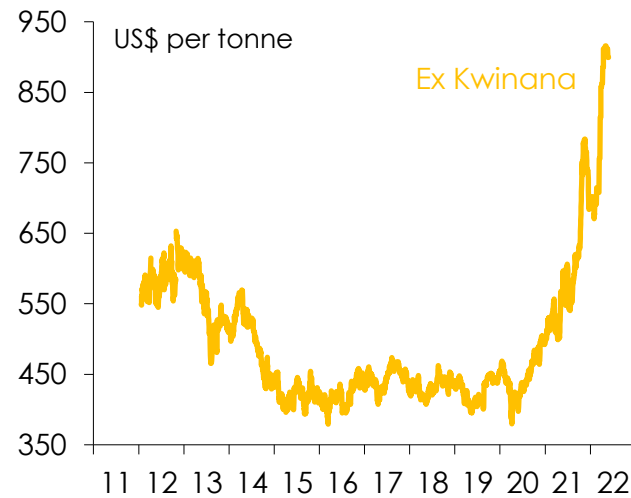
## Wool



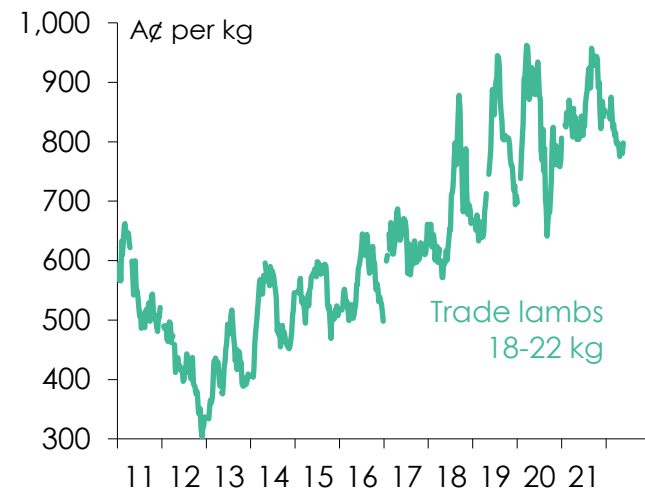
## Milk



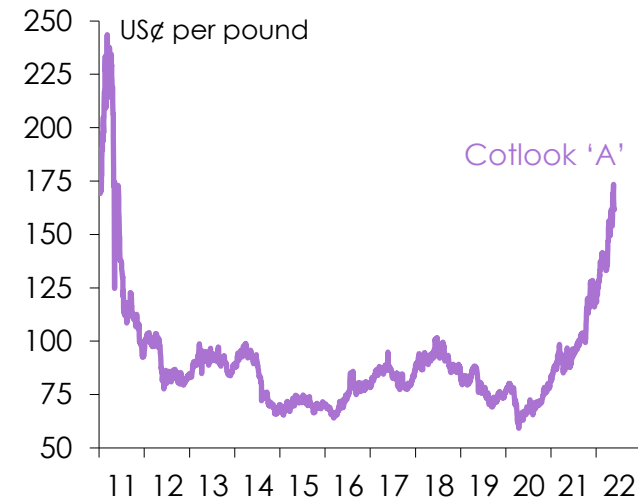
## Canola



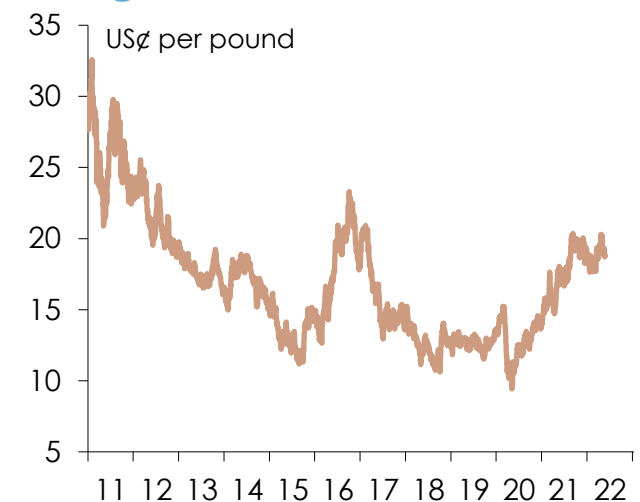
## Sheep



## Cotton



## Sugar



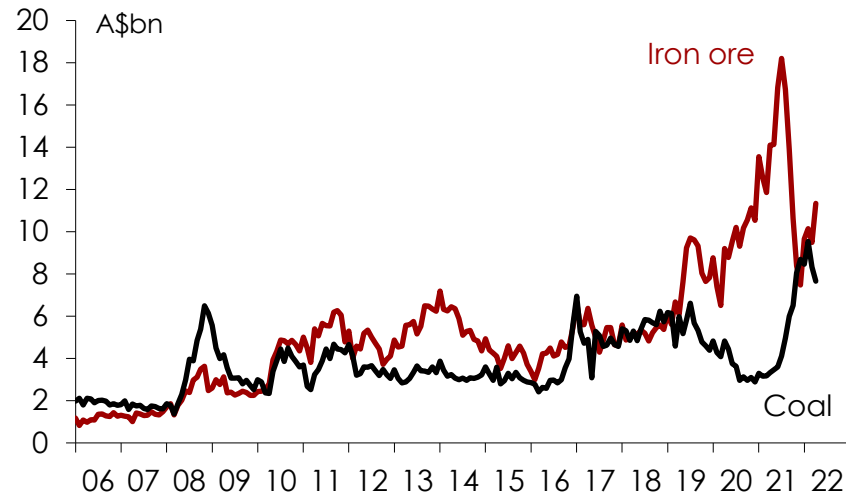
Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 13<sup>th</sup> May. [Return to "What's New"](#).



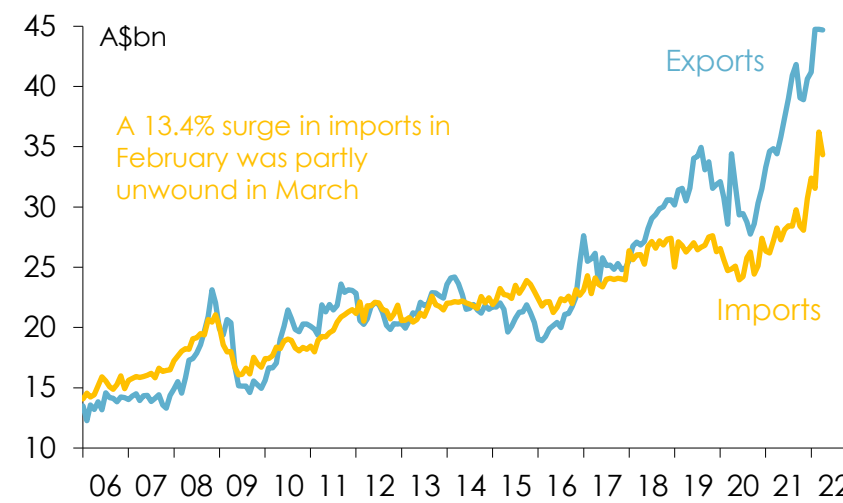
# Australia's trade surplus widened by \$1.9bn to \$9.3bn in March, reflecting a 4.6% fall in imports as against a 0.1% fall in exports

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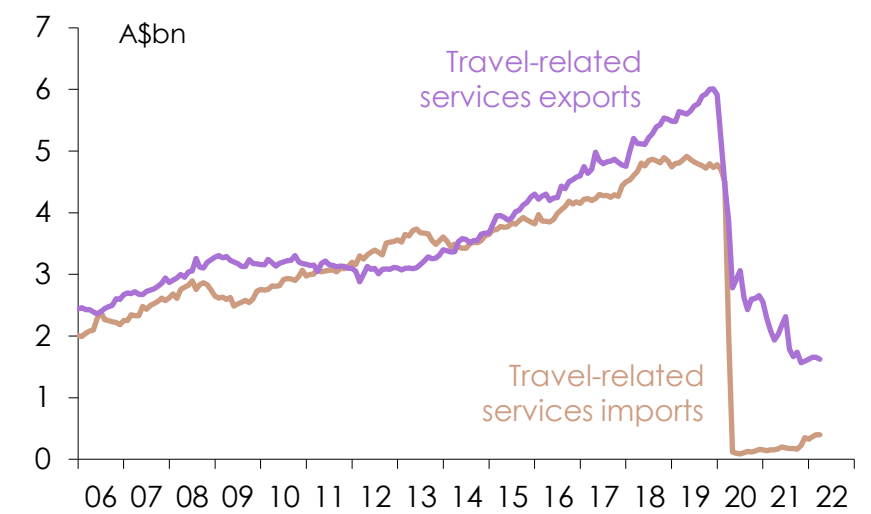
## Iron ore and coal exports



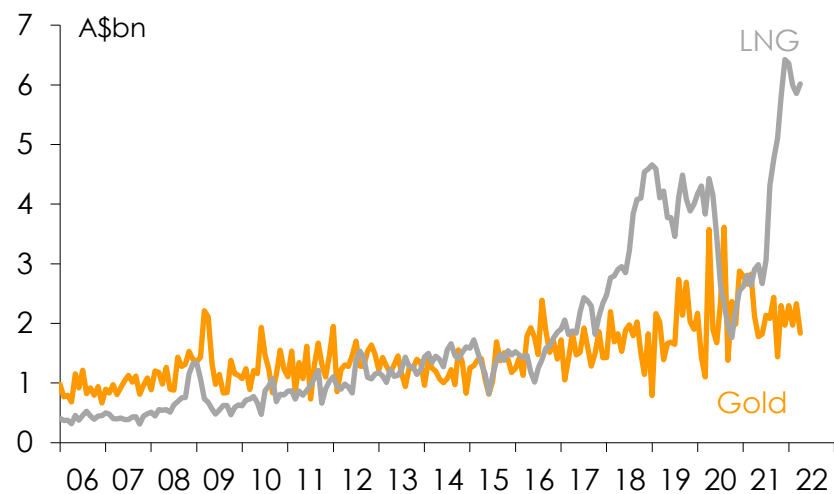
## Merchandise exports and imports



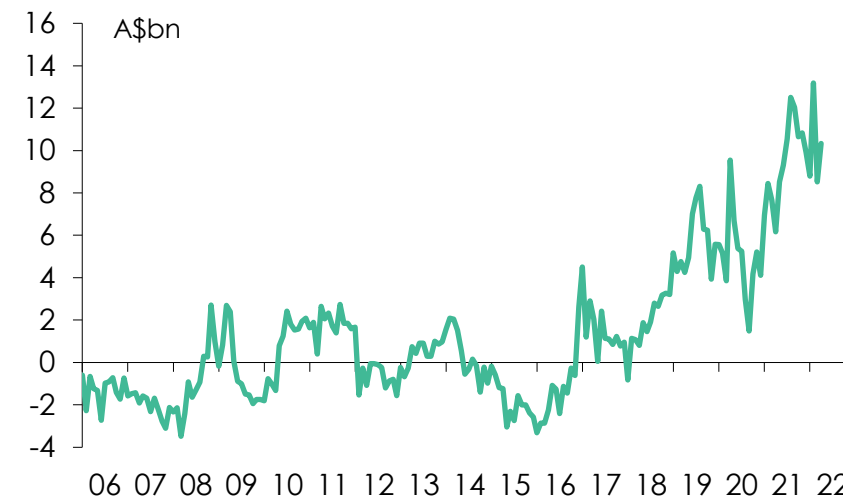
## Tourism-related services trade



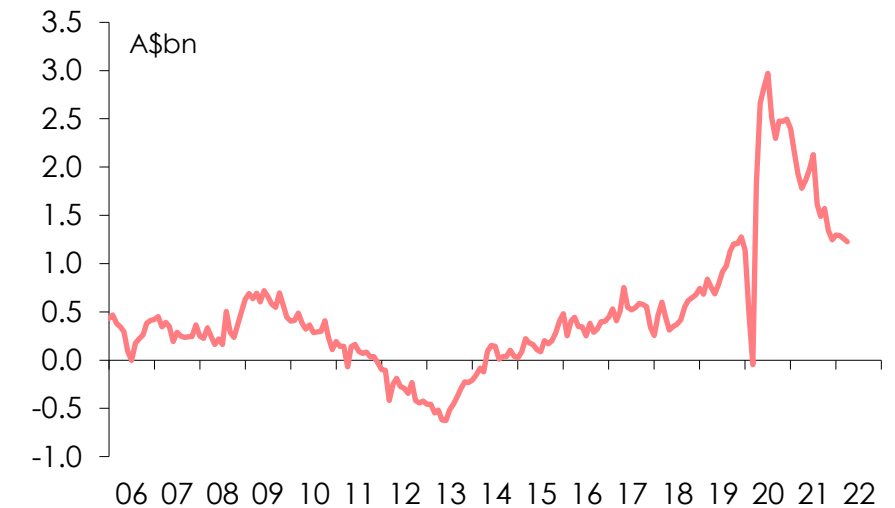
## LNG and gold exports



## Merchandise trade balance



## Tourism services trade balance

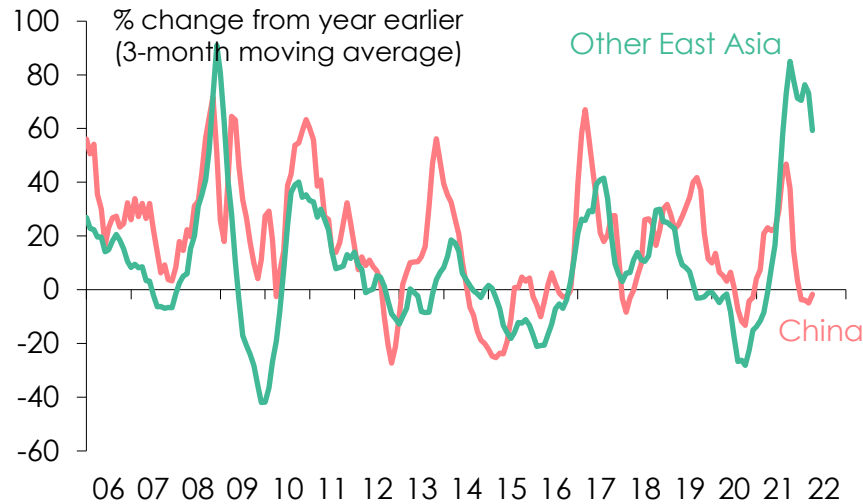


Source: ABS, [International Trade in Goods and Services, Australia](#), March 2021. April data will be released on 2<sup>nd</sup> June. [Return to "What's New"](#).

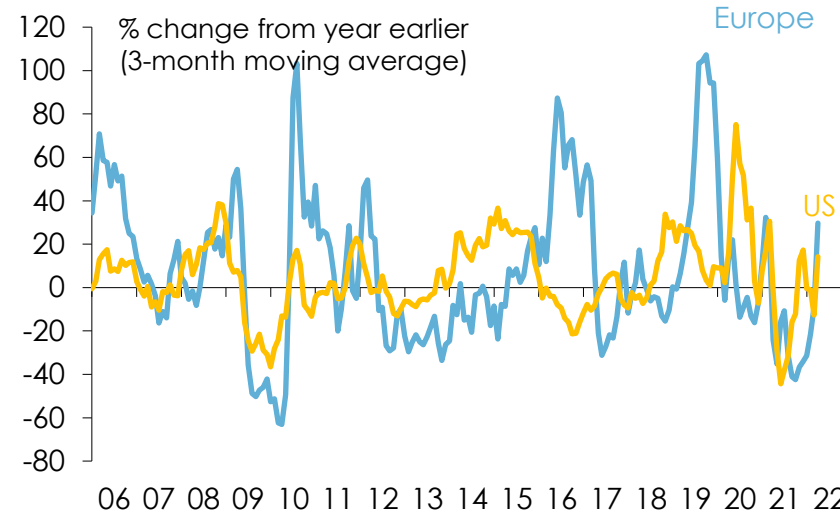
# Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

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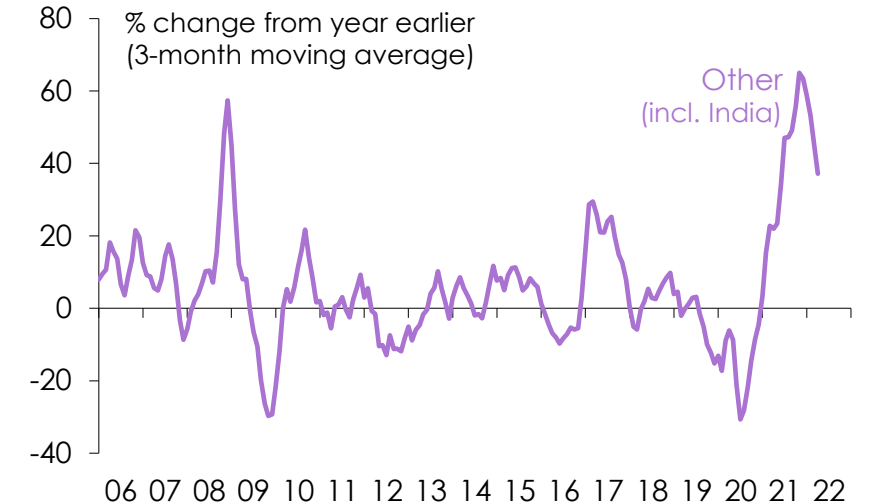
## Merchandise exports – East Asia



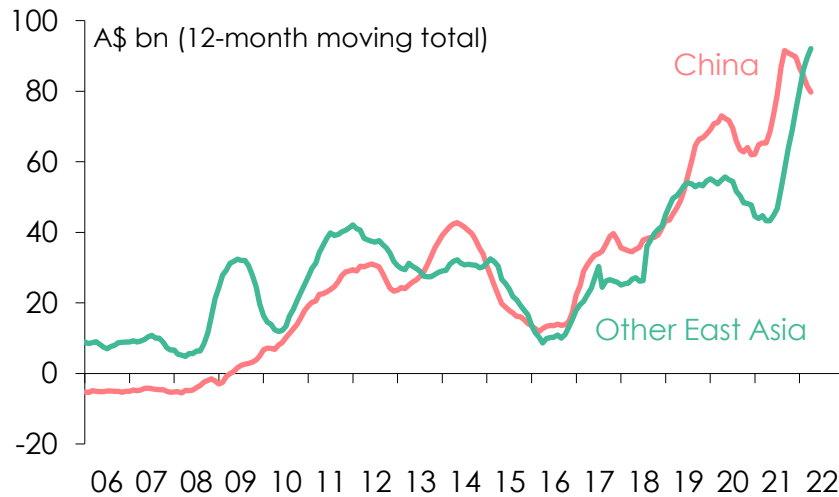
## Merchandise exports – US & Europe



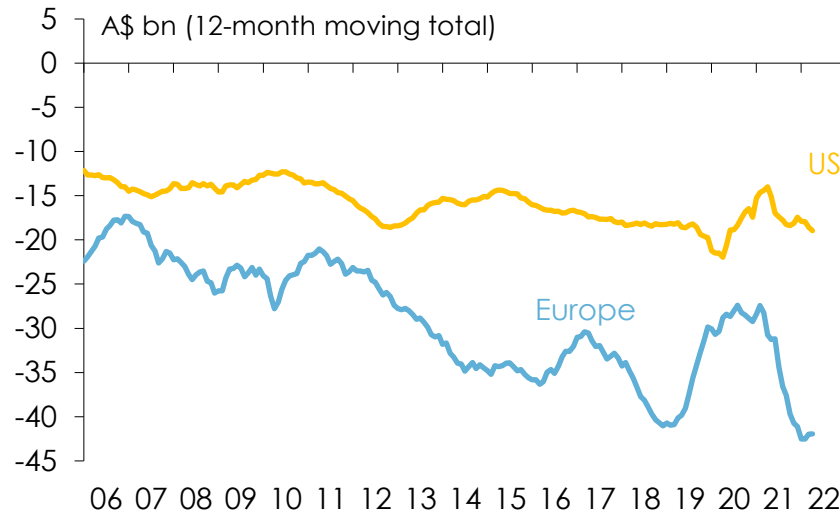
## Merchandise exports – other



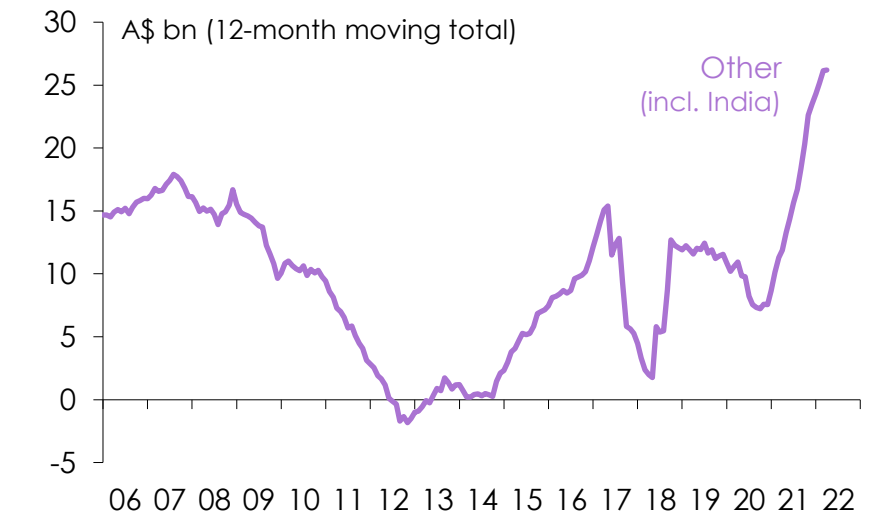
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other

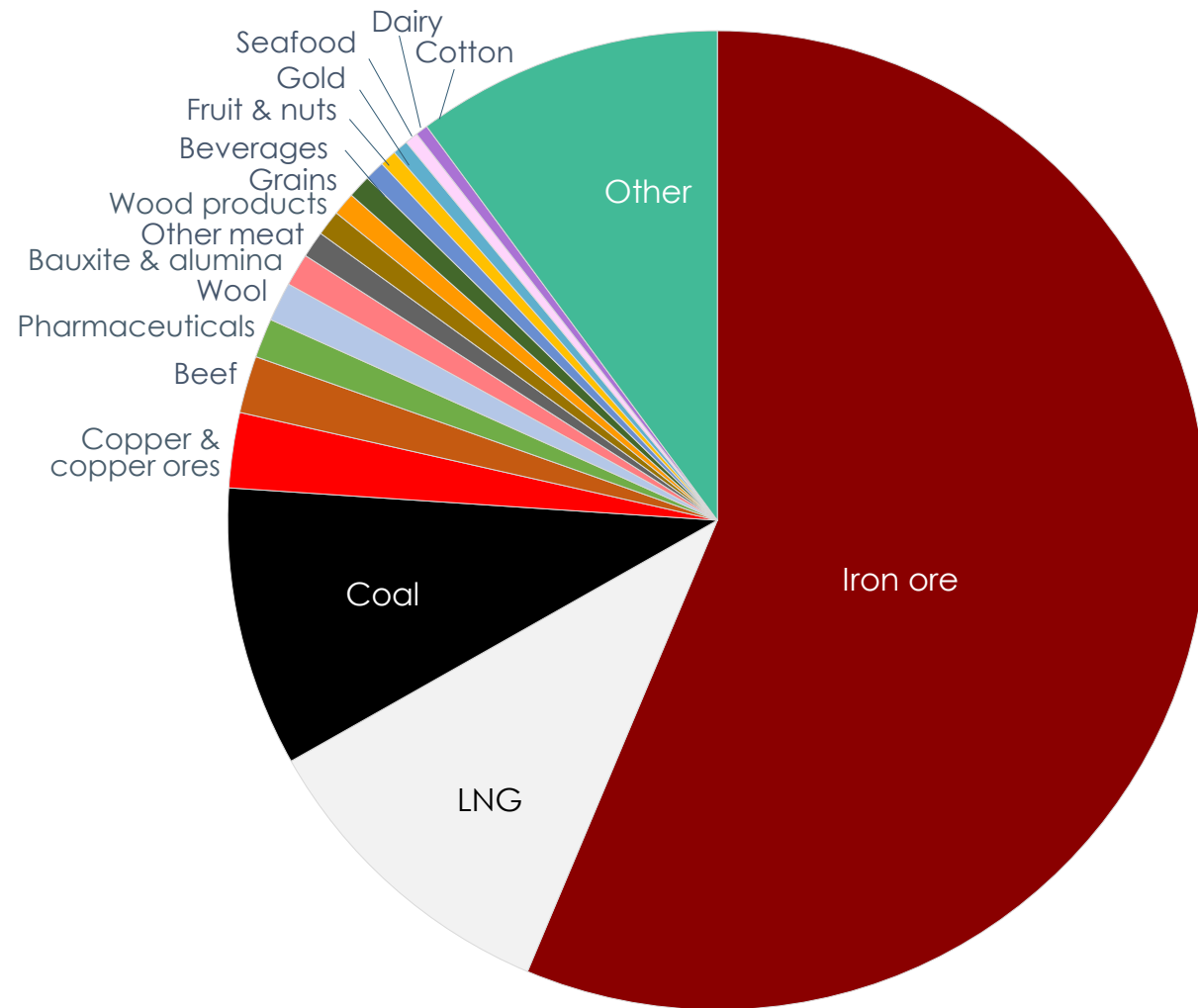


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS, [International Trade in Goods and Services, Australia](#), March 2022. April data will be released on 2<sup>nd</sup> June. [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



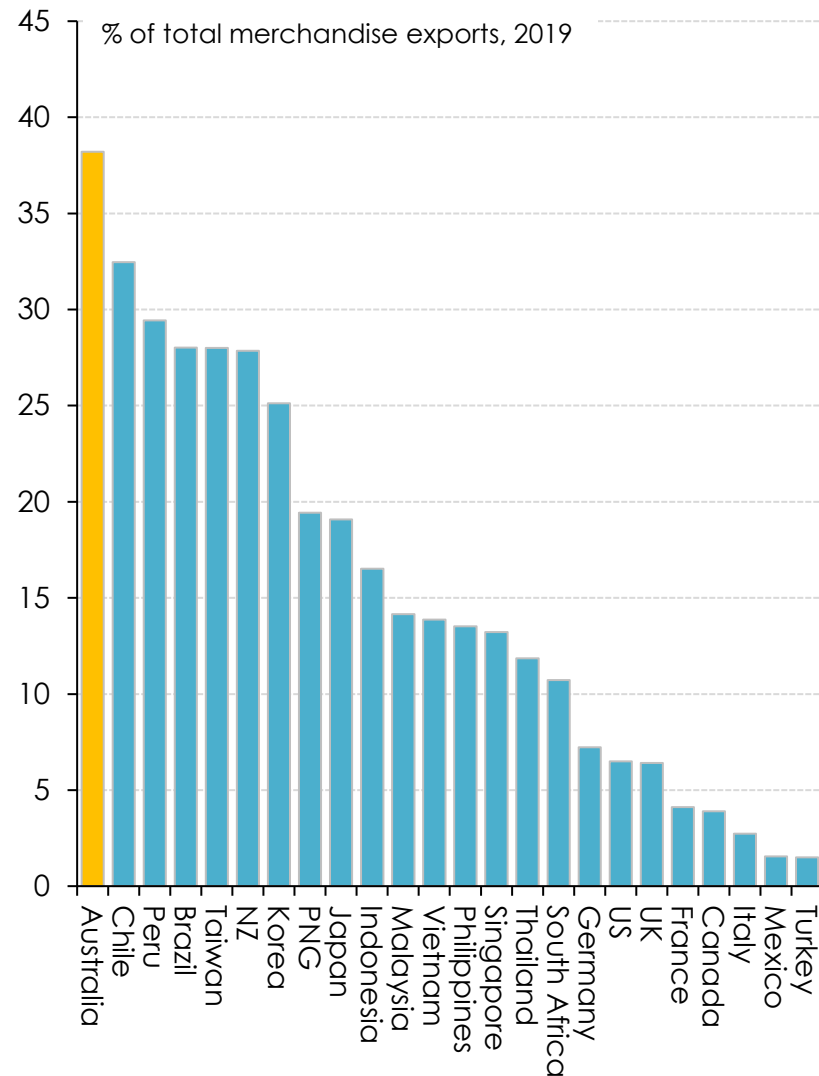
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items. Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna. [Return to "What's 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 in April with China signing an [agreement with the Solomon Islands](#) which may lead to the establishment there of a military presence; and the secret trial in Beijing of [Australian-Chinese journalist Cheng Lei](#) on charges of ‘divulging state secrets’

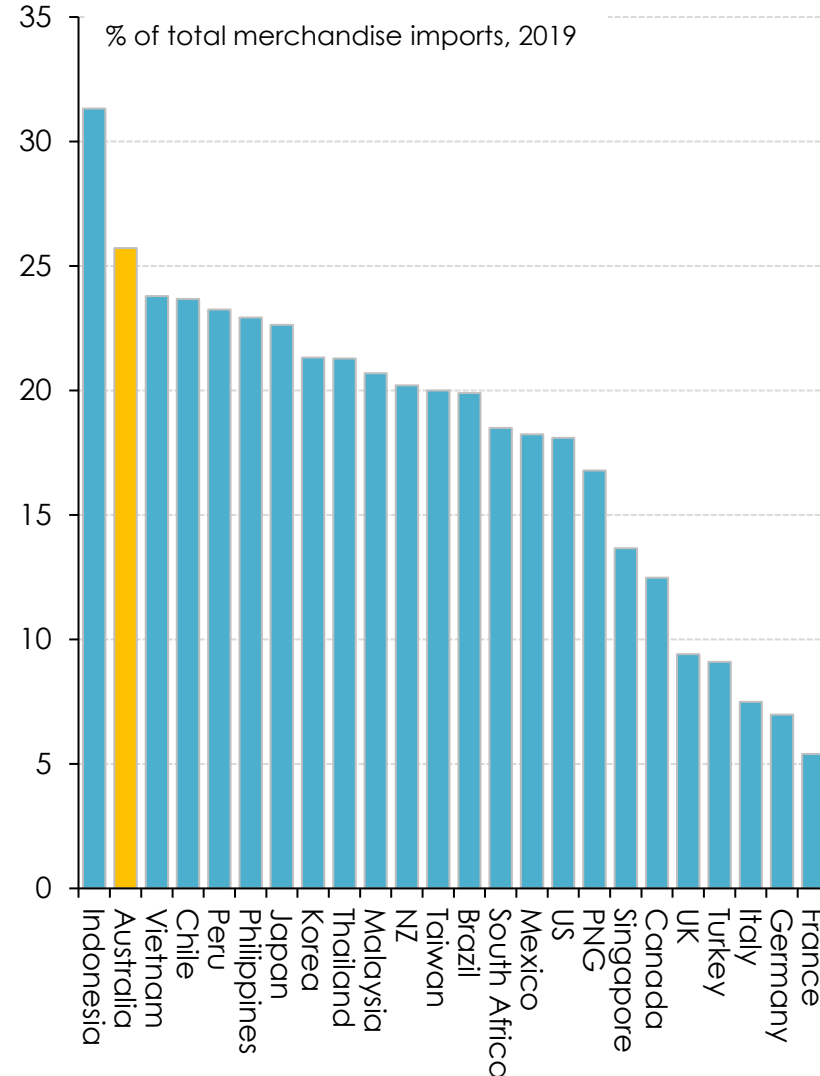
# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

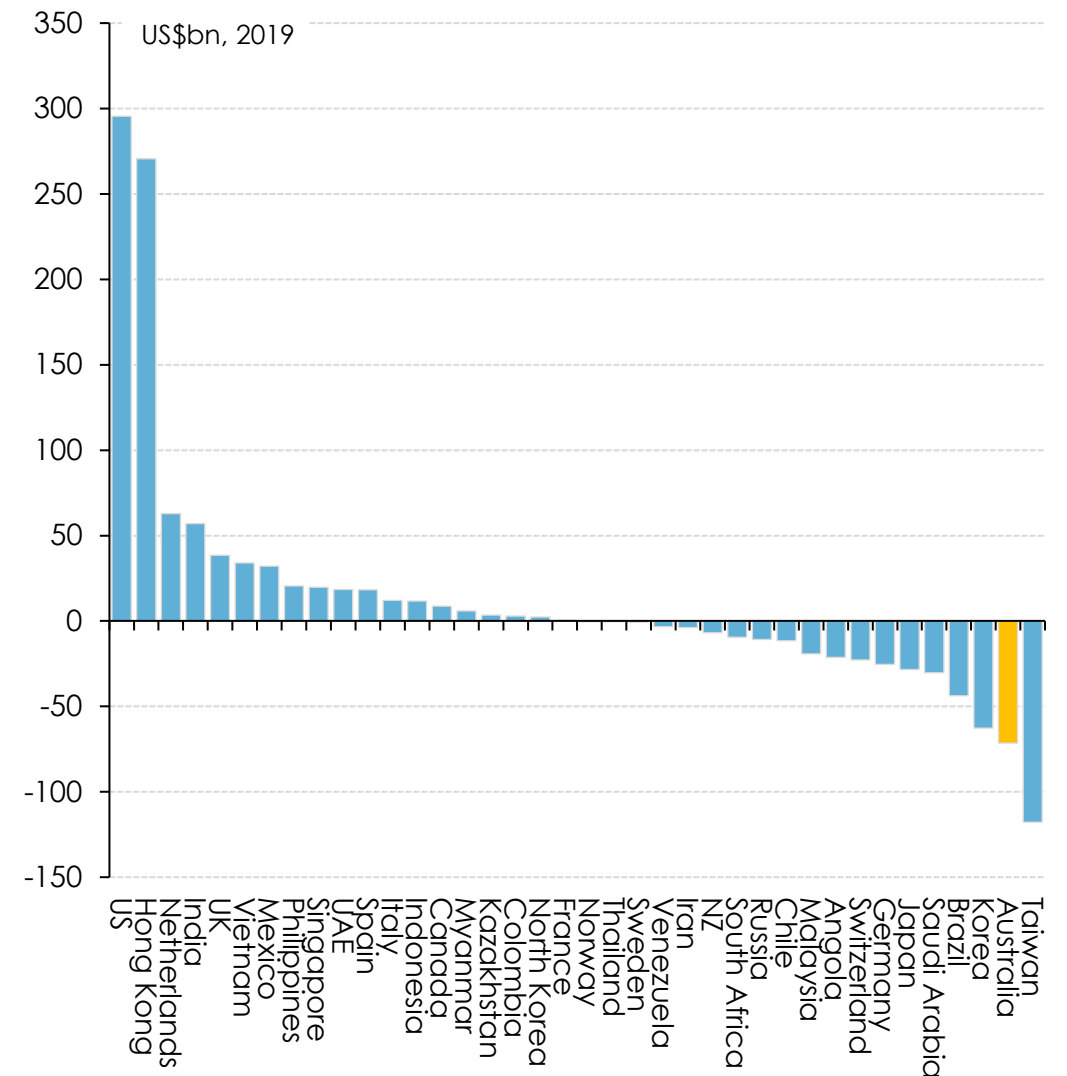
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



## China's bilateral merchandise trade balances

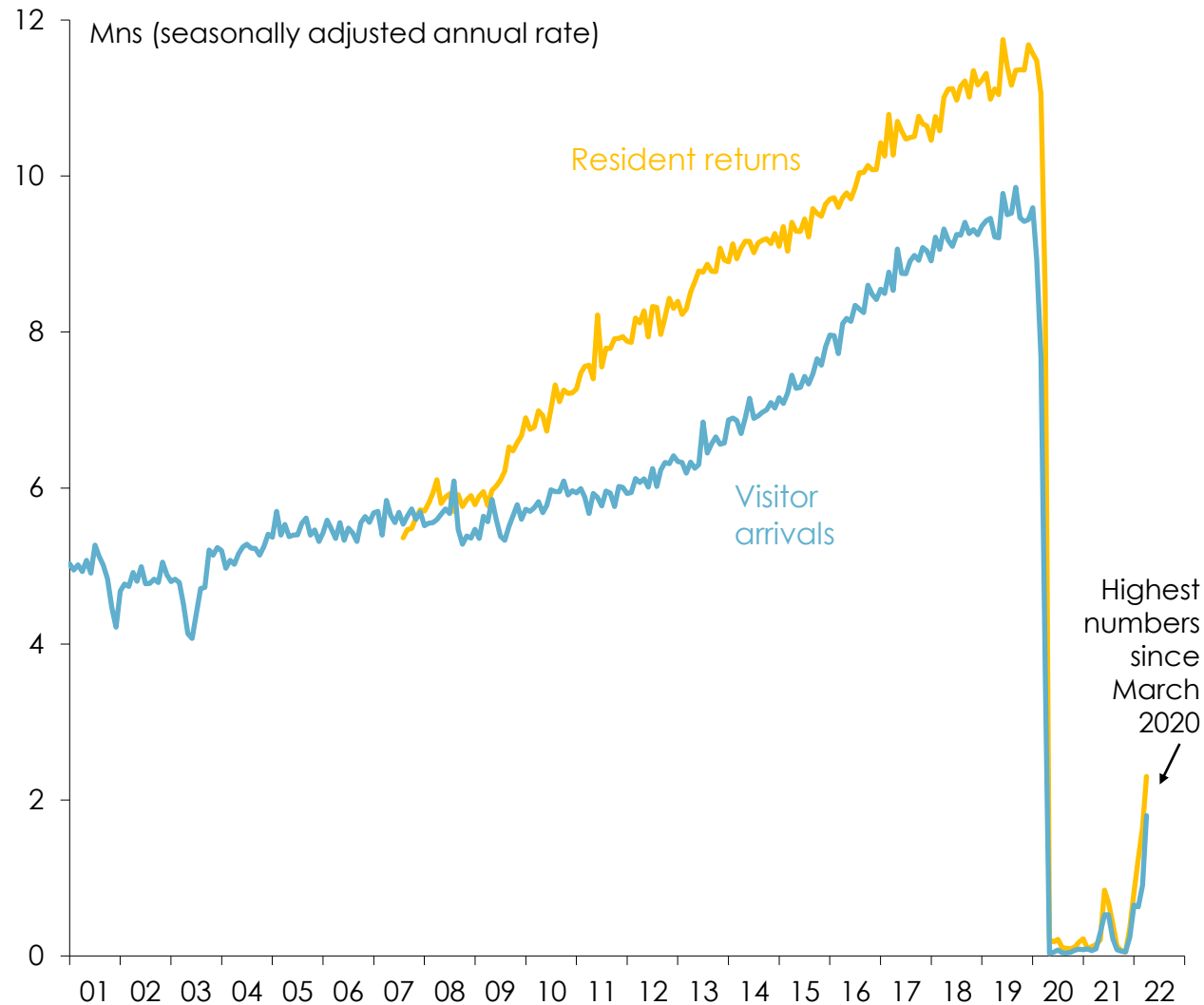


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

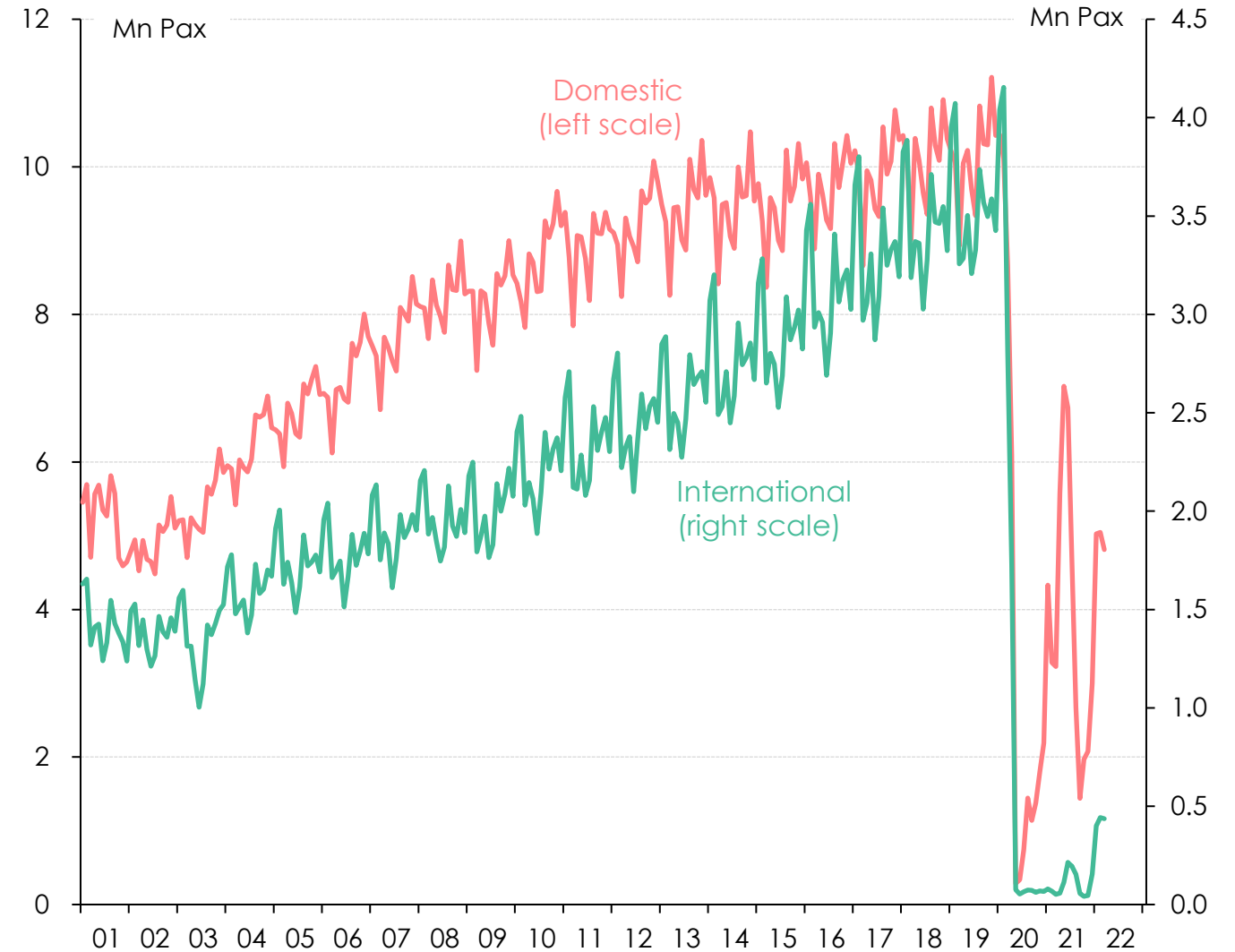
# International arrivals & departures, and air passenger movements have picked up this year – but are still a long way below pre-Covid levels

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## Short-term visitor arrivals and resident returns



## Airport passenger movements

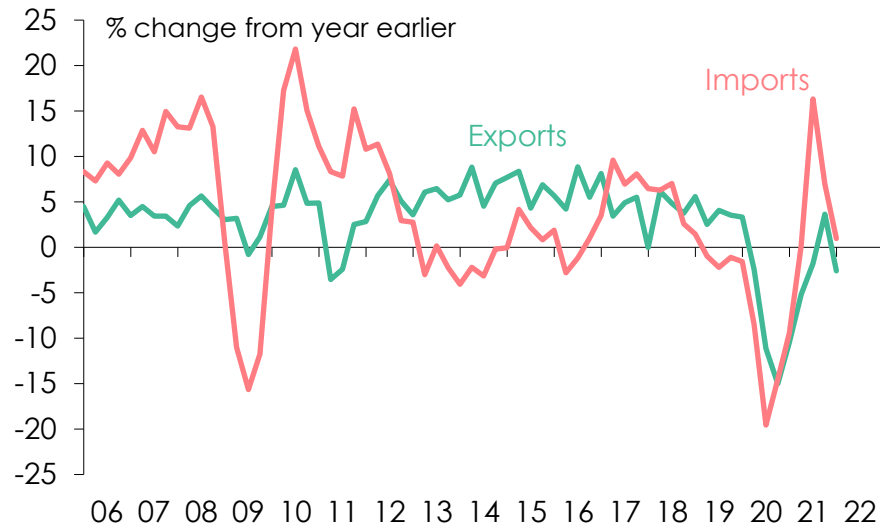


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

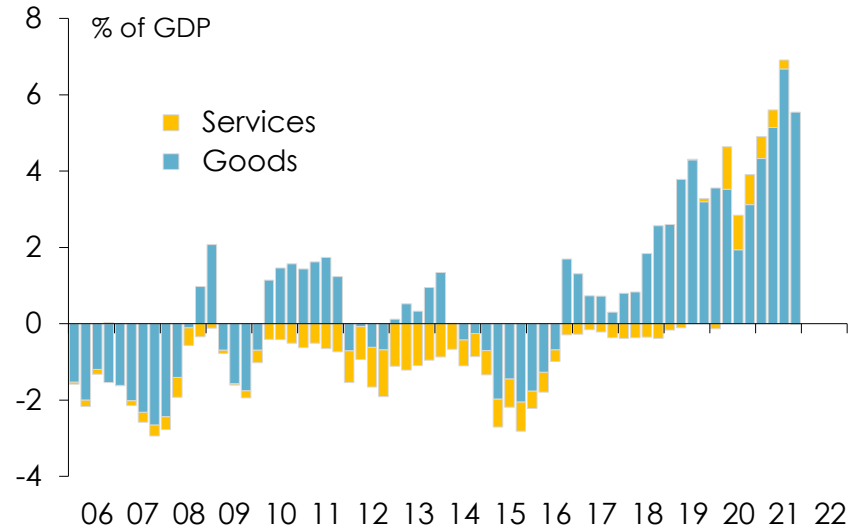
# Australia's current account surplus shrank by nearly half in Q4 last year, with the trade surplus declining and the income deficit increasing

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

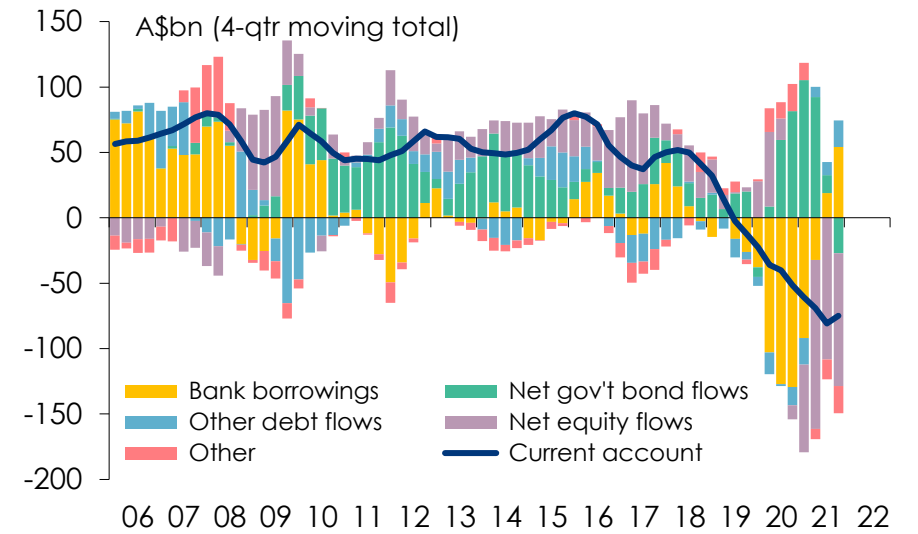
## Export and import volumes



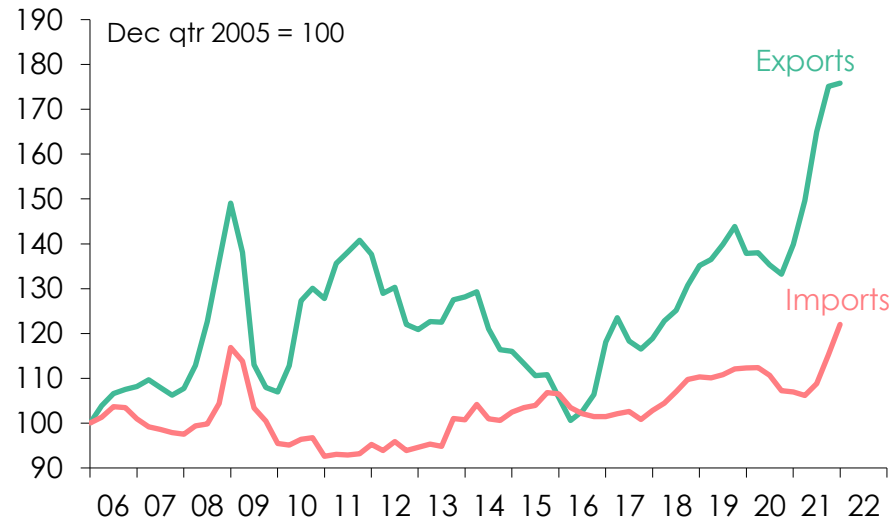
## Goods & services trade balances



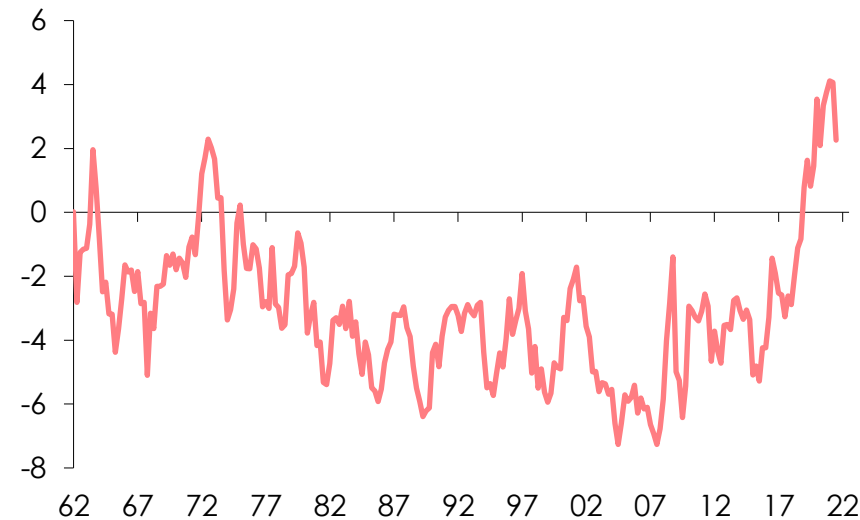
## Capital flows



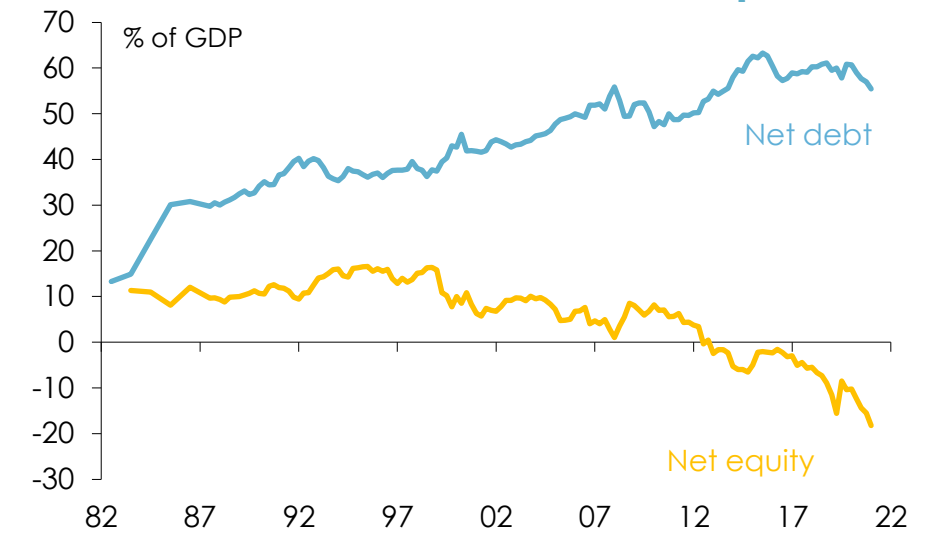
## Export and import prices



## Current account balance



## Net international investment position



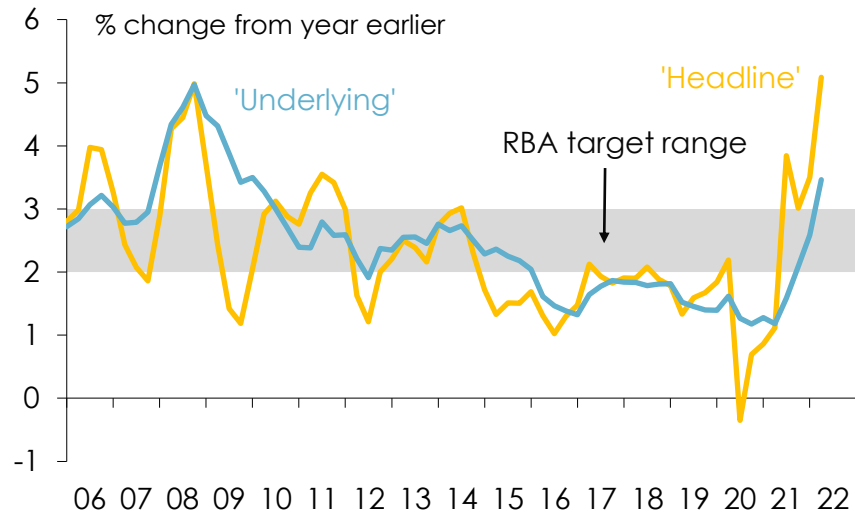
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

# Inflation

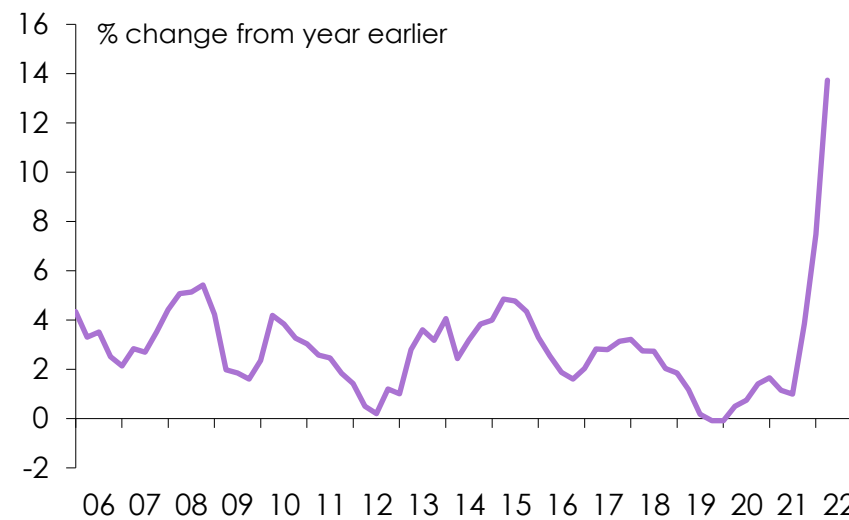
# The CPI rose 2.1% in Q1, pushing annual 'headline' inflation to 5.1%, while annual 'underlying' inflation rose to a 13-year high of 3.7%

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

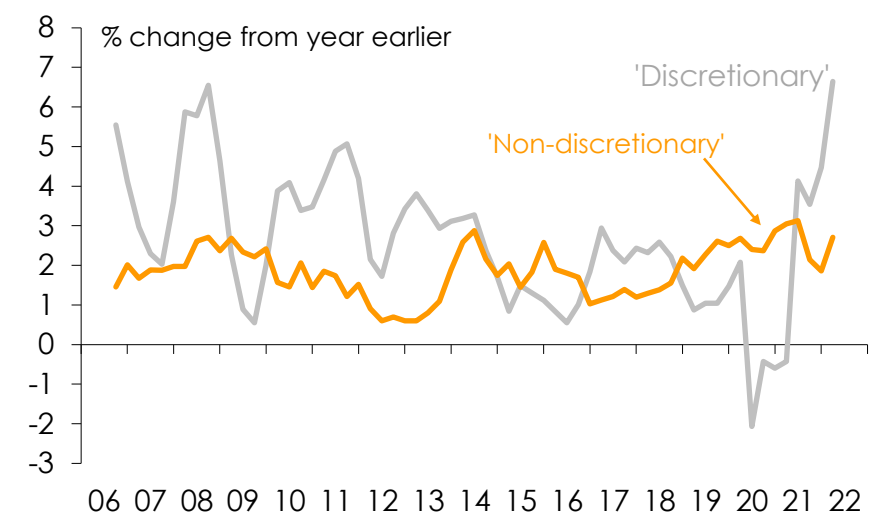
## Consumer prices – annual change



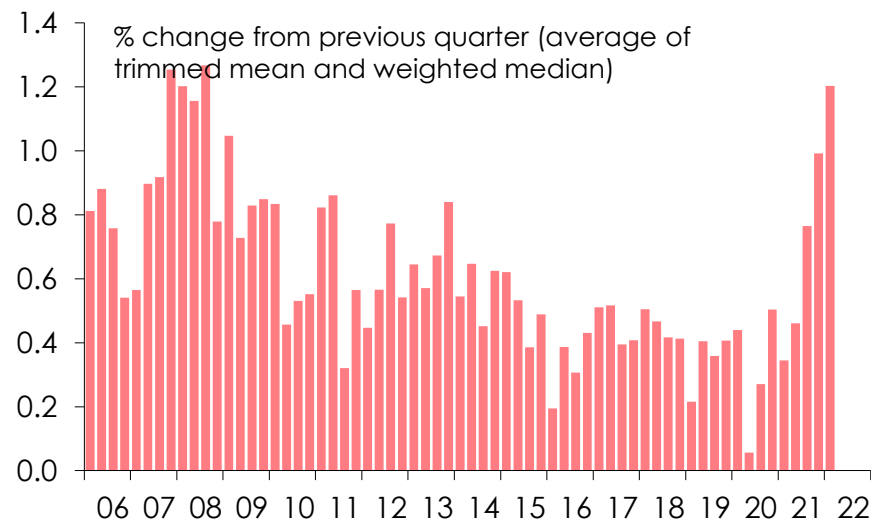
## New dwelling purchase costs



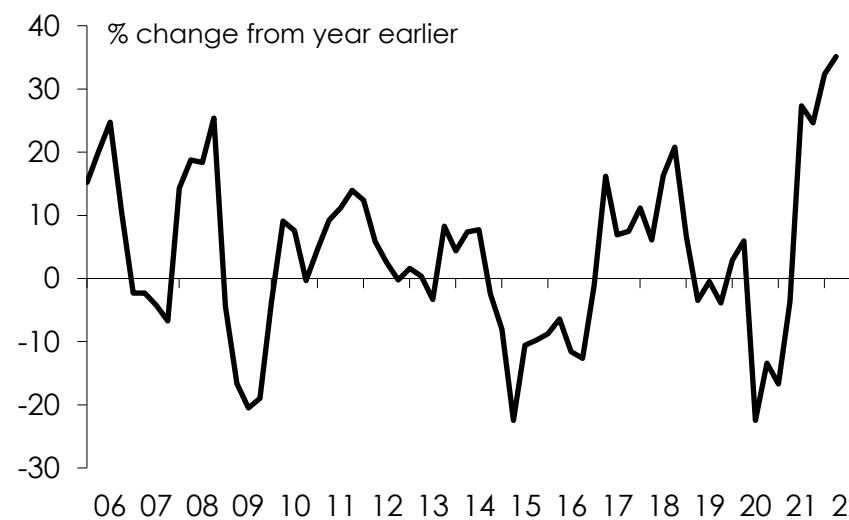
## 'Discretionary' vs 'essential' items



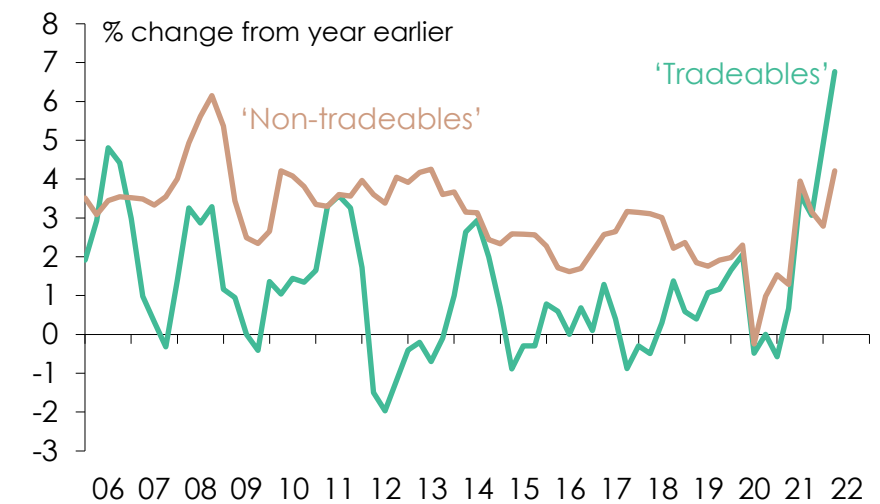
## Quarterly 'underlying' inflation



## Automotive fuel prices



## 'Tradeables' vs 'non-tradeables'



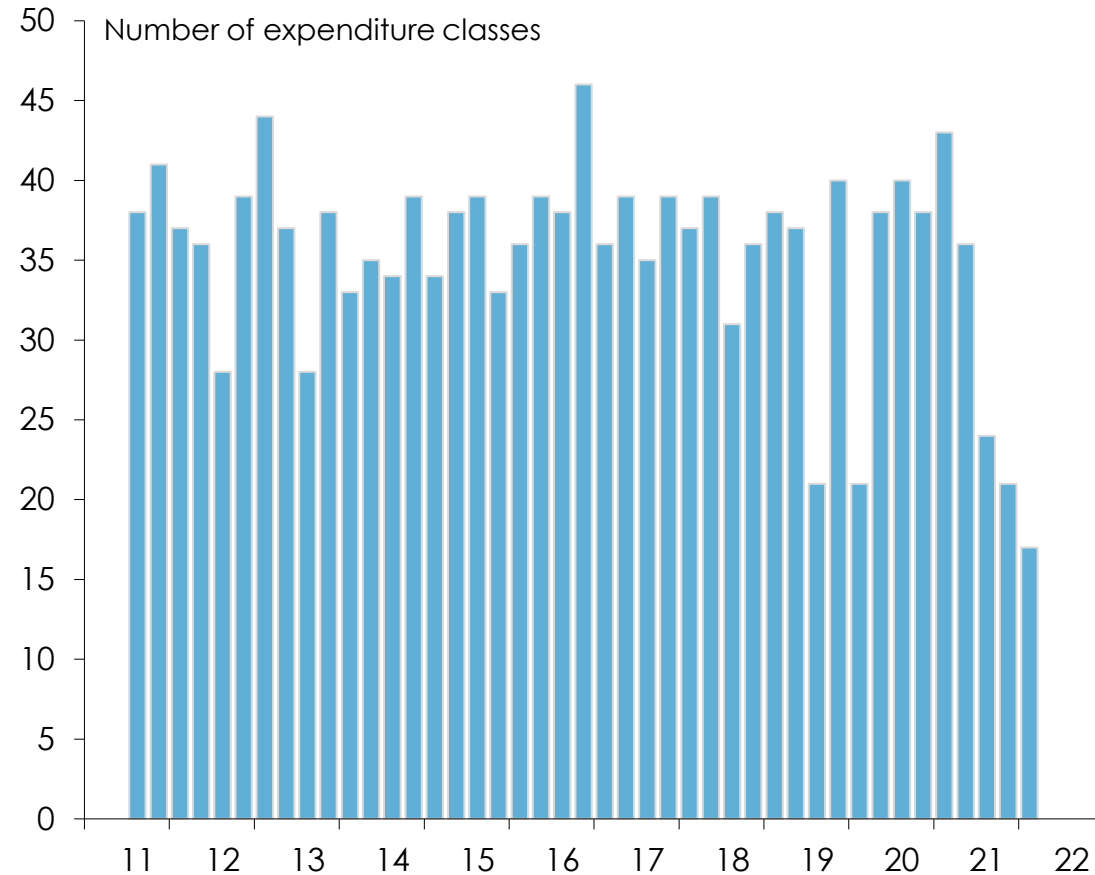
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. For definitions of 'discretionary' and 'non-discretionary' items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), March (June quarter CPI will be released on 27<sup>th</sup> July). [Return to "What's New"](#).



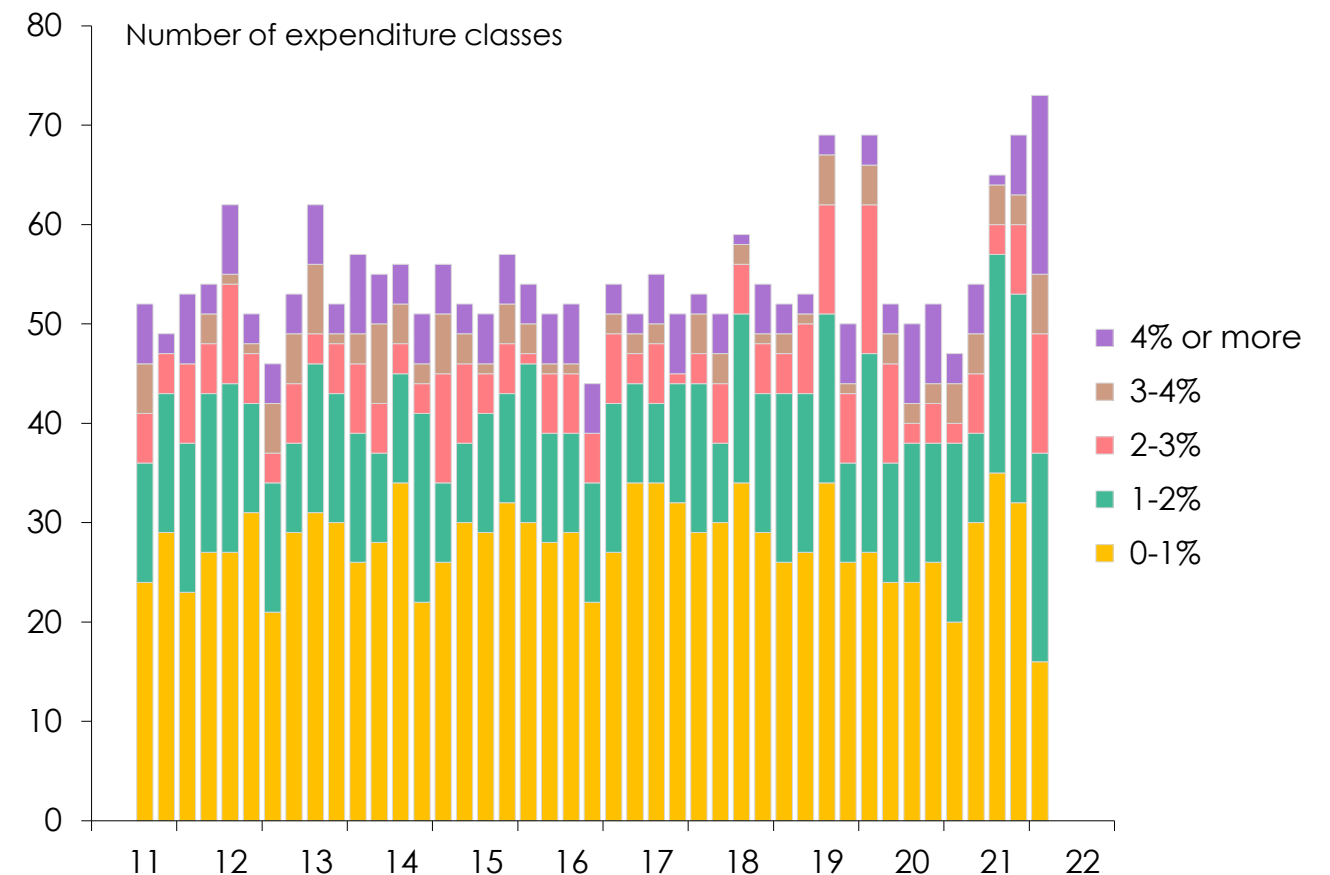
# A particularly striking aspect of the March quarter CPI figures was how broadly-based inflation has become over the past two quarters

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## Number of CPI 'expenditure classes' registering falls in prices from previous quarter



## Number of CPI 'expenditure classes' registering increases in prices from previous quarter



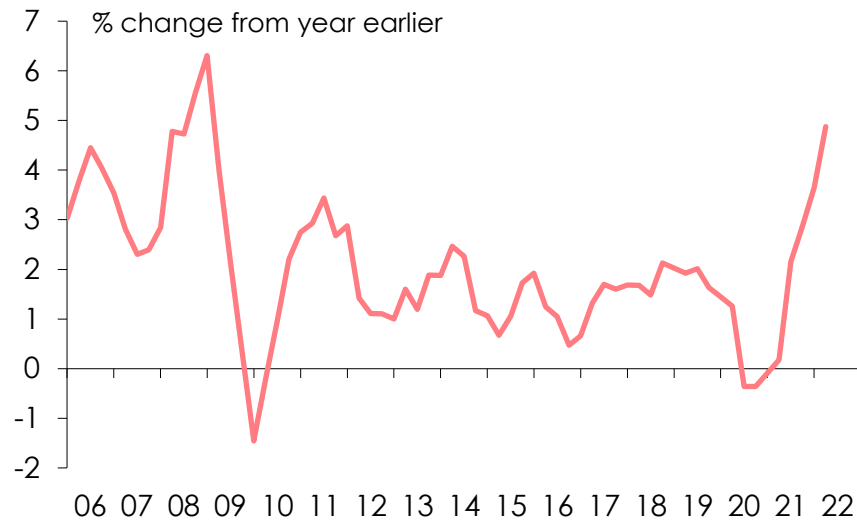
❑ Only 17 of the 92 'expenditure classes' in the CPI saw falls in prices in the March quarter – the lowest number in at least 10 years

❑ 75 of the 92 'expenditure classes' in the CPI recorded price rises in the March quarter (of which 18 recorded rises of more than 4%), in each case the highest in at least 10 years

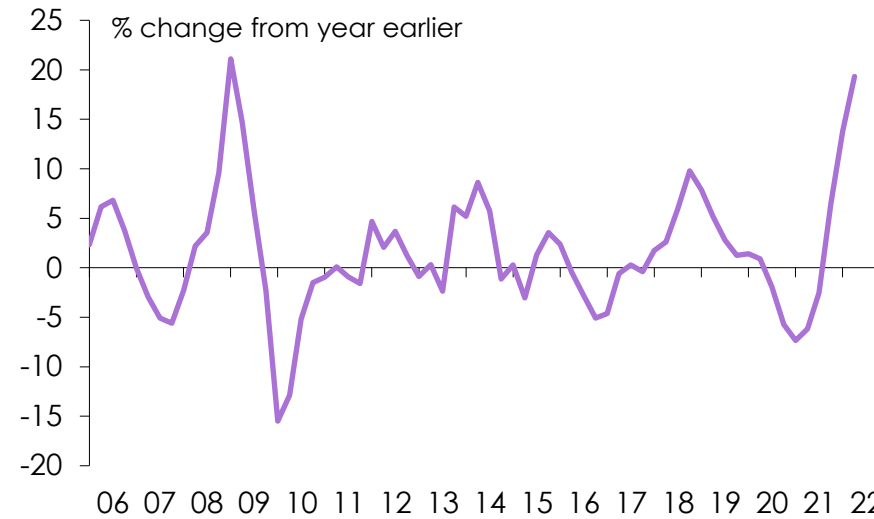
# Except for construction, domestic 'upstream' price pressures have been less intense than in other countries, but import prices have risen sharply

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

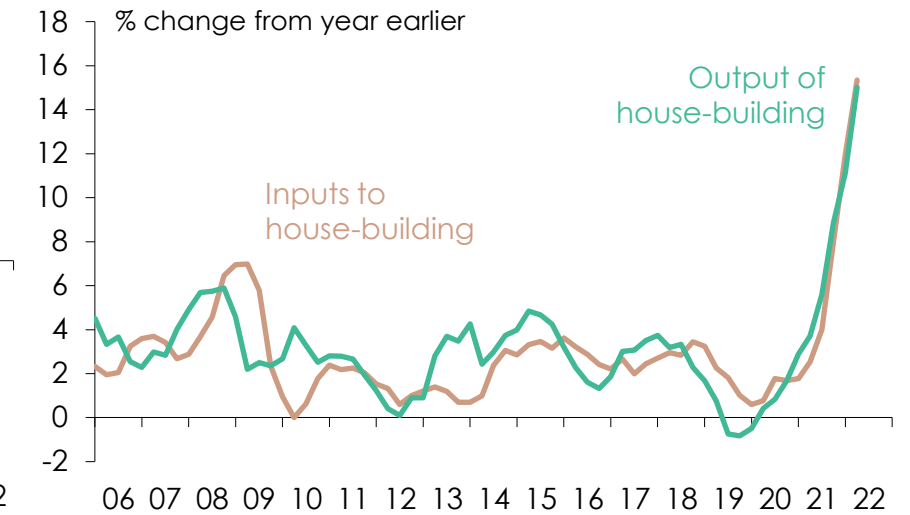
## Producer price index



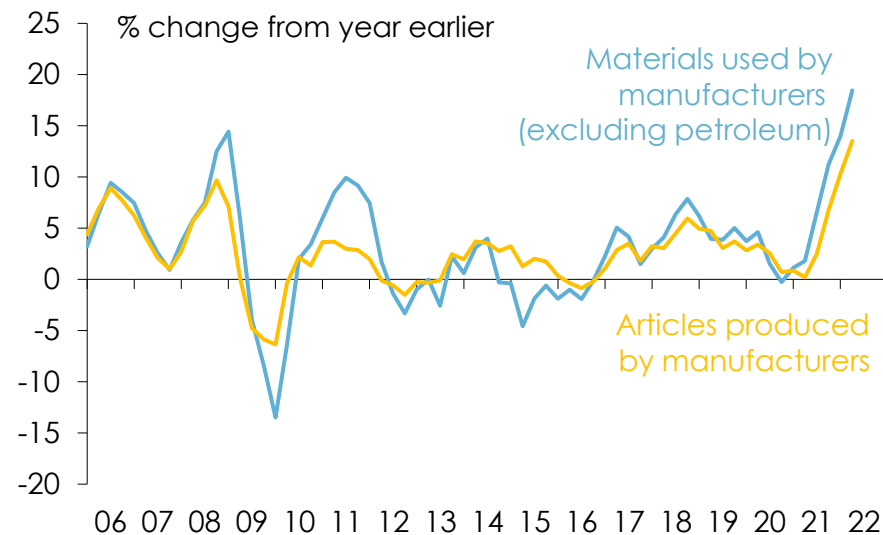
## Import price index



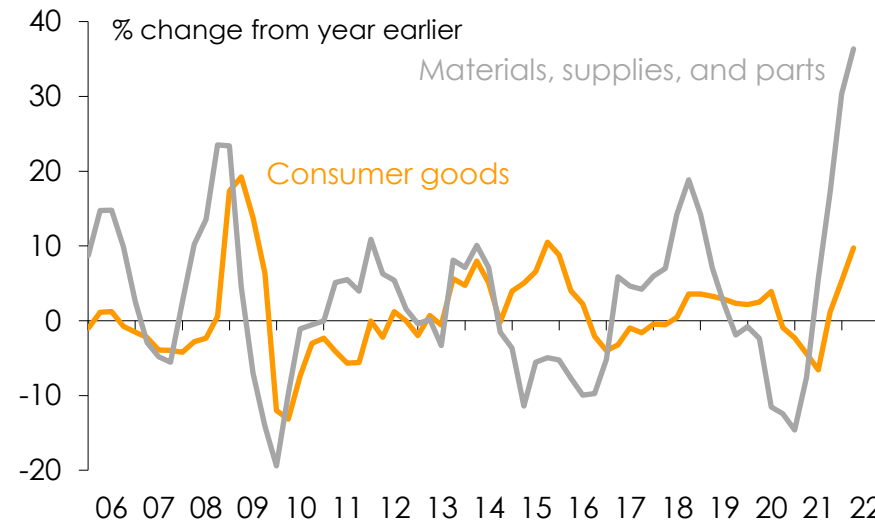
## Construction input & output prices



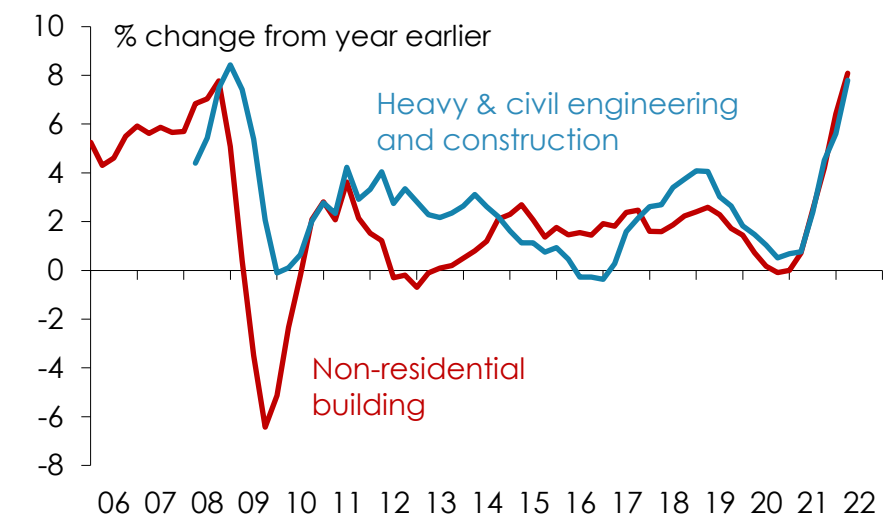
## Manufacturing input & output prices



## Imported consumer goods prices



## Non-residential construction prices

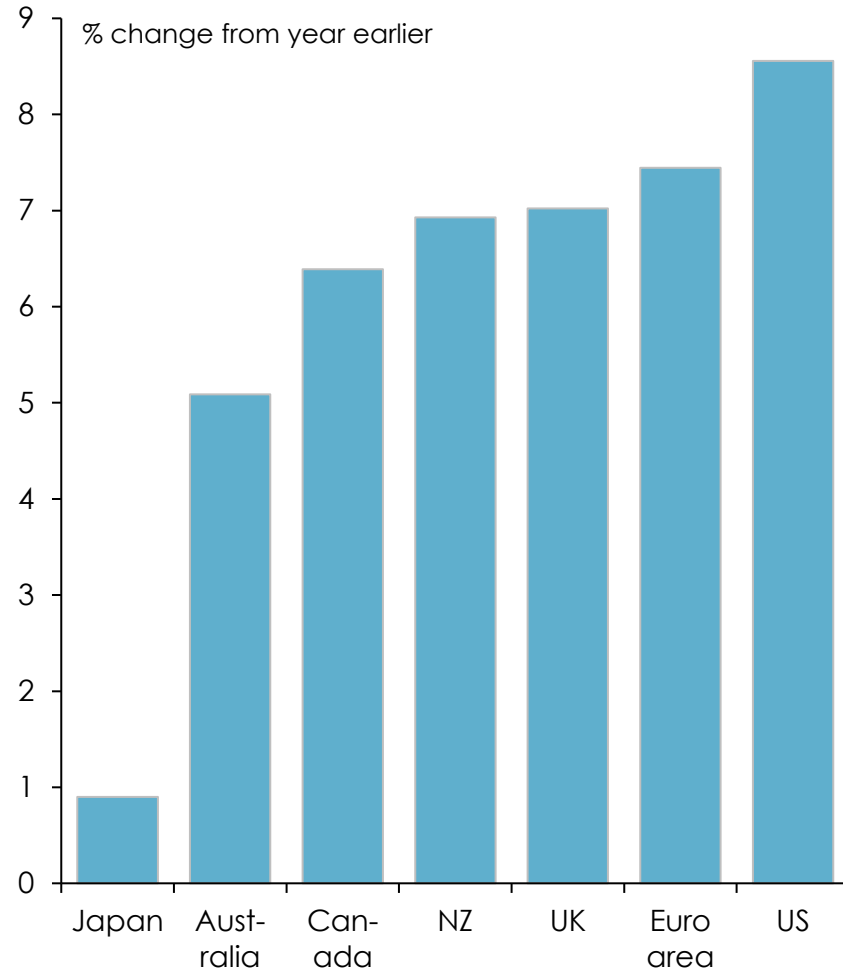


Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), March quarter 2022. June quarter import and producer price indices will be released on 28<sup>th</sup> and 29<sup>th</sup> July, respectively. [Return to "What's New"](#).

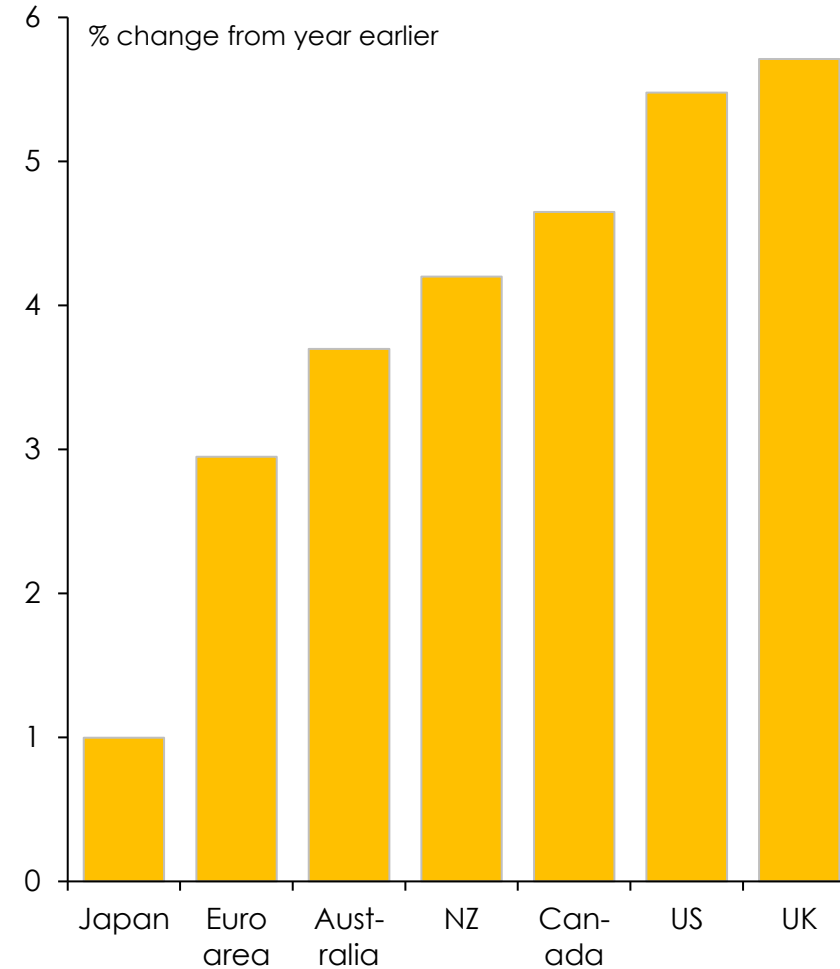
# Following the March quarter CPI result Australia's 'headline' and 'core' inflation rates are now much closer to those of comparable economies

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

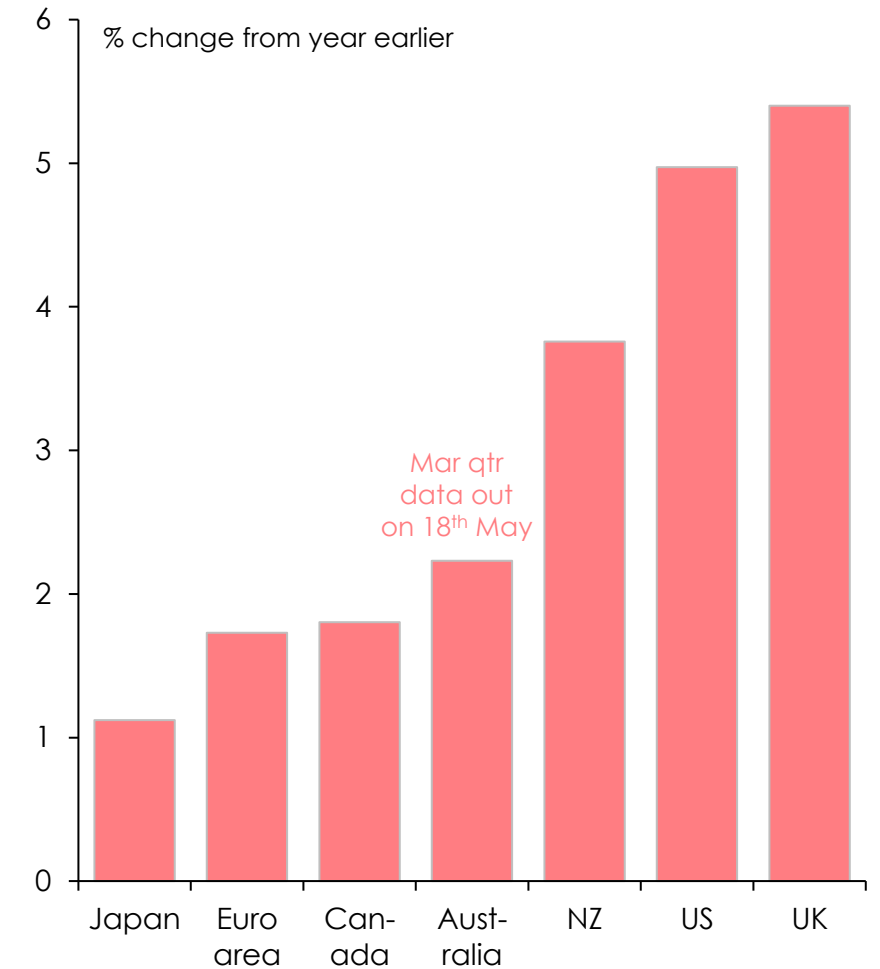
## 'Headline' consumer price inflation



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



## Wage inflation



Note: Data are latest available, mostly March or March quarter for CPI inflation; 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"](#).

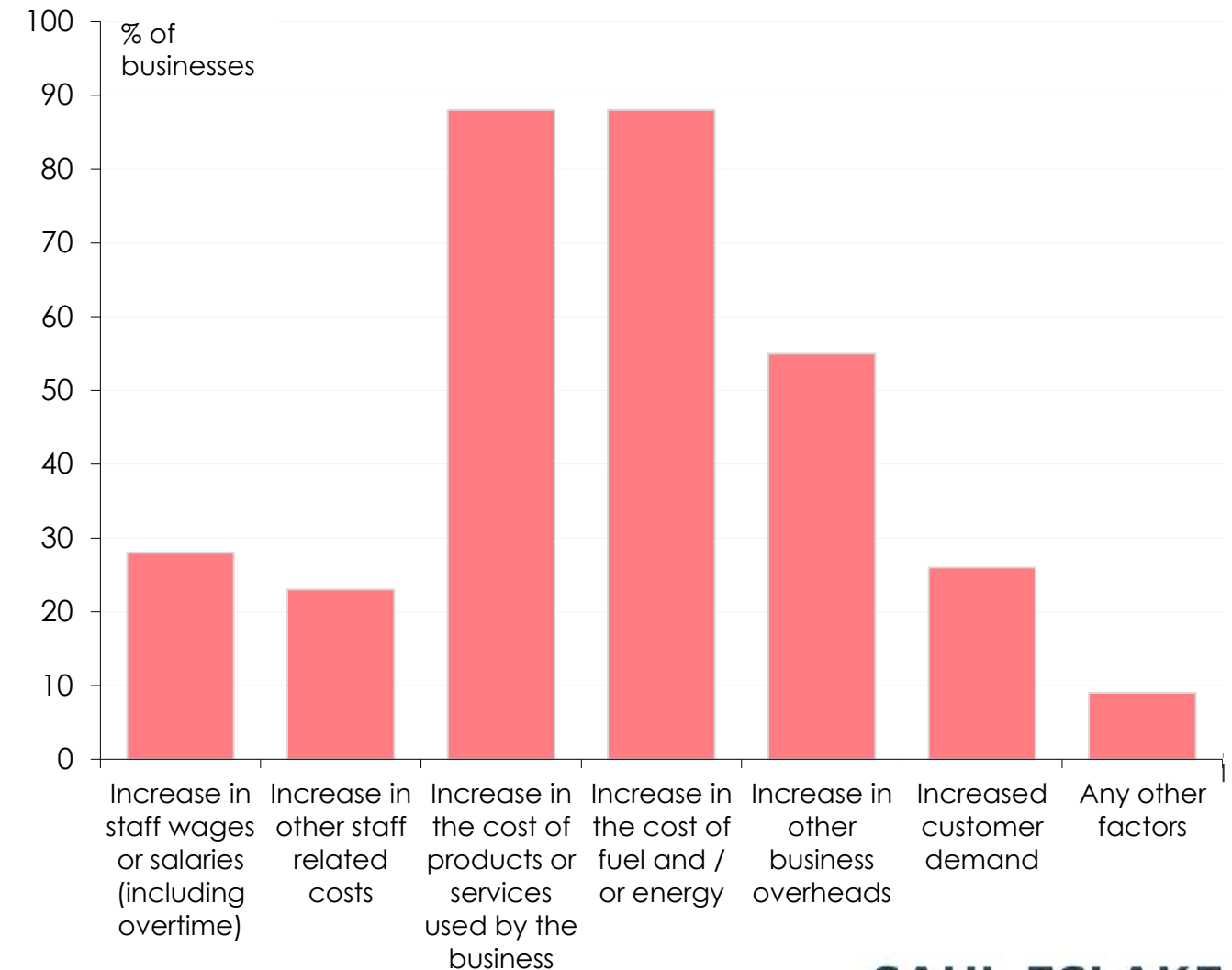
# 39% of businesses (including 59% of retailers) are planning to raise prices 'more than usual' in the next 3 months – but not because of labour costs

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



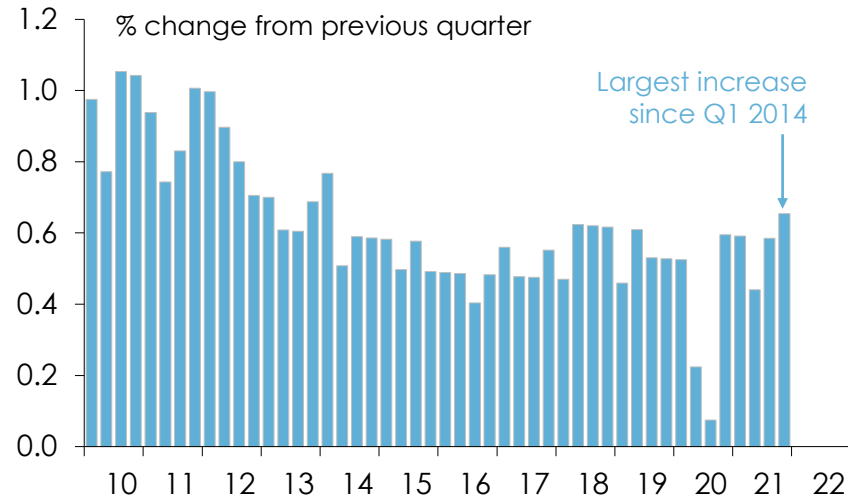
## Factors contributing to businesses expecting to raise prices, March 2022



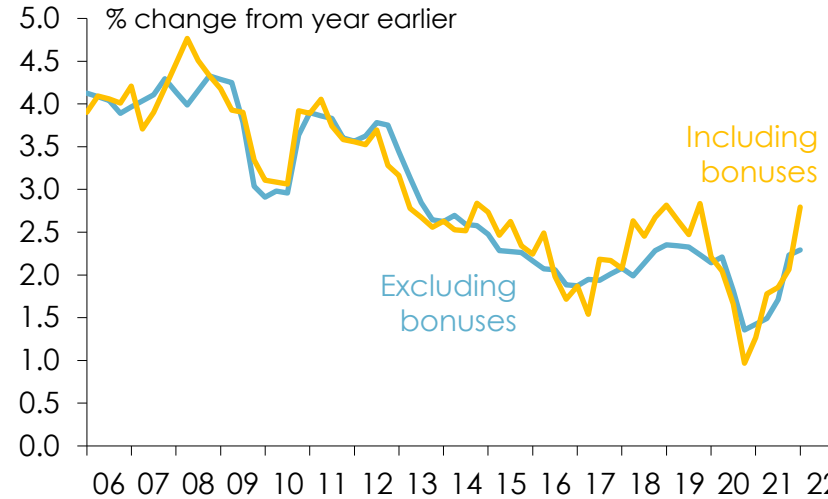
# Wages growth as measured by the wage price index remains sluggish but the RBA's business liaison suggests it is now starting to pick up

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## Wage price index excluding bonuses



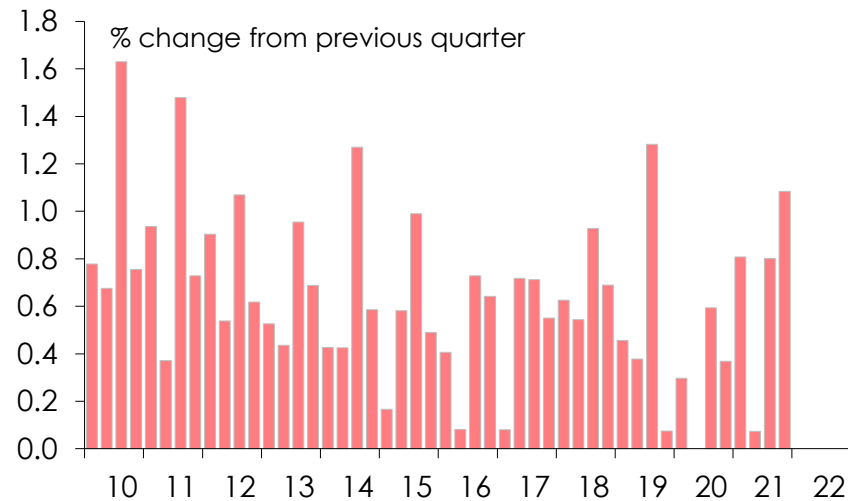
## Wage price index – all sectors



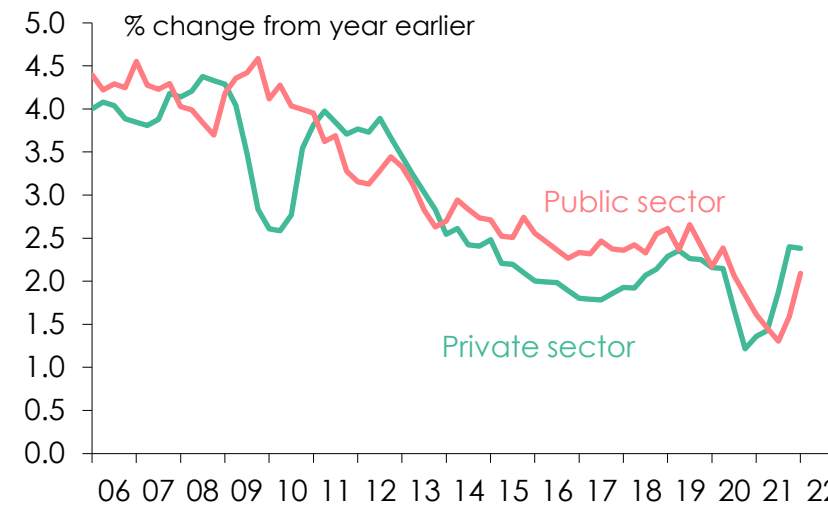
## Distribution of wages growth



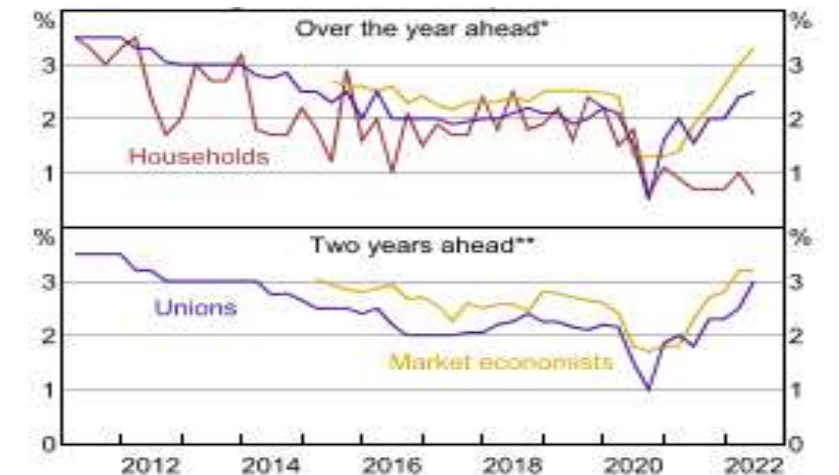
## Wage price index including bonuses



## WPI – private vs public sectors



## Wage growth expectations



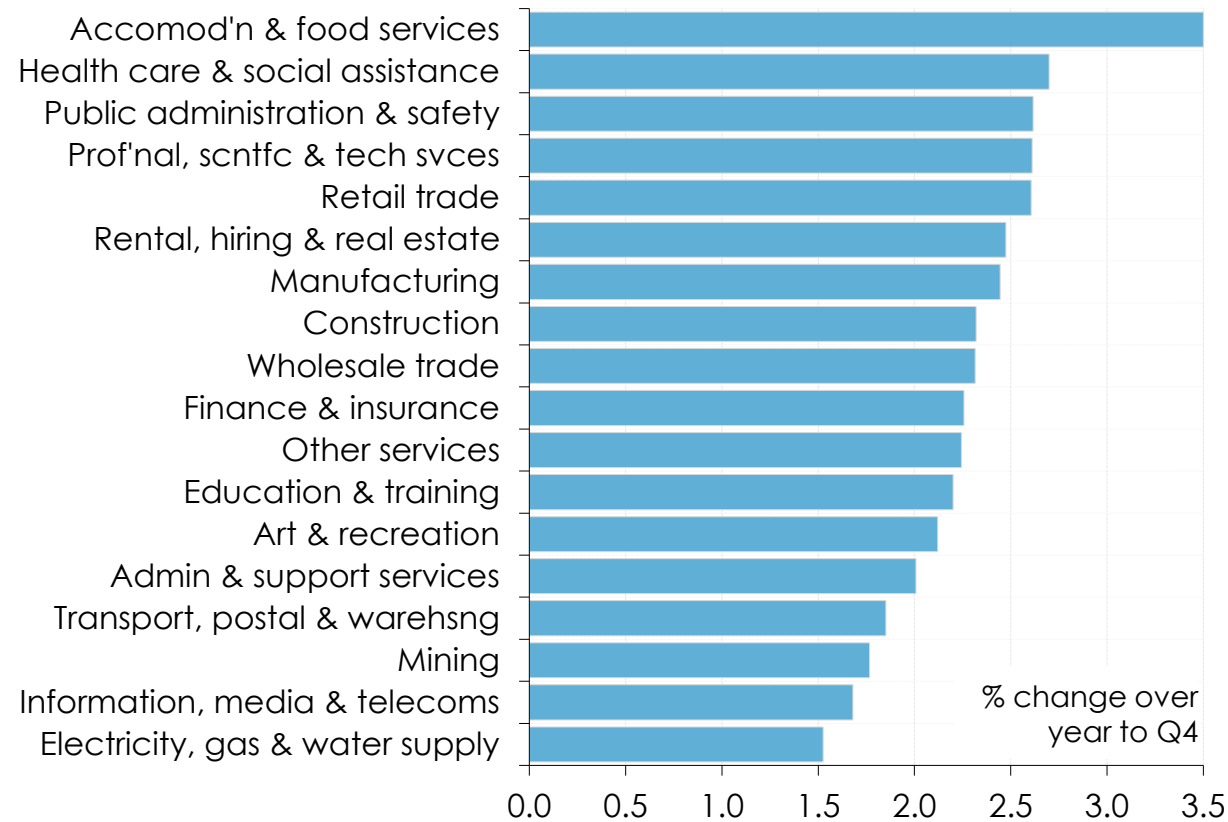
\* The current calendar year for union expectations.  
 \*\* The next calendar year for union expectations.

Sources: ABS, [Wage Price Index, Australia](#), December quarter 2021; March quarter WPI data will be released on 18<sup>th</sup> May; Reserve Bank of Australia, [Statement on Monetary Policy](#), 6<sup>th</sup> May 2022, p. 57. [Return to "What's New"](#).

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

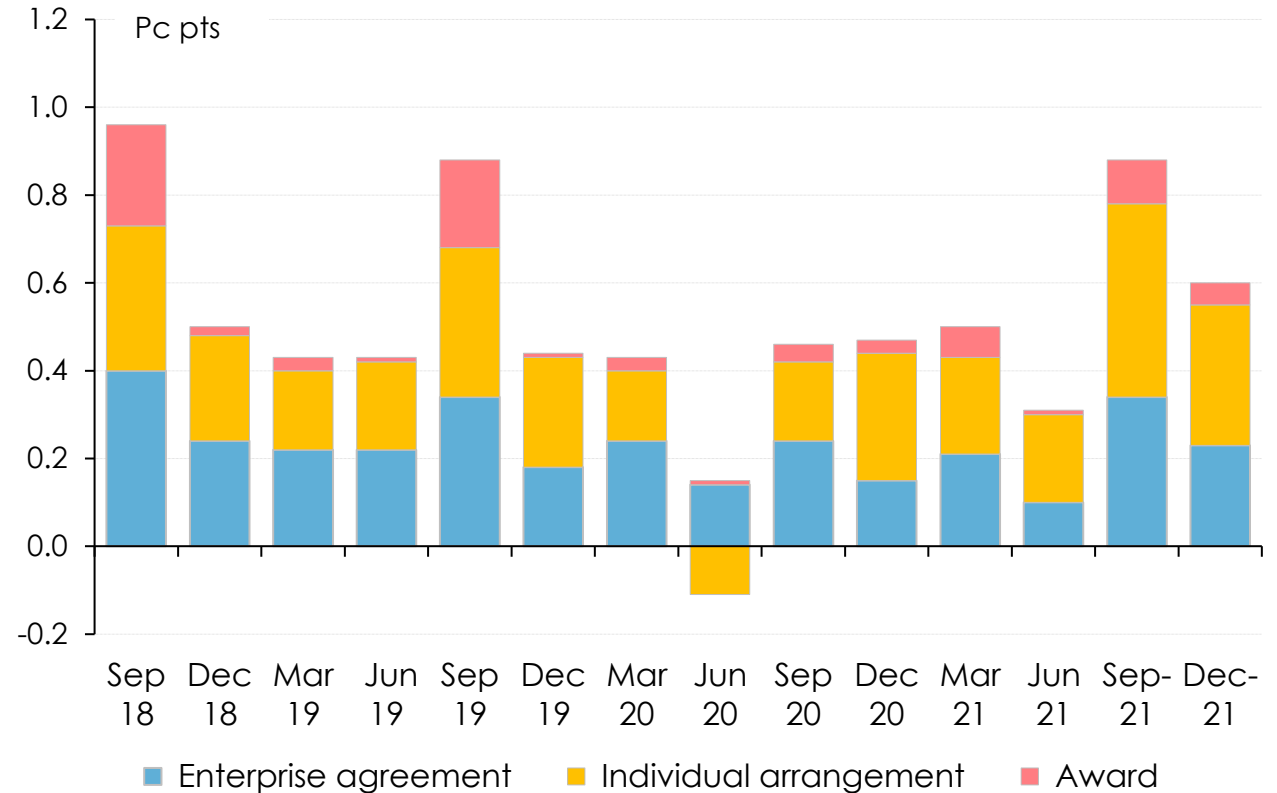
THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



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

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



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

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

# Fiscal policy

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

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

- ❑ 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 81-82](#))
- ❑ 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 84](#)) whilst also foreshadowing budget deficits over the five years to 2025-26 \$104bn (25%) lower than had been projected last December ([slide 85](#))
  - 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
- ❑ The medium-term budget outlook is also significantly improved, although the budget will remain in deficit through at least 2032-33 ([slide 87](#)): any eventual return to surplus will probably require tax increases ([slide 89](#))
- ❑ The [Pre-Election Economic and Fiscal Outlook](#) (PEFO) released by the Departments of Treasury and Finance on 22<sup>nd</sup> April 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

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

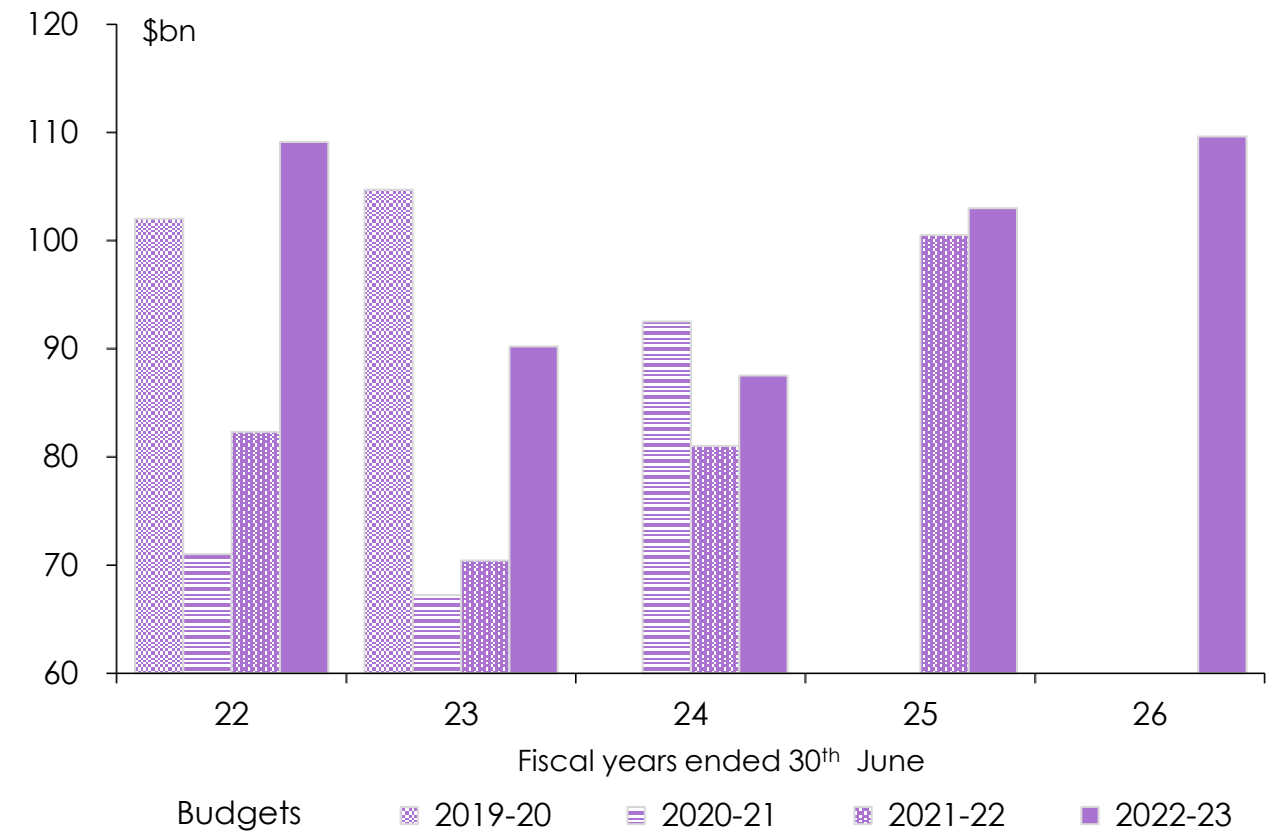
## Successive budget estimates of personal and company income tax collections

### Personal income tax



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

### Company income tax



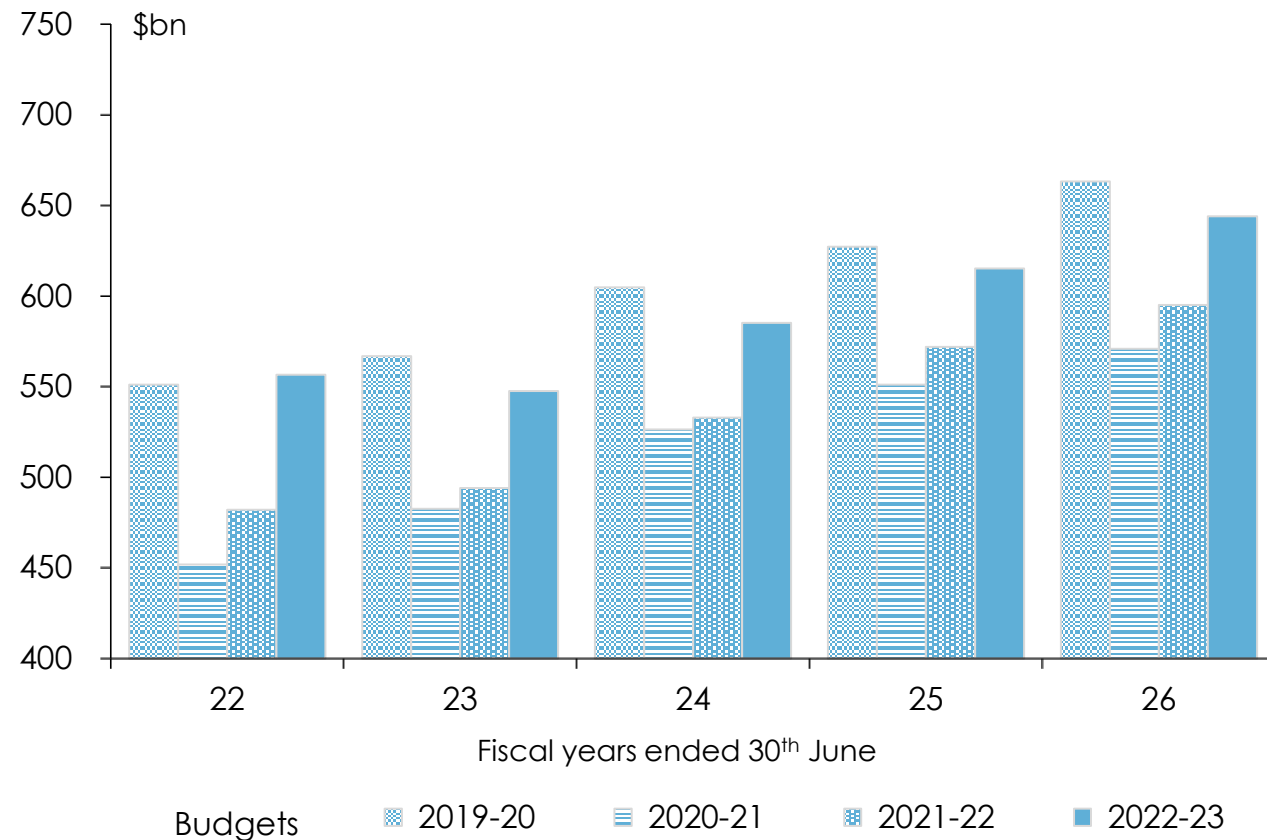
Forward estimates of company income tax collections for the years 2021-22 through 2023-24 have been revised up by \$53bn since last year's Budget, and by \$56bn since the 2020-21 Budget

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

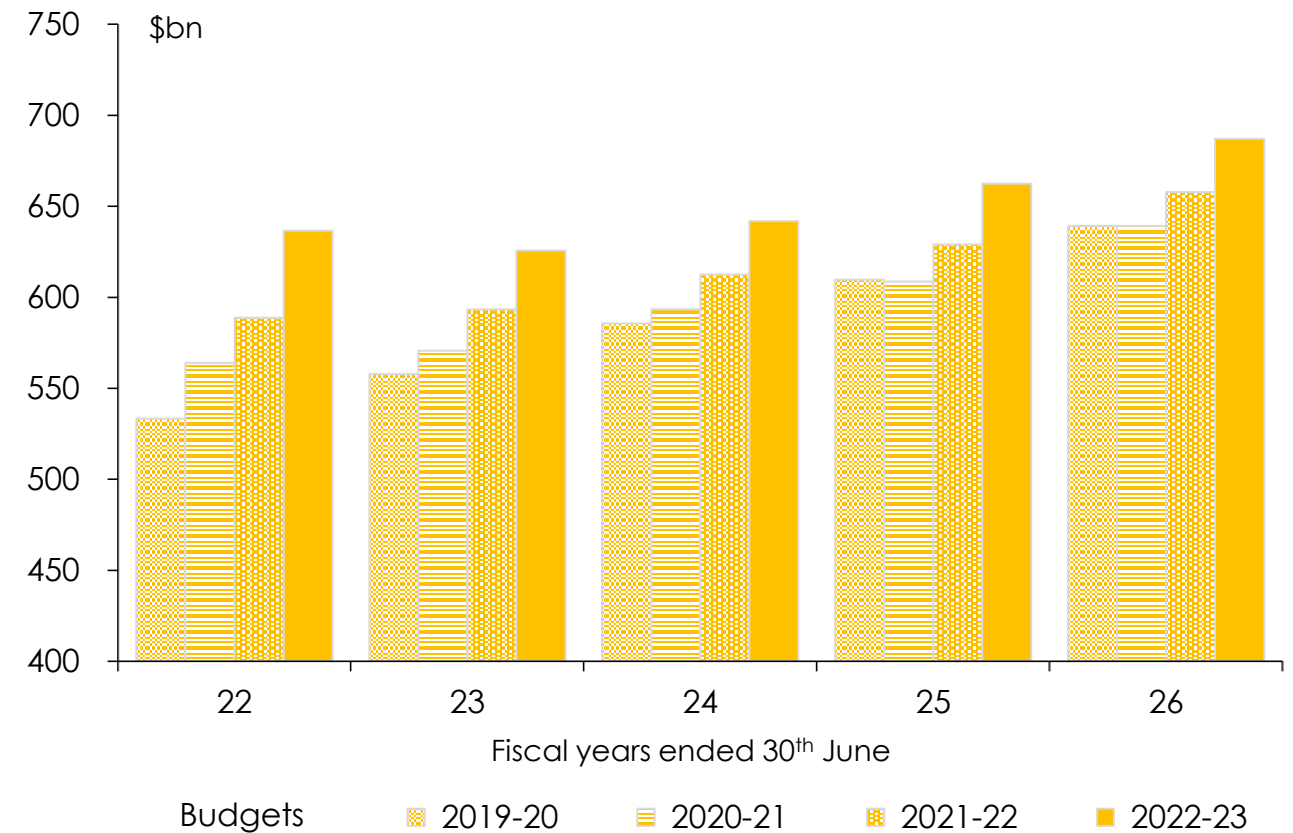
THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## 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

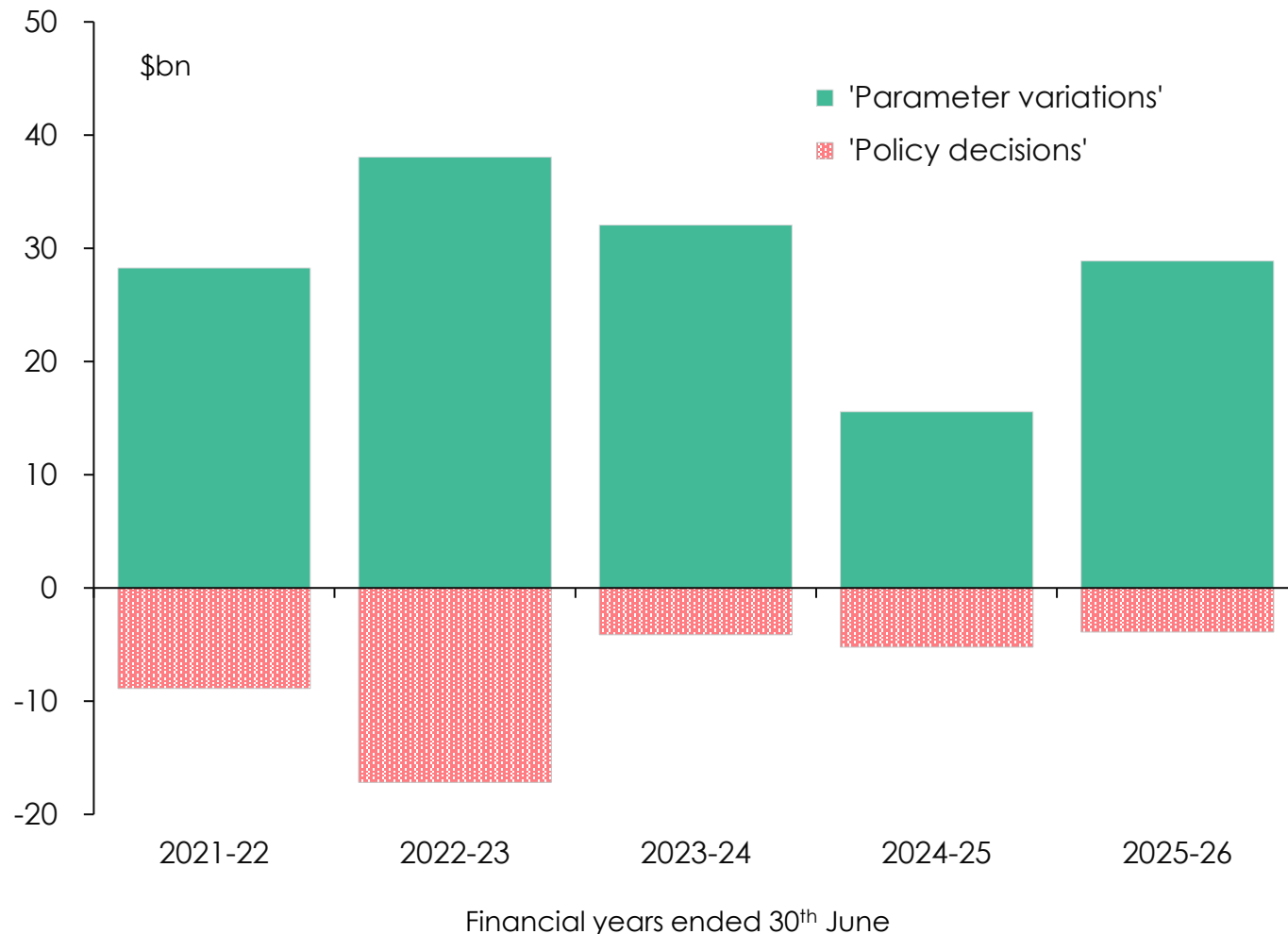
□ Payments projections for the five years to 2025-26 have been revised upwards by only \$40bn since MYEFO, by \$172bn compared with last year's Budget, and \$278bn compared with the 2020-21 Budget

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

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



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

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

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## 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>

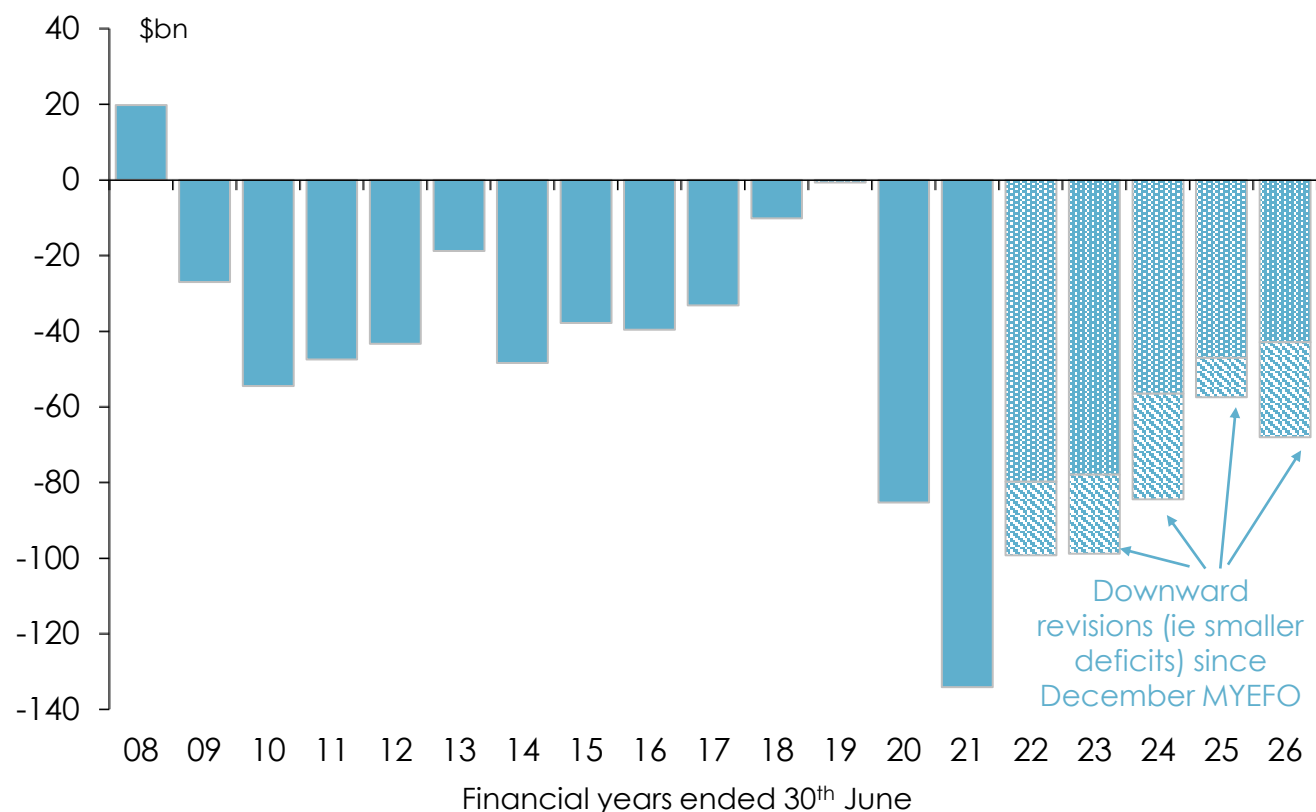
- ❑ The discretionary policy measures in the Budget are, in total, relatively small – especially considering that it’s a ‘pre-election’ Budget
- ❑ The ‘net stimulus’ implied by the ‘policy decisions’ contained in the Budget is equivalent to 0.4% of GDP in 2021-22, 0.7% of GDP in 2022-23, and 0.2% of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

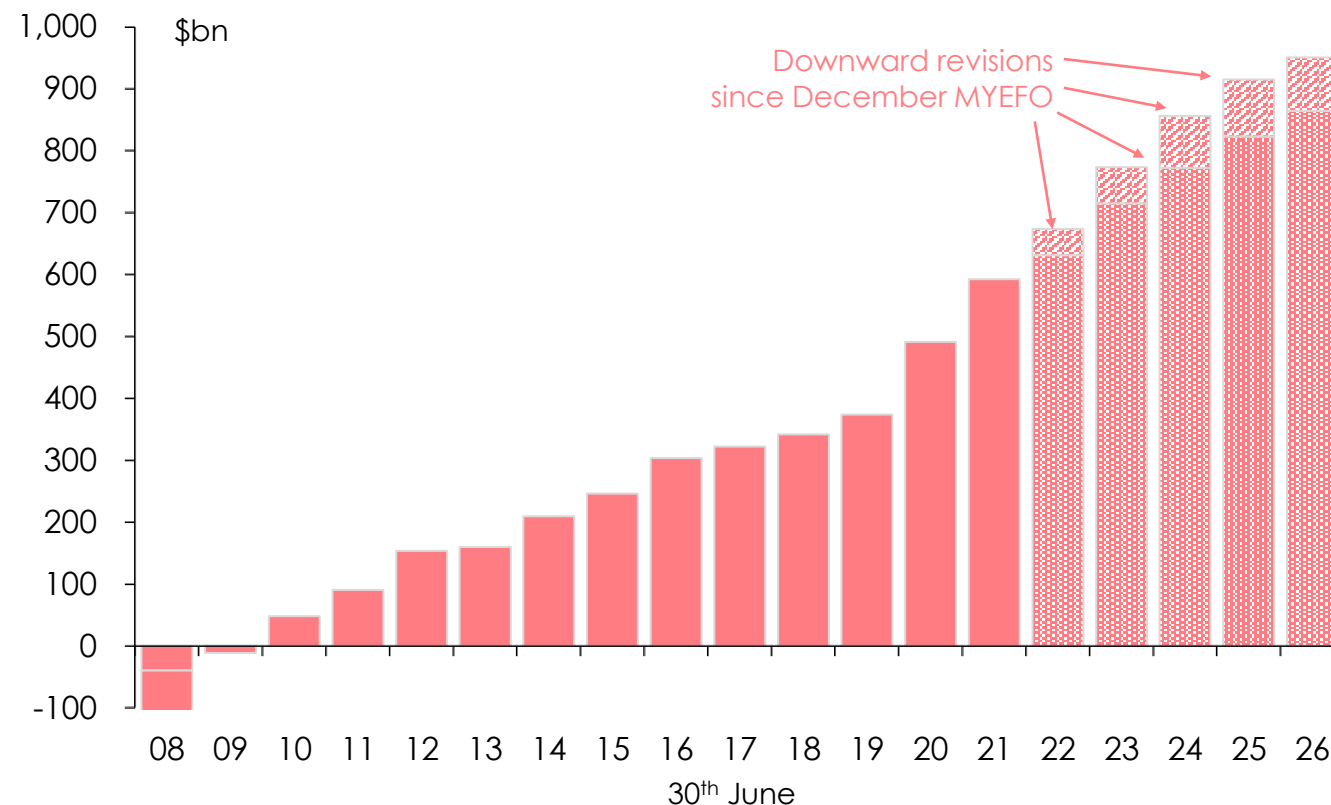
THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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

### 'Underlying' cash balance



### Net debt



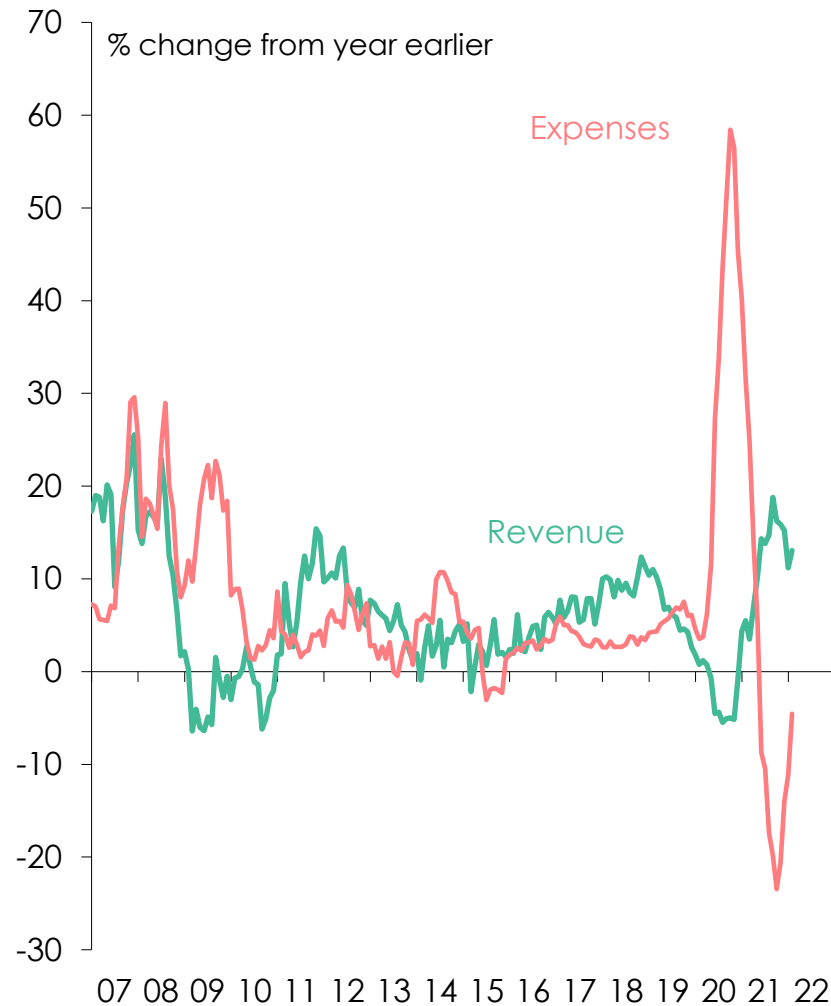
□ The deficits for the five financial years 2021-22 through 2025-26 have been revised down by a total of \$103.7bn (or 25%) from those projected in last December's Mid-Year Economic and Fiscal Outlook

□ 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

# 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 – 13<sup>TH</sup> MAY 2022

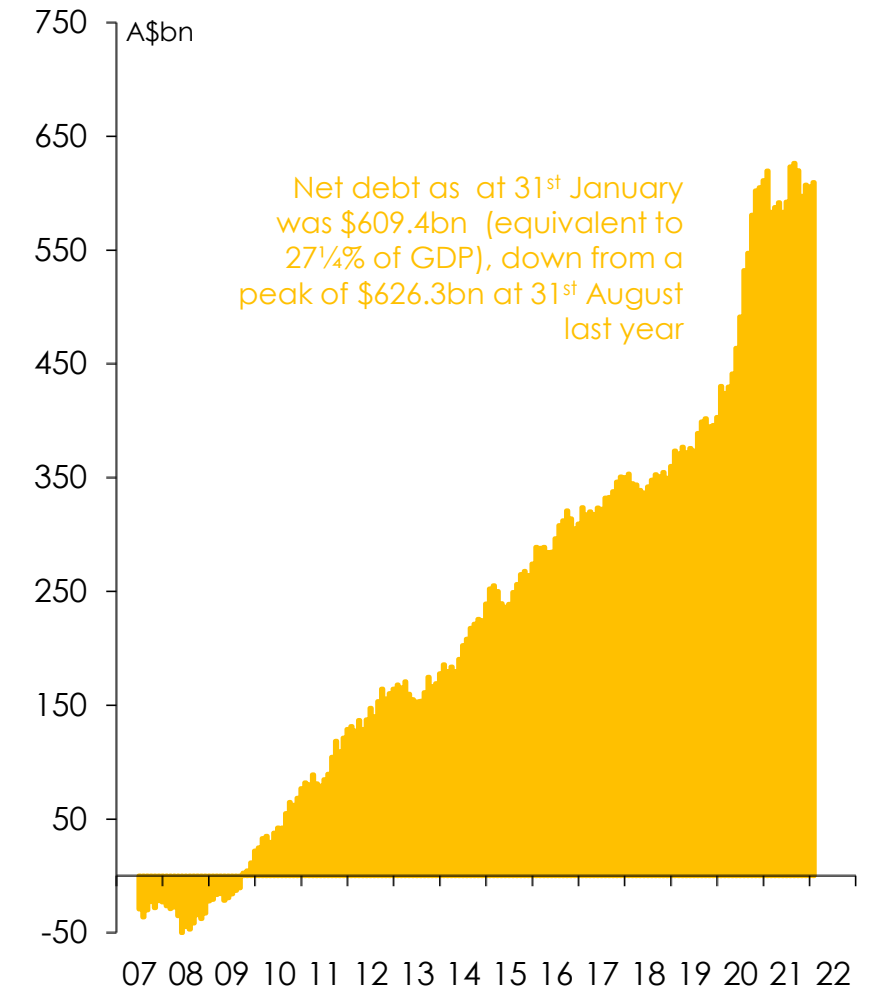
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt



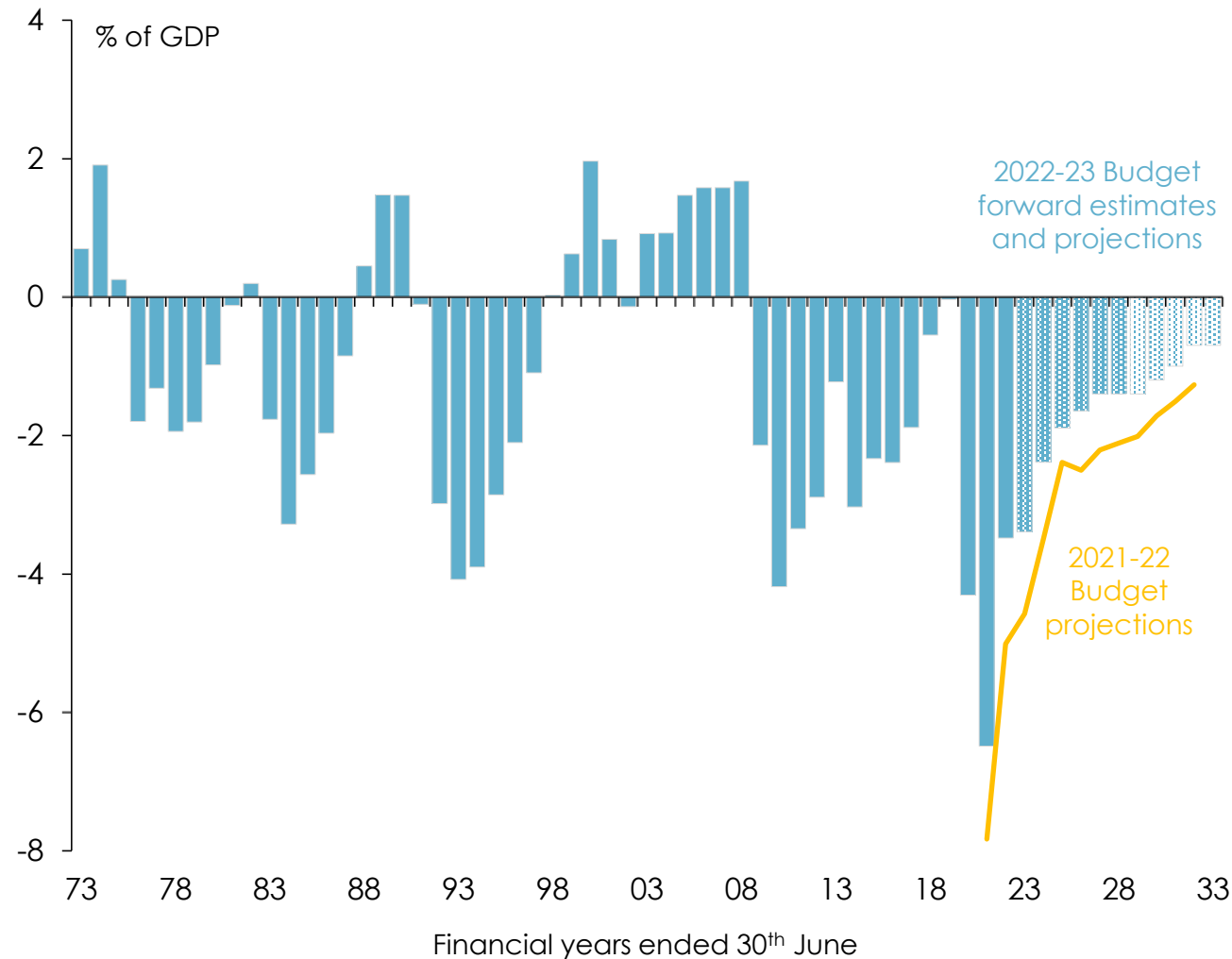
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

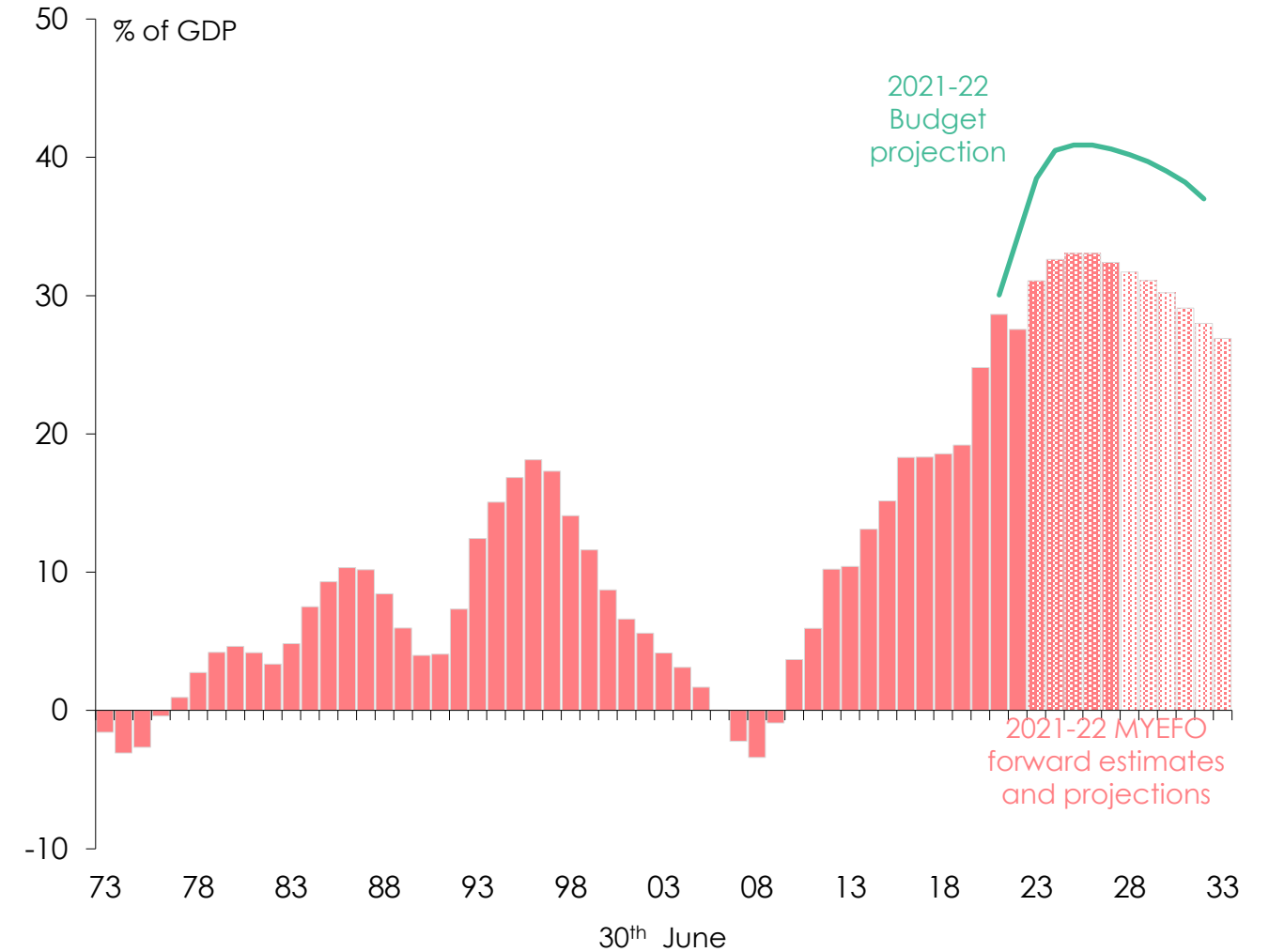
THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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

### ‘Underlying’ cash balance



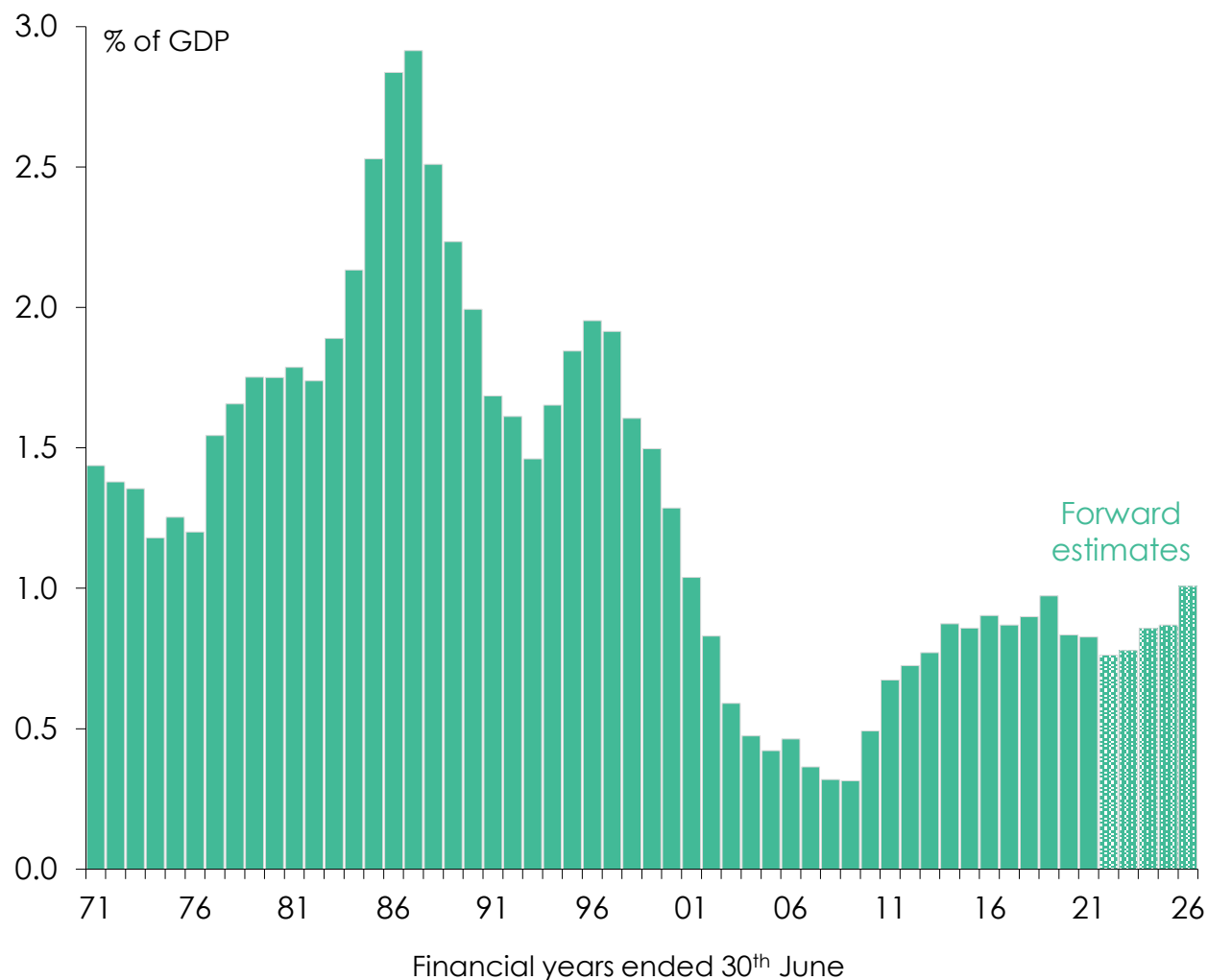
### Net debt



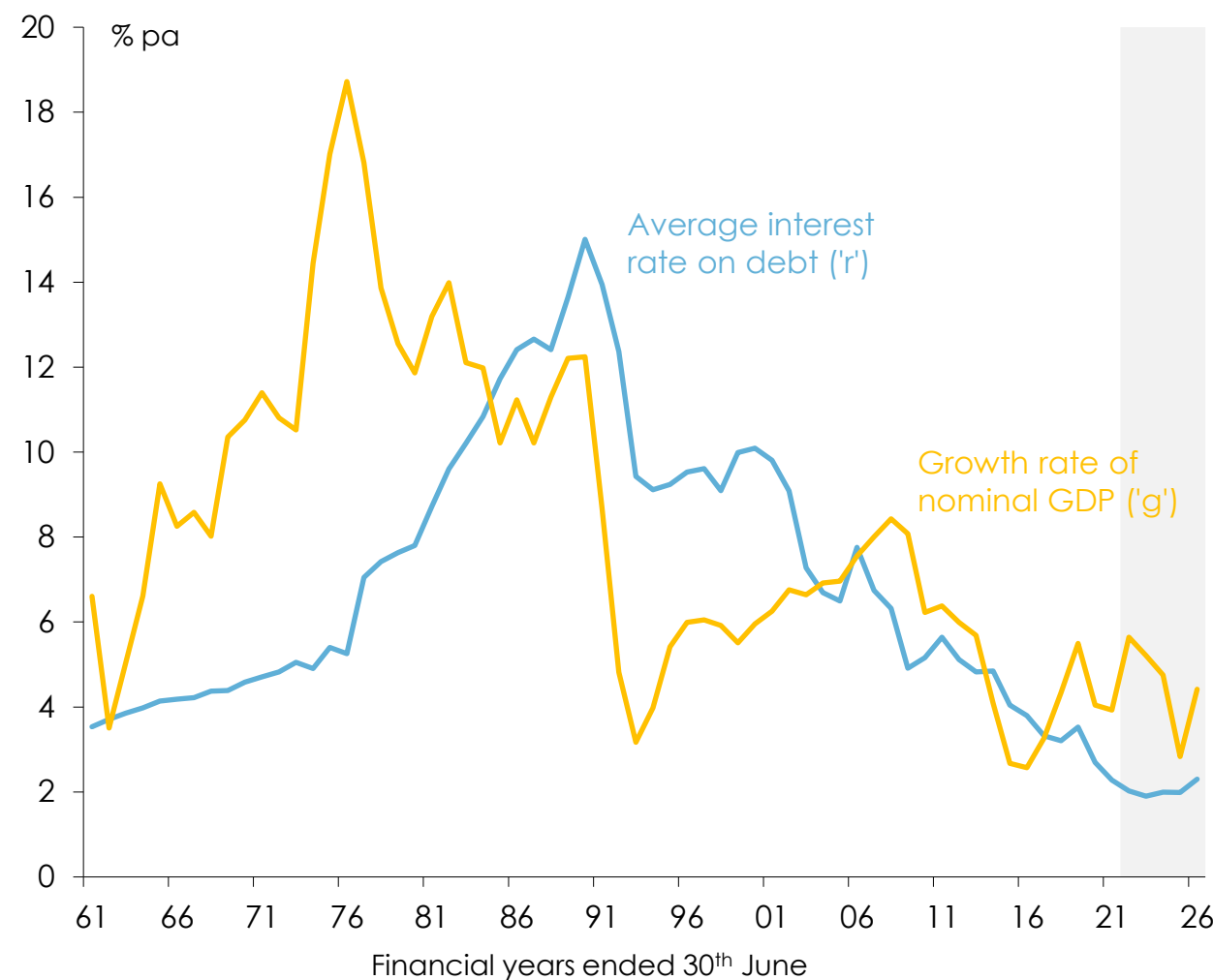
# The Government can comfortably service its historically high levels of debt as long as interest rates are lower than the rate of economic growth

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



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



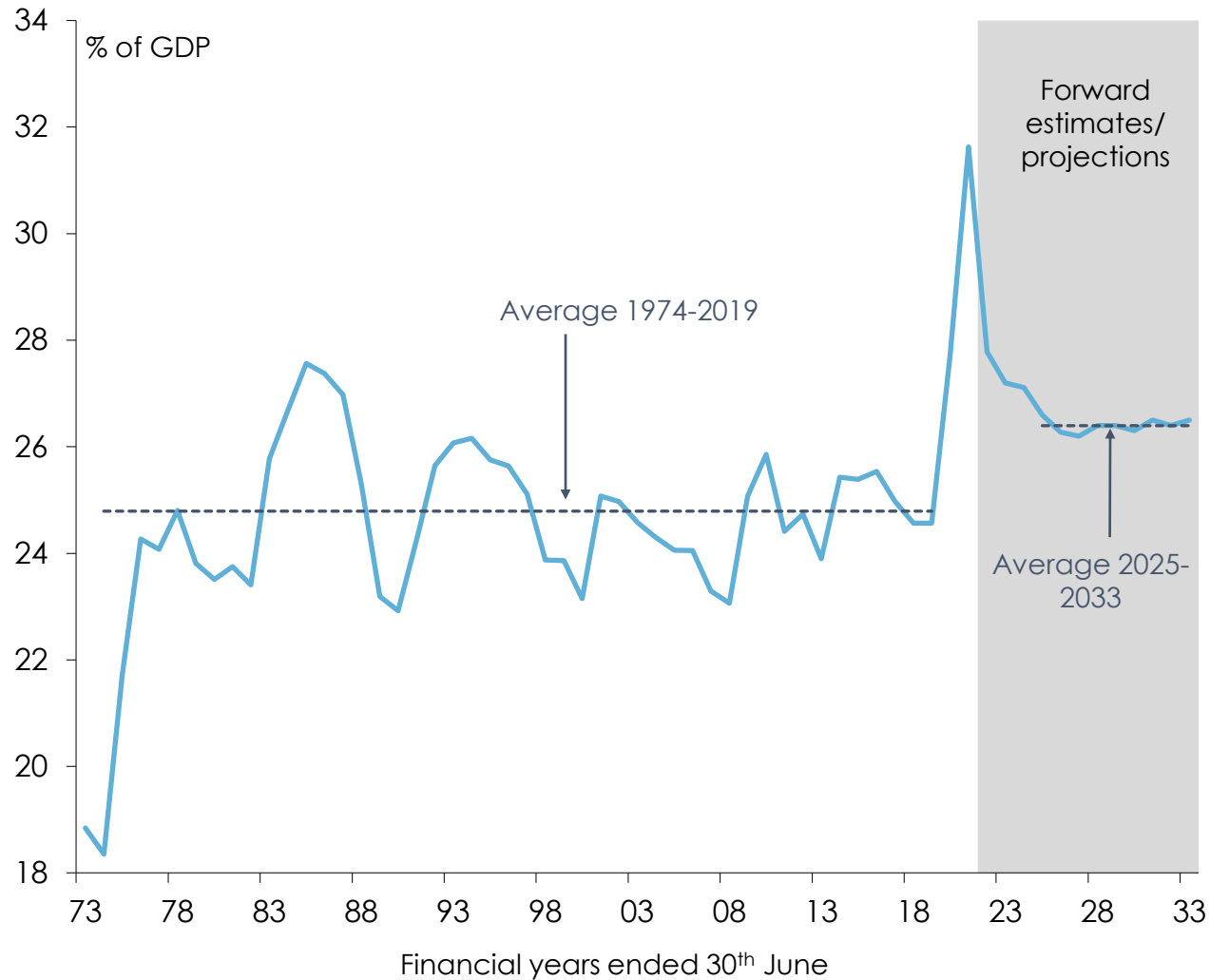
Source: Australian Government, 2022-23 [Budget Paper No. 1](#), [Statement No. 3](#), [Statement No. 6](#) and [Statement No. 10](#), 29<sup>th</sup> March 2022. [Return to "What's New"](#).



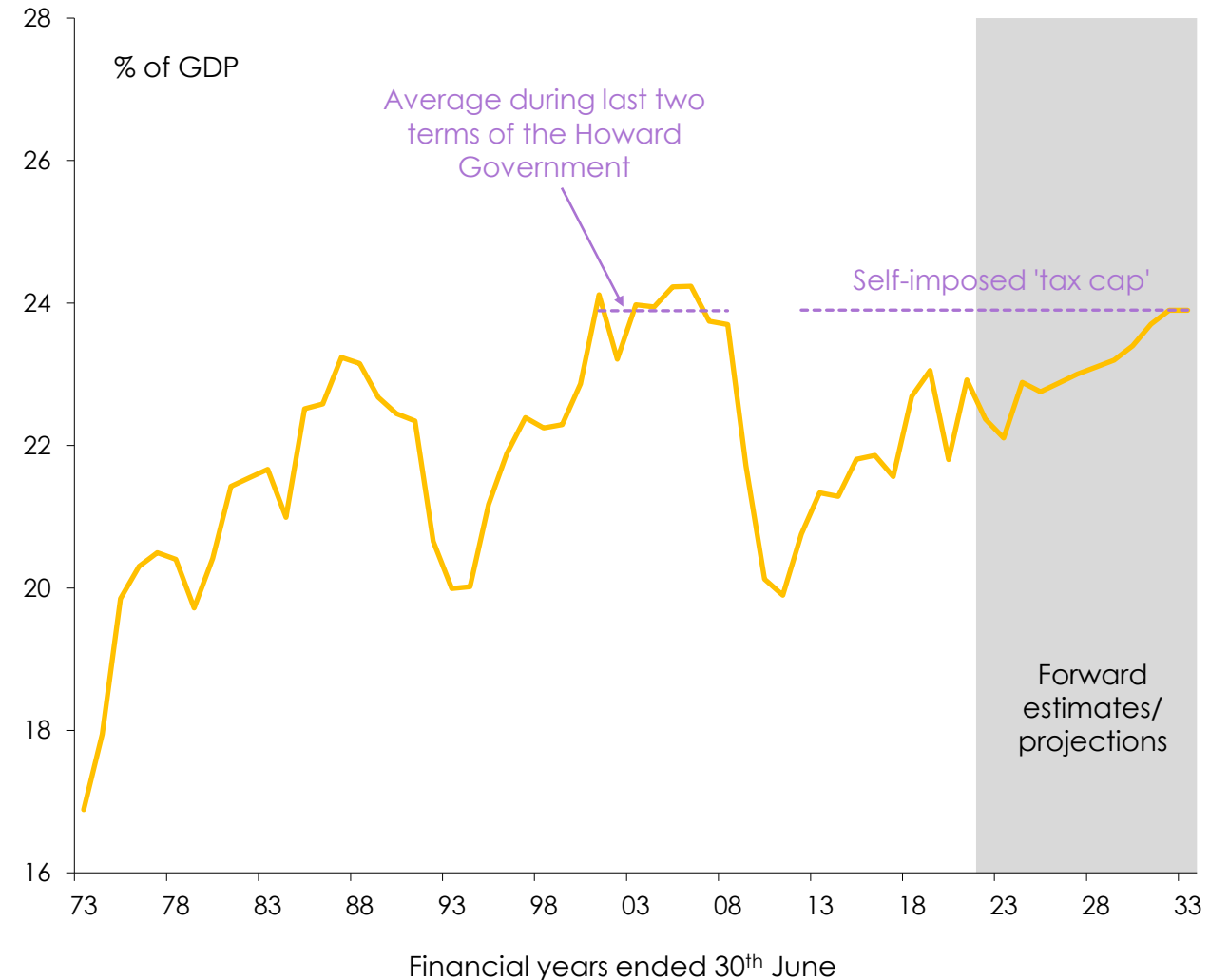
# Ultimately, some future government is likely to have to bust the (quite arbitrary) 'cap' on tax revenue as a percentage of GDP

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



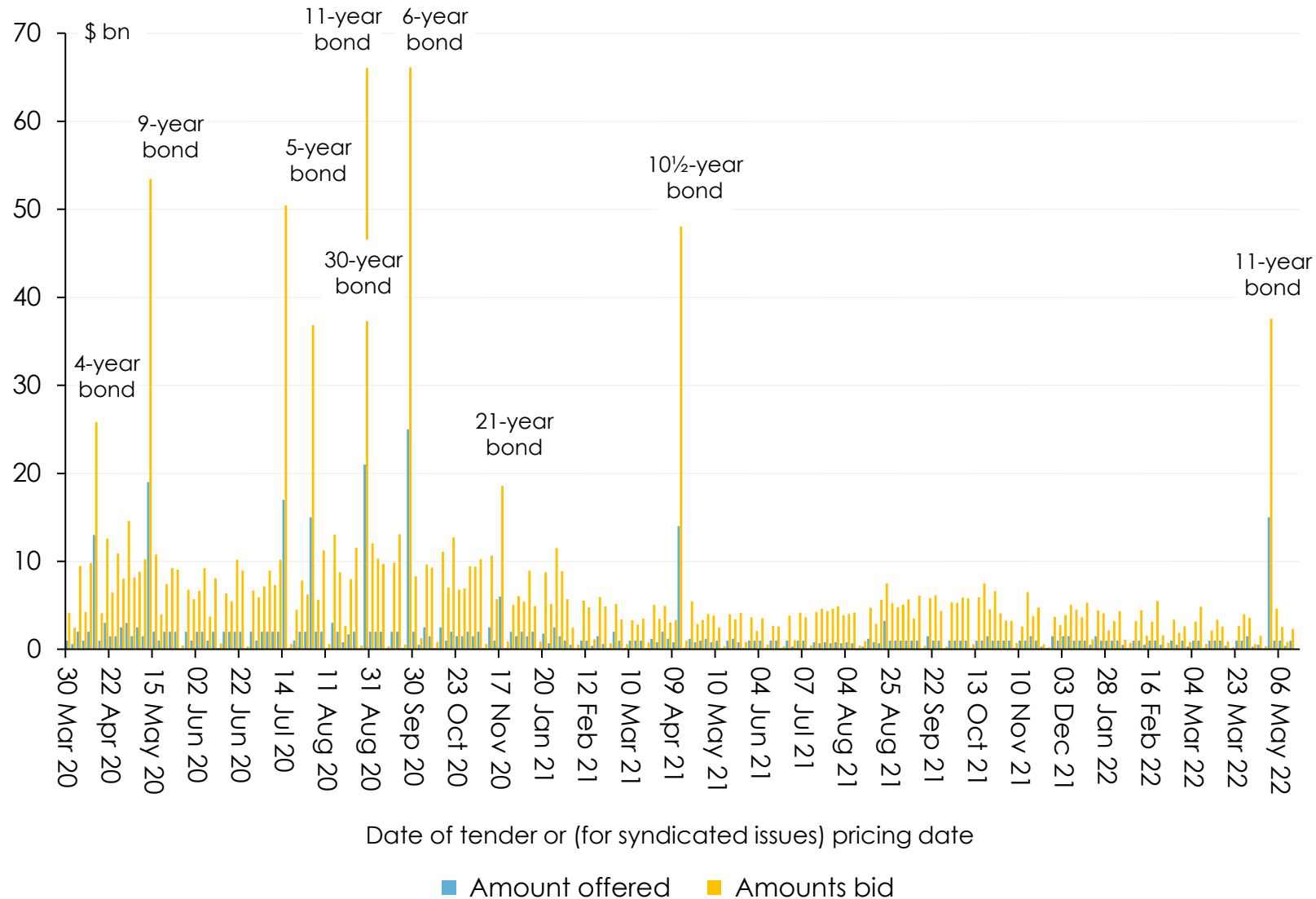
## Taxation receipts as a pc of GDP



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

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## Australian government bond issuance since March 2020



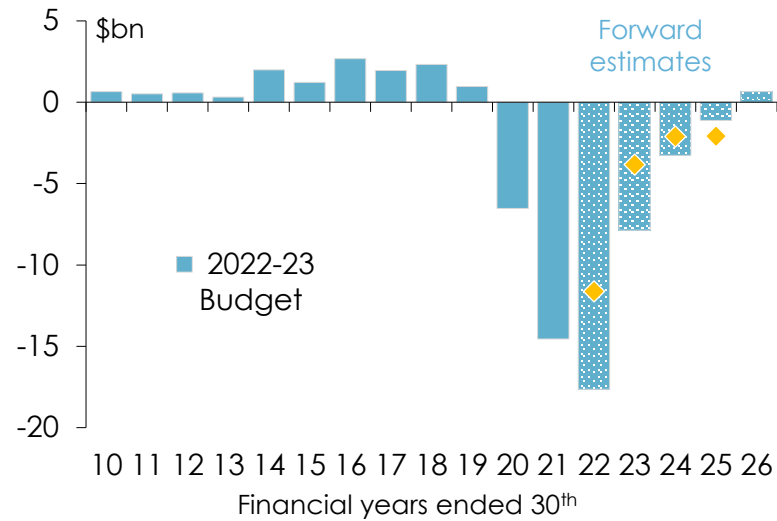
- Since resuming auctions on 12<sup>th</sup> January, the AOFM has sold \$45.1bn of bonds – including this week \$1bn of May 2032s and \$400mn of June 2051s
- Although AOFM continues to have no difficulty issuing new debt, the 'coverage ratio' (the ratio of bids received to bonds offered) has slipped from 4.3x in the first seven months of 2021-22 to below 3x in the past three weeks
- And AOFM is having to pay higher yields
  - the weighted average yield on the May 2032s issued this week was 3.36%, compared with 2.49% when the same bonds were last issued in mid-March, and 2.28% when issued in mid-February
- Treasury noted in last month'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"](#).

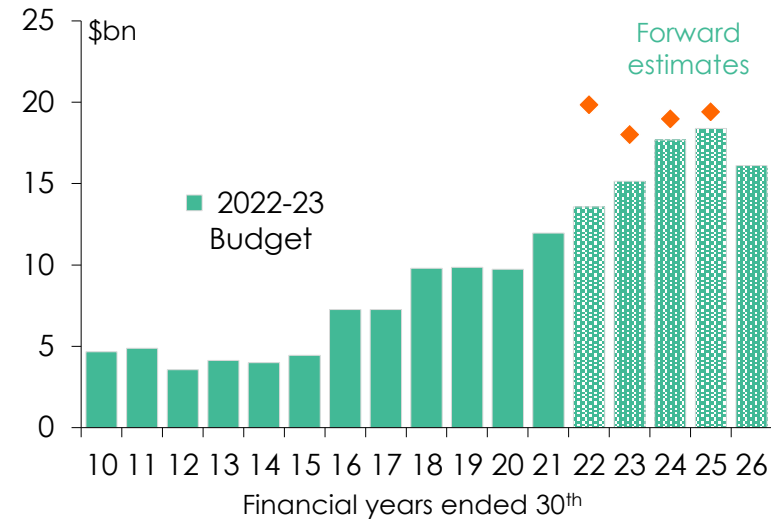
# Victoria's 2022-23 Budget uses upward revisions to revenue projections to fund additional spending while projecting an eventual return to surplus

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

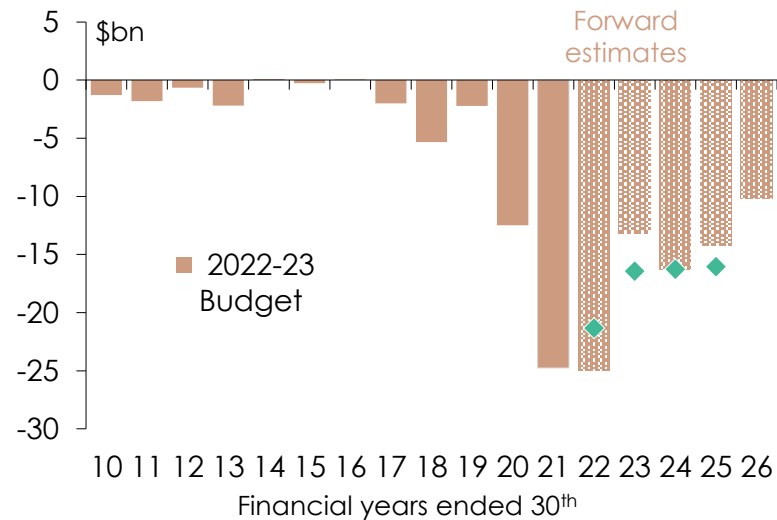
## Net operating balance



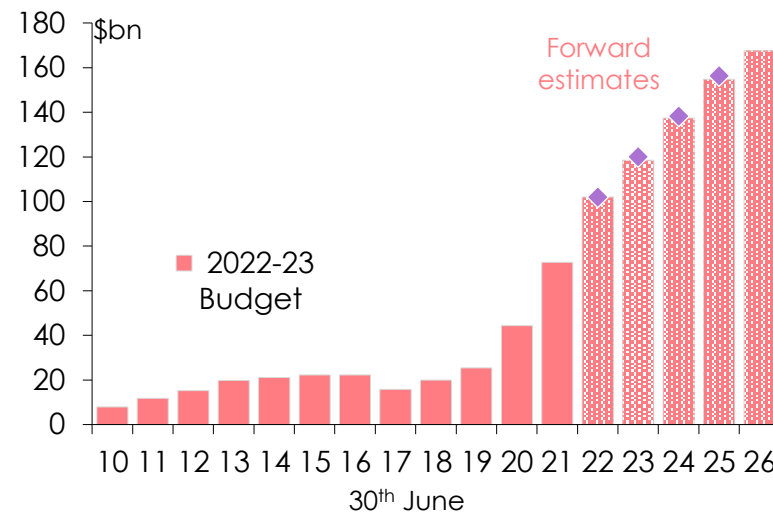
## Infrastructure spending



## Cash balance



## Net debt



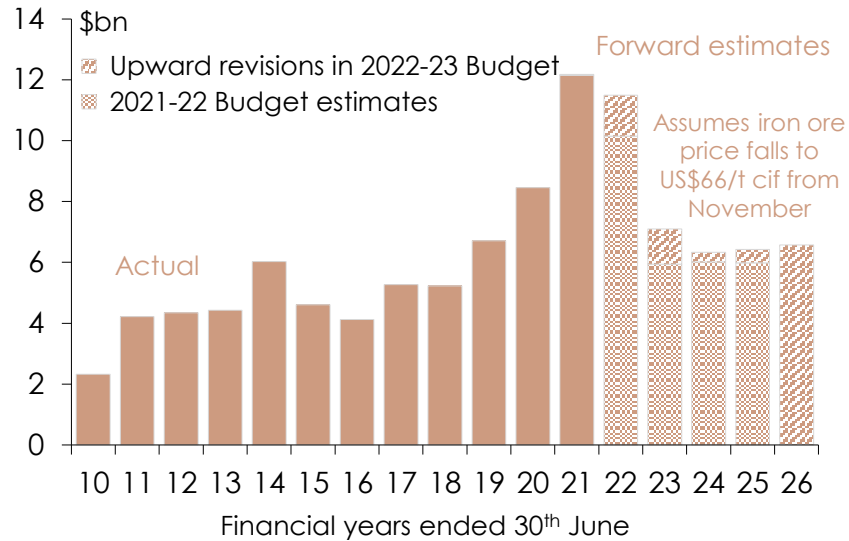
- ❑ Victoria's 2022-23 State Budget provides for \$16.3bn of additional spending over the four years to 2025-26 (of which \$6.4bn is for 2022-23) compared with that envisaged in the Mid-Year Review of last year's Budget
  - of which just under half is funded by 're-prioritization' of other spending, or draw-downs from previously unallocated funds
- ❑ The Budget also benefits from almost \$10bn in favourable 'parameter variations' over the four years to 2025-26, of which almost half is attributable to upward revisions to stamp duty, land tax and payroll tax revenues
- ❑ These allowed the Government to project a return to 'net operating surplus' by 2025-26
- ❑ However despite reductions in projected infrastructure spending of almost \$12bn cf. what had been included in last year's Budget, Victoria will still be running large cash deficits over the next four years ...
- ❑ ... as a result of which net debt is still expected to rise to \$168bn (26.5% of GSP) by June 2026
- ❑ Victoria's finances remain in worse condition than any other jurisdiction except the Northern Territory (see [slide 95](#))

Note: Budgetary aggregates shown in the above charts refer to Victoria's 'general government' sector (ie, excluding public corporations). Source: Victorian Government, [2022-23 State Budget - Strategy and Outlook](#) and [Statement of Finances](#), 3<sup>rd</sup> May 2022. [Return to "What's New"](#).

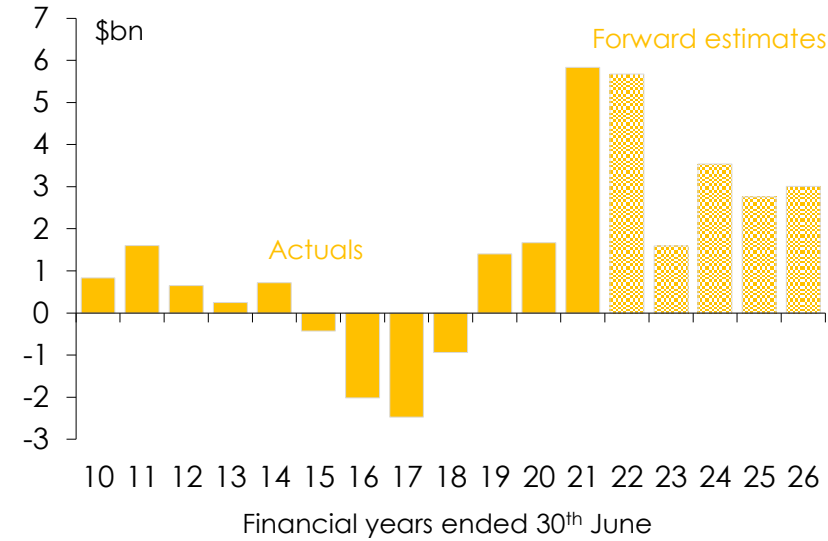
# Buoyant iron ore royalty revenue and the corruption of the GST revenue sharing arrangements have put WA's Budget in a very strong position

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

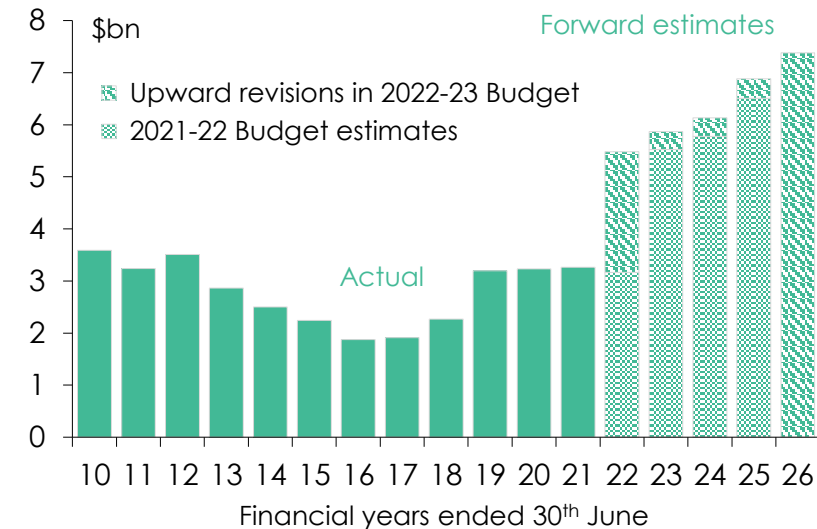
## Mineral royalty revenues



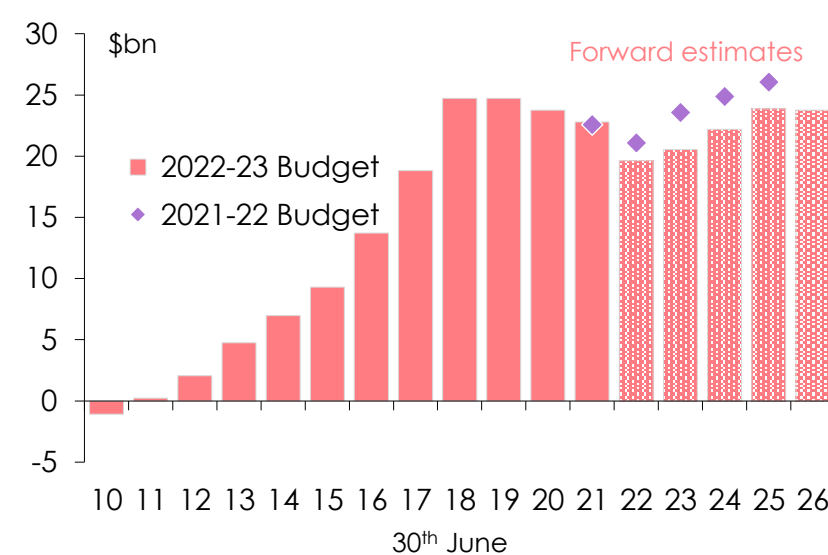
## 'Net operating balance'



## GST revenues



## Net debt



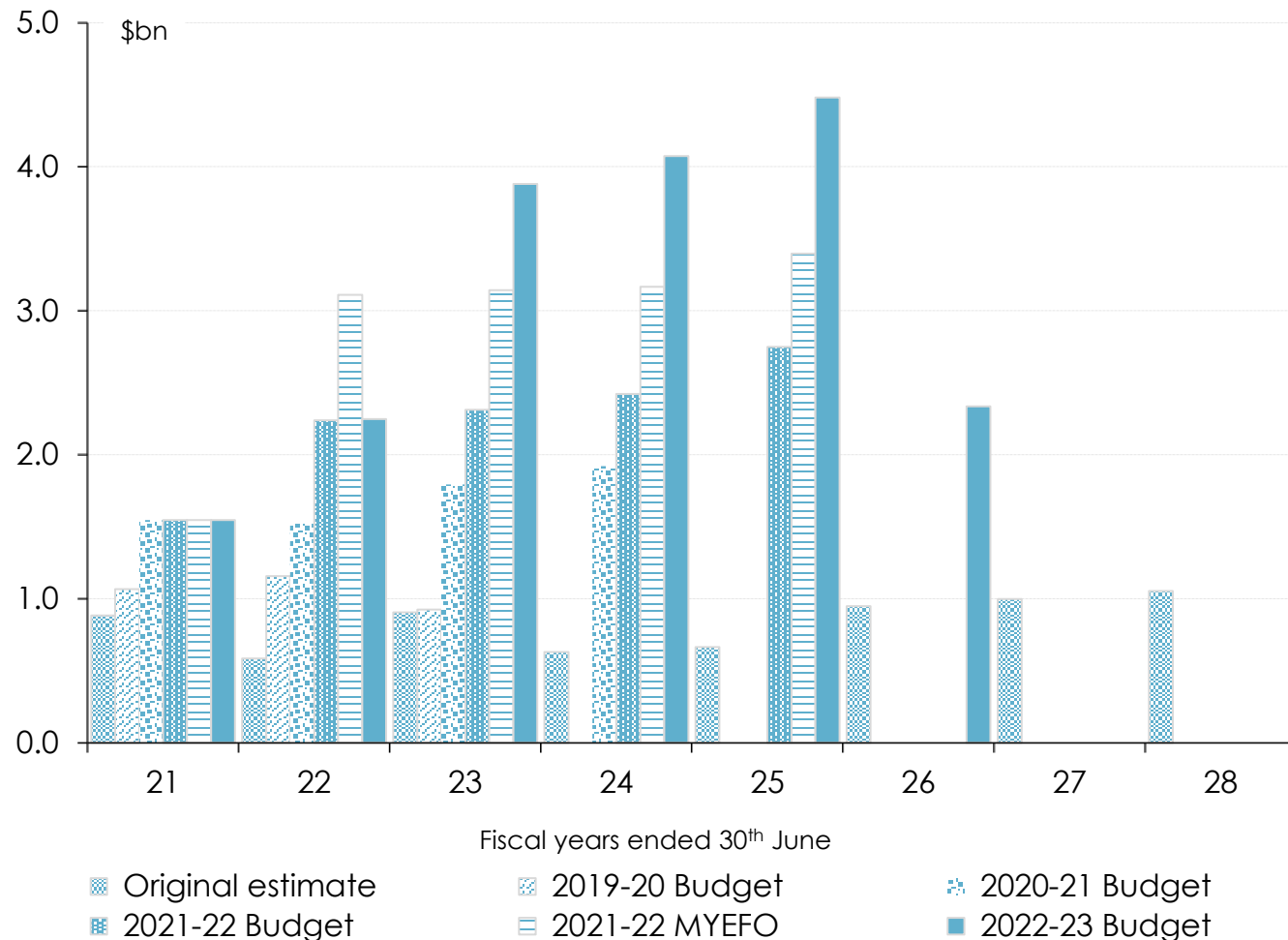
- ❑ Western Australia's 2022-23 Budget again benefits from buoyant mineral royalty revenues (even under conservative iron ore price assumptions), and changes in GST revenue-sharing arrangements which greatly favour it
- ❑ These have allowed this year's Budget to fund almost \$6bn in additional spending (including \$445mn for a one-off \$400 per household 'electricity credit') whilst still projecting 'net operating surpluses' in each of the five years to 2025-26
  - WA is the only state or territory projecting 'operating surpluses' over its budget forward estimates period
- ❑ These surpluses have in turn allowed the WA Government to 'retire' \$1.2 bn of debt during 2022-23, and to revise forecasts of net debt in subsequent years downwards by \$2-3bn
- ❑ As a proportion of GSP, WA's total public sector net debt is significantly lower than that of other jurisdictions ([slide 95](#))
- ❑ WA's budgetary position may turn out even stronger if iron ore prices remain above the assumed US\$66/5 cif from November'
  - each US\$1/t boosts mineral royalty revenues by \$81mn

Note: Budgetary aggregates shown in the above charts refer to the 'general government' sector (ie, excluding public corporations).  
 Source: Government of Western Australia, [2022-23 Budget Paper No 3 - Economic and Fiscal Outlook](#). [Return to "What's New"](#).

# The cost to the Federal Budget of giving WA more revenue from the GST than it 'deserves' keeps getting higher

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

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



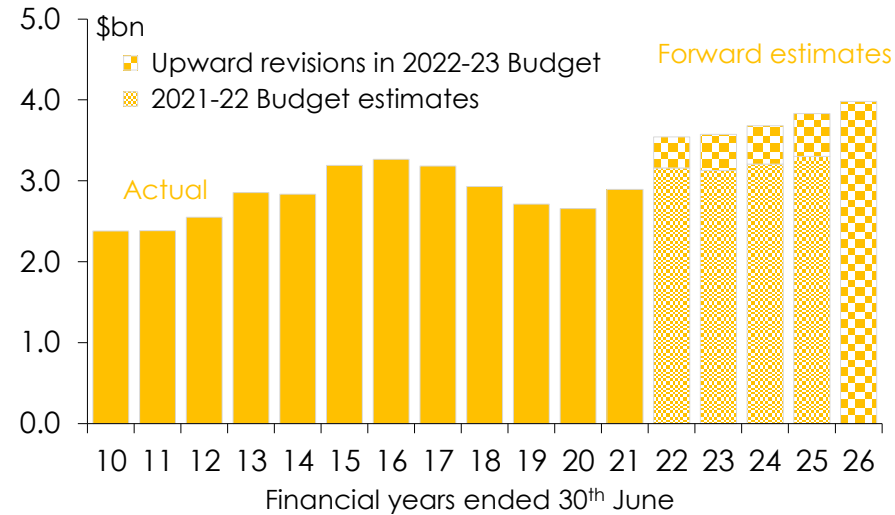
- ❑ The 2022-23 Federal Budget Papers put the cost to the Federal Government of the 'deal' imposed on the states and territories in 2018, in order to appease Western Australia's demands for larger share of GST revenues than it was 'entitled' to under the long-standing principles hitherto used by the 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"](#).

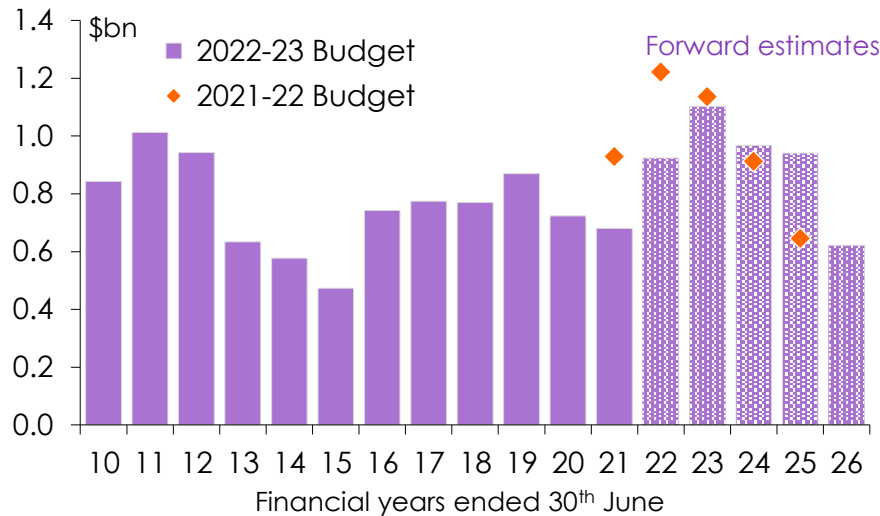
# The Northern Territory's 2022-23 Budget portrays a significant improvement in its financial position, largely thanks to stronger GST revenues

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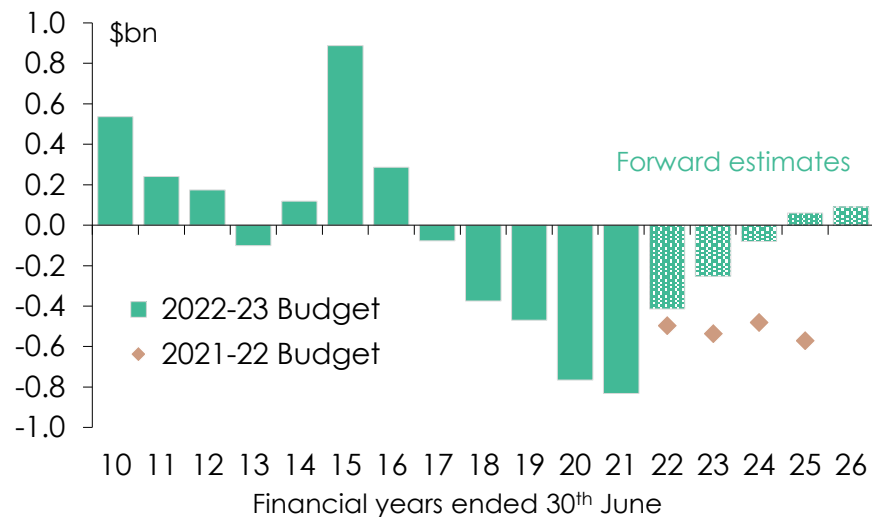
## GST revenue



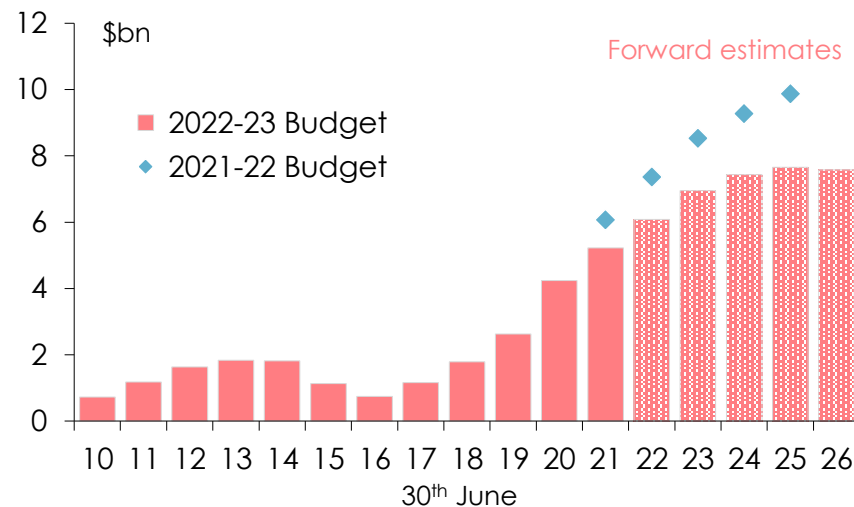
## Infrastructure spending



## 'Net operating balance'



## Net debt



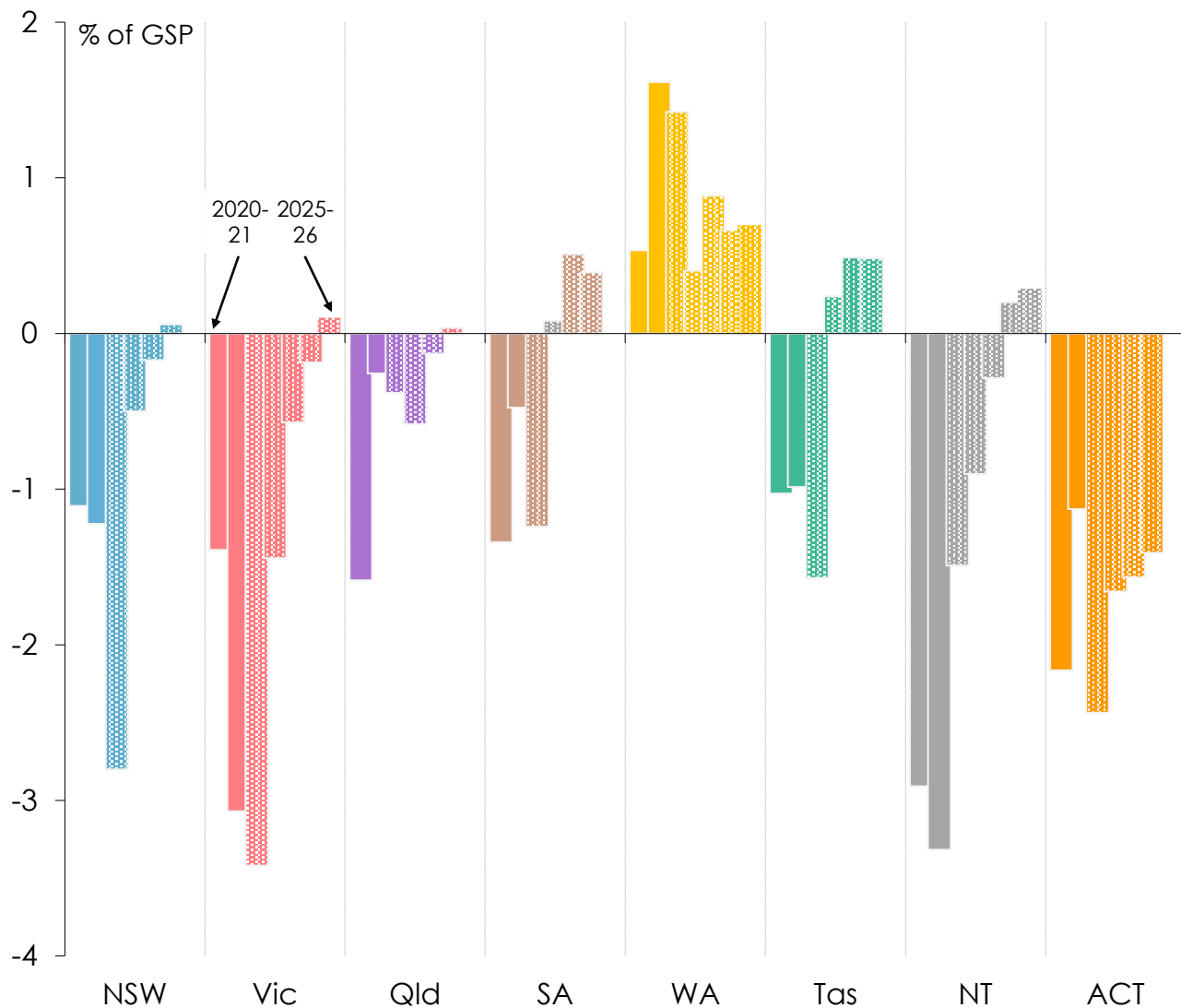
- The Northern Territory's (in recent years fairly parlous) financial position has benefited from upward revisions to revenue from the GST (due to increases in total GST collections and in the NT's share of the 'pool') which accounts for around 55% of its total revenues, together with tight control of non-Covid-related spending)
- As a result the Territory's 2022-23 Budget foreshadows a significant improvement in its 'net operating' position, returning to surplus in 2024-25 (as against prospective on-going deficits in last year's Budget)
- Together with some re-profiling of infrastructure spending, this improved 'operating' position has enabled significant downward revisions (of 15-20% pa) in the Territory's net debt position – which is now expected to stabilize at a slightly lower level (as a proportion of GSP) than Victoria's by 2025-26 (see [slide 95](#))
- The Territory's economy remains highly sensitive to the profile of major resources and infrastructure project investments, while its public finances are very vulnerable to shifts in GST distribution

Note: Budgetary aggregates shown in the above charts refer to the Territory's 'general government' sector (ie, excluding public corporations). Source: Northern Territory Government, 2022-23 [Budget Strategy and Outlook](#). [Return to "What's New"](#).

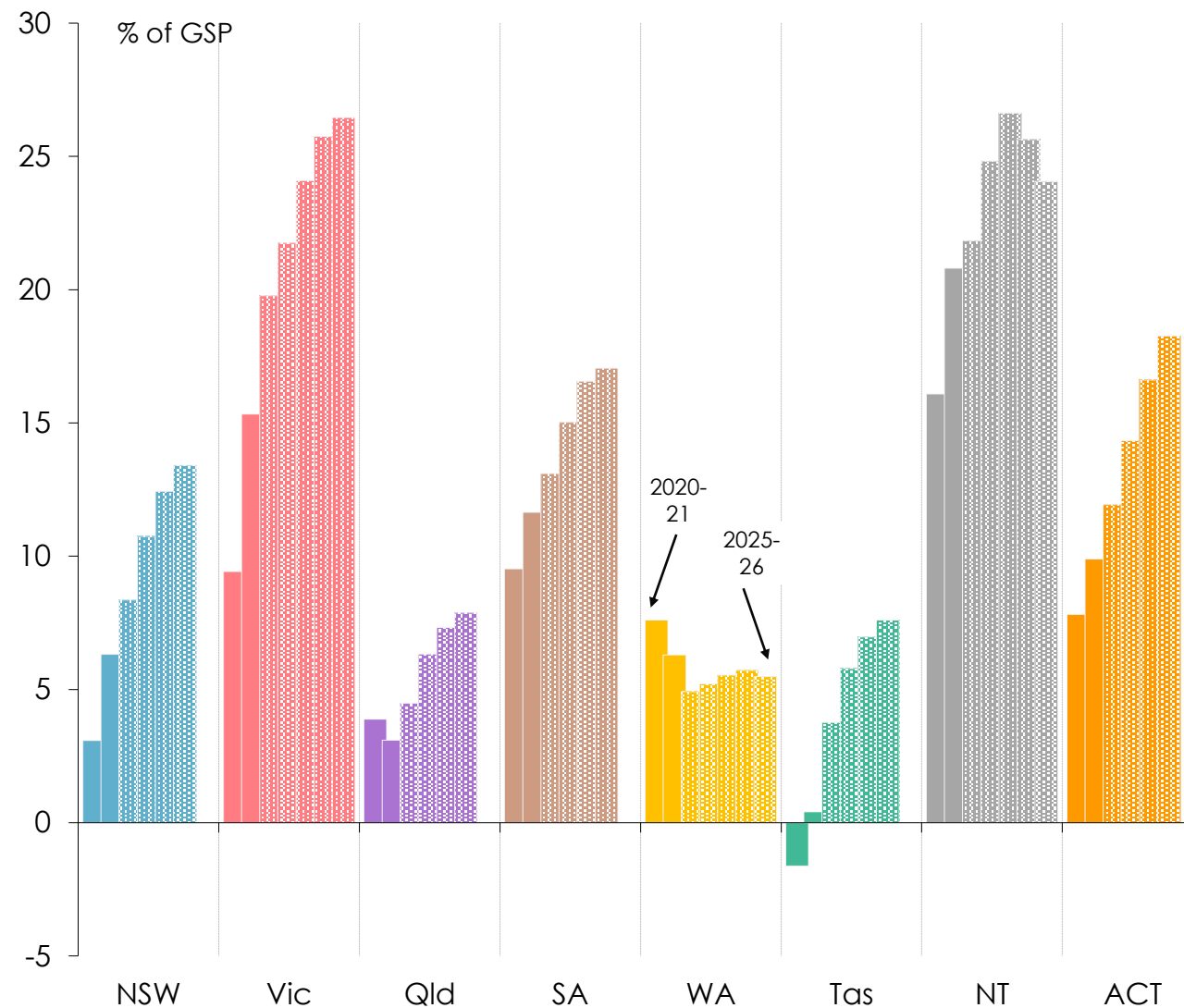
# Victoria and the Northern Territory have more onerous fiscal positions than the other jurisdictions

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## States and territories – ‘net operating balances’



## States and territories – net debt



Note: Estimates are for the 'general government' sector, ie excluding GBEs, etc. 'Net operating balance' is the difference between 'operating expenses' (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or Territory estimates of real GSP growth combined with Federal Treasury estimates of the (national) GDP price deflator. Sources: Victorian, Western Australian and Northern Territory 2022-23 Budget Papers, and Mid-Year Reviews for other states and territories. For dates of other state budgets see [slide 108](#). [Return to "What's New"](#).

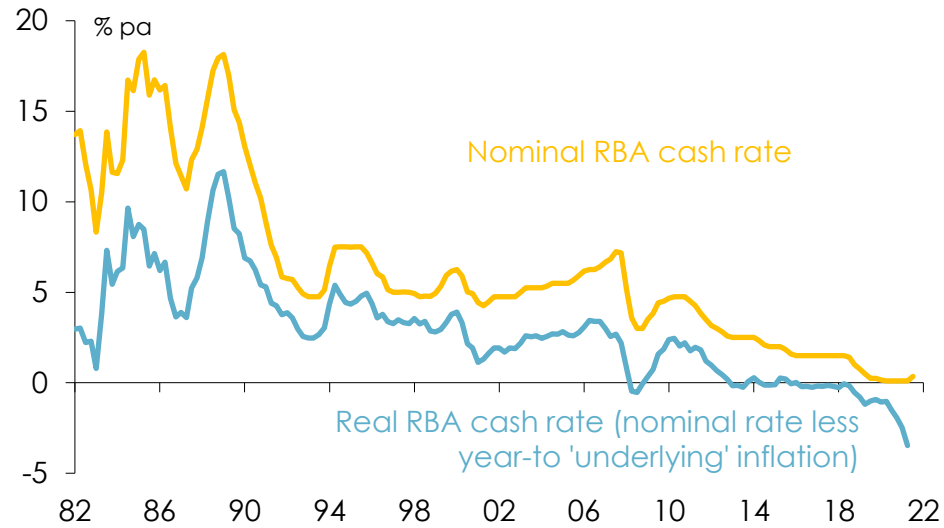
# Monetary policy and the RBA



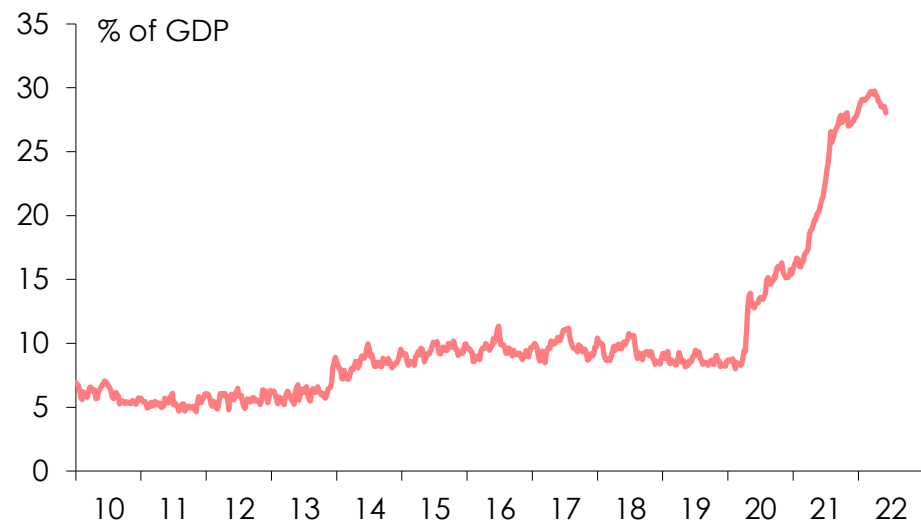
# The RBA raised its cash rate for the first time this month, although the real cash rate is still very negative so there must be more hikes to come

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## Reserve Bank cash rate



## Reserve Bank assets as a pc of GDP



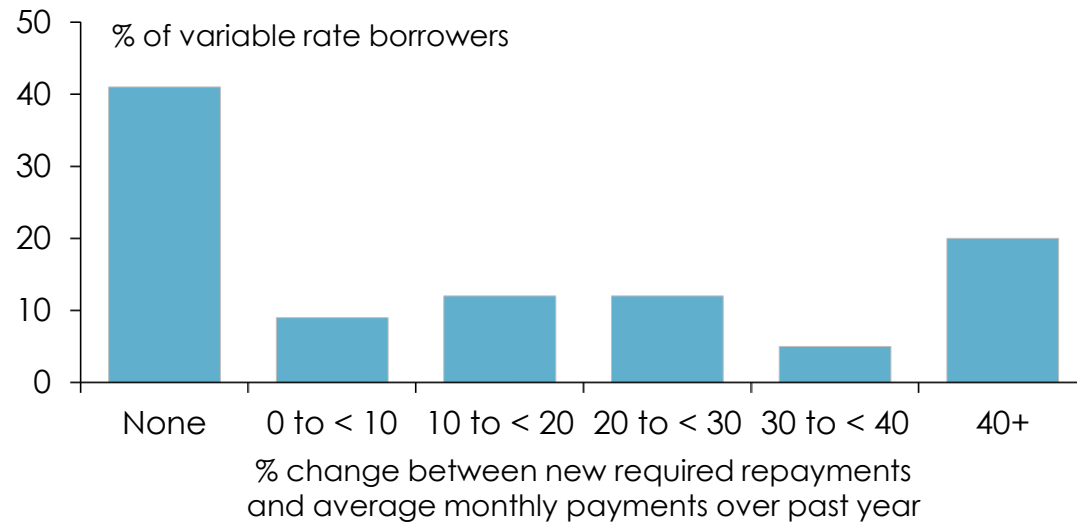
Source: Reserve Bank of Australia, [Statistical Tables A3](#) and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ The RBA raised its cash rate by 25bp at last week's Board meeting (for the first time since November 2010), **citing** not only last week's higher-than-expected CPI outcome, but also evidence (from its business liaison program) that "wages growth has been picking up" and the "resilience of the Australian economy" as indicated by the prospect of the unemployment rate soon falling to 3½% and remaining there
- ❑ The RBA also announced it would undertake 'quantitative tightening' by allowing its balance sheet to shrink, via not re-investing maturing bonds, and as banks repay loans made to them via the Term Funding Facility
- ❑ Governor Lowe **undertook** that the RBA would "do what is necessary to ensure that inflation ... returns to target over time" (by which it means to 3% in 2024) and that "further increases in interest rates will be necessary over the months ahead"
- ❑ This is entirely appropriate given that, with 'headline' and 'underlying' inflation now expected to be 6% and 4¾%, respectively, this year, the real cash rate is still lower than it has been at any time in the past 40 years, despite the unemployment rate falling to its lowest level in nearly 50 years
- ❑ Having raised the cash rate by 25bp last week, the RBA will probably raise it by 15bp in June (taking it to 0.50%) and subsequently in 25 bp increments, to a peak likely to be between 2 and 2½% by the second half of next year

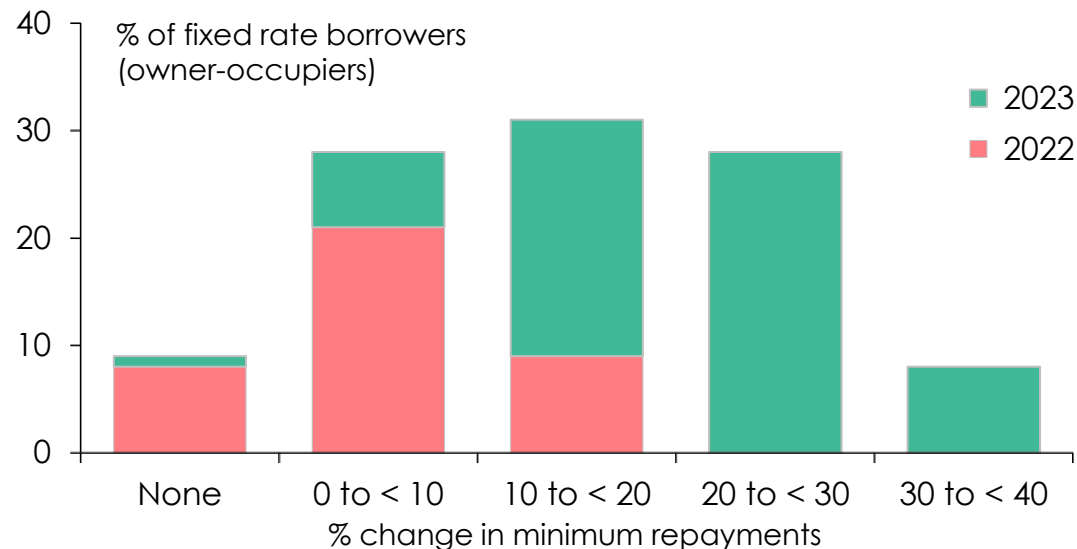
# The RBA's latest *Financial Stability Review* gives some idea of household sensitivity to prospective increases in interest rates

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## Repayment increases for variable-rate loans



## Repayment changes on expiring fixed-rate loans



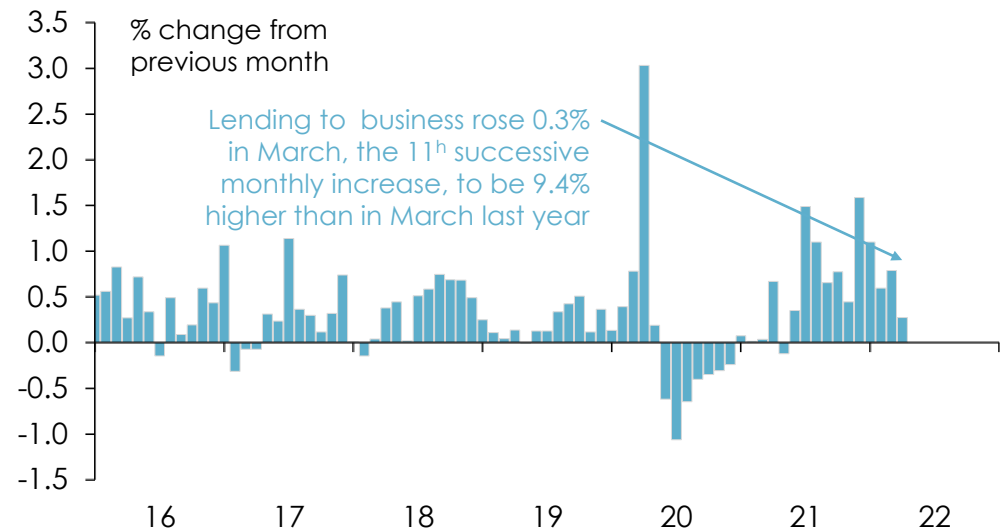
- ❑ 60% of all mortgage borrowers have variable-rate loans
- ❑ The RBA estimates that if variable mortgage rates were to rise by 200bp, just over 40% of those borrowers would not have to increase their monthly payments (because they've been paying more than contractually required)
  - whereas about 25% 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"](#).

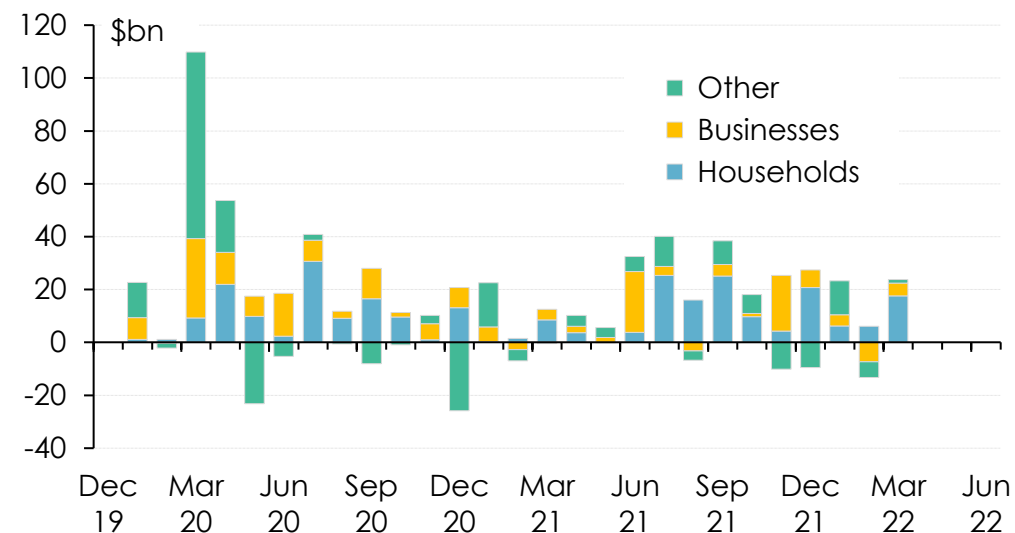
# Banks have been swamped with deposits since the beginning of the pandemic, and have lent readily to both households and businesses

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## Business credit outstanding



## Monthly change in bank deposits



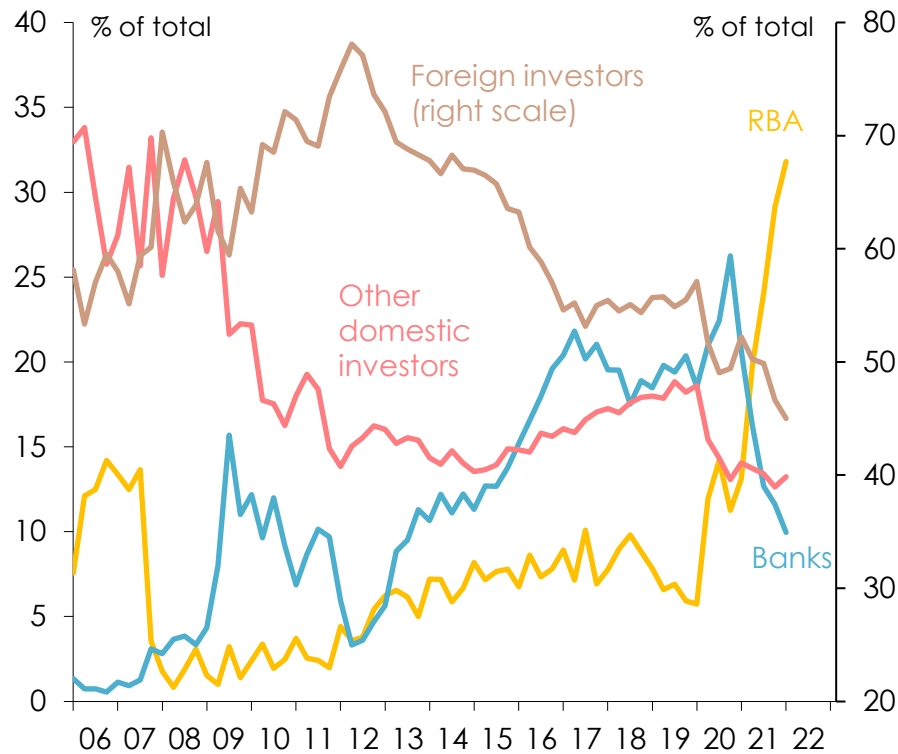
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since the beginning of 2019 (when the RBA started cutting rates again)
  - Small business overdraft and term loan rates have fallen by 180 and 144 bp respectively since January 2019, cf. a 140 bp reduction in the RBA's cash rate and a 175 bp 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 past 12 months, bank lending to business has grown 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 \$515bn (24¼%) 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
- ❑ Household deposits have risen by \$273bn (27½%) since February 2019, while business deposits have risen by \$173bn (29%)

Sources: Reserve Bank of Australia; APRA. [Return to "What's New"](#).

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

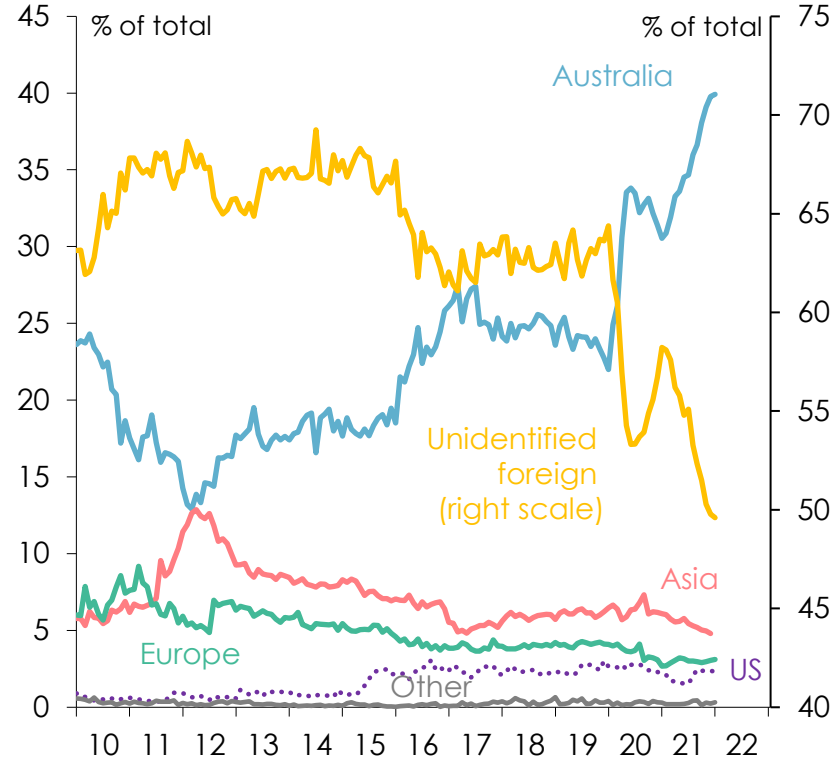
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## Holder of Australian Government bonds



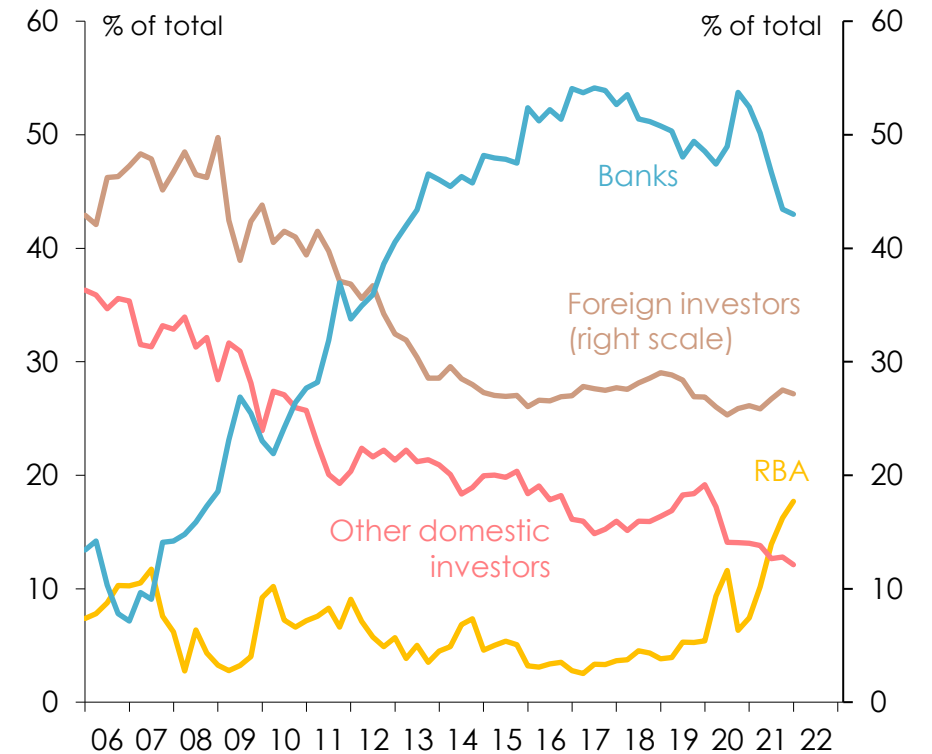
Australian Gov't bonds on issue have increased by \$252bn since the end of 2019 – of which \$246bn (97%) have been absorbed by the RBA, and \$37bn by foreigners, while banks have reduced their holdings by \$29bn

## 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

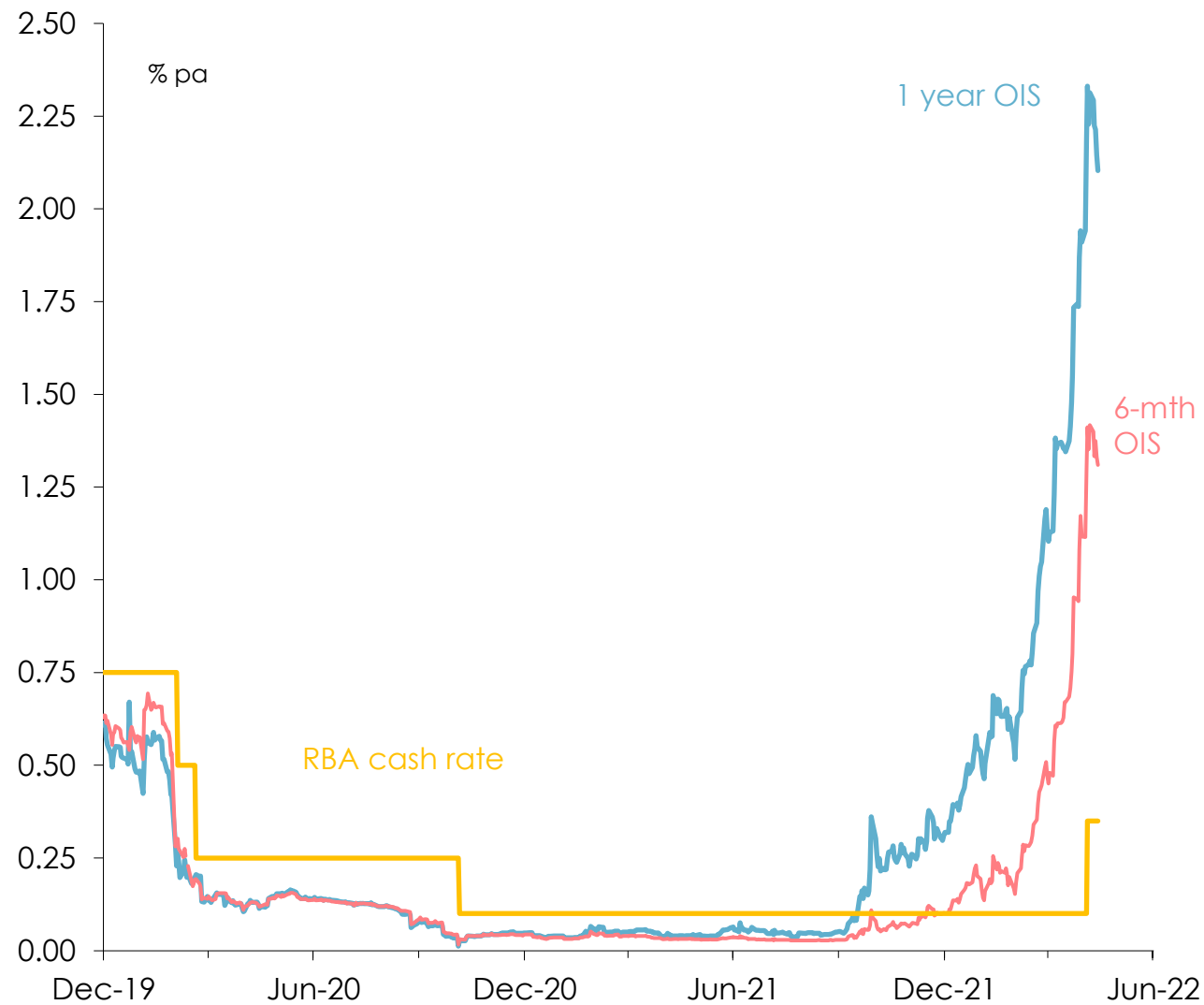
Sources: ABS, [Finance and Wealth Accounts](#), December quarter 2021; [Australian Office of Financial Management](#). March quarter data will be released on 23<sup>rd</sup> June. [Return to "What's New"](#).

# Australian financial markets

# Financial markets this week retreated a little from their aggressive pricing of further rate hikes after last week's RBA Board meeting

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## Overnight index swap rates



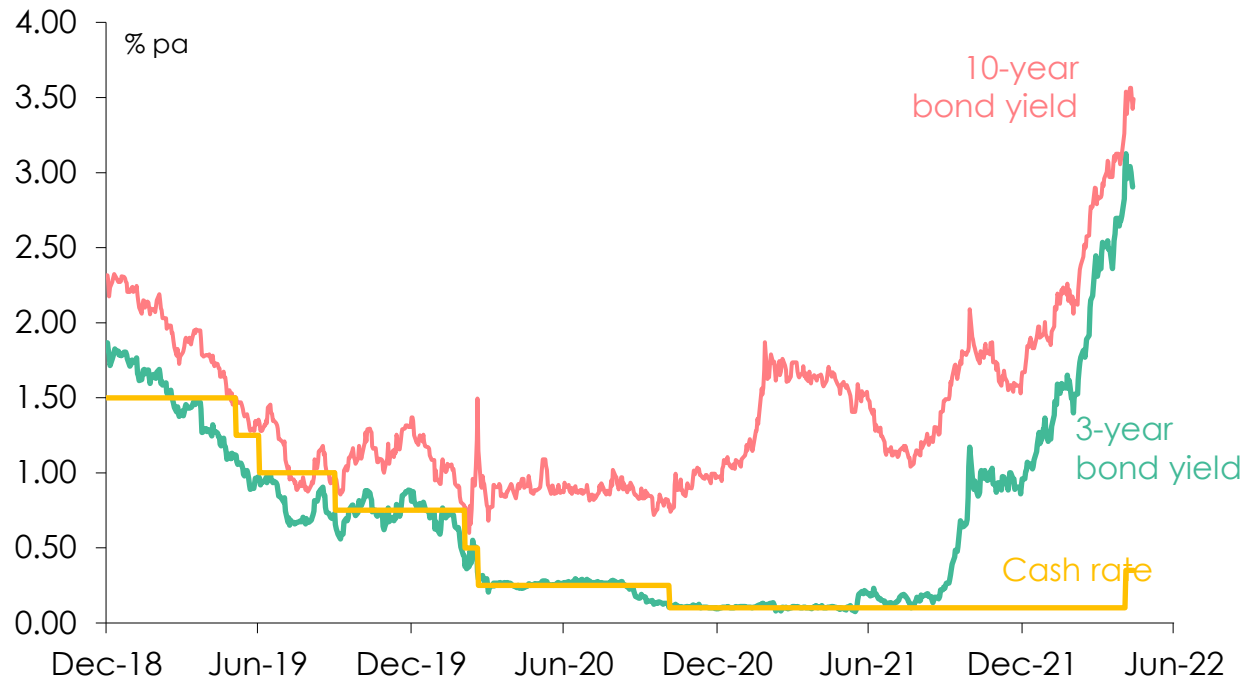
## Yield curves



# Short- and longer-term bond yields eased a little this week, following less a slight re-think of the RBA rate hike profile and US inflation data

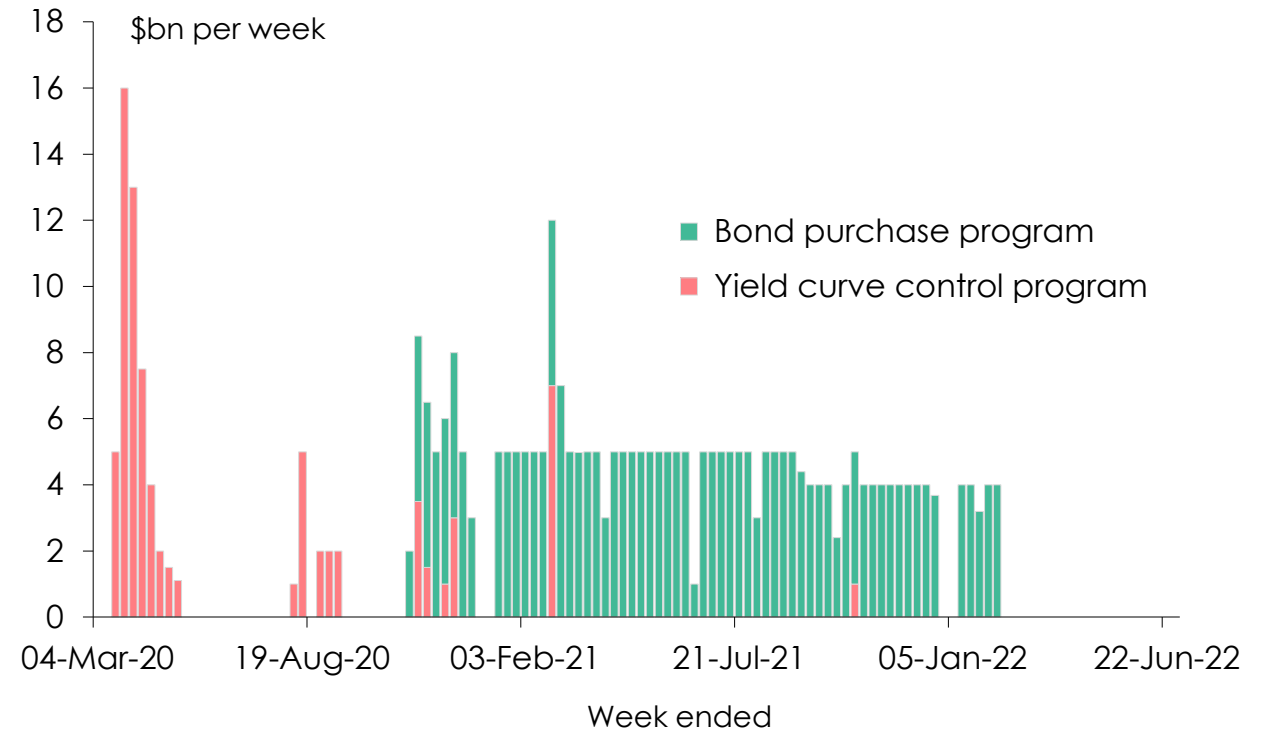
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## Interest rates



- ❑ 3-year bond yields retreated below 3% this week (having last week traded above that level for the first time since April 2012) as short-term money markets eased back a little on their bearish post-RBA meeting pricing of future cash rate hikes
- ❑ 10-year bonds traded up to 3.57%, their highest yield since July 2014), early this week, but then eased back to finish just below 3.50% after the less-threatening-than-feared US inflation figures released Wednesday night (Australian time)

## RBA open market bond purchases



- ❑ The RBA concluded its Bond Purchase Program in the second week of February, bringing the total amount of purchases under it and the Yield Curve Target program (which was terminated last year) to just under \$360bn (equivalent to about 17% of GDP)
- ❑ The RBA this month announced that it will no longer re-invest the proceeds of maturing bonds, so that its bond holdings will decline over time

**SAUL ESLAKE**  
CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

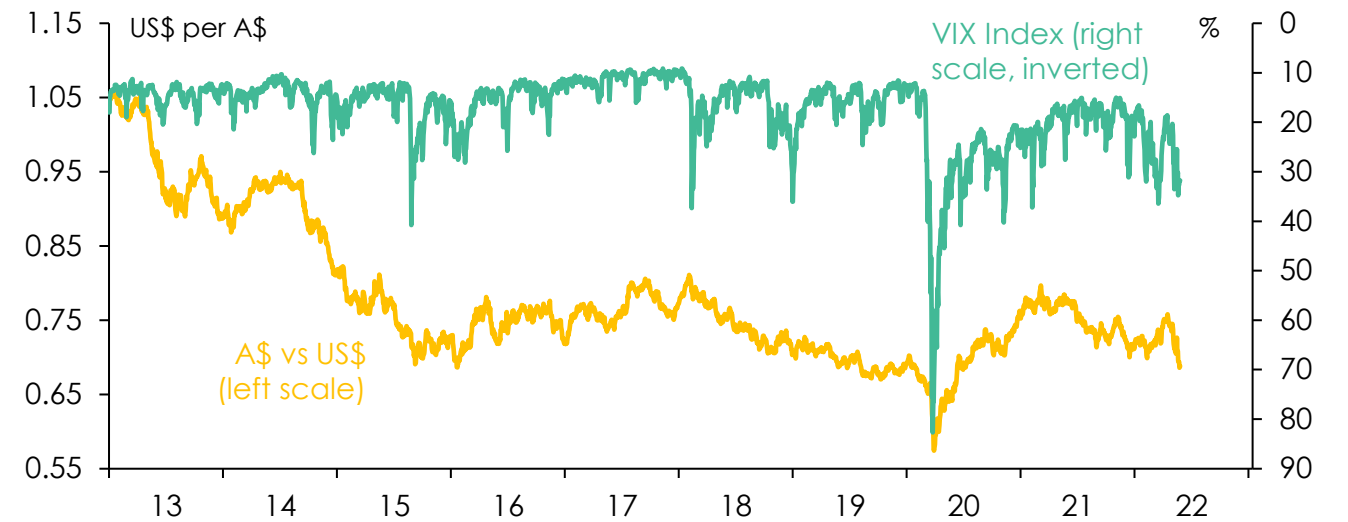
# The A\$ finished below US69¢ this week, its lowest since June 2020, vs a stronger US\$ and on lower prices for iron ore and other commodities

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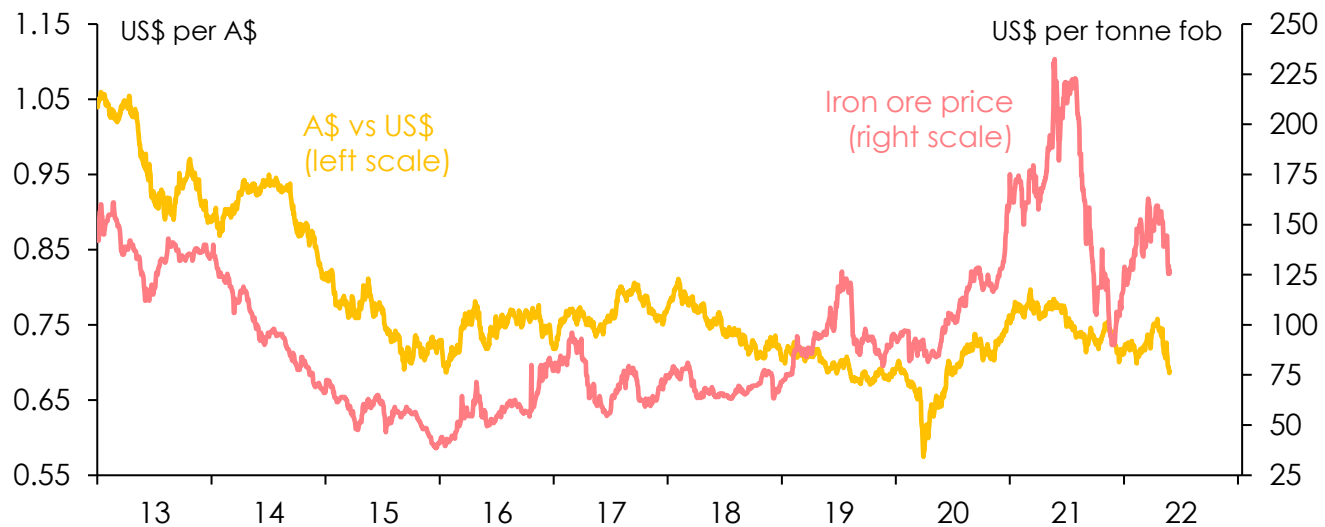
## A\$-US\$ and US\$ trade-weighted index



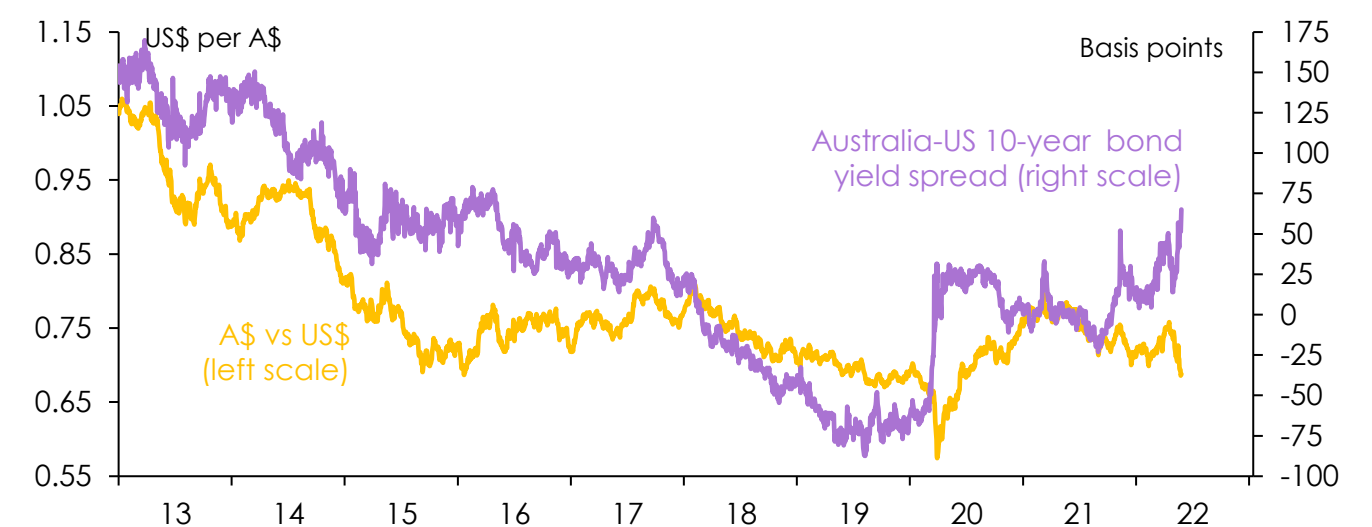
## A\$-US\$ and US equity market volatility



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



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



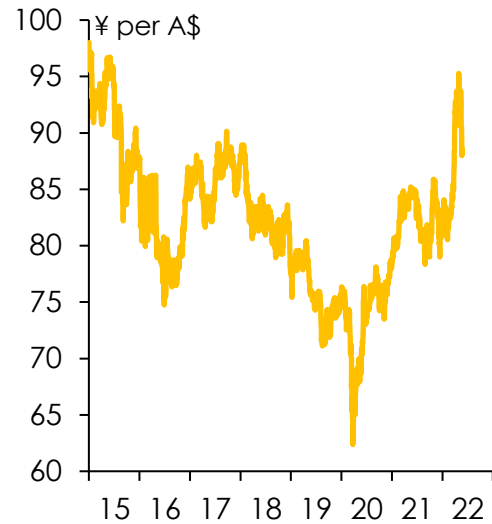
Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 13<sup>th</sup> May. [Return to "What's New"](#).



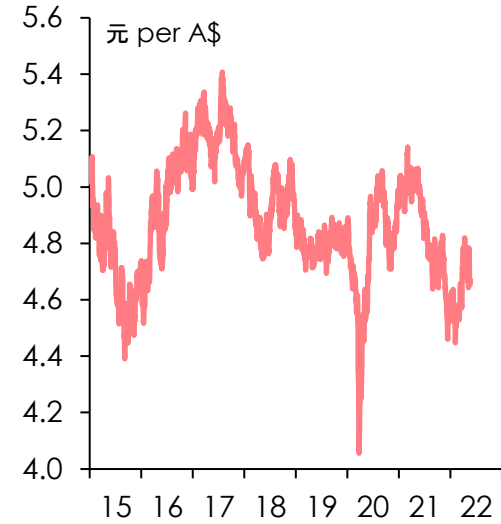
# The A\$ also fell against third currencies this week, dropping 4% vs the yen, 2% vs most other Asian currencies and the C\$, and 0.9% vs the euro

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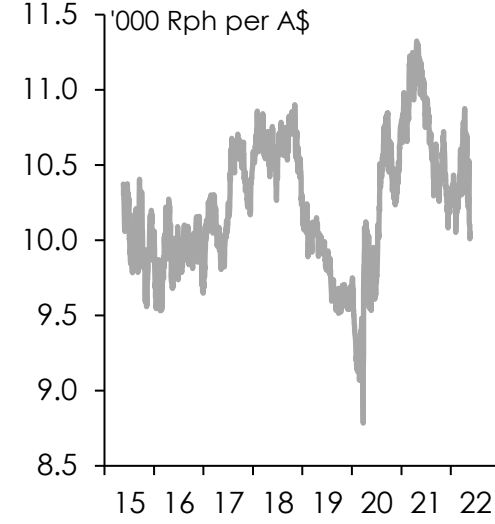
### A\$ vs Japanese yen



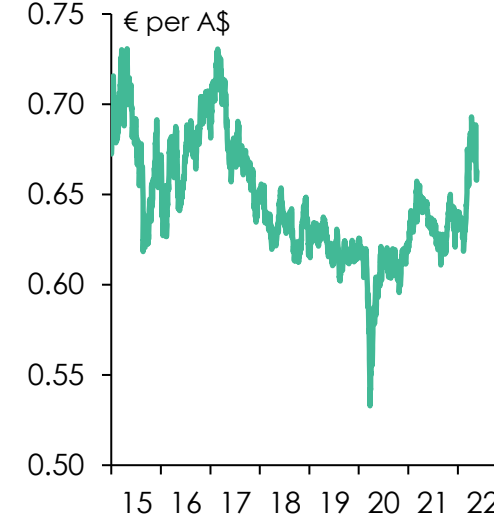
### A\$ vs Chinese yuan



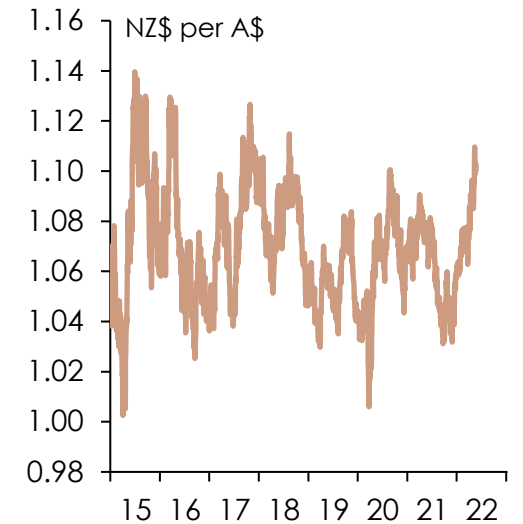
### A\$ vs Indo rupiah



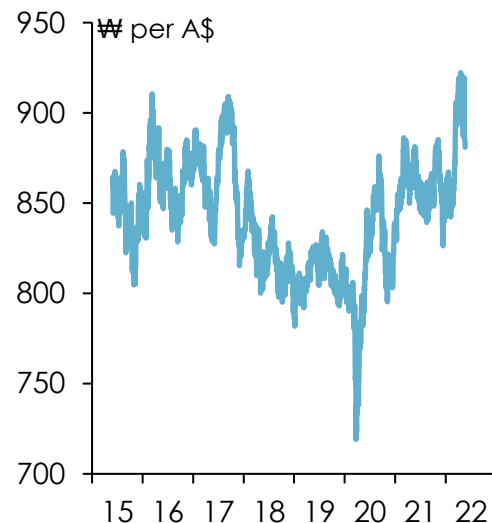
### A\$ vs Euro



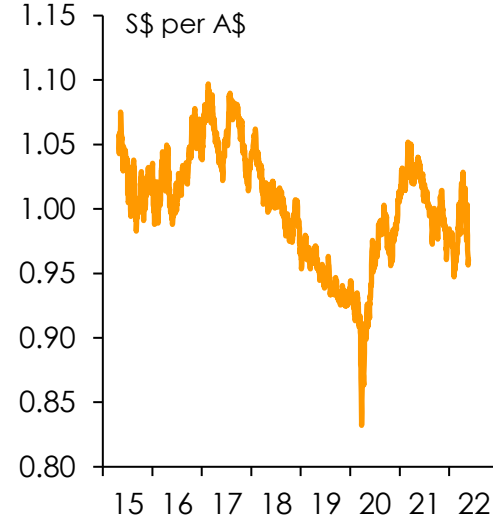
### A\$ vs NZ\$



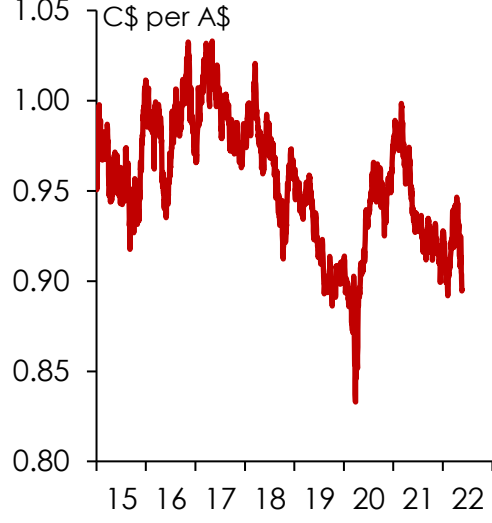
### A\$ vs Korean won



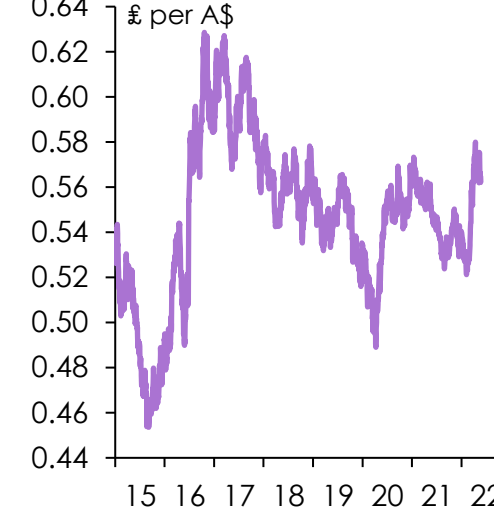
### A\$ vs Singapore \$



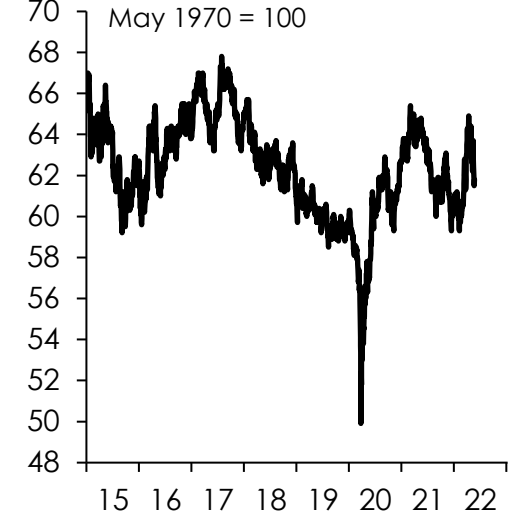
### A\$ vs Canadian \$



### A\$ vs British pound



### A\$ TWI

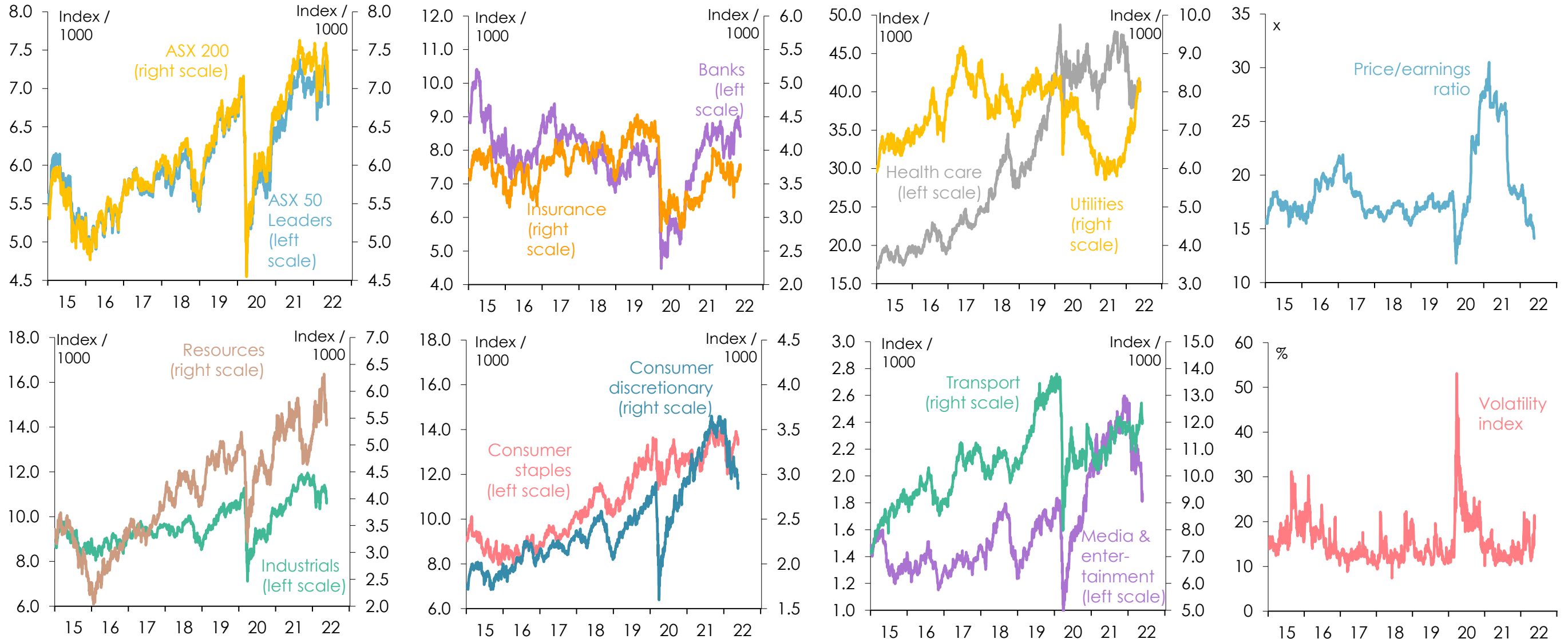


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 13<sup>th</sup> May. [Return to "What's New"](#).

# Despite a rebound on Friday, the broader ASX dropped 2% this week (following the US and other major markets) to be down 6% so far this year

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

## ASX indices



Sources: Refinitiv Datastream. ASX200 and 50 Leaders up to 13<sup>th</sup> May. [Return to "What's New"](#).

**Key data and events next week**

# Key data and events for week ended 20<sup>th</sup> May

THE AUSTRALIAN ECONOMY THIS WEEK – 13<sup>TH</sup> MAY 2022

Tuesday 17 <sup>th</sup> May	ABS April survey of impacts of Covid-19 on households; minutes of May RBA Board meeting
Wednesday 18 <sup>th</sup> May	<b>March quarter wage price index</b> (Coalition and Labor election promises costings likely to be released Wednesday or Thursday)
Thursday 19 <sup>th</sup> May	<b>April labour force survey</b> (employment & unemployment)
Saturday 21 <sup>st</sup> May	<b>Election</b> for the Australian House of Representatives and half the Senate
State Budgets	Tasmania – 26 <sup>th</sup> May South Australia – 2 <sup>nd</sup> June New South Wales – 21 <sup>st</sup> June Queensland – 21 <sup>st</sup> June ACT – 2 <sup>nd</sup> August

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

## Important information

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

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