



# THE AUSTRALIAN ECONOMY THIS WEEK

27<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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- ❑ Australians installed a Labor Government at last Saturday's federal election – in what seems to have been more an emphatic rejection of the previous Liberal-National Coalition Government and Prime Minister Scott Morrison than as enthusiastic endorsement of Labor as when it previously came to government in 1983 or 2007 ([slide 5](#))
- ❑ Australia continues to record relatively high numbers of new and active Covid-19 cases, with Covid-related deaths rising (albeit still representing a very low proportion of cases) ([slide 8](#))
- ❑ 38% of businesses expect to raise prices 'more than normal' over the next three months, overwhelmingly in order to pass on increases in the cost of energy and other inputs, rather than labour costs ([slide 24](#))
- ❑ Business new fixed capital expenditure fell 0.3% in the March quarter, as a result of large falls in capex in the retail, construction and telecoms sectors, and smaller falls in mining ([slide 28](#))
- ❑ Businesses nonetheless revised up their capital expenditure intentions for 2022-23 by 11¾% between the January-February and April-May ABS surveys, implying (assuming these intentions are 'realized' to the same extent as on average over the previous five years) that business investment will increase by almost 16% (in nominal terms) in the coming financial year, after a 14¾ increase in 2021-22 ([slide 29](#))
- ❑ Retail sales rose by 0.9% in April, compared with increases of 1.6-1.8% in the previous three months, reflecting falls in sales at department stores and household goods retailers which had risen strongly in February and March ([slide 35](#))
- ❑ Further more detailed results from the April labour force survey show that there were 283,000 (or 4%) fewer 15-34 year-olds in Australia in April than there were on the eve of the Covid-19 pandemic, which helps explain why the unemployment rate has fallen so much further than expected ([slide 52](#))
- ❑ The federal budget deficit has shrunk from a peak of \$204bn in the 12 months to February 2021 to \$46.5bn in the 12 months to April this year, and net debt has fallen from a peak of \$626bn in August last year to \$541bn at the end of April this year ([slide 74](#)) – although the last Budget of the outgoing Coalition Government projected continued deficits through at least 2032-33 ([slide 75](#))
- ❑ Tasmania's 2022-23 Budget projects larger budget deficits and higher levels of net debt in order to fund more than \$1bn of additional 'operating' and capital expenditures over the four years to 2025-26, resulting in a breach of one of the Government's fiscal strategy guidelines in 2025-26 ([slide 81](#))
- ❑ The A\$ climbed back above US71¢ this week against a weaker US\$ ([slide 92](#))
- ❑ Highlights of next week's calendar include March quarter GDP; April building approvals, housing finance and international trade; and South Australia's 2022-23 Budget ([slide 96](#))

# The Federal election

# Australian voters elected a Labor Government at last Saturday's Federal election, for the first time in 12 years

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- ❑ Australians voted last Saturday to install a Federal Labor Government, for only the fourth time since the end of World War II
- ❑ The latest [official count](#) from the Australian Electoral Commission gives Labor 75 seats in the 151-member House of Representatives (a net gain of 7), the Liberal-National Coalition 59 (a net loss of 18), the Greens 3 (a gain of 2), and other minor parties and independents 12 (an increase of 7), with 2 seats still in doubt
  - however Labor seems likely to win at least one of these seats still in doubt, giving it the narrowest of majorities in the House
  - counting for the Senate has a long way to go but it seems likely that the Greens will increase their representation in the Upper House from 9 to 12, giving them the 'balance of power' in their own right
- ❑ The result was more an emphatic repudiation of the previous Coalition Government and Prime Minister Scott Morrison, in particular ...
  - the Coalition's primary vote fell by 5.2 pc points to 36.2%, its worst result since 1943
  - in addition to losing at least 10 seats to Labor, the Liberal Party also lost six of its hitherto safest seats, in affluent areas of Sydney, Melbourne (including that of former Treasurer Josh Frydenberg) and Perth, to economically liberal/socially progressive independents – and electoral history suggests that these seats will be difficult for the Liberal Party to 'win back' at subsequent elections
- ❑ ... than an enthusiastic endorsement of Labor (in contrast to its emphatic victories in 1983 or 2007)
  - Labor's primary vote also fell 0.6 pc point to 32.7%, the lowest since 1934 (or 1905 if votes for a Labor splinter party in 1934 are excluded) – but Labor picked up a larger share of preferences, gaining 51.6% of the two-party-preferred vote, representing a 'swing' of 3.1%
- ❑ Right-wing minor parties fared badly, despite one of them (Clive Palmer's United Australia Party) spending almost \$100mn on advertising, and the other (Pauline Hanson's One Nation) running far more candidates than in 2019

# Labor ran a (successful) 'small target' strategy into the 2022 election – which means it has a fairly limited mandate

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

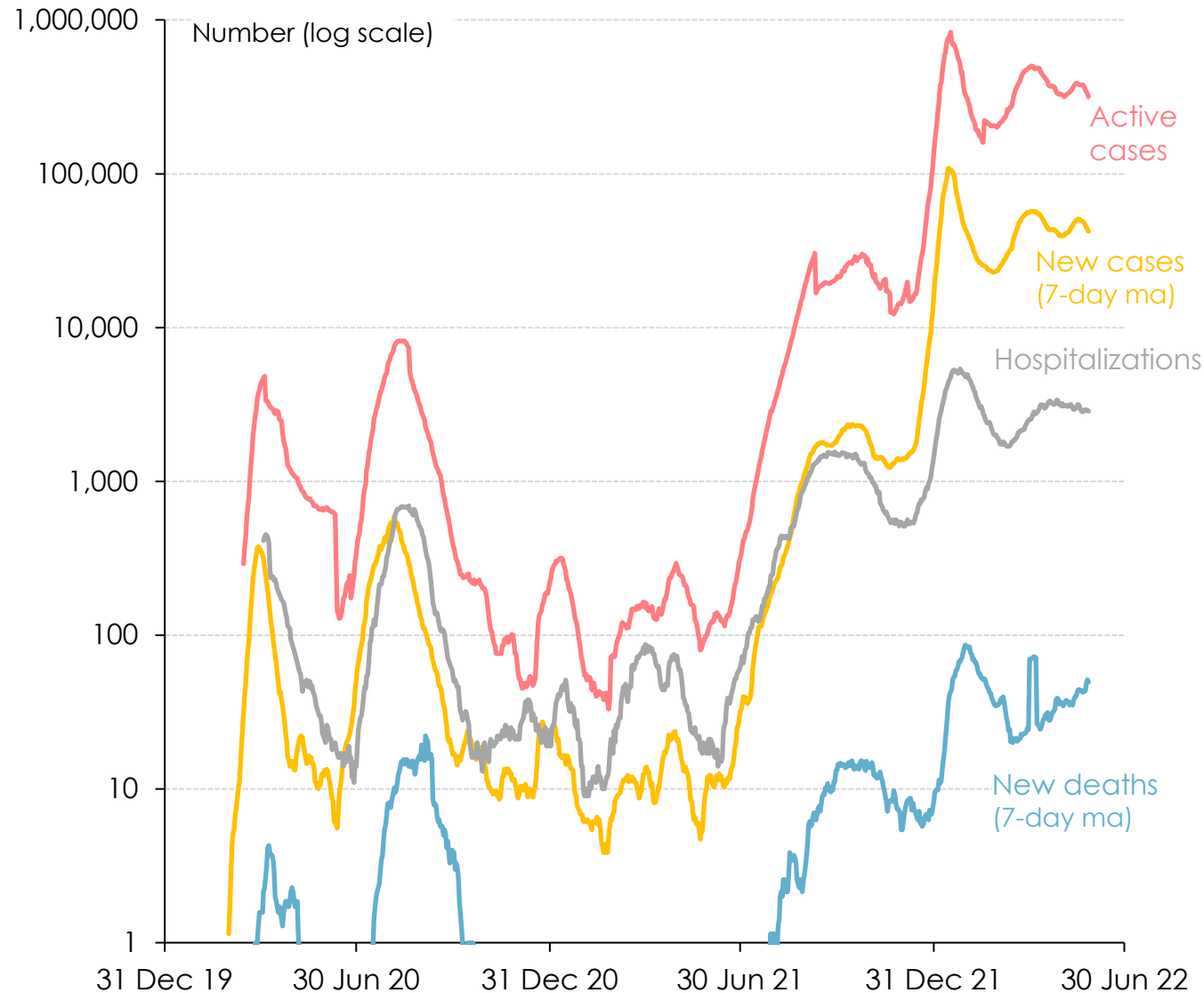
- ❑ One of the clear lessons of Australian political history over the last three or more decades is that Oppositions cannot win elections on platforms of major reform which entail 'losers' as well as 'winners'
  - the Government of the day will almost always be able to use the vastly greater resources 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 ran an unambiguously 'small target' strategy ahead of this election (like the Liberals under John Howard did in 1996) – and it worked
- ❑ Labor does have a clear mandate for a relatively small suite of policies, including
  - 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 electricity charges by \$378 pa
  - 'cheaper childcare' – an increase in the maximum subsidy rate to 90%, with higher and smoother 'taper' rates
  - 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)
  - 45,000 new free TAFE training places and up to 20,000 more university places
- ❑ But it doesn't have any kind of mandate for 'budget repair' – indeed it said just before the election it would add \$7.3bn (or about 3¼%) to prospective budget deficits over the four years to 2025-26
- ❑ Nor does it have any mandate for broader, productivity-enhancing reforms
  - unless some kind of 'consensus' for reforms emerges from the proposed 'employment summit' (like it did from Bob Hawke's 'National Economic Summit' in 1983)

**The virus**

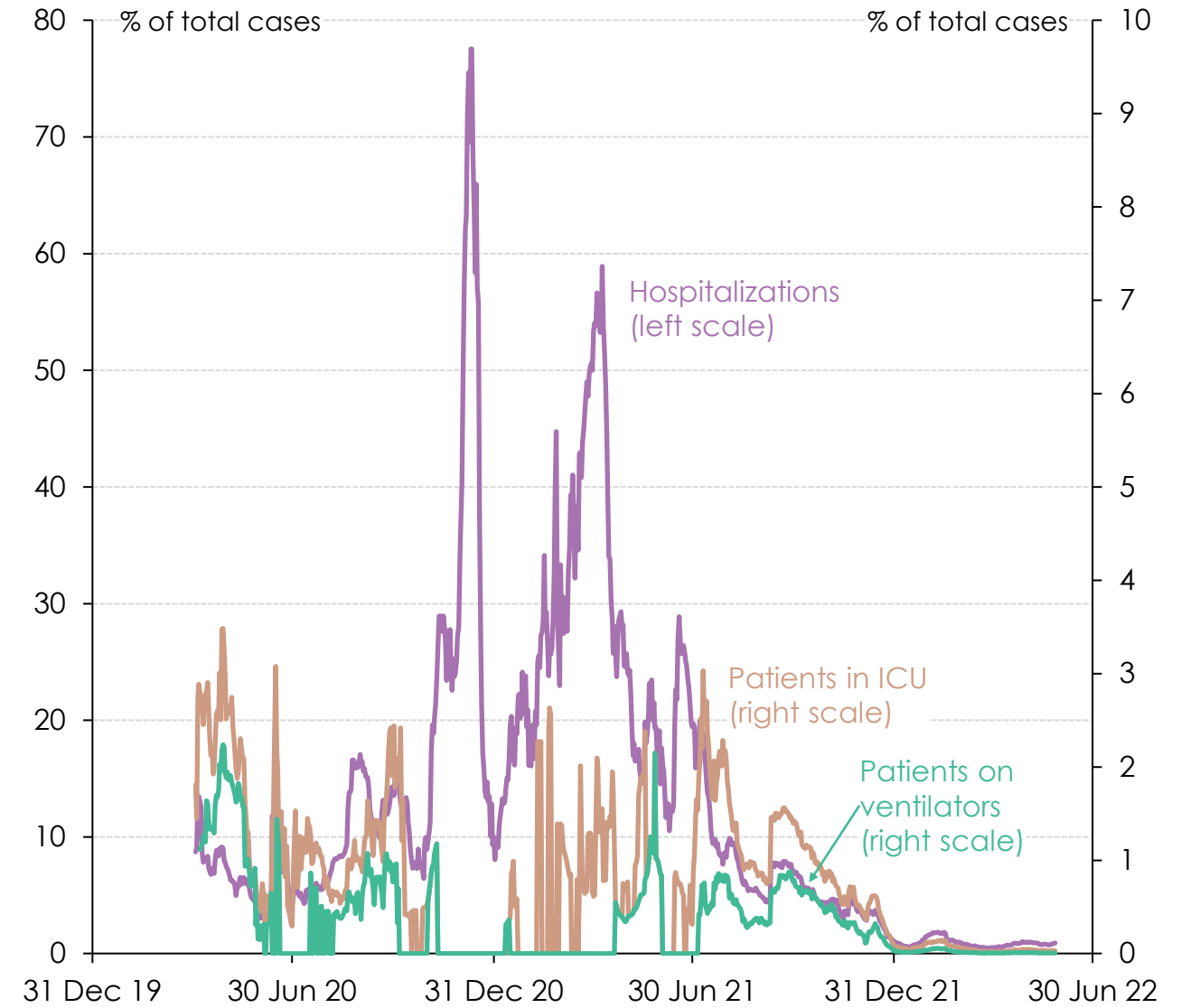
# New & active case numbers have peaked, but seem to have stabilized at a high level, and deaths have also risen over the past few weeks

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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 27<sup>th</sup> May.

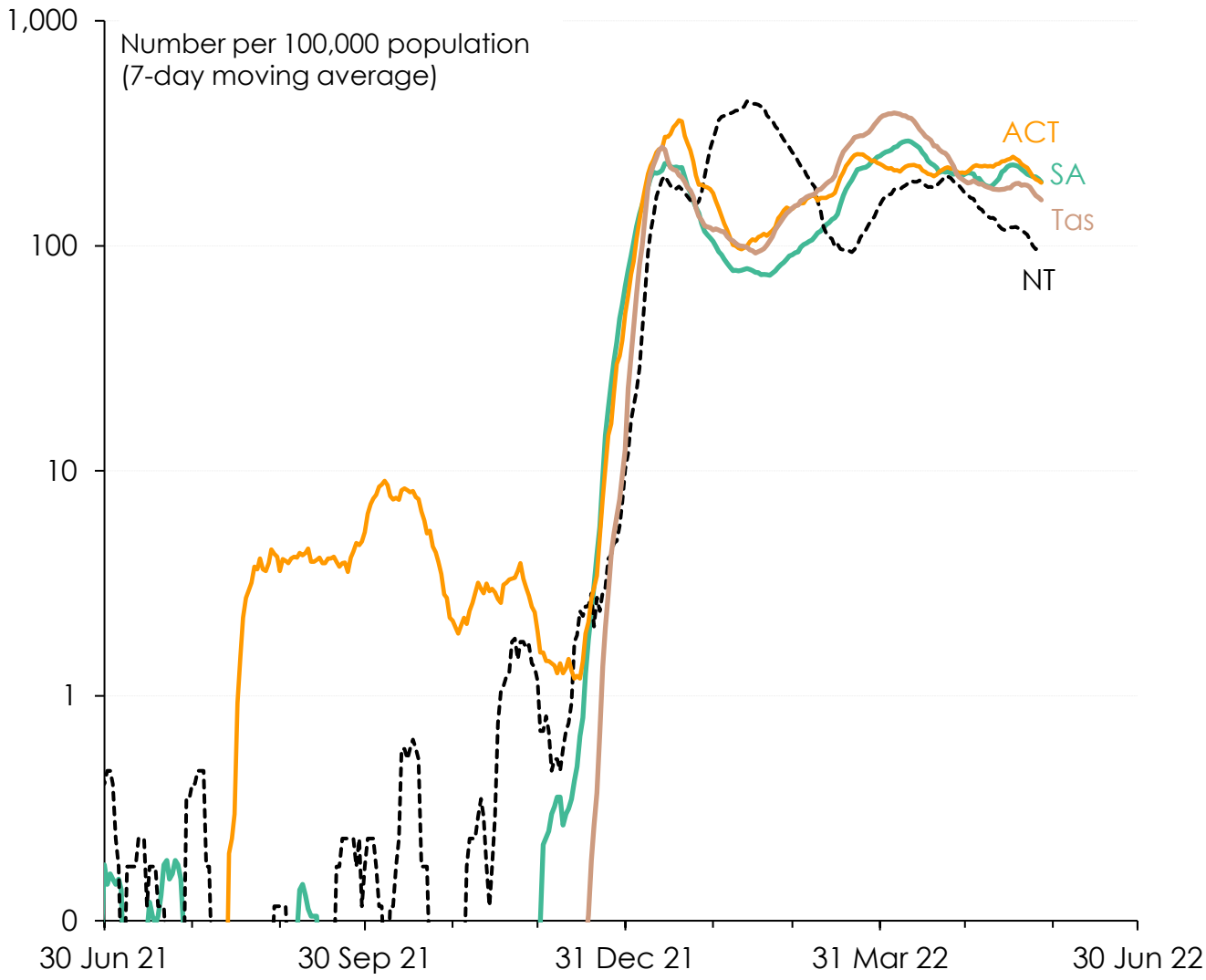
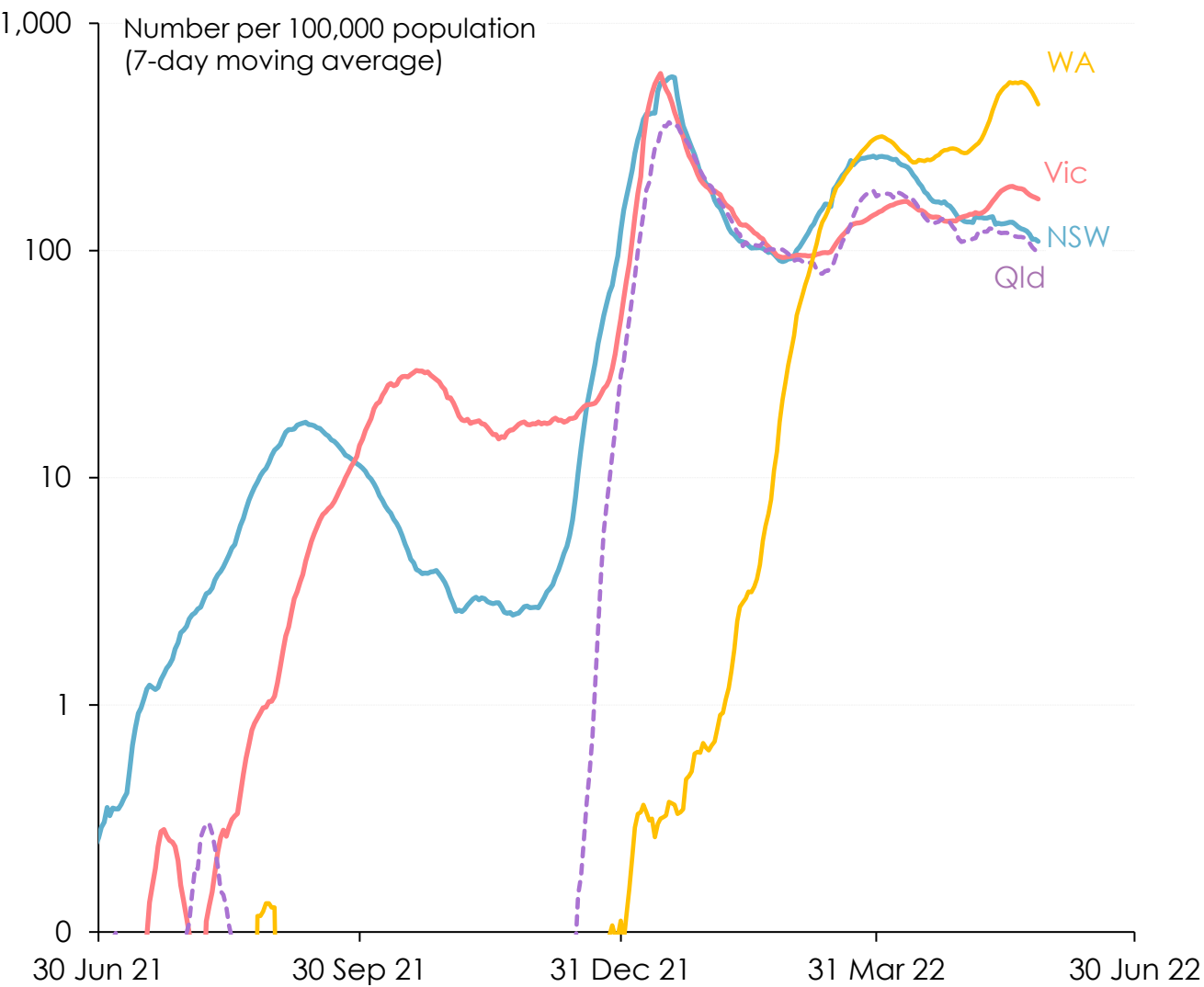
Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).



# New case numbers have peaked, at least for the time being, in all states & territories including WA where they had risen sharply since March

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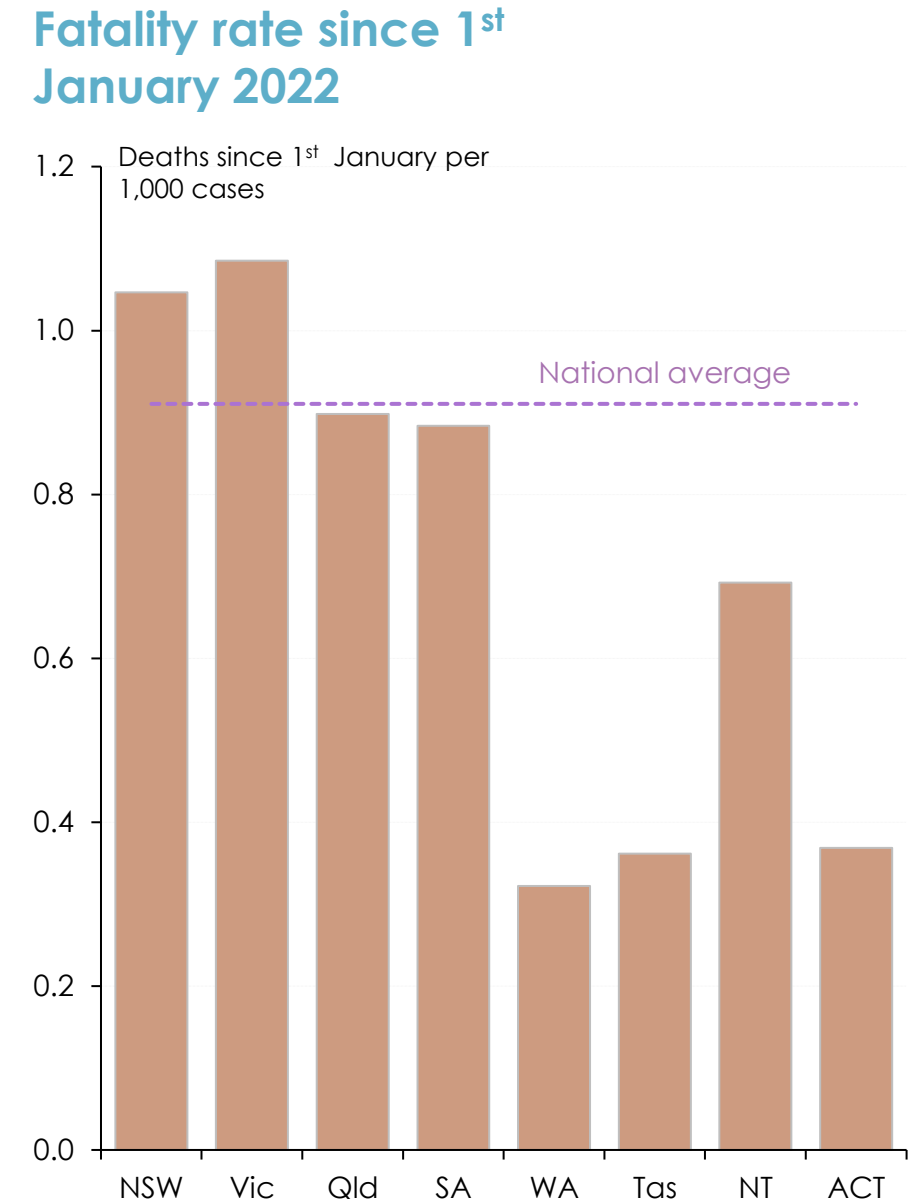
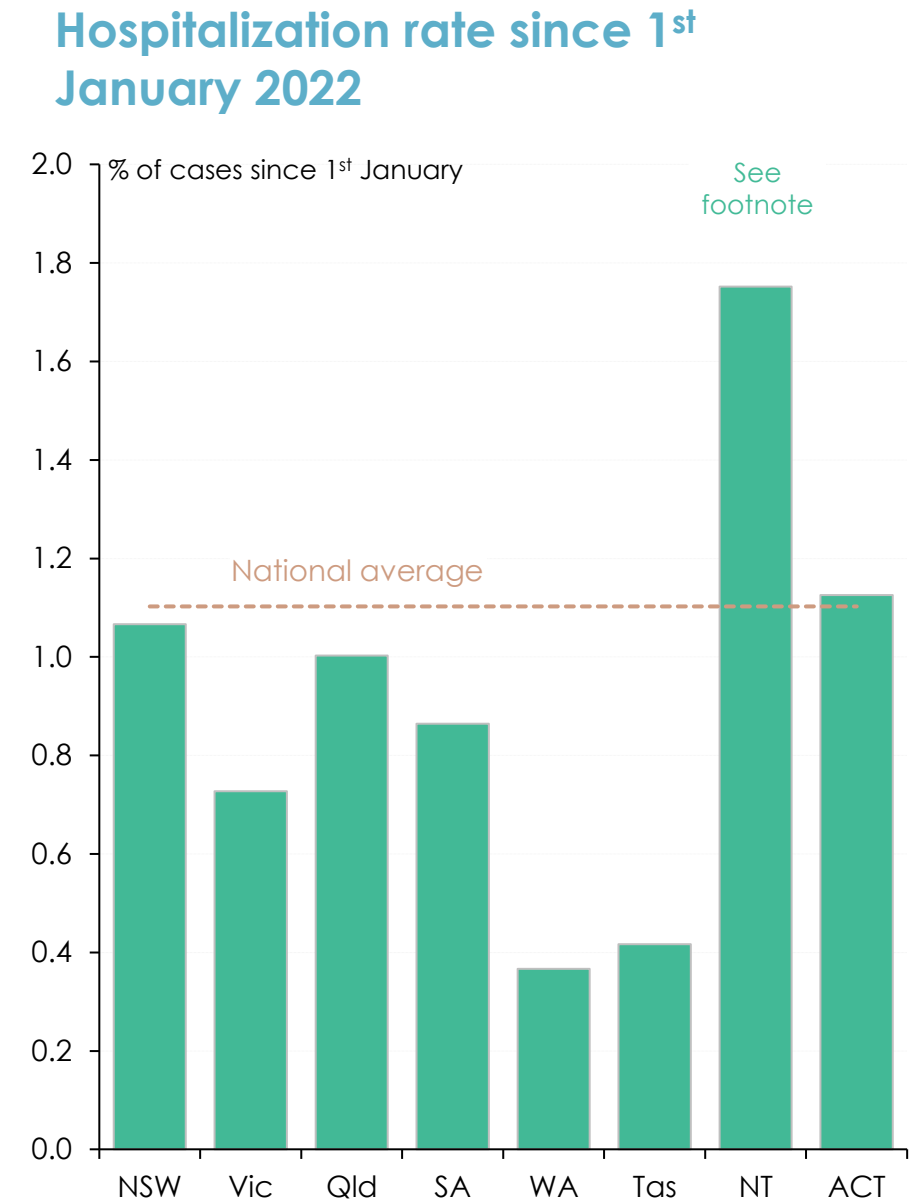
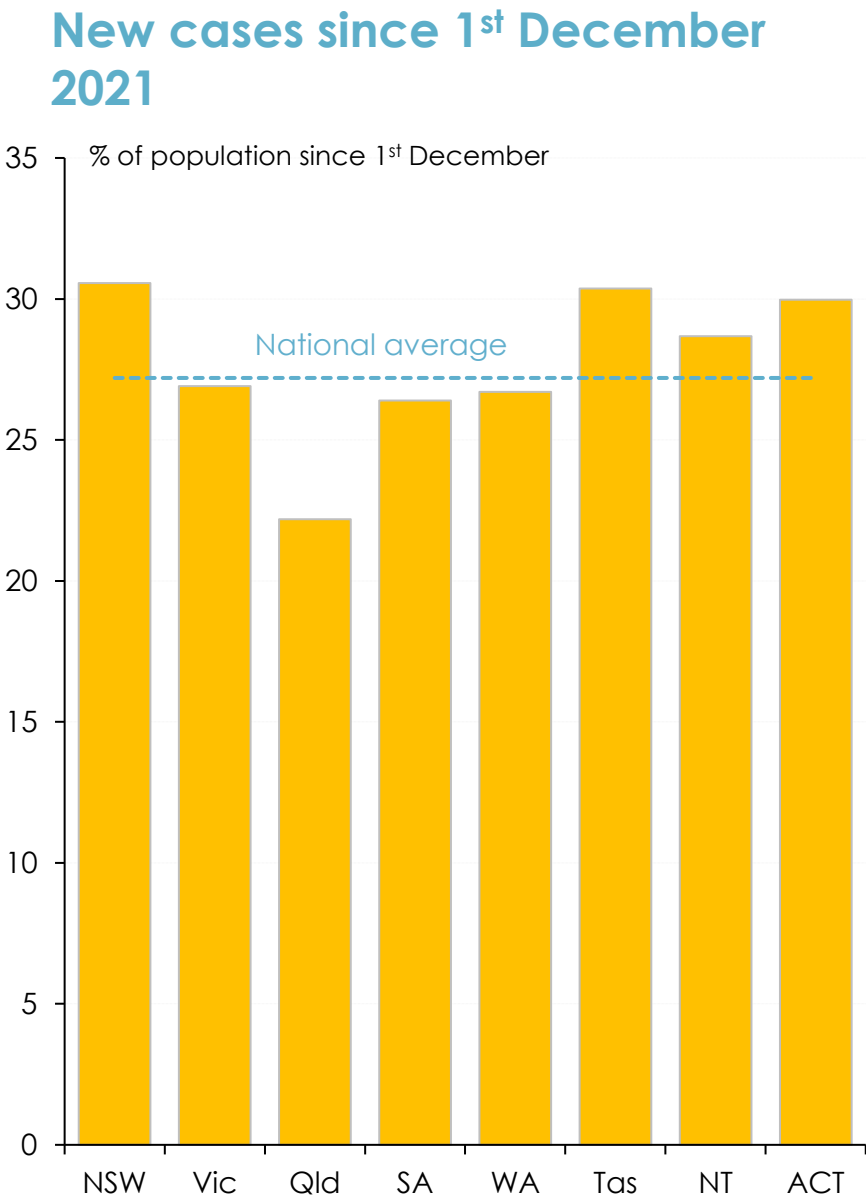
## New infections per 100,000 population, states and territories, since 30<sup>th</sup> June 2021



Note: Data are up to 7<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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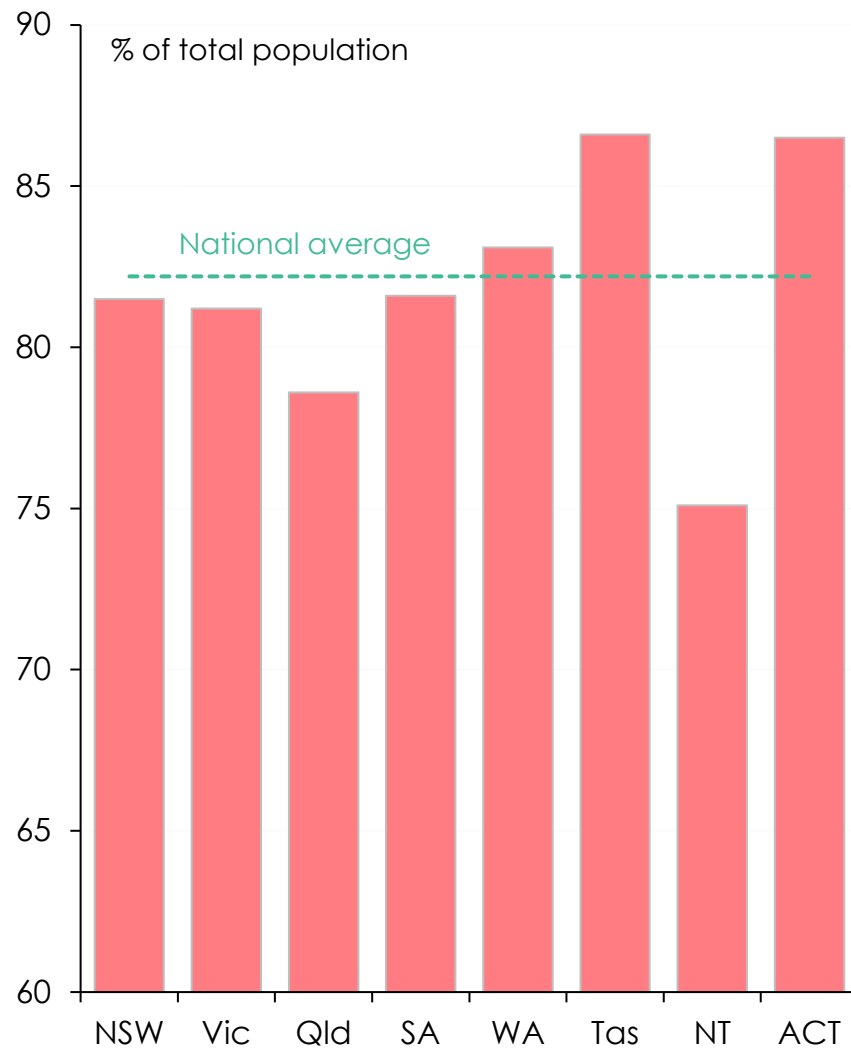


Note: Data are up to 27<sup>th</sup> May. 1<sup>st</sup> December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards 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"](#).

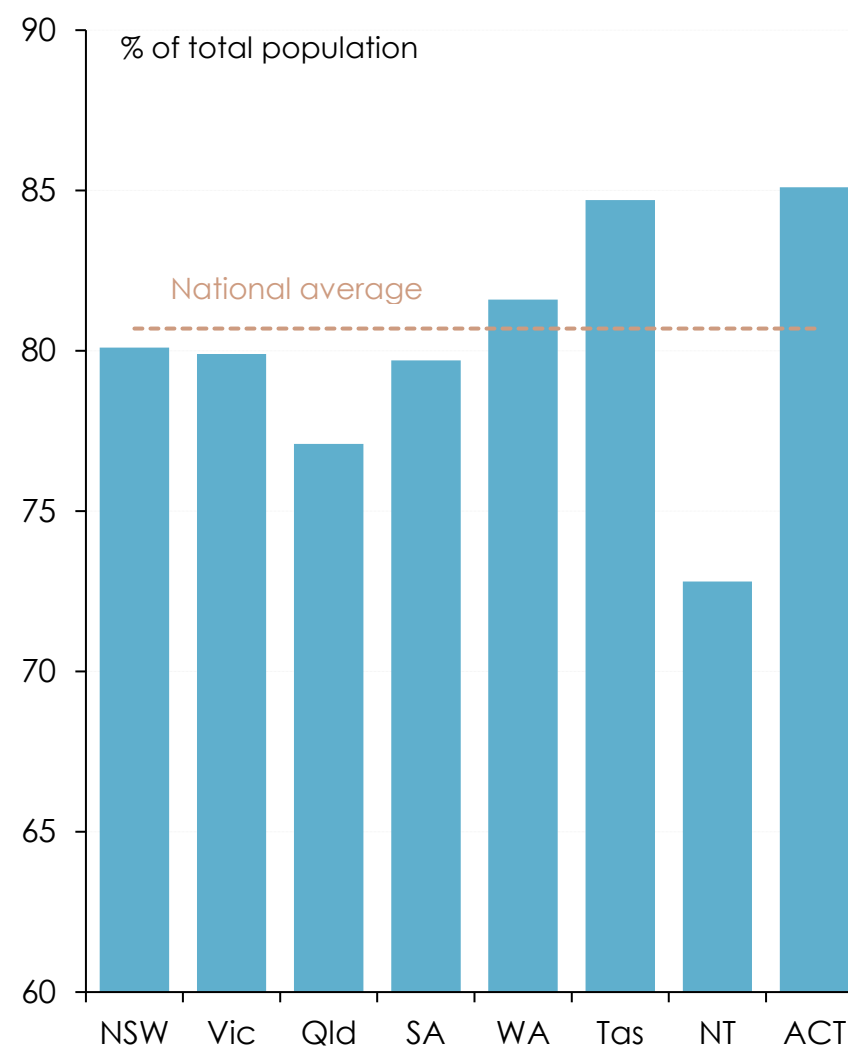
# The ACT, Tasmania and more recently WA have had the most successful vaccine rollouts while Queensland and the NT lag

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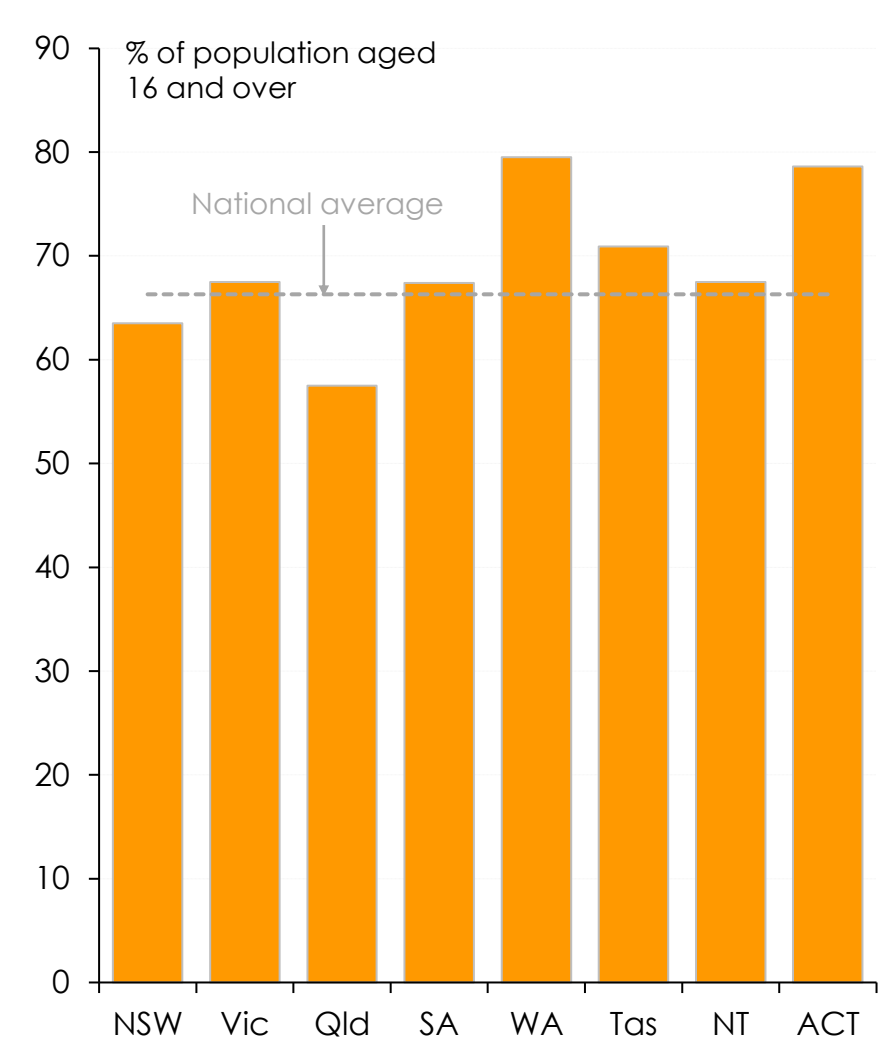
## Pc of population who have had at least one vaccination



## Pc of population who have had two vaccinations



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

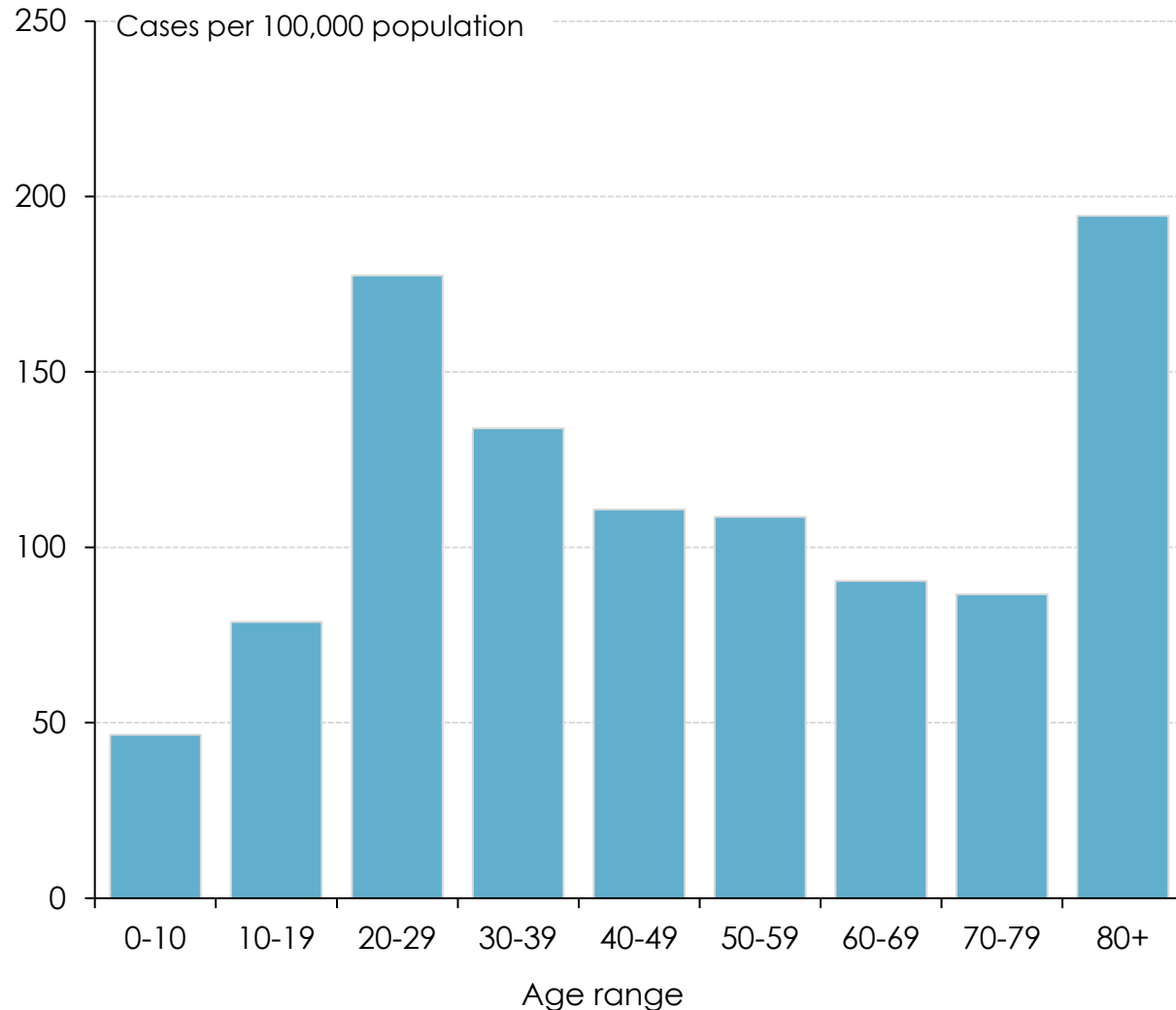


Note: Data are up to 27<sup>th</sup> May. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

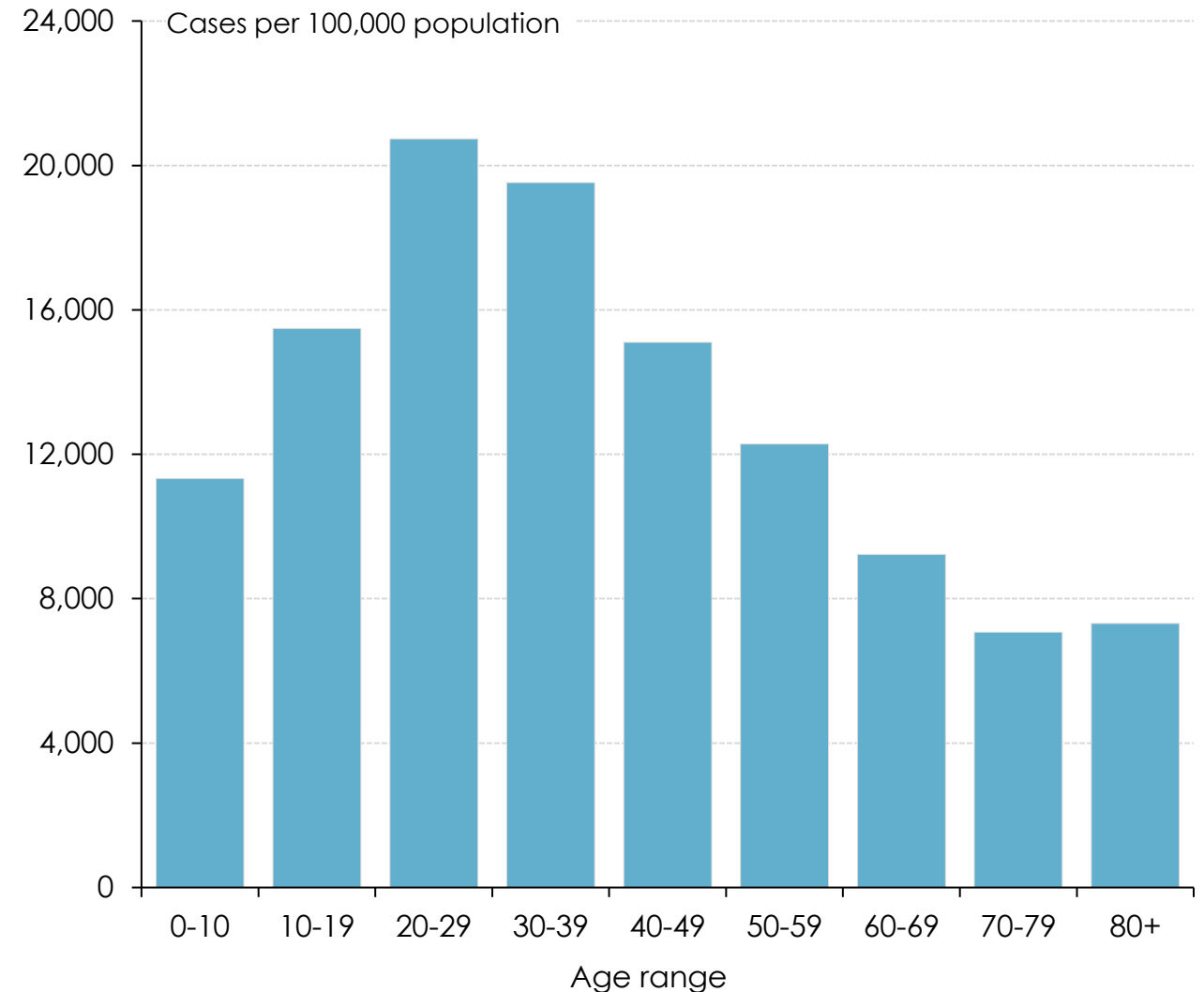
# People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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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

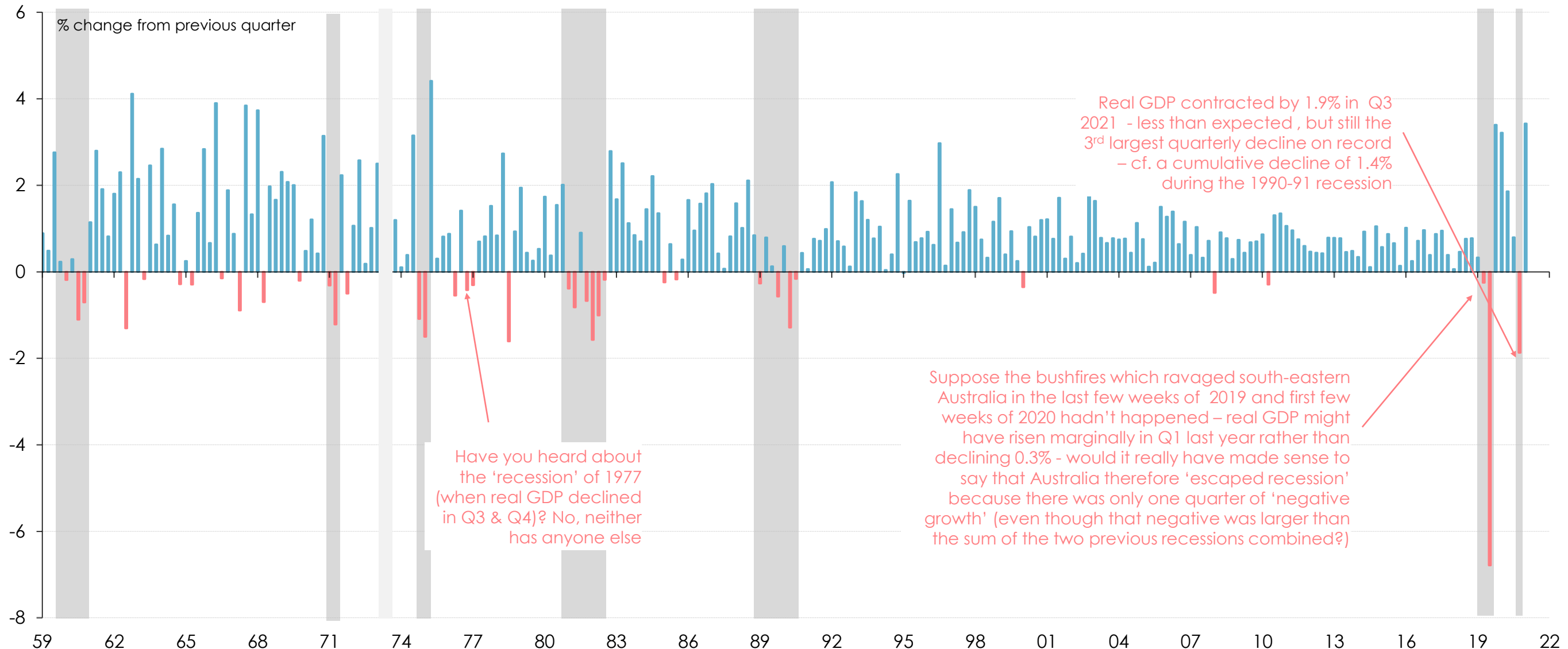


# Broad trends in the Australian economy

# Real GDP rebounded by 3.4% in Q4 2021, the largest increase since the Q1 1976, and will likely have recorded strong growth in Q1 2022 as well

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

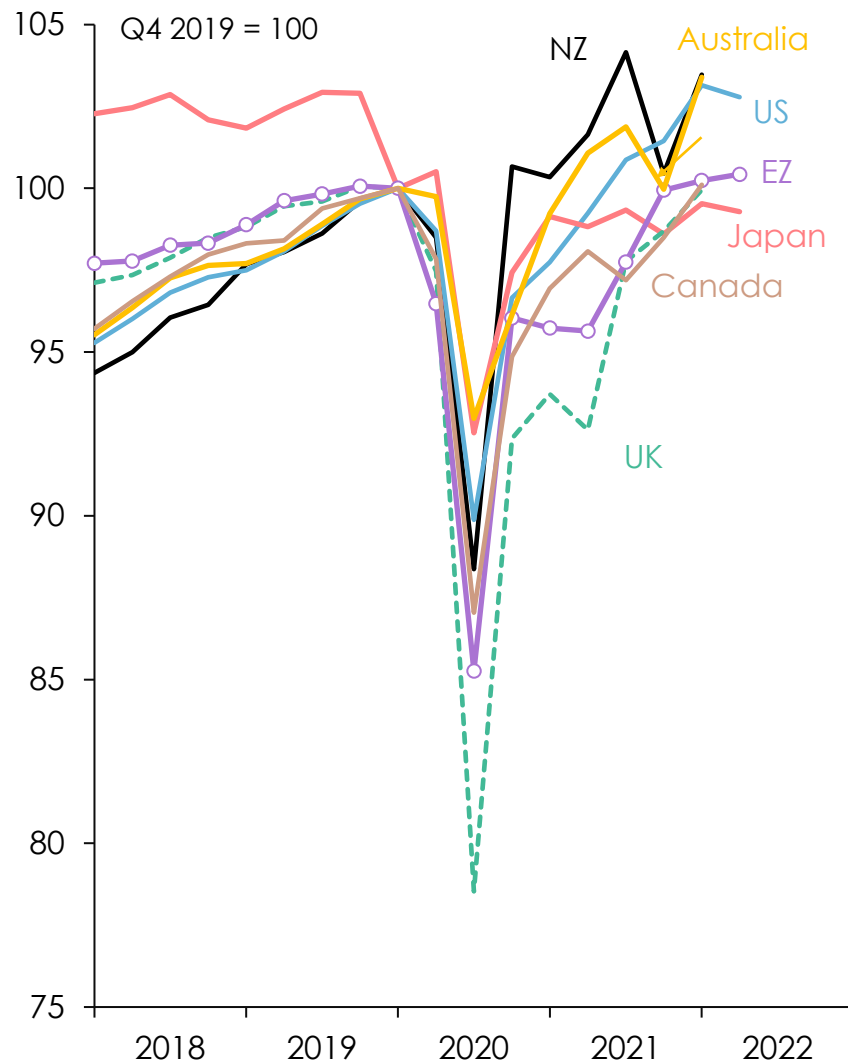


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. March quarter GDP will be released next Wednesday 1<sup>st</sup> June. [Return to "What's New"](#).

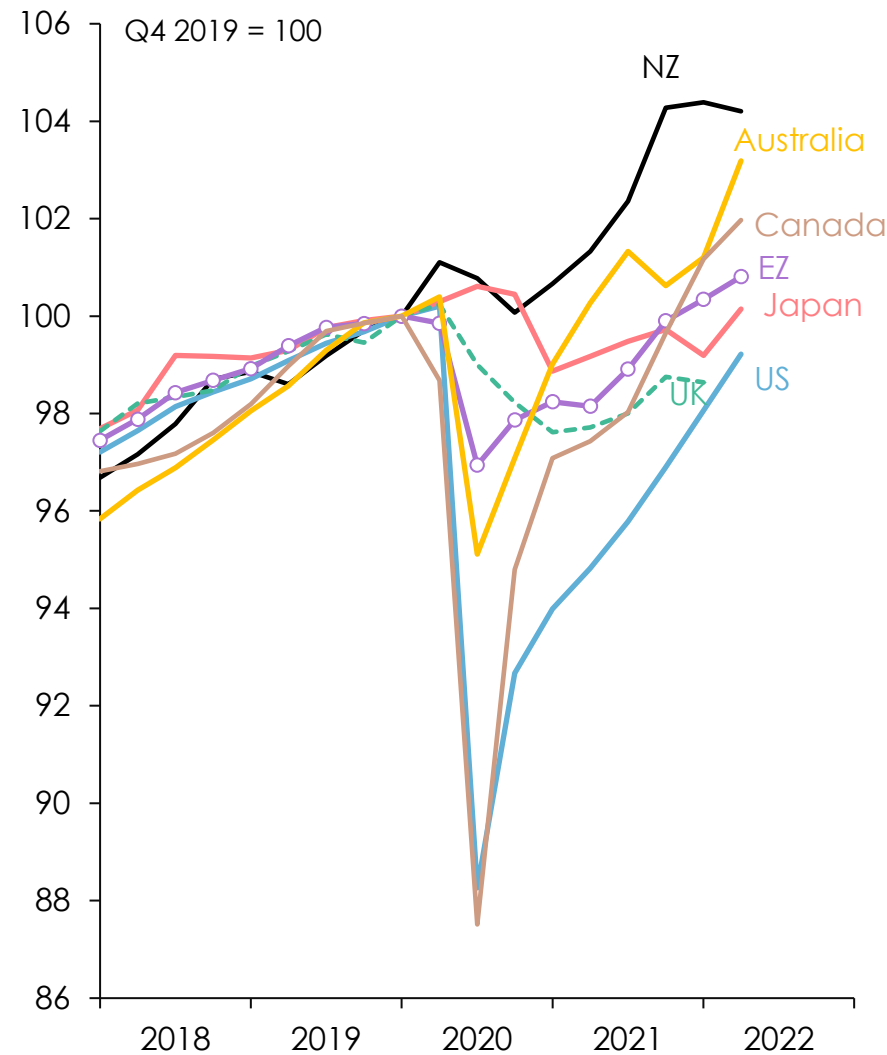
# Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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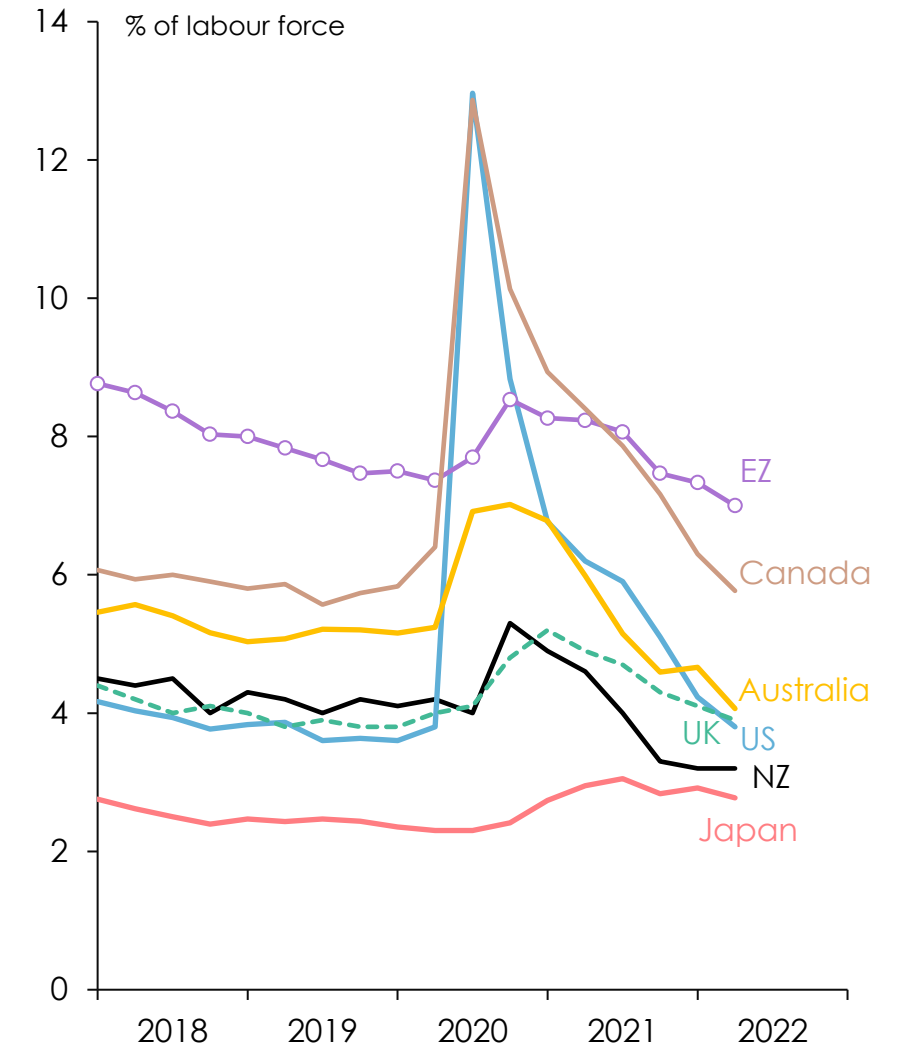
## Level of real GDP



## Employment



## Unemployment

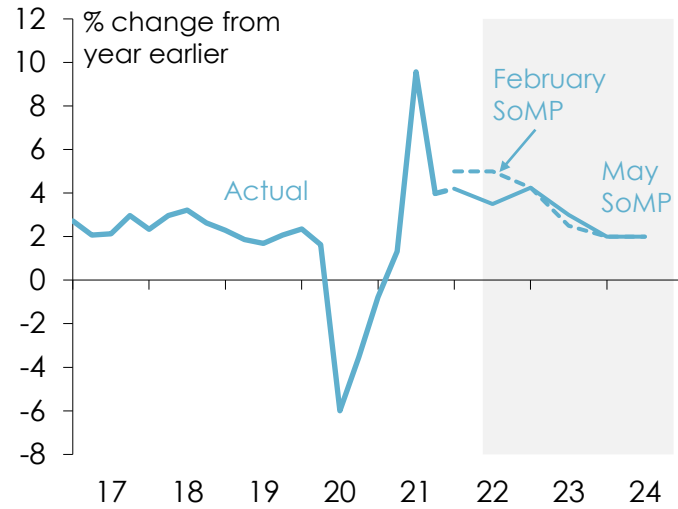


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

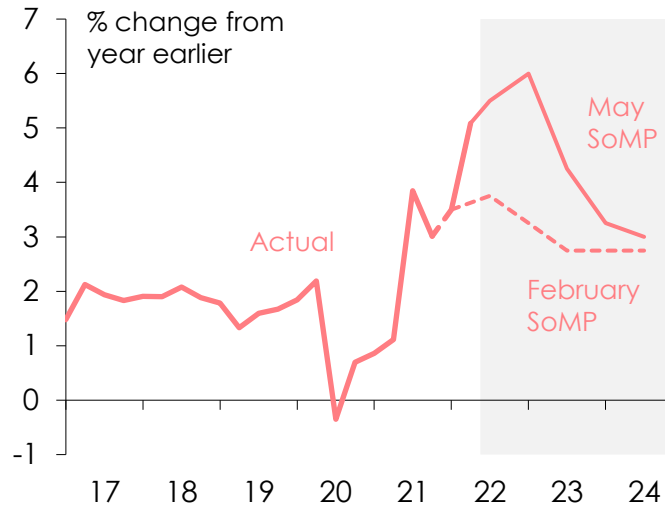
# The RBA has revised its inflation forecasts substantially upwards in the wake of the much higher-than-expected March quarter CPI outcome

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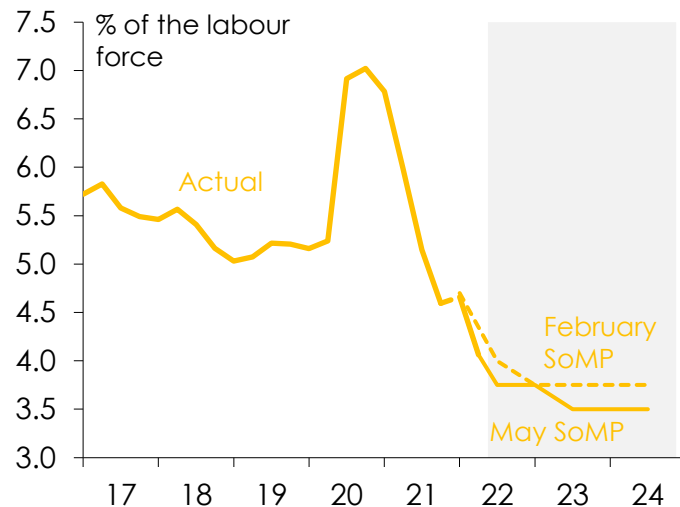
## GDP



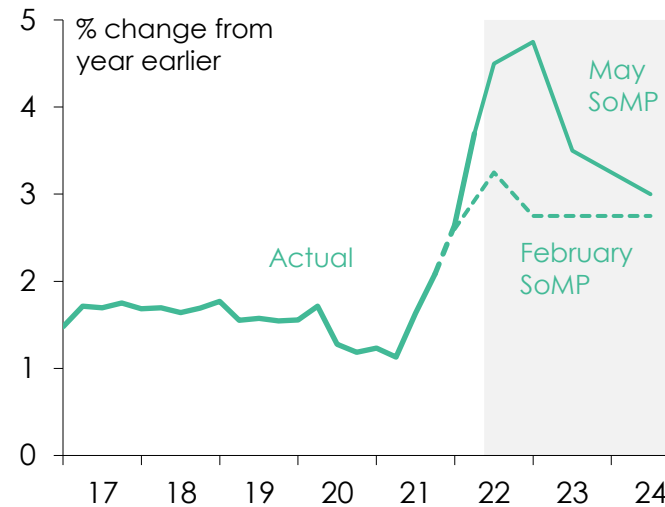
## 'Headline' inflation



## Unemployment



## 'Underlying' inflation



- ❑ The RBA's latest [Statement on Monetary Policy](#) released earlier this month 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

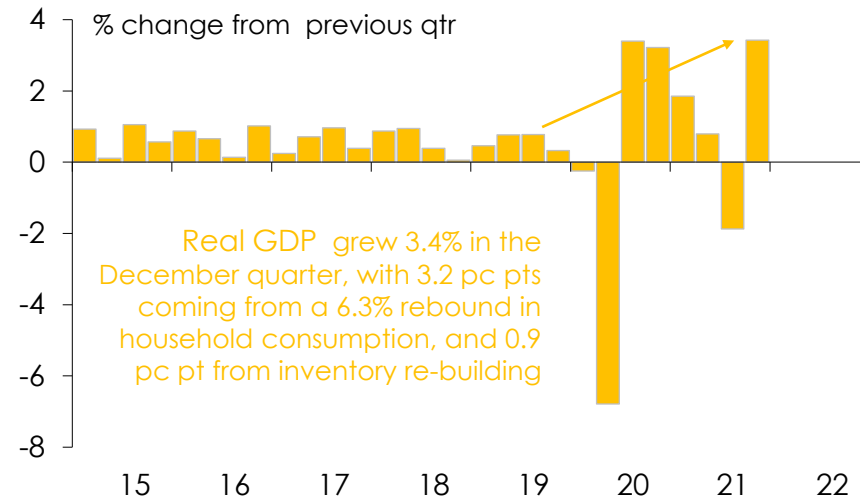
Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 6<sup>th</sup> May. The RBA's next set of forecasts will be published on Friday 5<sup>th</sup> August. [Return to "What's New"](#).



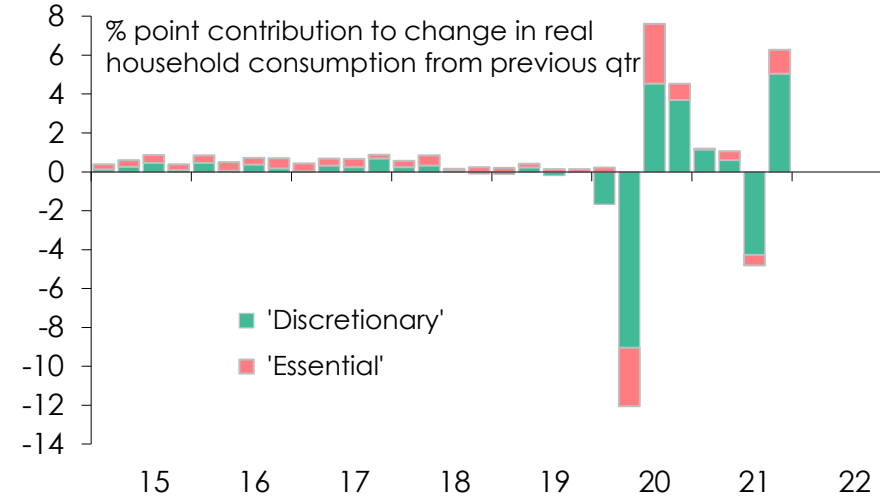
# Consumer spending is likely to have risen strongly again in Q1, but dwelling and business investment will have fallen

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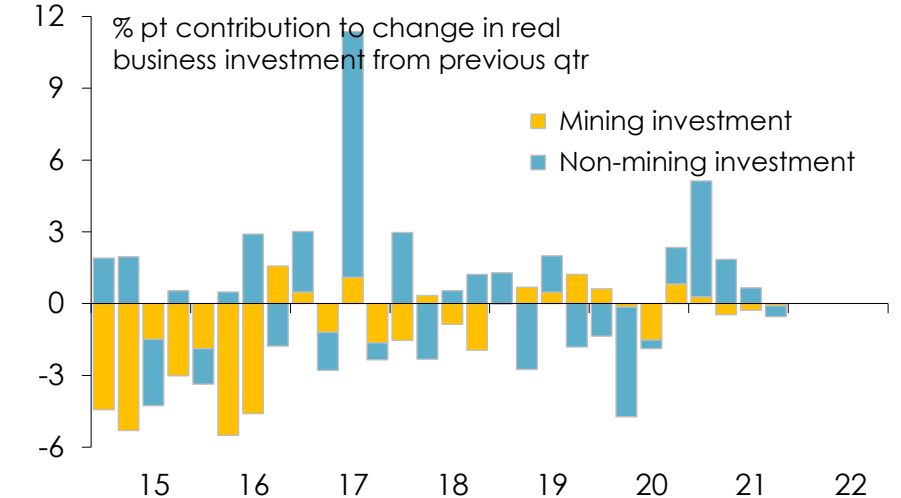
## Quarterly change in real GDP



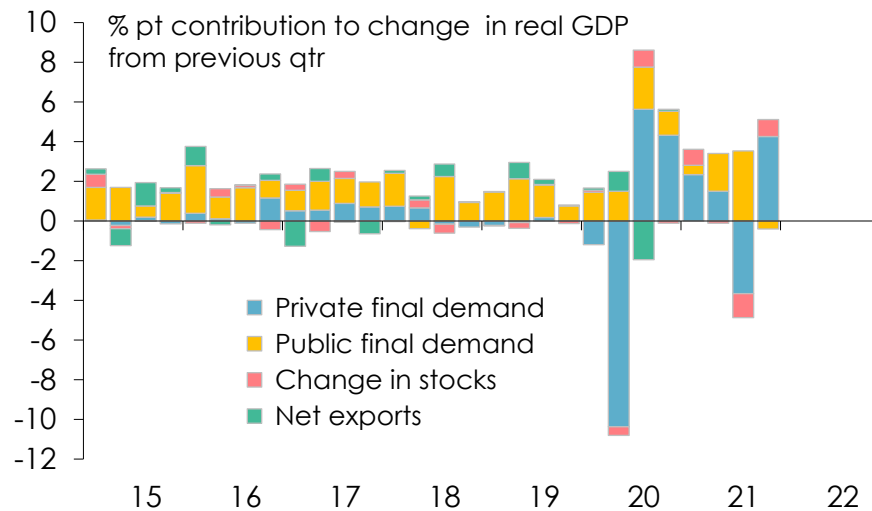
## Household consumption expenditure



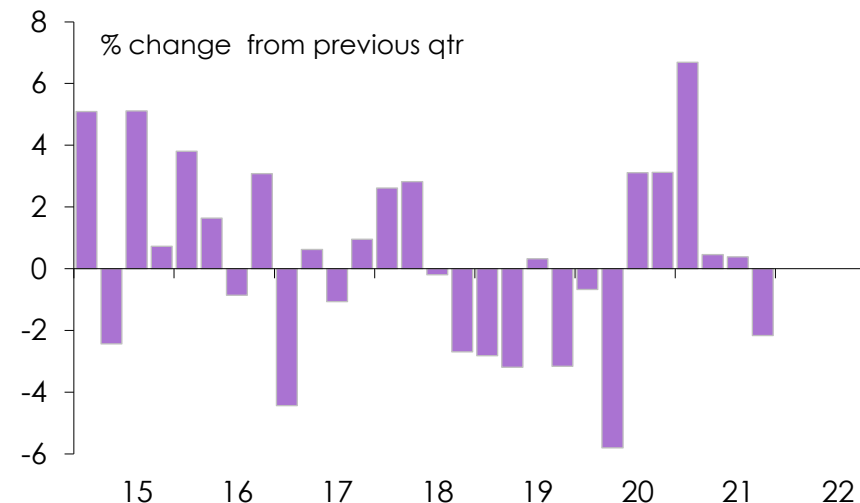
## Business investment expenditure



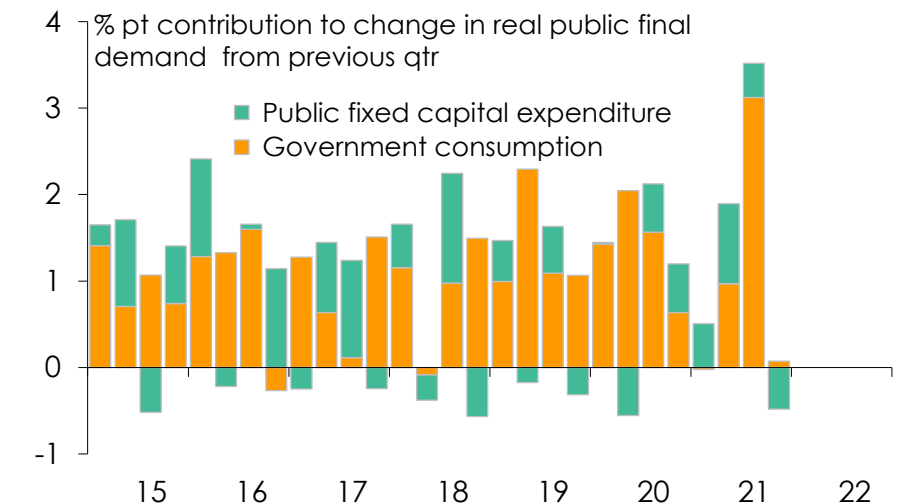
## Contributions to quarterly GDP growth



## Dwelling investment expenditure



## Public expenditure

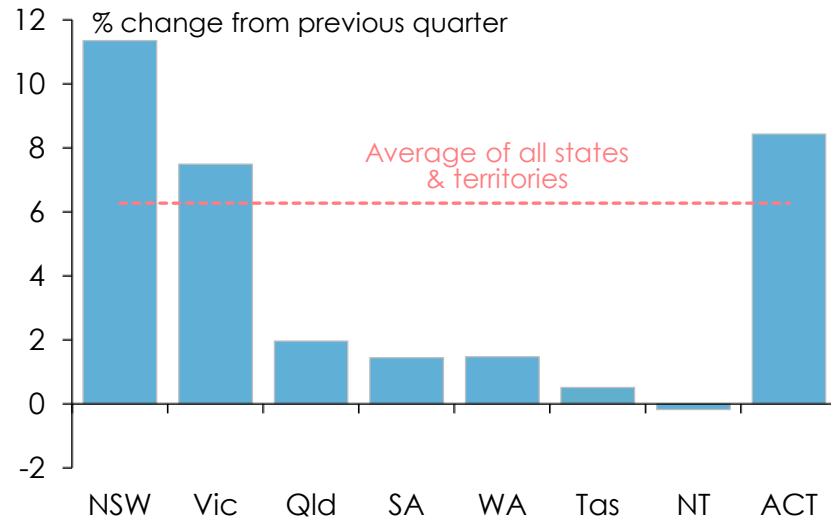


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021. March quarter national accounts will be released this coming Wednesday, 1<sup>st</sup> June. [Return to "What's New"](#).

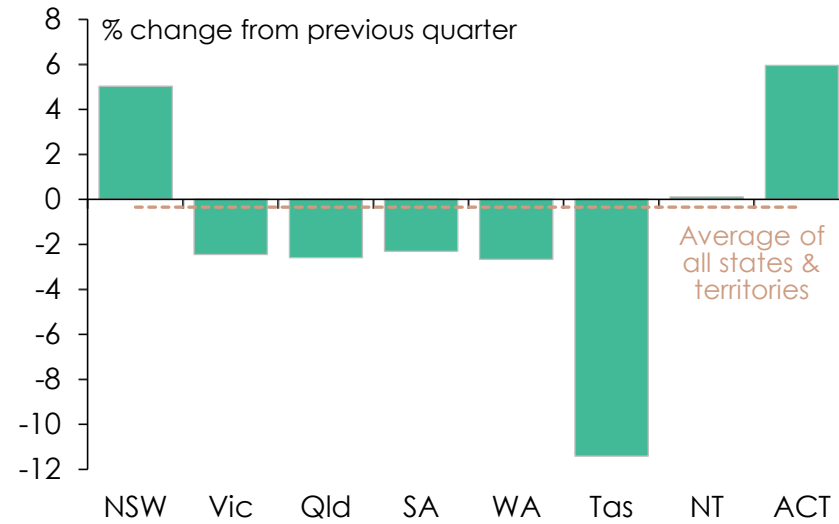
# The December quarter rebound was largely driven by post-lockdown surges in consumer spending in New South Wales, Victoria and the ACT

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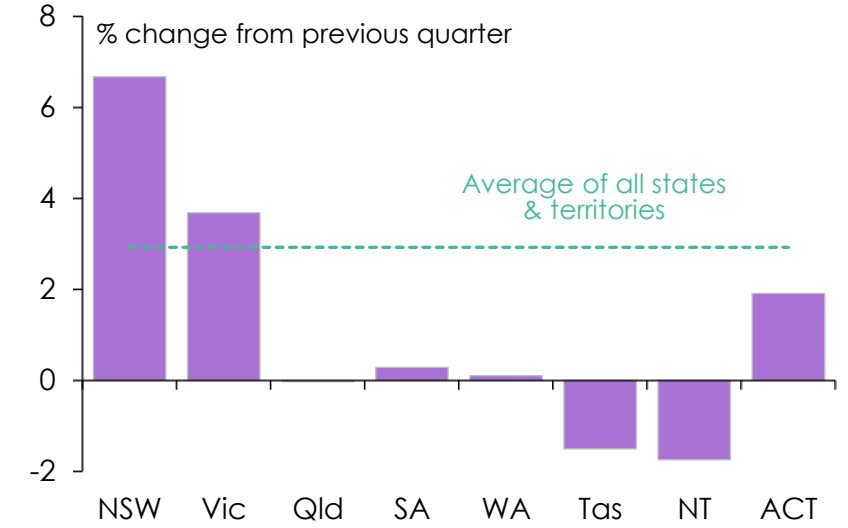
## Household consumption



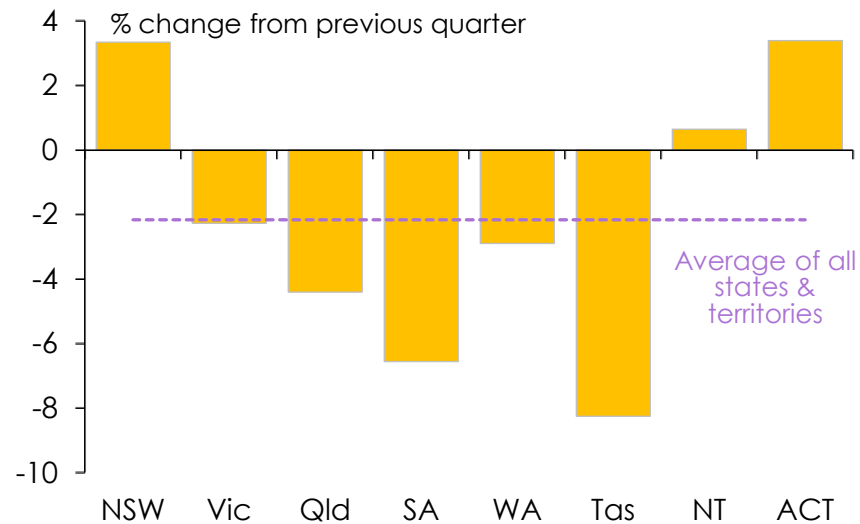
## Business investment



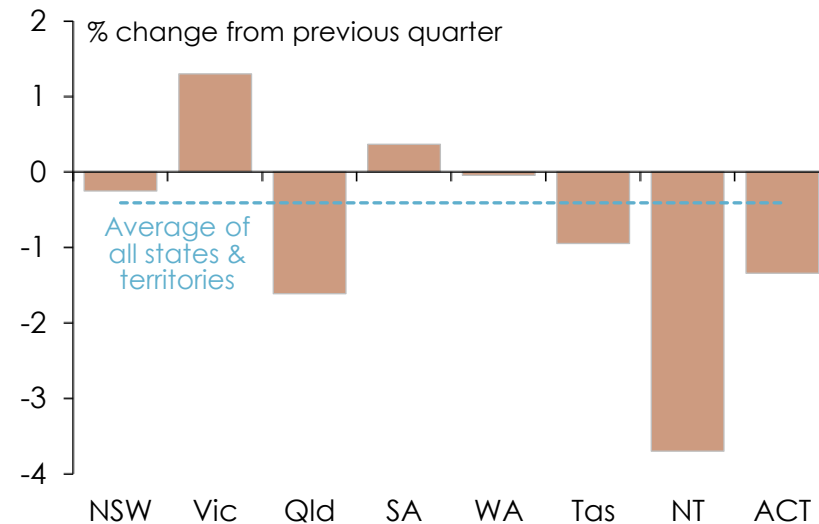
## State final demand



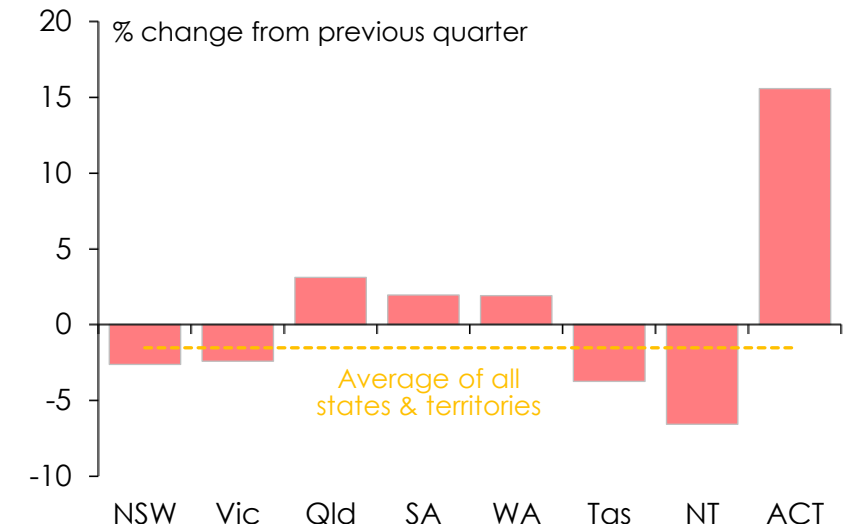
## Dwelling investment



## Public spending



## International exports

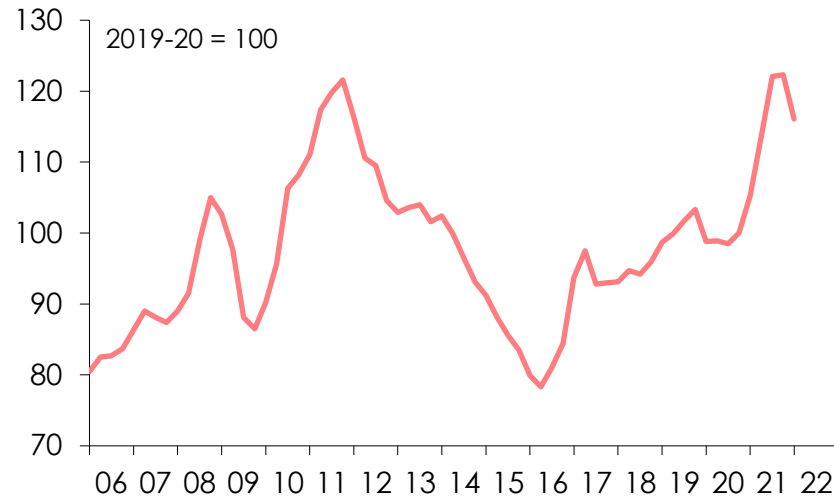


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; [Balance of Payments and International Investment Position,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

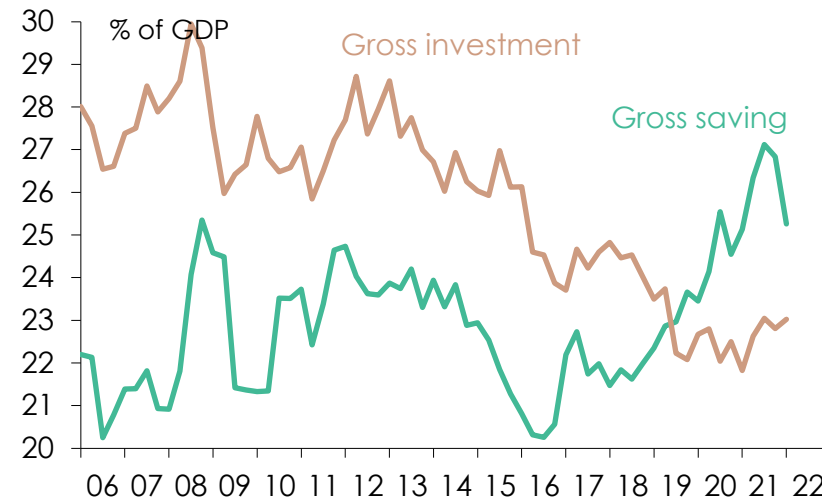
# Australia's terms of trade will have risen again in the March quarter as a result of the rise in commodity prices following Russia's invasion of Ukraine

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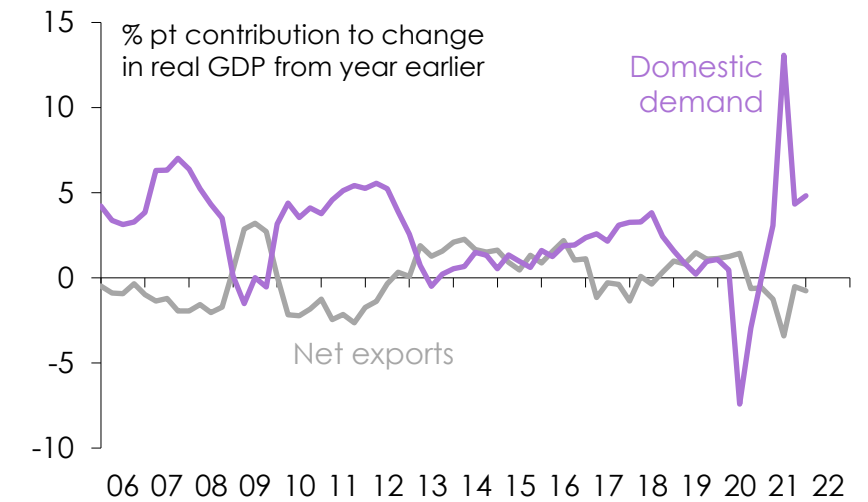
## Terms of trade



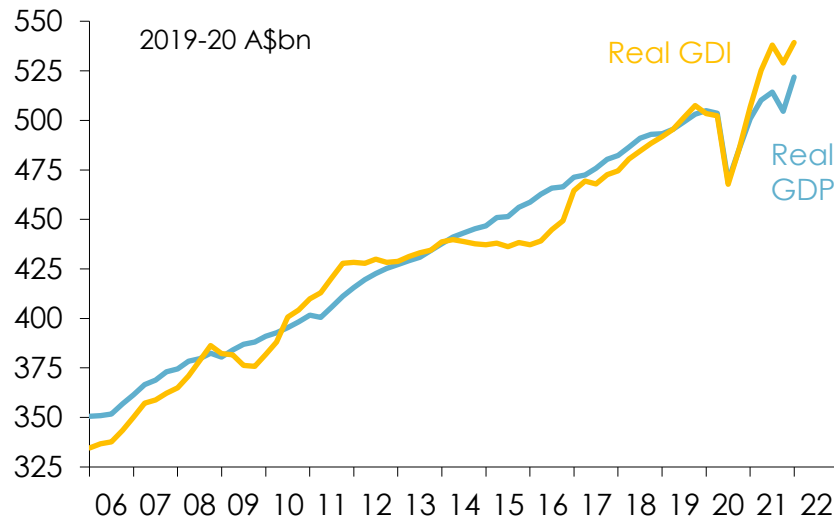
## National saving & investment



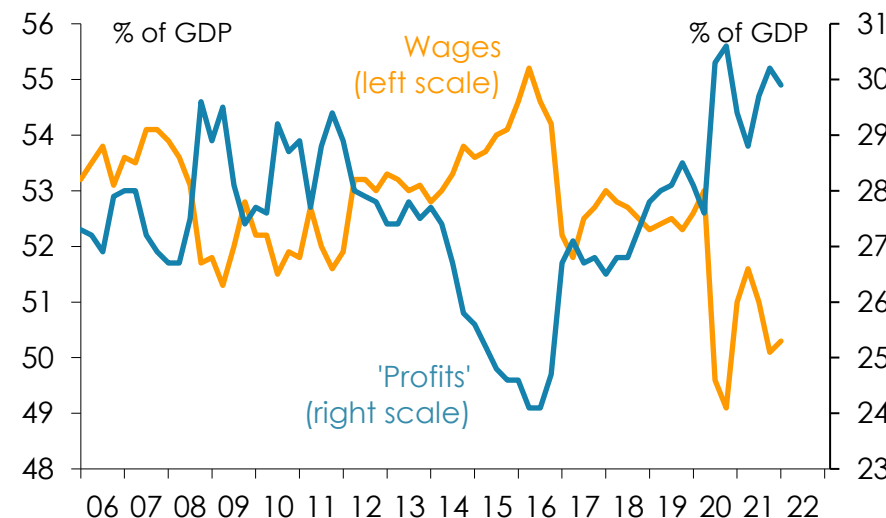
## Domestic demand and net exports



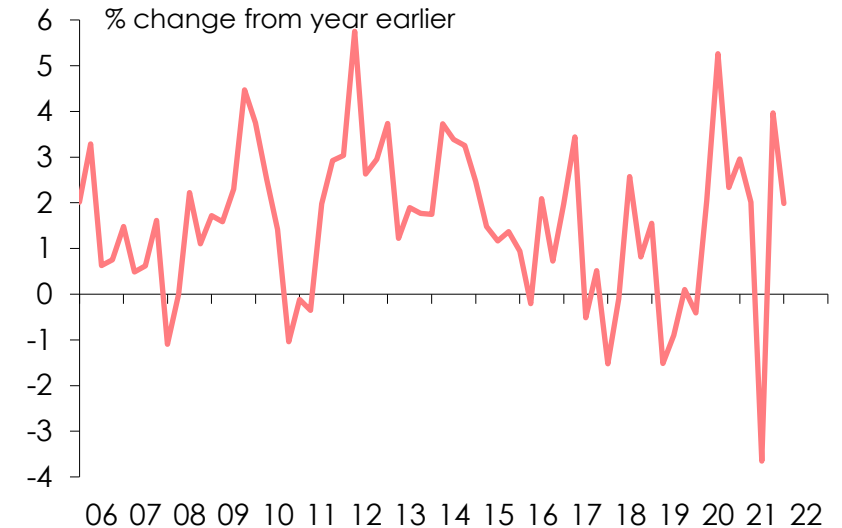
## Real gross domestic income



## Shares of national income



## Labour productivity

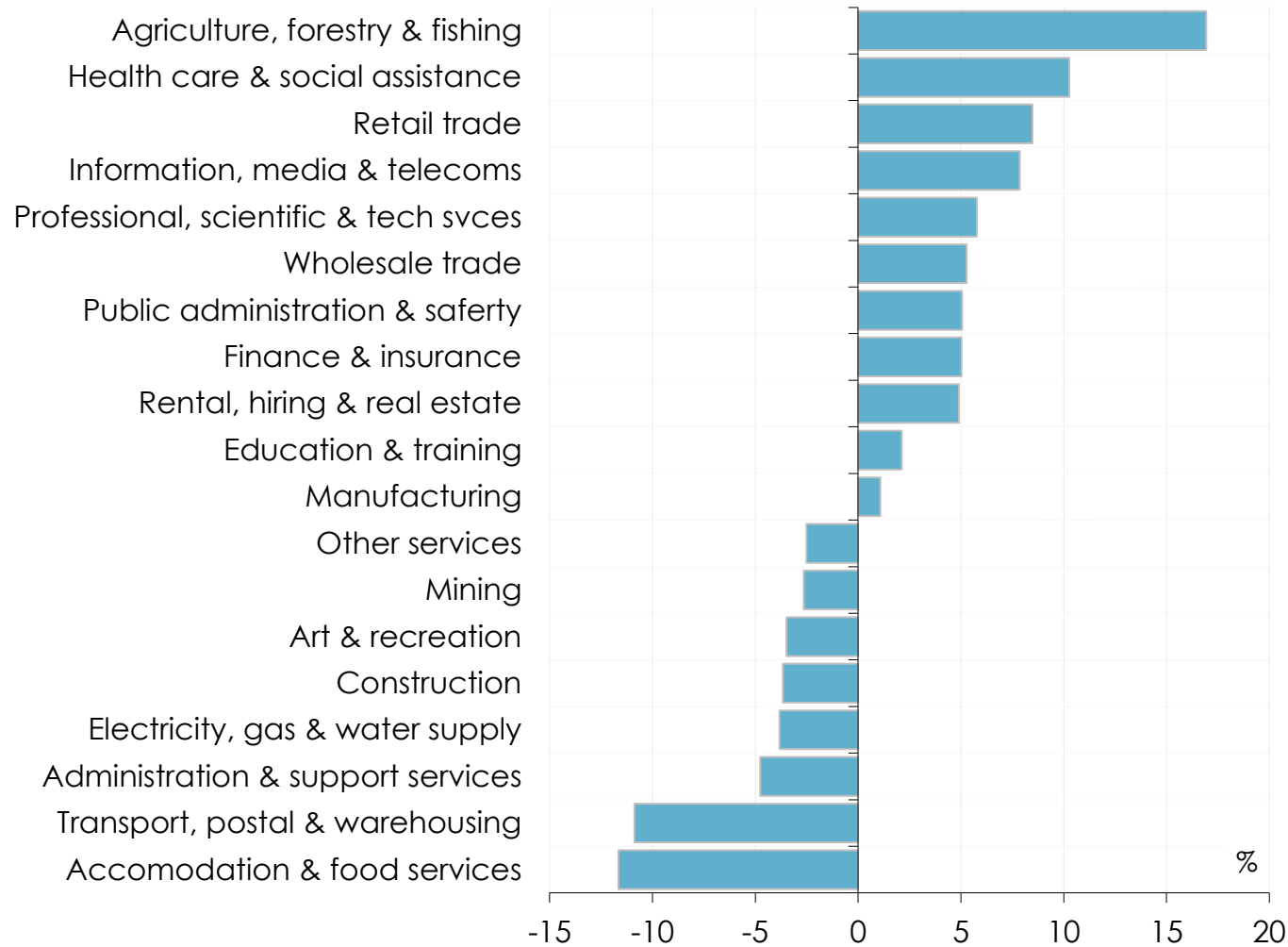


Note: The terms of trade is the ratio of export to import prices (for more see [slide 64](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021 – March quarter data will be released this coming Wednesday, 1<sup>st</sup> June.

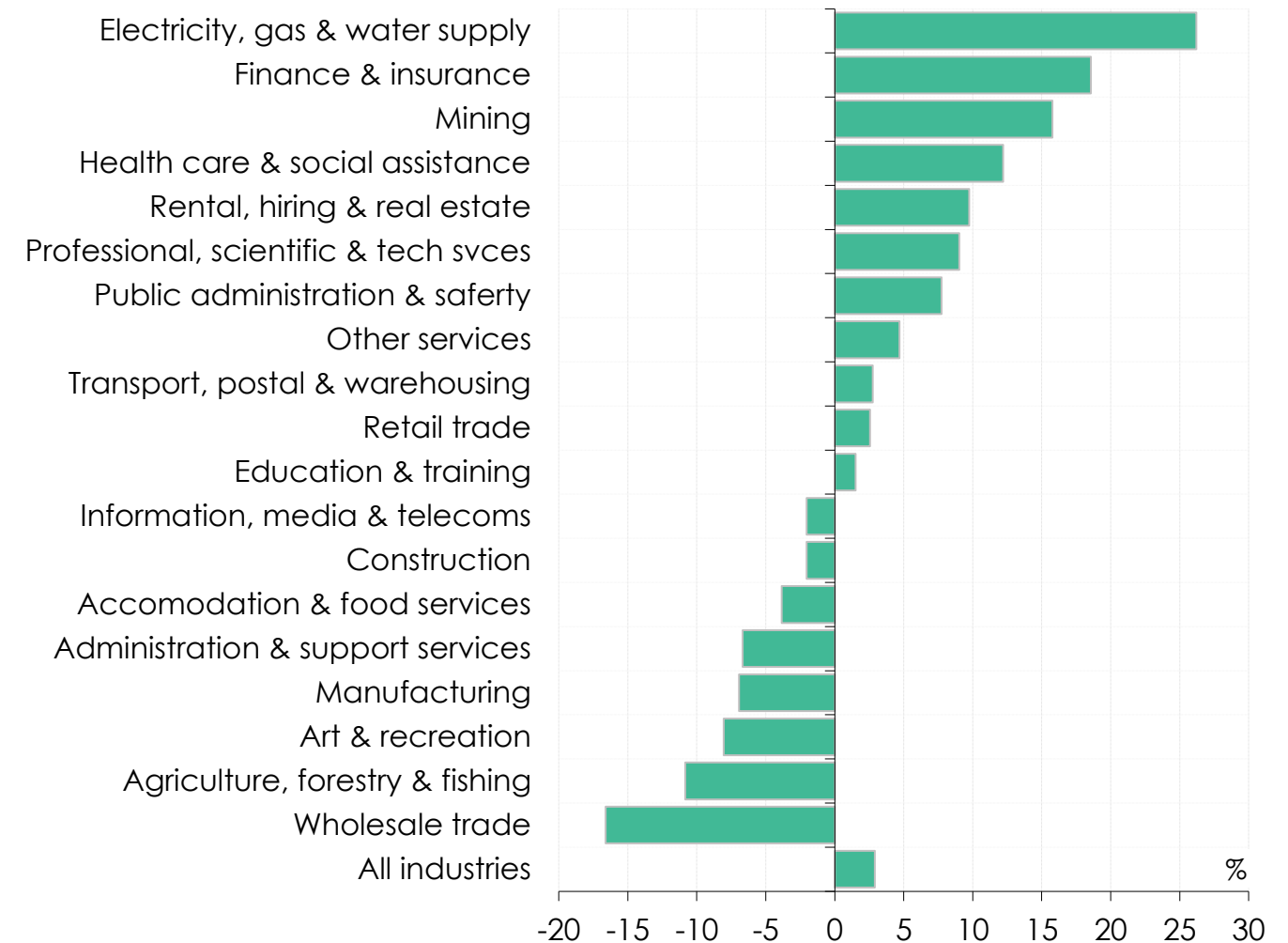
# Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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



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

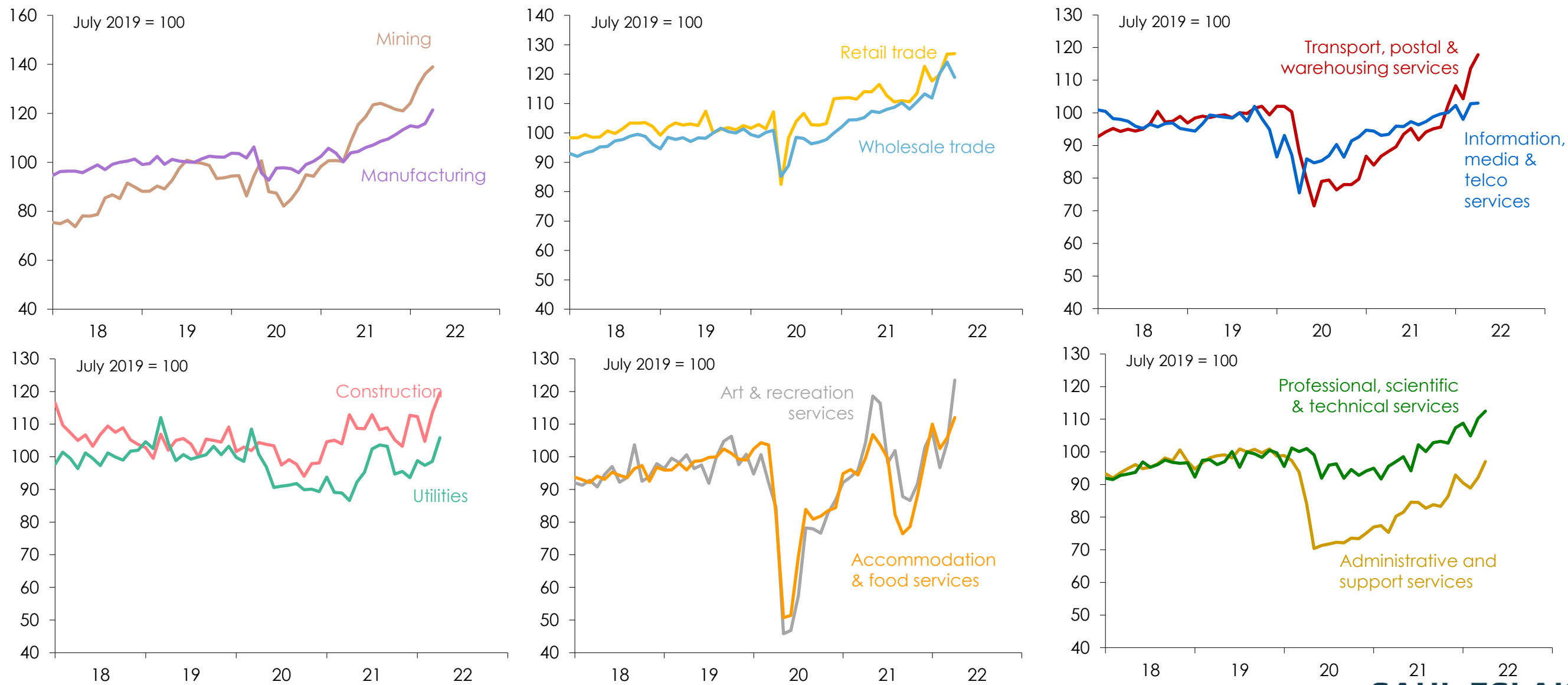


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; and [Labour Force, Australia, Detailed](#), February 2022.  
GVA by industry data will be updated in the March quarter national accounts to be released this Wednesday, 1<sup>st</sup> June

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

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## Indicators of business turnover, by industry

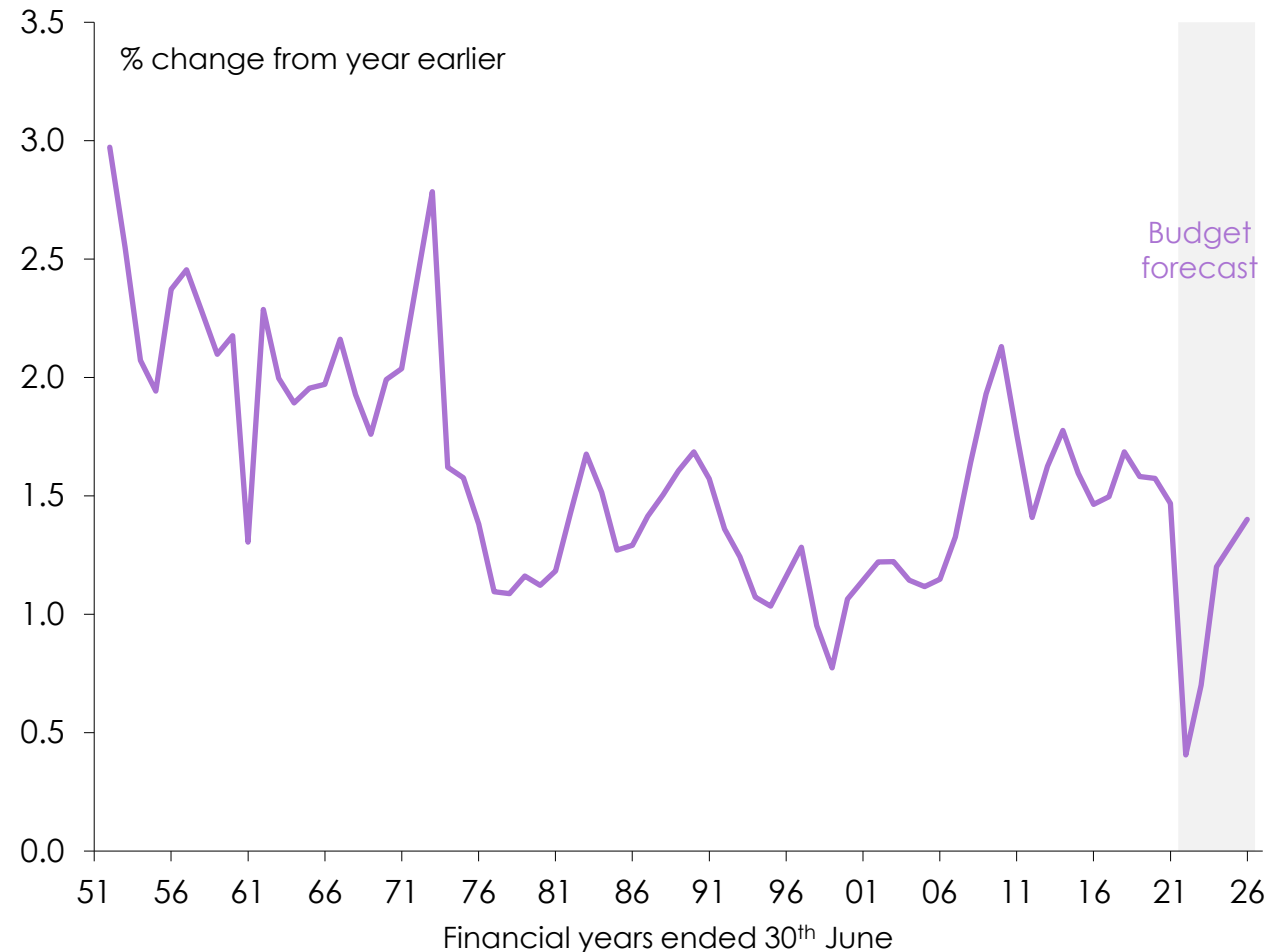


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

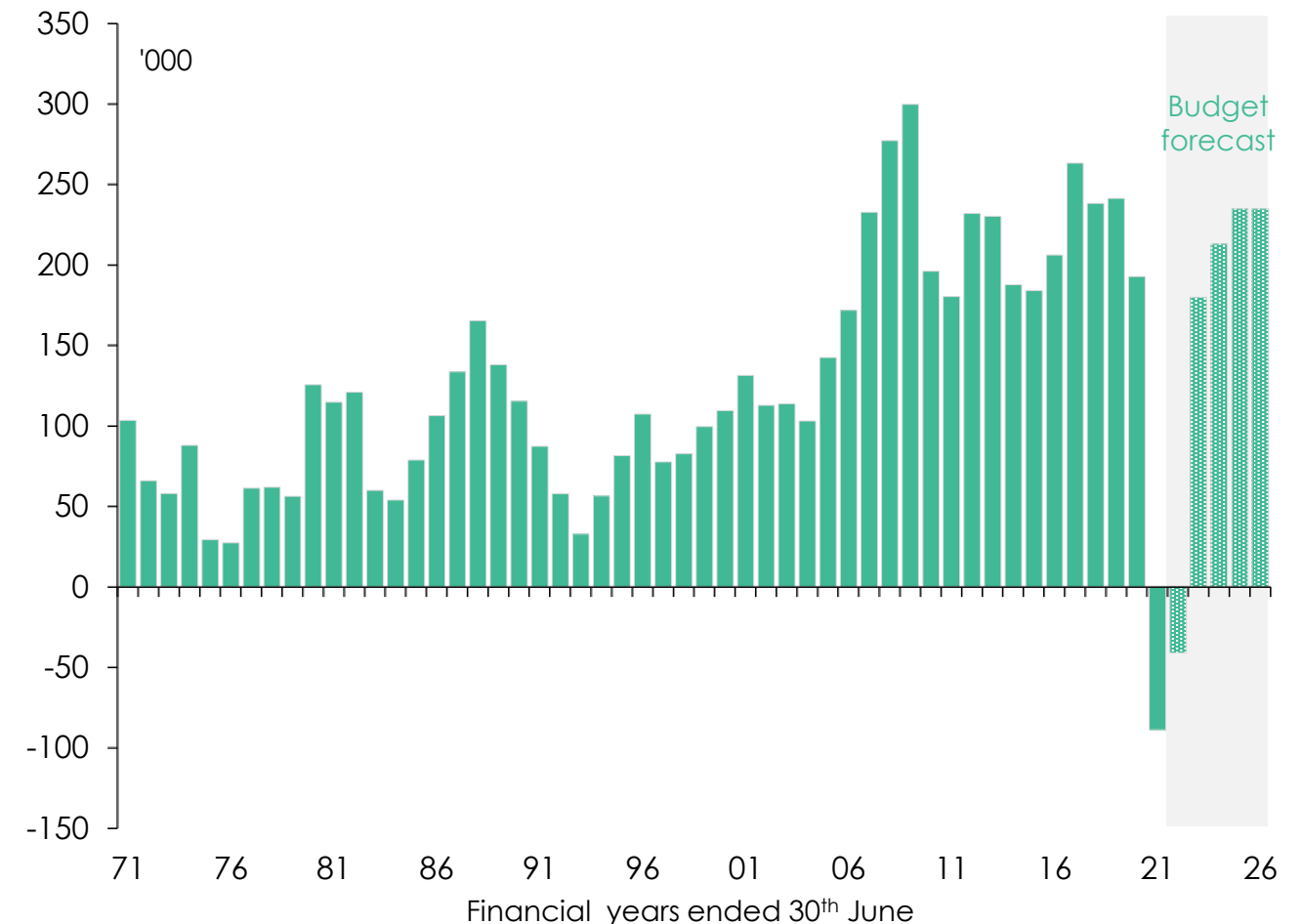
# An important assumption underlying 'official' forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

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## 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)**

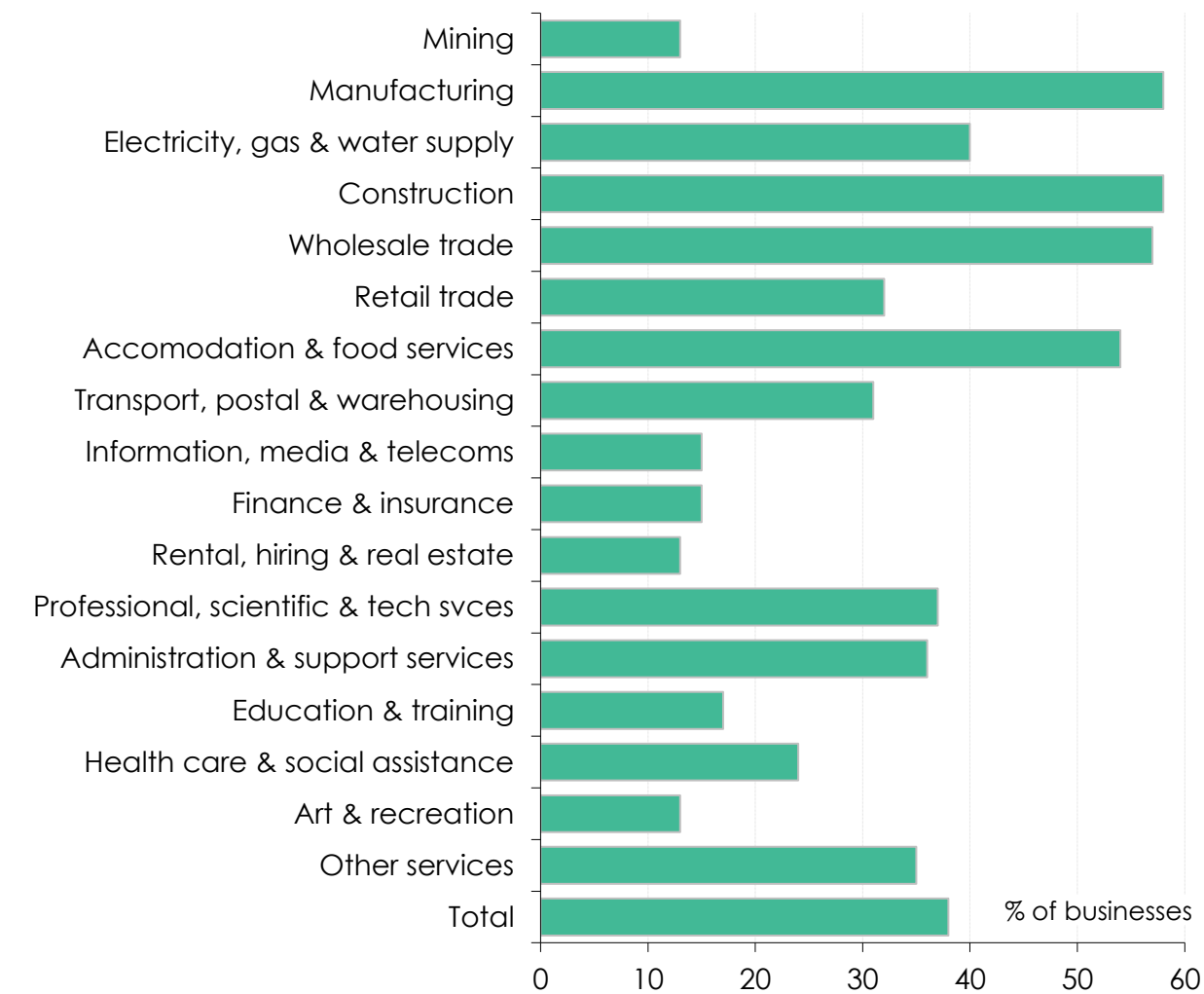
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29<sup>th</sup> March 2022.

# The business sector

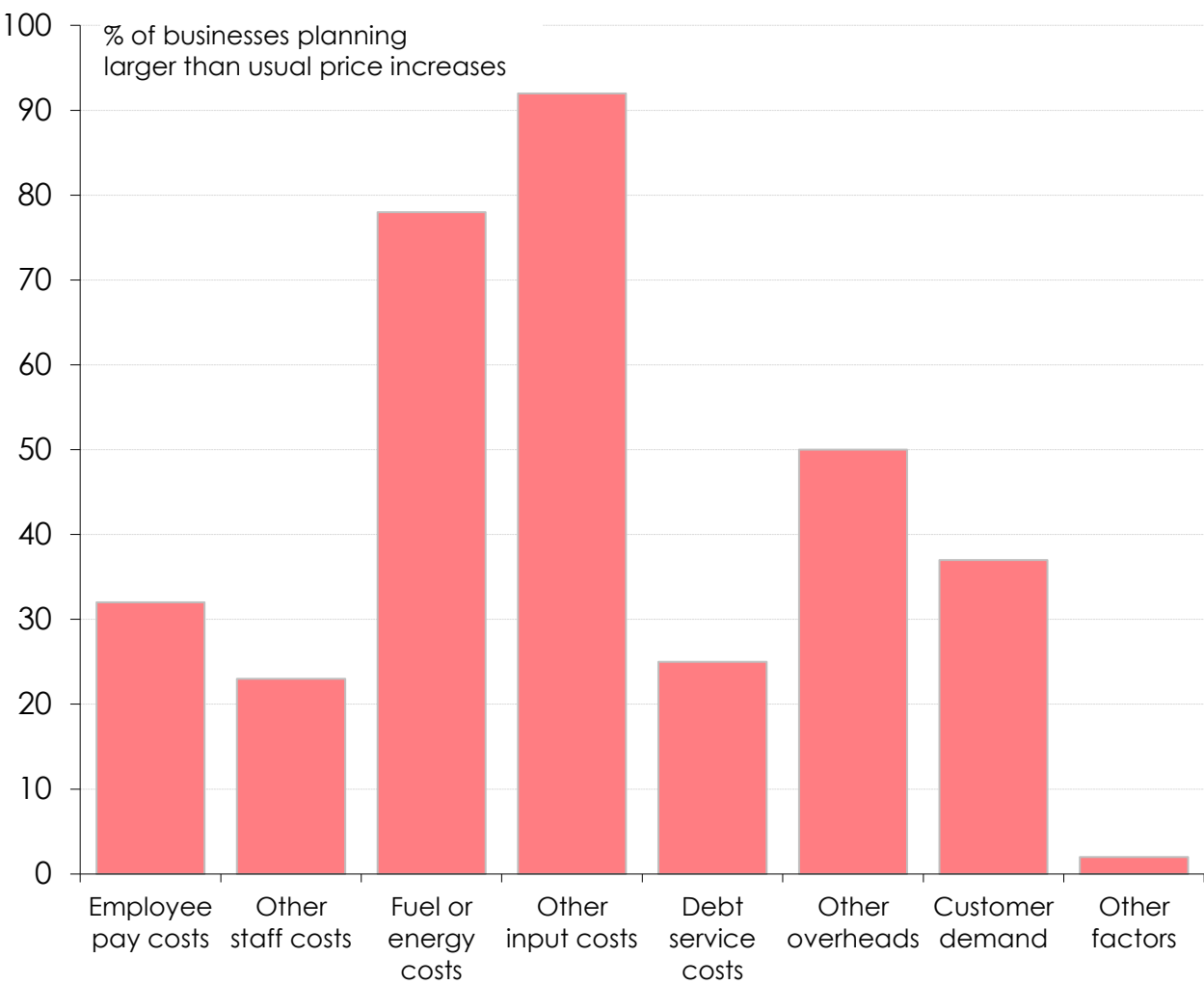
# 38% of businesses expect to raise prices ‘more than normal’ over the next three months, mainly to pass on increases in input costs (not labour costs)

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

Businesses planning to increase prices more than normal over the next three months, May 2022



Reasons for increasing prices more than normal over the next three months

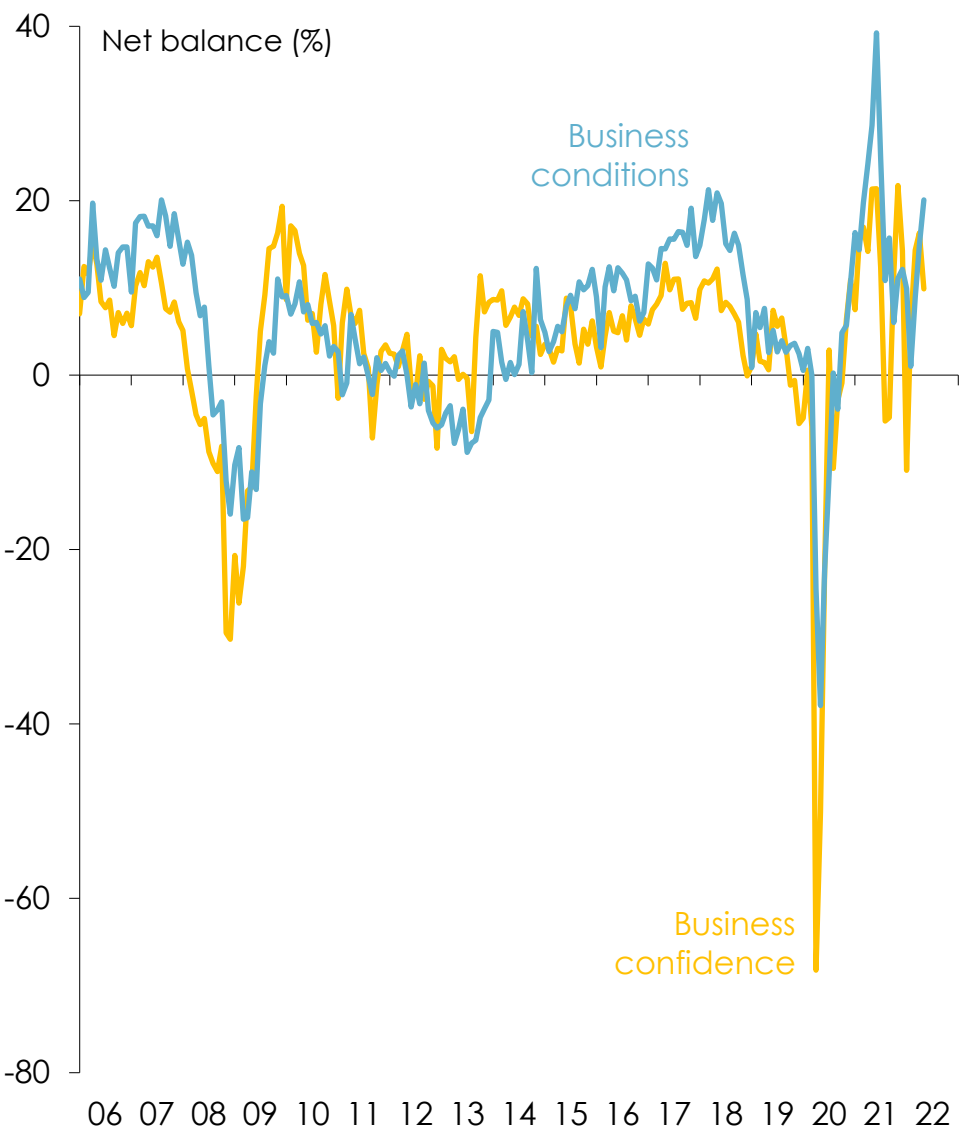




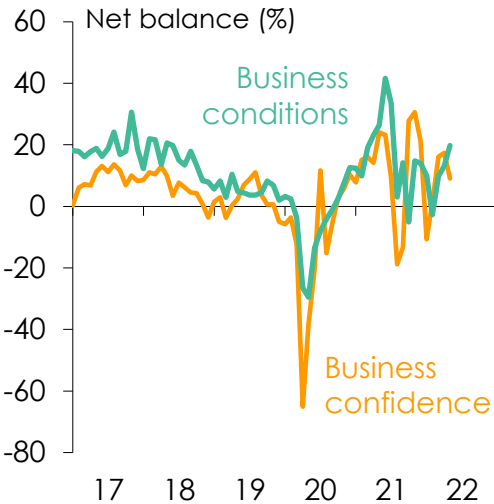
# Business conditions improved in April, in every state except Tasmania, while business confidence eased a little (though remaining above average)

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

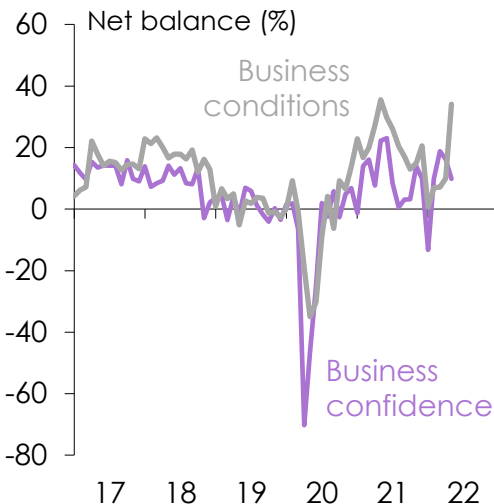
National business confidence & conditions



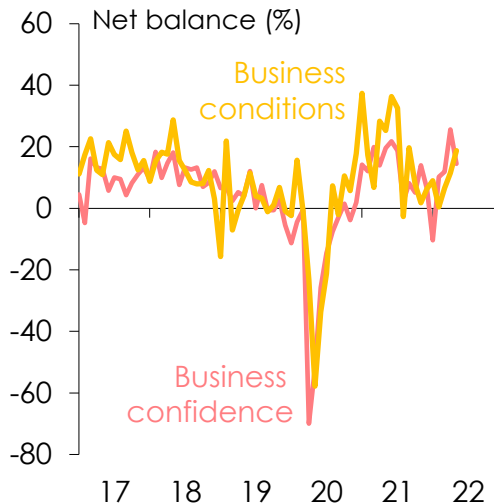
New South Wales



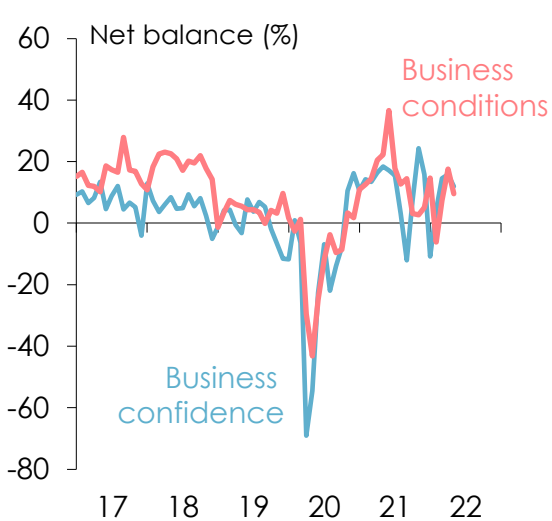
Queensland



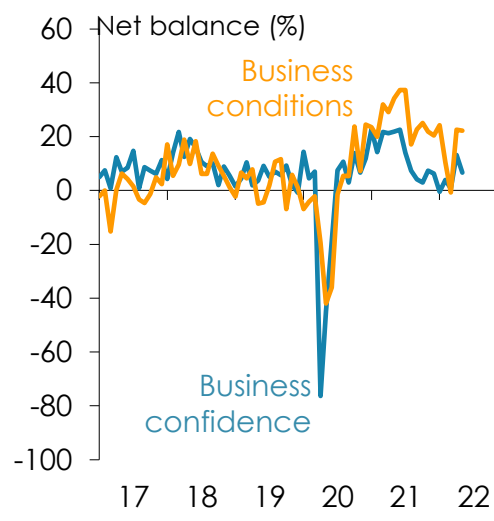
South Australia



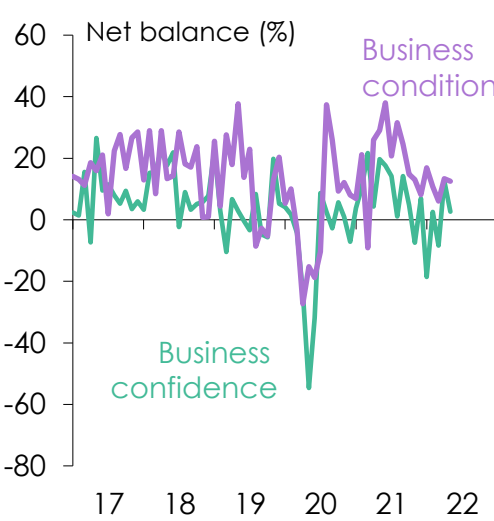
Victoria



Western Australia



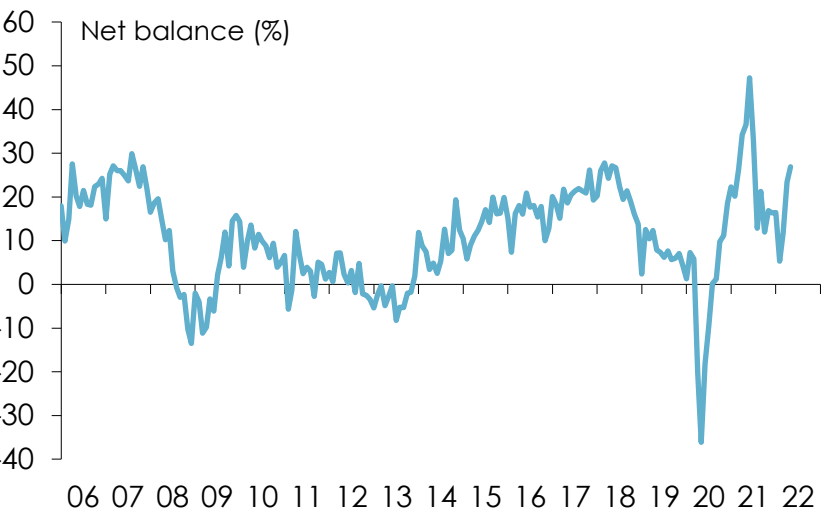
Tasmania



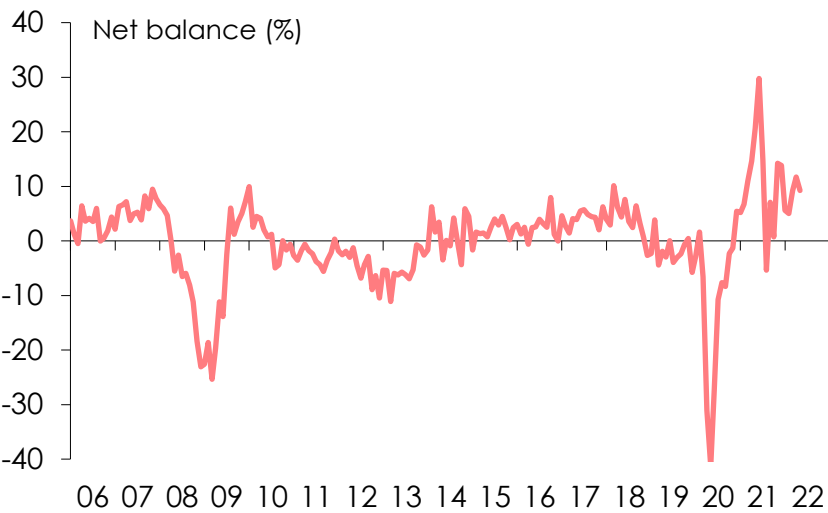
# All of the elements of business conditions improved in April except for forward orders and hiring intentions, which fell marginally

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

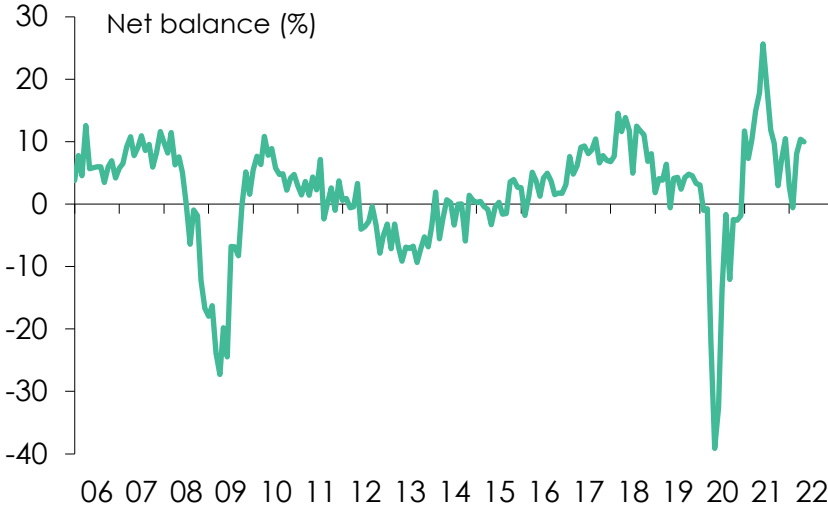
## Trading conditions



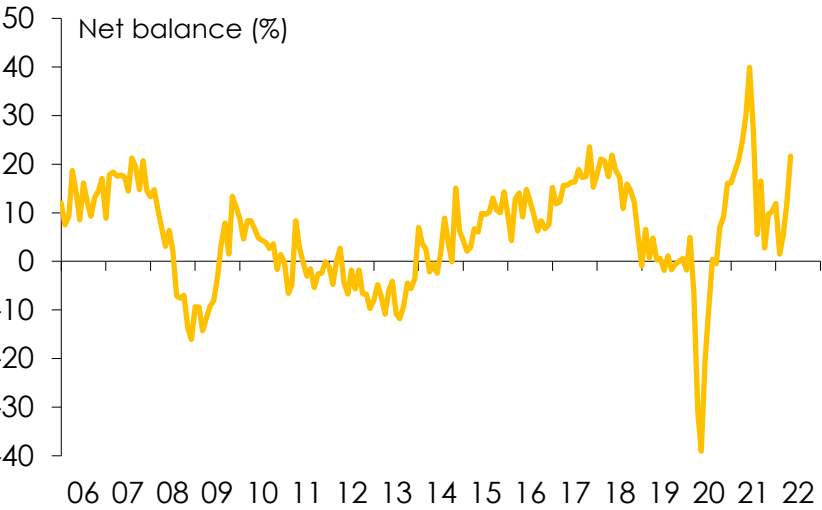
## Forward orders



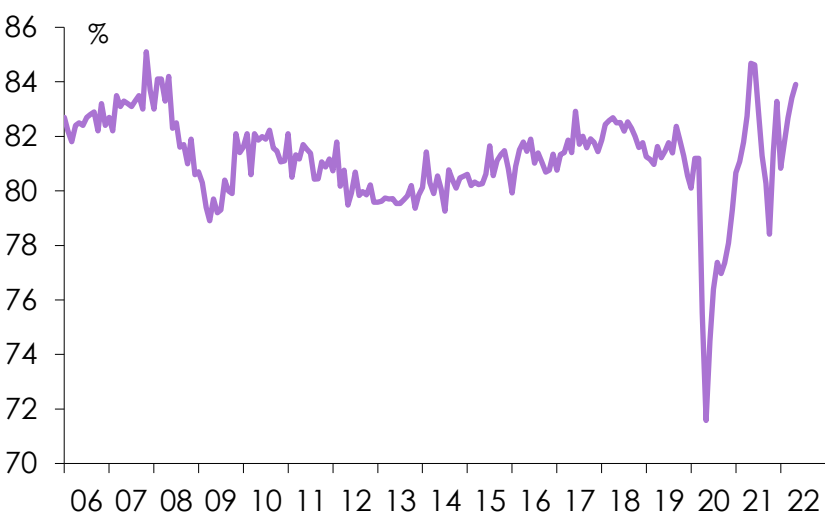
## Employee hiring intentions



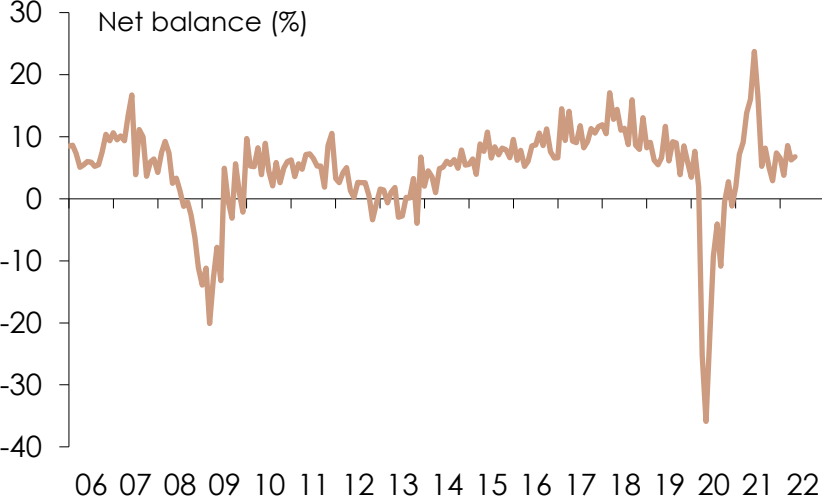
## Profitability



## Capacity utilization



## Capital expenditure intentions

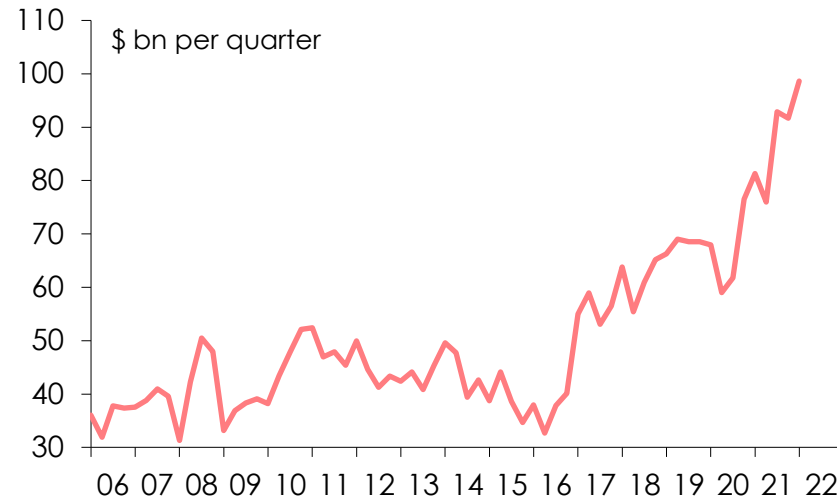


Source: National Australia Bank [Monthly Business Survey](#), April 2022; May survey results will be released on 9<sup>th</sup> June. [Return to "What's New"](#).

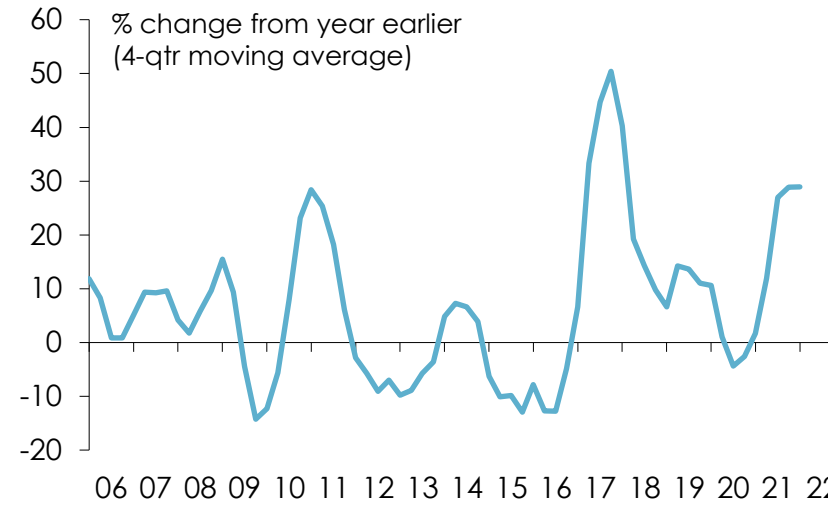
# Company profits have grown strongly over the past five years, largely driven by mining – though manufacturing profits rose 13% in 2021

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

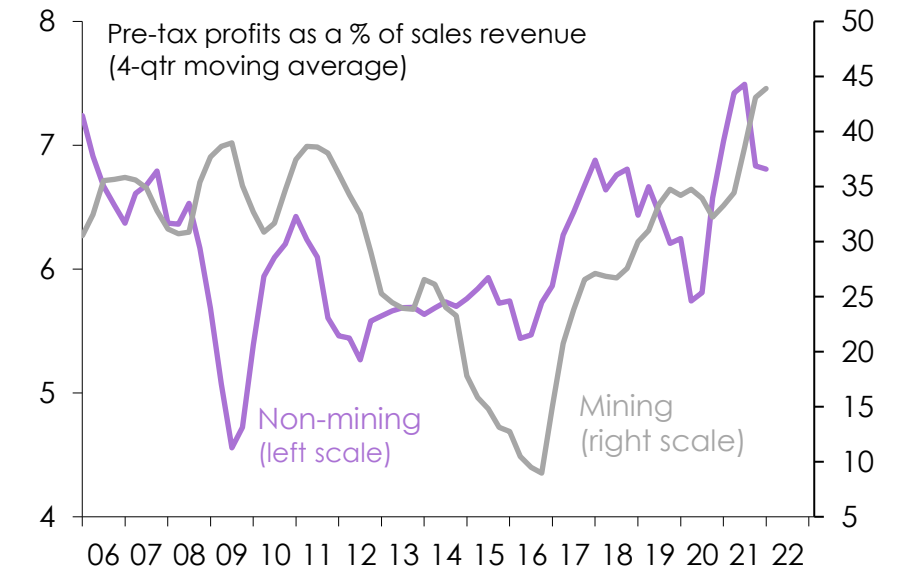
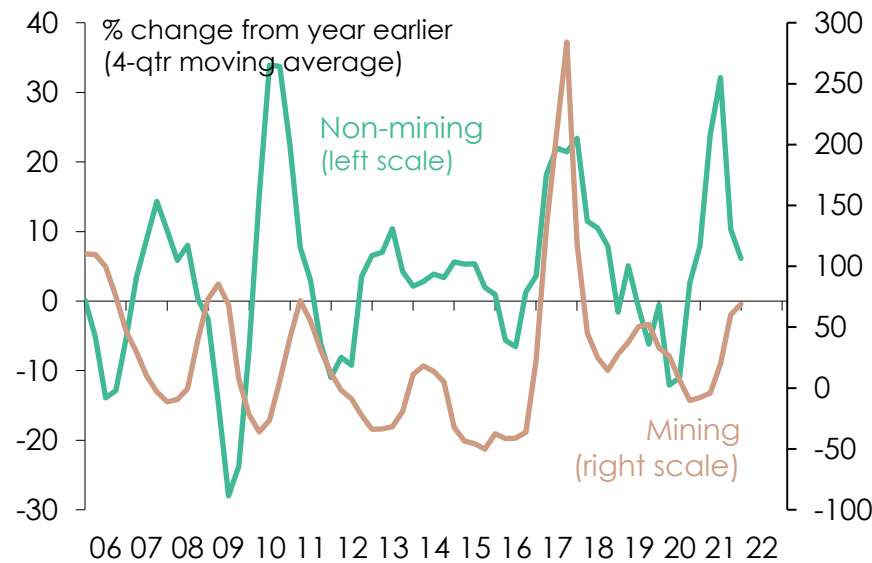
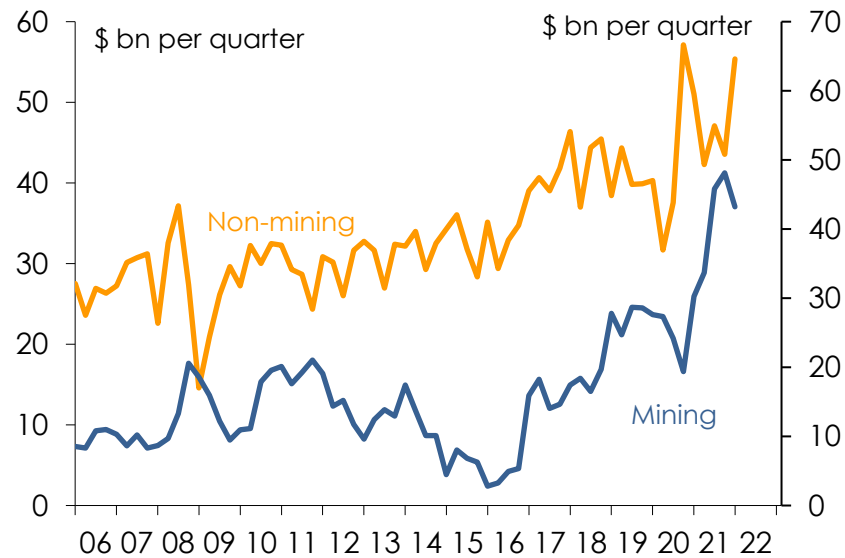
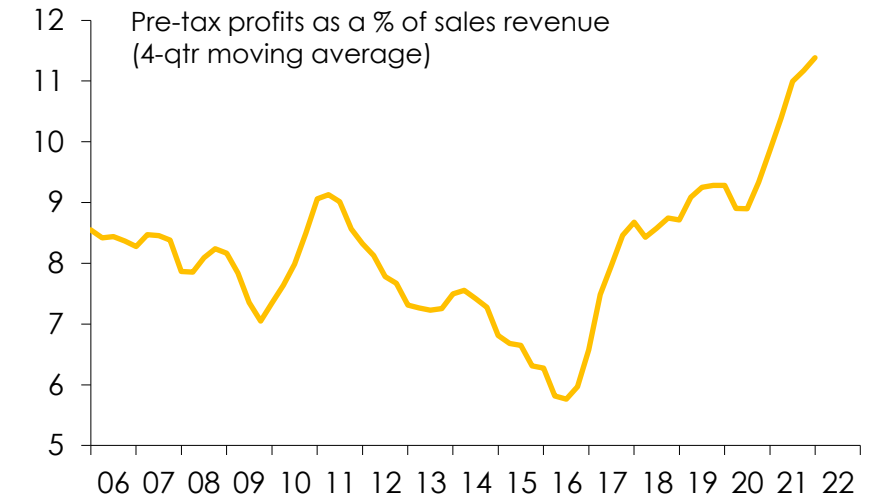
## Pre-tax company profits



## Pre-tax company profits growth



## Pre-tax profit margins

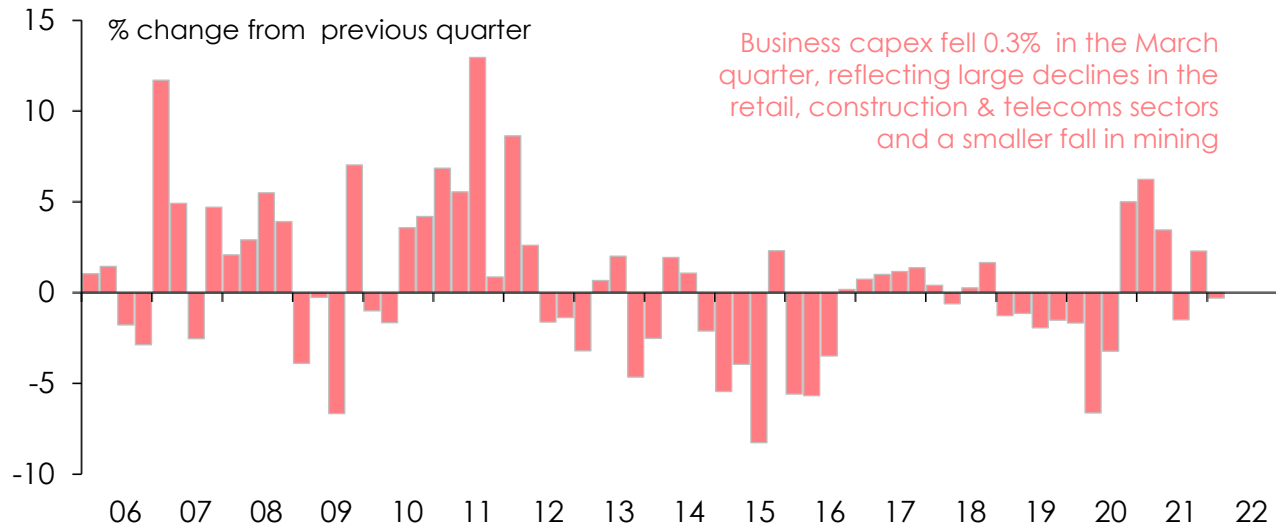


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), December 2021. March quarter data will be released on 31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

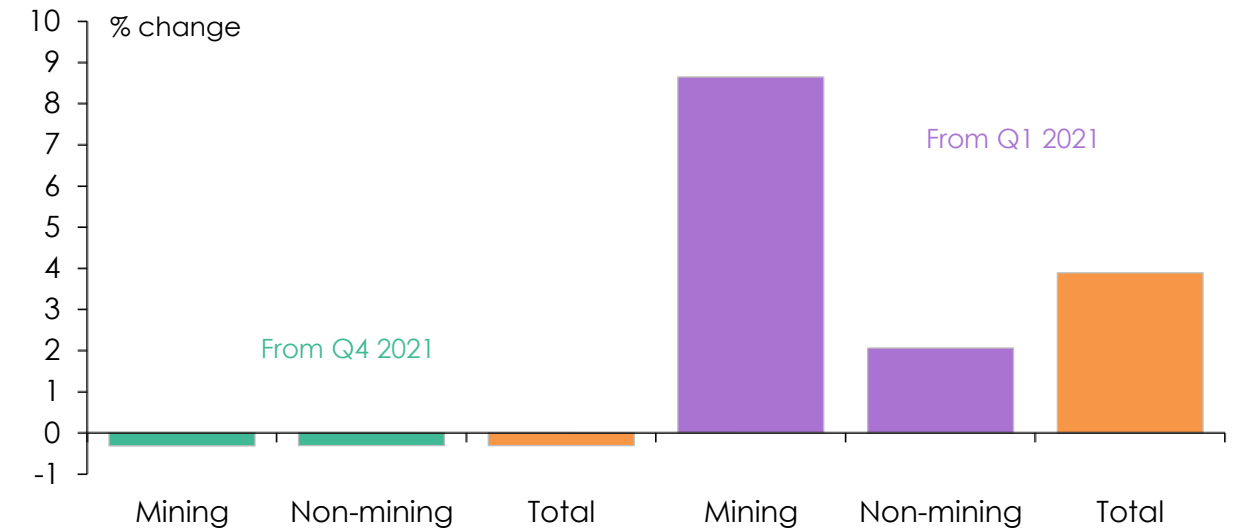
# Business capex fell 0.3% in the March quarter, reflecting large declines in capex in retail, construction and telecoms, and a smaller fall in mining

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

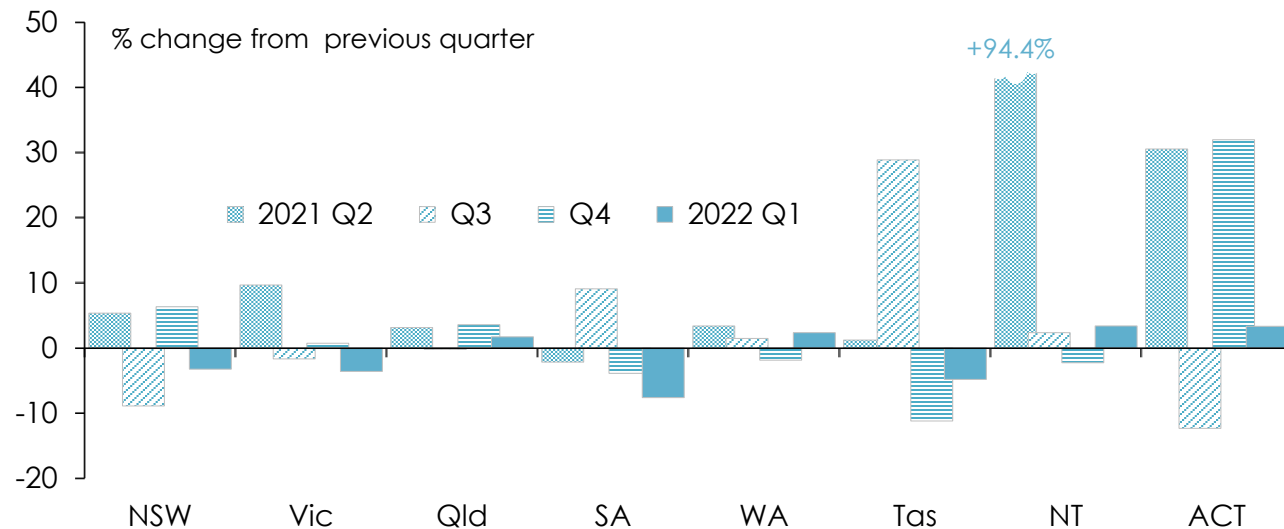
## Real business new fixed capital expenditure



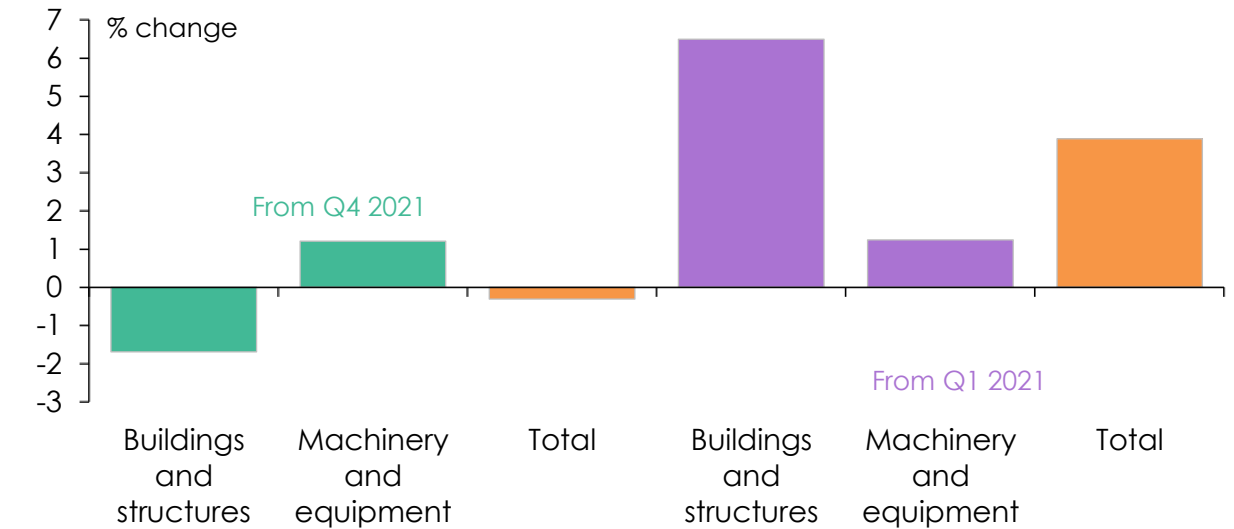
## Real business new fixed capex, by industry, Q1



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



## Real business new fixed capex, by asset, Q1



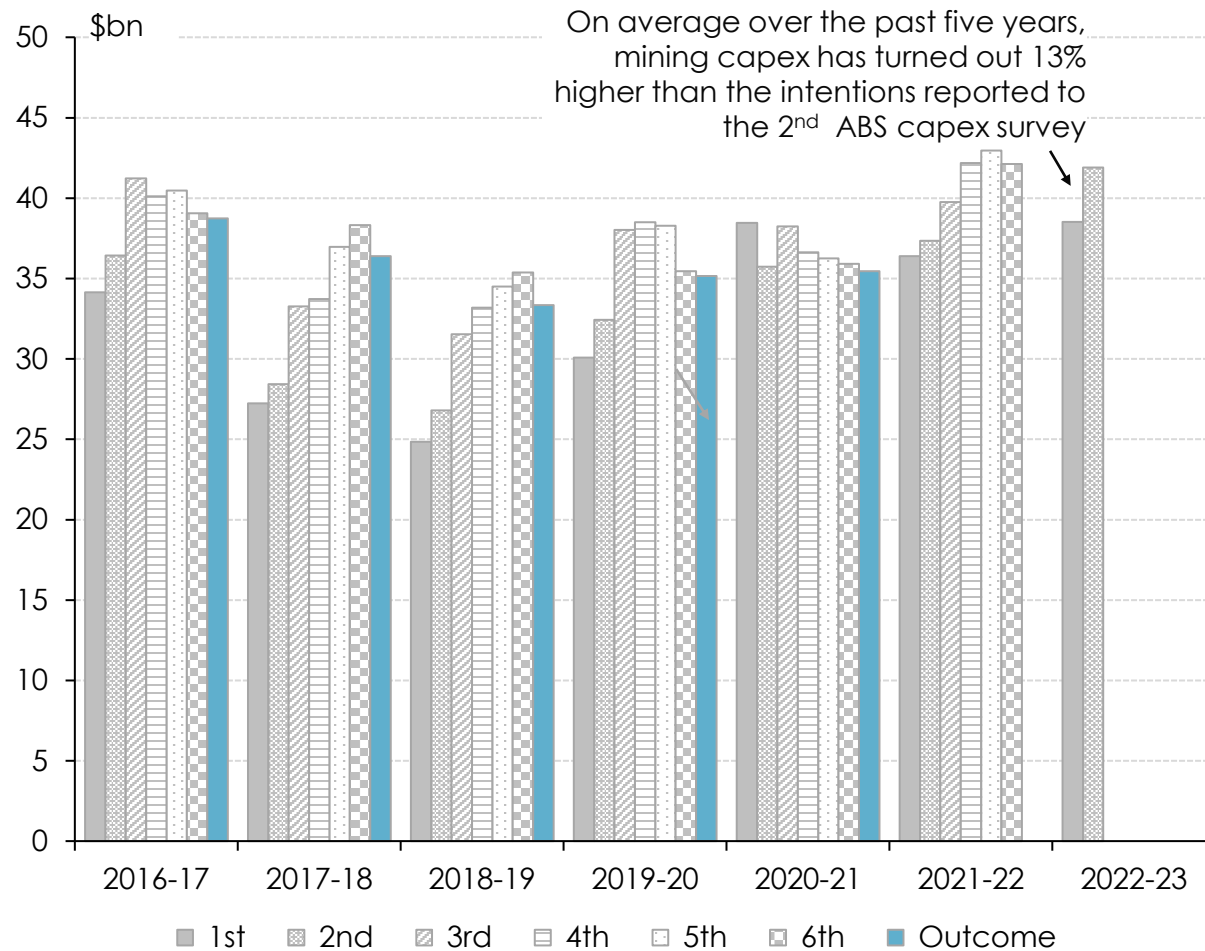
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); June quarter data will be released on 1<sup>st</sup> September. [Return to "What's New"](#).

# Businesses revised up their capex plans for 2022-23 by 11¾% during the March quarter, pointing to a 16% increase from 2021-22 levels

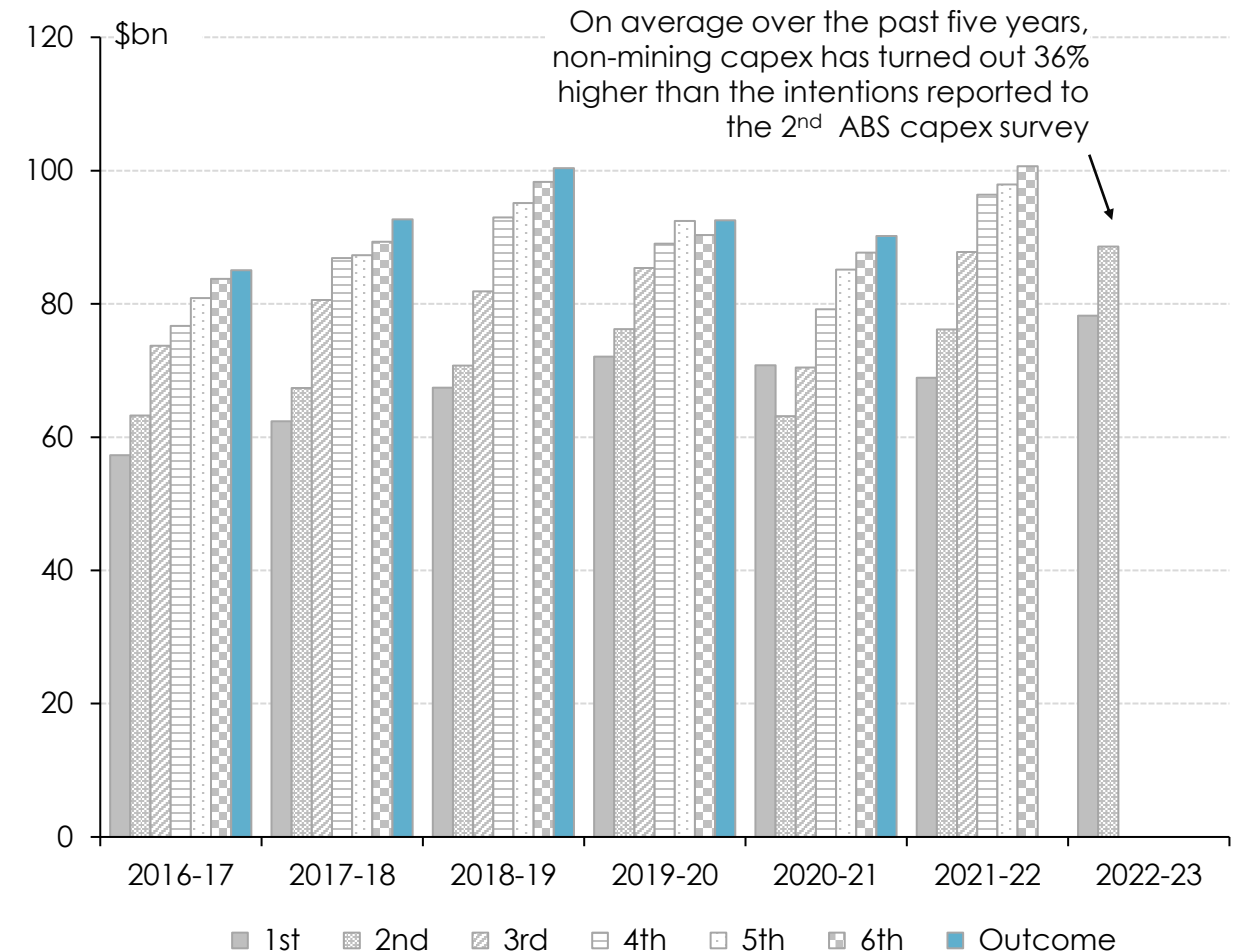
THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Capital expenditure intentions - mining



ABS capex intentions survey

## Capital expenditure intentions – non-mining



ABS capex intentions survey

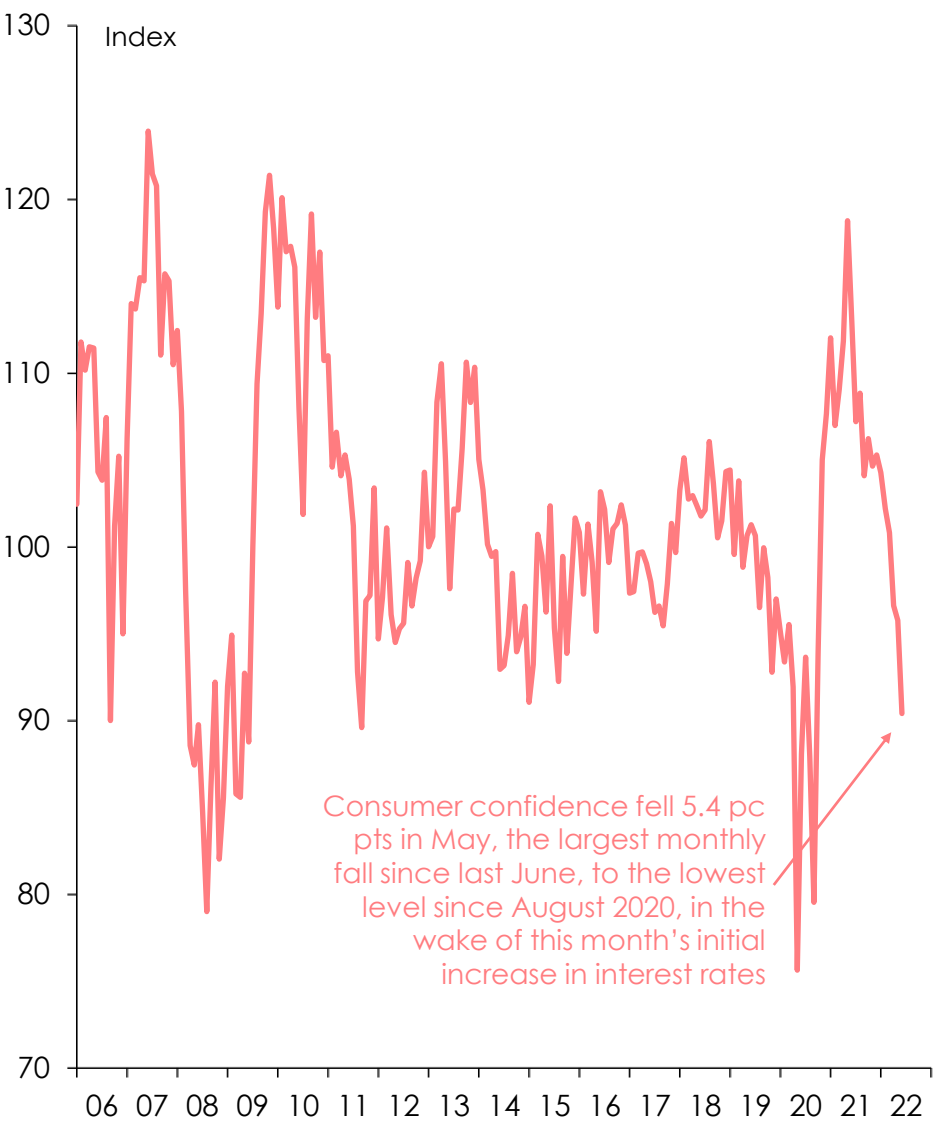
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in April & May, the third in July & August of the financial year, the fourth in October & November, the fifth in January & February, 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](#); actuals for 2021-22, and the third survey estimates for 2022-23, will be released on 1<sup>st</sup> September. [Return to "What's New"](#).

# The household sector and consumer spending

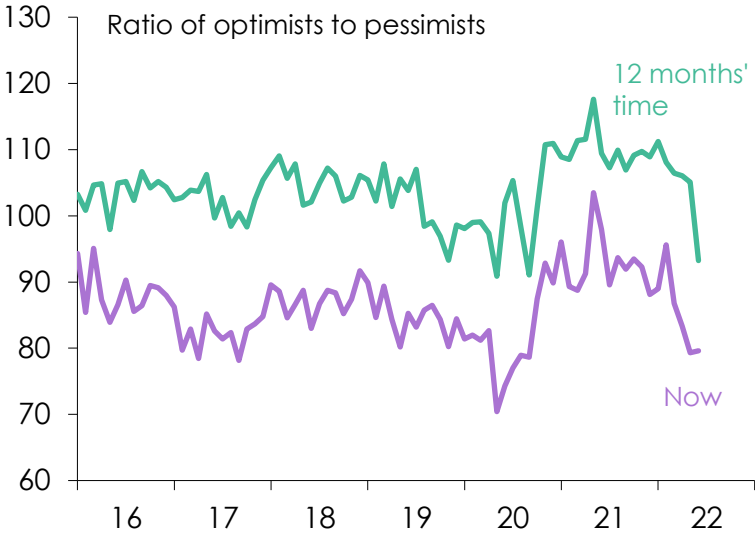
# Not surprisingly, consumer confidence fell sharply in the aftermath of the RBA's rate increase earlier this month

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

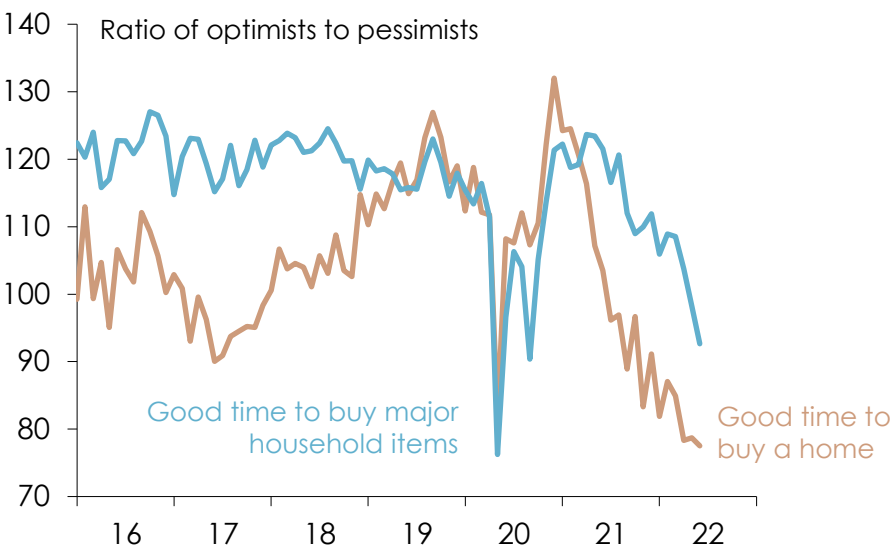
## Consumer confidence index



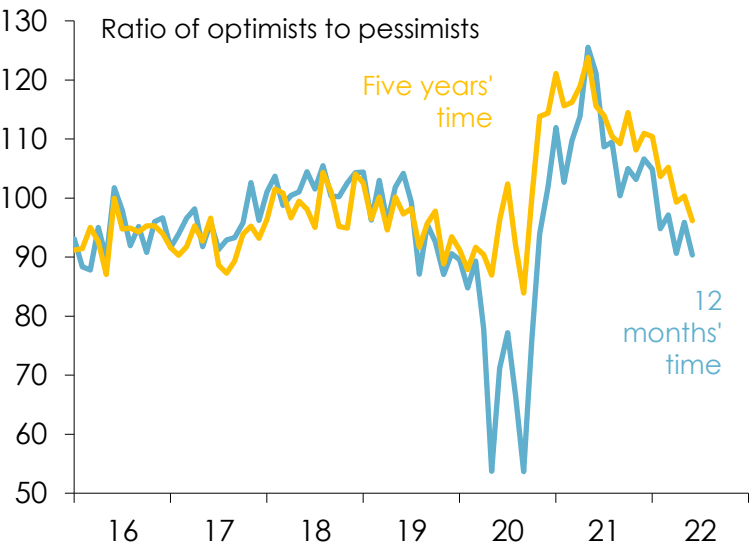
## Household finances assessment



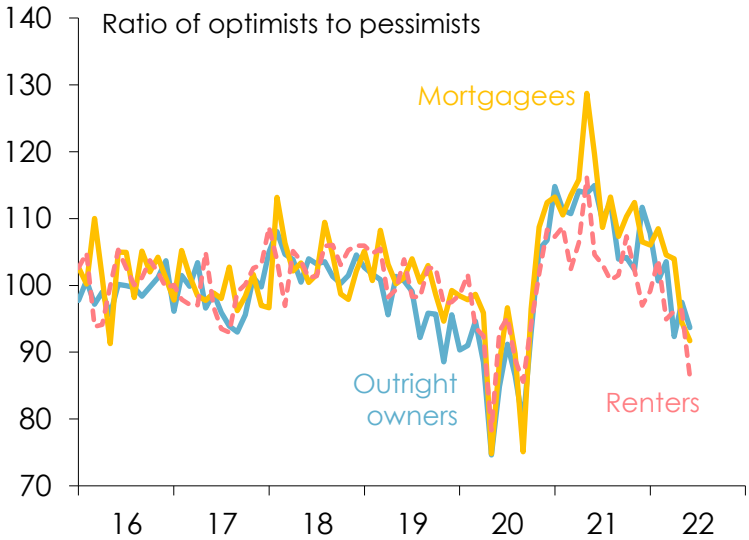
## Buying conditions assessment



## Economic conditions assessment



## Confidence by housing tenure

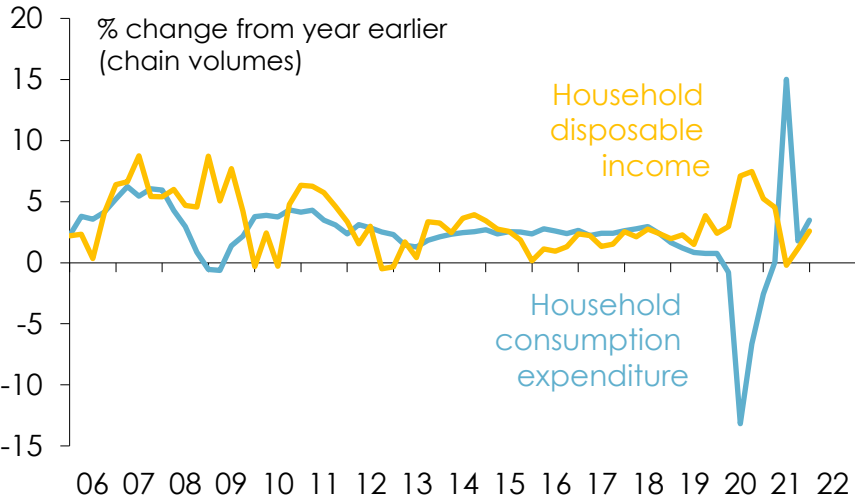




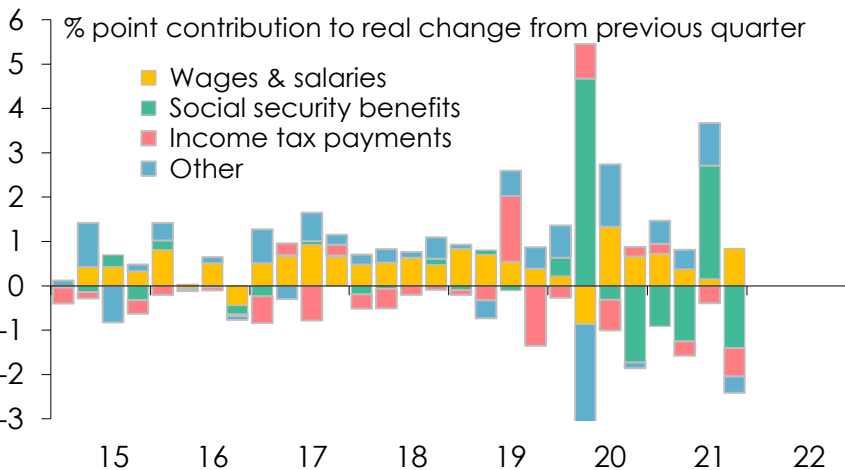
# Household bank deposits have increased by \$273bn (27½%) since just before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

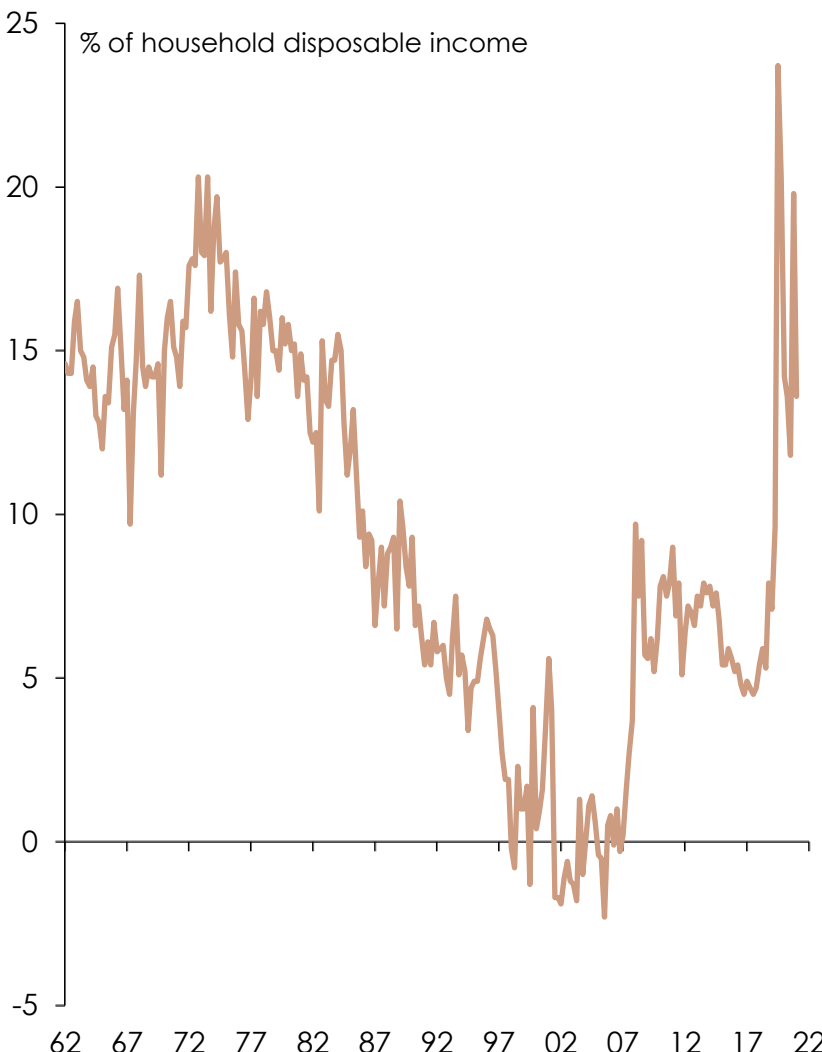
## Household income and spending



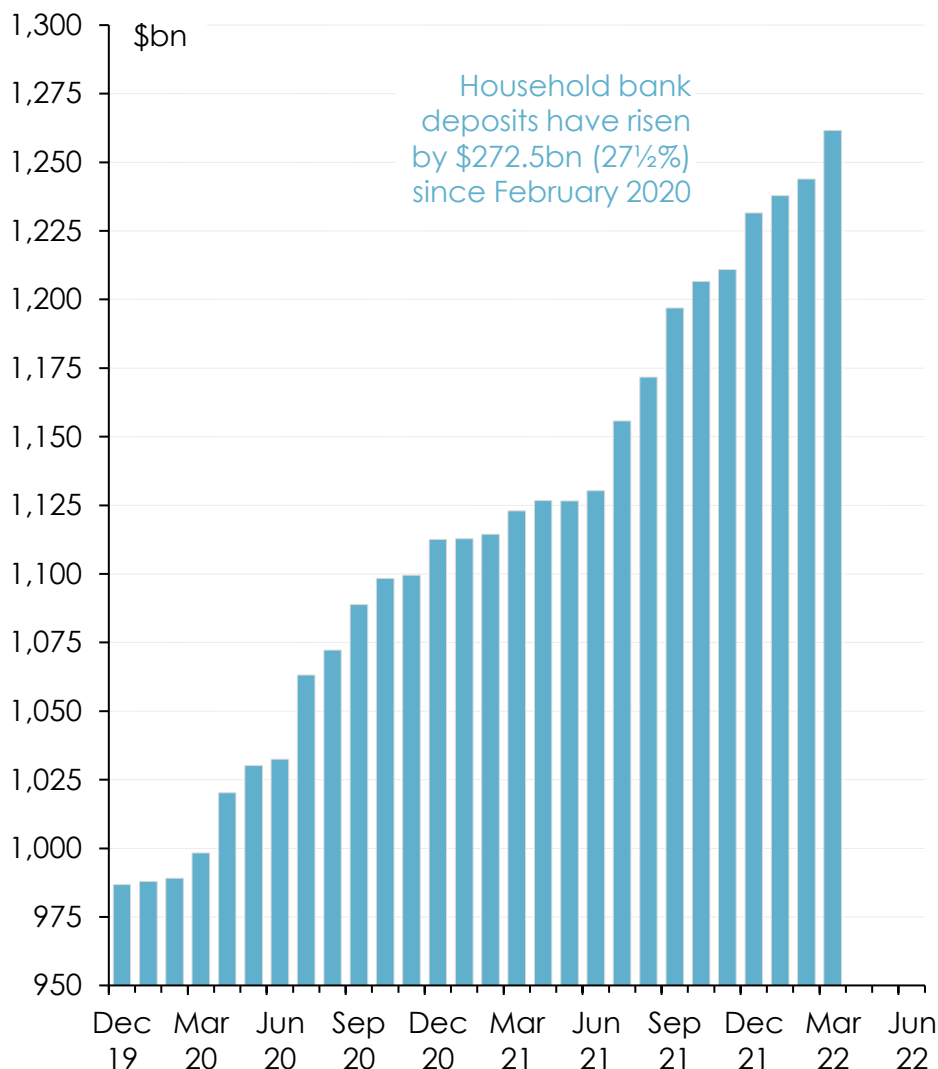
## Sources of household income



## Household saving ratio



## Household bank deposits



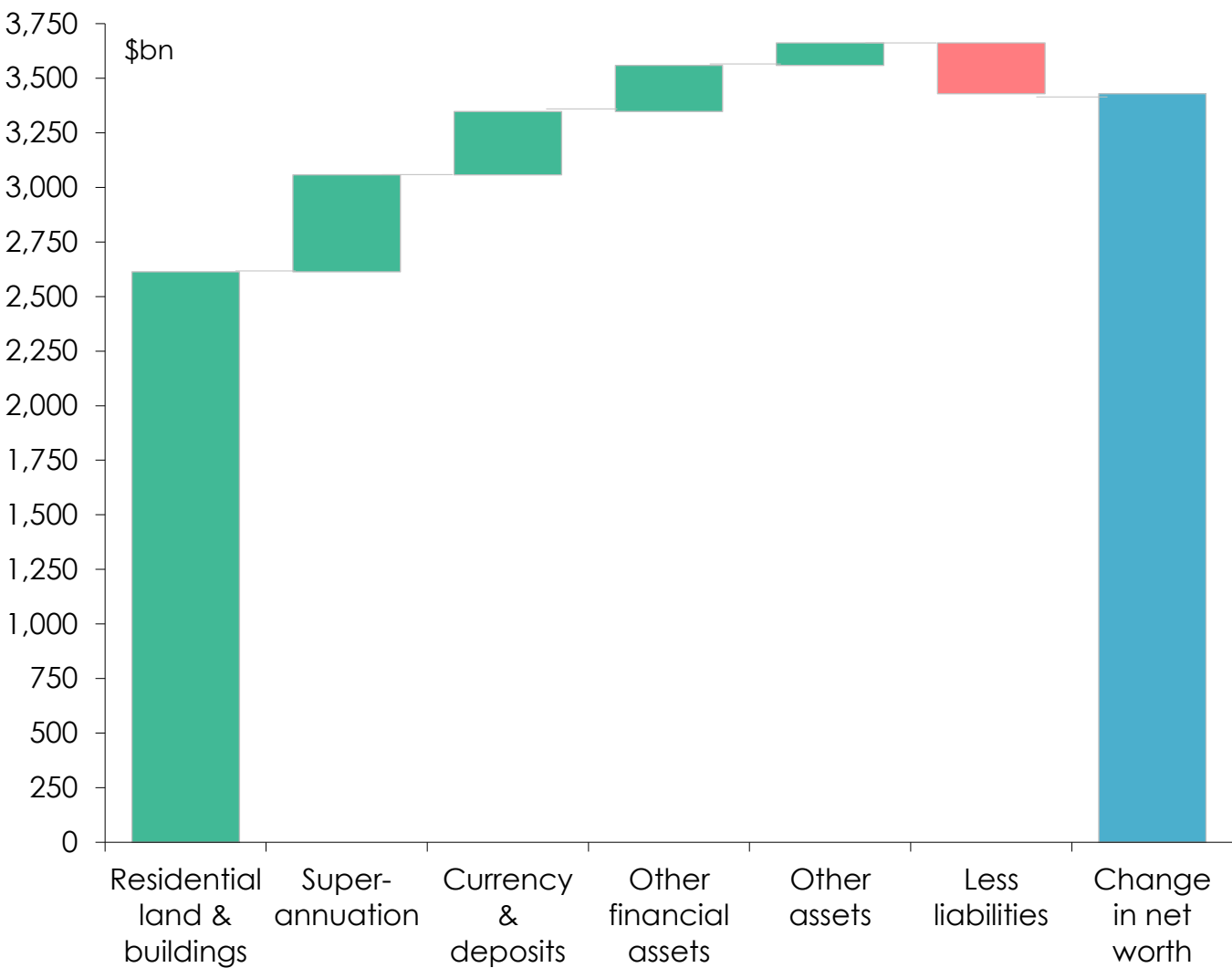
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#), March quarter data on household income, spending and saving will be released on 1<sup>st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



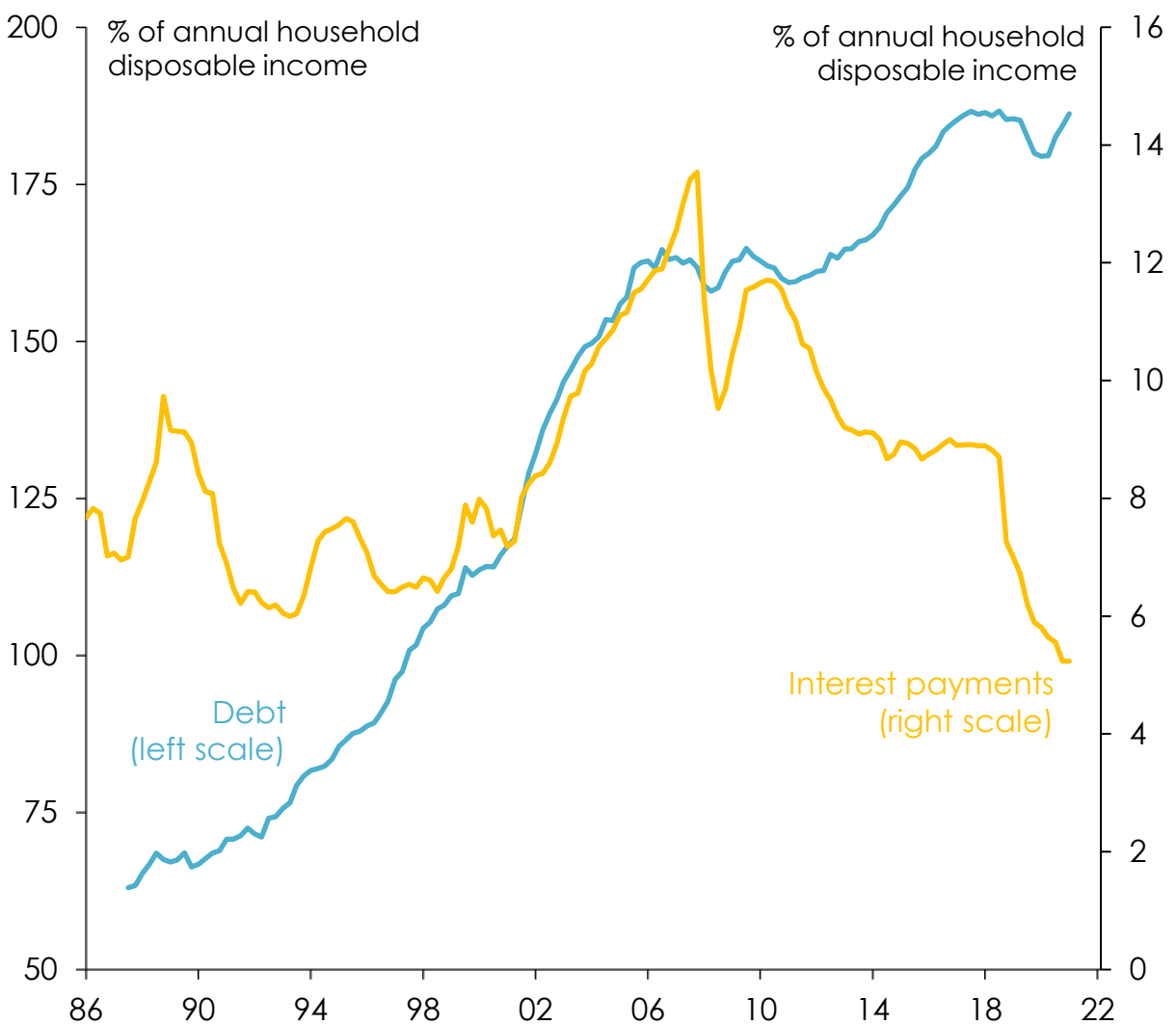
# Household net worth has risen by \$3.4trn (25%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 27<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

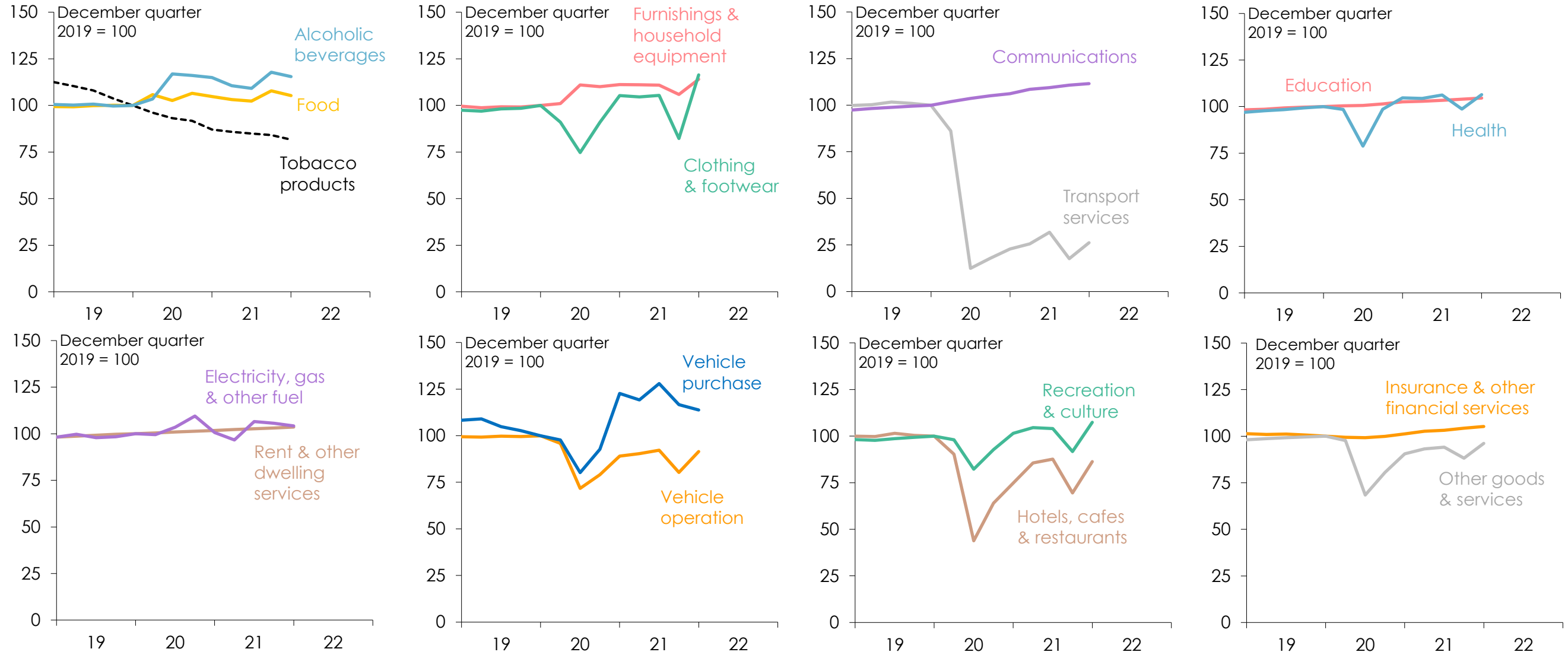


Sources: ABS, [Finance and Wealth Accounts](#), December quarter 2021; RBA, [Statistical Tables](#) E1 & E2. March quarter data will be released on 23<sup>rd</sup> June. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Major categories of household consumption spending

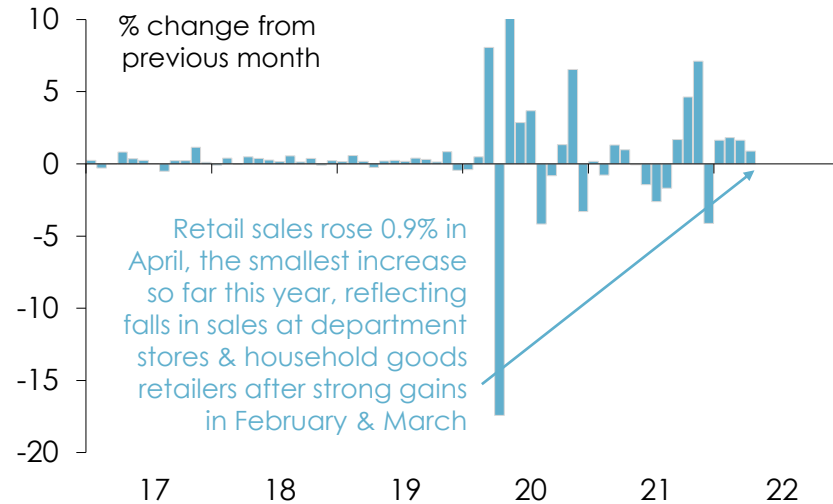


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; March quarter data will be released on 1<sup>st</sup> June. [Return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

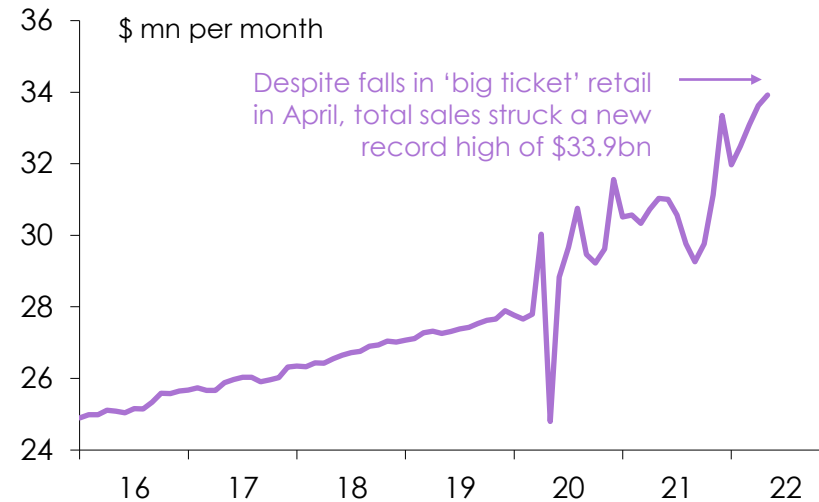
# Retail sales registered a smaller 0.9% gain in April, with falls in sales at department stores & household goods retailers

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

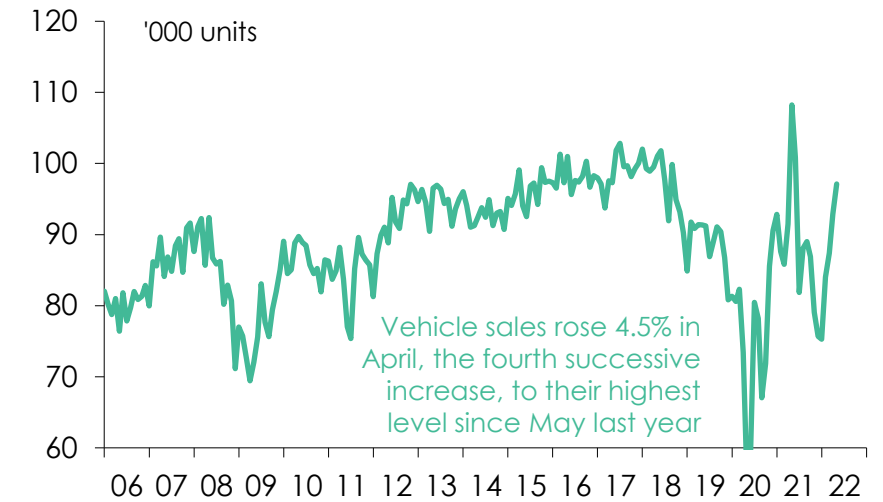
## Monthly retail sales



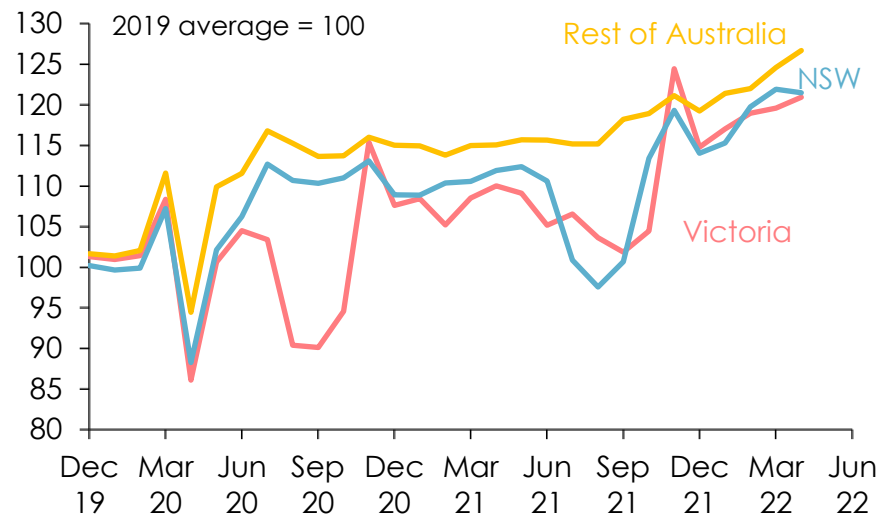
## Level of retail sales



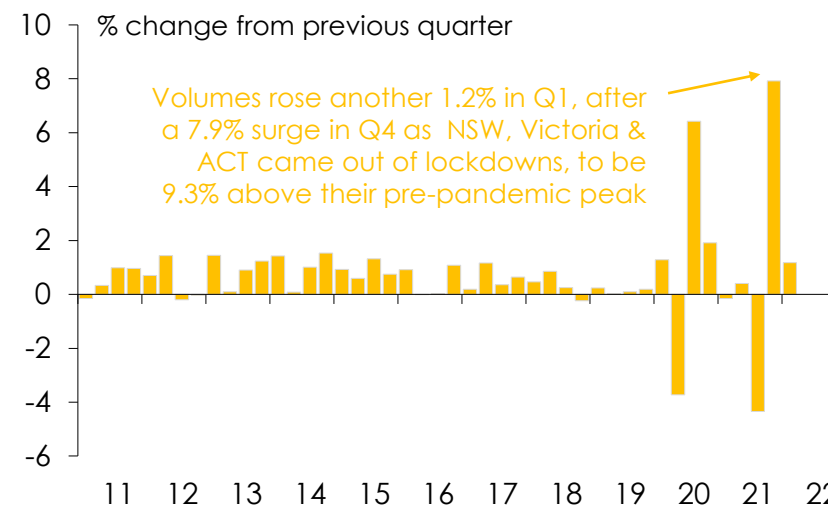
## New motor vehicle sales



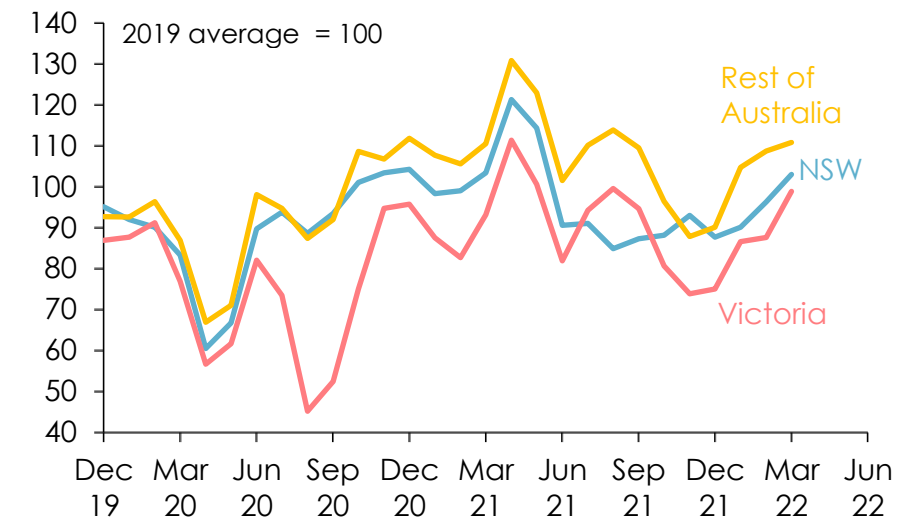
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



## Vehicle sales – NSW, Vic & the rest

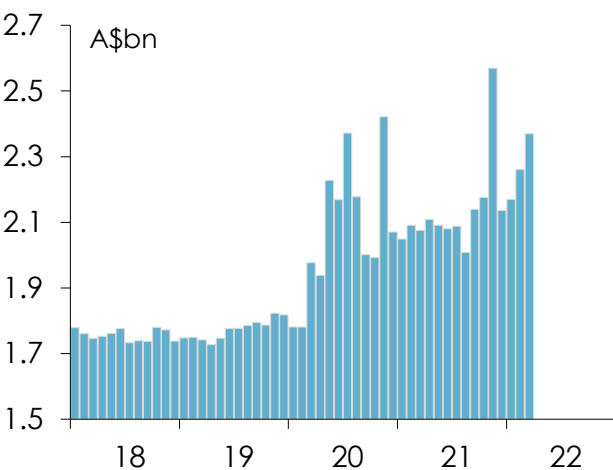


Note: see also [slide 36](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary May retail sales data will be released on 29<sup>th</sup> June; May motor vehicle sales data will be released in the second week of June. [Return to "What's New"](#).

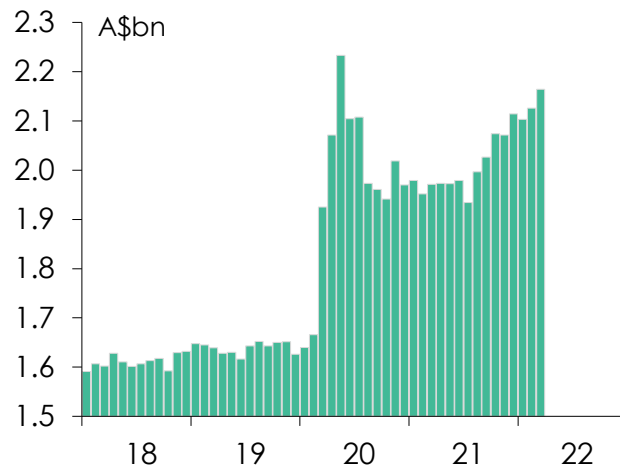
# Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

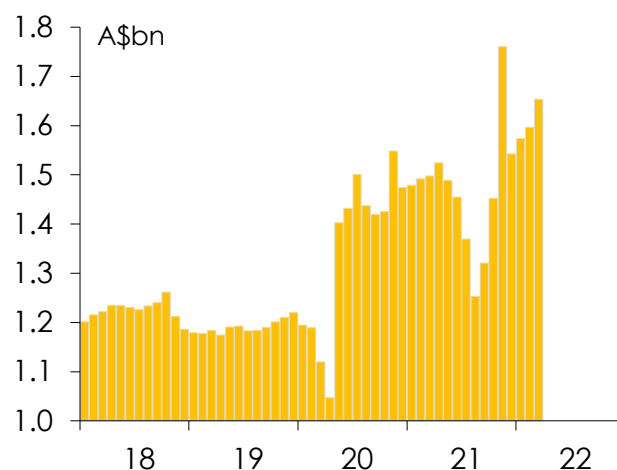
Electronic & electrical goods



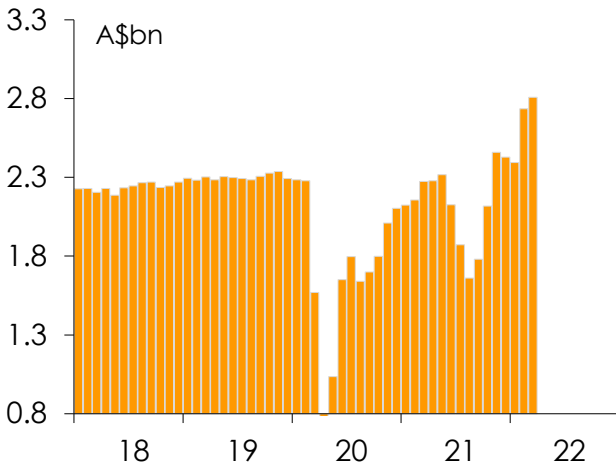
Hardware, building & garden supplies



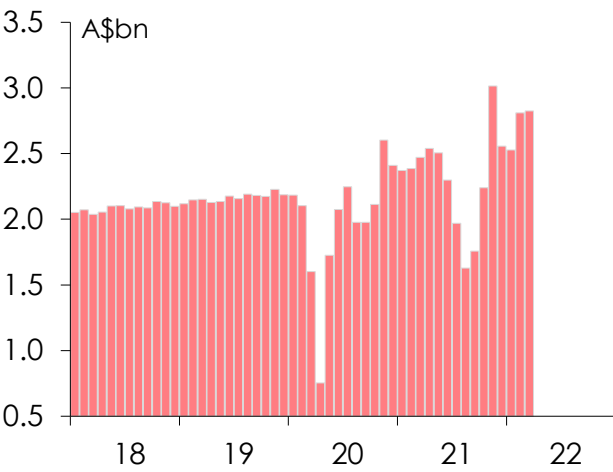
Floor coverings, furniture, housewares etc



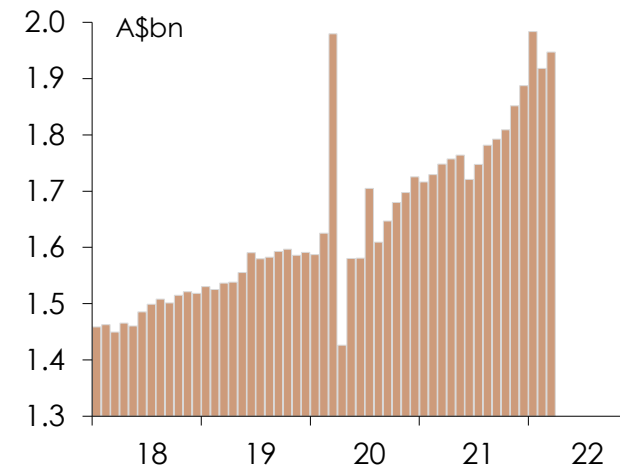
Cafes and restaurants



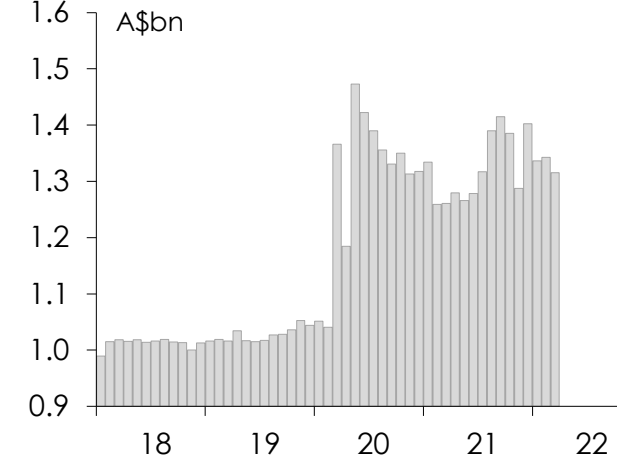
Clothing, footwear & personal accessories



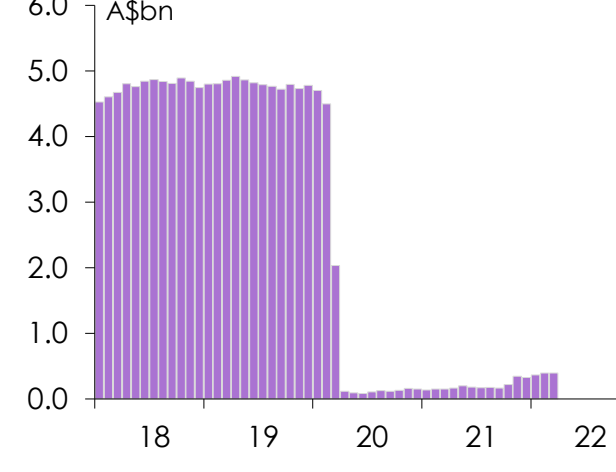
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

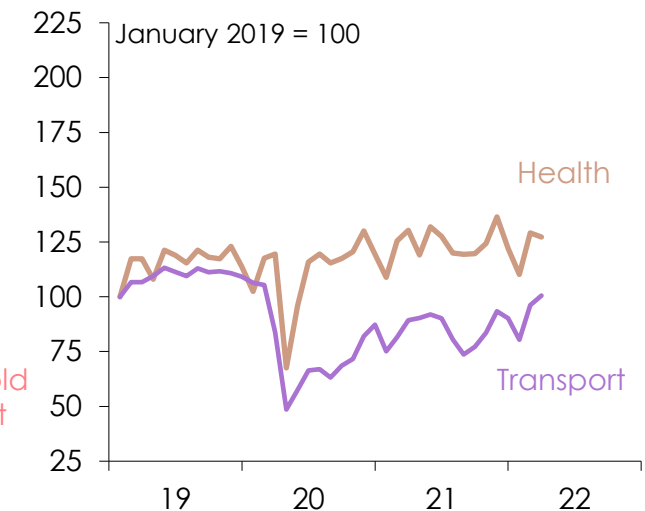
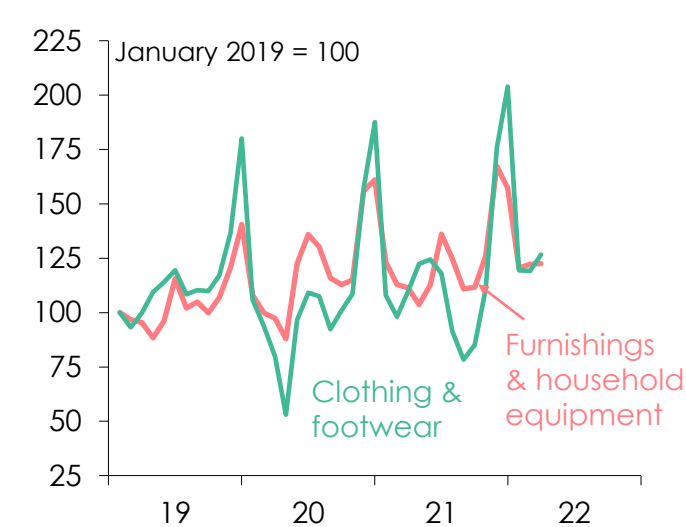
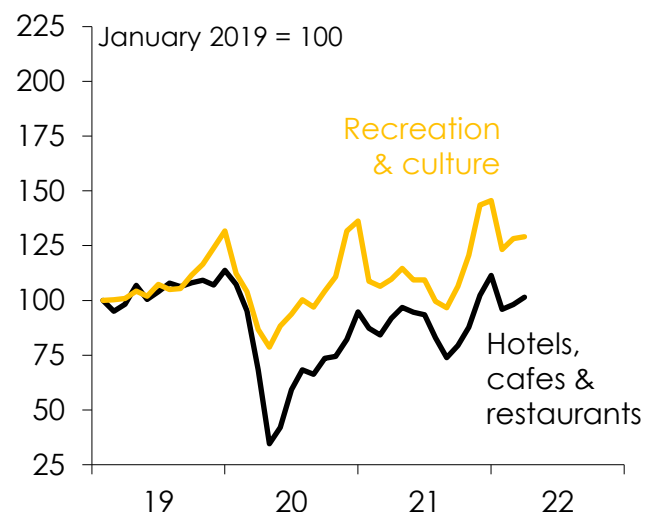
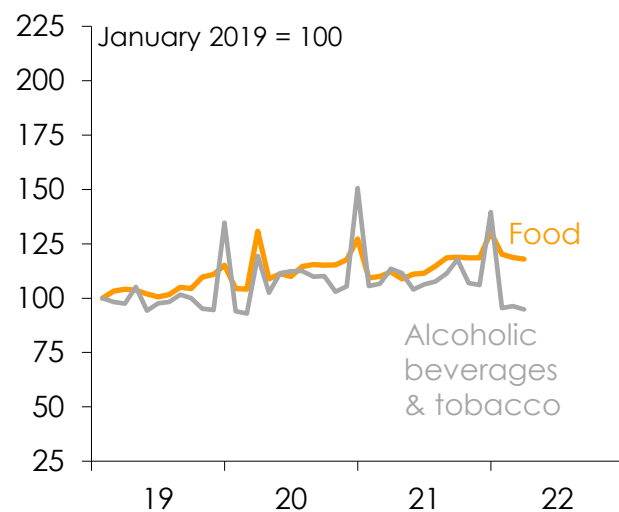


Sources: ABS, [Retail Trade, Australia](#), March 2022 (detailed April data on which the above charts are based will be released on 2<sup>nd</sup> June); and [International Trade in Goods and Services, Australia](#), March 2022. [Return to "What's New"](#).

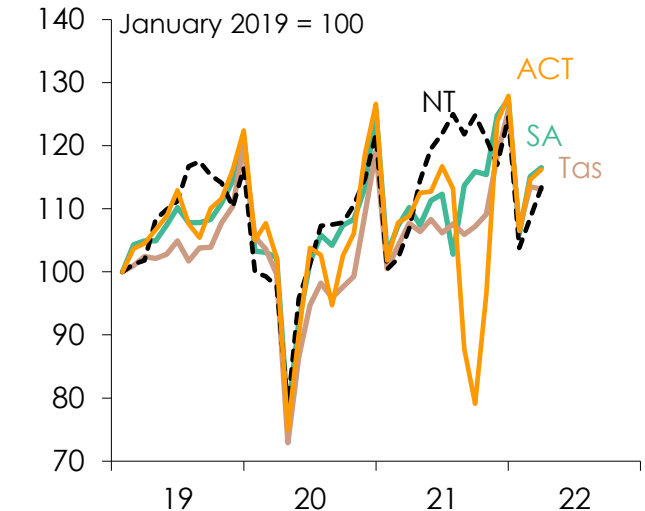
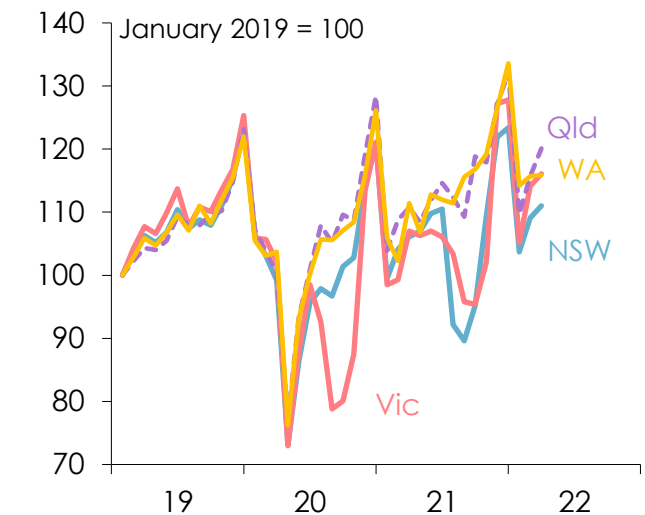
# Household spending (as measured by the new ABS indicator based on bank transactions data) was 6.6% higher in March than a year earlier

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Household spending by purpose



## By state & territory

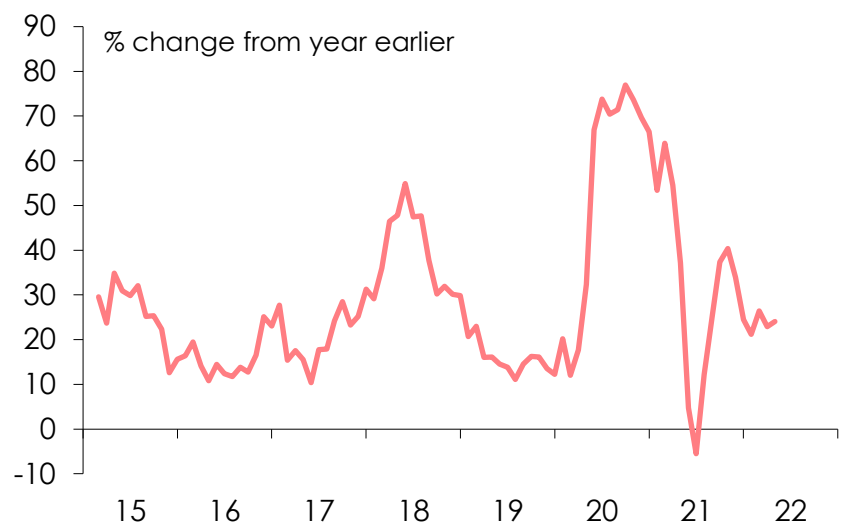


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, 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](#), March 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. April data will be released on 14<sup>th</sup> June.

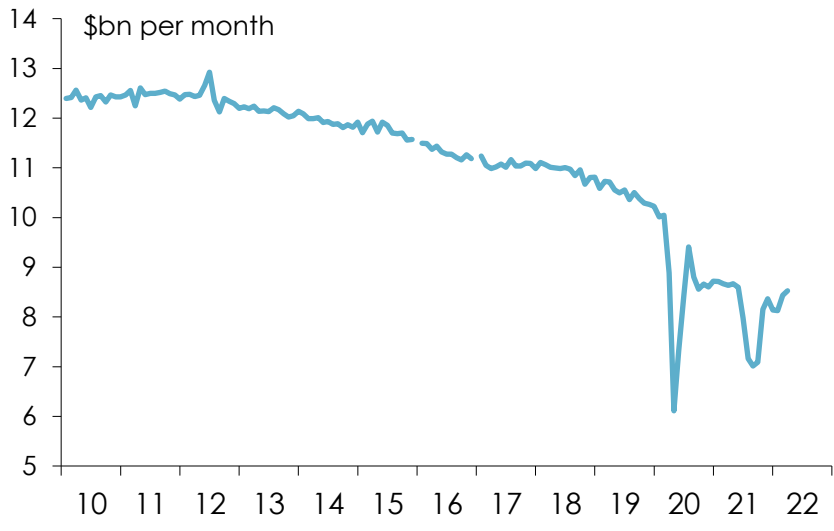
# Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

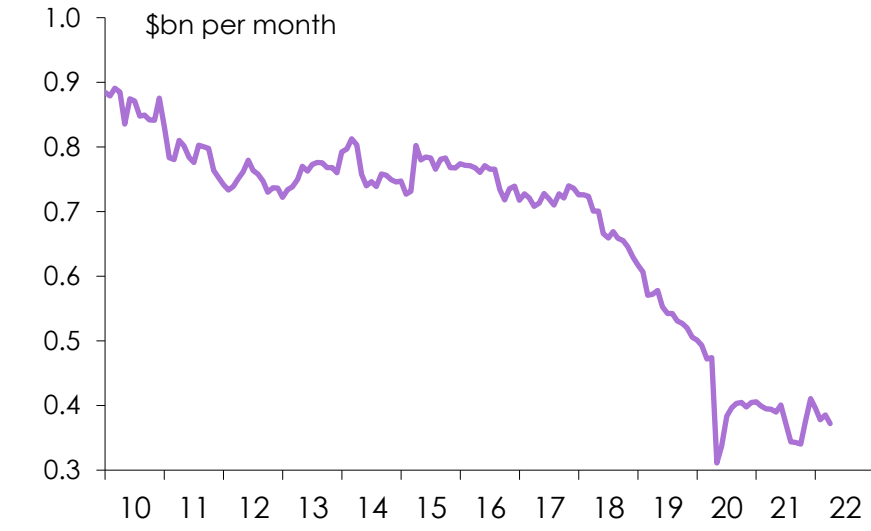
Growth in online retail sales



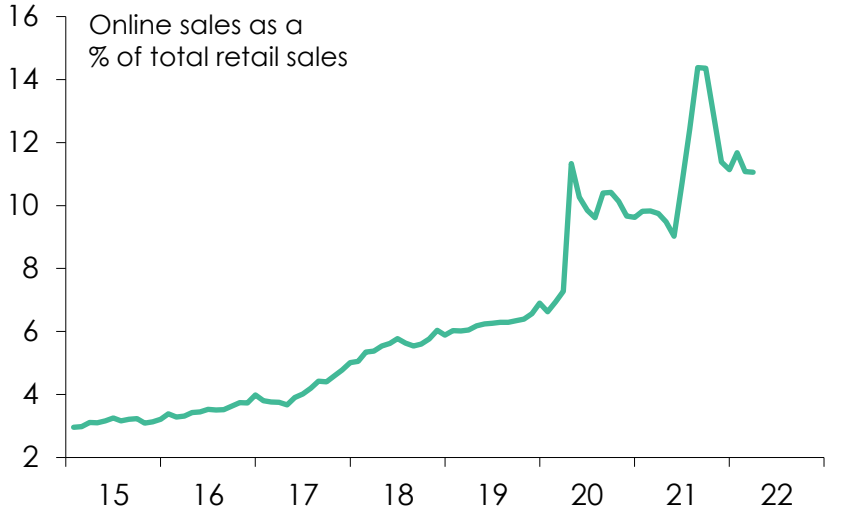
ATM cash withdrawals



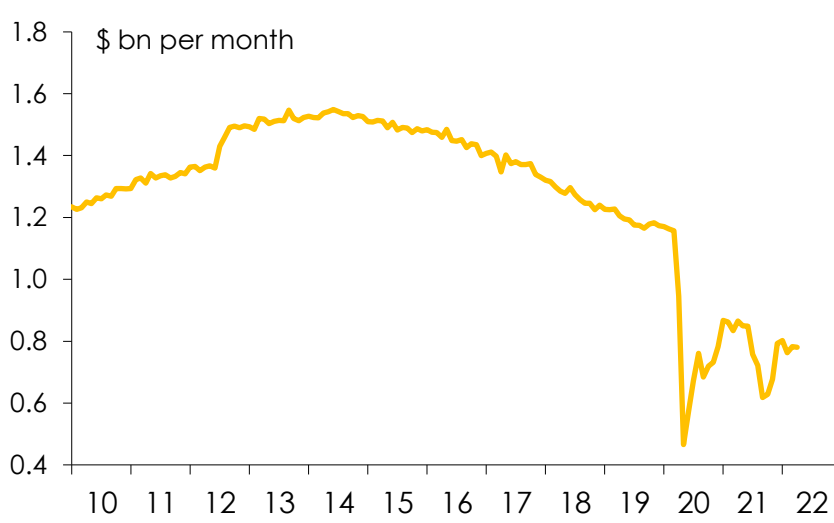
Credit card cash advances



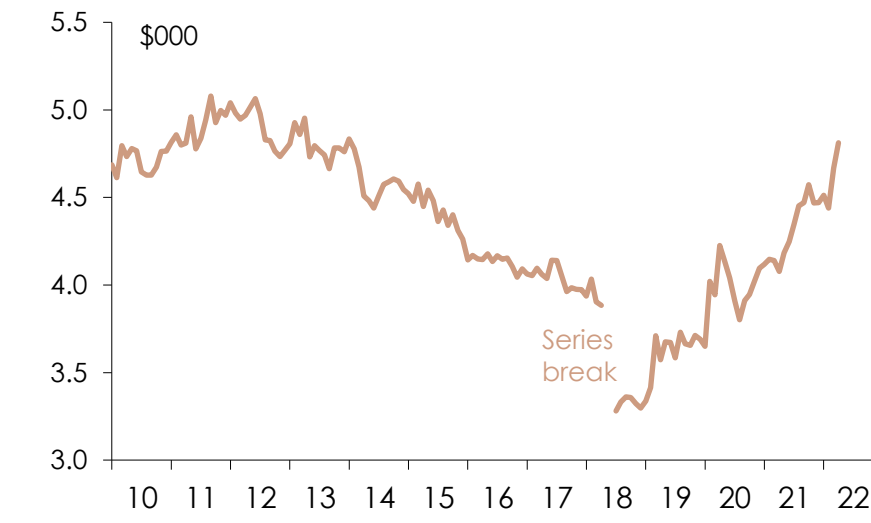
Online retail 'market share'



Debit card cash-outs



Direct entry payments avge value



Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales and payments system data are for 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"](#).

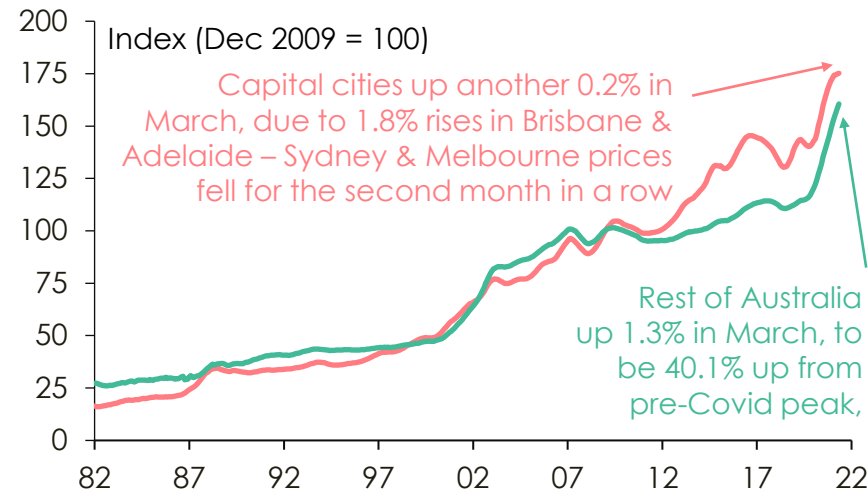
# Housing and the residential property market



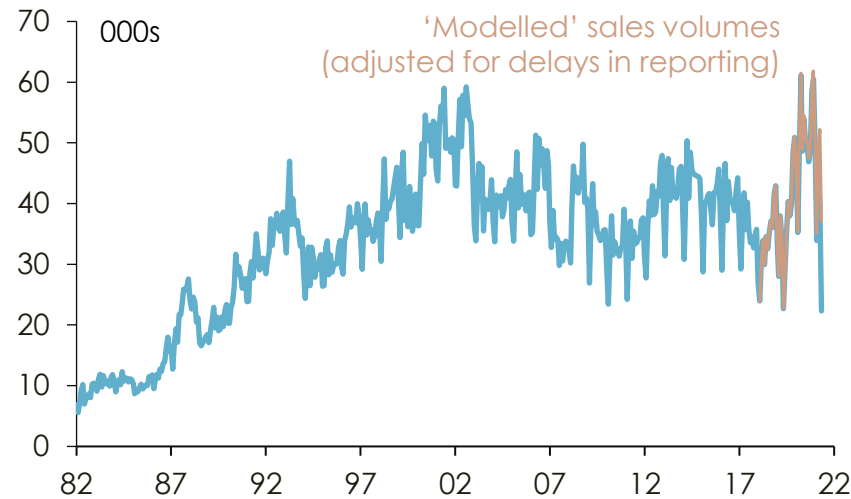
# Property prices across Australia rose an average of 0.5% in April, despite falls in both Sydney & Melbourne, to be 25.2% above their pre-Covid peak

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

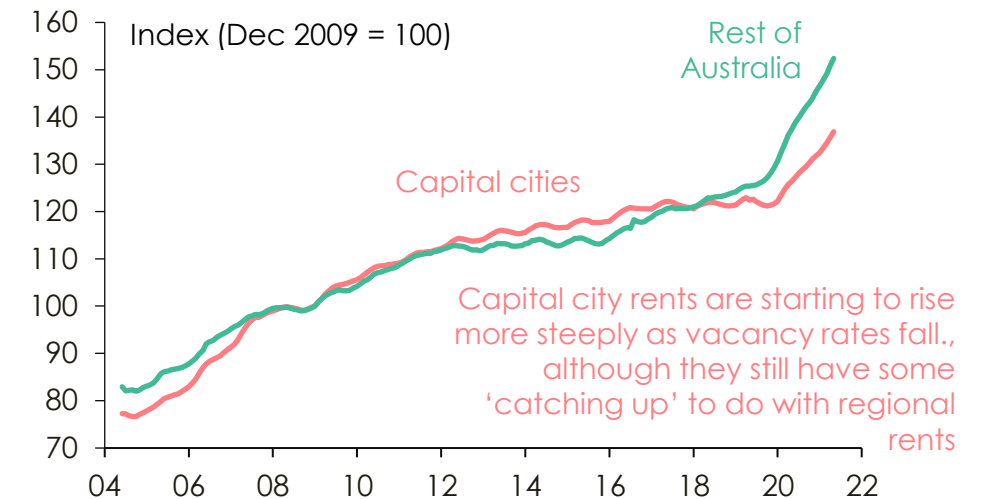
## Residential property prices



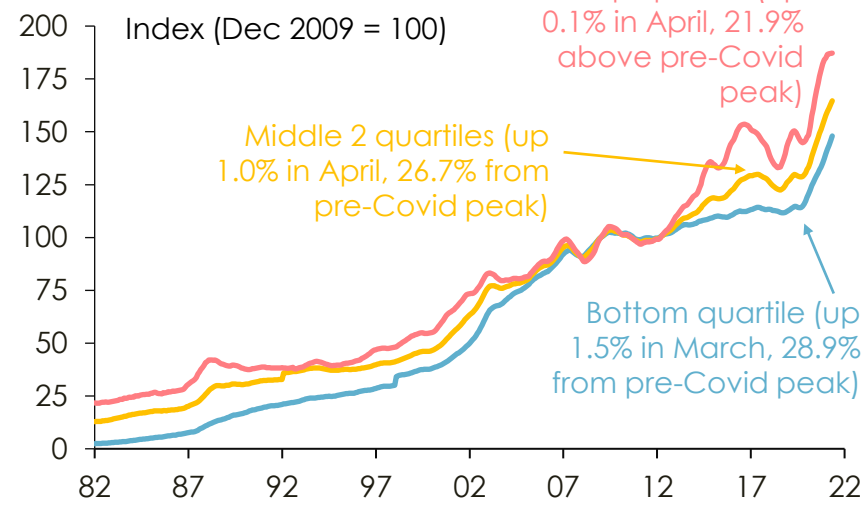
## Residential property sales volumes



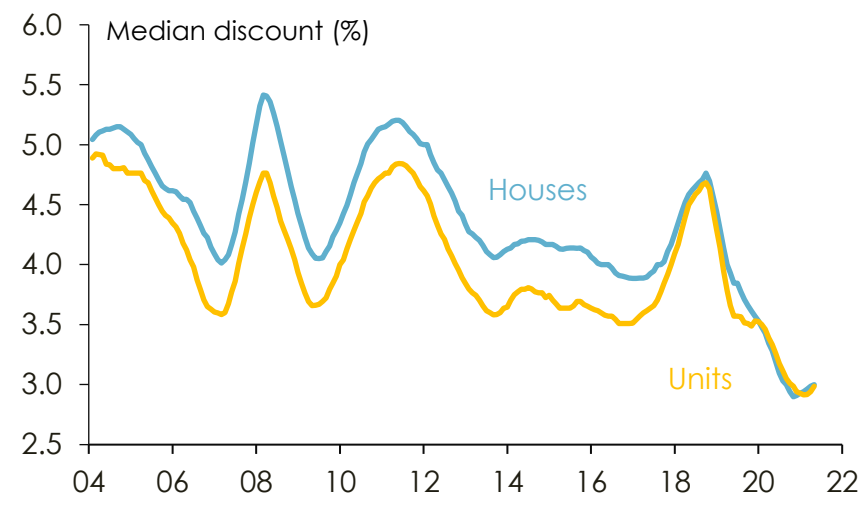
## Residential rents



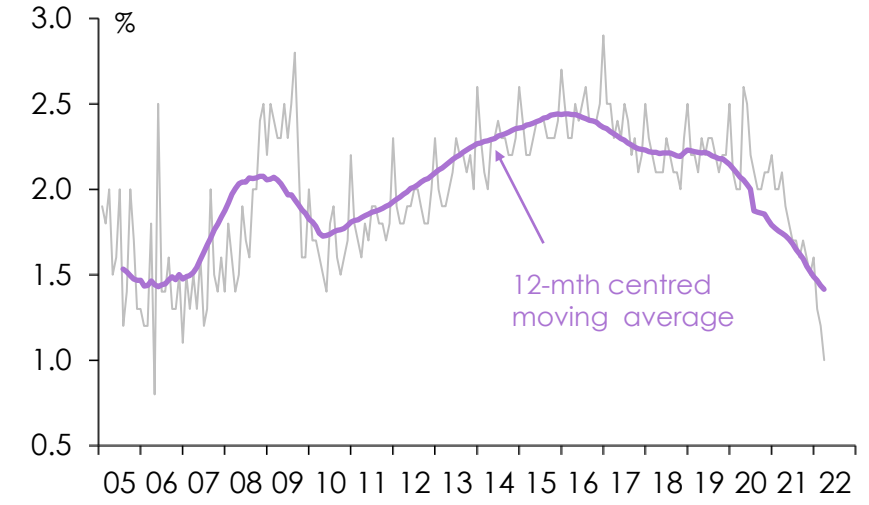
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates



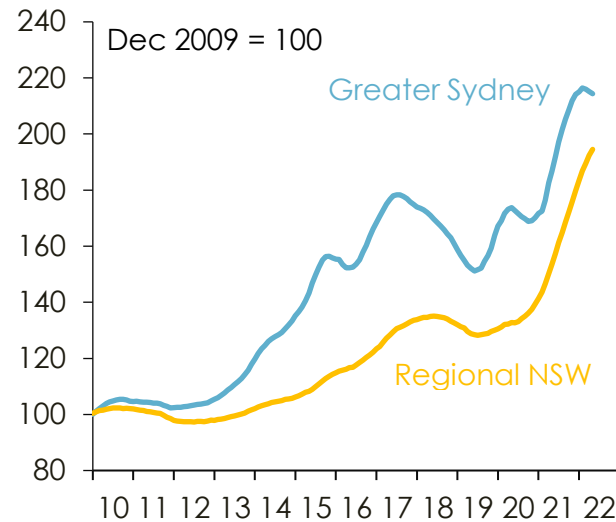
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of 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"](#).



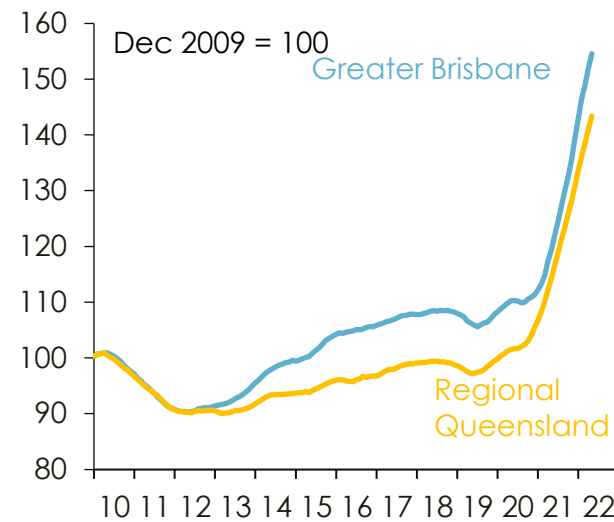
# Sydney & Melbourne prices have fallen by 1.0% and 0.7% respectively over the past three months, but are still rising elsewhere in Australia

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

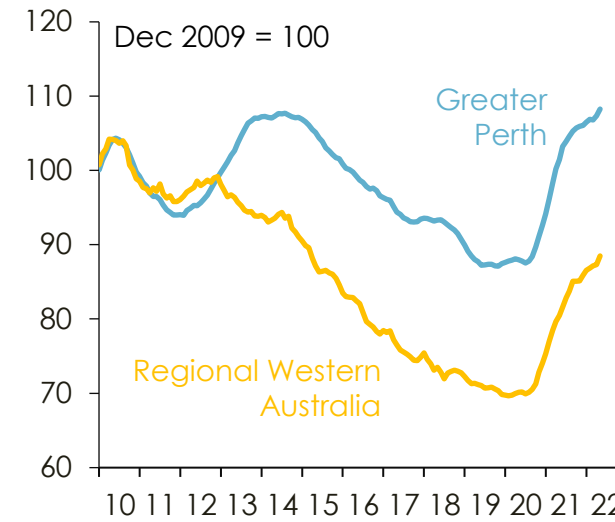
## New South Wales



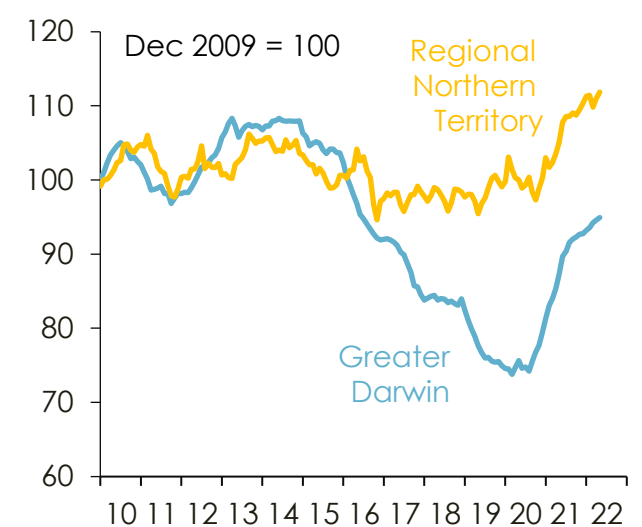
## Queensland



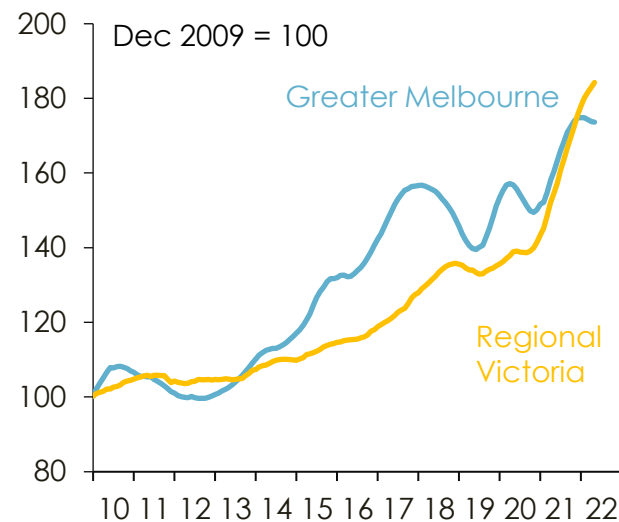
## Western Australia



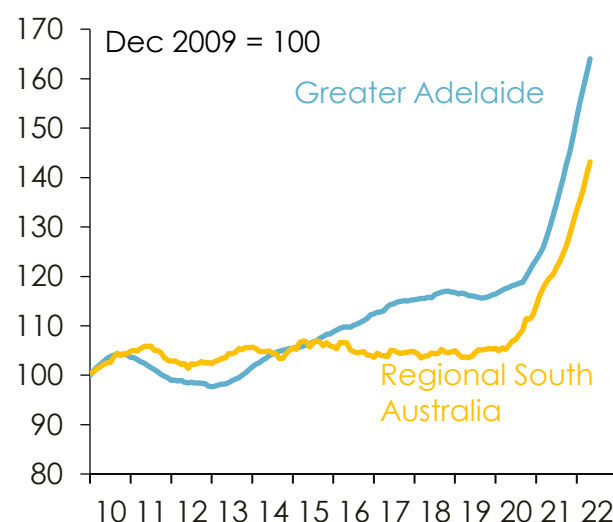
## Northern Territory



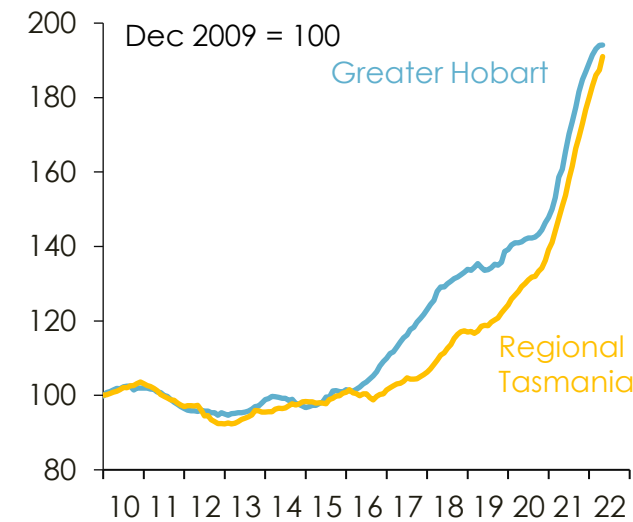
## Victoria



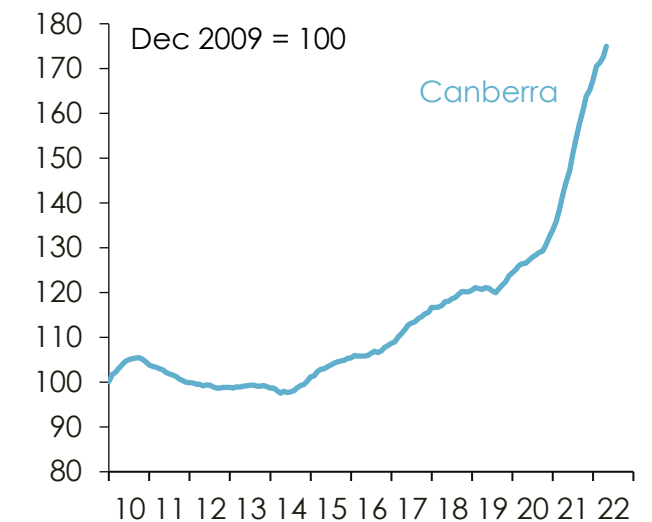
## South Australia



## Tasmania



## Australian Capital Territory

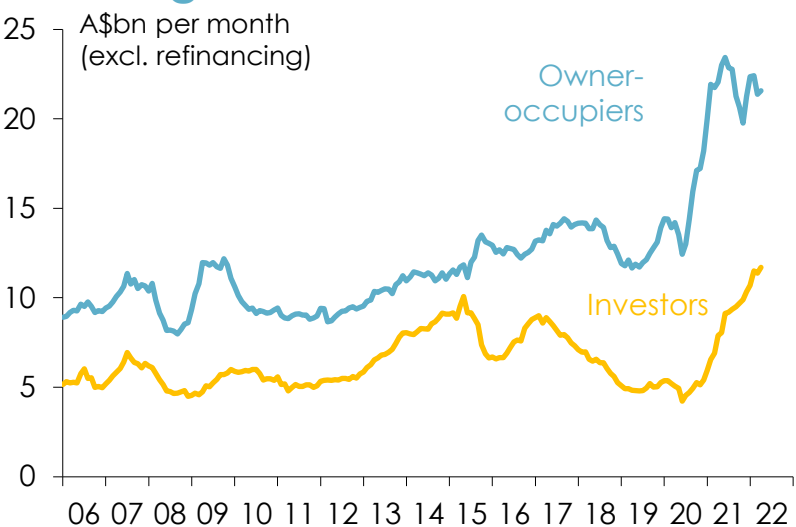


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states 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"](#).

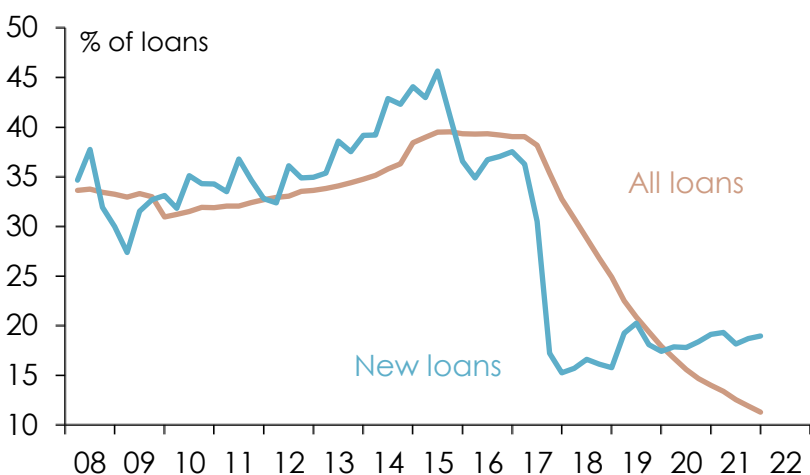
# Housing finance commitments rose 1.6% in March, with commitments to investors up 2.9% and to owner-occupiers up 0.9%

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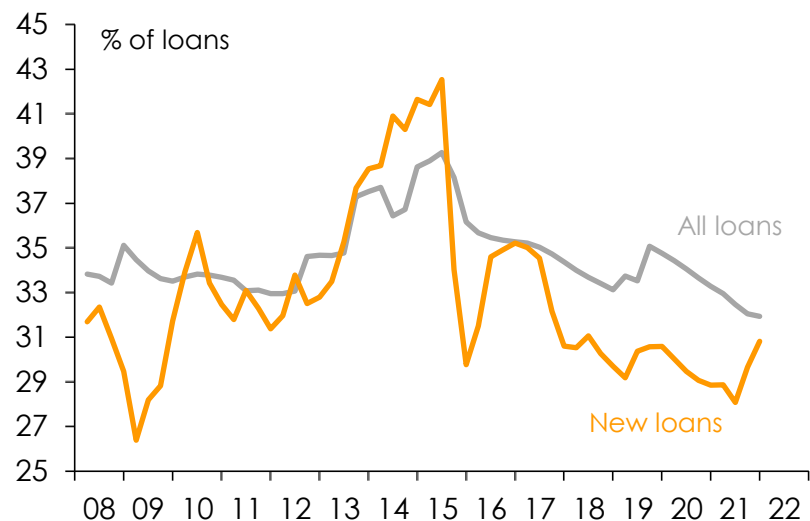
## Housing finance commitments



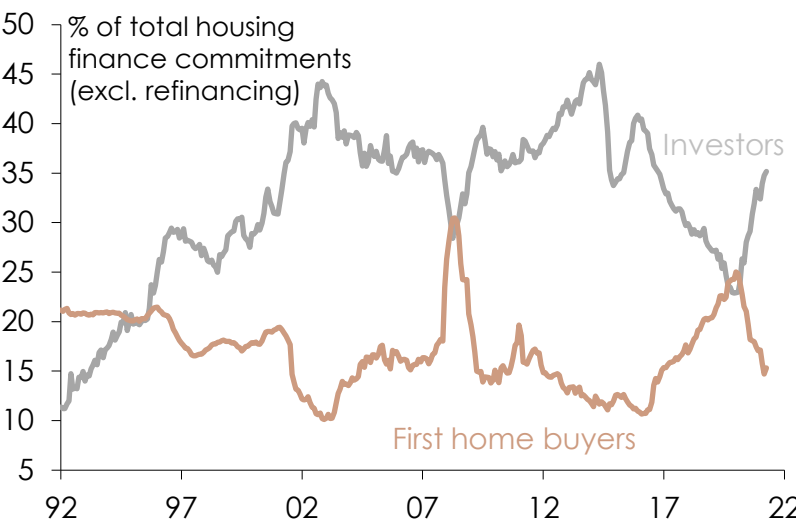
## Interest-only loans



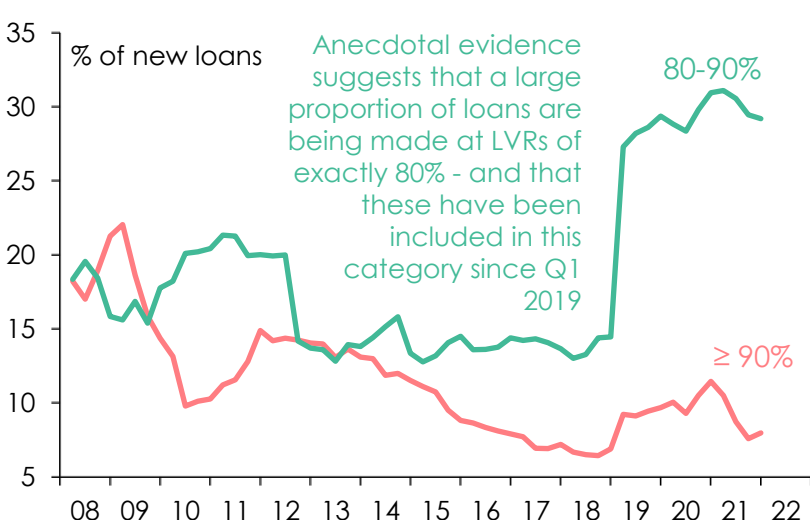
## Loans to investors as a pc of total



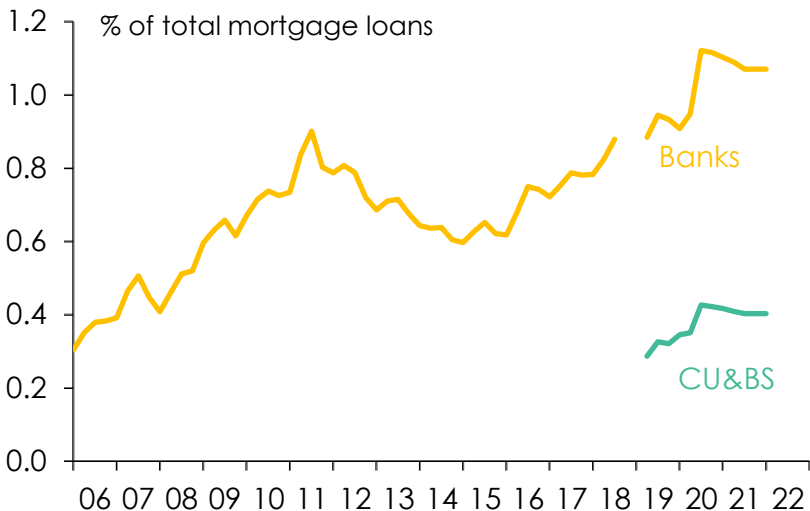
## Shares of housing finance



## High LVR loans as a pc of total



## Non-performing mortgage loans

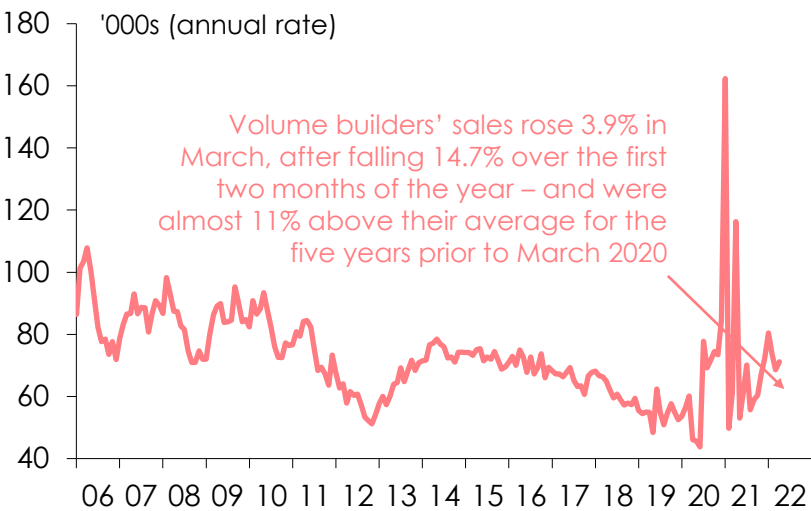


Sources: ABS, [Lending Indicators](#), March; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). April housing finance data will be released on 3<sup>rd</sup> June; APRA data on ADI property exposures for the March quarter will be released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

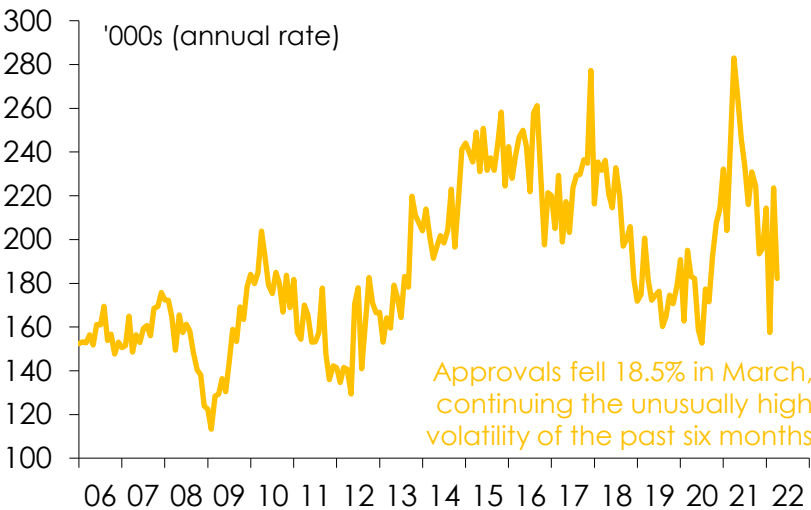
# Residential building approvals fell 18.5% in March, partly reversing a 42% fall in February, which in turn followed a 26.6% rise in January

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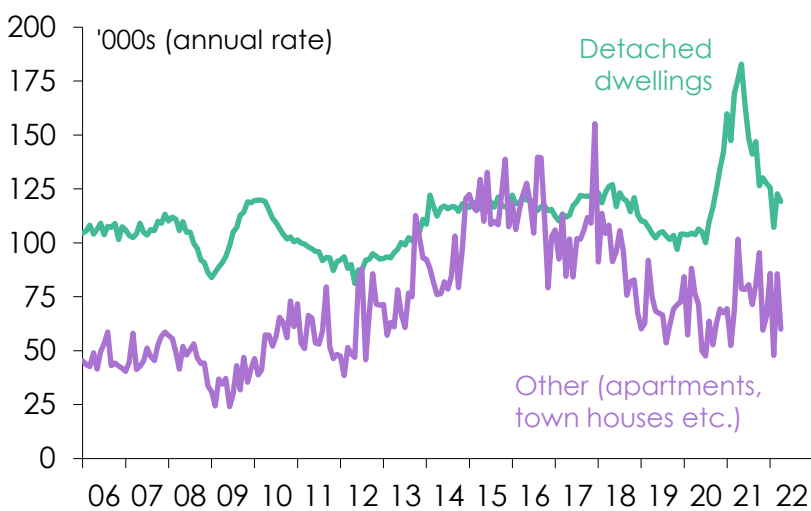
## Large builders' new home sales



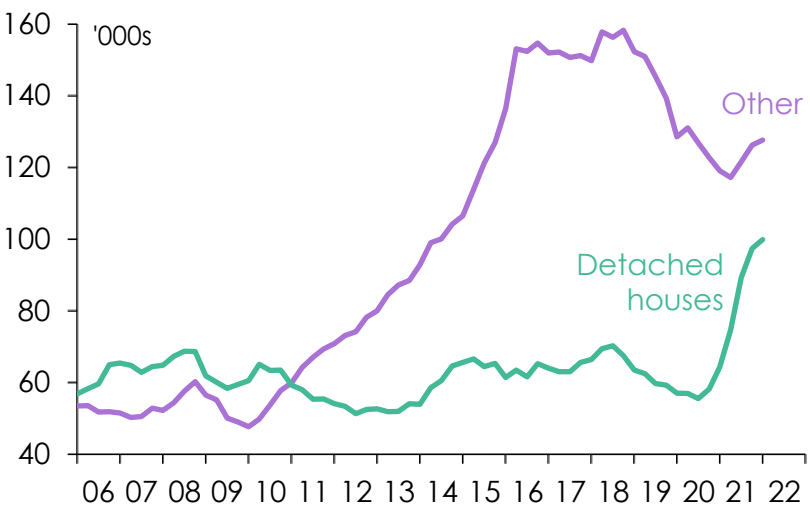
## Residential building approvals



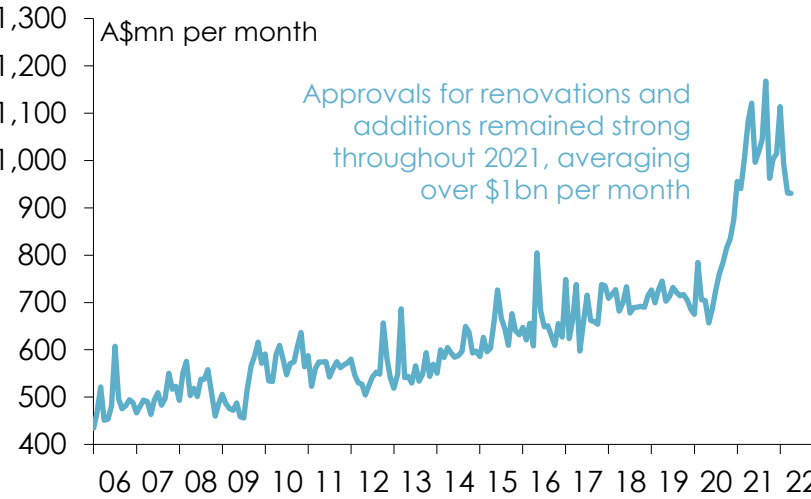
## Building approvals, by type



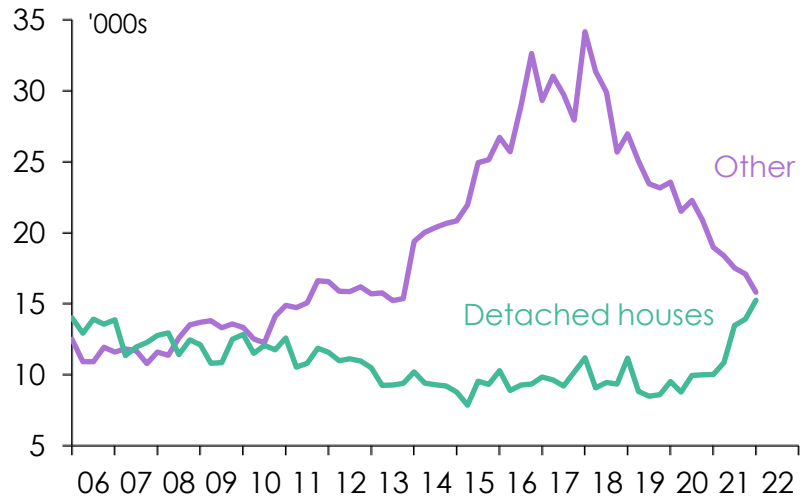
## Dwellings under construction



## Alterations & additions approved



## 'Pipeline' of work yet to be started

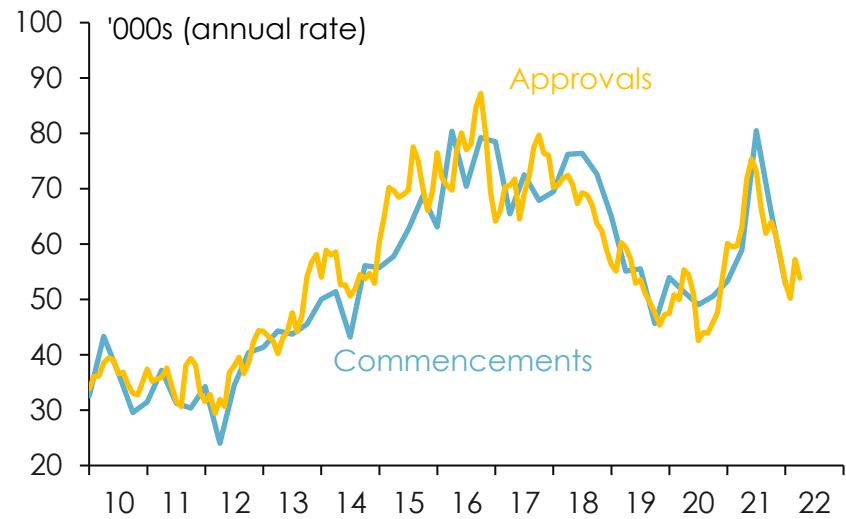


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. April building approvals data will be released on 31<sup>st</sup> May; March quarter dwellings under construction and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

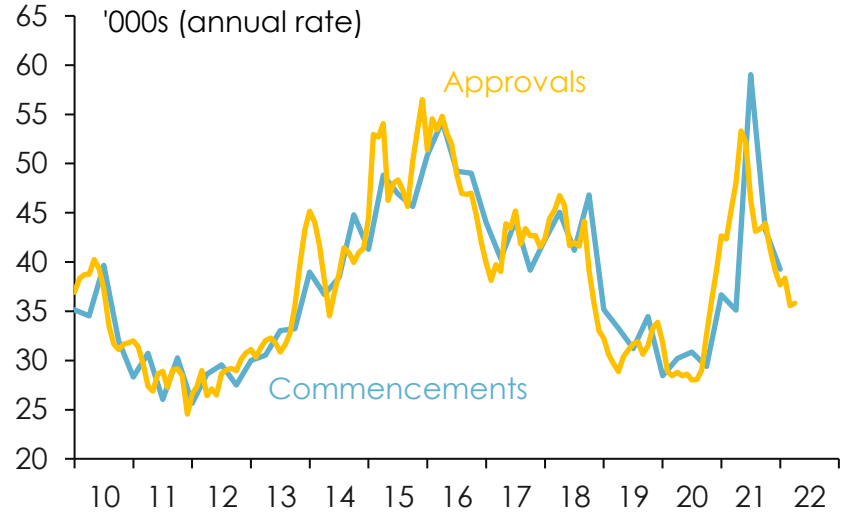
# Residential building approvals have weakened most from last year's peaks in Western Australia, Queensland, South Australia & New South Wales

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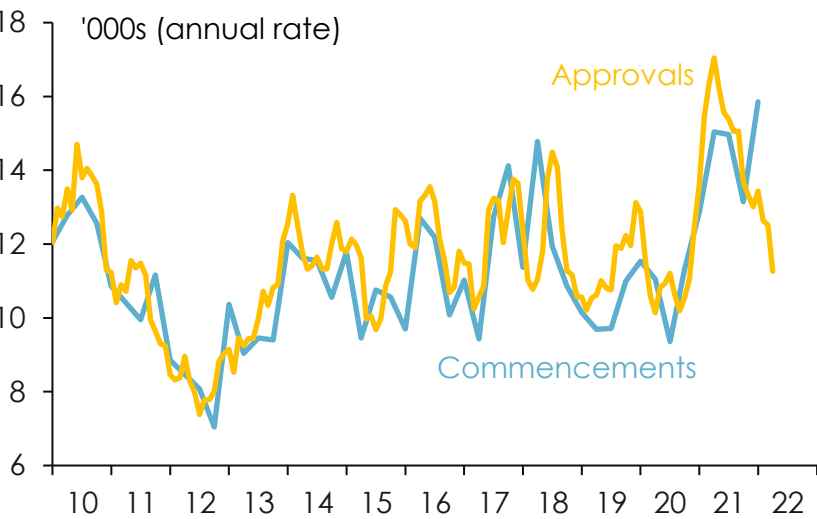
## New South Wales



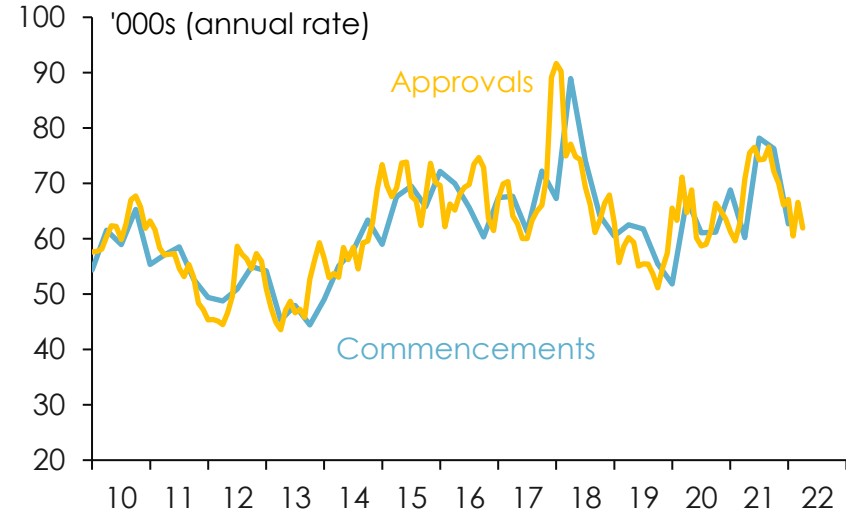
## Queensland



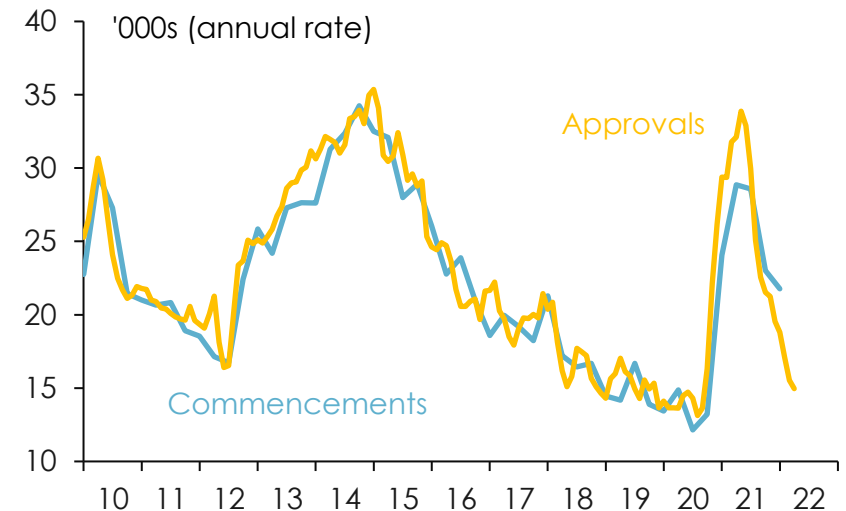
## South Australia



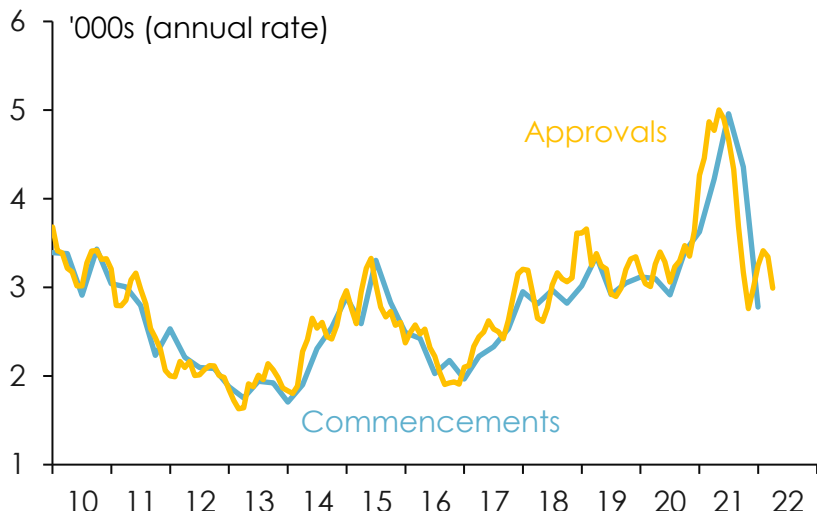
## Victoria



## Western Australia



## Tasmania



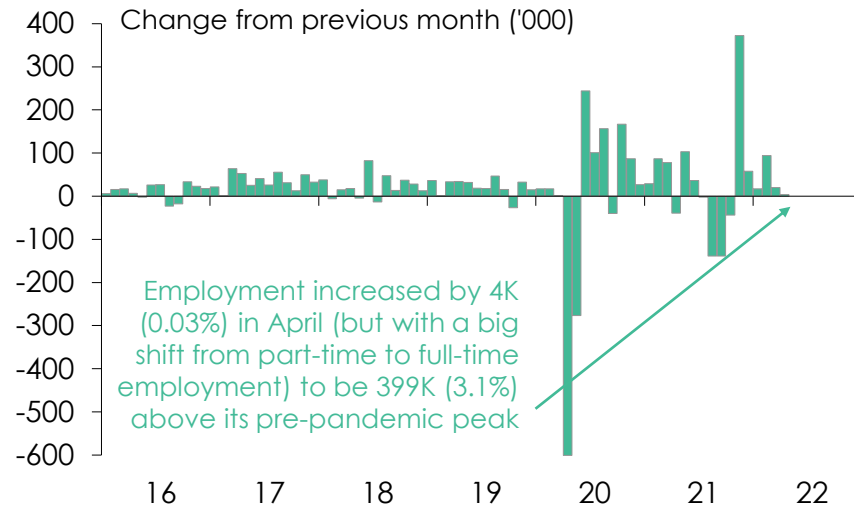
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly (and the most recent data is for the September quarter last year). Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to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

# The labour market

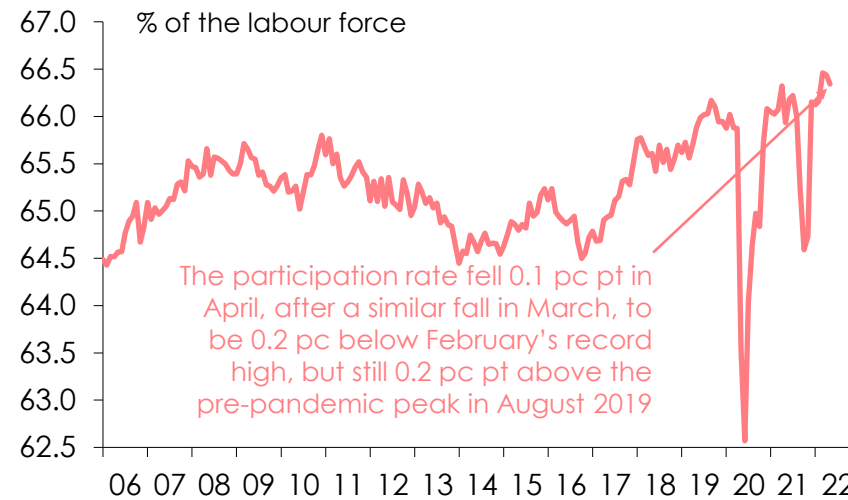
# Employment was flat in April (but with a large rotation from part- to full-time jobs) but the unemployment rate dropped to its lowest since 1974

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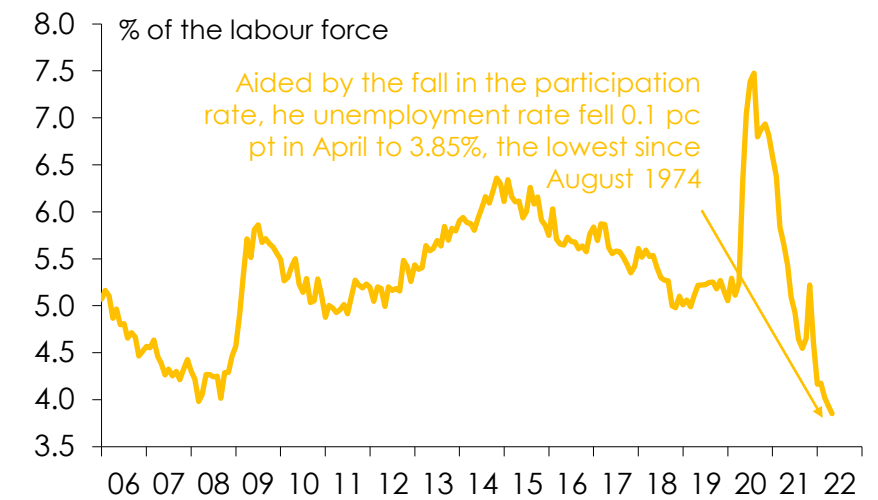
## Employment



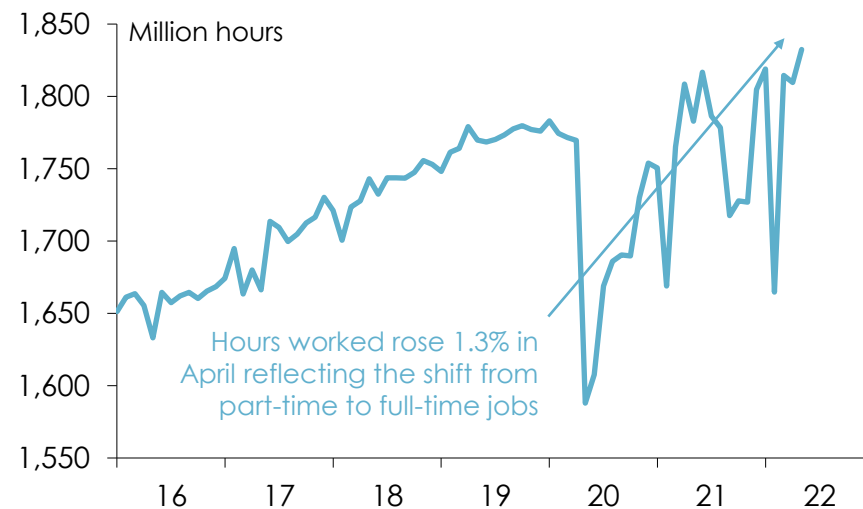
## Labour force participation rate



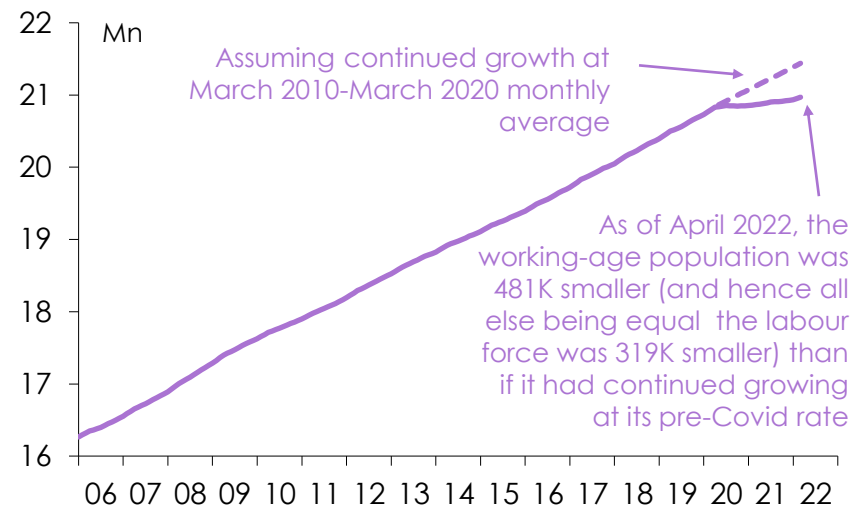
## Unemployment rate



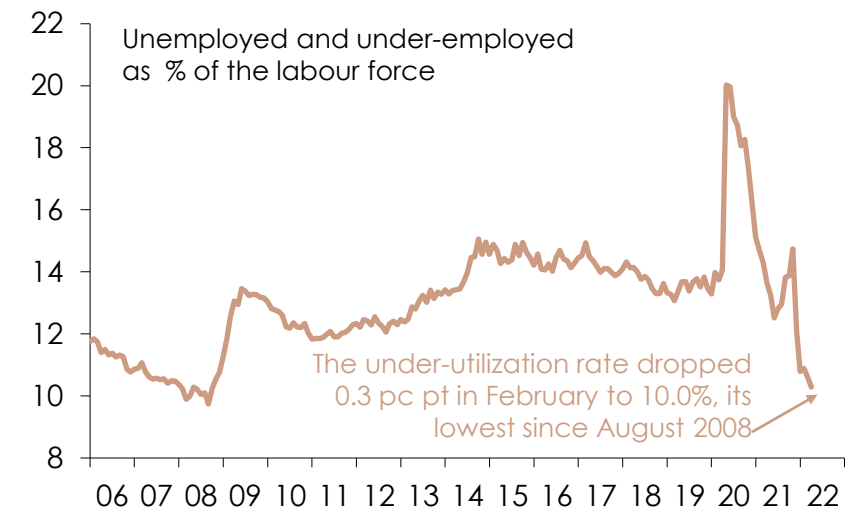
## Total hours worked



## Civilian working-age population



## 'Under-utilization' rate



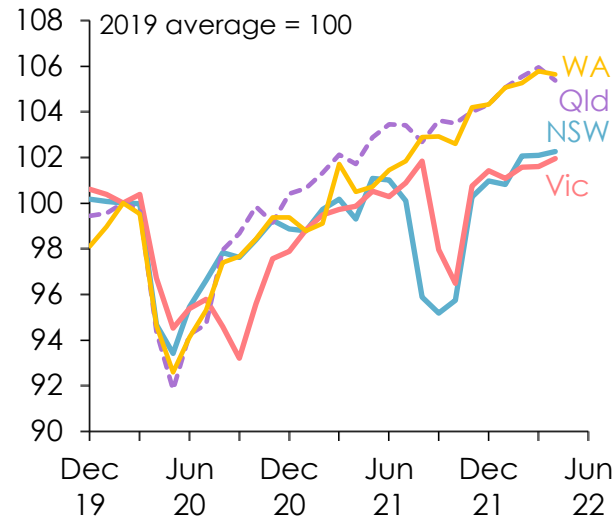
Source: ABS, [Labour Force, Australia](#), April. May data will be released on 16<sup>th</sup> June. [Return to "What's New"](#).



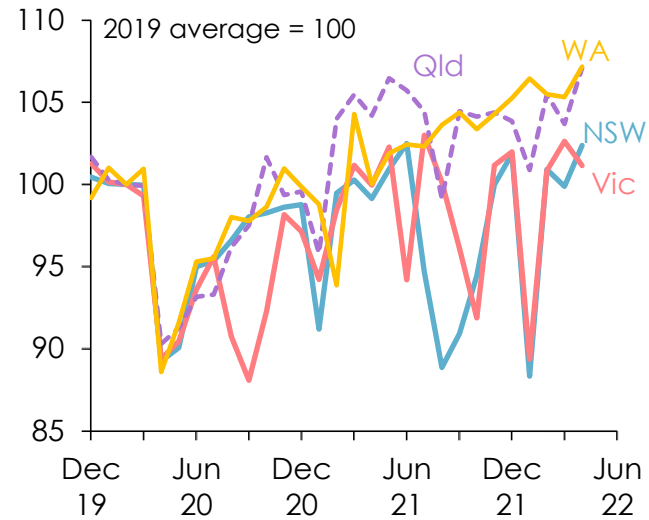
# NSW accounted for almost half the total job gains in the first four months of 2022, pushing unemployment there down to 3.5%, and to below 3% in WA

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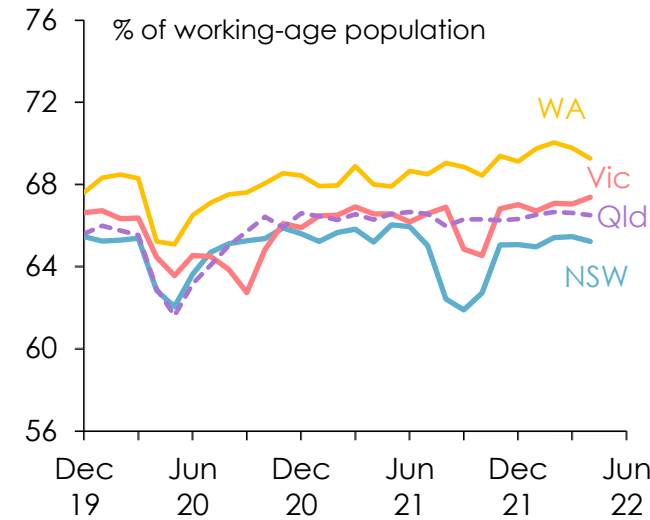
## Employment



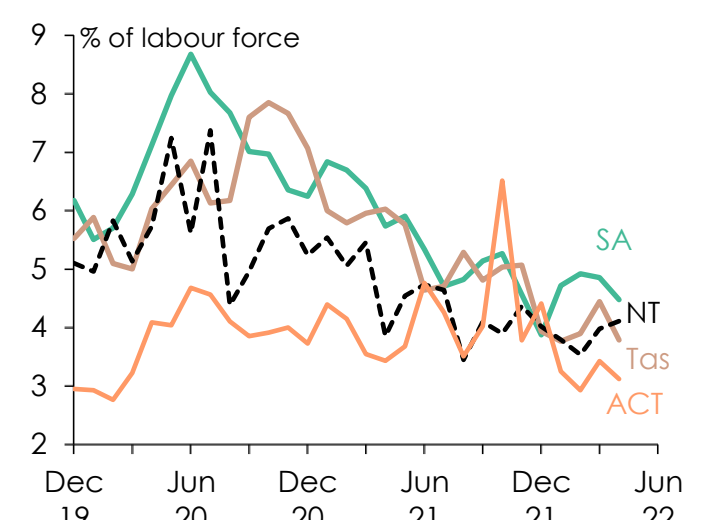
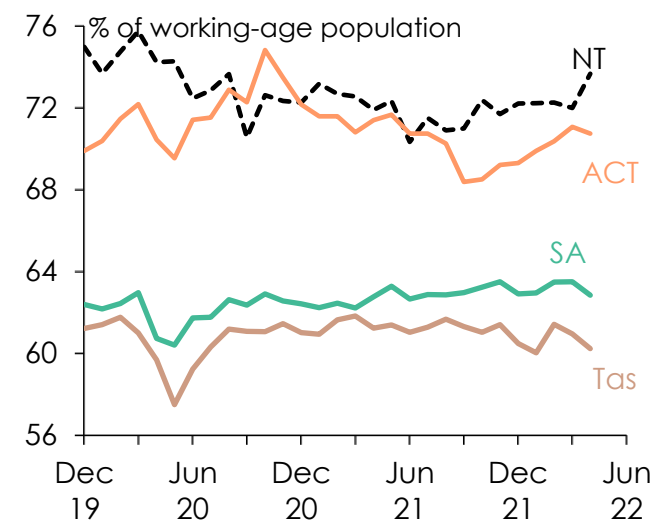
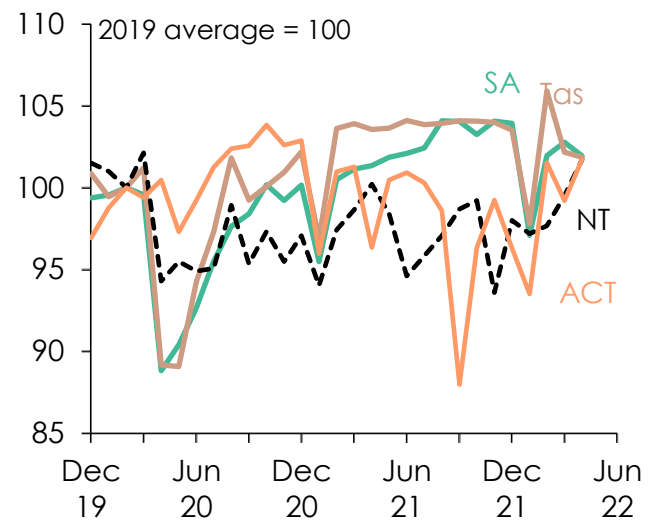
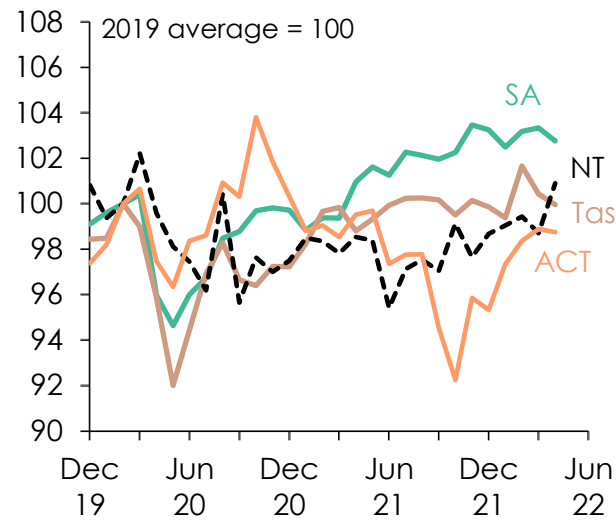
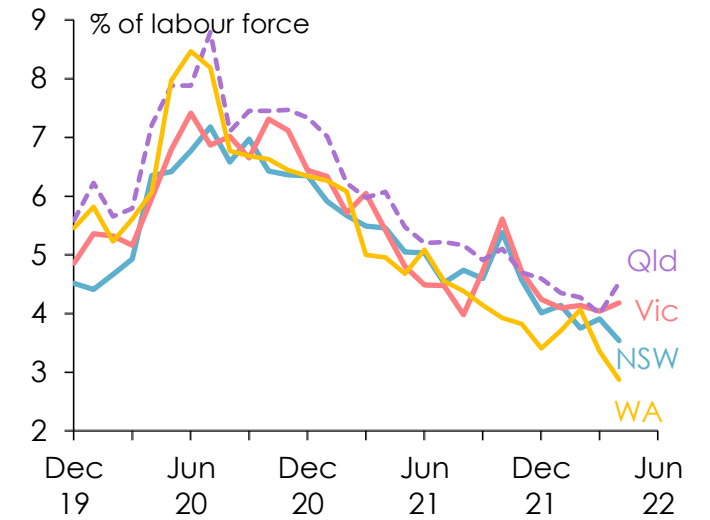
## Hours worked



## Participation rates



## Unemployment rates

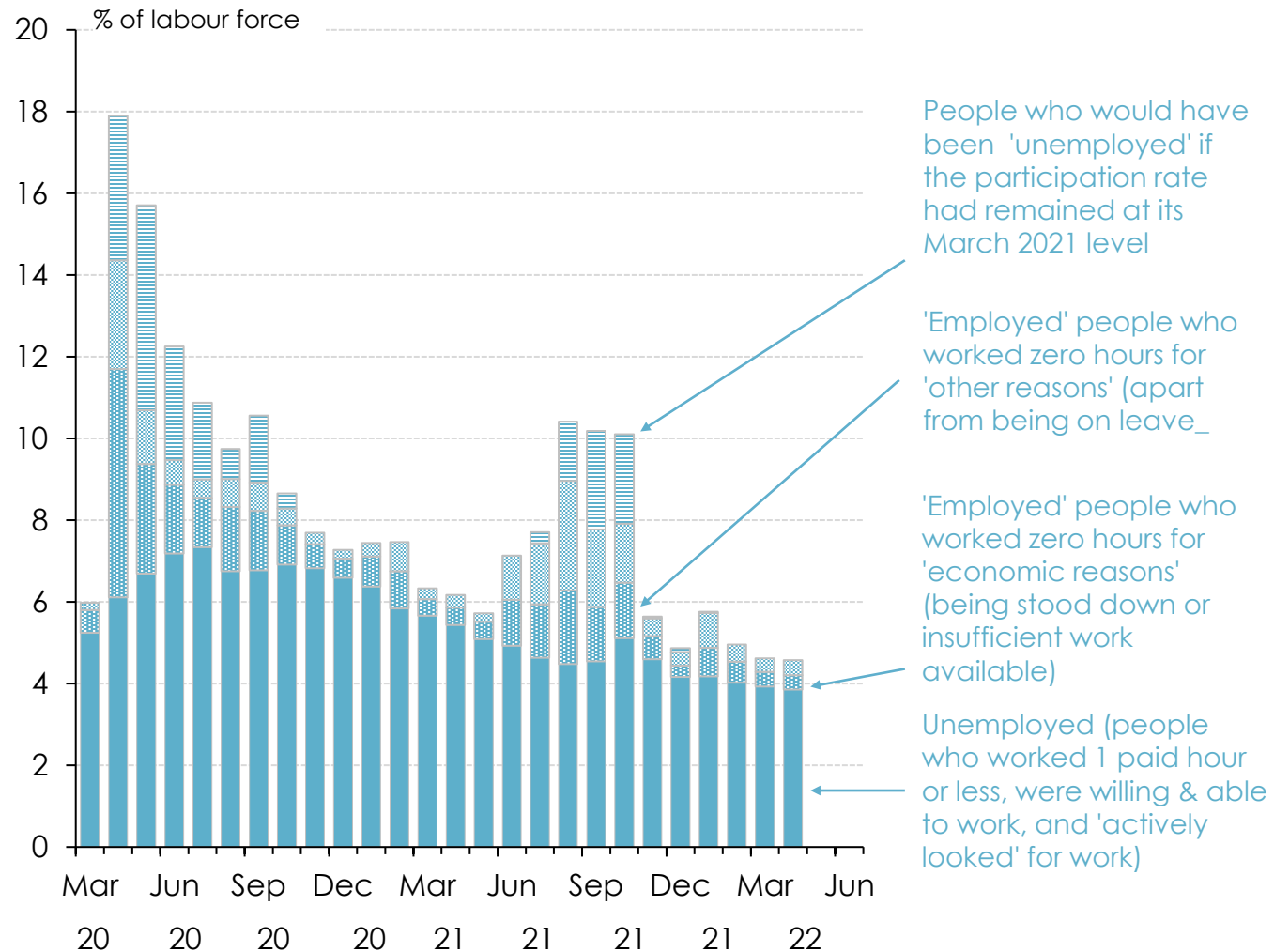


Source: ABS, [Labour Force, Australia](#), April. May data will be released on 16<sup>th</sup> June. [Return to "What's New"](#).

# The 'effective' unemployment rate remained unchanged at 4.6% in April, well down from the peak of 10.5% in August last year and 5.8% in January

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## The 'effective' unemployment rate



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

Source: ABS, [Labour Force, Australia](#), April. May data will be released on 16<sup>th</sup> June.

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

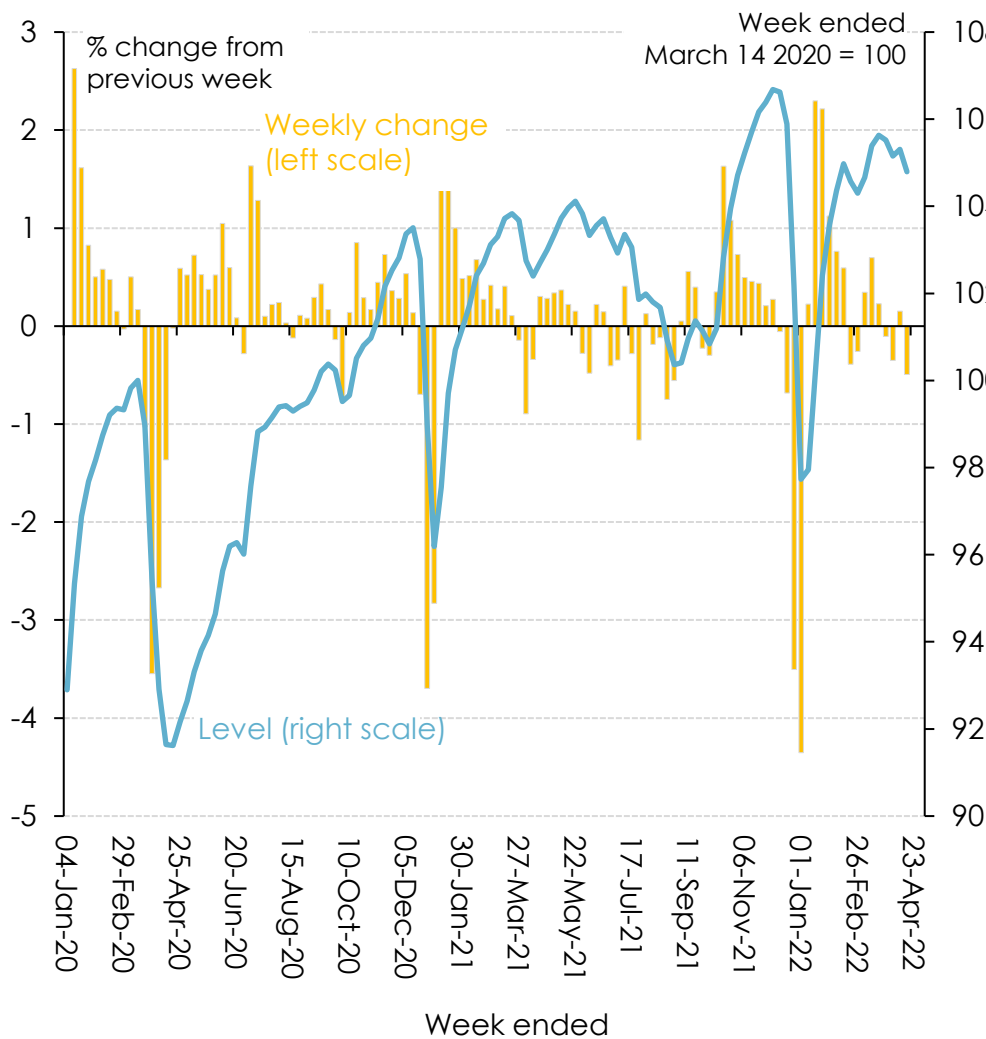
- ❑ 49K people were counted as 'employed' despite having worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') in April, virtually unchanged from 50K in March (but well down from the most recent peak of 249K in August last year)
- ❑ There were another 51K people counted as 'employed' in April despite also working zero hours for reasons other than 'economic' ones, or having been on some form of leave, up from 56K in March but substantially below the 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 to 4.6% in March and remained at that level in April
- ❑ These estimates don't include the 754K people who were taking annual or some other form of leave in April (down from over 1.1mn in April last year, but lower than in the month in which Easter holidays fell in earlier years), or the 336K people who worked zero hours because they were on sick leave (which was the highest number since January)



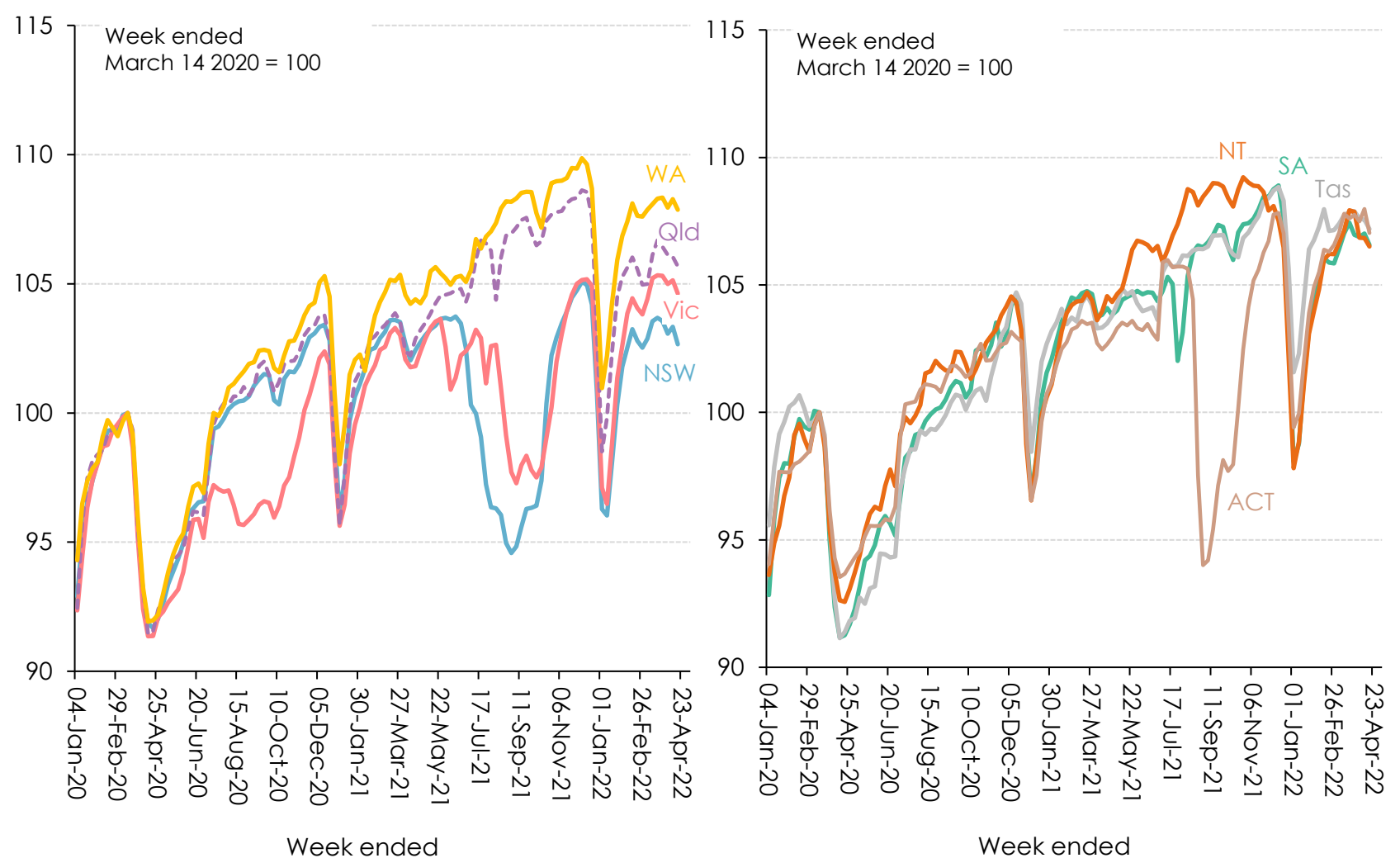
# The number of payroll jobs fell by 0.8% between mid-March and mid-April, although at least some of the decline may have been seasonal

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

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



## Payroll jobs by State & Territory



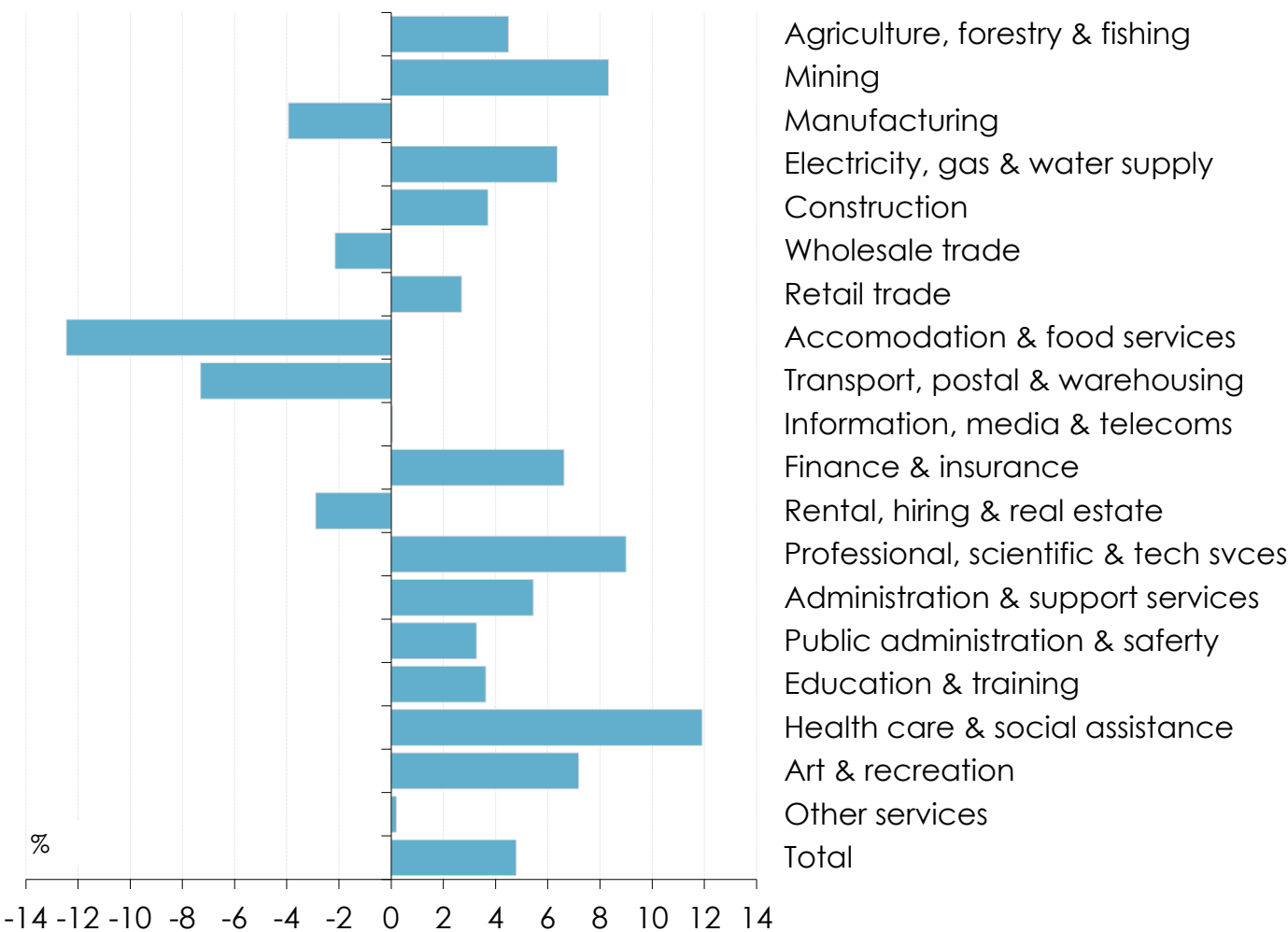
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

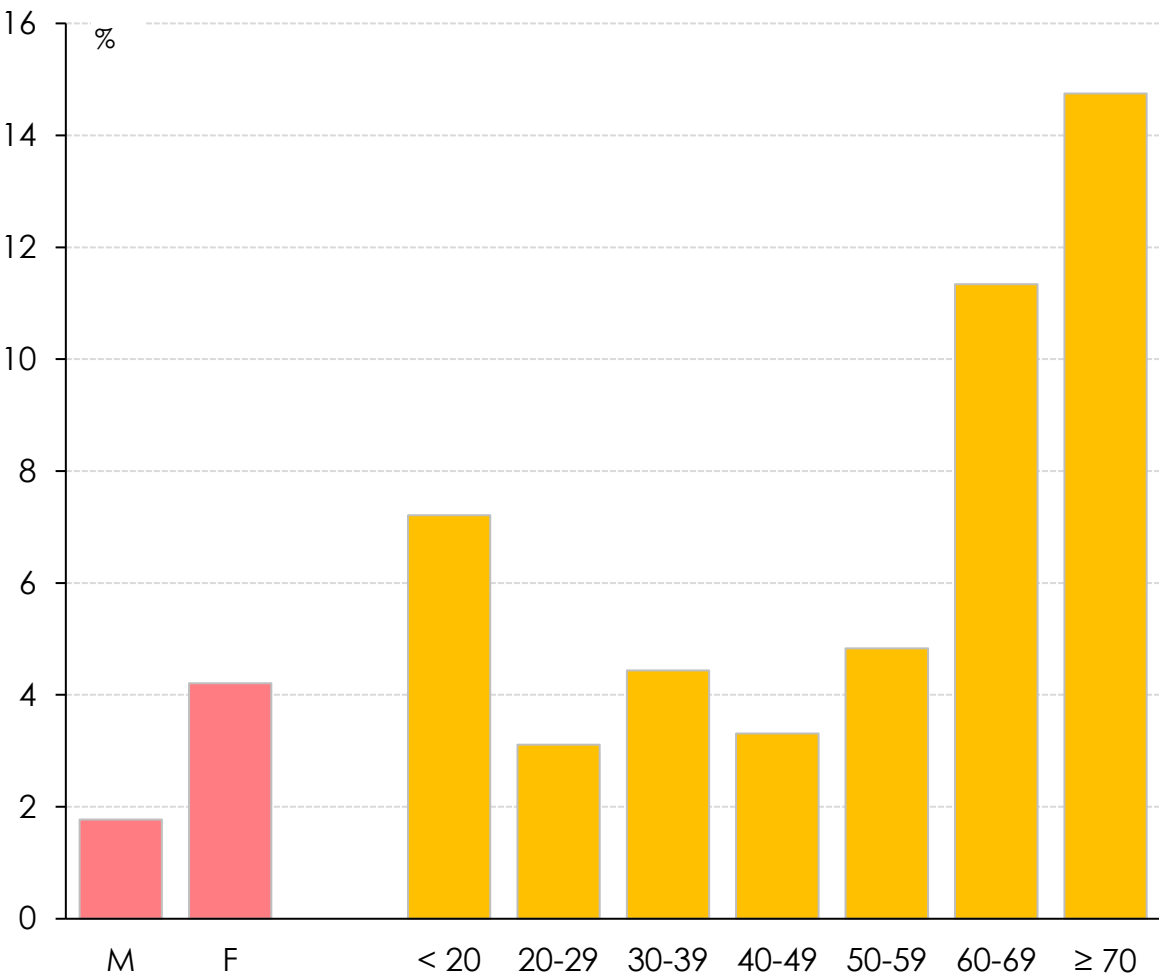
THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## 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

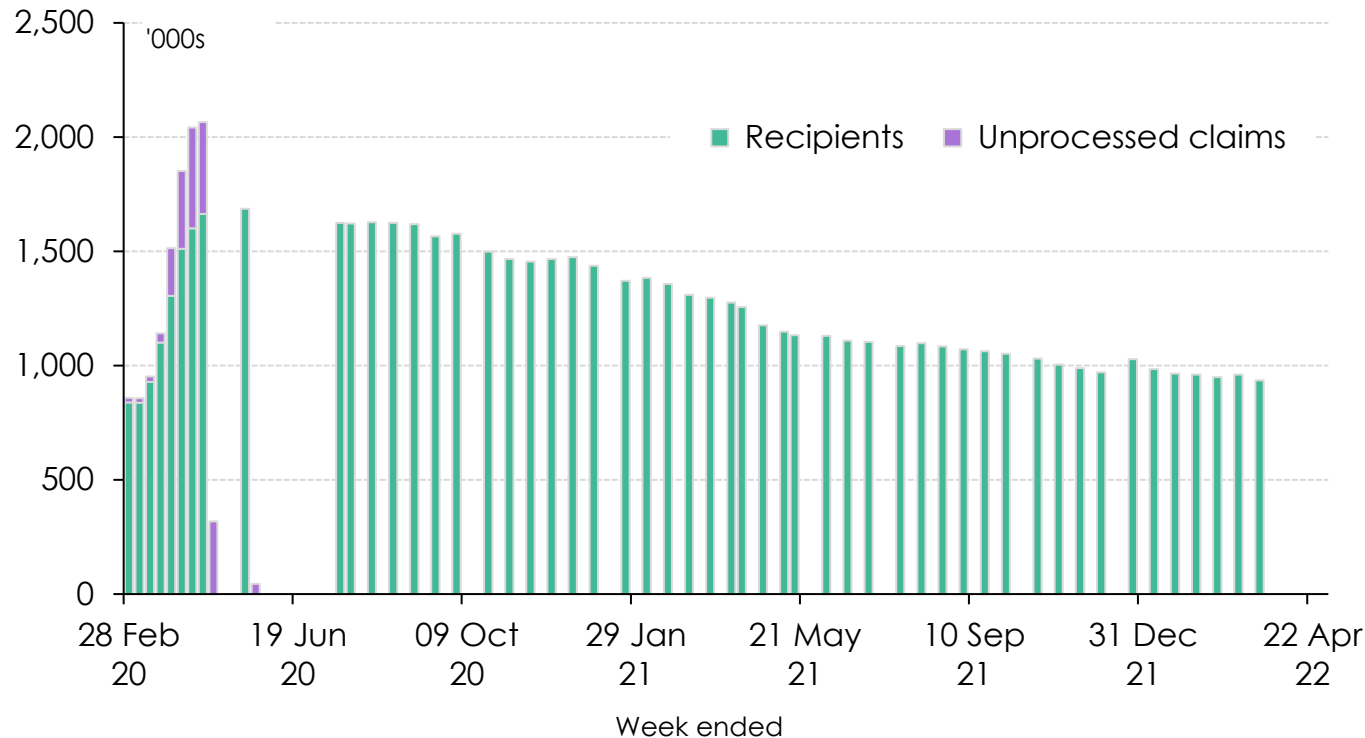


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

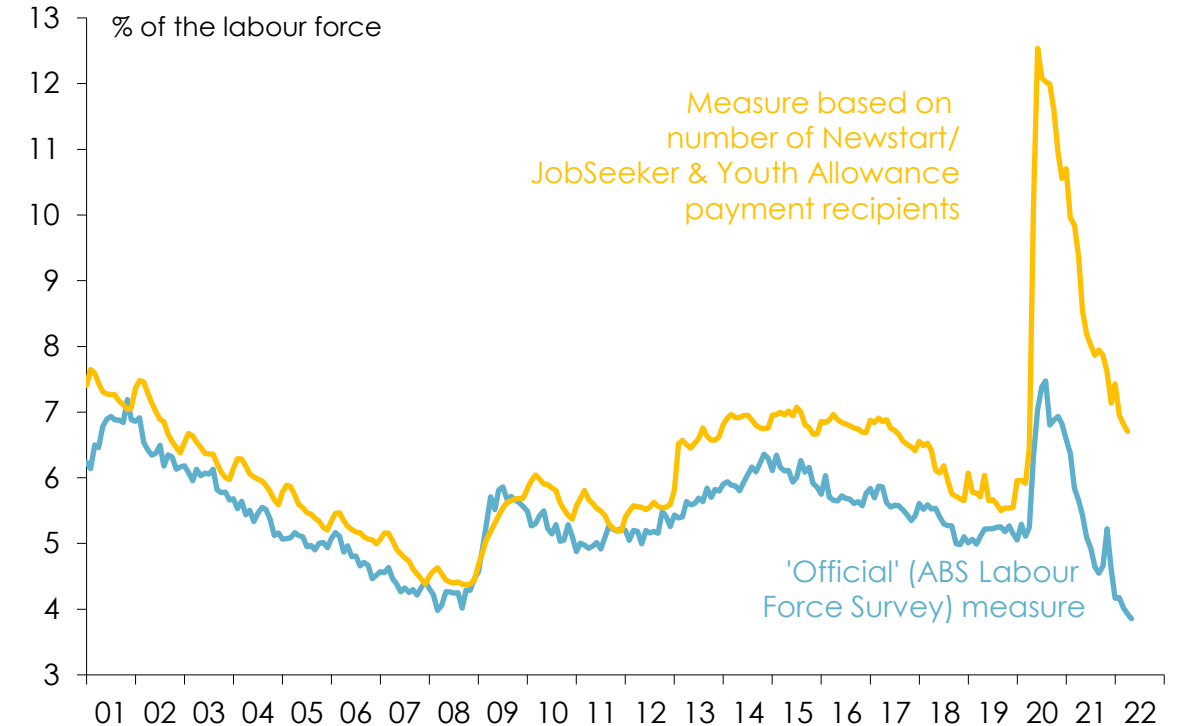
# The number of people receiving joblessness-related income support payments is still 11¾% above its pre-pandemic level

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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 11¾% above the pre-pandemic level

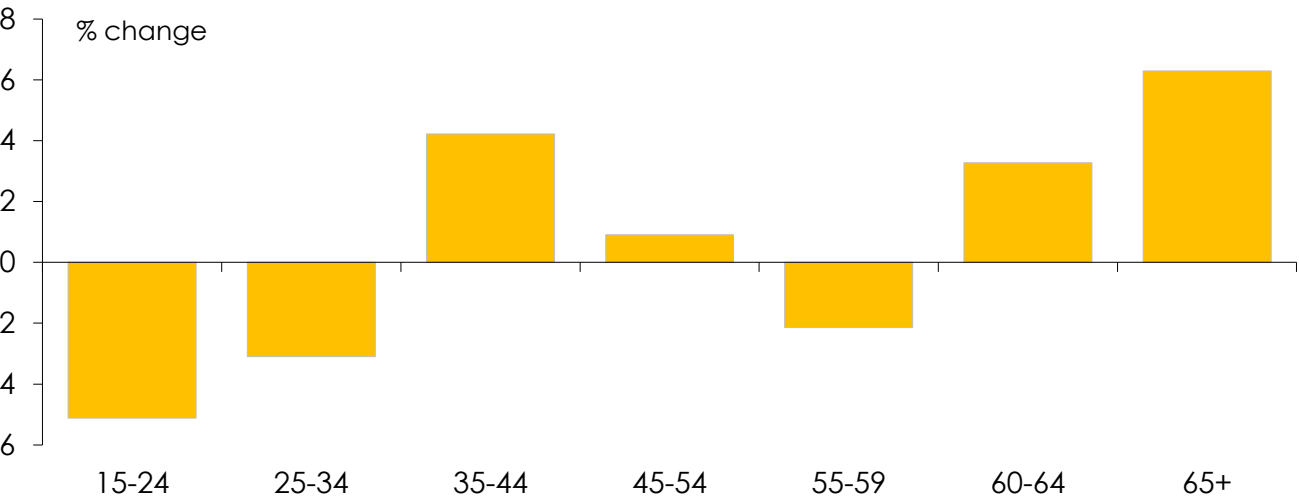
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). No data has been provided to the Committee since 4<sup>th</sup> April, following the prorogation of Parliament ahead of the 21<sup>st</sup> May election. [Return to "What's New"](#).

# There are 283K (4%) fewer 15-34 year-olds in Australia than there were two years ago – which has helped speed reductions in unemployment

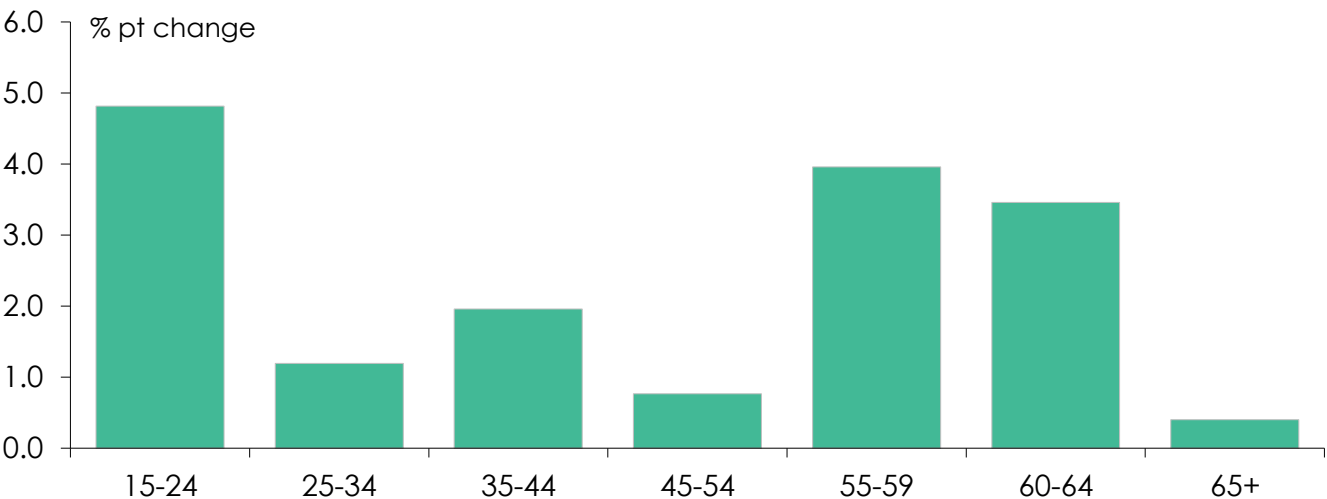
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## Changes from March 2020 to April 2022

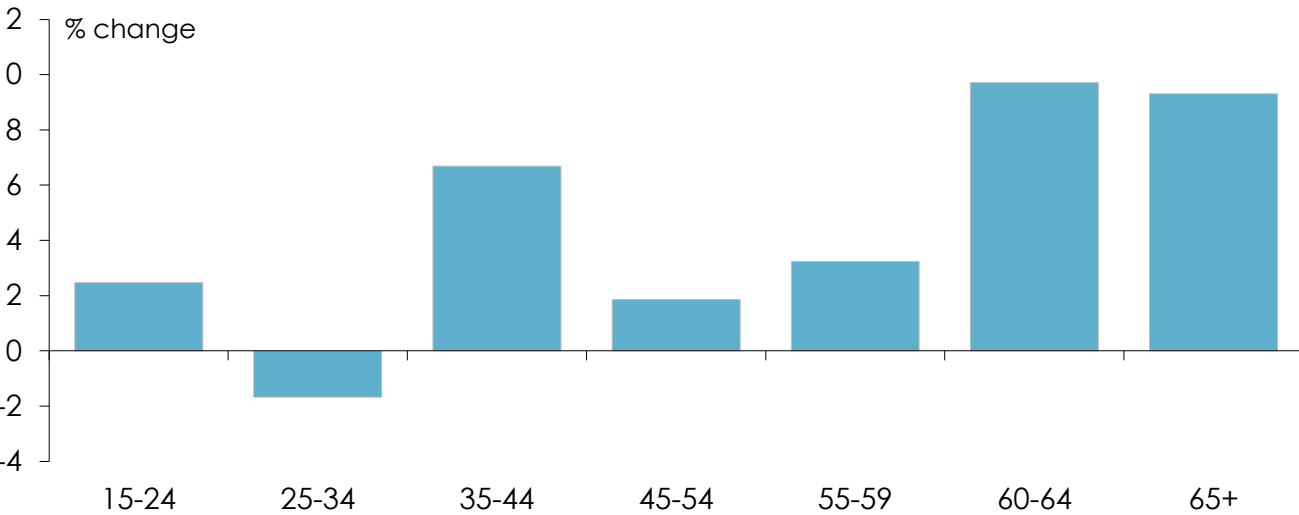
### Civilian working age population



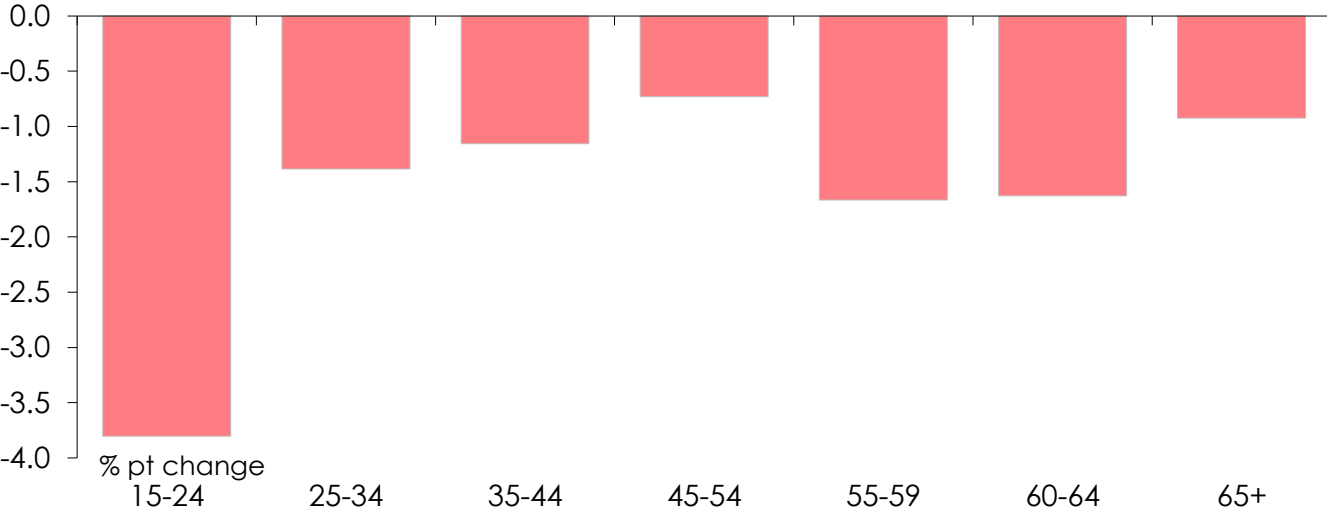
### Employment-population ratio



### Employment



### Unemployment rates

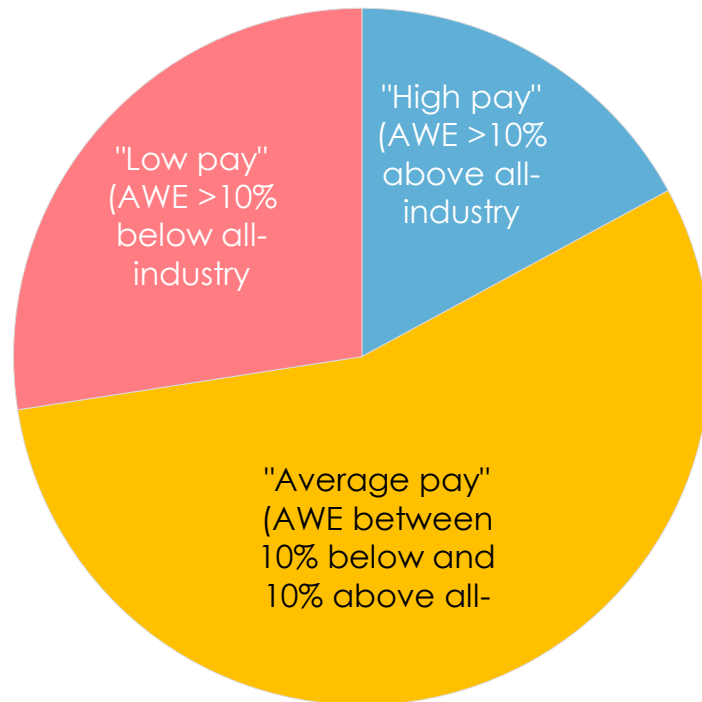


Note: The data from which the above charts are derived isn't seasonally adjusted.  
Source: ABS, [Labour Force, Australia, Detailed](#), April; May data will be released on 23<sup>rd</sup> June. [Return to "What's New"](#).

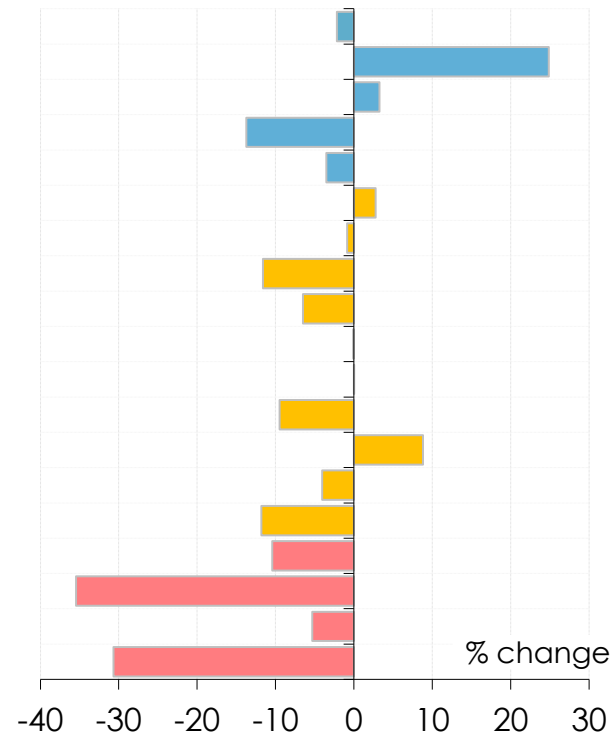
# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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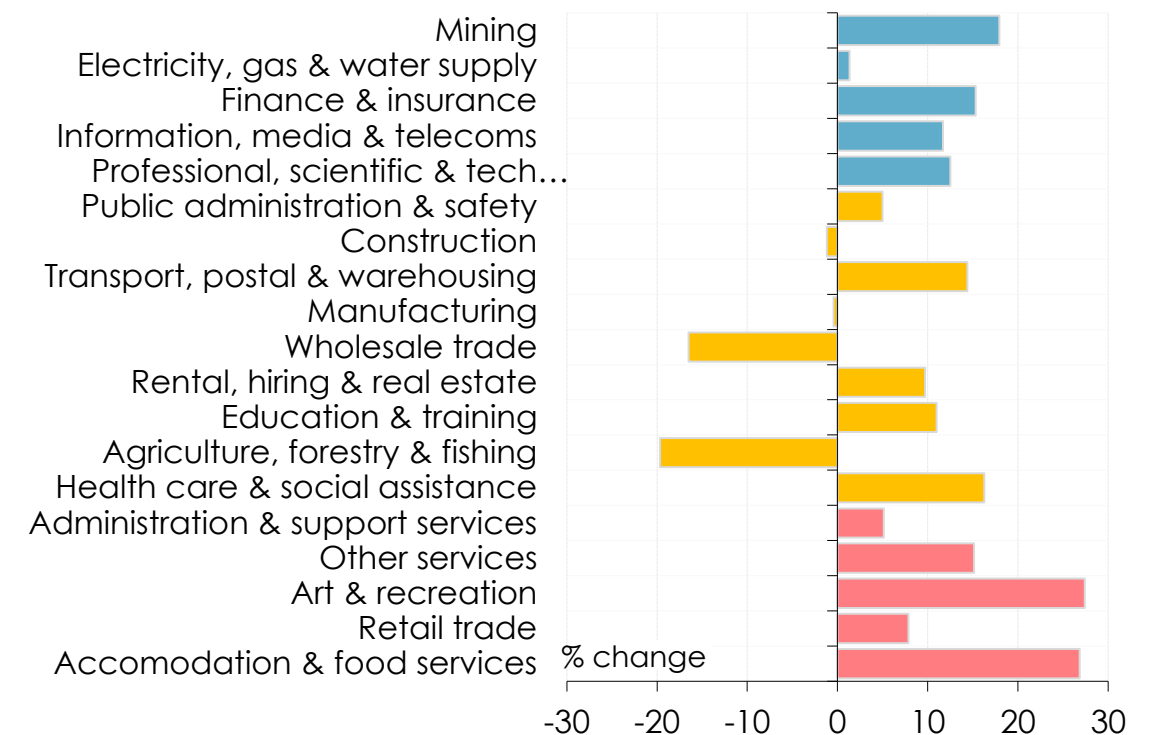
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry  
February-May 2020



February 2020 – February 2022



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

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

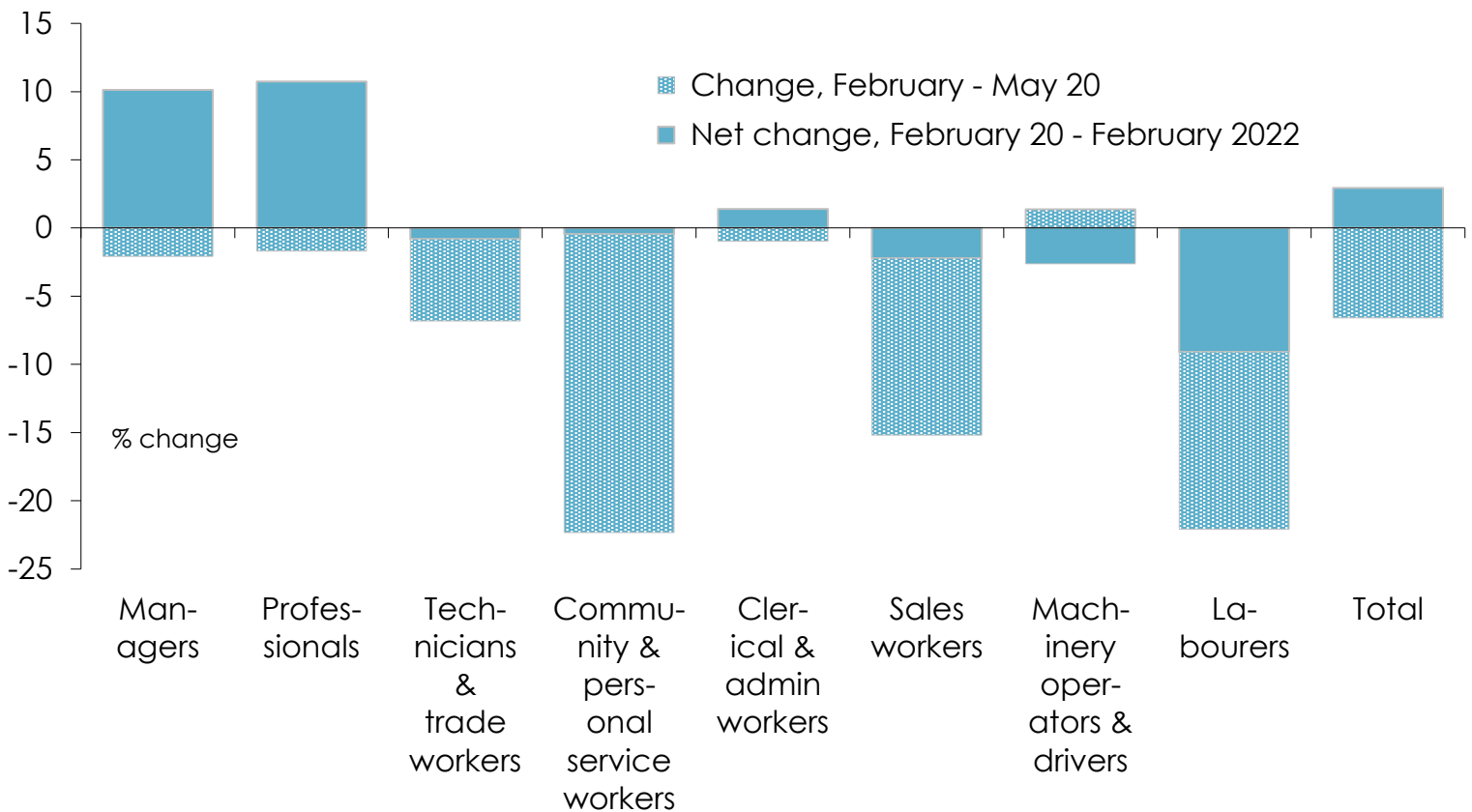
# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



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



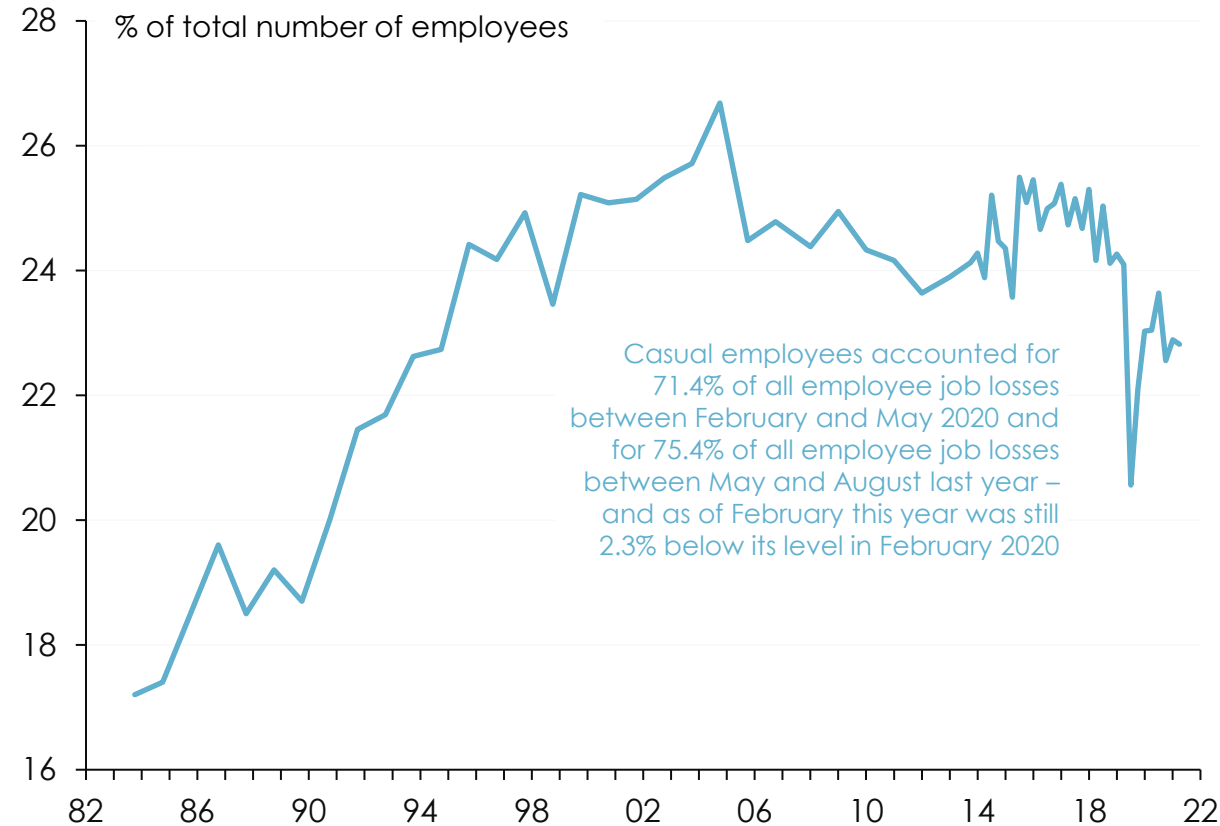
- ❑ Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May 2020 – and for 71% of job losses between May and August 2021 – and there were 3.8% fewer of them in February this year than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

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

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

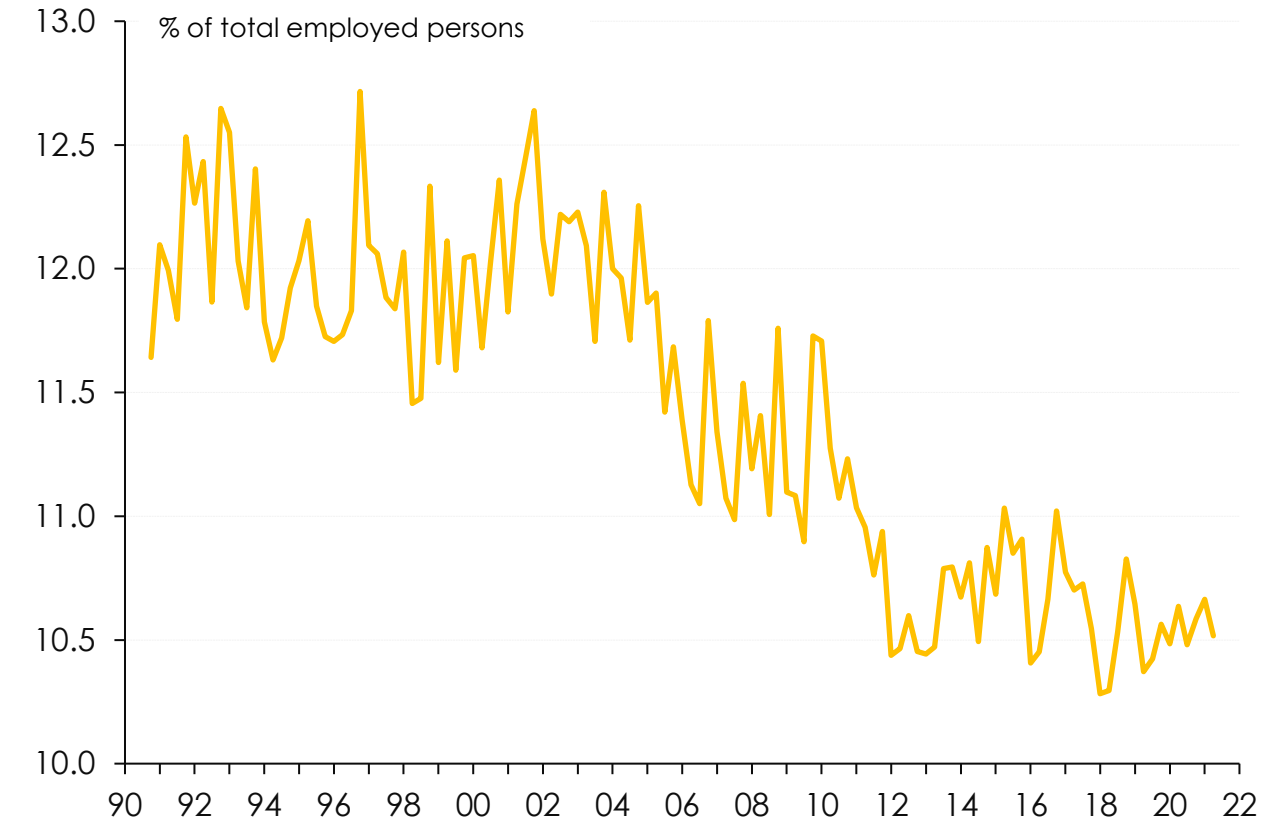
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## 'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



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

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



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

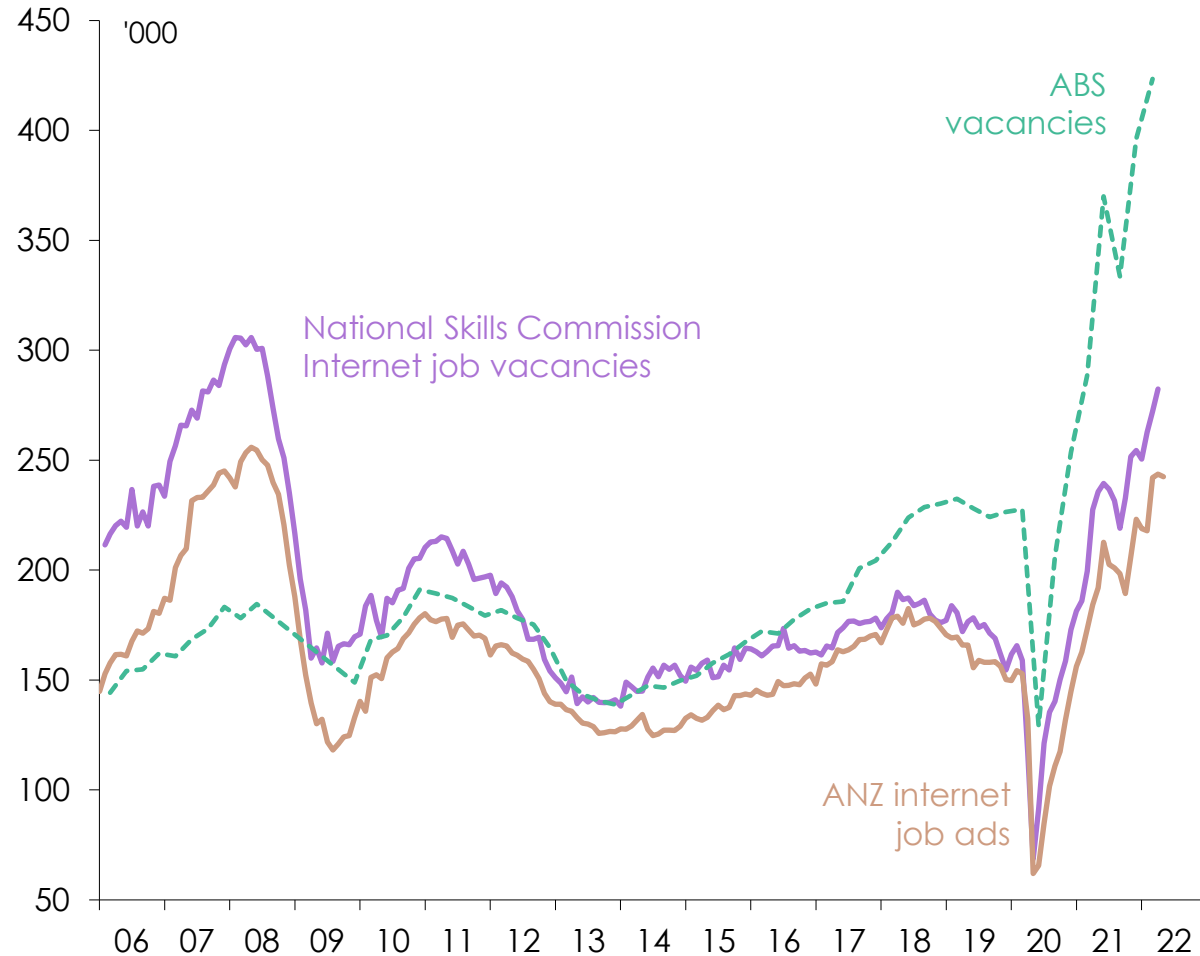
Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents;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



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

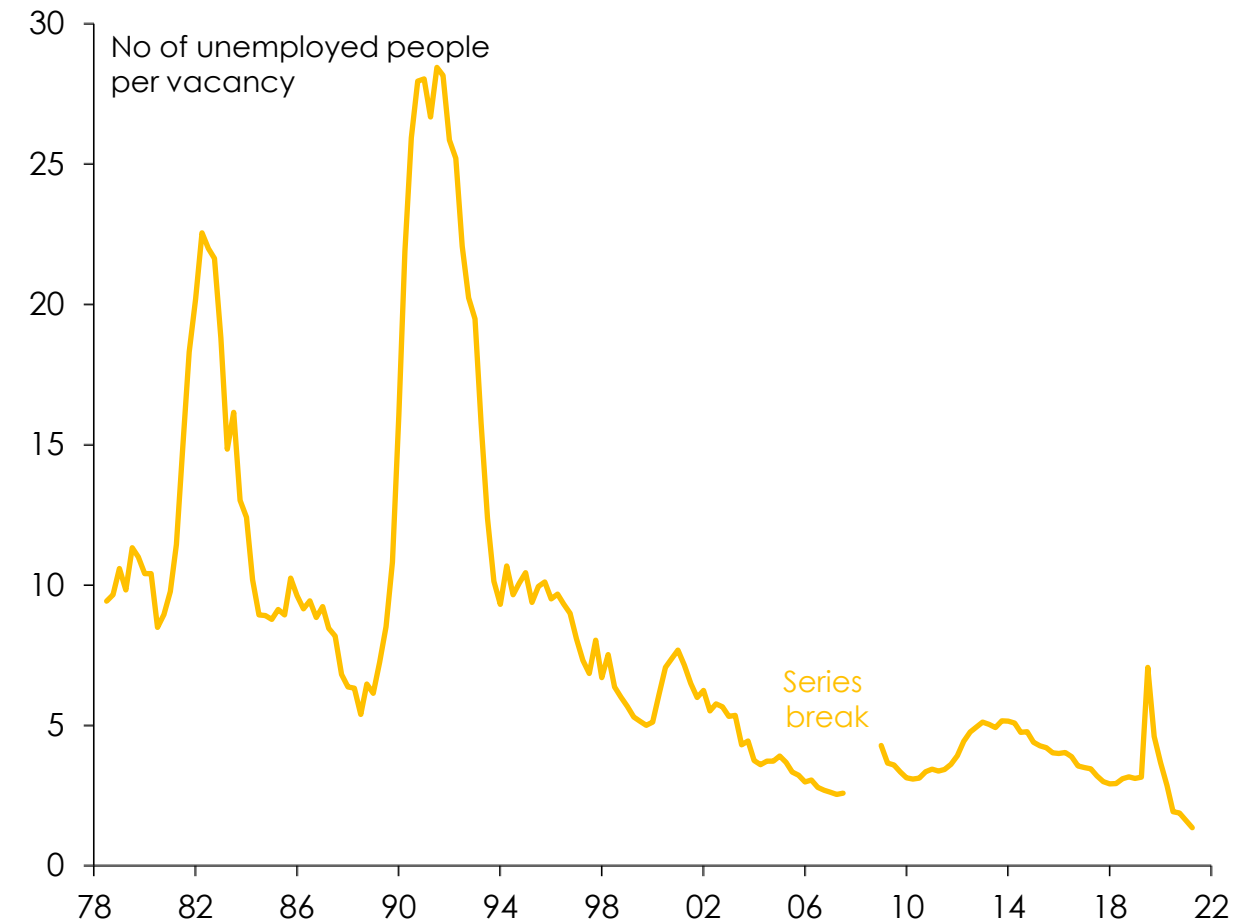
THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Measures of job vacancies



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

## Ratio of unemployed people to job vacancies



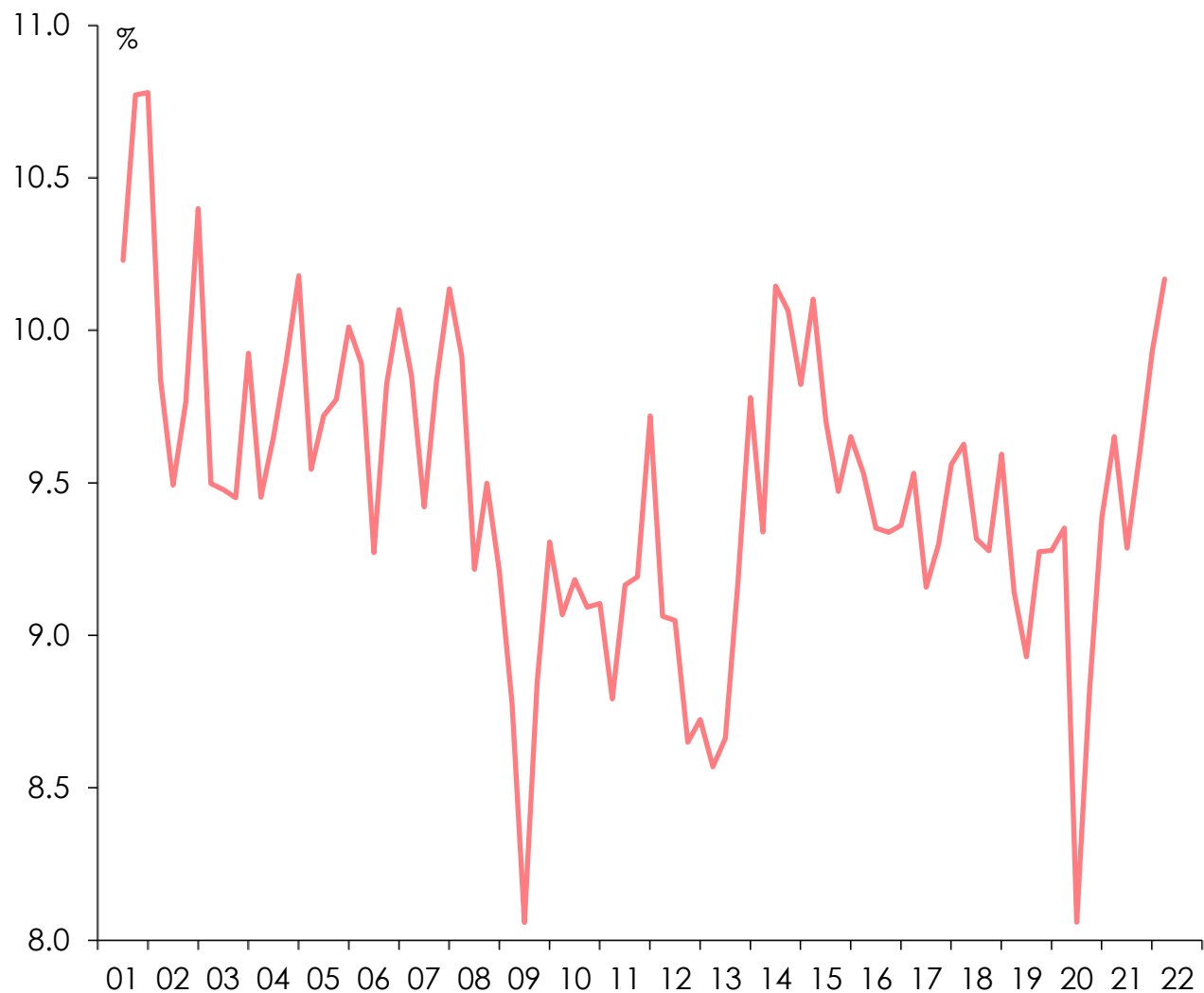
- ❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years



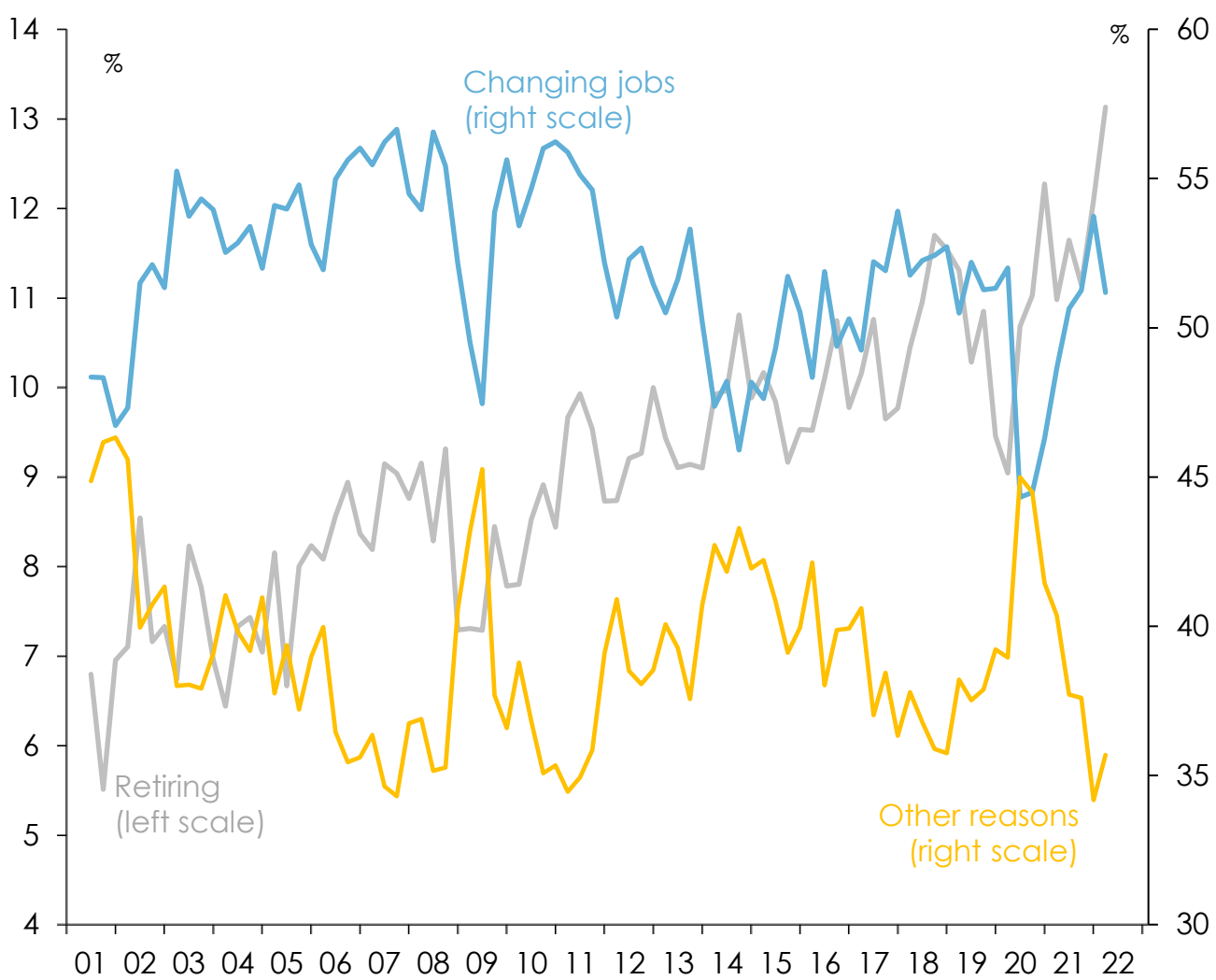
# There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

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



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



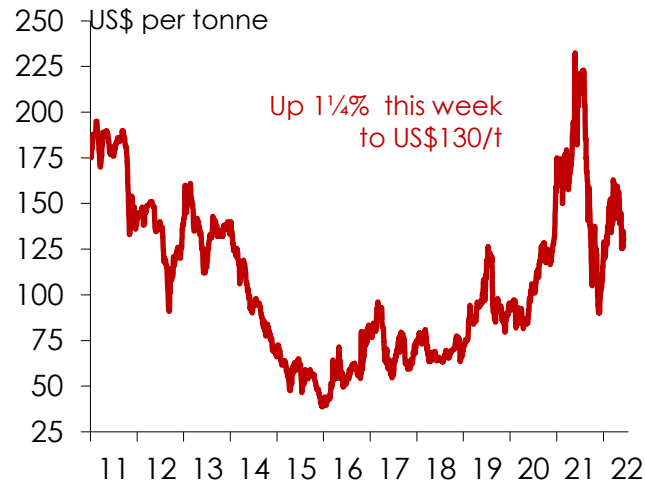
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

# Trade and the balance of payments

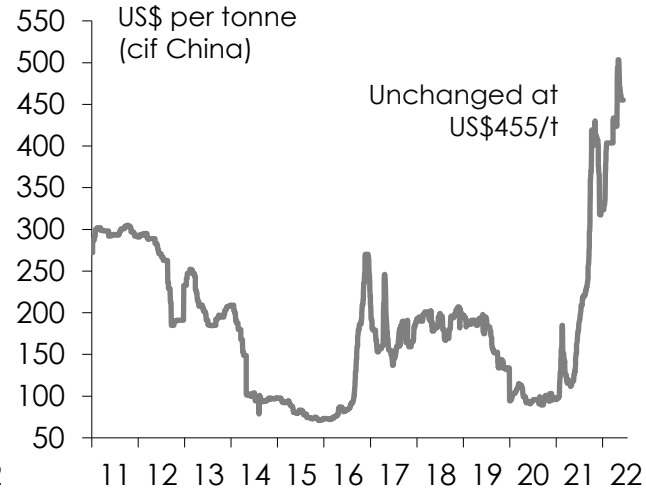
# Oil prices firmed about 4% this week, but most other 'hard' commodities were little changed

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

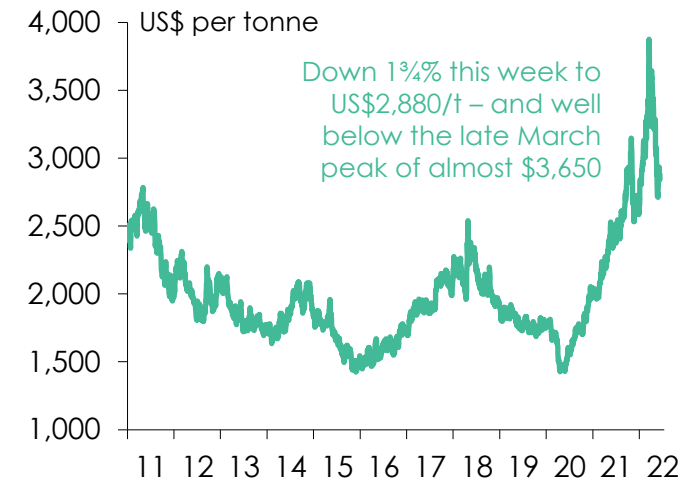
## Iron ore



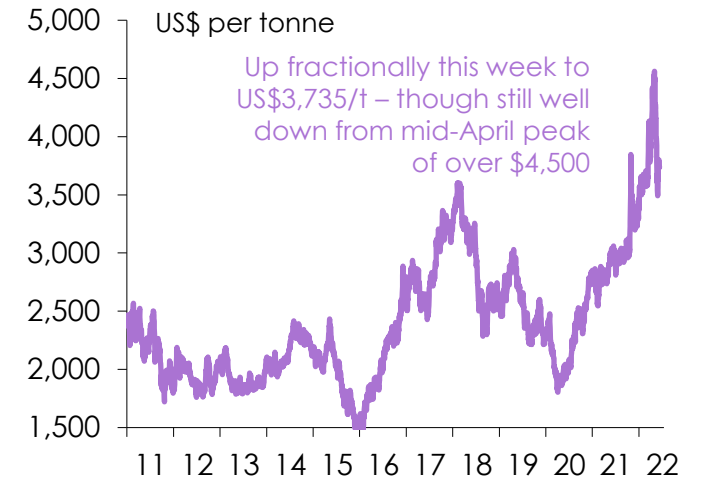
## Metallurgical coal



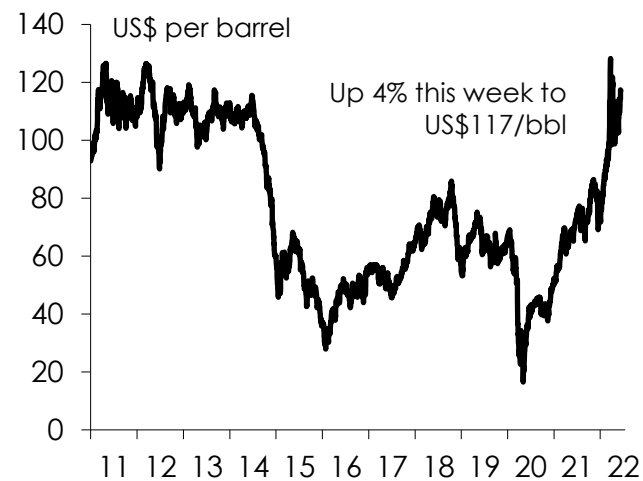
## Aluminium



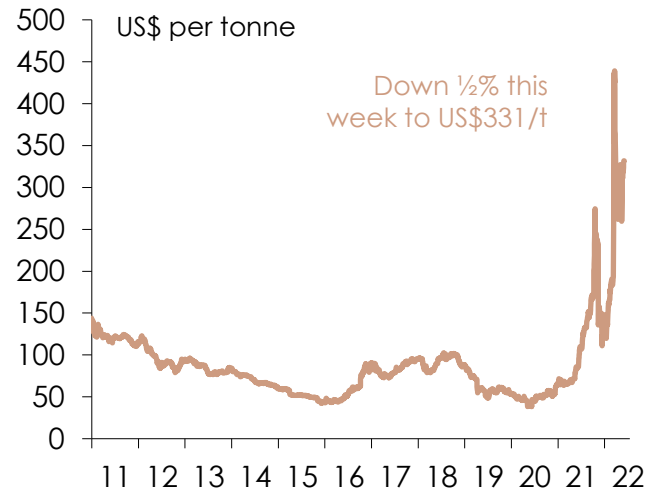
## Zinc



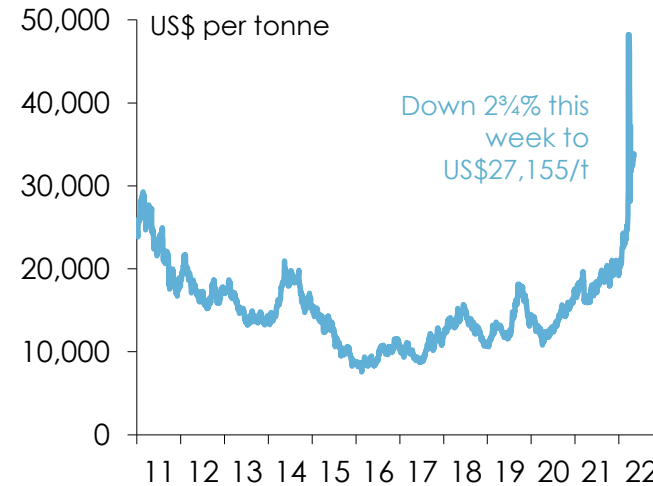
## Brent crude oil



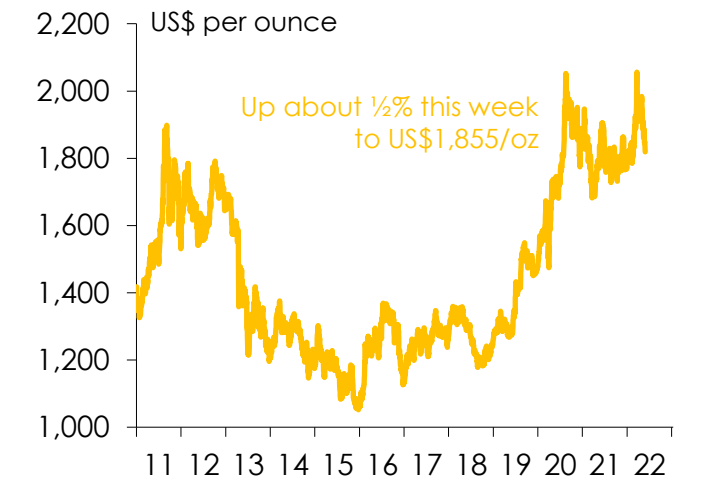
## Thermal coal



## Nickel



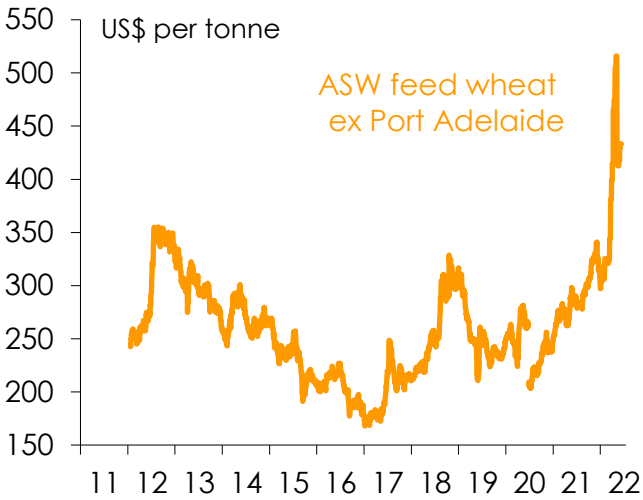
## Gold



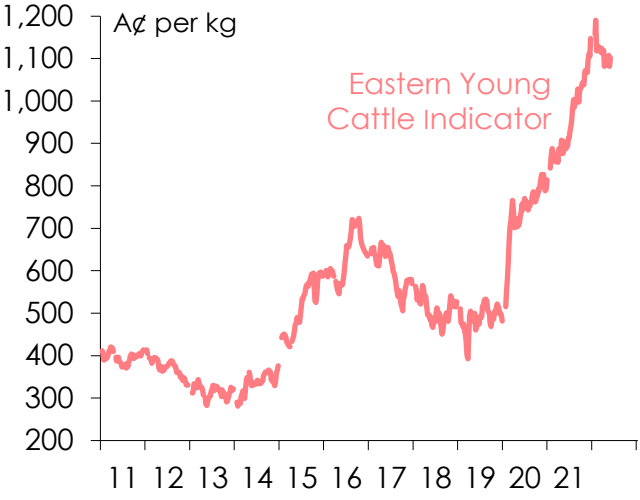
# Most agricultural commodities were a little lower this week, apart from livestock

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## Wheat



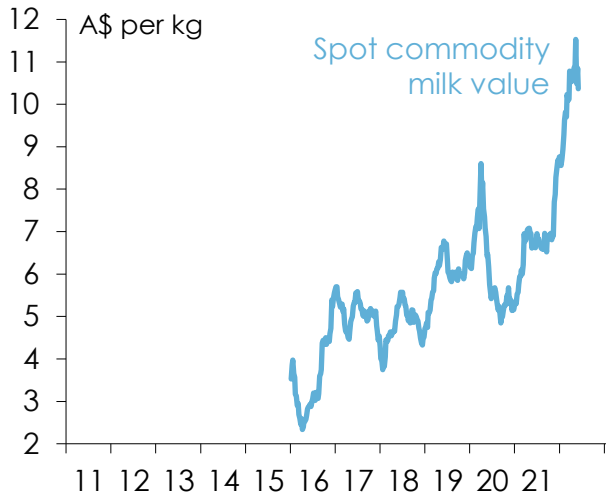
## Beef cattle



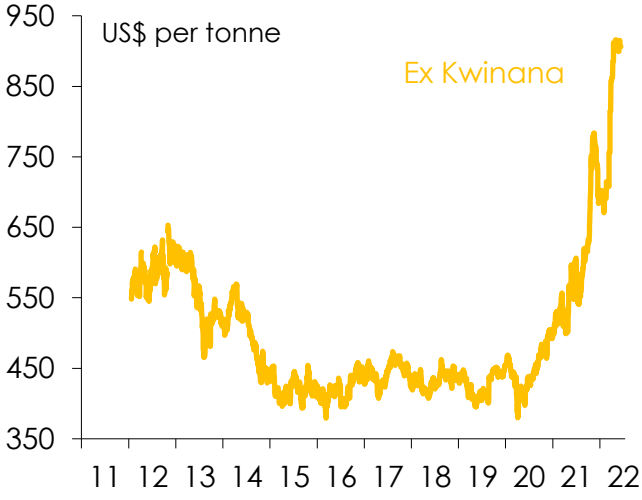
## Wool



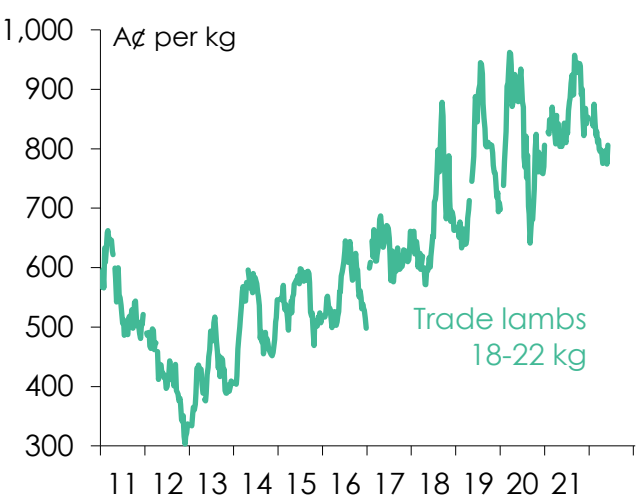
## Milk



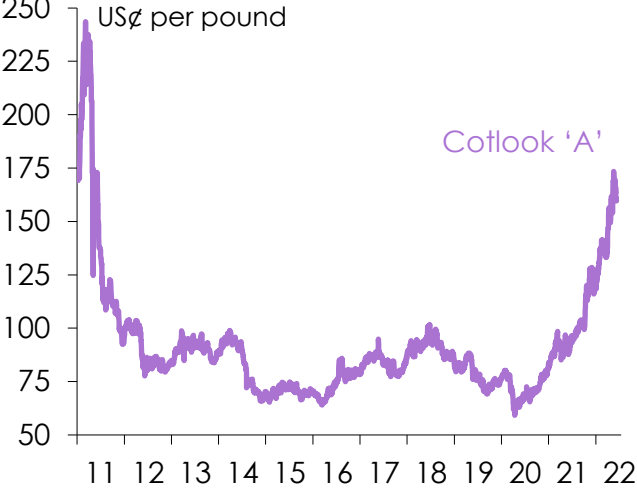
## Canola



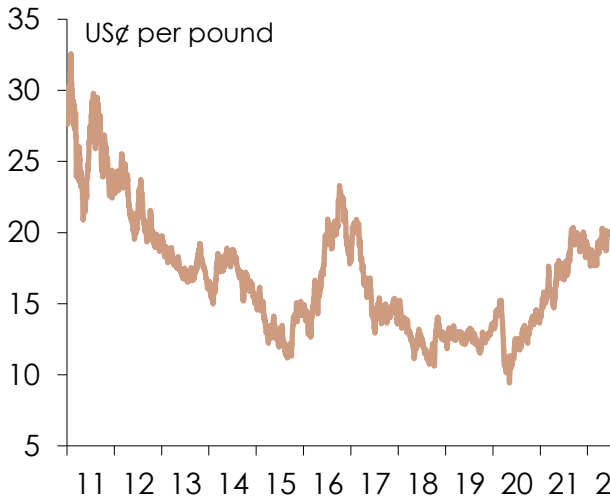
## Sheep



## Cotton



## Sugar

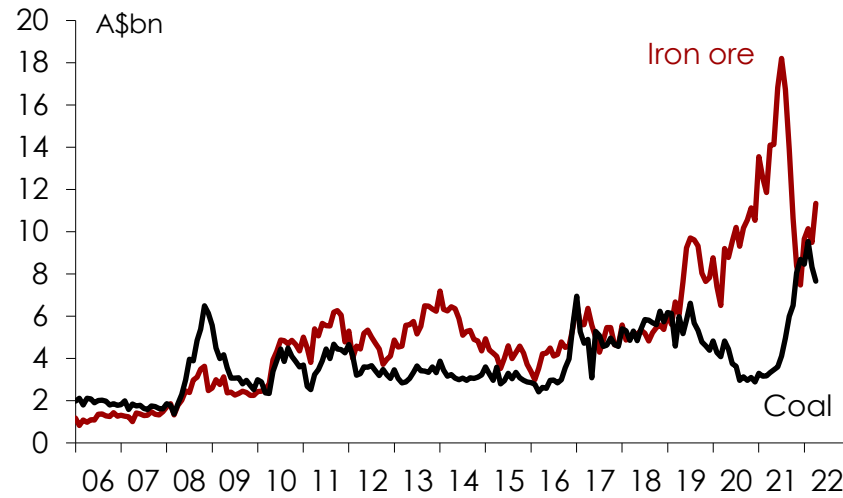


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 27<sup>th</sup> May. [Return to "What's New"](#).

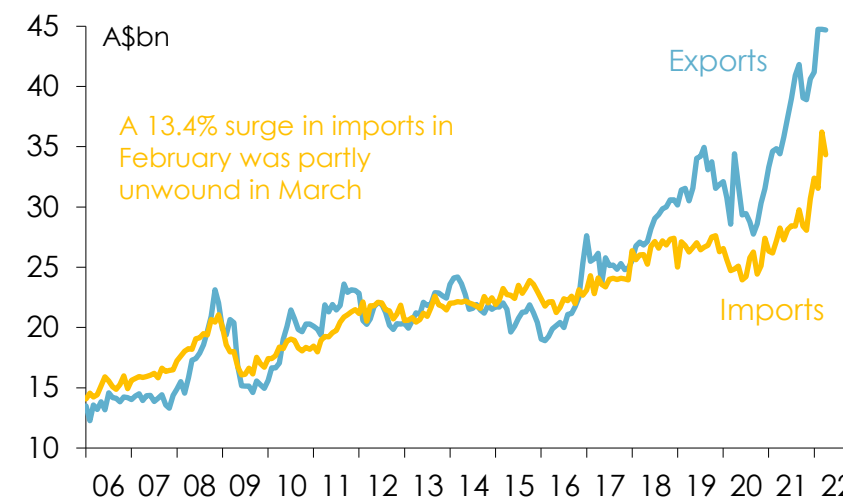
# Australia's trade surplus widened by \$1.9bn to \$9.3bn in March, reflecting a 4.6% fall in imports as against a 0.1% fall in exports

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

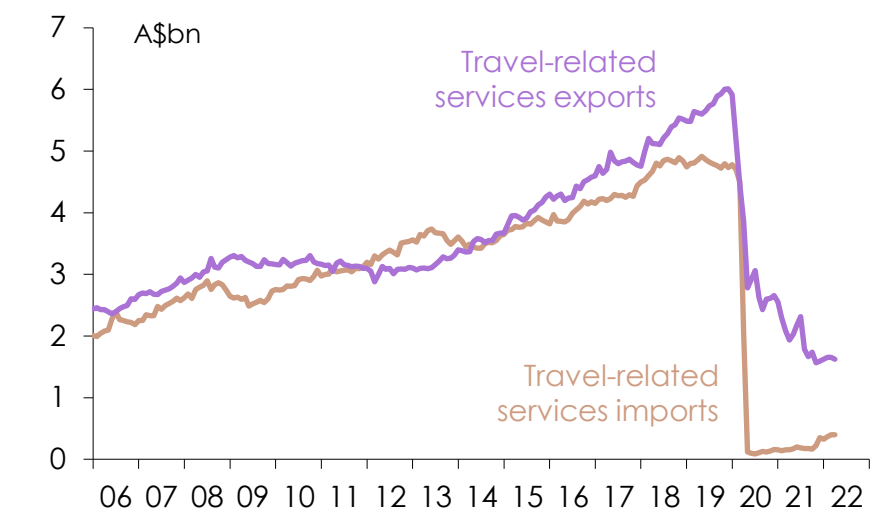
## Iron ore and coal exports



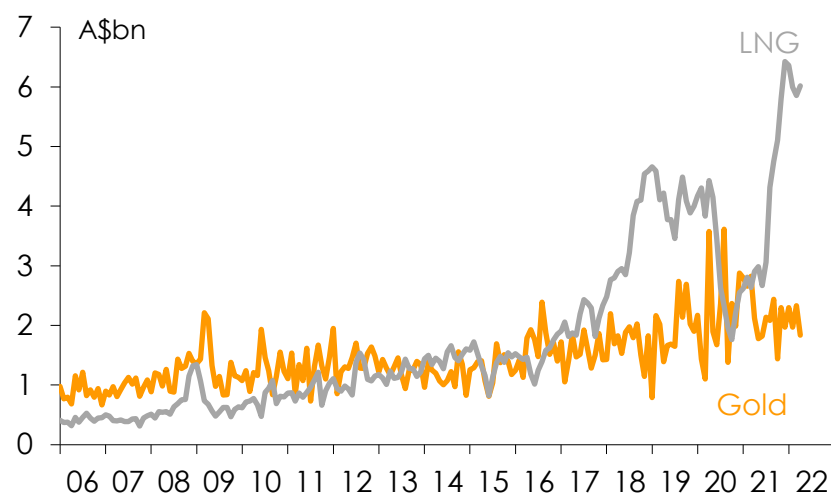
## Merchandise exports and imports



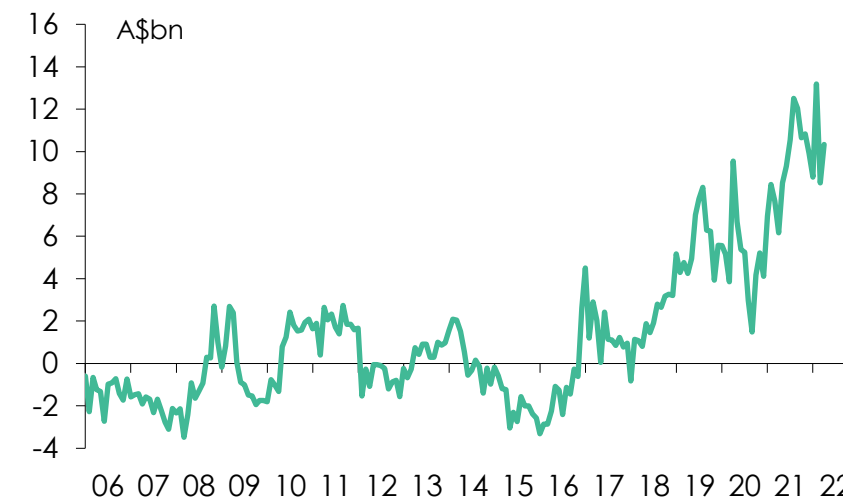
## Tourism-related services trade



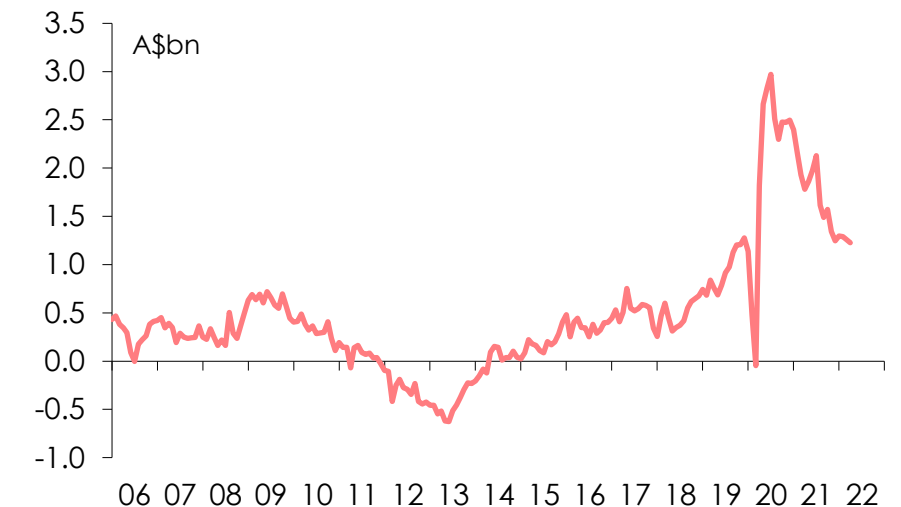
## LNG and gold exports



## Merchandise trade balance



## Tourism services trade balance

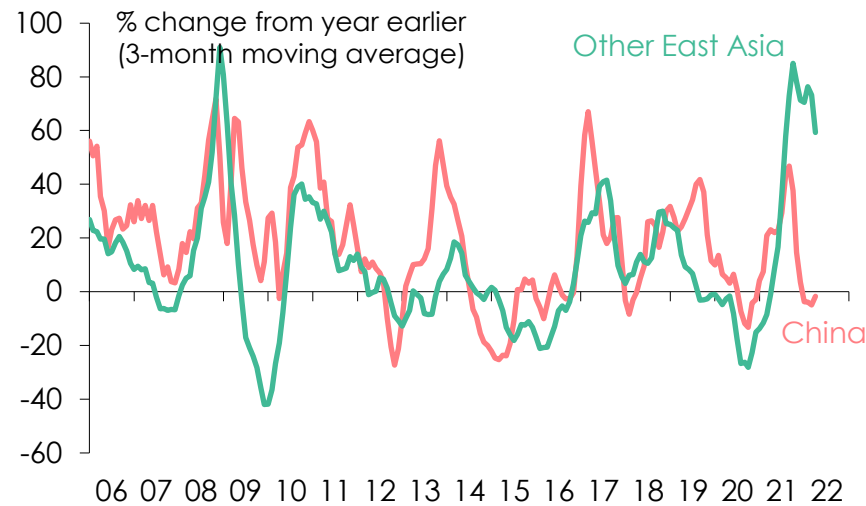


Source: ABS, [International Trade in Goods and Services, Australia](#), March 2021. April data will be released this Thursday, 2<sup>nd</sup> June. [Return to "What's New"](#).

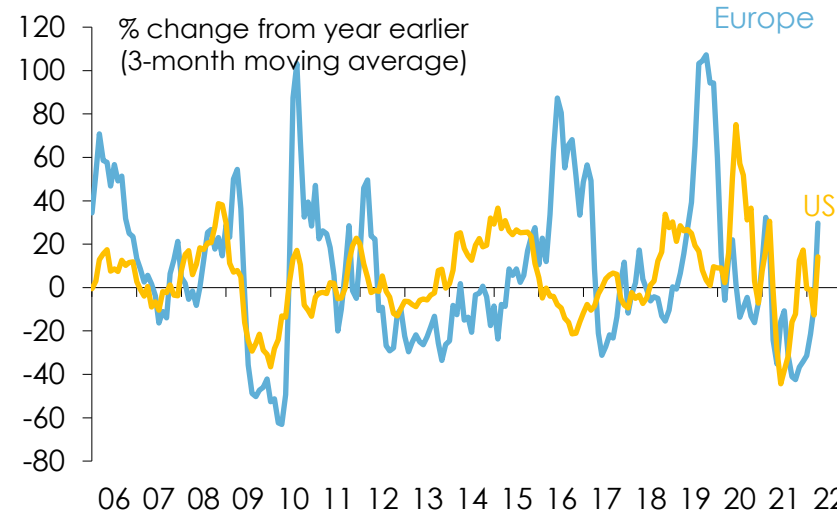
# Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

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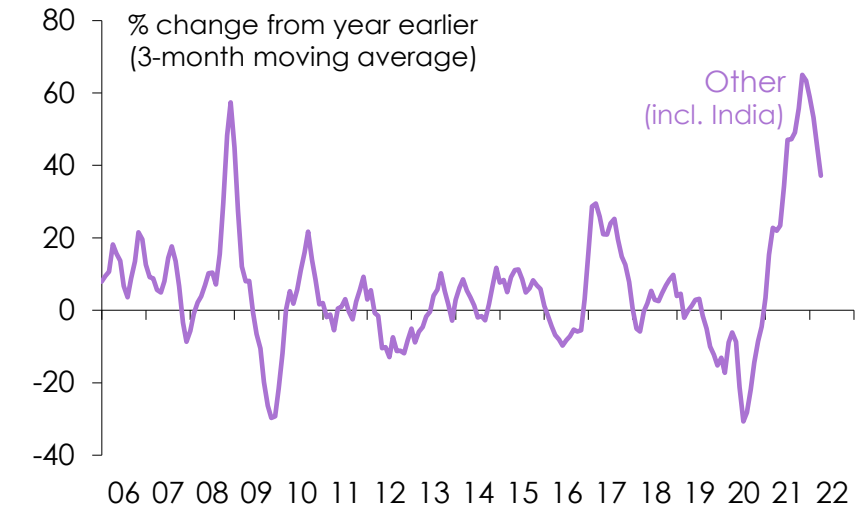
## Merchandise exports – East Asia



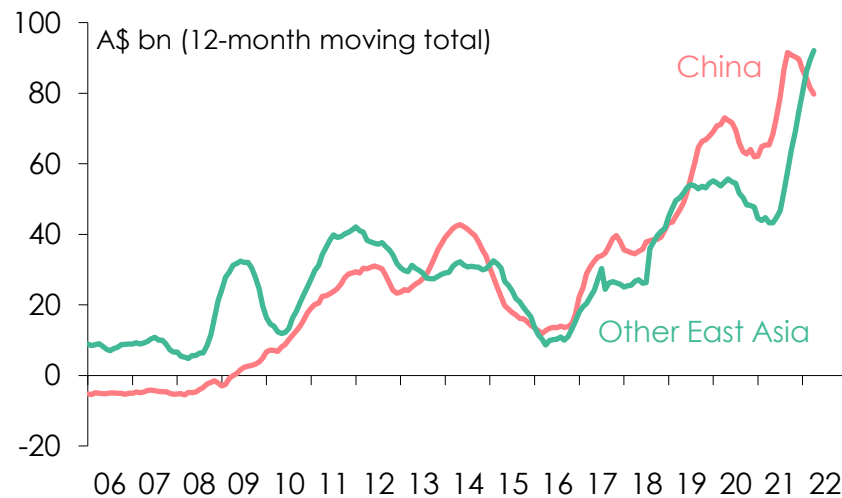
## Merchandise exports – US & Europe



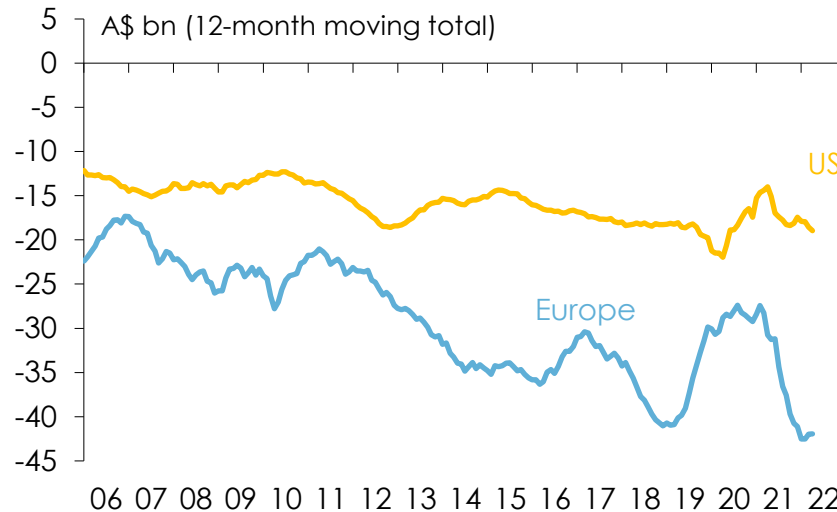
## Merchandise exports – other



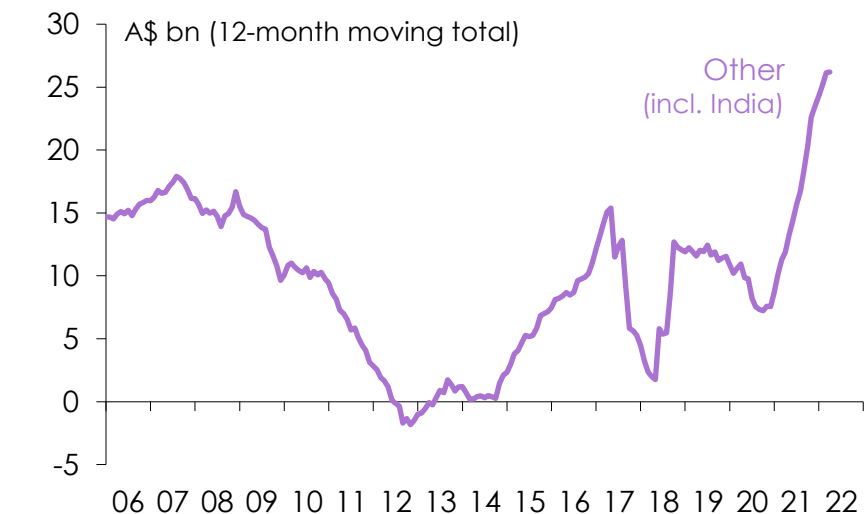
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other

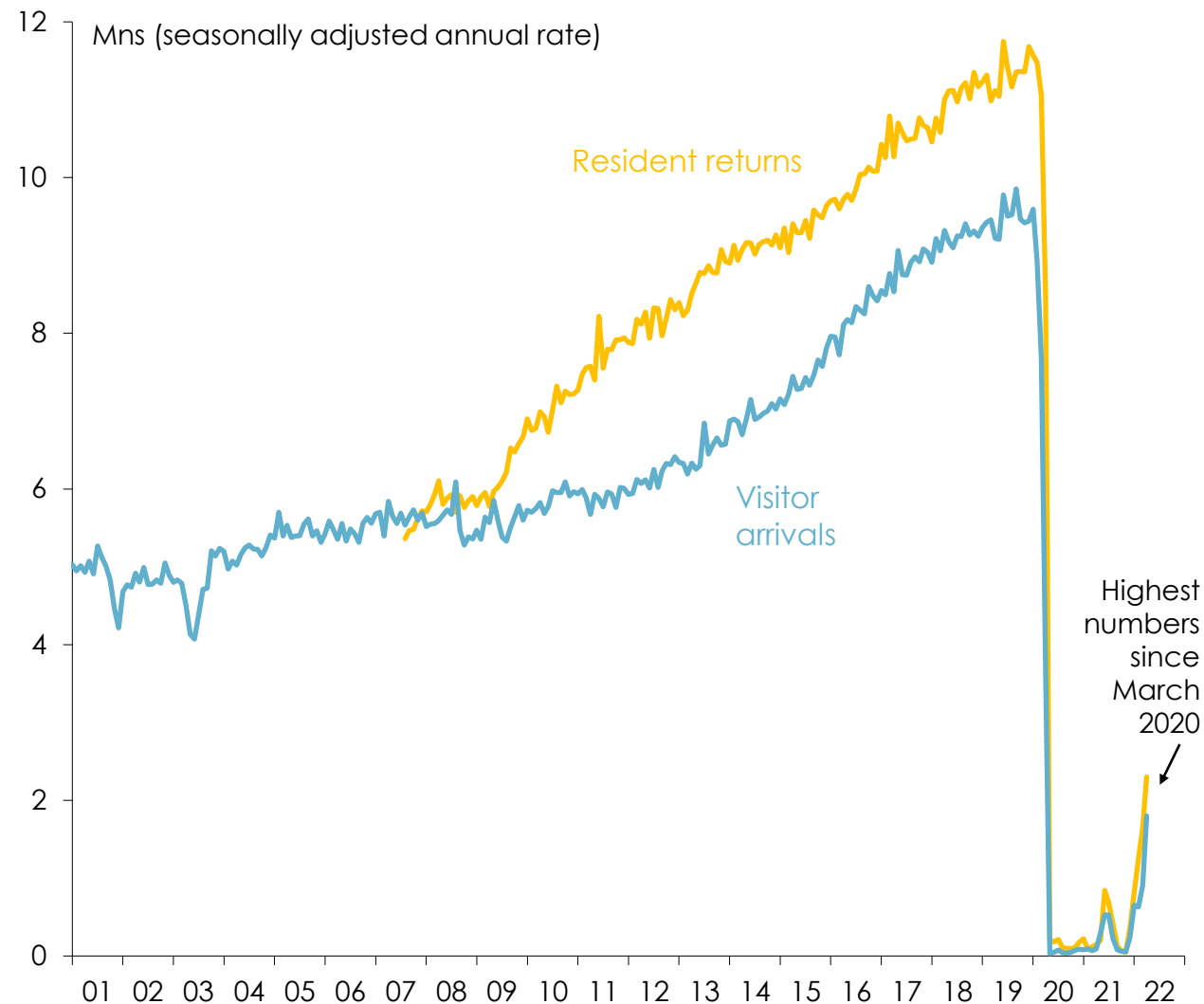


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in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

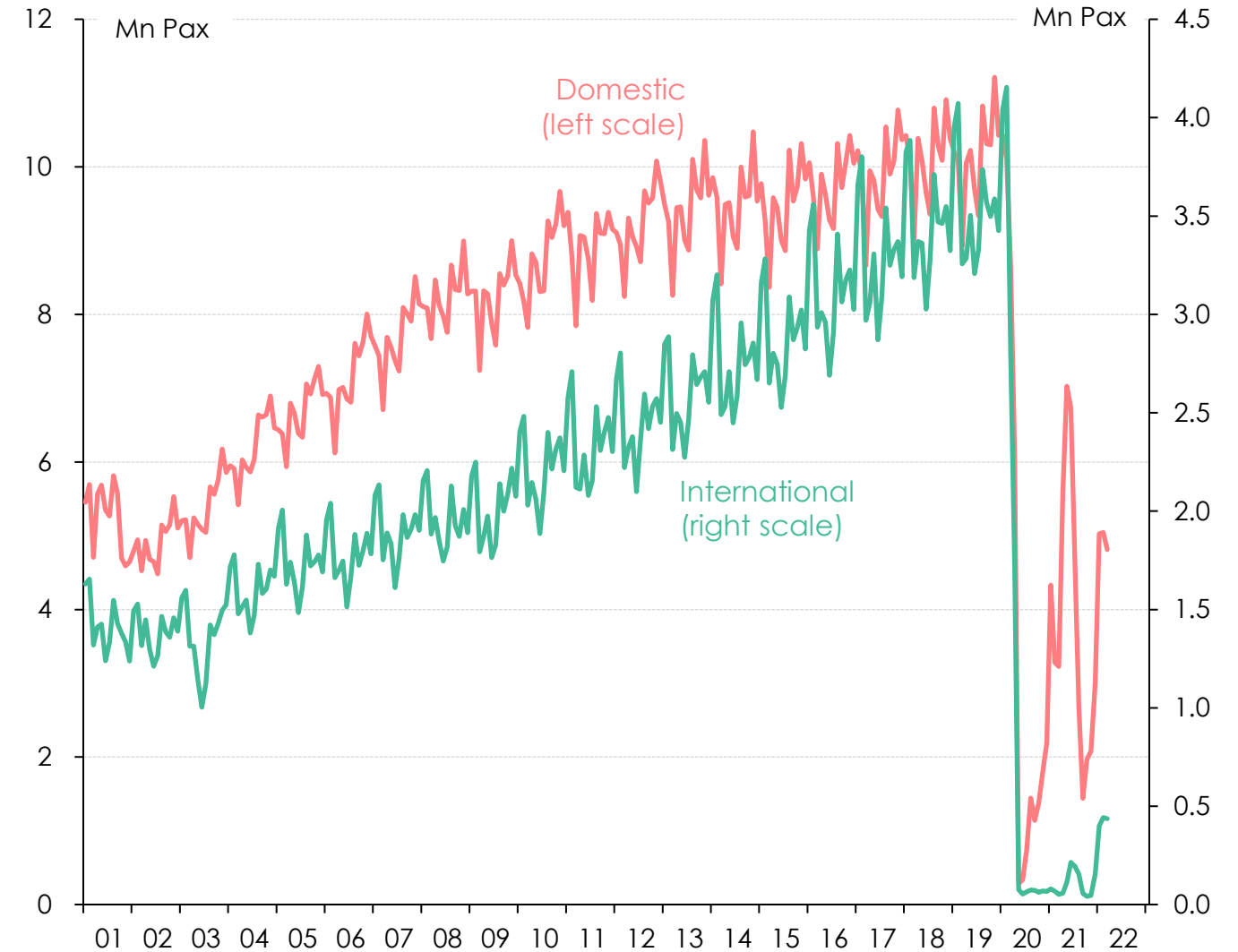
# International arrivals & departures, and air passenger movements have picked up this year – but are still a long way below pre-Covid levels

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Short-term visitor arrivals and resident returns



## Airport passenger movements



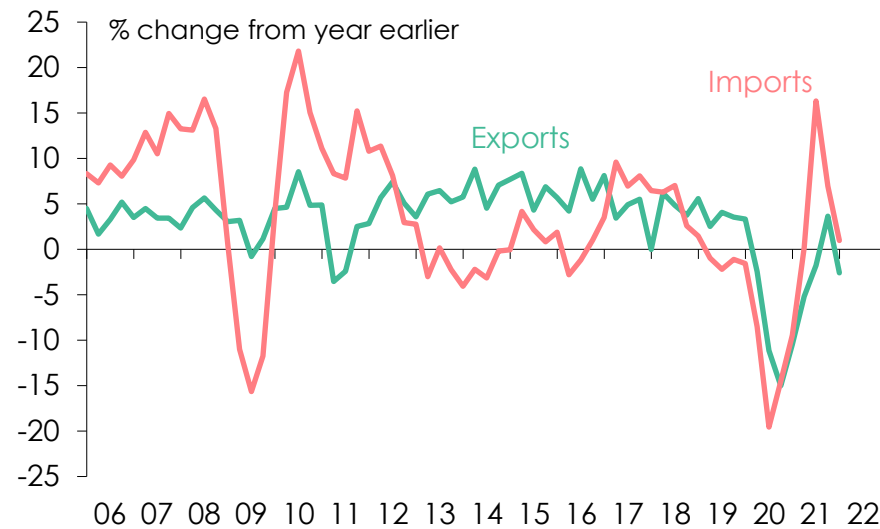
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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



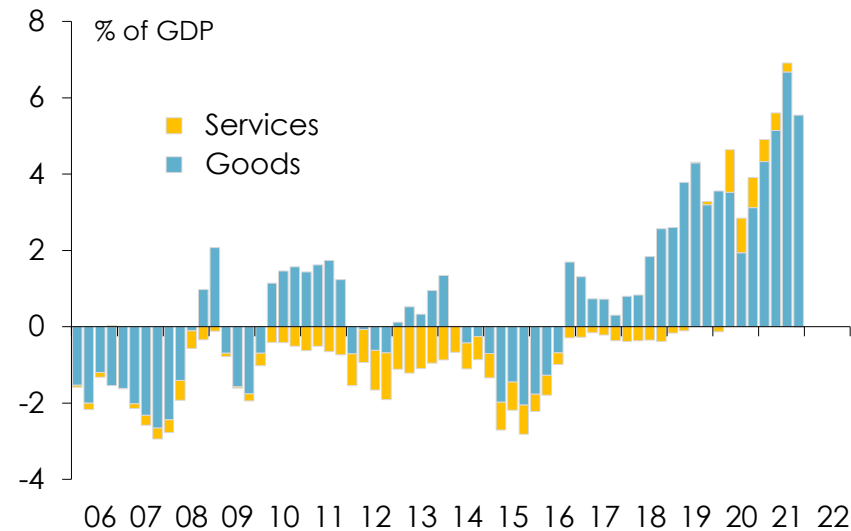
# Australia's current account surplus shrank by nearly half in Q4 last year, with the trade surplus declining and the income deficit increasing

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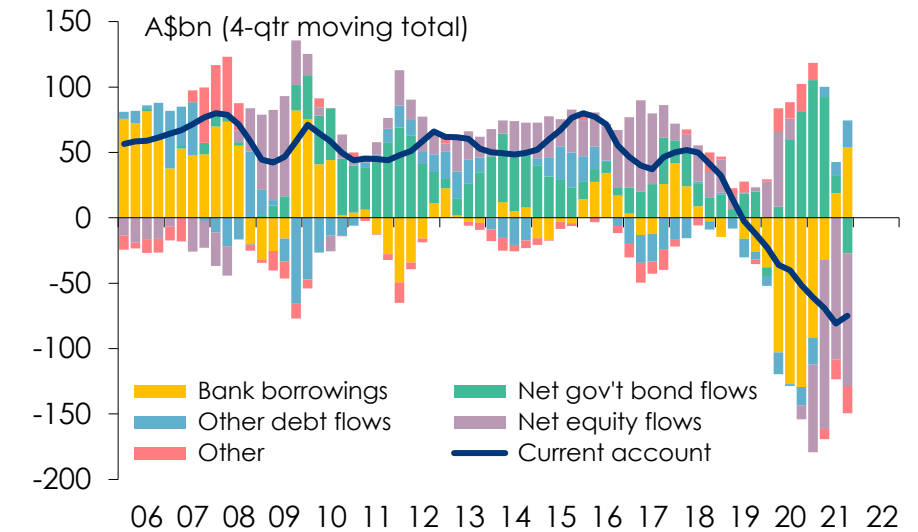
## Export and import volumes



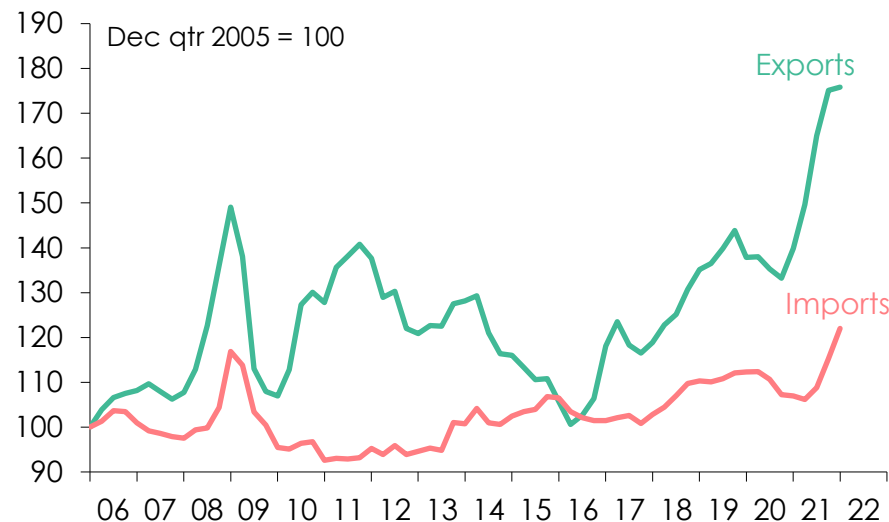
## Goods & services trade balances



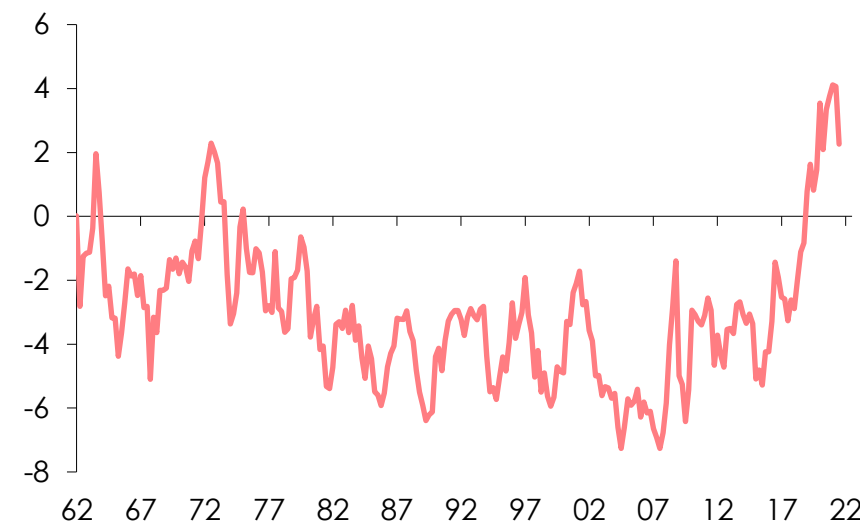
## Capital flows



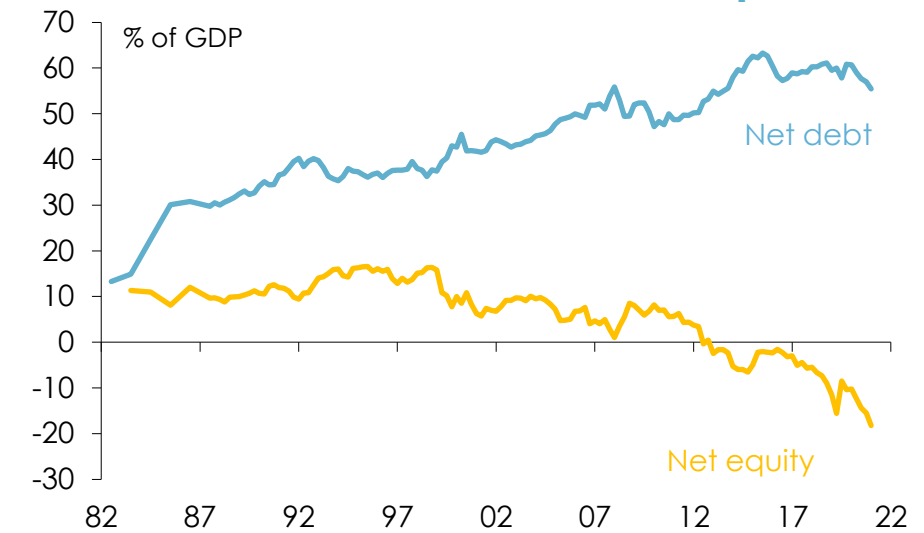
## Export and import prices



## Current account balance



## Net international investment position



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

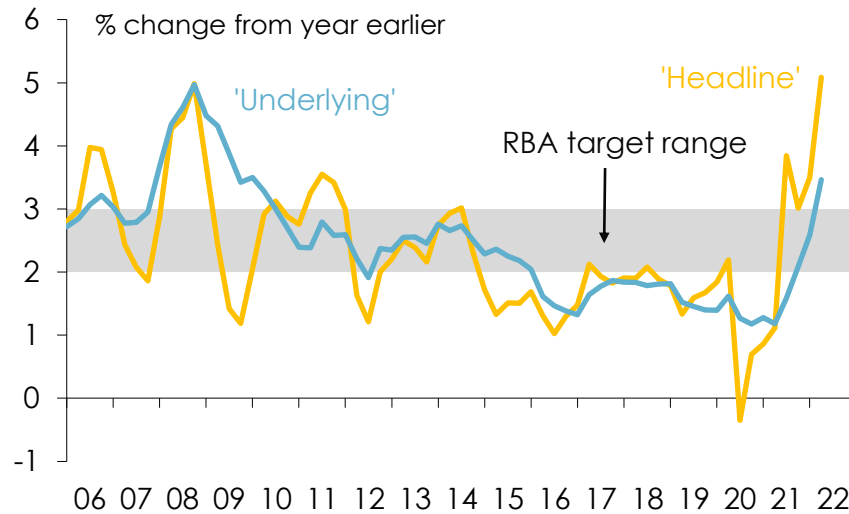


# Inflation

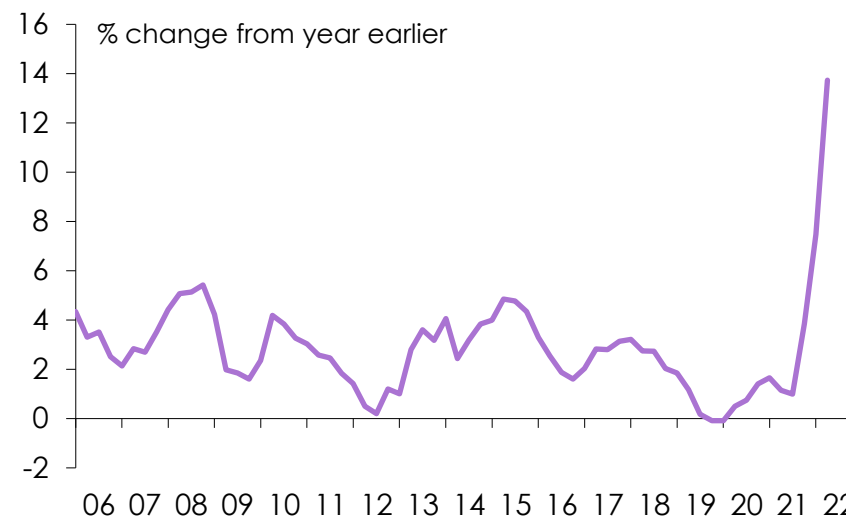
# The CPI rose 2.1% in Q1, pushing annual 'headline' inflation to 5.1%, while annual 'underlying' inflation rose to a 13-year high of 3.7%

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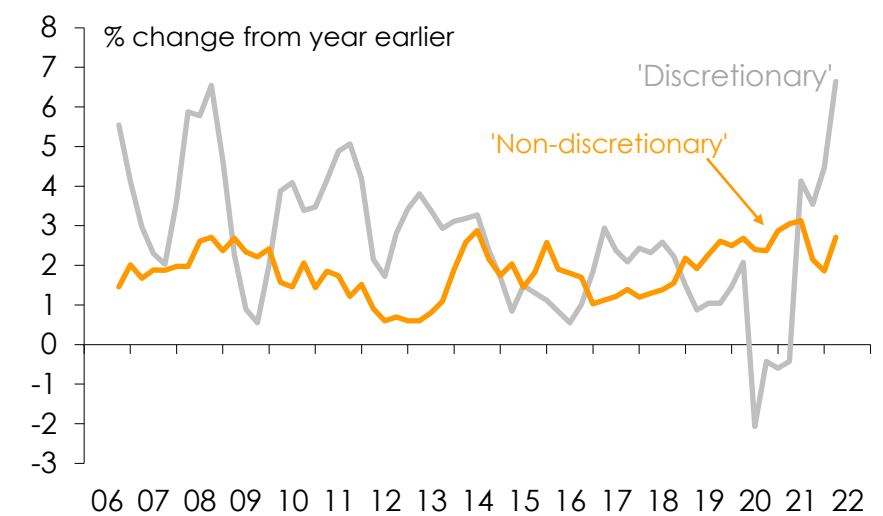
## Consumer prices – annual change



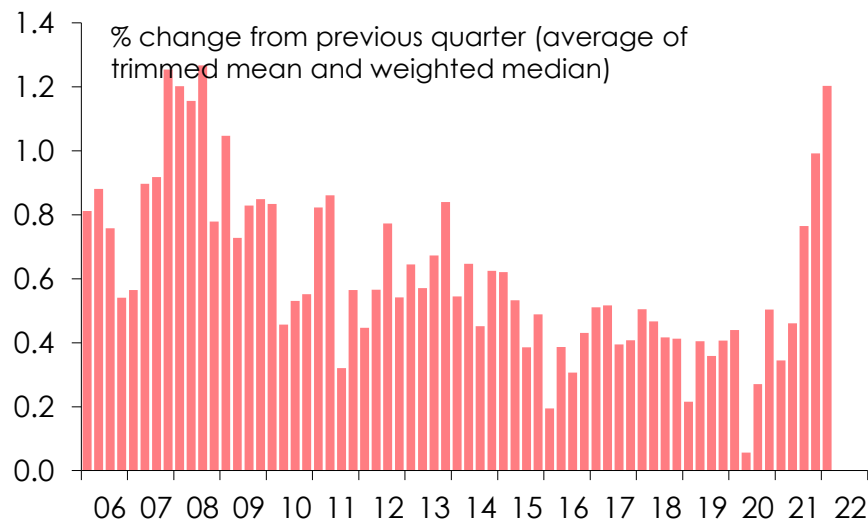
## New dwelling purchase costs



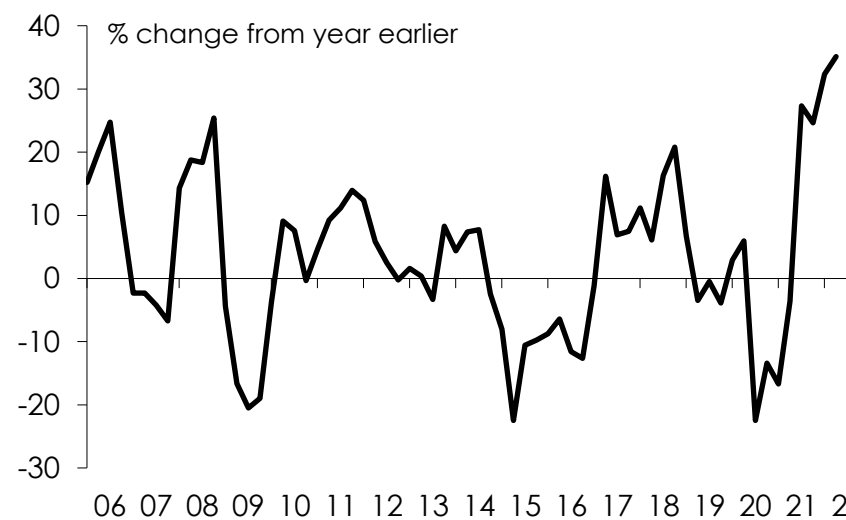
## 'Discretionary' vs 'essential' items



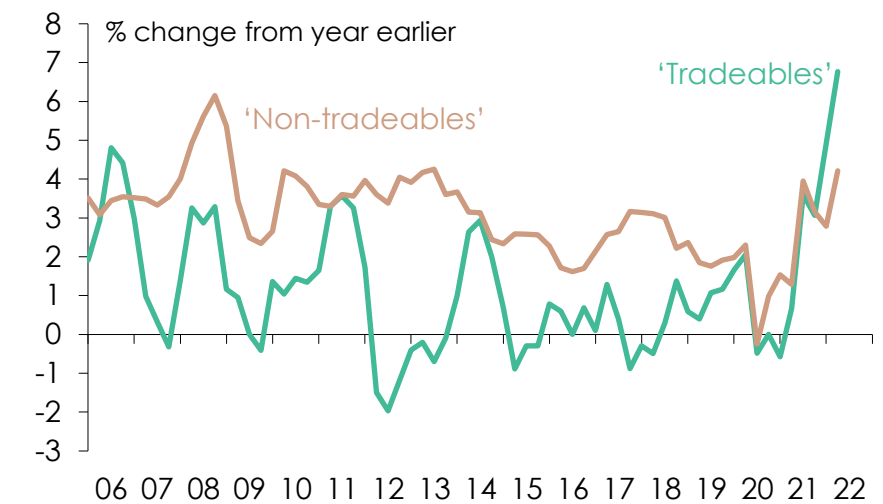
## Quarterly 'underlying' inflation



## Automotive fuel prices



## 'Tradeables' vs 'non-tradeables'

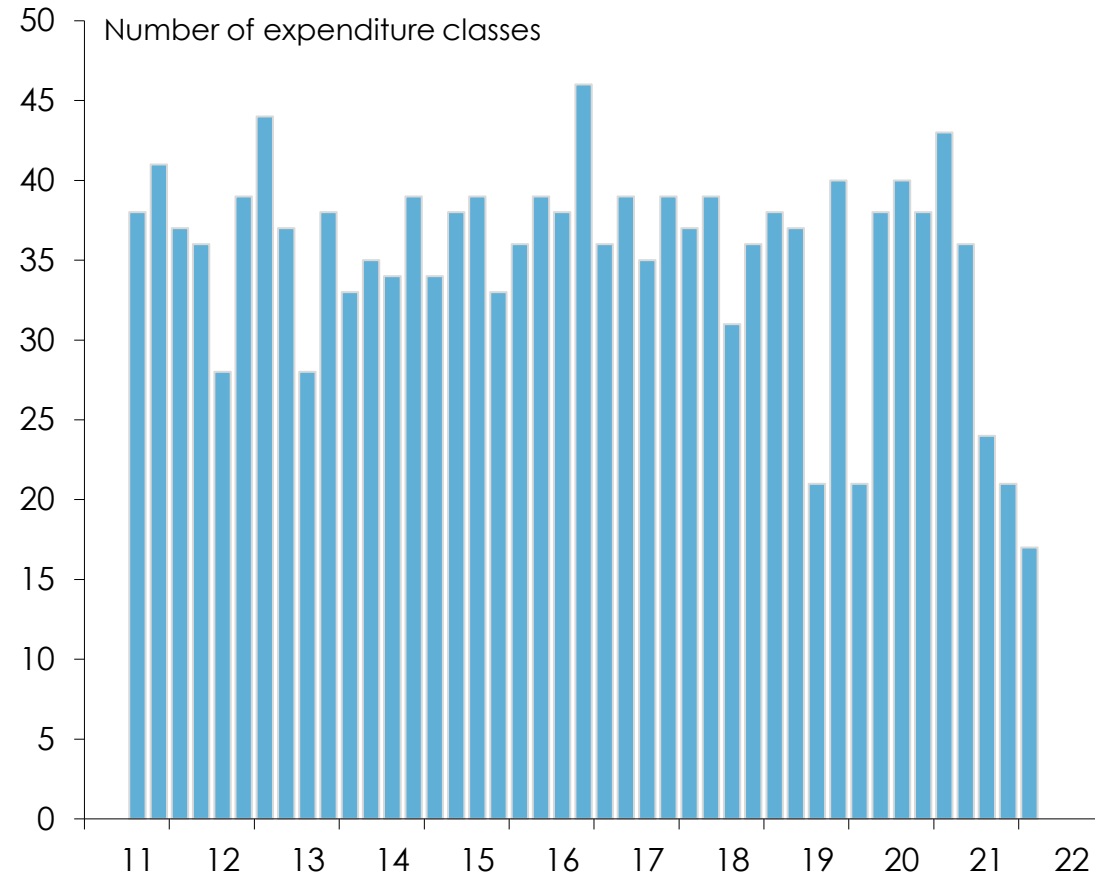


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. For definitions of 'discretionary' and 'non-discretionary' items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), March (June quarter CPI will be released on 27<sup>th</sup> July). [Return to "What's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

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

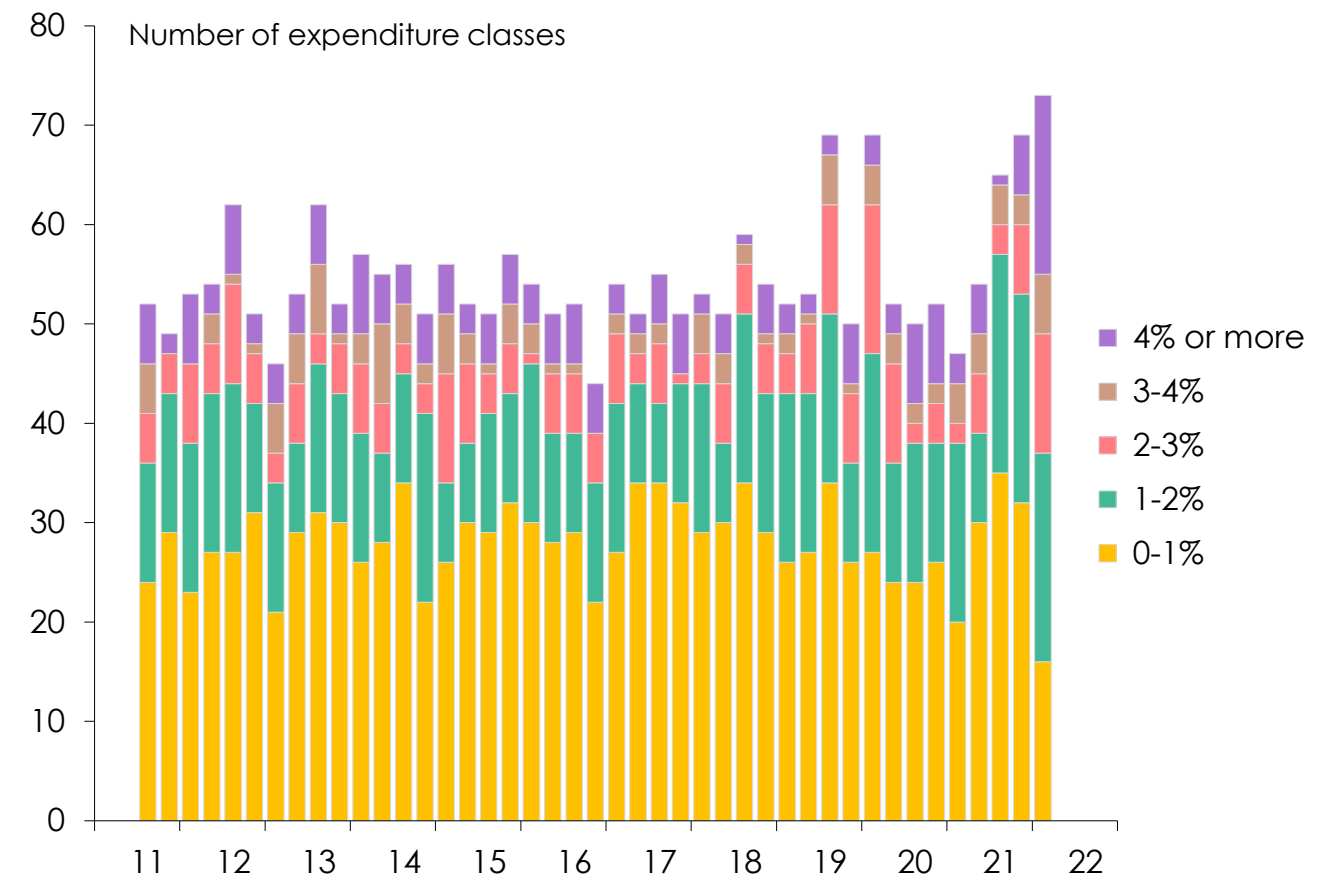
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## Number of CPI 'expenditure classes' registering falls in prices from previous quarter



- ❑ 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

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

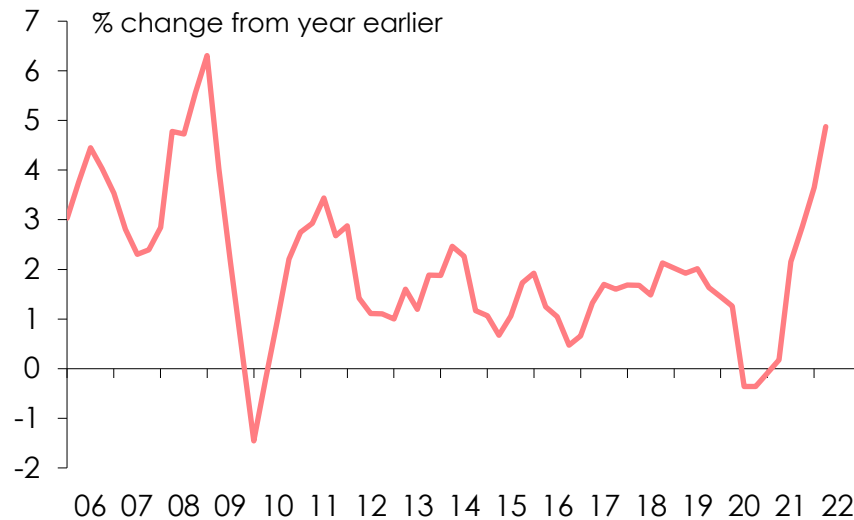


- ❑ 75 of the 92 'expenditure classes' in the CPI recorded price rises in the March quarter (of which 18 recorded rises of more than 4%), in each case the highest in at least 10 years

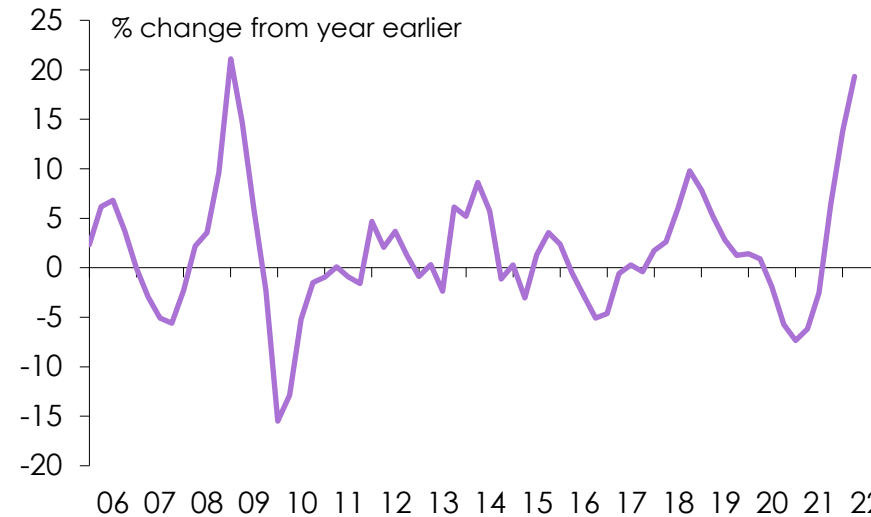
# Except for construction, domestic 'upstream' price pressures have been less intense than in other countries, but import prices have risen sharply

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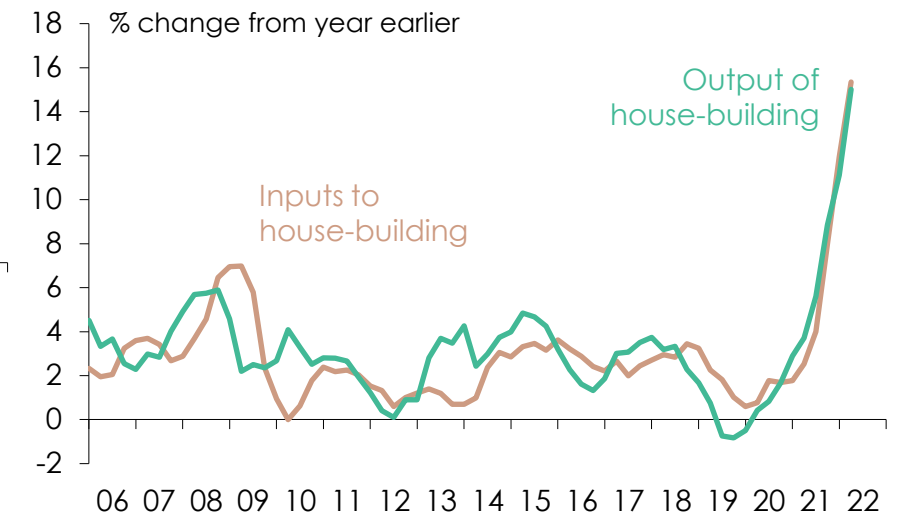
## Producer price index



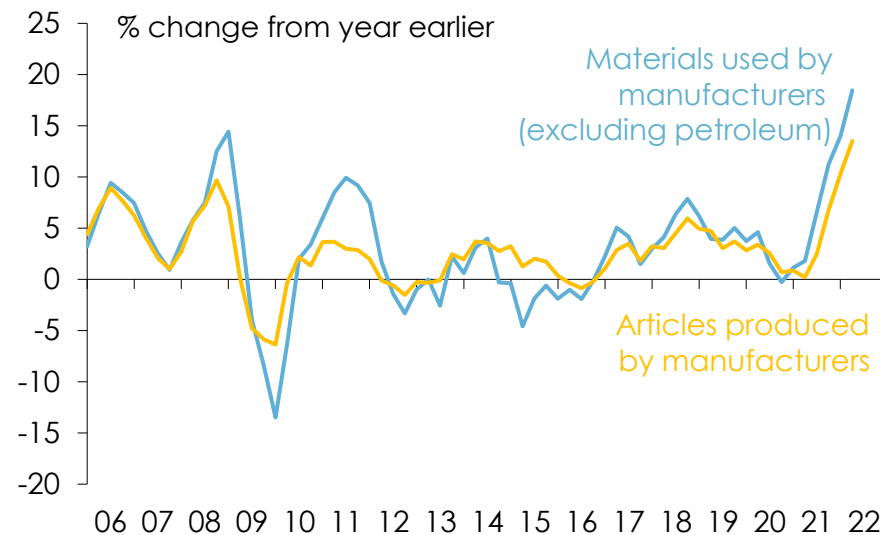
## Import price index



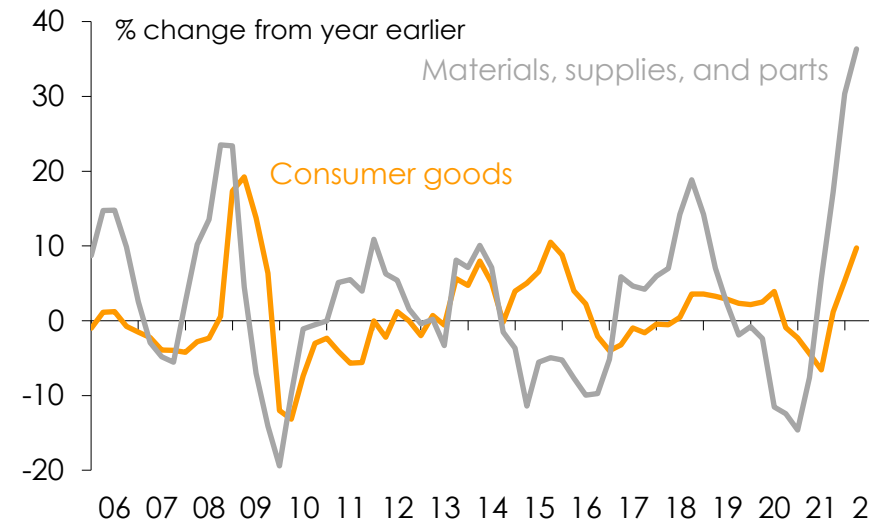
## Construction input & output prices



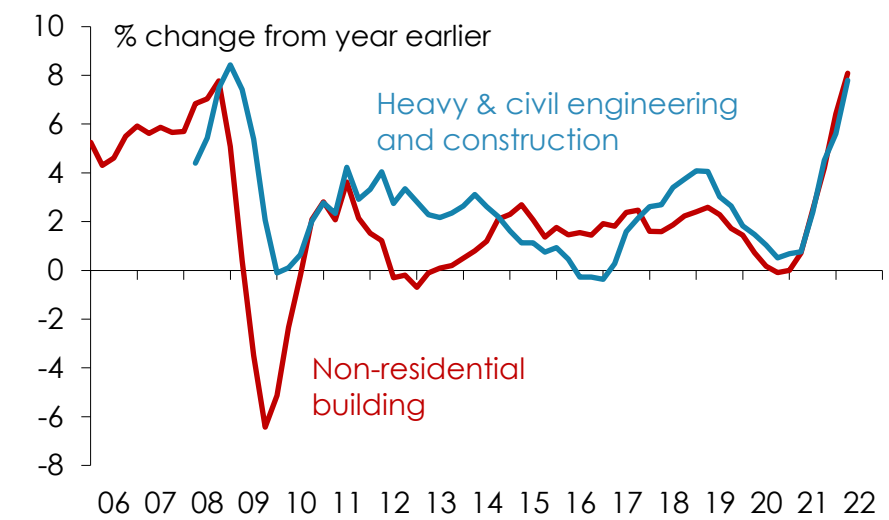
## Manufacturing input & output prices



## Imported consumer goods prices



## Non-residential construction prices

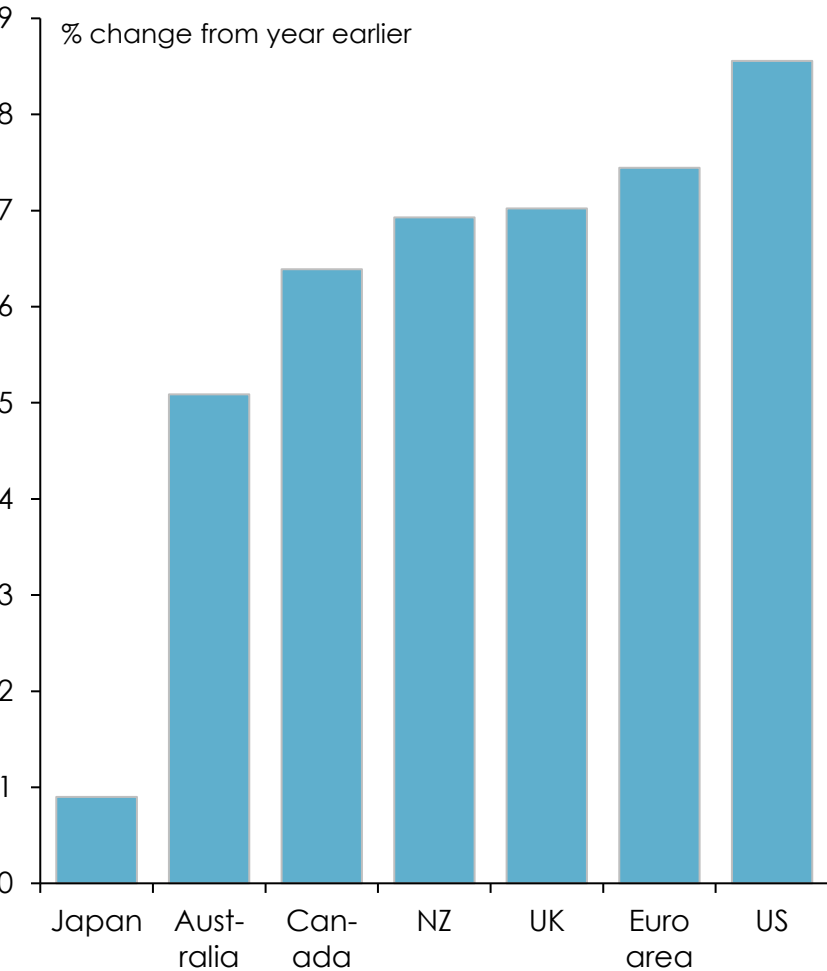


Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), March quarter 2022. June quarter import and producer price indices will be released on 28<sup>th</sup> and 29<sup>th</sup> July, respectively. [Return to "What's New"](#).

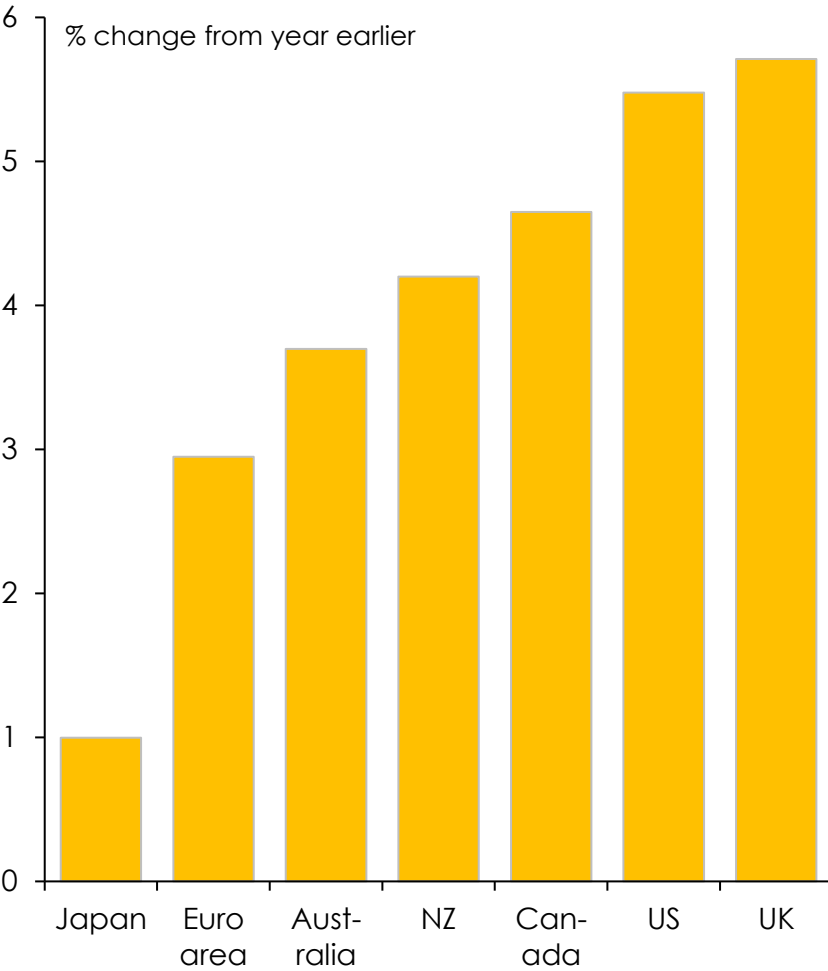
# Following the March quarter CPI result Australia's 'headline' and 'core' inflation rates are now much closer to those of comparable economies

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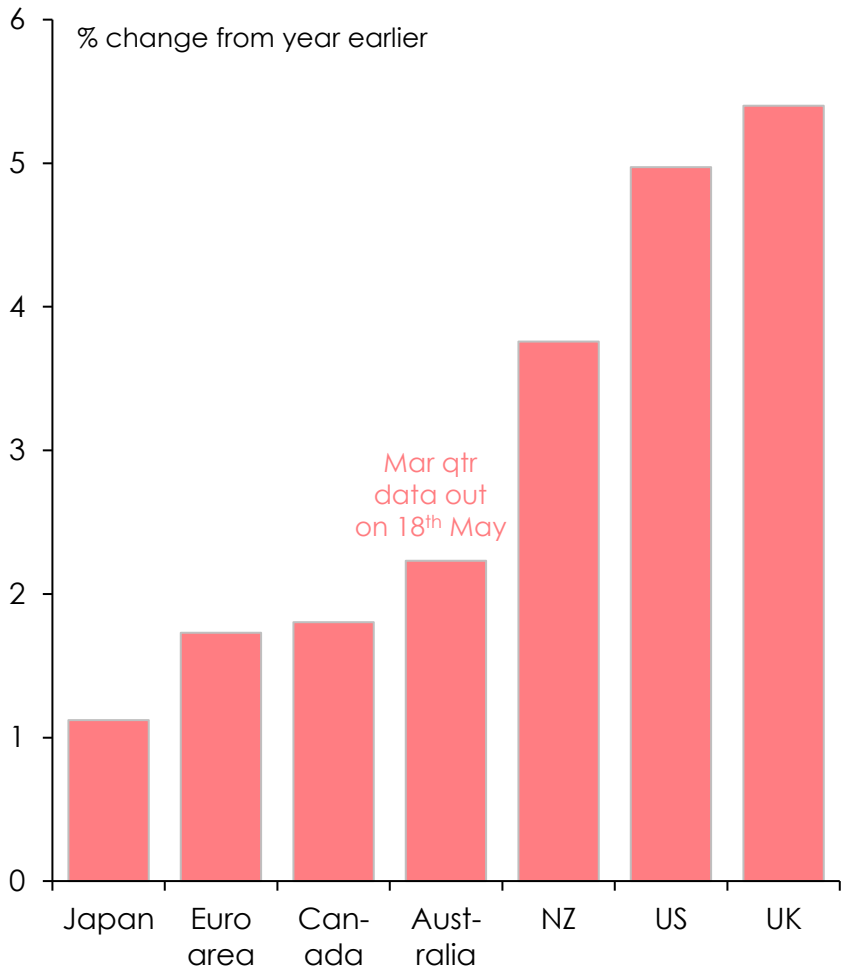
'Headline' consumer price inflation



'Underlying' or 'core' consumer price inflation



Wage inflation



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

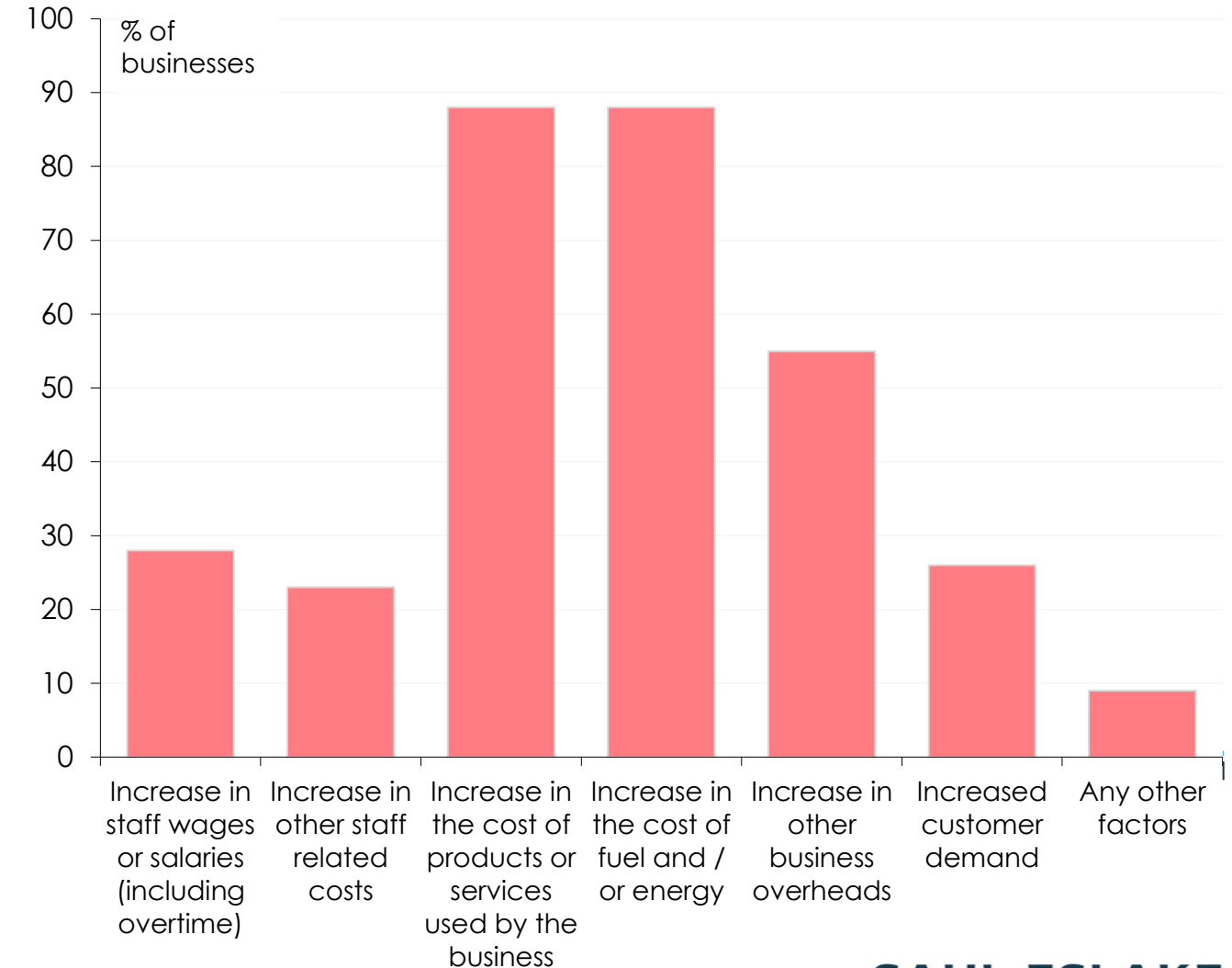
# 39% of businesses (including 59% of retailers) are planning to raise prices 'more than usual' in the next 3 months – but not because of labour costs

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

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



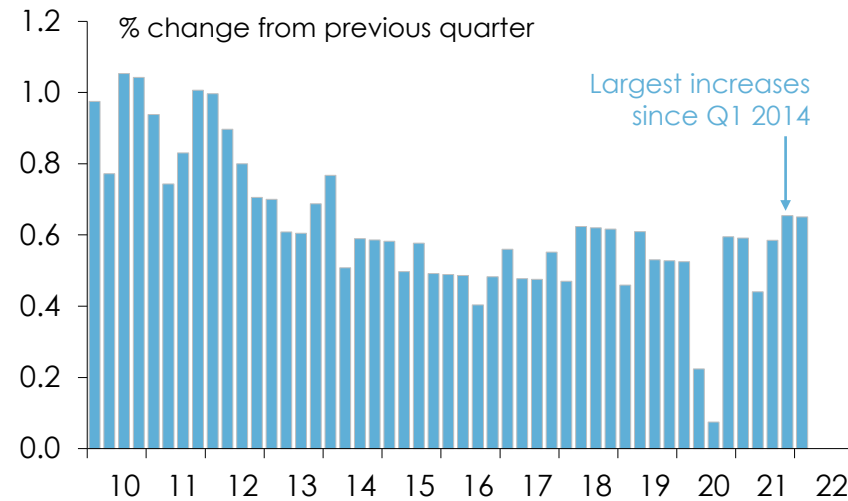
## Factors contributing to businesses expecting to raise prices, March 2022



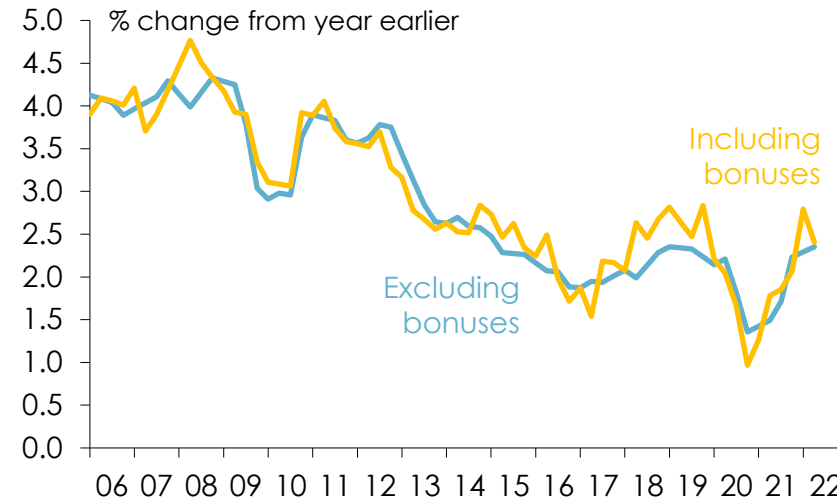
# Wages growth as measured by the wage price index remains sluggish but the RBA's business liaison suggests it is now starting to pick up

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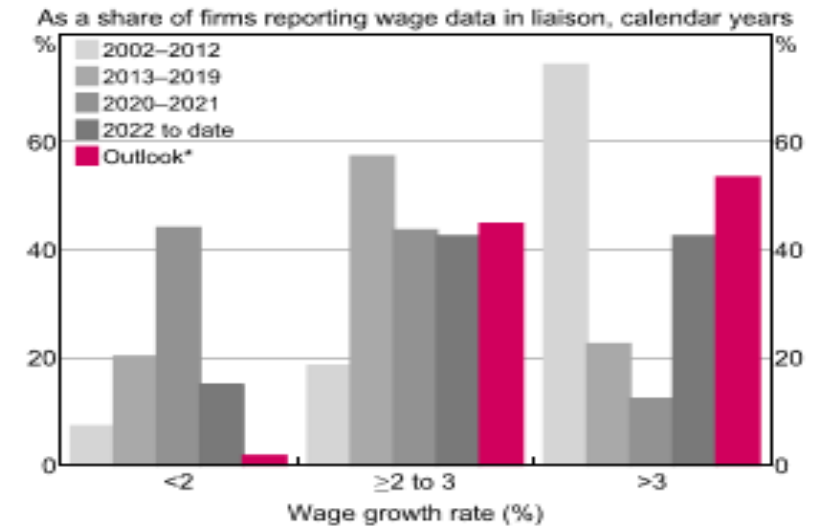
## Wage price index excluding bonuses



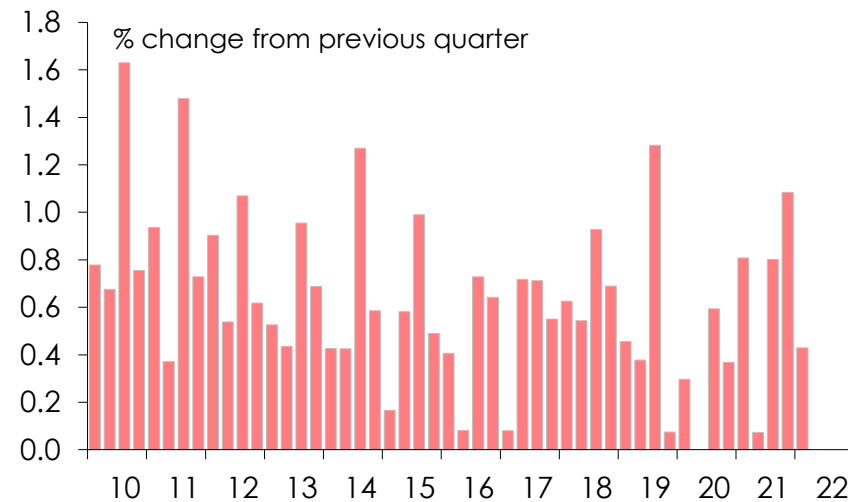
## Wage price index – all sectors



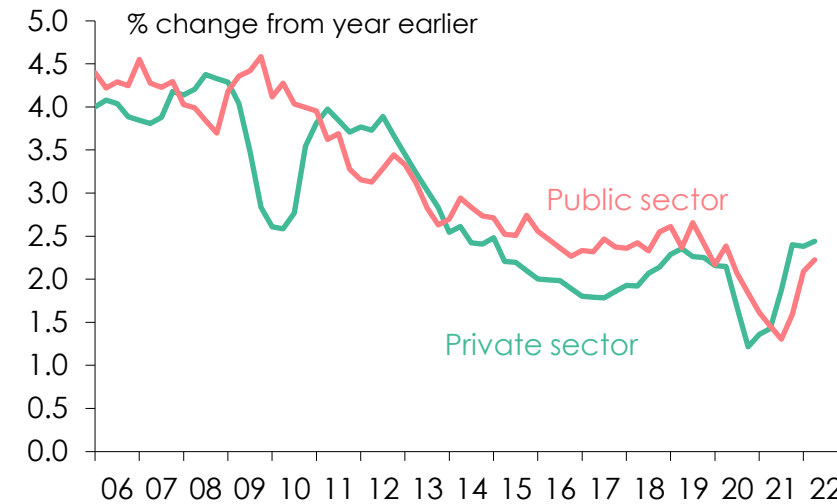
## Distribution of wages growth



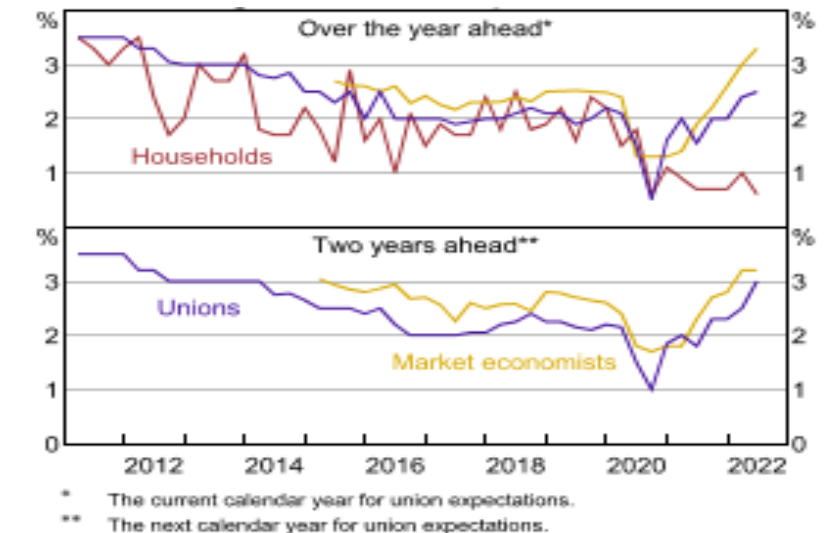
## Wage price index including bonuses



## WPI – private vs public sectors



## Wage growth expectations



# Employers in some sectors affected by staff shortages do appear to have lifted wages a bit over the past 2 quarters but it's far from across-the-board

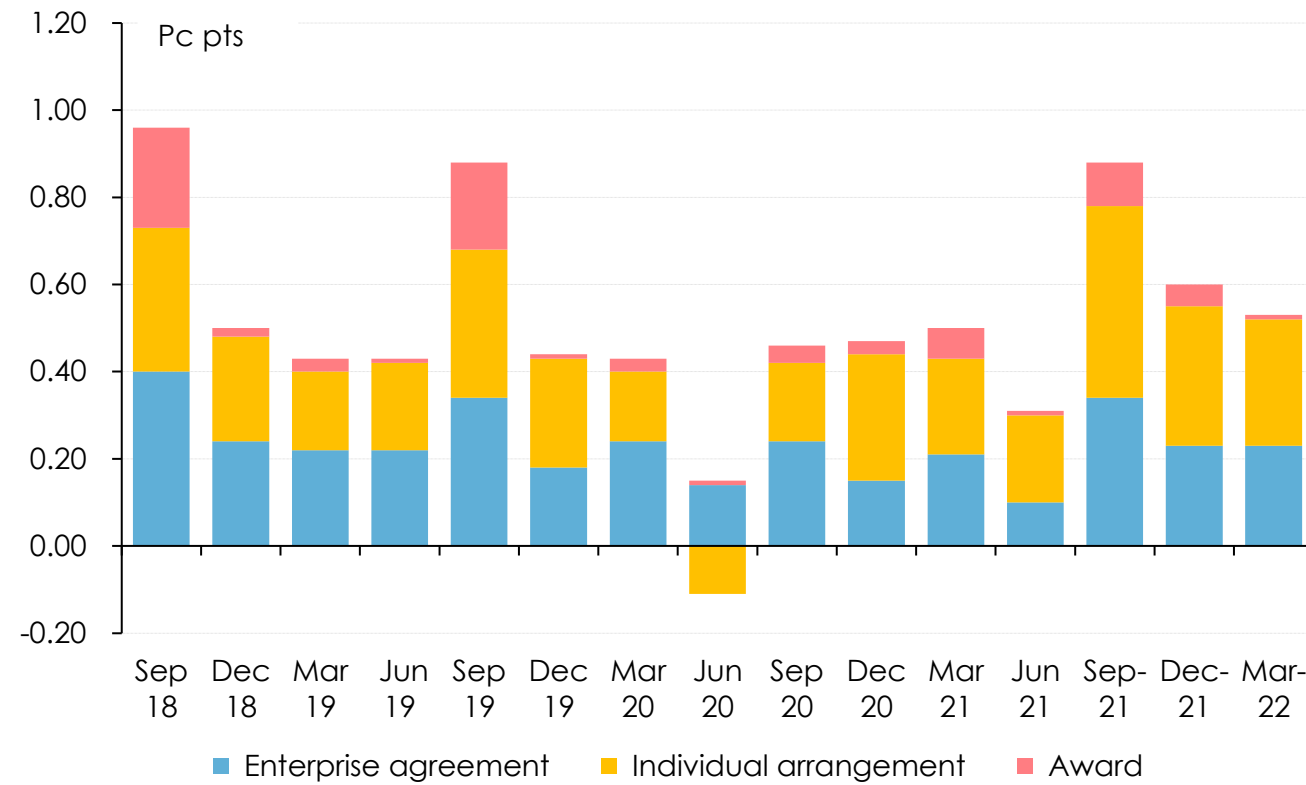
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Increase in wage price index over year to Q1 by sector



❑ Wages growth has picked up in sectors where employers have had the greatest difficulty filling job vacancies

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 three quarters – while multi-year enterprise agreements inject a degree of inertia into wage-bargaining outcomes

Sources: ABS, [Wage Price Index, Australia](#), March 2022; June quarter WPI data will released on 17<sup>th</sup> August. [Return to "What's New"](#).

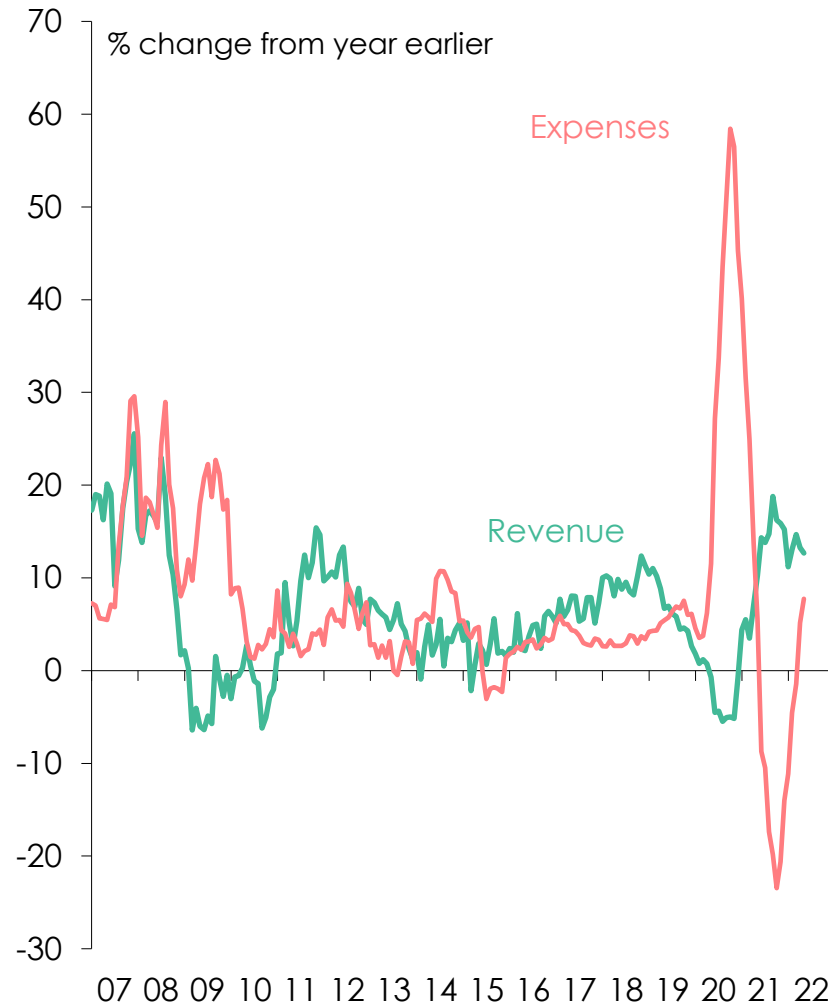


**Fiscal policy**

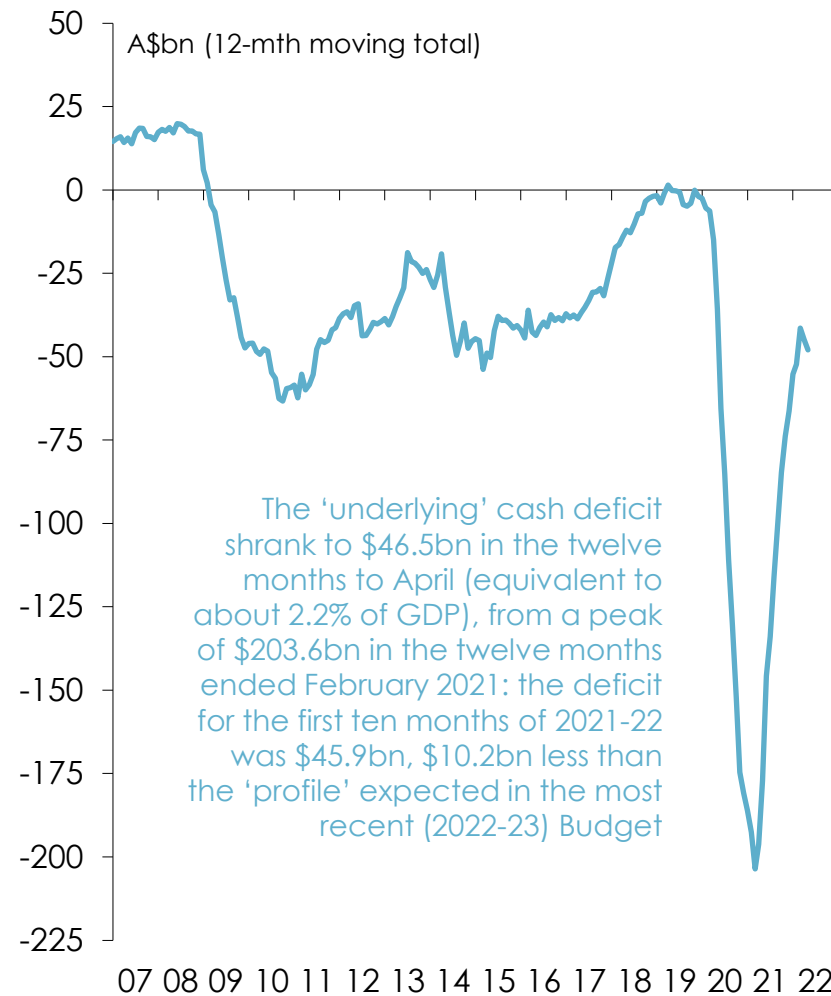
# The Federal budget deficit has declined sharply since peaking early last year – with net debt down by \$85bn from its peak last August

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

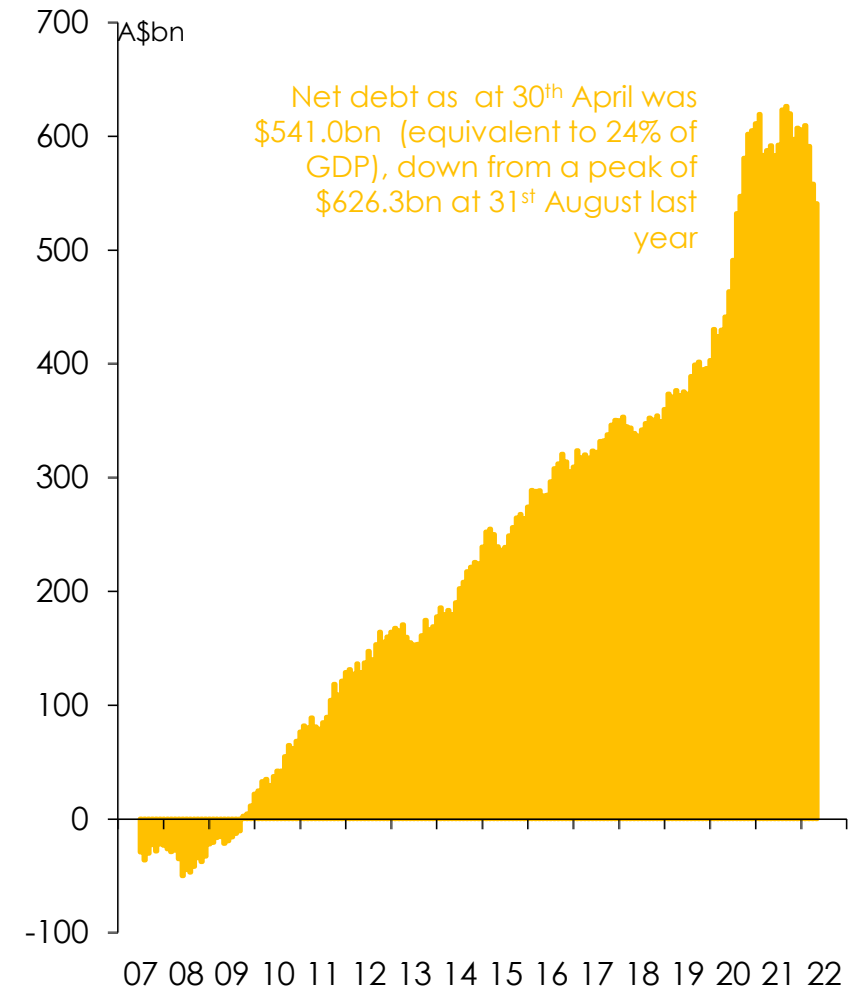
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt



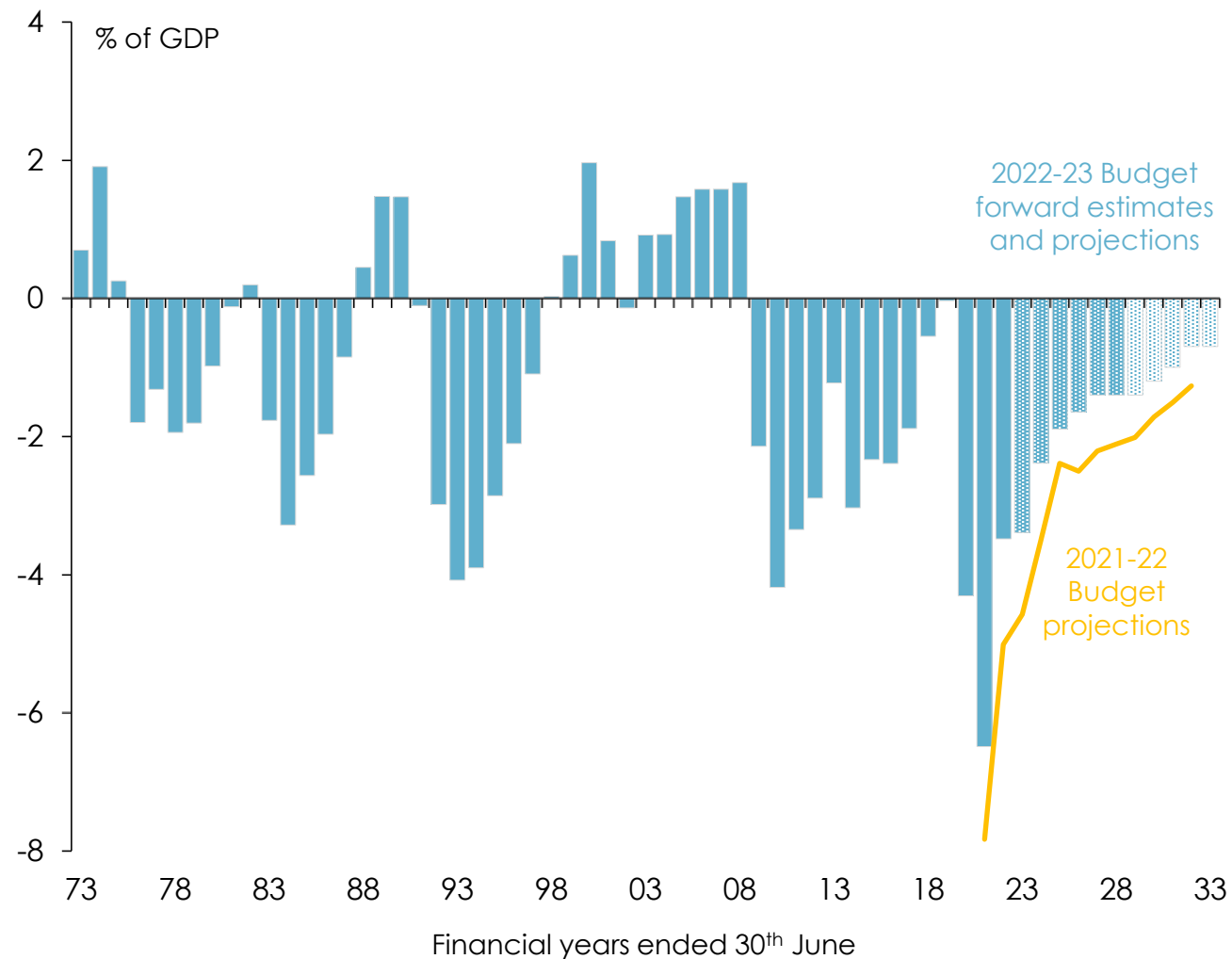
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

# Nonetheless, the budget was projected to remain in deficit over the next decade, in the previous Government's last Budget presented in March

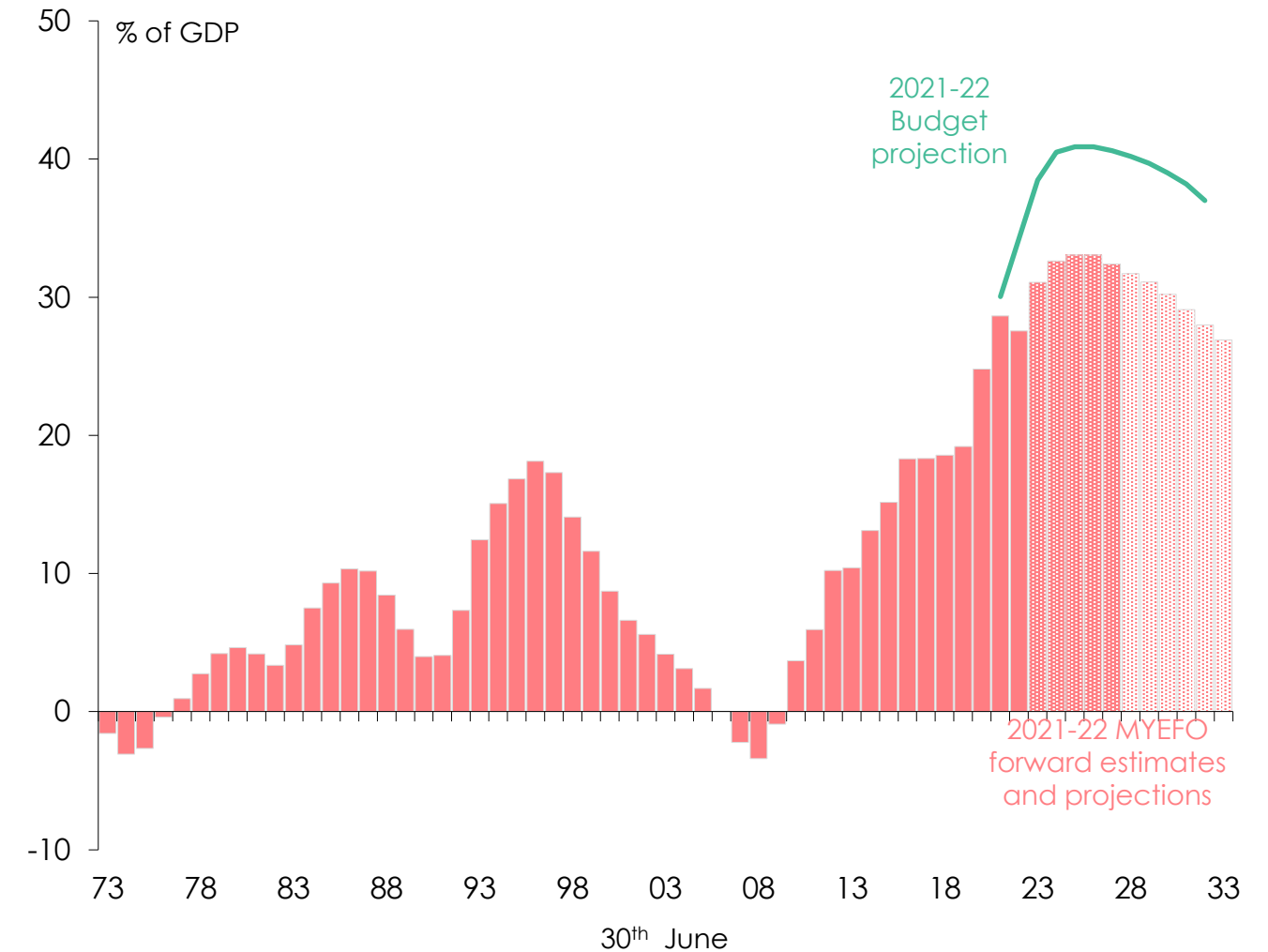
THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

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

### 'Underlying' cash balance



### Net debt

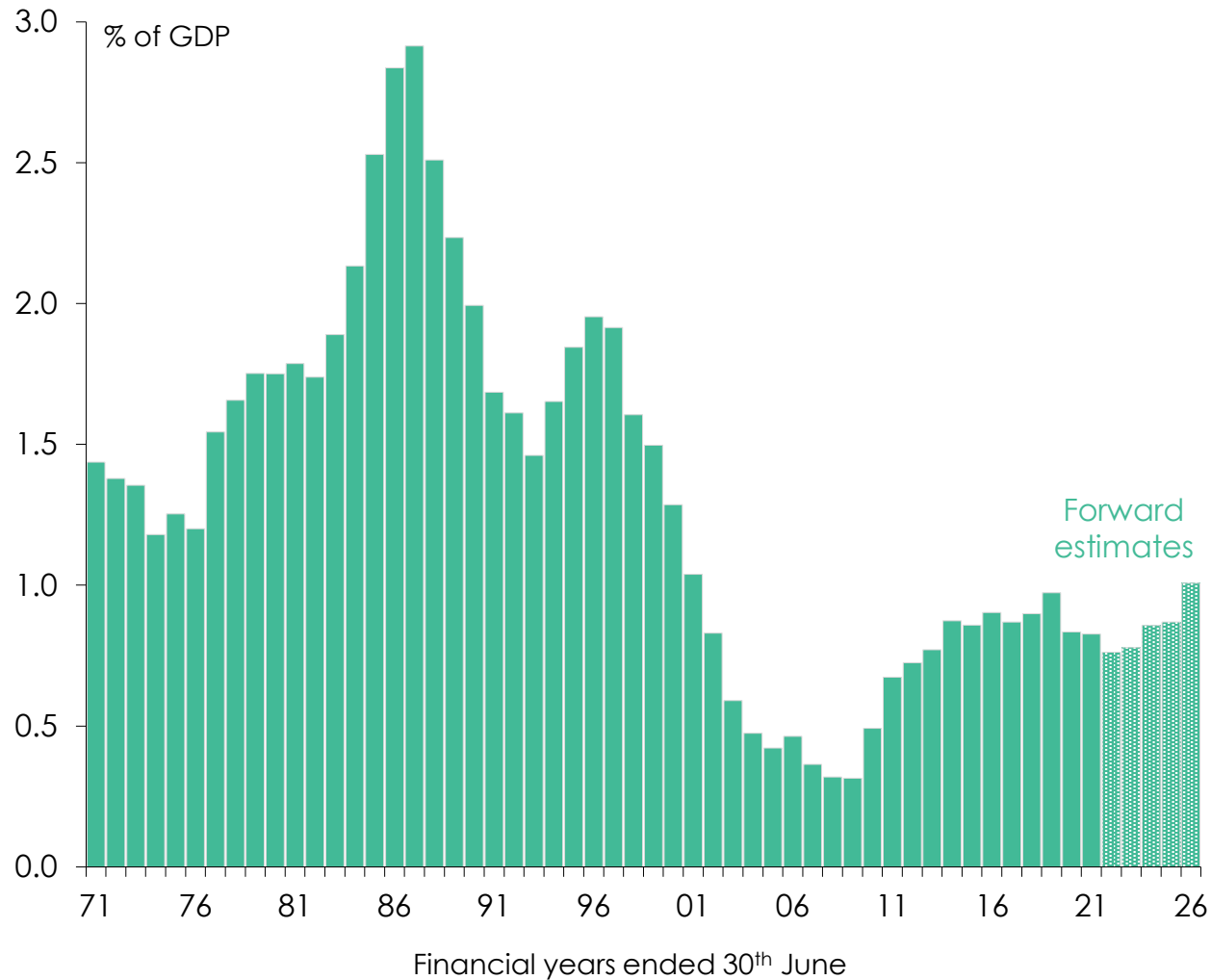


Source: Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 3](#) and [Statement No. 10](#), 29<sup>th</sup> March 2022. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 27<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

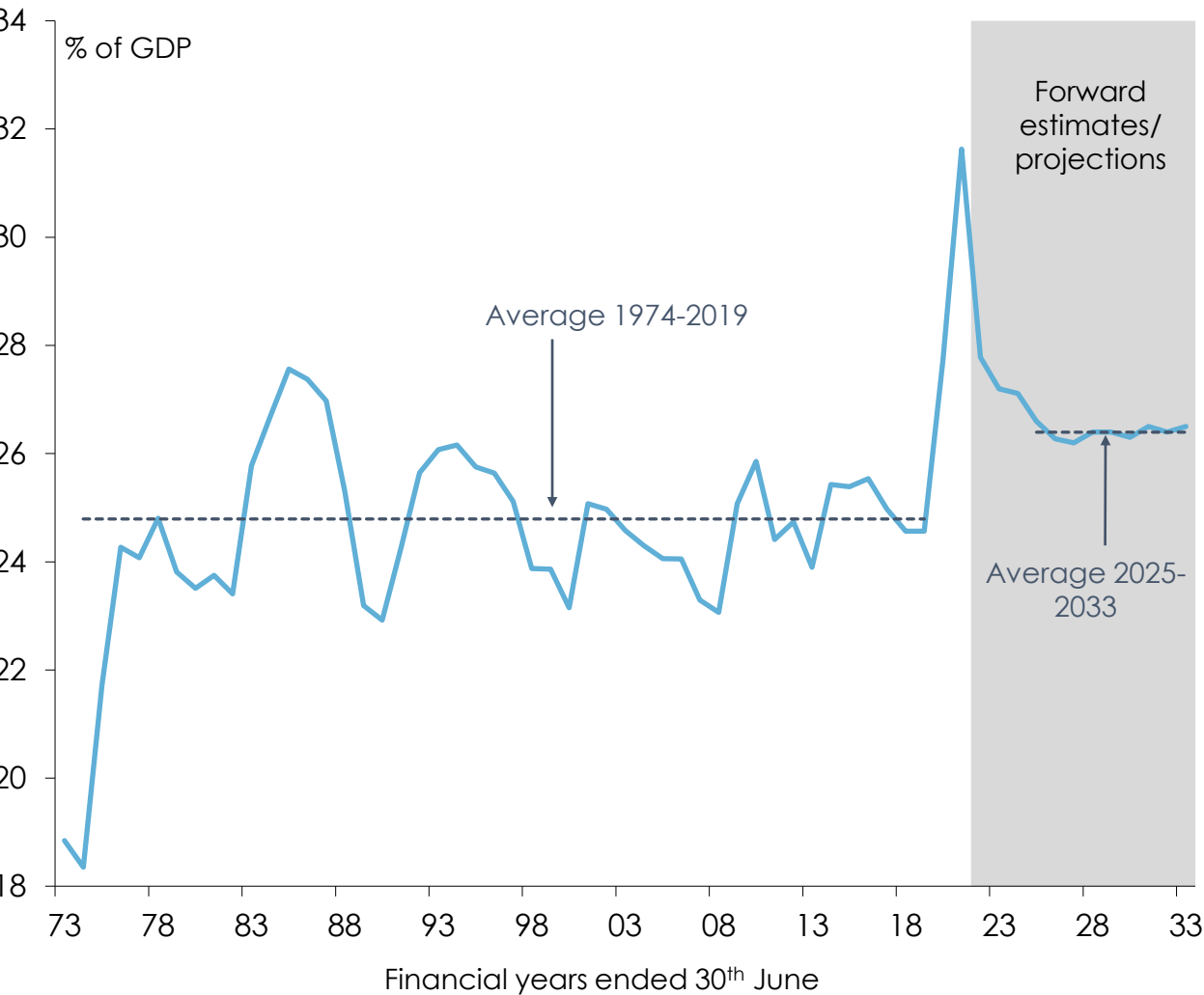


Source: Australian Government, 2022-23 [Budget Paper No. 1](#), [Statement No. 3](#), [Statement No. 6](#) and [Statement No. 10](#), 29<sup>th</sup> March 2022. [Return to "What's New"](#).

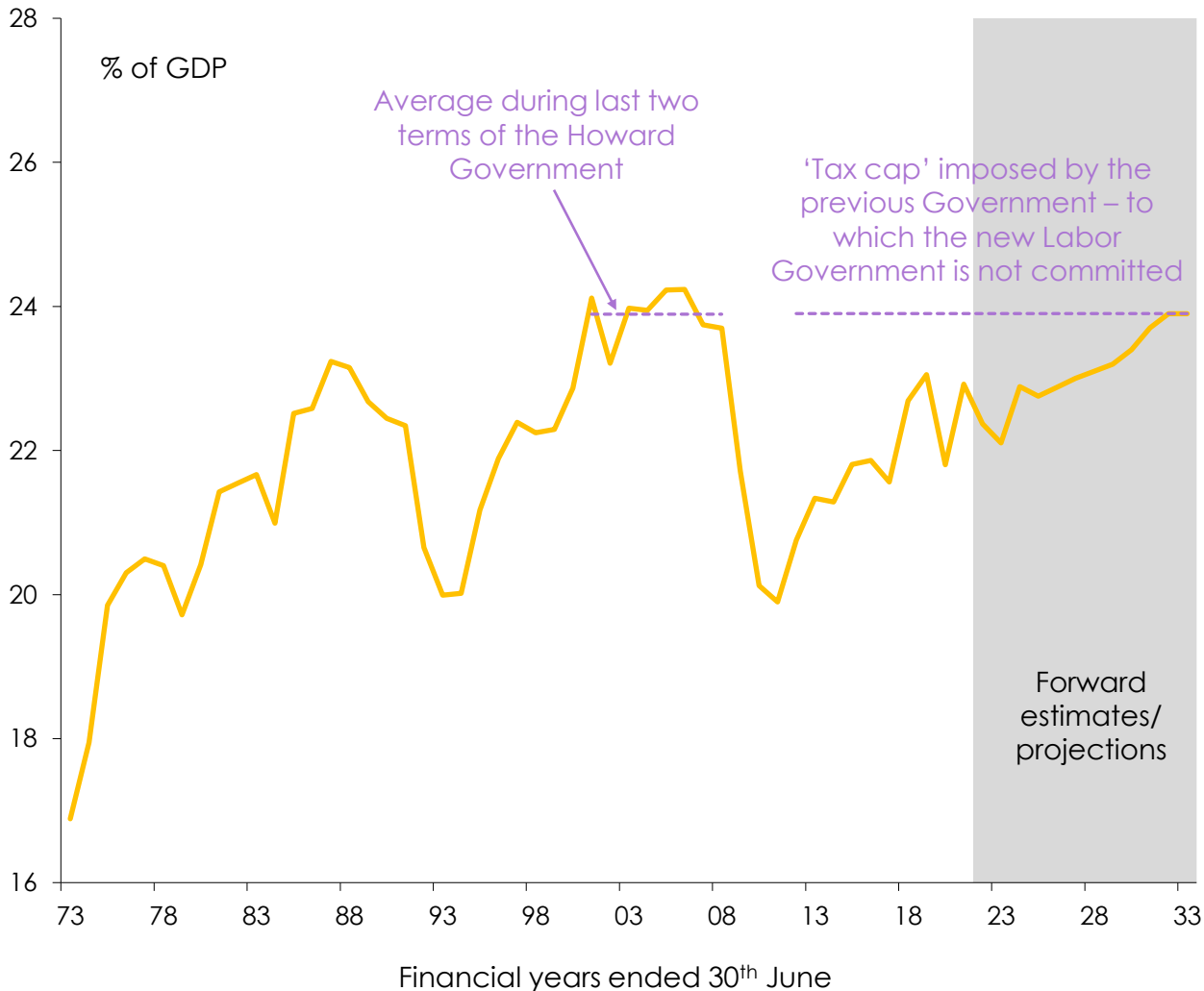
# Ultimately, the new Government or some future one will probably need to find additional revenue equivalent to 1-2 pc pts of GDP

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

‘Underlying’ cash payments as a pc of GDP



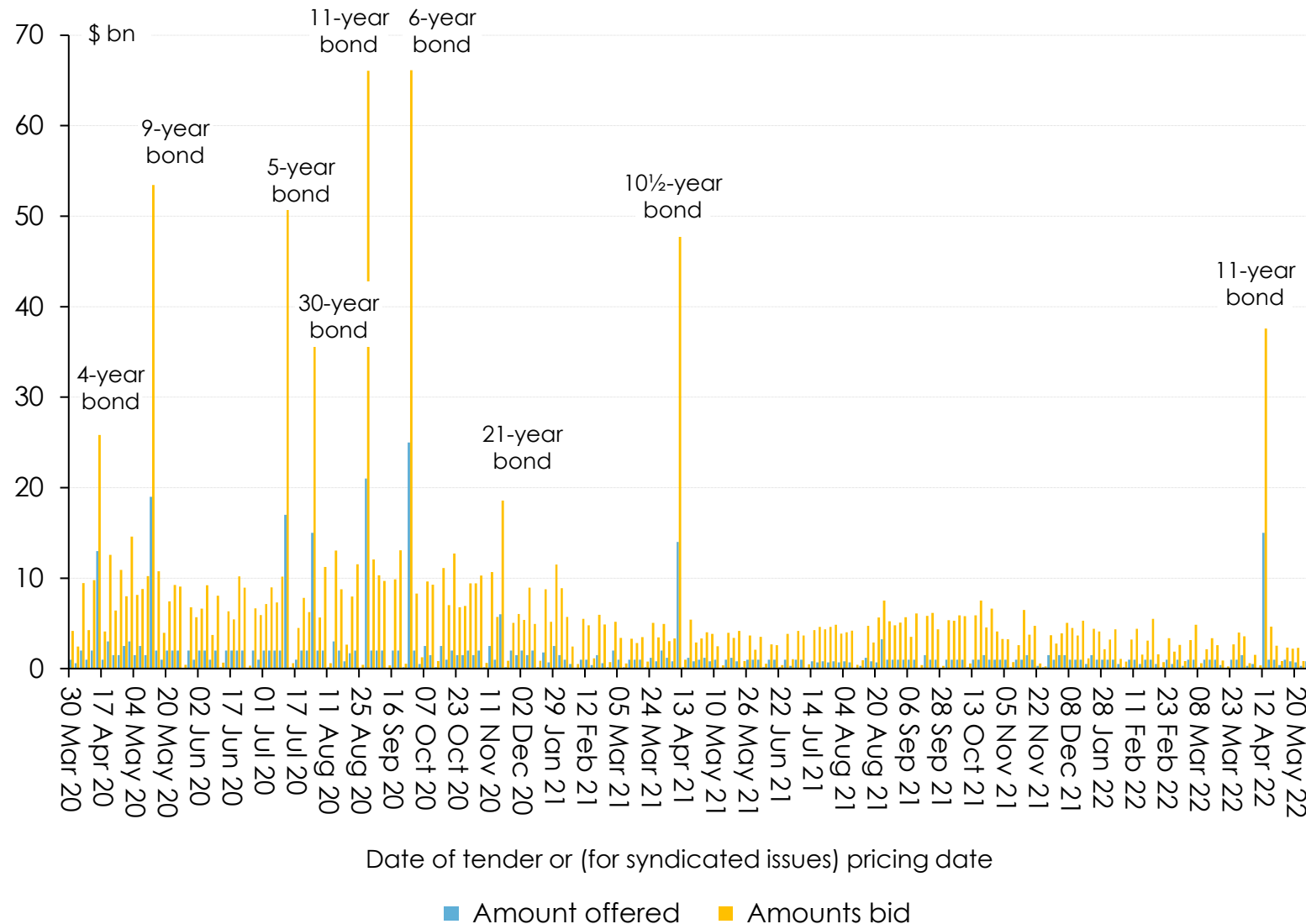
Taxation receipts as a pc of GDP



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

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Australian government bond issuance since March 2020



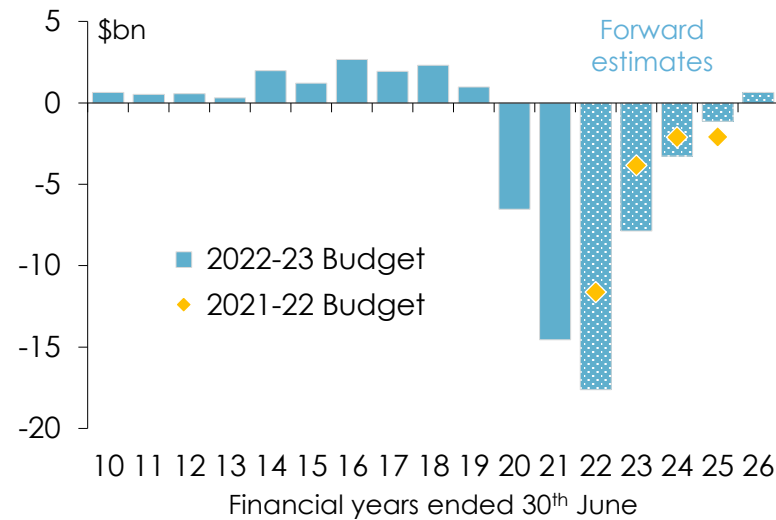
- Since resuming auctions on 12<sup>th</sup> January, the AOFM has sold \$47.7n of bonds – including this week \$300mn of June 2051s and \$800mn of June 2031s
- Although AOFM continues to have no difficulty issuing new debt, the 'coverage ratio' (the ratio of bids received to bonds offered) has slipped from 4.3x in the first seven months of 2021-22 to below 2¾x since mid-March
- And AOFM is having to pay higher yields
  - the weighted average yield on the June 2051s issued this week was 3.58%, compared with 2.63% when the same bonds were last issued in March, and 2.48% when they were issued last November
  - while the June 2031s issued this week went off at an average of 3.22%, cf. 1.70% when they were last issued in November last year
- 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"](#).

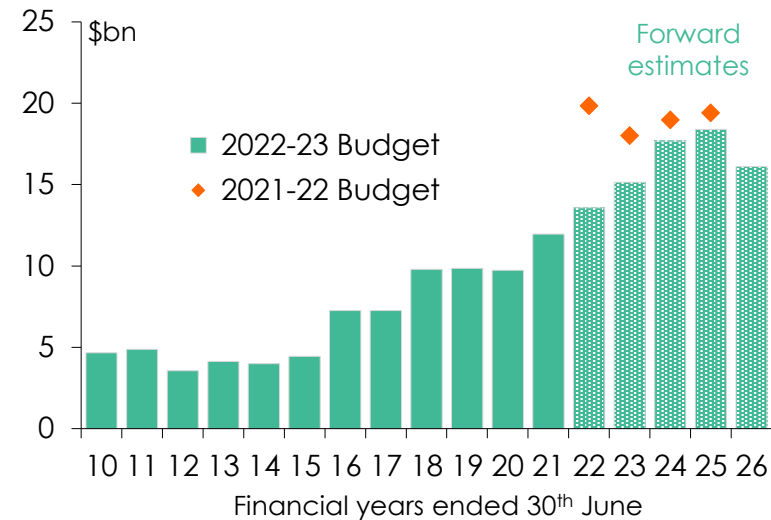
# Victoria's 2022-23 Budget uses upward revisions to revenue projections to fund additional spending while projecting an eventual return to surplus

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

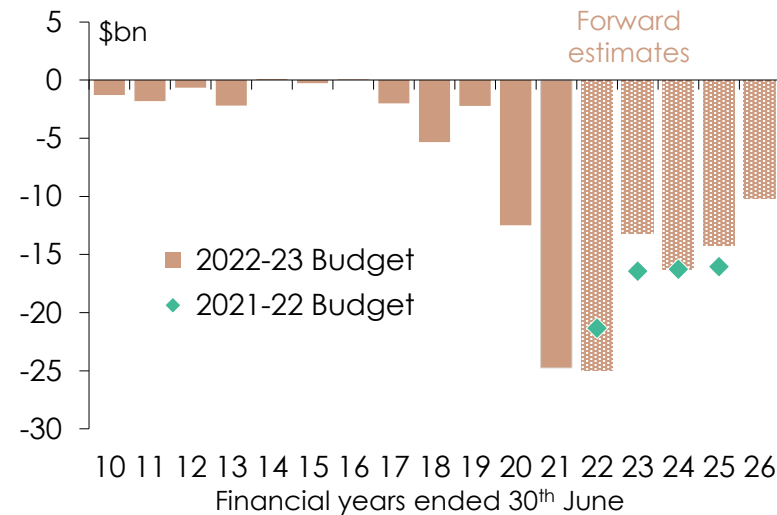
## Net operating balance



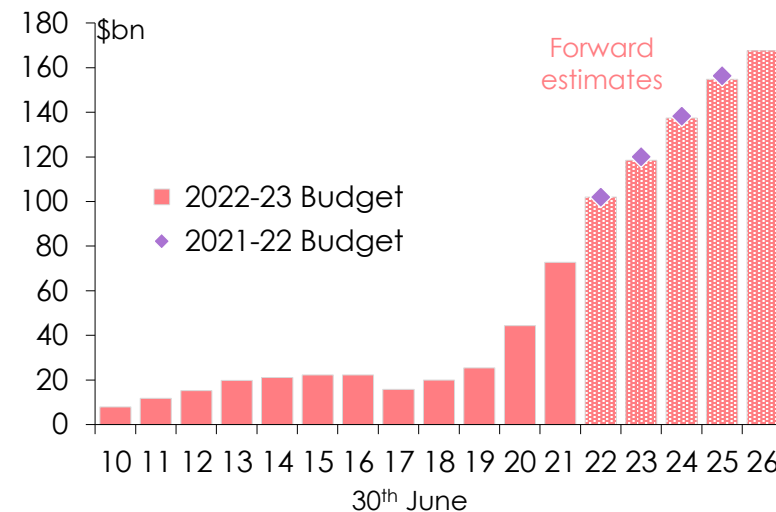
## Infrastructure spending



## 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 83](#))

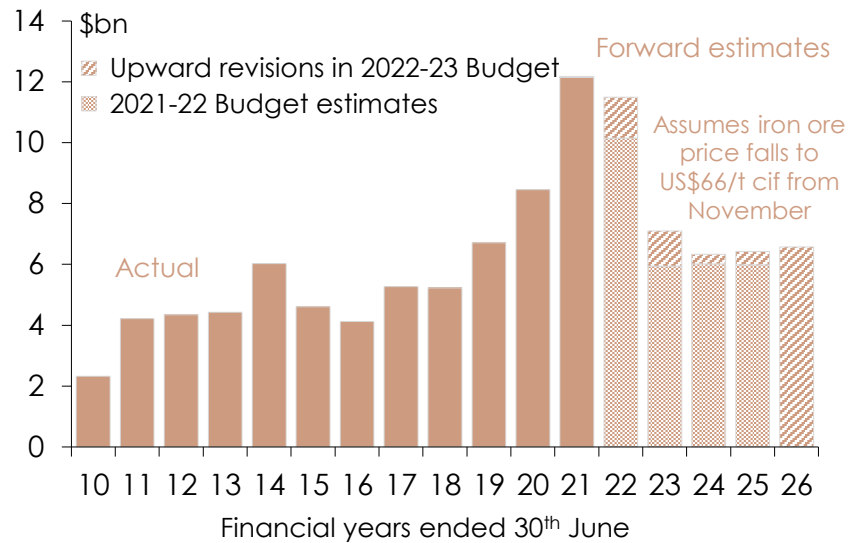
Note: Budgetary aggregates shown in the above charts refer to Victoria's 'general government' sector (ie, excluding public corporations). Source: Victorian Government, [2022-23 State Budget - Strategy and Outlook](#) and [Statement of Finances](#), 3<sup>rd</sup> May 2022. [Return to "What's New"](#).



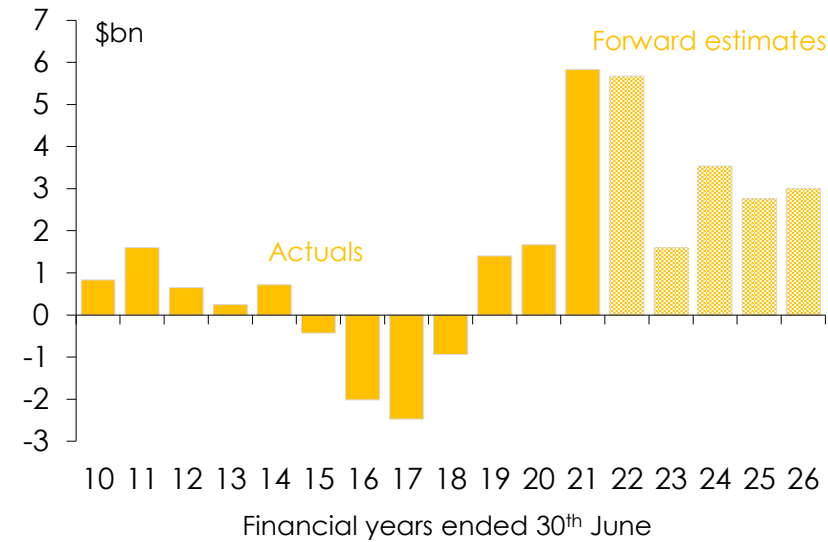
# Buoyant iron ore royalty revenue and the corruption of the GST revenue sharing arrangements have put WA's Budget in a very strong position

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

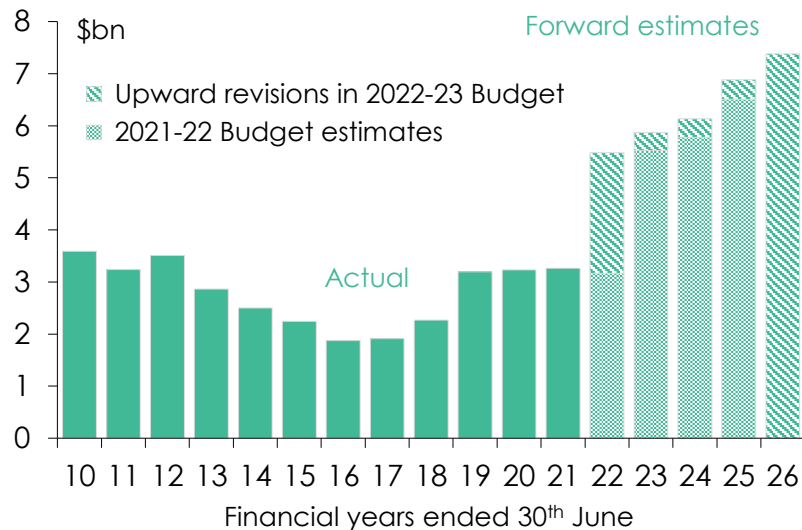
## Mineral royalty revenues



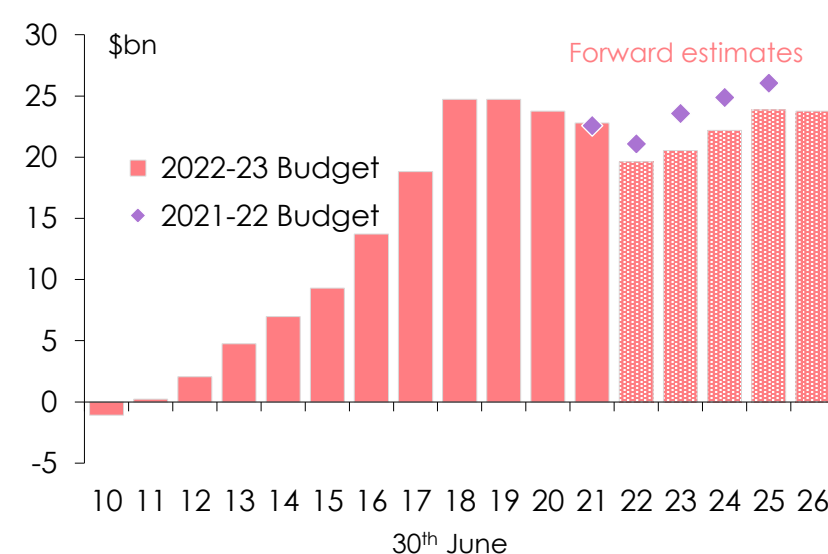
## 'Net operating balance'



## GST revenues



## Net debt



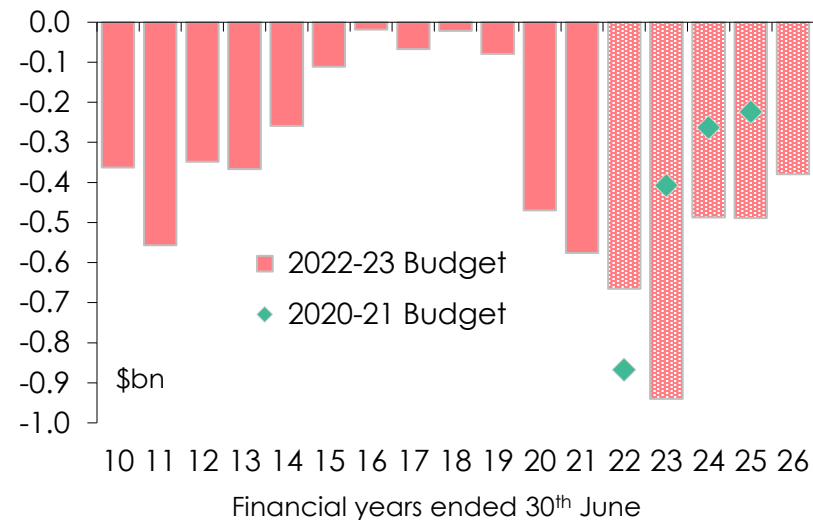
- ❑ Western Australia's 2022-23 Budget again benefits from buoyant mineral royalty revenues (even under conservative iron ore price assumptions), and changes in GST revenue-sharing arrangements which greatly favour it
- ❑ These have allowed this year's Budget to fund almost \$6bn in additional spending (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 83](#))
- ❑ 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"](#).

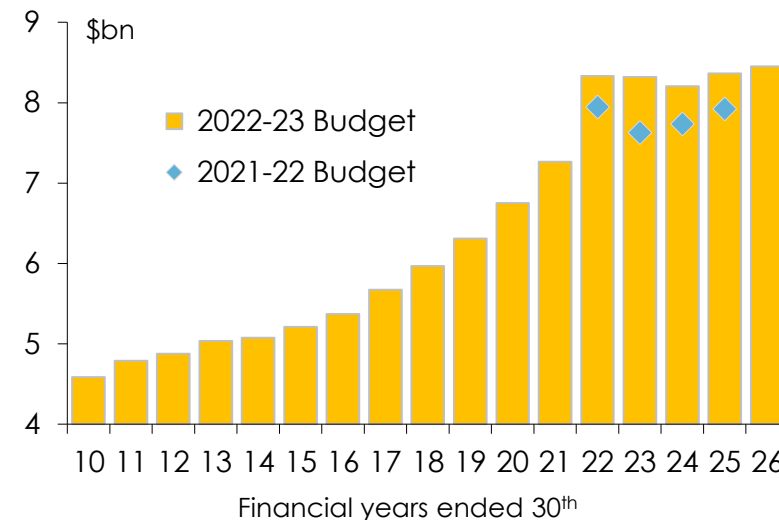
# Tasmania's 2022-23 Budget consciously increases forecast deficits and net debt in order to fund additional 'operating' and infrastructure spending

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

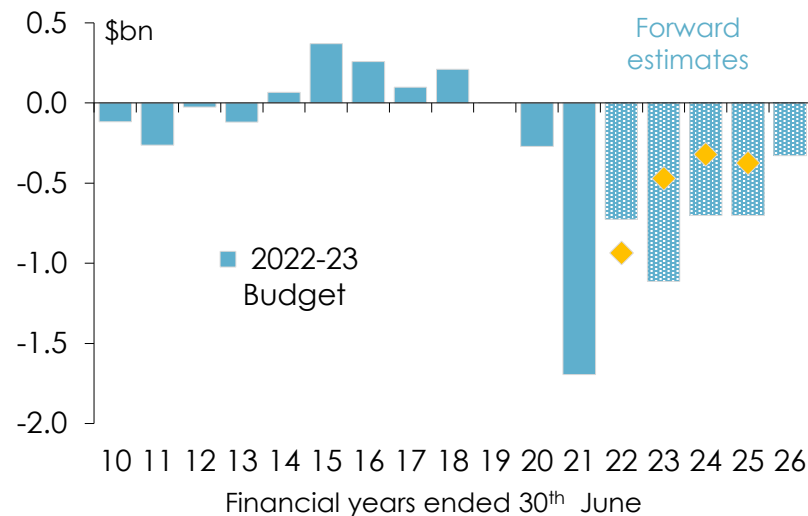
## 'Underlying' net operating balance



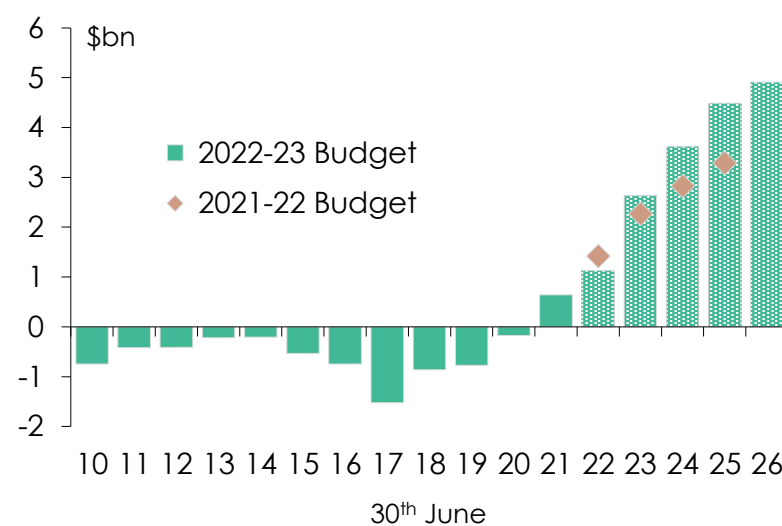
## 'Operating expenses'



## Cash balance



## Net debt



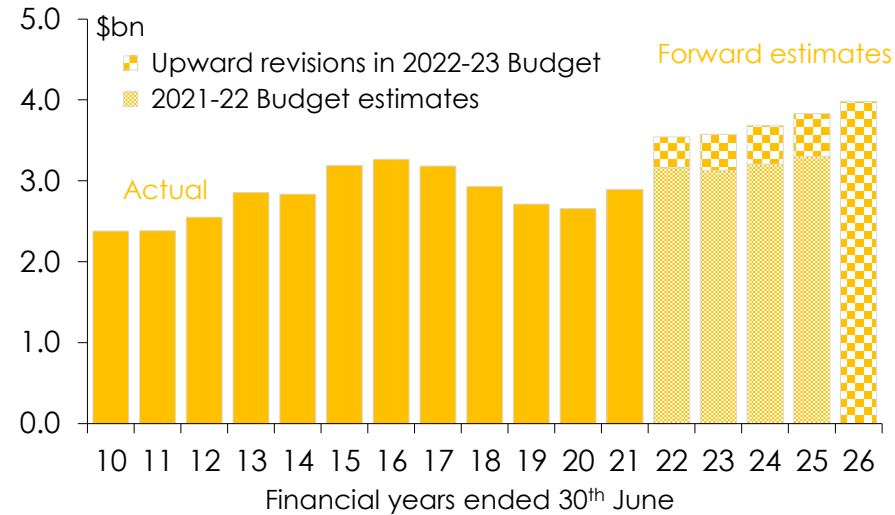
- ❑ Tasmania's 2022-23 Budget included \$957mn of new 'operating' spending, \$304mn of new capital spending, and \$173mn of tax cuts (mostly to land tax) over the four years to 2025-26
- ❑ As a result, and despite upward revisions to forecasts of revenue from State taxation and Federal grants (including Tasmania's share of GST revenues), the Tasmanian Government will be running significantly larger 'operating' and cash deficits than previously projected ...
- ❑ ... which in turn means that net debt will rise more rapidly than projected, to \$4.9bn by June 2026, equivalent to over 11% of forecast GSP (the highest proportion since 1998-99)
  - though this would still be lower than for any other jurisdiction except Queensland & WA ([slide 83](#))
  - total non-financial public sector debt (including GBEs) is projected to more than double, to \$10.2bn, by June 2026
- ❑ On these projections, spending on interest plus unfunded superannuation payments will exceed the Government's fiscal strategy ceiling of 6% of revenues in 2025-26, in the absence of corrective action
  - to their credit, the new Premier & Treasurer appear willing to consider tax reform to this end

Note: Budgetary aggregates shown in the above charts refer to Tasmania's 'general government' sector (ie, excluding public corporations). The 'underlying' net operating balance excludes one-off capital grants from the Federal Government (Tasmania is the only jurisdiction which discloses these amounts). Source: Tasmanian Government, [The Budget - Budget Paper No. 1](#), 26<sup>th</sup> May 2022. [Return to "What's New"](#).

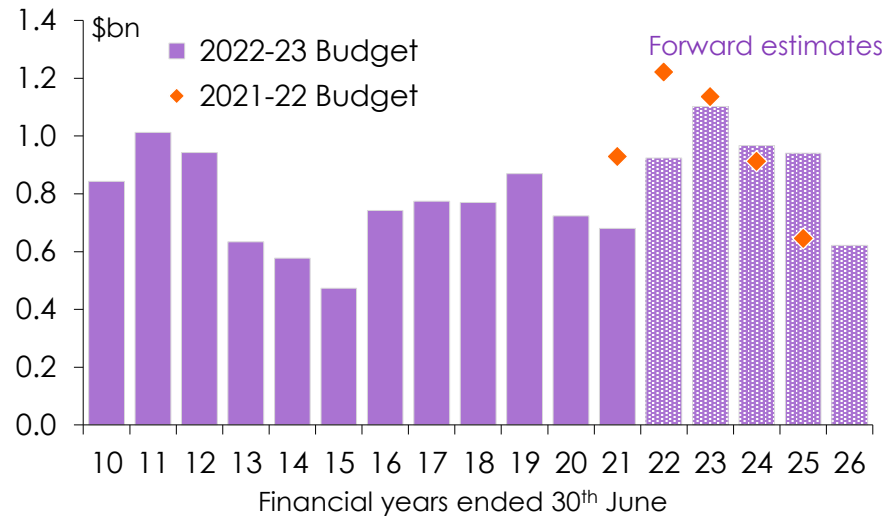
# The Northern Territory's 2022-23 Budget portrays a significant improvement in its financial position, largely thanks to stronger GST revenues

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

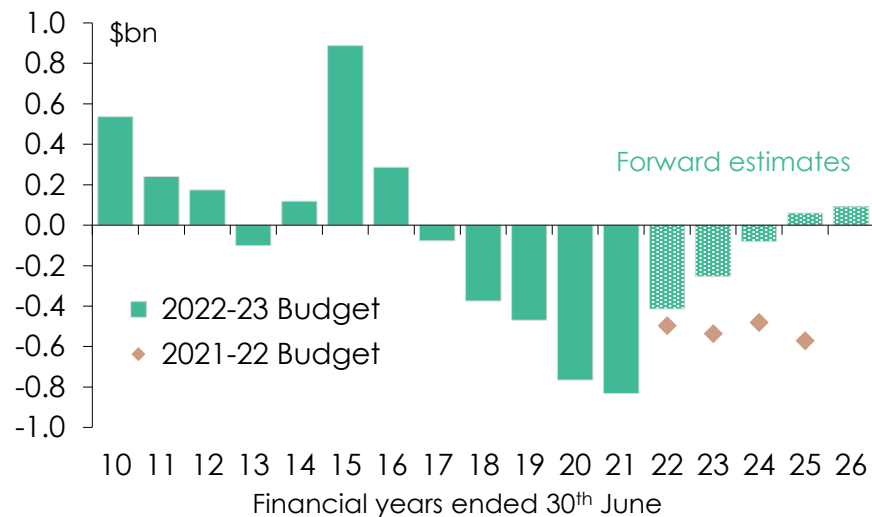
## GST revenue



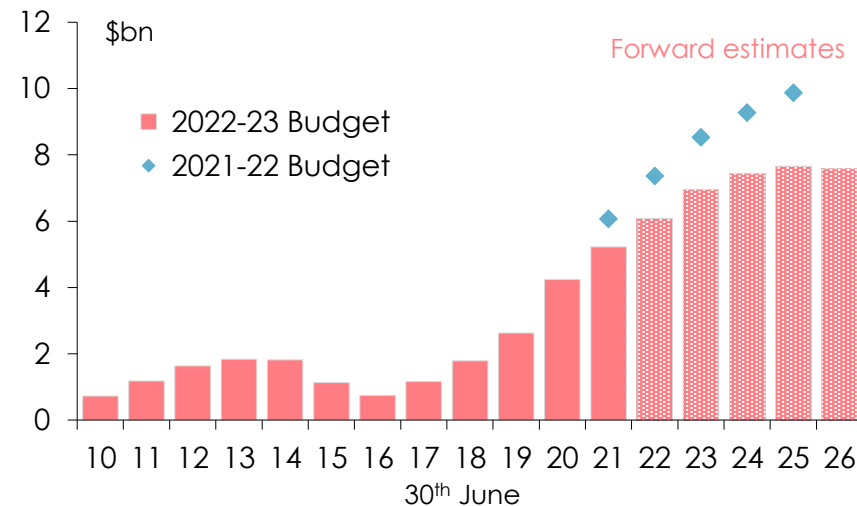
## Infrastructure spending



## 'Net operating balance'



## Net debt



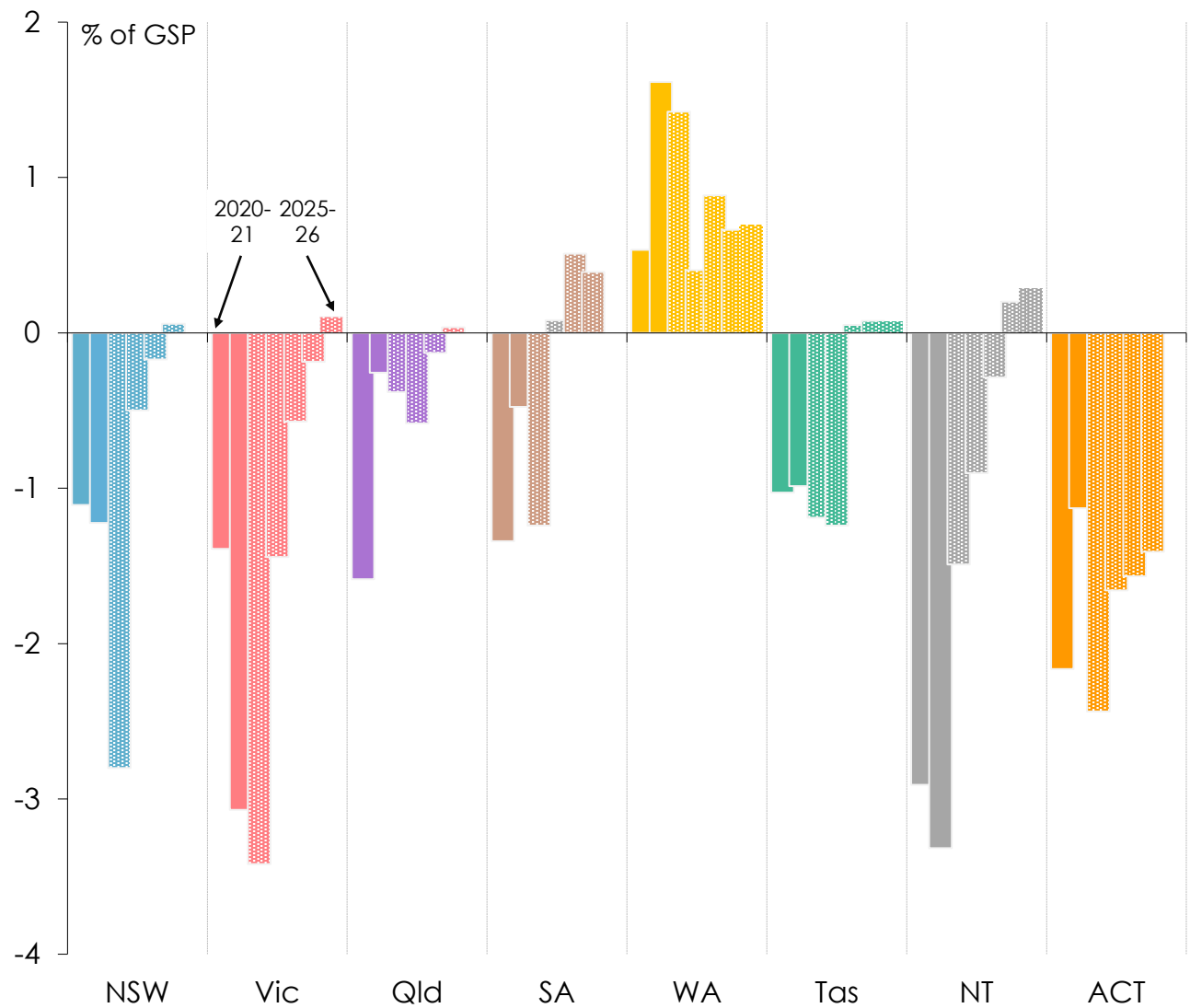
- The Northern Territory's (in recent years fairly parlous) financial position has benefited from upward revisions to revenue from the GST (due to increases in total GST collections and in the NT's share of the 'pool') which accounts for around 55% of its total revenues, together with tight control of 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 83](#))
- 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"](#).

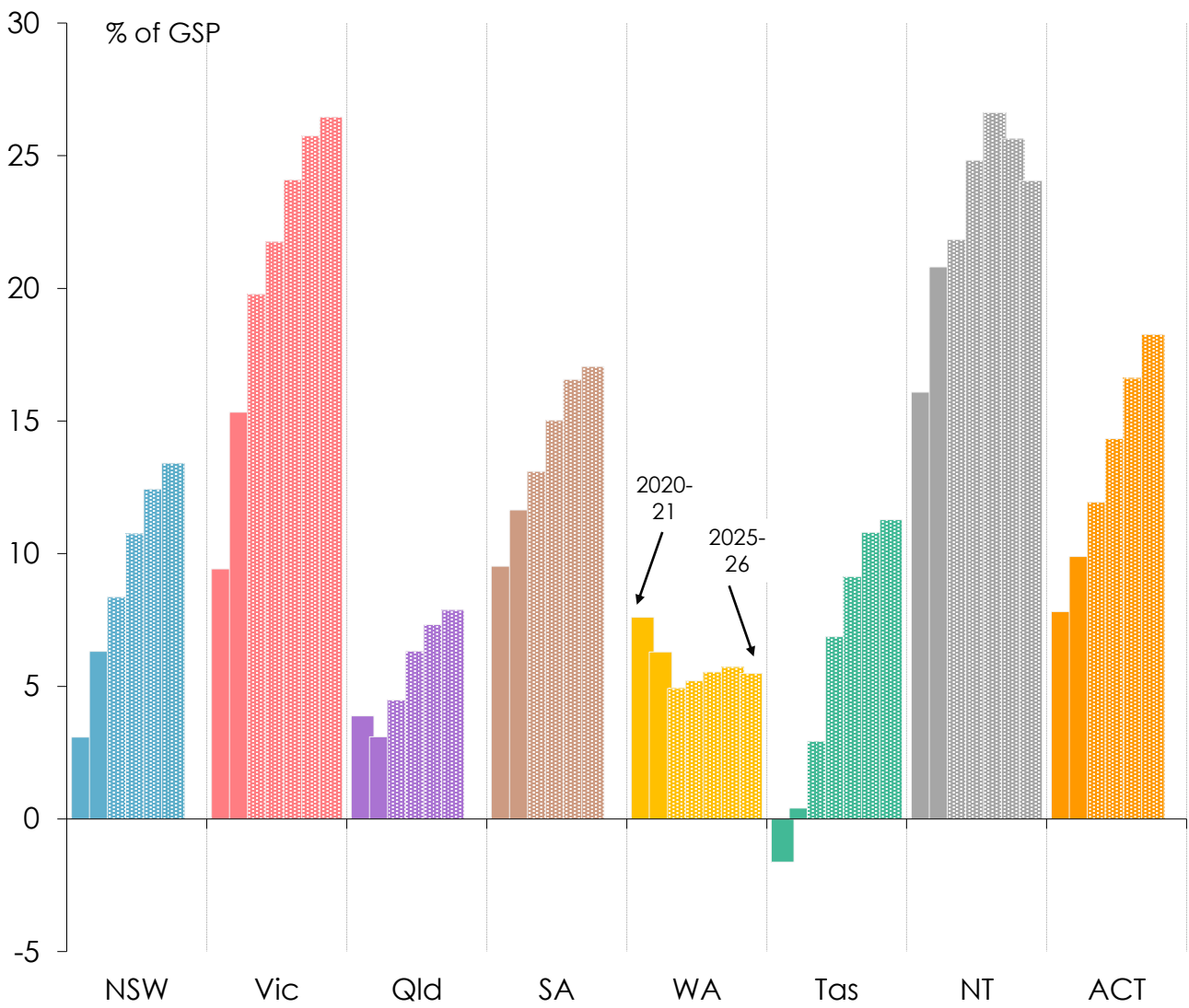
# Victoria and the Northern Territory have more onerous fiscal positions than the other jurisdictions

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

States and territories – ‘net operating balances’



States and territories – net debt



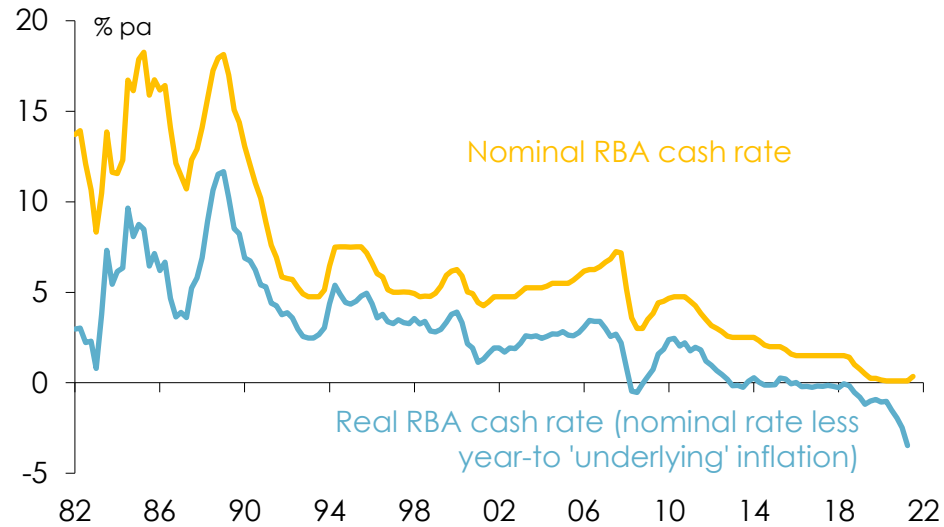
Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or Treasury estimates of real GSP growth combined with Federal Treasury estimates of the (national) GDP price deflator. Sources: Victorian, Western Australian, Tasmanian and Northern Territory 2022-23 Budget Papers, and Mid-Year Reviews for other states and territories. For dates of other state budgets see [slide 96](#). [Return to "What's New"](#).

# Monetary policy and the RBA

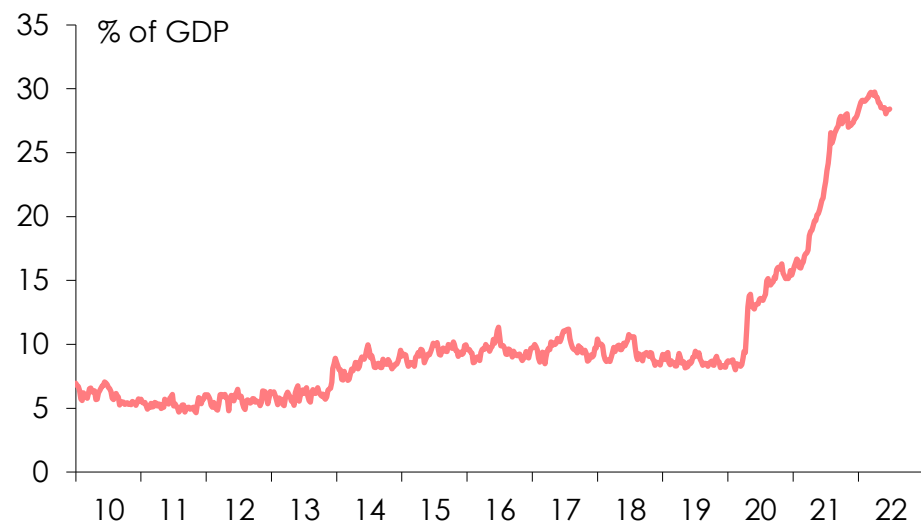
# The RBA raised its cash rate for the first time this month, although the real cash rate is still very negative so there must be more hikes to come

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## 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"](#).

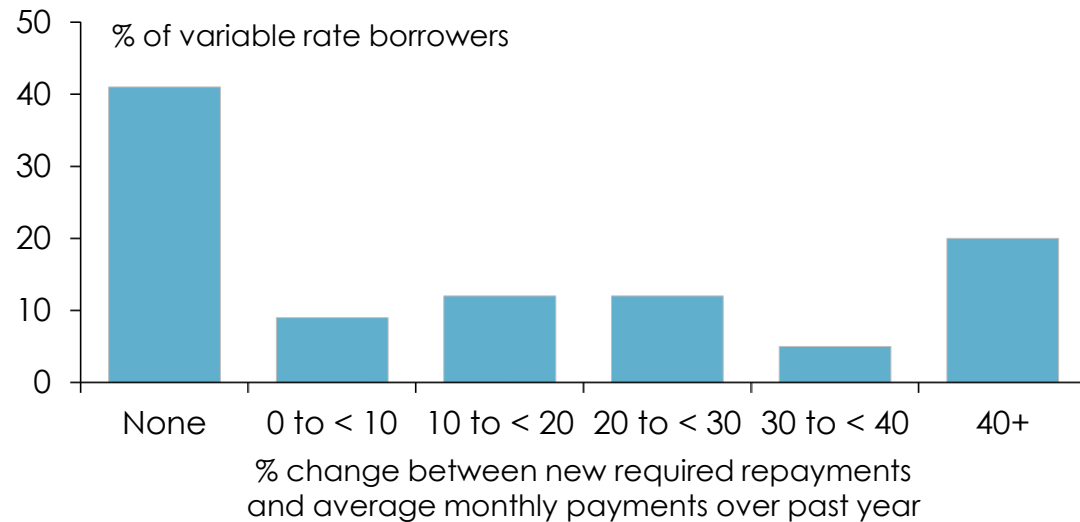
- ❑ The RBA raised its cash rate by 25bp at this month's Board meeting (for the first time since November 2010), [citing](#) not only last month's higher-than-expected CPI outcome, but also evidence (from its business liaison program) that "wages growth has been picking up" and the "resilience of the Australian economy" as indicated by the prospect of the unemployment rate soon falling to 3½% and remaining there
- ❑ The [minutes](#) of this meeting released last week revealed that the Board had considered a 40bp move (as well as a 15bp one) but opted for 25bp as a signal that it was "returning to normal operating procedures"
- ❑ 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 at any time in the past 40 years, despite the unemployment rate falling to its lowest level in 48 years
- ❑ Newly-installed Treasurer Dr Jim Chalmers this week [confirmed](#) that the Government would undertake an independent review of the RBA's charter and performance



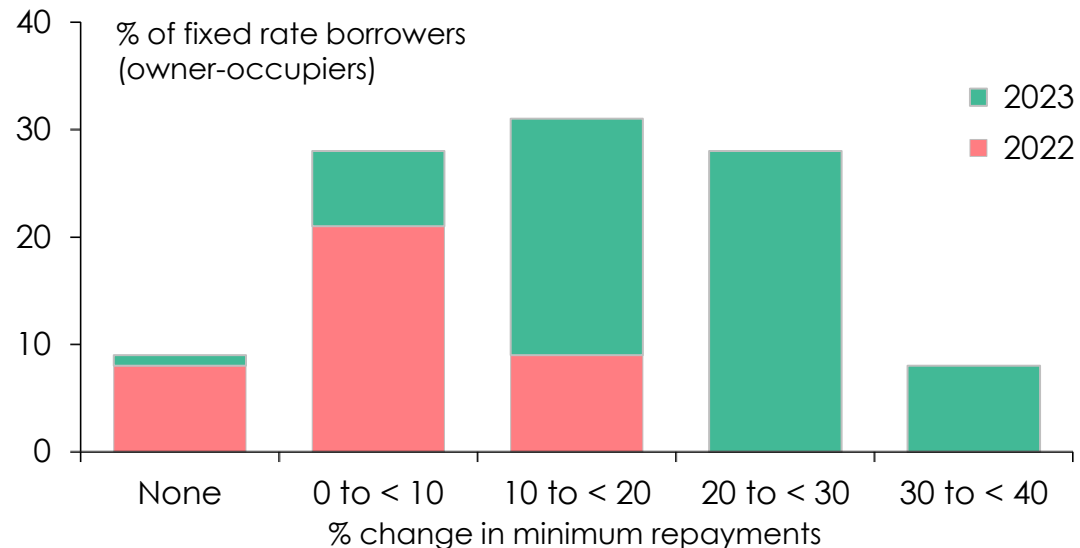
# The RBA's latest *Financial Stability Review* gives some idea of household sensitivity to prospective increases in interest rates

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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"

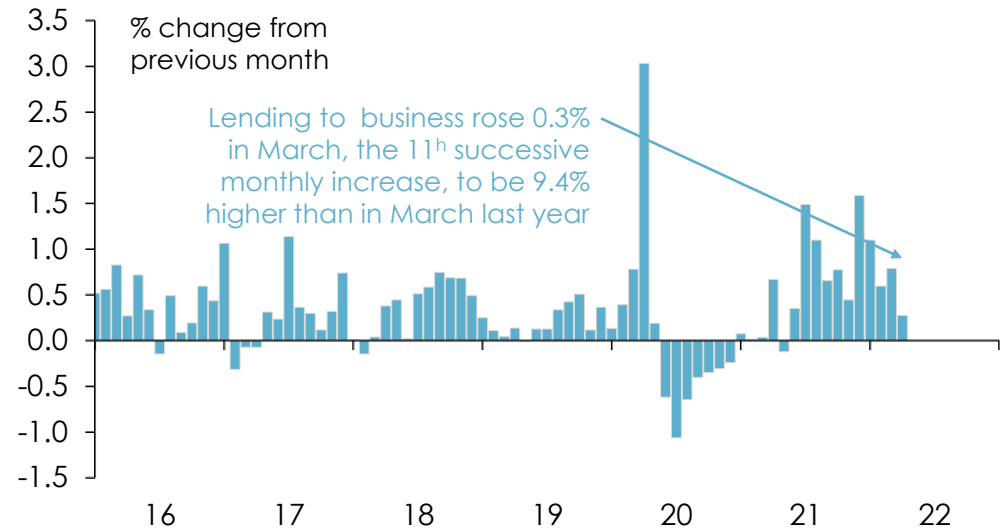
Source: Reserve Bank of Australia, [Financial Stability Review](#), 8<sup>th</sup> April 2022, pp. 27-28.  
[Return to "What's New"](#).



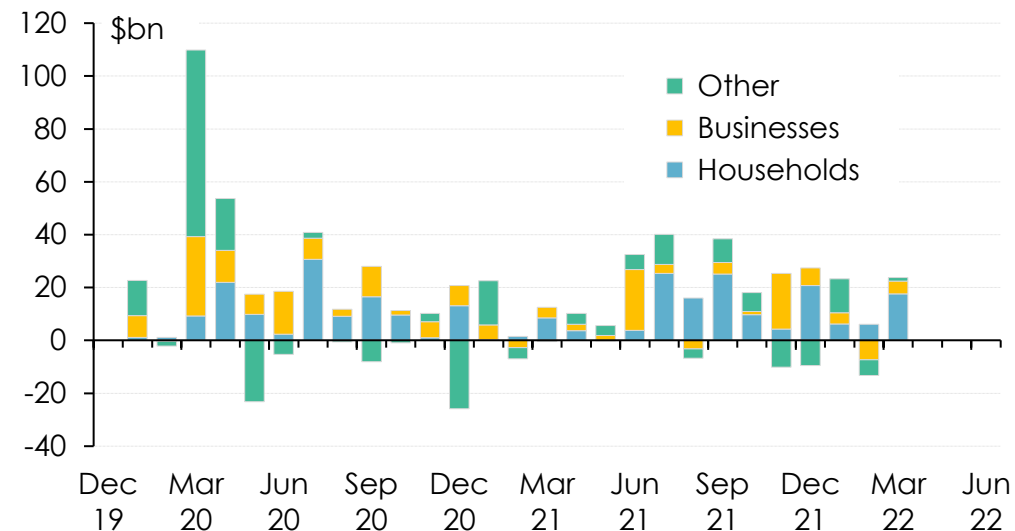
# Banks have been swamped with deposits since the beginning of the pandemic, and have lent readily to both households and businesses

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Business credit outstanding



## Monthly change in bank deposits

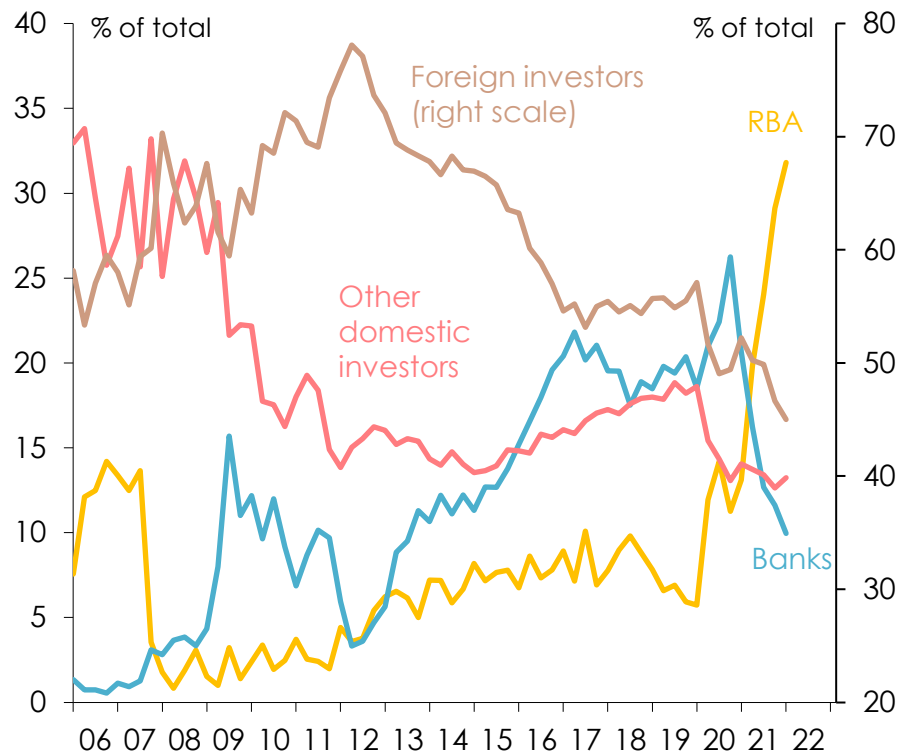


- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since the beginning of 2019 (when the RBA started cutting rates again)
  - Small business overdraft and term loan rates have fallen by 180 and 144 bp respectively since January 2019, cf. a 140 bp reduction in 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%)

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

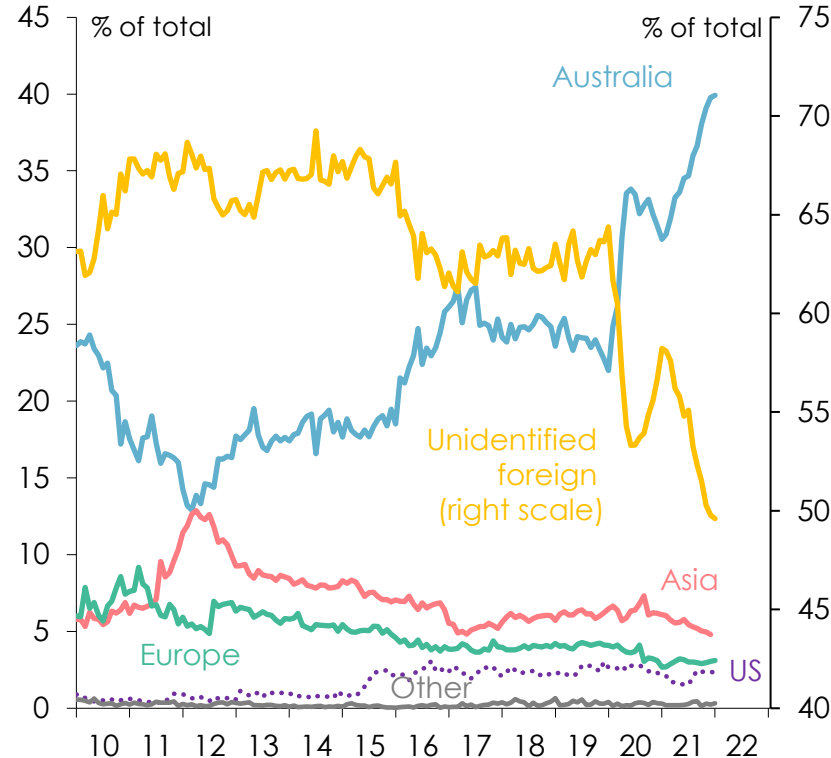
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## Holder of Australian Government bonds



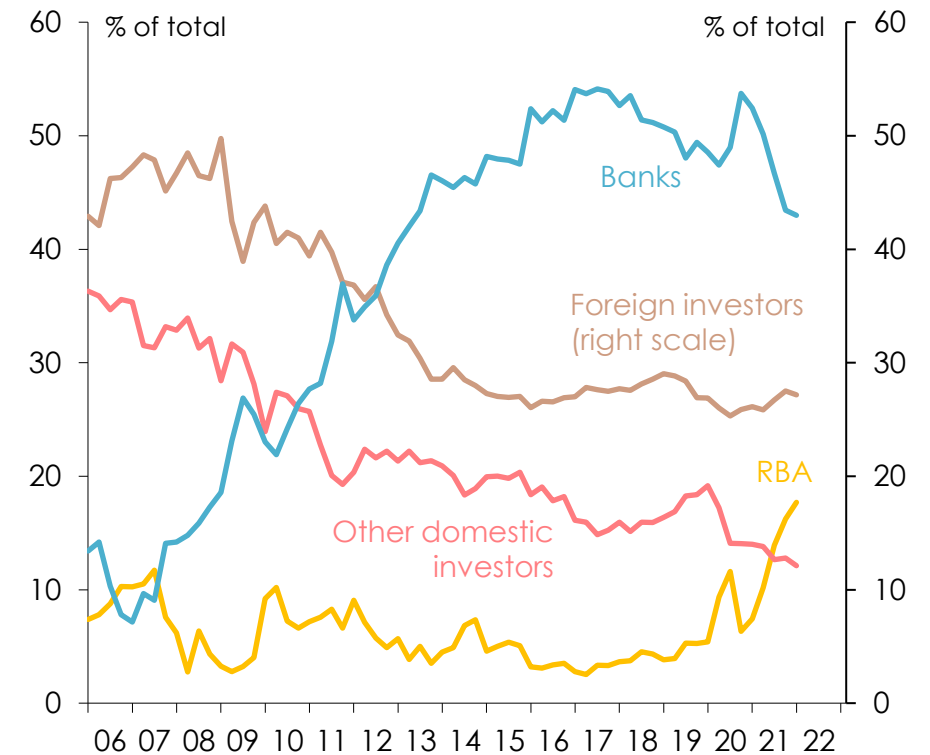
Australian Gov't bonds on issue have increased by \$252bn since the end of 2019 – of which \$246bn (97%) have been absorbed by the RBA, and \$37bn by foreigners, while banks have reduced their holdings by \$29bn

## 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



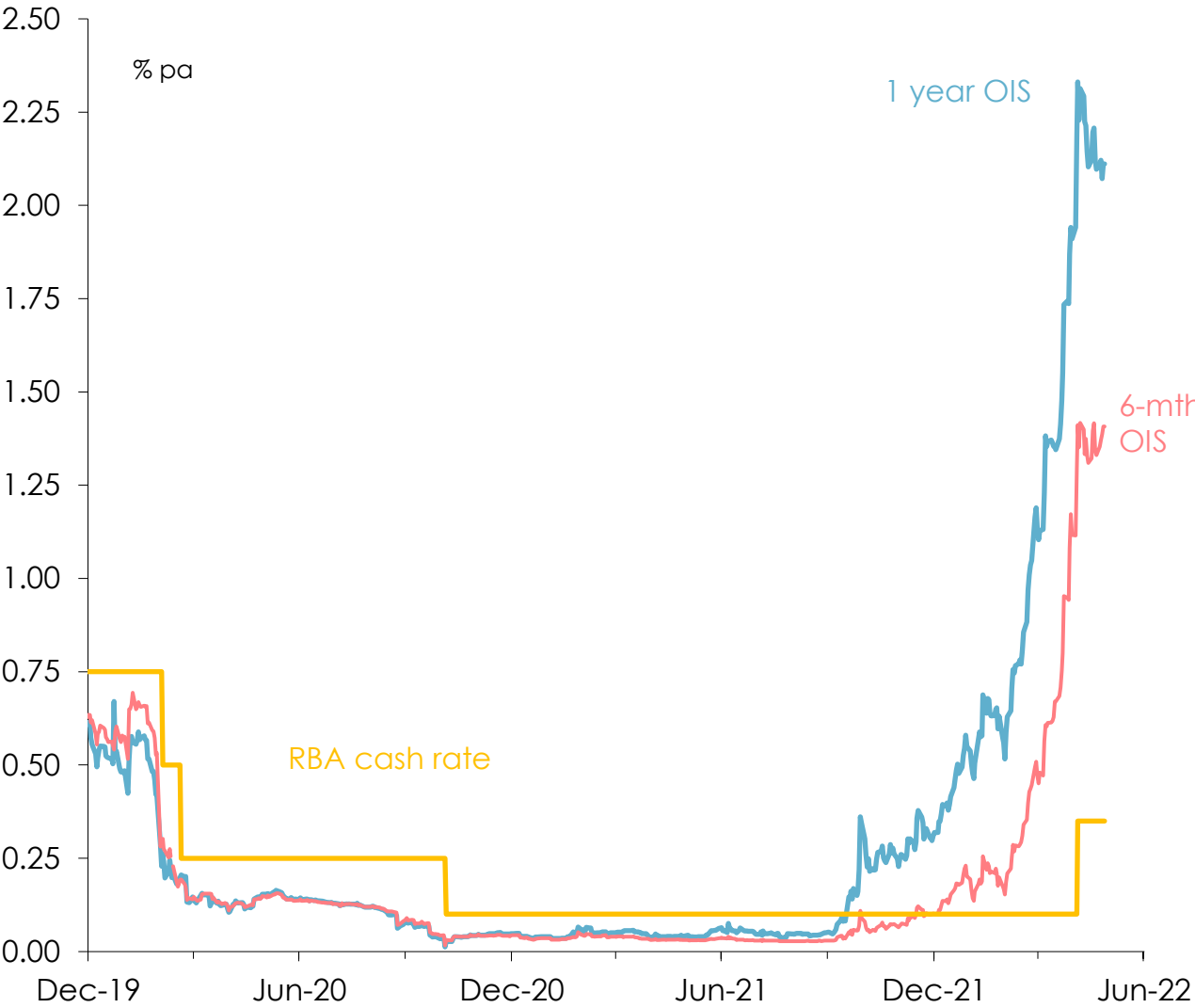
State & Territory Gov't bonds on issue have increased by \$134bn since the end of 2019, of which \$60bn have been absorbed by the RBA, \$41bn by banks and \$37bn by foreigners

# Australian financial markets

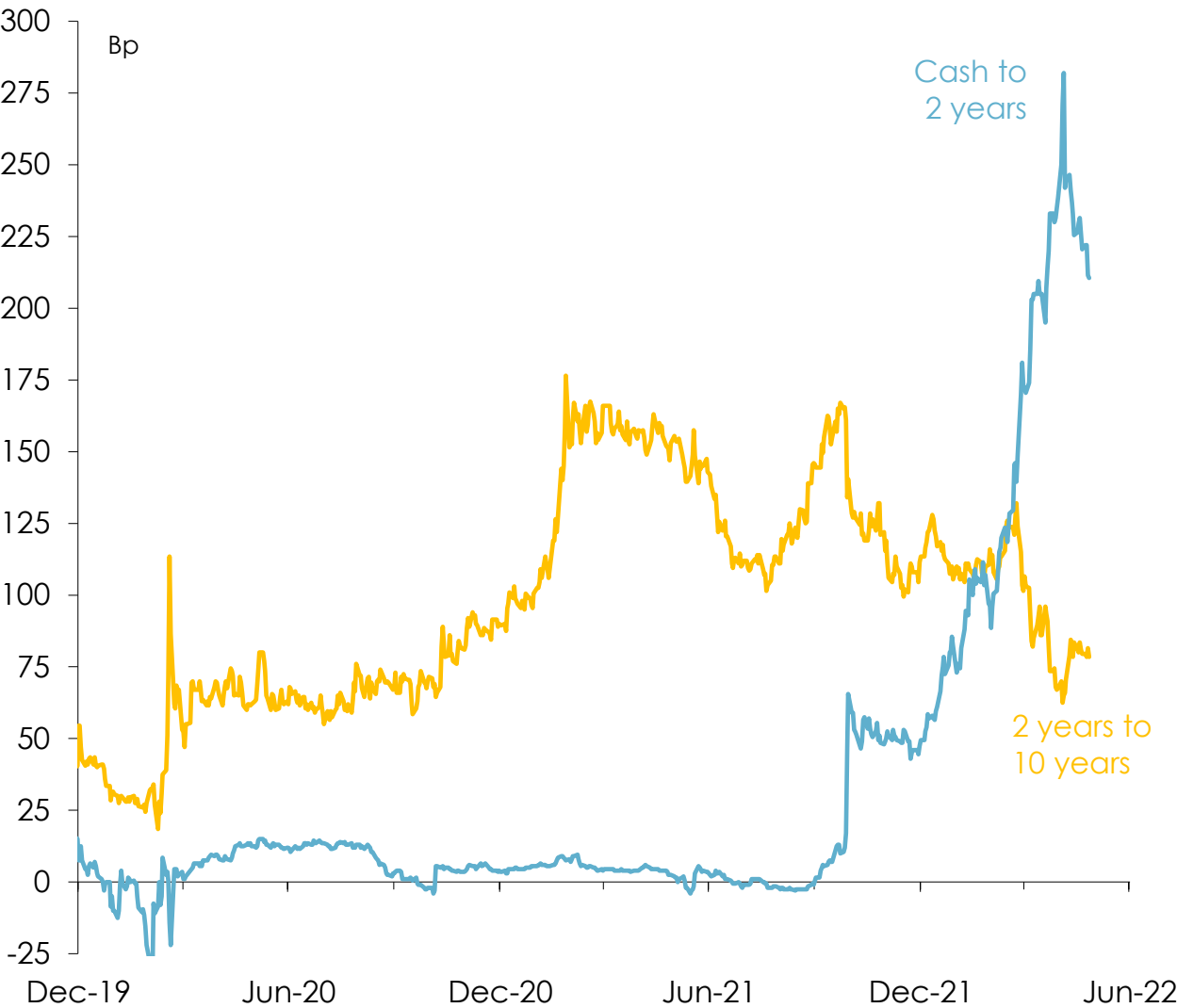
# Markets continue to expect significant further increases in the RBA's cash rate, although not quite as much as three weeks ago

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Overnight index swap rates



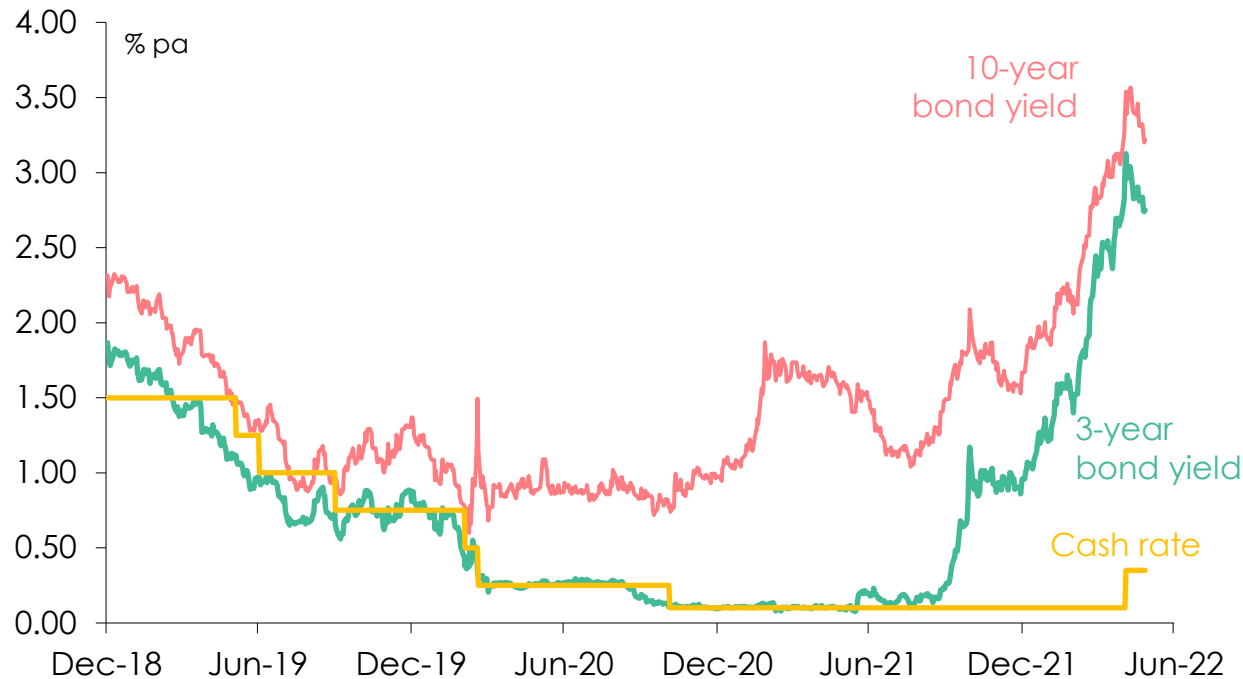
## Yield curves



# Short- and longer-term bond yields continued to edge lower this week, in line with US yields

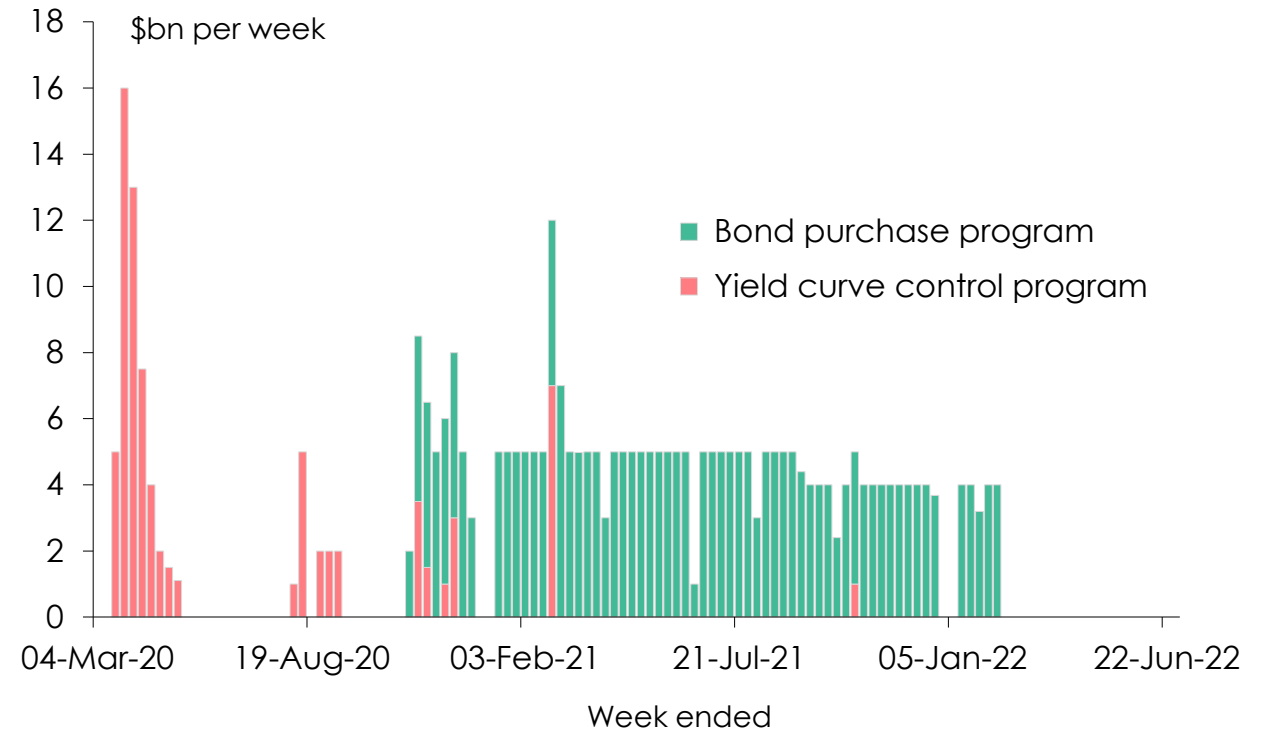
THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## Interest rates



- ❑ 3-year bond yields fell 7bp this week, to 2.75%, their lowest since the last week of April
- ❑ 10-year bonds fell 9bp this week, to 3.22%, down from a peak of 3.57% the week after this month's RBA Board meeting, mirroring the decline in US yields, and keeping the spread to US yields at just under 50bp, compared with just under 25 bp in late April

## RBA open market bond purchases



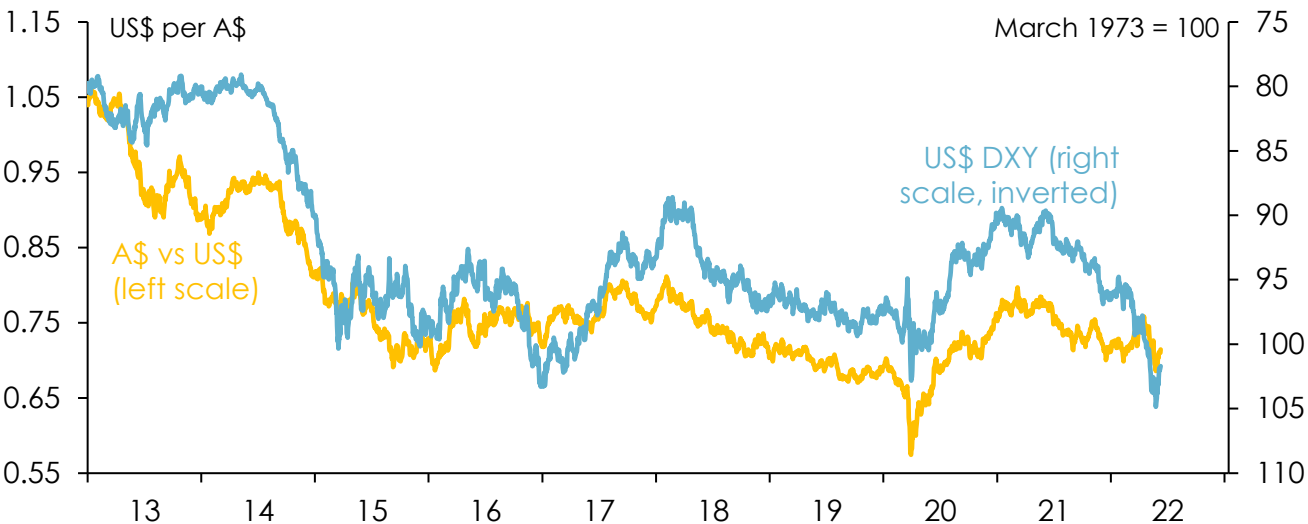
- ❑ The RBA concluded its Bond Purchase Program in the second week of February, bringing the total amount of purchases under it and the Yield Curve Target program (which was terminated last year) to just under \$360bn (equivalent to about 17% of GDP)
- ❑ The RBA this month announced that it will no longer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

**SAUL ESLAKE**  
CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

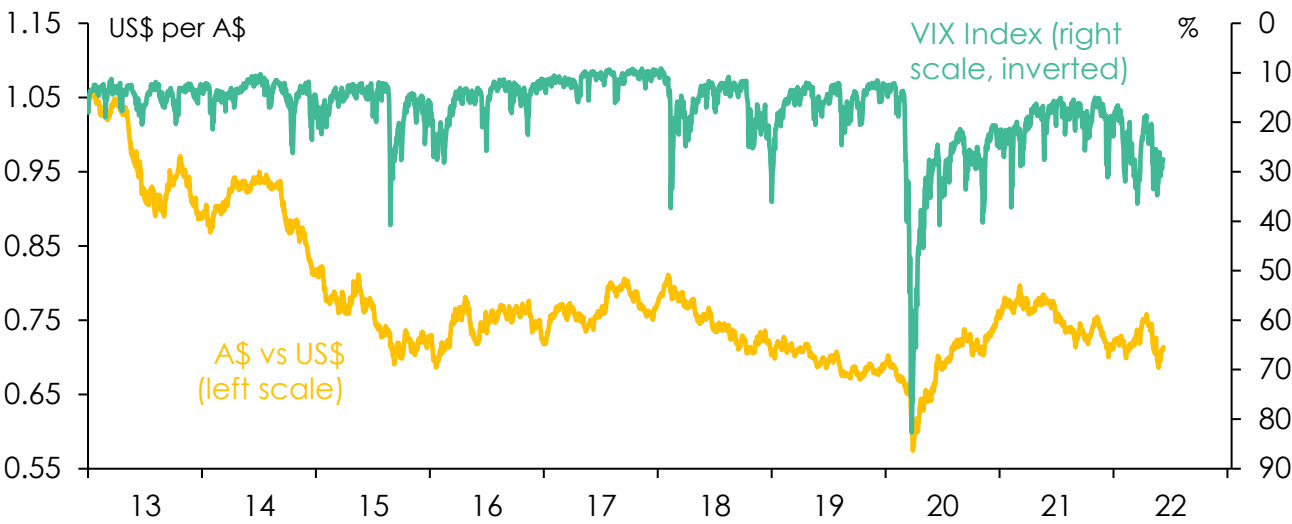
# The A\$ rose further this week to finish above US71¢ against a weaker US dollar

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

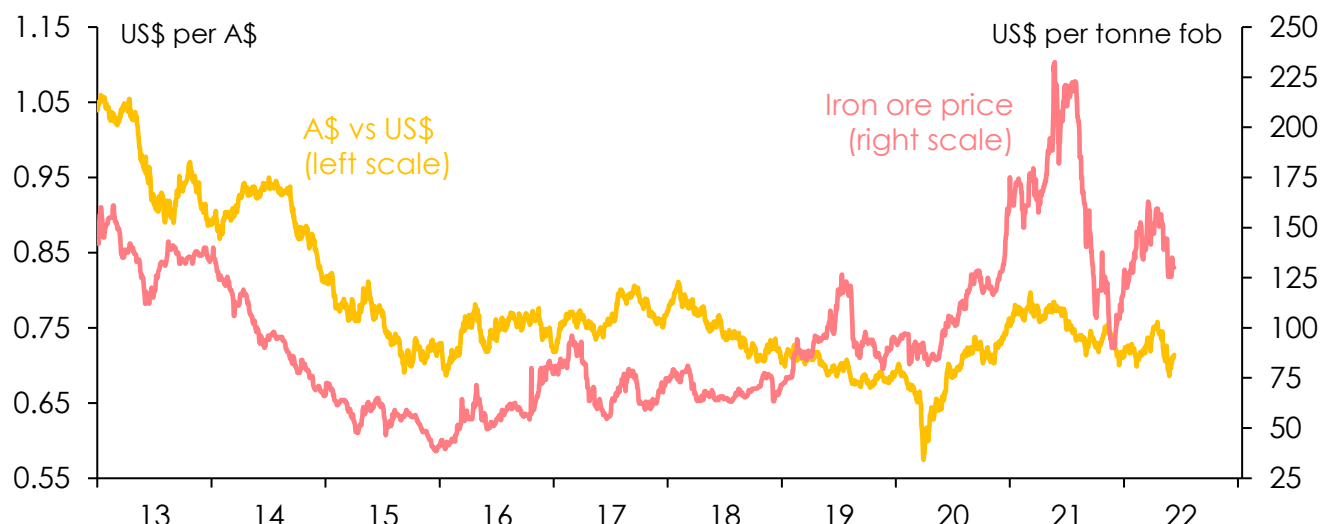
A\$-US\$ and US\$ trade-weighted index



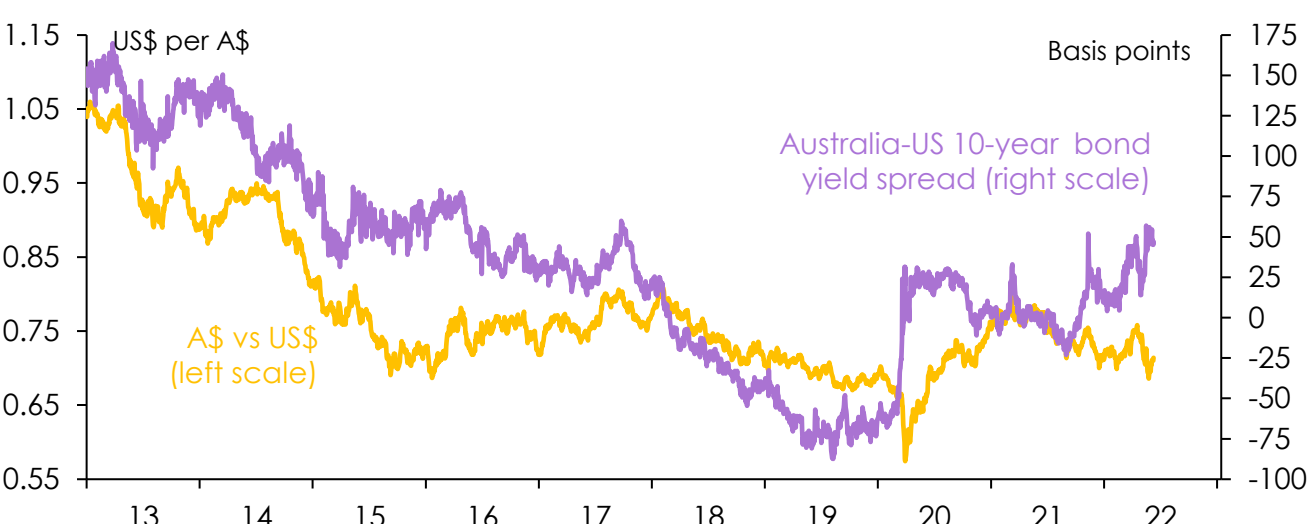
A\$-US\$ and US equity market volatility



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



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

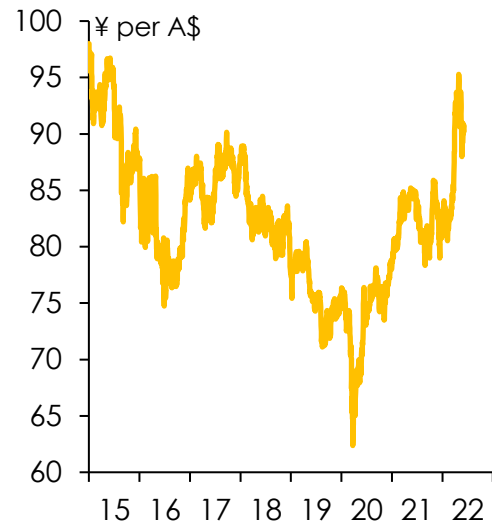


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 27<sup>th</sup> May. [Return to "What's New"](#).

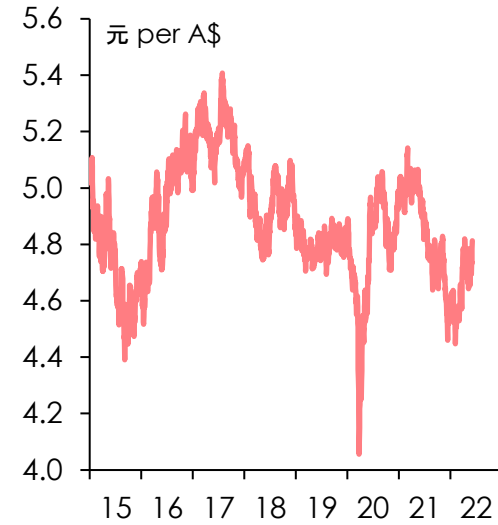
# The A\$ rose against most Asian currencies and sterling this week but fell marginally vs the euro and ½% vs the NZ\$ after the RBNZ hiked rates again

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

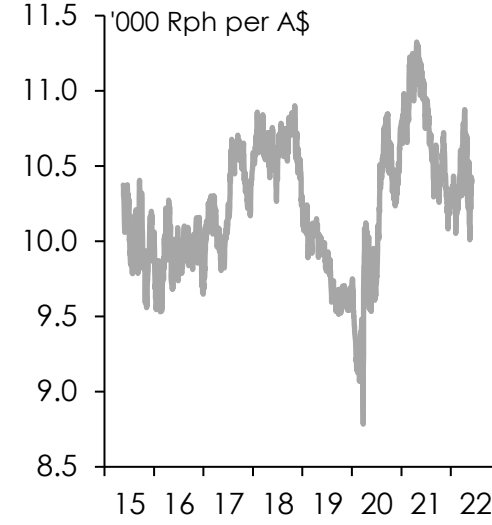
## A\$ vs Japanese yen



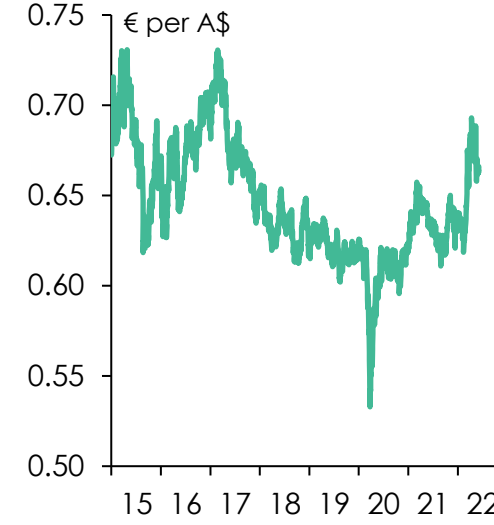
## A\$ vs Chinese yuan



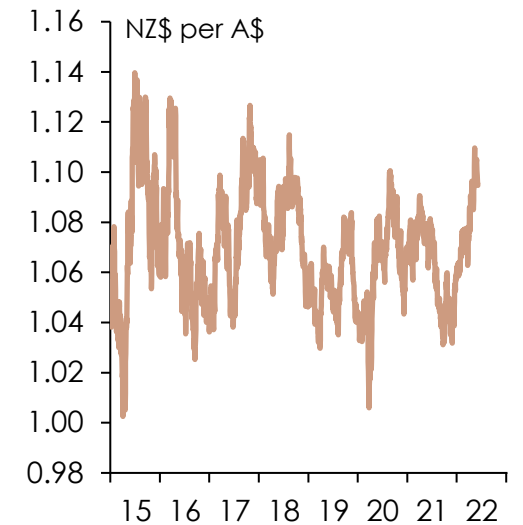
## A\$ vs Indo rupiah



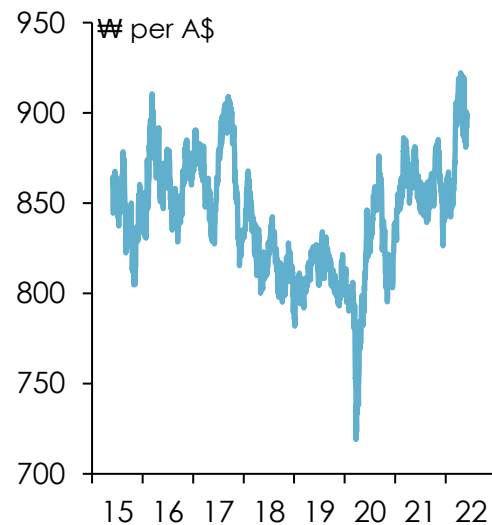
## A\$ vs Euro



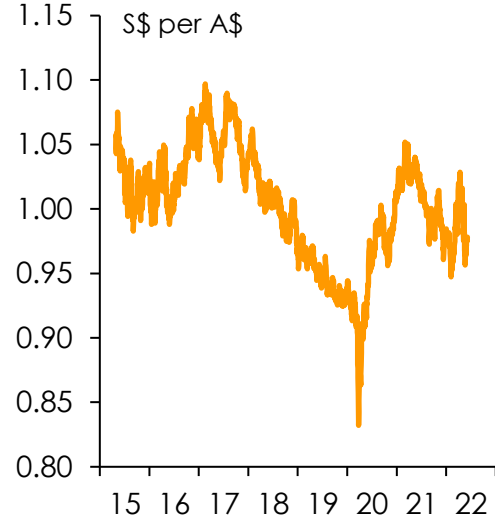
## A\$ vs NZ\$



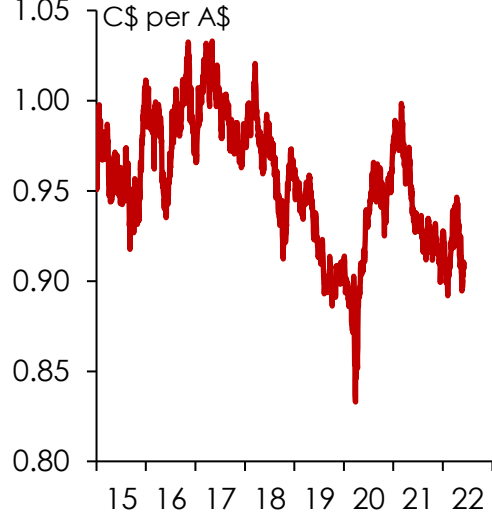
## A\$ vs Korean won



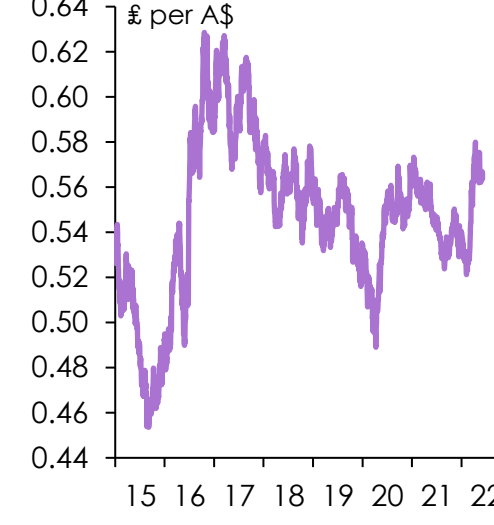
## A\$ vs Singapore \$



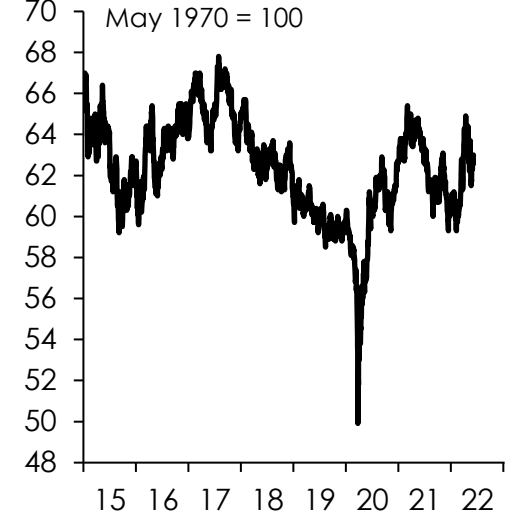
## A\$ vs Canadian \$



## A\$ vs British pound



## A\$ TWI



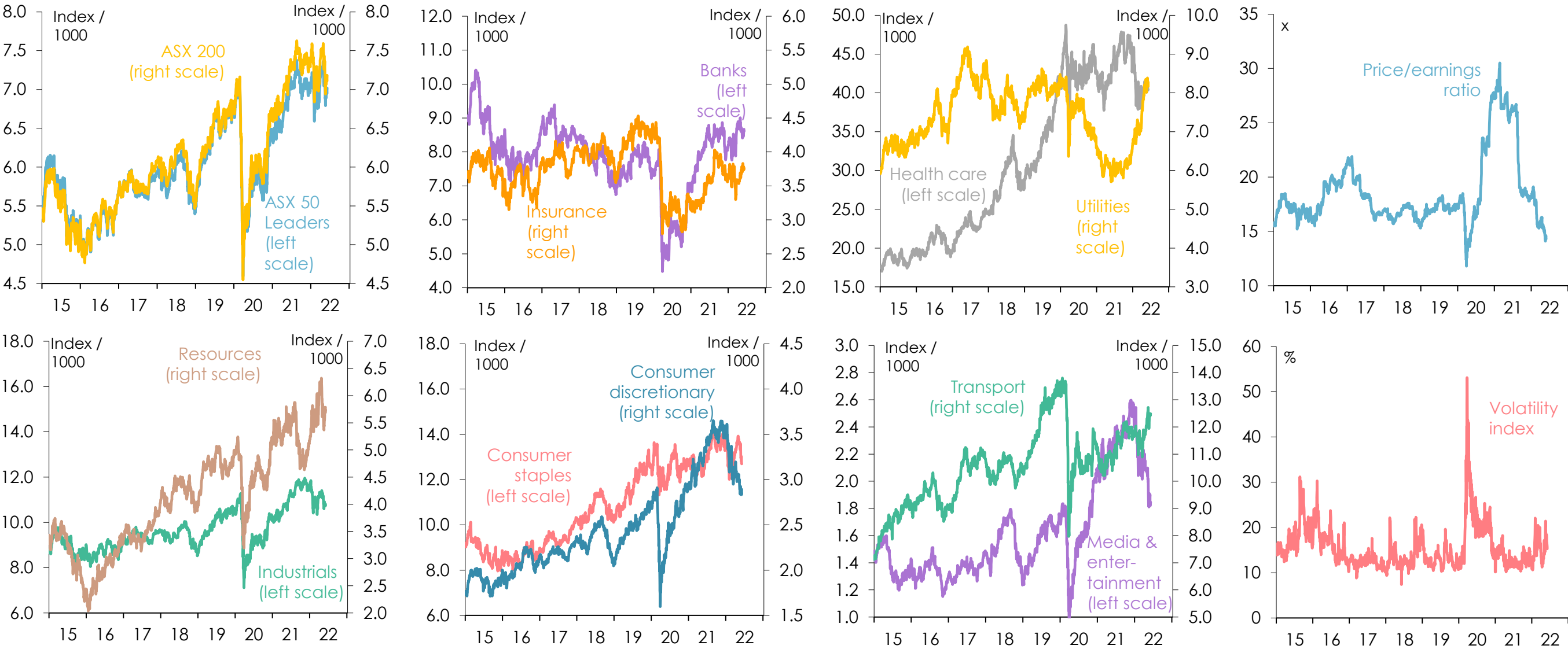
Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 27<sup>th</sup> May. [Return to "What's New"](#).



# The ASX rose another ½% this week with gains by resources & banks outweighing losses in consumer discretionary, health care, media & utilities

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

## ASX indices



# Key data and events next week

# Key data and events for week ended 3<sup>rd</sup> June

THE AUSTRALIAN ECONOMY THIS WEEK – 27<sup>TH</sup> MAY 2022

Tuesday 31 <sup>st</sup> May	April building approvals; March quarter balance of payments and international investment position; March quarter company profits, business sales & inventories; March quarter government finance statistics; April money & credit aggregates
Wednesday 1 <sup>st</sup> June	March quarter national accounts (GDP and components); May manufacturing PMI
Thursday 2 <sup>nd</sup> June	April goods and services trade; April detailed retail sales; South Australia state budget
Friday 3 <sup>rd</sup> June	April housing finance
State Budgets	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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