



THE AUSTRALIAN ECONOMY THIS WEEK

3RD JUNE 2022

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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- ❑ The newly-elected Labor Government is likely to have 77 seats in the House of Representatives – giving it a working majority – but will likely need the support not only of the Greens but of at least one independent, or one of the minor parties, in order to pass legislation through the Senate if the Liberal-National Party Coalition opposes it ([slide 5](#))
- ❑ The number of new and active Covid-cases this week fell to its lowest level since mid-March ([slide 7](#)), with a downward trend now evident in every state and territory ([slide 8](#))
- ❑ Australia's real GDP increased by 0.8% in the March quarter, led by a 1.5% increase in household consumption spending (due in part to further recovery from last year's lockdowns in NSW, Victoria and the ACT), a 2.4% increase in non-mining business investment, a 2.6% increase in public sector spending, and the re-building of depleted inventories, partly offset by weaker dwelling investment and a sharp rise in import volumes (at least some of which would have gone into inventories) ([slides 16-17](#))
- ❑ Households are sustaining their spending levels – including on a wide-range of 'discretionary items ([slide 35](#)) in the face of weaker growth in disposable income (as a result of higher inflation and still-weak wages growth) by reducing saving, which many (though not all) households would appear to have considerable capacity to do ([slide 31](#))
- ❑ However several sectors of the Australian economy are still yet to regain their pre-pandemic levels of output and employment ([slide 19](#))
- ❑ Residential property prices fell 0.2% in May, the first decline since September 2020, reflecting falls in Sydney, Melbourne and Canberra (and particularly in the 'top tier' in those cities) with price gains slowing in other cities and regions ([slides 39-40](#))
- ❑ Housing finance commitments fell 6.4% in April, to the lowest level since October, ahead of the RBA's first rate increase in May ([slide 41](#))
- ❑ Residential building approvals – which were particularly volatile during the March quarter – fell 2.4% in April, to be some 20% below their average level during the five years before the onset of Covid-19 ([slides 42-43](#))
- ❑ Australia's goods and services trade surplus widened marginally to \$10.9bn in April, with exports up 1% (including a 9.6% jump in services exports) and imports down 0.7% ([slides 60-61](#))
- ❑ Australia's current account surplus narrowed to \$7.5bn (1.3% of GDP) in the March quarter, despite a 5.9% jump in the terms of trade to a new record high, reflecting the 8% rise in import volumes and a \$5bn increase in the income deficit ([slide 63](#))
- ❑ South Australia's new Labor Government was able to fund its election commitments and still project slightly better fiscal outcomes in its first Budget presented this week, thanks to helpful 'parameter variations' ([slide 79](#))
- ❑ The Reserve Bank is likely to raise its cash rate again at this Tuesday's Board meeting, although it's uncertain as to by how much ([slide 85](#))
- ❑ The only other highlight of this week's calendar is the NAB monthly business survey for May ([slide 96](#))

The election outcome

It now seems probable that the new Labor Government will have a workable majority in the Lower House, but the Senate may pose problems

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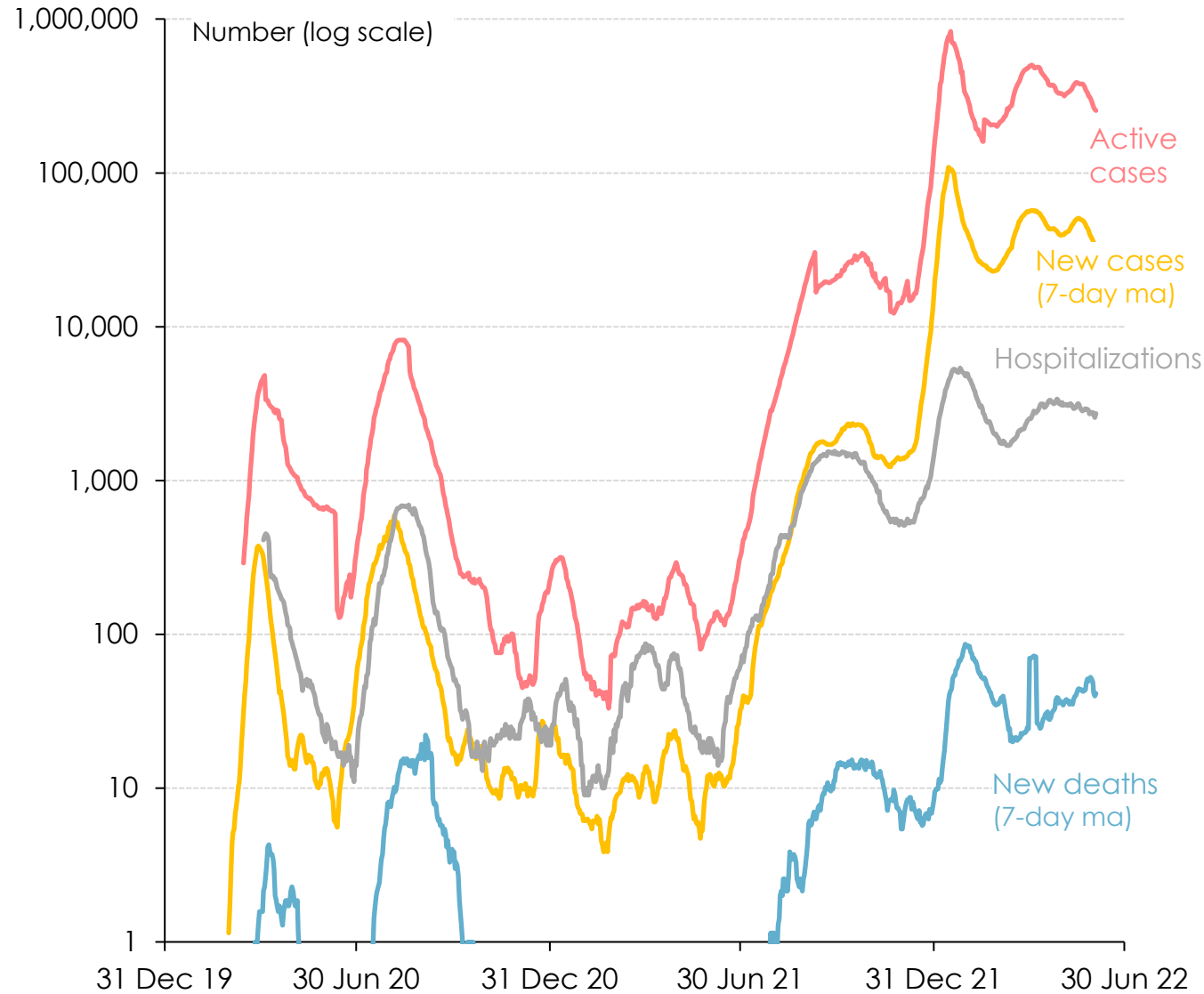
- ❑ The new Labor Government appears likely to have won 77 seats in the 151-member House of Representatives, a net gain of 9 compared with the previous Parliament according to the [Australian Election Commission](#)
 - giving it a working majority on the floor of the House, even after providing a Speaker
 - the Liberal-National Party coalition will likely have 58 seats, a net loss of 17 seats (all of them lost by the Liberal Party)
 - the Greens appear likely to have four seats, a net gain of 3, while there will likely be 12 minor party and independent members, an increase of 7 (six at the expense of the Liberal Party and one at the expense of Labor)
- ❑ Senate results are yet to be finalized but it seems likely that the Greens will have gained an additional three seats, taking them to 12
 - however it now seems that this will not be sufficient to give them the ‘balance of power’ in their own right, since Labor will likely only have 26 seats (unchanged from the previous Senate), giving Labor and the Greens together only 38 out of 76 Senate places
 - Labor will therefore need the support not only of the Greens but also of the Tasmanian Jacquie Lambie Network, which gained an extra seat (taking it to 2), the new independent David Pocock from the ACT, or Pauline Hanson’s One Nation which seems likely to retain 2 places (and could gain a third from SA)
 - the Liberal-National Party Coalition will have at most 33 seats (a loss of three) and possibly as few as 31
- ❑ The new Treasurer Dr Jim Chalmers this week foreshadowed an Economic Statement when Parliament resumes, followed by a fresh 2022-23 Budget in October
 - both the Treasurer and new Finance Minister Katy Gallagher this week warned of [‘massive challenges’](#) ahead in managing the Budget
 - although this seems to be a reference to trends in medium-term expenses (in areas such as aged and disability care, health and defence) rather than a suggestion that the immediate outlook is worse than projected in the Pre-Election Economic and Fiscal Outlook

The virus

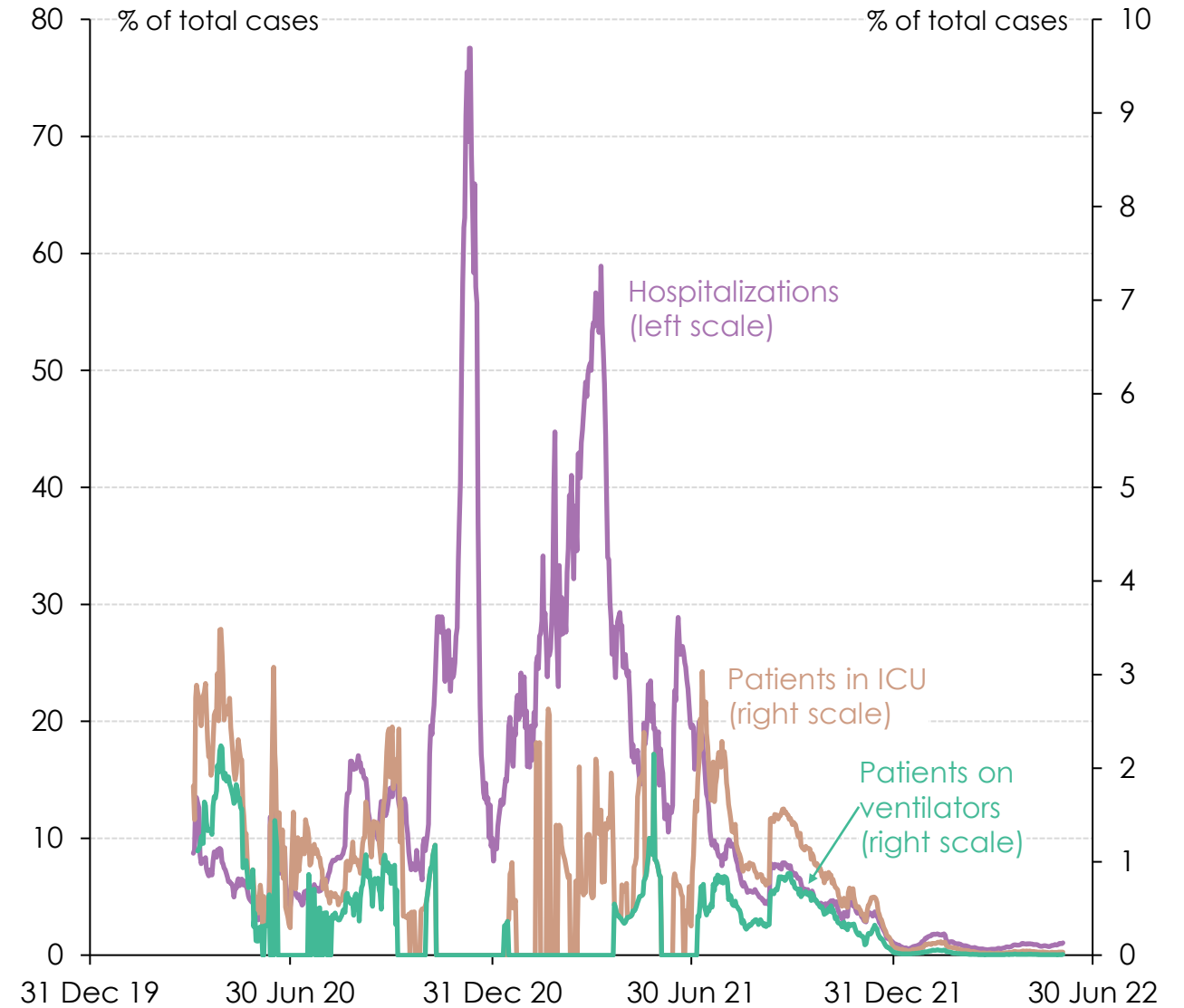
New & active case numbers fell further over the past week, to their lowest levels since mid-March, while hospitalizations were the lowest since April

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Cases, hospitalizations and deaths



Severity of cases



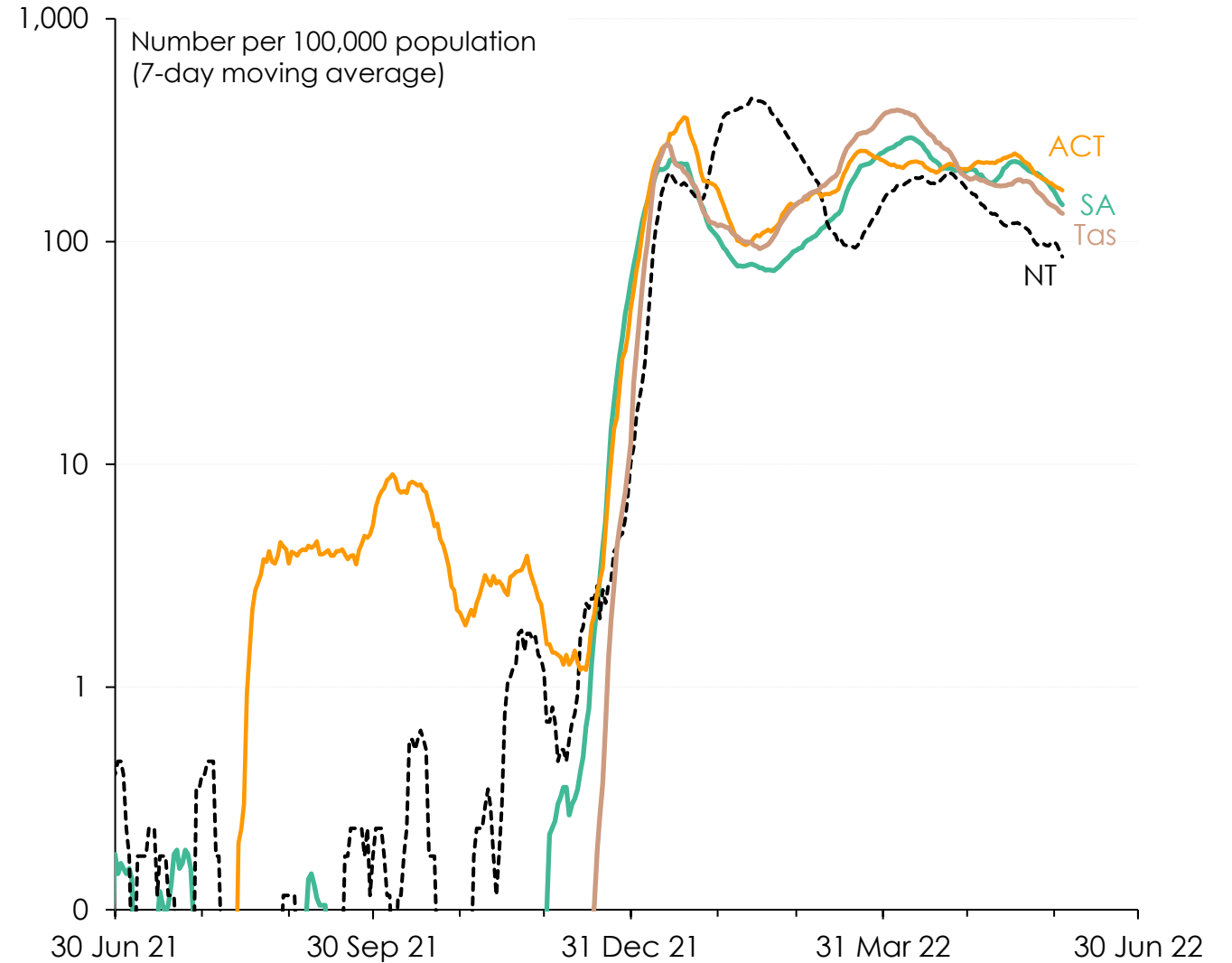
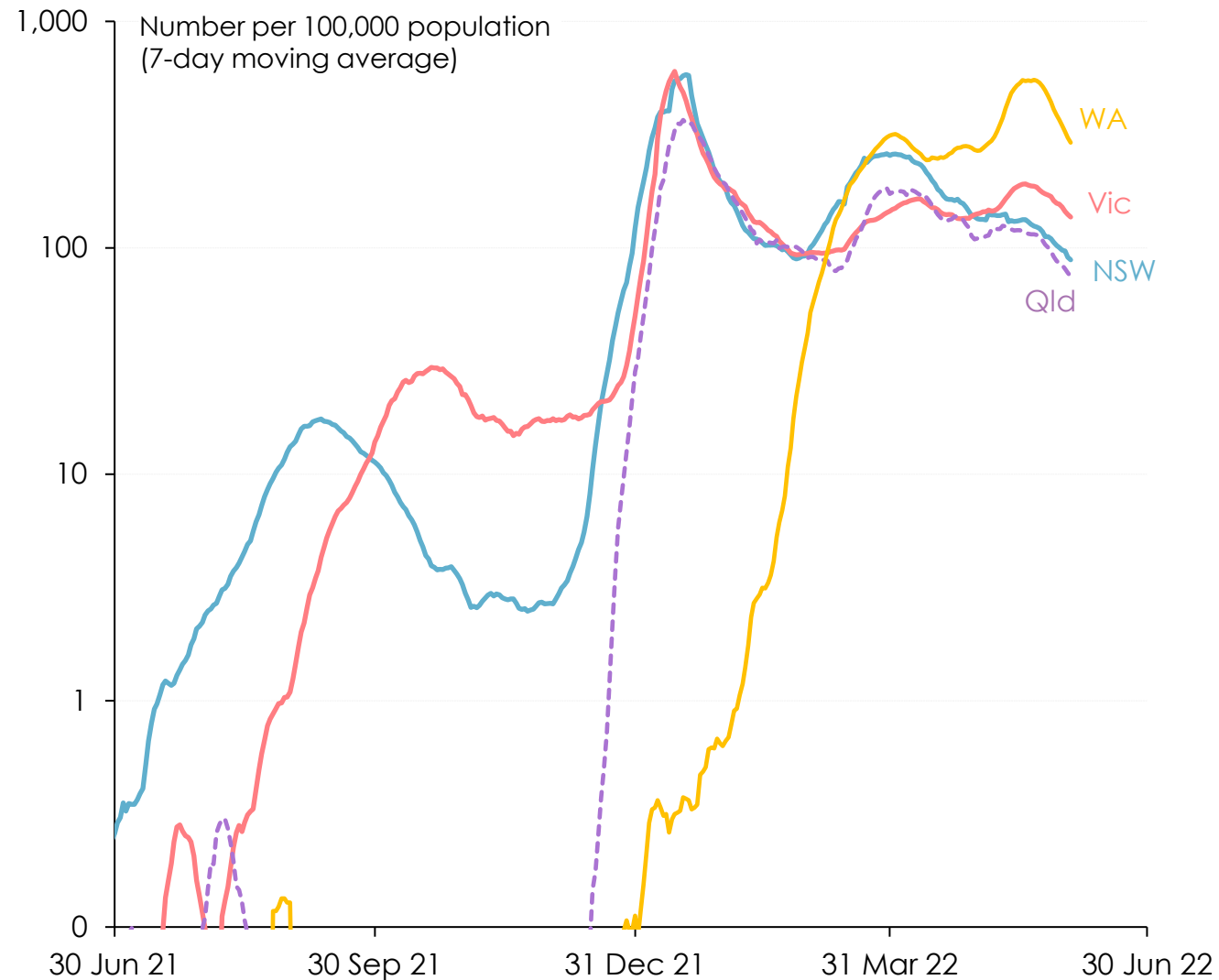
Note: The 'spike' in new deaths in the first week of April resulted from the addition of 334 deaths to NSW's total on 1st April. Data up to 3rd June.

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

New case numbers are now falling in all states and territories, including WA where they rose rapidly after its borders were (eventually) re-opened

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

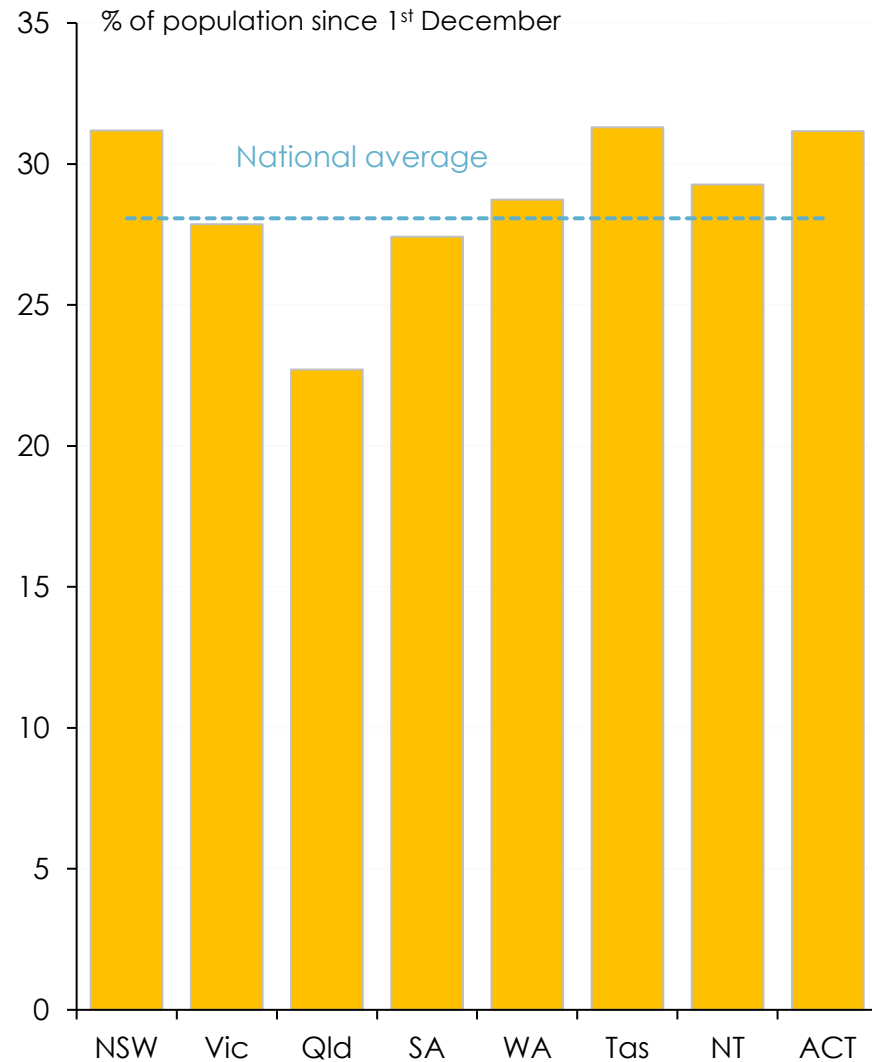


Note: Data are up to 3rd June. Source: covid19data.com.au. [Return to "What's New"](#).

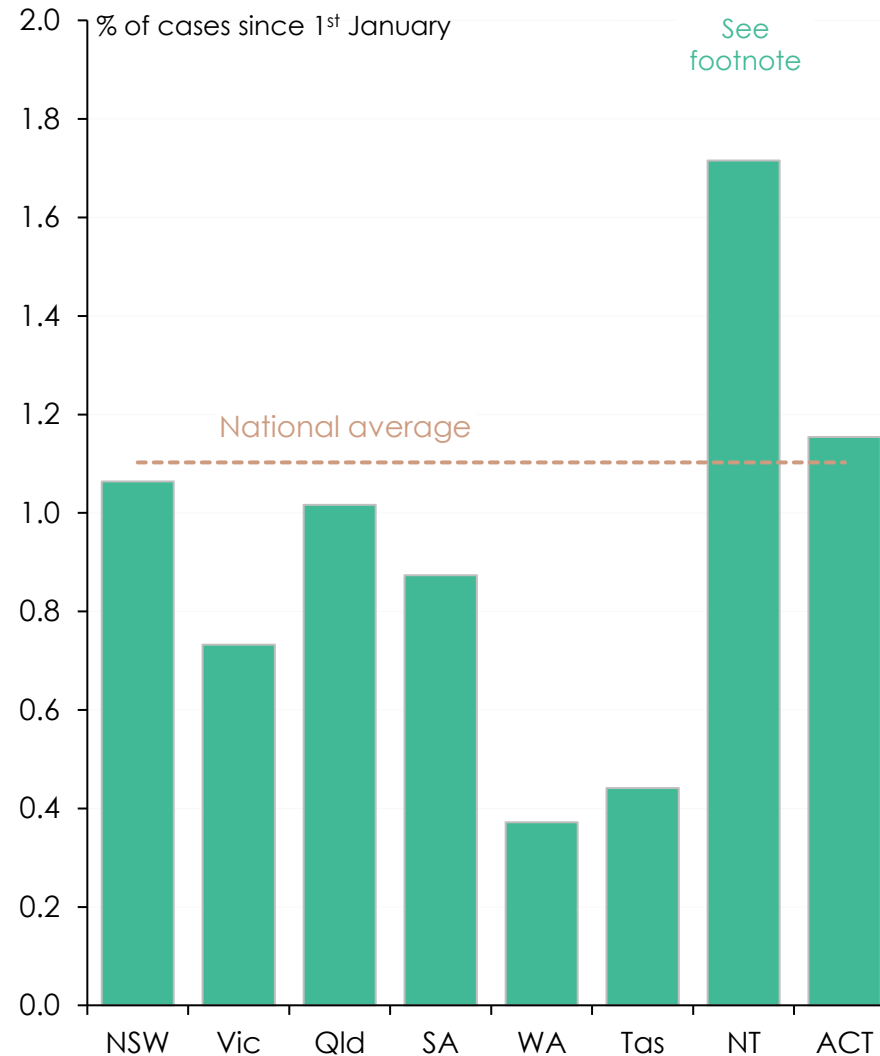
The omicron outbreak has been less serious in Western Australia and Tasmania than in the rest of Australia

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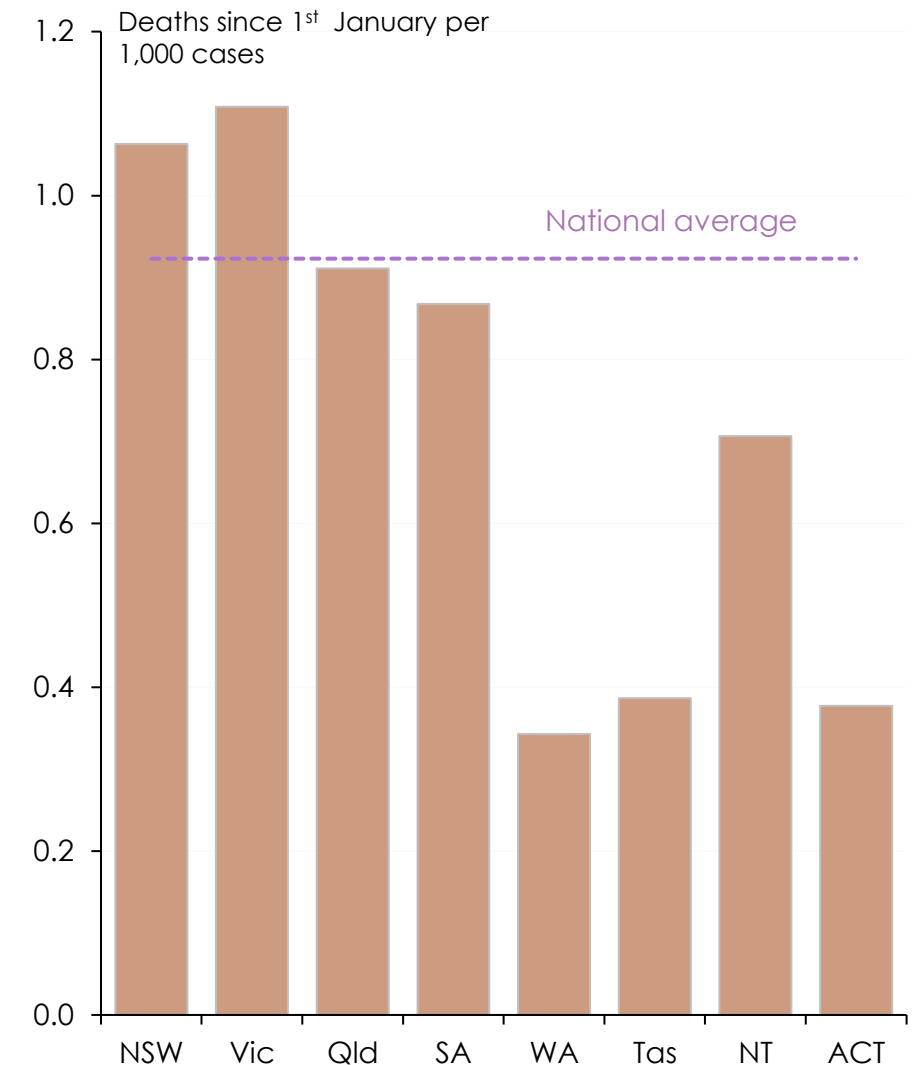
New cases since 1st December 2021



Hospitalization rate since 1st January 2022



Fatality rate since 1st January 2022

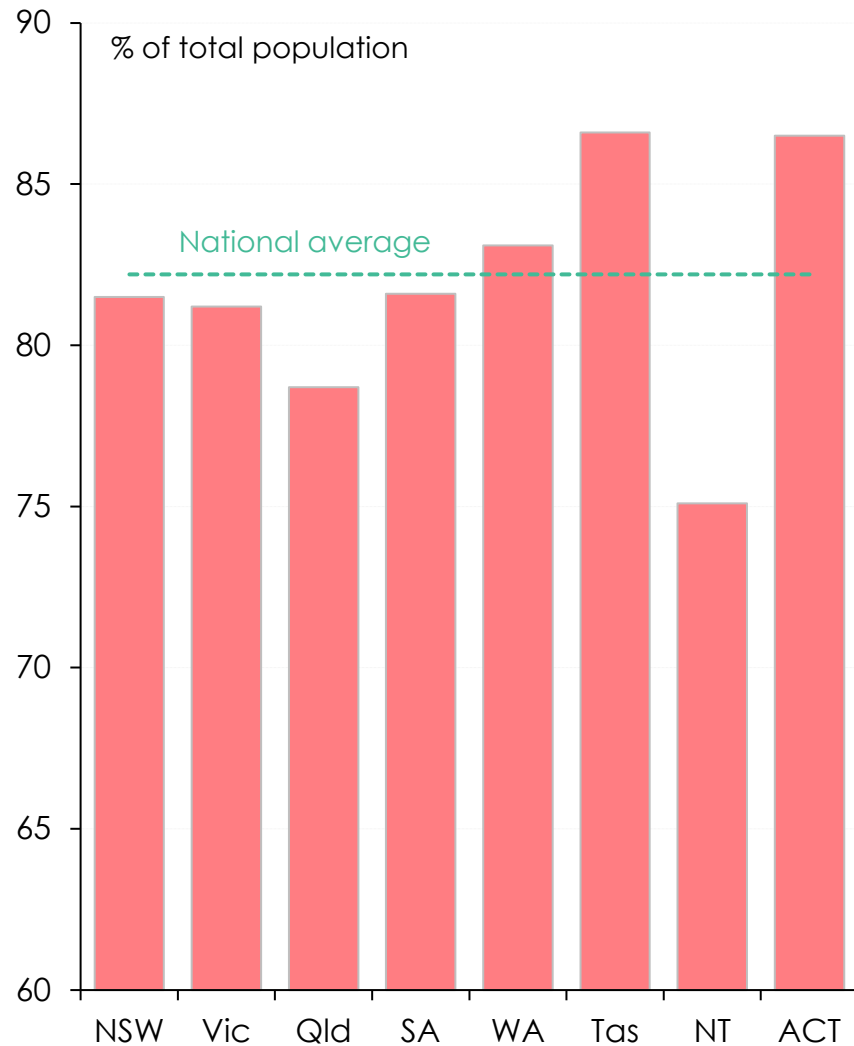


Note: Data are up to 3rd June. 1st December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. NSW added 334 deaths to its tally on 1st April. Source: covid19data.com.au. [Return to "What's New"](#).

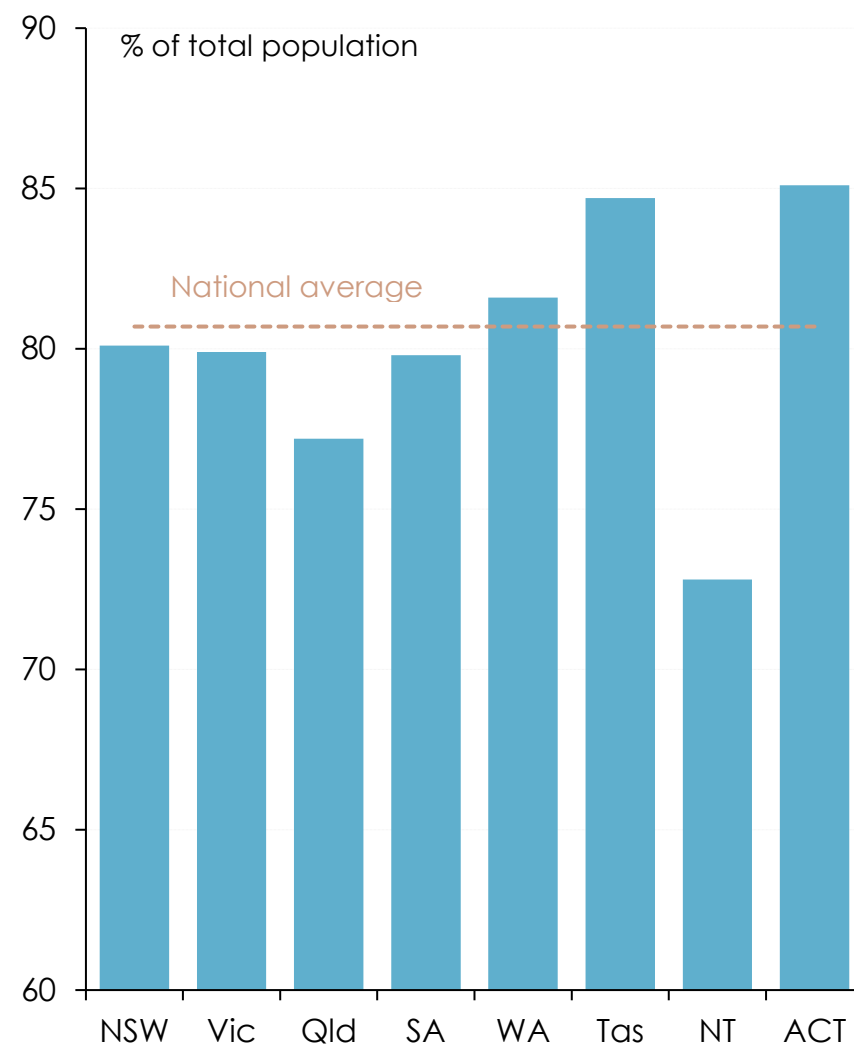
The proportions of state and territory populations who have had 2 shots, or who have had a booster, haven't changed much in the past eight weeks

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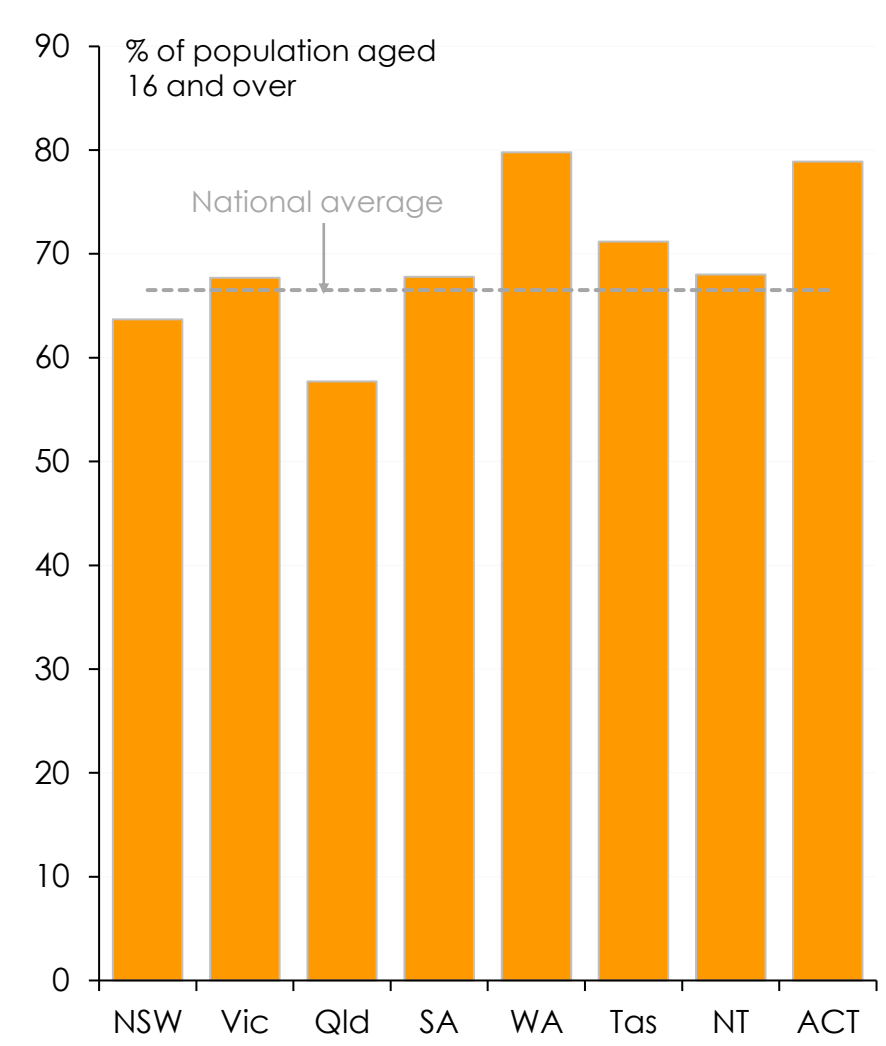
Pc of population who have had at least one vaccination



Pc of population who have had two vaccinations



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

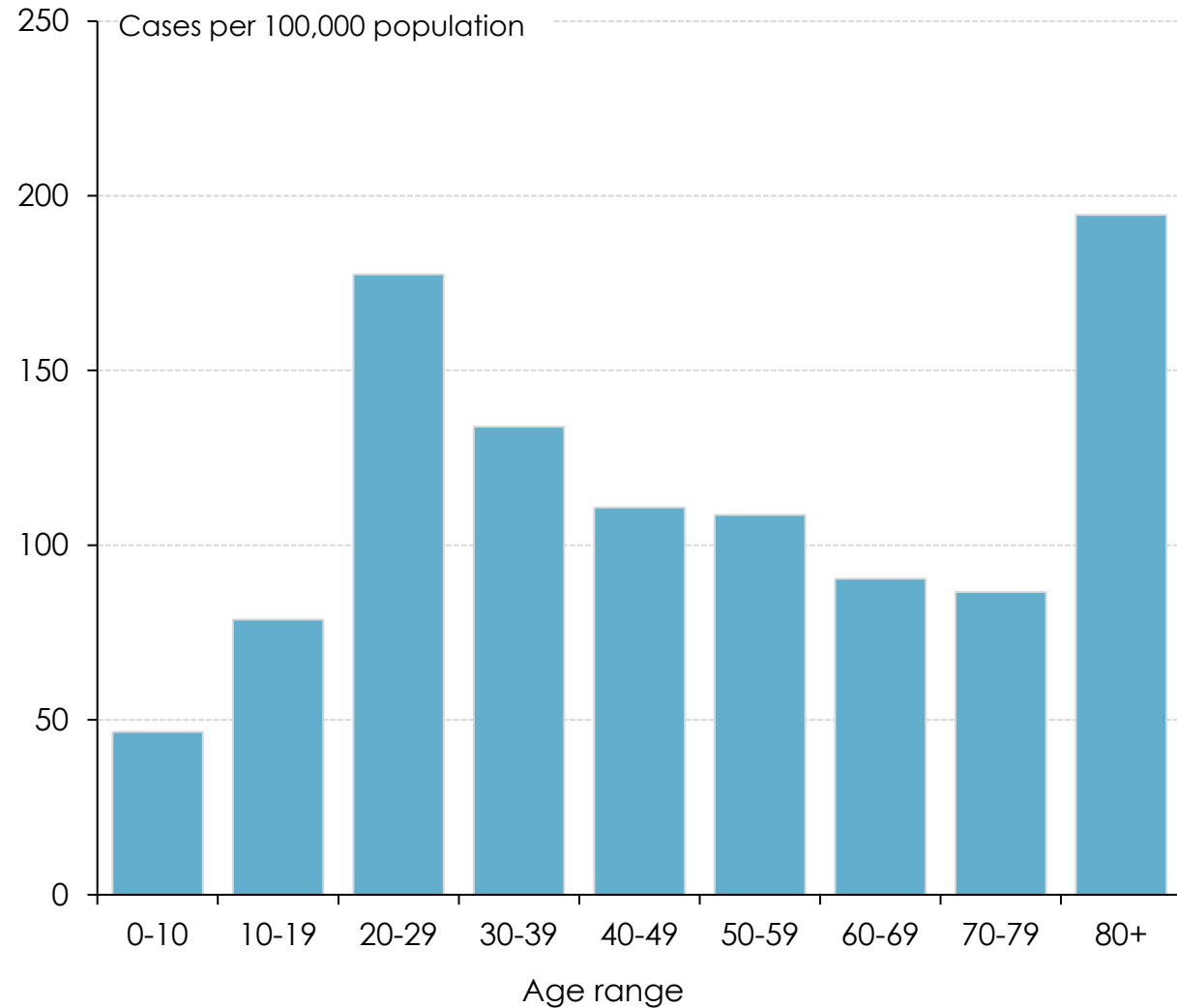


Note: Data are up to 3rd June. Source: covid19data.com.au. [Return to "What's New"](#).

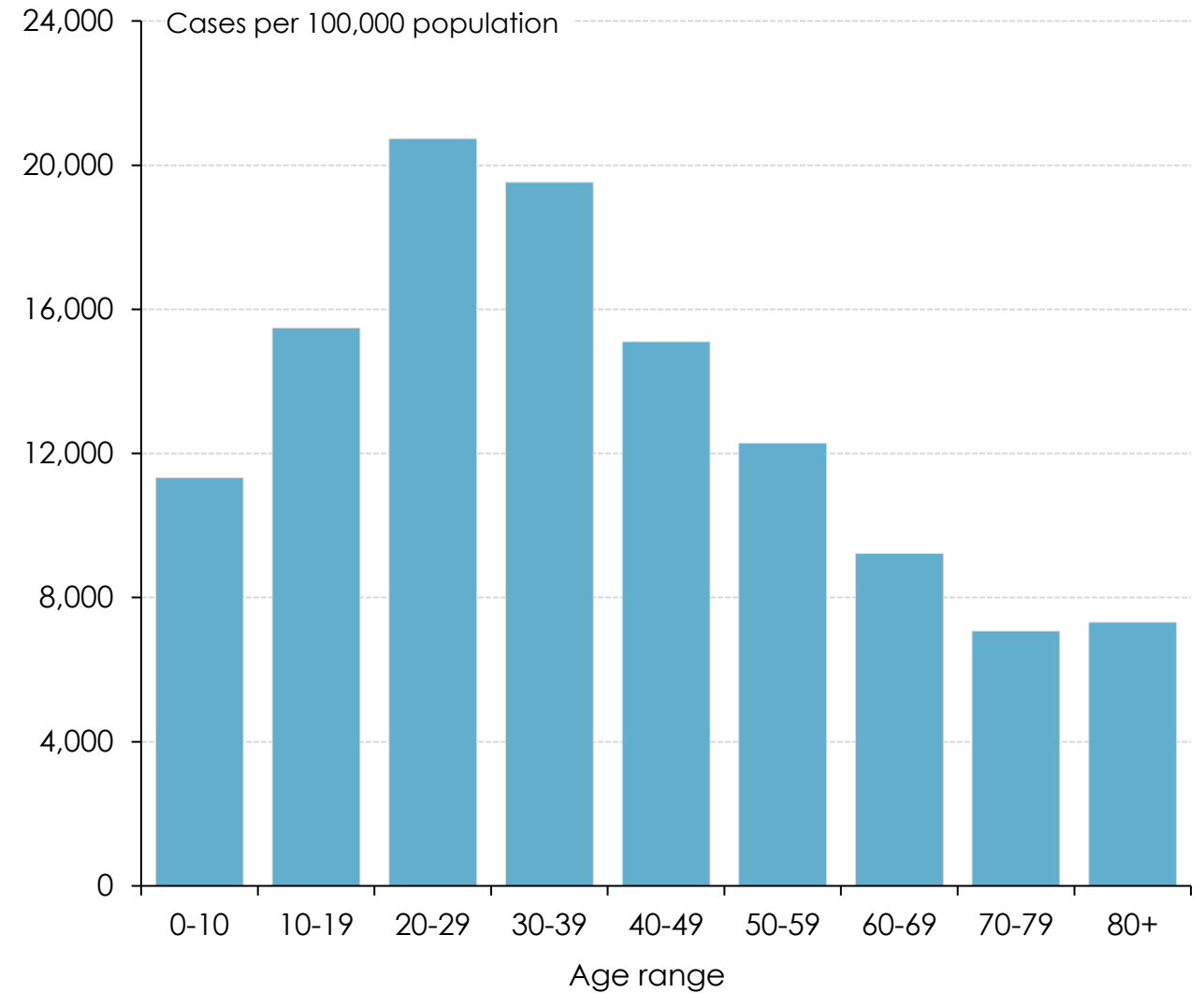
People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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



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

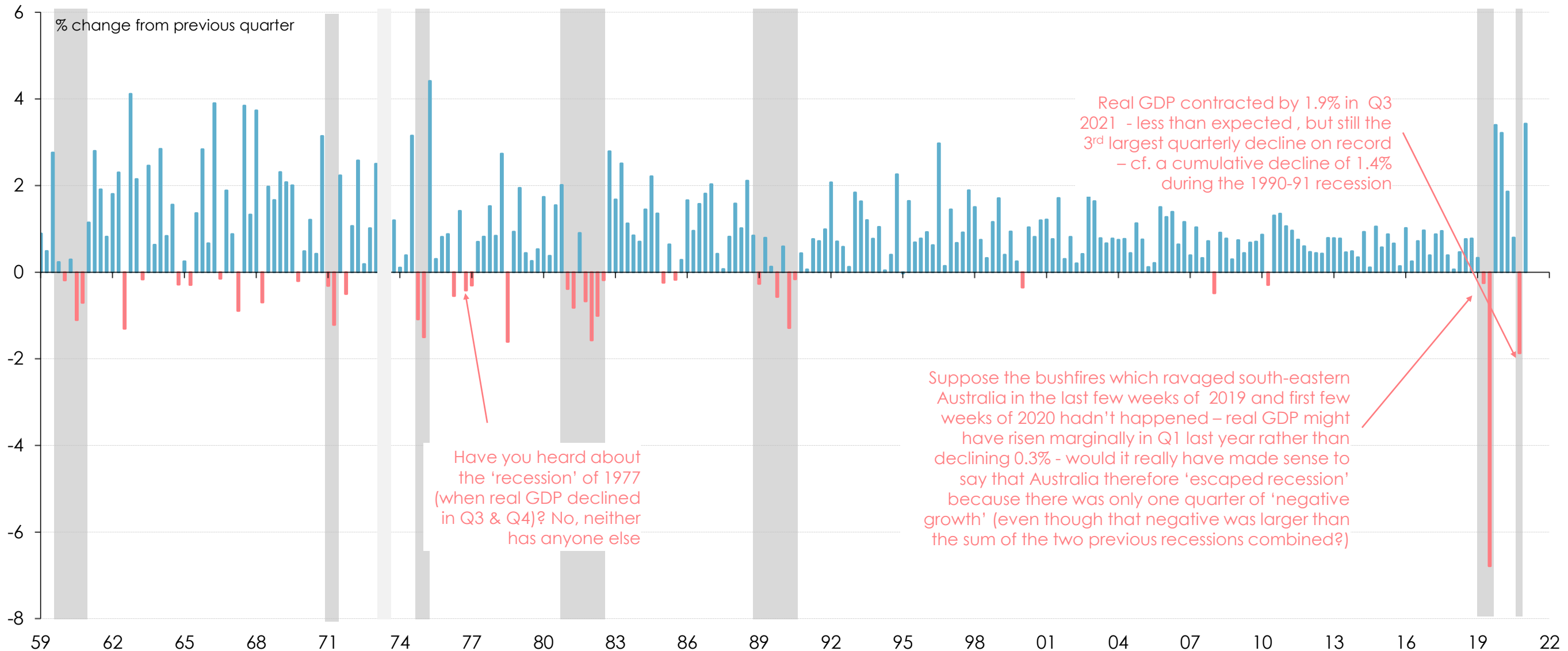


Broad trends in the Australian economy

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

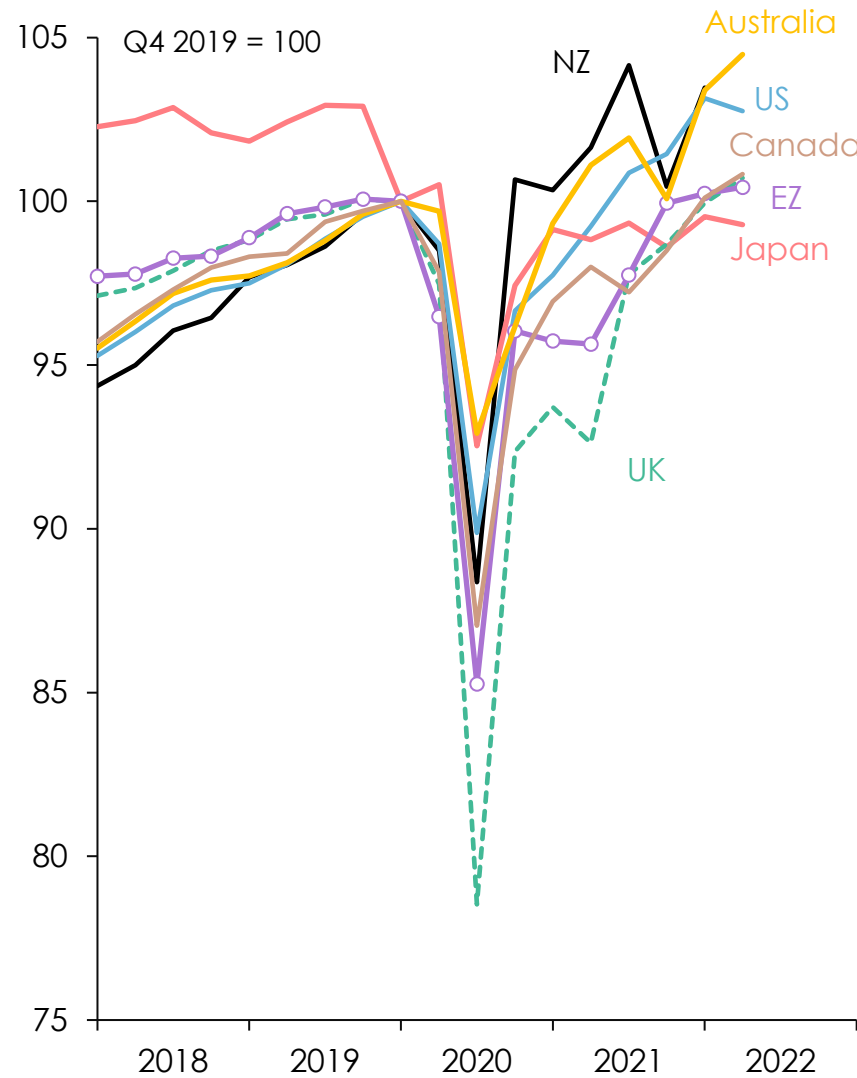


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. March quarter GDP will be released next Wednesday 1st June. [Return to "What's New"](#).

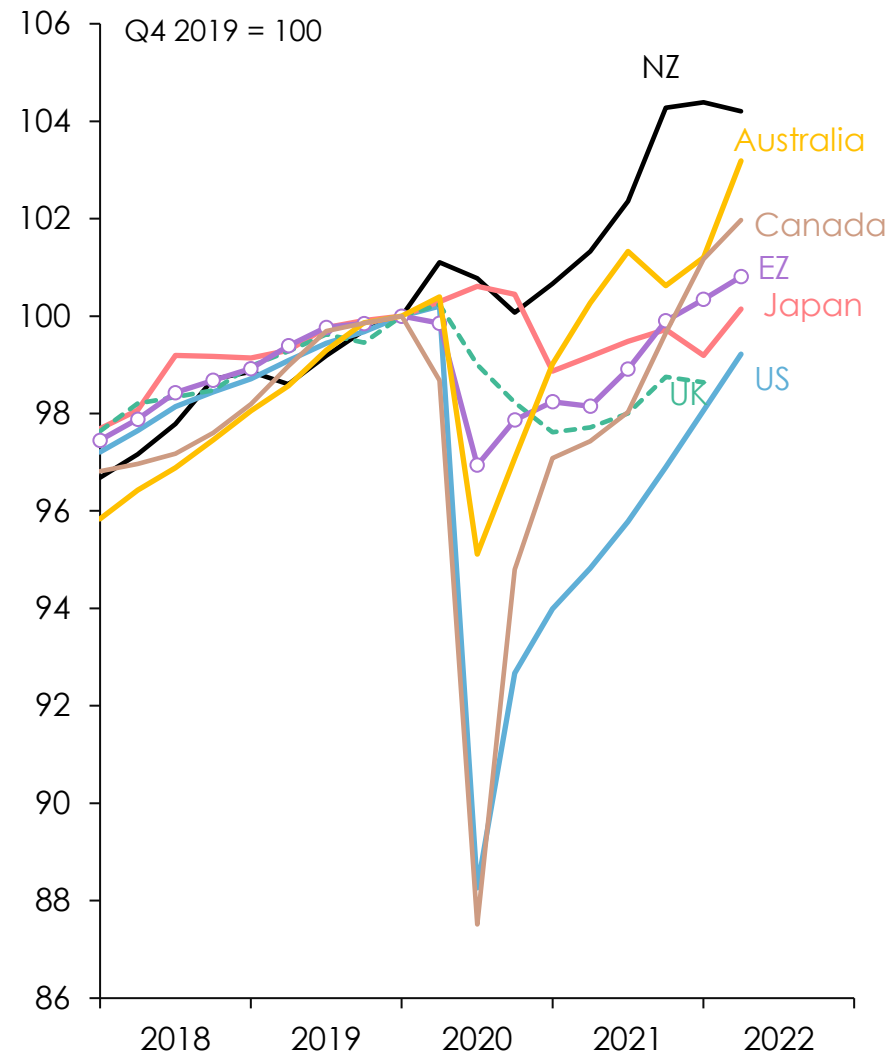
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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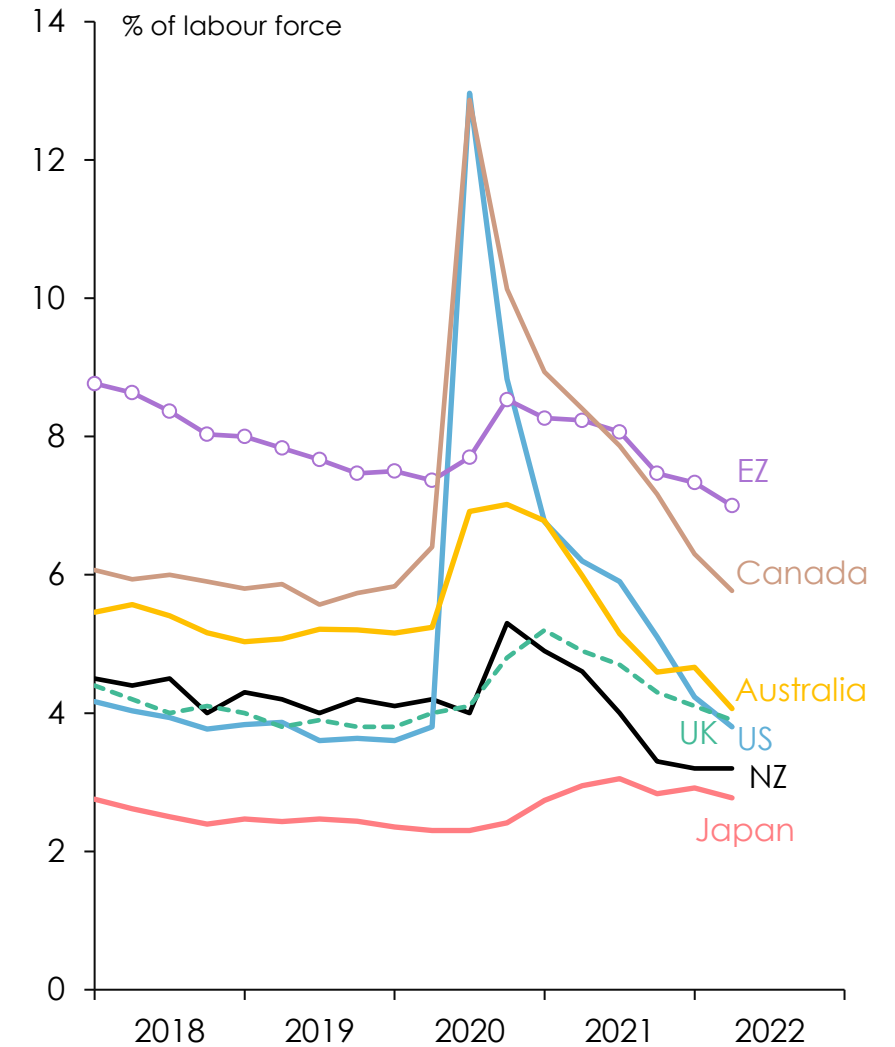
Level of real GDP



Employment



Unemployment

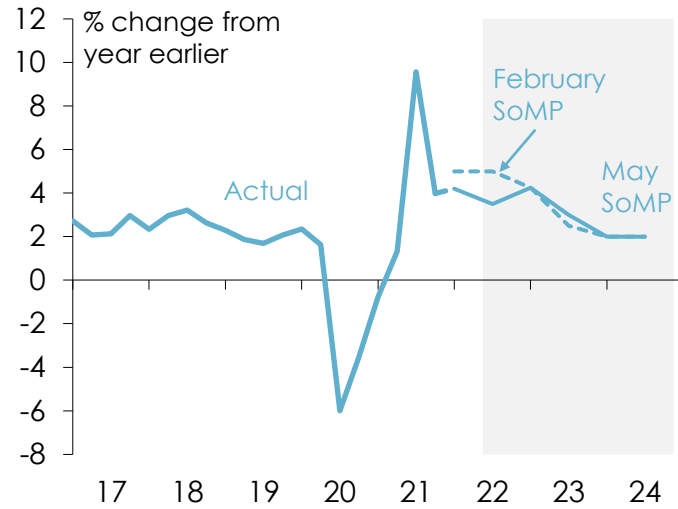


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

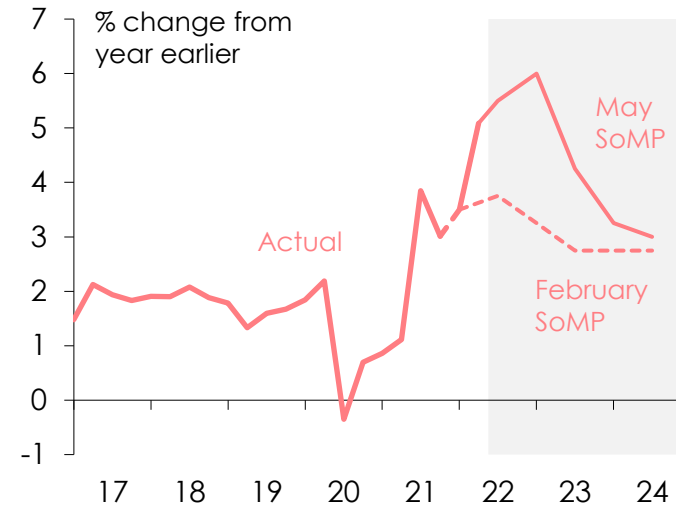
The RBA has revised its inflation forecasts substantially upwards in the wake of the much higher-than-expected March quarter CPI outcome

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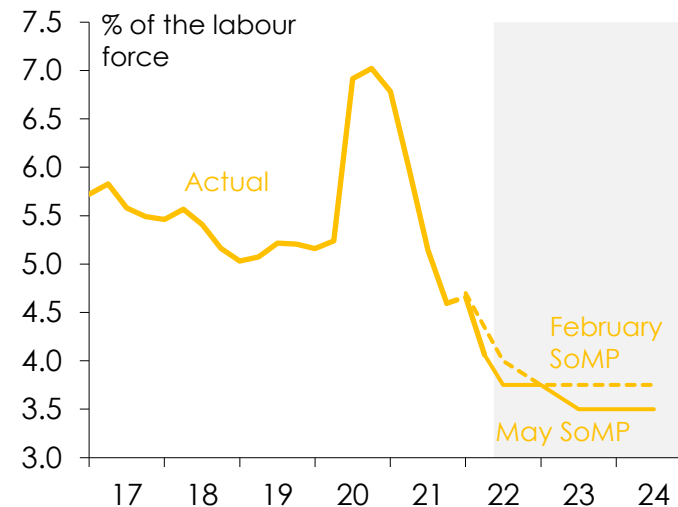
GDP



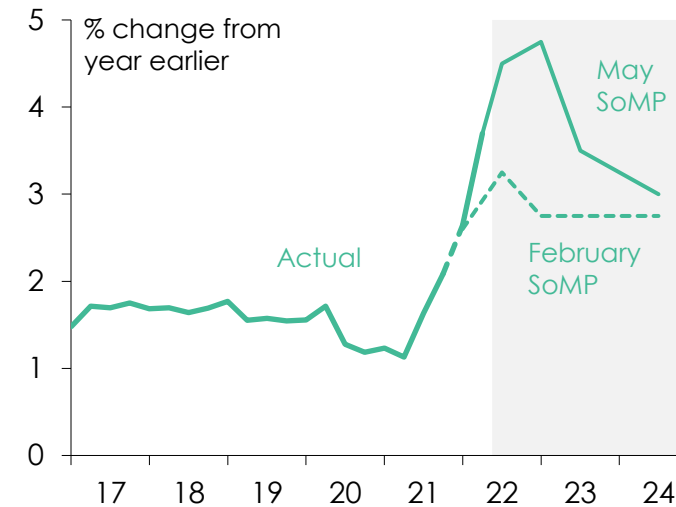
'Headline' inflation



Unemployment



'Underlying' inflation



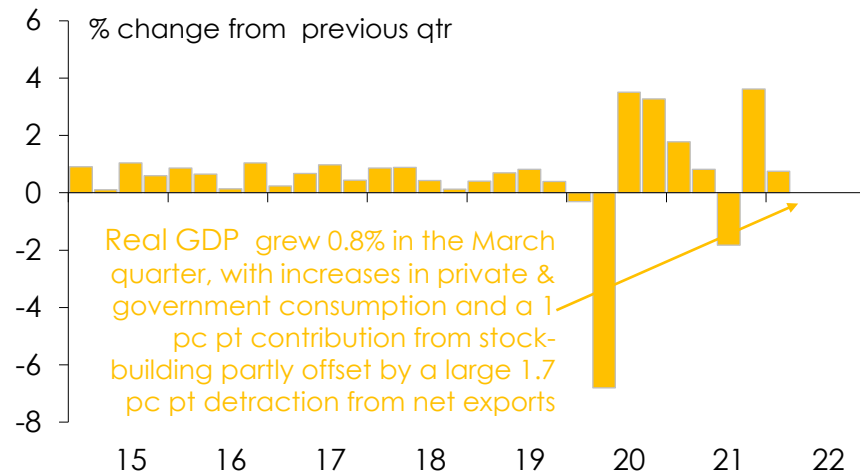
- ❑ The RBA's latest [Statement on Monetary Policy](#) released last month made only marginal changes to its outlook for economic activity and employment
 - real GDP is still expected to grow 4¼% through 2022 led by strong growth in household consumption (aided by a reduction in saving from current very 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](#), 6th May. The RBA's next set of forecasts will be published on Friday 5th August. [Return to "What's New"](#).

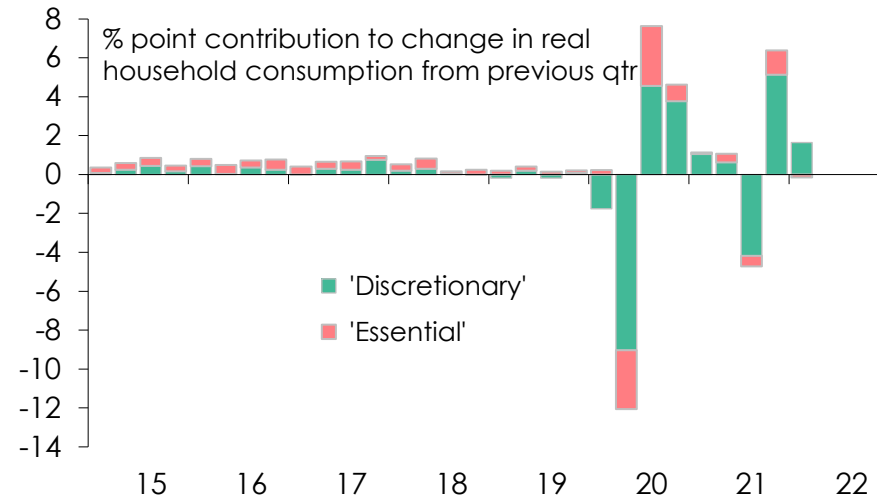
Real GDP grew 0.8% in Q1, with growth in private and public consumption dampened by soft dwelling investment and an 8% surge in imports

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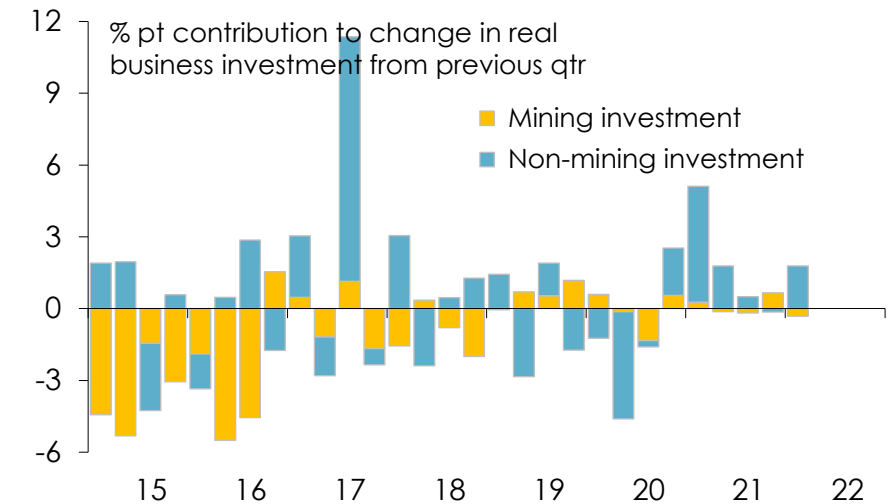
Quarterly change in real GDP



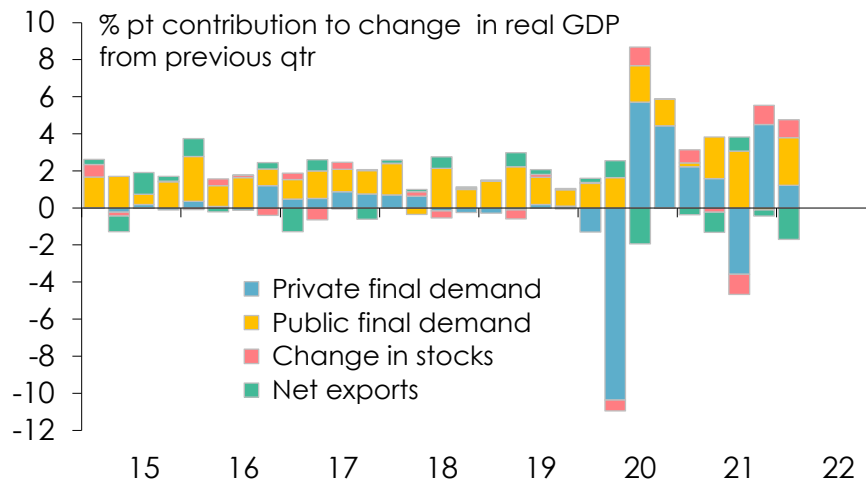
Household consumption expenditure



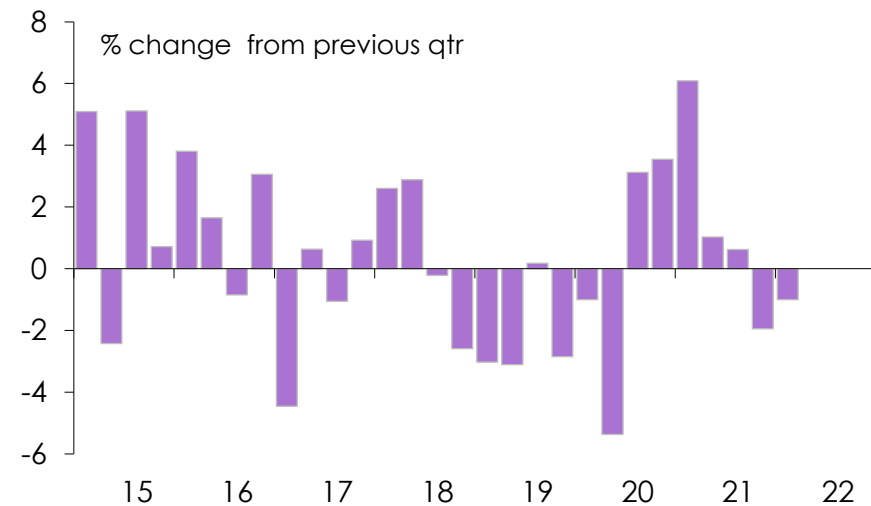
Business investment expenditure



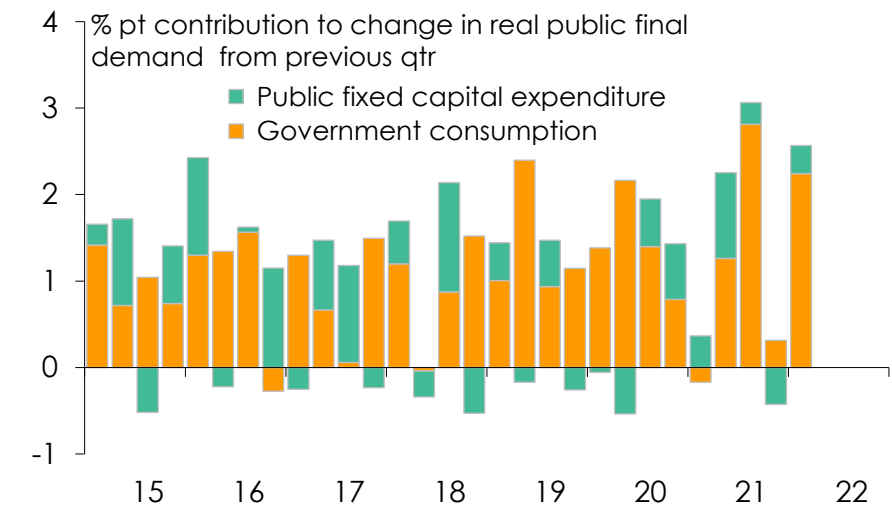
Contributions to quarterly GDP growth



Dwelling investment expenditure



Public expenditure

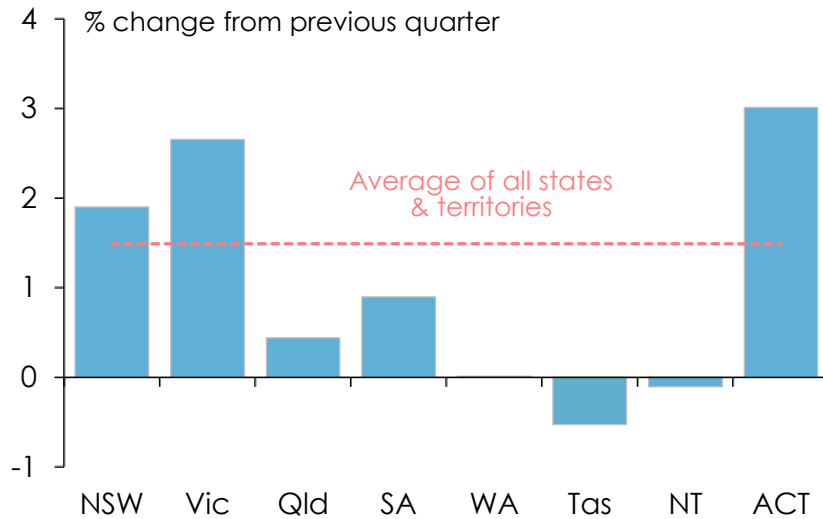


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; June quarter national accounts will be released on 7th September. [Return to "What's New"](#).

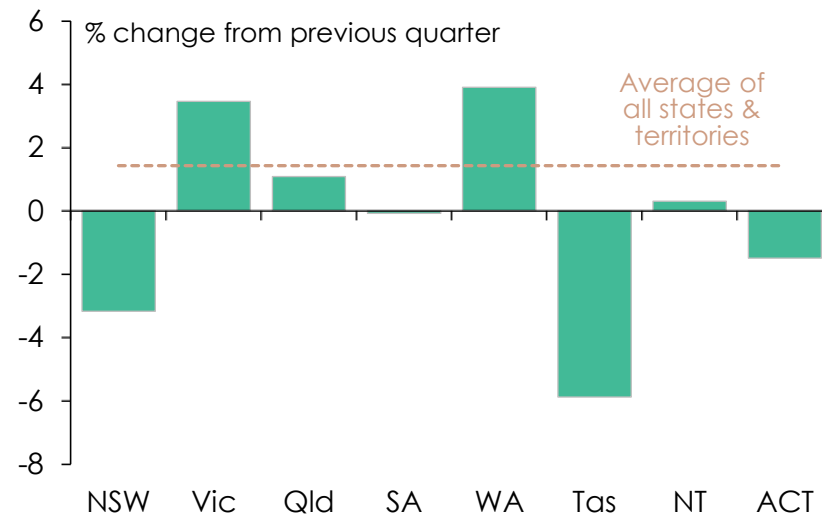
March quarter real GDP growth owed much to the continued recovery in household spending in NSW, Victoria & the ACT from last year's lockdowns

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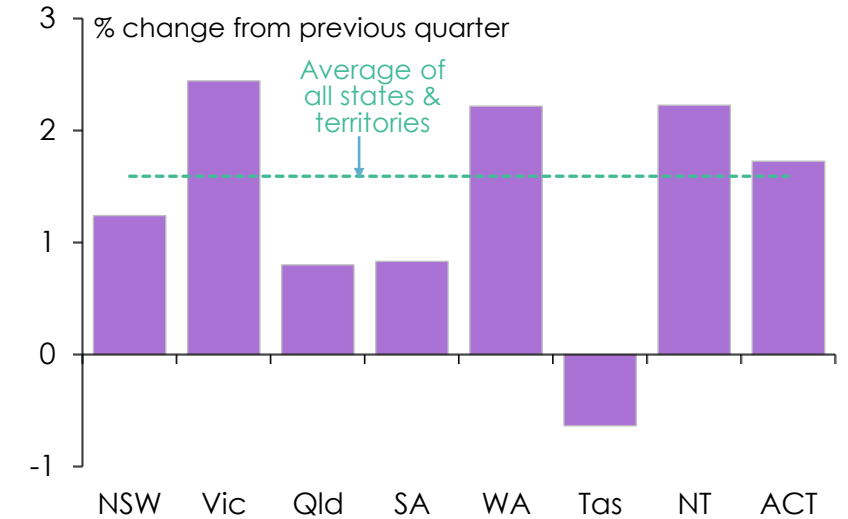
Household consumption



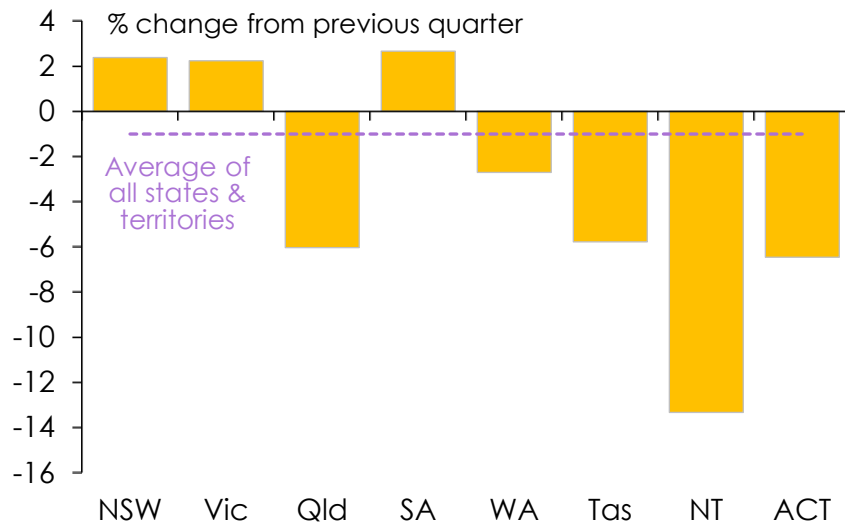
Business investment



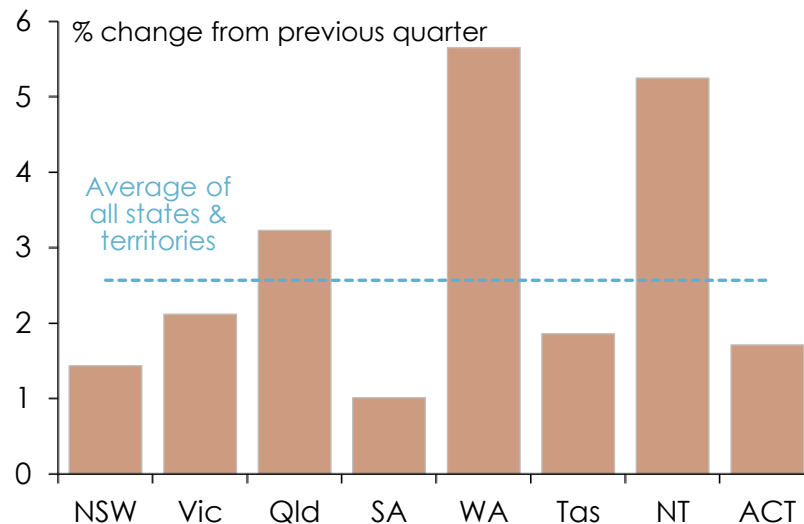
State final demand



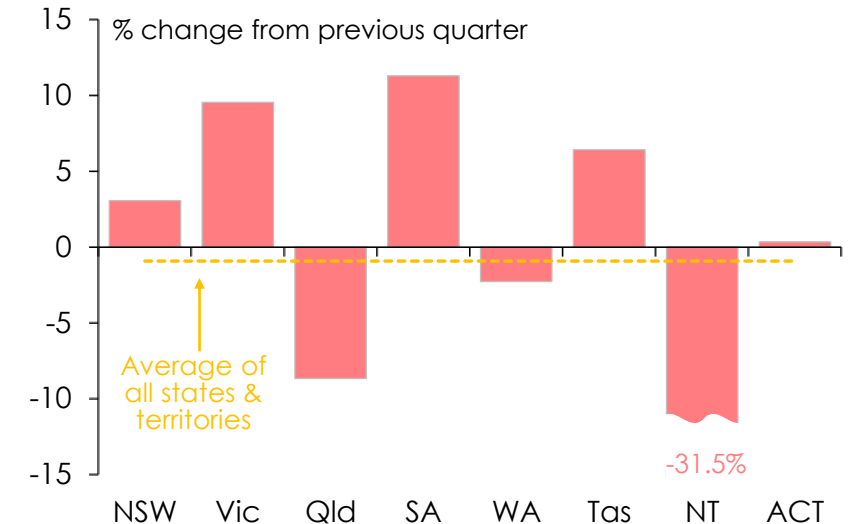
Dwelling investment



Public spending



International exports

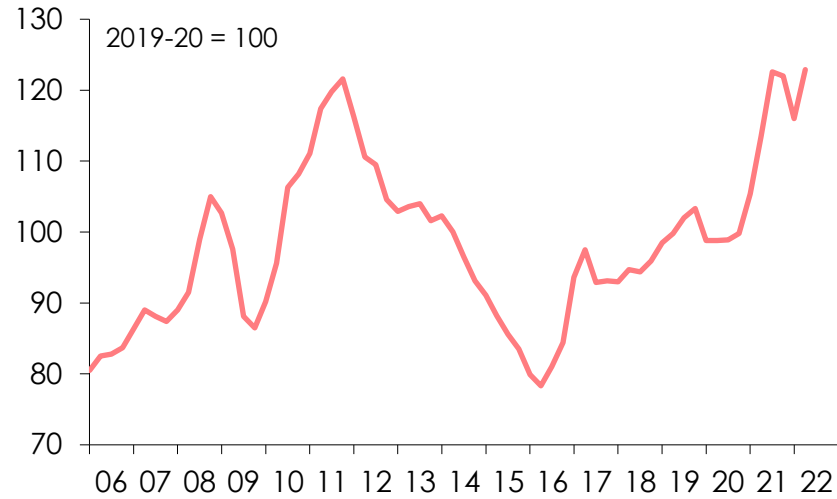


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; [Balance of Payments and International Investment Position, Australia](#), March quarter 2022. [Return to "What's New"](#).

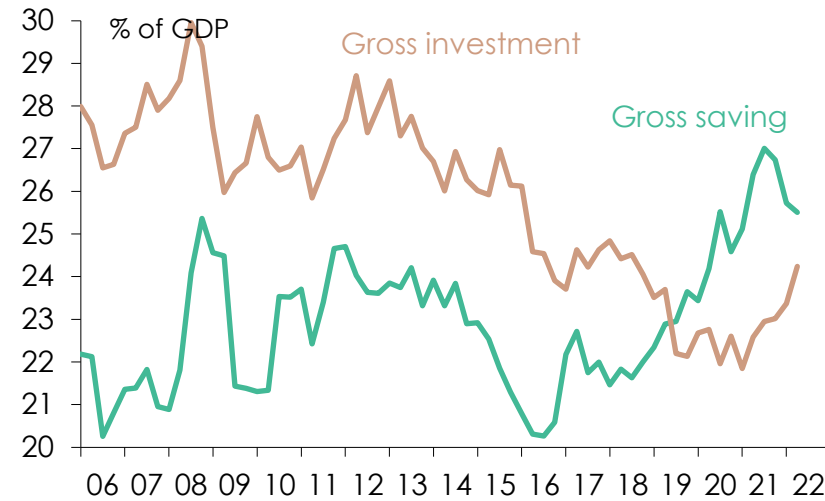
Australia's terms of trade reached a new record high in the March quarter, boosting real gross domestic income – most of which went to profits

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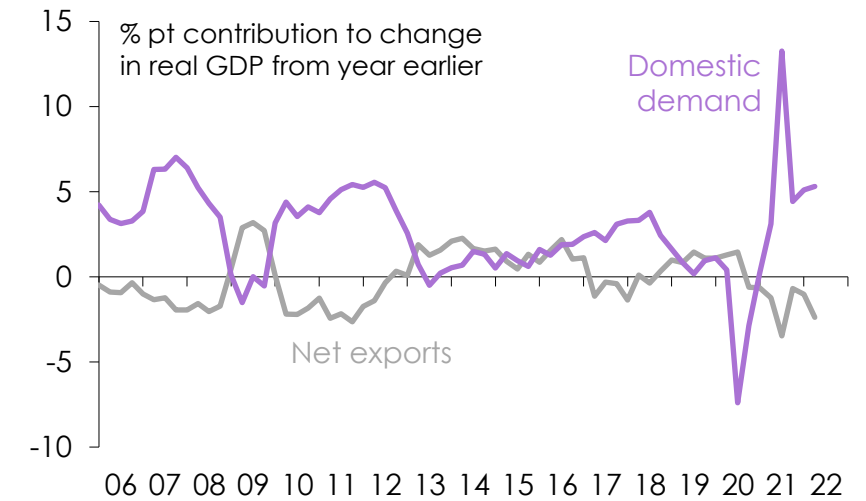
Terms of trade



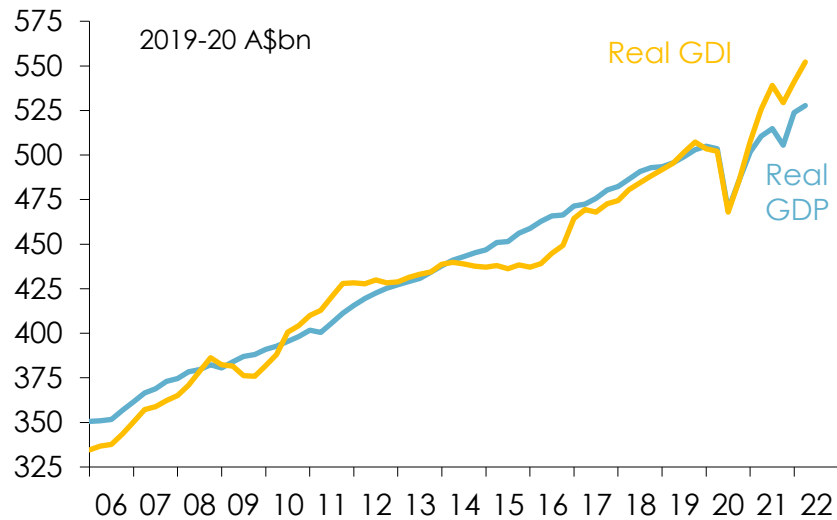
National saving & investment



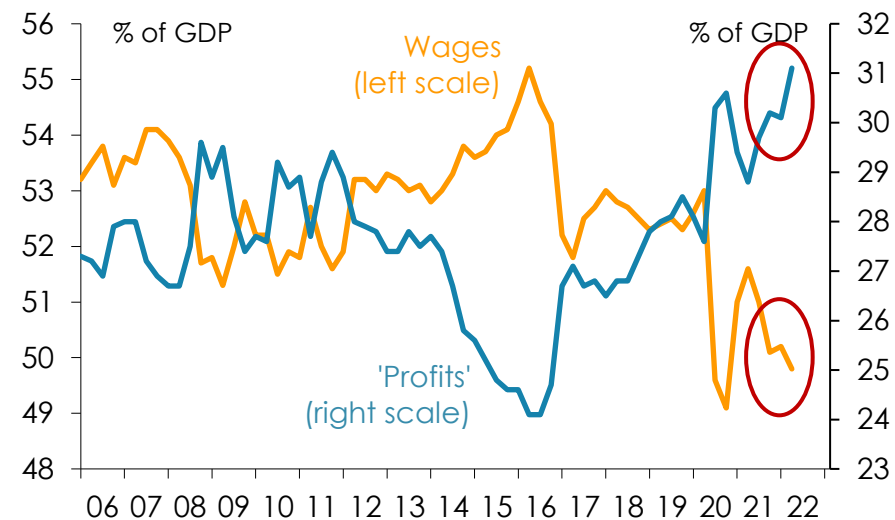
Domestic demand and net exports



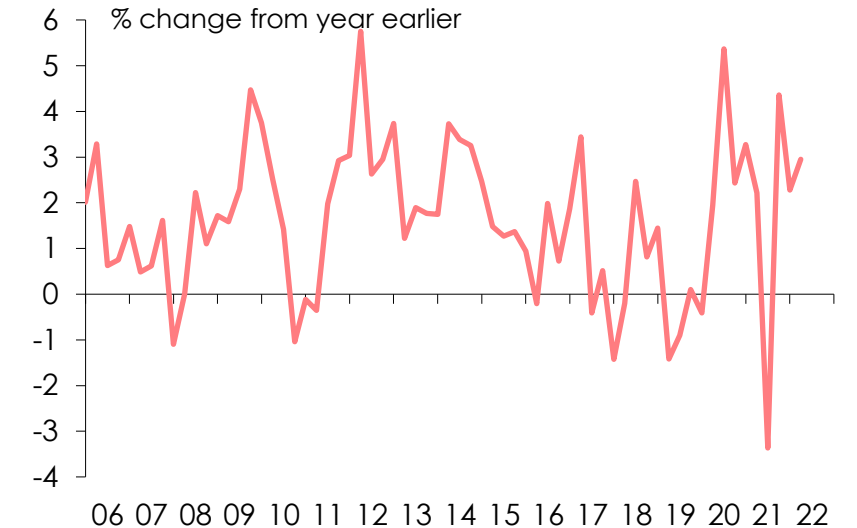
Real gross domestic income



Shares of national income



Labour productivity

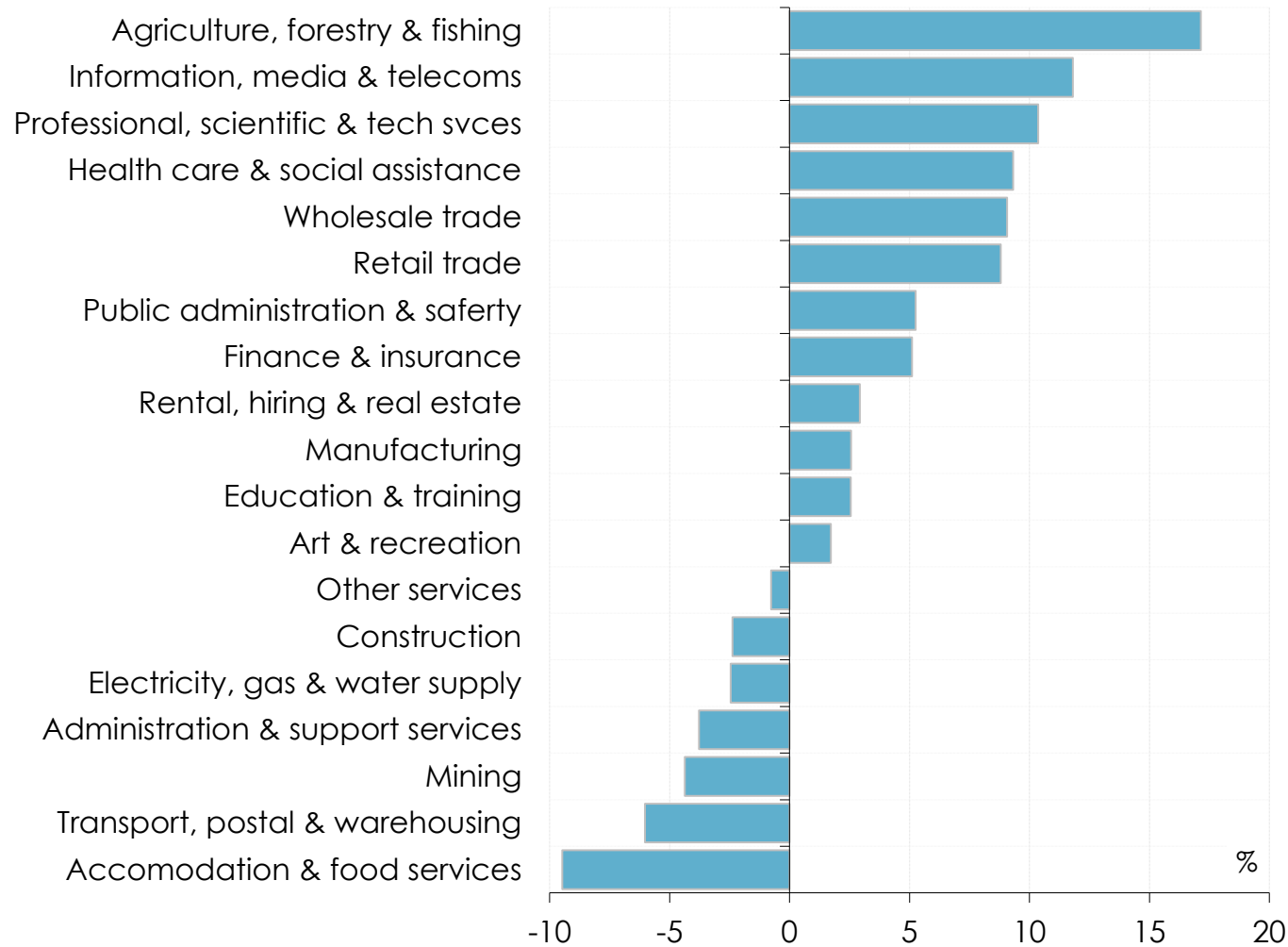


Note: The terms of trade is the ratio of export to import prices (for more see [slide 63](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022 – June quarter data will be released on 7th September. [Return to "What's New"](#).

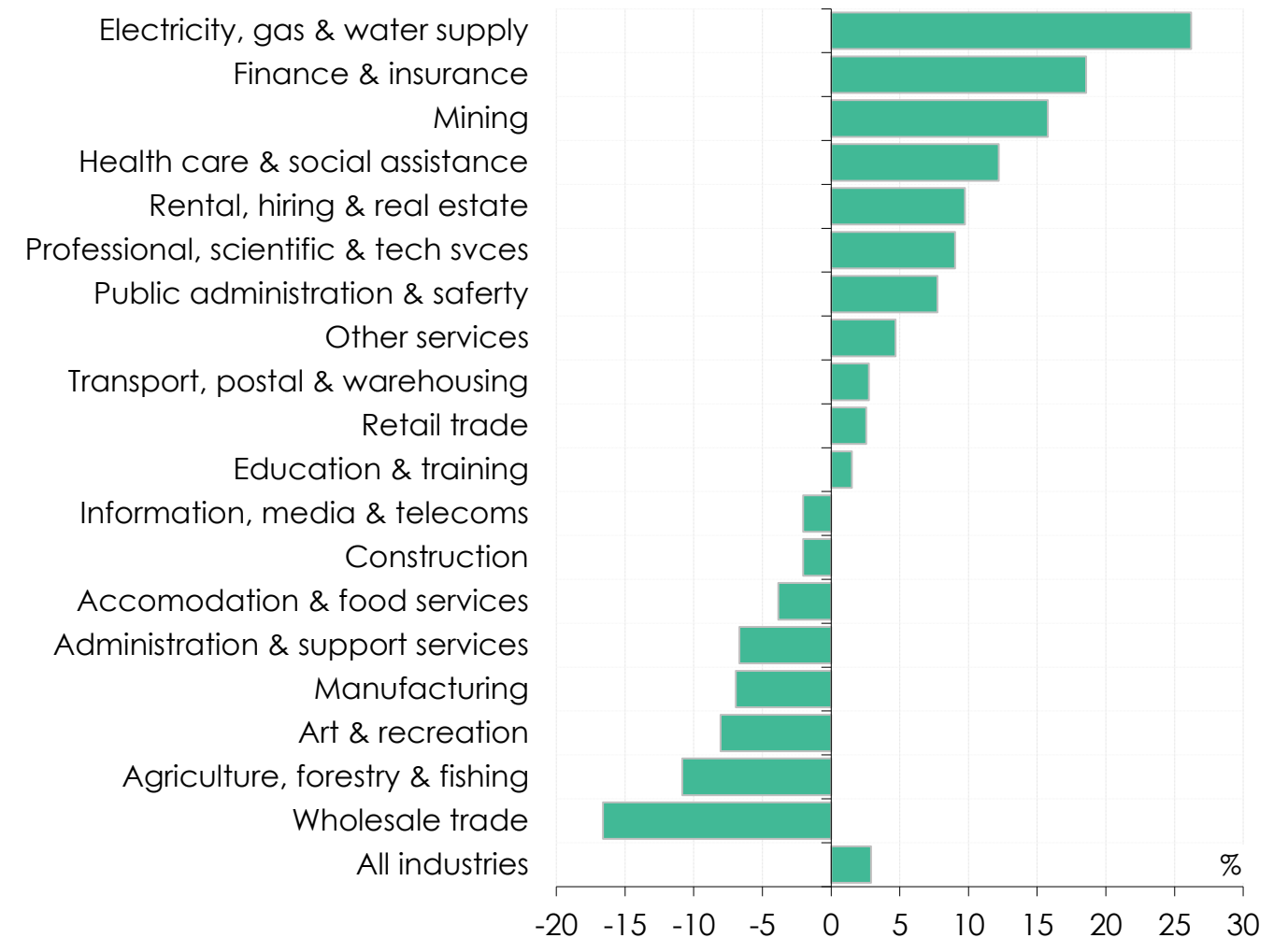
Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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Q1 2022 real gross value added by industry – change from pre-pandemic peak



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

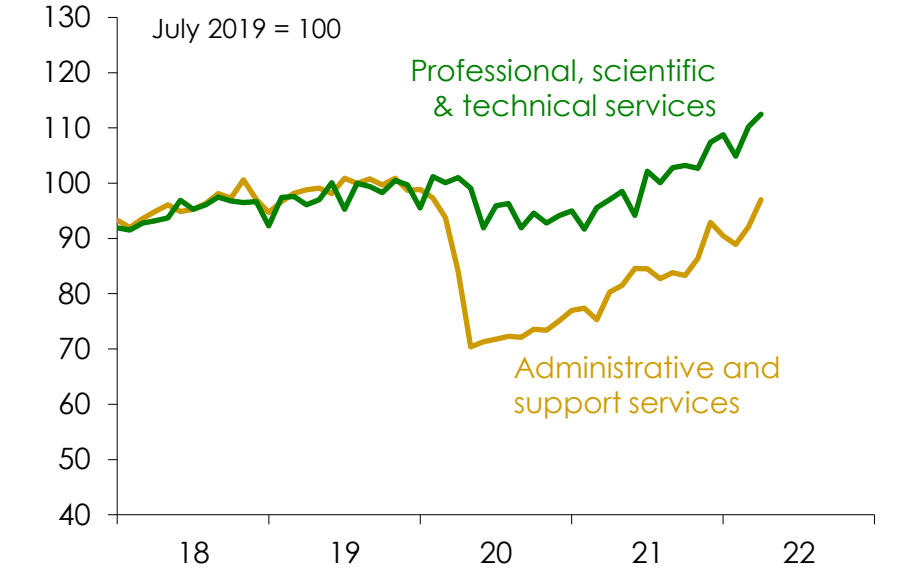
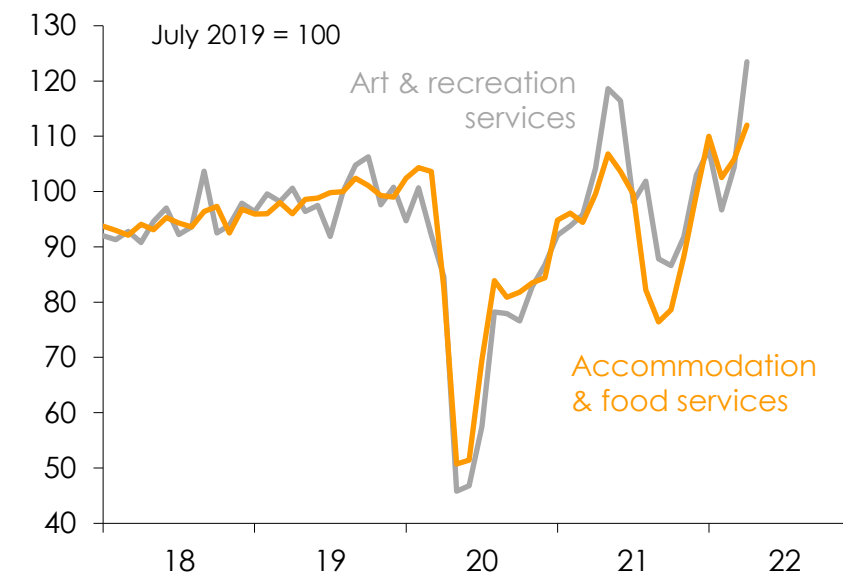
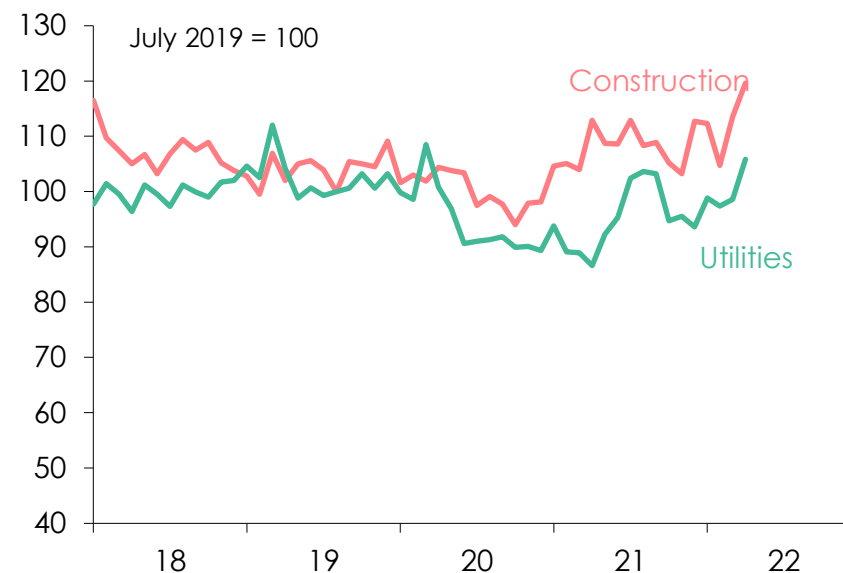
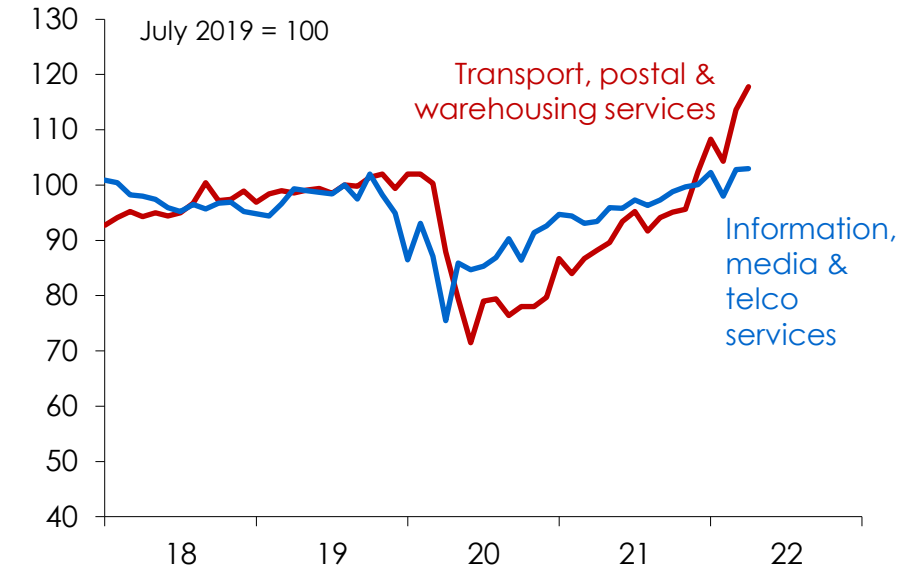
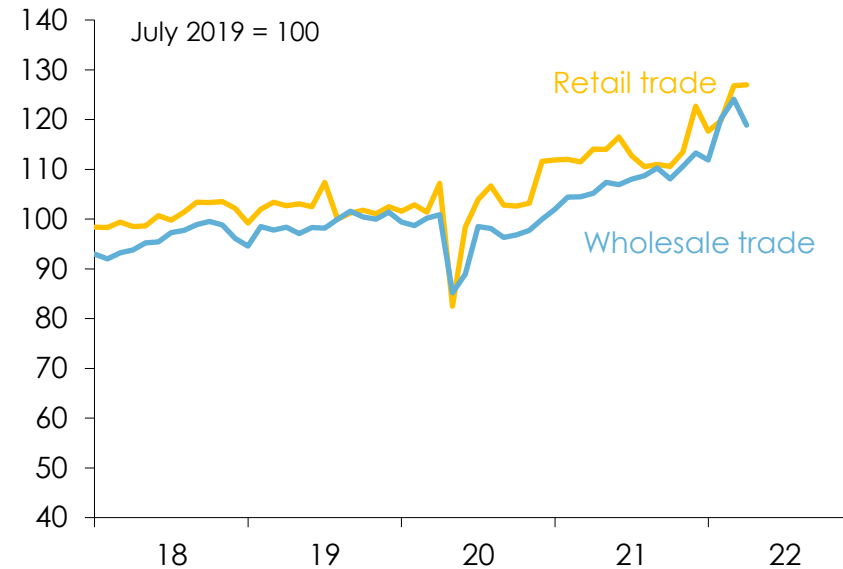
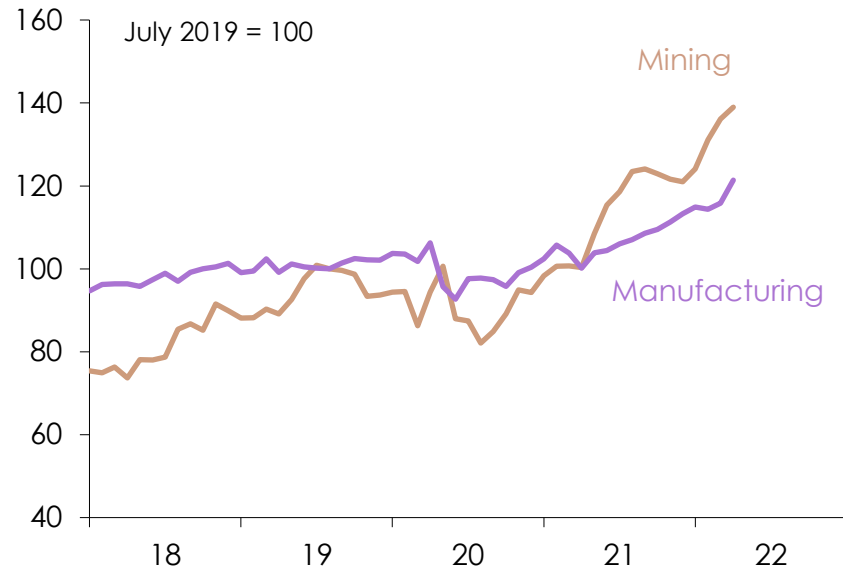


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; and [Labour Force, Australia, Detailed](#), February 2022.
[Return to "What's New"](#).

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

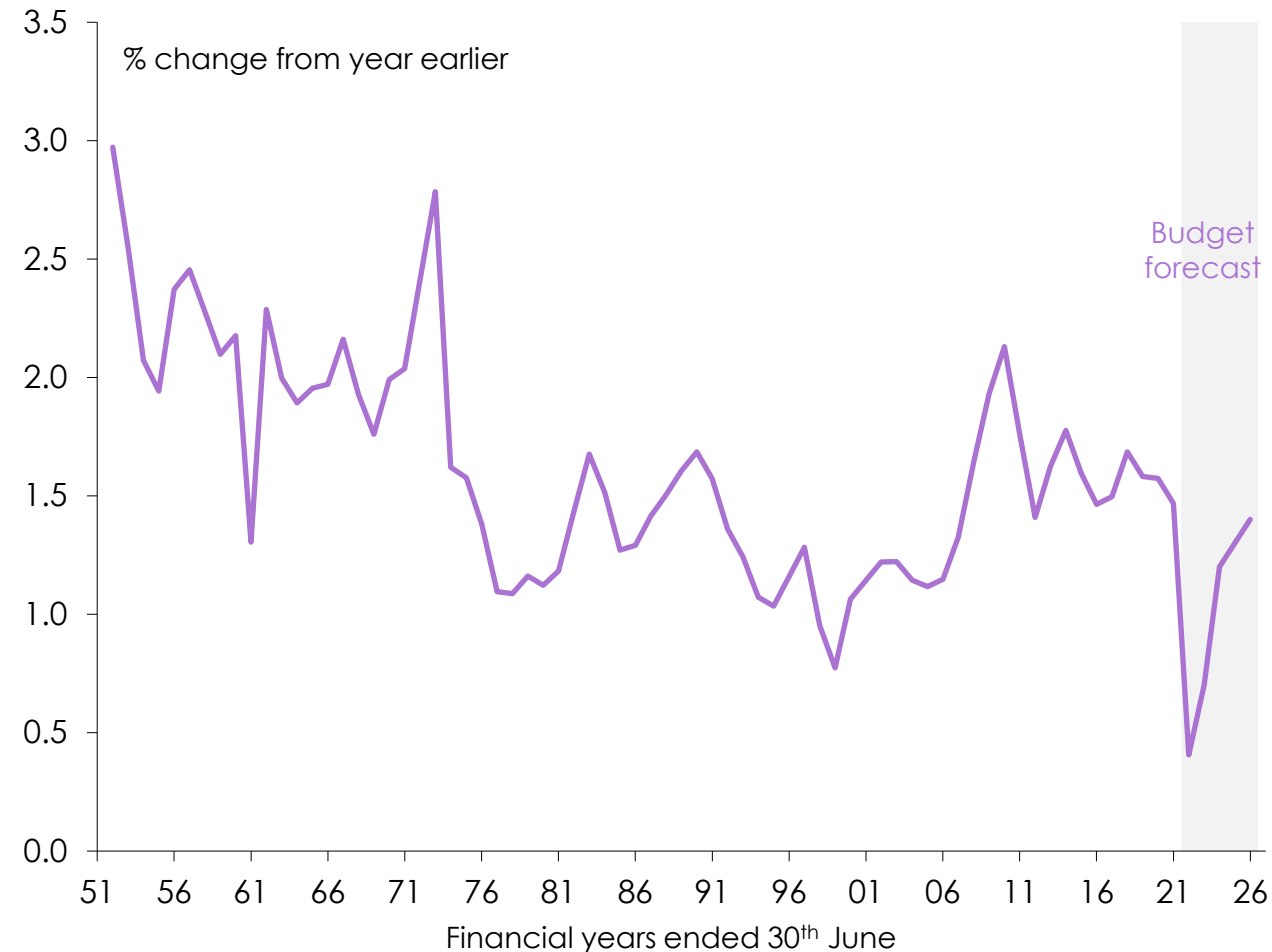


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

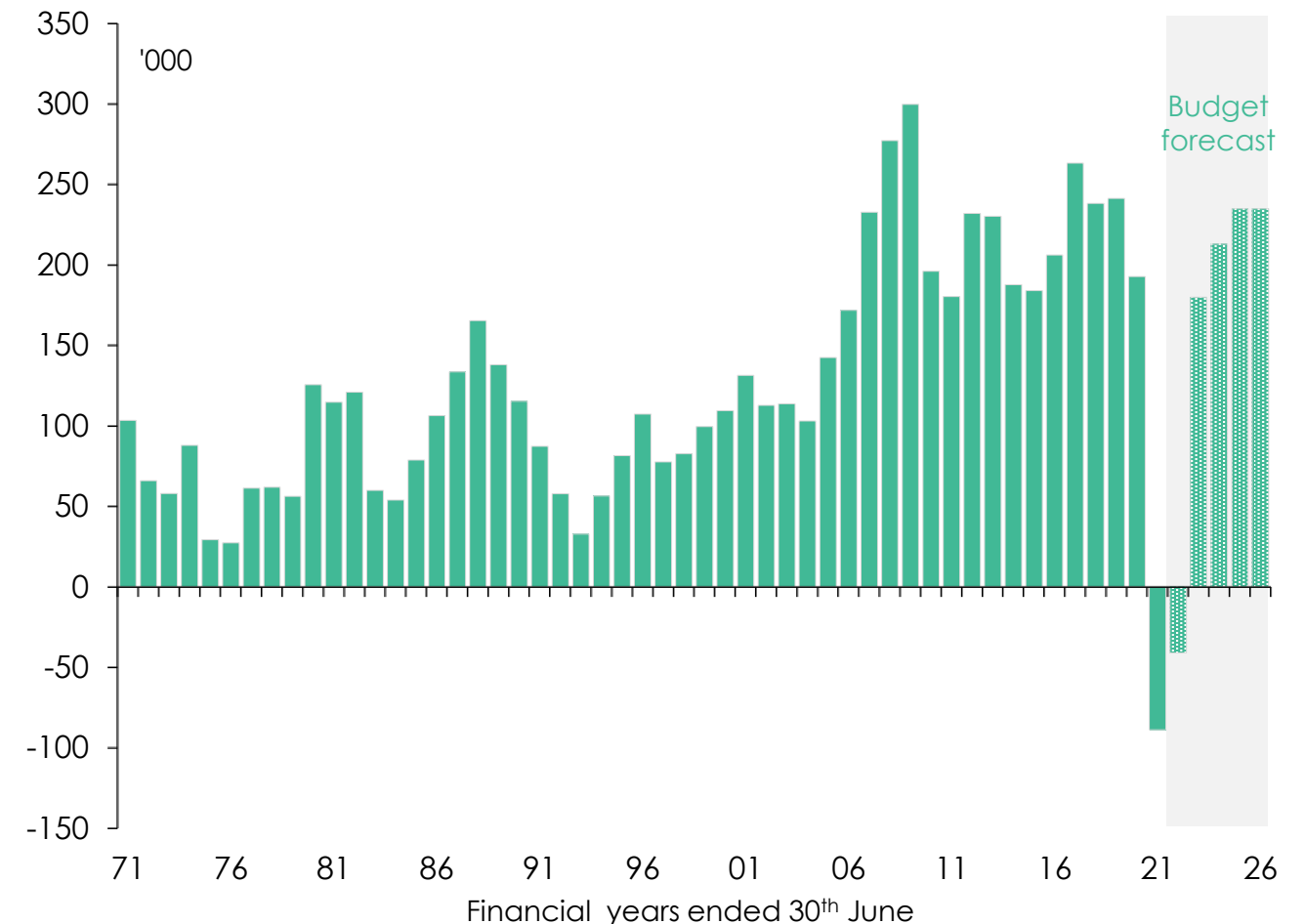
An important assumption underlying 'official' forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

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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)

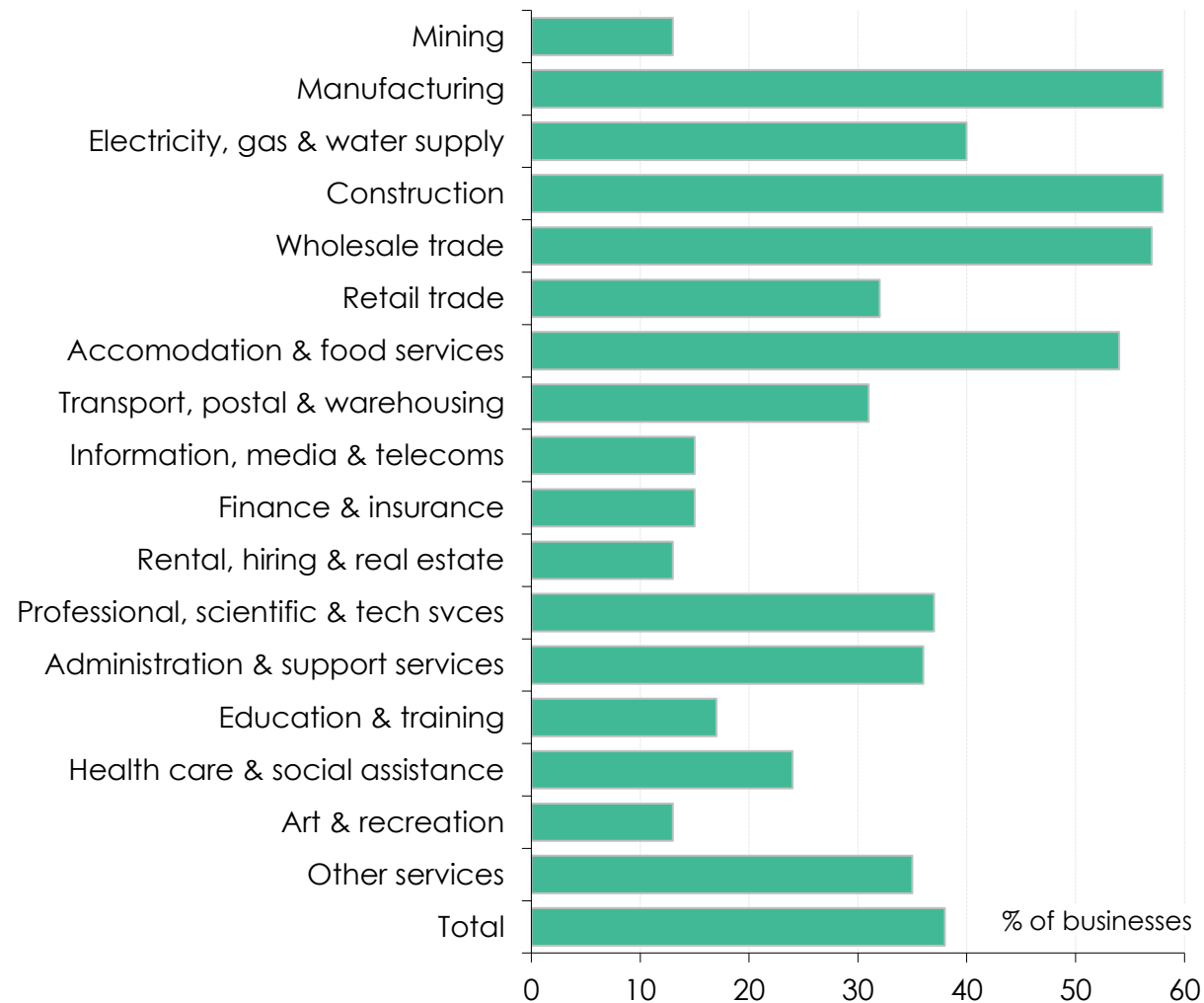
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29th March 2022.

The business sector

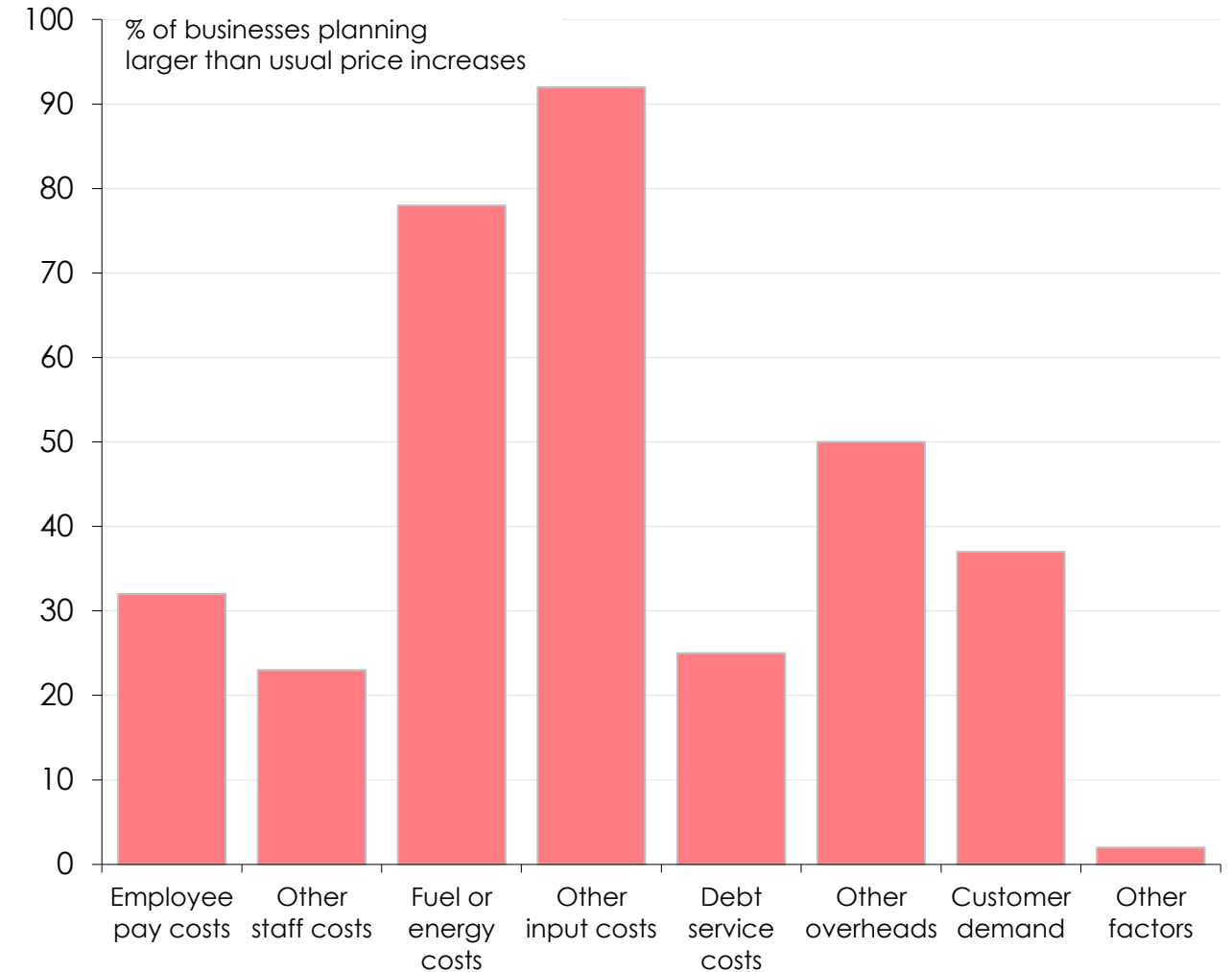
38% of businesses expect to raise prices 'more than normal' over the next three months, mainly to pass on increases in input costs (not labour costs)

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



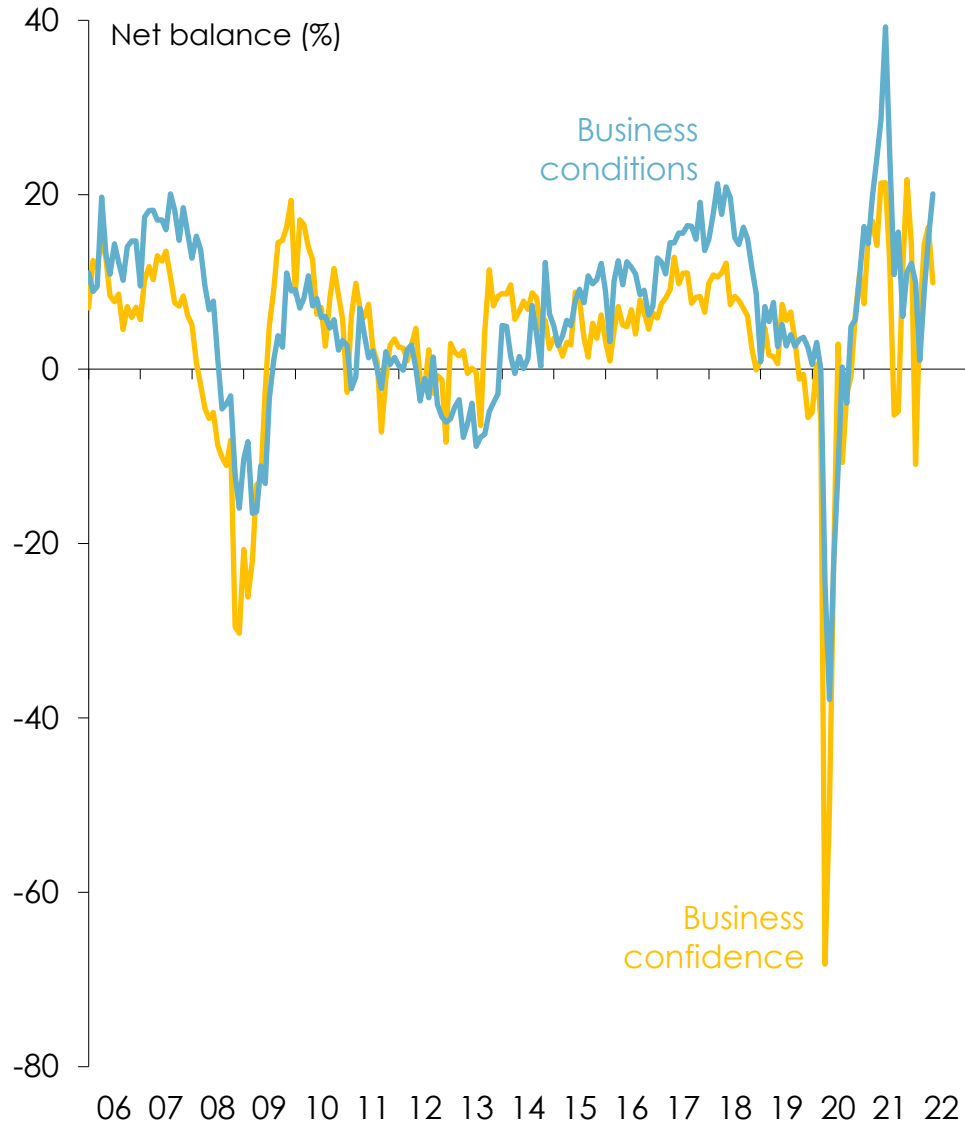
Reasons for increasing prices more than normal over the next three months



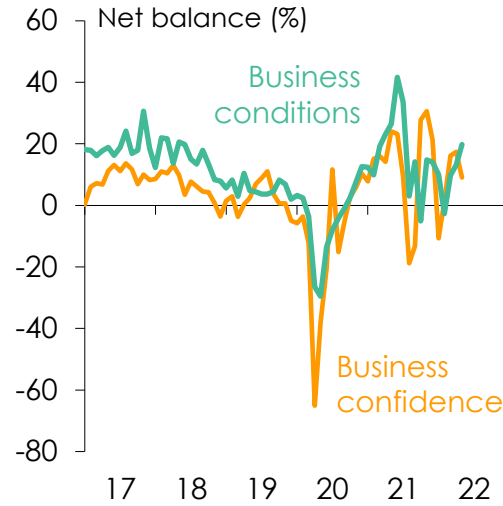
Business conditions improved in April, in every state except Tasmania, while business confidence eased a little (though remaining above average)

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

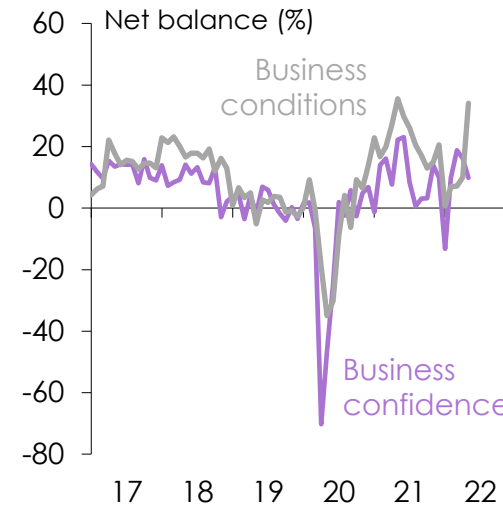
National business confidence & conditions



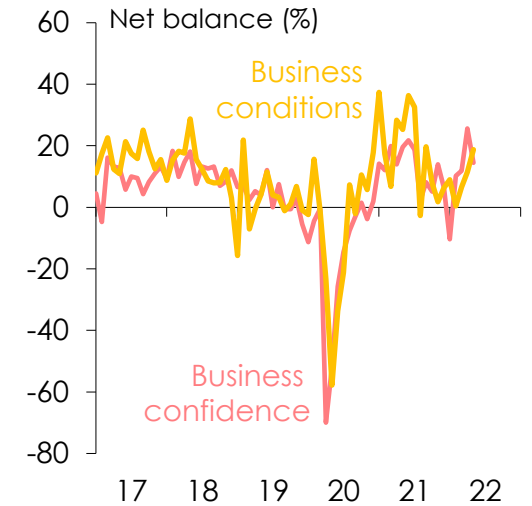
New South Wales



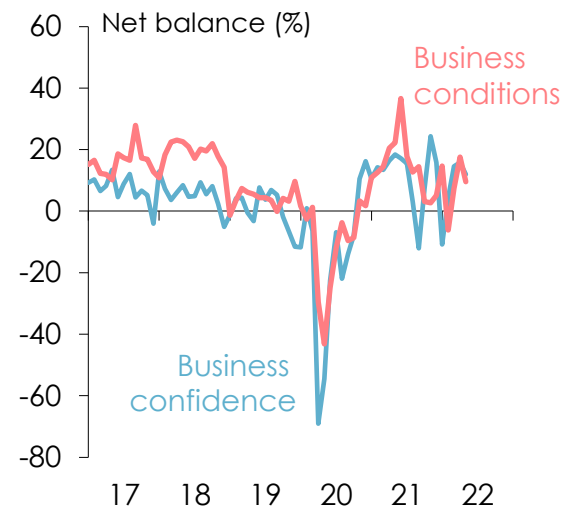
Queensland



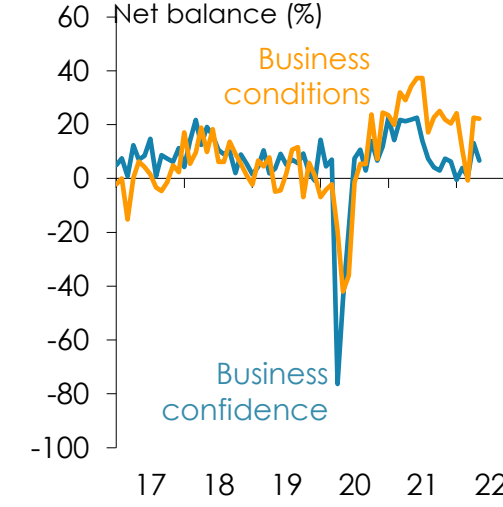
South Australia



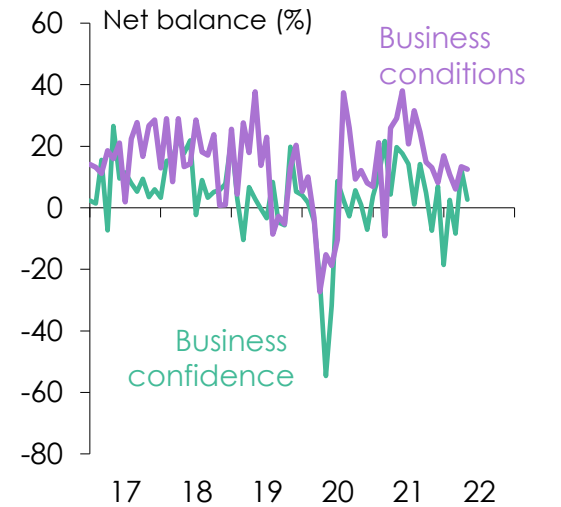
Victoria



Western Australia



Tasmania

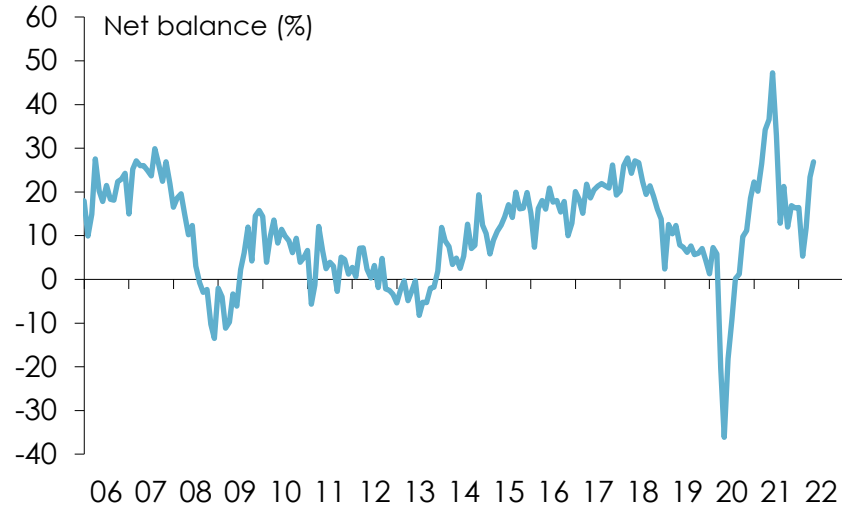


Sources: National Australia Bank [Monthly Business Survey](#), April 2022; May survey results will be released on 9th June. [Return to "What's New"](#).

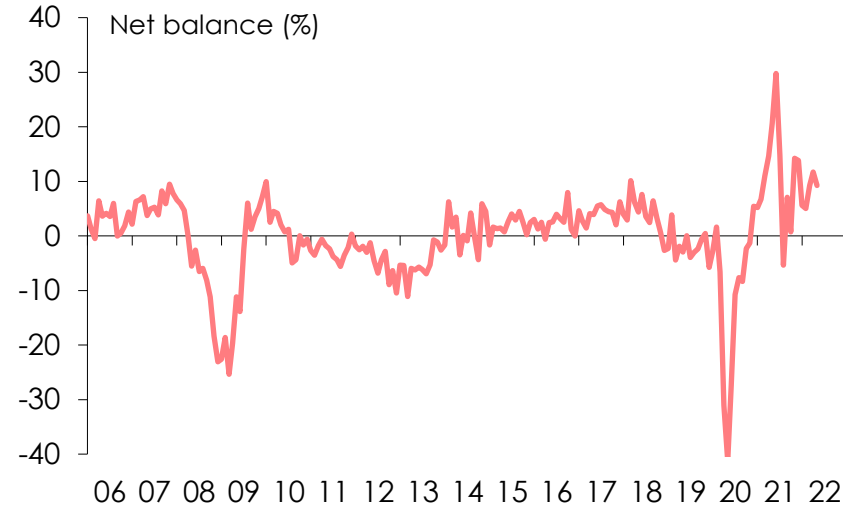
All of the elements of business conditions improved in April except for forward orders and hiring intentions, which fell marginally

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

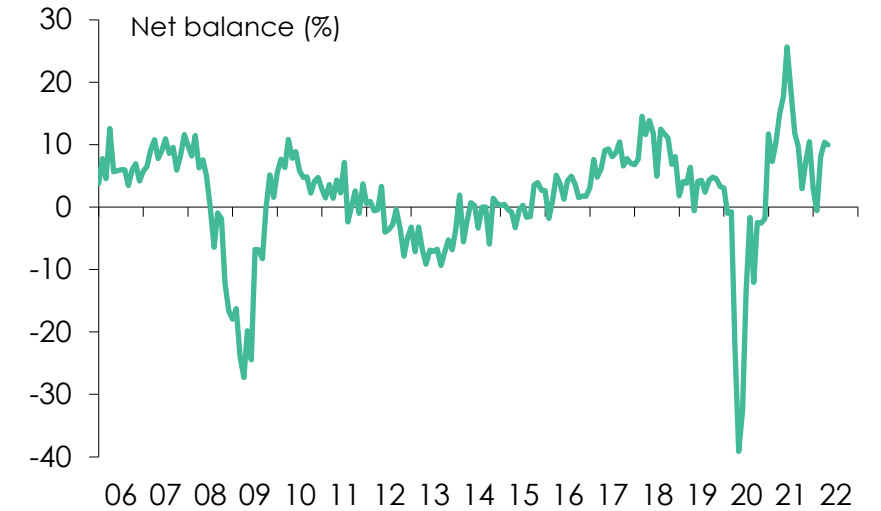
Trading conditions



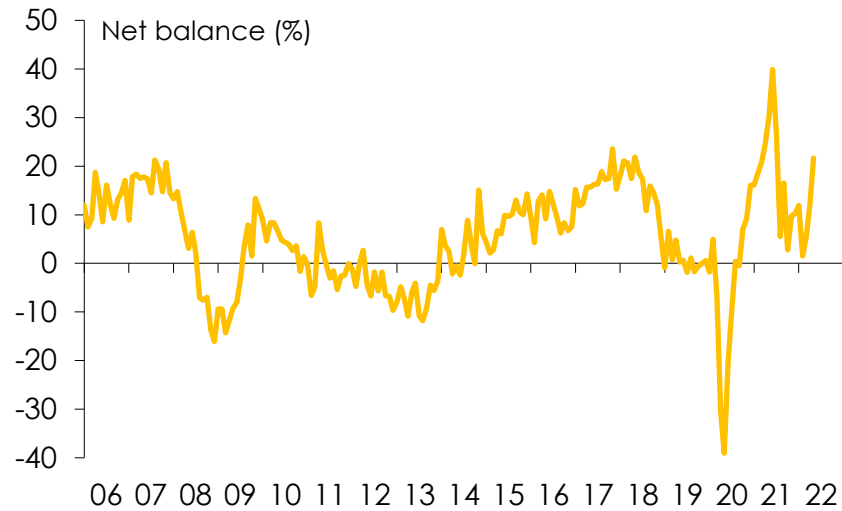
Forward orders



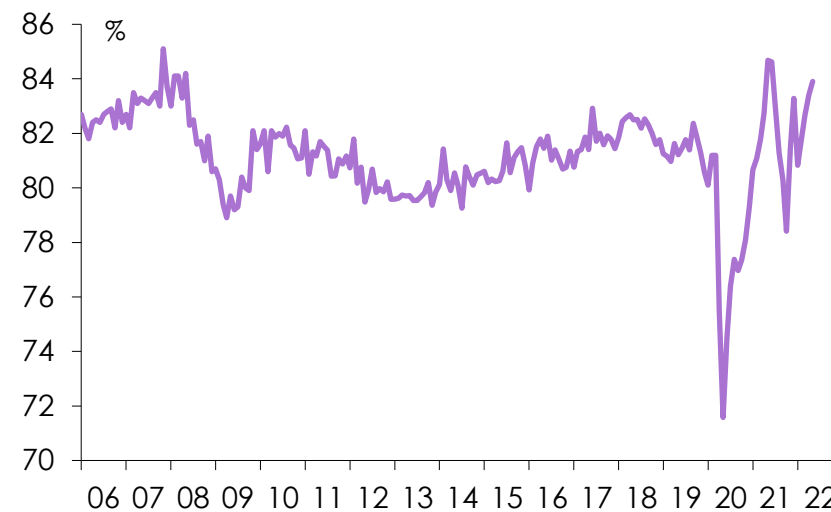
Employee hiring intentions



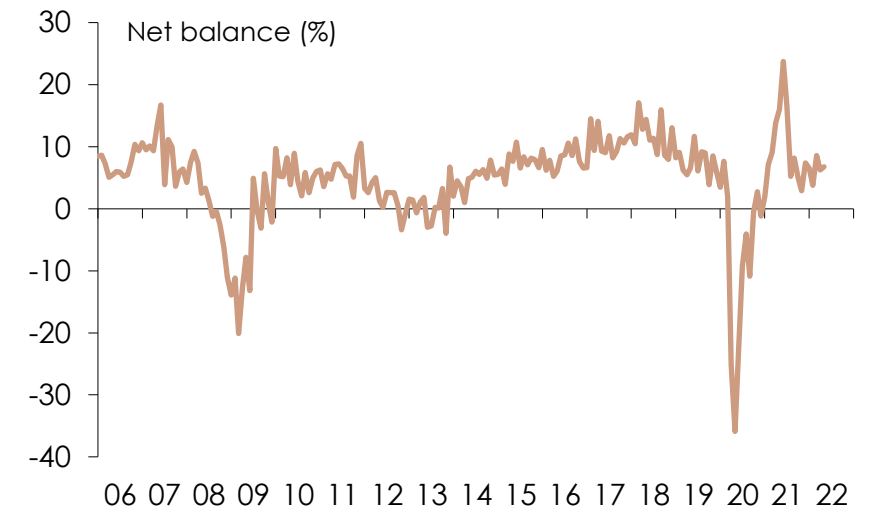
Profitability



Capacity utilization



Capital expenditure intentions

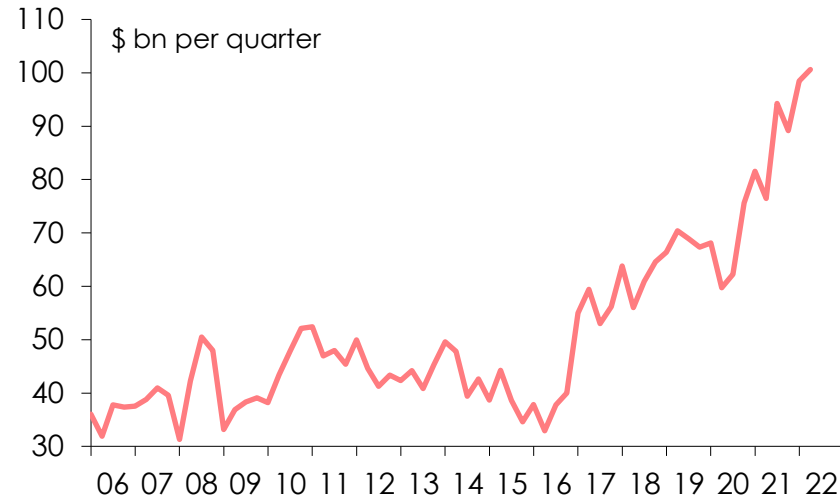


Source: National Australia Bank [Monthly Business Survey](#), April 2022; May survey results will be released on 9th June. [Return to "What's New"](#).

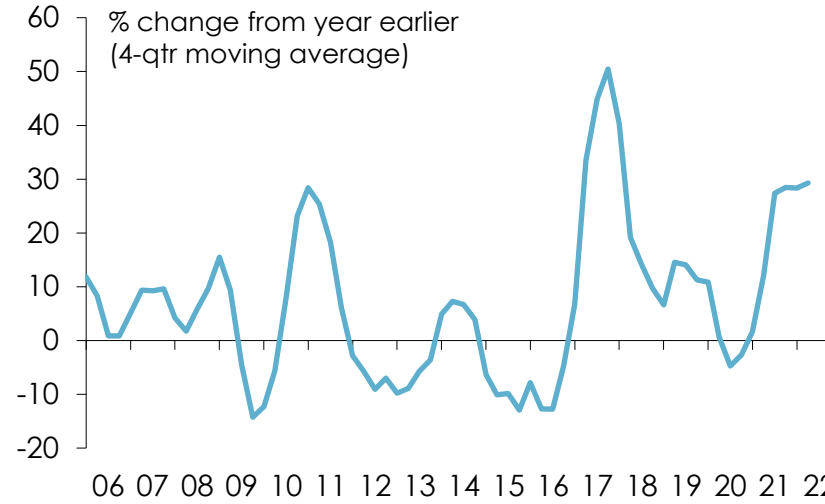
Company profits have grown strongly over the past five years, driven largely by mining – with the construction sector experiencing a ‘margin squeeze’

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

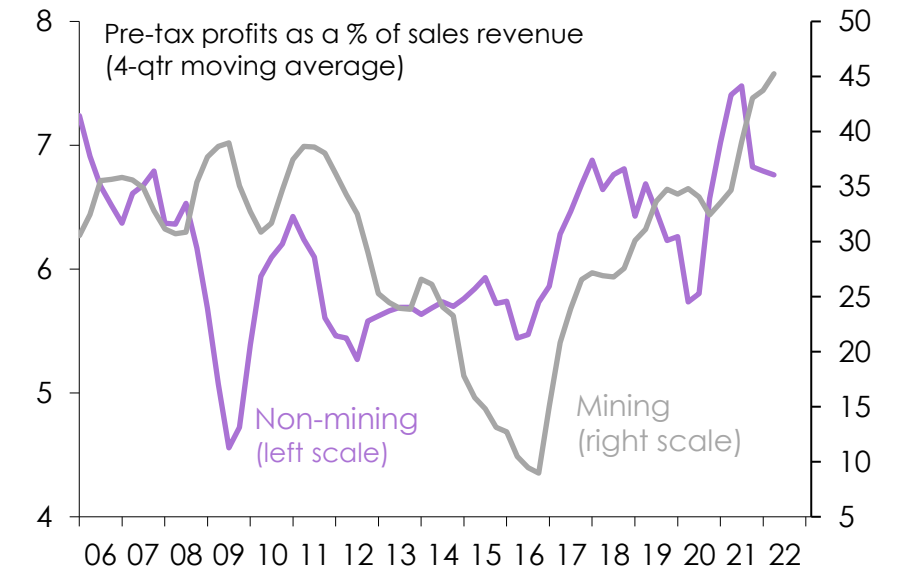
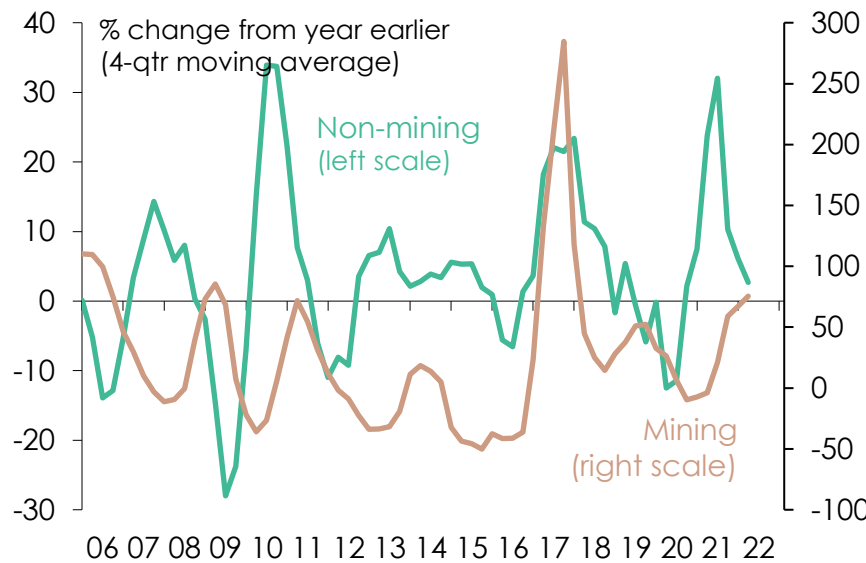
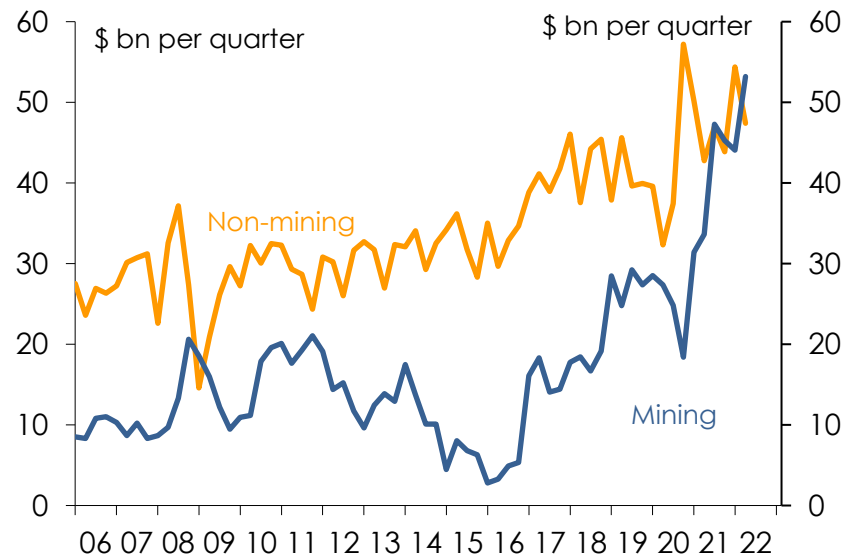
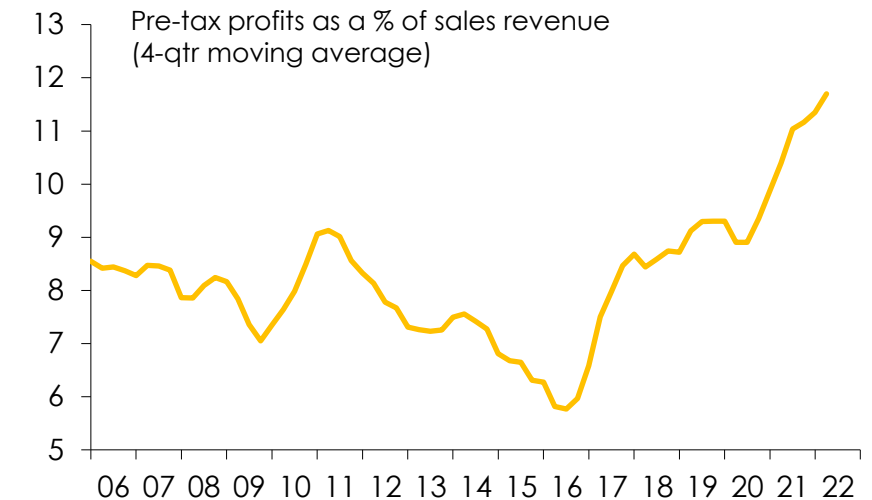
Pre-tax company profits



Pre-tax company profits growth



Pre-tax profit margins

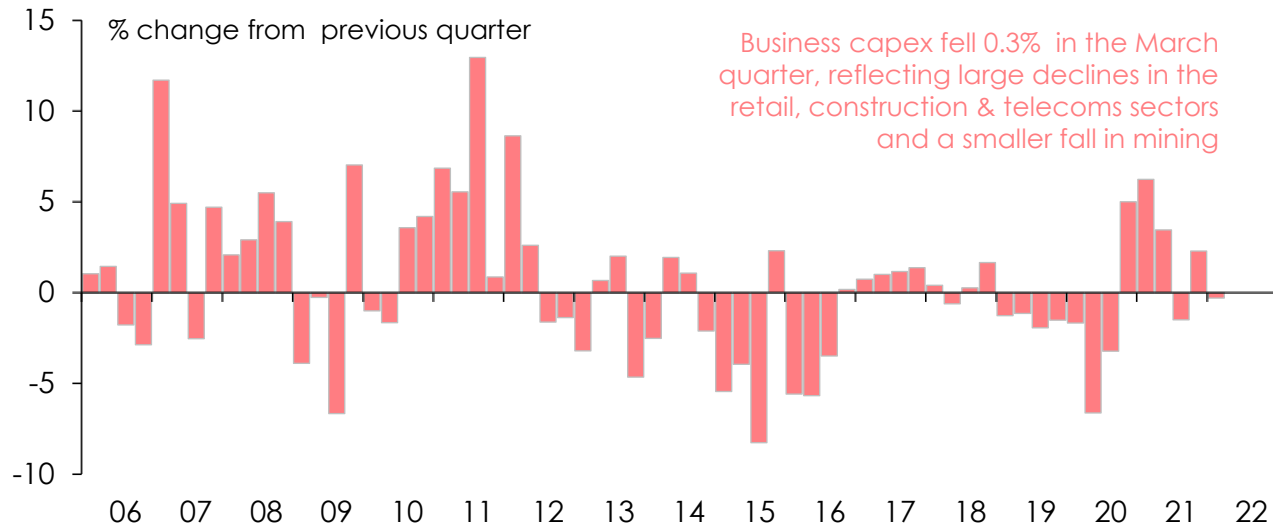


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), March 2021. June quarter data will be released on 5th September. [Return to "What's New"](#).

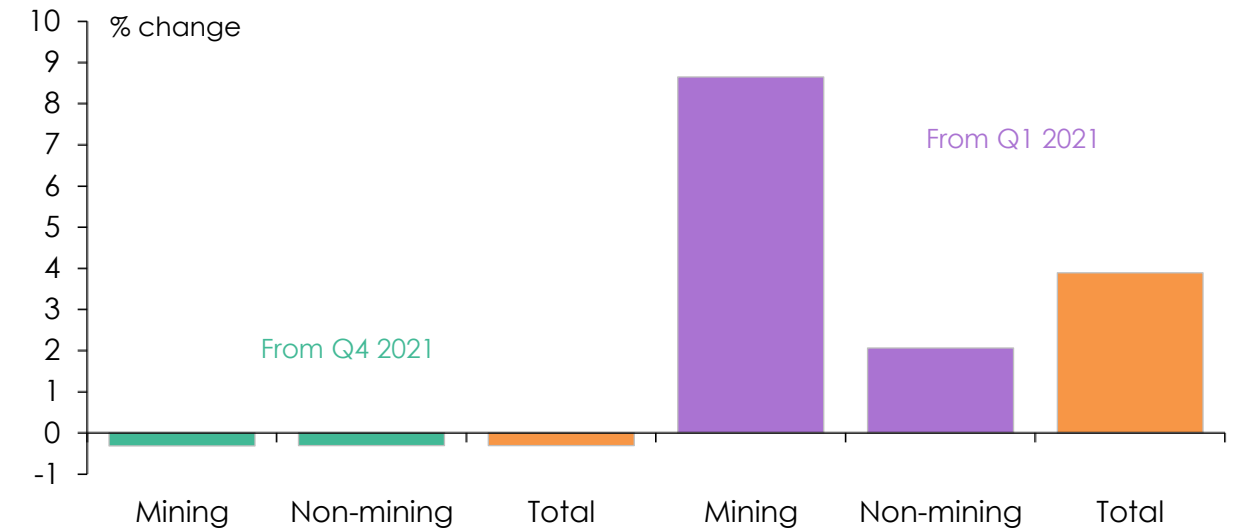
Business capex fell 0.3% in the March quarter, reflecting large declines in capex in retail, construction and telecoms, and a smaller fall in mining

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

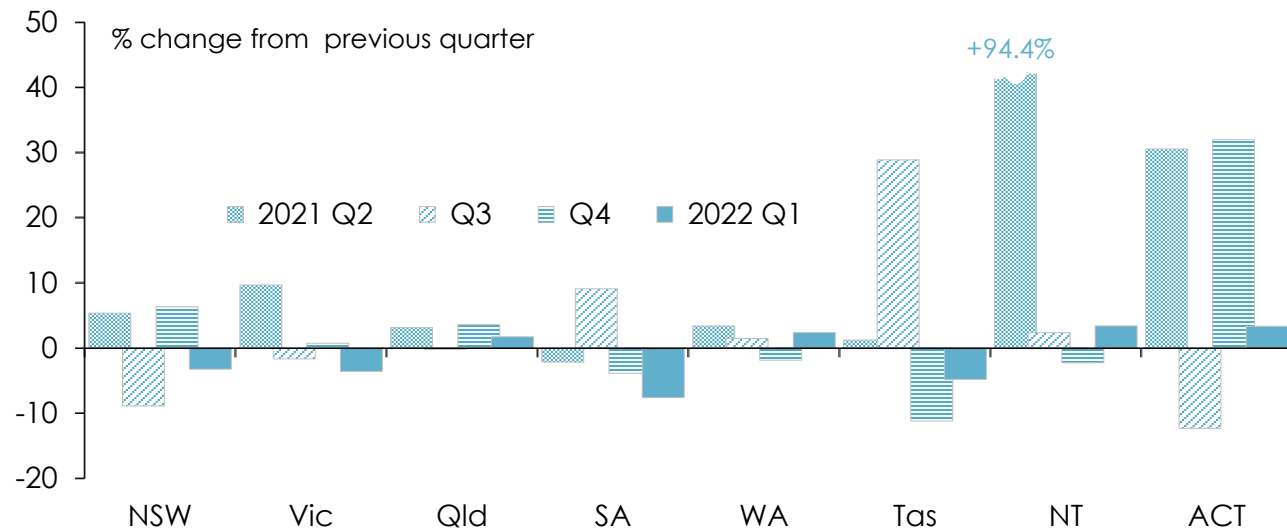
Real business new fixed capital expenditure



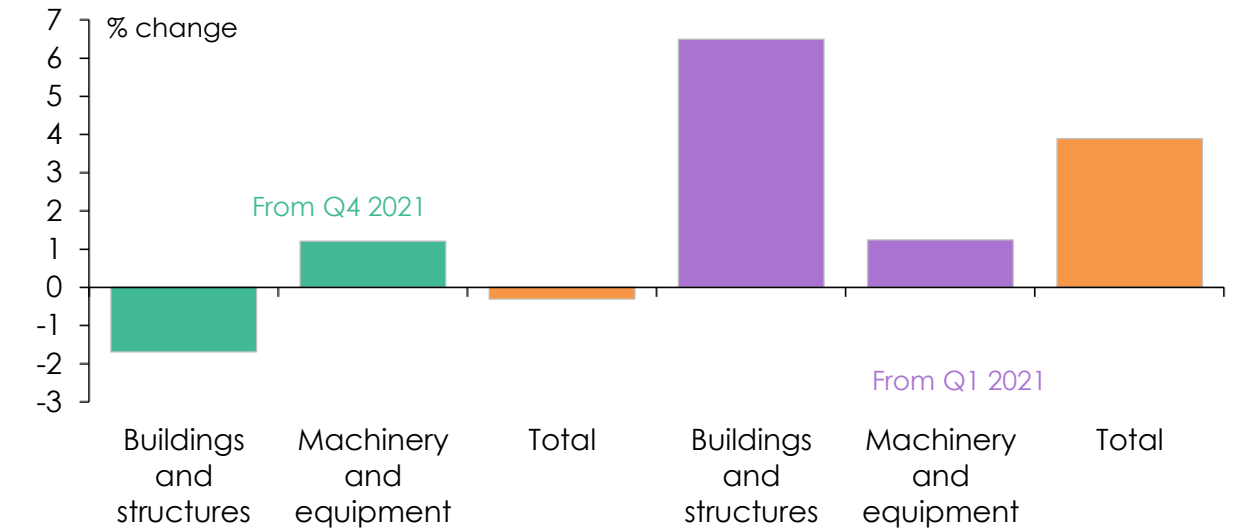
Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, 2021



Real business new fixed capex, by asset, Q1

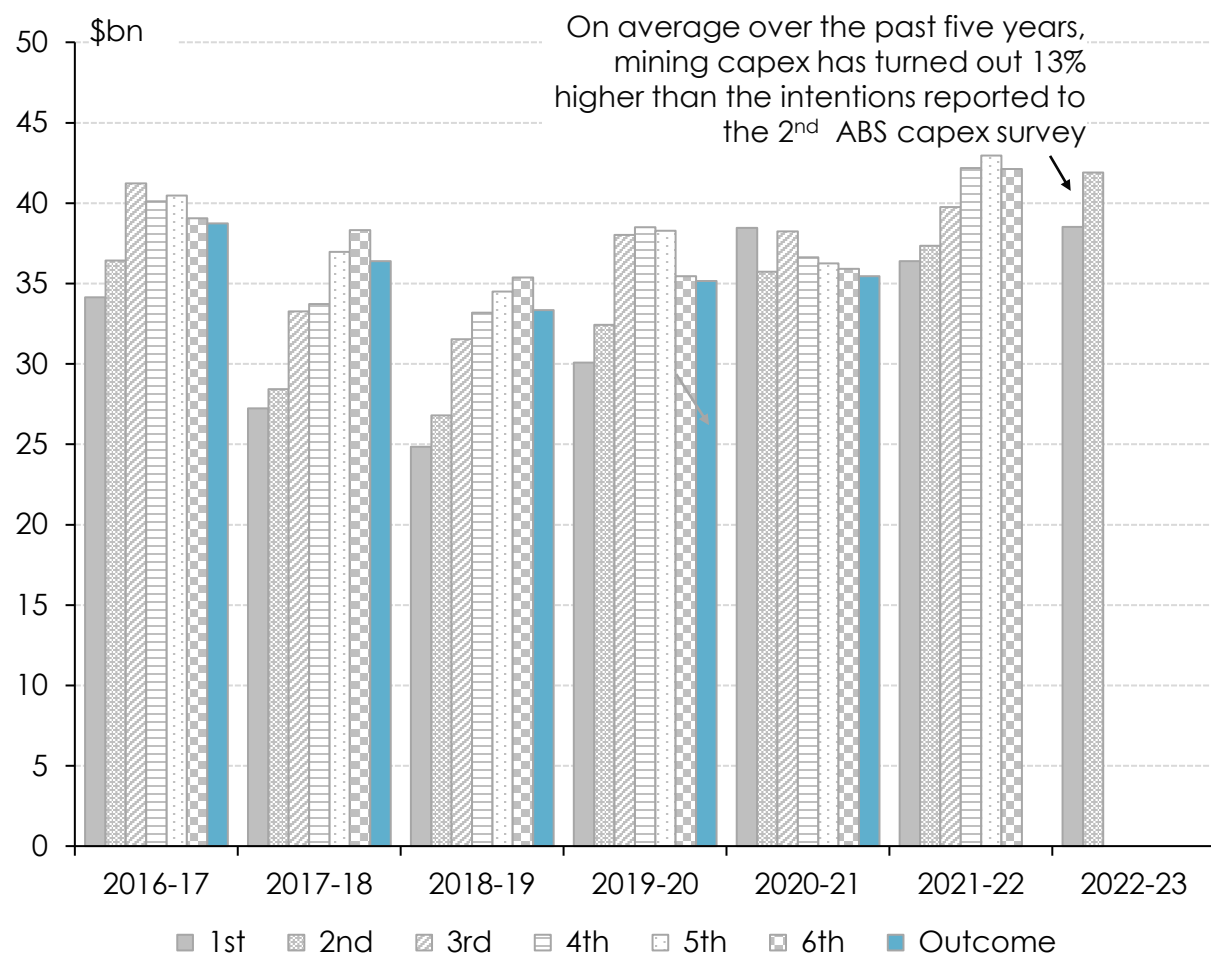


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); June quarter data will be released on 1st September. [Return to "What's New"](#).

Businesses revised up their capex plans for 2022-23 by 11¼% during the March quarter, pointing to a 16% increase from 2021-22 levels

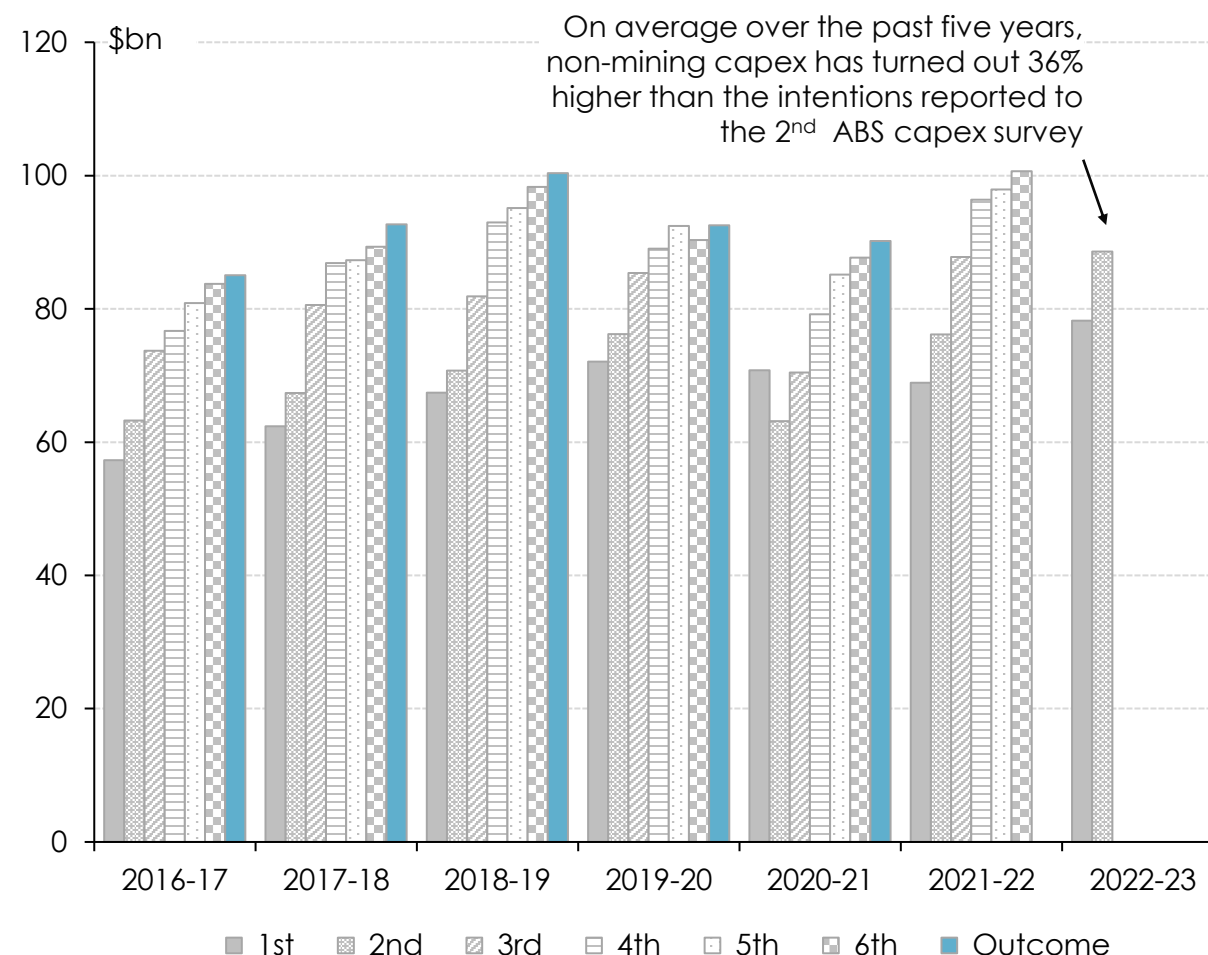
THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Capital expenditure intentions - mining



ABS capex intentions survey

Capital expenditure intentions – non-mining



ABS capex intentions survey

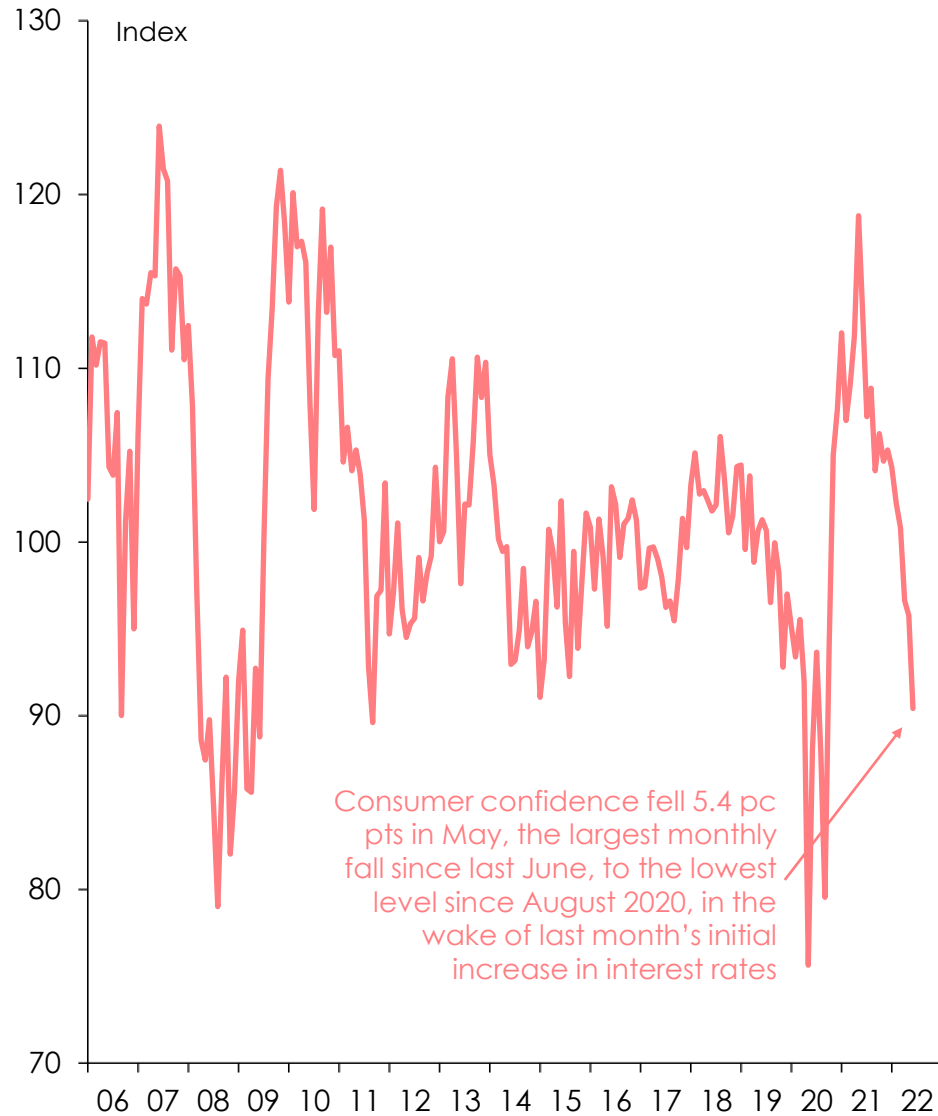
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in April & May, the third in July & August of the financial year, the fourth in October & 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 1st September. [Return to "What's New"](#).

The household sector and consumer spending

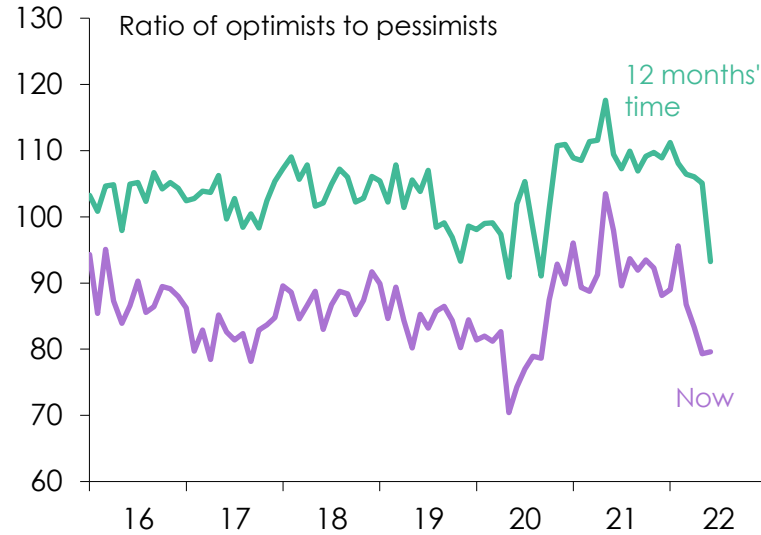
Not surprisingly, consumer confidence fell sharply in the aftermath of last month's RBA's rate increase

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

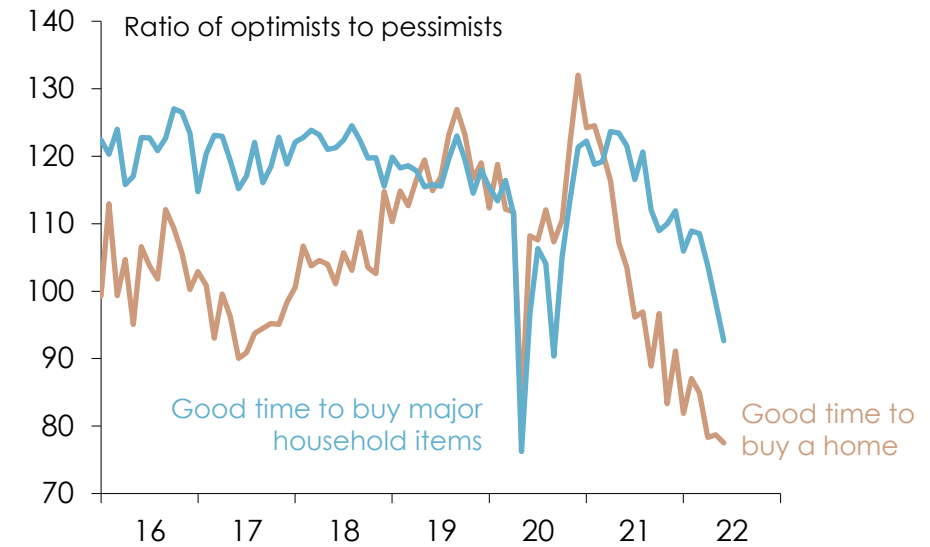
Consumer confidence index



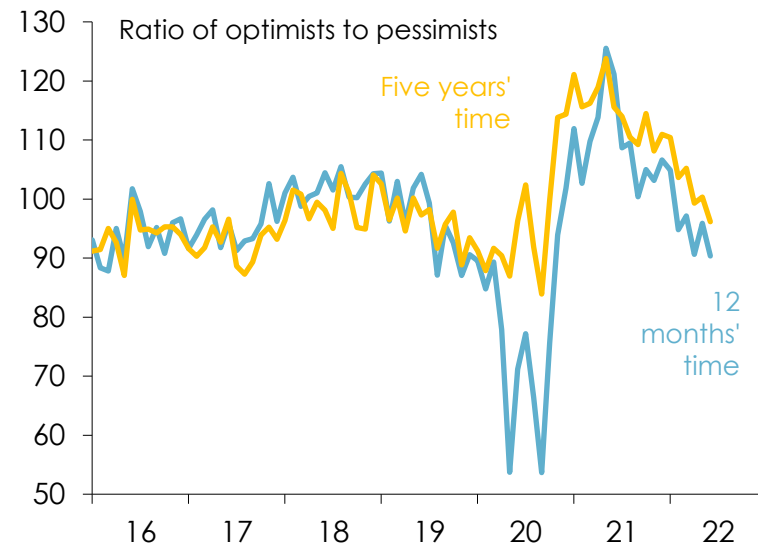
Household finances assessment



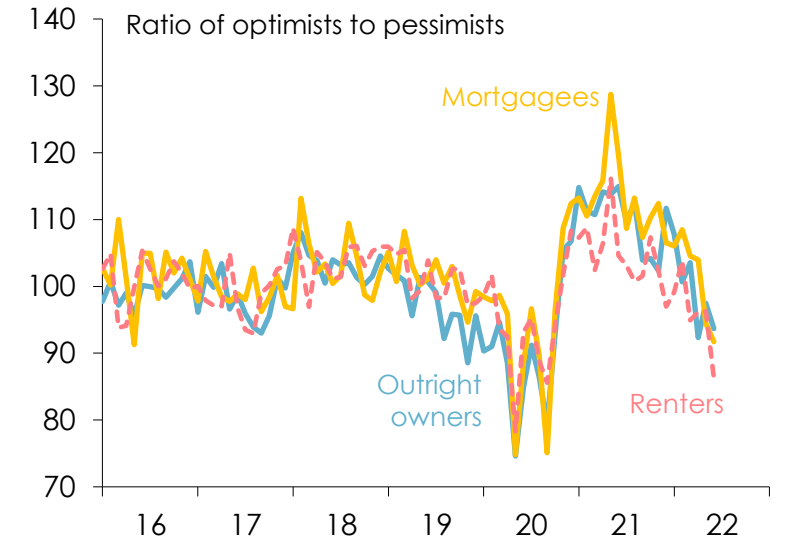
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure

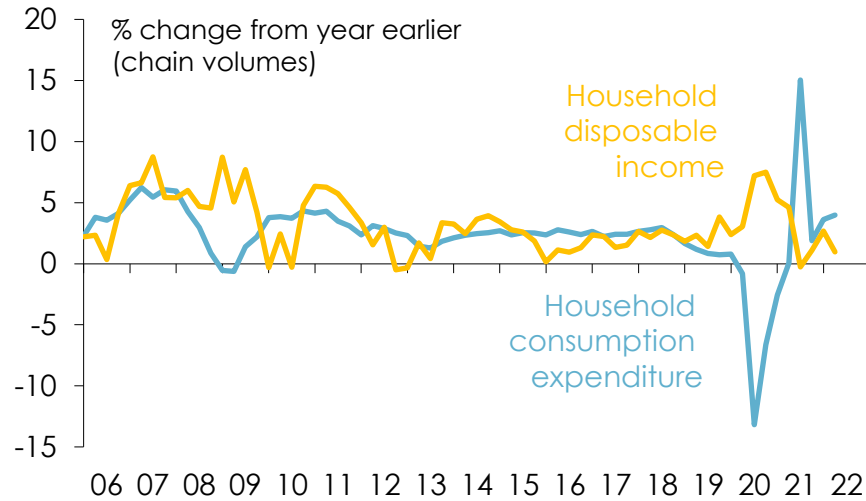


Source: [Westpac Banking Corporation](#). June consumer confidence will be released on 8th June. [Return to "What's New"](#).

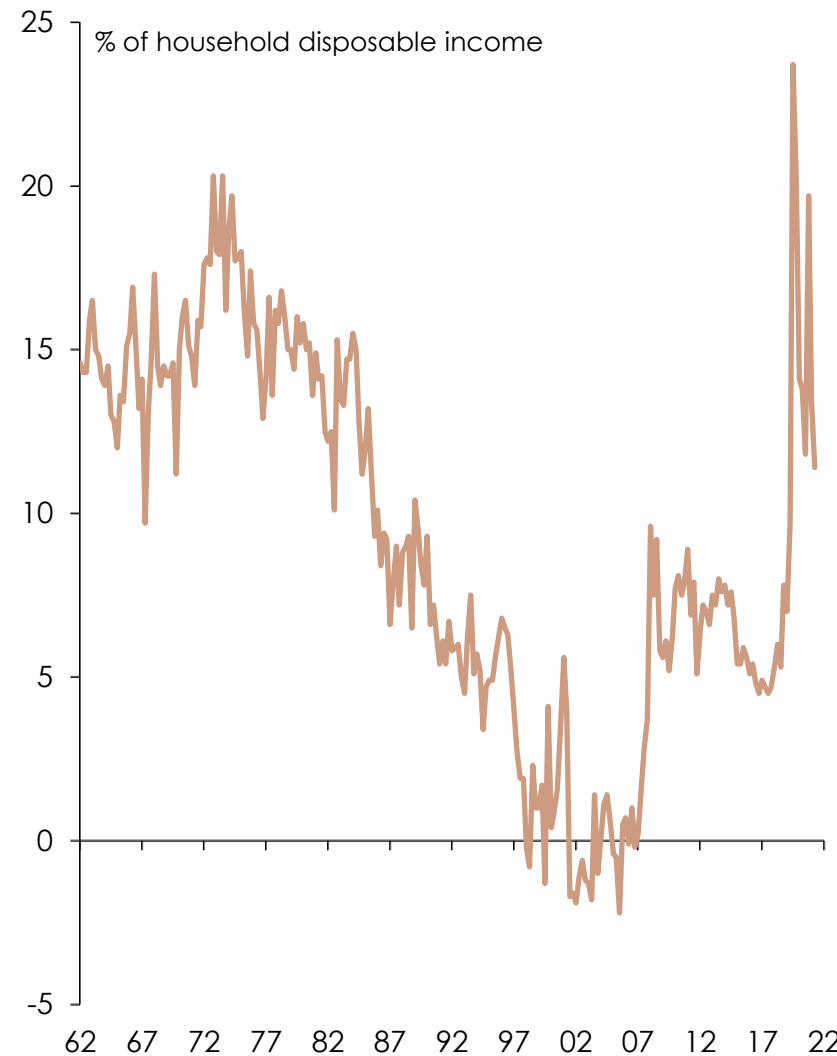
Households are sustaining spending in the face of weak real income growth by reducing saving – many households have large cash reserves

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

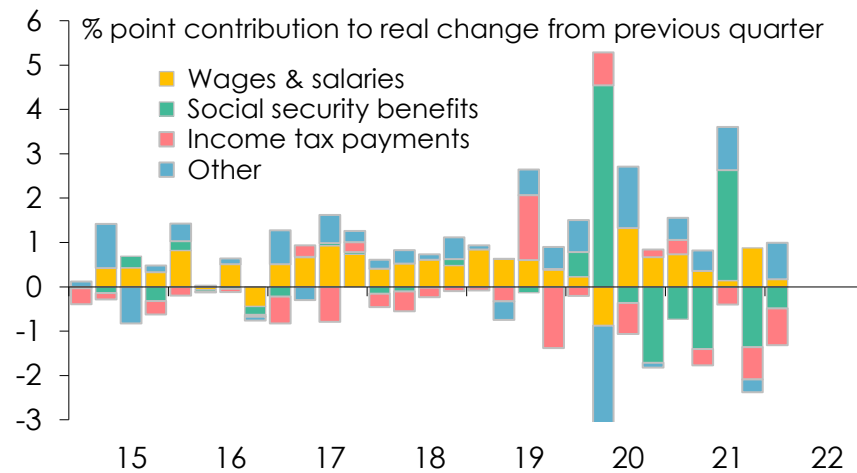
Household income and spending



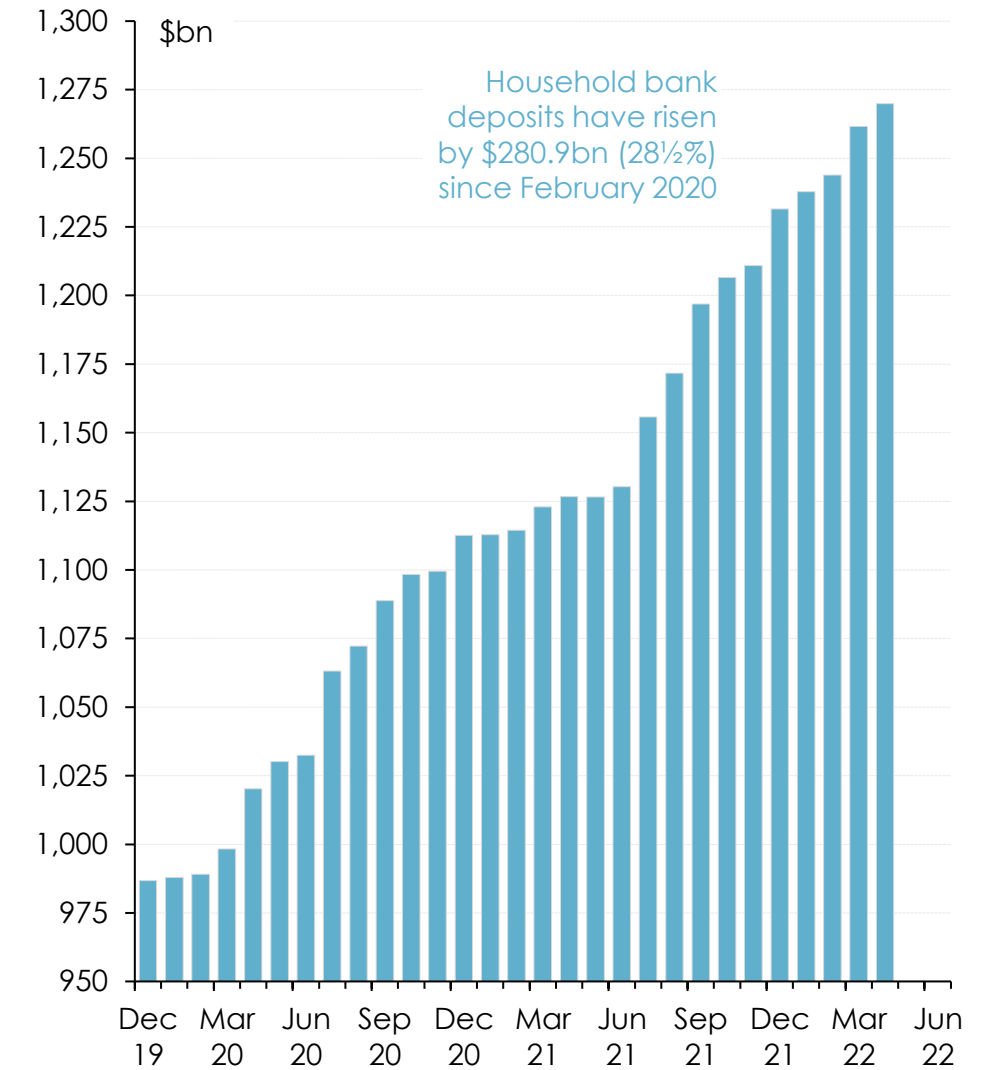
Household saving ratio



Sources of household income



Household bank deposits

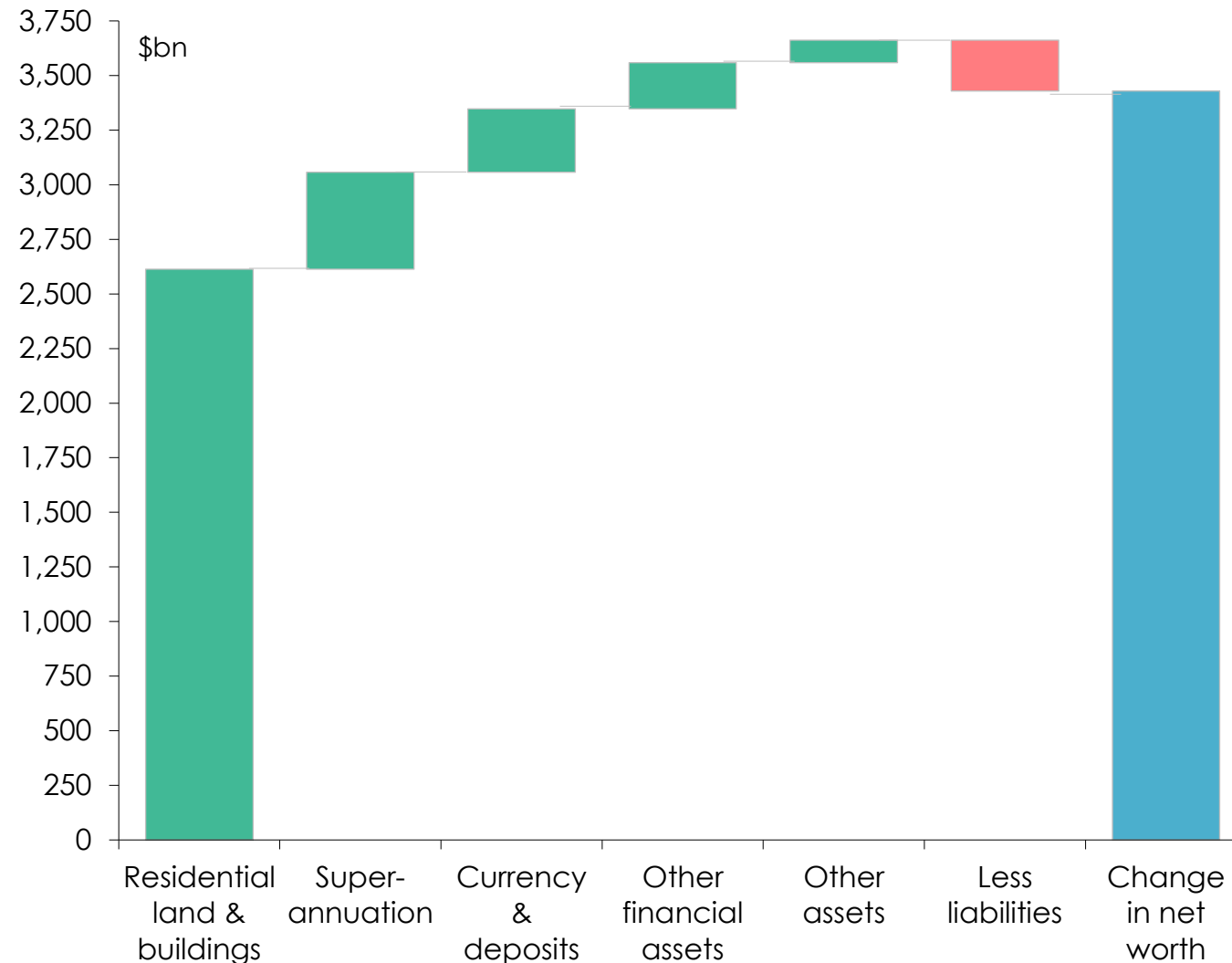


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). March quarter data on household income, spending and saving will be released on 1st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

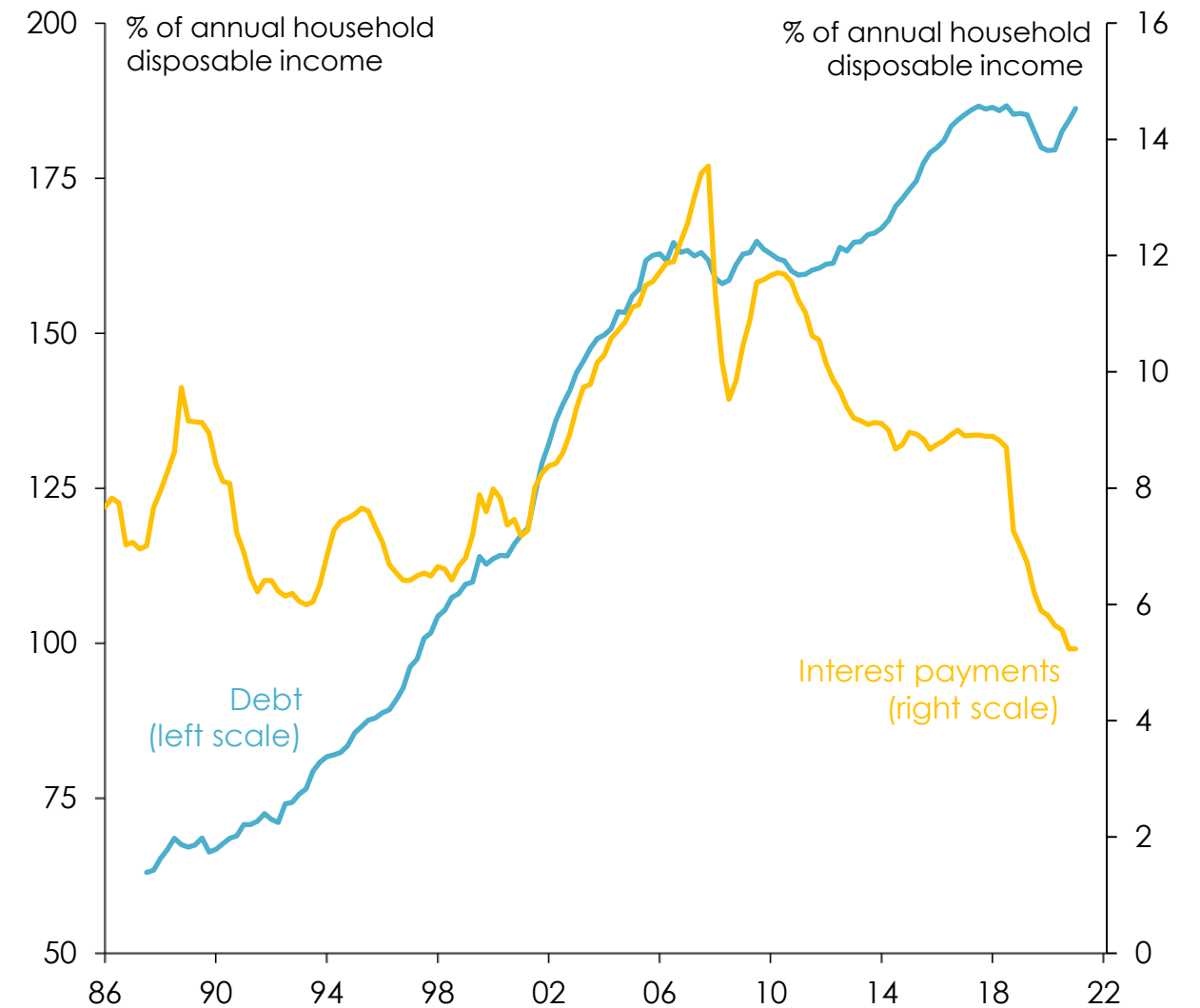
Household net worth has risen by \$3.4trn (25%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

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



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

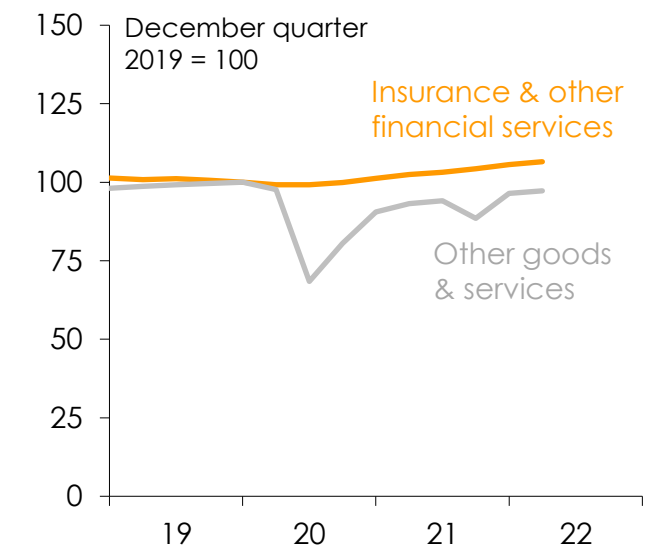
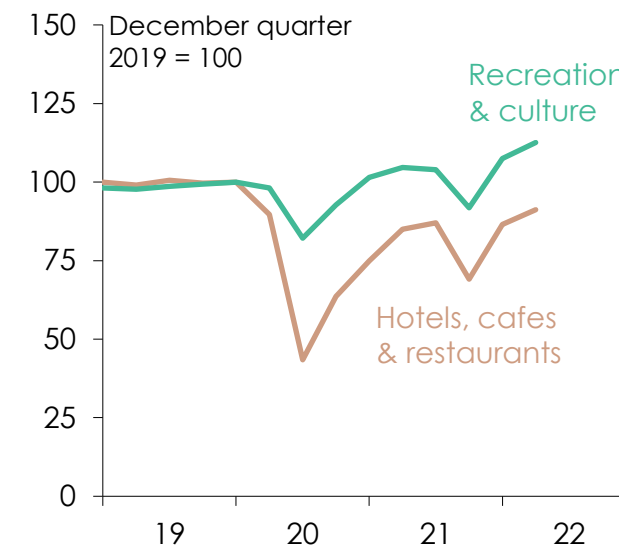
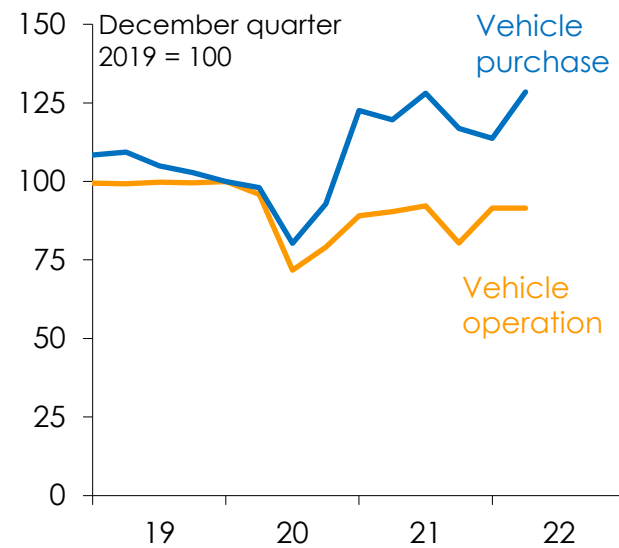
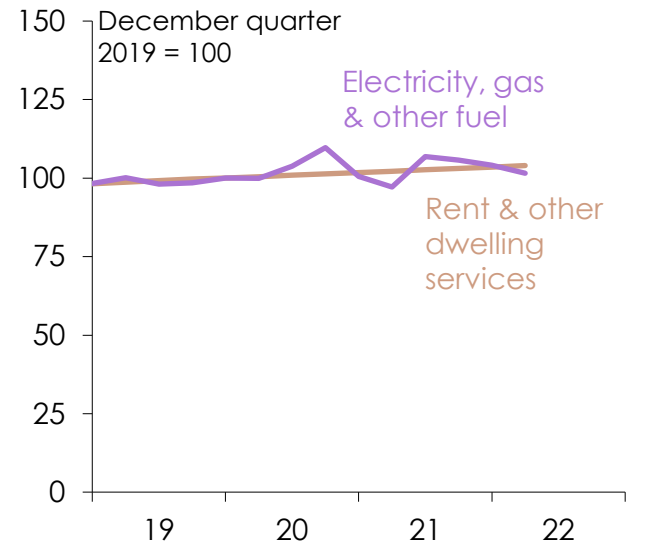
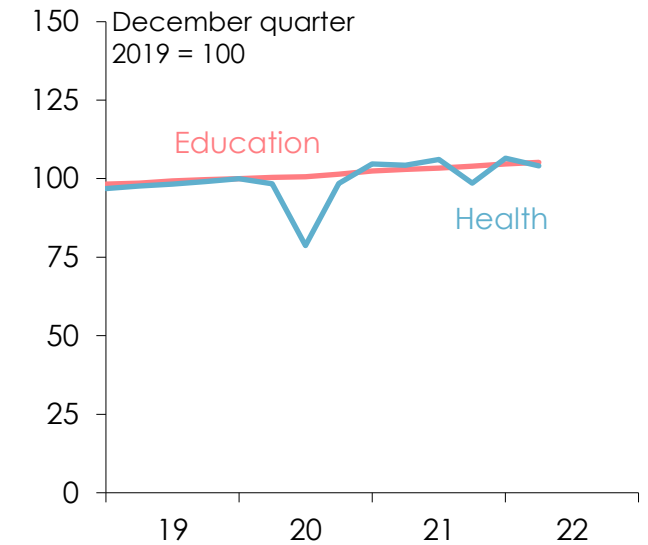
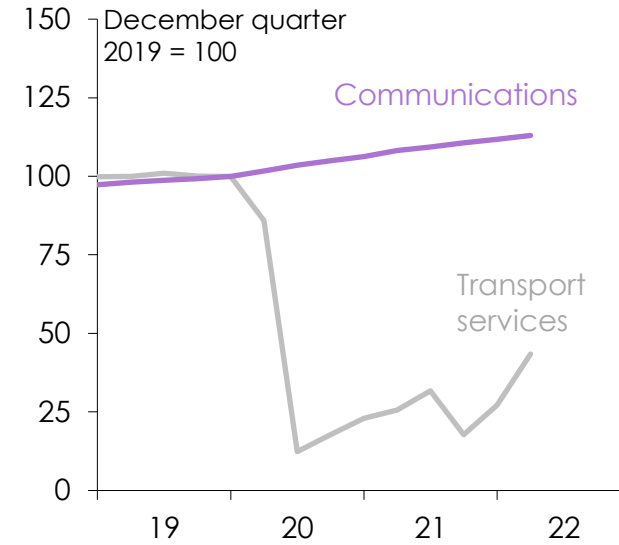
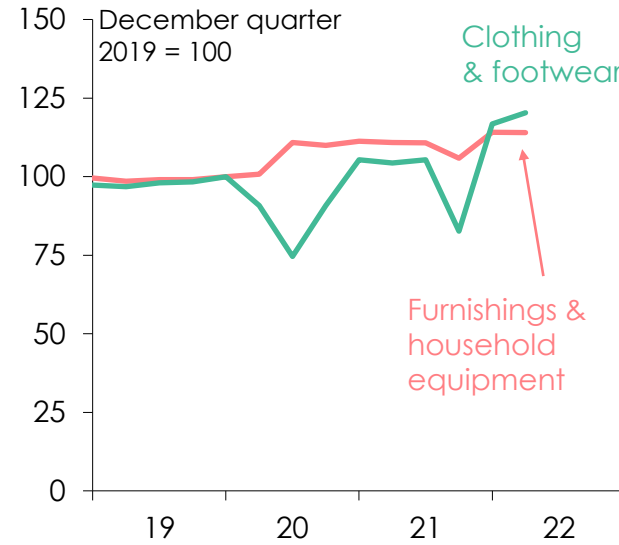
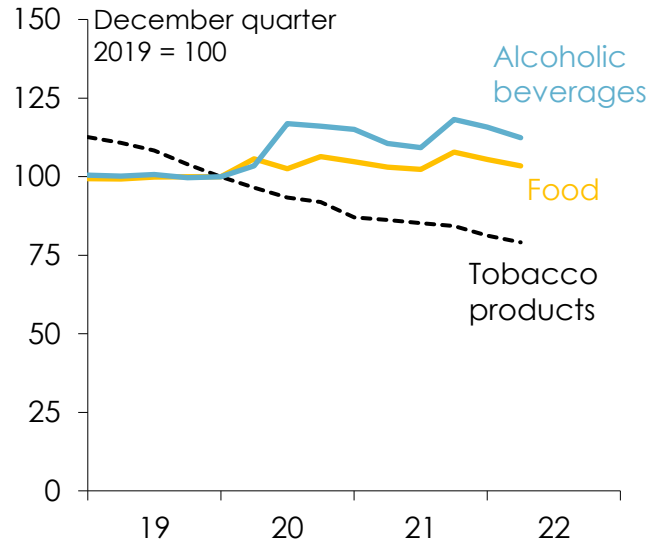


Sources: ABS, [Finance and Wealth Accounts](#), December quarter 2021; RBA, [Statistical Tables](#) E1 & E2. March quarter data will be released on 23rd June. [Return to "What's New"](#).

Household spending on most of the services which were impacted by last year's lockdowns is recovering – except for transport

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Major categories of household consumption spending

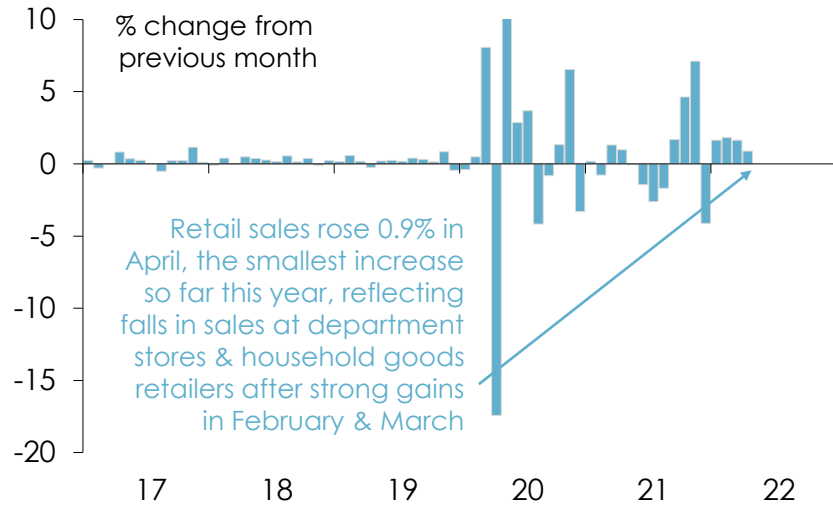


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; June quarter data will be released on 7th September. [Return to "What's New"](#).

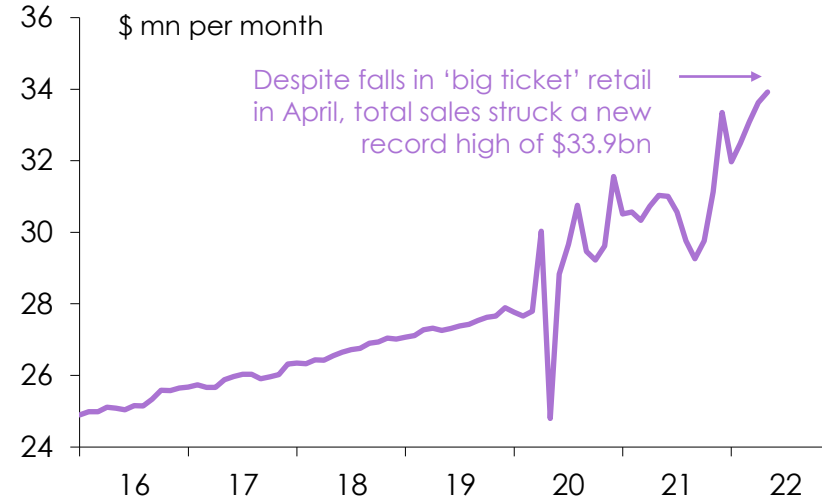
Retail sales registered a smaller 0.9% gain in April, with falls in sales at department stores & household goods retailers

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

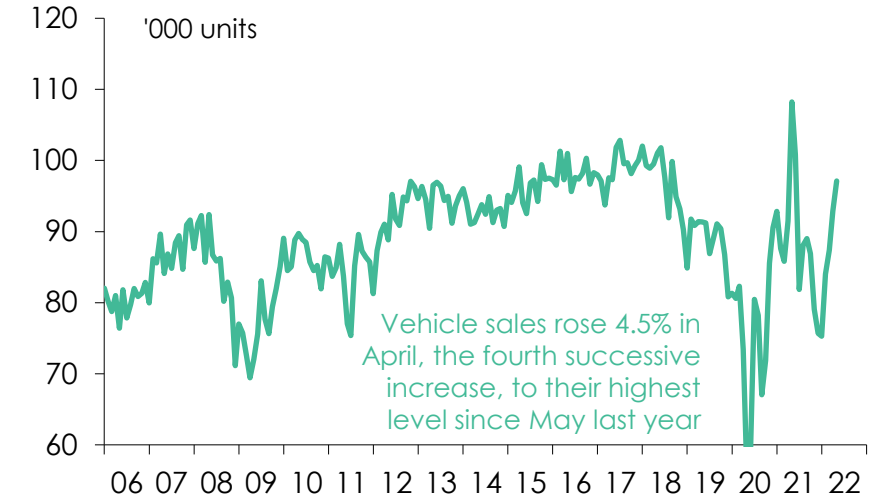
Monthly retail sales



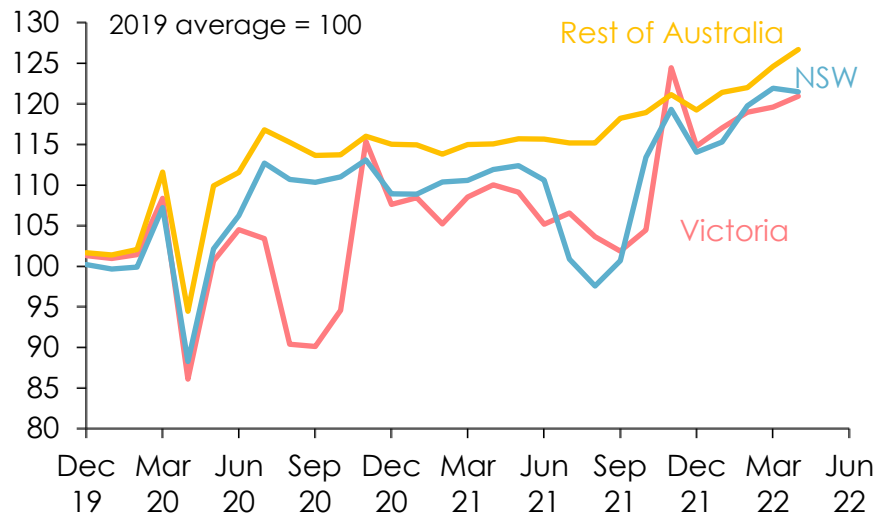
Level of retail sales



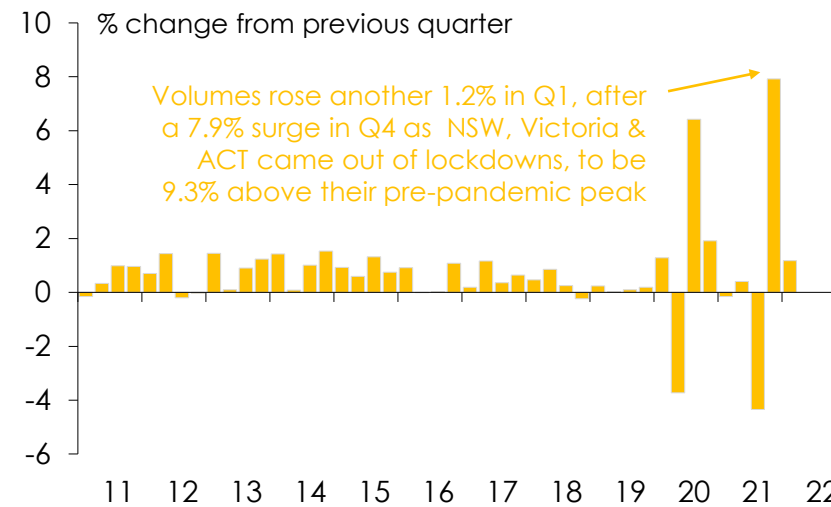
New motor vehicle sales



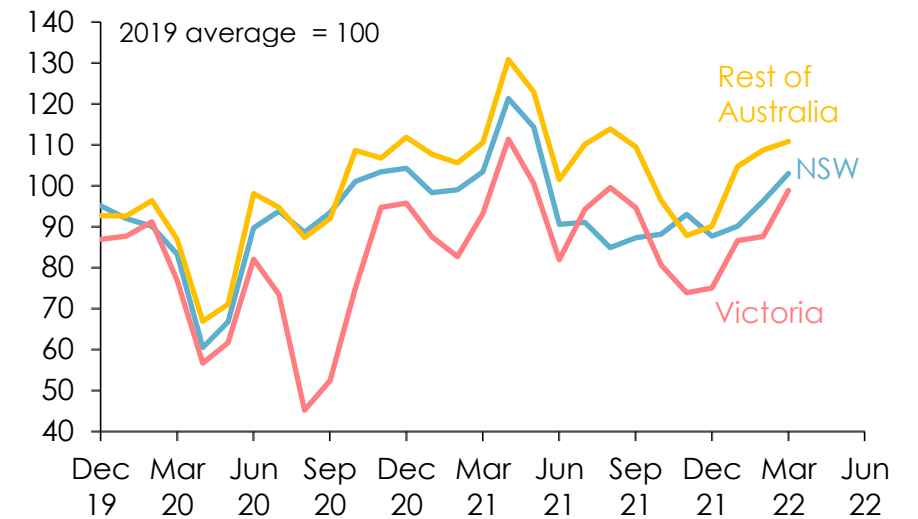
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



Vehicle sales – NSW, Vic & the rest

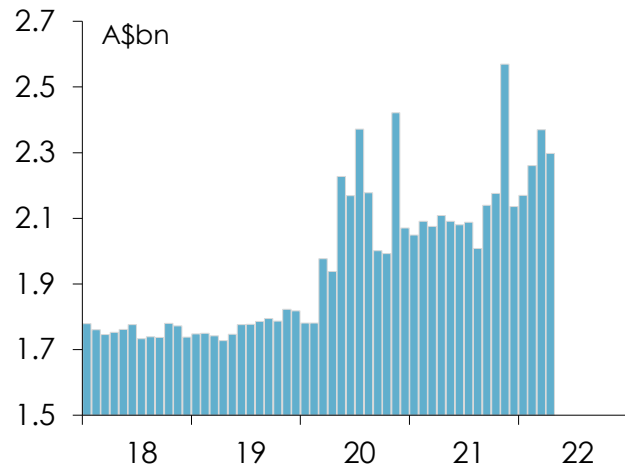


Note: see also [slide 35](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary May retail sales data will be released on 29th June; May motor vehicle sales data will be released in the second week of June. [Return to "What's New"](#).

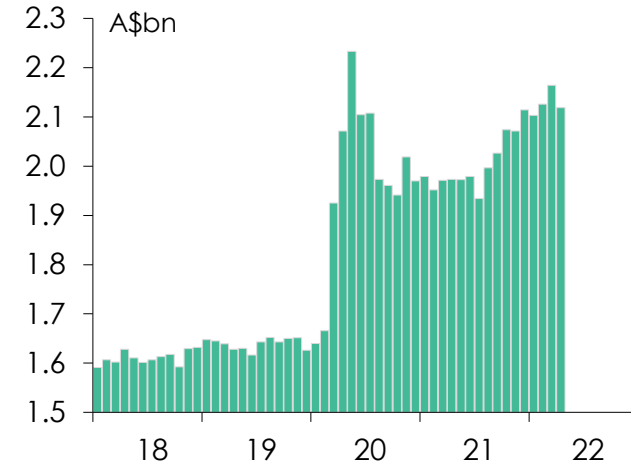
Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

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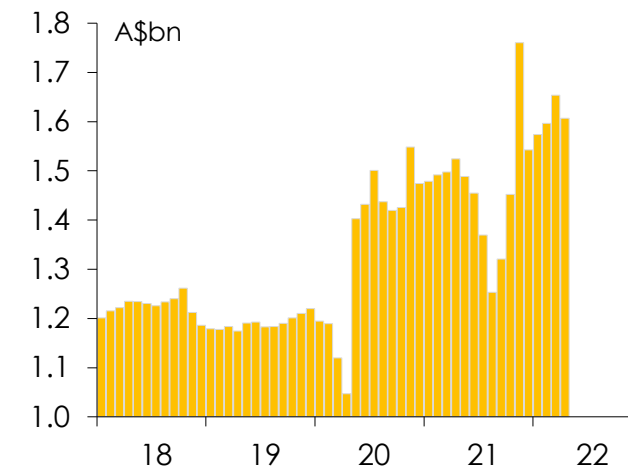
Electronic & electrical goods



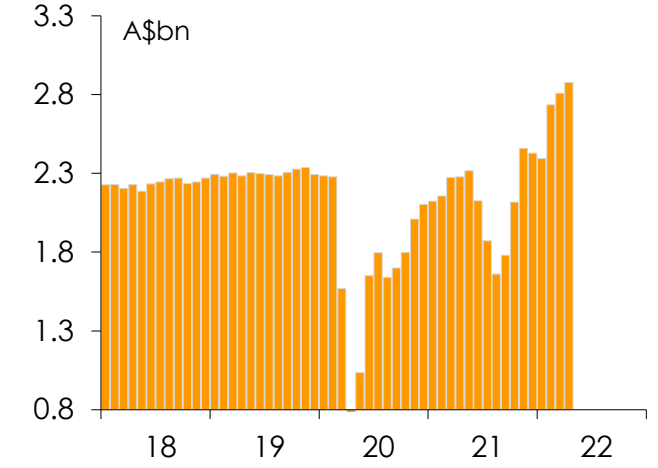
Hardware, building & garden supplies



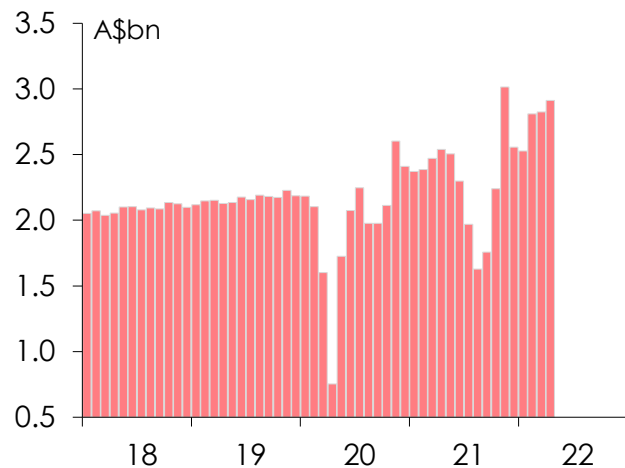
Floor coverings, furniture, housewares etc



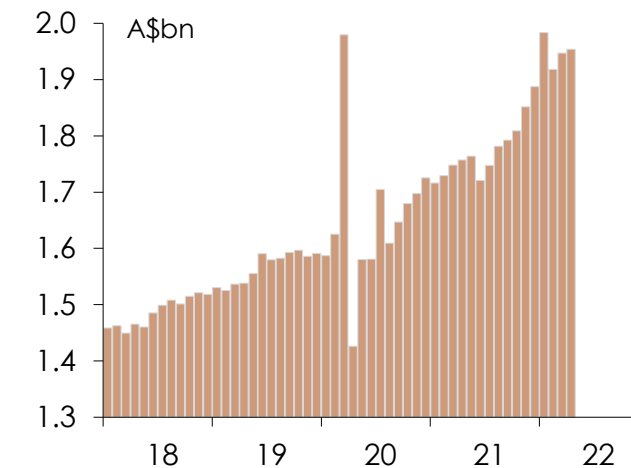
Cafes and restaurants



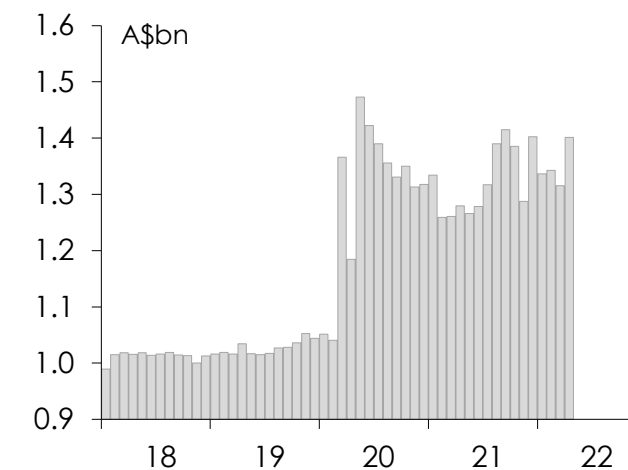
Clothing, footwear & personal accessories



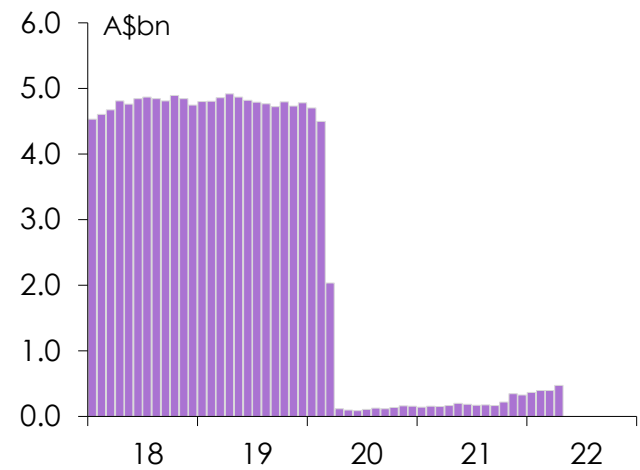
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

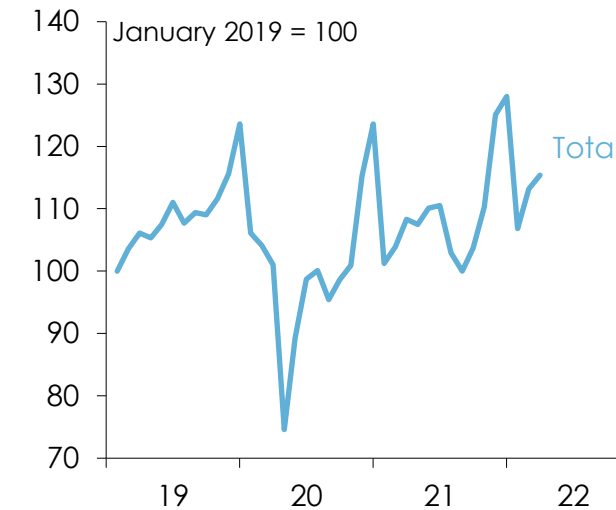
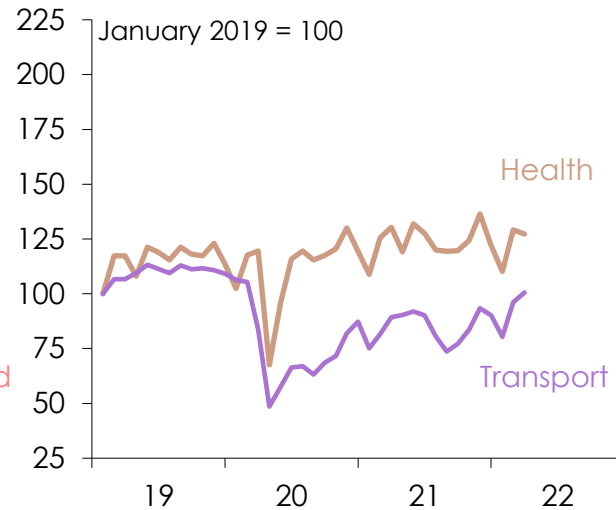
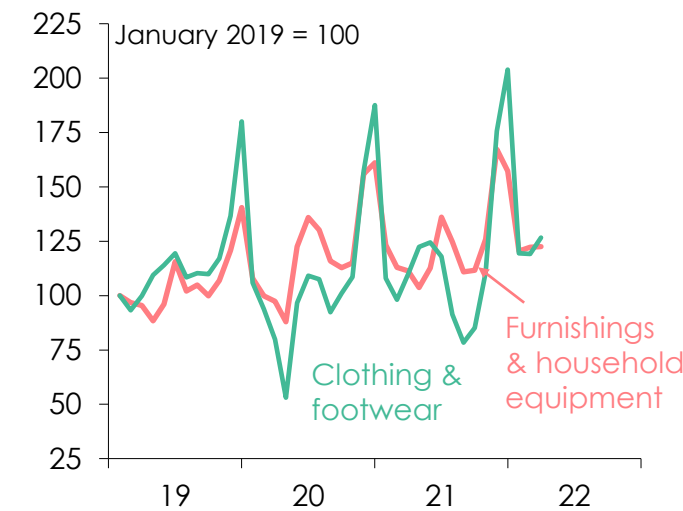
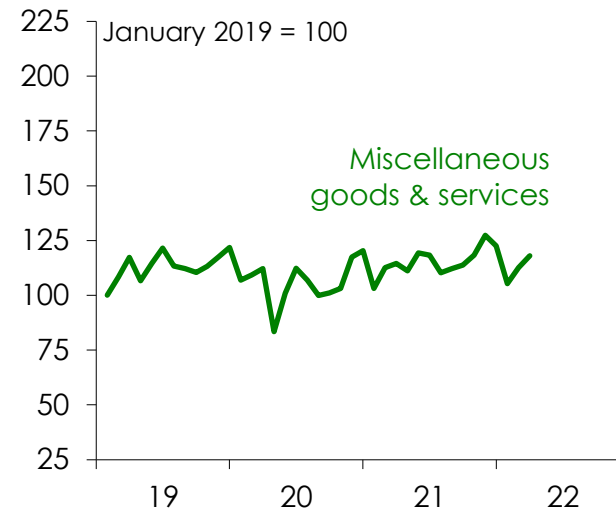
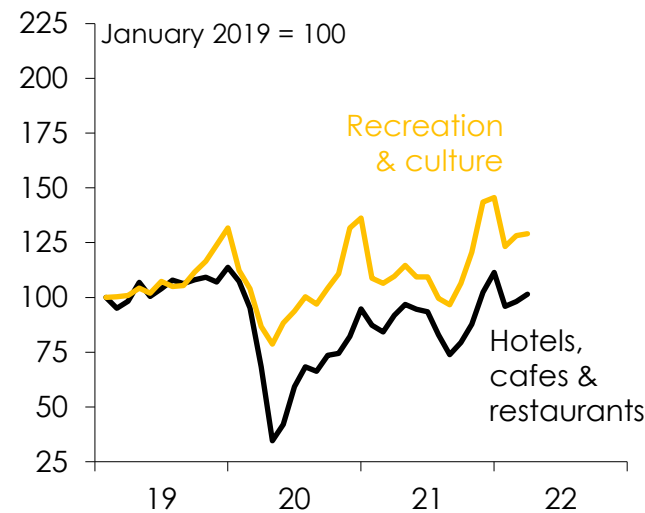
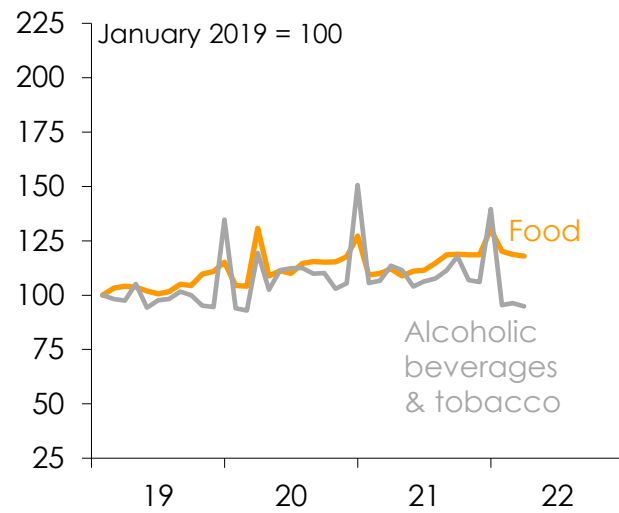


Sources: ABS, [Retail Trade, Australia](#), April 2022 (May data on which the above charts are based will be released on 5th July); and [International Trade in Goods and Services, Australia](#), April 2022. [Return to "What's New"](#).

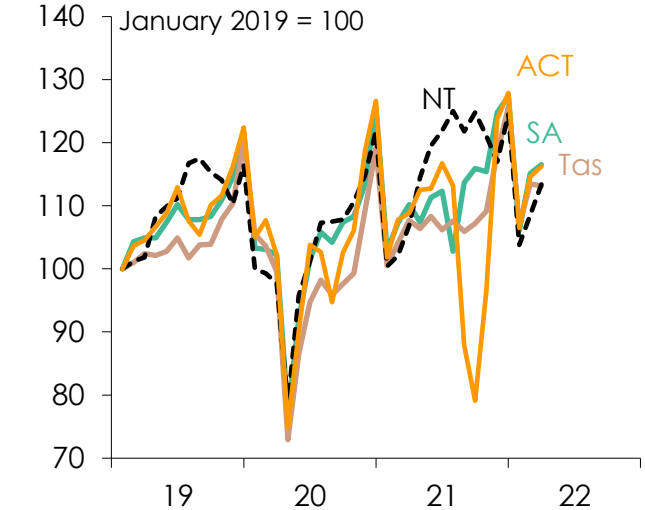
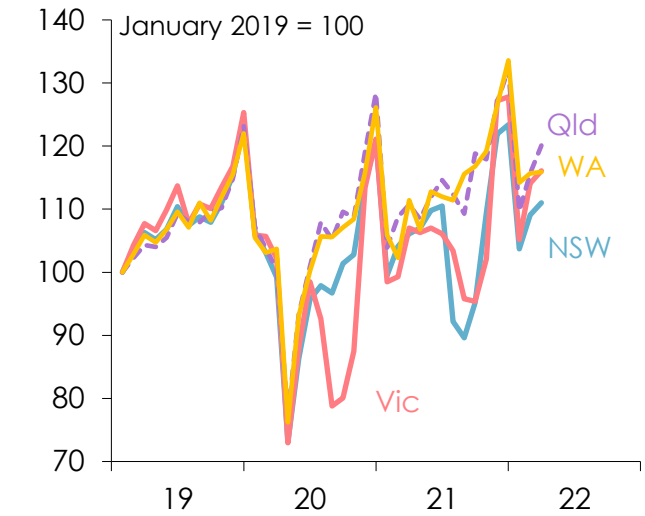
Household spending (as measured by the new ABS indicator based on bank transactions data) was 6.6% higher in March than a year earlier

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Household spending by purpose



By state & territory

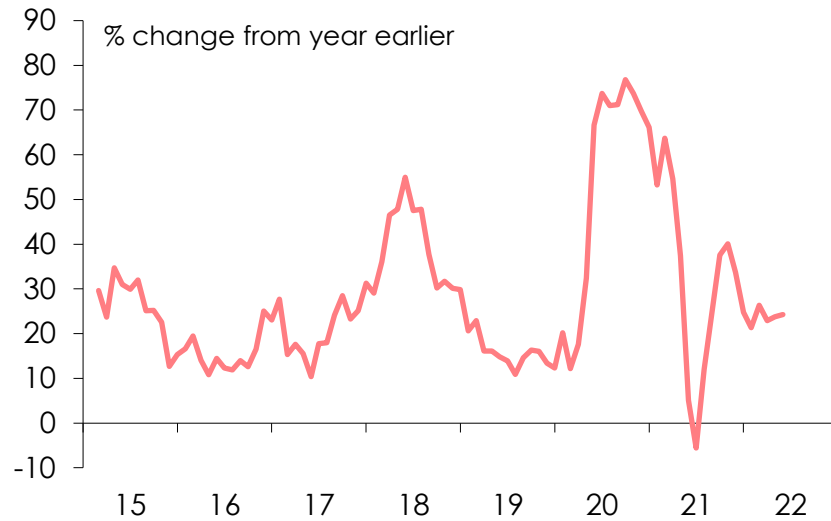


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, 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 14th June.

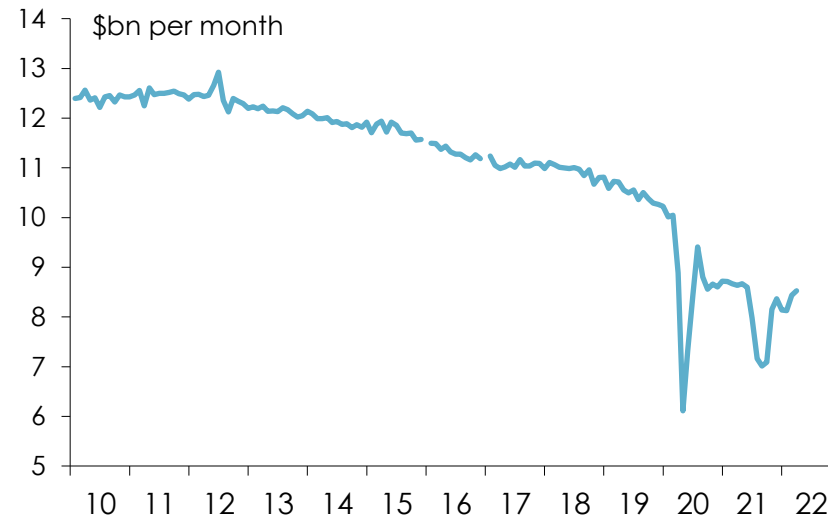
Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

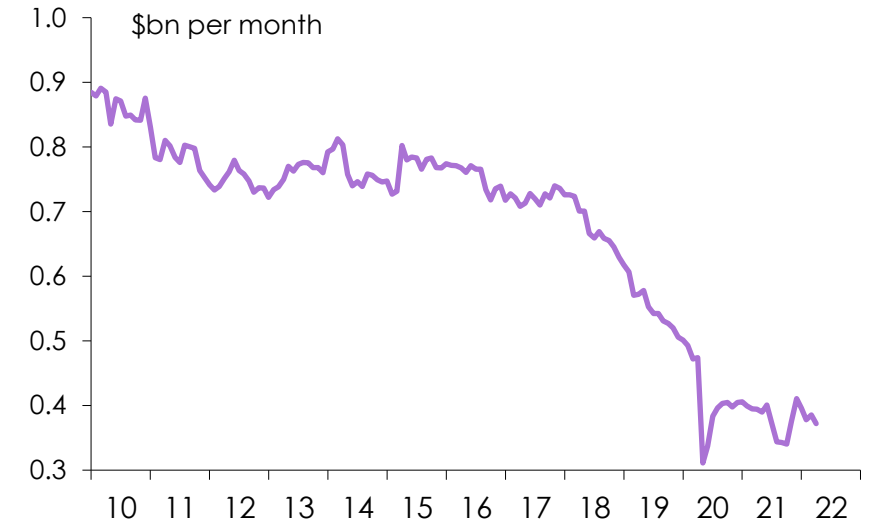
Growth in online retail sales



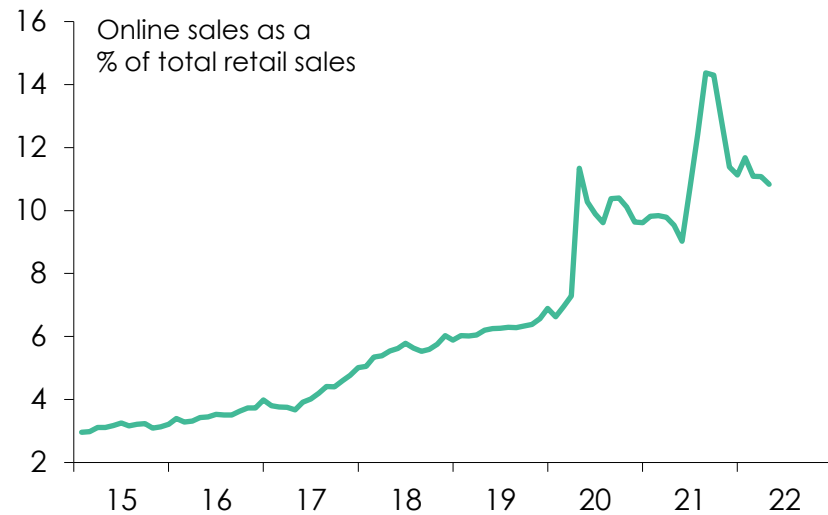
ATM cash withdrawals



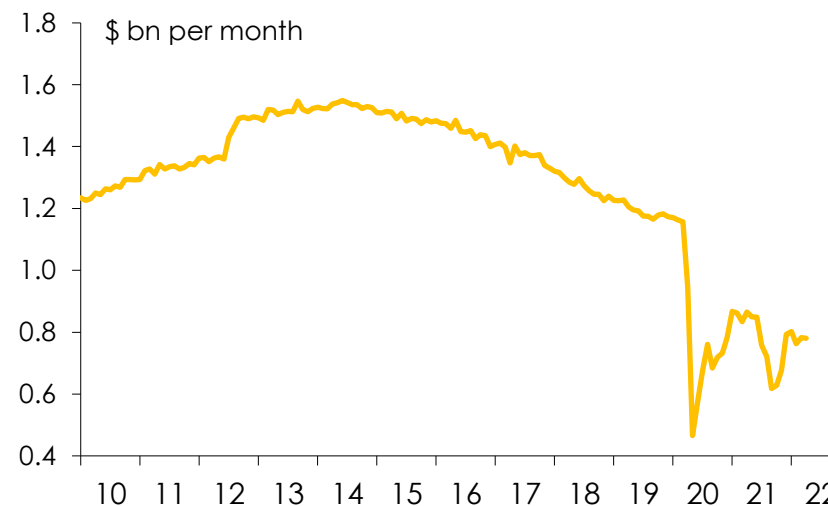
Credit card cash advances



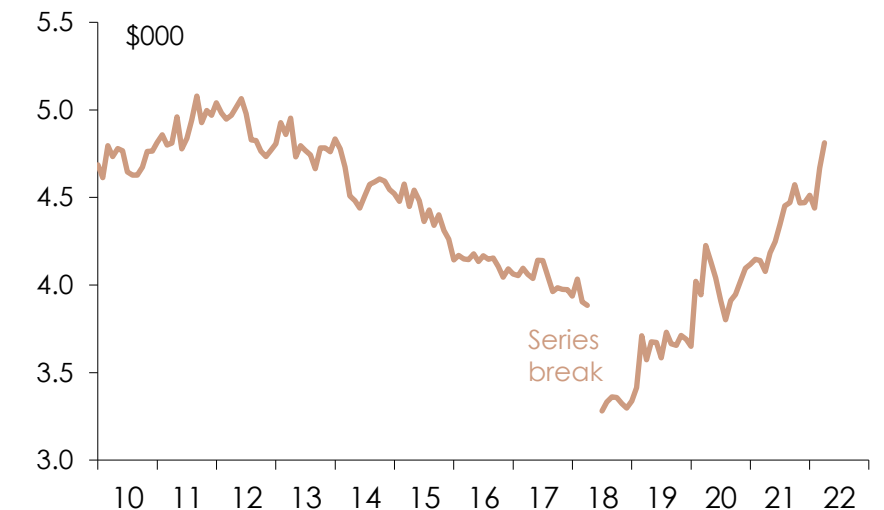
Online retail 'market share'



Debit card cash-outs



Direct entry payments avg value



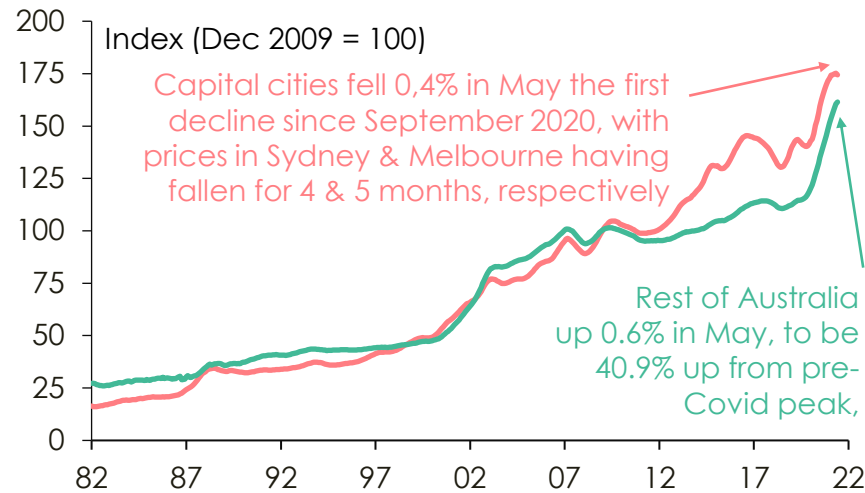
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales are for April, and payments system data are for March. May online retail sales data will be published on 5th July, and April payments system data on 7th June. [Return to "What's New"](#).

Housing and the residential property market

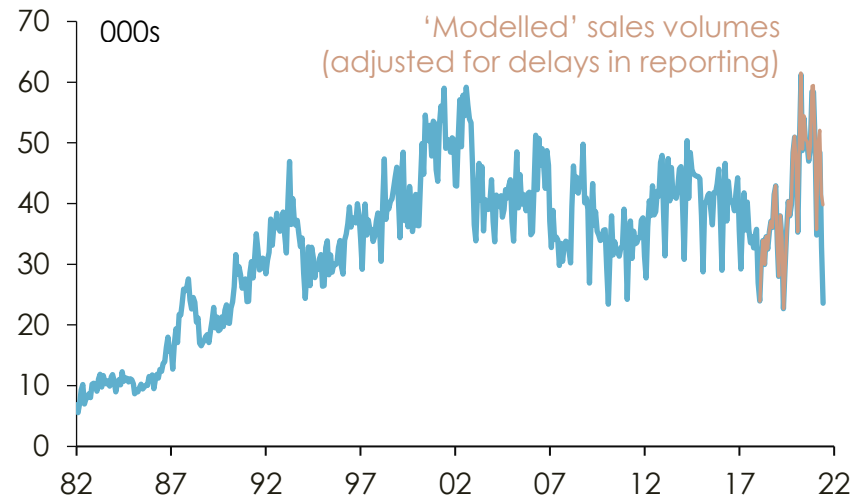
Property prices across Australia fell 0.2% in May, for the first time since September 2020, reflecting declines in Sydney, Melbourne & Canberra

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

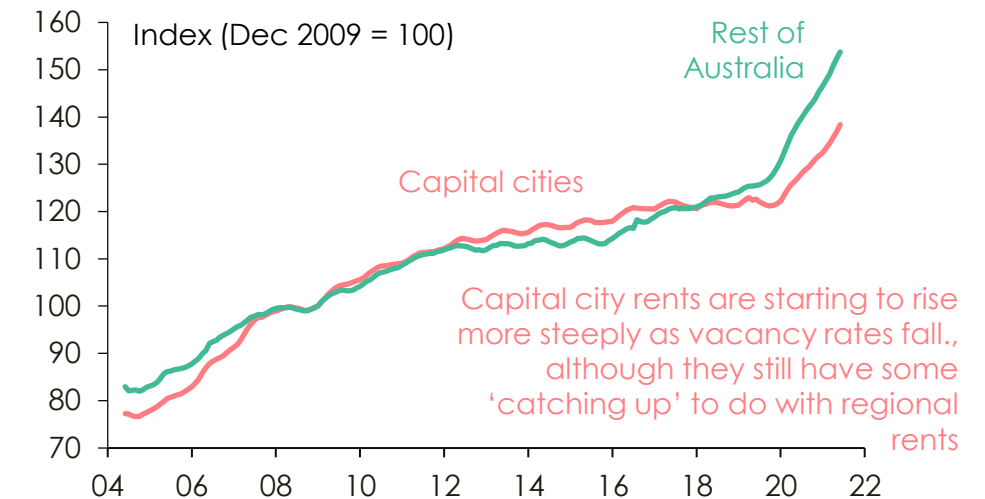
Residential property prices



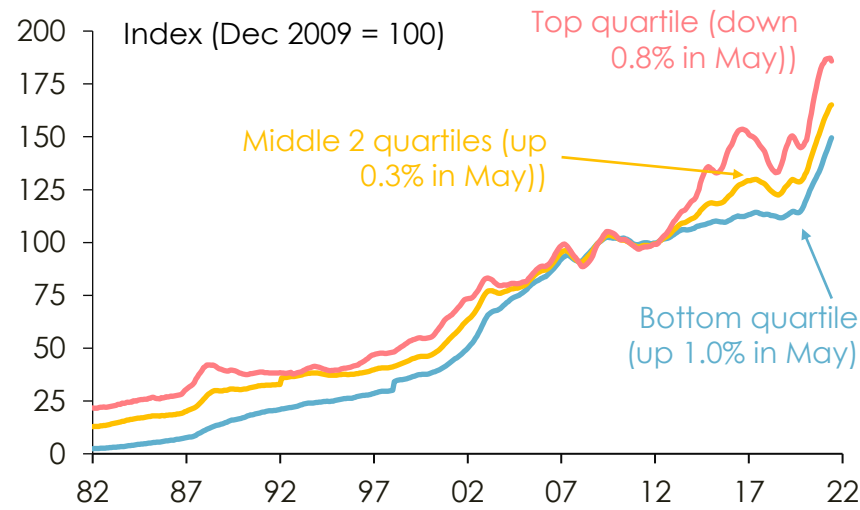
Residential property sales volumes



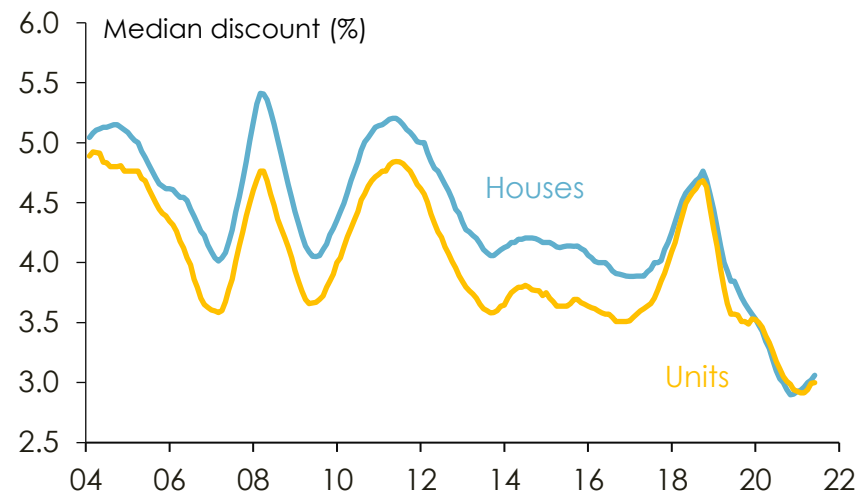
Residential rents



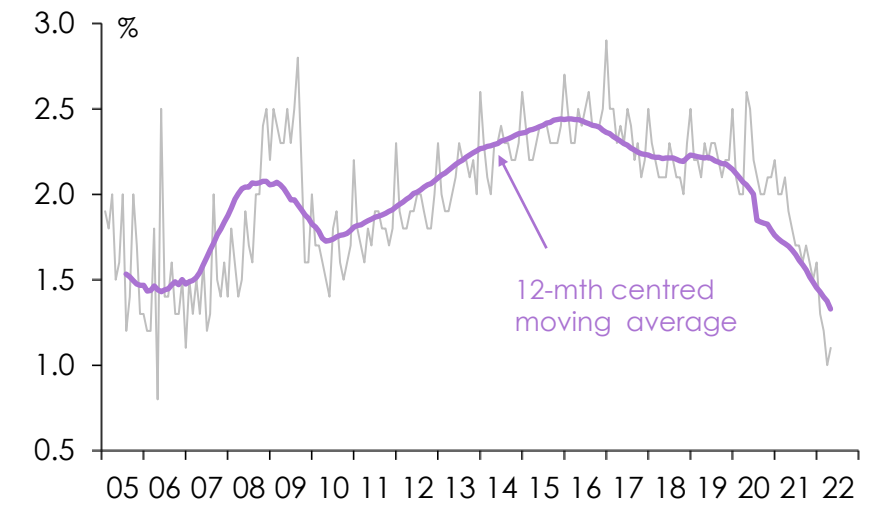
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

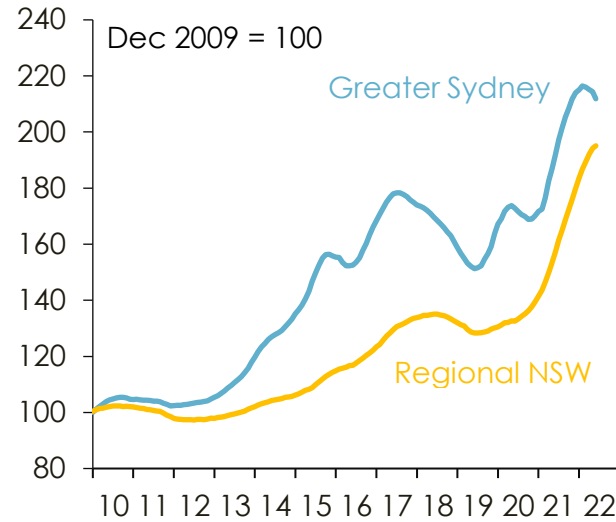


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

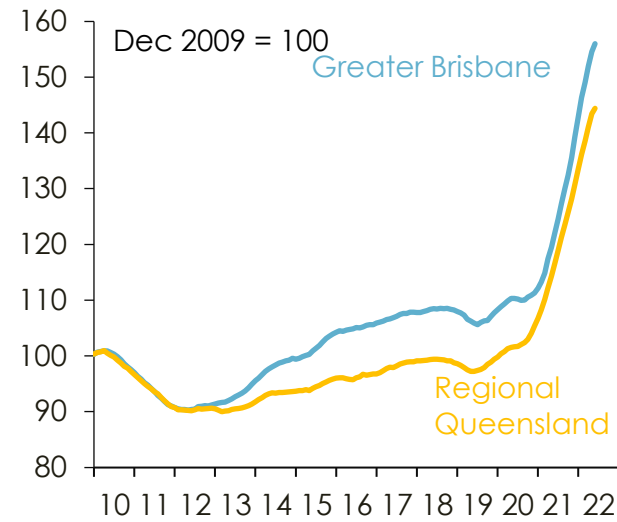
Sydney & Melbourne prices have fallen by 2.1% and 1.4% respectively over the past four months, but are still rising elsewhere in Australia

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

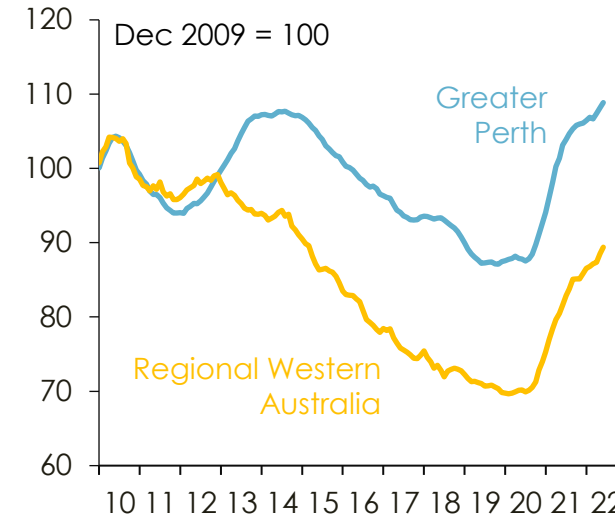
New South Wales



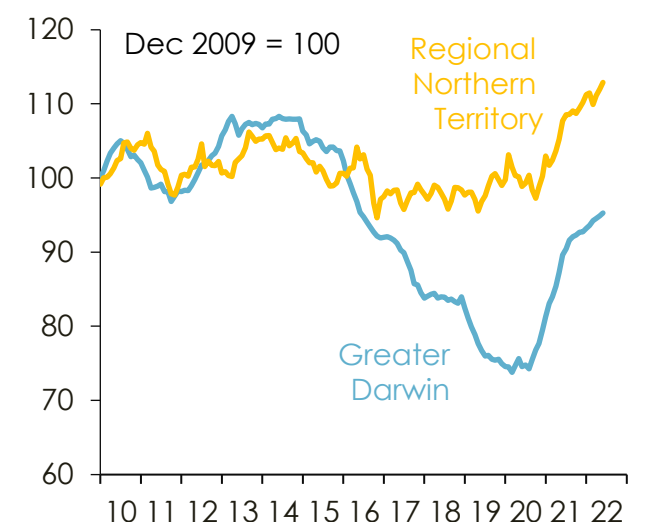
Queensland



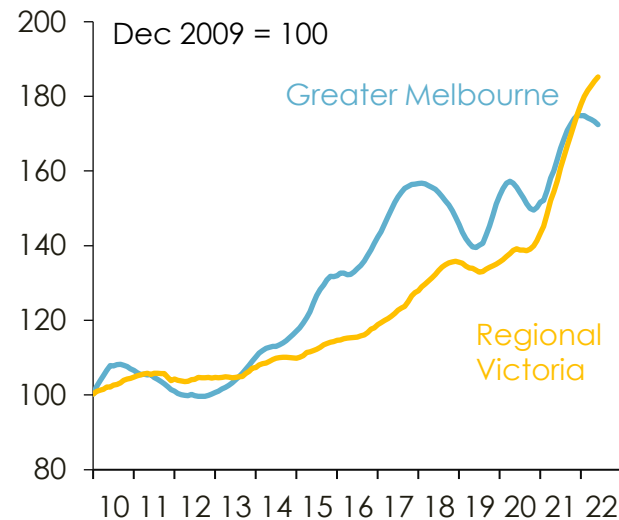
Western Australia



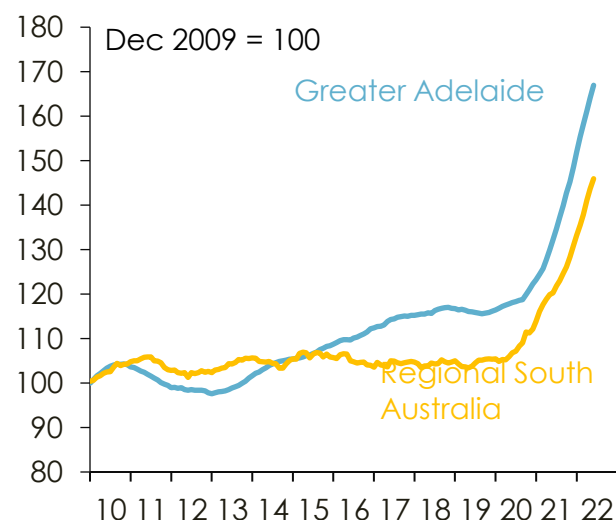
Northern Territory



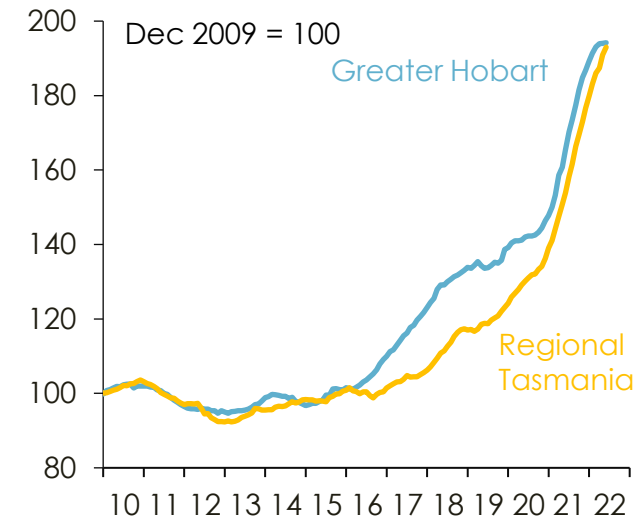
Victoria



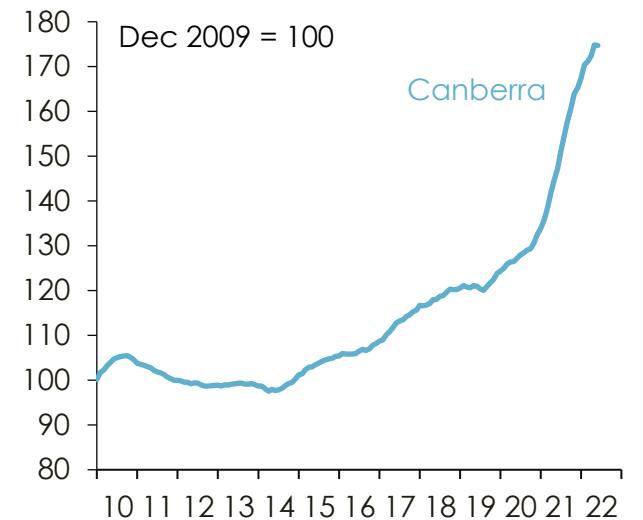
South Australia



Tasmania



Australian Capital Territory

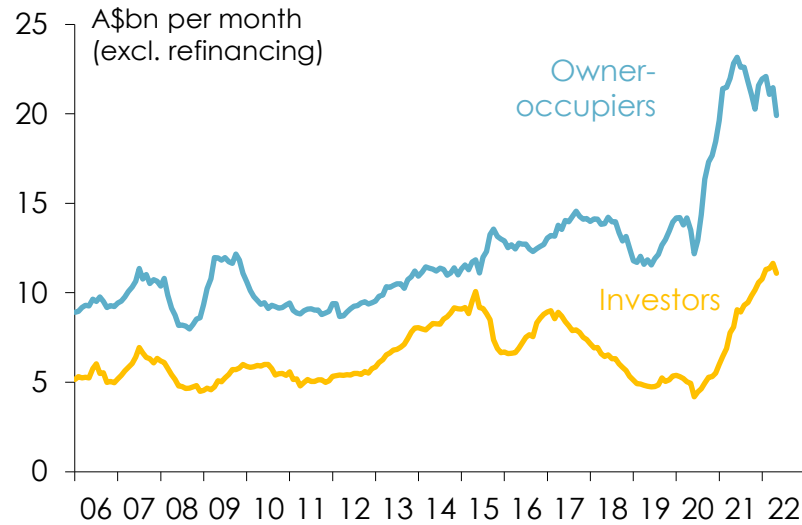


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

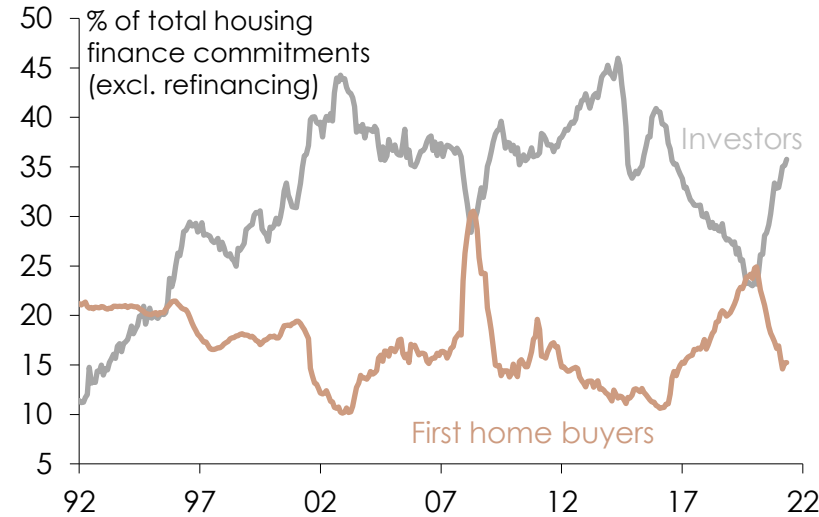
Housing finance commitments fell 6.4% in April, to their lowest level since last October, with loans to owner-occupiers down 7.3% and investors 4.8%

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

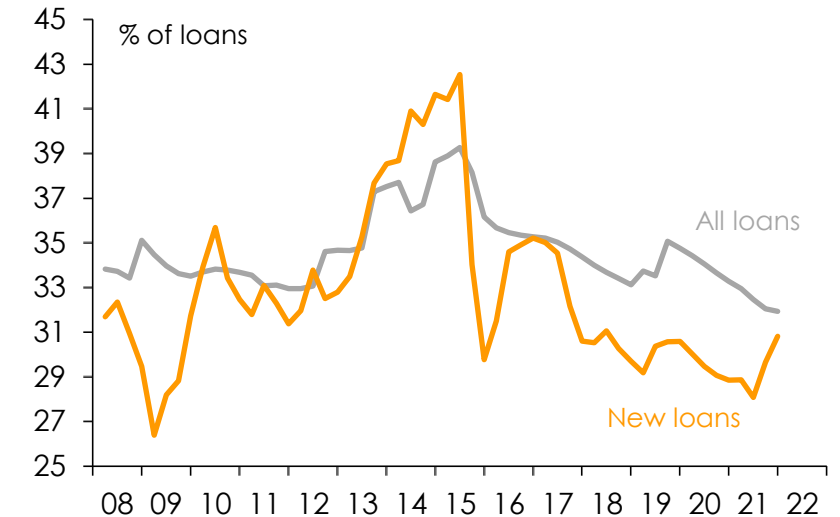
Housing finance commitments



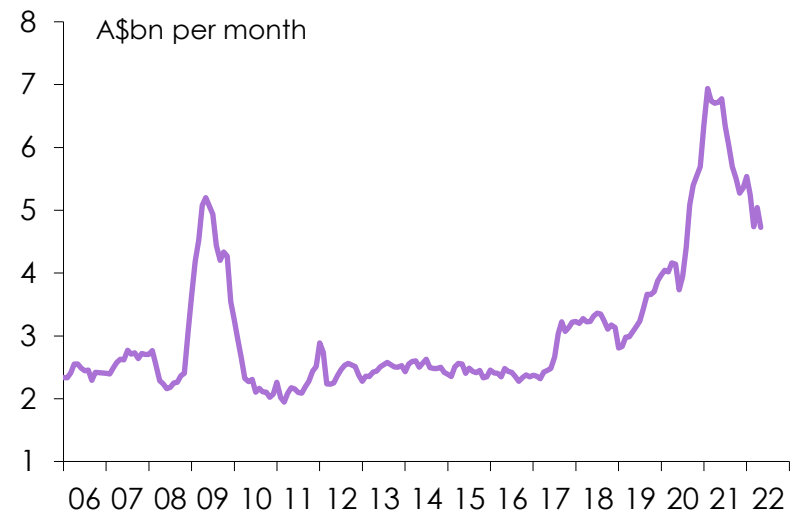
Shares of housing finance



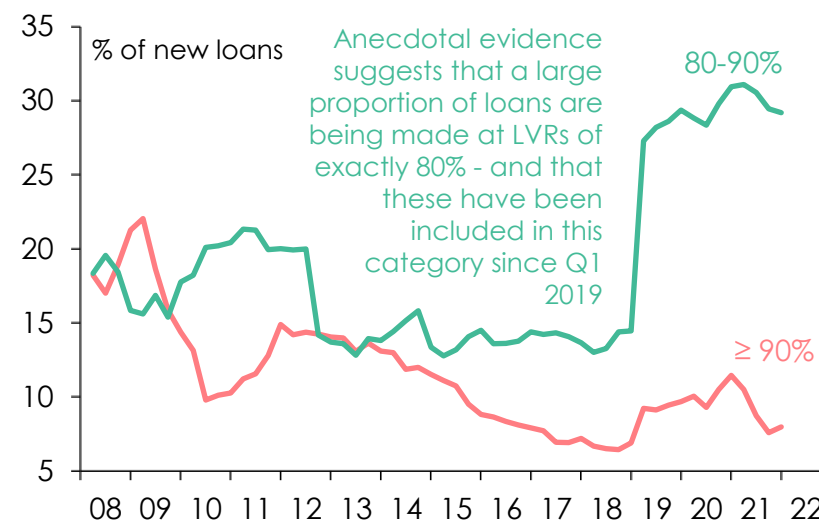
Loans to investors as a pc of total



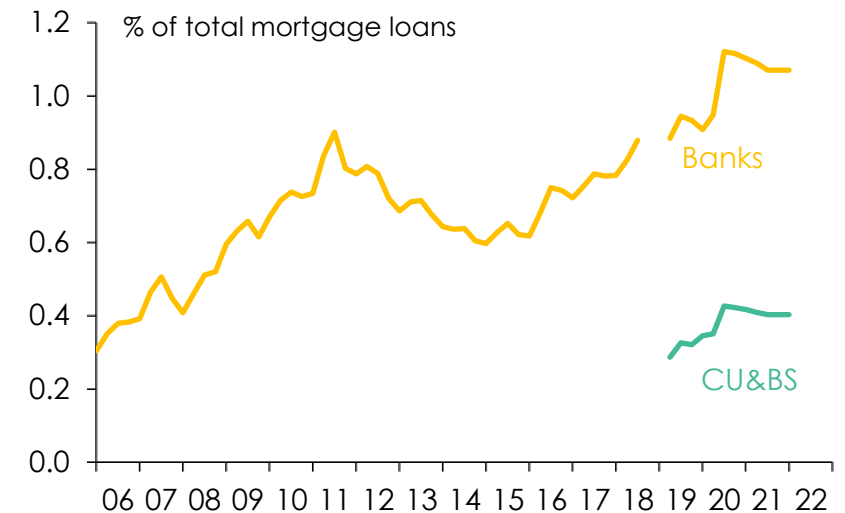
Loans to first home buyers



High LVR loans as a pc of total



Non-performing mortgage loans

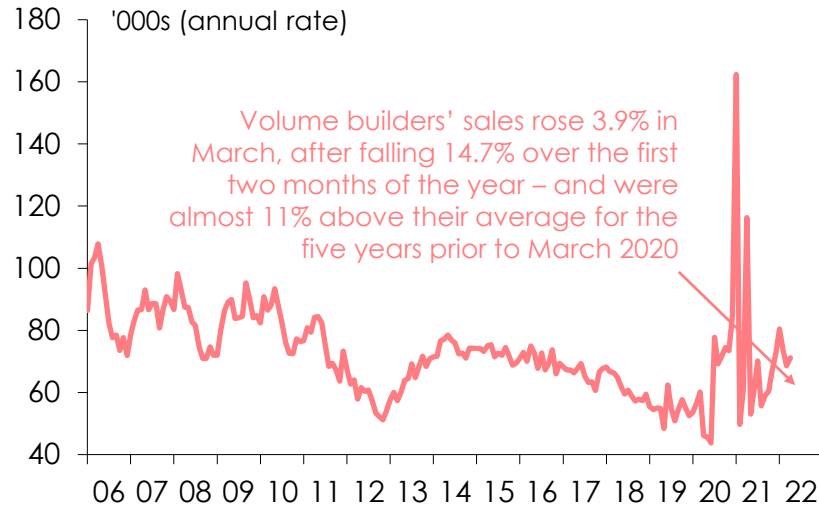


Sources: ABS, [Lending Indicators](#), April; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). May housing finance data will be released on 4th July; APRA data on ADI property exposures for the March quarter will be released on 14th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

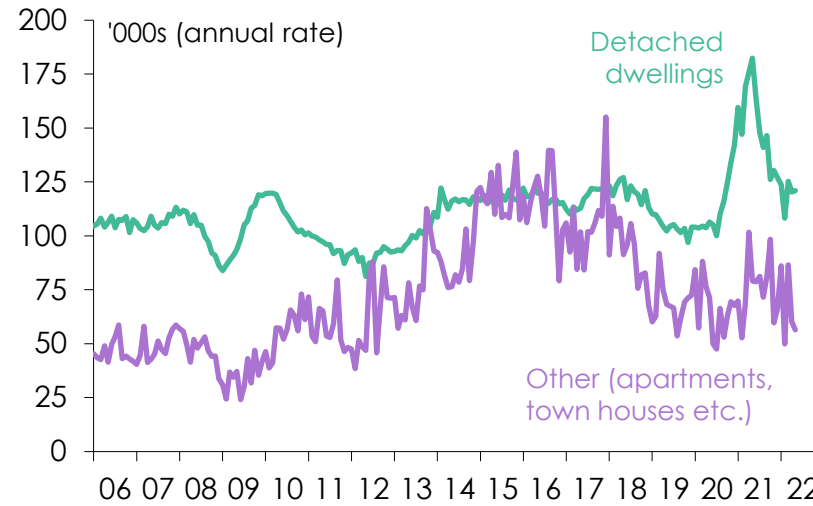
Residential building approvals fell another 2.4% in April, after large swings during the March quarter, to be 20% below their pre-Covid average

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

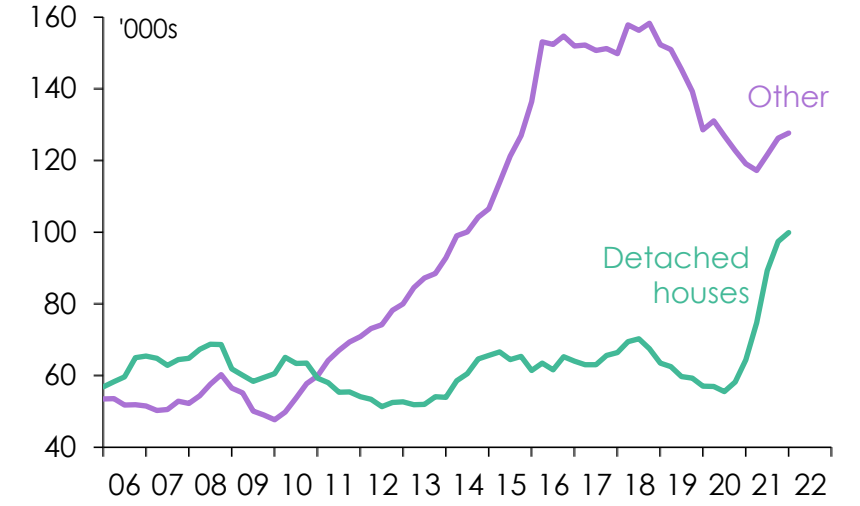
Large builders' new home sales



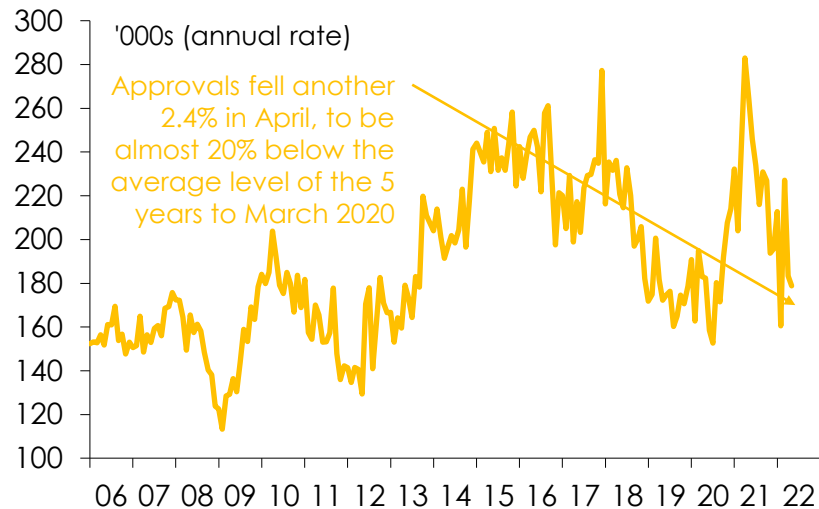
Building approvals, by type



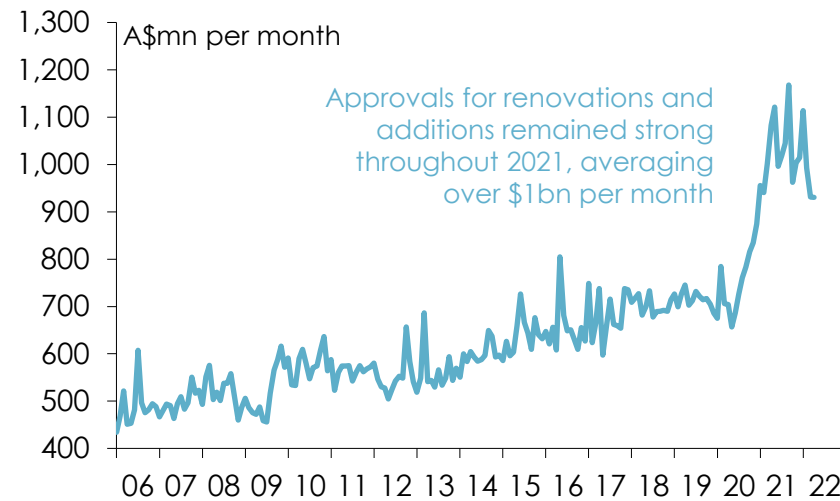
Dwellings under construction



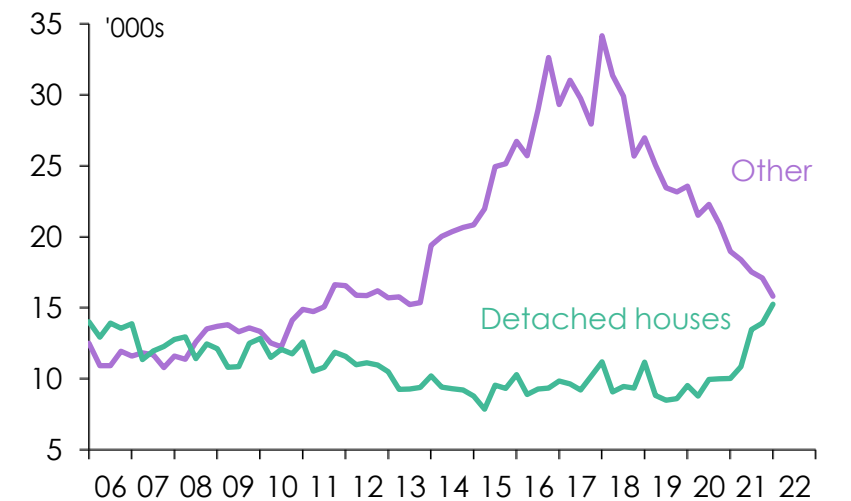
Residential building approvals



Alterations & additions approved



'Pipeline' of work yet to be started

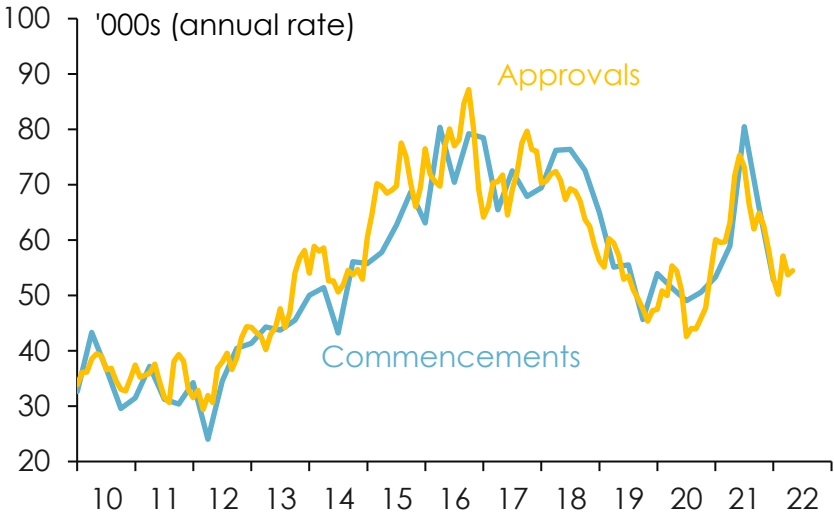


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. May building approvals data will be released on 7th June; March quarter dwellings under construction and 'pipeline' data on 13th July. [Return to "What's New"](#).

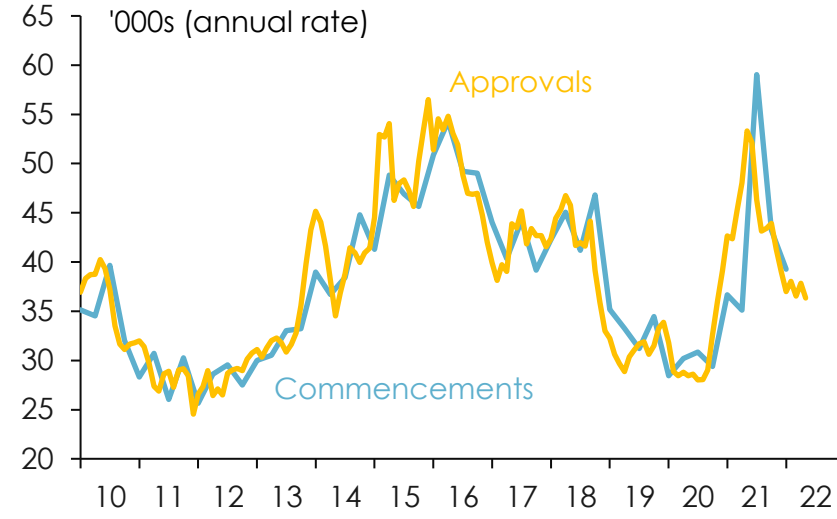
Residential building approvals have weakened most from last year's peaks in Western Australia, Queensland, South Australia & New South Wales

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

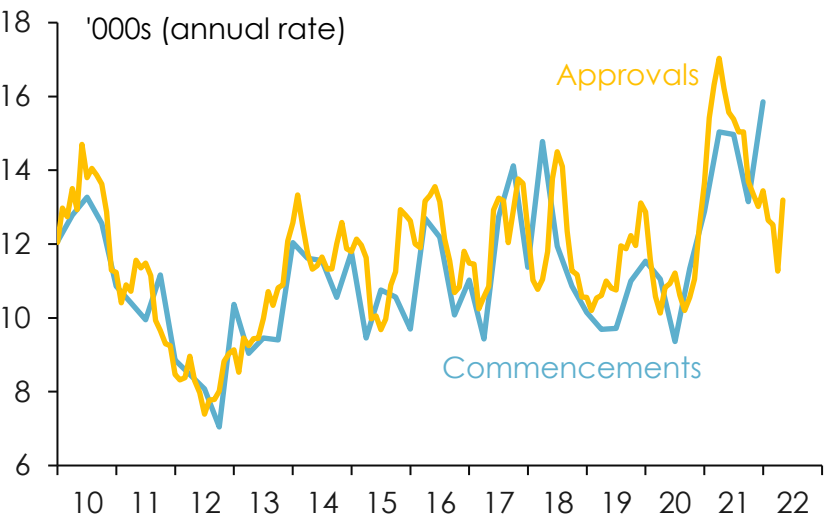
New South Wales



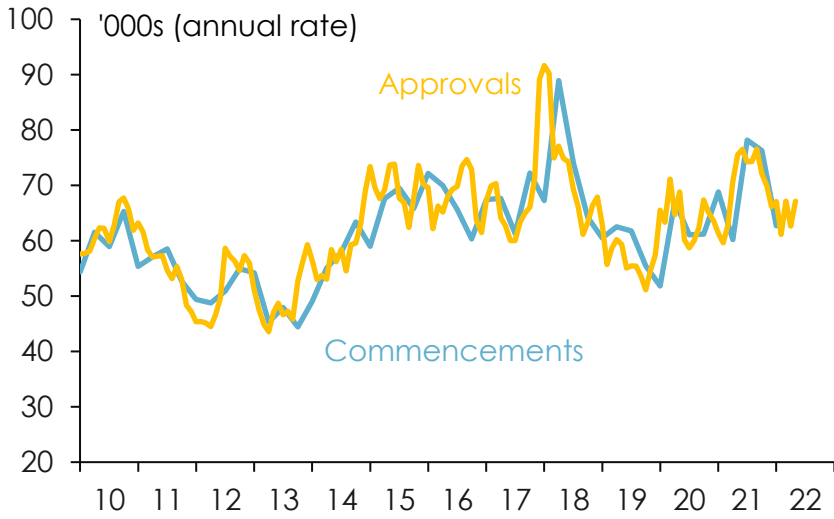
Queensland



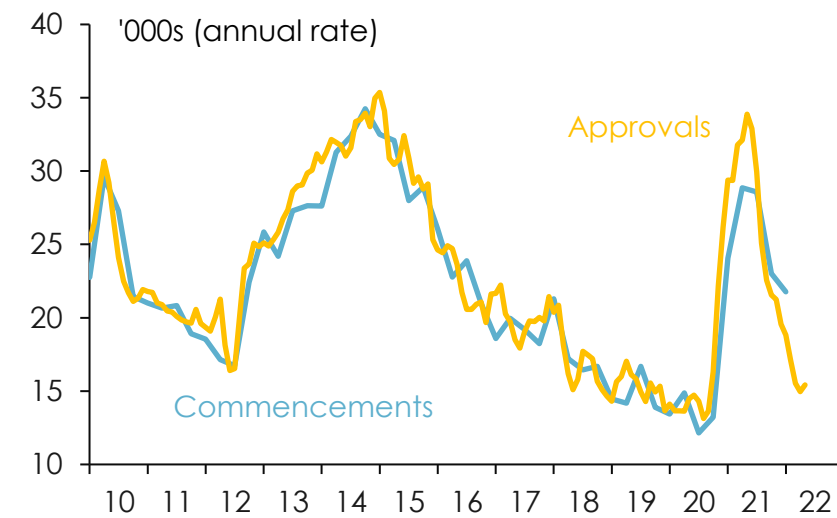
South Australia



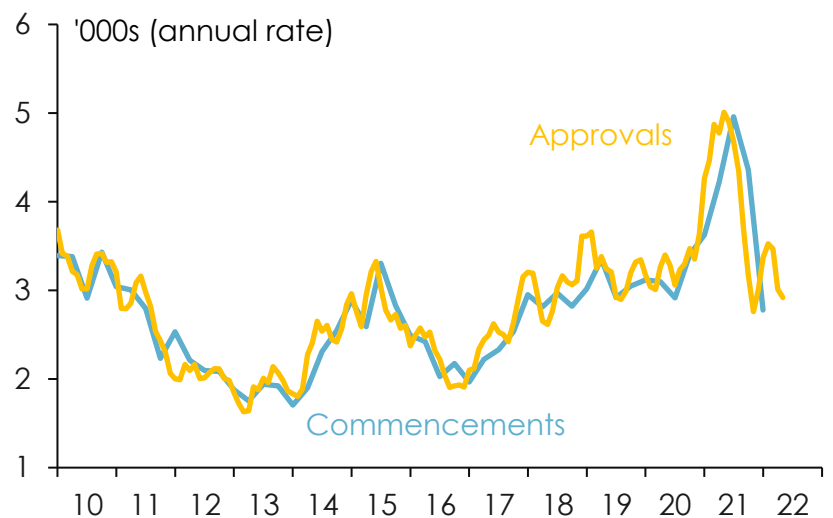
Victoria



Western Australia



Tasmania



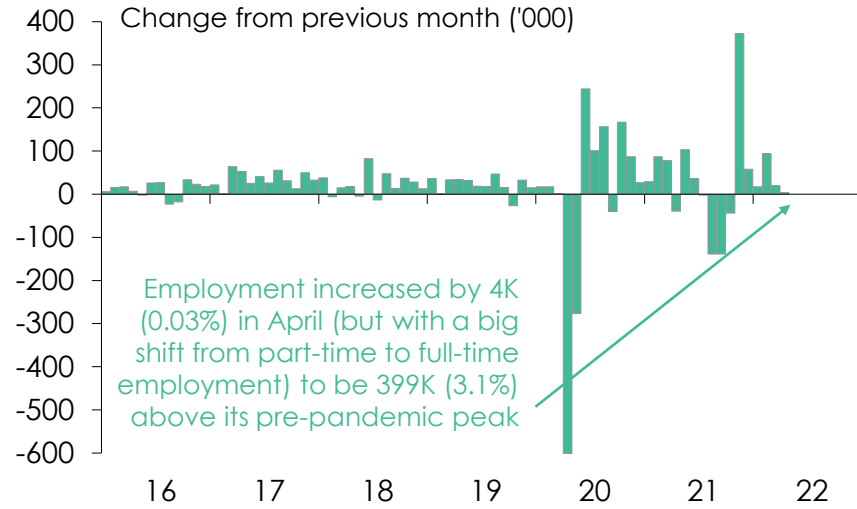
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly (and the most recent data is for the September quarter last year). Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to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

The labour market

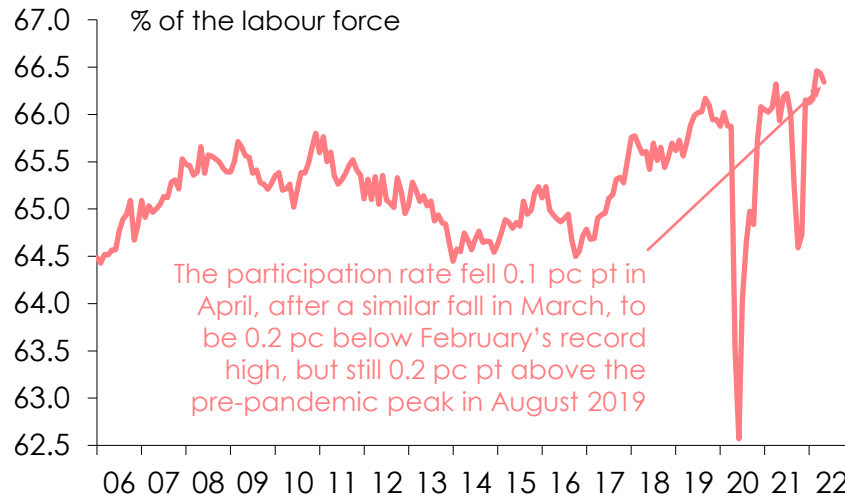
Employment was flat in April (but with a large rotation from part- to full-time jobs) but the unemployment rate dropped to its lowest since 1974

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

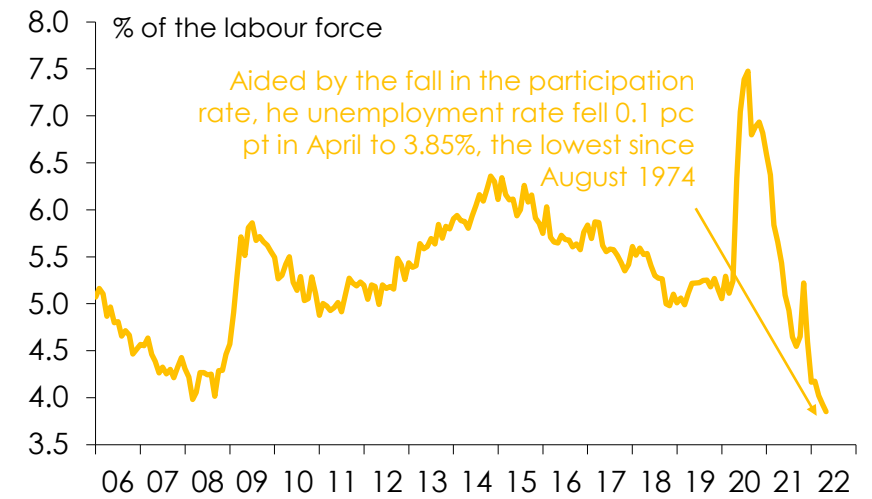
Employment



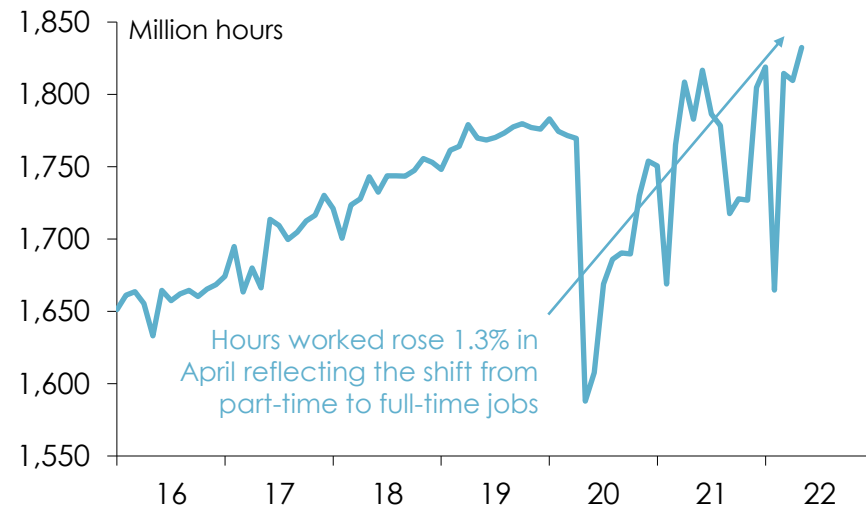
Labour force participation rate



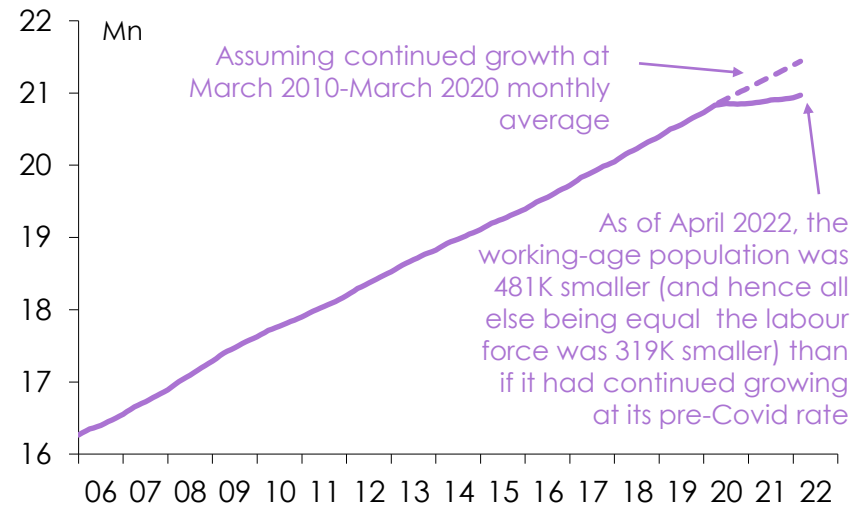
Unemployment rate



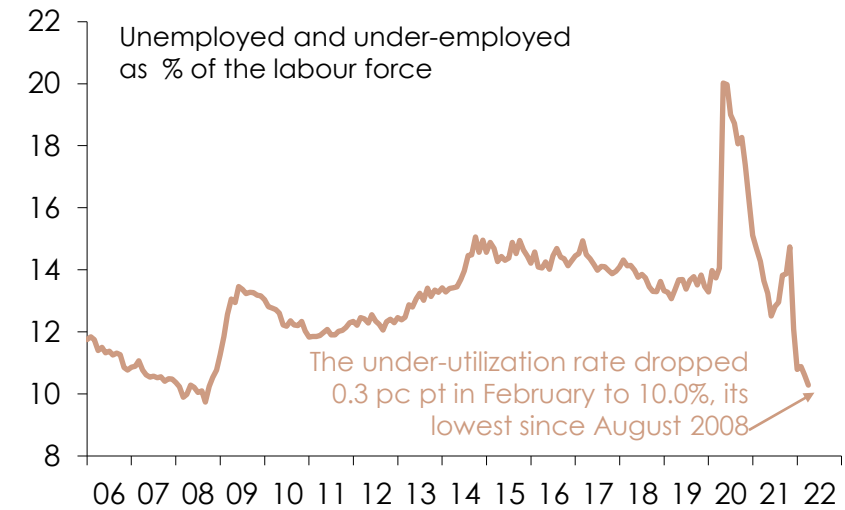
Total hours worked



Civilian working-age population



'Under-utilization' rate

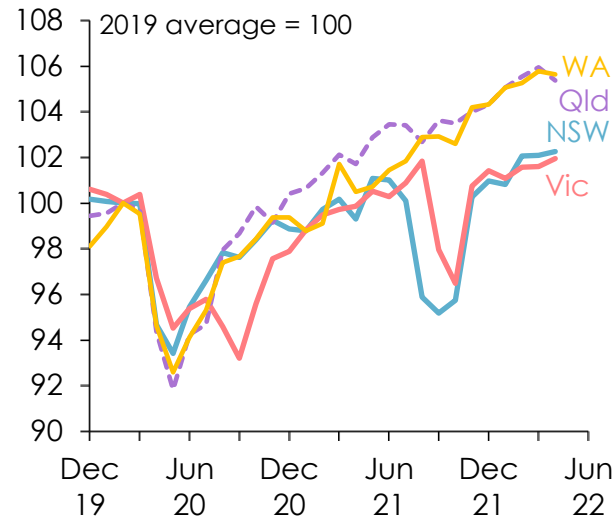


Source: ABS, [Labour Force, Australia](#), April. May data will be released on 16th June. [Return to "What's New"](#).

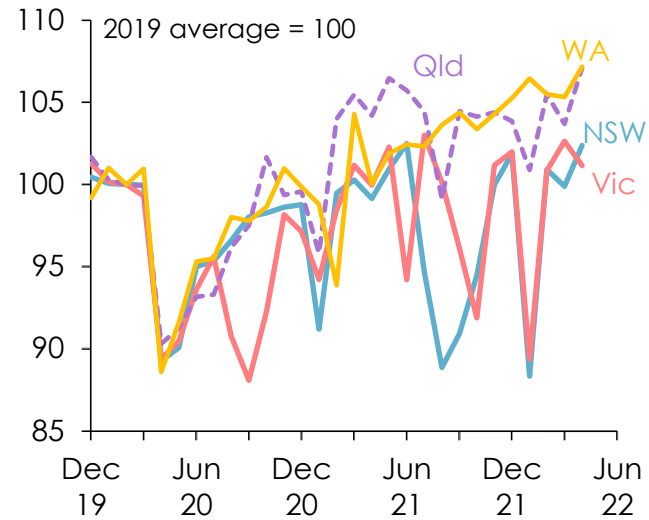
NSW accounted for almost half the total job gains in the first four months of 2022, pushing unemployment there down to 3.5%, and to below 3% in WA

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

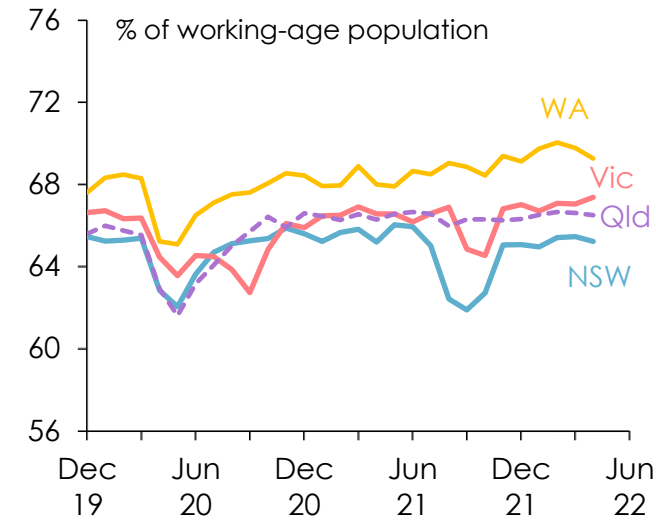
Employment



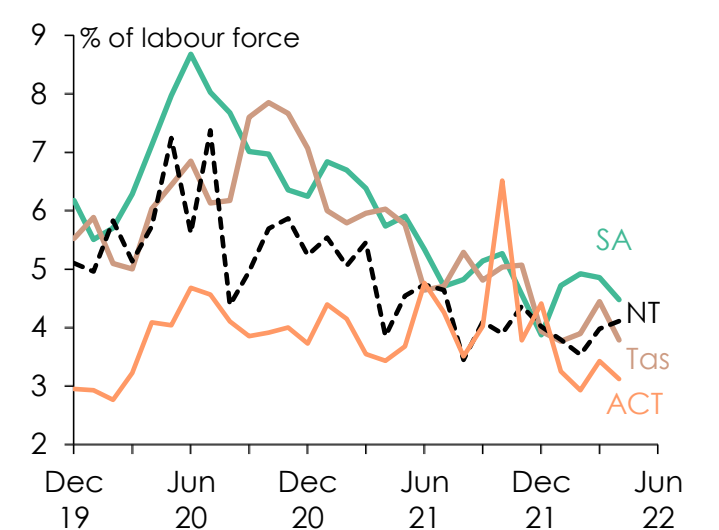
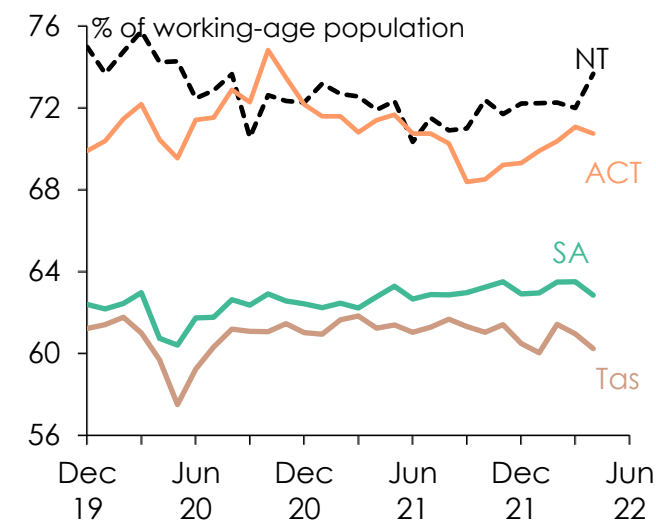
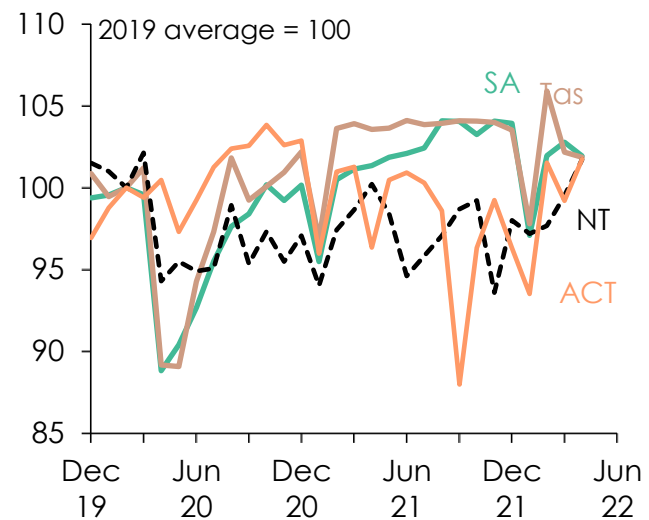
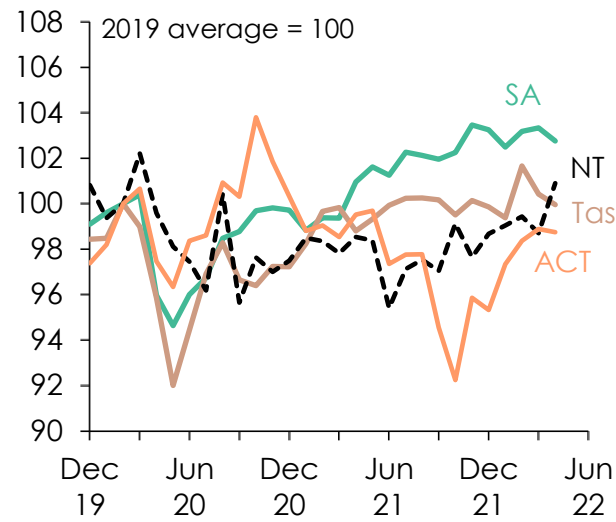
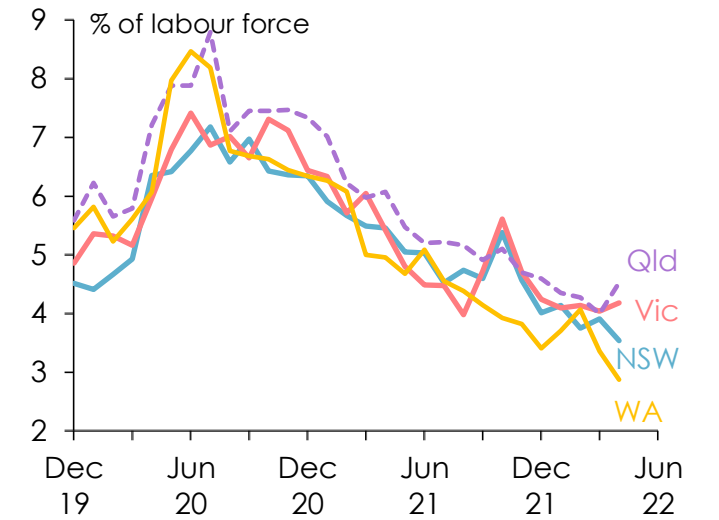
Hours worked



Participation rates



Unemployment rates



Source: ABS, [Labour Force, Australia](#), April. May data will be released on 16th 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 – 3RD JUNE 2022

The 'effective' unemployment rate



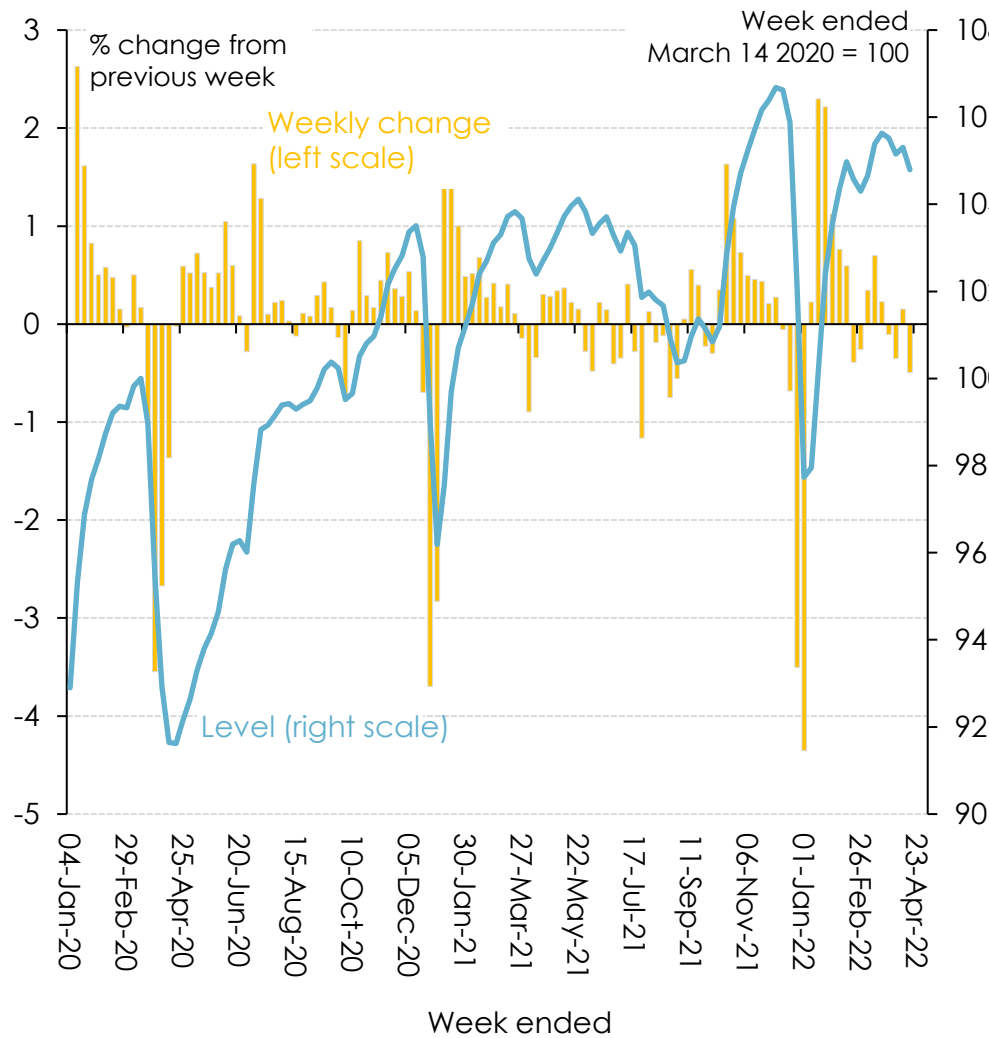
- ❑ 49K people were counted as 'employed' despite having worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') in April, virtually unchanged from 50K in March (but well down from the most recent peak of 249K in August last year)
- ❑ There were another 51K people counted 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)

Note: the data on people working zero hours is not seasonally adjusted.
 Source: ABS, [Labour Force, Australia](#), April. May data will be released on 16th June.
[Return to "What's New"](#).

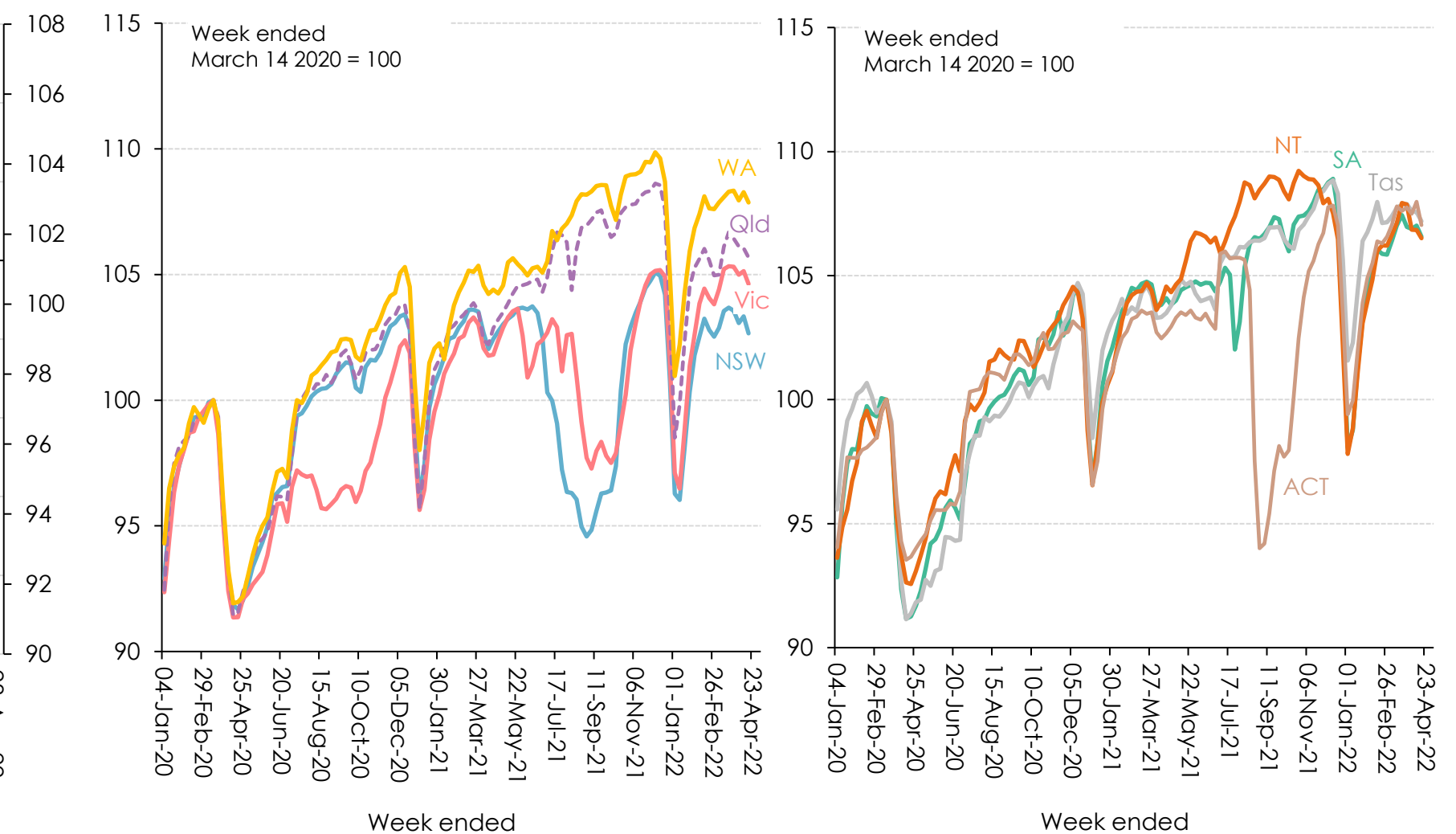
The number of payroll jobs fell by 0.8% between mid-March and mid-April, although at least some of the decline may have been seasonal

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



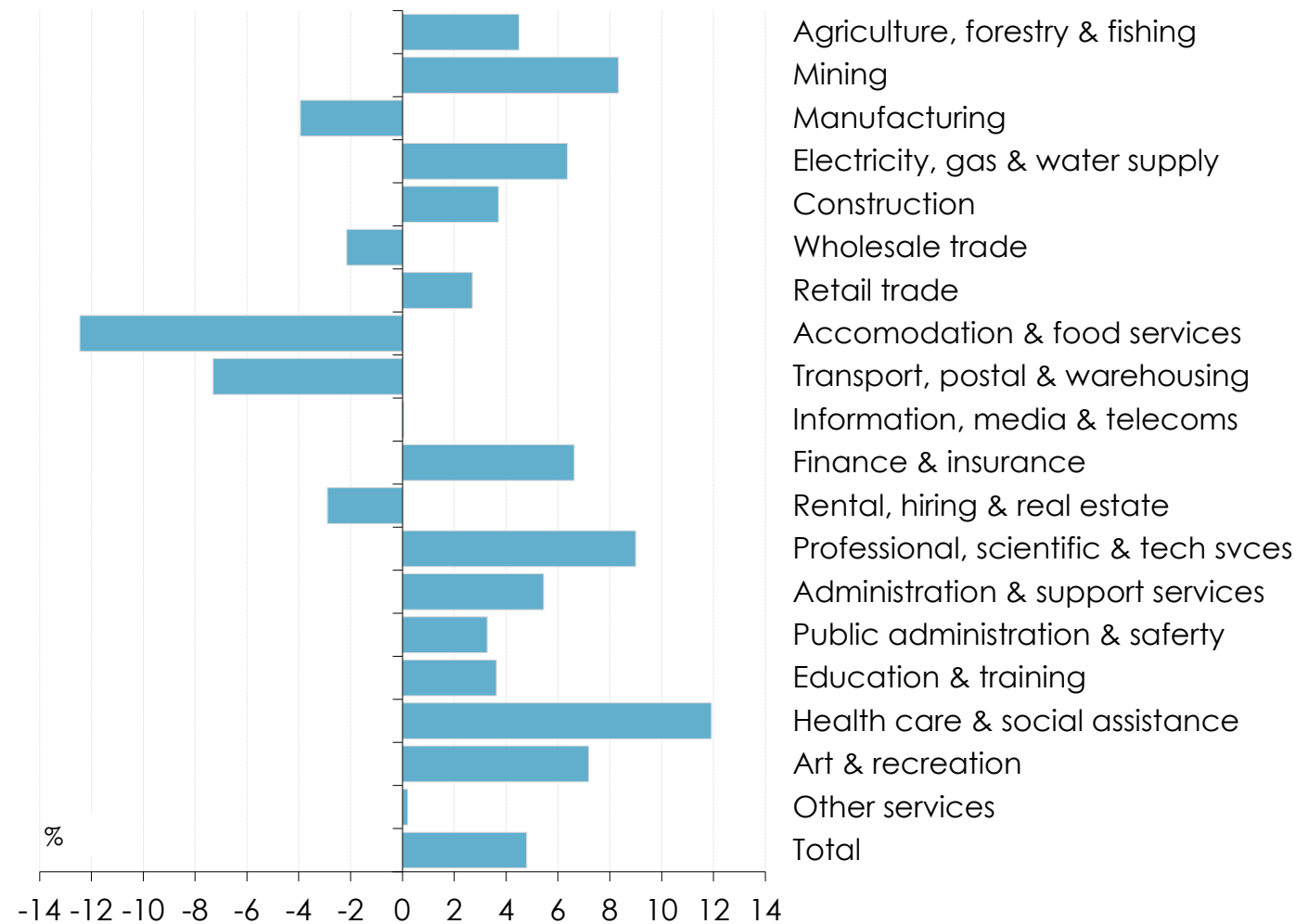
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

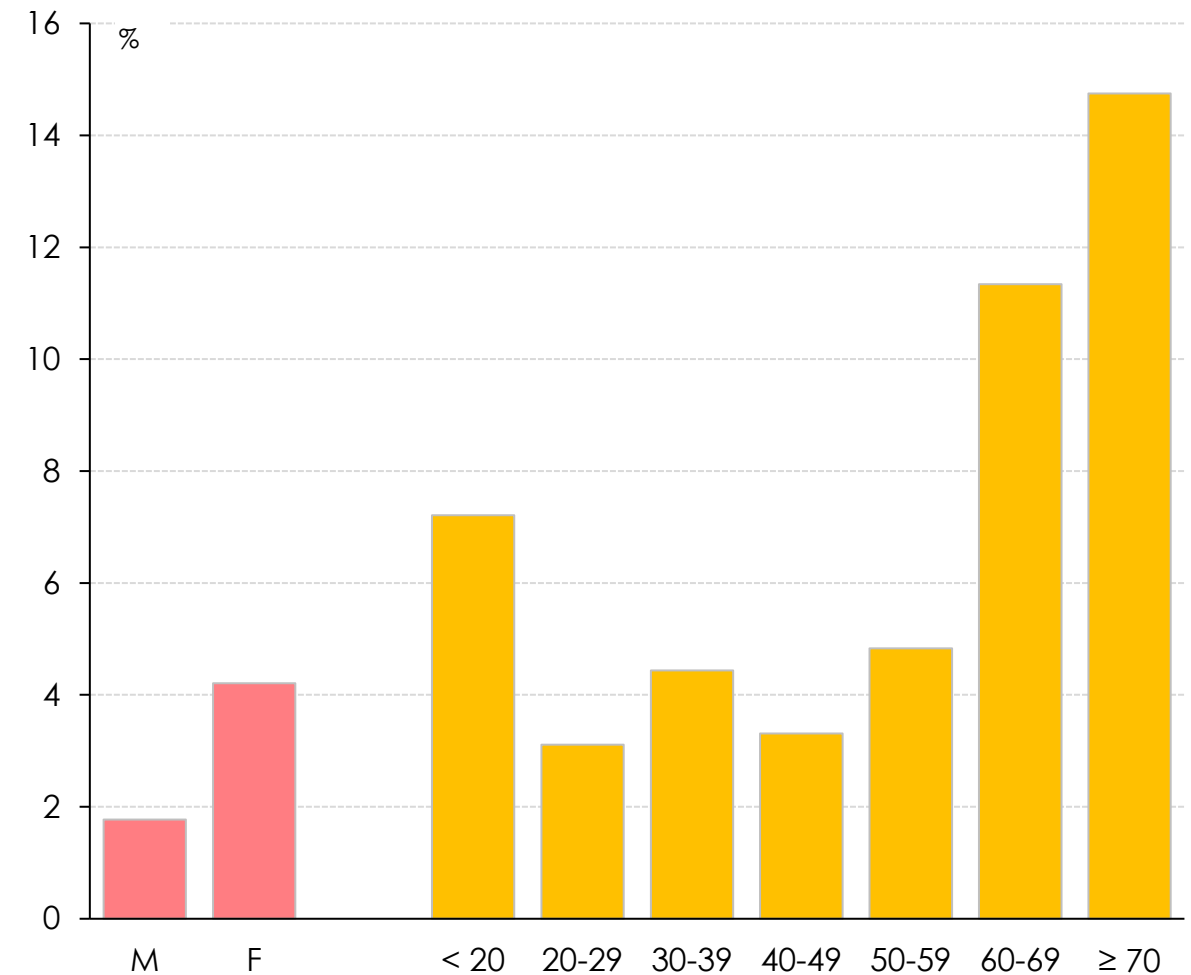
THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Net change in payroll jobs between week ended 14th March 2020 and week ended 16th April 2022

By industry



By gender and age

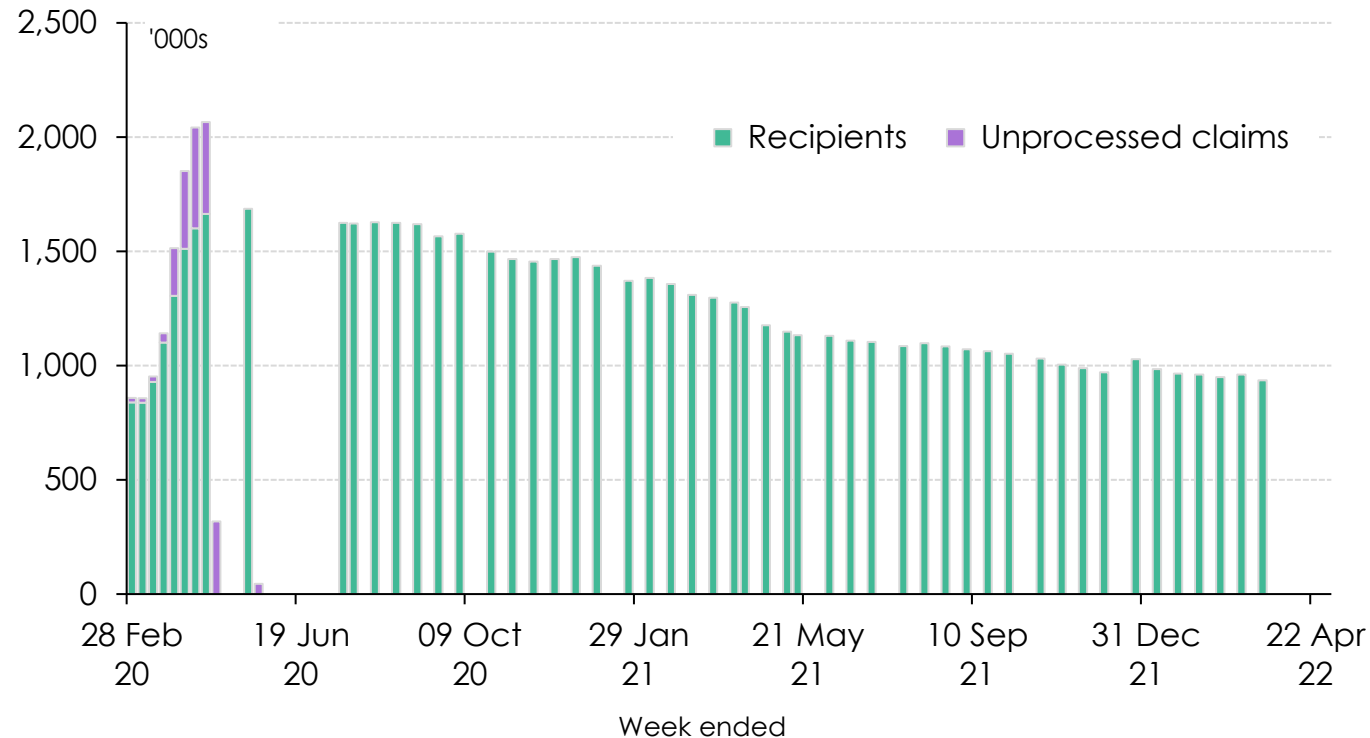


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

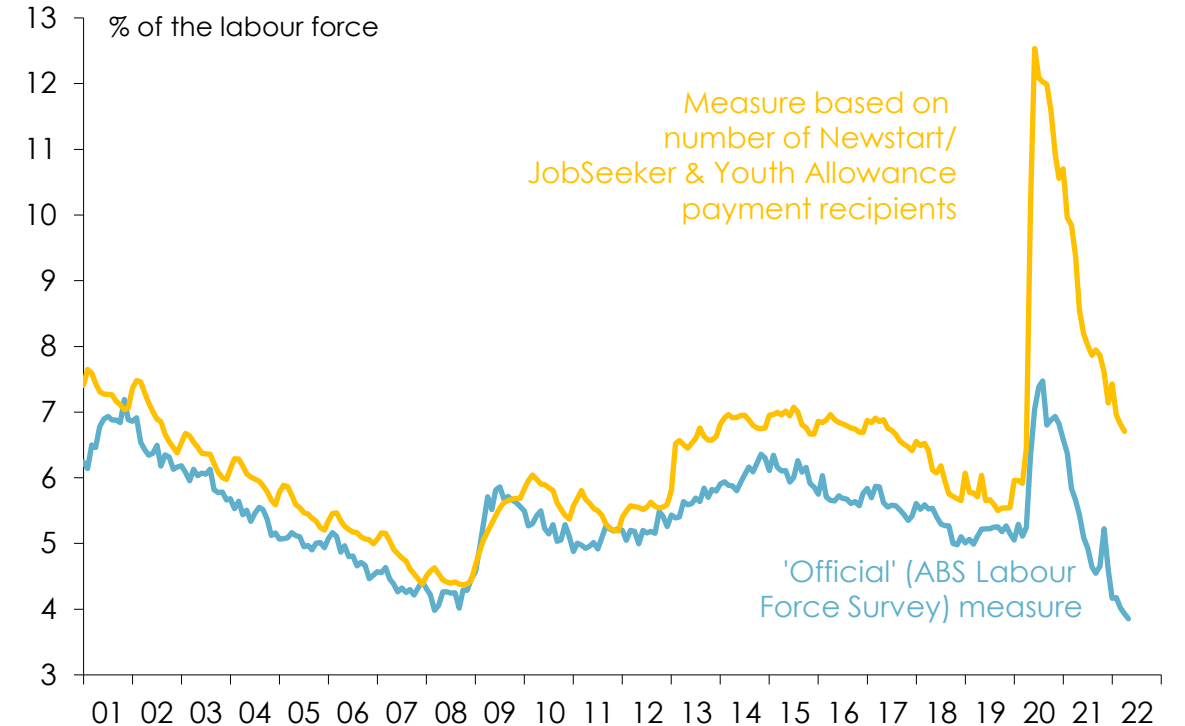
The number of people receiving joblessness-related income support payments is still 11¾% above its pre-pandemic level

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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 11th and 25th March, to its lowest level since the onset of the pandemic, though it is still 11¾% above the pre-pandemic level

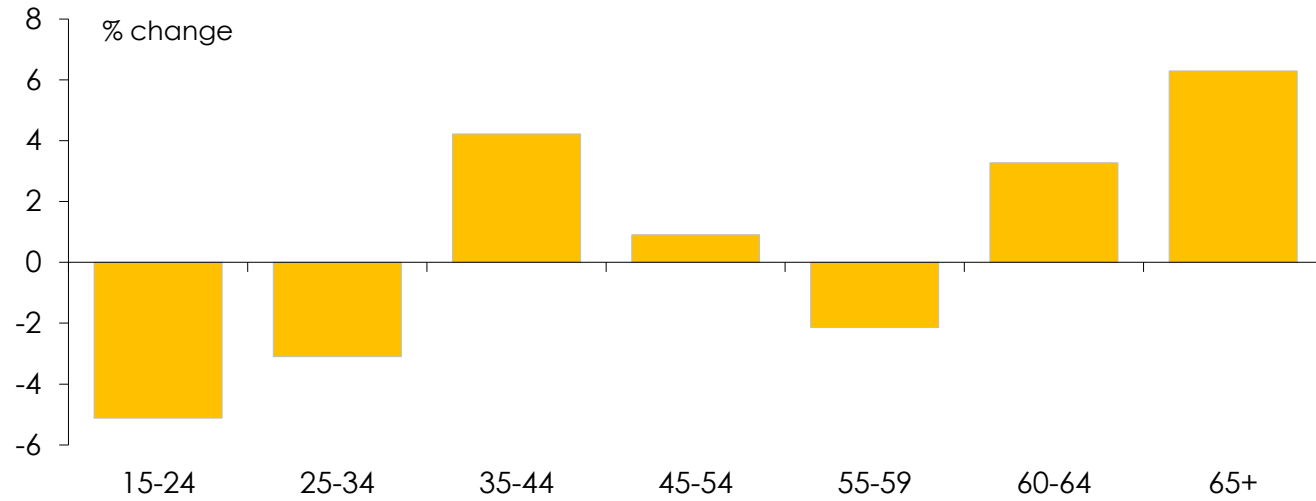
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). No data has been provided to the Committee since 4th April, following the prorogation of Parliament ahead of the 21st May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

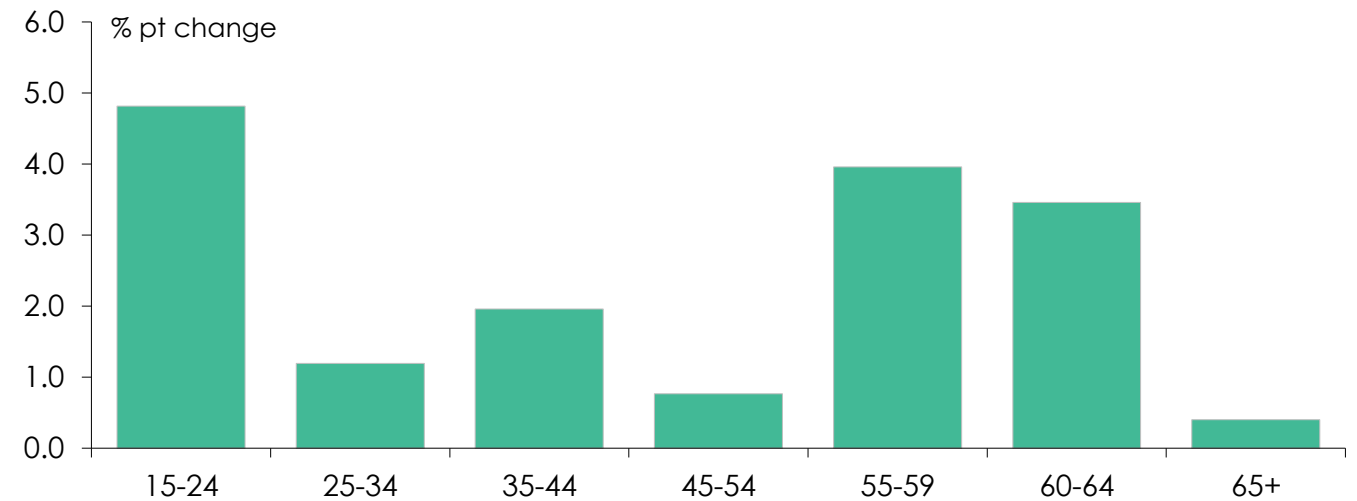
THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Changes from March 2020 to April 2022

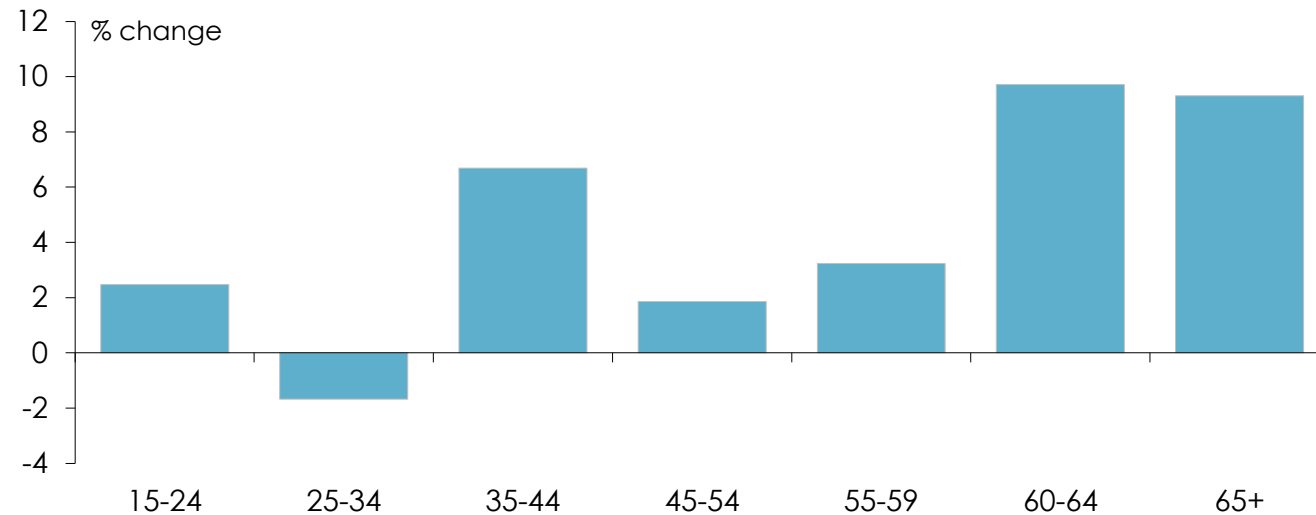
Civilian working age population



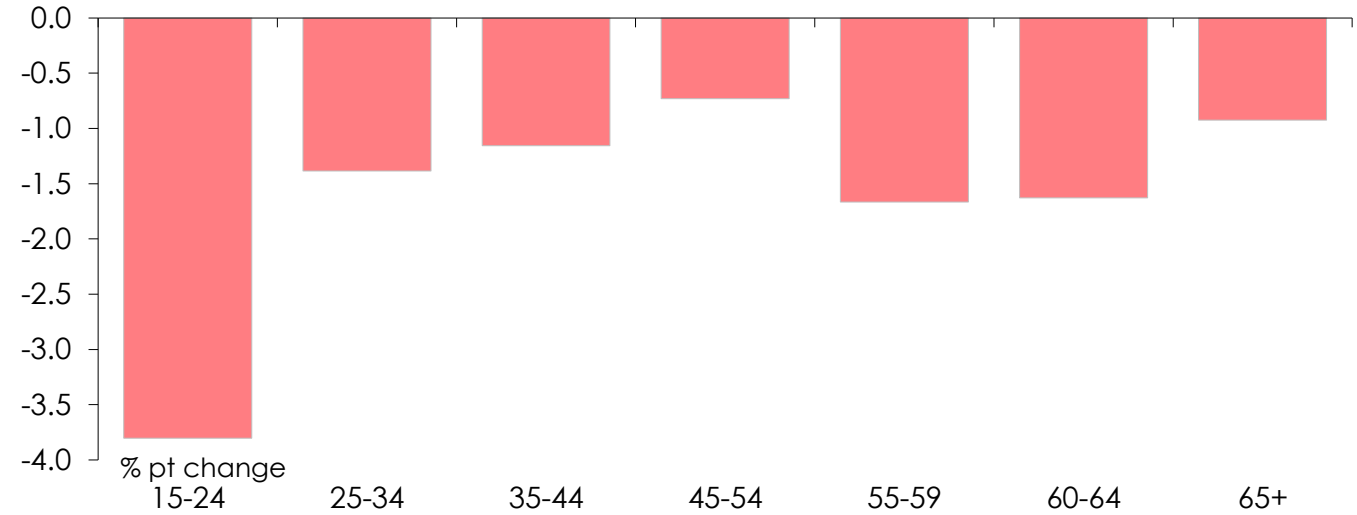
Employment-population ratio



Employment



Unemployment rates



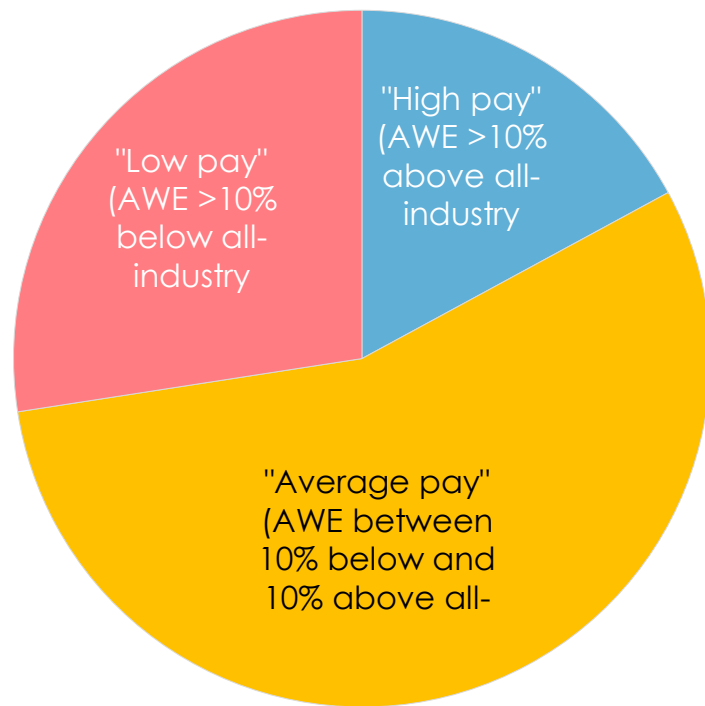
Note: The data from which the above charts are derived isn't seasonally adjusted.

Source: ABS, [Labour Force, Australia, Detailed](#), April; May data will be released on 23rd June. [Return to "What's New"](#).

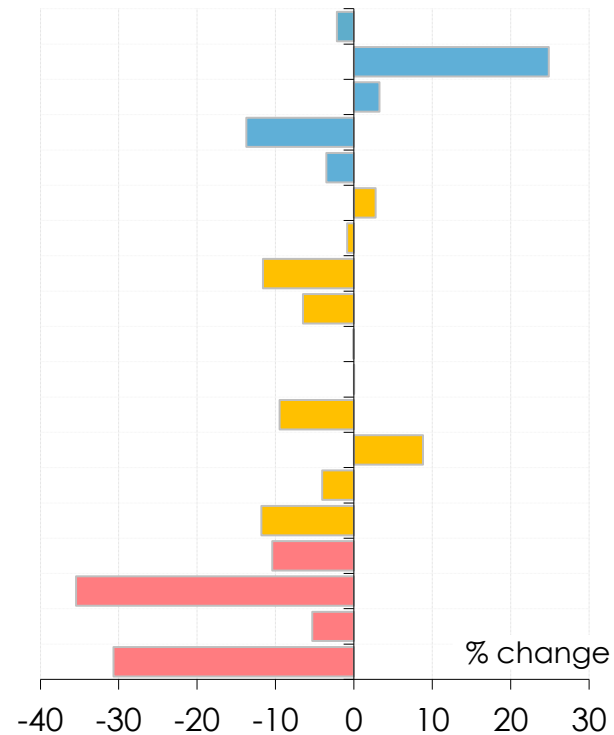
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

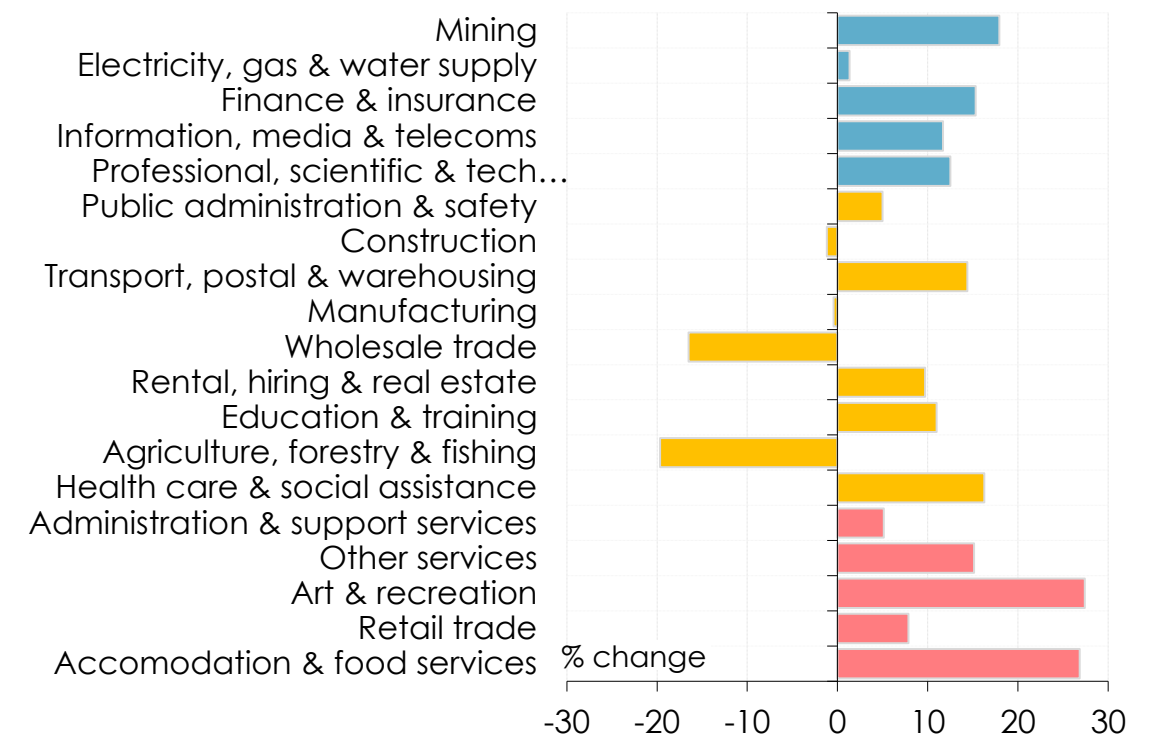
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry February-May 2020



February 2020 – February 2022



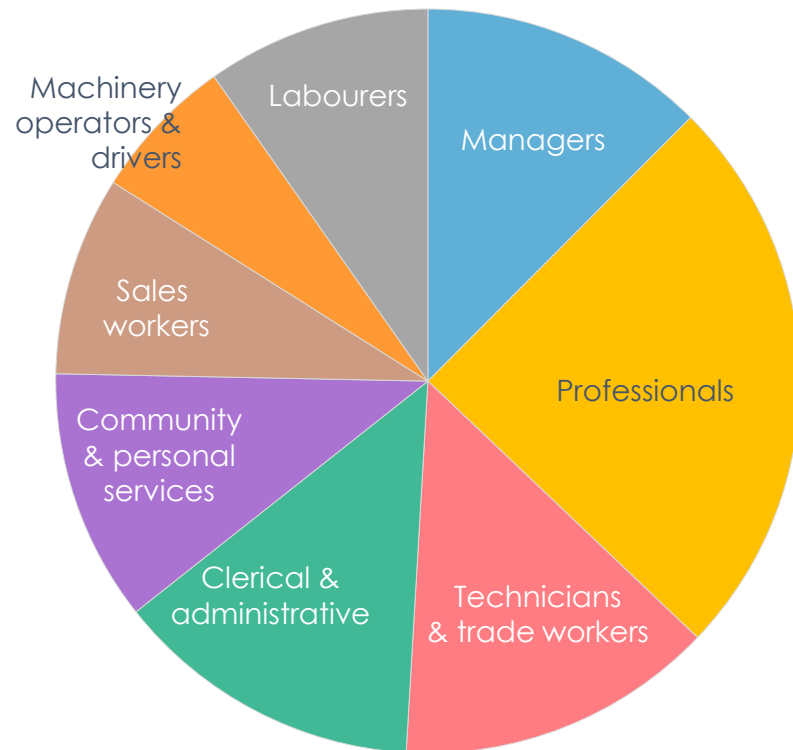
- Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May 2020 – and 86% of job losses between May and August 2021 – and despite the recovery in total employment since October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

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

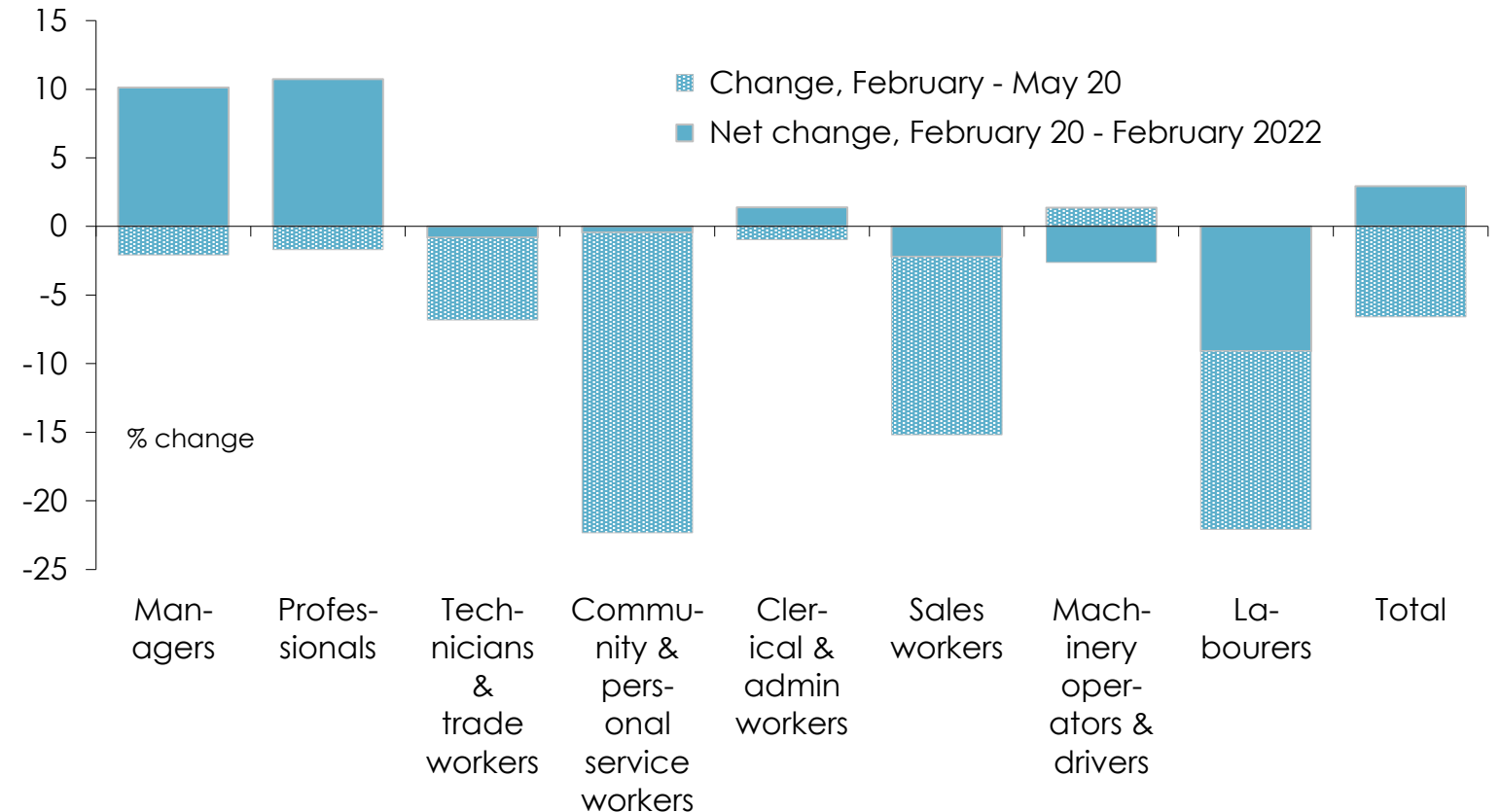
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



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



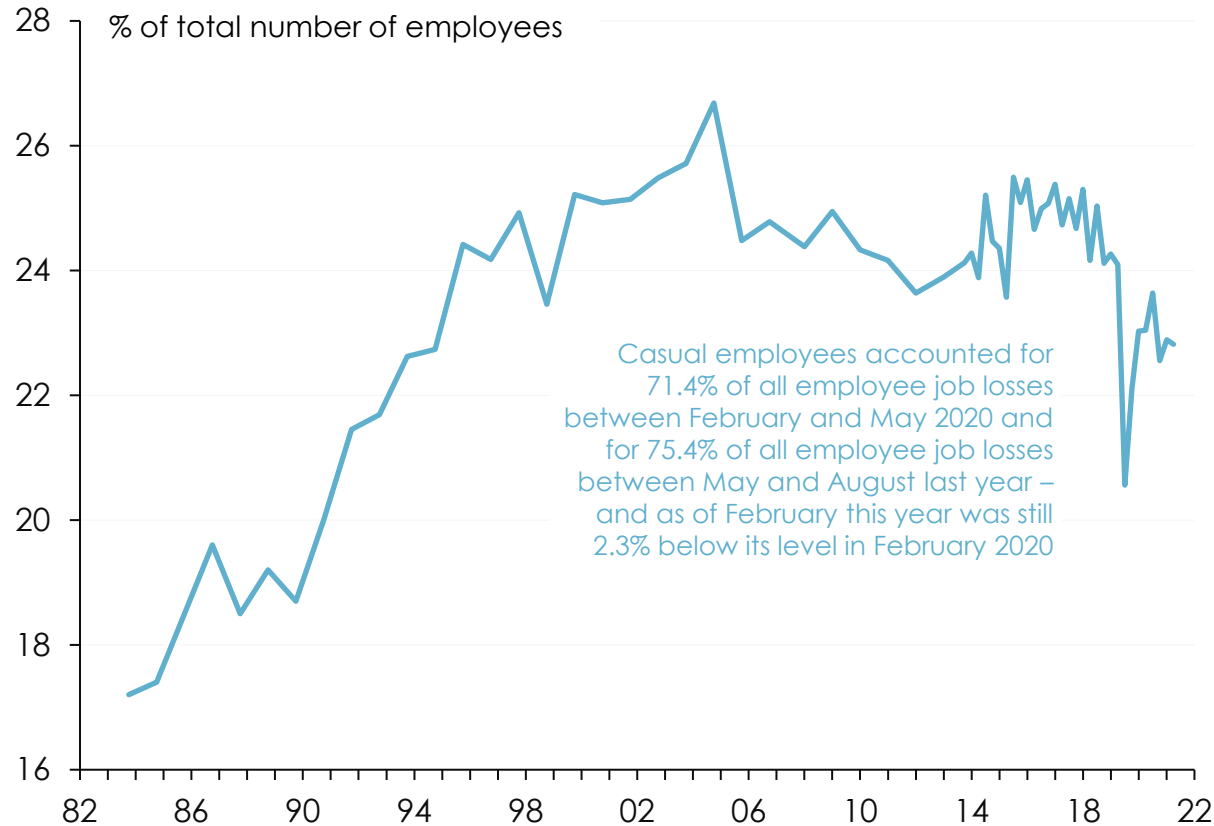
- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May 2020 – and for 71% of job losses between May and August 2021 – and there were 3.8% fewer of them in February this year than 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 23rd June. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

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



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

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



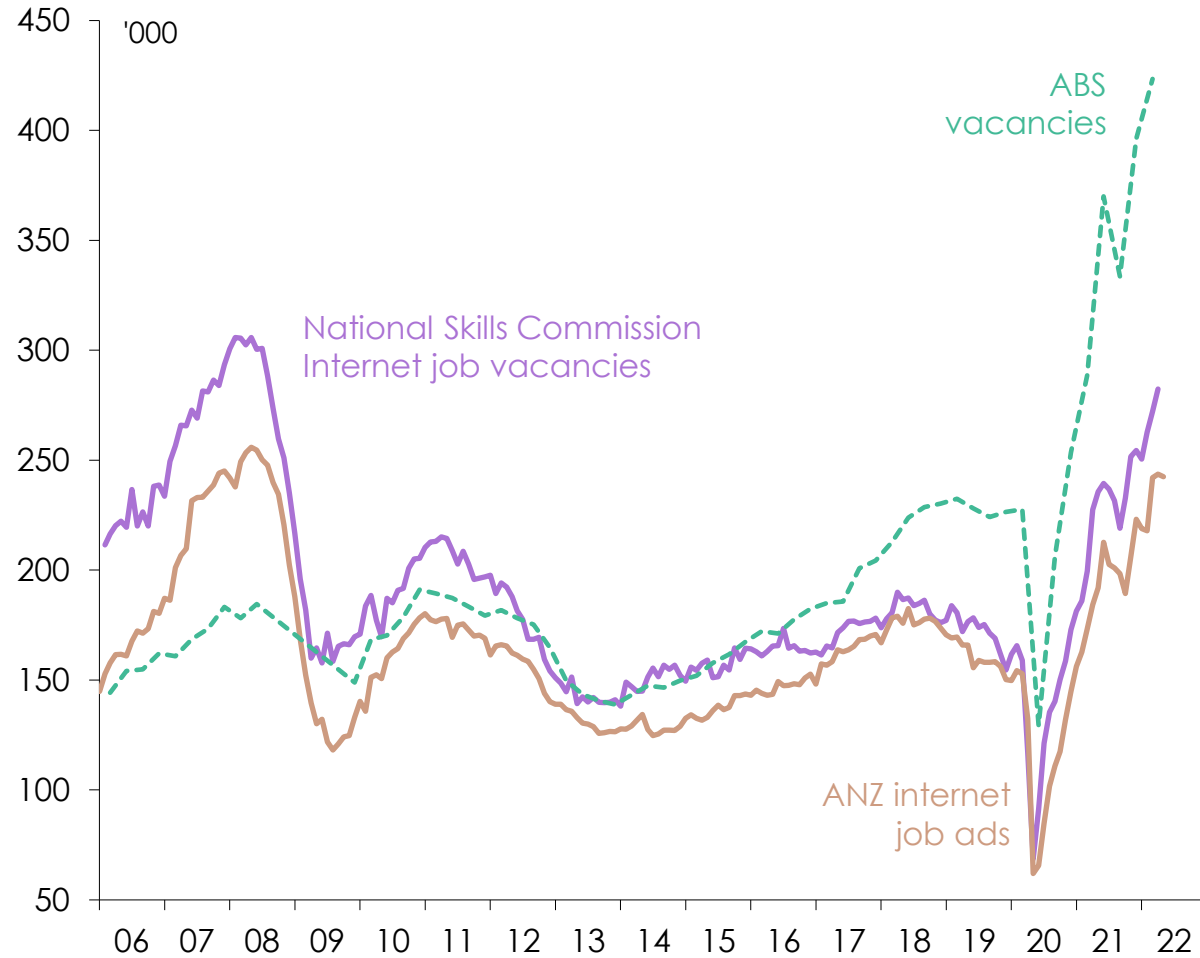
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

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

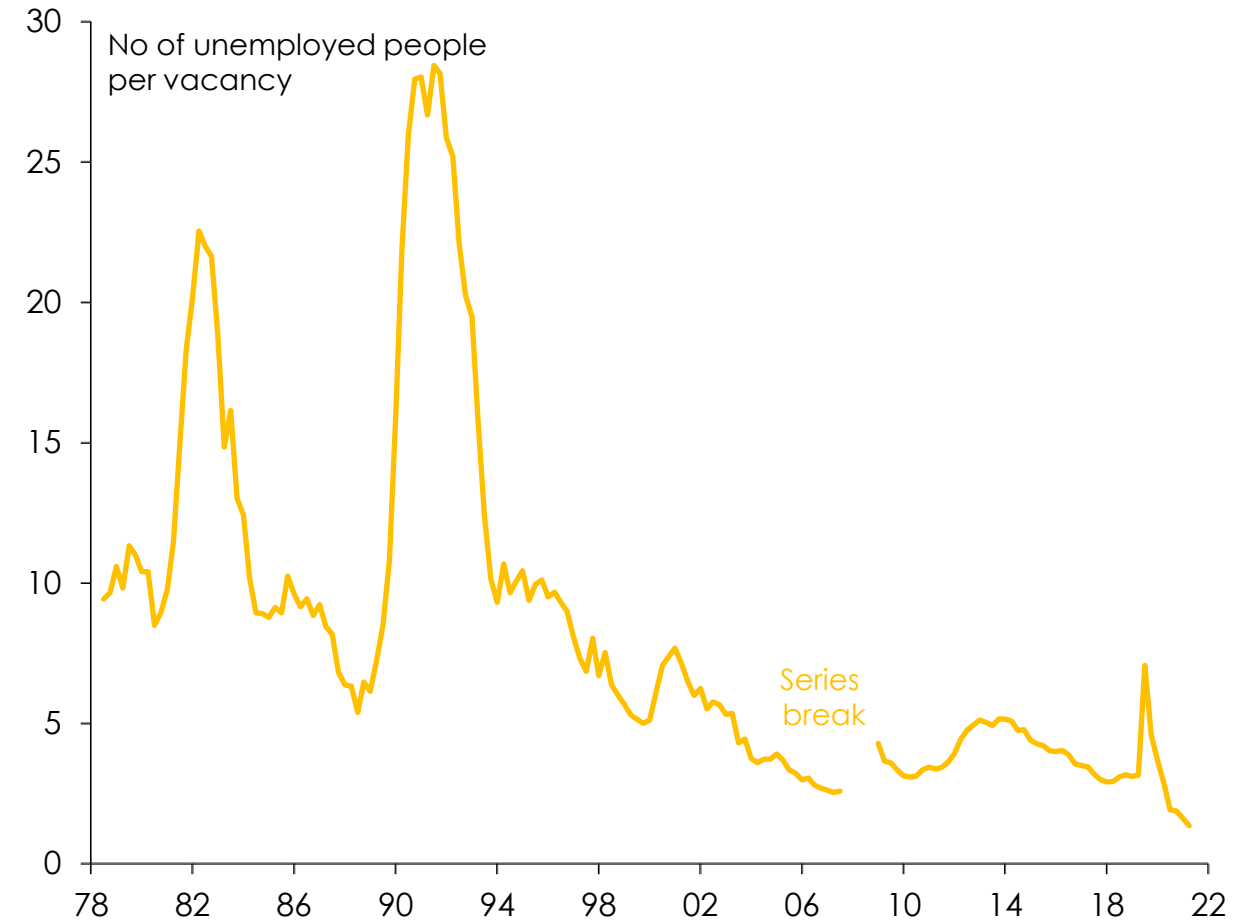
THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

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

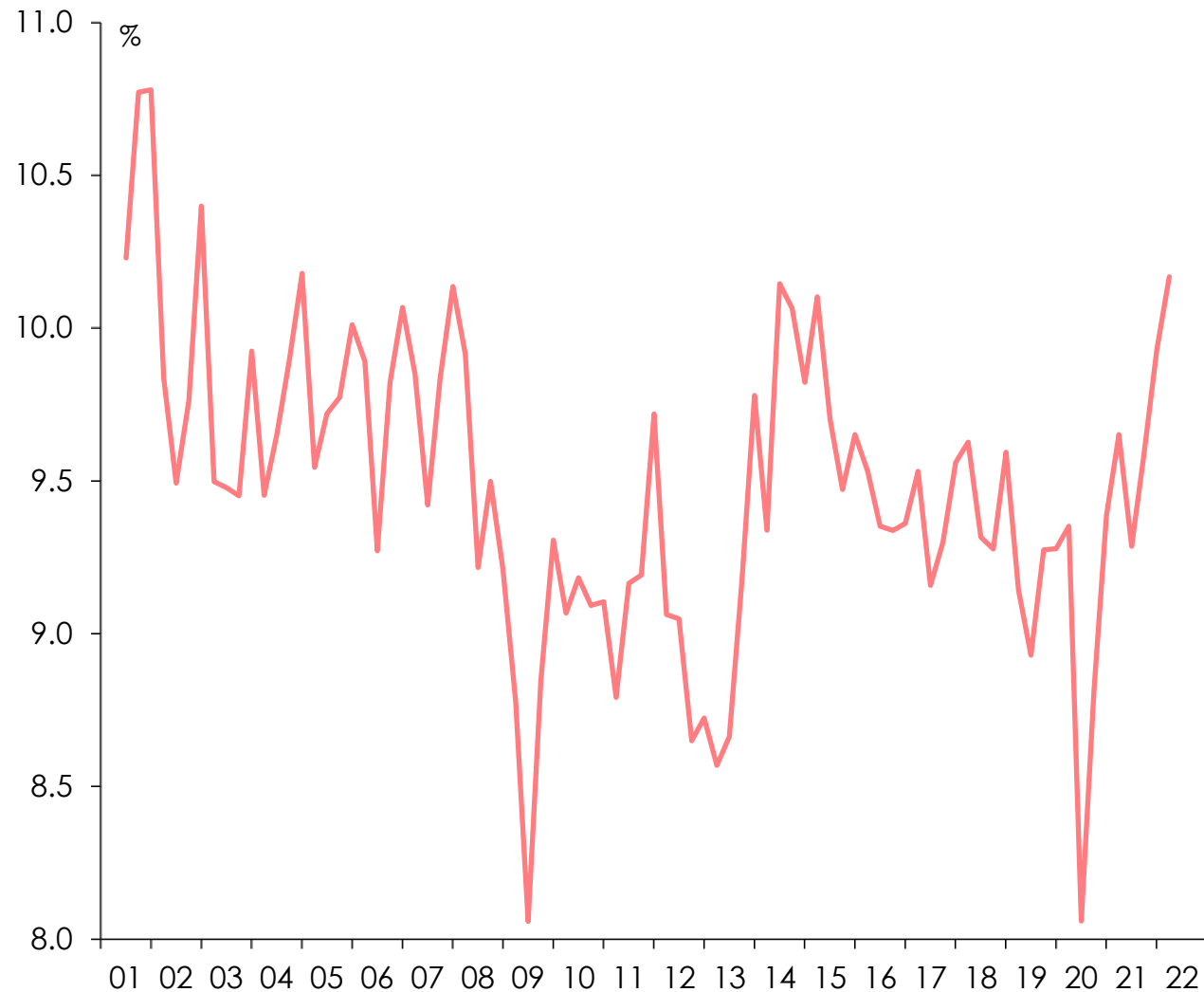


☐ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

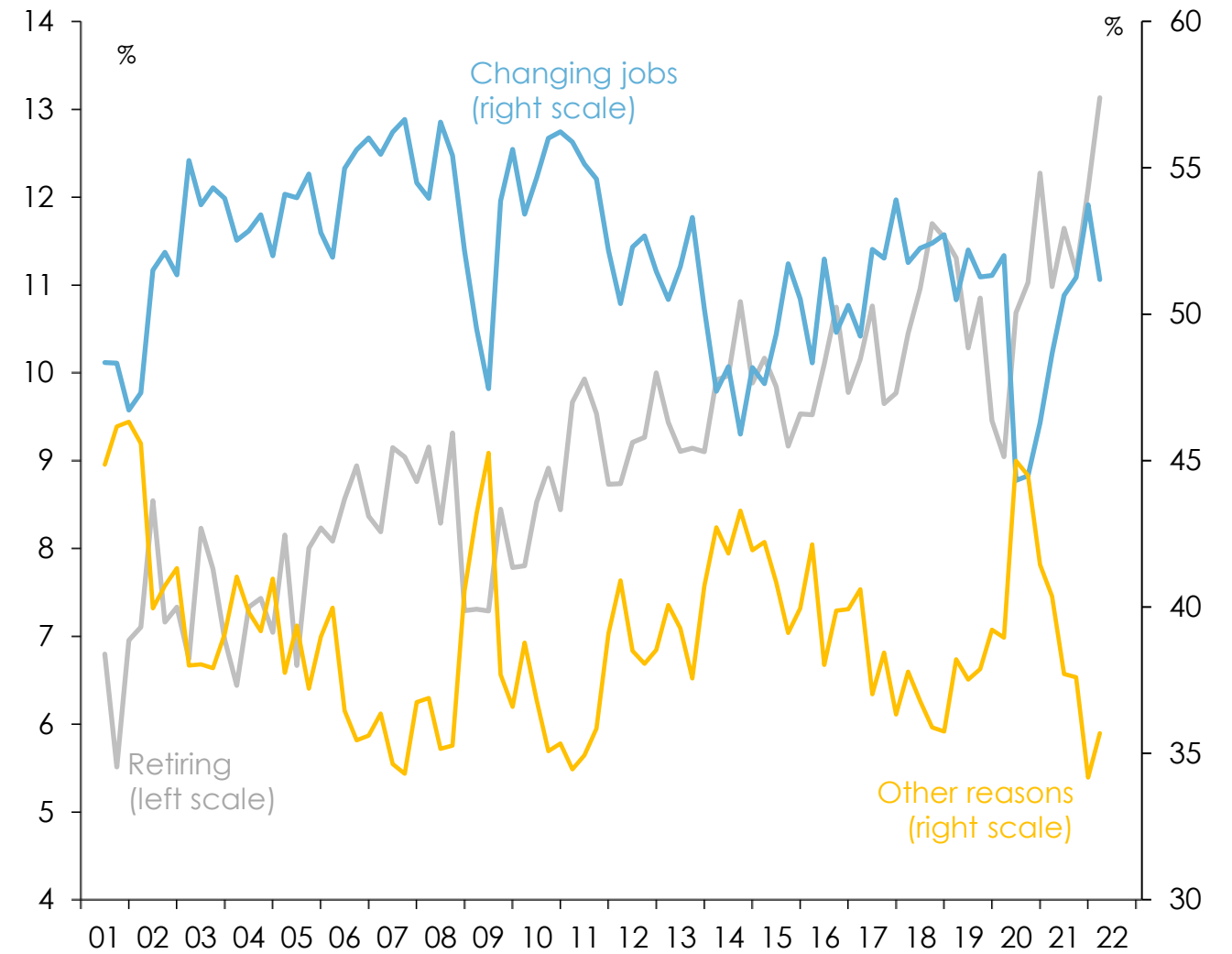
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 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



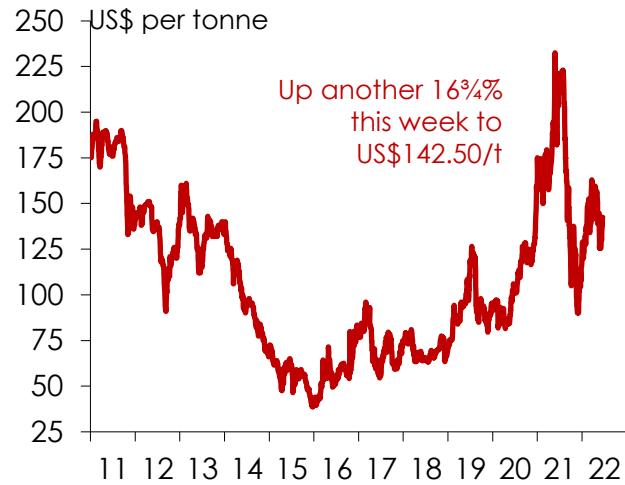
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

Trade and the balance of payments

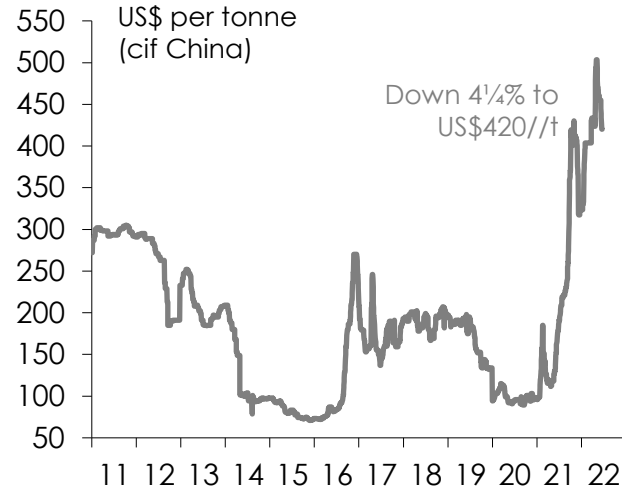
Iron ore prices rose this week as Chinese ports re-opened, oil prices fell in response to news of higher US stocks, and base metals weakened further

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

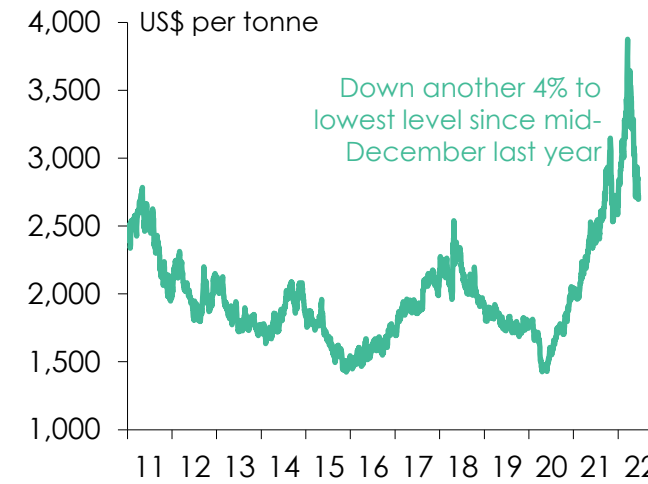
Iron ore



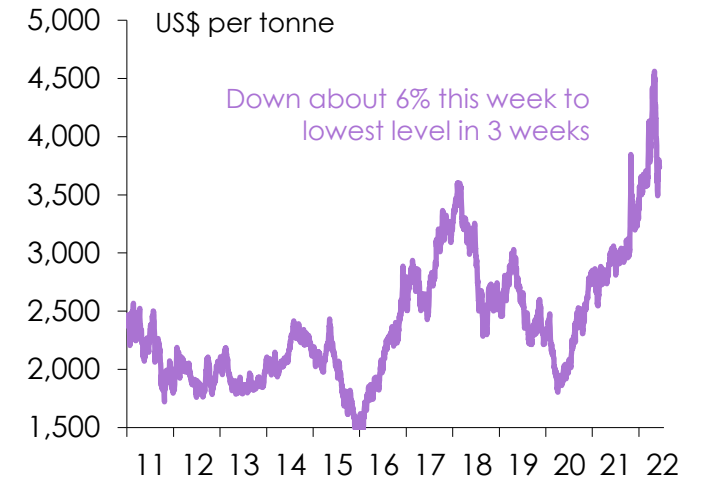
Metallurgical coal



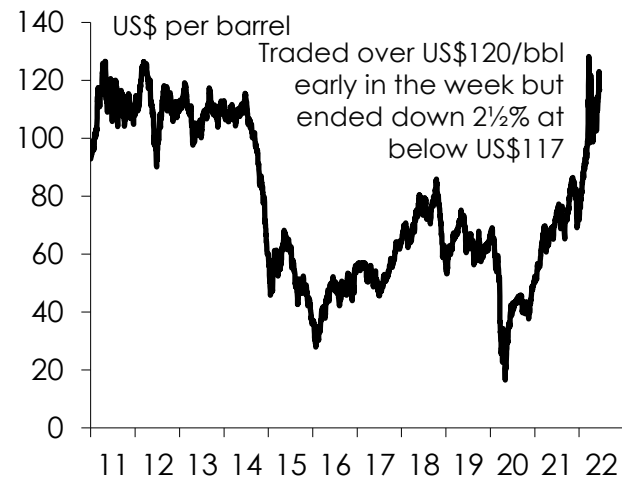
Aluminium



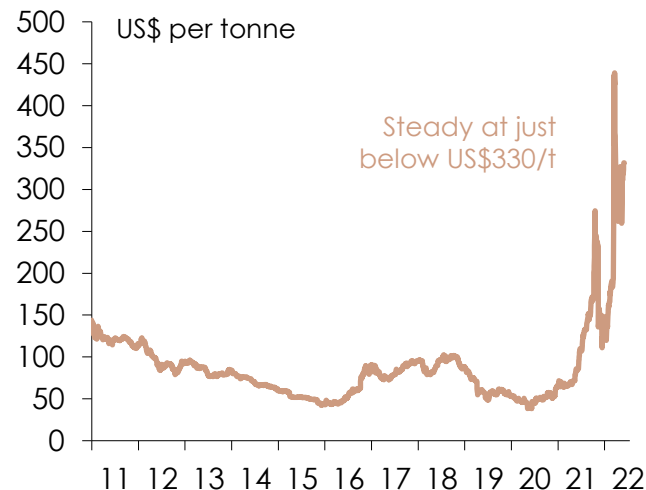
Zinc



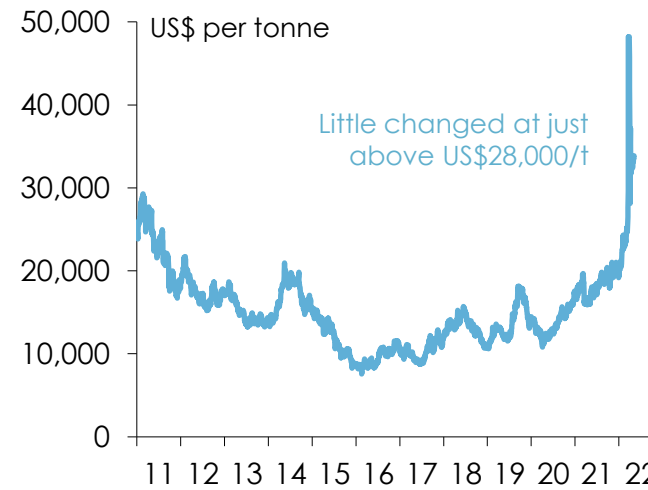
Brent crude oil



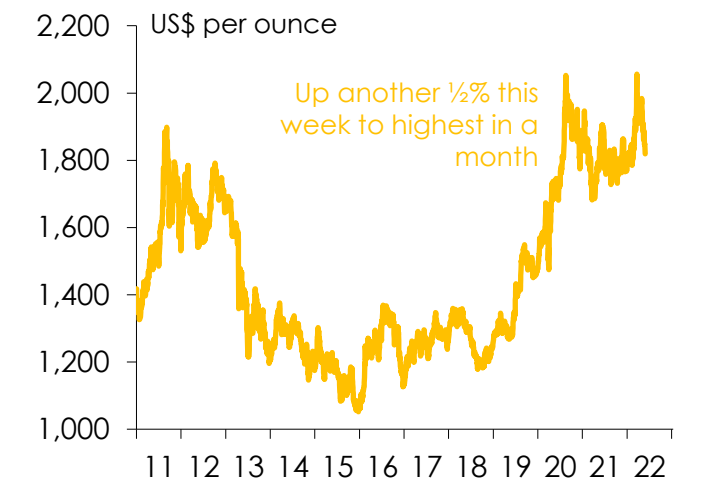
Thermal coal



Nickel



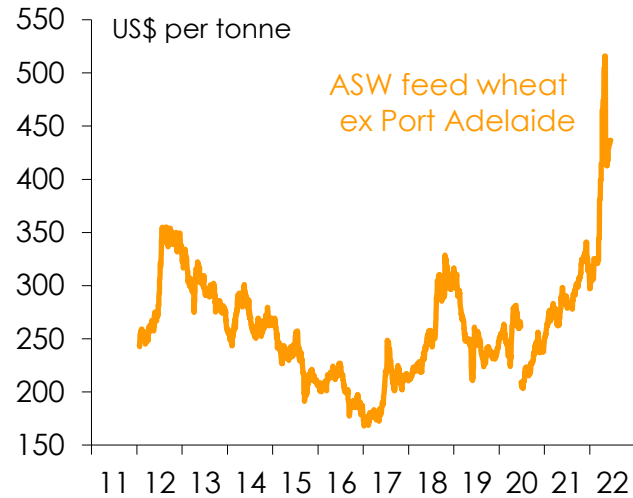
Gold



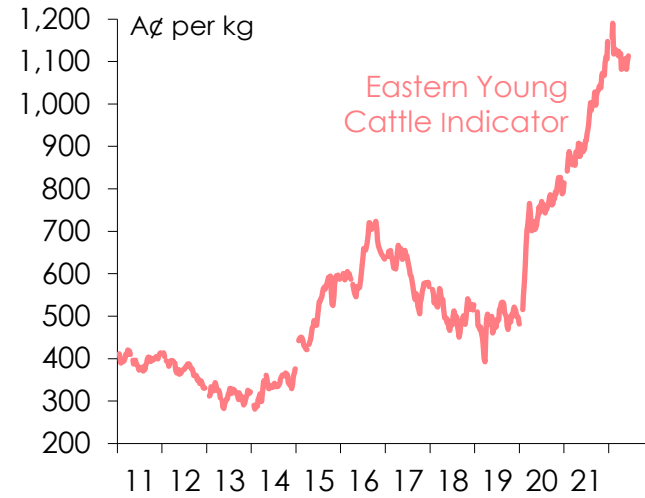
Grain prices fell this week on hopes of a resumption of Ukrainian exports, and most other soft commodities were also down slightly

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

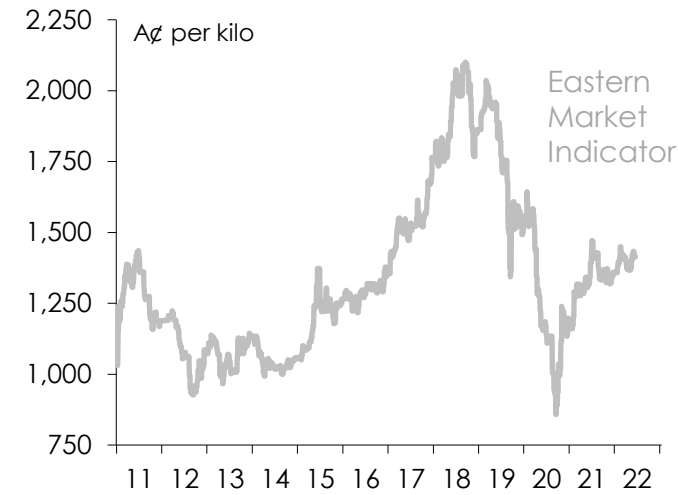
Wheat



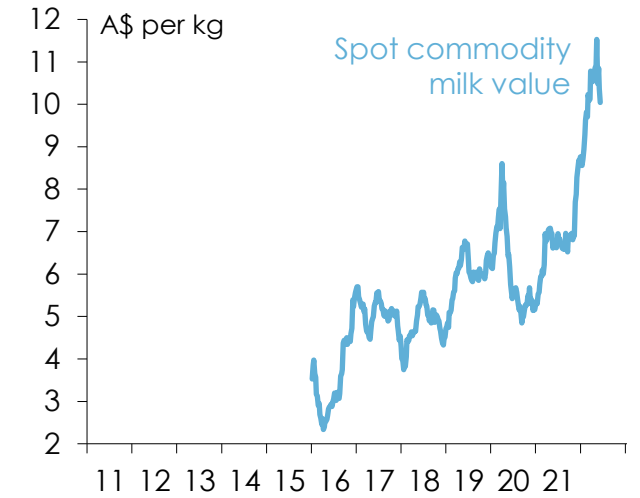
Beef cattle



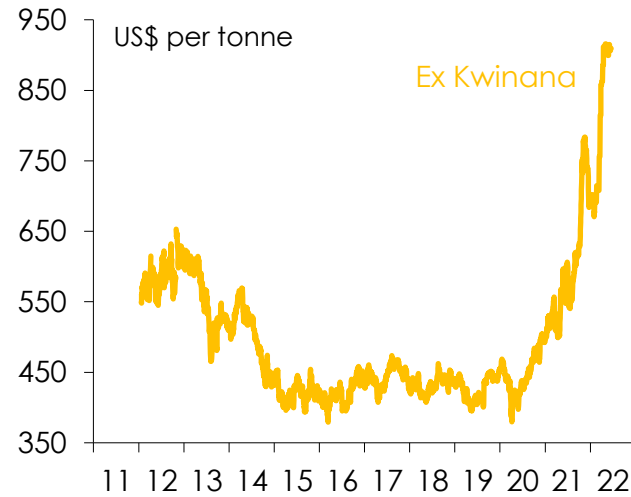
Wool



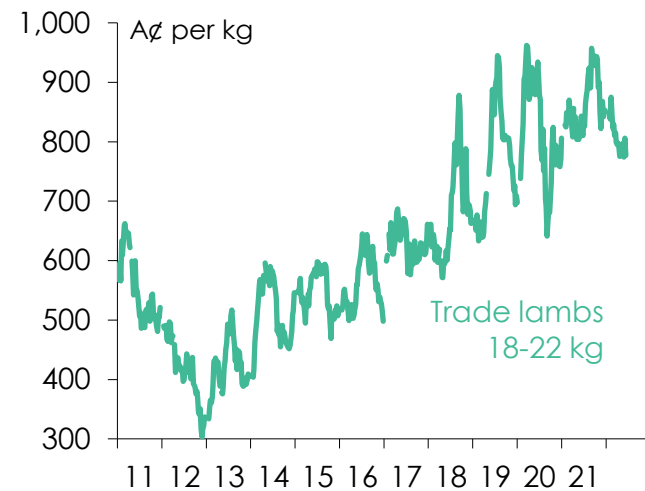
Milk



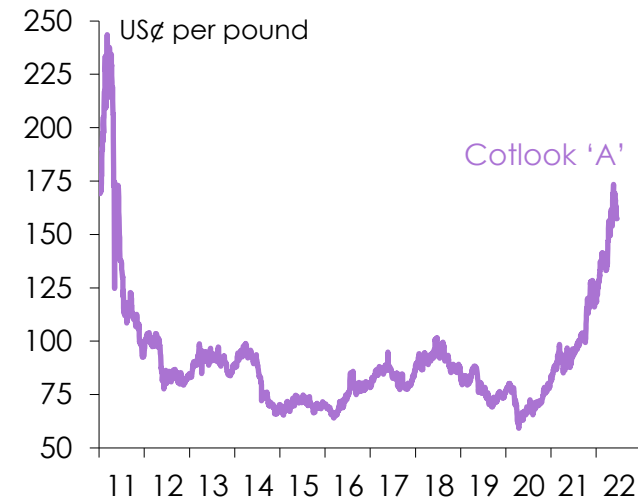
Canola



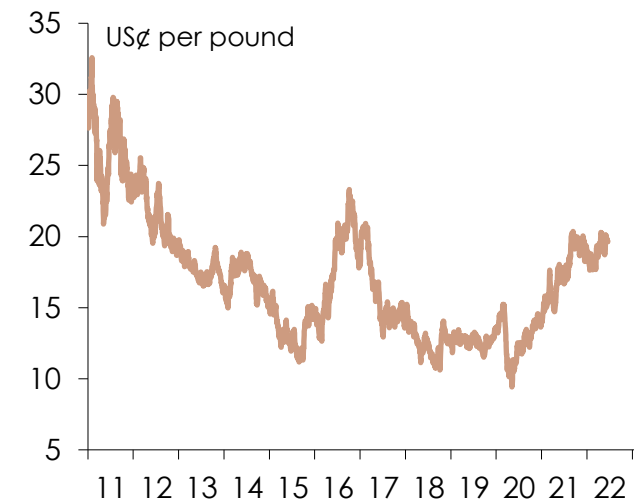
Sheep



Cotton



Sugar

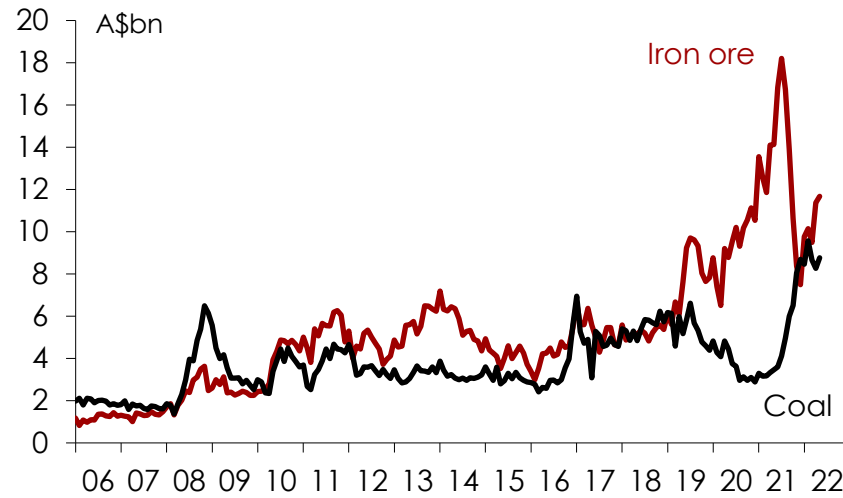


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 3rd June.

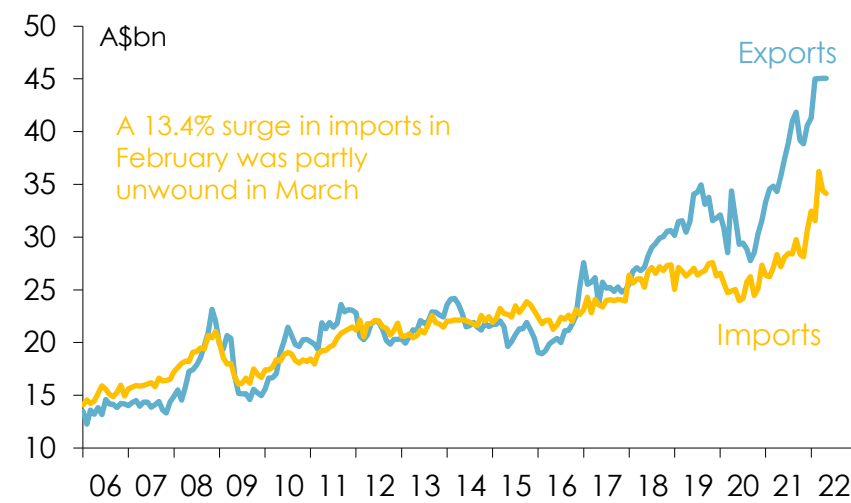
Australia's trade surplus widened by \$0.3bn to \$10.9bn in April, with exports up 1.0% (including a 9.6% jump in services) and imports down 0.7%

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

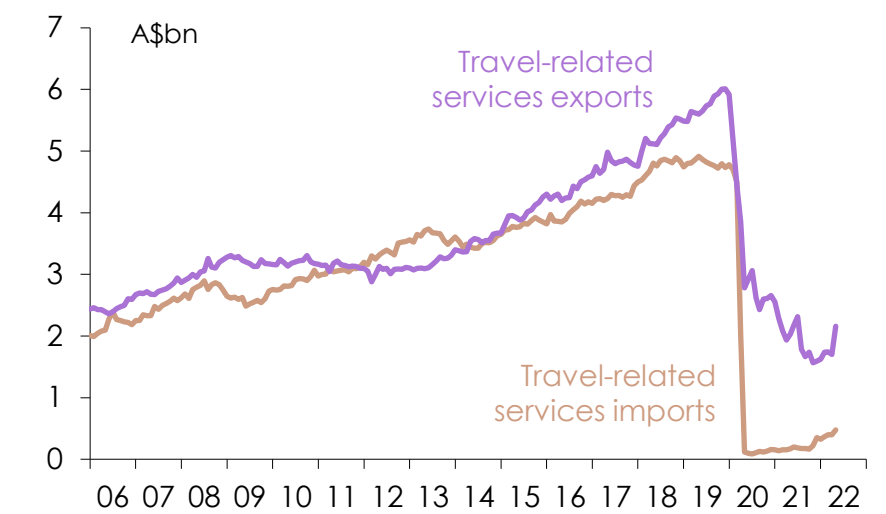
Iron ore and coal exports



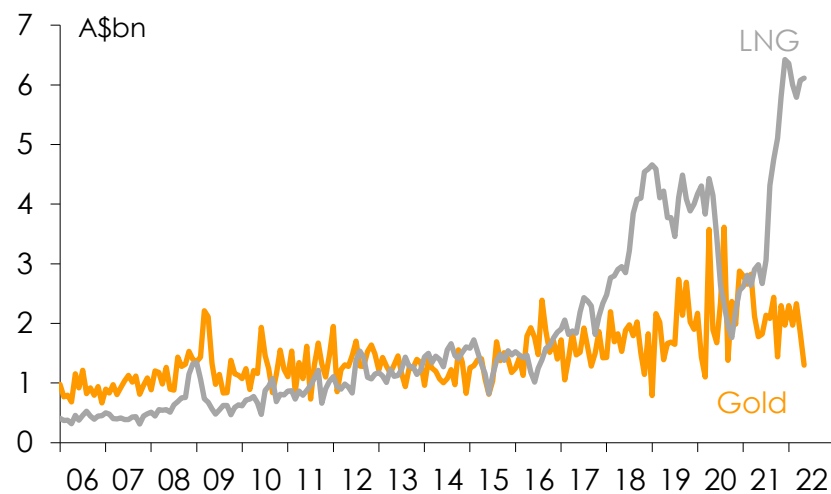
Merchandise exports and imports



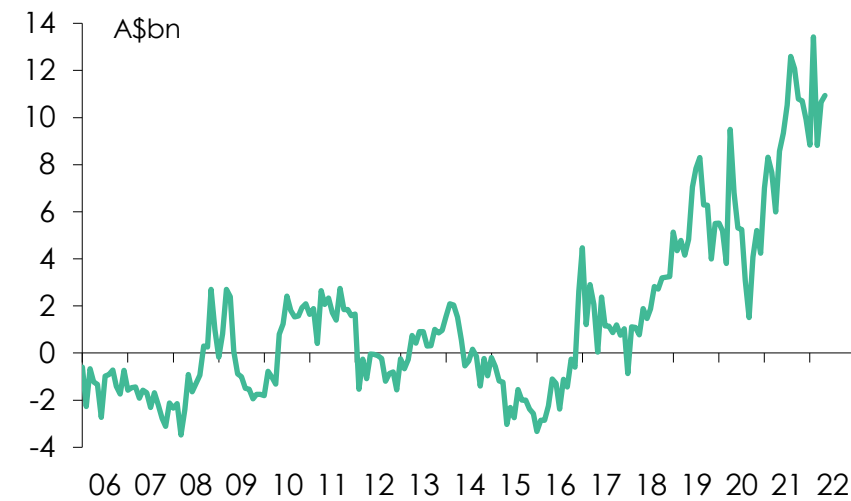
Tourism-related services trade



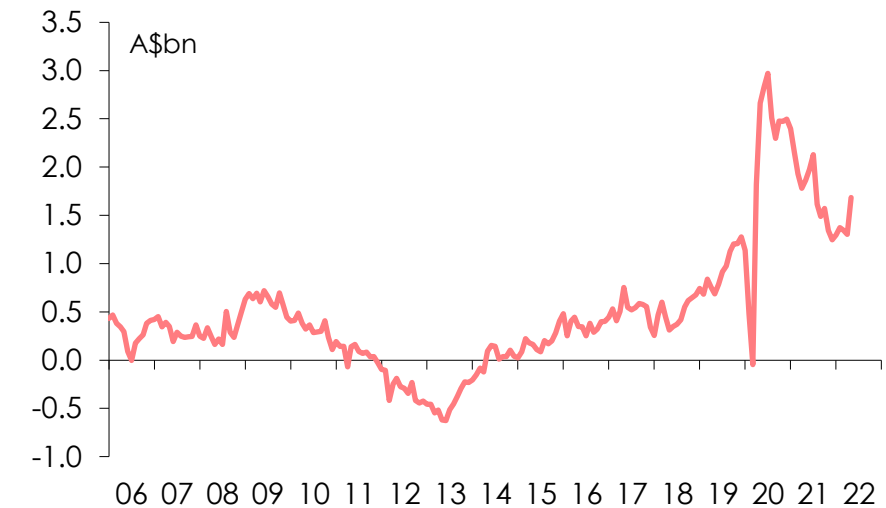
LNG and gold exports



Merchandise trade balance



Tourism services trade balance

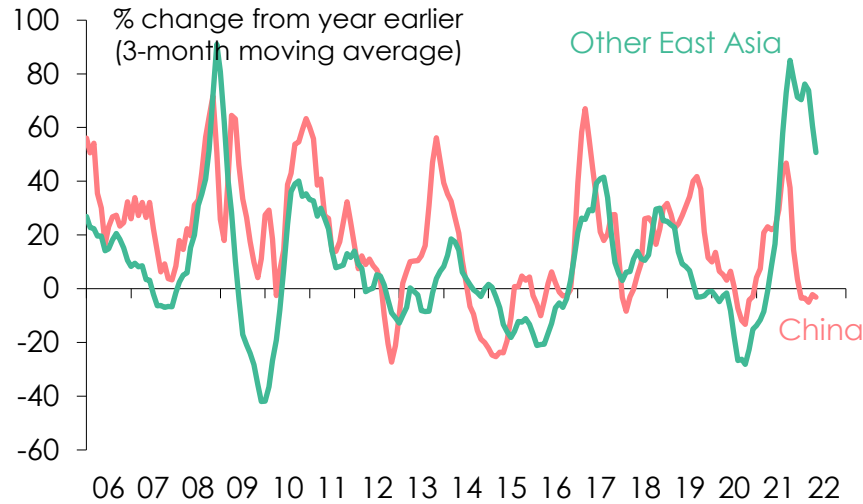


Source: ABS, [International Trade in Goods and Services, Australia](#), April 2022. May data will be released on 7th July. [Return to "What's New"](#).

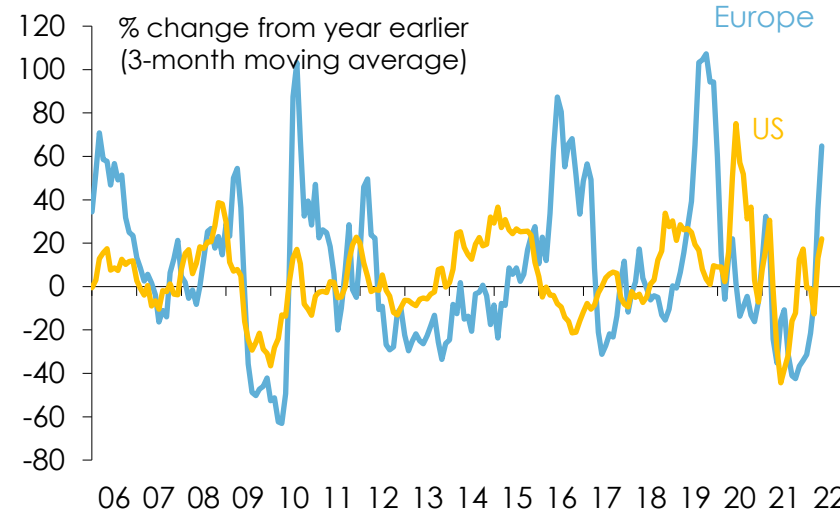
Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

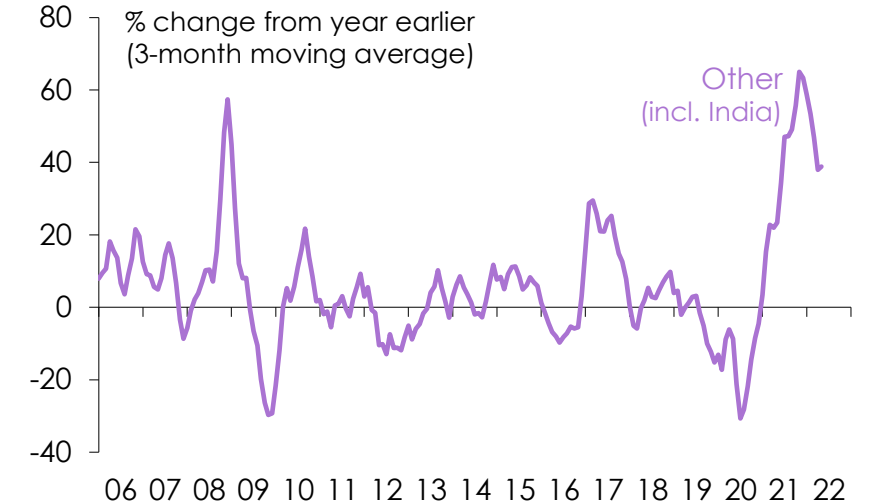
Merchandise exports – East Asia



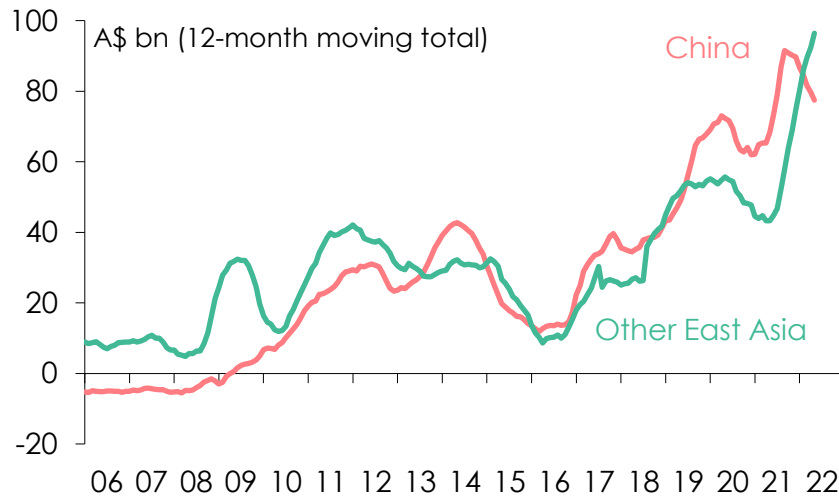
Merchandise exports – US & Europe



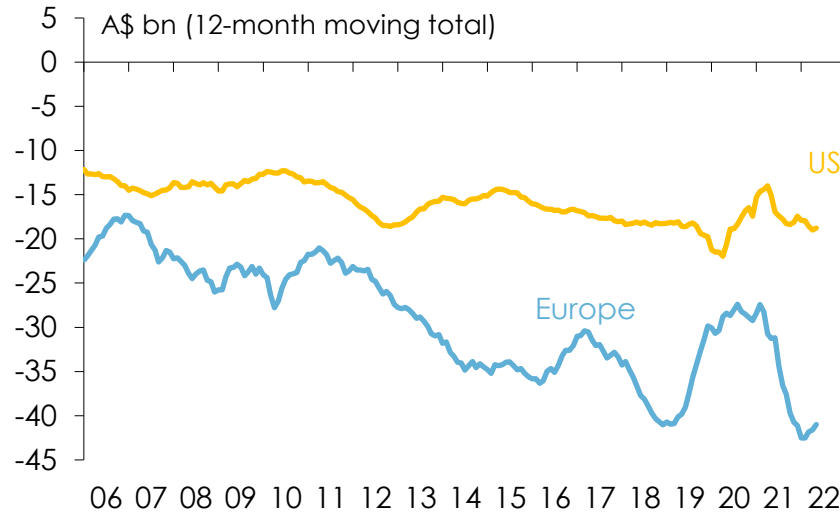
Merchandise exports – other



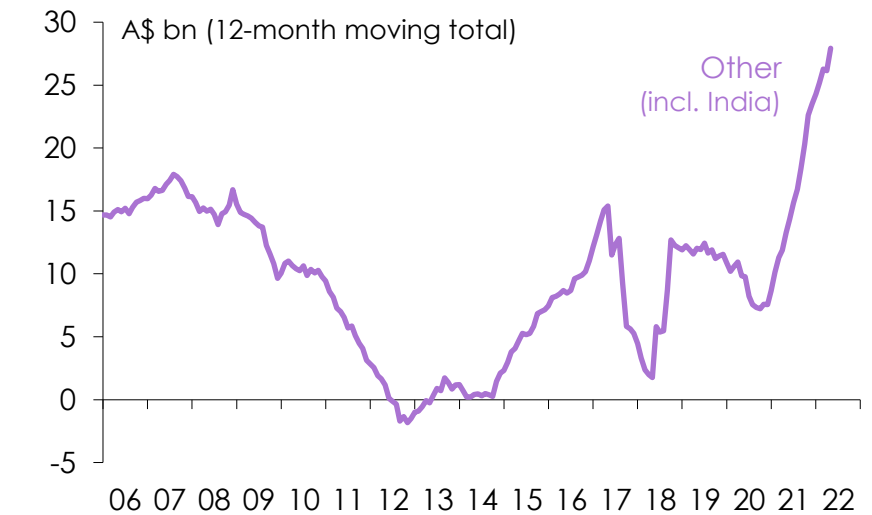
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

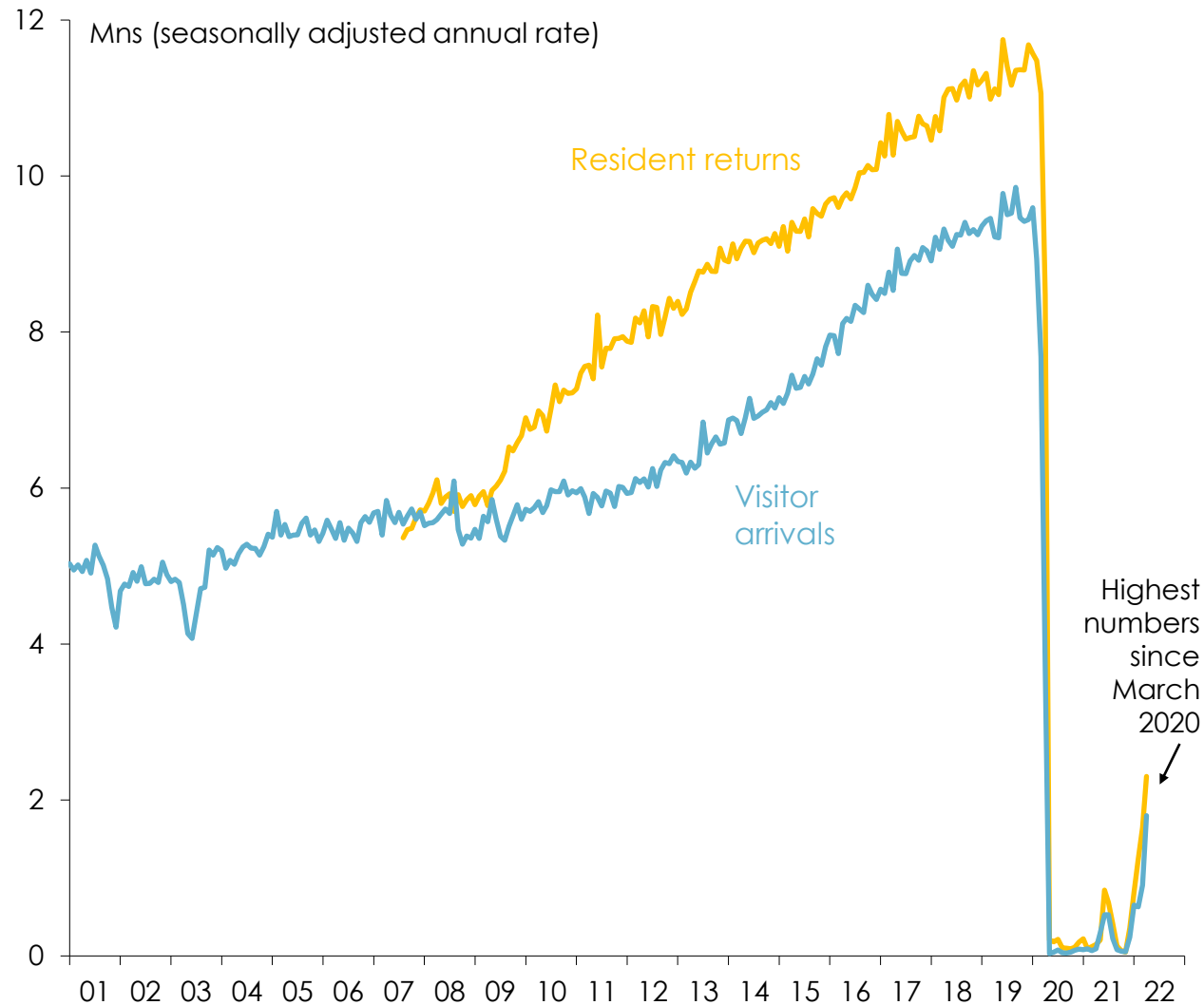


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in Goods and Services, Australia](#), April 2022. May data will be released on 7th July. [Return to "What's New"](#).

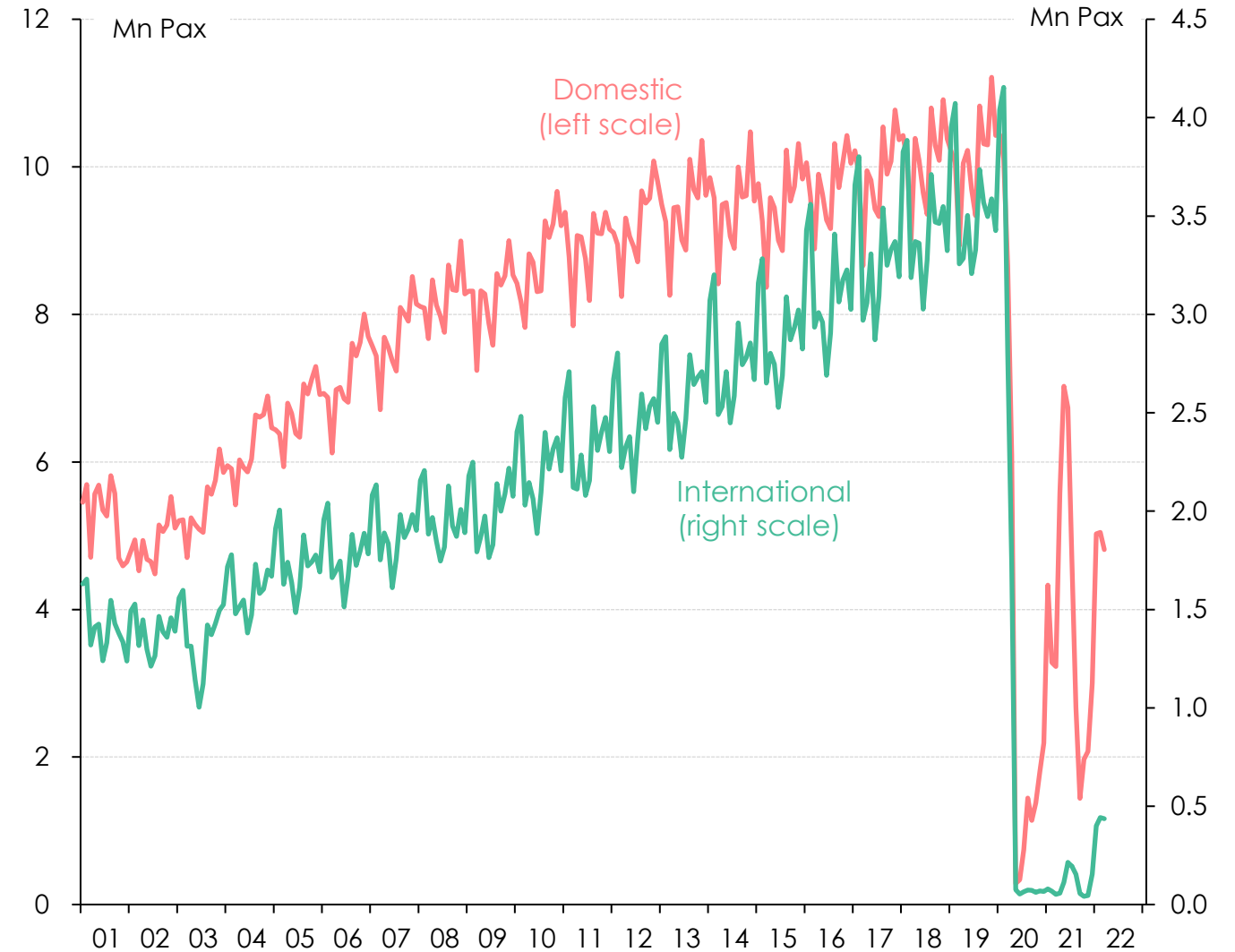
International arrivals & departures, and air passenger movements have picked up this year – but are still a long way below pre-Covid levels

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Short-term visitor arrivals and resident returns



Airport passenger movements

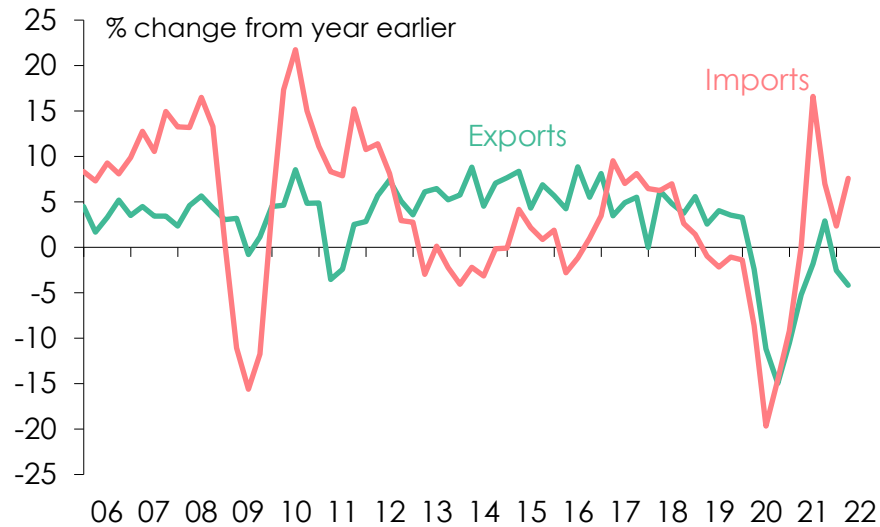


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

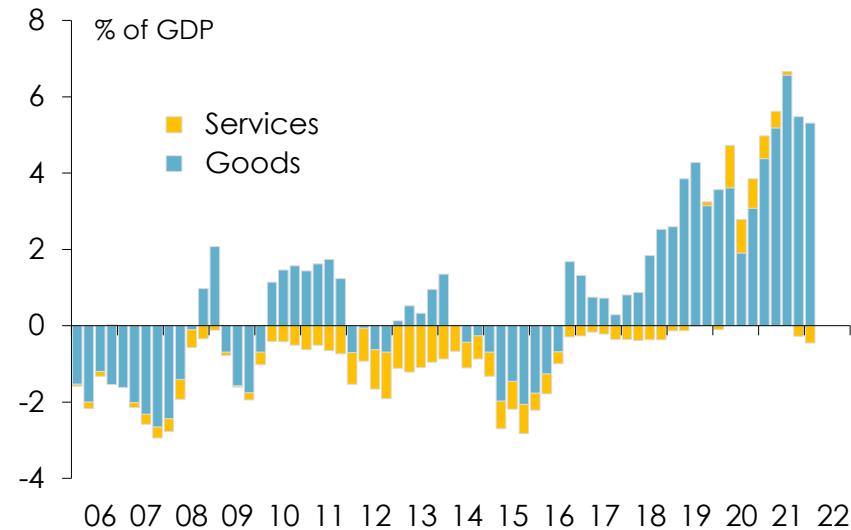
Australia's Q1 current account surplus was the smallest since Q4 2019, with an 8% surge in import volumes outweighing a 6% terms of trade gain

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

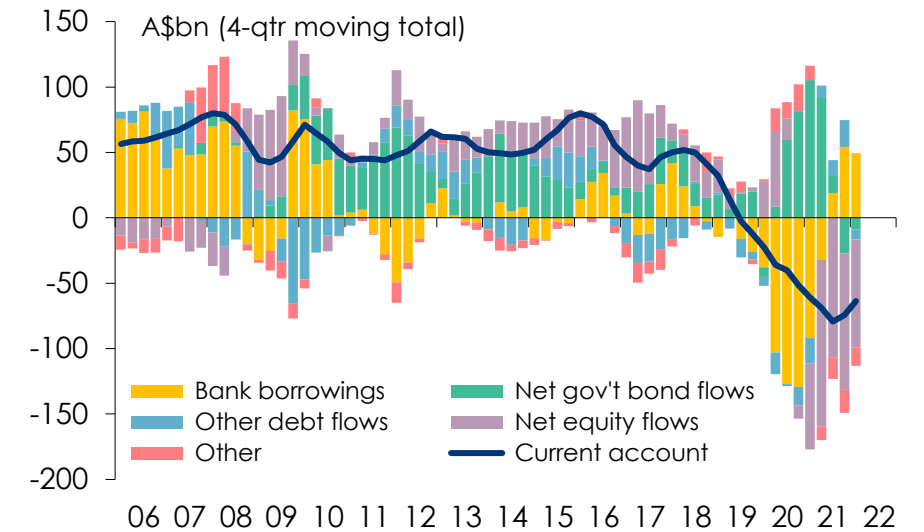
Export and import volumes



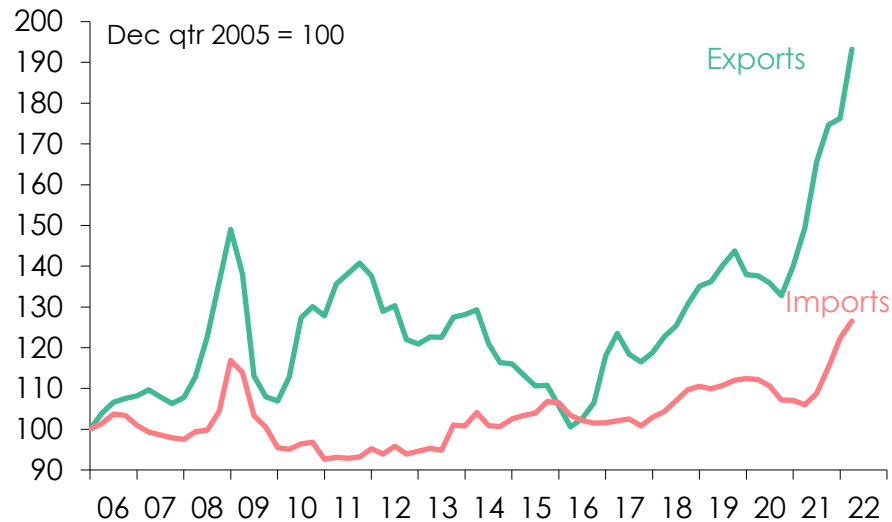
Goods & services trade balances



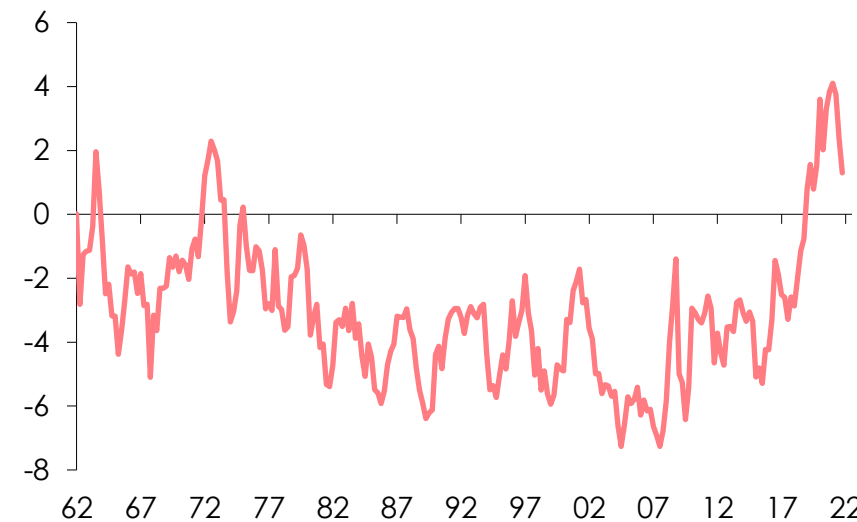
Capital flows



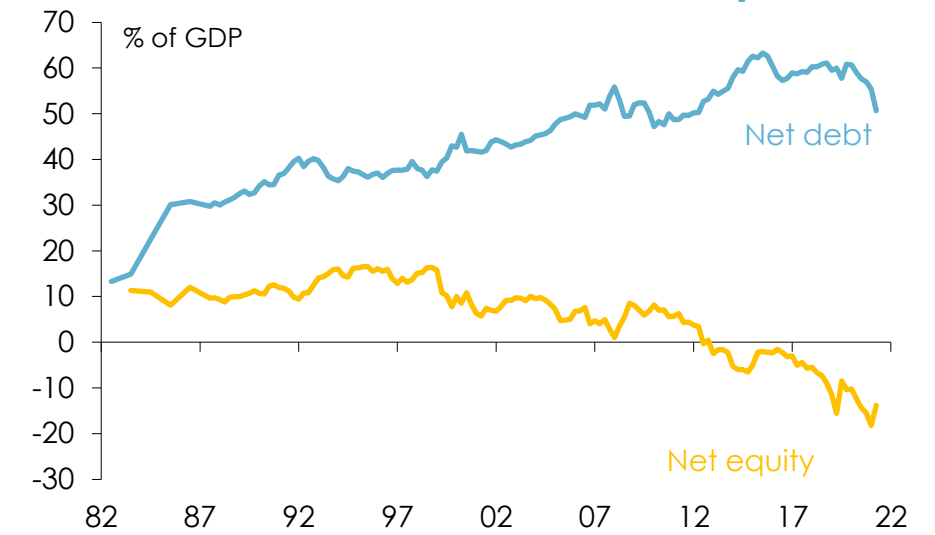
Export and import prices



Current account balance



Net international investment position



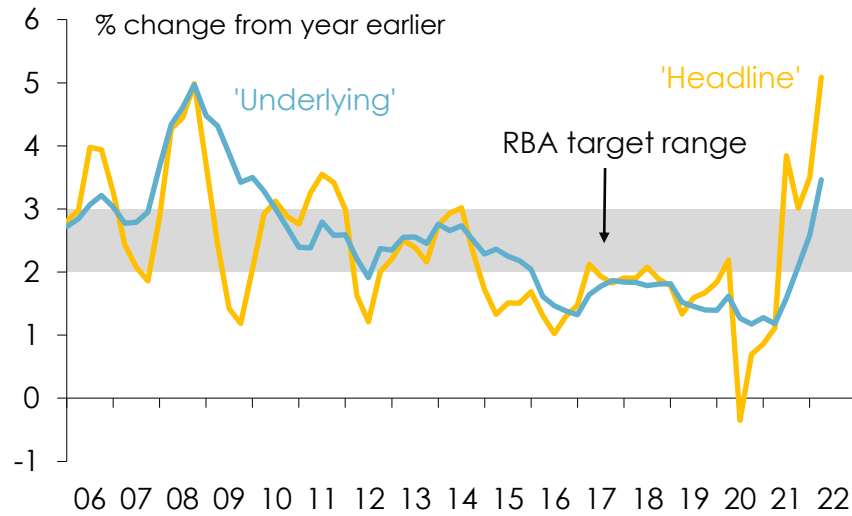
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a positive and net equity assets as a negative. Latest data are for the March quarter 2022; June quarter data will be released on 6th September. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

Inflation

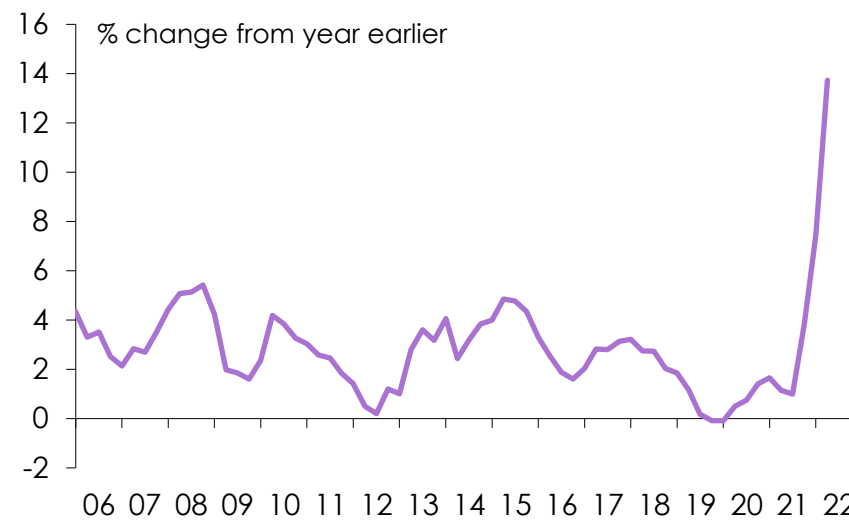
The CPI rose 2.1% in Q1, pushing annual 'headline' inflation to 5.1%, while annual 'underlying' inflation rose to a 13-year high of 3.7%

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

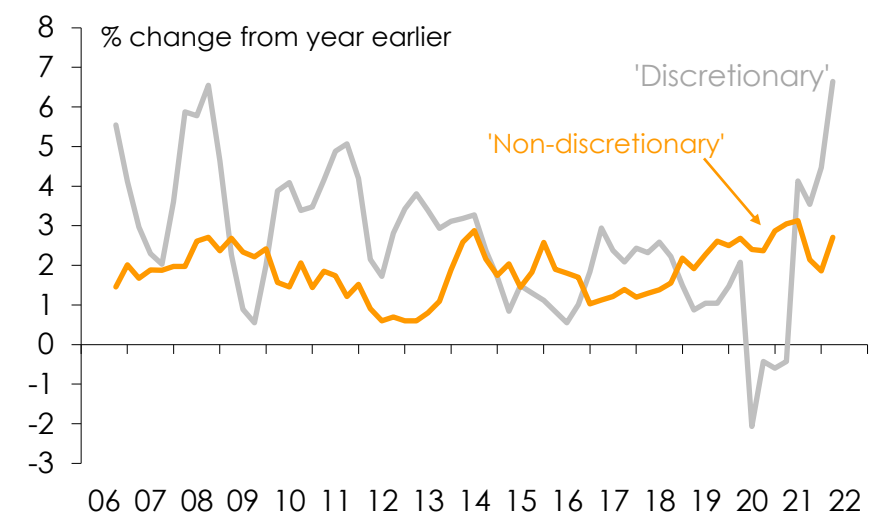
Consumer prices – annual change



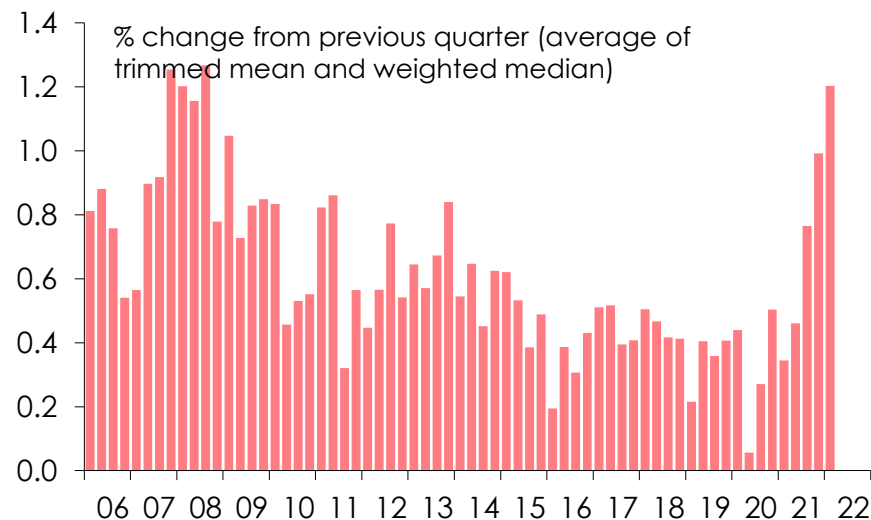
New dwelling purchase costs



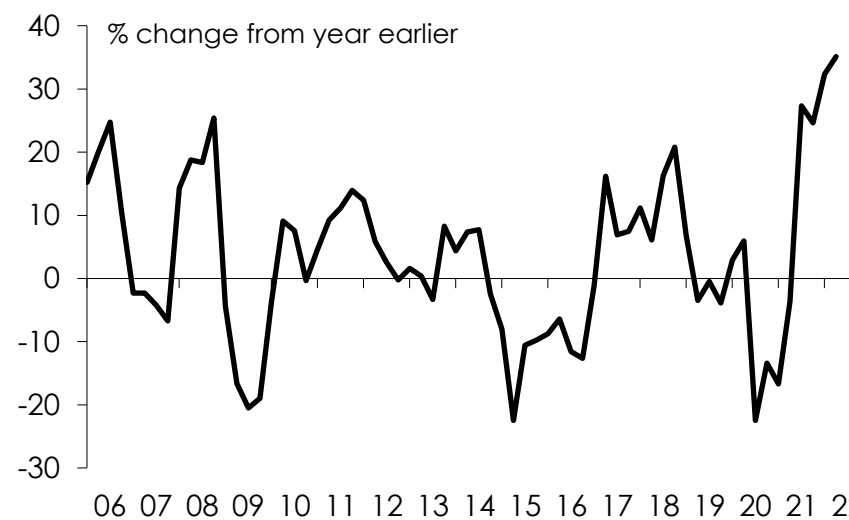
'Discretionary' vs 'essential' items



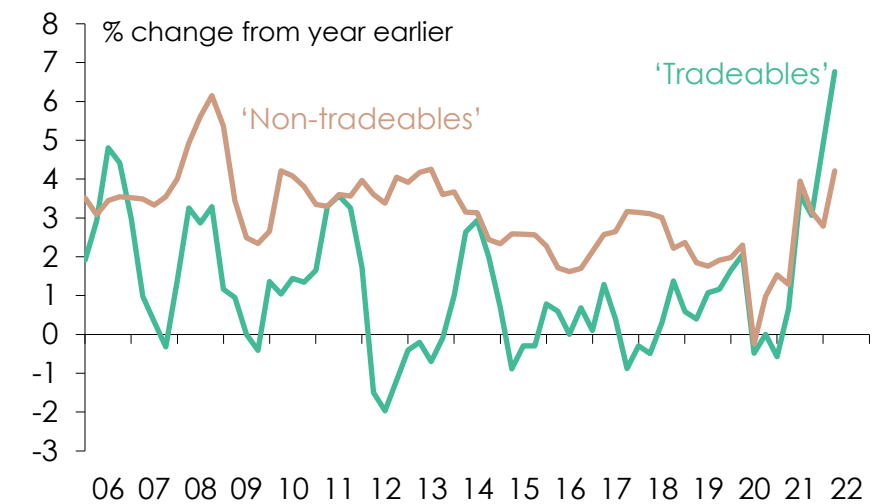
Quarterly 'underlying' inflation



Automotive fuel prices



'Tradeables' vs 'non-tradeables'

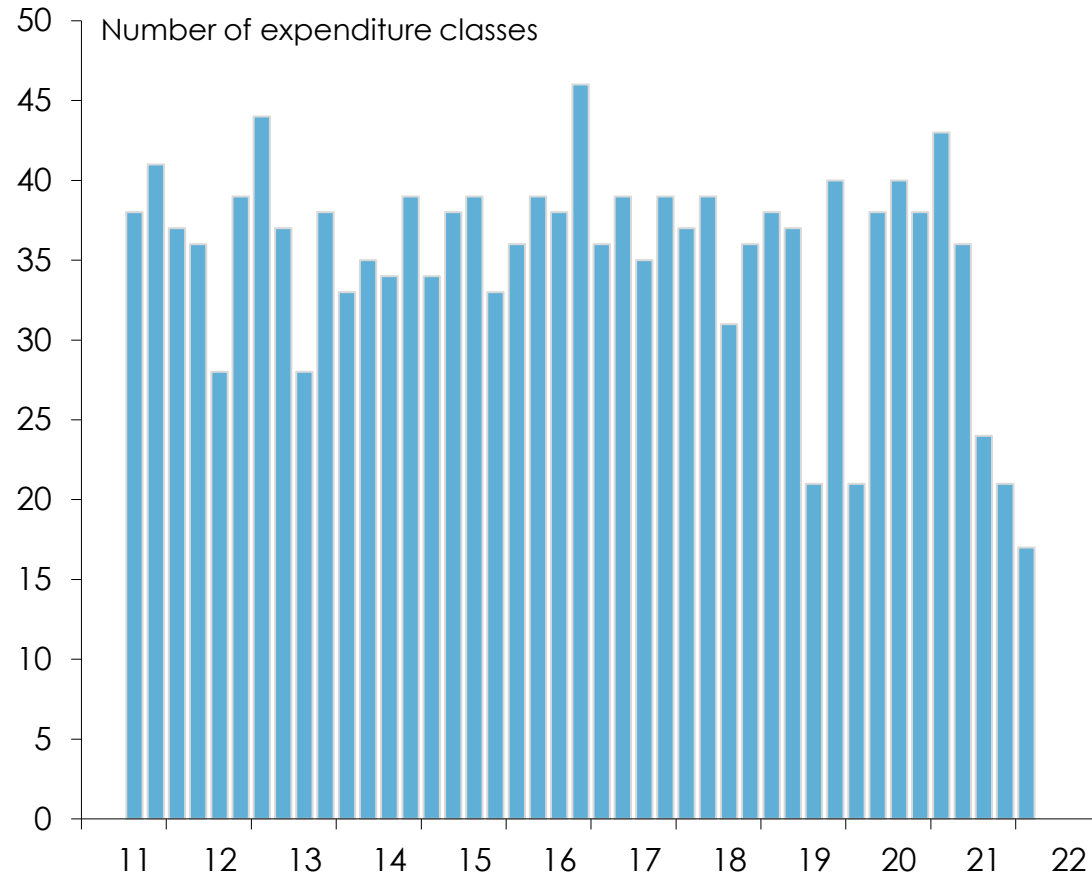


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. For definitions of 'discretionary' and 'non-discretionary' items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), March (June quarter CPI will be released on 27th July). [Return to "What's New"](#).

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

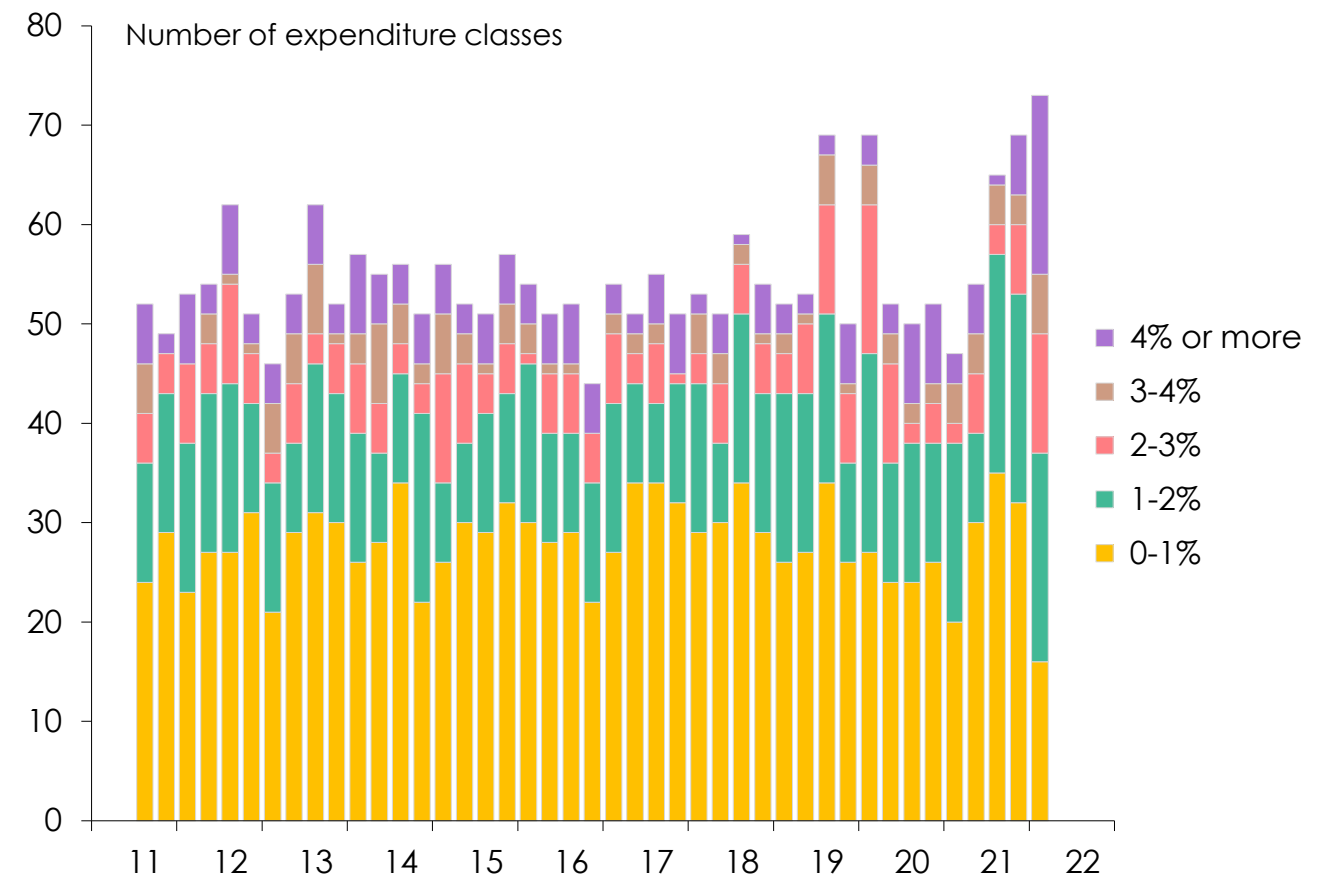
THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

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

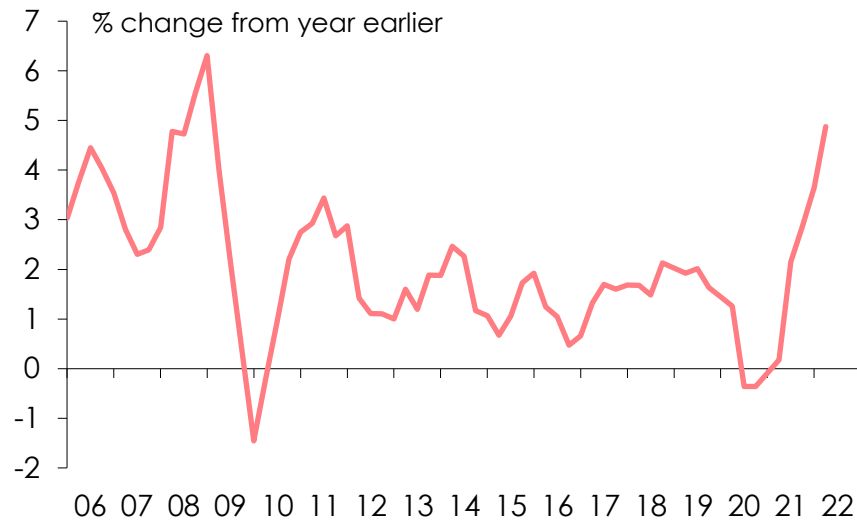


☐ 75 of the 92 ‘expenditure classes’ in the CPI recorded price rises in the March quarter (of which 18 recorded rises of more than 4%), in each case the highest in at least 10 years

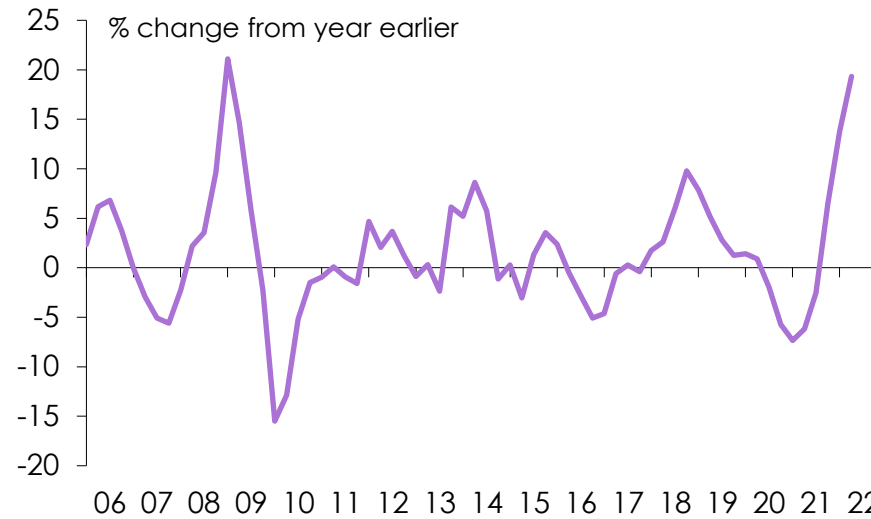
Except for construction, domestic 'upstream' price pressures have been less intense than in other countries, but import prices have risen sharply

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

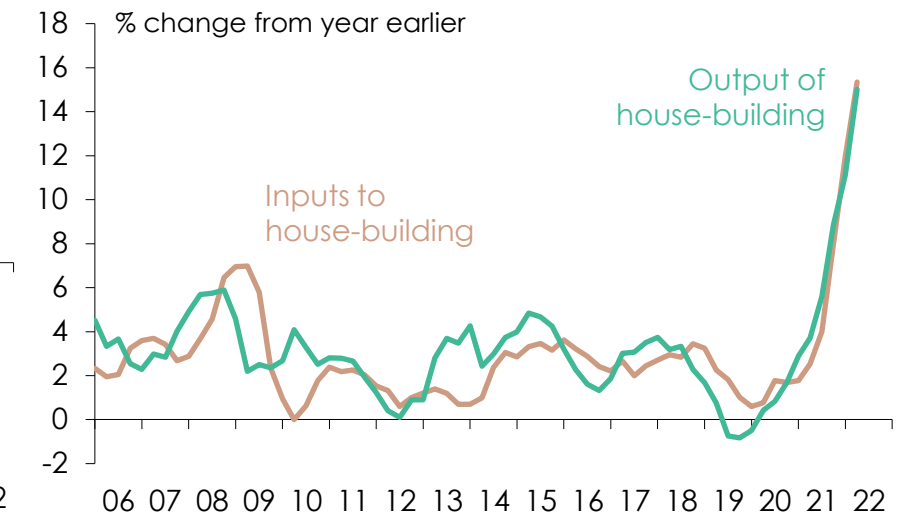
Producer price index



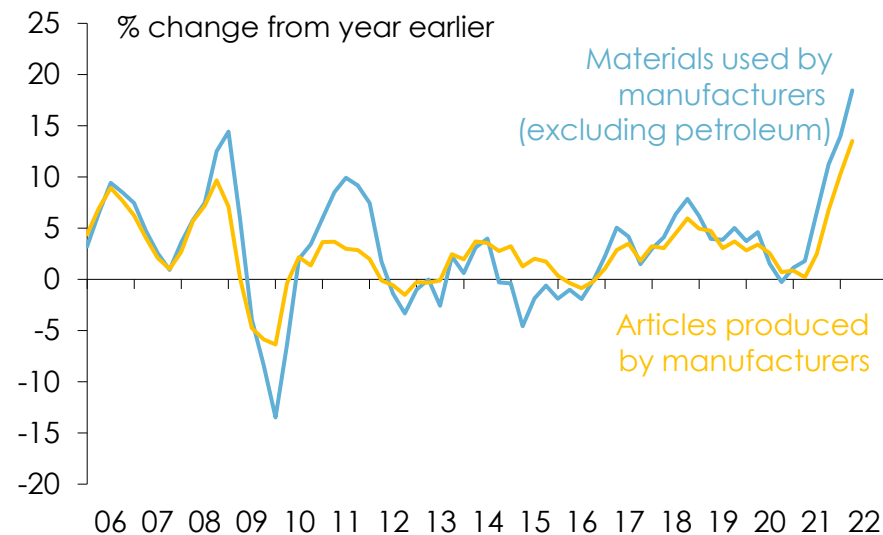
Import price index



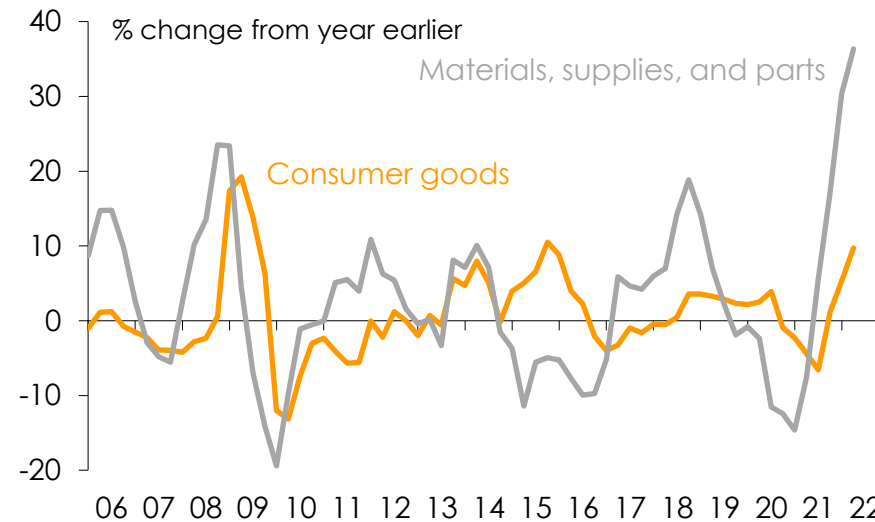
Construction input & output prices



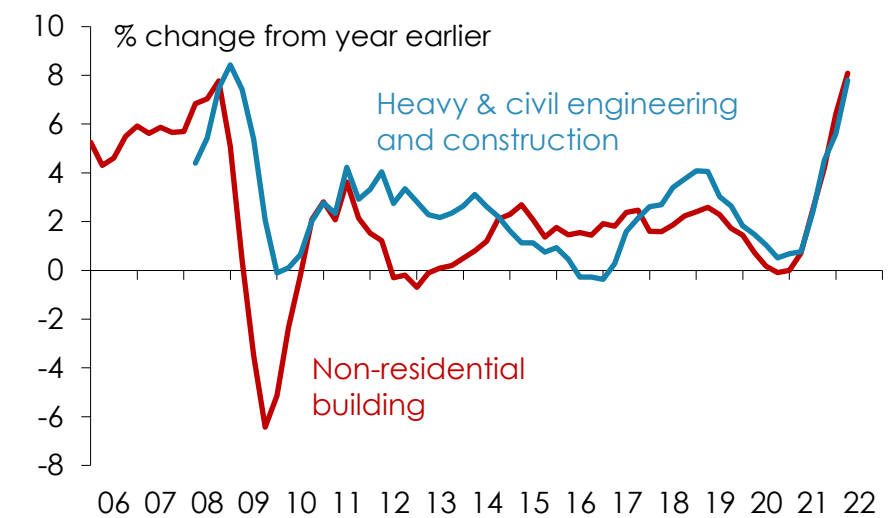
Manufacturing input & output prices



Imported consumer goods prices



Non-residential construction prices

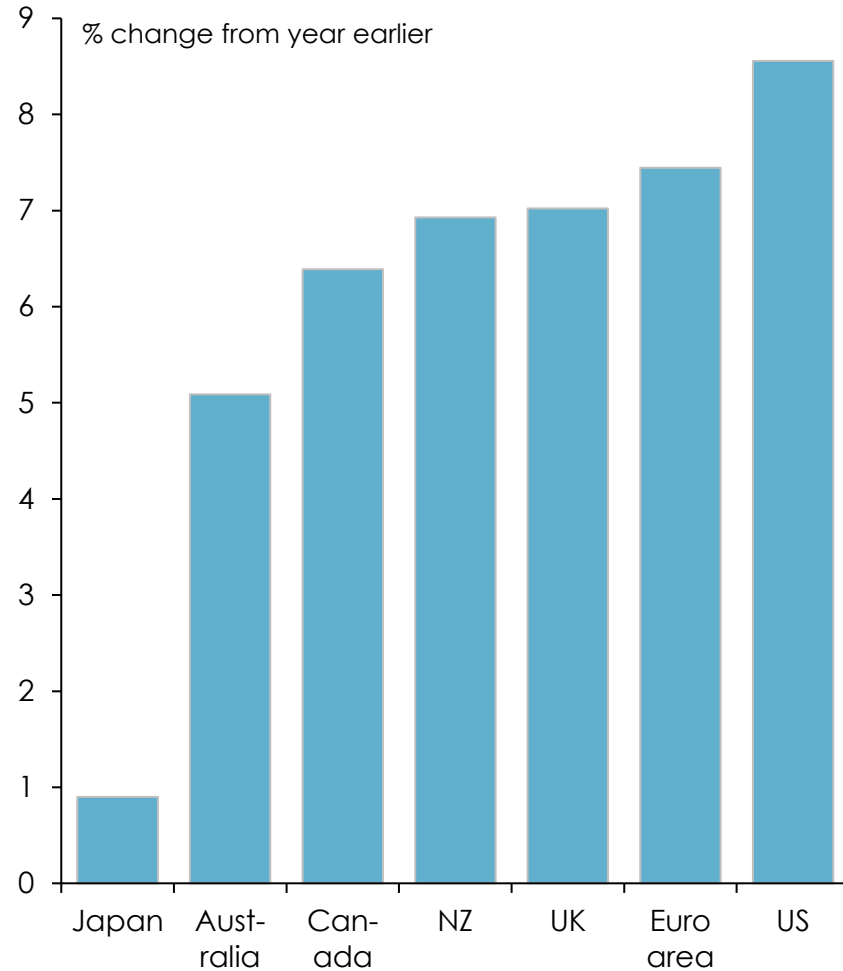


Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), March quarter 2022. June quarter import and producer price indices will be released on 28th and 29th July, respectively. [Return to "What's New"](#).

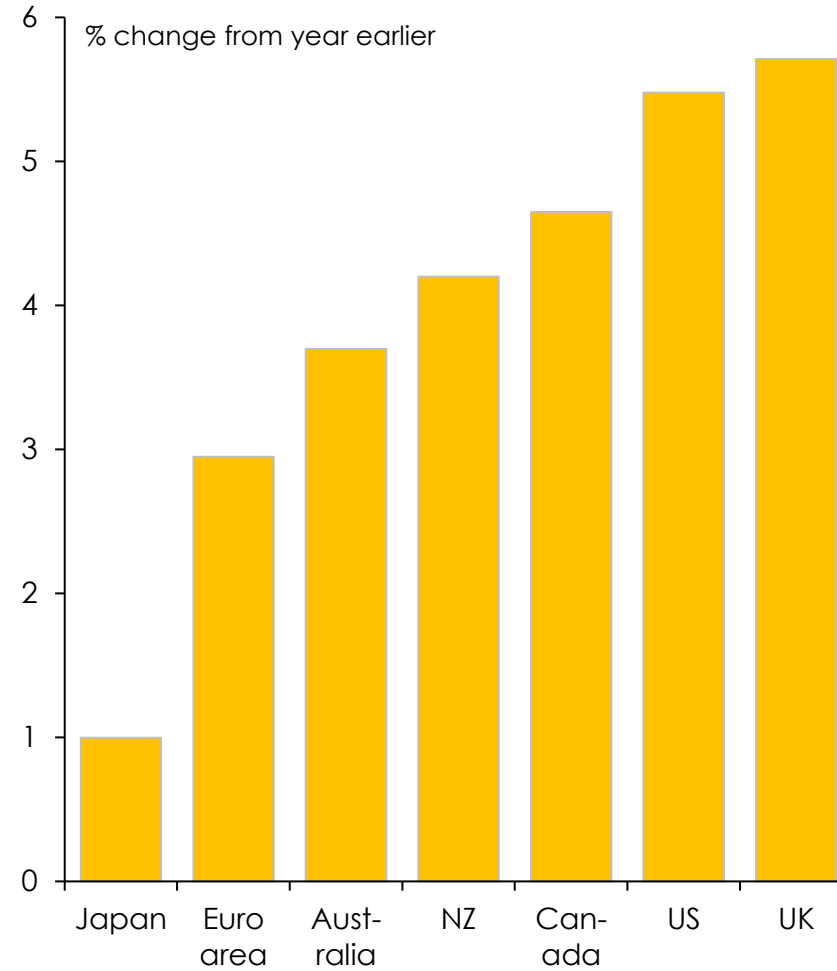
Following the March quarter CPI result Australia's 'headline' and 'core' inflation rates are now much closer to those of comparable economies

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

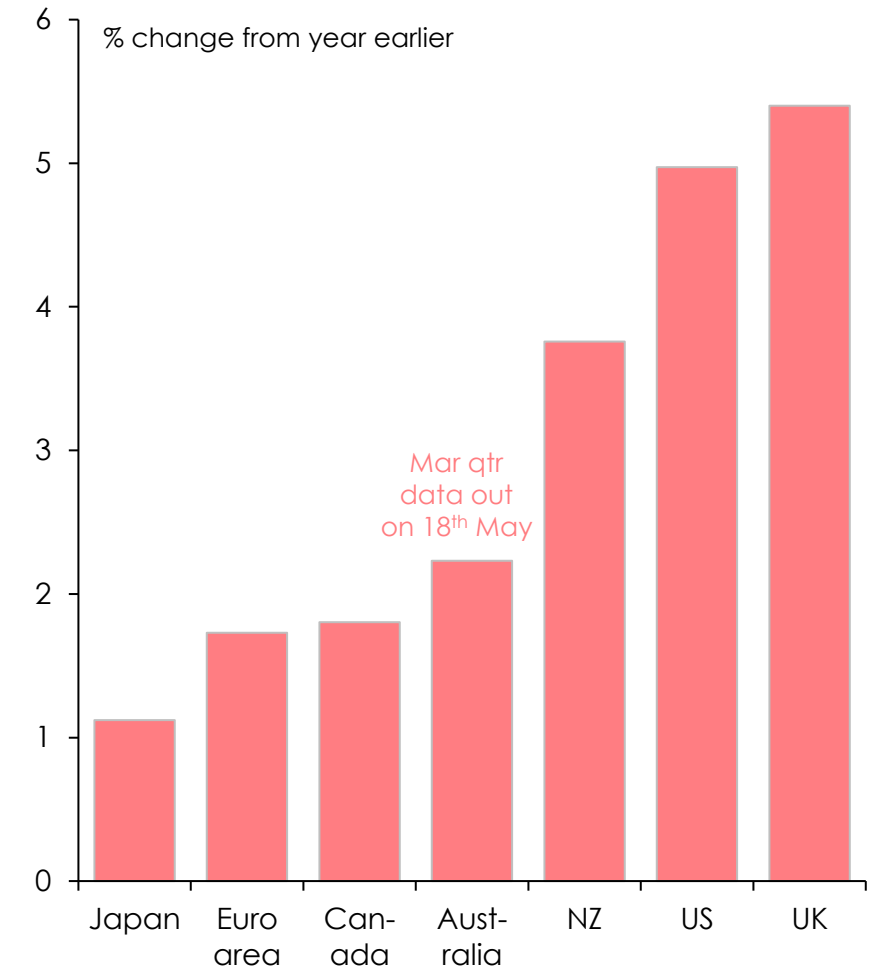
'Headline' consumer price inflation



'Underlying' or 'core' consumer price inflation



Wage inflation



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

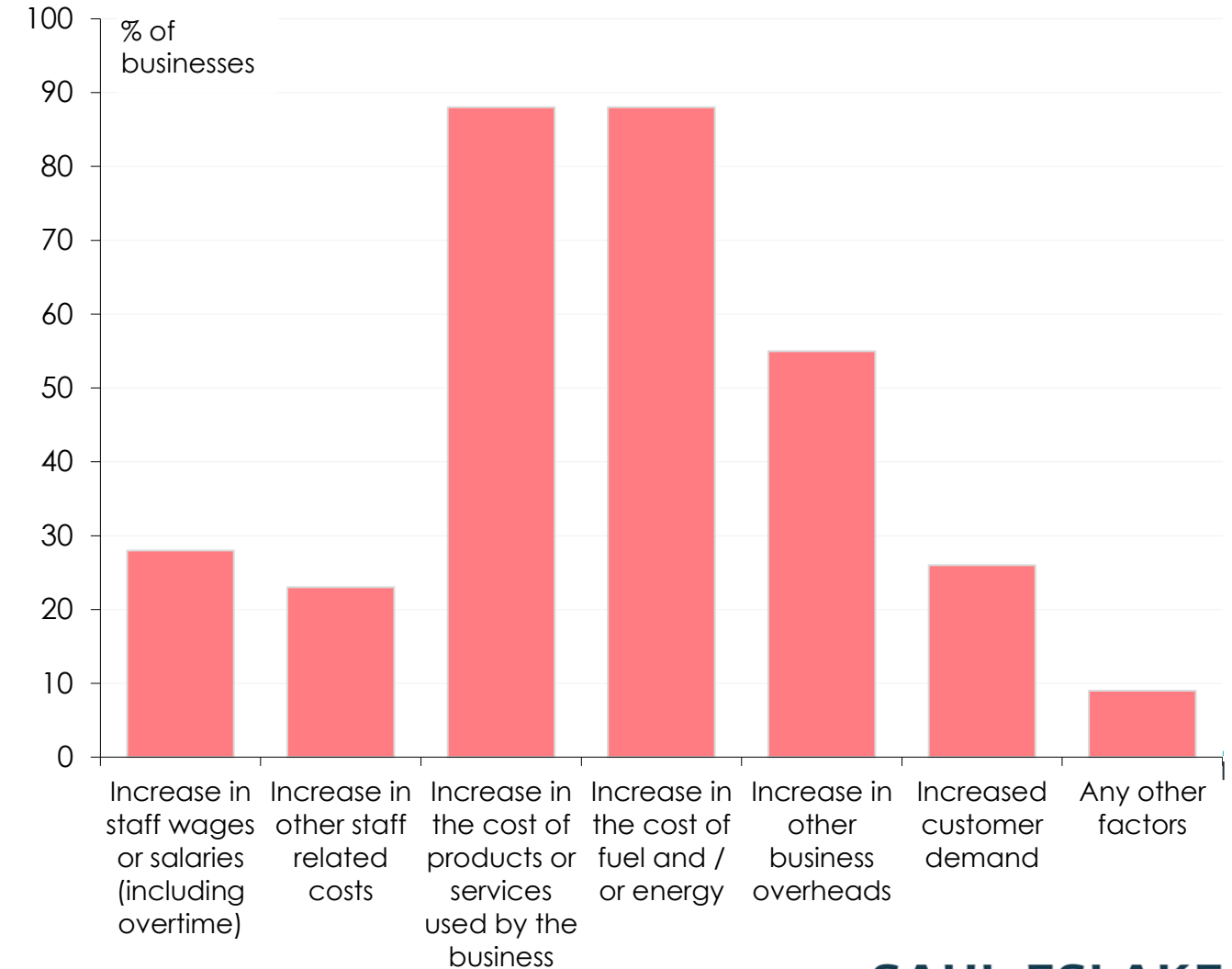
39% of businesses (including 59% of retailers) are planning to raise prices 'more than usual' in the next 3 months – but not because of labour costs

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



Factors contributing to businesses expecting to raise prices, March 2022

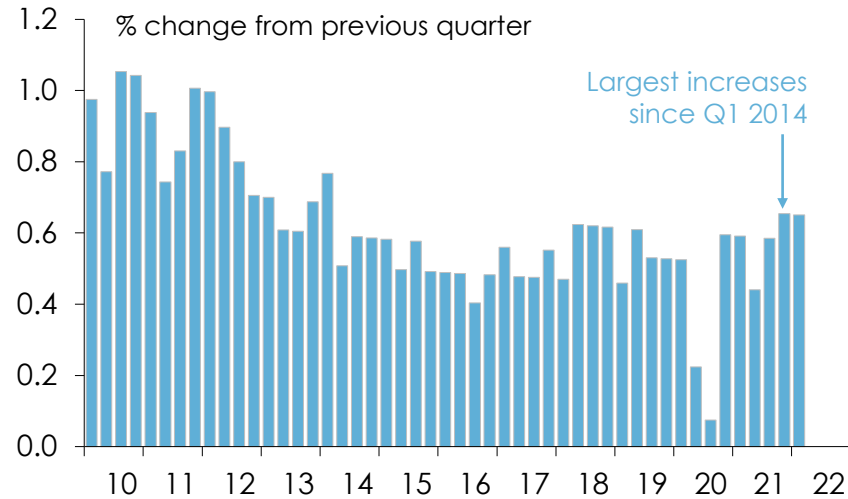


Sources: ABS, [Business conditions and sentiments](#), March 2022. [Return to "What's New"](#).

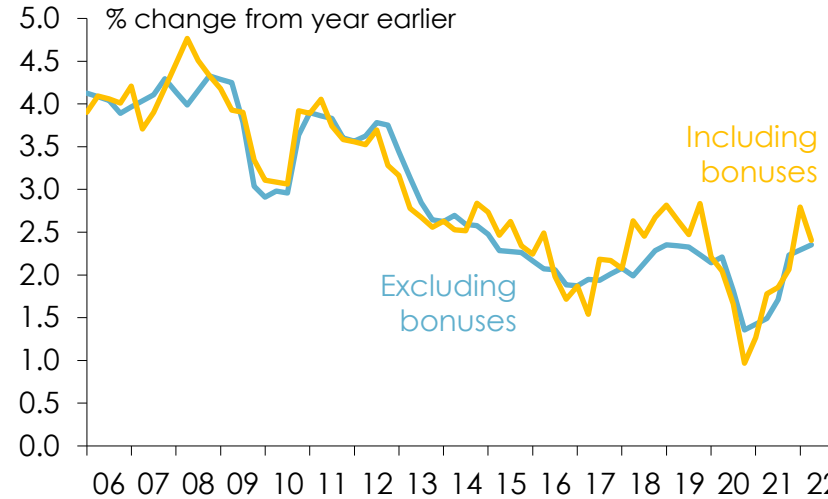
Wages growth as measured by the wage price index remains sluggish but the RBA's business liaison suggests it is now starting to pick up

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Wage price index excluding bonuses



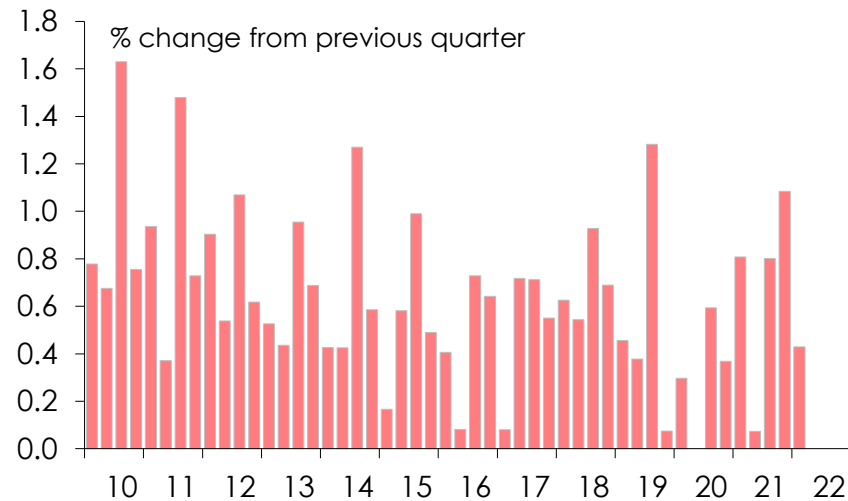
Wage price index – all sectors



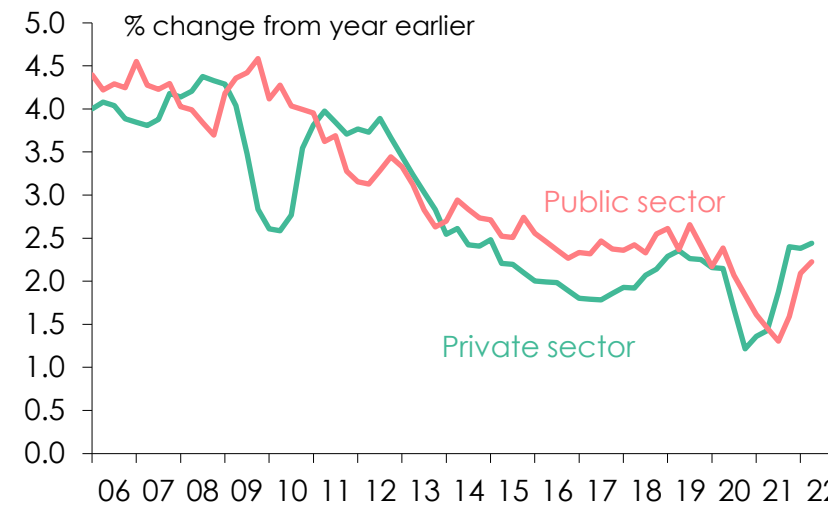
Distribution of wages growth



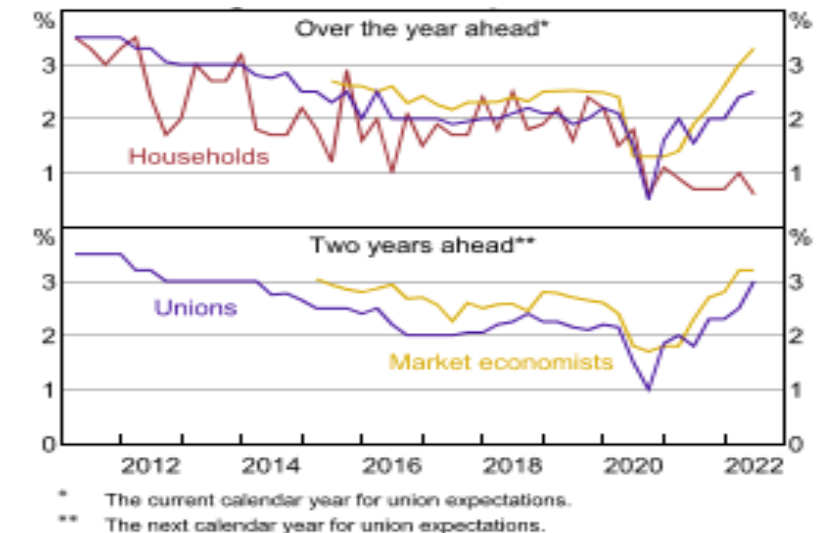
Wage price index including bonuses



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

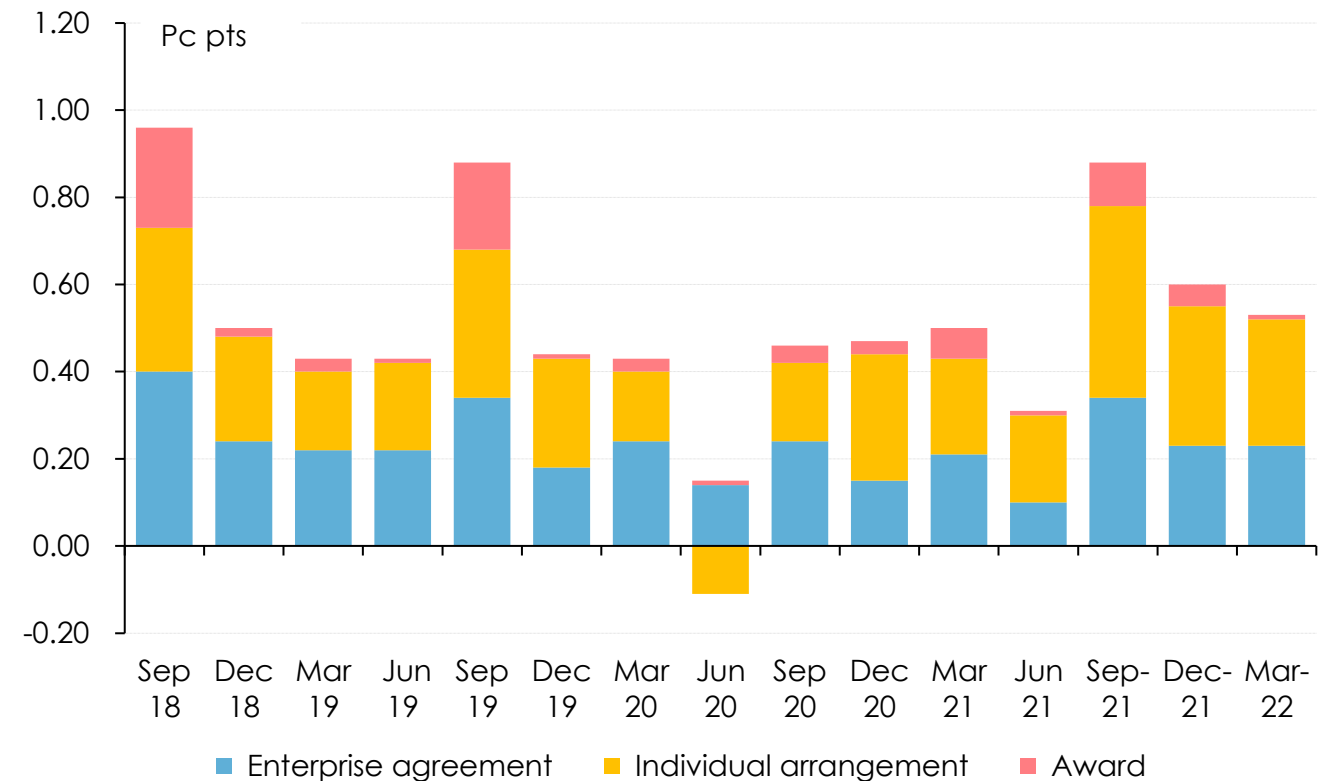
THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

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

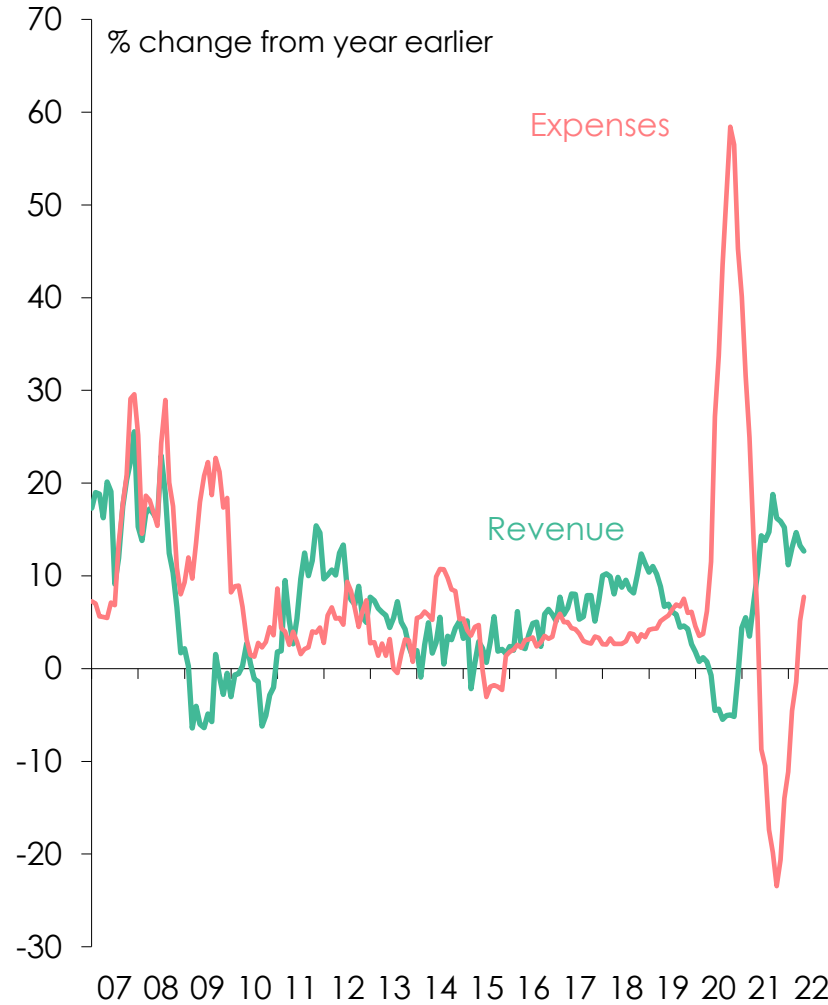
Sources: ABS, [Wage Price Index, Australia](#), March 2022; June quarter WPI data will be released on 17th August. [Return to "What's New"](#).

Fiscal policy

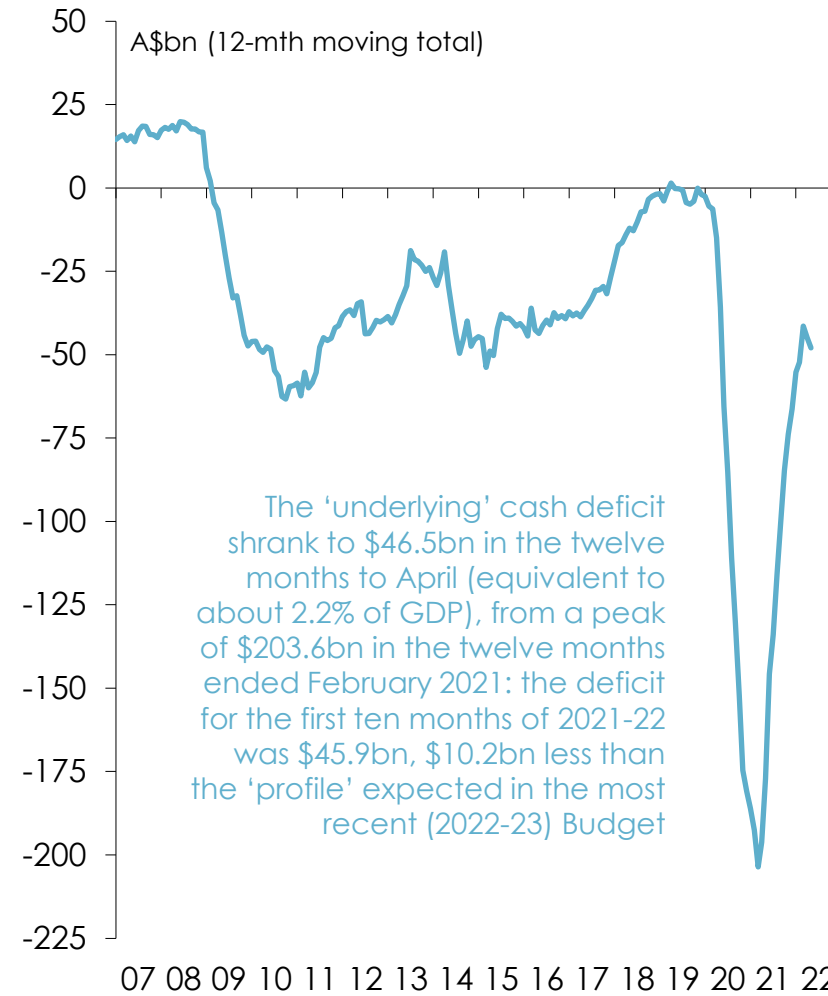
The Federal budget deficit has declined sharply since peaking early last year – with net debt down by \$85bn from its peak last August

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

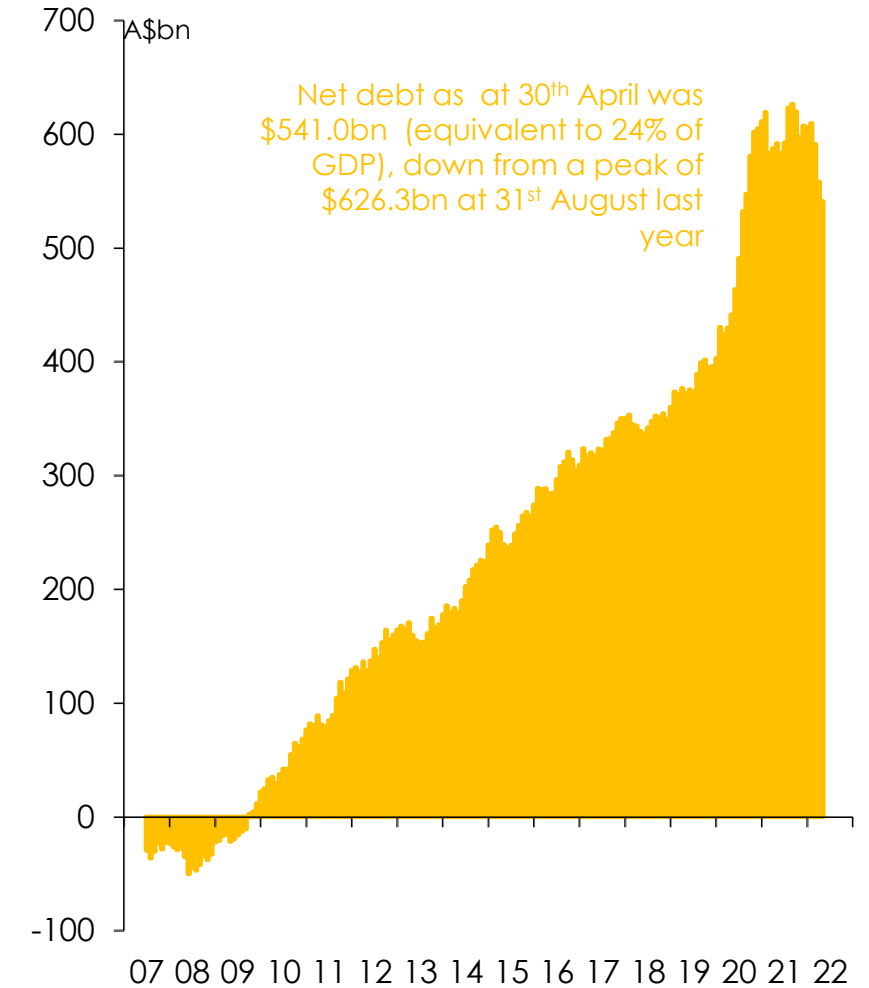
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



Australian Government net debt



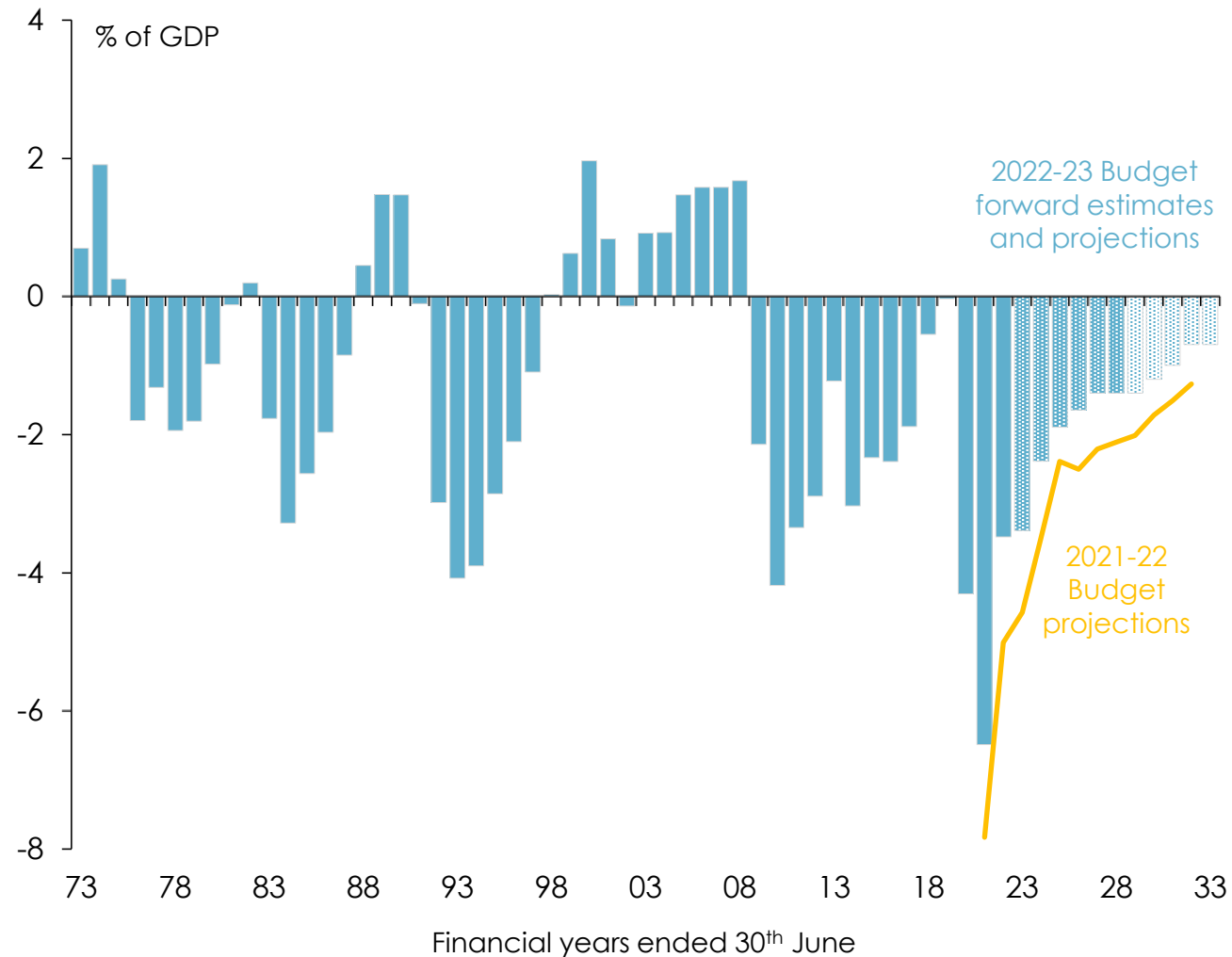
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

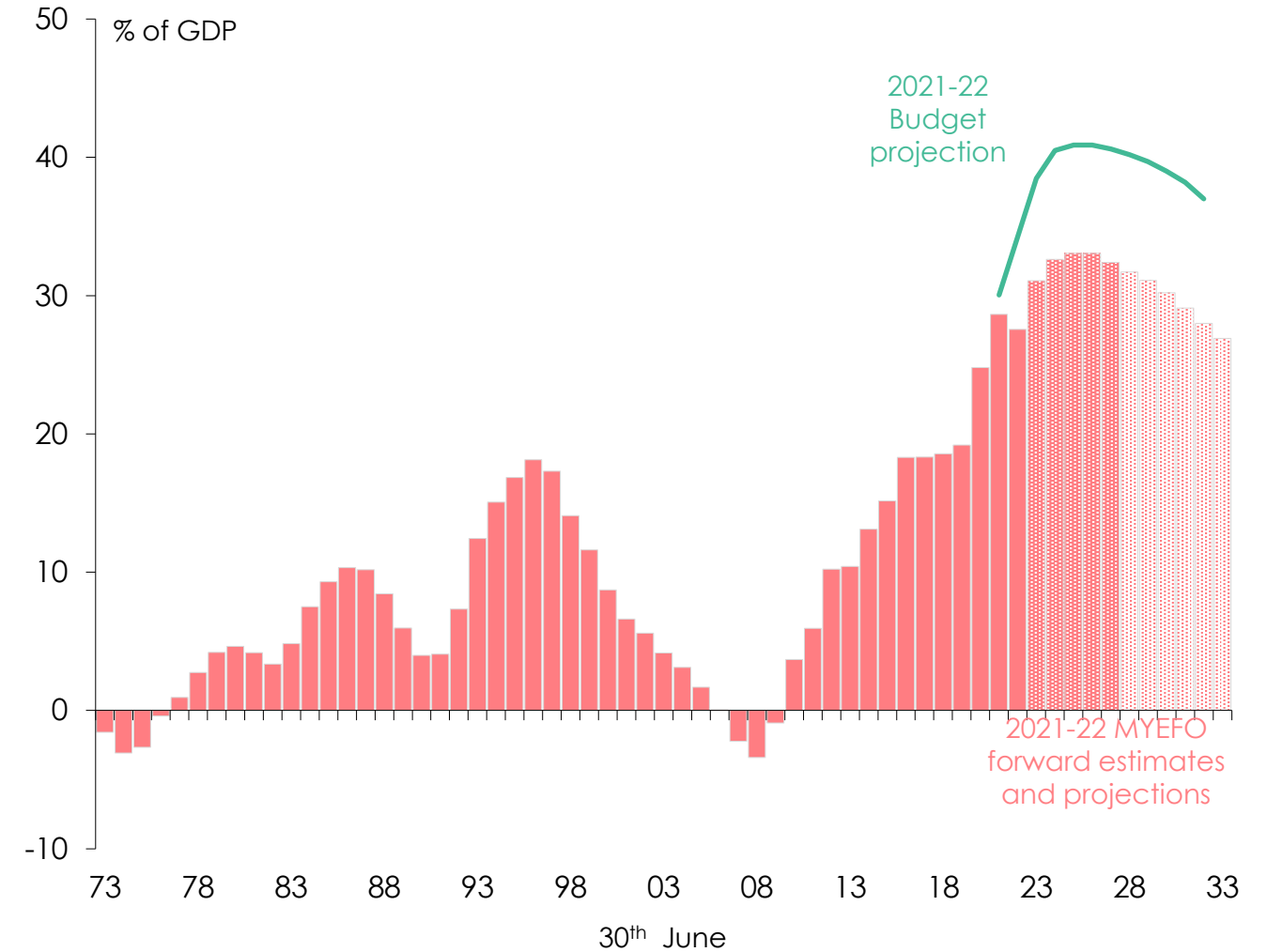
THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

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

'Underlying' cash balance



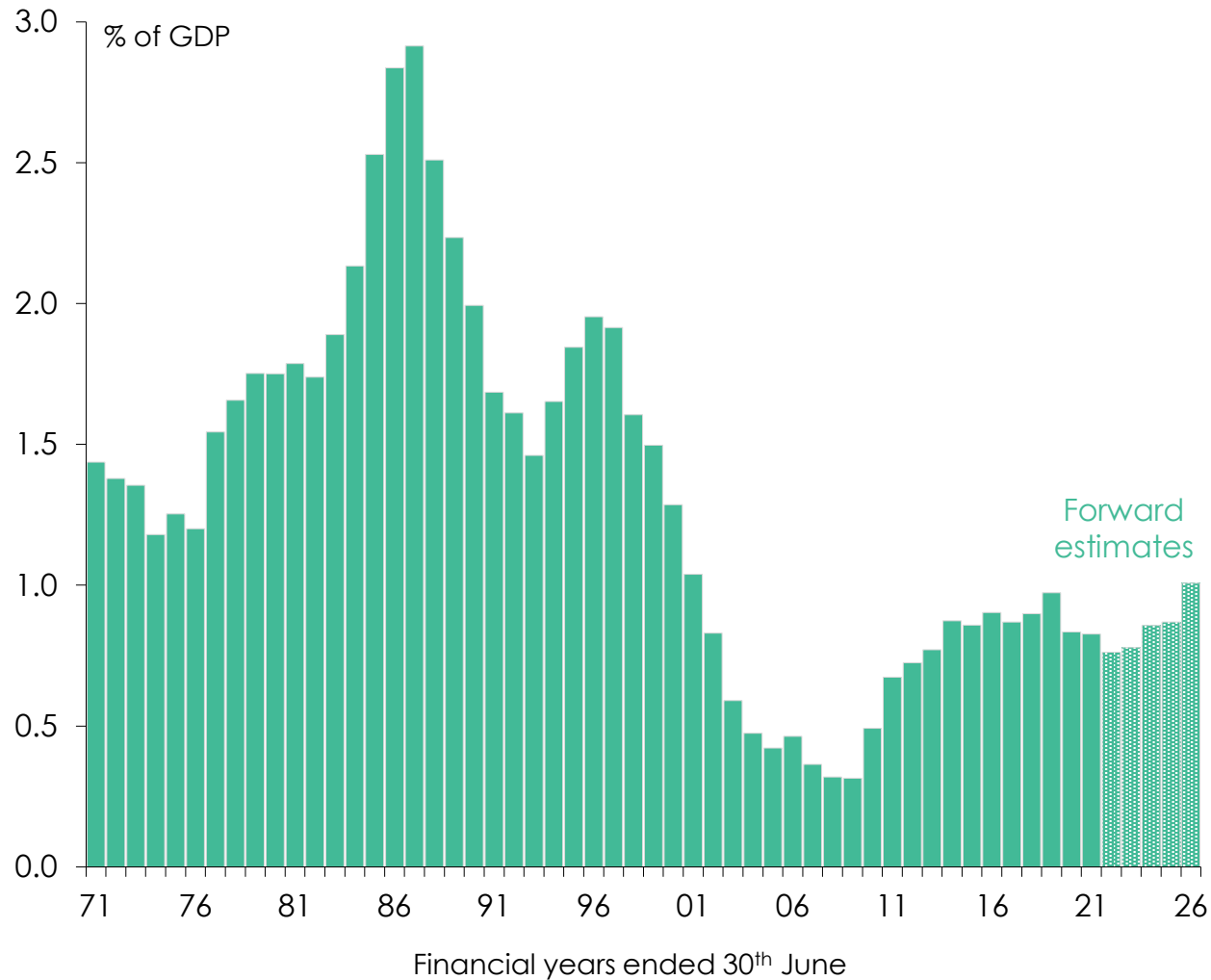
Net debt



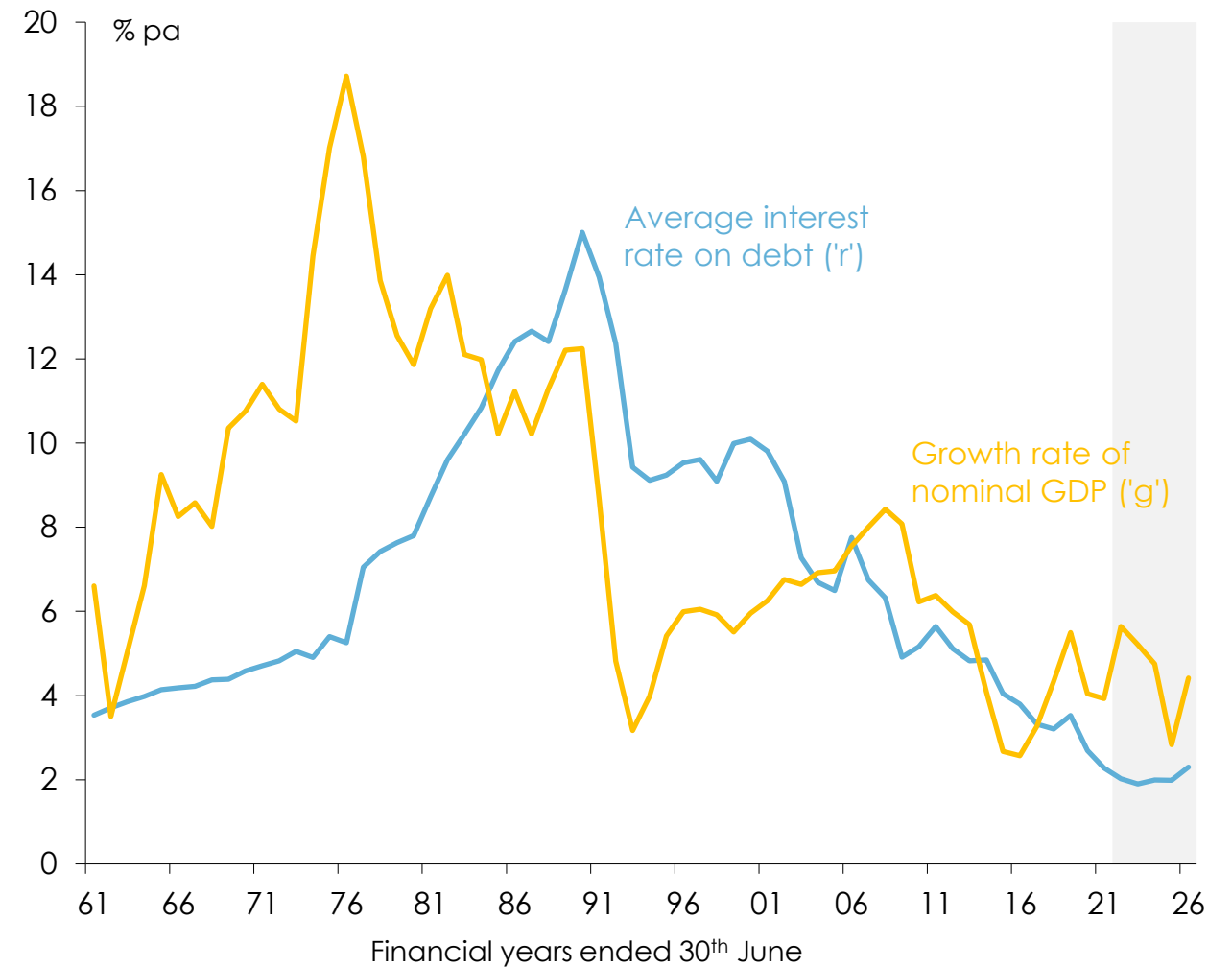
The Government can comfortably service its historically high levels of debt as long as interest rates are lower than the rate of economic growth

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Australian Government gross interest payments as a percentage of GDP



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

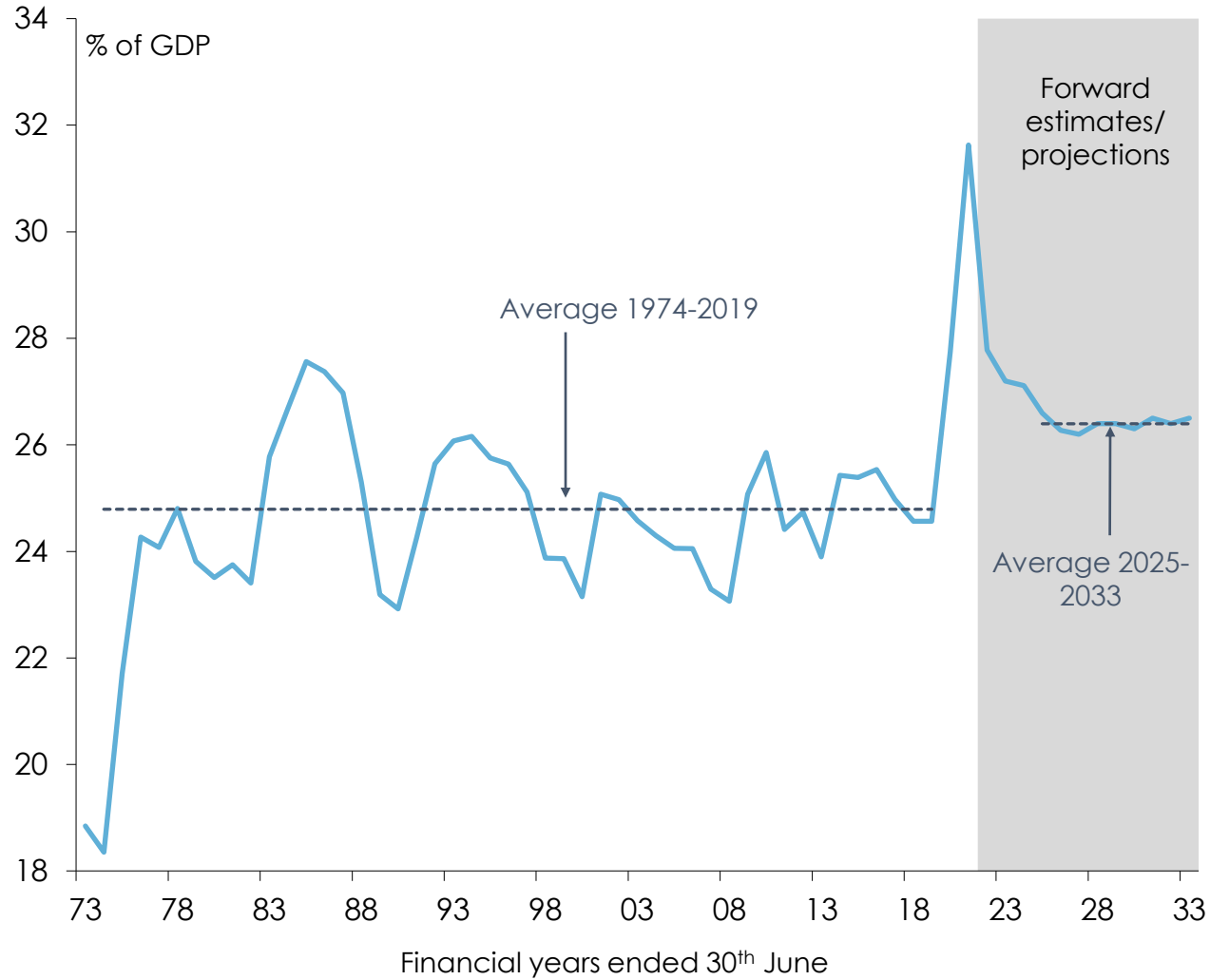


Source: Australian Government, 2022-23 [Budget Paper No. 1](#), [Statement No. 3](#), [Statement No. 6](#) and [Statement No. 10](#), 29th March 2022. [Return to "What's New"](#).

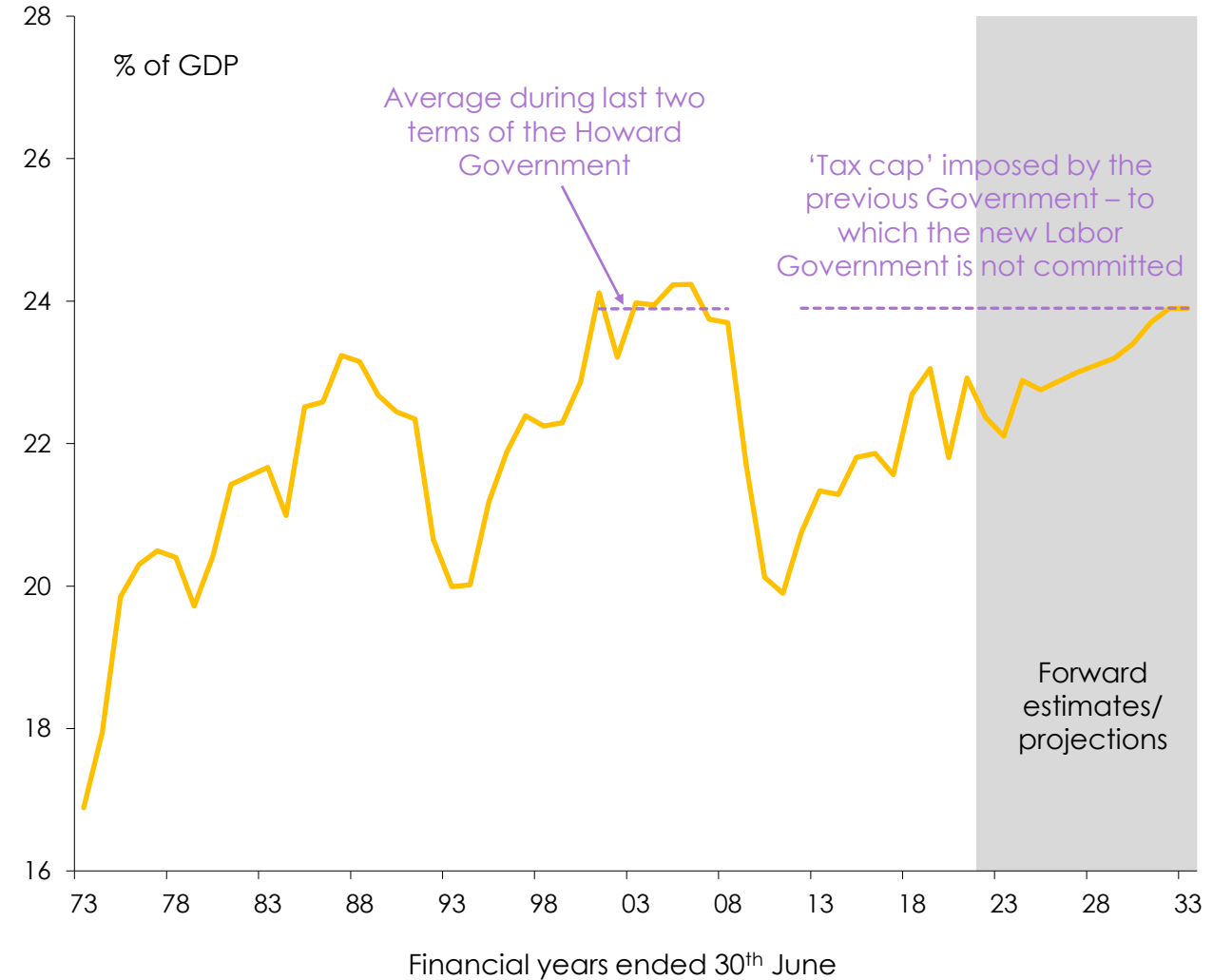
Ultimately, the new Government or some future one will probably need to find additional revenue equivalent to 1-2 pc pts of GDP

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

'Underlying' cash payments as a pc of GDP



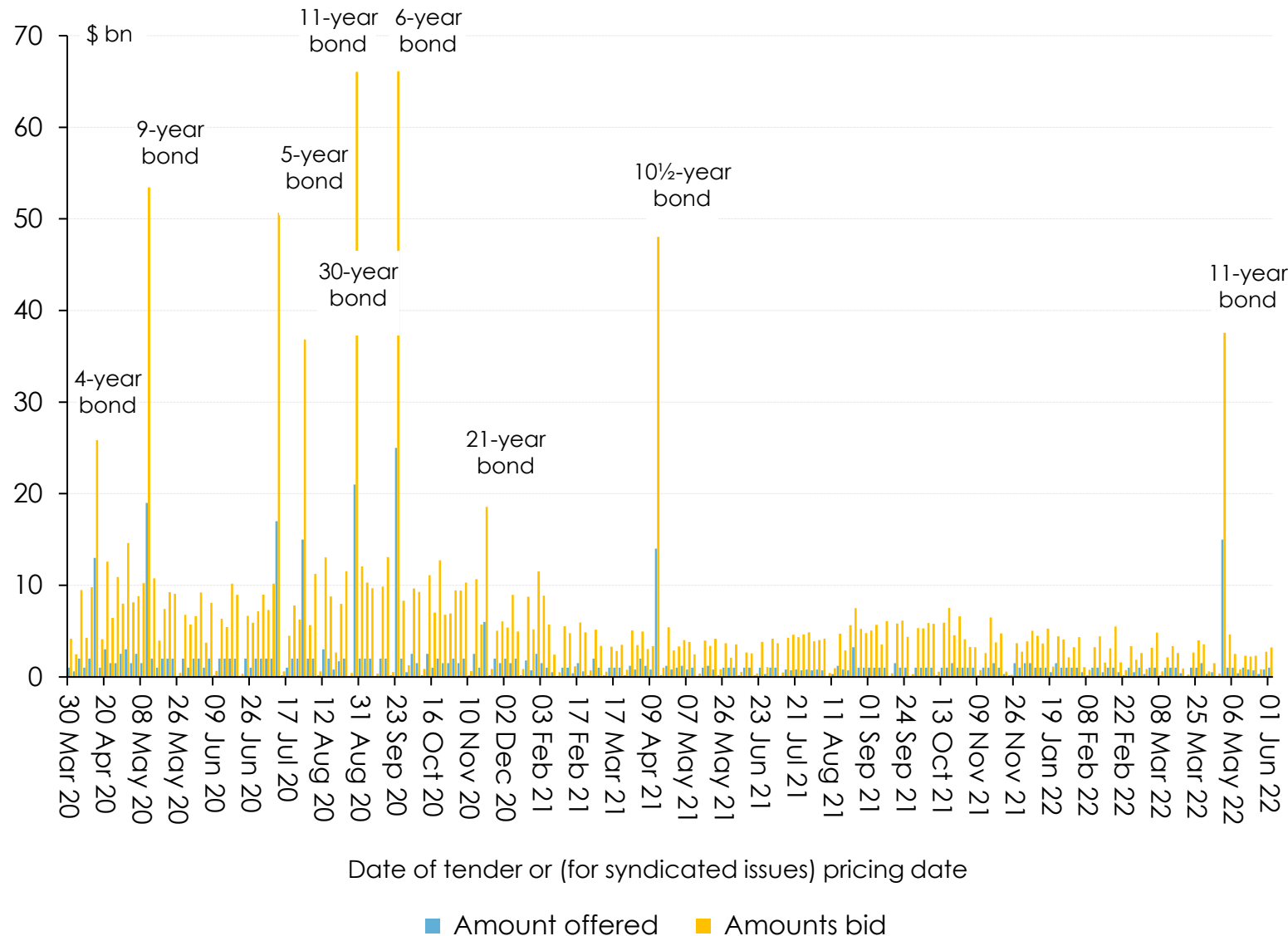
Taxation receipts as a pc of GDP



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 – 3RD JUNE 2022

Australian government bond issuance since March 2020



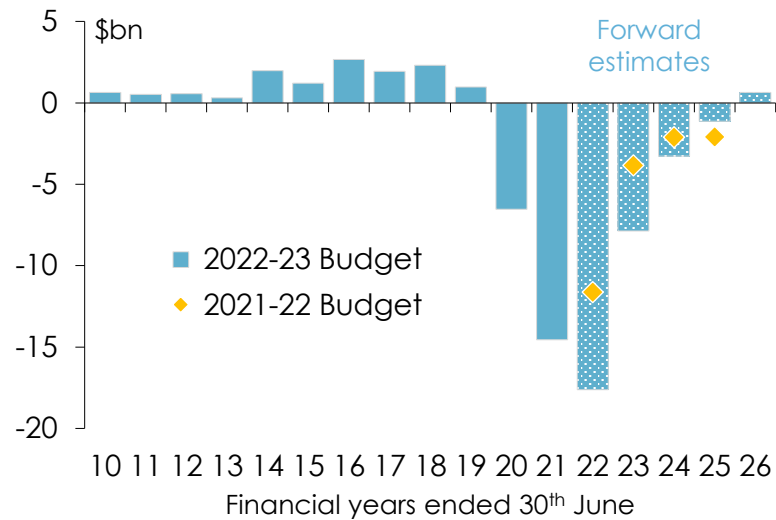
- ❑ Since resuming auctions on 12th January, the AOFM has sold \$47.7n of bonds – including this week \$1bn of April 2025s
- ❑ Although AOFM continues to have no difficulty issuing new debt, the 'coverage ratio' (the ratio of bids received to bonds offered) has slipped from 4.3x in the first seven months of 2021-22 to below 2¾x since mid-March
- ❑ And AOFM is having to pay higher yields
 - the weighted average yield on the April 2025s issued this week was 2.90%, compared with 1.58% when the same bonds were last issued in February, 1.33% when they were issued in January, and 0.46% when first issued in April last year
- ❑ Treasury noted in the [Pre-election Economic and Fiscal Outlook 2022](#) published in April 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"](#).

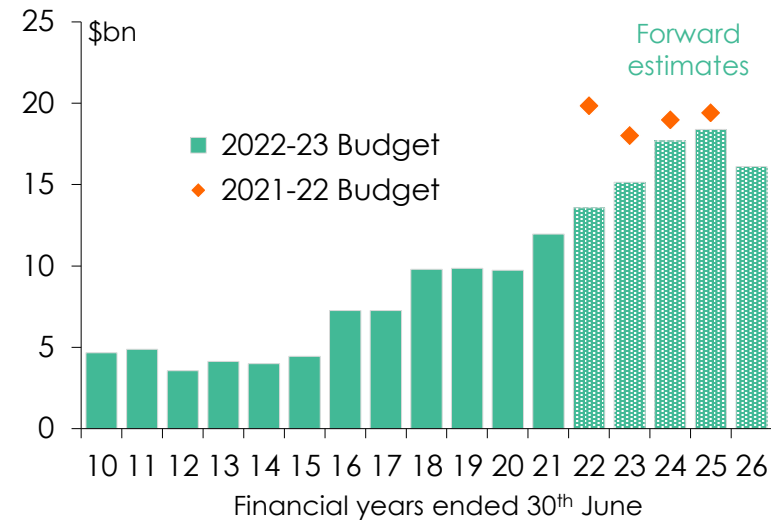
Victoria's 2022-23 Budget uses upward revisions to revenue projections to fund additional spending while projecting an eventual return to surplus

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

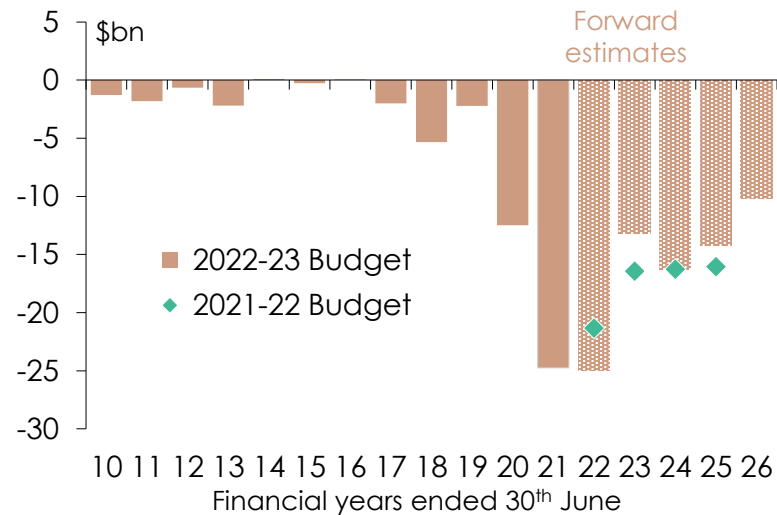
Net operating balance



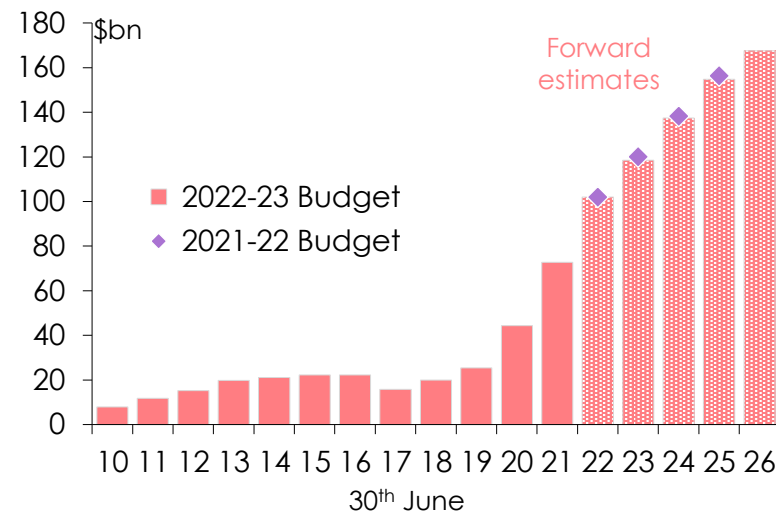
Infrastructure spending



Cash balance



Net debt



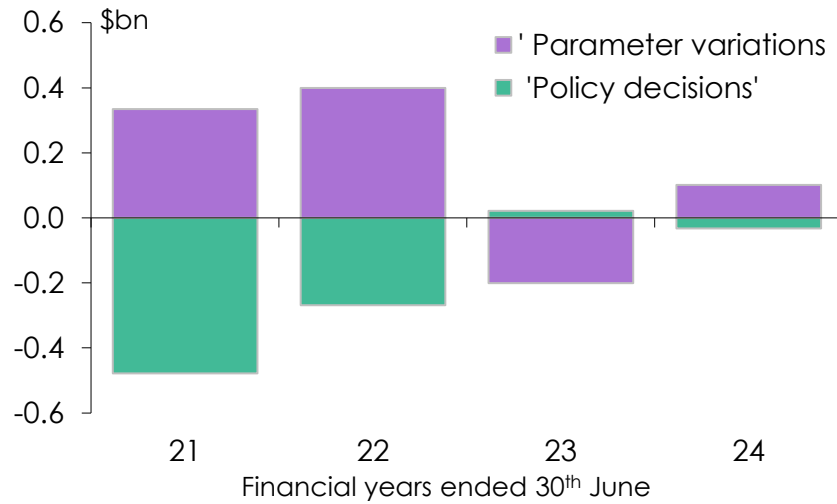
- Victoria's 2022-23 State Budget provides for \$16.3bn of additional spending over the four years to 2025-26 (of which \$6.4bn is for 2022-23) compared with that envisaged in the Mid-Year Review of last year's Budget
 - of which just under half is funded by 're-prioritization' of other spending, or 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](#), 3rd May 2022. [Return to "What's New"](#).

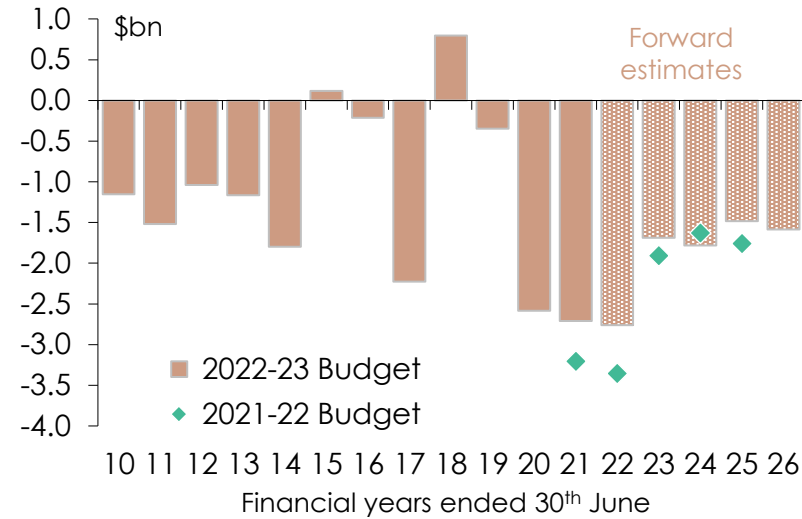
South Australia's 2022-23 Budget delivers the new Labor Government's election commitments with very little change to the 'bottom line'

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

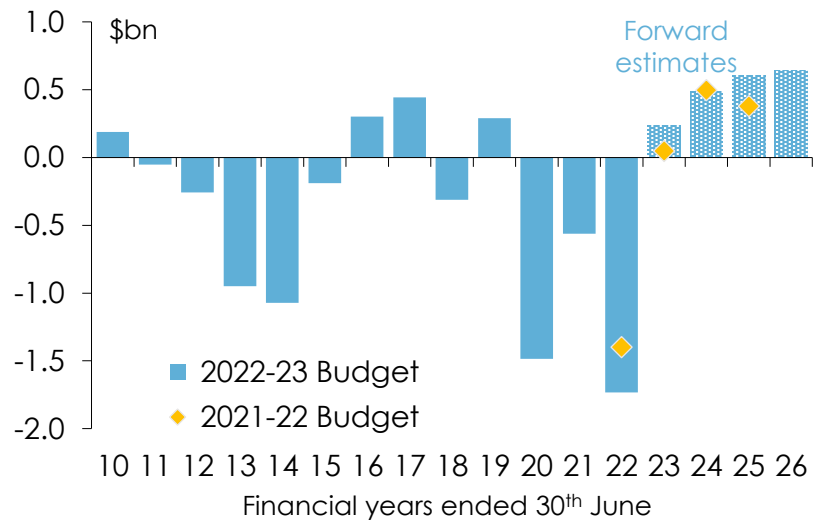
Impacts on net operating balance



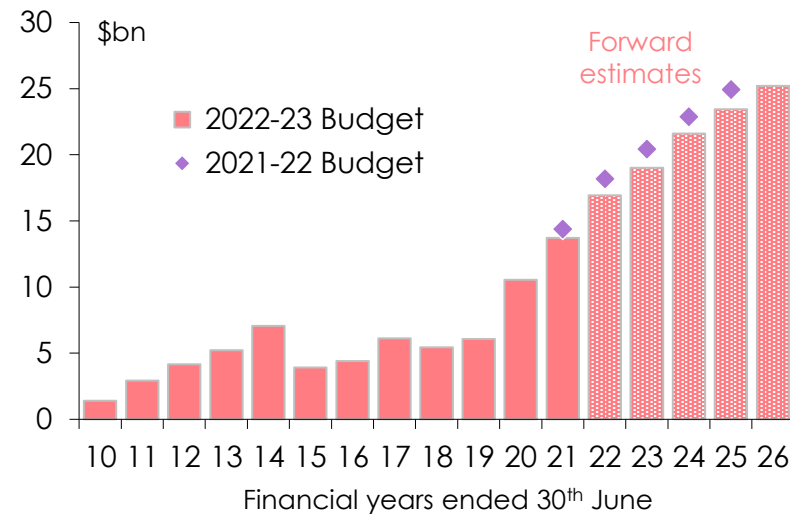
Cash balance



Net operating balance



Net debt



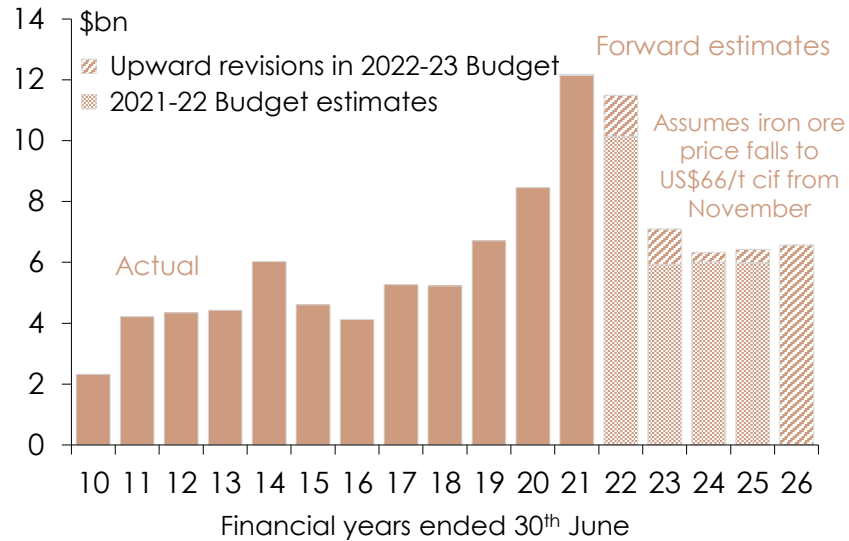
- ❑ The first Budget of the new South Australian Labor Government elected in March delivers on its election spending commitments (particularly in health) whilst also foreshadowing some small improvements in SA's fiscal position
- ❑ Favourable 'parameter variations' (upward revisions to estimates of state taxation and SA's share of GST revenues), savings from the previous Government's spending programs, and 'revenue offsets' have allowed the Government to fund some \$2¼bn in new 'operating' spending and \$2¾bn in new capital investments over the four years to 2024-25
- ❑ The Budget maintains the previous Government's projection of a return to 'net operating surplus' in 2022-23, with slightly larger surpluses over the forward estimates period than forecast in last year's Budget, while forward estimates of the overall cash deficit are little changed from last year's
- ❑ Projections of net debt have been revised down by \$1¼-1½bn over the next four years, leaving SA's debt-to-GDP ratio some 3-4 pc pts above the average for all state & territories, though well below Victoria and the NT ([slide 83](#))

Note: Budgetary aggregates shown in the above charts refer to the 'general government' sector (ie, excluding public corporations). Source: South Australian Government, [Budget Statement: Budget Paper 3](#). [Return to "What's New"](#).

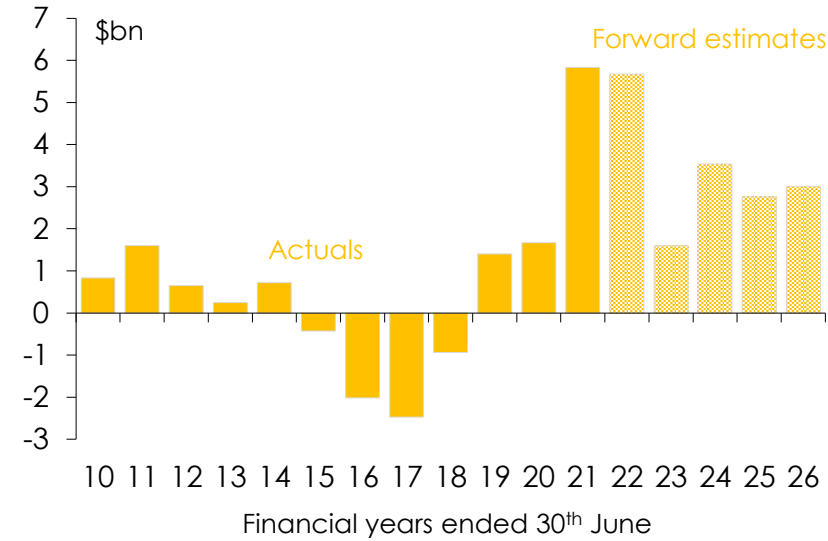
Buoyant iron ore royalty revenue and the corruption of the GST revenue sharing arrangements have put WA's Budget in a very strong position

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

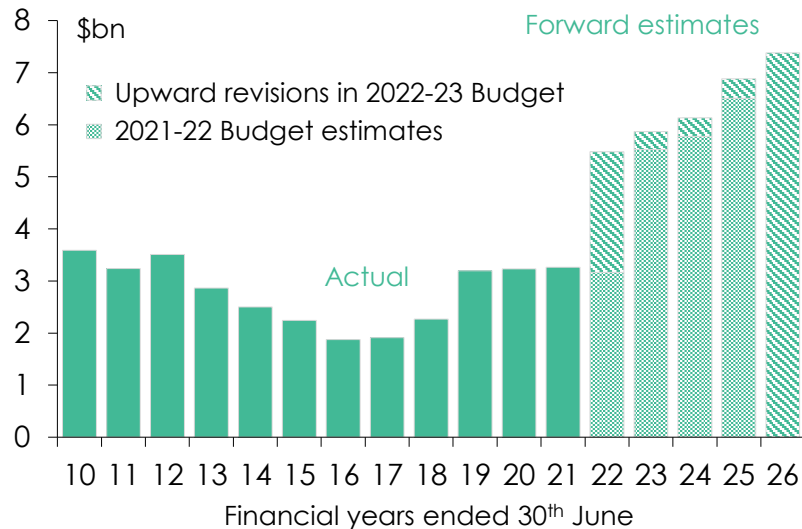
Mineral royalty revenues



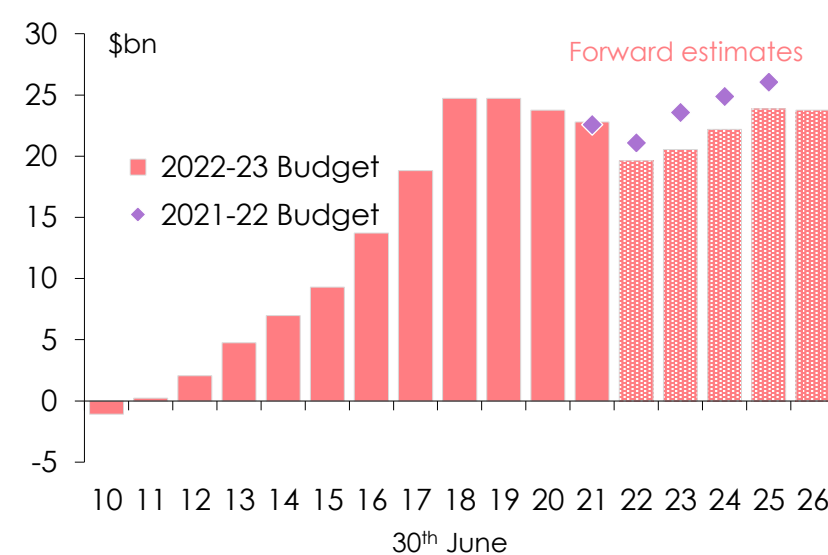
'Net operating balance'



GST revenues



Net debt



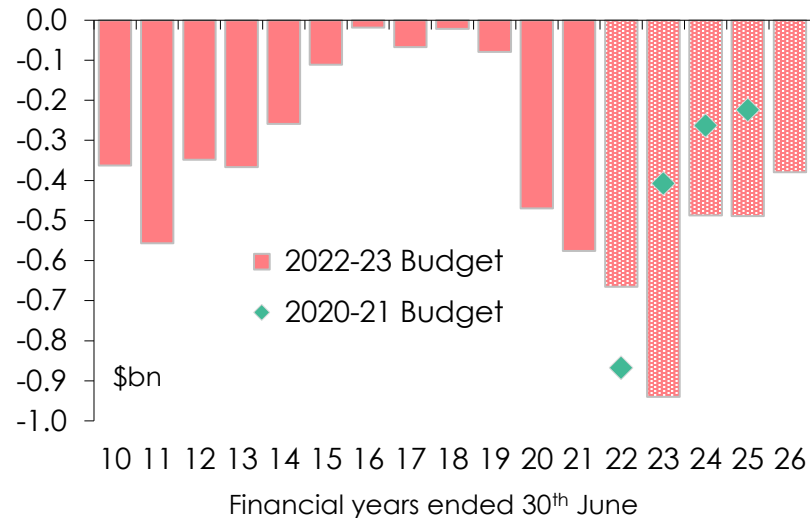
- ❑ Western Australia's 2022-23 Budget again benefits from buoyant mineral royalty revenues (even under conservative iron ore price assumptions), and changes in GST revenue-sharing arrangements which greatly favour it
- ❑ These have allowed this year's Budget to fund almost \$6bn in additional spending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

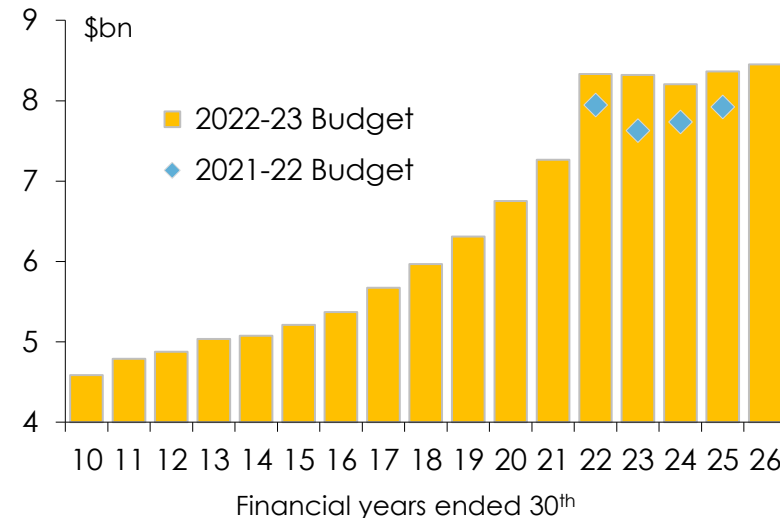
Tasmania's 2022-23 Budget consciously increases forecast deficits and net debt in order to fund additional 'operating' and infrastructure spending

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

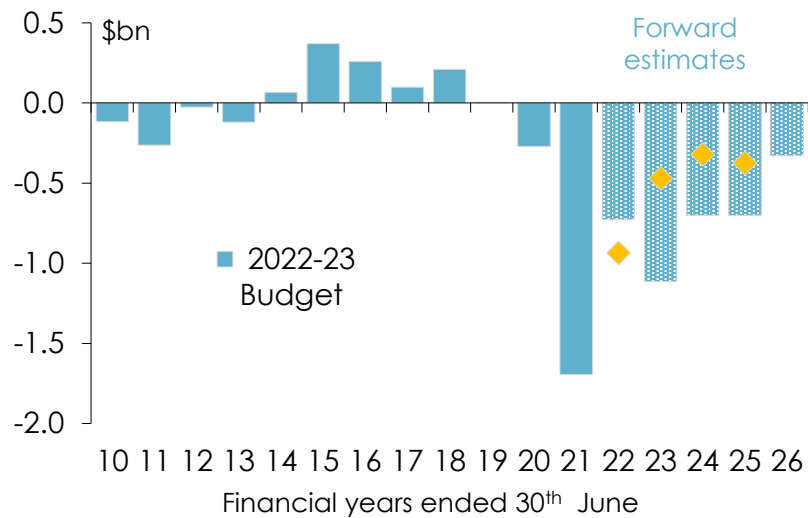
'Underlying' net operating balance



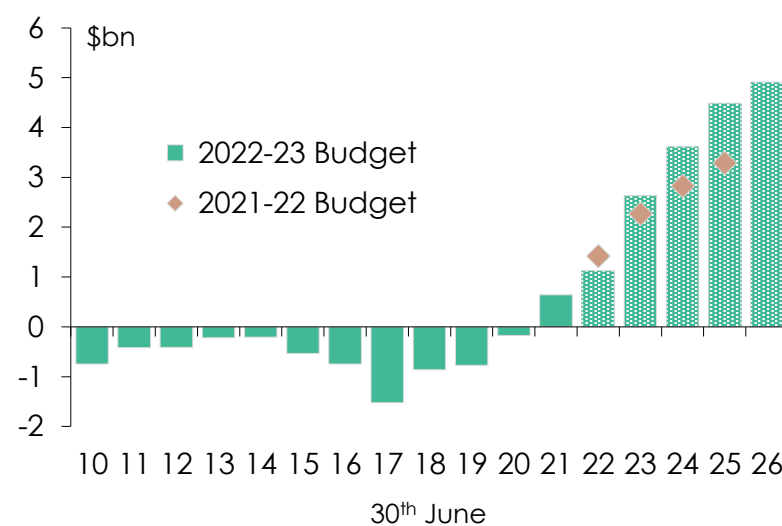
'Operating expenses'



Cash balance



Net debt



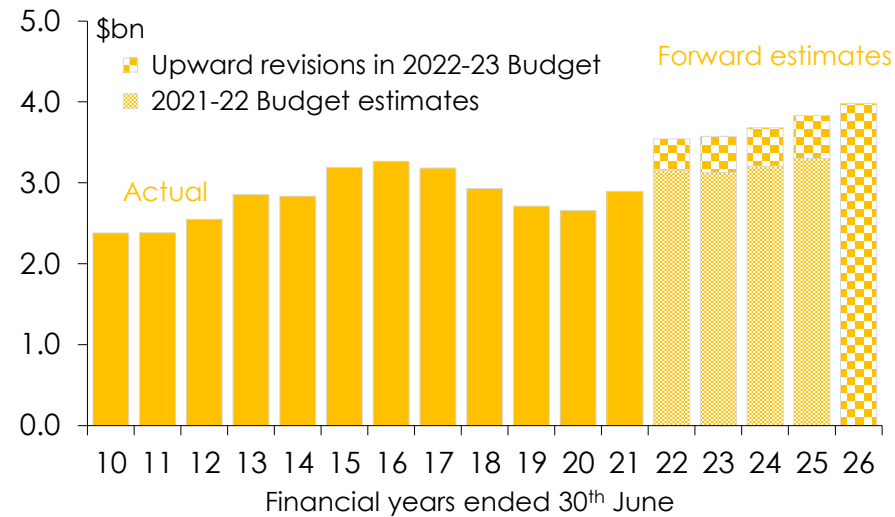
- ❑ Tasmania's 2022-23 Budget included \$957mn of new 'operating' spending, \$304mn of new capital spending, and \$173mn of tax cuts (mostly to land tax) over the four years to 2025-26
- ❑ As a result, and despite upward revisions to forecasts of revenue from State taxation and Federal grants (including 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](#), 26th May 2022. [Return to "What's New"](#).

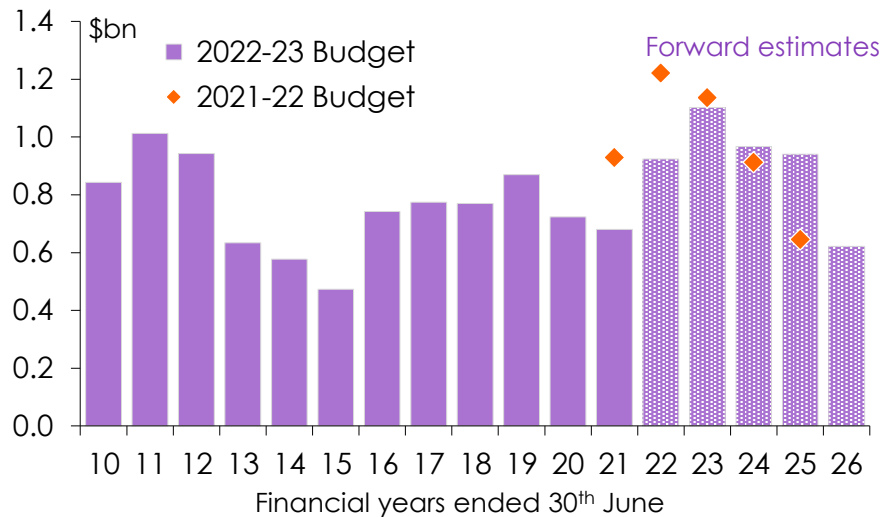
The Northern Territory's 2022-23 Budget portrays a significant improvement in its financial position, largely thanks to stronger GST revenues

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

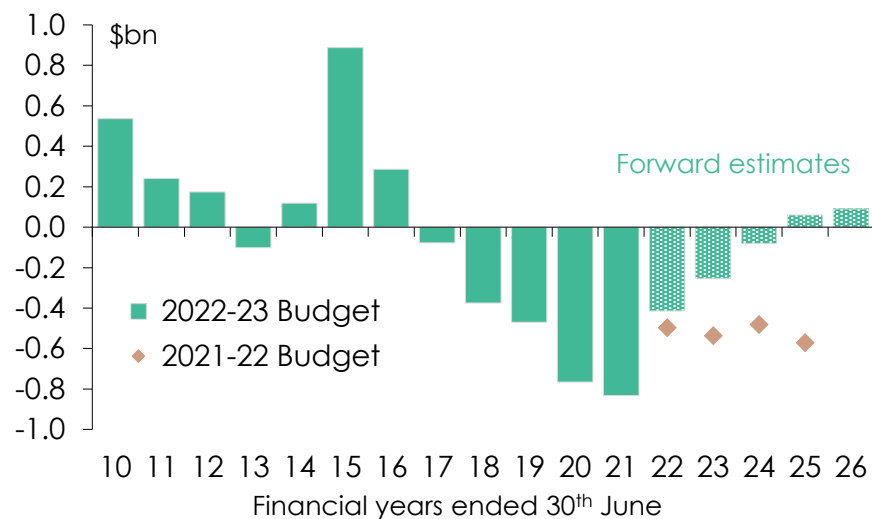
GST revenue



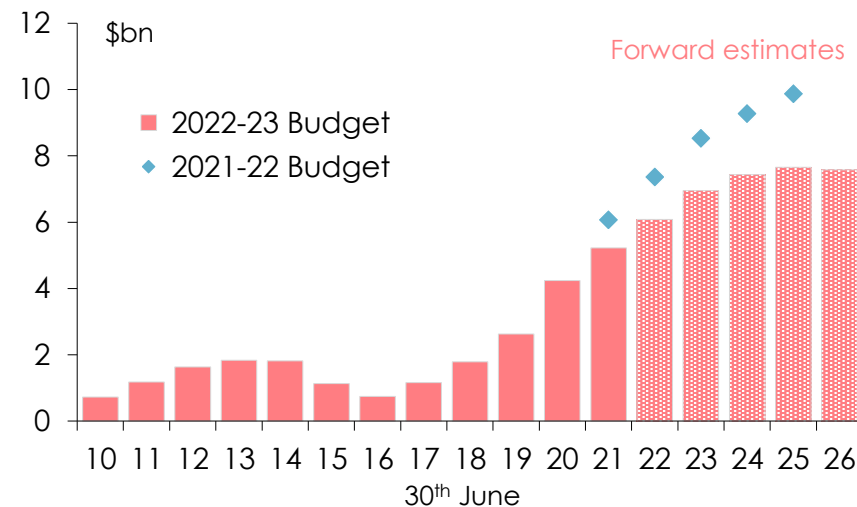
Infrastructure spending



'Net operating balance'



Net debt



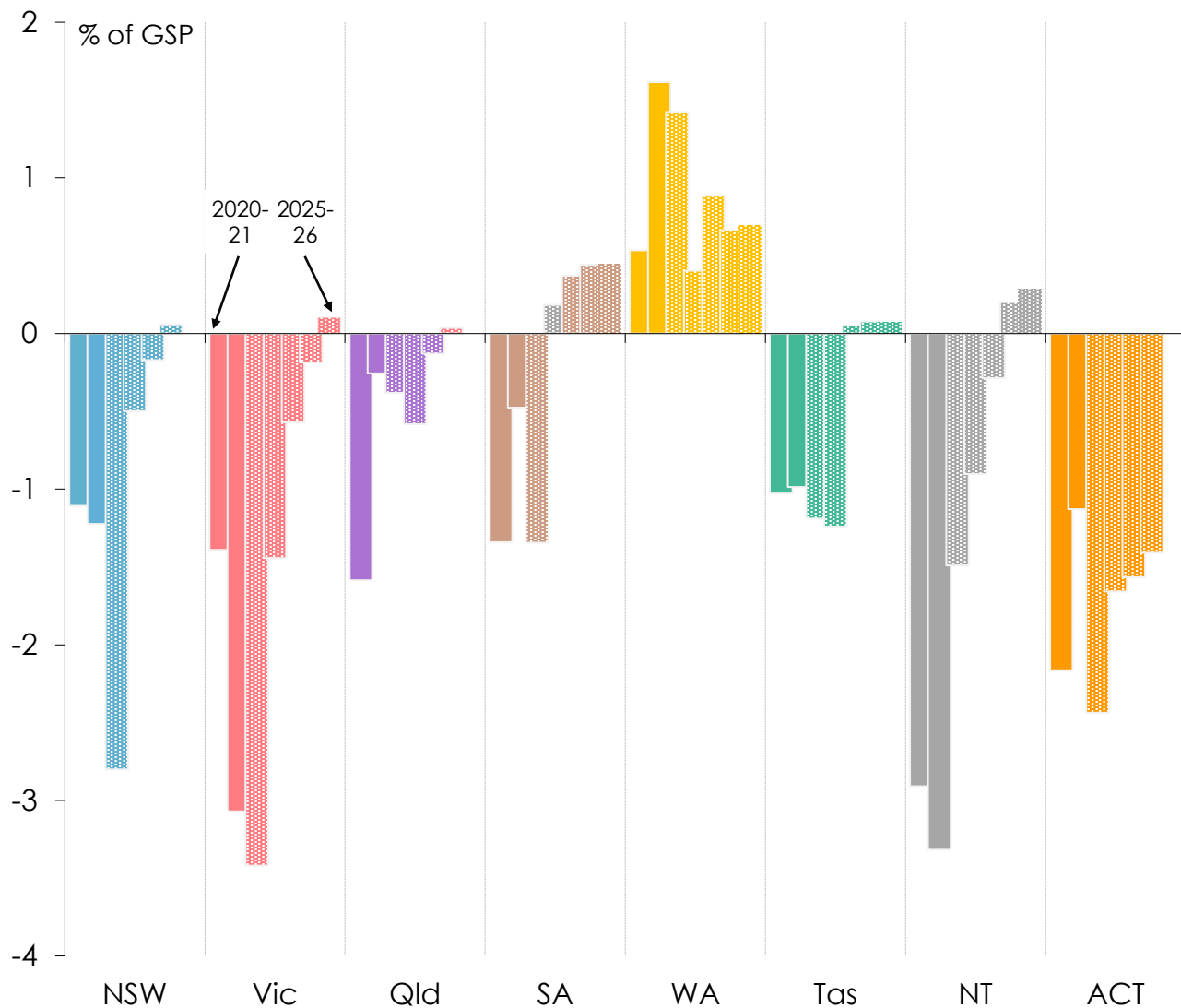
- The Northern Territory's (in recent years fairly parlous) financial position has benefited from upward revisions to revenue from the GST (due to increases in total GST collections and in the NT's share of the 'pool') which accounts for around 55% of its total revenues, together with tight control of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

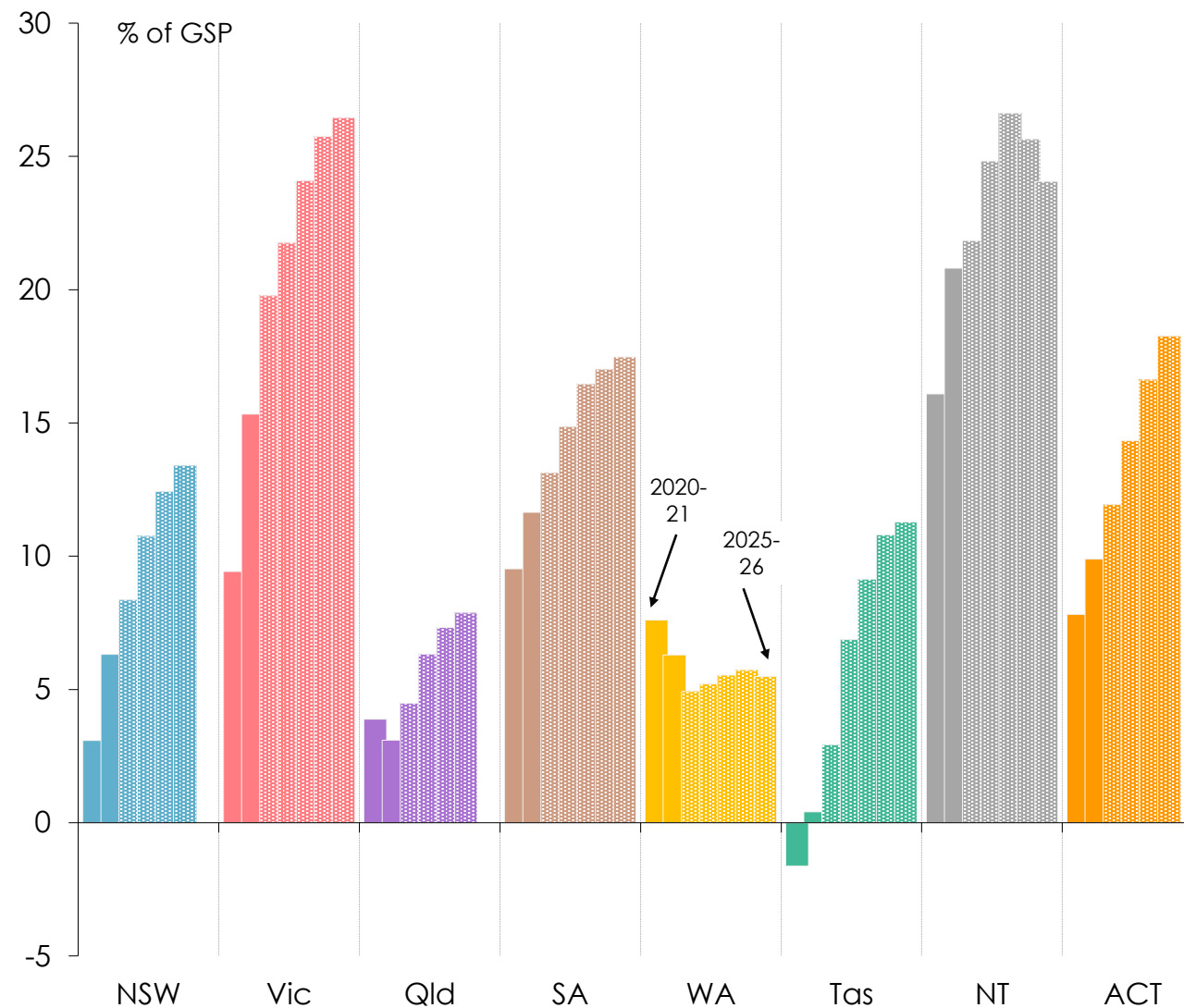
Victoria and the Northern Territory have more onerous fiscal positions than the other jurisdictions

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

States and territories – ‘net operating balances’



States and territories – net debt



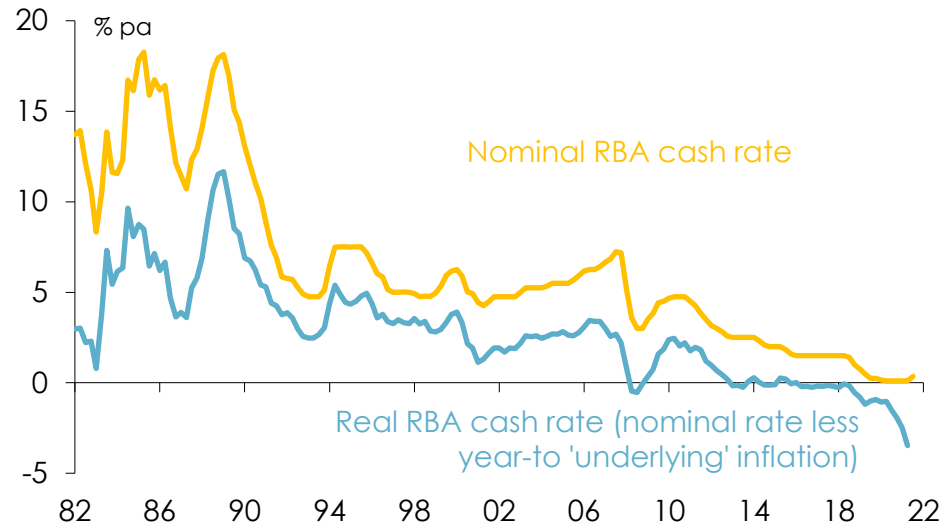
Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than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

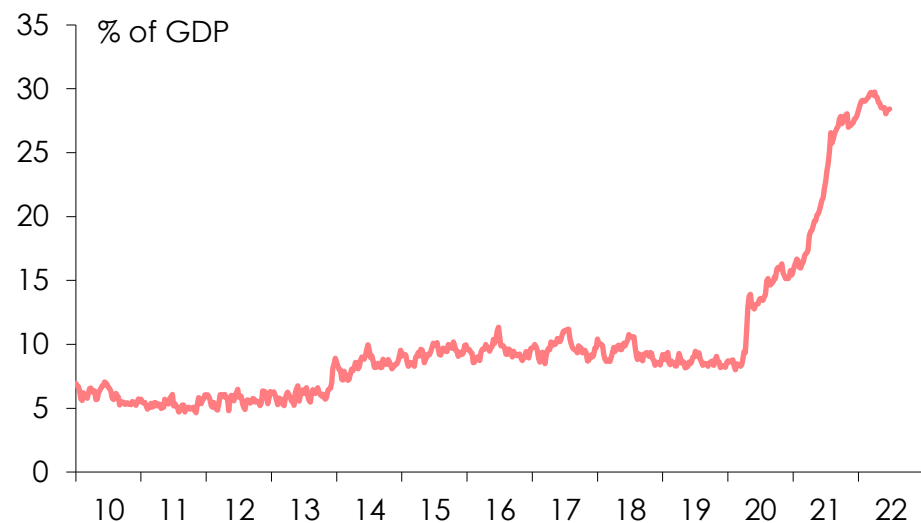
The RBA Board is likely to raise its cash rate again at Tuesday's Board meeting, by either 15 or 25 bp but probably not by 50bp

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



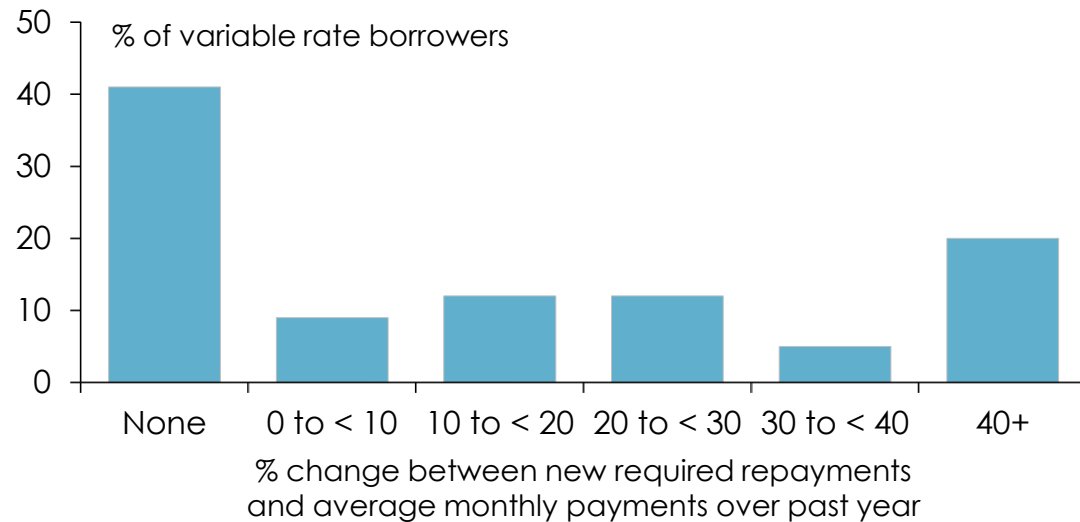
Source: Reserve Bank of Australia, [Statistical Tables A3](#) and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ The RBA raised its cash rate by 25bp (to 0.35%) at last 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 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"
- ❑ The RBA Board is expected to lift its cash rate target again when it meets this coming Tuesday, but there's a good deal of uncertainty as to the size of the increase
 - it could raise the cash rate by 15 bp, to get it back to an even 0.50% - or it could raise by 25 bp as it did last month as a 'normal' procedure
 - it seems unlikely the RBA will feel a need to do 50bp as some other central banks have, because it meets more frequently than most

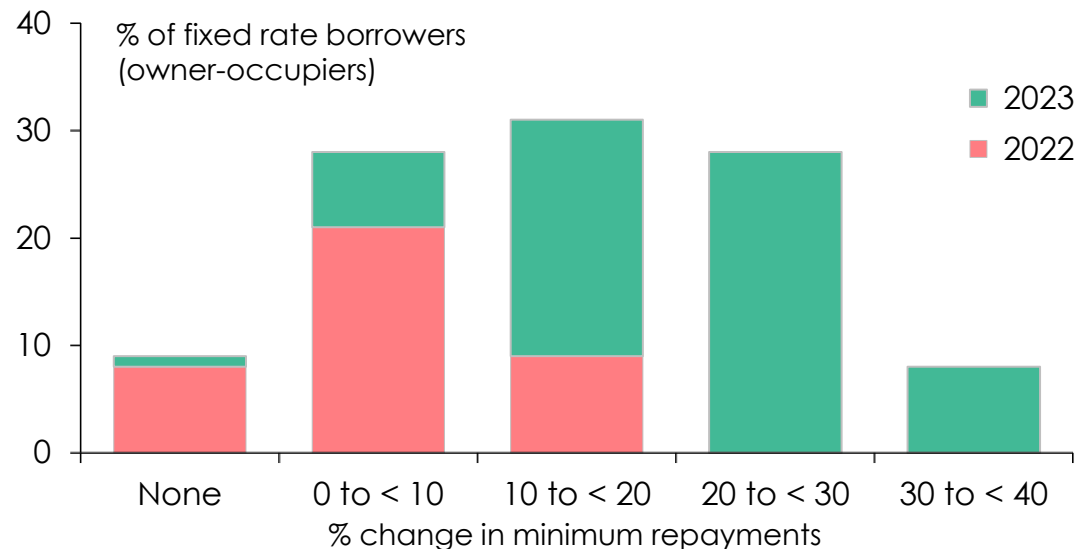
The RBA's latest *Financial Stability Review* gives some idea of household sensitivity to prospective increases in interest rates

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Repayment increases for variable-rate loans



Repayment changes on expiring fixed-rate loans



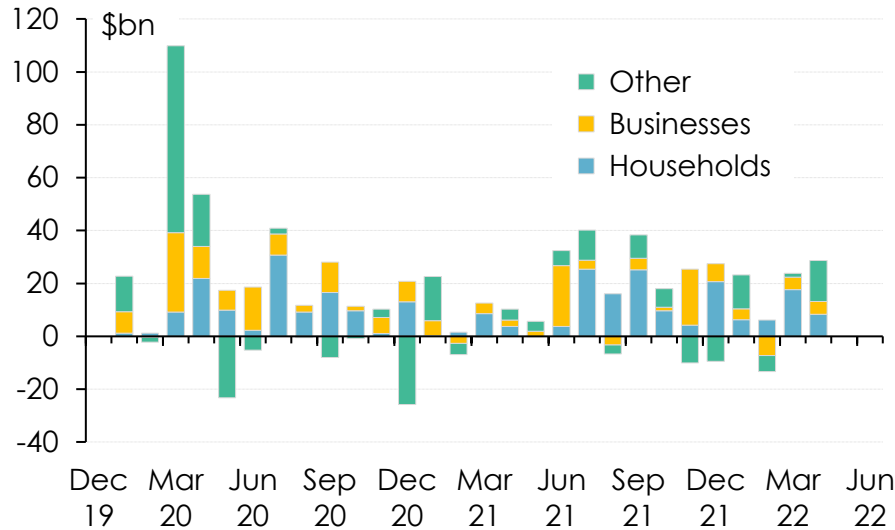
- ❑ 60% of all mortgage borrowers have variable-rate loans
- ❑ The RBA estimates that if variable mortgage rates were to rise by 200bp, just over 40% of those borrowers would not have to increase their monthly payments (because they've been paying more than contractually required)
 - whereas about 25%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

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

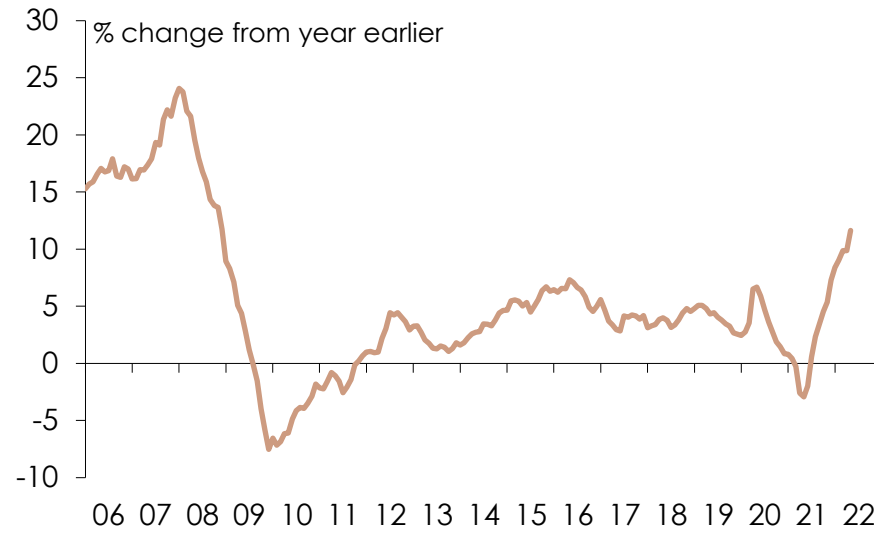
Banks have been swamped with deposits since the beginning of the pandemic, and have lent readily to both households and businesses

THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

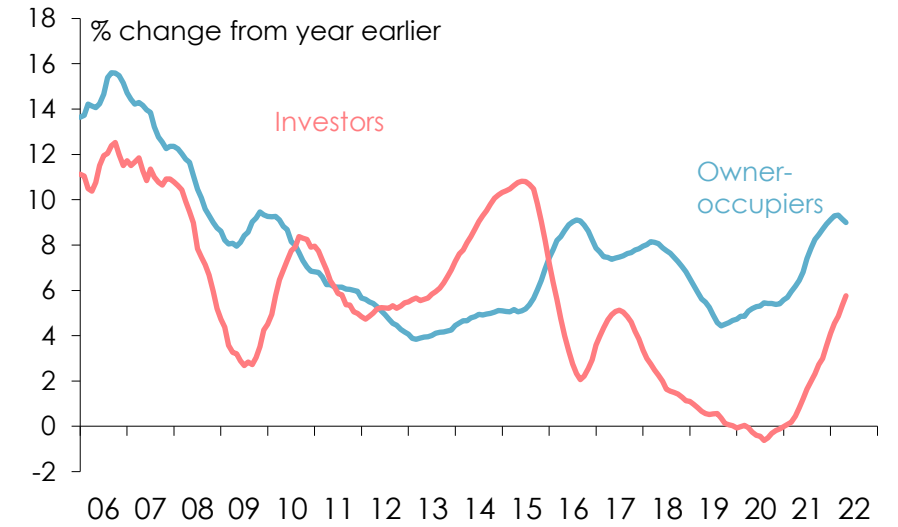
Monthly change in bank deposits



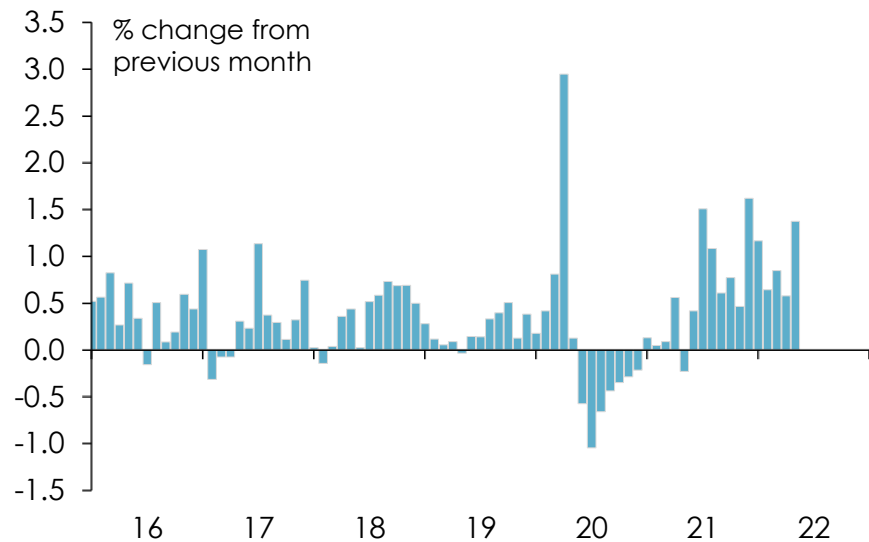
Annual growth in business credit



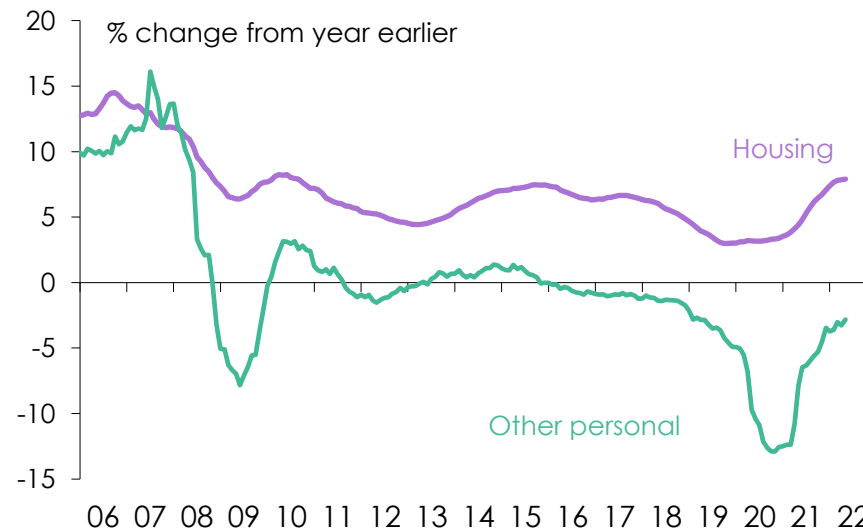
Annual growth in housing credit



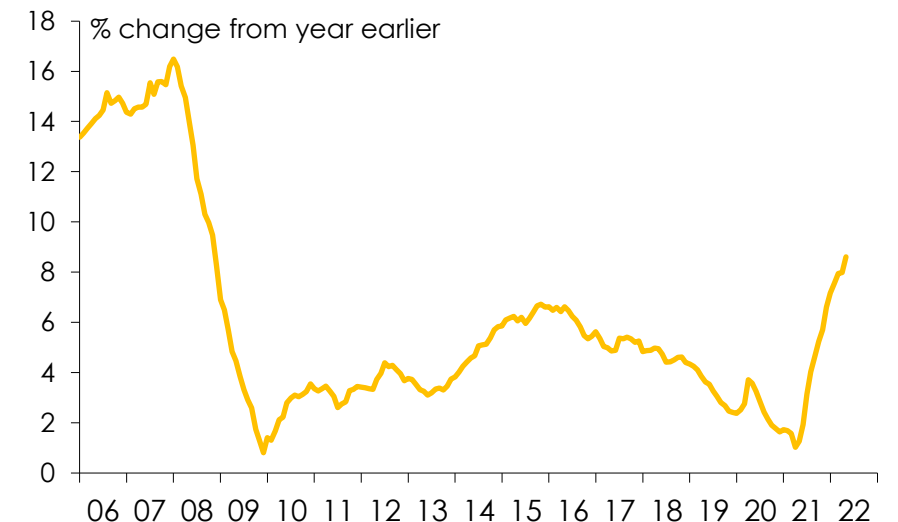
Monthly change in business credit



Annual growth in household credit



Annual growth in total credit

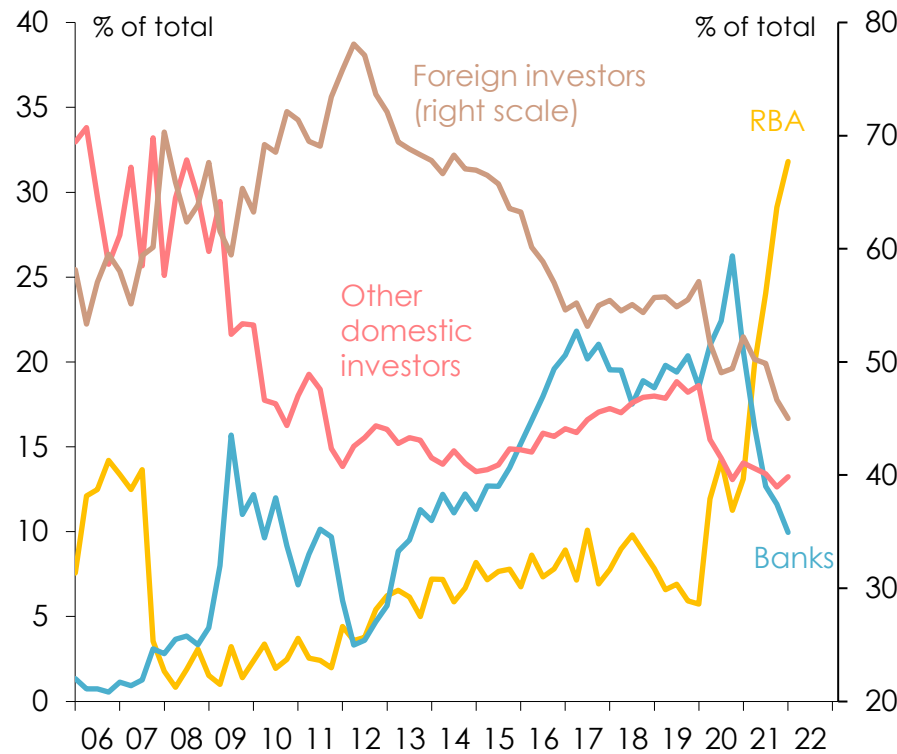


Sources: [Reserve Bank of Australia](#); [Australian Prudential Regulation Authority](#). [Return to "What's New"](#).

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

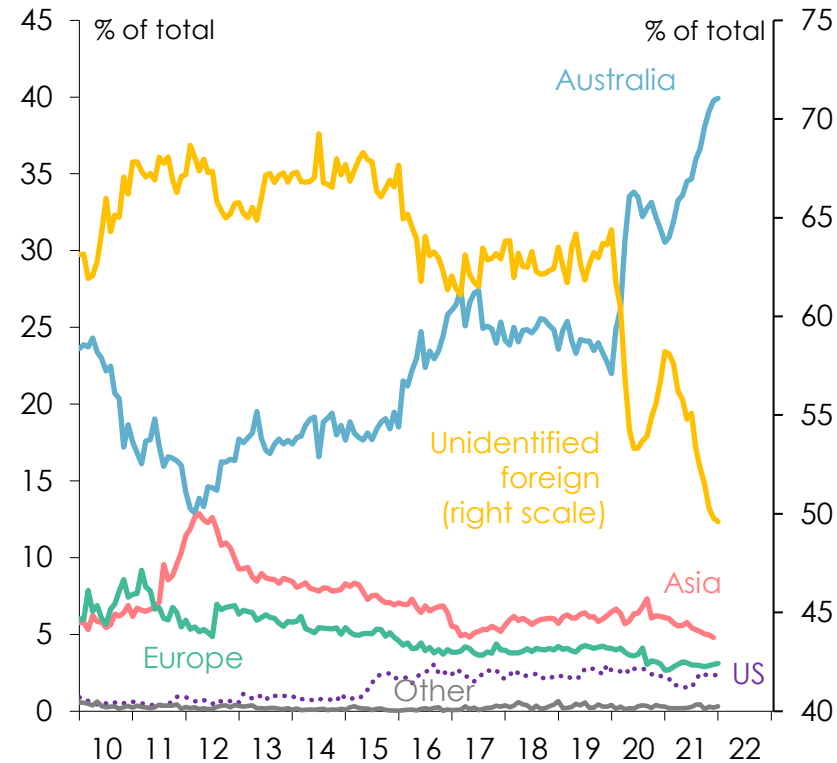
THE AUSTRALIAN ECONOMY THIS WEEK – 3RD JUNE 2022

Holders of Australian Government bonds



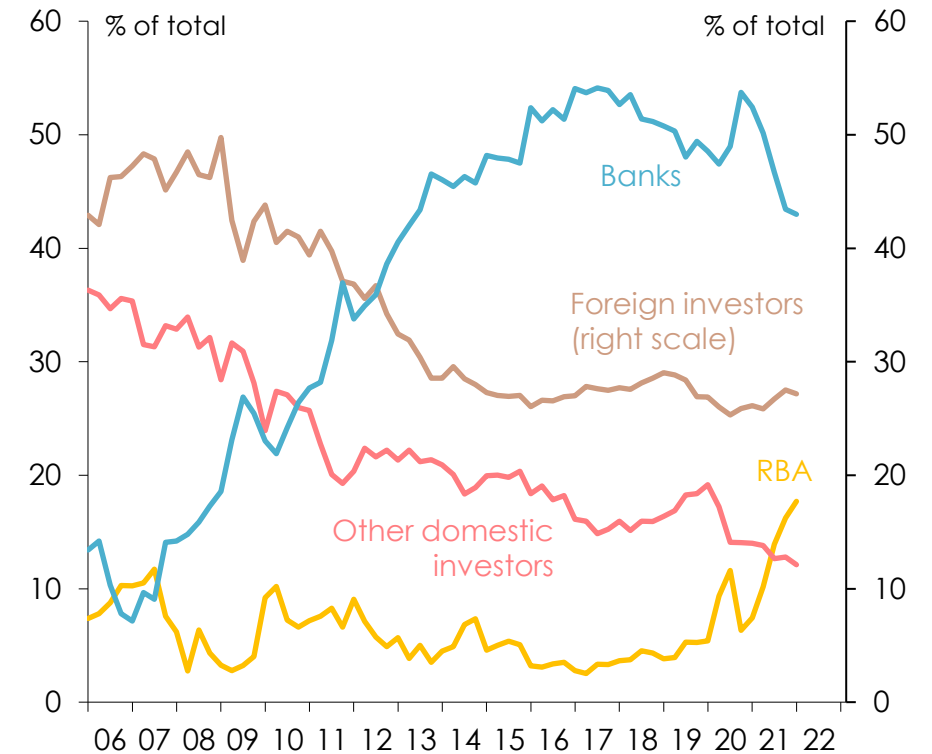
Australian Gov't bonds on issue have increased by \$252bn since the end of 2019 – of which \$246bn (97%) have been absorbed by the RBA, and \$37bn by foreigners, while banks have reduced their holdings by \$29bn

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

Holders of State and Territory Government bonds



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

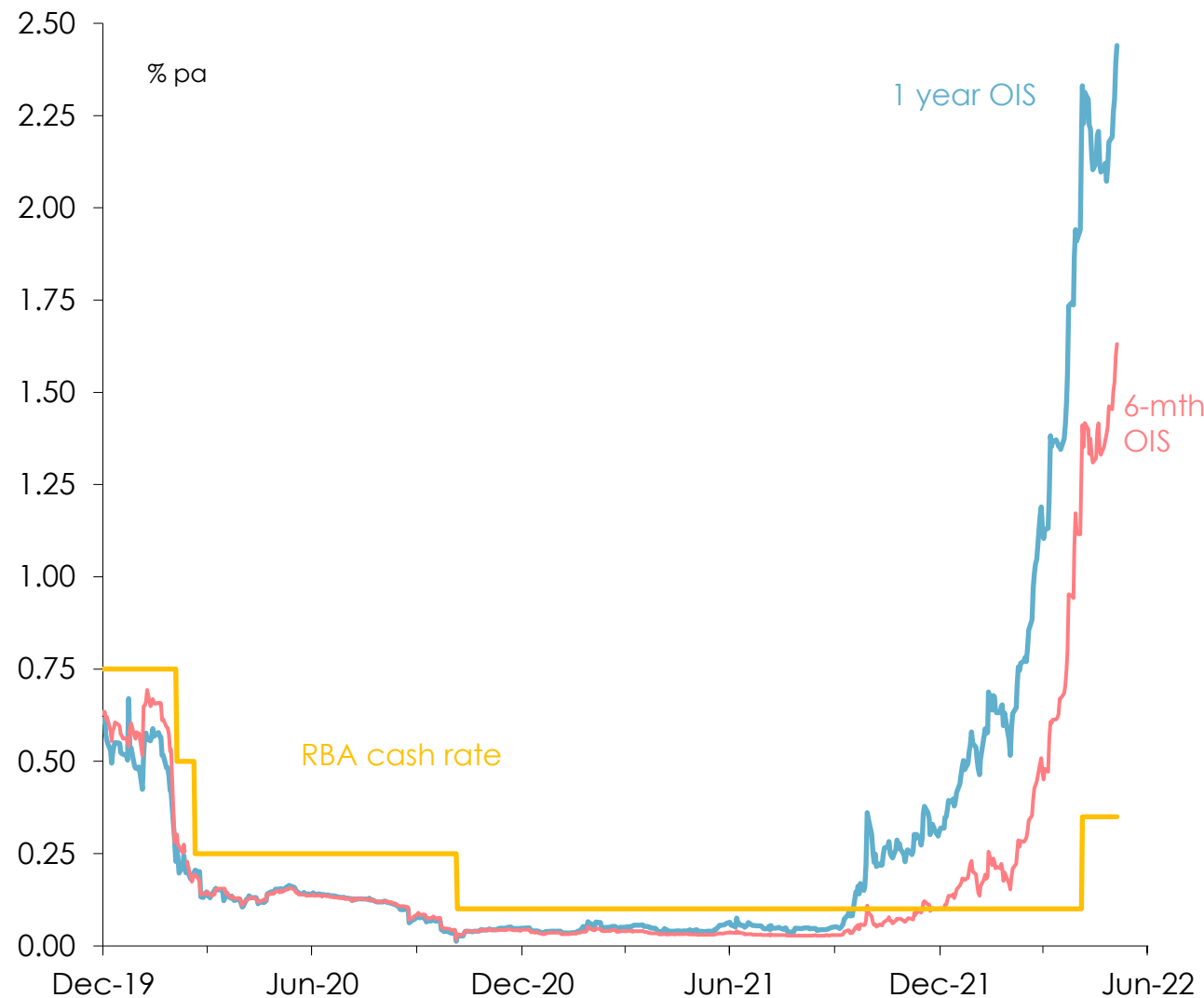
Sources: ABS, [Finance and Wealth Accounts](#), December quarter 2021; [Australian Office of Financial Management](#). March quarter data will be released on 23rd June. [Return to "What's New"](#).

Australian financial markets

Markets ratcheted up their expectations of future RBA rate hikes this week following news of looming large hikes in electricity prices

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Overnight index swap rates



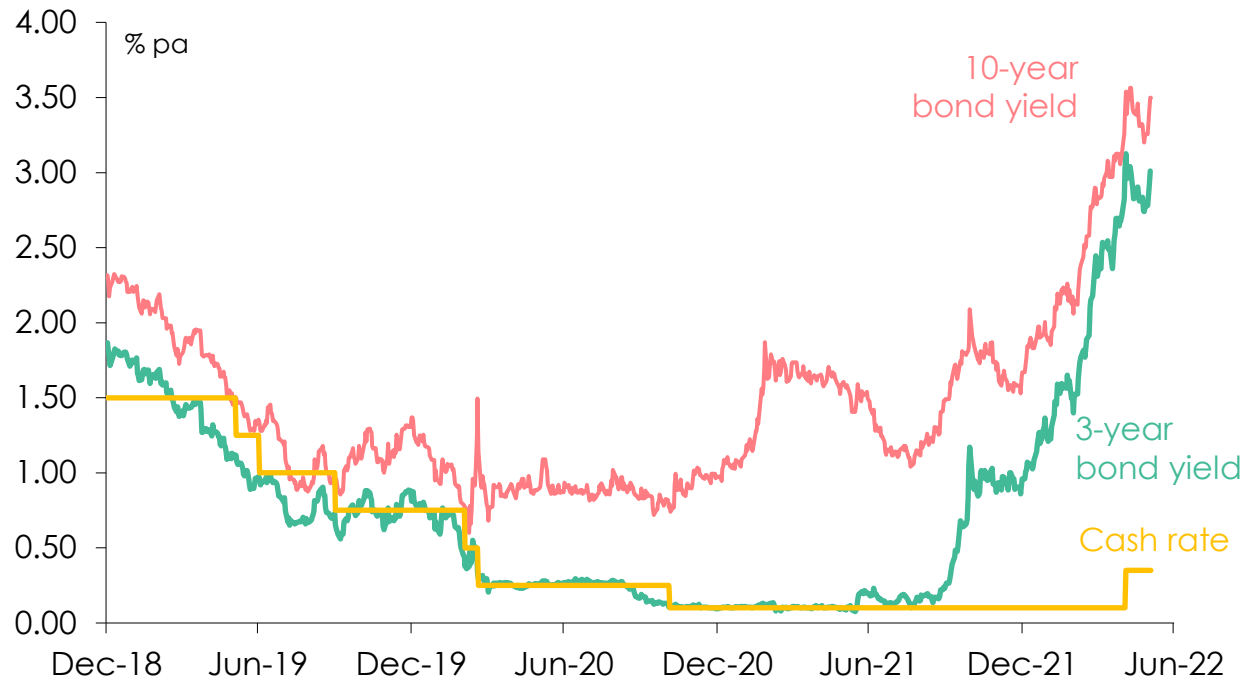
Yield curves



Short- and longer-term bond yields rose this week on the back of more bearish RBA views and rising yields offshore

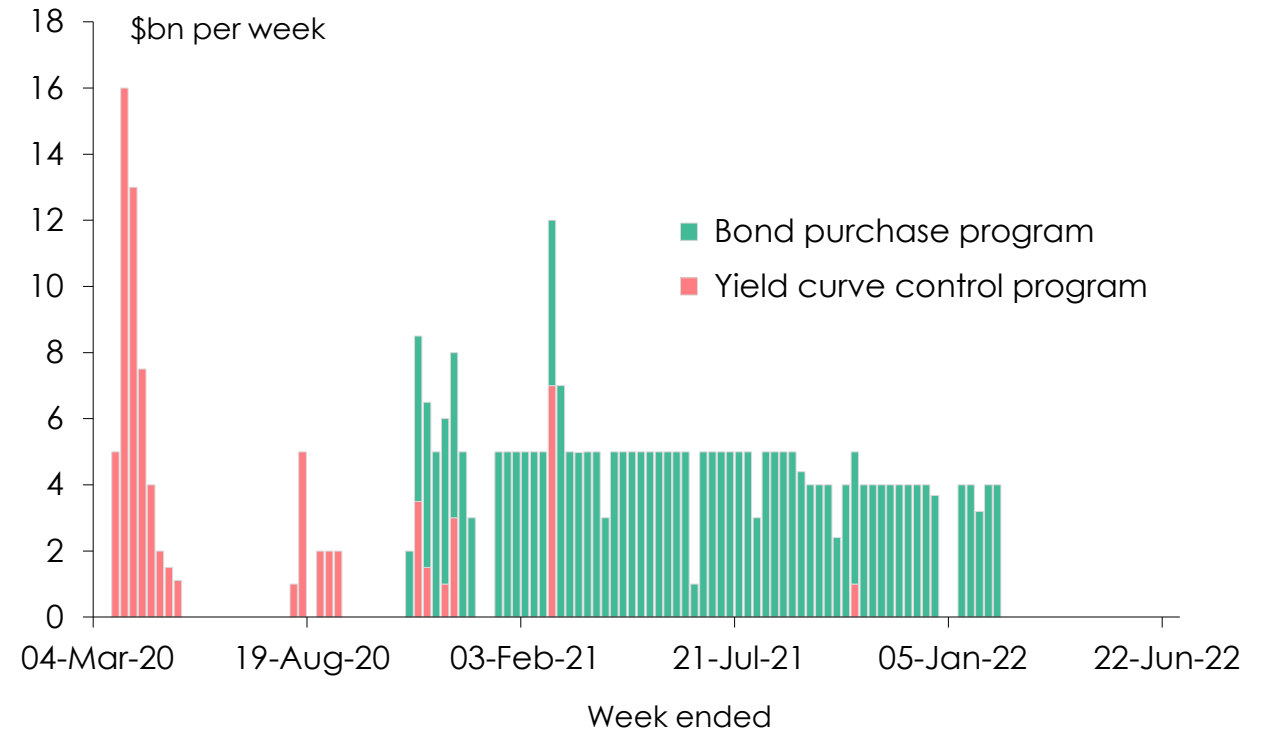
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Interest rates



- ❑ 3-year bond yields traded back over 3% this week for the first time since early May, reflecting more bearish RBA views
- ❑ 10-year bond yields returned to the 3.5% level for the first time since the second week of May, reflecting both rising US yields and the upward movement in domestic short rates
- ❑ The spread over 10-year US Treasuries widened to 53 basis points, the largest since mid-September 2017

RBA open market bond purchases



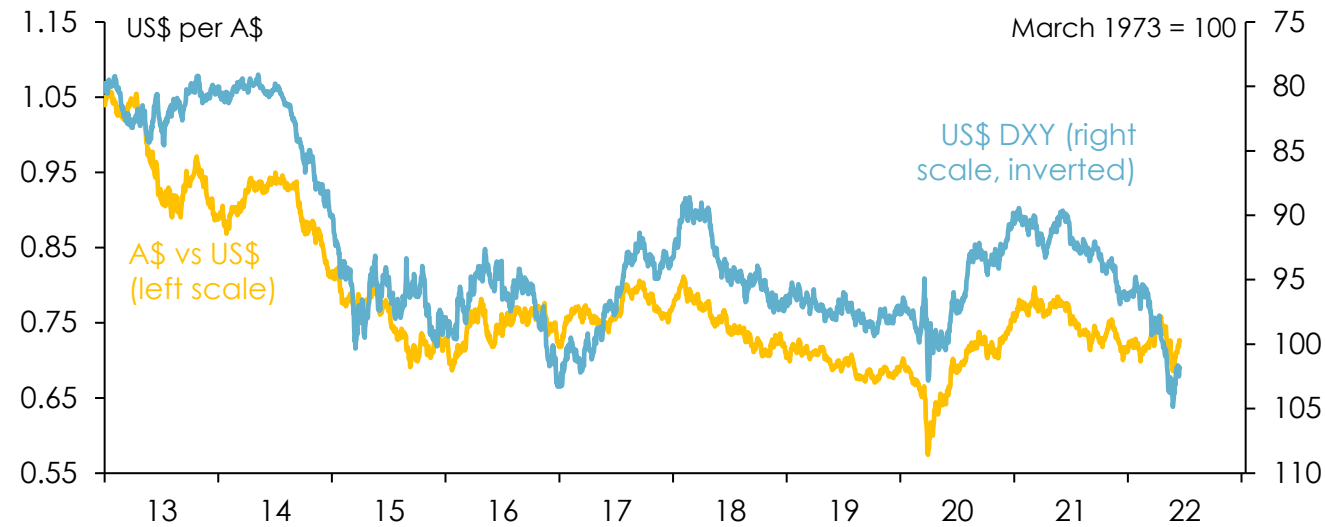
- ❑ The RBA concluded its Bond Purchase Program in the second week of February, bringing the total amount of purchases under it and the Yield Curve Target program (which was terminated last year) to just under \$360bn (equivalent to about 17% of GDP)
- ❑ The RBA last month announced that it will no longer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

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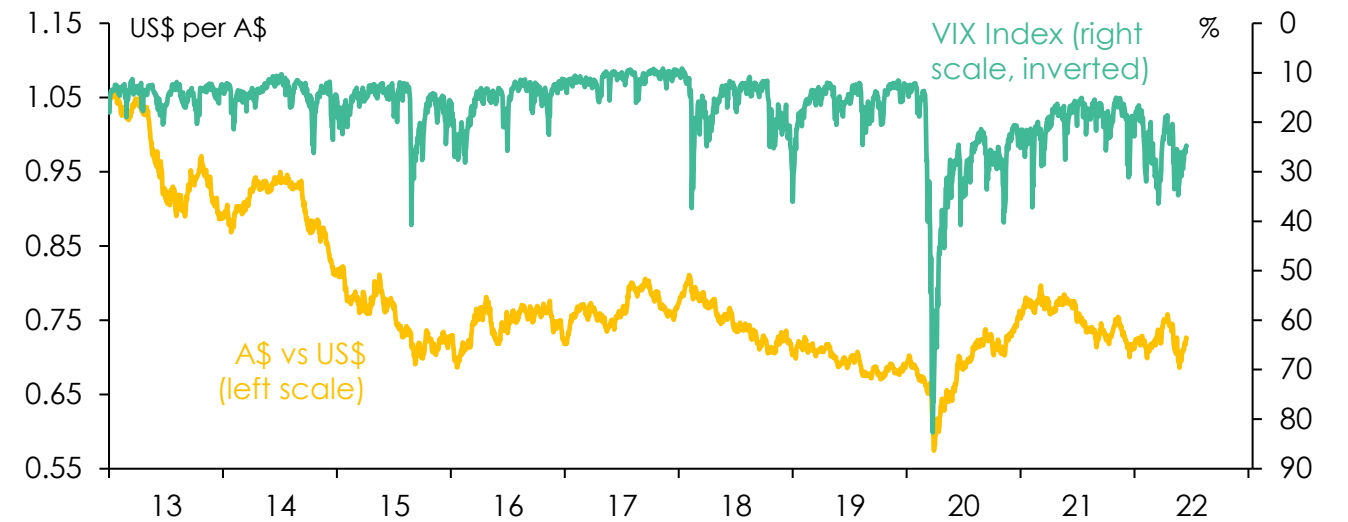
The A\$ rose further this week to finish above US72¢ for the first time in six weeks on the back of a weaker US\$ and higher iron ore price

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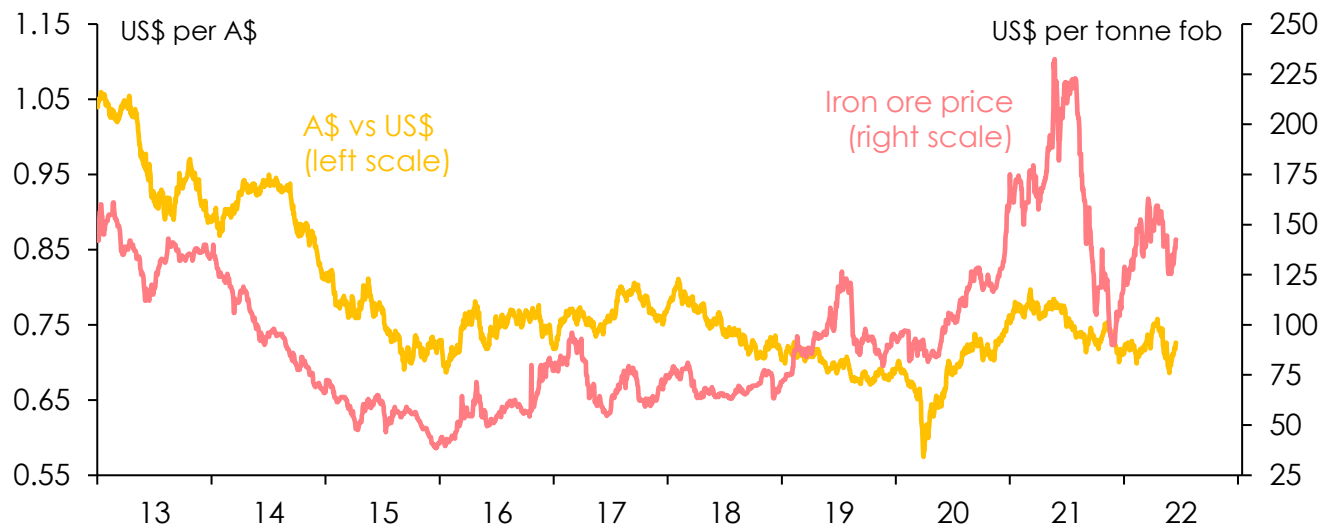
A\$-US\$ and US\$ trade-weighted index



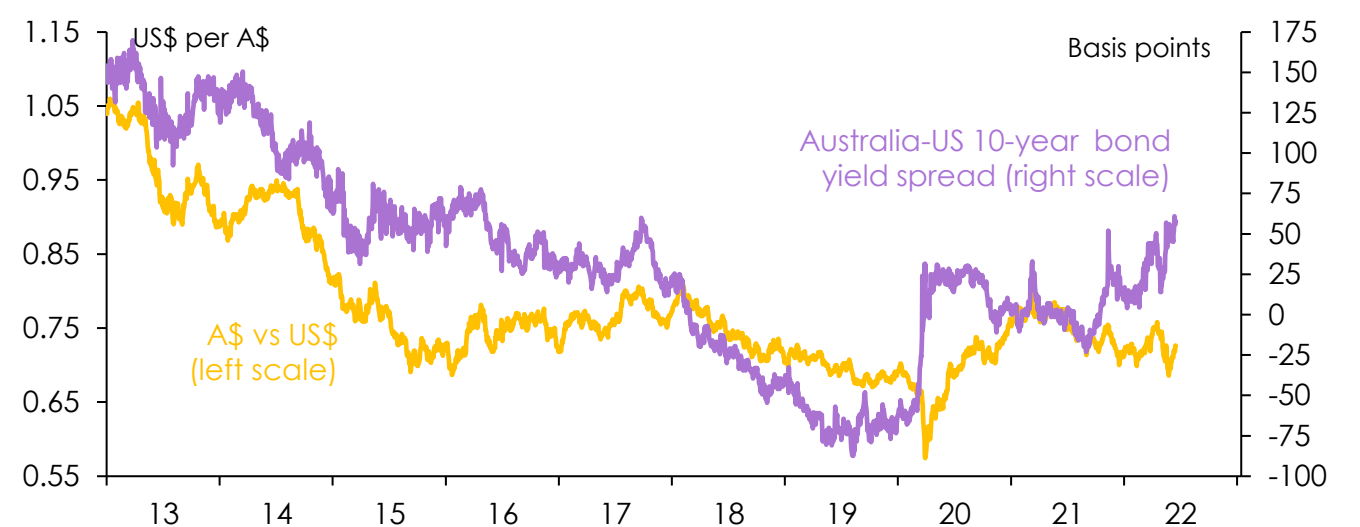
A\$-US\$ and US equity market volatility



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



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

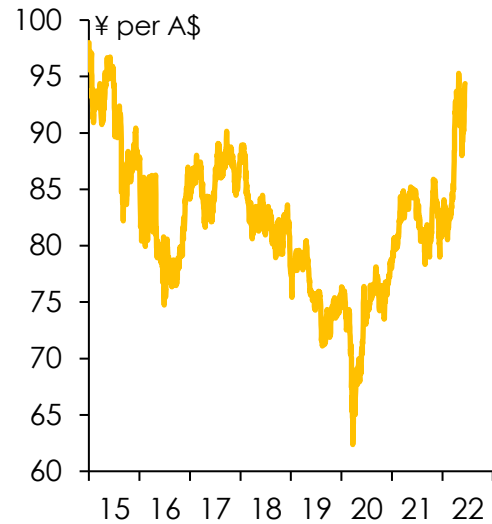


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 3rd June. [Return to "What's New"](#).

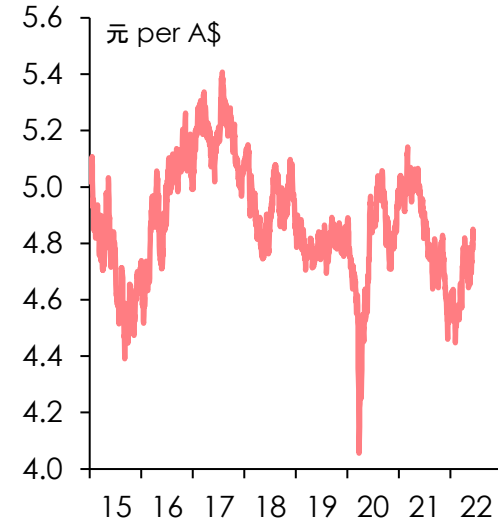
The A\$ rose more than 3½% against the yen this week, by 1¾% vs sterling, almost 1½% vs the euro and 1% vs the NZ\$

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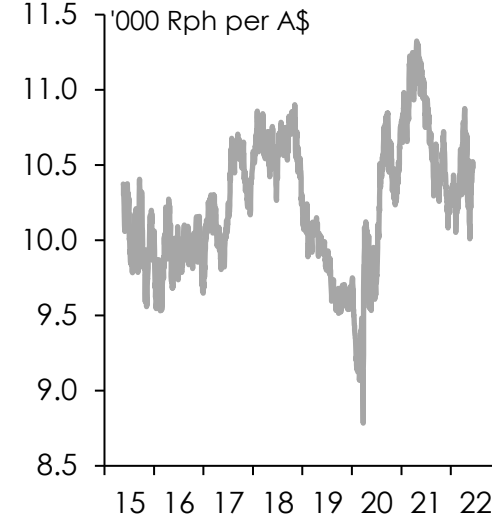
A\$ vs Japanese yen



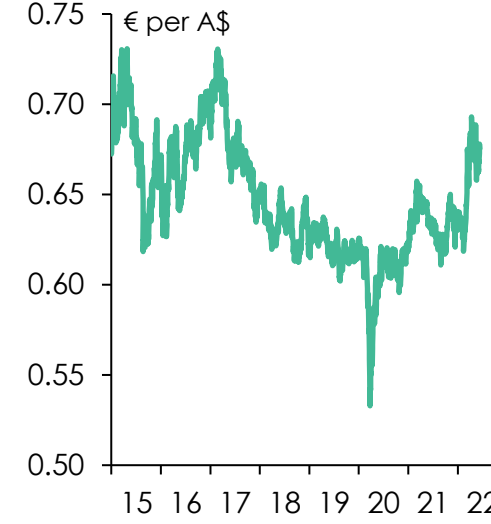
A\$ vs Chinese yuan



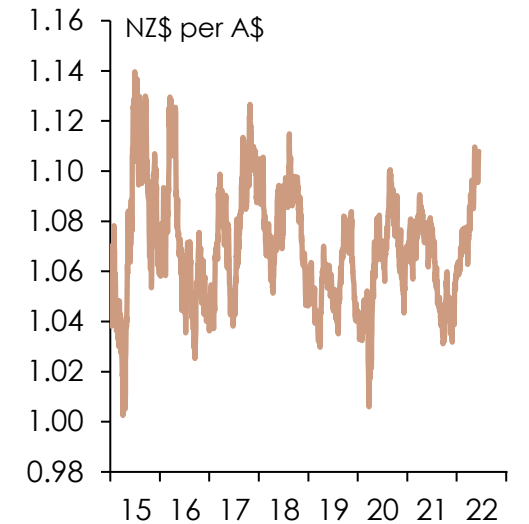
A\$ vs Indo rupiah



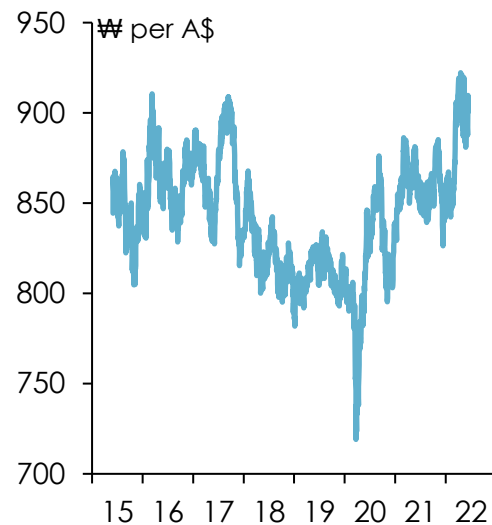
A\$ vs Euro



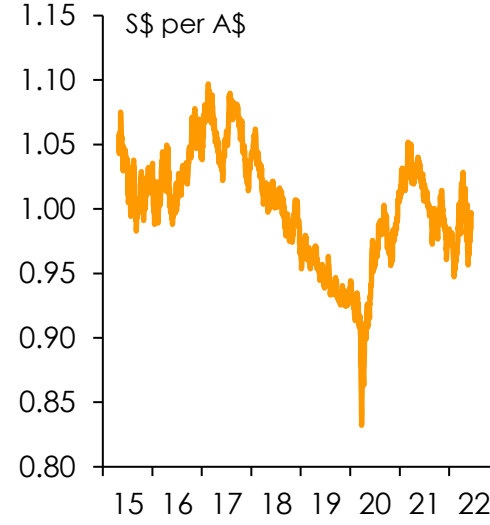
A\$ vs NZ\$



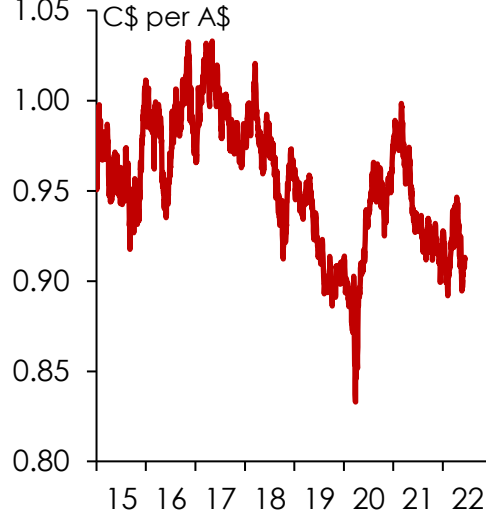
A\$ vs Korean won



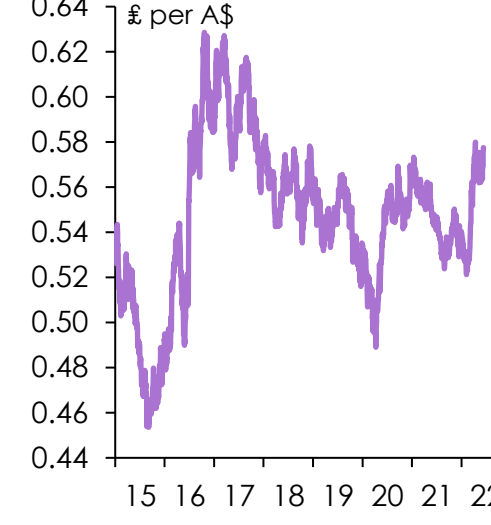
A\$ vs Singapore \$



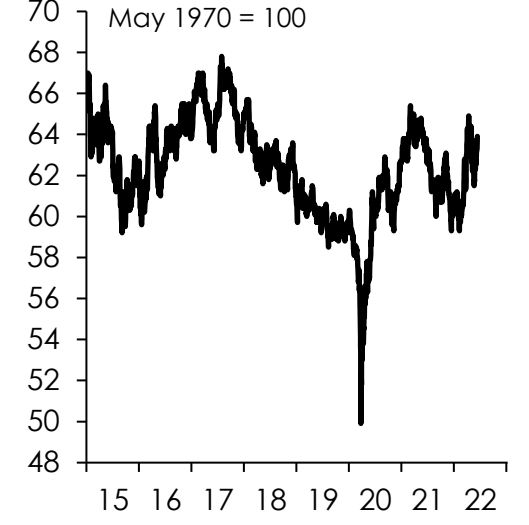
A\$ vs Canadian \$



A\$ vs British pound



A\$ TWI

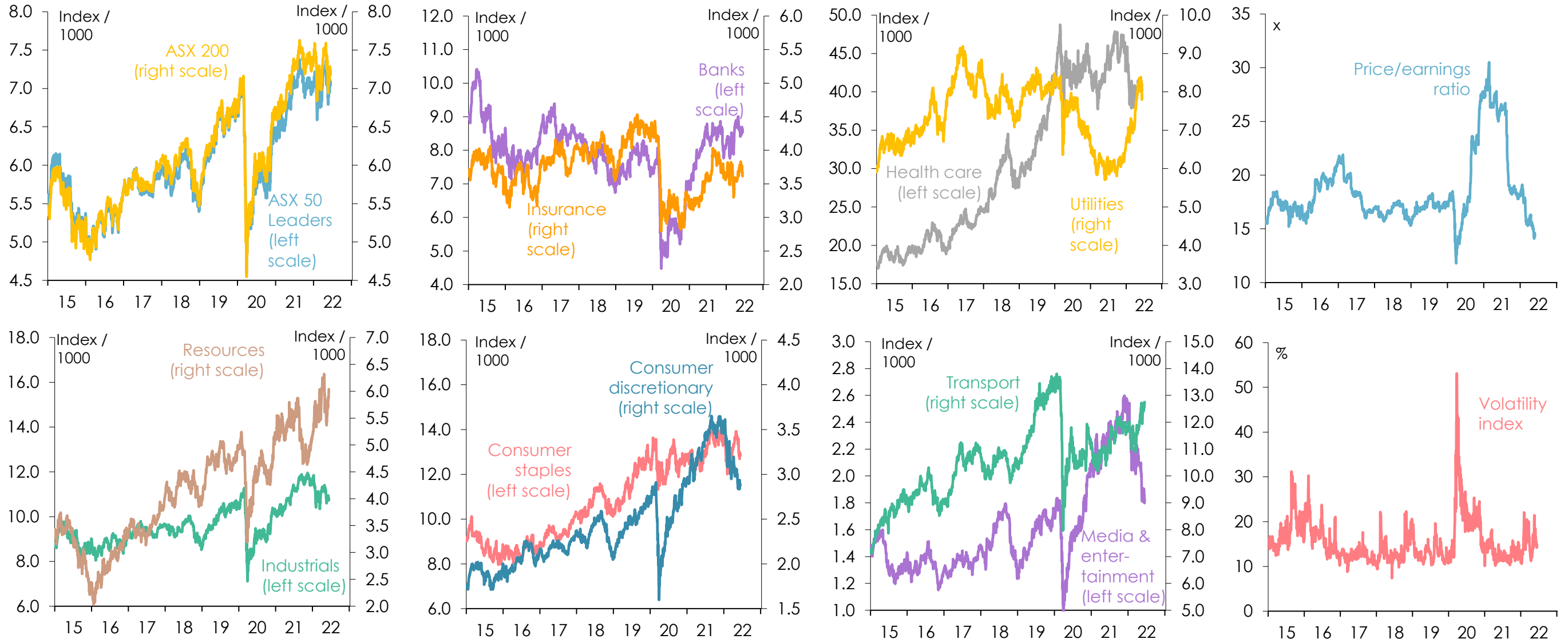


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 3rd June. [Return to "What's New"](#).

The ASX rose another 3/4% this week with resources stocks gaining more than 4%, offsetting further falls in banks, utilities, media and health care

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ASX indices



Sources: Refintiv Datastream. ASX200 and 50 Leaders up to 3rd June. [Return to "What's New"](#).

Key data and events next week

Key data and events for week ended 10th June

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Monday 6th June	May ANZ Bank job advertisements; May Melbourne Institute monthly inflation
Tuesday 7th June	RBA Board meeting; May services PMI
Wednesday 8st June	May NAB business conditions & confidence
Thursday 9th June	Weekly payroll jobs, 7th & 14th May
Friday 10th June	April ABS monthly business turnover indicator
State Budgets	New South Wales – 21st June Queensland – 21st June ACT – 2nd 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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