



THE AUSTRALIAN ECONOMY THIS WEEK

24TH JUNE 2022

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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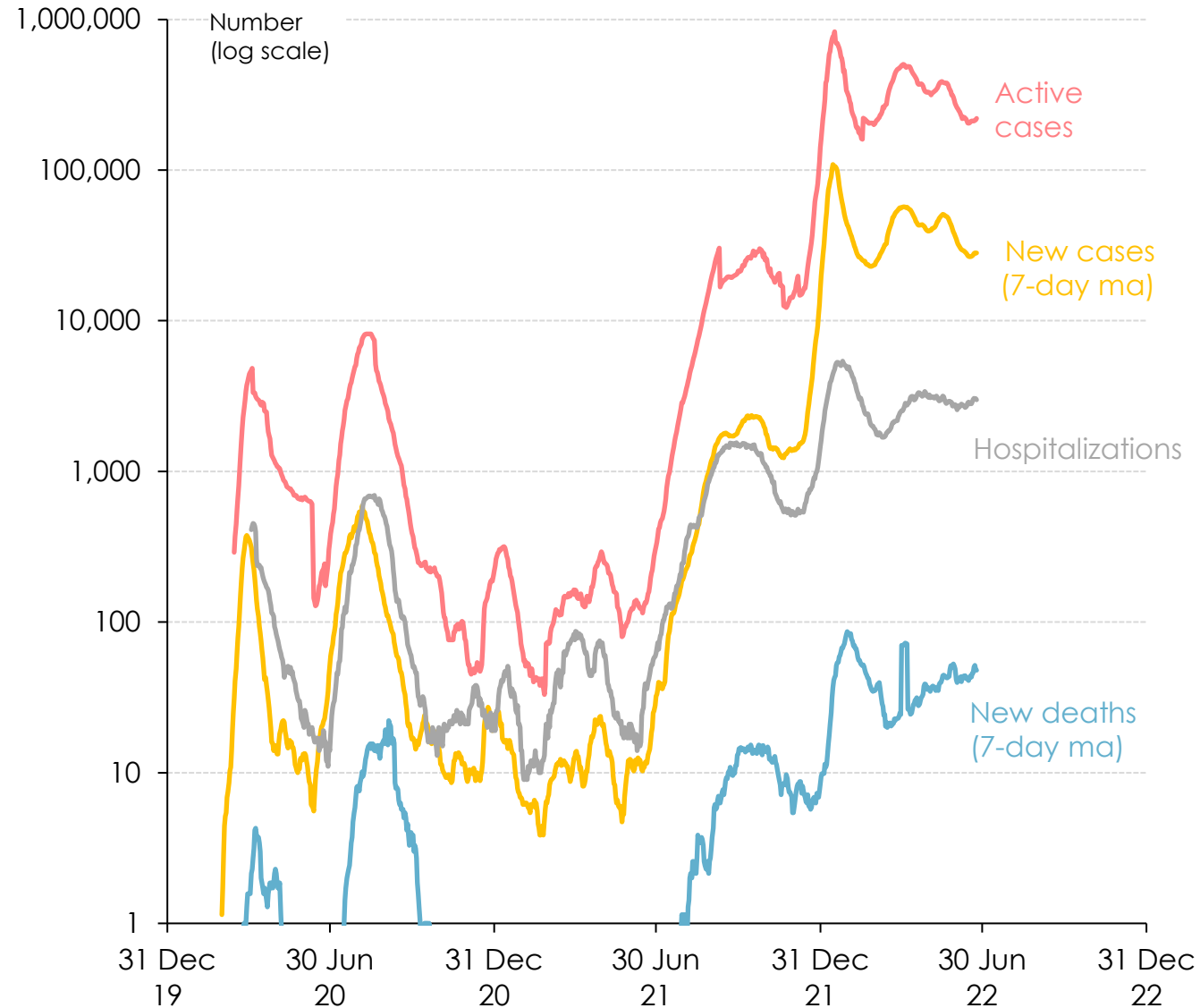
- ❑ Reserve Bank Governor Philip Lowe repeated his previous warnings that Australians should “be prepared for more increases in interest rates”, re-iterating that the RBA would do “whatever is necessary” to get inflation back down to within its 2-3% target range “over time”, emphasizing the importance of preventing an increase in inflation expectations, and warning against wage increases of more than about 3½% ([slide 86](#))
- ❑ Financial markets meanwhile reversed some of the previous week’s aggressive re-pricing of the likely trajectory of the RBA’s cash rate, although they are still expecting the cash rate to reach 3% by December this year (which would require 3 increases of 50 and 3 of 25 basis points at the next six meetings), and 3¾% by June next year (both of which seem ‘too much’) ([slide 91](#))
- ❑ The numbers of new and active Covid-19 cases remain at relatively high levels (albeit well below the peaks in January), as do the absolute numbers of hospitalizations and fatalities, although these are a very small proportion of case numbers ([slide 5](#))
- ❑ 39% of businesses were experiencing supply chain disruptions during June, and 27% (the highest proportion since the onset of Covid-19) were having difficulty attracting ‘suitable’ staff ([slide 21](#))
- ❑ Aggregate household net worth rose by \$173bn (1.2%) in the March quarter, entirely as a result of further gains in residential property prices, bringing the cumulative gain since the end of 2019 to over \$3.6trn (32.4%), of which increases in the value of residential land and buildings accounted for \$2.9trn, only partly offset by a \$273bn increase in household liabilities ([slide 30](#))
- ❑ There were 224K (3¼%) fewer 15-34 year-olds in Australia in May than there were in March 2020, reflecting the exodus of international students, ‘backpackers’ etc. (and the absence of new arrivals) whilst Australia’s international borders were closed ([slide 48](#)) – a significant factor in the labour shortages being reported by employers, and the decline in the unemployment rate since early last year
- ❑ The 2022-23 New South Wales state Budget projects higher budget deficits in order to fund increases in ‘operating’ spending of some 13½% compared with those envisaged in last year’s Budget – but without resulting in higher levels of net debt, apparently because of increases in the value of assets held in NSW’s ‘Next Generations Fund’ ([slide 77](#))
- ❑ The 2022-23 Queensland state Budget forecasts a small surplus for the current (about to end) financial year thanks largely to a surge in coal royalty revenues – which enables it to foreshadow significant reductions in net debt – and increases coal royalty rates and imposes a payroll tax surcharge on large employers in order to fund increased spending, particularly on mental health services ([slide 79](#))
- ❑ Commodity prices fell this week reflecting increased fears of a downturn in the global economy ([slide 55](#)), keeping the A\$ below US70¢ all week ([slide 93](#))
- ❑ The only data releases of note next week are May retail sales and May money & credit aggregates ([slide 97](#))

The virus

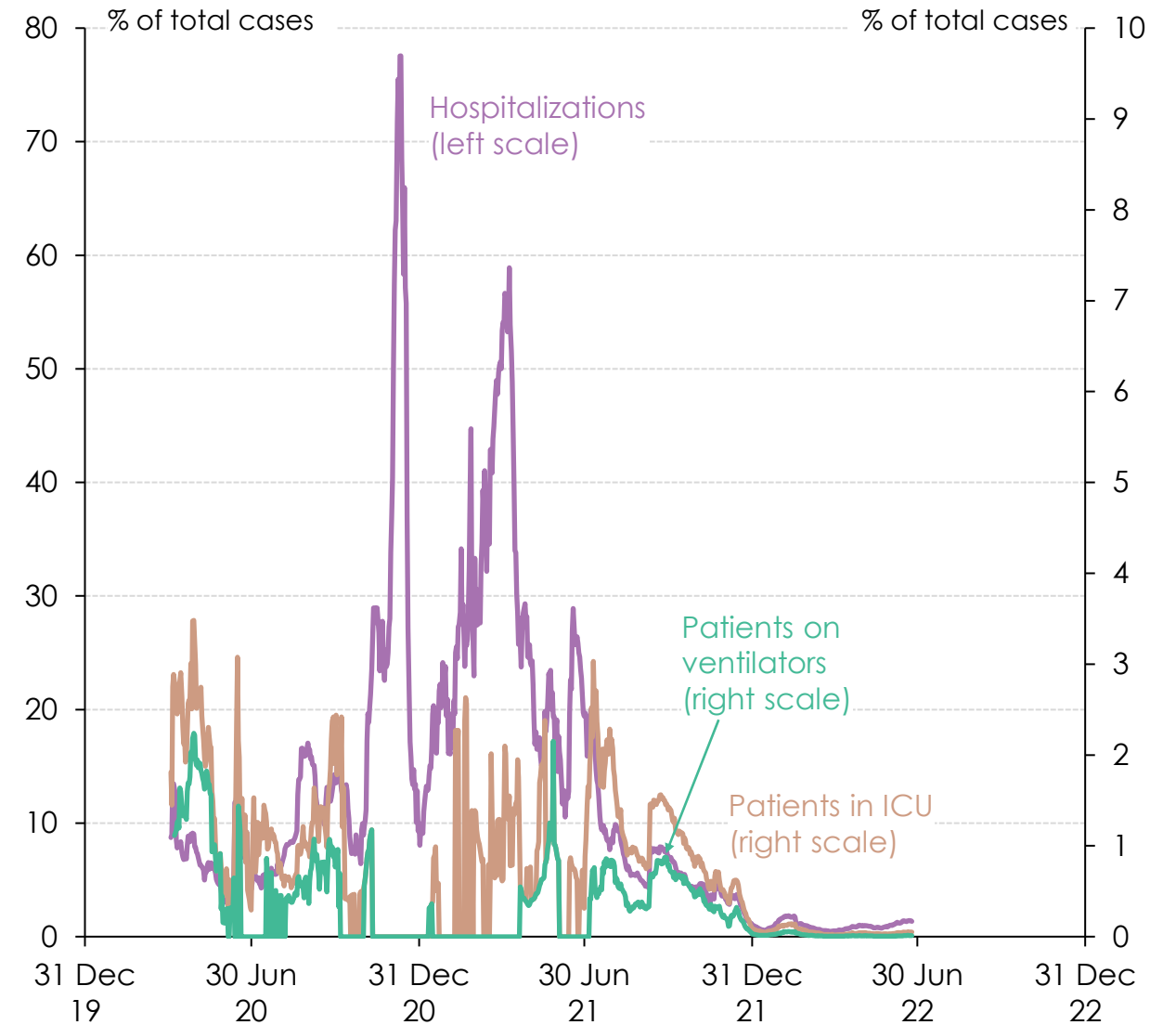
New & active case numbers have remained at relatively high levels, as have hospitalizations & fatalities despite being a small proportion of cases

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Cases, hospitalizations and deaths



Severity of cases



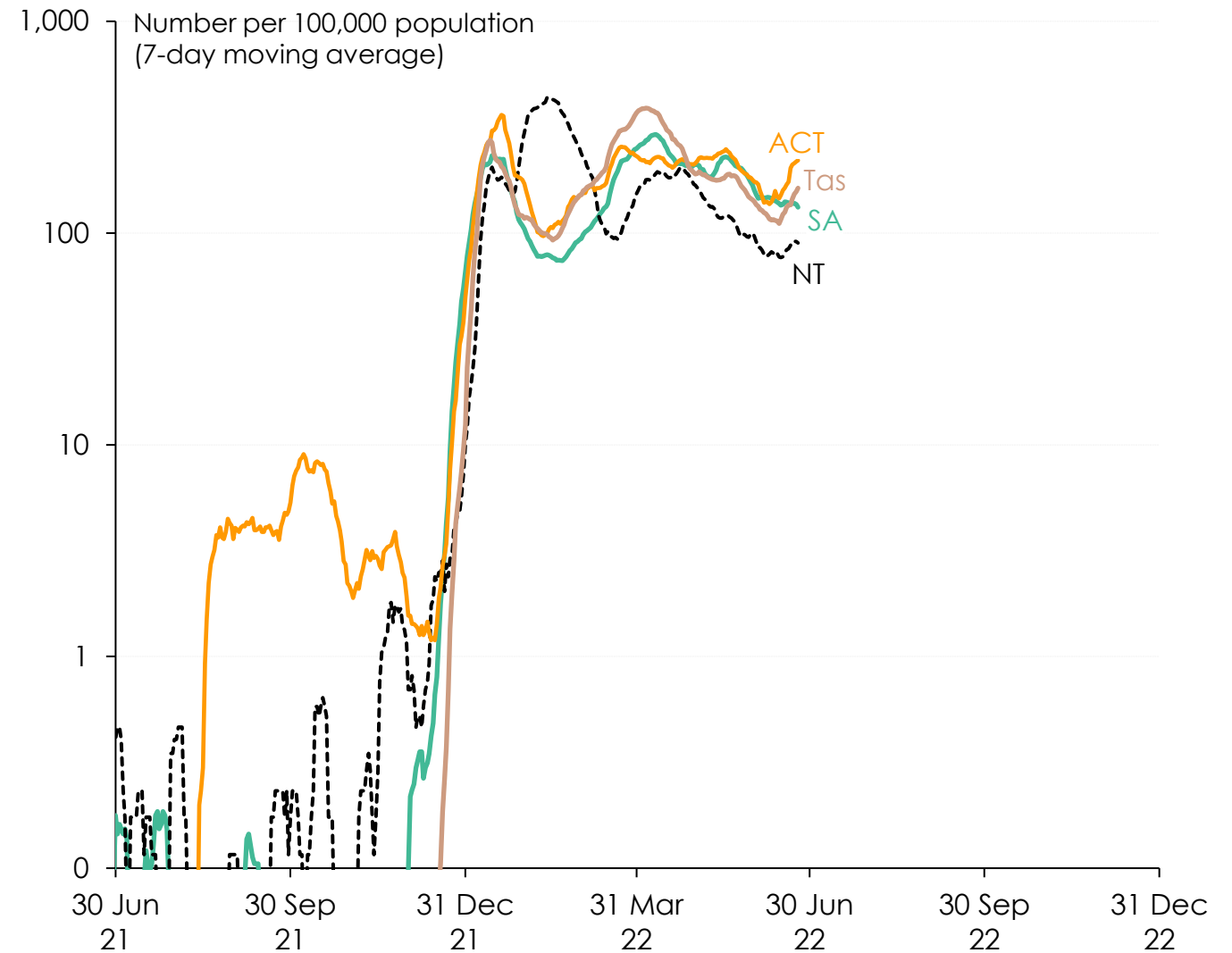
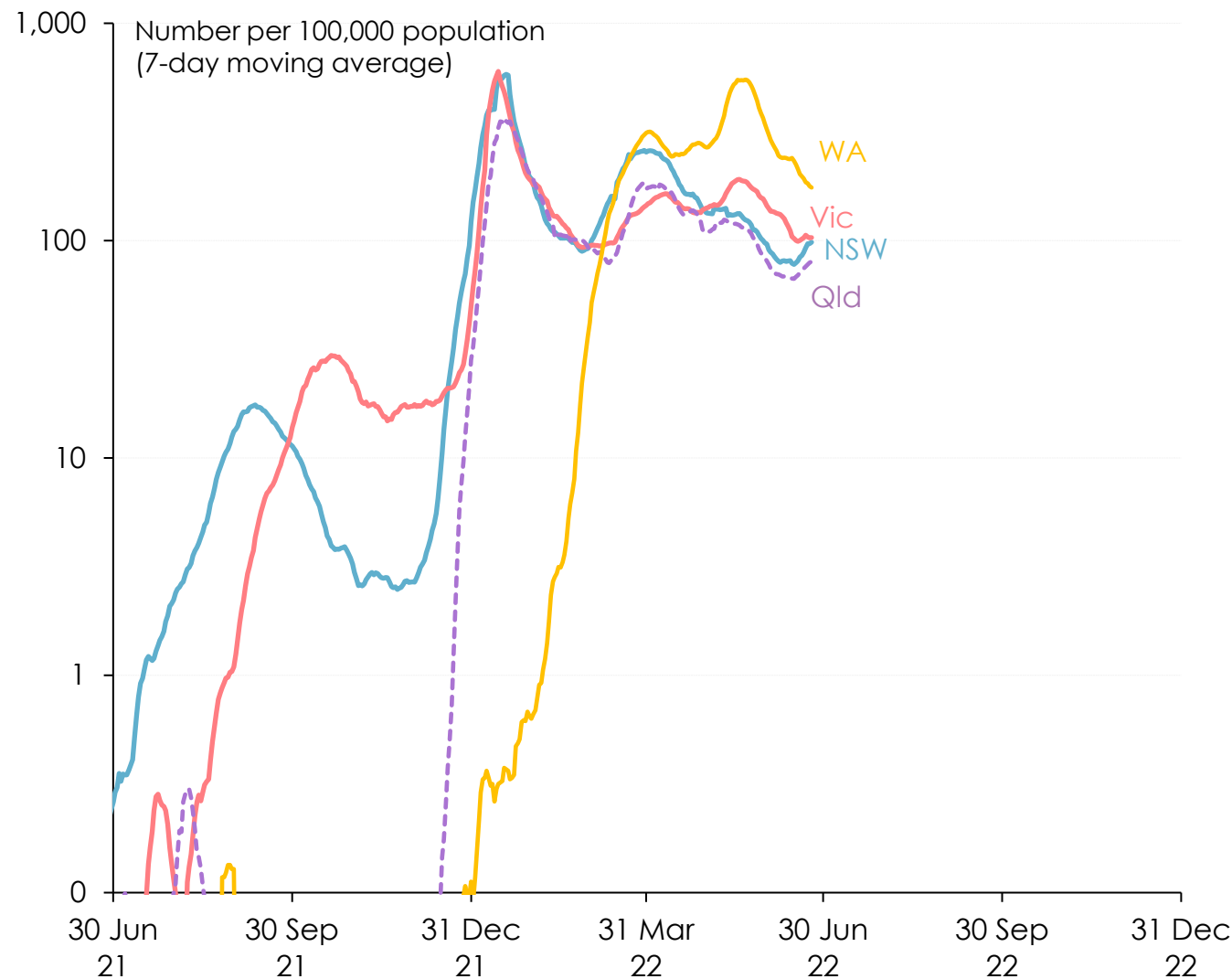
Note: The 'spike' in new deaths in the first week of April resulted from the addition of 334 deaths to NSW's total on 1st April. Data up to 24th June.

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

The more-or-less sideways trend in national case numbers disguises divergences among states and territories in recent weeks

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

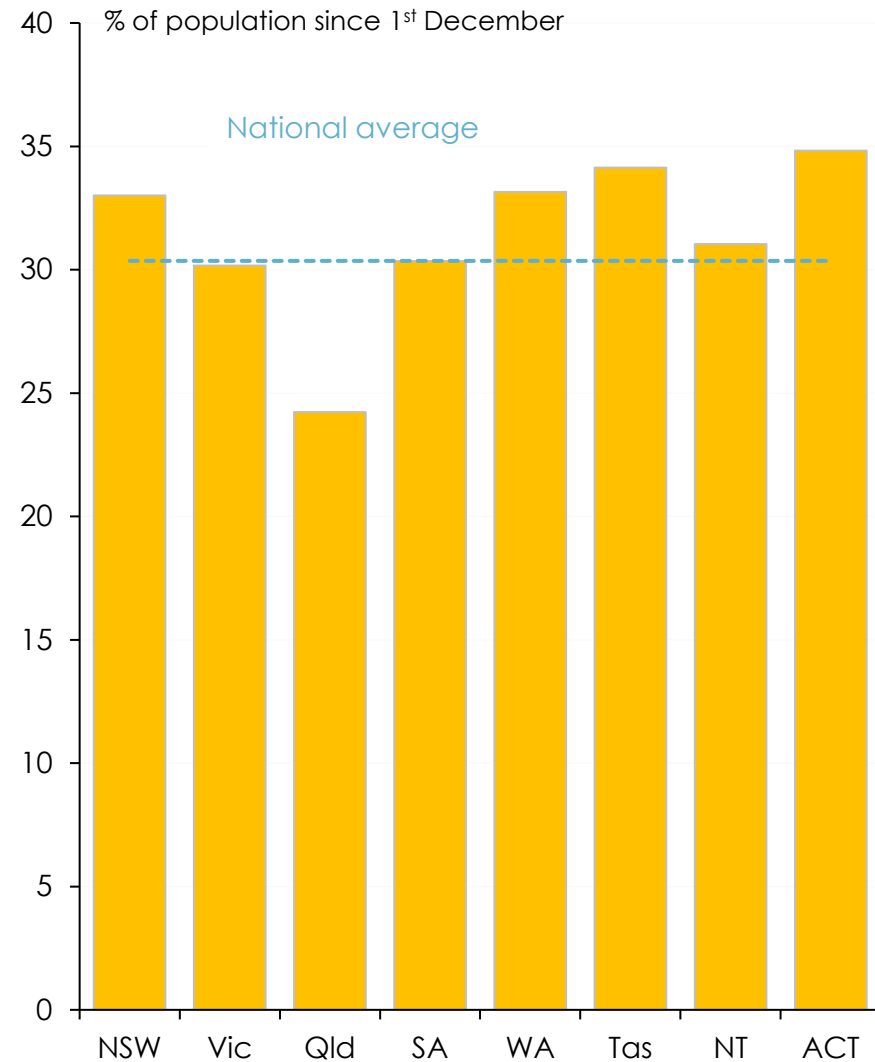


Note: Data are up to 24th June. Source: covid19data.com.au. [Return to "What's New"](#).

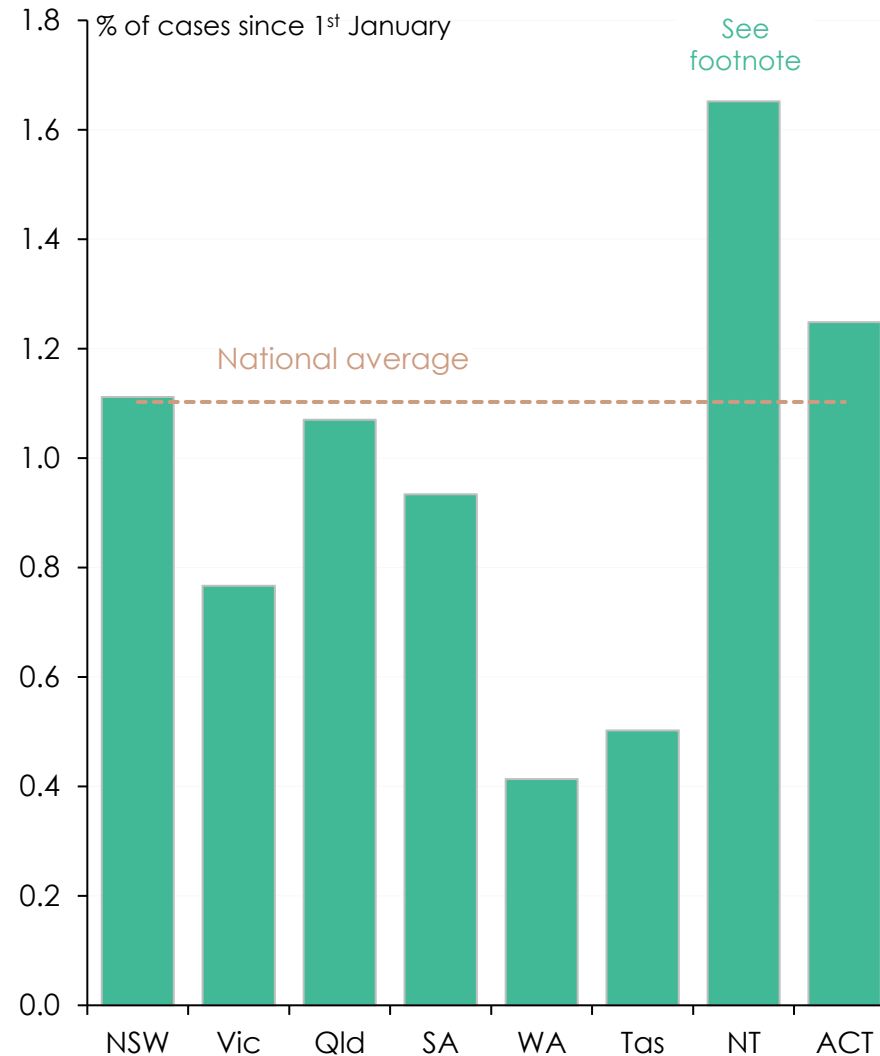
The omicron outbreak has been less serious in Western Australia and Tasmania than in the rest of Australia

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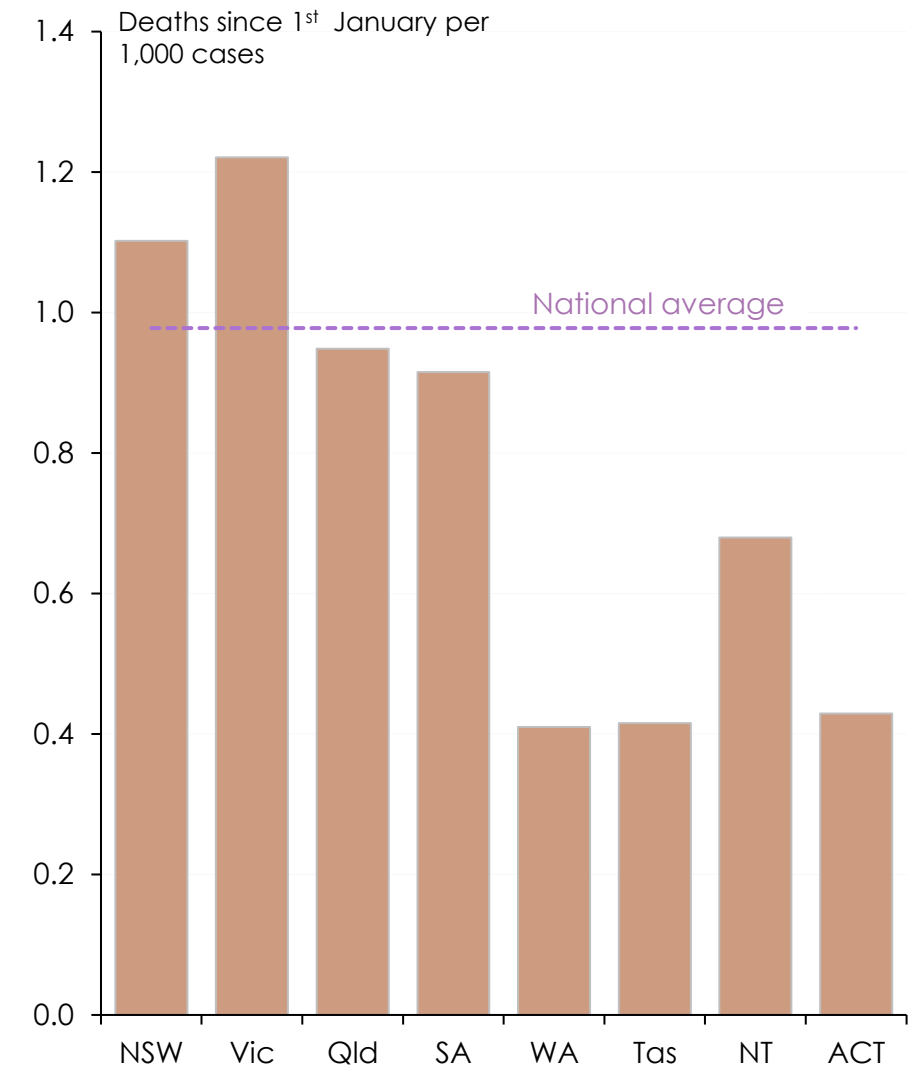
New cases since 1st December 2021



Hospitalization rate since 1st January 2022



Fatality rate since 1st January 2022

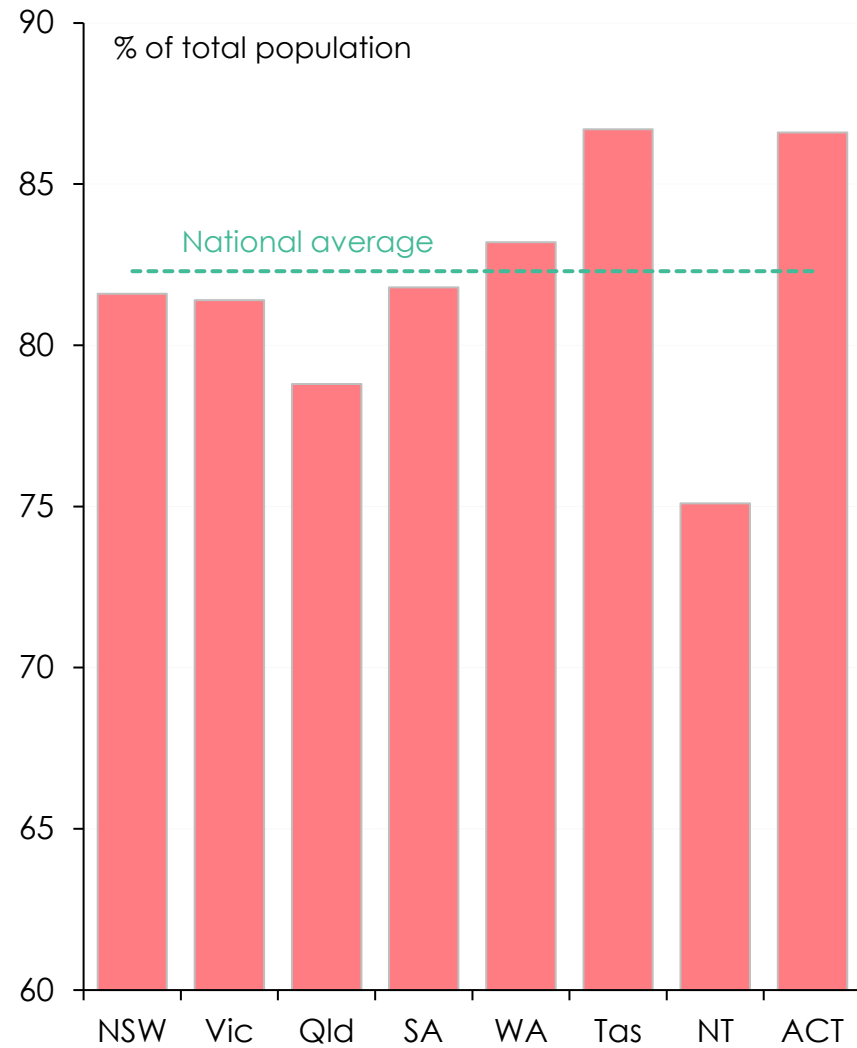


Note: Data are up to 24th June. 1st December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. NSW added 334 deaths to its tally on 1st April. Source: covid19data.com.au. [Return to "What's New"](#).

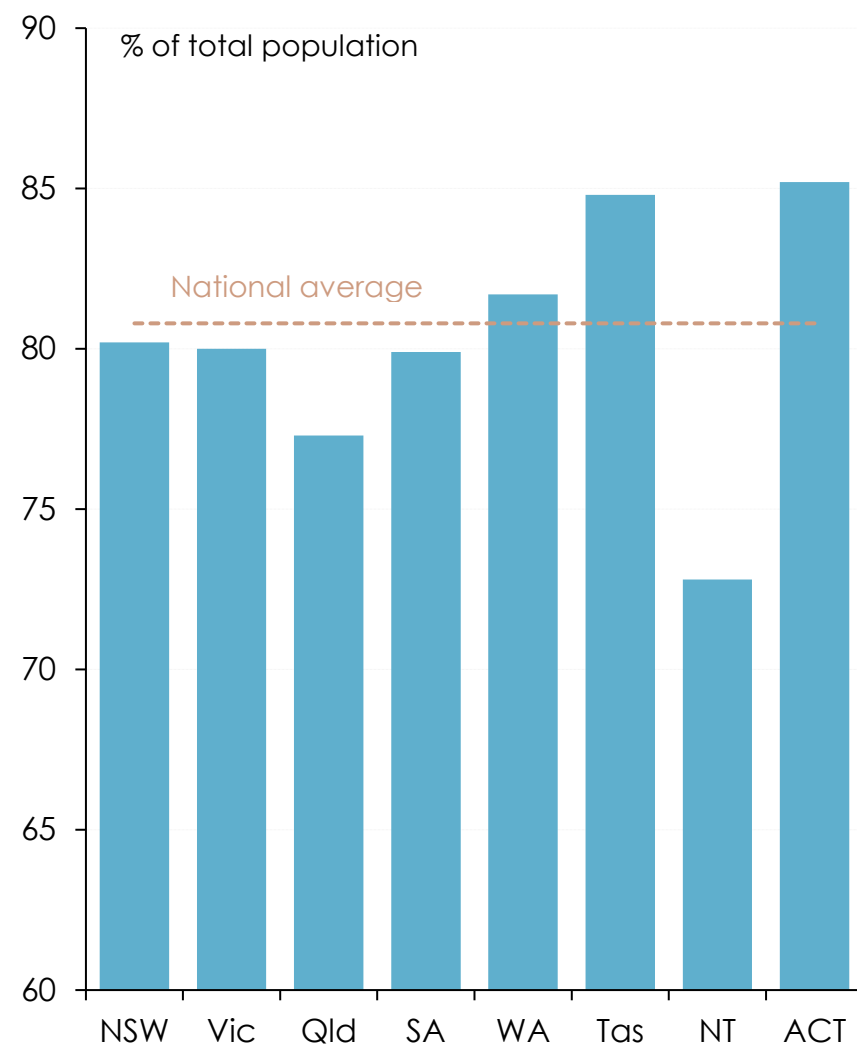
The proportions of state and territory populations who have had 2 shots, or who have had a booster, haven't changed much in the past three months

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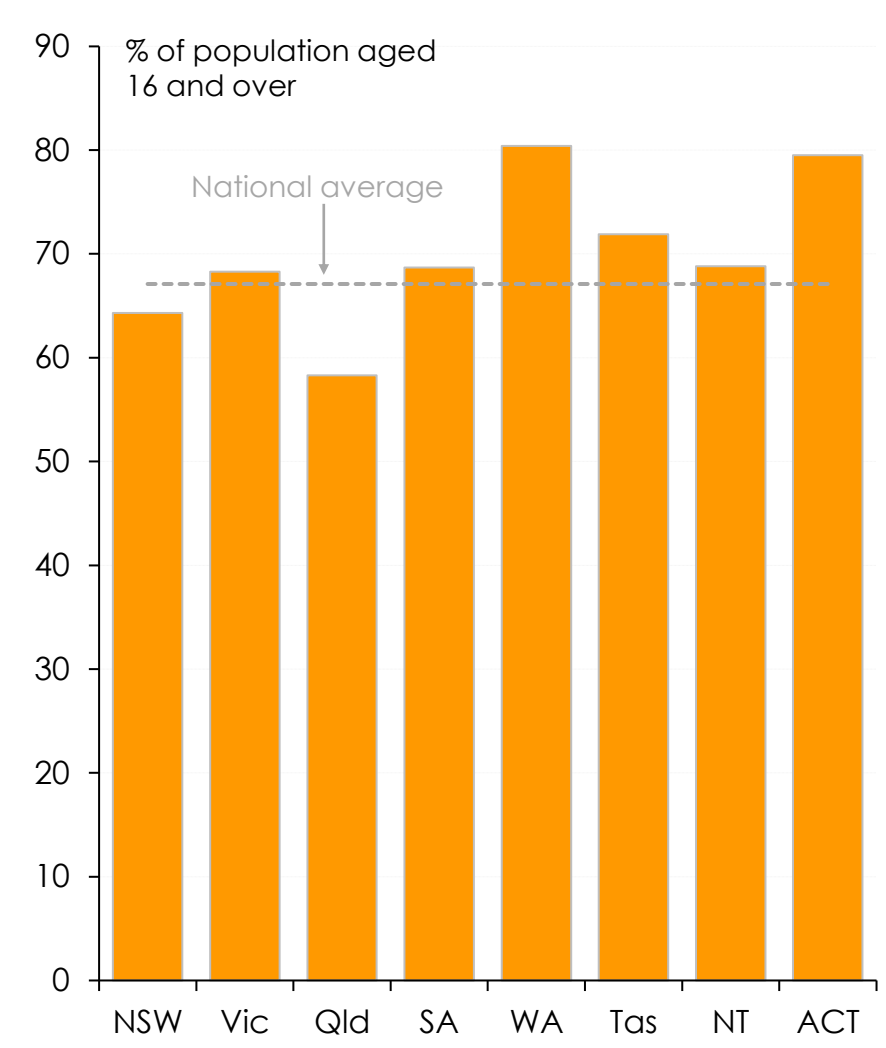
Pc of population who have had at least one vaccination



Pc of population who have had two vaccinations



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

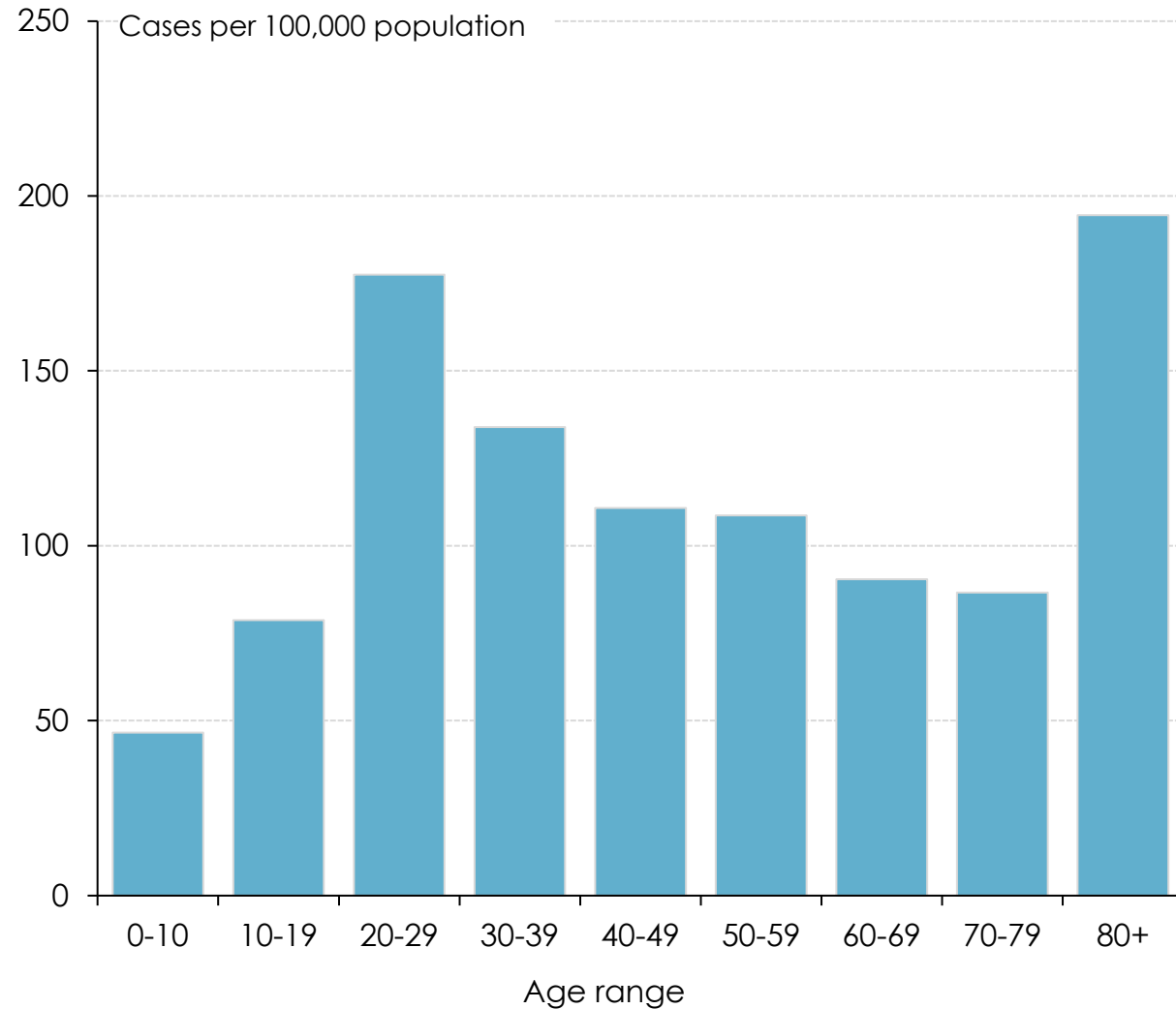


Note: Data are up to 24th June. Source: covid19data.com.au. [Return to "What's New"](#).

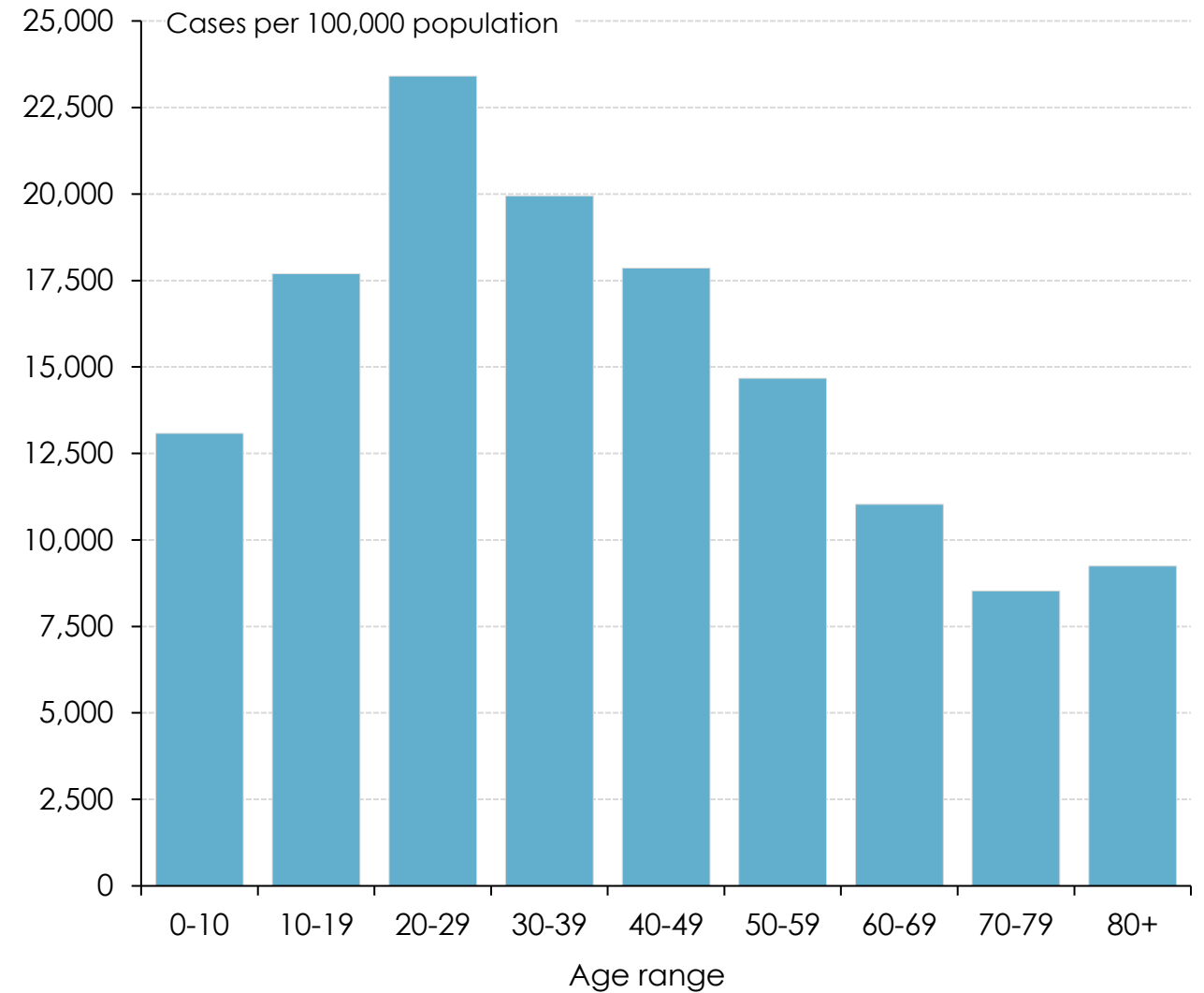
People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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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



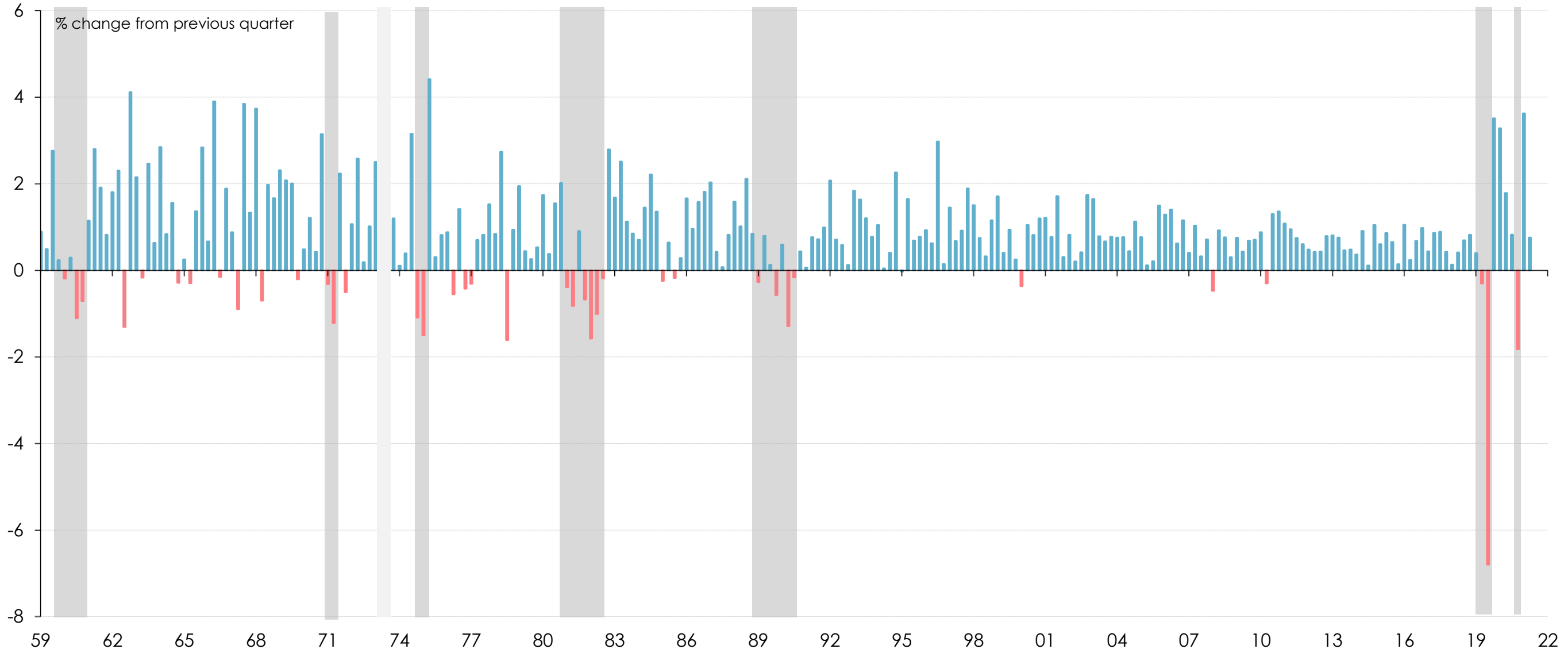
Note: Data for 2021-22 up to 24th June. Source: [Australian Government Department of Health](#); ABS; Corinna. [Return to "What's New"](#).

Broad trends in the Australian economy

Real GDP grew 0.8% in the March quarter, somewhat less than expected after the 3.6% rebound in the final quarter of last year

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Quarterly growth in Australian real GDP, 1959-2022

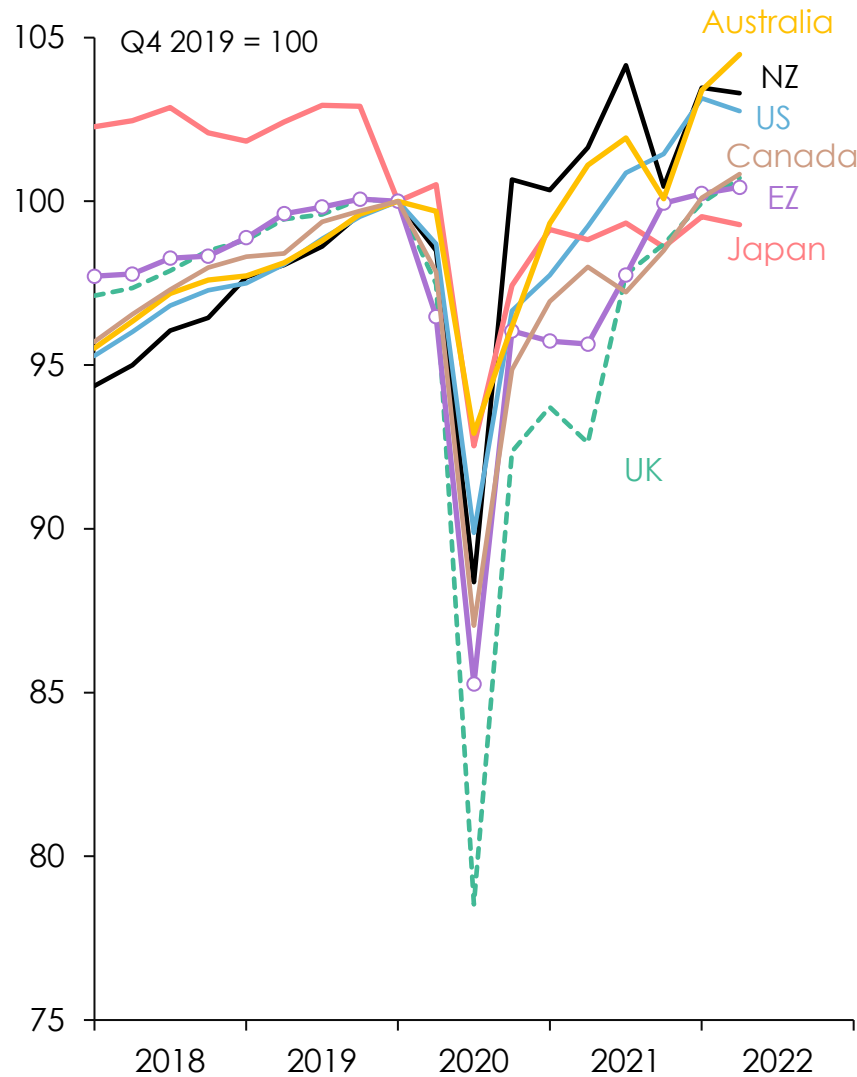


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022. June quarter GDP will be released on 7th September. [Return to "What's New"](#).

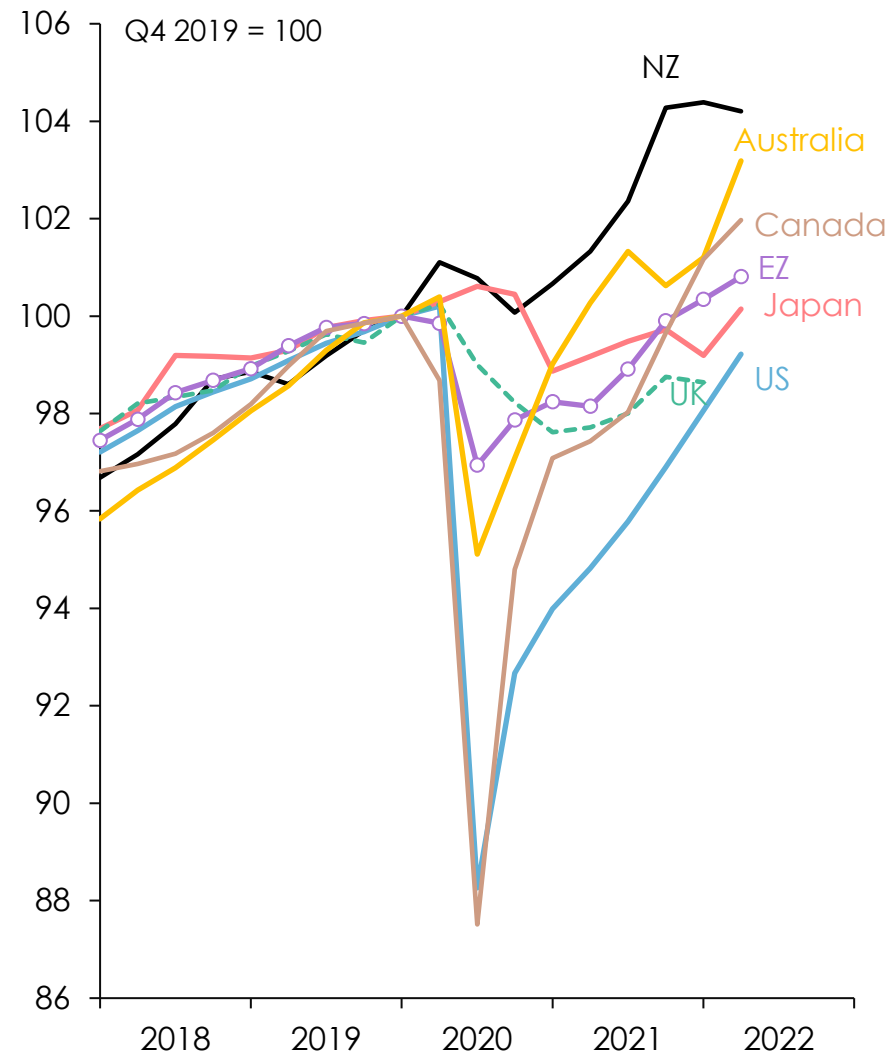
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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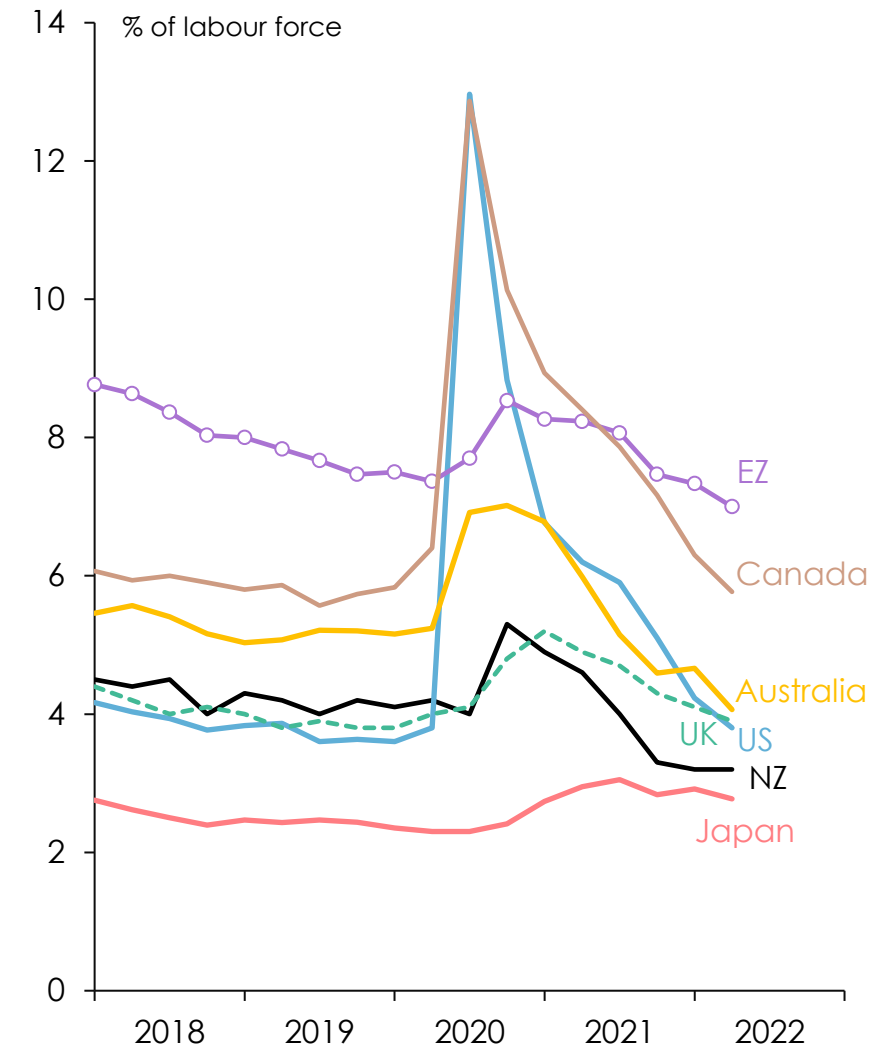
Level of real GDP



Employment



Unemployment

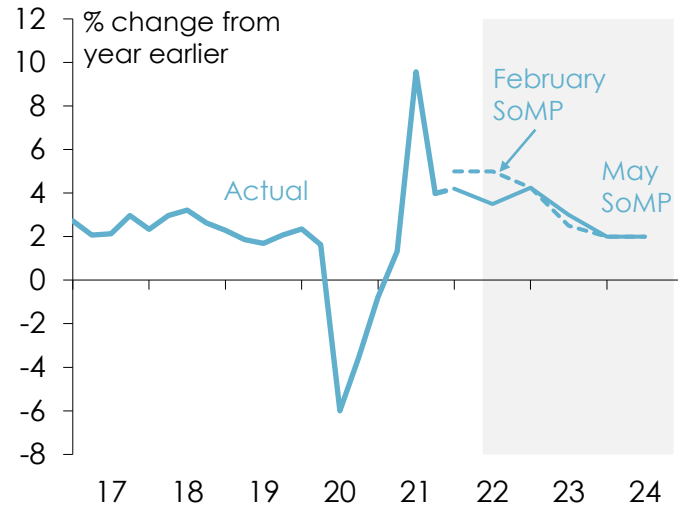


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

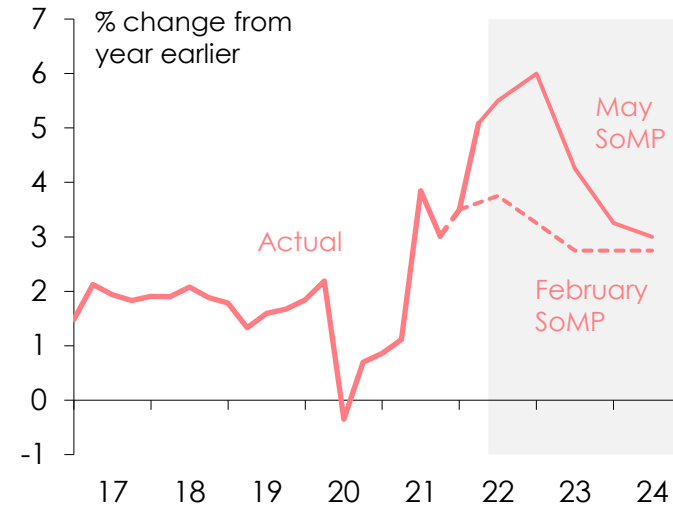
The RBA has revised its inflation forecasts substantially upwards in the wake of the much higher-than-expected March quarter CPI outcome

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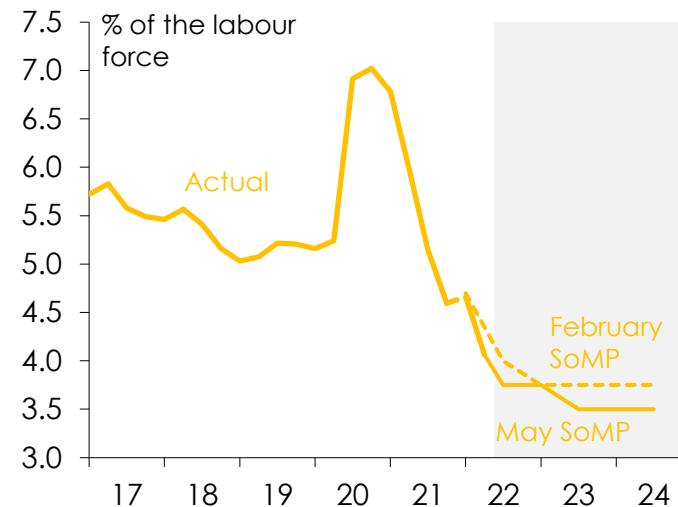
GDP



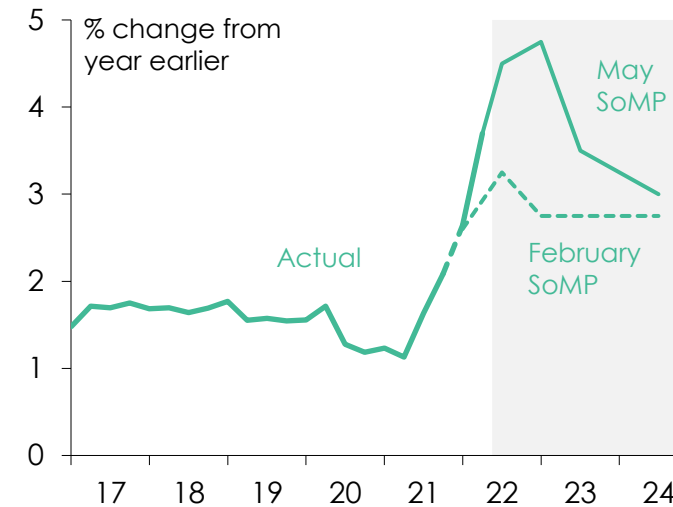
'Headline' inflation



Unemployment



'Underlying' inflation



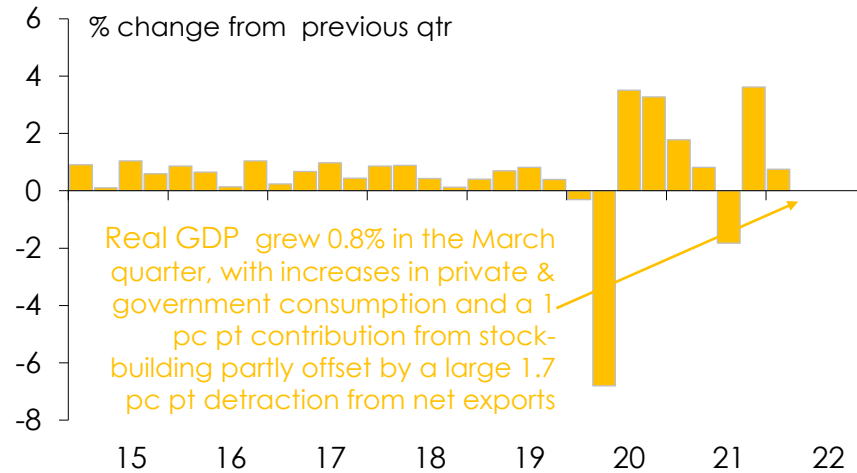
- ❑ The RBA's latest [Statement on Monetary Policy](#) released last month made only marginal changes to its outlook for economic activity and employment
 - real GDP is still expected to grow 4¼% through 2022 led by strong growth in household consumption (aided by a reduction in saving from current very 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 substantially raised its inflation forecasts
 - 'headline' inflation was expected to peak at 6% in the December quarter (since revised up further to 7%), 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"](#).

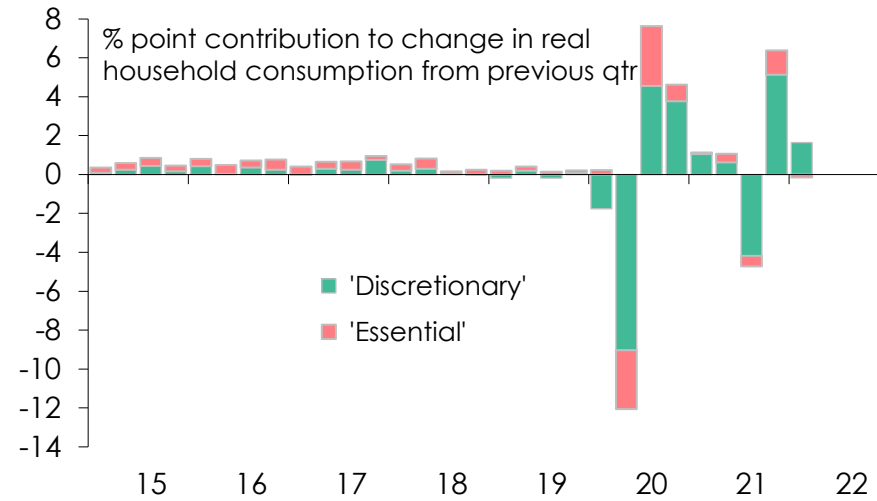
Real GDP grew 0.8% in Q1, with growth in private and public consumption dampened by soft dwelling investment and an 8% surge in imports

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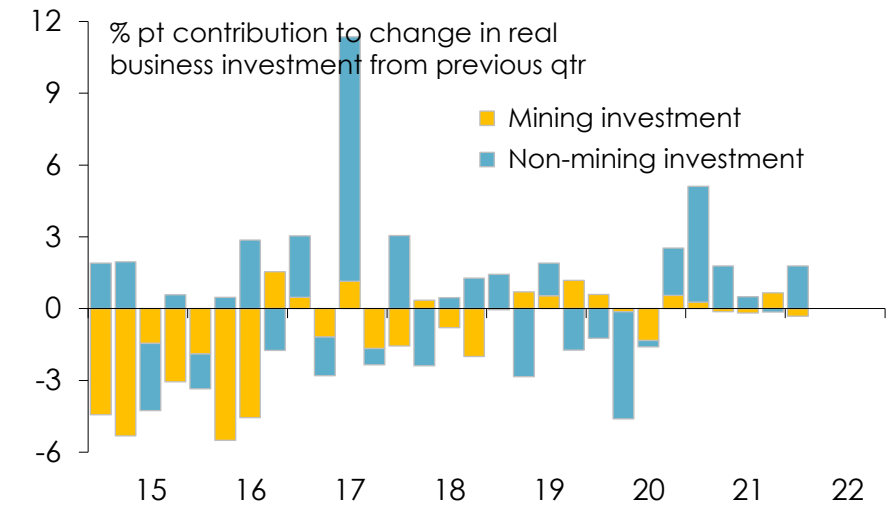
Quarterly change in real GDP



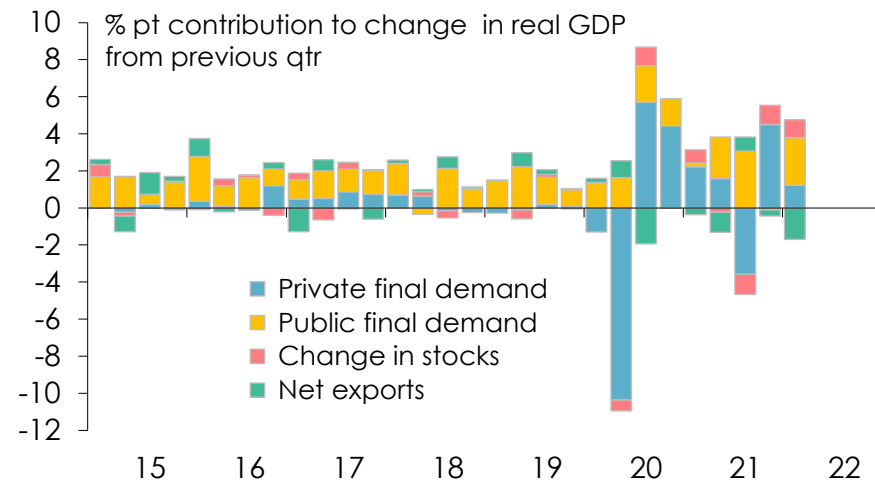
Household consumption expenditure



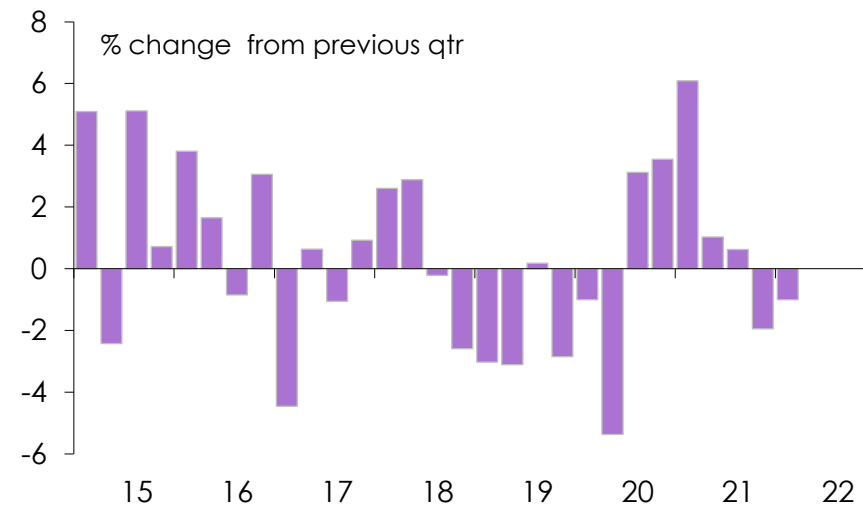
Business investment expenditure



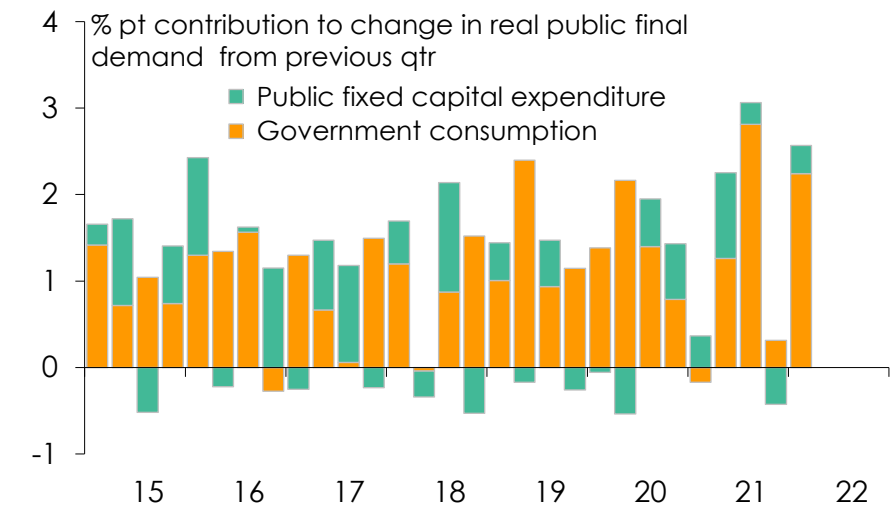
Contributions to quarterly GDP growth



Dwelling investment expenditure



Public expenditure

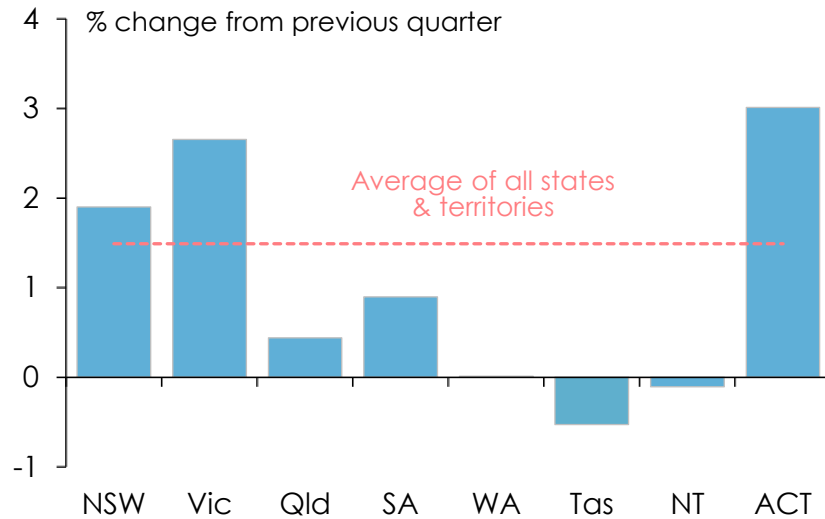


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; June quarter national accounts will be released on 7th September. [Return to "What's New"](#).

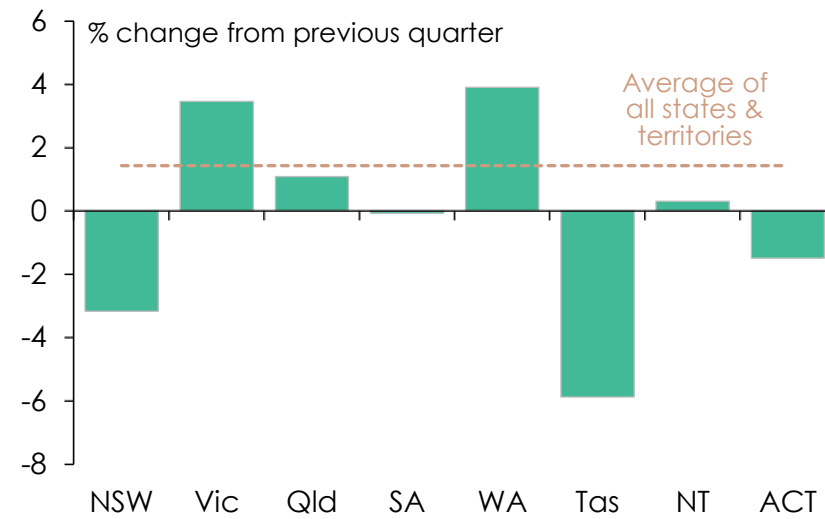
March quarter real GDP growth owed much to the continued recovery in household spending in NSW, Victoria & the ACT from last year's lockdowns

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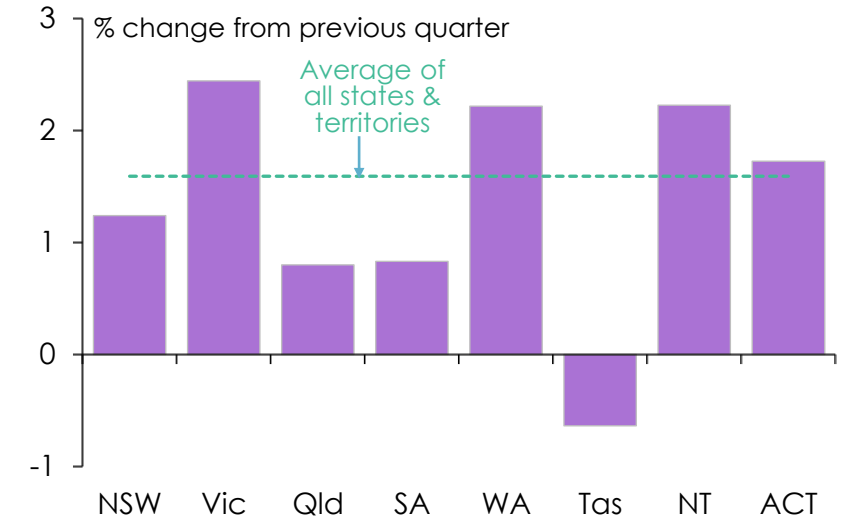
Household consumption



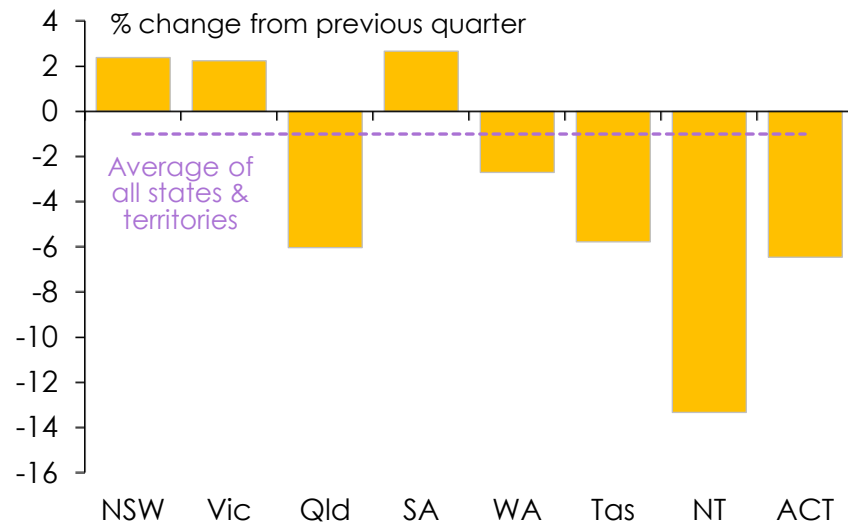
Business investment



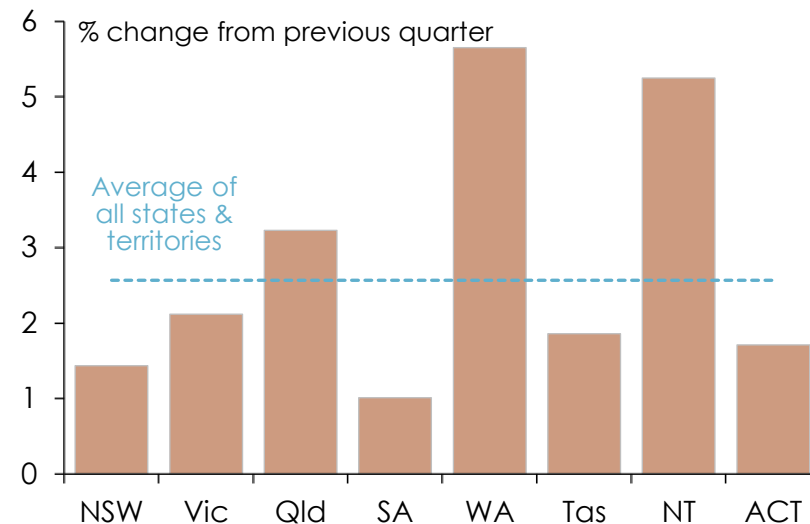
State final demand



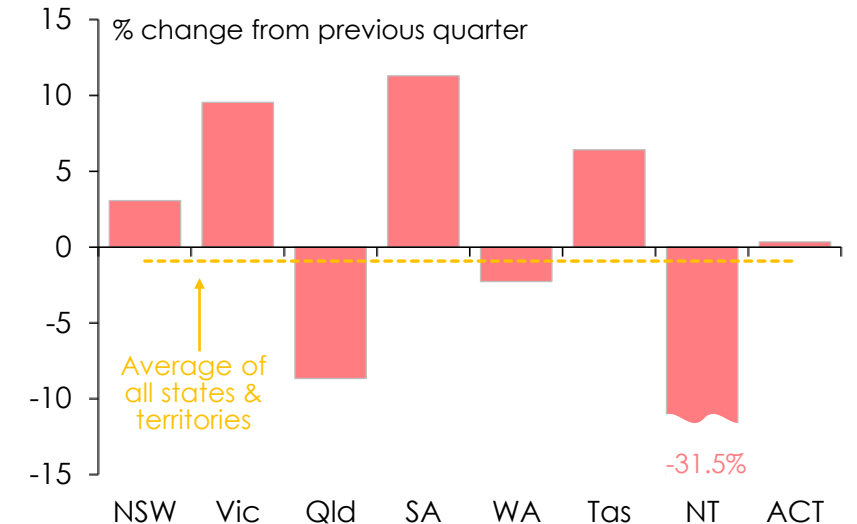
Dwelling investment



Public spending



International exports

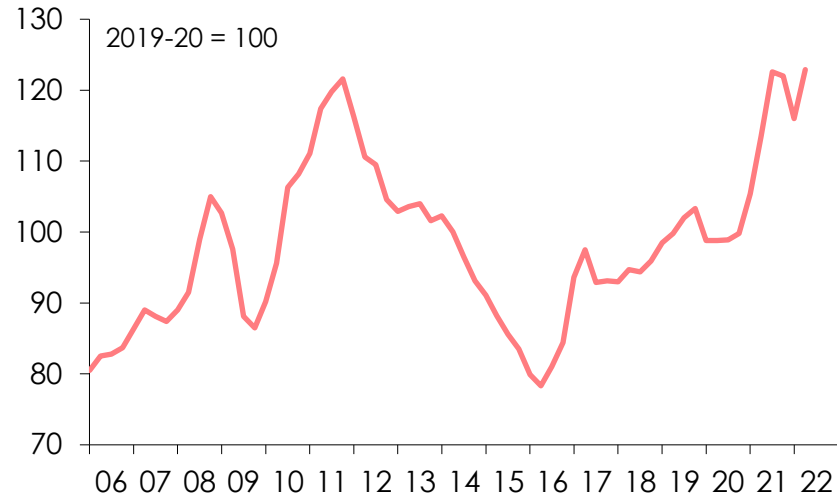


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; [Balance of Payments and International Investment Position,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

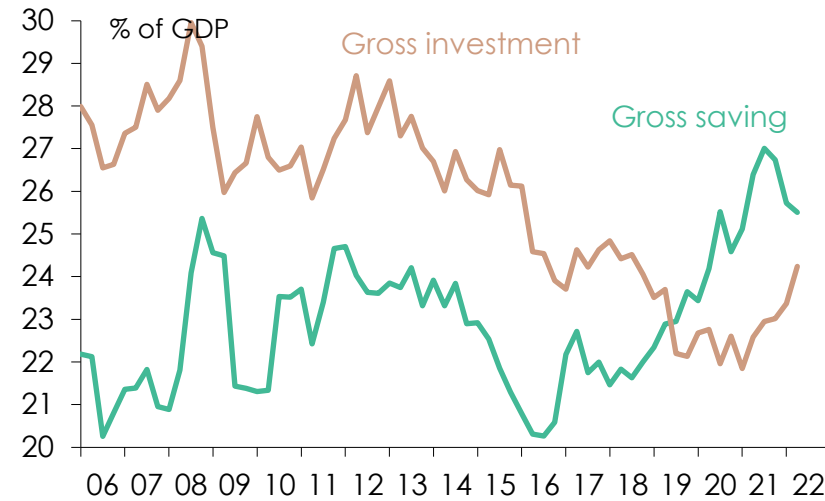
Australia's terms of trade reached a new record high in the March quarter, boosting real gross domestic income – most of which went to profits

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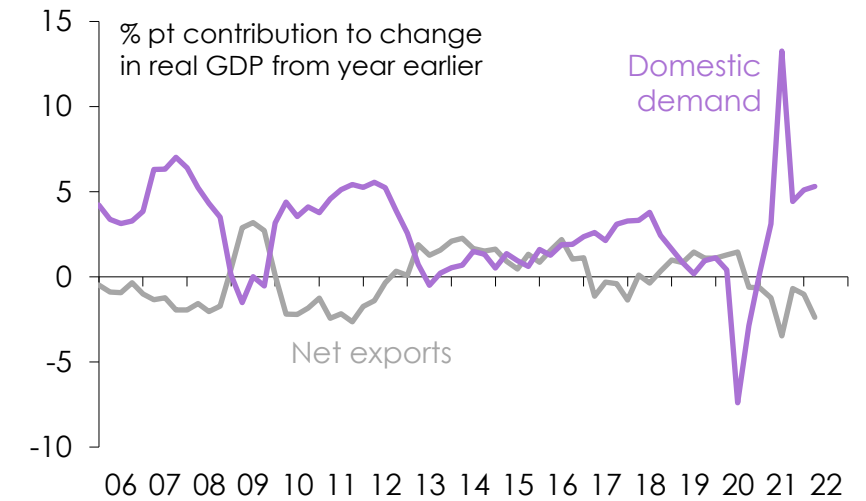
Terms of trade



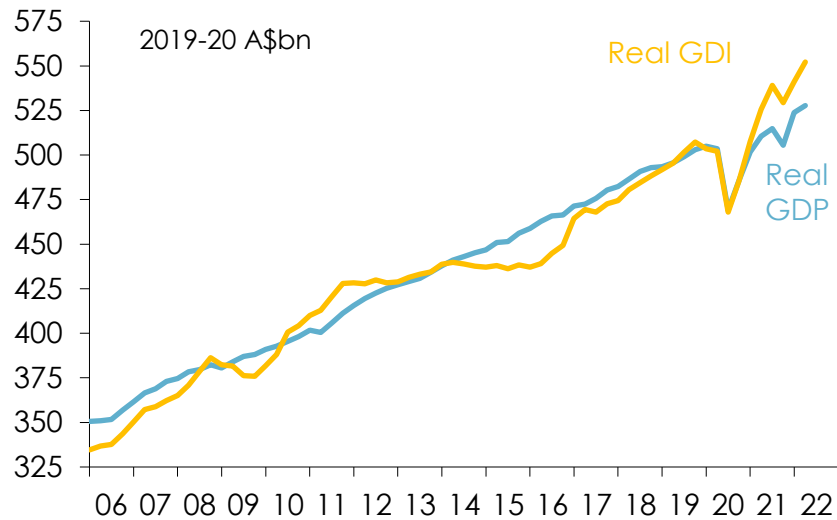
National saving & investment



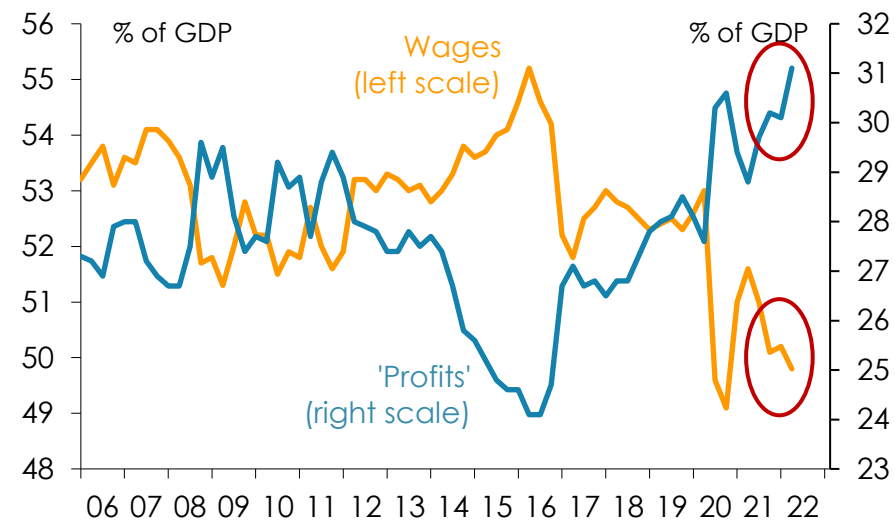
Domestic demand and net exports



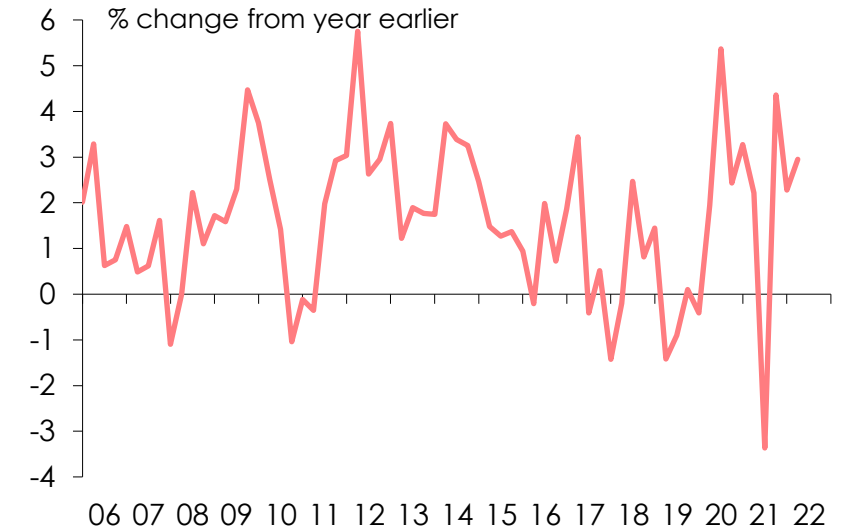
Real gross domestic income



Shares of national income



Labour productivity

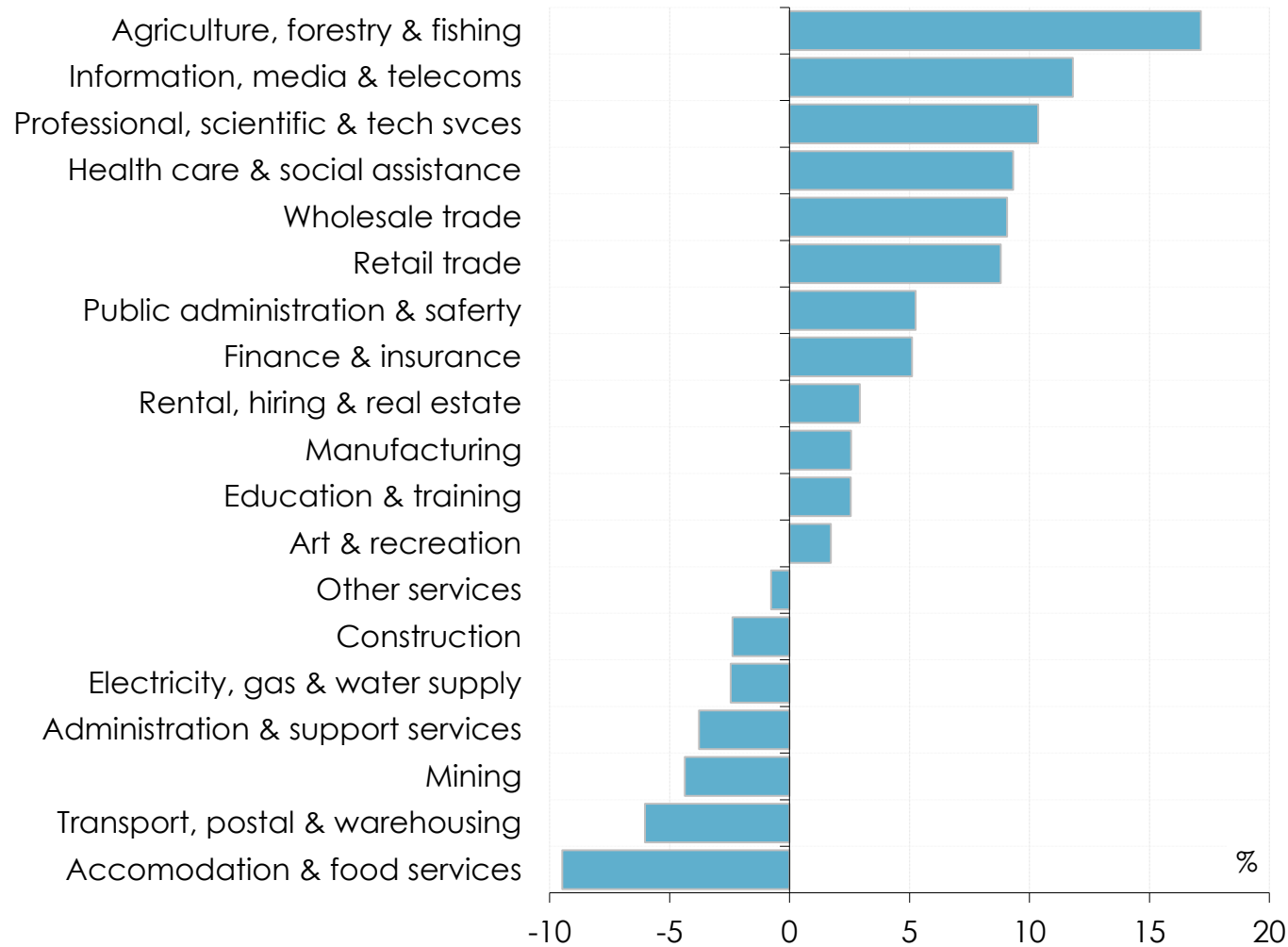


Note: The terms of trade is the ratio of export to import prices (for more see [slide 60](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added 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"](#).

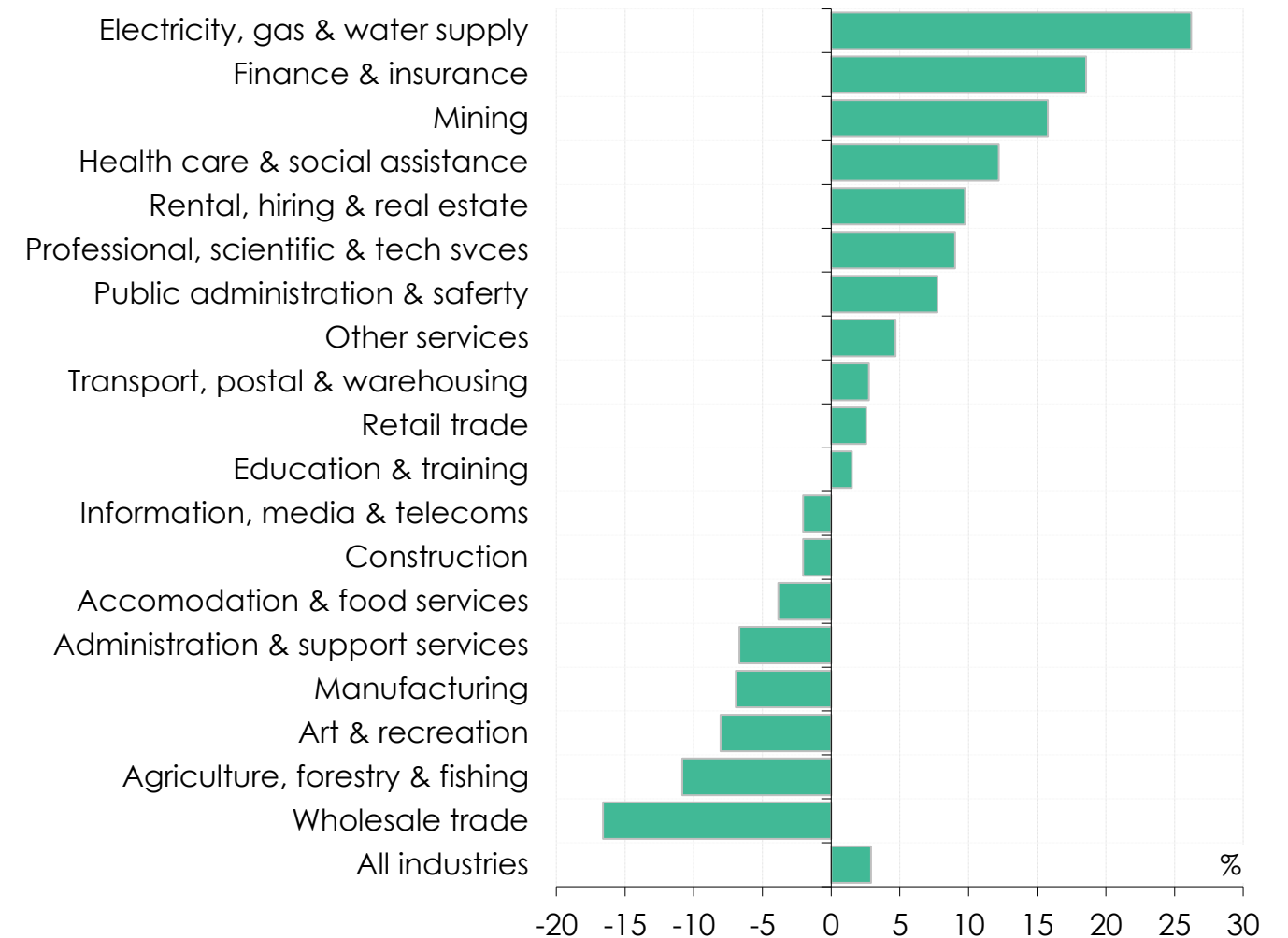
Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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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

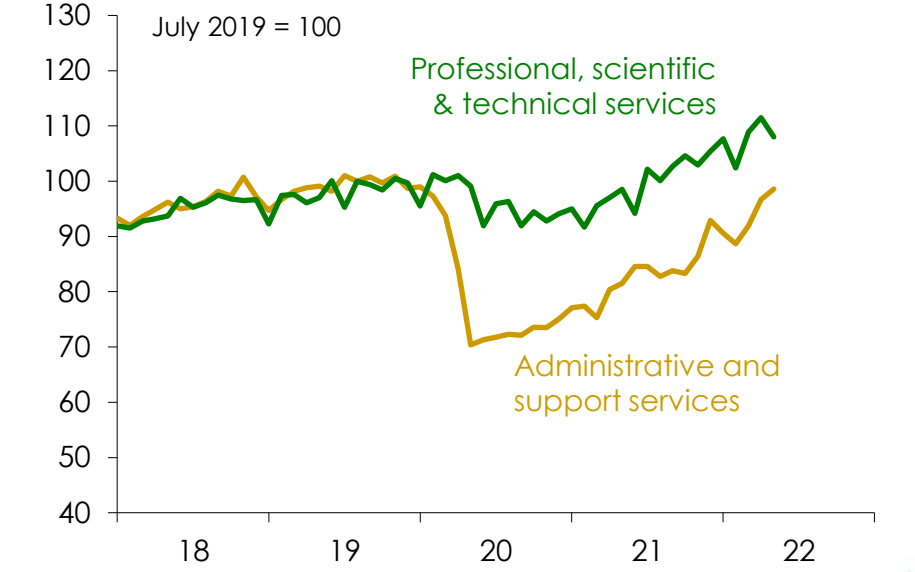
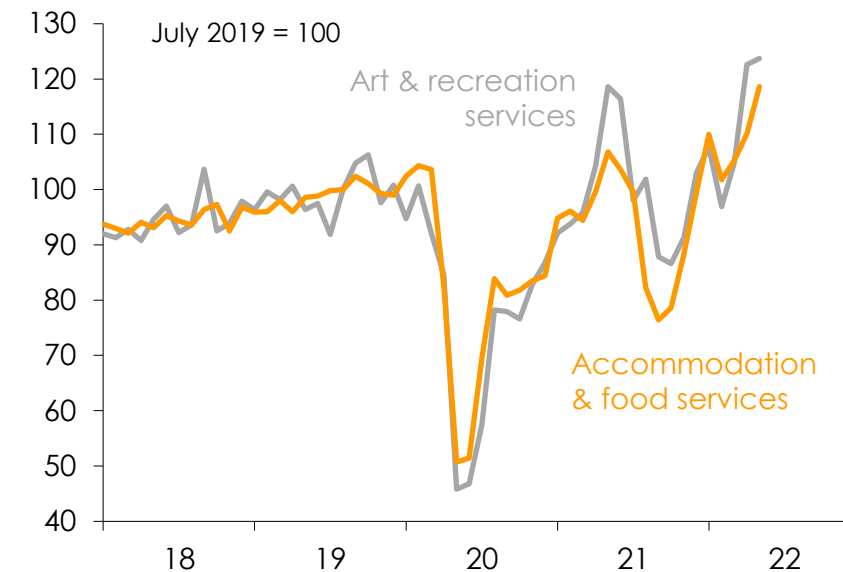
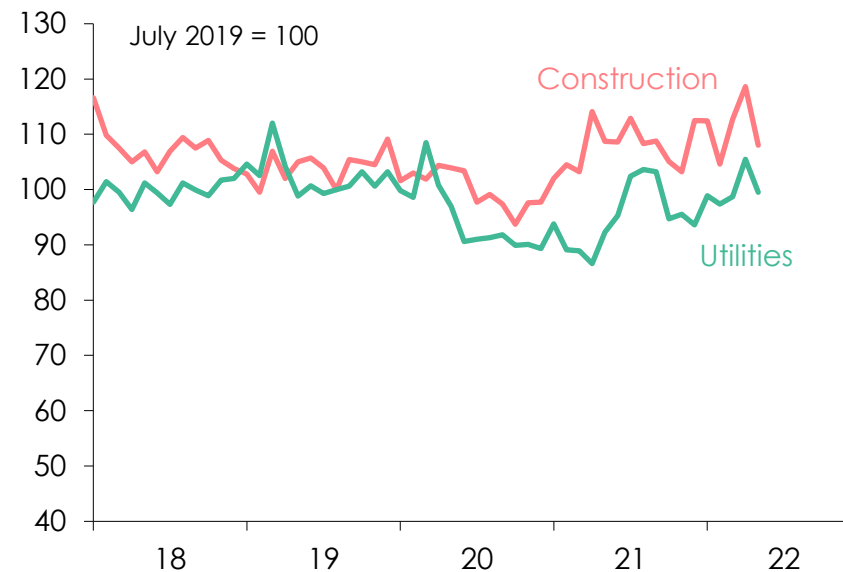
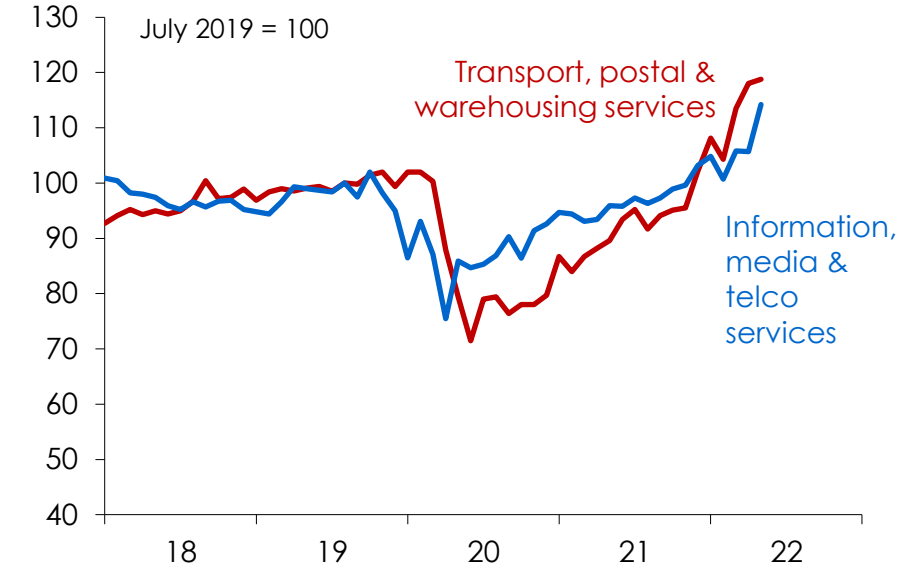
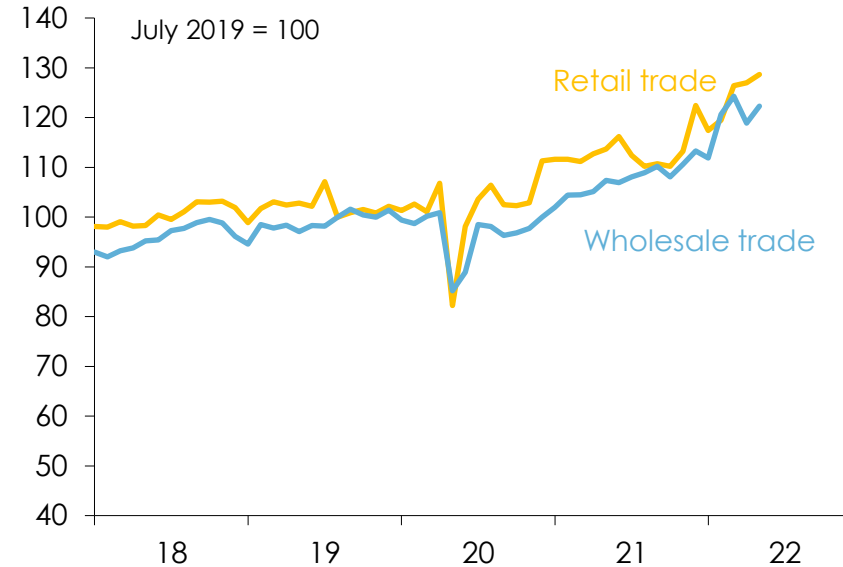
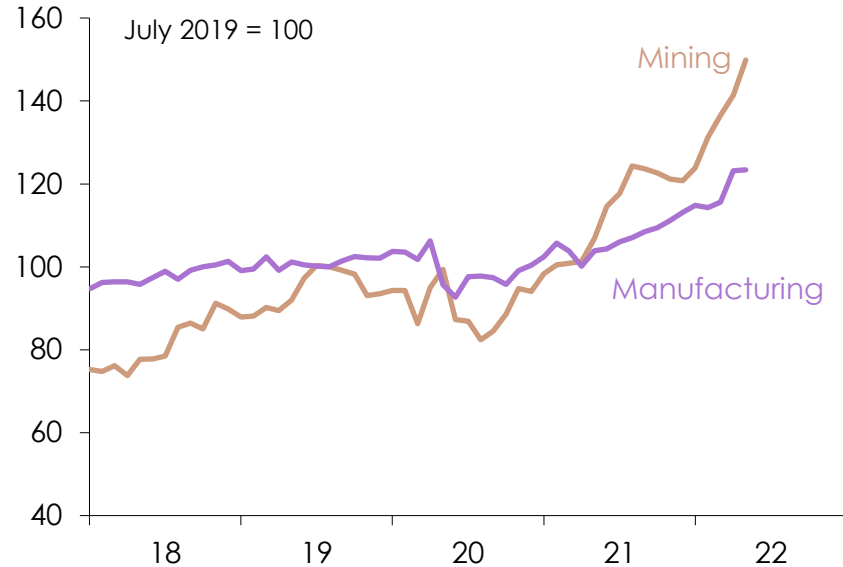


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; and [Labour Force, Australia, Detailed](#), February 2022.
[Return to "What's New"](#).

Four sectors – including construction, utilities and professional, scientific & technical services – experienced a reduction in turnover in April

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Indicators of business turnover, by industry

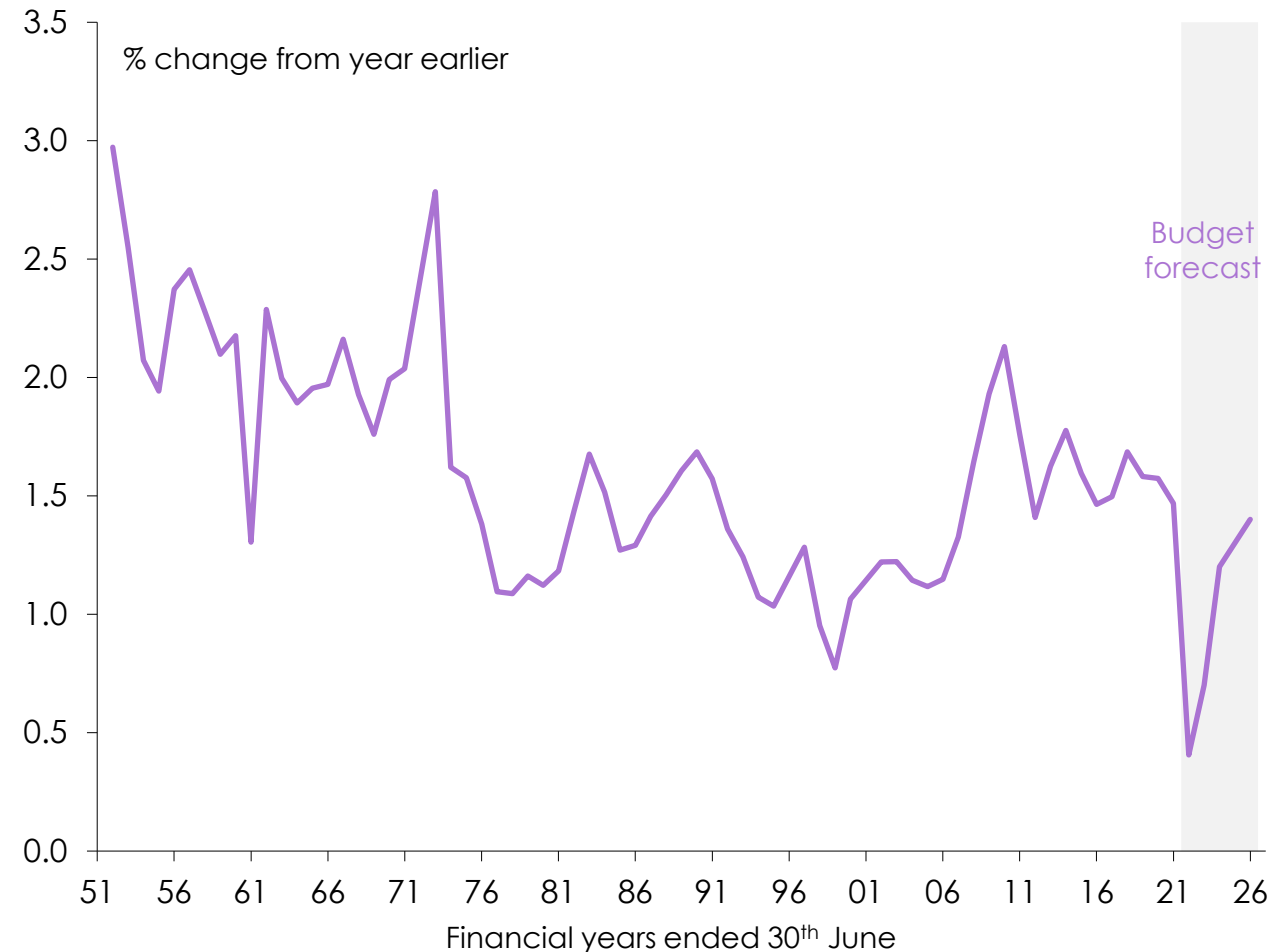


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), April 2022. May data will be released on 8th July. [Return to "What's New"](#).

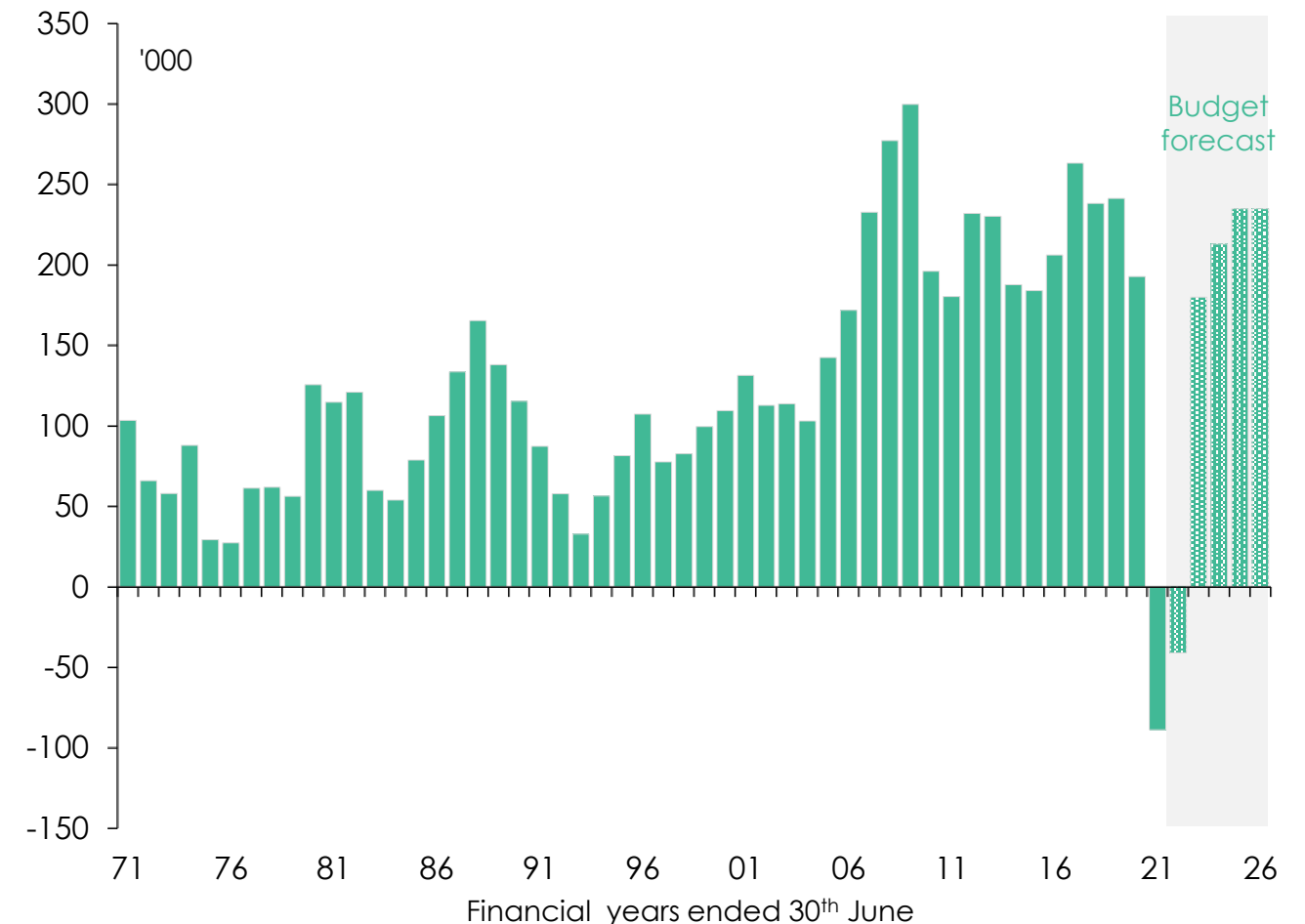
An important assumption underlying 'official' forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

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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)**

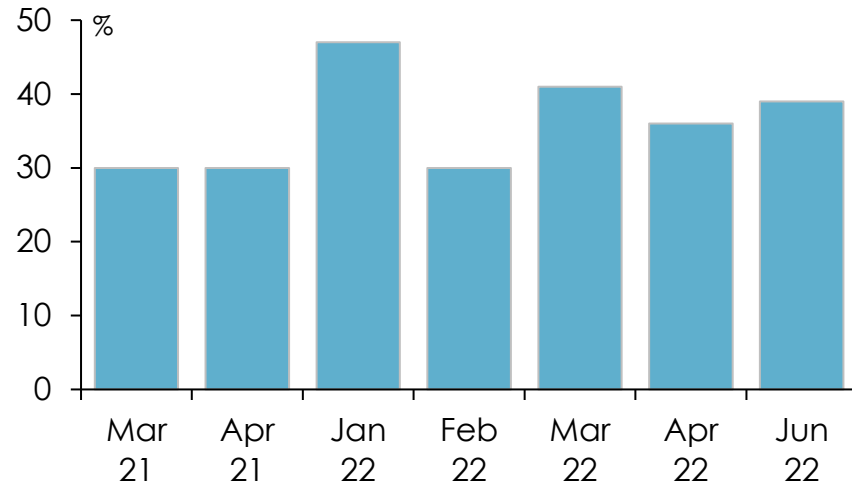
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29th March 2022.

The business sector

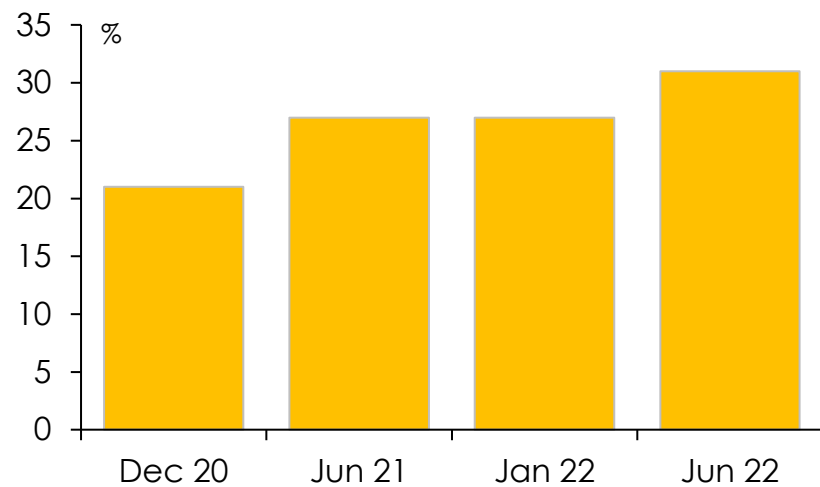
39% of businesses were still experiencing supply chain disruptions, and 27% having difficulty attracting suitable staff, in June

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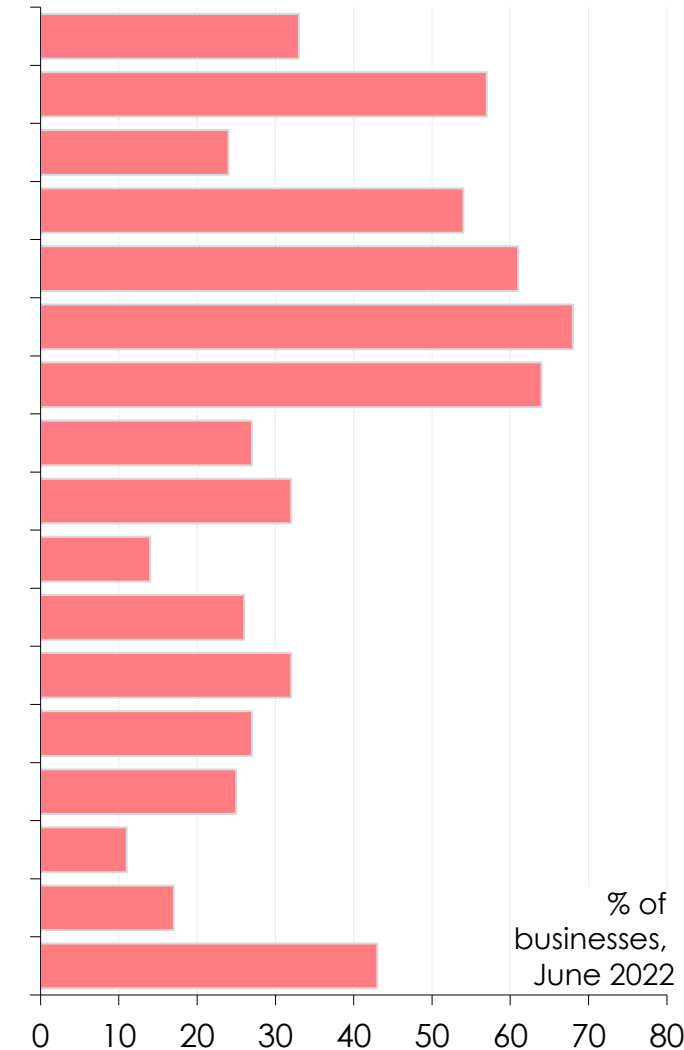
Businesses experiencing supply chain disruptions



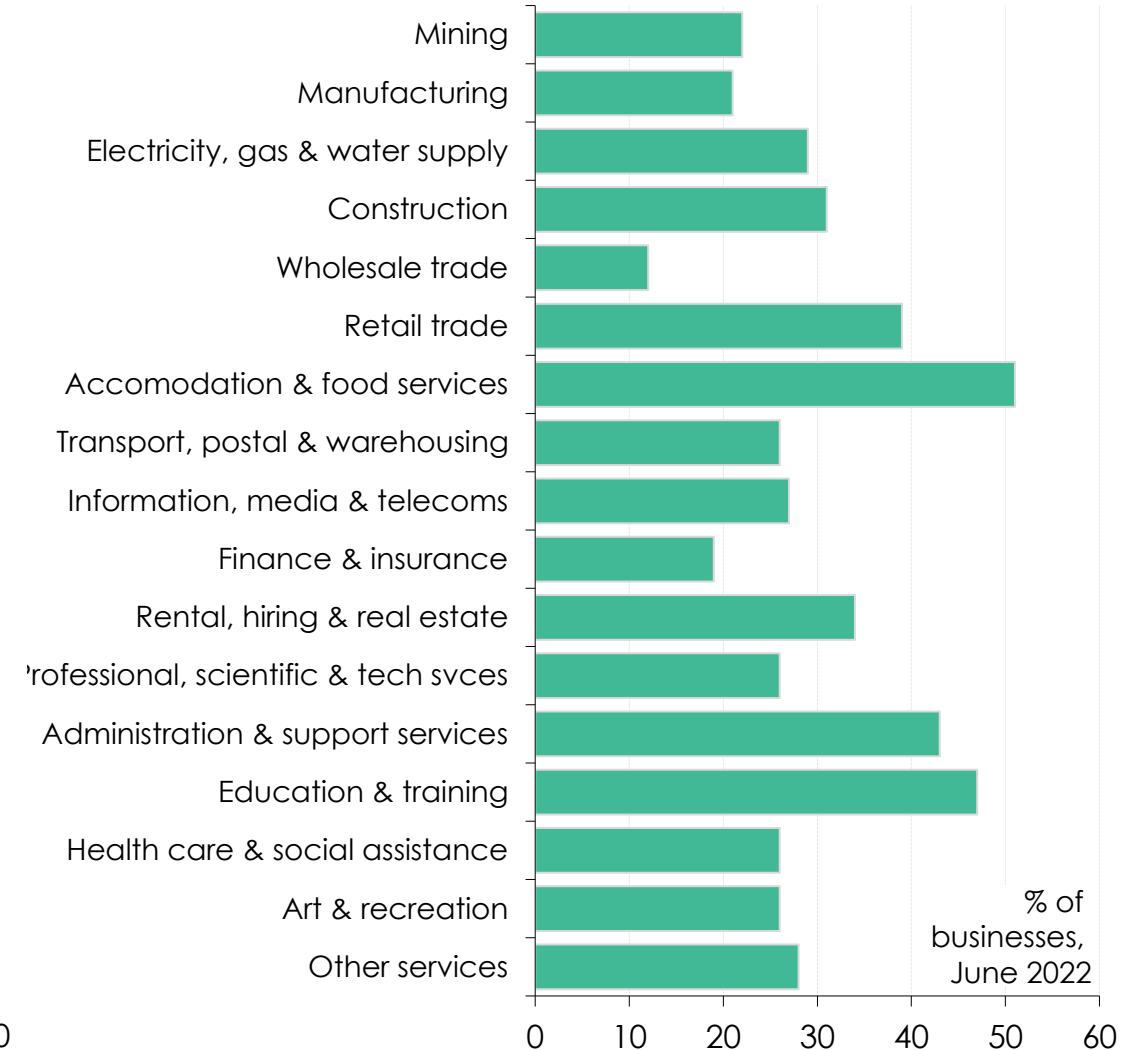
Businesses experiencing difficulty recruiting suitable staff



Businesses experiencing supply chain disruptions, by industry



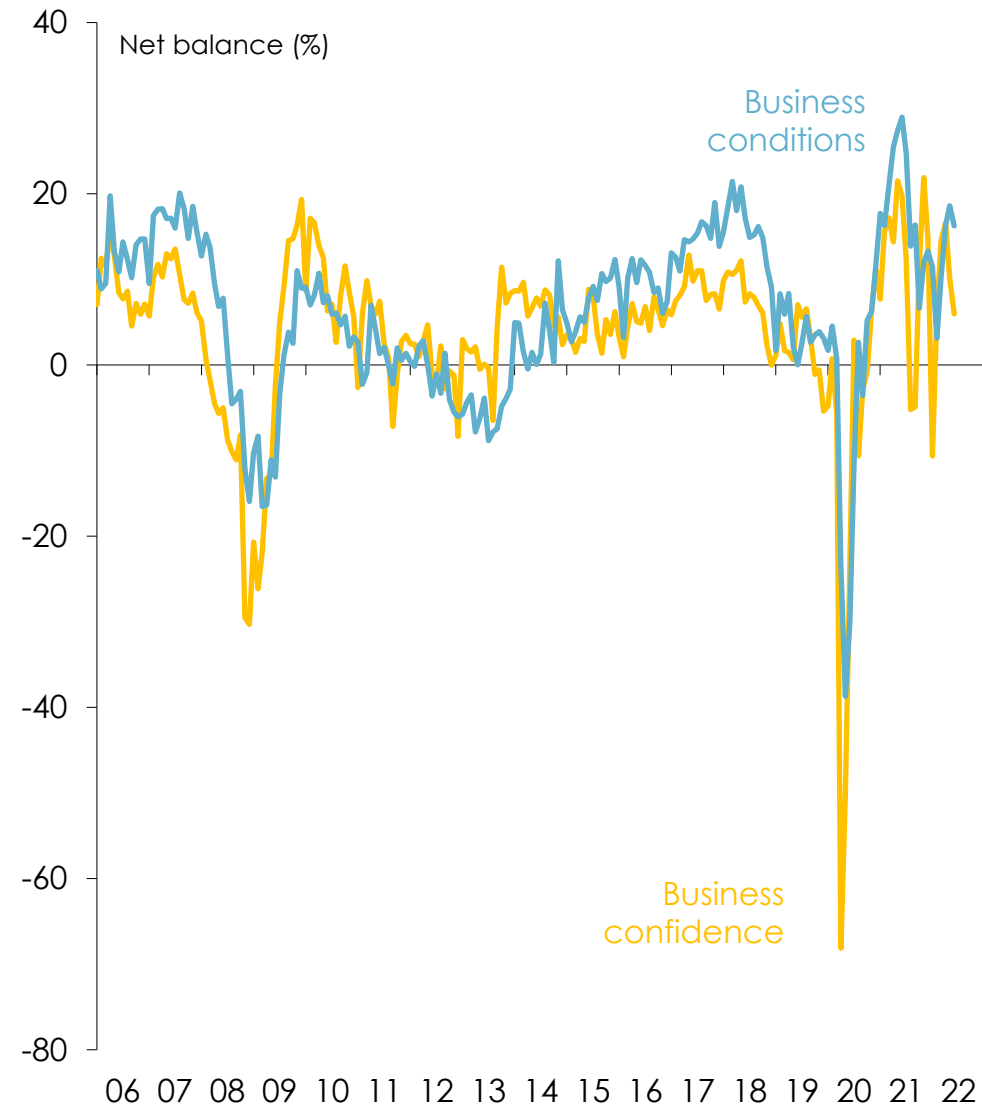
Businesses having difficulty finding suitable staff, by industry



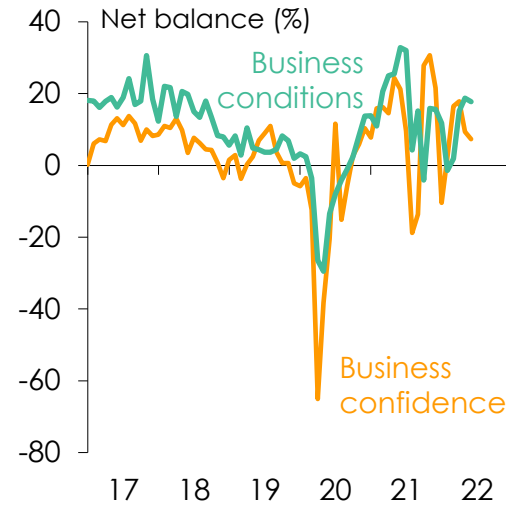
Business confidence fell in May after the RBA's first rate increase – especially in Victoria and SA – but business conditions eased only marginally

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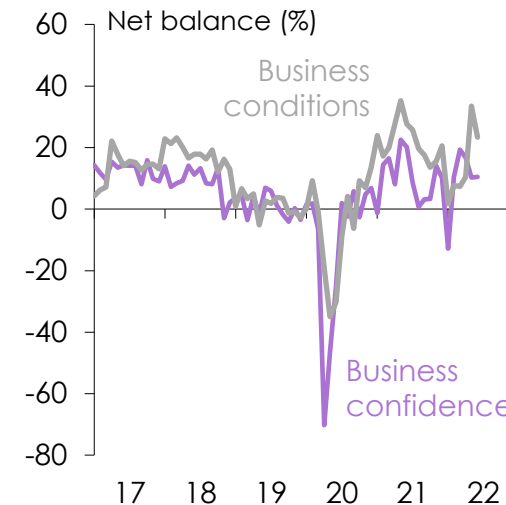
National business confidence & conditions



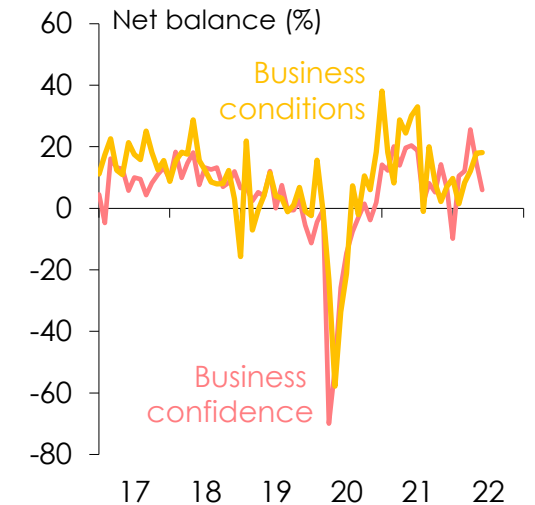
New South Wales



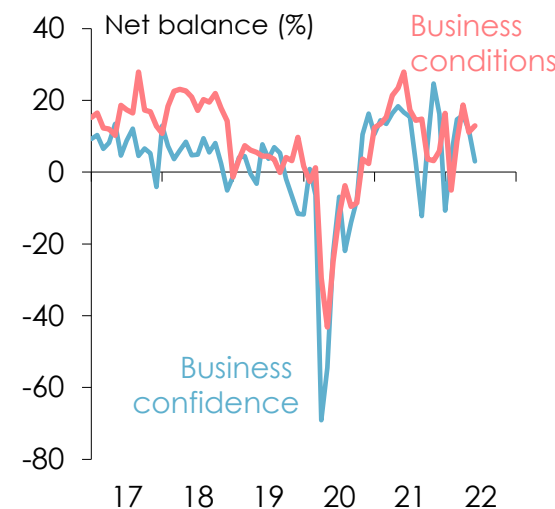
Queensland



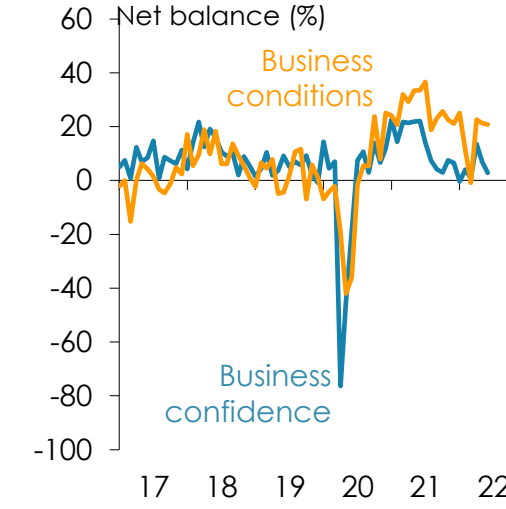
South Australia



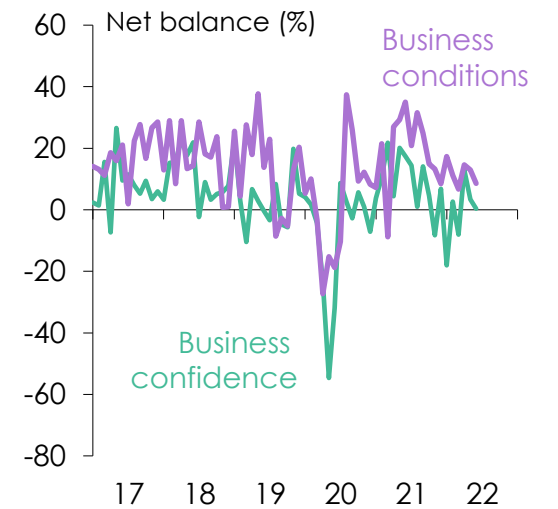
Victoria



Western Australia



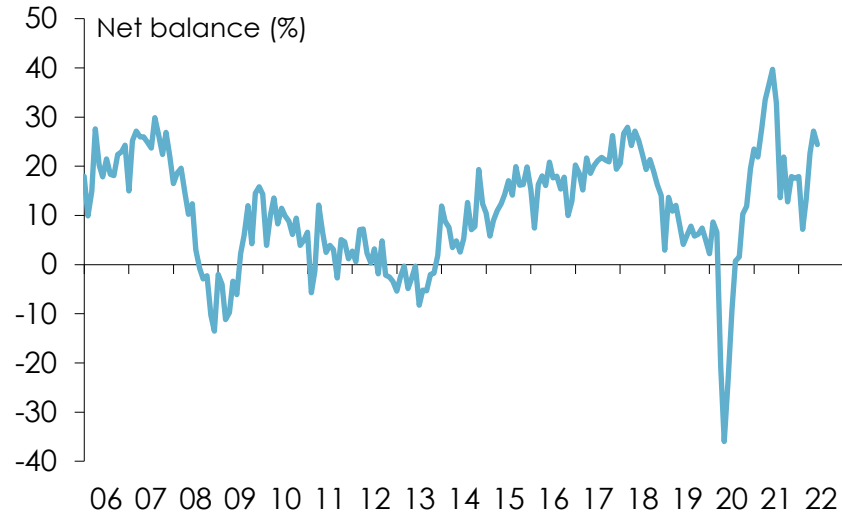
Tasmania



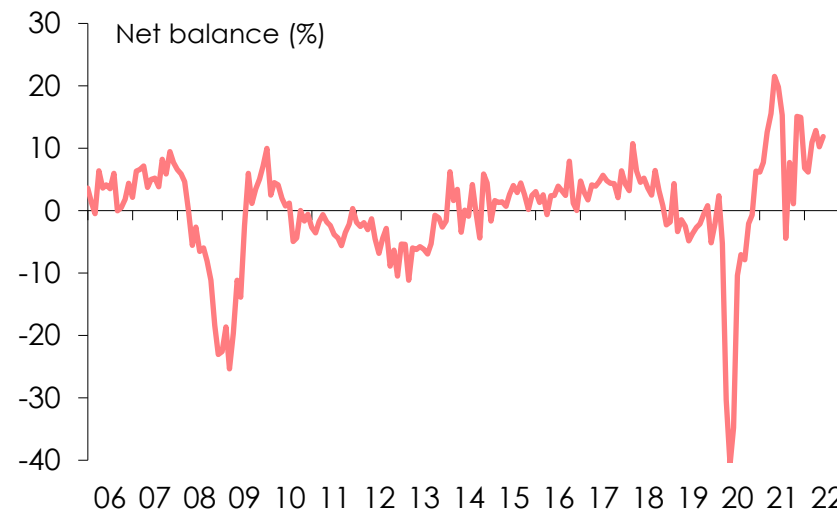
Orders and profitability fell marginally in May, but capacity use was close to a record high, and employee hiring & capex intentions remained strong

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

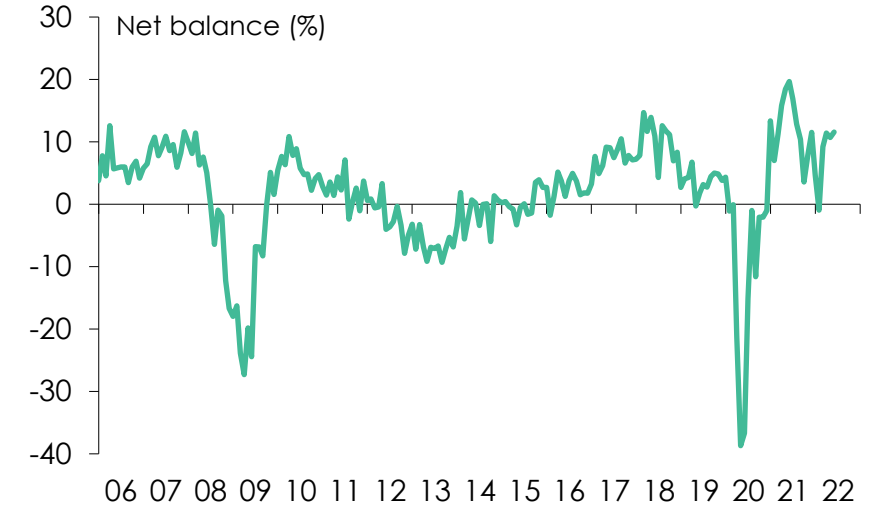
Trading conditions



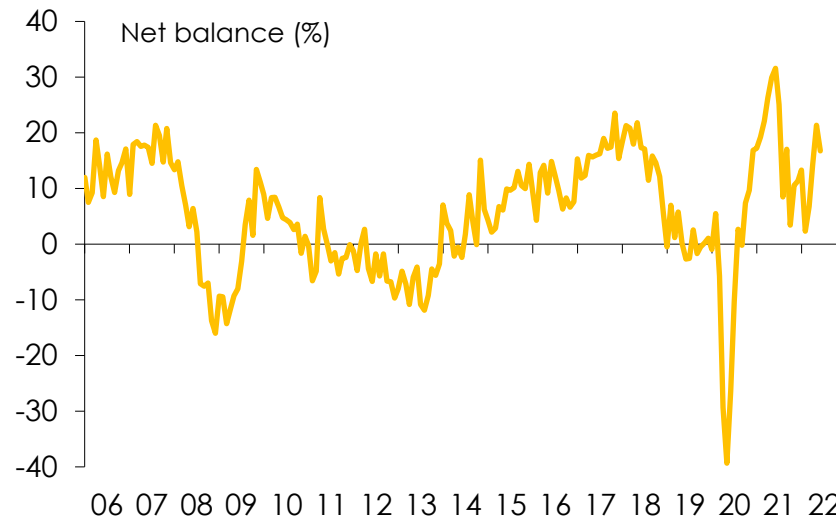
Forward orders



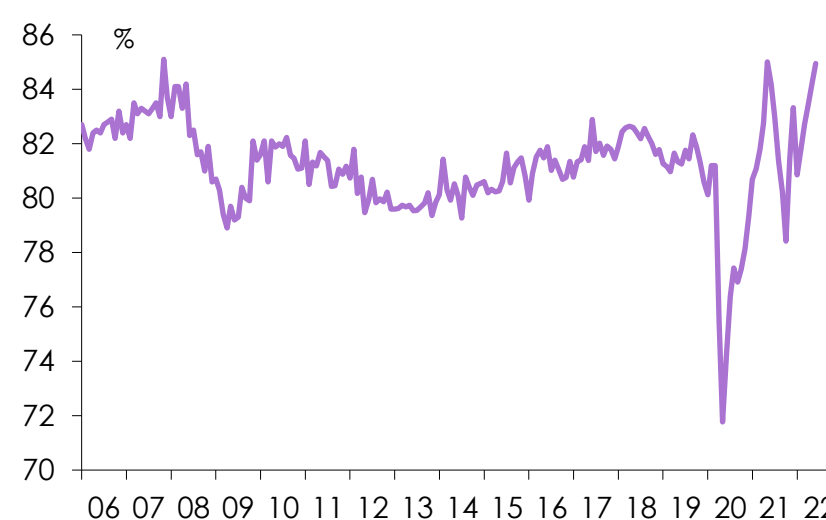
Employee hiring intentions



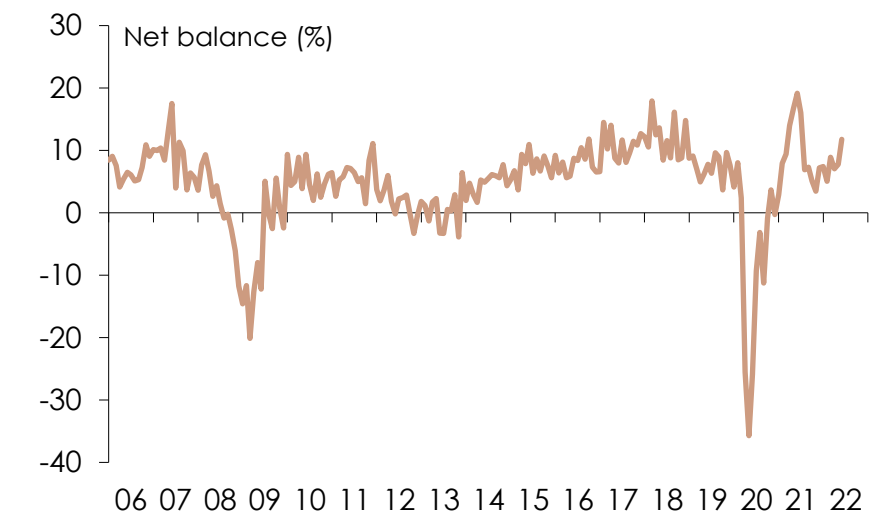
Profitability



Capacity utilization



Capital expenditure intentions

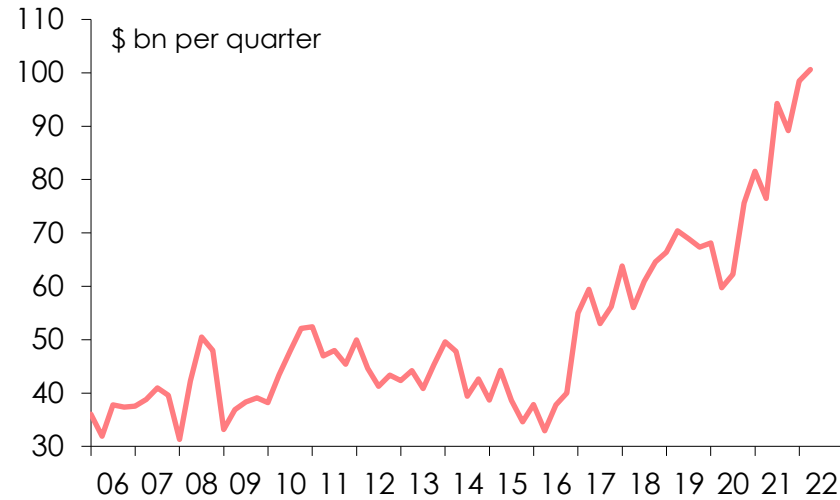


Source: National Australia Bank [Monthly Business Survey](#), May 2022; June survey results will be released on 12th July [Return to "What's New"](#).

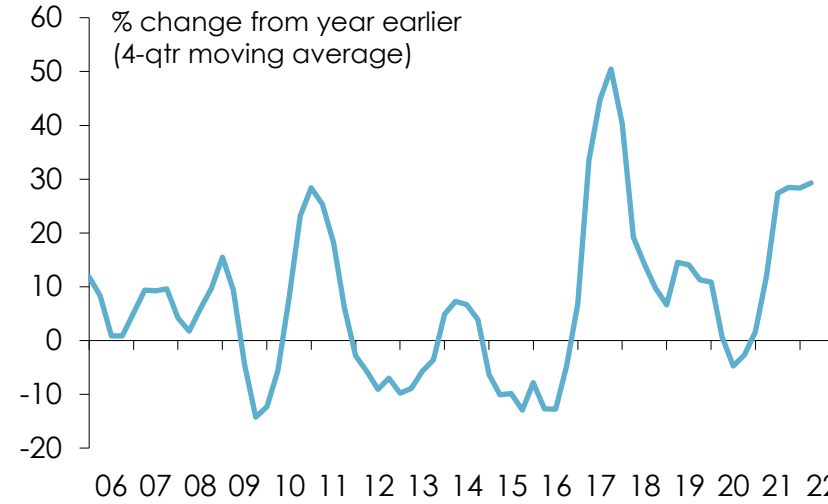
Company profits have grown strongly over the past five years, driven largely by mining – with the construction sector experiencing a ‘margin squeeze’

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

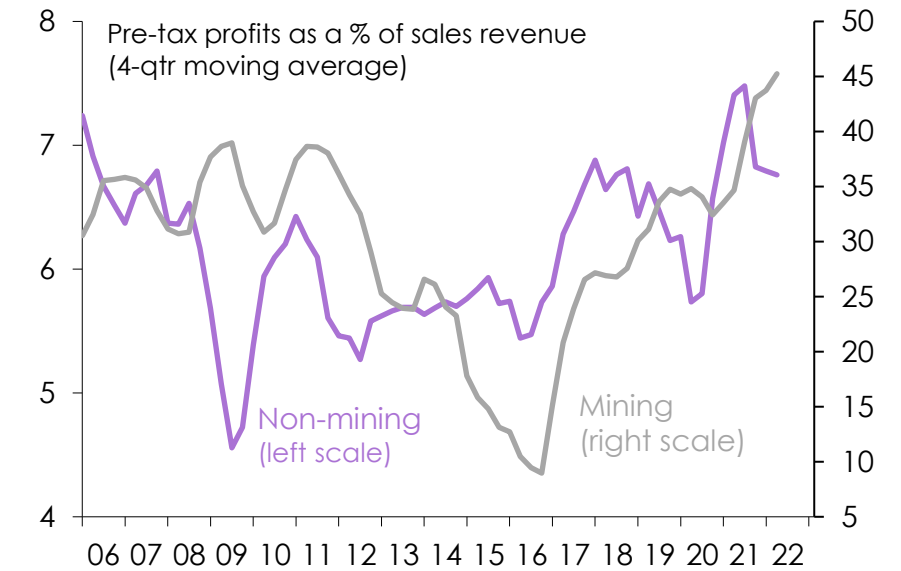
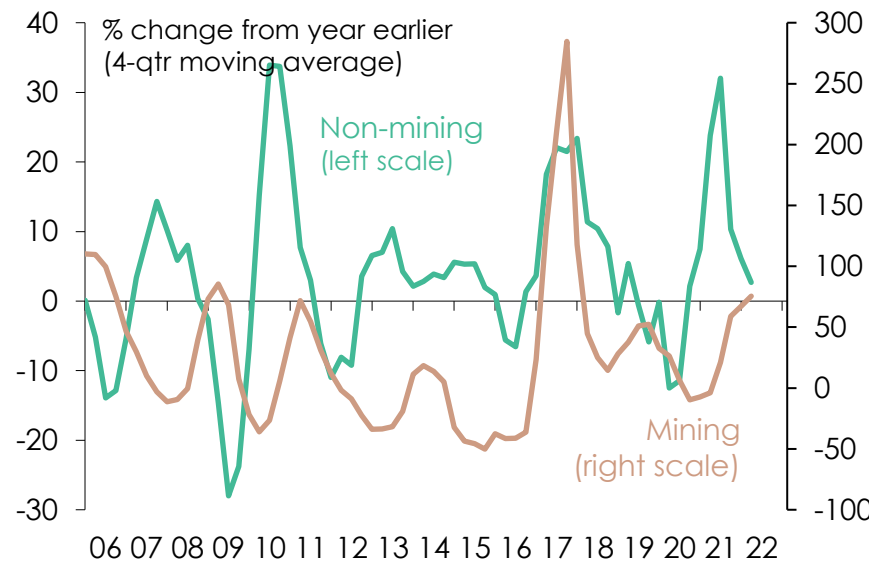
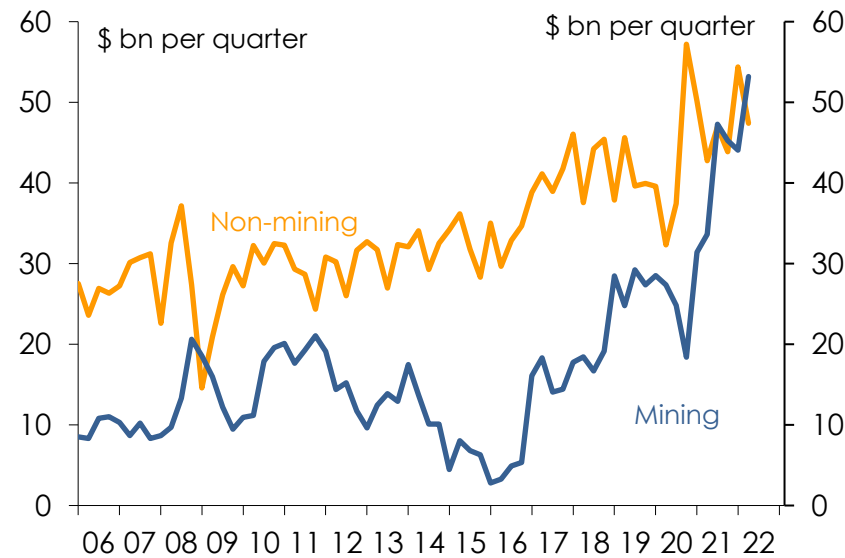
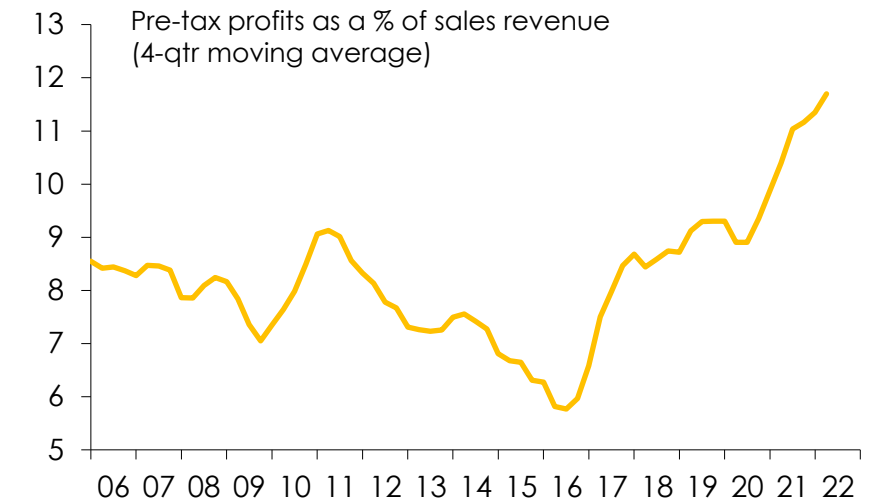
Pre-tax company profits



Pre-tax company profits growth



Pre-tax profit margins

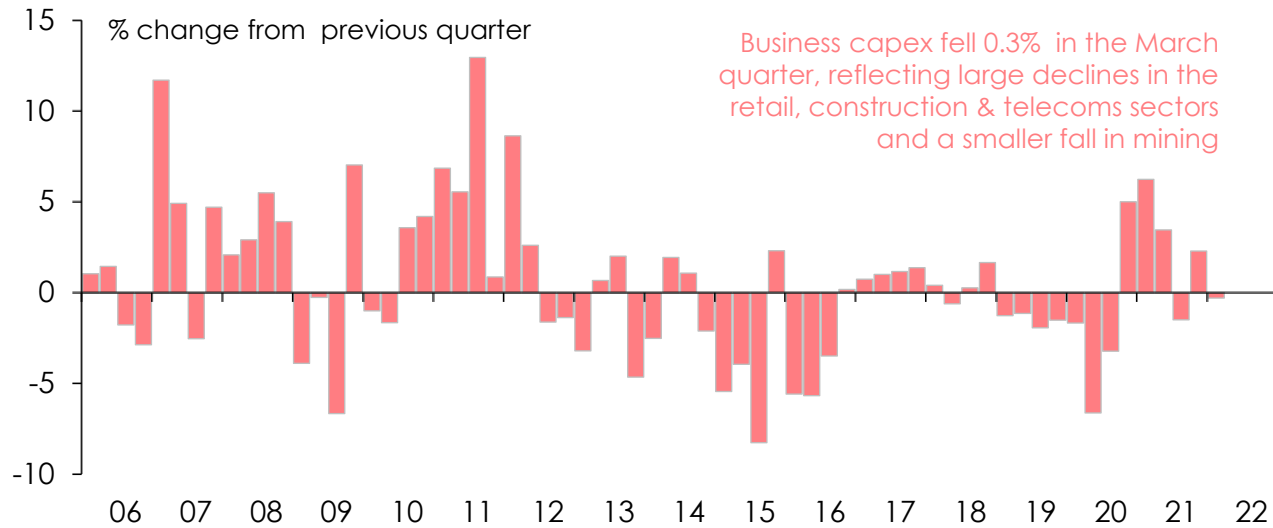


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), March 2021. June quarter data will be released on 5th September.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

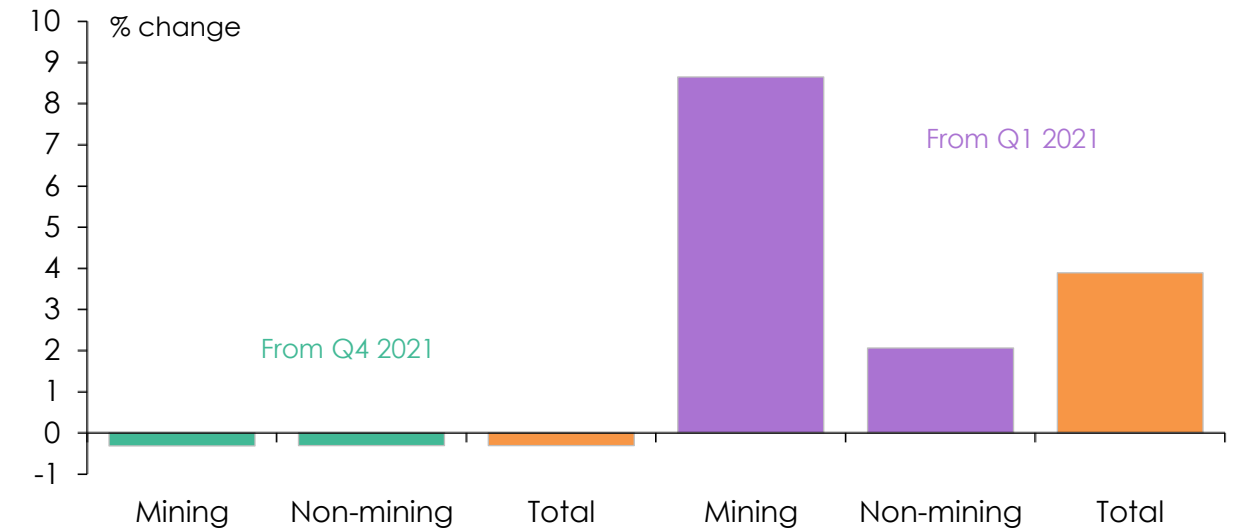
Business capex fell 0.3% in the March quarter, reflecting large declines in capex in retail, construction and telecoms, and a smaller fall in mining

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

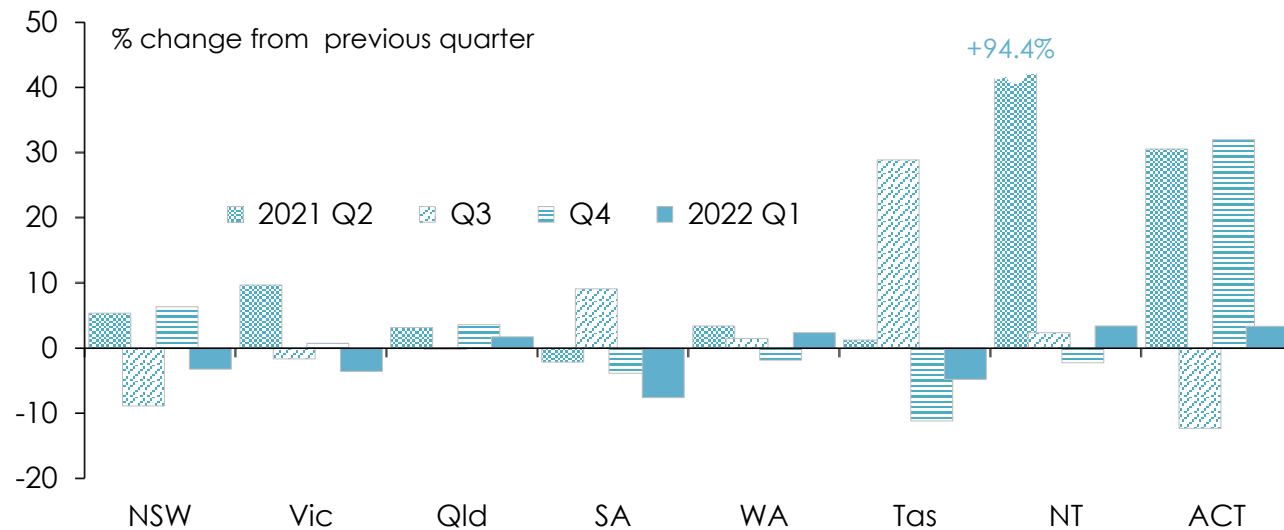
Real business new fixed capital expenditure



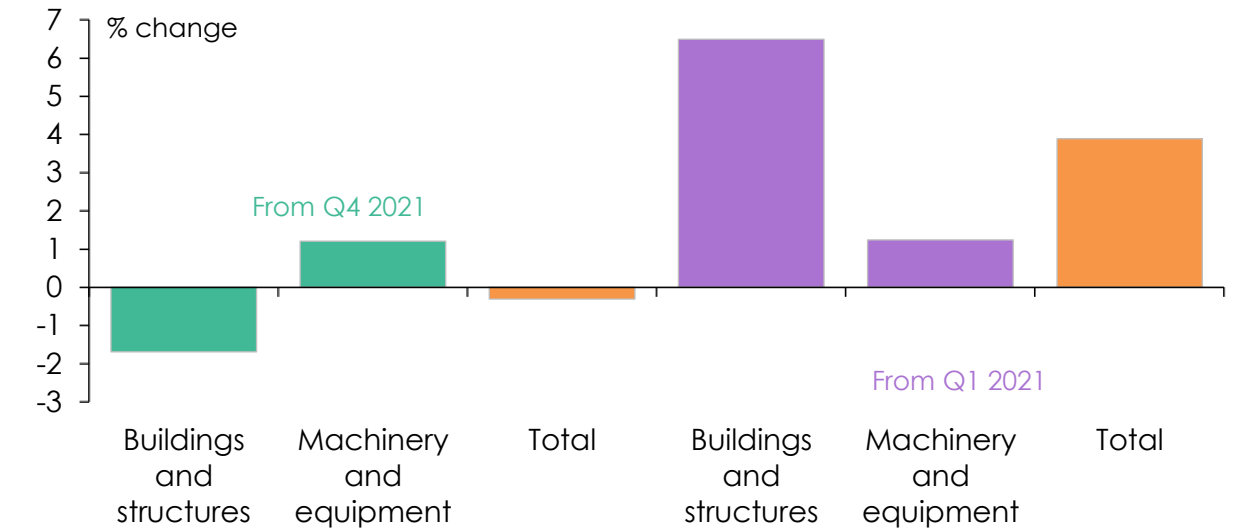
Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, 2021



Real business new fixed capex, by asset, Q1

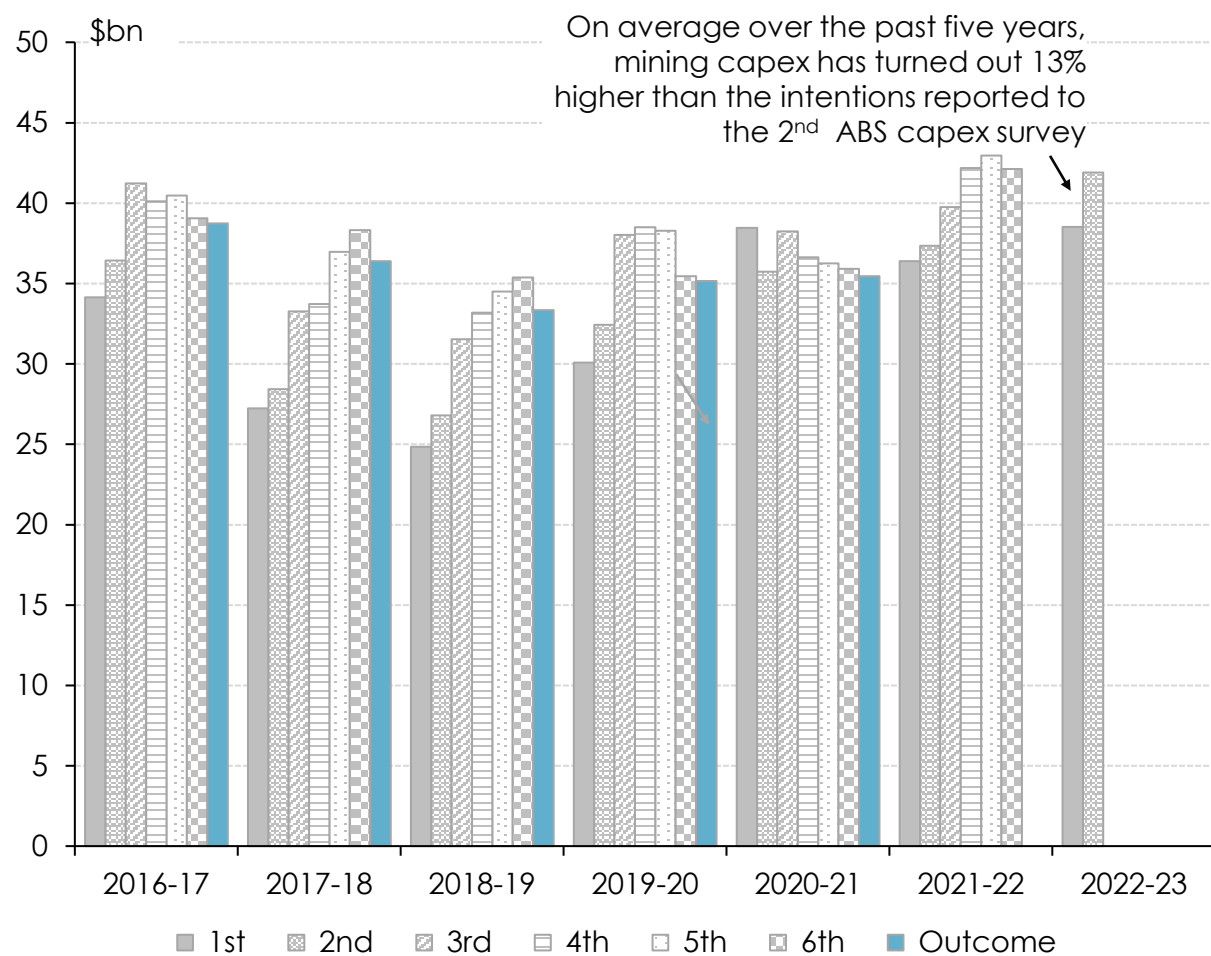


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); June quarter data will be released on 1st September.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

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

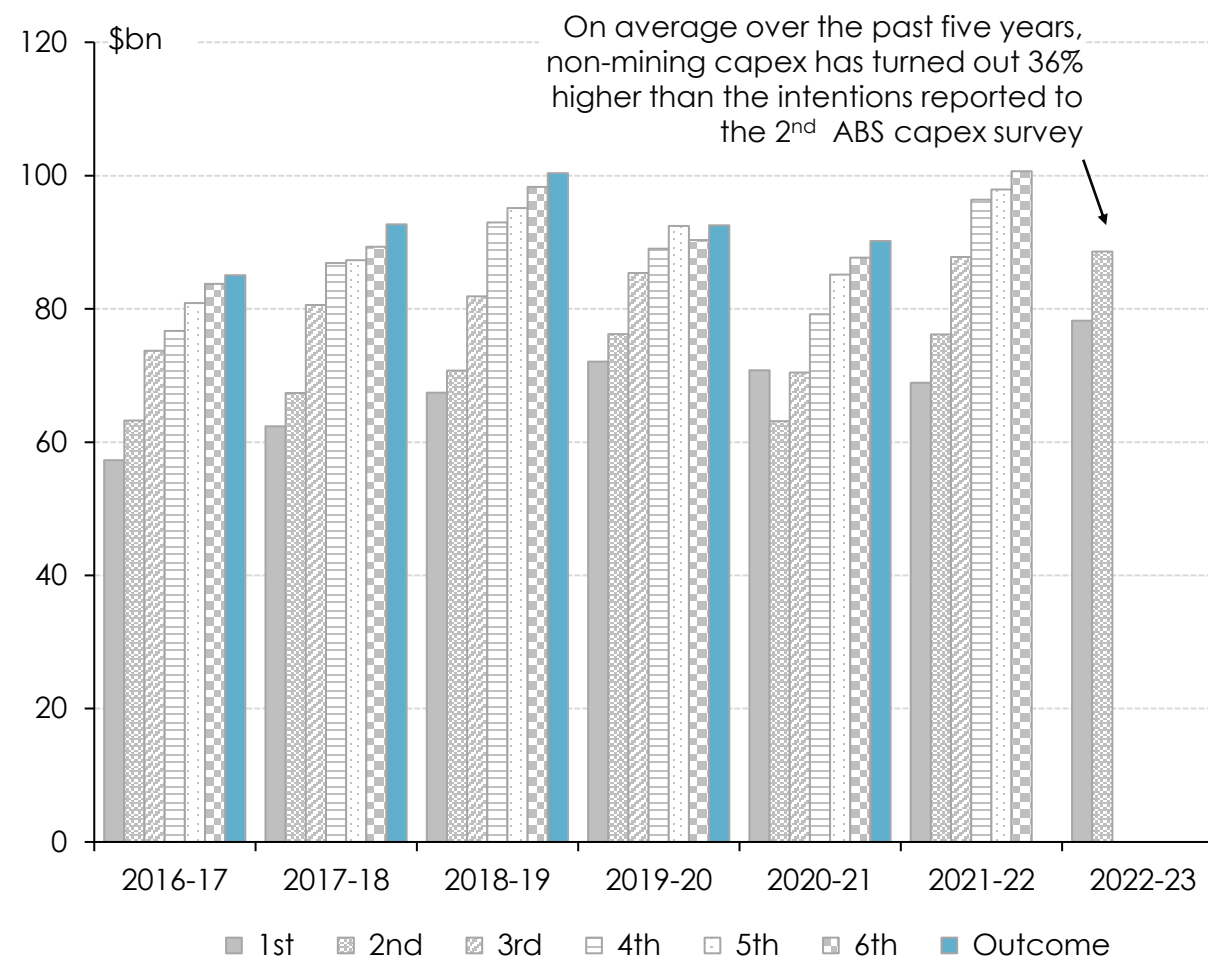
THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Capital expenditure intentions - mining



ABS capex intentions survey

Capital expenditure intentions – non-mining



ABS capex intentions survey

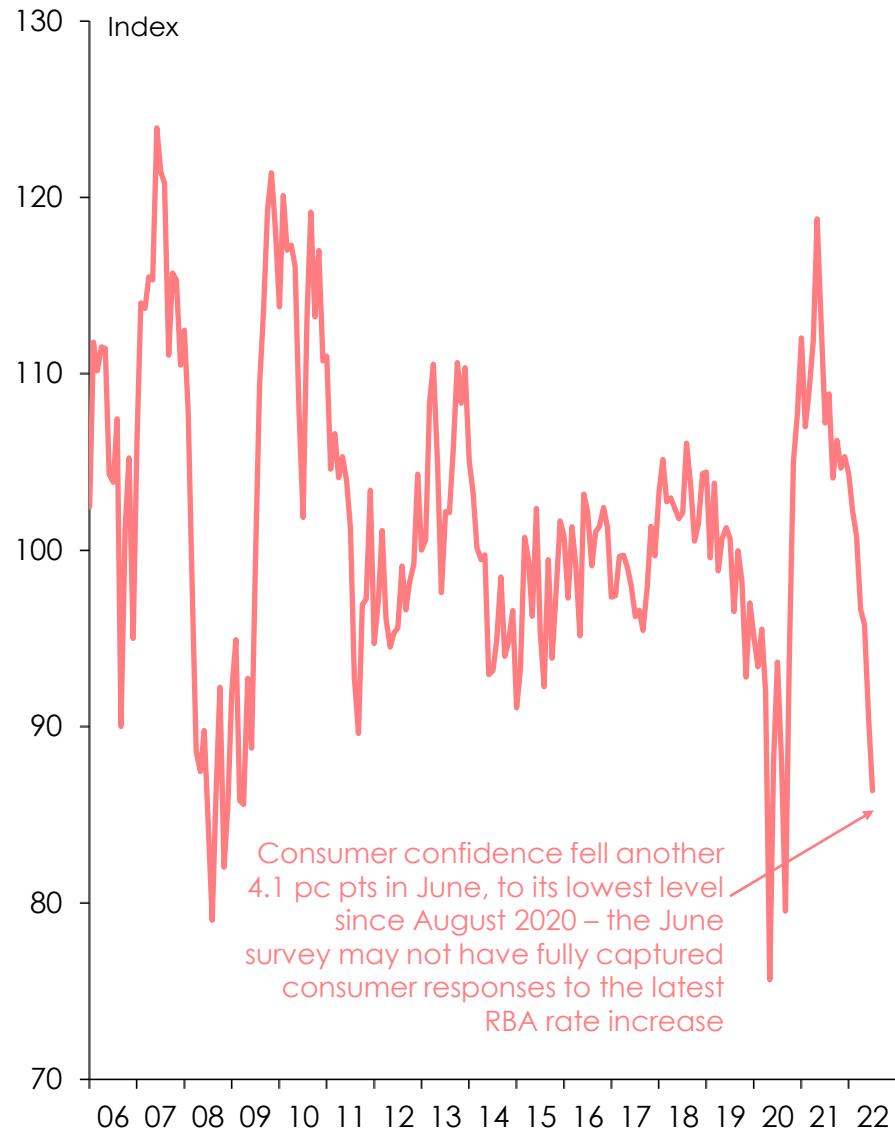
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in April & May, the third in July & August of the financial year, the fourth in October & 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

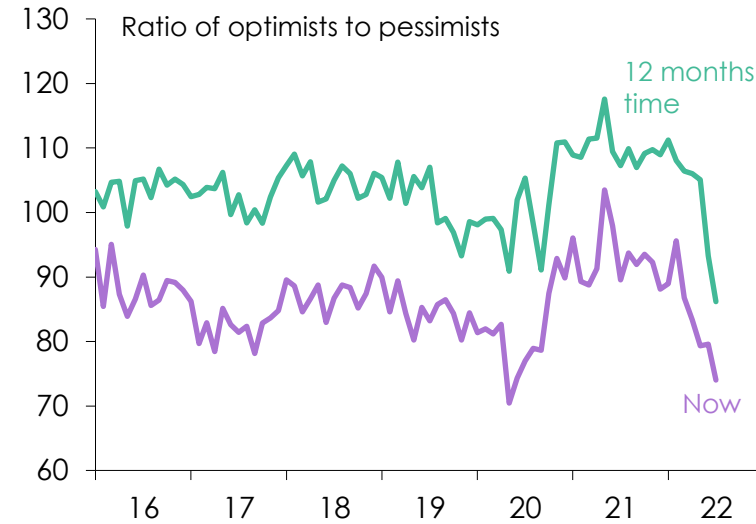
Consumer confidence fell again in June, to its lowest level since August 2020, in response to ongoing increases in inflation and interest rates

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

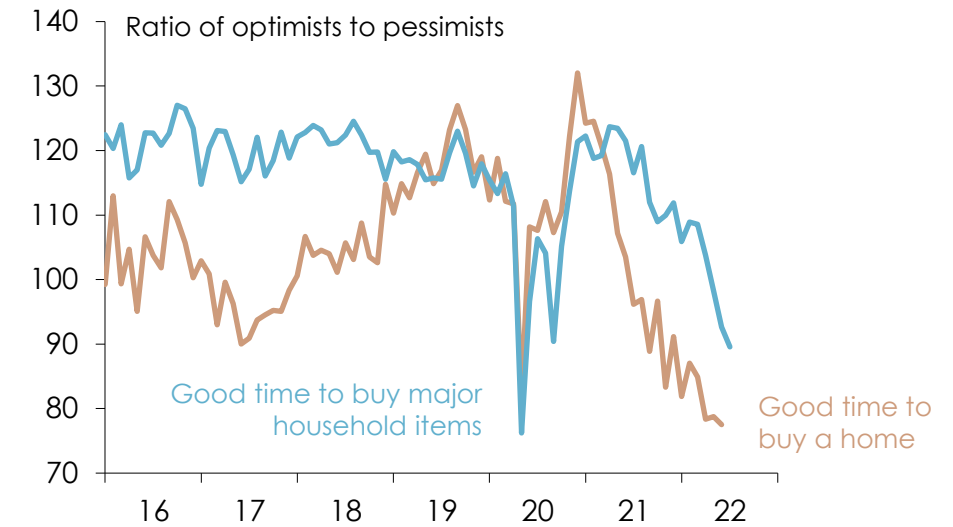
Consumer confidence index



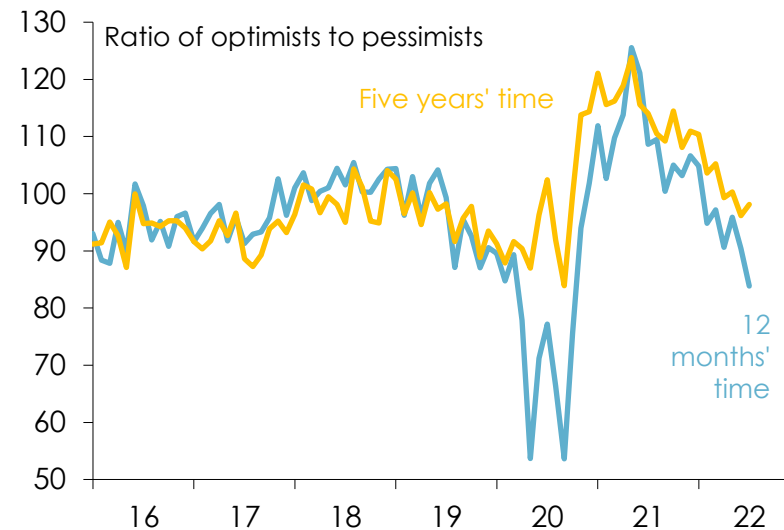
Household finances assessment



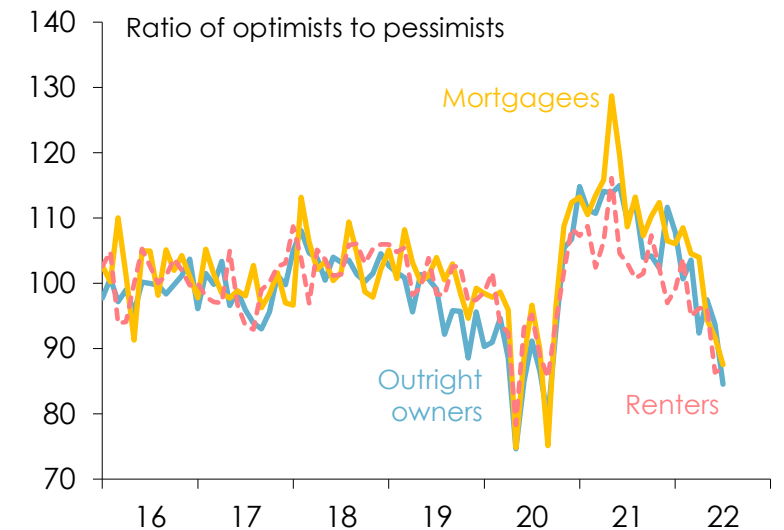
Buying conditions assessment



Economic conditions assessment



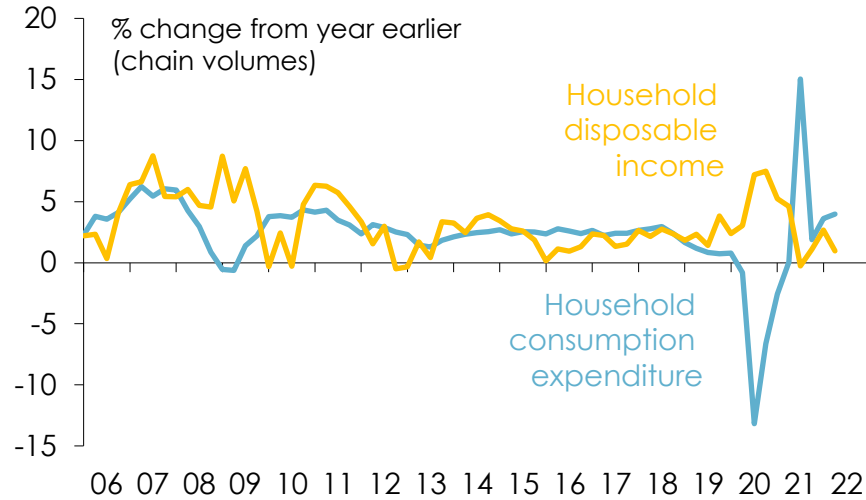
Confidence by housing tenure



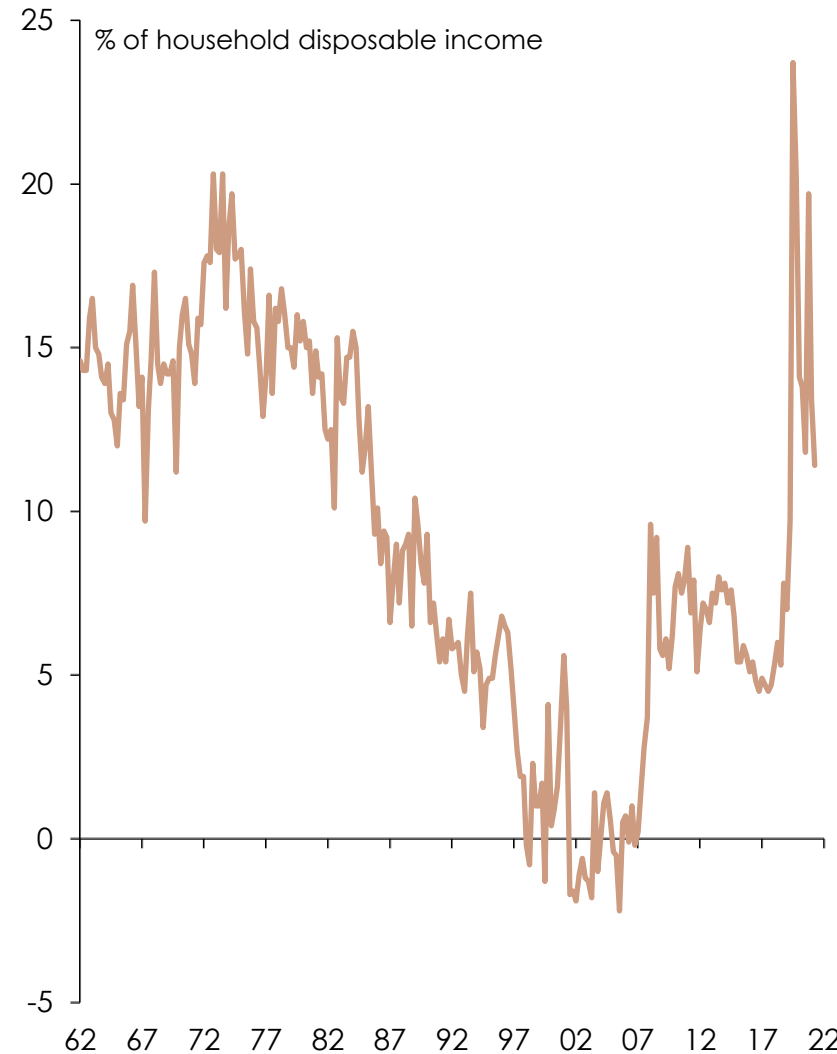
Households are sustaining spending in the face of weak real income growth by reducing saving – many households have large cash reserves

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

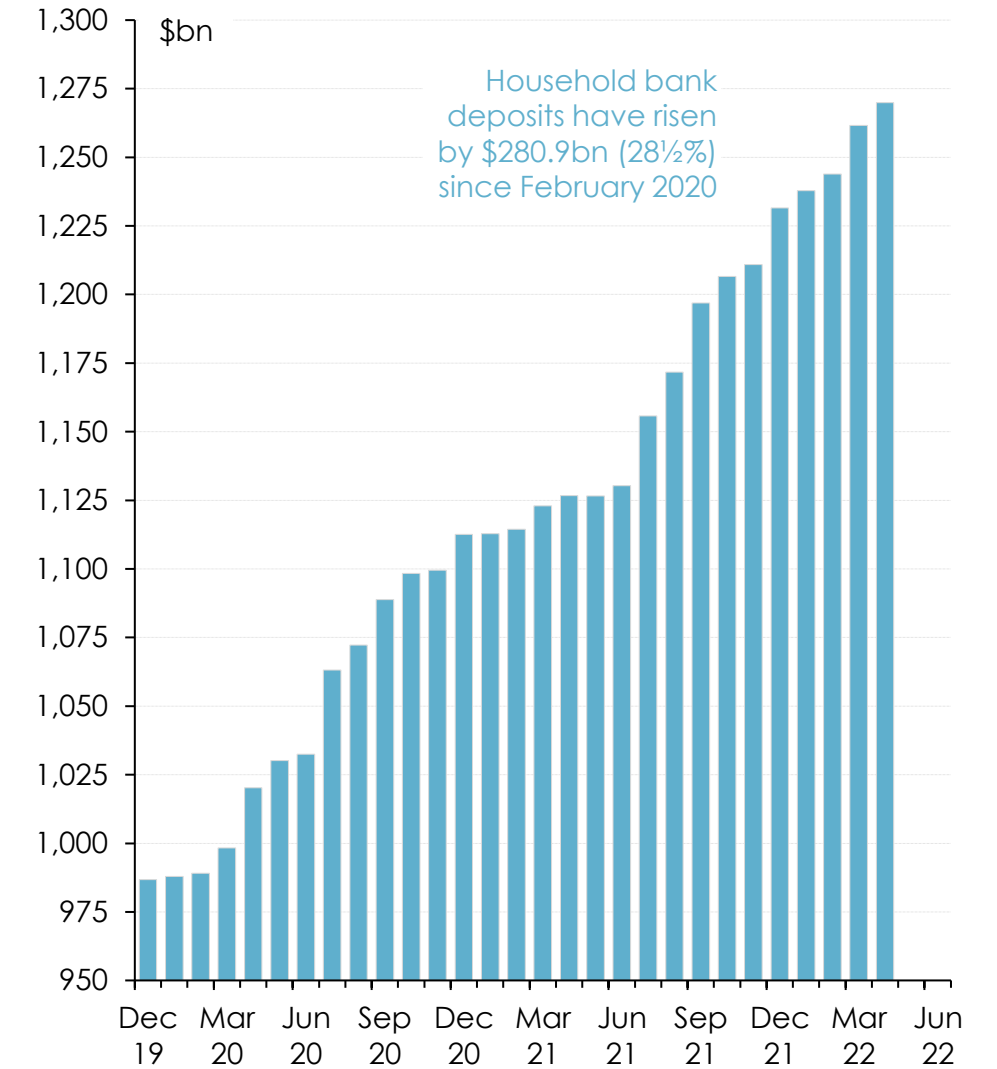
Household income and spending



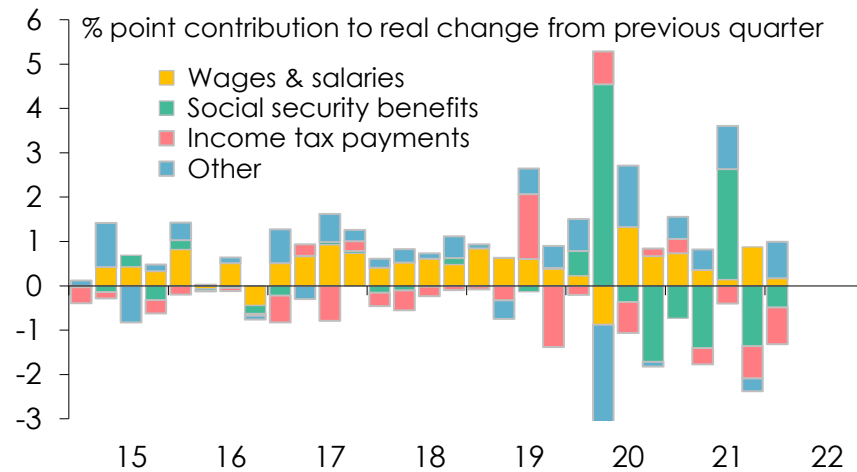
Household saving ratio



Household bank deposits



Sources of household income

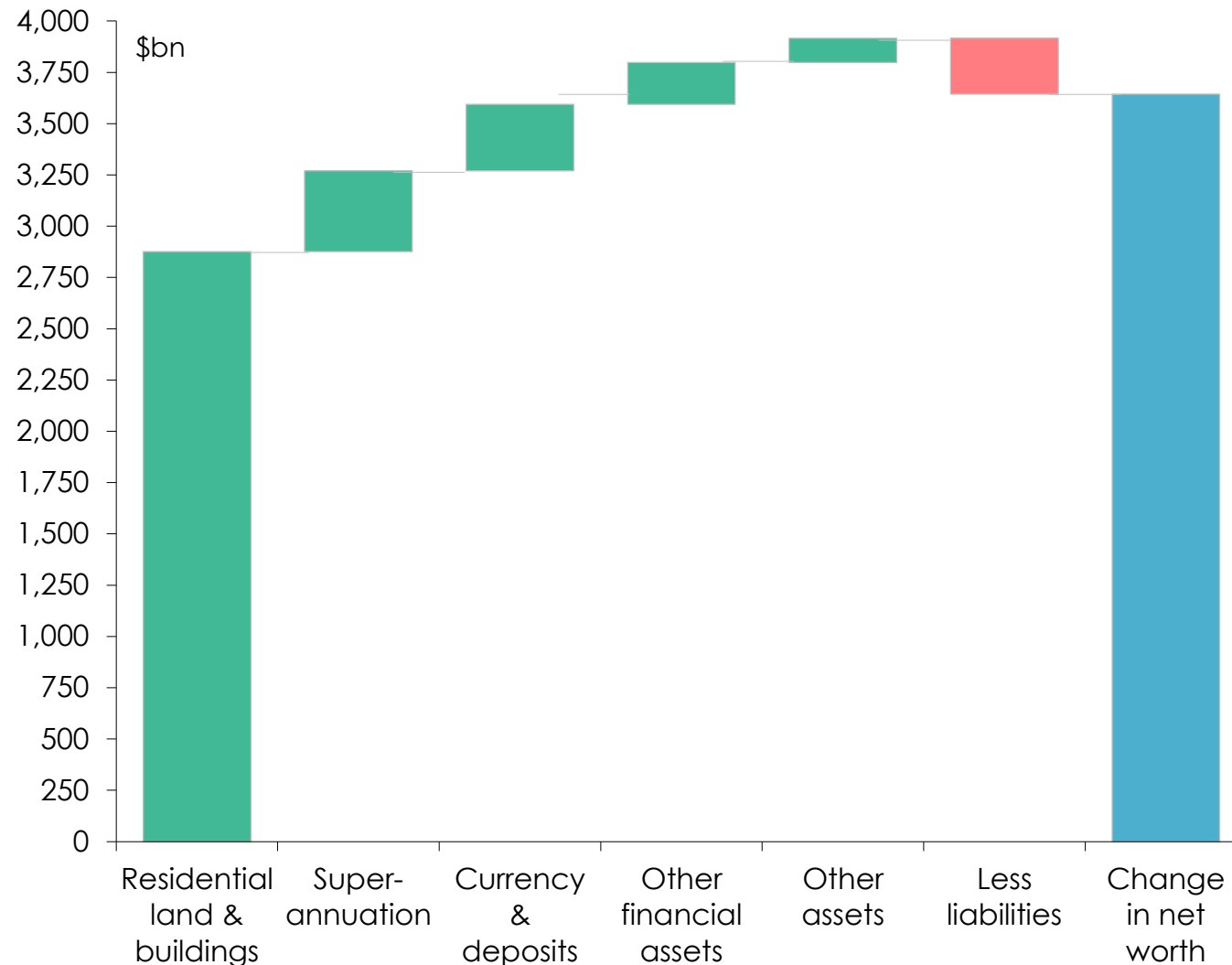


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). March quarter data on household income, spending and saving will be released on 1st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

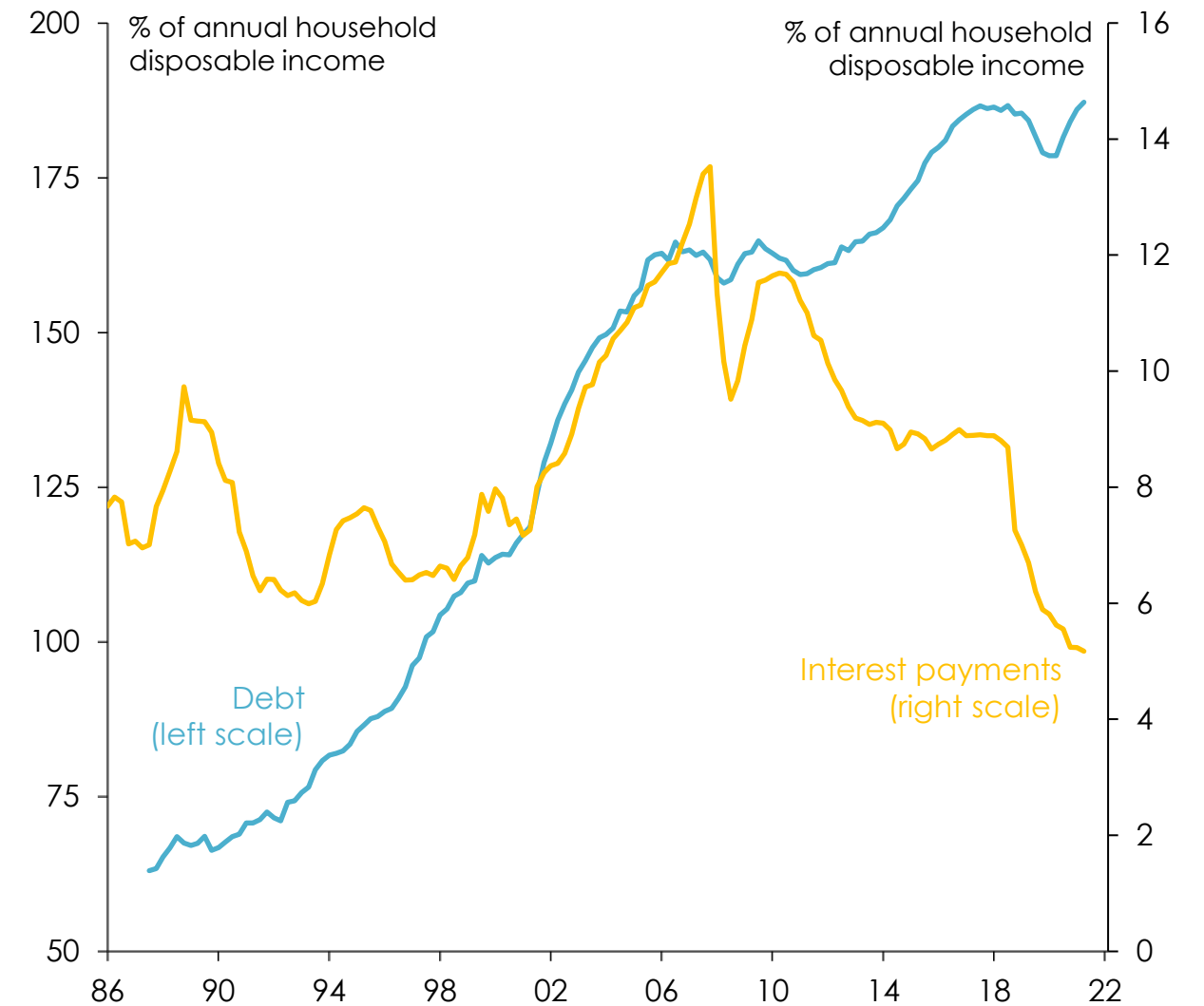
Household net worth has risen by \$3.6trn (32%) since the end of 2019, while interest payments have fallen as a pc of income – though from Q2 onward

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Sources of gains in household net worth, Q4 2019 to Q1 2022



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

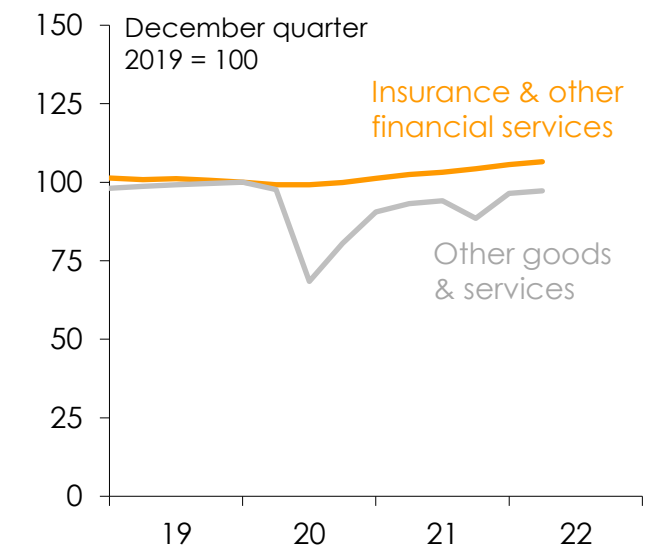
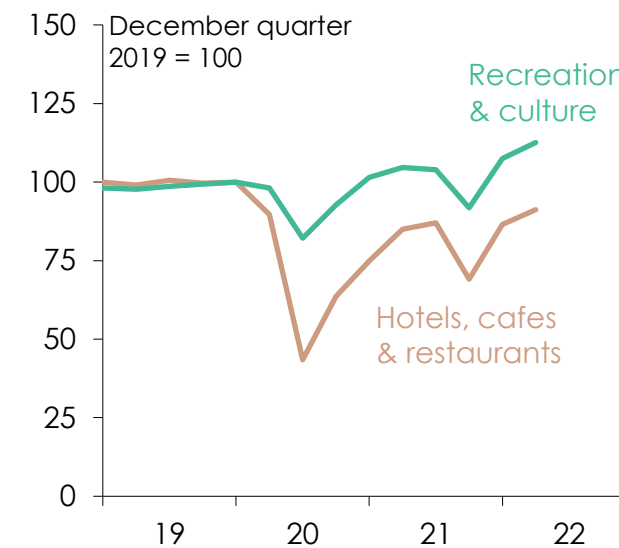
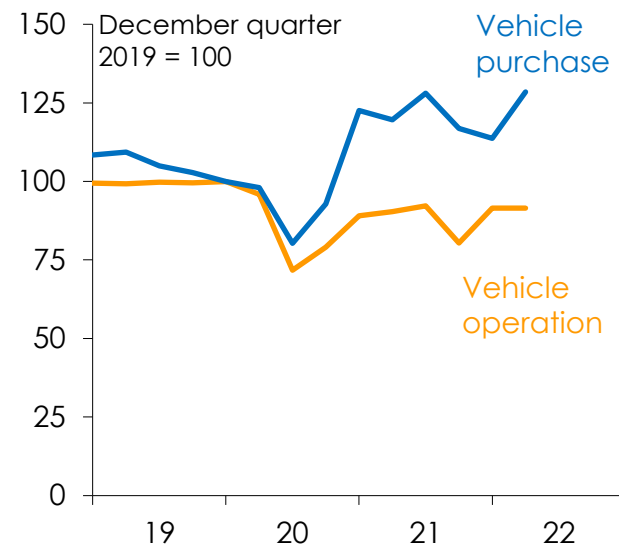
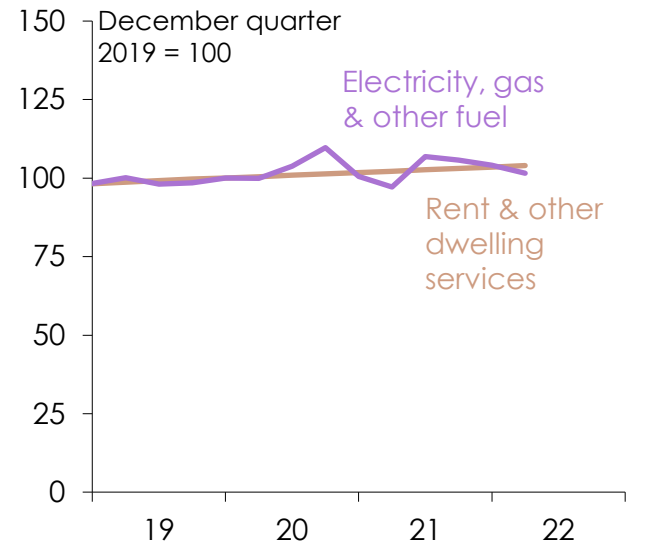
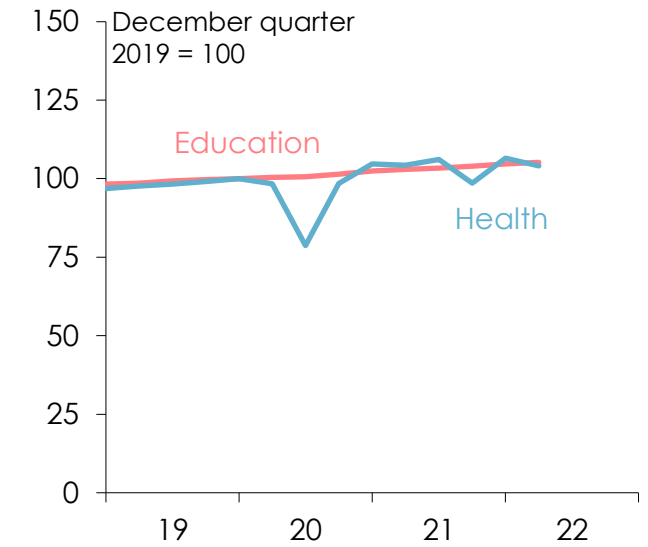
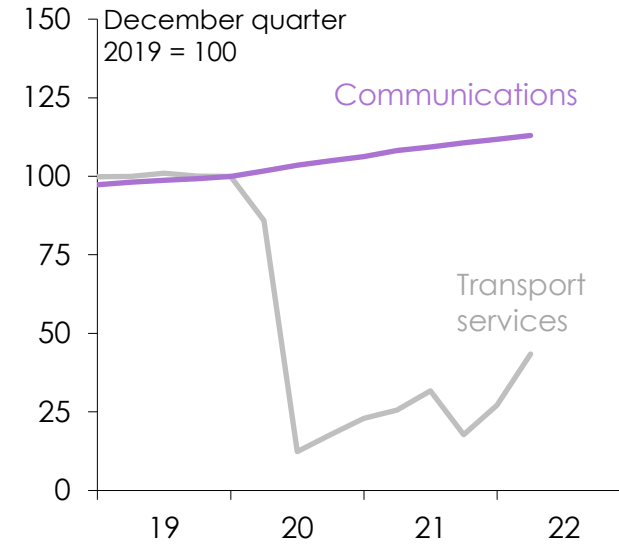
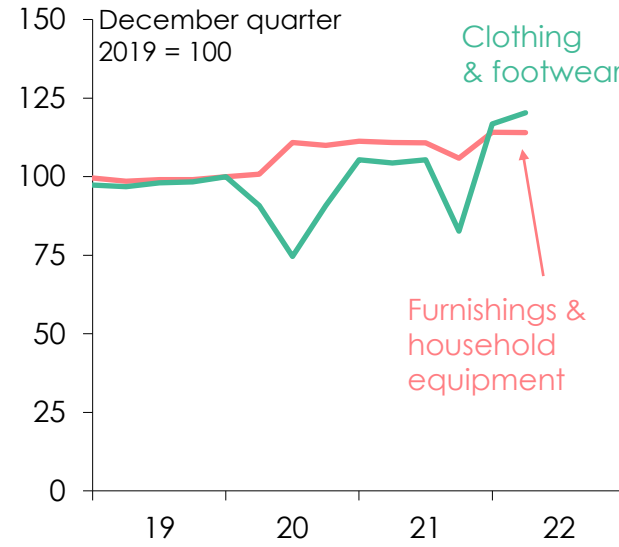
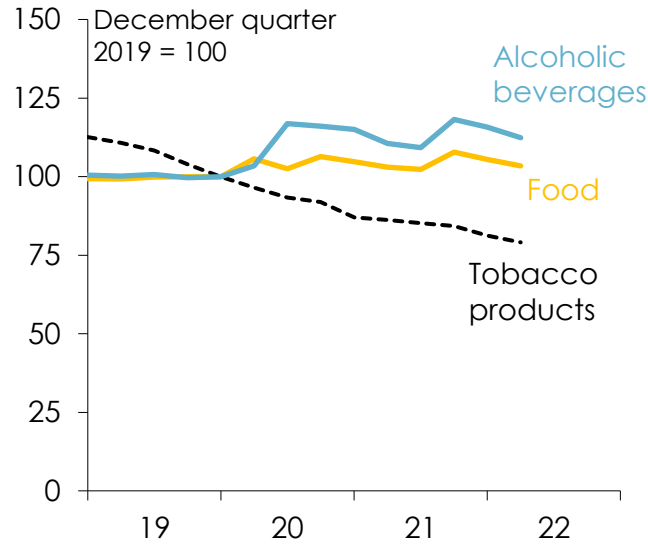


Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2022; RBA, [Statistical Tables](#) E1 & E2. June quarter data will be released on 29th September
[Return to "What's New"](#).

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 – 24TH JUNE 2022

Major categories of household consumption spending

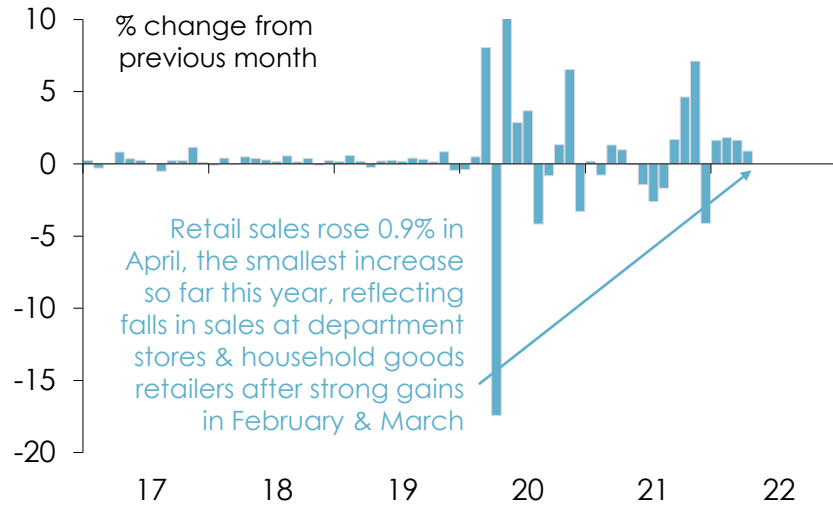


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; June quarter data will be released on 7th September. [Return to "What's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

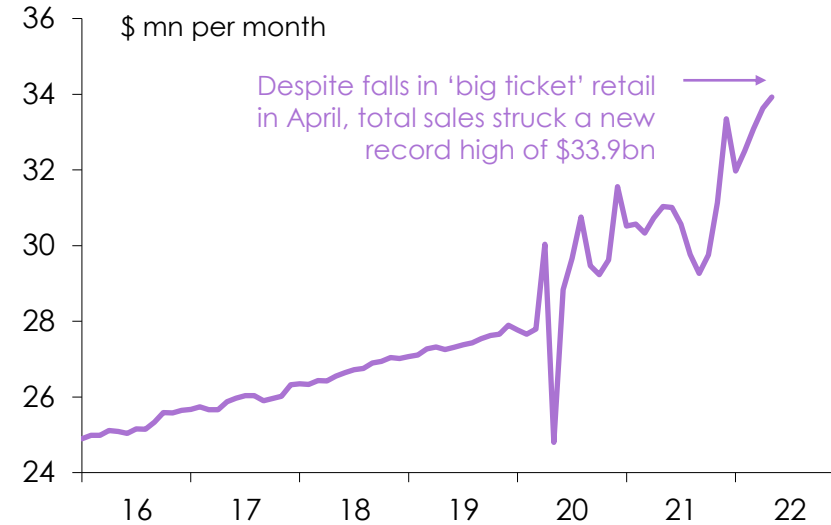
New motor vehicle sales fell by 2.6% in May, the first decline since last December, although the level remains high by historical standards

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

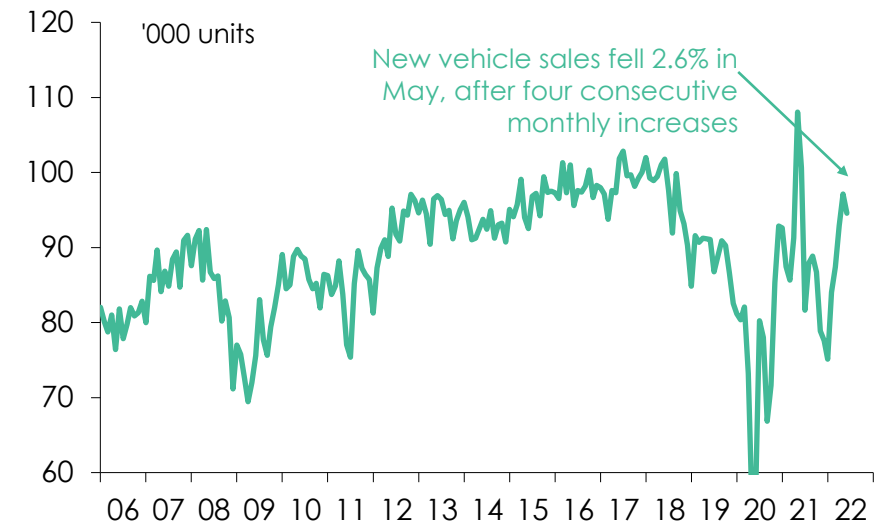
Monthly retail sales



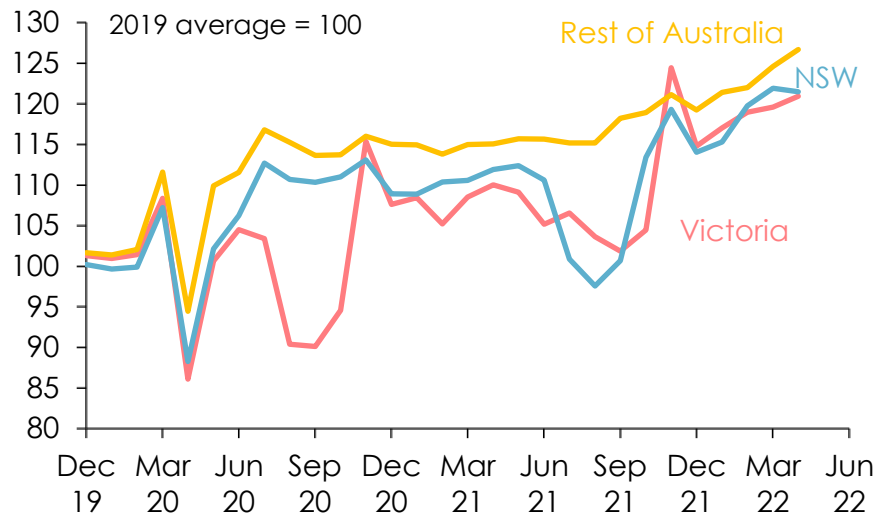
Level of retail sales



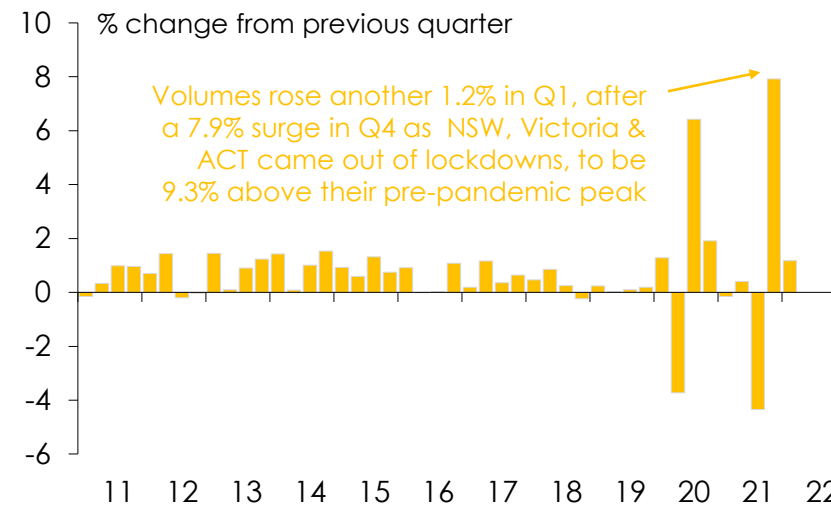
New motor vehicle sales



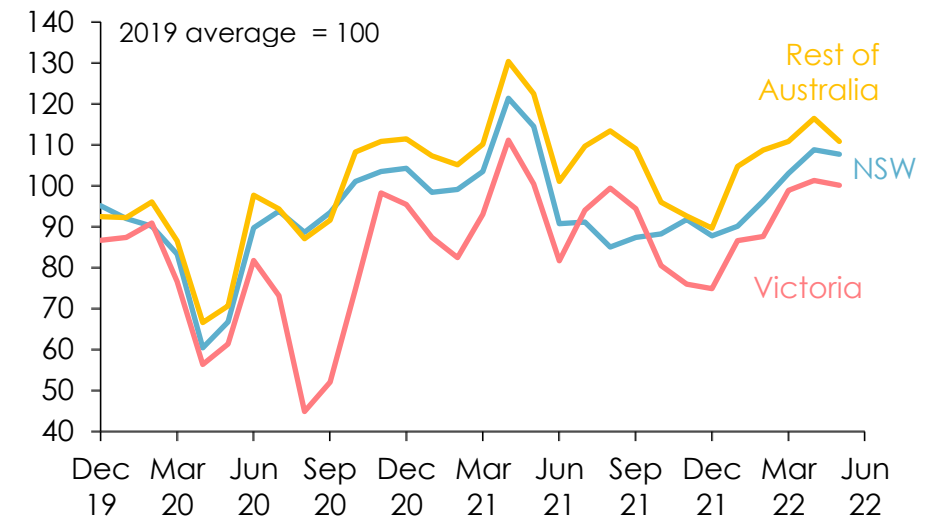
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



Vehicle sales – NSW, Vic & the rest

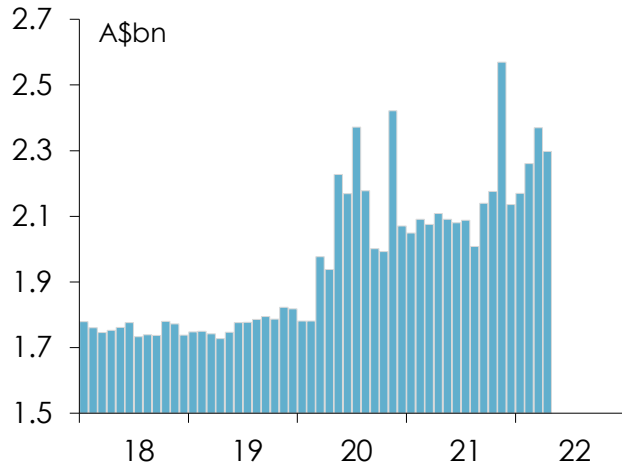


Note: see also [slide 33](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary May retail sales data will be released on 29th June; June motor vehicle sales data will be released in the second week of July. [Return to "What's New"](#).

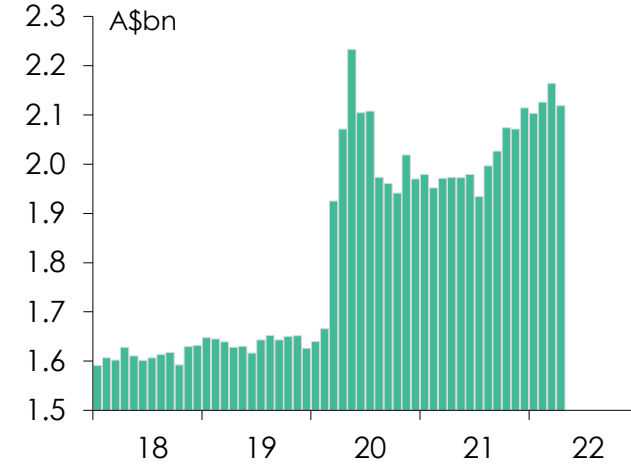
Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

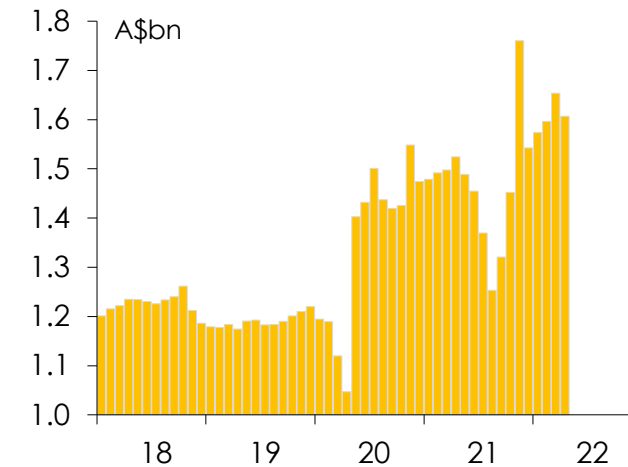
Electronic & electrical goods



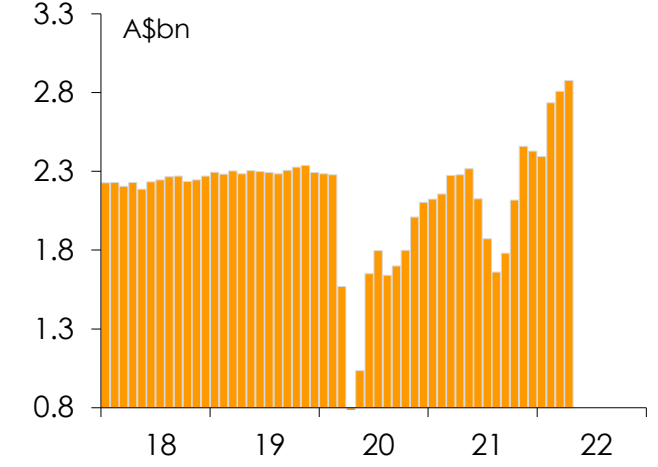
Hardware, building & garden supplies



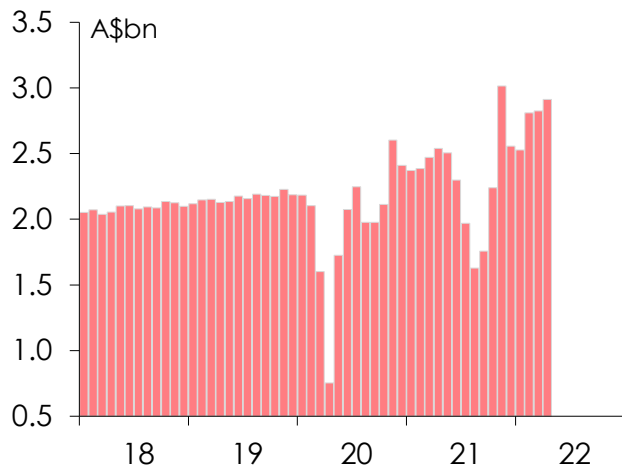
Floor coverings, furniture, housewares etc



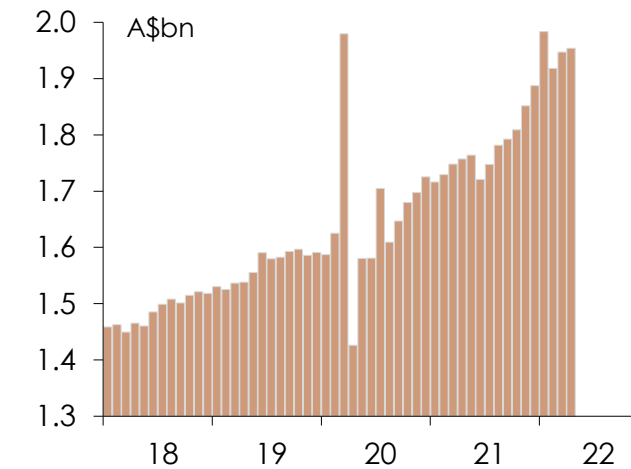
Cafes and restaurants



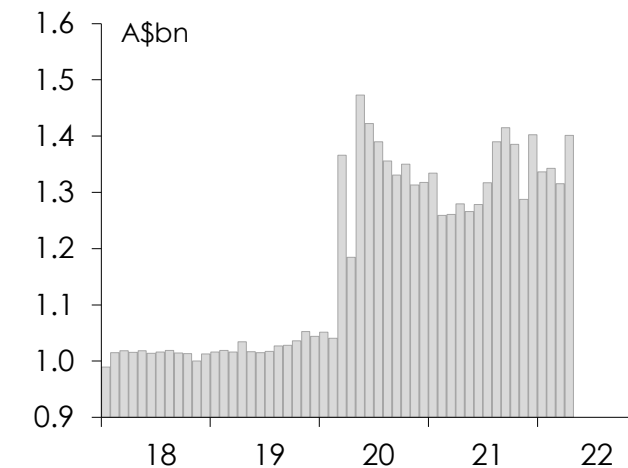
Clothing, footwear & personal accessories



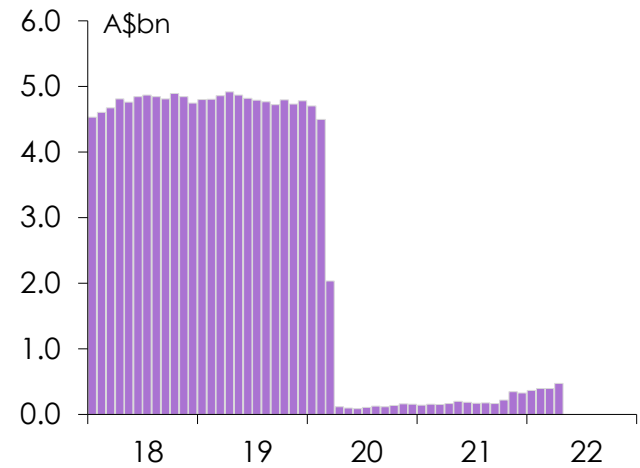
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

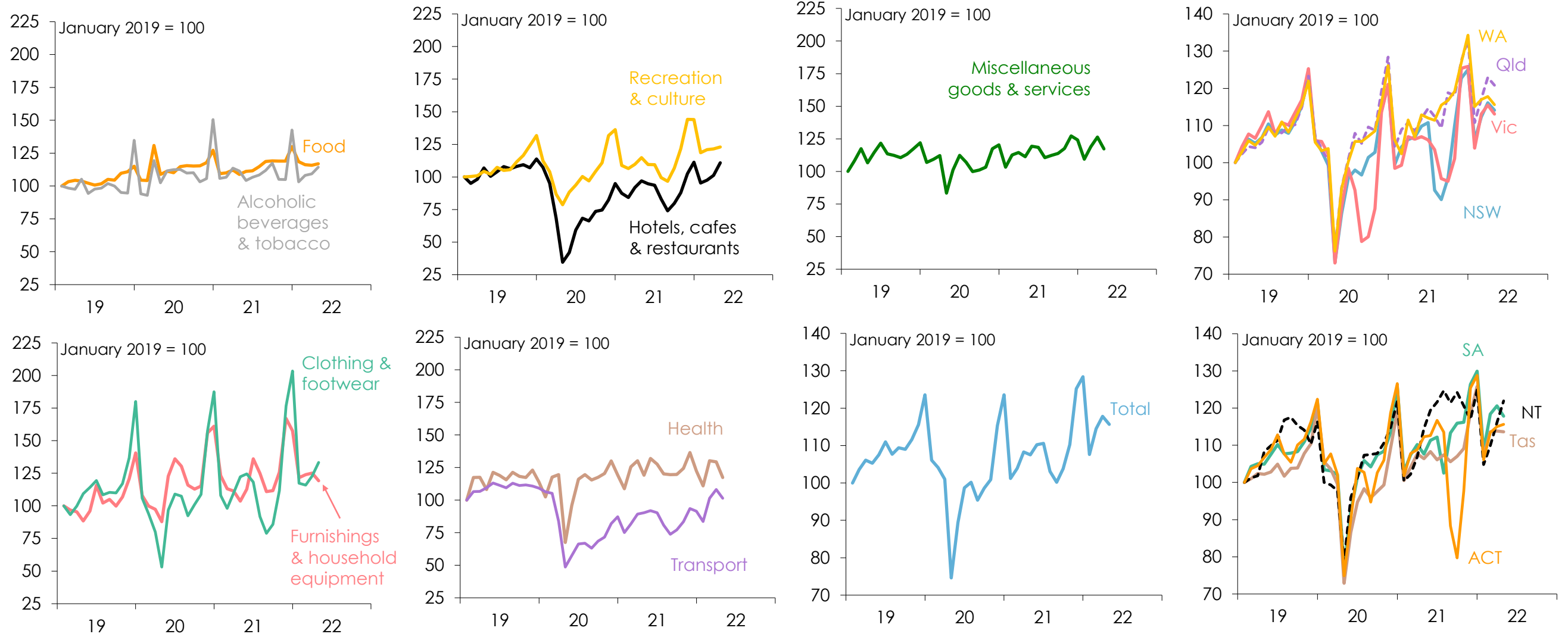


Sources: ABS, [Retail Trade, Australia](#), April 2022 (May data on which the above charts are based will be released on 5th July); and [International Trade in Goods and Services, Australia](#), April 2022. [Return to "What's New"](#).

Household spending (as measured by the new ABS indicator based on bank transactions data) was 7.6% higher in April than a year earlier

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Household spending by purpose

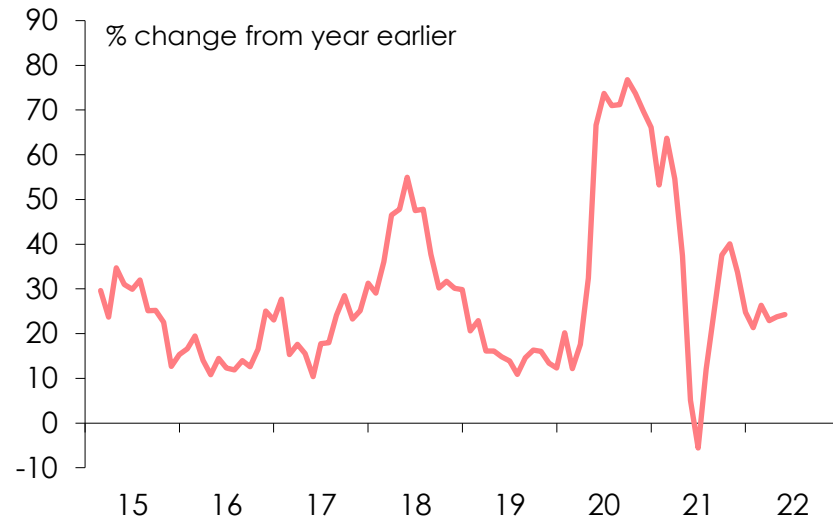


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, 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](#), April 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. May data will be released on 12th July.

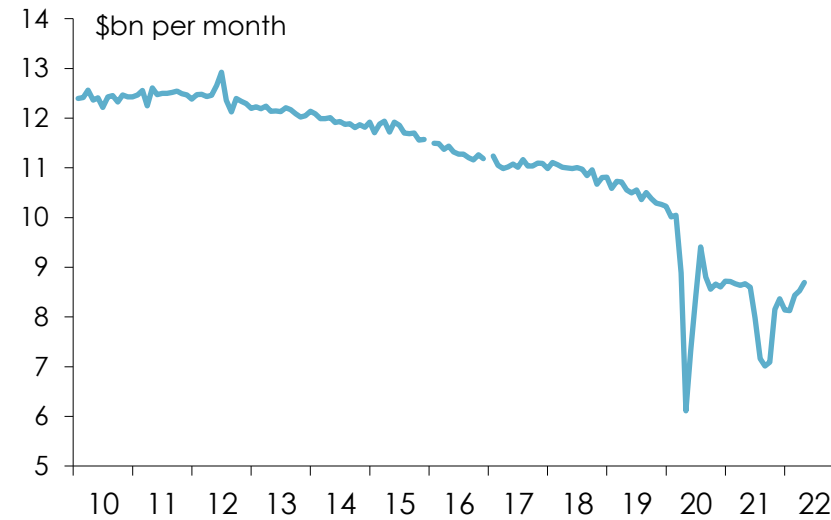
Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

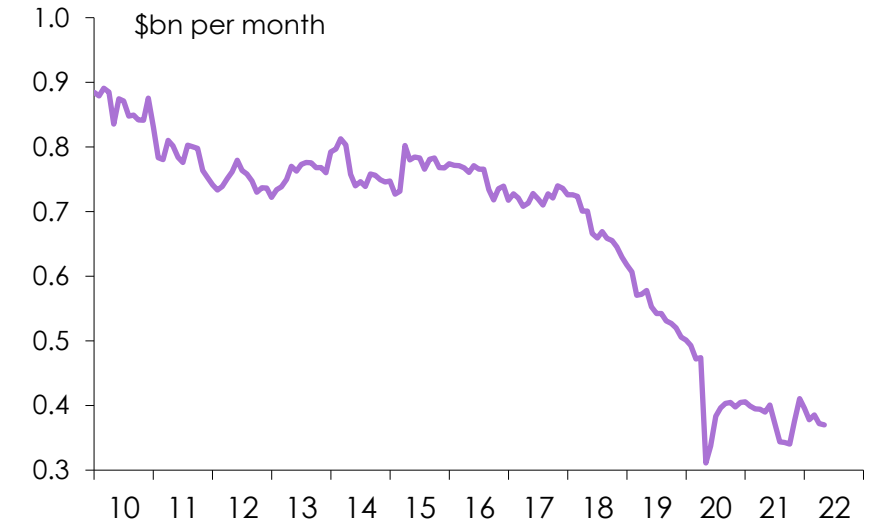
Growth in online retail sales



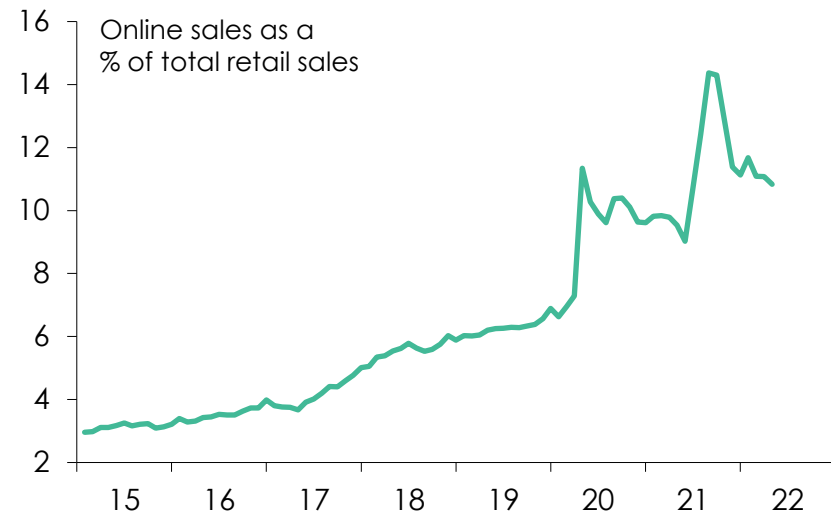
ATM cash withdrawals



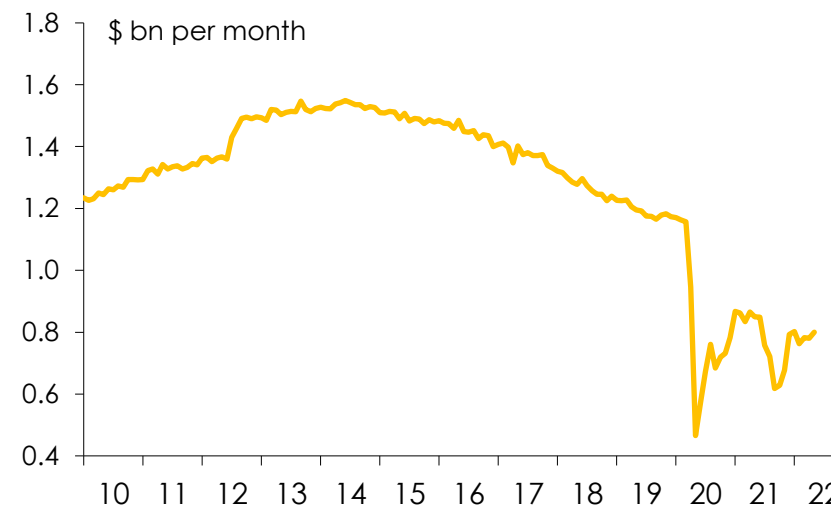
Credit card cash advances



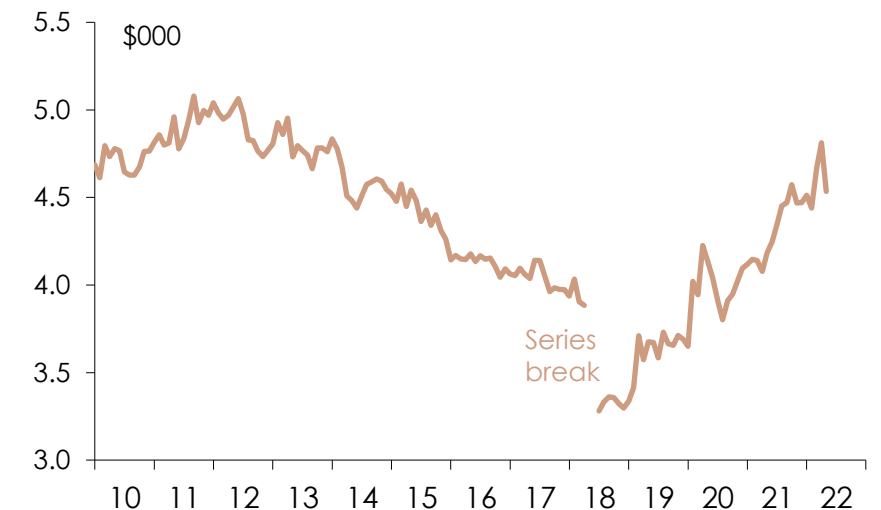
Online retail 'market share'



Debit card cash-outs



Direct entry payments avg value



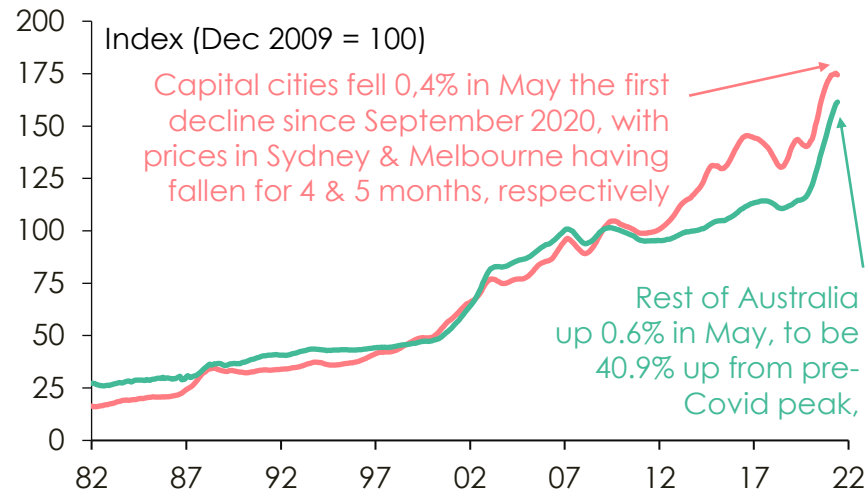
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales and payments system data are for April. May online retail sales data will be published on 5th July, and April payments system data on 7th July. [Return to "What's New"](#).

Housing and the residential property market

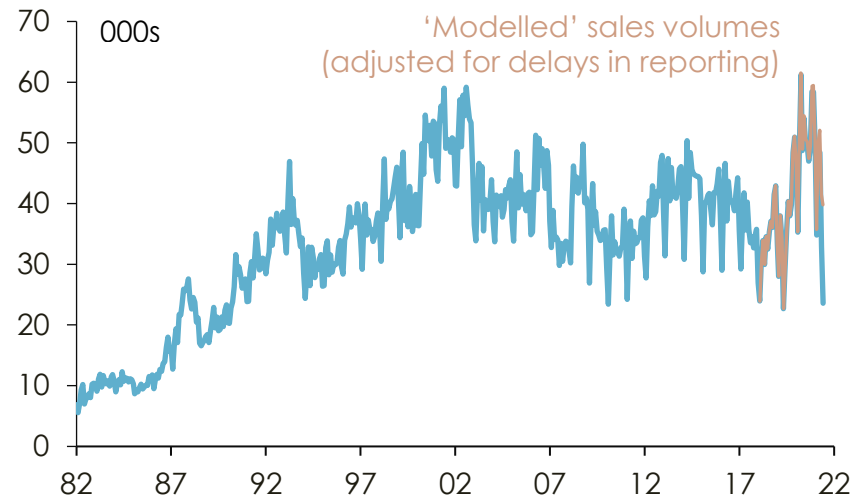
Property prices across Australia fell 0.2% in May, for the first time since September 2020, reflecting declines in Sydney, Melbourne & Canberra

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

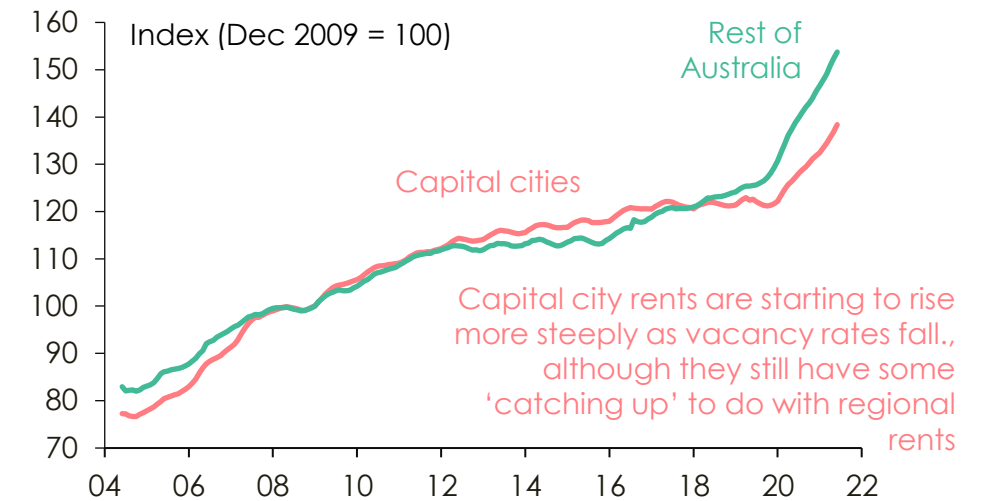
Residential property prices



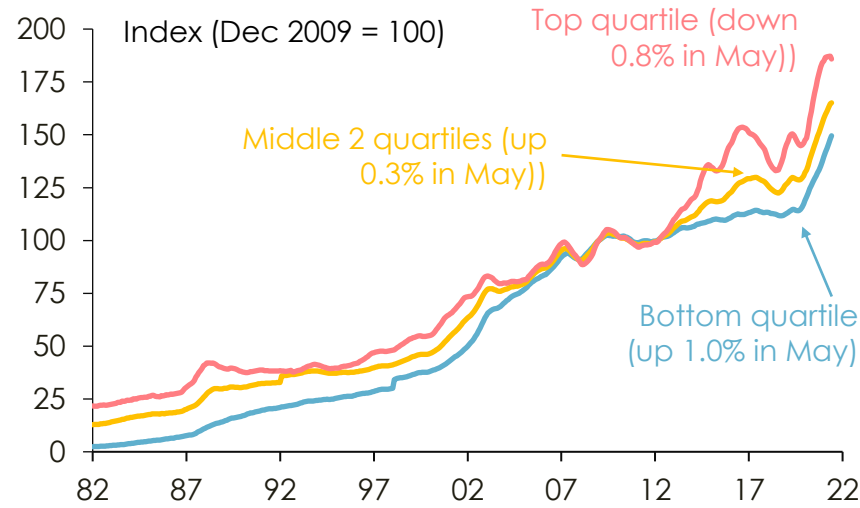
Residential property sales volumes



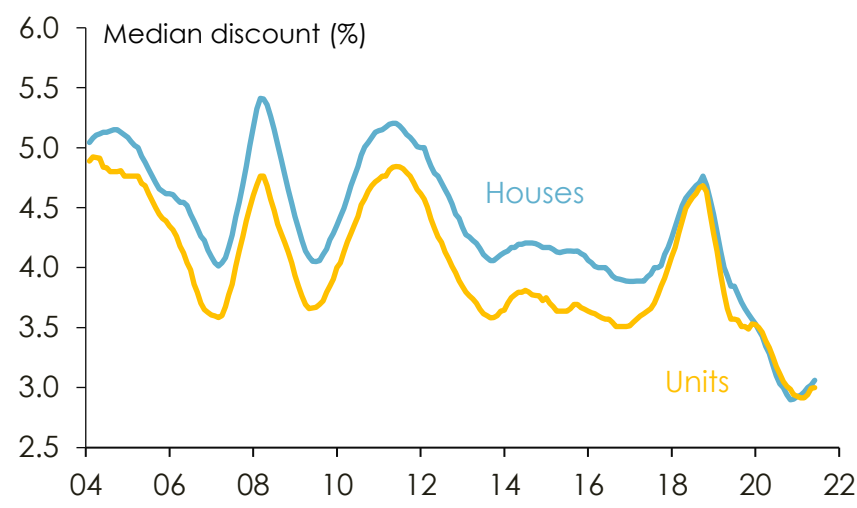
Residential rents



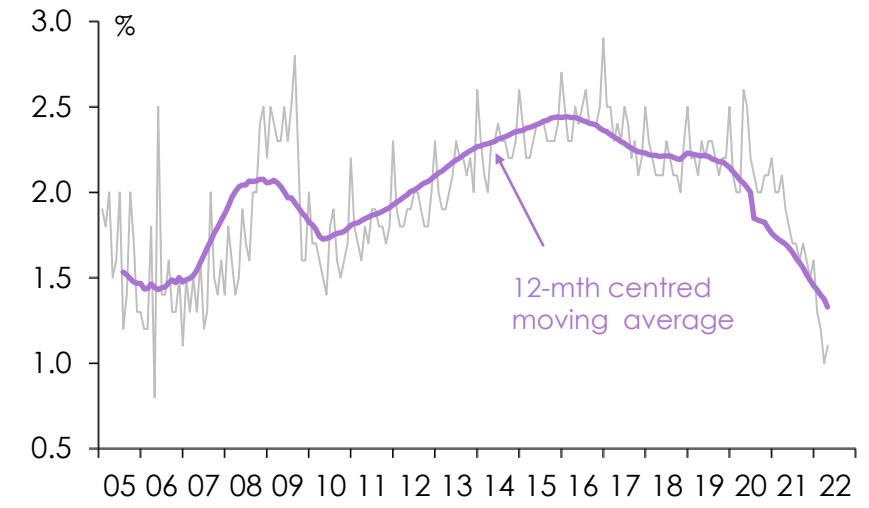
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

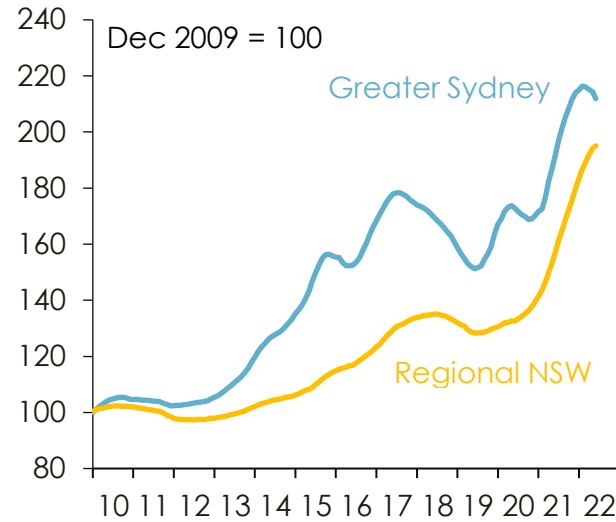


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

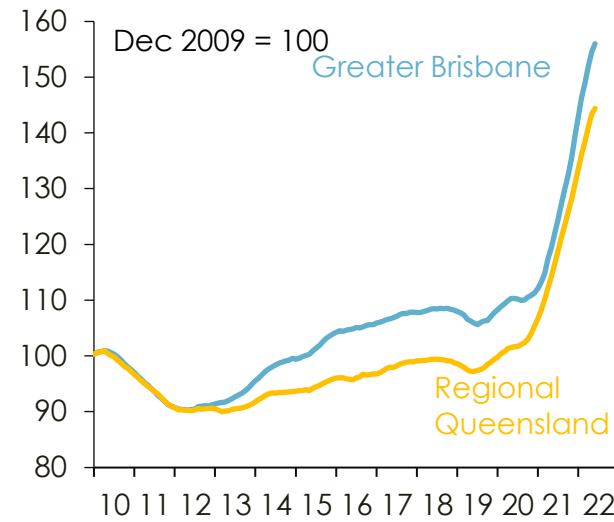
Sydney & Melbourne prices have fallen by 2.1% and 1.4% respectively over the past four months, but are still rising elsewhere in Australia

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

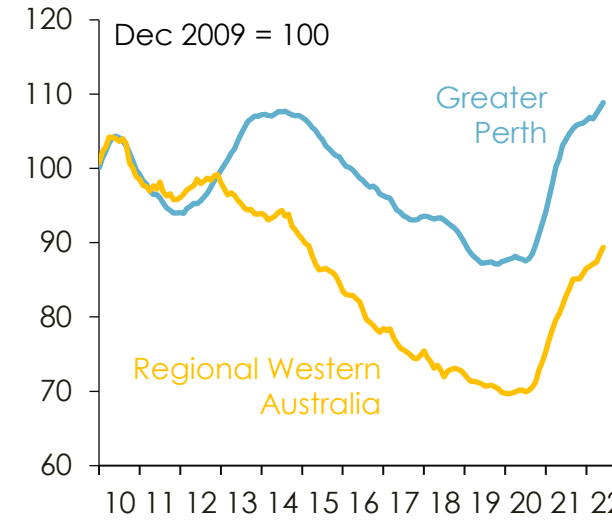
New South Wales



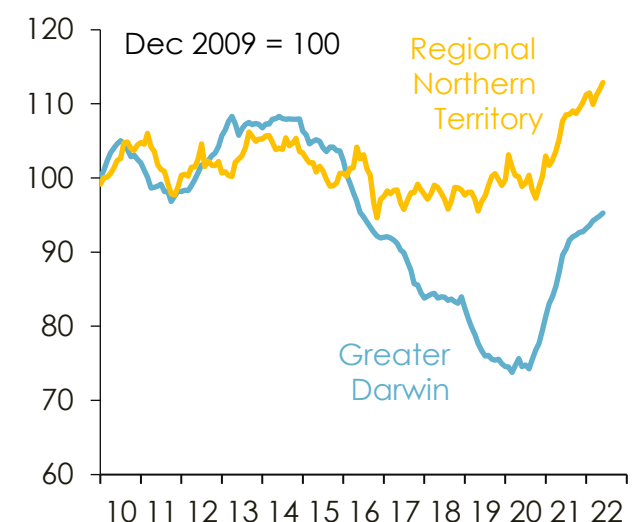
Queensland



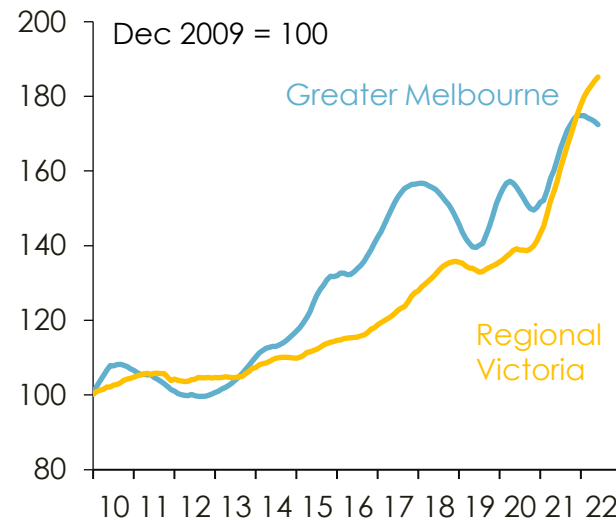
Western Australia



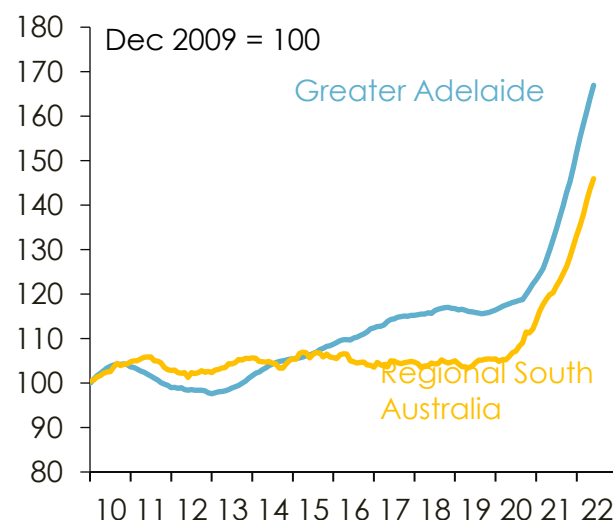
Northern Territory



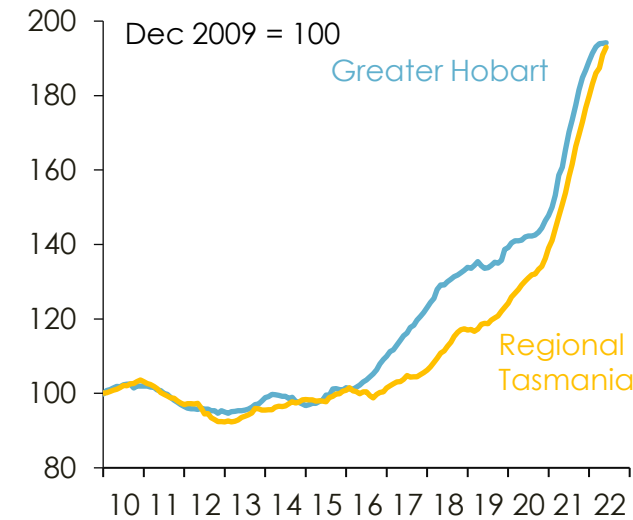
Victoria



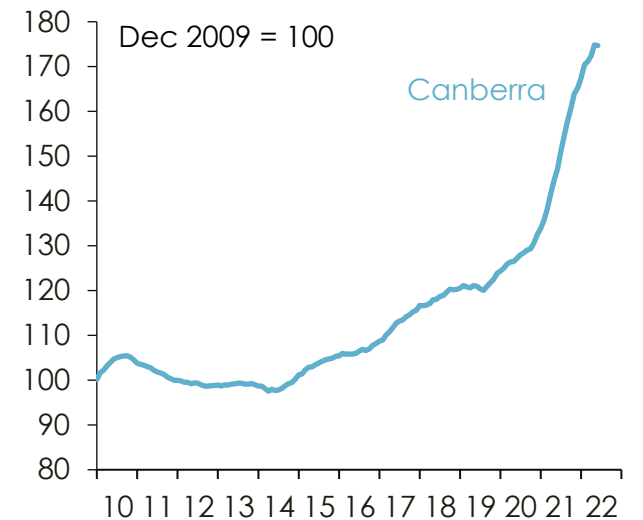
South Australia



Tasmania



Australian Capital Territory

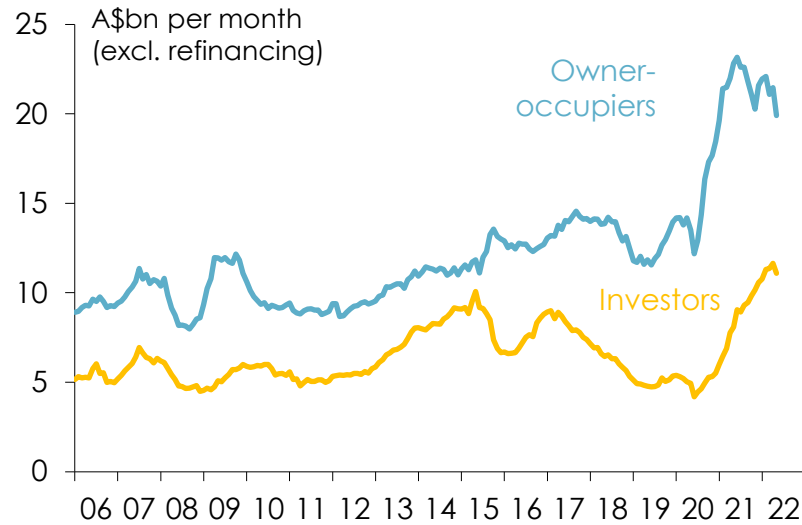


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

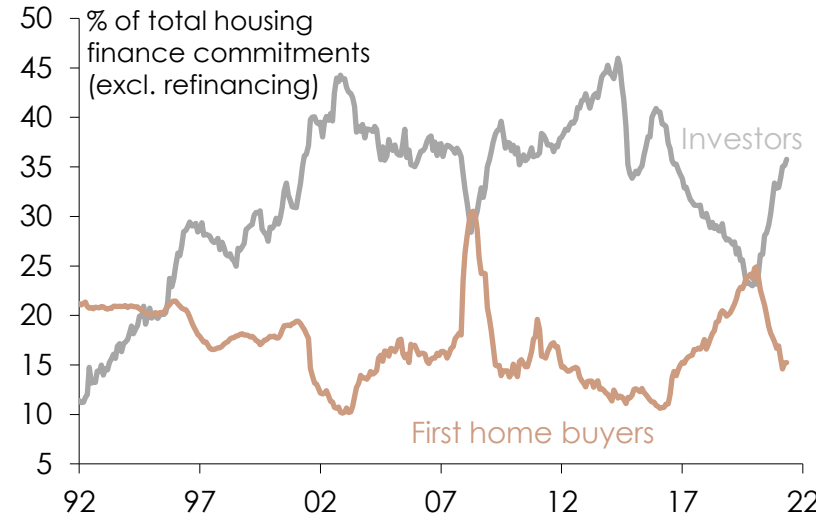
Housing finance commitments fell 6.4% in April, to their lowest level since last October, with loans to owner-occupiers down 7.3% and investors 4.8%

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

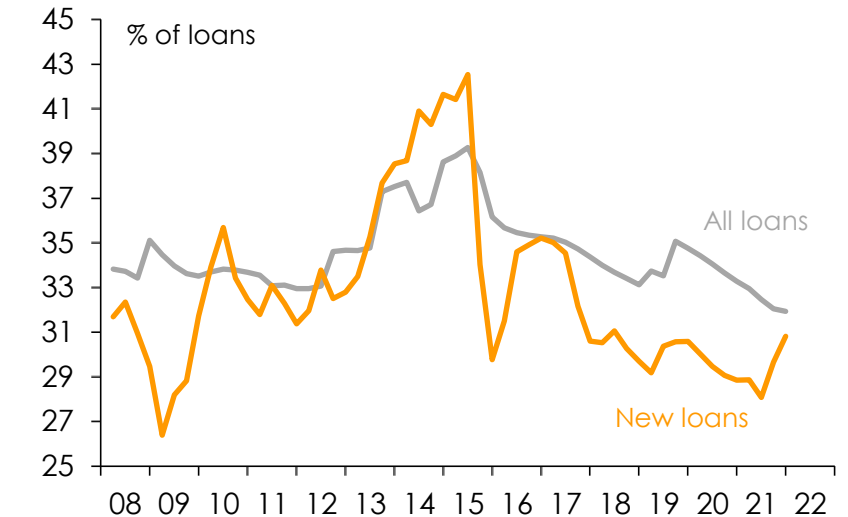
Housing finance commitments



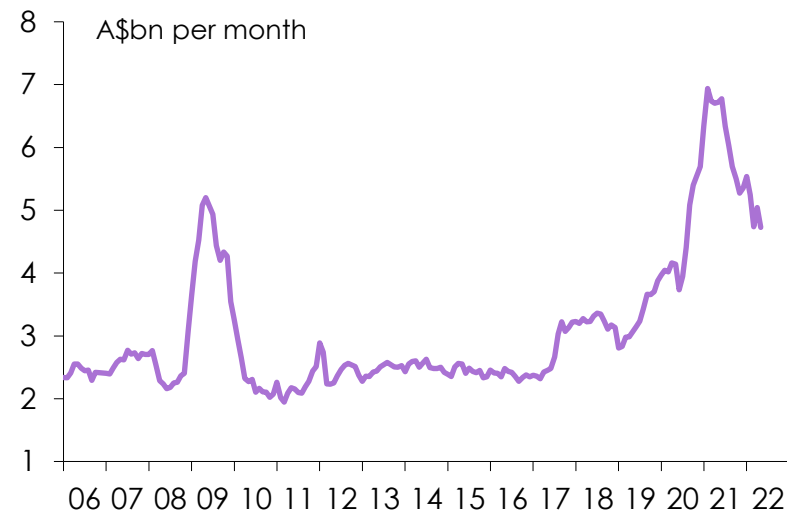
Shares of housing finance



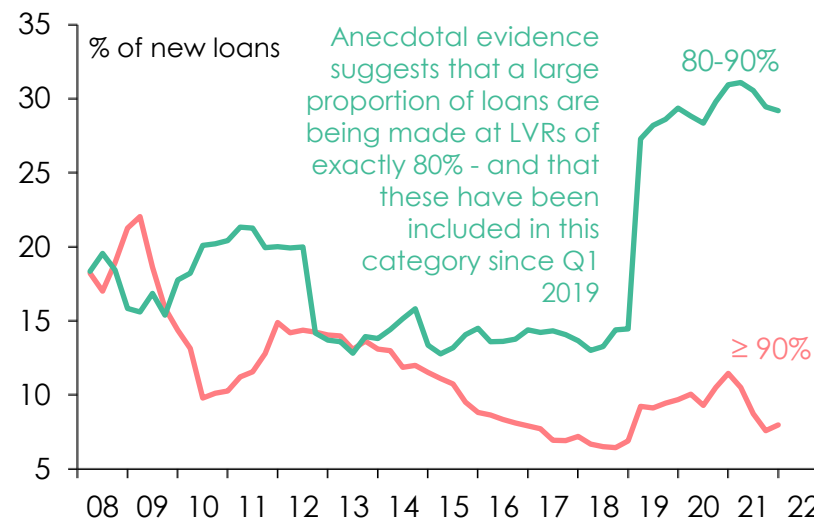
Loans to investors as a pc of total



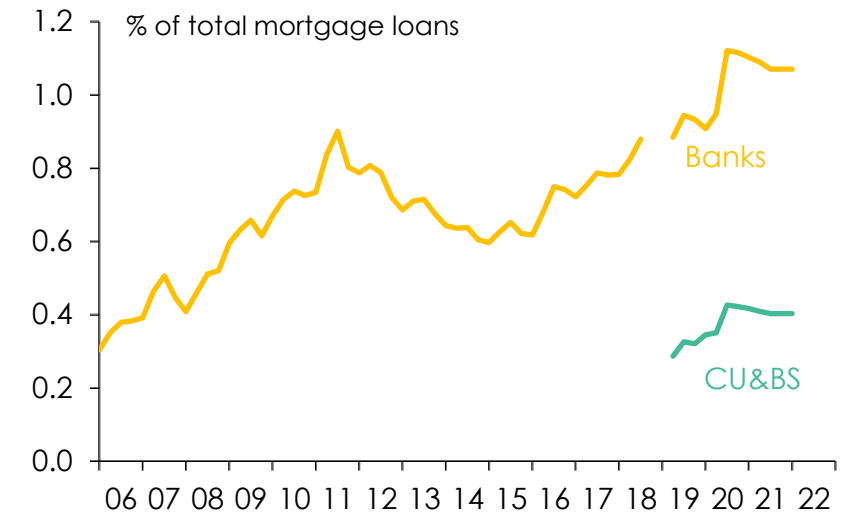
Loans to first home buyers



High LVR loans as a pc of total



Non-performing mortgage loans

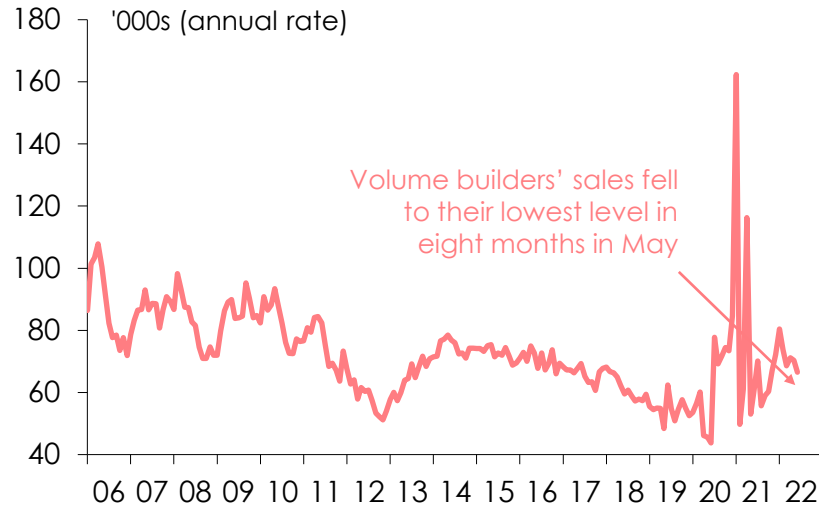


Sources: ABS, [Lending Indicators](#), April; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). May housing finance data will be released on 4th July; APRA data on ADI property exposures for the March quarter will be released on 14th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

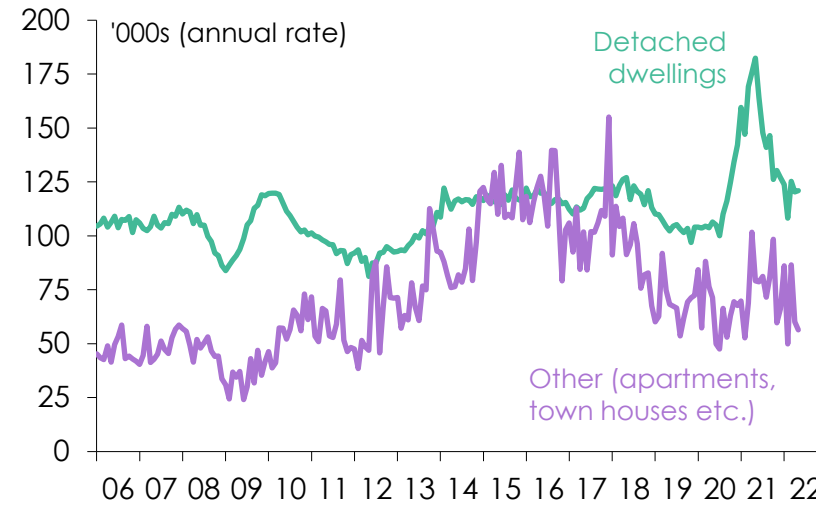
Residential building approvals fell another 2.4% in April, after large swings during the March quarter, to be 20% below their pre-Covid average

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

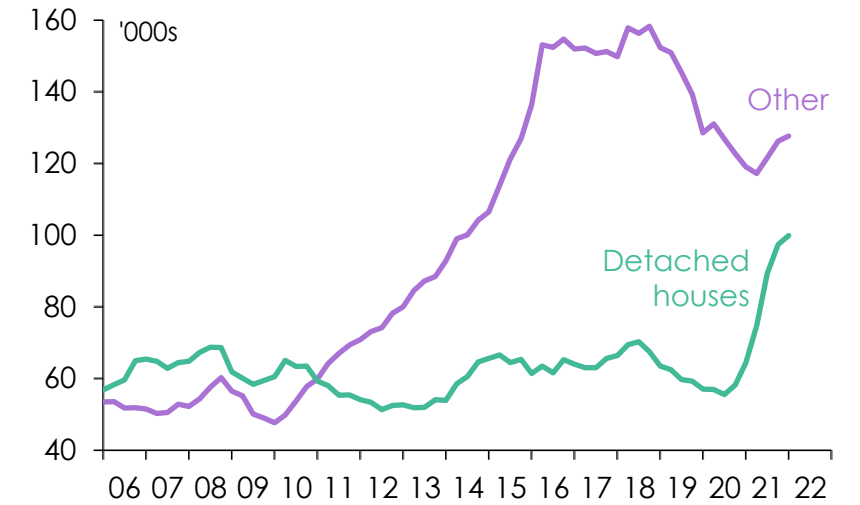
Large builders' new home sales



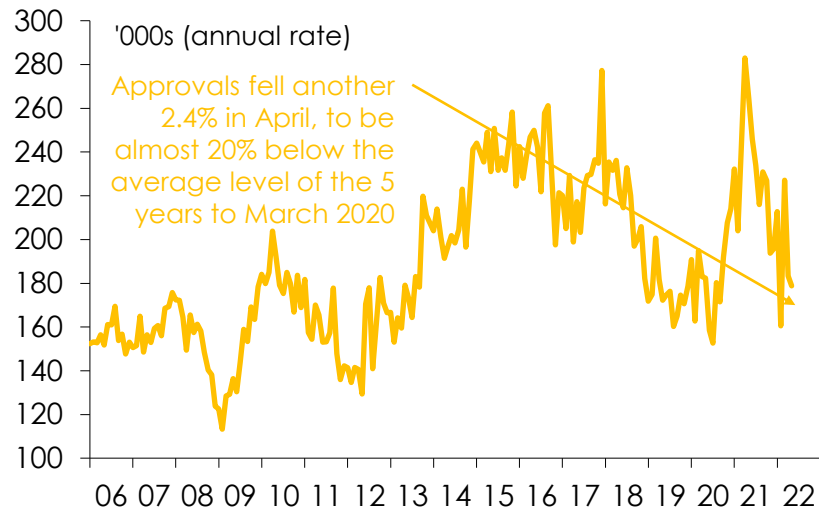
Building approvals, by type



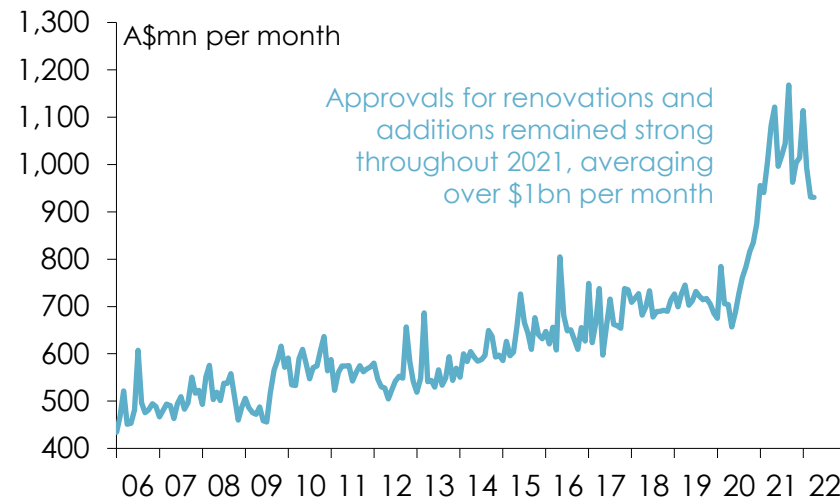
Dwellings under construction



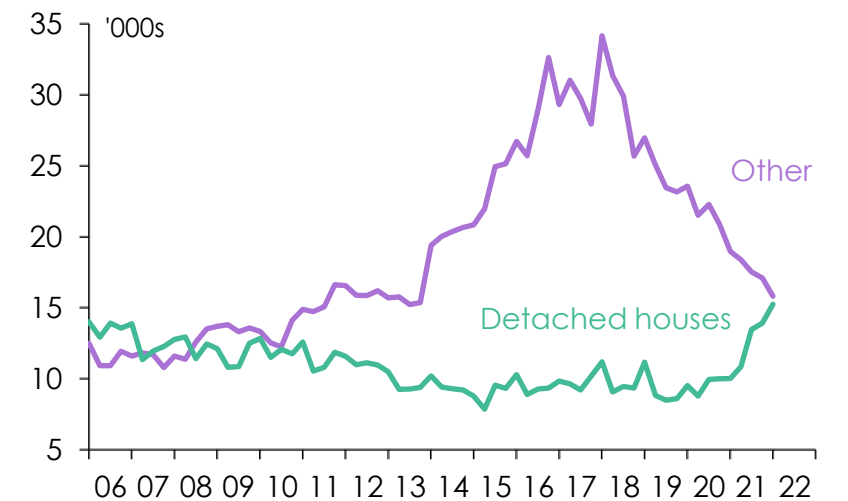
Residential building approvals



Alterations & additions approved



'Pipeline' of work yet to be started

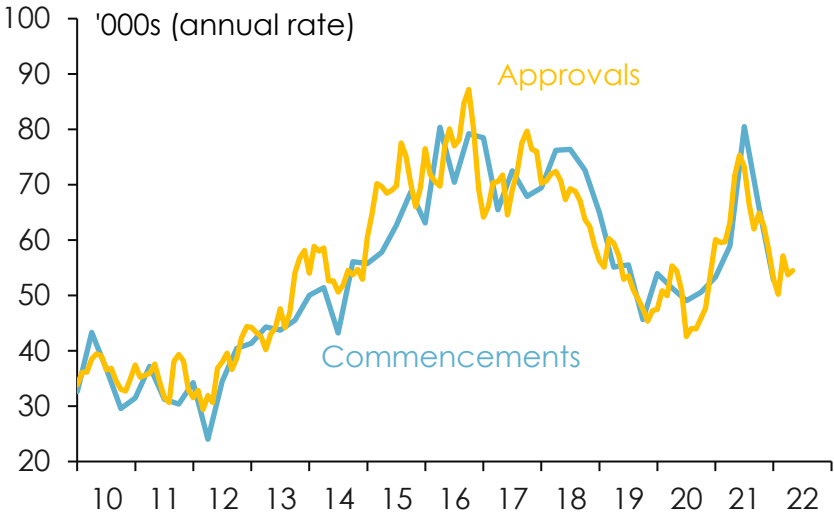


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#) and [Building Activity](#); Housing Industry Association. May building approvals data will be released on 7th June; March quarter dwellings under construction and 'pipeline' data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

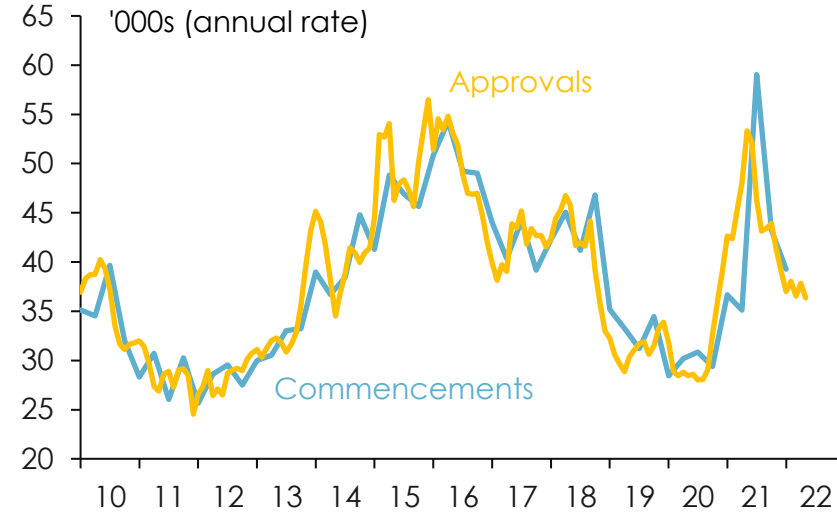
Residential building approvals have weakened most from last year's peaks in Western Australia, Queensland, South Australia & New South Wales

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

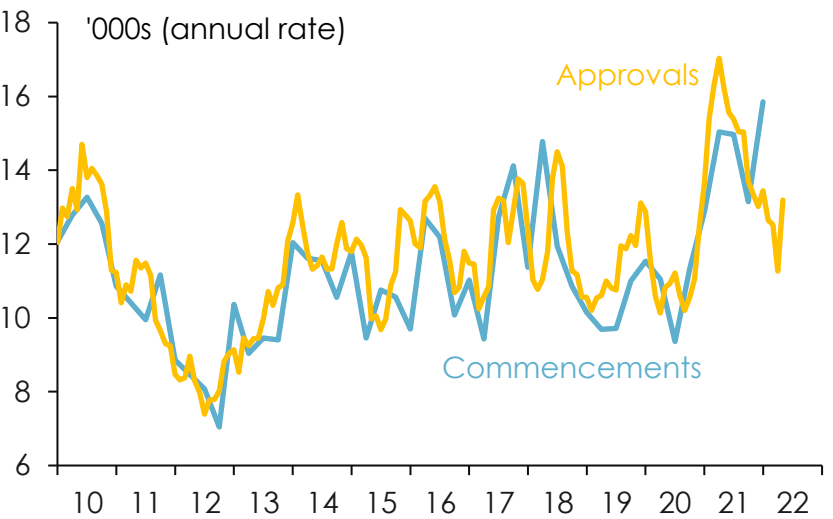
New South Wales



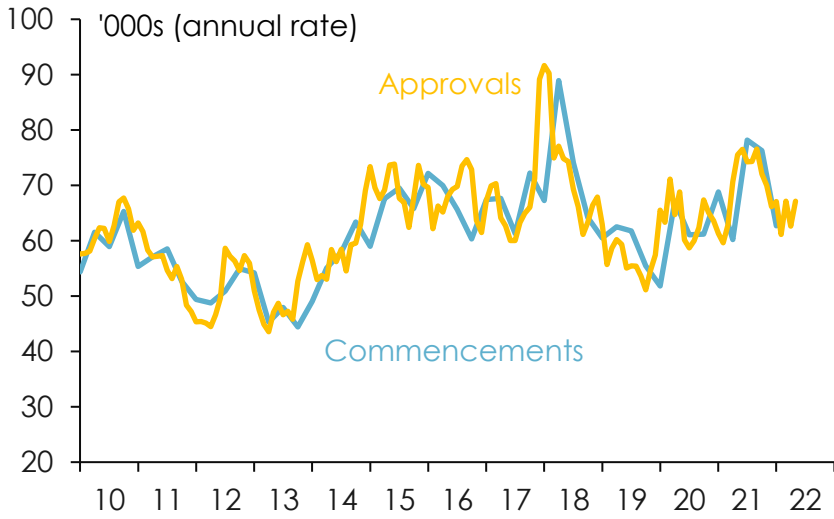
Queensland



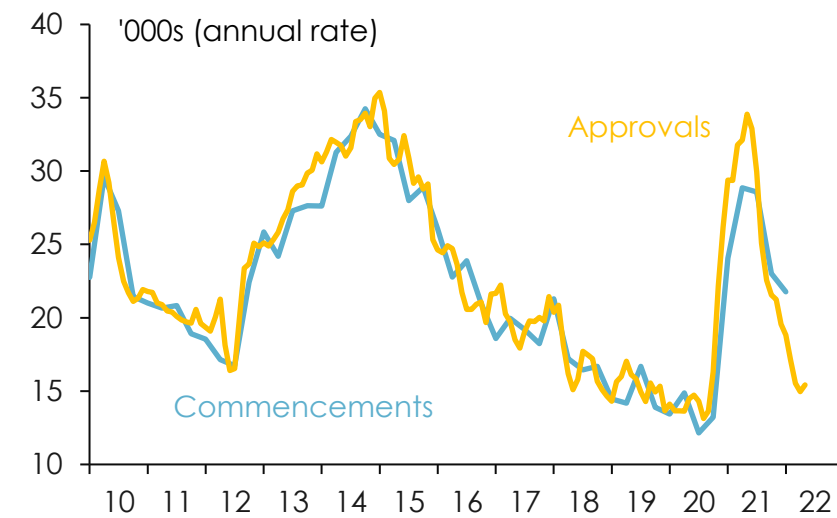
South Australia



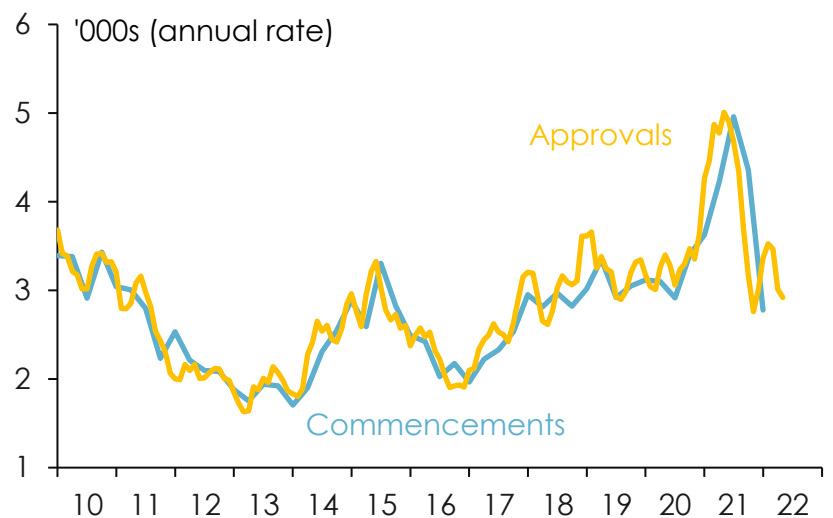
Victoria



Western Australia



Tasmania



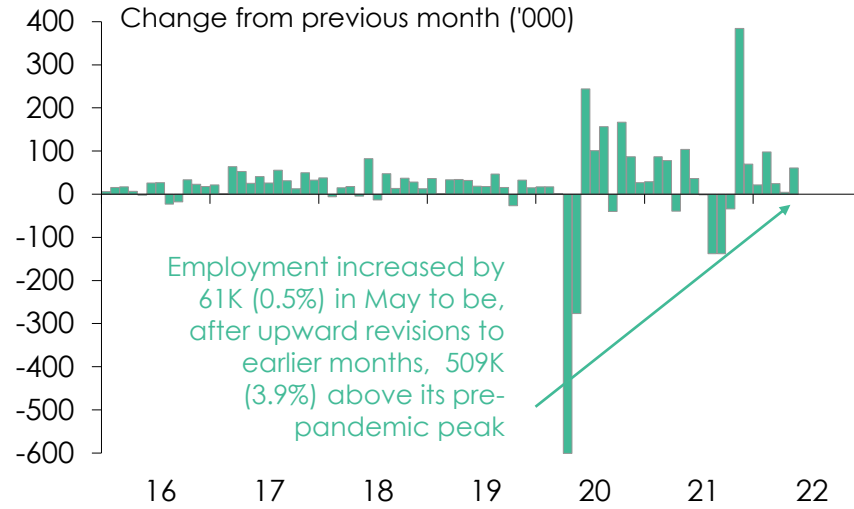
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly (and the most recent data is for the September quarter last year). Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to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

The labour market

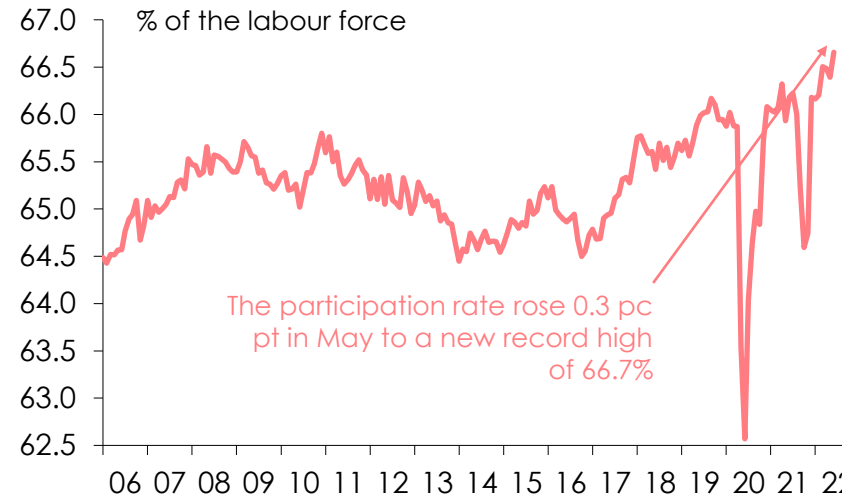
Employment grew another 61K (0.5%) in May, the unemployment rate was steady at 3.9% but under-utilization fell to its lowest in 40 years

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

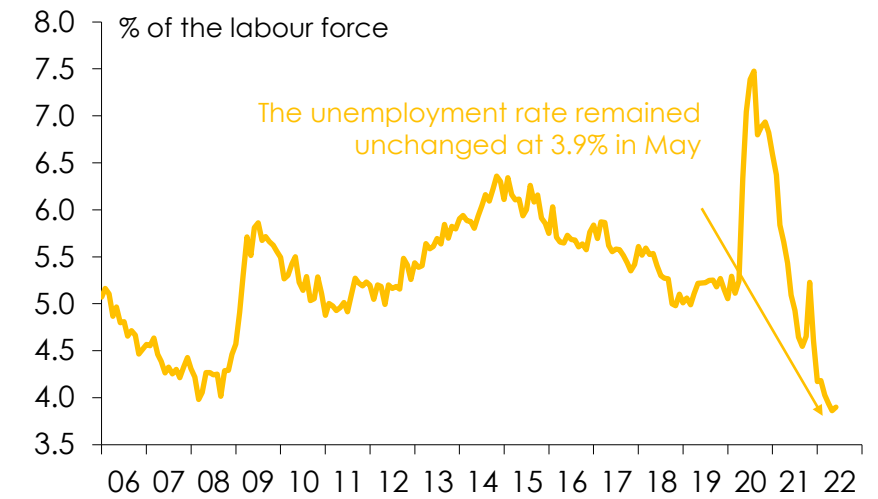
Employment



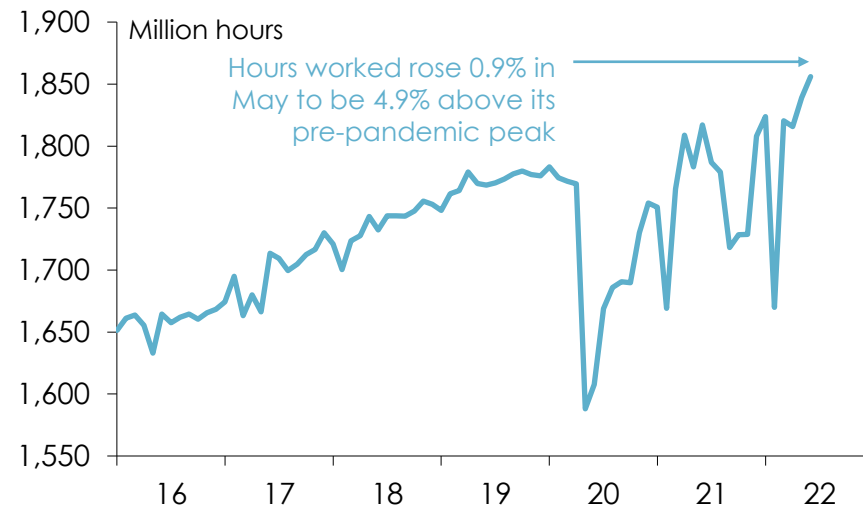
Labour force participation rate



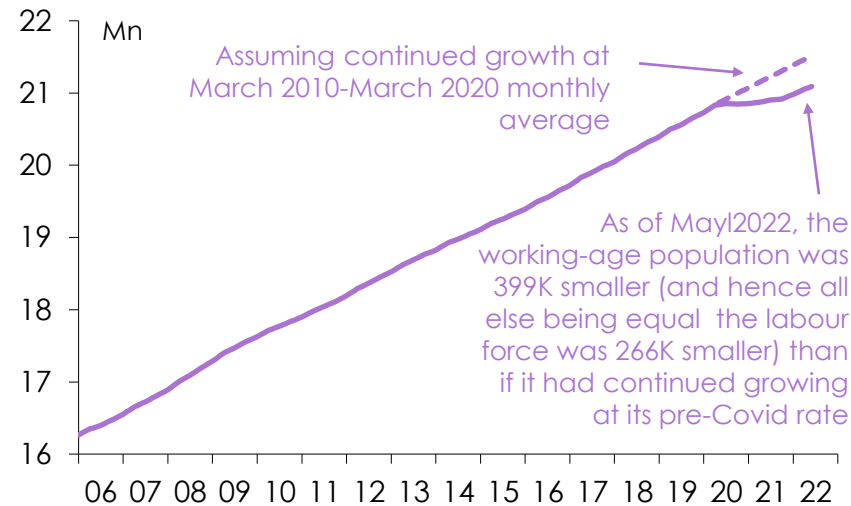
Unemployment rate



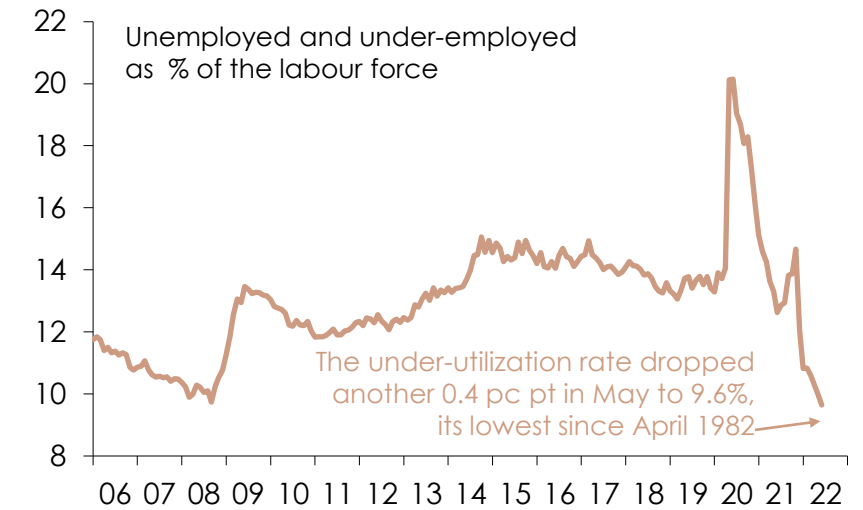
Total hours worked



Civilian working-age population



'Under-utilization' rate

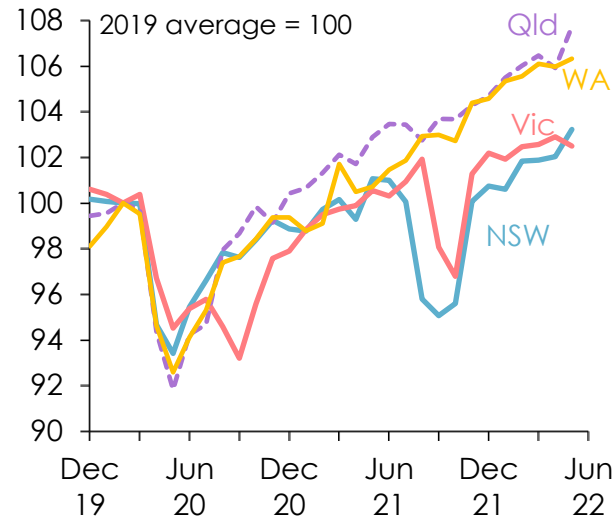


Source: ABS, [Labour Force, Australia](#), May. June data will be released on 14th July. [Return to "What's New"](#).

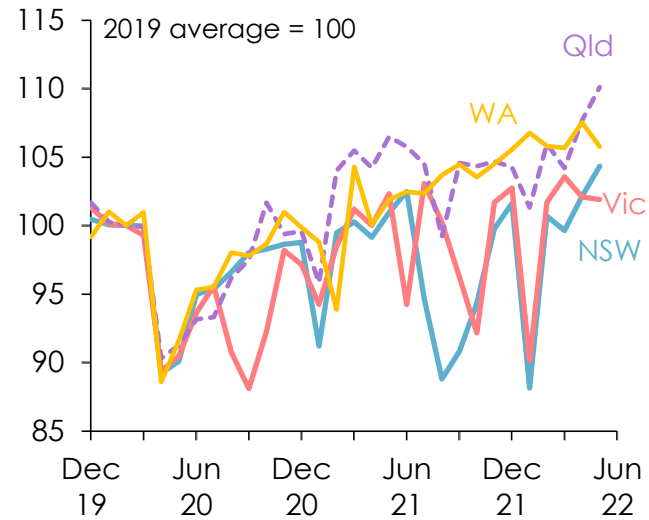
NSW, Queensland and Western Australia have accounted for most of the job gains over the first five months of 2022

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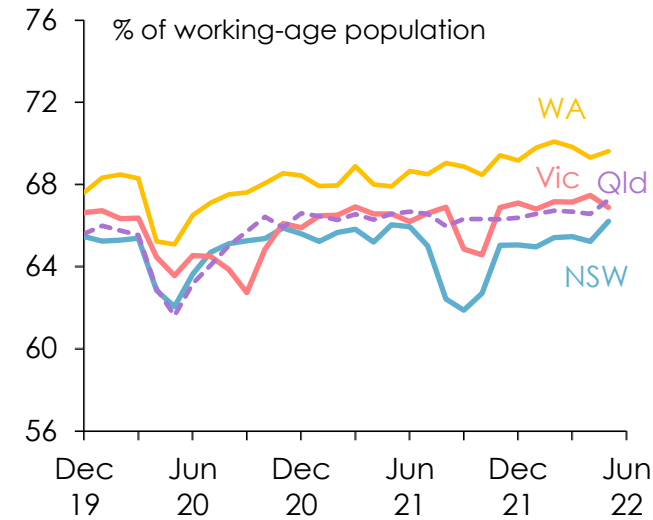
Employment



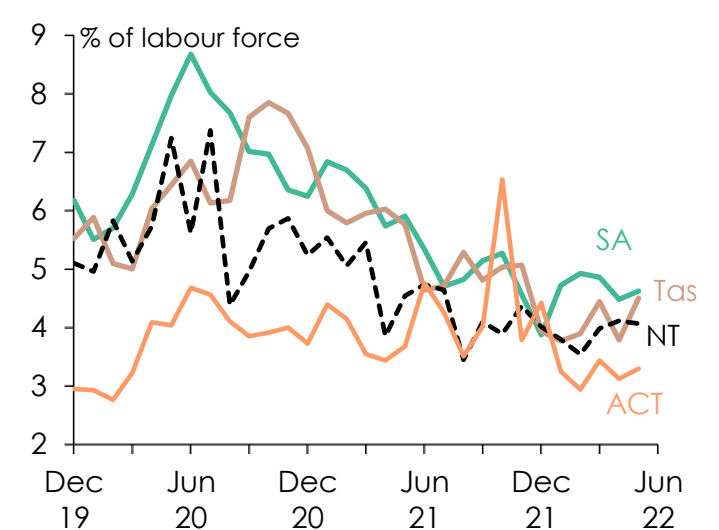
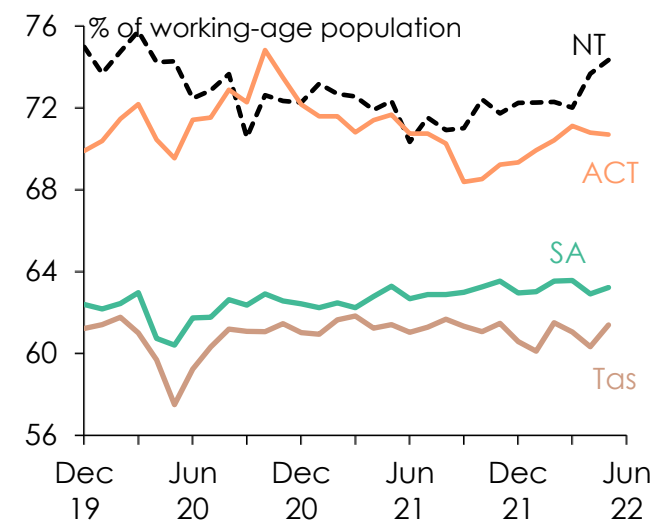
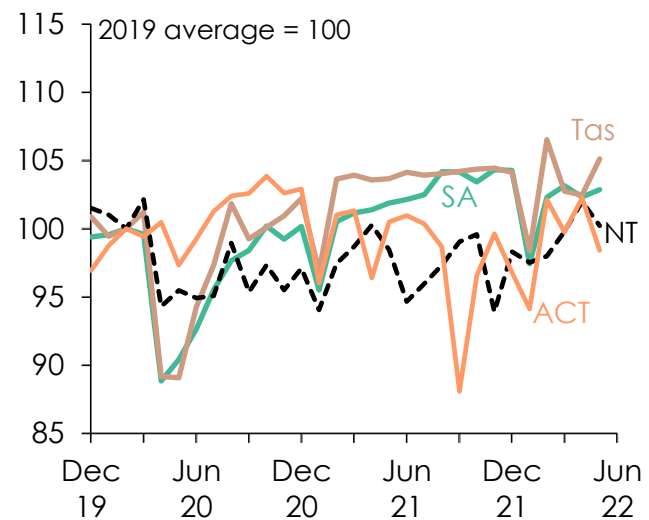
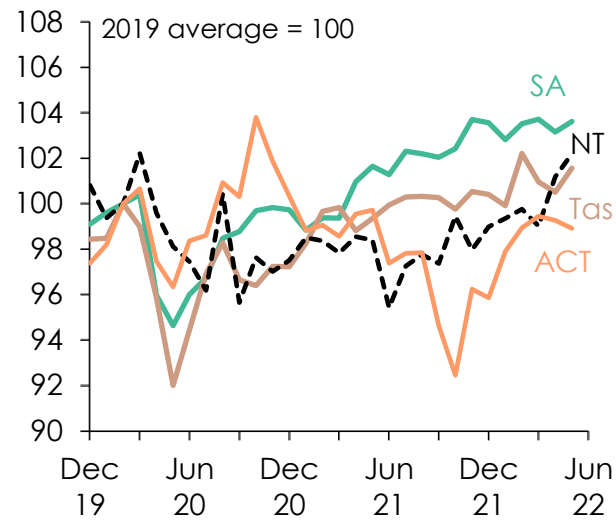
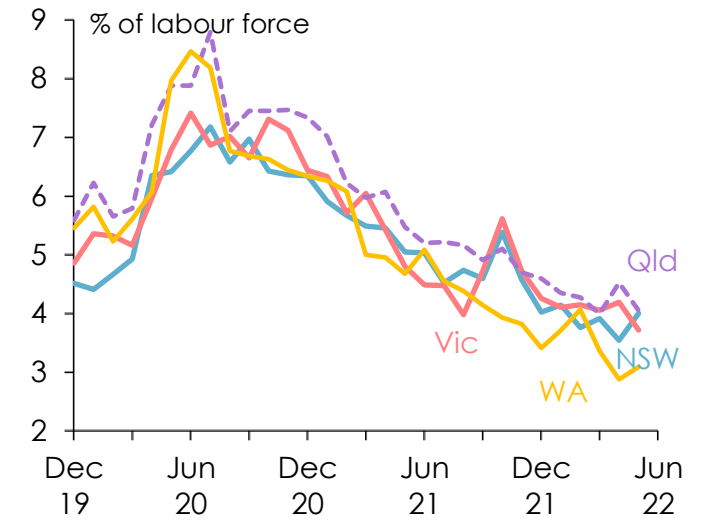
Hours worked



Participation rates



Unemployment rates



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

The 'effective' unemployment rate fell 0.1 pc pt in May, to 4.5%, well down from the peak of 10.5% in August last year and 5.8% in January

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

The 'effective' unemployment rate



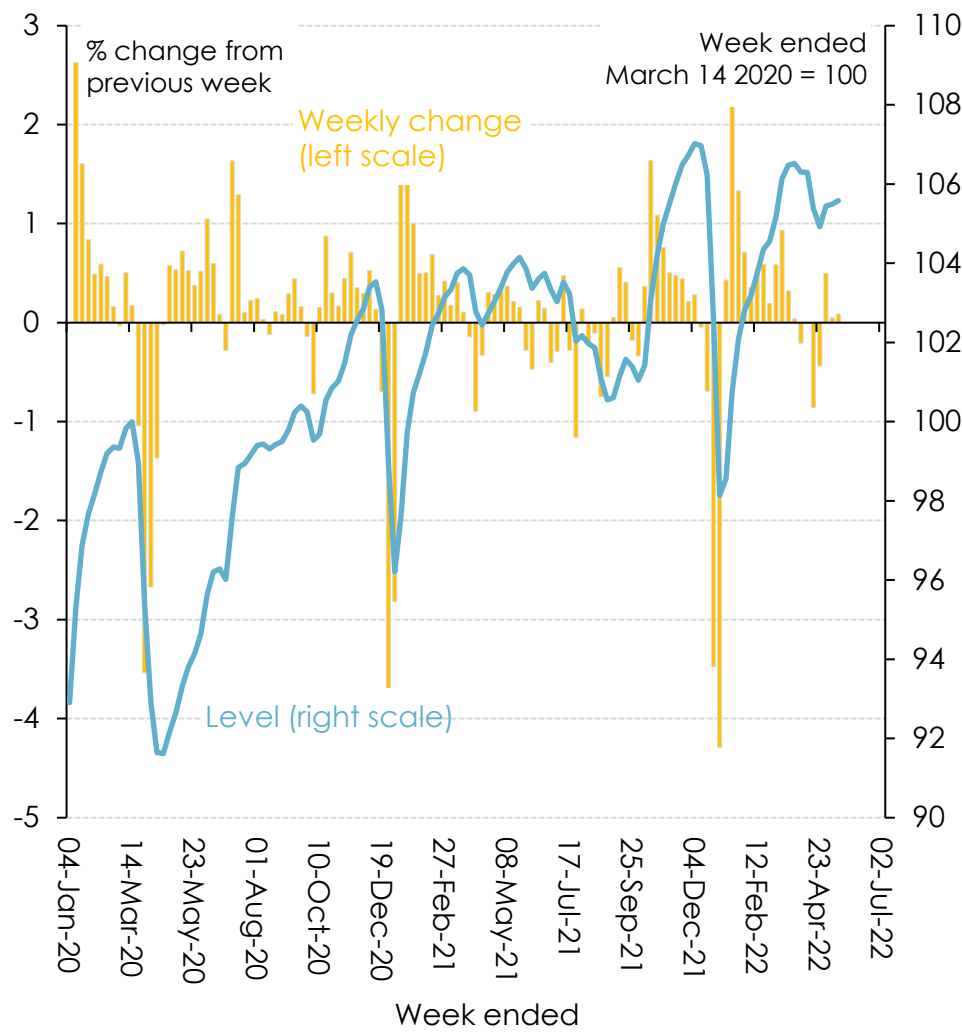
- ❑ 46K people were counted as 'employed' despite having worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') in May, virtually unchanged from 49K in April (but well down from the most recent peak of 249K in August last year)
- ❑ There were another 43K people counted as 'employed' in April despite also working zero hours for reasons other than 'economic' ones, or having been on some form of leave, down from 52K in April and well 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 April and to 4.5% in May
- ❑ These estimates don't include the 312K people who worked zero hours because they were on some form of sick leave – down from a most recent peak of 454K in January, but still high by historical standards, suggesting that Covid is still disrupting work patterns

Note: the data on people working zero hours is not seasonally adjusted.
 Source: ABS, [Labour Force, Australia](#), May. June data will be released on 14th July
[Return to "What's New"](#).

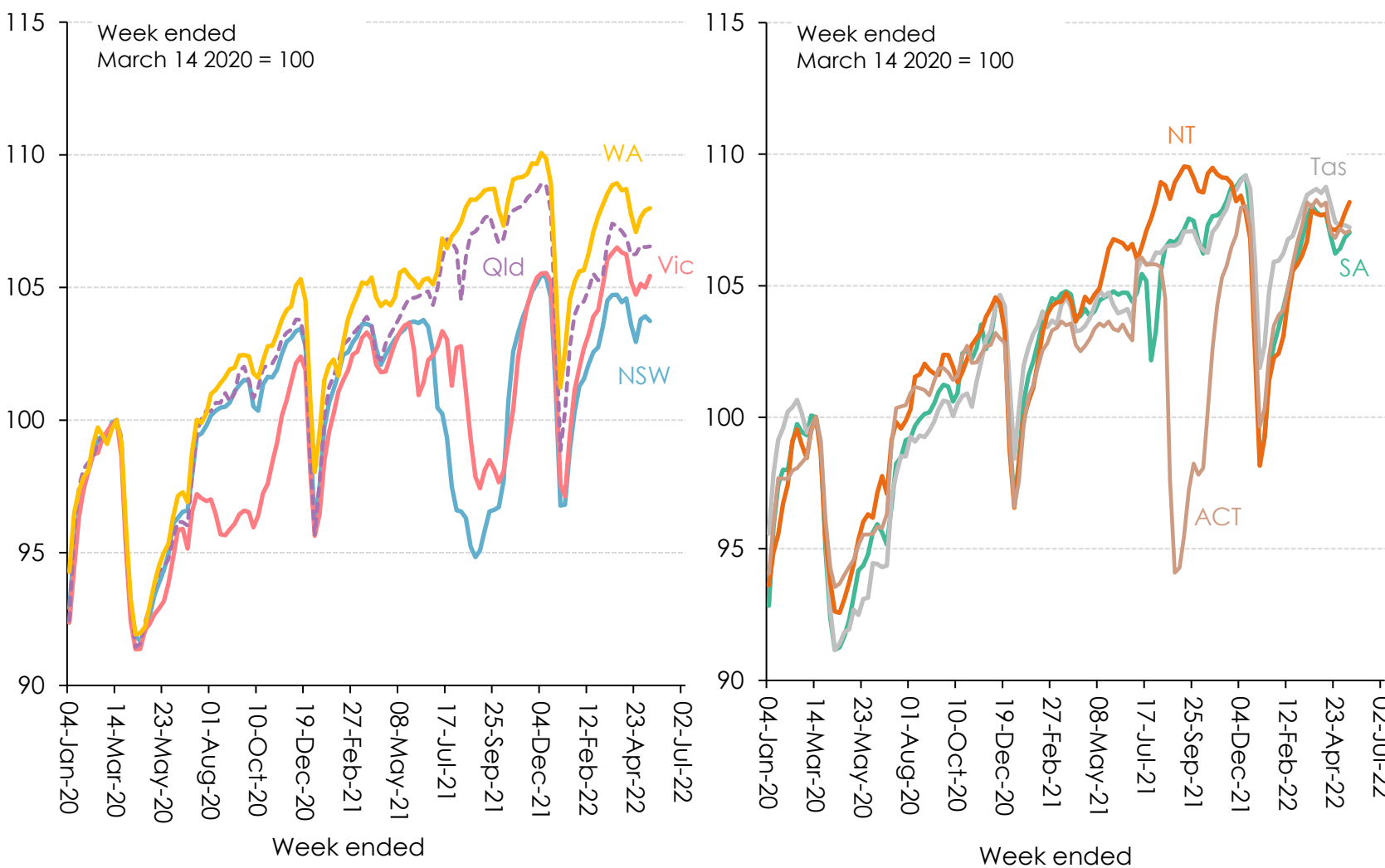
Payroll jobs fell 1.5% over the Easter-Anzac Day interval, and had only recovered by 0.5% by mid-May

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



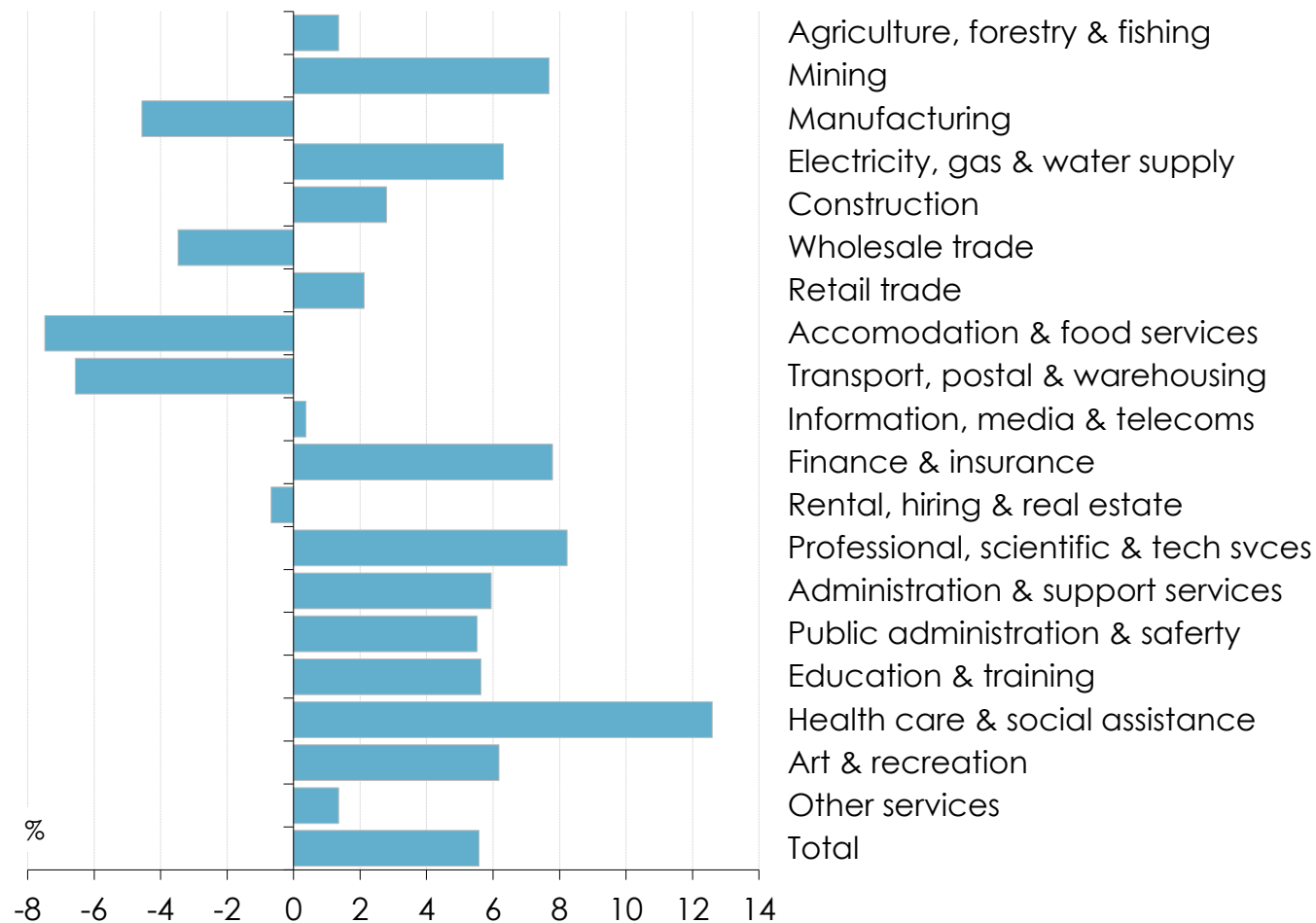
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

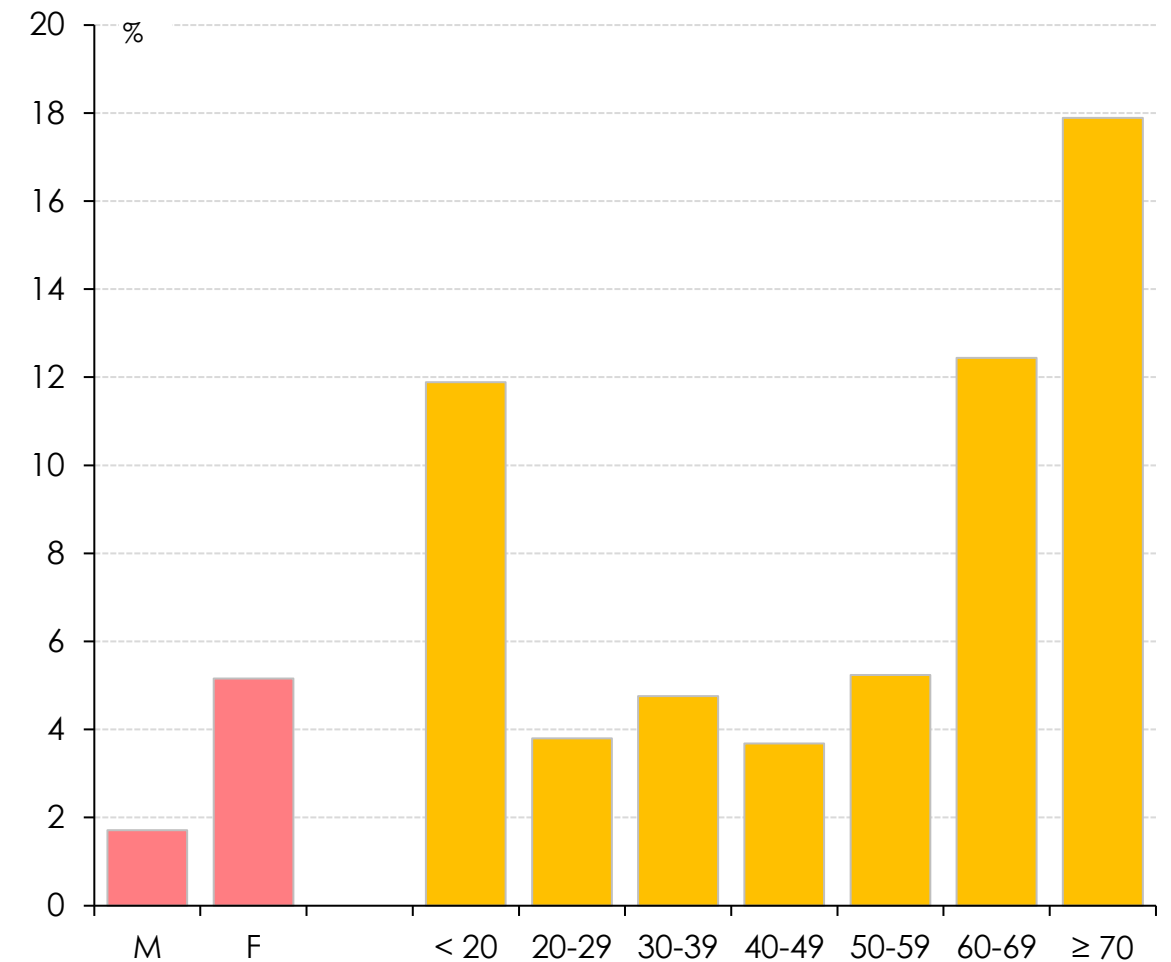
THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

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

By industry



By gender and age



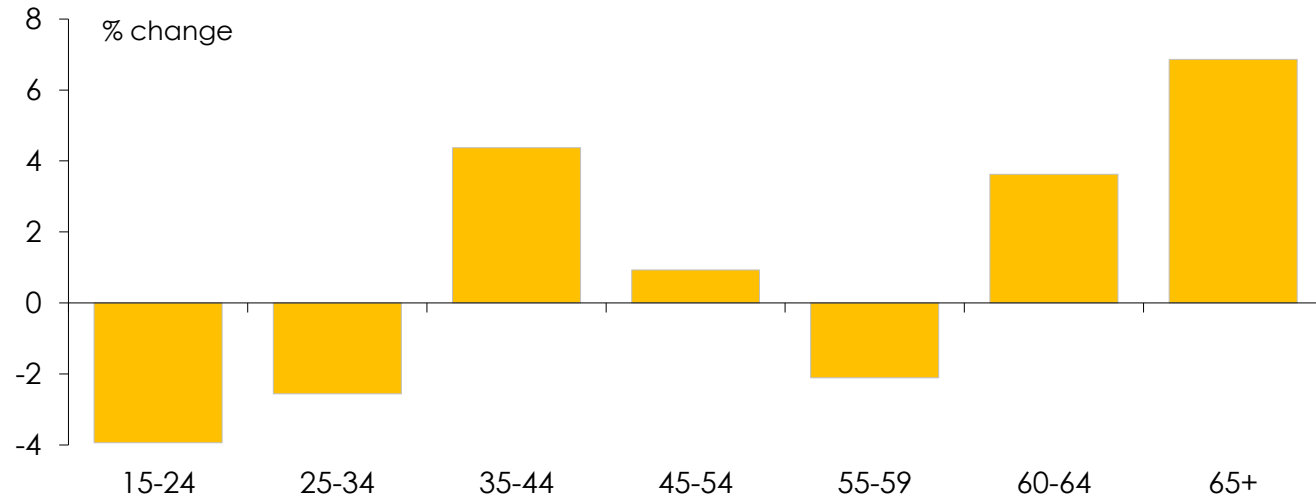
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

There are 224K (3¼%) fewer 15-34 year-olds in Australia than there were two years ago – which has helped speed reductions in unemployment

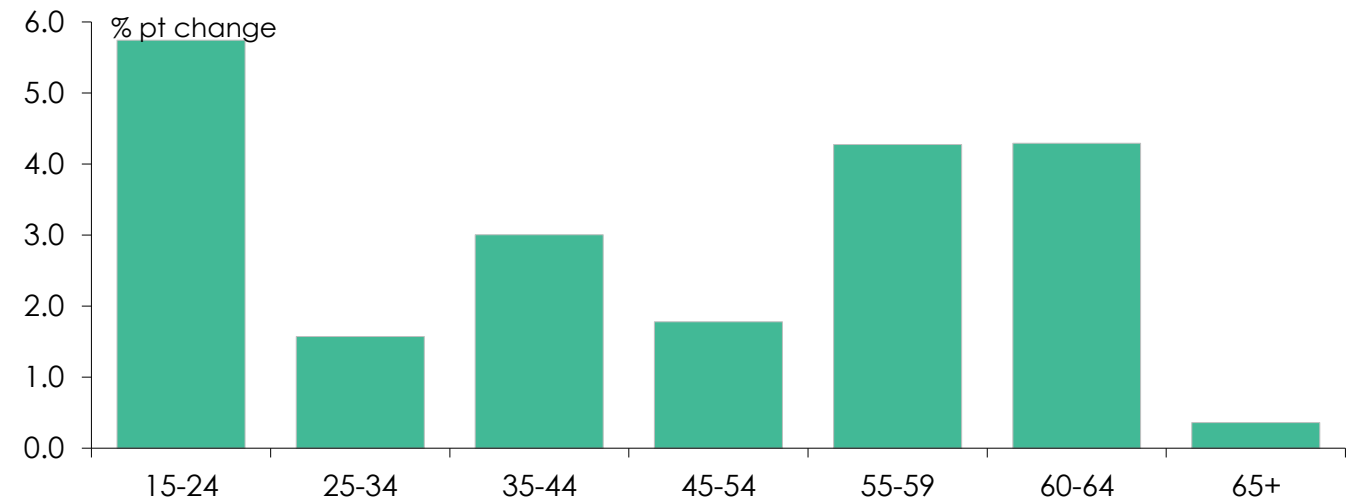
THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Changes from March 2020 to May 2022

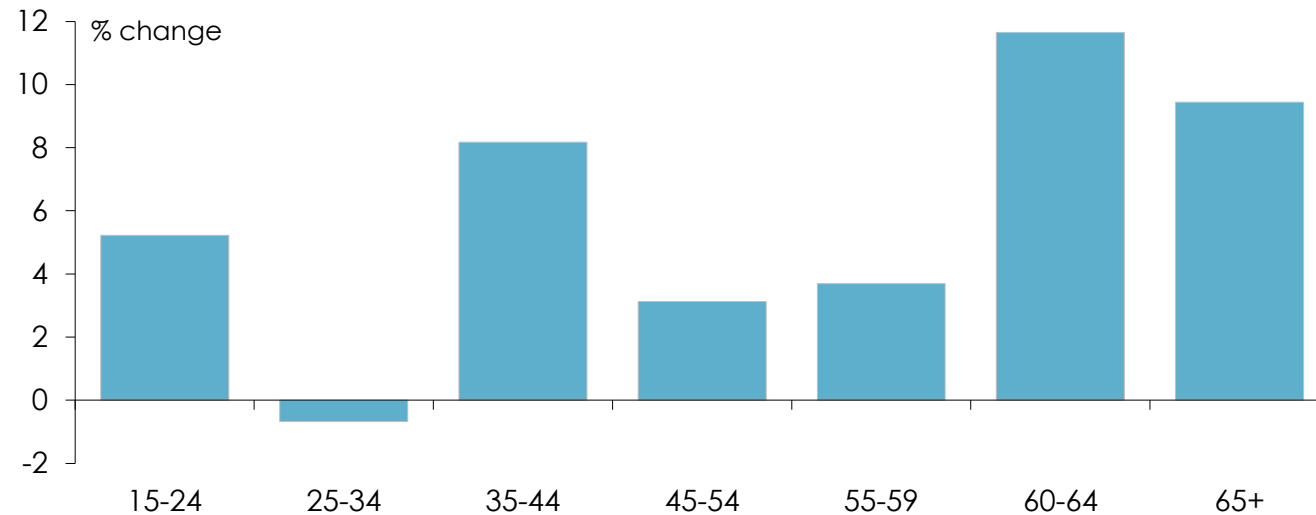
Civilian working age population



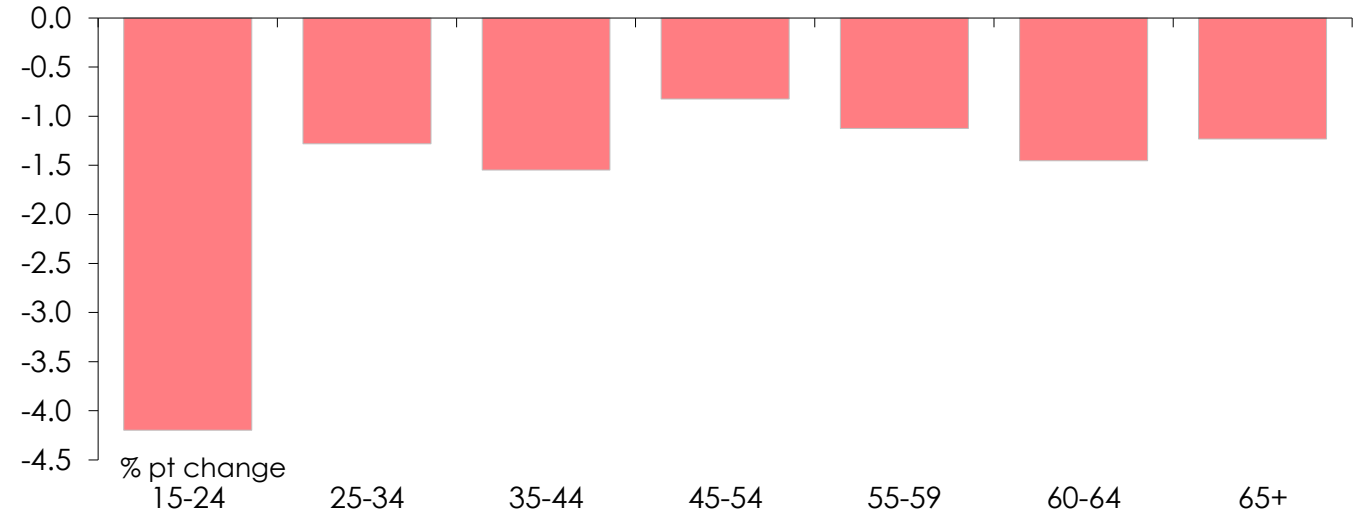
Employment-population ratio



Employment



Unemployment rates



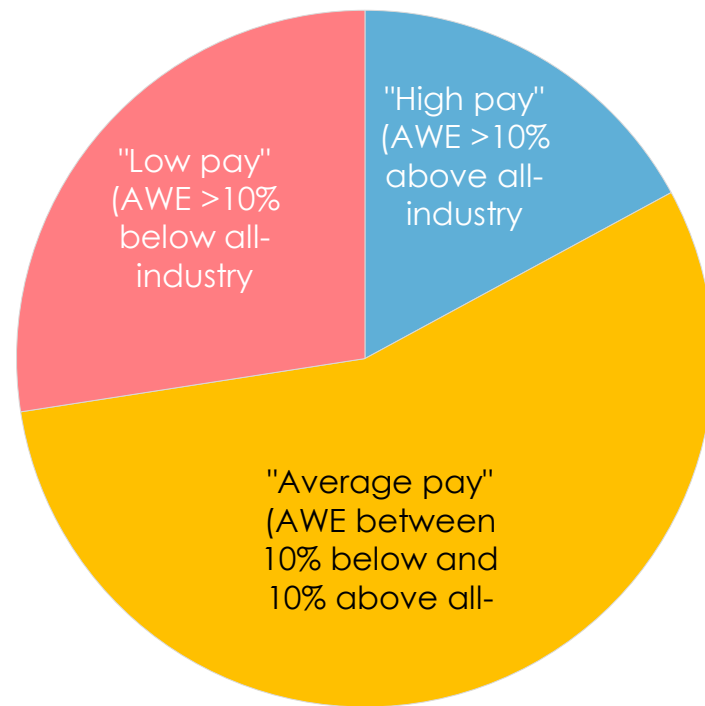
Note: The data from which the above charts are derived isn't seasonally adjusted.

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

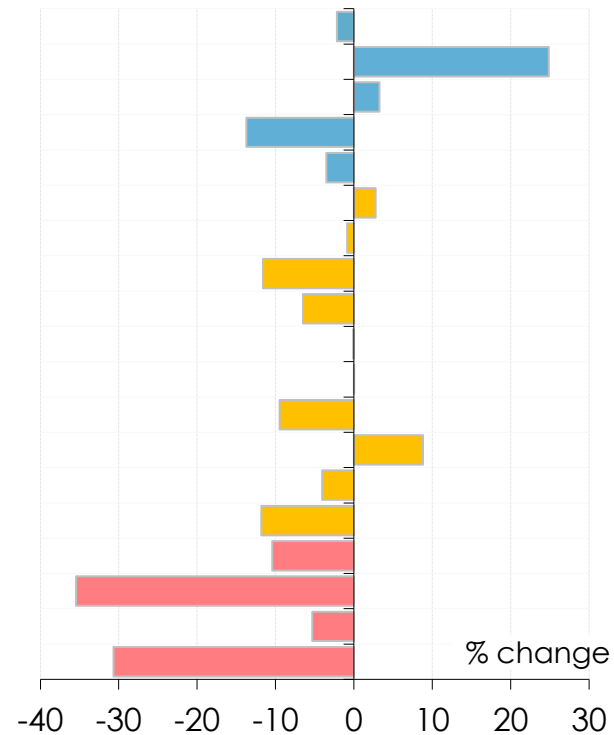
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

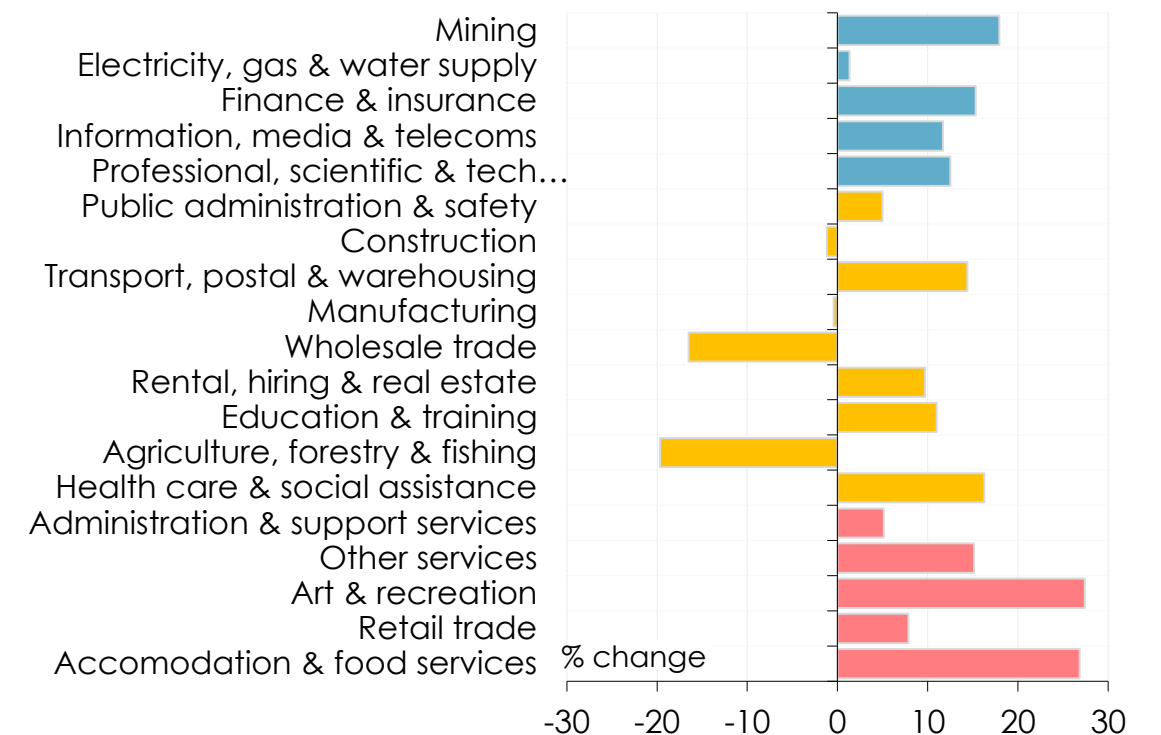
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry February-May 2020



February 2020 – February 2022



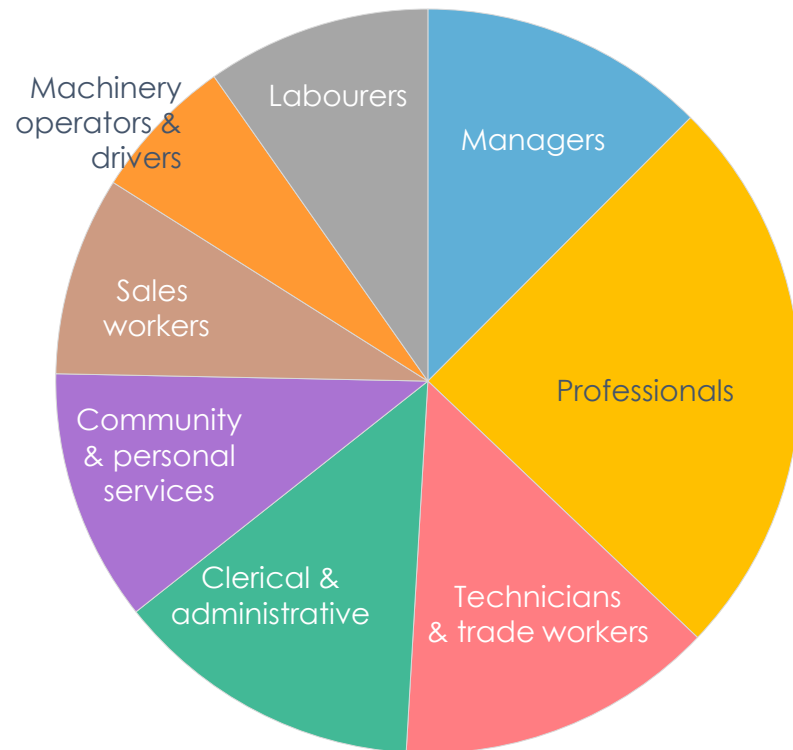
- Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May 2020 – and 86% of job losses between May and August 2021 – and despite the recovery in total employment since October 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 21st June. [Return to "What's New"](#).

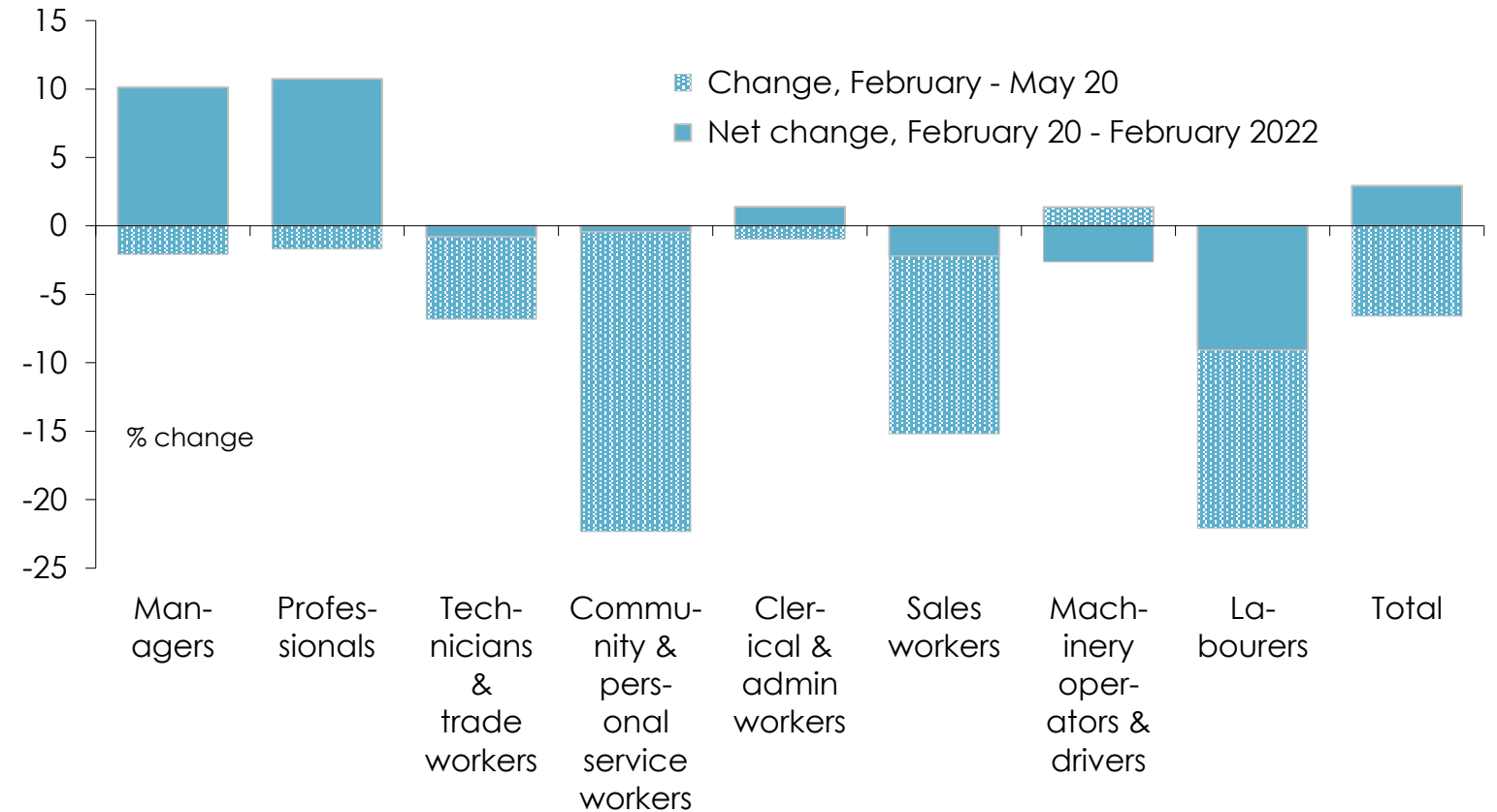
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Employment by major occupation category, February 2020



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



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

Source: ABS, [Labour Force, Australia, Detailed](#), February 2022. Labour force survey data on employment by occupation are available only for the middle month of each quarter: May data will be released on 21st 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 – 24TH 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



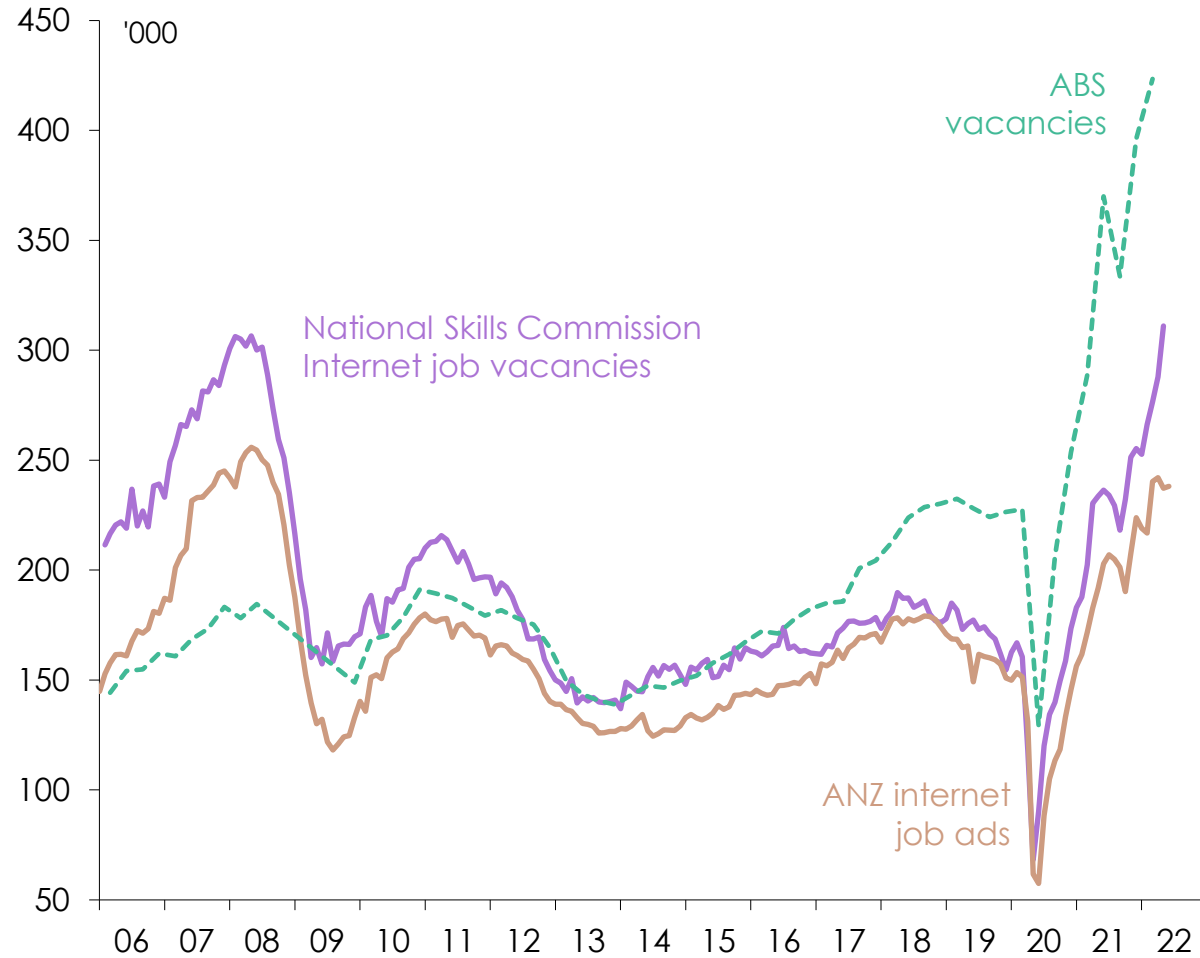
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

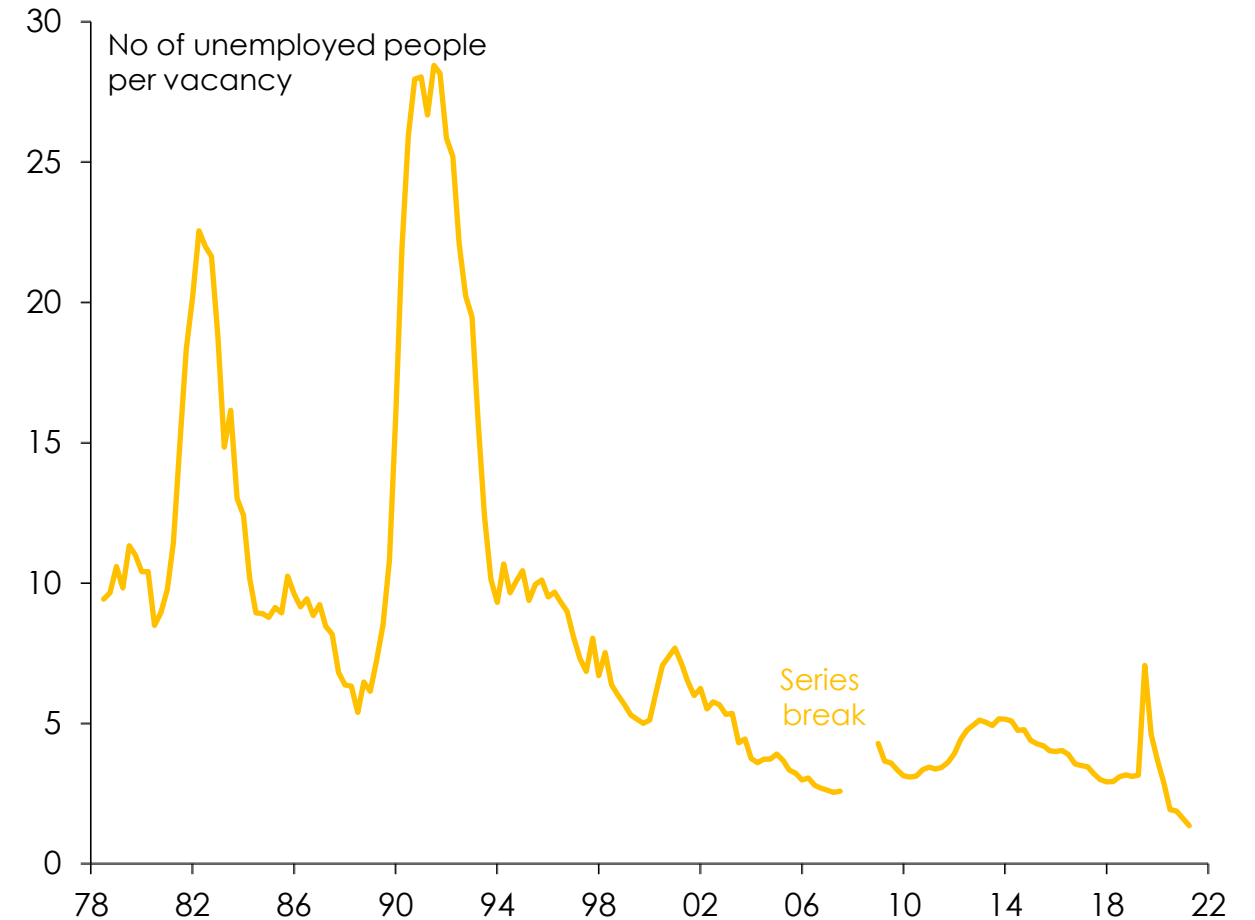
THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

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



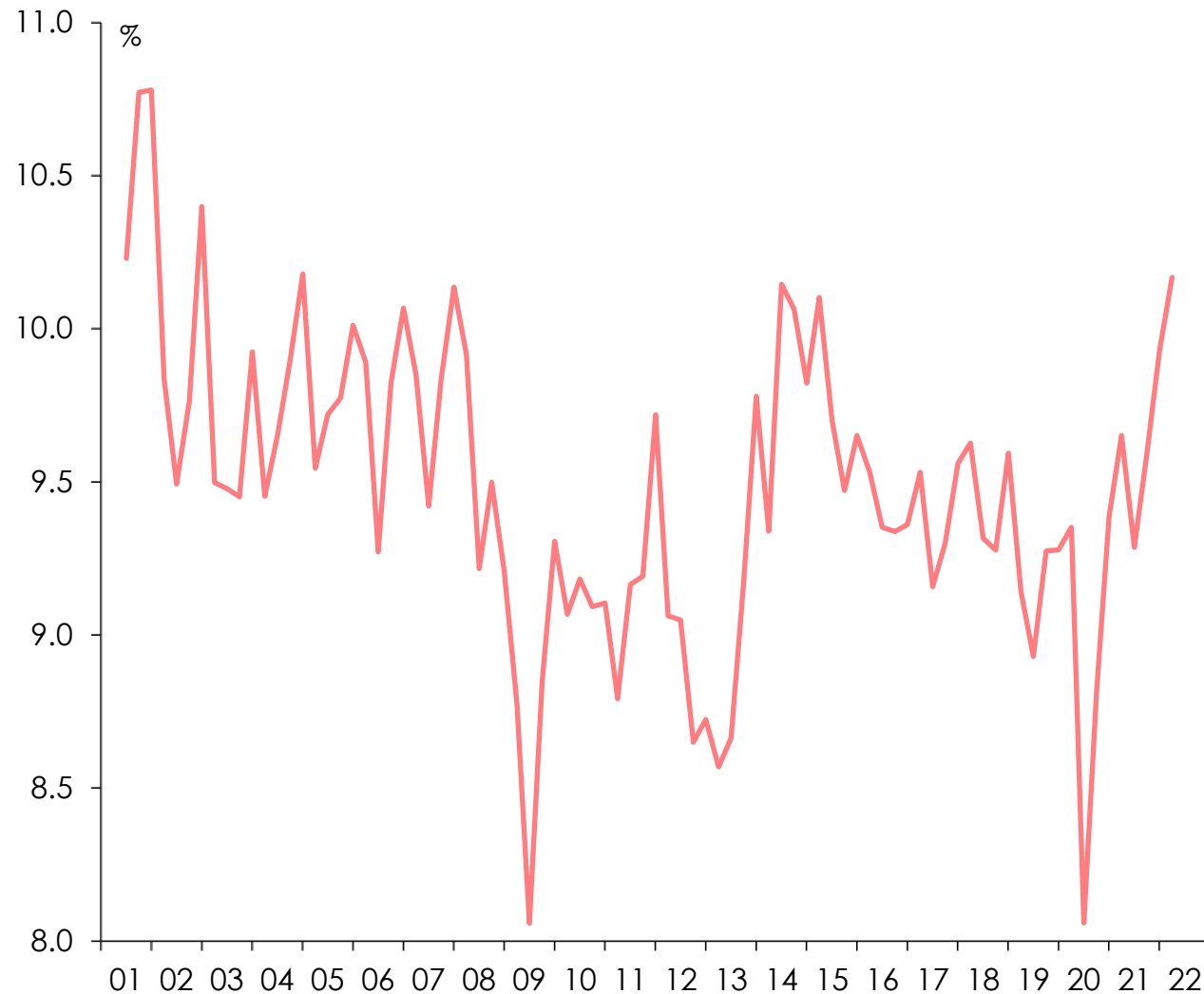
☐ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

Sources: Australian Government, [Labour Market Information Portal](#); [ANZ Research](#); ABS, [Job Vacancies, Australia](#). May ABS job vacancies data is released on 30th June. [Return to "What's New"](#).

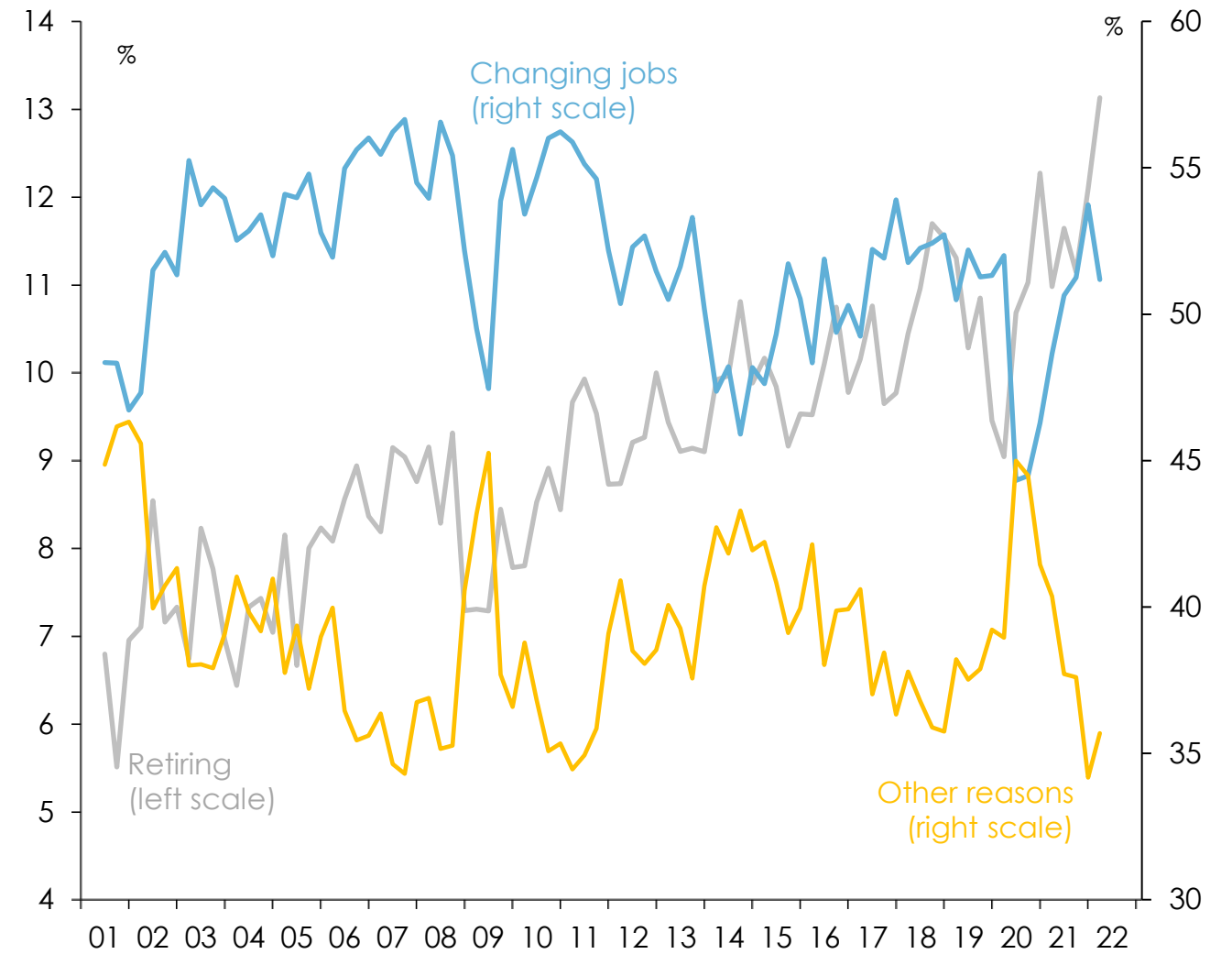
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH 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



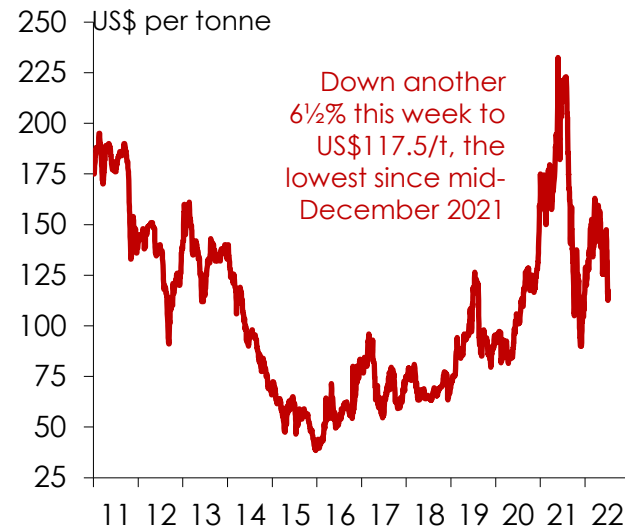
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

Trade and the balance of payments

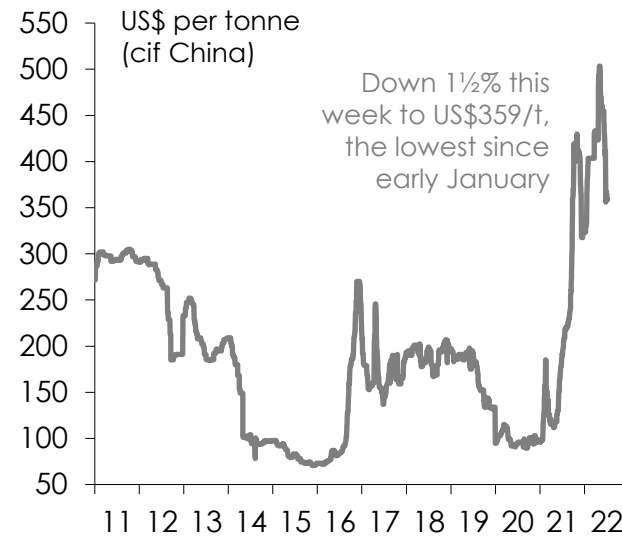
Commodity prices continued to decline this week, on growing fears of a US (and perhaps global) recession

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

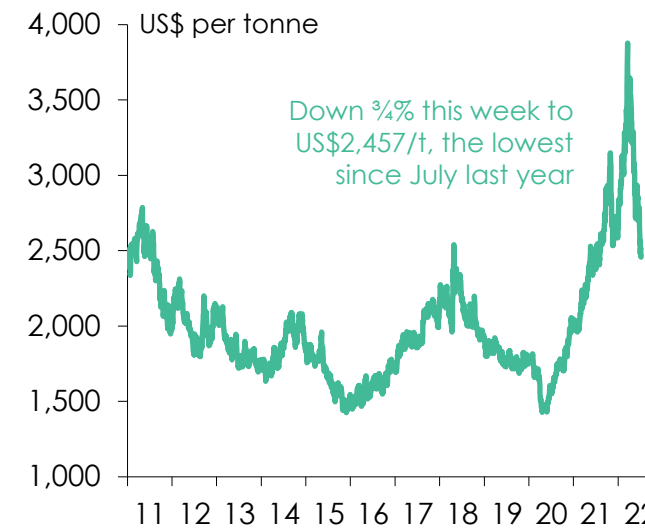
Iron ore



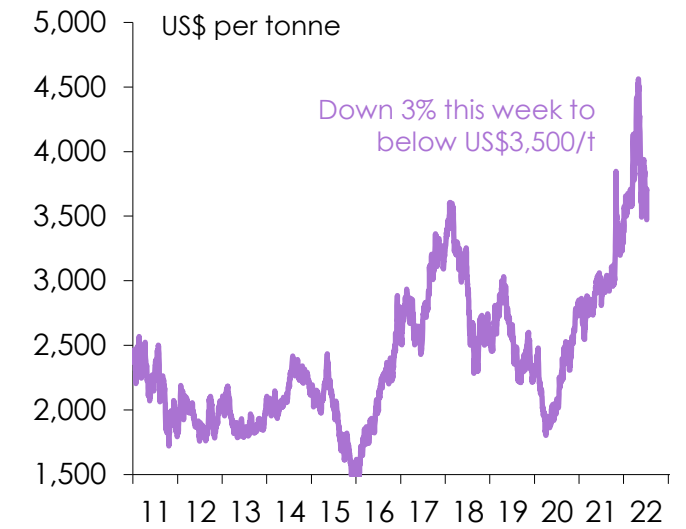
Metallurgical coal



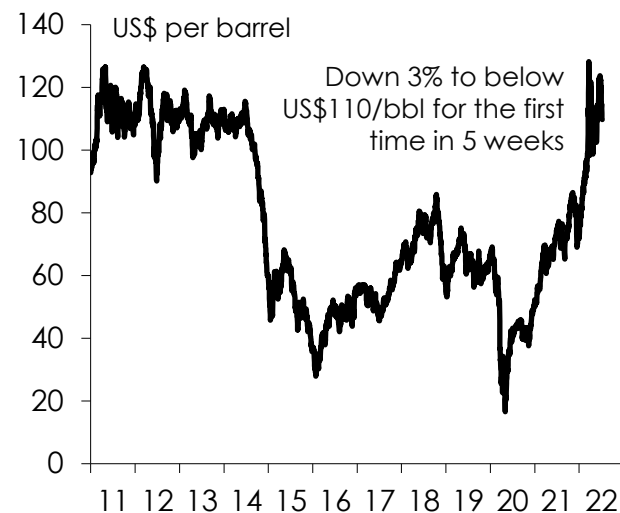
Aluminium



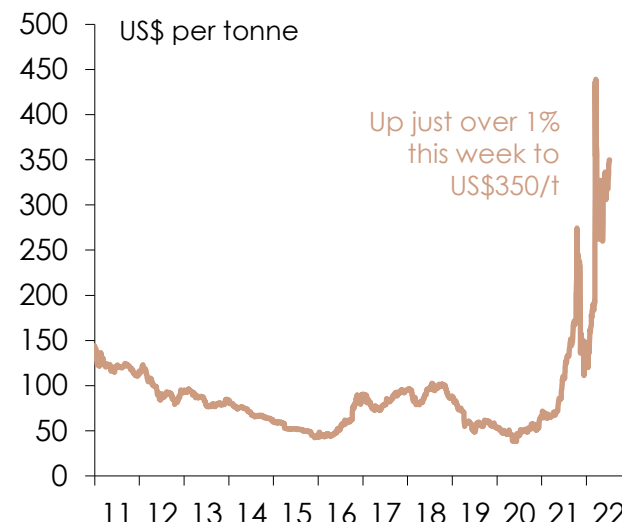
Zinc



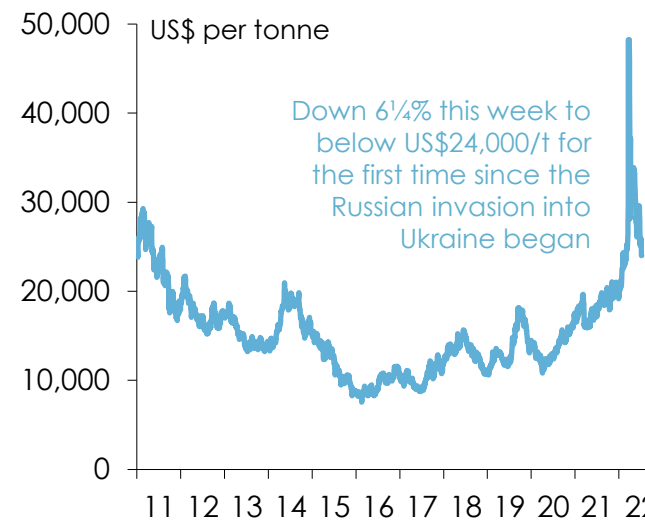
Brent crude oil



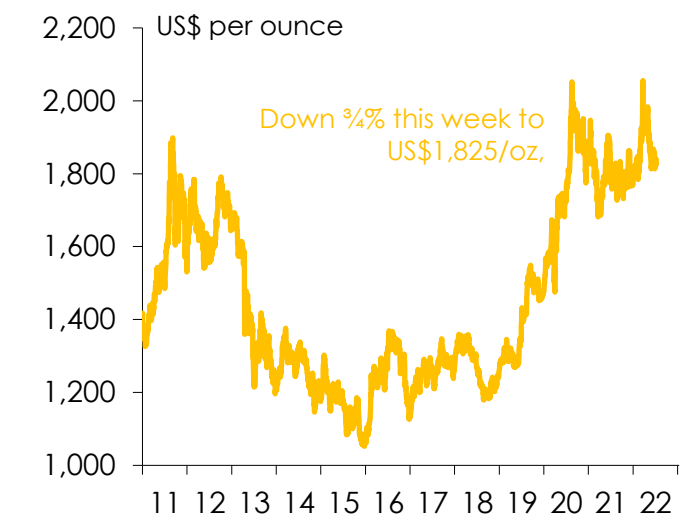
Thermal coal



Nickel



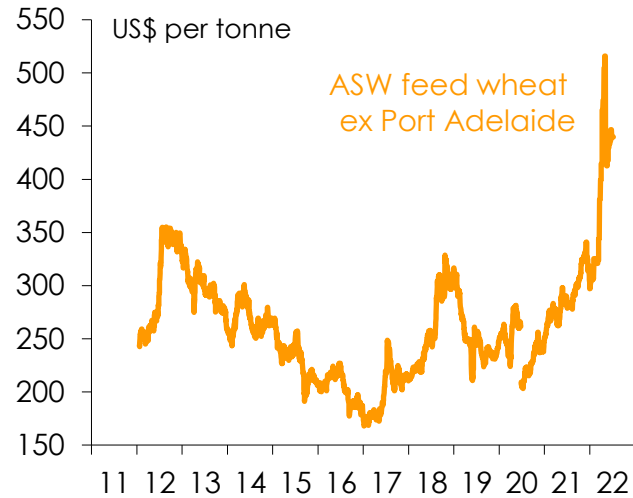
Gold



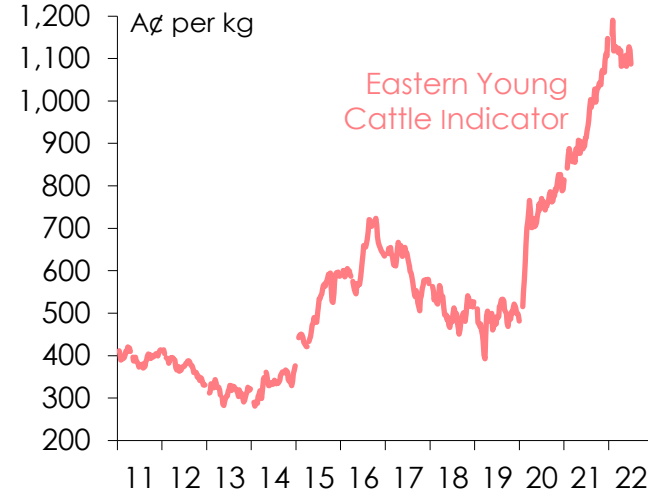
Most agricultural commodity prices were also lower this week, although grain, livestock and milk prices remain high by historical standards

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

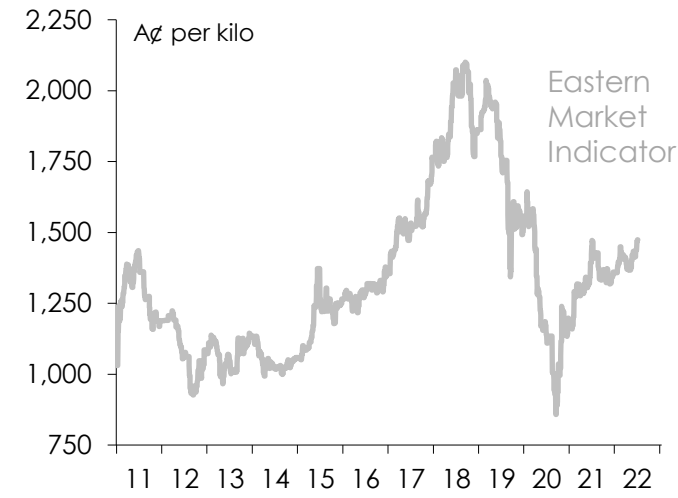
Wheat



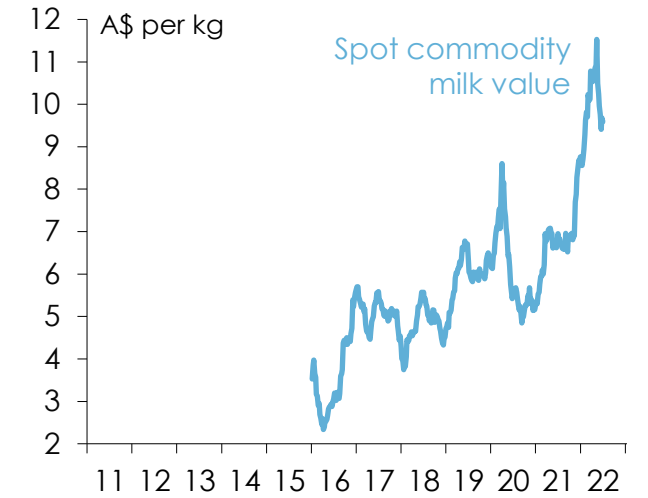
Beef cattle



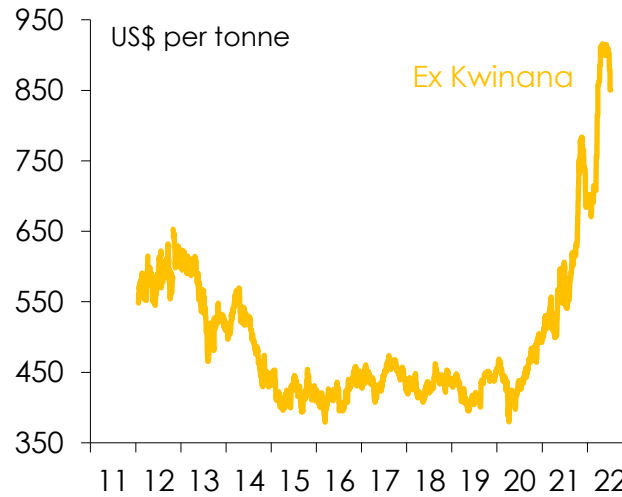
Wool



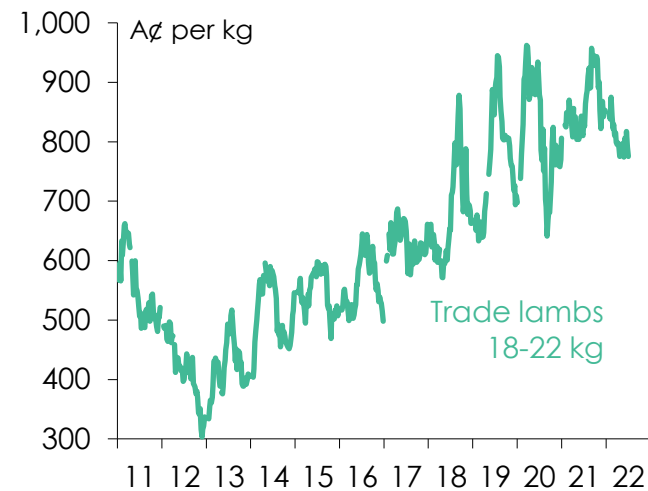
Milk



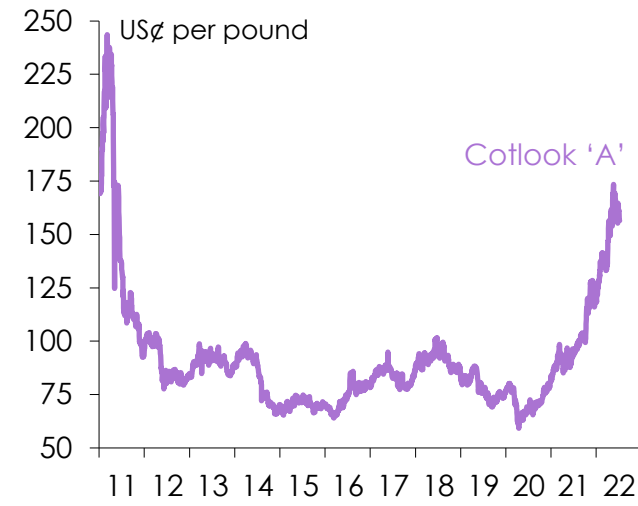
Canola



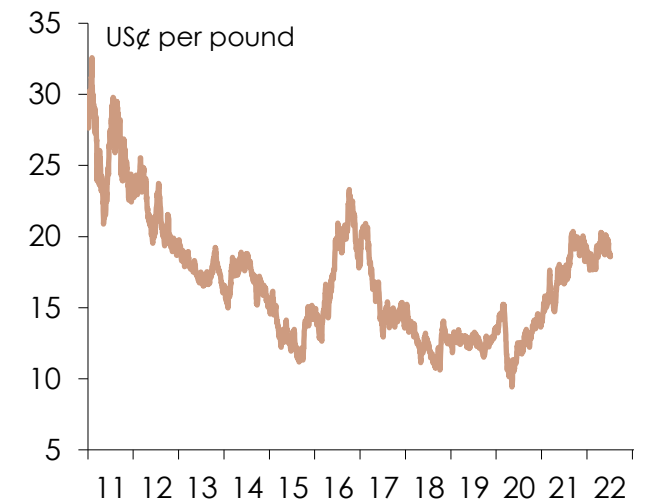
Sheep



Cotton



Sugar

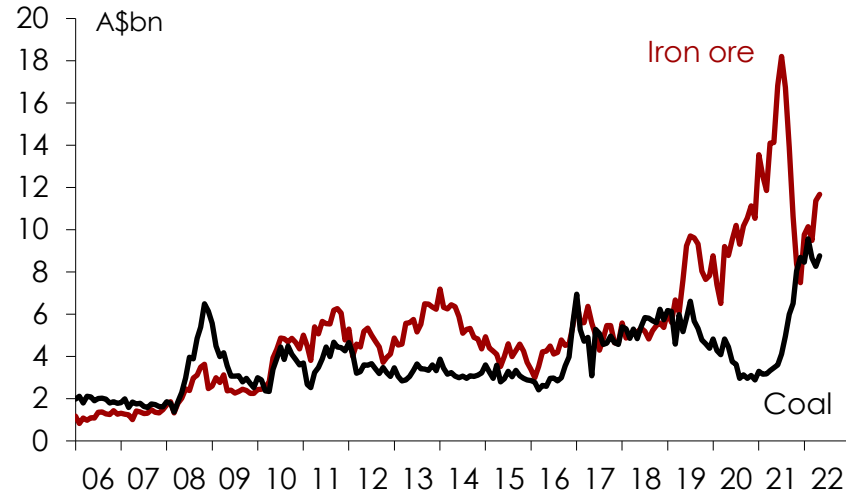


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 24th June. [Return to "What's New"](#).

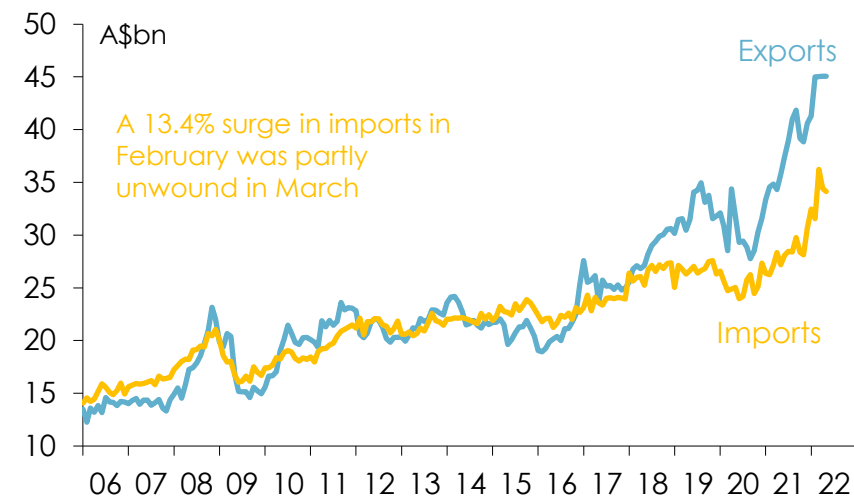
Australia's trade surplus widened by \$0.3bn to \$10.9bn in April, with exports up 1.0% (including a 9.6% jump in services) and imports down 0.7%

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

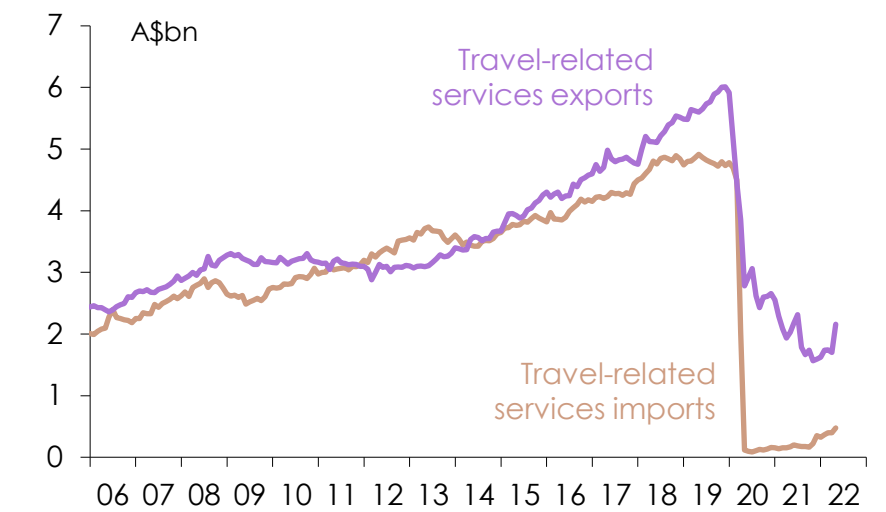
Iron ore and coal exports



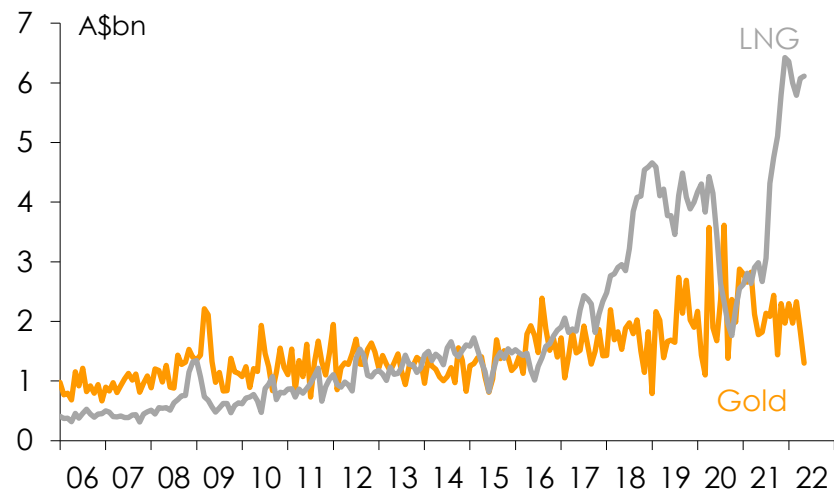
Merchandise exports and imports



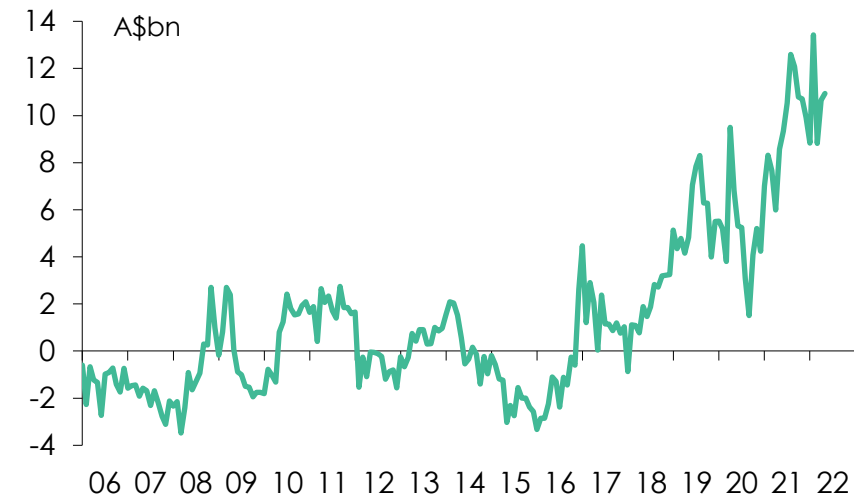
Tourism-related services trade



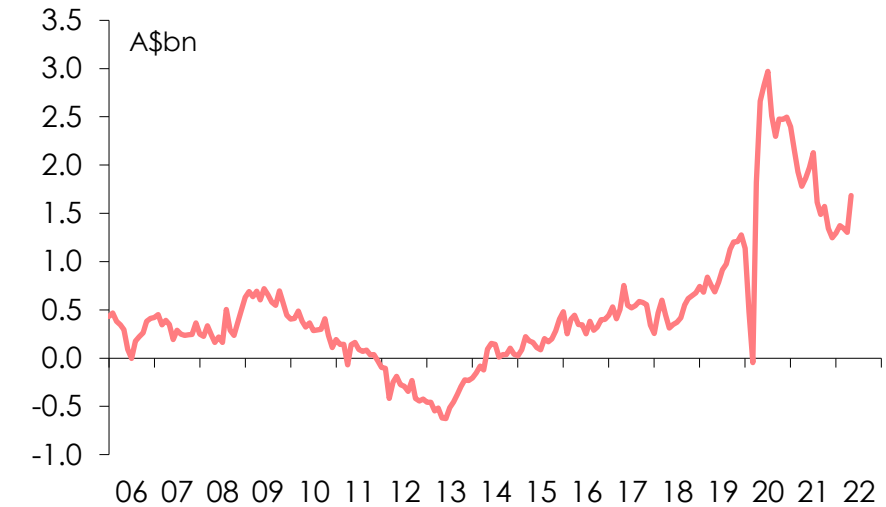
LNG and gold exports



Merchandise trade balance



Tourism services trade balance

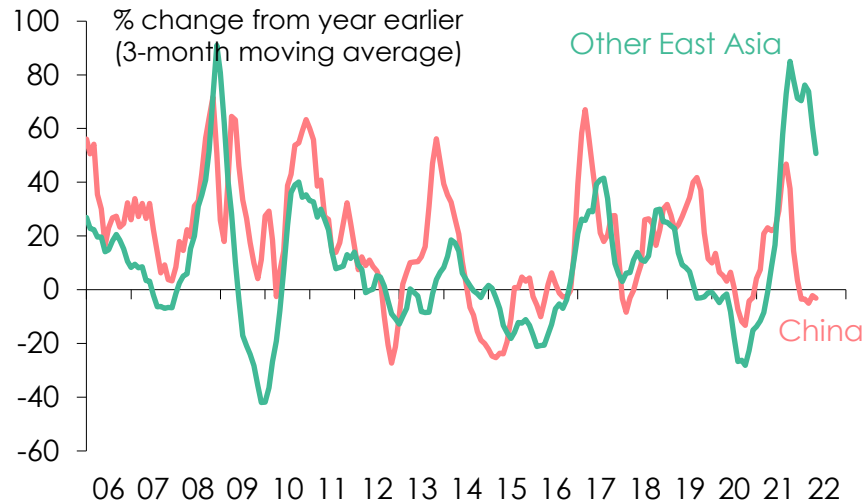


Source: ABS, [International Trade in Goods and Services, Australia](#), April 2022. May data will be released on 7th July. [Return to "What's New"](#).

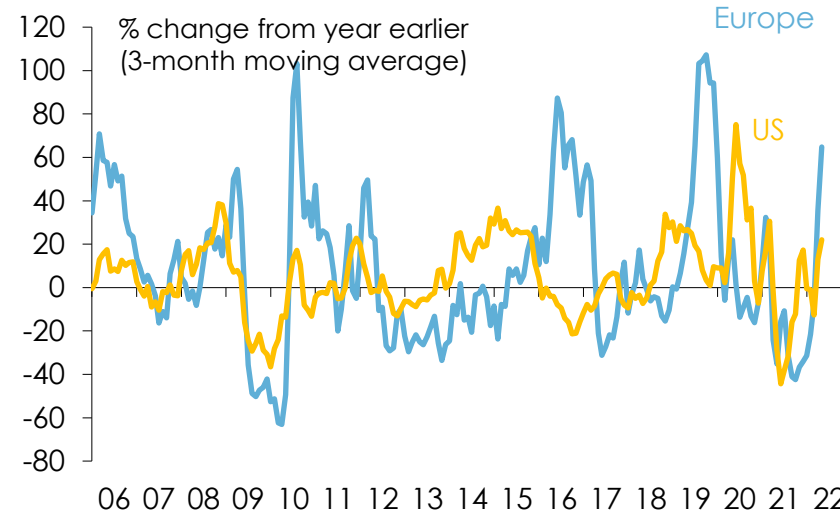
Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

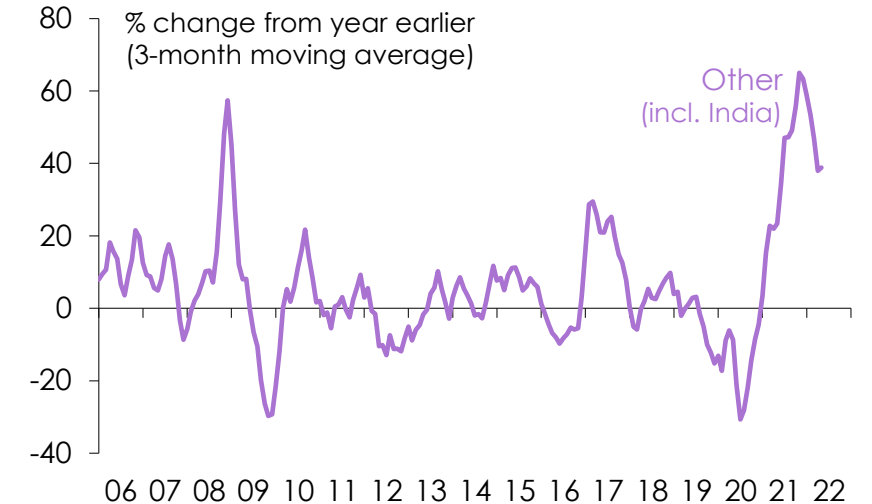
Merchandise exports – East Asia



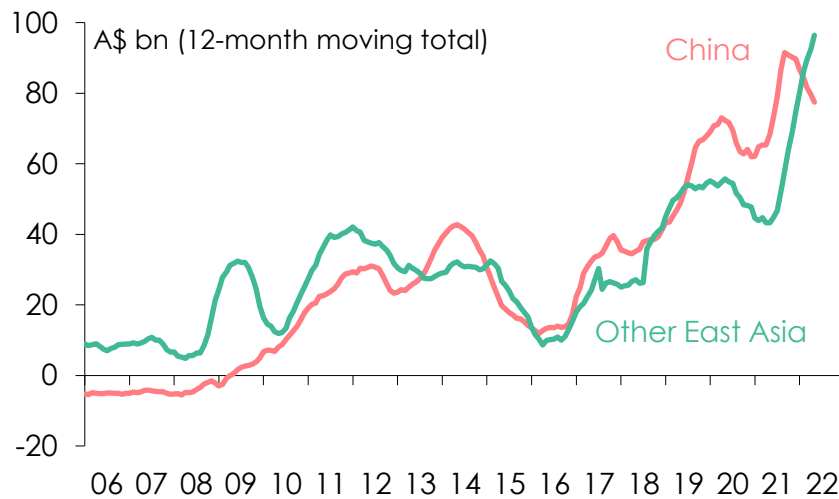
Merchandise exports – US & Europe



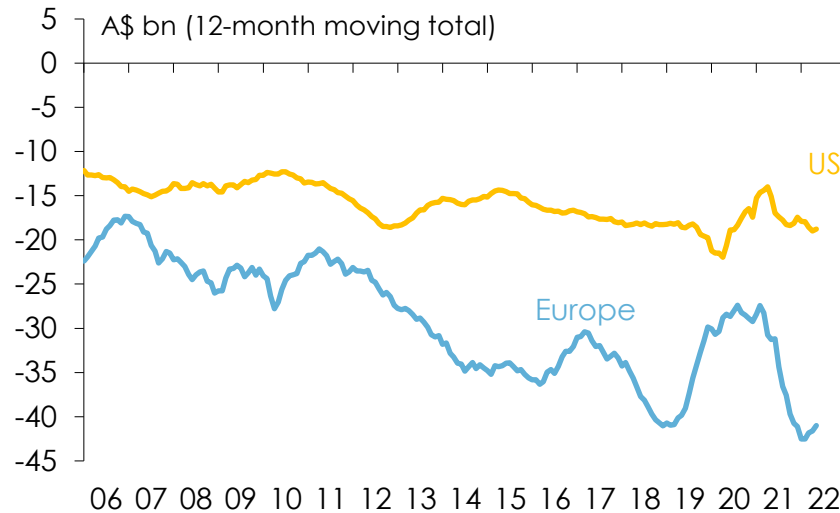
Merchandise exports – other



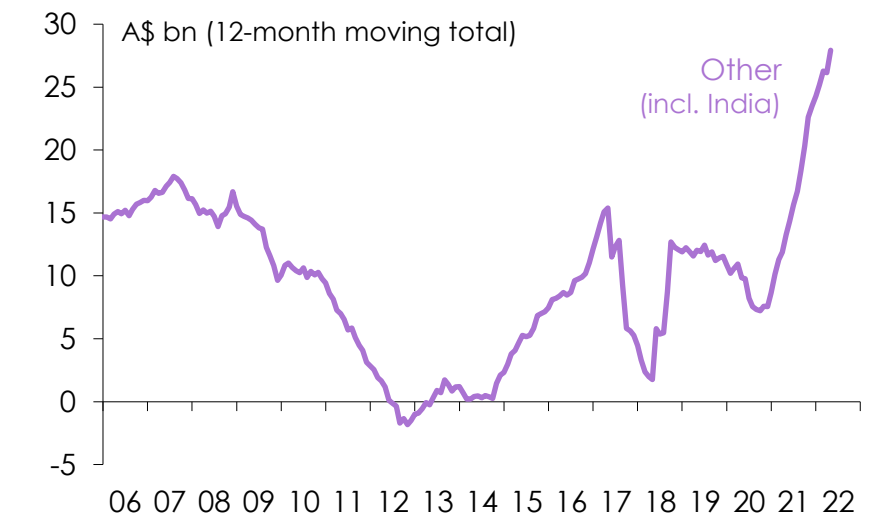
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

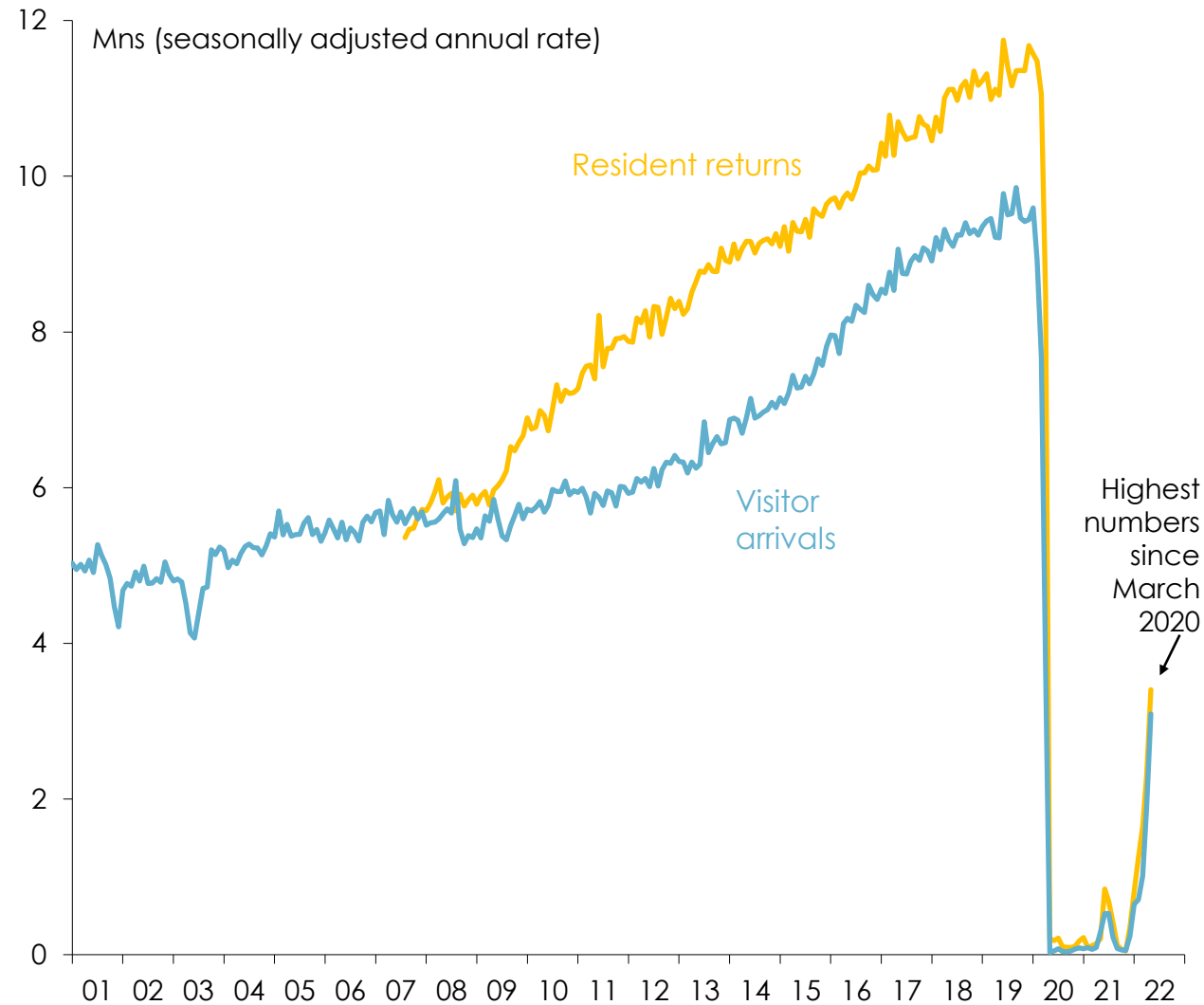


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in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

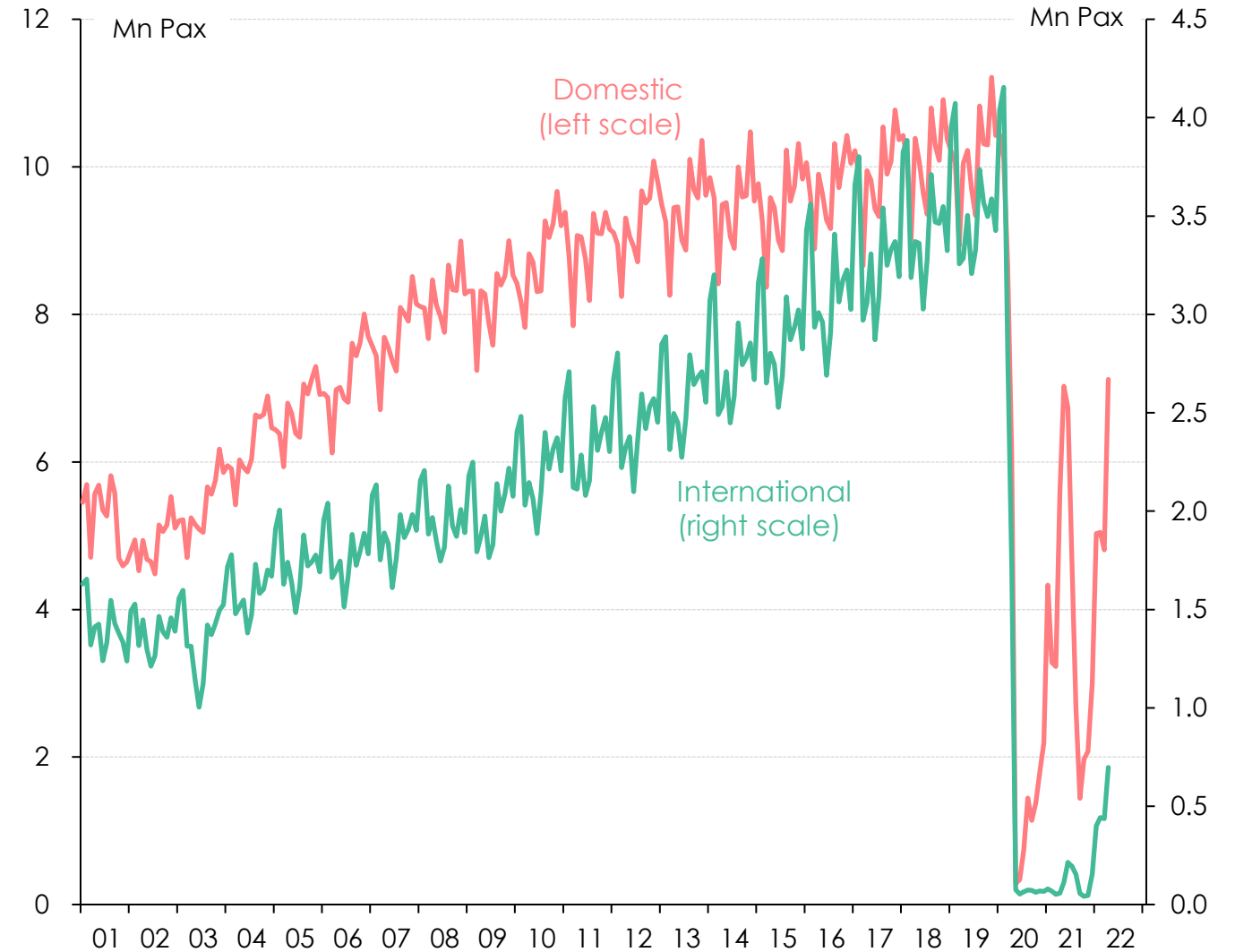
International arrivals & departures, and air passenger movements have picked up this year – but are still a long way below pre-Covid levels

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Short-term visitor arrivals and resident returns



Airport passenger movements

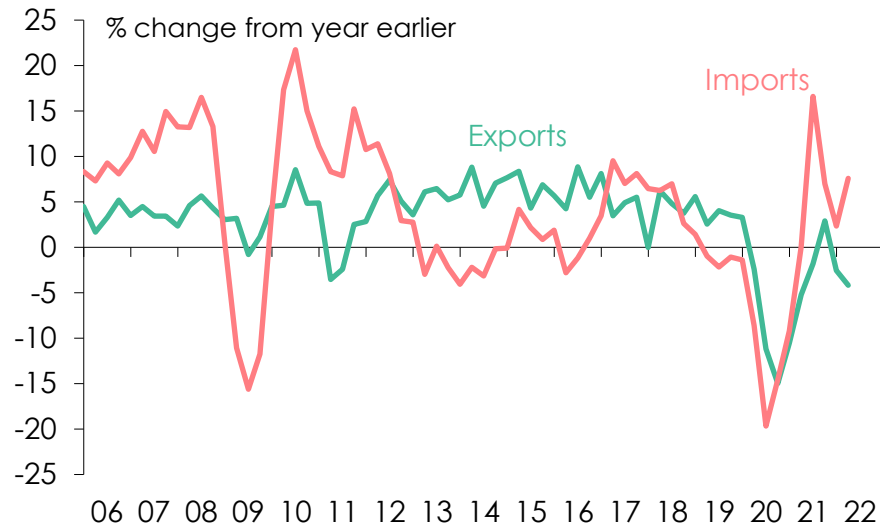


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

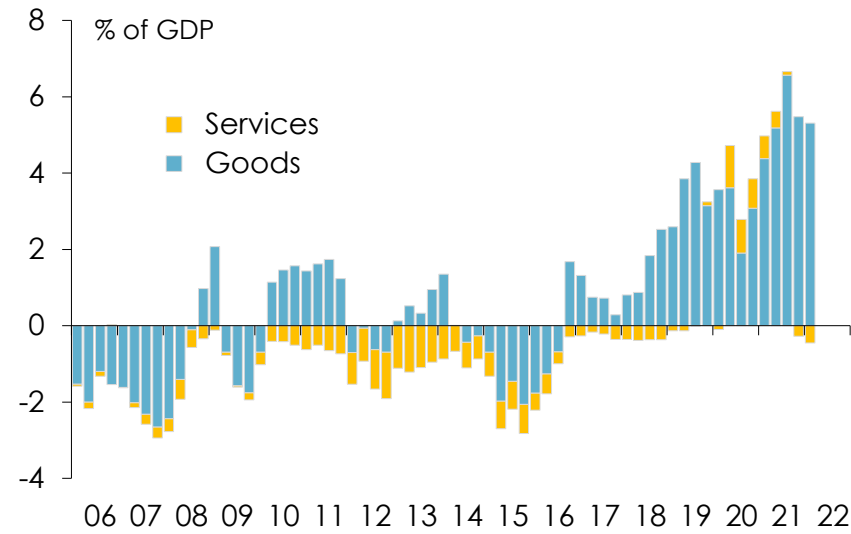
Australia's Q1 current account surplus was the smallest since Q4 2019, with an 8% surge in import volumes outweighing a 6% terms of trade gain

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

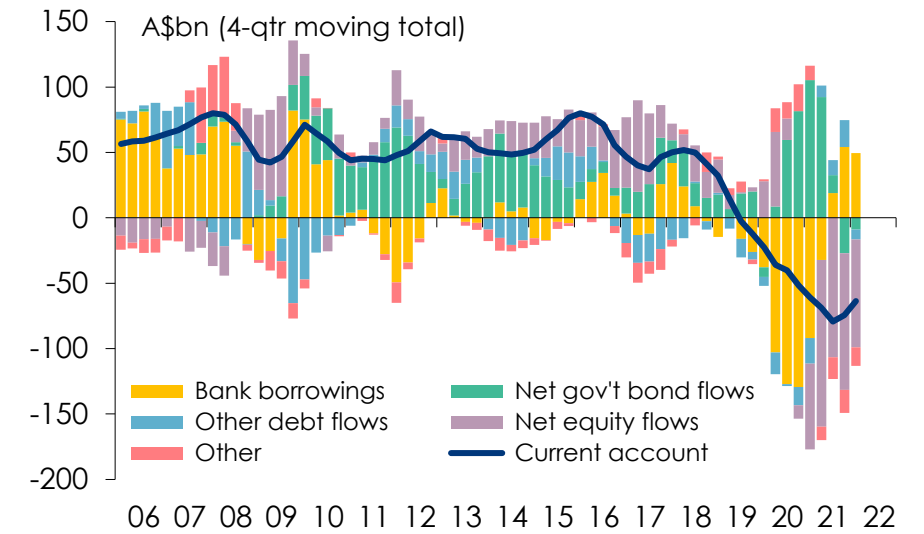
Export and import volumes



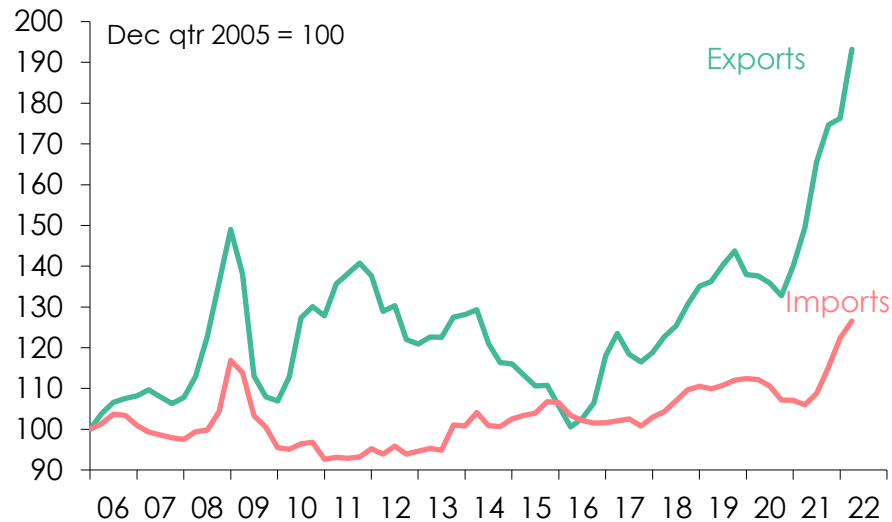
Goods & services trade balances



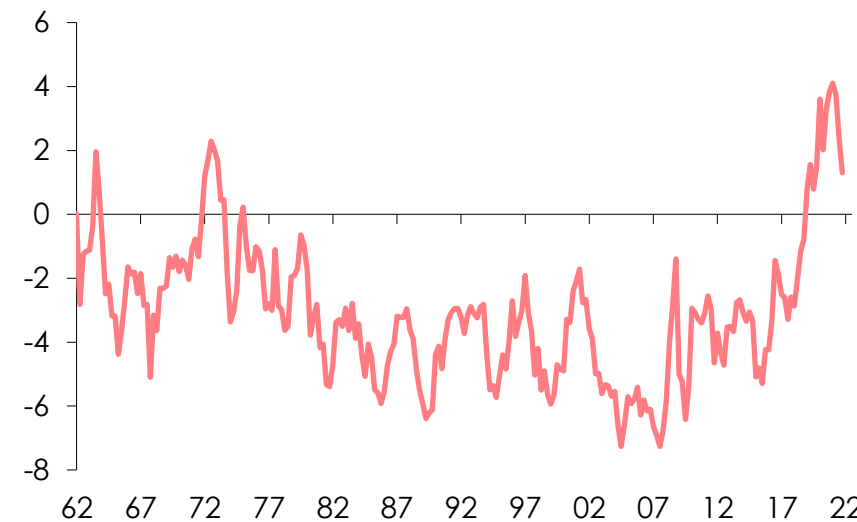
Capital flows



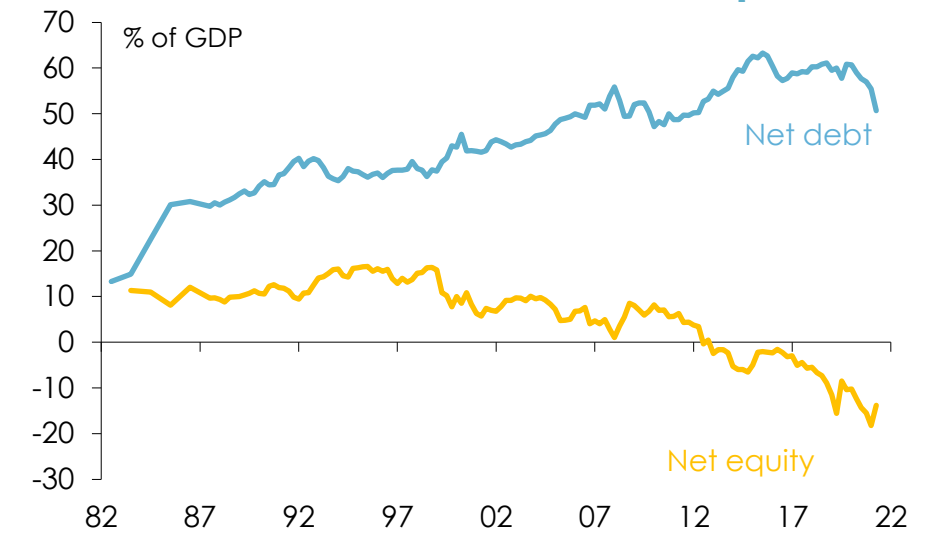
Export and import prices



Current account balance



Net international investment position



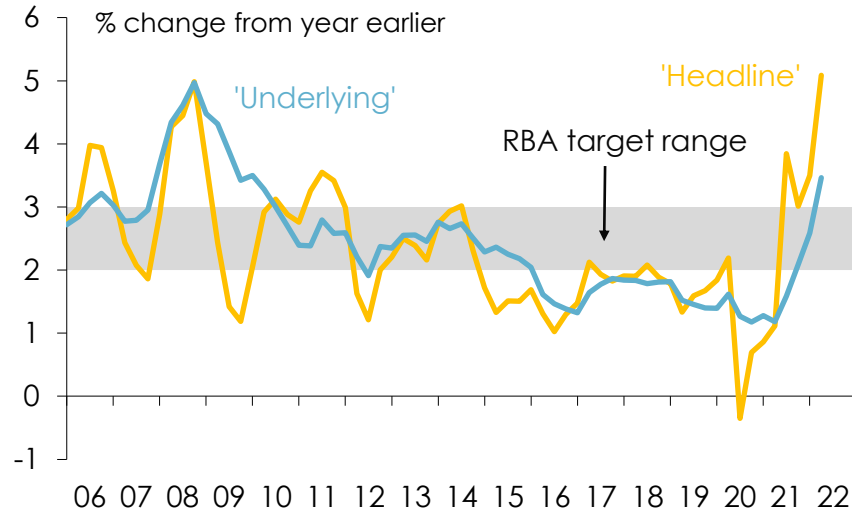
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a 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

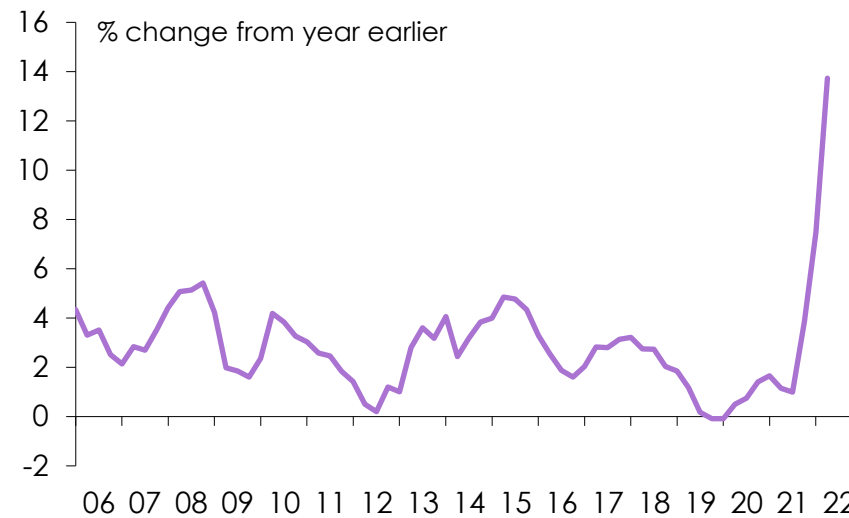
The CPI rose 2.1% in Q1, pushing annual 'headline' inflation to 5.1%, while annual 'underlying' inflation rose to a 13-year high of 3.7%

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

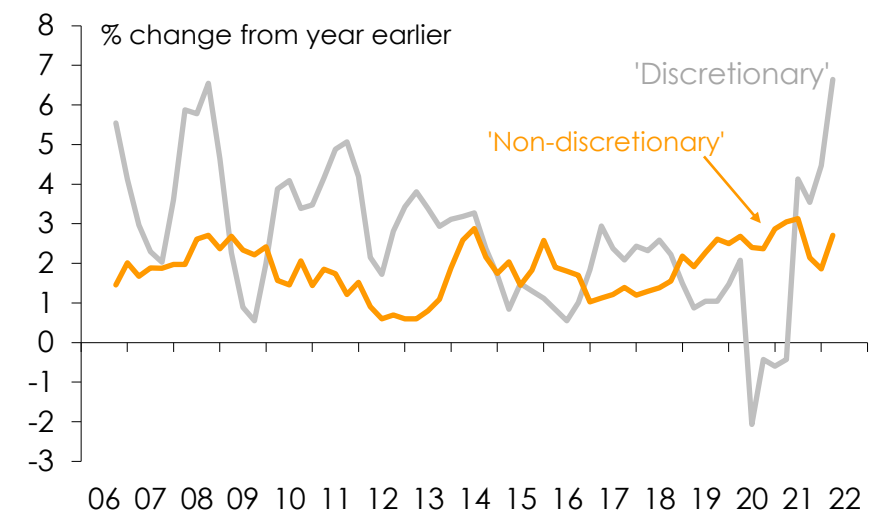
Consumer prices – annual change



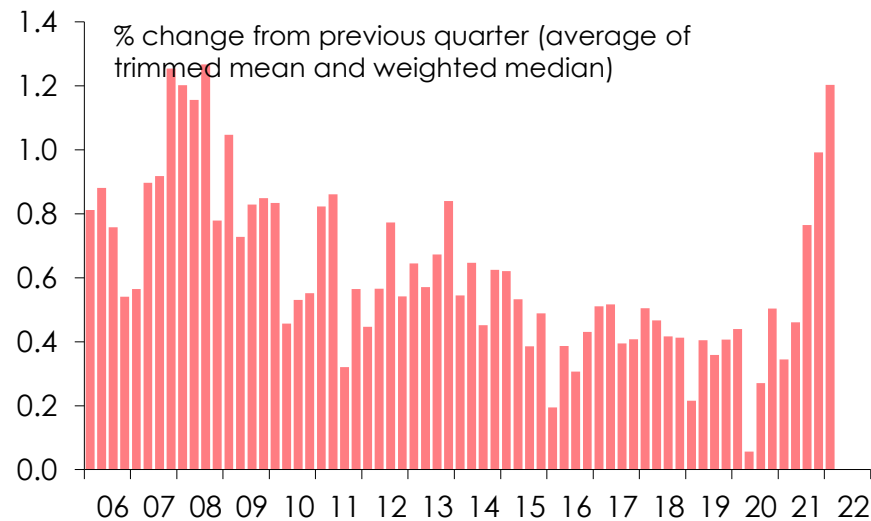
New dwelling purchase costs



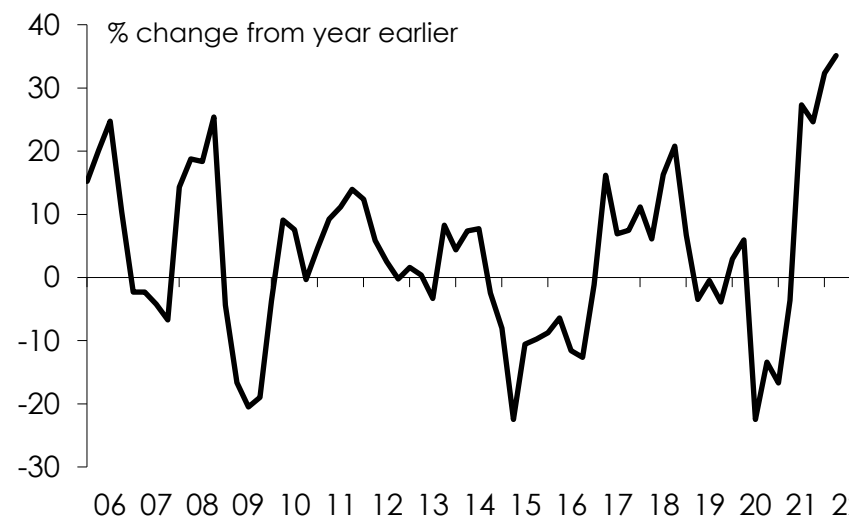
'Discretionary' vs 'essential' items



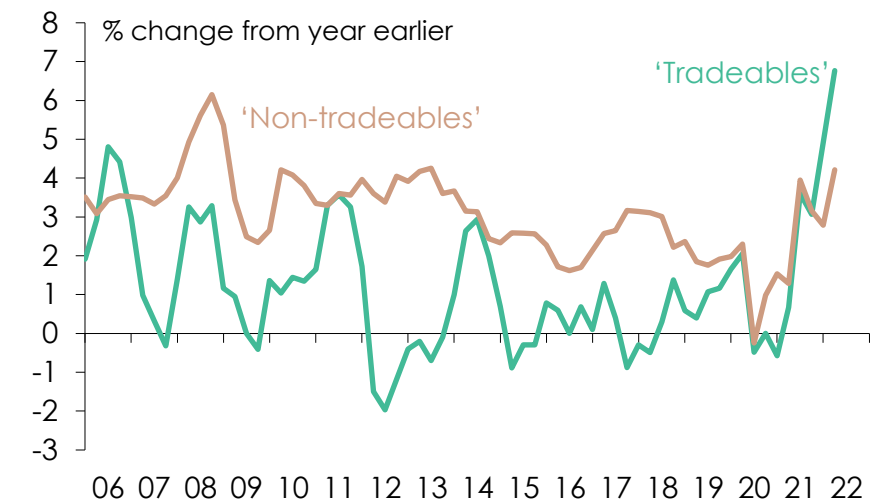
Quarterly 'underlying' inflation



Automotive fuel prices



'Tradeables' vs 'non-tradeables'

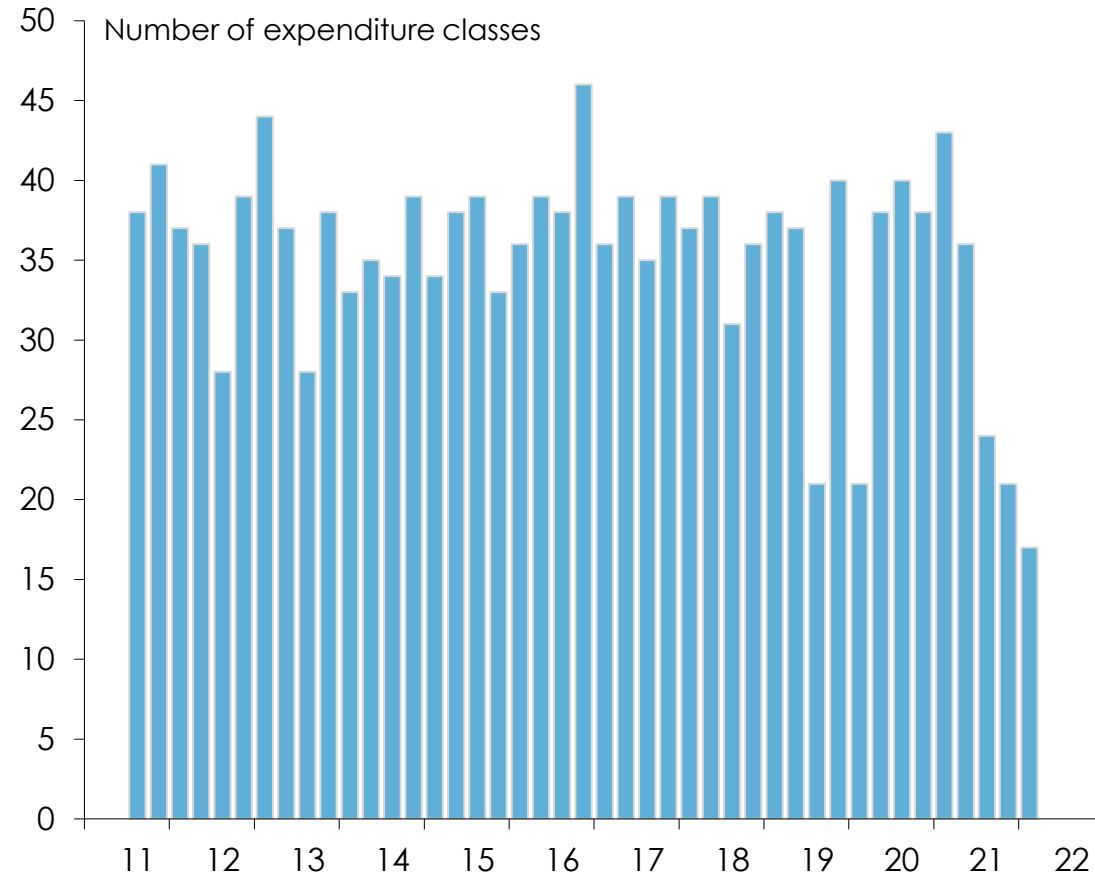


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. For definitions of 'discretionary' and 'non-discretionary' items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), March (June quarter CPI will be released on 27th July). [Return to "What's New"](#).

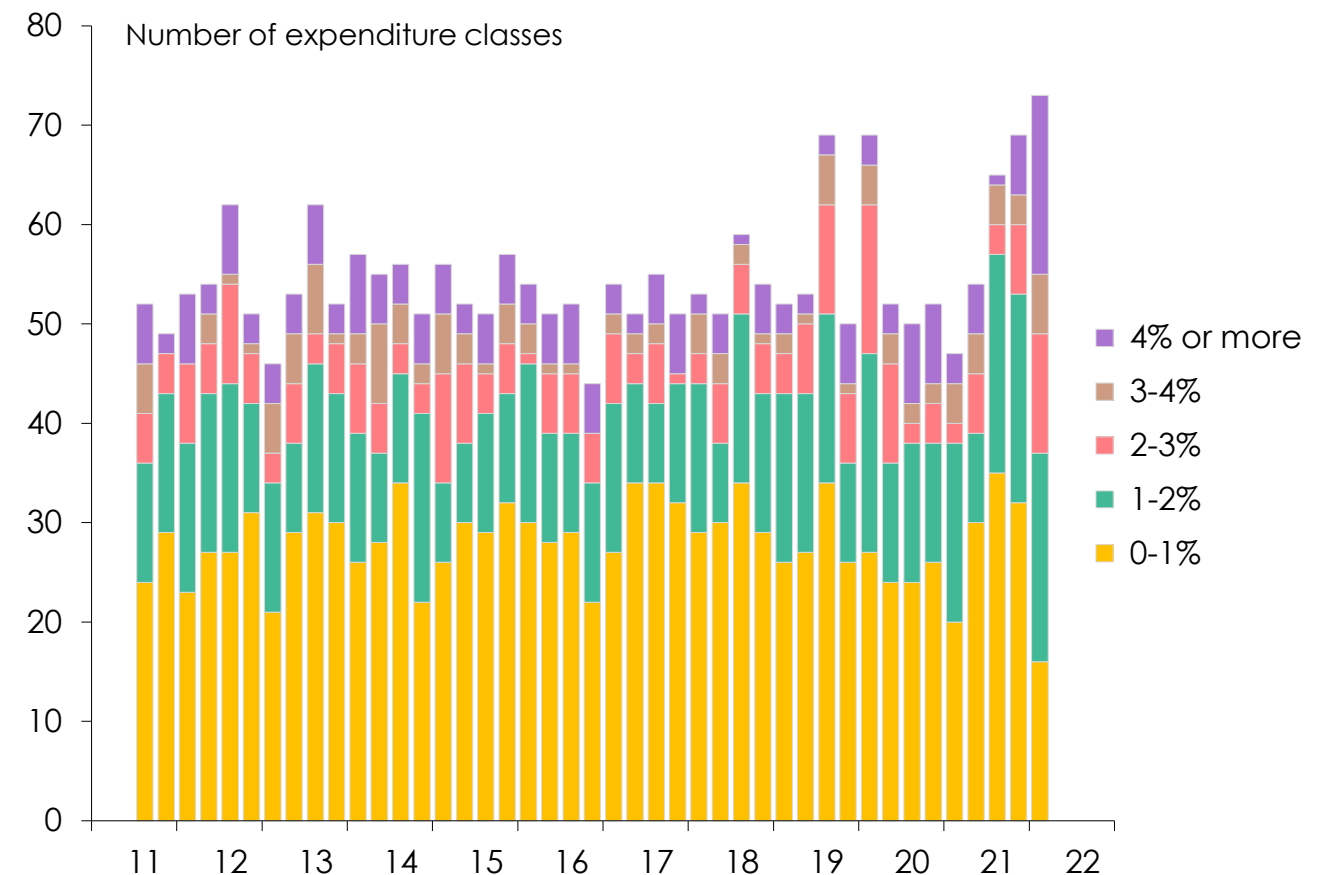
A particularly striking aspect of the March quarter CPI figures was how broadly-based inflation has become over the past two quarters

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

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



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



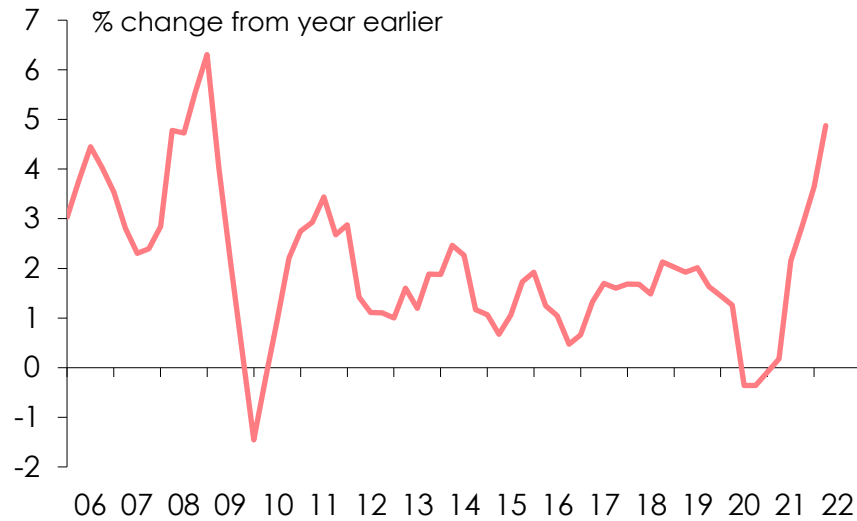
☐ Only 17 of the 92 'expenditure classes' in the CPI saw falls in prices in the March quarter – the lowest number in at least 10 years

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

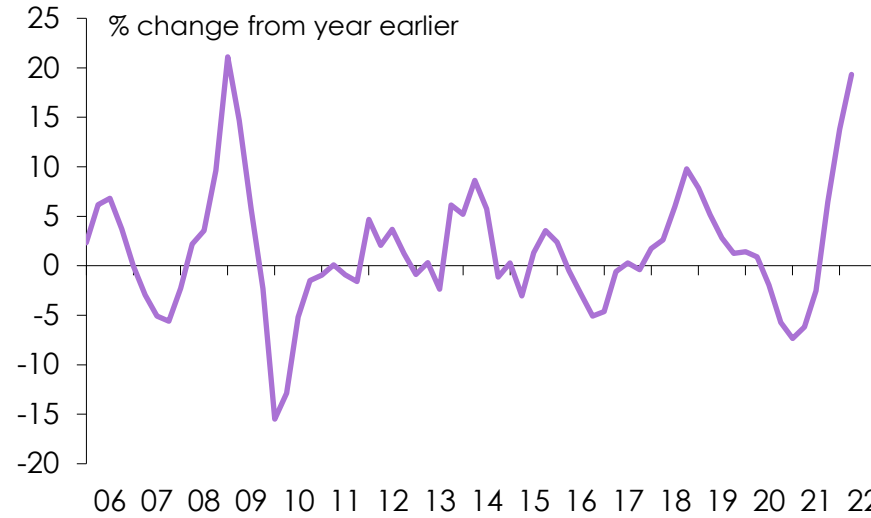
Except for construction, domestic 'upstream' price pressures have been less intense than in other countries, but import prices have risen sharply

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

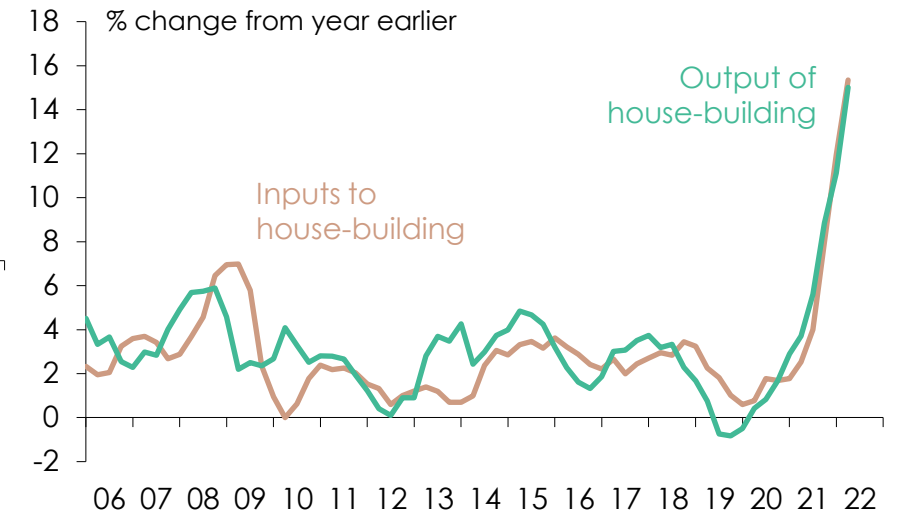
Producer price index



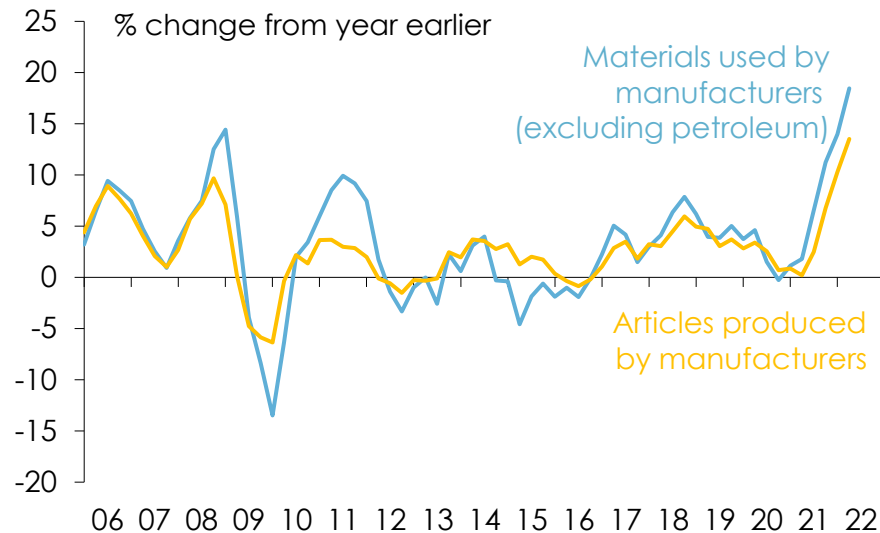
Import price index



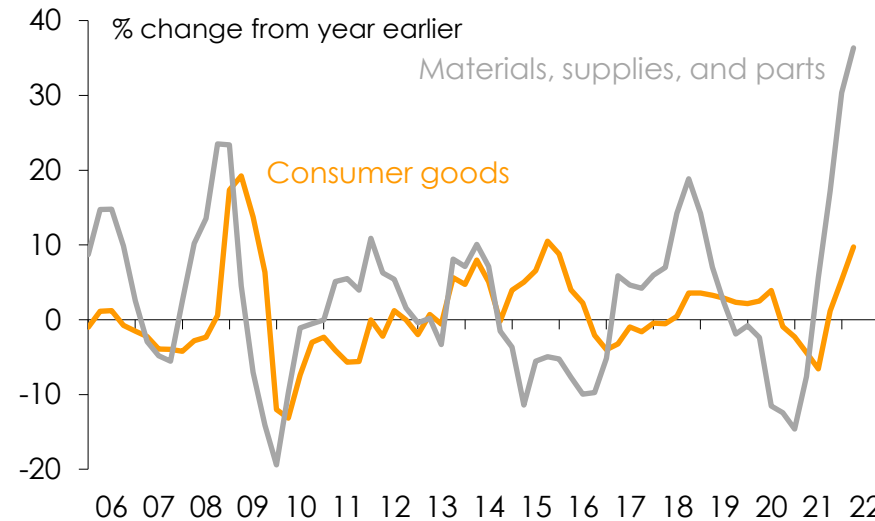
Construction input & output prices



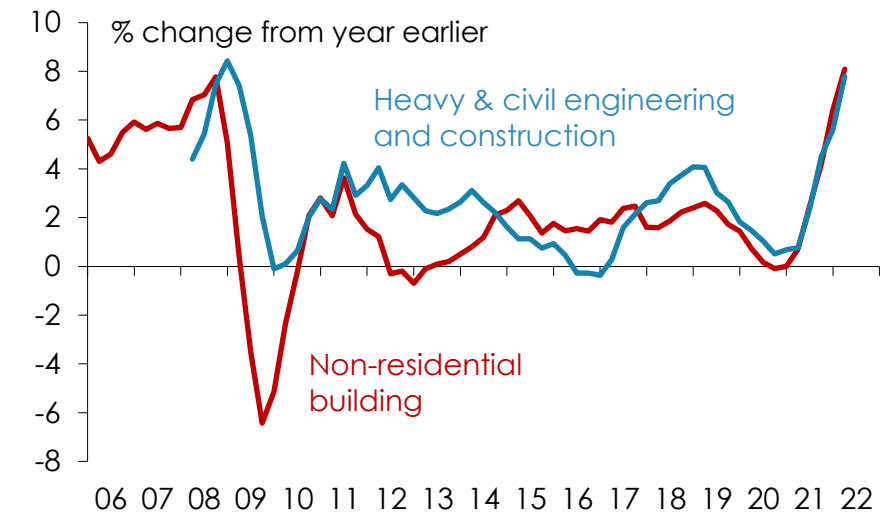
Manufacturing input & output prices



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"](#).

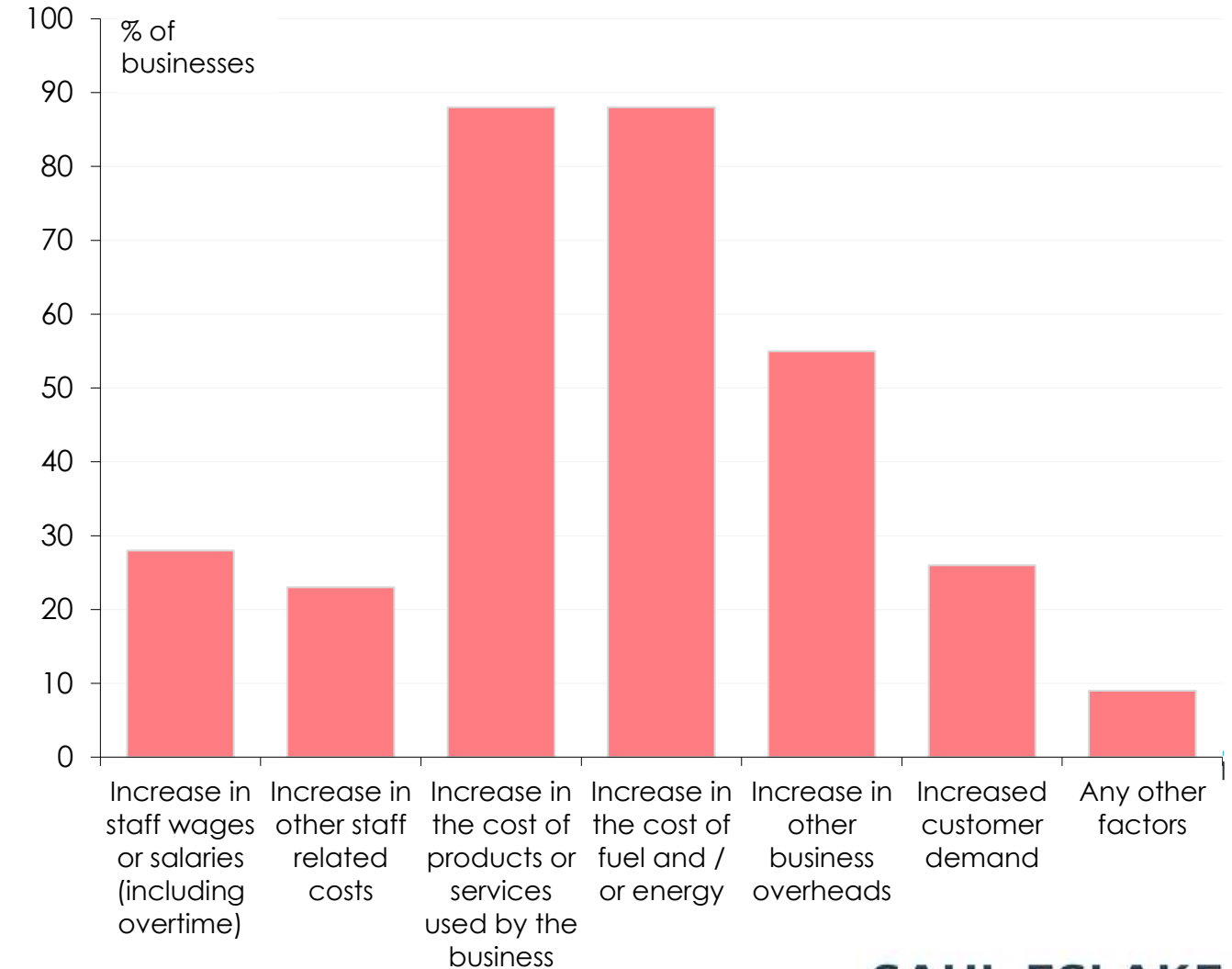
39% of businesses (including 59% of retailers) are planning to raise prices 'more than usual' in the next 3 months – but not because of labour costs

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

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



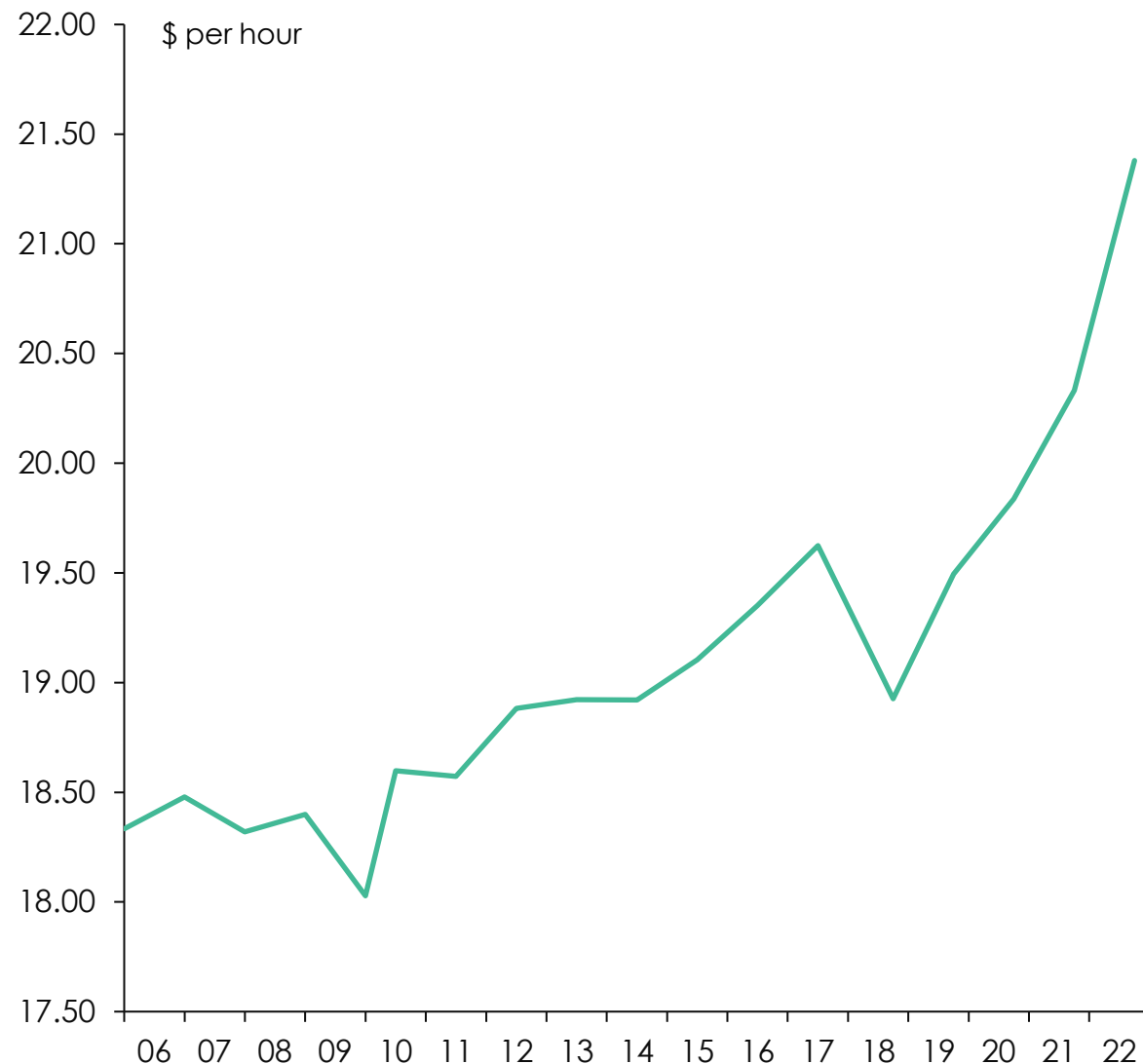
Factors contributing to businesses expecting to raise prices, March 2022



The Fair Work Commission awarded a 5.2% increase in the national minimum wage and a 4.6% increase in other award wages from 1st July

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Federal minimum wage



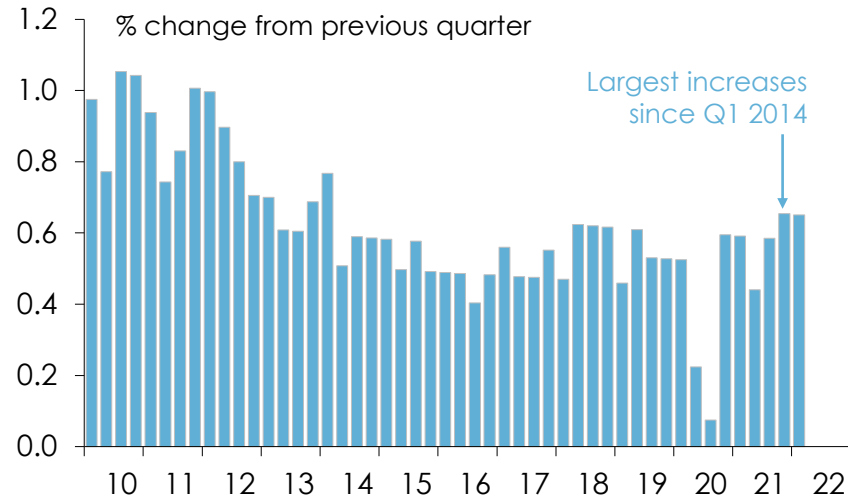
- ❑ The Fair Work Commission awarded a 5.2% increase in the national minimum wage, to \$21.38 per hour (equivalent to \$812.60 per week for a 38-hour week) in its [annual review](#) of award wages
 - there are about 180,000 employees (about 1¾% of the total work force) on the minimum wage
- ❑ The Commission also awarded an increase in so-called ‘modern award minimum wages’ of 4.6% for workers earning \$869 per week or more (with those earning less than this amount to receive a flat \$40 per week increase)
 - this increase will apply to about 2.7 million employees on ‘modern awards’ (about 23% of all employees)
- ❑ The increase was the largest since the Fair Work Commission was established (originally with the title ‘Fair Work Australia’) in 2009
 - the FWC justified its decision by reference to the “sharp rise in the cost of living since last year’s review”, to which “the low paid are particularly vulnerable”; and
 - the “current strength of the labour market”, which it concluded meant that the recommended increases in minimum wages would not have a significant adverse effect on ‘the performance and competitiveness of the national economy’
- ❑ The recommended minimum wage increases will take effect from 1st July, except for the aviation, tourism and hospitality industries where it will be delayed until 1st October

Source: Fair Work Commission, [Annual Wage Reviews](#). [Return to "What's New"](#).

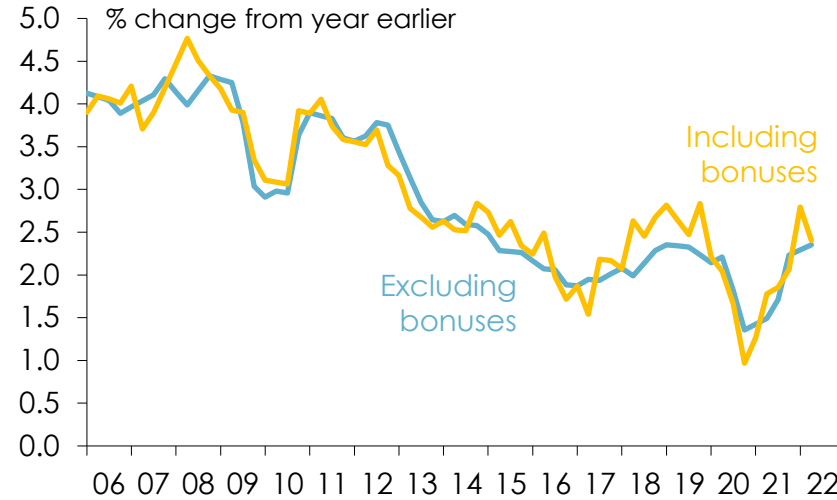
Wages growth as measured by the wage price index remains sluggish but the RBA's business liaison suggests it is now starting to pick up

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Wage price index excluding bonuses



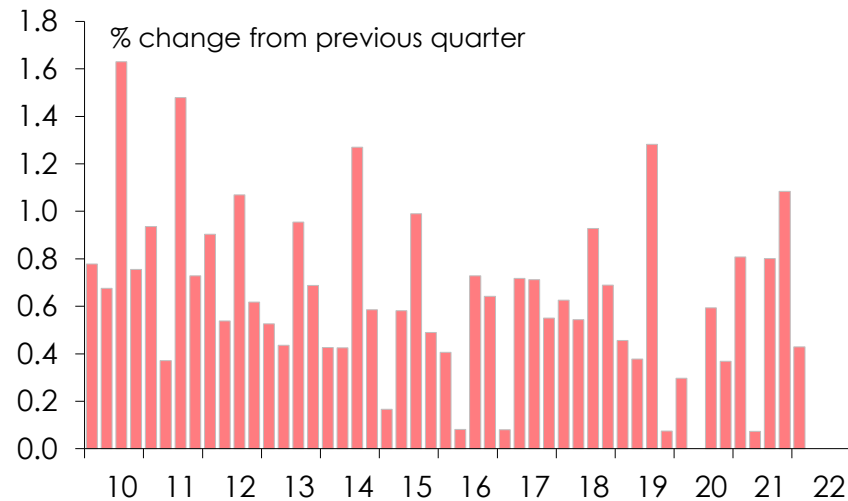
Wage price index – all sectors



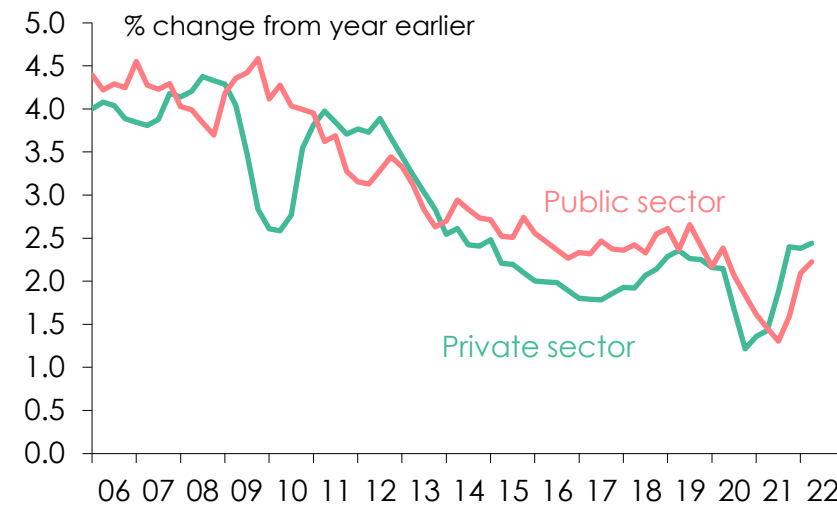
Distribution of wages growth



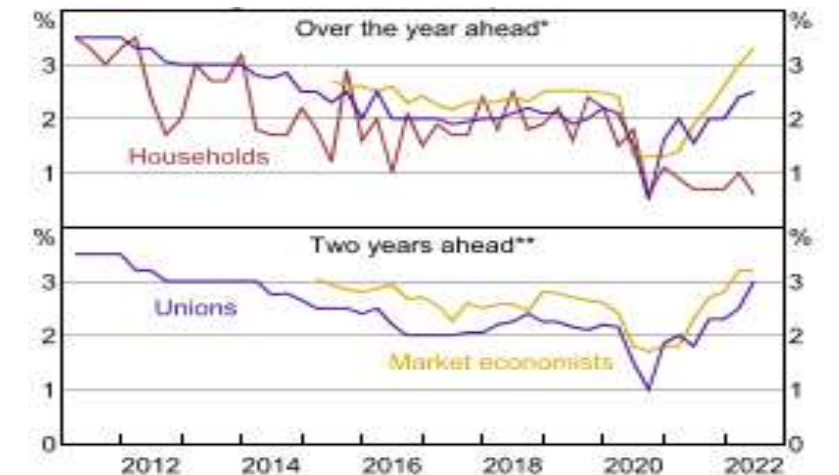
Wage price index including bonuses



WPI – private vs public sectors



Wage growth expectations

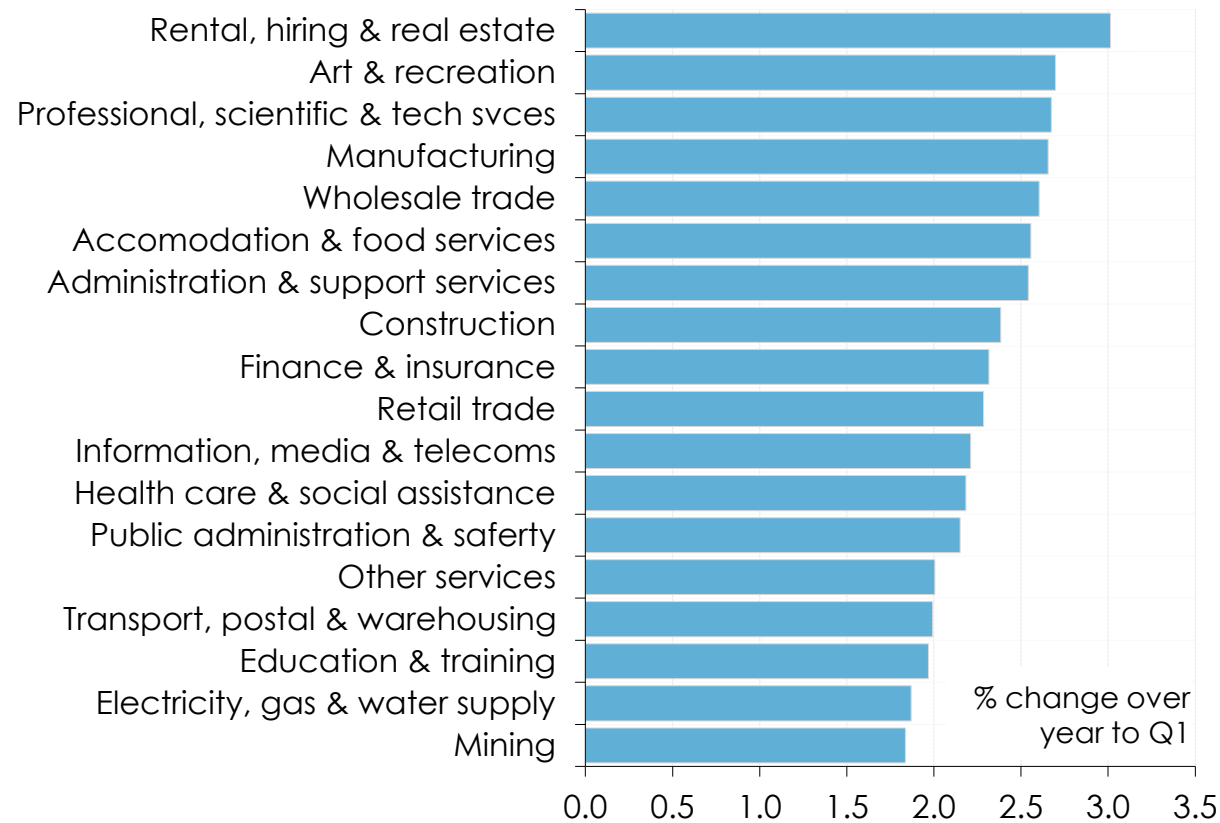


* The current calendar year for union expectations.
 ** The next calendar year for union expectations.

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

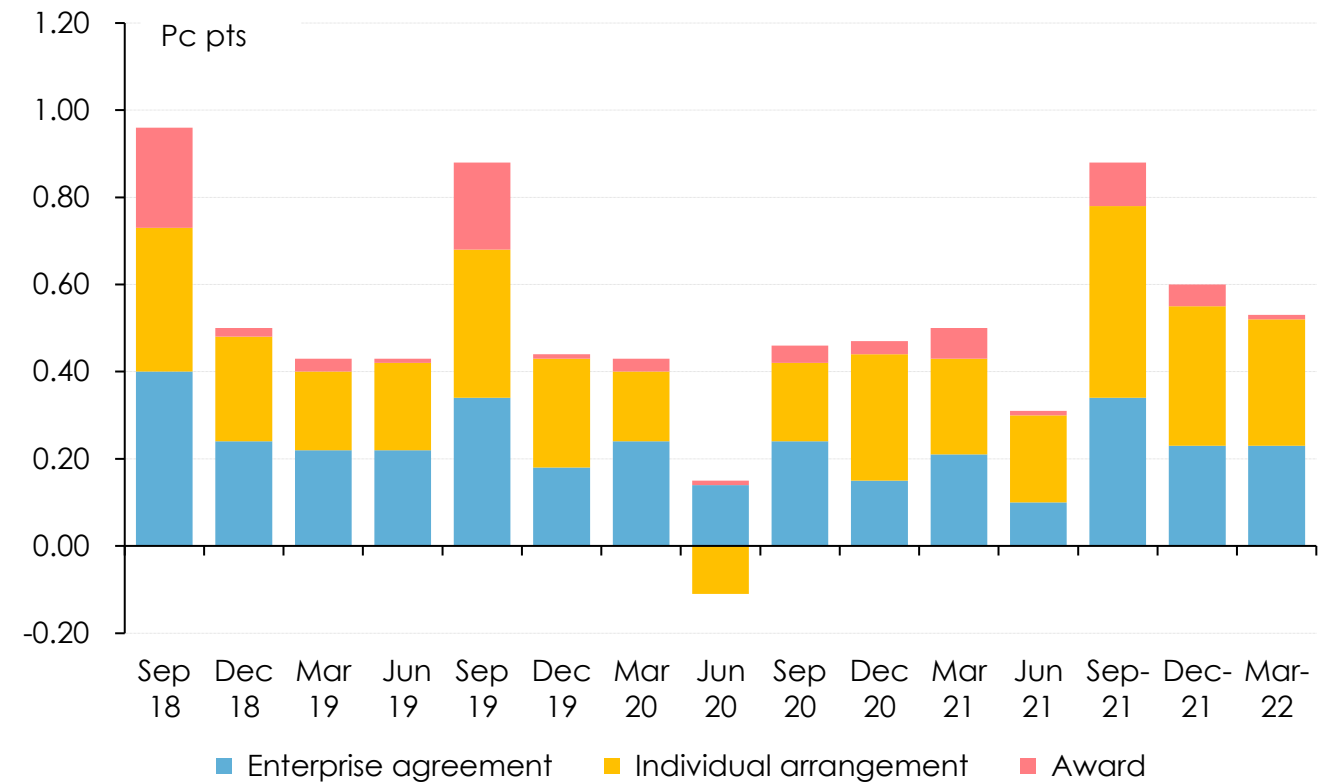
THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

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

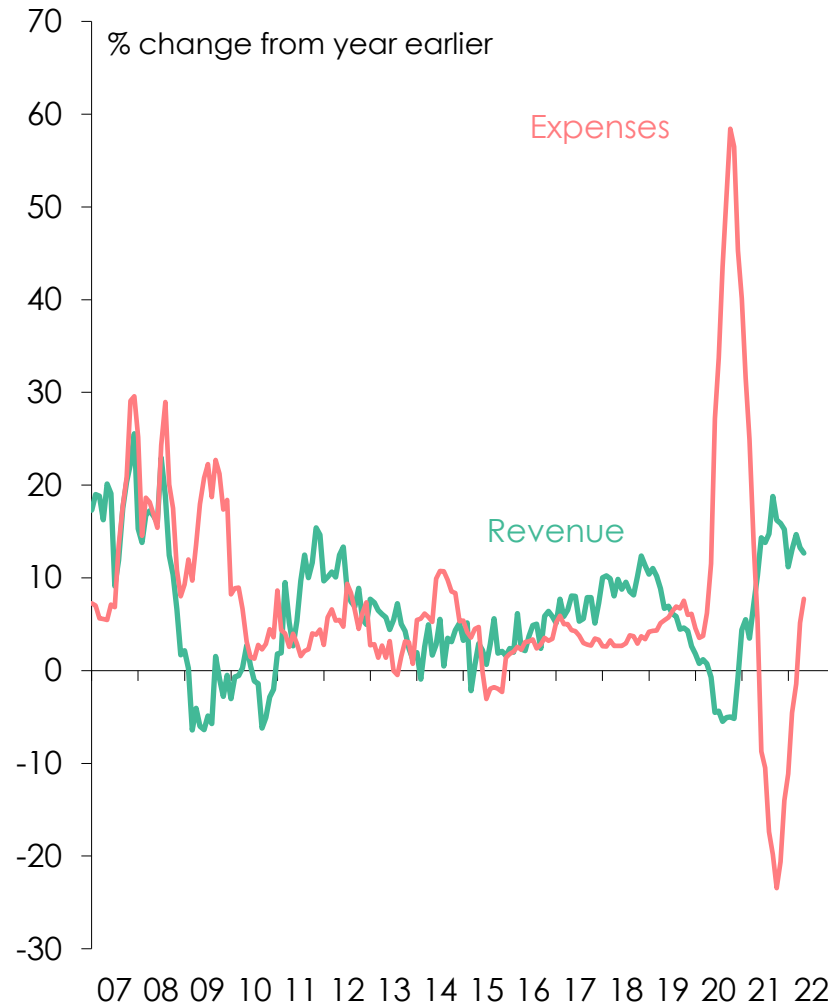
Sources: ABS, [Wage Price Index, Australia](#), March 2022; June quarter WPI data will be released on 17th August. [Return to "What's New"](#).

Fiscal policy

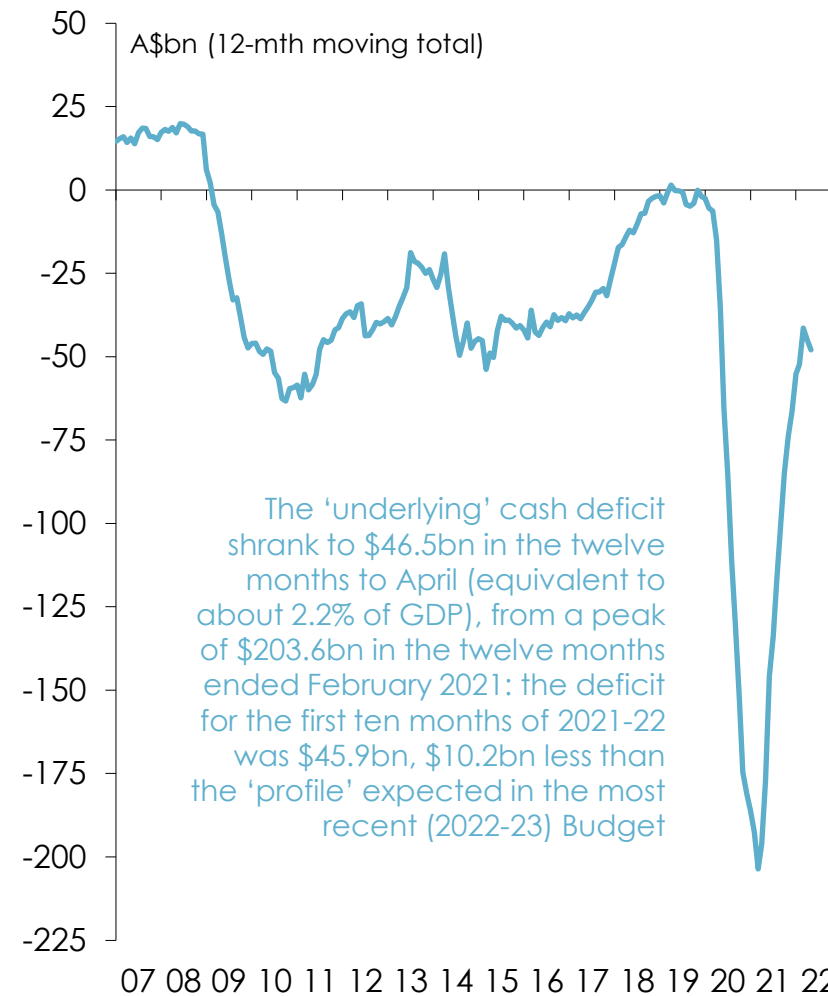
The Federal budget deficit has declined sharply since peaking early last year – with net debt down by \$85bn from its peak last August

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

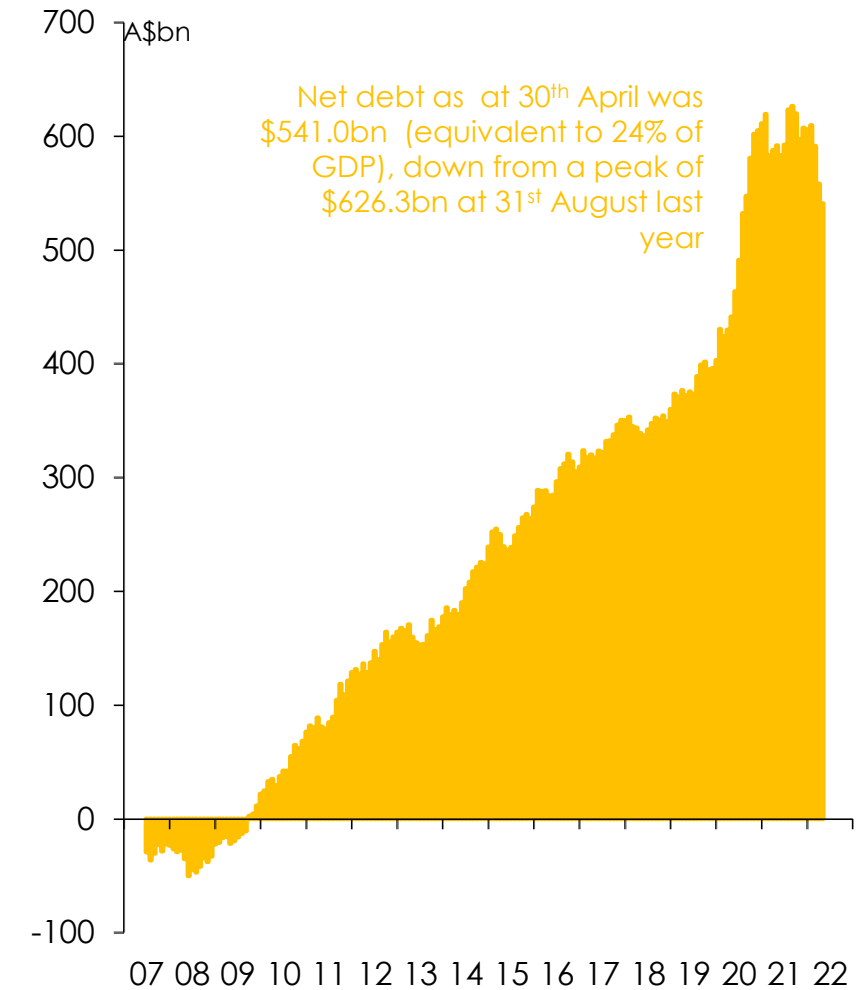
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



Australian Government net debt



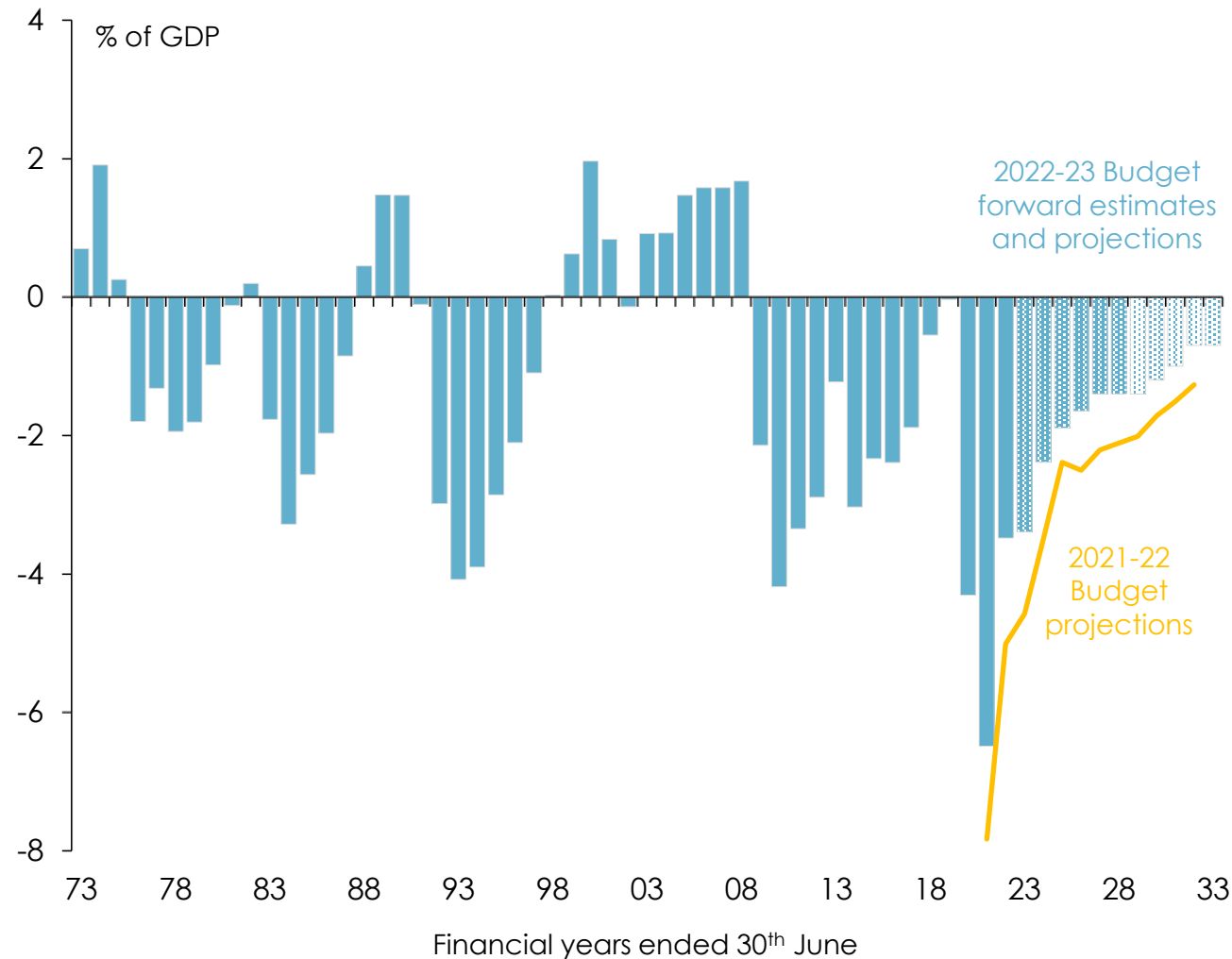
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

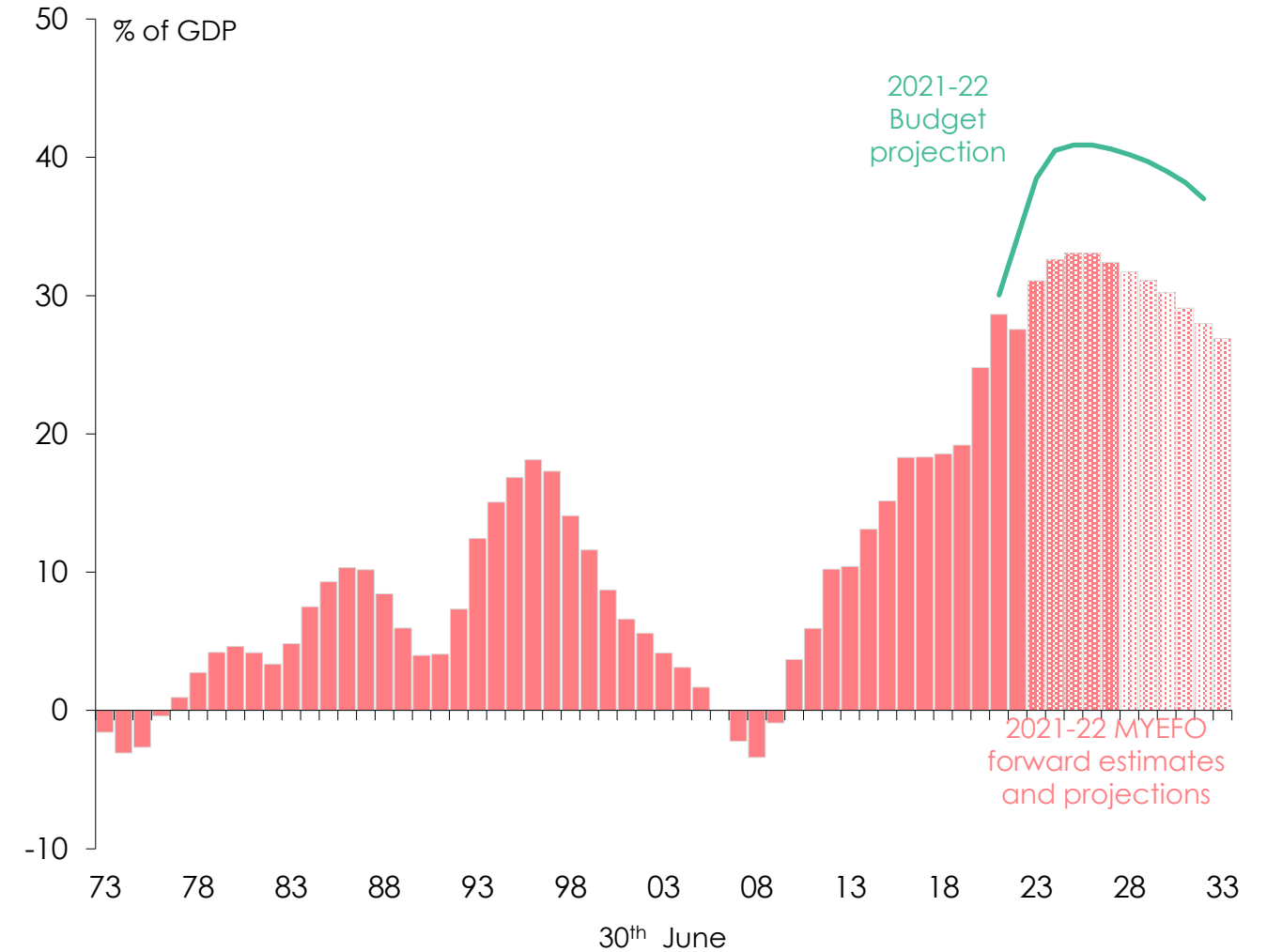
THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

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

'Underlying' cash balance



Net debt



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

Treasury Secretary Steven Kennedy made three very important points about the medium-term budget outlook in a speech earlier this month

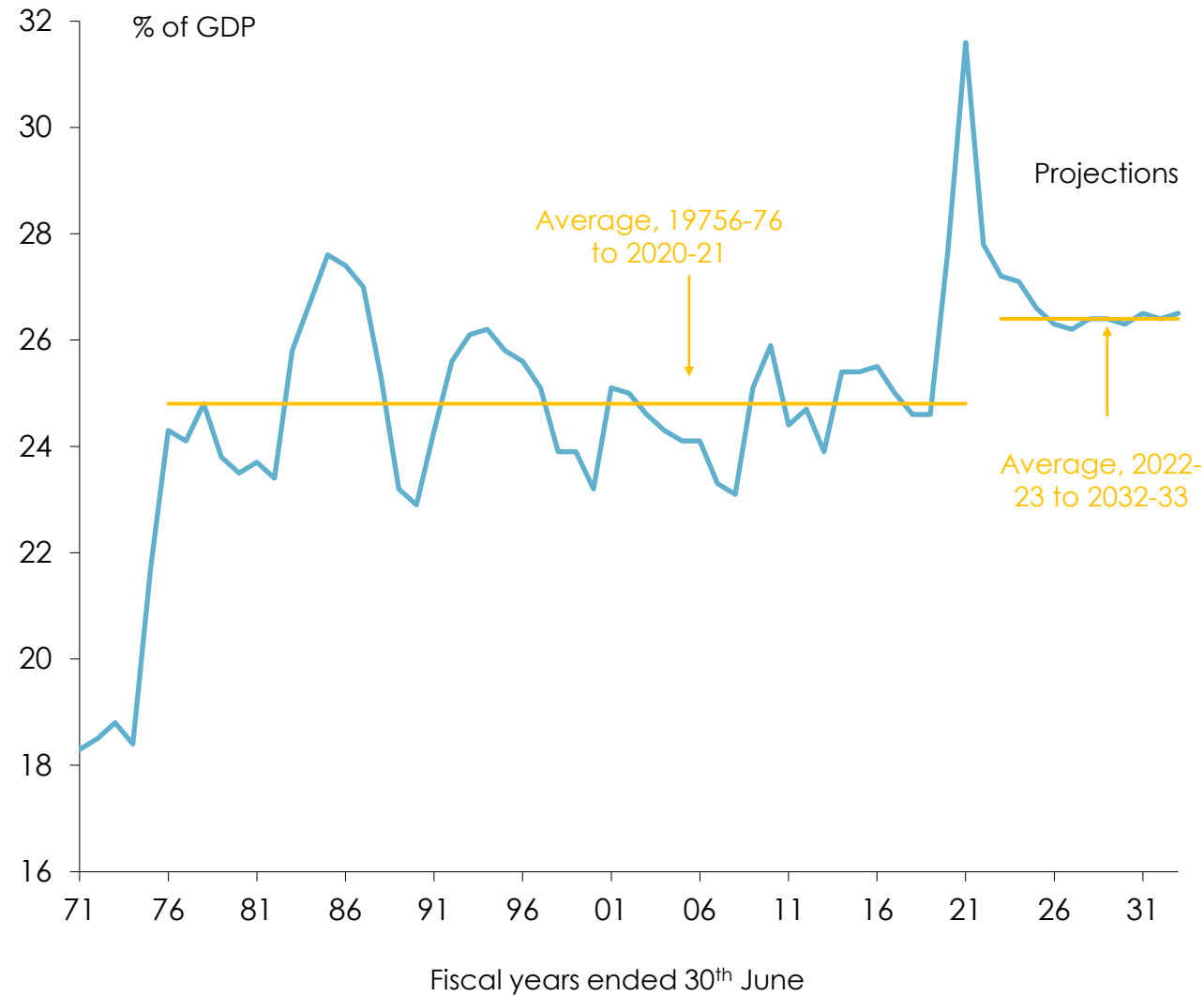
THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

- ❑ Treasury Secretary Dr Steven Kennedy made three important points about the medium term fiscal outlook in a [speech](#) to business economists on 8th June
- ❑ First, he highlighted that “commitments to additional structural spending and stronger-than-expected growth in spending on [existing] major programs will see government spending as a share of the economy remain at a higher level than prior to the pandemic” (see [slide 73](#))
 - largely as a result of increased outlays on the NDIS, aged care, health, defence and infrastructure, government spending is likely to average 26.4% of GDP over the next decade, 1.6 pc pts higher than during the decades prior to the pandemic
- ❑ Second, he observed that current projections showing a reduction in government debt as a proportion of GDP over the next decade are “unusual” in that they “rely solely on favourable growth and interest rate dynamics to reduce this ratio”, rather than on achieving budget surpluses as in every previous episode of debt reduction over the past century ([slide 74](#))
 - noting that “Australia needs to rebuild fiscal buffers to ensure that the Government can respond effectively to future crises”, he said that “a more prudent course ... would be for the budget to assist more over time”
- ❑ Third, while acknowledging that the Government “could identify structural savings in the budget”, he appeared to indicate a preference for raising “additional tax revenues”, the effects of which could be “minimized by ensuring that the design of the tax system is optimal”
 - he noted that the projected improvement in the budget balance over the medium term “relies largely on increases in personal income tax receipts”, with average personal income tax rates likely to “increase towards record levels” ([slide 75](#))
 - and argued that there seemed to be “little case to lower taxes elsewhere, including company taxes”, especially when “we are experiencing a record ... terms of trade and the banking sector is highly profitable”
 - instead, he advocated “ongoing review of the tax base and tax expenditures to ensure the tax system remains adequate to fund spending commitments and is equitable including from an inter-generational perspective”

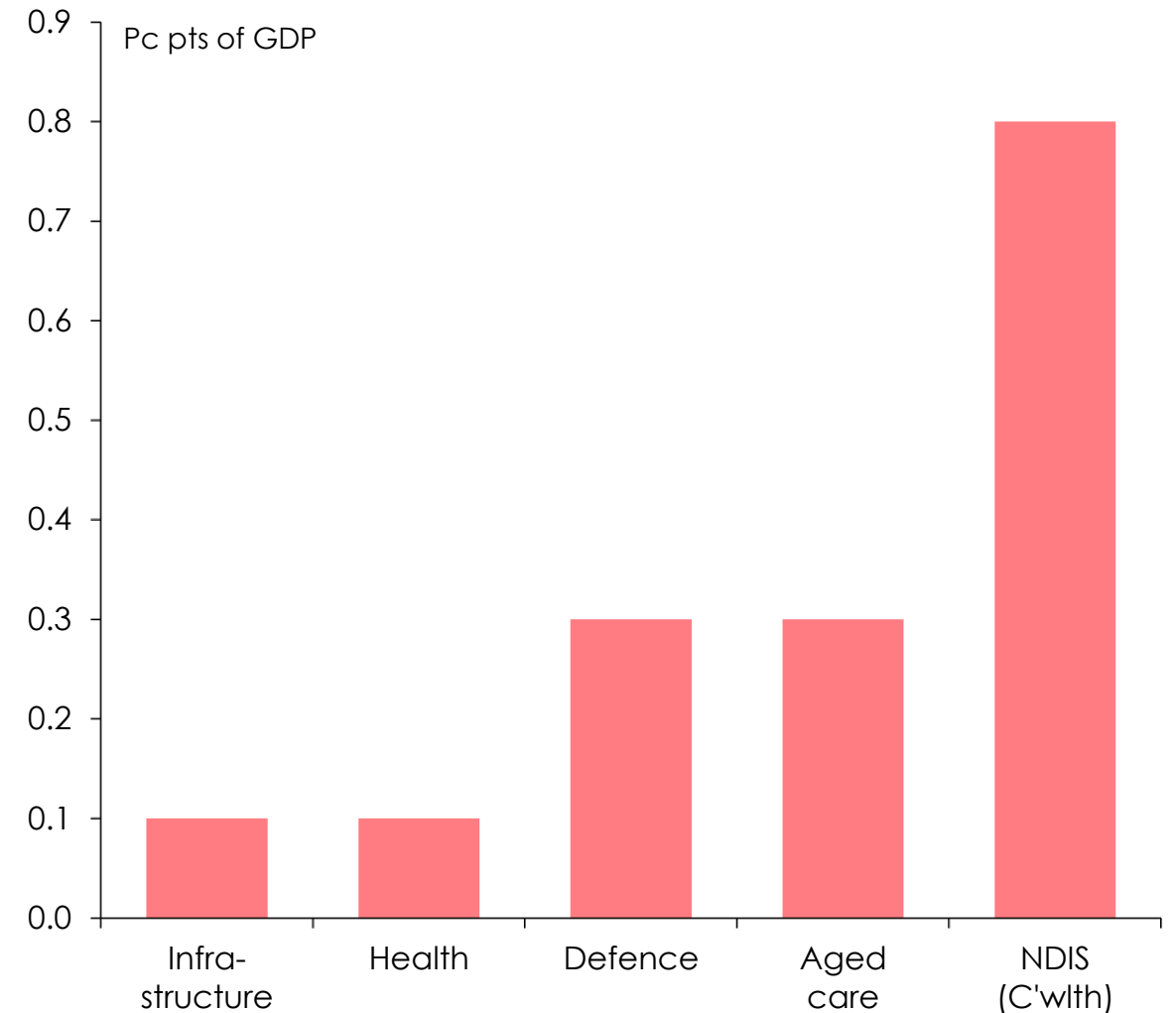
Federal Government spending seems likely to be around 1½ pc pts of GDP higher over the next decade than over the past 45 years

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‘Underlying’ cash payments as a pc of GDP



Changes in payments between 2018-19 and 2025-26

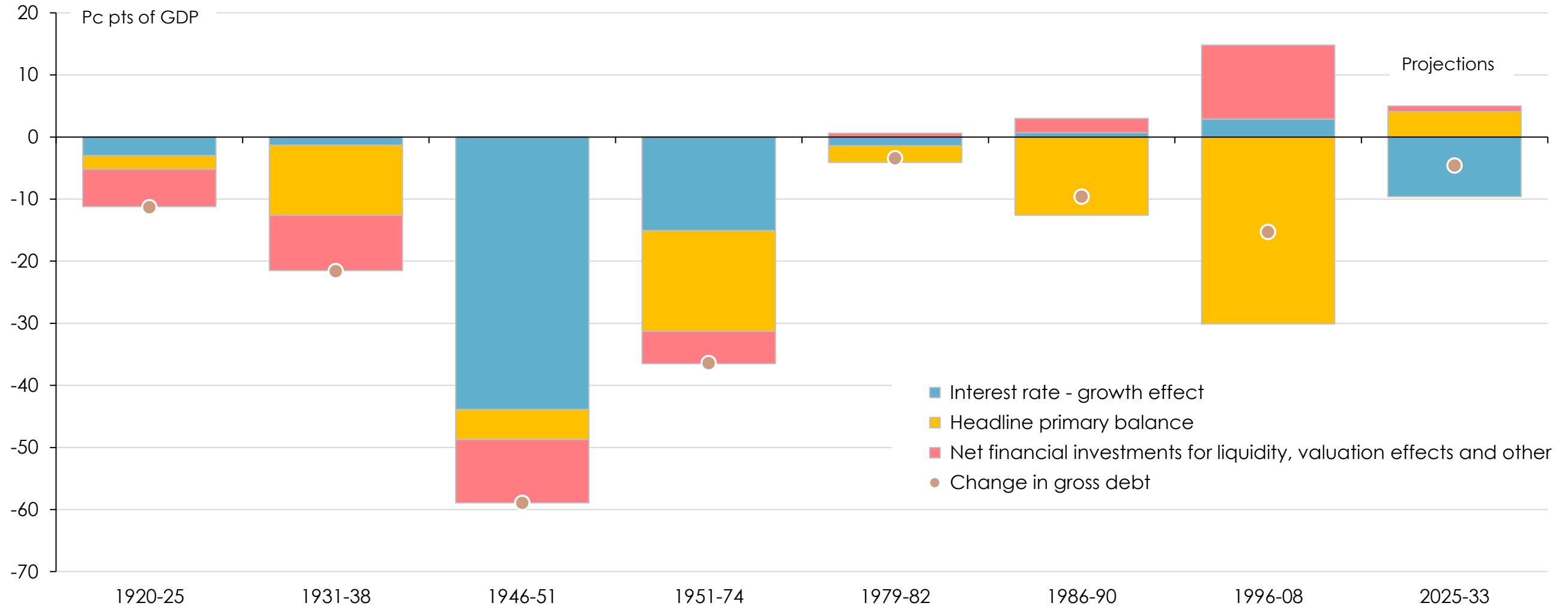


Note: Averages for government spending as pc of GDP exclude temporary Covid support measures since 2019-20. Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8th June 2022.

Current projections of declining debt-to-GDP rely solely on interest rates being less than GDP growth, with no contribution from budget surpluses

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Sources of reductions in Federal Government gross debt as a pc of GDP during previous episodes of debt reduction, compared with projections for the period 2025 (when debt is currently forecast to peak) and 2033



Note: Data are in financial years. Debt excludes issuance for the states. The contribution of interest rates less growth captures the combined direct effect of the former increasing debt and of the latter growing GDP, but not their effects on the headline primary balance (the budget balance excluding interest payments). Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8th June 2022.

In the absence of tax reform, current budget projections imply personal income tax rates rising to record levels by the late 2020s

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

Average personal income tax rates, and total tax receipts as a percentage of GDP

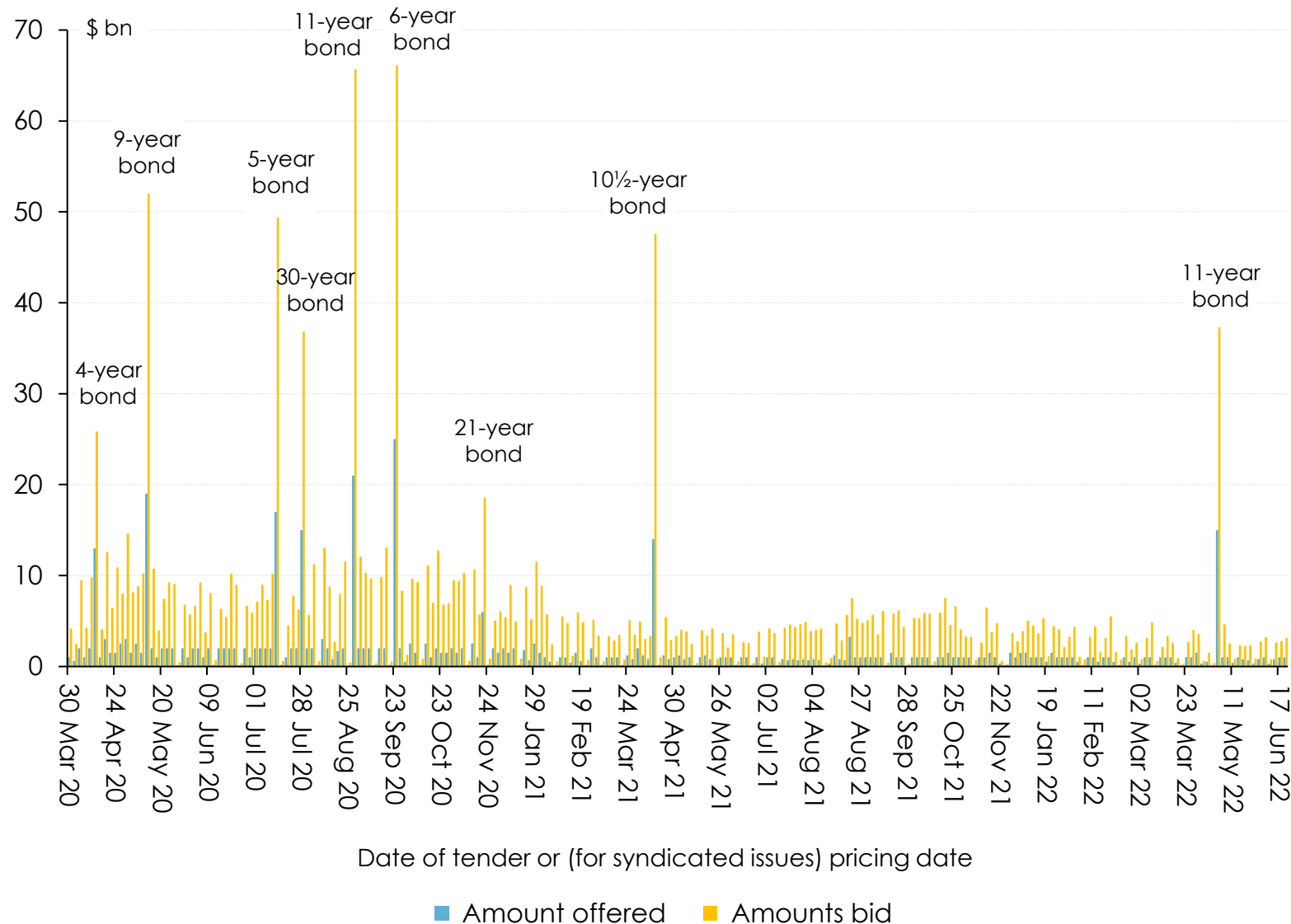


Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8th June 2022.

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

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Australian government bond issuance since March 2020



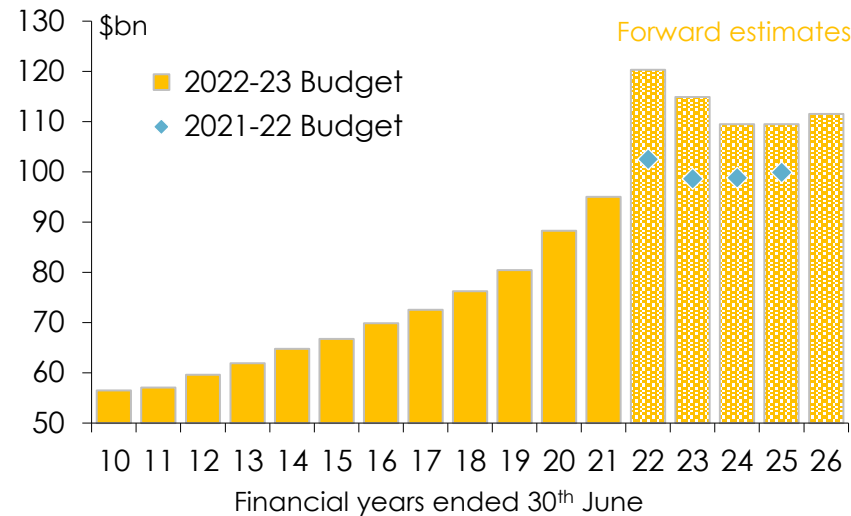
- ❑ Since resuming auctions on 12th January, the AOFM has sold \$51.8n of bonds – including this week \$1bn of April 2025s
- ❑ Although AOFM continues to have no difficulty issuing new debt, the 'coverage ratio' (the ratio of bids received to bonds offered) has slipped from 4.3x in the first seven months of 2021-22 to below 2¾x since mid-March
- ❑ And AOFM is having to pay higher yields
 - the weighted average issue yield on the April 2025s auctioned on Wednesday was 3.48%, up from 2.90% when this bond was last offered on 1st June, 1.58% when it was offered on 18th February, and 1.05% when it was offered on 5th November 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"](#).

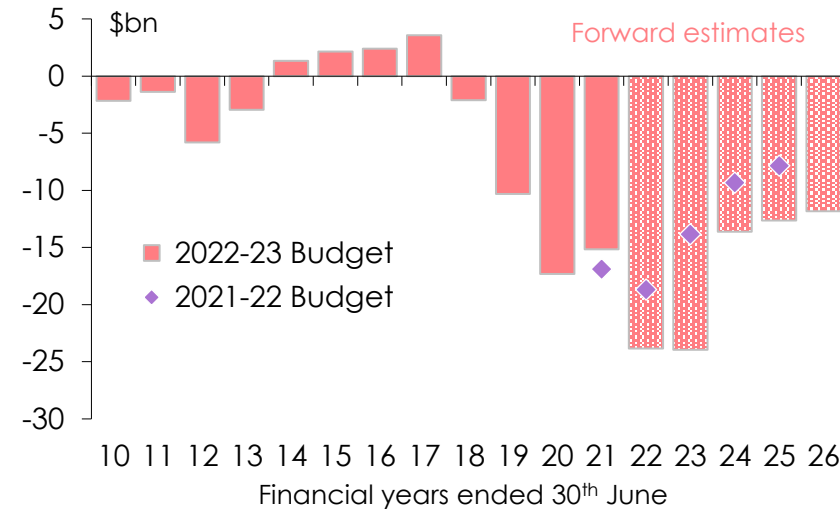
The 2022-23 New South Wales State Budget funds significant increases in spending, but without materially adding to net debt

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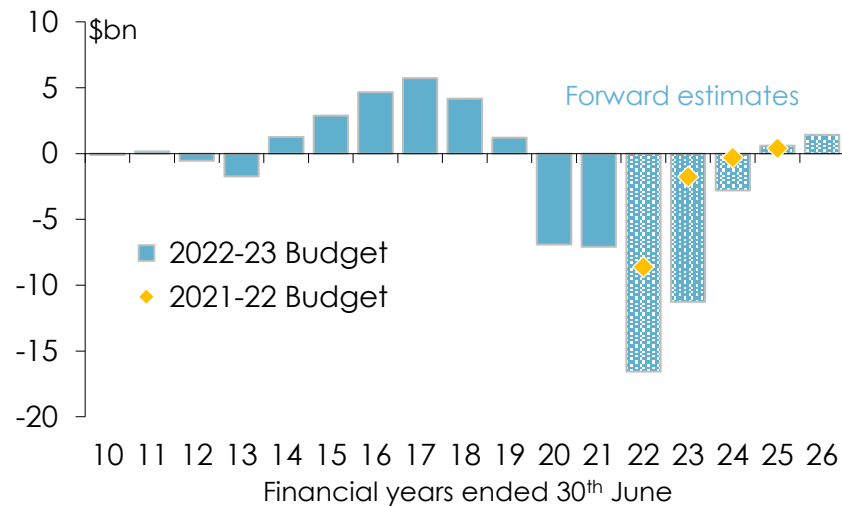
Operating expenses



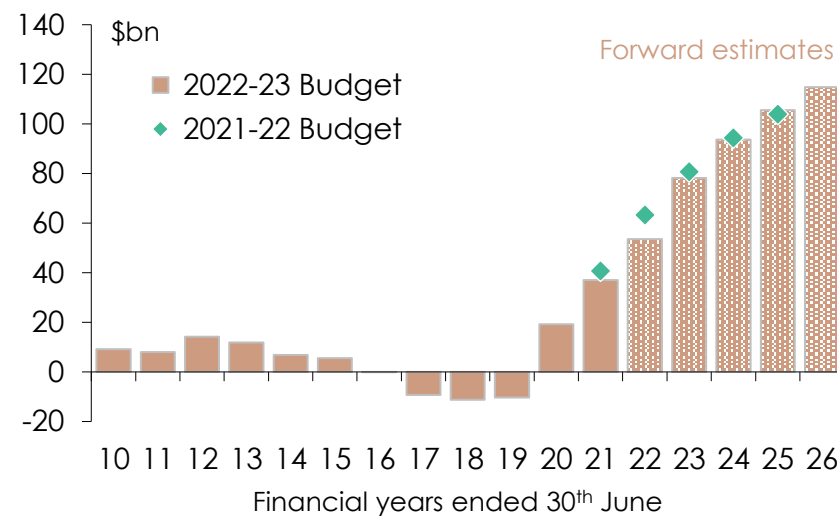
Cash balance



Net operating balance



Net debt



- This year's NSW State Budget includes new 'operating' spending averaging \$11³/₄bn pa (over 13%) to fund increased pay for public sector employees, early childhood education, greater economic opportunities for women, commuter road toll relief, and a new 'shared equity' home ownership scheme
- Some of this is funded by upward revisions to estimates of state taxation and GST revenues, increased betting taxes, compliance measures and higher land tax on foreign investors
 - partly offset by a 'property tax option' (annual land tax instead of stamp duty) for first home buyers – a smaller reform than previously flagged
- Nonetheless, the Budget projects larger 'operating' deficits in 2021-22 and 2022-23, before returning to an 'operating' surplus in 2024-25
- The 2022-23 Budget also provides for an additional \$12¹/₂bn in infrastructure spending over the four years to 2025-26, which results in larger cash deficits than forecast in last year's Budget
- Despite the larger cash deficits, net debt projections for 2020-21 and 2021-22 have been revised down slightly from last year's Budget, due to strong growth in NSW's 'Generations Fund' assets

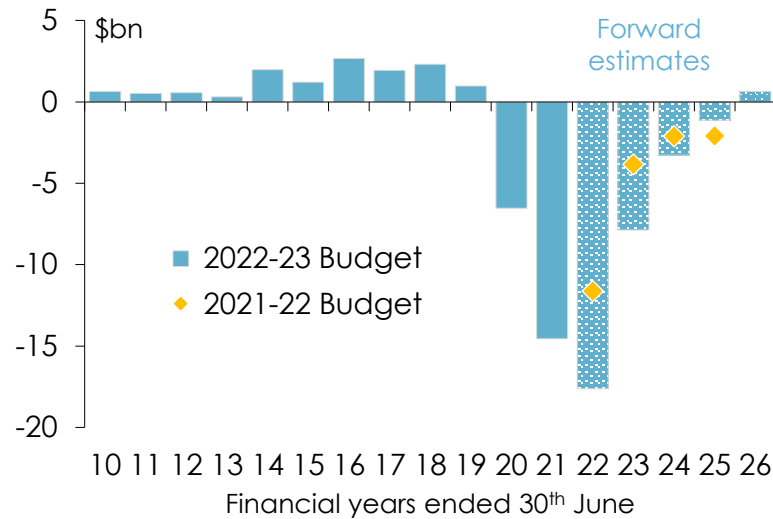
Note: Aggregates shown in the above charts refer to NSW's 'general government' sector (ie, excluding public corporations).

Source: New South Wales Government, [Budget Paper 1: Budget Statement](#). [Return to "What's New"](#).

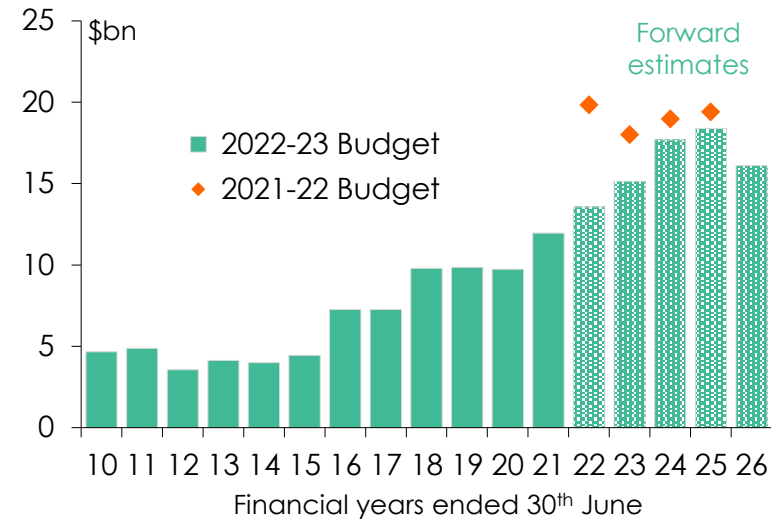
Victoria's 2022-23 Budget uses upward revisions to revenue projections to fund additional spending while projecting an eventual return to surplus

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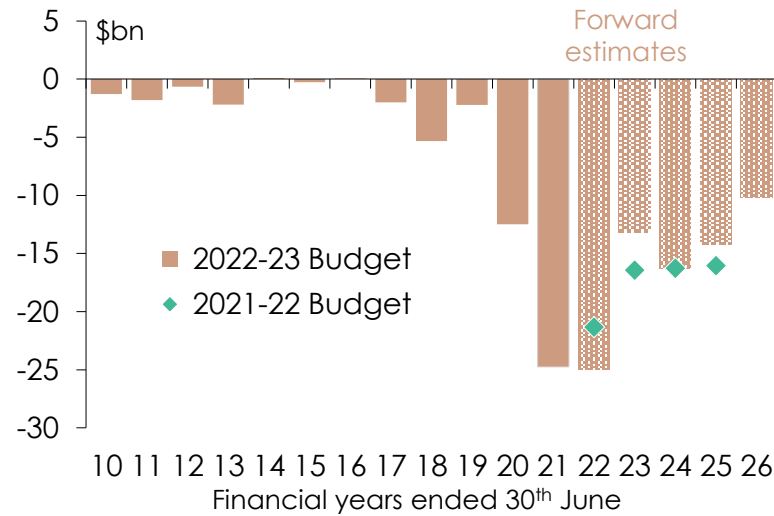
Net operating balance



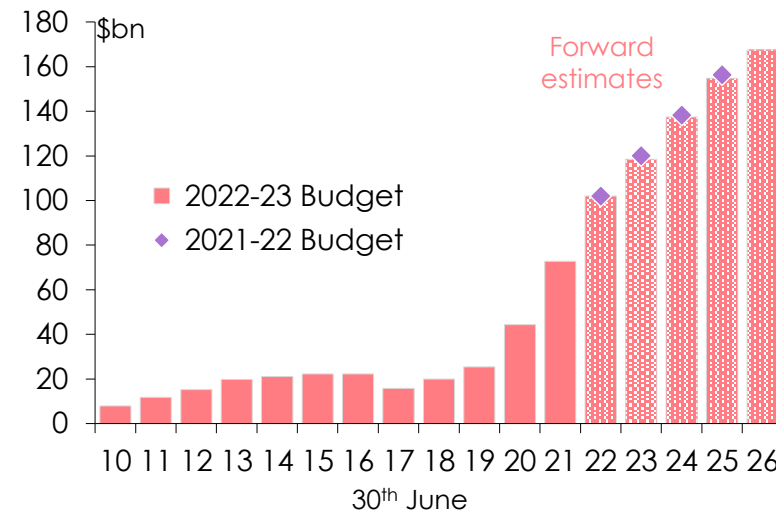
Infrastructure spending



Cash balance



Net debt



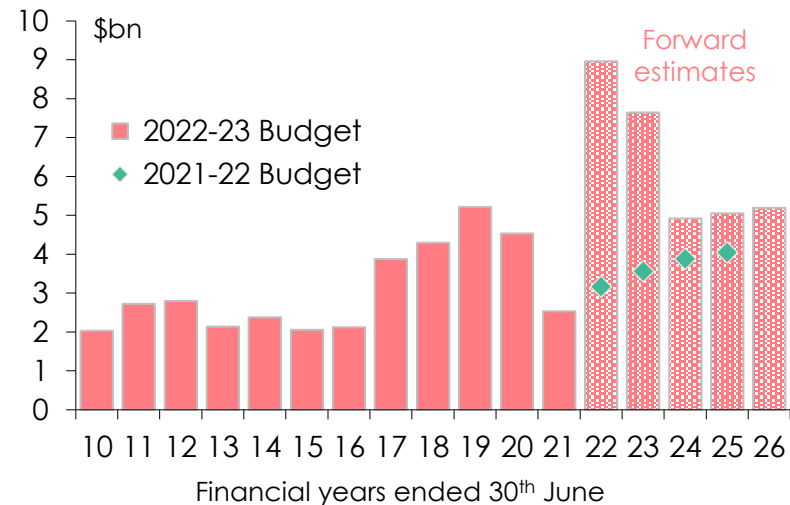
- ❑ Victoria's 2022-23 State Budget provides for \$16.3bn of additional spending over the four years to 2025-26 (of which \$6.4bn is for 2022-23) compared with that envisaged in the Mid-Year Review of last year's Budget
 - of which just under half is funded by 're-prioritization' of other spending, or 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 84](#))

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"](#).

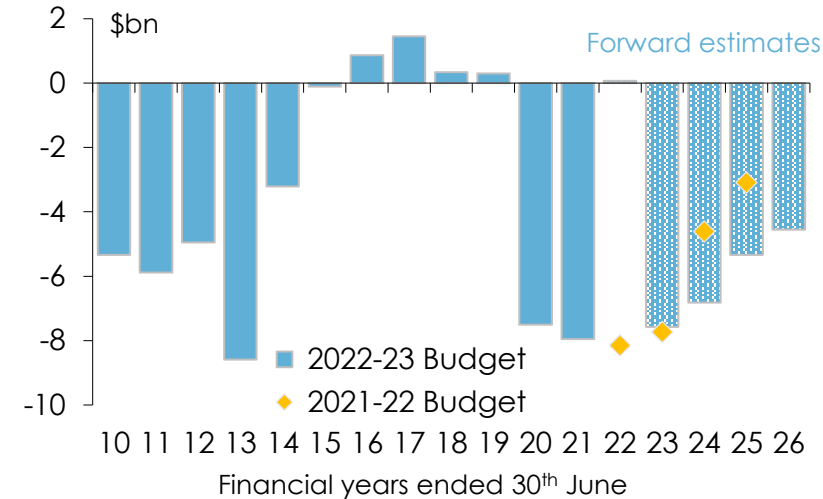
Queensland's 2022-23 Budget uses substantial increases in coal royalty revenues and higher payroll tax rates to fund health spending and cut debt

THE AUSTRALIAN ECONOMY THIS WEEK – 24TH JUNE 2022

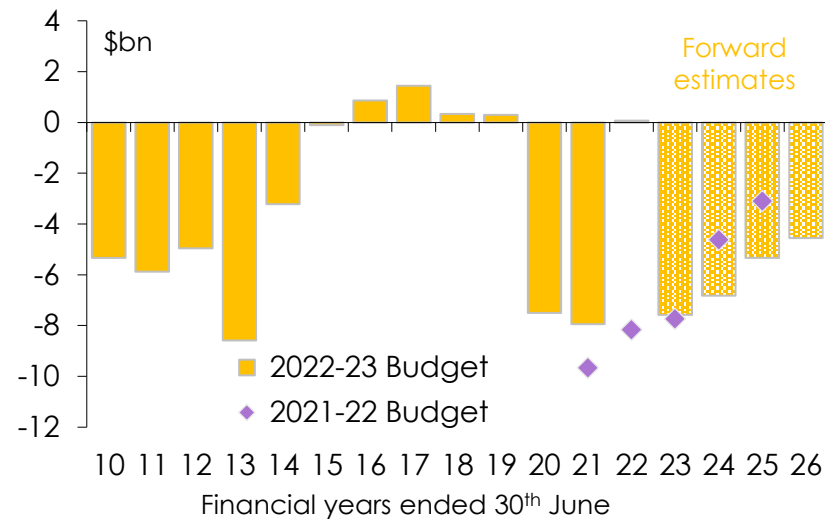
Mining & gas royalties



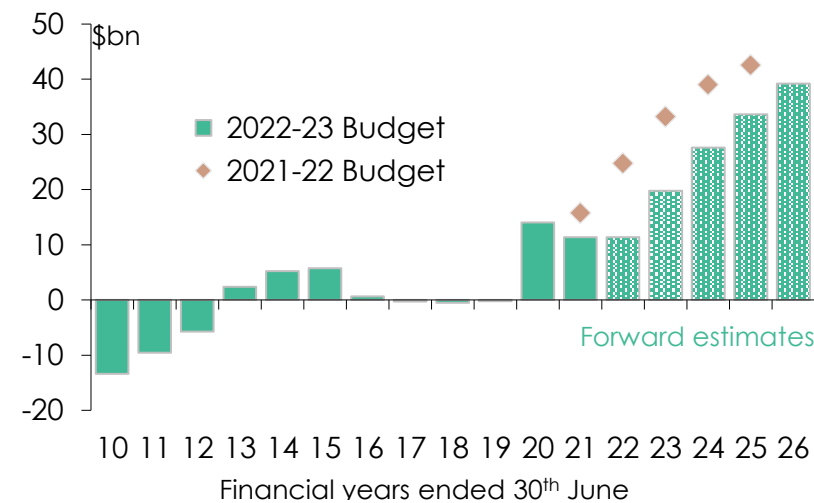
Cash balance



Net operating balance



Net debt



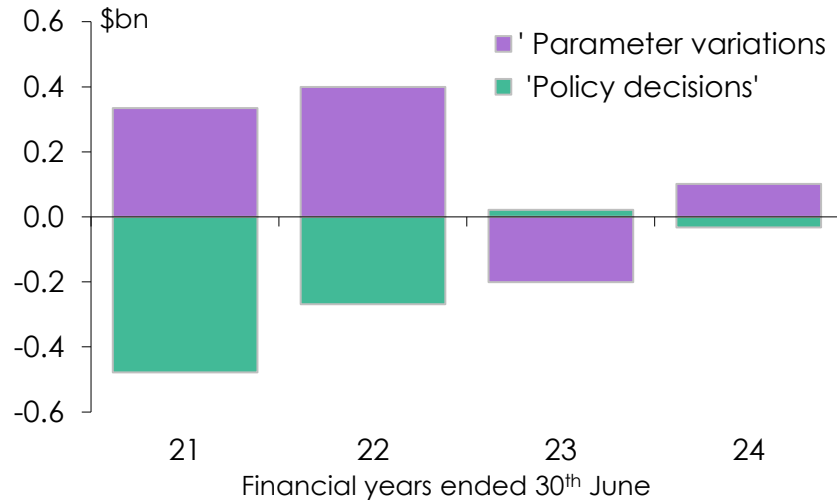
- ❑ The Queensland Government expects to collect an additional \$12bn in coal royalties over the four years to 2024-25 than forecast in last year's Budget (partly as a result of sharply higher royalty rates on prices over A\$225 and \$300/tonne), as well as increased revenue from stamp duties
- ❑ The 2022-23 Queensland Budget also imposes an additional payroll tax surcharge of 0.25% on annual payrolls of over \$10mn, and 0.50% on payrolls of over \$100mn, to fund additional spending on mental health services
- ❑ These increased revenues will fund some \$10³/₄bn in additional 'operating' expenses over the four years to 2024-25, particularly in health, school education, recovery from floods earlier this year, and assistance to households with increased electricity costs
- ❑ The Budget forecasts that Queensland will record small 'operating' and cash surpluses in the 2021-22 financial year (which ends next Thursday) largely as a result of windfall coal royalty revenues, before returning to deficits (albeit smaller than forecast a year ago) from 2022-23 through 2025-26
- ❑ But as a result of the surpluses forecast for 2021-22 projections of net debt have been lowered significantly from last year's Budget

Note: Aggregates shown in the above charts refer to NSW's 'general government' sector (ie, excluding public corporations).
 Source: Queensland Government, [Budget Paper 2: Budget Strategy and Outlook](#). [Return to "What's New"](#).

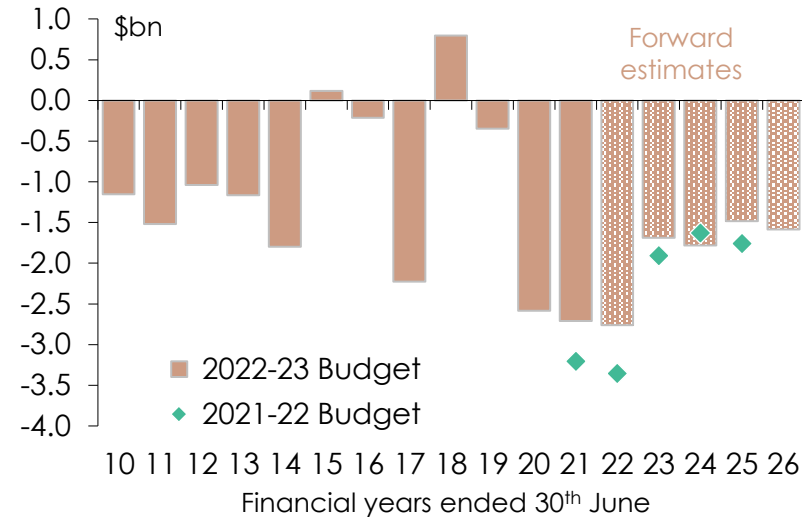
South Australia's 2022-23 Budget delivers the new Labor Government's election commitments with very little change to the 'bottom line'

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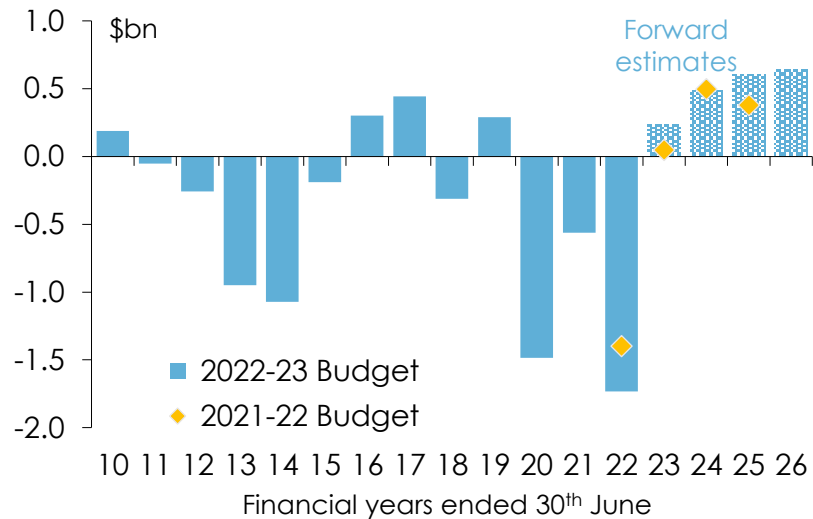
Impacts on net operating balance



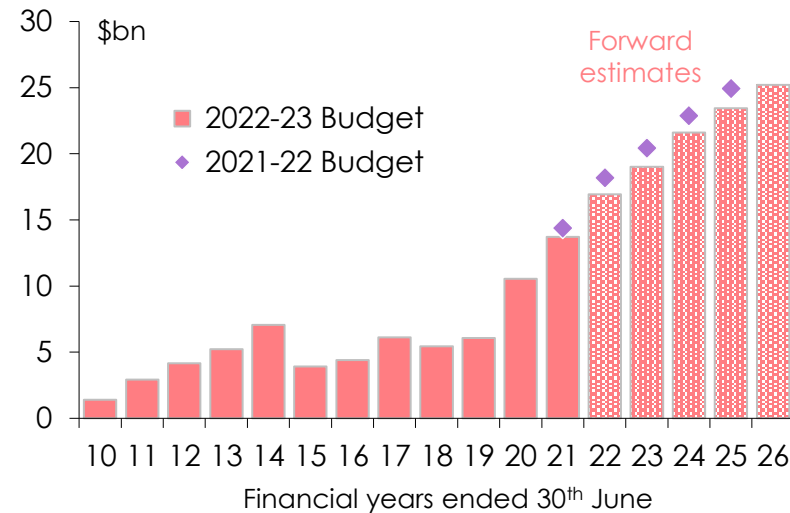
Cash balance



Net operating balance



Net debt



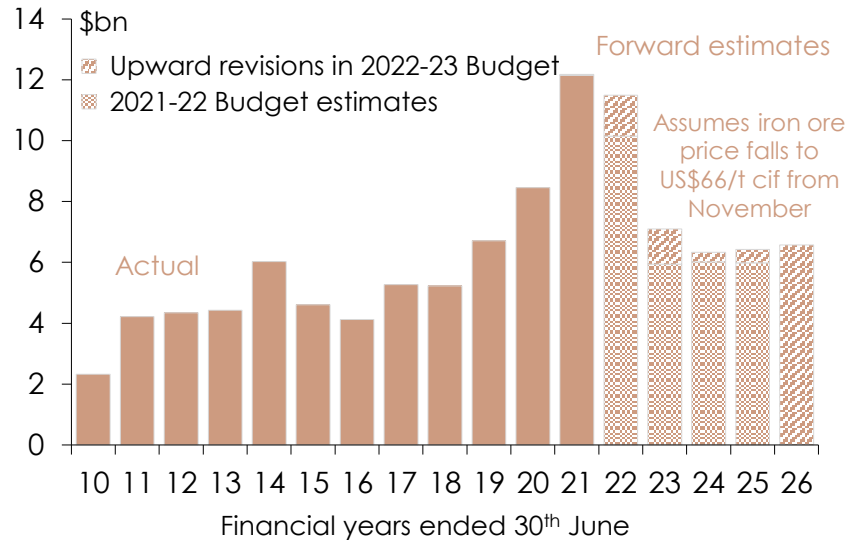
- ❑ The first Budget of the new South Australian Labor Government elected in March delivers on its election spending commitments (particularly in health) whilst also foreshadowing some small improvements in SA's fiscal position
- ❑ Favourable 'parameter variations' (upward revisions to estimates of state 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 84](#))

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"](#).

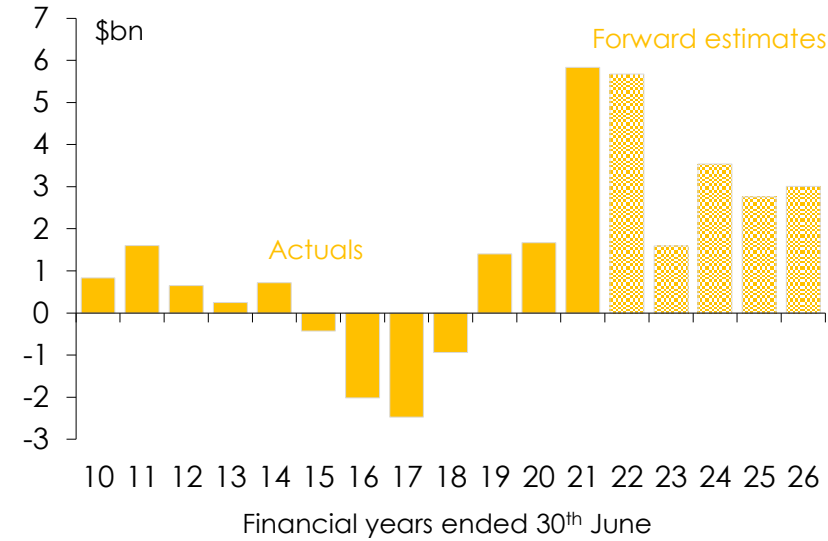
Buoyant iron ore royalty revenue and the corruption of the GST revenue sharing arrangements have put WA's Budget in a very strong position

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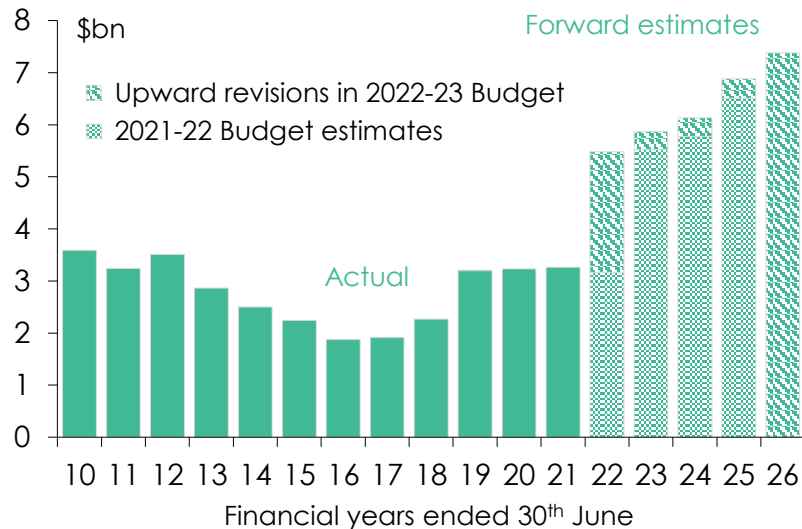
Mineral royalty revenues



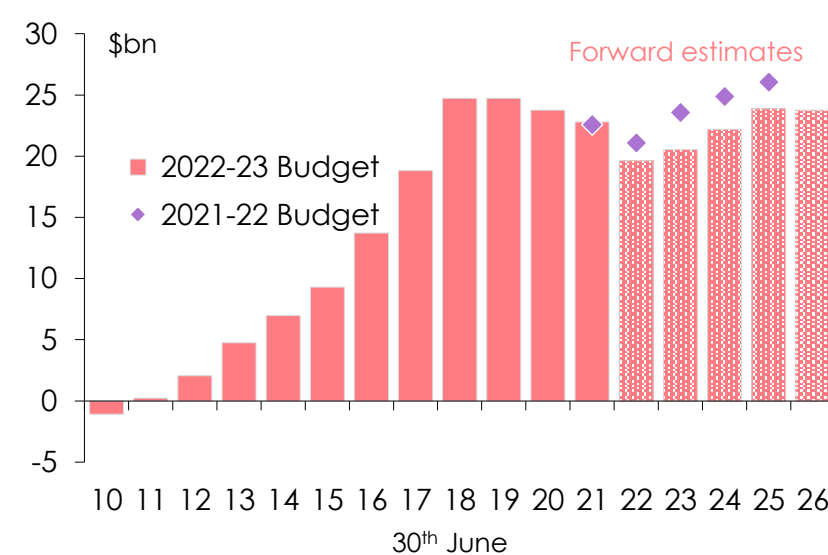
'Net operating balance'



GST revenues



Net debt



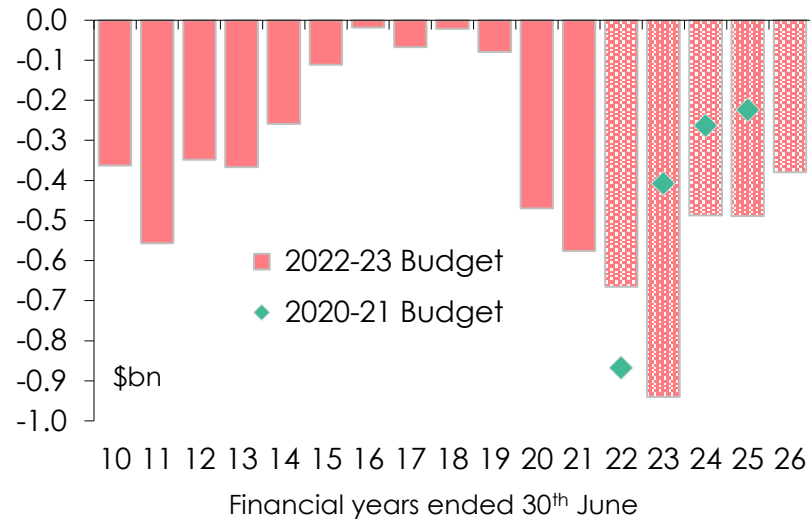
- ❑ Western Australia's 2022-23 Budget again benefits from buoyant mineral royalty revenues (even under conservative iron ore price assumptions), and changes in GST revenue-sharing arrangements which greatly favour it
- ❑ These have allowed this year's Budget to fund almost \$6bn in additional spending (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 84](#))
- ❑ 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"](#).

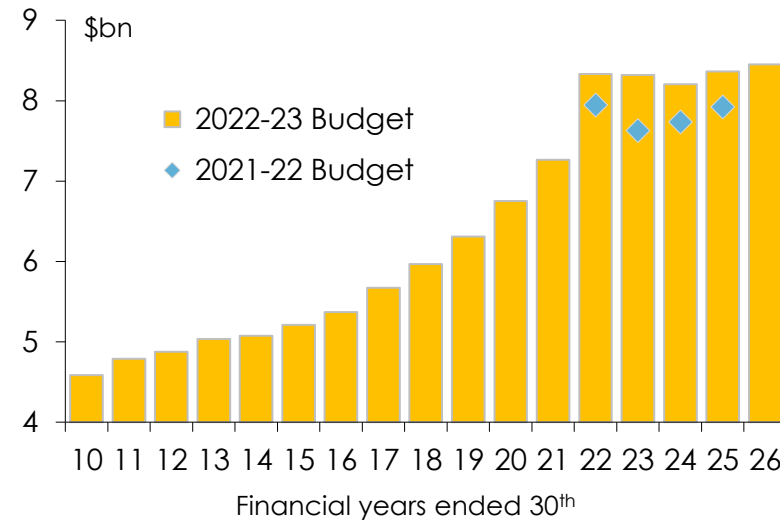
Tasmania's 2022-23 Budget consciously increases forecast deficits and net debt in order to fund additional 'operating' and infrastructure spending

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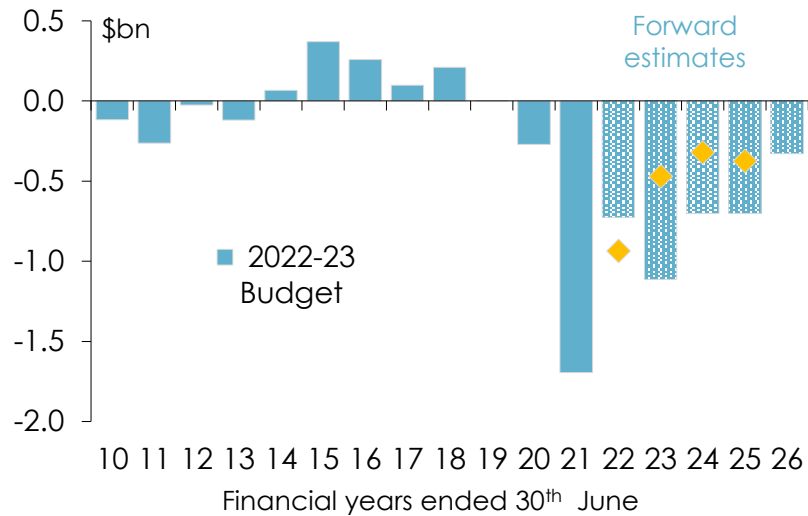
'Underlying' net operating balance



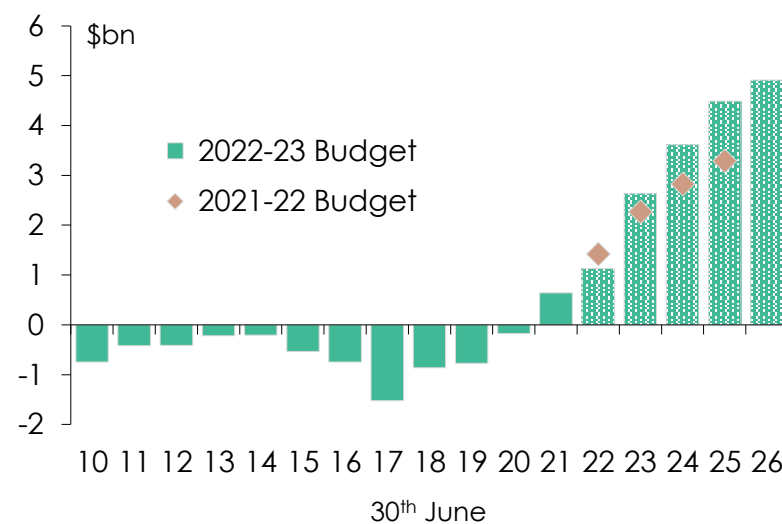
'Operating expenses'



Cash balance



Net debt



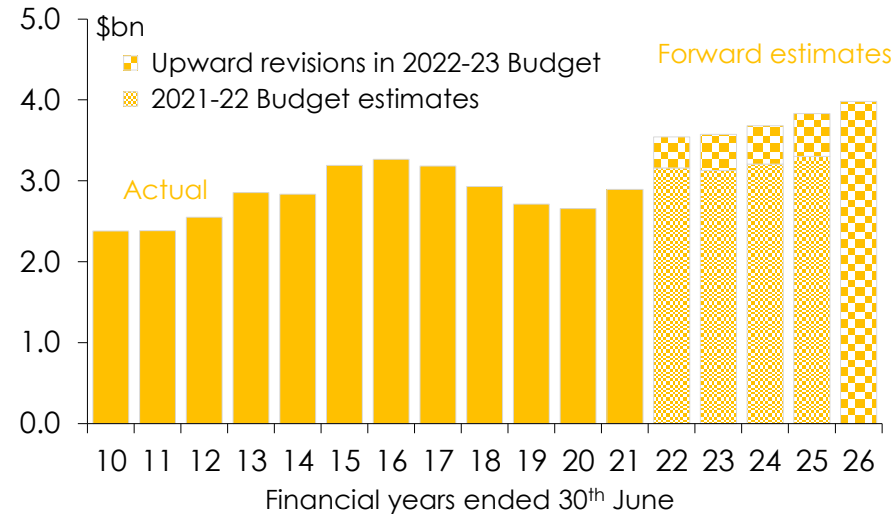
- ❑ Tasmania's 2022-23 Budget included \$957mn of new 'operating' spending, \$304mn of new capital spending, and \$173mn of tax cuts (mostly to land tax) over the four years to 2025-26
- ❑ As a result, and despite upward revisions to forecasts of revenue from State taxation and Federal grants (including 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 84](#))
 - 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"](#).

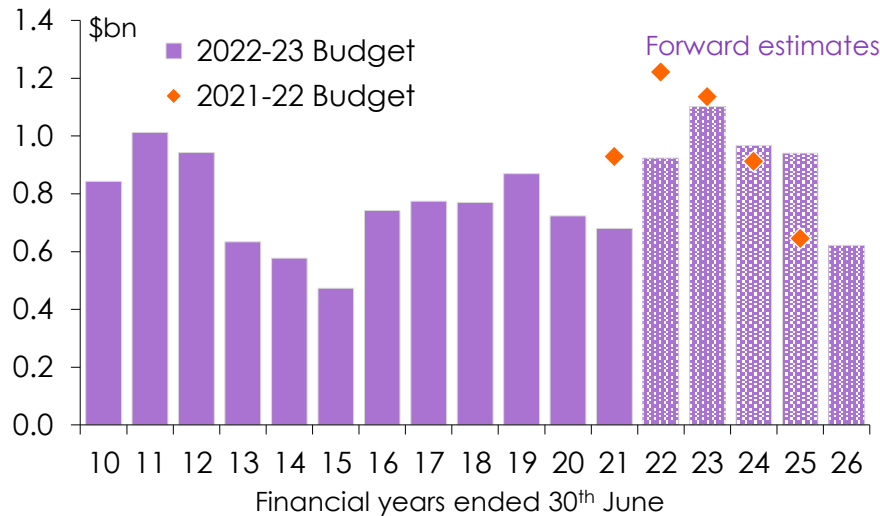
The Northern Territory's 2022-23 Budget portrays a significant improvement in its financial position, largely thanks to stronger GST revenues

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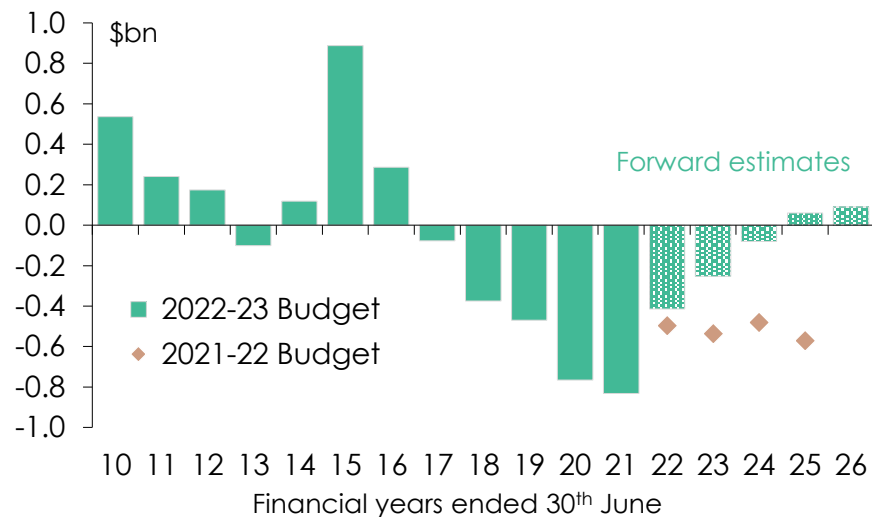
GST revenue



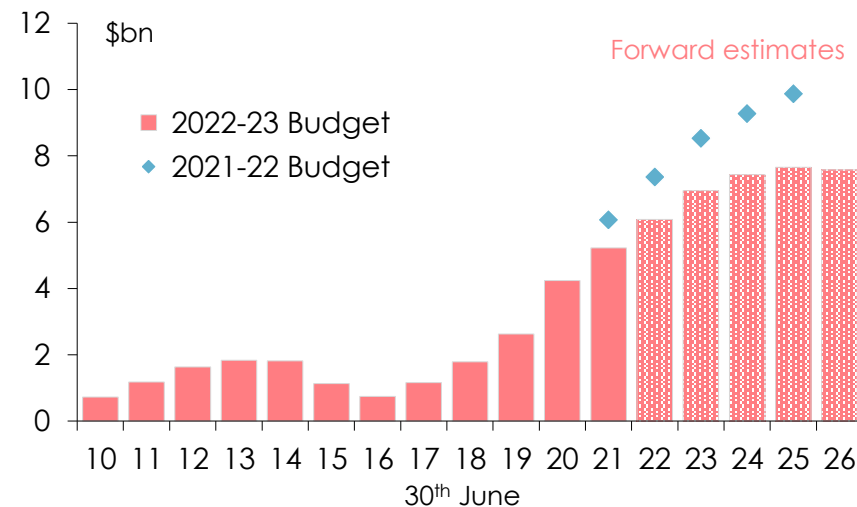
Infrastructure spending



'Net operating balance'



Net debt



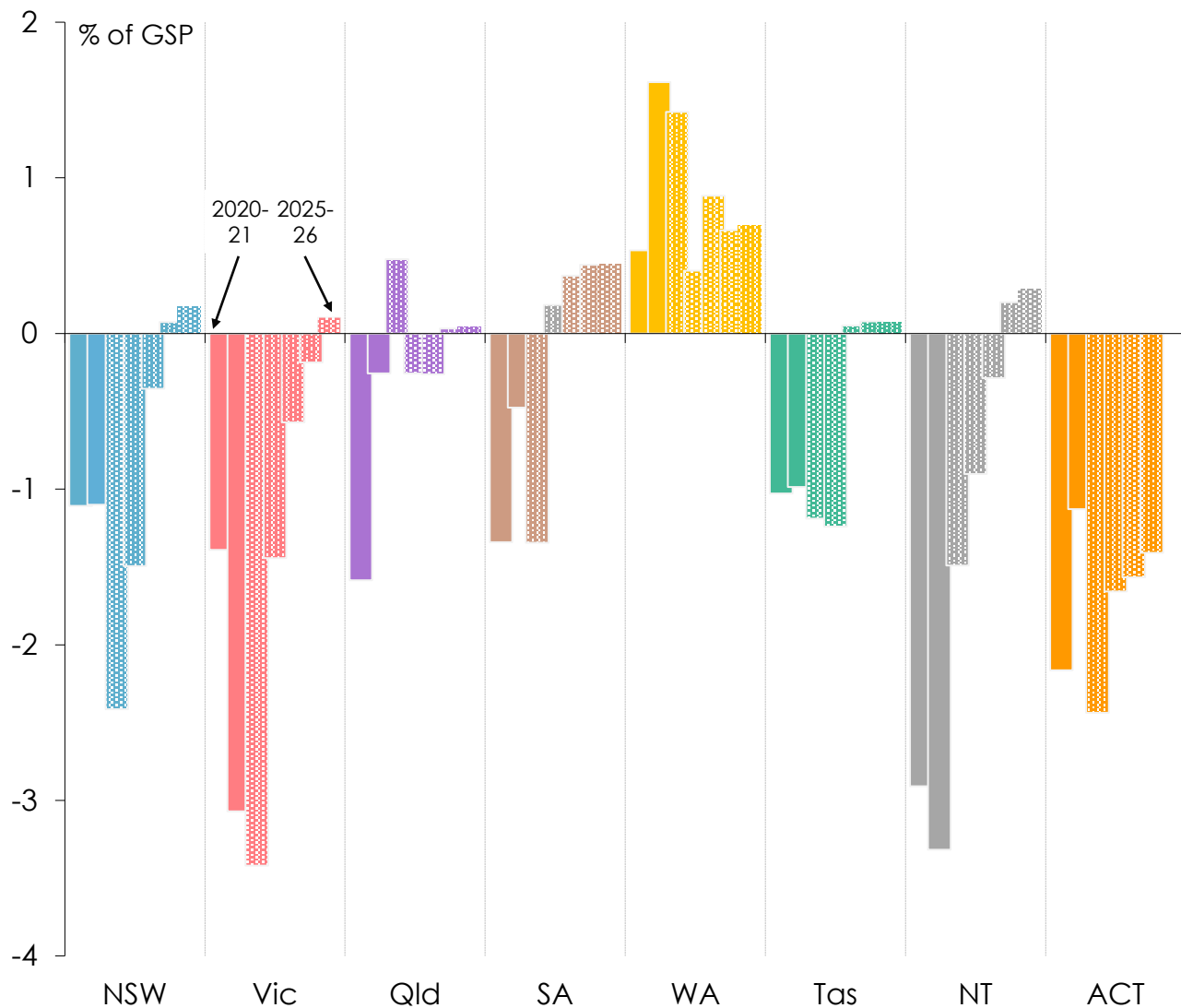
- The Northern Territory's (in recent years fairly parlous) financial position has benefited from upward revisions to revenue from the GST (due to increases in total GST collections and in the NT's share of the 'pool') which accounts for around 55% of its total revenues, together with tight control of non-Covid-related spending)
- As a result the Territory's 2022-23 Budget foreshadows a significant improvement in its 'net operating' position, returning to surplus in 2024-25 (as against prospective on-going deficits in last year's Budget)
- Together with some re-profiling of infrastructure spending, this improved 'operating' position has enabled significant downward revisions (of 15-20% pa) in the Territory's net debt position – which is now expected to stabilize at a slightly lower level (as a proportion of GSP) than Victoria's by 2025-26 (see [slide 84](#))
- The Territory's economy remains highly sensitive to the profile of major resources and infrastructure project investments, while its public finances are very vulnerable to shifts in GST distribution

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

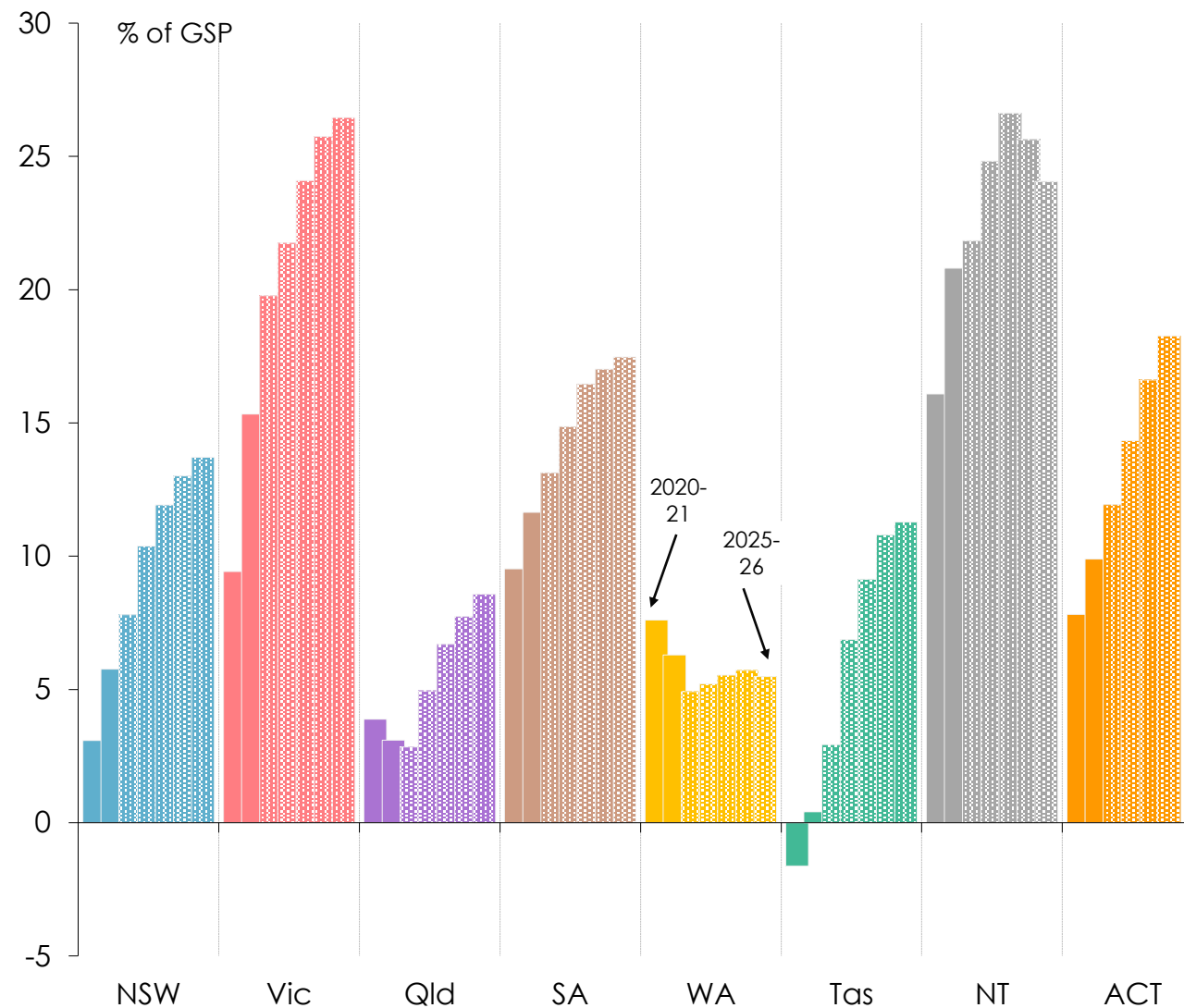
Victoria and the Northern Territory have more onerous fiscal positions than the other jurisdictions

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States and territories – ‘net operating balances’



States and territories – net debt



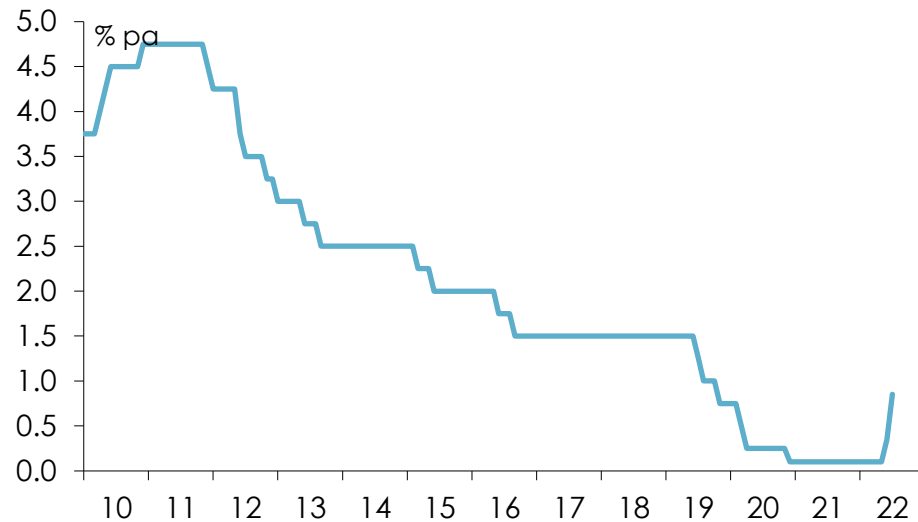
Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or Territory estimates of real GSP growth combined with Federal Treasury estimates of the (national) GDP price deflator. Sources: State and Territory 2022-23 Budget Papers, except for the ACT which is the 2021-22 Mid-Year Review. [Return to "What's New"](#).

Monetary policy and the RBA

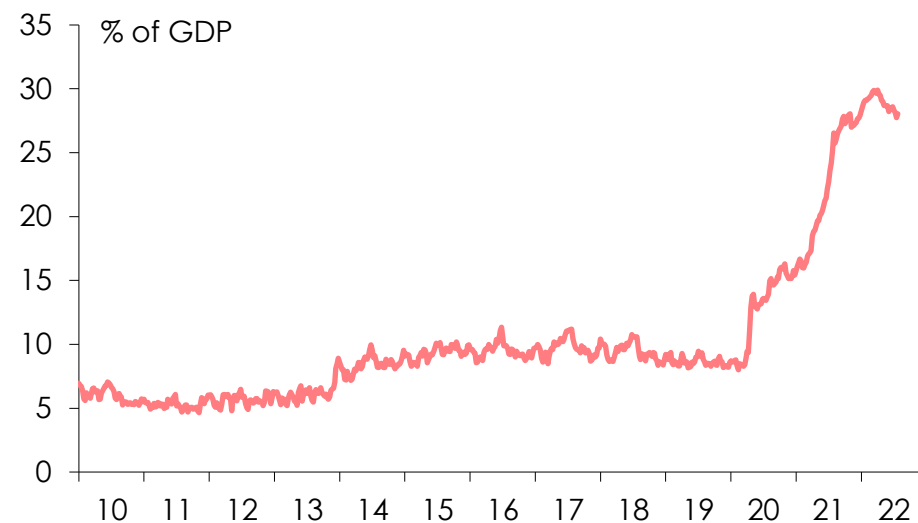
The RBA raised its cash rate another 50 bp at this month's Board meeting, and this week Governor Lowe again warned of further rate rises to come

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Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



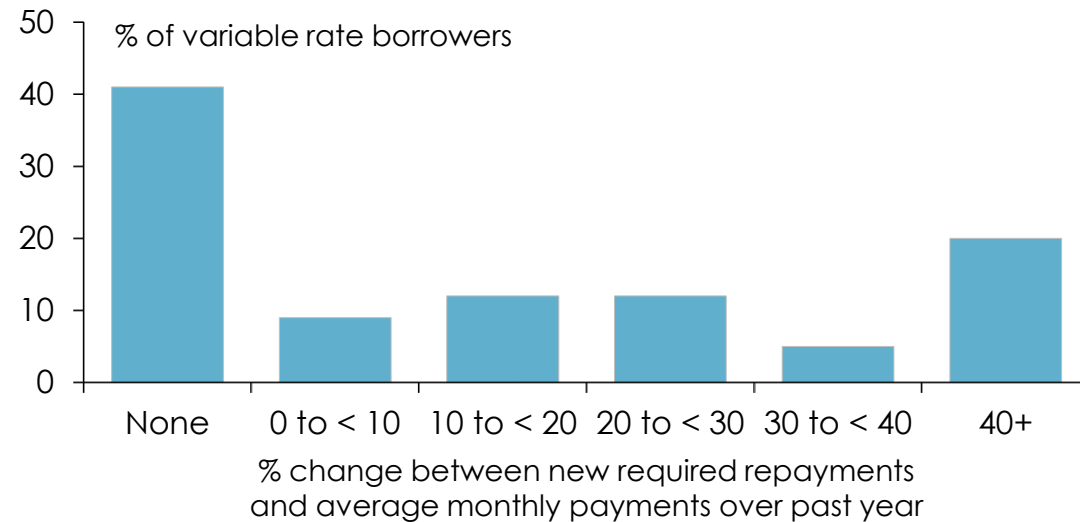
Source: Reserve Bank of Australia, [Statistical Tables A3](#) and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ The RBA raised its cash rate by a larger-than-expected 50 bp (to 0.85%) at its June Board meeting (the first such increase since February 2000) following the initial 15 bp move in May, in a step which Governor Philip Lowe, in his [post-meeting press statement](#), characterized as “a further step in the withdrawal of the extraordinary monetary support that was put in place to help the Australian economy during the pandemic”
 - in fact the RBA has now more than reversed the two rate cuts (of 65 bp) that it instituted in 2020, in response to the pandemic”
- ❑ Governor Lowe also noted that “inflation is higher than earlier expected” and “is likely to be higher than was expected a month ago” because of recently-foreshadowed increases in electricity and gas prices, as well as recent increases in petrol prices, before “declining back towards the 2-3% range next year”
- ❑ The [minutes](#) of this month’s meeting (published on Tuesday) indicate that Board members were particularly concerned by the “heightened risk of persistently high inflation, especially if expectations of higher inflation become entrenched”
 - this concern, together with the fact that interest rates were still “very low for an economy with a tight labour market and facing a period of higher inflation” were the main reasons for the Board’s decision to raise rates by 50 bp, rather than the alternative of 25 bp
- ❑ The minutes also signalled that “further steps would need to be taken to normalize monetary conditions in Australia over the months ahead”
- ❑ Governor Lowe repeated that message in a [speech](#) to a business audience on Tuesday, committing the RBA to “doing whatever is necessary to ensure that inflation returns to the 2-3% target over time”, warning that “Australians should be prepared for more interest rate increases”, and emphasizing that “higher interest rates “have a role to play” in ensuring that “the higher rate of inflation this year does not feed through into ongoing inflation expectations”

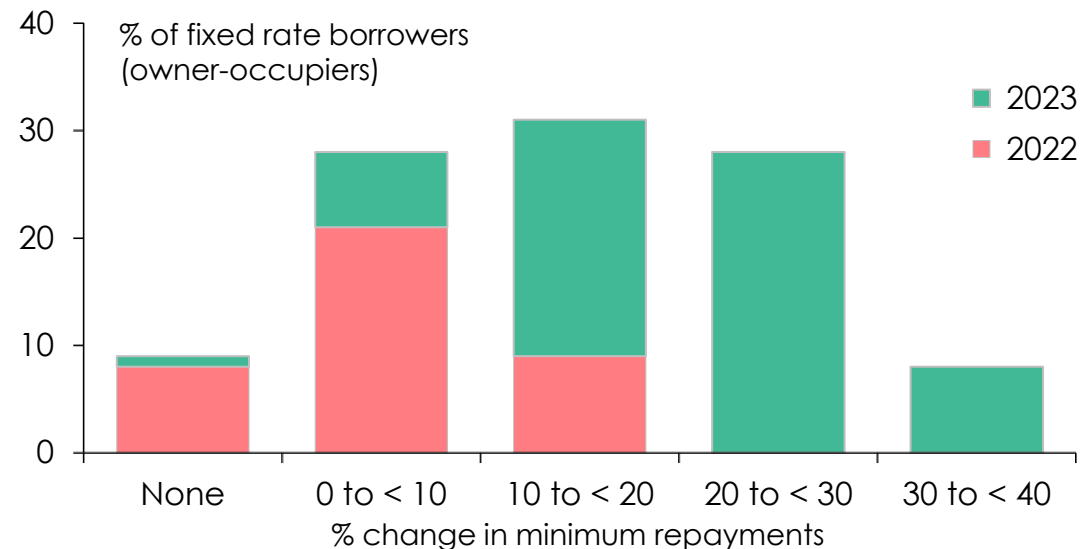
The RBA's latest *Financial Stability Review* gives some idea of household sensitivity to prospective increases in interest rates

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Repayment increases for variable-rate loans



Repayment changes on expiring fixed-rate loans



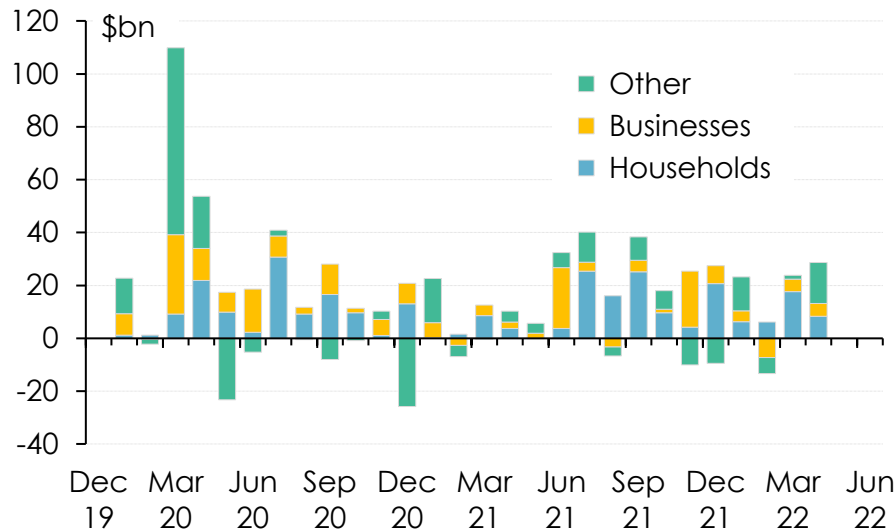
- ❑ 60% of all mortgage borrowers have variable-rate loans
- ❑ The RBA estimates that if variable mortgage rates were to rise by 200bp, just over 40% of those borrowers would not have to increase their monthly payments (because they've been paying more than contractually required)
 - whereas about 25% of these borrowers would see their repayments increase by more than 30% - although around half of these have 'excess payment buffers' equivalent to one year's worth of current repayments which could smooth that transition
- ❑ With a 200bp increase in variable rates, the share of borrowers with a debt service ratio of over 30% would increase from around 10% to just under 20%
- ❑ The share of mortgage borrowers with fixed rate loans has doubled, to 40%, since the beginning of 2020
 - about 3/4 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"](#).

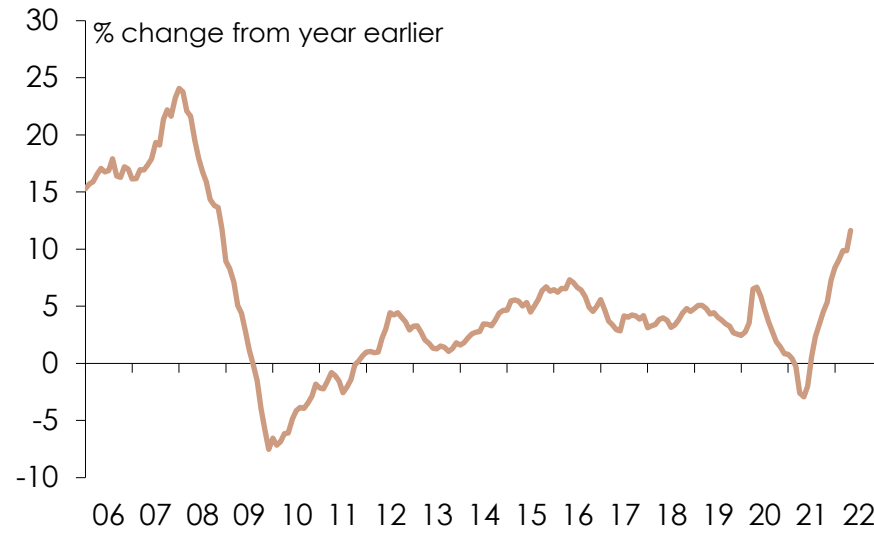
Banks have been swamped with deposits since the beginning of the pandemic, and have lent readily to both households and businesses

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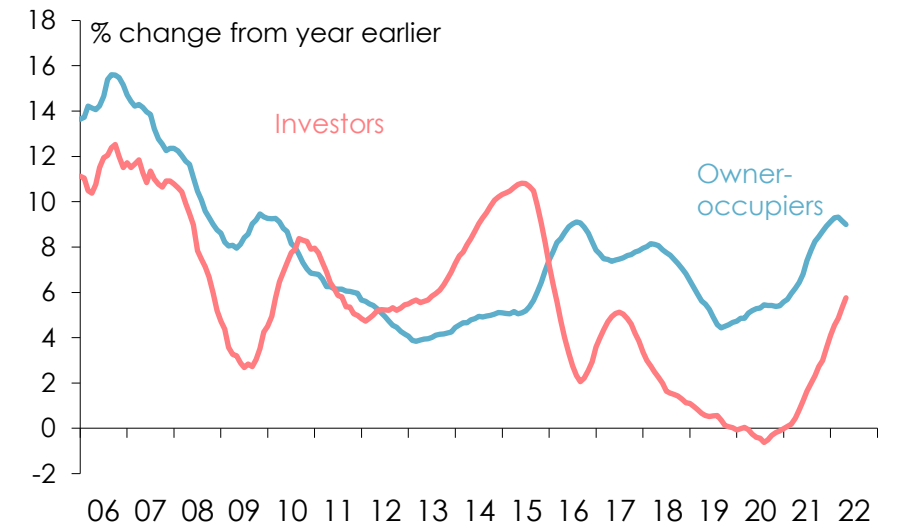
Monthly change in bank deposits



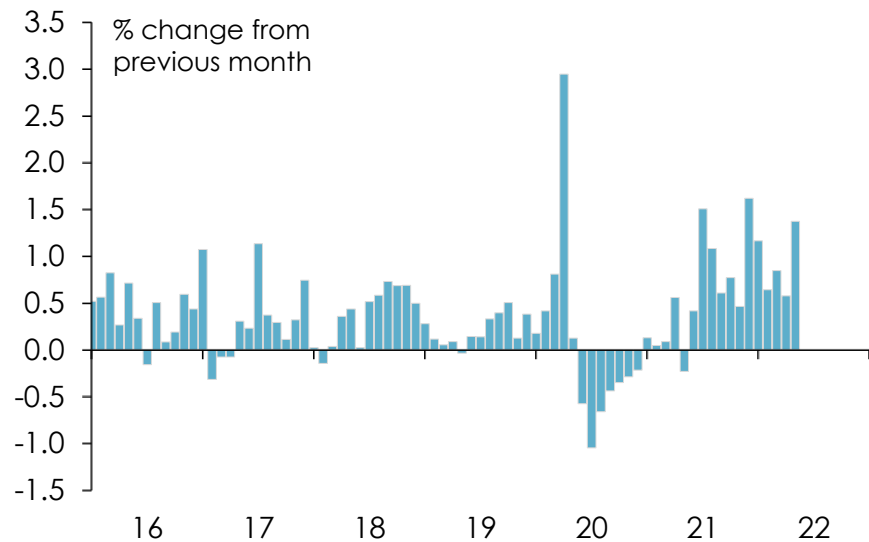
Annual growth in business credit



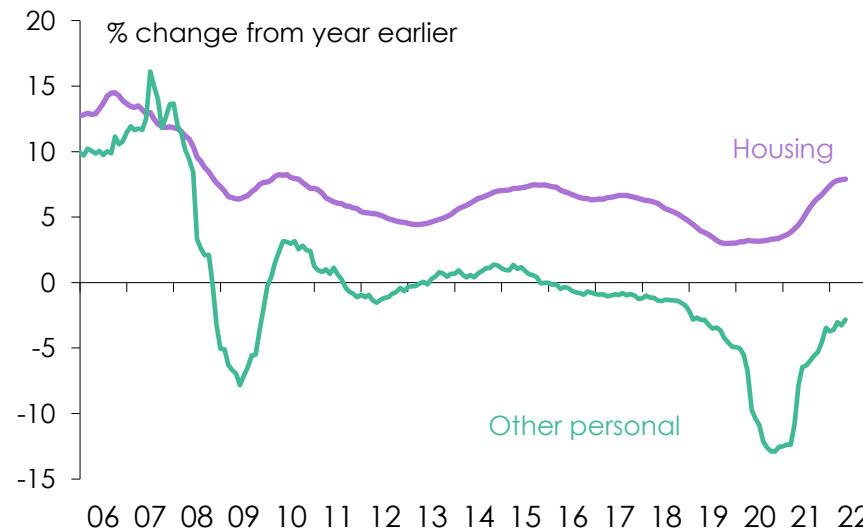
Annual growth in housing credit



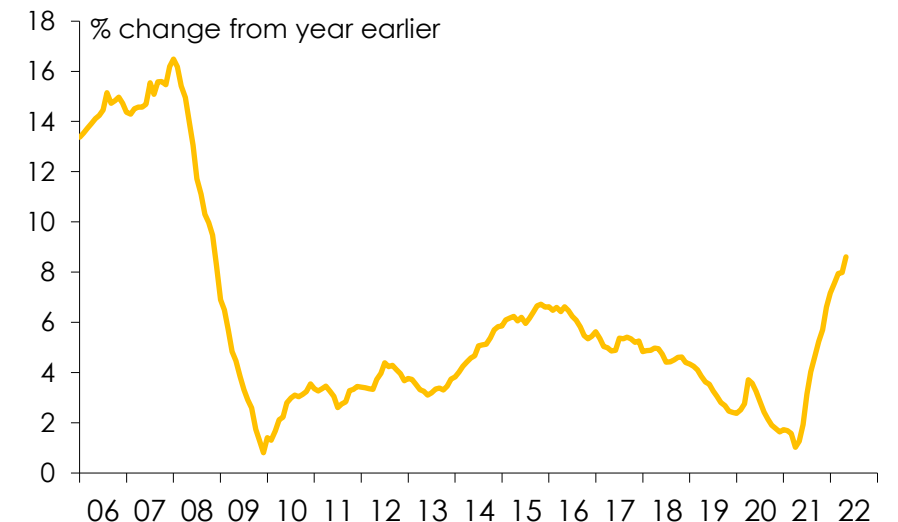
Monthly change in business credit



Annual growth in household credit



Annual growth in total credit

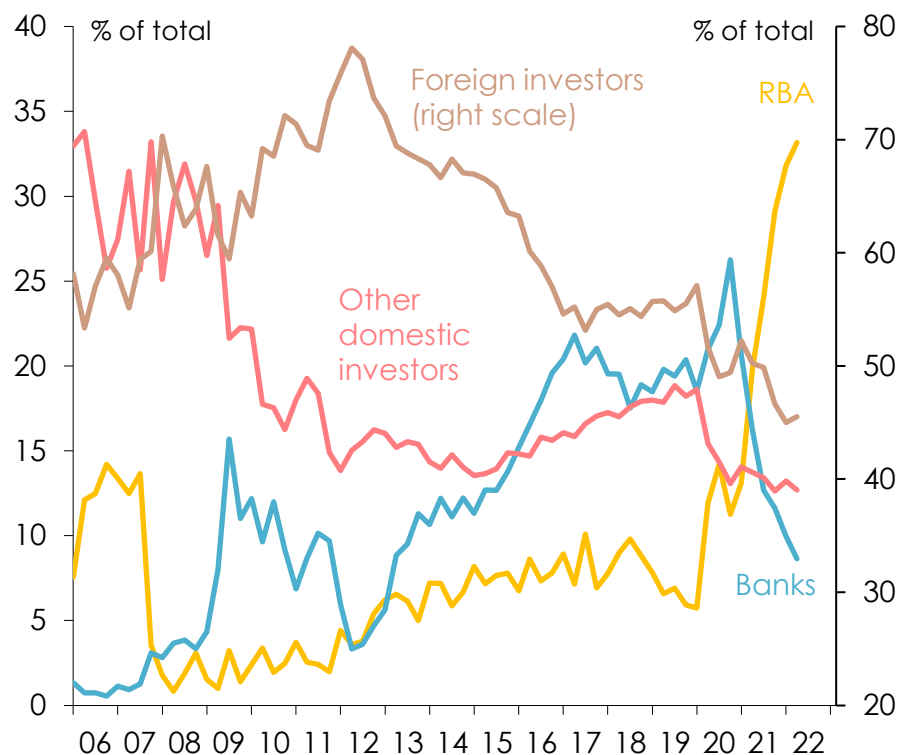


Sources: [Reserve Bank of Australia](#); [Australian Prudential Regulation Authority](#). [Return to "What's New"](#).

The RBA has (indirectly) absorbed all of the increased in federal government debt, and then some, since the end of 2019

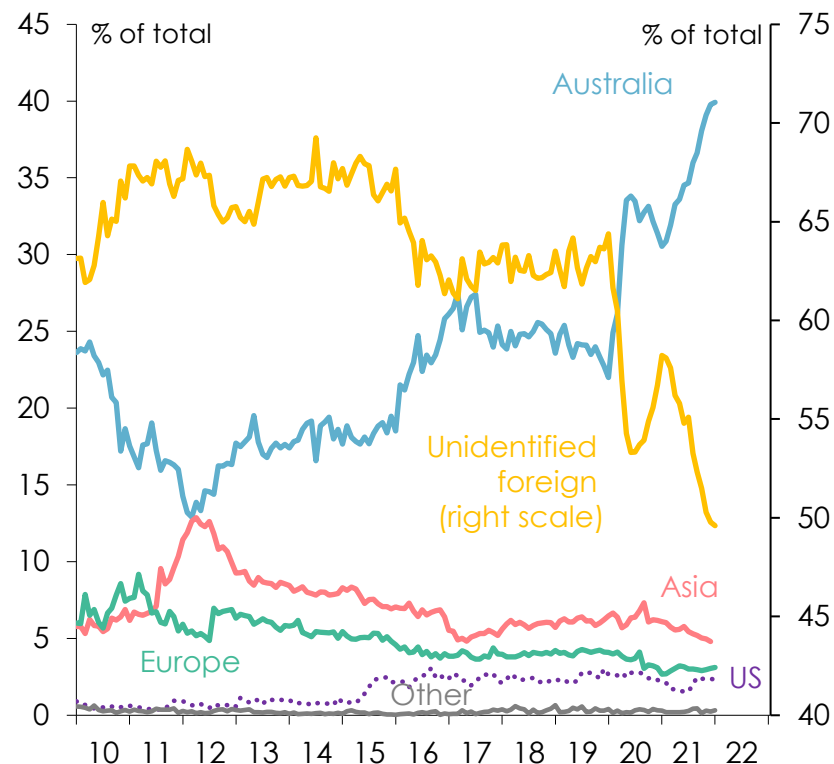
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Holder of Australian Government bonds



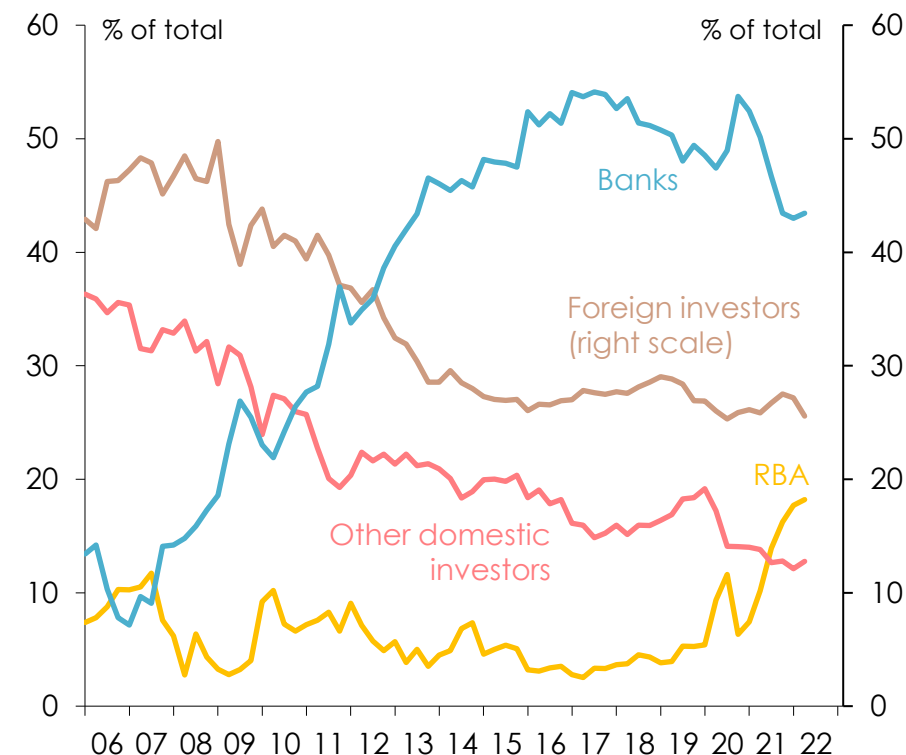
Australian Gov't bonds on issue have increased by \$215bn since the end of 2019 – the RBA's holdings have increased by \$245bn, and foreigners' by \$24bn, while banks' holdings have fallen by \$44bn

Nationality of Australian Government bond holders



Domestic holdings of Australian Gov't bonds (including RBA) rose by \$95bn during 2021 while identified foreign holdings fell \$1bn – and unidentified holdings (which include many foreigners) fell by \$46bn

Holder of State and Territory Government bonds



State & Territory Gov't bonds on issue have increased by \$113bn since the end of 2019, of which \$58bn have been absorbed by the RBA, \$34bn by banks and \$25bn by foreigners

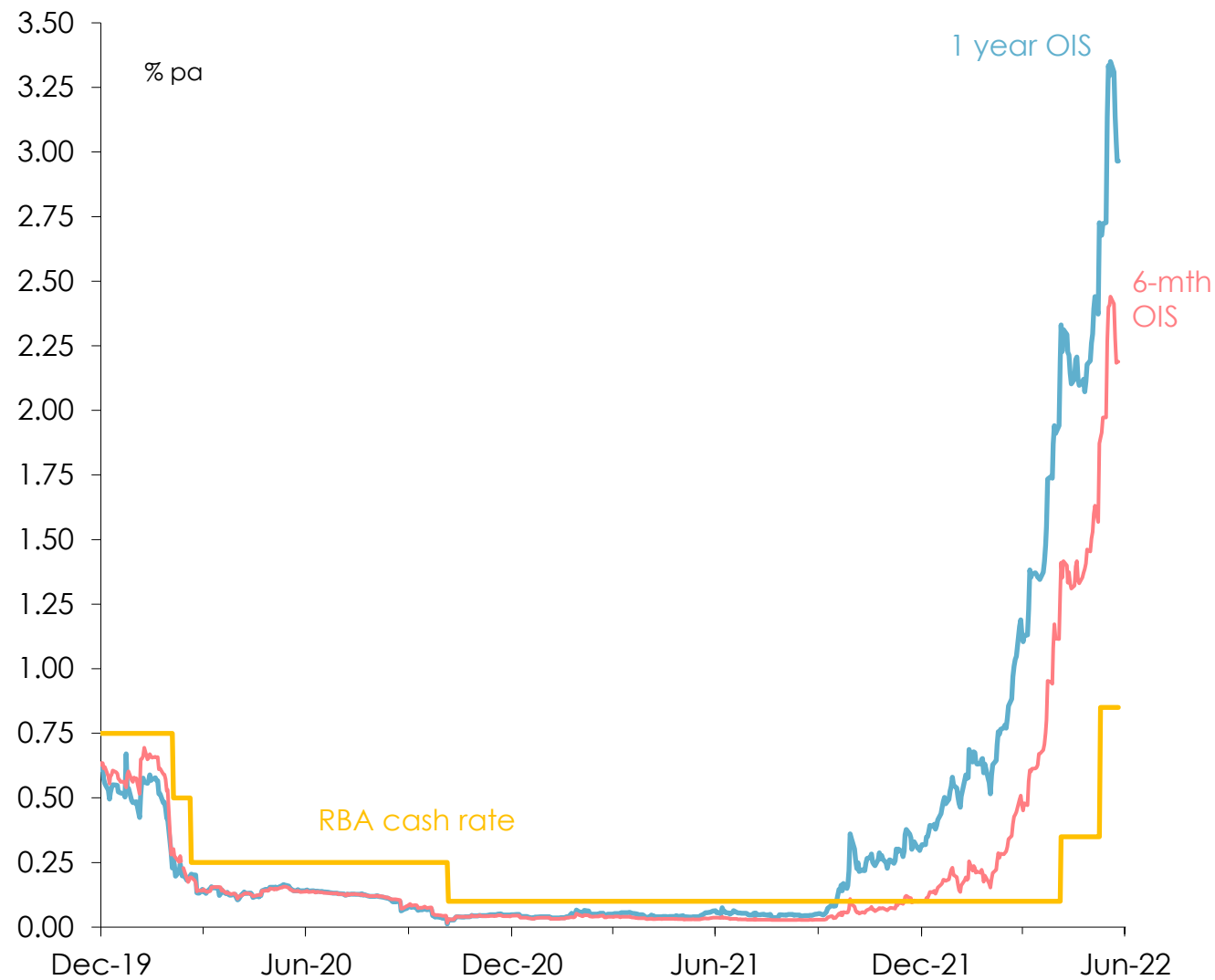
Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2022; [Australian Office of Financial Management](#). June quarter data will be released on 29th September. [Return to "What's New"](#).

Australian financial markets

Financial markets this week reversed some of the previous week's sharp upgrading of interest rate expectations

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Overnight index swap rates



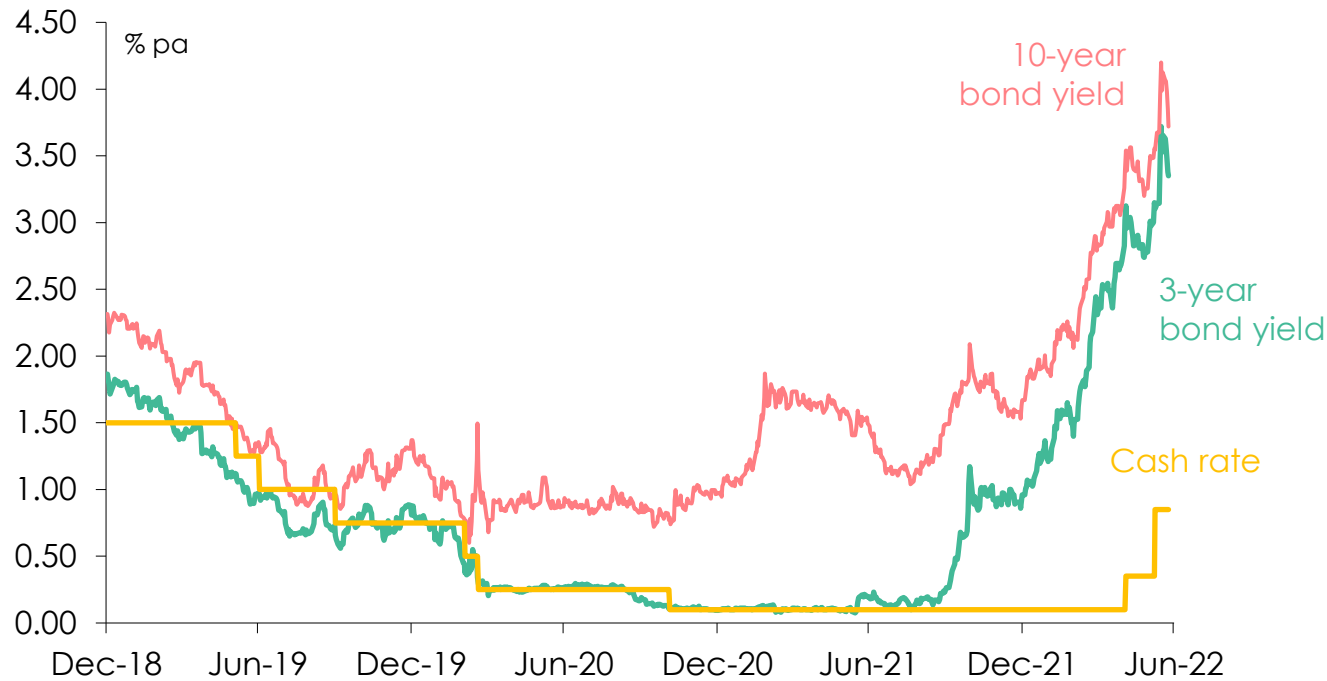
Yield curves



Short- and longer-term bond yields fell 35-40 basis points this week, largely following offshore yields down as US recession concerns increase

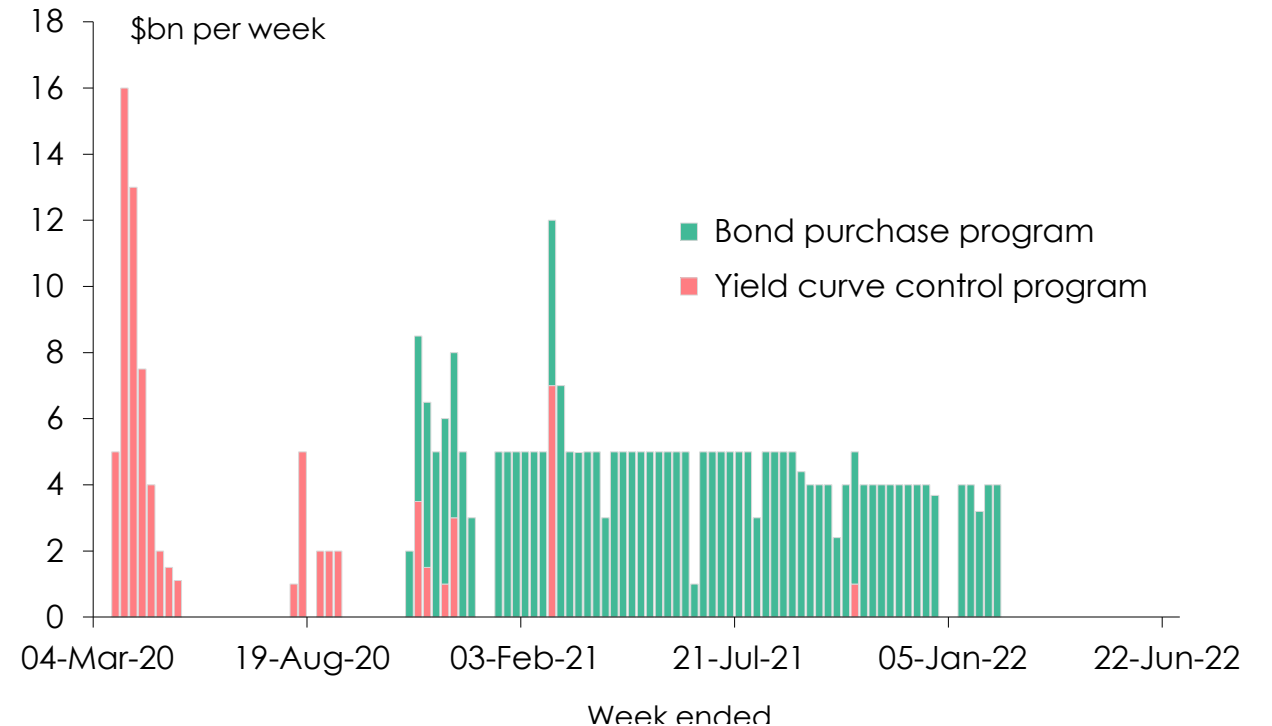
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Interest rates



- ❑ 3-year bond yields finished at 3.35% this week, down 30 bp from last Friday and 37bp from their peak of 3.72% on 15th June
- ❑ 10-year bond yields fell 40bp this week, finishing at 3.72% (cf. last week's peak of 4.13%), partly reflecting the decline in US bond yields as markets became more concerned about US recession risks
- ❑ The spread over 10-year US Treasuries narrowed from over 80bp on Monday to just below 70bp by week's end

RBA open market bond purchases



- ❑ The RBA this week released the findings of an internal [review](#) of the 'yield curve target' program which it ran between March 2020 and November 2021
- ❑ The review concluded that while this program succeeded in "lowering funding costs and supporting the provision of credit", the exit from it in late 2021 was "disorderly and ... caused some reputational damage" to the RBA
- ❑ It also rated the likelihood of the RBA using a yield target again in the future as "low"

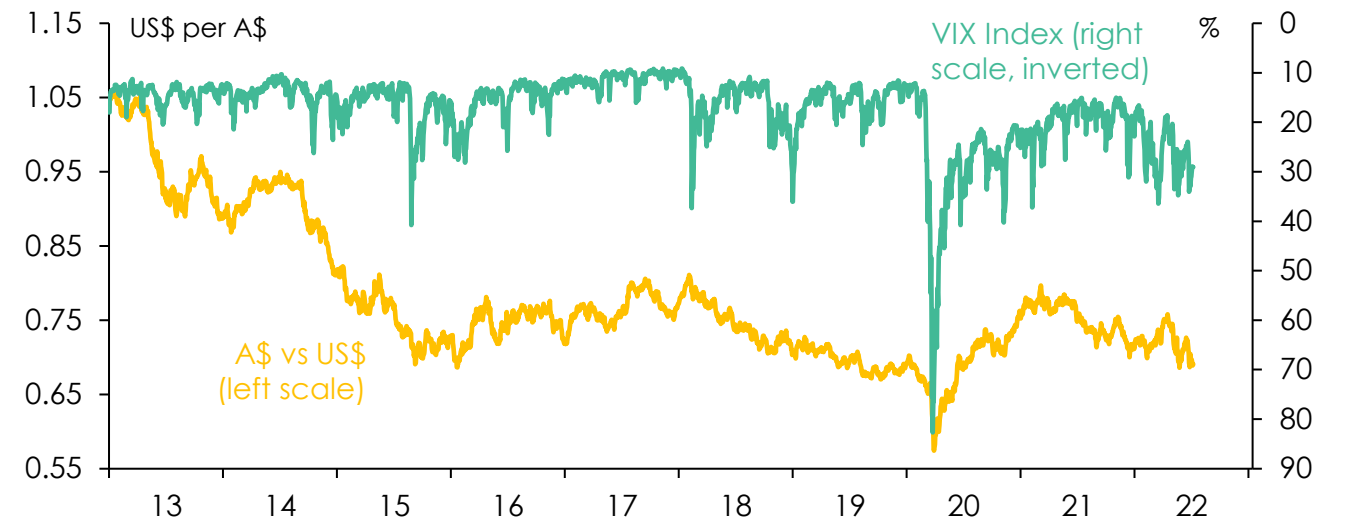
The A\$ spent the week below US70¢, finishing just above US69¢ on Friday after dipping below that level on Thursday

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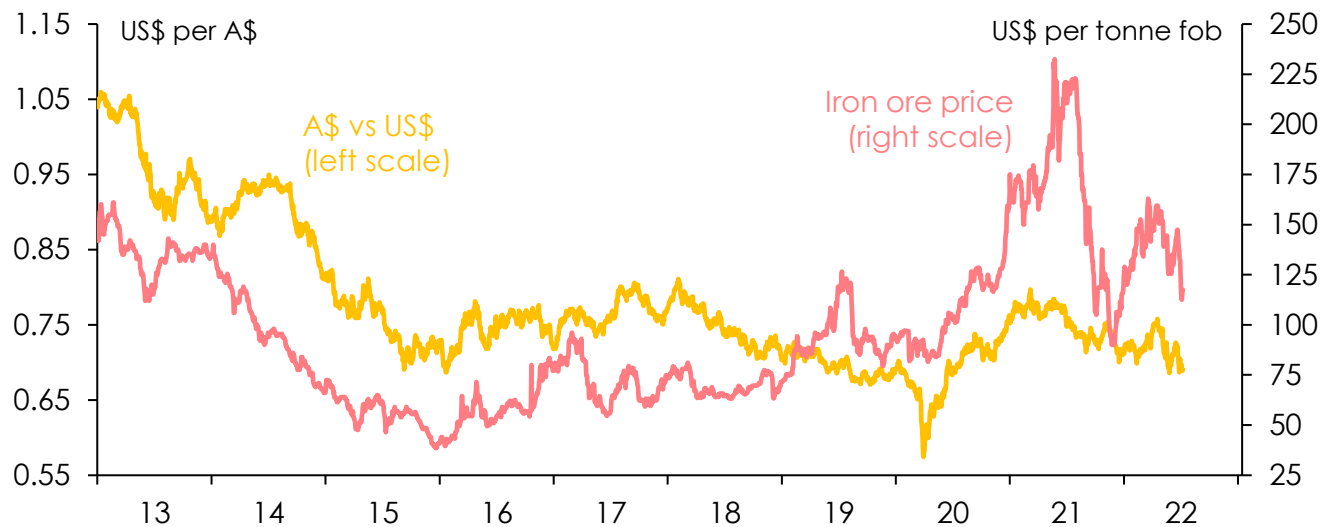
A\$-US\$ and US\$ trade-weighted index



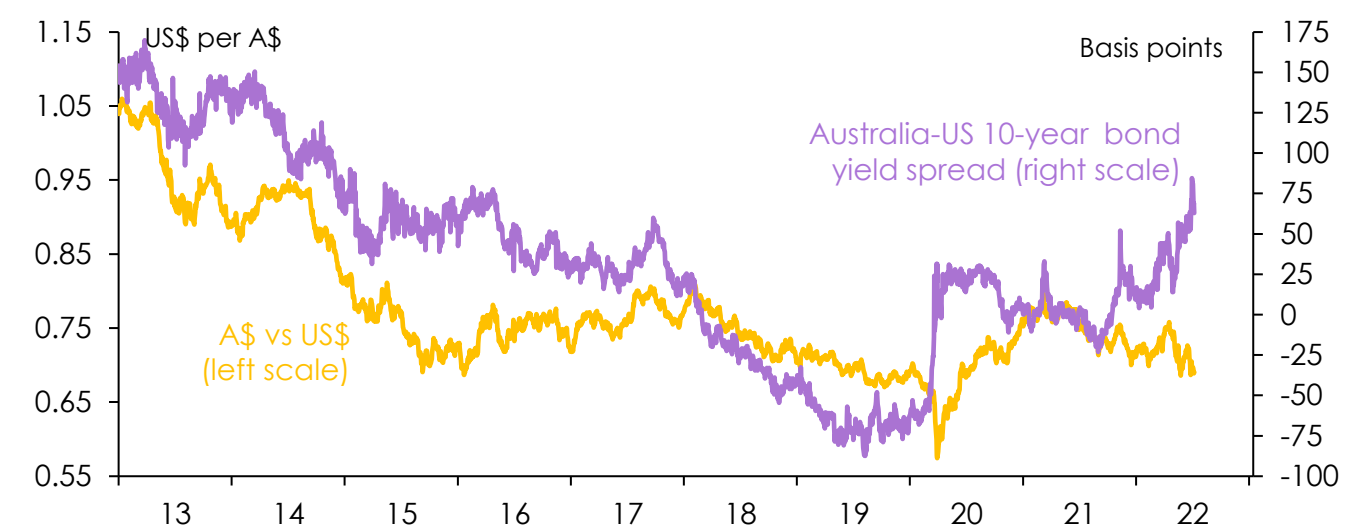
A\$-US\$ and US equity market volatility



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



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

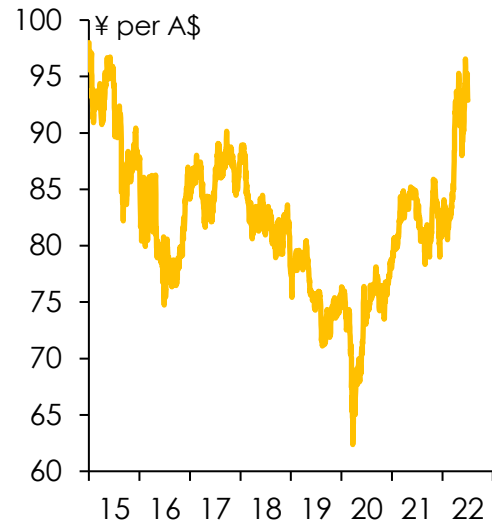


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 24th June. [Return to "What's New"](#).

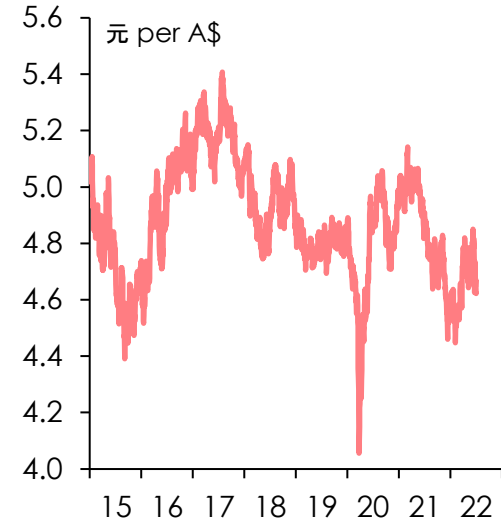
The A\$ also fell against third currencies (apart from the Korean won) this week, dropping more than 1% vs the euro & C\$, and ¾% vs the yen

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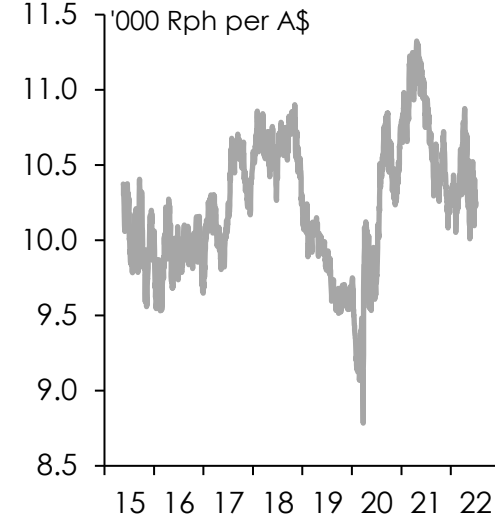
A\$ vs Japanese yen



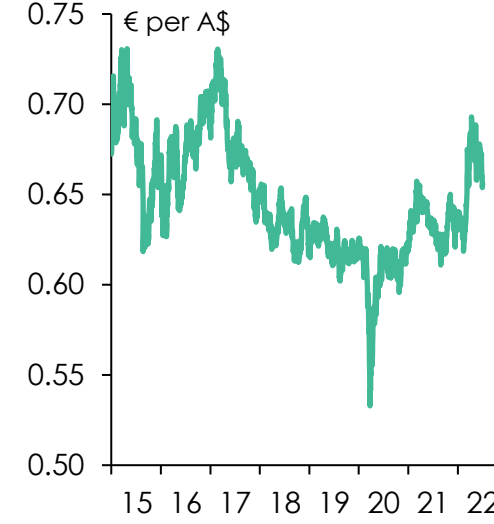
A\$ vs Chinese yuan



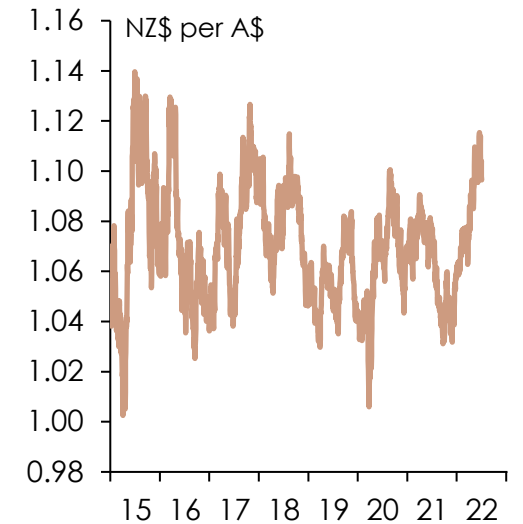
A\$ vs Indo rupiah



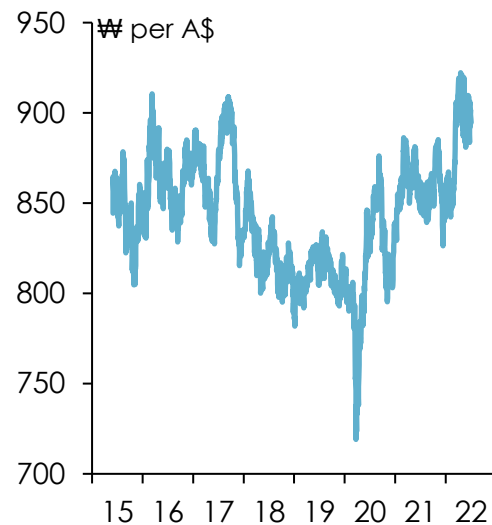
A\$ vs Euro



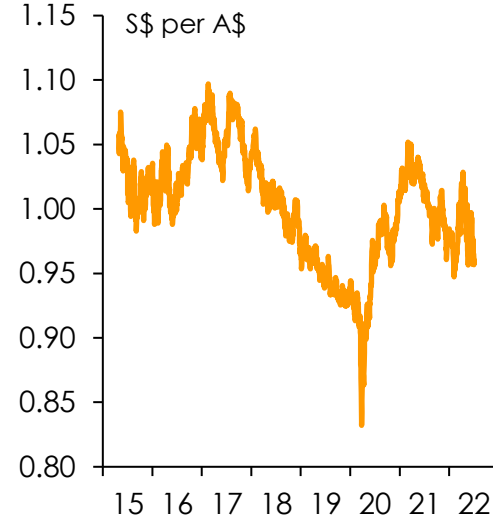
A\$ vs NZ\$



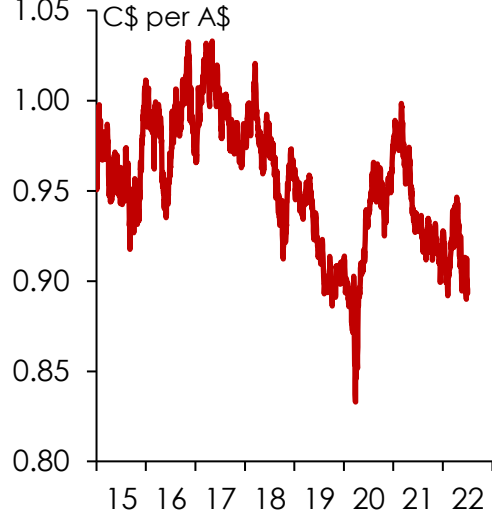
A\$ vs Korean won



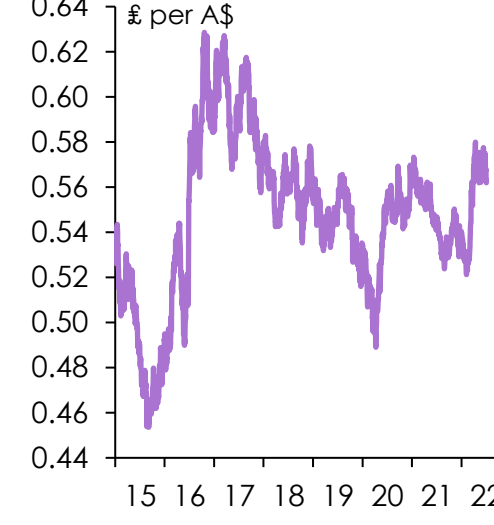
A\$ vs Singapore \$



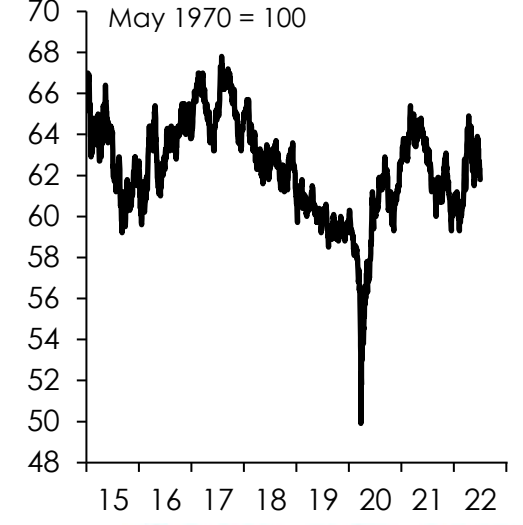
A\$ vs Canadian \$



A\$ vs British pound



A\$ TWI

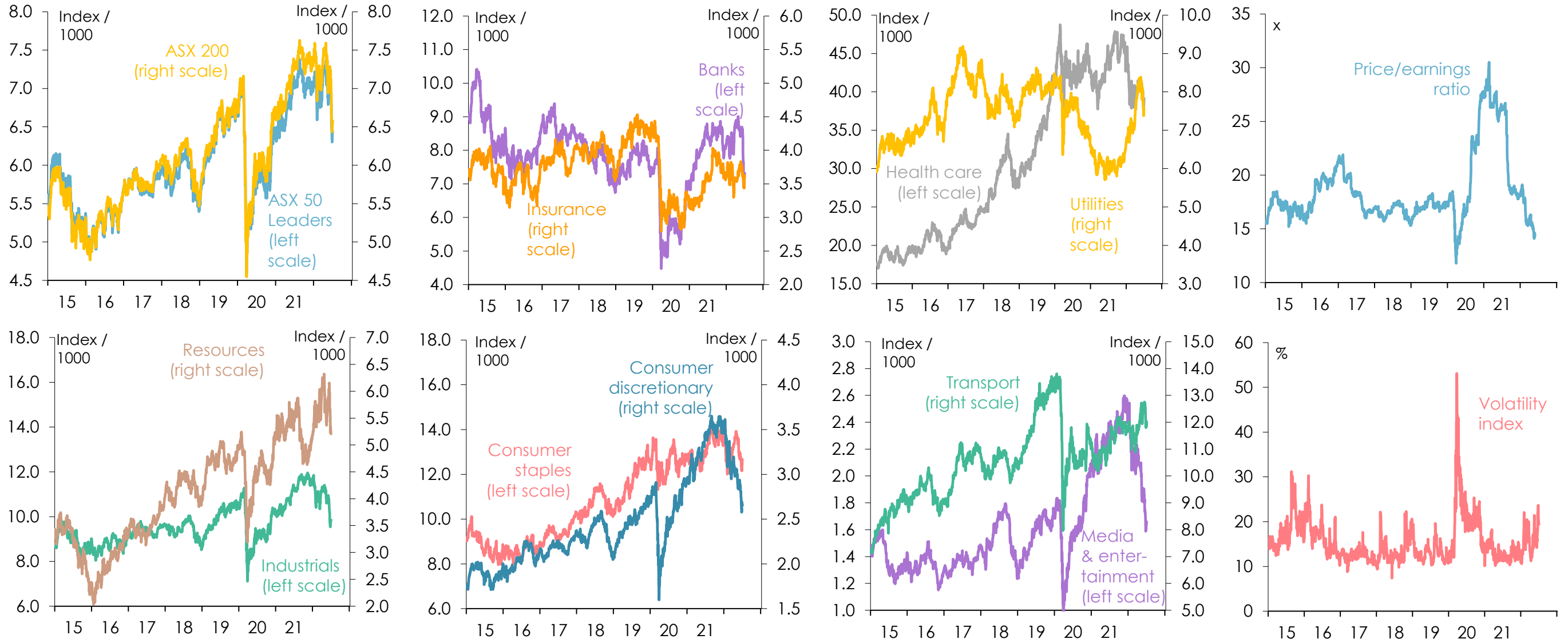


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 24th June. [Return to "What's New"](#).

The ASX recovered from a weak start on Monday to finish the week up 1½% after two weeks of heavy losses

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ASX indices



Sources: Refinitiv Datastream. ASX200 and 50 Leaders up to 24th June. [Return to "What's New"](#).

Key data and events next week

Key data and events for week ended 1st July

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Tuesday 28th June

First results from the 2021 Census

Wednesday 29th June

May retail sales

Thursday 30th June

May job vacancies; March quarter engineering construction activity; May money and credit aggregates

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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