



THE AUSTRALIAN ECONOMY THIS WEEK

22ND JULY 2022

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INDEPENDENT ECONOMICS

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What's new?

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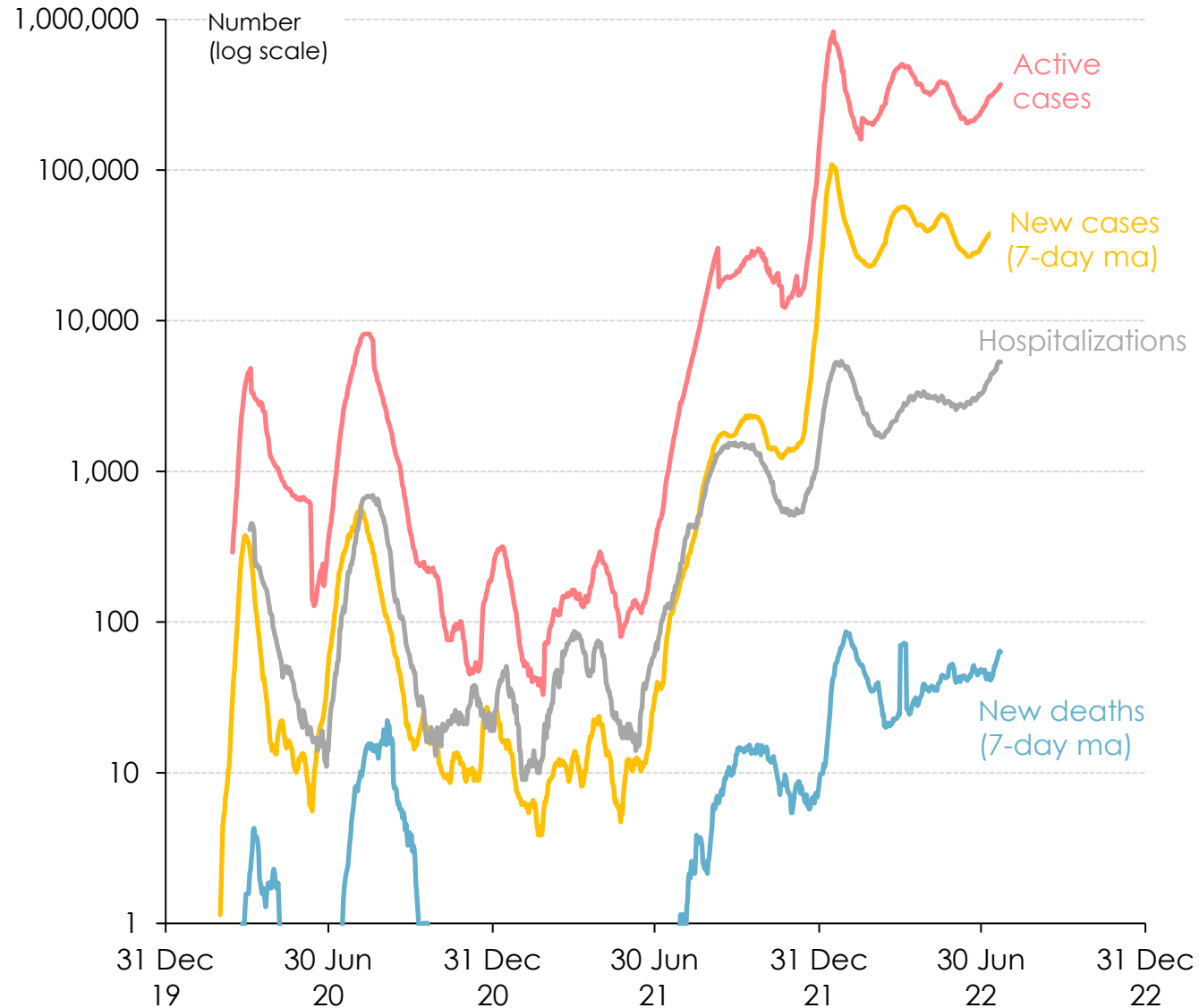
- ❑ Covid-19 case numbers remain on an upward trend, with hospitalizations and fatalities approaching the peaks experienced during the initial omicron wave in mid-January, and are expected to rise further as winter continues ([slides 5-6](#)) – however governments are now reluctant to re-introduce mask mandates or any other measures (despite “the health advice”)
- ❑ The Government announced the composition and terms of reference for its Review of the Reserve Bank, which will report by ‘no later than March next year’ ([slide 78](#))
- ❑ Minutes of this month’s Reserve Bank Board meeting released this week confirm that the Board opted for another 50bp increase in the cash rate (rather than 25) because “because interest rates were “still very low for an economy with a tight labour market and facing a period of higher inflation” – while RBA Governor Lowe subsequently indicated that the nominal “neutral” cash rate was “at least 2½%”, adding that the RBA wasn’t on any “pre-set path” to a “particular level” of the cash rate ([slide 79](#))
- ❑ Financial markets further ratcheted up their expectations for the RBA’s cash rate after the release of the minutes of this month’s Board meeting and the Governor’s remarks ([slide 84](#))
- ❑ The RBA’s Deputy Governor Michele Bullock expressed confidence that Australian households were “on the whole ... in a fairly good position” to cope with prospective increases in interest rates, but also noted that around 30% of variable-rate mortgage borrowers, and around half of fixed-rate borrowers would face increases of more than 40% in their periodical repayments if mortgage rates rise by 300bp in total, in line with market pricing ([slide 80](#))
- ❑ While the decline in the unemployment rate to its lowest level in 48 years is largely the result of strong growth in the demand for labour, it also owes something to slower growth in the labour force as a result of the restrictions on the movement of people across Australia’s borders between March 2020 and December last year – one consequence of which is that, as of June, there were 228,000 (3¼%) fewer people aged between 15 and 34 in Australia than there had been in March 2020 ([slide 47](#))
- ❑ Highlights of next week’s calendar are the June quarter consumer price index – expected to show an increase of 1¾-2% in the June quarter, pushing the annual ‘headline’ inflation rate up to 6-6¼%, which would be the highest since 1990 – and the Treasurer’s update to Parliament of the economic and fiscal outlook ([slide 90](#))

Covid-19 in Australia

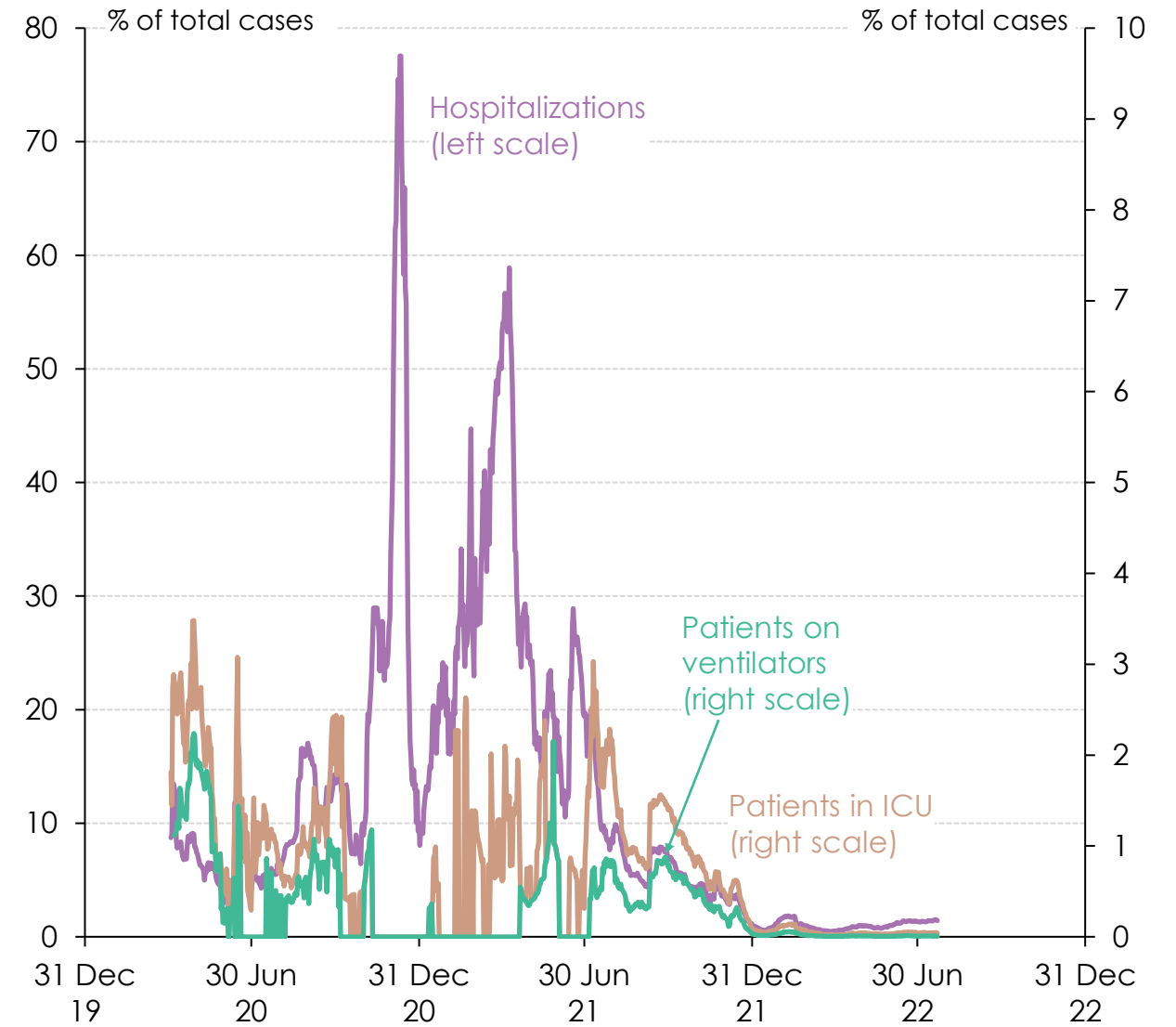
New & active case numbers are continuing to trend up, with hospitalizations and fatalities this week approaching their mid-January peaks

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Cases, hospitalizations and deaths



Severity of cases



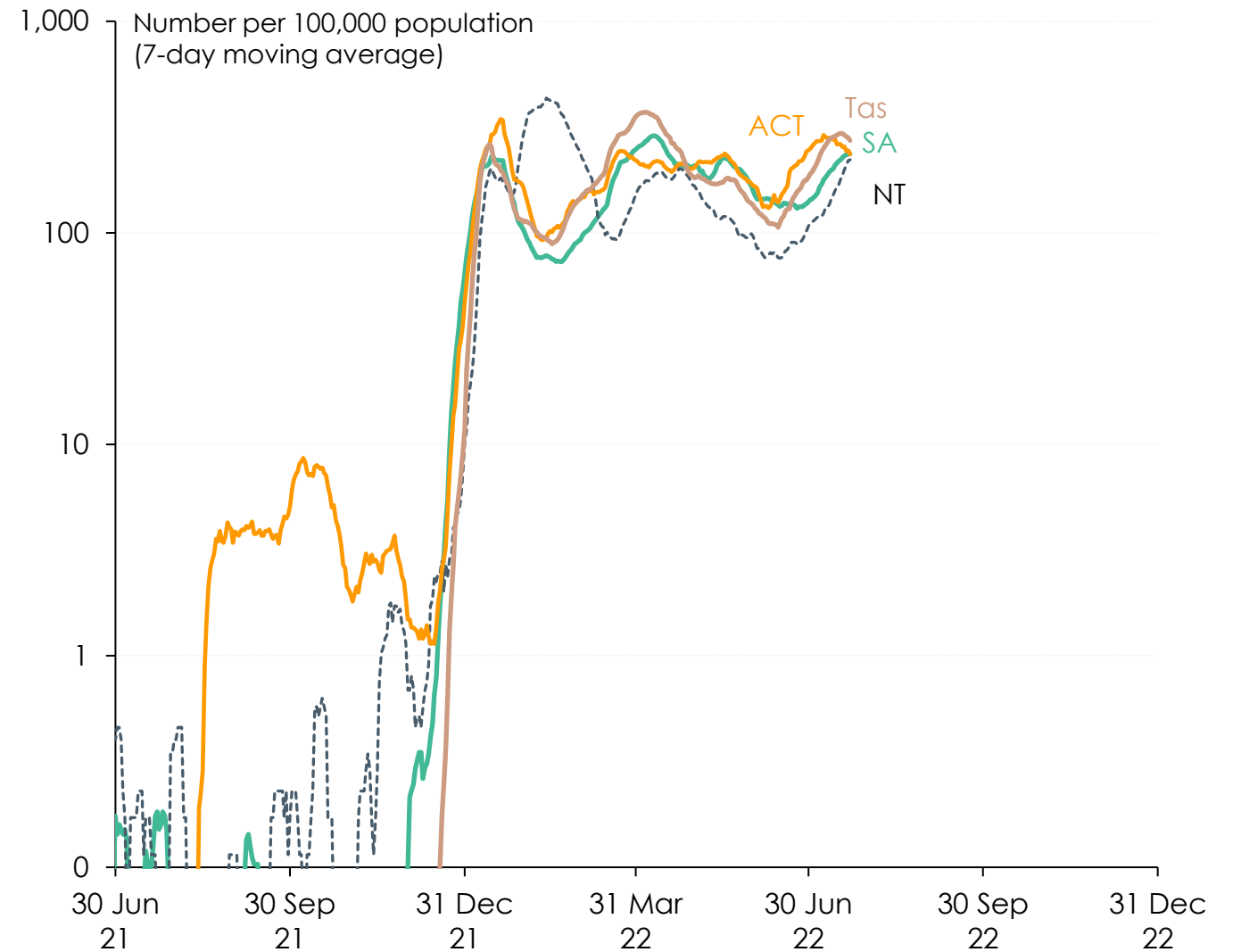
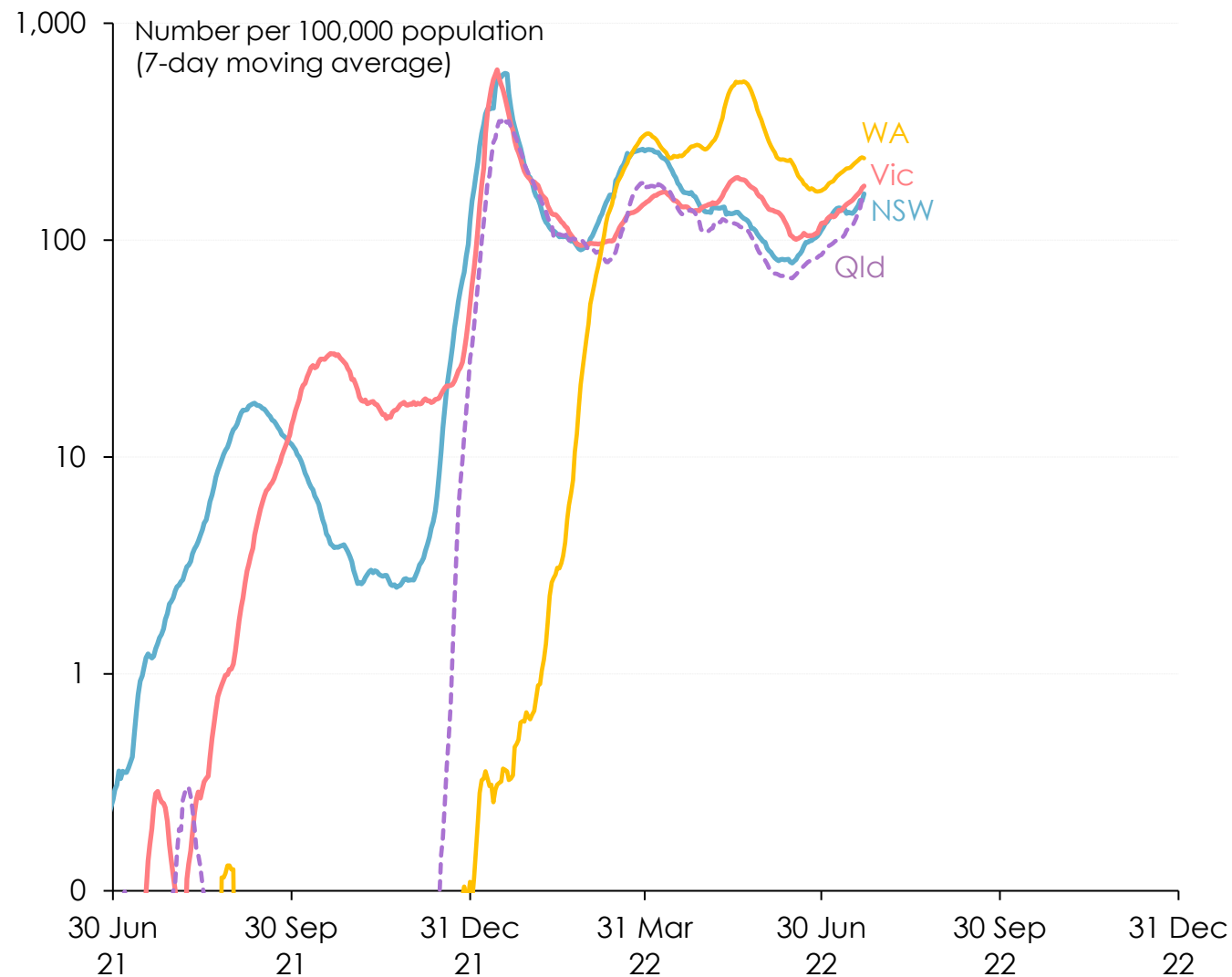
Note: The 'spike' in new deaths in the first week of April resulted from the addition of 334 deaths to NSW's total on 1st April. Data up to 22nd July.

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

New infections are continuing to trend higher in every jurisdiction except, over the past week, the ACT

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

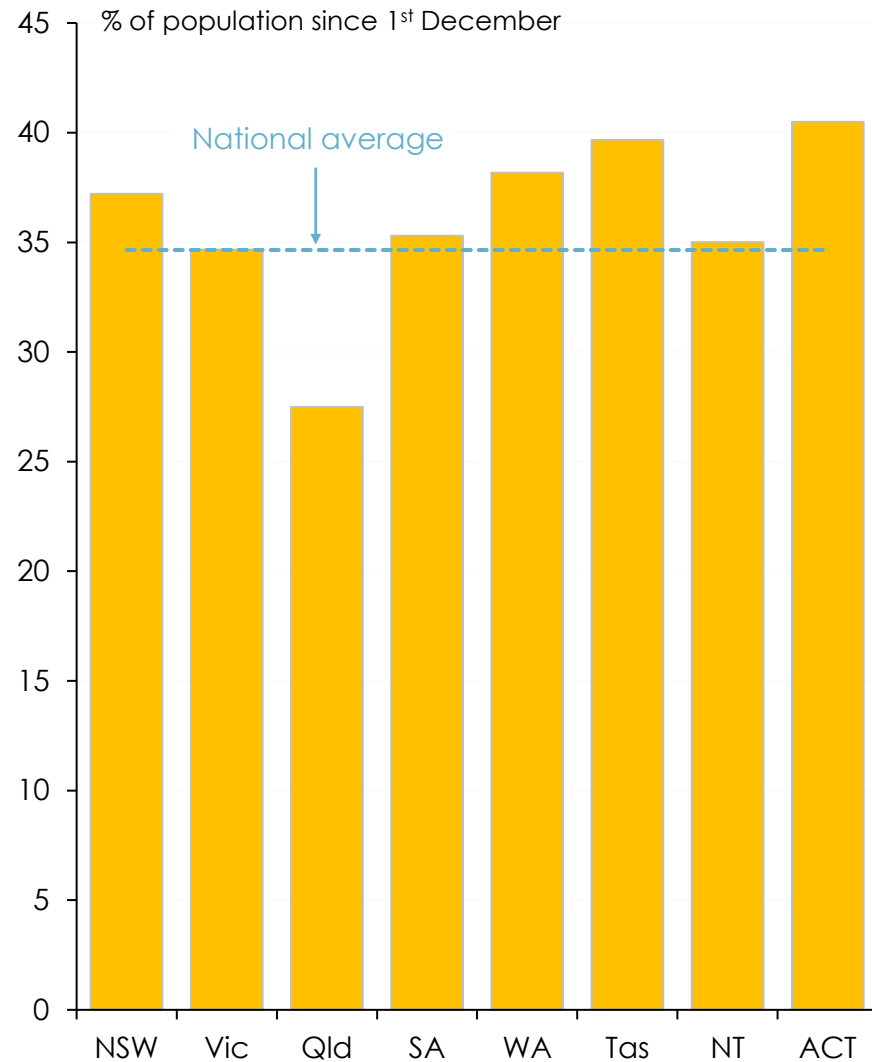


Note: Data are up to 22nd July. Source: covid19data.com.au. [Return to "What's New"](#).

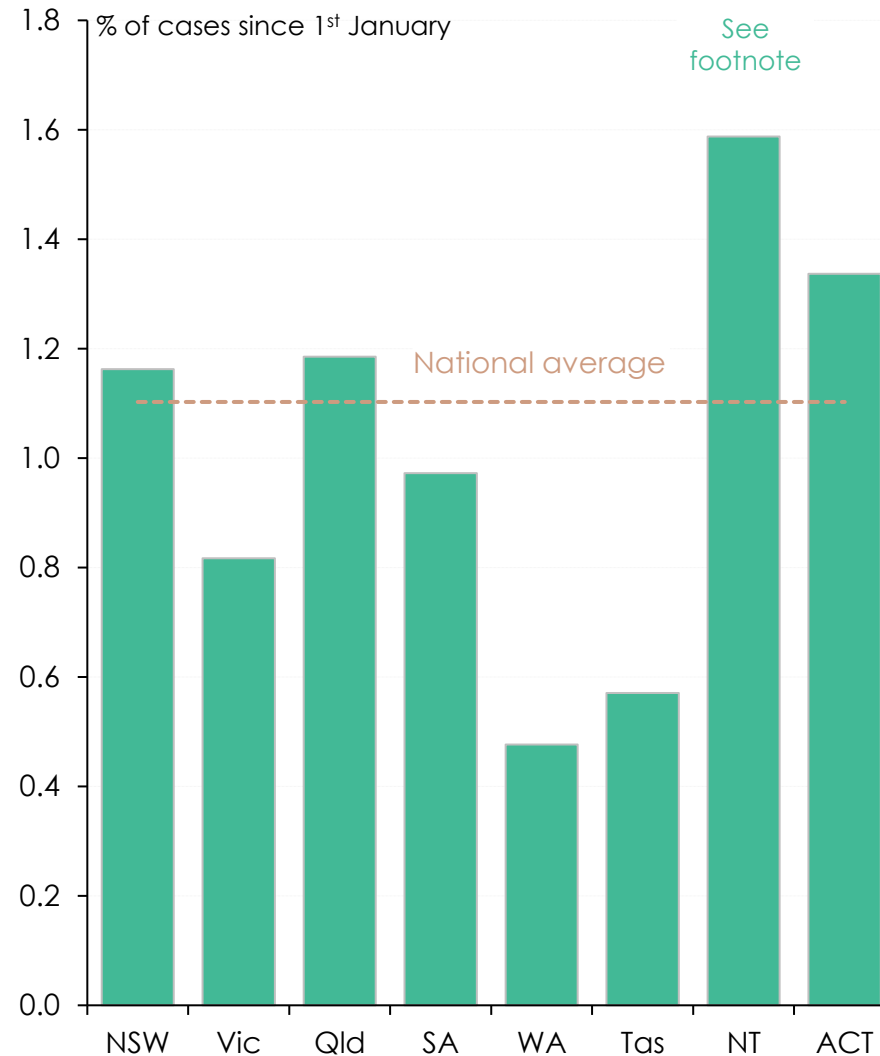
Western Australia & Tasmania have had relatively fewer hospitalizations and deaths than other states and territories

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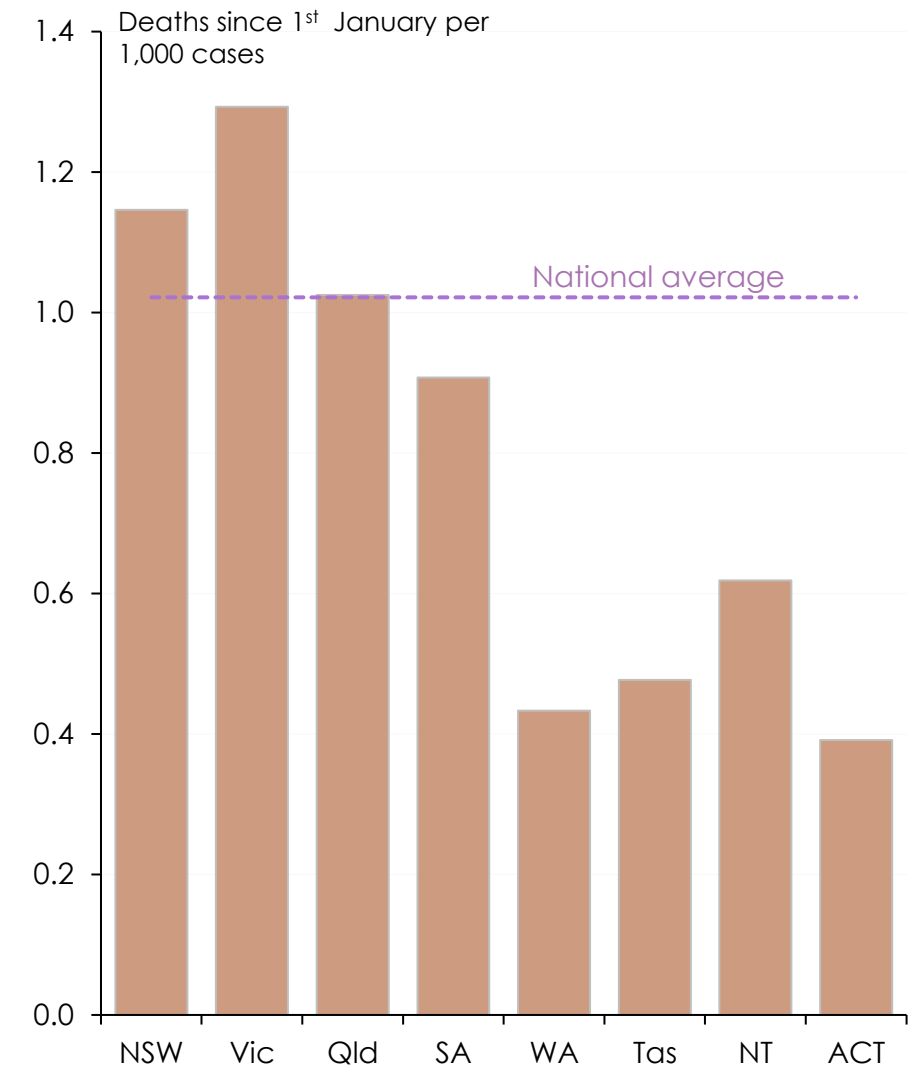
New cases since 1st December 2021



Hospitalization rate since 1st January 2022



Fatality rate since 1st January 2022

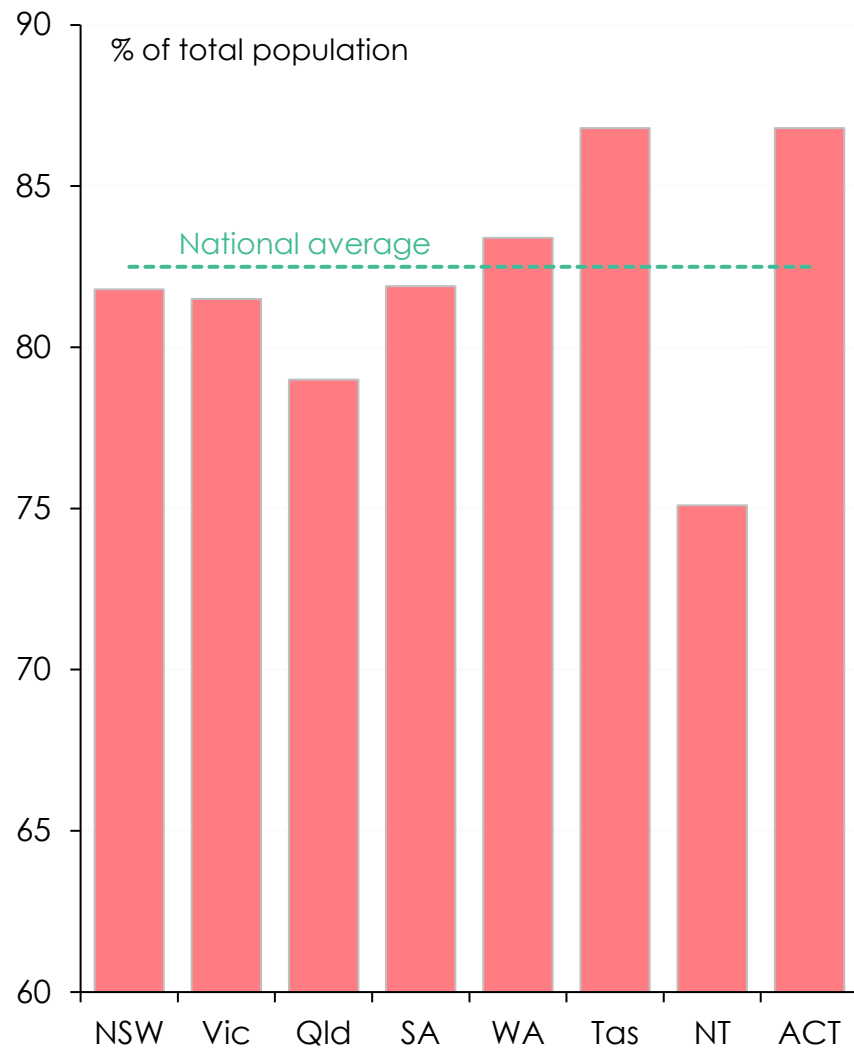


Note: Data are up to 22nd July. 1st December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. NSW added 334 deaths to its tally on 1st April. Source: covid19data.com.au. [Return to "What's New"](#).

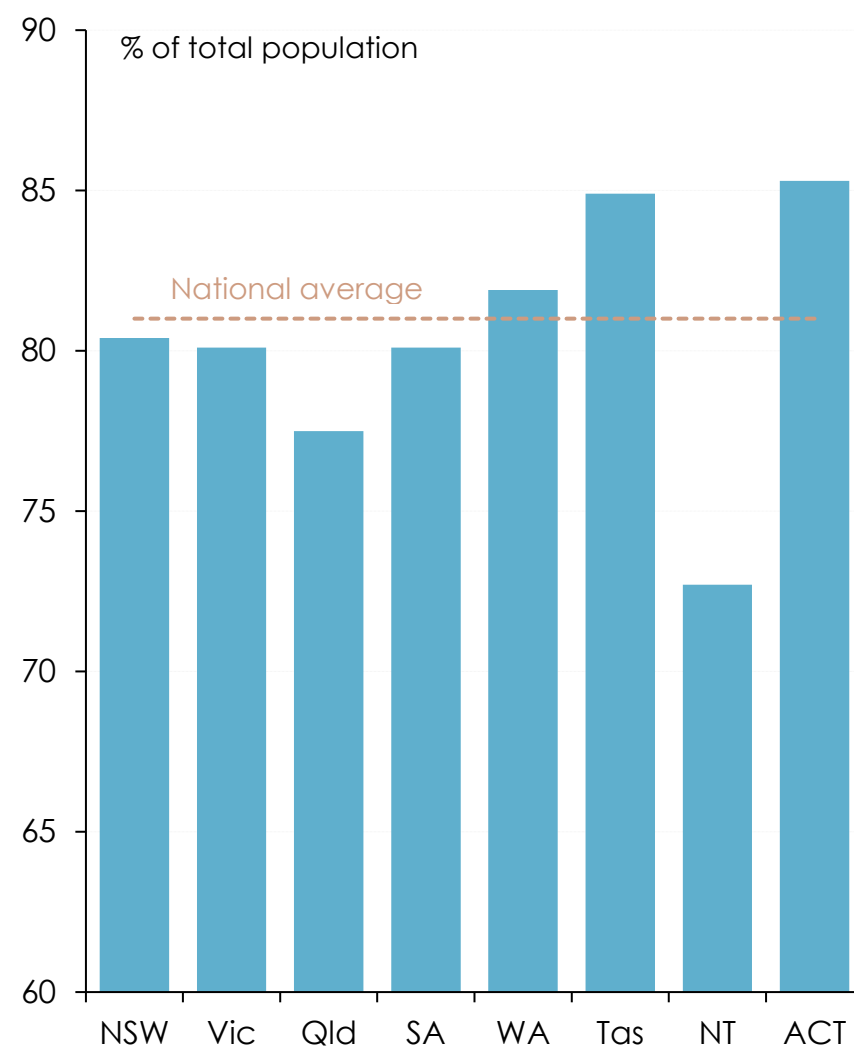
People aged 30 & over will be able to get a fourth vaccination from next Monday, but the take-up of third ('booster') shots has stalled since May

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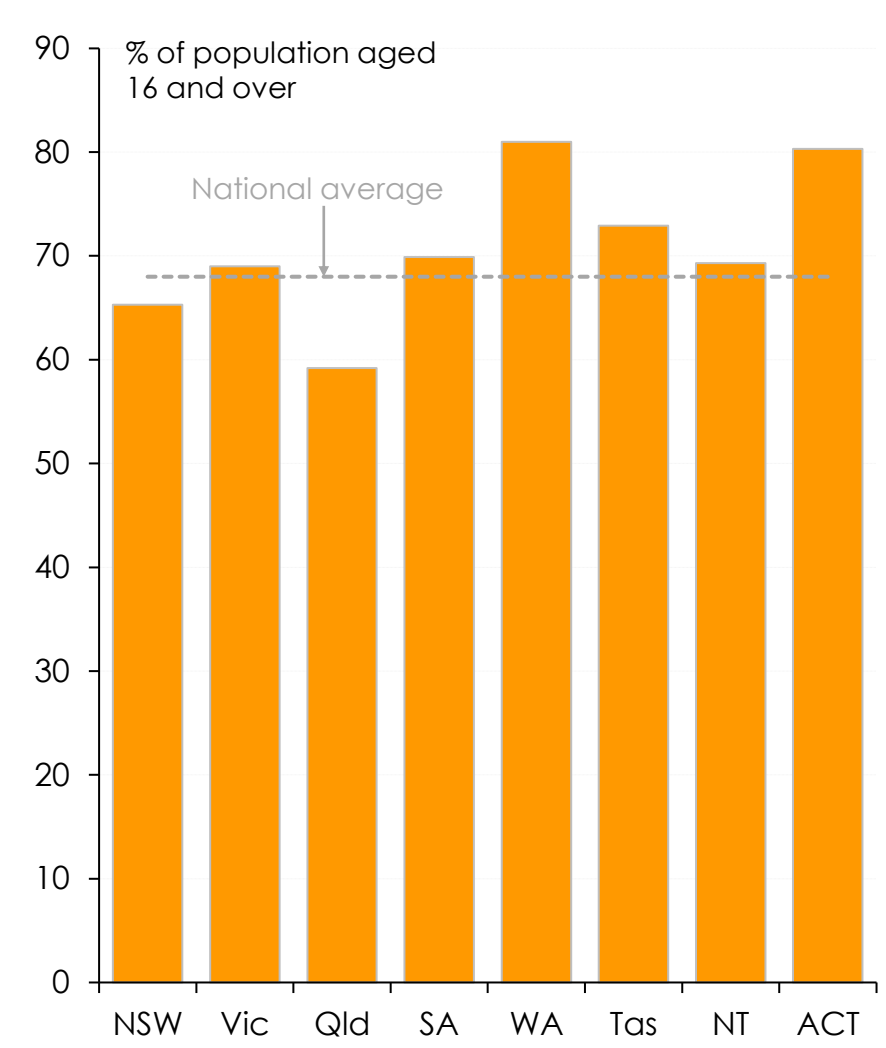
Pc of population who have had at least one vaccination



Pc of population who have had two vaccinations



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

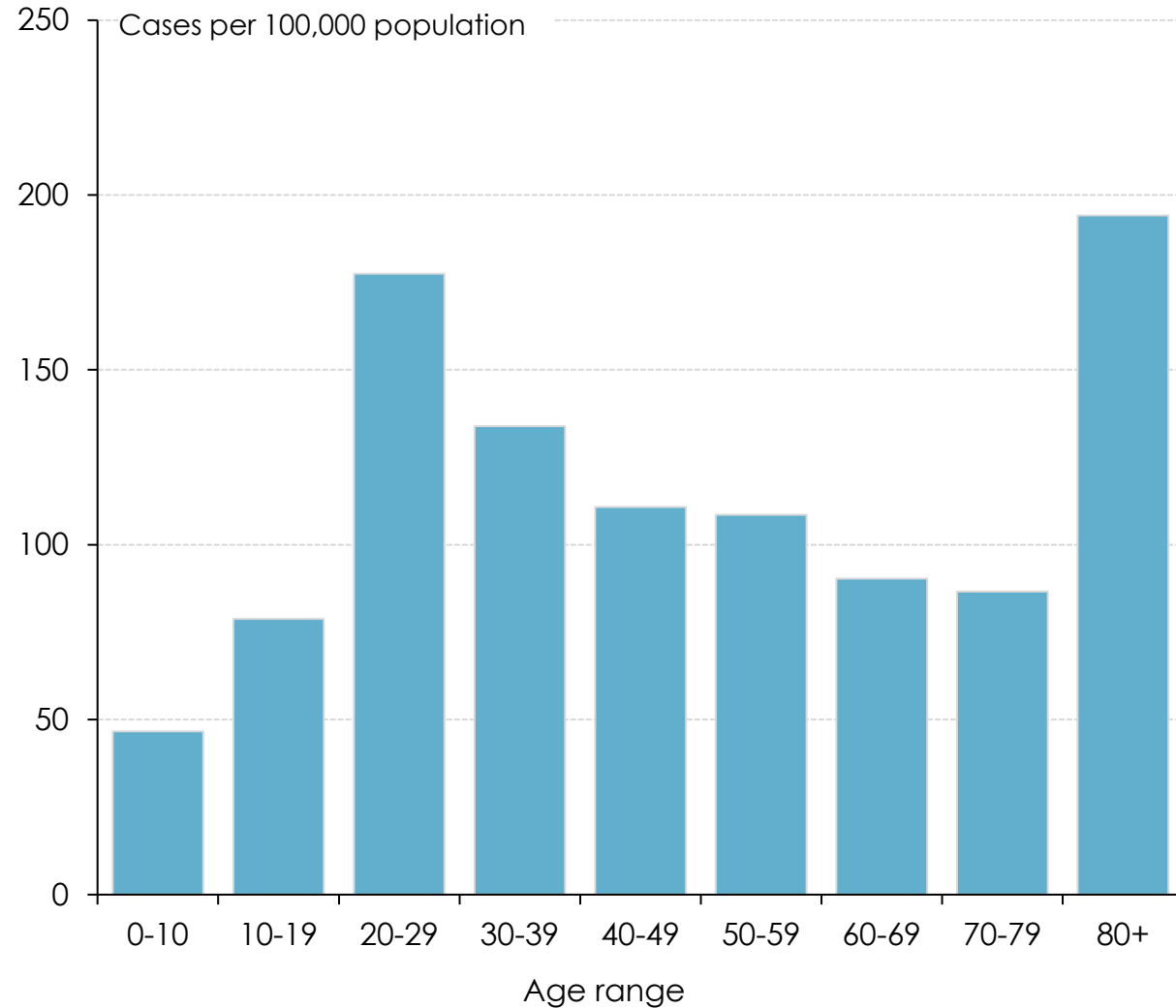


Note: Data are up to 21st July. Source: covid19data.com.au. [Return to "What's New"](#).

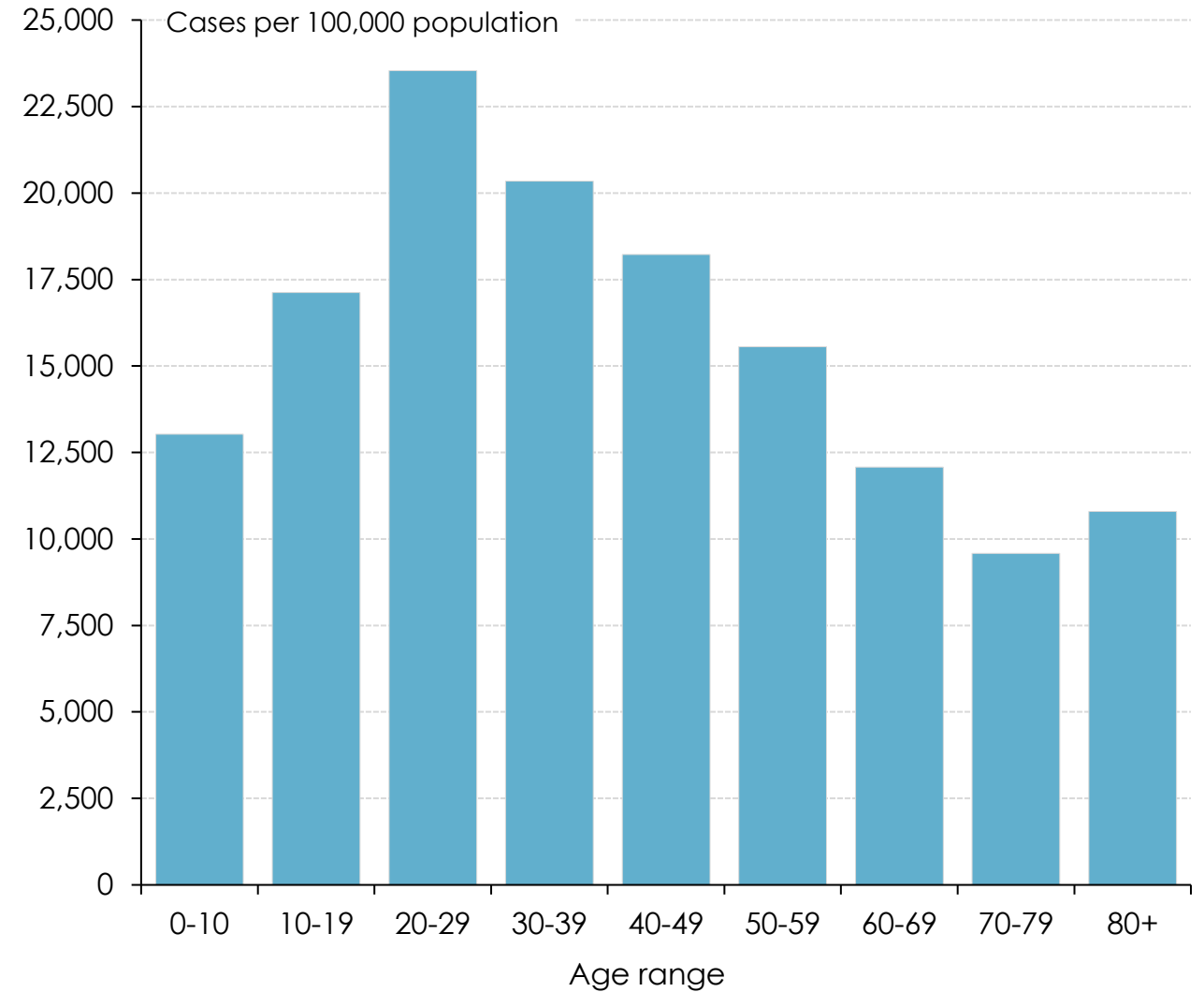
People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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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



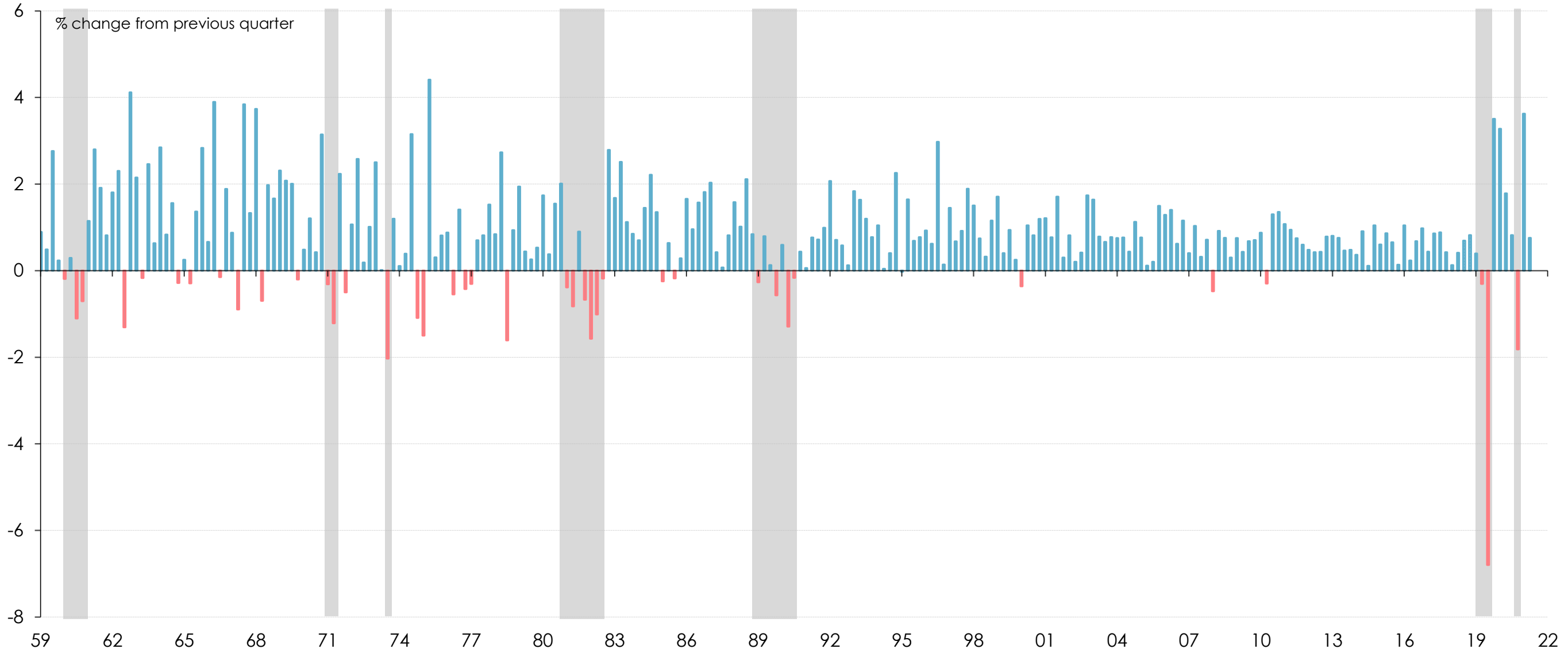
Note: Data for 2021-22 up to 21st July. Source: [Australian Government Department of Health](#); ABS; Corinna. [Return to "What's New"](#).

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

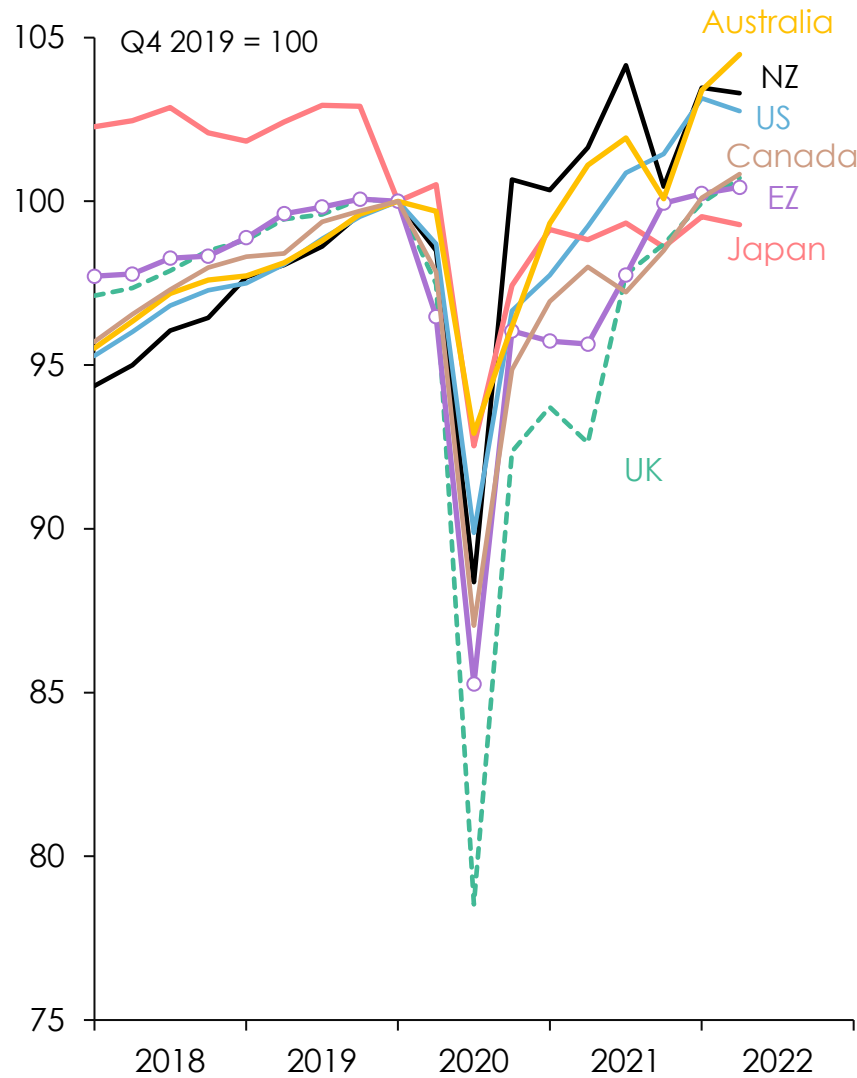


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022. June quarter GDP will be released on 7th September. [Return to "What's New"](#).

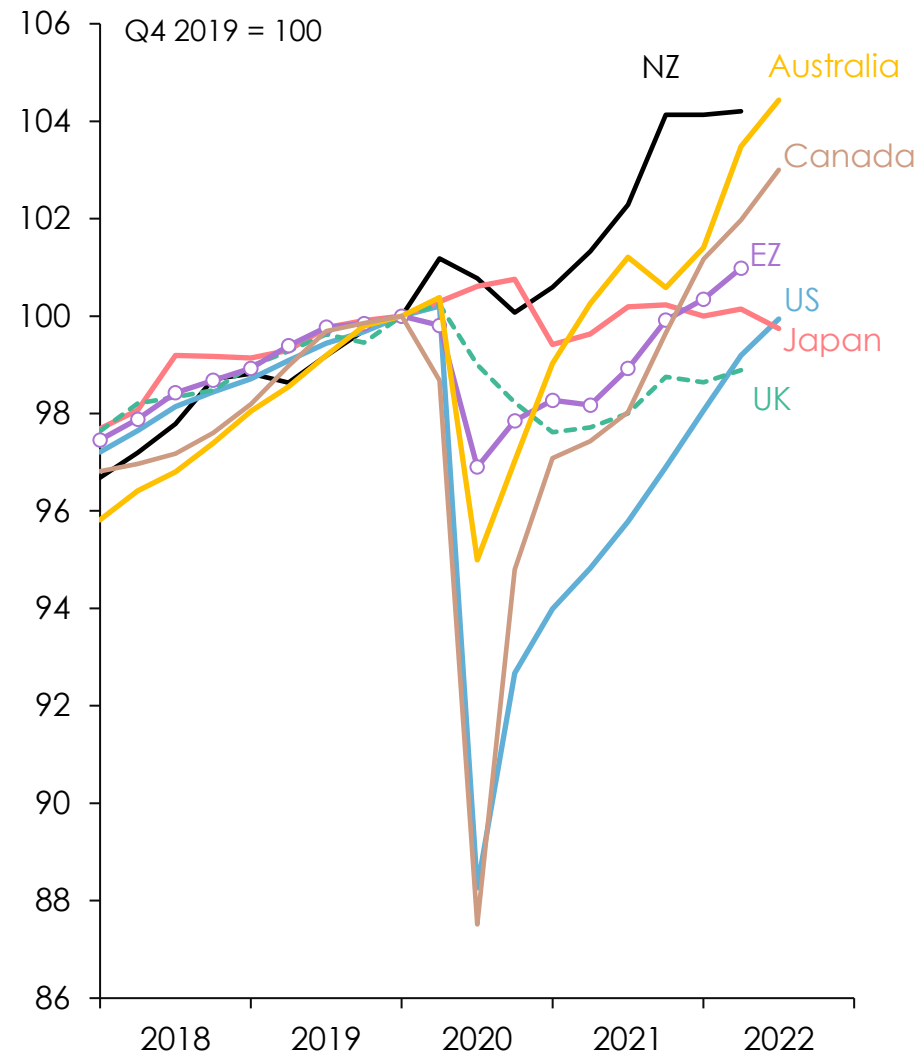
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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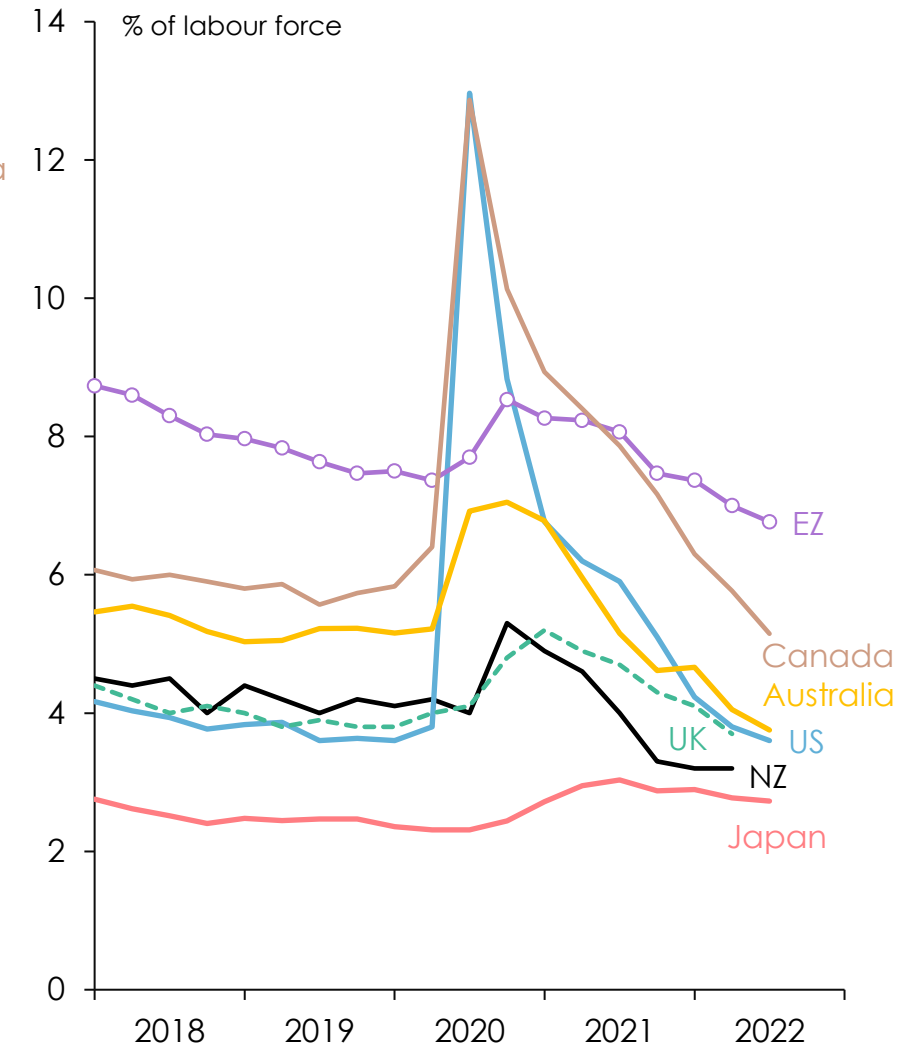
Level of real GDP



Employment



Unemployment

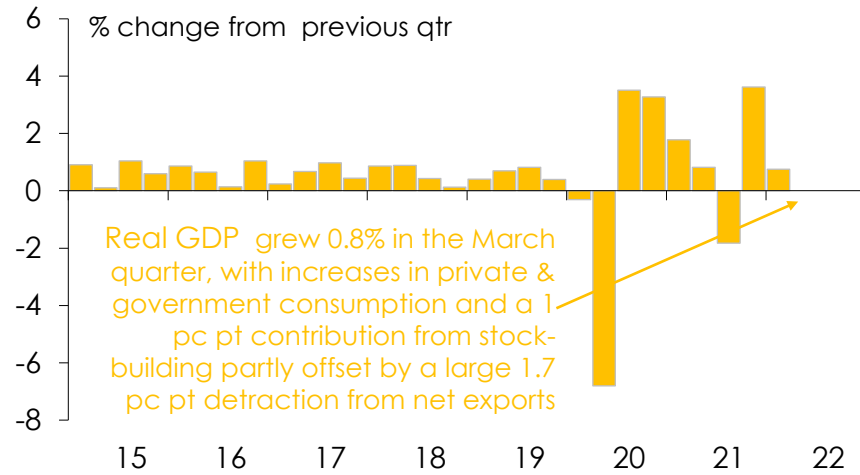


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

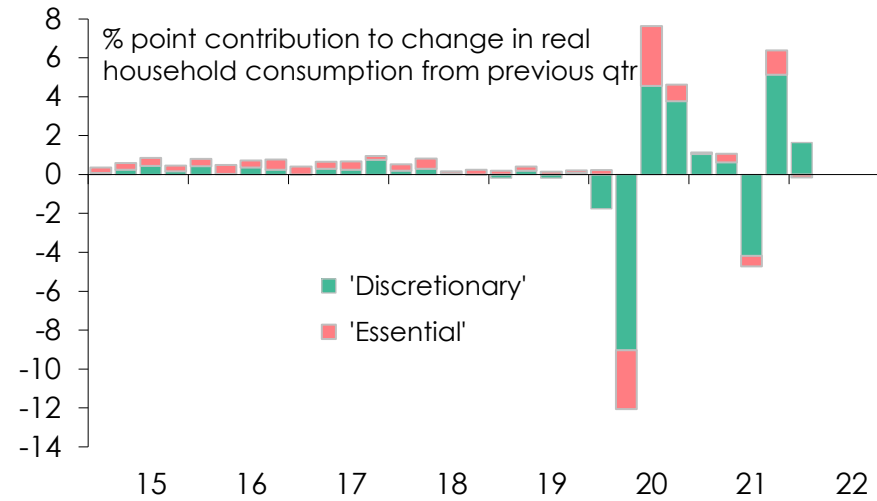
Real GDP grew 0.8% in Q1, with growth in private and public consumption dampened by soft dwelling investment and an 8% surge in imports

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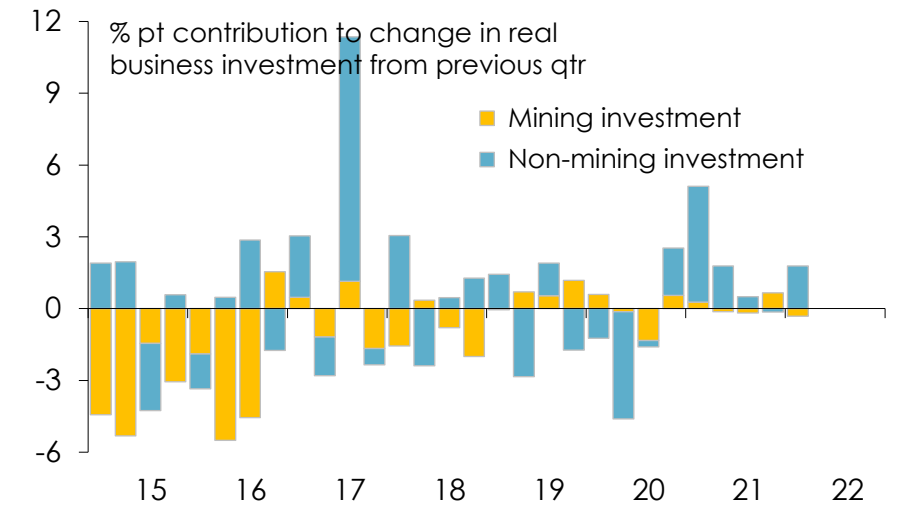
Quarterly change in real GDP



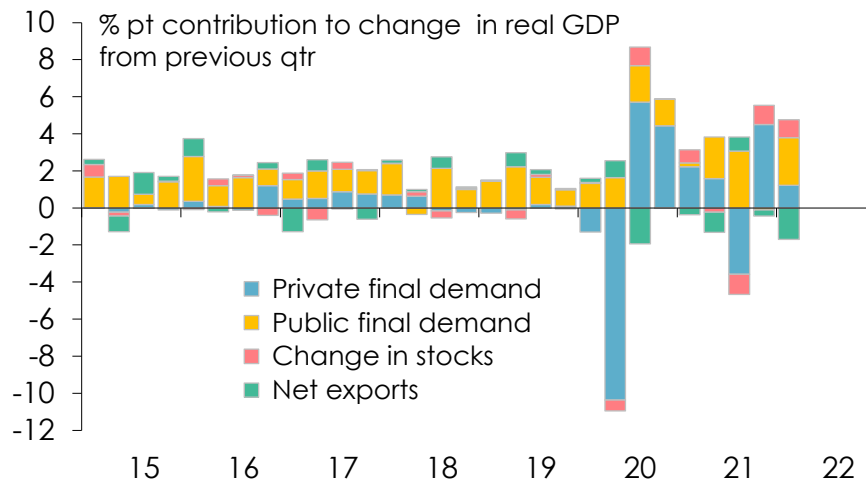
Household consumption expenditure



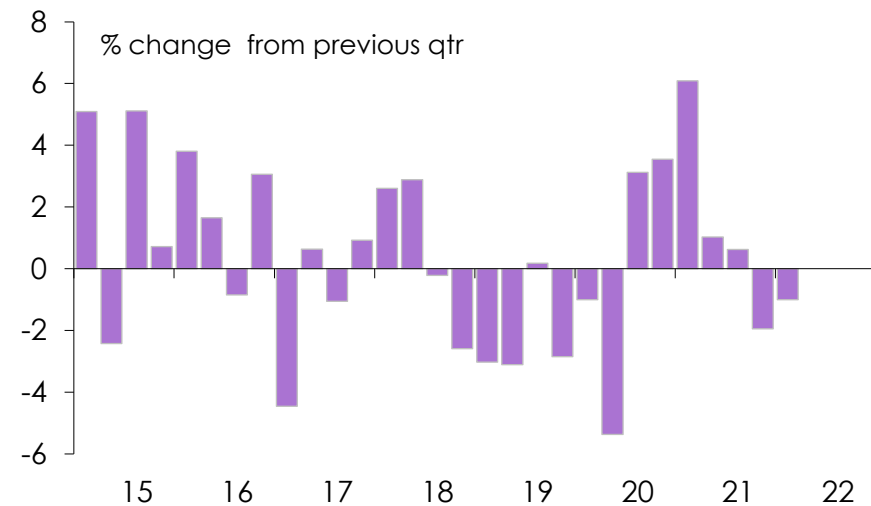
Business investment expenditure



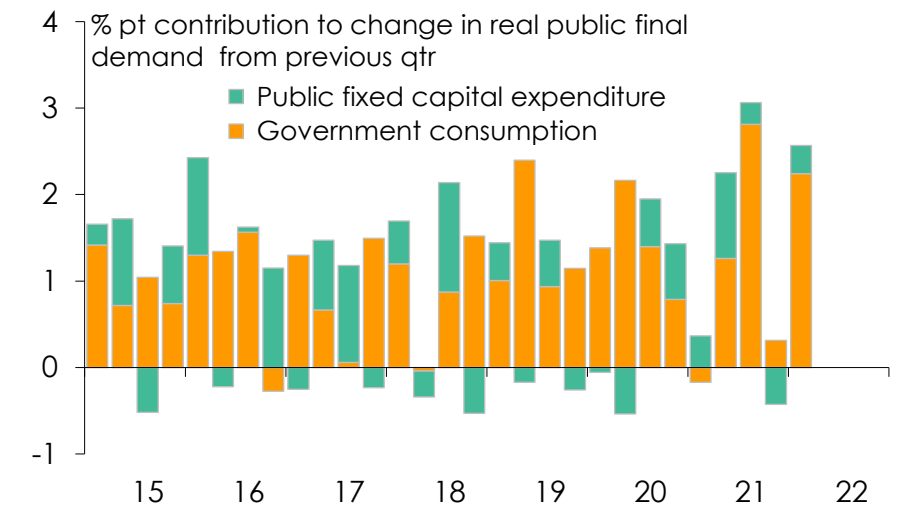
Contributions to quarterly GDP growth



Dwelling investment expenditure



Public expenditure

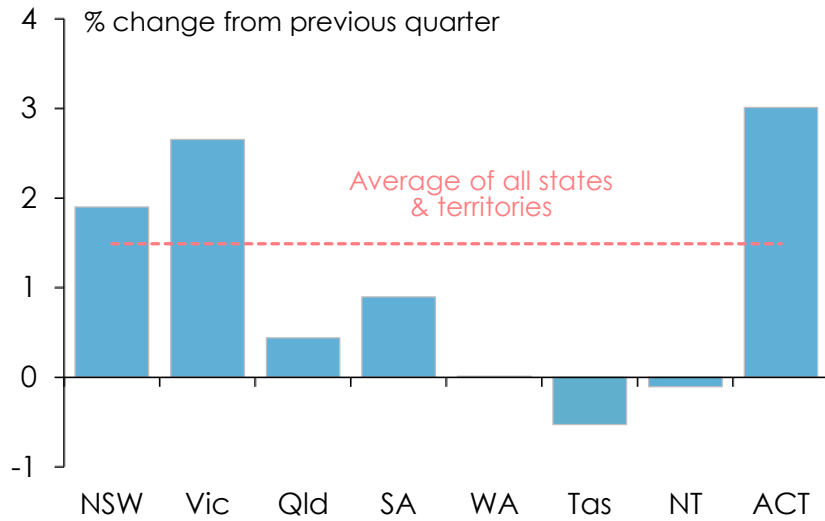


Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; June quarter national accounts will be released on 7th September. [Return to "What's New"](#).

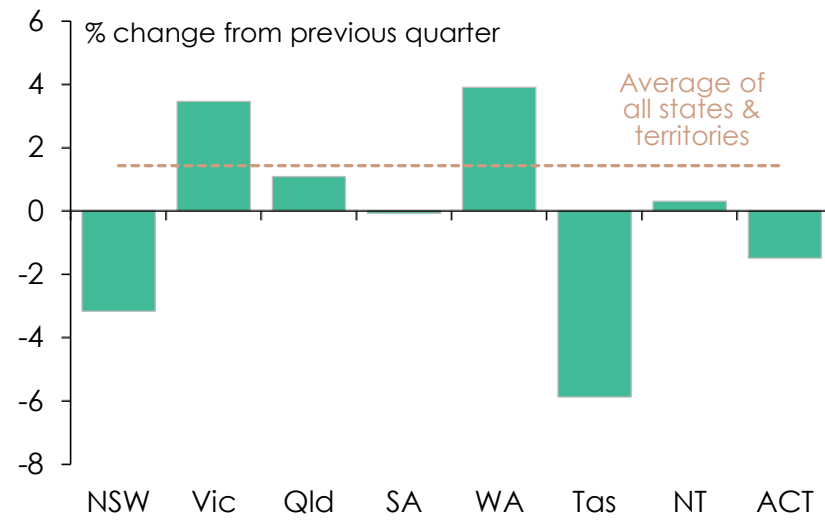
March quarter real GDP growth owed much to the continued recovery in household spending in NSW, Victoria & the ACT from last year's lockdowns

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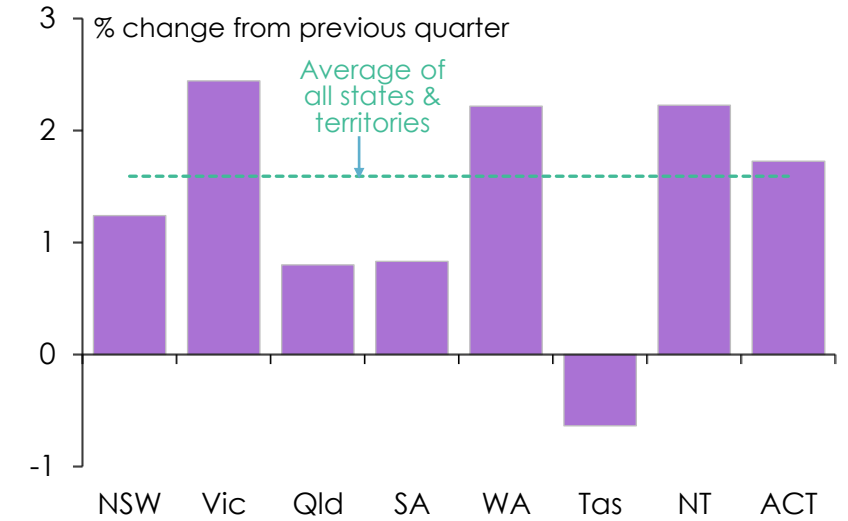
Household consumption



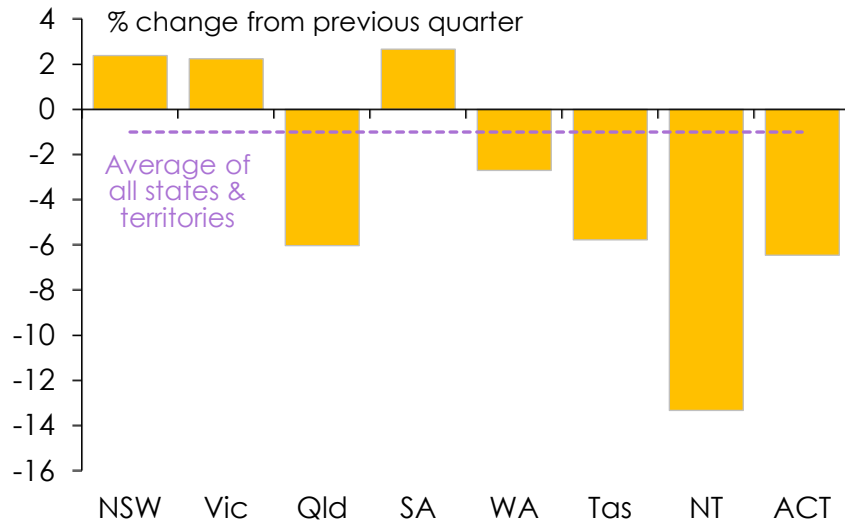
Business investment



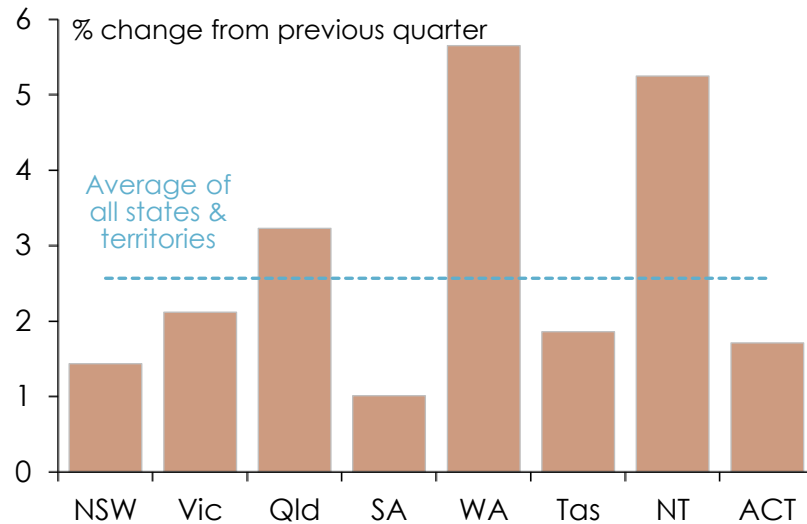
State final demand



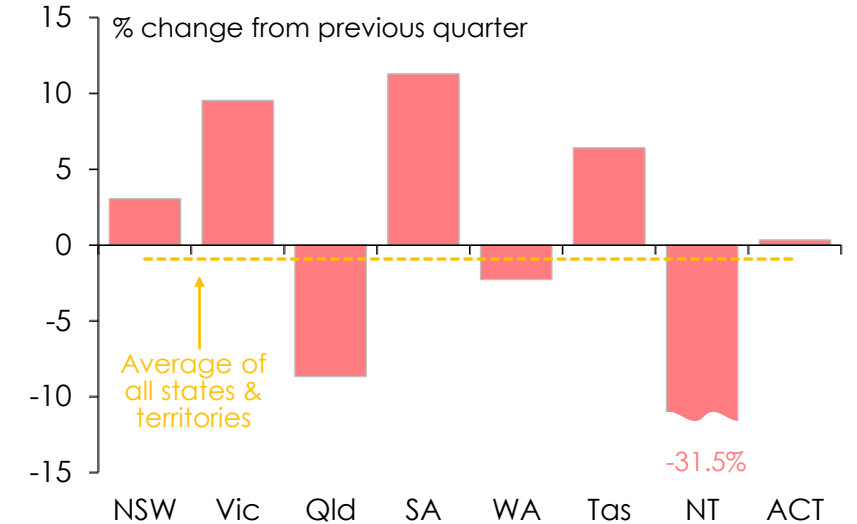
Dwelling investment



Public spending



International exports

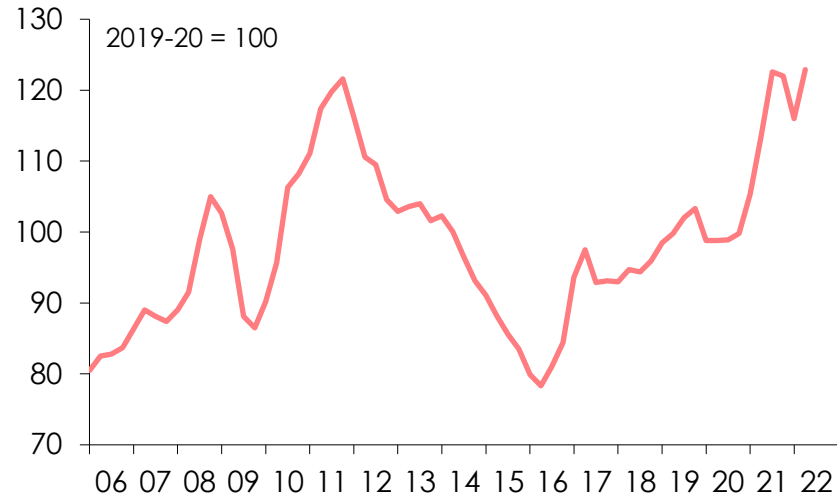


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; [Balance of Payments and International Investment Position,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

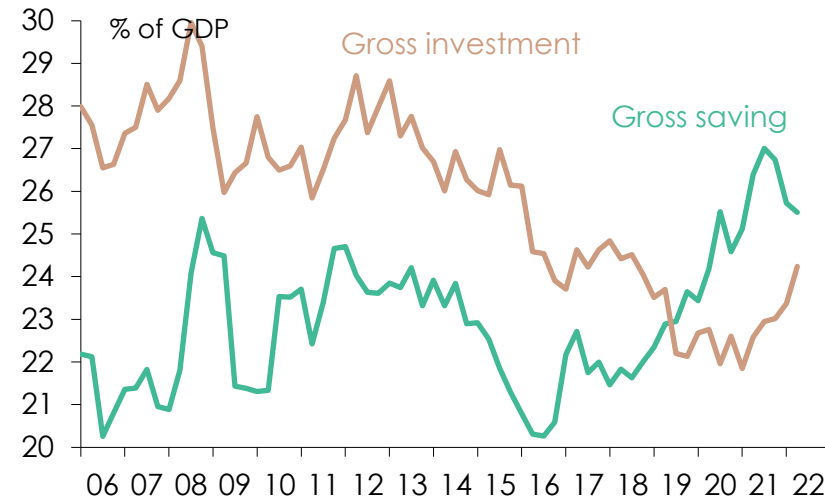
Australia's terms of trade reached a new record high in the March quarter, boosting real gross domestic income – most of which went to profits

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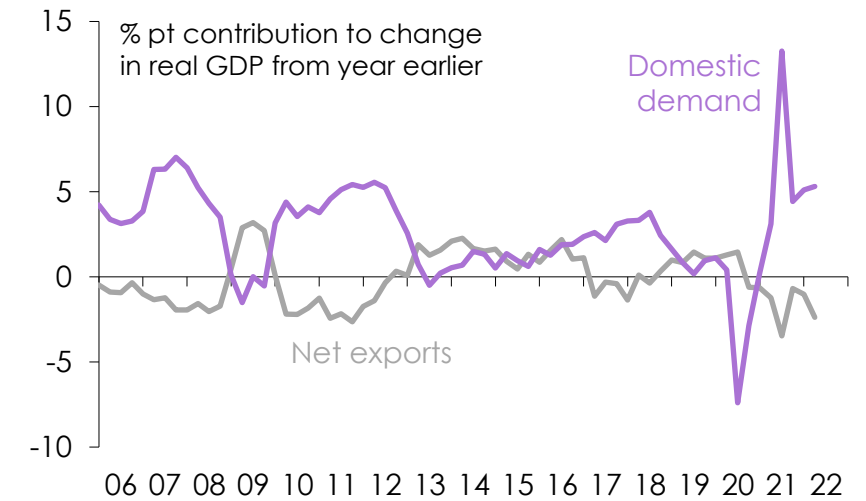
Terms of trade



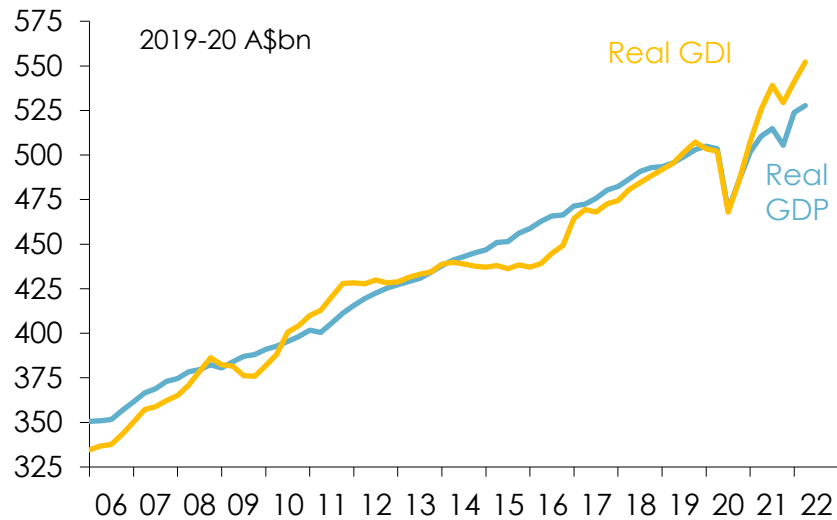
National saving & investment



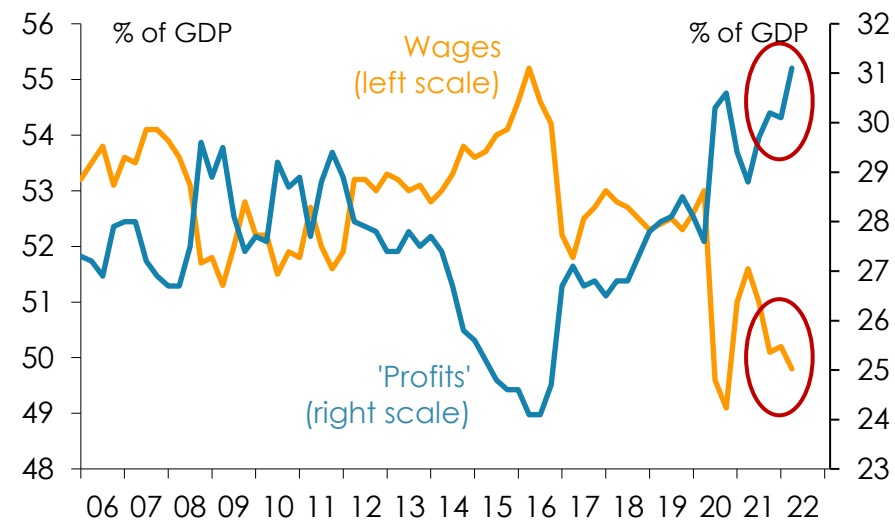
Domestic demand and net exports



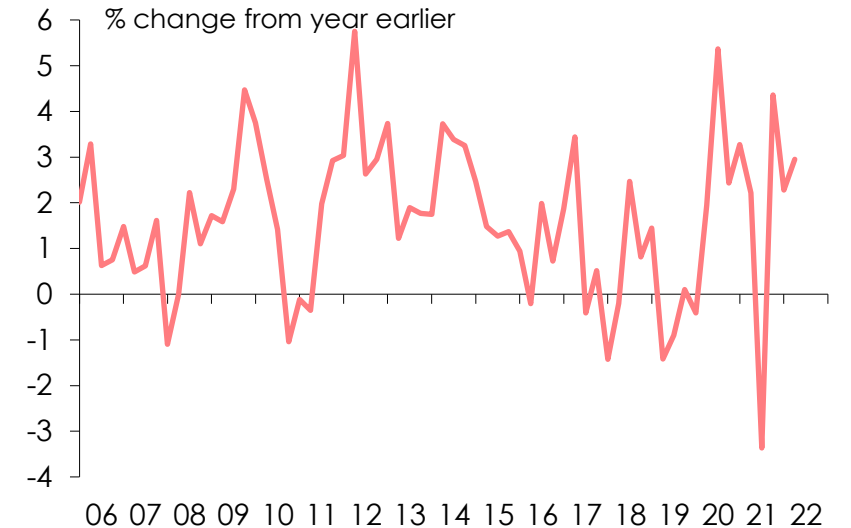
Real gross domestic income



Shares of national income



Labour productivity

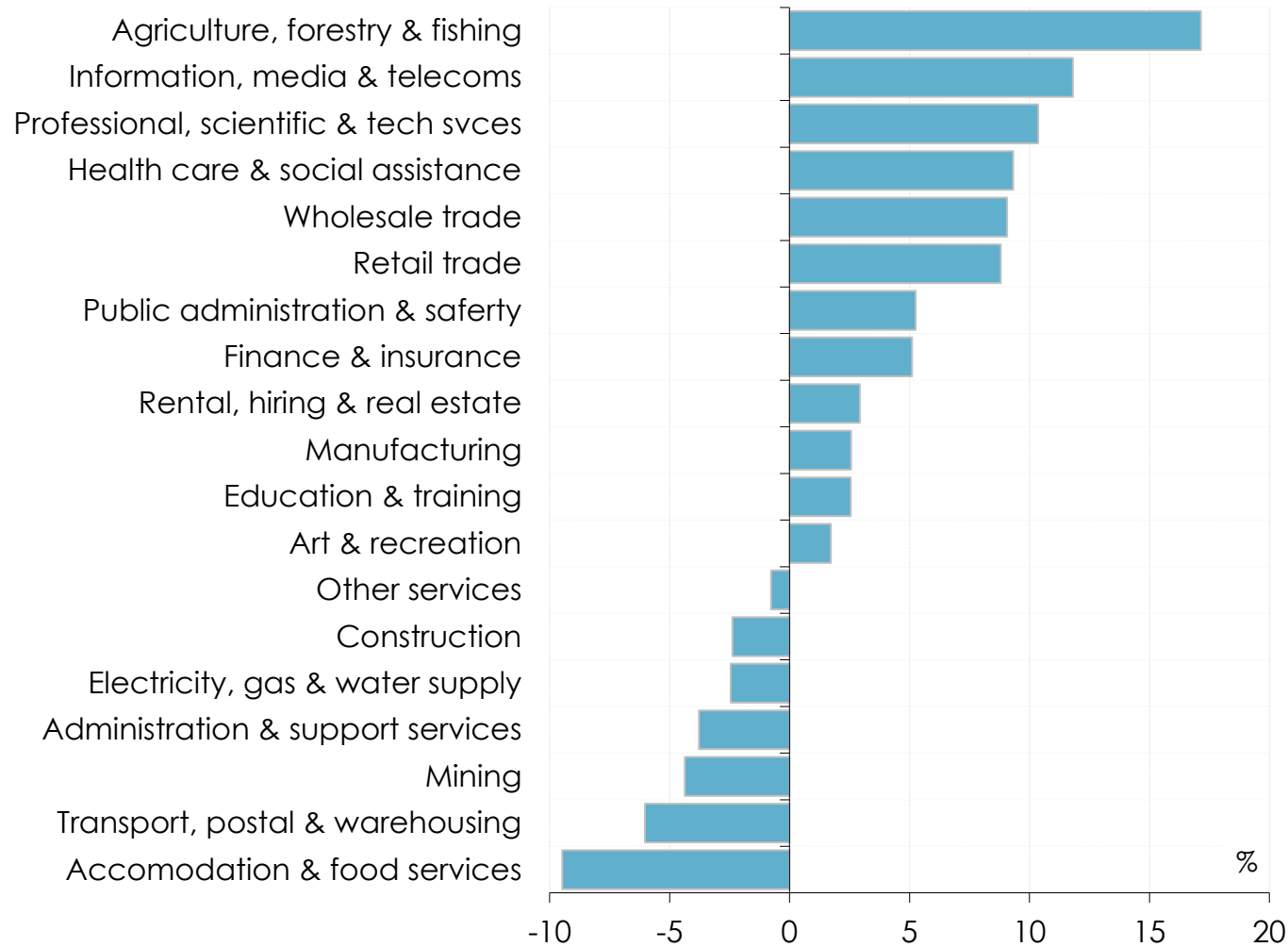


Note: The terms of trade is the ratio of export to import prices (for more see [slide 59](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added 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"](#).

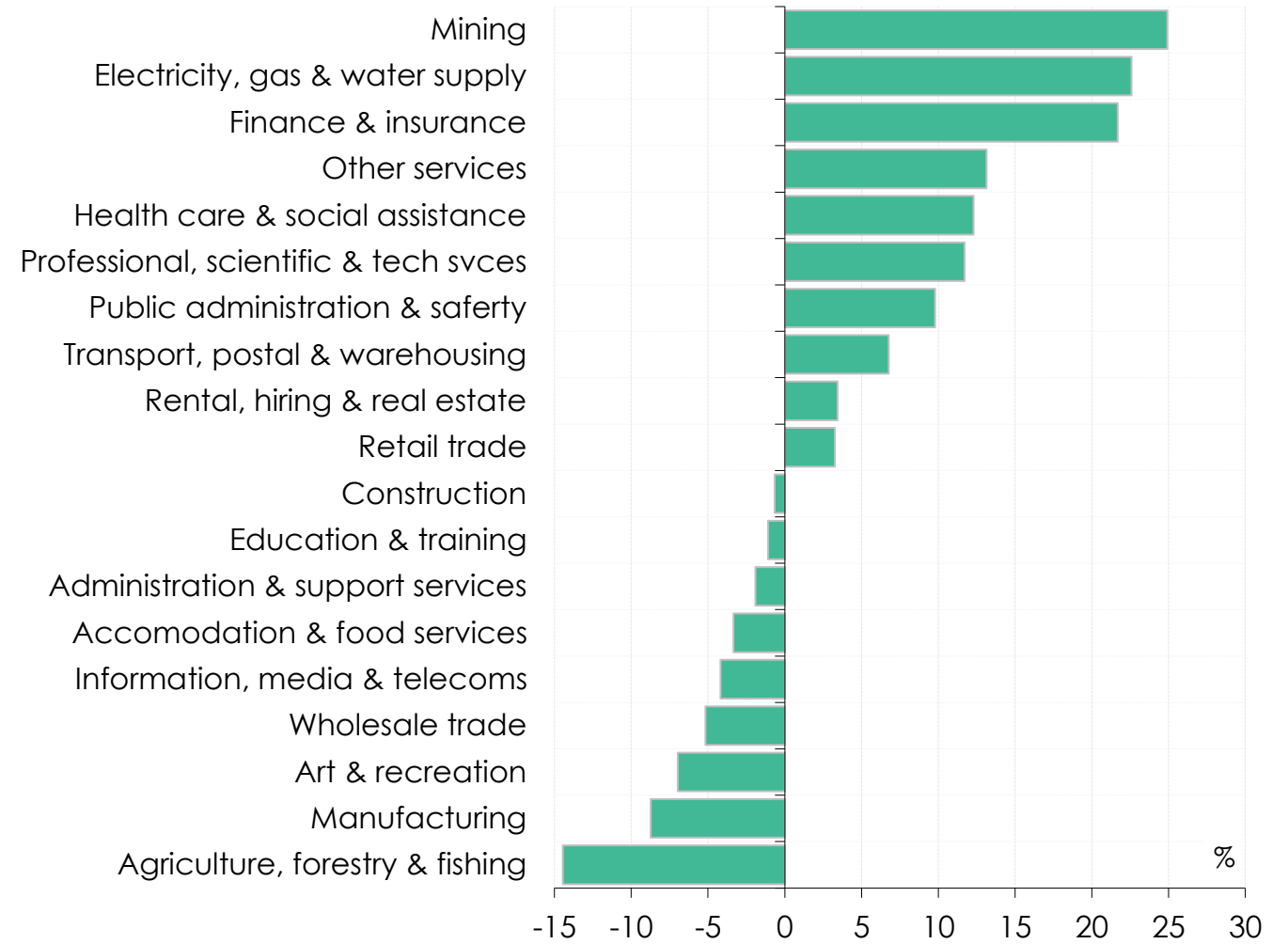
Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

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



Q2 2022 employment by industry – change from pre-pandemic peak

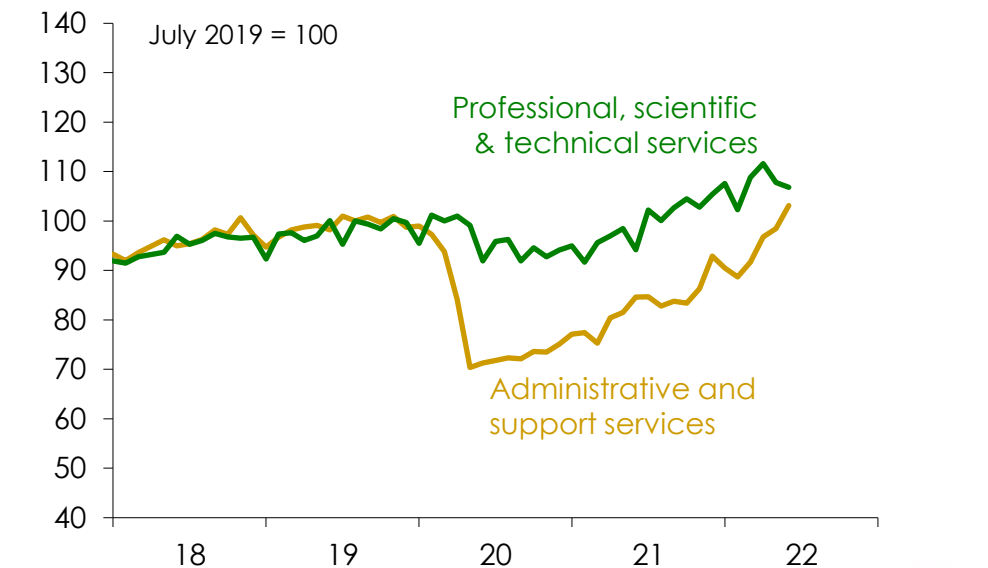
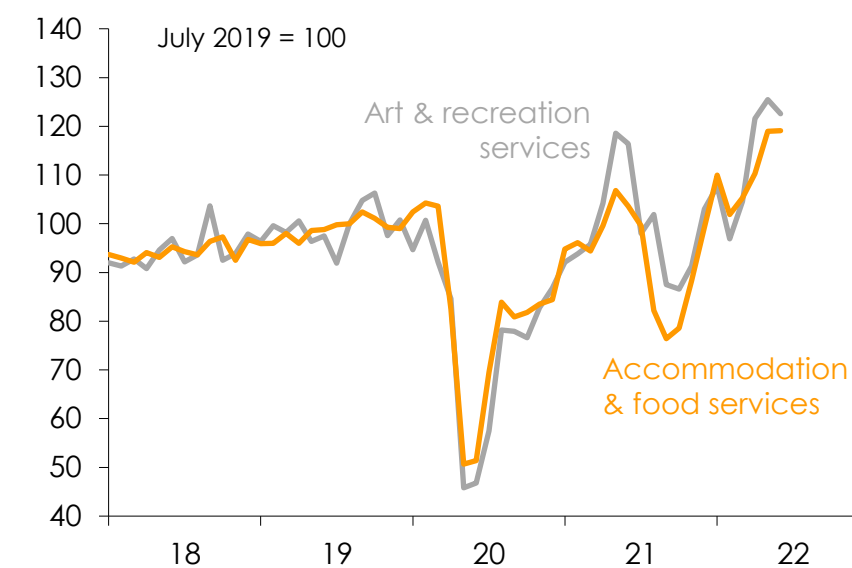
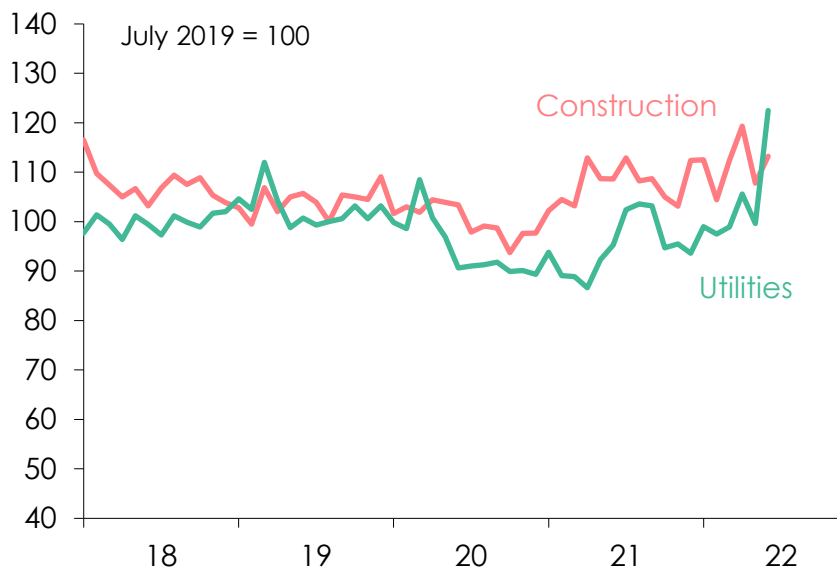
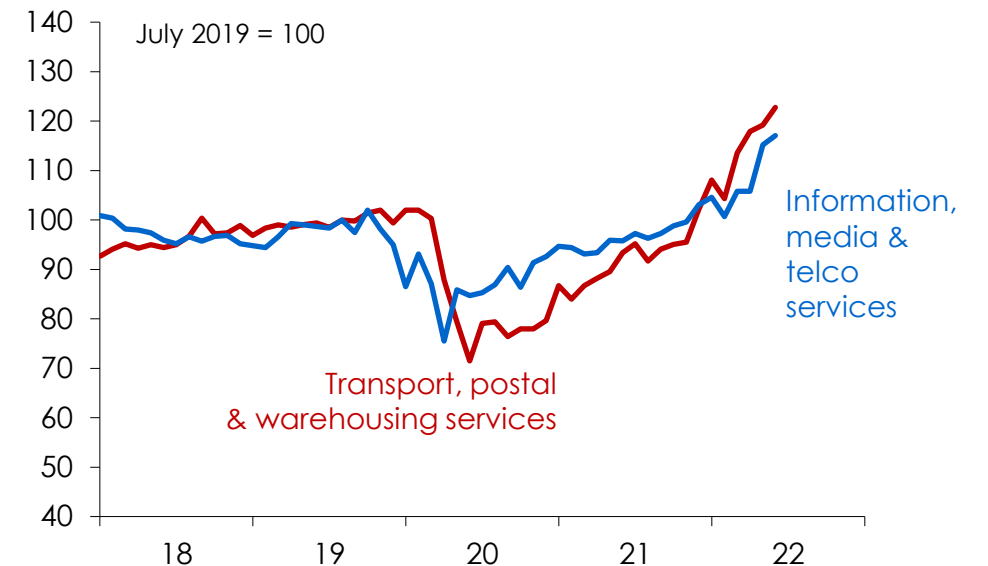
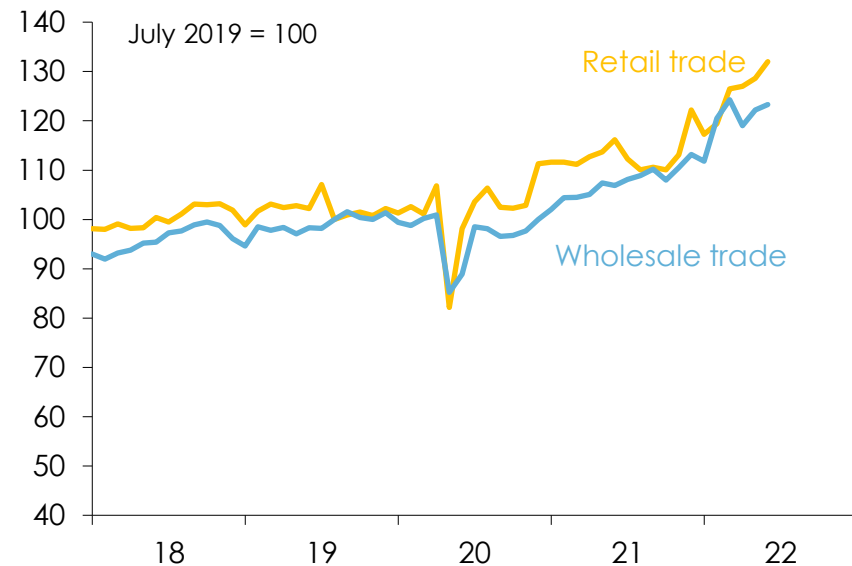
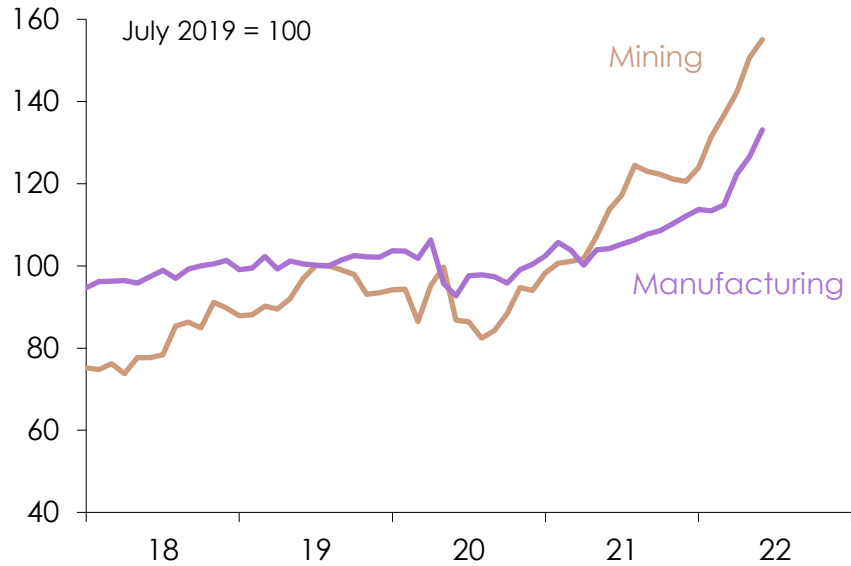


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; and [Labour Force, Australia, Detailed](#), May 2022. [Return to "What's New"](#).

11 of 13 sectors for which estimates are available experienced an increase in turnover in May, with utilities registering a 23% rise

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Indicators of business turnover, by industry

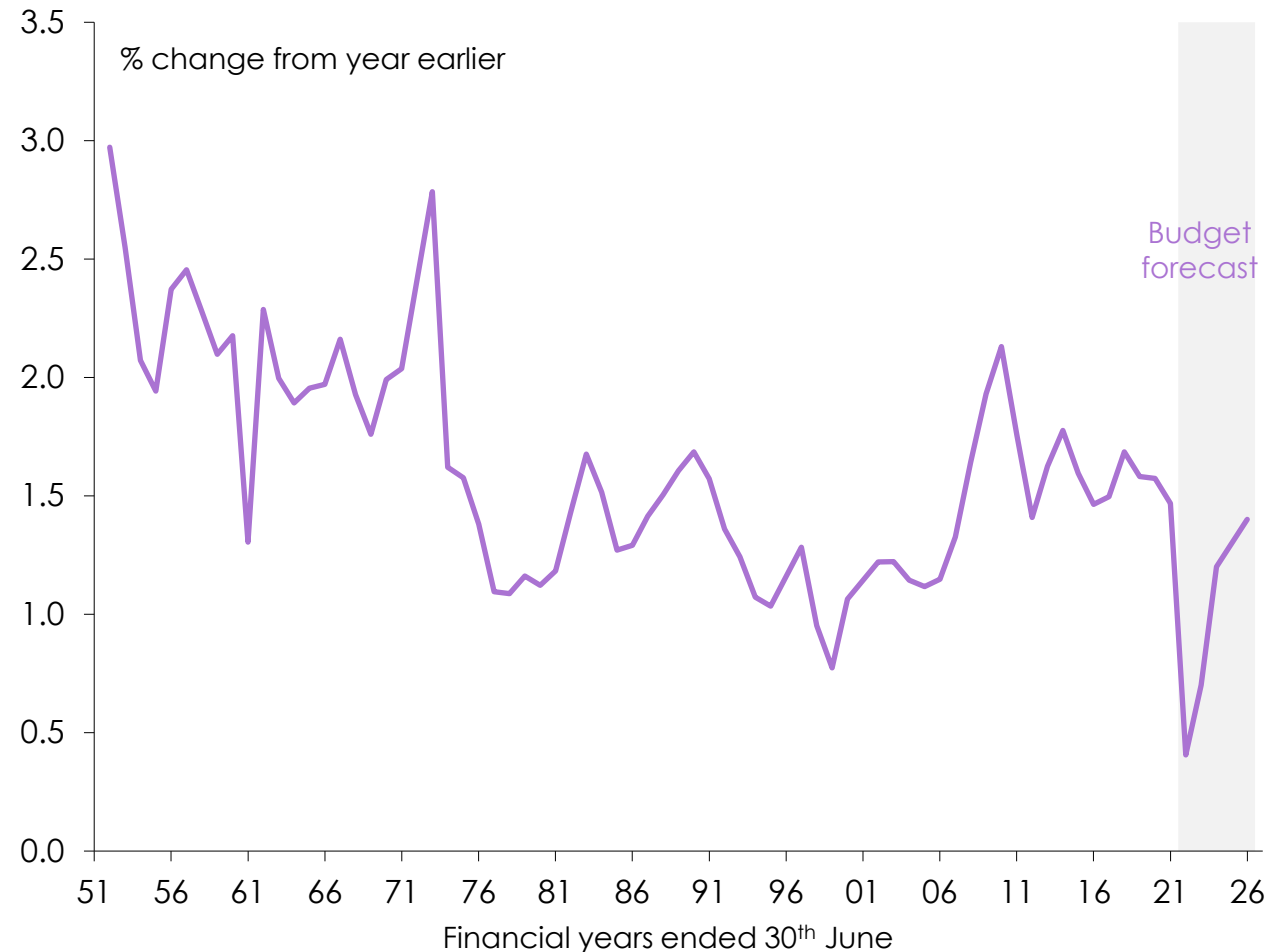


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), May 2022. June data will be released on 9th August. [Return to "What's New"](#).

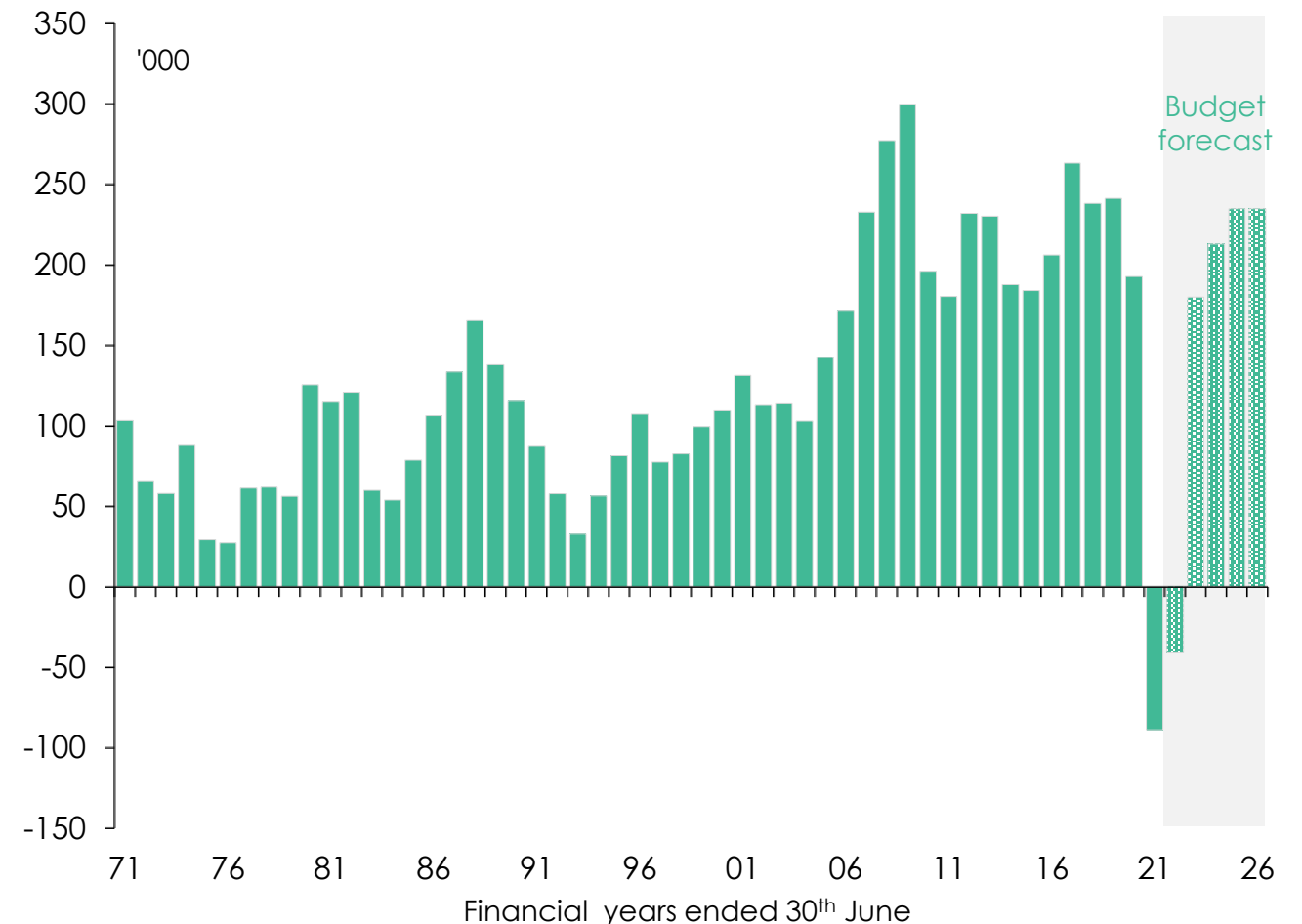
An important assumption underlying 'official' forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

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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)**

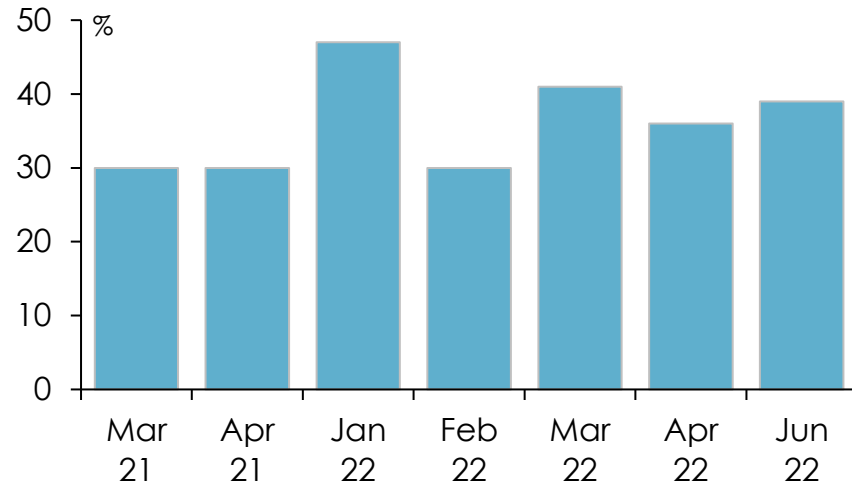
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29th March 2022.

The business sector

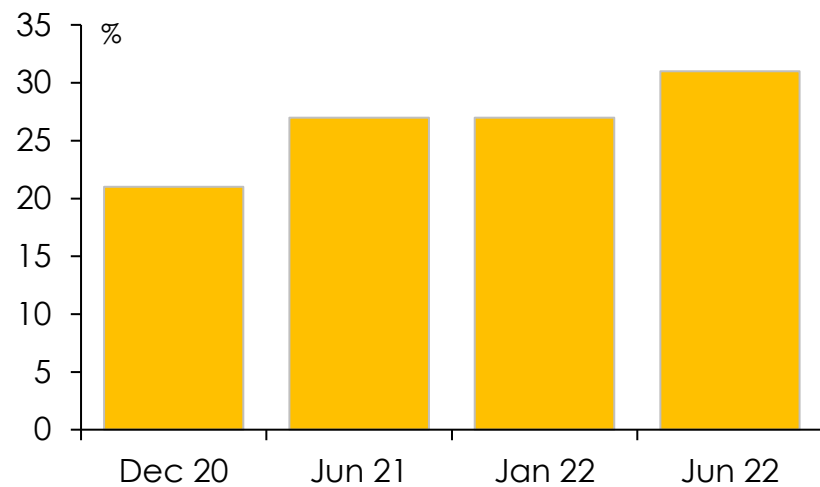
39% of businesses were still experiencing supply chain disruptions, and 27% having difficulty attracting suitable staff, in June

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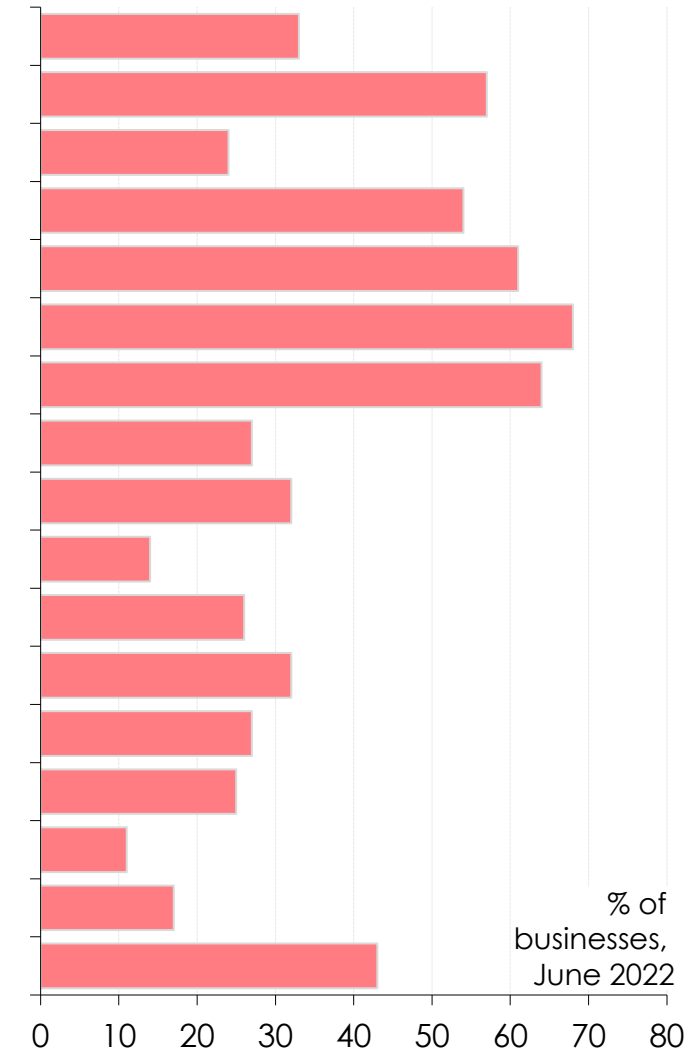
Businesses experiencing supply chain disruptions



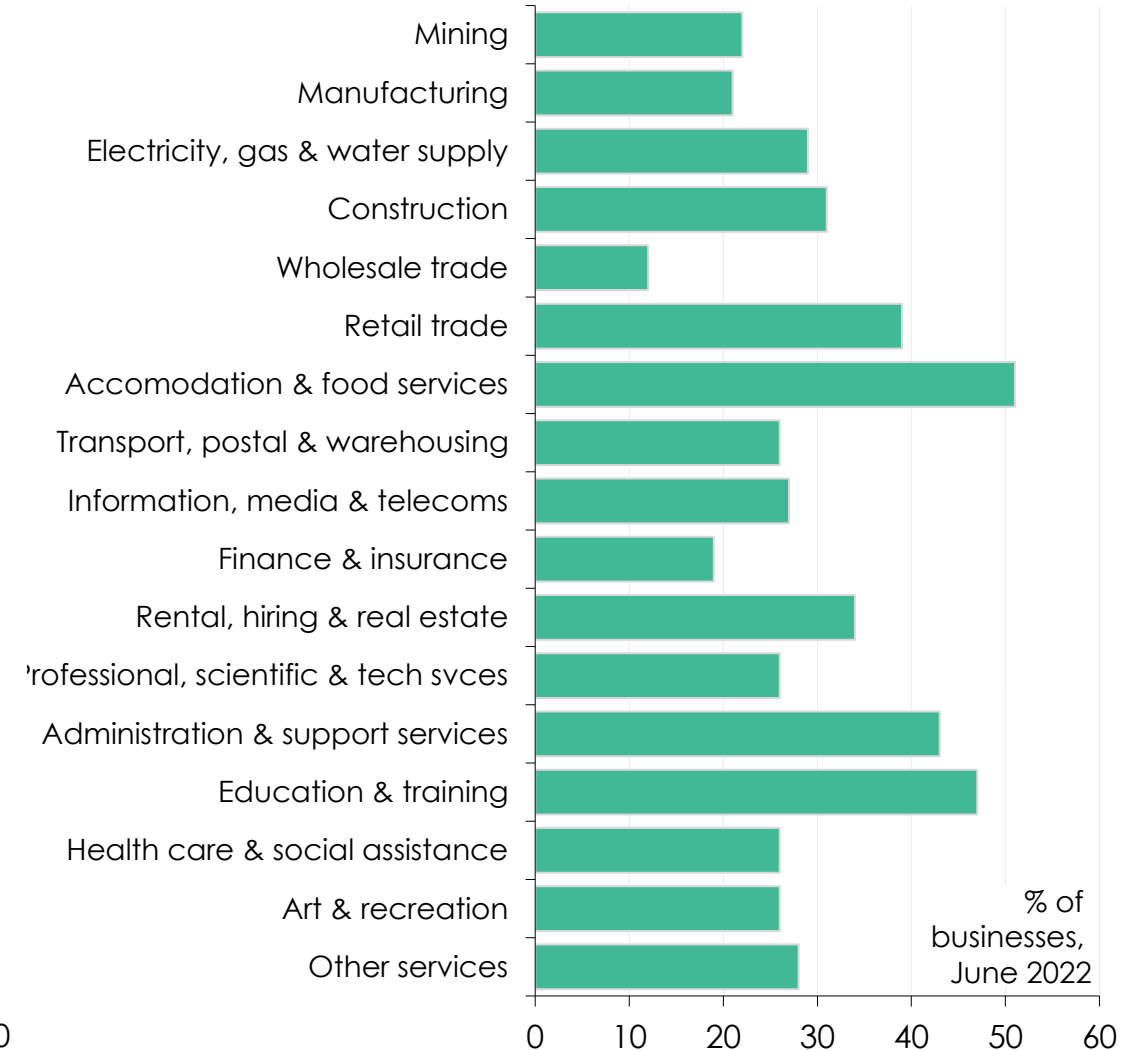
Businesses experiencing difficulty recruiting suitable staff



Businesses experiencing supply chain disruptions, by industry



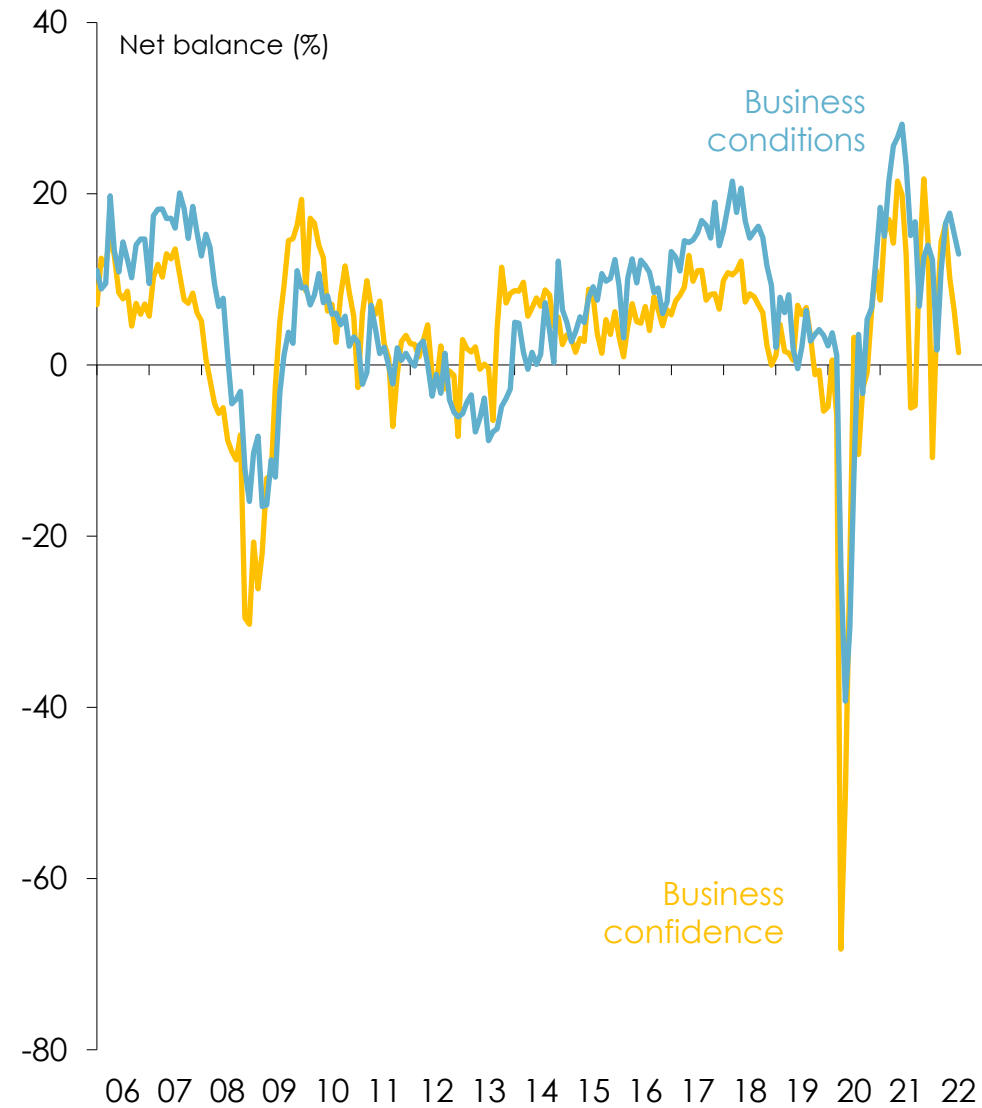
Businesses having difficulty finding suitable staff, by industry



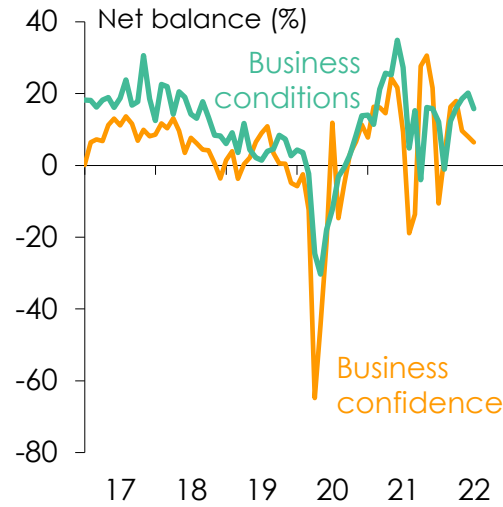
Business confidence fell further in June, following the RBA's second rate increase, even though business conditions remained reasonably firm

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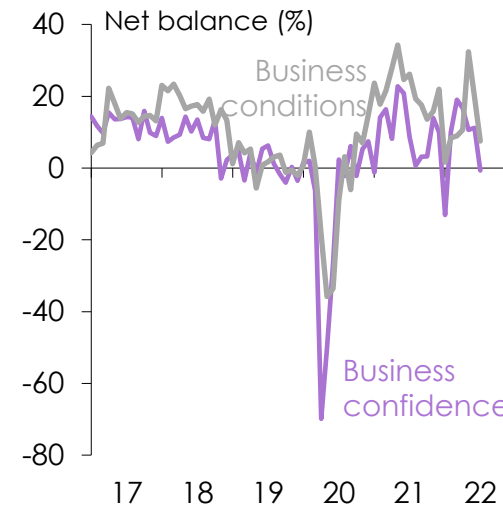
National business confidence & conditions



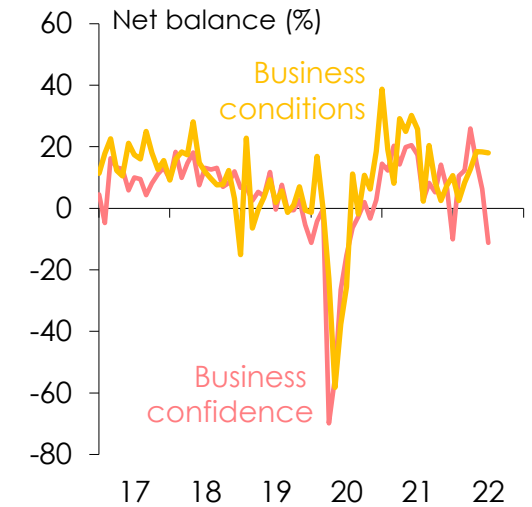
New South Wales



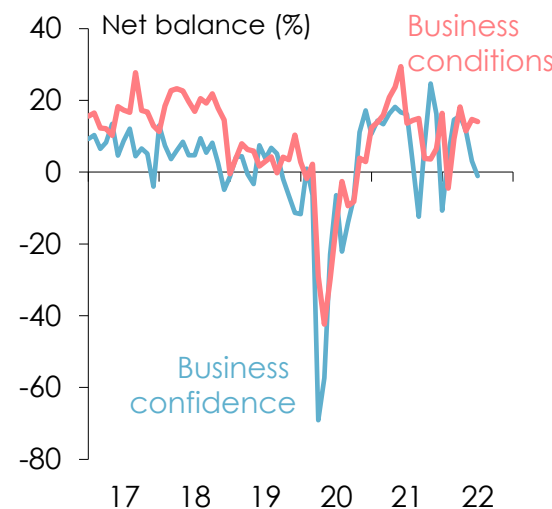
Queensland



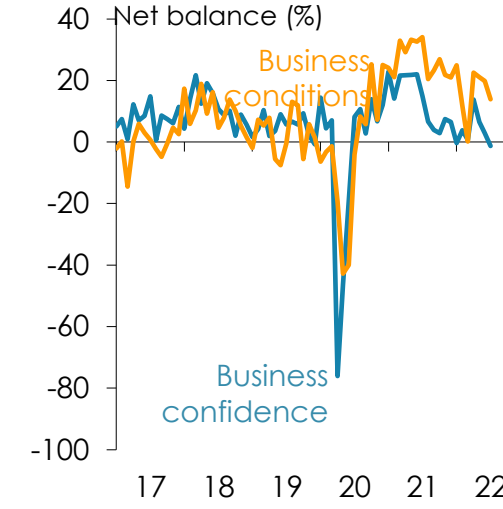
South Australia



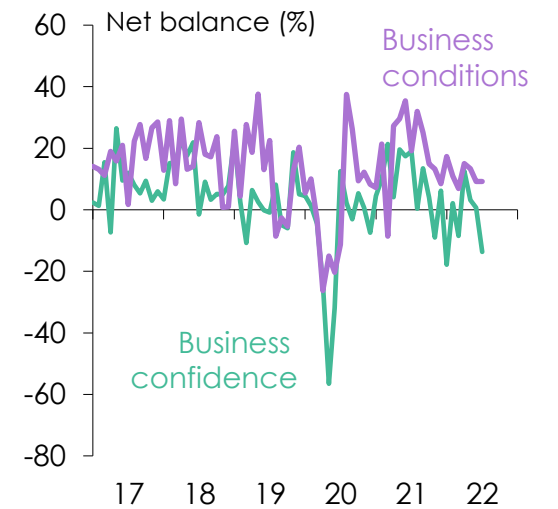
Victoria



Western Australia



Tasmania

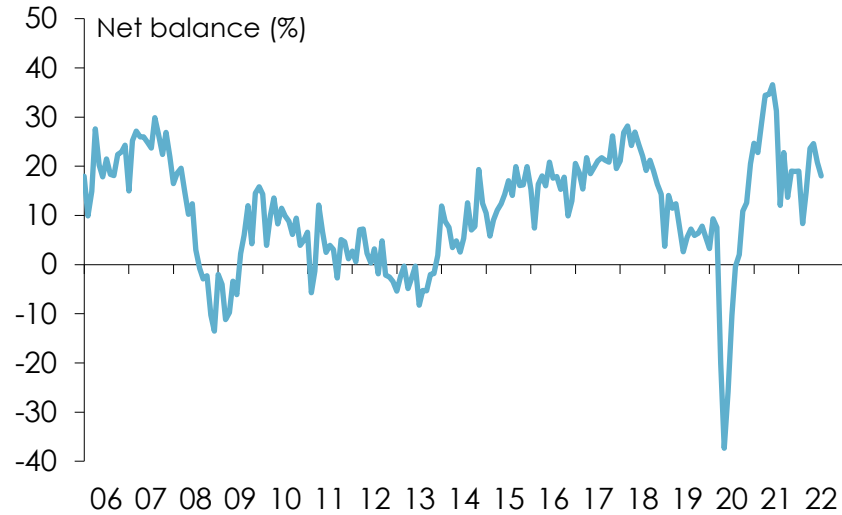


Sources: National Australia Bank [Monthly Business Survey](#), June 2022; July survey results will be released on 9th August. [Return to "What's New"](#).

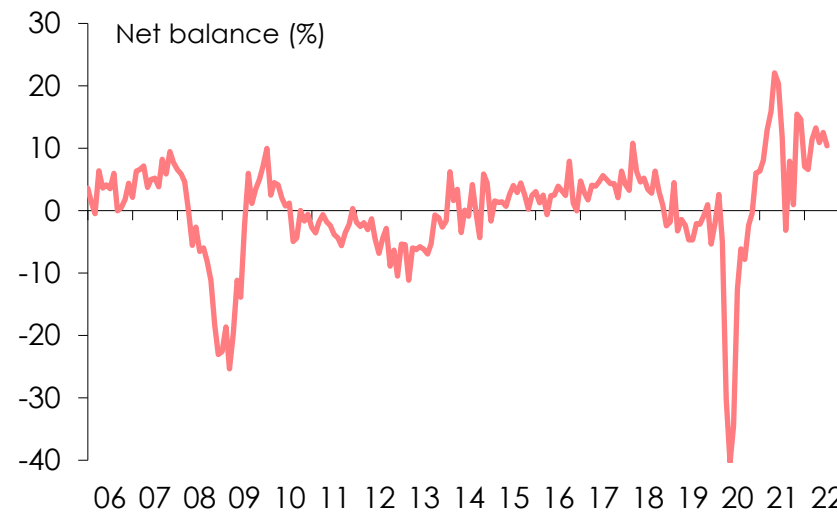
All of the different components of 'business conditions' eased marginally in June, but remained well above historical averages

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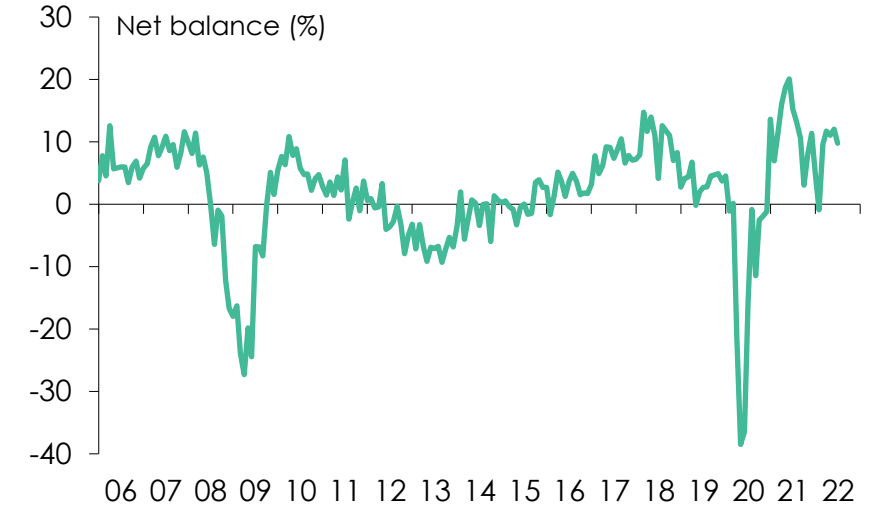
Trading conditions



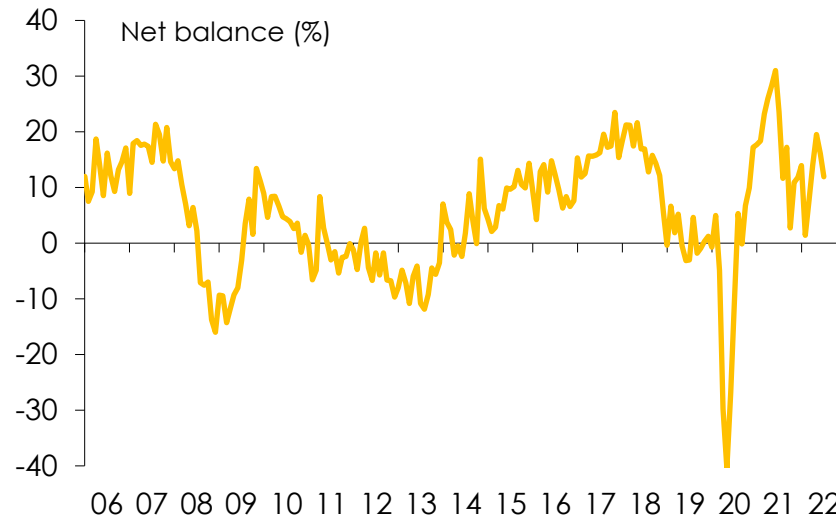
Forward orders



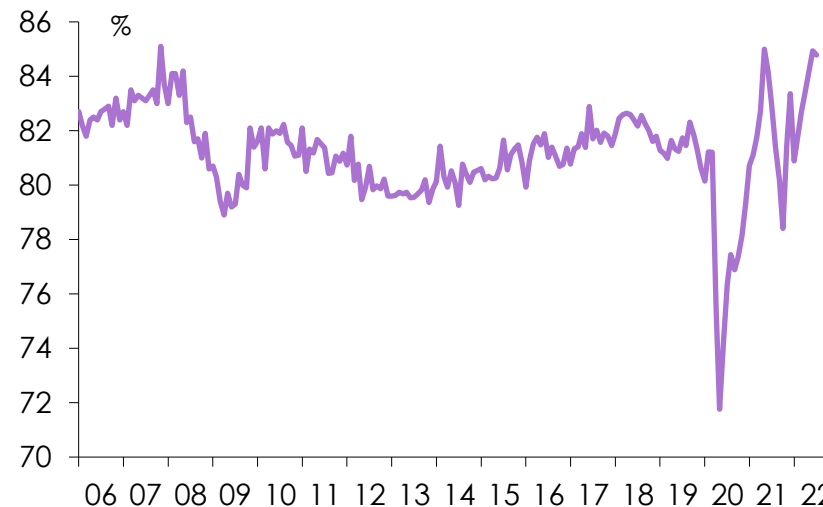
Employee hiring intentions



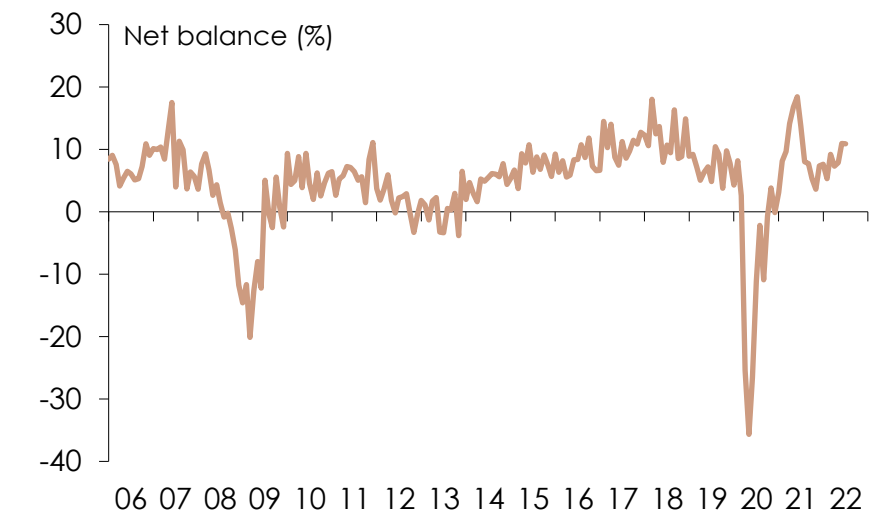
Profitability



Capacity utilization



Capital expenditure intentions

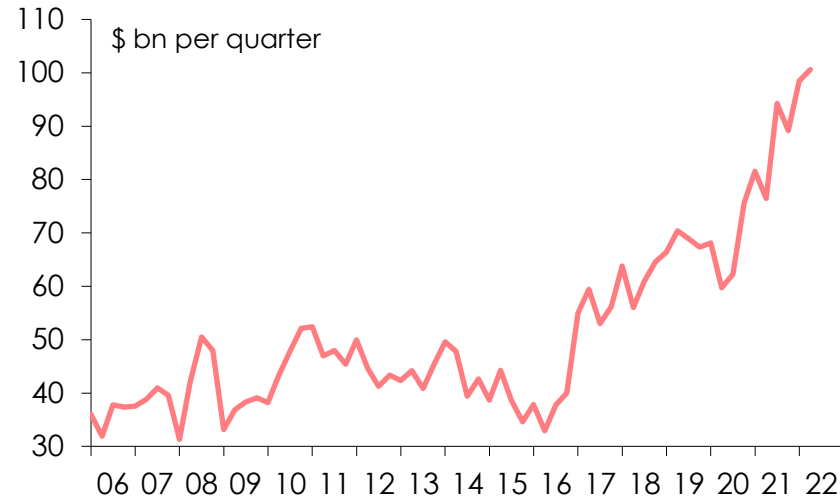


Source: National Australia Bank [Monthly Business Survey](#), June 2022; July survey results will be released on 9th August. [Return to "What's New"](#).

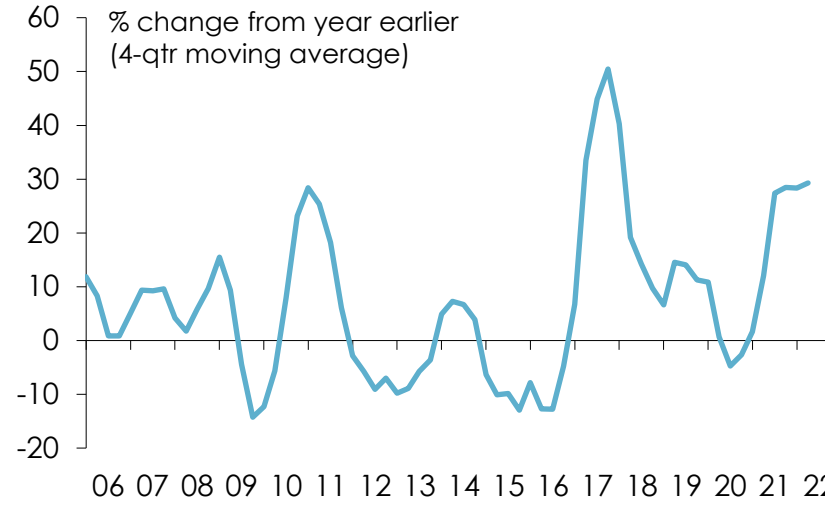
Company profits have grown strongly over the past five years, driven largely by mining – with the construction sector experiencing a ‘margin squeeze’

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

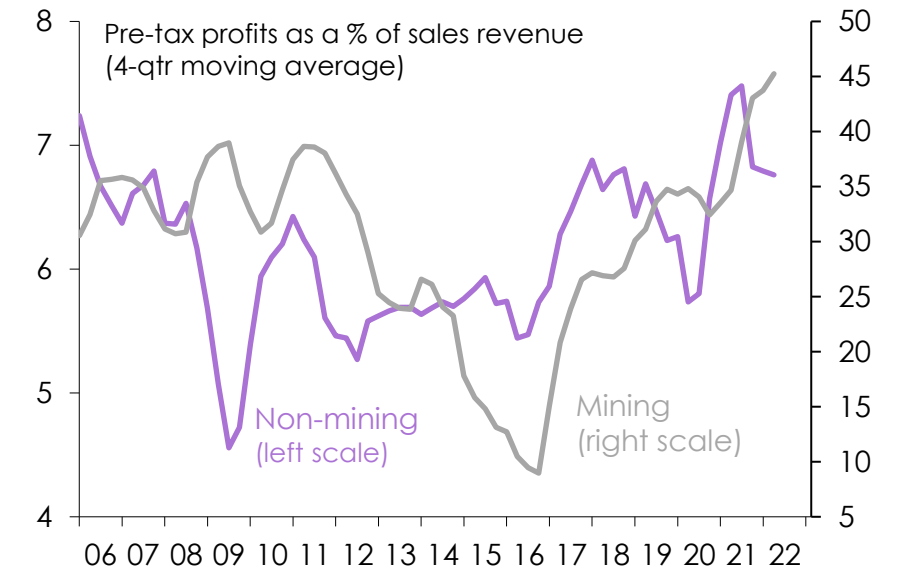
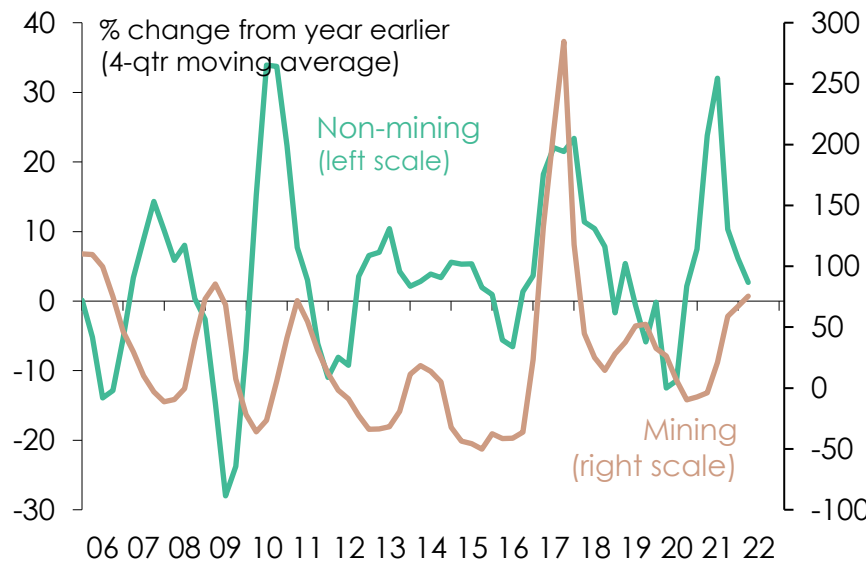
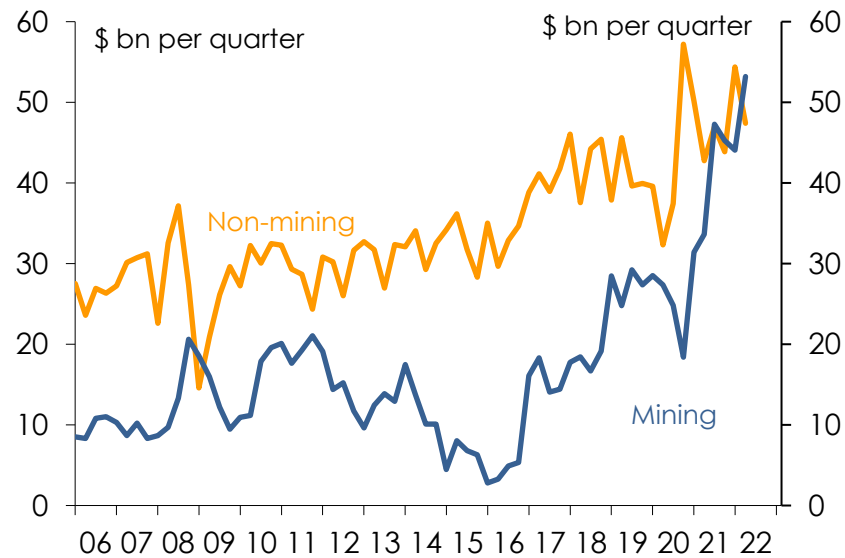
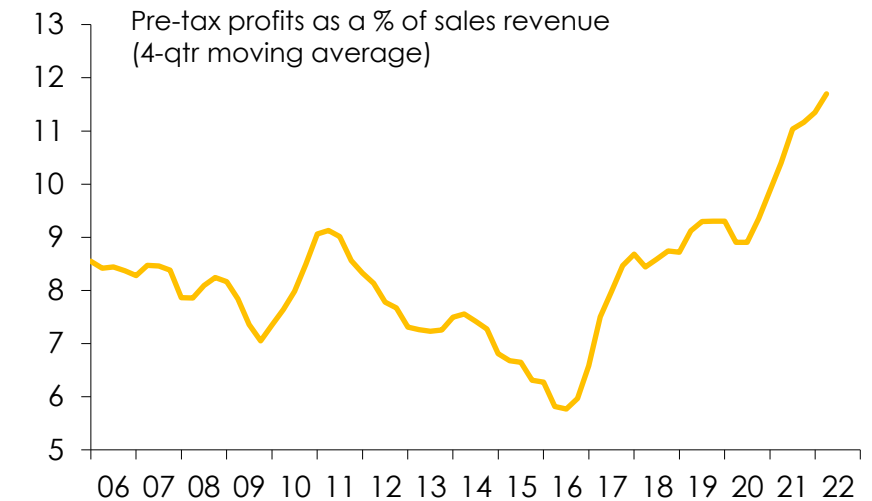
Pre-tax company profits



Pre-tax company profits growth



Pre-tax profit margins

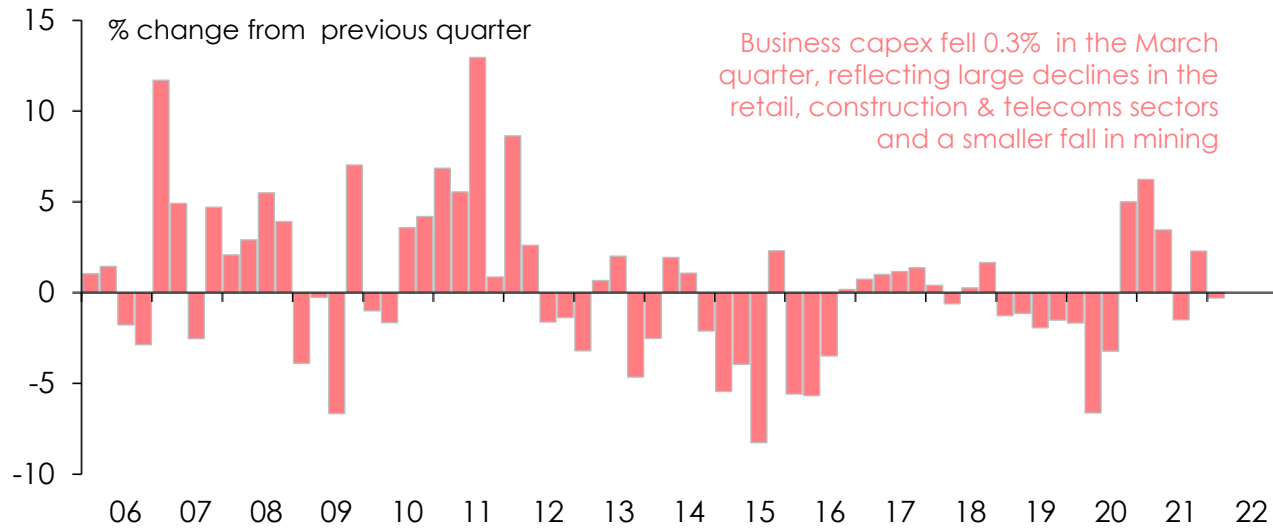


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), March 2022. June quarter data will be released on 5th September. [Return to "What's New"](#).

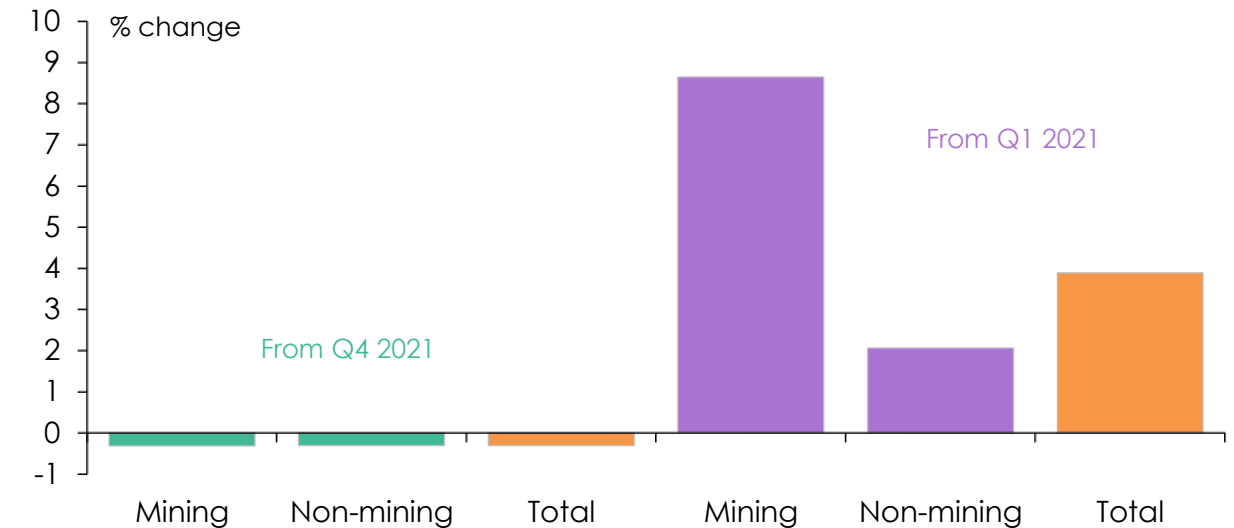
Business capex fell 0.3% in the March quarter, reflecting large declines in capex in retail, construction and telecoms, and a smaller fall in mining

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

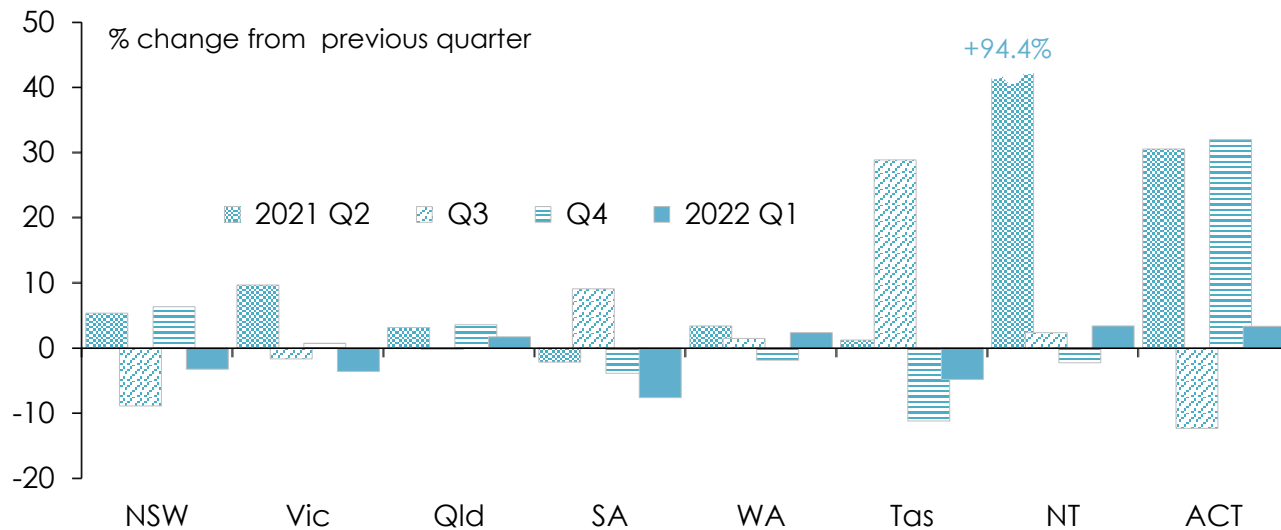
Real business new fixed capital expenditure



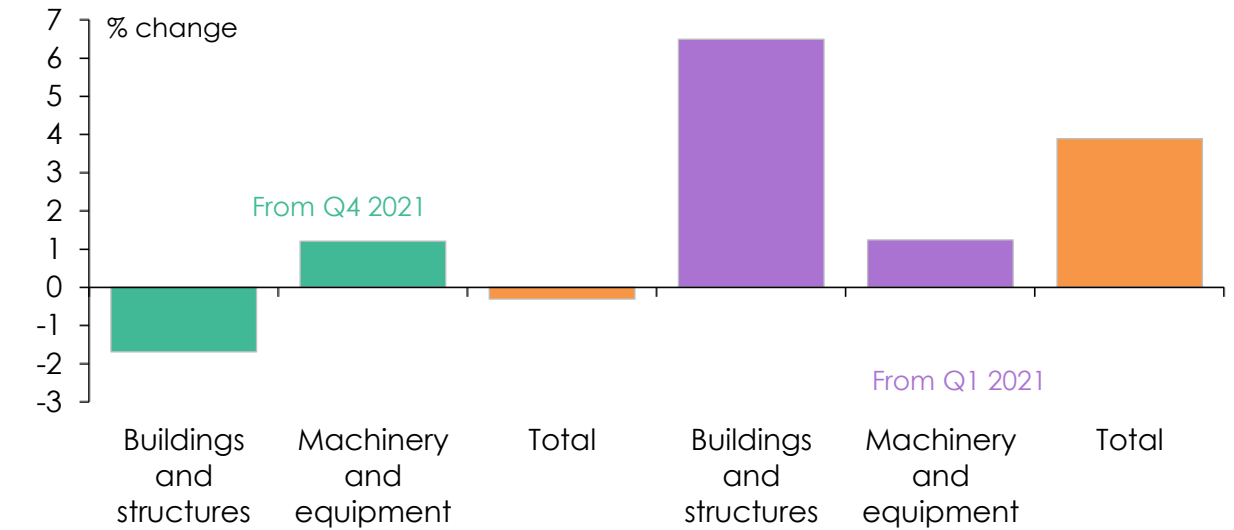
Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, 2021



Real business new fixed capex, by asset, Q1



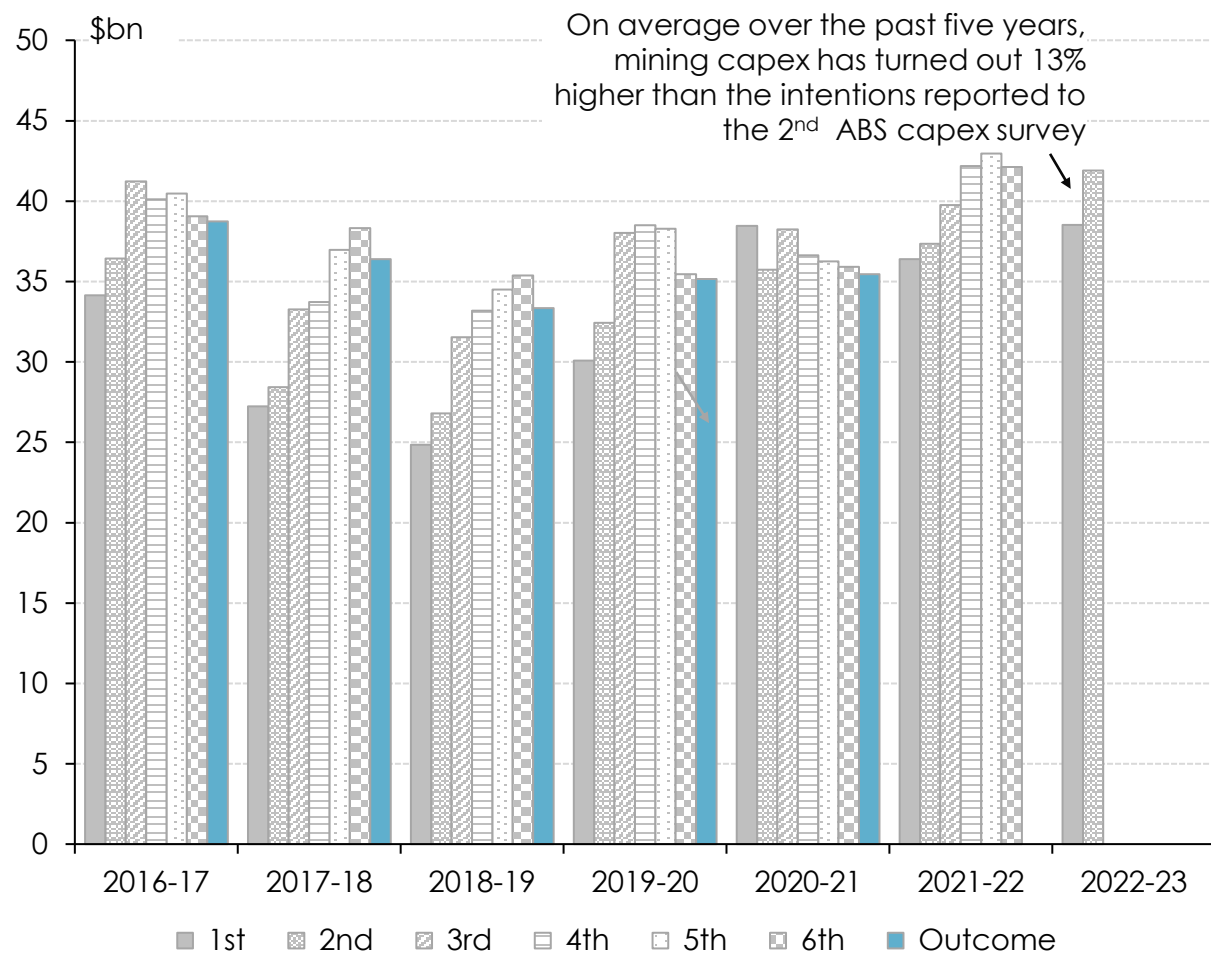
Note: the ABS Survey of new capital expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#), March 2022; June quarter data will be released on 1st September. [Return to "What's New"](#).

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

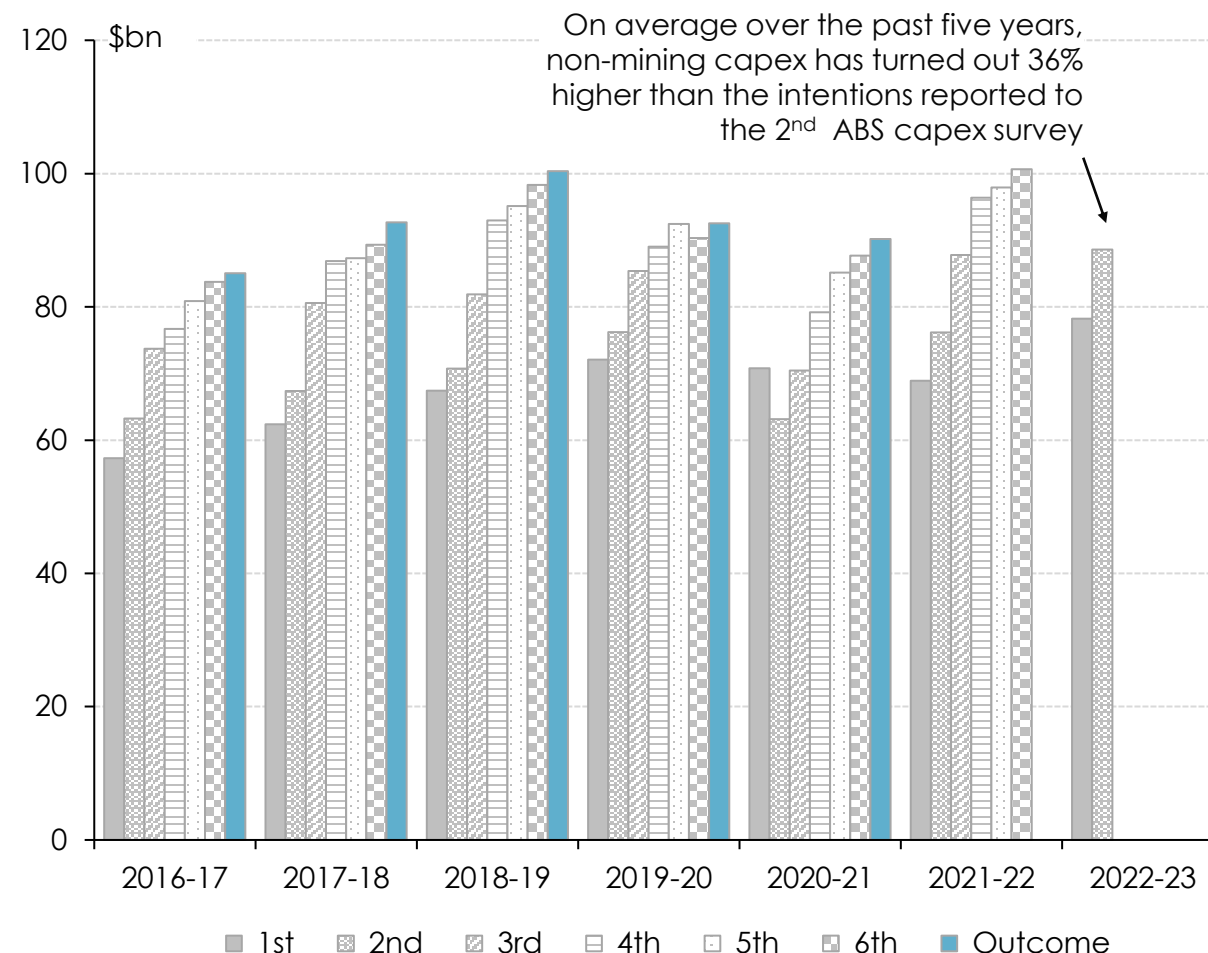
THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

Capital expenditure intentions - mining



ABS capex intentions survey

Capital expenditure intentions – non-mining



ABS capex intentions survey

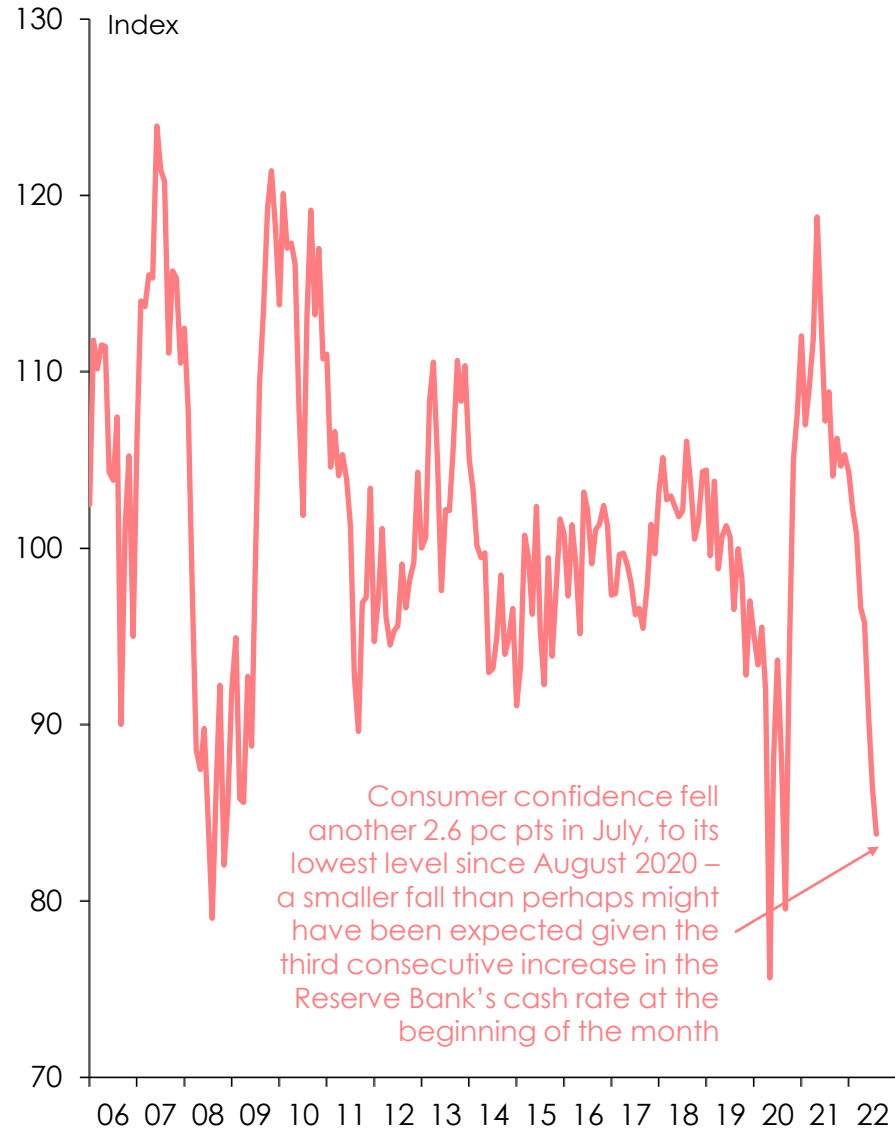
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in April & May, the third in July & August of the financial year, the fourth in October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

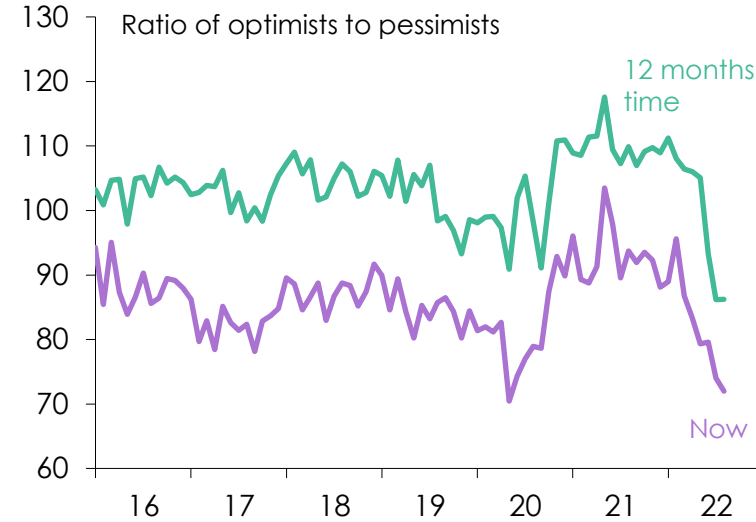
Consumer confidence fell again in July to its lowest level since August 2020, although it wouldn't have surprised if it had fallen by more than 2.6 pc pts

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

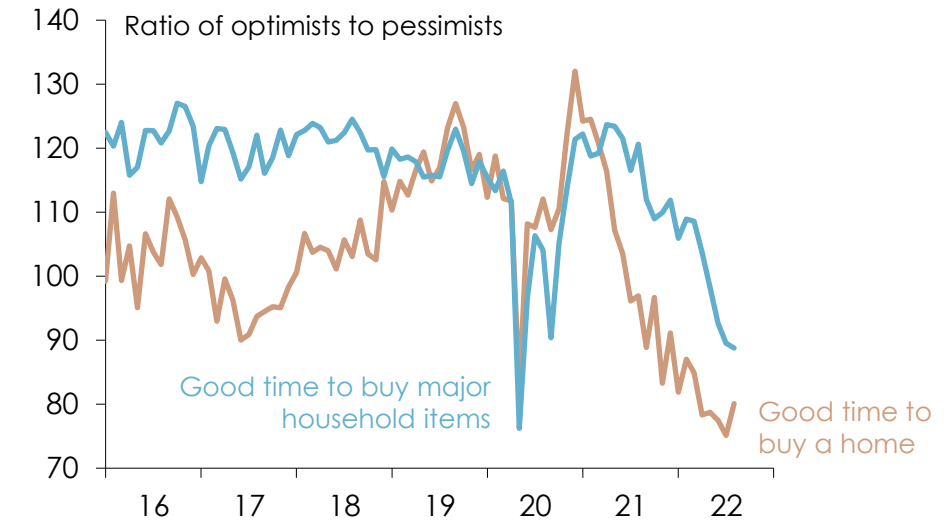
Consumer confidence index



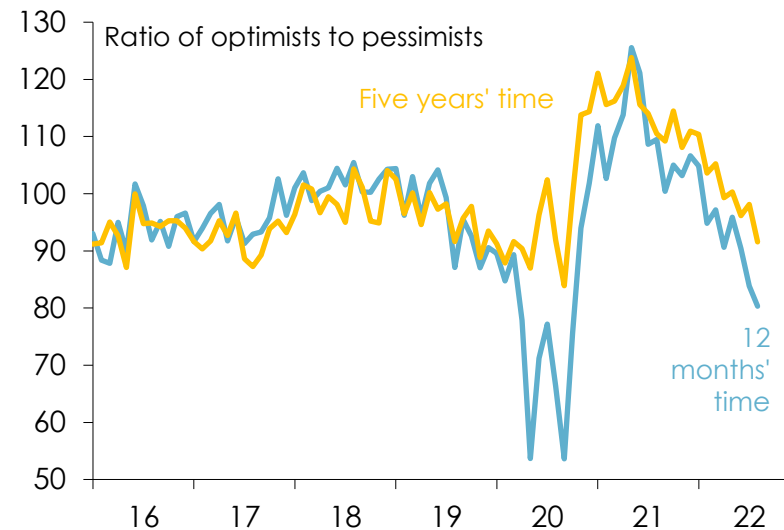
Household finances assessment



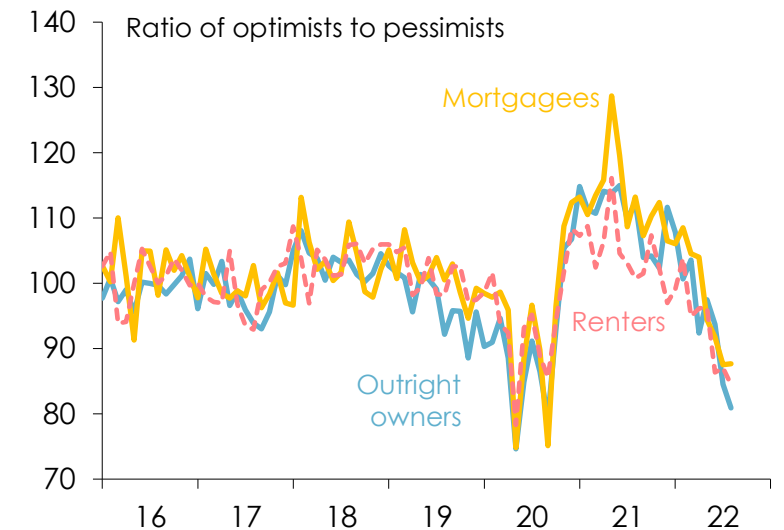
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure

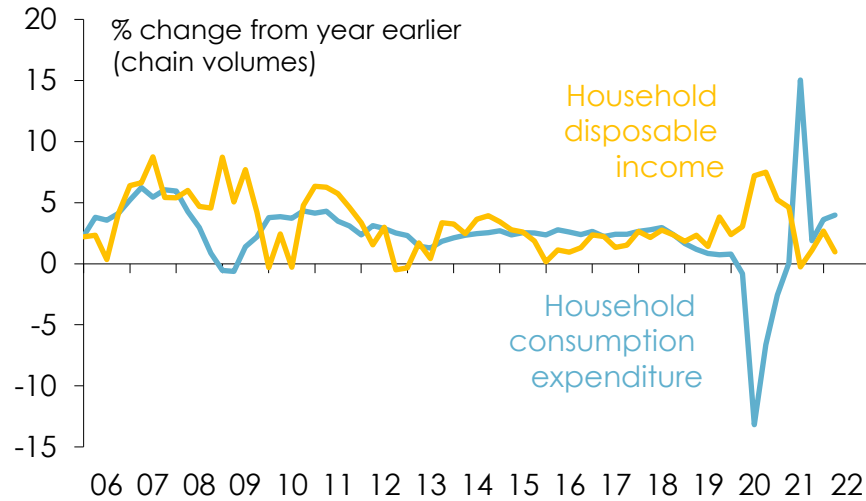


Source: [Westpac Banking Corporation](#). August consumer confidence will be released on 10th August. [Return to "What's New"](#).

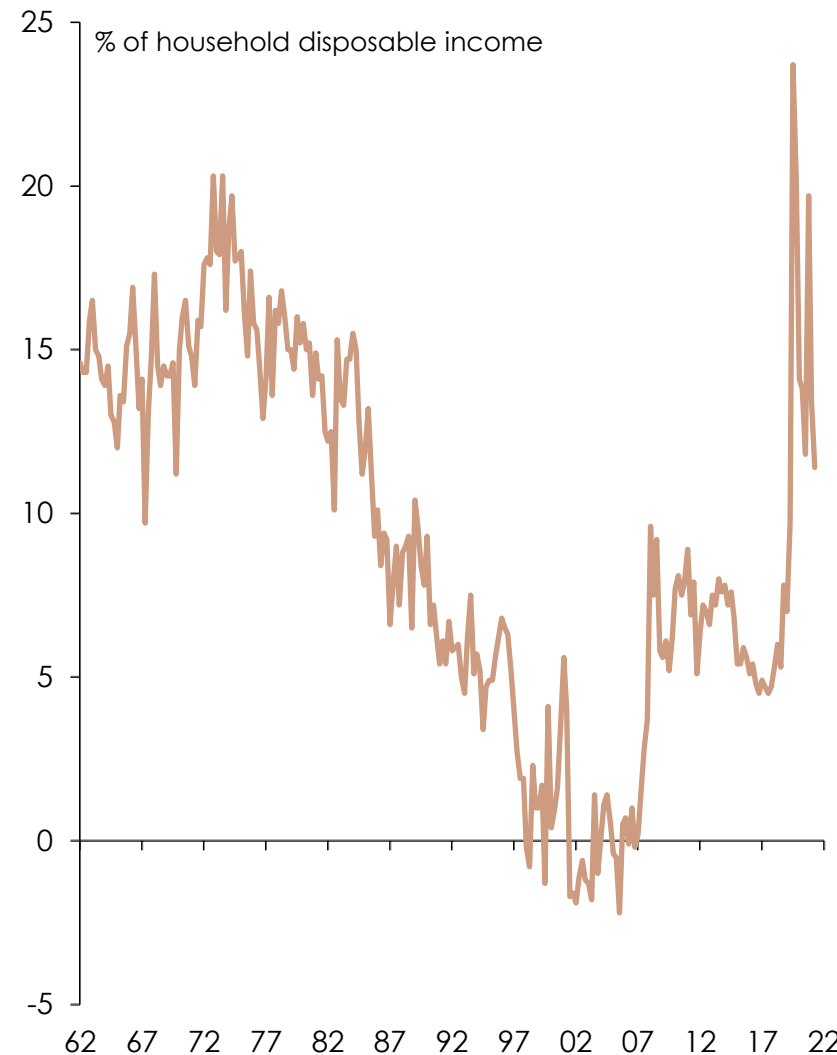
Households are sustaining spending in the face of weak real income growth by reducing saving – many households have large cash reserves

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

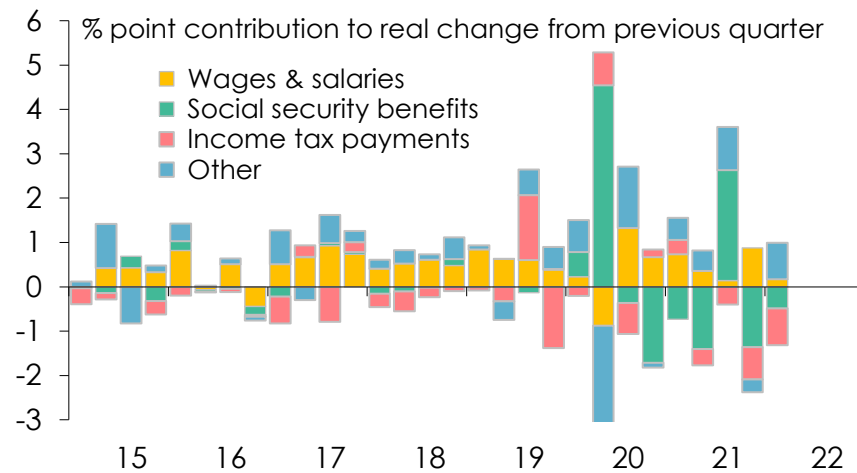
Household income and spending



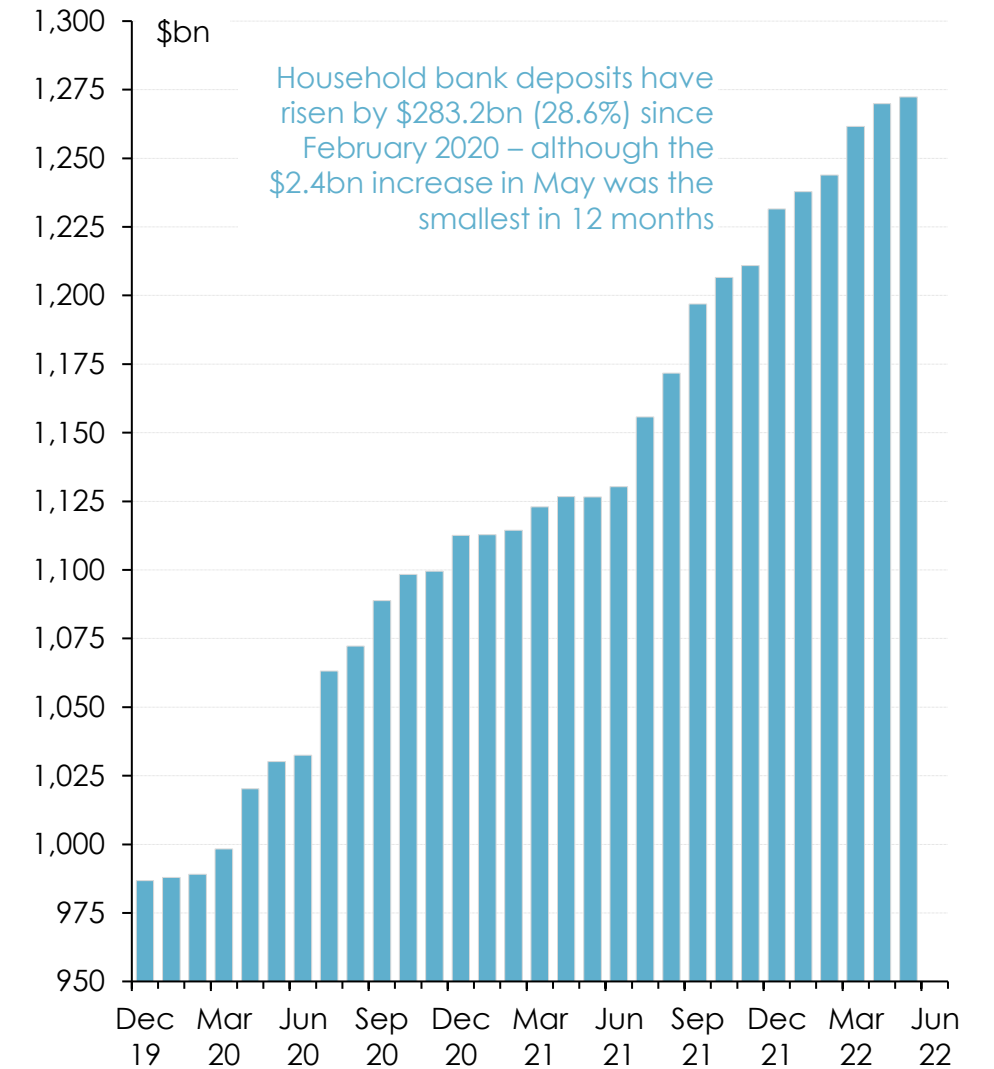
Household saving ratio



Sources of household income



Household bank deposits

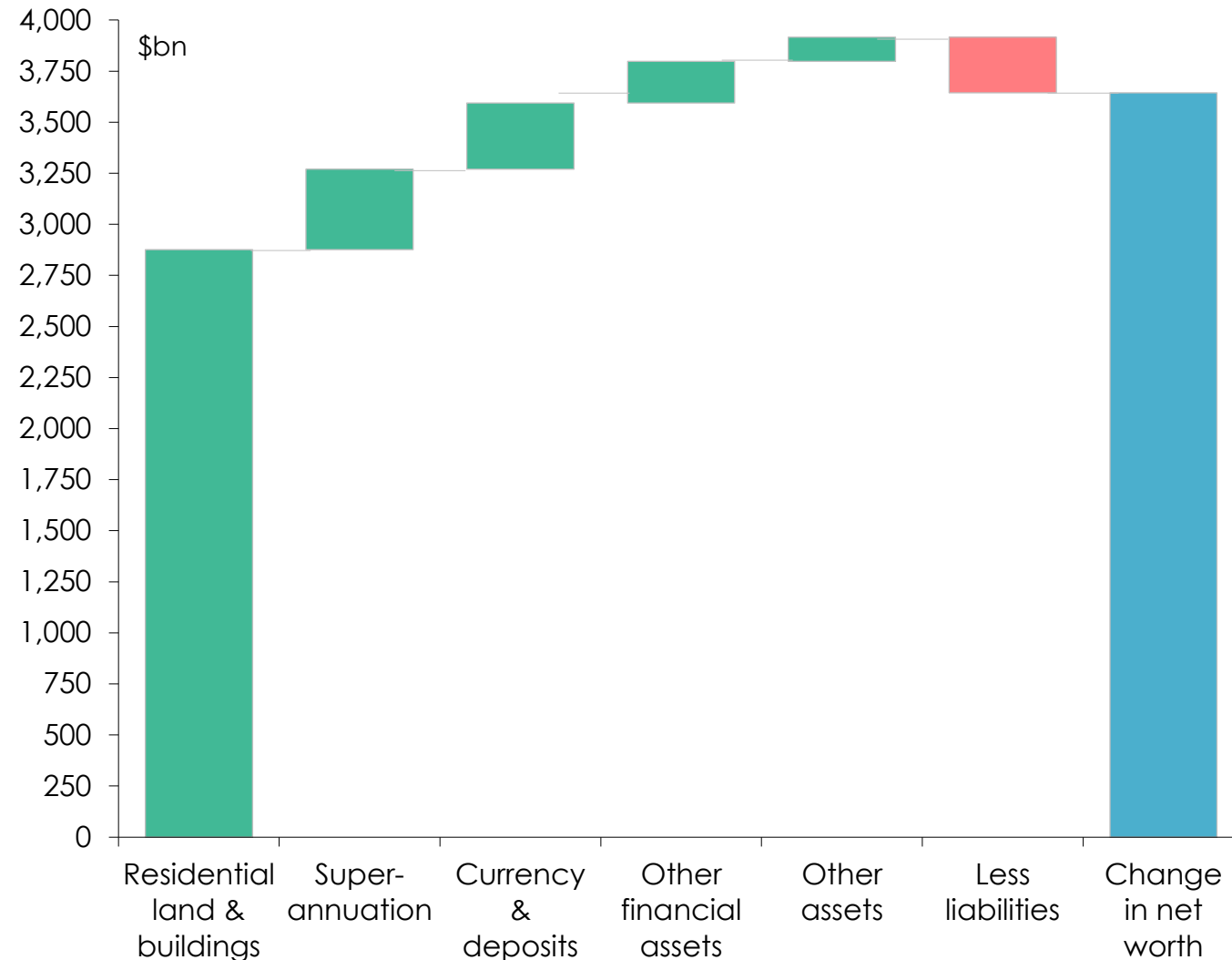


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). June quarter data on household income, spending and saving will be released on 7th September. [Return to "What's New"](#).

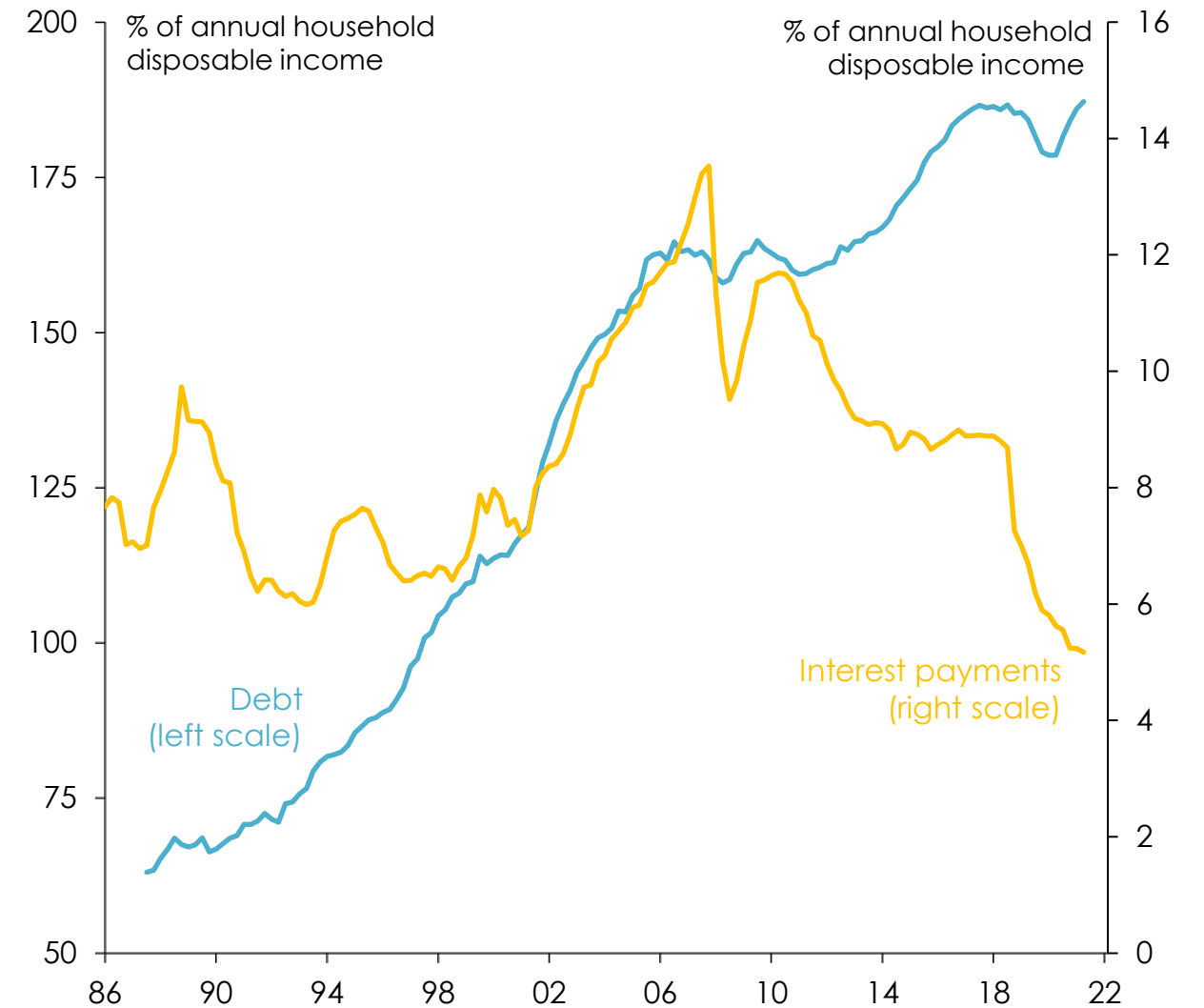
Household net worth has risen by \$3.6trn (32%) since the end of 2019, while interest payments have fallen as a pc of income – though from Q2 onward

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 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

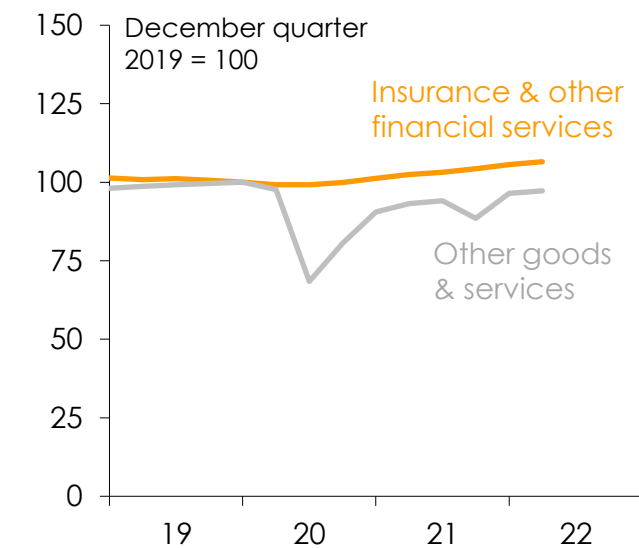
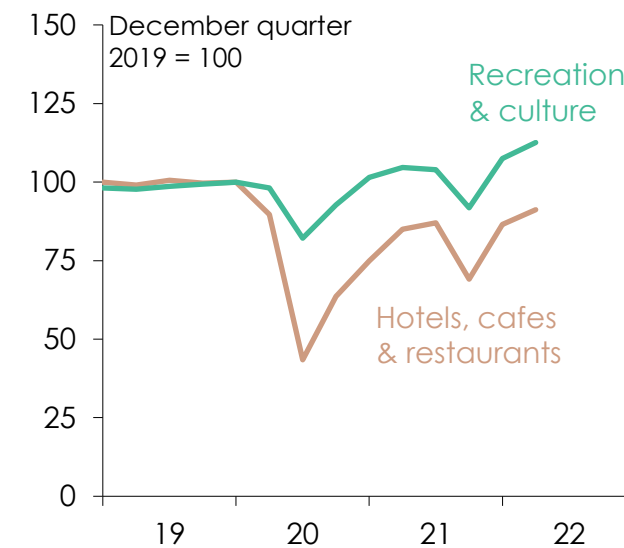
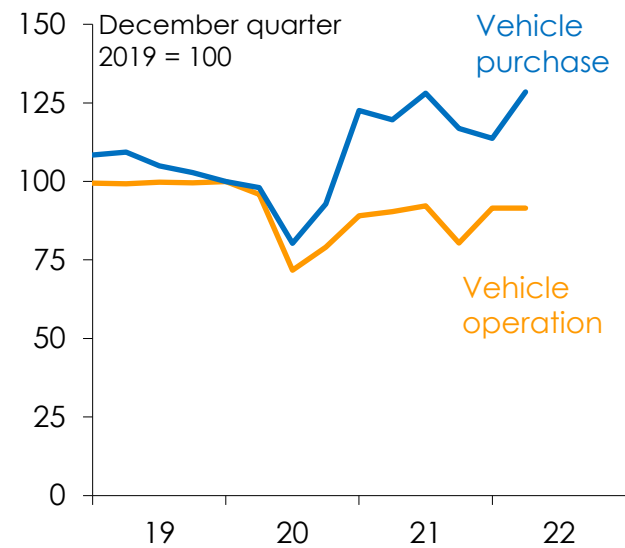
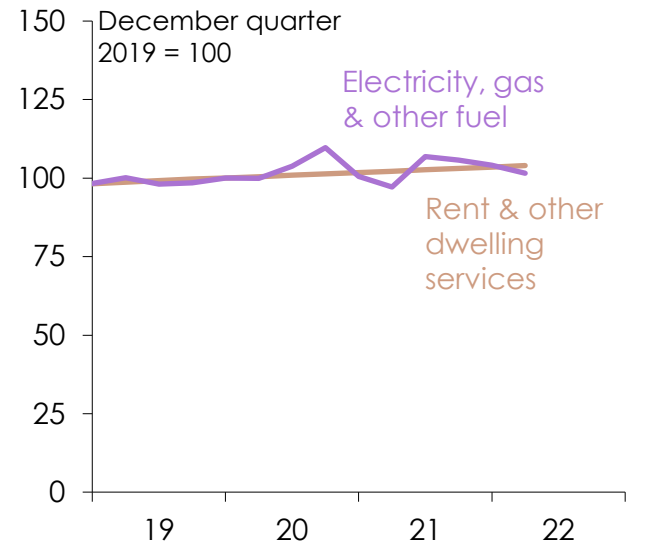
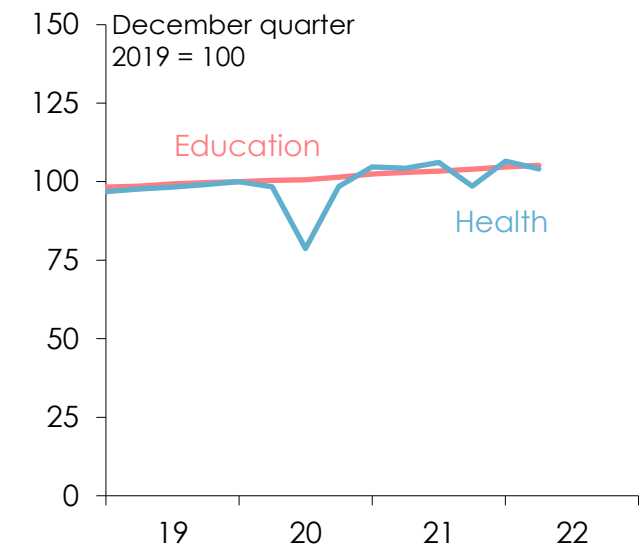
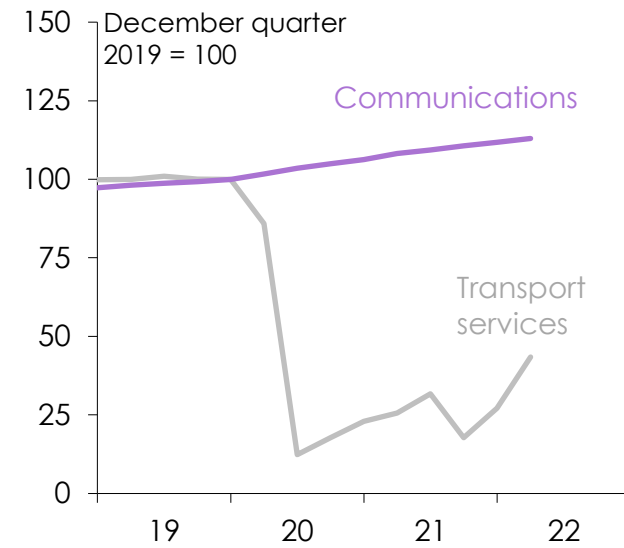
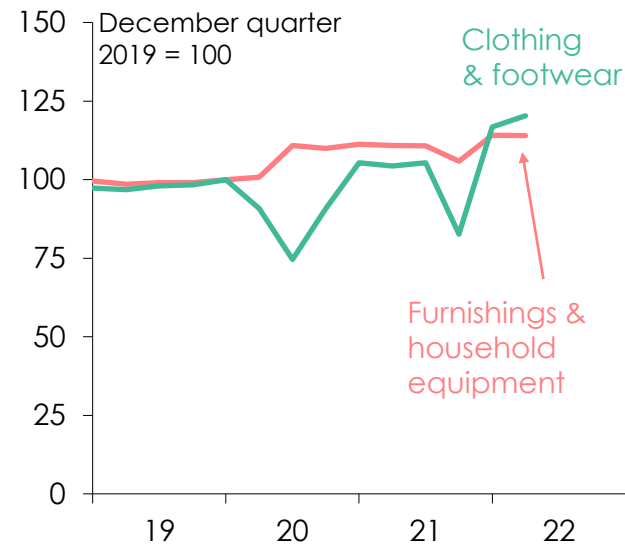
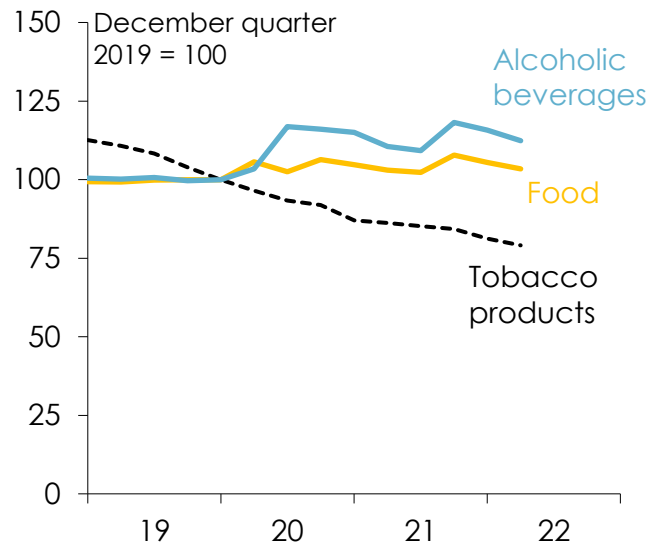


Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2022; RBA, [Statistical Tables](#) E1 & E2. June quarter data will be released on 29th September
[Return to "What's New"](#).

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 – 22ND JULY 2022

Major categories of household consumption spending

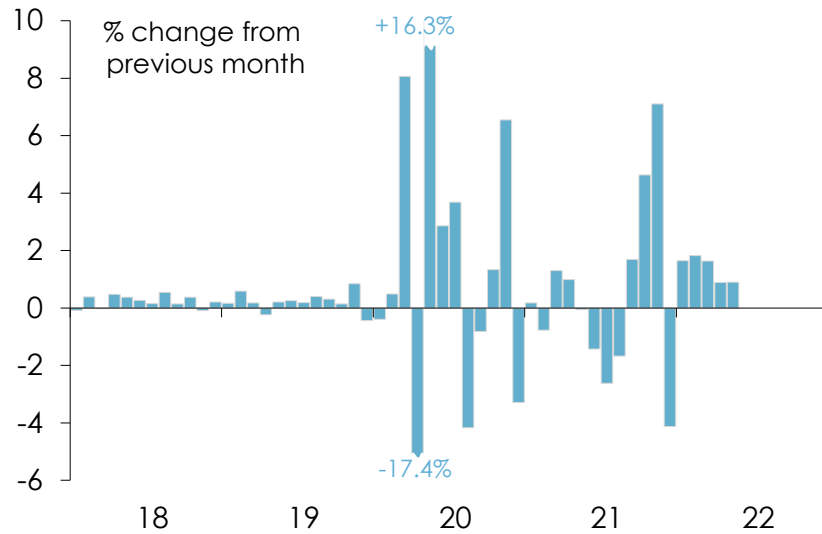


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; June quarter data will be released on 7th September. [Return to "What's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

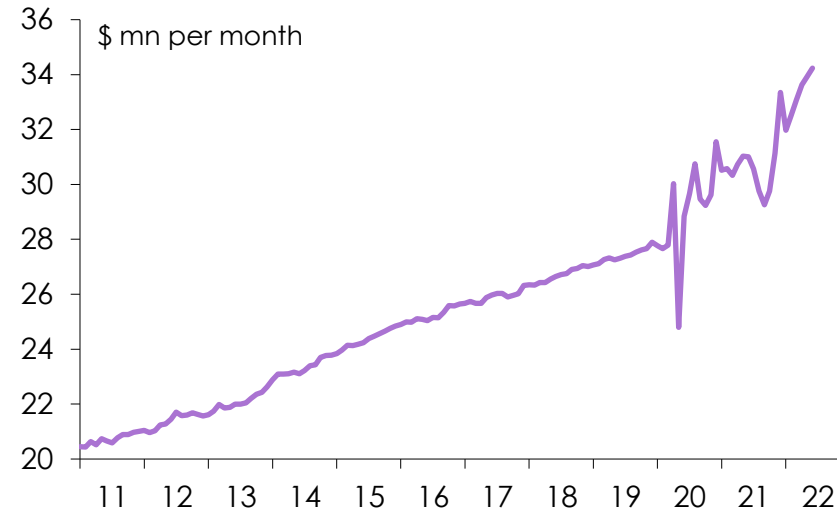
New motor vehicle sales dropped 24½% in June, to their lowest since May 2020, with supply chain & shipping issues crueing what's usually a big month

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

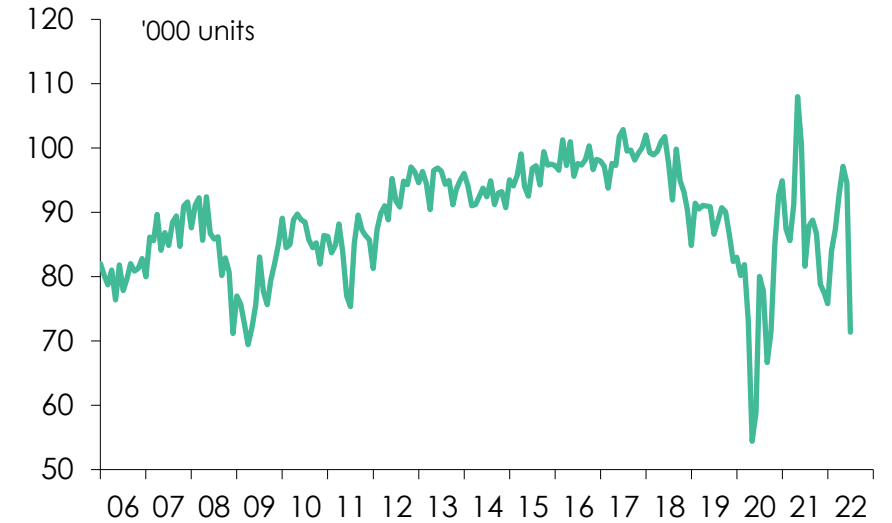
Monthly retail sales



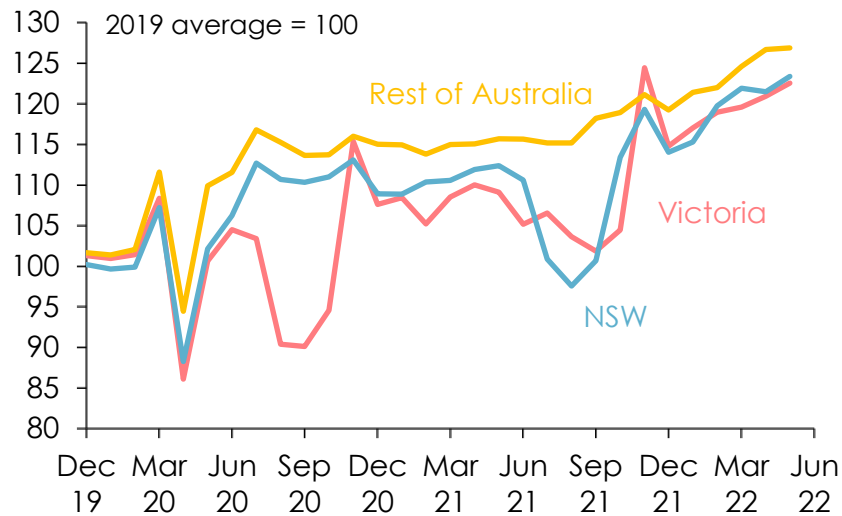
Level of retail sales



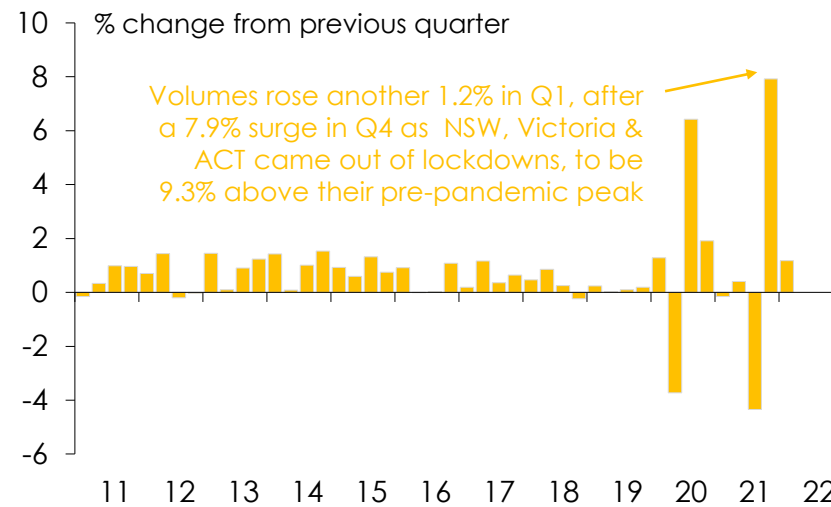
New motor vehicle sales



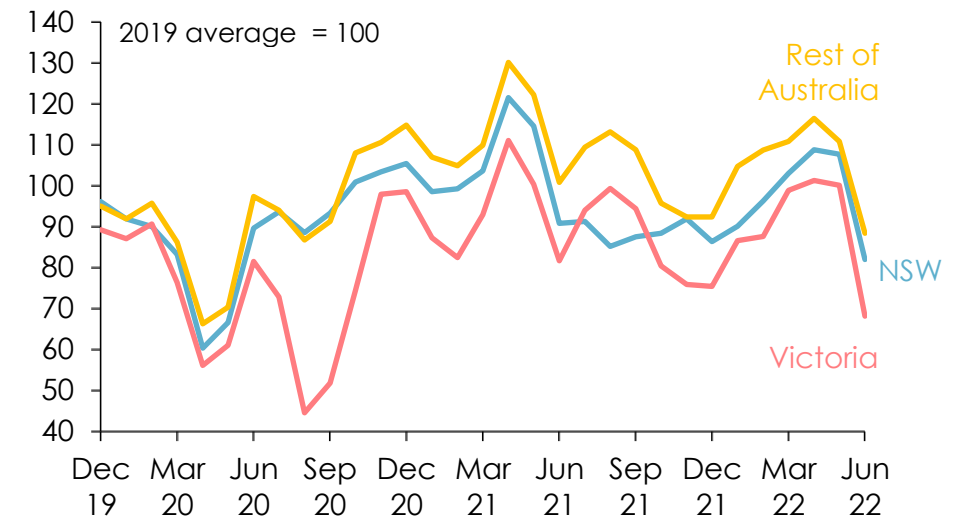
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



Vehicle sales – NSW, Vic & the rest

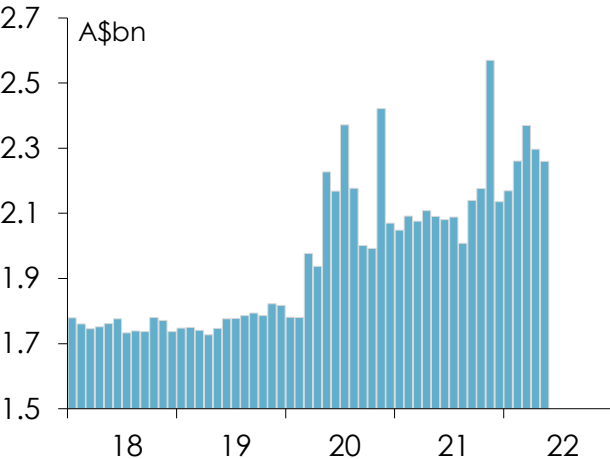


Note: see also [slide 32](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary June retail sales data will be released on 28th July; July motor vehicle sales data will be released in the second week of August. [Return to "What's New"](#).

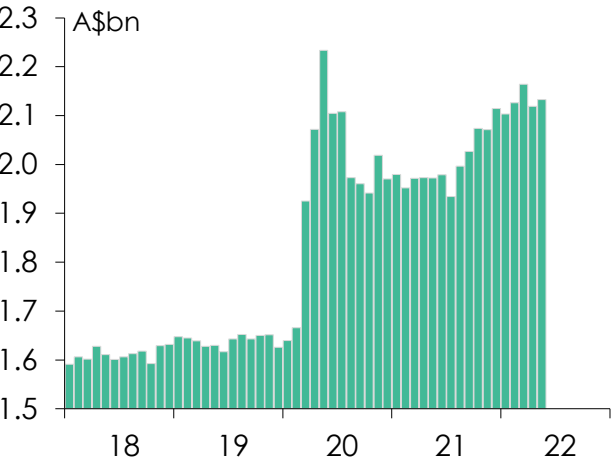
Australians continued to spend freely on 'discretionary' items in May despite the first rise in interest rates, and rising prices for 'essential' items

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

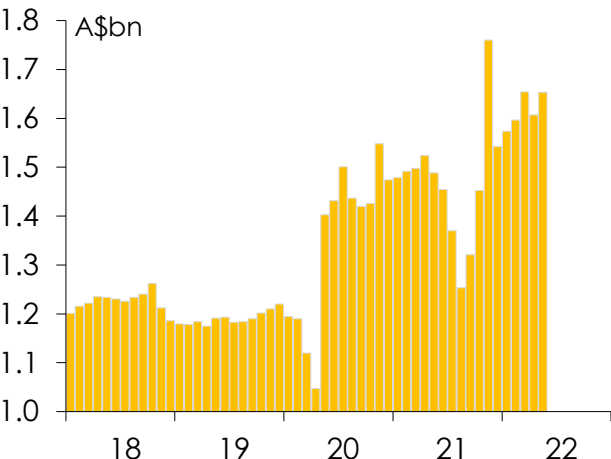
Electronic & electrical goods



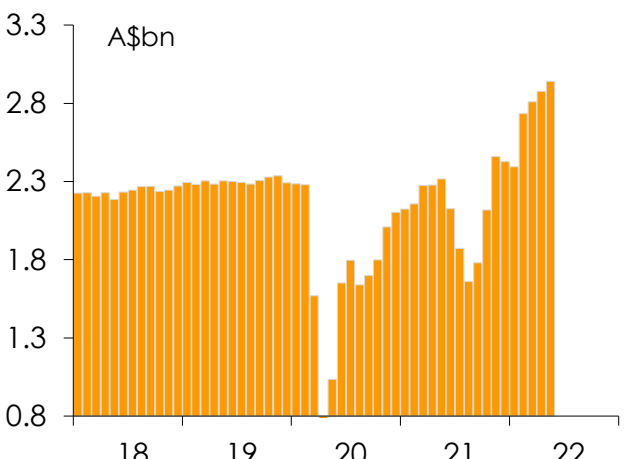
Hardware, building & garden supplies



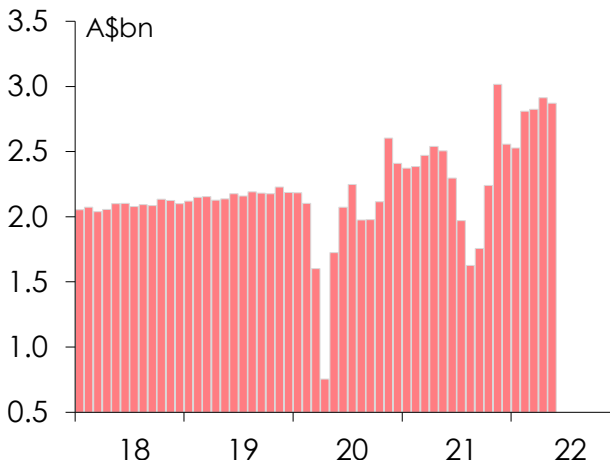
Floor coverings, furniture, housewares etc



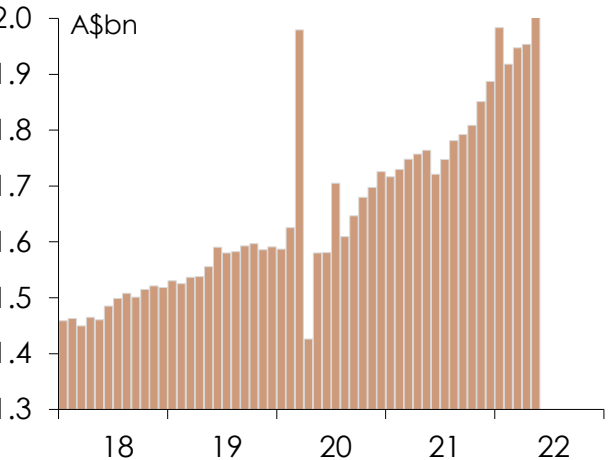
Cafes and restaurants



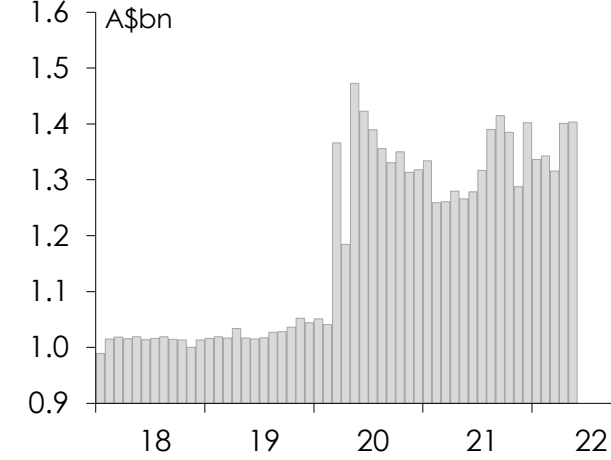
Clothing, footwear & personal accessories



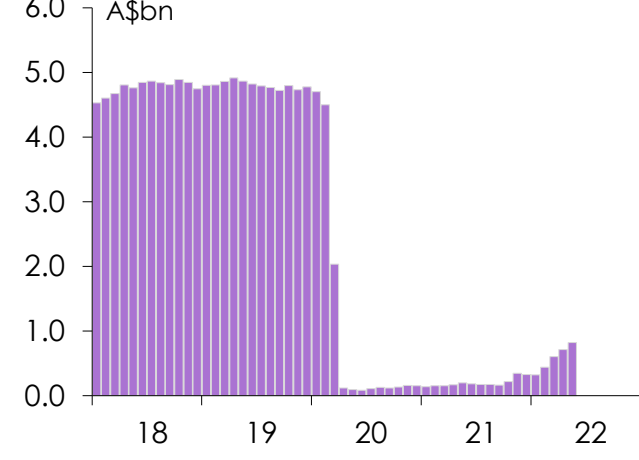
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

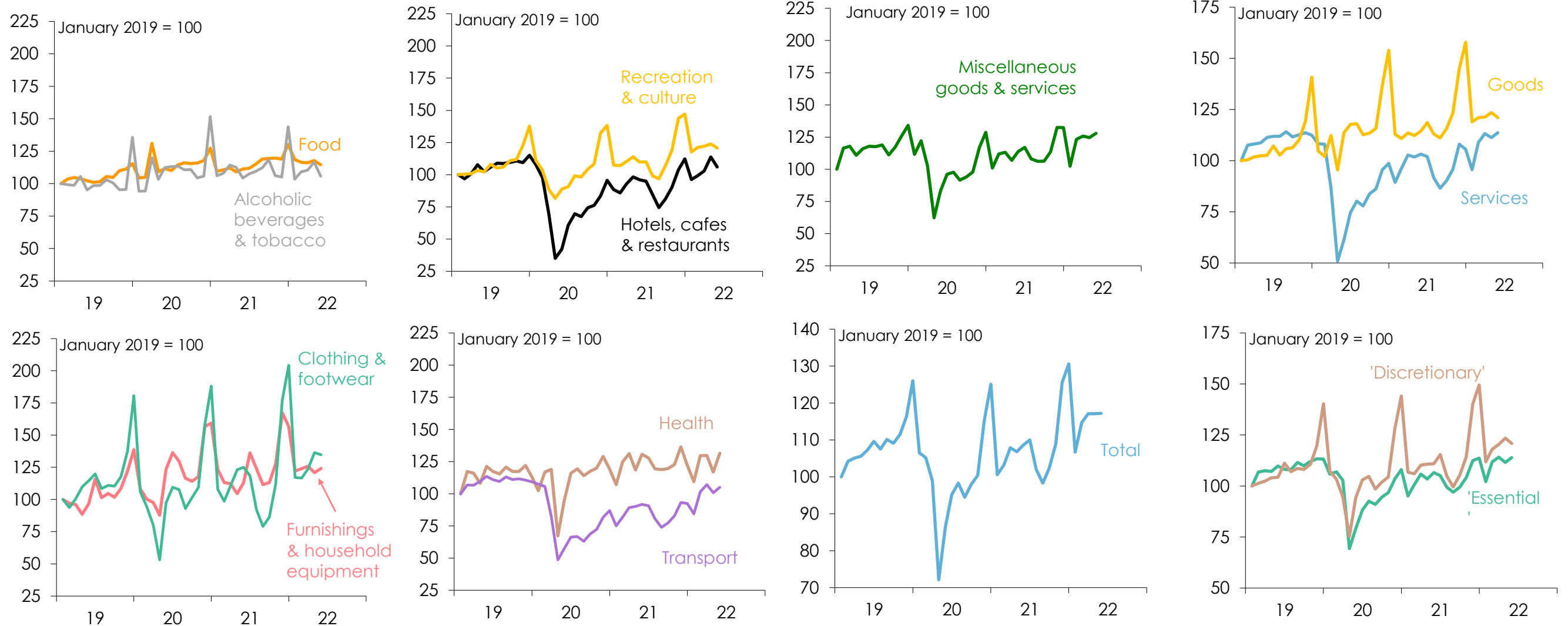


Sources: ABS, [Retail Trade, Australia](#), May 2022 (June data will be released on 3rd August); and [International Trade in Goods and Services, Australia](#), May 2022 (June data will be released on 4th August). [Return to "What's New"](#).

Household spending (as measured by the new ABS indicator based on bank transactions data) was 7.9% higher in May than a year earlier

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Household spending by purpose



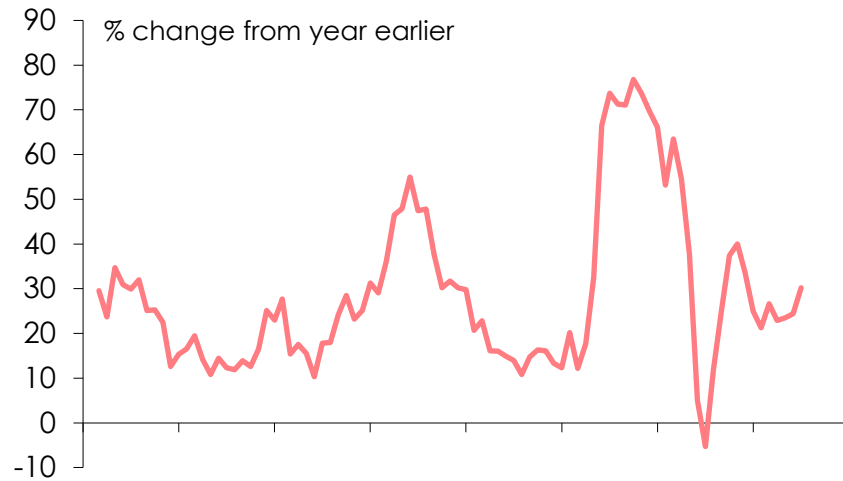
Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, retail sales data are, and hence the ABS advises focussing on ‘through the year’ rather than month-to-month comparisons. For definitions of ‘essential’ and ‘discretionary’ spending see [here](#).

Source: ABS, [Monthly Household Spending Indicator](#), May 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. June data will be released on 9th August.

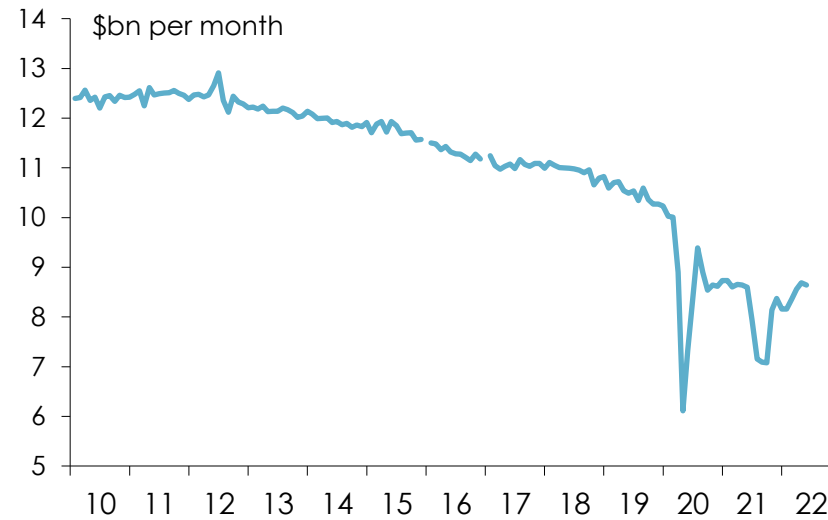
Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

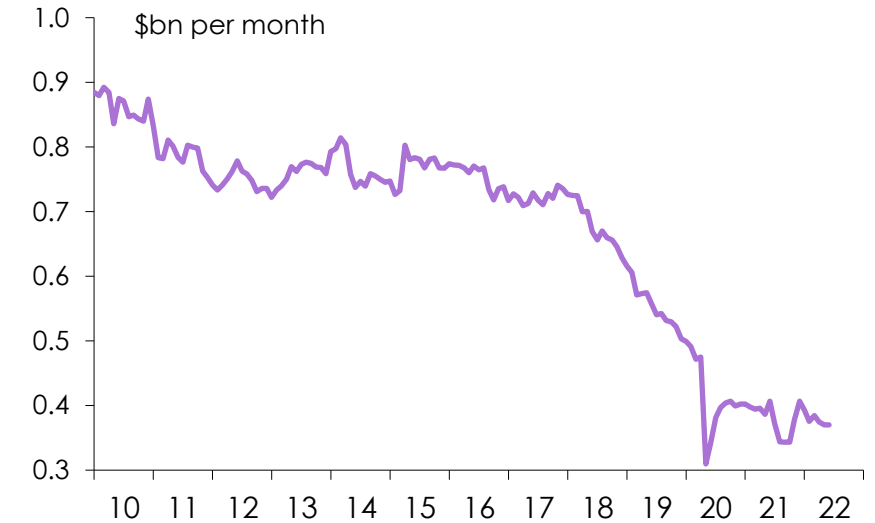
Growth in online retail sales



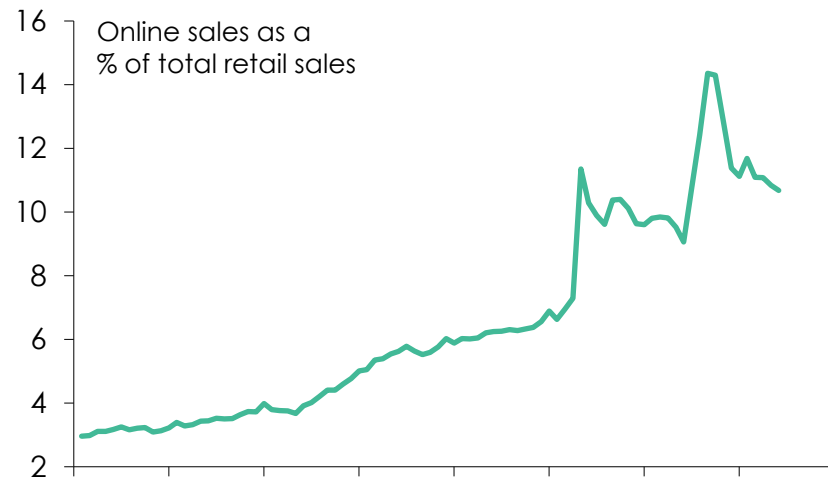
ATM cash withdrawals



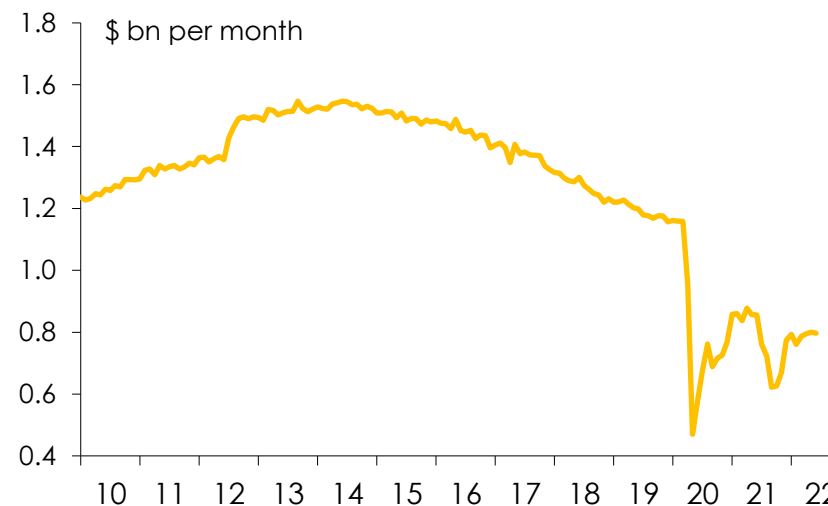
Credit card cash advances



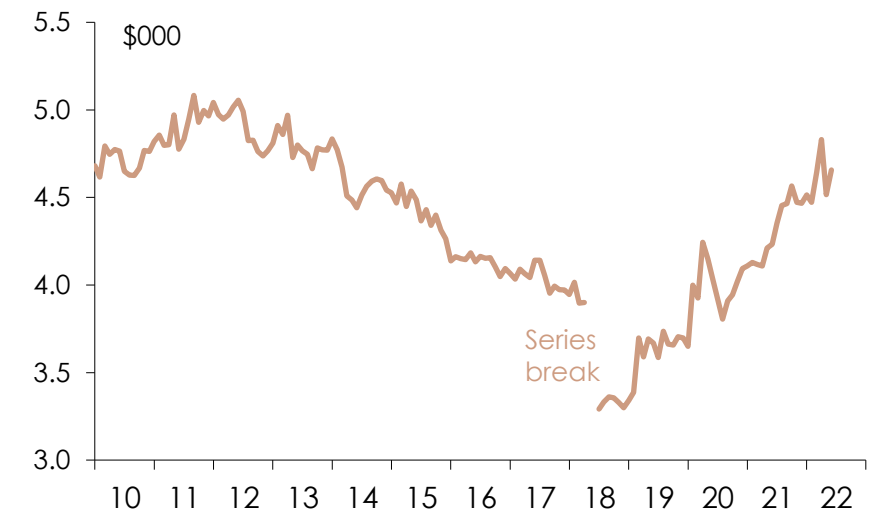
Online retail 'market share'



Debit card cash-outs



Direct entry payments avg value



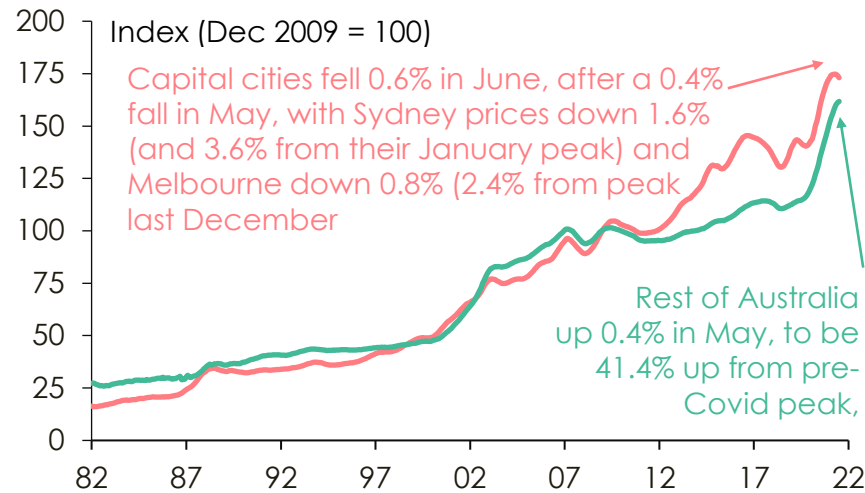
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales and payments system data are for May. June online retail sales data will be published on 3rd August, and June payments system data on 7th August. [Return to "What's New"](#).

Housing and the residential property market

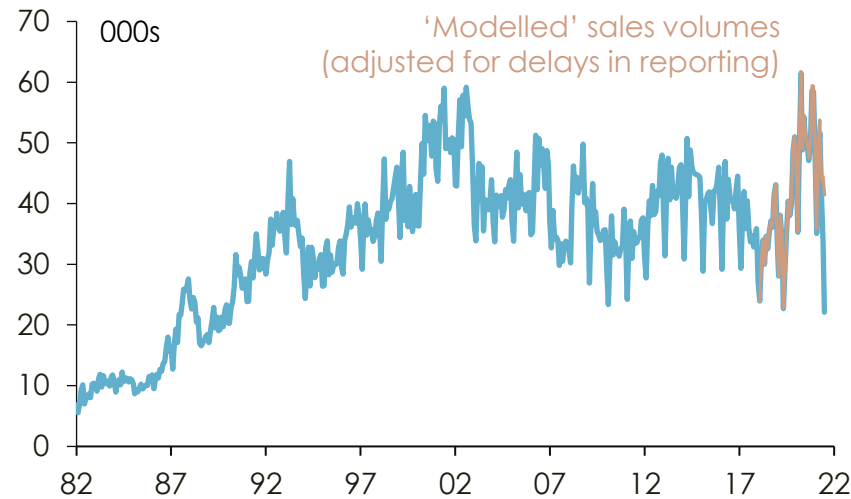
Property prices across Australia fell an average of 0.5% in June, the second decline in a row, though they're still 24.4% up on their pre-Covid peak

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

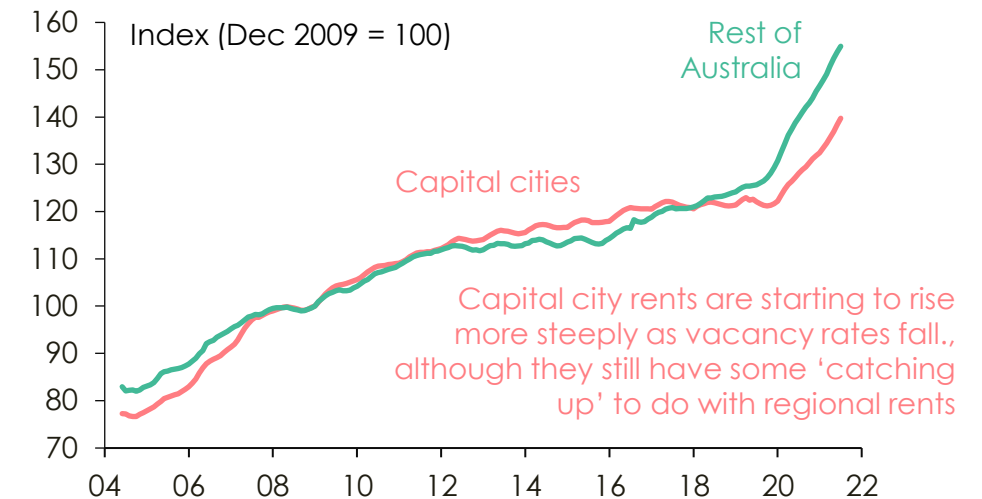
Residential property prices



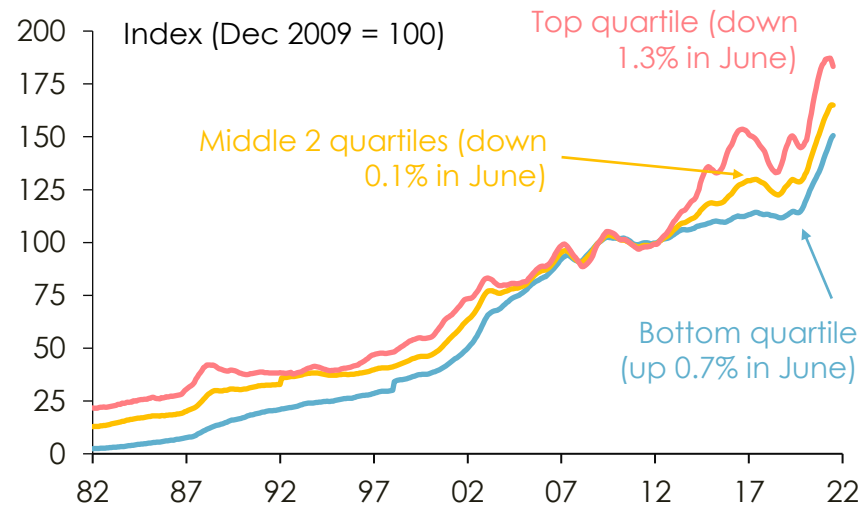
Residential property sales volumes



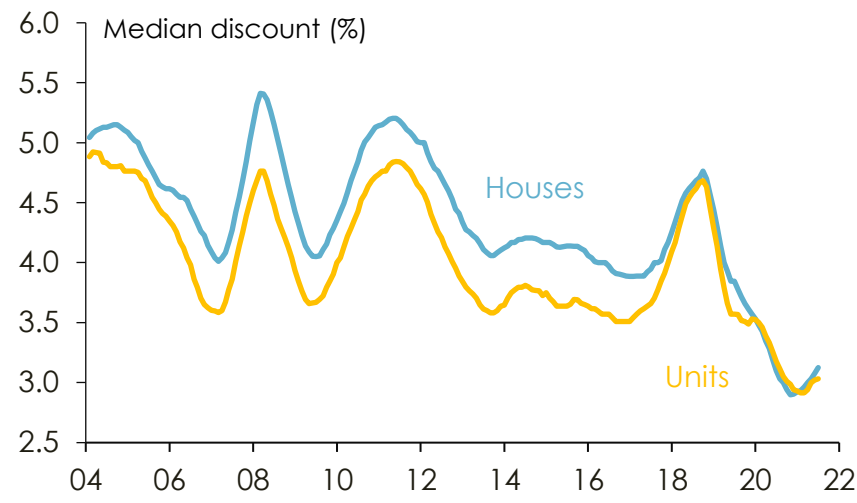
Residential rents



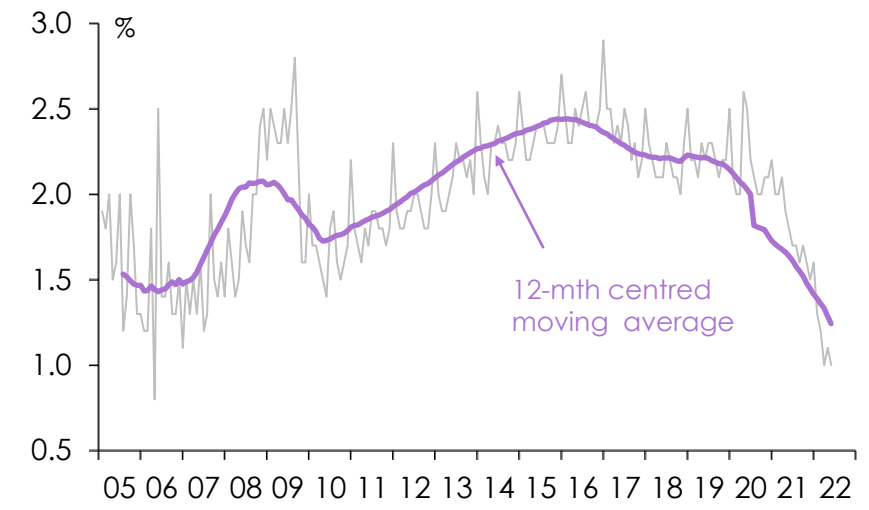
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

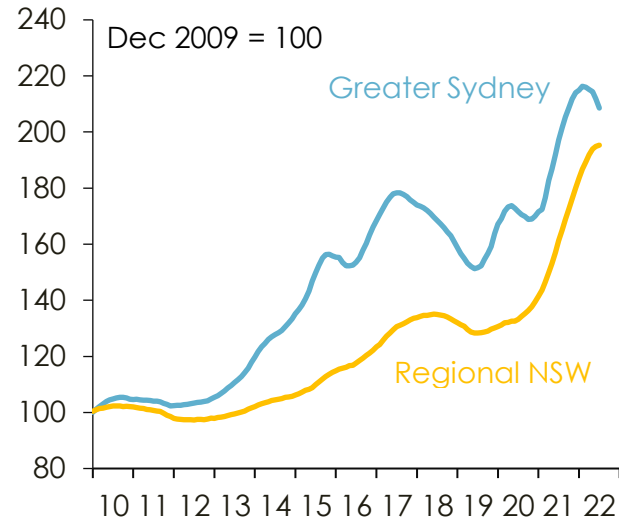


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

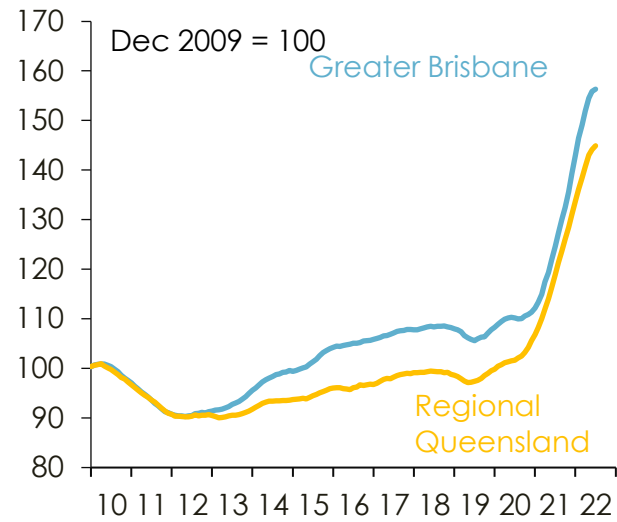
Sydney & Melbourne prices have fallen by 3.6% & 2.4% from their peaks, and Hobart prices fell 0.2% last month, but others are still rising

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

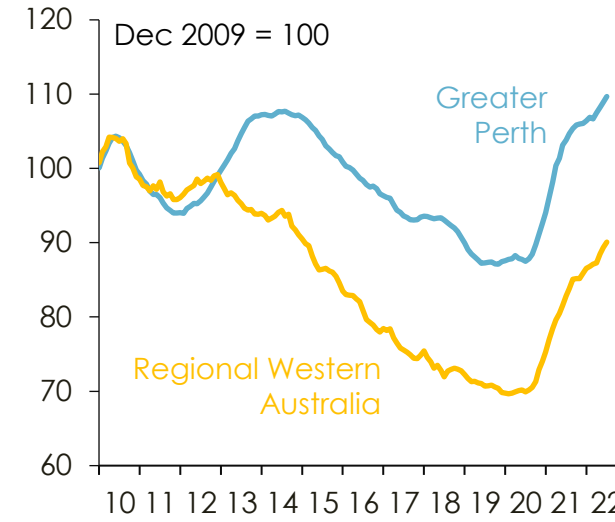
New South Wales



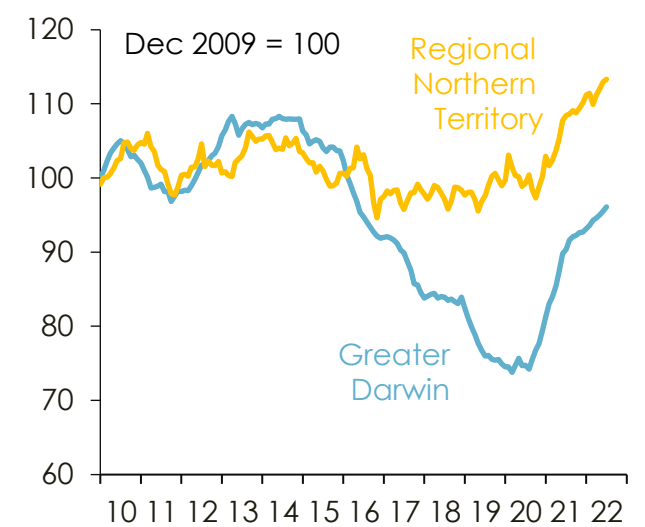
Queensland



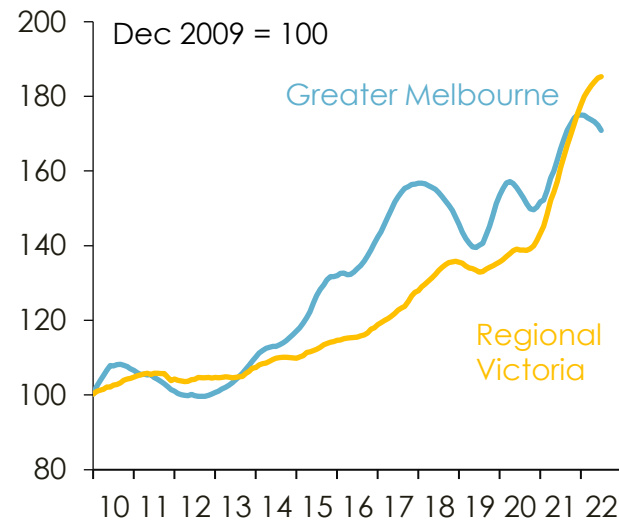
Western Australia



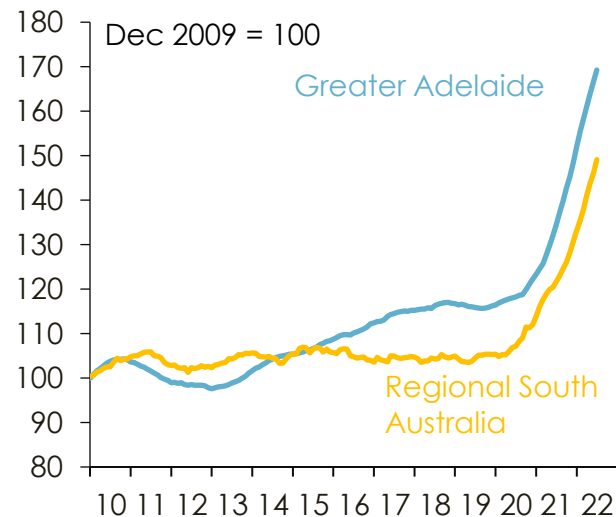
Northern Territory



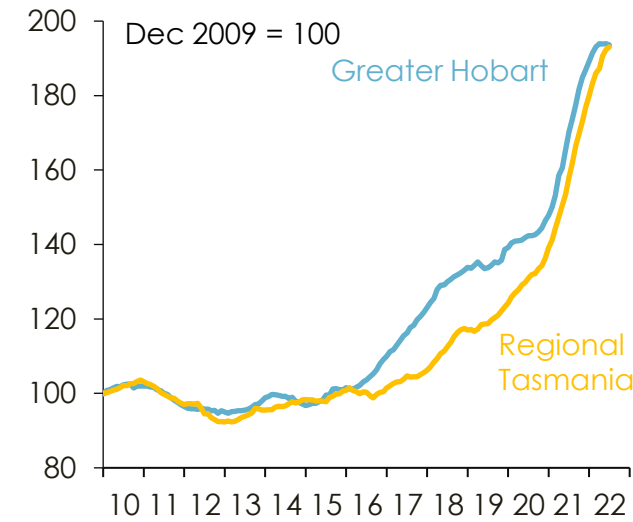
Victoria



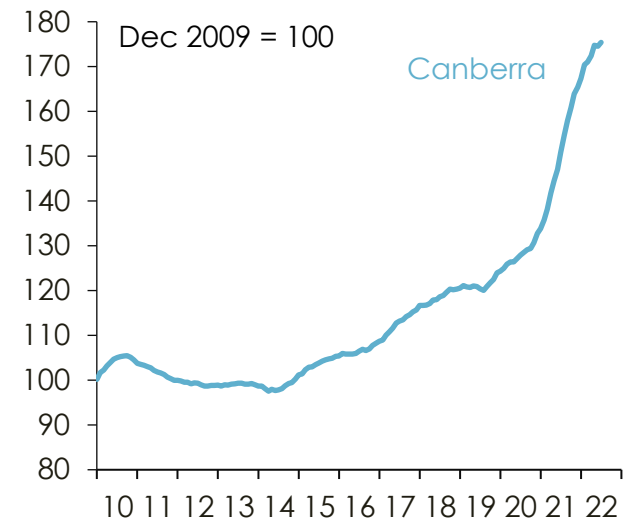
South Australia



Tasmania



Australian Capital Territory

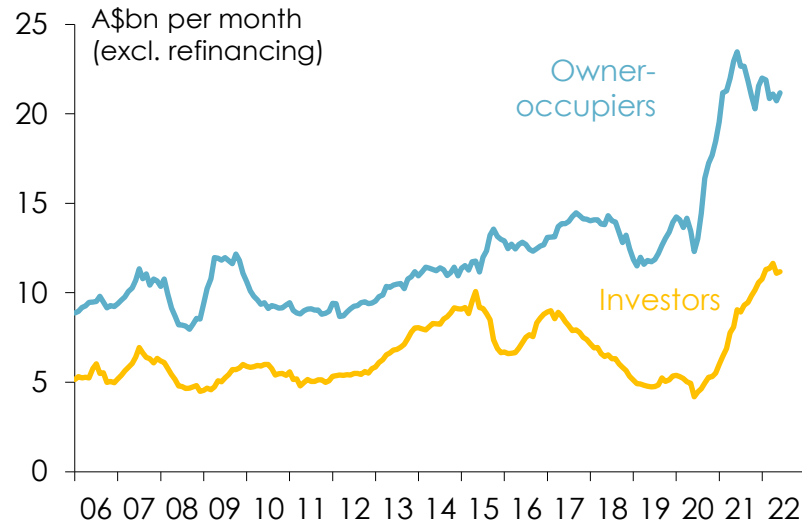


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

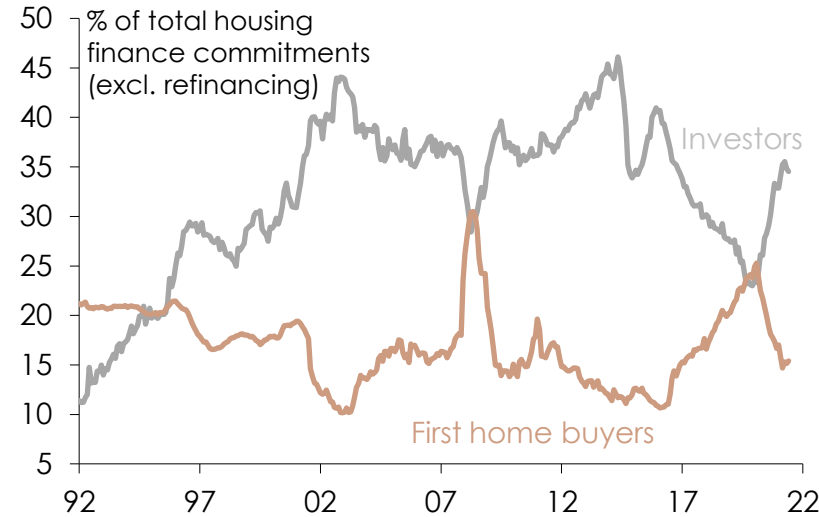
Housing finance commitments rose 1.7% in May, after a 2.8% fall in April, with loans to home-buyers up 2.1% and investors up 0.9%

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

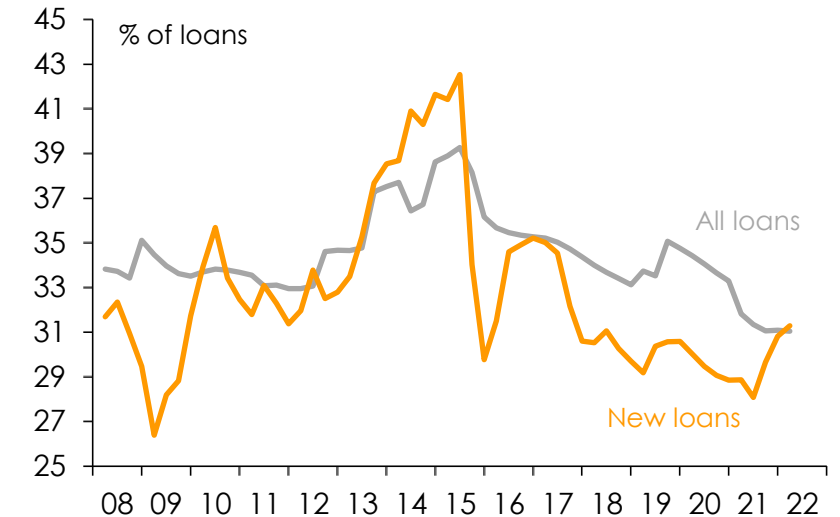
Housing finance commitments



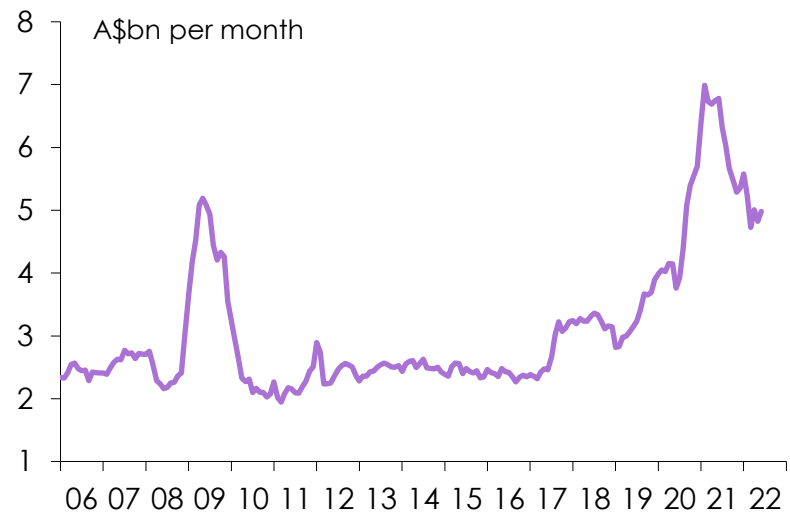
Shares of housing finance



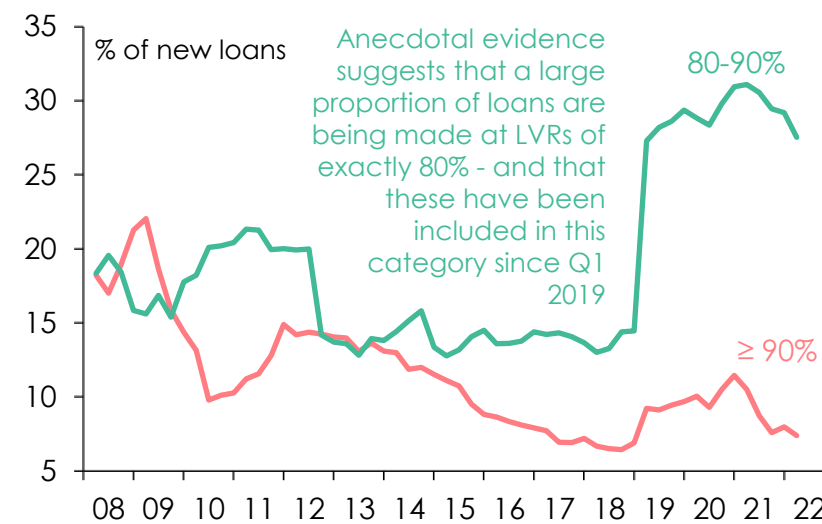
Loans to investors as a pc of total



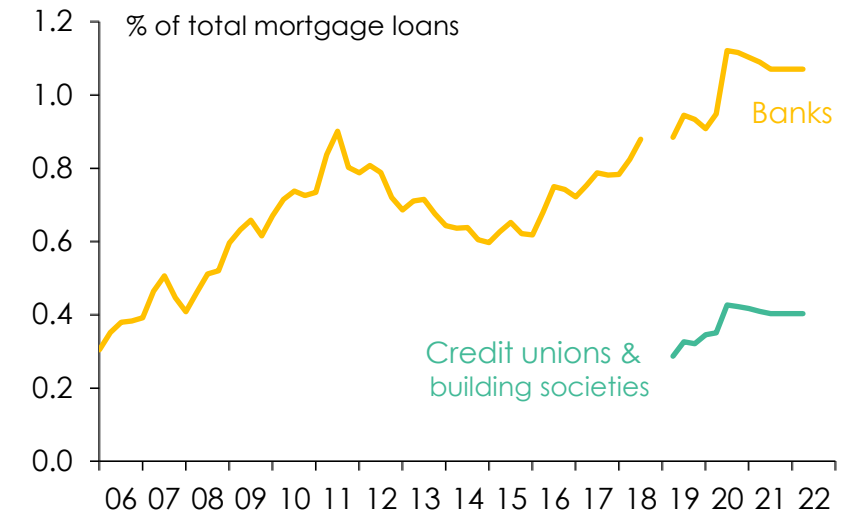
Loans to first home buyers



High LVR loans as a pc of total



Non-performing mortgage loans

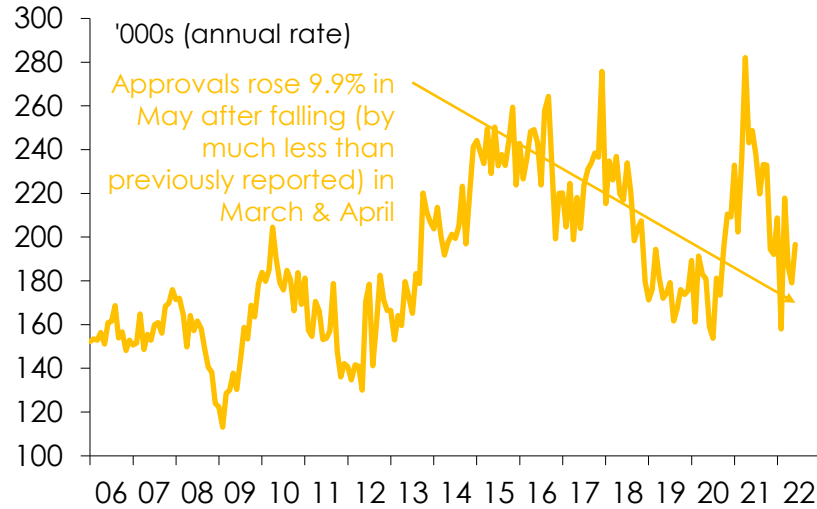


Sources: ABS, [Lending Indicators](#), May; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). June housing finance data will be released on 2nd August; APRA data on ADI property exposures for the June quarter will be released on 14th September. [Return to "What's New"](#).

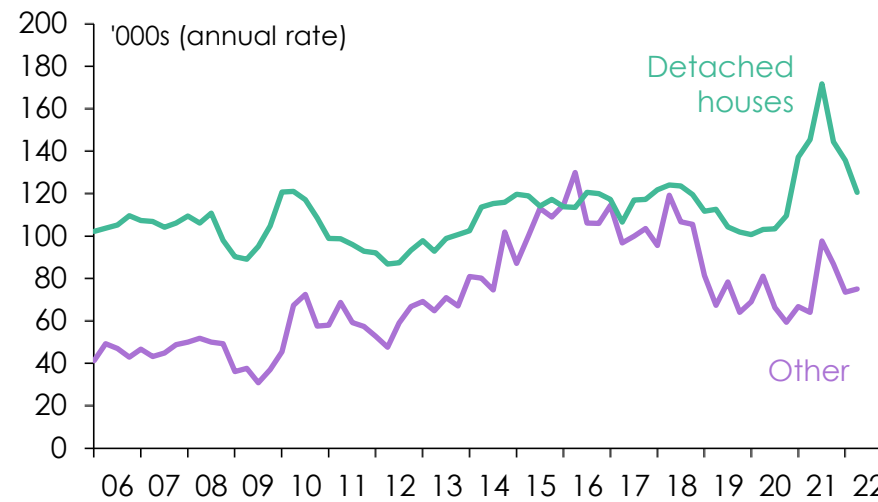
Residential building approvals rose 9.9% in April, reflecting a 32% jump in multi-unit dwelling approvals

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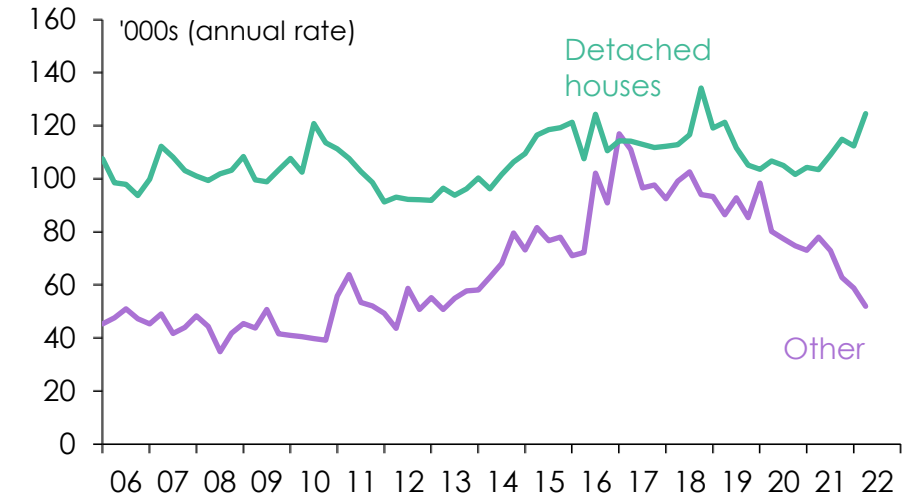
Residential building approvals



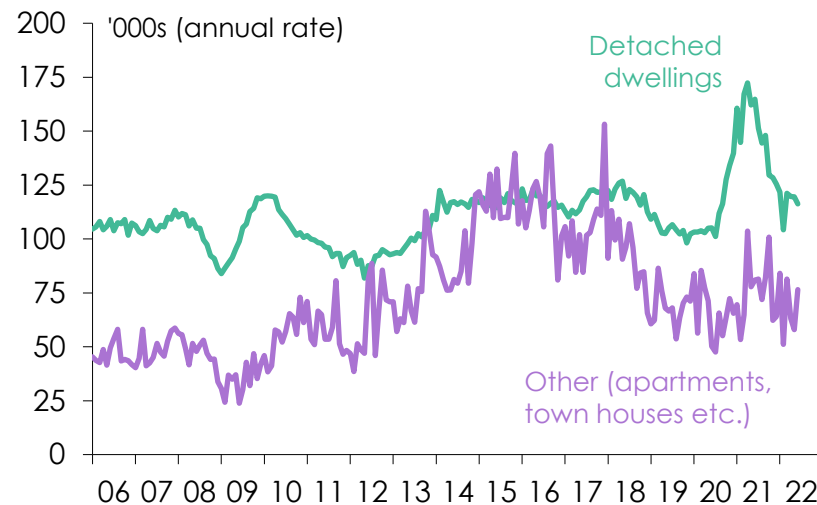
Dwellings commenced



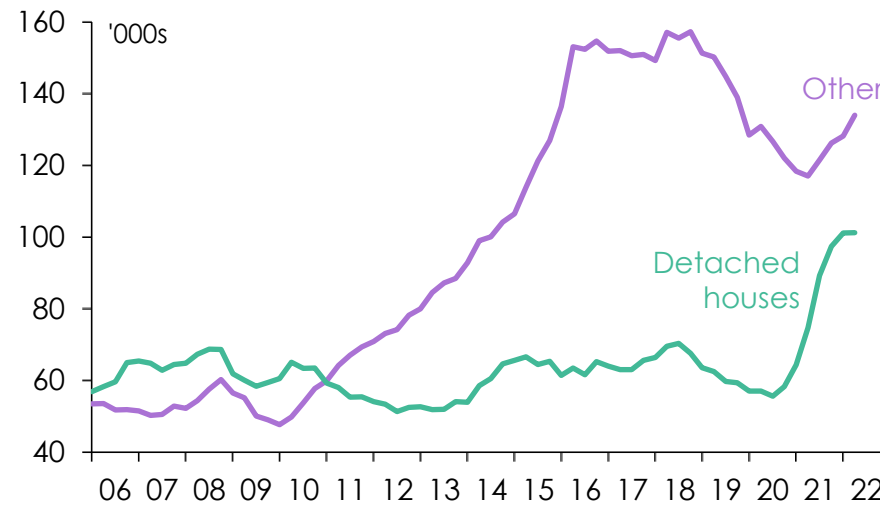
Dwellings completed



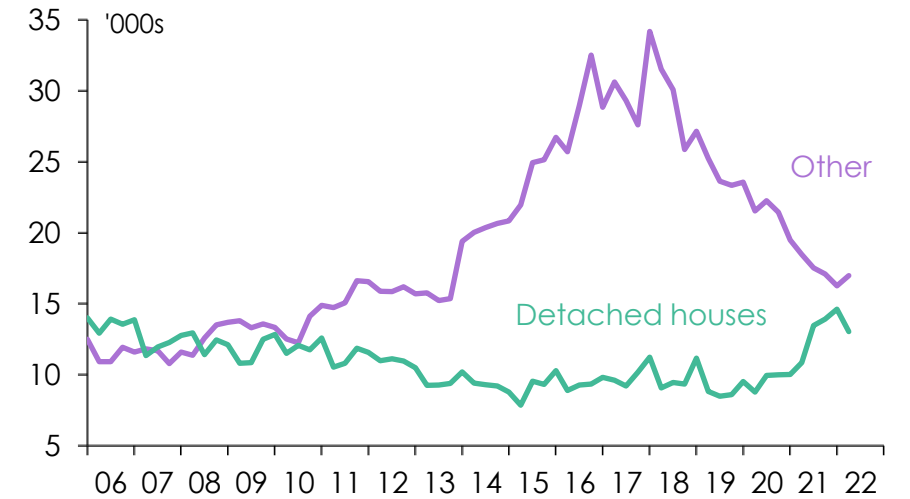
Building approvals, by type



Dwellings under construction



'Pipeline' of work yet to be started

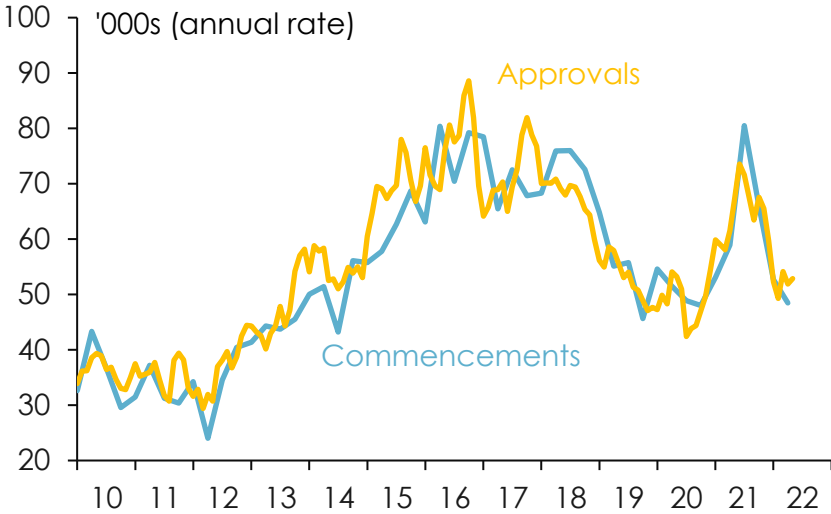


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#), May and [Building Activity](#), March quarter; June building approvals data will be released on 2nd August; June quarter commencements, under construction, completions etc. data on 19th October. [Return to "What's New"](#).

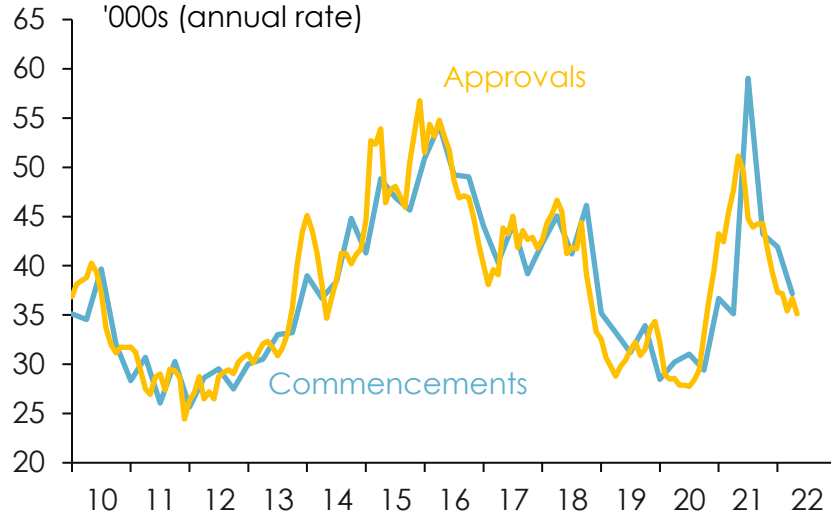
There were very large increases in multi-unit approvals in May in NSW, Queensland, WA and the ACT

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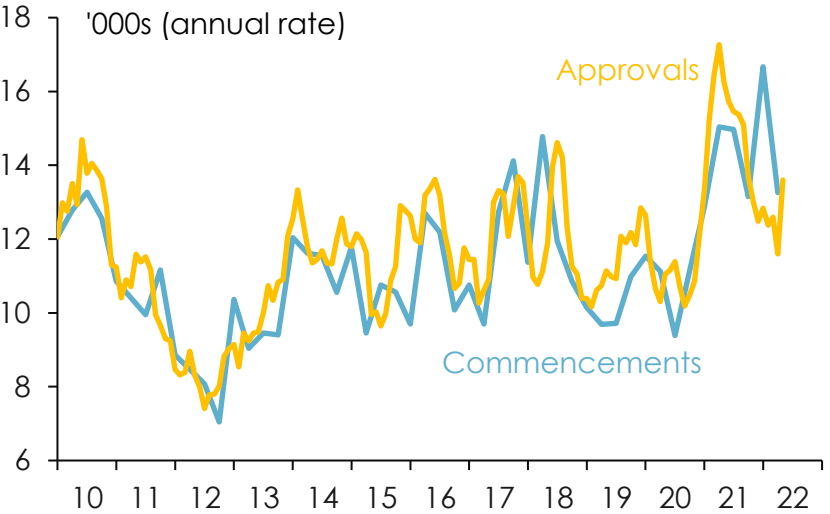
New South Wales



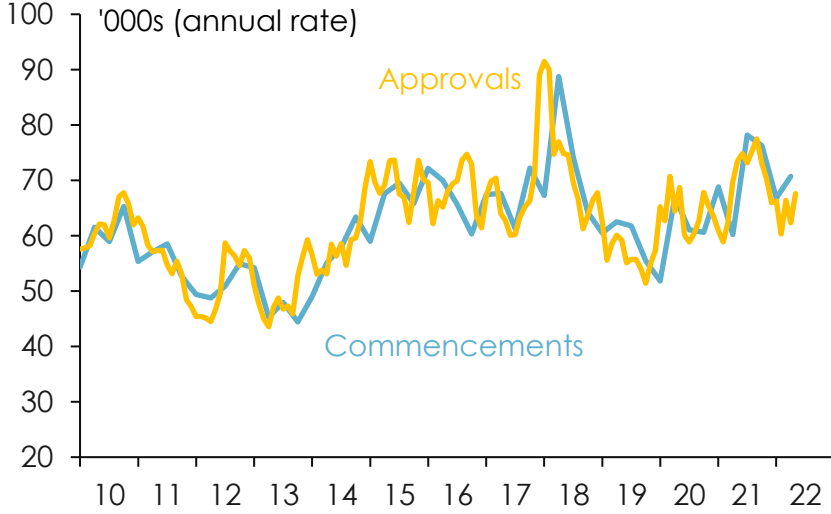
Queensland



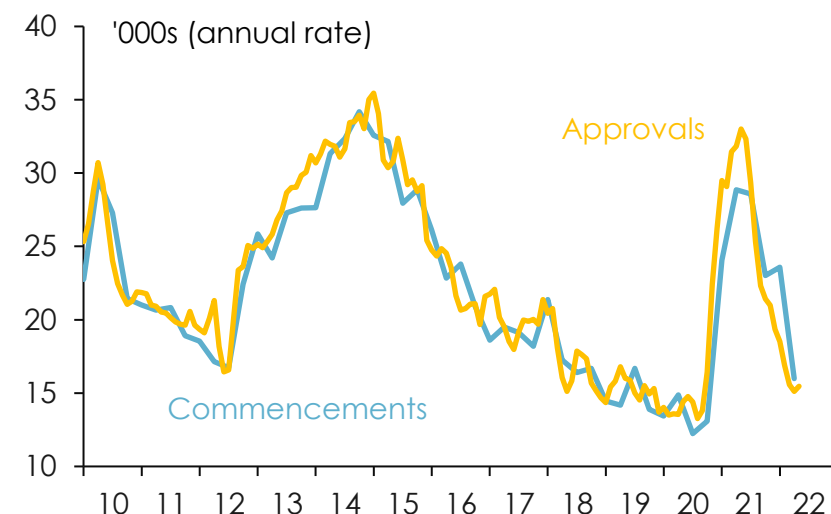
South Australia



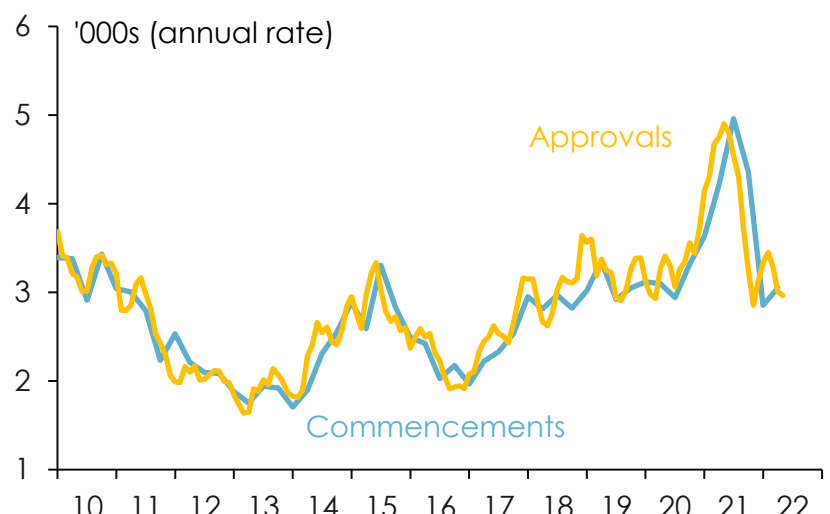
Victoria



Western Australia



Tasmania



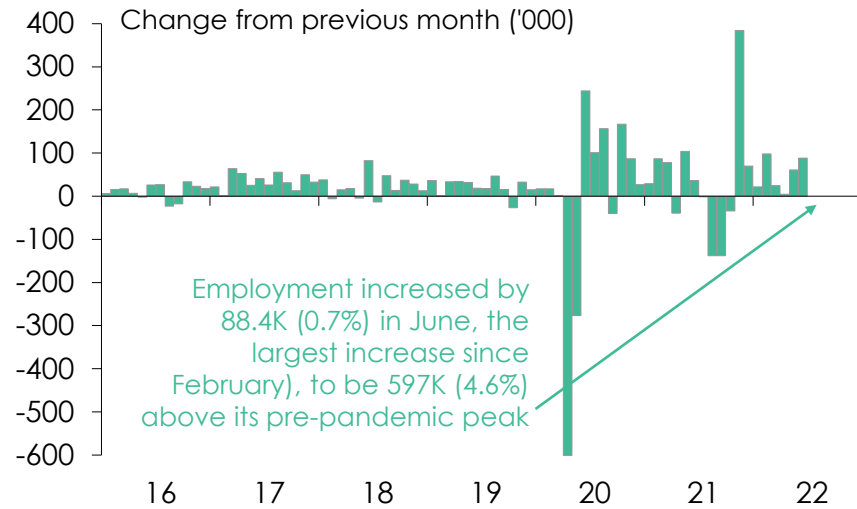
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly (and the most recent data is for the March quarter). Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to "What's New"](#).

The labour market

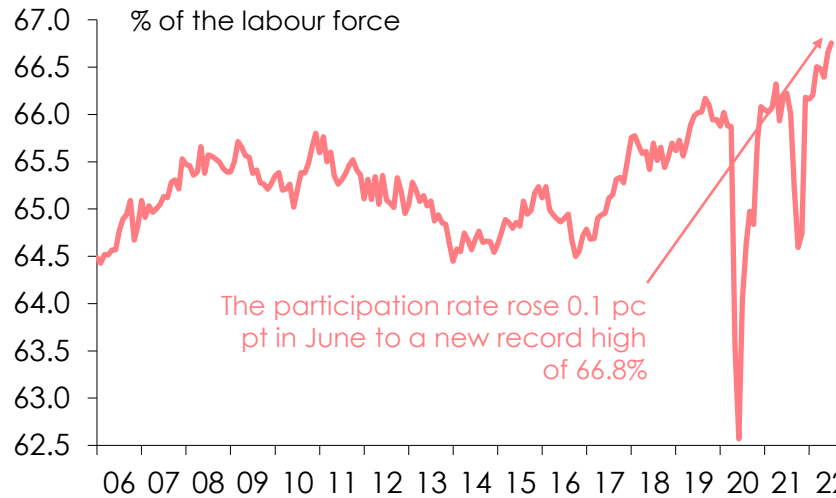
Employment grew another 88K (0.7%) in June to be 4.6% above its pre-pandemic peak, while the unemployment rate fell 0.4 pc pt to 3.5%

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

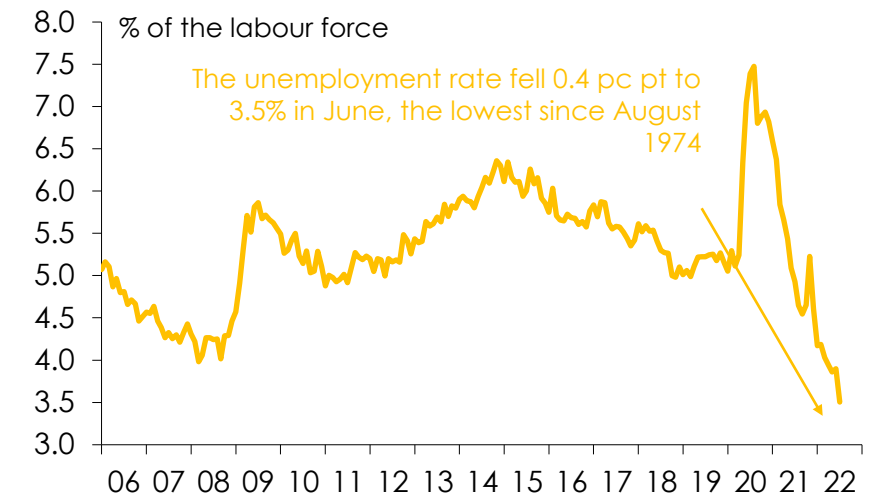
Employment



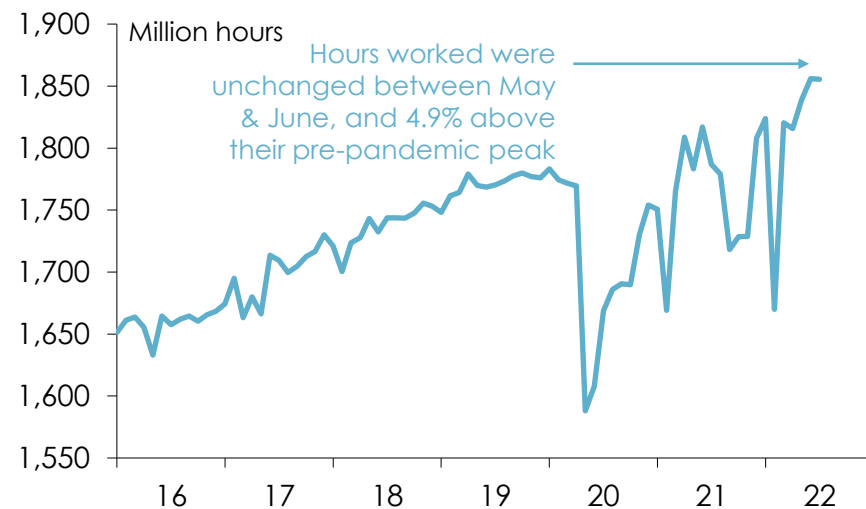
Labour force participation rate



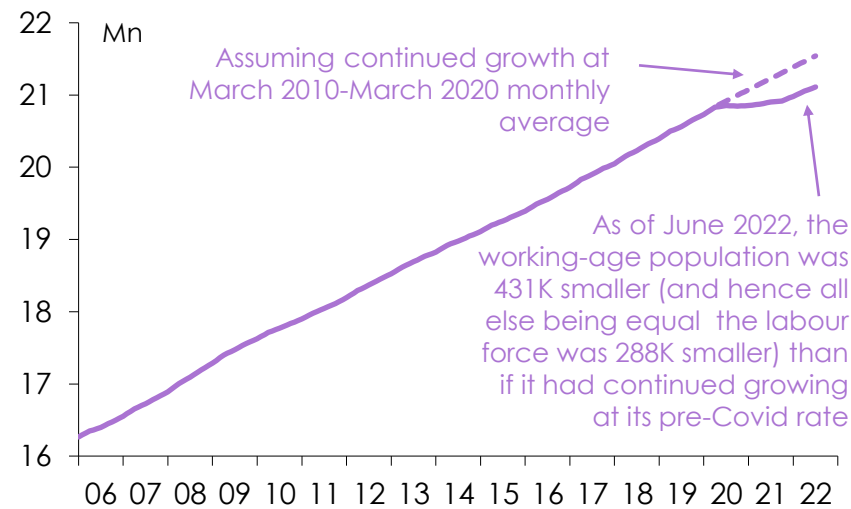
Unemployment rate



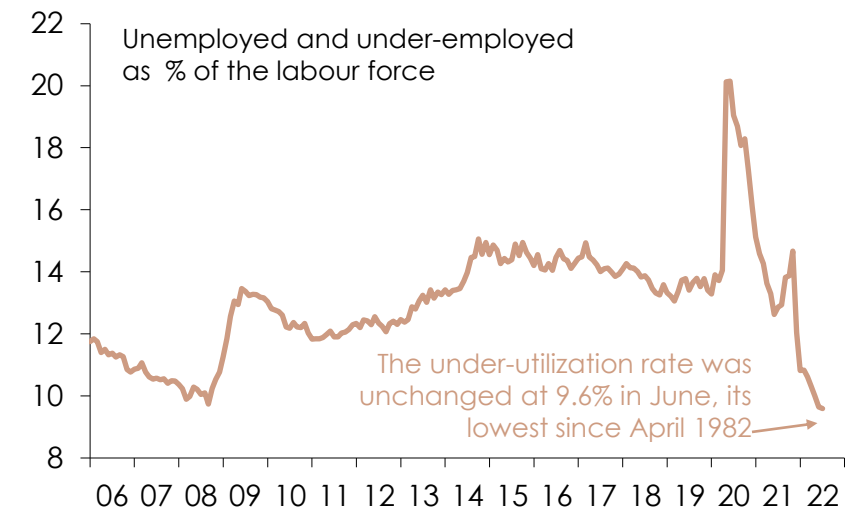
Total hours worked



Civilian working-age population



'Under-utilization' rate

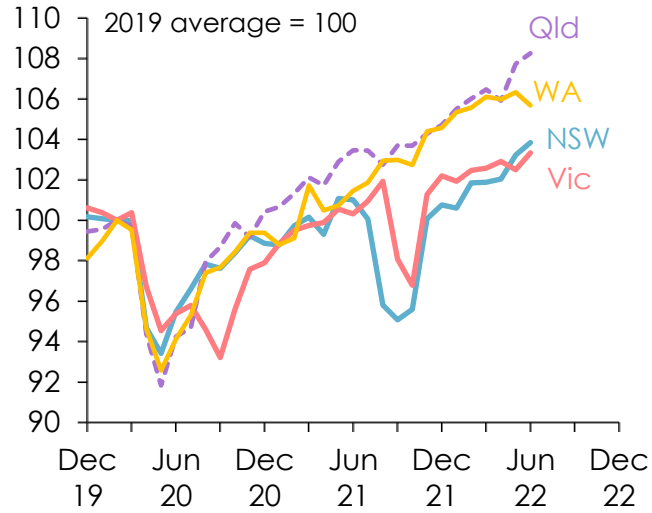


Source: ABS, [Labour Force, Australia](#), June. July data will be released on 18th August. [Return to "What's New"](#).

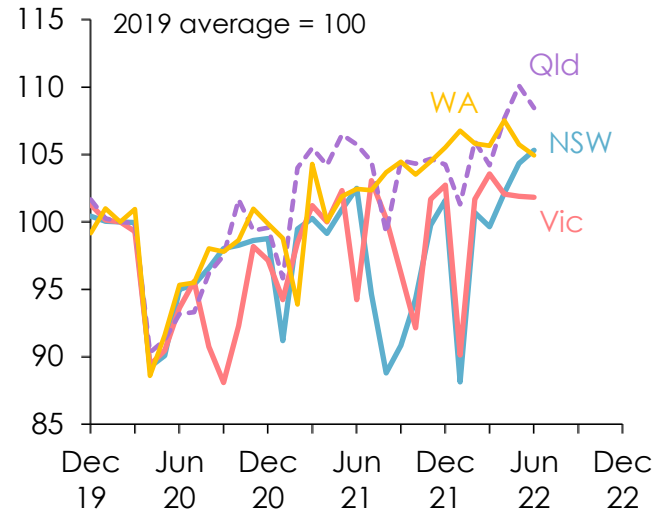
Queensland has had the fastest recovery in employment, followed by WA, while the ACT, Victoria & NSW have the lowest unemployment rates

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

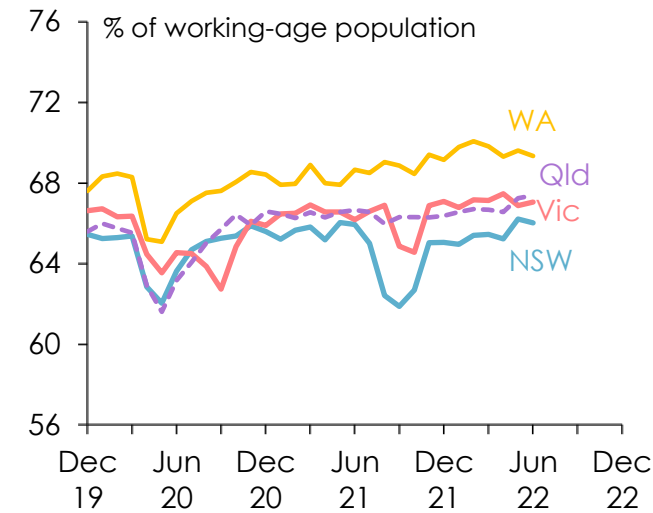
Employment



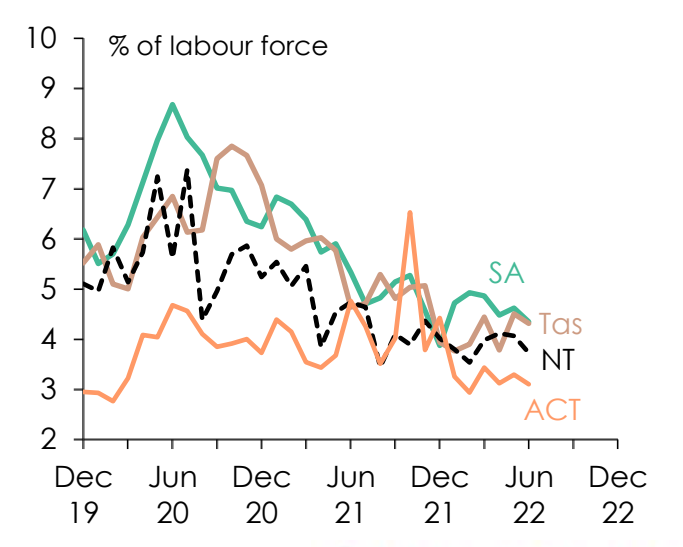
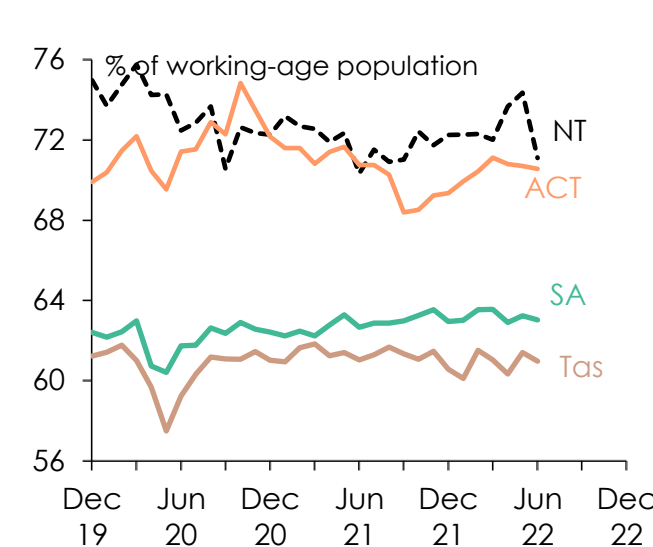
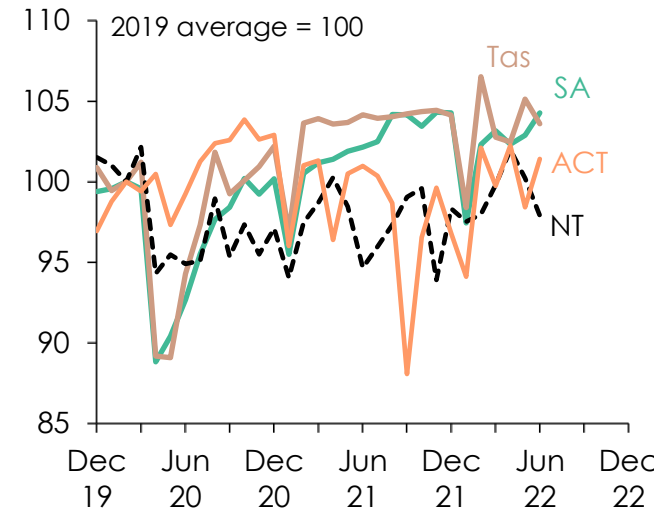
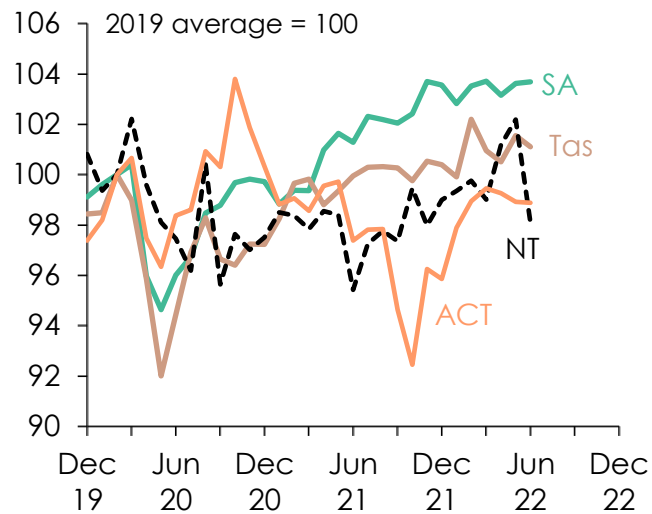
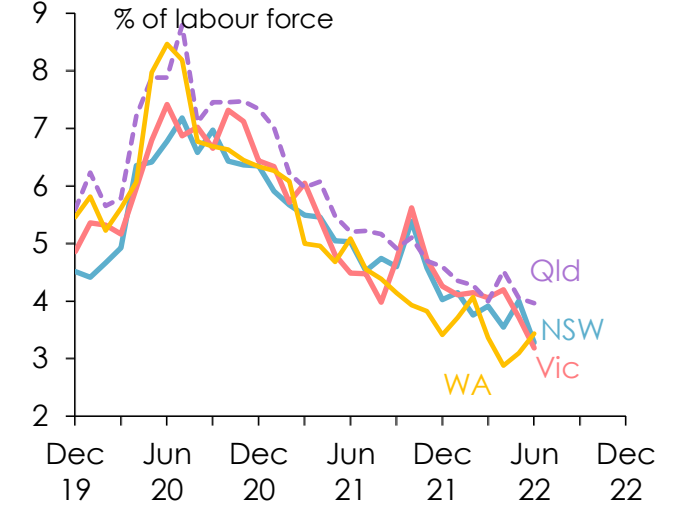
Hours worked



Participation rates



Unemployment rates

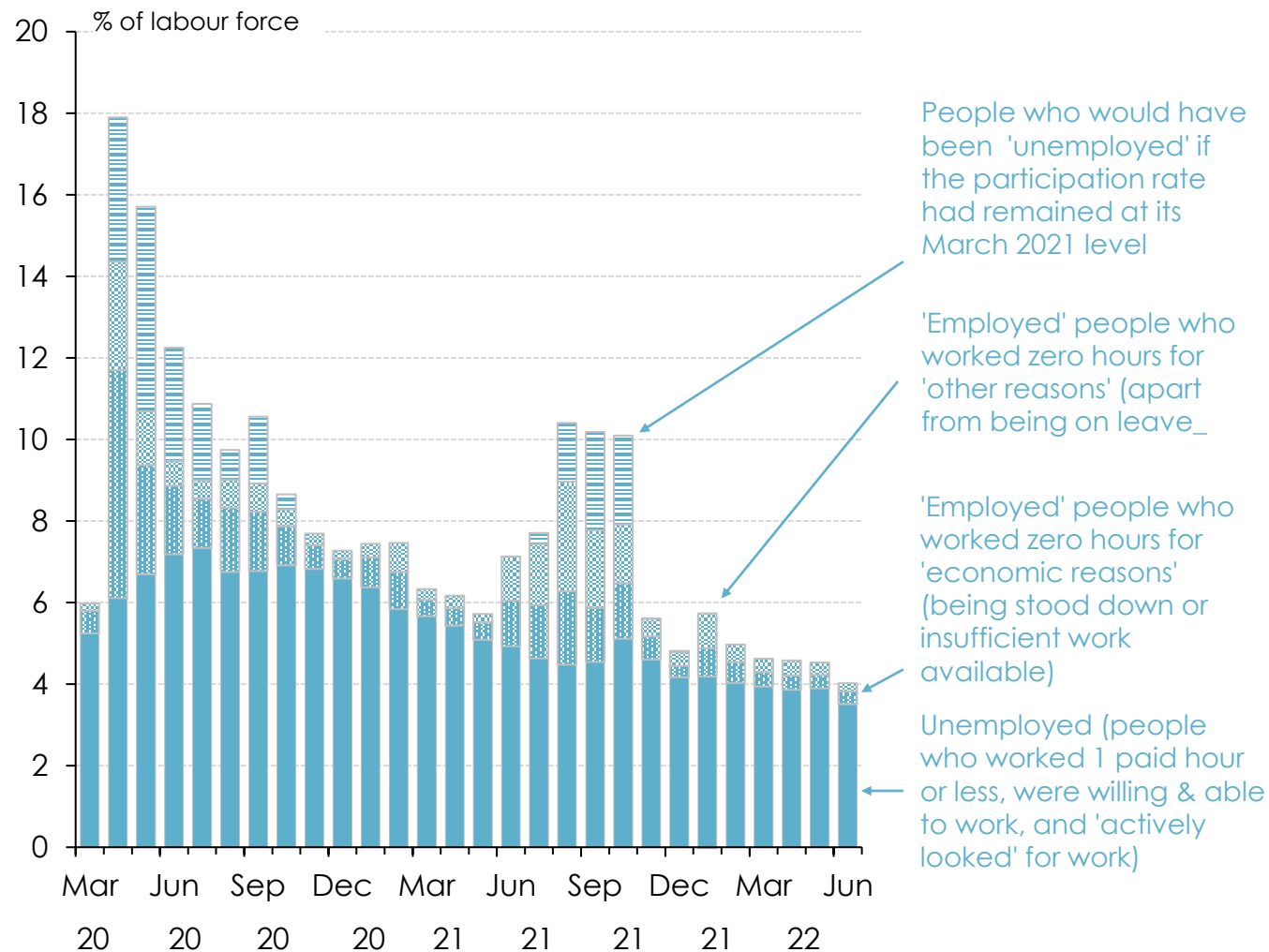


Source: ABS, [Labour Force, Australia](#), June. July data will be released on 18th August. [Return to "What's New"](#).

The 'effective' unemployment rate fell 0.5 pc pt in June to 4.0%, well down from January's 5.7%, and over 10% between August and October last year

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

The 'effective' unemployment rate



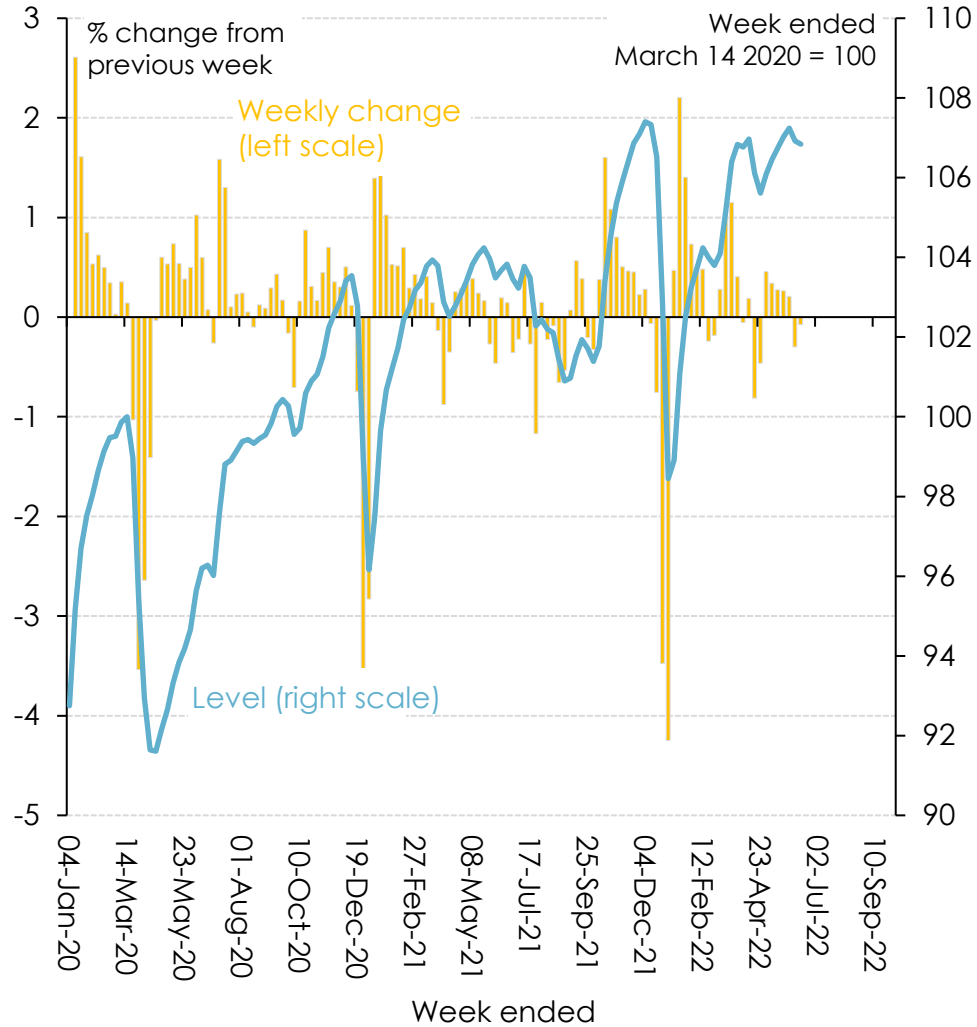
- ❑ 45K people were counted as 'employed' despite having worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') in June, down marginally from 46K in May (but well down from 97K in January and 249K last August)
- ❑ There were another 28K people counted as 'employed' in April despite also working zero hours for reasons other than 'economic' ones, or having been on some form of leave, down from 43K in May 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 fell 0.5 pc pt to 4.0% in June, down from 5.7% in January, over 10% between August and October last year, and the peak of 17.9% in April 2020
- ❑ These estimates don't include the 297K people who worked zero hours in June 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 (the monthly average over the five years to February 2020 was 126K), suggesting that Covid is still disrupting work patterns – and will likely to continue to do so over the winter months

Note: the data on people working zero hours is not seasonally adjusted.
 Source: ABS, [Labour Force, Australia](#), June. July data will be released on 18th August.
[Return to "What's New"](#).

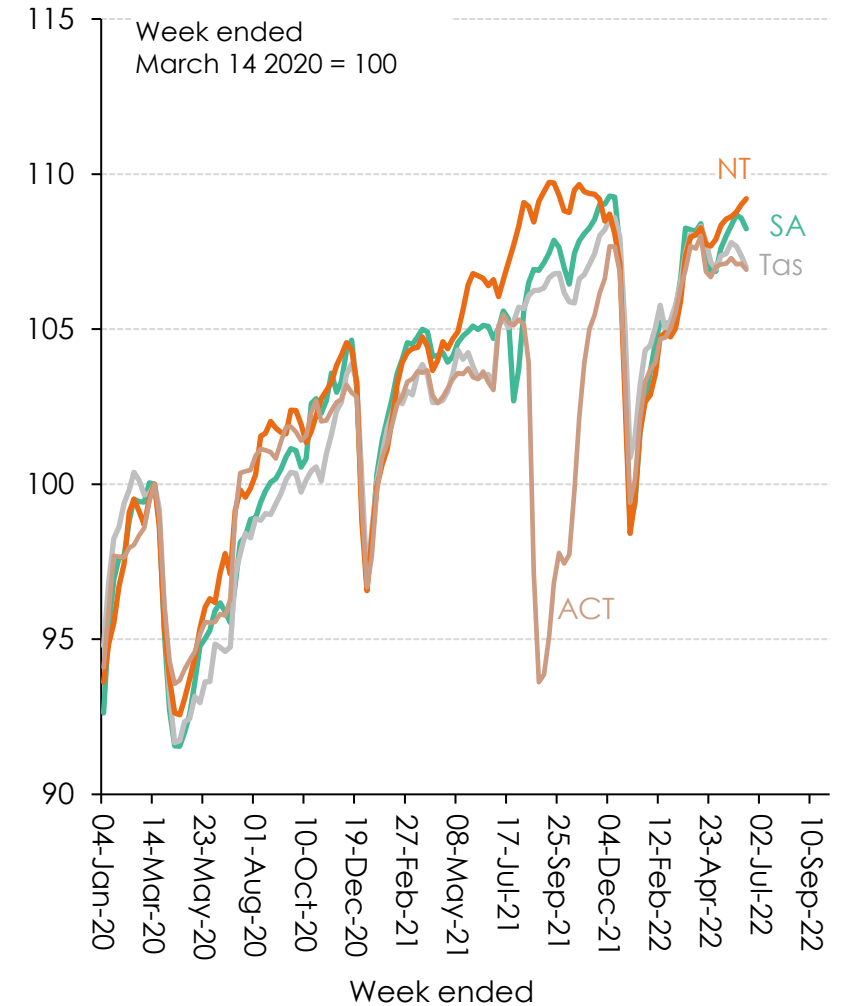
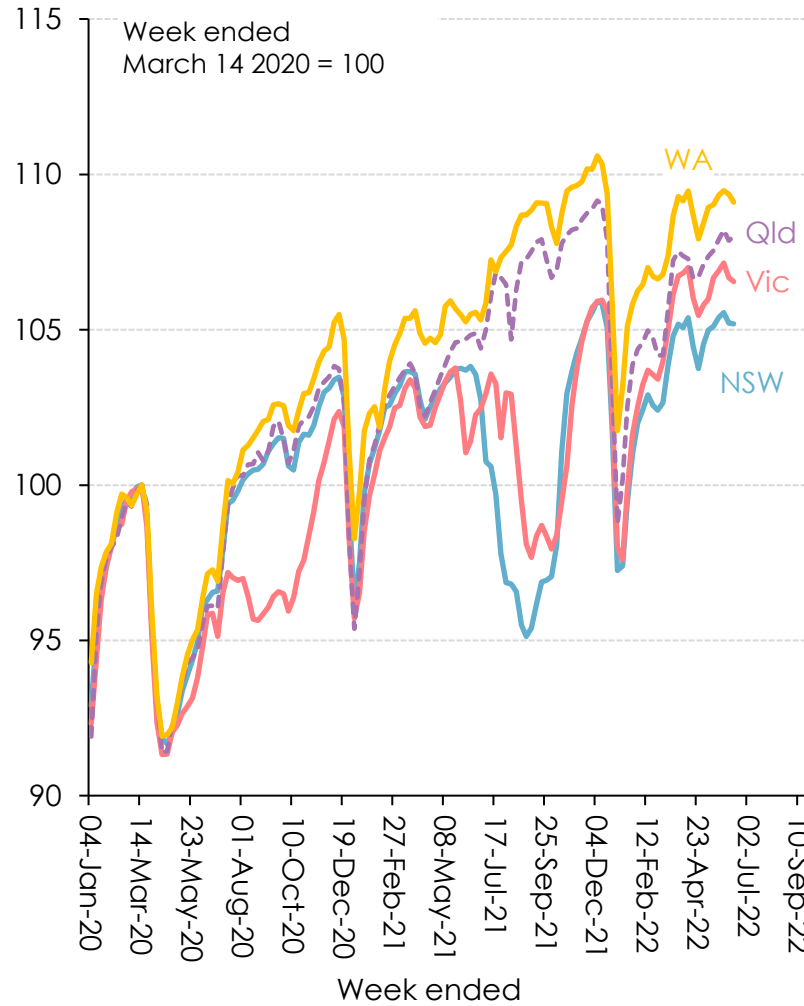
The number of payroll jobs was little changed, on net, between mid-May and mid-June, with gains in Qld & the NT offset by falls in Victoria & Tasmania

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



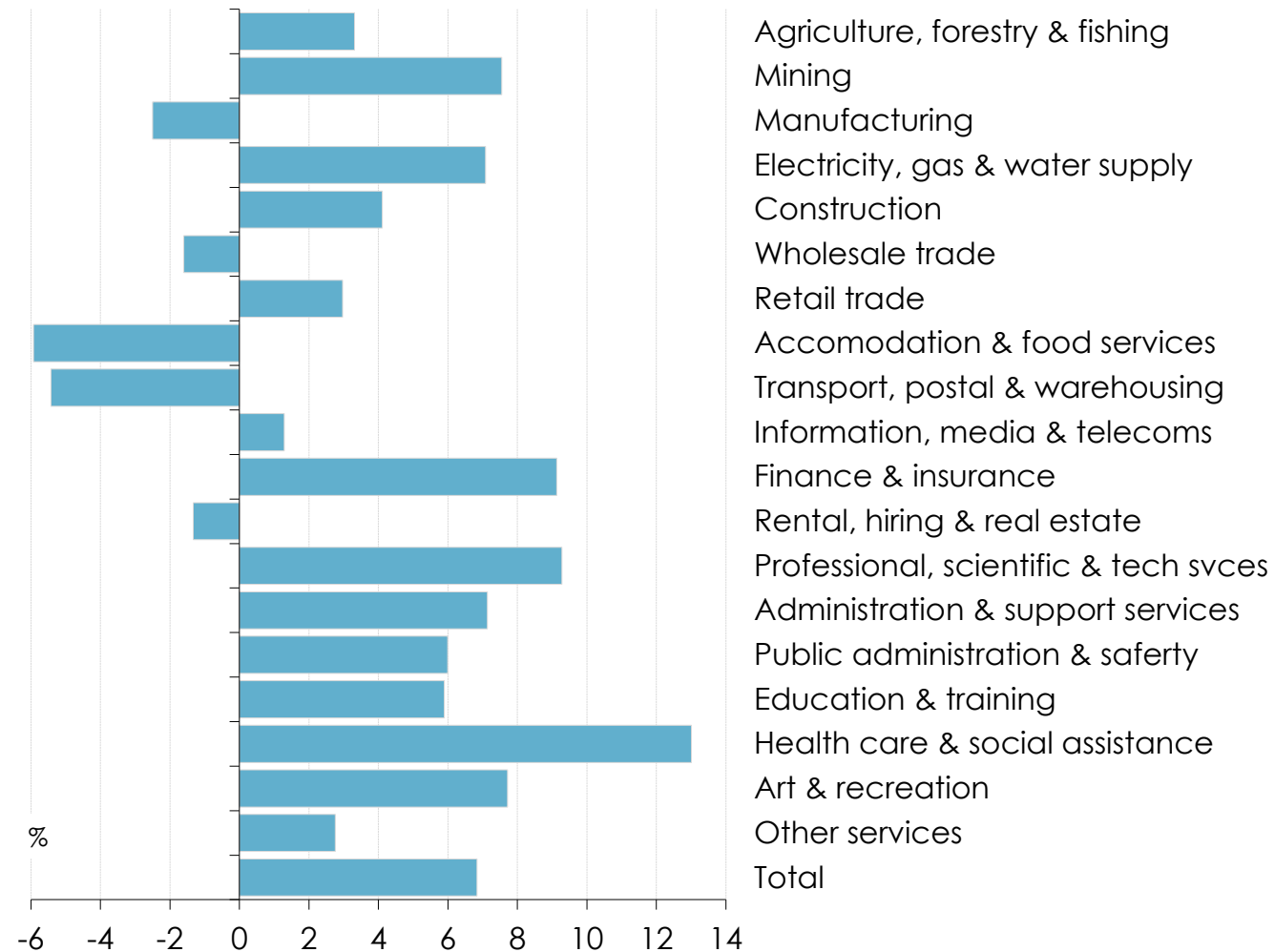
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

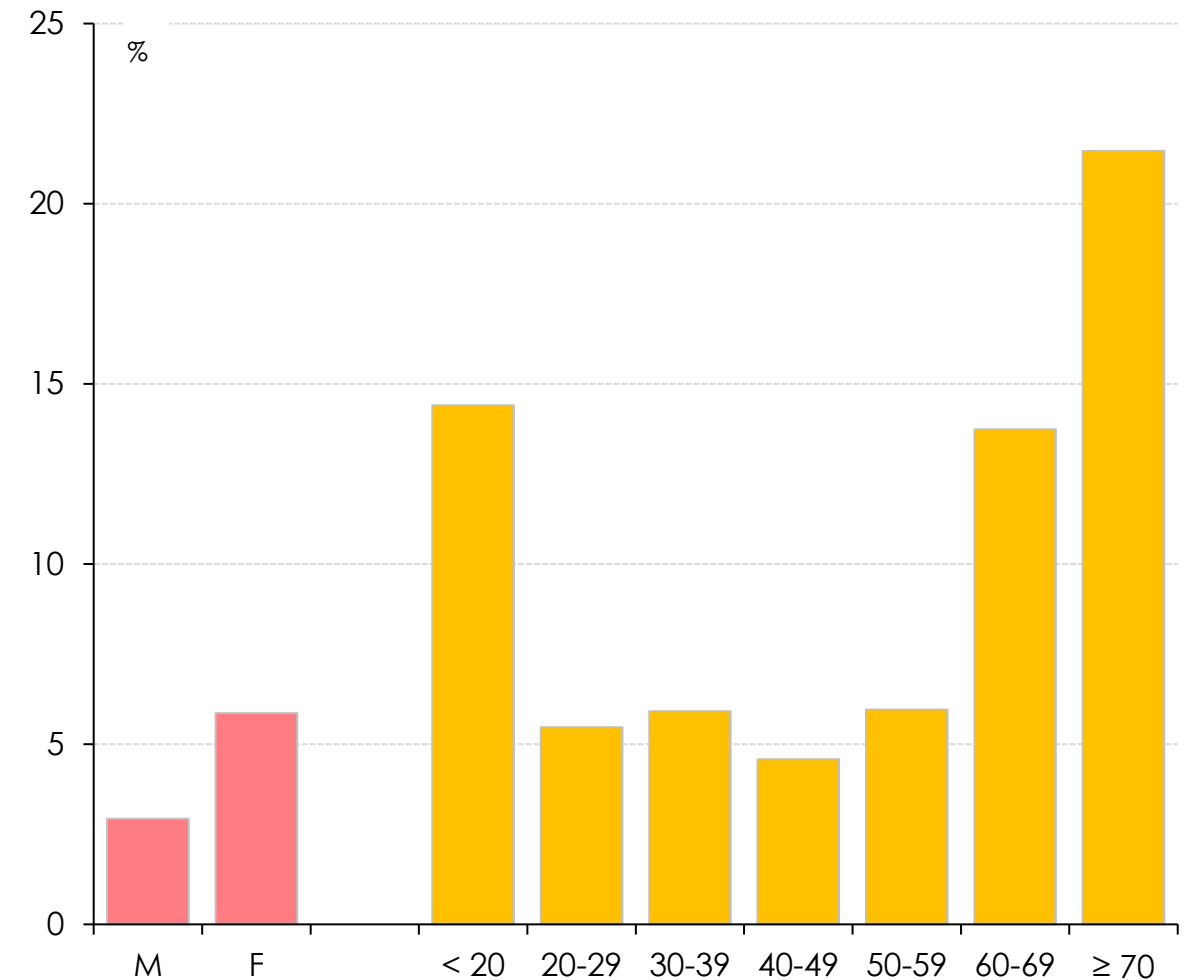
THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

Net change in payroll jobs between week ended 14th March 2020 and week ended 11th June 2022

By industry



By gender and age



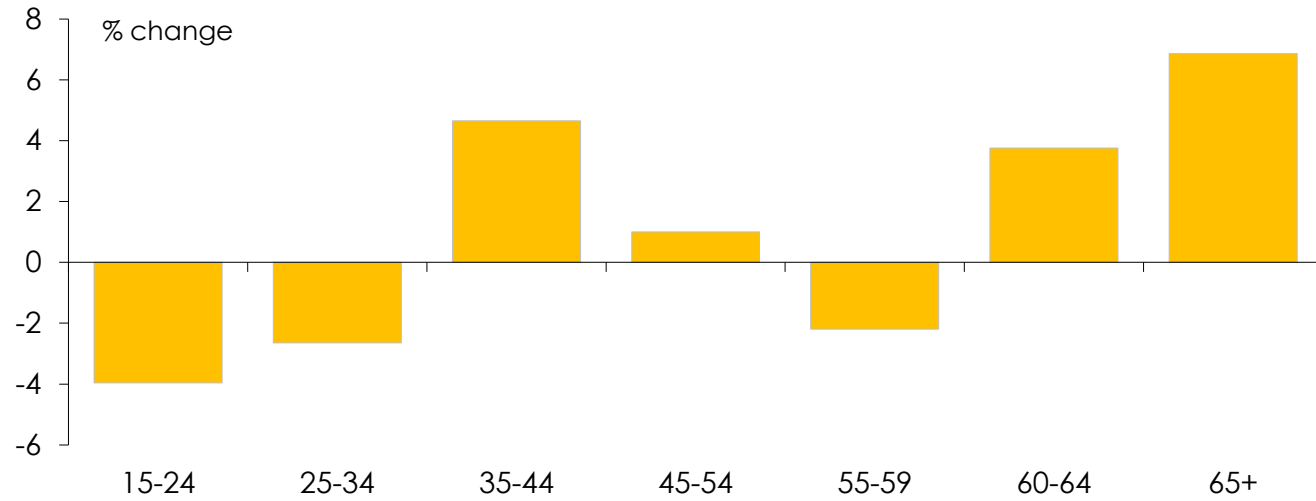
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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 228K (3¼%) fewer 15-34 year-olds in Australia than there were two years ago – which has helped speed reductions in unemployment

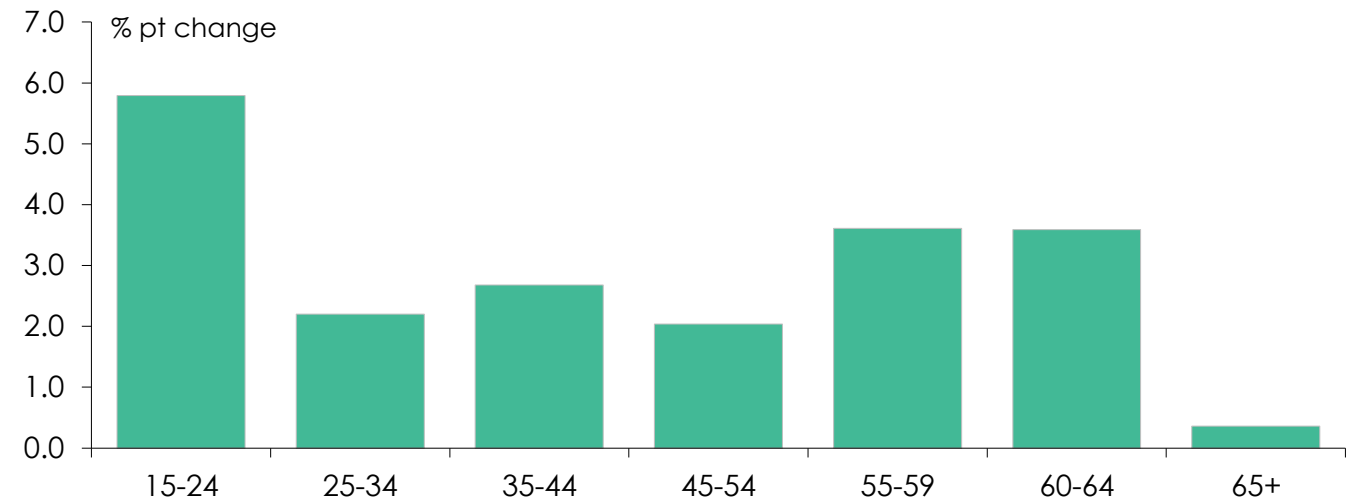
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Changes from March 2020 to June 2022

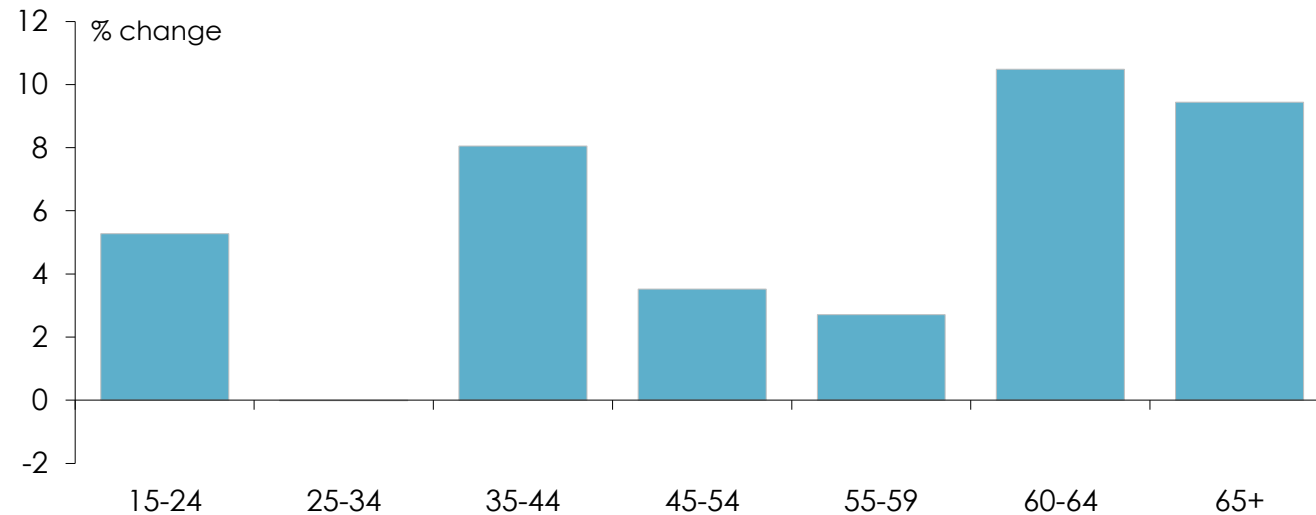
Civilian working age population



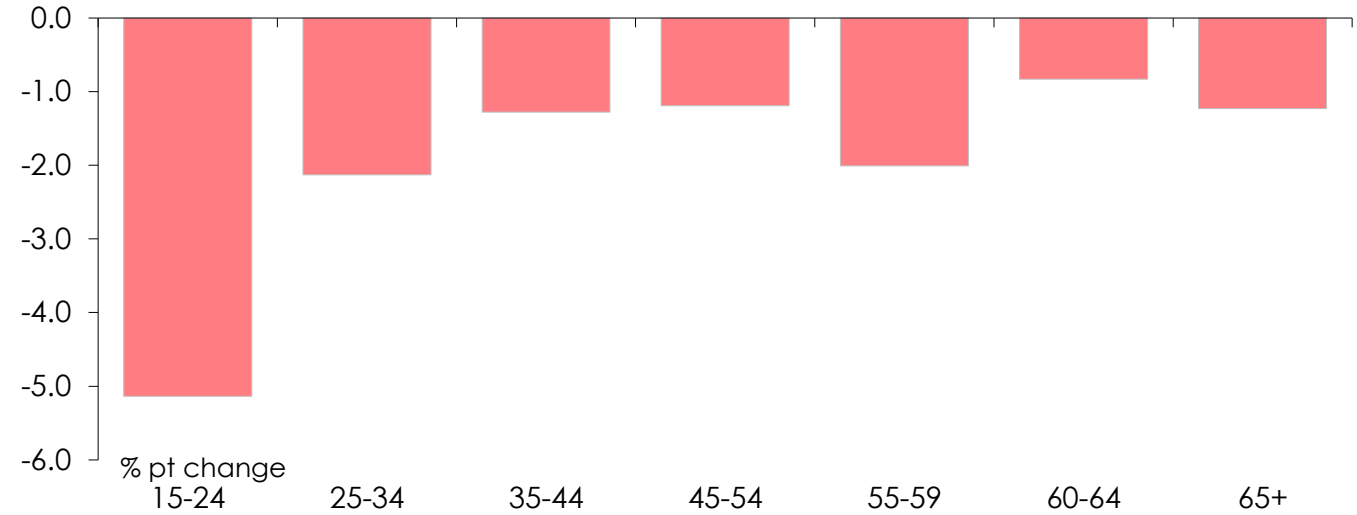
Employment-population ratio



Employment



Unemployment rates



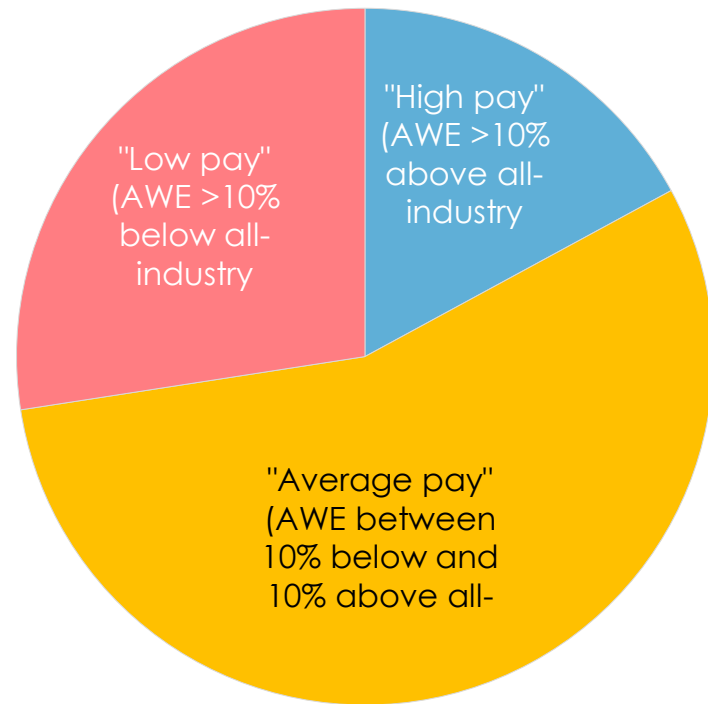
Note: The data from which the above charts are derived isn't seasonally adjusted.

Source: ABS, [Labour Force, Australia, Detailed](#), June; July data will be released on 25th August. [Return to "What's New"](#).

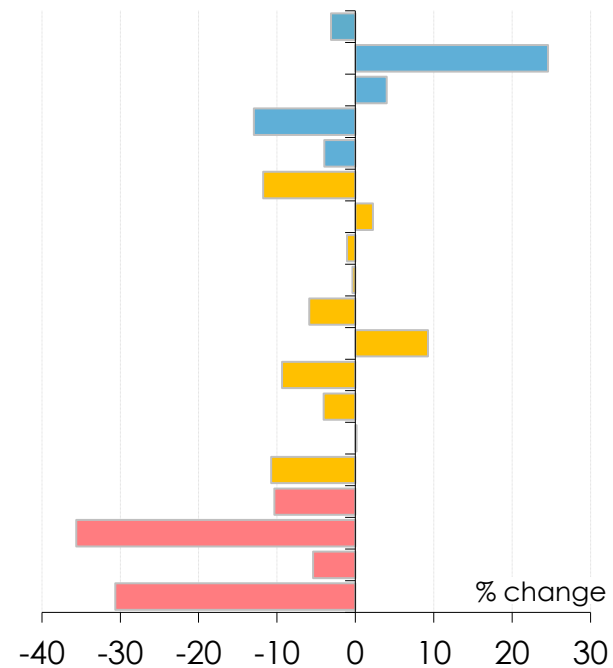
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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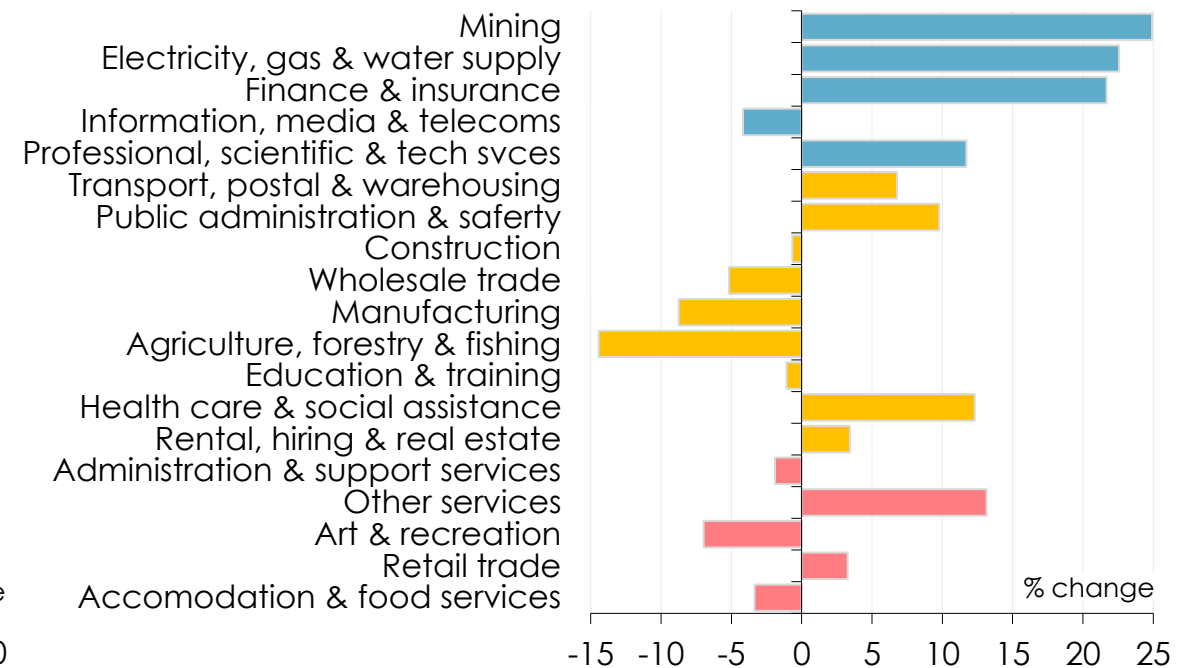
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry February-May 2020



February 2020 – May 2022



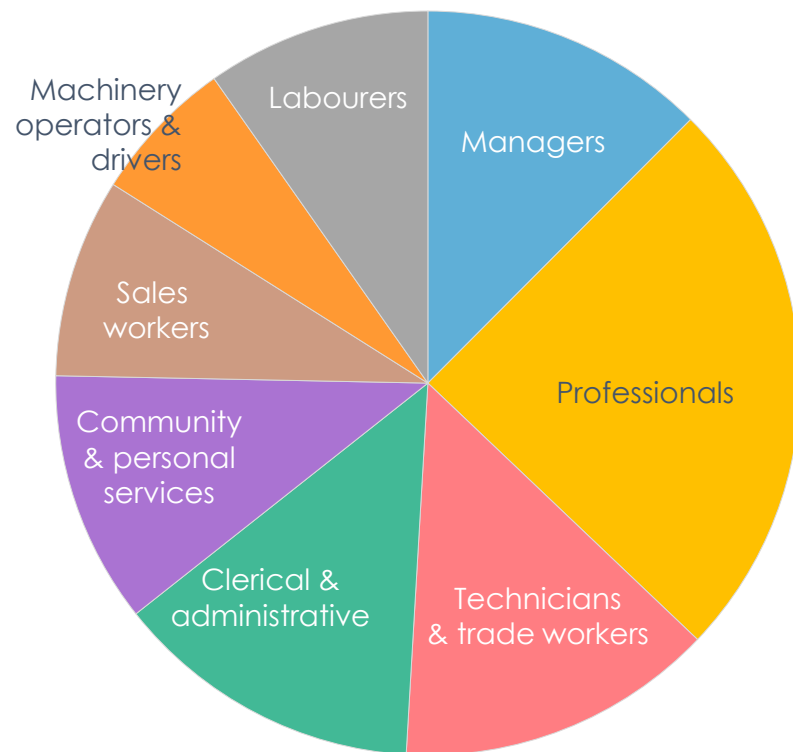
- ❑ Industries with average earnings which are 10% or more below the economy-wide average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February & May 2020 – and 86% of job losses between May & August 2021
- ❑ Employment in these 'low-pay' industries was, by May 2022, only 1.6% above what it had been in February 2020
- ❑ By contrast, employment in 'average-pay' industries was 2.9% above its February 2020 level, while employment in 'high-pay' industries (those where average earnings are 10% or more above the all-industries average) was up by 14.4%, accounting for 45% of the growth in total employment since February 2020

Source: ABS, [Labour Force, Australia, Detailed](#), May 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: August data will be released on 22nd September. [Return to "What's New"](#).

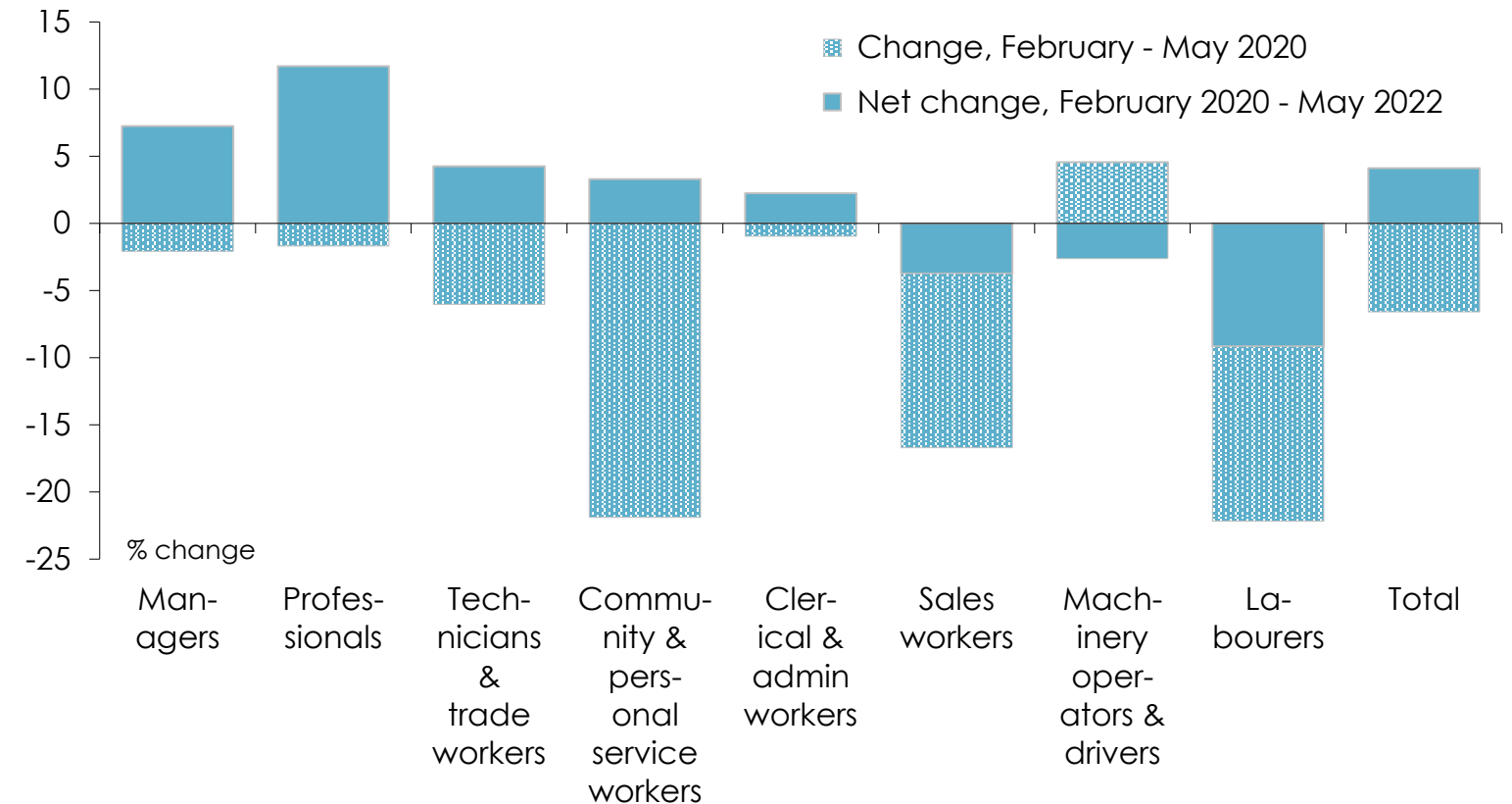
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



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



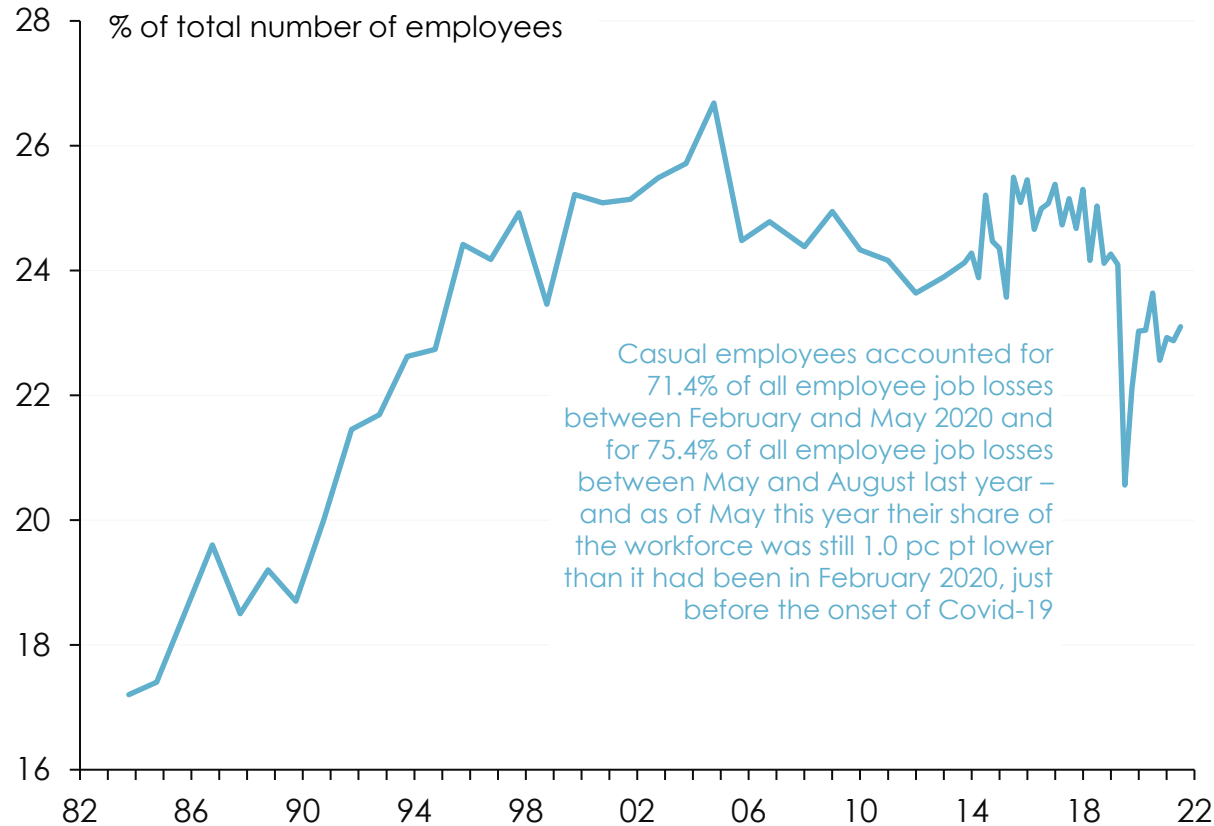
- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May 2020 – and for 71% of job losses between May and August 2021 – and there were 2.9% fewer of them in May this year than in February 2020
- ... whereas there are now 10.2% more employed managers and professionals than there were in February 2020

Source: ABS, [Labour Force, Australia, Detailed](#), May 2022 . Labour force survey data on employment by occupation are available only for the middle month of each quarter: August data will be released on 22nd September. [Return to "What's New"](#).

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

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



- ❑ **Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the 2020 recession**

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



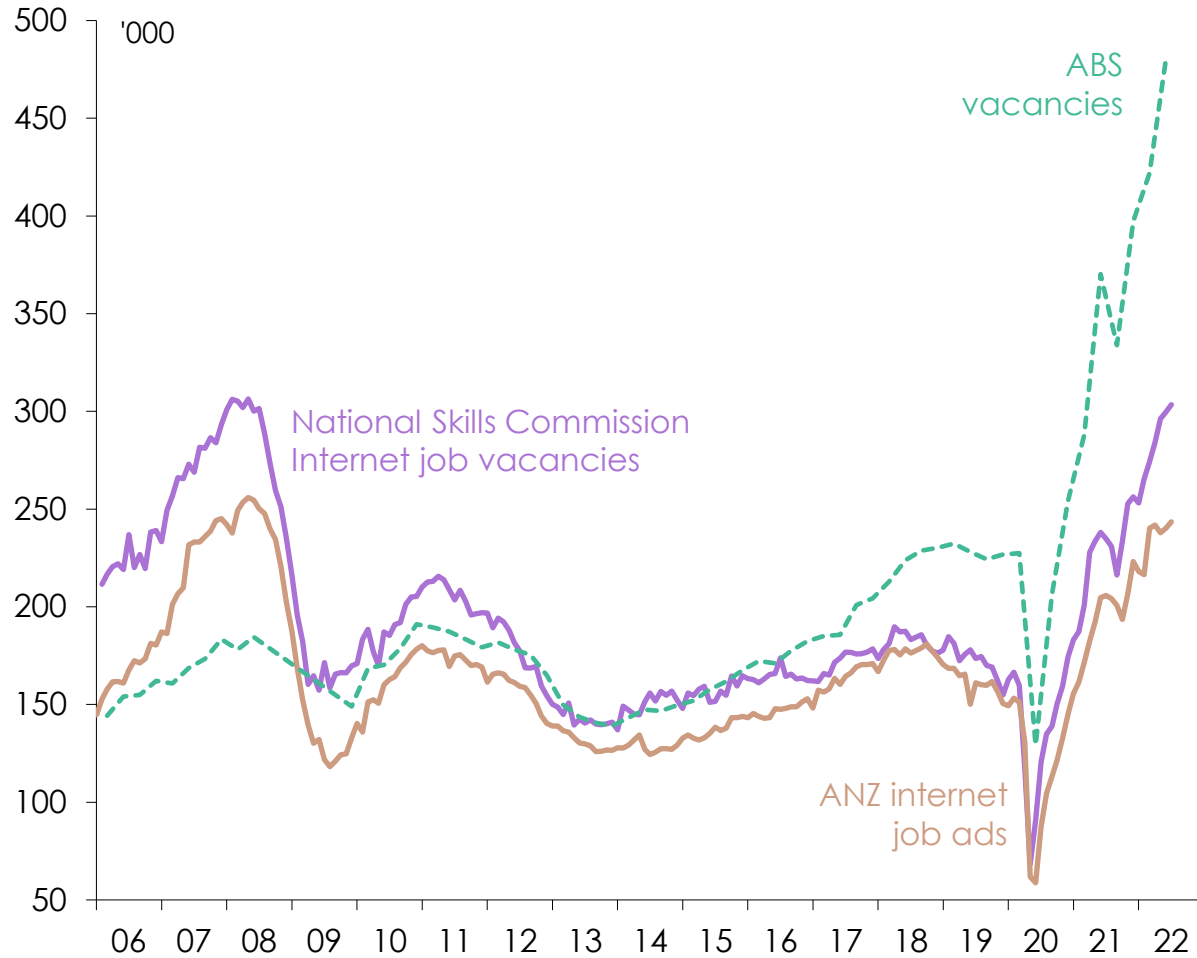
- ❑ **'Independent contractors' have actually declined as a share of the workforce since the early 2000s – and haven't increased since the onset of Covid-19**

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](#). August data will be published on 29th September. [Return to "What's New"](#).

In May there were just 11 unemployed people for every 10 job vacancies – the lowest ratio since at least February 1978

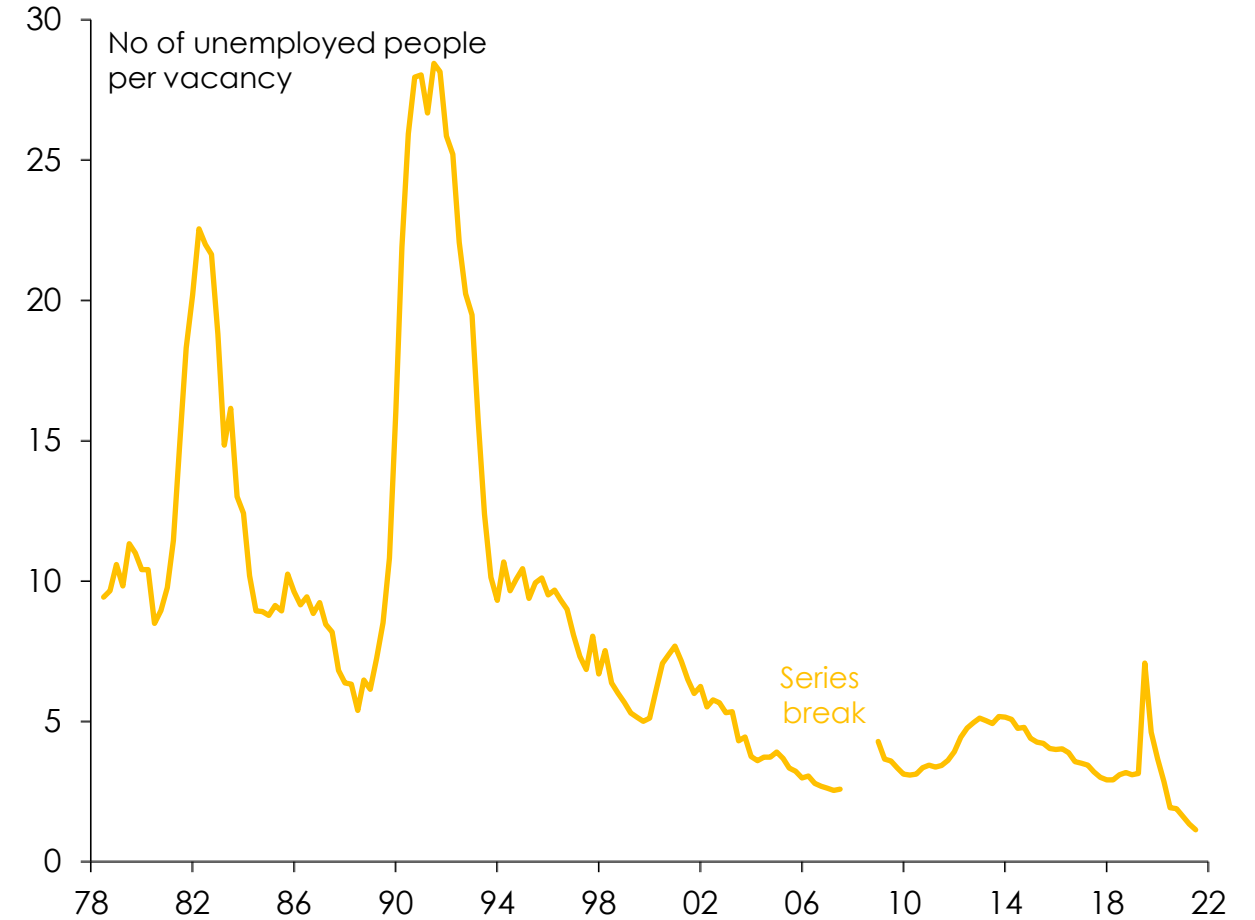
THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

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



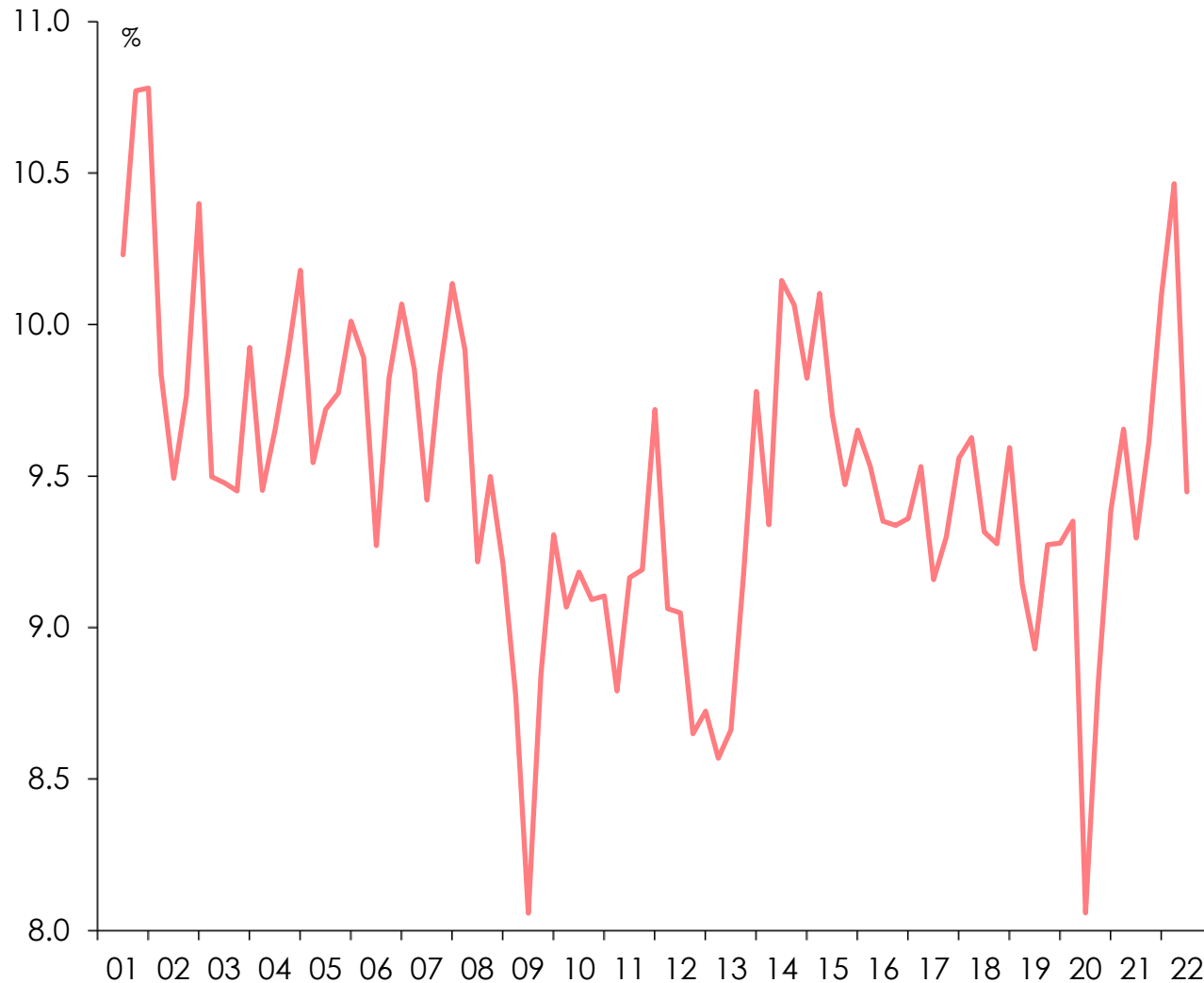
☐ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

Sources: Australian Government, [Labour Market Information Portal](#); ANZ Research; ABS, [Job Vacancies, Australia](#). The ABS vacancies series is only published for the middle month of each quarter: August data will be published on 29th September. [Return to "What's New"](#).

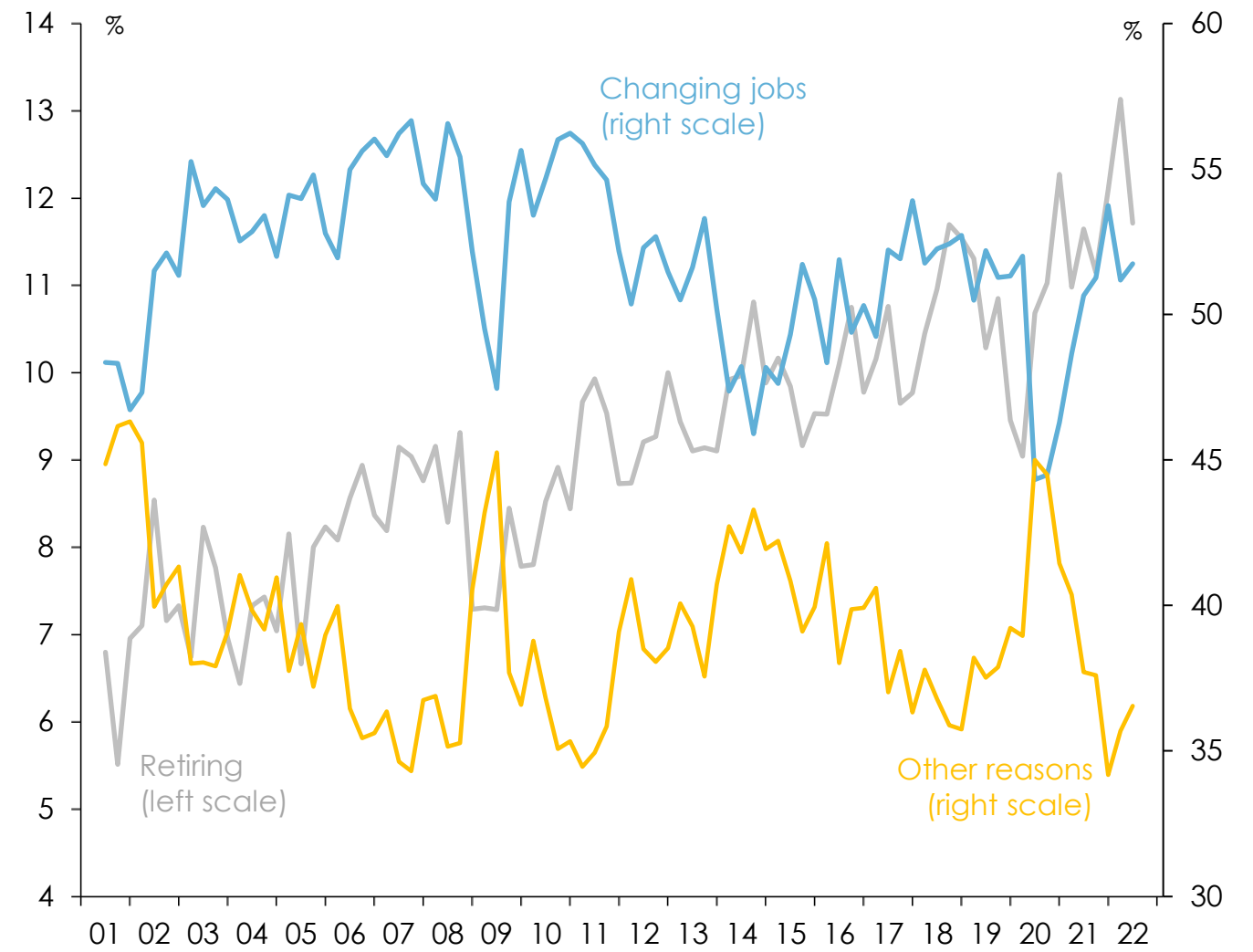
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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



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



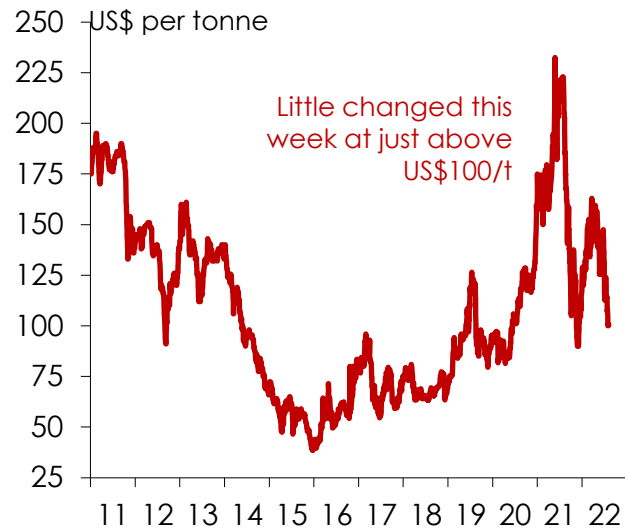
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table 17](#), May 2022. August data will be published on 29th September.

Trade and the balance of payments

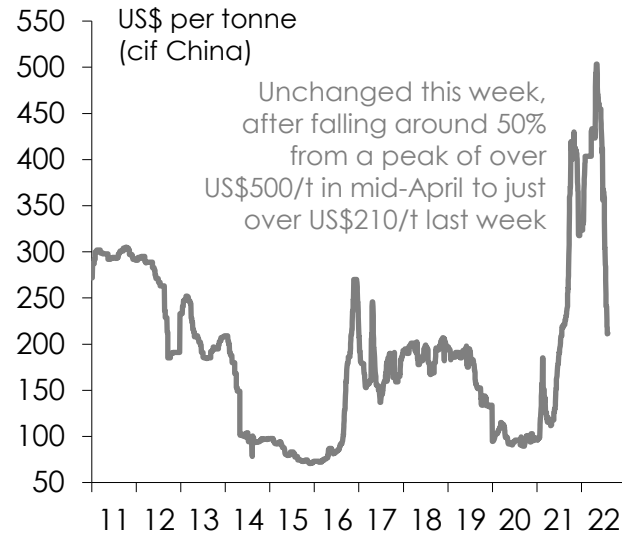
Commodity prices levelled out this week after the steep falls experienced by most (other than oil) over the previous 6-12 weeks

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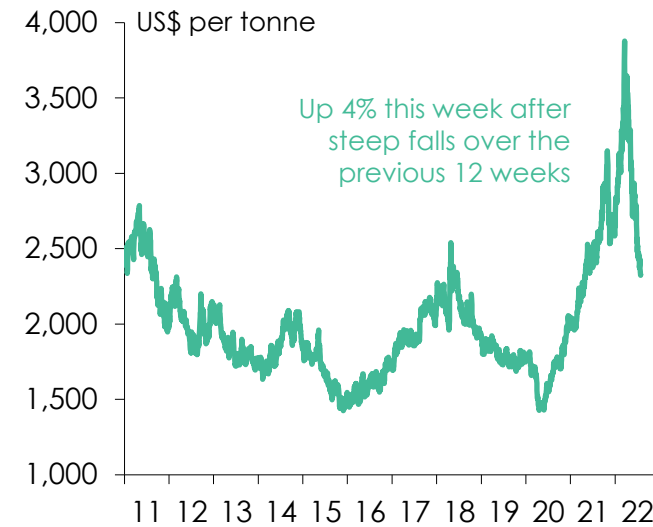
Iron ore



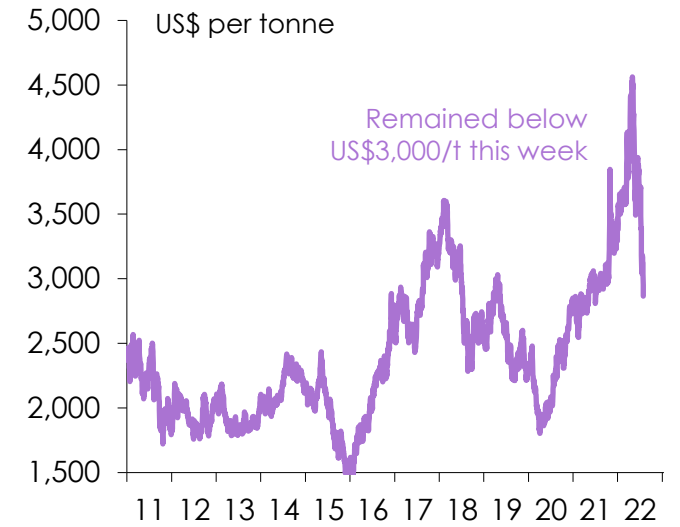
Metallurgical coal



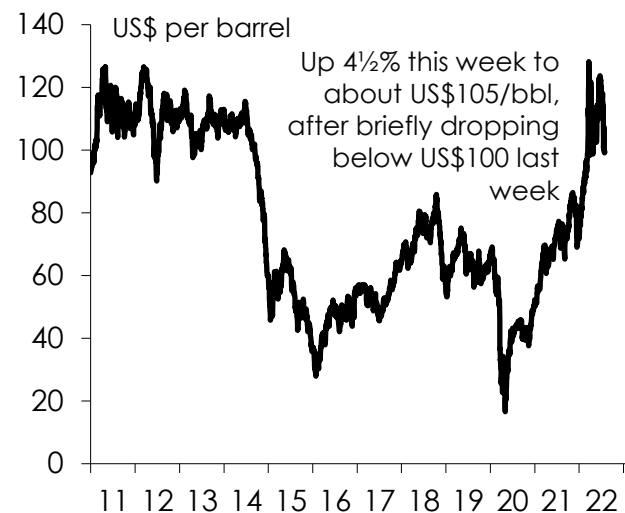
Aluminium



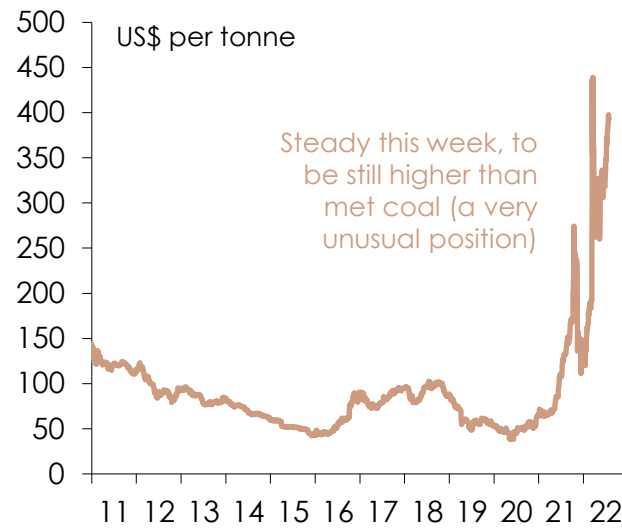
Zinc



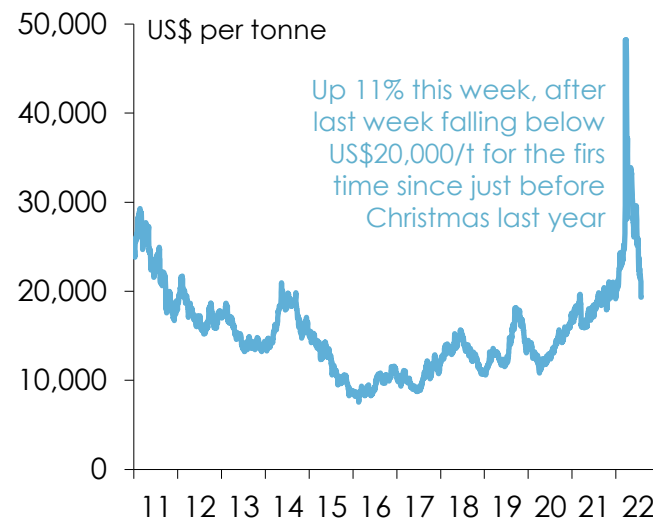
Brent crude oil



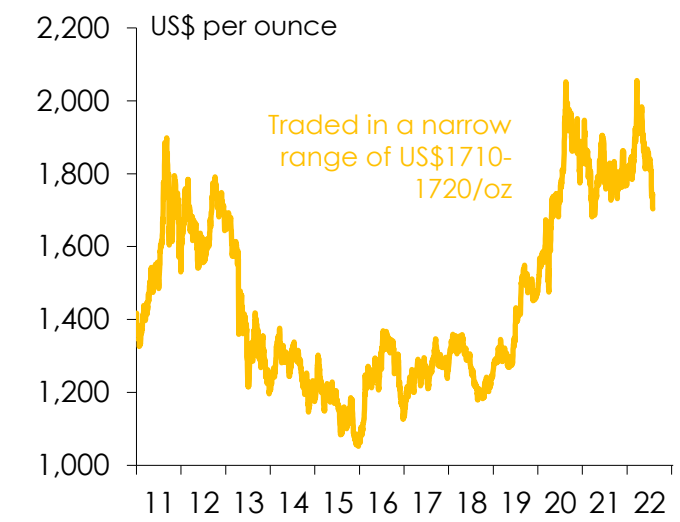
Thermal coal



Nickel



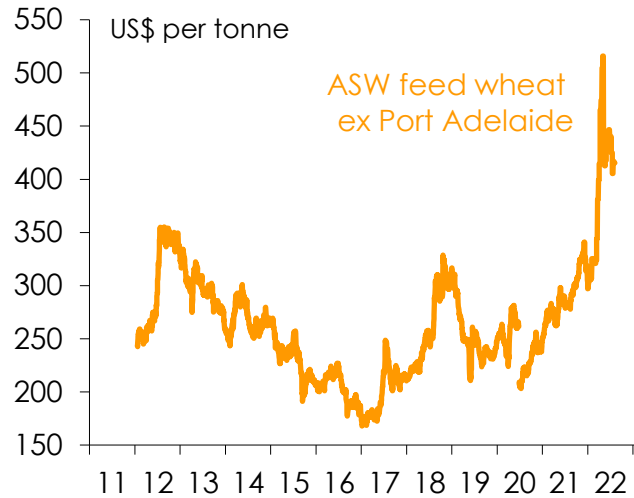
Gold



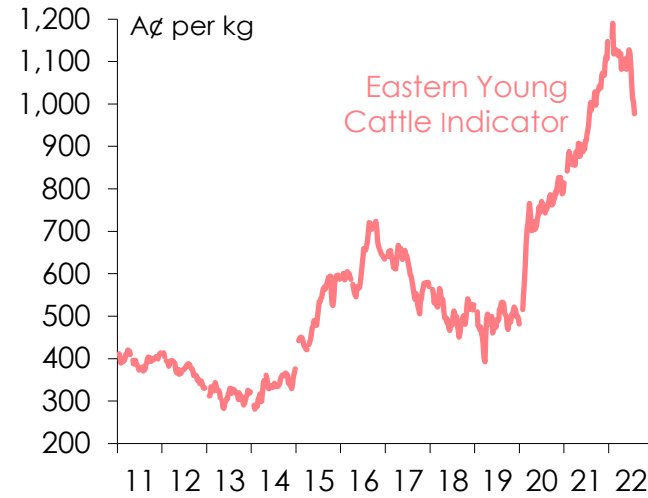
Most agricultural commodity prices, other than wool, have declined significantly (from elevated levels) over the past few weeks

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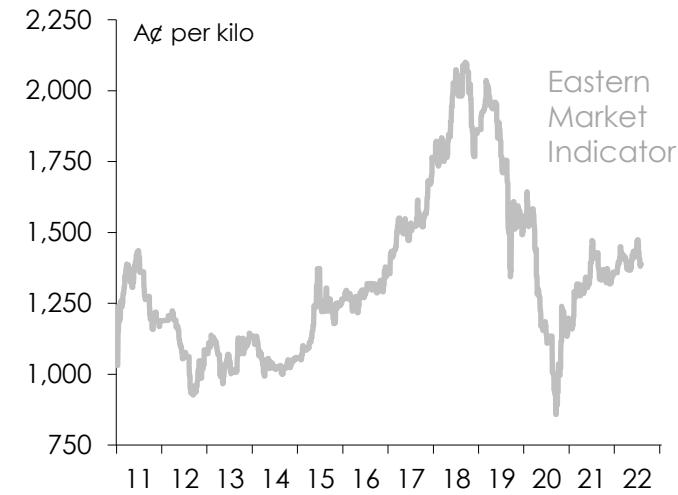
Wheat



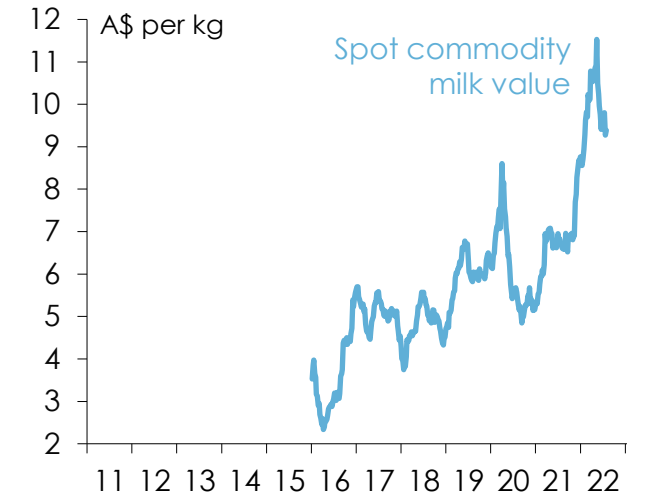
Beef cattle



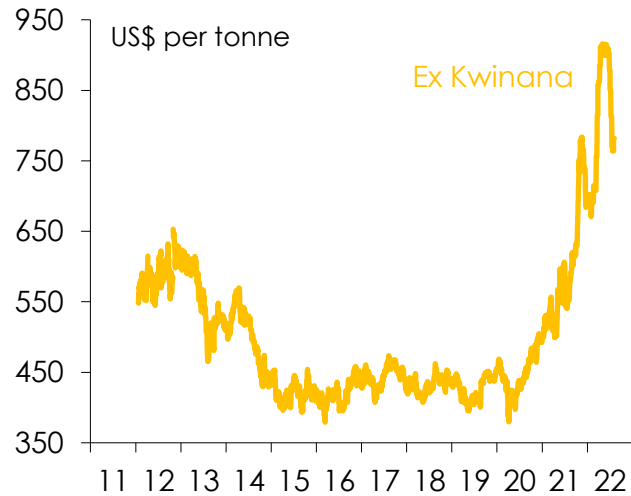
Wool



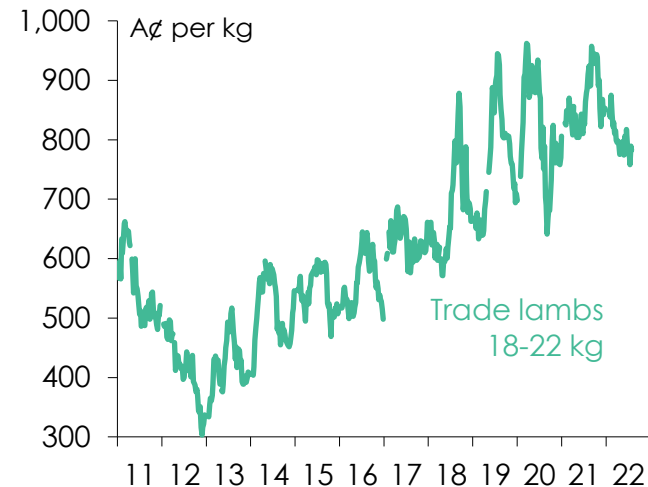
Milk



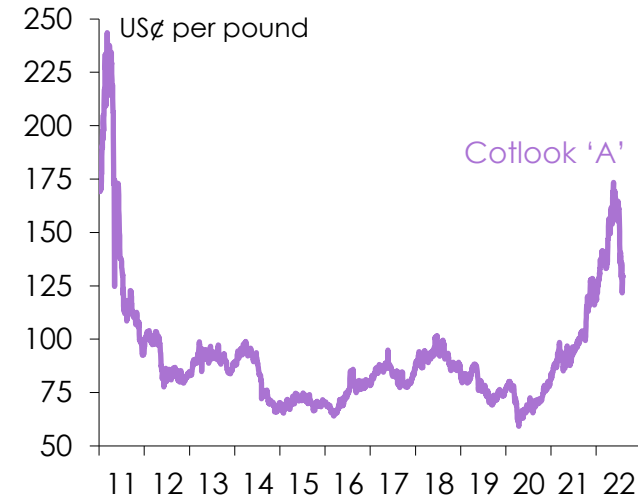
Canola



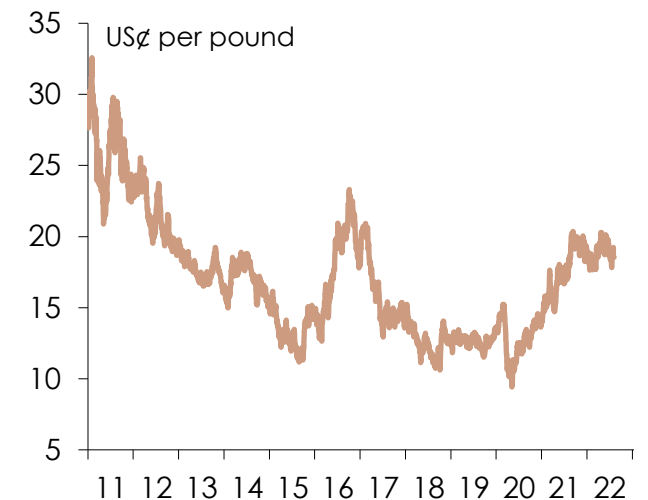
Sheep



Cotton



Sugar

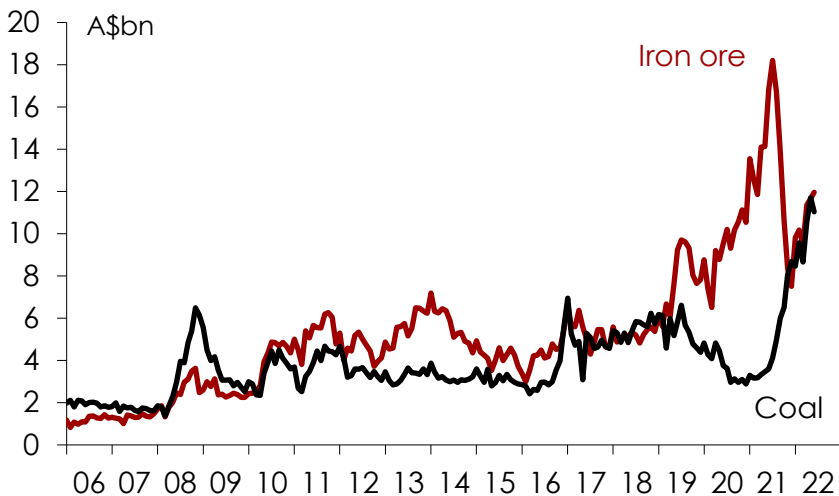


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 22nd July. [Return to "What's New"](#).

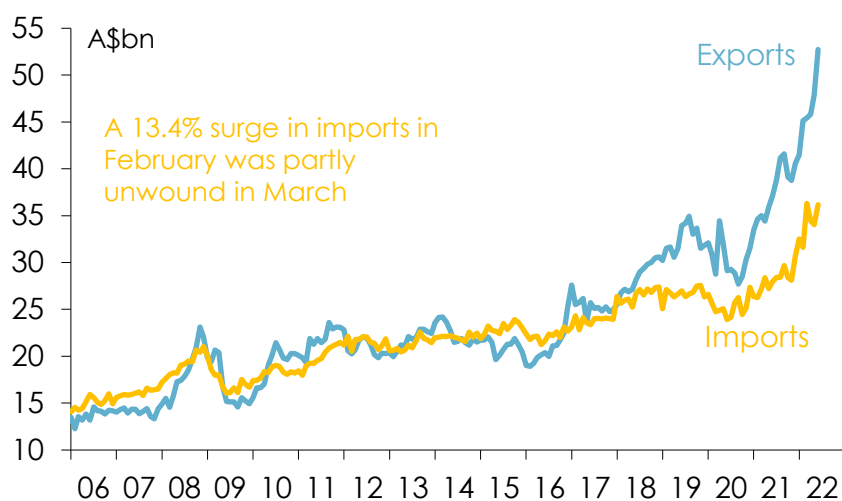
Australia's trade surplus widened by \$2.7bn to a record \$16bn in June, buoyed by large increases in the value of coal and gas exports

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

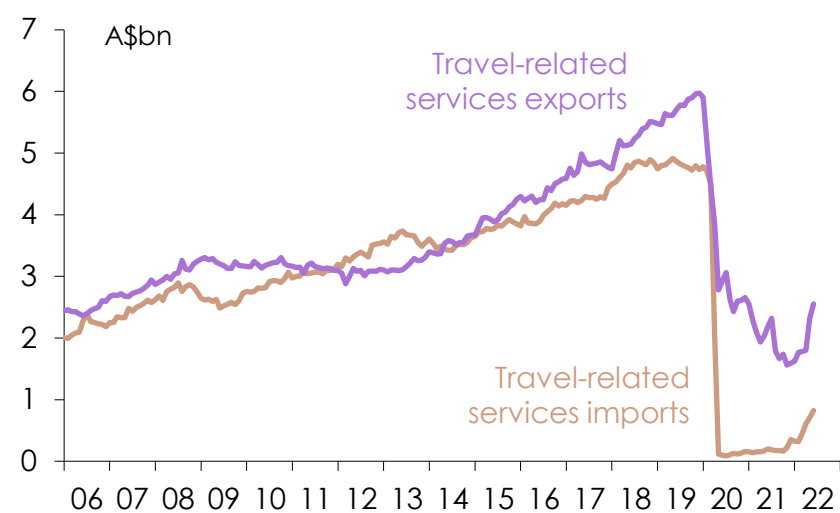
Iron ore and coal exports



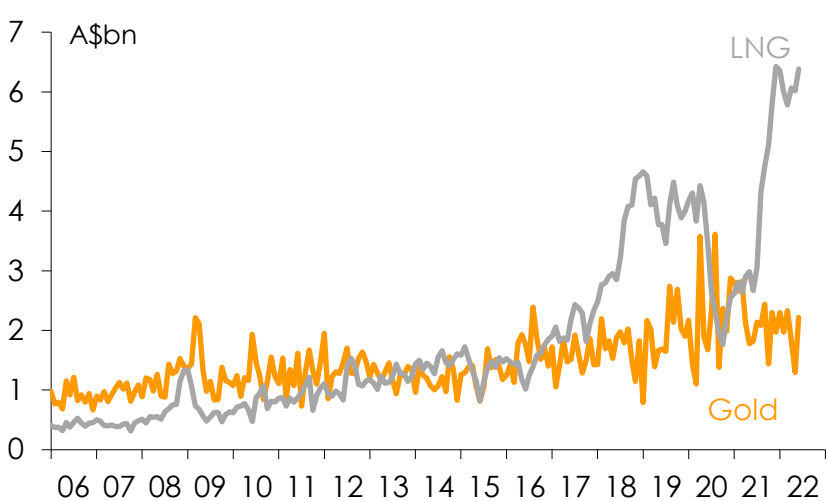
Merchandise exports and imports



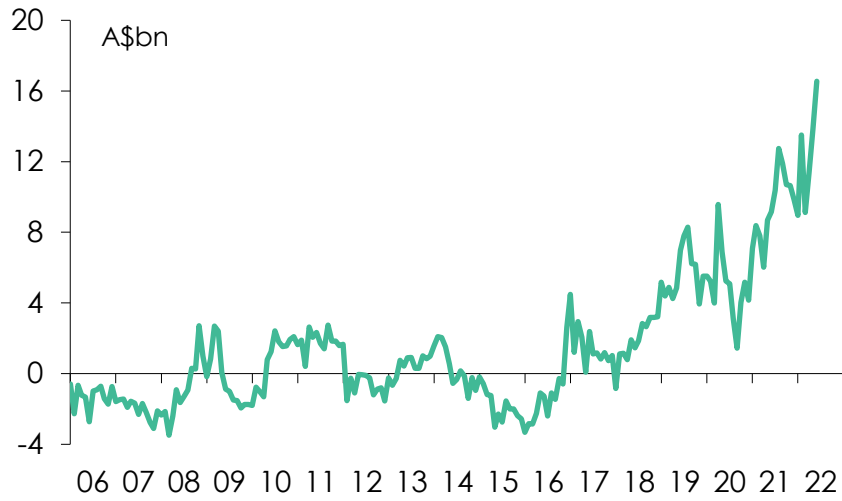
Tourism-related services trade



LNG and gold exports



Merchandise trade balance



Tourism services trade balance

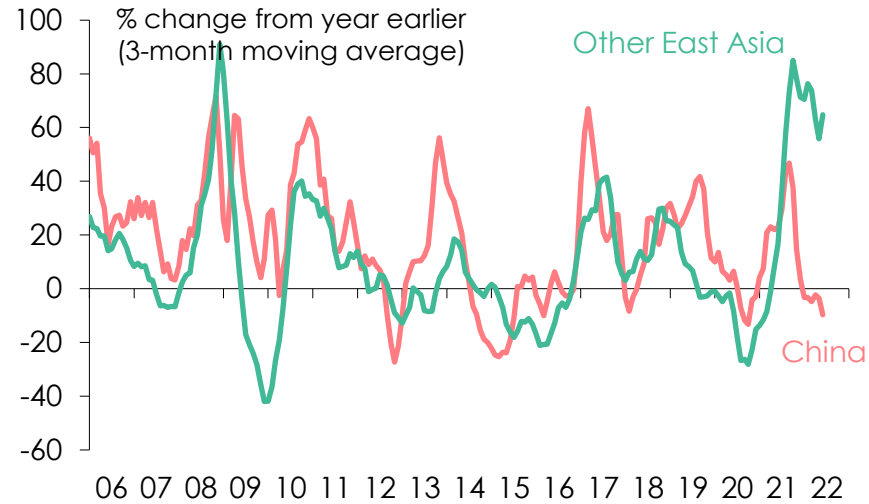


Source: ABS, [International Trade in Goods and Services, Australia](#), May 2022. June data will be released on 4th August. [Return to "What's New"](#).

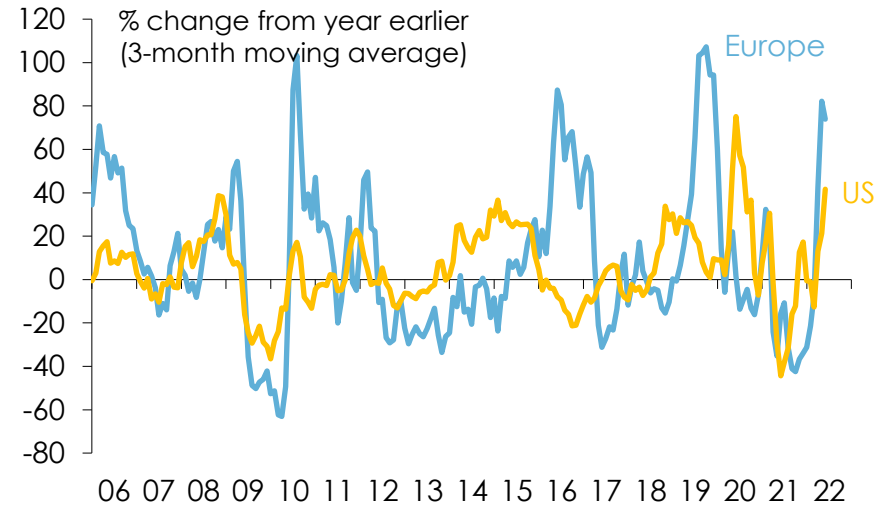
Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

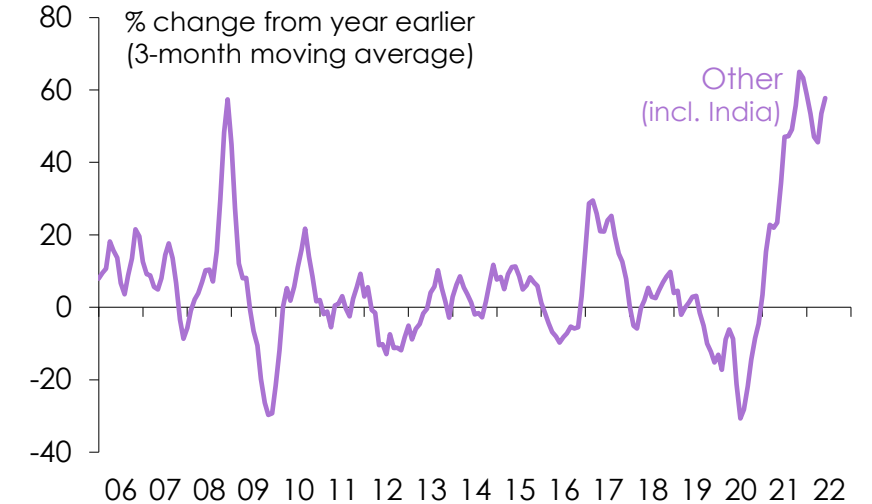
Merchandise exports – East Asia



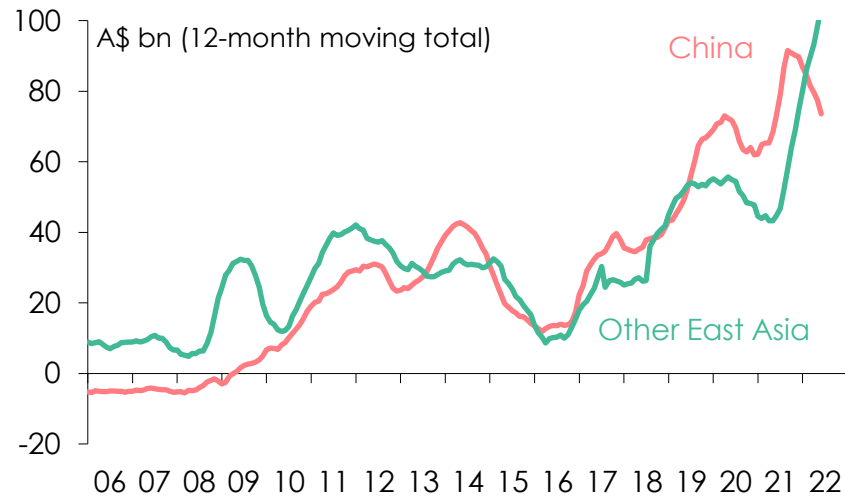
Merchandise exports – US & Europe



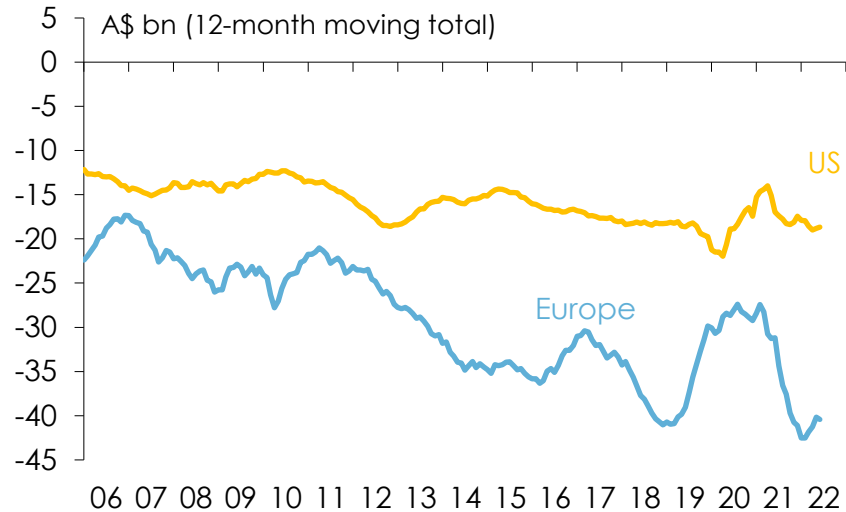
Merchandise exports – other



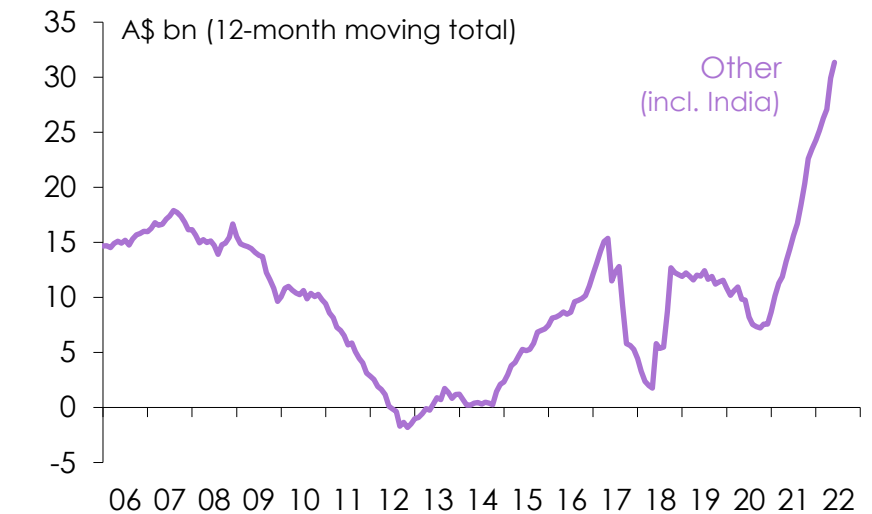
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

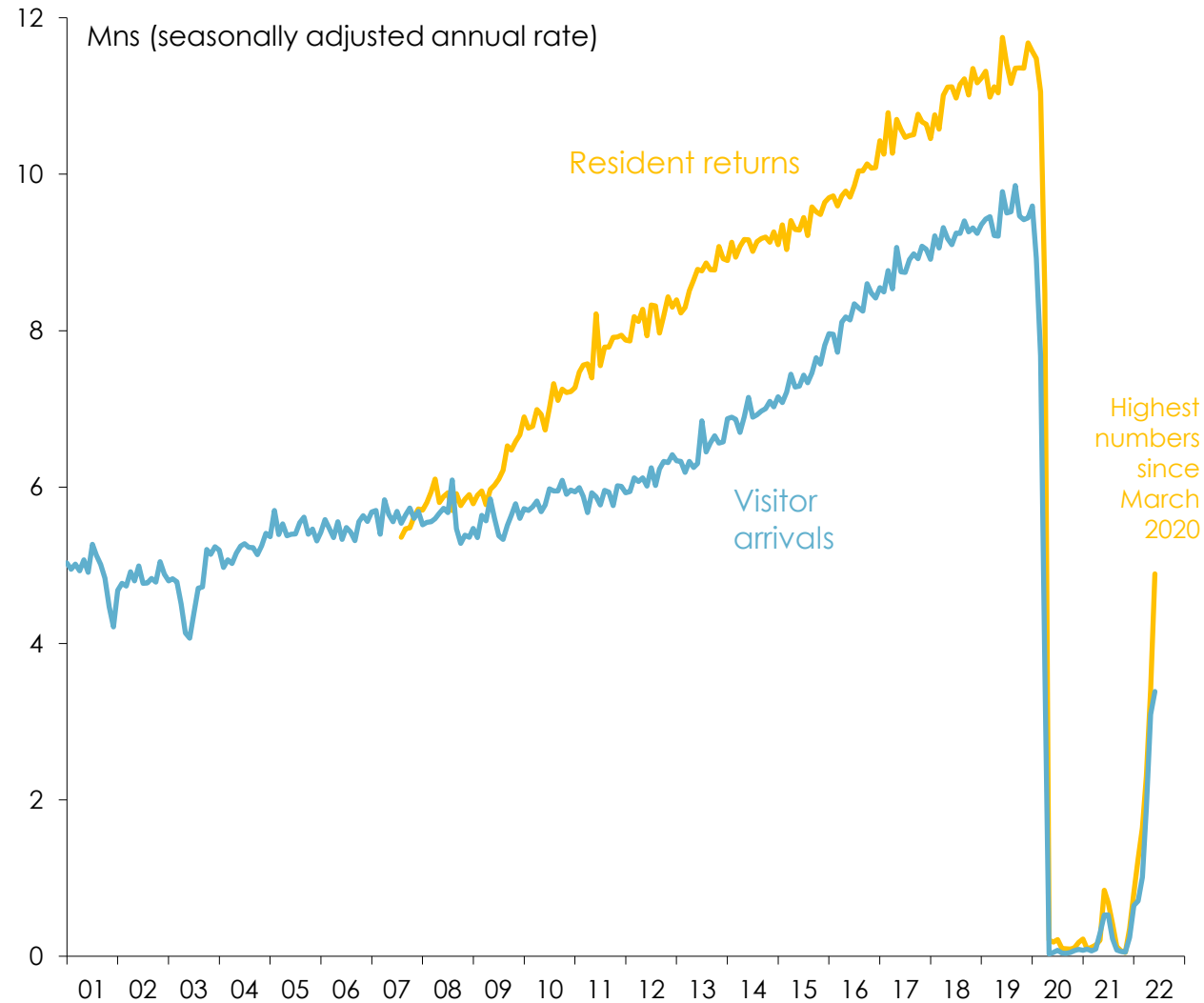


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in Goods and Services, Australia](#), May 2022. June data will be released on 4th August. [Return to "What's New"](#).

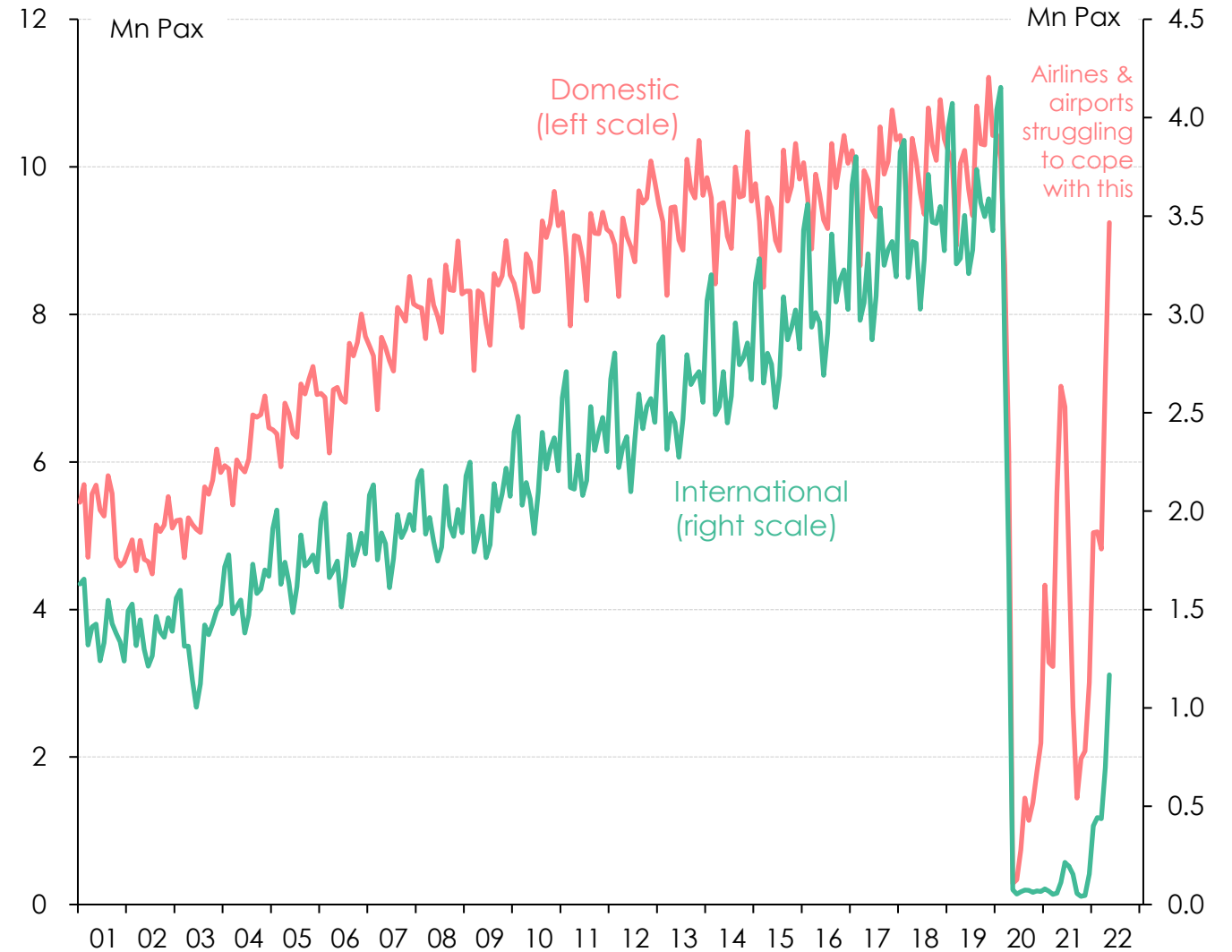
International visitor arrivals have risen strongly since the beginning of this year, but still have a long way to go

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

Short-term visitor arrivals and resident returns



Airport passenger movements

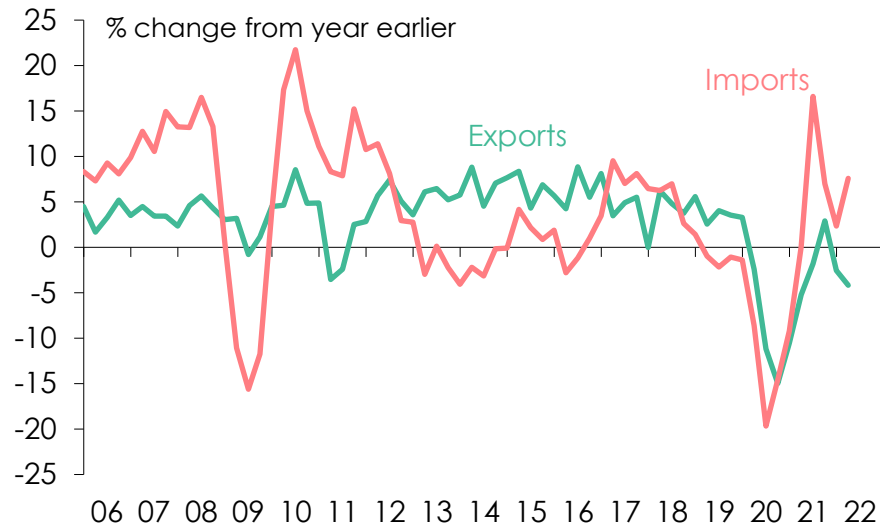


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

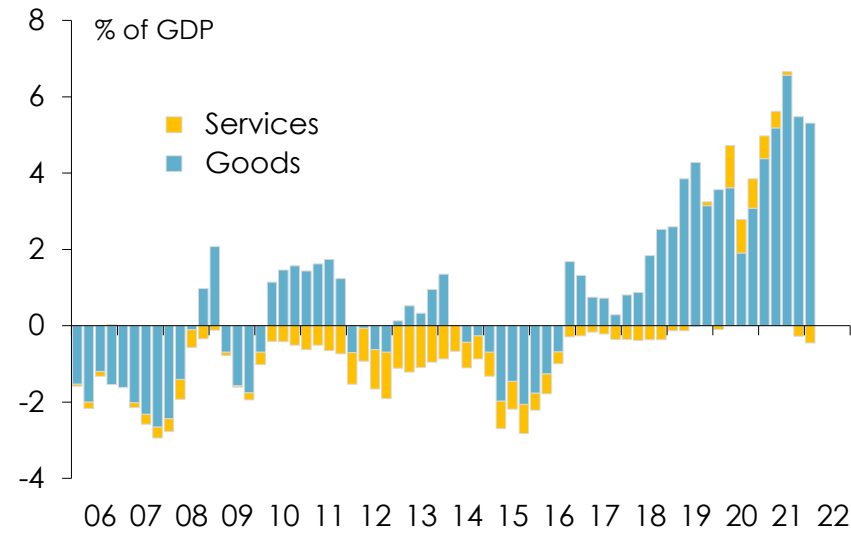
Australia's Q1 current account surplus was the smallest since Q4 2019, with an 8% surge in import volumes outweighing a 6% terms of trade gain

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

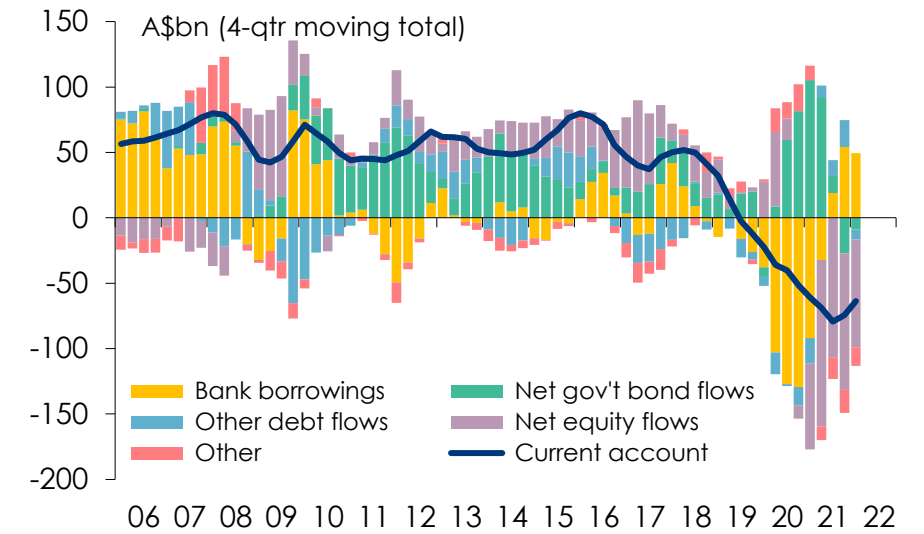
Export and import volumes



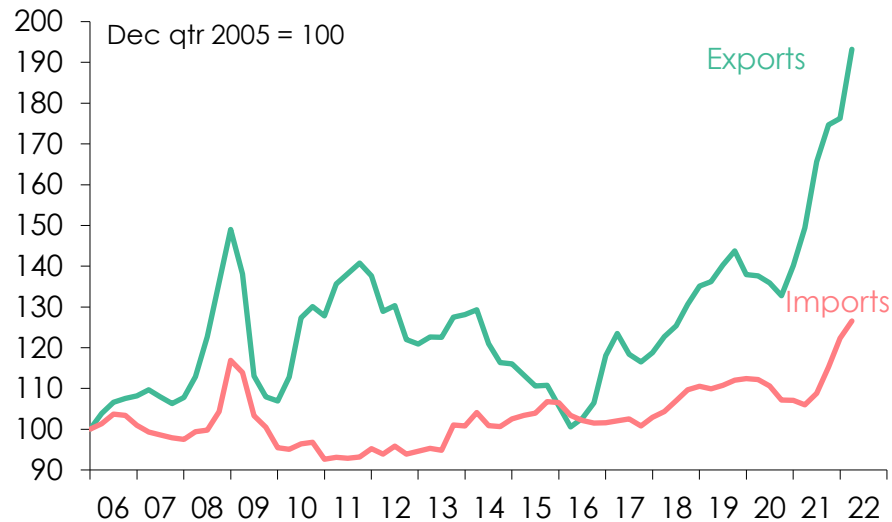
Goods & services trade balances



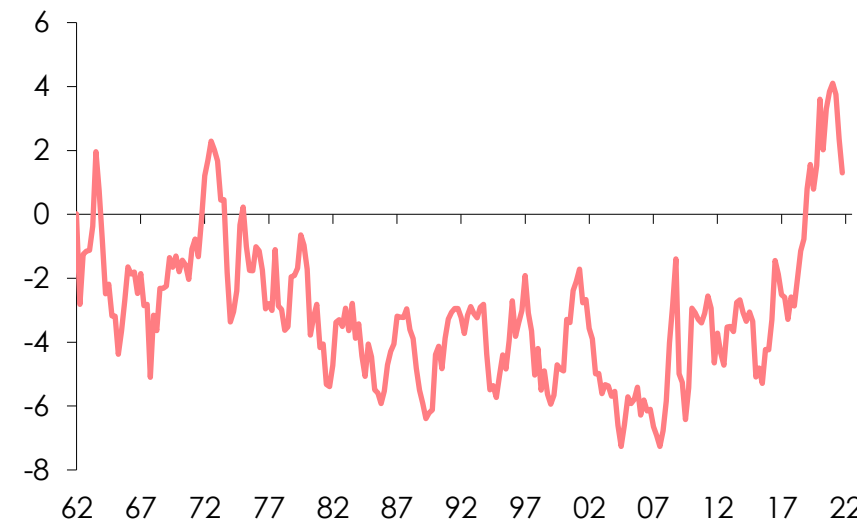
Capital flows



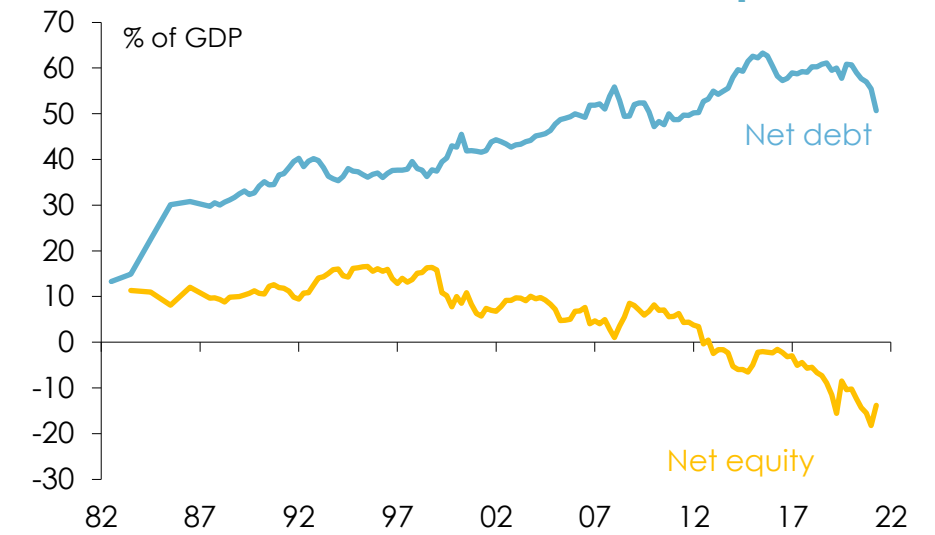
Export and import prices



Current account balance



Net international investment position



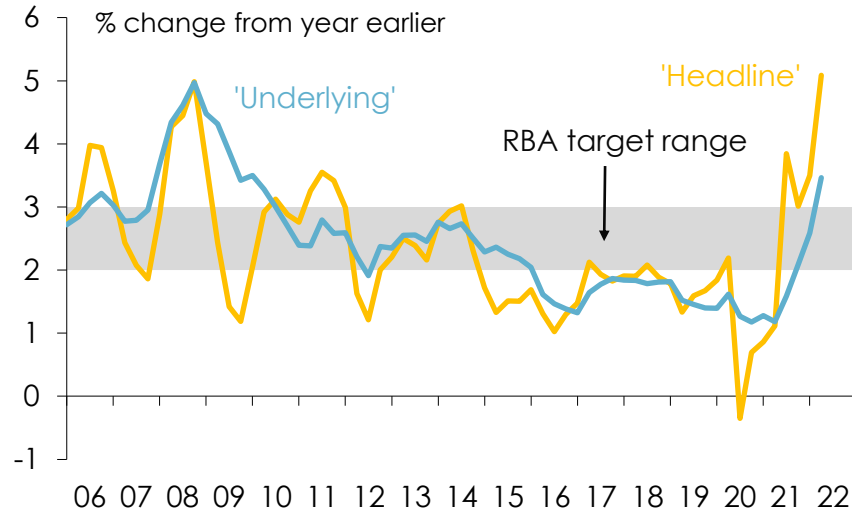
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

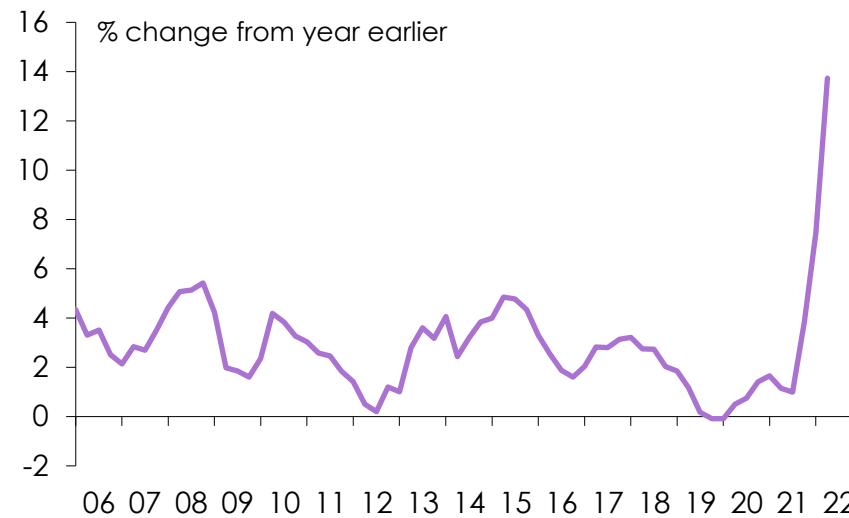
The CPI is expected to have risen by 1¾-2% in Q2, less than the 2.1% in Q1, but nonetheless pushing the annual 'headline' inflation rate up to 6-6¼%

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

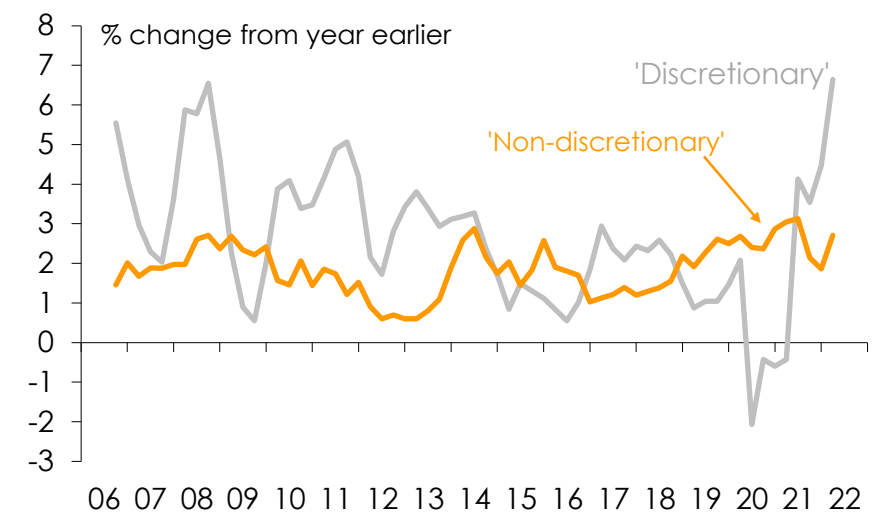
Consumer prices – annual change



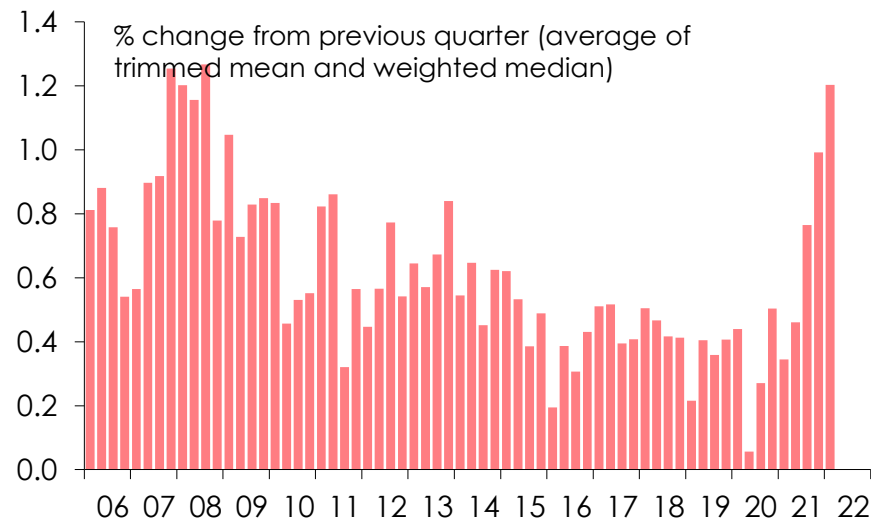
New dwelling purchase costs



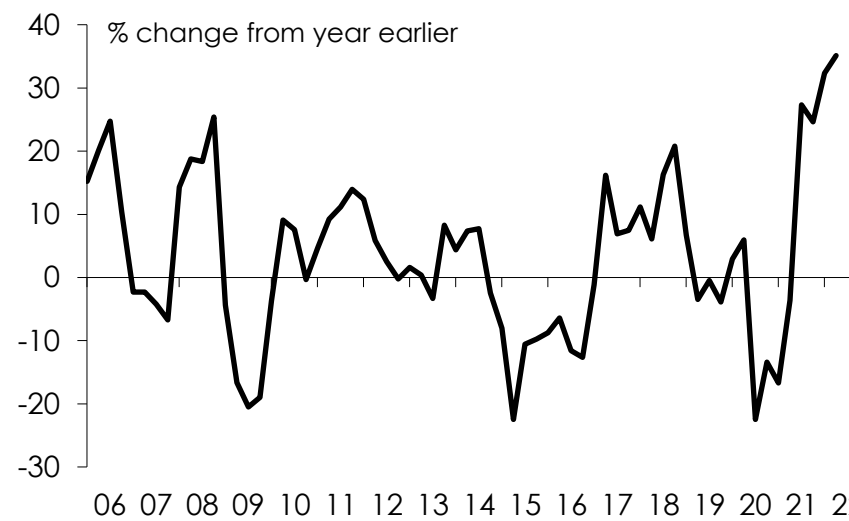
'Discretionary' vs 'essential' items



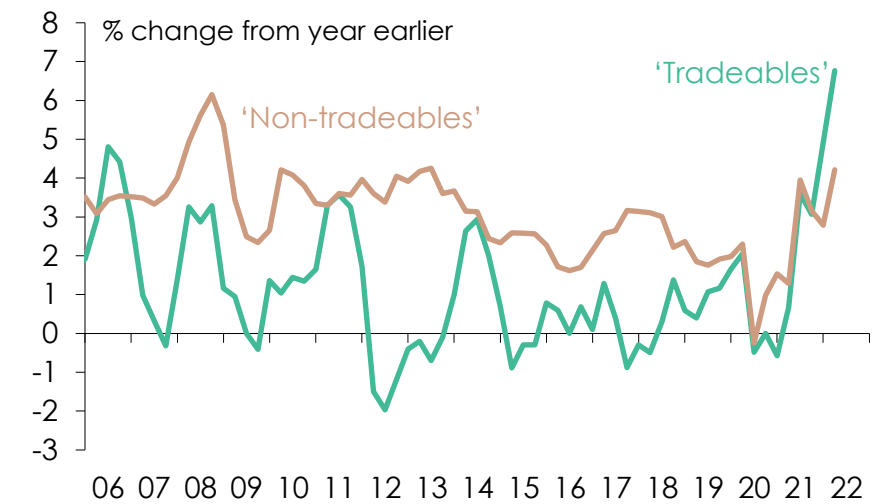
Quarterly 'underlying' inflation



Automotive fuel prices



'Tradeables' vs 'non-tradeables'

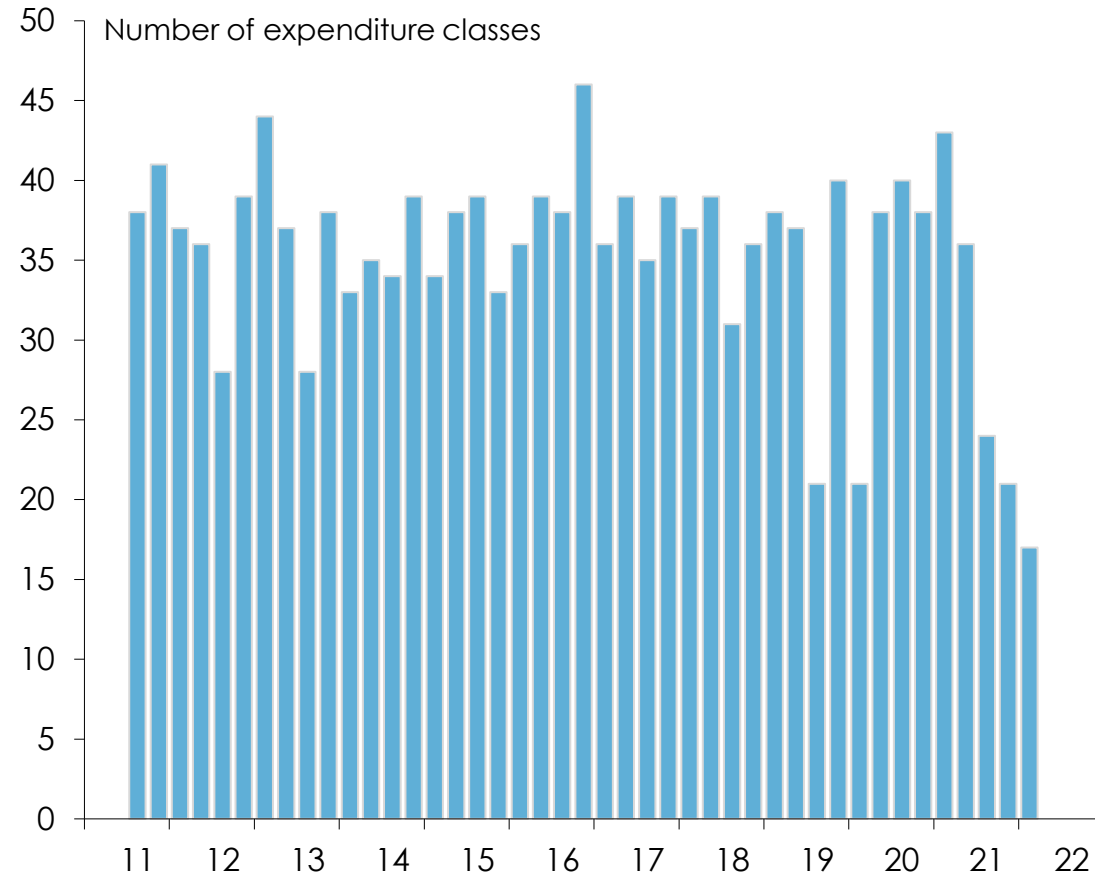


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. For definitions of 'discretionary' and 'non-discretionary' items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), March 2022 (June quarter CPI will be released this coming Wednesday, 27th July). [Return to "What's New"](#).

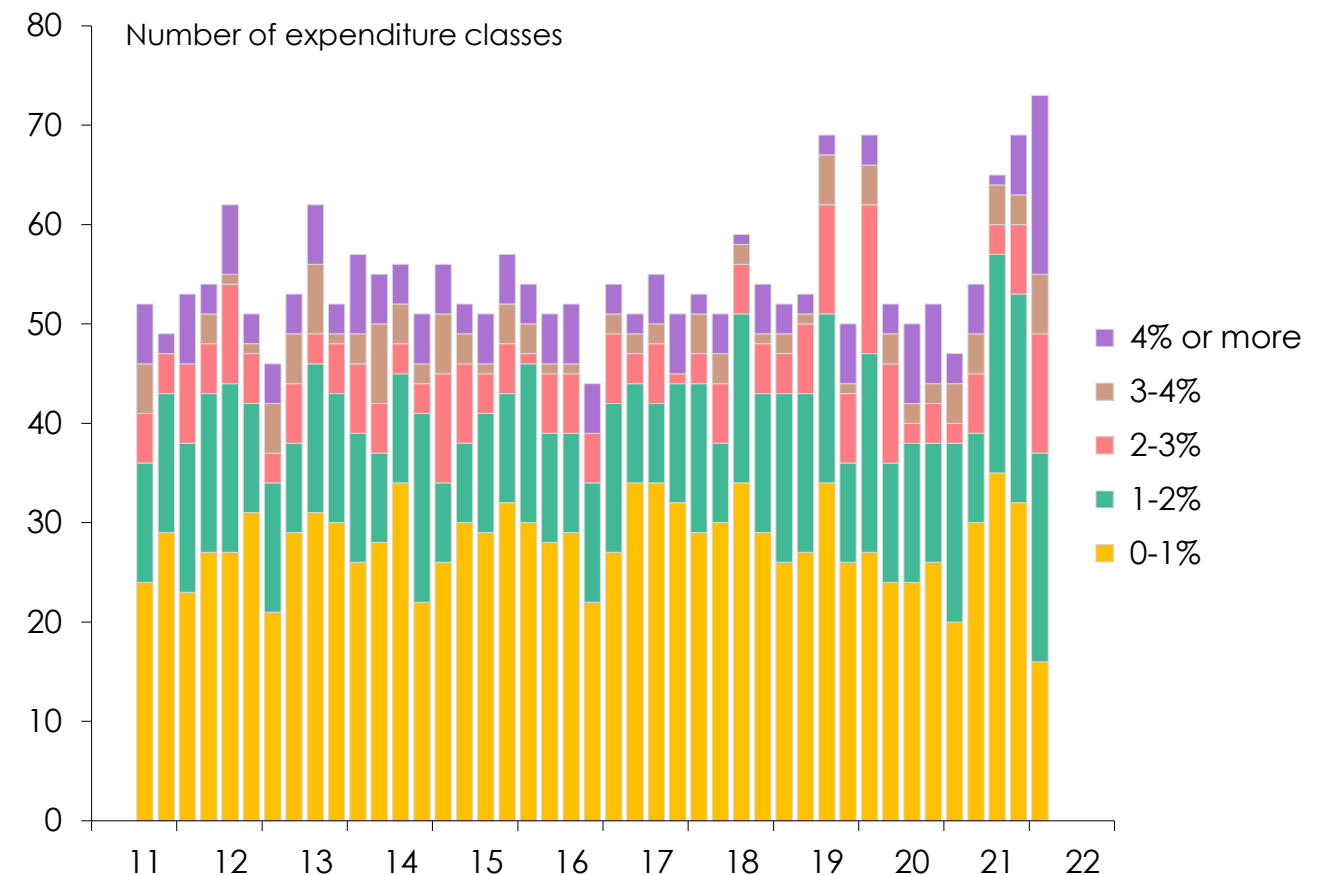
Price increases have become much more broadly-based since the second half of last year, and that likely continued in the June quarter

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 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



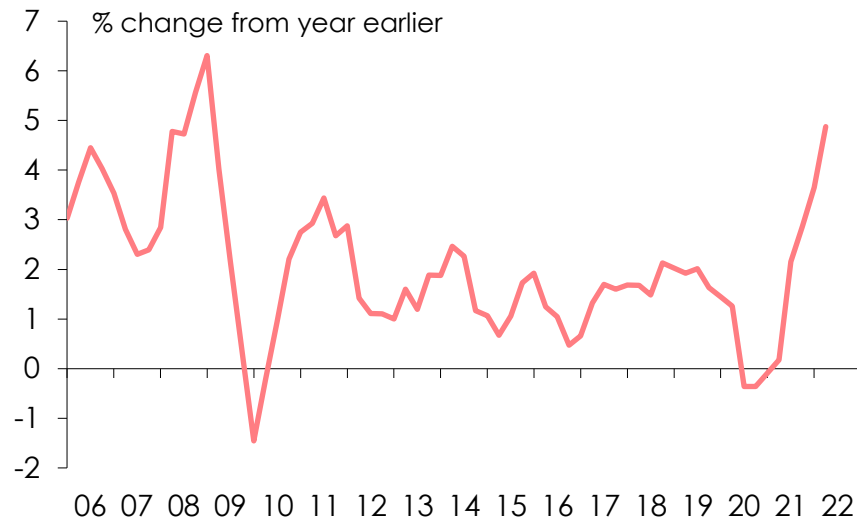
❑ Only 17 of the 92 'expenditure classes' in the CPI saw falls in prices in the March quarter – the lowest number in at least 10 years

❑ 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

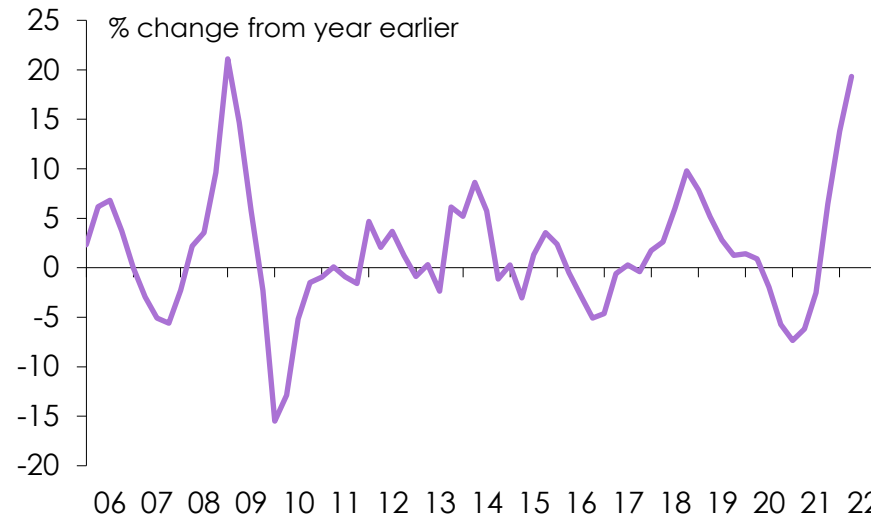
Except for construction, domestic 'upstream' price pressures have been less intense than in other countries, but import prices have risen sharply

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

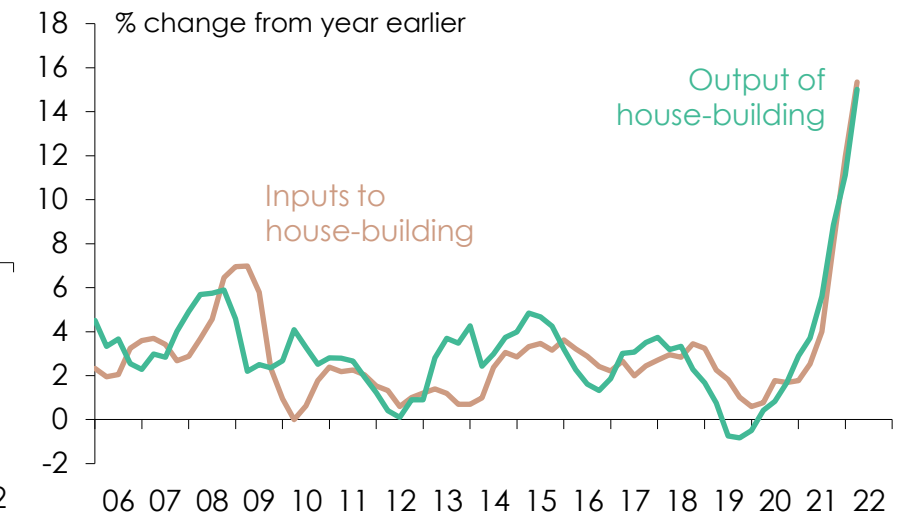
Producer price index



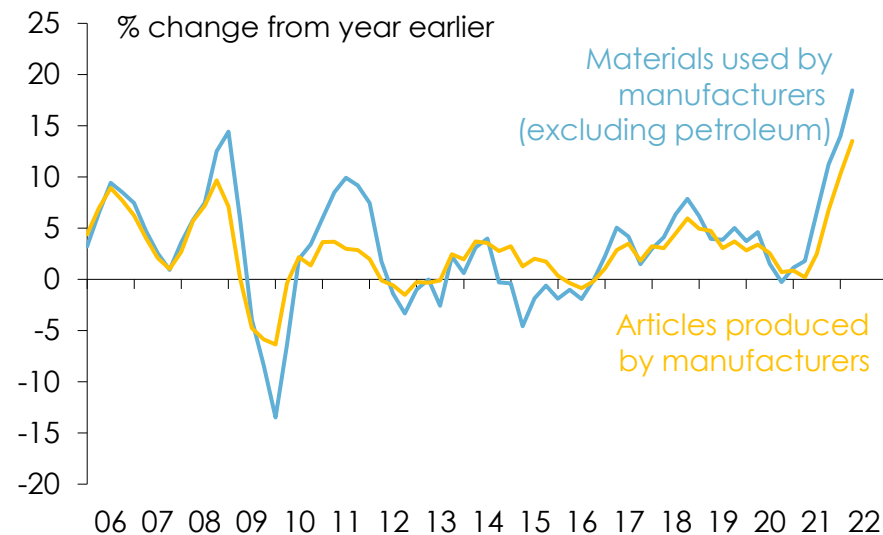
Import price index



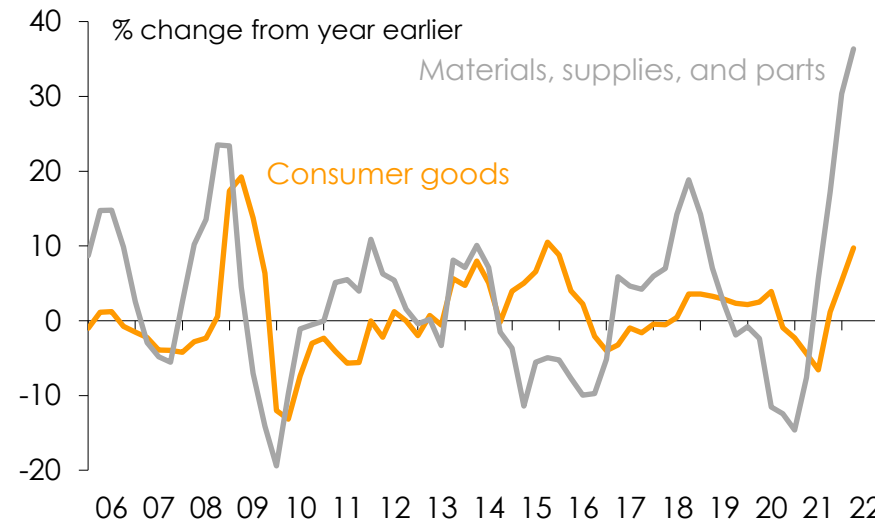
Construction input & output prices



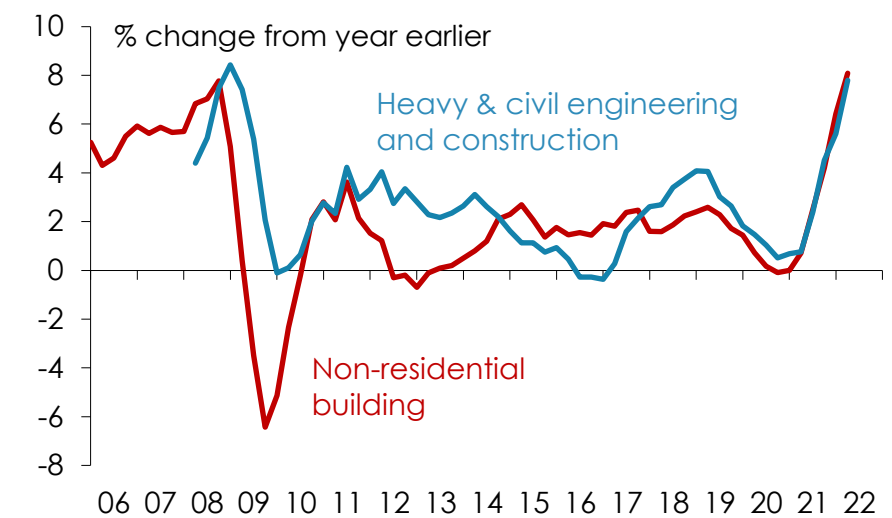
Manufacturing input & output prices



Imported consumer goods prices



Non-residential construction prices

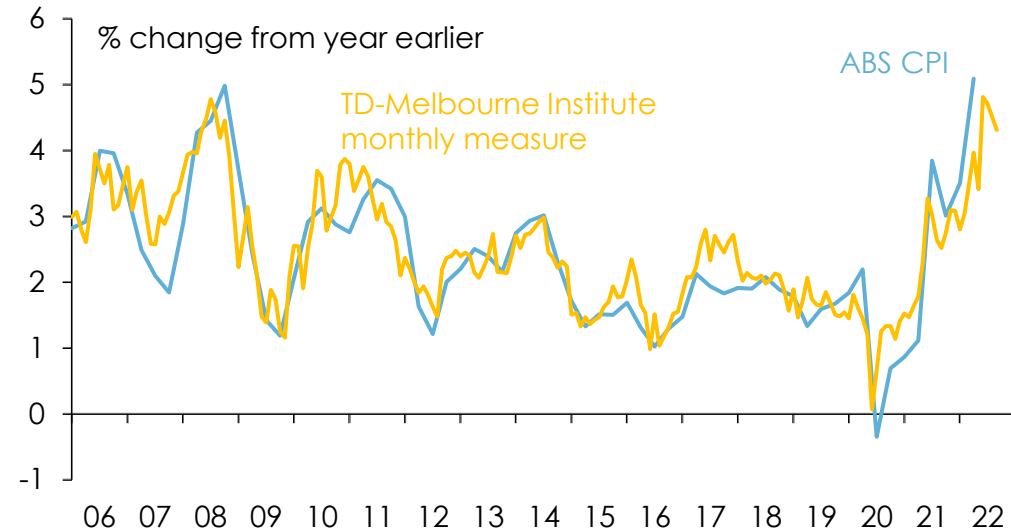


Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), March quarter 2022. June quarter import and producer price indices will be released on 28th and 29th July, respectively. [Return to "What's New"](#).

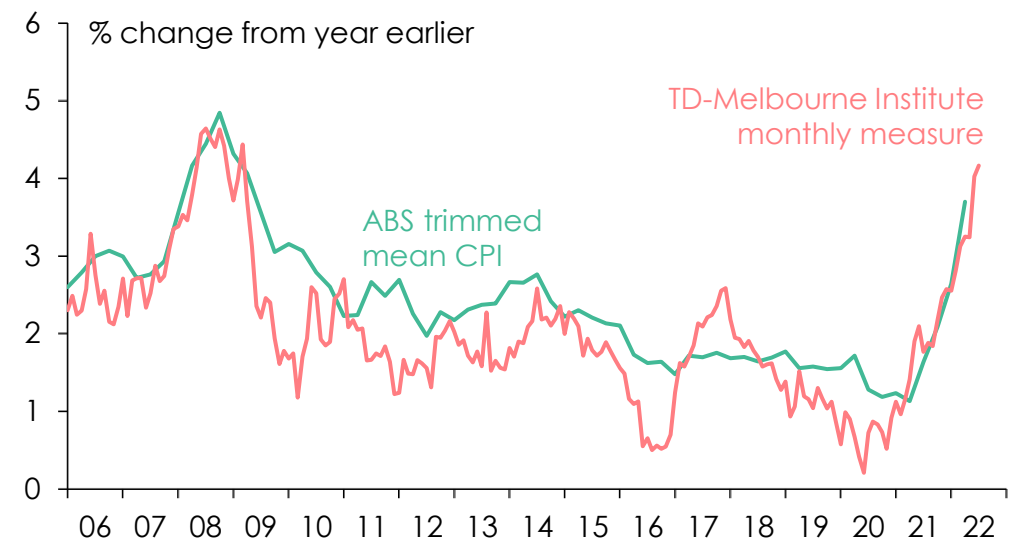
Unlike almost every other economy except NZ, Australia doesn't have a monthly 'official' CPI, and the only available proxy isn't always accurate

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

'Unofficial' & ABS 'headline' inflation



'Unofficial' & ABS trimmed mean inflation



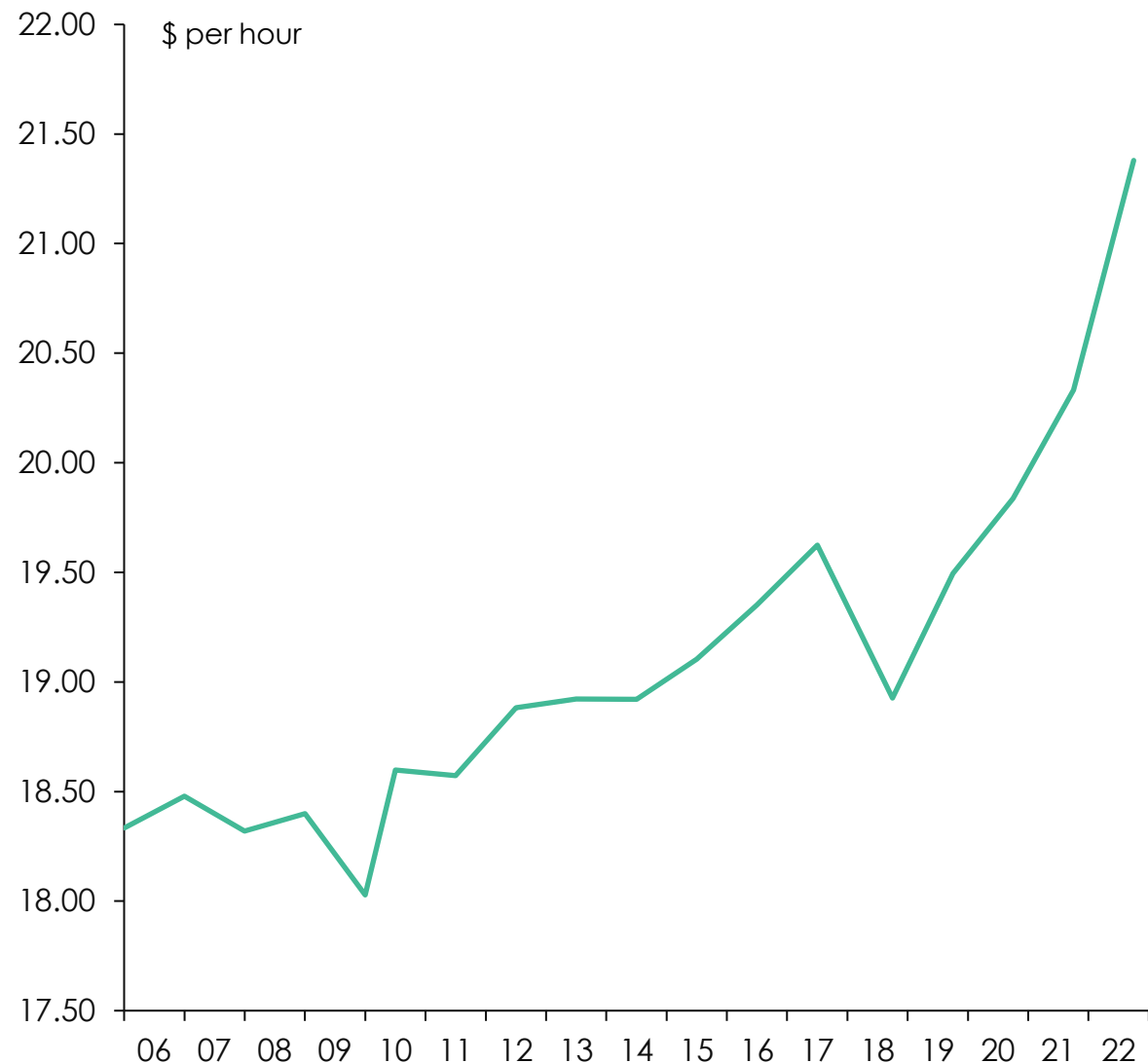
- ❑ Australia is, along with New Zealand, one of very few countries in the world whose statistical agencies do not publish a monthly consumer price index
 - even small emerging economies like Cambodia & Laos, Paraguay & Uruguay, and Georgia & Armenia, publish monthly CPIs
 - RBA Governor Philip Lowe reportedly attracted laughter when he told a forum in Zurich that “we only have one reading on inflation every three months”
- ❑ The ABS indicated in March that it was “examining the feasibility of producing a monthly Consumer Price Index (CPI) that would include the most significant items in the full CPI basket of goods and services and complement the current, quarterly CPI”
- ❑ In the absence of more timely ‘official’ inflation data, the only source of more frequent data on trends in consumer prices is the Monthly Inflation Gauge compiled by the Melbourne Institute of Applied Economic & Social Research (sponsored by TD Securities)
- ❑ The ‘headline’ version of this series tracks the ‘official’ CPI reasonably well, although it isn’t a completely accurate proxy for it
 - for example, it rose by 1.3% in the three months to March, and by 4.3% from the corresponding period of last year – significantly less than the 2.1% and 5.1% increases in the ‘official’ CPI in and over the year to the March quarter
 - the monthly trimmed mean has given some misleading indications of the ‘underlying’ inflation rate during the past decade although it picked up the most recent acceleration in inflation fairly well
- ❑ The ‘headline’ TD-MI measure rose 0.3% in June, and by 1.5% in the June quarter, to be 4.3 higher than in the June quarter 2021

Source: ABS, [Consumer Price Index, Australia](#); Melbourne Institute of Applied Economic & Social Research, [Monthly Inflation Gauge](#). [Return to "What's New"](#).

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 – 22ND JULY 2022

Federal minimum wage



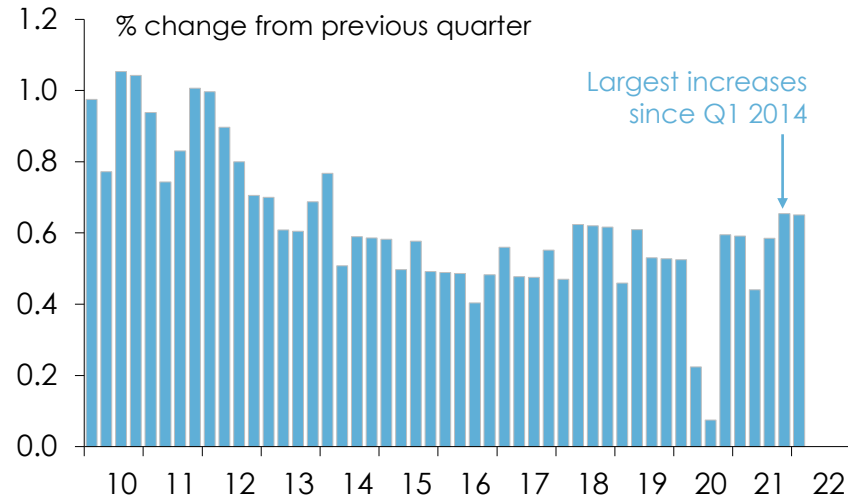
- ❑ The Fair Work Commission awarded a 5.2% increase in the national minimum wage, to \$21.38 per hour (equivalent to \$812.60 per week for a 38-hour week) in its [annual review](#) of award wages
 - there are about 180,000 employees (about 1¾% of the total work force) on the minimum wage
- ❑ The Commission 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"](#).

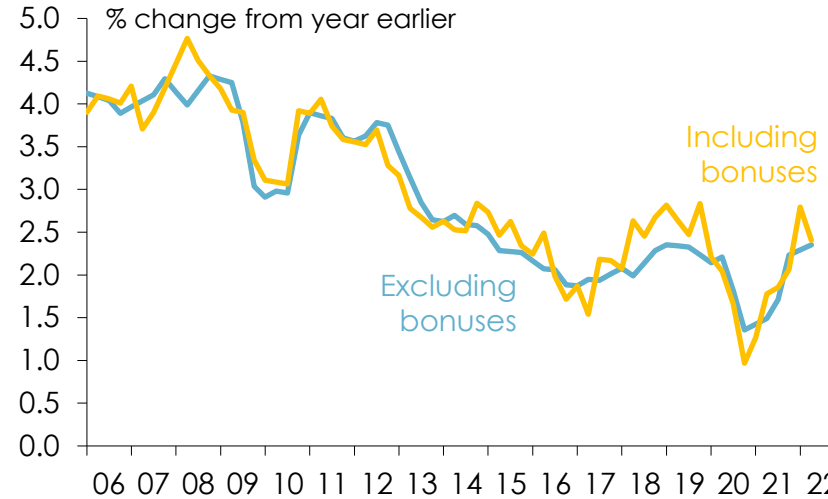
Wages growth as measured by the wage price index remains sluggish but the RBA's business liaison suggests it is now starting to pick up

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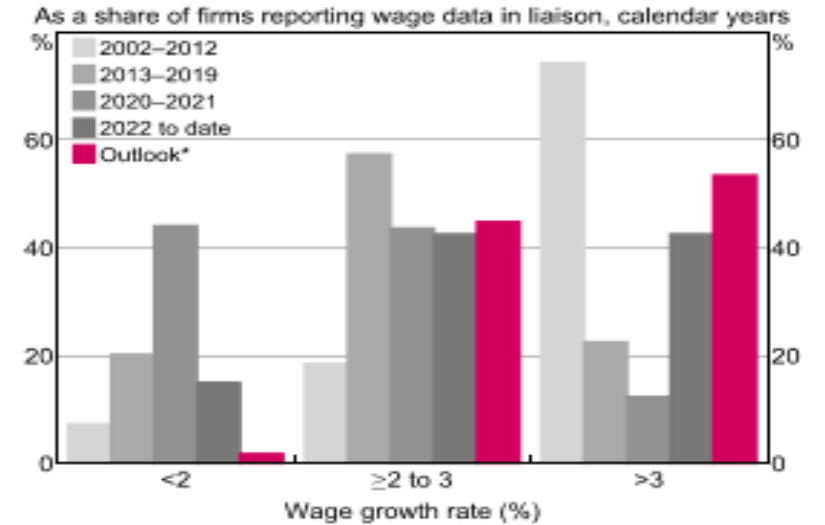
Wage price index excluding bonuses



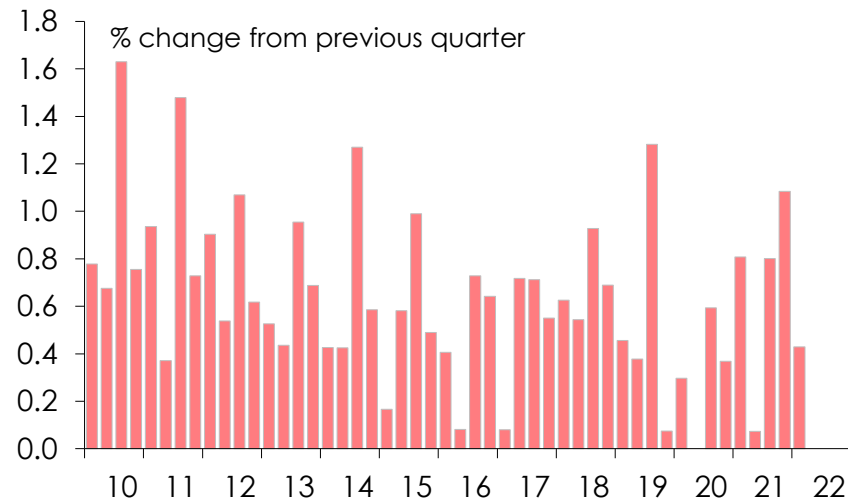
Wage price index – all sectors



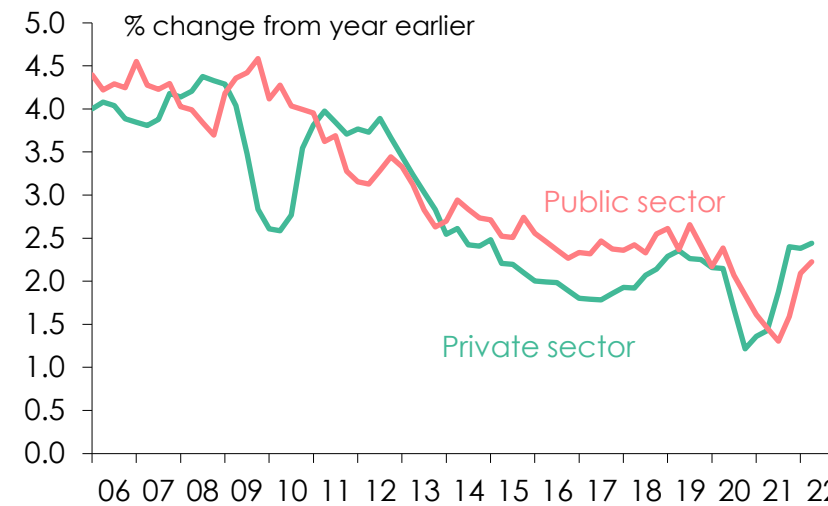
Distribution of wages growth



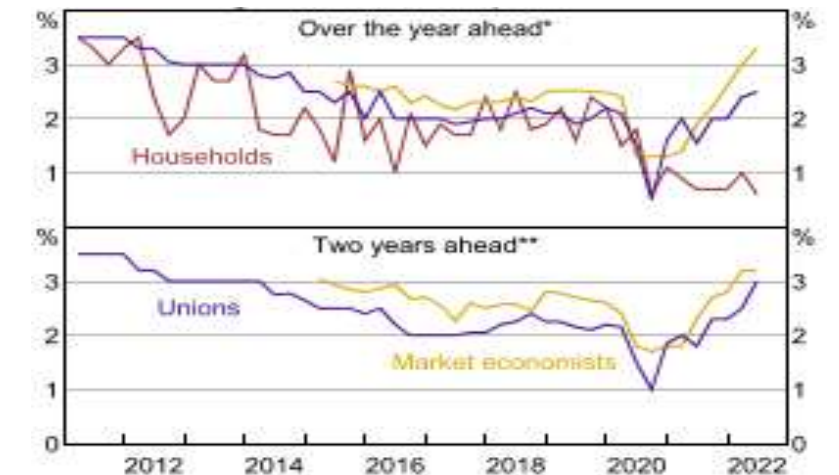
Wage price index including bonuses



WPI – private vs public sectors



Wage growth expectations



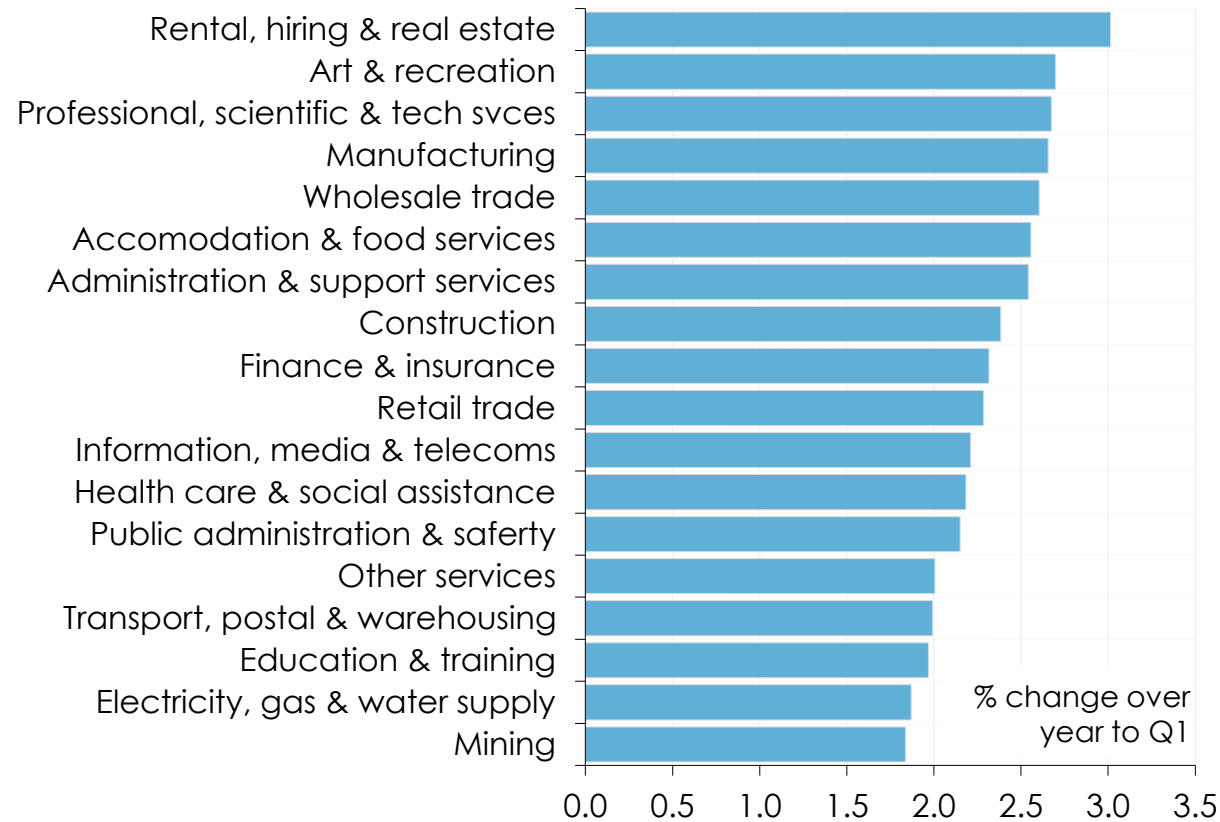
* The current calendar year for union expectations.

** 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

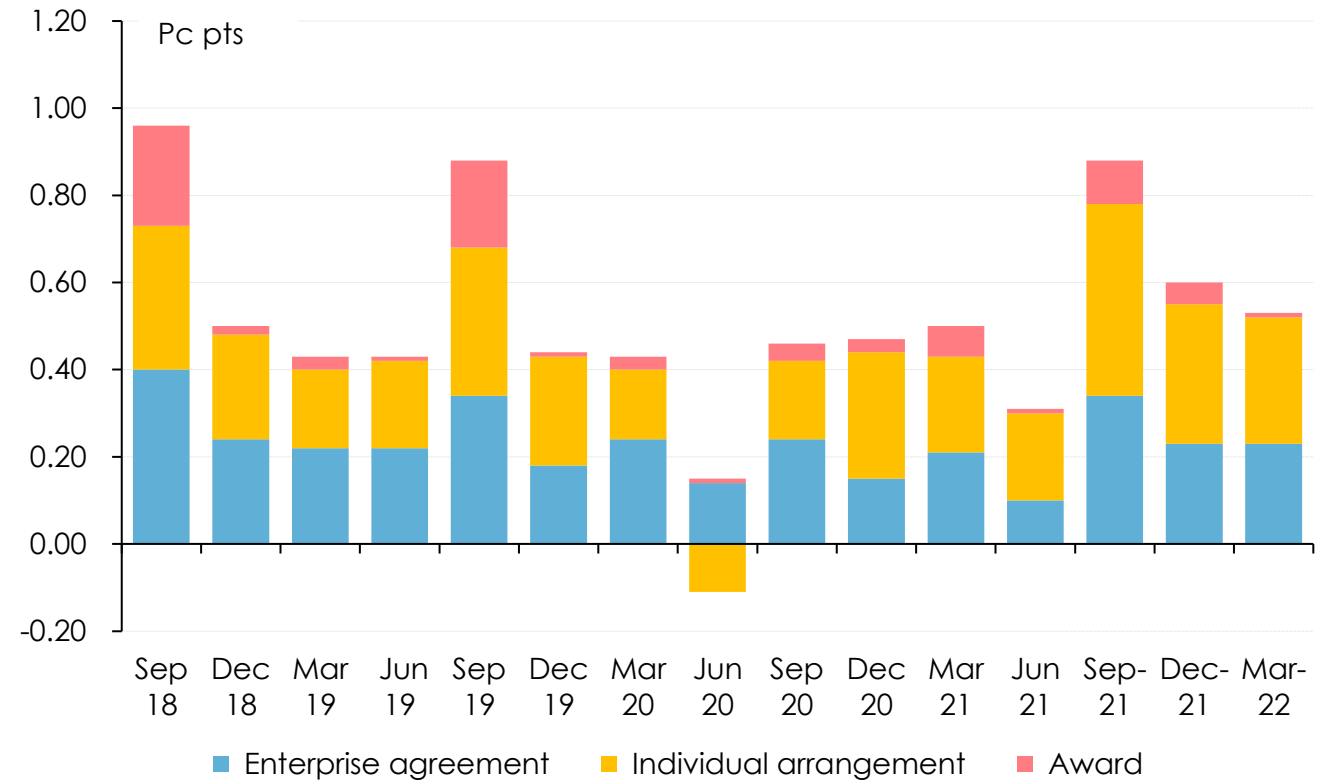
THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

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

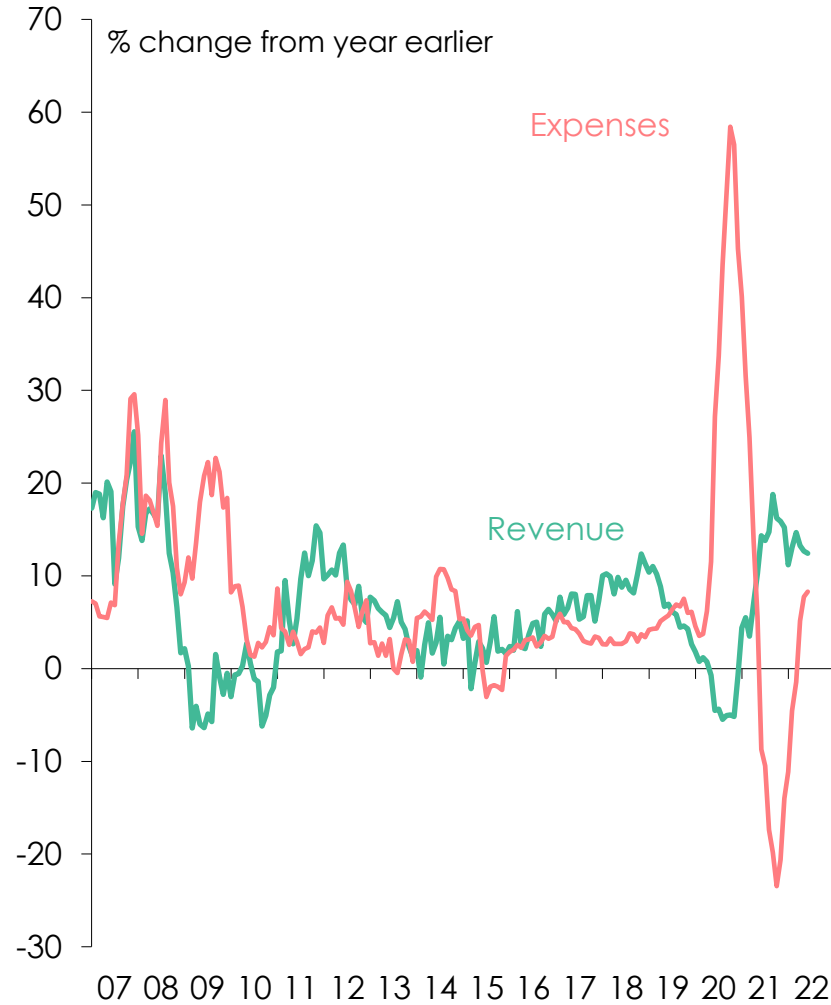
Sources: ABS, [Wage Price Index, Australia](#), March 2022; June quarter WPI data will be released on 17th August. [Return to "What's New"](#).

Fiscal policy

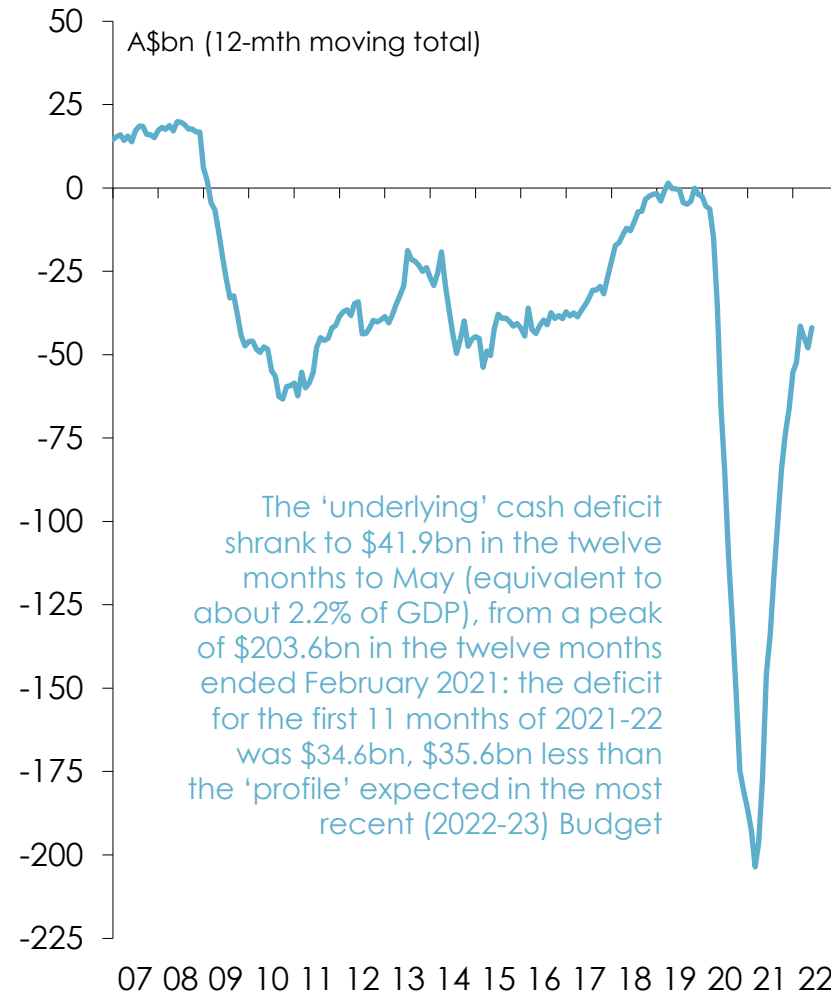
The Federal budget deficit has declined sharply since peaking early last year – with net debt down by \$85bn from its peak last August

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

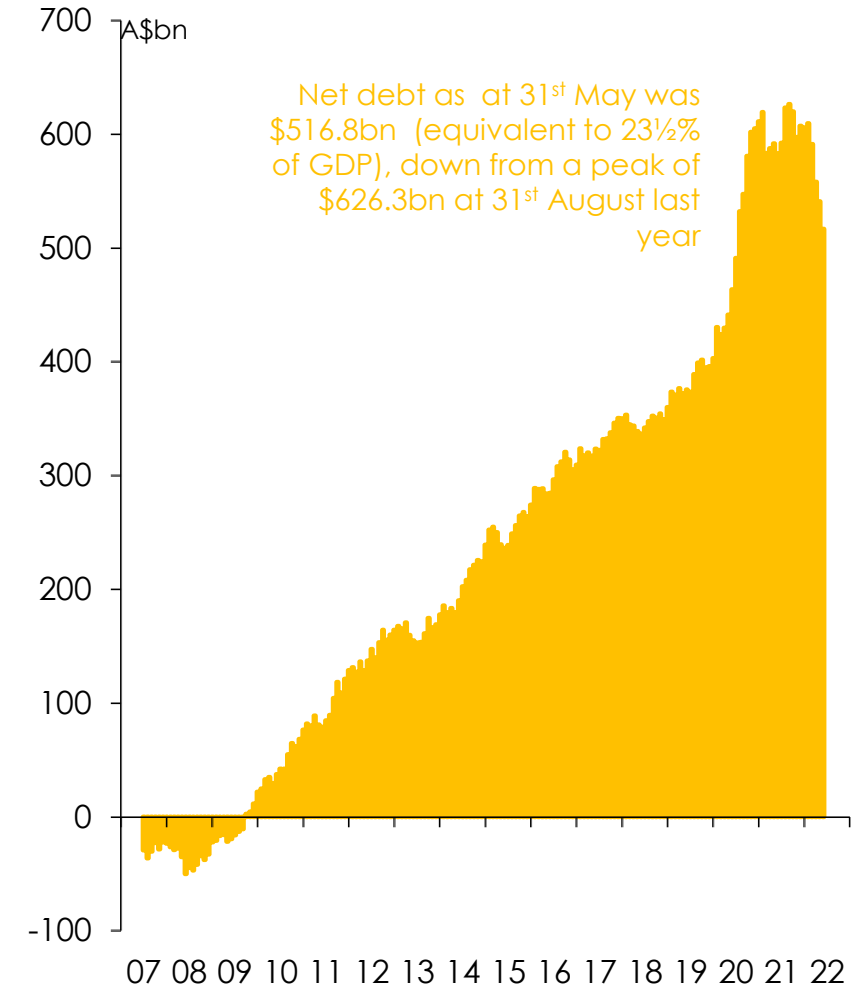
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



Australian Government net debt



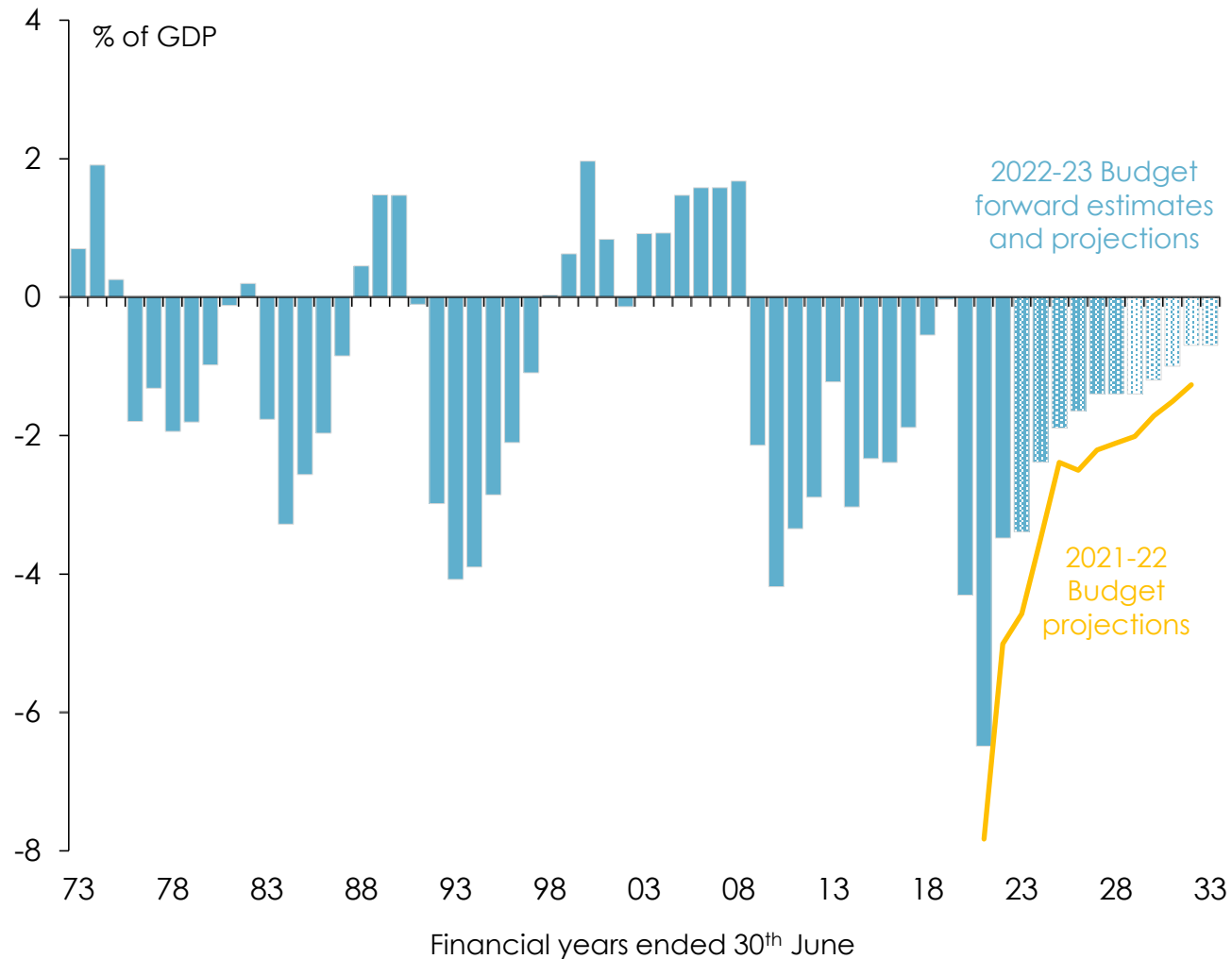
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

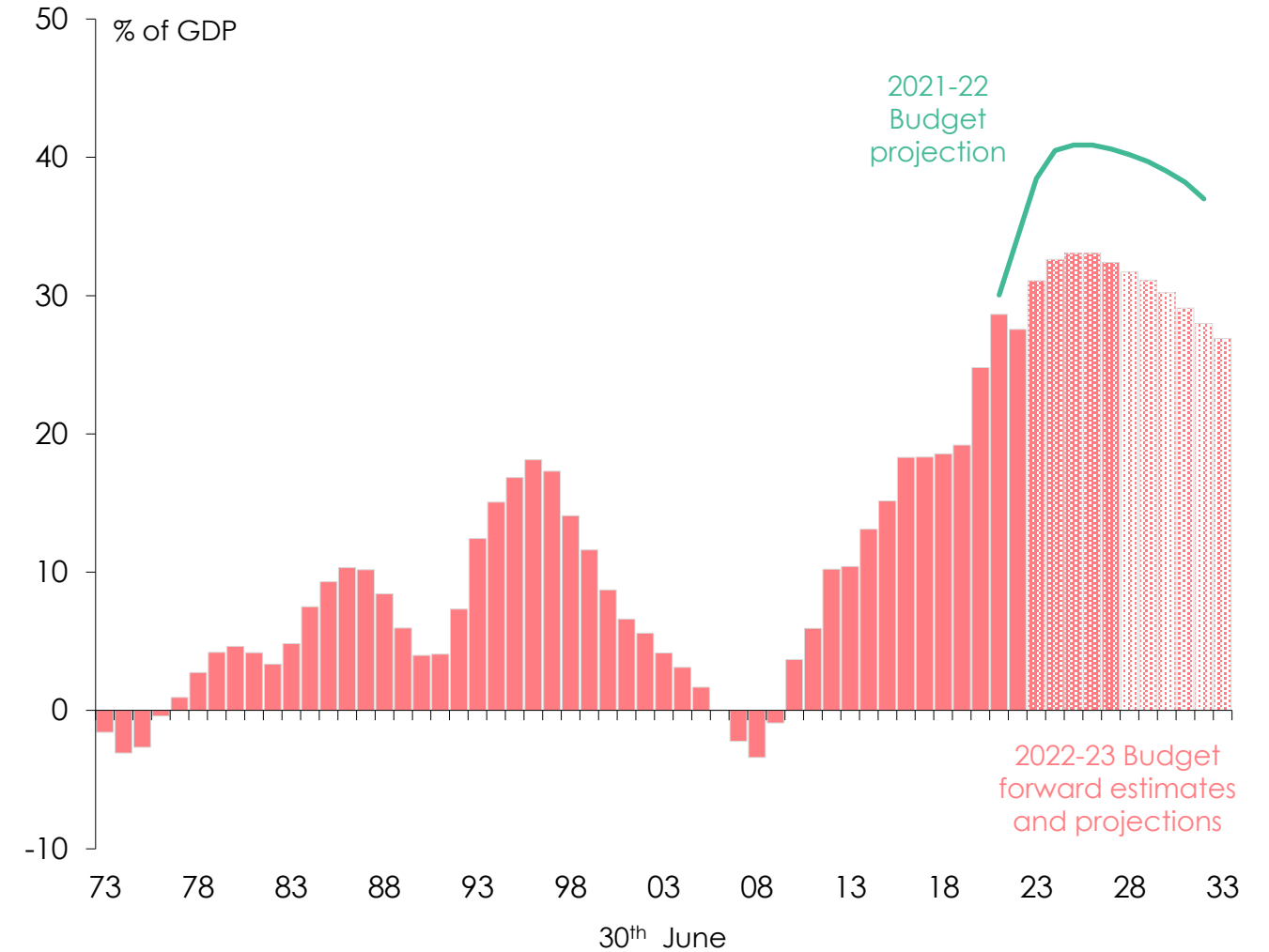
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'Medium-term' projections of the 'underlying cash balance' and net debt

'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 last month

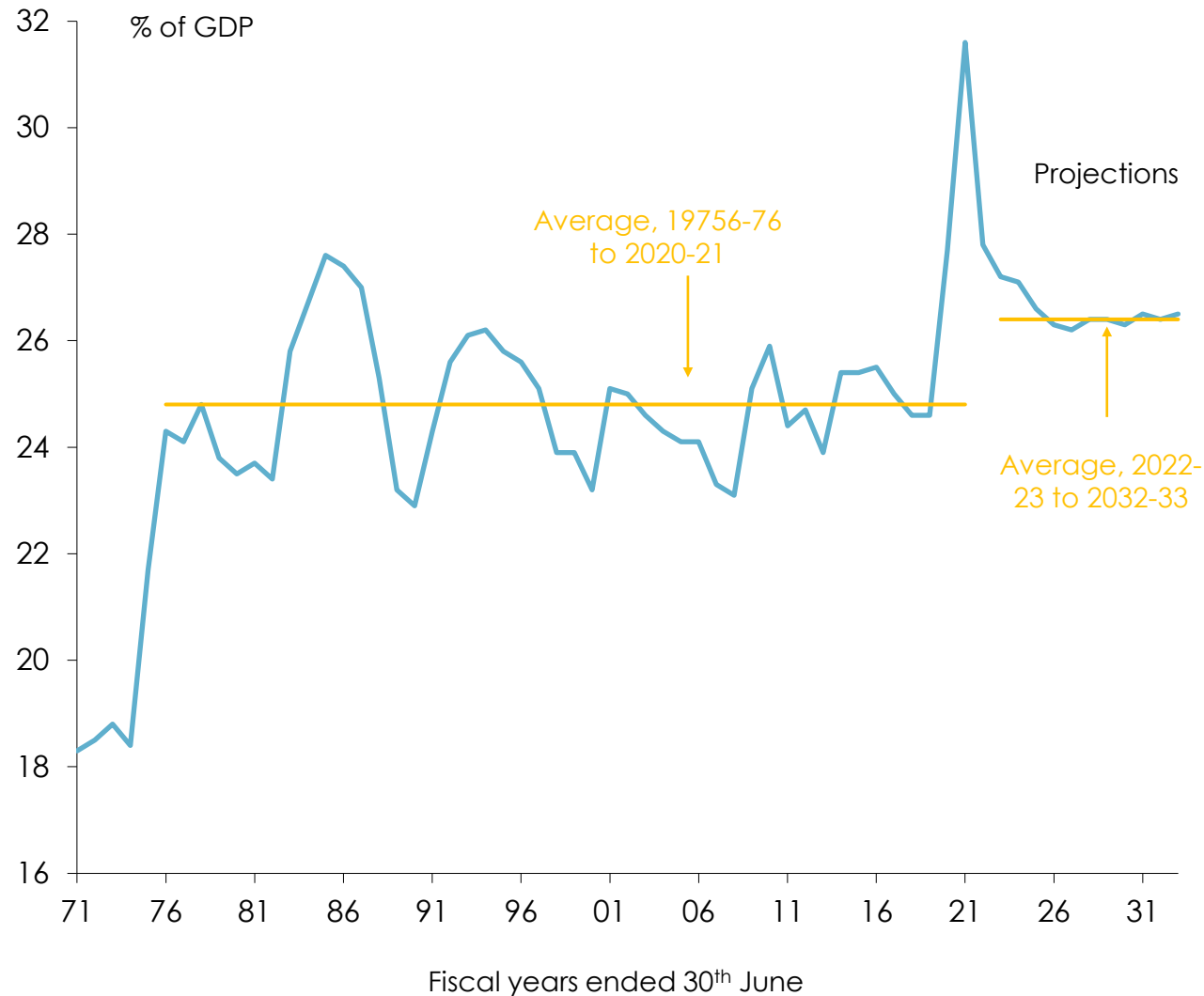
THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

- ❑ 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 72](#))
 - 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 73](#))
 - 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 74](#))
 - 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”

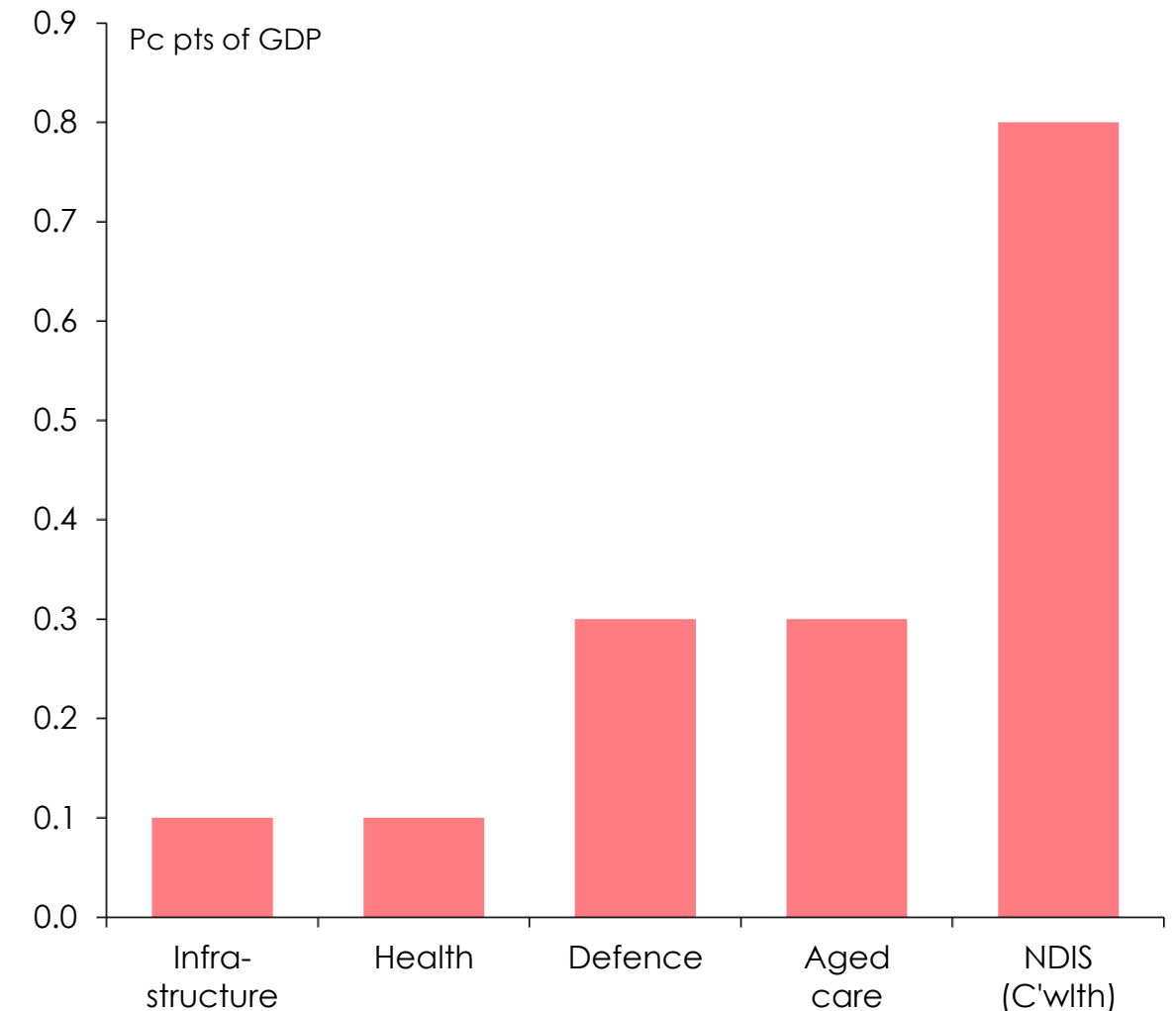
Federal Government spending seems likely to be around 1½ pc pts of GDP higher over the next decade than over the past 45 years

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

‘Underlying’ cash payments as a pc of GDP



Changes in payments between 2018-19 and 2025-26

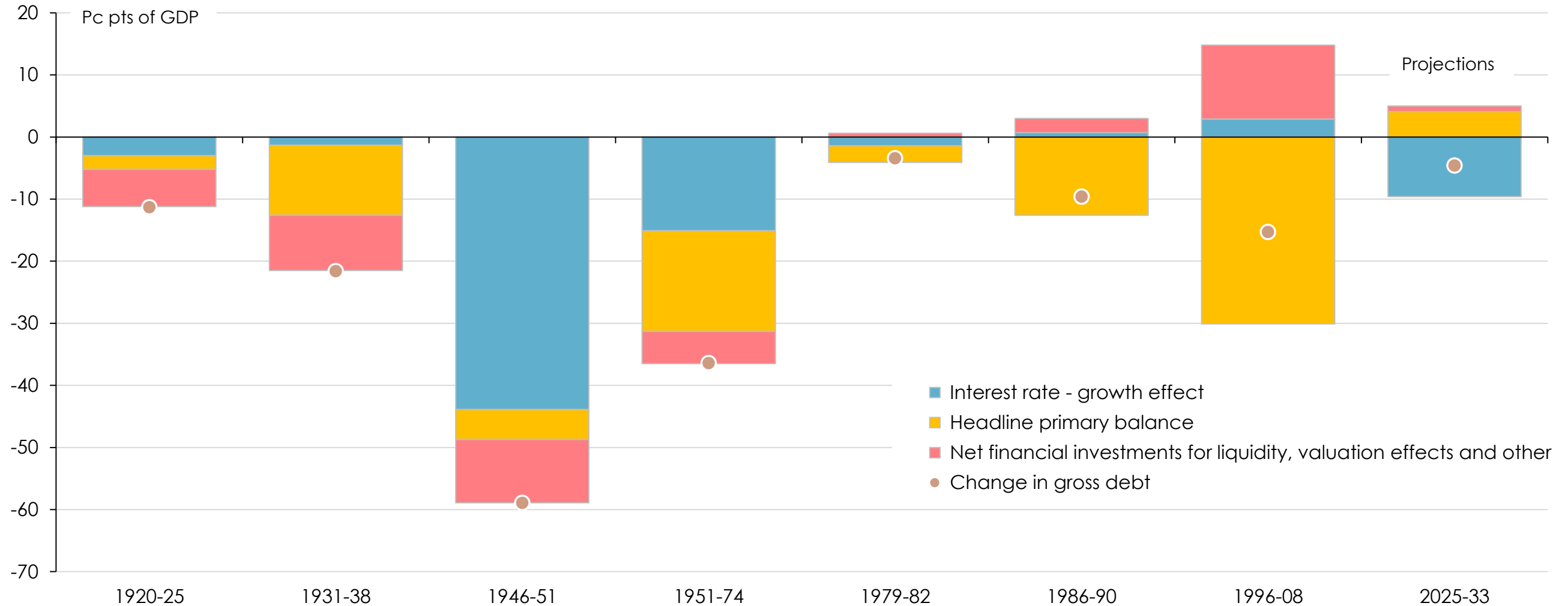


Note: Averages for government spending as pc of GDP exclude temporary Covid support measures since 2019-20. Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8th June 2022.

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

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

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

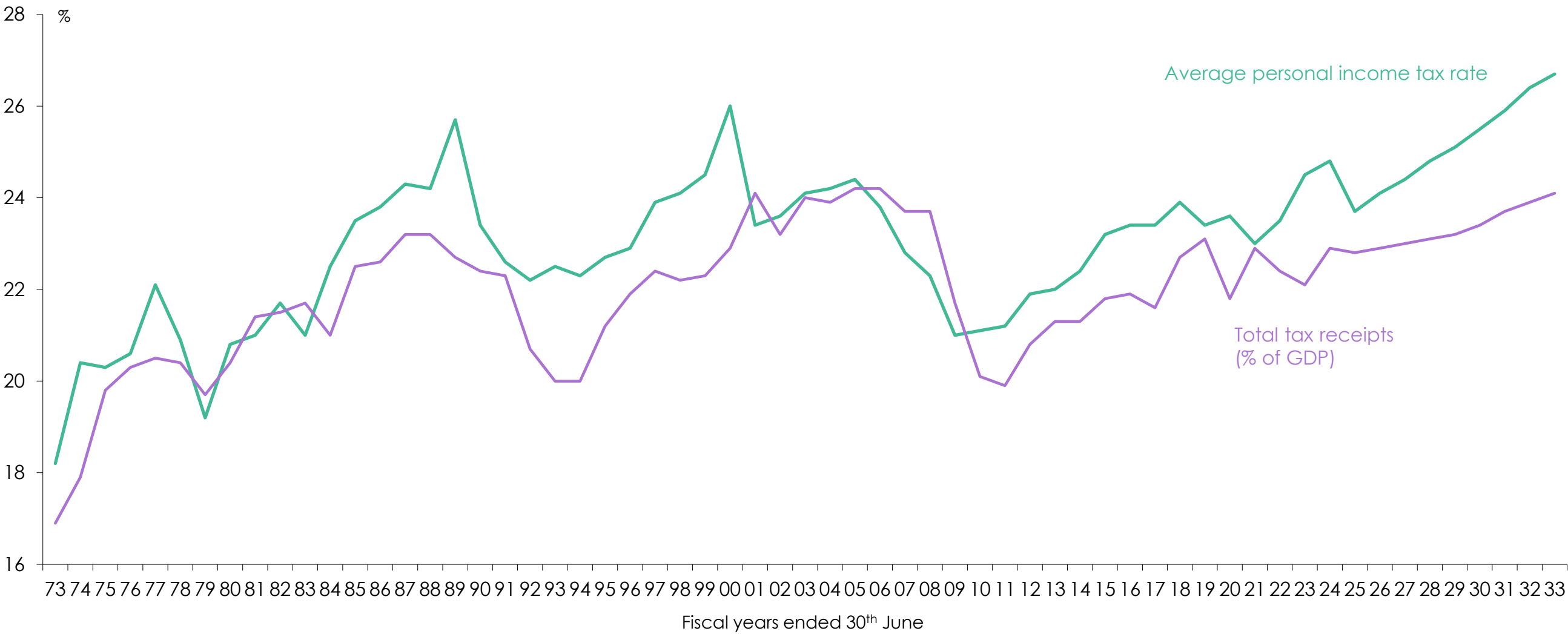


Note: Data are in financial years. Debt excludes issuance for the states. The contribution of interest rates less growth captures the combined direct effect of the former increasing debt and of the latter growing GDP, but not their effects on the headline primary balance (the budget balance excluding 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 – 22ND JULY 2022

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

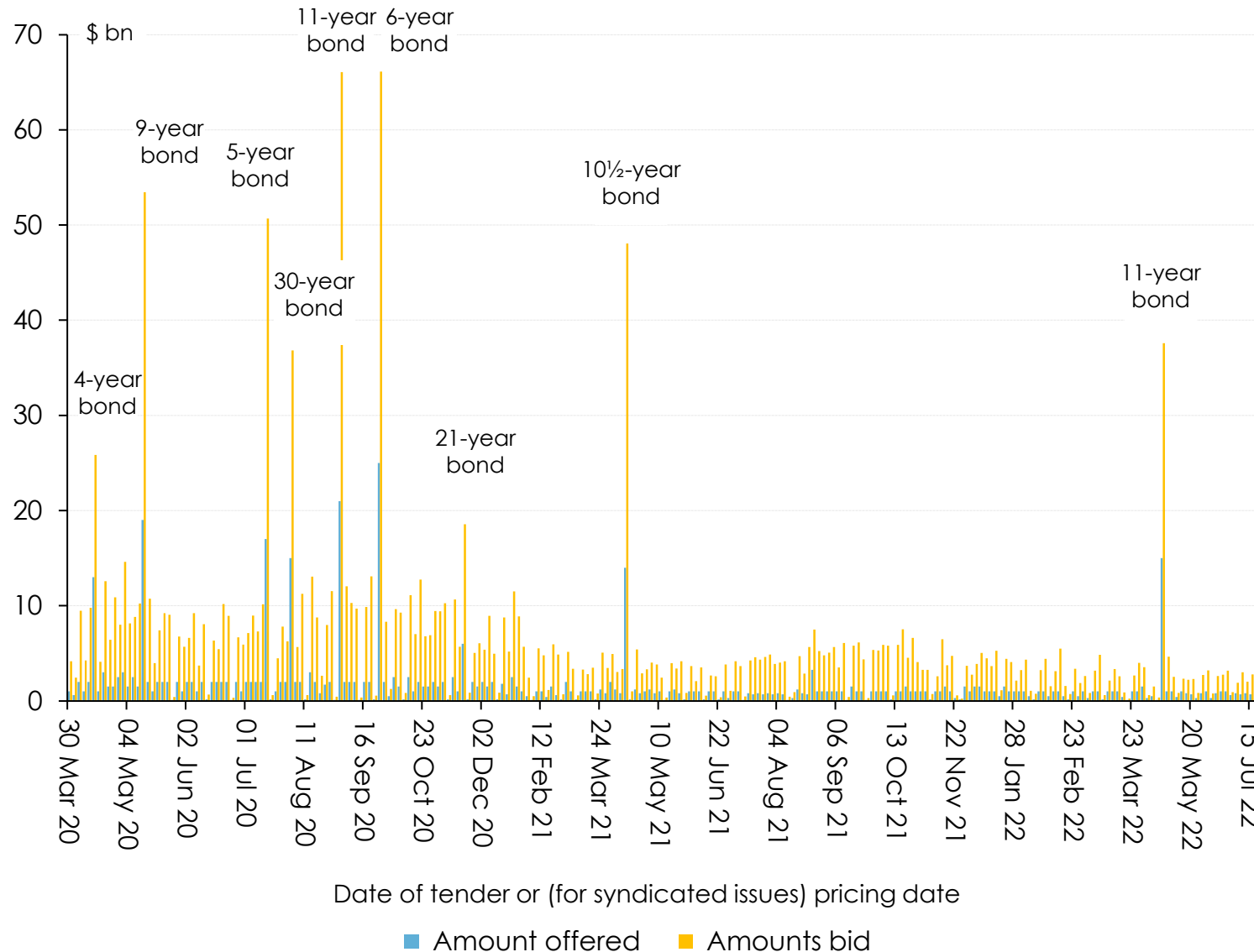


Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8th June 2022.

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

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

Australian government bond issuance since March 2020



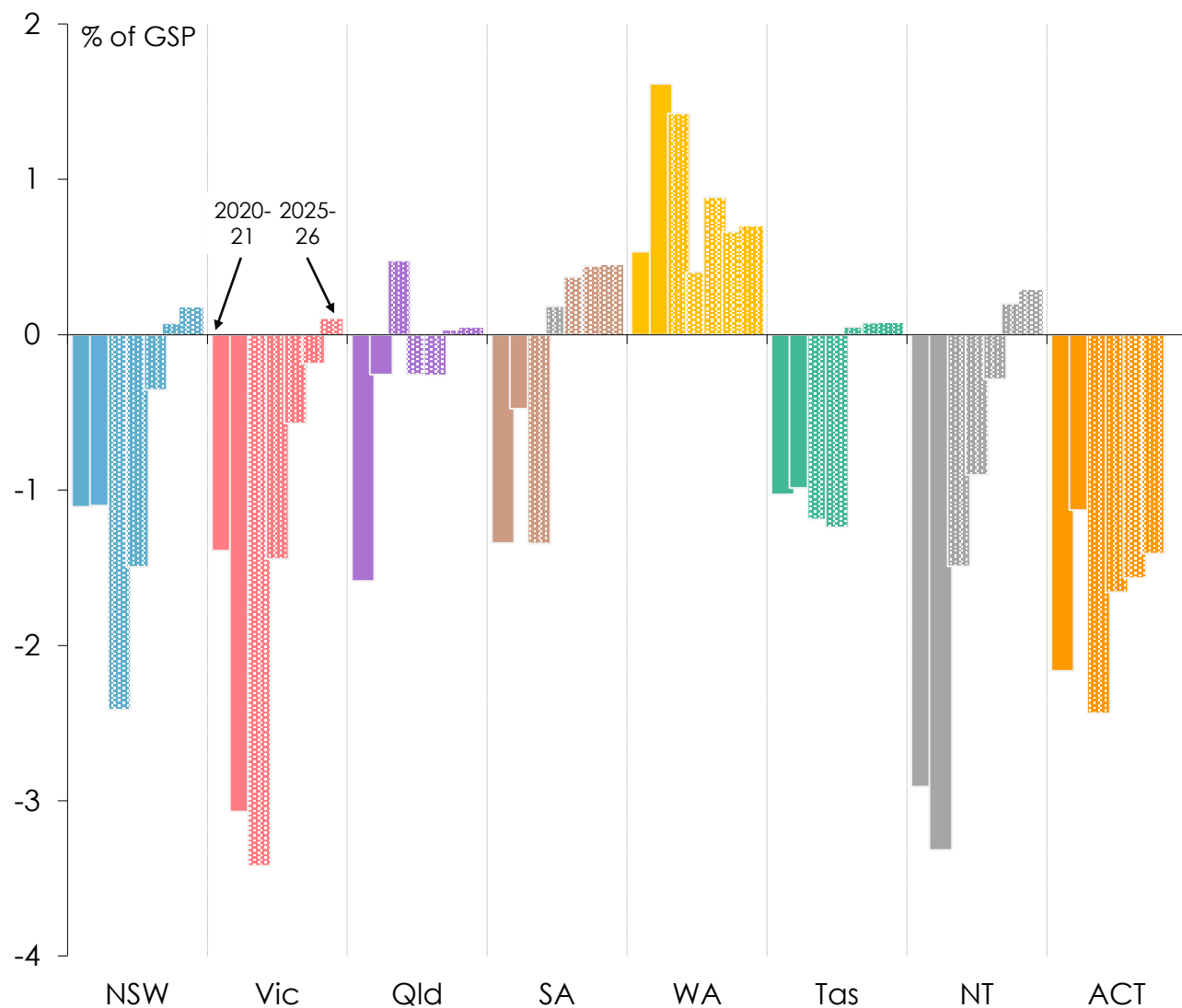
- ❑ The AOFM continues to have no difficulty issuing new debt, but the 'coverage ratio' (the ratio of bids received to bonds offered) at tenders has slipped from 4.3x in the first seven months of 2021-22 to below 2¾x since mid-March
- ❑ And AOFM is having to pay higher yields
- ❑ This week AOFM sold \$700mn of September 2026s, and \$800mn of May 2032s
 - the September 2026s were issued at an average yield of 3.40%, up from 3.25% when last issued in early June, and 2.90% in late April, 1.57% in January and 0.68% in September last year
 - the May 2032s were issued at an average yield of 3.54%, down from 4.12% when these bonds were previously auctioned on 17th June, but up from 3.36% in mid-May, 2.49% in mid-March and 2.28% in February
- ❑ AOFM head Rob Nicholl earlier this month **warned** that "market conditions will present some challenging periods" for AOFM over the year ahead,
 - observing that "after nearly 10 years of significant central bank asset purchases ... it is hard to imagine that unwinding this, even partially, will not involve significant relative asset price readjustment on a broad scale

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

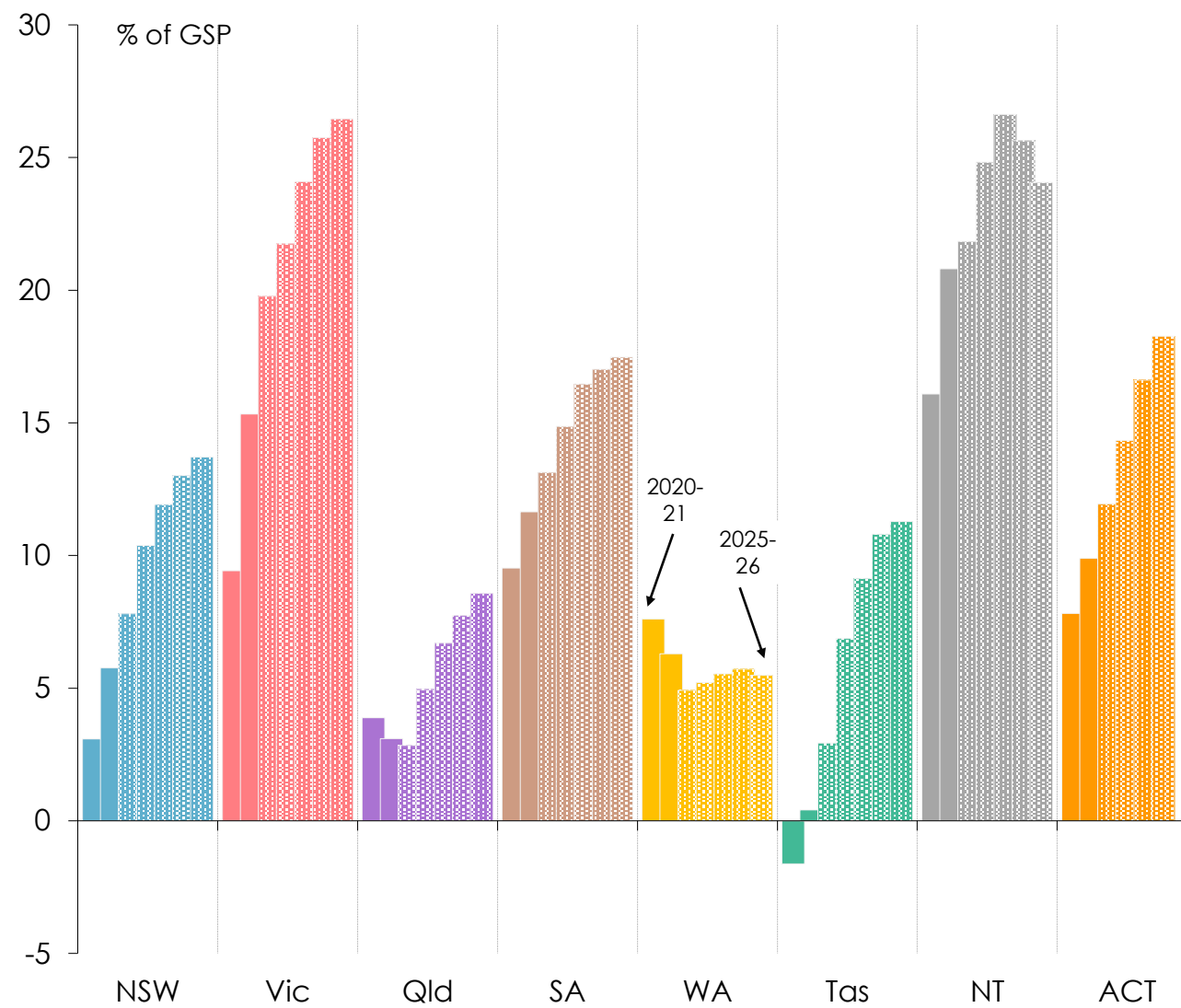
Victoria and the Northern Territory have more onerous fiscal positions than the other jurisdictions

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

States and territories – ‘net operating balances’



States and territories – net debt



Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or 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 Government this week announced the composition and terms of reference of the Review of the Reserve Bank of Australia

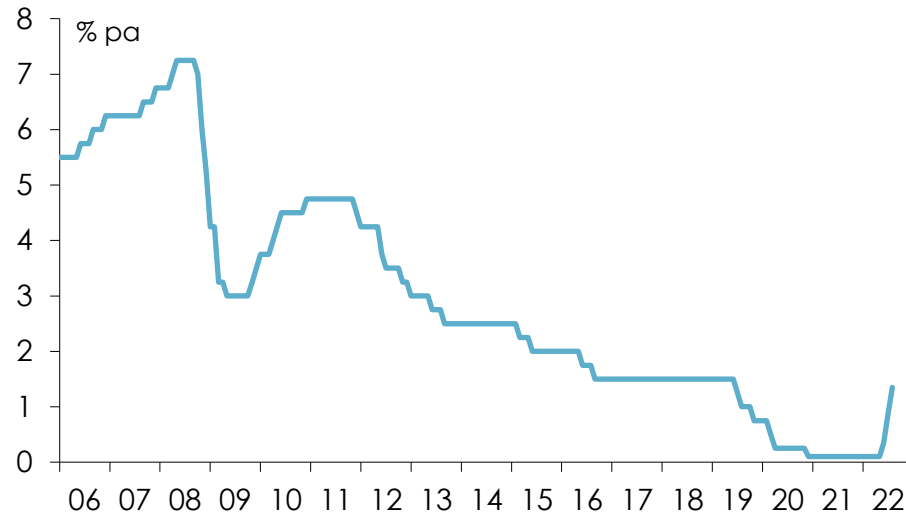
THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

- ❑ **Treasurer Jim Chalmers this week formally announced details of the Review of the Reserve Bank of Australia which the Government had foreshadowed during the election campaign**
- ❑ **The [Review Panel](#) will comprise three distinguished economists -**
 - Carolyn Wilkins, currently senior research scholar at Princeton University’s Griswold Center for Economic Policy and a member of the Bank of England’s Monetary Policy Committee, and previously at the Bank of Canada for 20 years including six as Deputy Governor
 - Professor Renée Fry-McKibbin, currently Director of the Crawford School of Public Policy at the Australian National University, and co-director of the Finance & the Macroeconomy and the Commodities & the Macroeconomy research programs within the Centre for Applied Macroeconomic Analysis (CAMA)
 - Gordon de Brouwer, recently appointed as Secretary for Public Sector Reform, and previously Professor of Economics at ANU’s Crawford School and College of Business & Economics, a long-standing senior public servant and previously an RBA officer
- ❑ **The Panel’s [terms of reference](#) include the “continued appropriateness of the inflation targeting framework”, the “interaction of monetary policy with fiscal and macroprudential policy (including during crises)”, the RBA’s “performance in meeting its objectives”, its “governance and accountability arrangements” and its “culture, management and recruitment processes”**
 - the review of the RBA’s “performance” will include “its choice of policy tools, policy implementation, policy communication, and how trade-offs between different objectives have been managed”
 - while the review of its “governance” will include “its Board structure, experiences and expertise, composition and the appointments process”
 - the only area specifically excluded from the Review is “APRA’s statutory role or functions” – which appears to imply the Review won’t be re-evaluating the separation of prudential supervision functions from the RBA after the Wallis Inquiry in the late 1990s
- ❑ **The Review is required to report “with a set of clear recommendations to the Government” no later than March 2023**

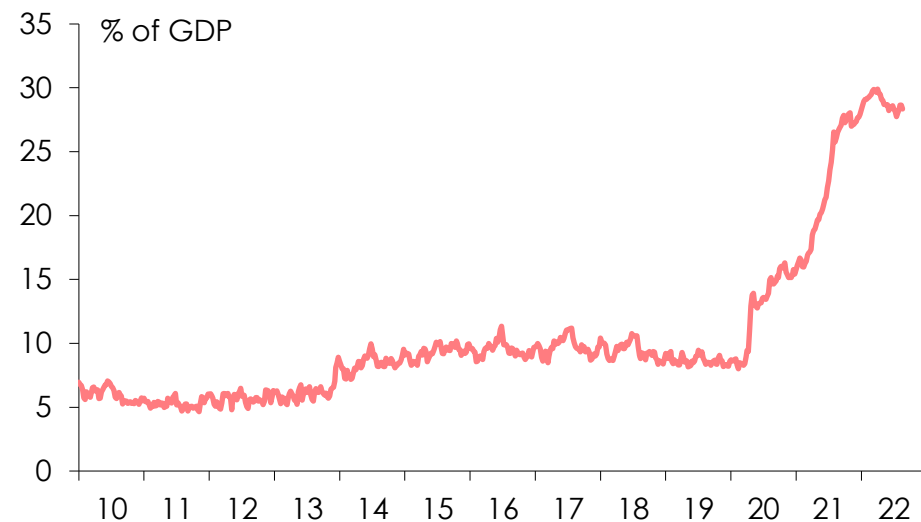
The RBA raised its cash rate another 50 bp, to 1.35%, at this month's Board meeting, and foreshadowed more increases in coming months

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Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



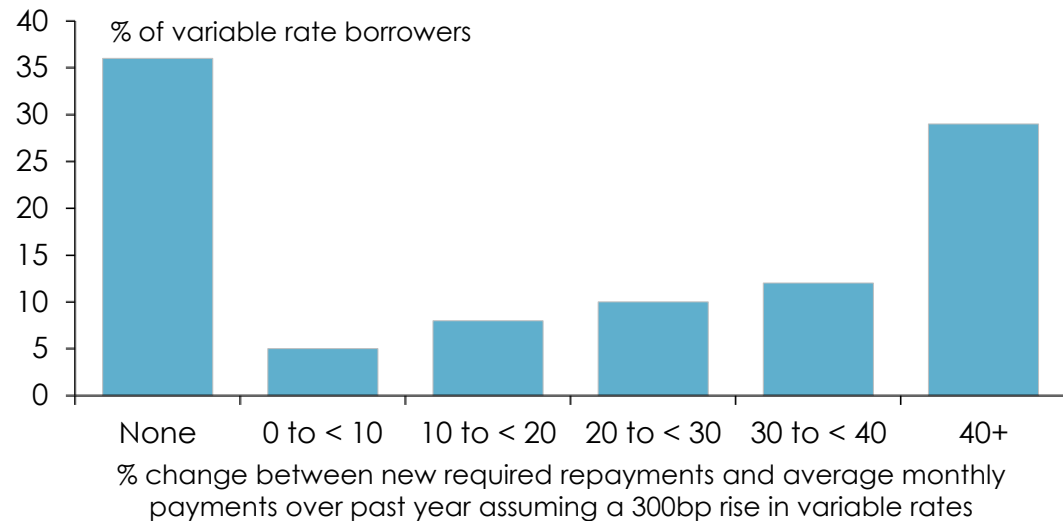
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ The Reserve Bank raised its cash rate another 50 basis points, to 1.35%, at its Board meeting earlier this month, following increases of 25 bp in May and 50 bp in June
- ❑ In his [post-meeting statement](#), RBA Governor Philip Lowe depicted the move as “a further step in the withdrawal of the extraordinary monetary support that was put in place to help insure the Australian economy against the worst possible effects of the pandemic”
 - in fact, that “extraordinary support”, at least as indicated by the level of the cash rate, had been more than fully “withdrawn” last month – the cash rate is now well above where it was just before the onset of Covid-19 (0.75%) and indeed the highest since May 2019
- ❑ The [minutes](#) of the July meeting, released this week, indicate that the Board had considered the alternatives of raising the cash rate by 25 or 50 bp, and opted for the larger increase because interest rates were “still very low for an economy with a tight labour market and facing a period of higher inflation”
 - Board members also agreed that “further steps would need to be taken to normalize monetary conditions in Australia over the months ahead”
- ❑ The minutes also indicated that the Board spent some time discussing staff estimates of the “neutral real interest rate for Australia”, and how that should be translated into a nominal cash rate
 - the minutes didn’t provide any indication of the range of estimates of the neutral rate, but record agreement that “the current level of the cash rate is well below the lower range of estimates for the nominal neutral rate”
- ❑ In a [speech](#) given the day after the release of the minutes, Governor Lowe indicated that “the neutral nominal rate is at least 2½%”, but also emphasized that the RBA was “not on a pre-set path to achieve any specific level of the cash rate”
 - rather, he again stressed that “the Board will continue to be guided by the incoming evidence and by its assessment of the outlook for inflation and the labour market”

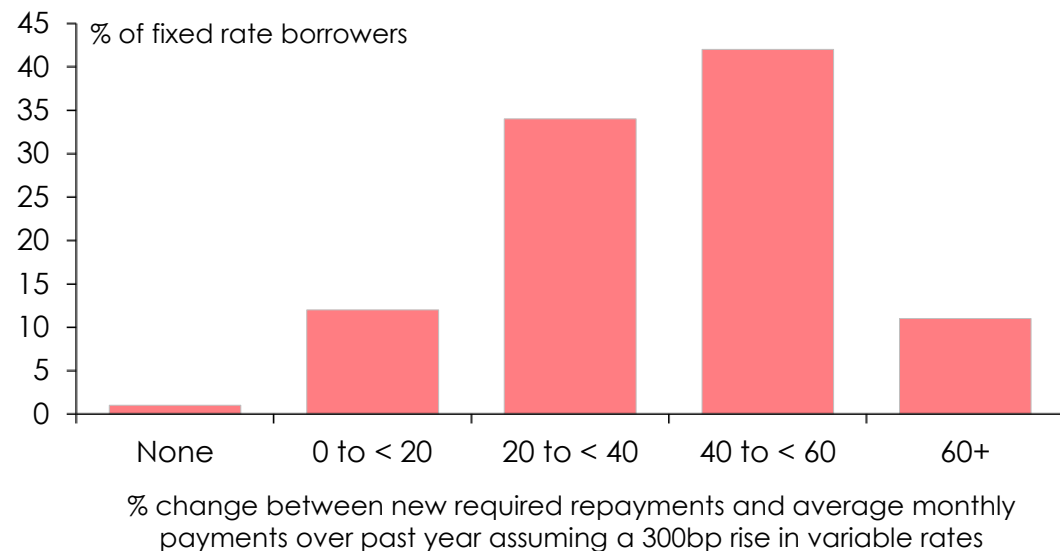
The RBA's Deputy Governor is optimistic that “as a whole households are in a fairly good position” to cope with prospective increases in interest rates

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Repayment increases for variable-rate loans



Repayment changes on expiring fixed-rate loans



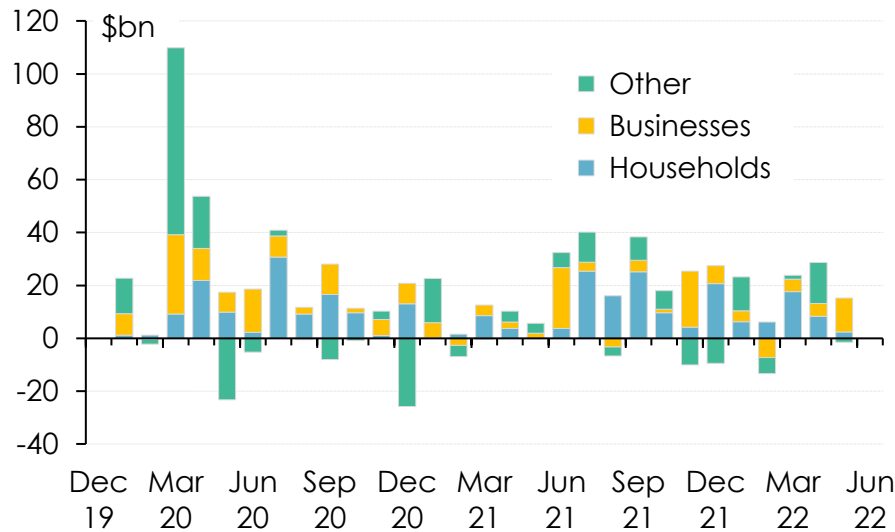
- ❑ RBA Deputy Governor Michele Bullock provided some estimates of household exposure to increases in interest rates in a [speech](#) this week
- ❑ She noted that only one-third of households have mortgage debt, and that three-quarters of outstanding household debt is owed by households in the top 40% of the income distribution (cf. households in the bottom 20% owing less than 5% of total debt)
- ❑ The RBA estimates that more than one-third of variable-rate borrowers “have already been making average monthly loan payments (including irregular payments to redraw and offset accounts) sufficient to meet the resulting rise in required repayments” if variable mortgage rates were to rise by 300 bp (from their low) as implied by current financial market pricing
 - but just under 30% of borrowers would face relatively large repayment increases of more than 40% of their current payments”
- ❑ Another potentially vulnerable group of borrowers are those who took out fixed-rate loans during 2020 and 2021 and which will expire during the next 12-18 months, exposing those borrowers to much higher variable rates
 - the RBA estimates that “around half of fixed-rate loans (by number) would face an increase in repayments of at least 40% if variable rates increase by 300bp
 - although “it is likely that many of these borrowers will have accumulated savings outside their mortgages ahead of any potential increase in repayments”

Source: Michele Bullock, [How Are Households Placed for Interest Rate Increases?](#), Address to Economic Society of Australia (Queensland), 19th July 2022. [Return to "What's New"](#).

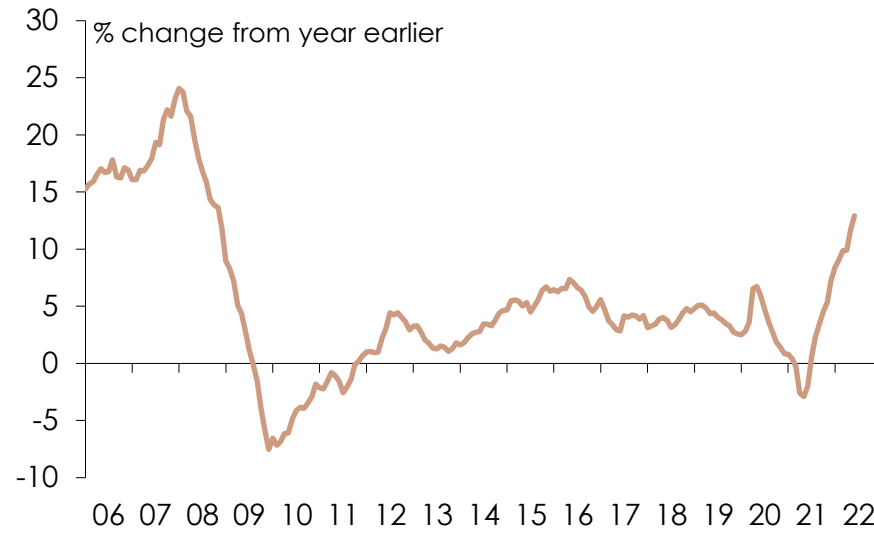
Banks have been swamped with deposits since the beginning of the pandemic, and have lent readily to both households and businesses

THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

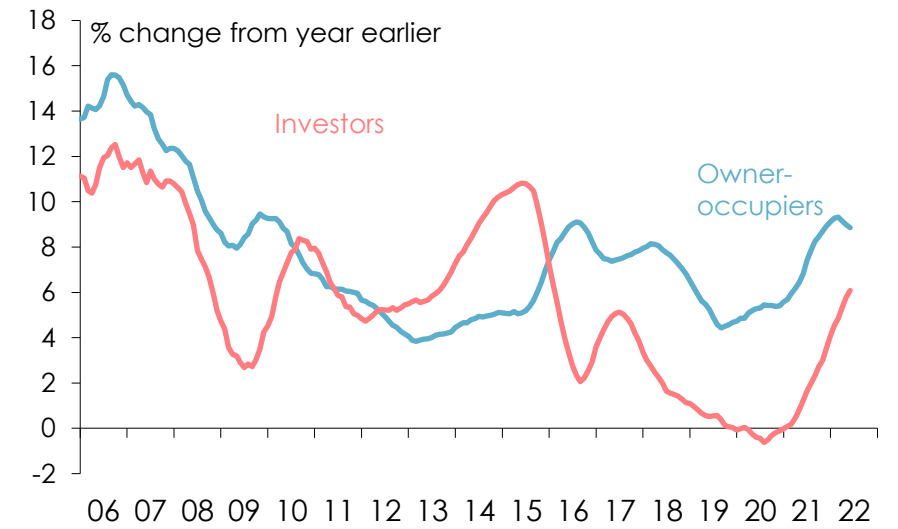
Monthly change in bank deposits



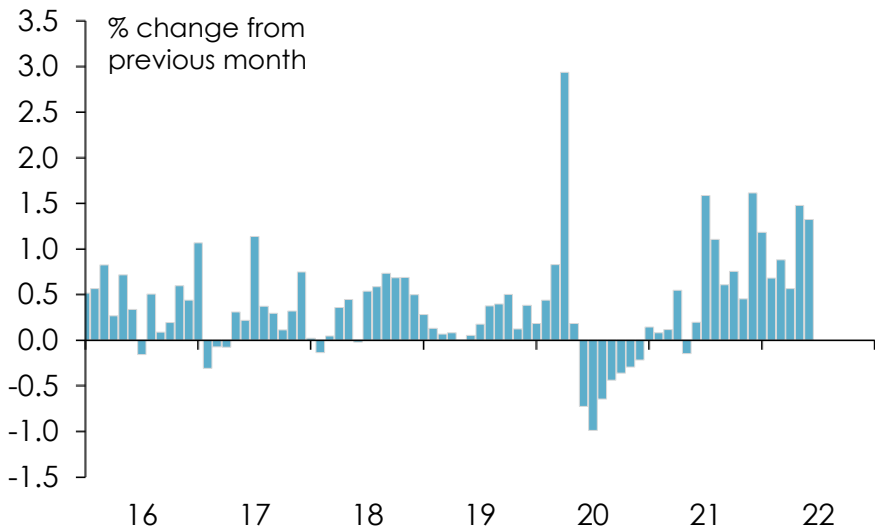
Annual growth in business credit



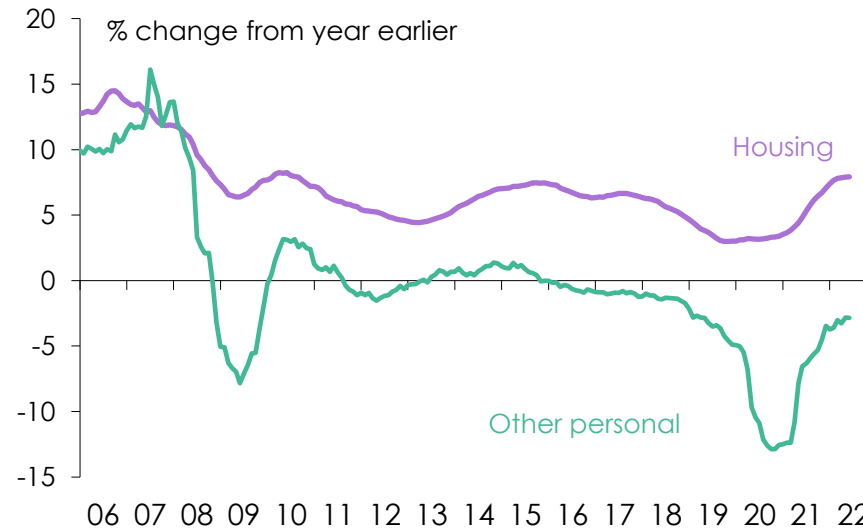
Annual growth in housing credit



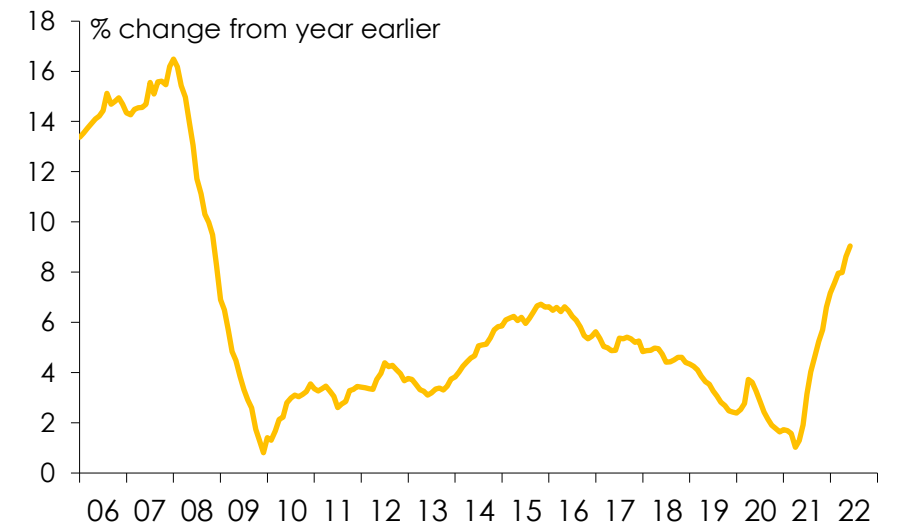
Monthly change in business credit



Annual growth in household credit



Annual growth in total credit

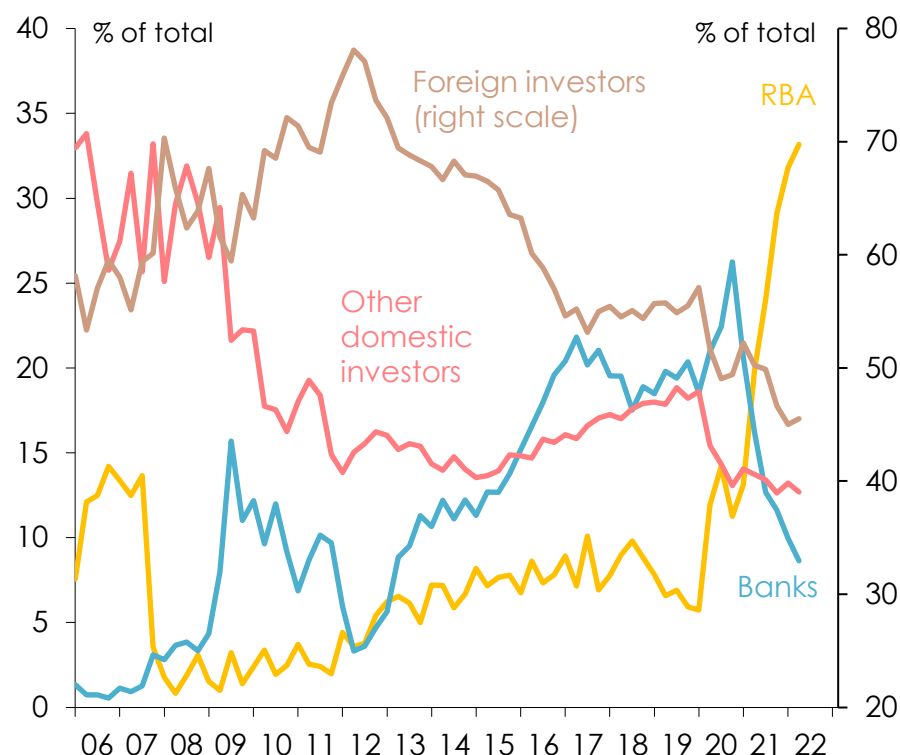


Sources: [Reserve Bank of Australia](#); [Australian Prudential Regulation Authority](#). [Return to "What's New"](#).

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

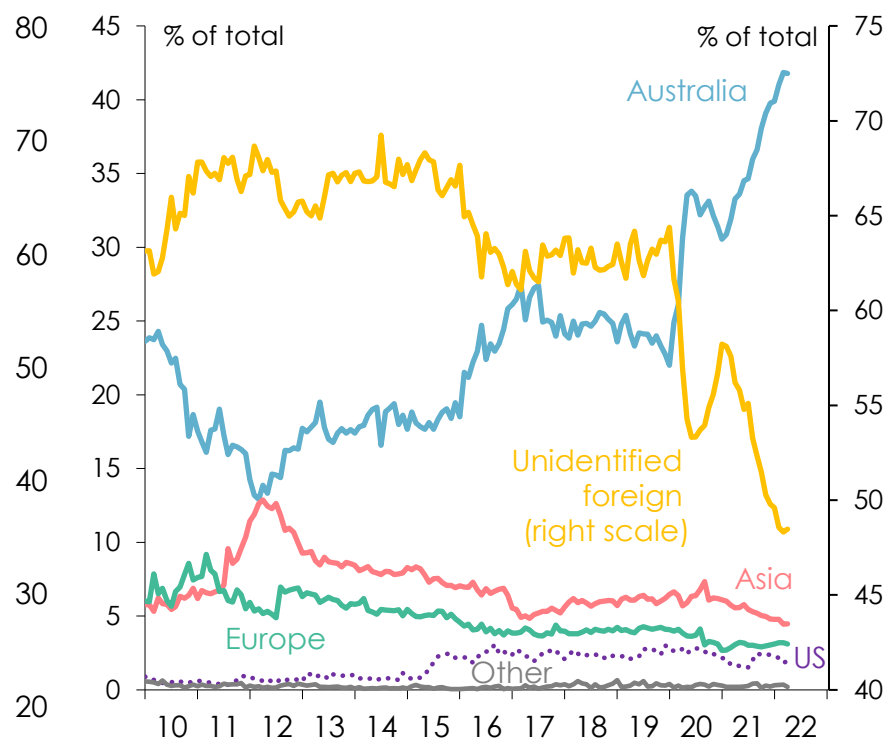
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Holder of Australian Government bonds



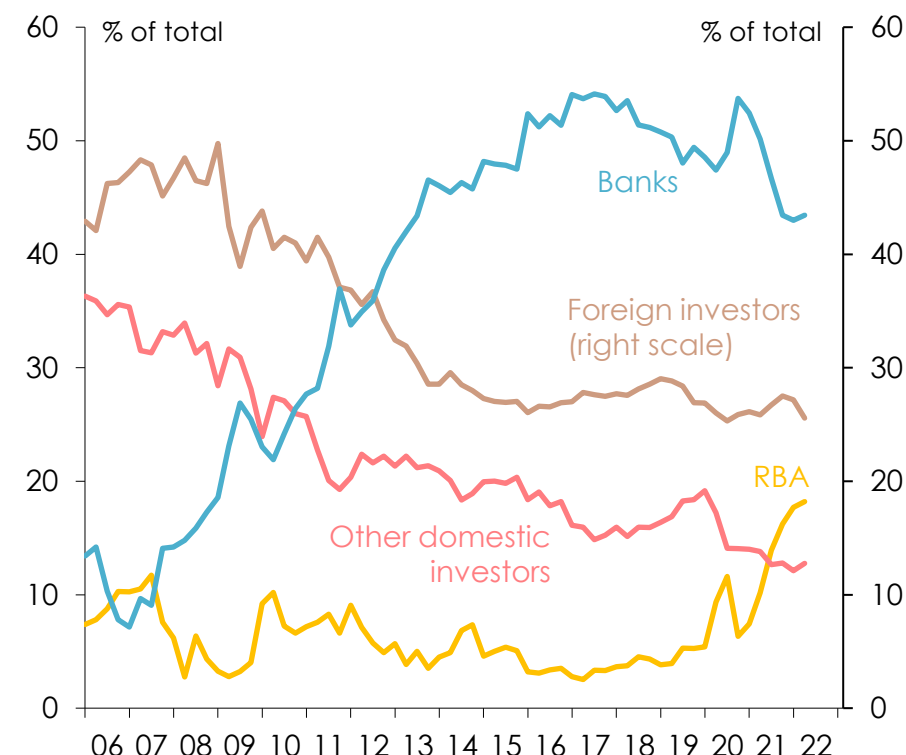
Australian Gov't bonds on issue have increased by \$215bn since the end of 2019 – the RBA's holdings have increased by \$245bn, and foreigners' by \$24bn, while banks' holdings have fallen by \$44bn

Nationality of Australian Government bond holders



Largely as a result of the RBA's purchases, the proportion of total Australian Gov't bonds owned by foreigners fell to 58.2% at end-March, down from 78% at the end of 2019 and a peak of 85.6% in July 2012

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

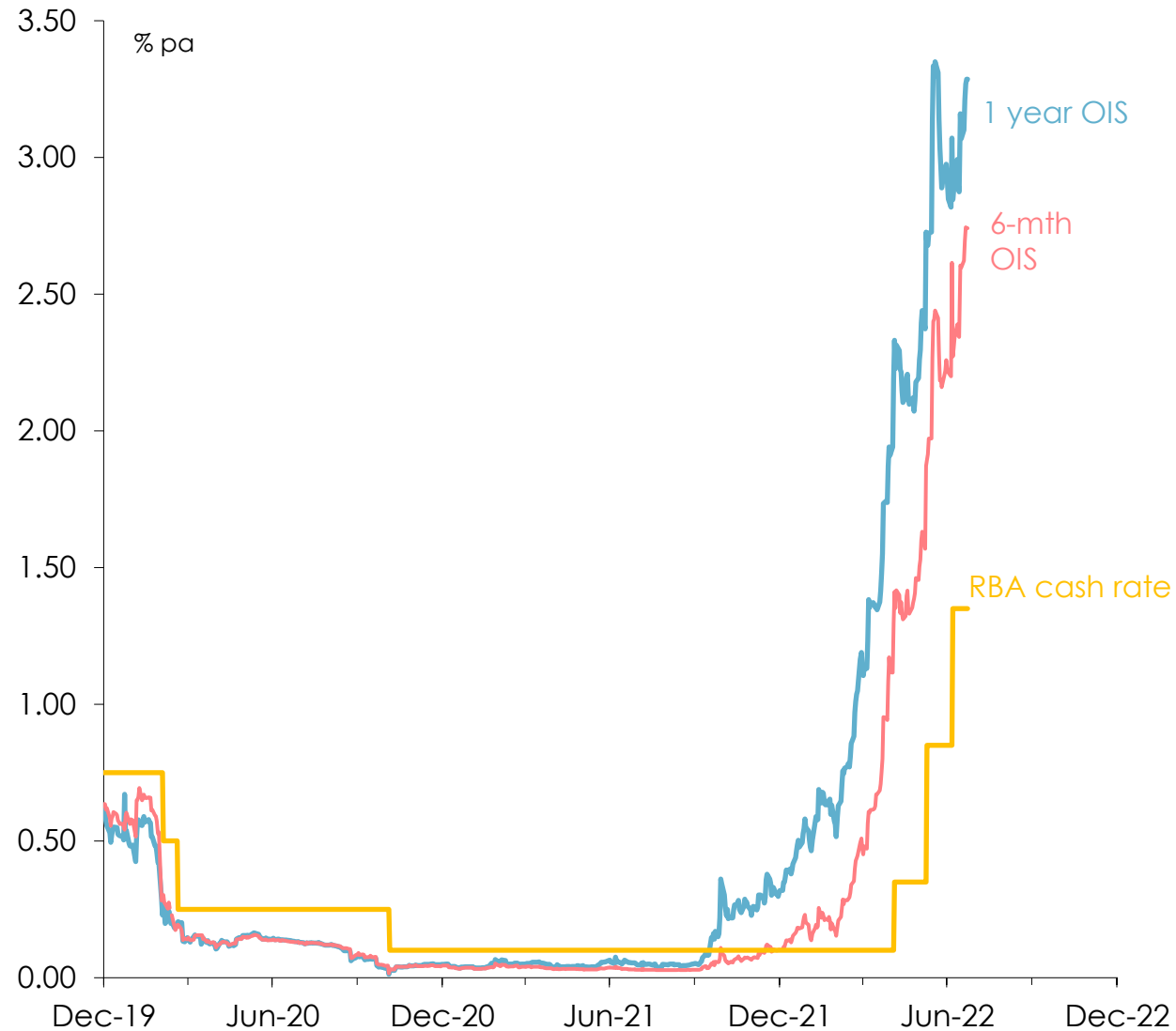
Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2022; [Australian Office of Financial Management](#). June quarter data will be released on 29th September. [Return to "What's New"](#).

Australian financial markets

Financial markets revised up their expectations for RBA rate hikes a bit further this week after Governor Lowe's speech on Wednesday

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Overnight index swap rates



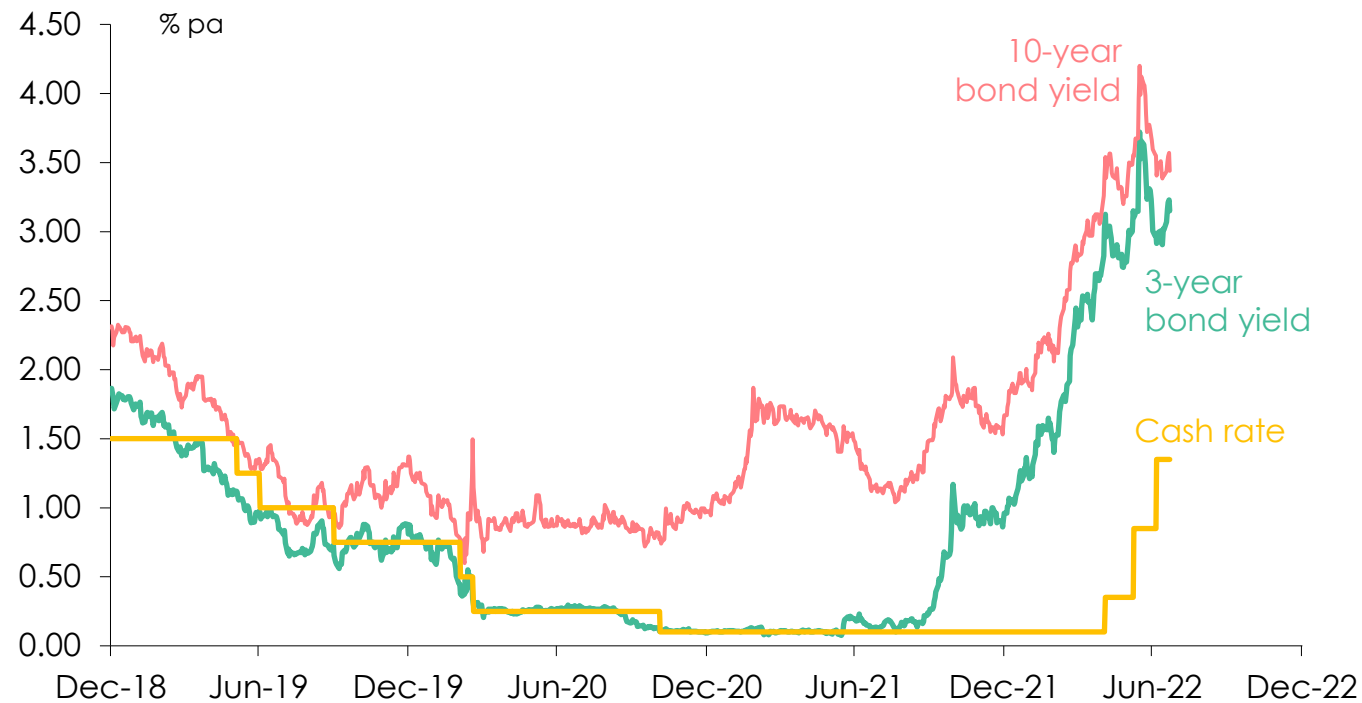
Yield curves



Short-term bond yields continued rising this week, but 10-year yields fell on Friday in line with the global reaction to Thursday's 50bp ECB rate hike

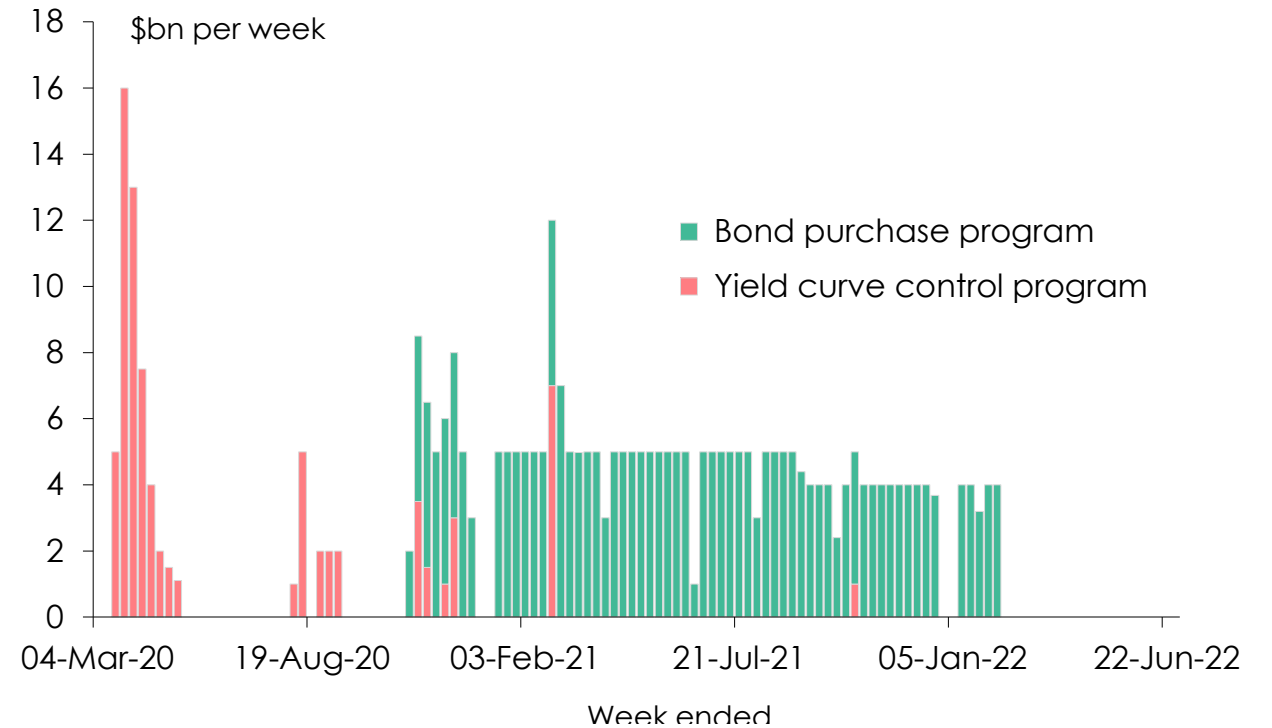
THE AUSTRALIAN ECONOMY THIS WEEK – 22ND JULY 2022

Interest rates



- ❑ 2-year bond yields rose another 25bp to 2.94%, and 3-year yields rose 14 bp to 3.15%, as financial markets priced in more RBA tightening after [Governor Lowe's speech](#) on Wednesday
- ❑ 10-year bond yields reached 3.57% on Thursday, up 17bp from the previous Friday close, but then fell to 3.44% on Friday following the declines in US long-term yields in the aftermath of Thursday's 50bp rate hike from the ECB

RBA open market bond purchases

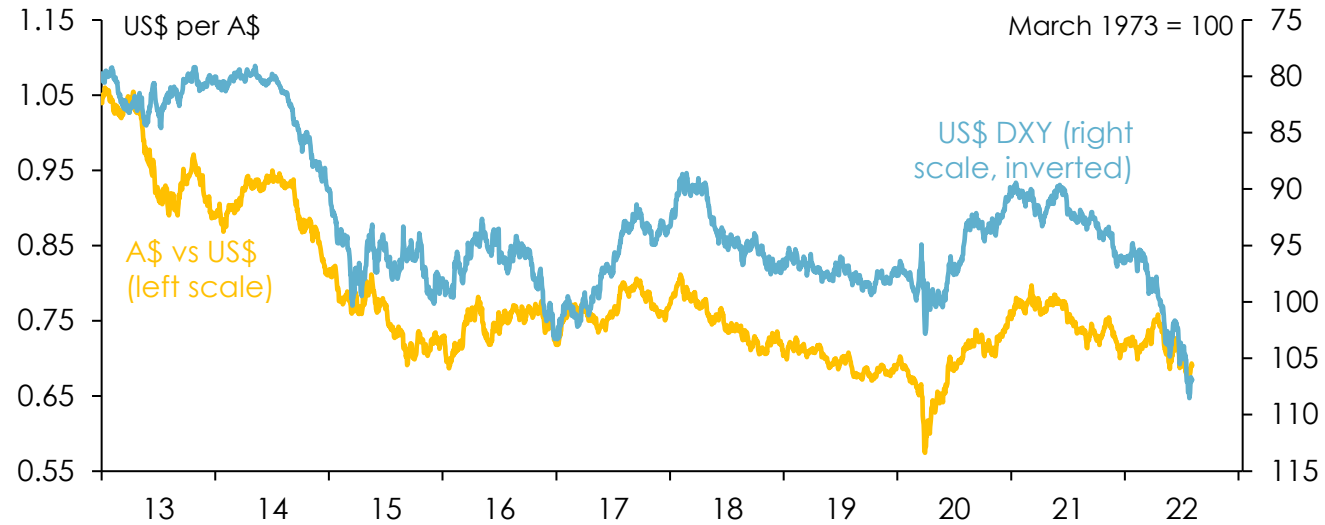


- ❑ The RBA last month released the findings of an internal [review](#) of the 'yield curve target' program which it ran between March 2020 and November 2021
- ❑ The review concluded that while this program succeeded in "lowering funding costs and supporting the provision of credit", the exit from it 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"

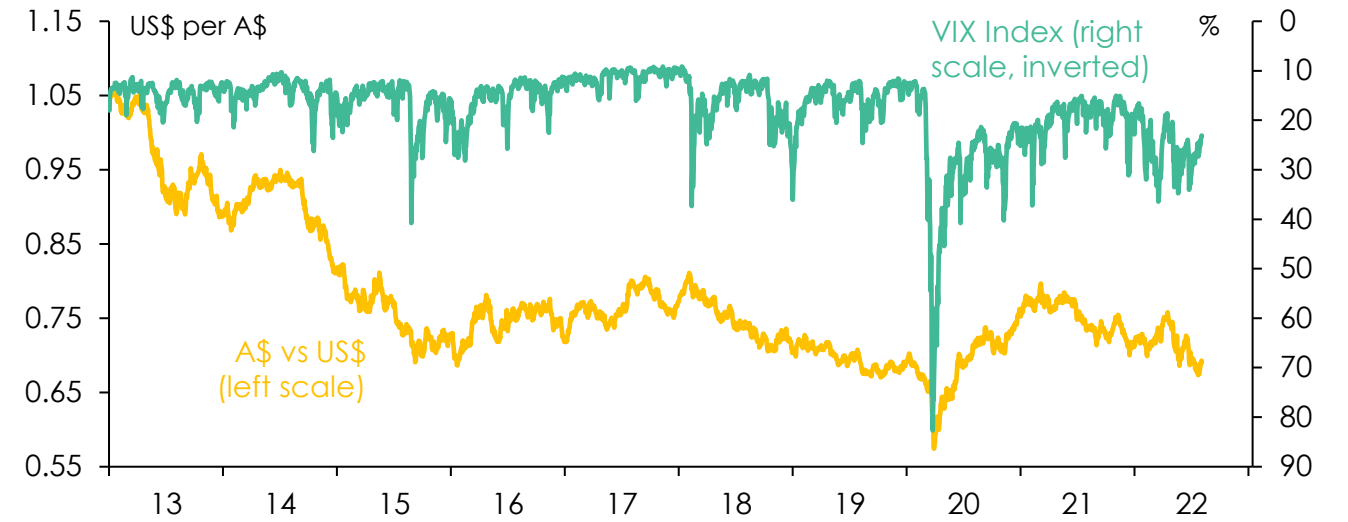
The A\$ climbed back above US69¢ this week as the US\$ eased a little against other major currencies and 'risk appetite' improved

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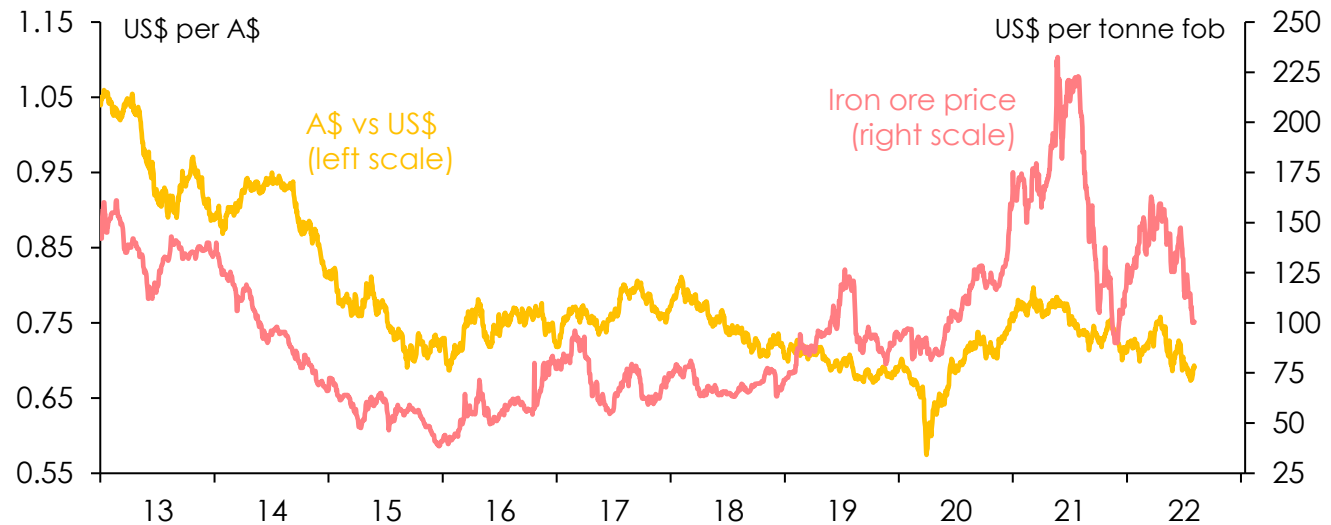
A\$-US\$ and US\$ trade-weighted index



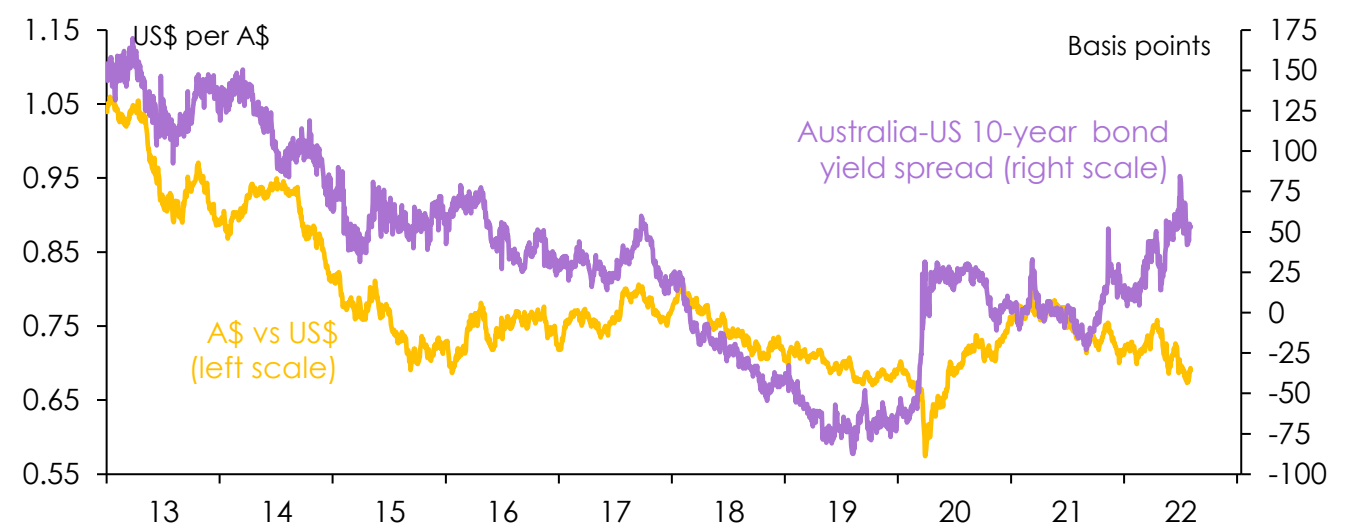
A\$-US\$ and US equity market volatility



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



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

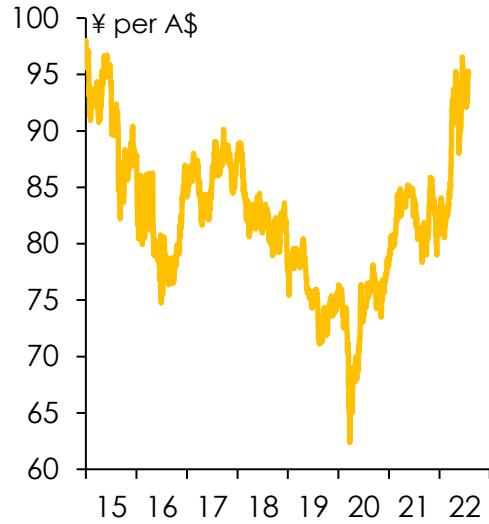


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 22nd July. [Return to "What's New"](#).

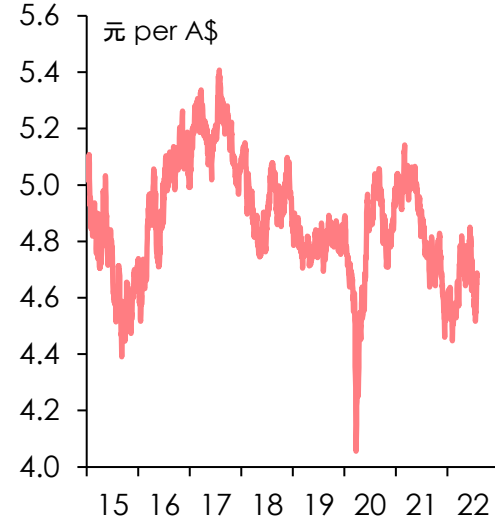
The A\$ also firmed against third currencies, rising 1¾% vs the yuan, 1% vs the yen, a little over ½% vs sterling & a little under ½% vs the euro

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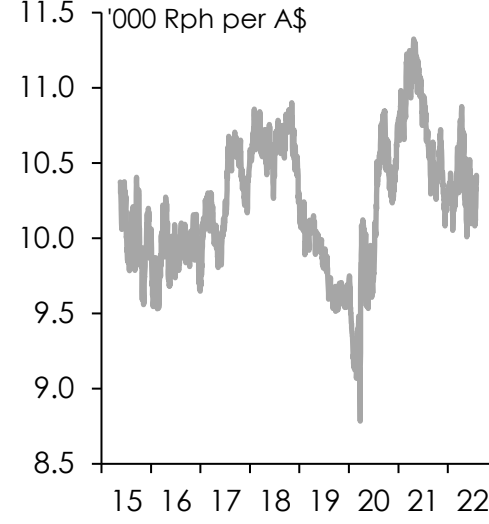
A\$ vs Japanese yen



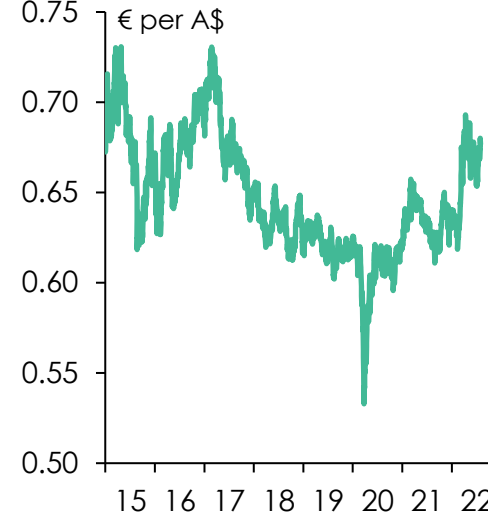
A\$ vs Chinese yuan



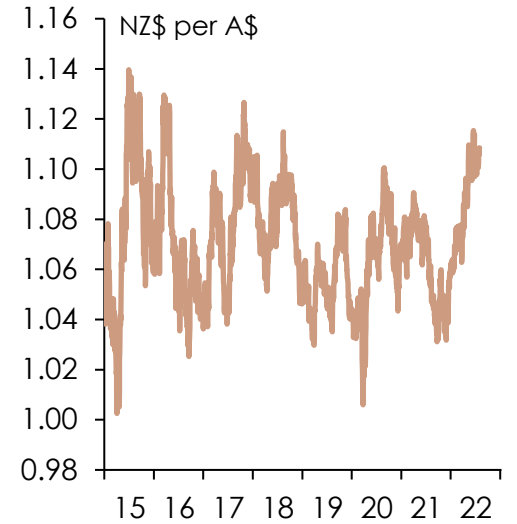
A\$ vs Indo rupiah



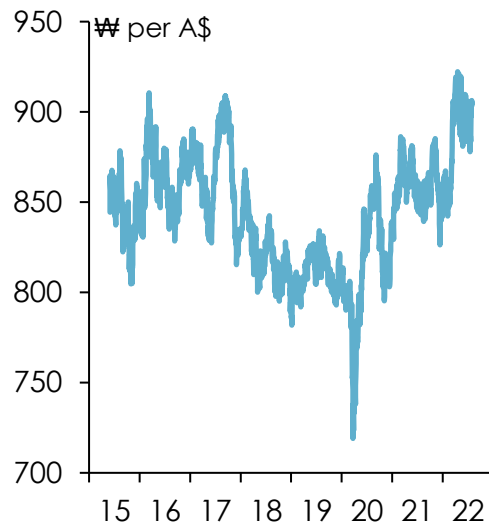
A\$ vs Euro



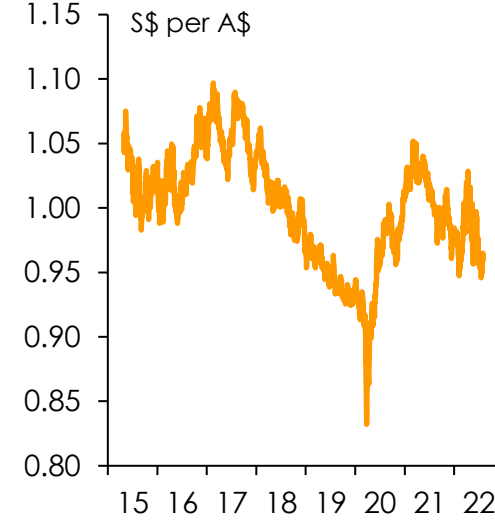
A\$ vs NZ\$



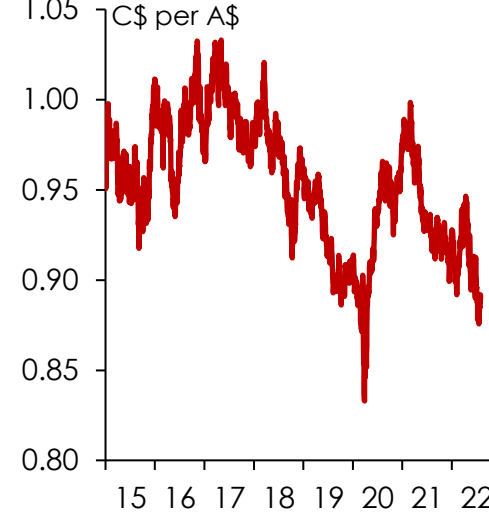
A\$ vs Korean won



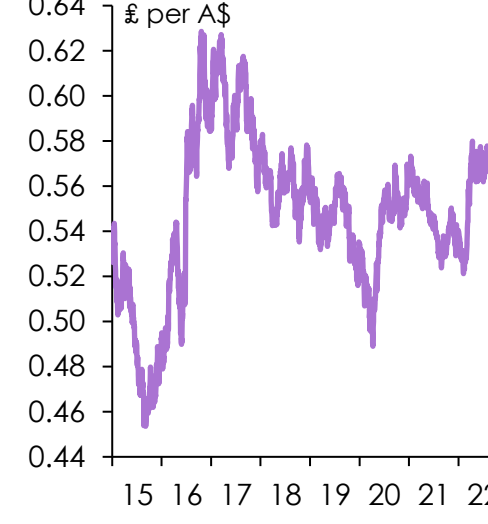
A\$ vs Singapore \$



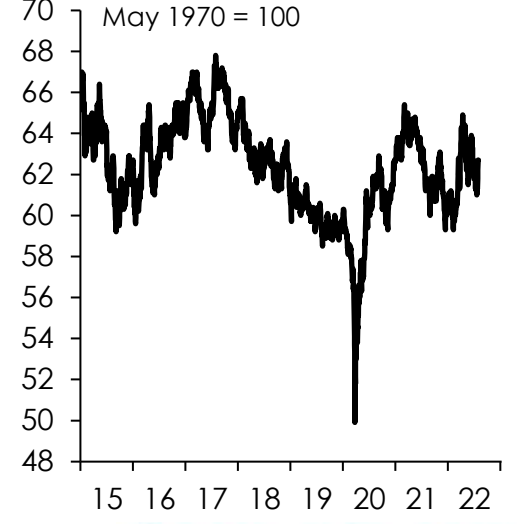
A\$ vs Canadian \$



A\$ vs British pound



A\$ TWI

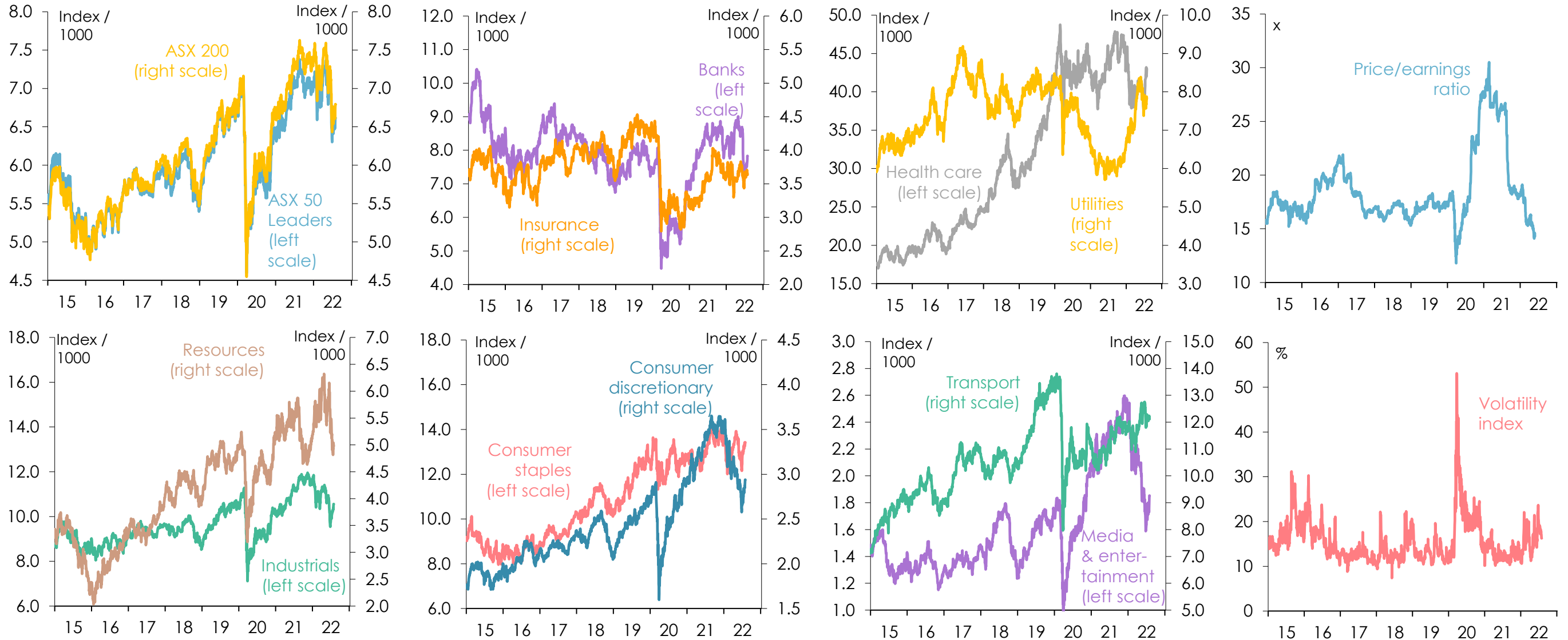


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 22nd July. [Return to "What's New"](#).

The ASX rose almost 3% this week, in line with recoveries in the US and other major global markets, with bank stocks up by more than 4%

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ASX indices



Sources: Refinitiv Datastream. ASX200 and 50 Leaders up to 22nd July. [Return to "What's New"](#).

Key data and events next week

Key data and events for week ended 29th July

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Wednesday 27th July	June quarter CPI
Thursday 28th July	June retail sales (preliminary); June quarter export & import price indexes; Treasurer's Economic & Budget Update
Friday 29th July	June money & credit aggregates; June quarter producer price indexes

Other important upcoming events

Tuesday 2nd August	RBA Board meeting
Friday 5th August	<i>RBA Statement on Monetary Policy</i>
1st – 2nd September	Australian Government Jobs and Skills Summit
Tuesday 6th September	RBA Board meeting
Wednesday 7th September	June quarter GDP
Tuesday 4th October	RBA Board meeting
Tuesday 15th October	Updated & revised Federal Budget

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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