



# THE AUSTRALIAN ECONOMY THIS WEEK

5<sup>TH</sup> AUGUST 2022

**SAUL ESLAKE**

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

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# What's new?

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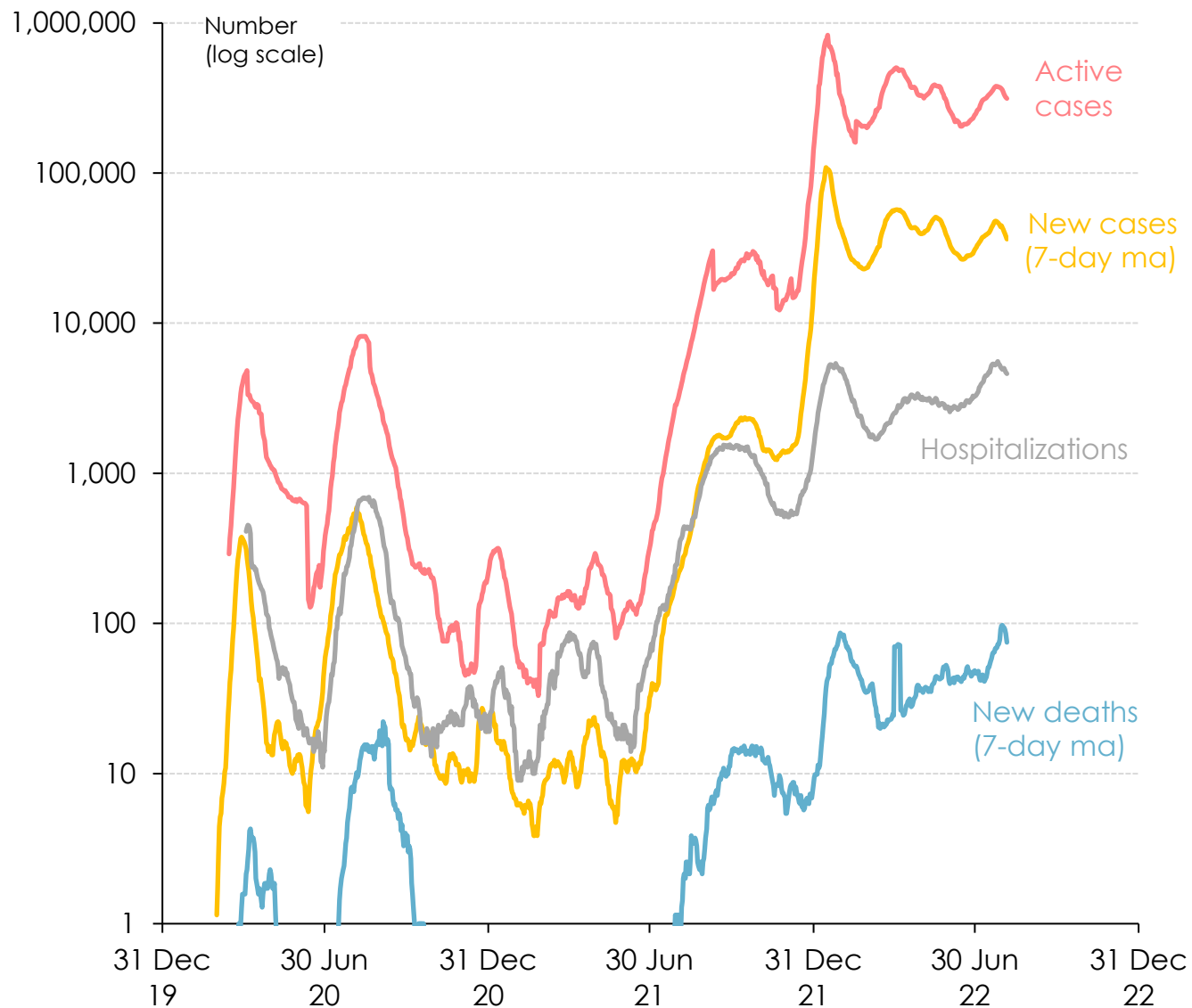
- ❑ As expected, the Reserve Bank raised its cash rate another 50 basis points, to 1.85%, at Tuesday's Board meeting – bringing the cumulative increase since the first increase in May to 175 basis points, making this the sharpest increase in interest rates since the second half of 1994, when the RBA raised the cash rate by 275 basis points in four months ([slide 79](#))
- ❑ The RBA now expects the annual 'headline' inflation rate to peak at 7<sup>3</sup>/<sub>4</sub>% in the December quarter, before declining to 4<sup>1</sup>/<sub>4</sub>% by the December quarter 2023 and 3% by the December quarter 2024 – a slower decline than forecast the week before by the Treasury – and also lowered its forecasts for economic growth in 2023 and 2024 ([slides 13-14](#))
- ❑ The upward revisions to the RBA's inflation forecasts prompted financial markets to revise up their expectations for the likely peak in the RBA's cash rate – although markets are also beginning to price subsequent reductions in the cash rate in 2-3 years' time ([slides 84-85](#))
- ❑ The volume of retail sales rose 1.4% in the June quarter, up from 1.0% in the March quarter ([slide 33](#)); and Australians continued to spend large amounts on a broad range of 'discretionary' items in June, despite (or perhaps in part because of) rising prices, and (up to the end of June) two increases in interest rates ([slide 34](#)) – suggesting that not all Australian households are 'struggling' with rising prices and interest rates
- ❑ Residential property prices across Australia fell by 1.1% in July, the third consecutive decline, with prices in Sydney and Melbourne having fallen by 5.6% and 3.6% over the past six and five months, respectively ([slides 38-39](#))
- ❑ Housing finance commitments fell 4.4% in June, to be 6.7% below their peak in January (with loans to owner-occupiers and investors down 6.4% and 7.8% from their respective peaks), although there was a record volume of re-financings in June ([slide 40](#))
- ❑ Residential building approvals fell 0.7% in June, after an 11.7% increase in May: approvals of detached dwellings remain at a high level by historical standards ([slides 41-42](#))
- ❑ Australia's surplus on international trade in goods and services widened by \$2.6bn in June to another new record \$17.7bn in June, largely due to a (likely one-off) spurt in gold exports, although the increase in the trade surplus over the past six months has owed much to increases in the value of coal and LNG exports ([slide 58](#))
- ❑ The numbers of new and active Covid-19 cases, and hospitalizations, fell last week for the second week in a row, prompting public health officials to suggest that Australia's 'third wave' of omicron infections may have passed its peak ([slides 5-6](#))
- ❑ Next week's calendar is fairly light with the July NAB survey measures of business conditions and confidence, and the August Westpac-Melbourne Institute consumer confidence index the major highlights

# Covid-19 in Australia

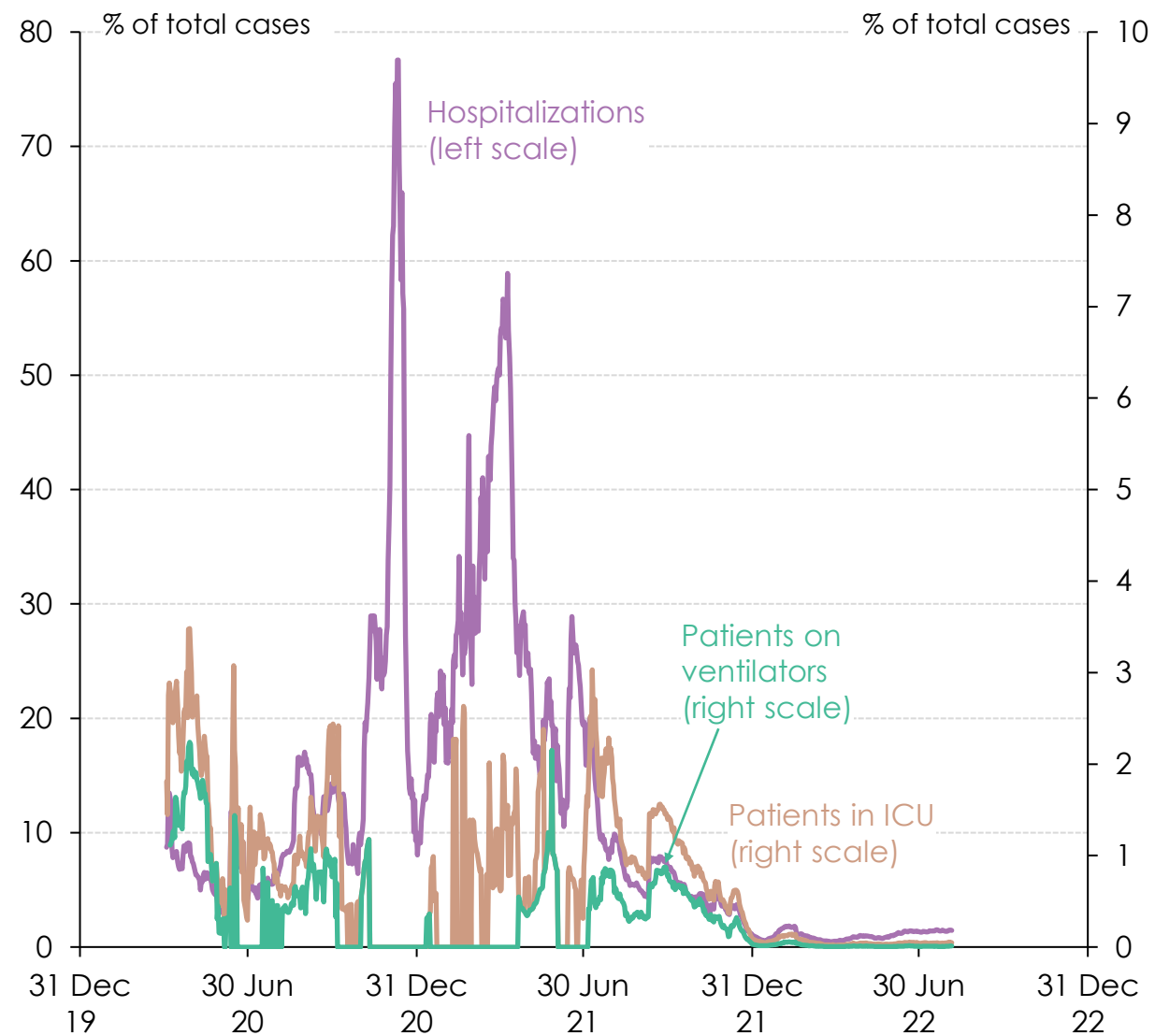
# Numbers of new & active Covid-19 cases, and hospitalizations have fallen for a second week in a row, suggesting the latest wave may have peaked

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## Cases, hospitalizations and deaths



## Severity of cases



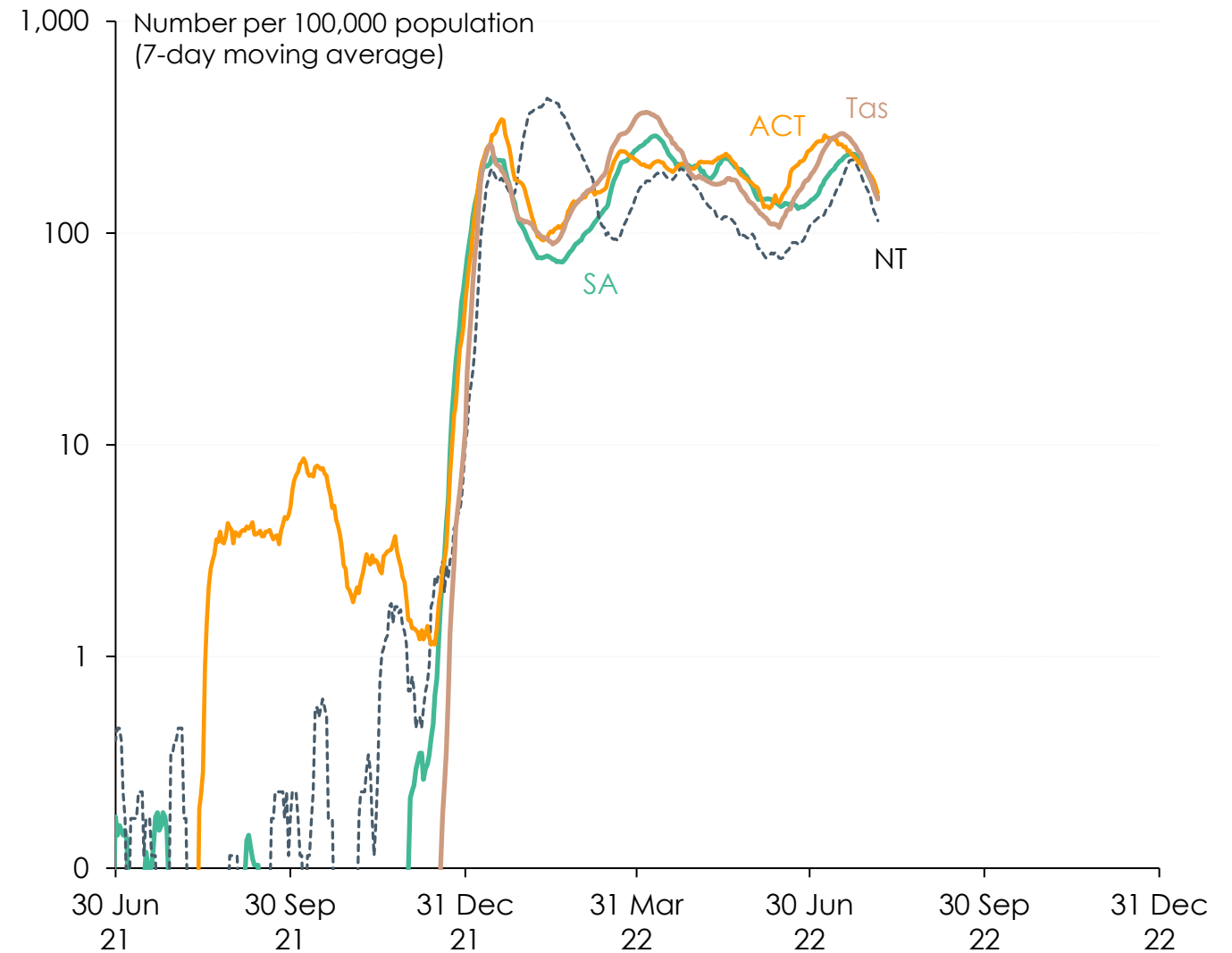
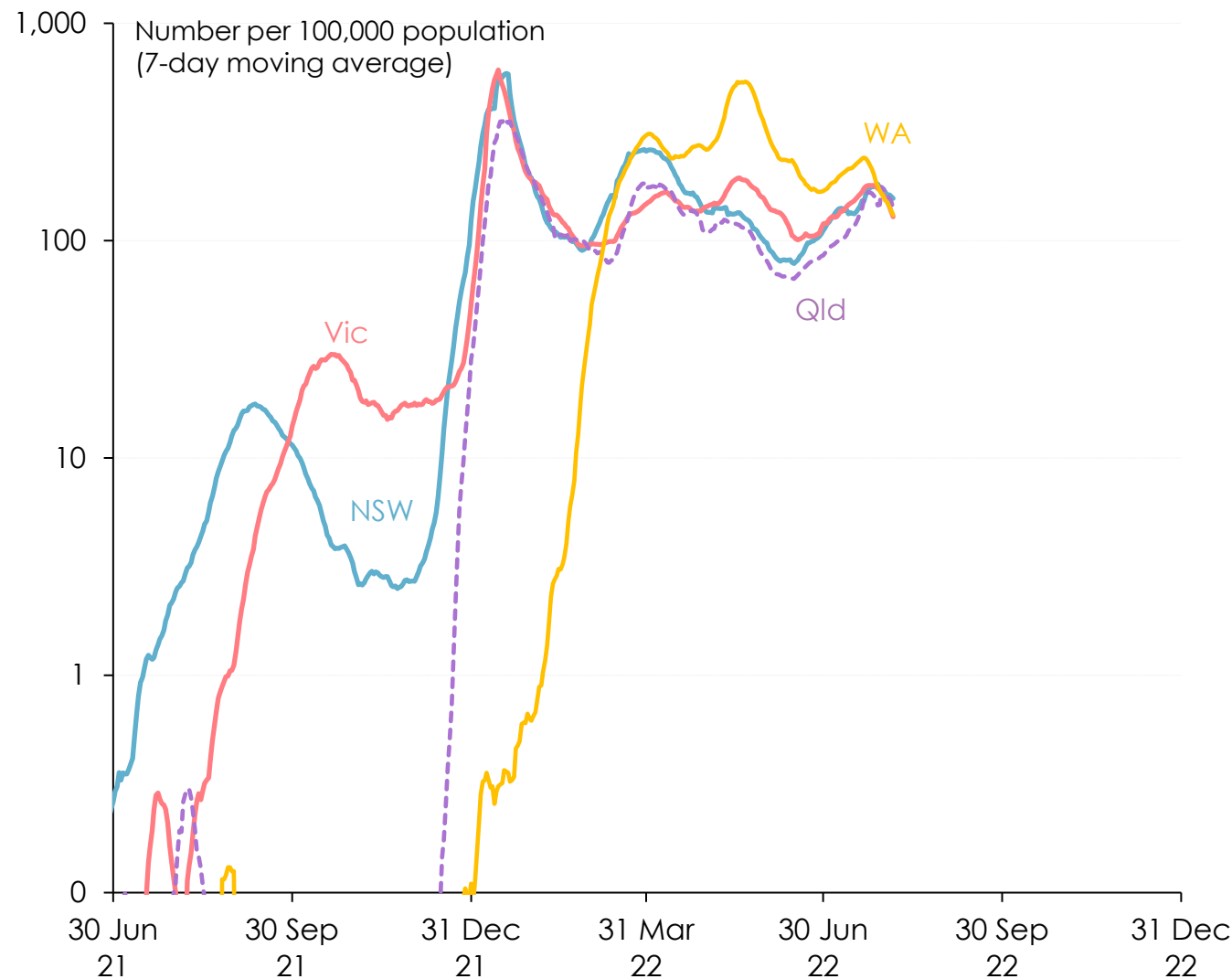
Note: The 'spike' in new deaths in the first week of April resulted from the addition of 334 deaths to NSW's total on 1st April. Data up to 5<sup>th</sup> August.

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

# The declines in case numbers have been proportionately greatest in the smaller states and territories, and least in NSW and Queensland

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

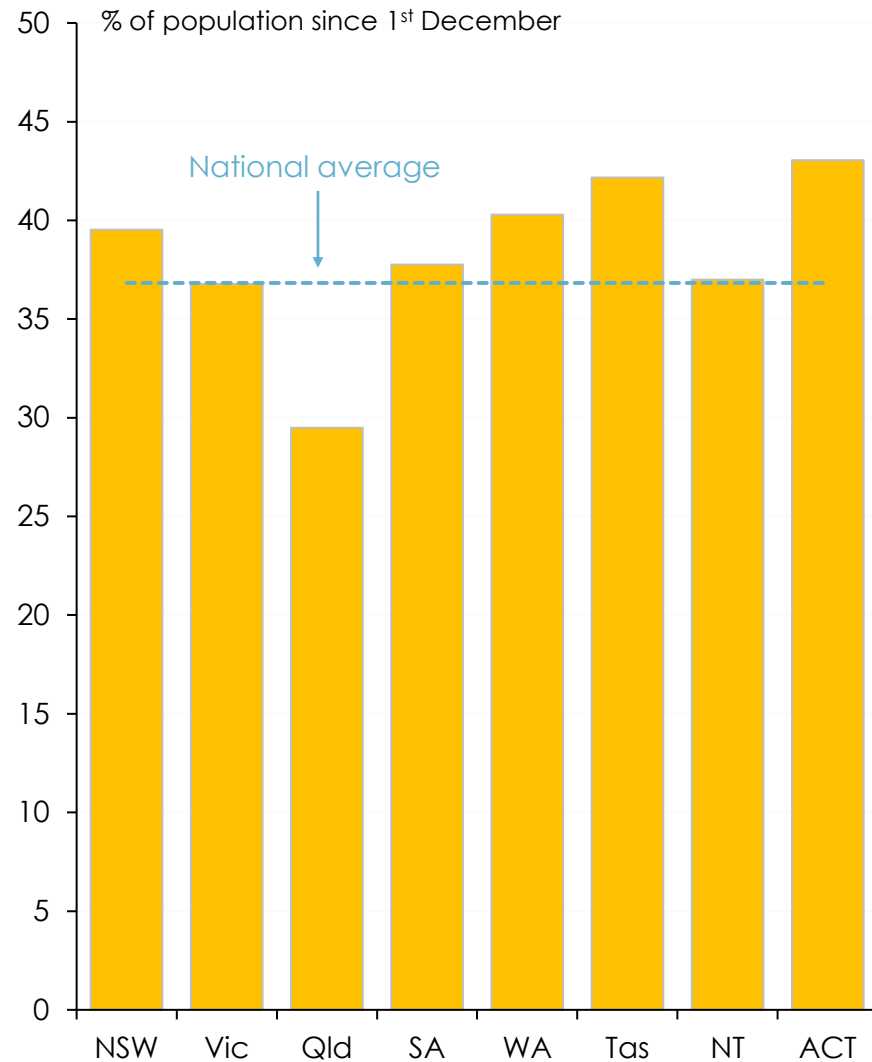


Note: Data are up to 5<sup>th</sup> August. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

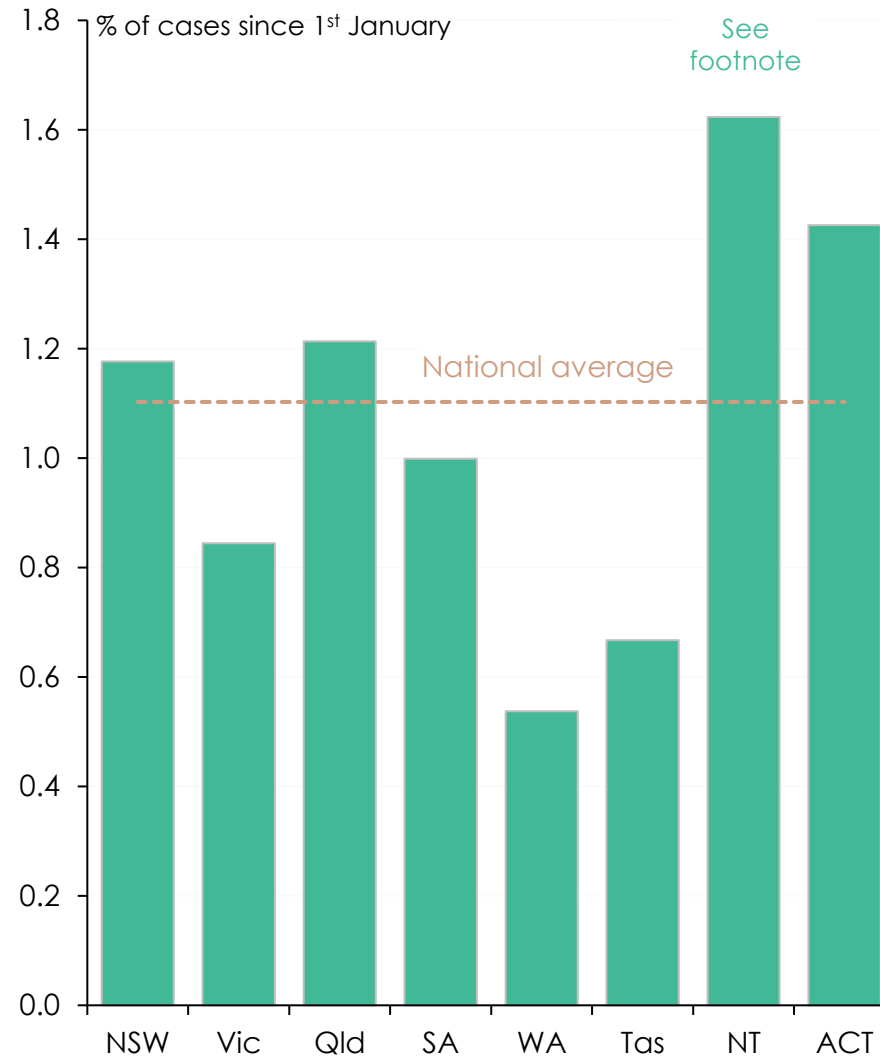
# Western Australia & Tasmania have had relatively fewer hospitalizations and deaths than other states and territories

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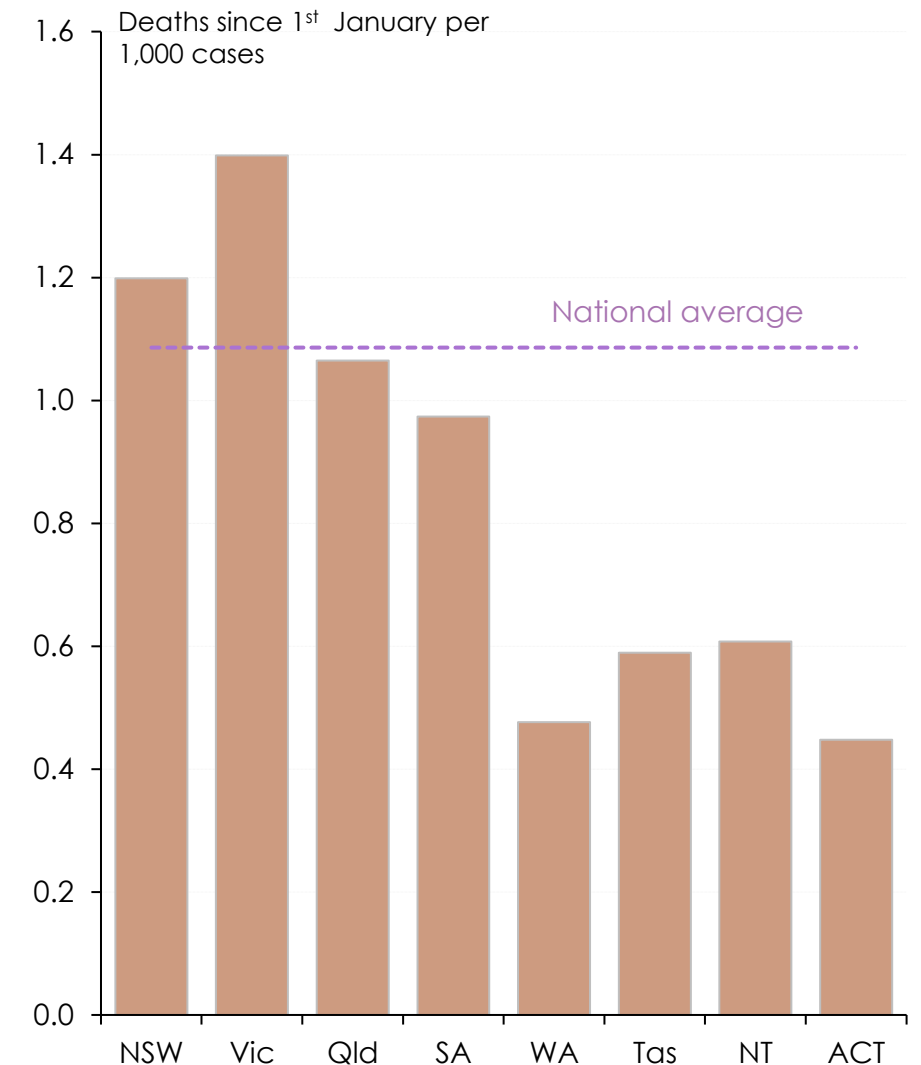
## New cases since 1<sup>st</sup> December 2021



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



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

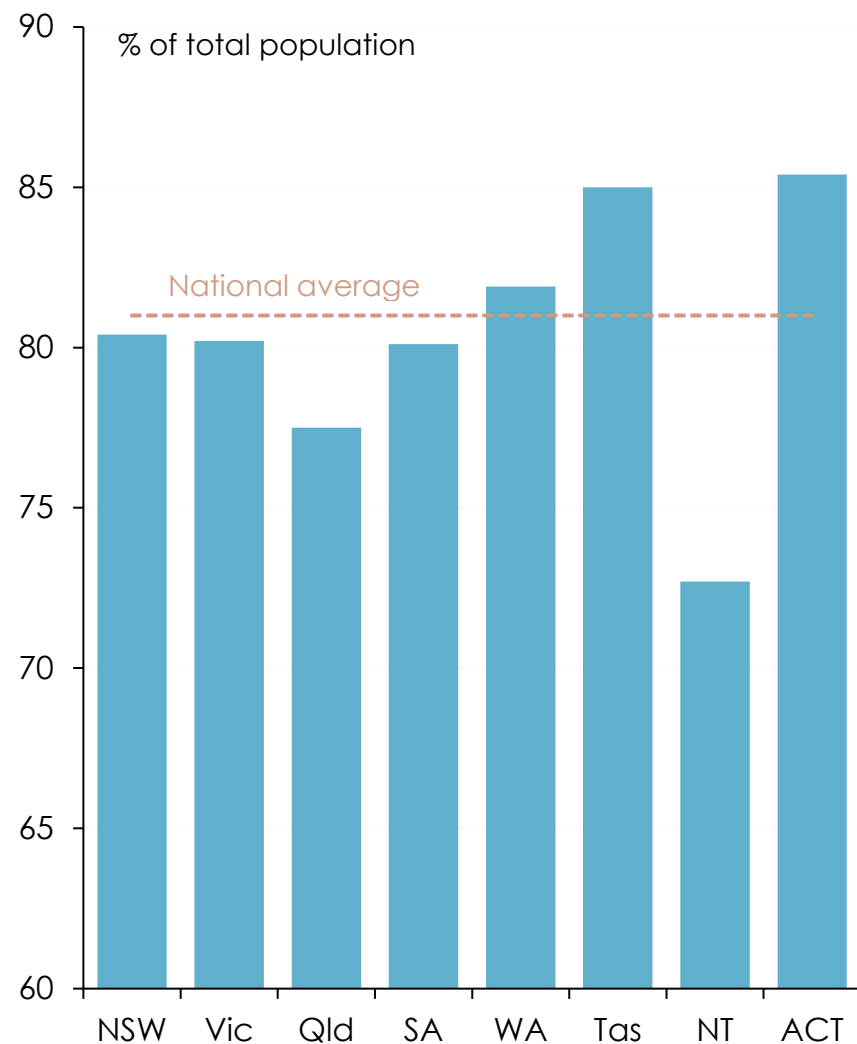


Note: Data are up to 5<sup>th</sup> August. 1<sup>st</sup> December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. NSW added 334 deaths to its tally on 1<sup>st</sup> April. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

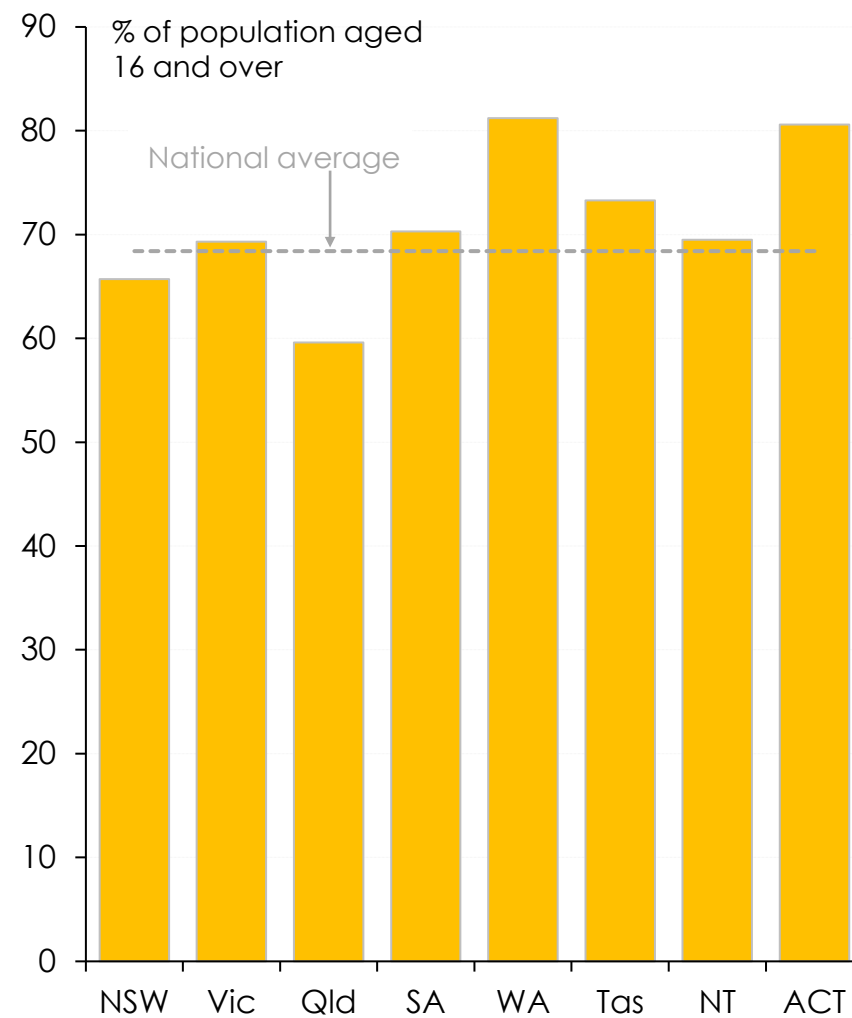
# The take-up of third vaccination shots ('boosters') has stalled since May

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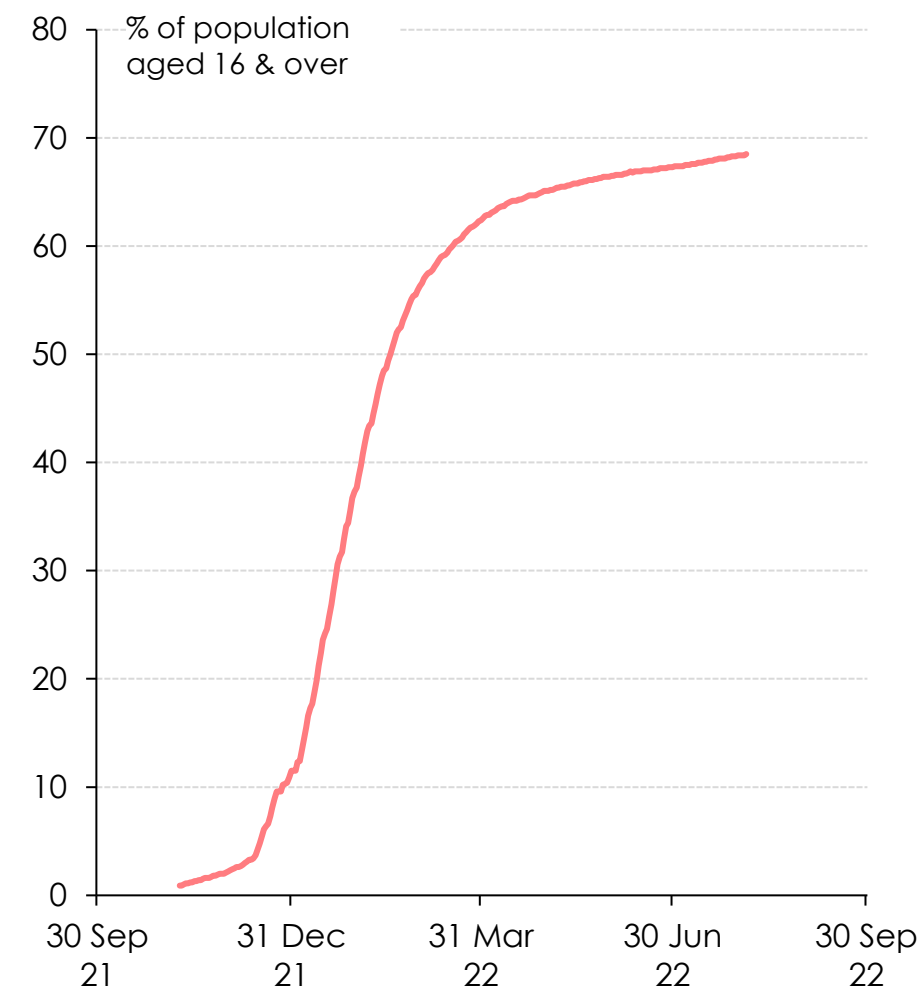
## Pc of population who have had two vaccinations



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



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



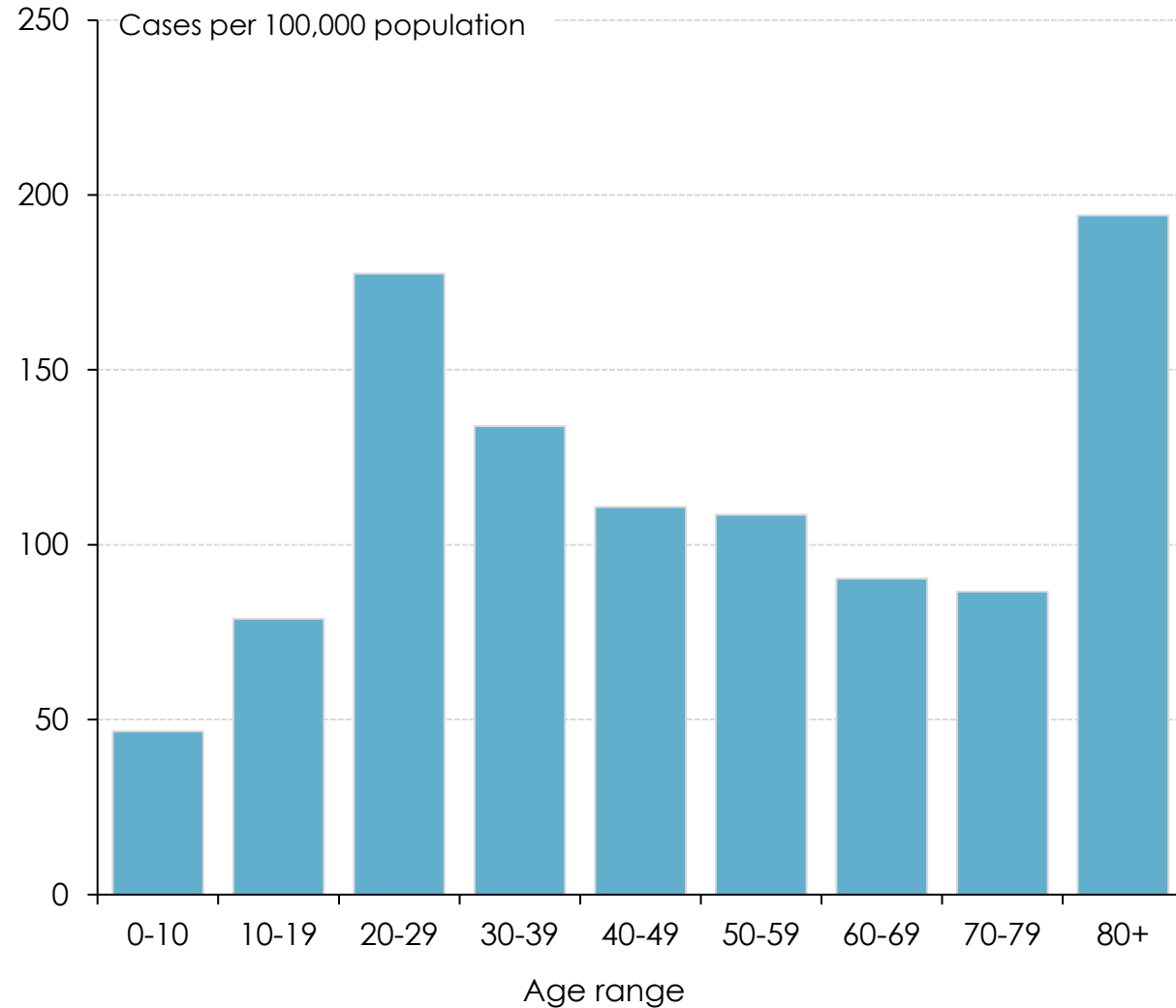
Note: Data are up to 4<sup>th</sup> August. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).



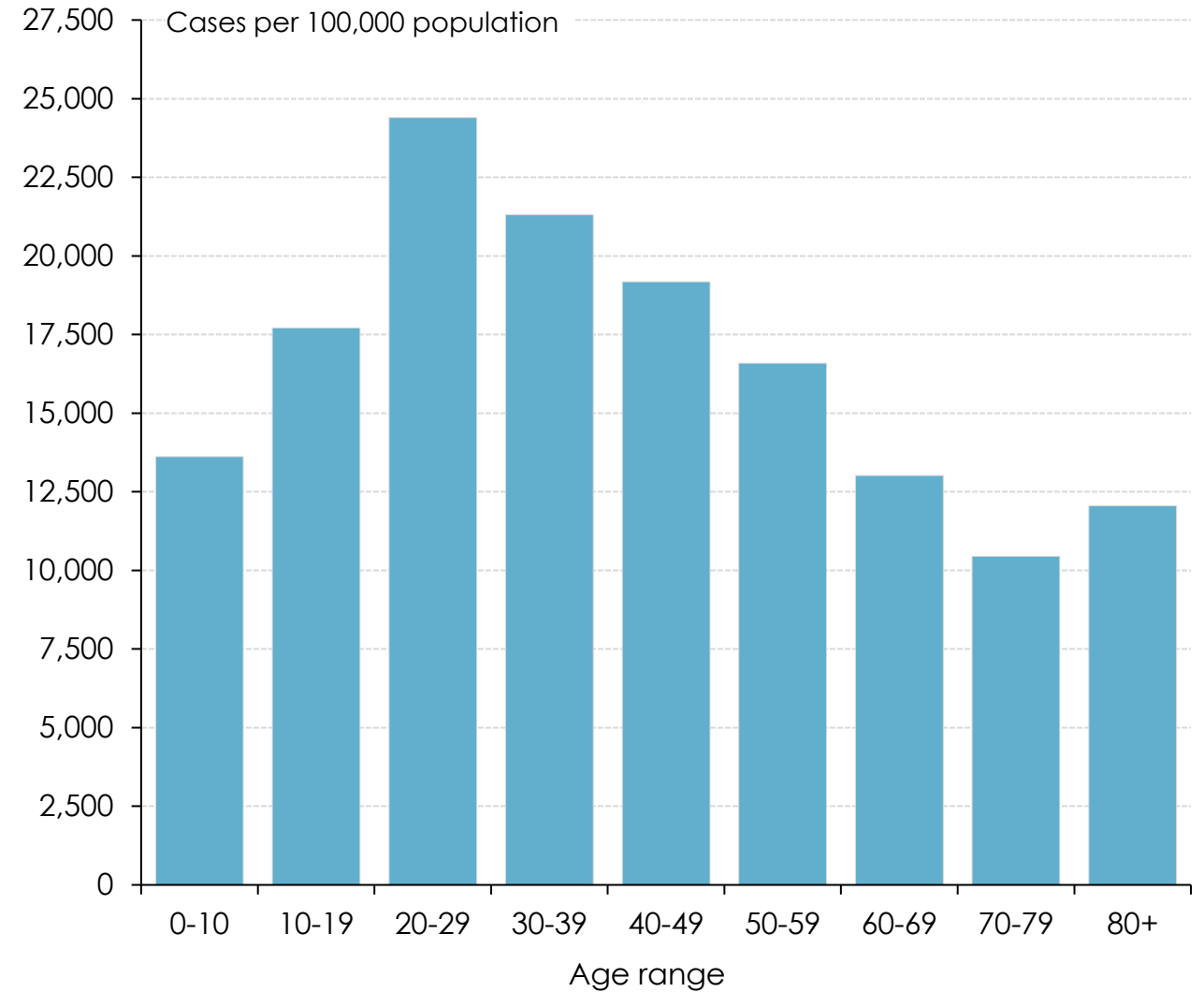
# People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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



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



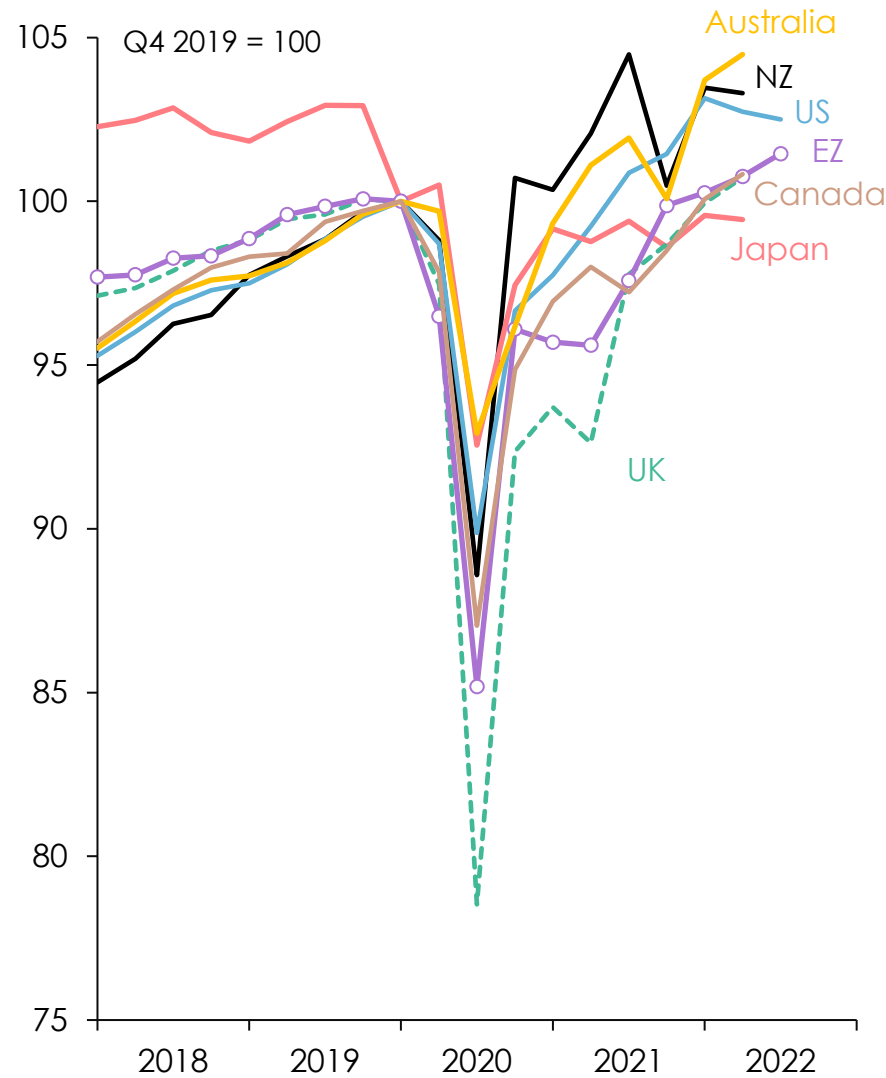
Note: Data for 2021-22 up to 4<sup>th</sup> August. Source: [Australian Government Department of Health](#); ABS; Corinna. [Return to "What's New"](#).

# Broad trends in the Australian economy

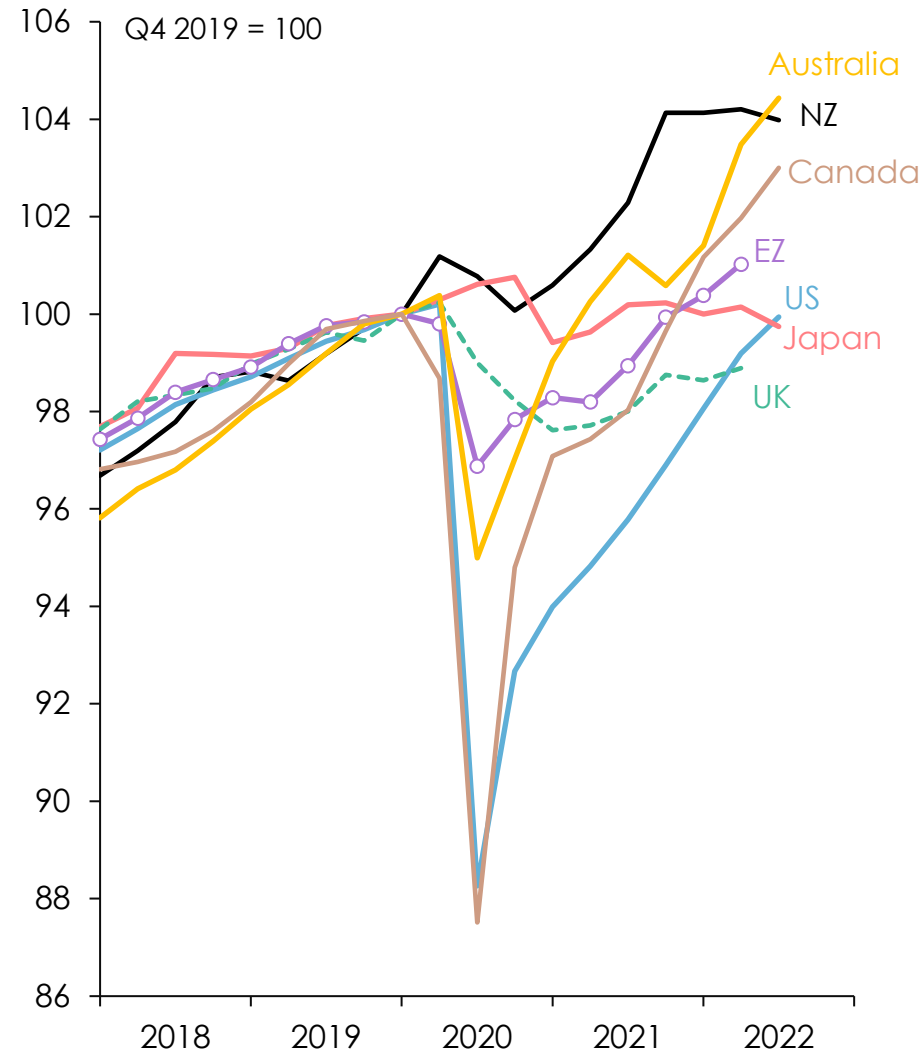
# Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

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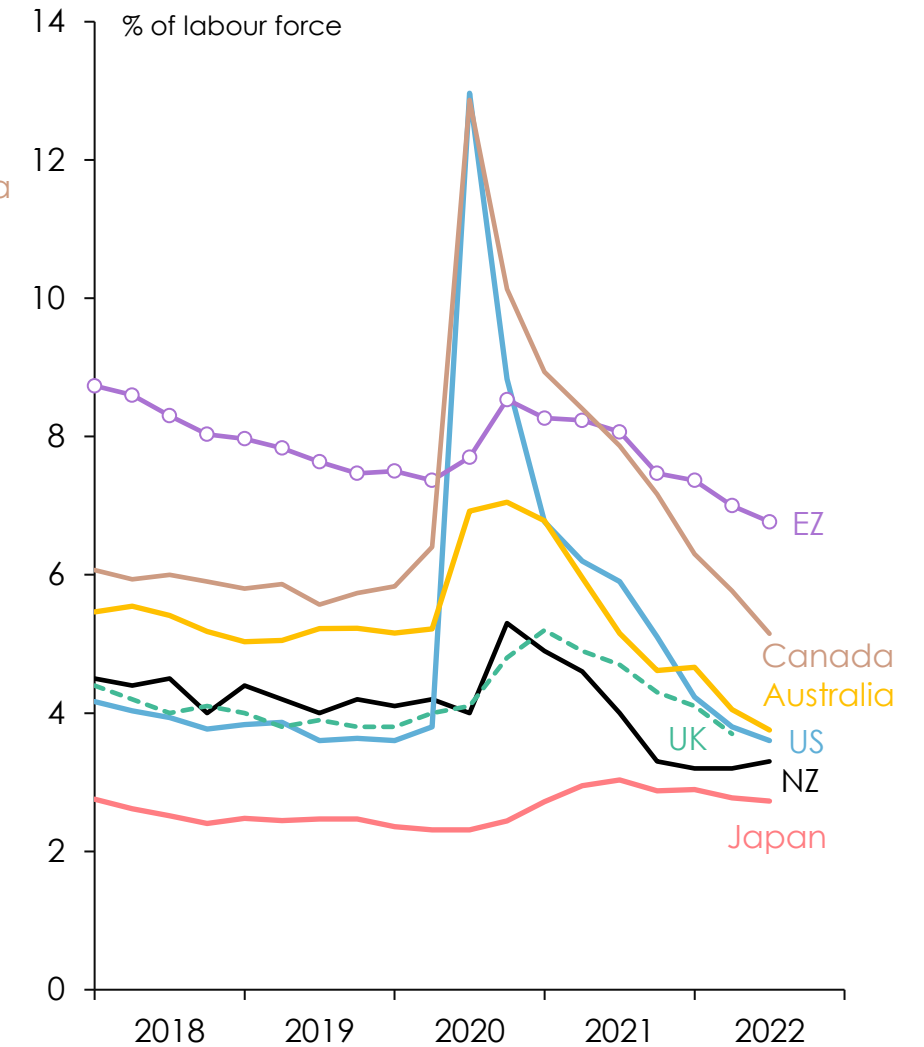
## Level of real GDP



## Employment



## Unemployment

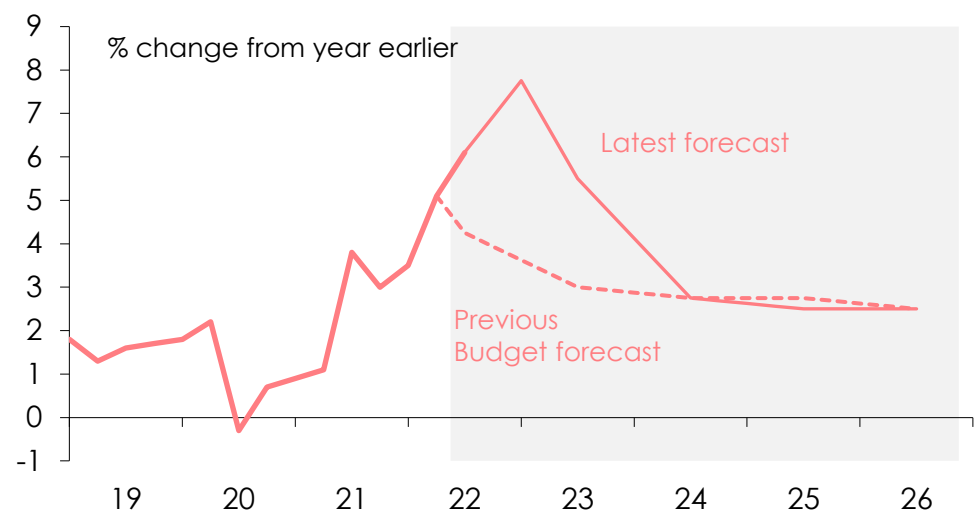


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

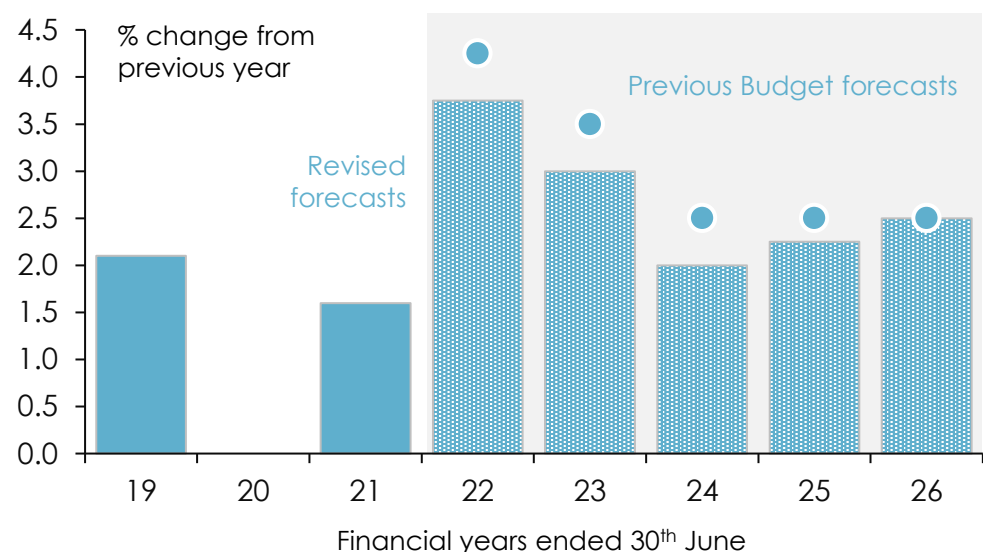
# The Treasurer last month presented upwardly-revised forecasts for inflation and downwardly-revised forecasts for economic growth

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## Treasury 'headline' inflation forecasts



## Treasury real GDP growth forecasts



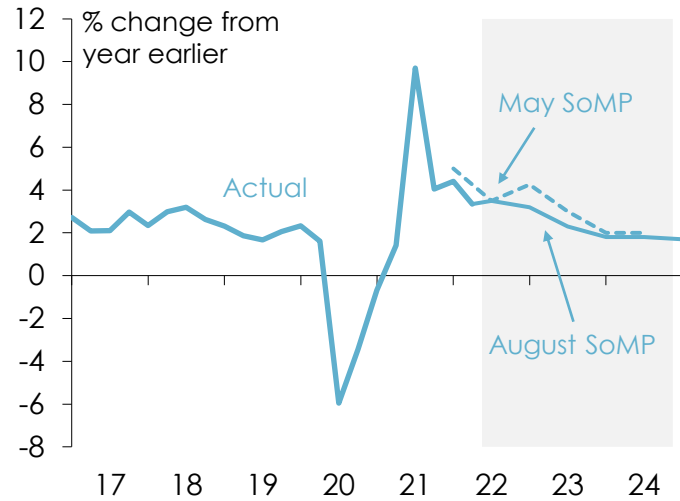
- ❑ Treasurer Jim Chalmers presented revised forecasts for the Australian economy in a [Ministerial Statement](#) to Parliament on 26<sup>th</sup> July
- ❑ Treasury now expects the annual 'headline' inflation rate to peak at 7¾% in the December quarter this year, before falling to 5½% over the year to the June quarter of next year, 3½% over the year to the December quarter next year, and then to 2¾% by the June quarter 2024
  - these forecasts implicitly assume quarterly CPI increases of 1.8%, on average, in the September and December quarters of this year, falling to 0.9% in the first two quarters of next year, 0.8% in the third and fourth quarters of next year, and 0.5% in the March and June quarters of 2024
- ❑ Treasury estimates that real GDP grew by 3¾% in the 2021-22 financial year, ½ pc pt less than forecast in the 2022-23 Budget presented in March, and has revised down the Budget forecasts for growth in 2022-23 and 2023-24 by ½ pc pt each, to 3% and 2%, and for 2024-25 by ¼ pc pt to 2¼%
  - these downward revisions are due to “weaker consumption, reflecting higher inflation and higher interest rates”, a “a bigger-than-expected drag on growth in the near term” from net exports, and weaker dwelling investment
  - however the forecasts for nominal GDP growth in 2022-23 has been revised significantly upwards, from ½% to 5¼% (due to higher prices) – which all else being equal should be reflected in downward revisions to the projected budget deficit for 2022-23, possibly offsetting the impact of higher spending projections
- ❑ Treasury still expects the unemployment rate to be at 3¾% in the June quarter next year, but the forecasts for June 2023 and June 2024 have been revised up by ¼ pc pt to 4%, and ½ pc pt to 4¼%, respectively

Source: Jim Chalmers, Treasurer, [Ministerial Statement on the Economy](#), 28<sup>th</sup> July 2022. [Return to "What's New"](#).

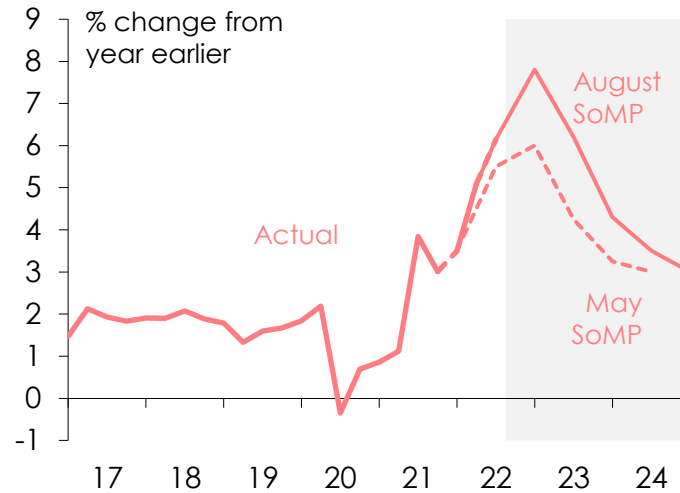
# The RBA's latest Monetary Policy Statement published on Friday further revises up forecasts for inflation, and lowers forecasts for economic growth

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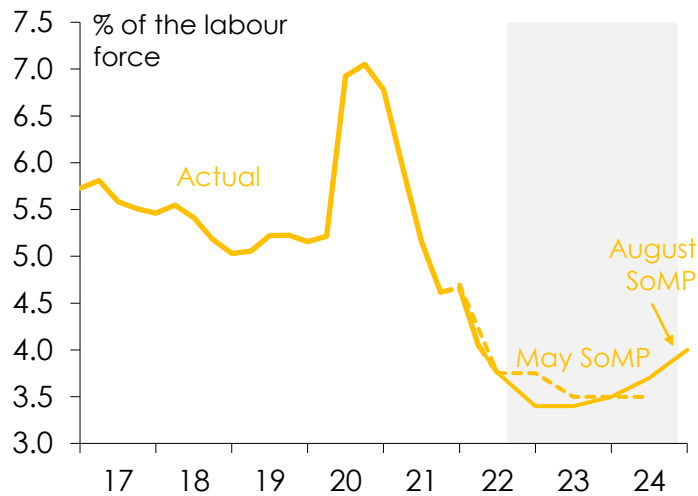
## GDP



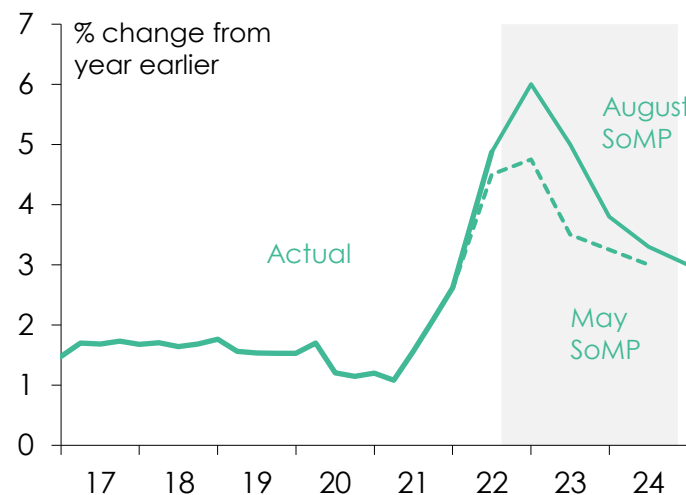
## 'Headline' inflation



## Unemployment



## 'Underlying' inflation



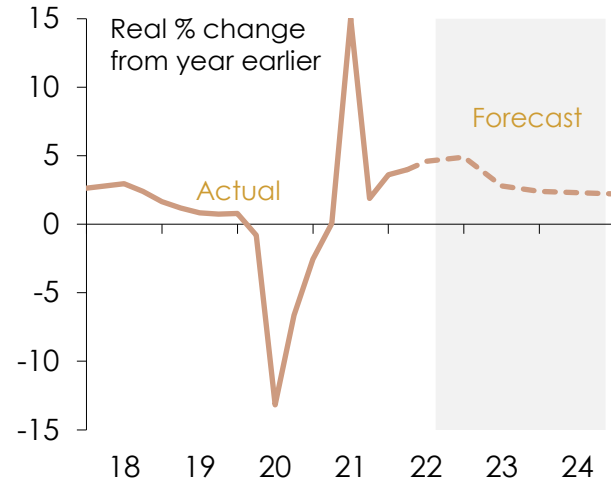
- ❑ The RBA's August [Statement on Monetary Policy](#) (released on Friday) incorporates further substantial upward revisions to the RBA's forecasts for inflation, and small downward revisions to its forecasts for real GDP growth
- ❑ The RBA now expects the annual 'headline' inflation to peak at 7¾% in the December quarter (cf. 5½% in May), and then decline to 4¼% by the December quarter next year (previously 3¼%) and to 3% by the final quarter of 2024
  - this is a slower rate of decline than forecast by Treasury (as revealed in last week's Ministerial Statement)
- ❑ The RBA's preferred measure of the annual 'underlying' inflation rate (the trimmed mean) is now forecast to peak at 6% in the December quarter (previously 4¾%) and then decline to 3¾% a year later, and to 3% by end-2024
- ❑ The RBA expects GDP growth to remain relatively strong in the near term, at 3¼% over the year to the December quarter (though that's revised down from 4.3% in May), before slowing to 1¾% over the course of next year, with a similar rate through 2024
  - the RBA's forecast for growth in FY 2022-23 of 3½% is ½ pc pt above Treasury's, but the FY2023-24 forecast of 1¾% is ¼ pc pt below Treasury's
- ❑ The RBA expects unemployment to fall a little further, to 3¼%, by the end of this year, but then to drift higher to 4% by the December quarter of 2024

Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 5<sup>th</sup> August. The RBA's next set of forecasts will be published on Friday 4<sup>th</sup> November. [Return to "What's New"](#).

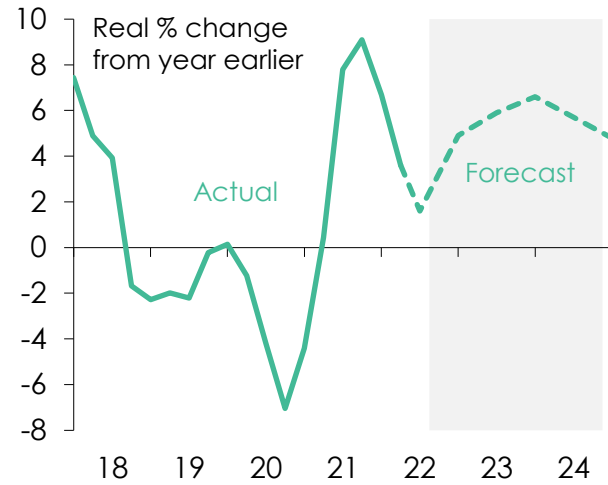
# The RBA's latest forecasts envisage some slowing in consumer spending, resilient business investment, and a pick-up in wages growth

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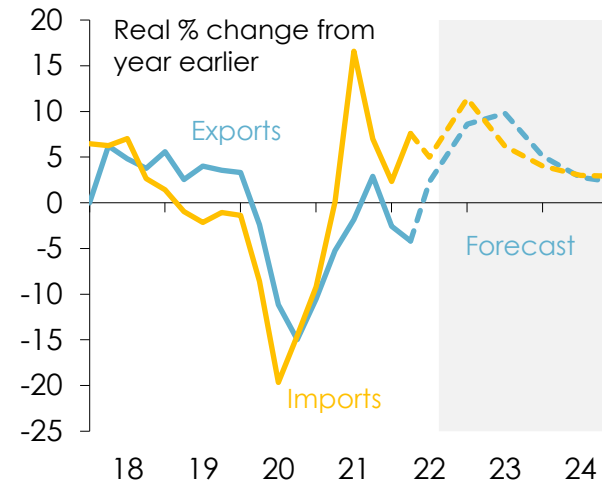
## Household consumption



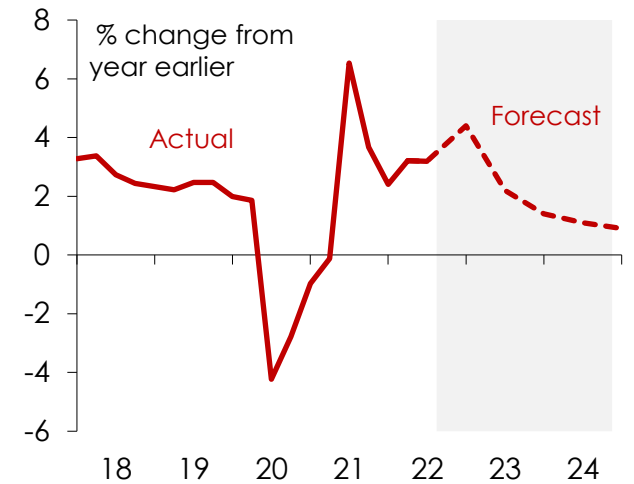
## Business investment



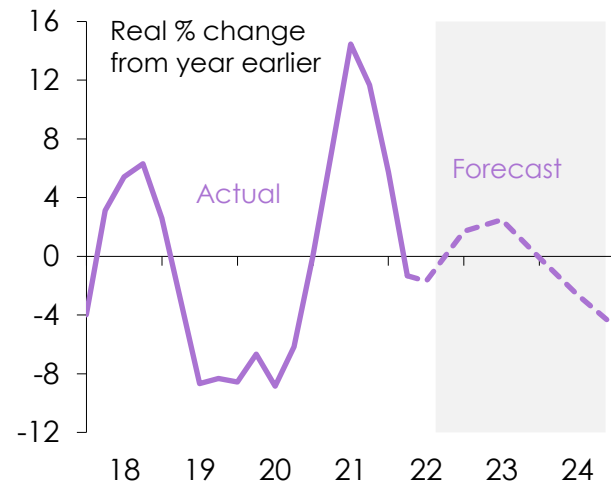
## Exports & imports



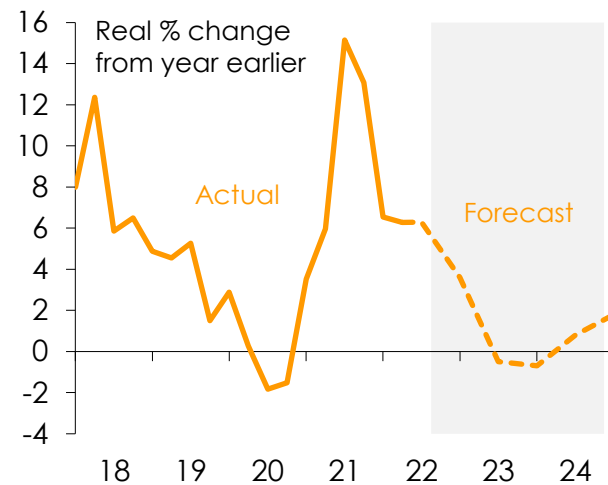
## Employment



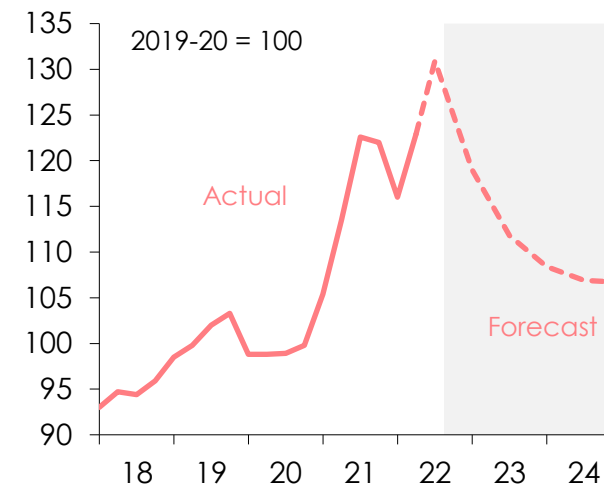
## Dwelling investment



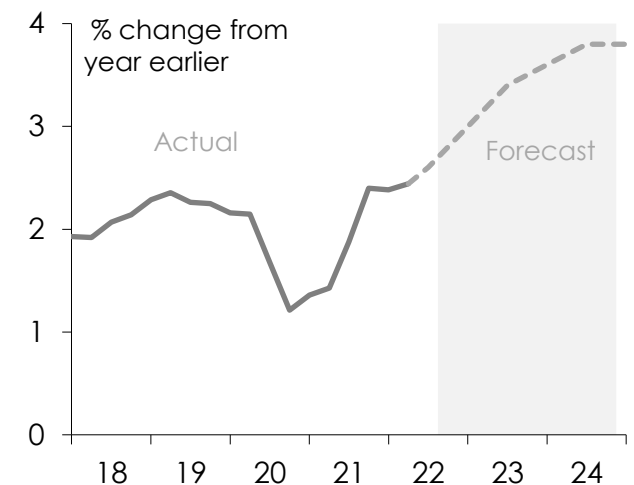
## Public spending



## Terms of trade



## Wage price index

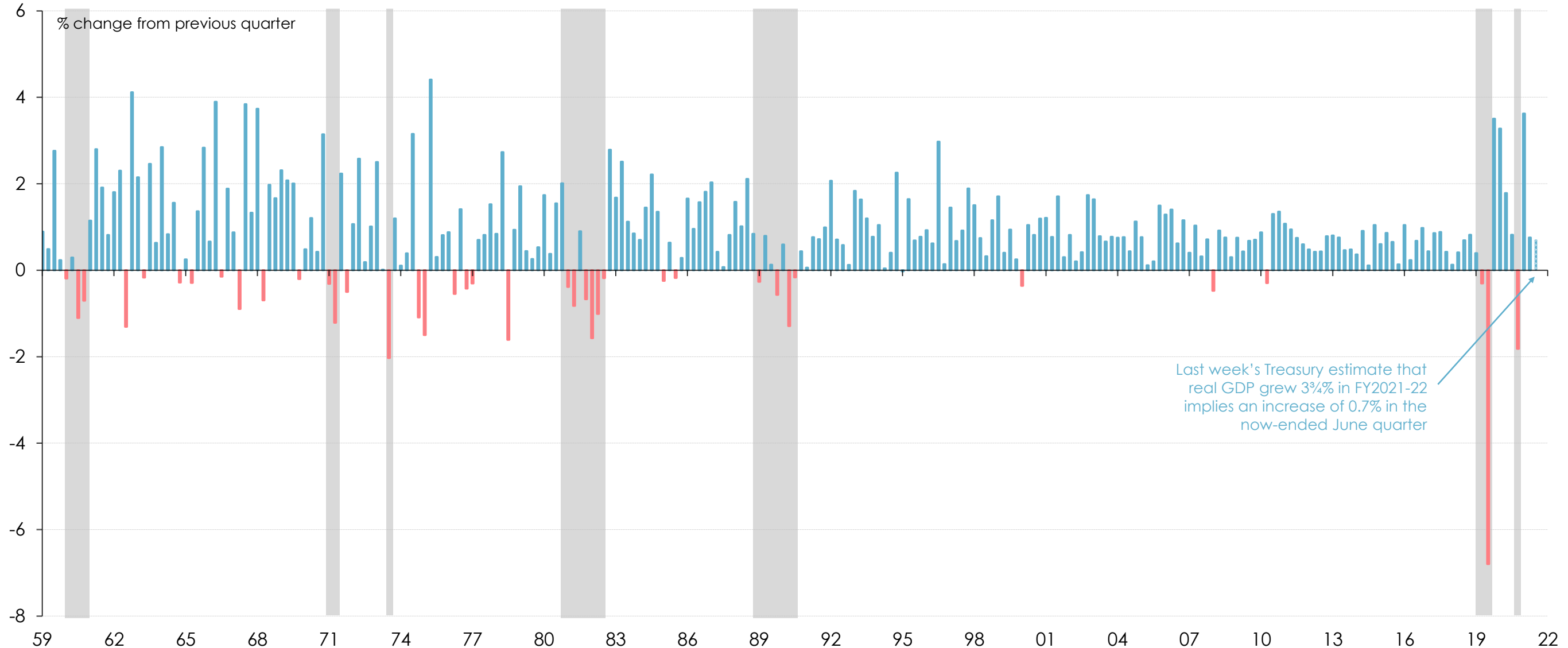


Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 5<sup>th</sup> August. The RBA's next set of forecasts will be published on Friday 4<sup>th</sup> November. [Return to "What's New"](#).

# 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

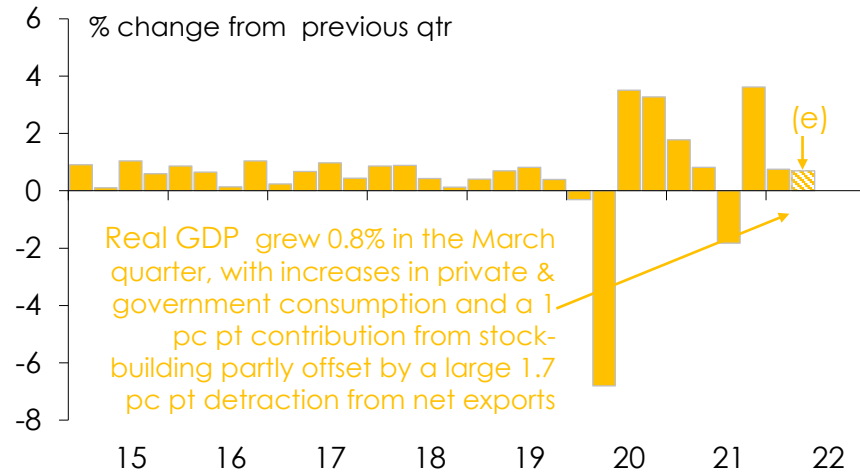


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022. June quarter GDP will be released on 7<sup>th</sup> September. [Return to "What's New"](#).

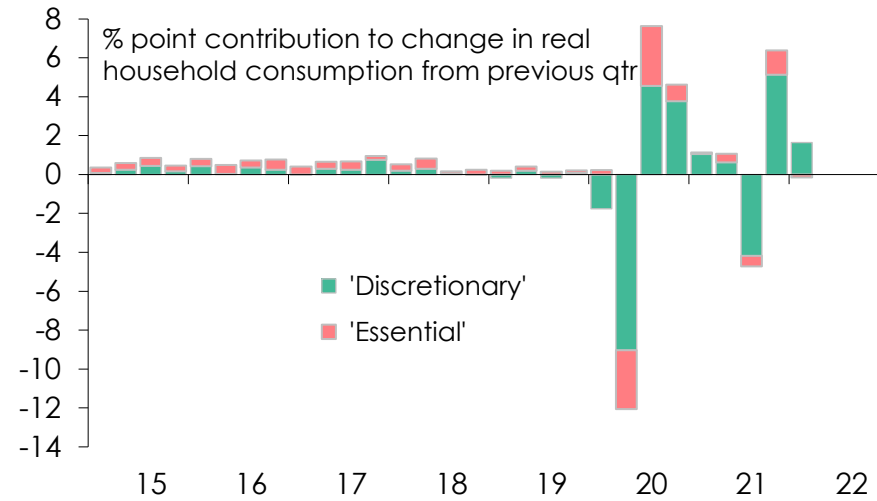
# Real GDP grew 0.8% in Q1, with growth in private and public consumption dampened by soft dwelling investment and an 8% surge in imports

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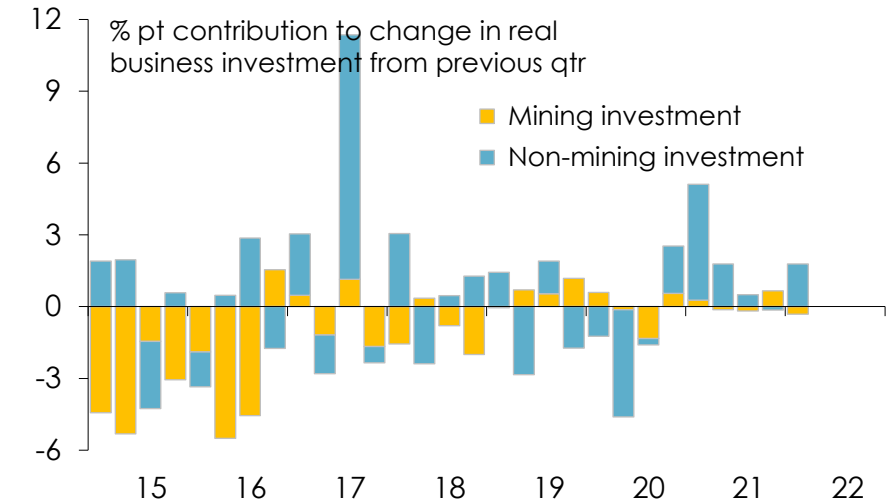
## Quarterly change in real GDP



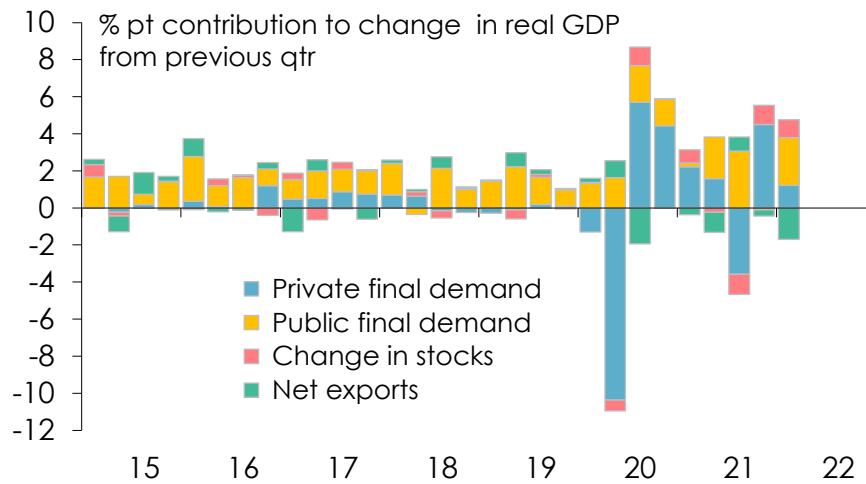
## Household consumption expenditure



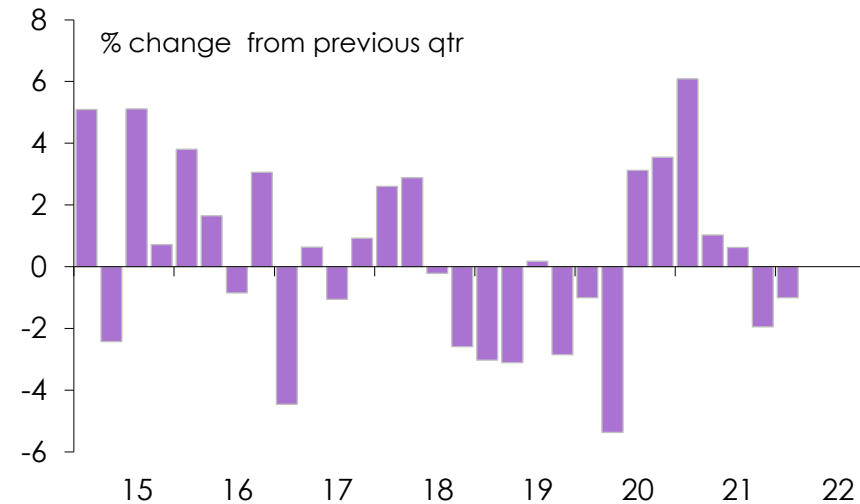
## Business investment expenditure



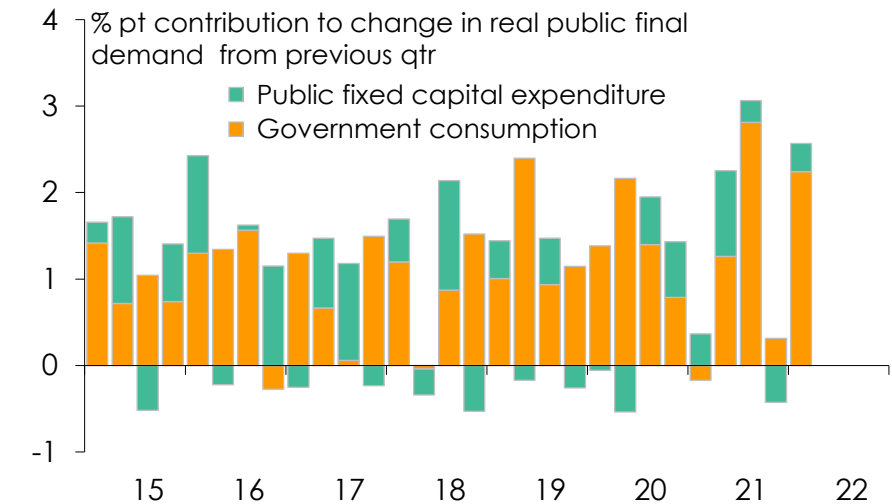
## Contributions to quarterly GDP growth



## Dwelling investment expenditure



## Public expenditure



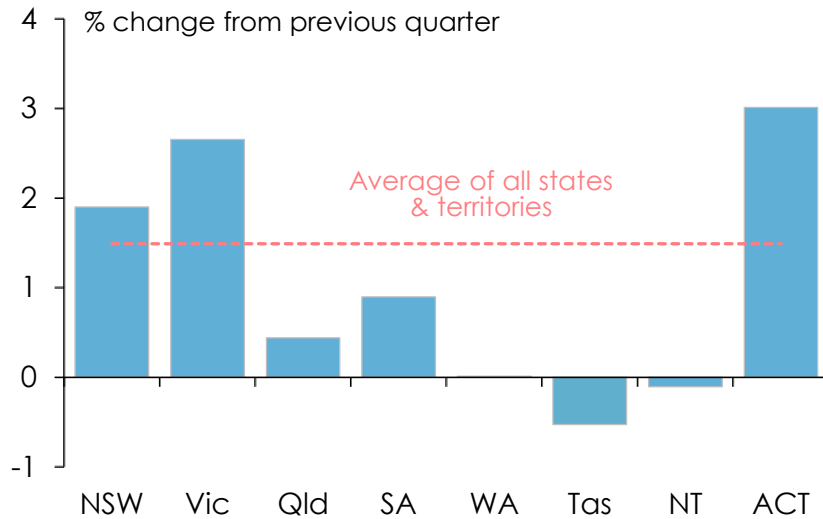
Note: (e) is estimate for the June quarter consistent with Treasury estimate that real GDP grew 3.4% in 2021-22 as a whole. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; June quarter national accounts will be released on 7<sup>th</sup> September. [Return to "What's New"](#).



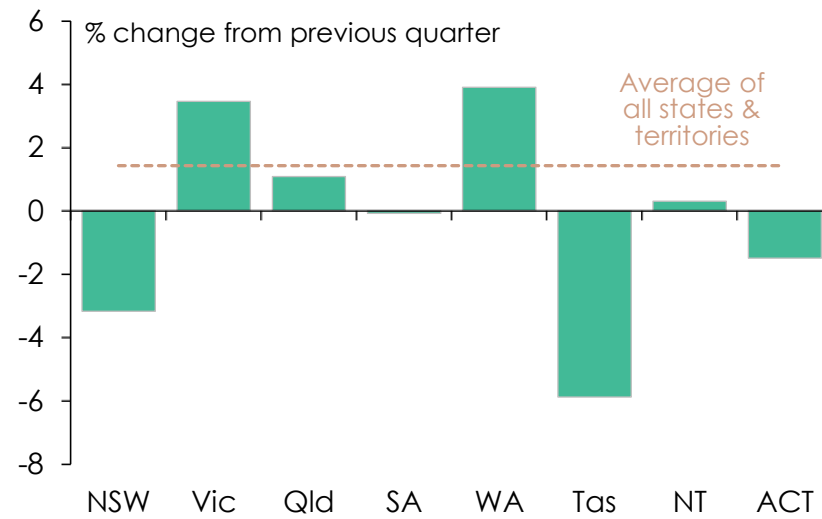
# March quarter real GDP growth owed much to the continued recovery in household spending in NSW, Victoria & the ACT from last year's lockdowns

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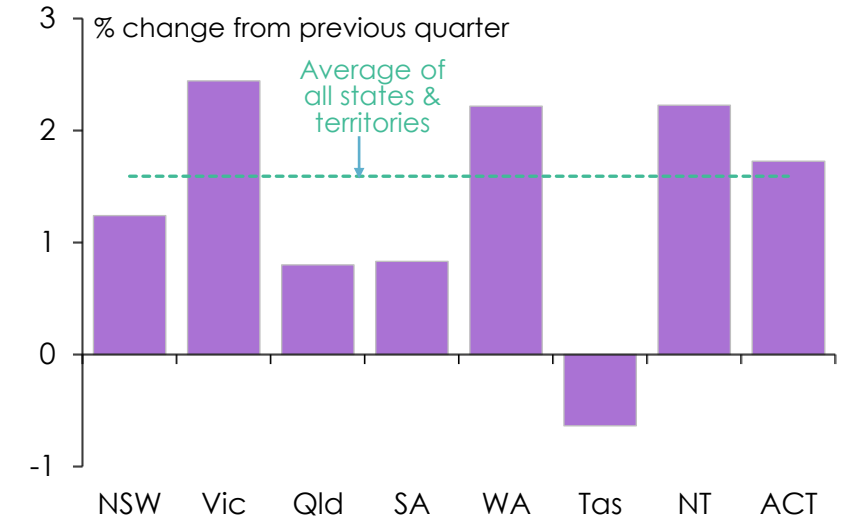
## Household consumption



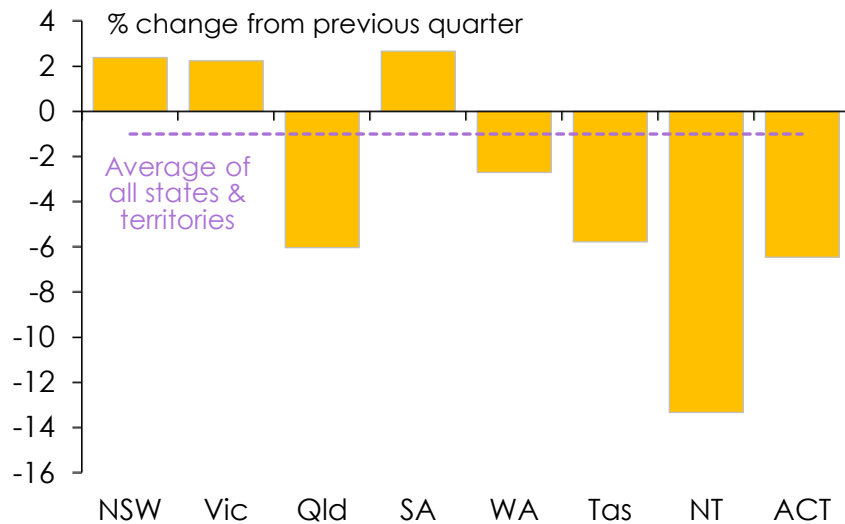
## Business investment



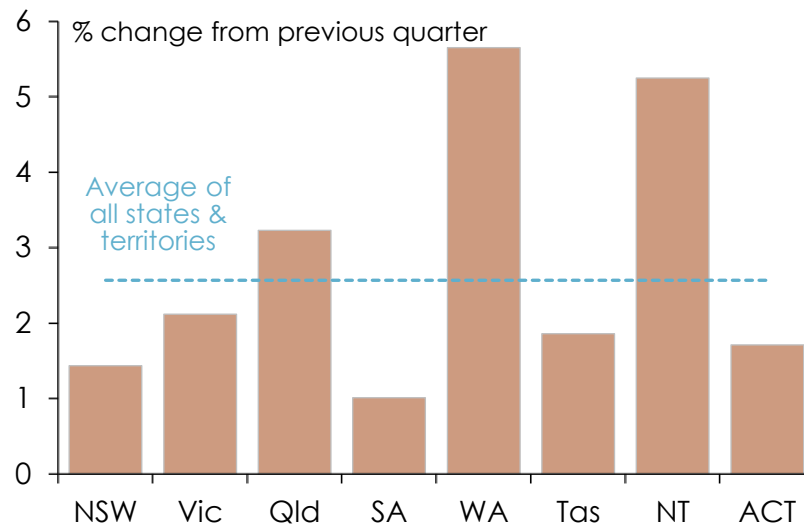
## State final demand



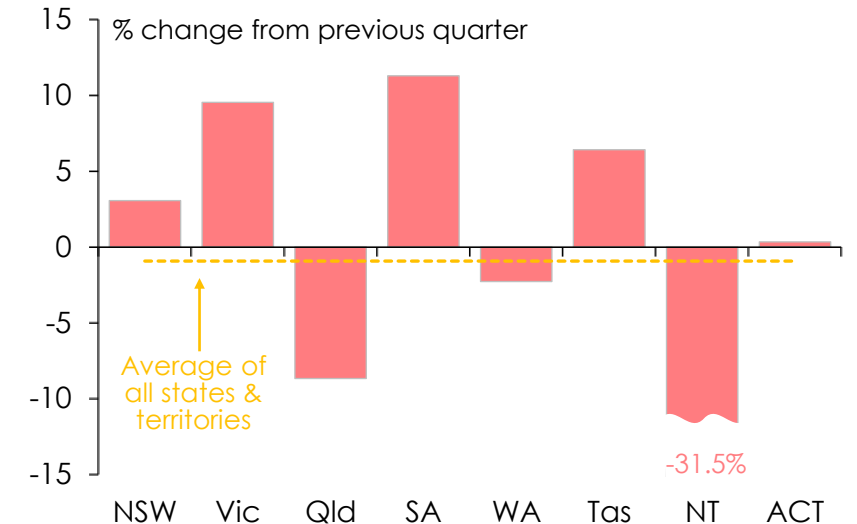
## Dwelling investment



## Public spending



## International exports

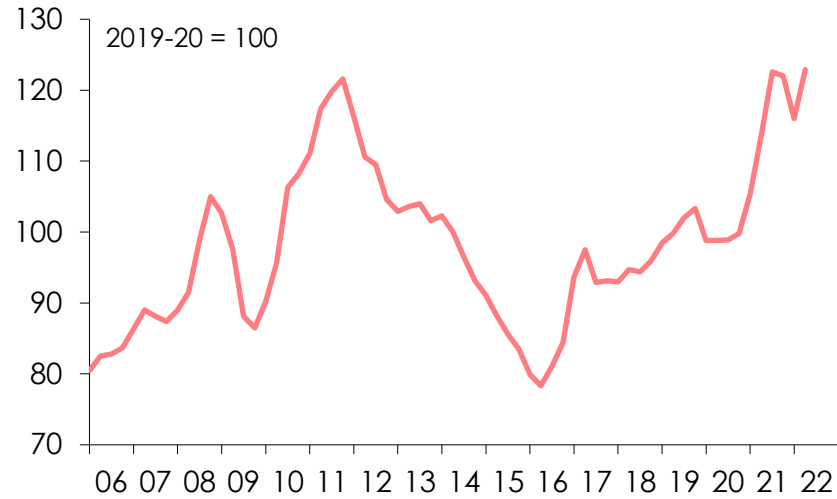


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; [Balance of Payments and International Investment Position,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

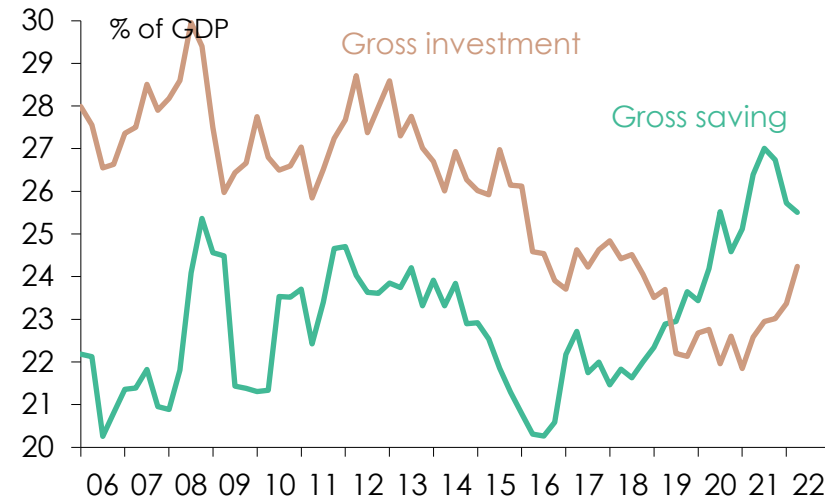
# Australia's terms of trade reached a new record high in the March quarter, boosting real gross domestic income – most of which went to profits

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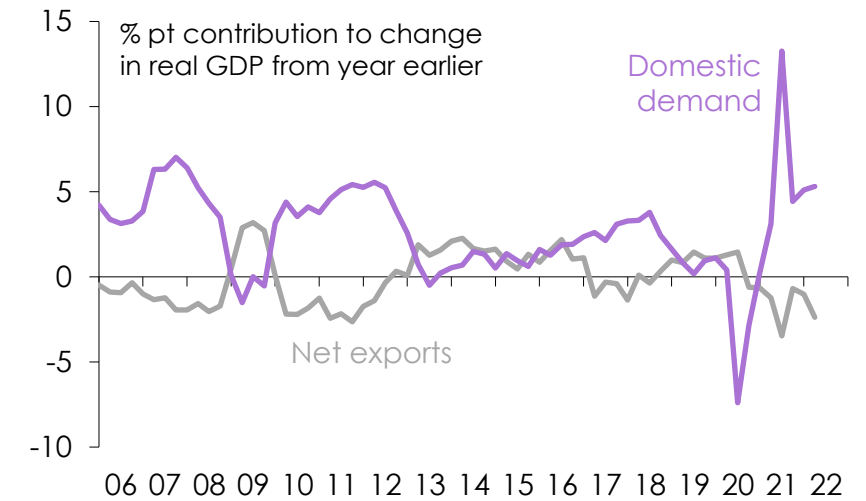
## Terms of trade



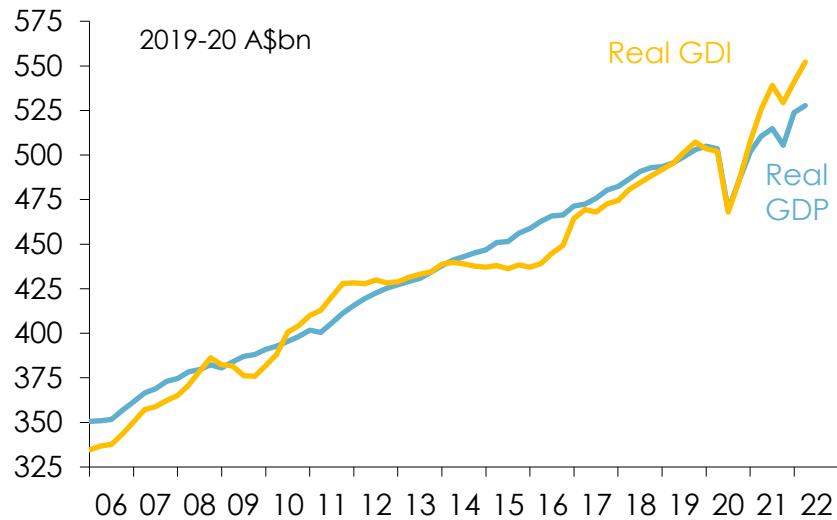
## National saving & investment



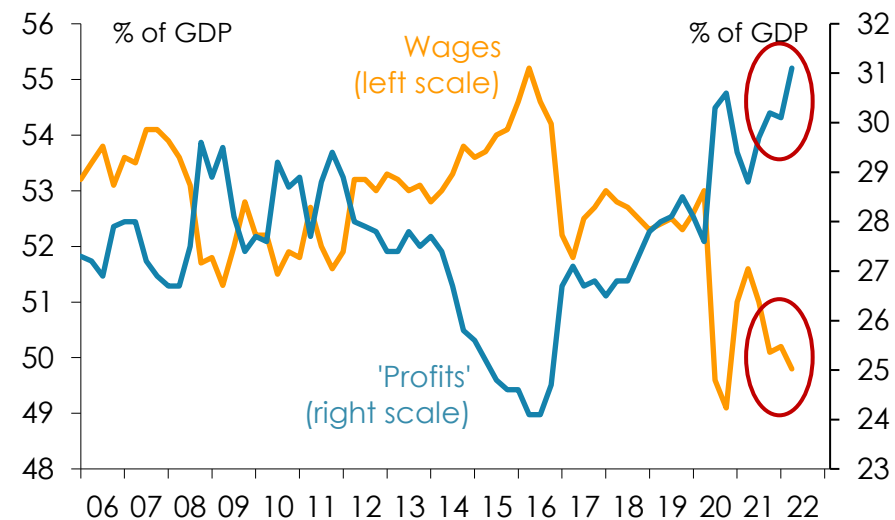
## Domestic demand and net exports



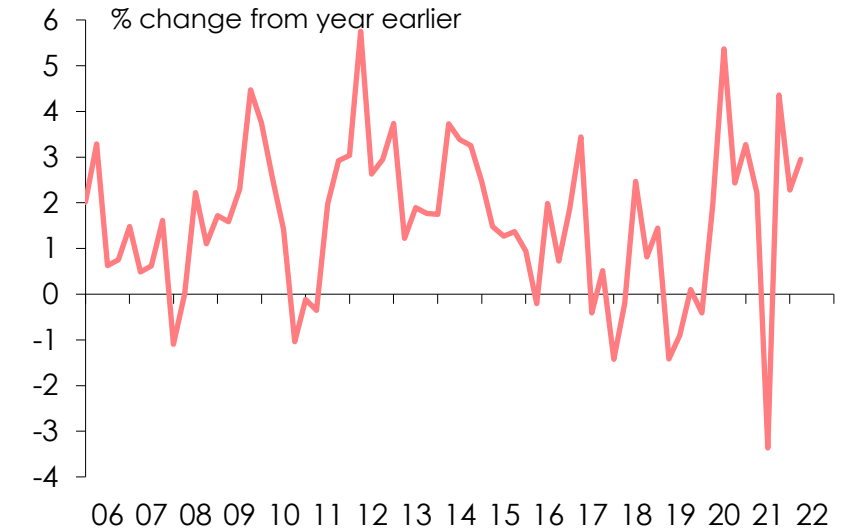
## Real gross domestic income



## Shares of national income



## Labour productivity

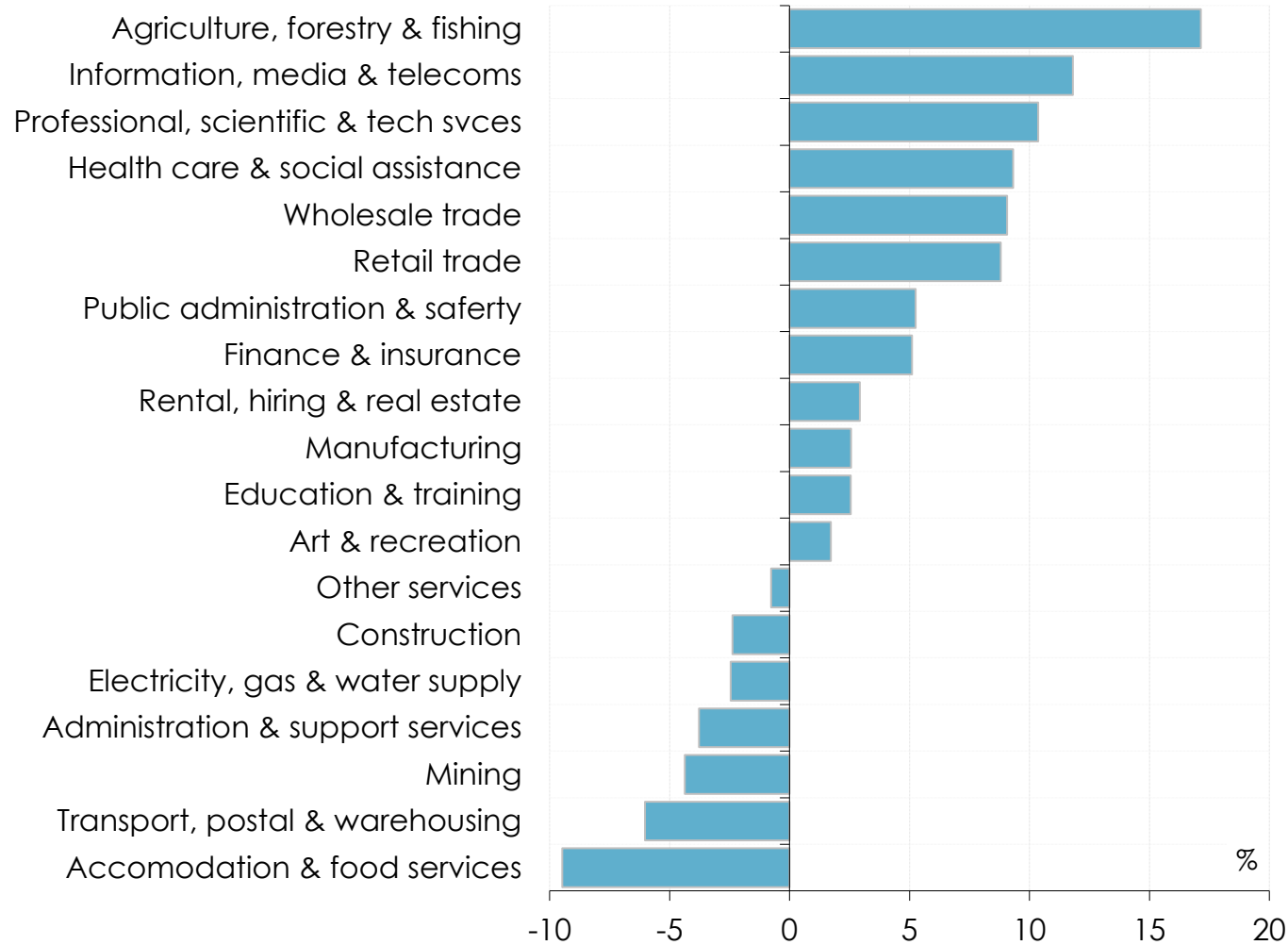


Note: The terms of trade is the ratio of export to import prices (for more see [slide 61](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added per hour worked. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022 – June quarter data will be released on 7<sup>th</sup> September. [Return to "What's New"](#).

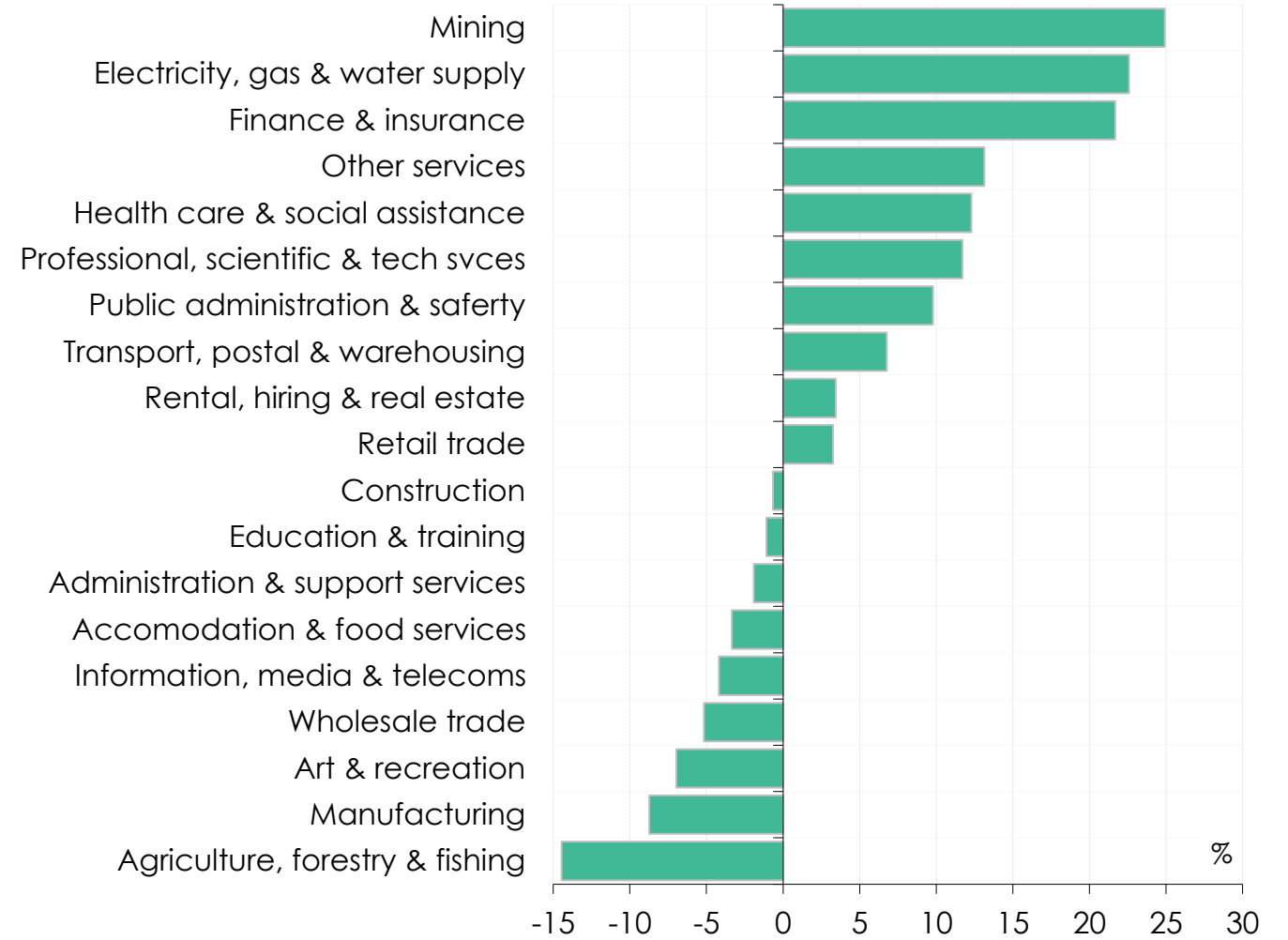
# Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

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



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

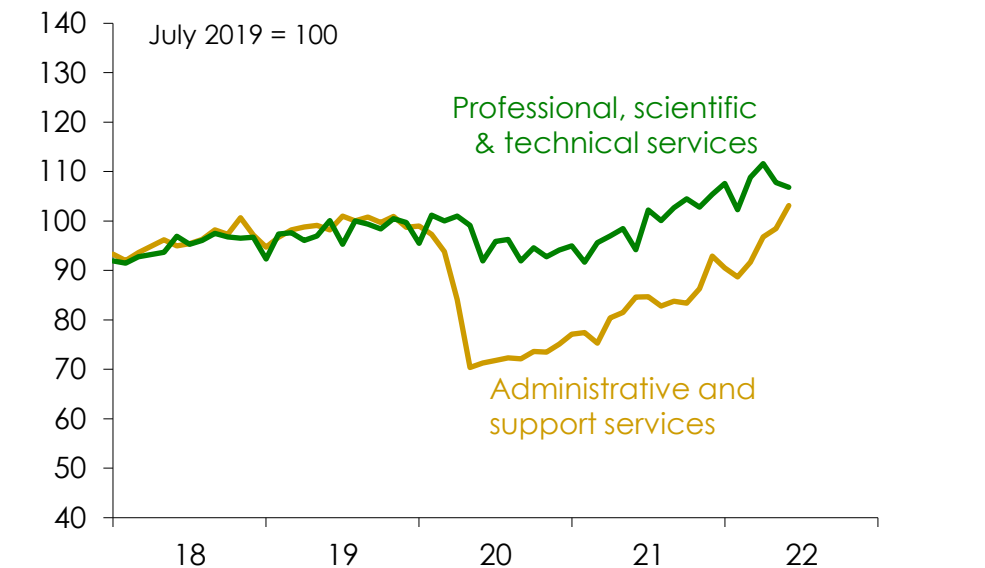
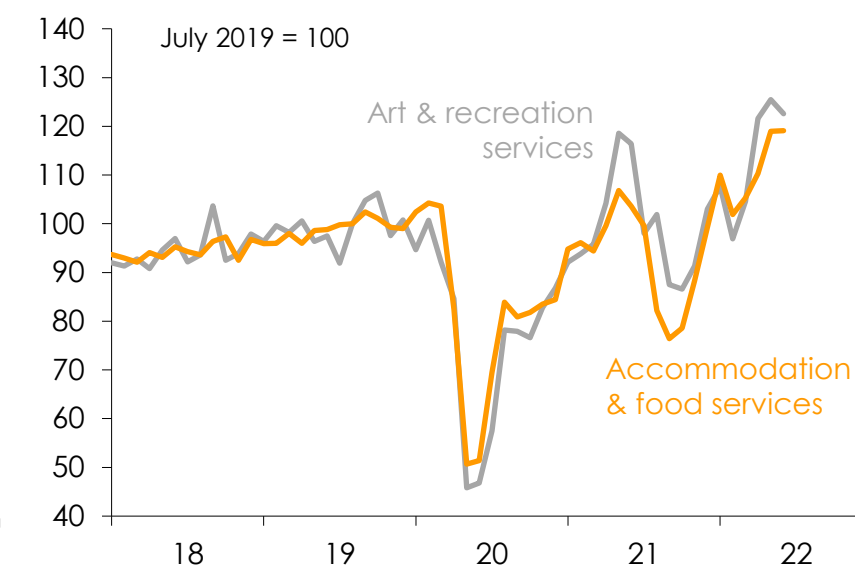
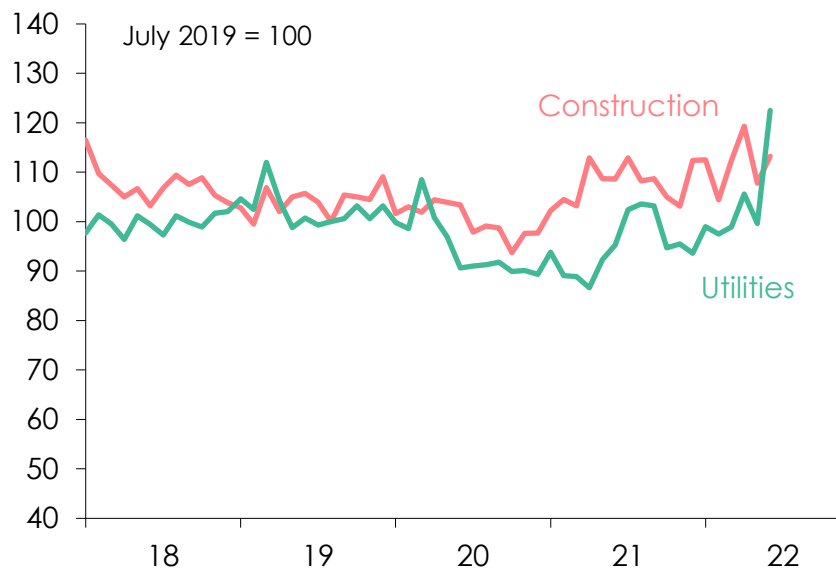
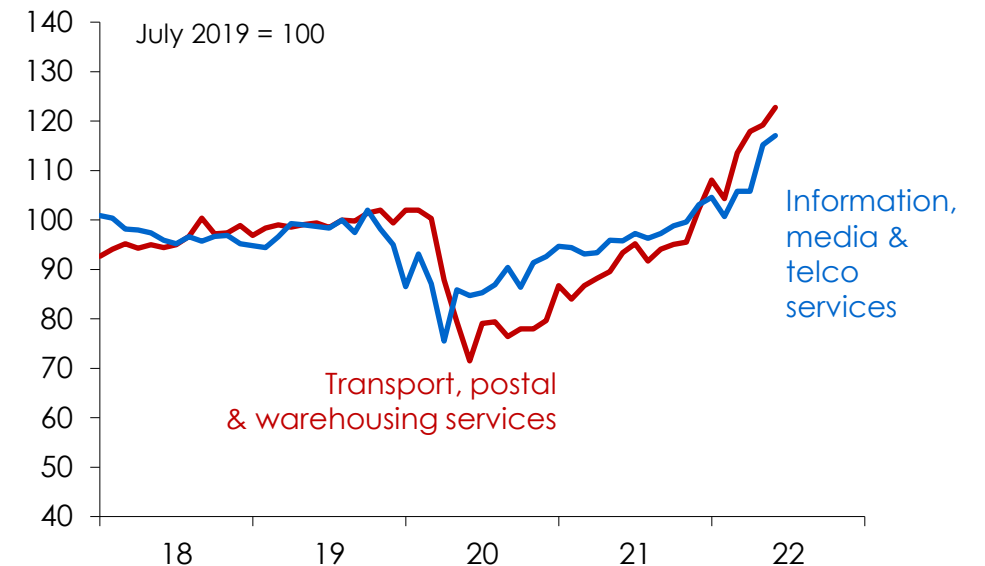
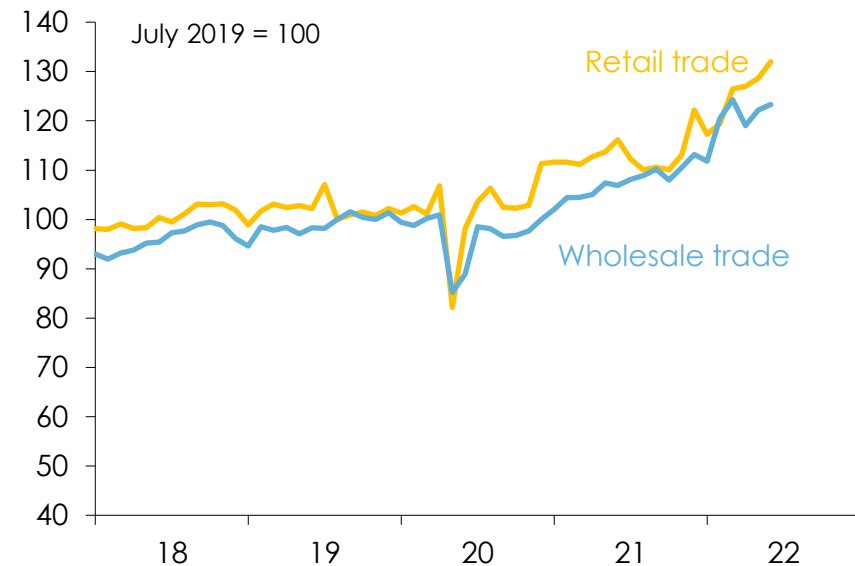
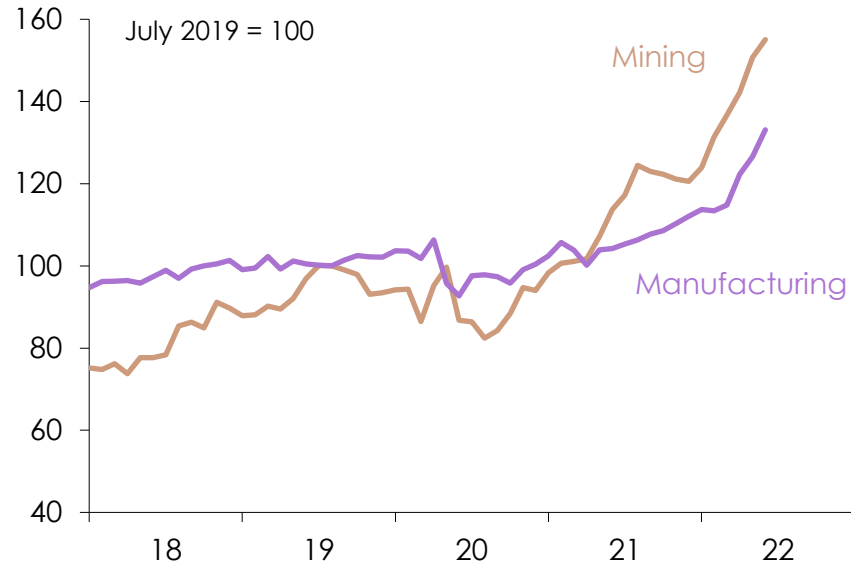


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; and [Labour Force, Australia, Detailed](#), May 2022. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

## Indicators of business turnover, by industry

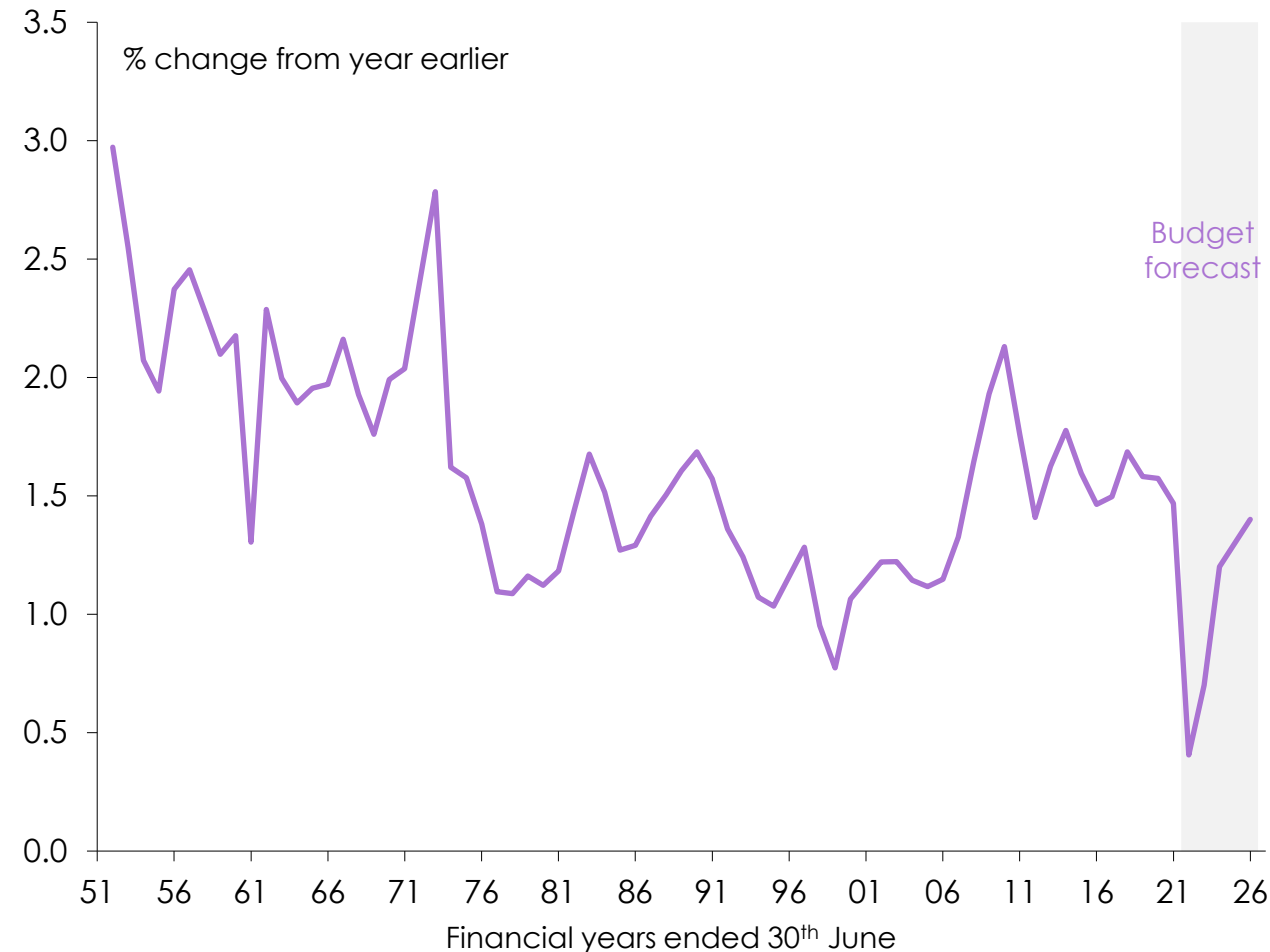


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

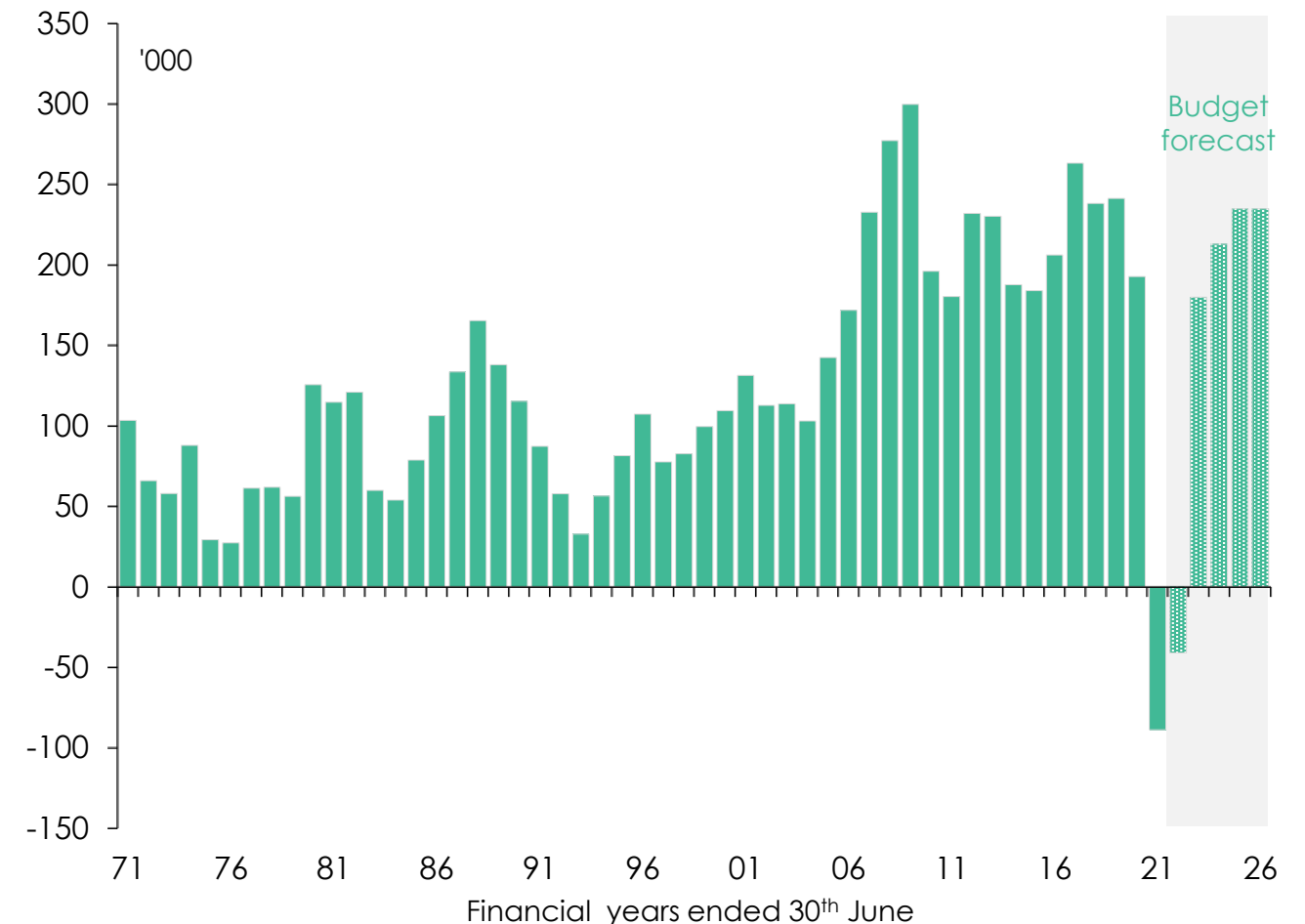
# An important assumption underlying 'official' forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

## Population growth



## Net overseas migration



- ❑ **Net overseas migration may not return to pre-Covid levels as quickly as the Budget assumes (or at all) if (a) China actively discourages students from coming to Australia (as it may well); and (b) if prospective migrants' views of Australia as a desirable destination has been adversely affected by the way in which Australia 'managed' its border controls during Covid (as they may well have been)**

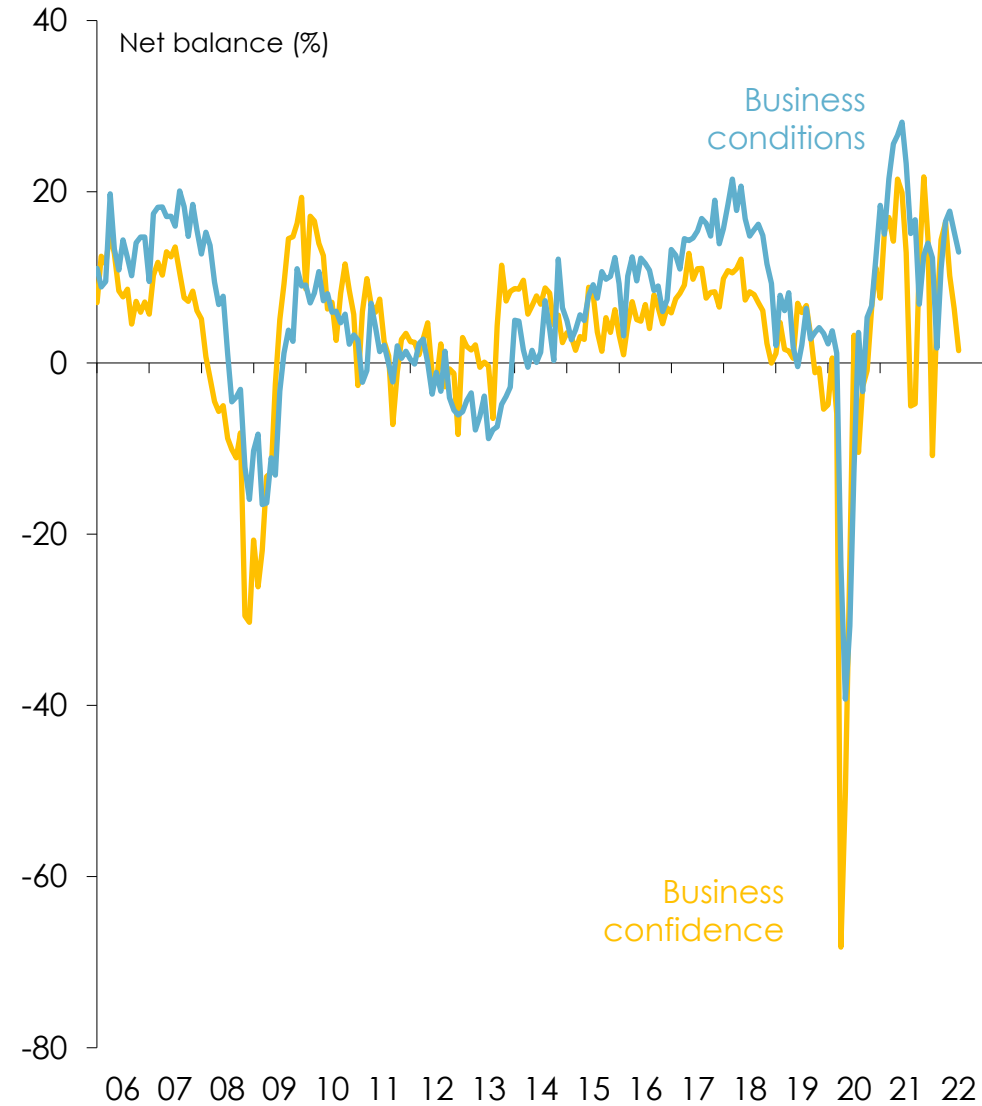
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29<sup>th</sup> March 2022.

# The business sector

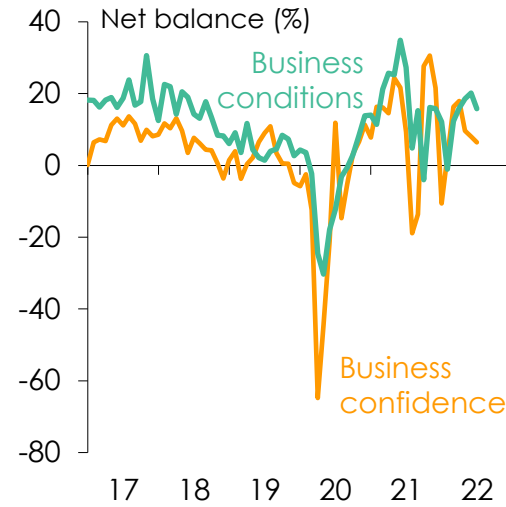
# Business confidence fell further in June, following the RBA's second rate increase, even though business conditions remained reasonably firm

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

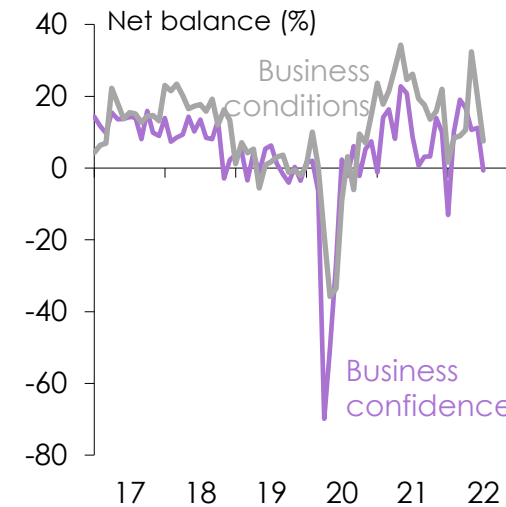
## National business confidence & conditions



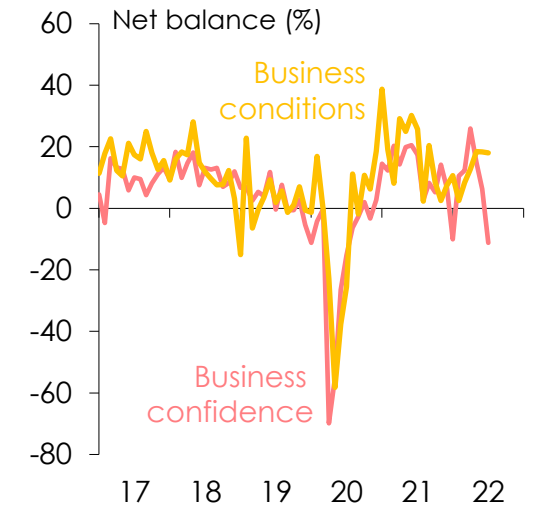
## New South Wales



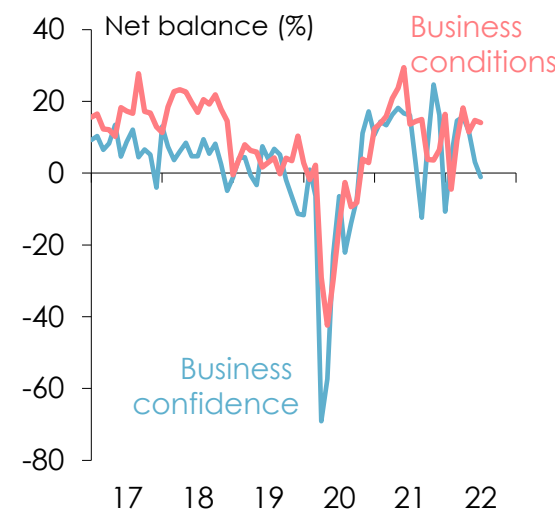
## Queensland



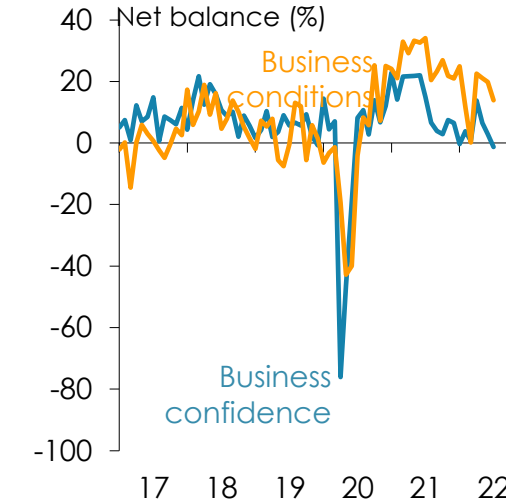
## South Australia



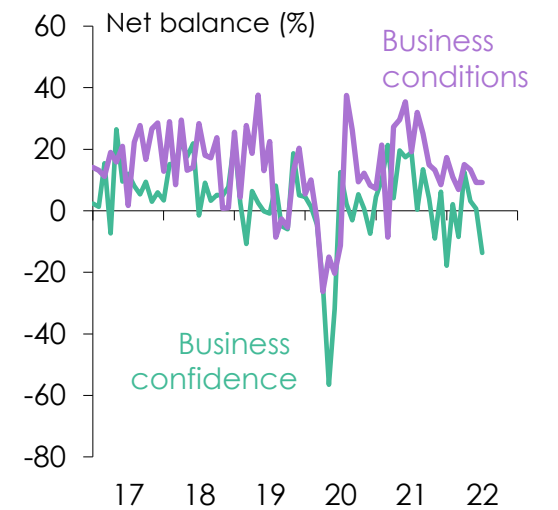
## Victoria



## Western Australia



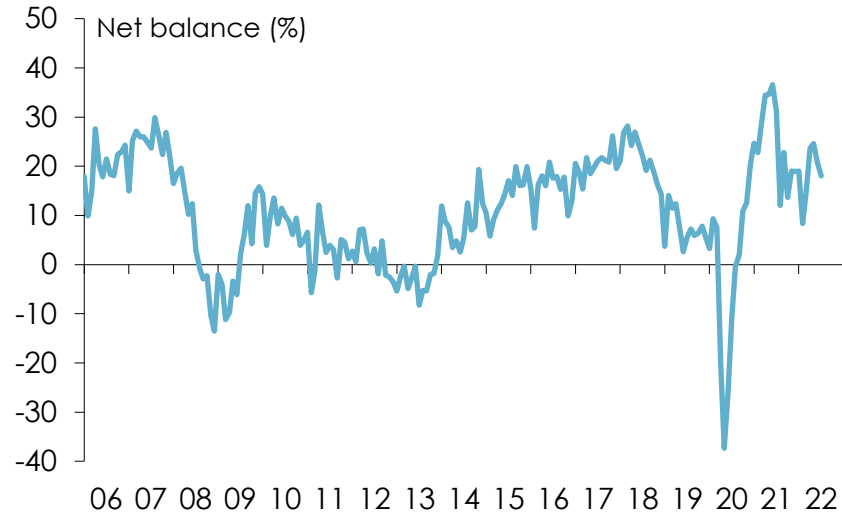
## Tasmania



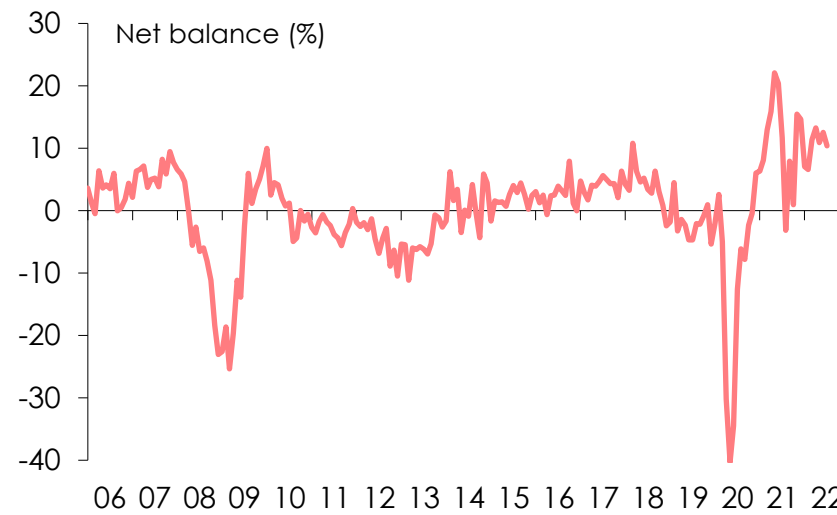
# All of the different components of 'business conditions' eased marginally in June, but remained well above historical averages

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

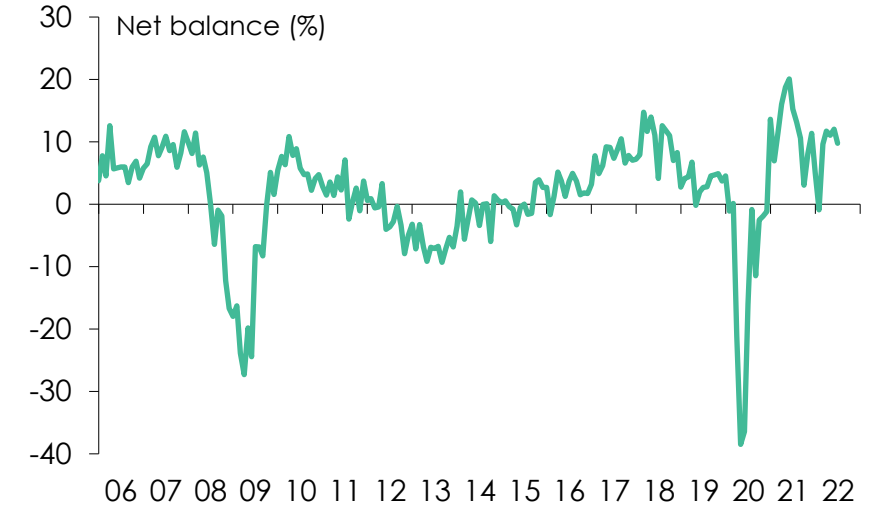
## Trading conditions



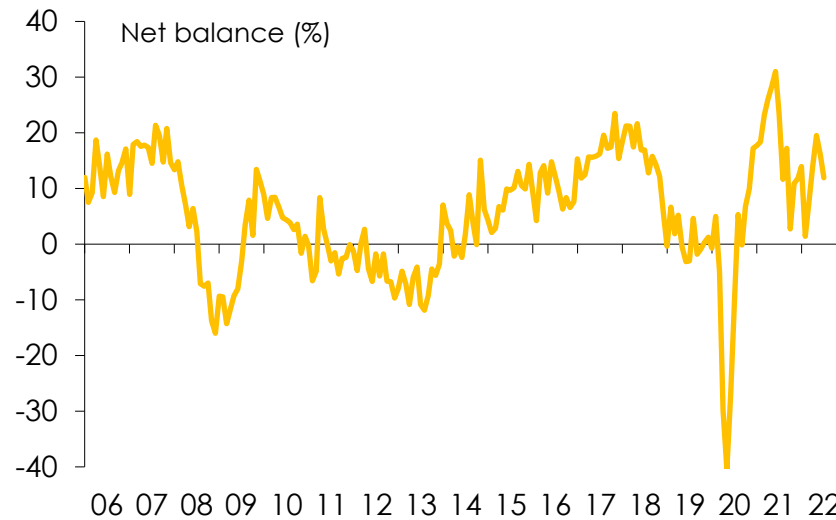
## Forward orders



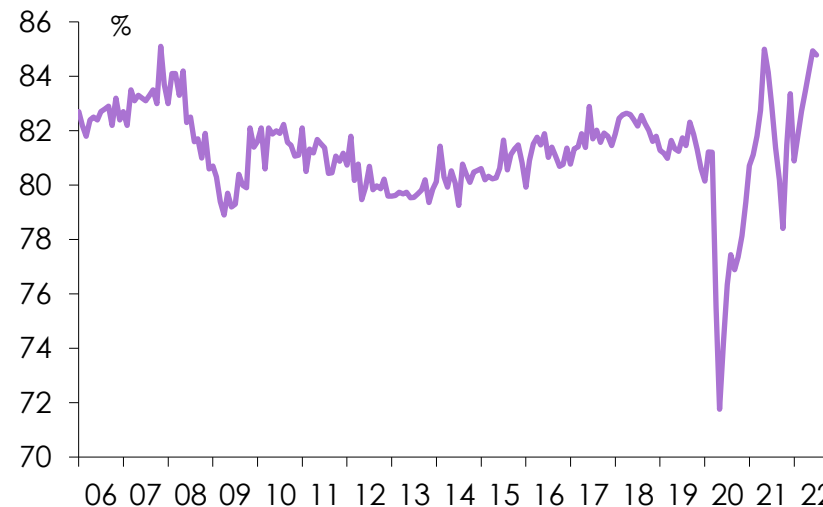
## Employee hiring intentions



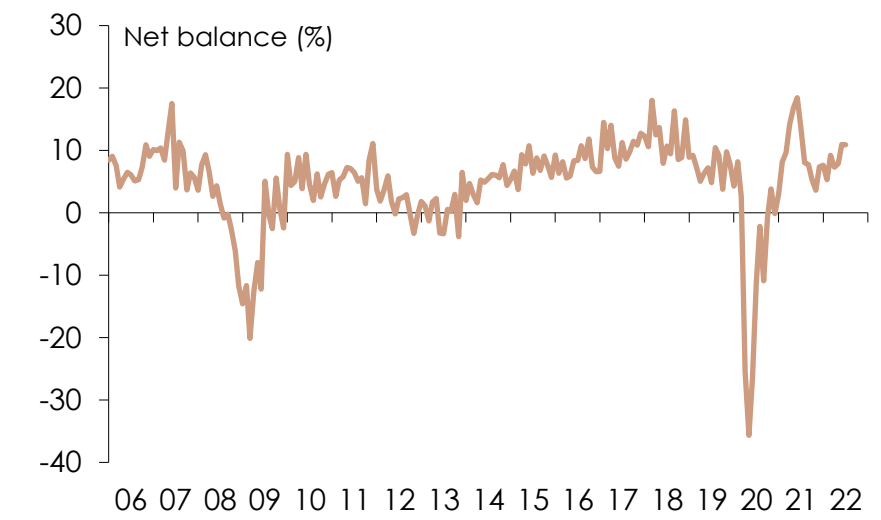
## Profitability



## Capacity utilization



## Capital expenditure intentions



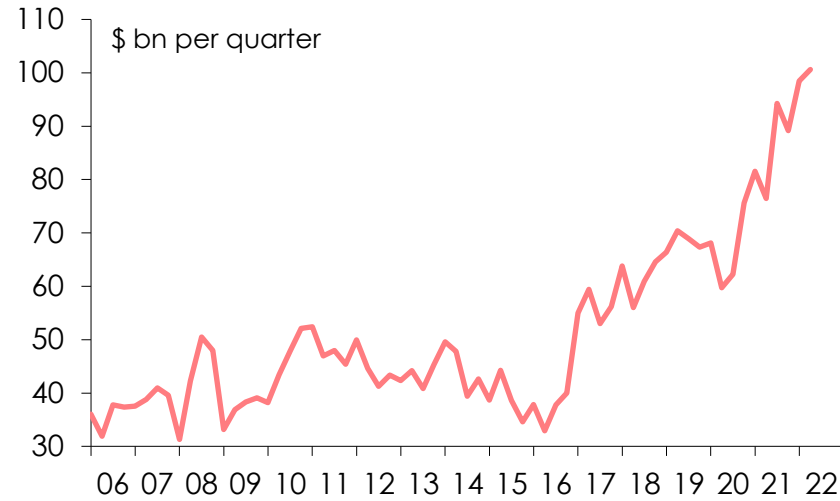
Source: National Australia Bank [Monthly Business Survey](#), June 2022; July survey results will be released on 9<sup>th</sup> August. [Return to "What's New"](#).



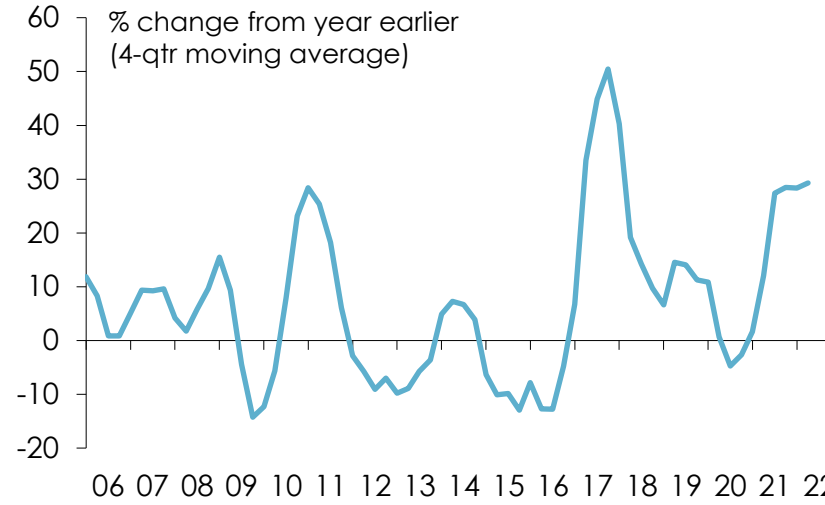
# Company profits have grown strongly over the past five years, driven largely by mining – with the construction sector experiencing a ‘margin squeeze’

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

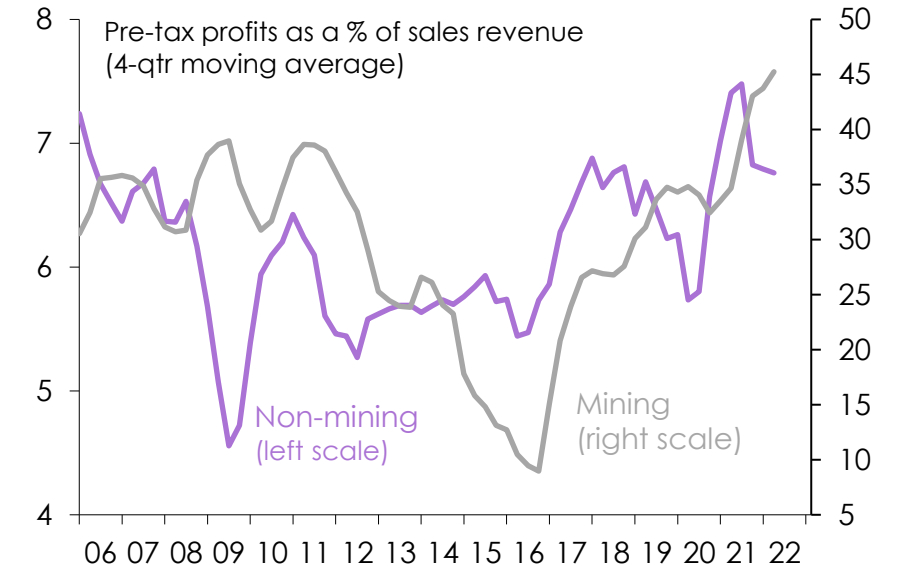
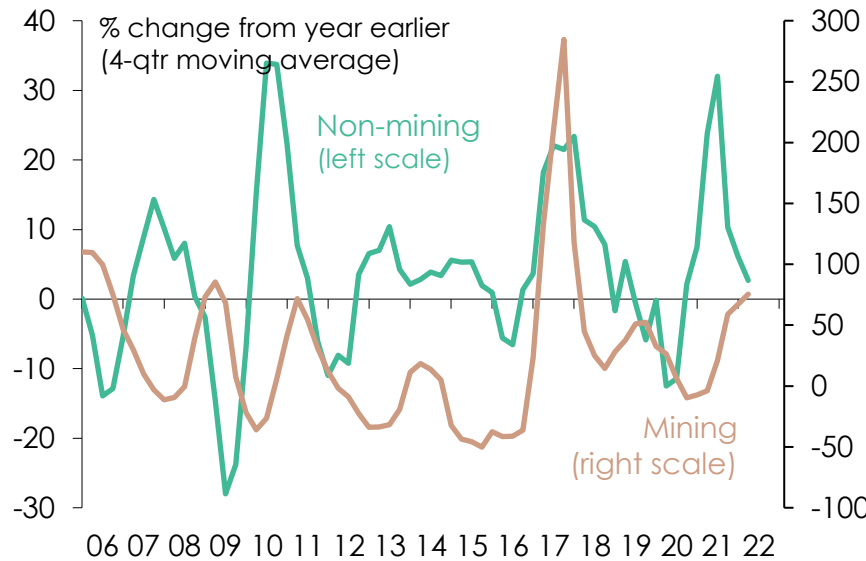
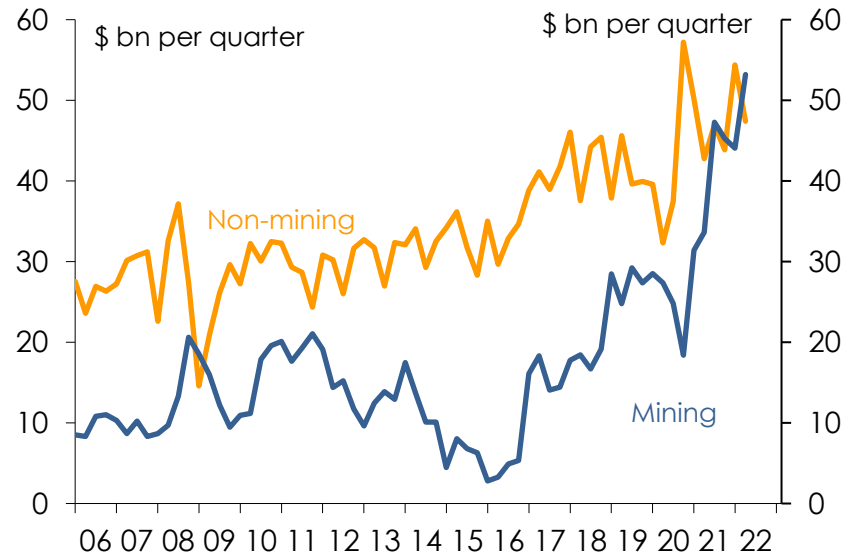
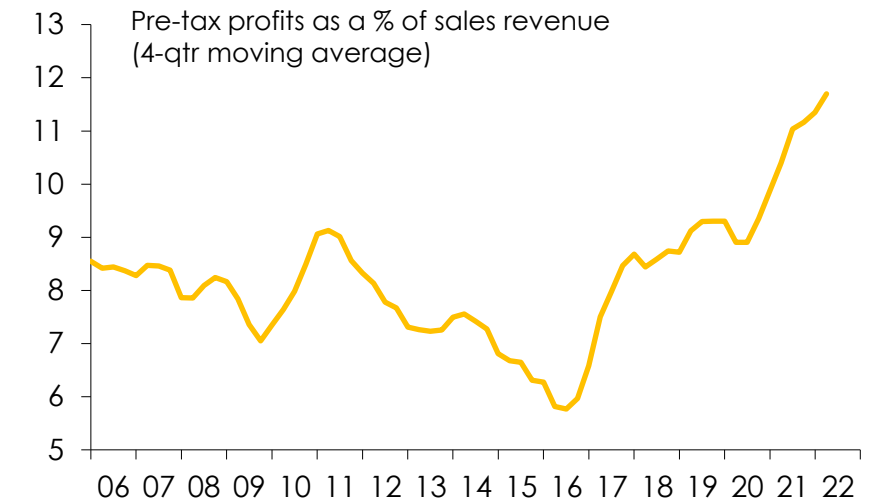
## Pre-tax company profits



## Pre-tax company profits growth



## Pre-tax profit margins

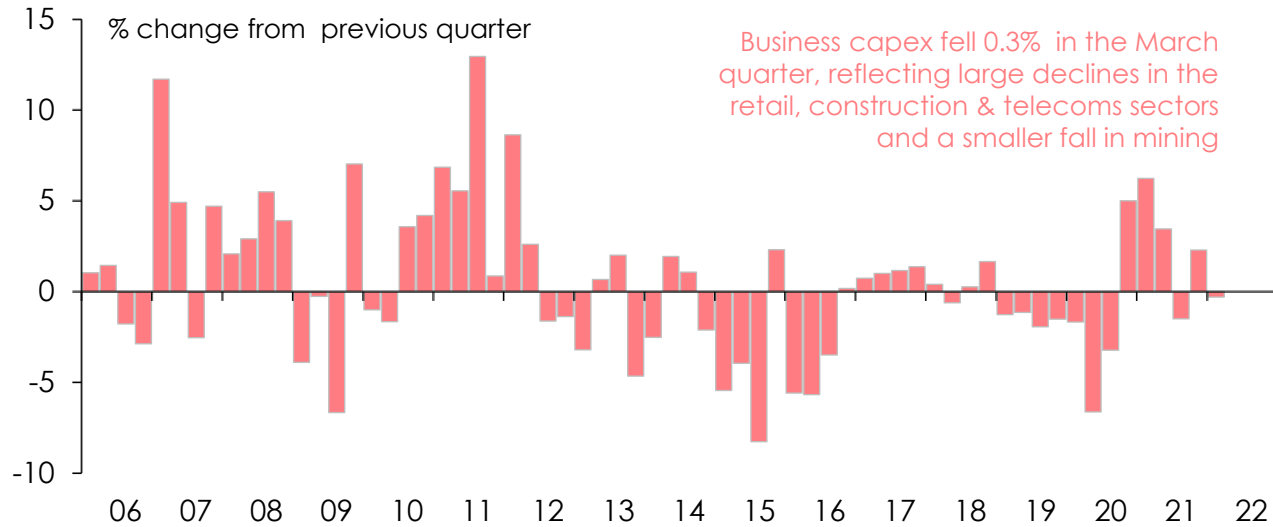


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), March 2022. June quarter data will be released on 5<sup>th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

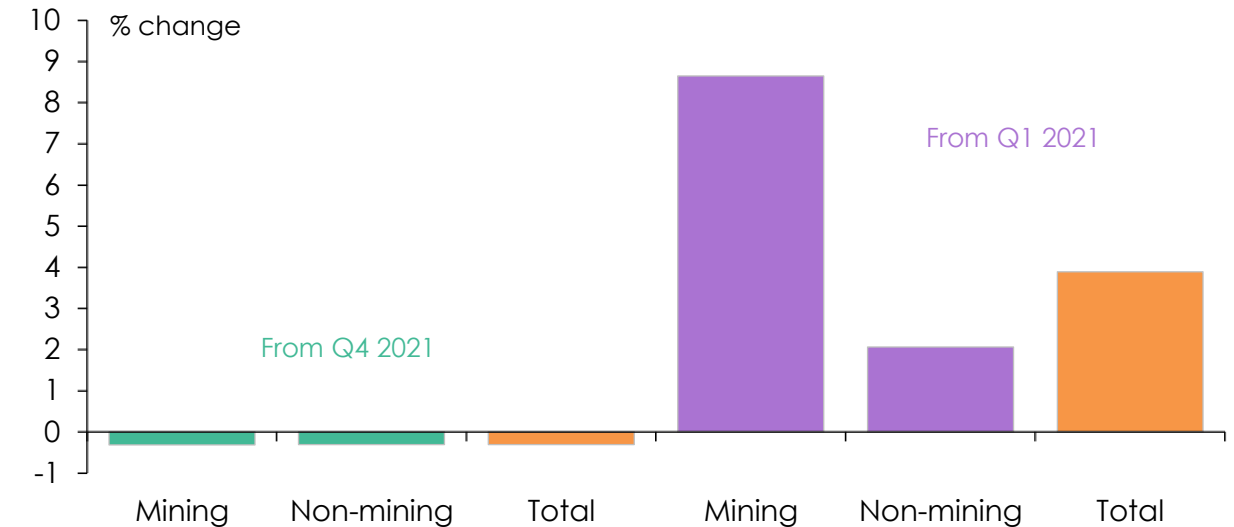
# Business capex fell 0.3% in the March quarter, reflecting large declines in capex in retail, construction and telecoms, and a smaller fall in mining

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

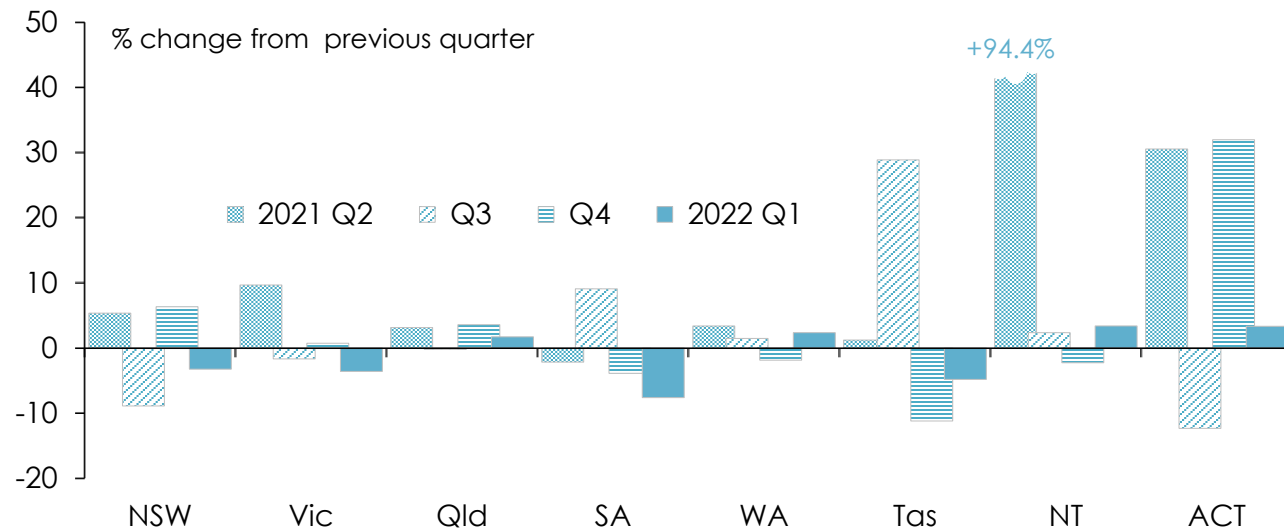
## Real business new fixed capital expenditure



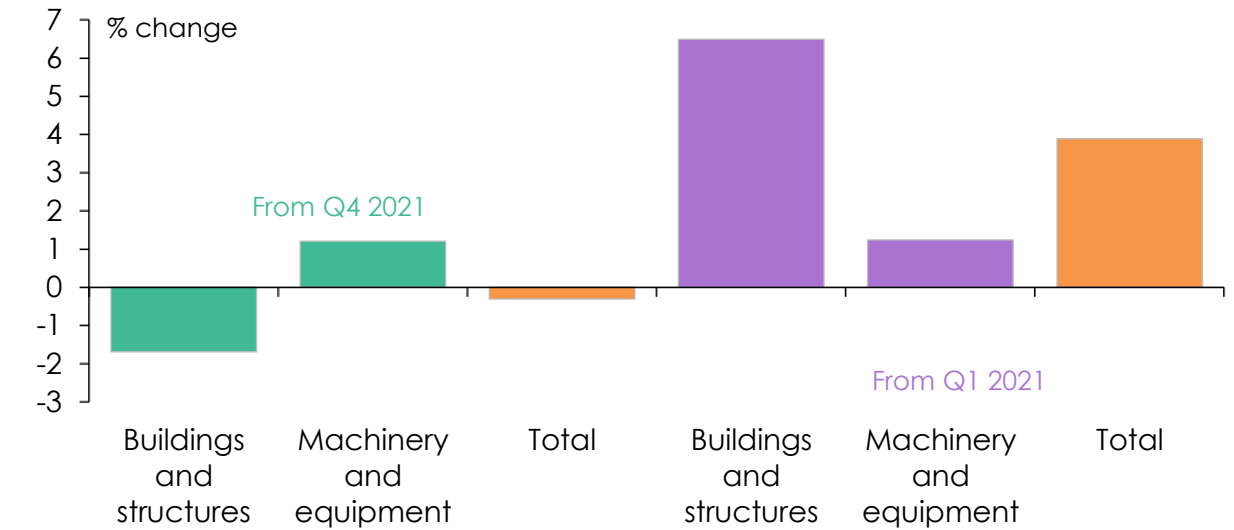
## Real business new fixed capex, by industry, Q1



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



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



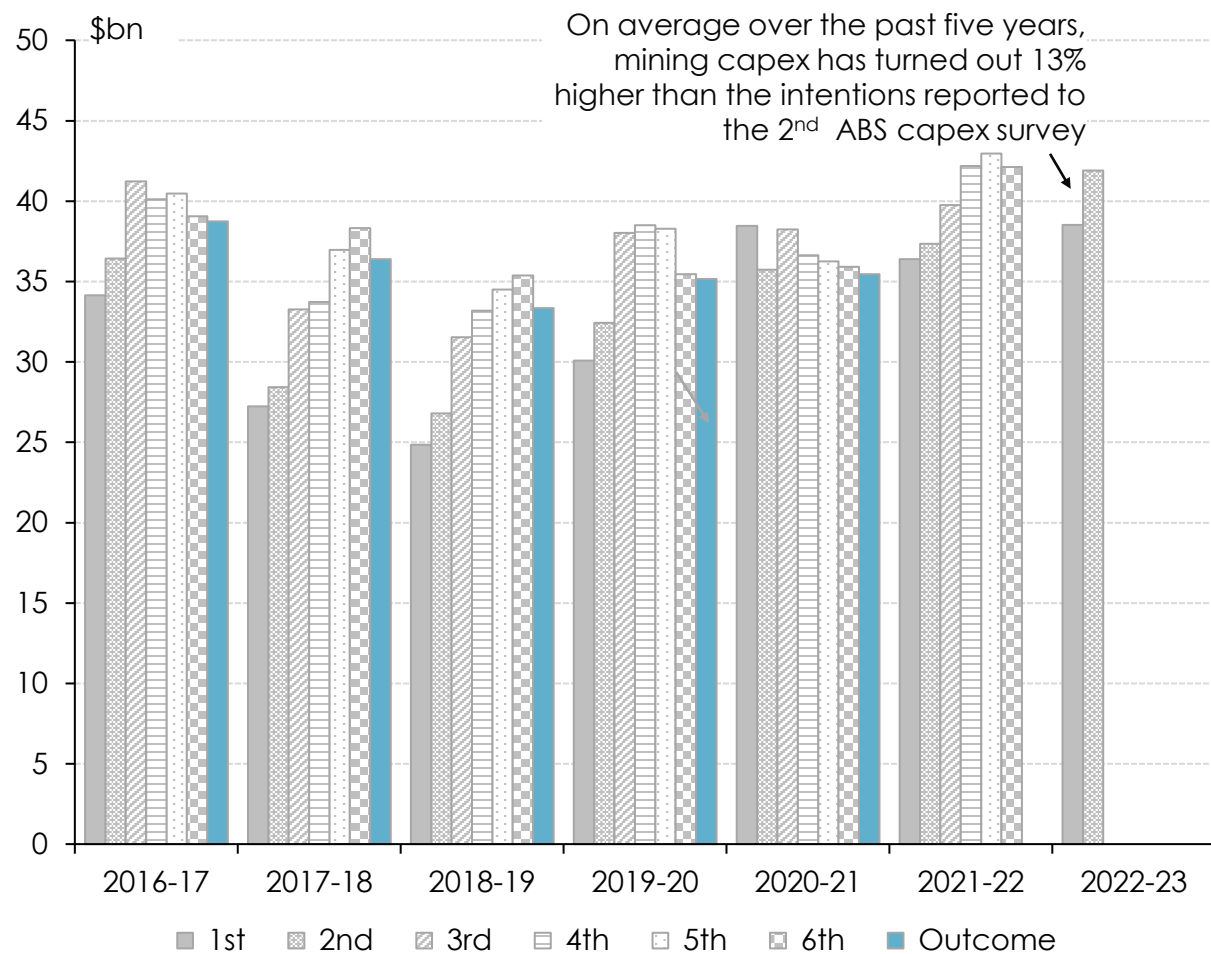
Note: the ABS Survey of new capital expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

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

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

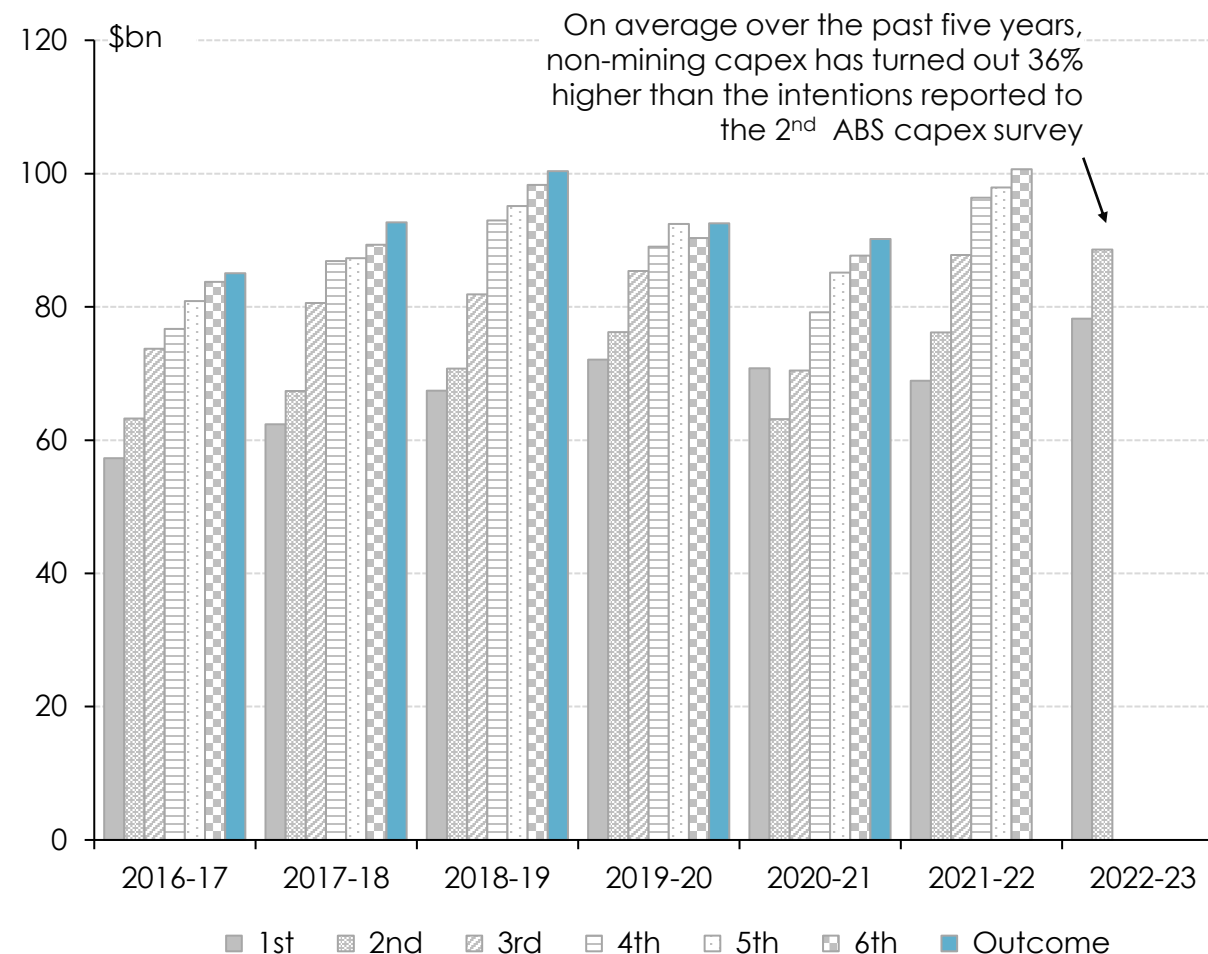
THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

## Capital expenditure intentions - mining



ABS capex intentions survey

## Capital expenditure intentions – non-mining



ABS capex intentions survey

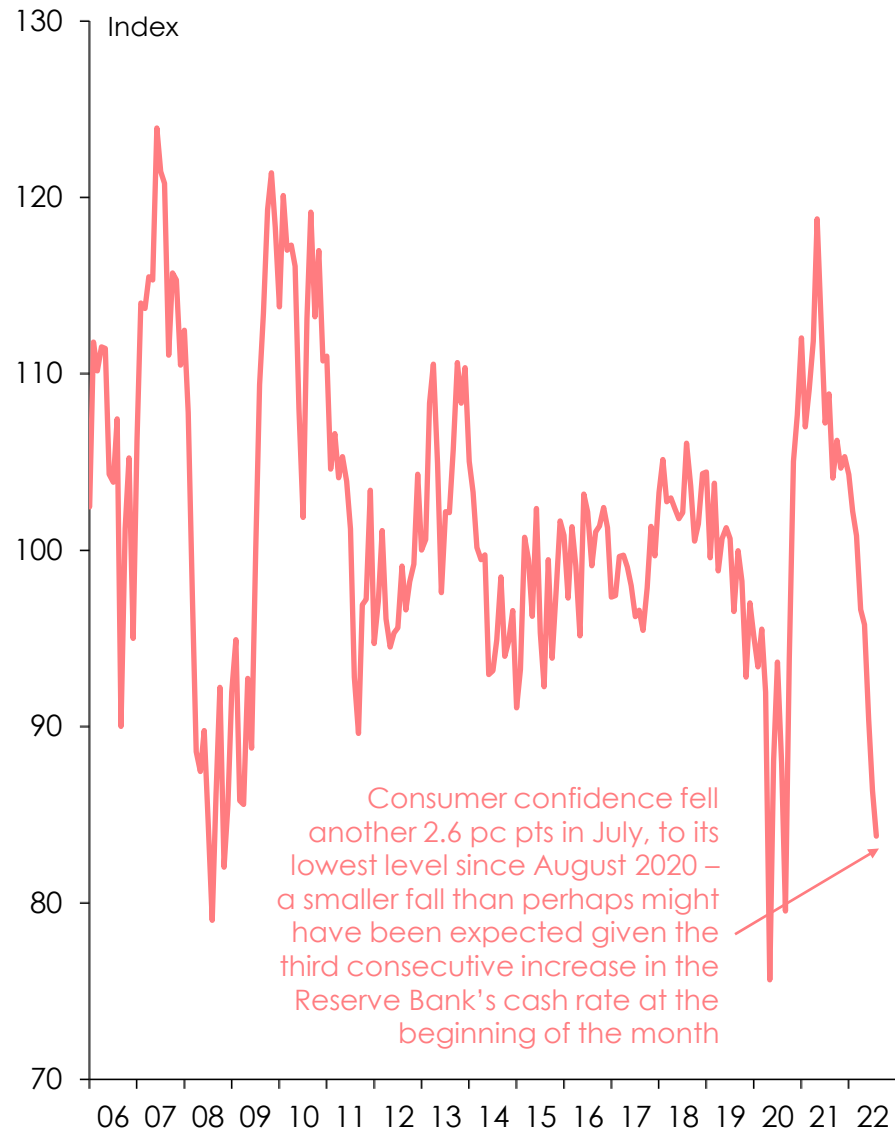
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in April & May, the third in July & August of the financial year, the fourth in October & November, the fifth in January & February, and the sixth in May & June. The outcome (actual capital expenditure in the financial year) is determined from the survey taken in July & August after the end of the financial year. From the December quarter 2020 the survey includes the education & training, and health care & social assistance sectors. The estimates shown above are in nominal terms. Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); actuals for 2021-22, and the third survey estimates for 2022-23, will be released on 1<sup>st</sup> September. [Return to "What's New"](#).

# The household sector and consumer spending

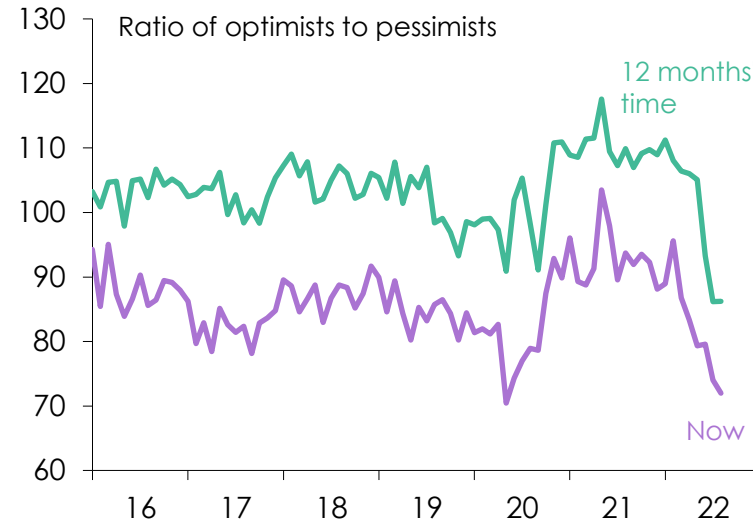
# Consumer confidence fell again in July to its lowest level since August 2020, although it wouldn't have surprised if it had fallen by more than 2.6 pc pts

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

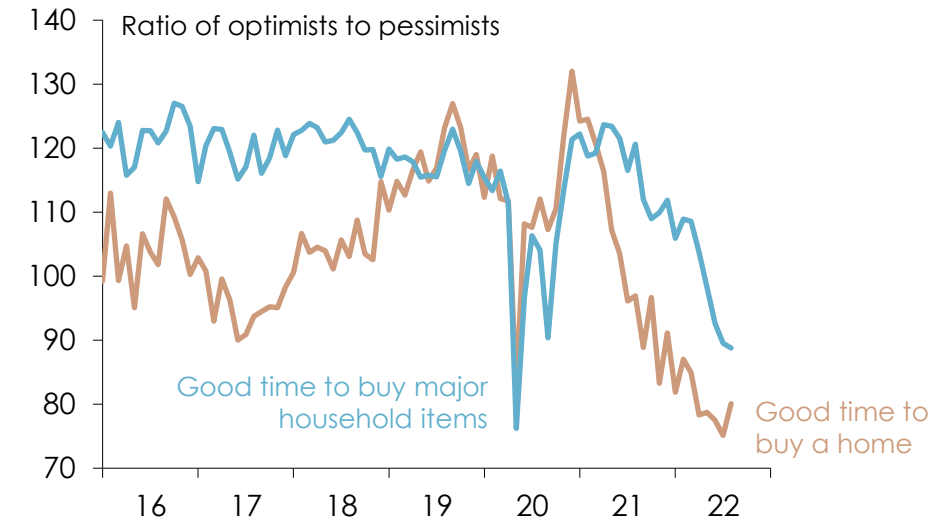
## Consumer confidence index



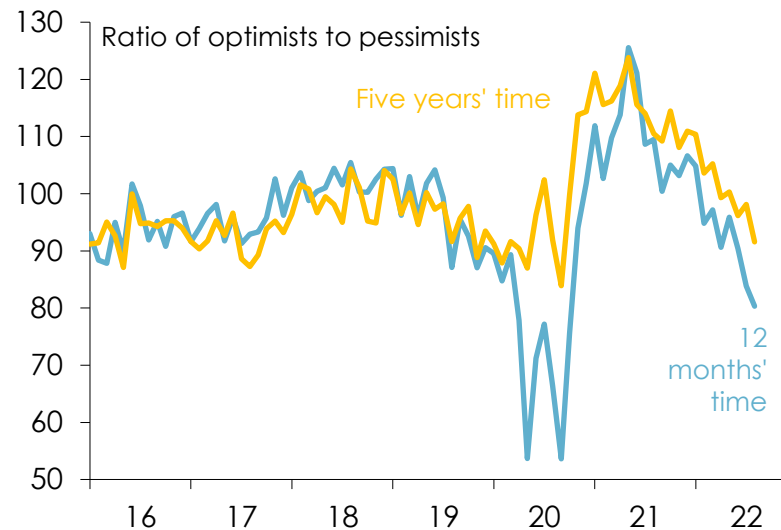
## Household finances assessment



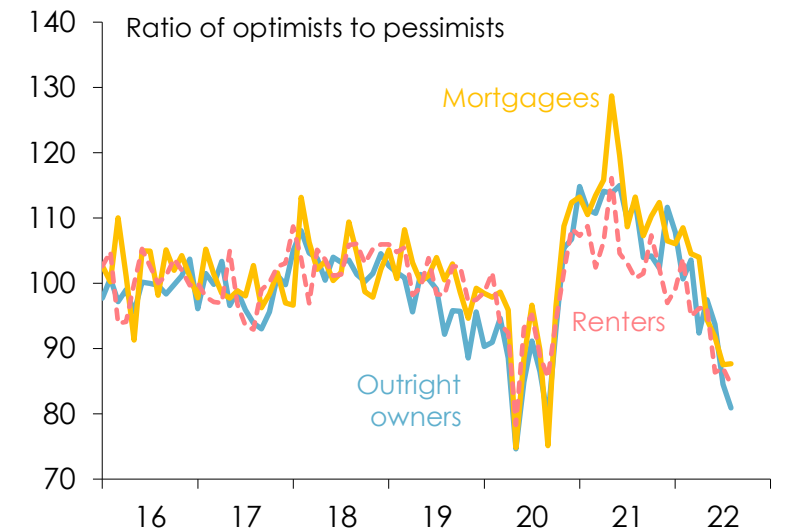
## Buying conditions assessment



## Economic conditions assessment



## Confidence by housing tenure

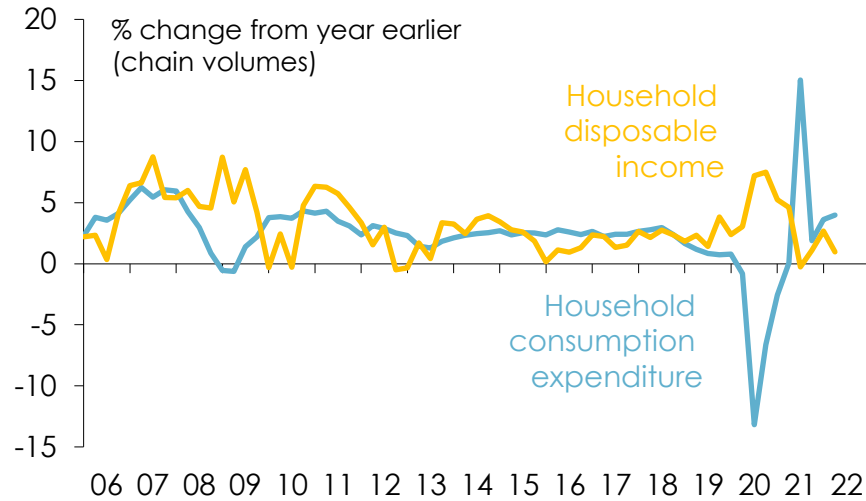


Source: [Westpac Banking Corporation](#). August consumer confidence will be released on 10<sup>th</sup> August. [Return to "What's New"](#).

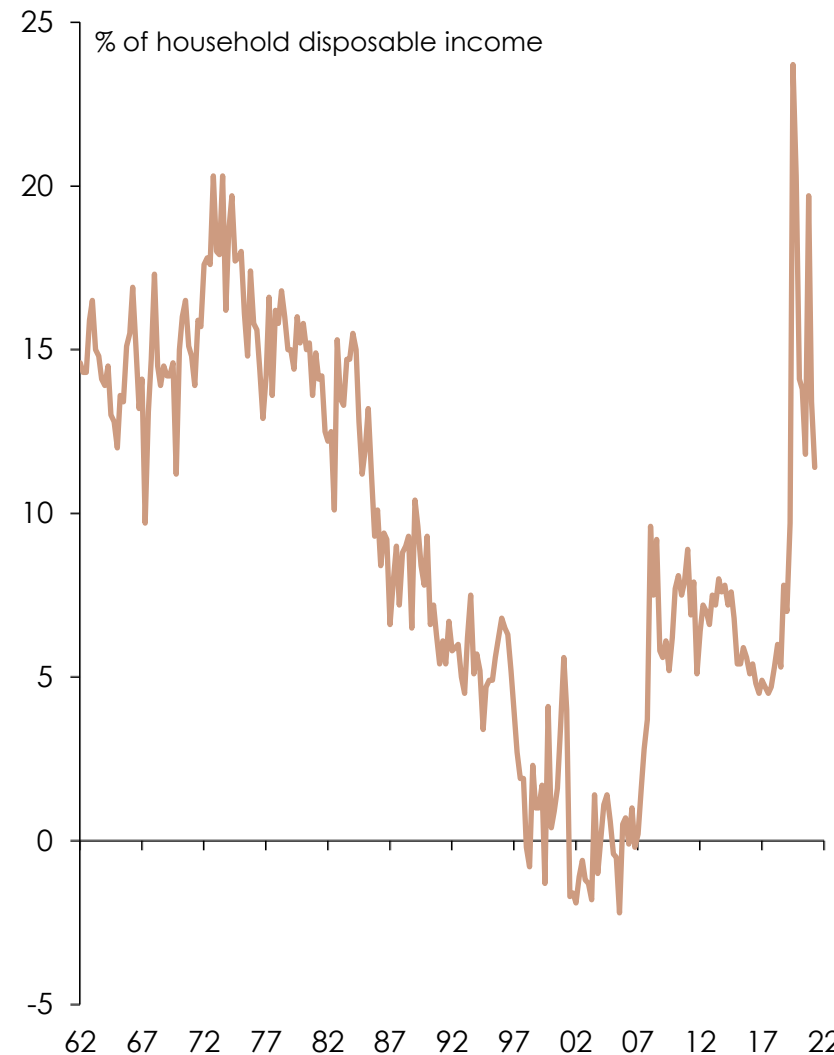
# Households are sustaining spending in the face of weak real income growth by reducing saving – many households have large cash reserves

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

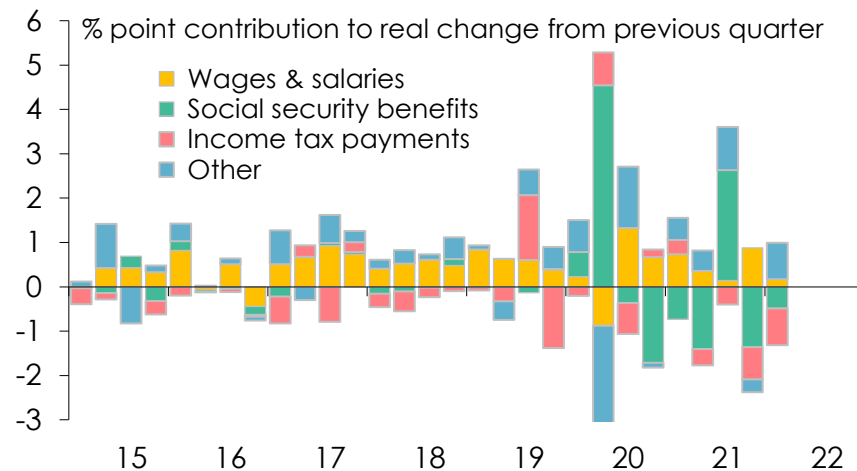
## Household income and spending



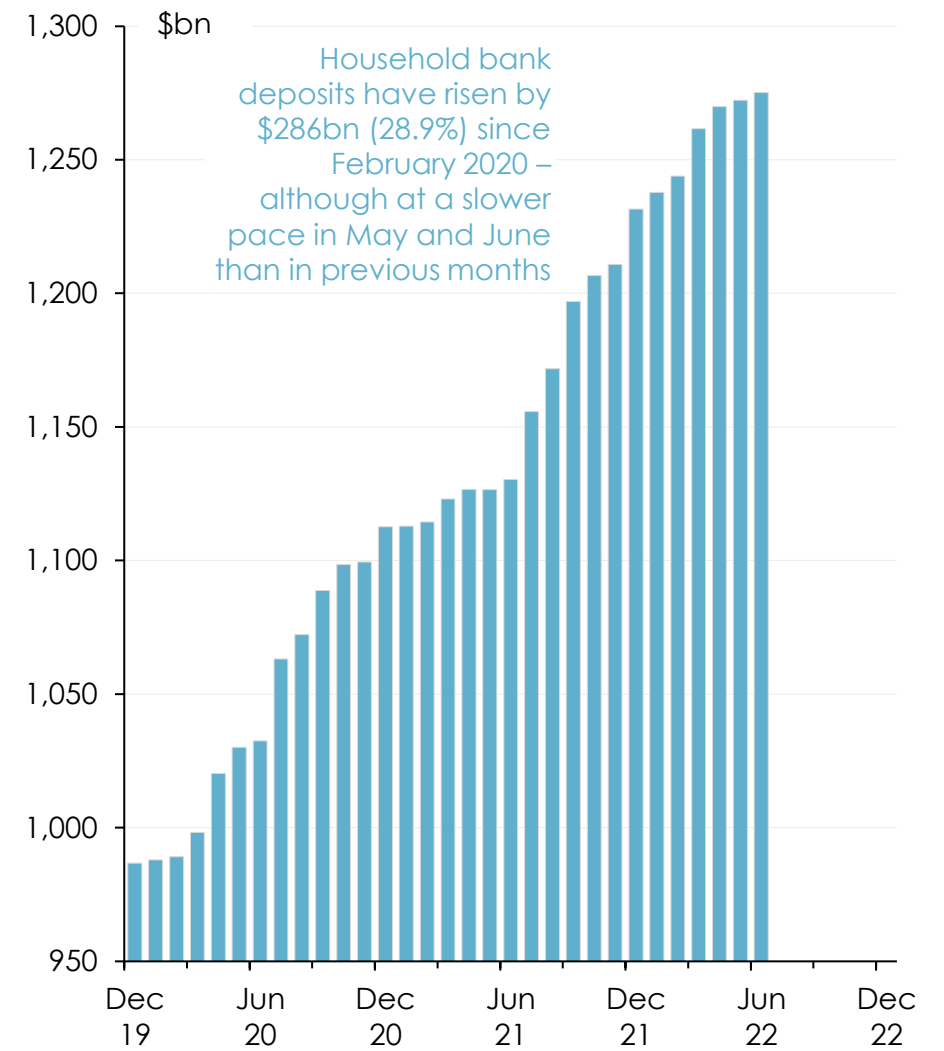
## Household saving ratio



## Sources of household income



## Household bank deposits

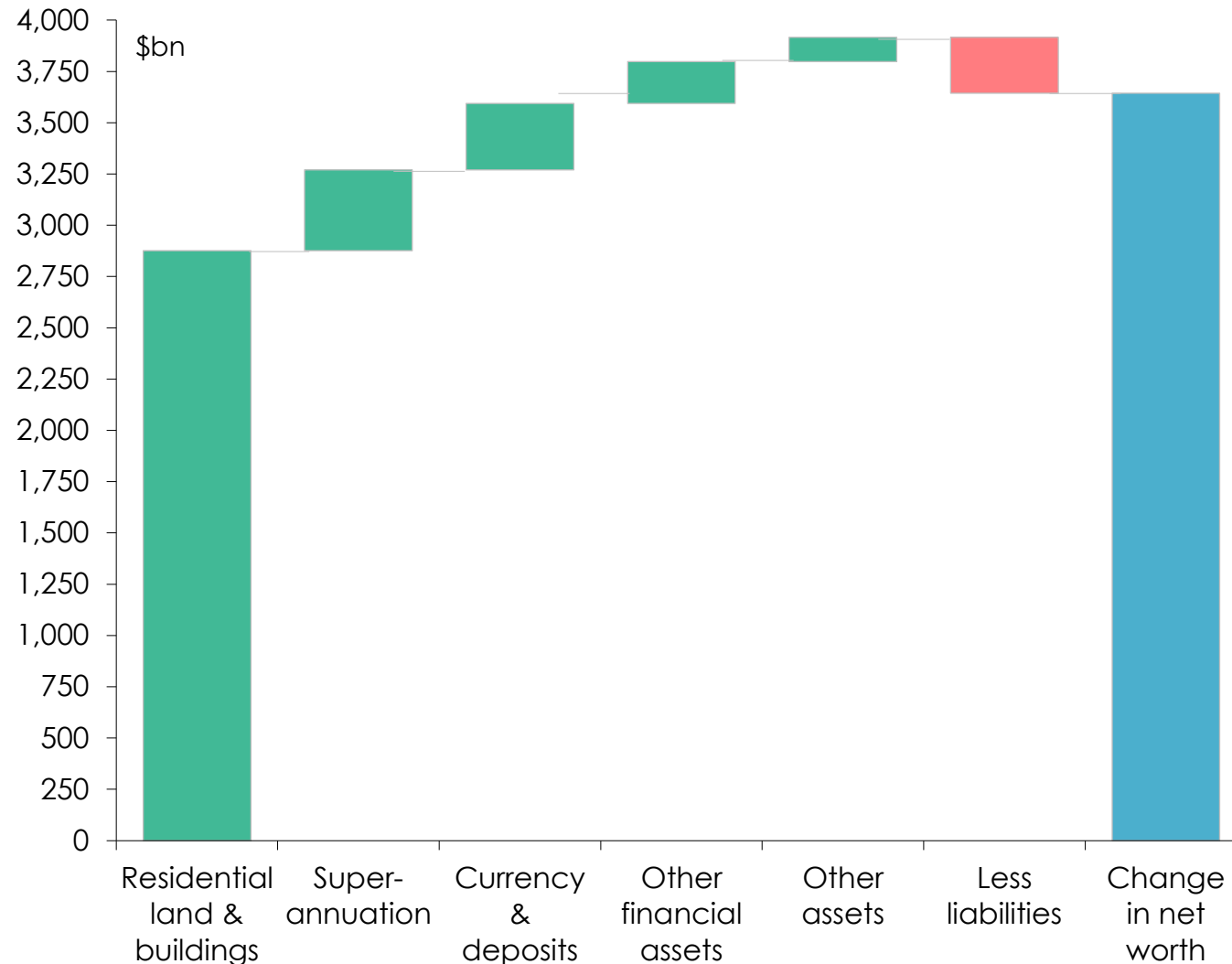


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). June quarter data on household income, spending and saving will be released on 7<sup>th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

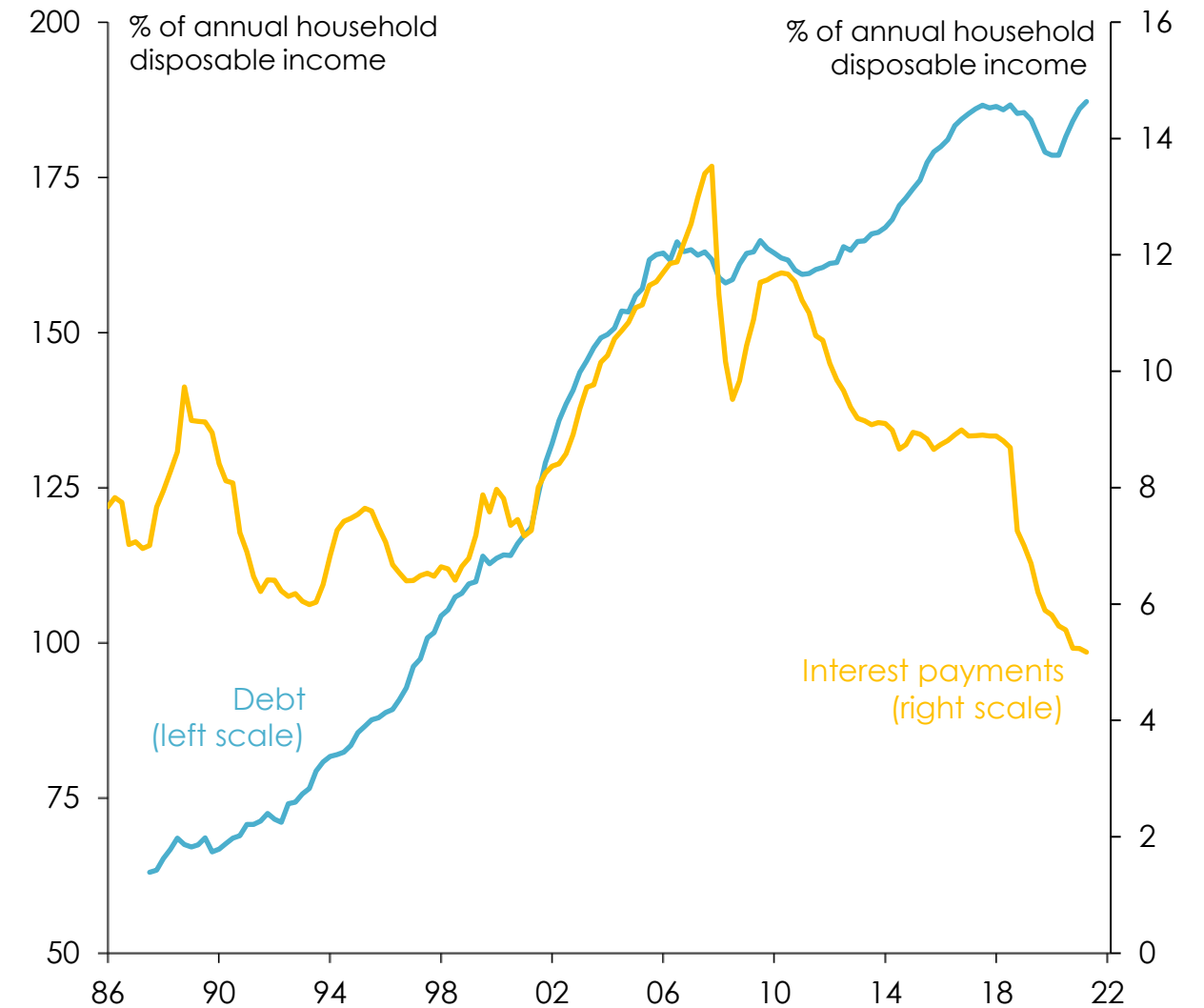
# Household net worth has risen by \$3.6trn (32%) since the end of 2019, while interest payments have fallen as a pc of income – though from Q2 onward

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



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

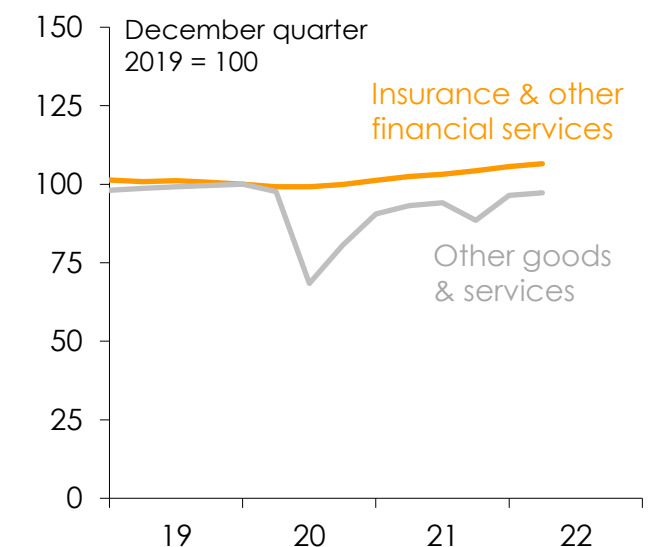
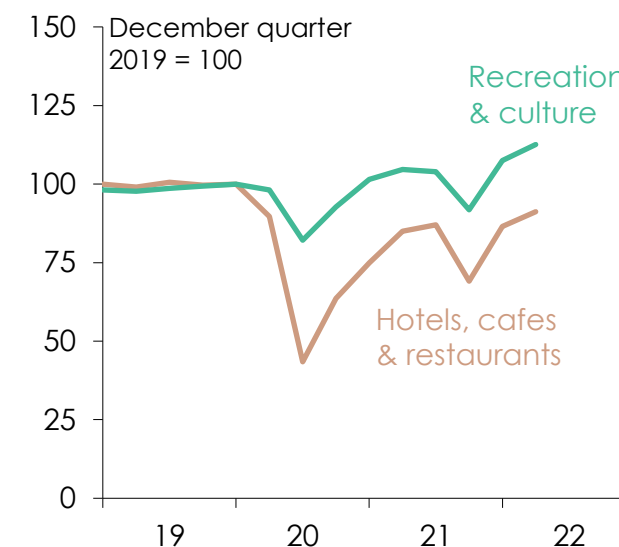
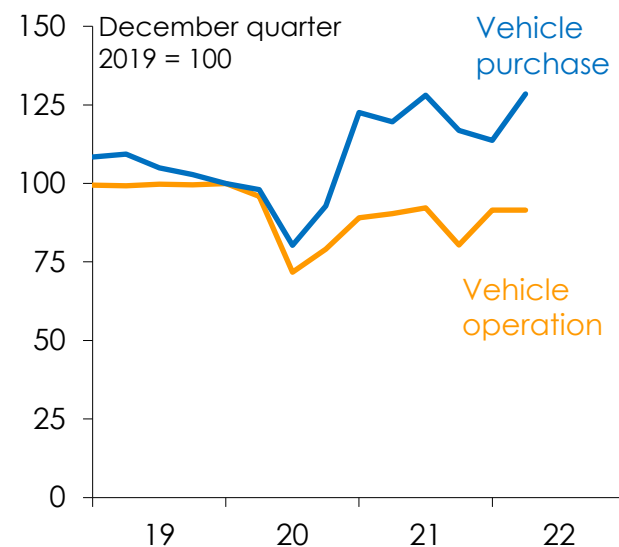
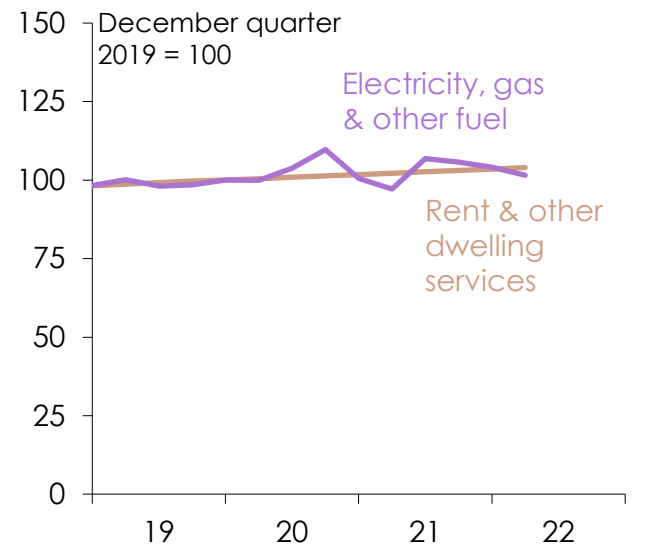
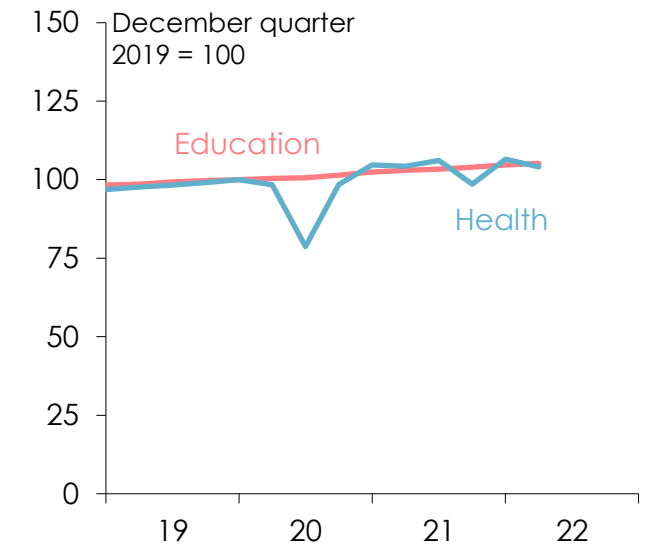
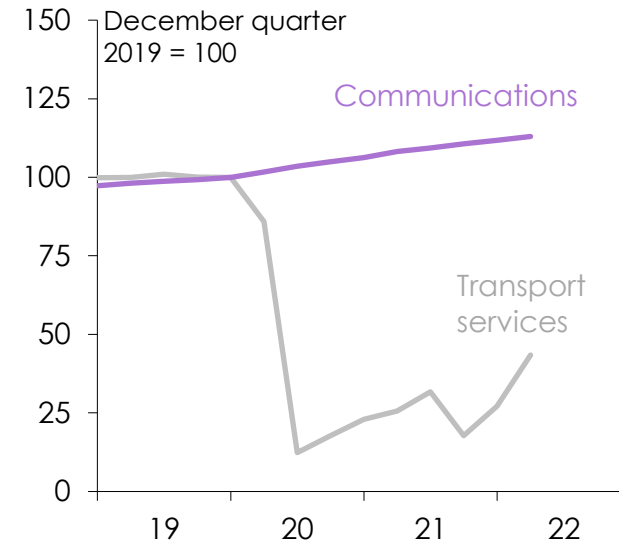
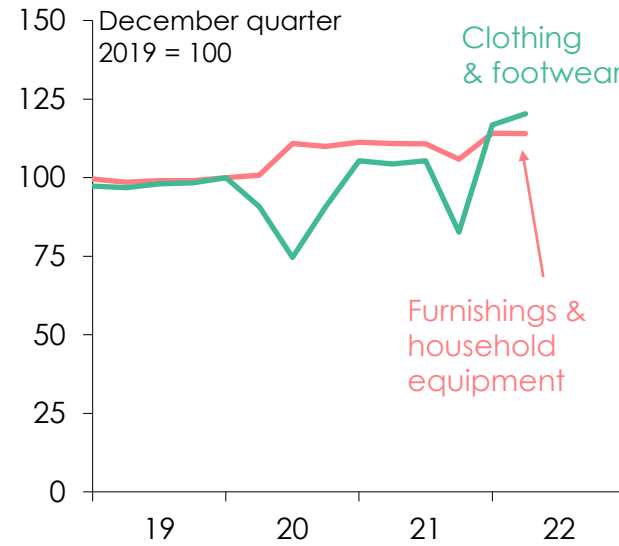
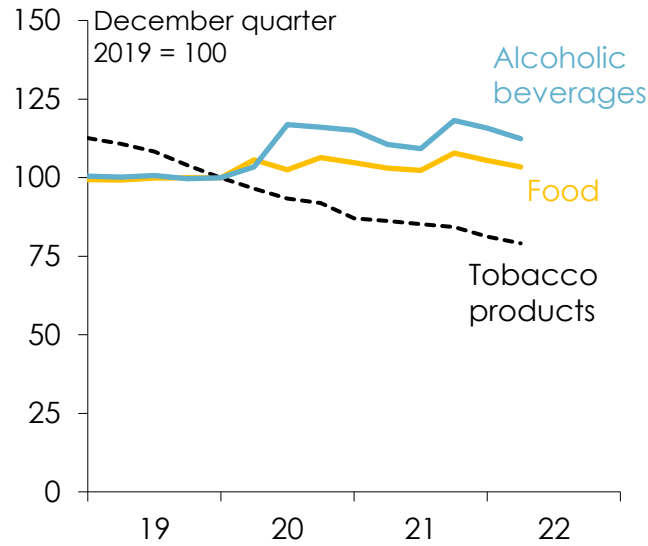


Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2022; RBA, [Statistical Tables](#) E1 & E2. June quarter data will be released on 29<sup>th</sup> September  
[Return to "What's New"](#).

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

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## Major categories of household consumption spending



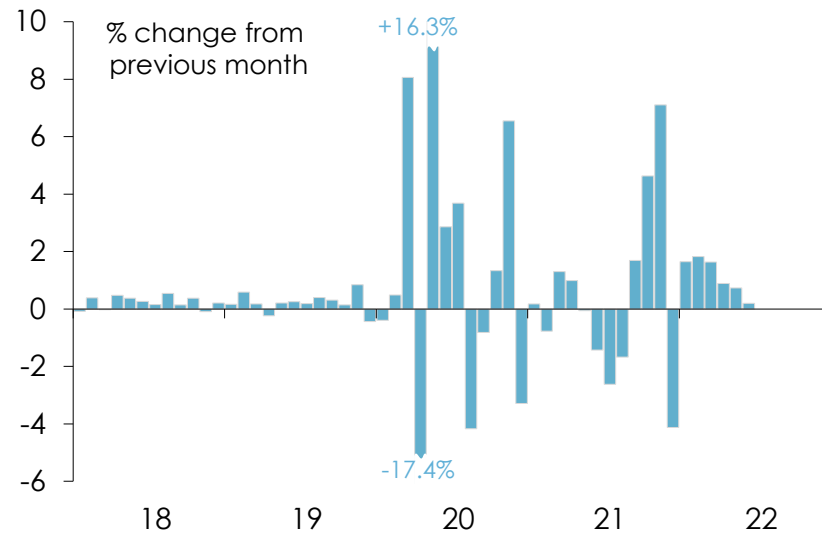
Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; June quarter data will be released on 7<sup>th</sup> September. [Return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



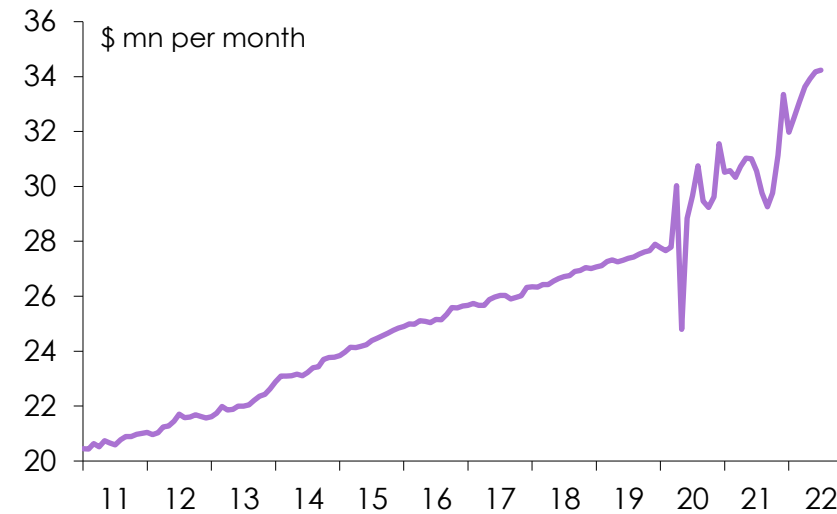
# The volume of retail sales rose 1.4% in the June quarter, up from 1.0% in the March quarter, despite rising prices and interest rates

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

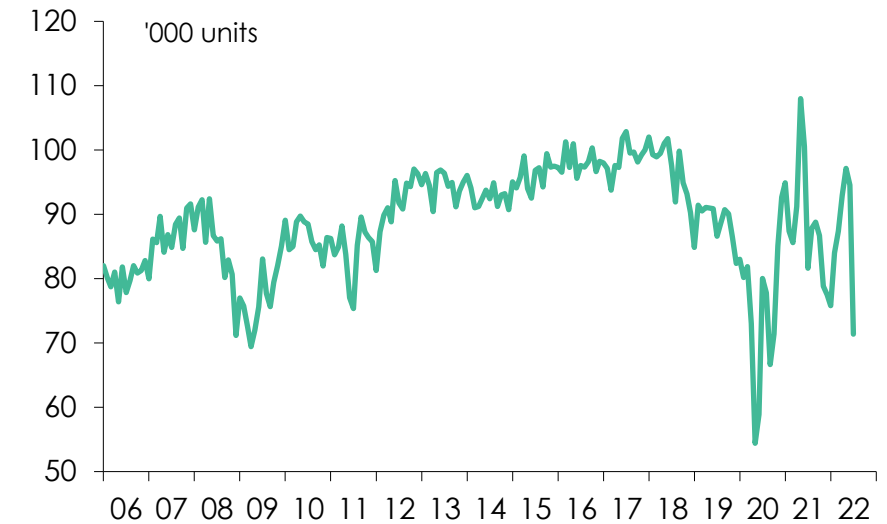
## Monthly retail sales



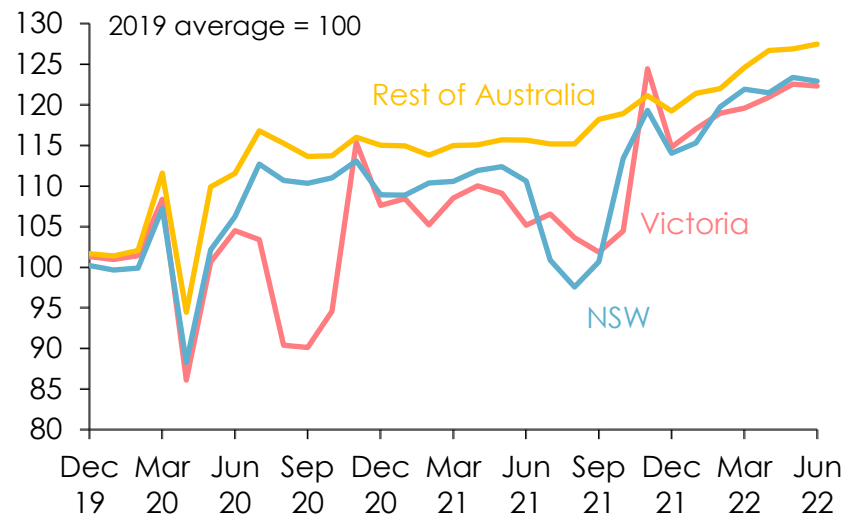
## Level of retail sales



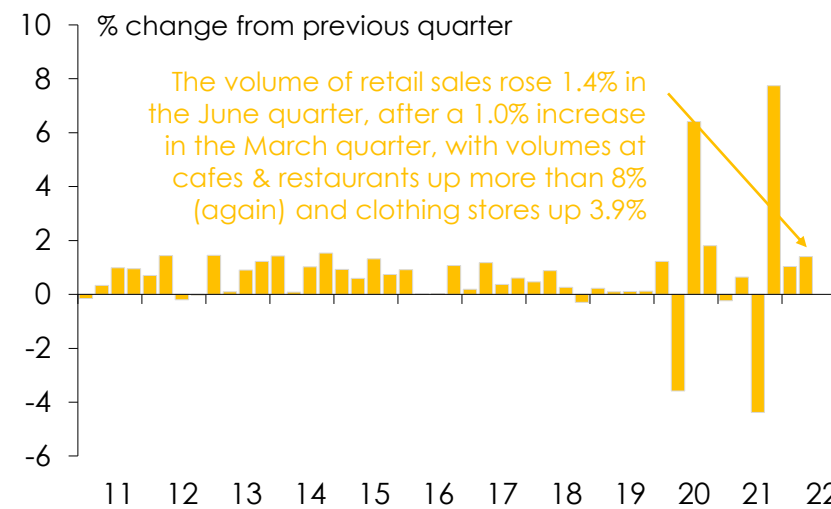
## New motor vehicle sales



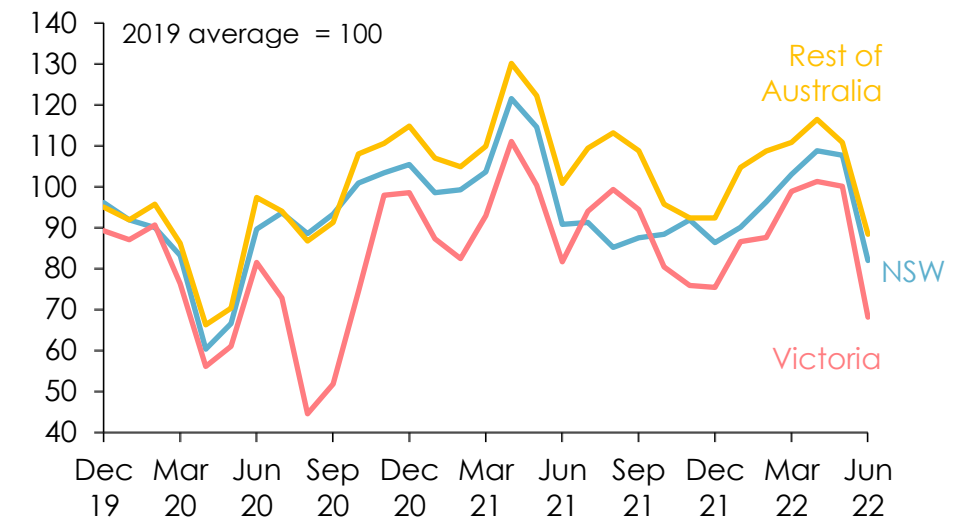
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



## Vehicle sales – NSW, Vic & the rest

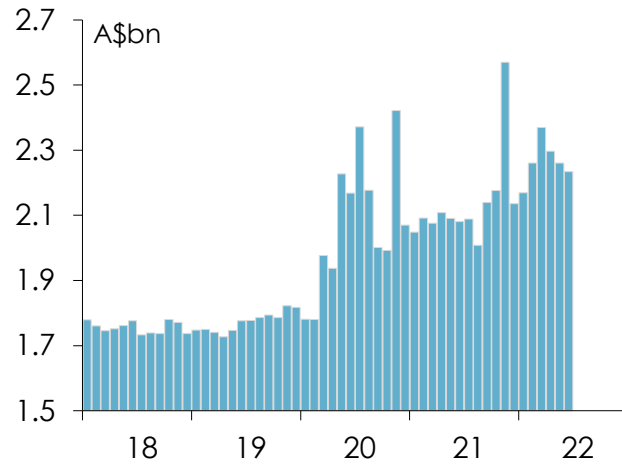


Note: see also [slide 34](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary July data will be released on 29<sup>th</sup> August; July motor vehicle sales data will be released in the second week of August. [Return to "What's New"](#).

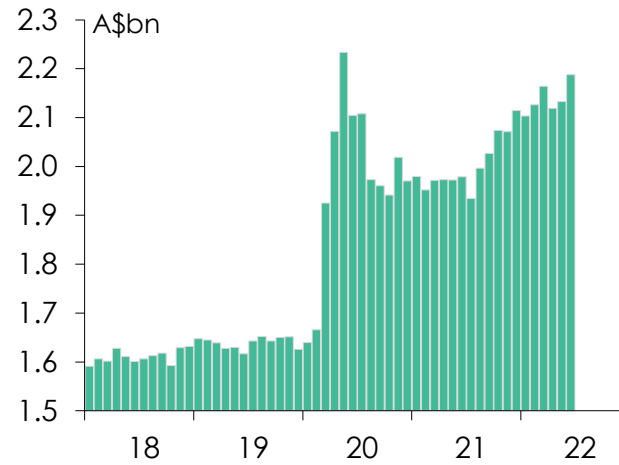
# Australians continued to spend freely on 'discretionary' items through June despite two hikes in interest rates, and rising prices for 'essential' items

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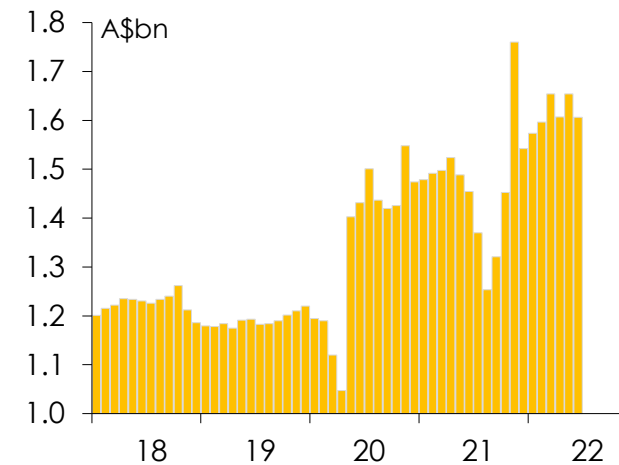
## Electronic & electrical goods



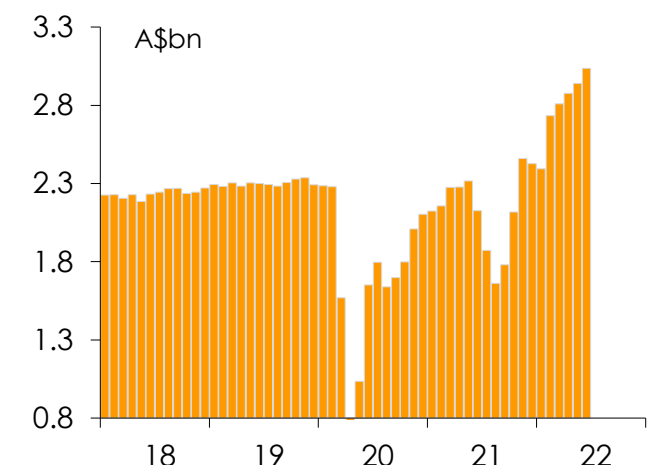
## Hardware, building & garden supplies



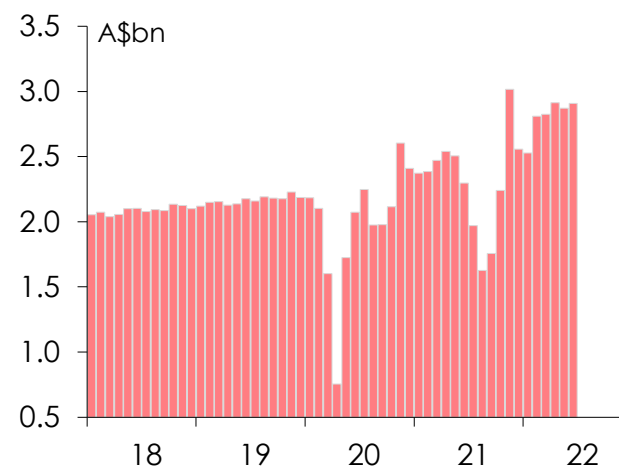
## Floor coverings, furniture, housewares etc



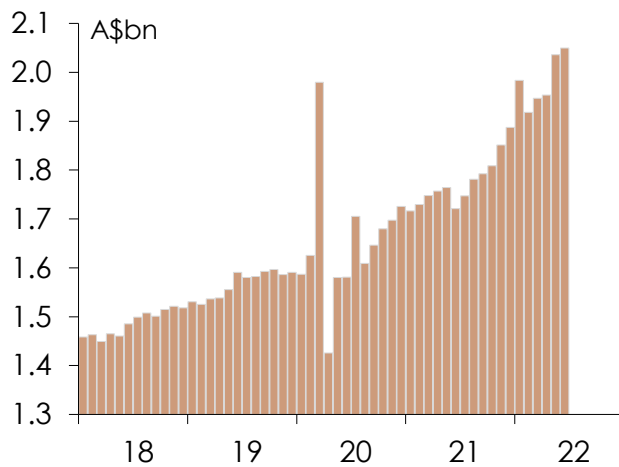
## Cafes and restaurants



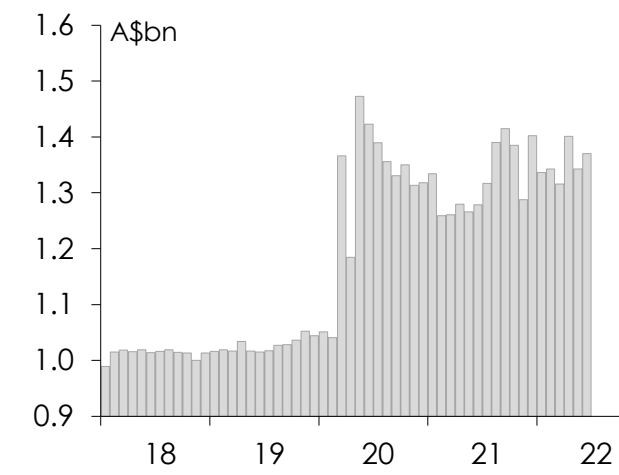
## Clothing, footwear & personal accessories



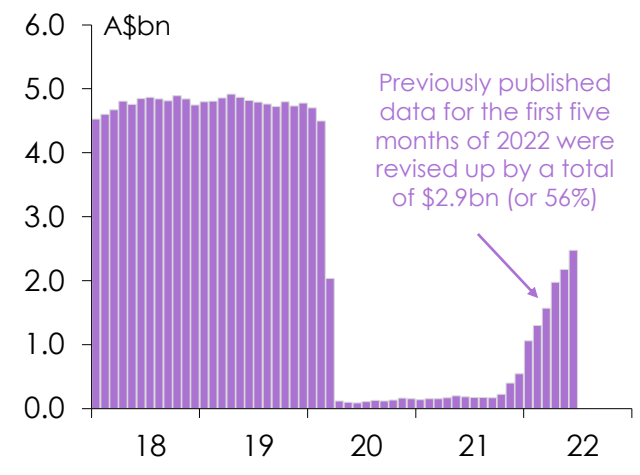
## Pharmaceuticals, cosmetics & toiletries



## Alcoholic beverages



## Overseas travel

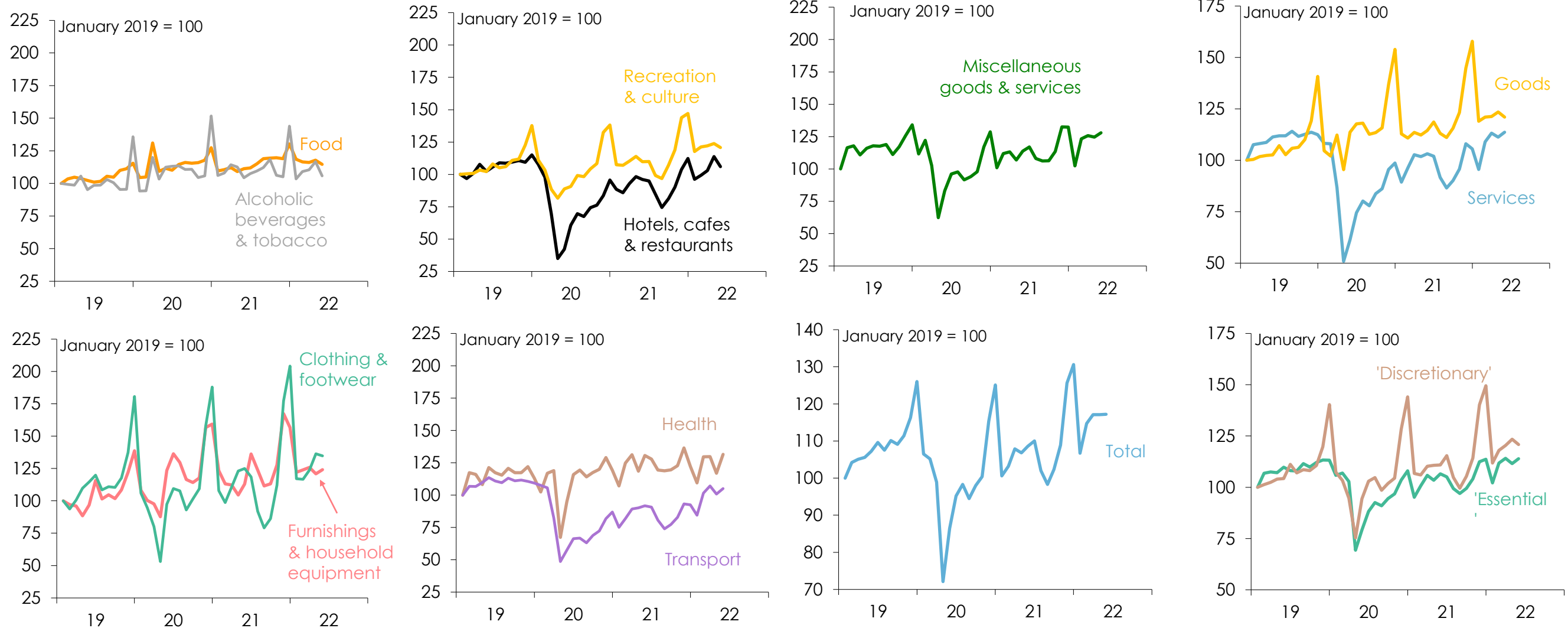


Sources: ABS, [Retail Trade, Australia](#), June 2022 (July data will be released on 5<sup>th</sup> September); and [International Trade in Goods and Services, Australia](#), June 2022 (July data will be released on 8<sup>th</sup> September). [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

## Household spending by purpose



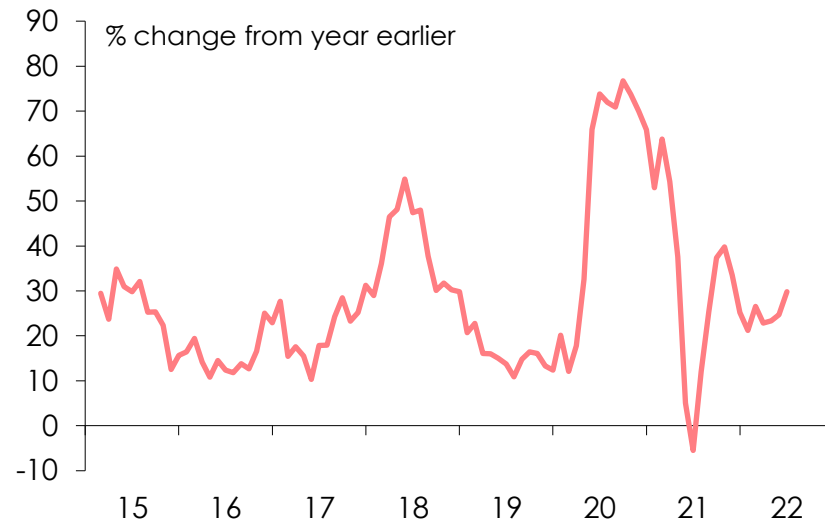
Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, retail sales data are, and hence the ABS advises focussing on ‘through the year’ rather than month-to-month comparisons. 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 9<sup>th</sup> August.

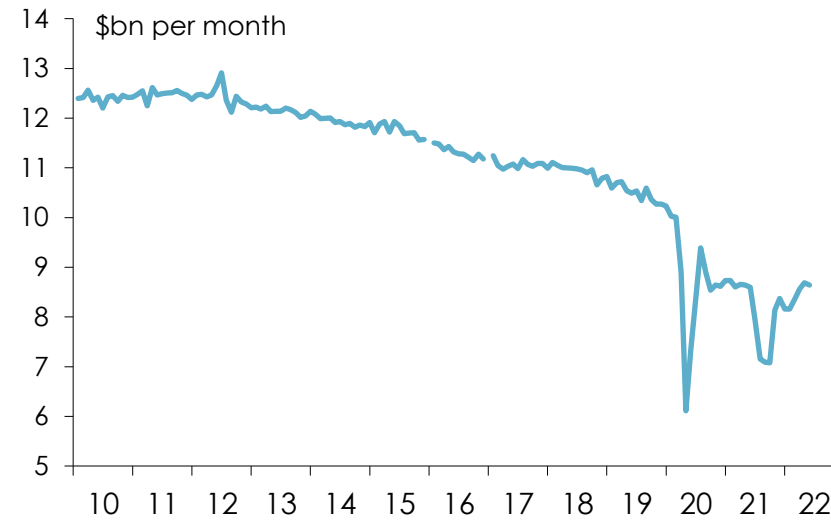
# Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

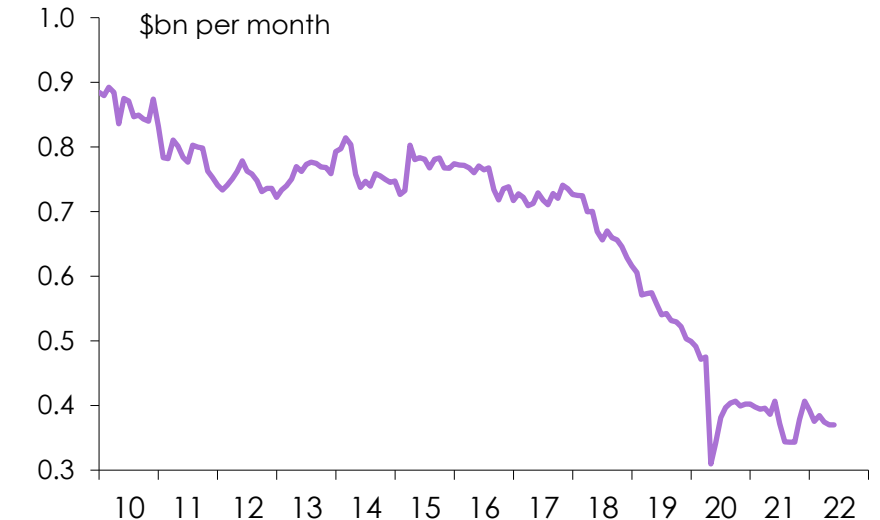
## Growth in online retail sales



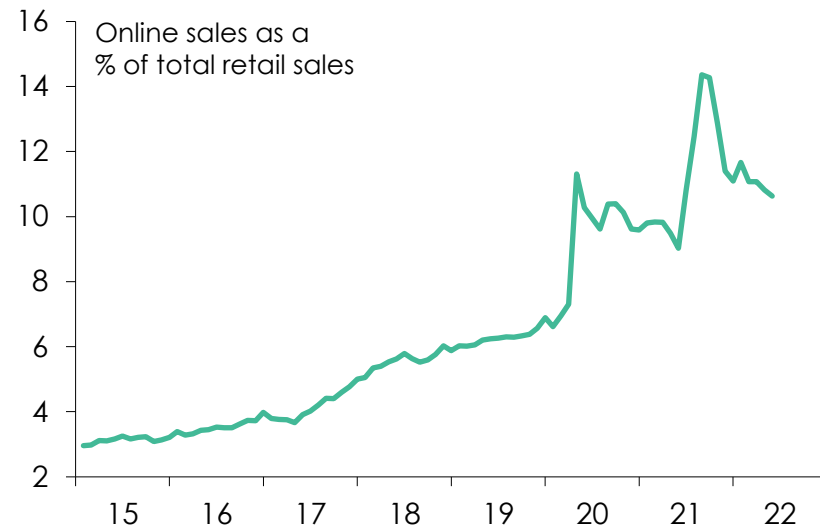
## ATM cash withdrawals



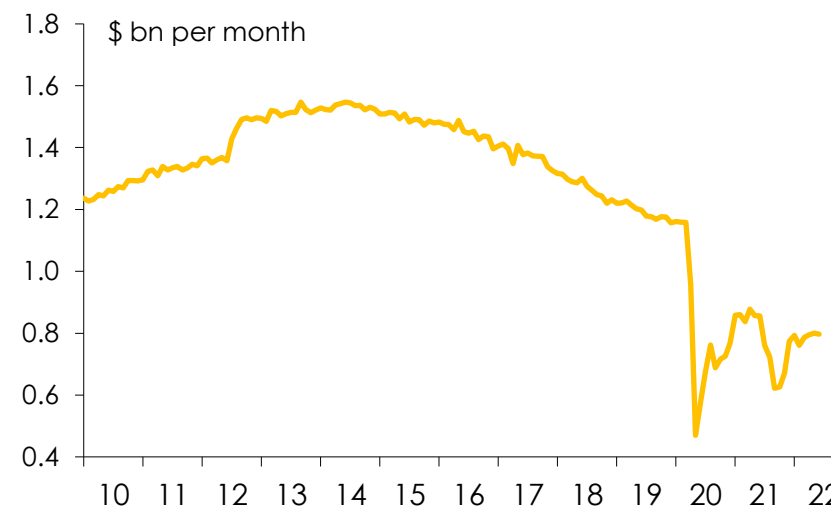
## Credit card cash advances



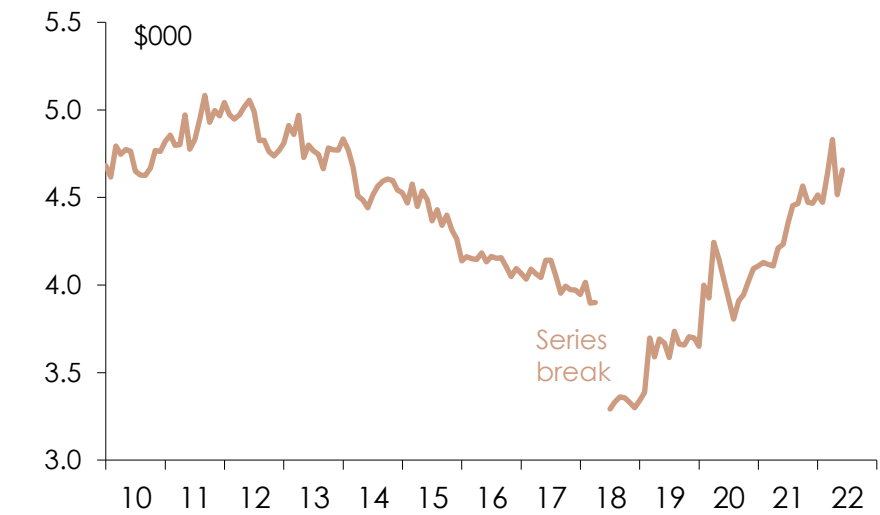
## Online retail 'market share'



## Debit card cash-outs



## Direct entry payments avg value



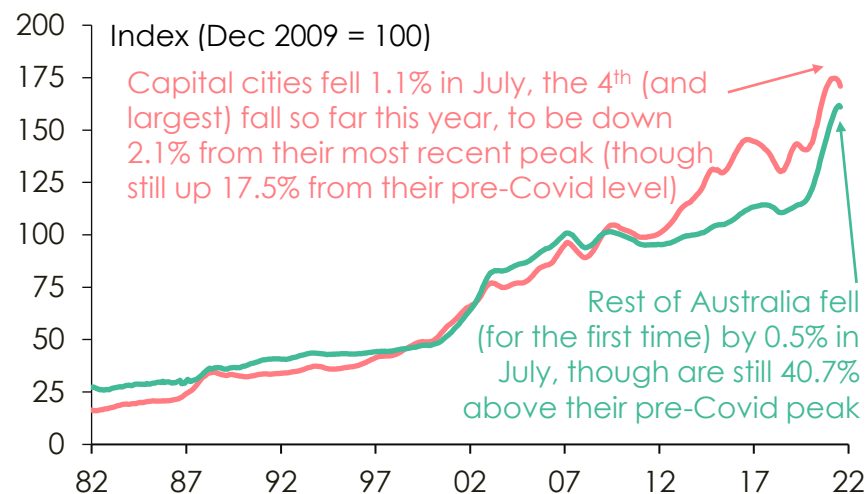
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales and payments system data are for May. July online retail sales data will be published on 3<sup>rd</sup> August, and June payments system data on 7<sup>th</sup> August. [Return to "What's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

# Housing and the residential property market

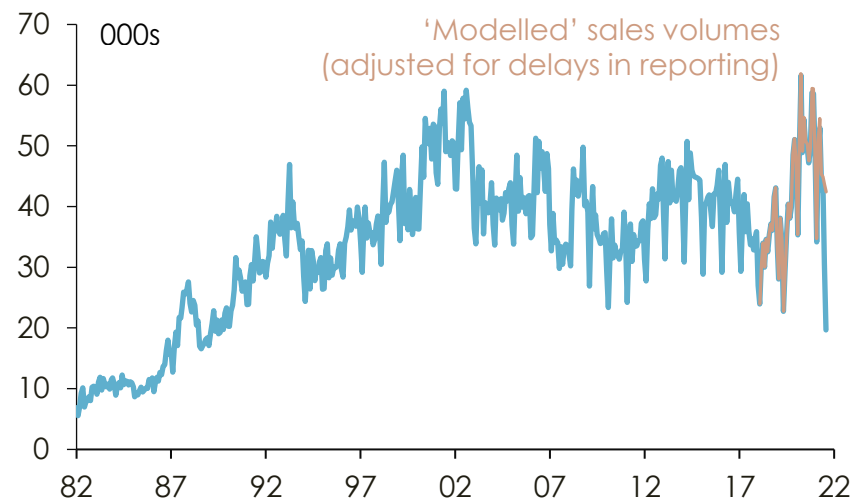
# Property prices across Australia fell 1.1% in July, the third successive decline, to be down 1.8% from their peak (though still up 23% from before Covid)

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

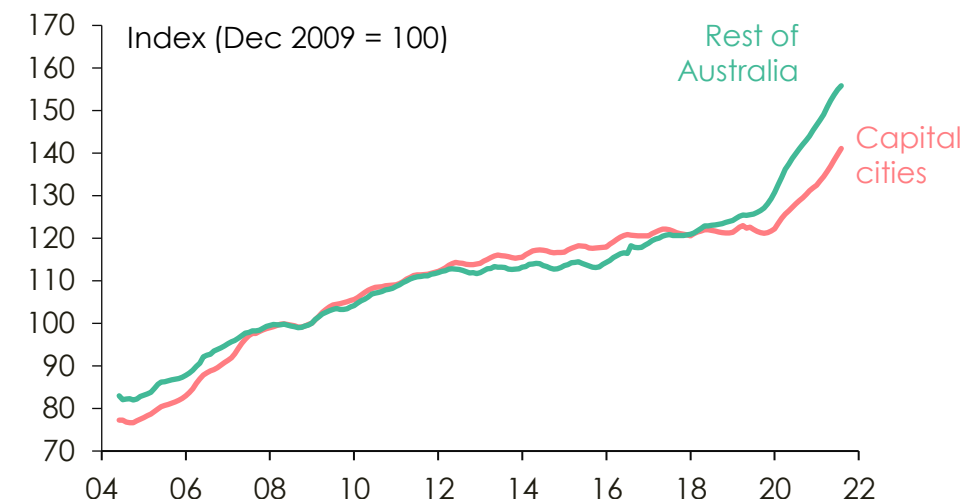
## Residential property prices



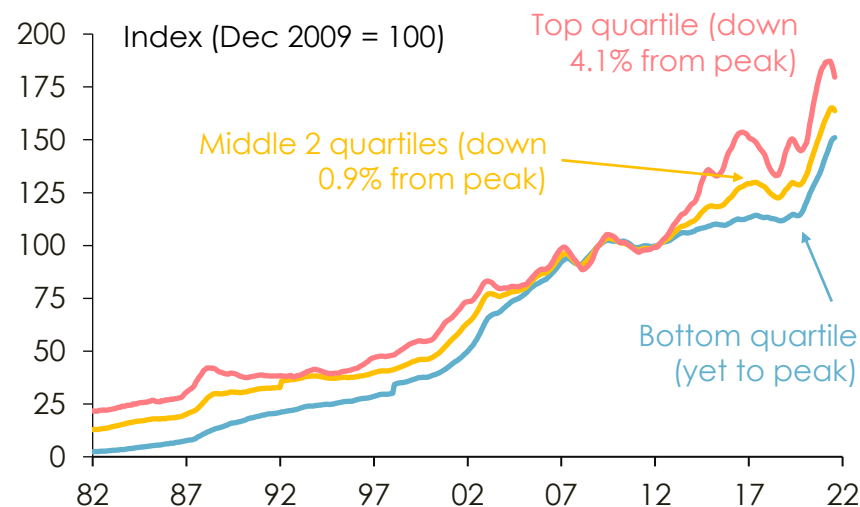
## Residential property sales volumes



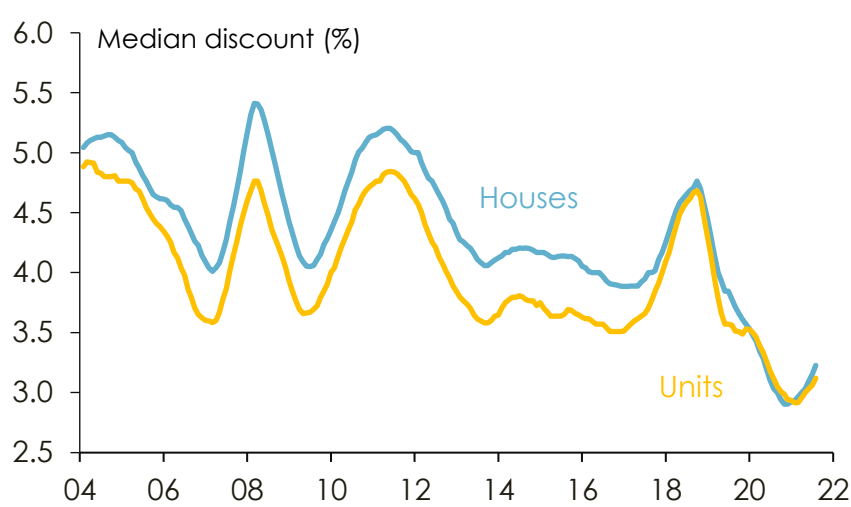
## Residential rents



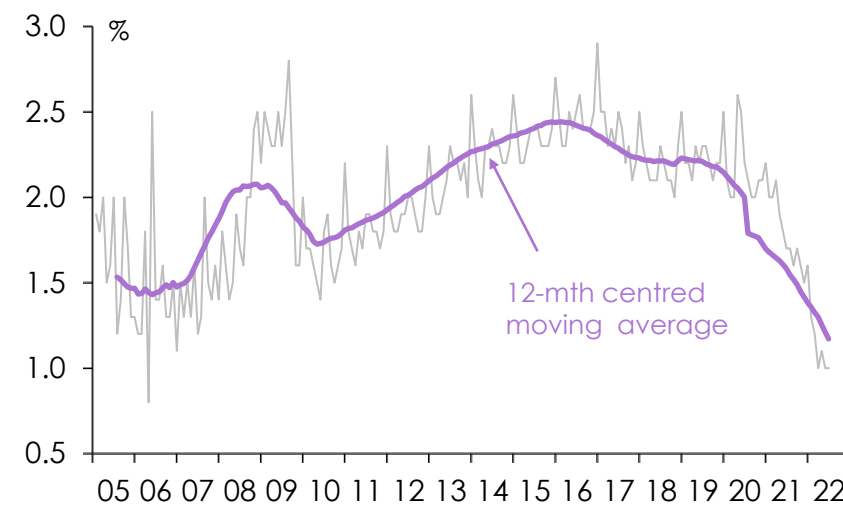
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

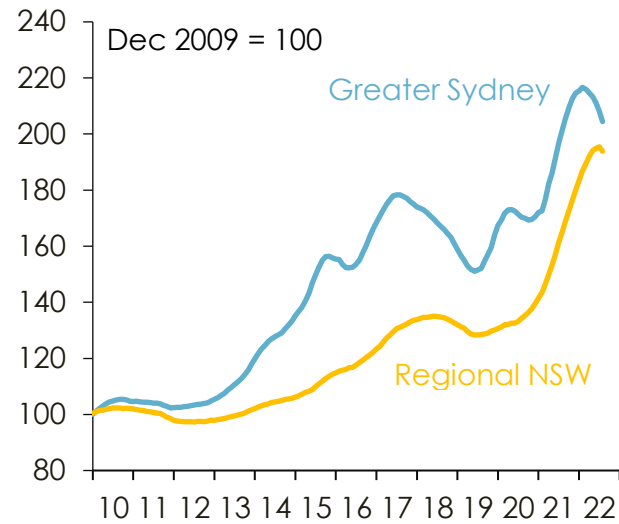


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

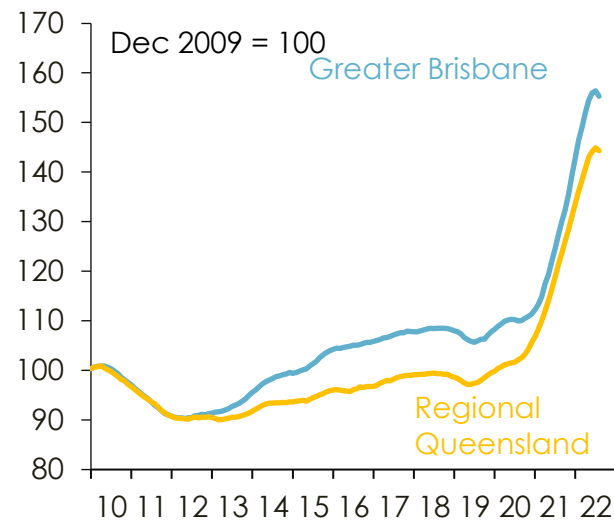
# Sydney and Melbourne prices have fallen by 5.6% and 3.6% from their peaks, and by smaller amounts in Brisbane, Hobart and Canberra

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

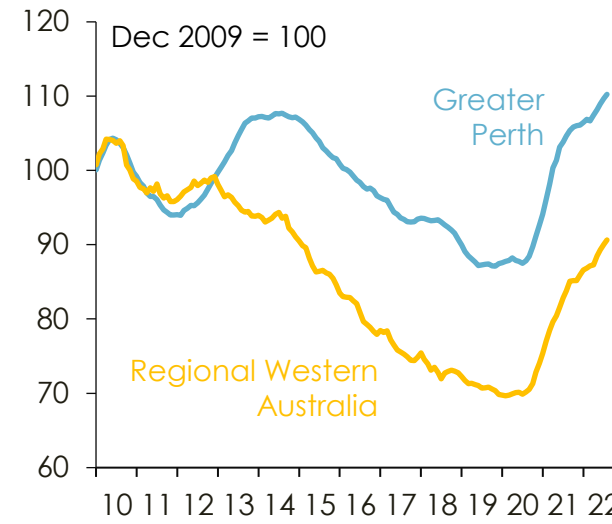
## New South Wales



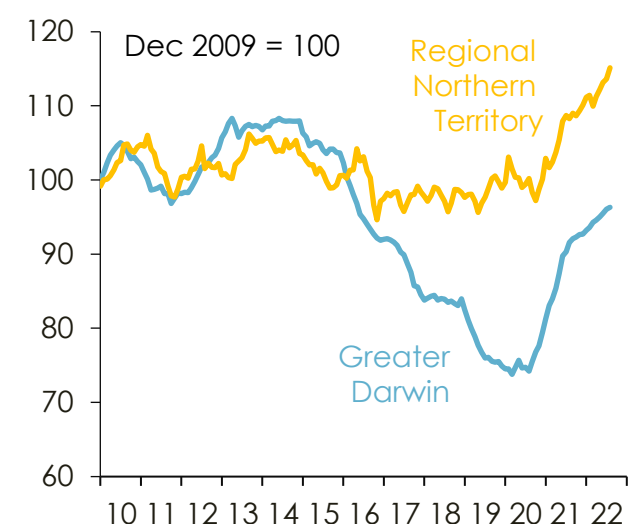
## Queensland



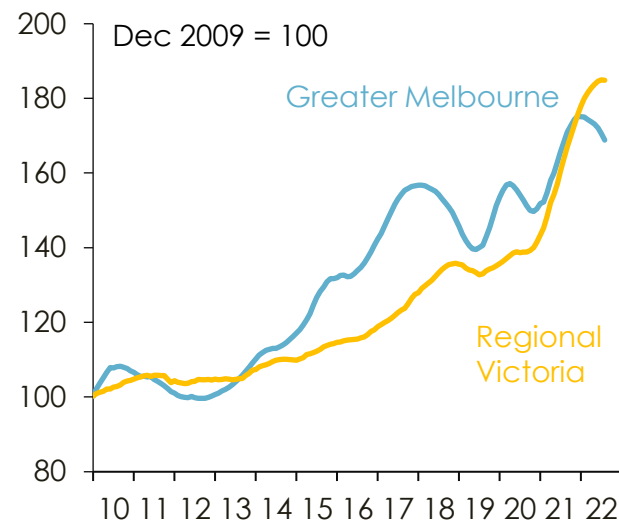
## Western Australia



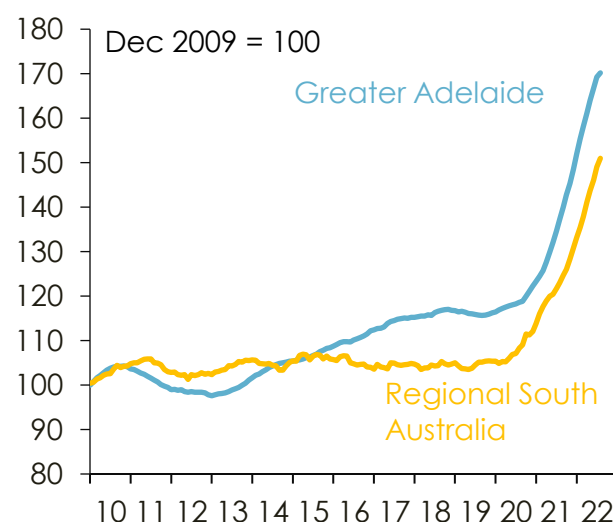
## Northern Territory



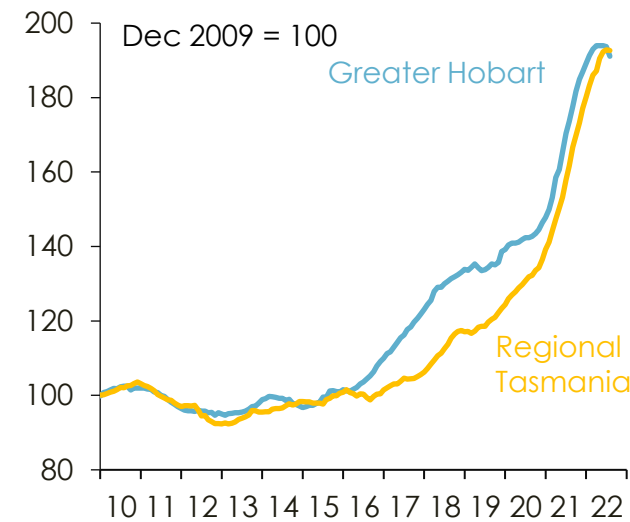
## Victoria



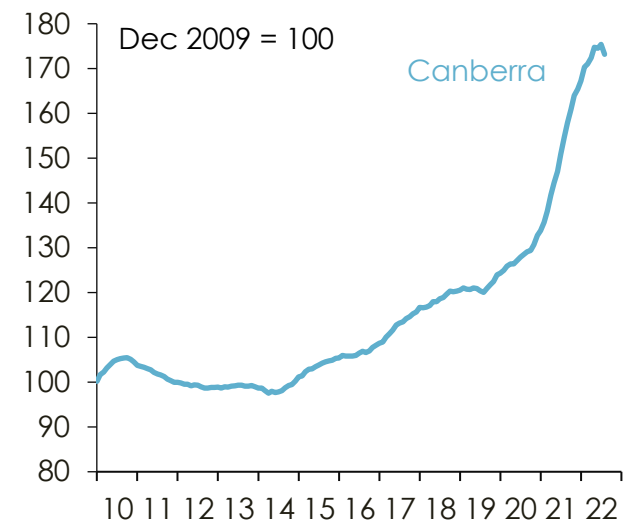
## South Australia



## Tasmania



## Australian Capital Territory

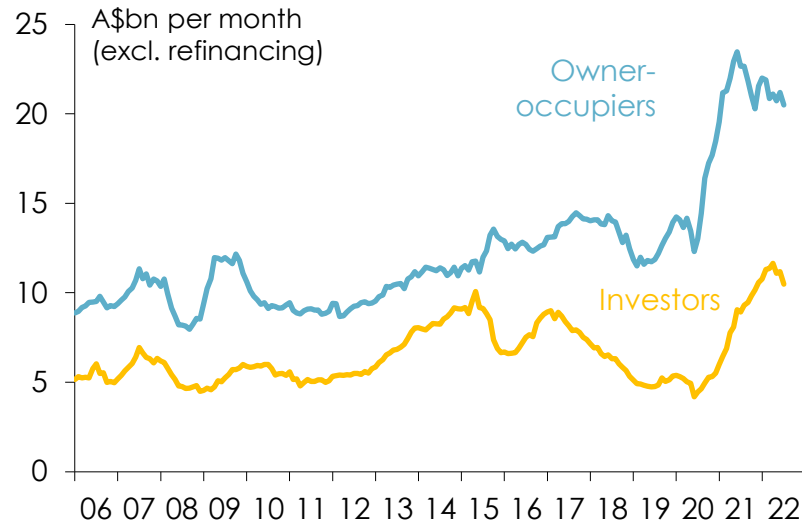


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

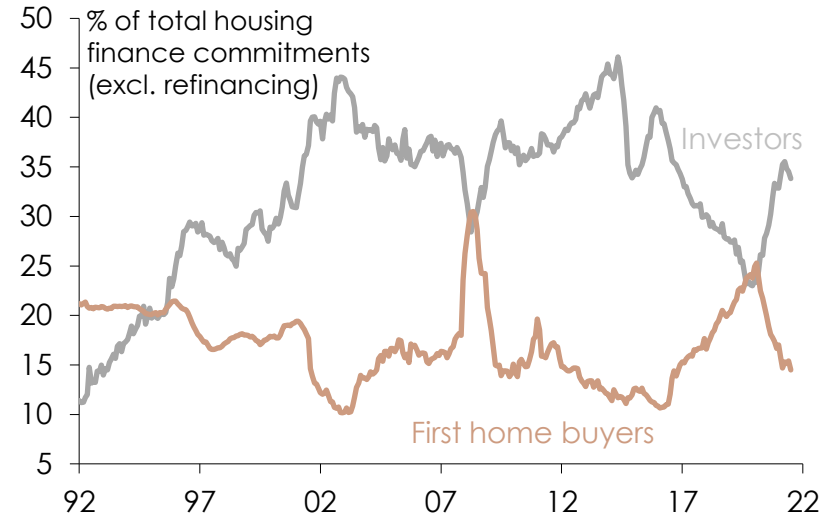
# Housing finance commitments fell 4.4% in June with loans to home-buyers down 3.3% and investors down 6.3% - but refinancings are at record highs

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

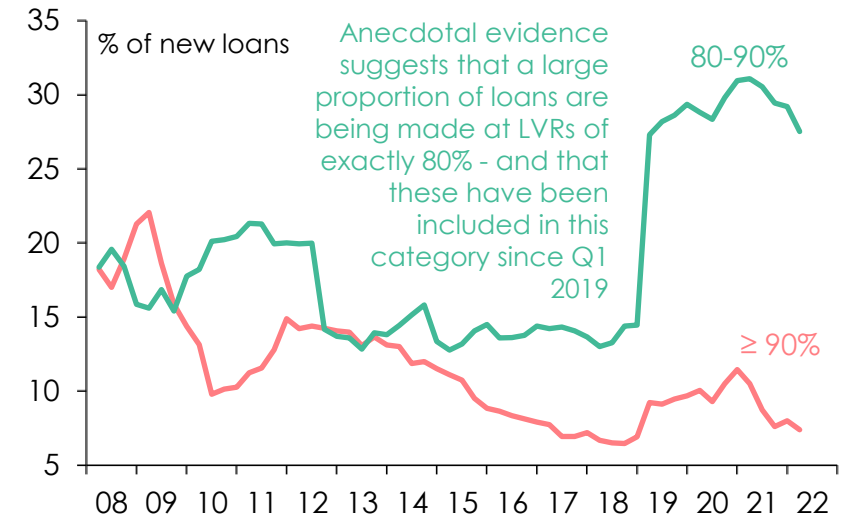
## Housing finance commitments



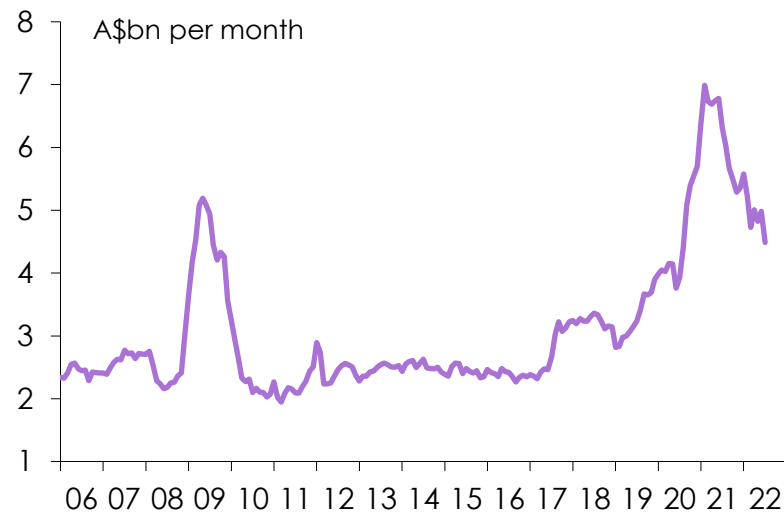
## Shares of housing finance



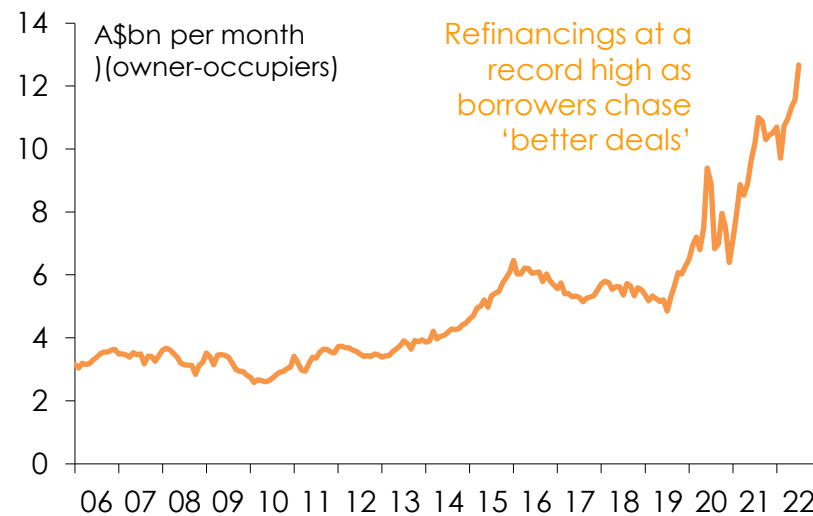
## High LVR loans as a pc of total



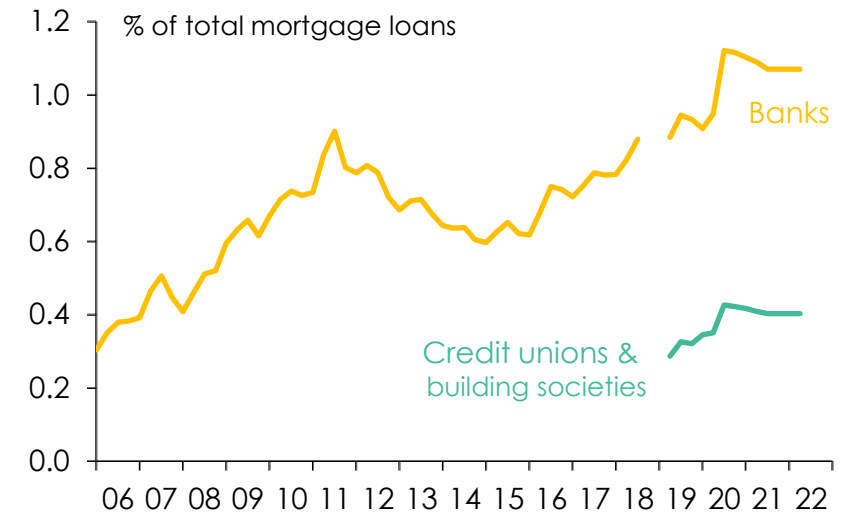
## Loans to first home buyers



## Refinancings



## Non-performing mortgage loans



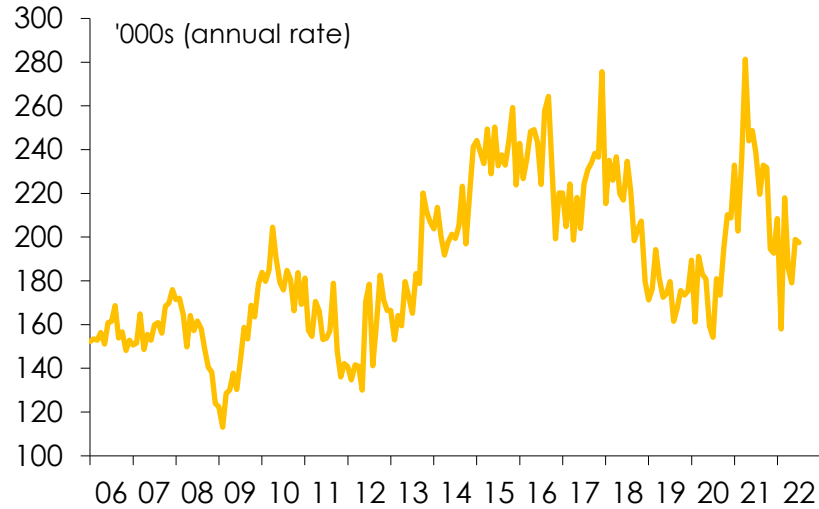
Sources: ABS, [Lending Indicators](#), June; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). July housing finance data will be released on 1<sup>st</sup> September; APRA data on ADI property exposures for the June quarter will be released on 14<sup>th</sup> September. [Return to "What's New"](#).



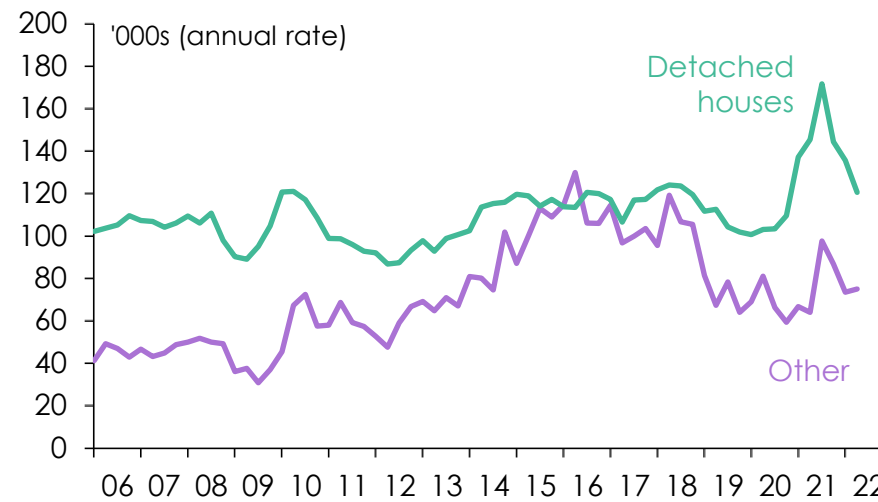
# Residential building approvals fell 0.7% in June, after an 11.2% increase in May, with detached house approvals up 1.2% and multi-units down 5.7%

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

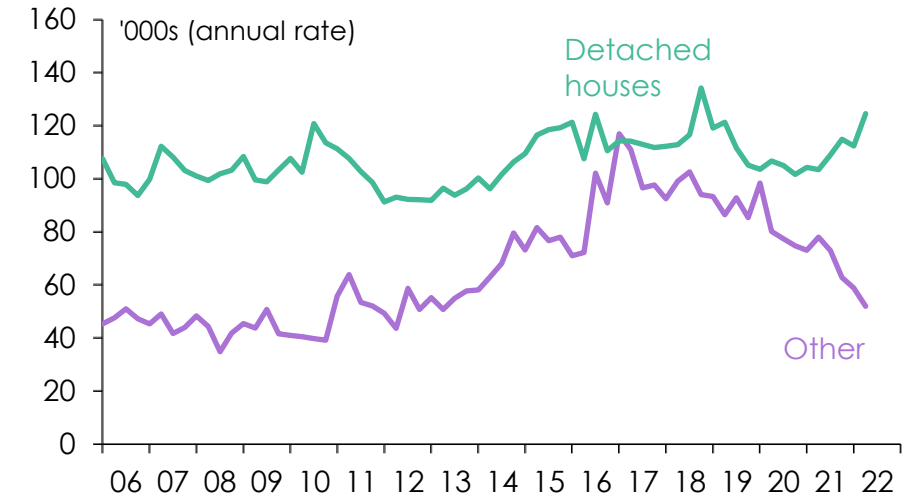
## Residential building approvals



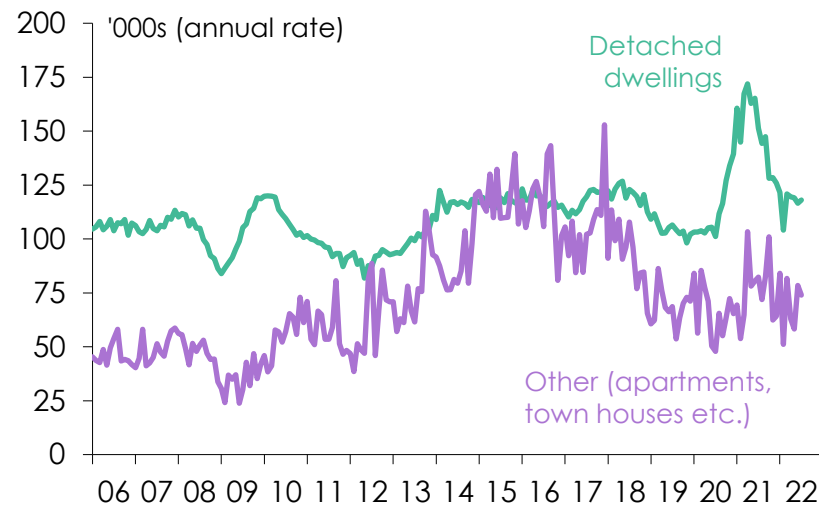
## Dwellings commenced



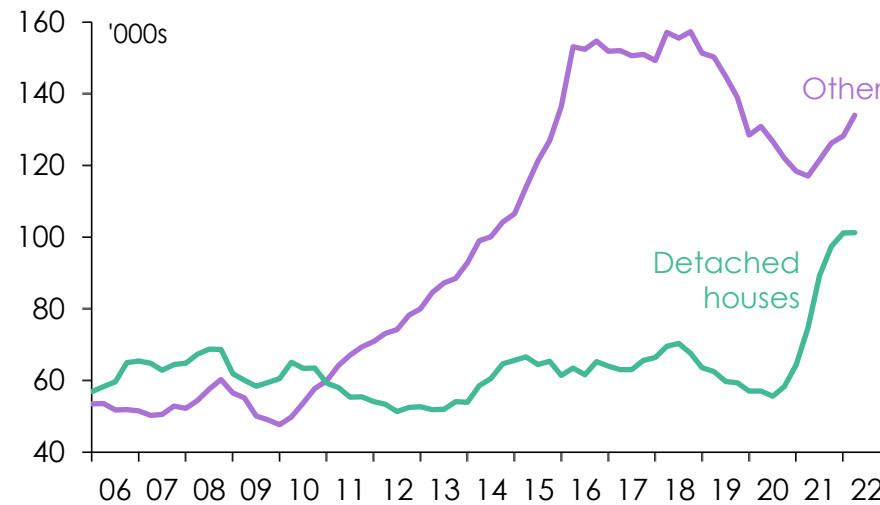
## Dwellings completed



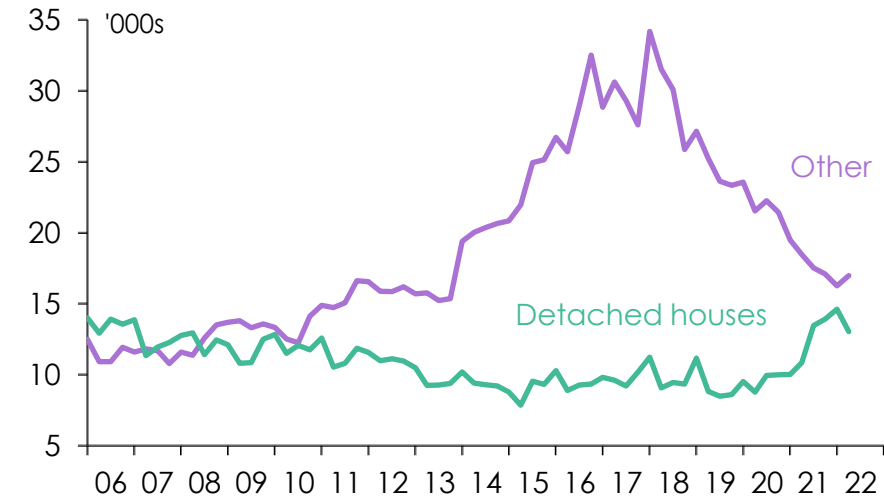
## Building approvals, by type



## Dwellings under construction



## 'Pipeline' of work yet to be started

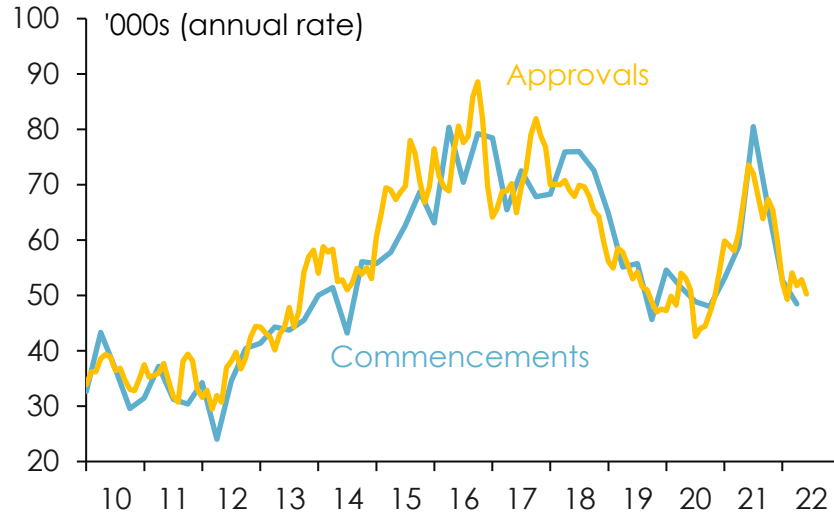


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#), June and [Building Activity](#), March quarter; July building approvals data will be released on 30<sup>th</sup> August; June quarter commencements, under construction, completions etc. data on 19<sup>th</sup> October. [Return to "What's New"](#).

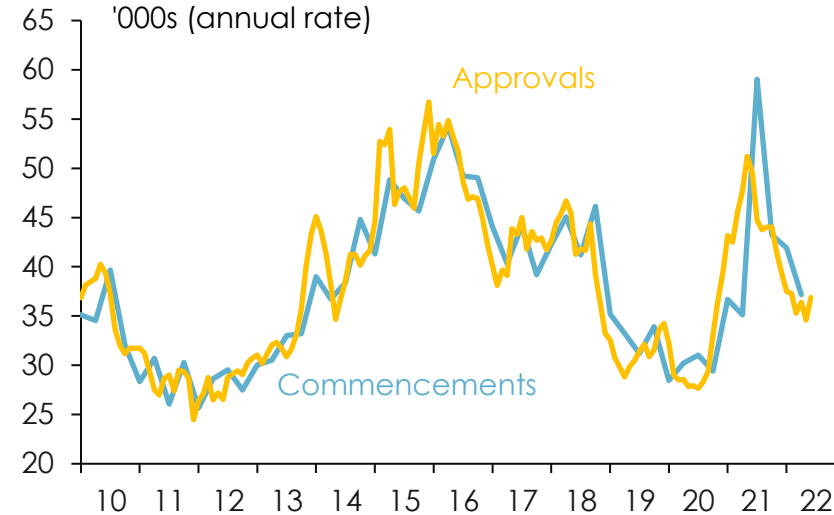
# Residential building approvals are declining in New South Wales and Victoria but holding up in other states

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

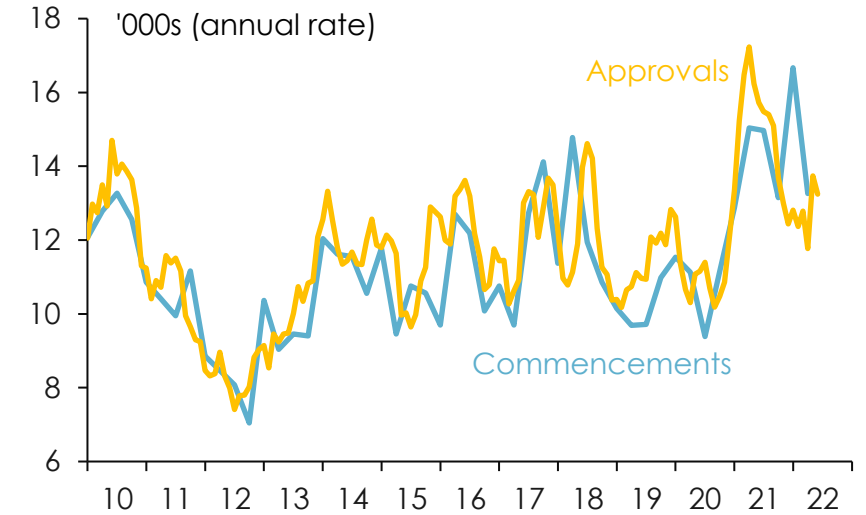
## New South Wales



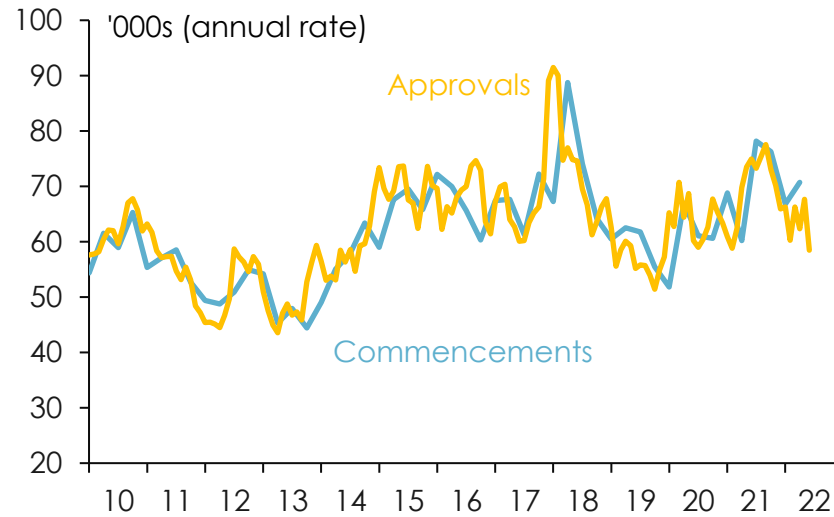
## Queensland



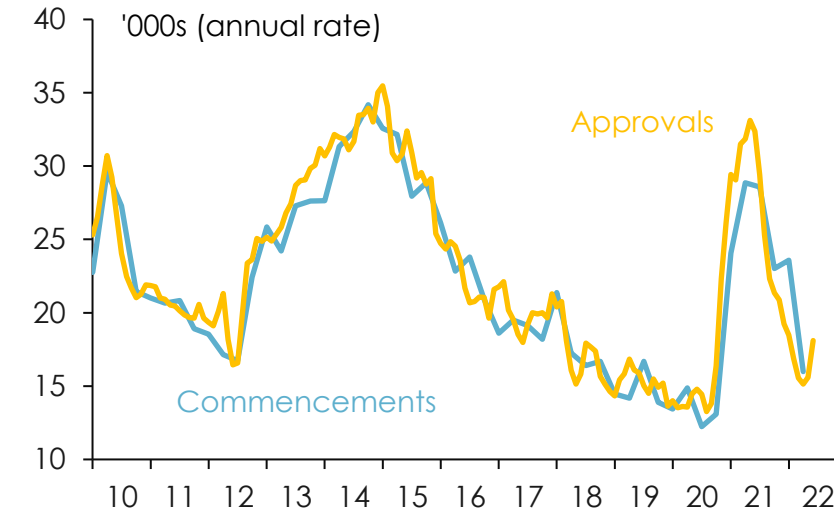
## South Australia



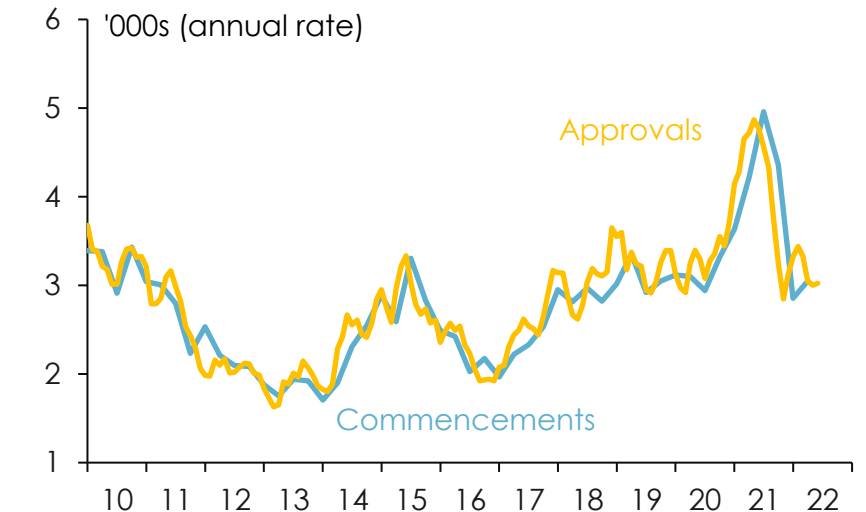
## Victoria



## Western Australia



## Tasmania



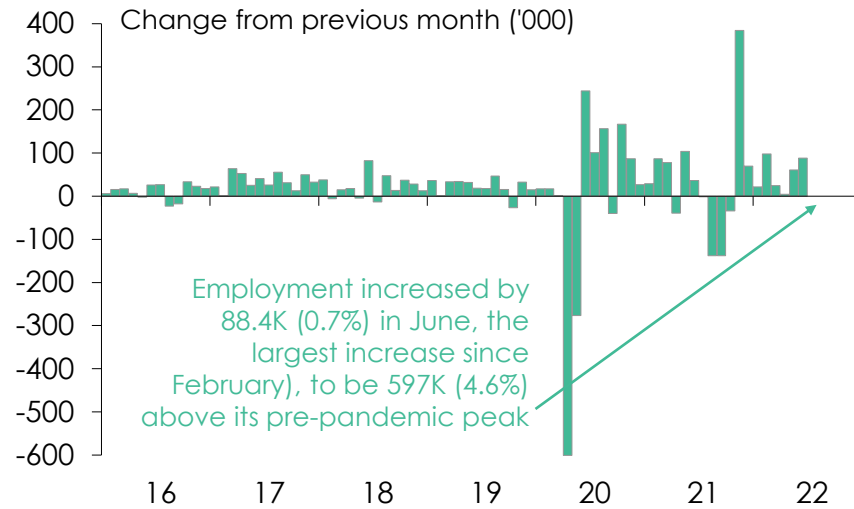
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly (and the most recent data is for the March quarter). Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to "What's New"](#).

# The labour market

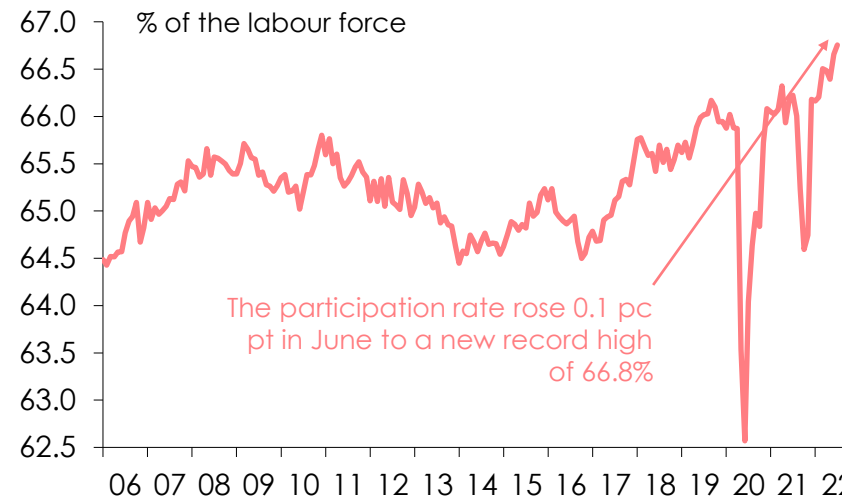
# Employment grew another 88K (0.7%) in June to be 4.6% above its pre-pandemic peak, while the unemployment rate fell 0.4 pc pt to 3.5%

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

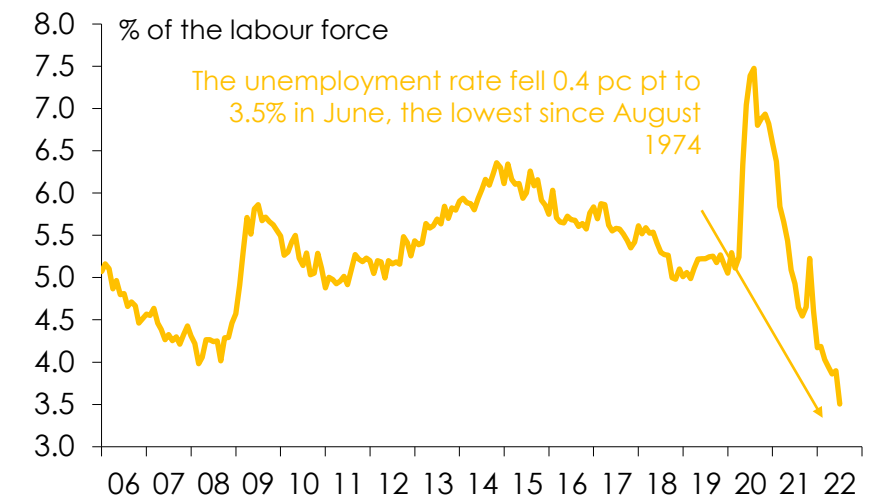
## Employment



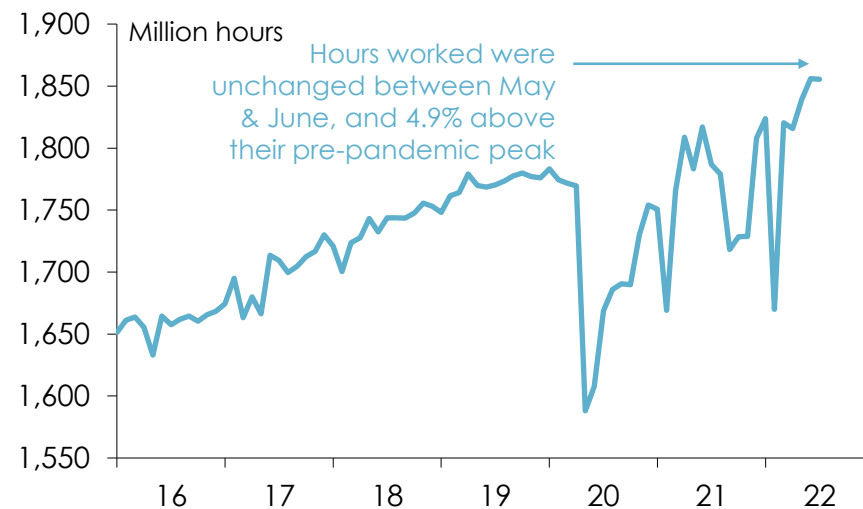
## Labour force participation rate



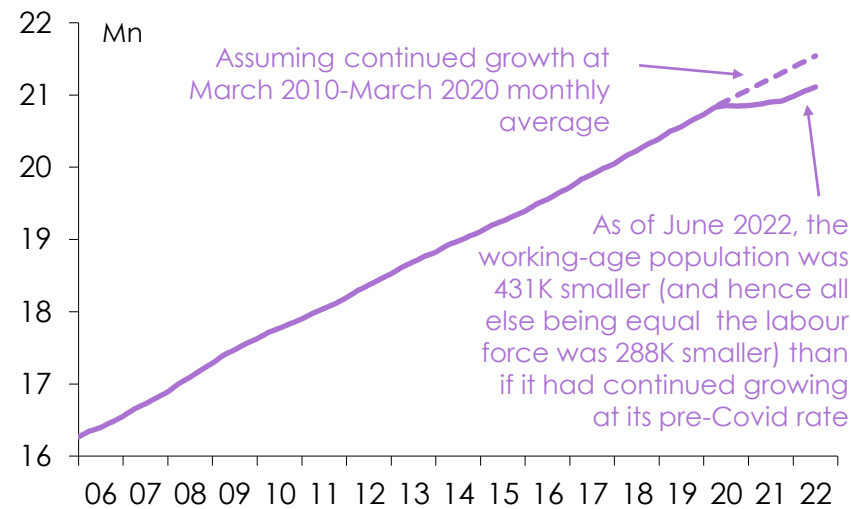
## Unemployment rate



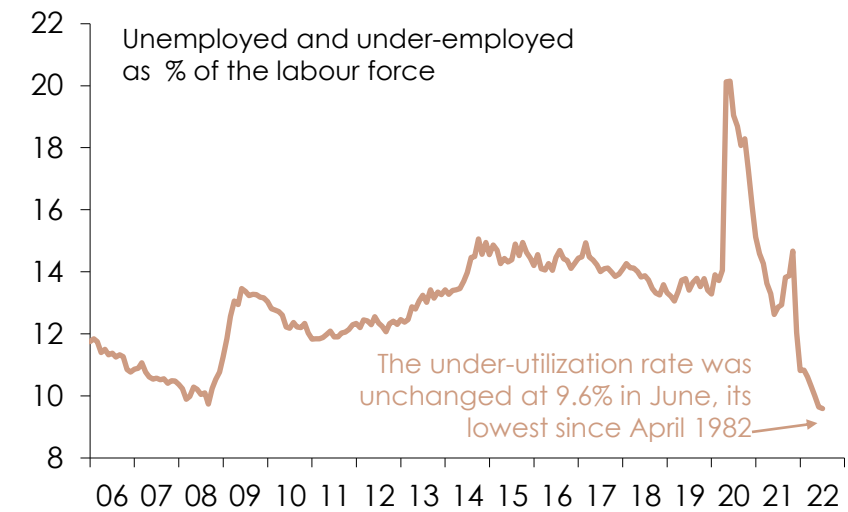
## Total hours worked



## Civilian working-age population



## 'Under-utilization' rate

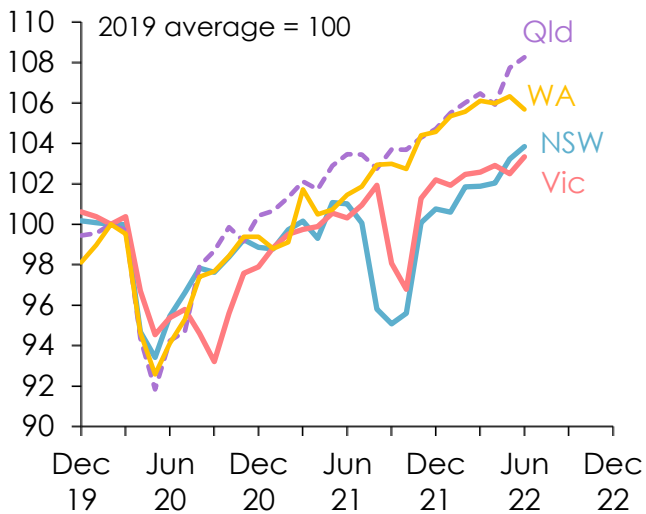


Source: ABS, [Labour Force, Australia](#), June. July data will be released on 18<sup>th</sup> August. [Return to "What's New"](#).

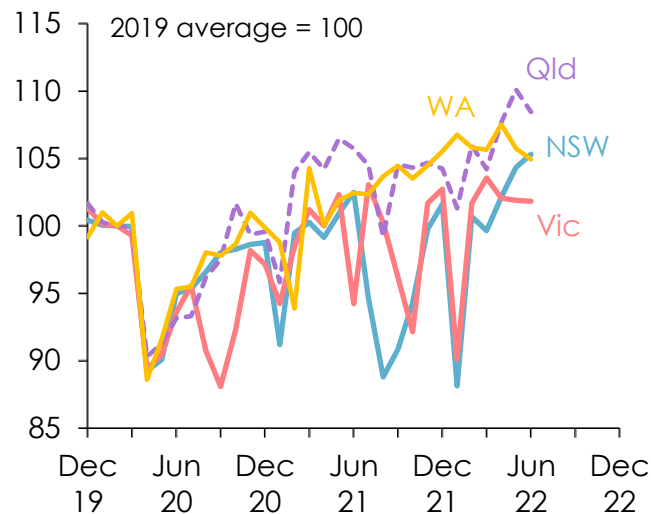
# Queensland has had the fastest recovery in employment, followed by WA, while the ACT, Victoria & NSW have the lowest unemployment rates

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

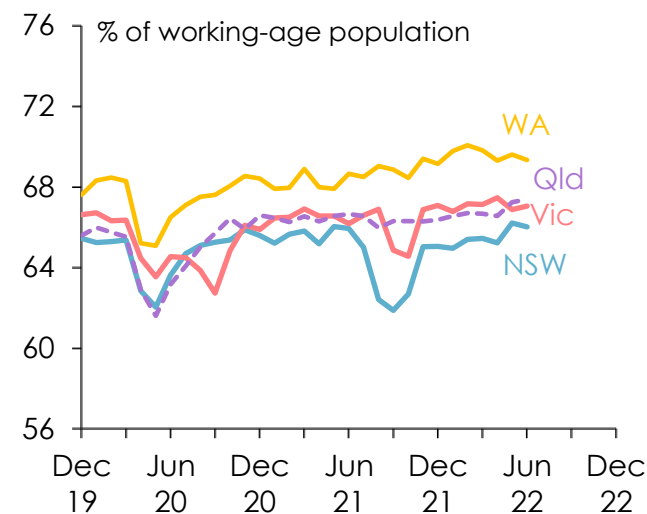
## Employment



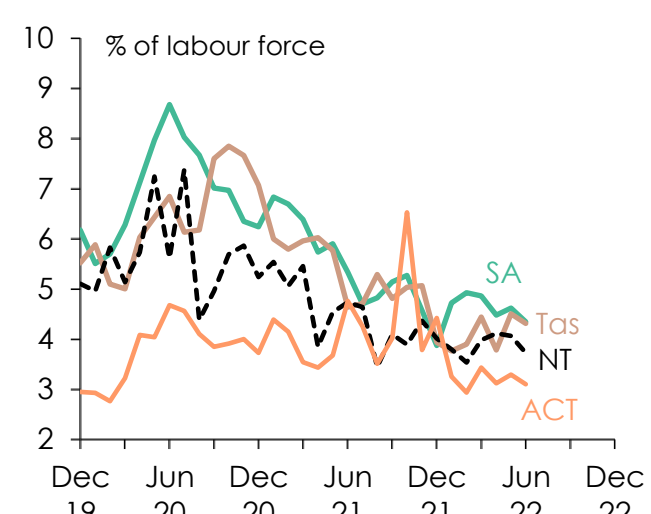
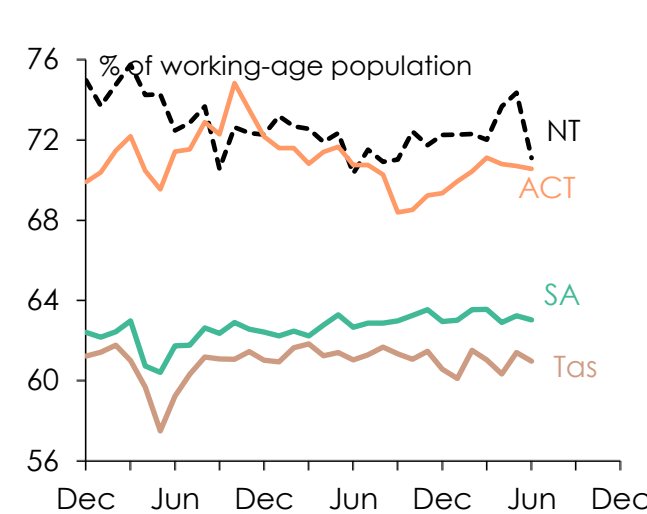
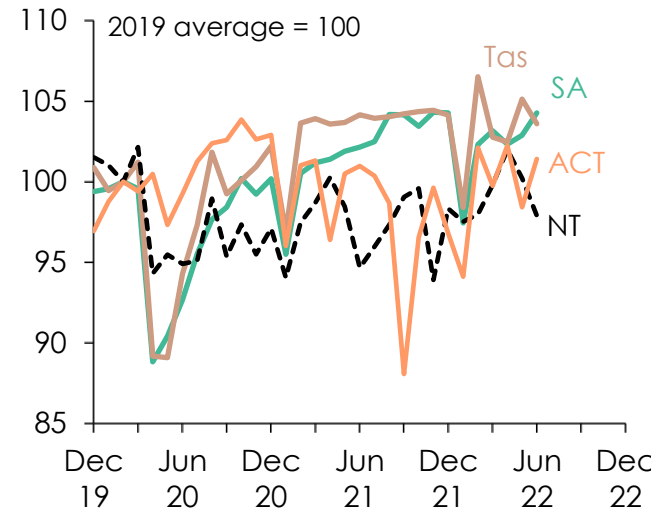
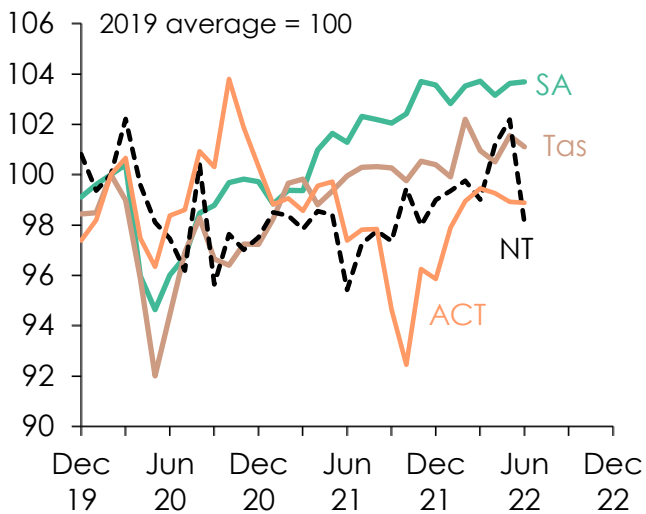
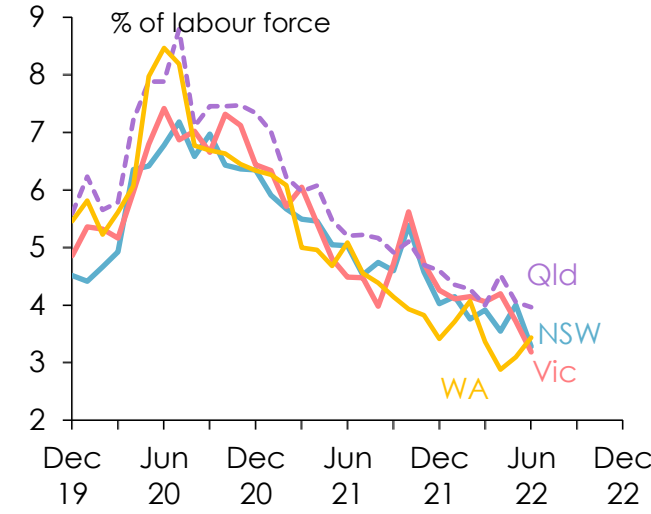
## Hours worked



## Participation rates



## Unemployment rates

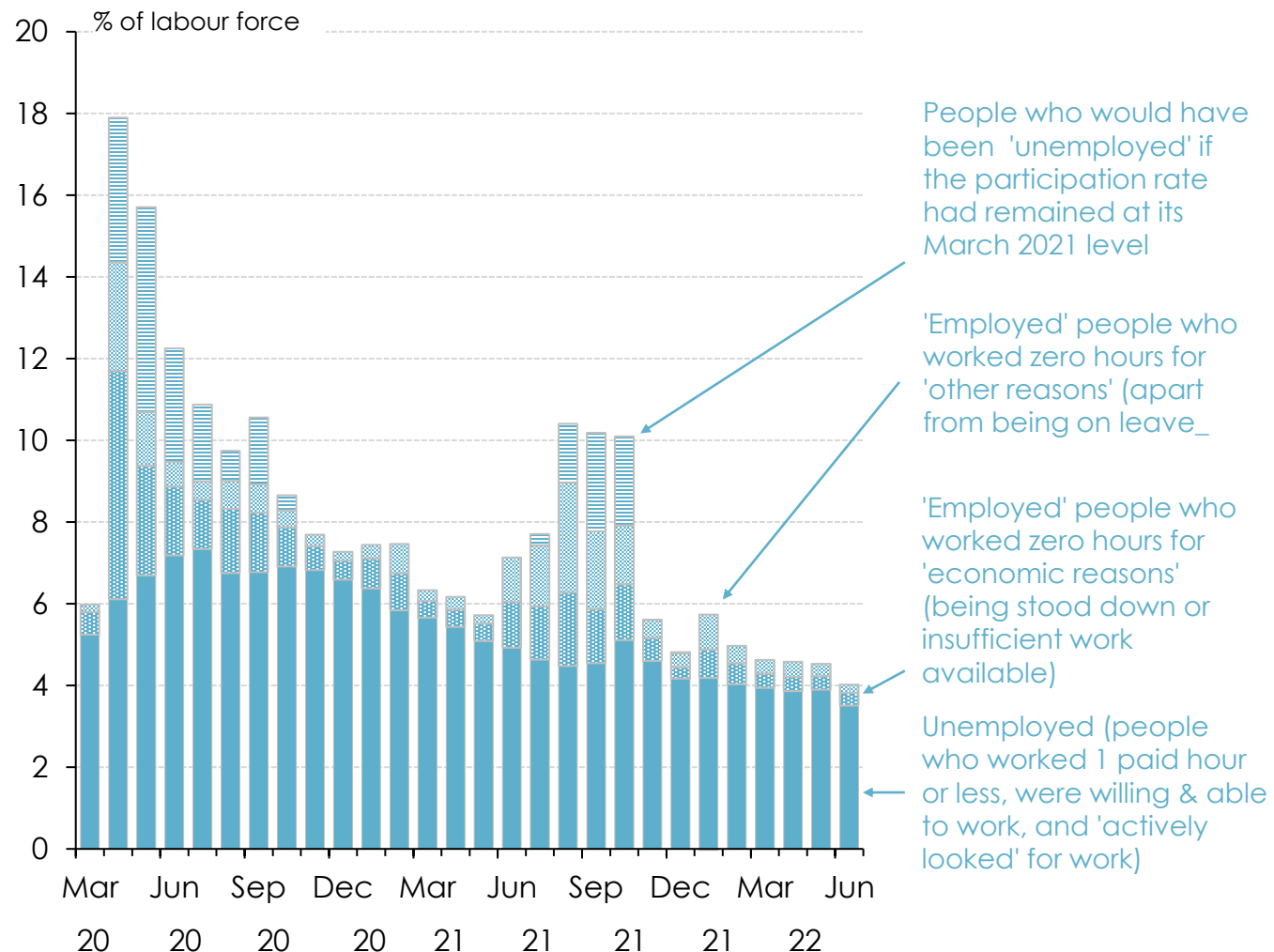


Source: ABS, [Labour Force, Australia](#), June. July data will be released on 18<sup>th</sup> August. [Return to "What's New"](#).

# 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 – 5<sup>TH</sup> AUGUST 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.

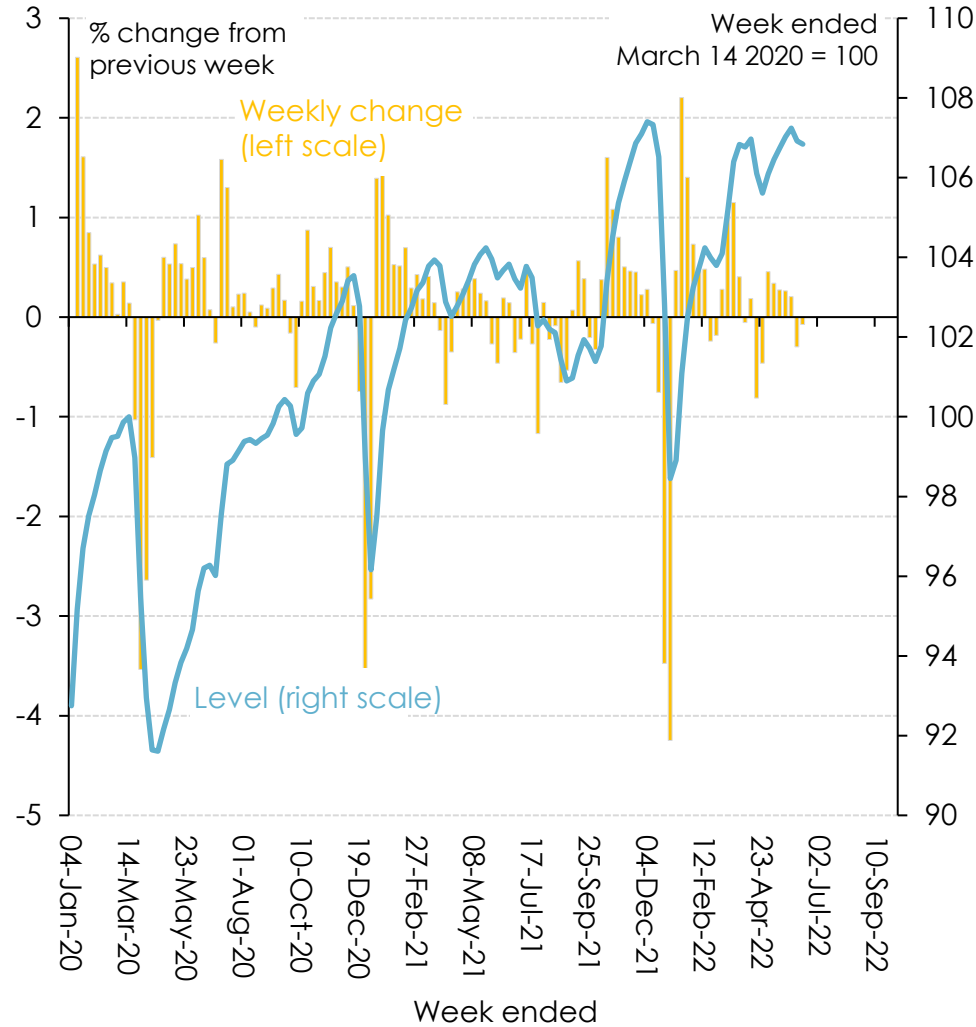
Source: ABS, [Labour Force, Australia](#), June. July data will be released on 18<sup>th</sup> August.

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

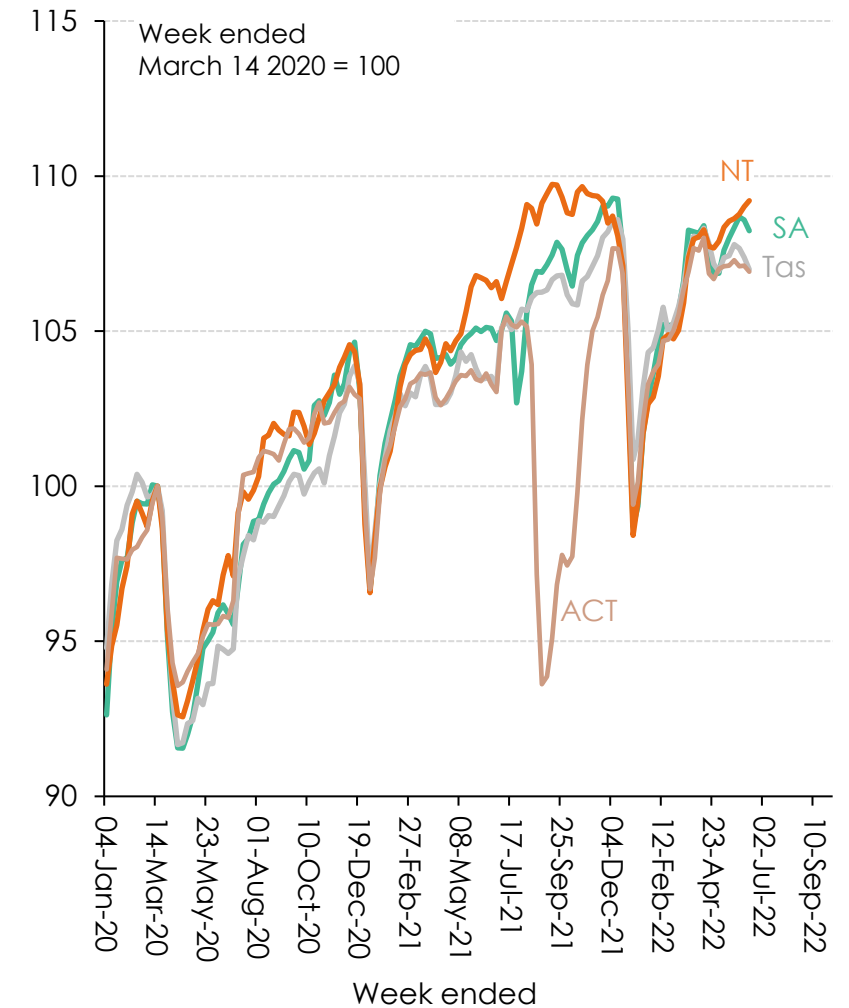
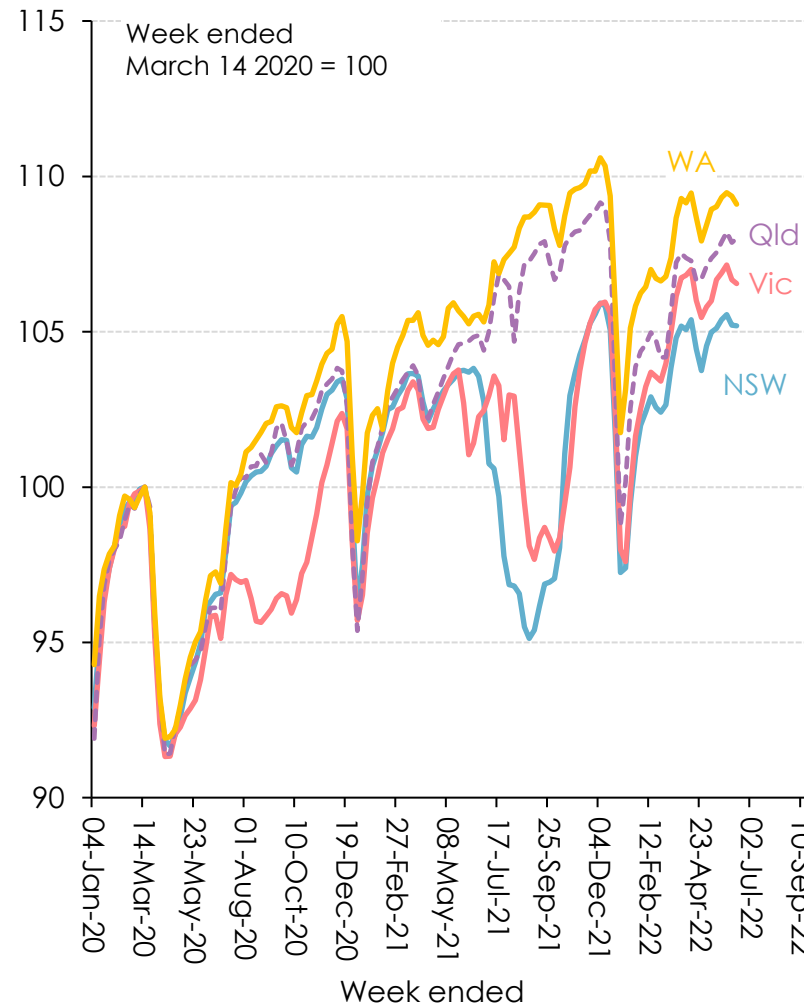
# The number of payroll jobs was little changed, on net, between mid-May and mid-June, with gains in Qld & the NT offset by falls in Victoria & Tasmania

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

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



## Payroll jobs by State & Territory



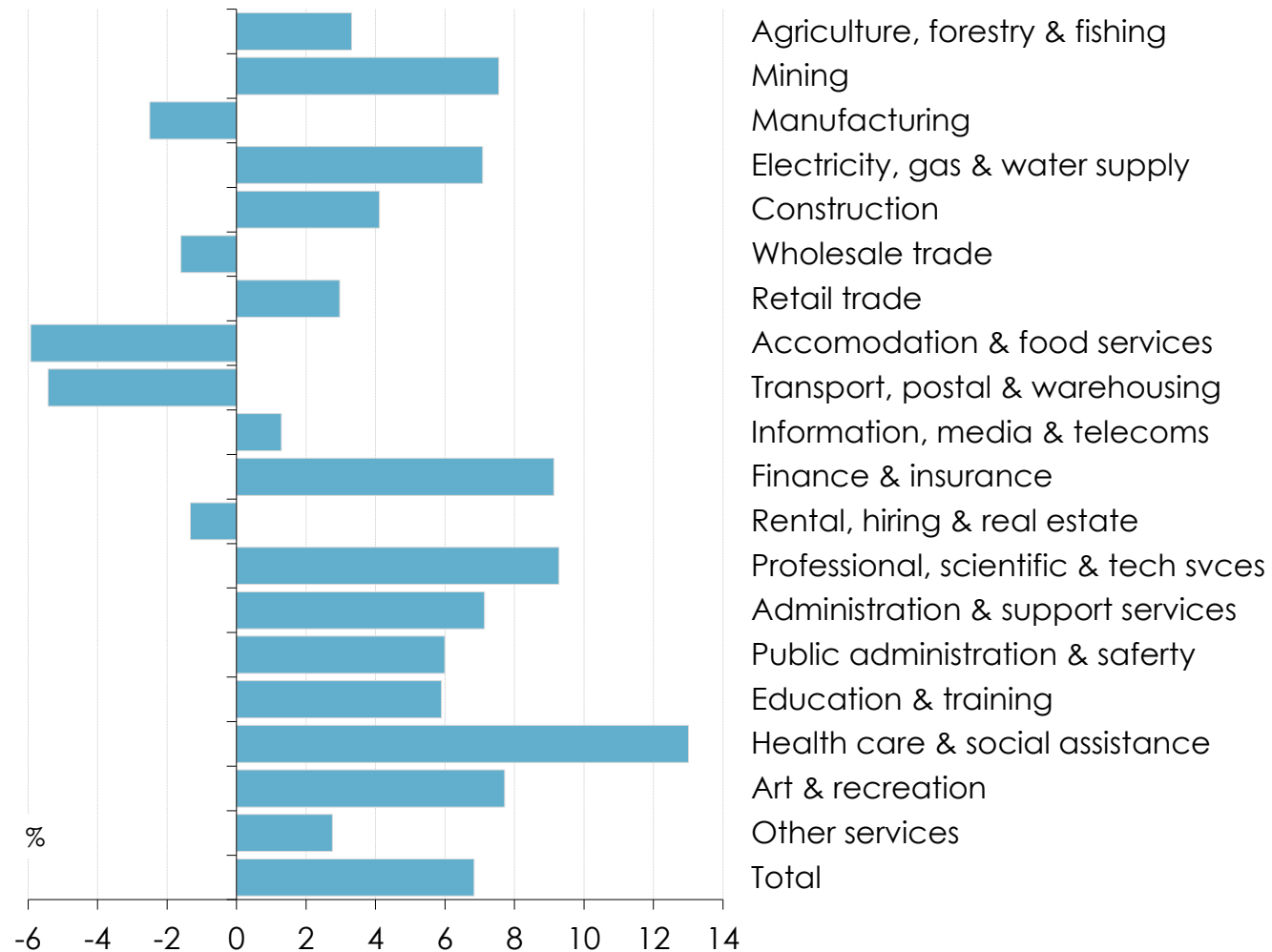
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

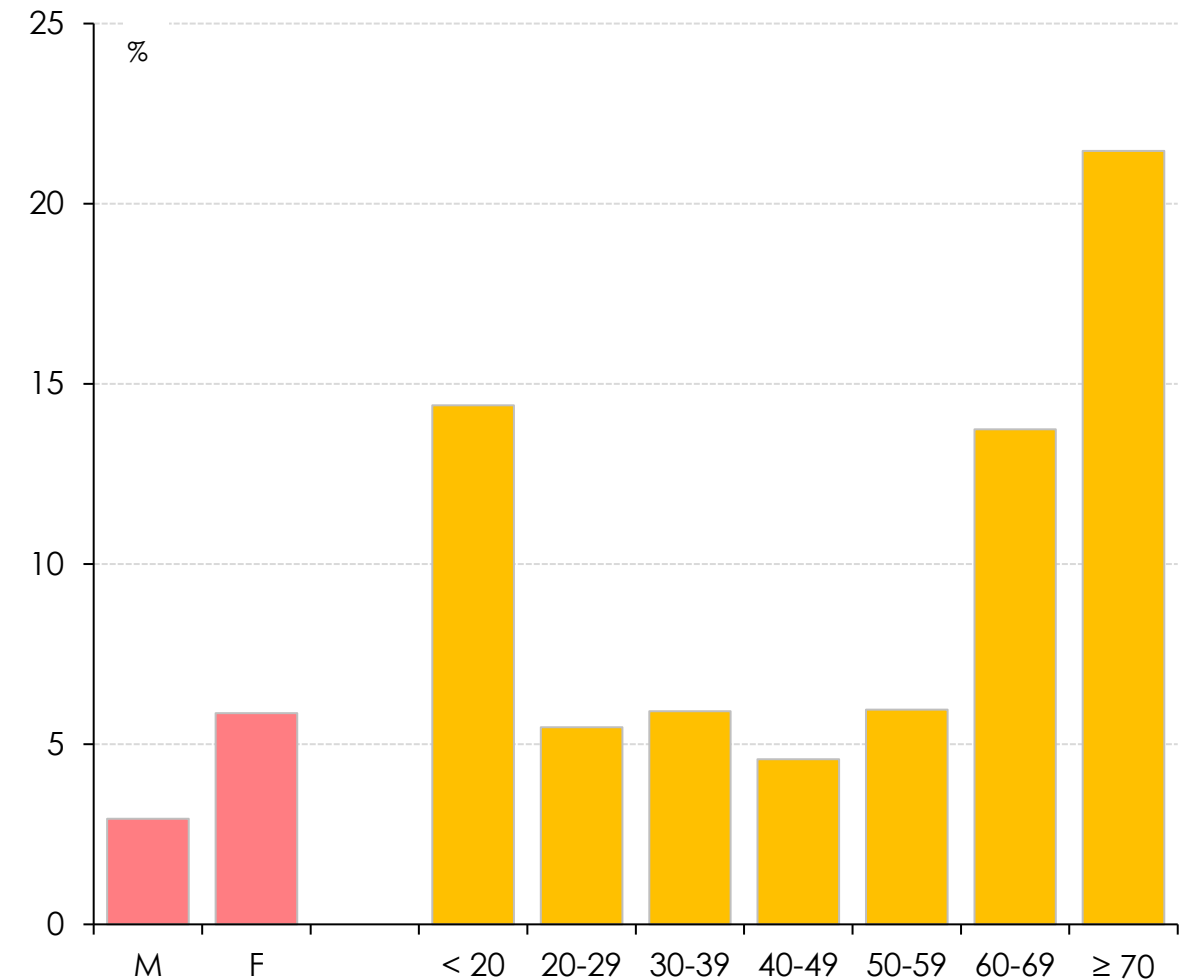
THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

## Net change in payroll jobs between week ended 14<sup>th</sup> March 2020 and week ended 11<sup>th</sup> 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"](#).

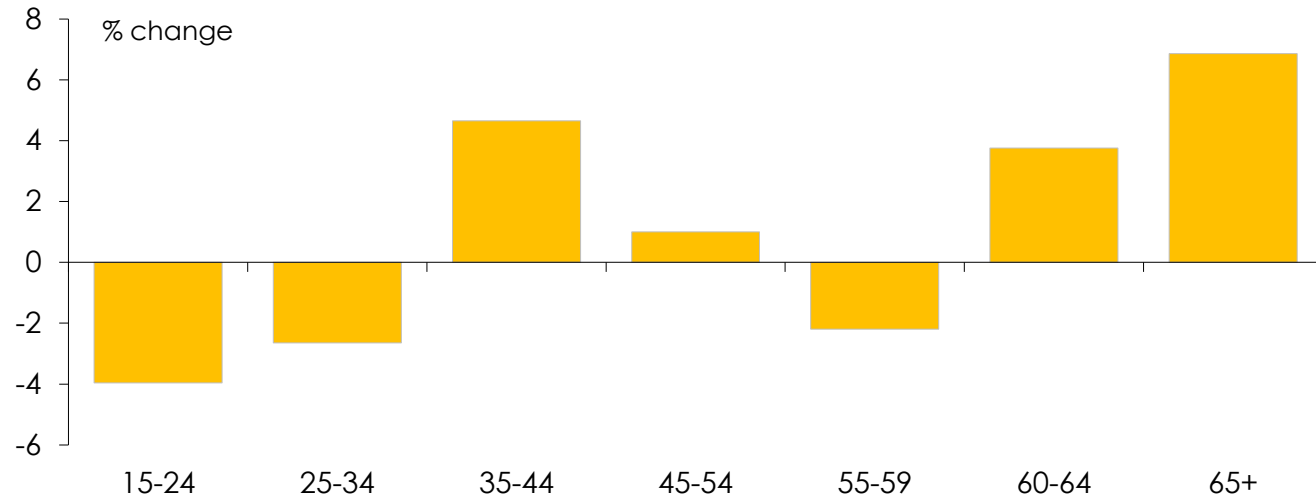


# There are 228K (3¼%) fewer 15-34 year-olds in Australia than there were two years ago – which has helped speed reductions in unemployment

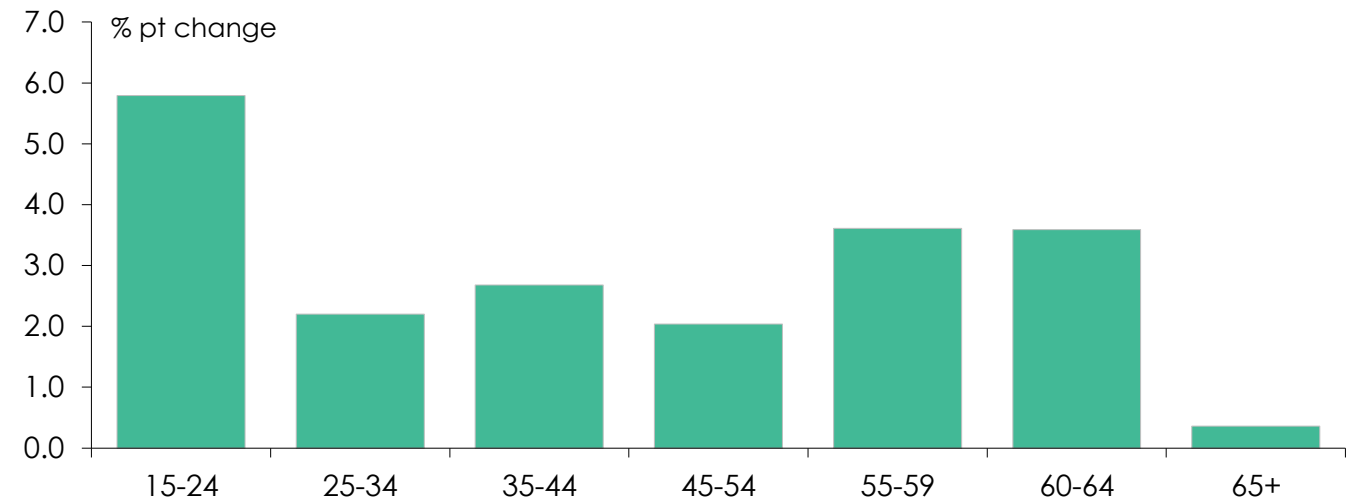
THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

## Changes from March 2020 to June 2022

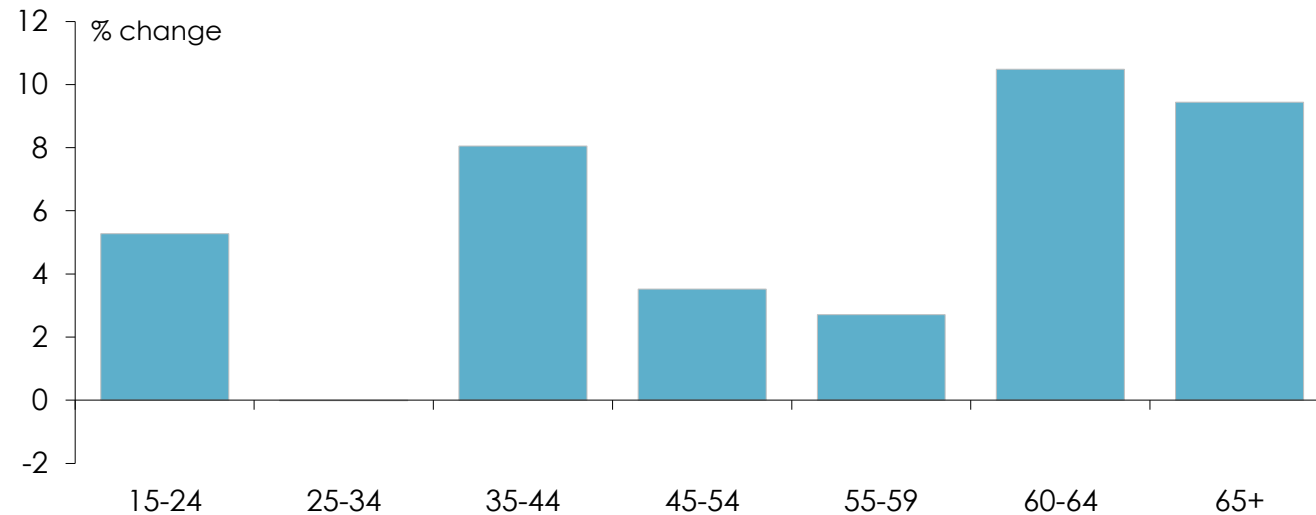
### Civilian working age population



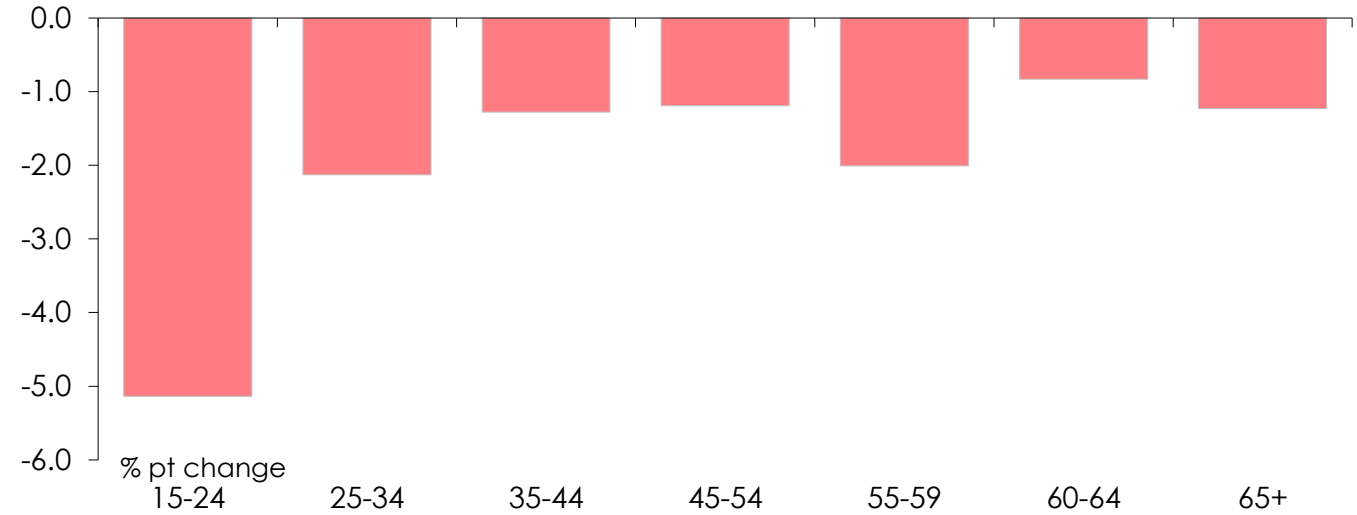
### Employment-population ratio



### Employment



### Unemployment rates



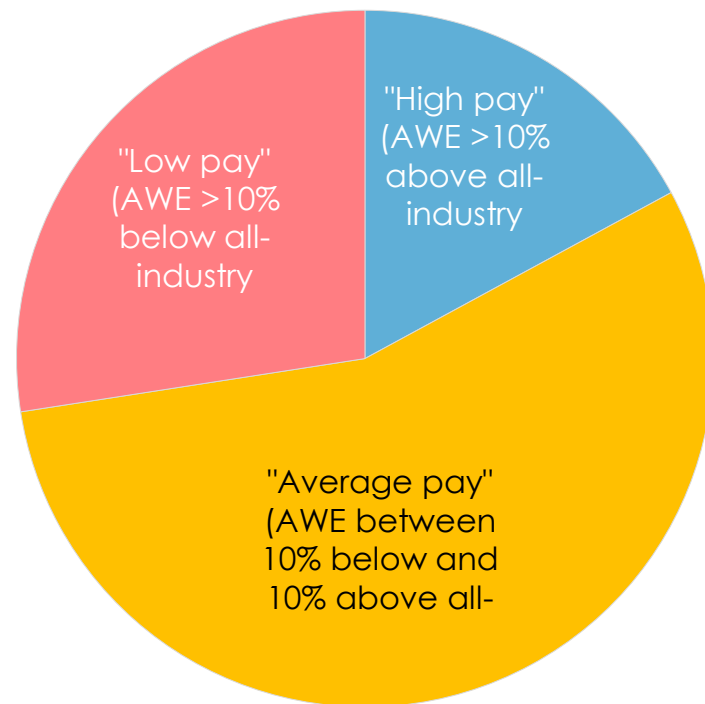
Note: The data from which the above charts are derived isn't seasonally adjusted.

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

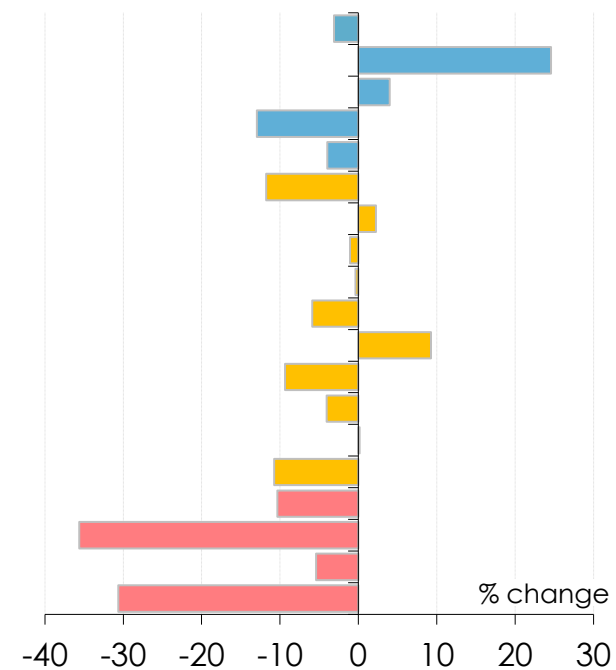
# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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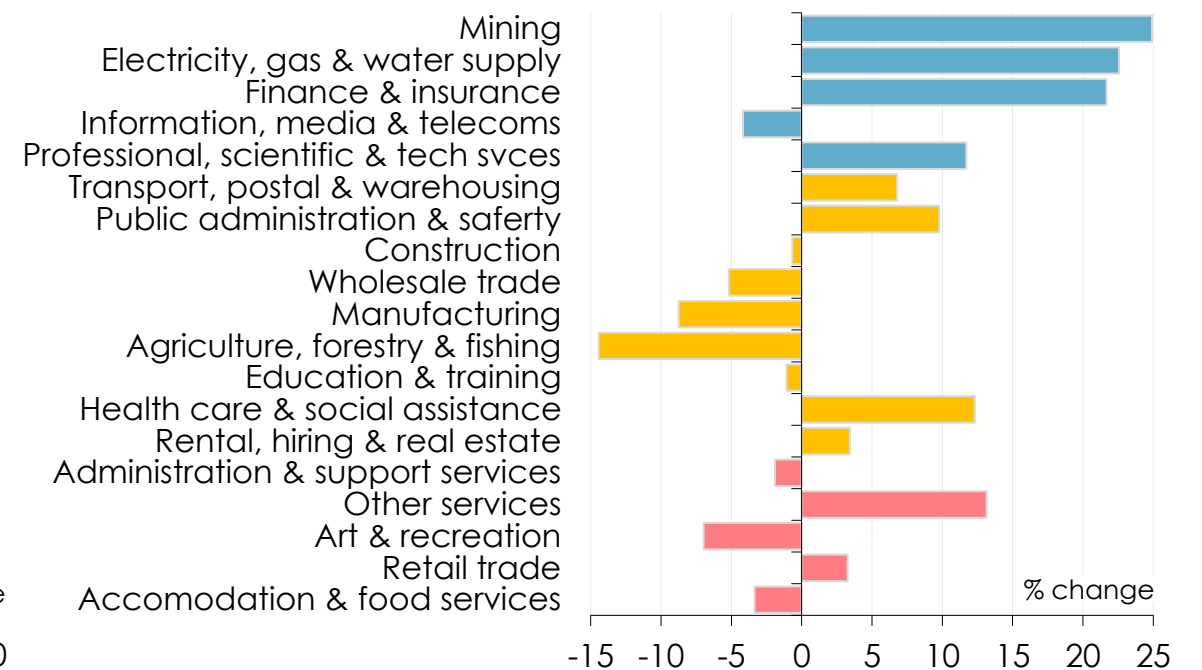
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry February-May 2020



February 2020 – May 2022



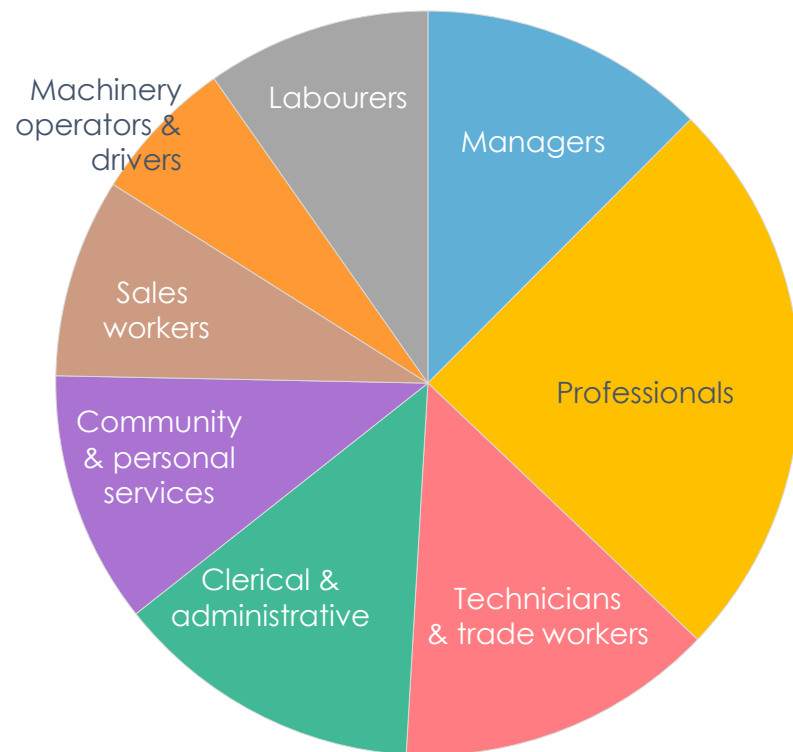
- ❑ Industries with average earnings which are 10% or more below the economy-wide average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February & May 2020 – and 86% of job losses between May & August 2021
- ❑ Employment in these 'low-pay' industries 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 22<sup>nd</sup> September. [Return to "What's New"](#).

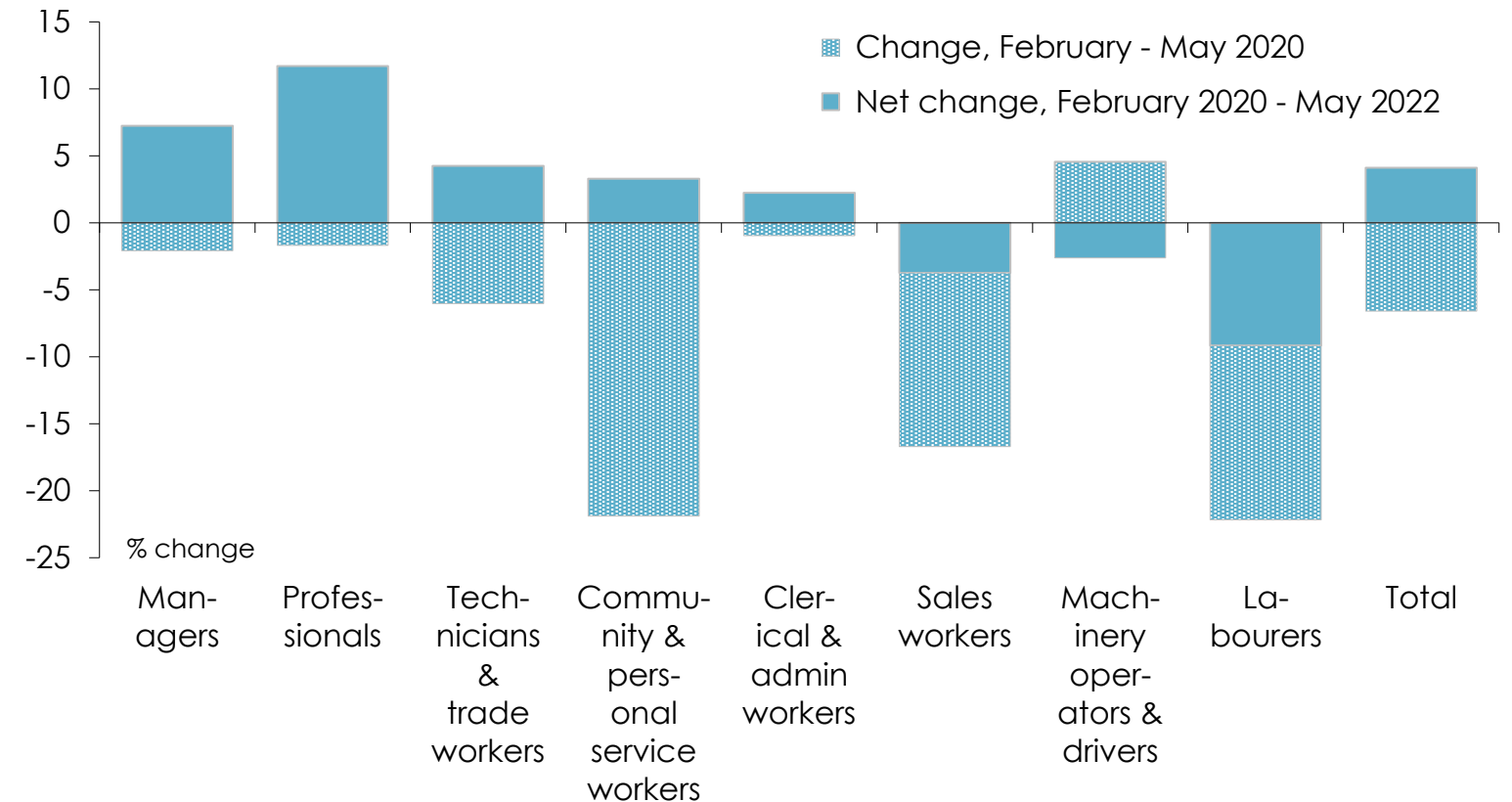
# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



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



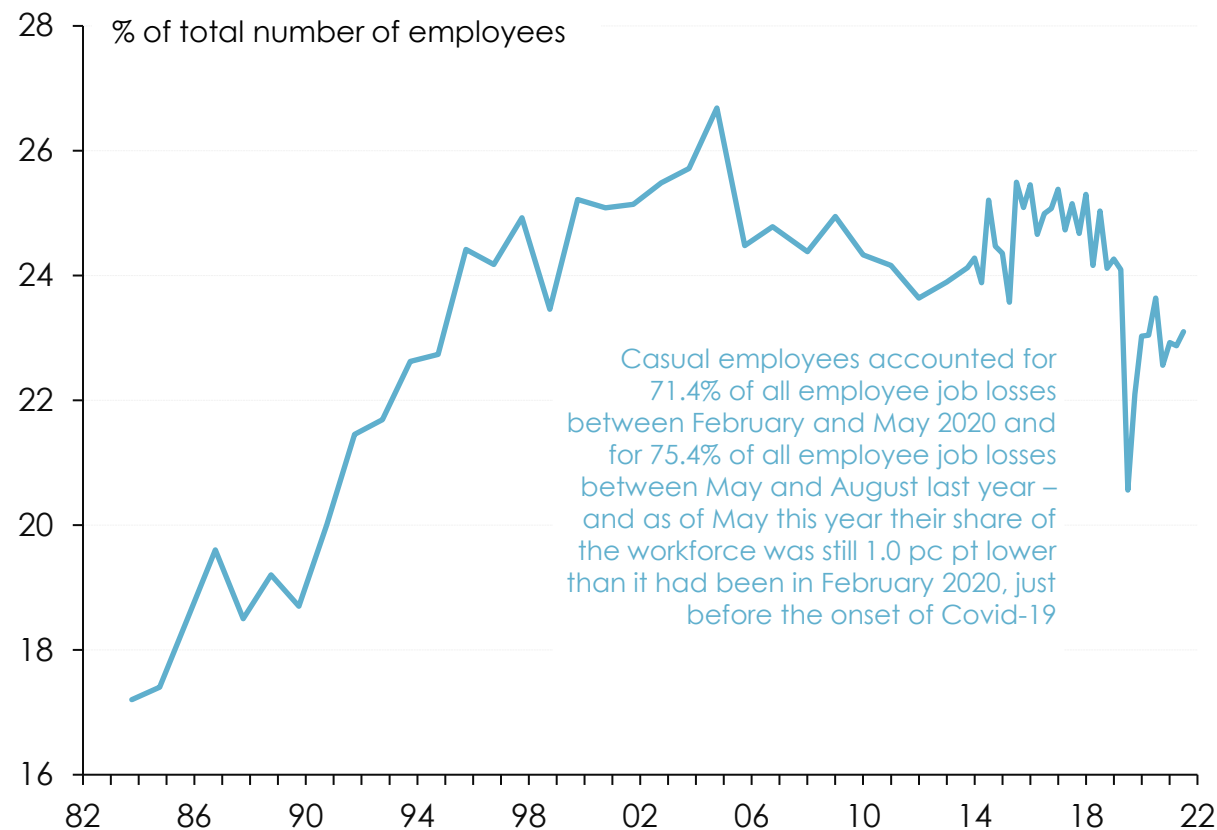
- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May 2020 – and for 71% of job losses between May and August 2021 – and there were 2.9% fewer of them in May this year than in 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 22<sup>nd</sup> 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

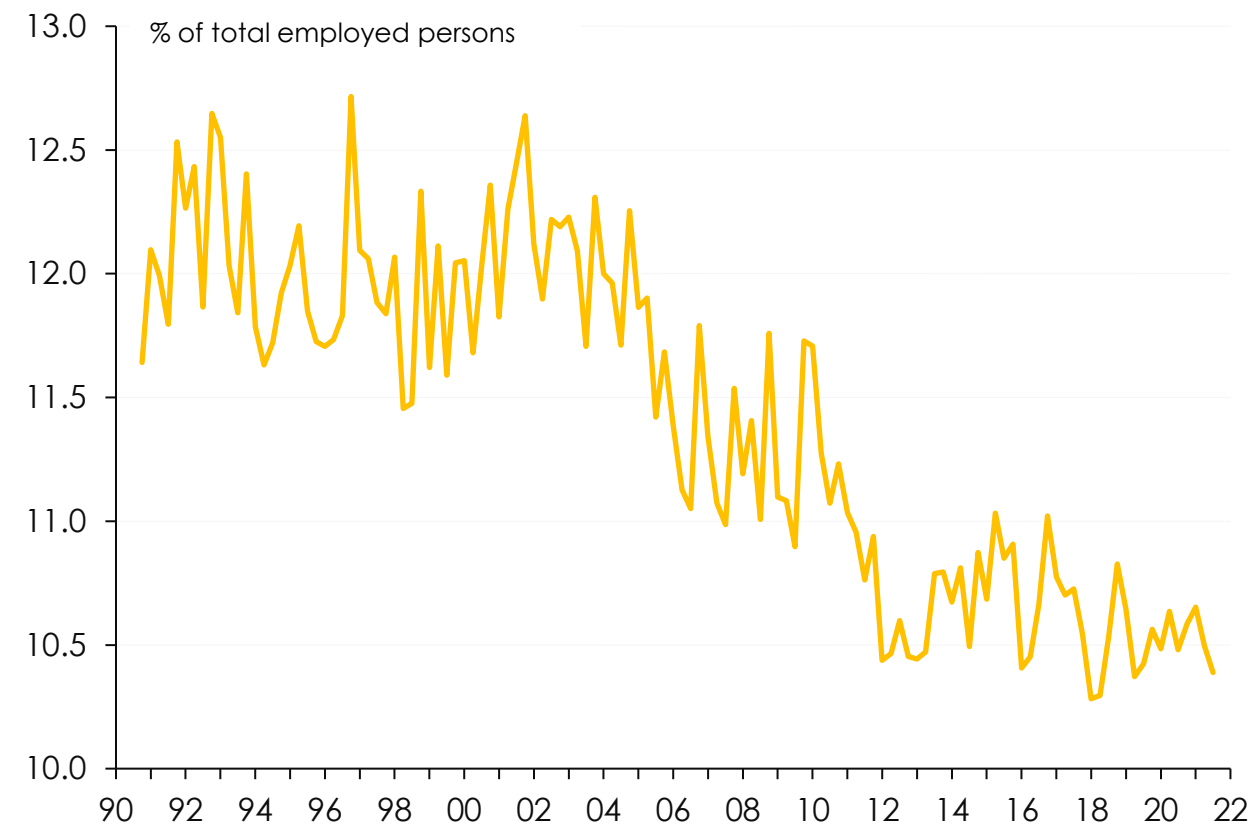
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## 'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



- ❑ 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



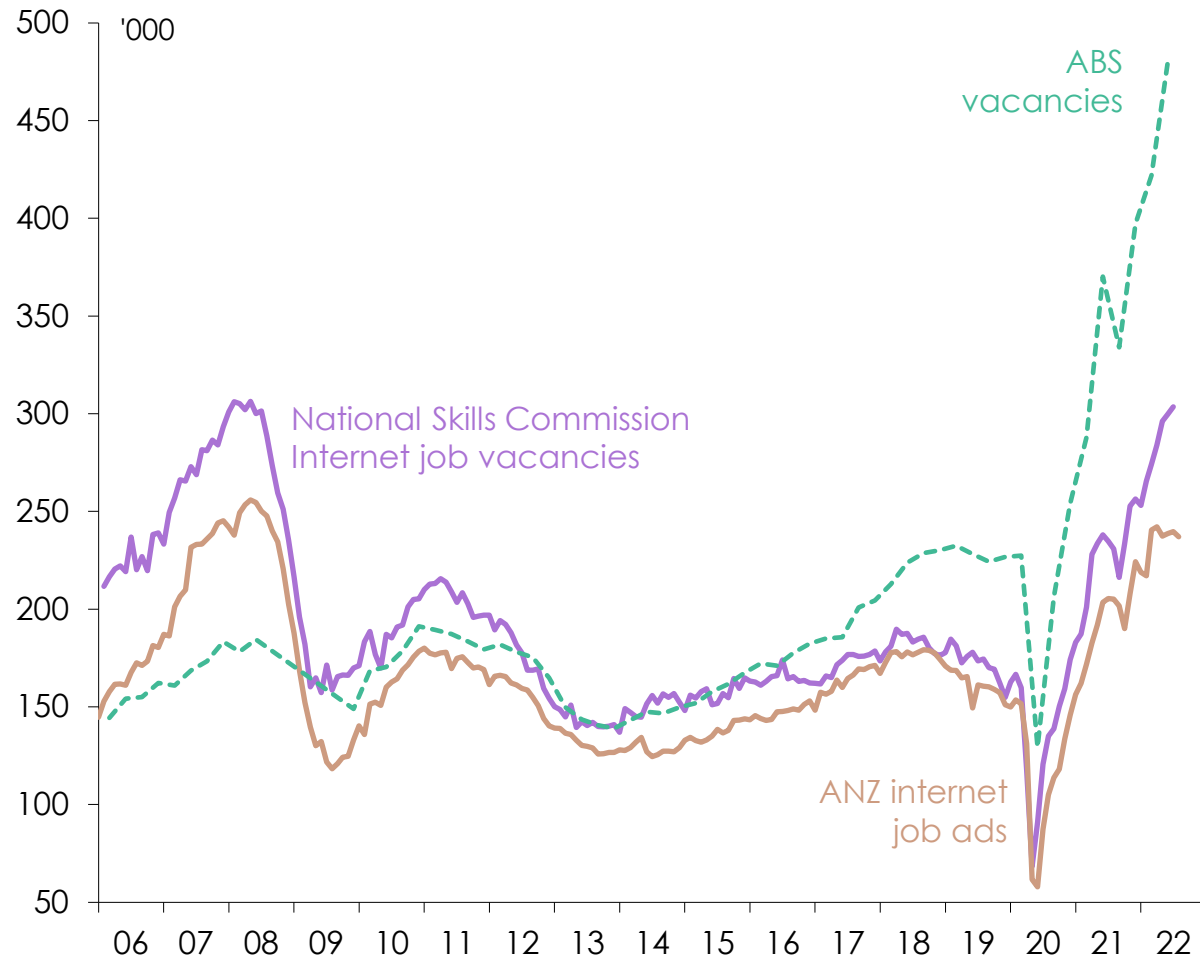
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – and haven't increased since the onset of Covid-19

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 29<sup>th</sup> 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

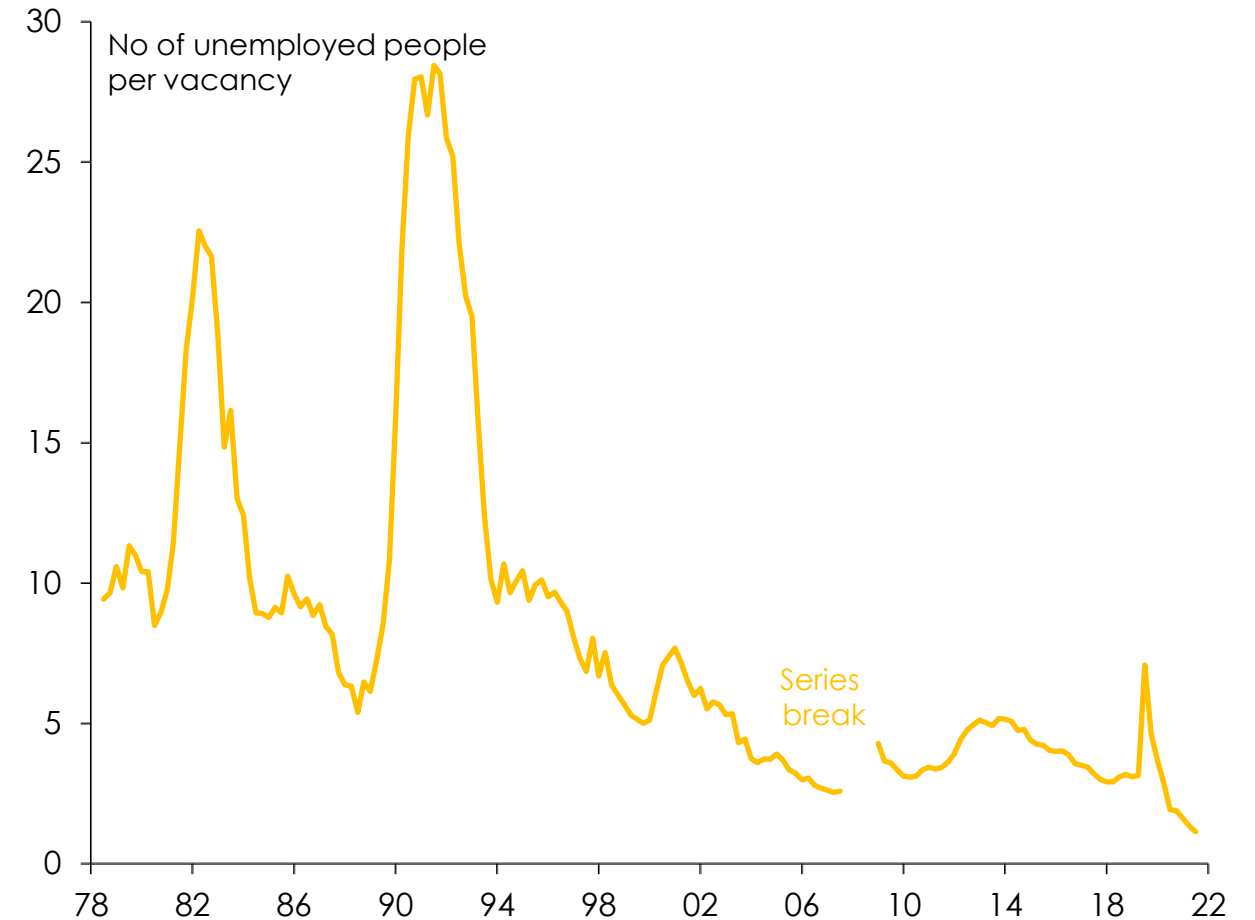
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## Measures of job vacancies



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

## Ratio of unemployed people to job vacancies



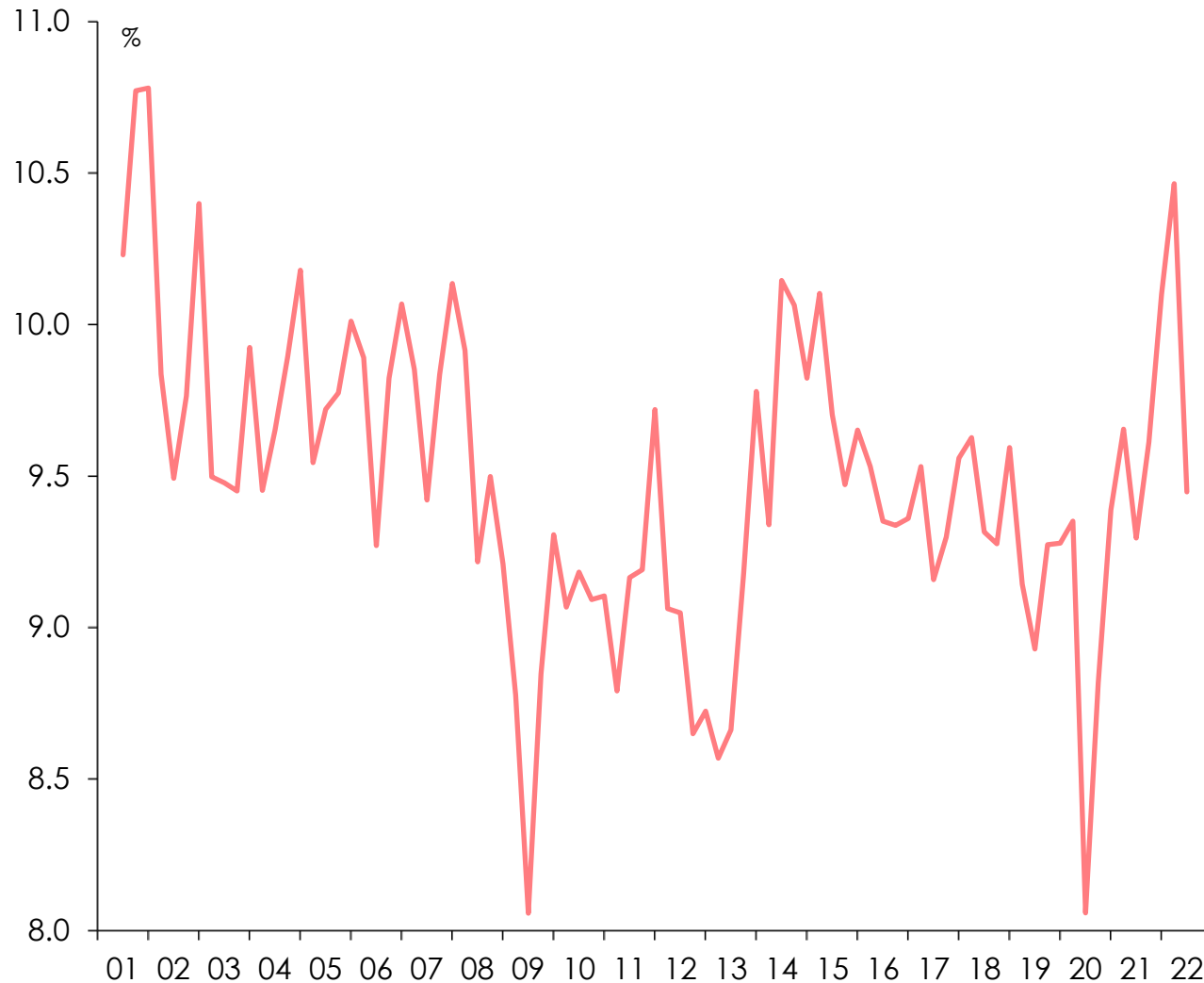
☐ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

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 29<sup>th</sup> September. [Return to "What's New"](#).

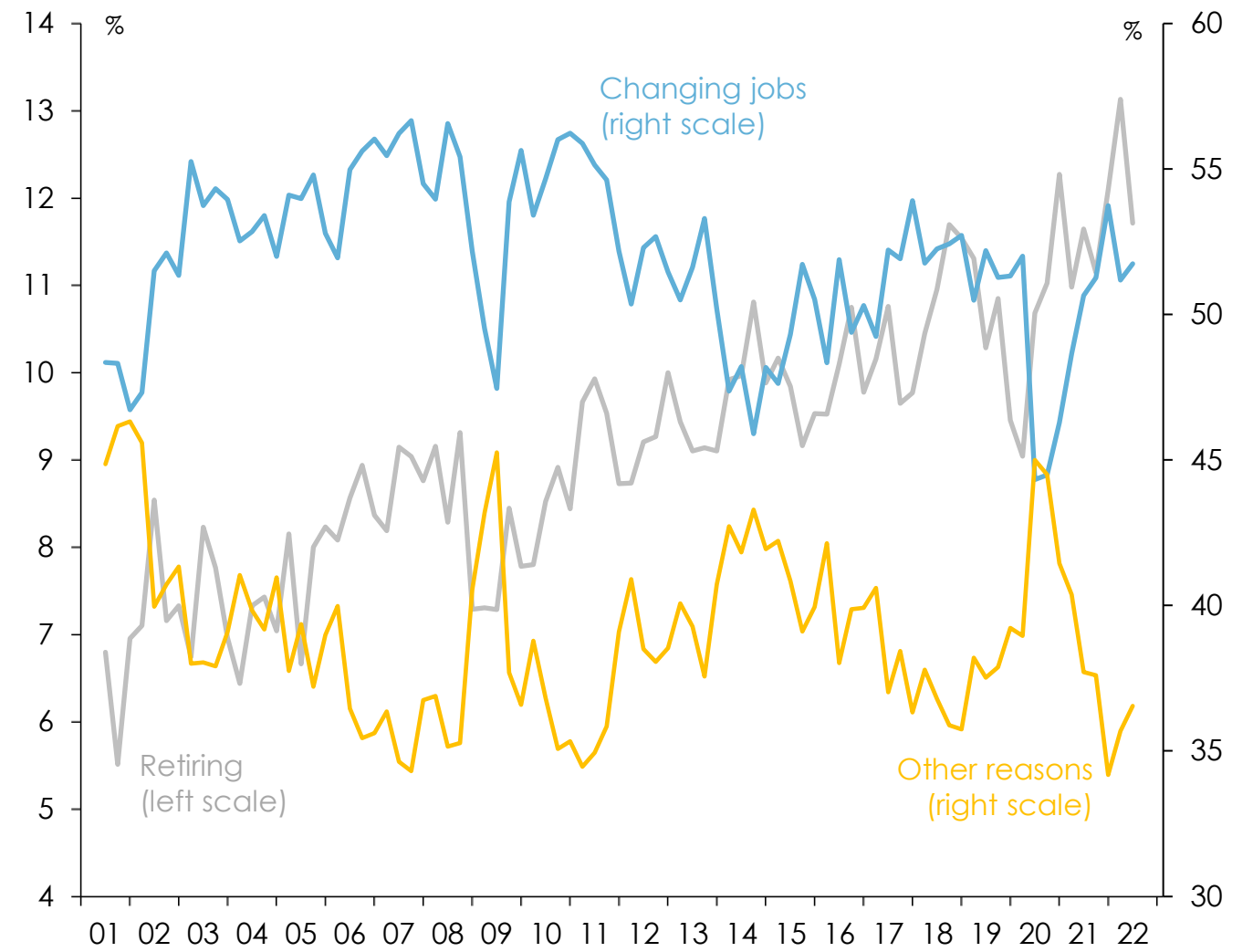
# There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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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



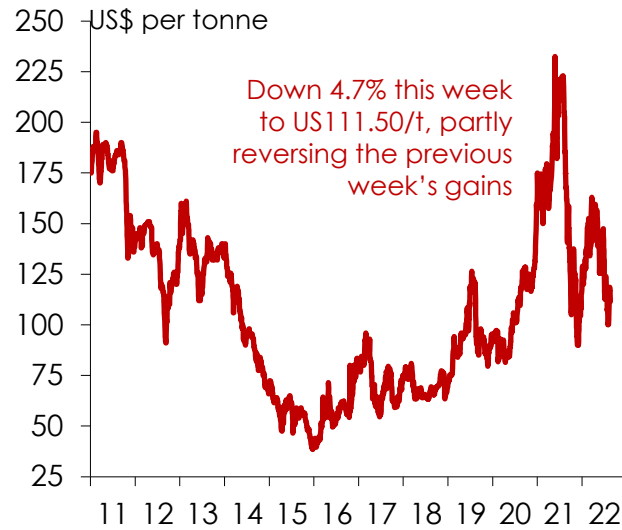
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

# Trade and the balance of payments

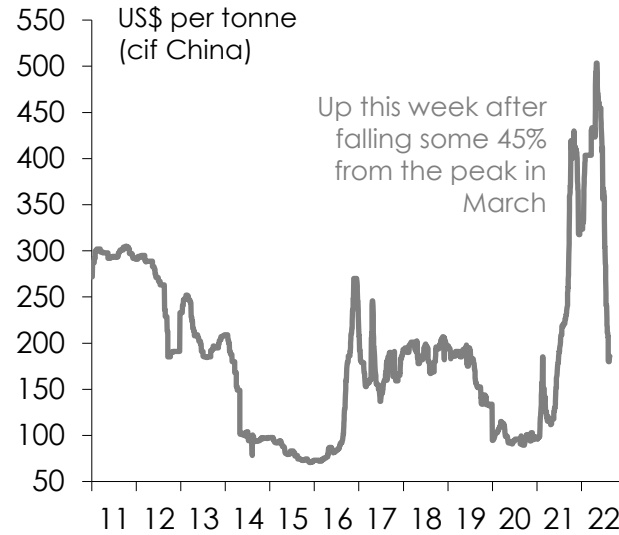
# Most commodity prices resumed a downward trend this week – including oil which fell back to where it was before the Ukraine conflict started

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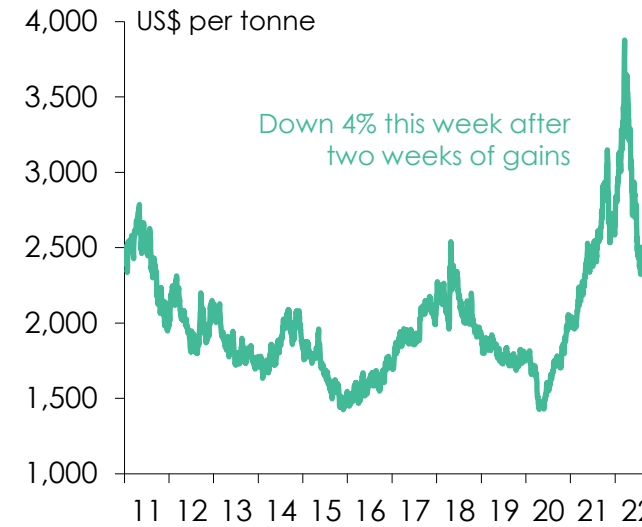
## Iron ore



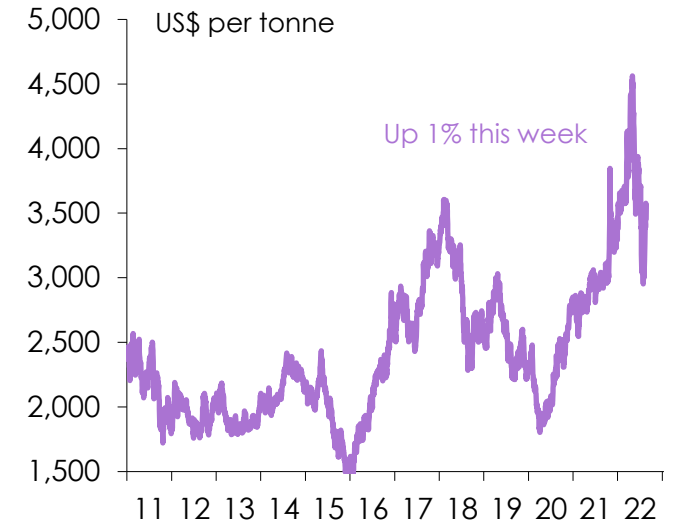
## Metallurgical coal



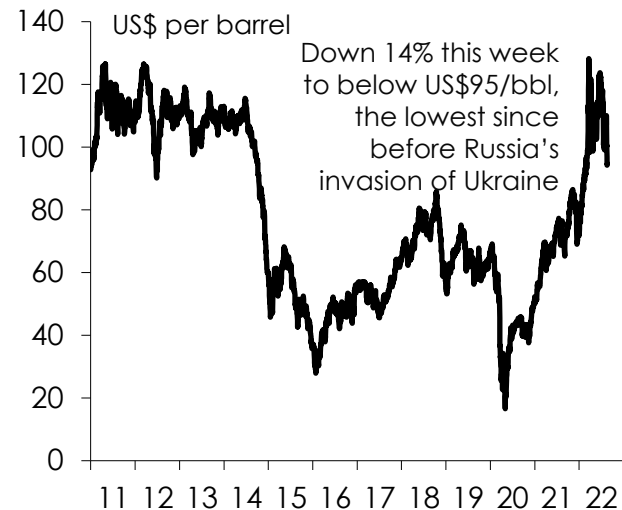
## Aluminium



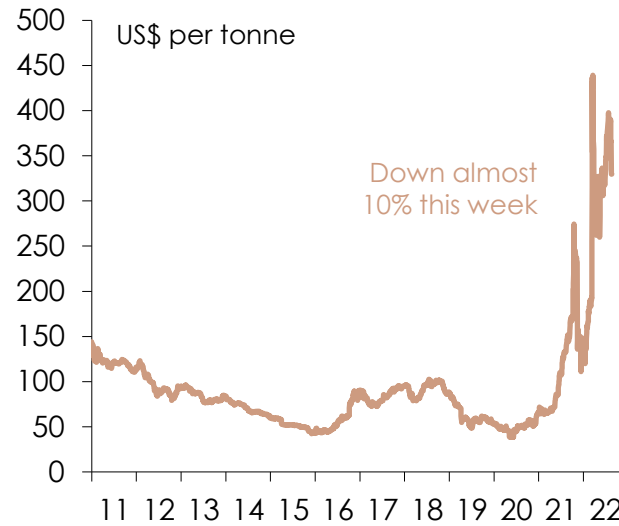
## Zinc



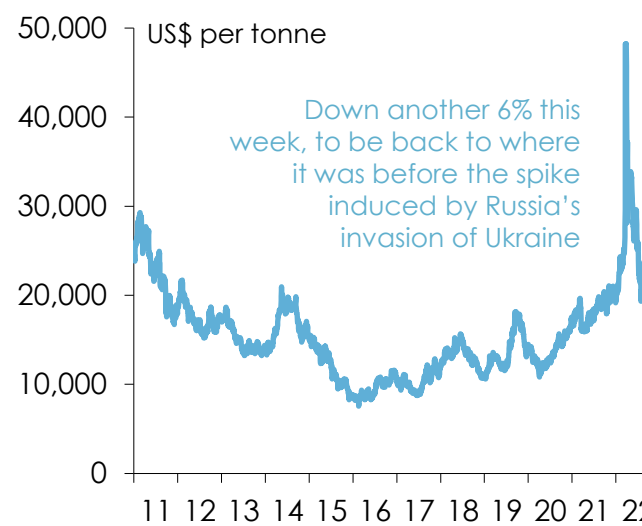
## Brent crude oil



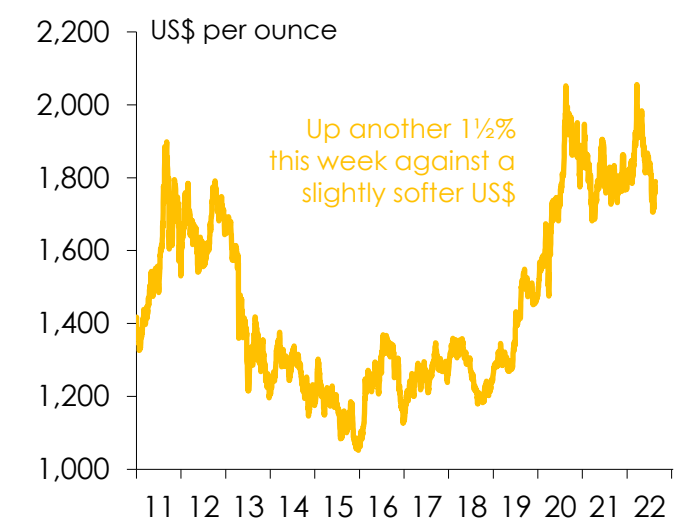
## Thermal coal



## Nickel



## Gold

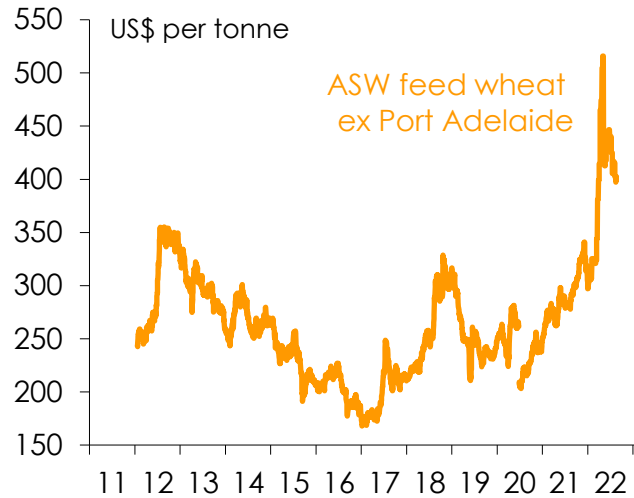




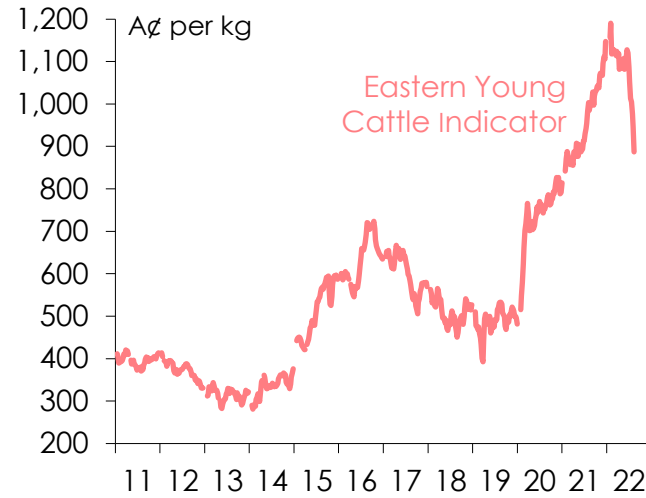
# Most agricultural commodity prices also fell this week, with large falls in livestock and milk prices (albeit from historically high levels)

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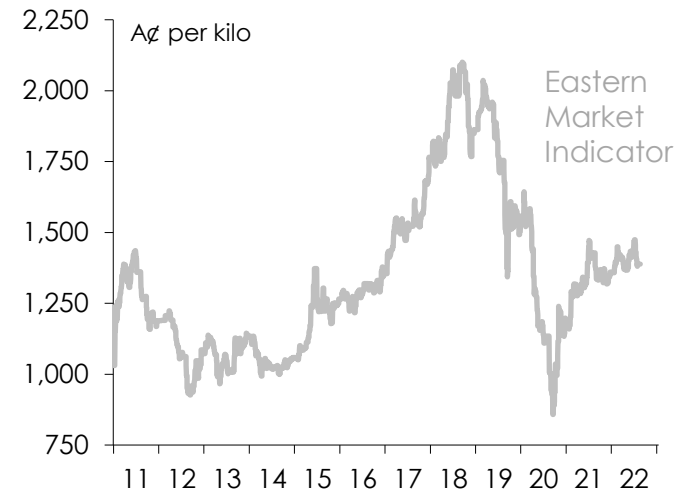
## Wheat



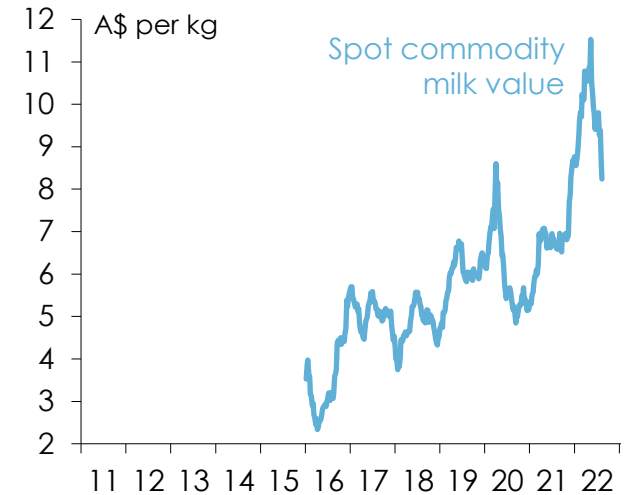
## Beef cattle



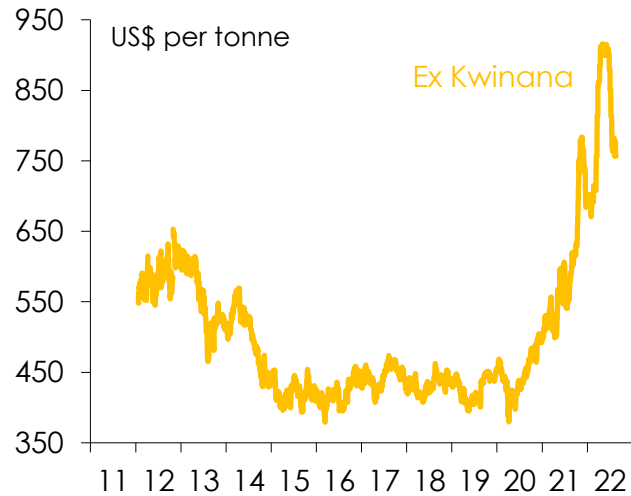
## Wool



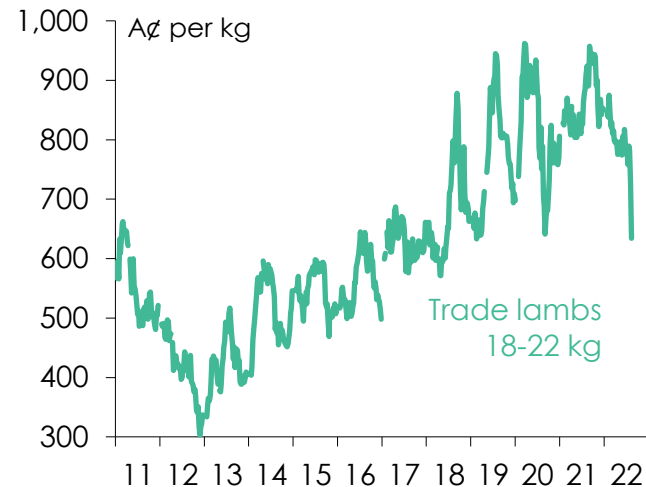
## Milk



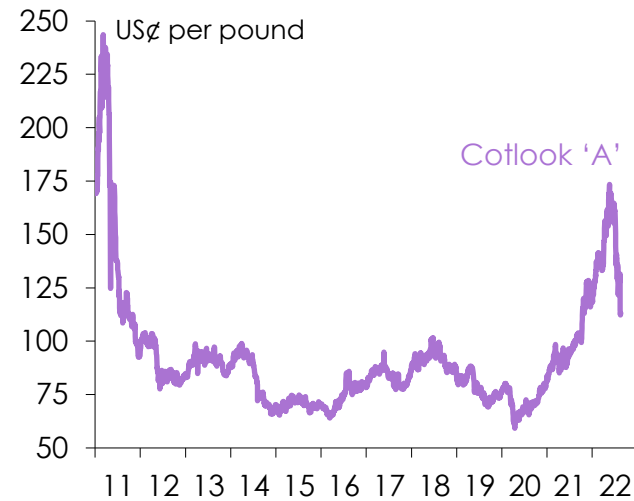
## Canola



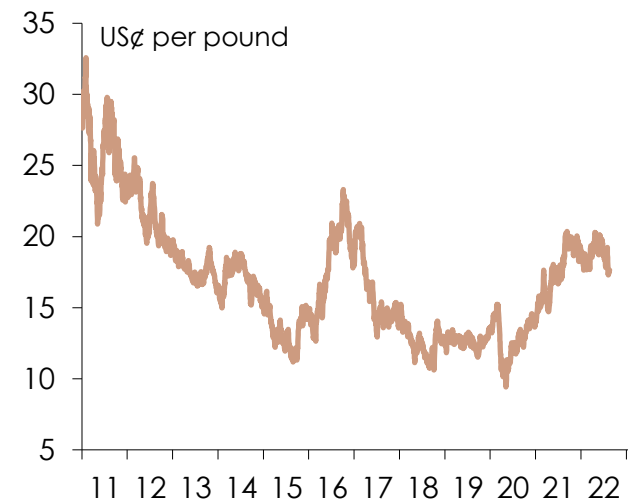
## Sheep



## Cotton



## Sugar

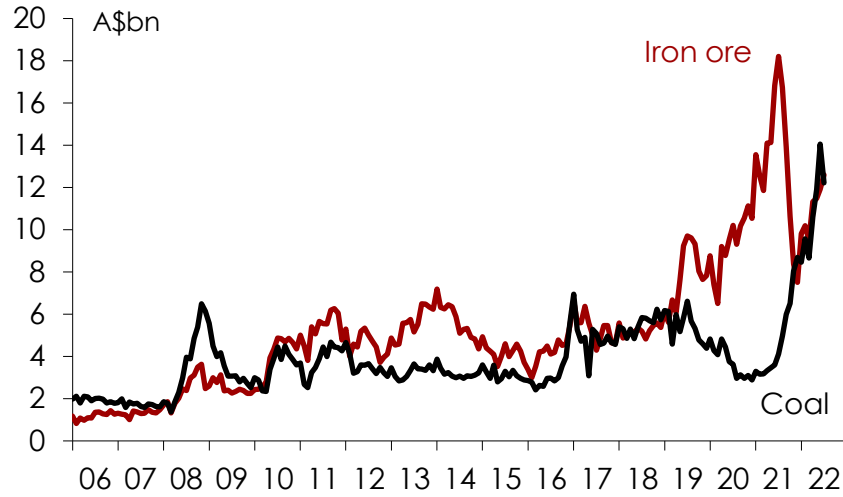


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 5<sup>th</sup> August.

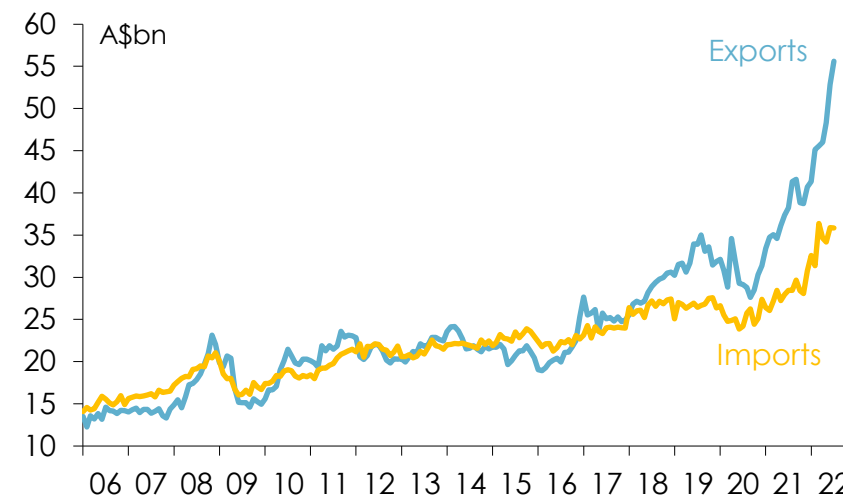
# Australia's trade surplus widened by \$2.6bn to another record of \$17.7bn in June, due to a (likely one-off) surge in gold exports

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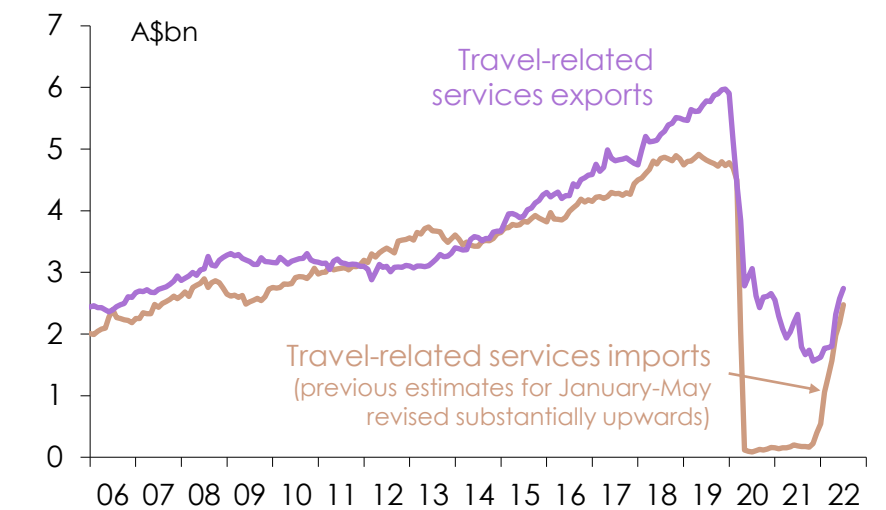
## Iron ore and coal exports



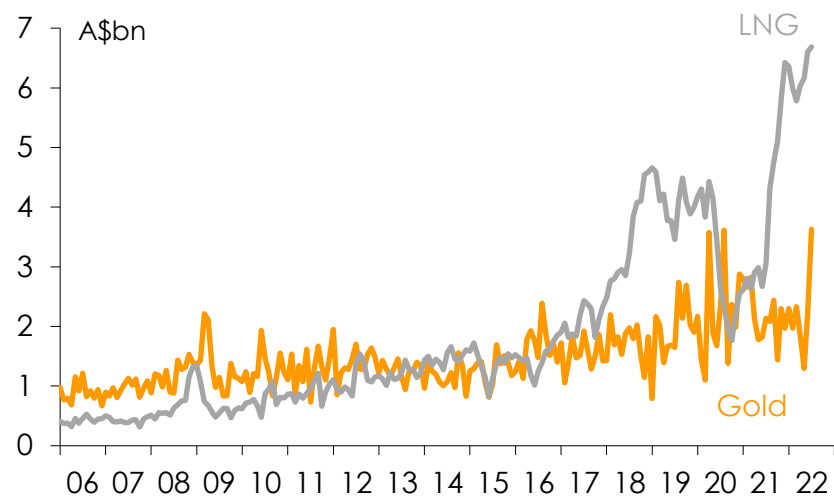
## Merchandise exports and imports



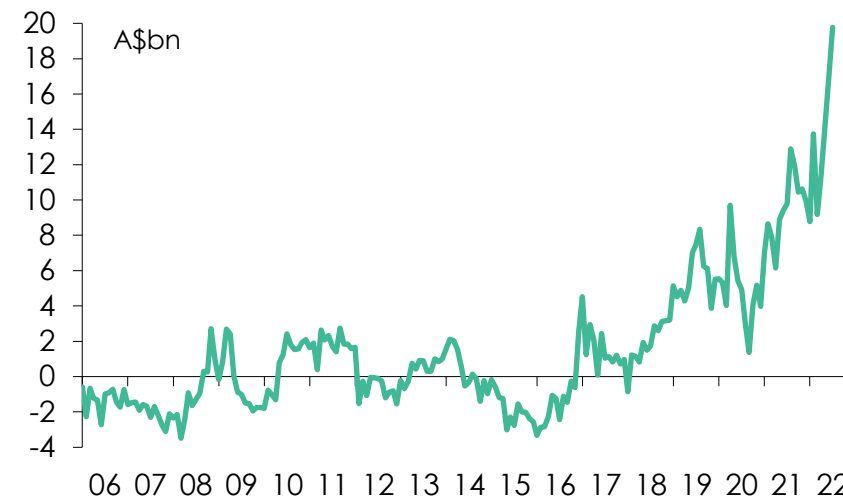
## Tourism-related services trade



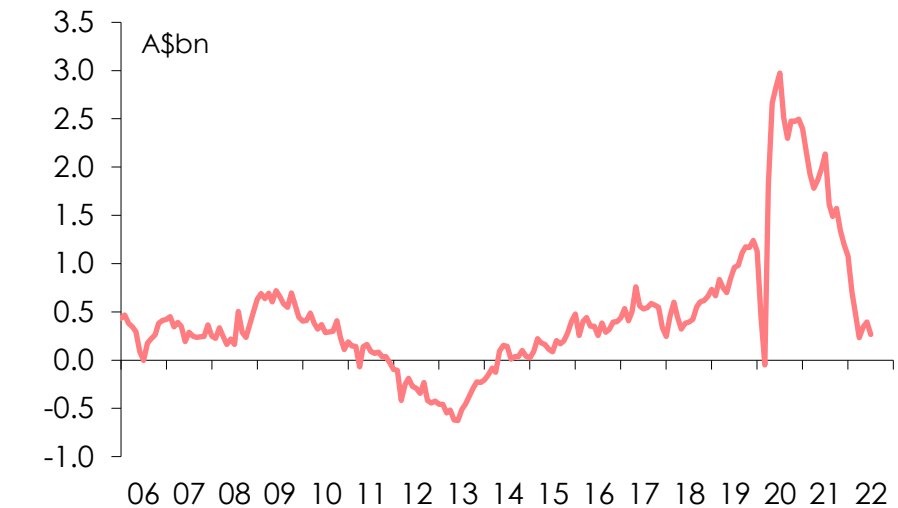
## LNG and gold exports



## Merchandise trade balance



## Tourism services trade balance

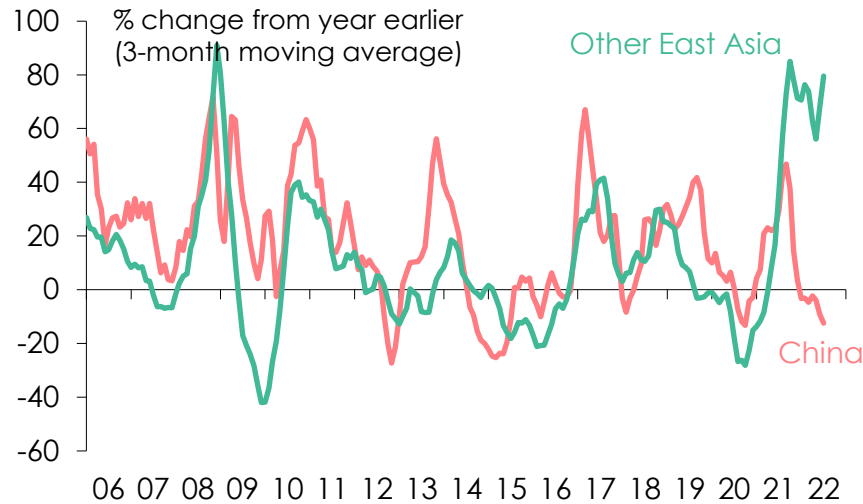


Source: ABS, [International Trade in Goods and Services, Australia](#), June 2022. July data will be released on 8<sup>th</sup> September. [Return to "What's New"](#).

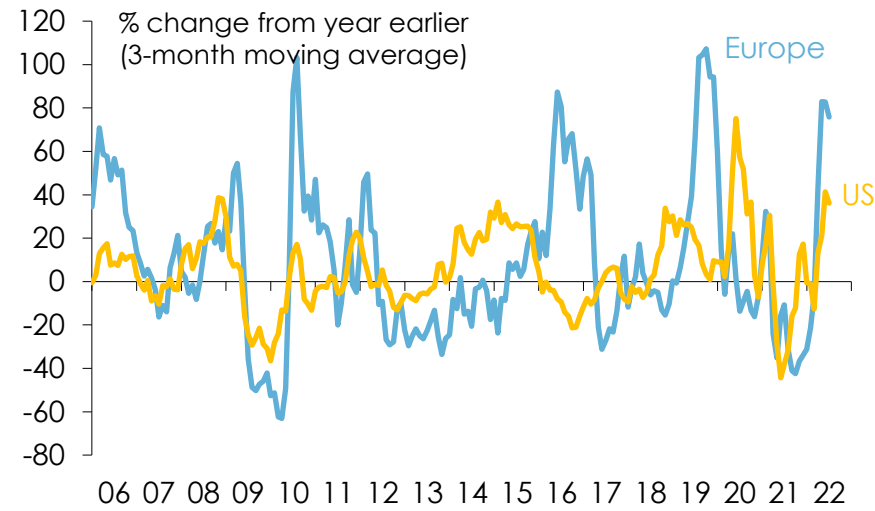
# Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

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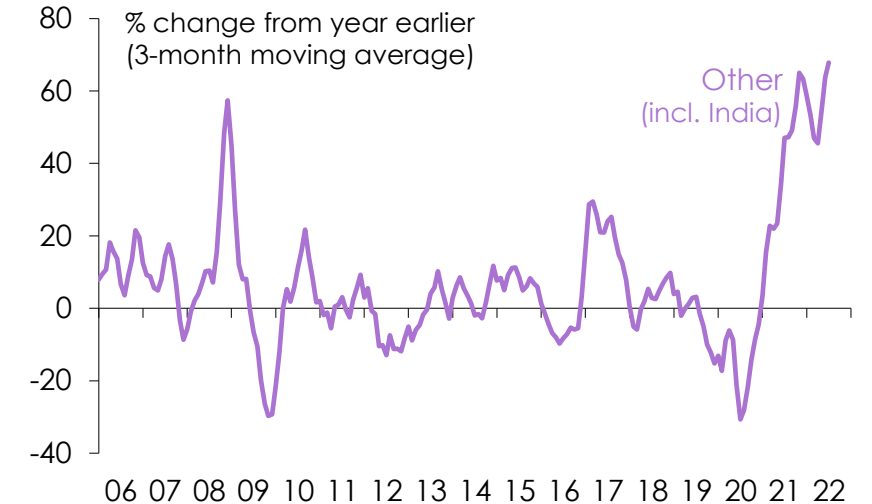
## Merchandise exports – East Asia



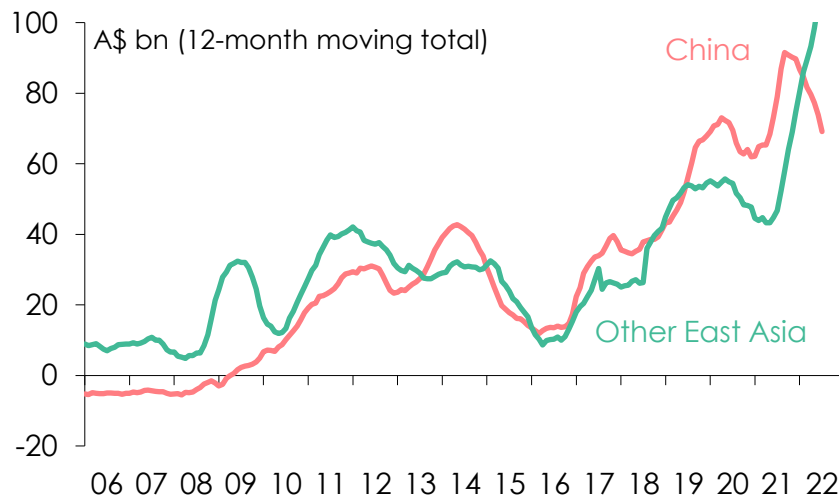
## Merchandise exports – US & Europe



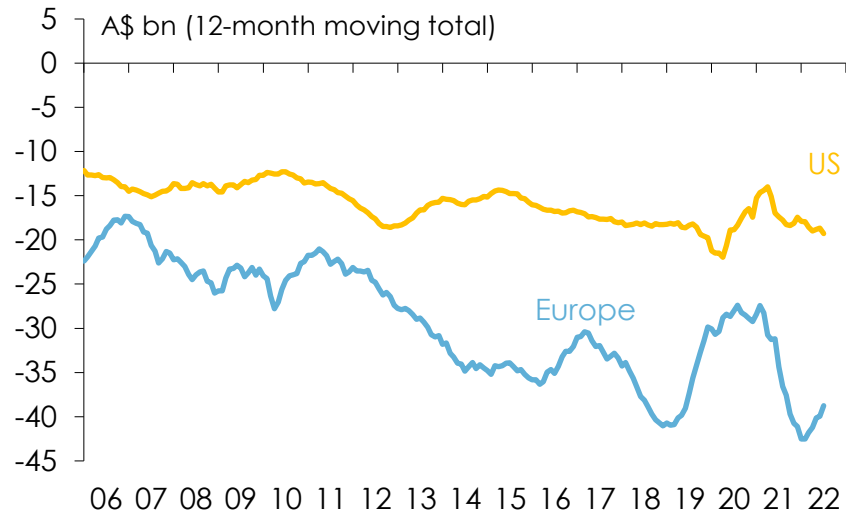
## Merchandise exports – other



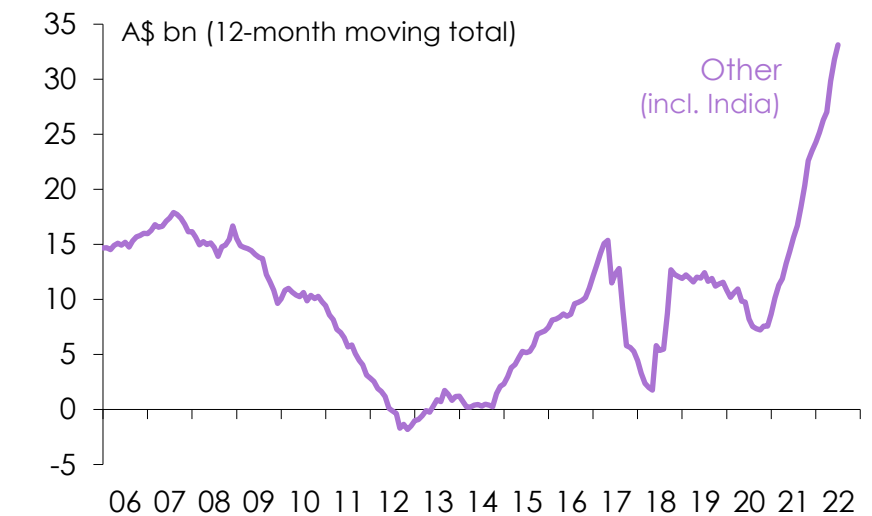
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other

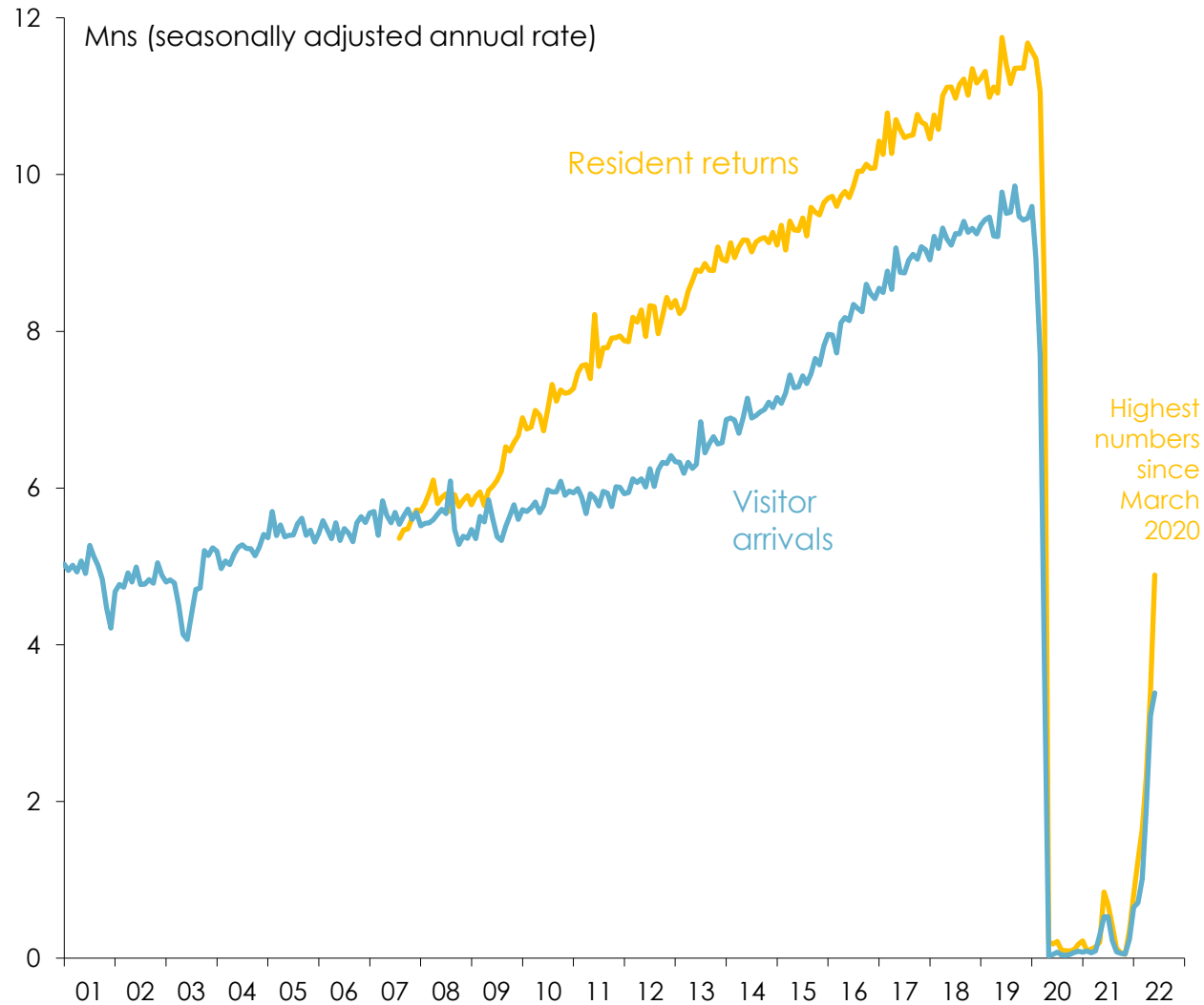


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in Goods and Services, Australia](#), June 2022. July data will be released on 8<sup>th</sup> September. [Return to "What's New"](#).

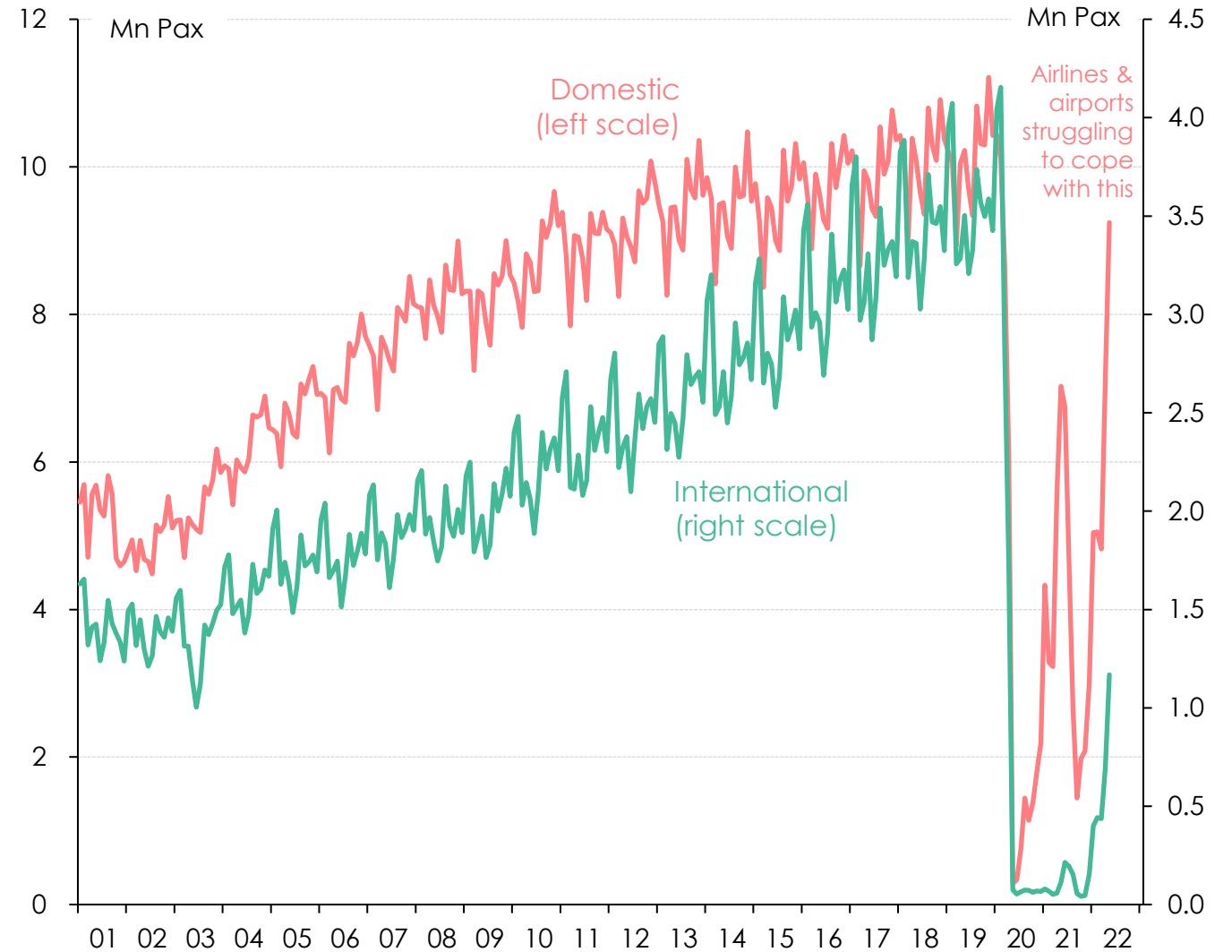
# International visitor arrivals have risen strongly since the beginning of this year, but still have a long way to go

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## Short-term visitor arrivals and resident returns



## Airport passenger movements

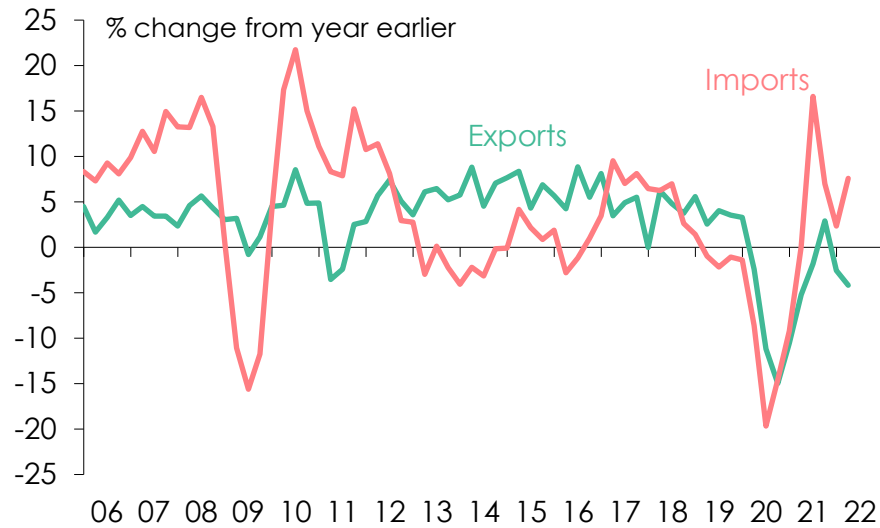


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

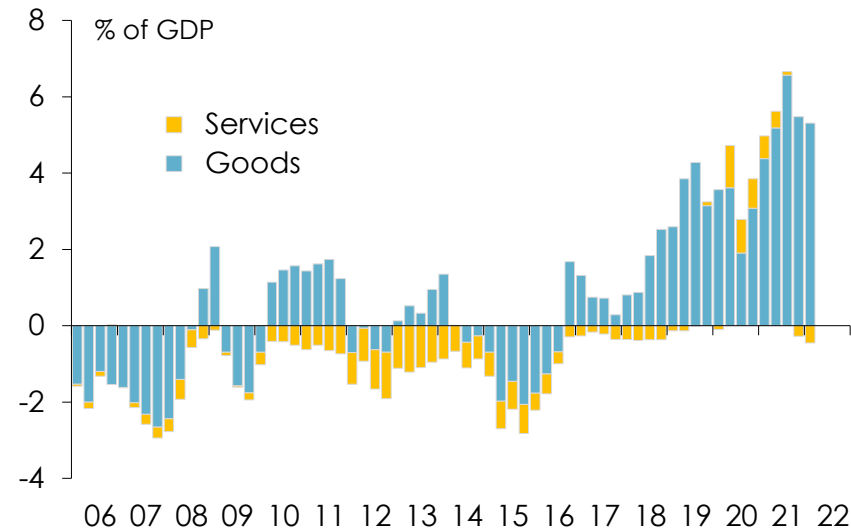
# Australia's Q1 current account surplus was the smallest since Q4 2019, with an 8% surge in import volumes outweighing a 6% terms of trade gain

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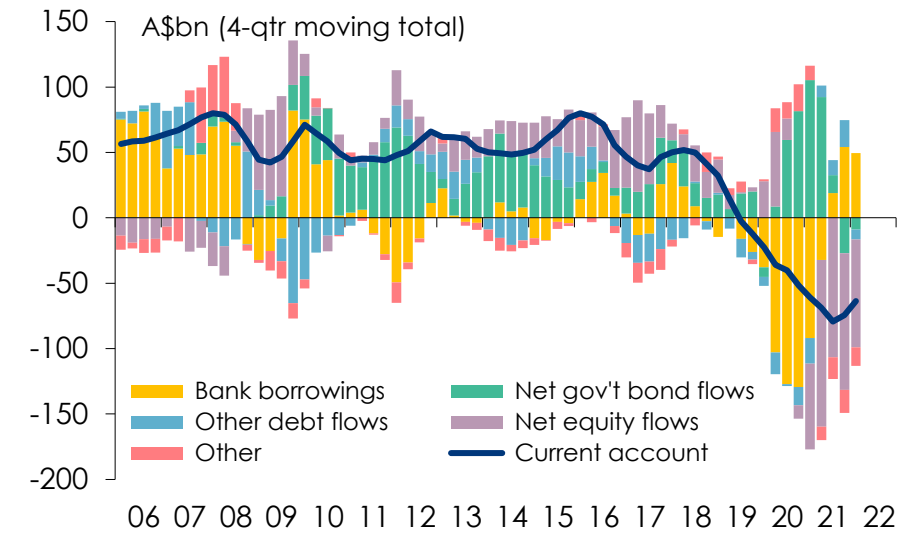
## Export and import volumes



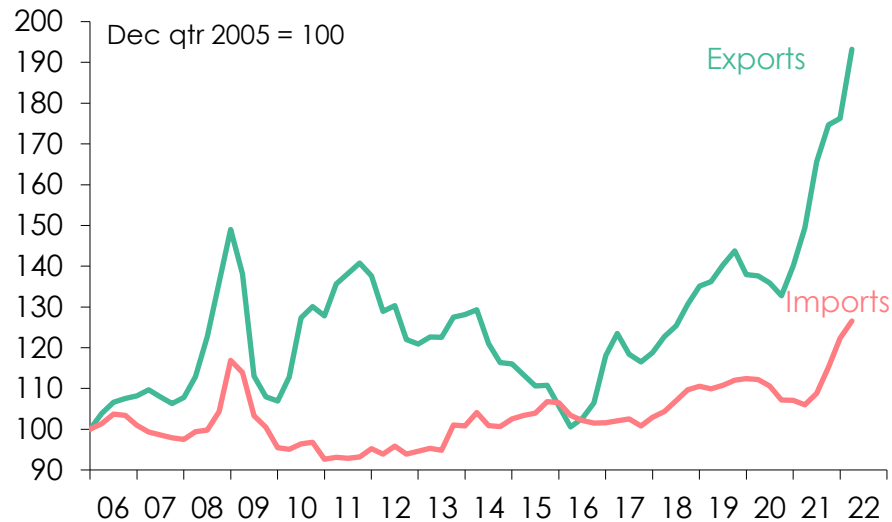
## Goods & services trade balances



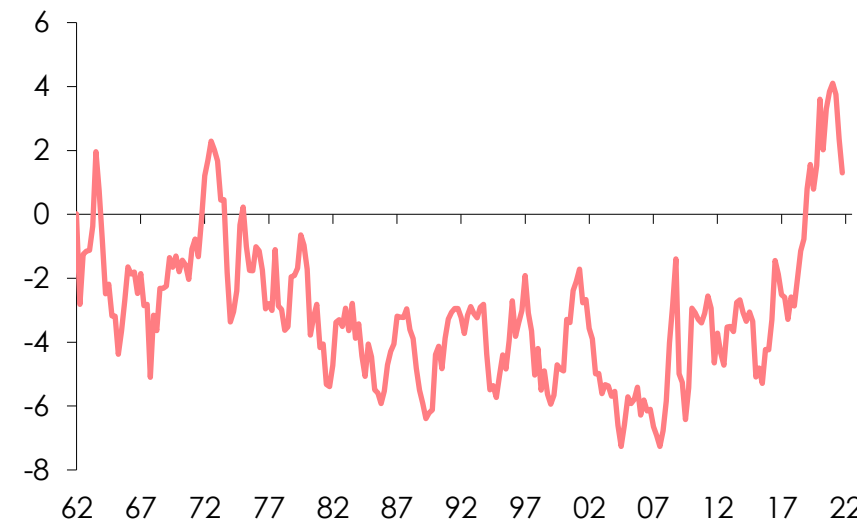
## Capital flows



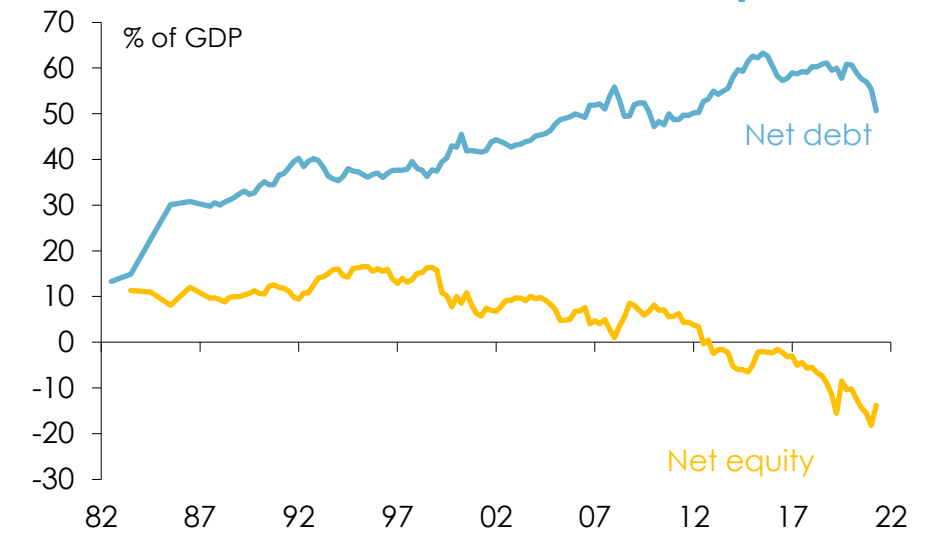
## Export and import prices



## Current account balance



## Net international investment position



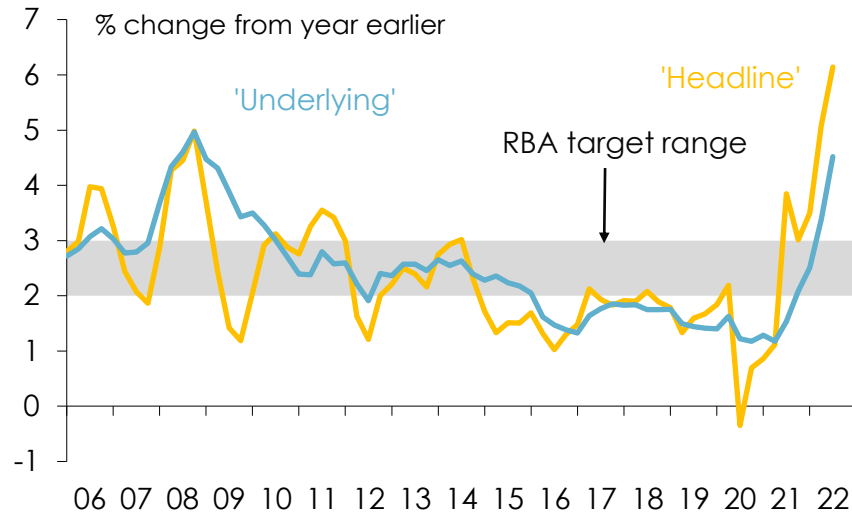
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

# Inflation

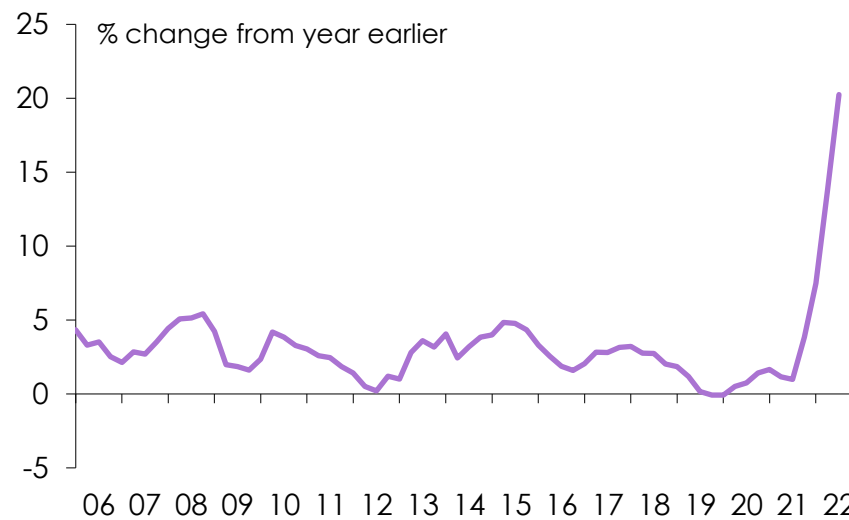
# The CPI rose 1.8% in Q2, pushing the annual 'headline' inflation rate up to 6.1% (the highest since Q4 1990), while the 'underlying' rate rose to 4.9%

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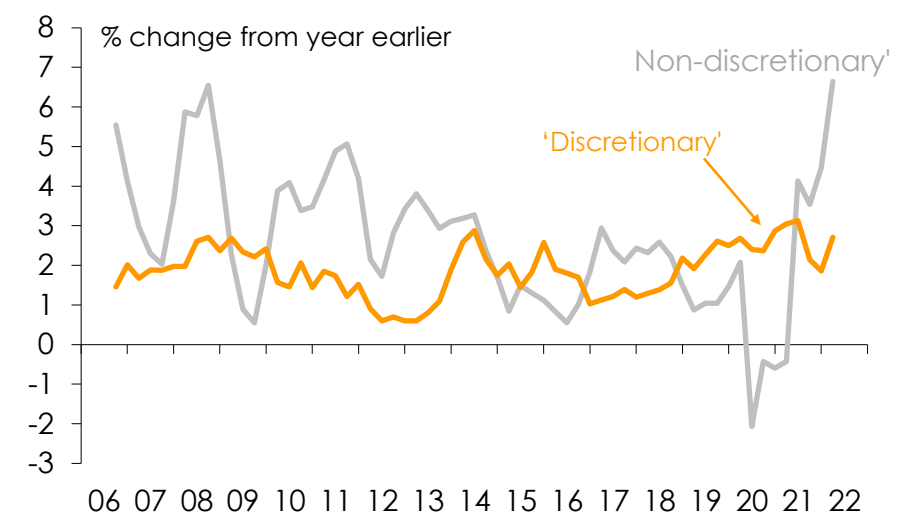
## Consumer prices – annual change



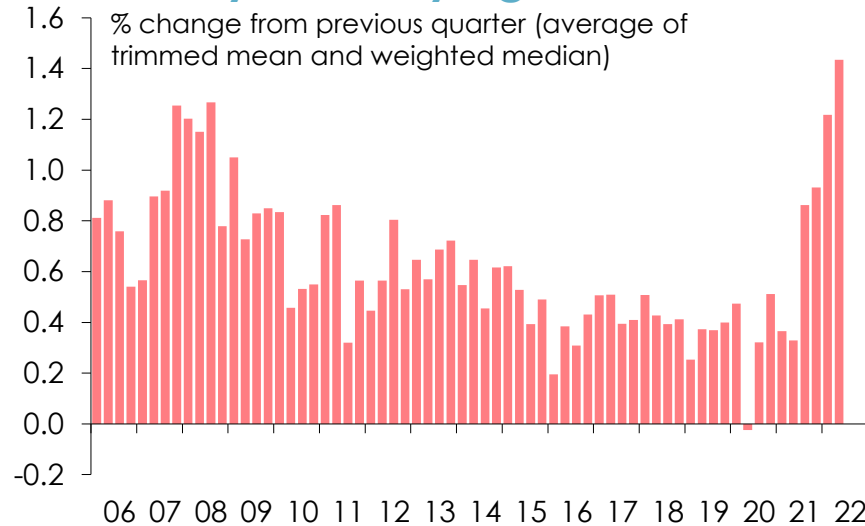
## New dwelling purchase costs



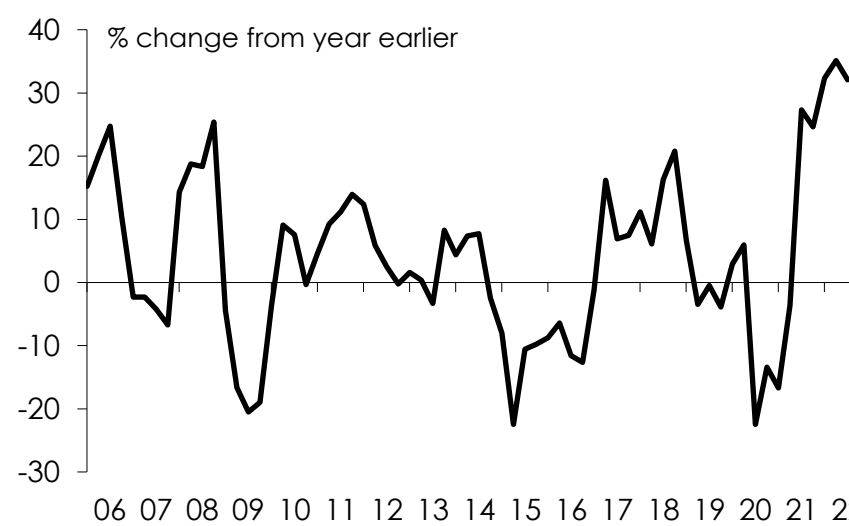
## 'Discretionary' vs 'essential' items



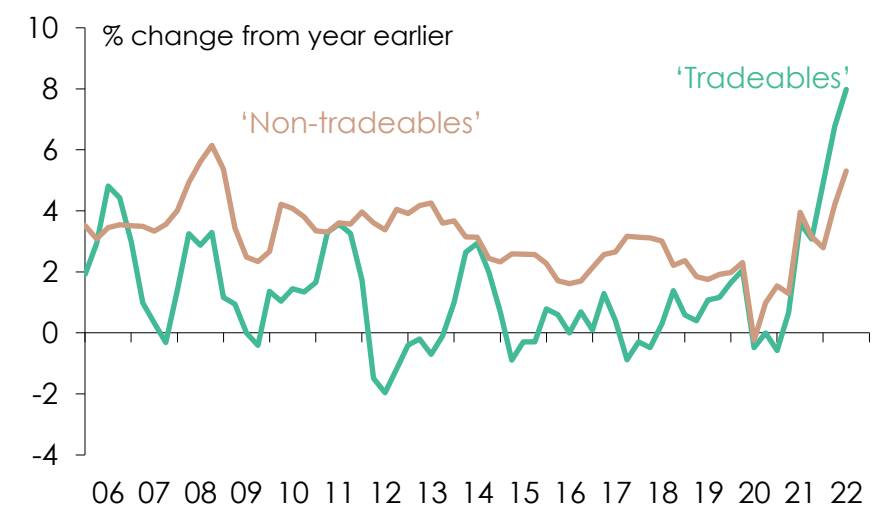
## Quarterly 'underlying' inflation



## Automotive fuel prices



## 'Tradeables' vs 'non-tradeables'

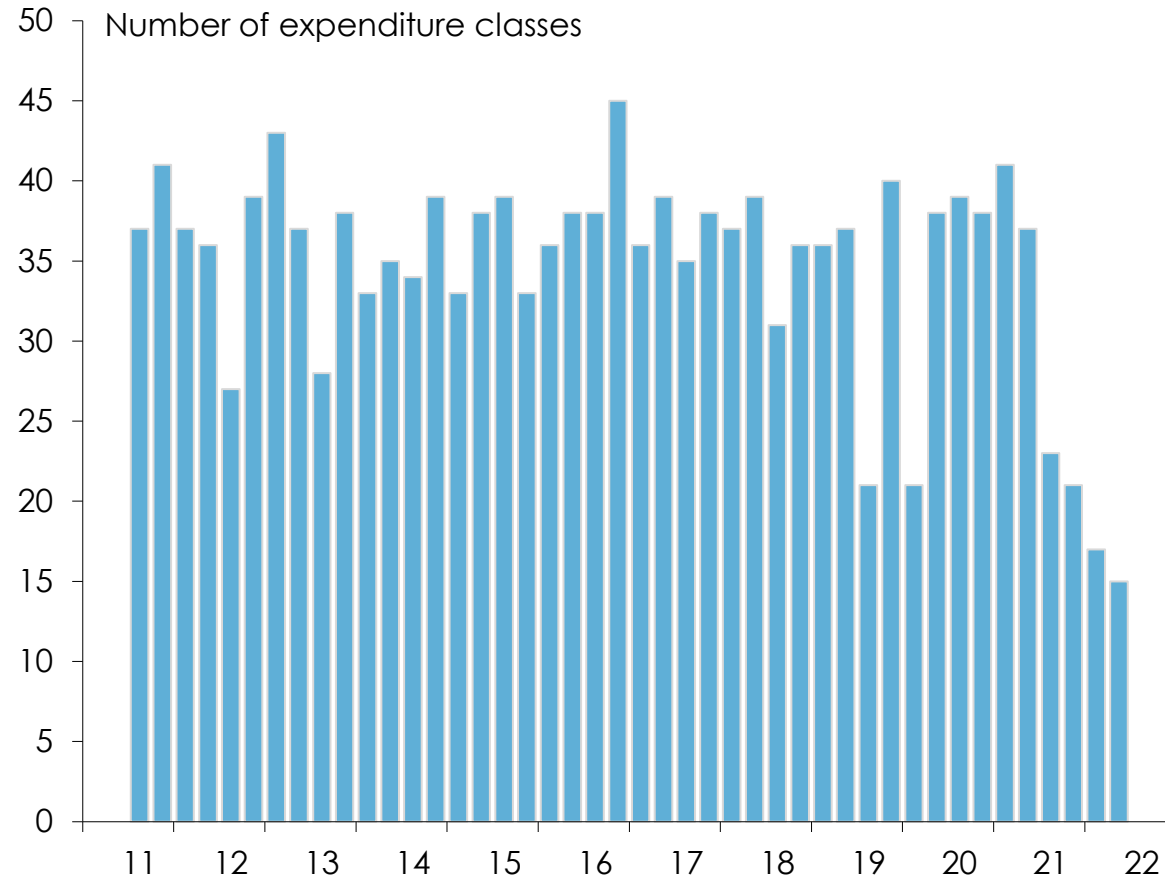


Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. For definitions of 'discretionary' and 'non-discretionary' items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), June quarter 2022 (September quarter CPI will be released on 26<sup>th</sup> October). [Return to "What's New"](#).

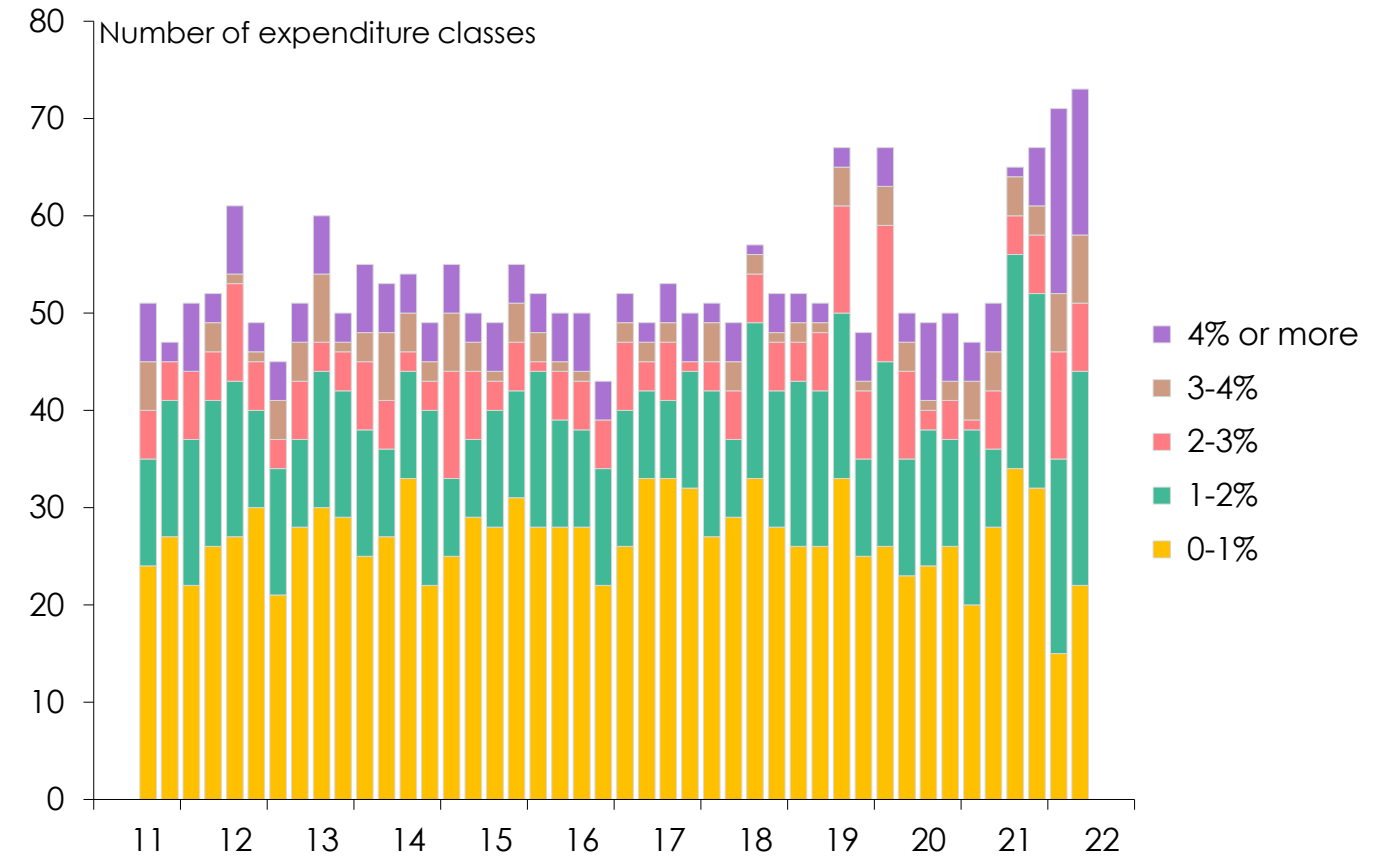
# Price increases have become much more broadly-based since the second half of last year

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## 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 15 of the 90 ‘expenditure classes’ in the CPI saw falls in prices in the June quarter – the lowest number in at least 10 years

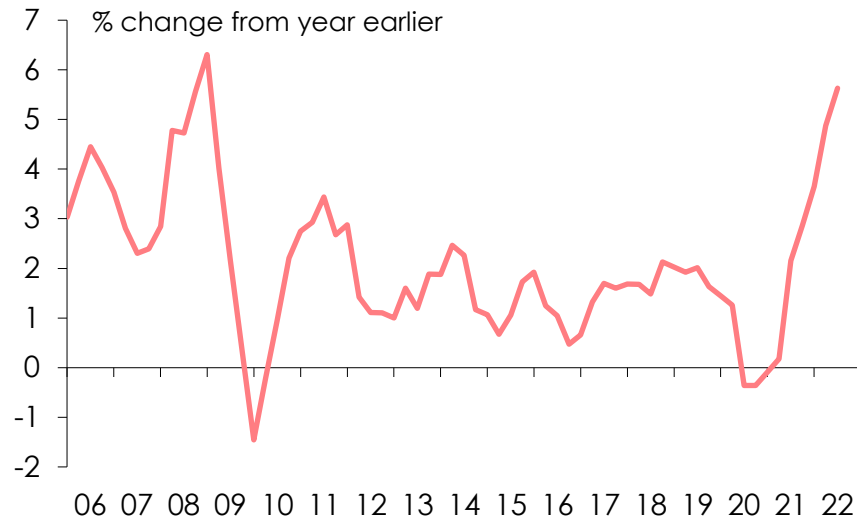
❑ 73 of the 90 ‘expenditure classes’ in the CPI recorded price rises in the June quarter – the highest in at least 10 years – with 15 registering price increases of over 4\$



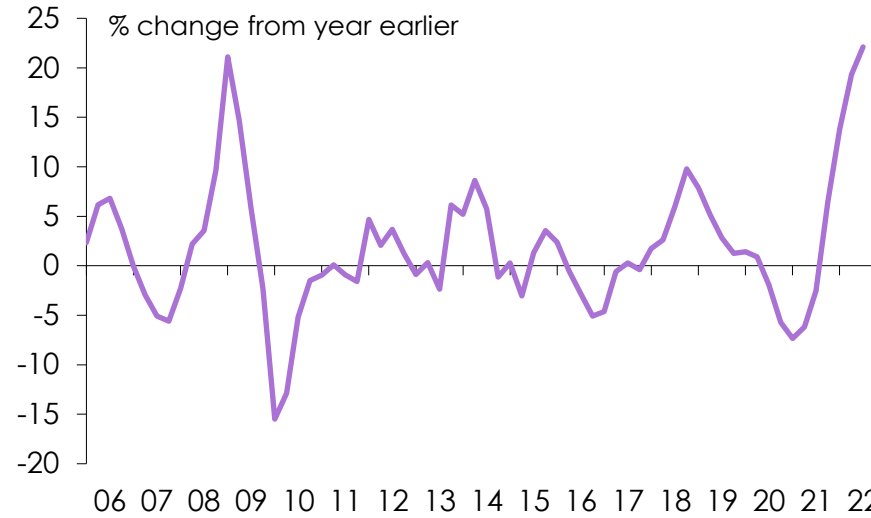
# Imported material prices and domestic residential & non-residential construction costs continued rising sharply in the June quarter

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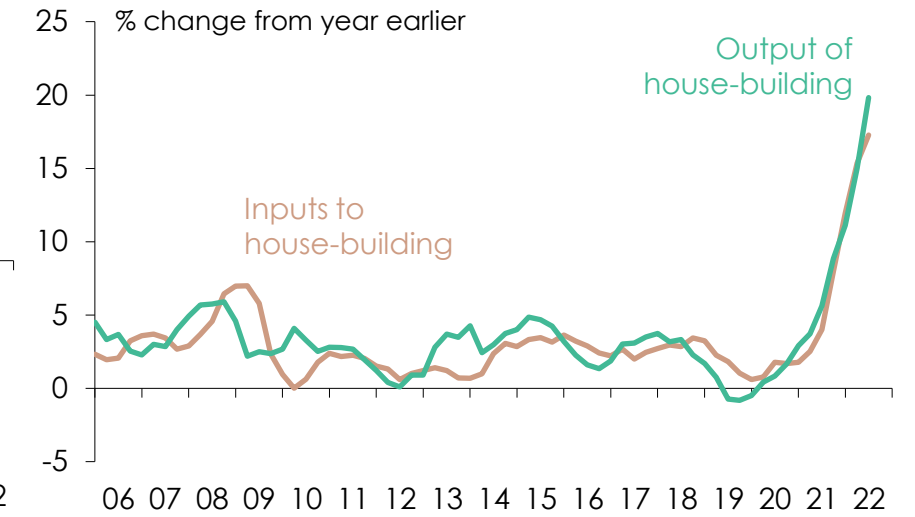
## Producer price index



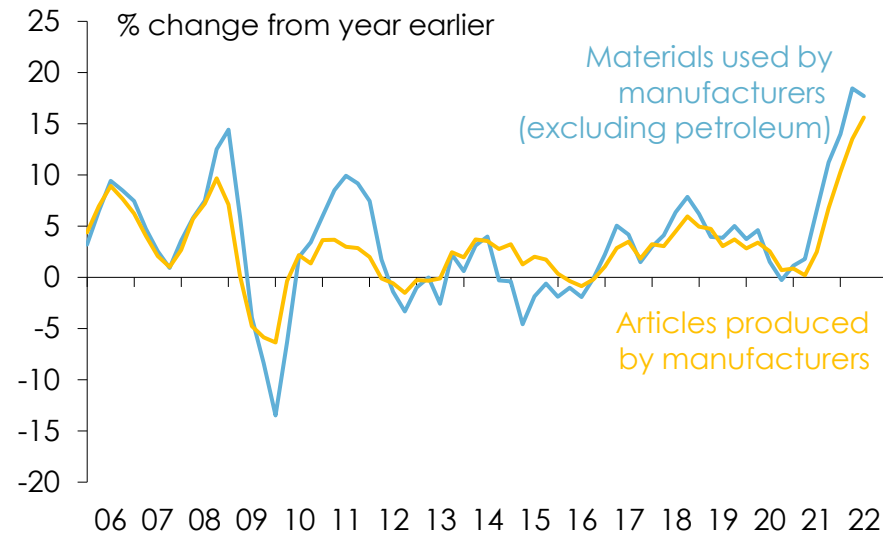
## Import price index



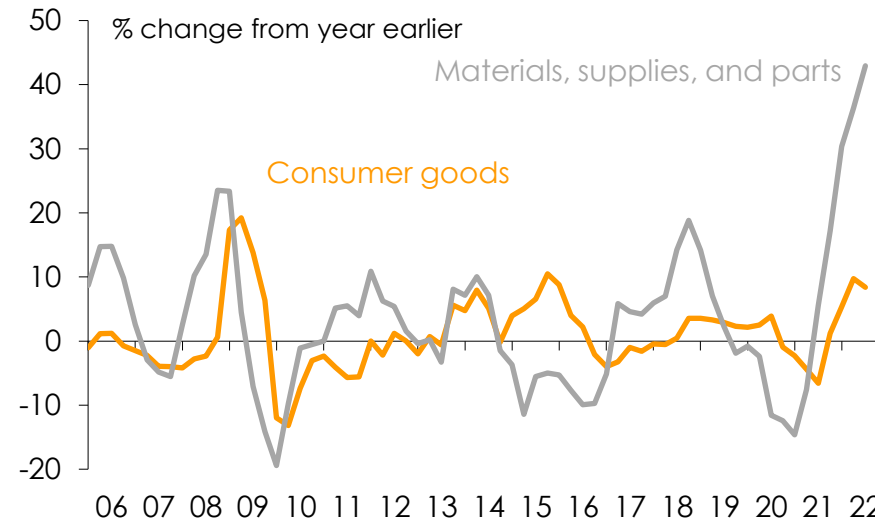
## Construction input & output prices



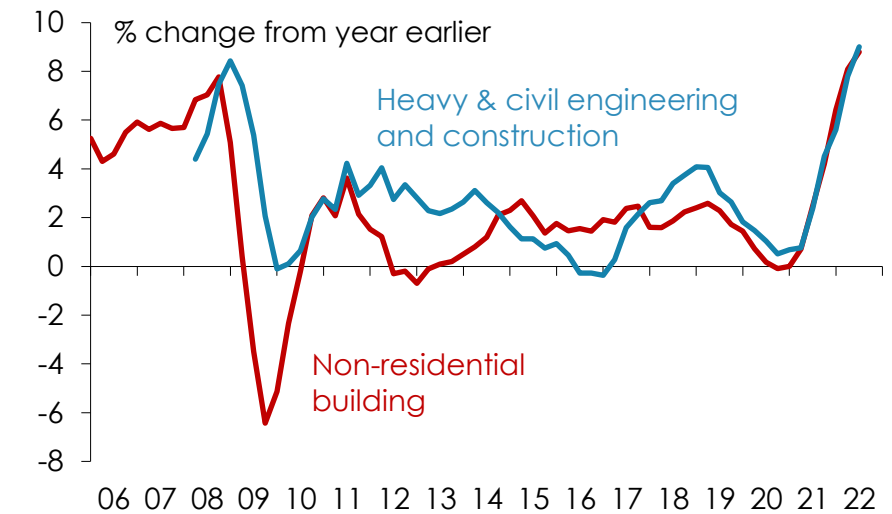
## Manufacturing input & output prices



## Imported consumer goods prices



## Non-residential construction prices

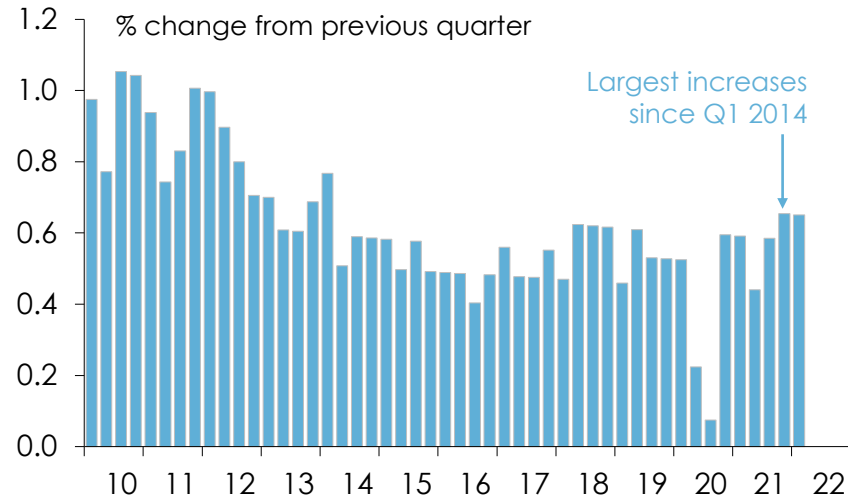


Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), June quarter 2022. September quarter import and producer price indices will be released on 27<sup>th</sup> and 28<sup>th</sup> October, respectively. [Return to "What's New"](#).

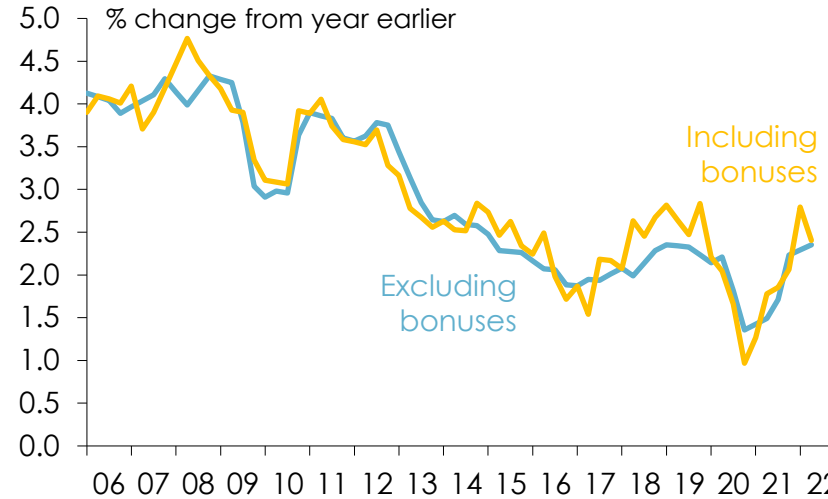
# Wages growth as measured by the wage price index remained sluggish up to the March quarter but the RBA thinks it has picked up since then

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## Wage price index excluding bonuses



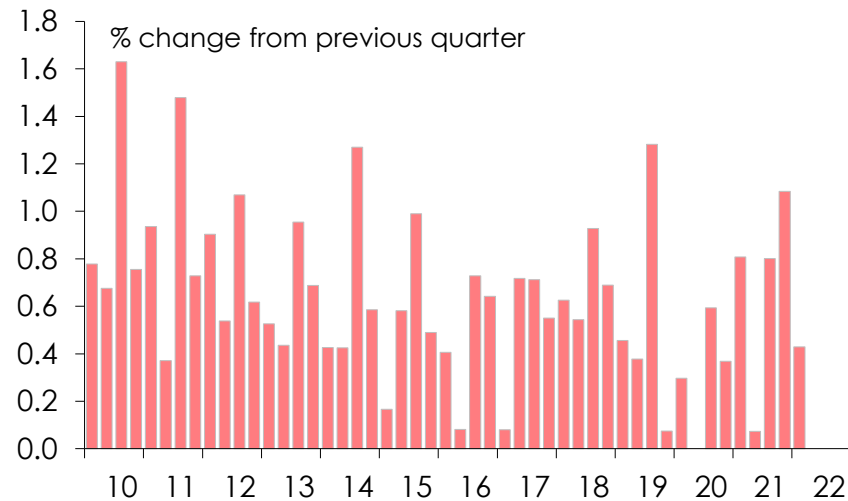
## Wage price index – all sectors



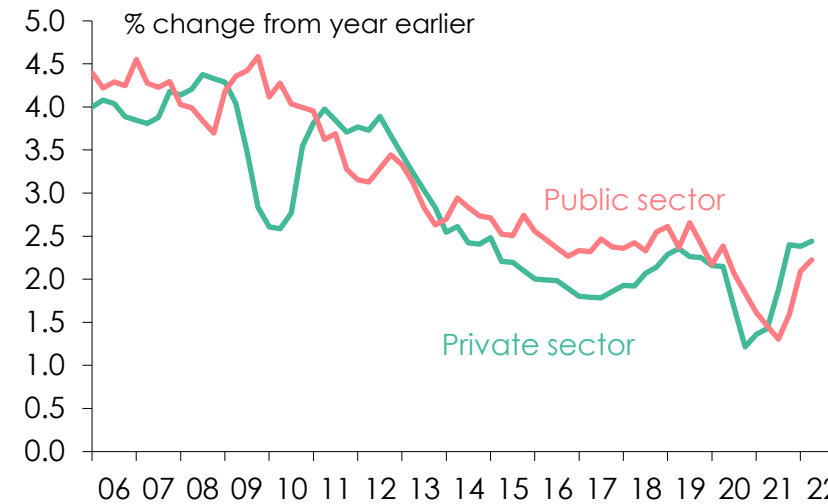
## Distribution of wages growth



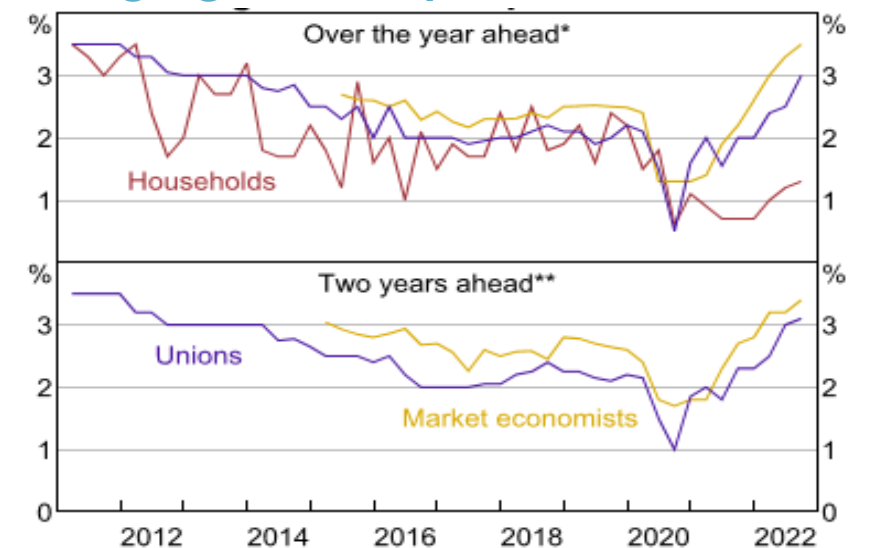
## Wage price index including bonuses



## WPI – private vs public sectors



## Wage growth expectations



Sources: ABS, [Wage Price Index, Australia](#), March quarter 2022; June quarter WPI data will be released on 17<sup>th</sup> August; Reserve Bank of Australia, [Statement on Monetary Policy](#), 5<sup>th</sup> August 2022. [Return to "What's New"](#).

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

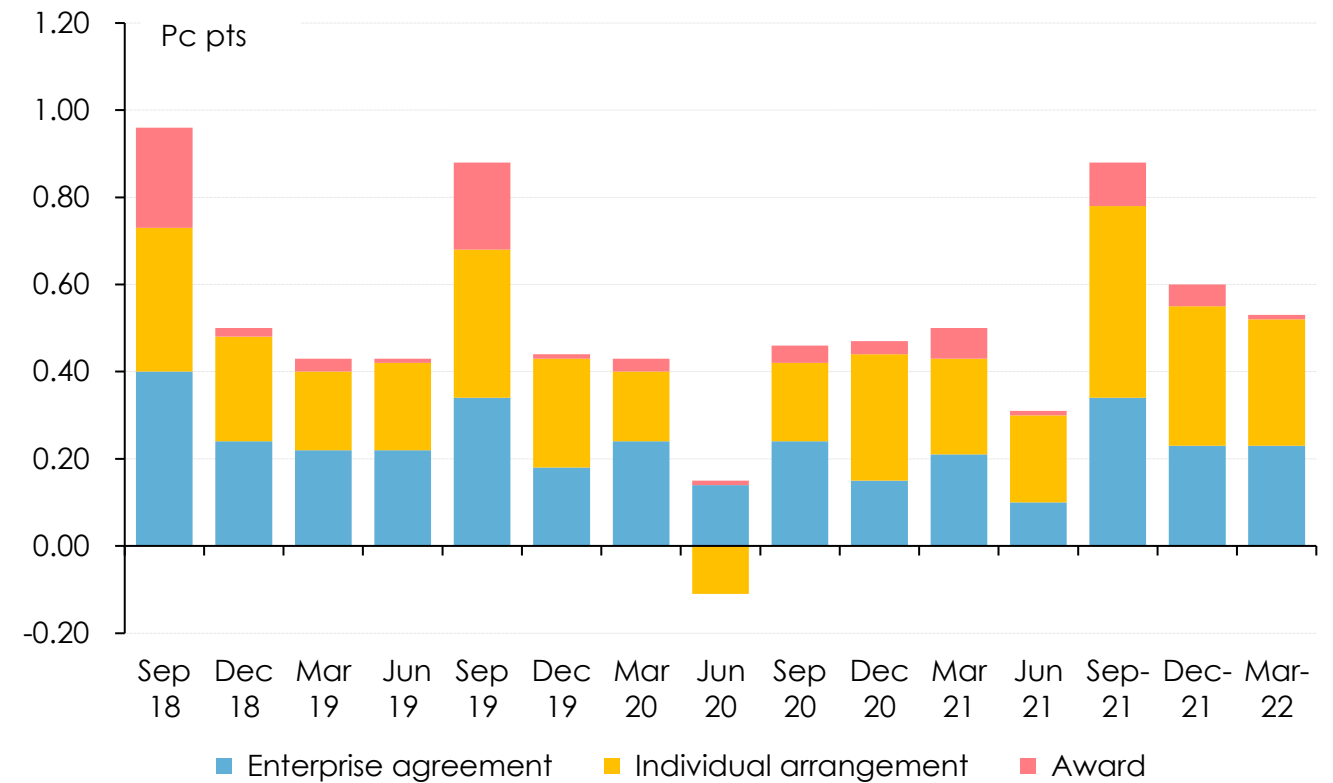
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## Increase in wage price index over year to Q1 by sector



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

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



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

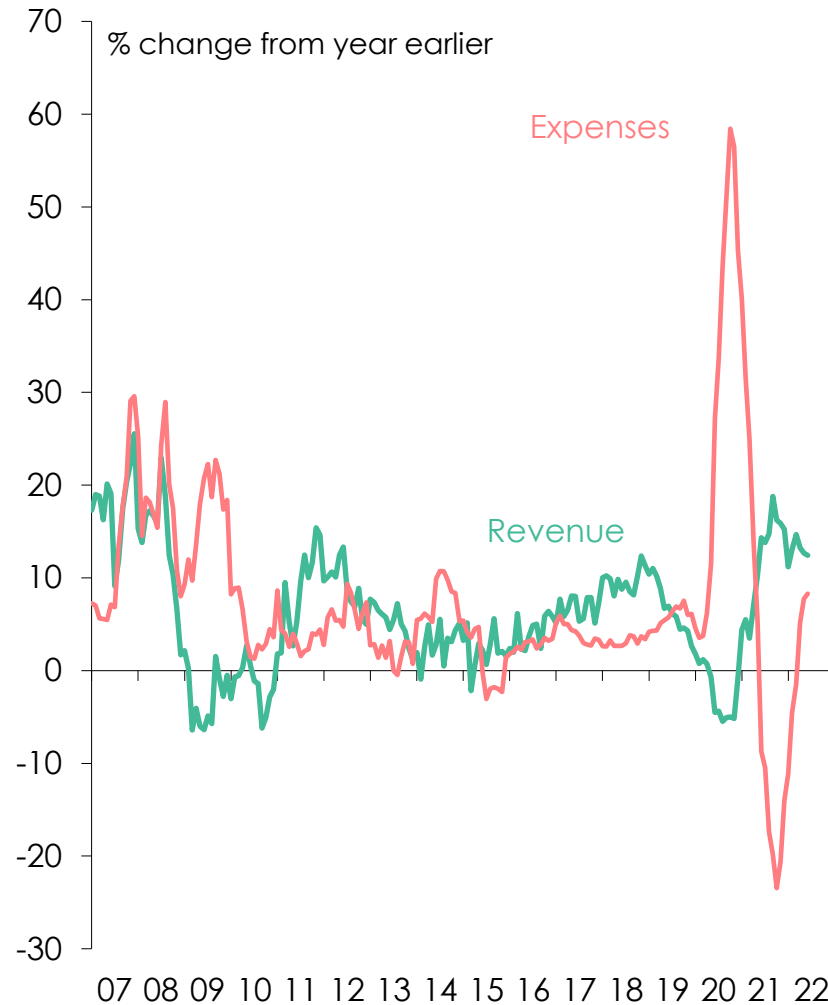
Sources: ABS, [Wage Price Index, Australia](#), March 2022; June quarter WPI data will be released on 17<sup>th</sup> August. [Return to "What's New"](#).

# Fiscal policy

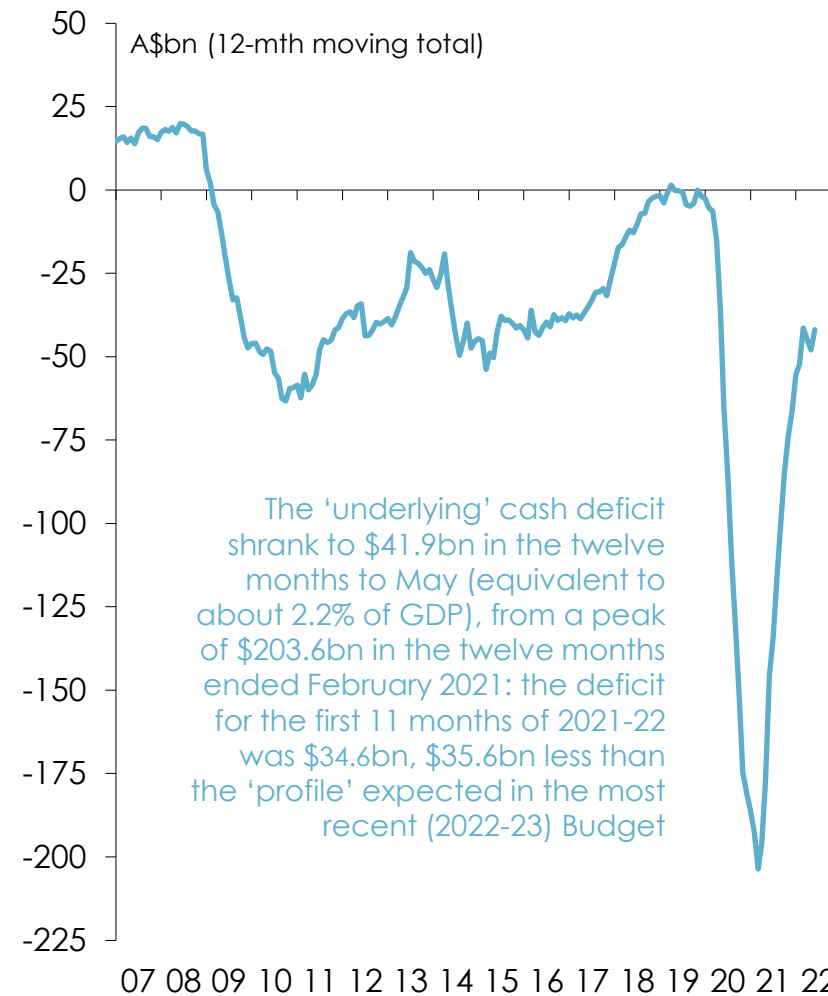
# The Federal budget deficit has declined sharply since peaking early last year – with net debt down by \$85bn from its peak last August

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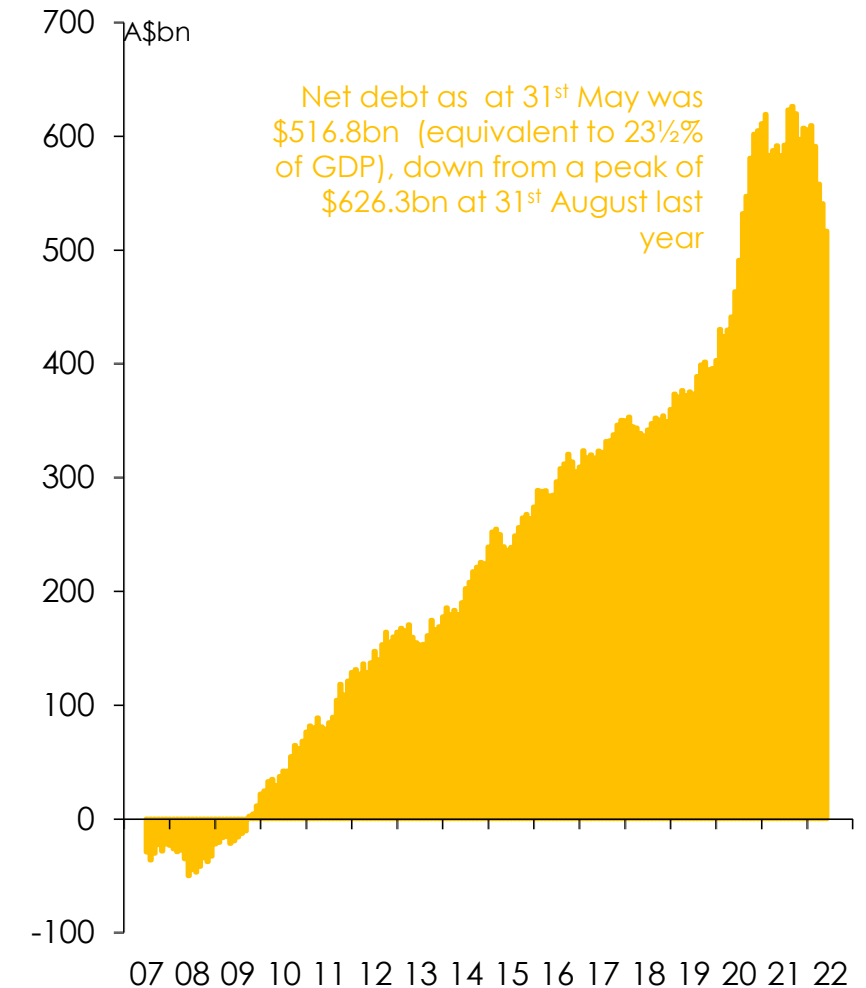
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt



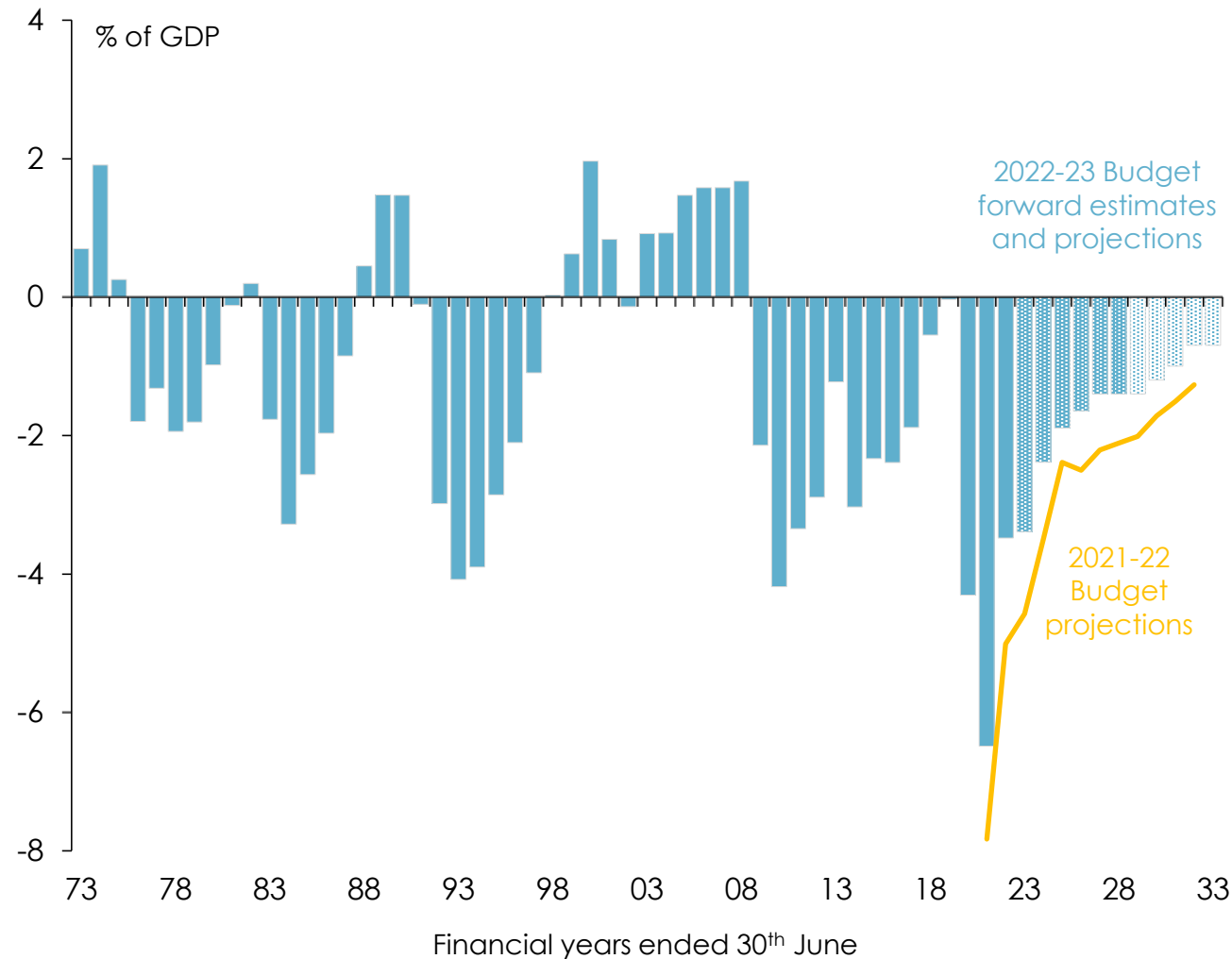
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

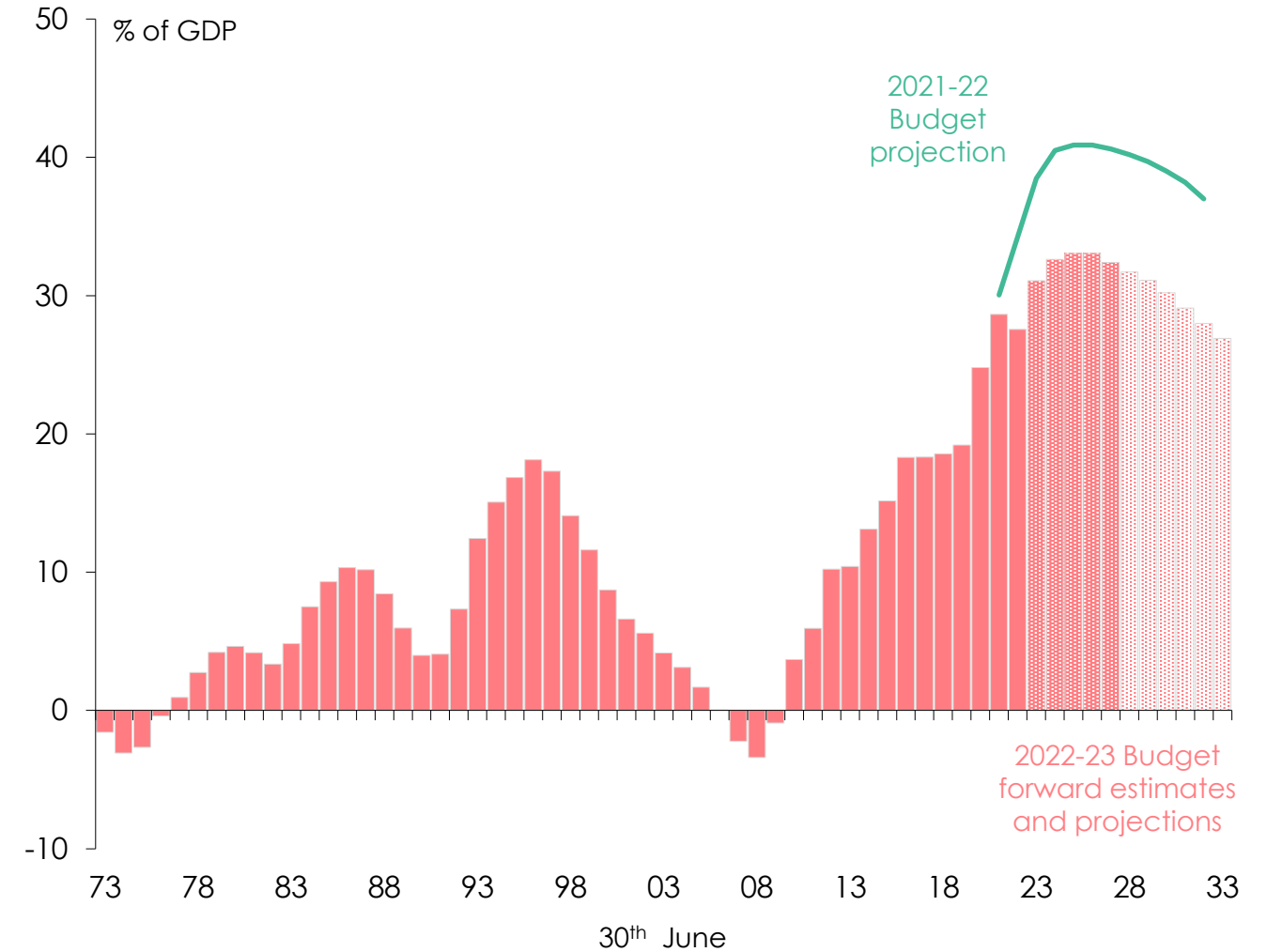
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## 'Medium-term' projections of the 'underlying cash balance' and net debt

### 'Underlying' cash balance



### Net debt



Source: Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 3](#) and [Statement No. 10](#), 29<sup>th</sup> 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 just after the election

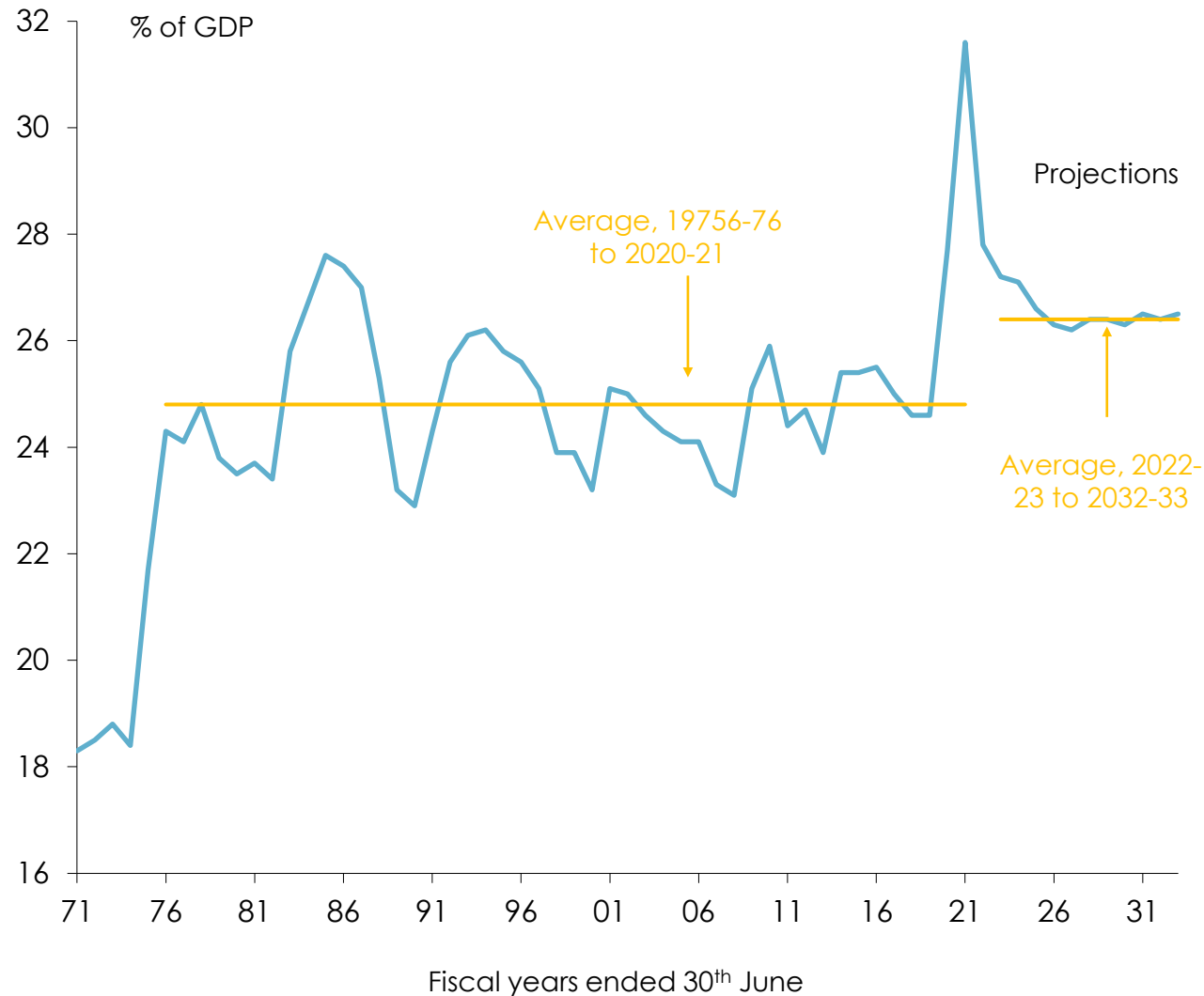
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- ❑ Treasury Secretary Dr Steven Kennedy made three important points about the medium-term fiscal outlook in a [speech](#) to business economists on 8<sup>th</sup> June
- ❑ First, he highlighted that “commitments to additional structural spending and 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”

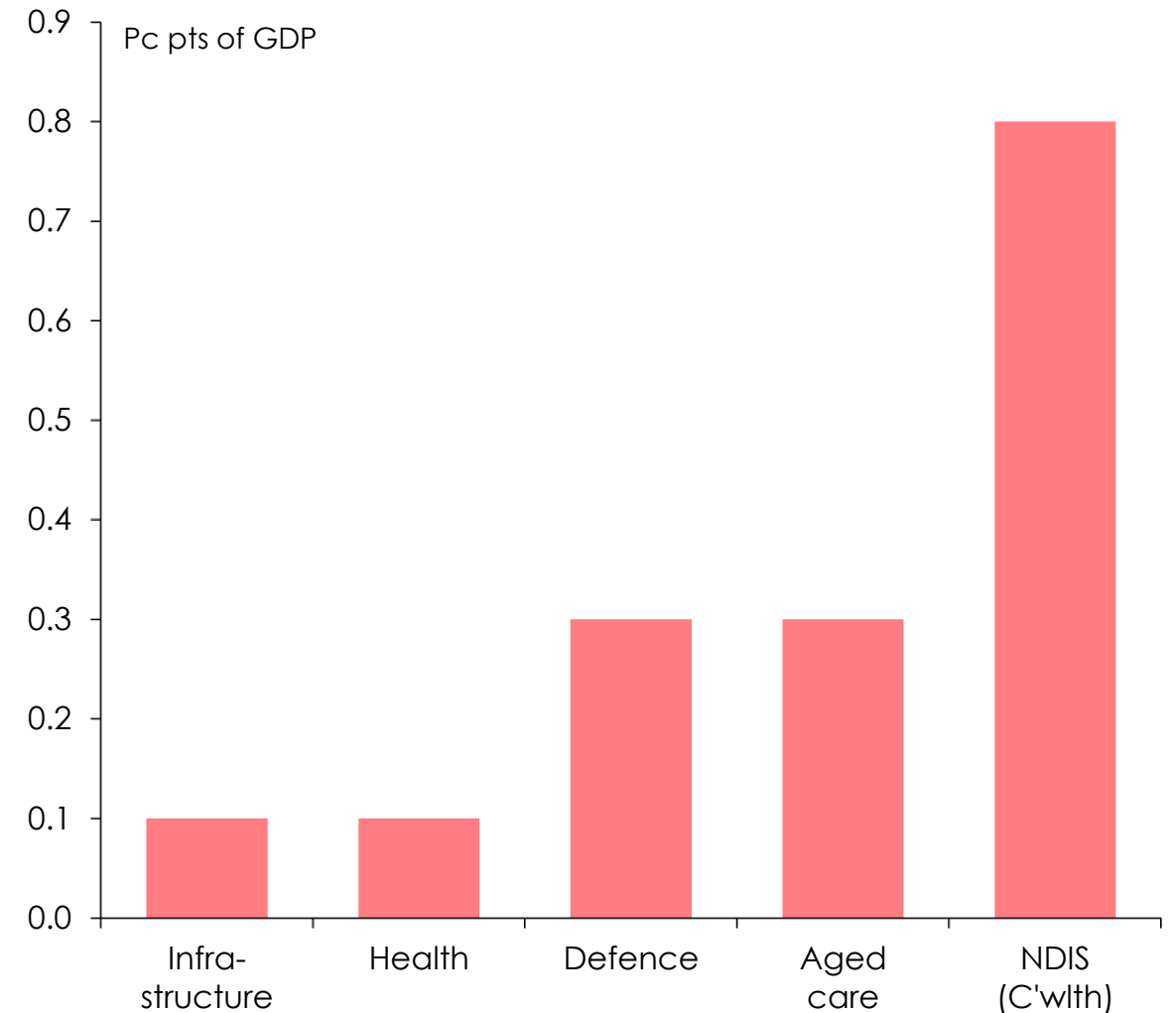
# Federal Government spending seems likely to be around 1½ pc pts of GDP higher over the next decade than over the past 45 years

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



## Changes in payments between 2018-19 and 2025-26



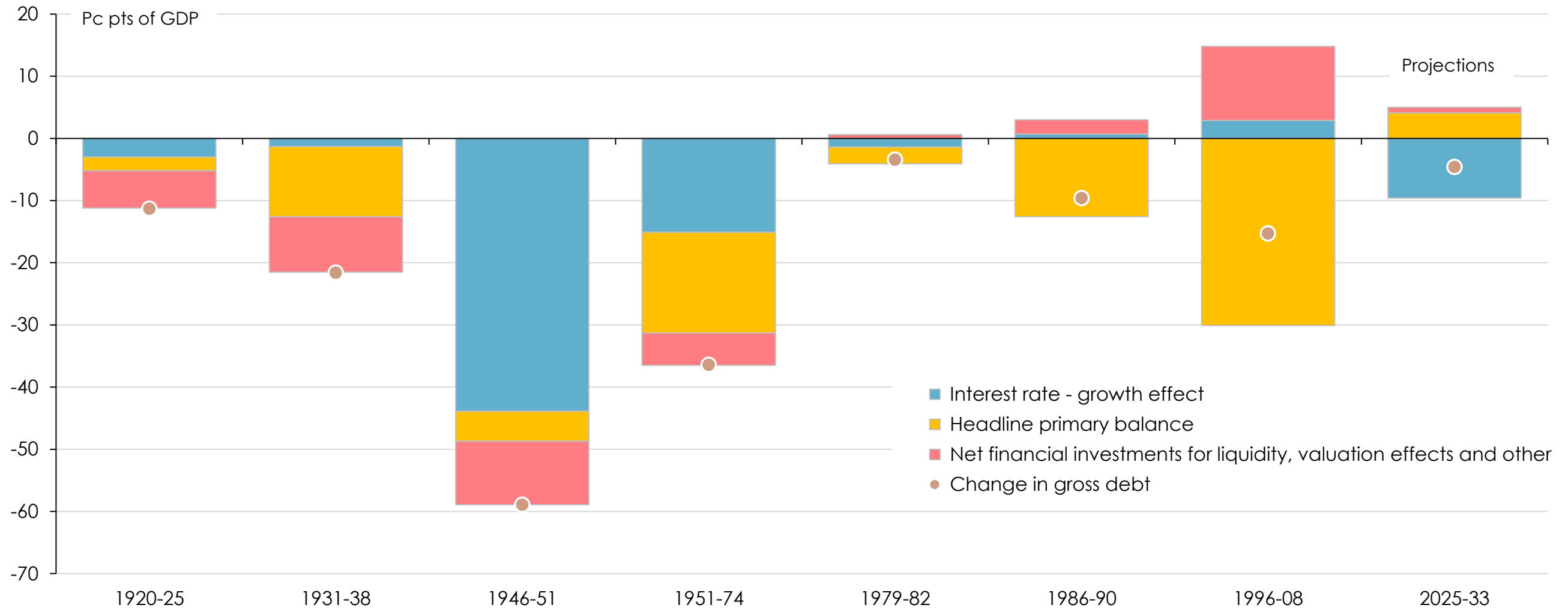
Note: Averages for government spending as pc of GDP exclude temporary Covid support measures since 2019-20. Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8<sup>th</sup> June 2022.



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

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



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

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

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

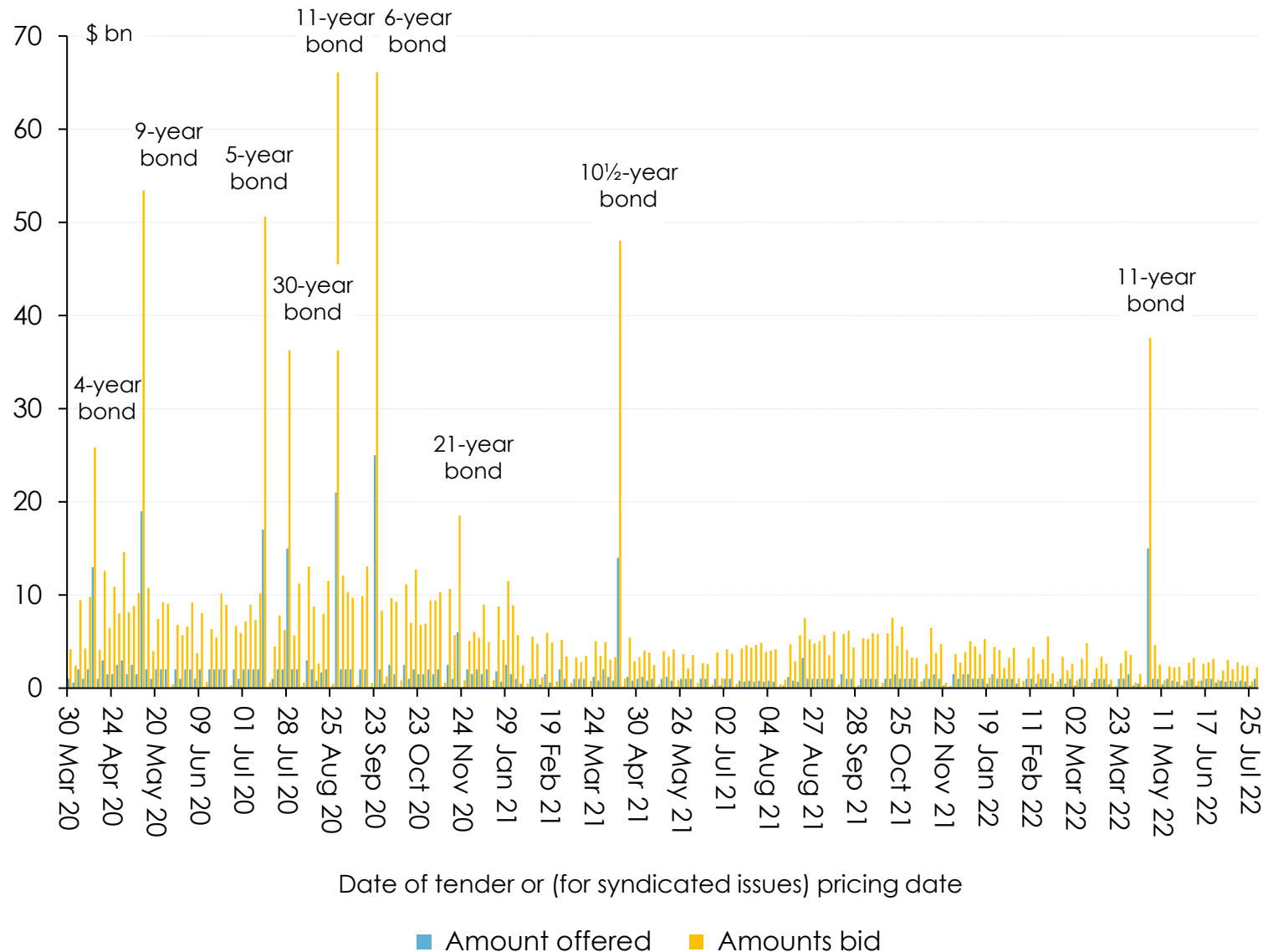


Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8<sup>th</sup> June 2022.

# The Government continues to have no trouble selling new debt, and during the past two weeks yields have been lower than at previous offerings

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## Australian government bond issuance since March 2020



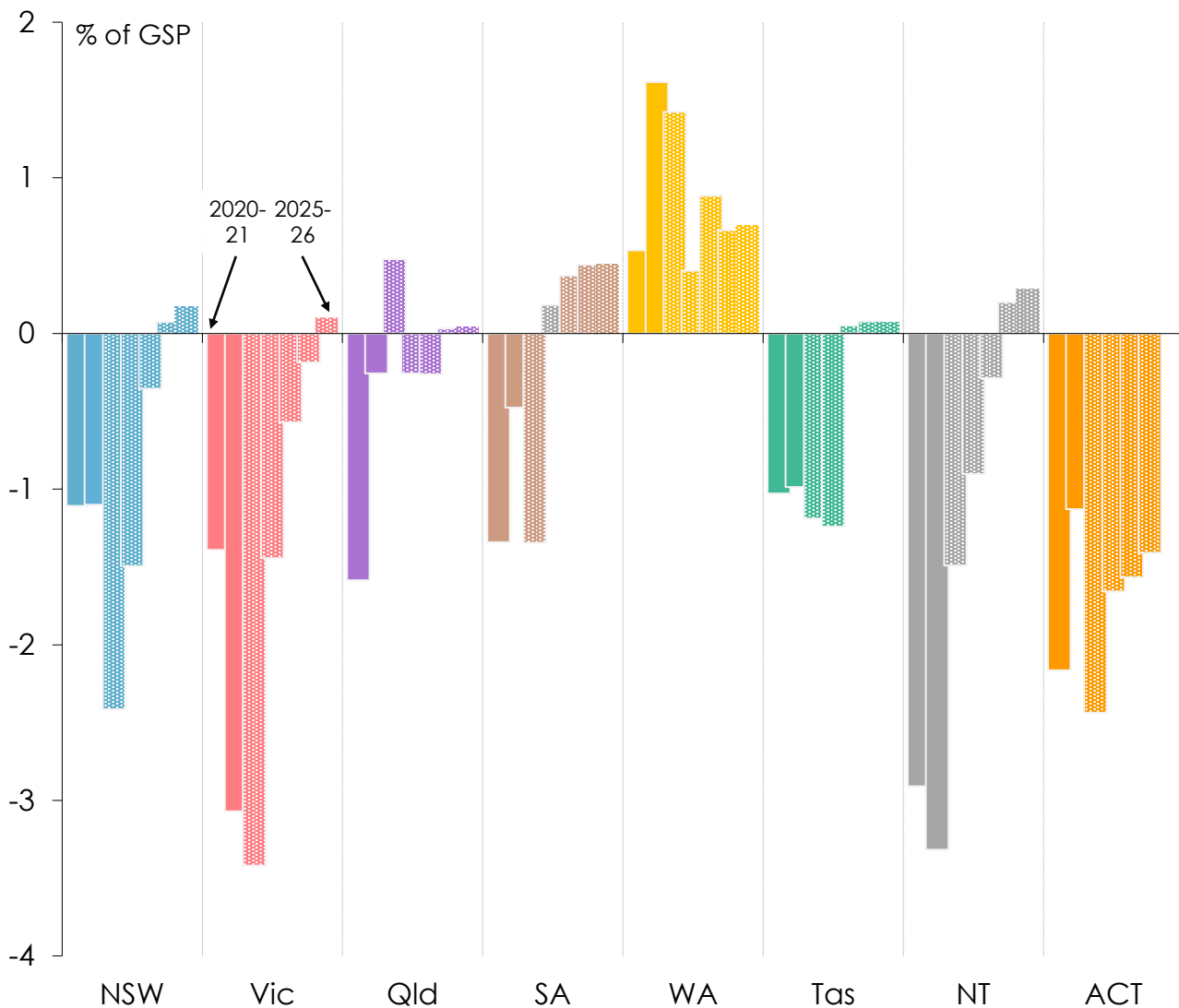
- ❑ The AOFM continues to have no difficulty issuing new debt, but the ‘coverage ratio’ (the ratio of bids received to bonds offered) at tenders has slipped from 4.3x in the first seven months of 2021-22 to about 2¾x since mid-March
- ❑ Over the past three months, most bond auctions have gone off at higher yields than when the same bonds were issued previously – but that has changed in the past two weeks
- ❑ This week AOFM sold \$700mn of April 2027s at an average yield of 2.86%
  - that was down from 3.15% when these bonds were last offered in mid-July, and 2.98% when offered in mid-May
- ❑ AOFM also sold \$800mn of November 2032s at an average yield of 3.09%
  - that was also down from 3.42% when these bonds were offered in mid-July, and 3.49% in mid-May, though well above the 2.14% and 2.34% average yields when they were auctioned in early February and early March, respectively

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

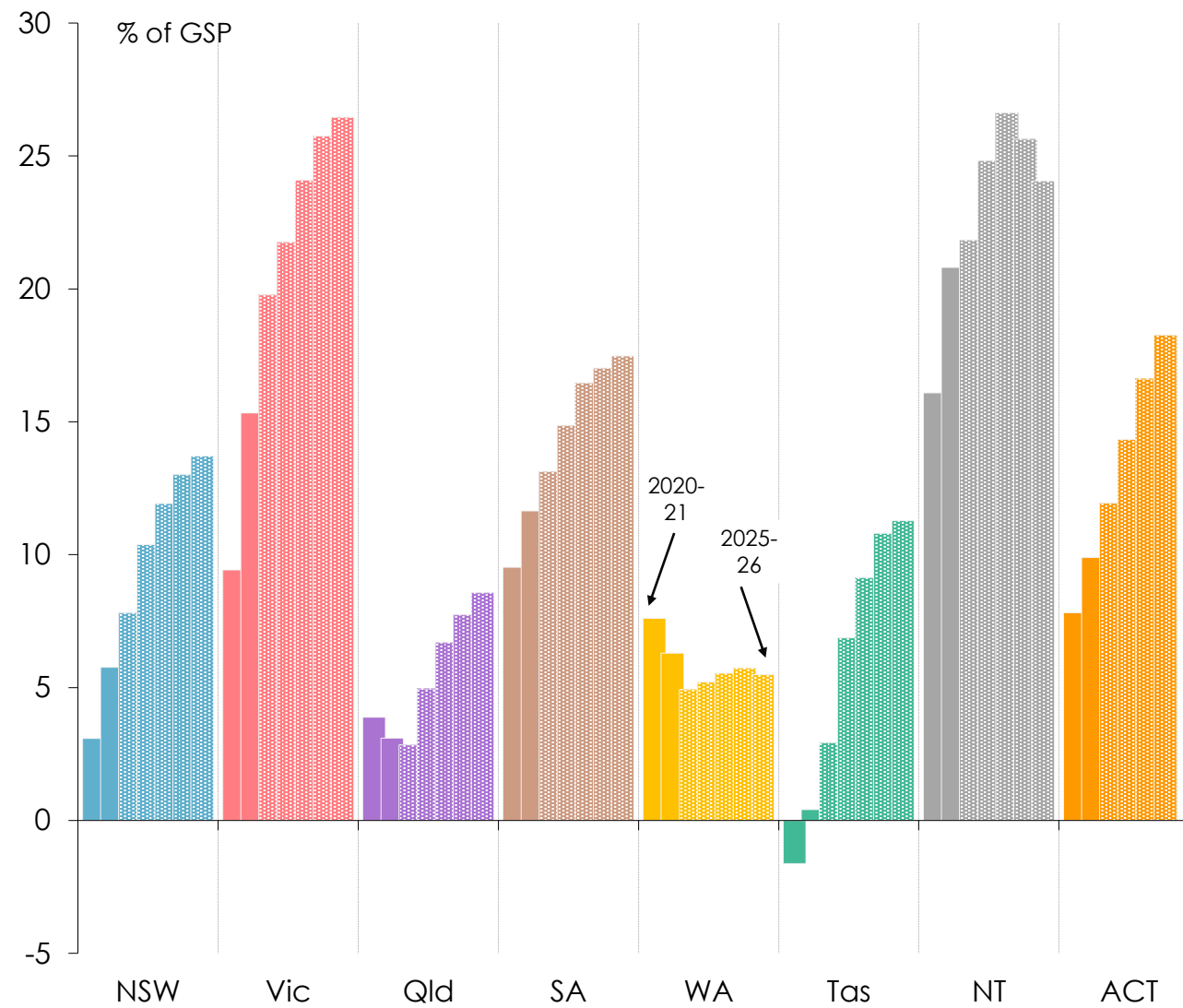
# Victoria and the Northern Territory have more onerous fiscal positions than the other jurisdictions

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## States and territories – ‘net operating balances’



## States and territories – net debt



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

# Monetary policy and the RBA

# The Government last month announced the composition and terms of reference of the Review of the Reserve Bank of Australia

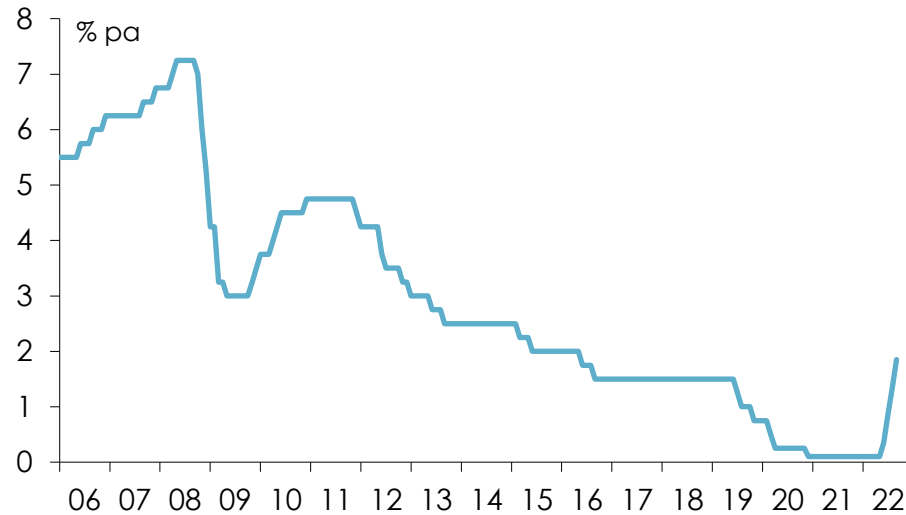
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- ❑ **Treasurer Jim Chalmers last month formally announced details of the Review of the Reserve Bank of Australia which the Government had foreshadowed during the election campaign**
- ❑ **The [Review Panel](#) will comprise three distinguished economists -**
  - 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**

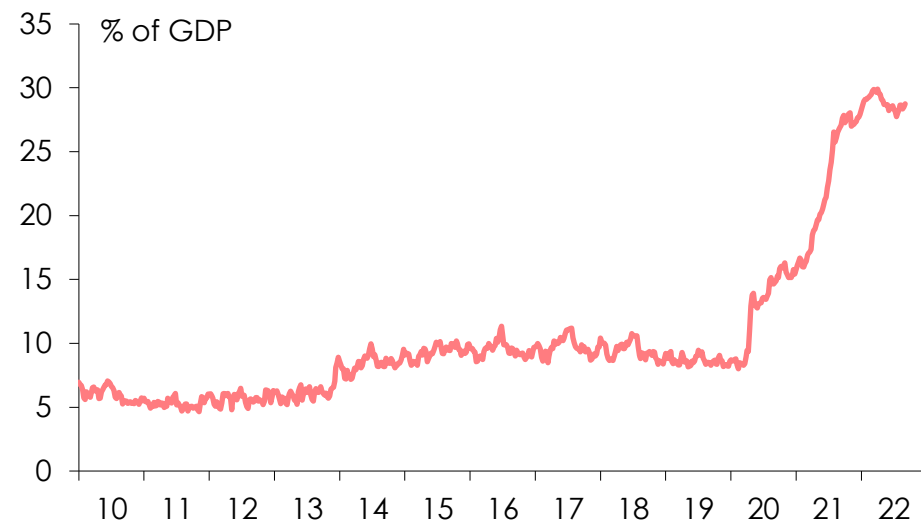
# As expected the RBA lifted its cash rate by another 50bp at Tuesday's Board meeting – and it isn't done yet

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## Reserve Bank cash rate



## Reserve Bank assets as a pc of GDP



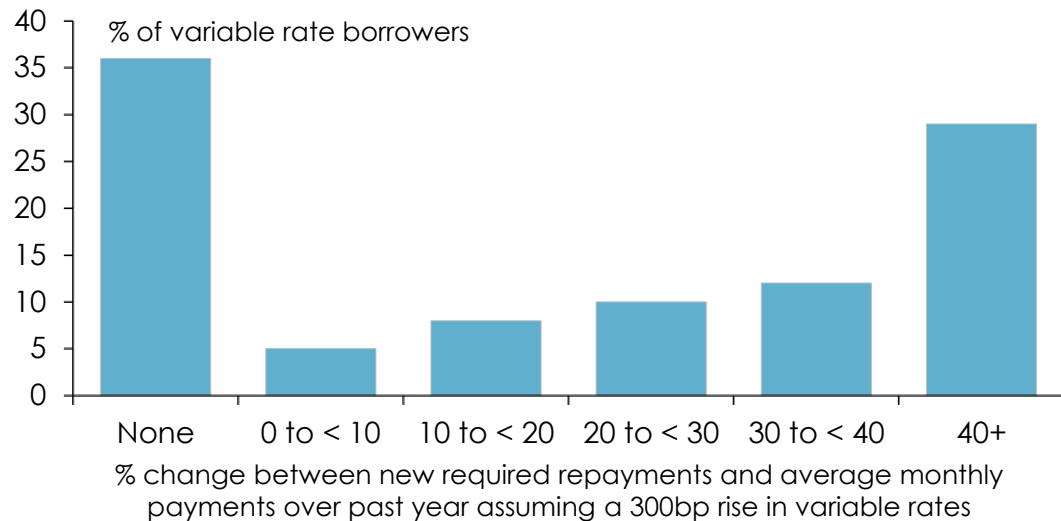
Source: Reserve Bank of Australia, [Statistical Tables A3](#) and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ The Reserve Bank raised its cash rate another 50 basis points, to 1.85%, at its Board meeting on Tuesday, the fourth increase in successive meetings and the third of 50 basis points
  - the cash rate has now risen by 175 basis points in four months, the fastest increase since 1994 (when the RBA raised its cash rate by 275 bp between August and November)
- ❑ In his [post-meeting statement](#), RBA Governor Philip Lowe characterized this week's decision as "a further step in the normalization of monetary conditions in Australia" which was "required to bring inflation back to target and to create a more sustainable balance of demand and supply in the Australian economy"
- ❑ He warned that the RBA "expects to take further steps in the process of normalizing monetary conditions over the months ahead"
  - but also emphasized that "it is not on a pre-set path" and that "the size and timing of future interest rate increases will be guided by the incoming data and the [RBA's] assessment of the outlook for inflation and the labour market"
- ❑ 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"
- ❑ It still seems likely that the cash rate will reach somewhere around 2½% (in practice, either 2.35% or 2.60%) by the end of this year, which would represent "neutral" stance for monetary policy, ie neither stimulating nor restraining aggregate demand

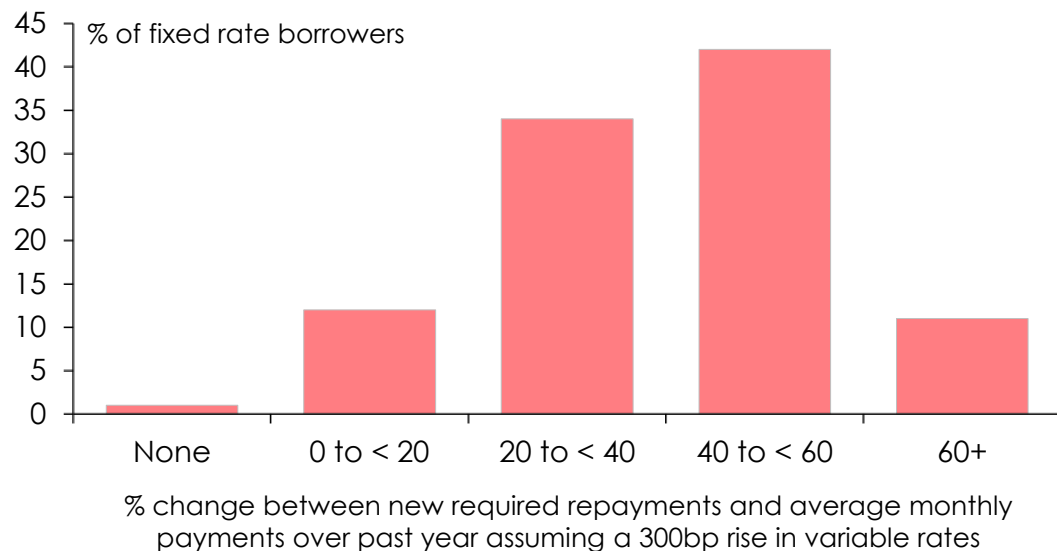
# The RBA's Deputy Governor is optimistic that “as a whole households are in a fairly good position” to cope with prospective increases in interest rates

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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](#) last month
- ❑ 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), 19<sup>th</sup> July 2022. [Return to "What's New"](#).

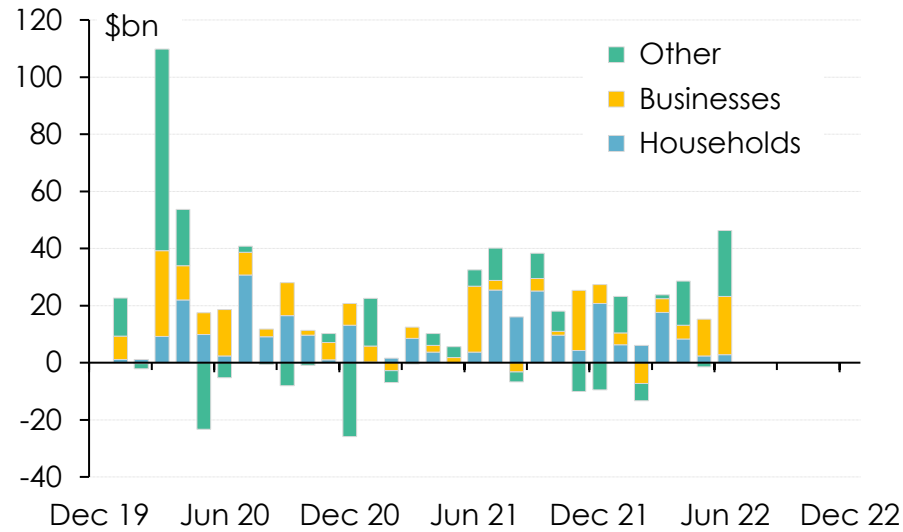
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CORINNA ECONOMIC ADVISORY  
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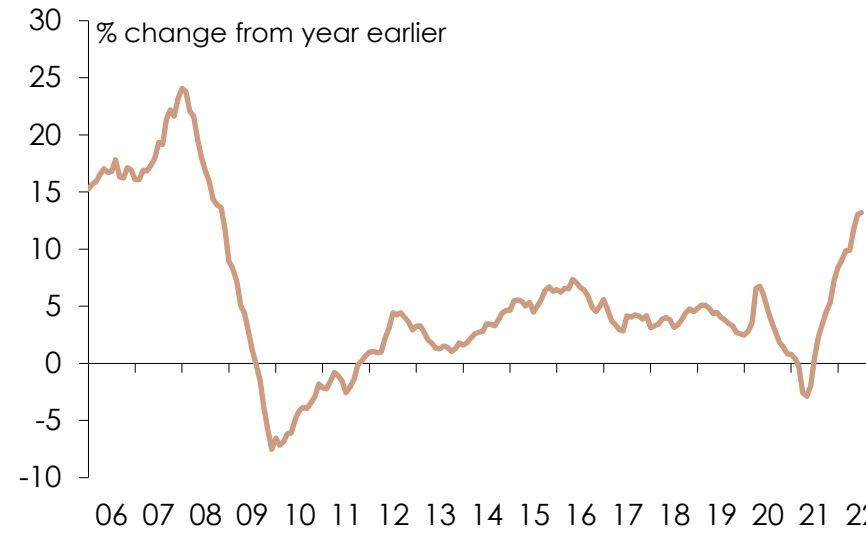
# Banks have been swamped with deposits since the beginning of the pandemic, and have lent readily to both households and businesses

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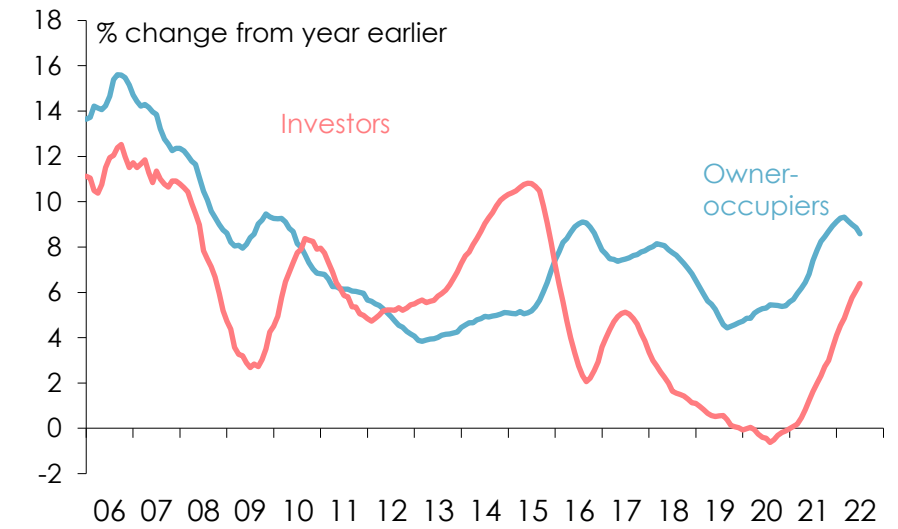
## Monthly change in bank deposits



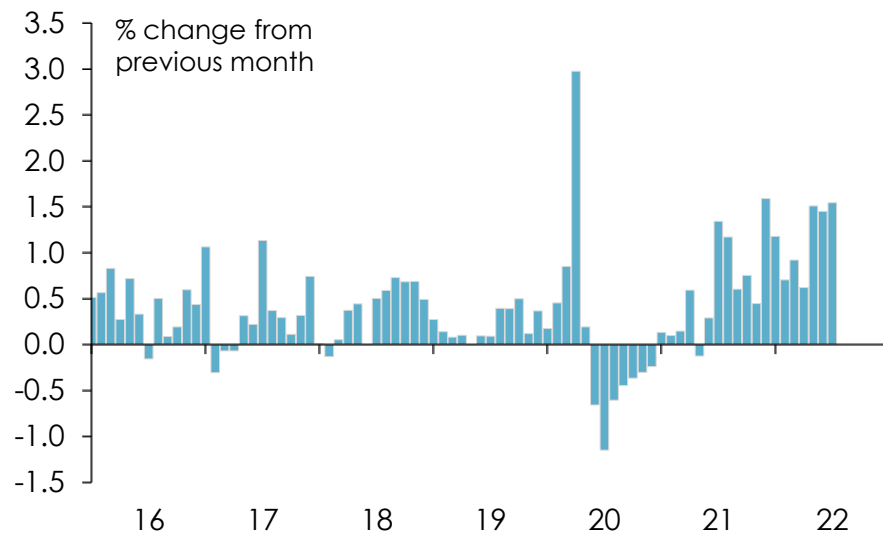
## Annual growth in business credit



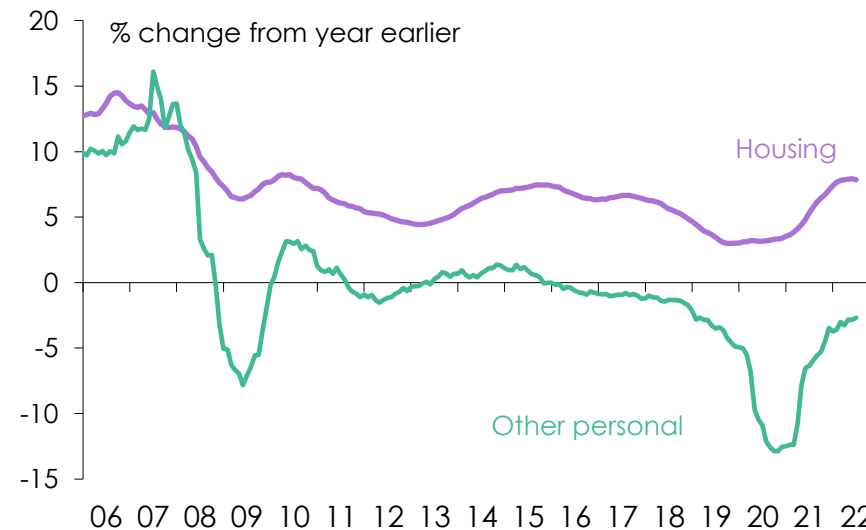
## Annual growth in housing credit



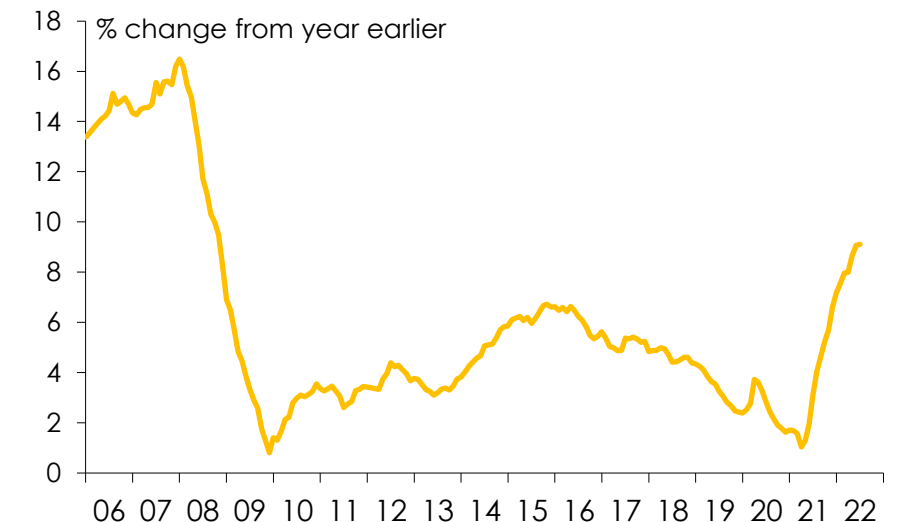
## Monthly change in business credit



## Annual growth in household credit



## Annual growth in total credit

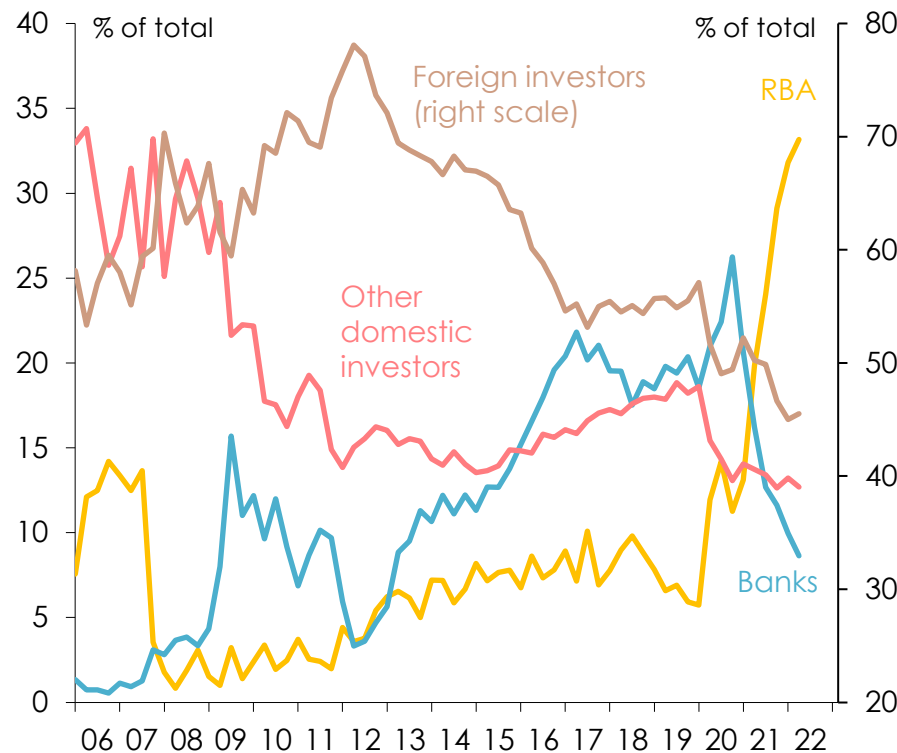


Sources: [Reserve Bank of Australia](#); [Australian Prudential Regulation Authority](#). [Return to "What's New"](#).

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

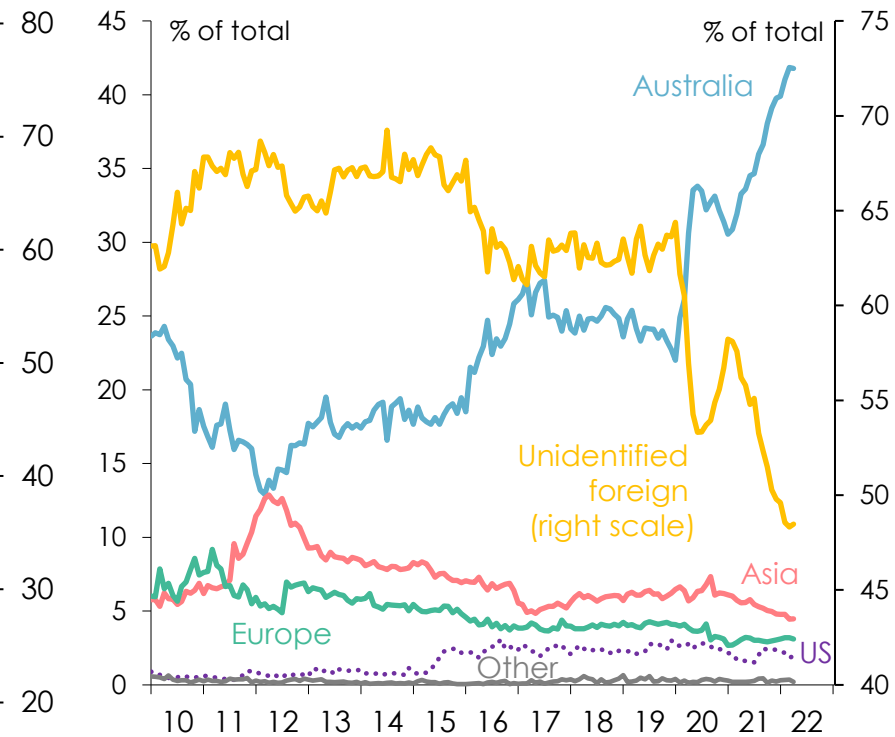
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## Holder of Australian Government bonds



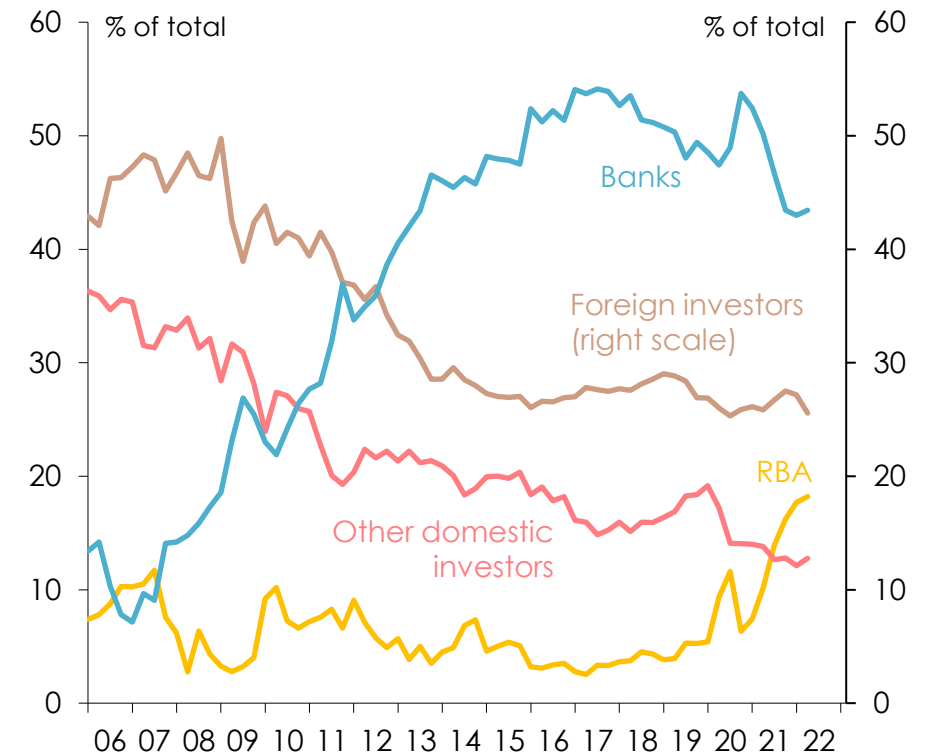
Australian Gov't bonds on issue have increased by \$215bn since the end of 2019 – the RBA's holdings have increased by \$245bn, and foreigners' by \$24bn, while banks' holdings have fallen by \$44bn

## Nationality of Australian Government bond holders



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

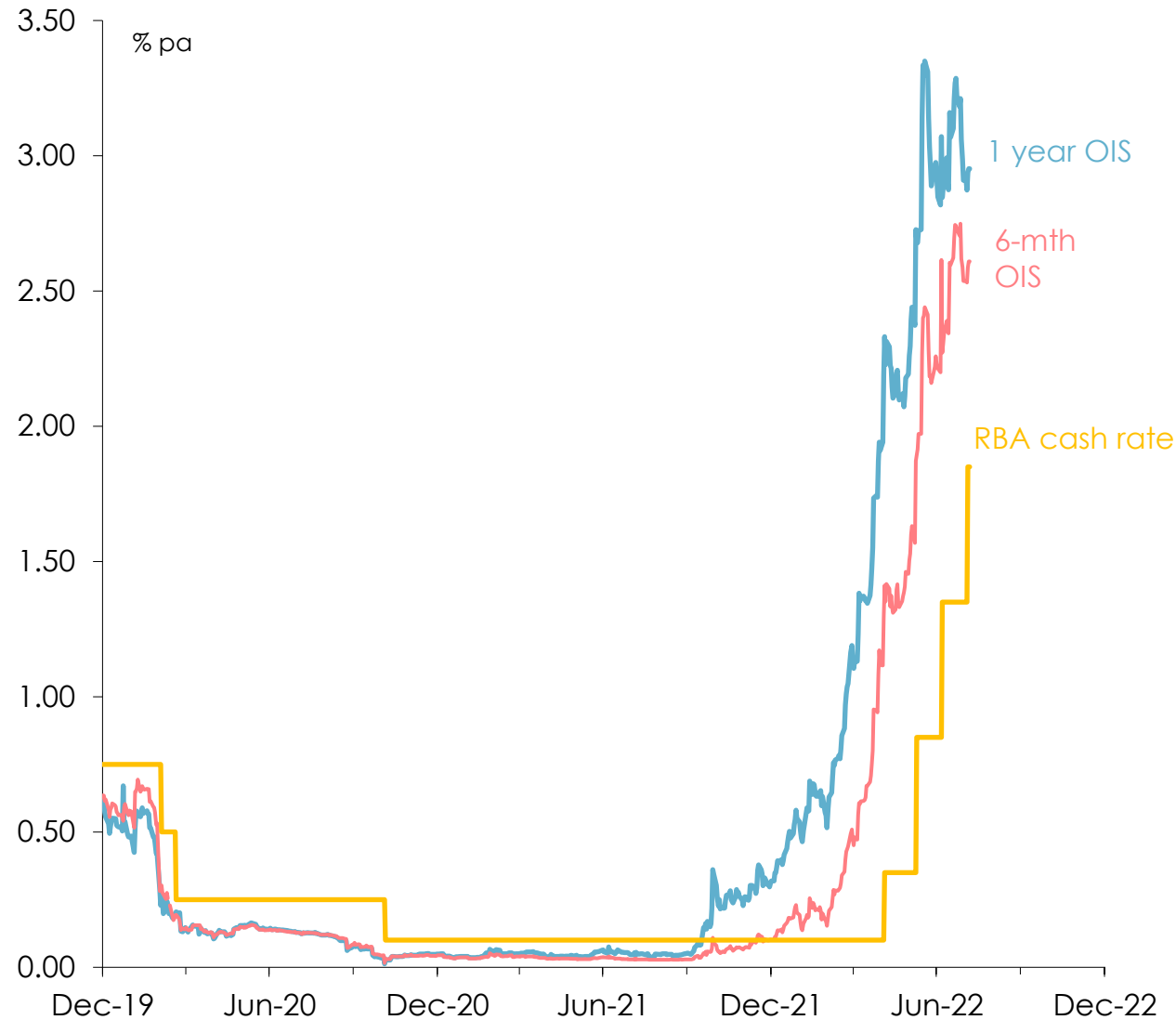
Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2022; [Australian Office of Financial Management](#). June quarter data will be released on 29<sup>th</sup> September. [Return to "What's New"](#).

# Australian financial markets

# Market expectations as to where the RBA's cash rate will peak rose a little this week, but markets are also starting to factor in rate cuts in two years

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## Overnight index swap rates



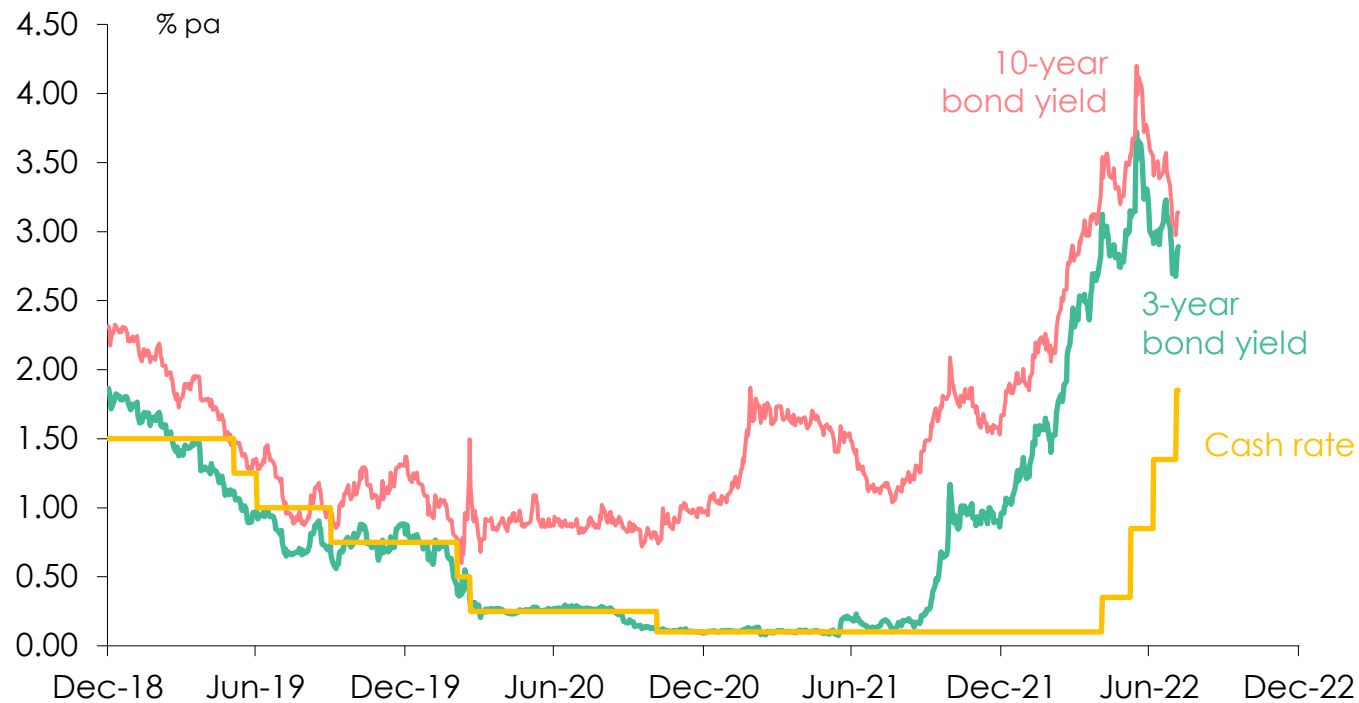
## Yield curves



# Short- and longer-term bond yields rose a little this week, after the RBA's Board meeting and upward revisions to its inflation forecasts

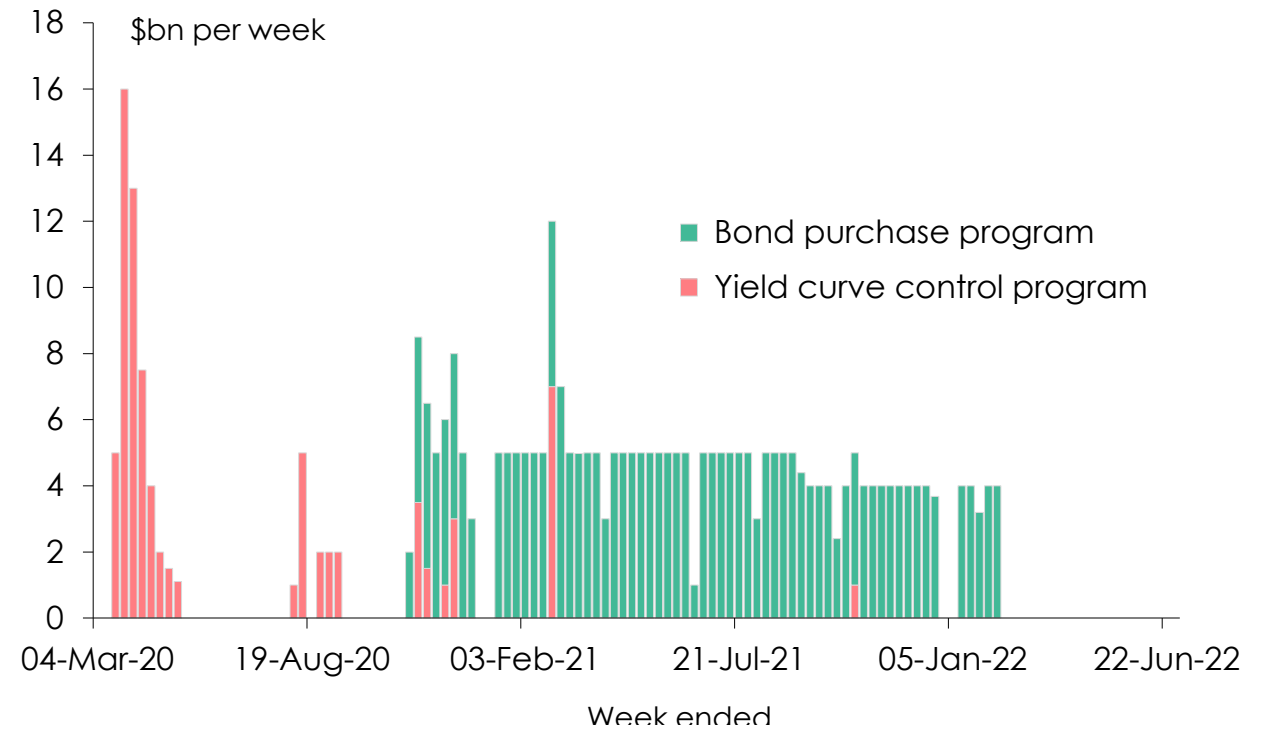
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## Interest rates



- ❑ Short-term bond yields rose 20-25 basis points this week, reversing some of the previous week's decline, as markets revised upwards their expectations for the peak in the RBA's cash rate
- ❑ 10-year bond yields rose by a smaller increment of about 10 basis points, reflecting the dampening influence of lower US yields – the 10-year Australia-US yield spread widening by about 7bp to 45 basis points

## RBA open market bond purchases



- ❑ In June the RBA 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"

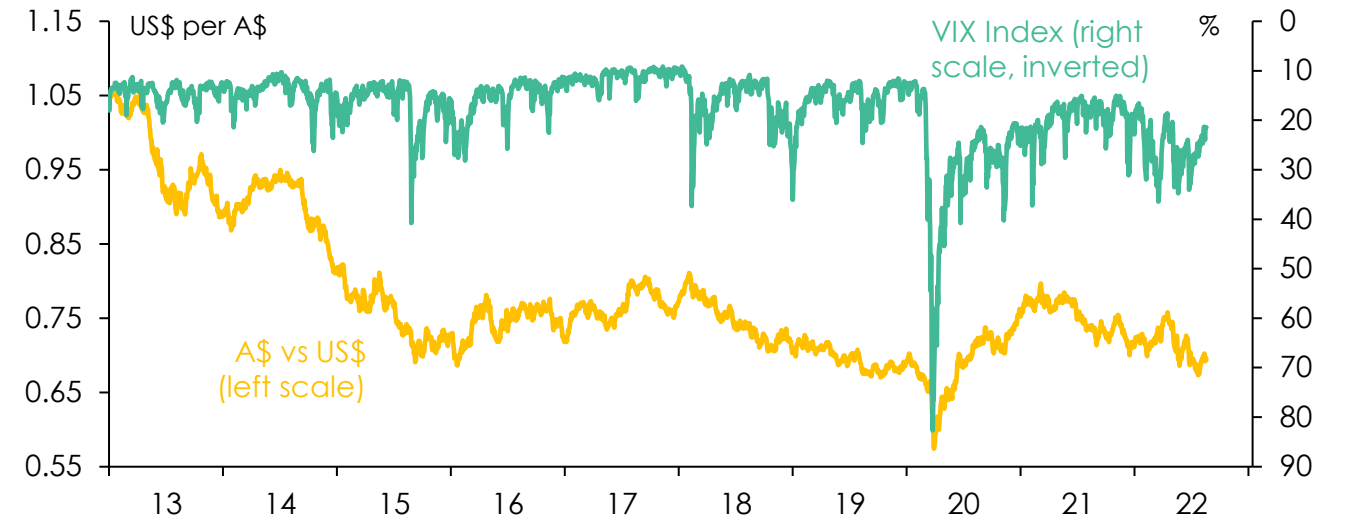
# The A\$ fell traded in a narrow US69.2-70.2¢ range this week, with offsetting influences of lower commodity prices and higher domestic interest rates

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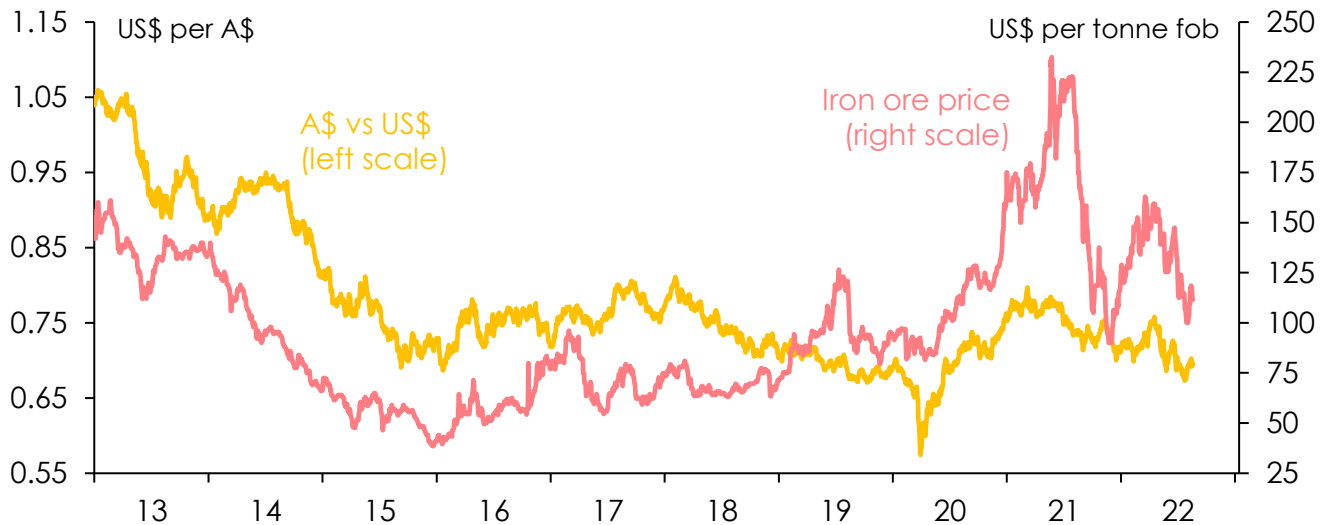
## A\$-US\$ and US\$ trade-weighted index



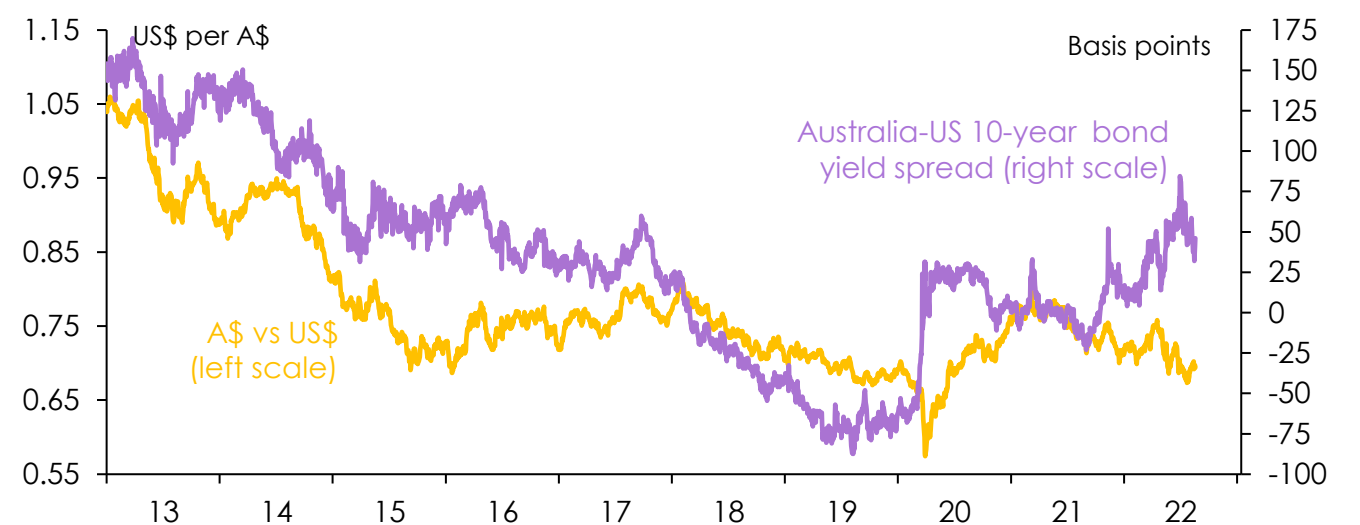
## A\$-US\$ and US equity market volatility



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



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

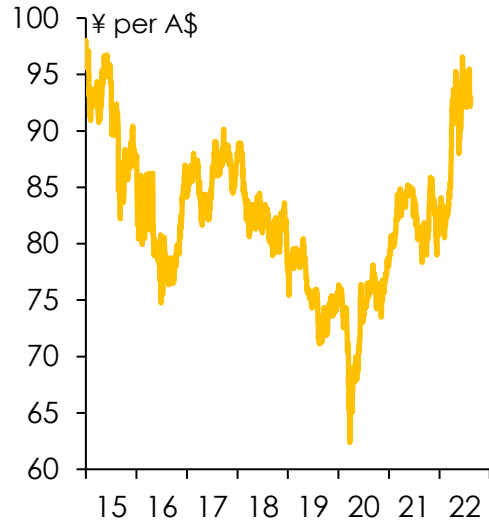


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 5<sup>th</sup> August. [Return to "What's New"](#).

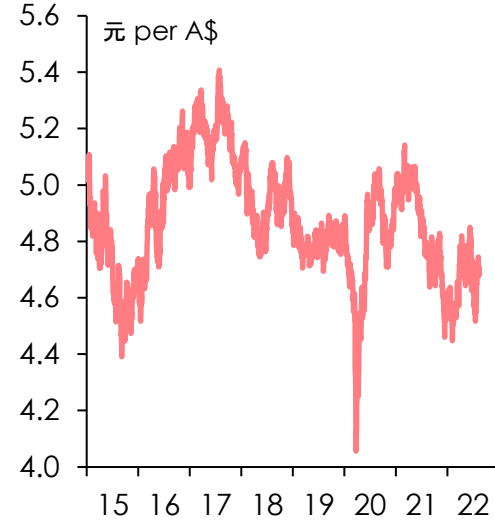
# The A\$ eased against most third currencies this week, losing 0.9% vs the euro, 0.6% against sterling, 0.5% vs the yen, and 0.8% vs the NZ\$

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

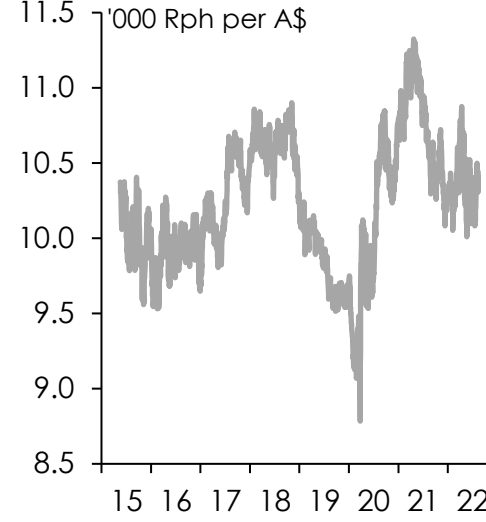
### A\$ vs Japanese yen



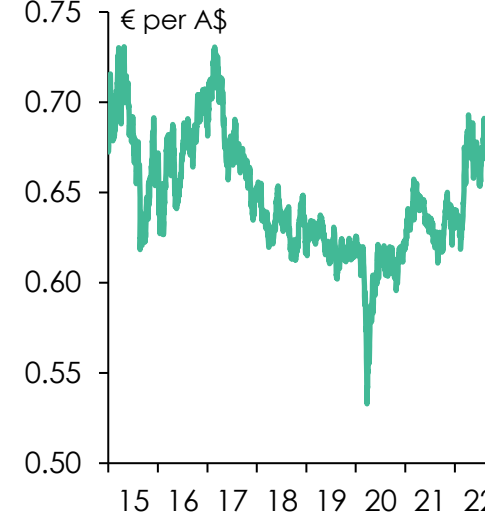
### A\$ vs Chinese yuan



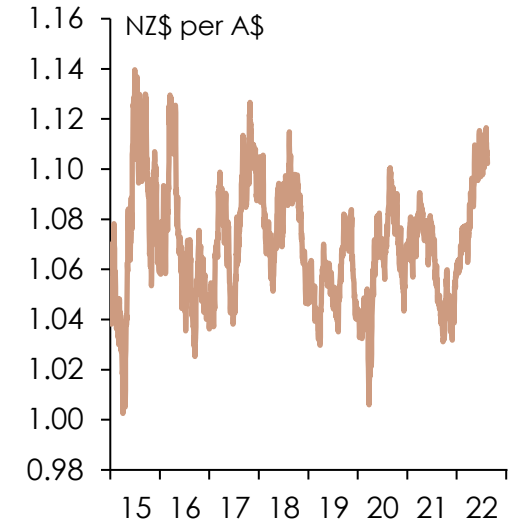
### A\$ vs Indo rupiah



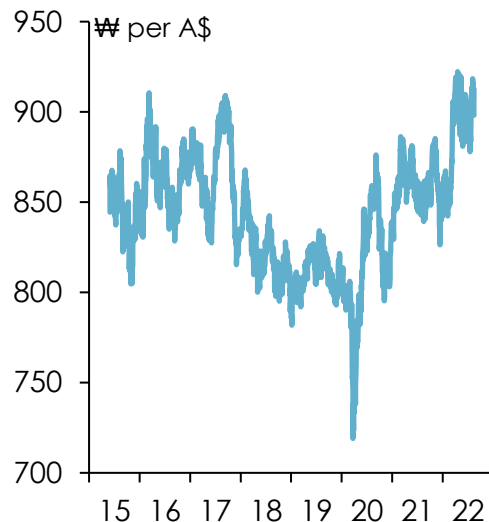
### A\$ vs Euro



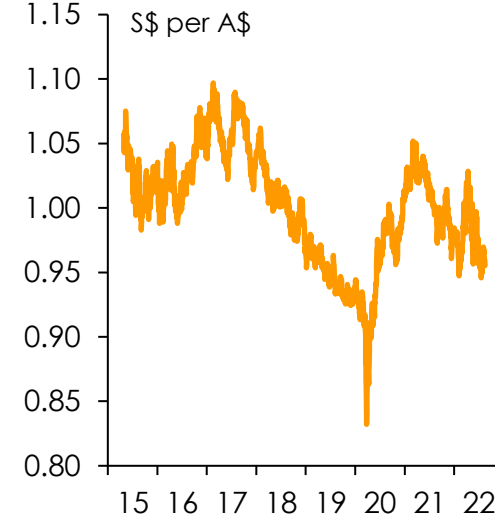
### A\$ vs NZ\$



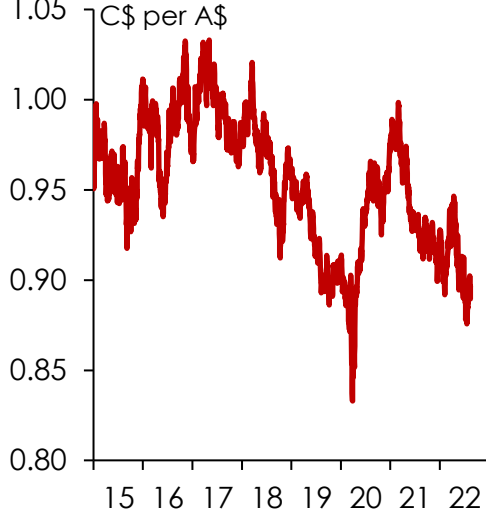
### A\$ vs Korean won



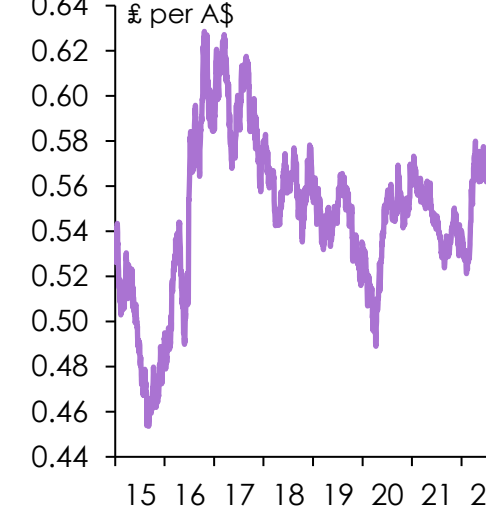
### A\$ vs Singapore \$



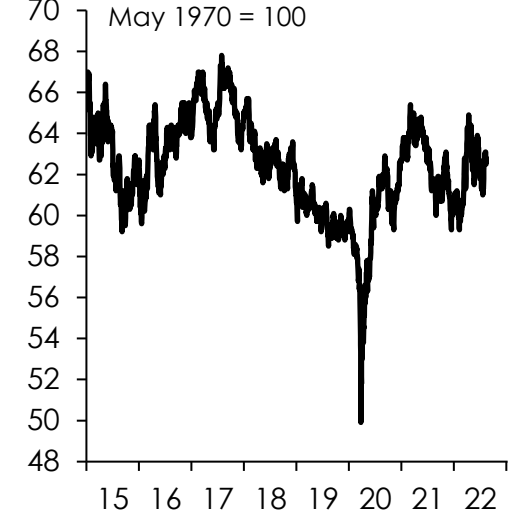
### A\$ vs Canadian \$



### A\$ vs British pound



### A\$ TWI

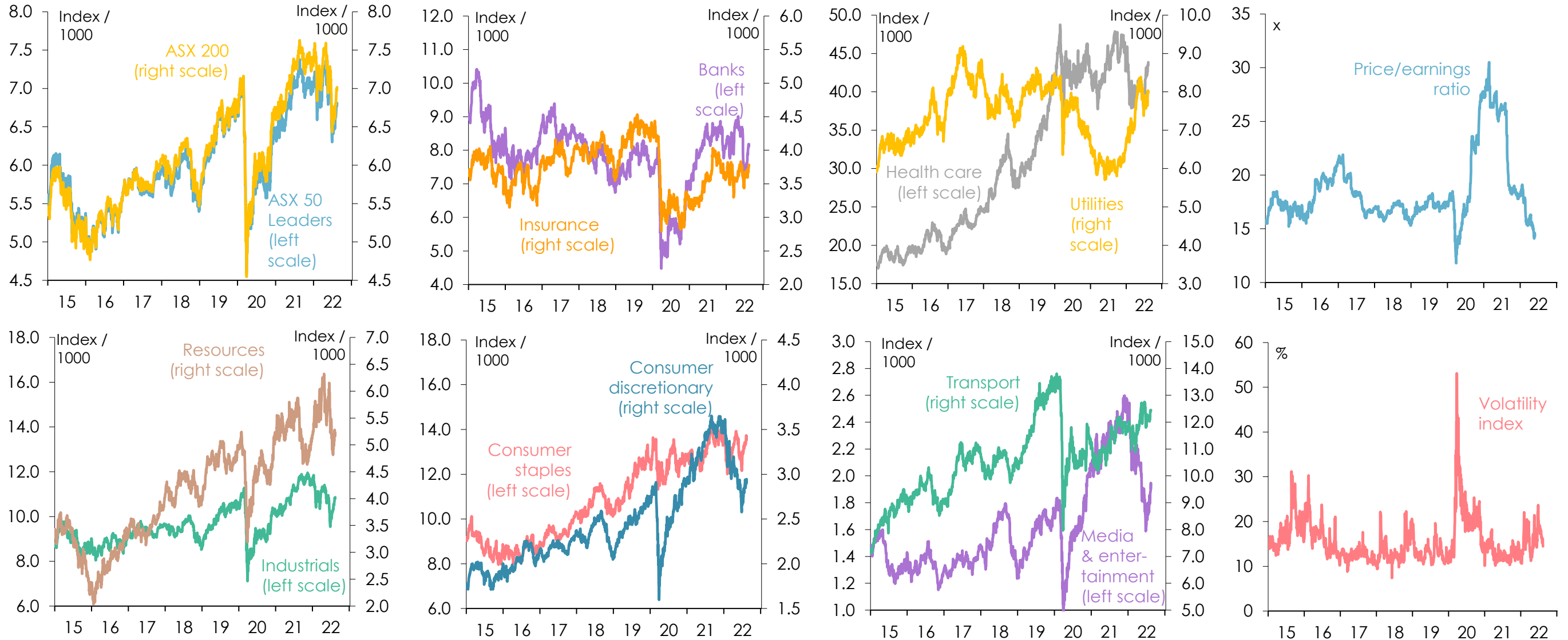


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 5<sup>th</sup> August. [Return to "What's New"](#).

# The ASX rose another 1% this week, bringing its cumulative gains since the low in mid-June to around 9%

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

## ASX indices



Sources: Refinitiv Datastream. ASX200 and 50 Leaders up to 5<sup>th</sup> August. [Return to "What's New"](#).



**Key data and events next week**

# Key data and events for week ended 12<sup>th</sup> August

THE AUSTRALIAN ECONOMY THIS WEEK – 5<sup>TH</sup> AUGUST 2022

<b>Monday 8<sup>th</sup> August</b>	<b>June RBA payments system data</b>
<b>Tuesday 9<sup>th</sup> August</b>	<b>July NAB business confidence &amp; conditions; June ABS business turnover and household spending indicators</b>
<b>Wednesday 10<sup>th</sup> August</b>	<b>August Westpac-Melbourne Institute consumer confidence</b>
<b>Thursday 11<sup>th</sup> August</b>	<b>August household inflation expectations; Weekly payroll jobs, 4 weeks ended 16<sup>th</sup> July</b>

## Other important upcoming events

<b>Tuesday 16<sup>th</sup> August</b>	<b>Minutes of August RBA Board meeting</b>
<b>Wednesday, 17<sup>th</sup> August</b>	<b>June quarter wage price index</b>
<b>1<sup>st</sup> – 2<sup>nd</sup> September</b>	<b>Australian Government Jobs and Skills Summit</b>
<b>Tuesday 6<sup>th</sup> September</b>	<b>RBA Board meeting</b>
<b>Wednesday 7<sup>th</sup> September</b>	<b>June quarter GDP</b>
<b>Tuesday 4<sup>th</sup> October</b>	<b>RBA Board meeting</b>
<b>Tuesday 15<sup>th</sup> October</b>	<b>Updated &amp; revised Federal Budget</b>

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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