



THE AUSTRALIAN ECONOMY THIS WEEK

2ND SEPTEMBER 2022

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Table of contents

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

What's new	<u>3</u>
Covid-19 in Australia	<u>4</u>
Broad trends in the Australian economy	<u>10</u>
The business sector	<u>22</u>
The household sector and consumer spending	<u>28</u>
Housing and the residential property market	<u>37</u>
The labour market	<u>43</u>
Trade and the balance of payments	<u>55</u>
Inflation	<u>62</u>
Fiscal policy	<u>68</u>
Monetary policy and the RBA	<u>78</u>
Australian financial markets	<u>84</u>
Key data and events for next week	<u>89</u>
Legal information	<u>91</u>

What's new?

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

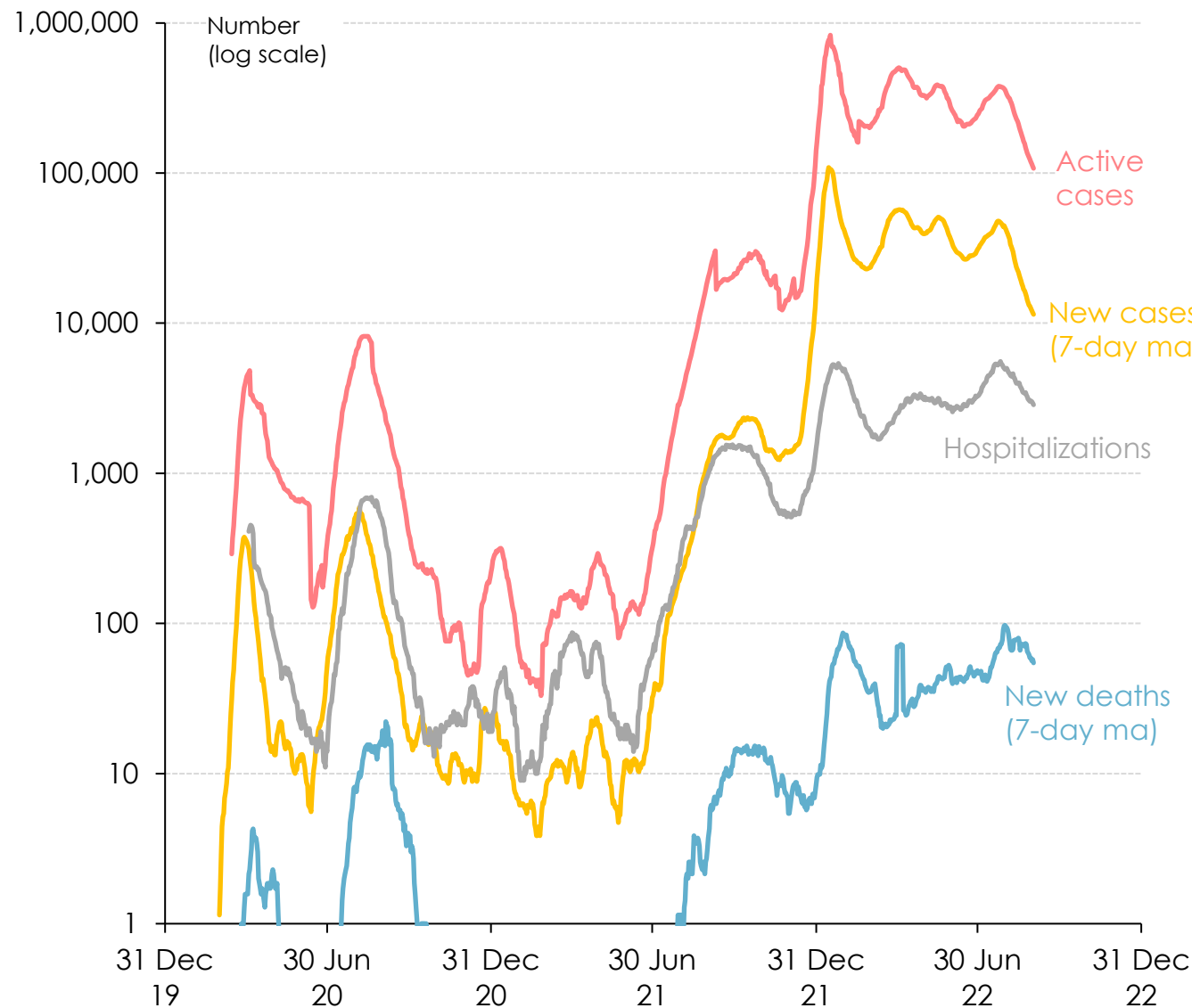
- ❑ The Government's response to this week's "Jobs and Skills Summit" included an increase in Australia's permanent immigration intake for 2022-23 (from 160,000 to 195,000) "to help ease widespread critical workforce shortages", and foreshadowed changes to "modernize" workplace relations legislation by (among other things) allowing access to "multi-employer agreements" – something sought by unions, supported by some business organizations but opposed by others ([slide 69](#))
- ❑ Retail sales rose 1.3% in July, the largest increase in four months, despite higher inflation and interest rates, with much of the increase attributable to higher spending on 'discretionary' categories ([slides 33-34](#)) – aided, in part, perhaps, by continued increases in the level of household savings, with APRA data showing that household bank deposits rose by nearly \$20bn in July to be \$305bn above their pre-Covid level ([slide 30](#))
- ❑ By contrast higher interest rates do appear to be having an impact on the housing market: residential property prices fell by 1.2% across Australia as a whole in August (the largest monthly decline in four decades), with prices in Sydney and Melbourne now down 7.5% and 4.4%, respectively, from their peaks earlier this year but also now falling in most other capital cities and in some regions ([slides 38-39](#))
- ❑ New housing finance commitments fell 8.5% in July, the second-largest monthly decline on record (after May 2020), to their lowest level since March last year, with commitments to first home buyers down 9.5% to their lowest level since June 2020 – although refinancings remained close to June's record high ([slide 40](#))
- ❑ Residential building approvals fell 17.2% in July, to their lowest level since June 2020, due to a 44% slump in approvals for multi-unit dwellings to their lowest level since January 2012: by contrast, approvals for detached dwellings remained high ([slide 41](#))
- ❑ Business new fixed capital expenditure fell 0.3% in the June quarter, reflecting a 2.5% decline in construction investment: investment in plant and equipment, especially in non-mining industries, remains robust ([slide 26](#)), and the June quarter investment intentions survey points to a 15% increase in 2022-23
- ❑ The Reserve Bank seems likely to lift its cash rate by another 50 bp (to 2.35%) at next Tuesday's Board meeting ([slide 79](#))
- ❑ The A\$ dropped below US68¢ this week as the US dollar continued to strengthen in the aftermath of Federal Reserve Chair Jerome Powell's hawkish speech to the Jackson Hole conference last Friday, and in line with further falls in commodity prices ([slide 86](#))
- ❑ Other highlights of next week's calendar are June quarter balance of payments and GDP, July international trade, and a speech by RBA Governor Lowe

Covid-19 in Australia

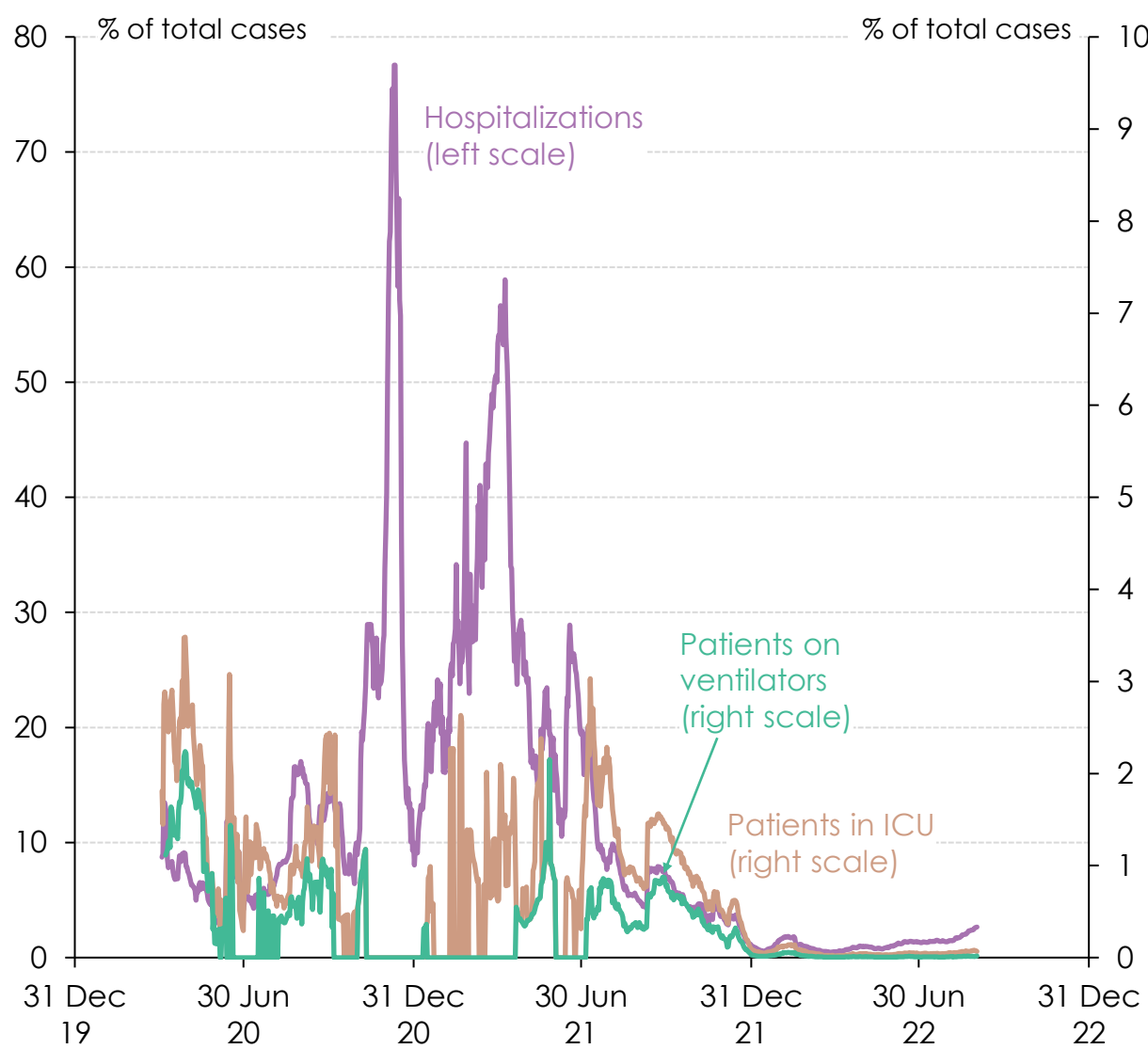
New and active Covid case numbers have fallen rapidly over the past six weeks to their lowest levels since mid-December last year

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Cases, hospitalizations and deaths



Severity of cases

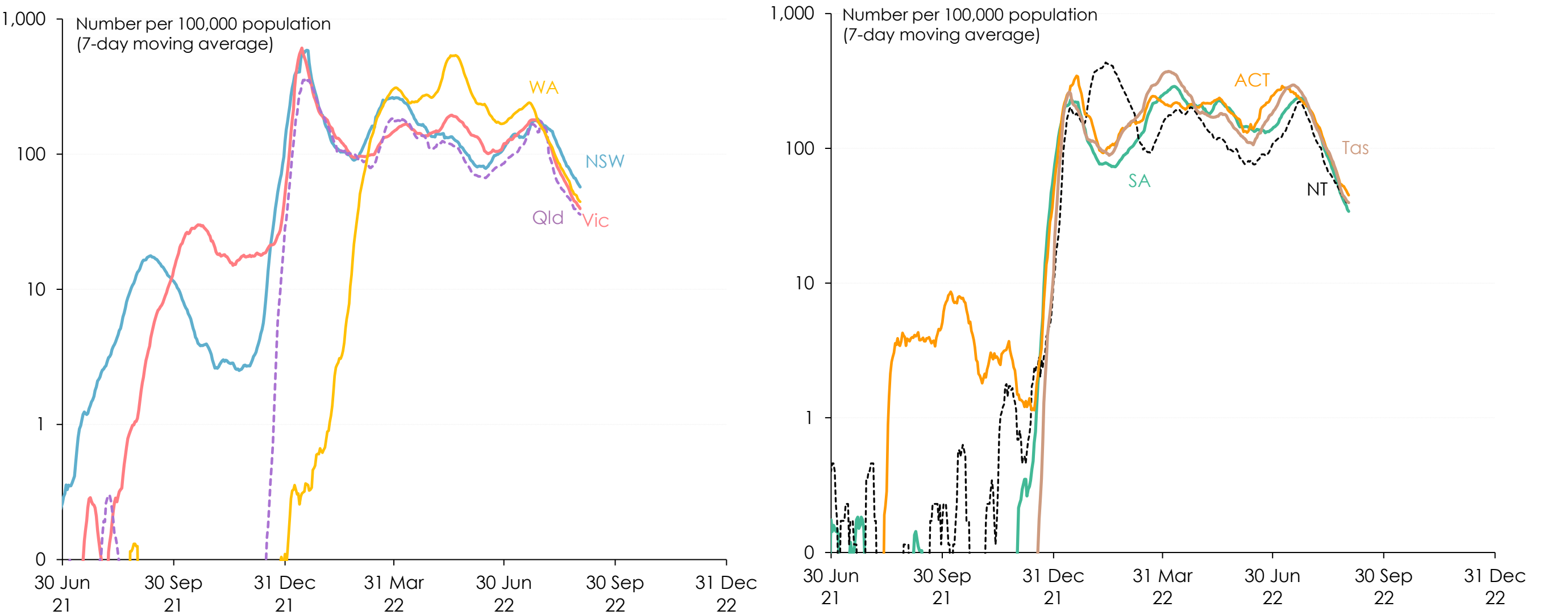


Note: The 'spike' in new deaths in the first week of April resulted from the addition of 334 deaths to NSW's total on 1st April. Data up to 2nd September.
Source: covid19data.com.au. [Return to "What's New"](#).

New case numbers have fallen rapidly in every jurisdiction, including now in NSW where the peak came later than in other states

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

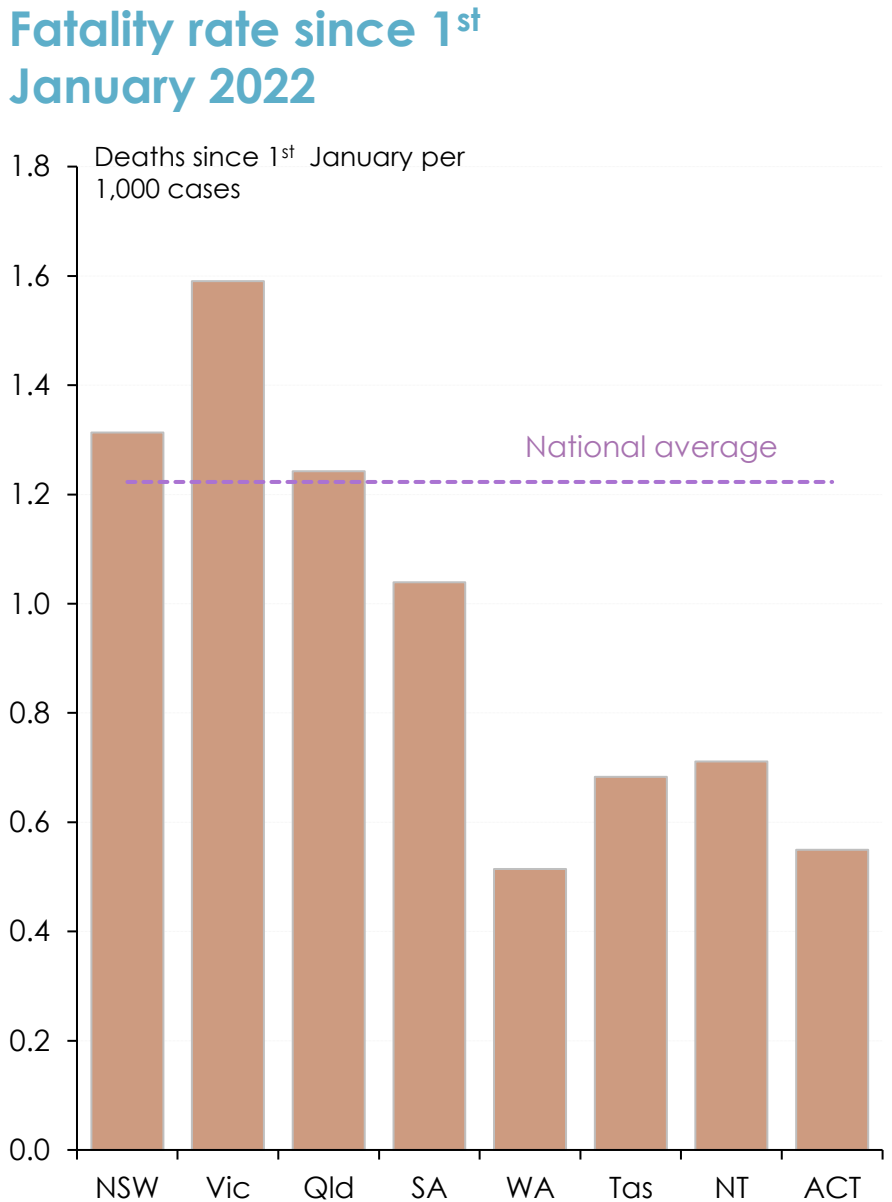
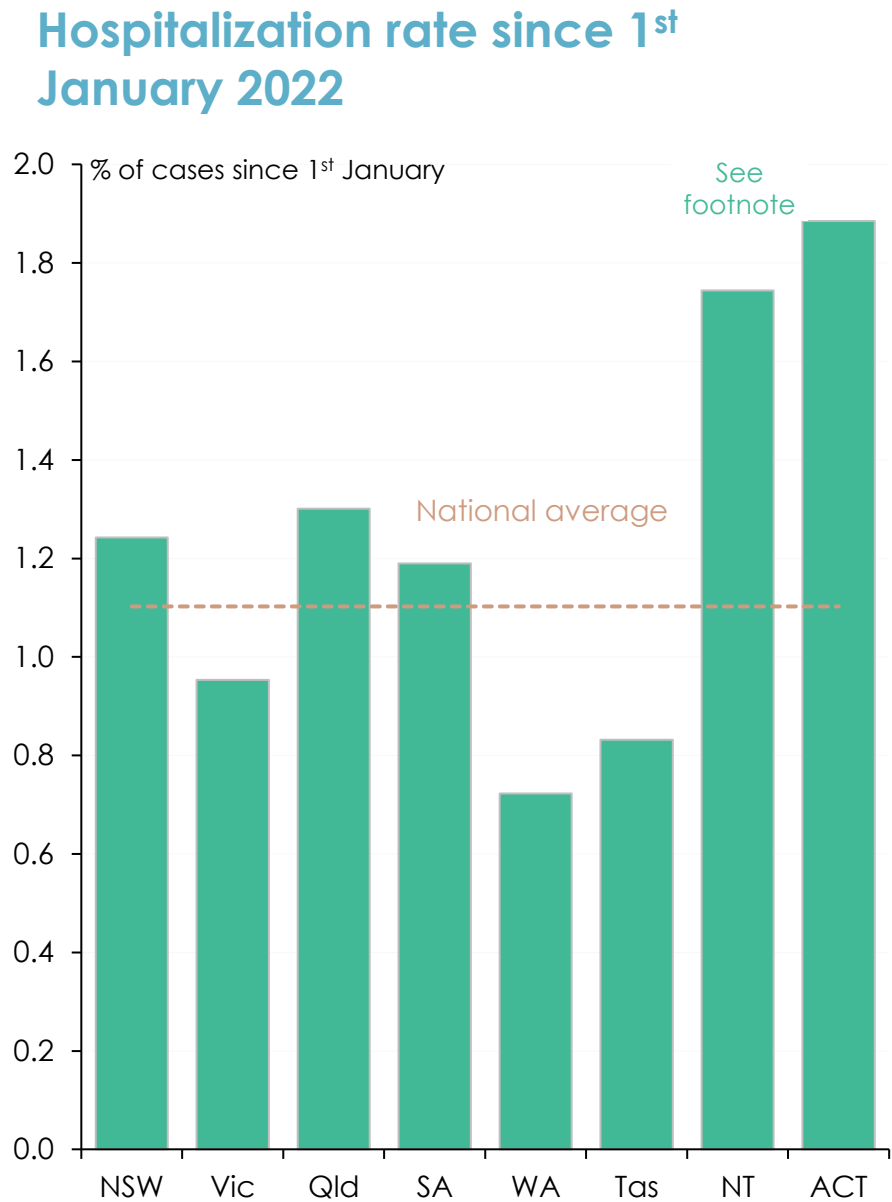
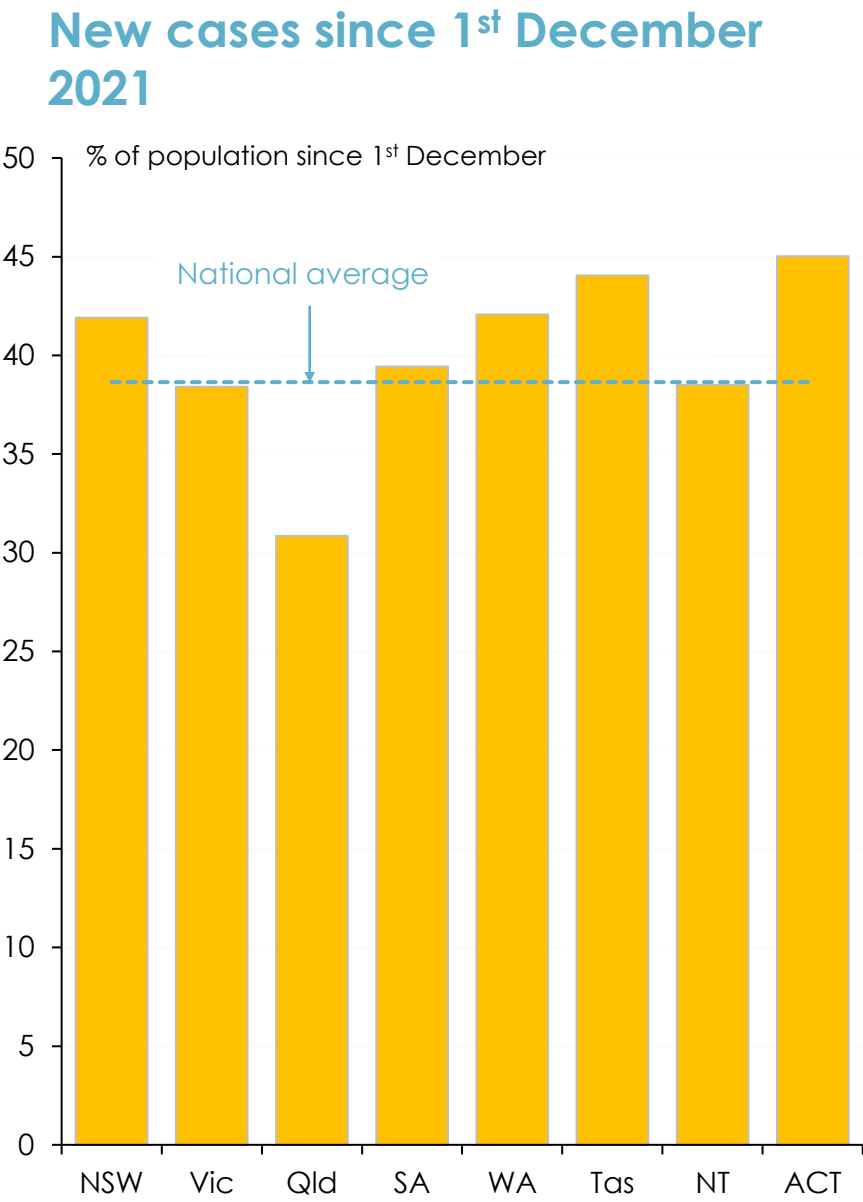
New infections per 100,000 population, states and territories, since 30th June 2021



Note: Data are up to 2nd September. Source: covid19data.com.au. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

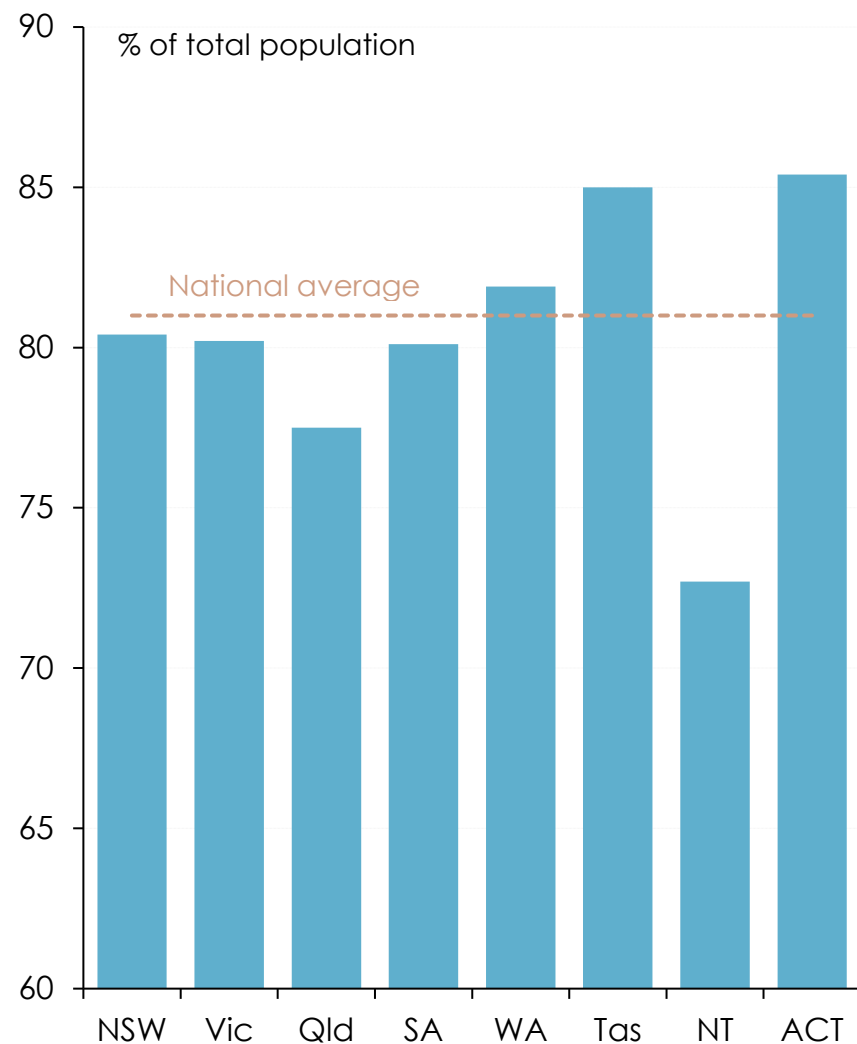


Note: Data are up to 2nd September. 1st December was two days after the first omicron case was detected in Australia. The Northern Territory has a policy of hospitalizing all active cases (as did Queensland until the end of December 2021), which biases its hospitalization rate upwards compared with other jurisdictions. NSW added 334 deaths to its tally on 1st April. Source: covid19data.com.au. [Return to "What's New"](#).

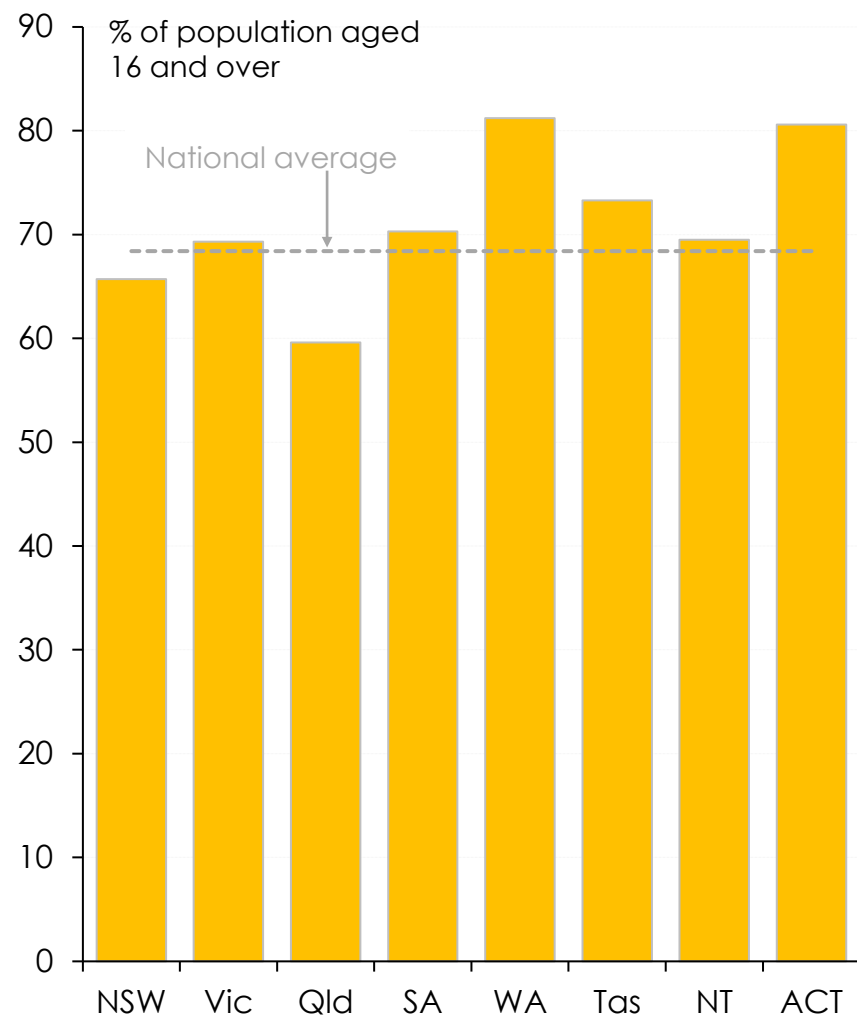
The take-up of third vaccination shots ('boosters') has stalled since May

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

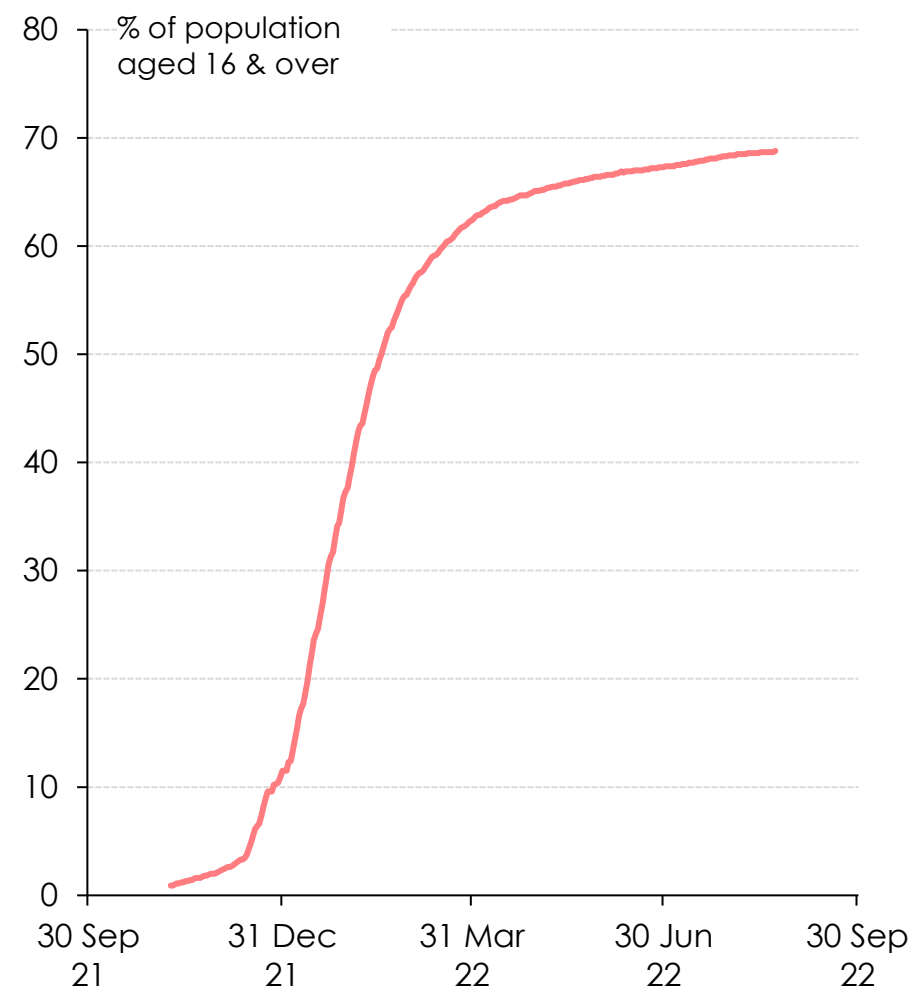
Pc of population who have had two vaccinations



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



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

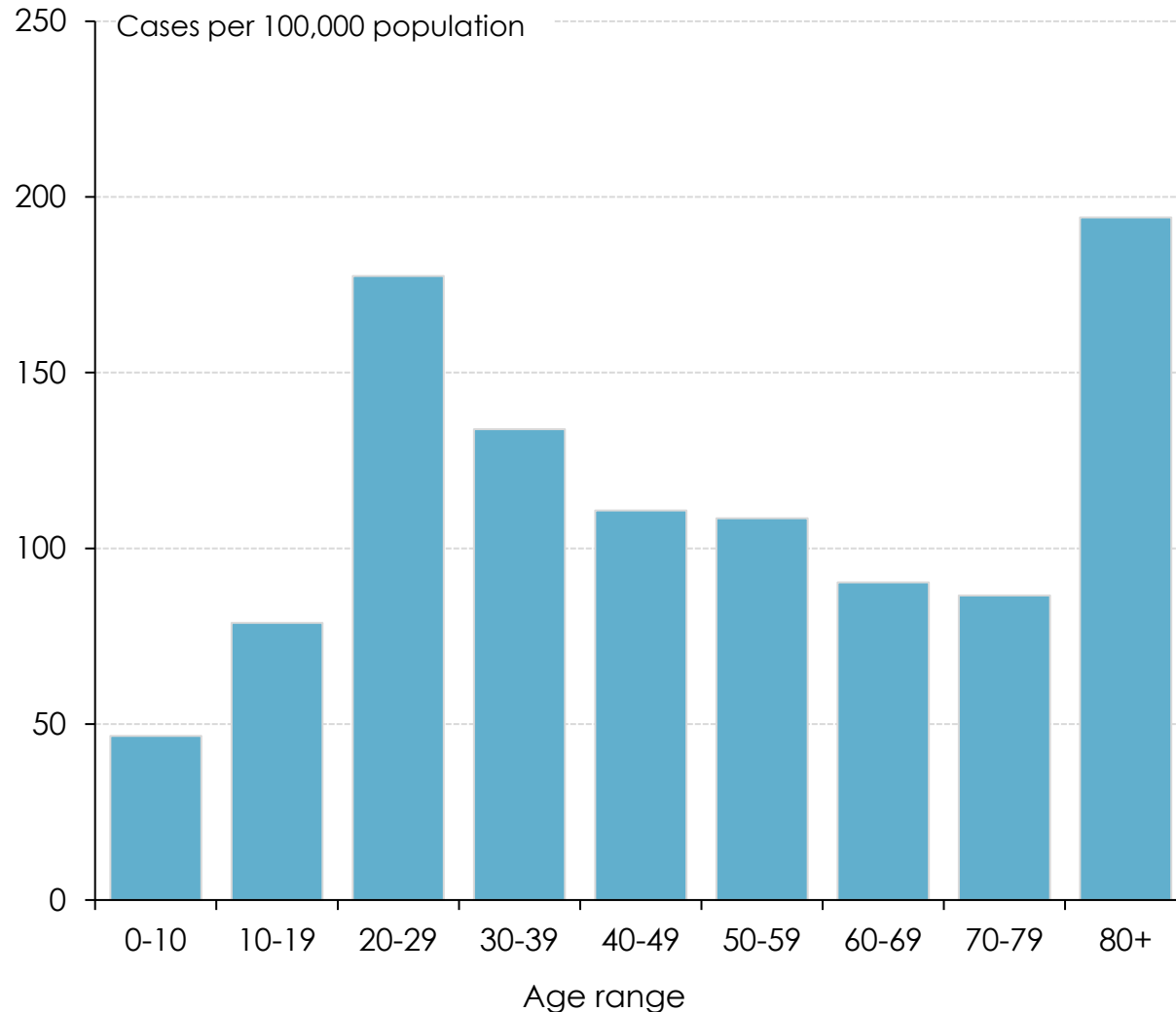


Note: Data are up to 22nd August. Source: covid19data.com.au. [Return to "What's New"](#).

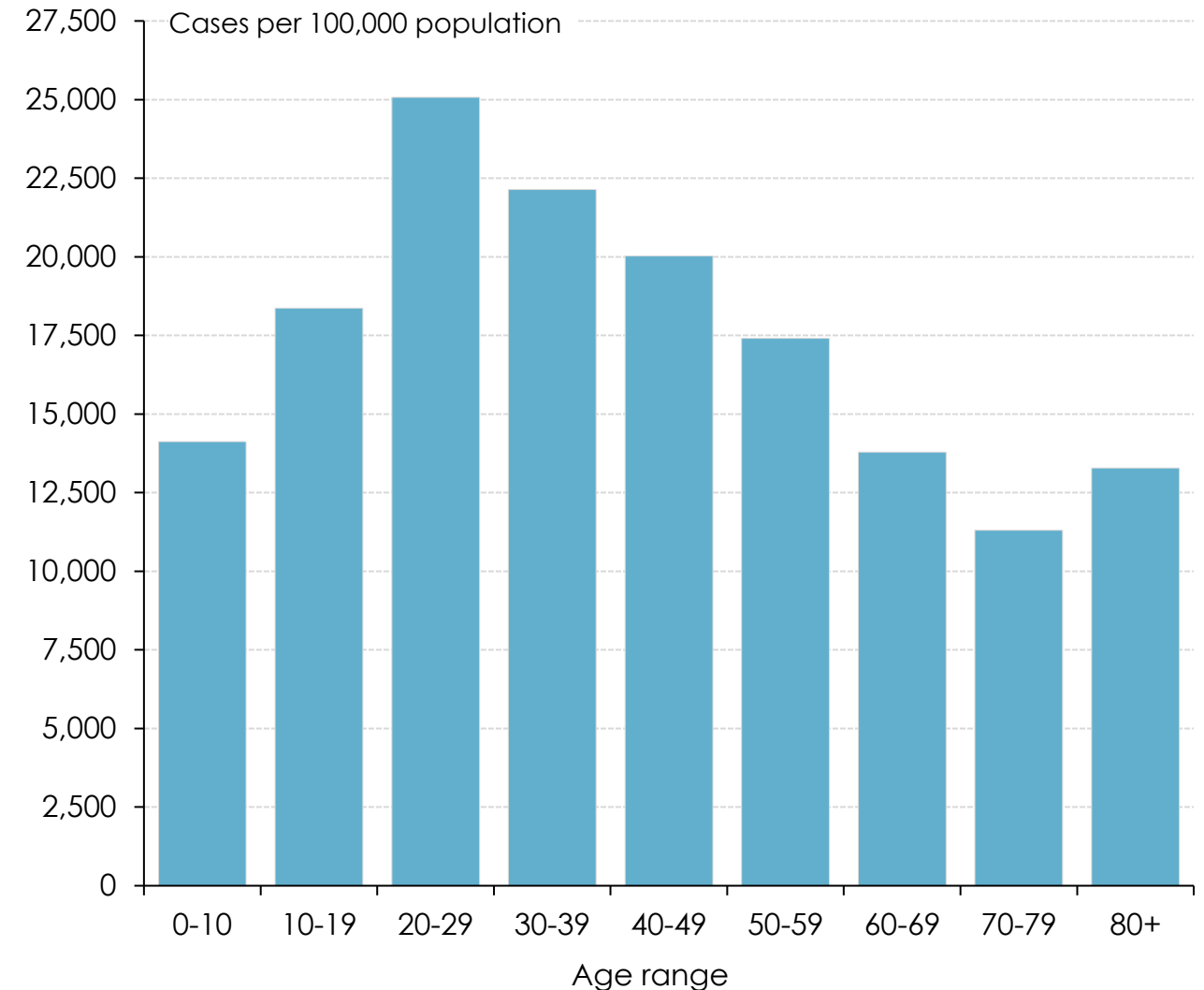
People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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



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

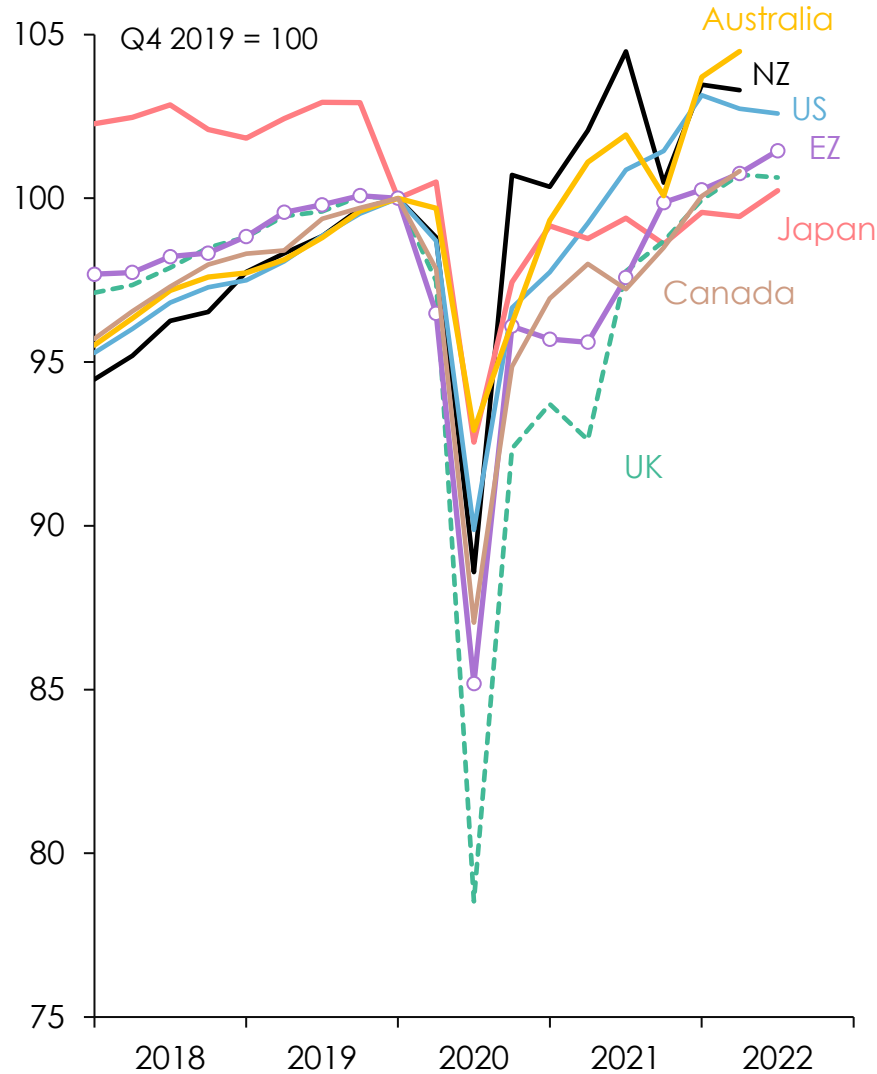


Broad trends in the Australian economy

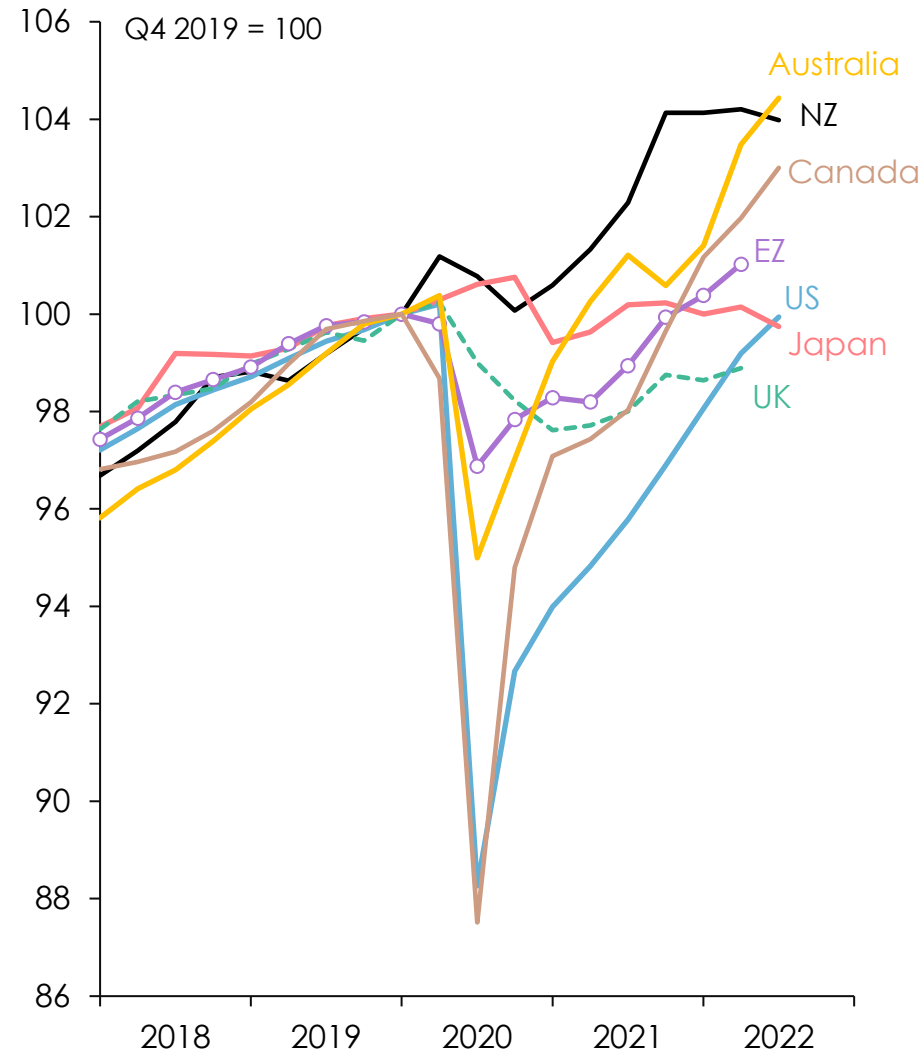
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, those of most other 'advanced' economies

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

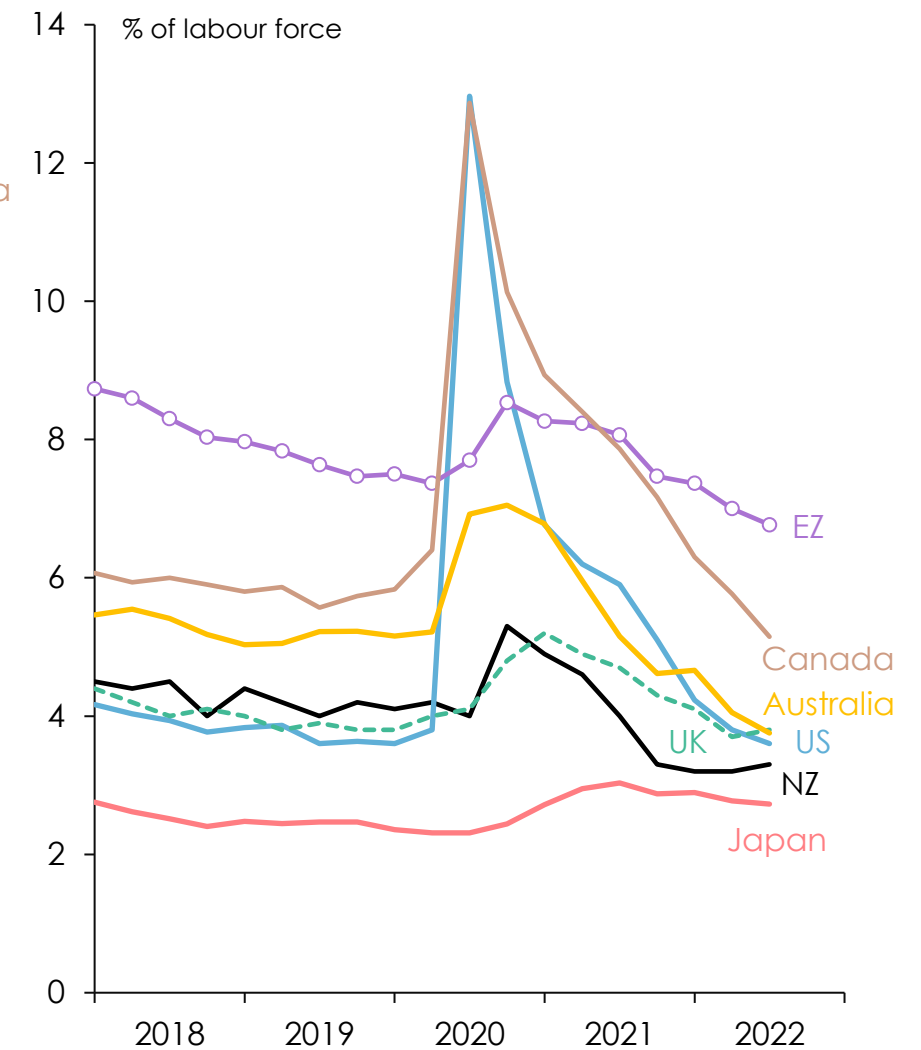
Level of real GDP



Employment



Unemployment

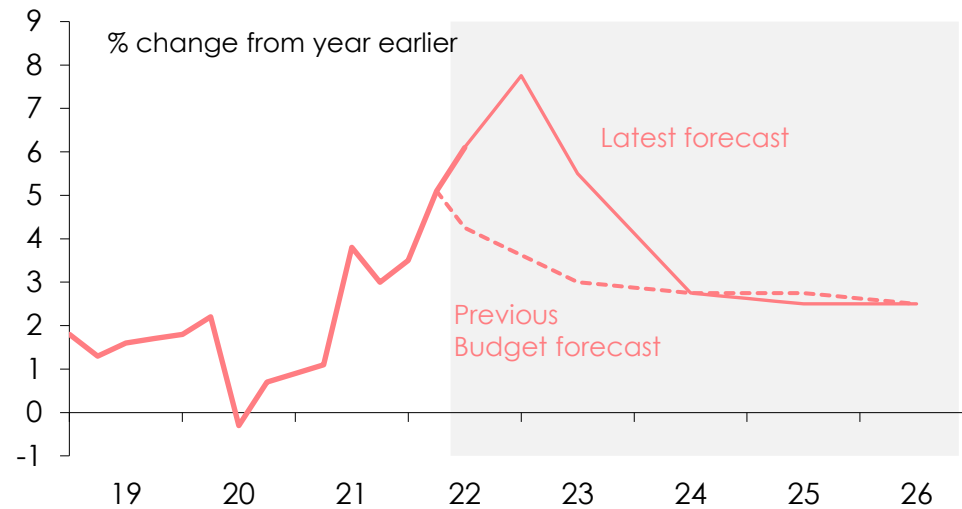


Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

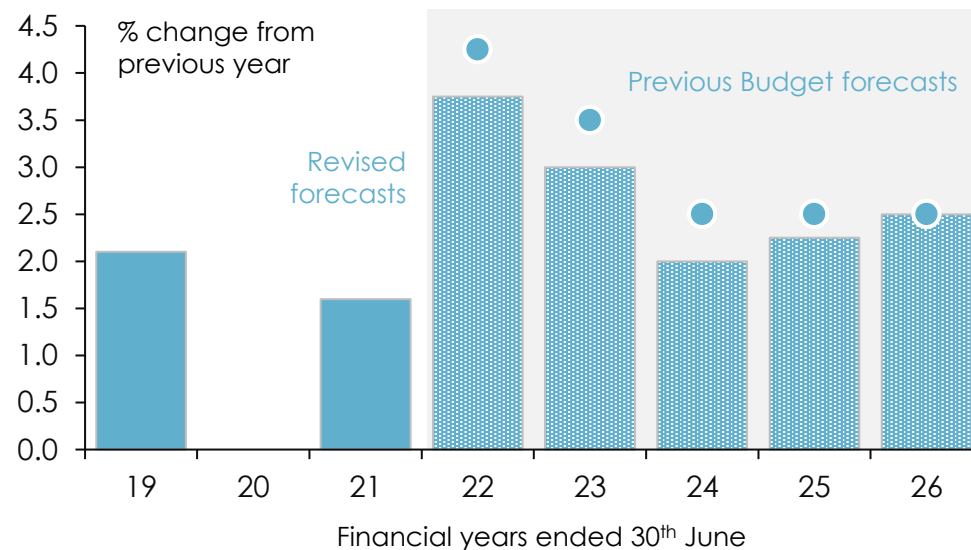
In late July, the Treasurer presented upwardly-revised forecasts for inflation and downwardly-revised forecasts for economic growth

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Treasury 'headline' inflation forecasts



Treasury real GDP growth forecasts



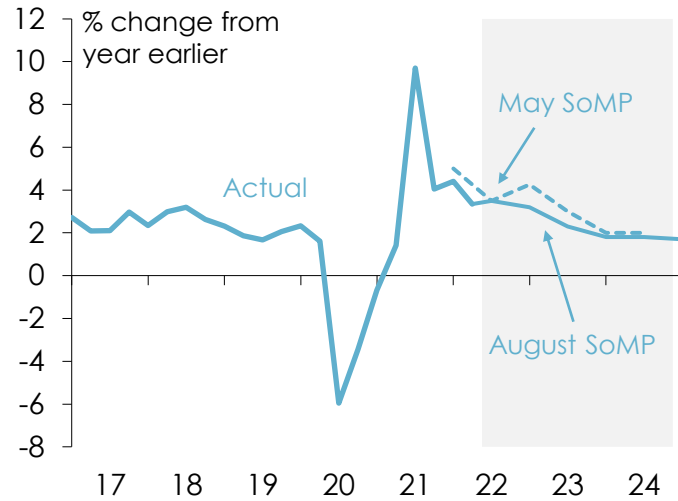
- ❑ Treasurer Jim Chalmers presented revised forecasts for the Australian economy in a [Ministerial Statement](#) to Parliament on 26th July
- ❑ Treasury now expects the annual 'headline' inflation rate to peak at 7¾% in the December quarter this year, before falling to 5½% over the year to the June 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 ¾% 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 ¾% 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](#), 28th July 2022. [Return to "What's New"](#).

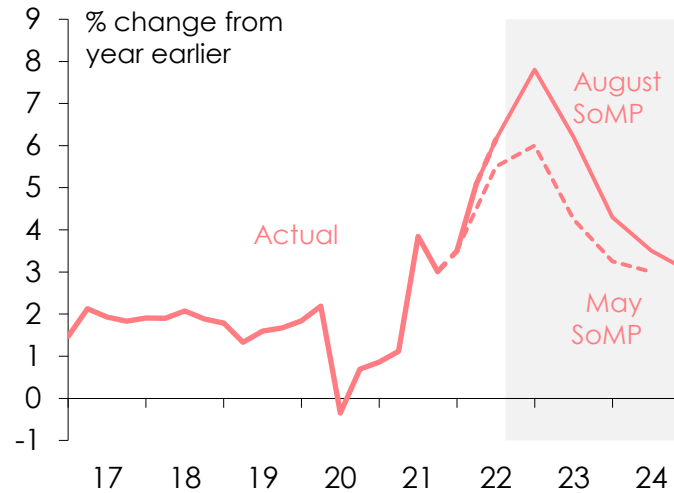
The RBA revised up forecasts for inflation, and lowered its forecasts for economic growth, in last month's Monetary Policy Statement

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

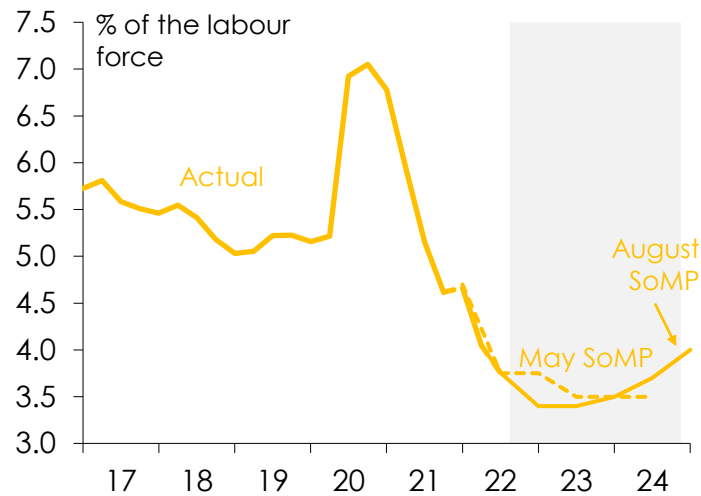
GDP



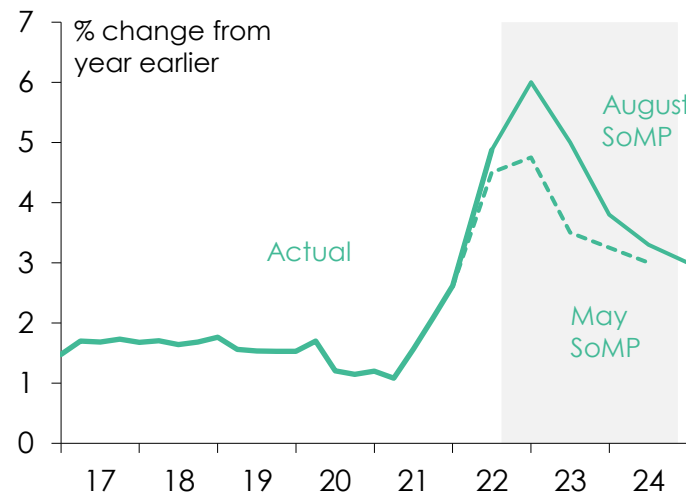
'Headline' inflation



Unemployment



'Underlying' inflation



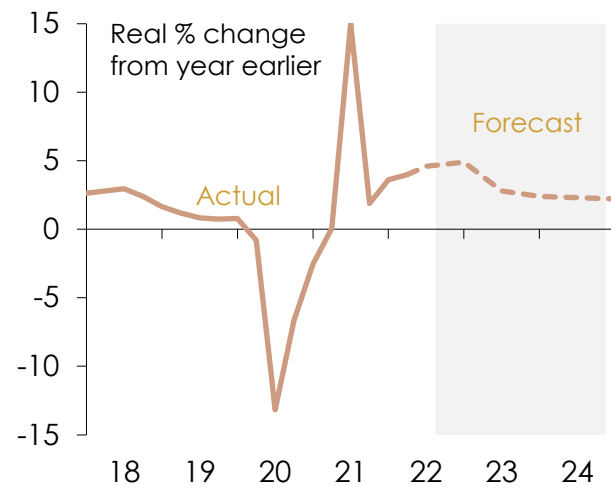
- ❑ The RBA's August [Statement on Monetary Policy](#) (released on 4th August) incorporates further substantial upward revisions to the RBA's forecasts for inflation, and small downward revisions to its forecasts for real GDP growth
- ❑ The RBA now expects the annual 'headline' inflation to peak at 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 July'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](#), 5th August. The RBA's next set of forecasts will be published on Friday 4th November. [Return to "What's New"](#).

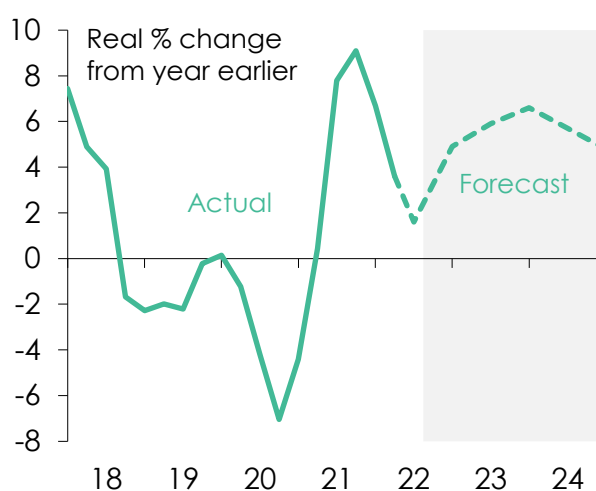
The RBA's latest forecasts envisage some slowing in consumer spending, resilient business investment, and a pick-up in wages growth

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

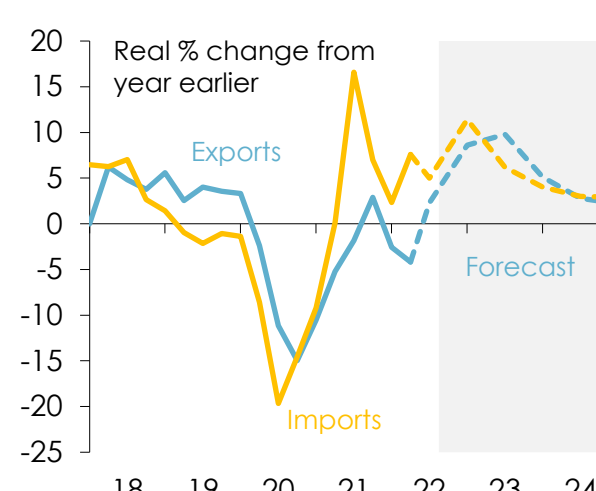
Household consumption



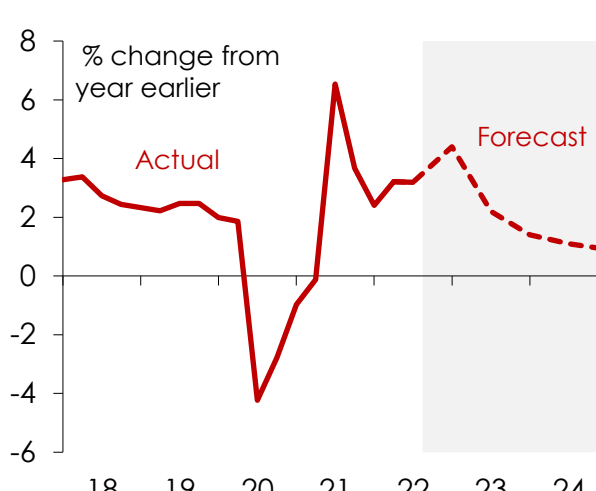
Business investment



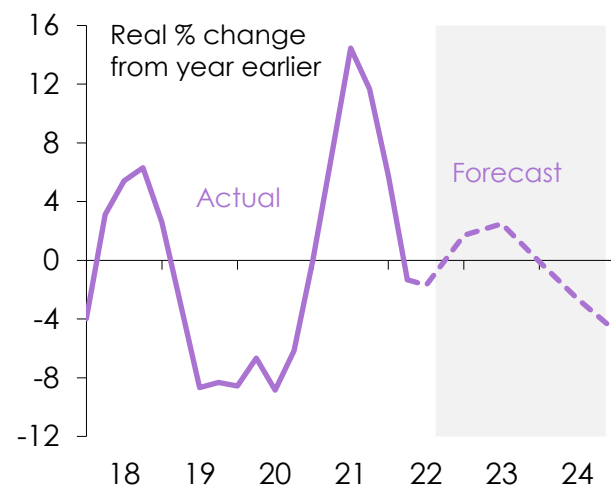
Exports & imports



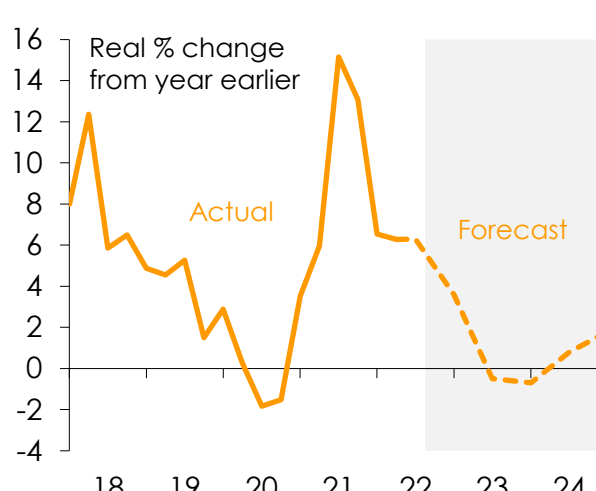
Employment



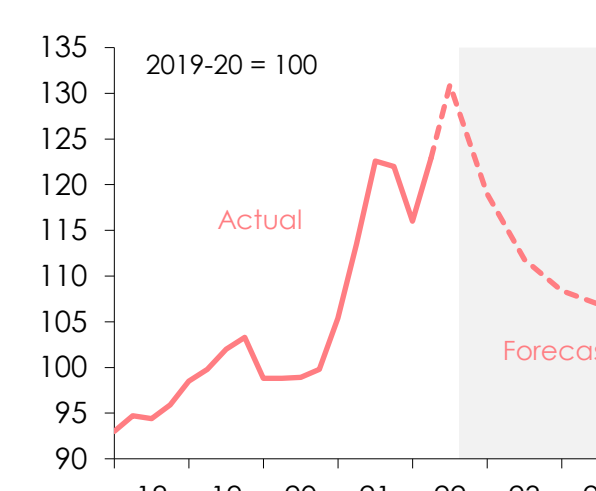
Dwelling investment



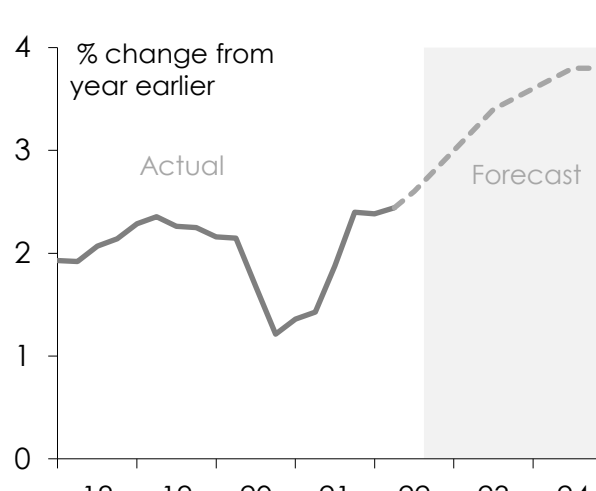
Public spending



Terms of trade



Wage price index

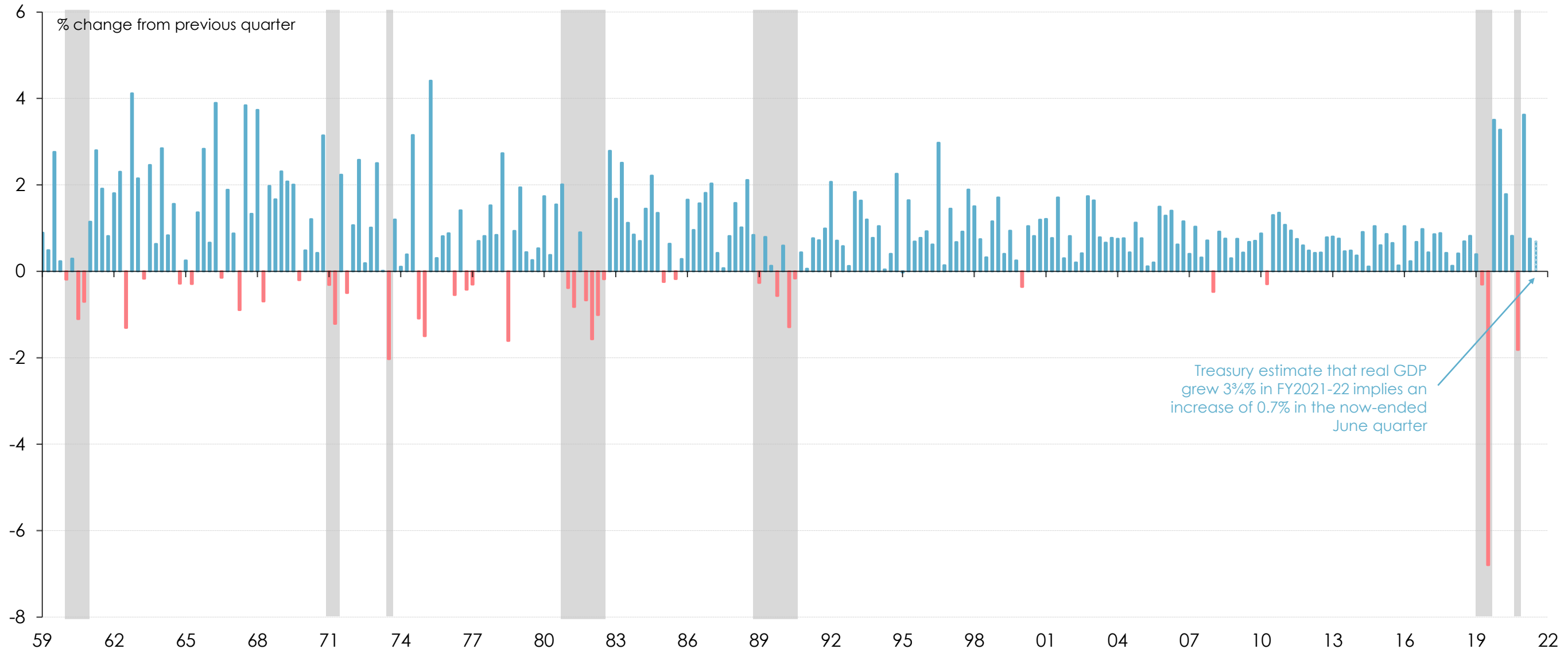


14 Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 5th August. The RBA's next set of forecasts will be published on Friday 4th November. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Quarterly growth in Australian real GDP, 1959-2022

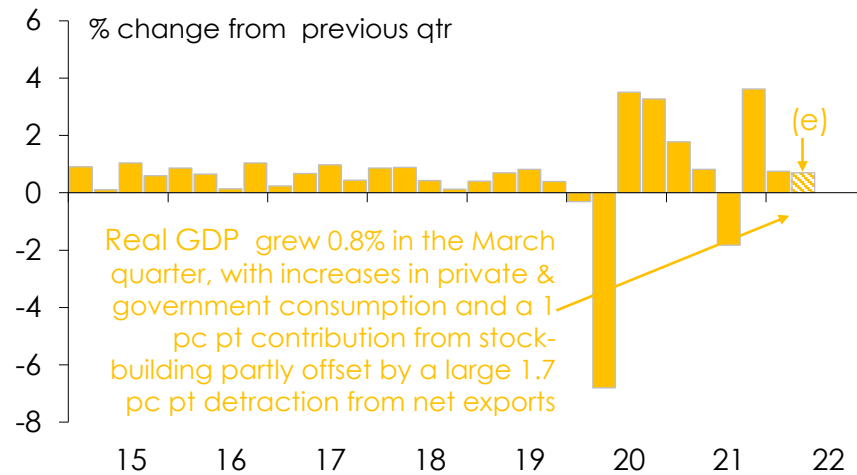


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022. June quarter GDP will be released this Wednesday, 7th September. [Return to "What's New"](#).

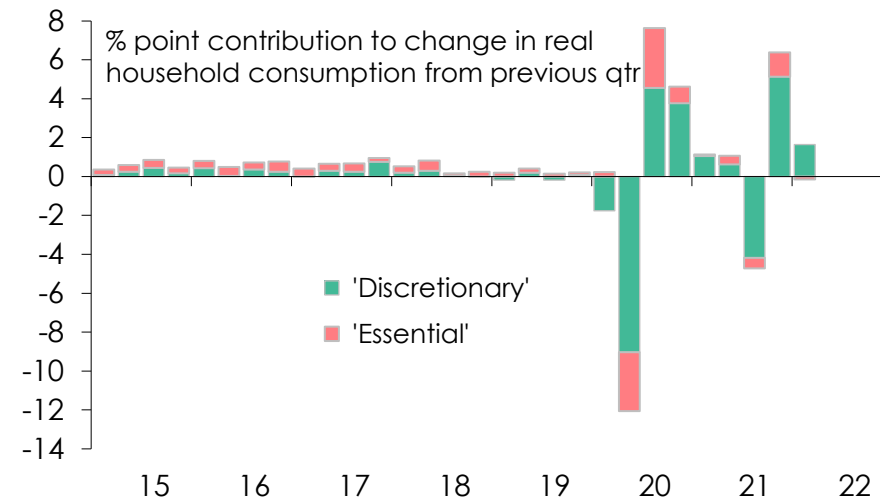
Real GDP grew 0.8% in Q1, with growth in private and public consumption dampened by soft dwelling investment and an 8% surge in imports

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

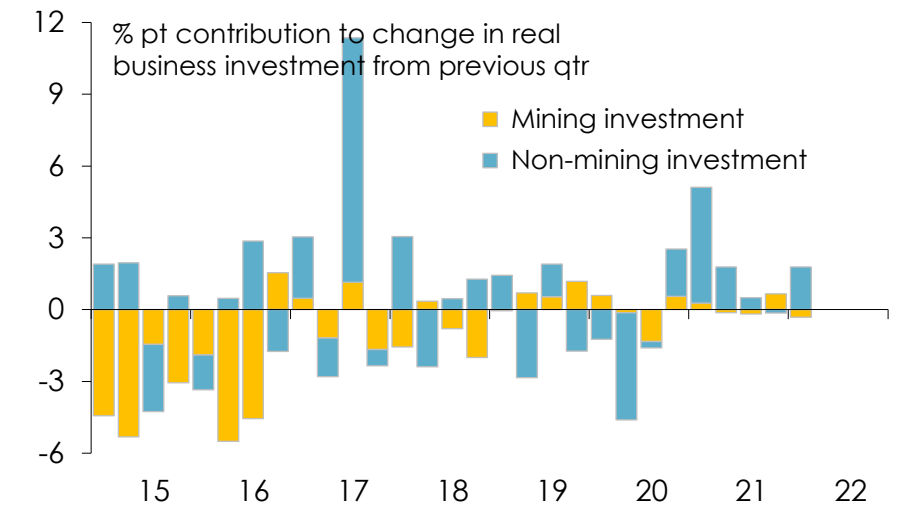
Quarterly change in real GDP



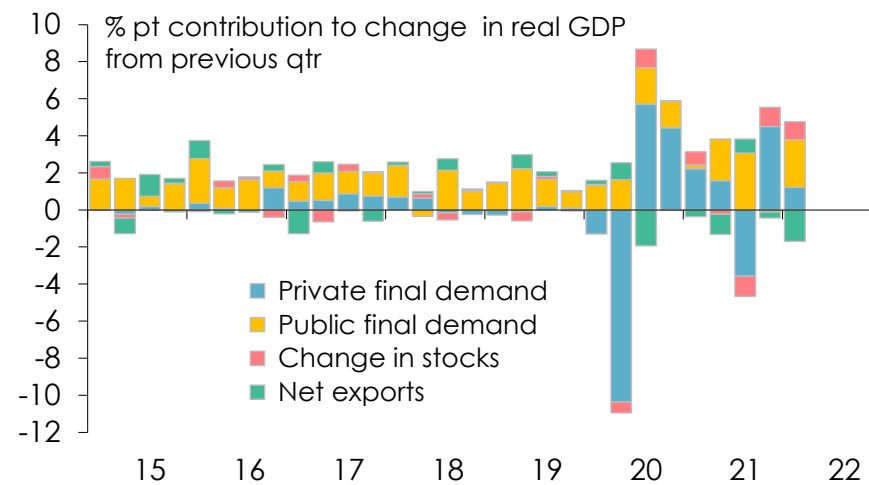
Household consumption expenditure



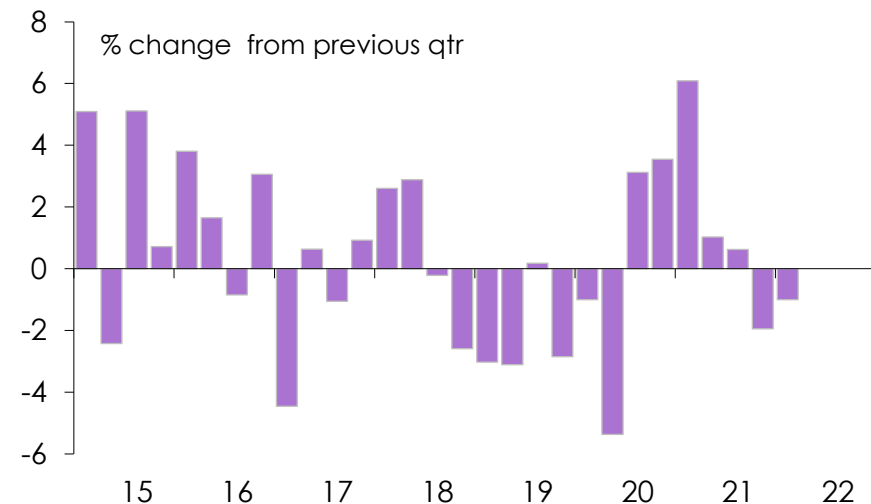
Business investment expenditure



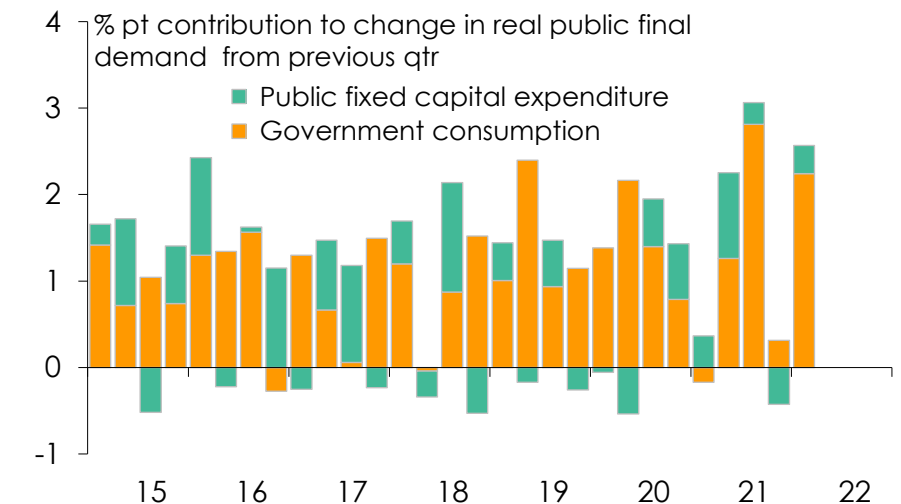
Contributions to quarterly GDP growth



Dwelling investment expenditure



Public expenditure

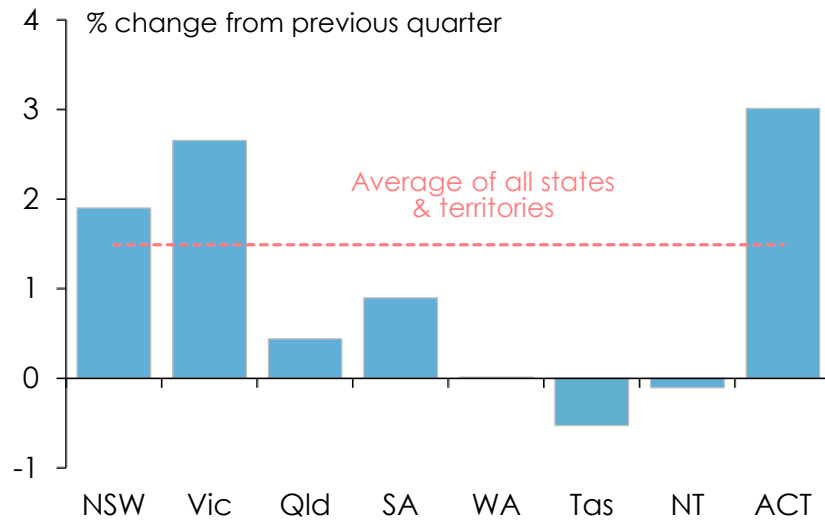


Note: (e) is estimate for the June quarter consistent with Treasury estimate that real GDP grew 3.4% in 2021-22 as a whole. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; June quarter national accounts will be released this Wednesday, 7th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

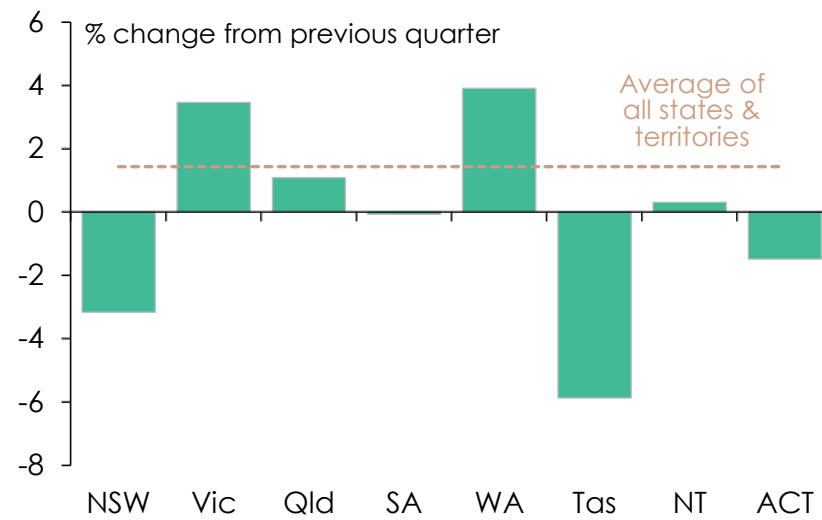
March quarter real GDP growth owed much to the continued recovery in household spending in NSW, Victoria & the ACT from last year's lockdowns

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

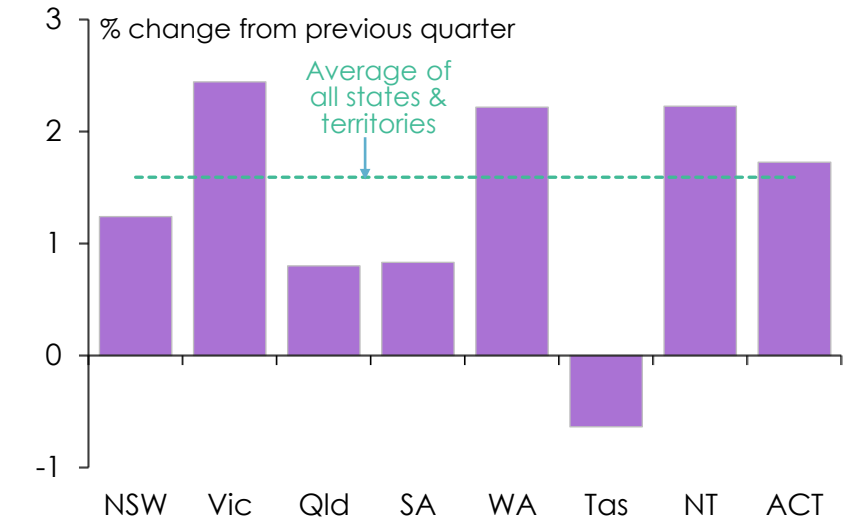
Household consumption



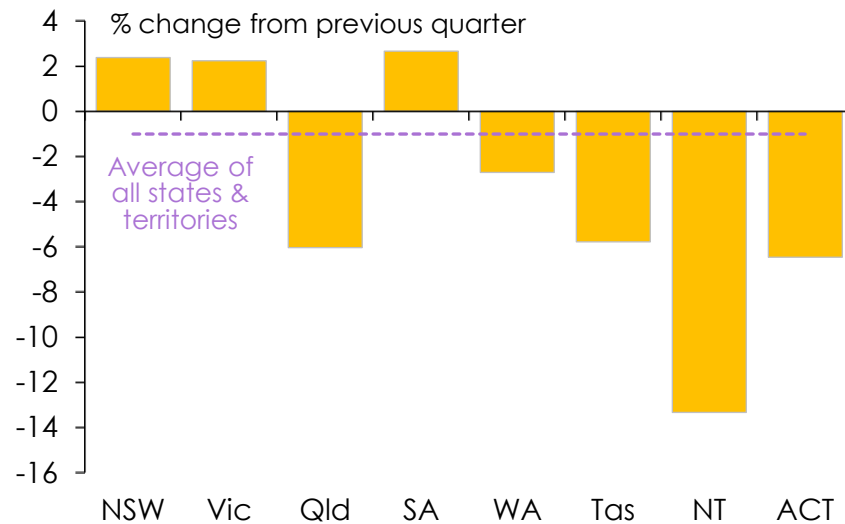
Business investment



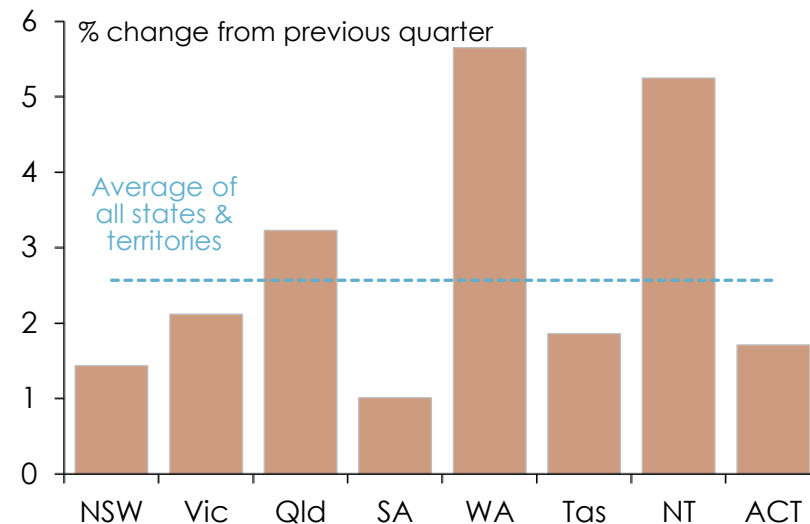
State final demand



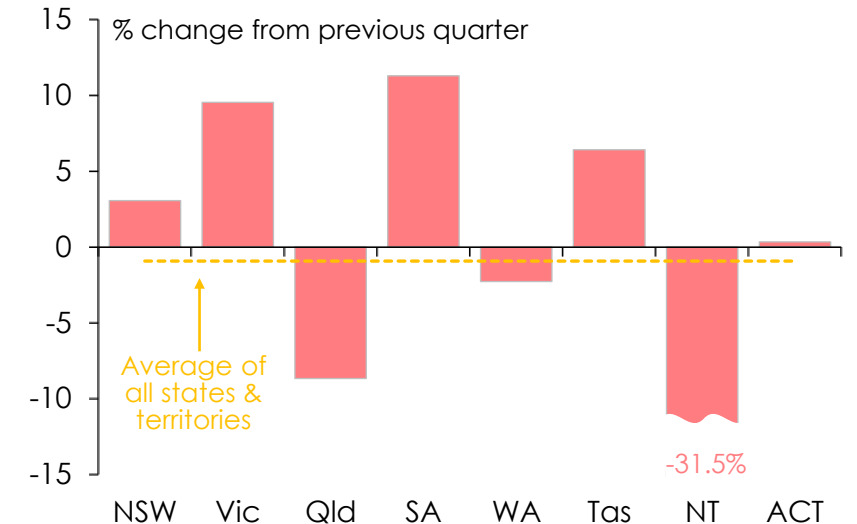
Dwelling investment



Public spending



International exports

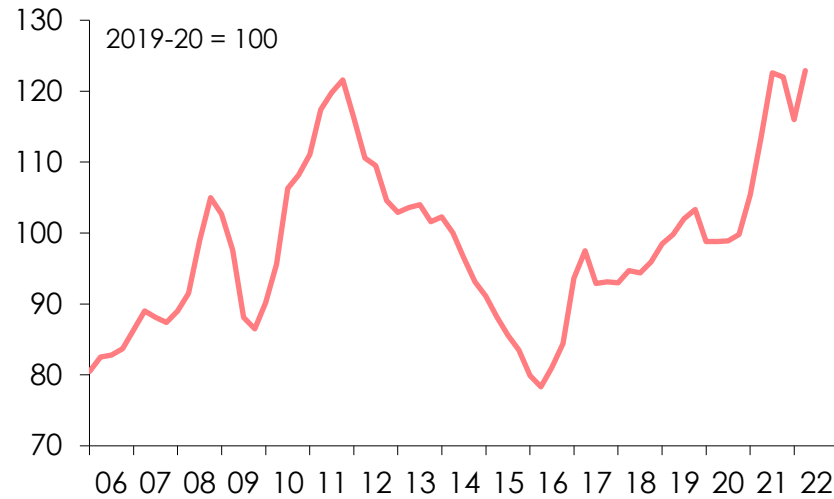


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; [Balance of Payments and International Investment Position,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

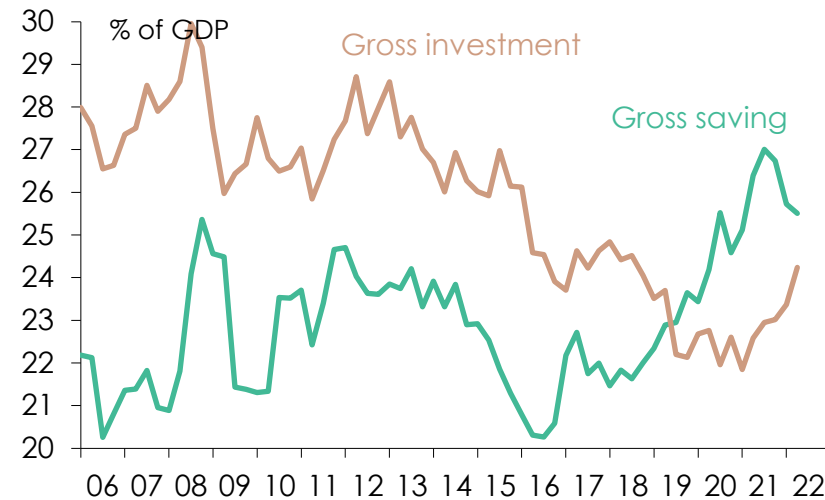
Australia's terms of trade reached a new record high in the March quarter, boosting real gross domestic income – most of which went to profits

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

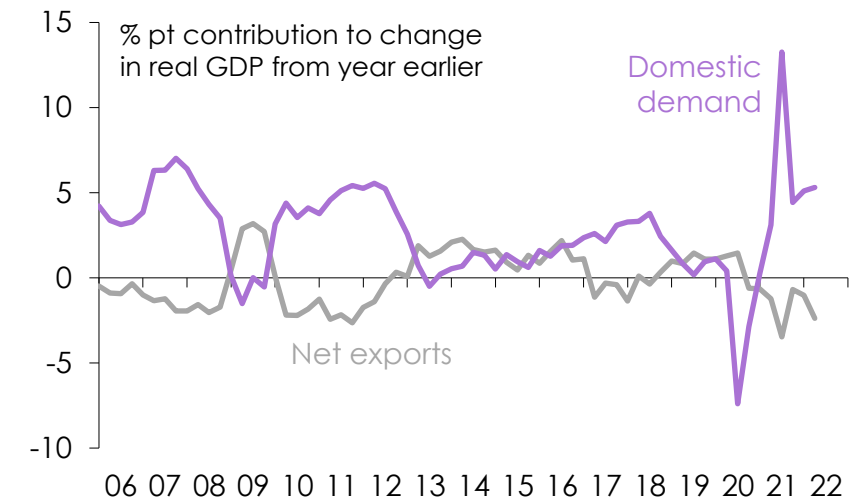
Terms of trade



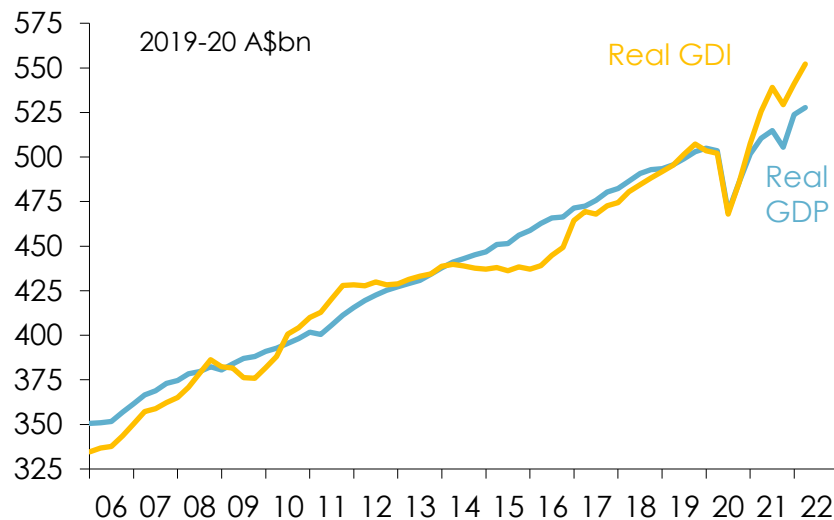
National saving & investment



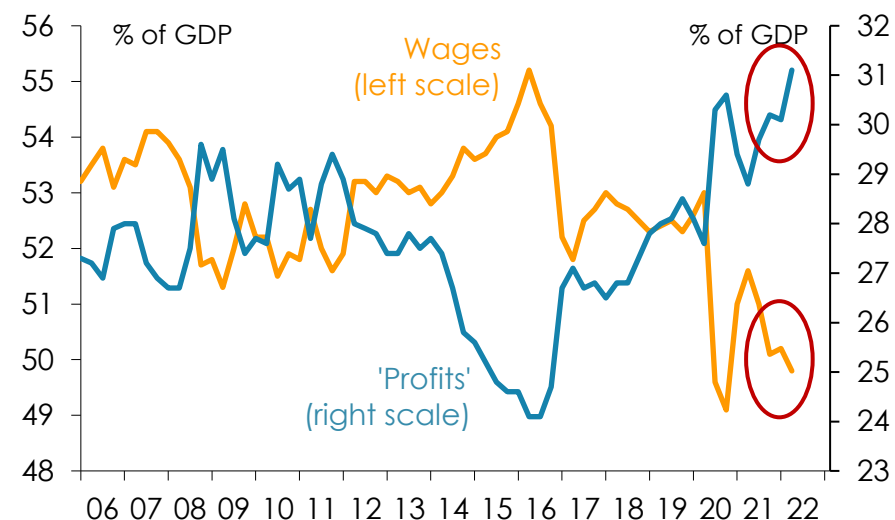
Domestic demand and net exports



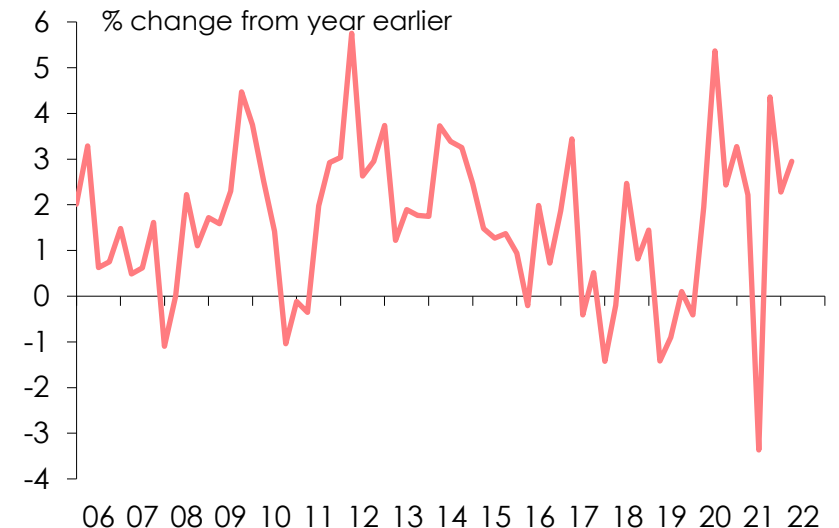
Real gross domestic income



Shares of national income



Labour productivity

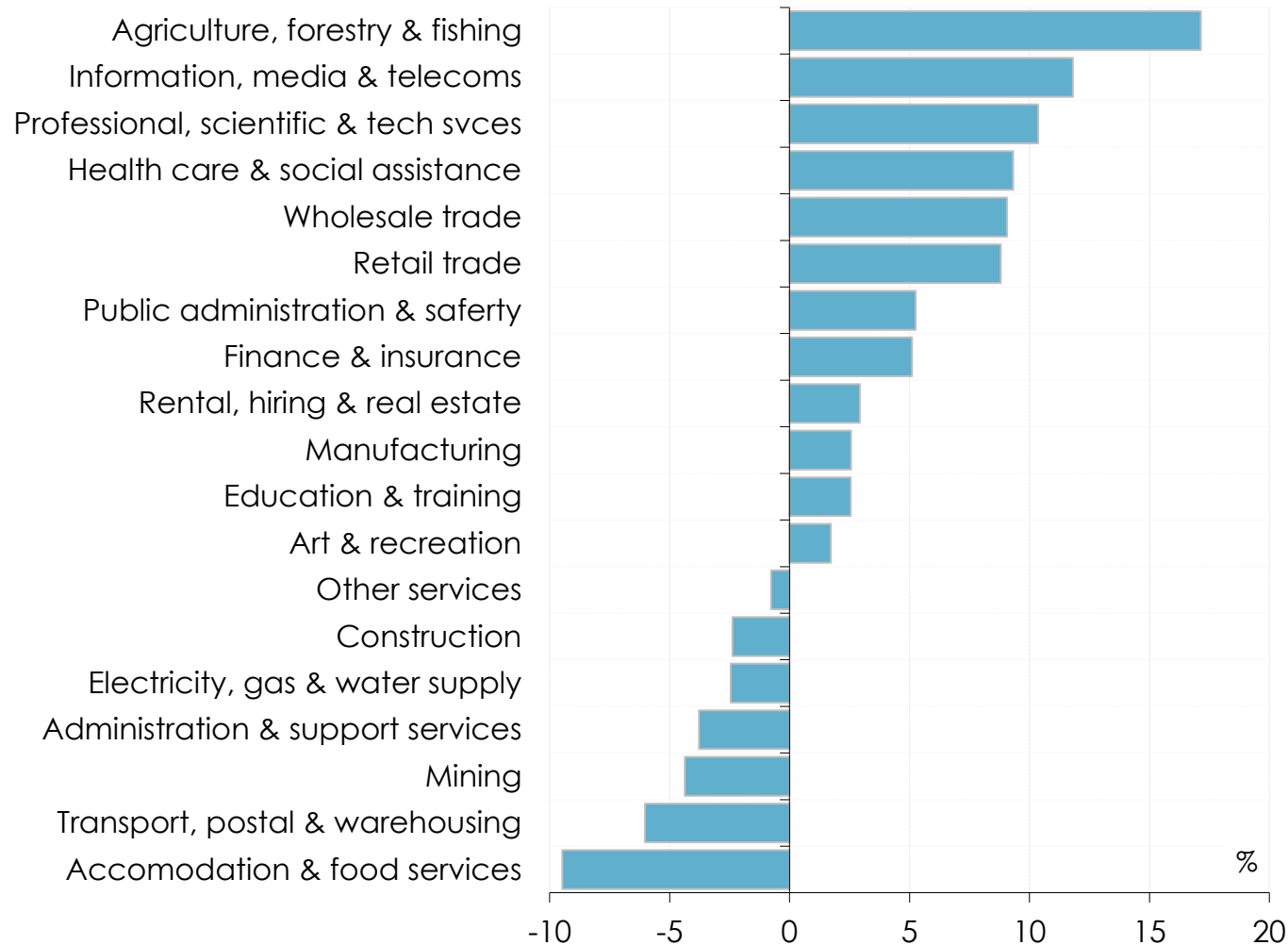


Note: The terms of trade is the ratio of export to import prices (for more see [slide 61](#)); real gross domestic income is real GDP adjusted for changes in the terms of trade; 'profits' is gross operating surplus of corporate trading and financial enterprises; labour productivity is gross value added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

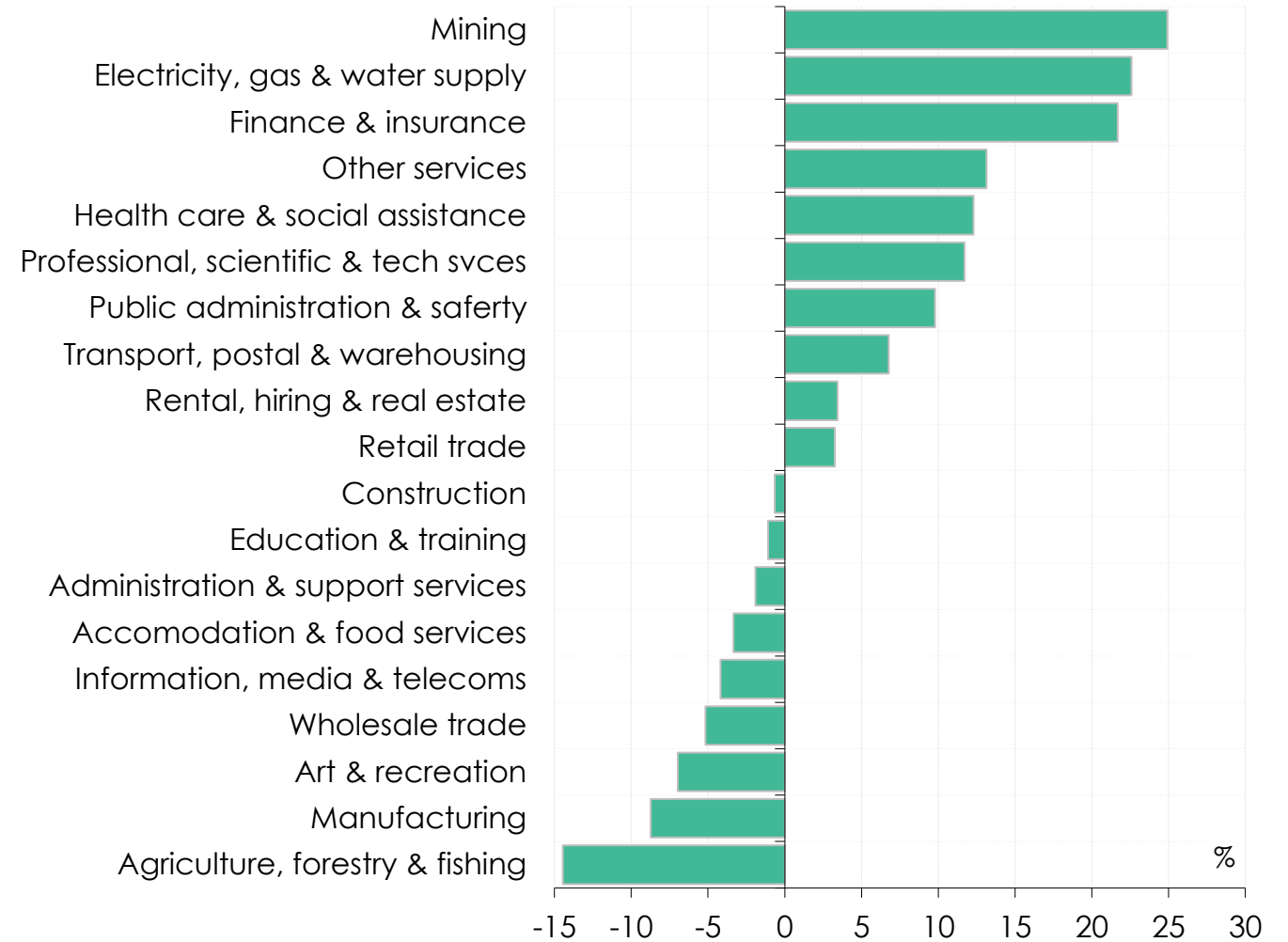
Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 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"](#).

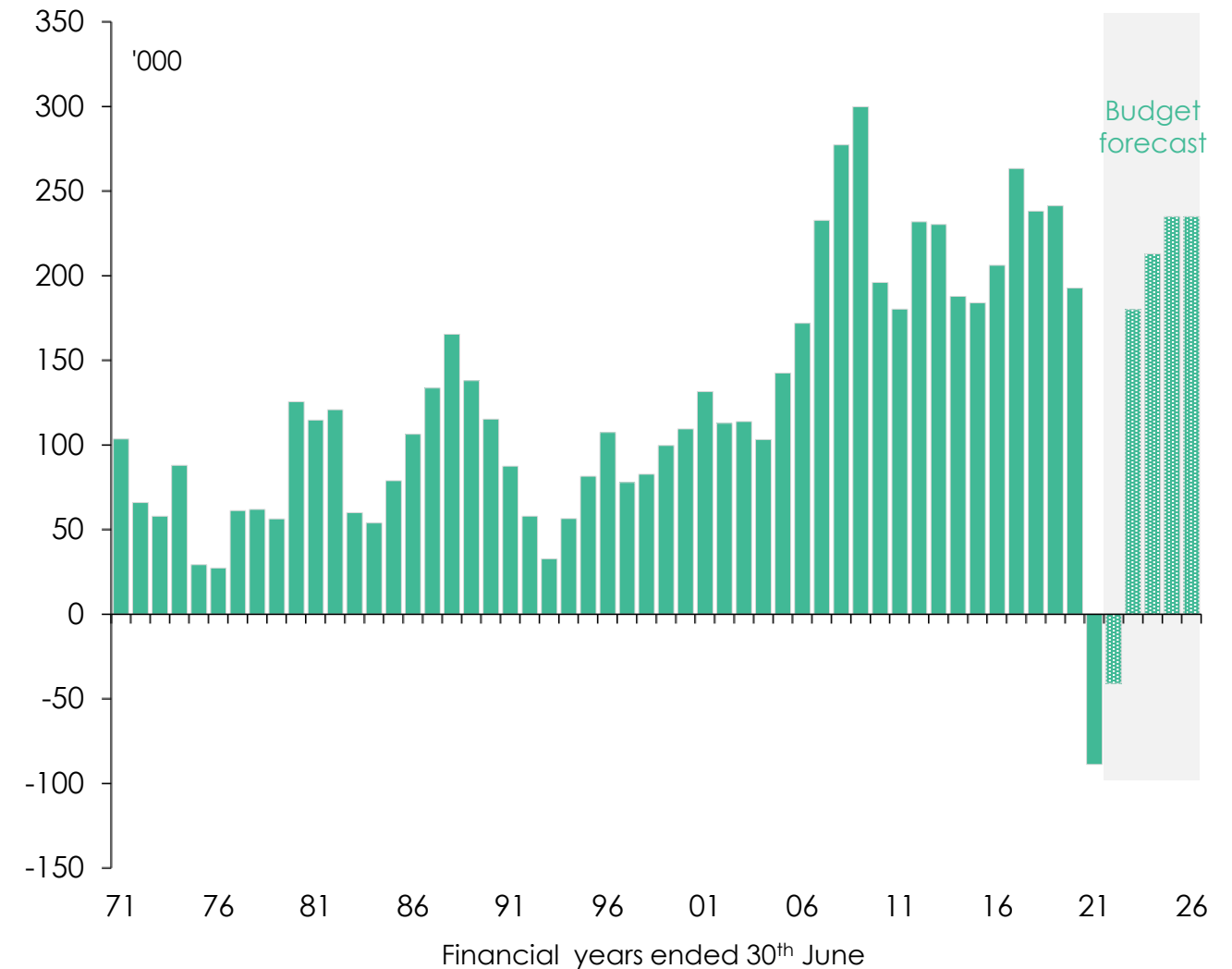
The Government this week lifted the permanent migration target for 2022-23 by 35,000, to 190,000

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Population growth



Net overseas migration



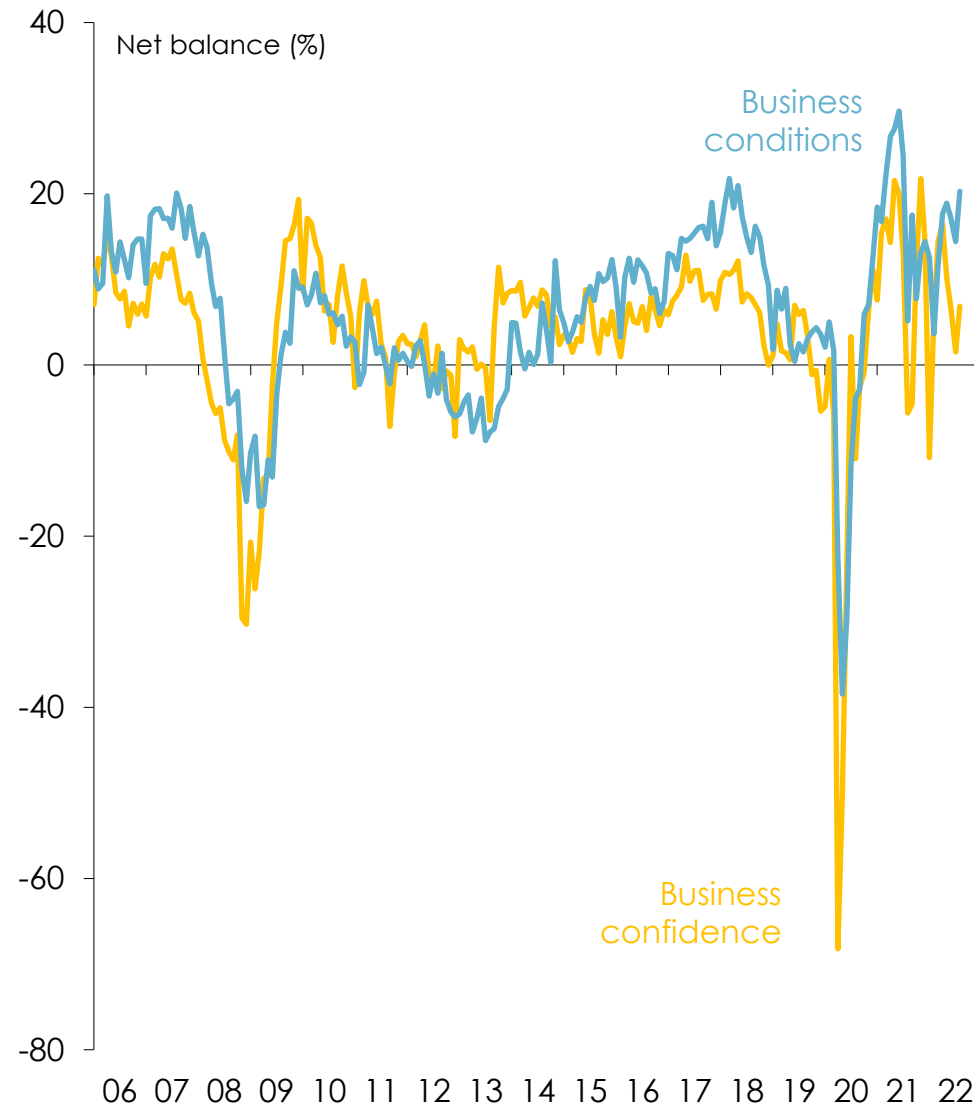
Sources: ABS, [National, state and territory population](#); Australian Government, 2022-23 [Budget Paper No. 1, Statement No. 2](#), 29th March 2022.

The business sector

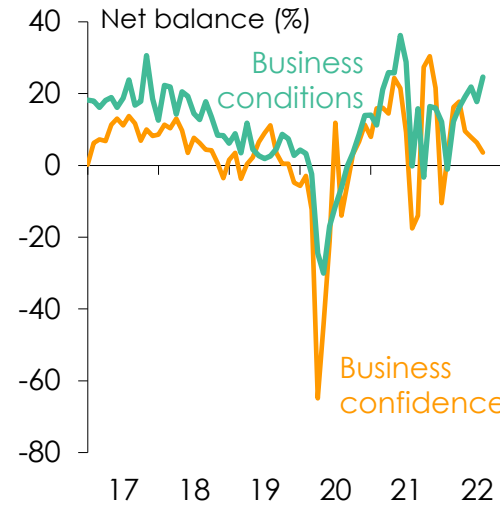
Business confidence and conditions – surprisingly – improved in July, despite higher inflation and interest rates

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

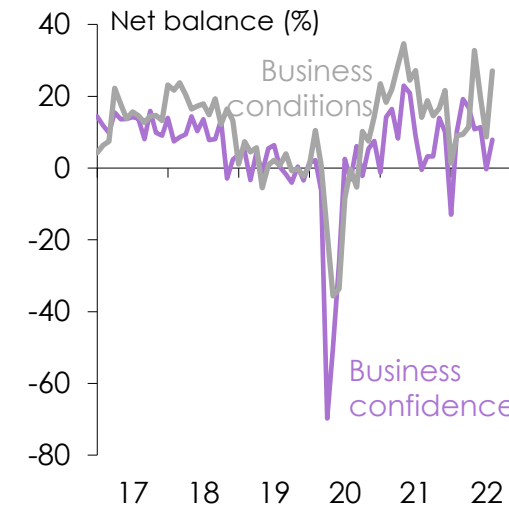
National business confidence & conditions



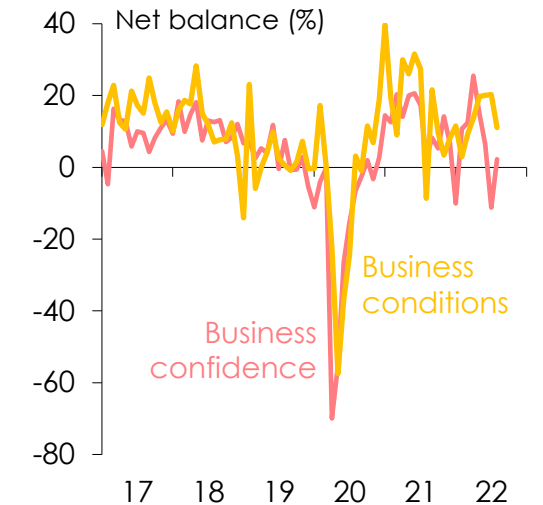
New South Wales



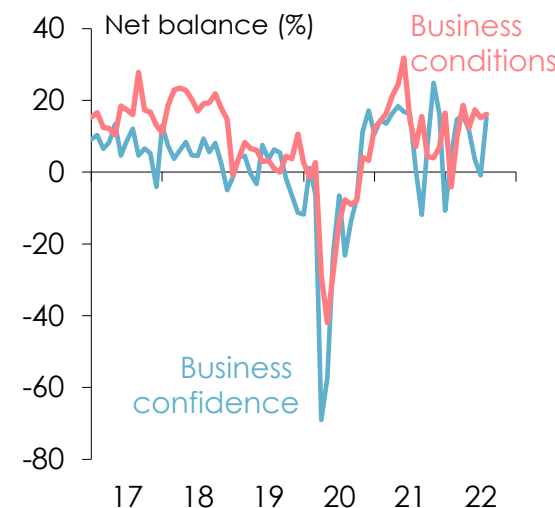
Queensland



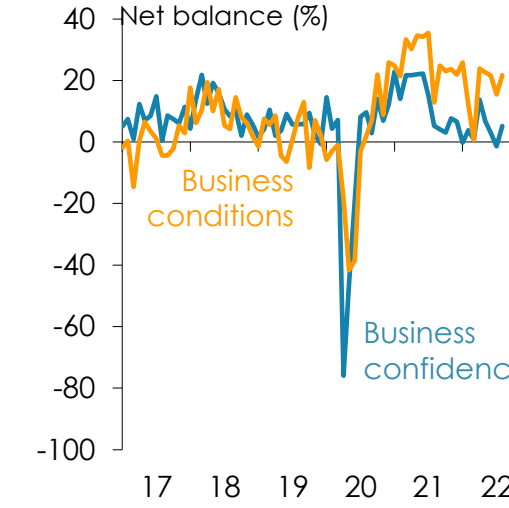
South Australia



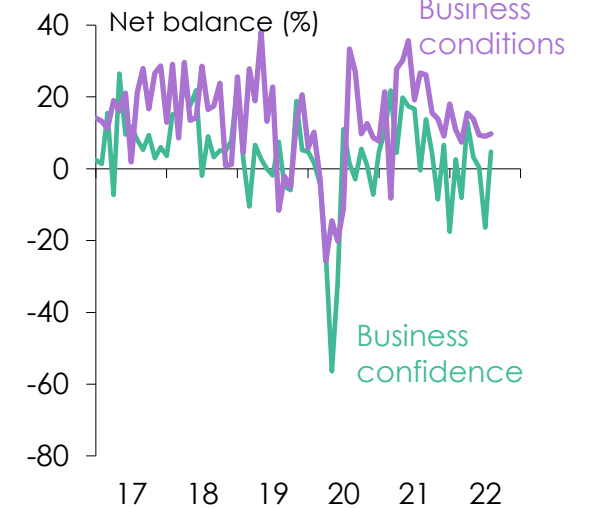
Victoria



Western Australia



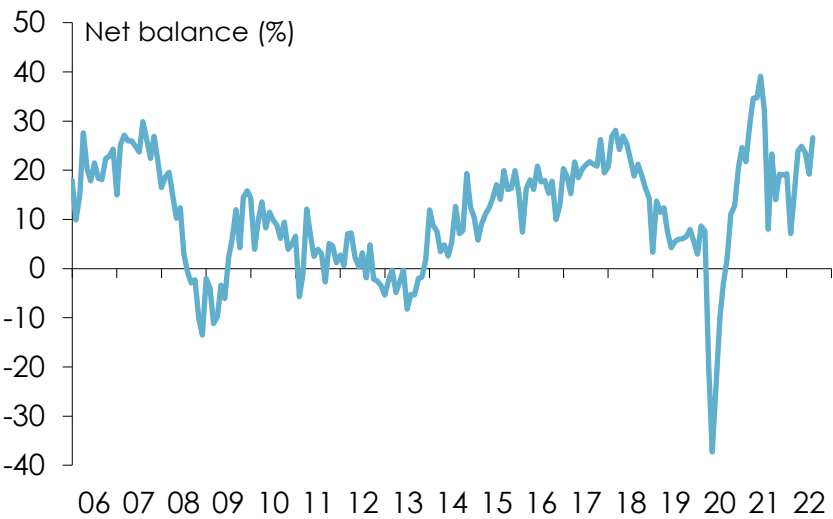
Tasmania



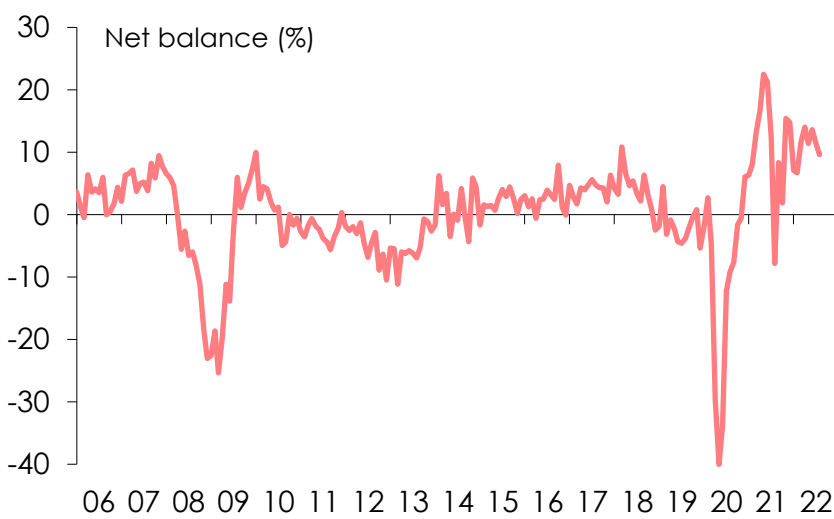
Most of the components of 'business conditions' improved in July, except for forward orders & capex intentions – capacity use was at a record high

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

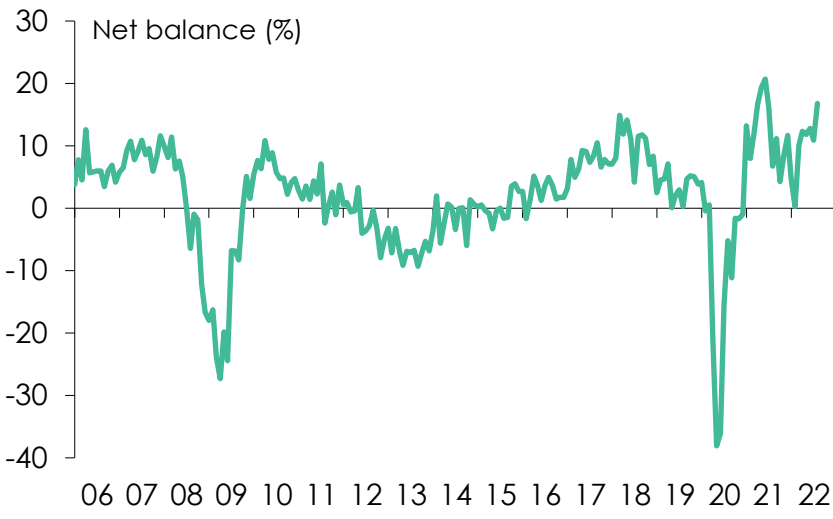
Trading conditions



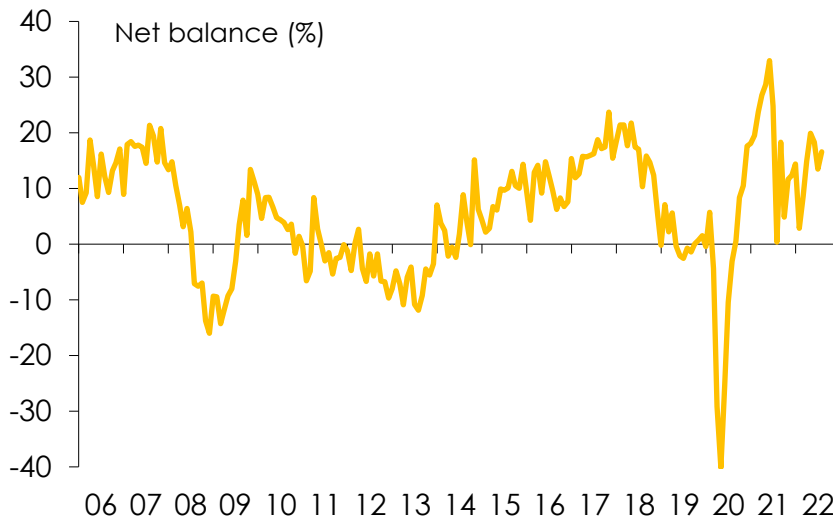
Forward orders



Employee hiring intentions



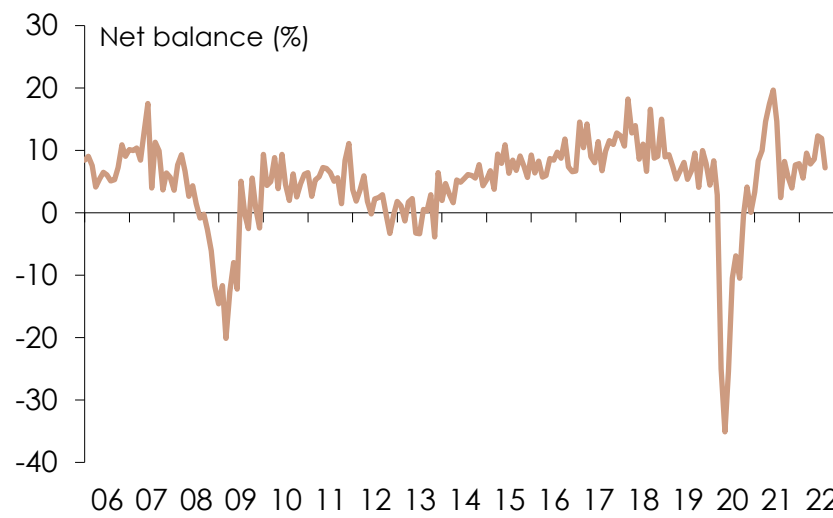
Profitability



Capacity utilization



Capital expenditure intentions

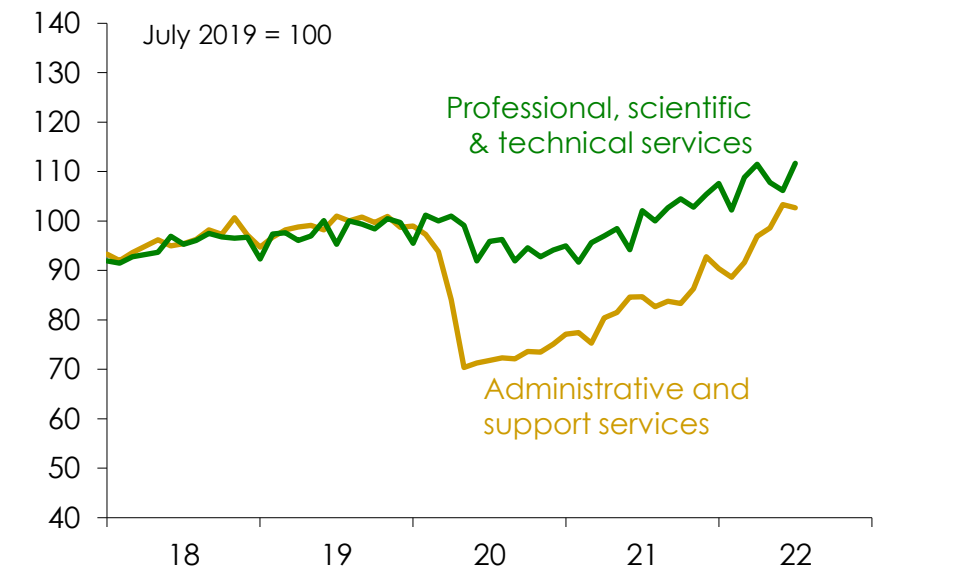
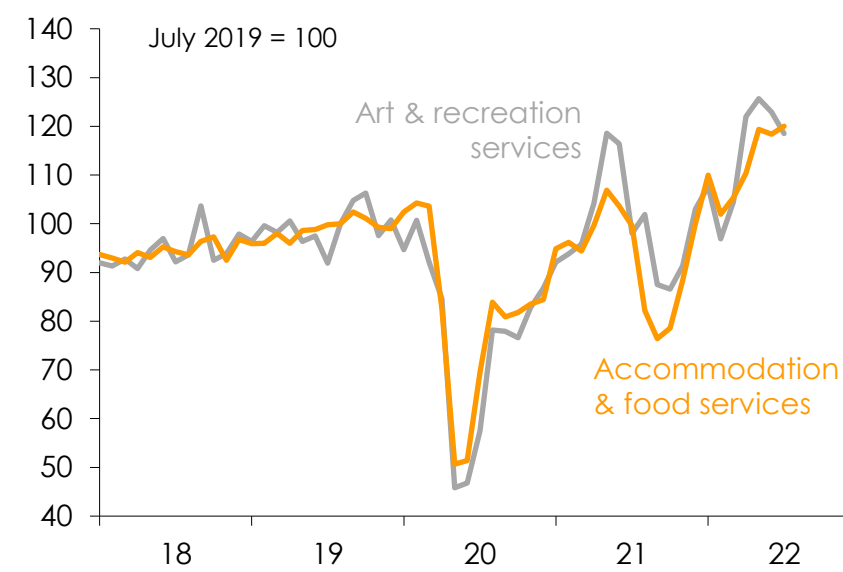
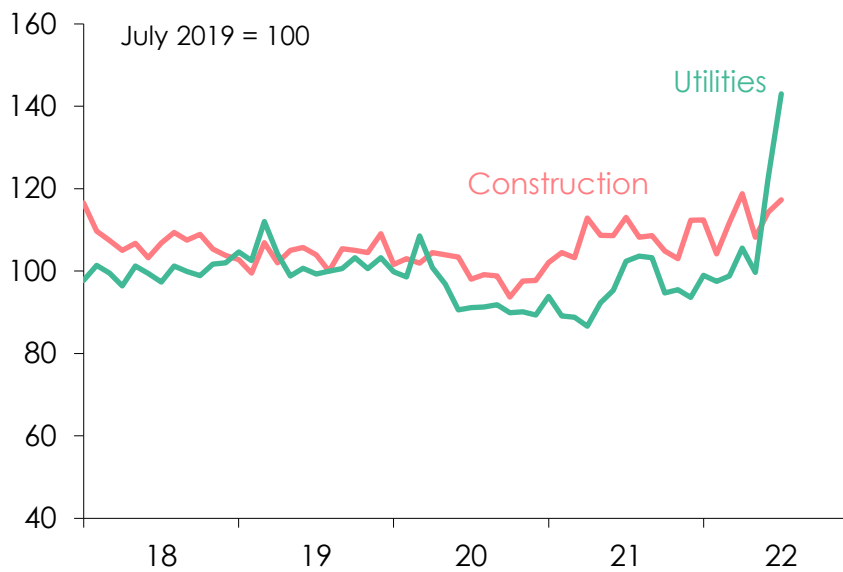
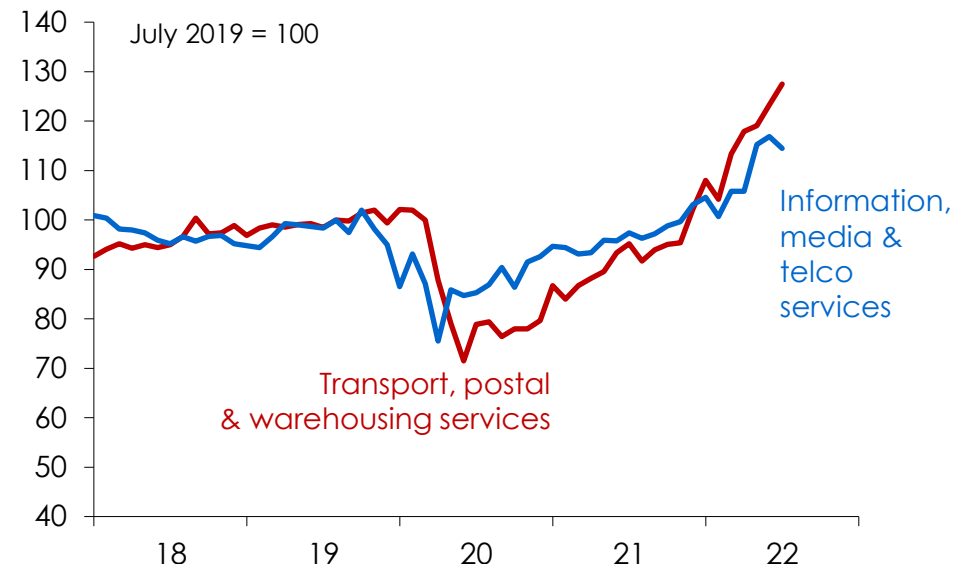
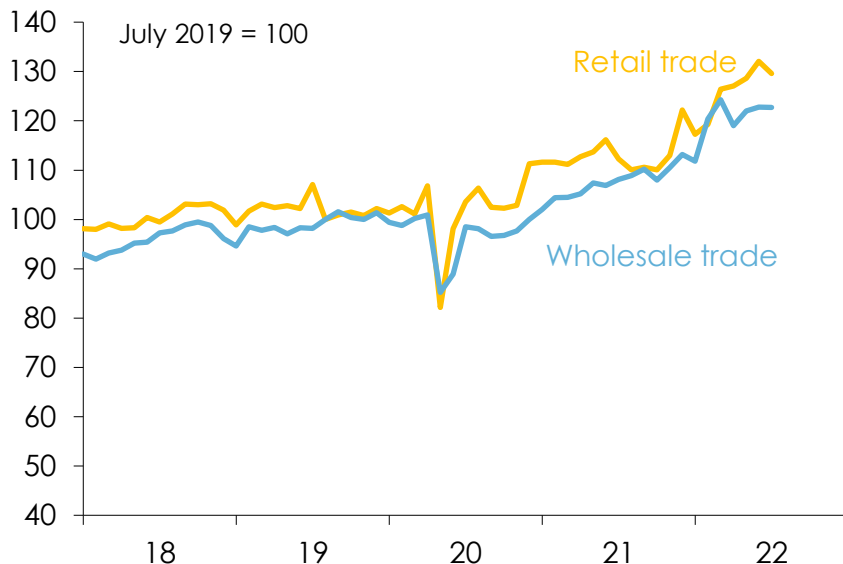
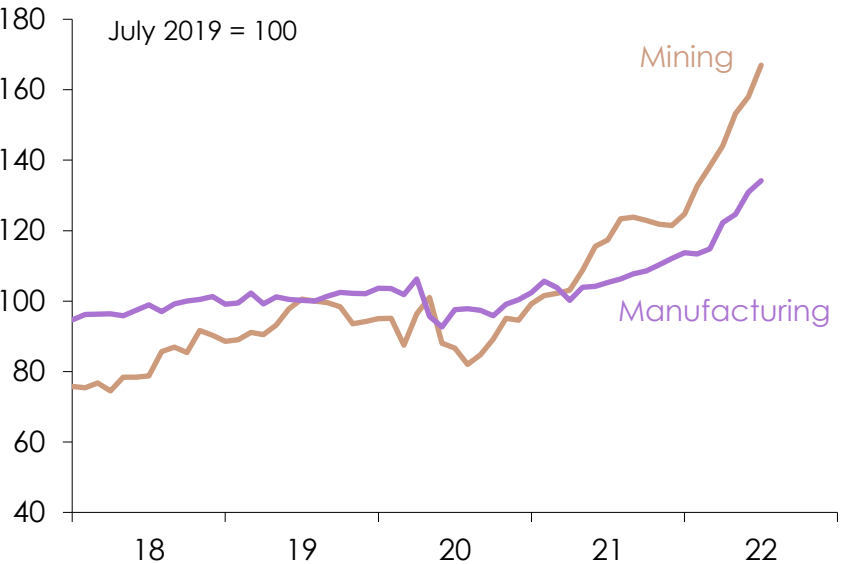


Source: National Australia Bank [Monthly Business Survey](#), July 2022; August survey results will be released on 13th September. [Return to "What's New"](#).

The utilities sector reported another very large increase in turnover in June, as did mining, but five of the nine services sectors registered declines

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Indicators of business turnover, by industry

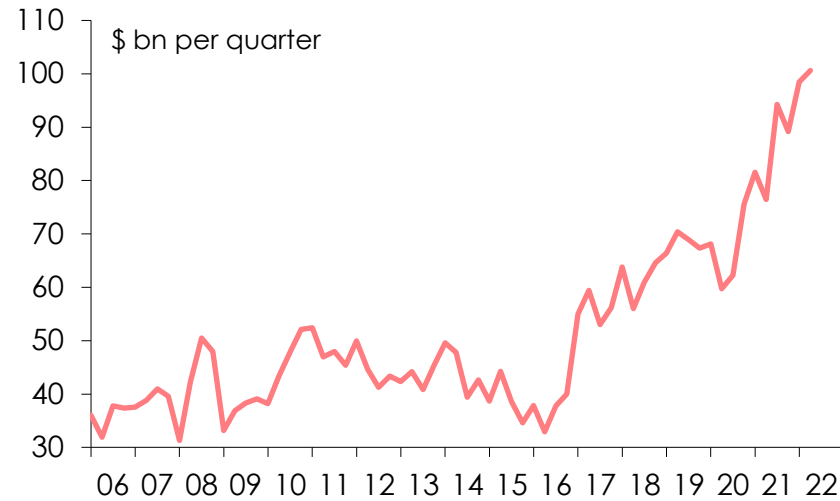


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

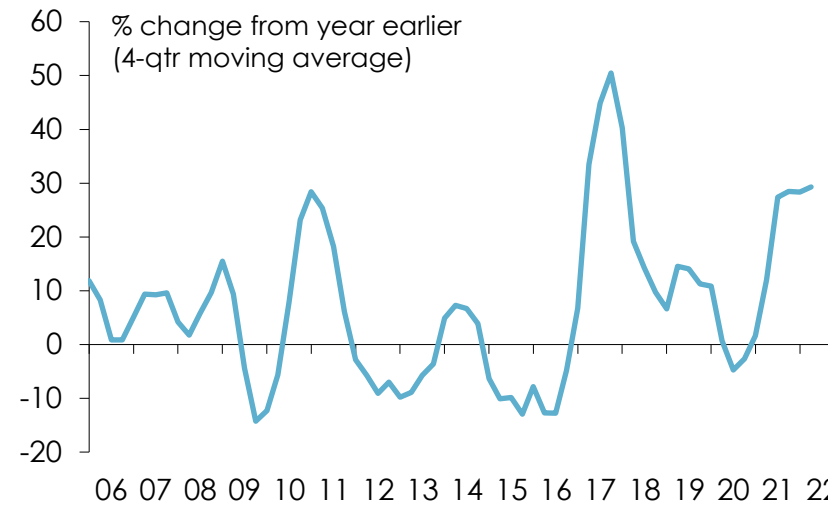
Company profits have grown strongly over the past five years, driven largely by mining – with the construction sector experiencing a ‘margin squeeze’

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

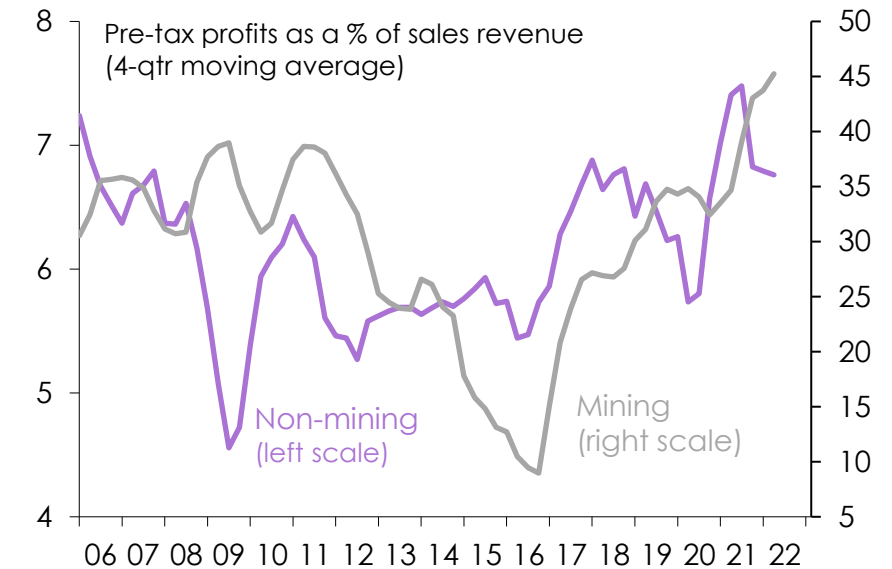
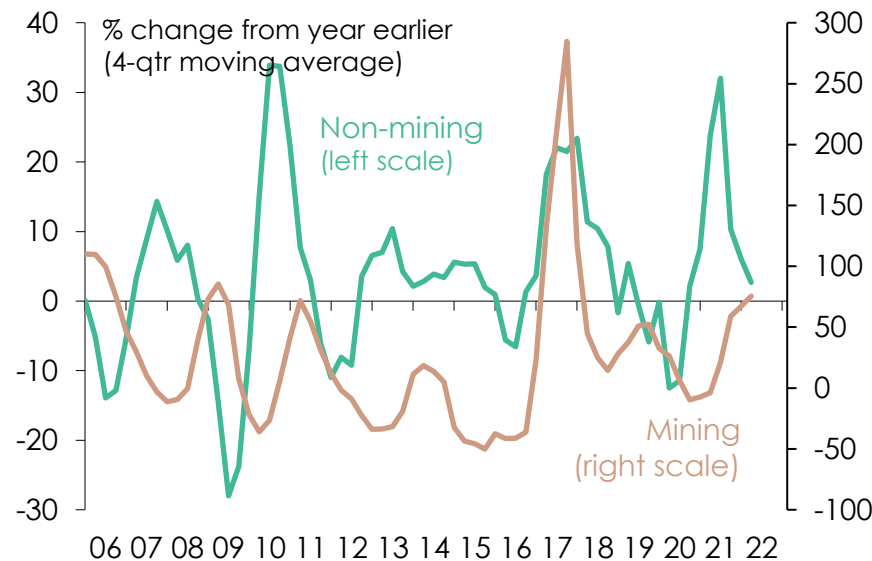
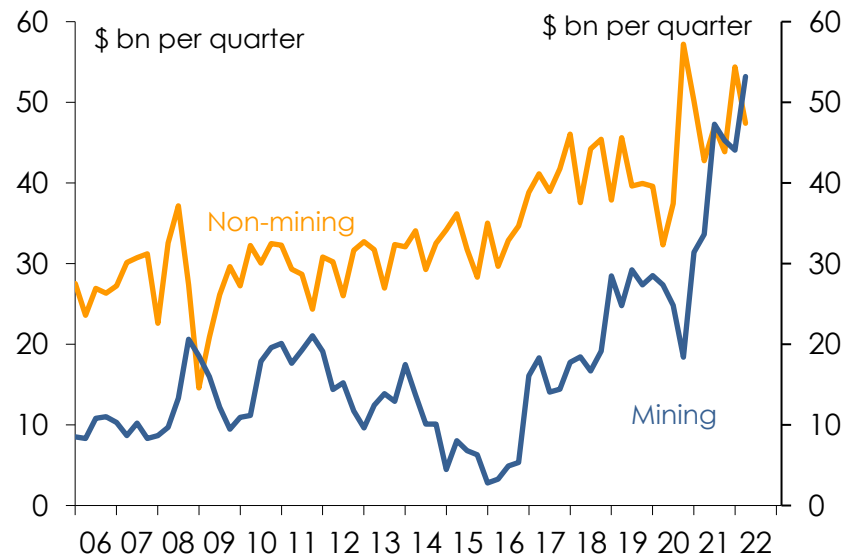
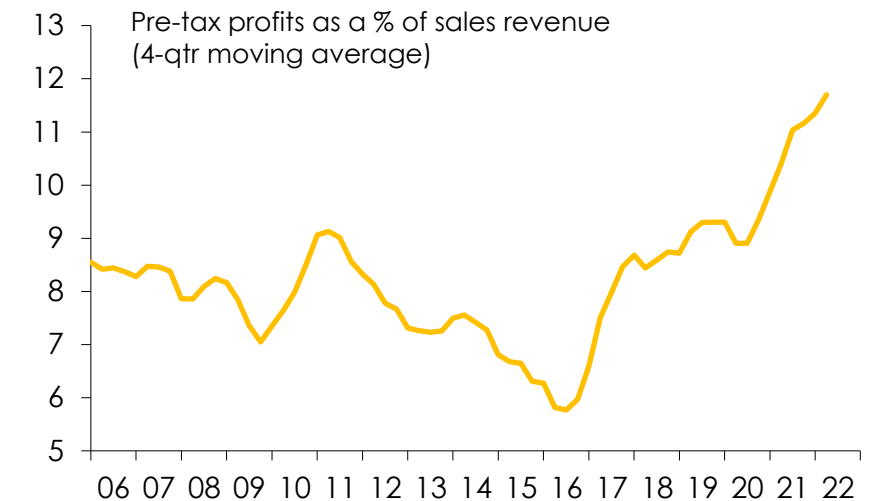
Pre-tax company profits



Pre-tax company profits growth



Pre-tax profit margins

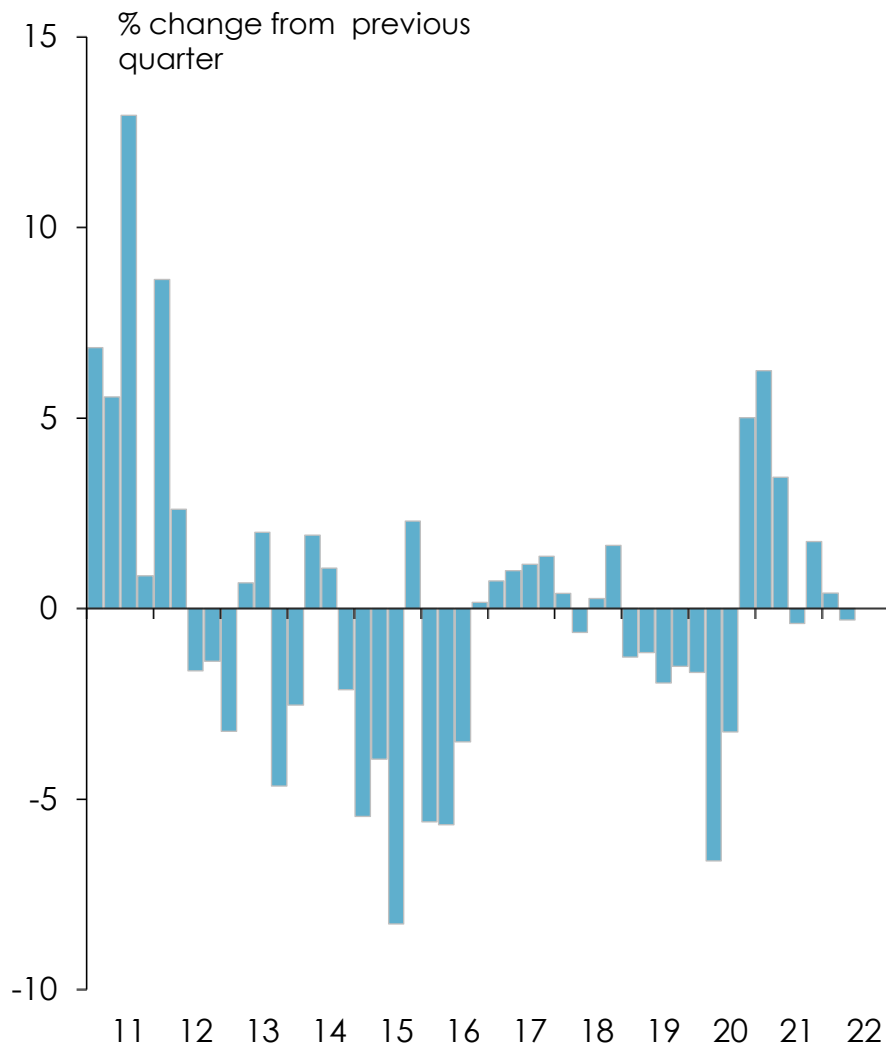


Note: Data depicted in these charts excludes banks & other deposit-taking financial intermediaries, health & general insurers, education & training, and health care & social assistance providers. Source: ABS, [Business Indicators, Australia](#), March 2022. June quarter data will be released on 5th September.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

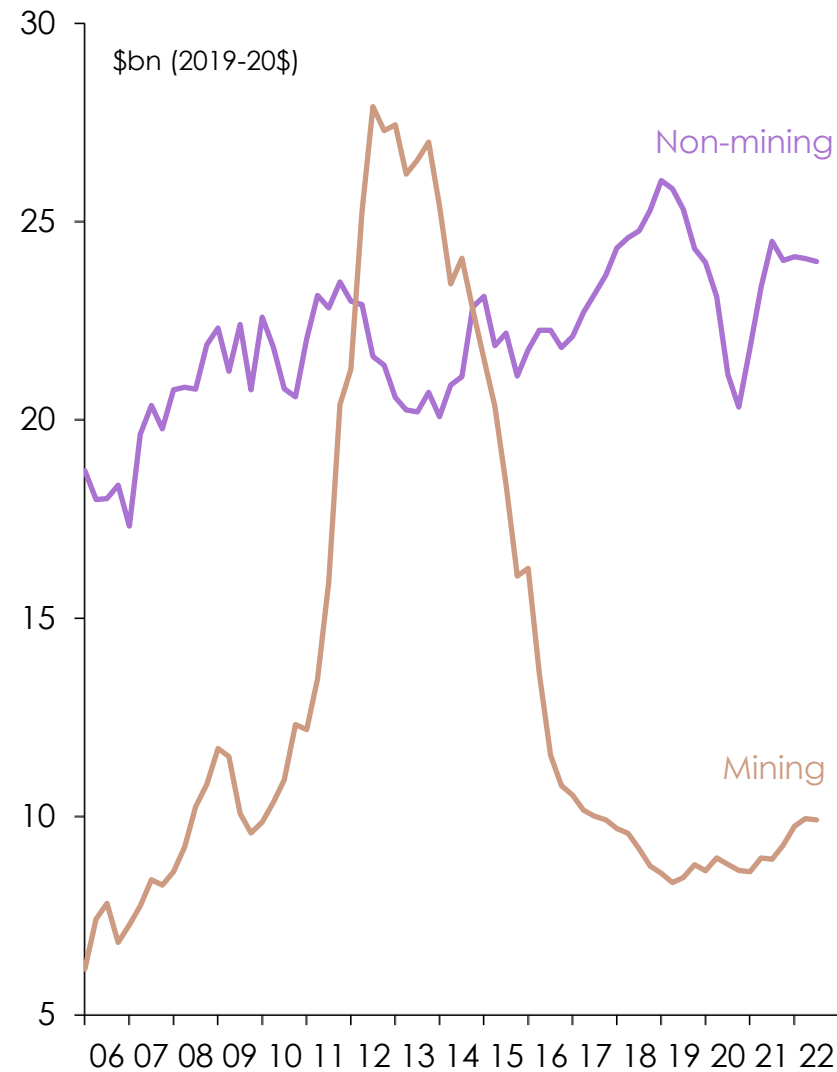
Business capex fell 0.3% in the June quarter, reflecting a further decline in construction: non-mining equipment investment remains solid

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Real business new fixed capital expenditure



Fixed capital expenditure by industry



Fixed capital expenditure by major type



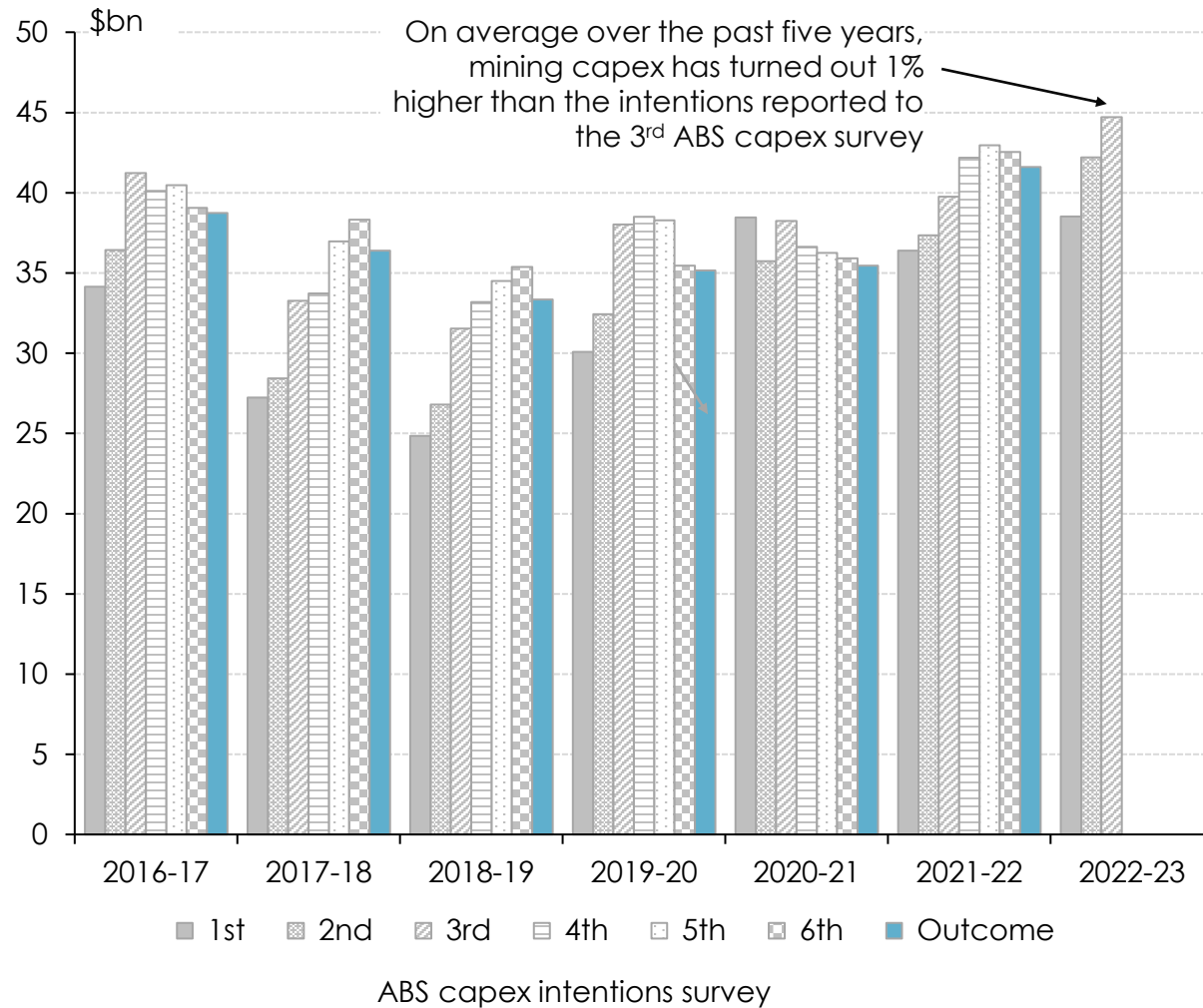
Note: the ABS Survey of new capital expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

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

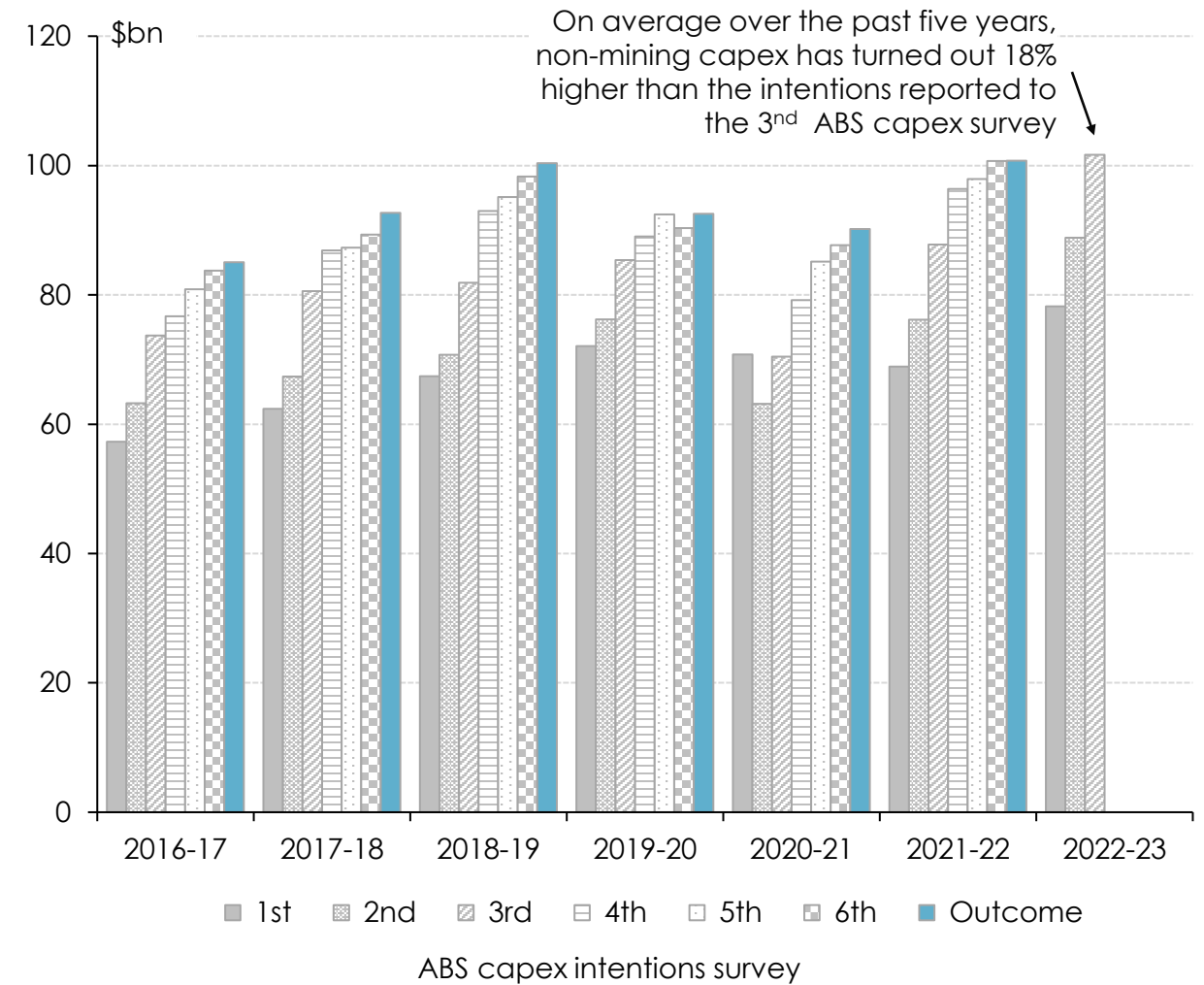
Businesses revised up their capex plans for 2022-23 by 11¾% during the June quarter, pointing to a 15% increase from 2021-22 levels

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining



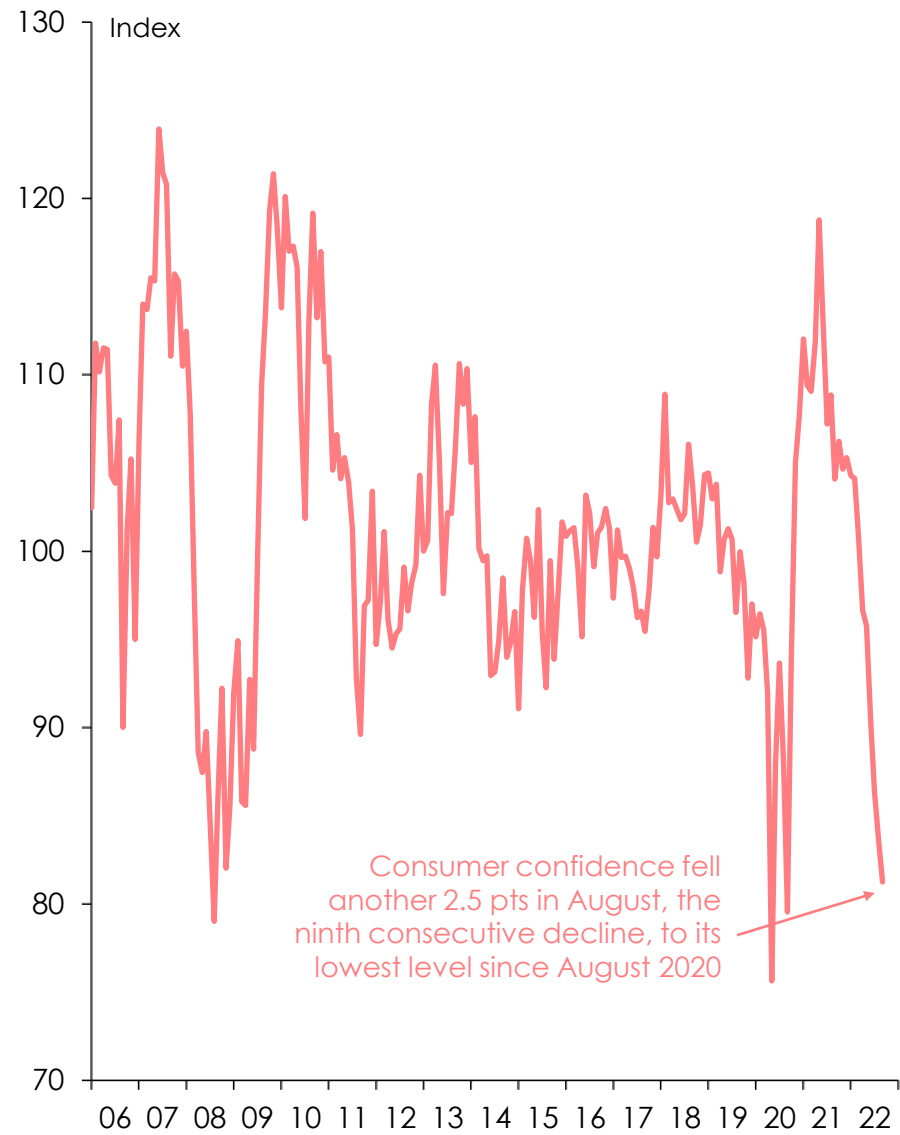
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in April & May, the third in July & August of the financial year, the fourth in October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

The household sector and consumer spending

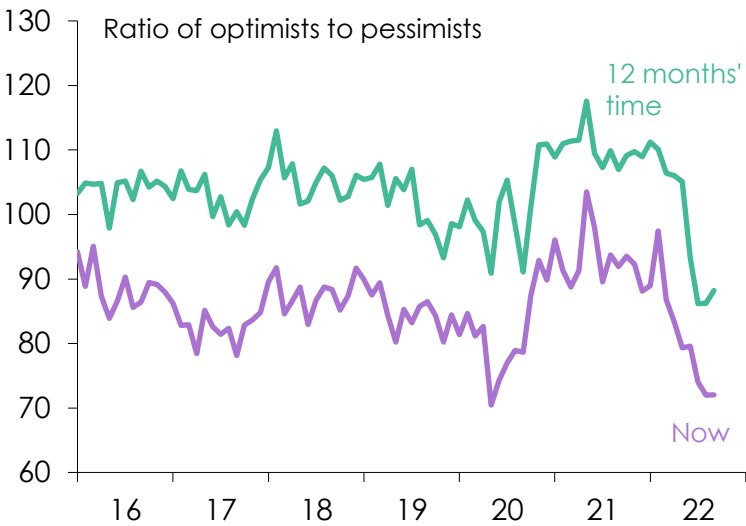
Consumer confidence fell again in August, for the ninth month in a row, to its lowest level in two years, following the 4th successive RBA rate hike

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

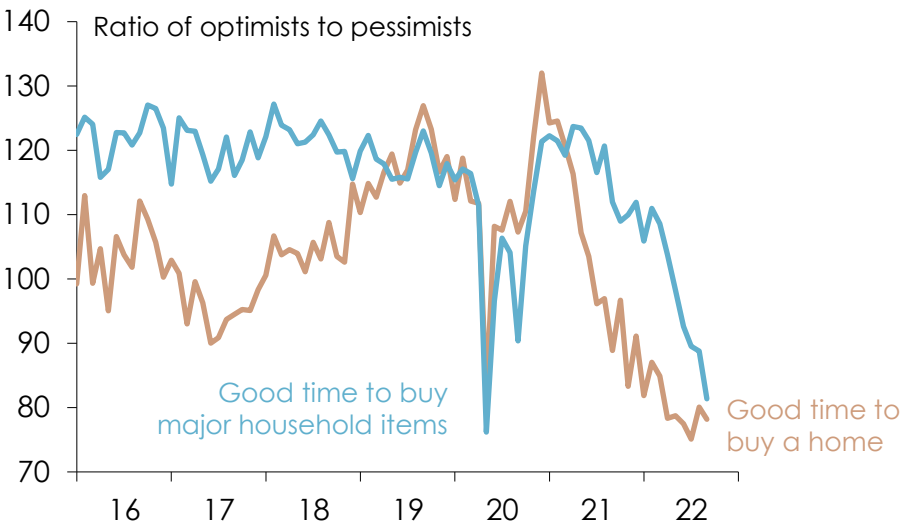
Consumer confidence index



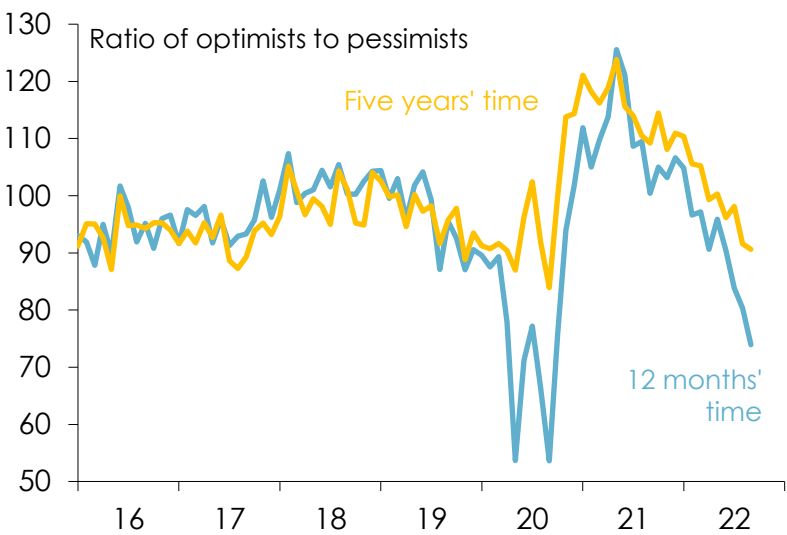
Household finances assessment



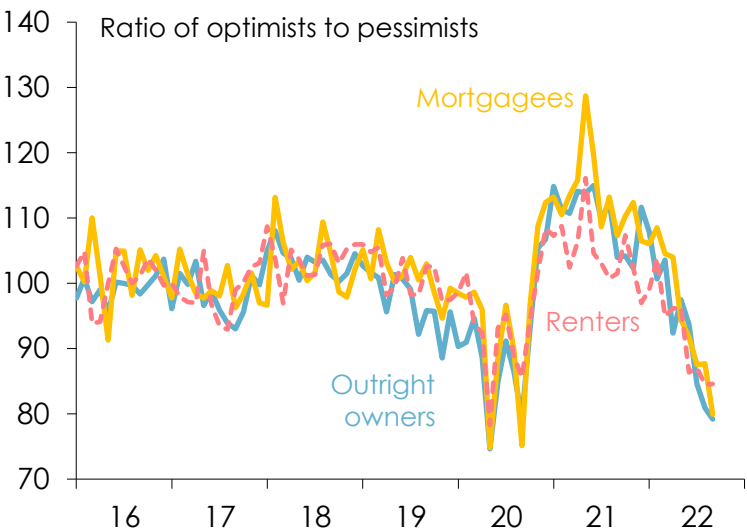
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure

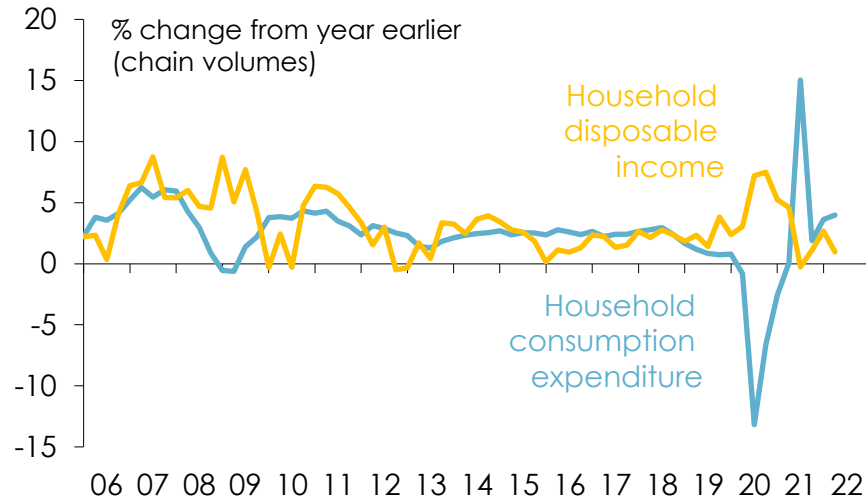


Source: [Westpac Banking Corporation](#). September consumer confidence will be released on 13th September. [Return to "What's New"](#).

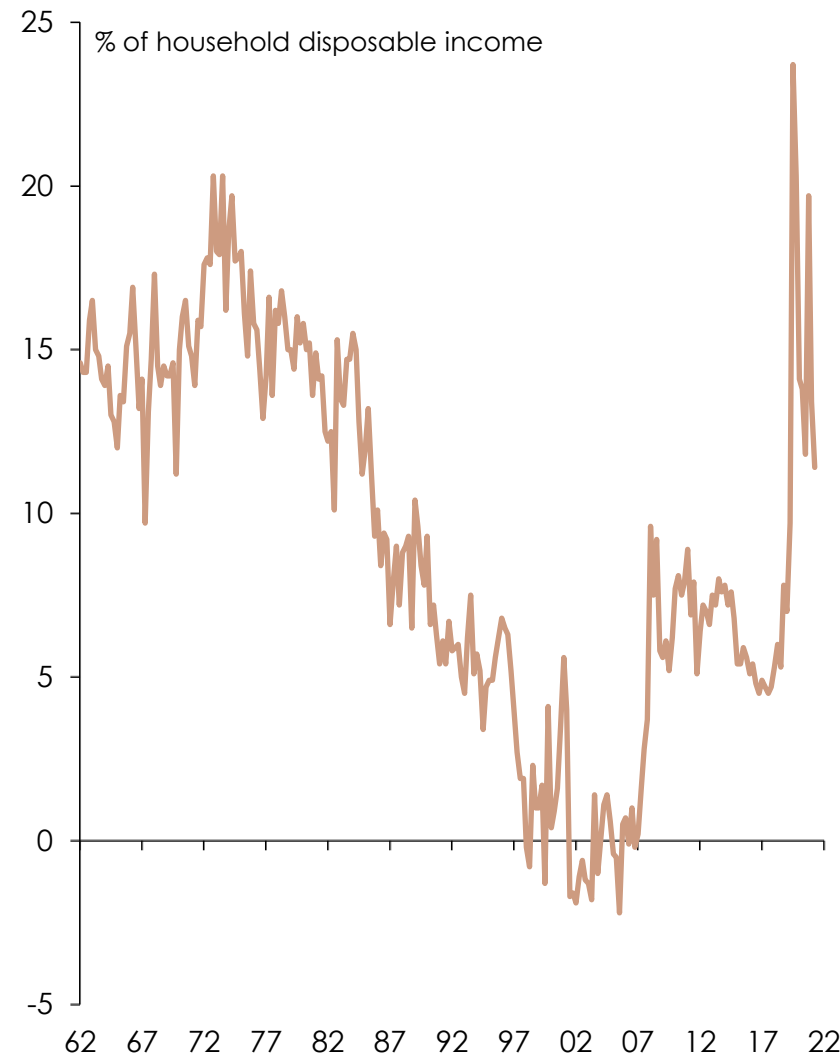
Households are sustaining spending in the face of weak real income growth by reducing saving – many households have large cash reserves

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

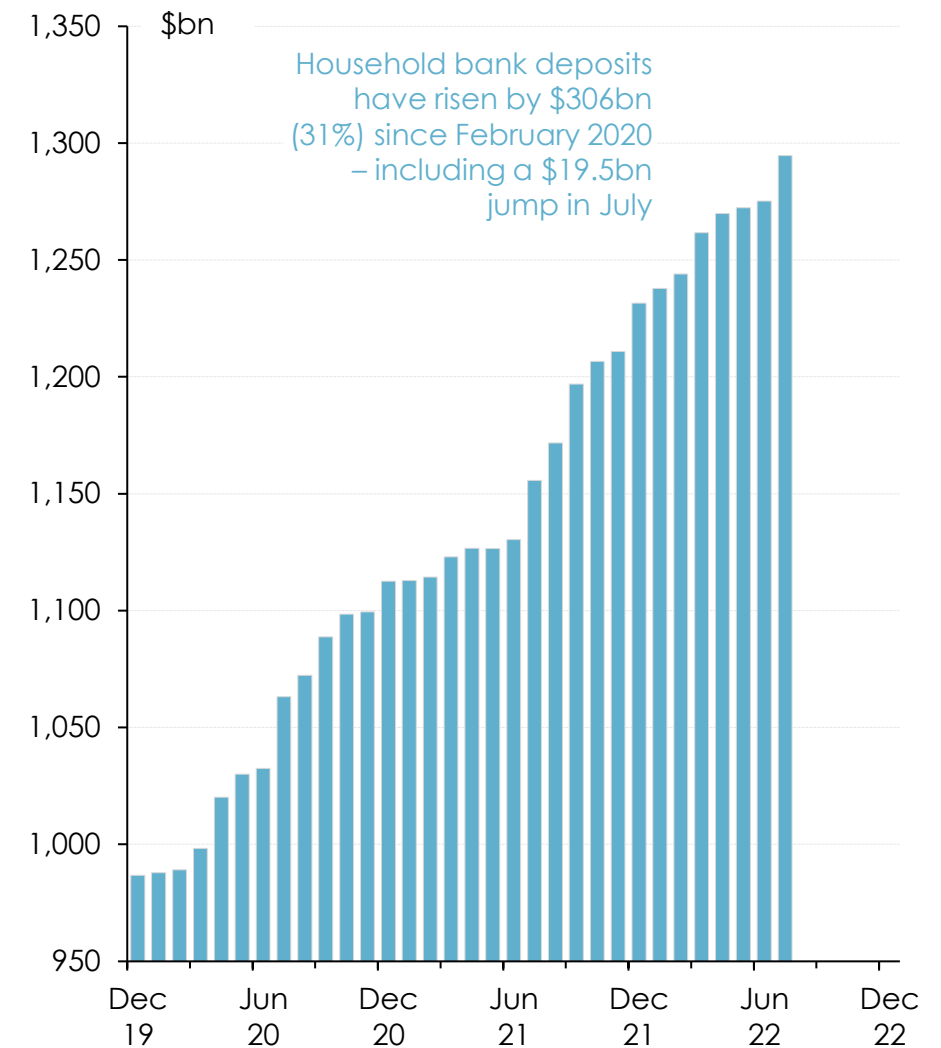
Household income and spending



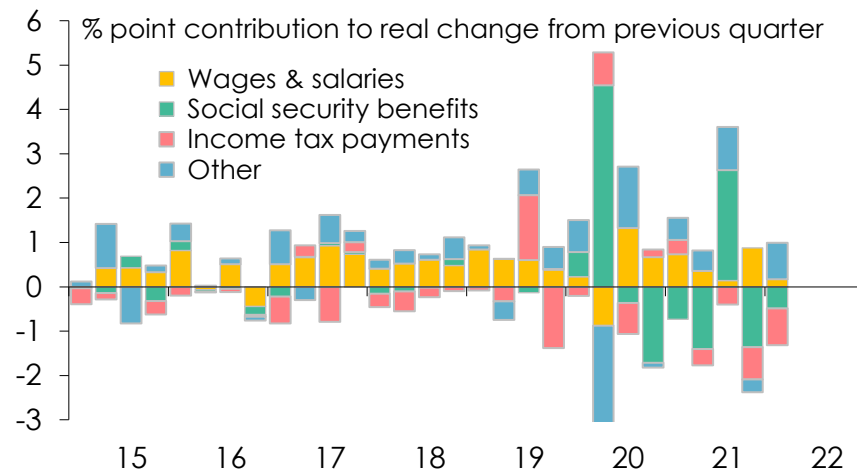
Household saving ratio



Household bank deposits



Sources of household income

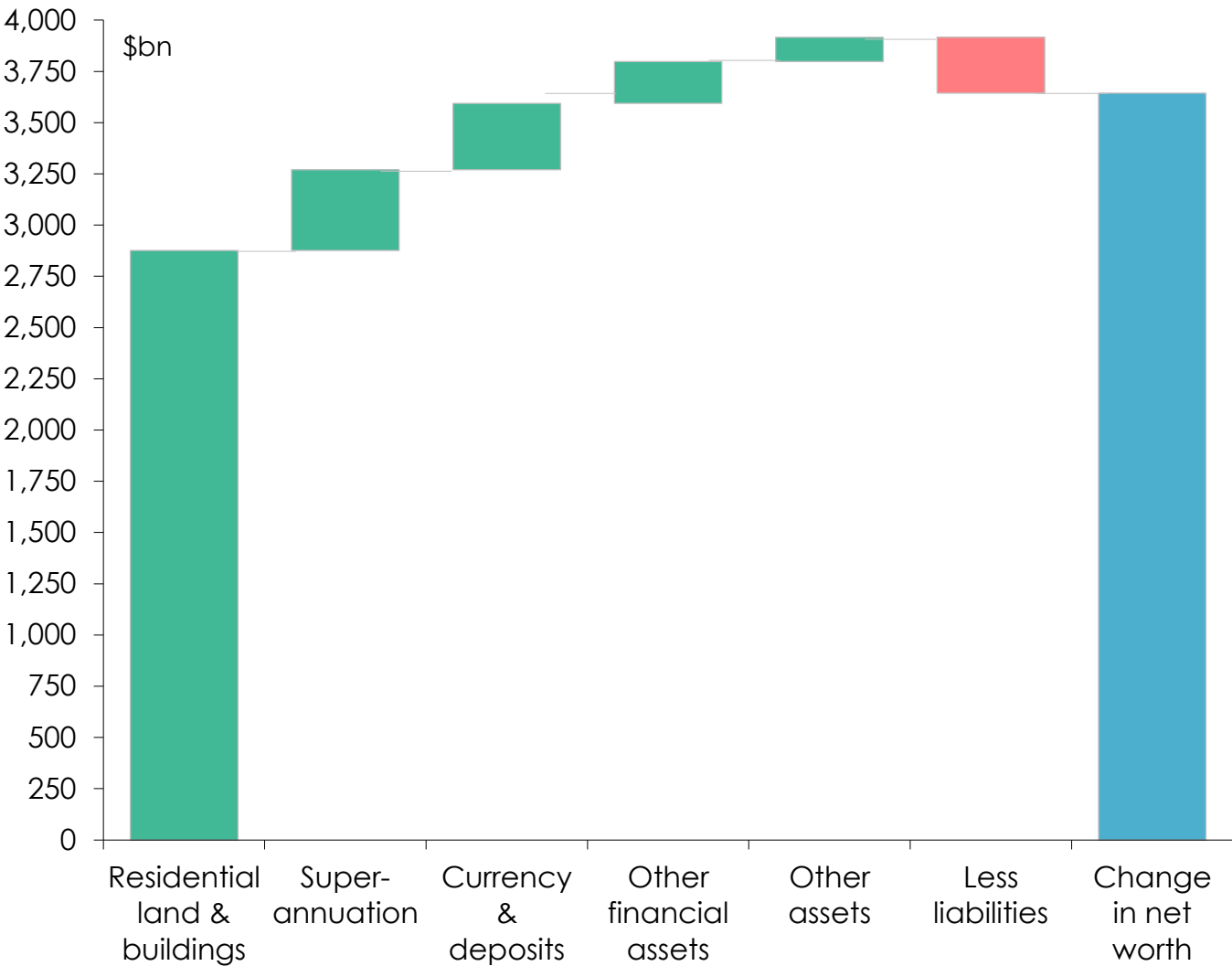


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). June quarter data on household income, spending and saving will be released on 7th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

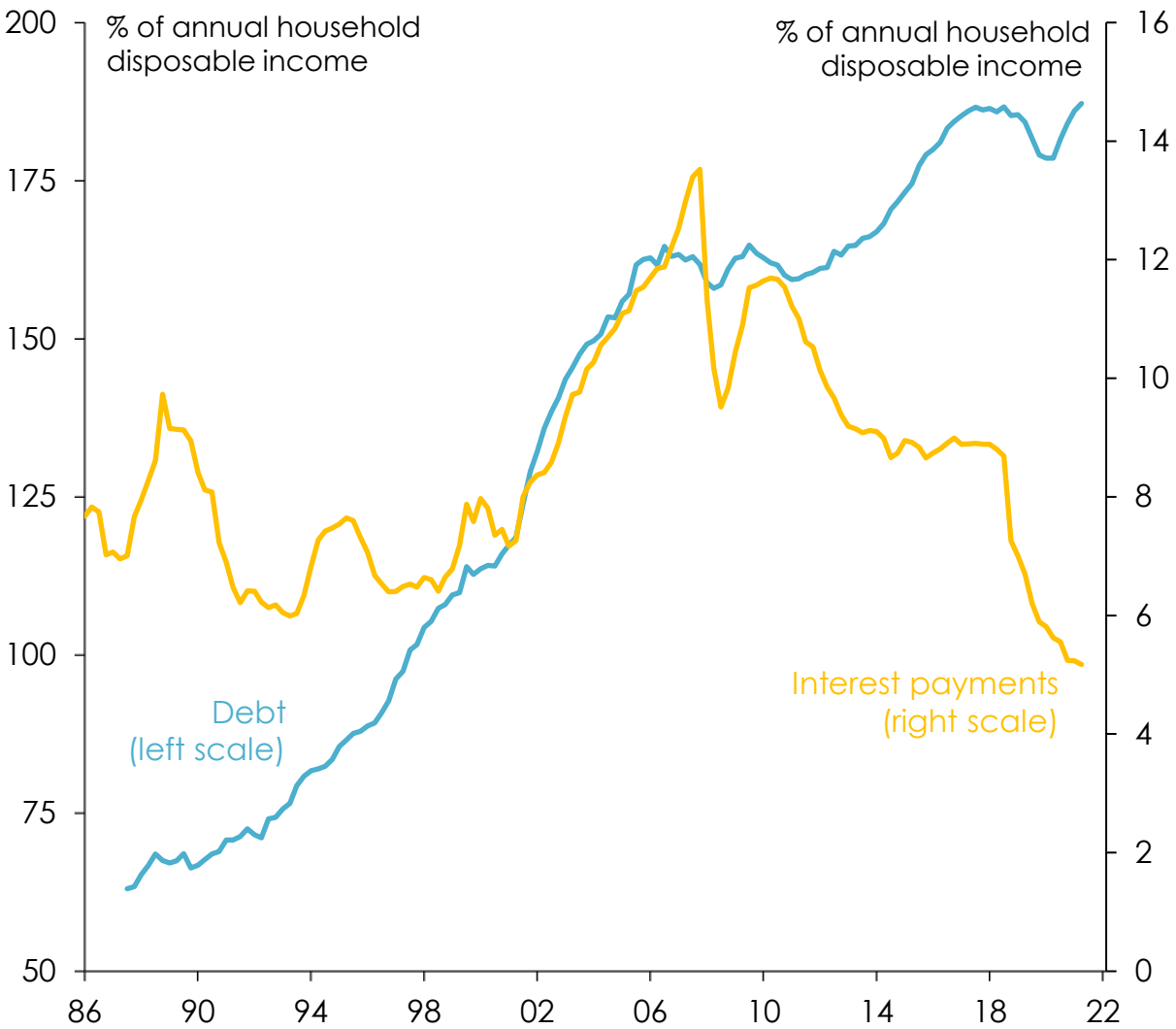
Household net worth has risen by \$3.6trn (32%) since the end of 2019, while interest payments have fallen as a pc of income – though from Q2 onward

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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



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

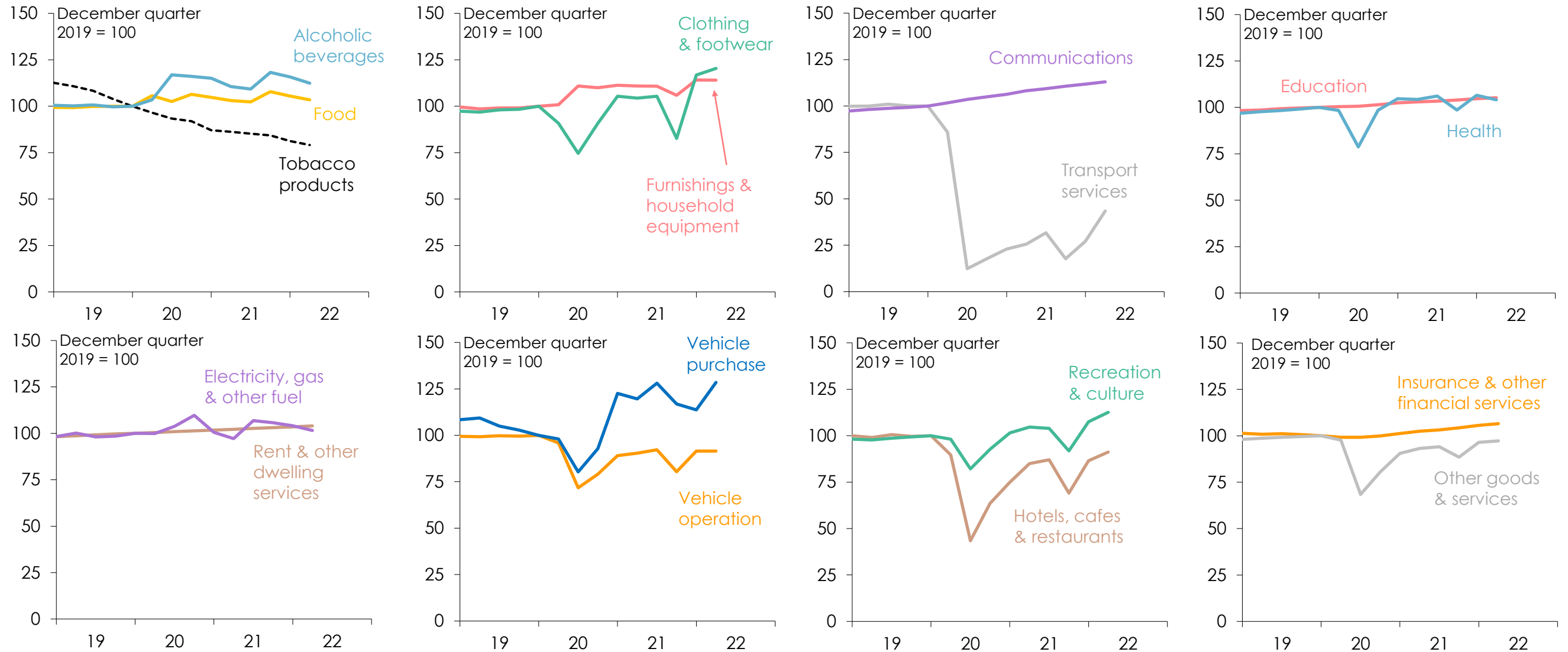


Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2022; RBA, [Statistical Tables](#) E1 & E2. June quarter data will be released on 29th September
[Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Major categories of household consumption spending

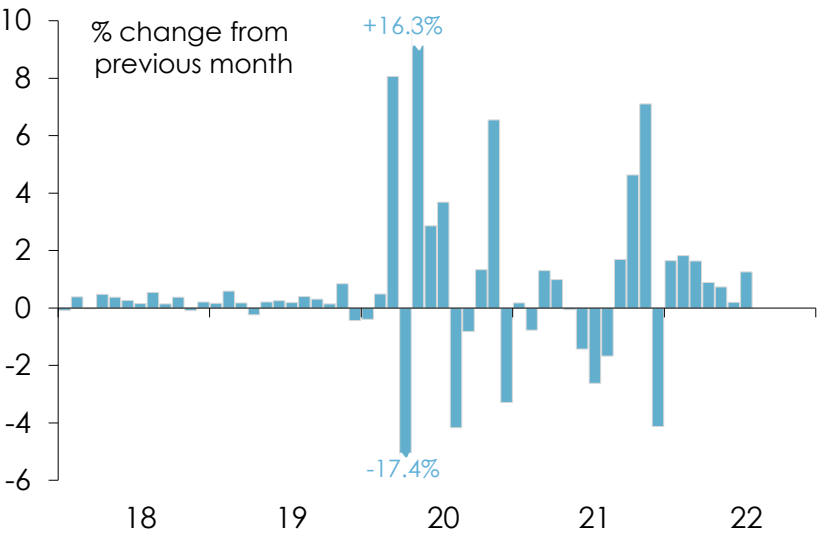


Note: indexes derived from chain-volume (ie, 'real') estimates. 'Rent' includes the imputed rent of owner-occupied dwellings. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2022; June quarter data will be released on 7th September. [Return to "What's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

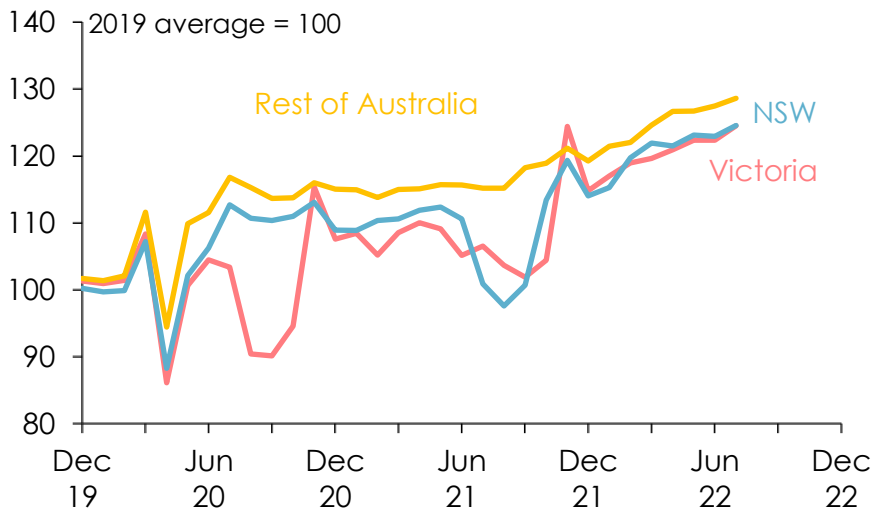
Retail sales rose 1.3% in July, the largest increase in four months, despite higher interest rates and cost of living pressures

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

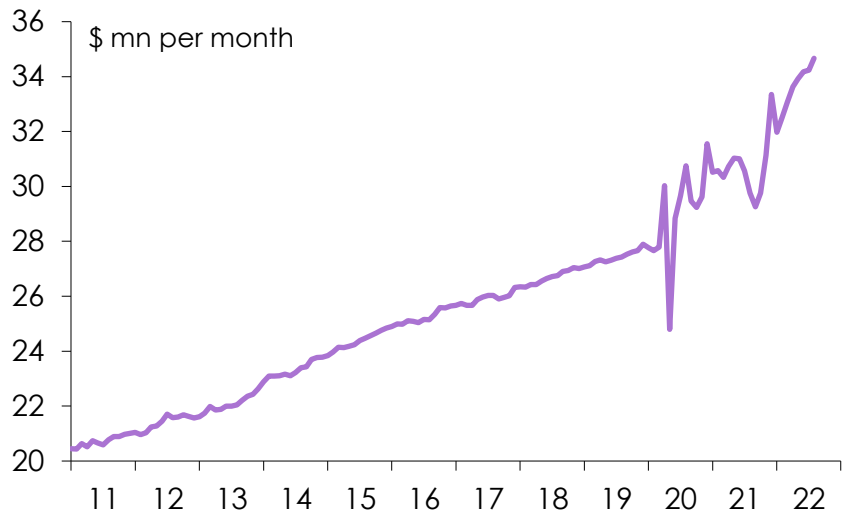
Monthly retail sales



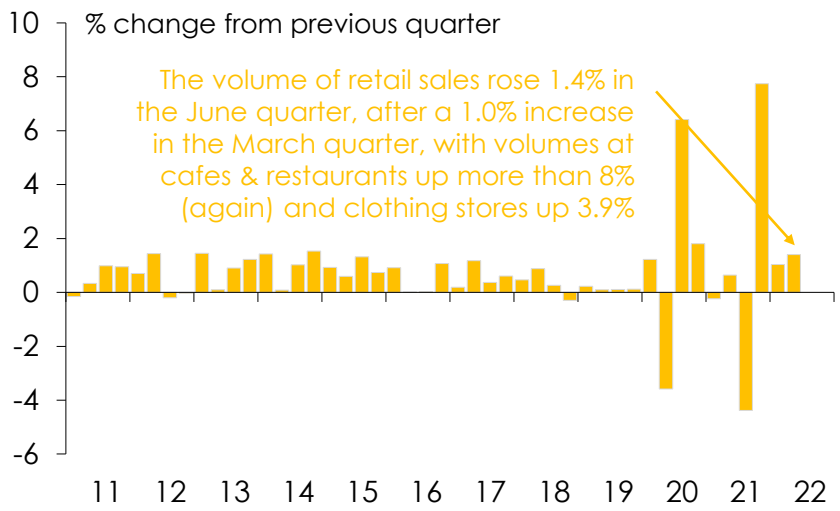
Retail sales – NSW, Vic & the rest



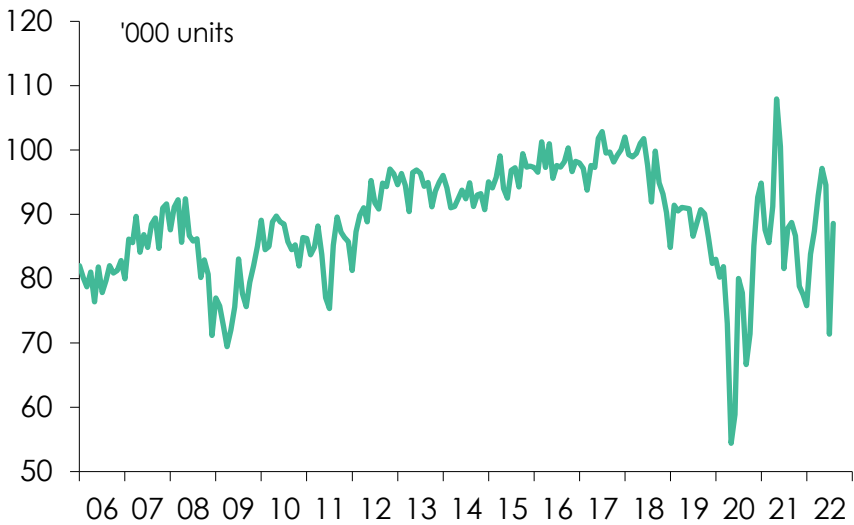
Level of retail sales



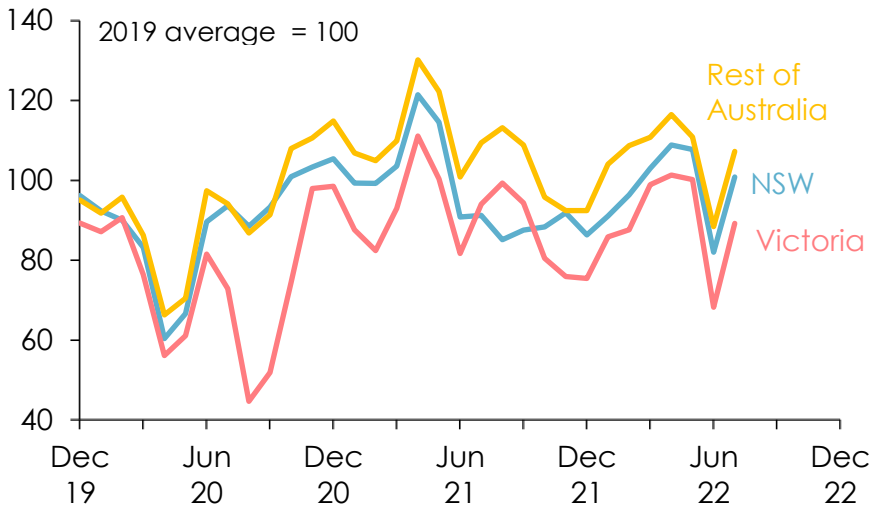
Quarterly retail sales volumes



New motor vehicle sales



Vehicle sales – NSW, Vic & the rest

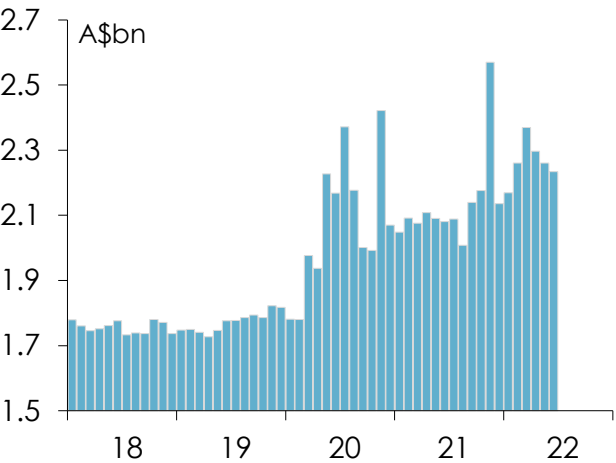


Note: see also [slide 34](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary July data will be released on 28th September; August motor vehicle sales data will be released in the second week of September. [Return to "What's New"](#).

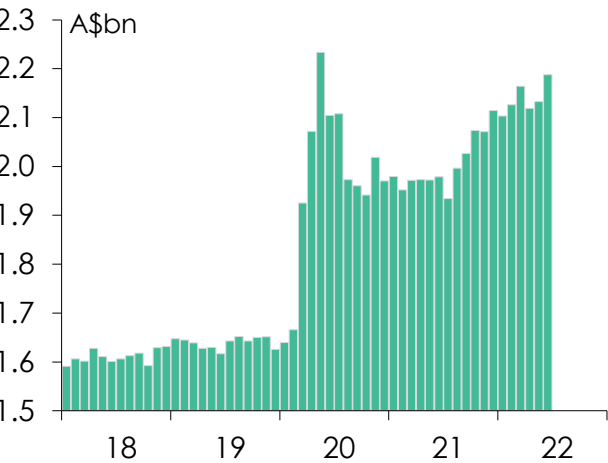
Australians continued to spend freely on ‘discretionary’ items through June despite two hikes in interest rates, and rising prices for ‘essential’ items

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

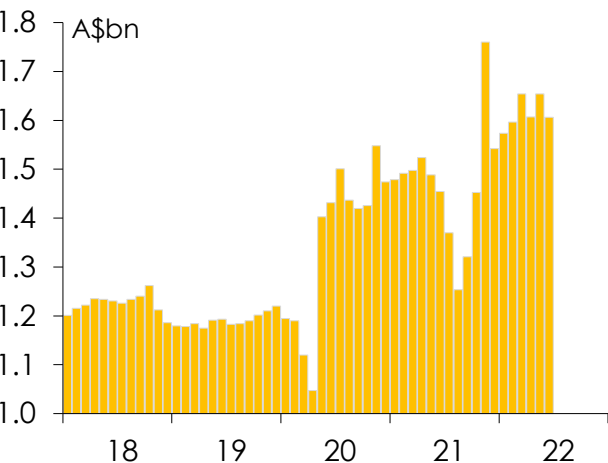
Electronic & electrical goods



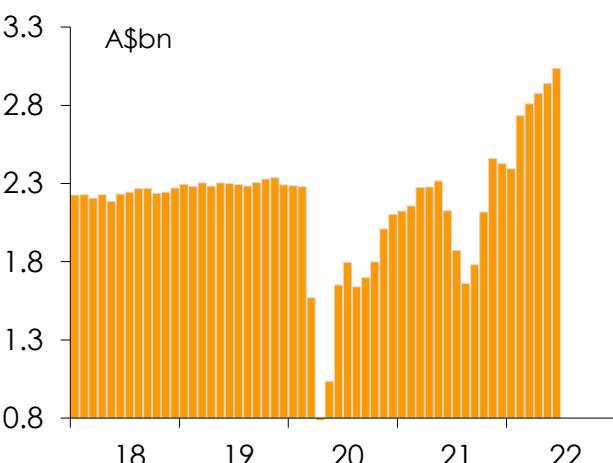
Hardware, building & garden supplies



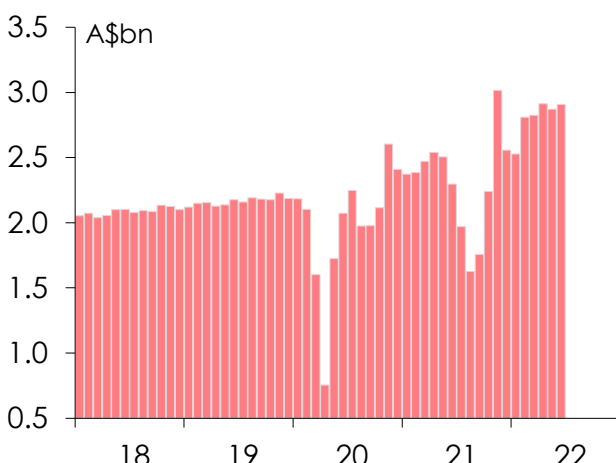
Floor coverings, furniture, housewares etc



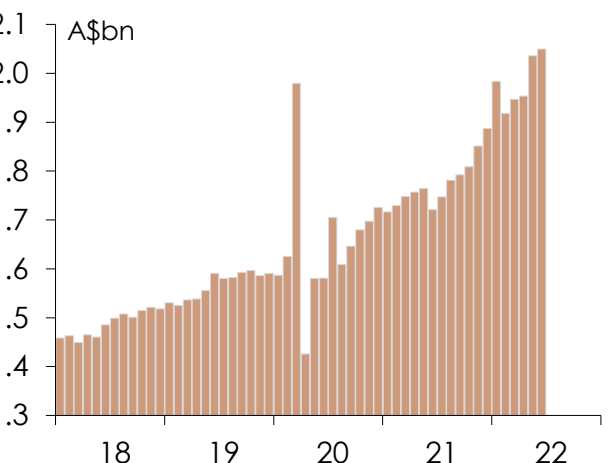
Cafes and restaurants



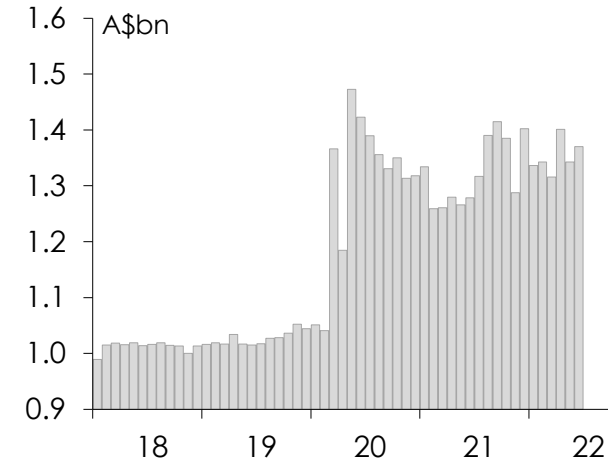
Clothing, footwear & personal accessories



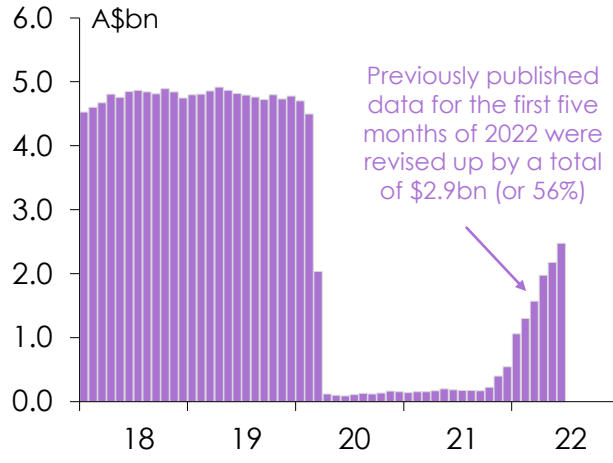
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

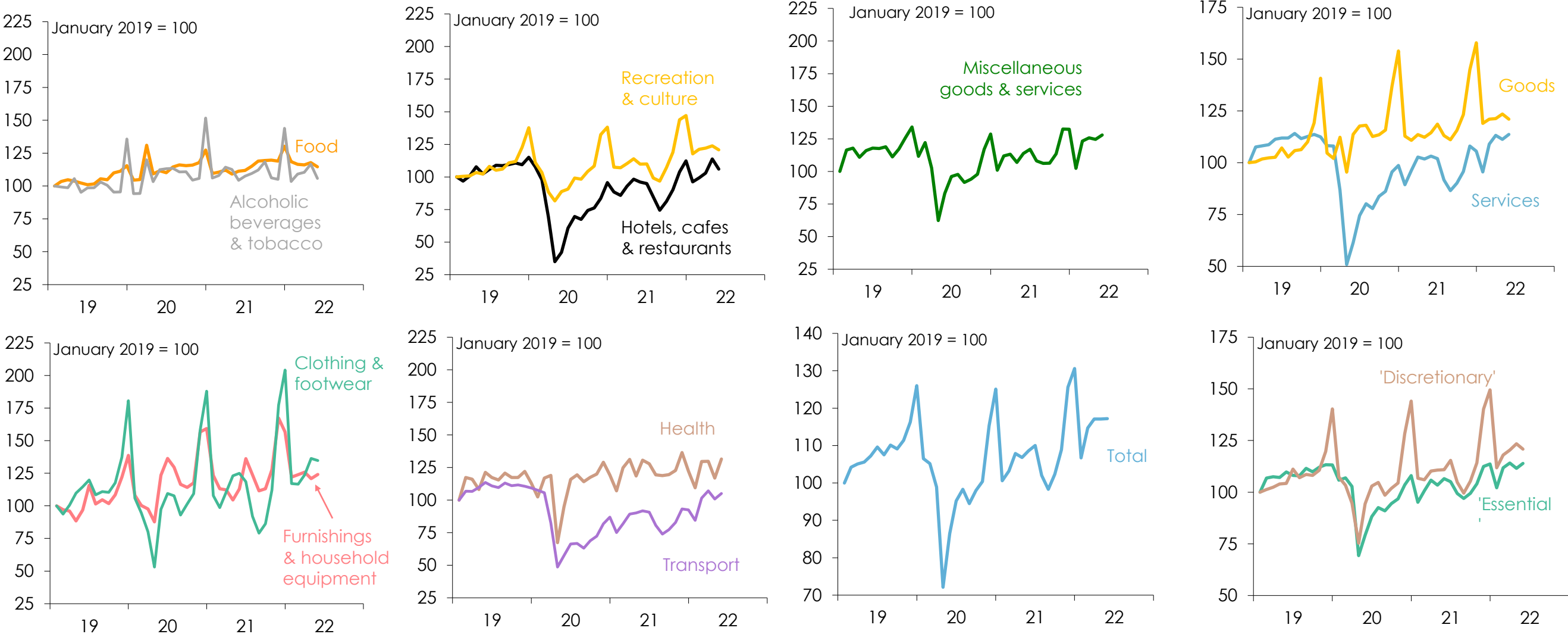


Sources: ABS, [Retail Trade, Australia](#), June 2022 (July data will be released on 5th September); and [International Trade in Goods and Services, Australia](#), June 2022 (July data will be released on 8th September). [Return to "What's New"](#).

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 – 2ND SEPTEMBER 2022

Household spending by purpose

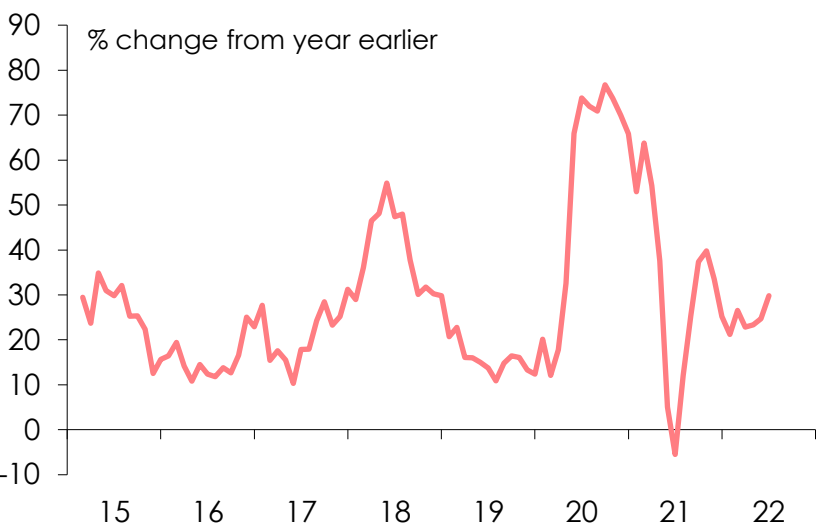


Note: Data shown in these charts are derived from transactions data supplied to the ABS by banks, and adjusted for differences in the length of months, and for identifiable trading day effects as between different days of each week – though they are *not* seasonally adjusted in the same way that, eg, 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 9th August.

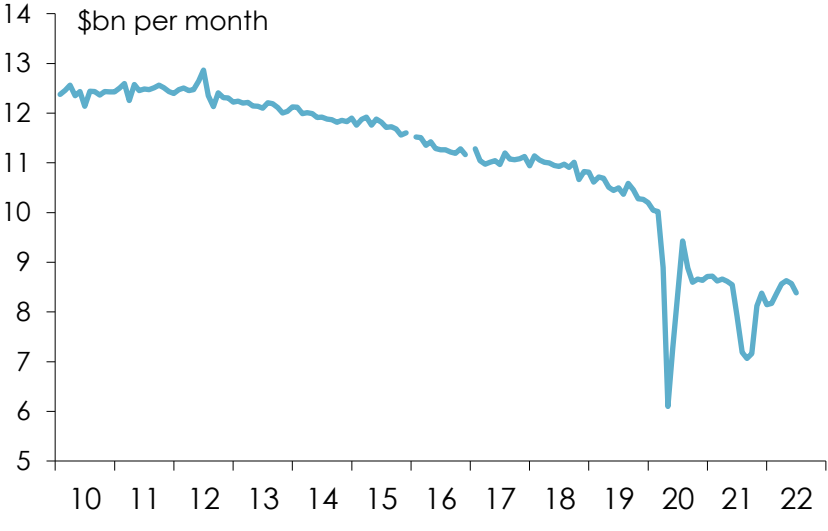
Online spending has eased back after surging during last year's Q3 lockdowns, but remains much higher than before the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

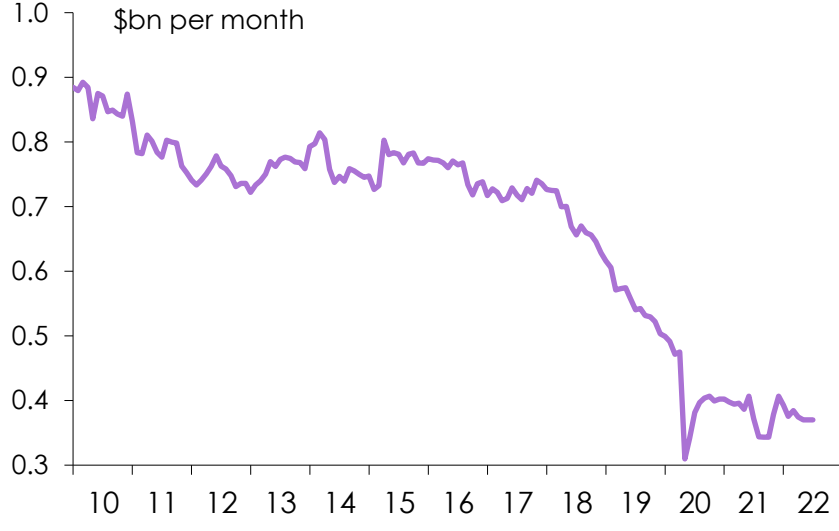
Growth in online retail sales



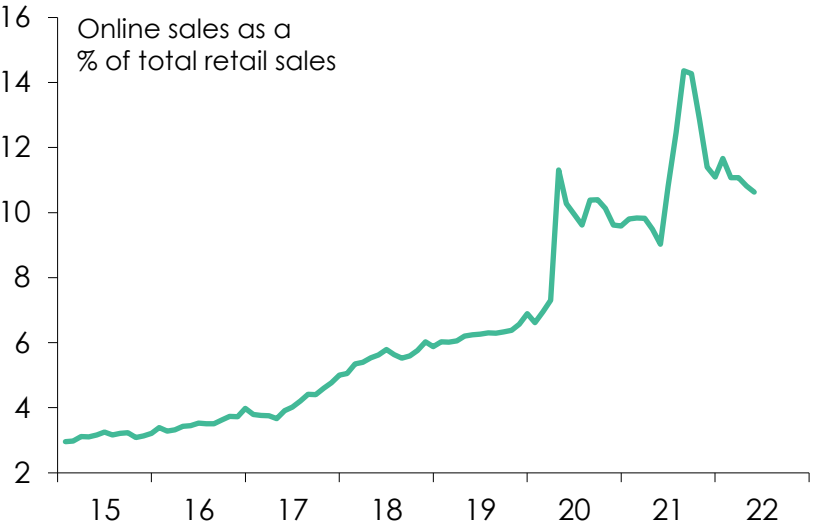
ATM cash withdrawals



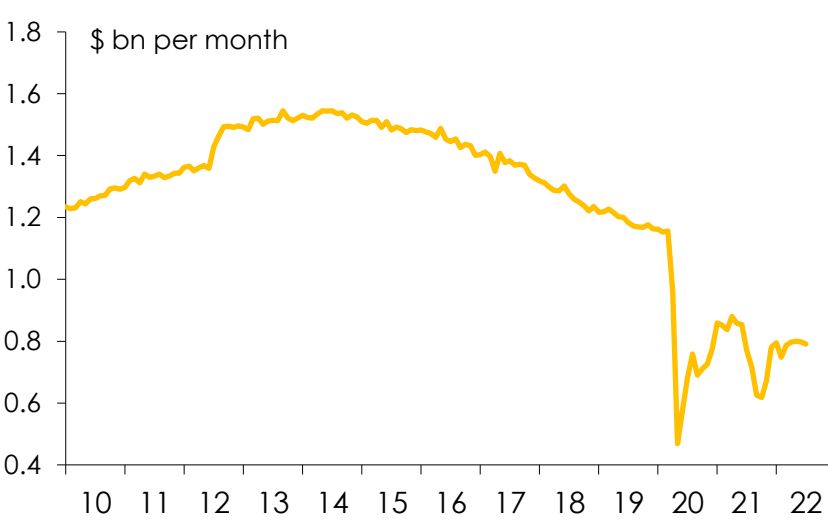
Credit card cash advances



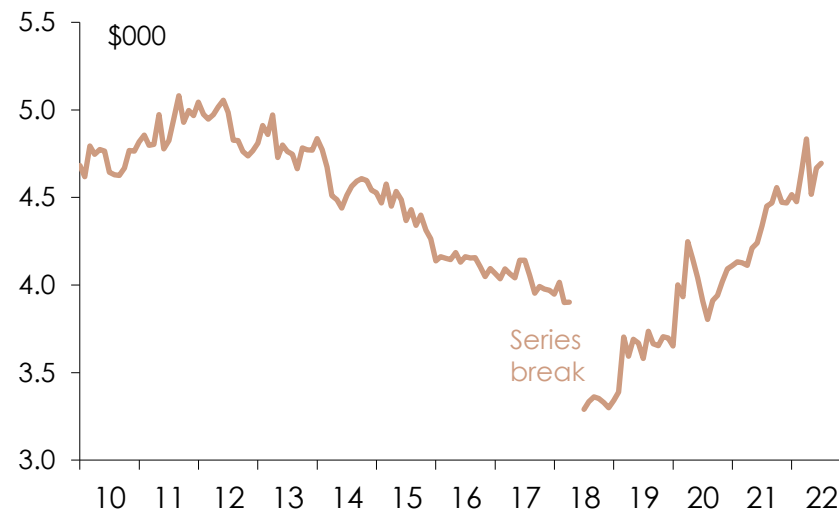
Online retail 'market share'



Debit card cash-outs



Direct entry payments avge value



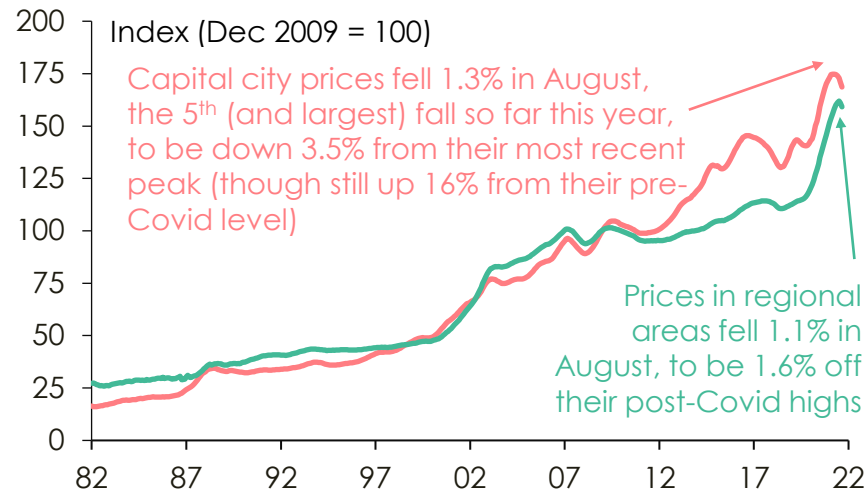
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest online retail sales and payments system data are for June. July online retail sales data will be published on 3rd August, and July payments system data on 7th September. [Return to "What's New"](#).

Housing and the residential property market

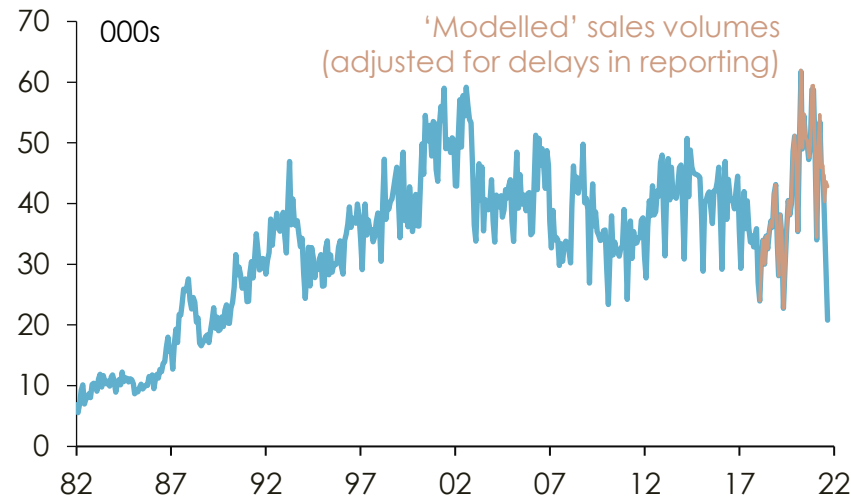
Property prices across Australia fell 1.2% in August, to be down 2.7% on average from their pre-Covid peak, with the biggest falls at the 'top end'

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

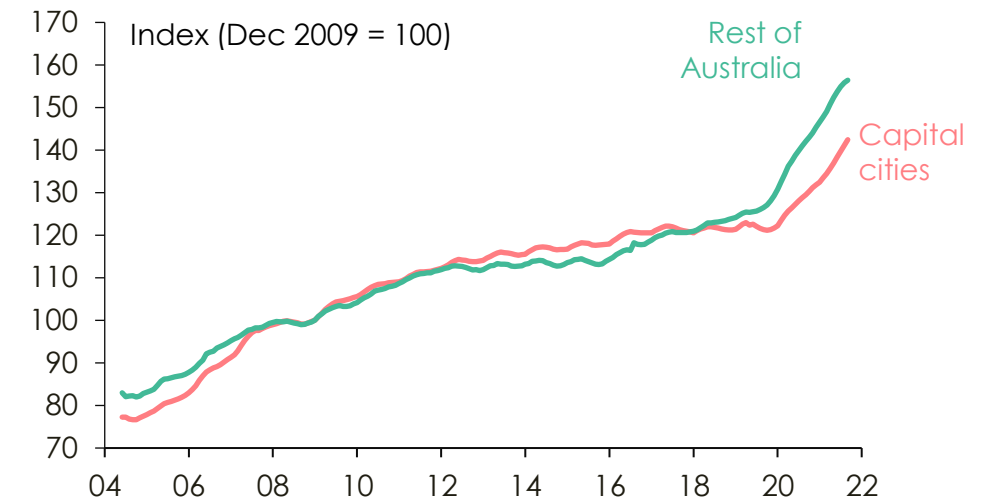
Residential property prices



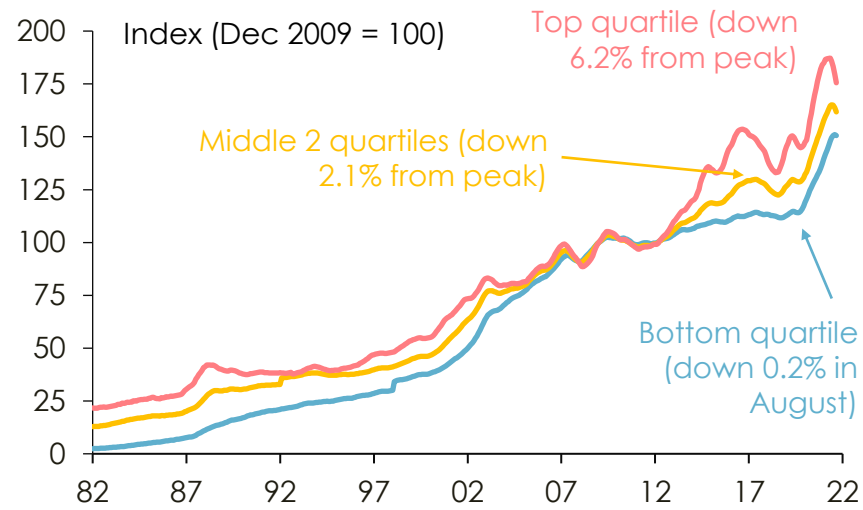
Residential property sales volumes



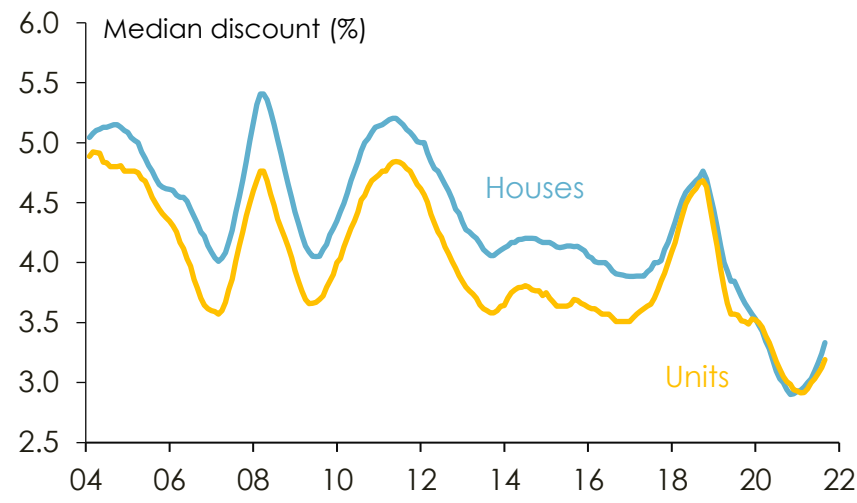
Residential rents



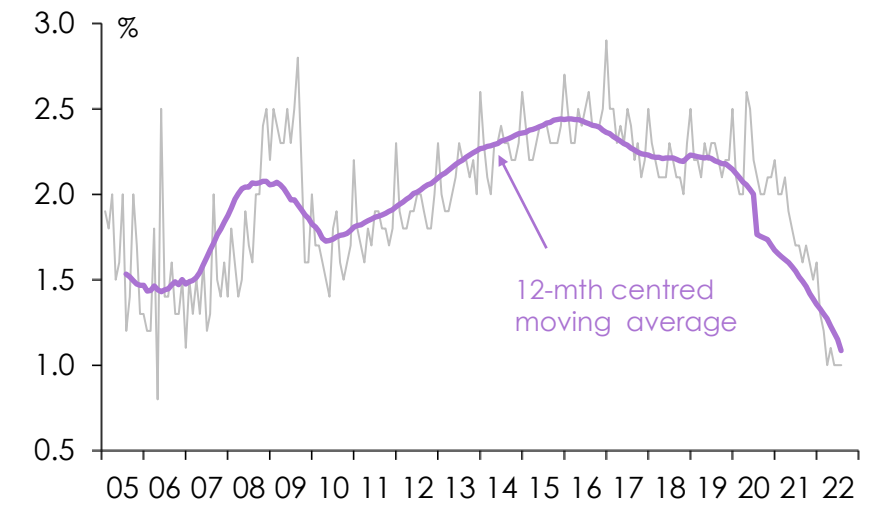
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

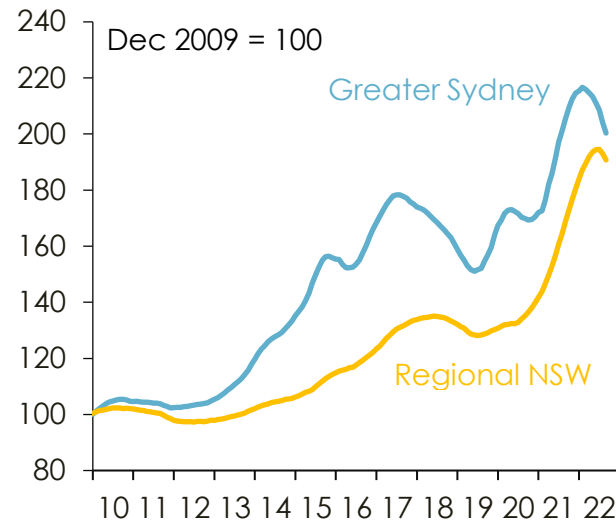


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of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

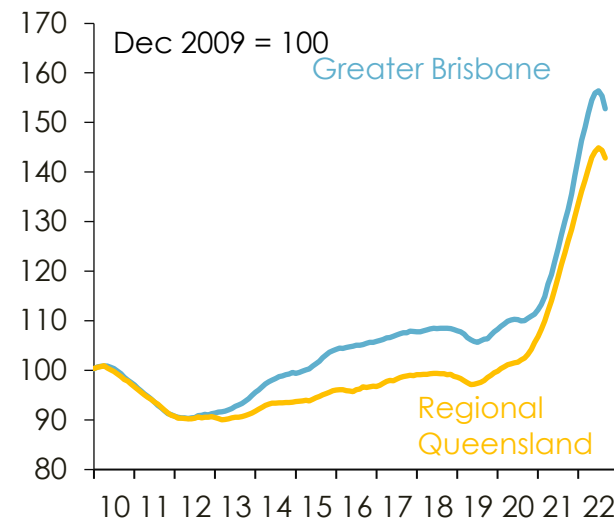
Sydney and Melbourne prices have fallen by 7.5% and 4.4% from their peaks, but prices are now also falling in other cities and some regions

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

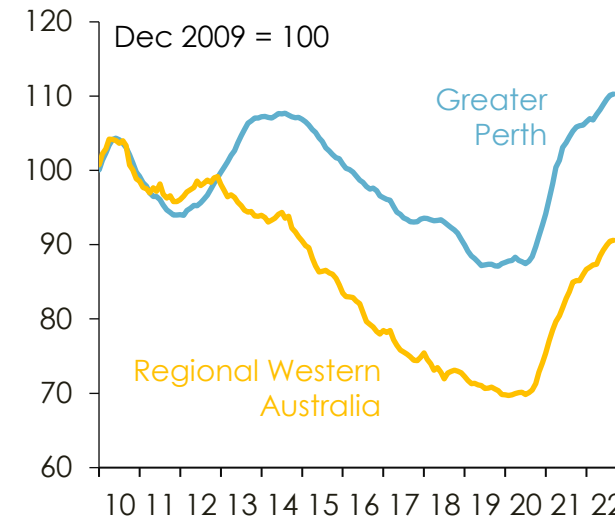
New South Wales



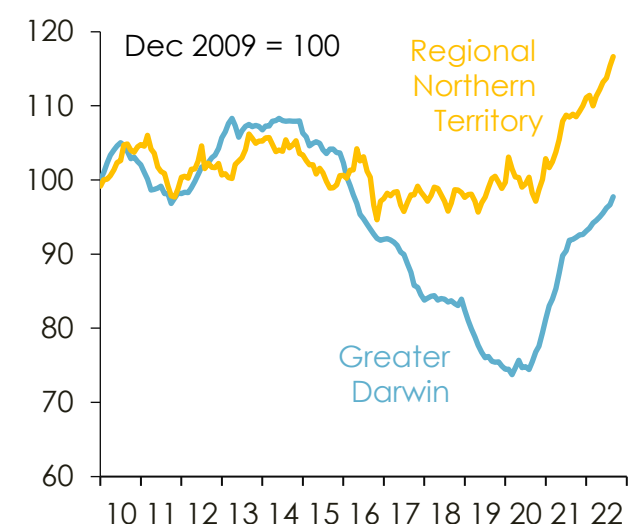
Queensland



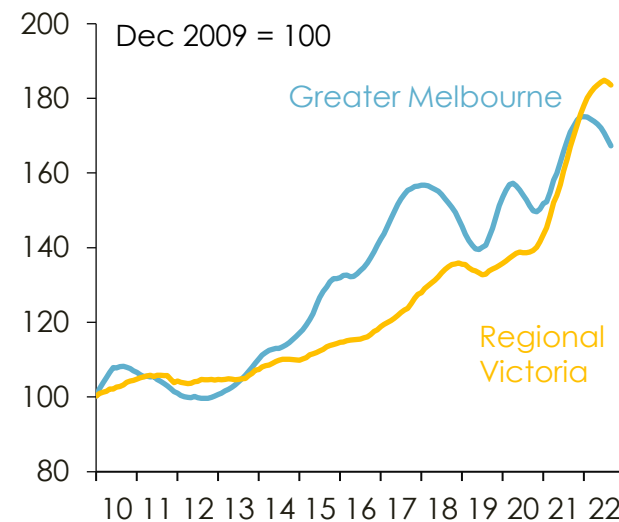
Western Australia



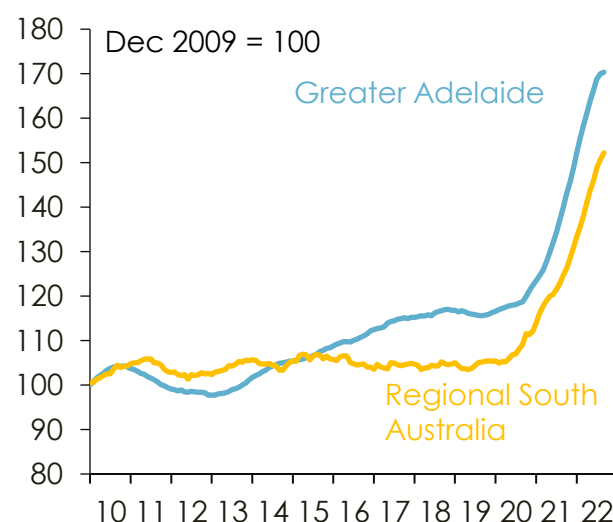
Northern Territory



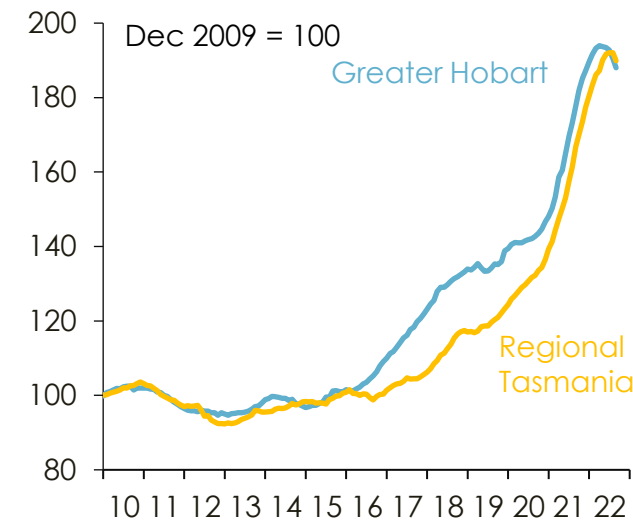
Victoria



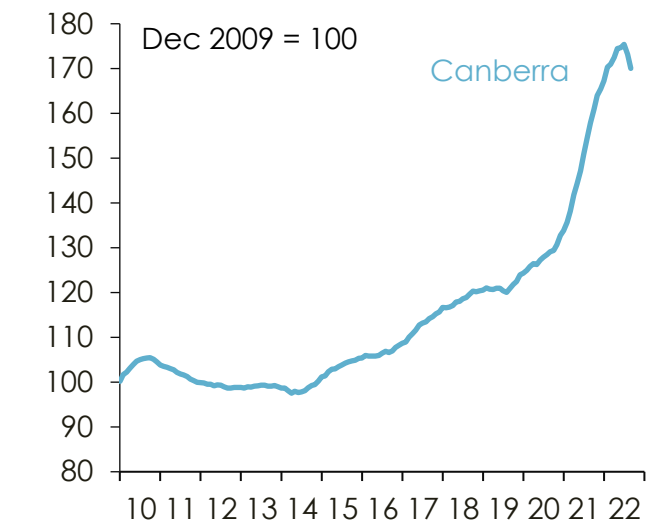
South Australia



Tasmania



Australian Capital Territory

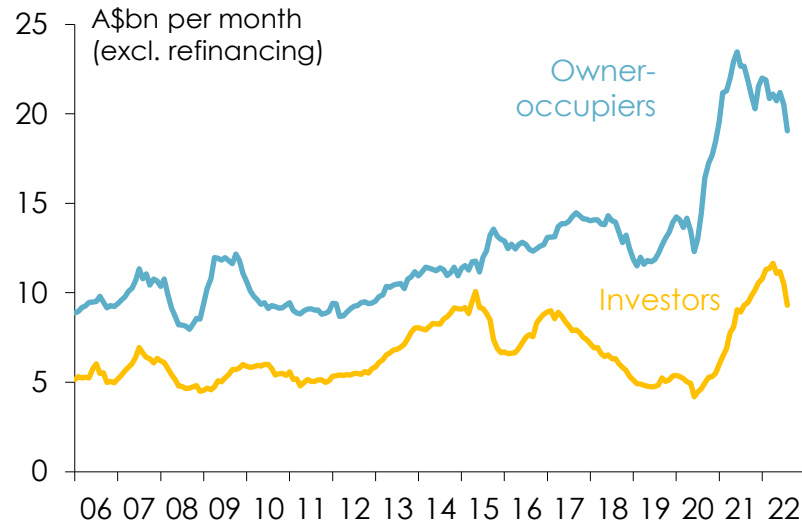


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states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

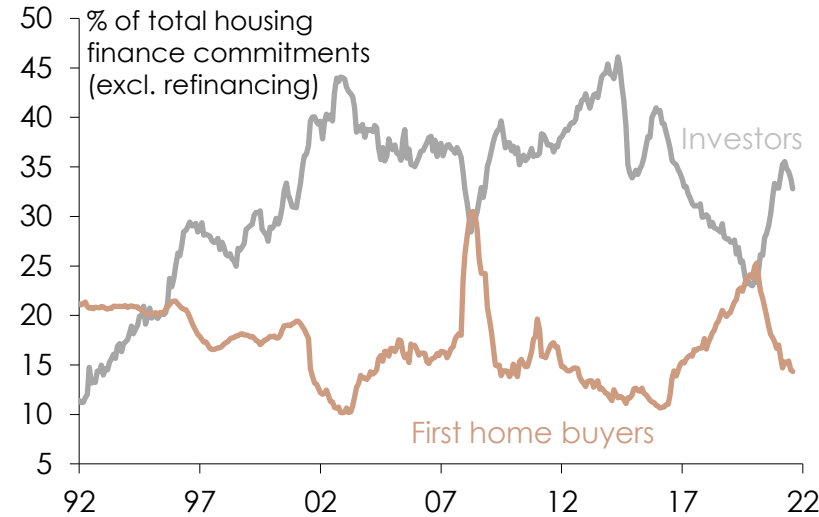
New housing finance commitments fell 8.5% in July, the second largest decline on record, although re-financings remain very high

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

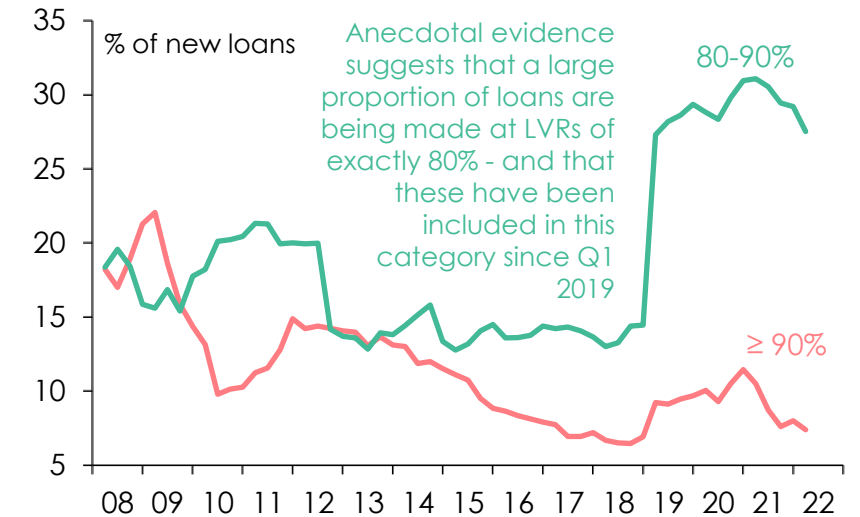
Housing finance commitments



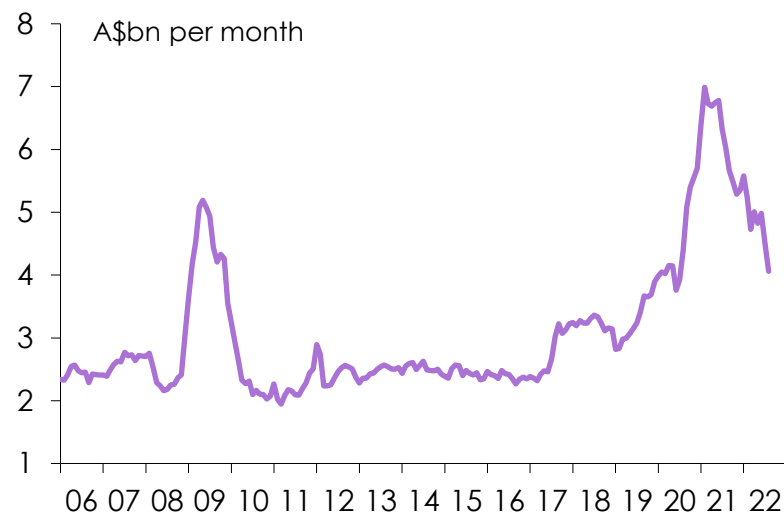
Shares of housing finance



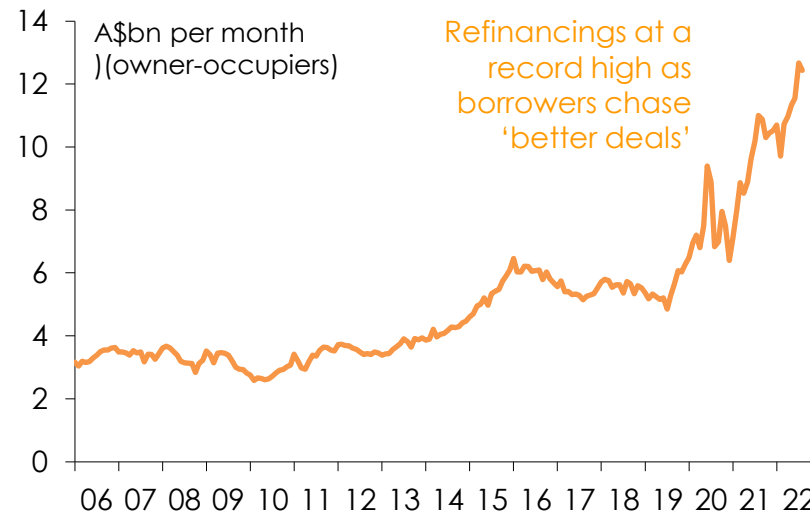
High LVR loans as a pc of total



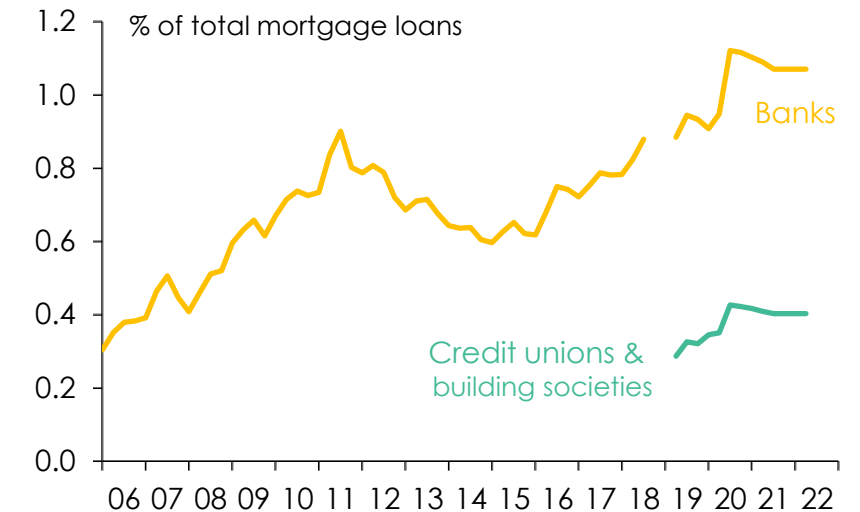
Loans to first home buyers



Refinancings



Non-performing mortgage loans

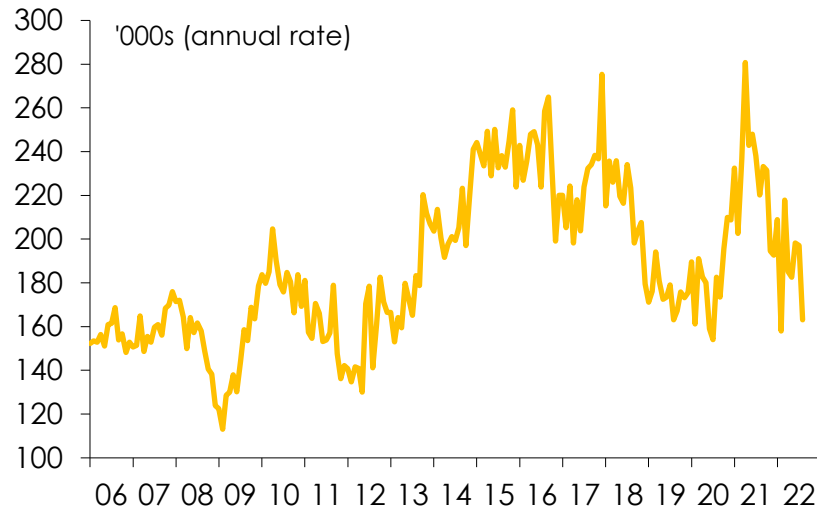


Sources: ABS, [Lending Indicators](#), July; and Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). August housing finance data will be released on 4th October; APRA data on ADI property exposures for the June quarter will be released on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

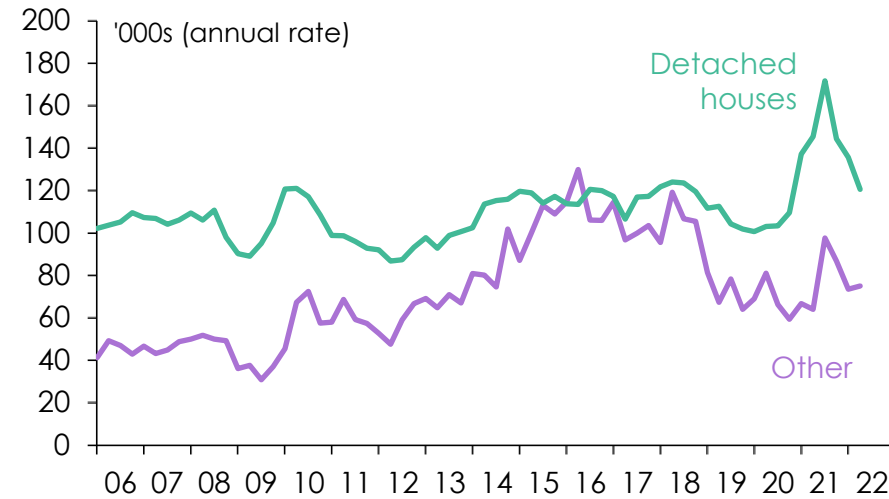
Residential building approvals fell 17.2% in July, driven by a 44% plunge in multi-unit approvals, to their lowest level since January 2012

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

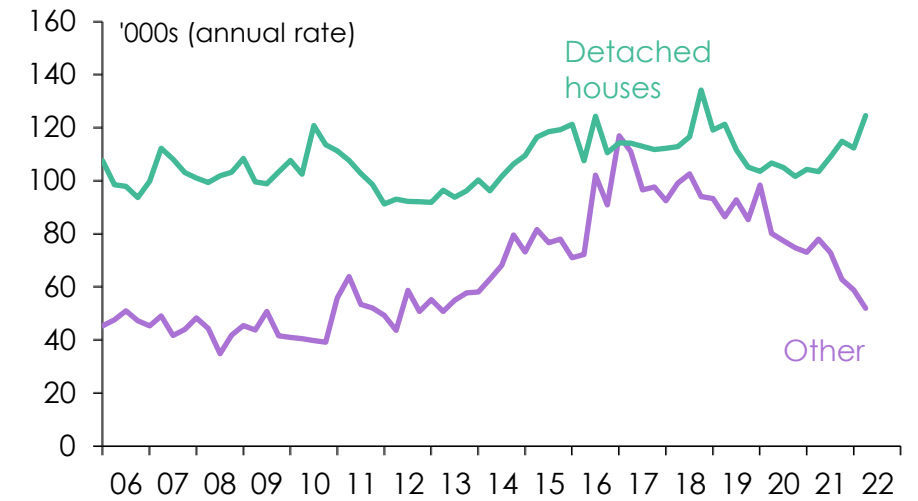
Residential building approvals



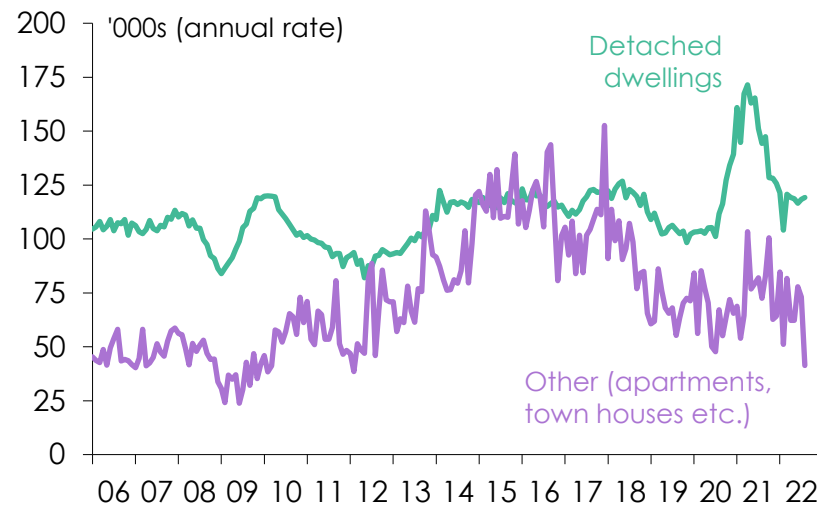
Dwellings commenced



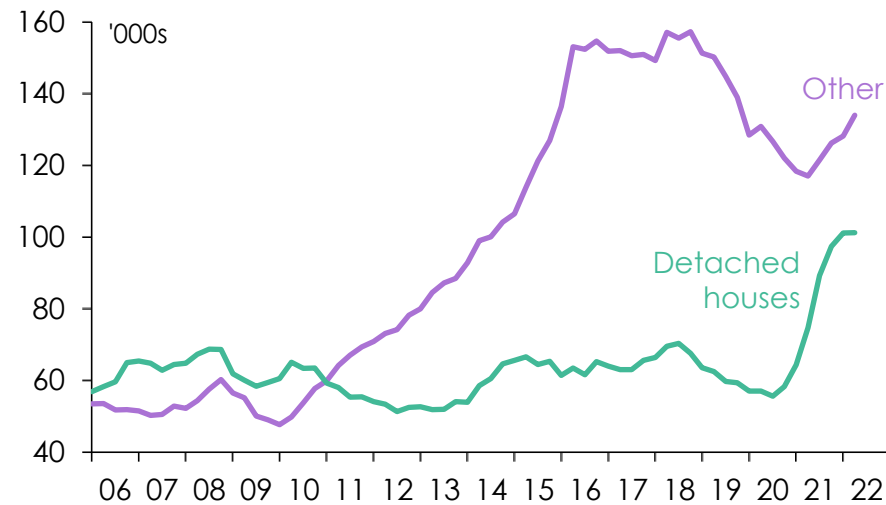
Dwellings completed



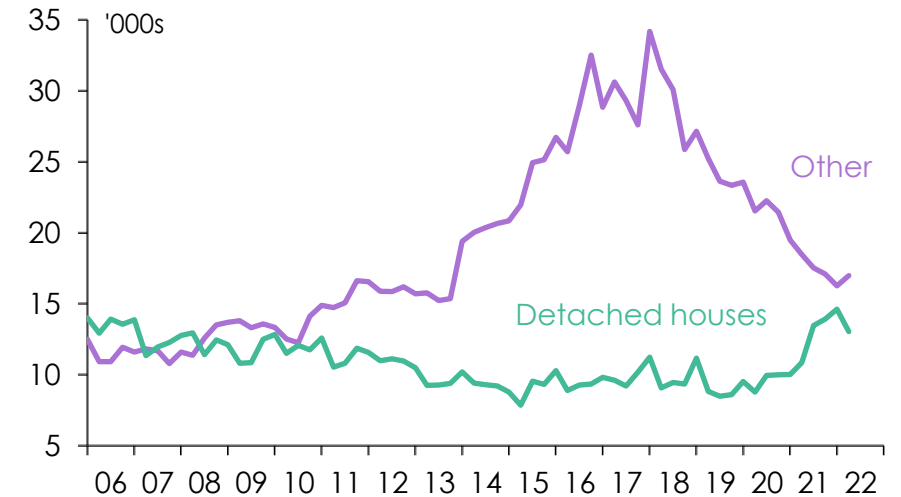
Building approvals, by type



Dwellings under construction



'Pipeline' of work yet to be started

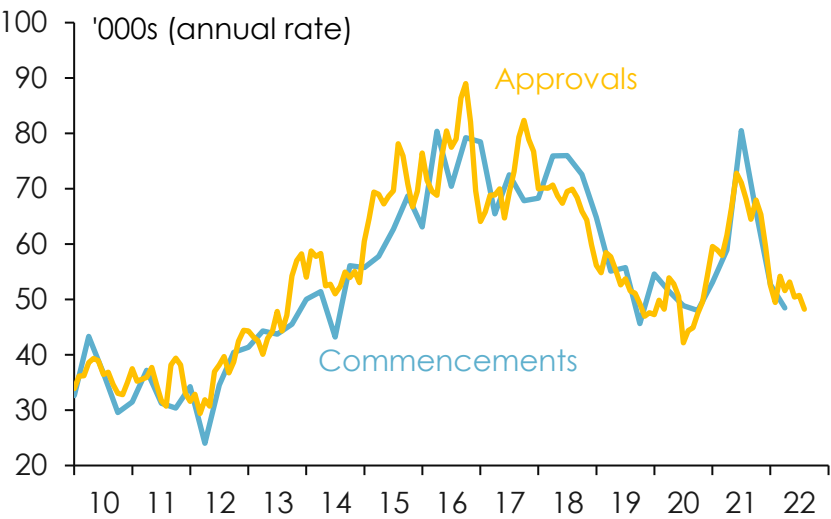


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#), July and [Building Activity](#), March quarter; August building approvals data will be released on 4th October; June quarter commencements, under construction, completions etc. data on 19th October. [Return to "What's New"](#).

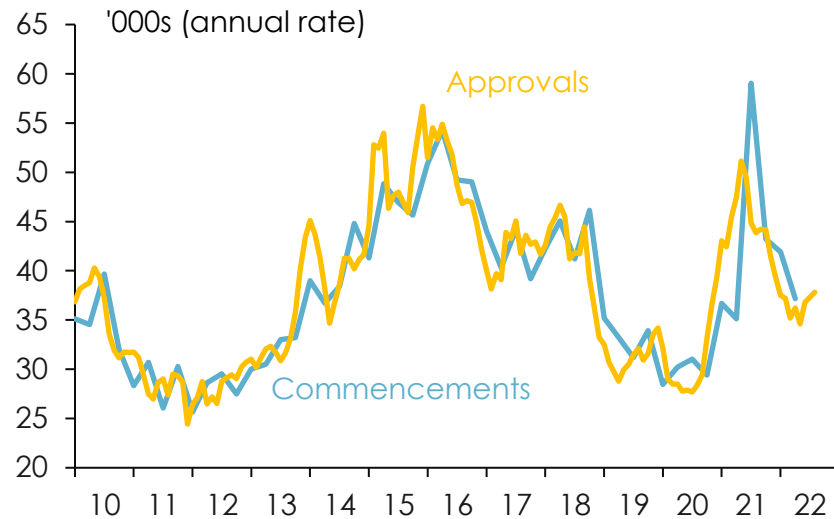
Residential building approvals are declining most in New South Wales and Victoria but holding up in other states

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

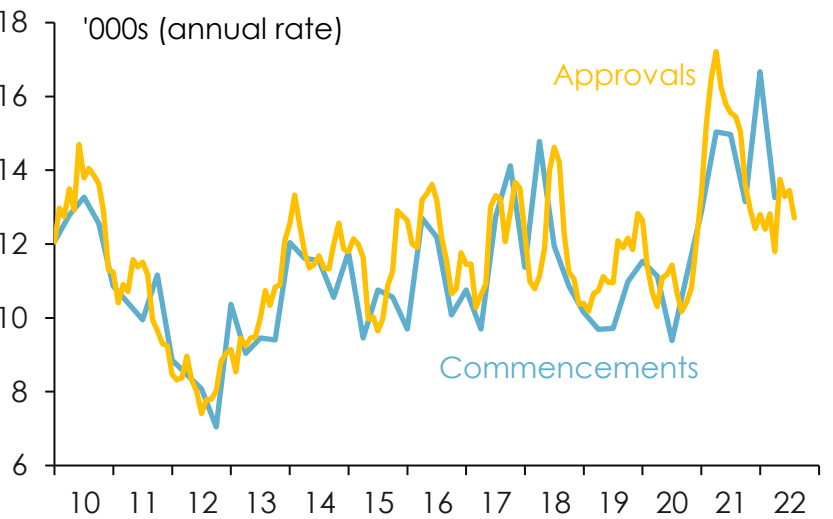
New South Wales



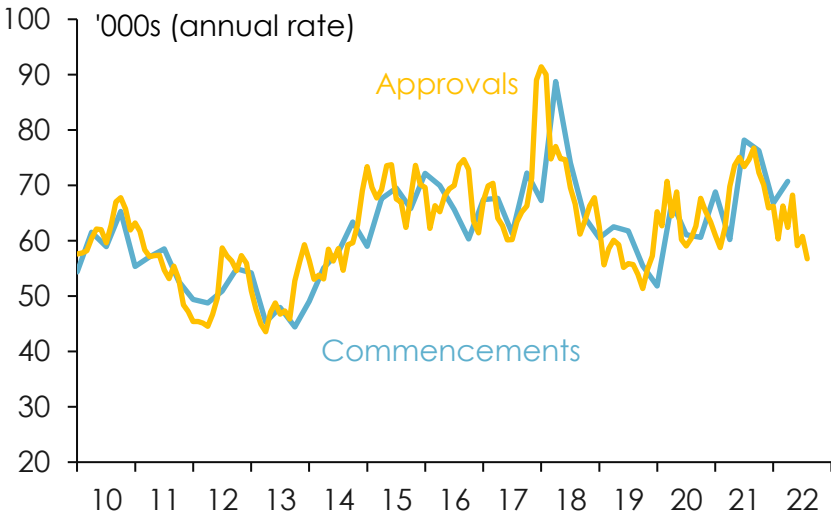
Queensland



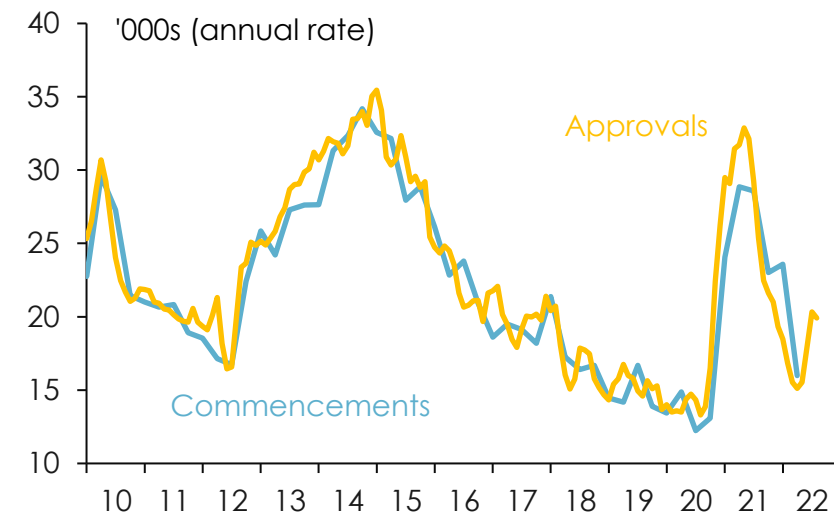
South Australia



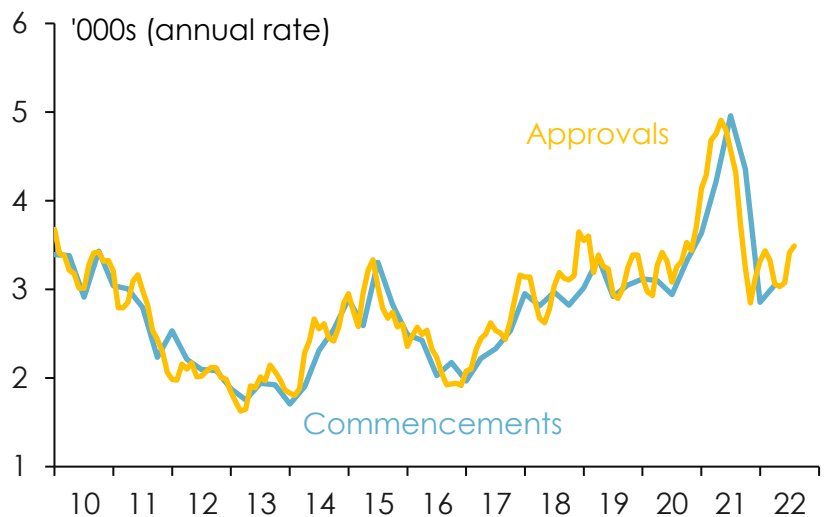
Victoria



Western Australia



Tasmania



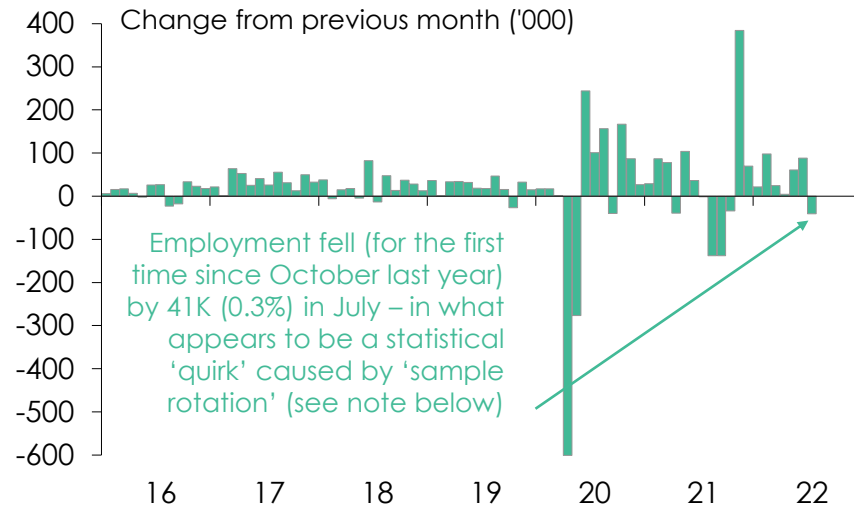
Note: Approvals data are shown as three-month moving averages; approvals data for the NT and ACT are not seasonally adjusted. Commencements data are quarterly (and the most recent data is for the March quarter). Sources: ABS, [Building Approvals](#) and [Building Activity](#). [Return to "What's New"](#).

The labour market

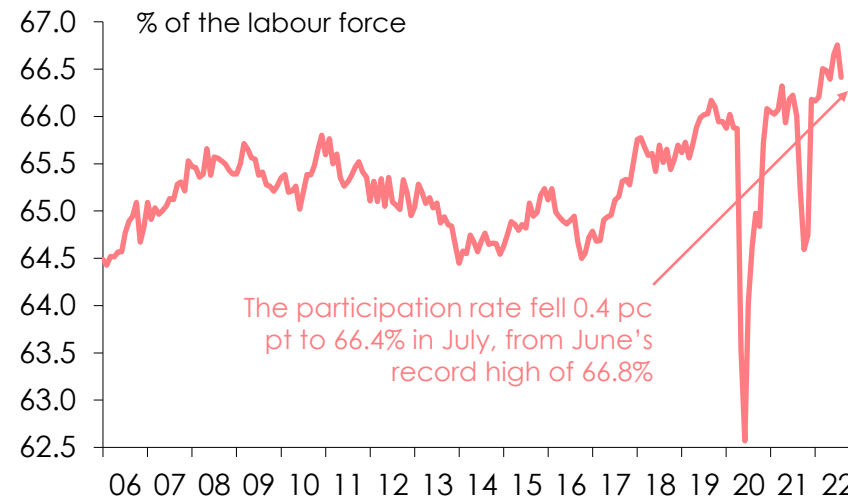
Employment fell 41K (0.3%) in July, but the unemployment rate fell 0.1 pc pt to 3.4% – both of which appear due to ‘sample rotation’ effects

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Employment



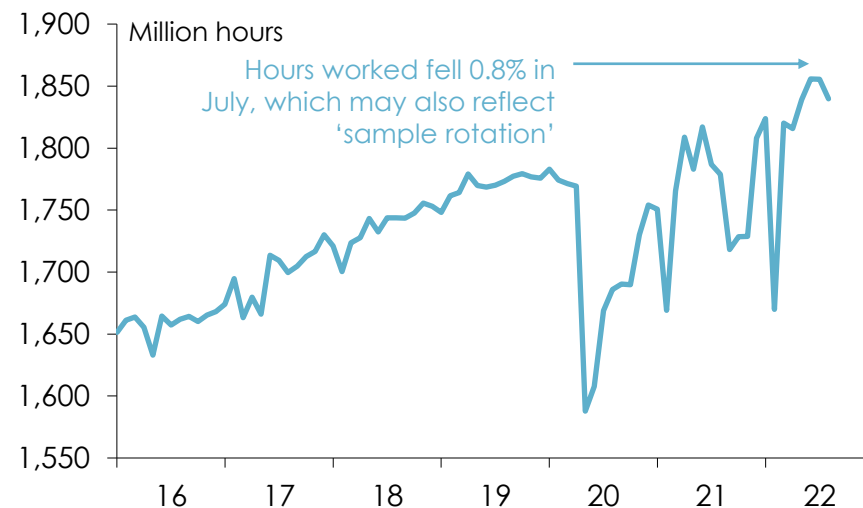
Labour force participation rate



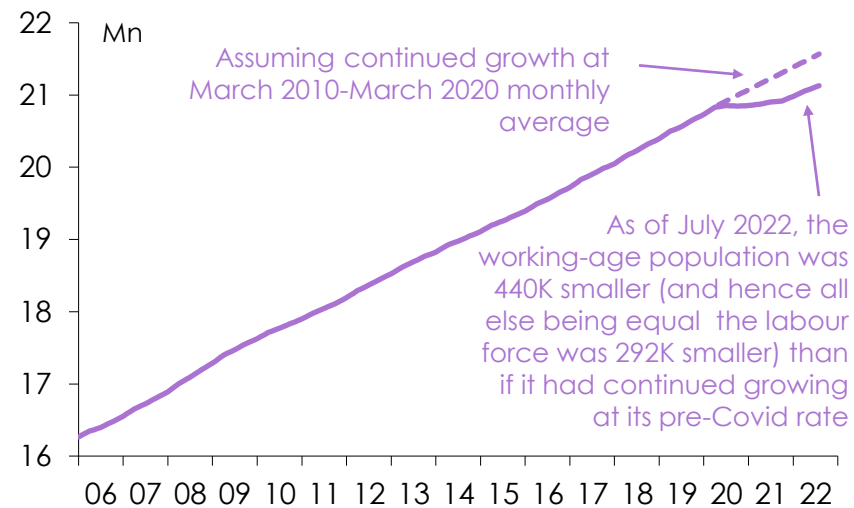
Unemployment rate



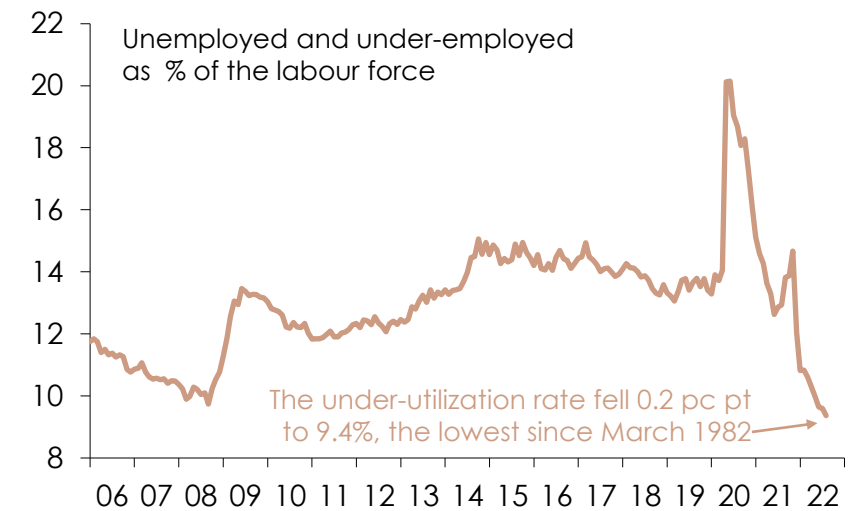
Total hours worked



Civilian working-age population



‘Under-utilization’ rate

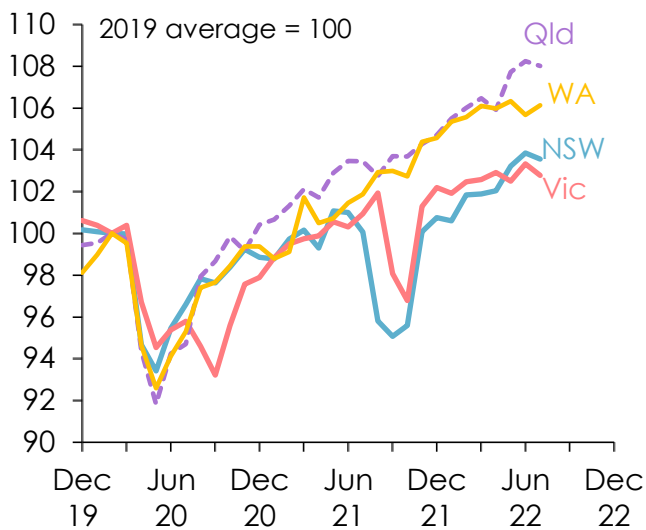


Note: The falls in employment, hours worked, the labour force participation rate and the unemployment rate between June and July appear to have been largely due to the rotation into the sample used in July of a cohort with below-average participation and a below-average proportion of full-time employees, and the rotation out of a cohort with an above-average participation rate. Source: ABS, [Labour Force, Australia](#), July. August data will be released on 15th September. [Return to "What's New"](#).

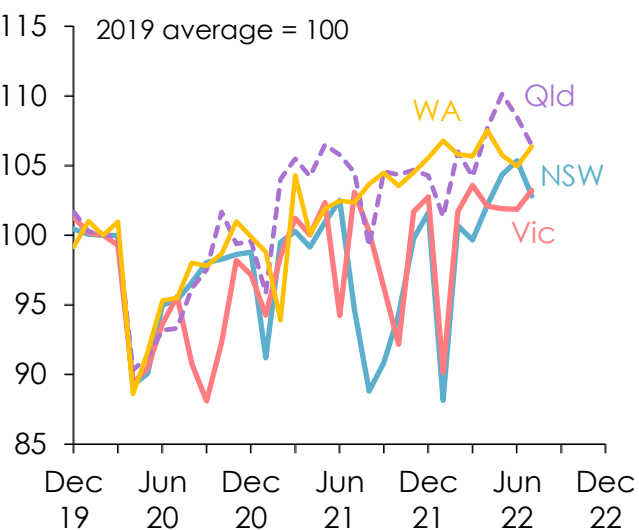
Queensland and WA have had the strongest growth in employment, while Victoria, WA, NSW and the ACT have the lowest unemployment rates

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

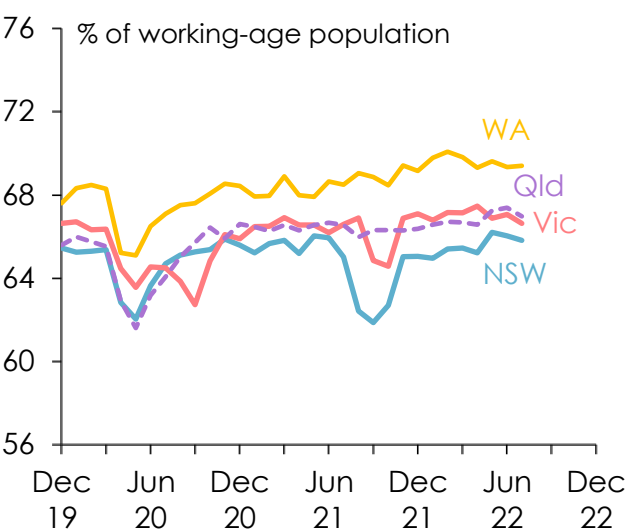
Employment



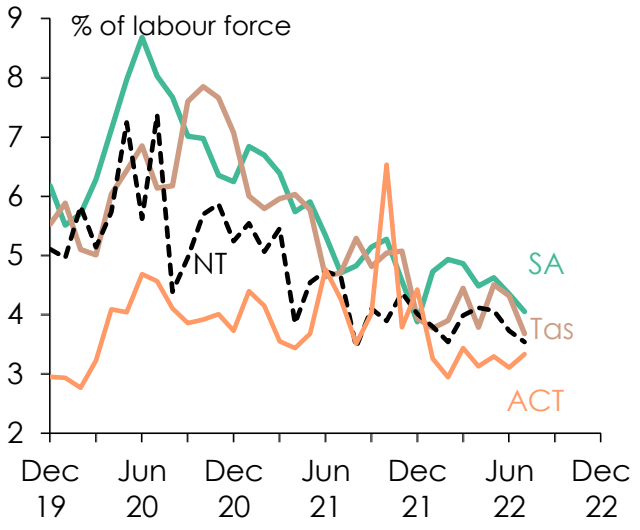
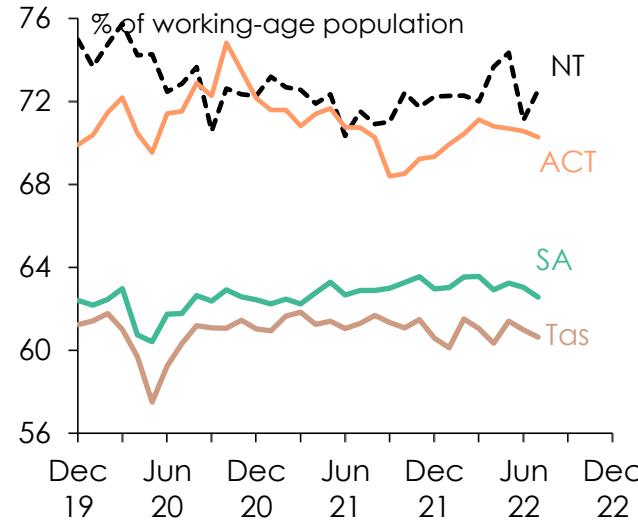
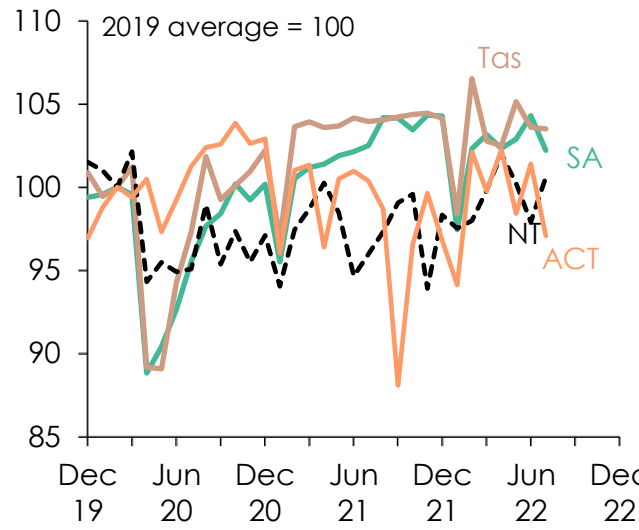
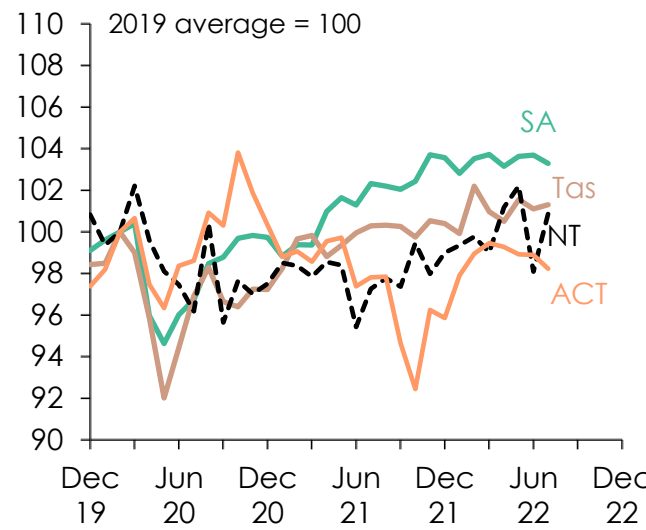
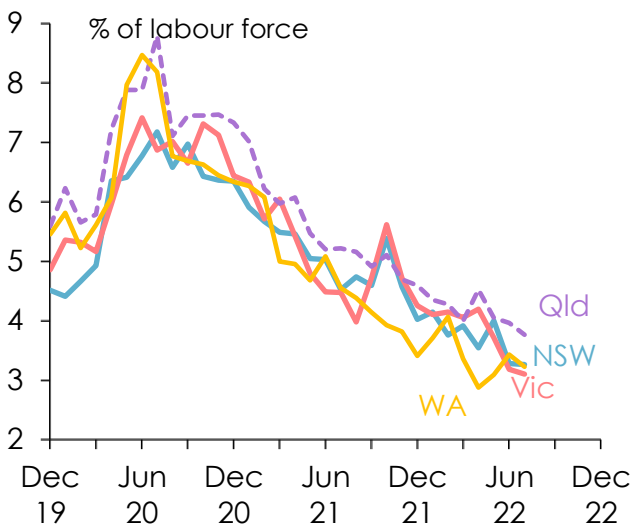
Hours worked



Participation rates



Unemployment rates



Source: ABS, [Labour Force, Australia](#), July. August data will be released on 15th September. [Return to "What's New"](#).

The 'effective' unemployment rate remained unchanged at 4.0% in July, well below the most recent peaks of over 10% in the second half of 2021

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

The 'effective' unemployment rate



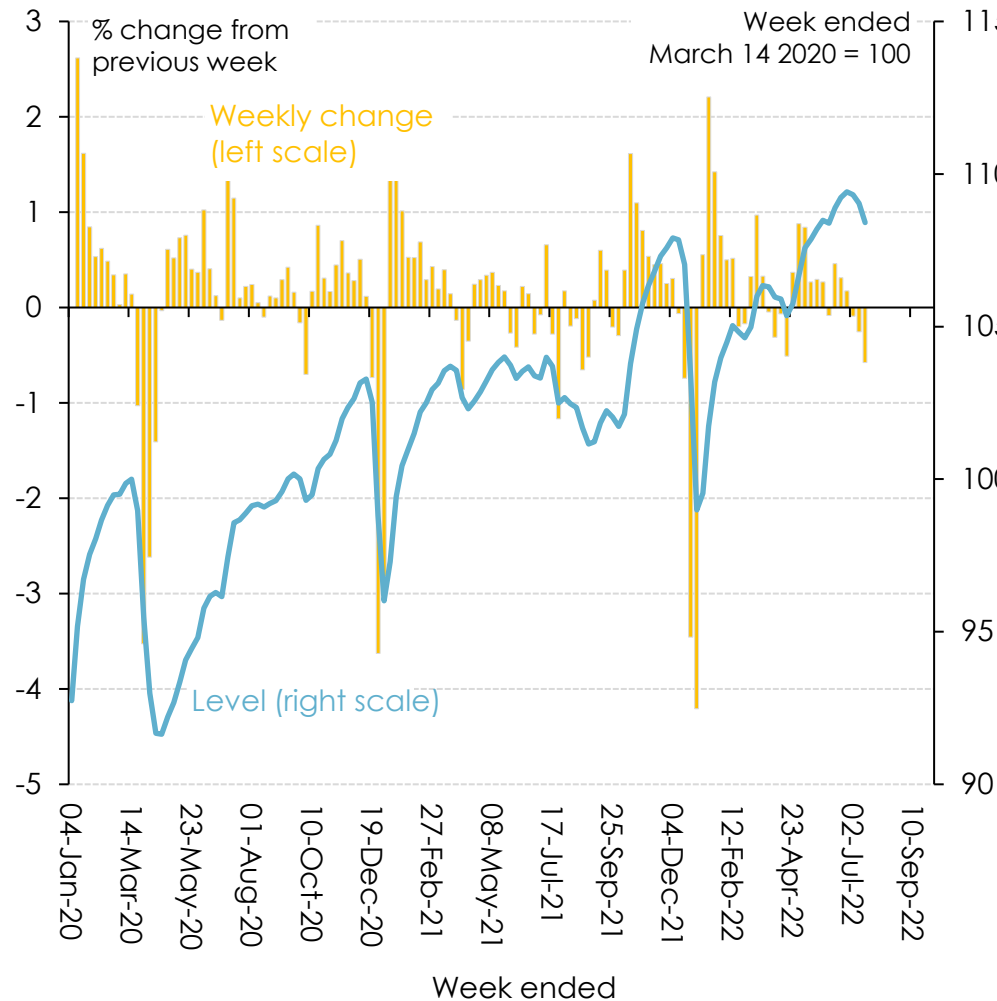
Note: the data on people working zero hours is not seasonally adjusted.
Source: ABS, [Labour Force, Australia](#), July. August data will be released on 15th September.
[Return to "What's New"](#).

- ❑ 51K people were counted as 'employed' despite having worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') in July, up from 45K in June (but well down from 97K in January and 249K last August)
- ❑ There were another 40K people counted as 'employed' in July despite also working zero hours for reasons other than 'economic' ones, or having been on some form of leave, up from 28K in June 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 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 fell back to zero by December
- ❑ Adding these to the 'official' tally of unemployed, the 'effective' unemployment rate remained unchanged at 4.0% in July, 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 297K people who worked zero hours in July 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 was continuing to disrupt work patterns
- ❑ Nor do they include another 953K people who worked zero hours in July because they were on annual leave, although that number isn't appreciably higher than in pre-Covid Julys

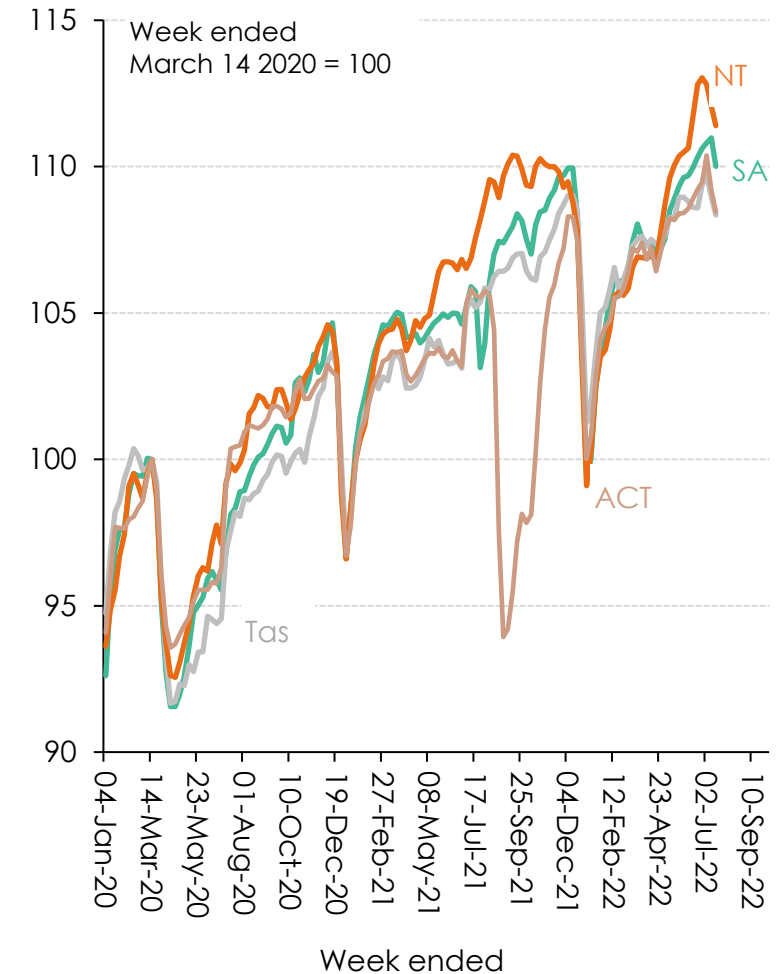
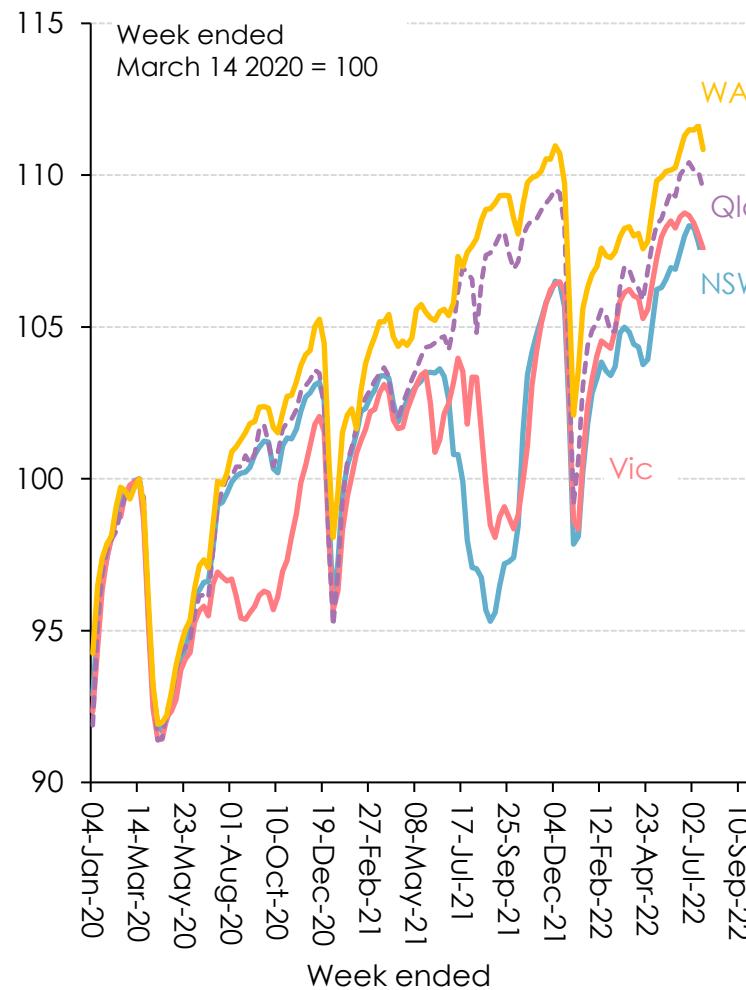
The number of payroll jobs fell 0.8% between mid-June & mid-July, largely reflecting seasonal factors and Covid-induced employee absences

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



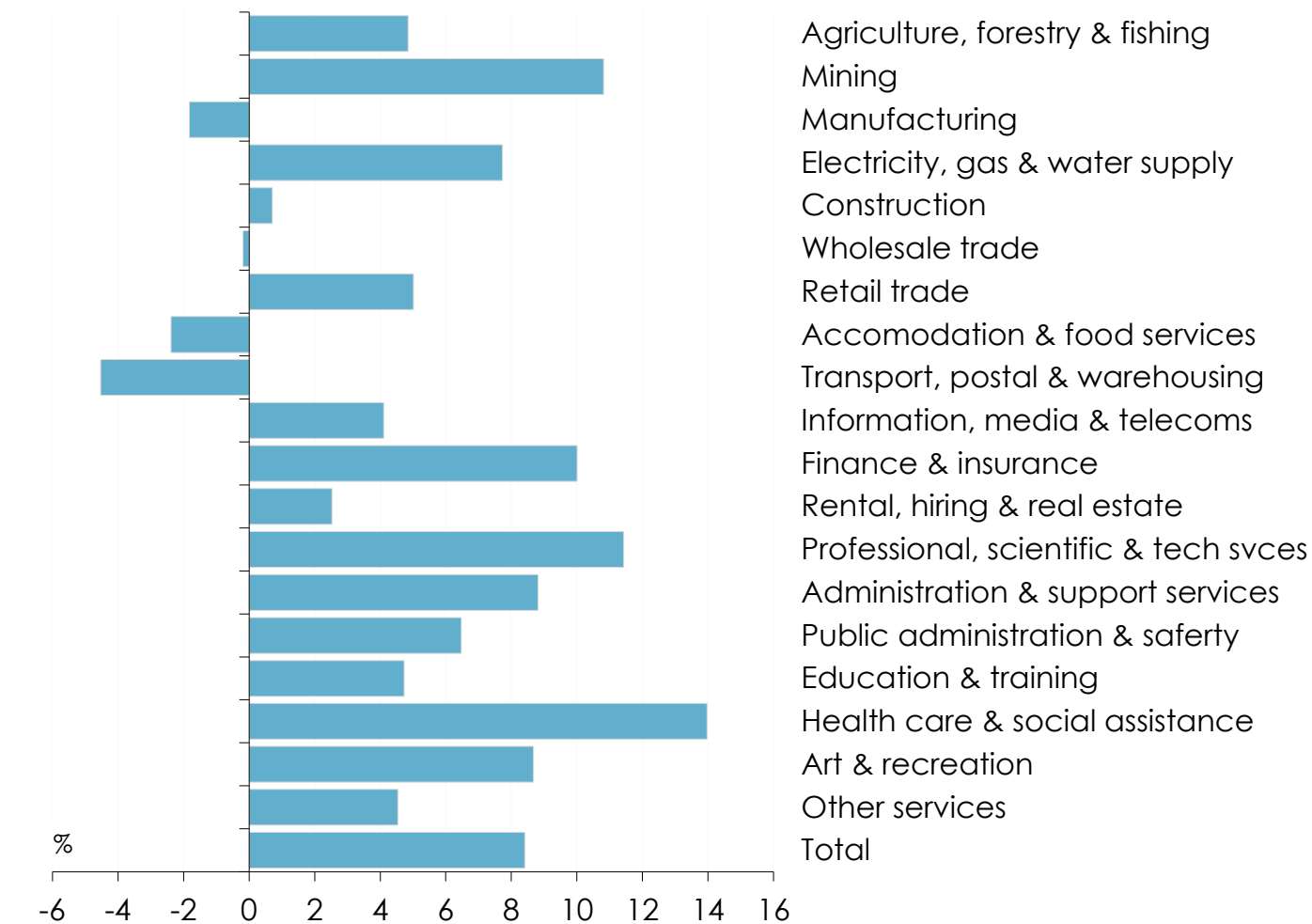
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#), week ended 16th July 2022. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller 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 four 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, and wholesaling than there were on the eve of the pandemic

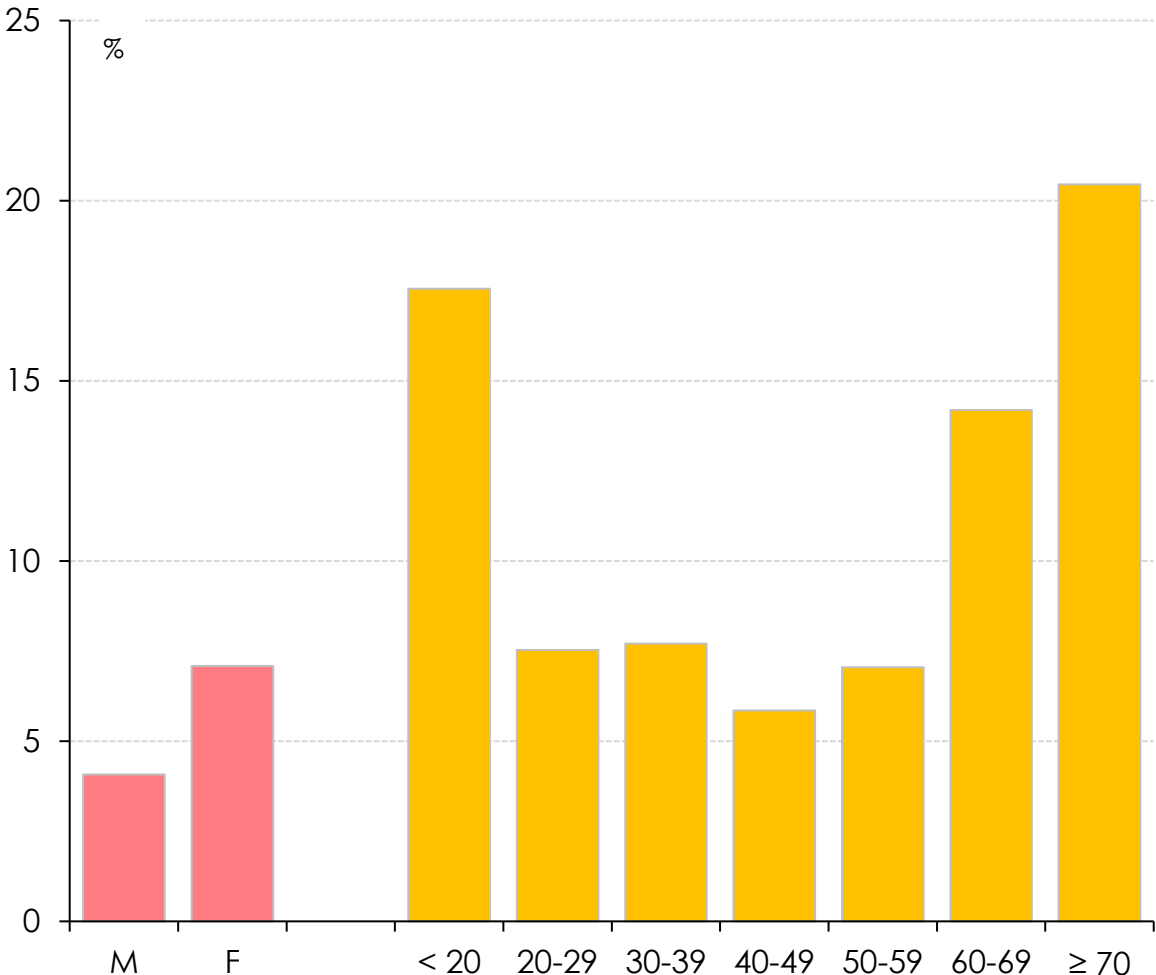
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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

By industry



By gender and age



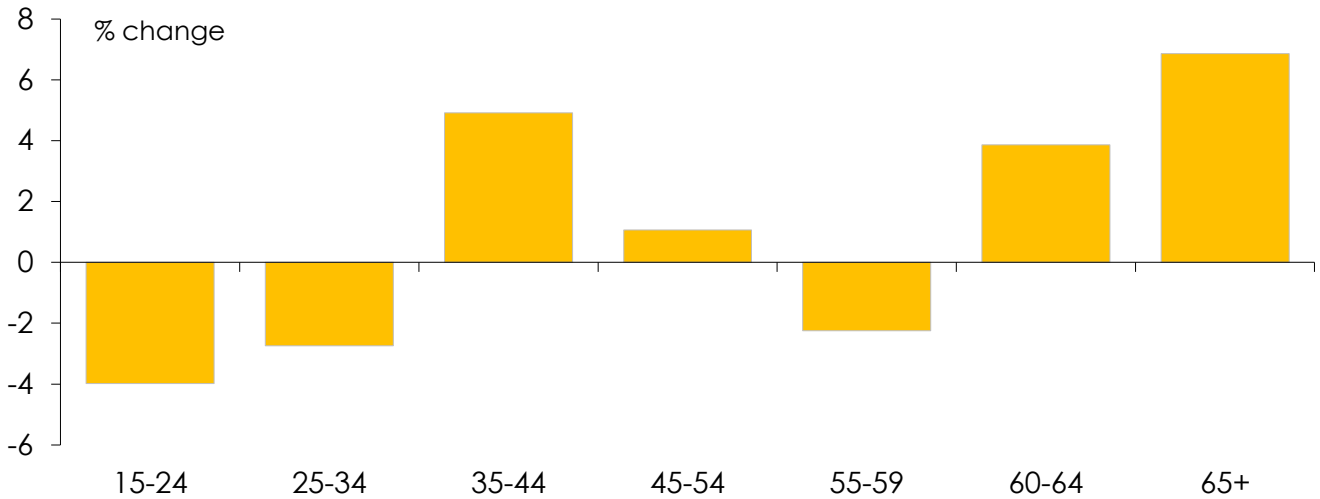
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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 233K (3¼%) fewer 15-34 year-olds in Australia than there were two years ago – which has helped speed reductions in unemployment

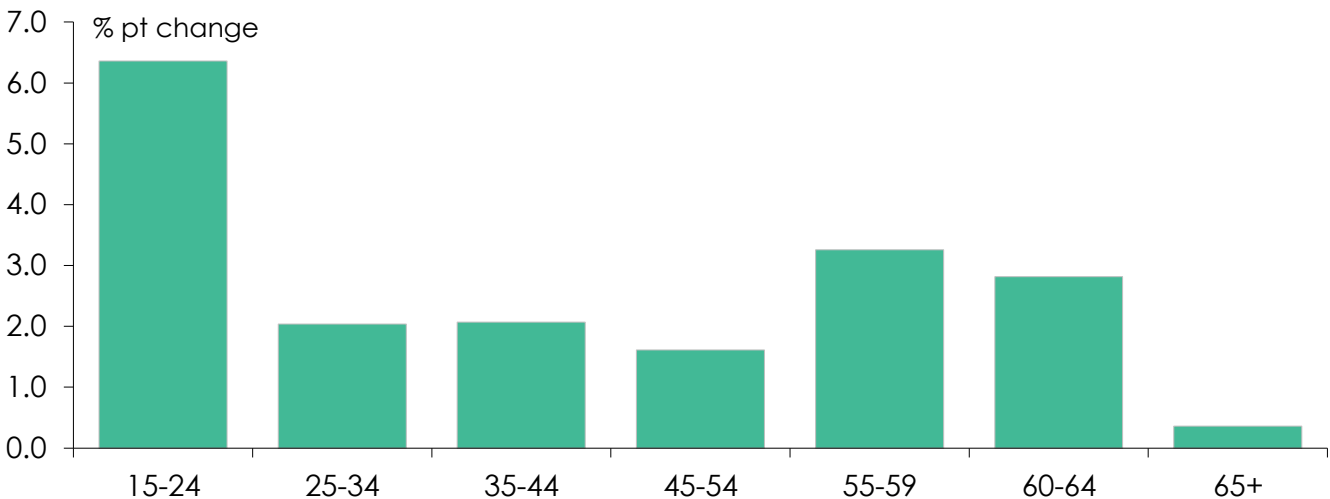
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Changes from March 2020 to July 2022

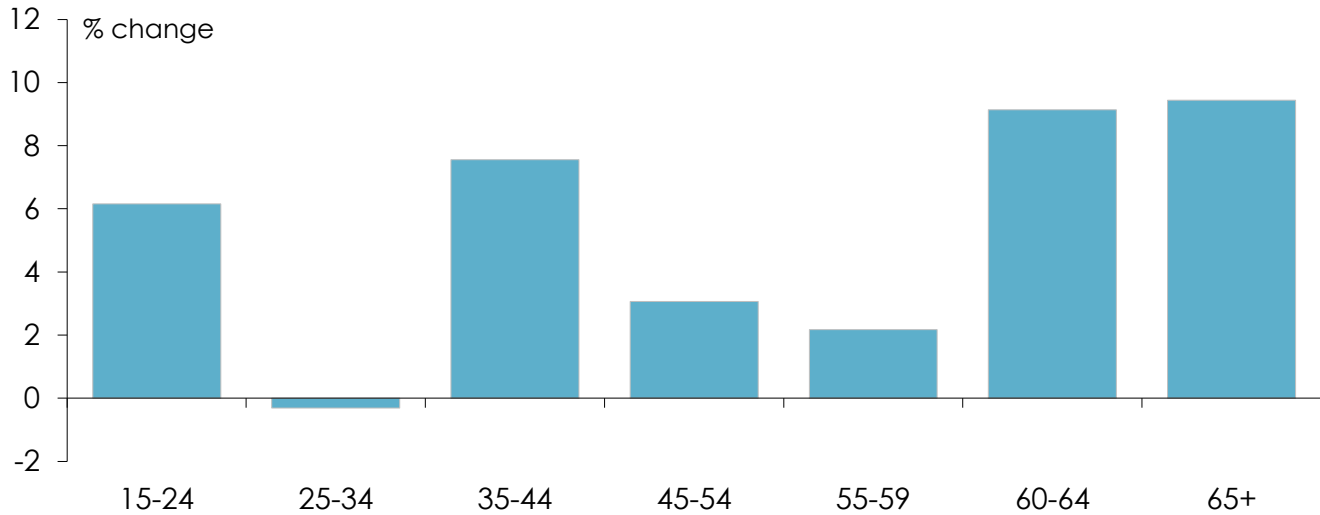
Civilian working age population



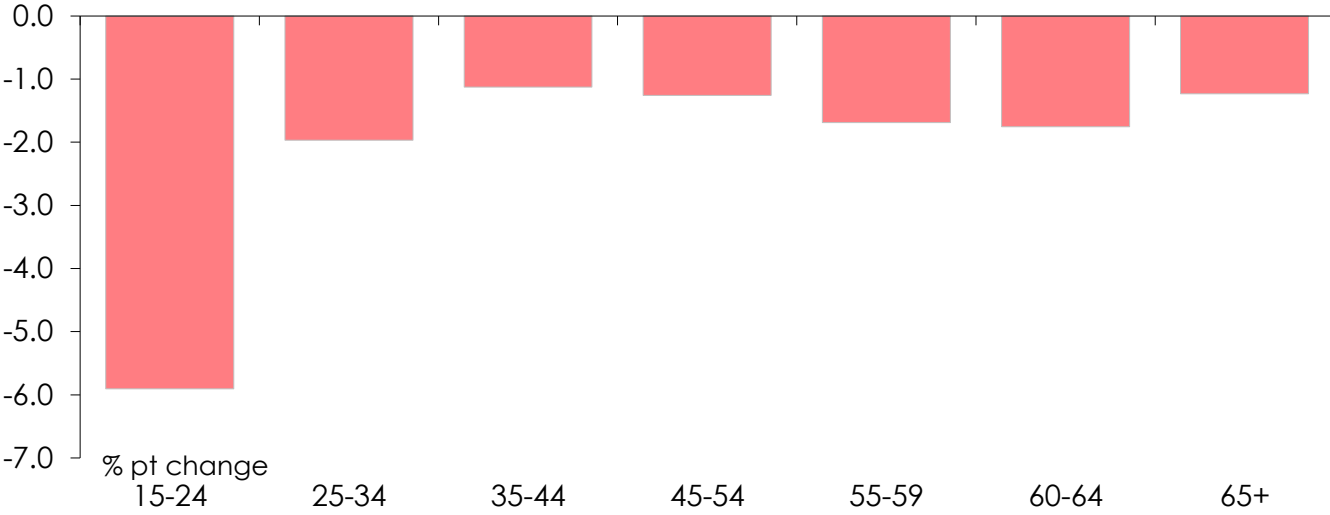
Employment-population ratio



Employment



Unemployment rates



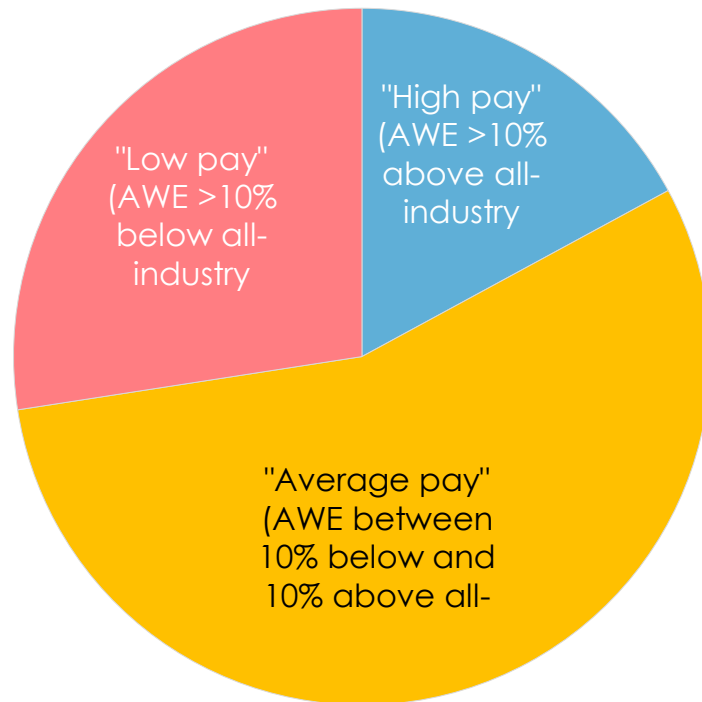
Note: The data from which the above charts are derived isn't seasonally adjusted.

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

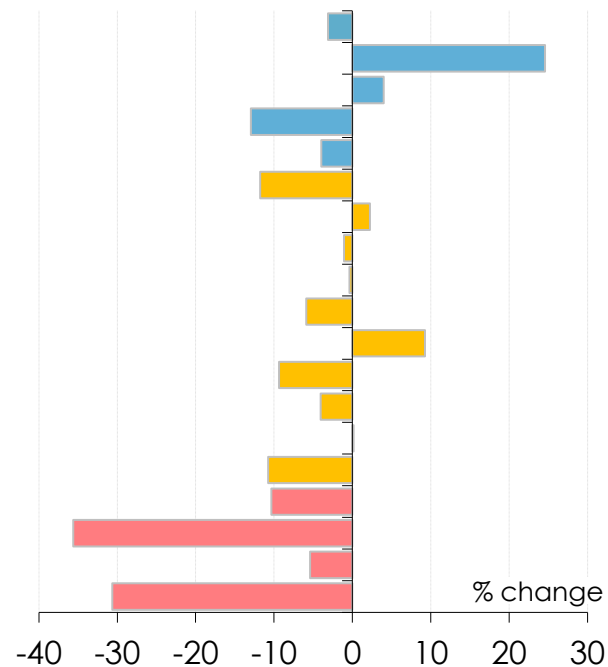
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

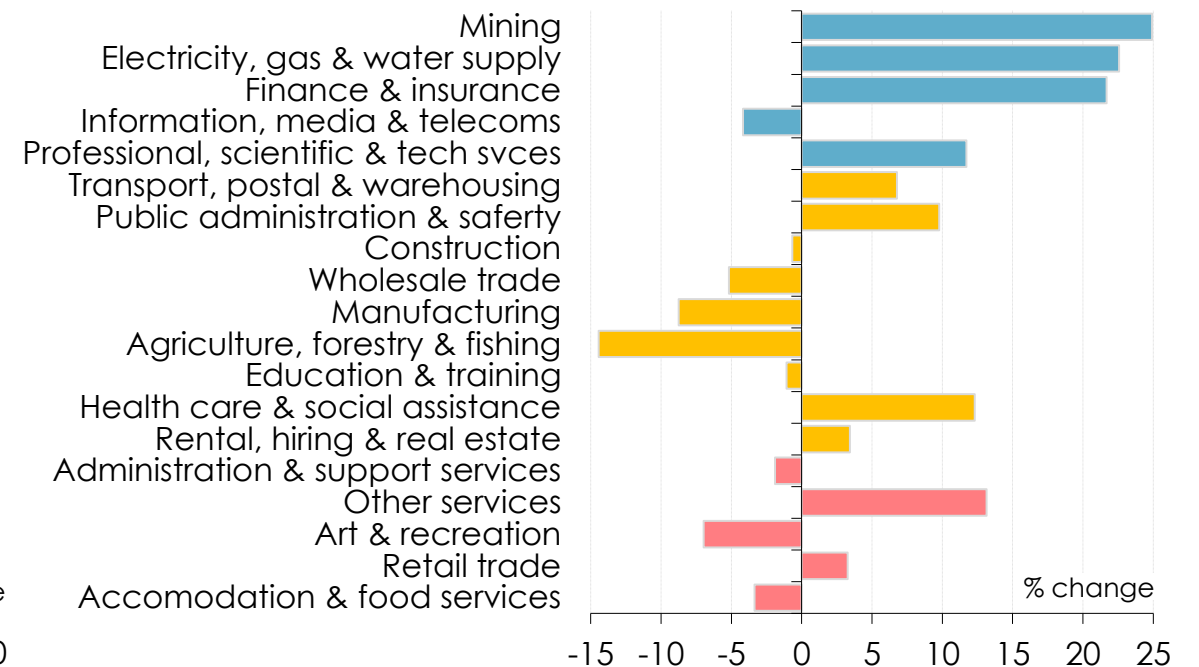
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry
February-May 2020



February 2020 – May 2022



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

Source: ABS, [Labour Force, Australia, Detailed](#), May 2022 and [Average Weekly Earnings, Australia](#), November 2021. Labour force survey data on employment by occupation are available only for the middle month of each quarter: August data will be released on 22nd September. [Return to "What's New"](#).

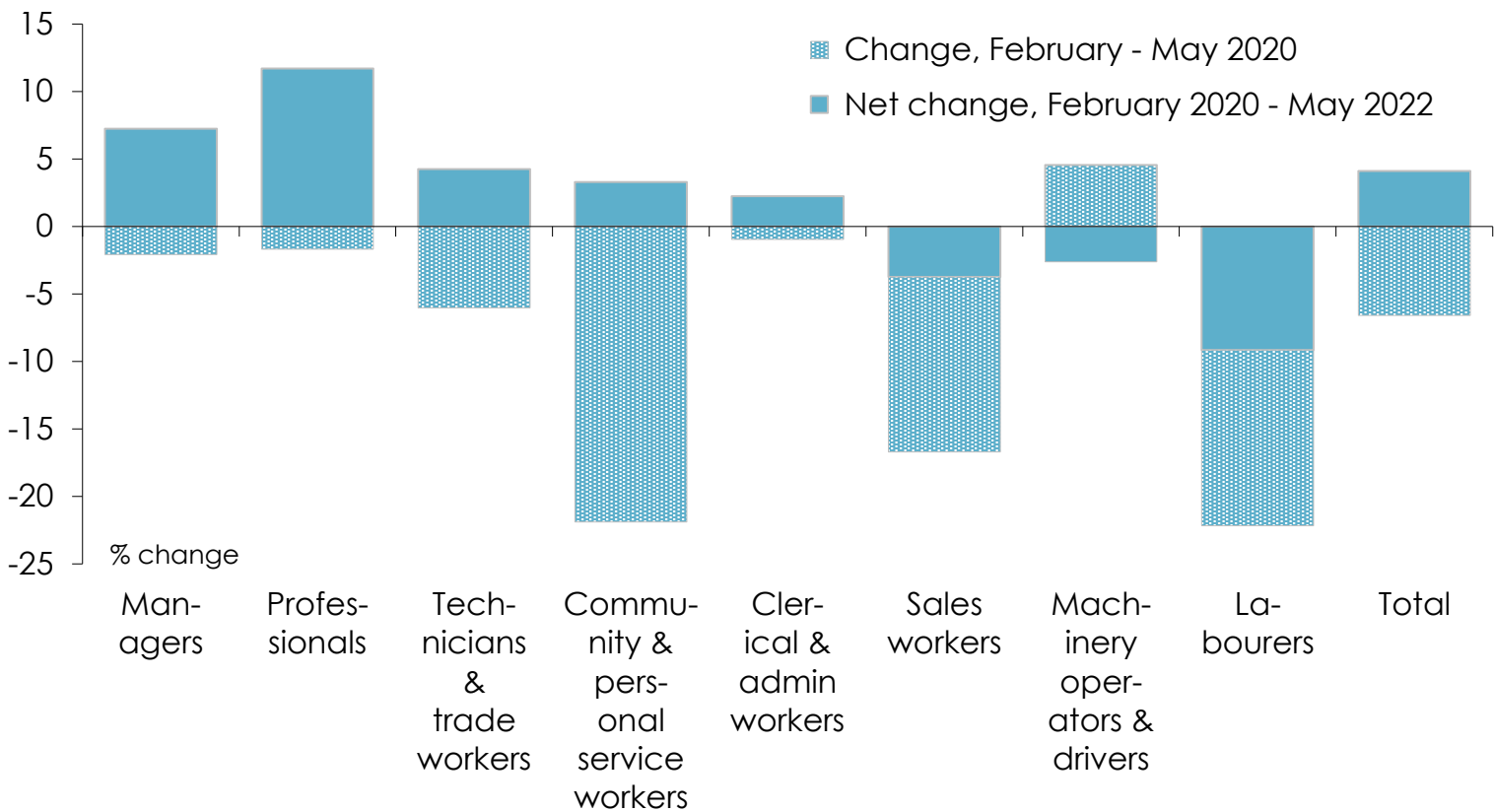
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Employment by major occupation category, February 2020



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



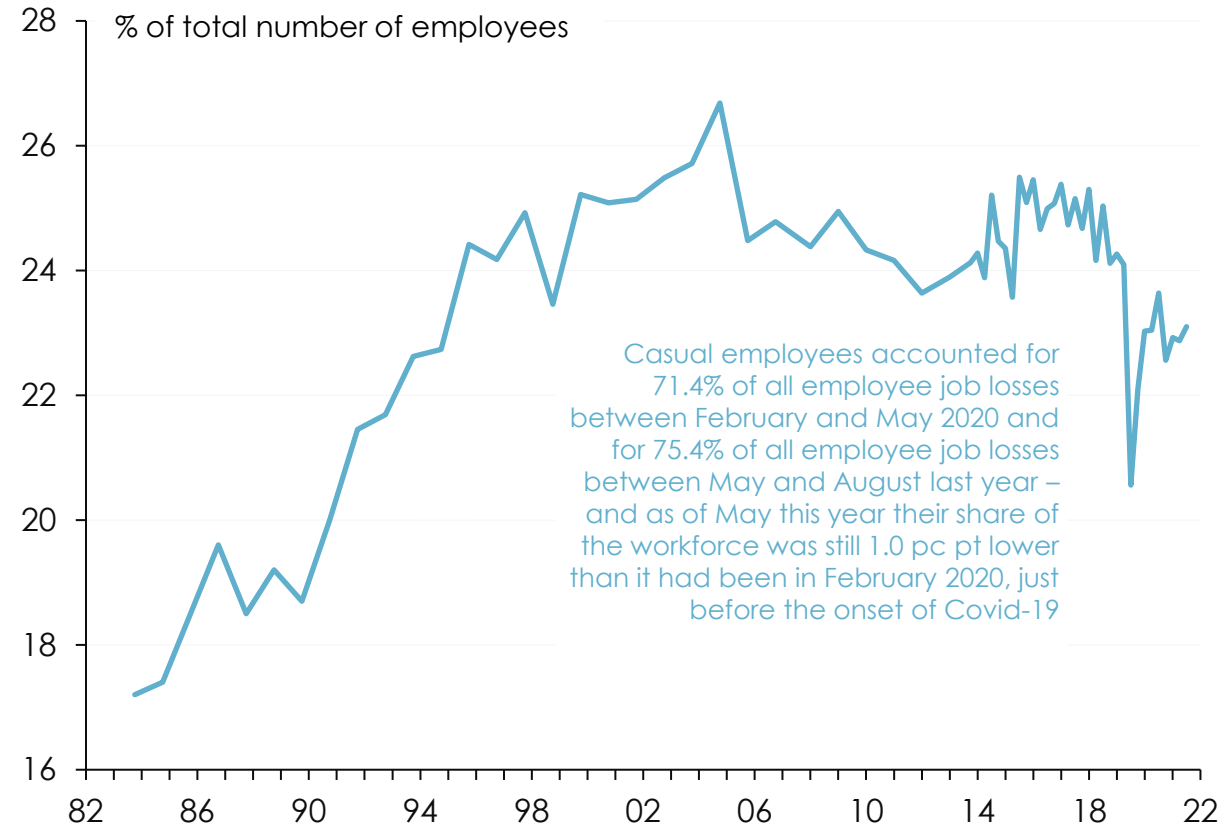
- ❑ Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May 2020 – and for 71% of job losses between May and August 2021 – and there were 2.9% fewer of them in May this year than in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

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

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

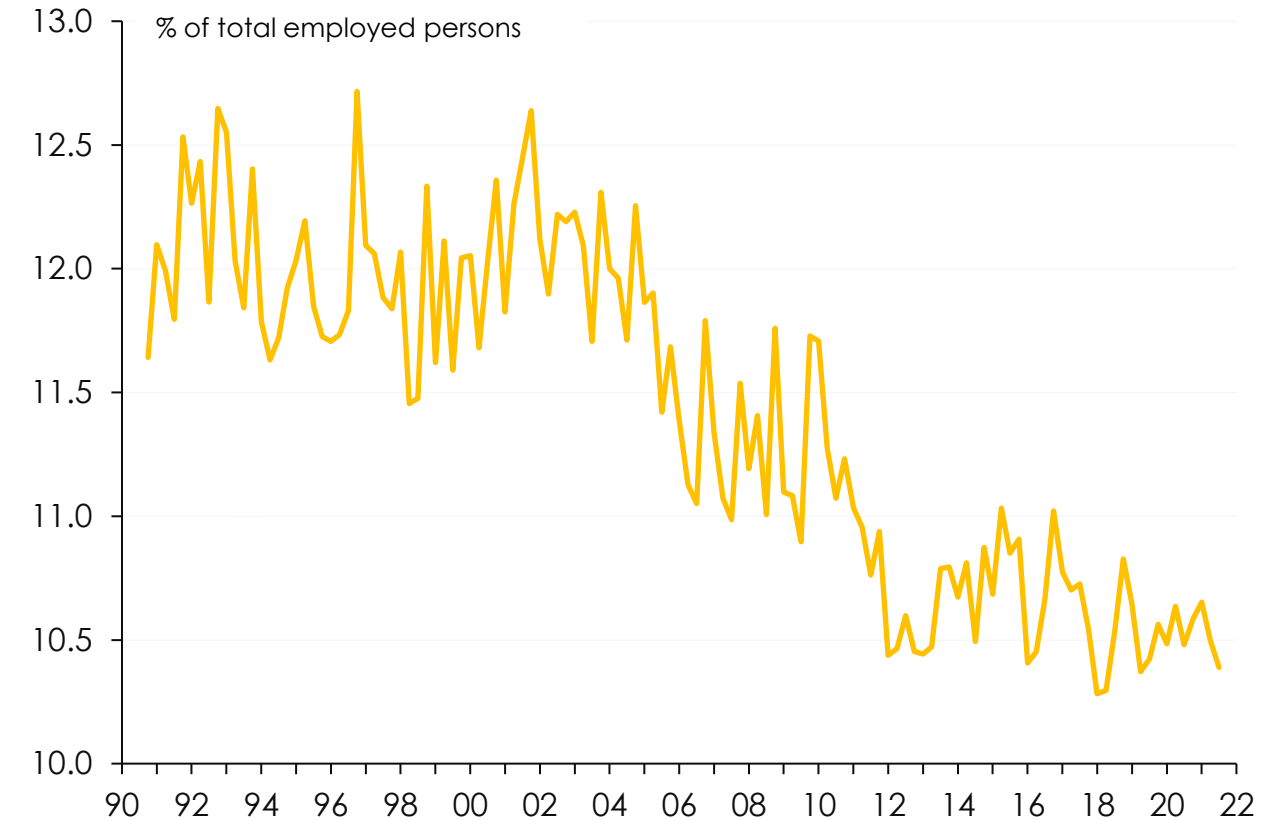
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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



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

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



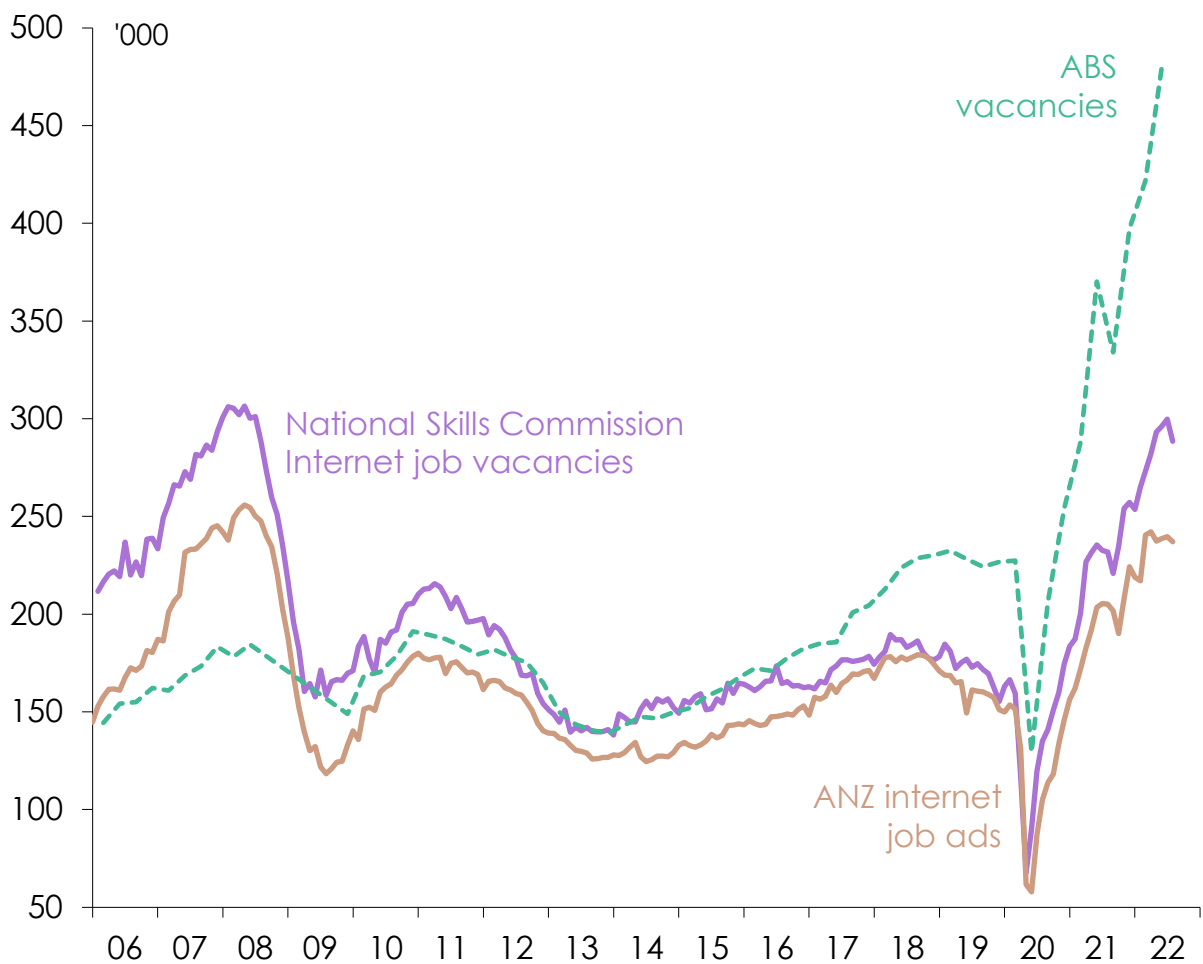
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – and haven't increased since the onset of Covid-19

Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents; [Labour Force, Australia, Detailed](#); and [Employee Earnings, Benefits and Trade Union Membership, Australia](#). August data will be published on 29th September. [Return to "What's New"](#).

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

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Measures of job vacancies



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

Ratio of unemployed people to job vacancies



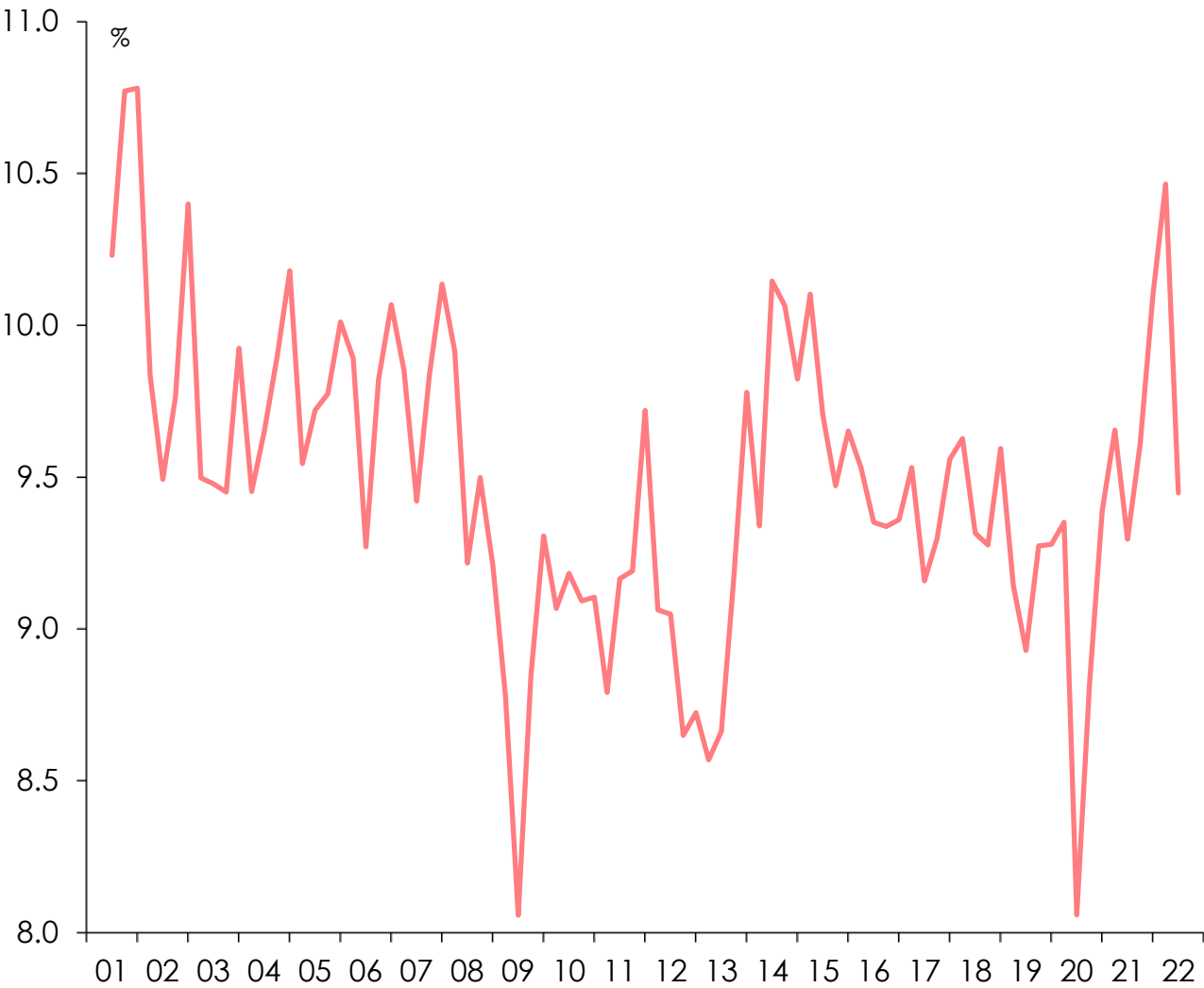
❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

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

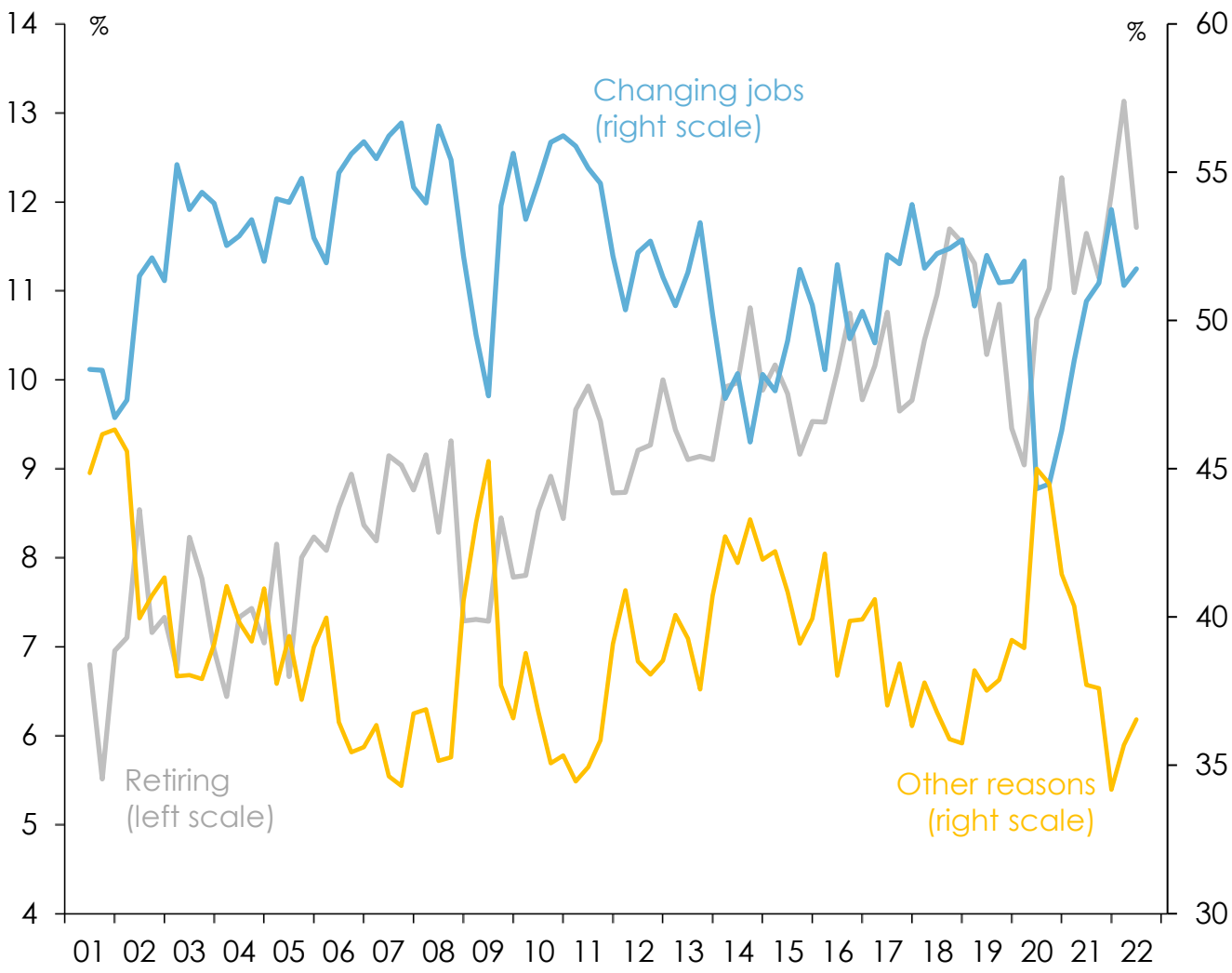
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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



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



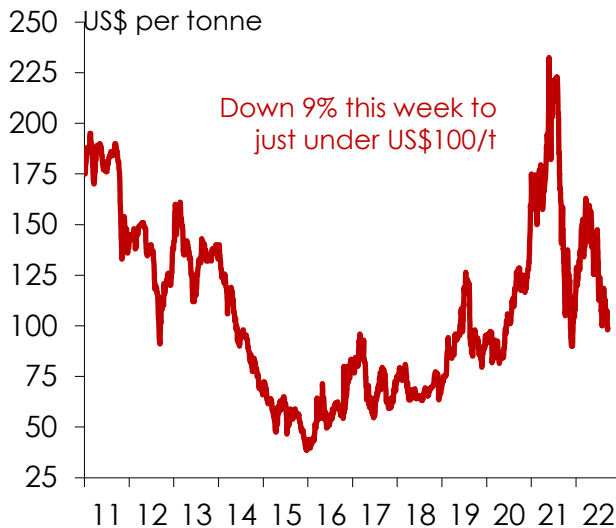
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

Trade and the balance of payments

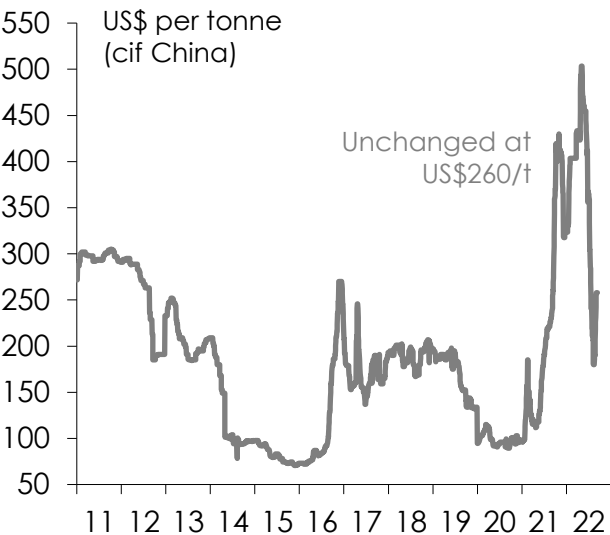
A stronger US\$ and concerns about Chinese demand pushed most commodity prices lower this week

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

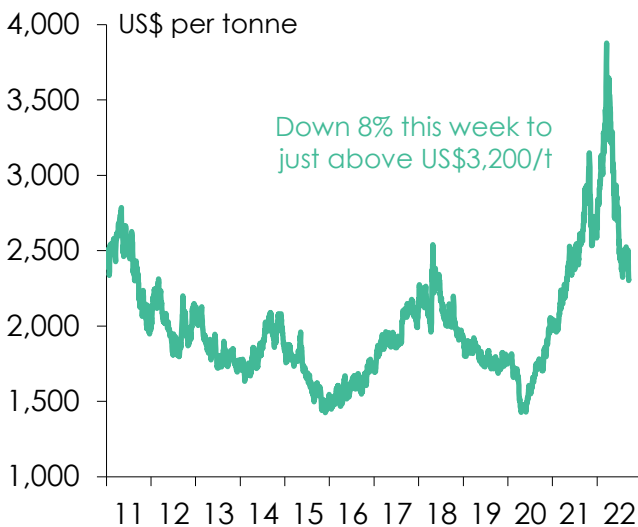
Iron ore



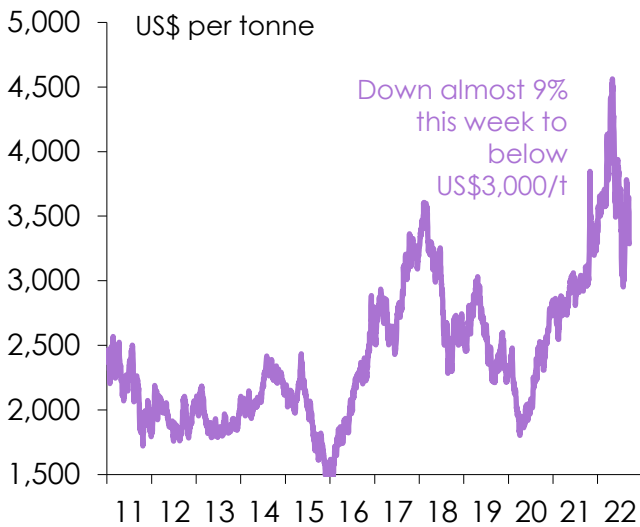
Metallurgical coal



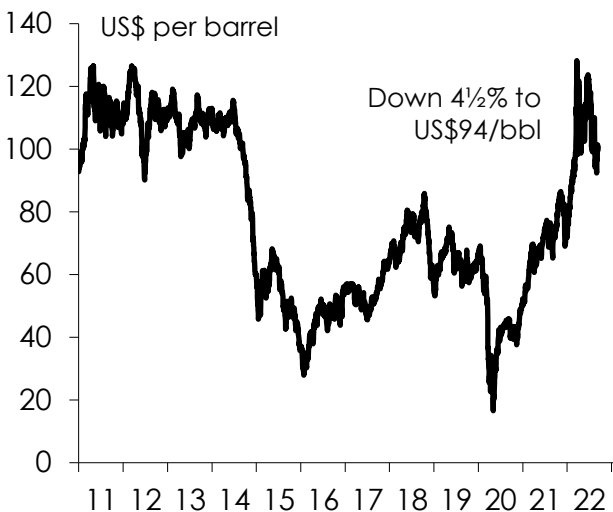
Aluminium



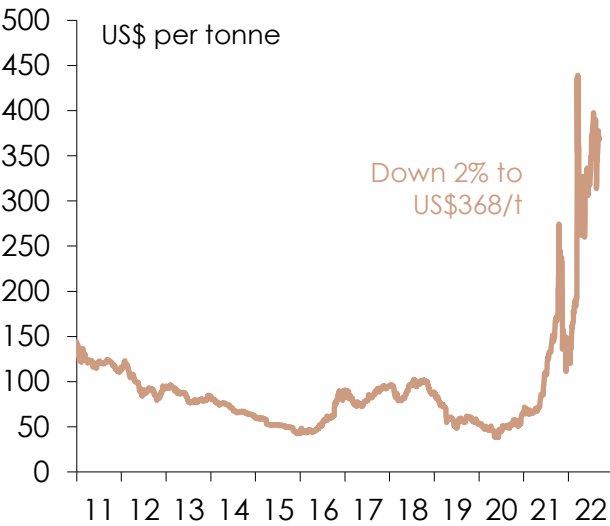
Zinc



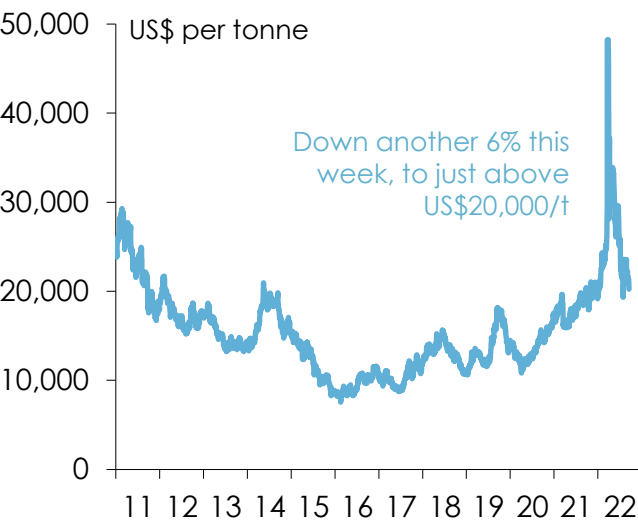
Brent crude oil



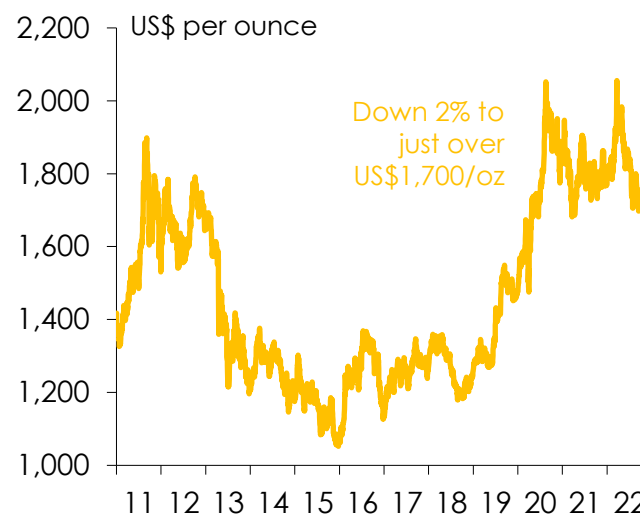
Thermal coal



Nickel



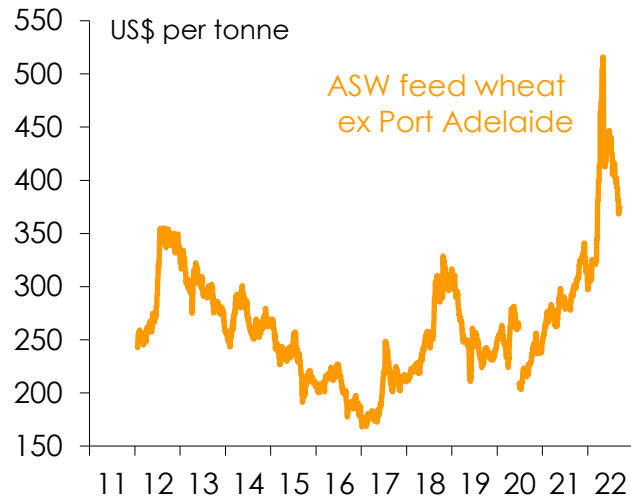
Gold



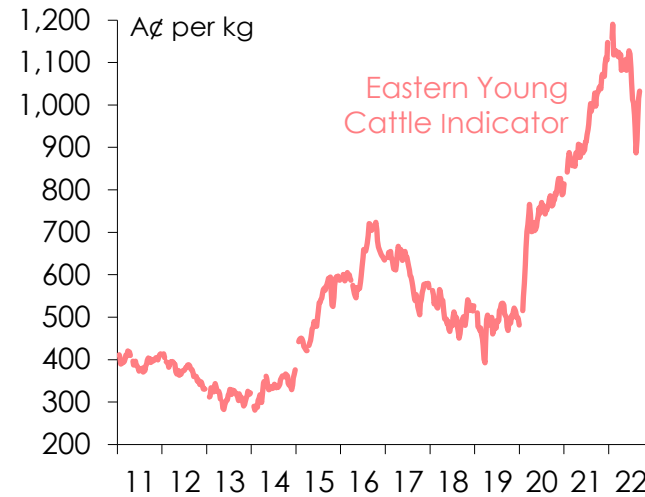
Grain prices were a little firmer this week after several weeks of decline, but most other agricultural commodities were slightly lower

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

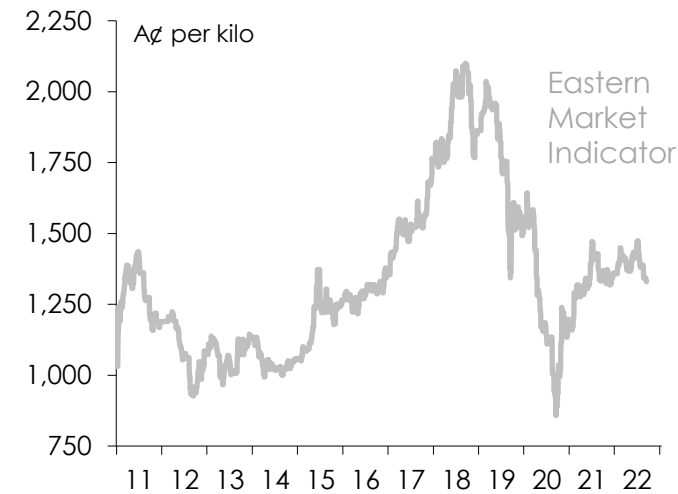
Wheat



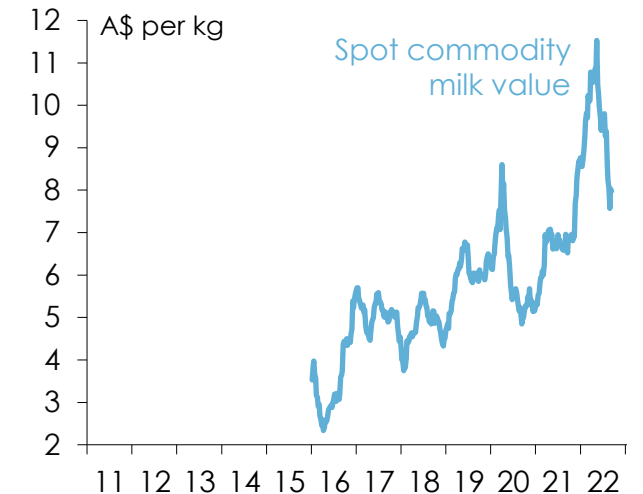
Beef cattle



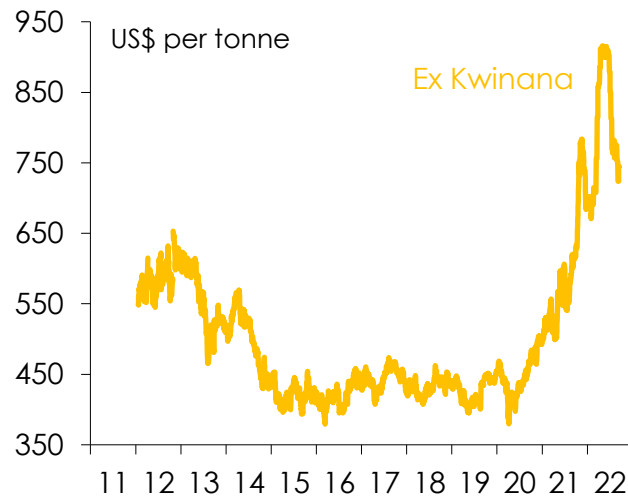
Wool



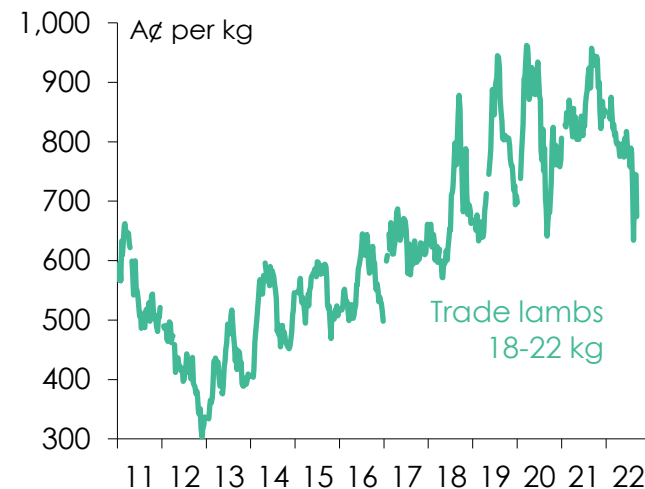
Milk



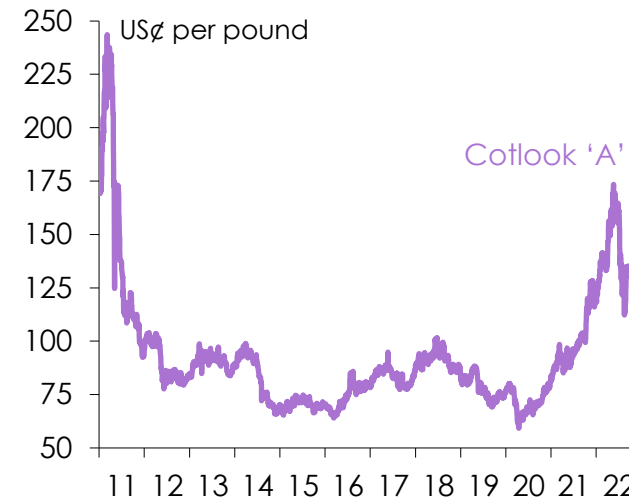
Canola



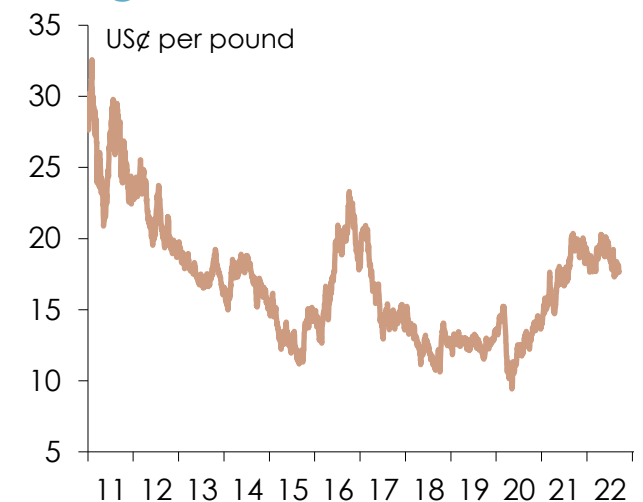
Sheep



Cotton



Sugar

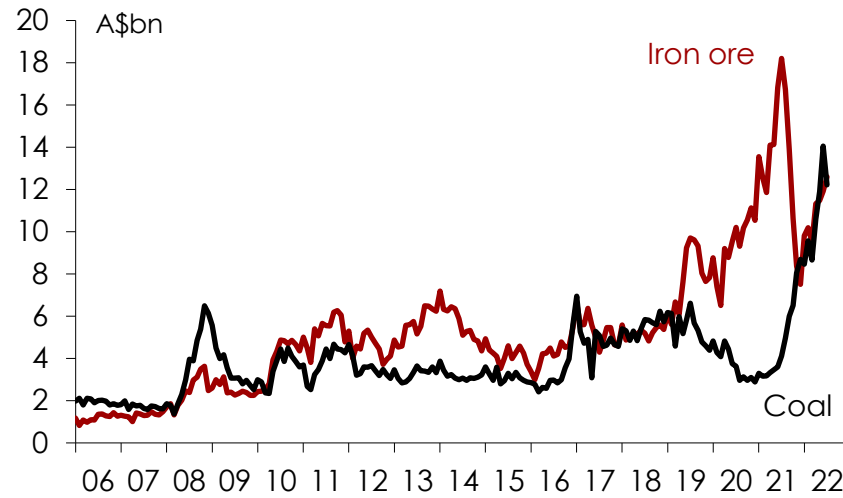


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 2nd September.

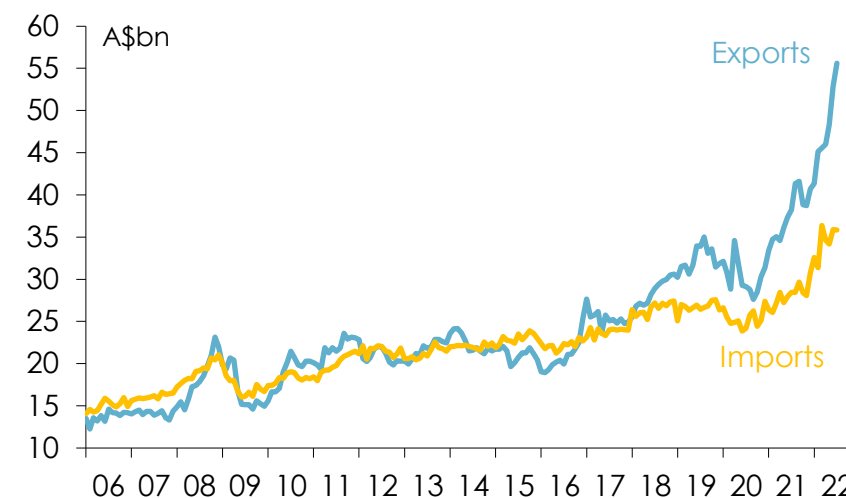
Australia's trade surplus widened by \$2.6bn to another record of \$17.7bn in June, due to a (likely one-off) surge in gold exports

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

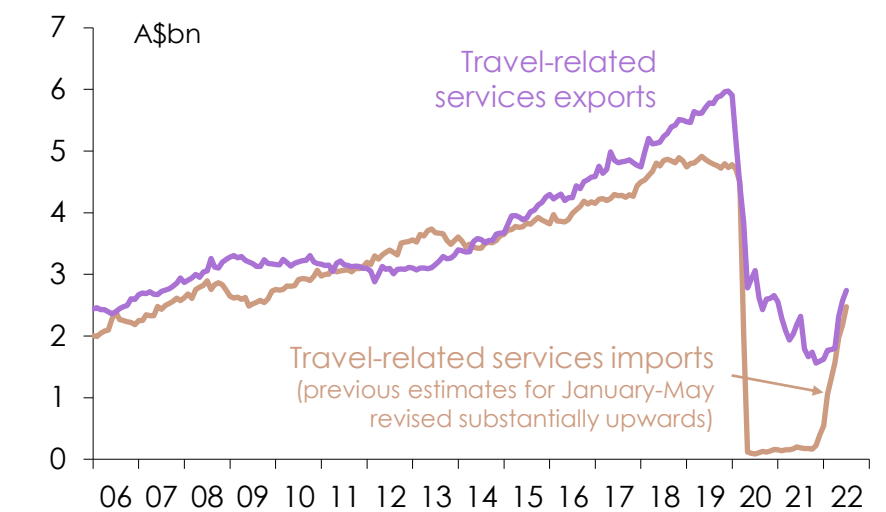
Iron ore and coal exports



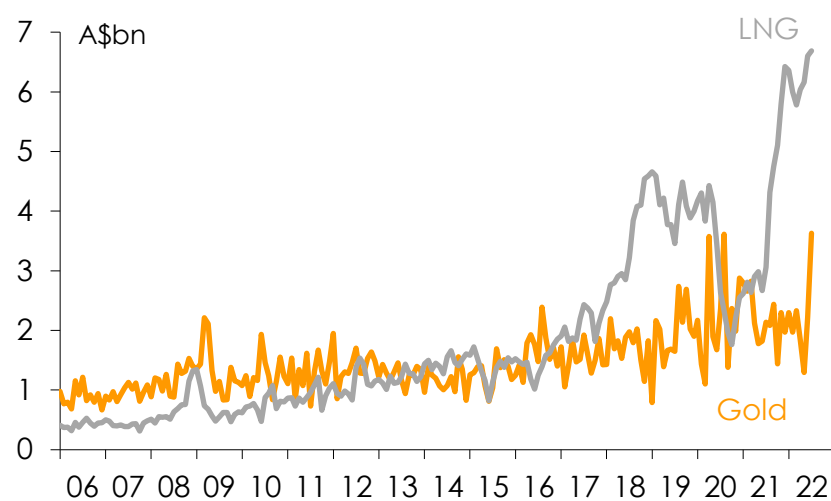
Merchandise exports and imports



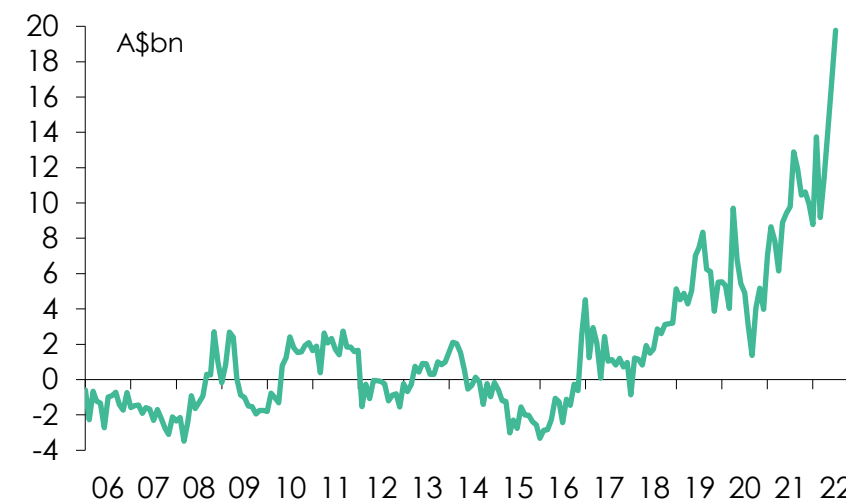
Tourism-related services trade



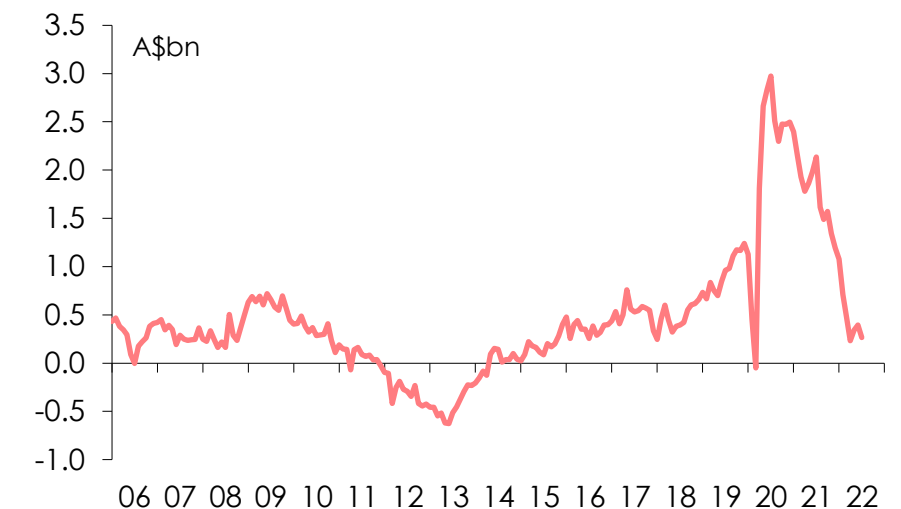
LNG and gold exports



Merchandise trade balance



Tourism services trade balance

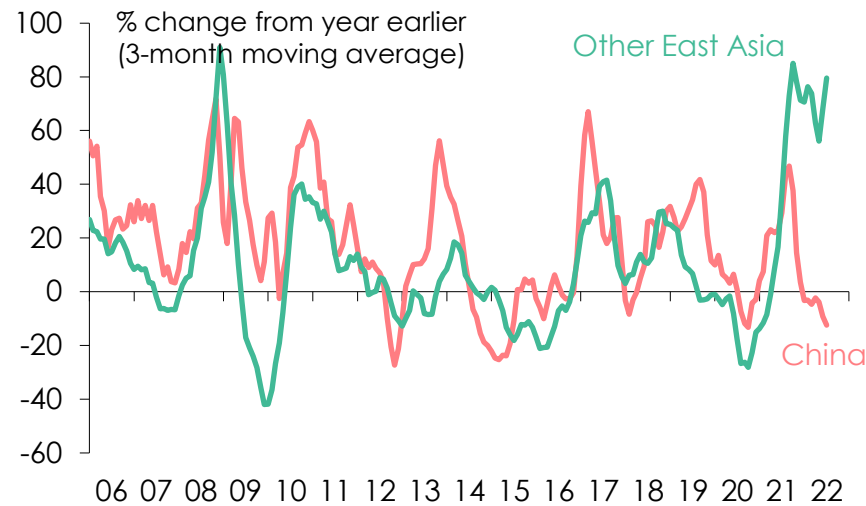


Source: ABS, [International Trade in Goods and Services, Australia](#), June 2022. July data will be released on 8th September. [Return to "What's New"](#).

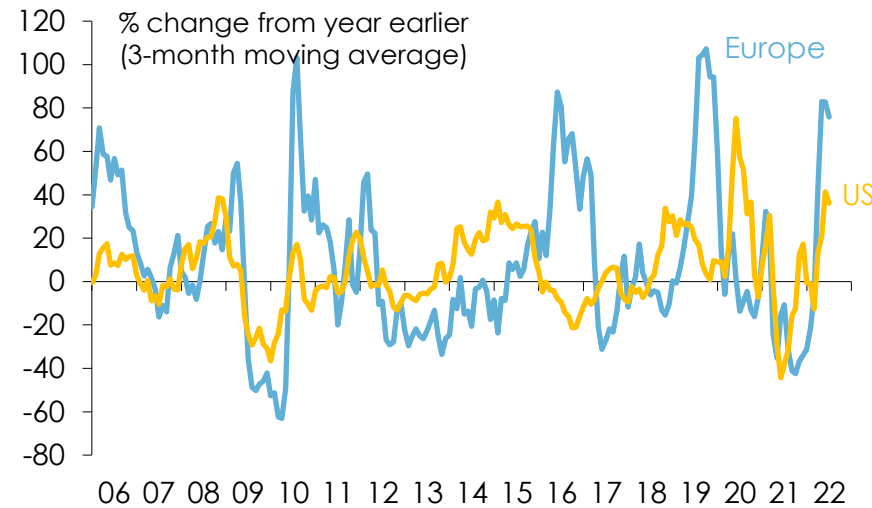
Australia's trade surplus with China is now declining (though it's still large) but bilateral surpluses with other Asian economies are rising strongly

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

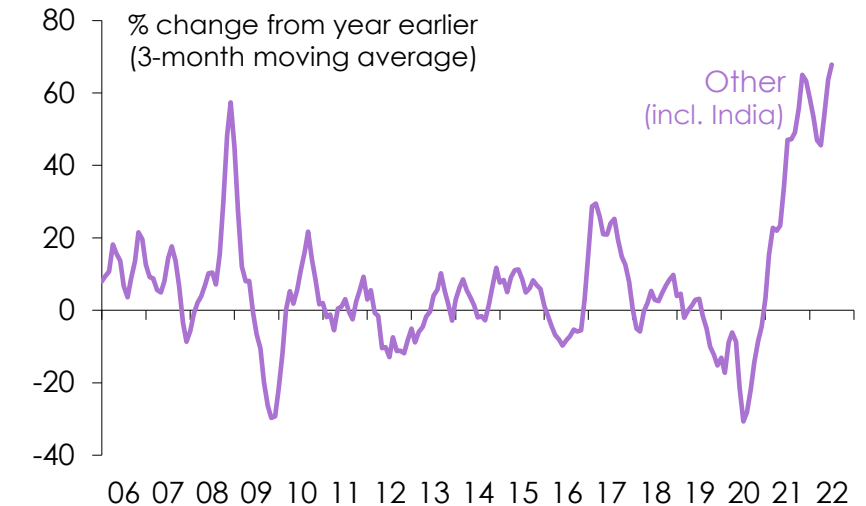
Merchandise exports – East Asia



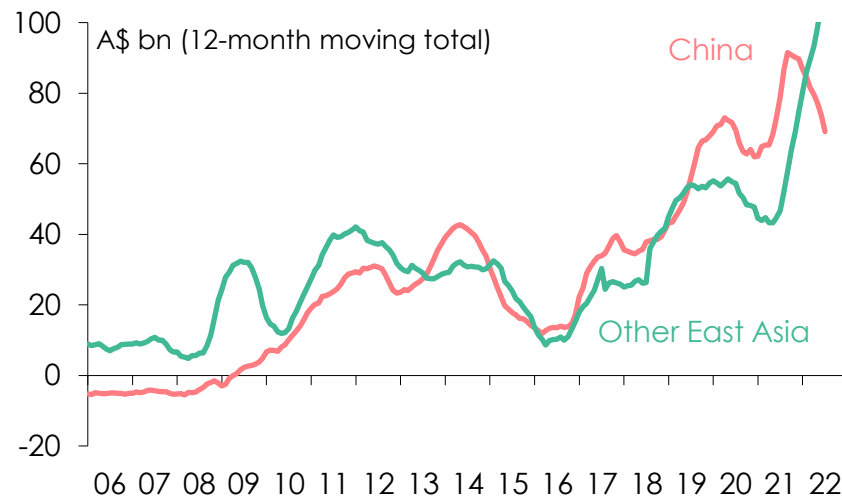
Merchandise exports – US & Europe



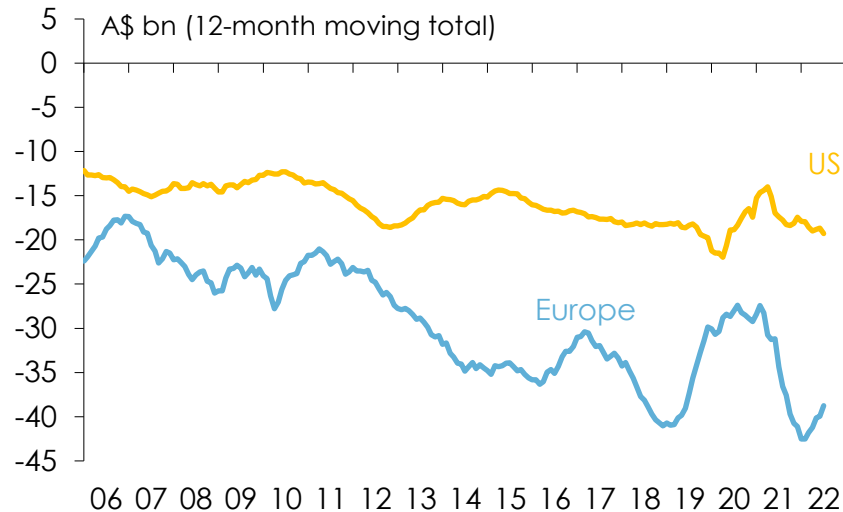
Merchandise exports – other



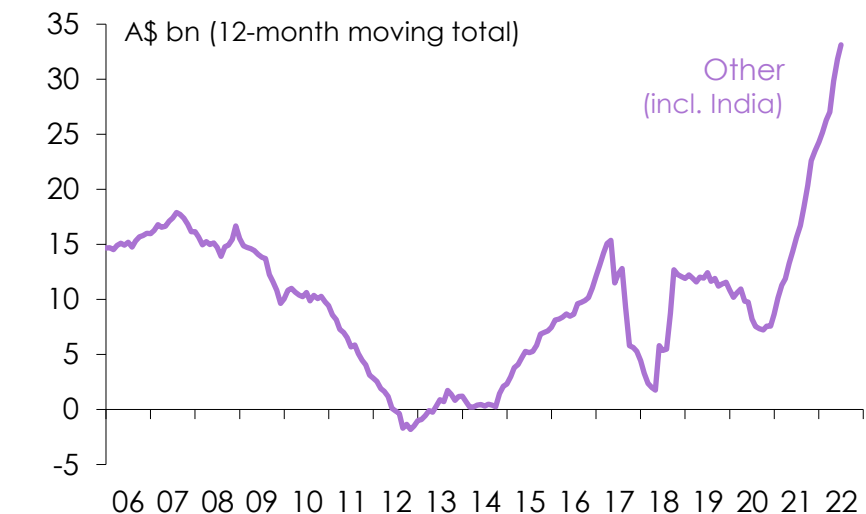
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

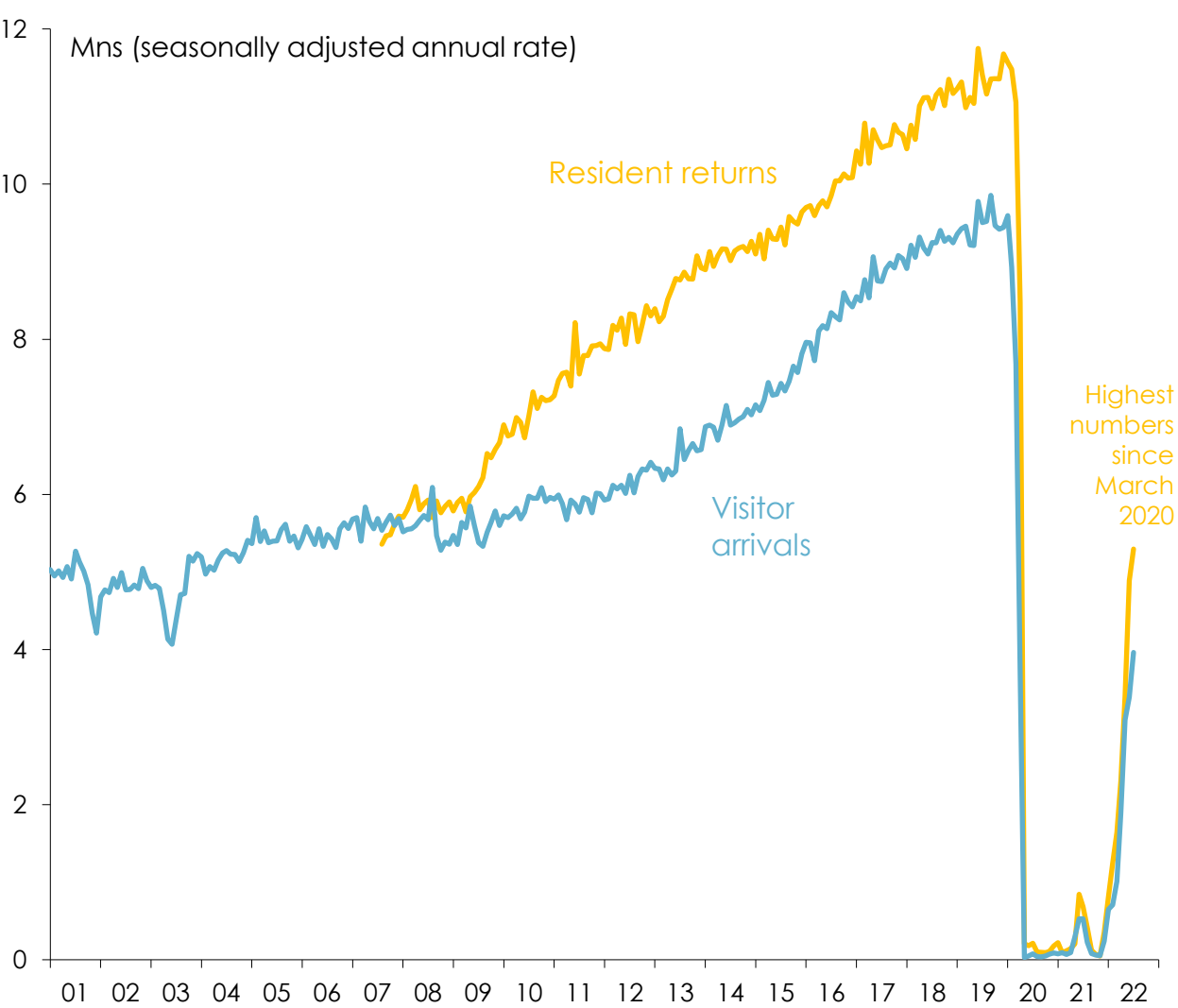


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in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

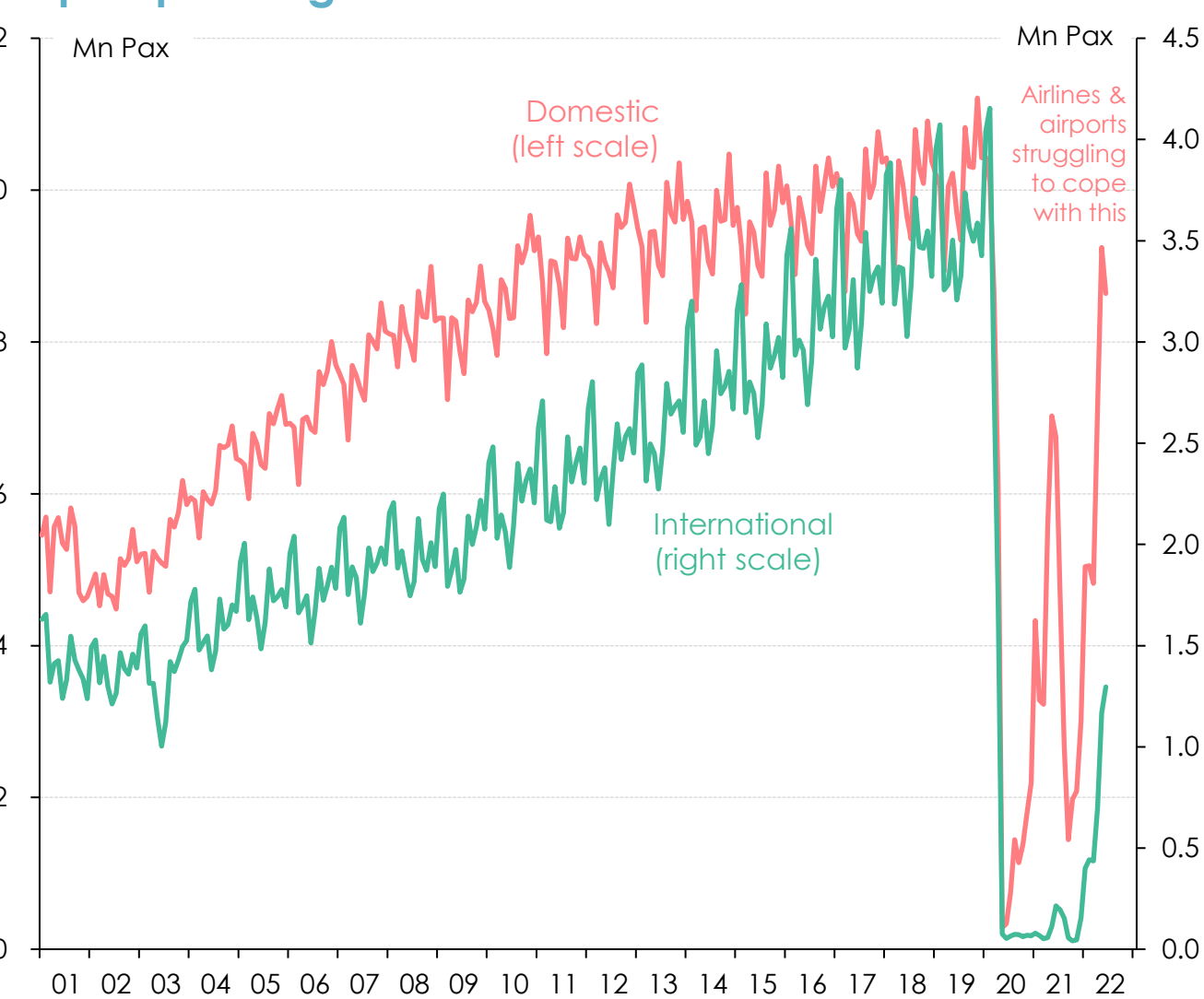
International visitor arrivals have risen strongly since the beginning of this year, but still have a long way to go

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Short-term visitor arrivals and resident returns



Airport passenger movements

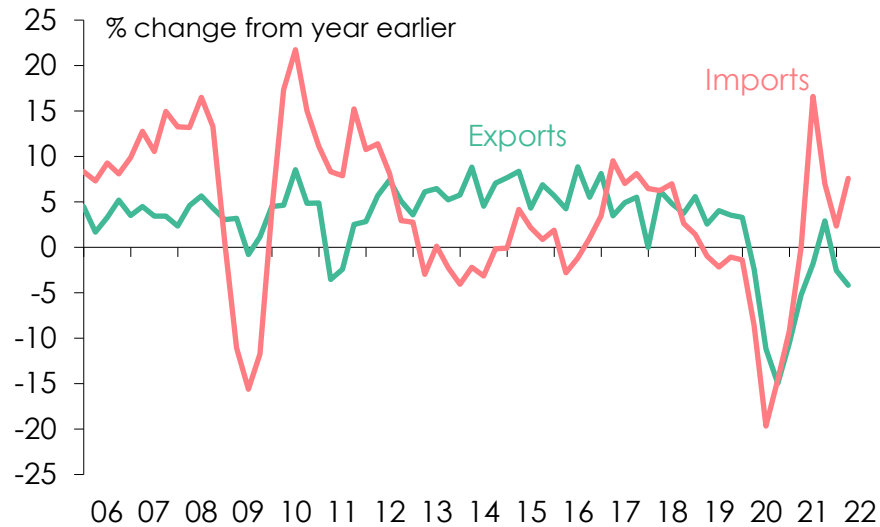


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

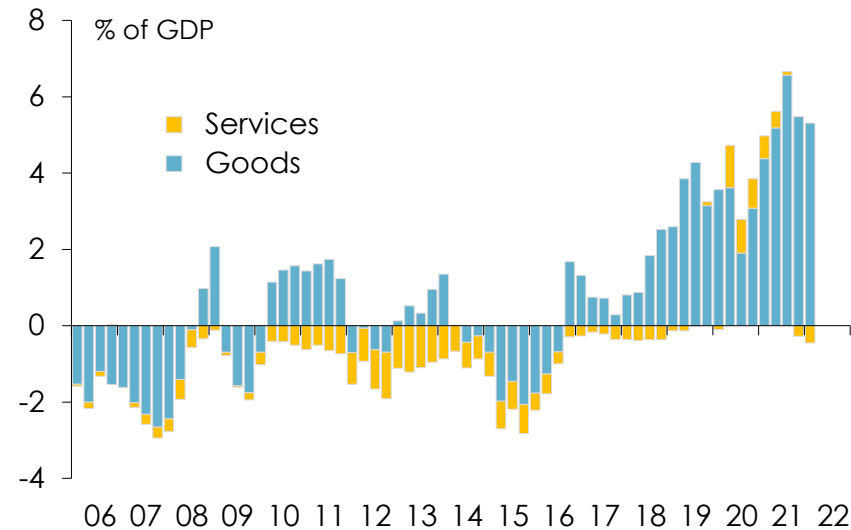
Australia's Q1 current account surplus was the smallest since Q4 2019, with an 8% surge in import volumes outweighing a 6% terms of trade gain

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

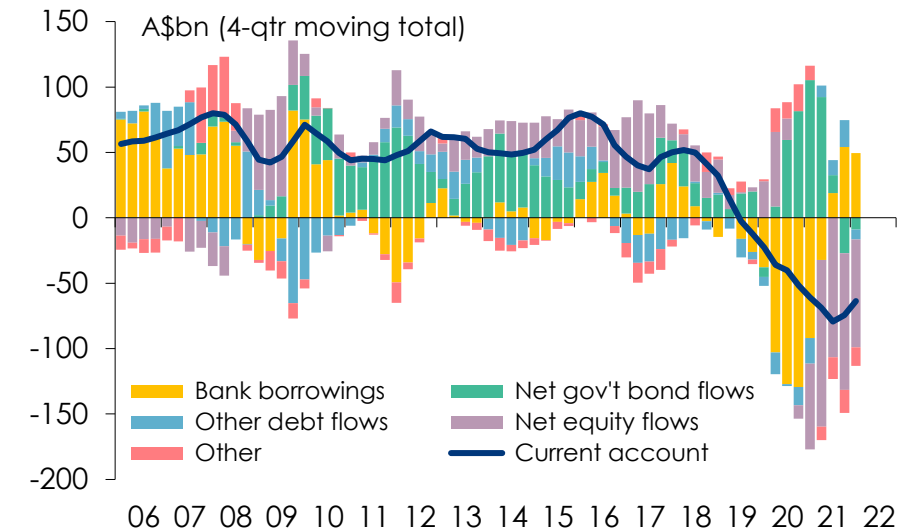
Export and import volumes



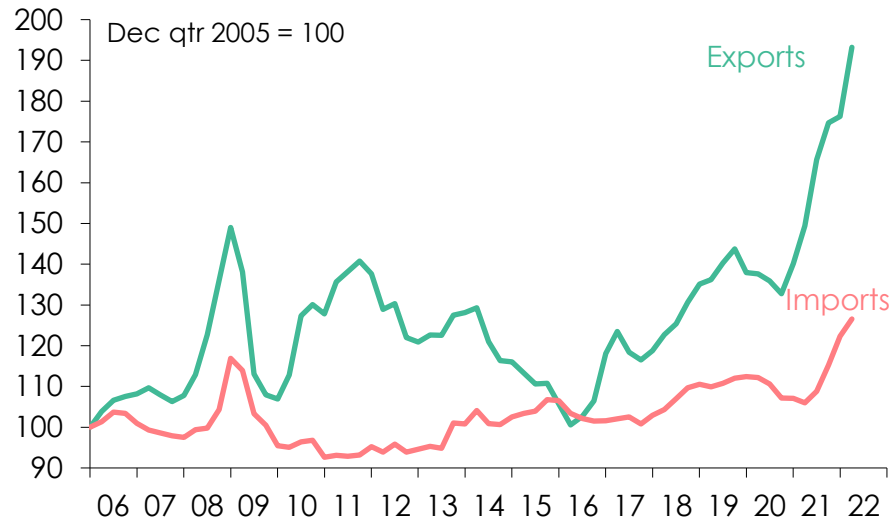
Goods & services trade balances



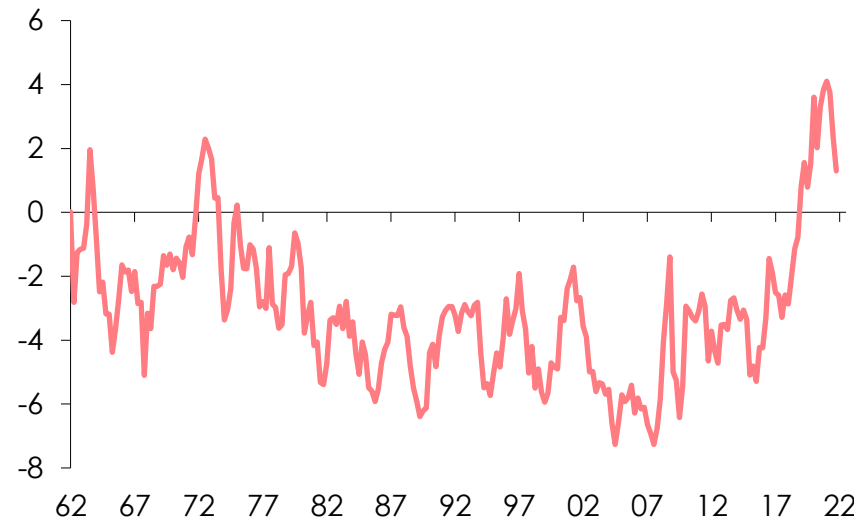
Capital flows



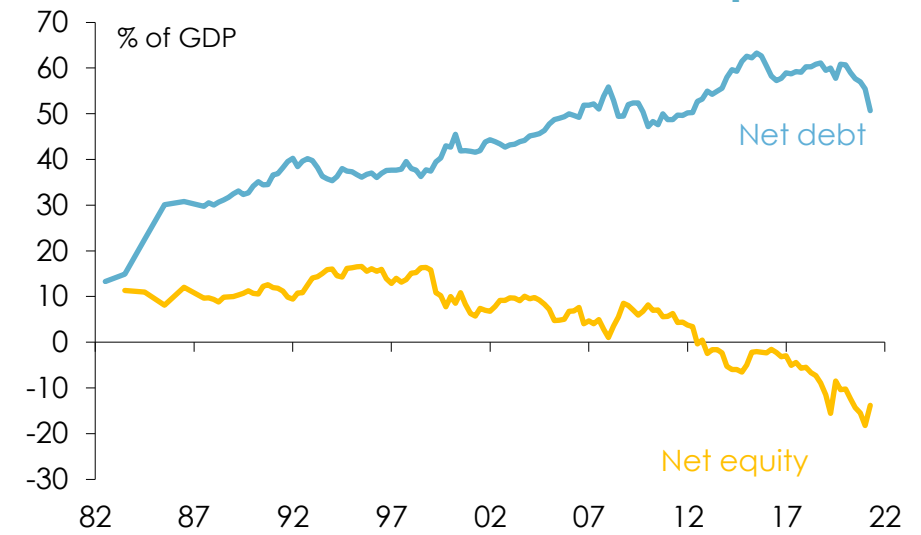
Export and import prices



Current account balance



Net international investment position

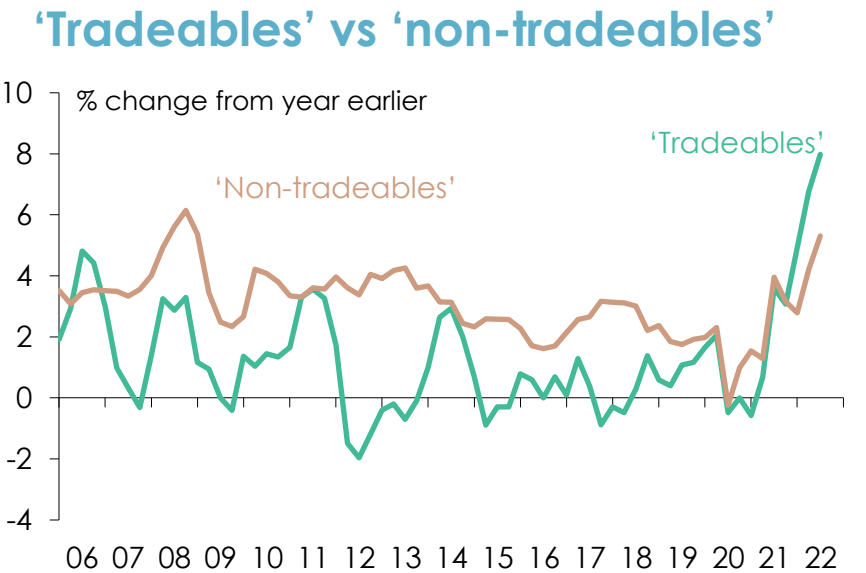
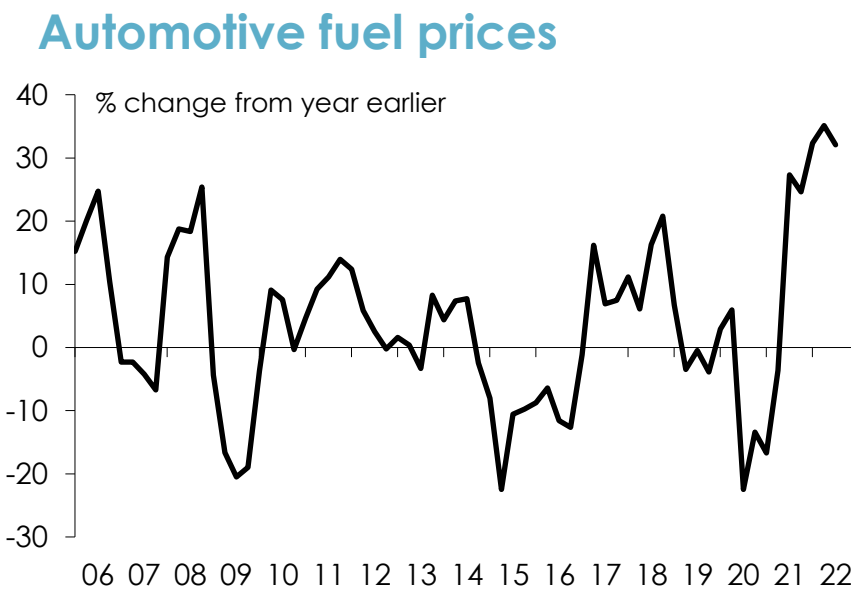
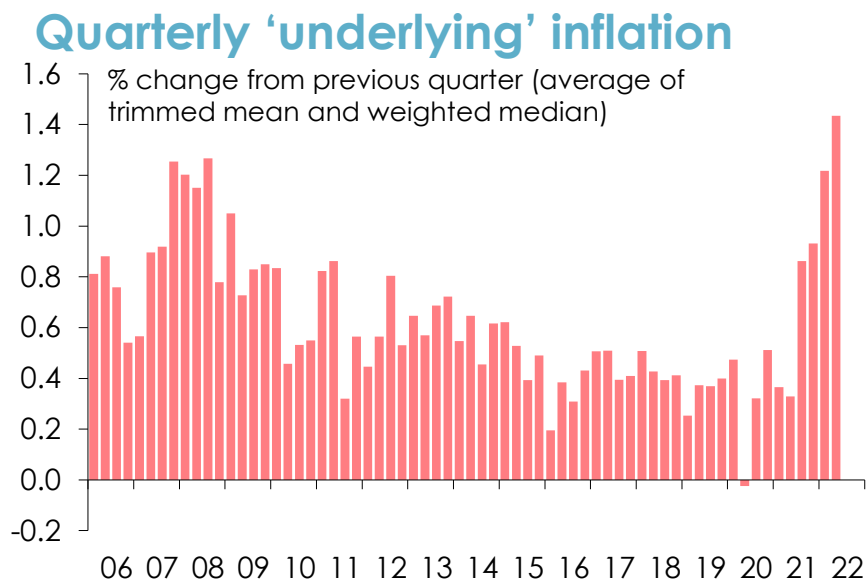
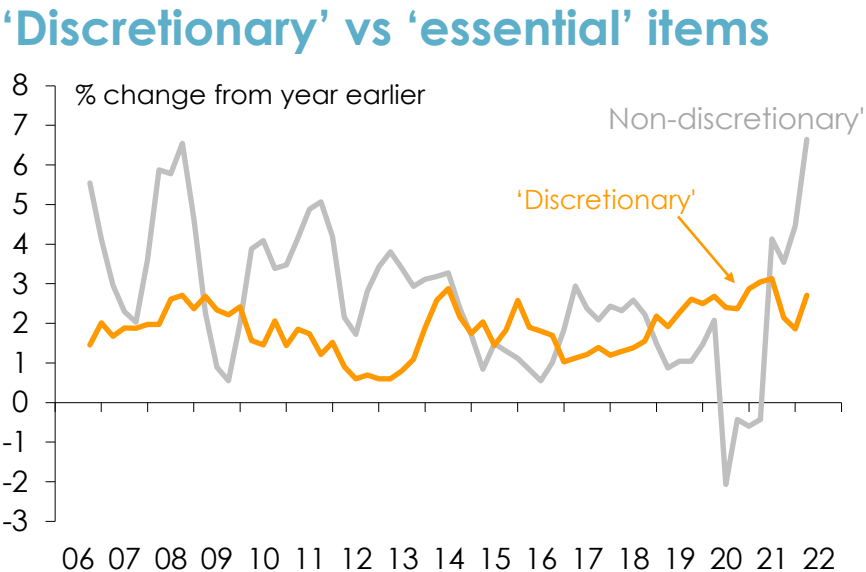
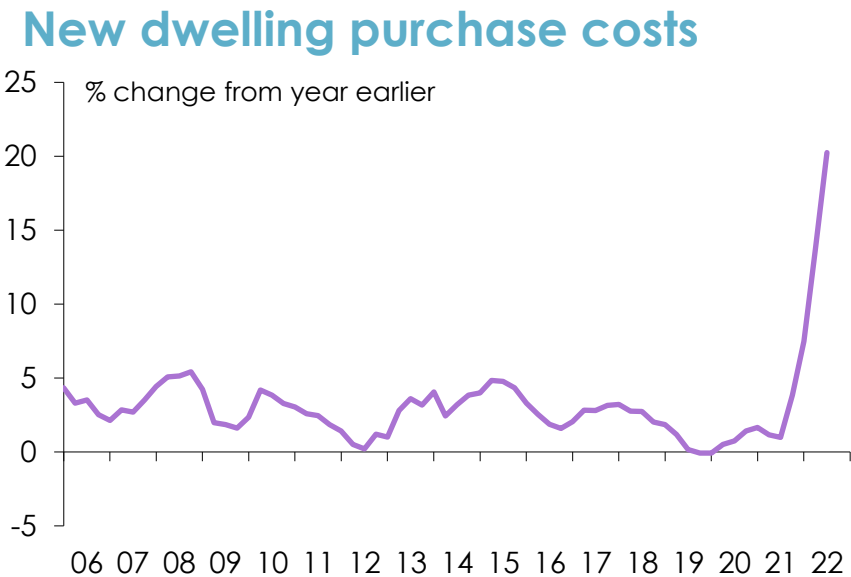
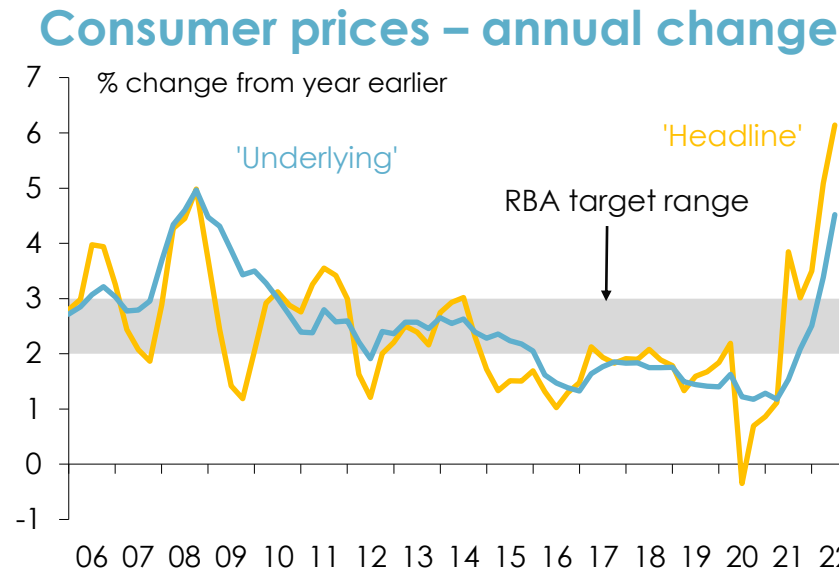


Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

Inflation

The CPI rose 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%

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

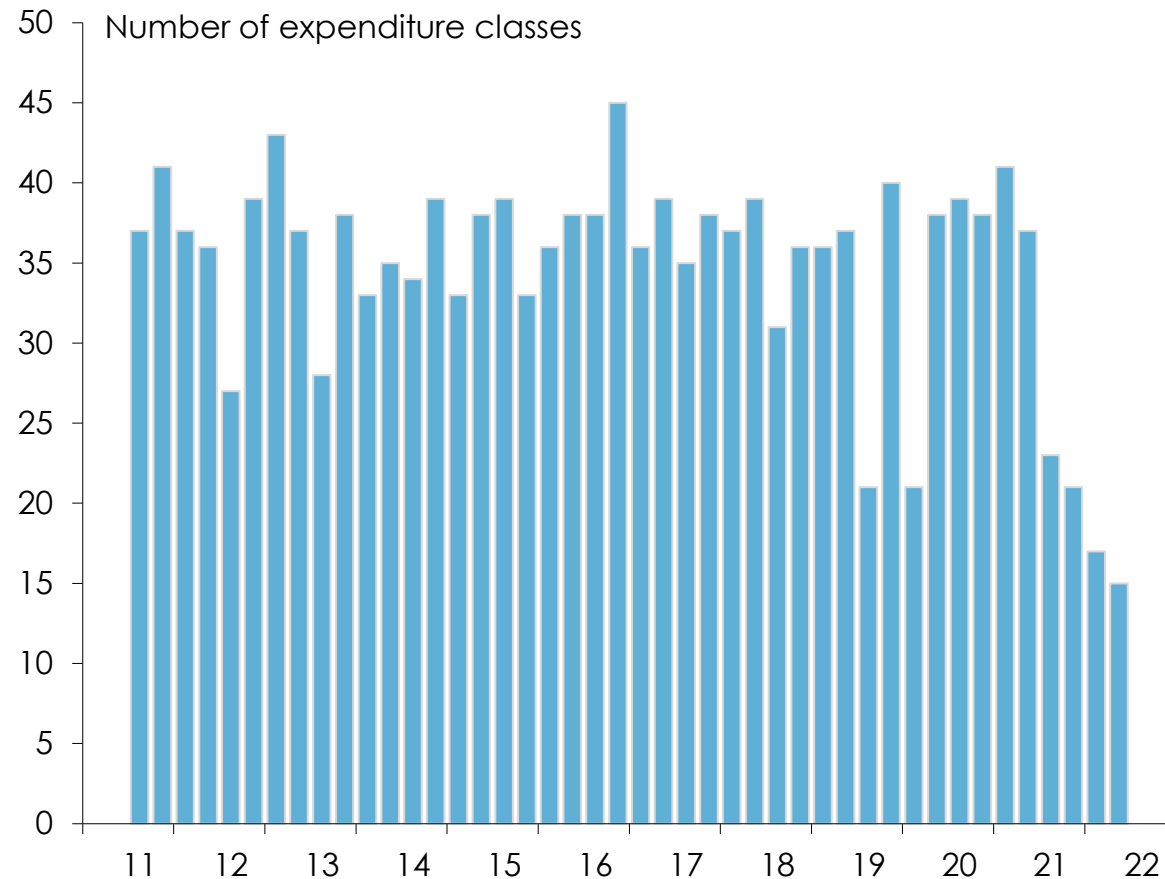


Note: ‘Underlying’ inflation is the average of the weighted median and trimmed mean CPIs. For definitions of ‘discretionary’ and ‘non-discretionary’ items see [here](#). Source: ABS, [Consumer Price Index, Australia](#), June quarter 2022 (September quarter CPI will be released on 26th October). [Return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

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

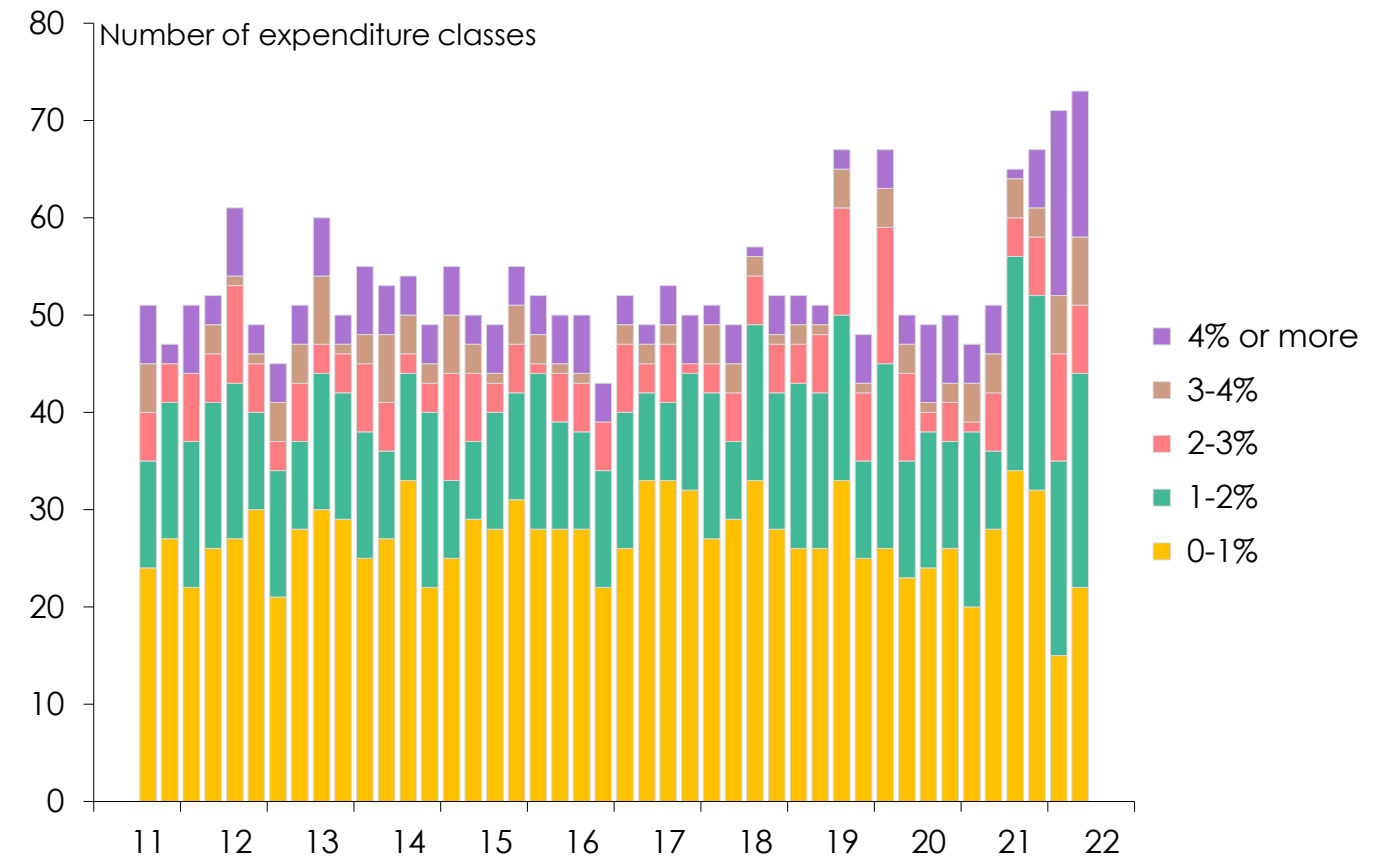
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Number of CPI 'expenditure classes' registering falls 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

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

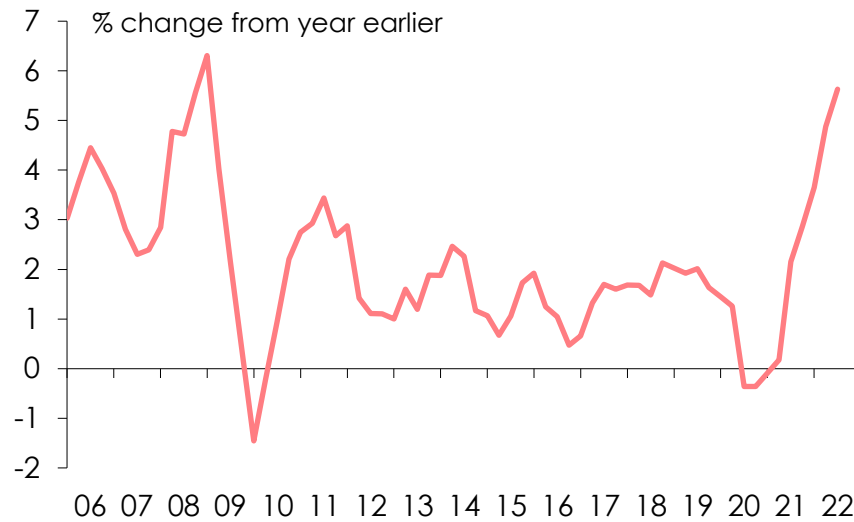


- ❑ 73 of the 90 'expenditure classes' in the CPI recorded price rises in the June quarter – the highest in at least 10 years – with 15 registering price increases of over 4%

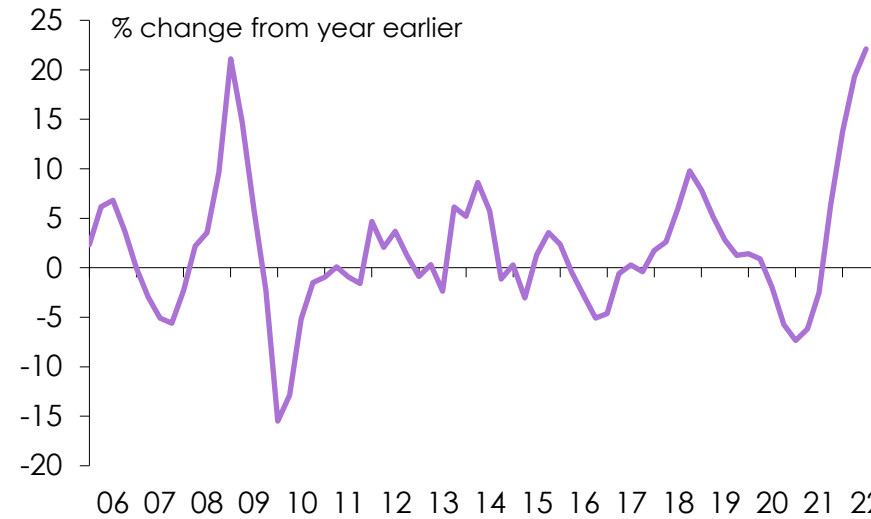
Imported material prices and domestic residential & non-residential construction costs continued rising sharply in the June quarter

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

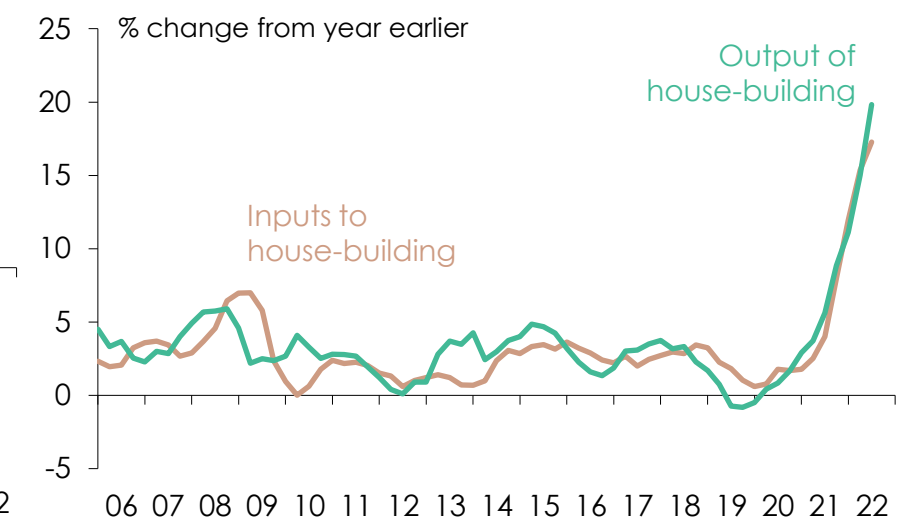
Producer price index



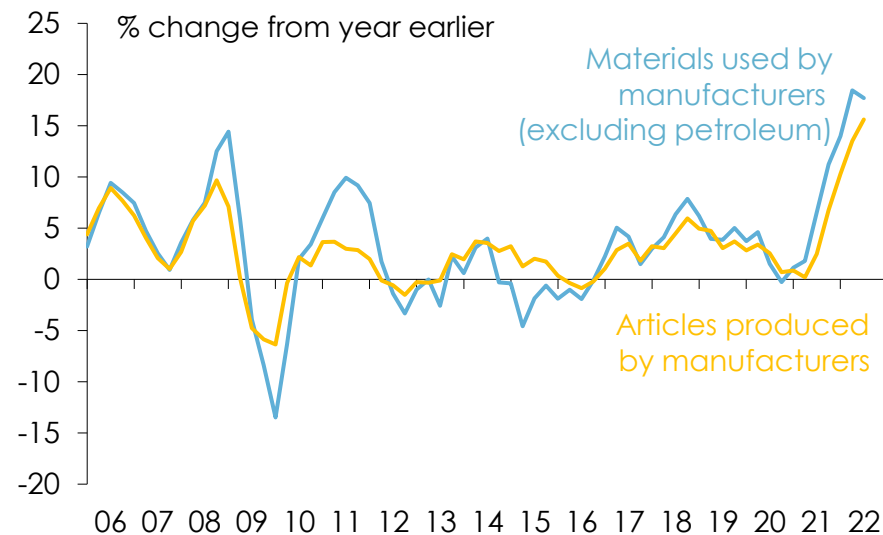
Import price index



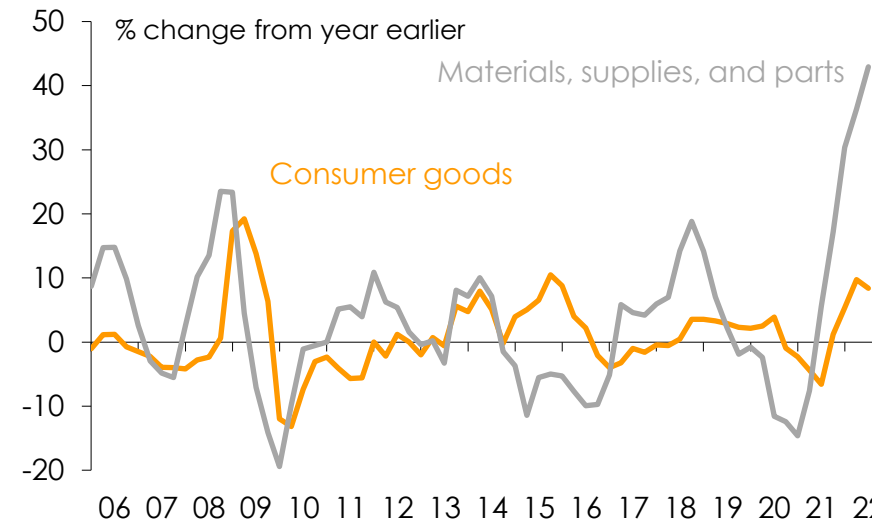
Construction input & output prices



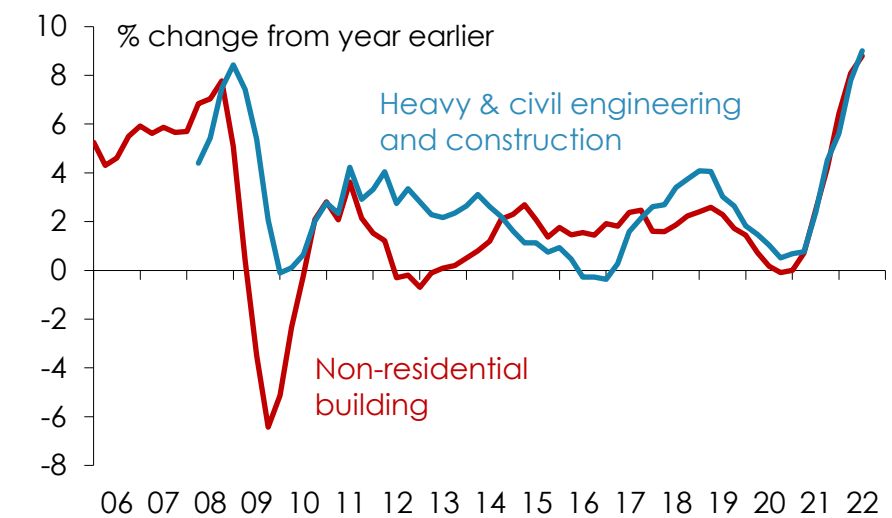
Manufacturing input & output prices



Imported consumer goods prices



Non-residential construction prices

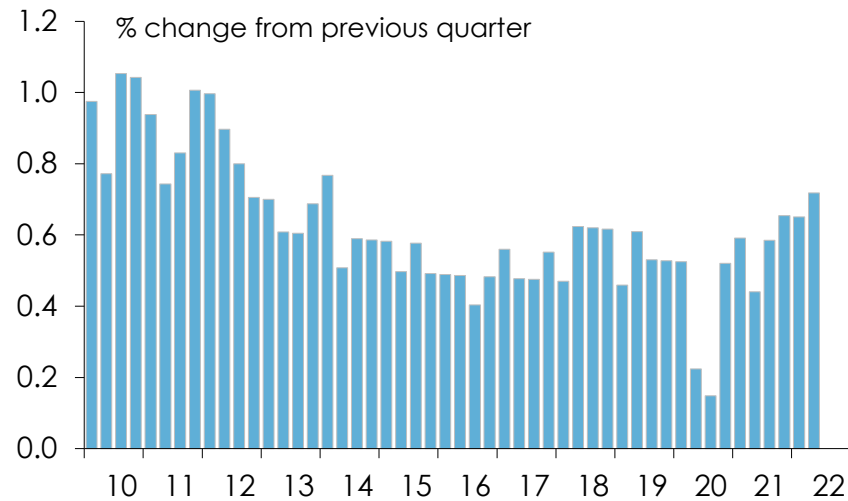


Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), June quarter 2022. September quarter import and producer price indices will be released on 27th and 28th October, respectively. [Return to "What's New"](#).

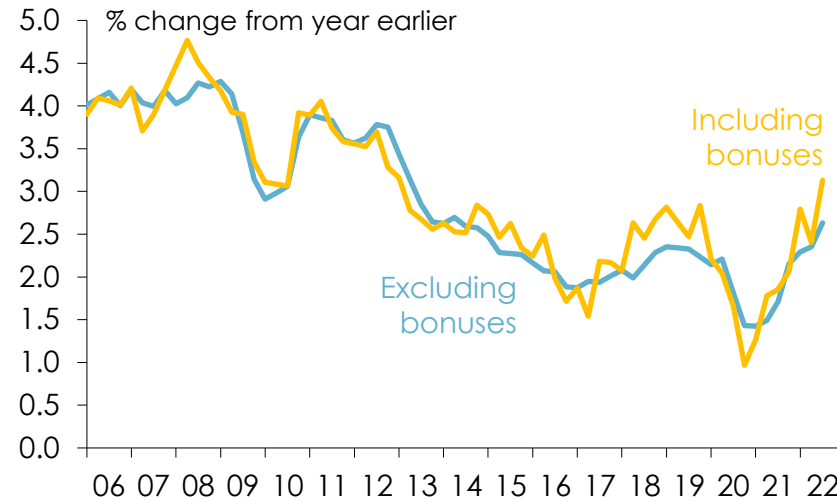
The two 'official' measures suggest that wages growth remained low in the June quarter – although 'unofficial' surveys indicate some pick-up

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

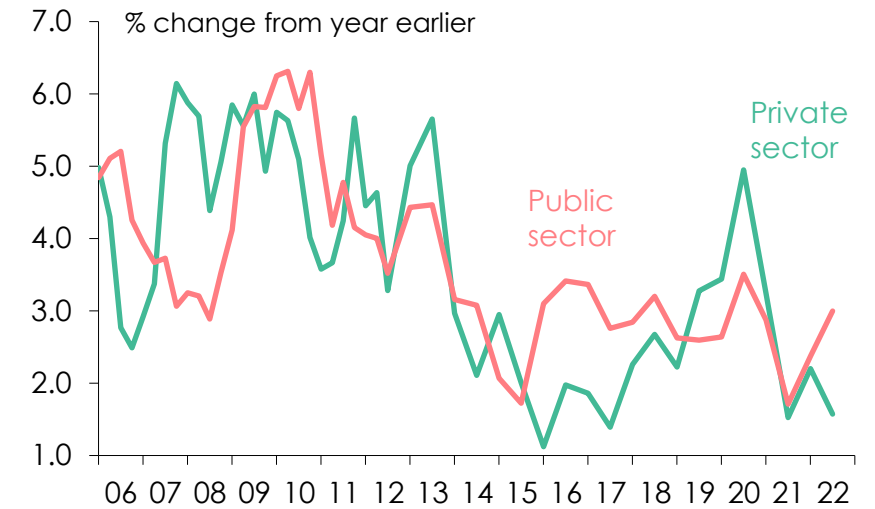
Wage price index excluding bonuses



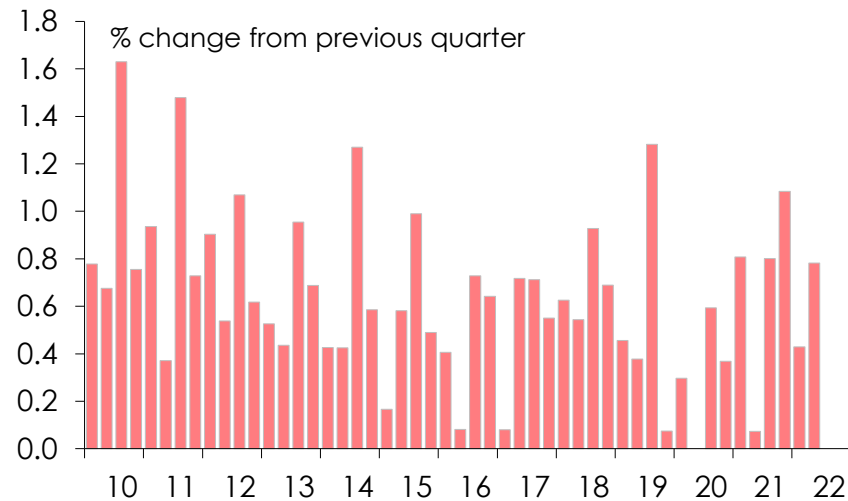
Wage price index – all sectors



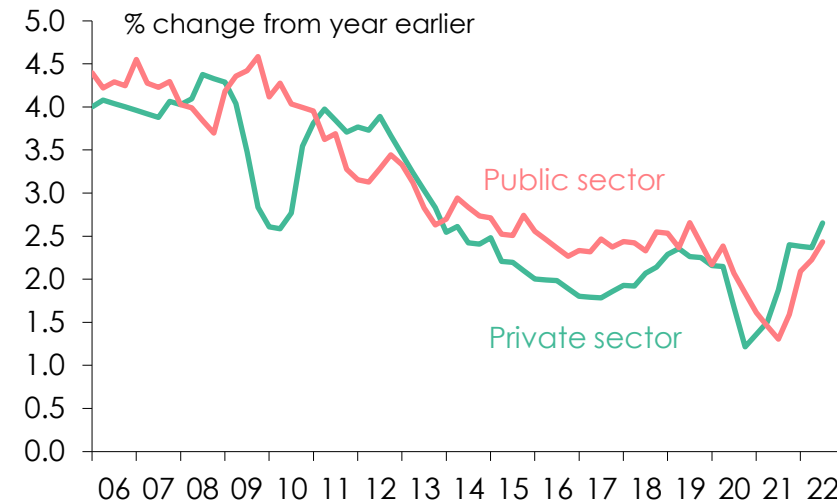
Average weekly earnings



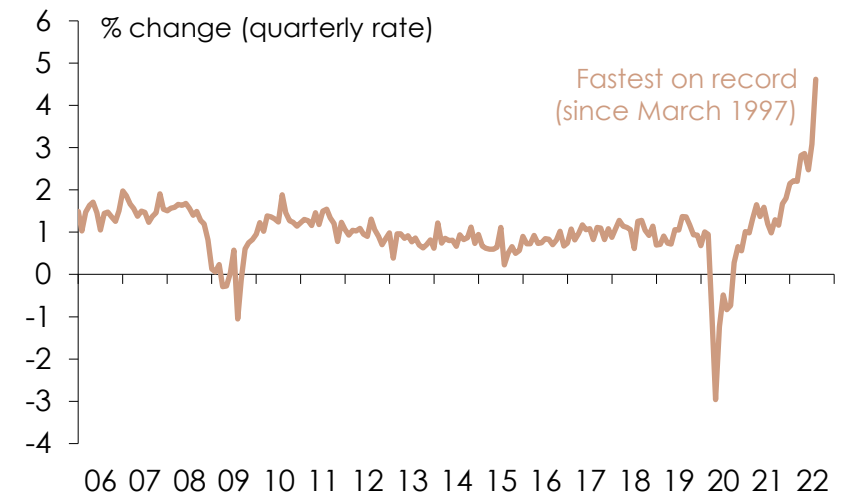
Wage price index including bonuses



WPI – private vs public sectors



NAB survey labour costs measure

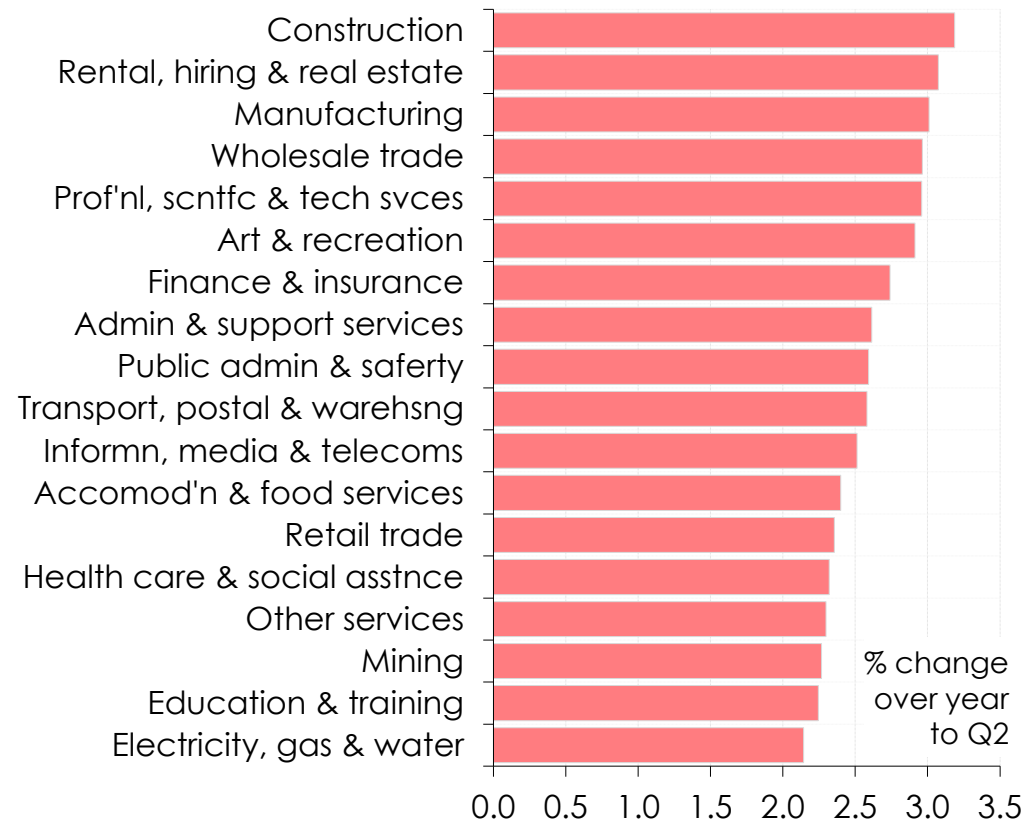


Note: 'Average weekly earnings' are ordinary-time. These data are only released for May and November each year; and are affected by compositional change in employment (in particular as a result of greater job losses among lower-paid workers during 2020-21 and their subsequent return to work in 2021-22). Sources: ABS, [Wage Price Index, Australia](#), June quarter 2022 (September quarter data will be released on 16th November) and [Average Weekly Earnings, Australia](#), May 2022 (November data will be released on 23rd February 2023); National Australia Bank, [Monthly Business Survey](#), July 2022. [Return to "What's New"](#).

The June quarter isn't usually a 'big' one for pay rises, but this June quarter was 'bigger' than usual – as were the pay increases for those who got them

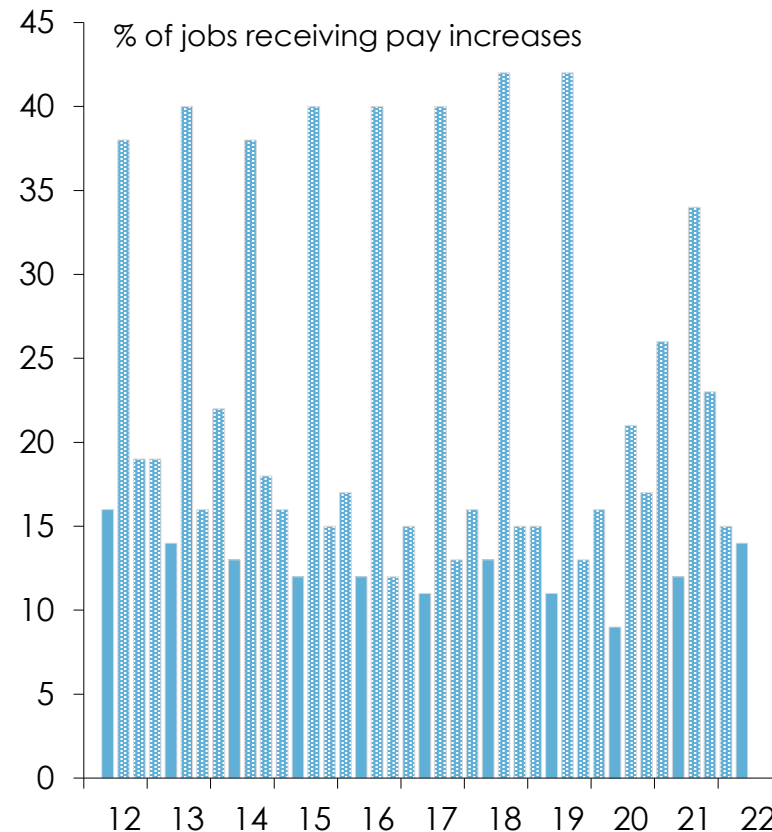
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Increase in wage price index over year to Q2 by sector



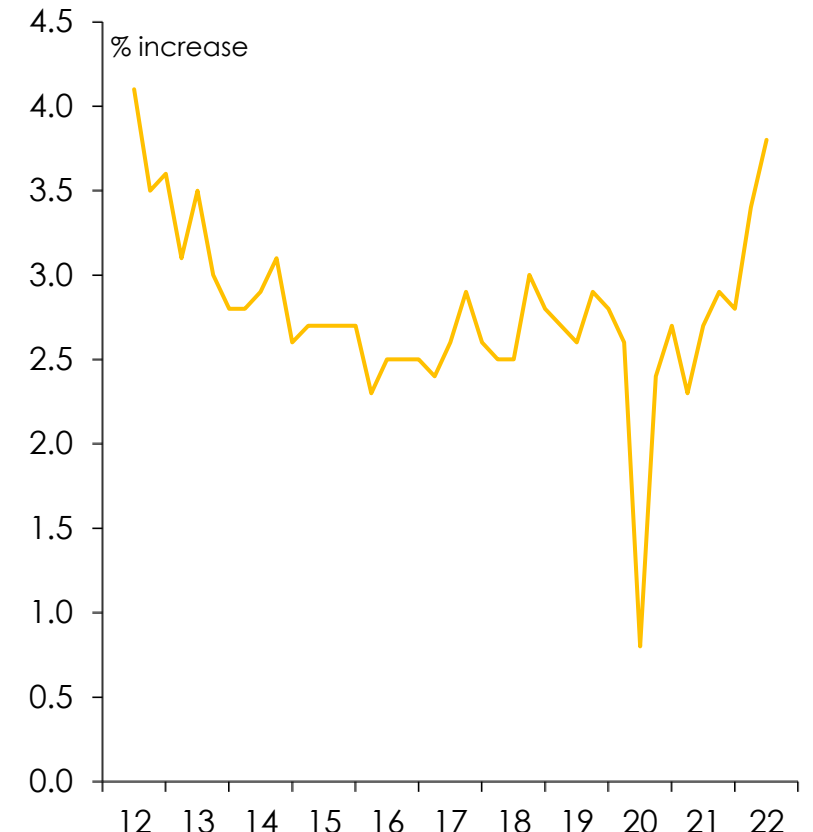
❑ Wages growth has picked up in sectors where employers have had the greatest difficulty filling job vacancies

Pc of private sector jobs receiving wage increases



❑ The proportion of jobs getting pay rises in the June quarter was the highest for any June quarter since 2012

Average pay increase, private sector jobs



❑ And the average pay rise for those who did get a pay rise was the largest since the June quarter of 2012

Fiscal policy

This week's 'Jobs and Skills Summit' resulted in an increase in Australia's migration target for 2022-23, and prospective workplace relations changes

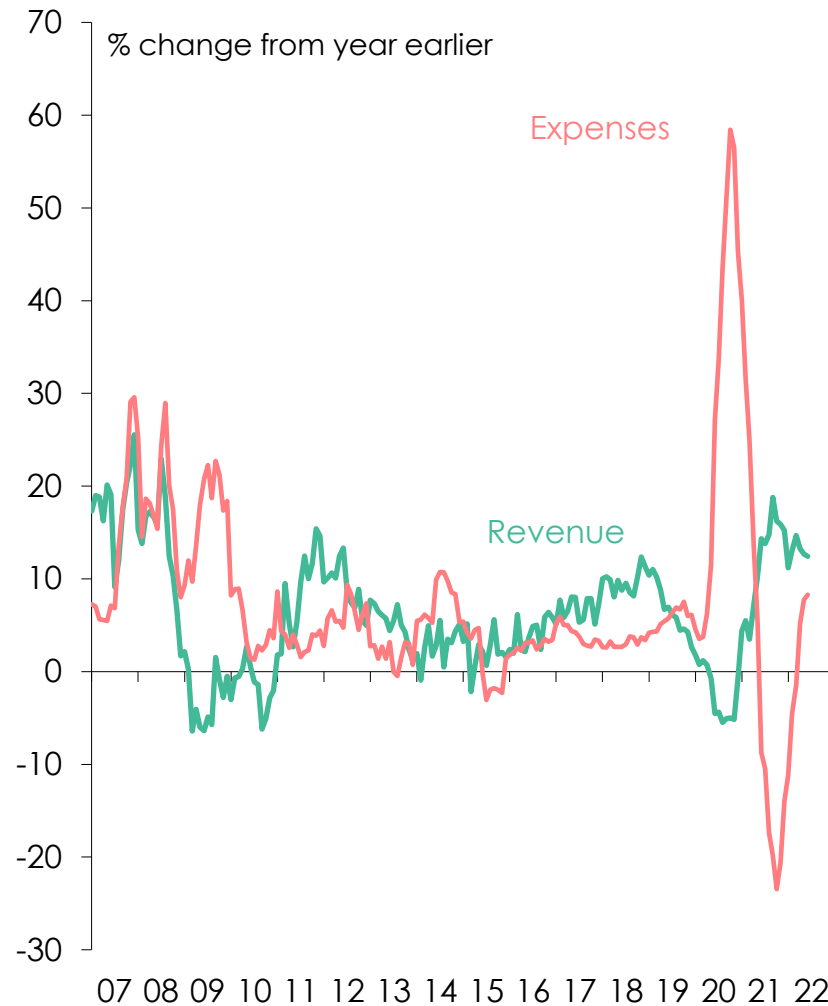
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

- ❑ This week's 'Jobs and Skills Summit' brought together 150 representatives of federal, state & territory governments, business, unions and 'civil society' to consider ways of boosting productivity, wages, and workforce participation (including for women and people with disability) and alleviating skills shortages
- ❑ As had seemed likely in the lead-up to the Summit, the Government **announced** an increase in the permanent migration target for 2022-23 from 160,000 to 195,000 "to help ease widespread critical workforce shortages"
 - the Government will provide \$36mn in additional funding to reduce the visa processing backlog
 - it also announced a relaxation of work restrictions for student and trainee visa holders until June 2023, and a two-year increase in the length of time for which students "with select degrees in areas of verified skills shortages" are allowed to stay in Australia
 - and foreshadowed a review of the "purpose, structure and objectives" of the migration system to "ensure it meets the challenges of the coming decade"
- ❑ As also foreshadowed, the Government will "update" the existing legislative framework governing workplace relations "to create a simple, flexible and fair" new framework
 - including by removing "unnecessary limitations on access to single and multi-employer agreements - something sought by unions, and agreed to by some peak business organizations (including those representing small business and very large companies) but opposed by others
 - and removing "unnecessary complexity for workers and employers", including by making the Better Off Overall Test" (a requirement for Fair Work Commission approval of enterprise bargaining agreements "simple, flexible and fair"
- ❑ Among other decisions announced by the Government at the conclusion of the summit were an additional \$1bn (from the Federal and state & territory governments) for free technical & further education programs in 2023, and a provision to allow age pensioners to earn an additional \$4000 from work in the current financial year without adversely affecting their pensions

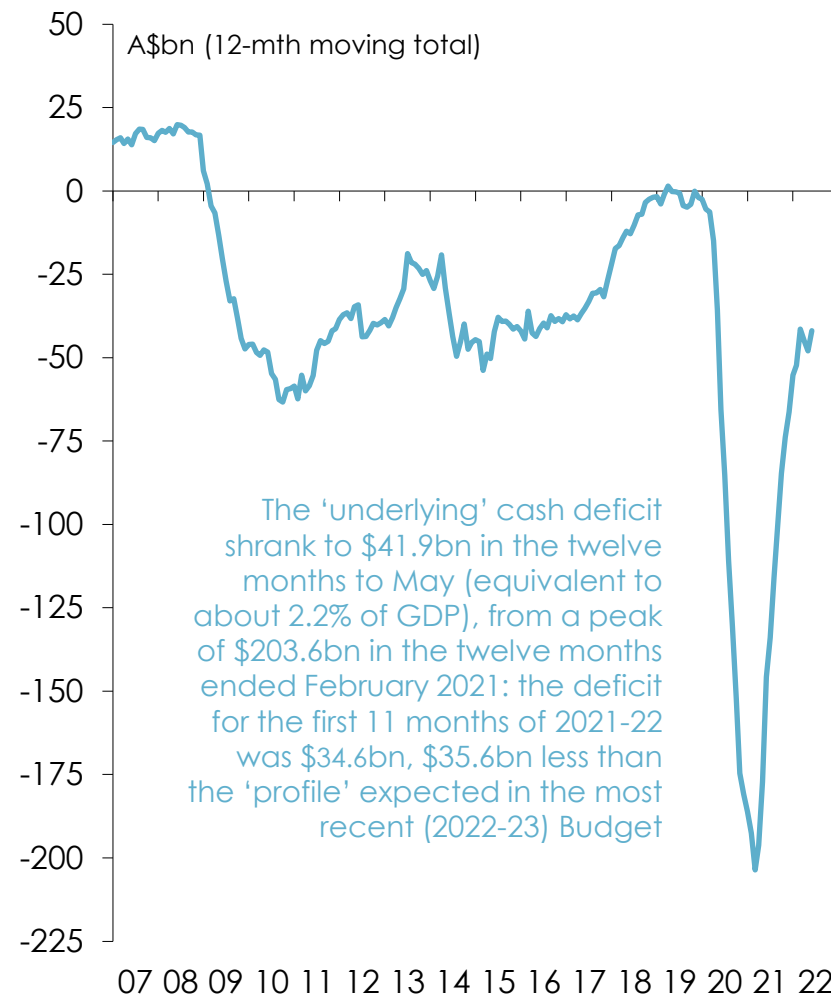
The Federal budget deficit has declined sharply since peaking early last year – with net debt down by \$85bn from its peak last August

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

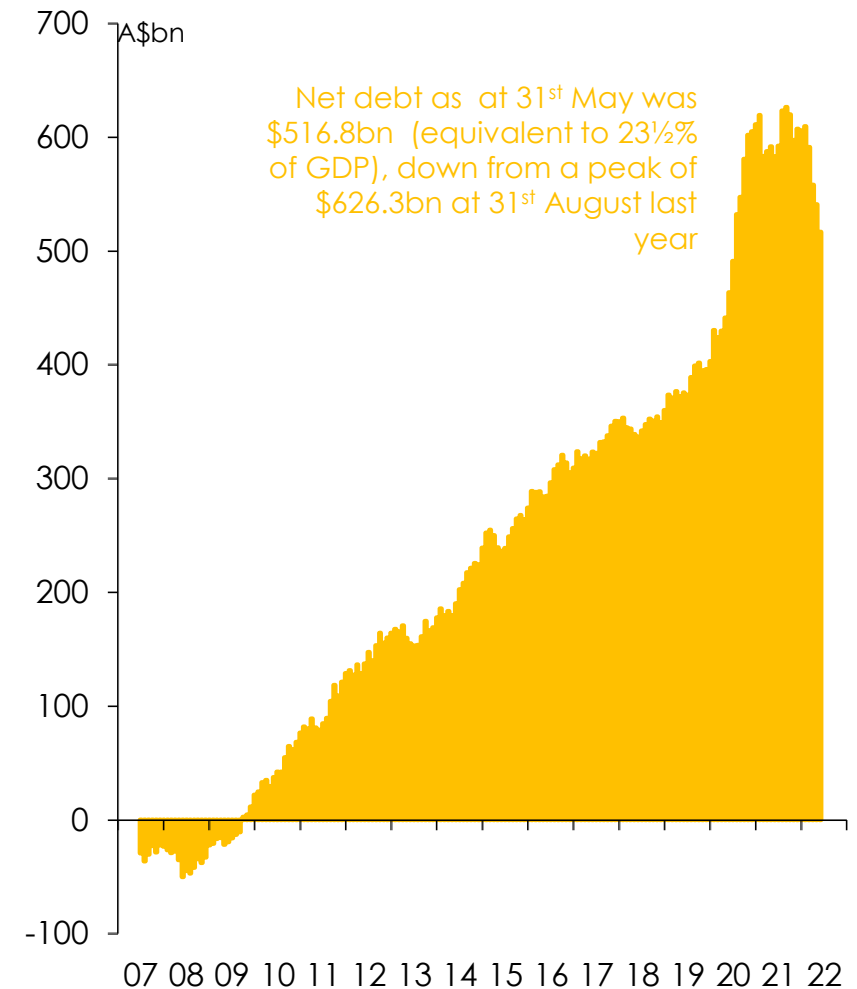
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



Australian Government net debt



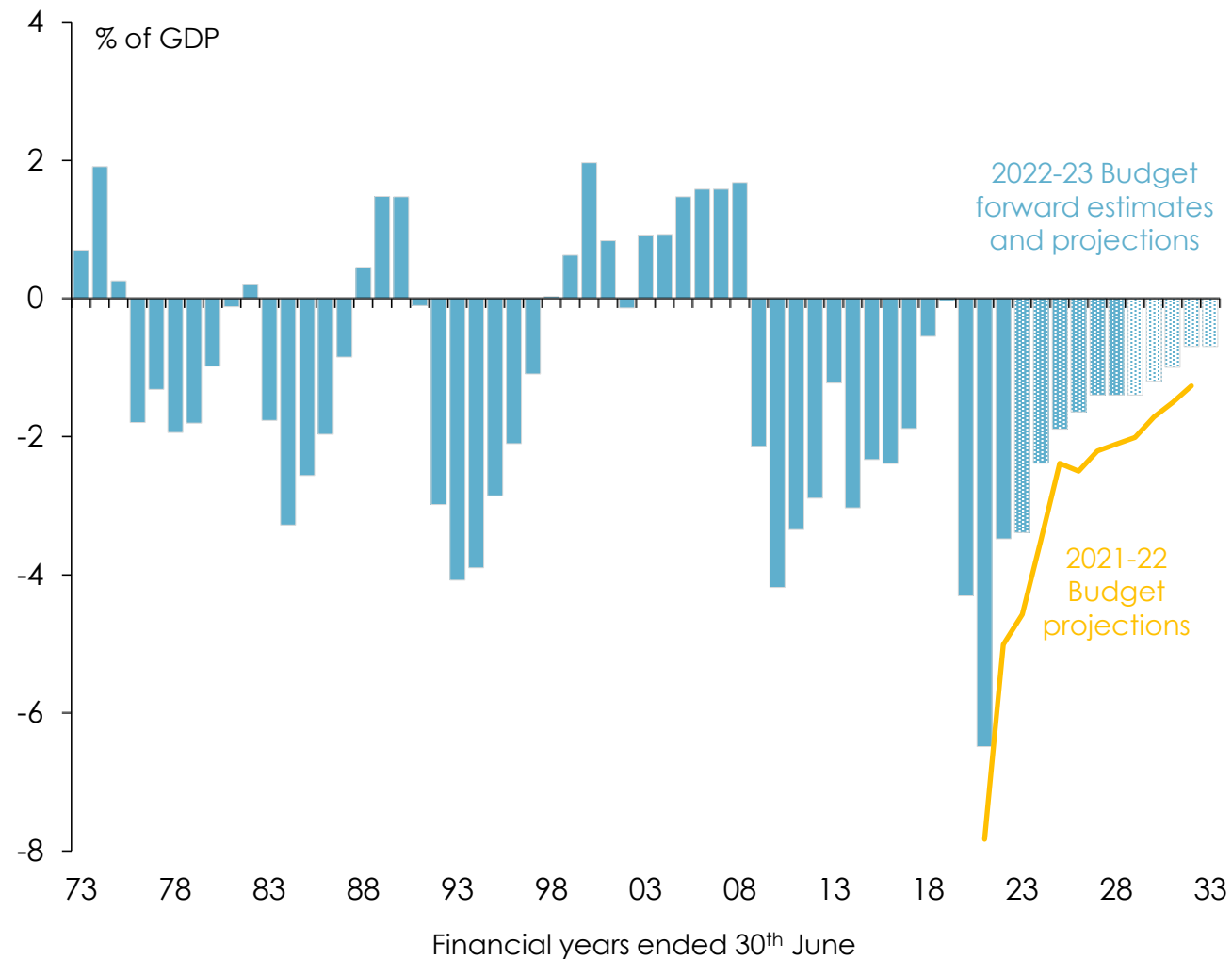
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

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

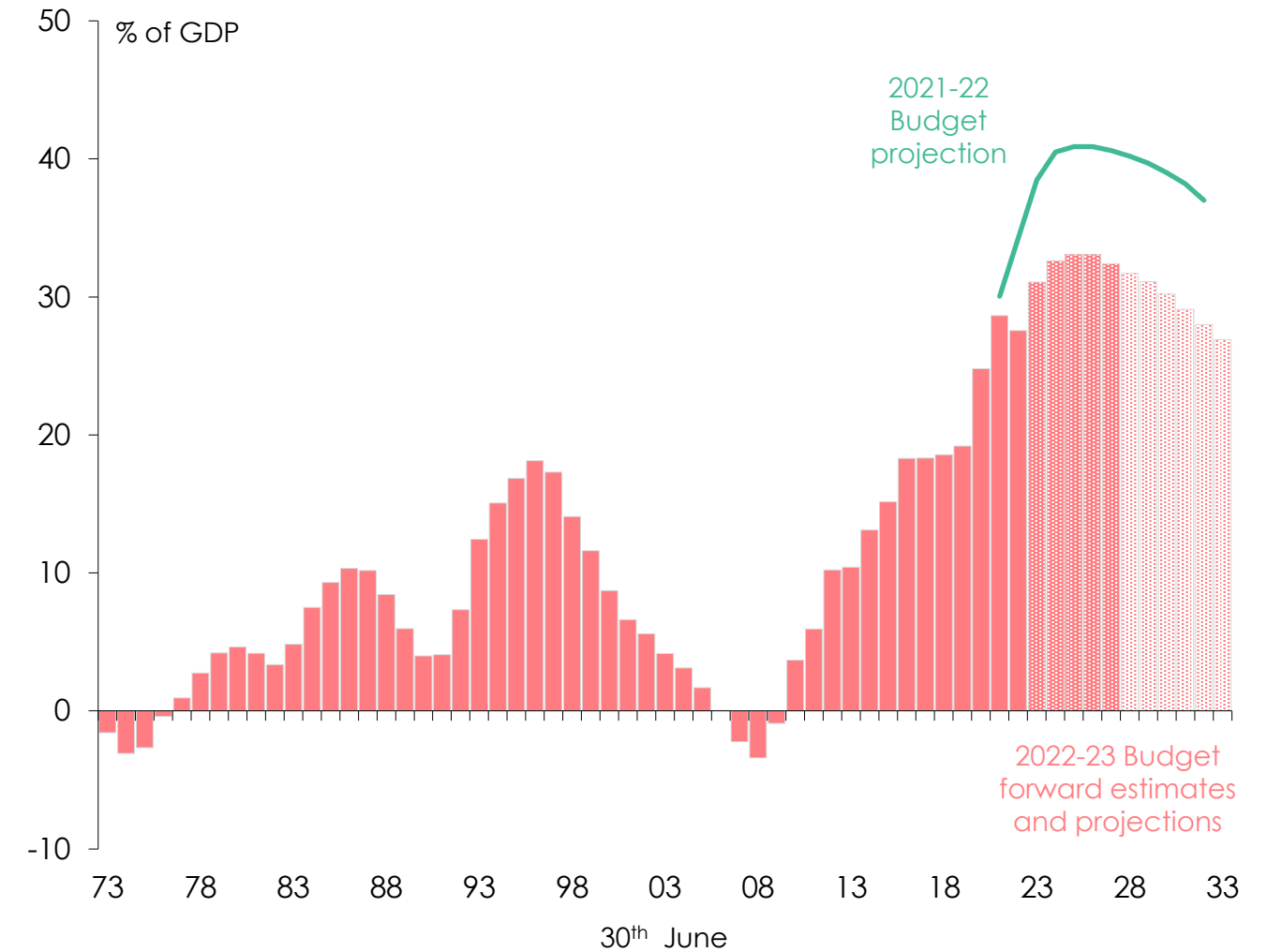
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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

'Underlying' cash balance



Net debt



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

Treasury Secretary Steven Kennedy made three very important points about the medium-term budget outlook in a speech just after the election

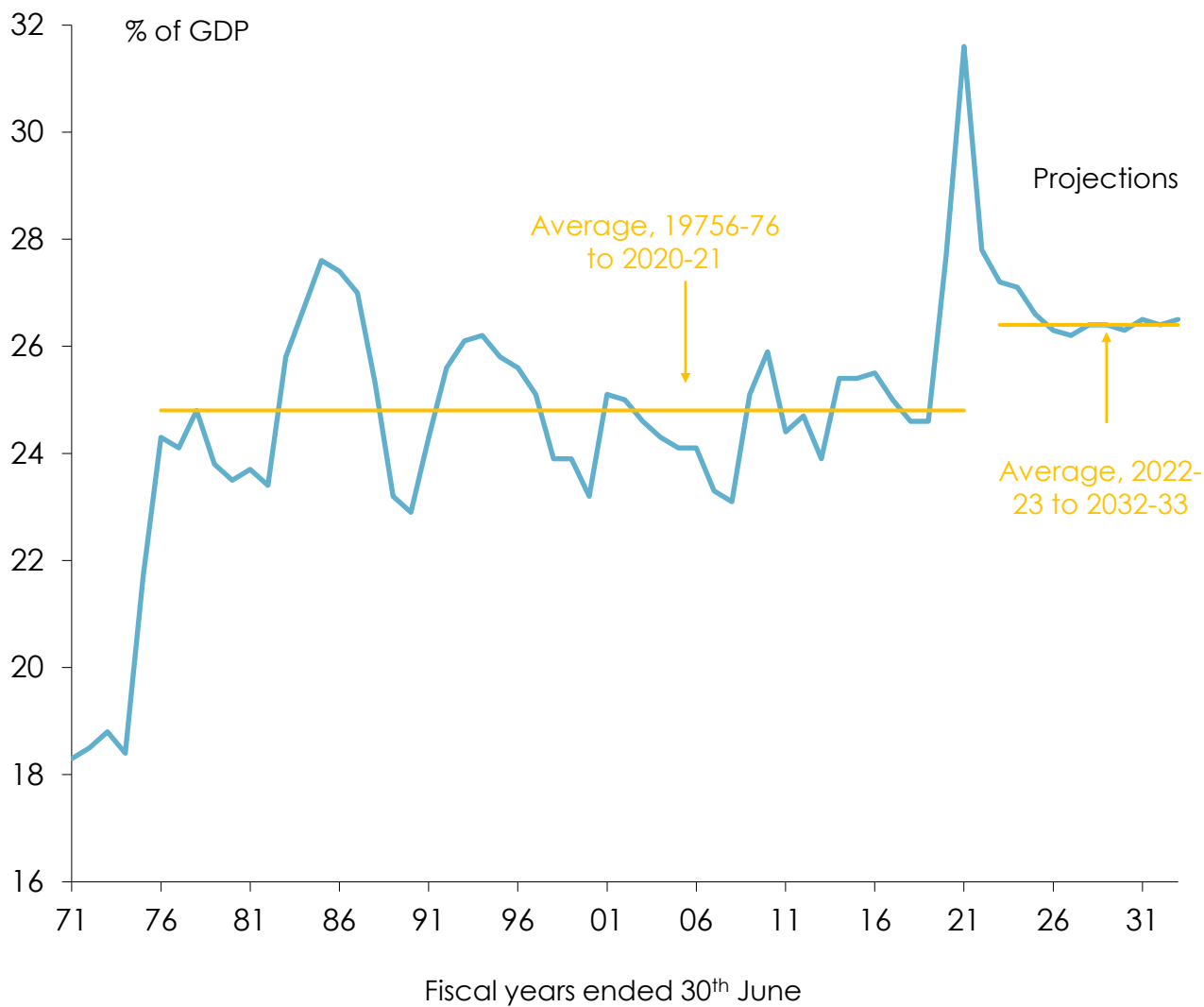
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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

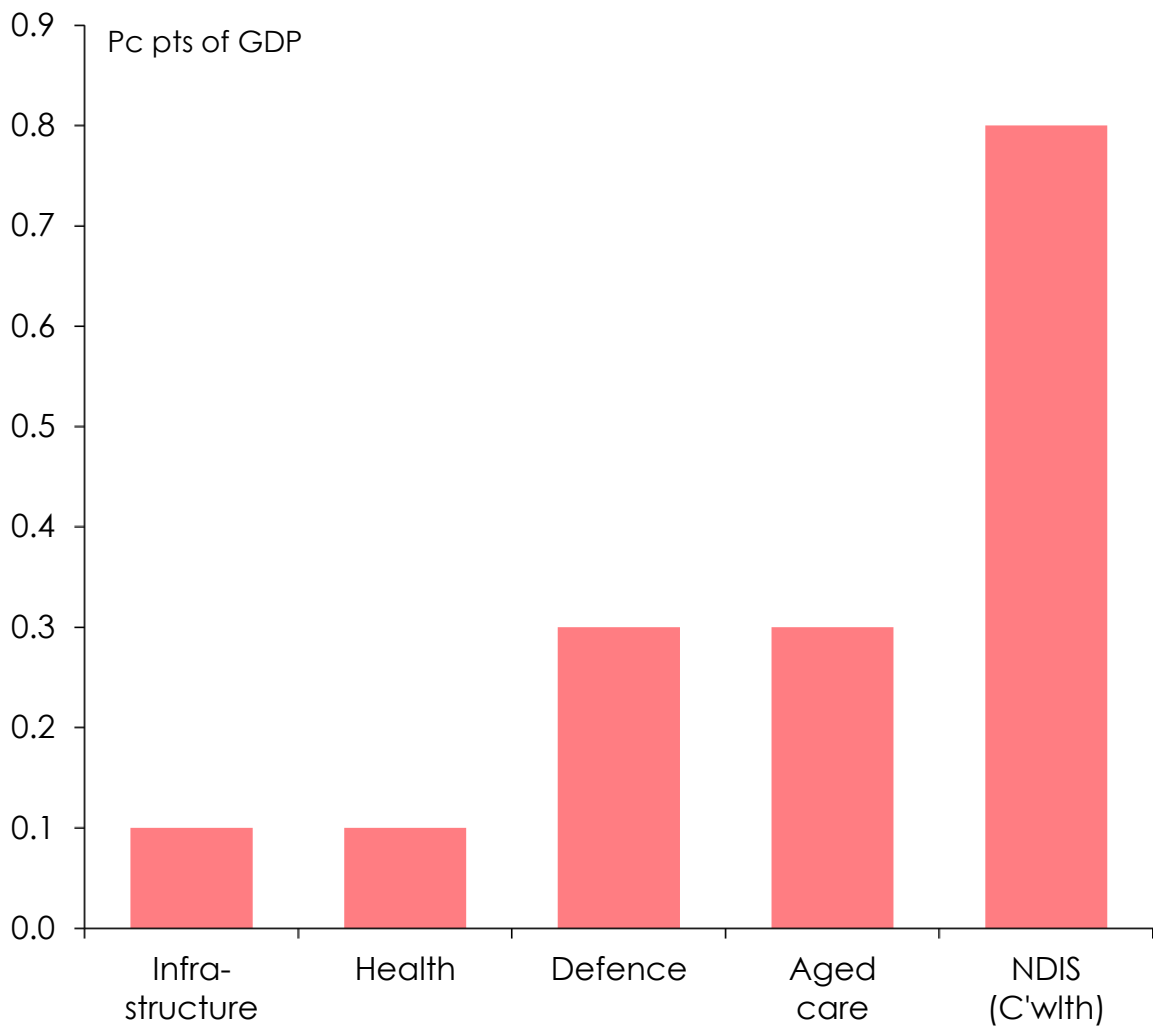
Federal Government spending seems likely to be around 1½ pc pts of GDP higher over the next decade than over the past 45 years

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

‘Underlying’ cash payments as a pc of GDP



Changes in payments between 2018-19 and 2025-26

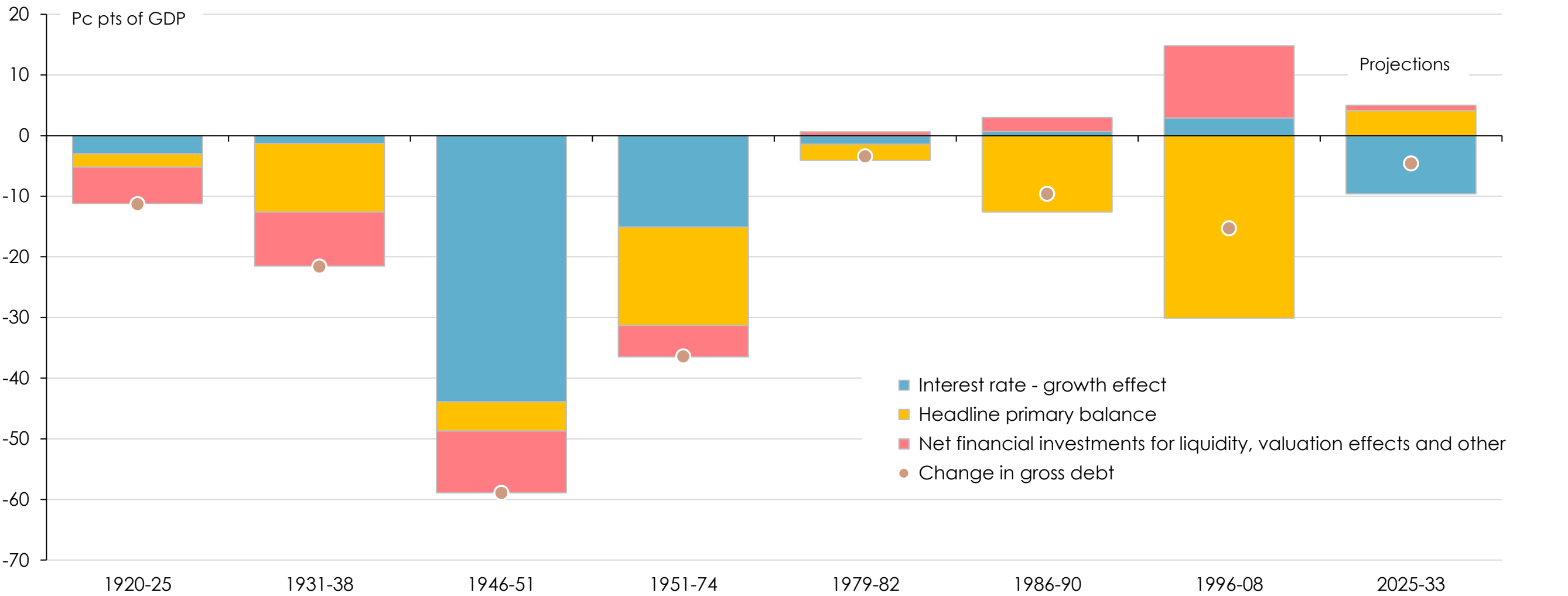


Note: Averages for government spending as pc of GDP exclude temporary Covid support measures since 2019-20. Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8th June 2022.

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

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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

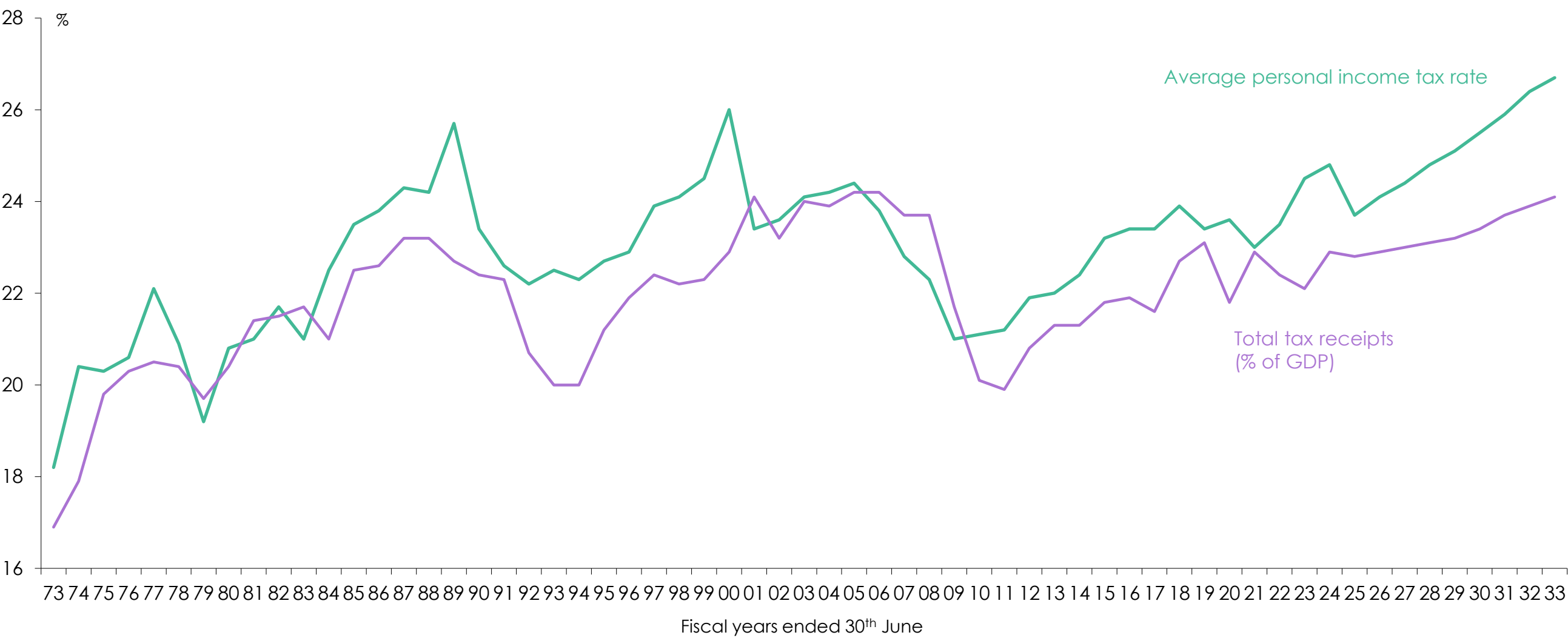


Note: Data are in financial years. Debt excludes issuance for the states. The contribution of interest rates less growth captures the combined direct effect of the former increasing debt and of the latter growing GDP, but not their effects on the headline primary balance (the budget balance excluding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

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

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

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

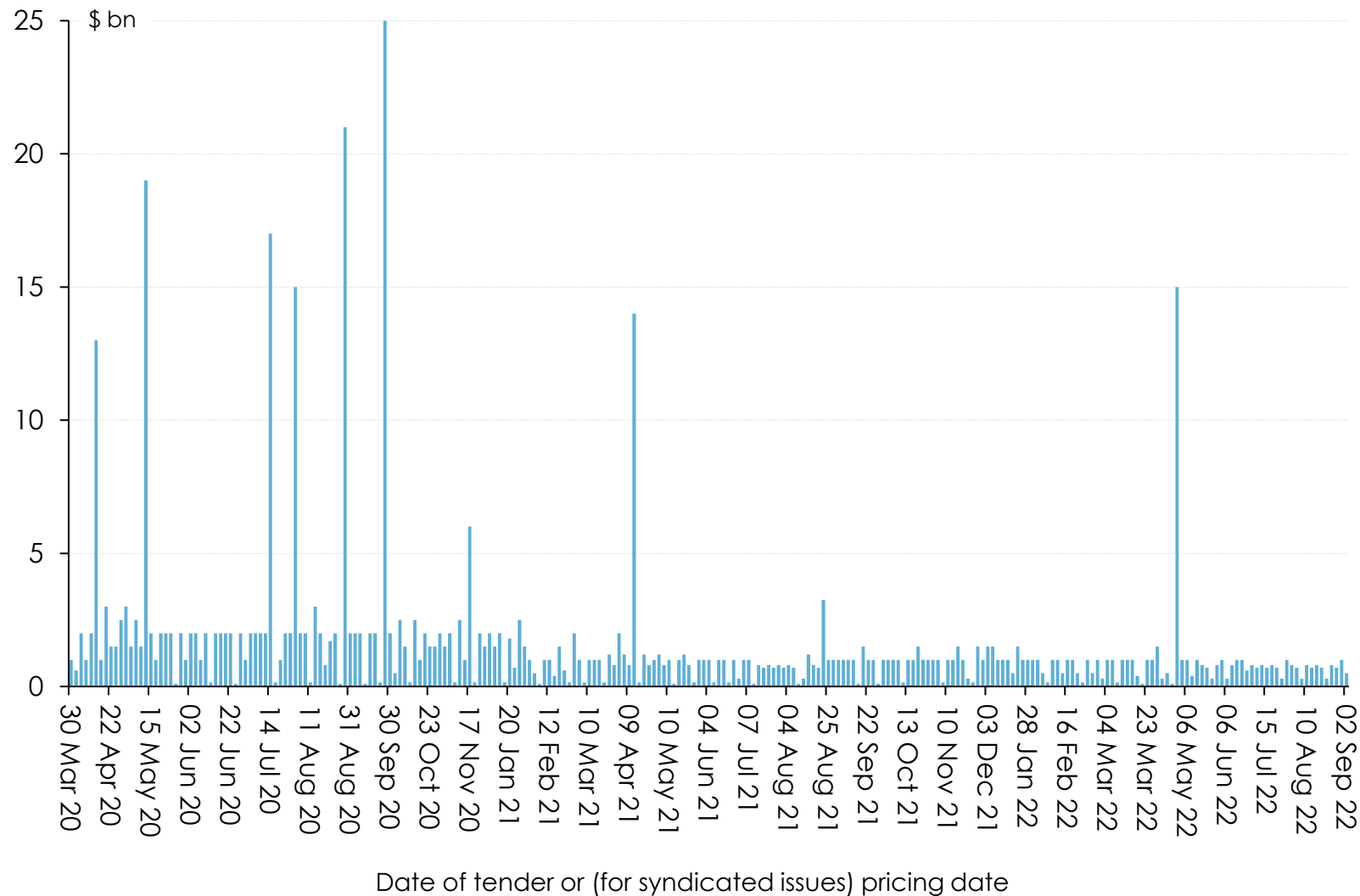


Source: Steven Kennedy (Secretary to the Treasury), [Post-Budget economic briefing - opportunities and risks](#), address to Australian Business Economists, 8th June 2022.

The Government continues to have no trouble selling new debt, although it's having to pay higher yields than on earlier issues of the same bonds

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Australian government bond issuance since March 2020



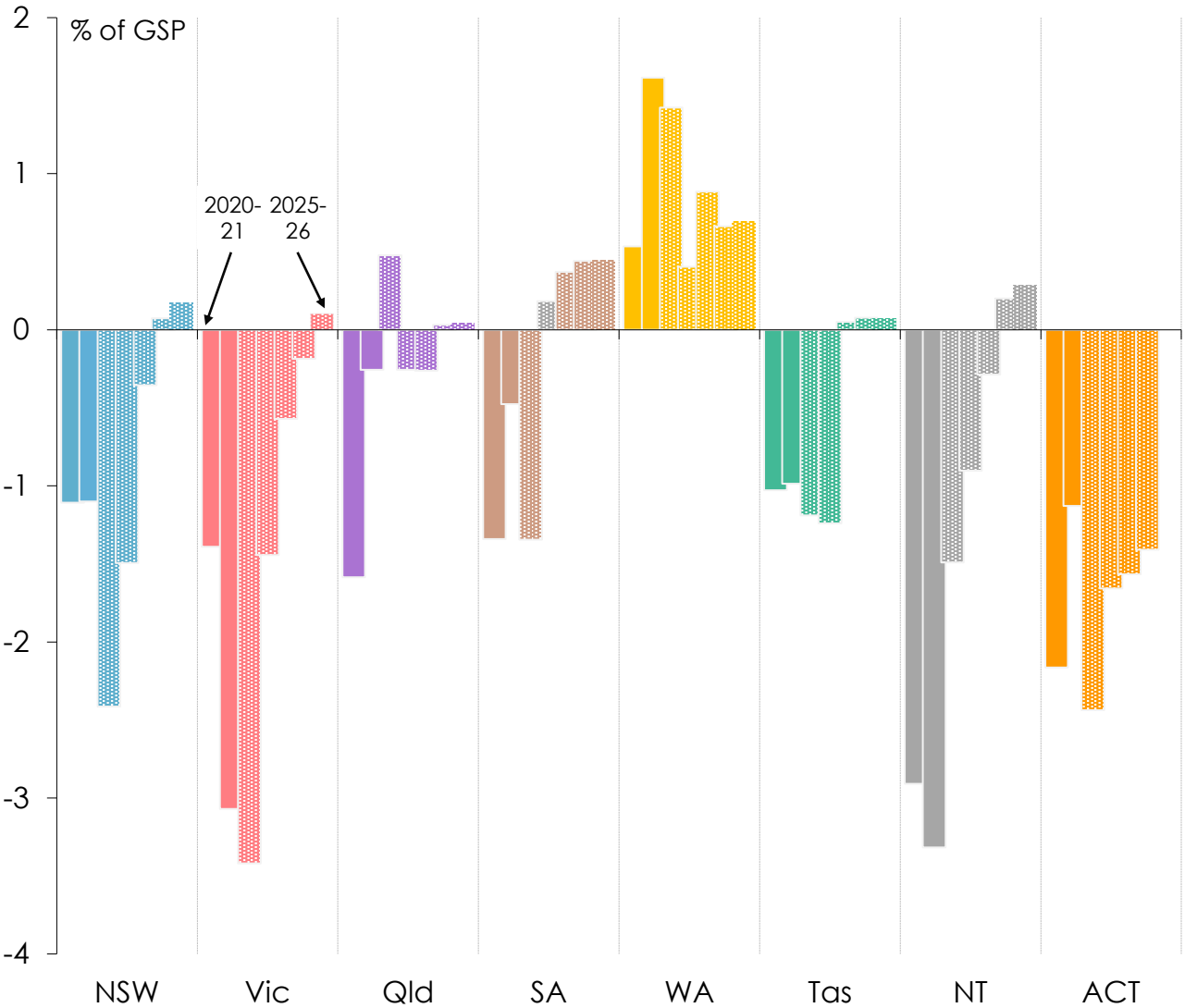
- ❑ The AOFM continues to have no difficulty issuing new debt, but the 'coverage ratio' (the ratio of bids received to bonds offered) at tenders has slipped from 4.3x in the first seven months of 2021-22 to about 2³/₄x since mid-March
- ❑ Since mid-March, bonds have typically been sold at higher yields than when previously issued
- ❑ This week AOFM sold \$500mn of November 2025s at an average yield of 3.32%
 - compared with 1.72% when these bonds were last issued at the end of February
- ❑ AOFM also sold \$1bn of November 2032s at an average yield of 3.61%
 - that was higher than the average 3.09% at which these bonds were sold in the first week of August, and the 3.42% at which they were previously sold in mid-July

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

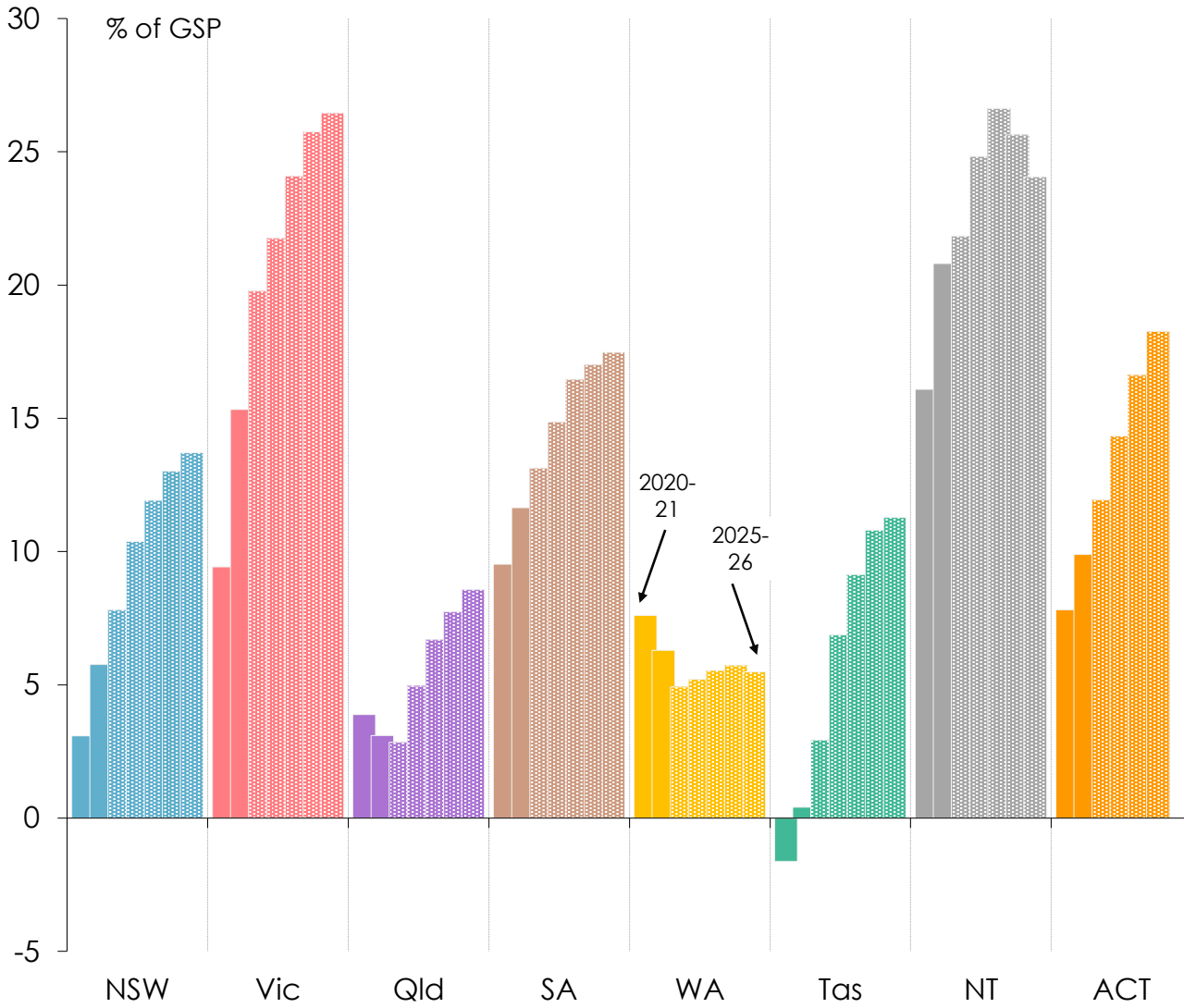
Victoria and the Northern Territory have more onerous fiscal positions than the other jurisdictions

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

States and territories – ‘net operating balances’



States and territories – net debt



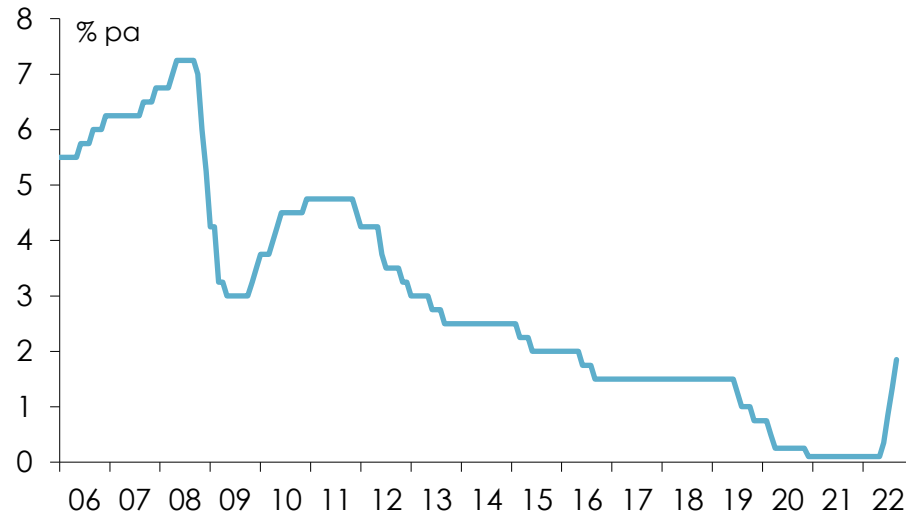
Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or Treasury estimates of real GSP growth combined with Federal Treasury estimates of the (national) GDP price deflator. Sources: 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

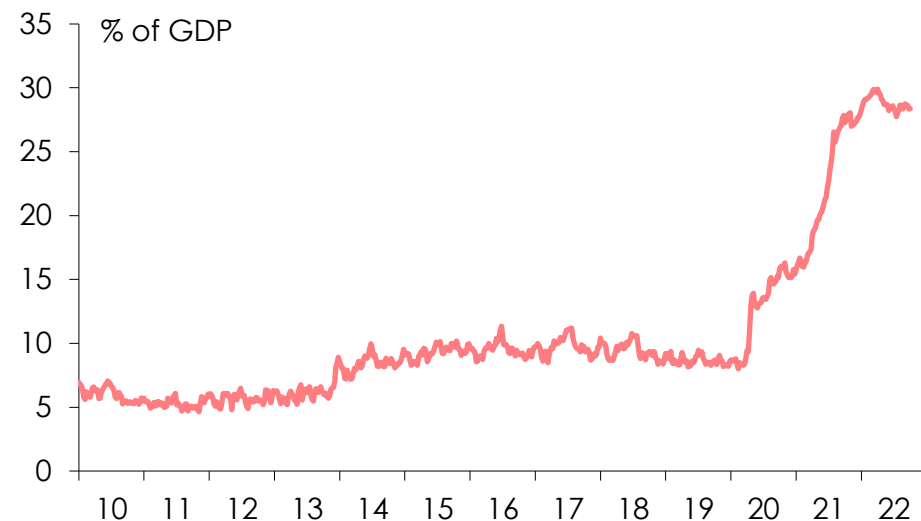
The Reserve Bank is likely to lift its cash rate by another 50 basis points at next week's Board meeting

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



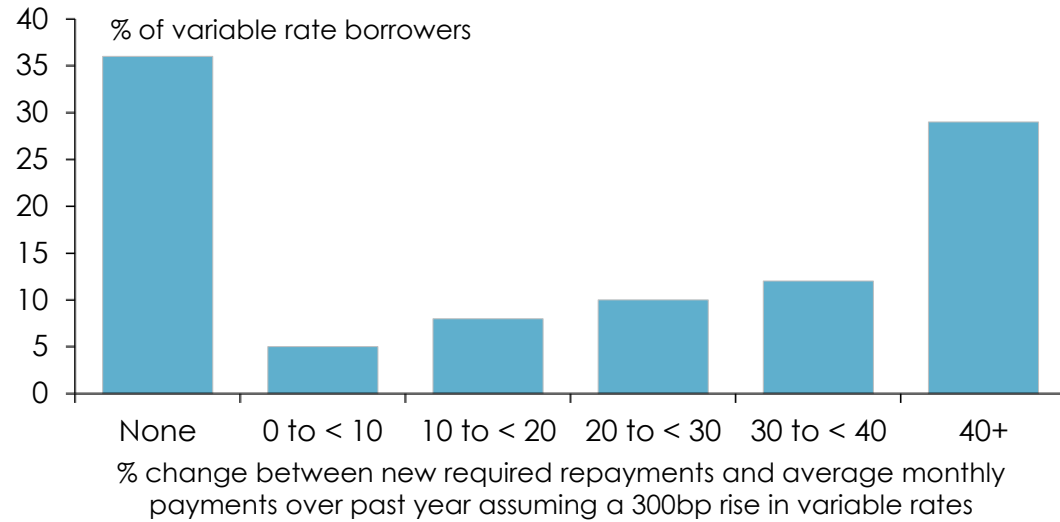
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1; ABS, [Consumer Price Index, Australia](#). [Return to "What's New"](#).

- ❑ The Reserve Bank seems likely to raise its cash rate by another 50 basis points, to 2.35%, at this coming Tuesday's Board meeting
 - the cash rate has already risen by 175 basis points over the past four months, the fastest increase since 1994 (when the RBA raised its cash rate by 275 bp between August and November)
- ❑ The [minutes](#) of last month's meeting suggested the RBA Board was very conscious of the "resilience" of the economy, the continued strength of domestic demand and the tightness of the labour market – generating "widespread upward pressure on prices", and underpinning the need, as the Board sees it, for further rate hikes
 - the minutes record that the Board expected "to take further steps in the process of normalizing monetary conditions over the months ahead" but "in a way that keeps the economy on an even keel"
- ❑ Although both in these minutes, and in remarks by Governor Lowe, the RBA insists it is "not on a pre-set path", it still seems likely that the cash rate will reach somewhere around 2¾% (in practice, either 2.60% or 2.85%) by the end of this year, which would represent a "neutral" stance for monetary policy, ie neither stimulating nor restraining aggregate demand
- ❑ It's possible that the RBA may signal that further rate rises (after this week) may be of smaller magnitude (ie 25 basis points) after what would be four consecutive 50 bp increases

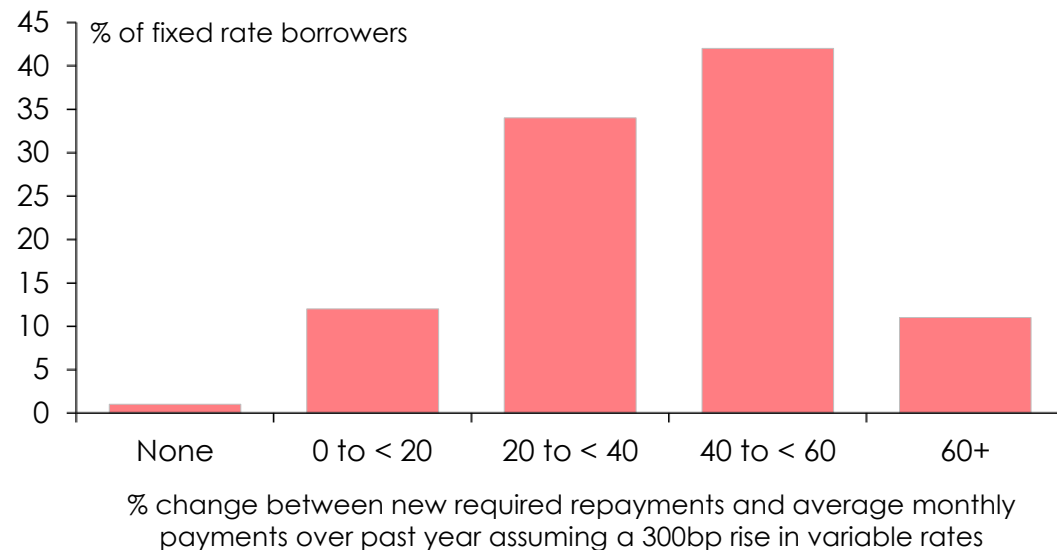
Australia's largest mortgage lender last month drew attention to long lags before mortgage borrowers actually start paying higher interest rates

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Repayment increases for variable-rate loans



Repayment changes on expiring fixed-rate loans



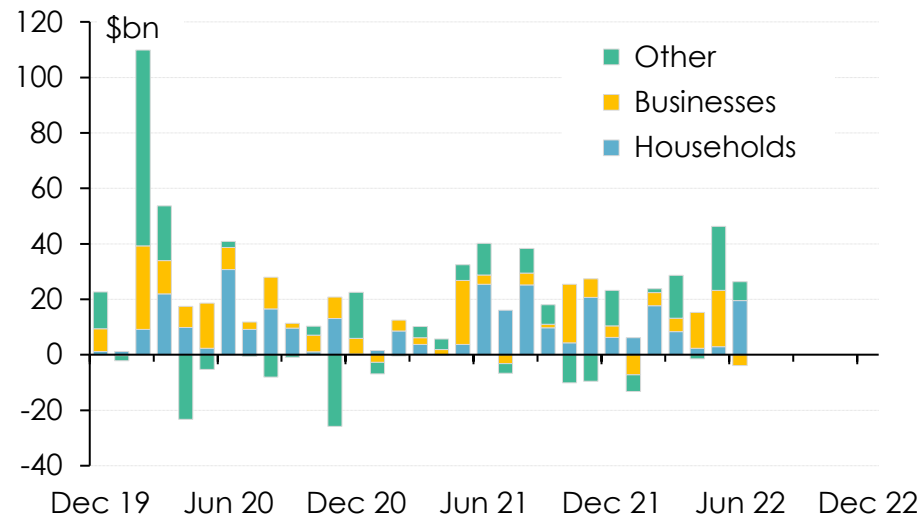
- ❑ RBA Deputy Governor Michele Bullock provided some estimates of household exposure to increases in interest rates in a [speech](#) in mid-July
- ❑ She noted that only one-third of households have mortgage debt, and that three-quarters of outstanding household debt is owed by households in the top 40% of the income distribution (cf. households in the bottom 20% owing less than 5% of total debt)
- ❑ The RBA estimates that about 30% of variable-rate borrowers would face repayment increases of more than 40% of their current payments if variable mortgage rates were to rise (from their lows) by 300bp as implied by current market pricing
 - as would about half of all fixed-rate borrowers when their fixed terms expire, if they then re-financed at variable rates
 - about one-third of variable-rate borrowers (and an unknown proportion of fixed-rate borrowers) have been making additional repayments sufficient to absorb increases in variable rates of up to 300bp without needing to lift their regular repayments any further
- ❑ The CEO of Australia's largest mortgage lender, the Commonwealth Bank of Australia, last month [pointed](#) to significant lags (of "weeks") between the announcement of increases in mortgage rates (by lenders) and increases in borrower repayments actually taking effect
 - which may explain, at least in part, why household spending appears thus far to have been so resilient in the face of the succession of interest rate increases

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

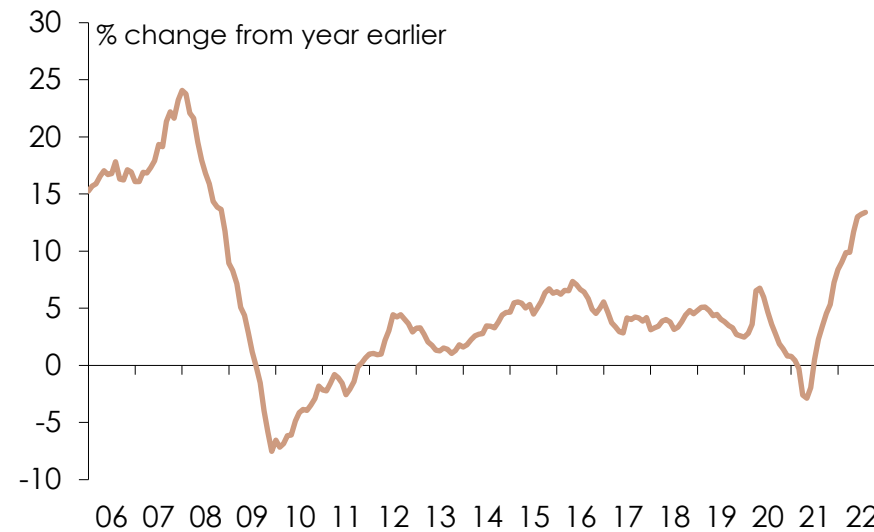
Banks have been swamped with deposits since the beginning of the pandemic, and have lent readily to both households and businesses

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

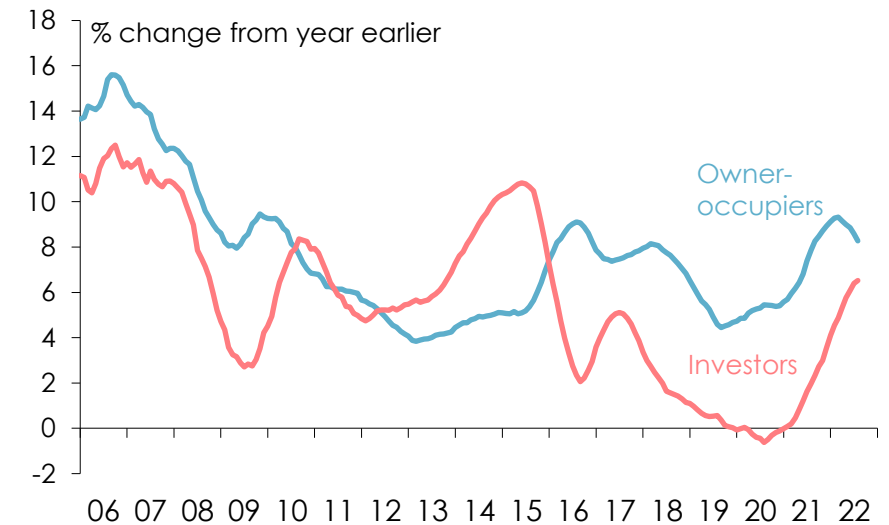
Monthly change in bank deposits



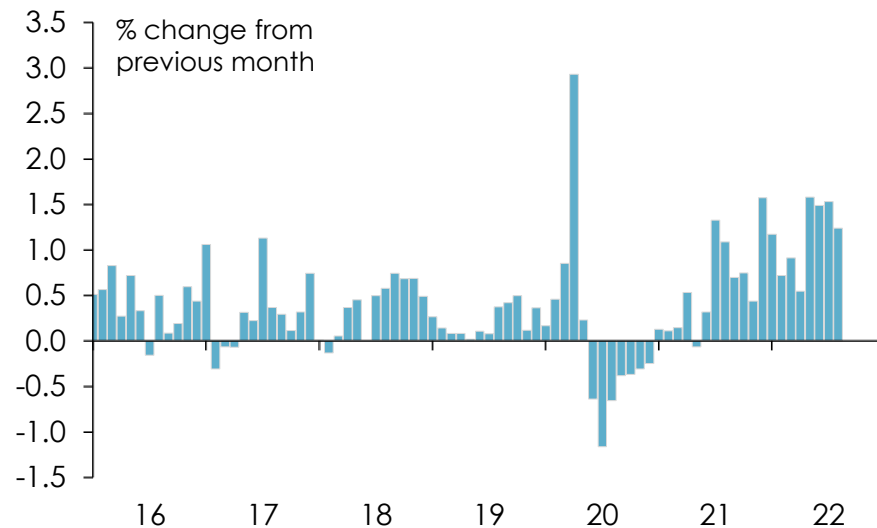
Annual growth in business credit



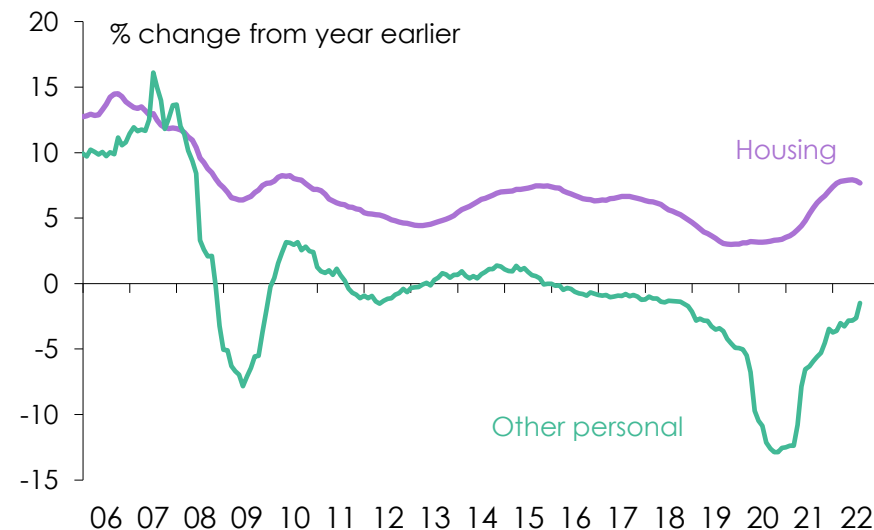
Annual growth in housing credit



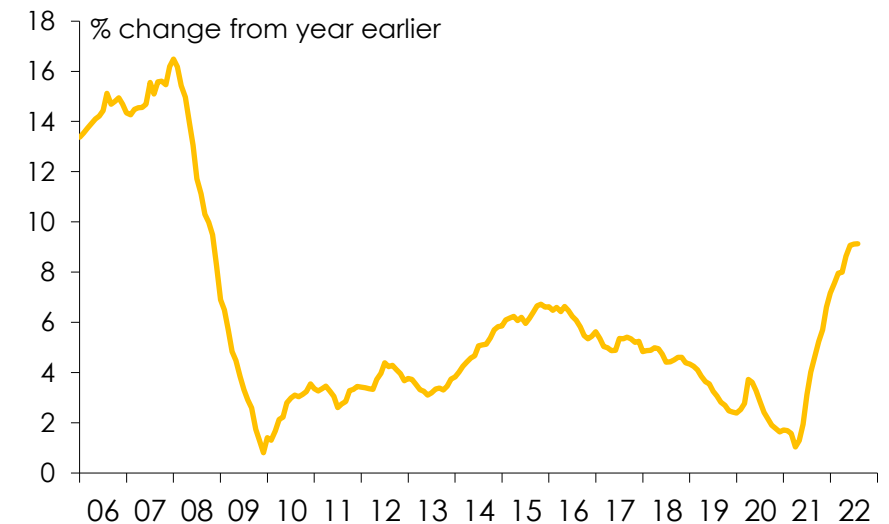
Monthly change in business credit



Annual growth in household credit



Annual growth in total credit

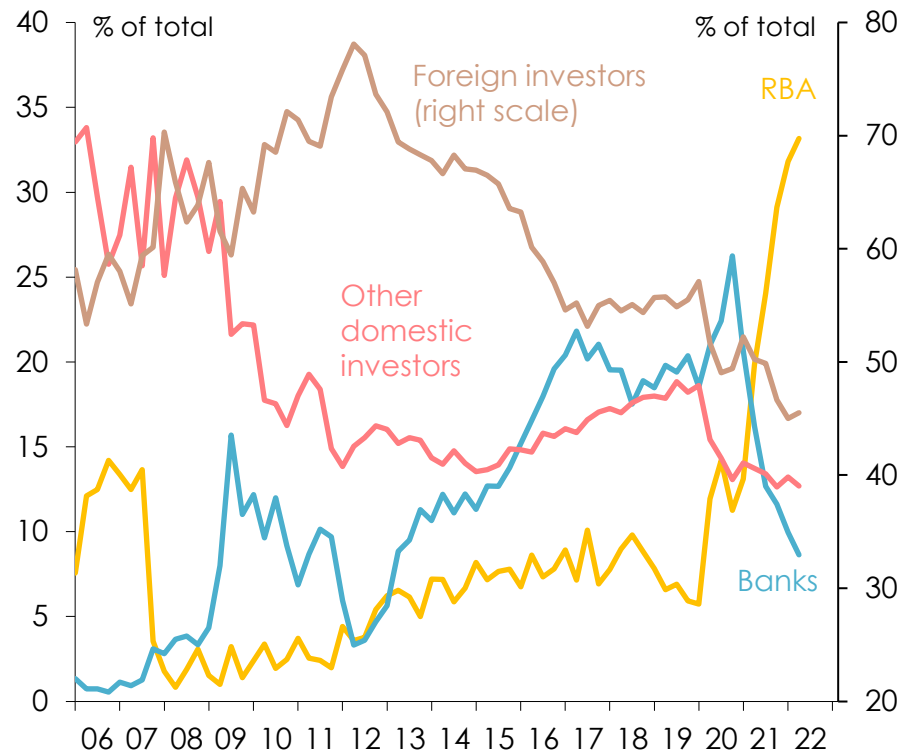


Sources: [Reserve Bank of Australia](#); [Australian Prudential Regulation Authority](#). [Return to "What's New"](#).

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

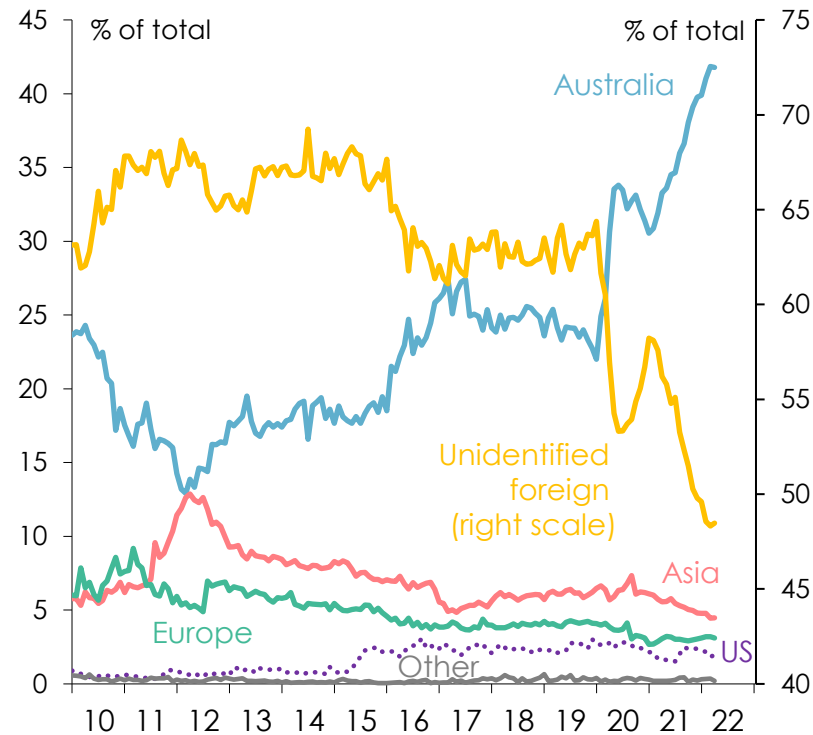
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Holders of Australian Government bonds



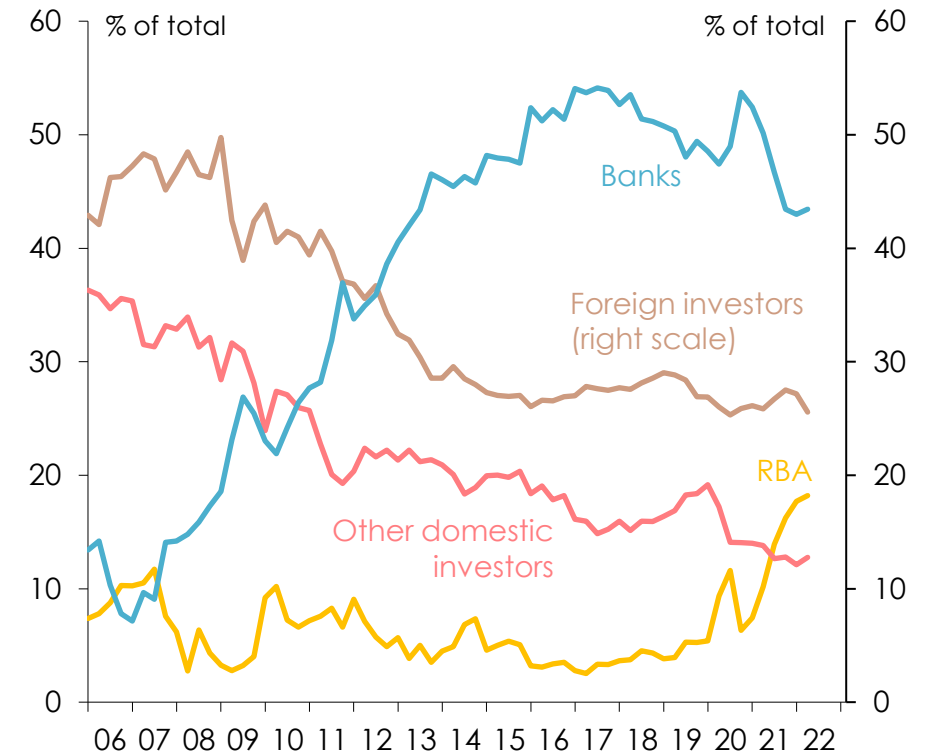
Australian Gov't bonds on issue have increased by \$215bn since the end of 2019 – the RBA's holdings have increased by \$245bn, and foreigners' by \$24bn, while banks' holdings have fallen by \$44bn

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

Holders of State and Territory Government bonds



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

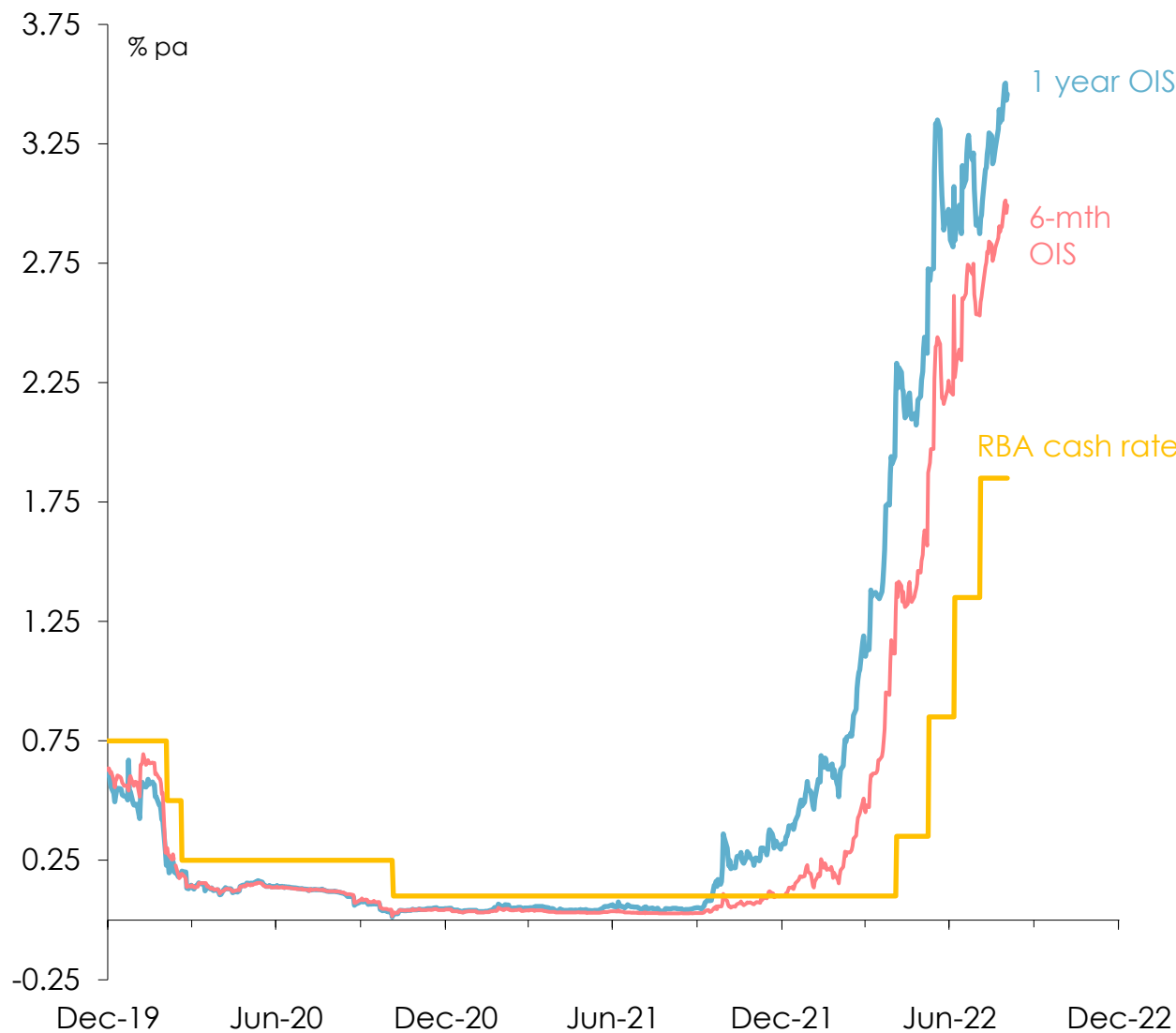
Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2022; [Australian Office of Financial Management](#). June quarter data will be released on 29th September.
Return to "What's New".

Australian financial markets

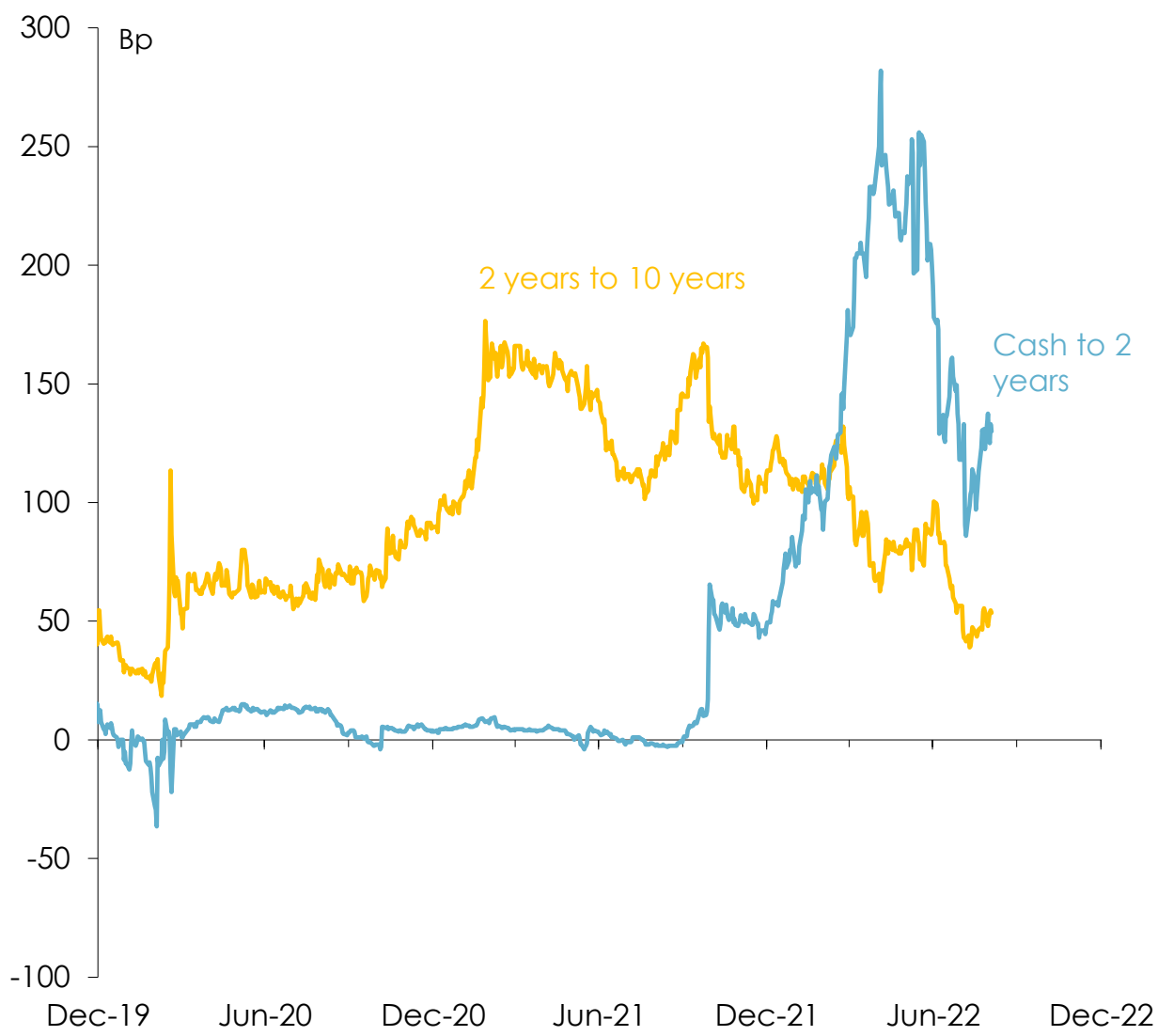
Market expectations as to where the RBA's cash rate will peak continued to move higher this week

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Overnight index swap rates



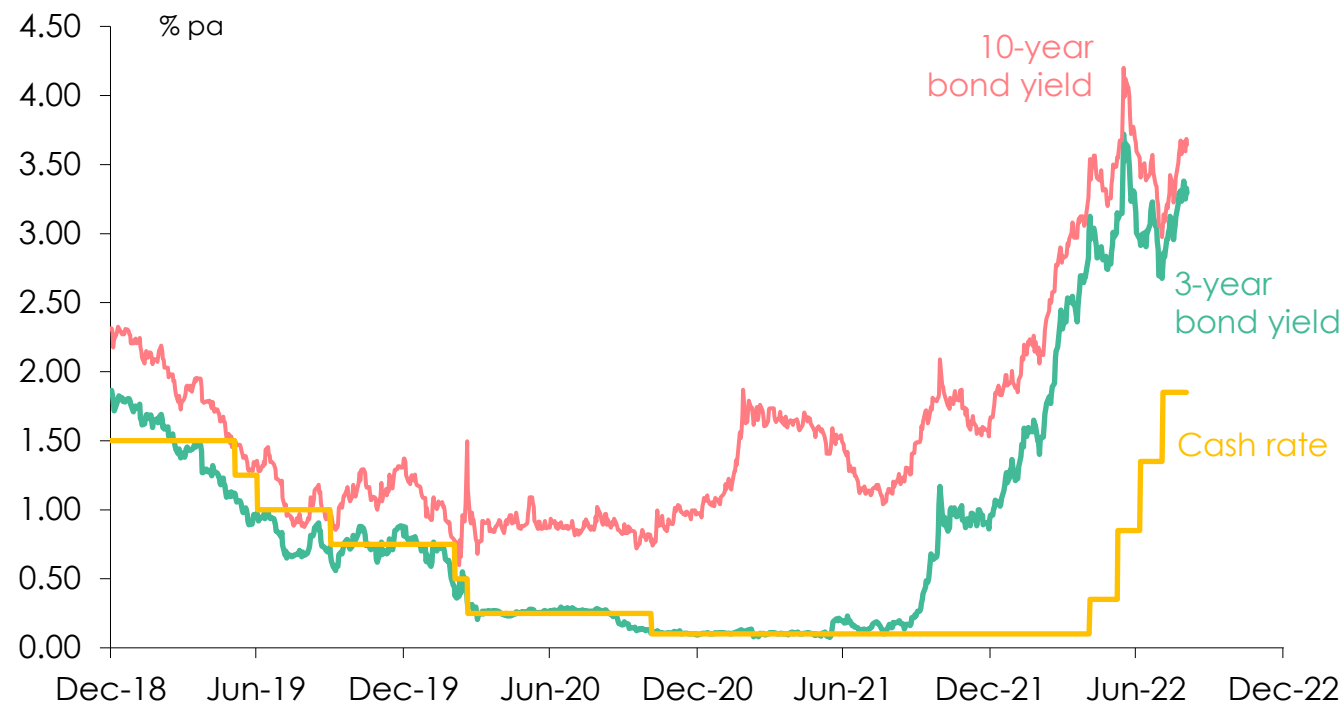
Yield curves



Australian bond yields continued moving higher this week, in line with US yields after Fed Chair Powell's hawkish speech last Friday

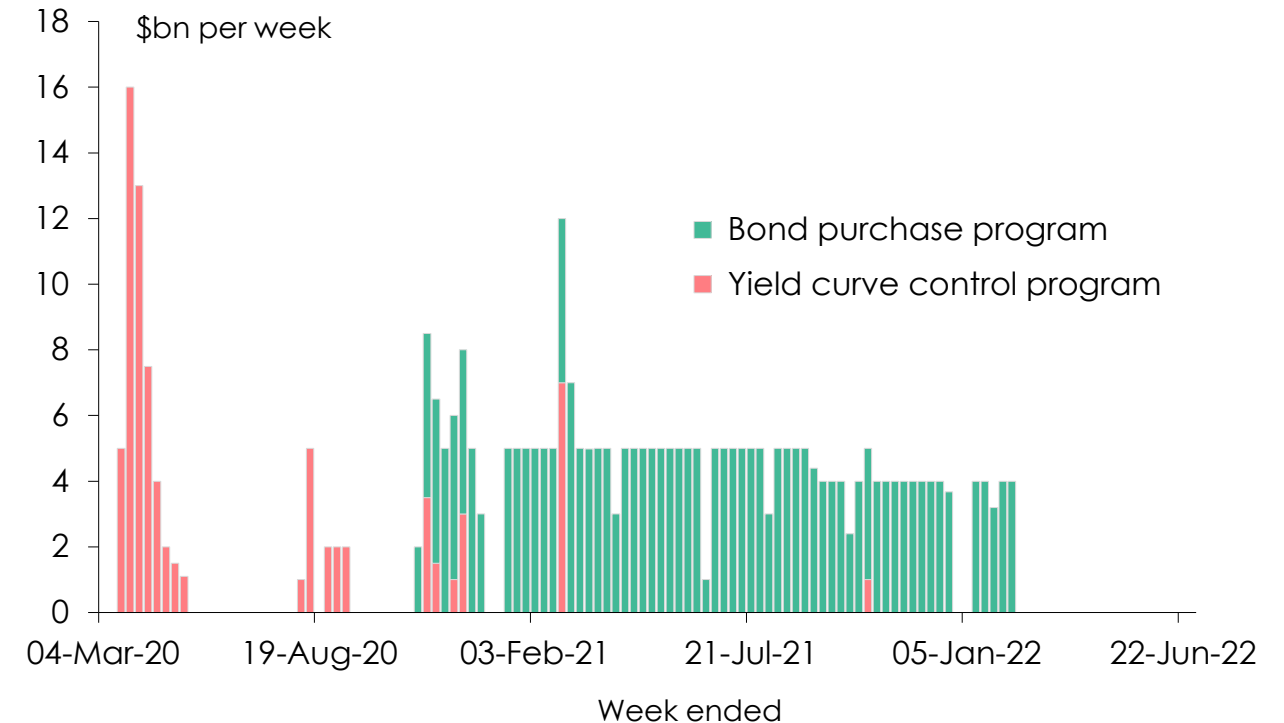
THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Interest rates



- ❑ Bond yields rose further this week, in line with increases in US Treasury yields (following Fed Chair Powell's hawkish speech at Jackson Hole last Friday), and on-going upward revisions to market expectations for the peak in the RBA's cash rate
- ❑ 2- and 3-year yields rose another 5-6 bp to 3.11% and 3.30%, respectively, their highest levels since mid-June
- ❑ The 10-year yield rose 7bp to 3.65% over the course of this week, after touching 3.69% on Thursday

RBA open market bond purchases

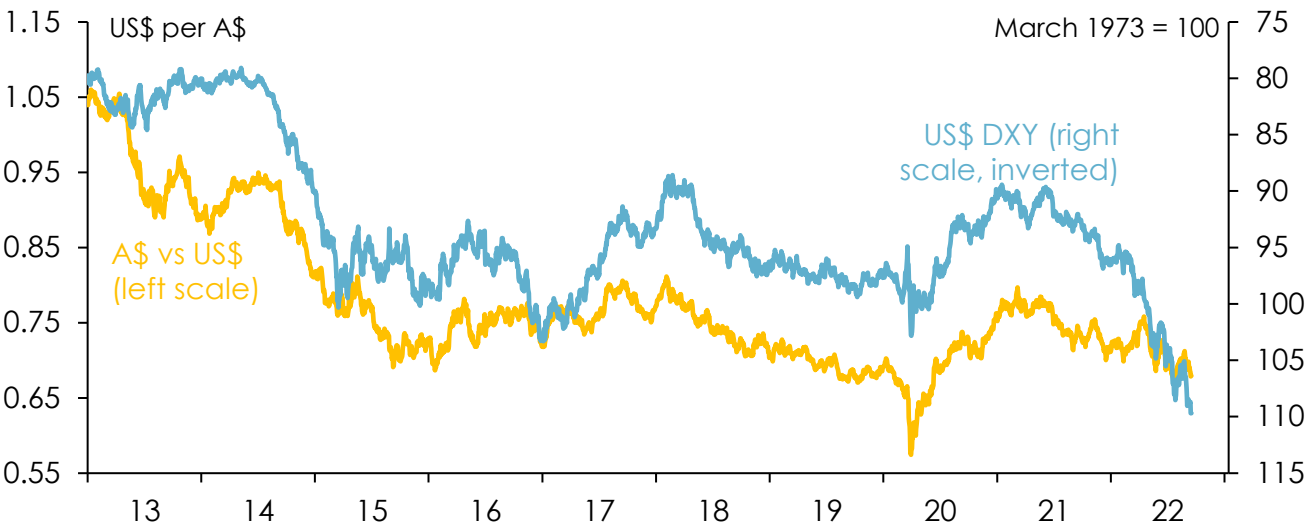


- ❑ At its May Board meeting, the RBA foreshadowed that it would no longer re-invest the proceeds of maturing government bonds in its portfolio (acquired as a result of its 'QE' programs during 2020 and 2021)
- ❑ \$2.2bn of bonds matured in mid-July; a further \$2.1bn will mature in mid-November; and \$13.2bn in April next year, after which there are no maturities of Australian Government bonds until April 2024 (although there are smaller amounts of State & Territory bond maturities)

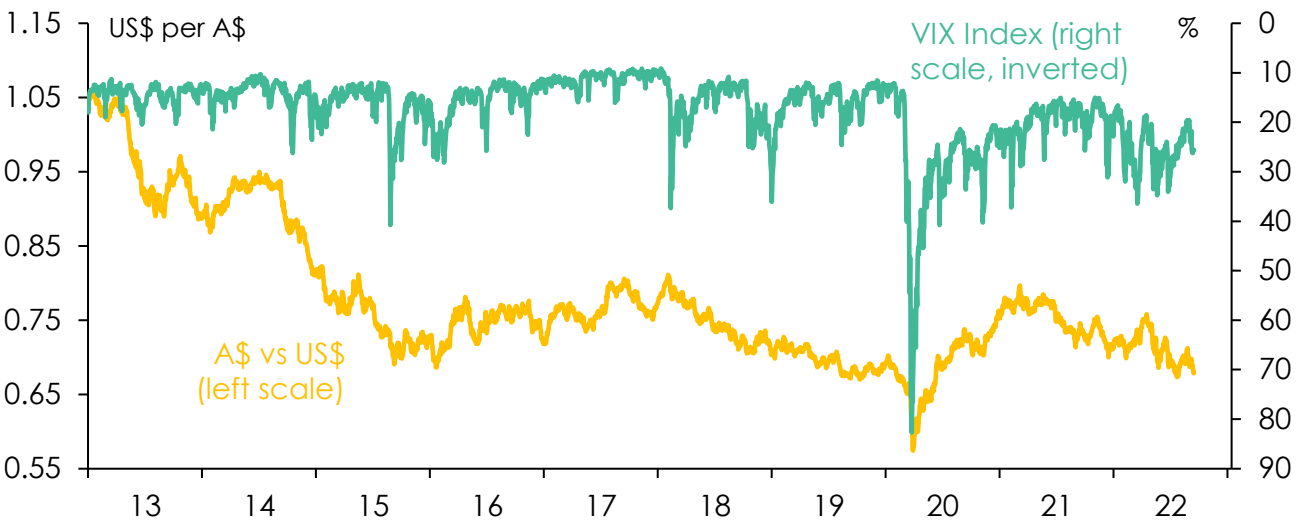
The A\$ dropped below US68¢ this week, reflecting further strength in the US dollar and weaker commodity prices

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

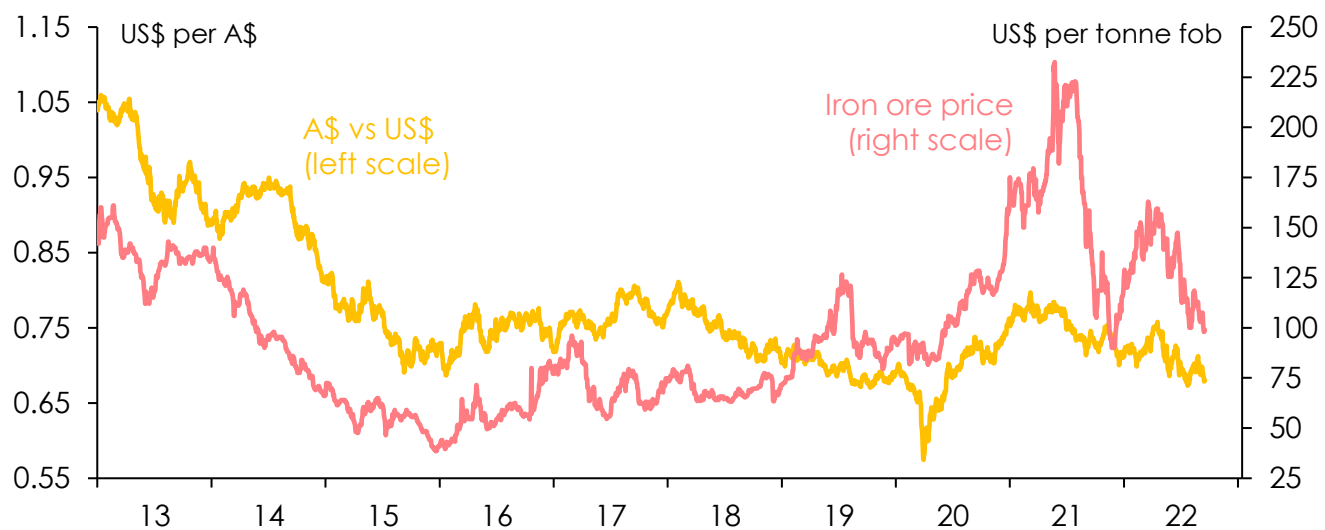
A\$-US\$ and US\$ trade-weighted index



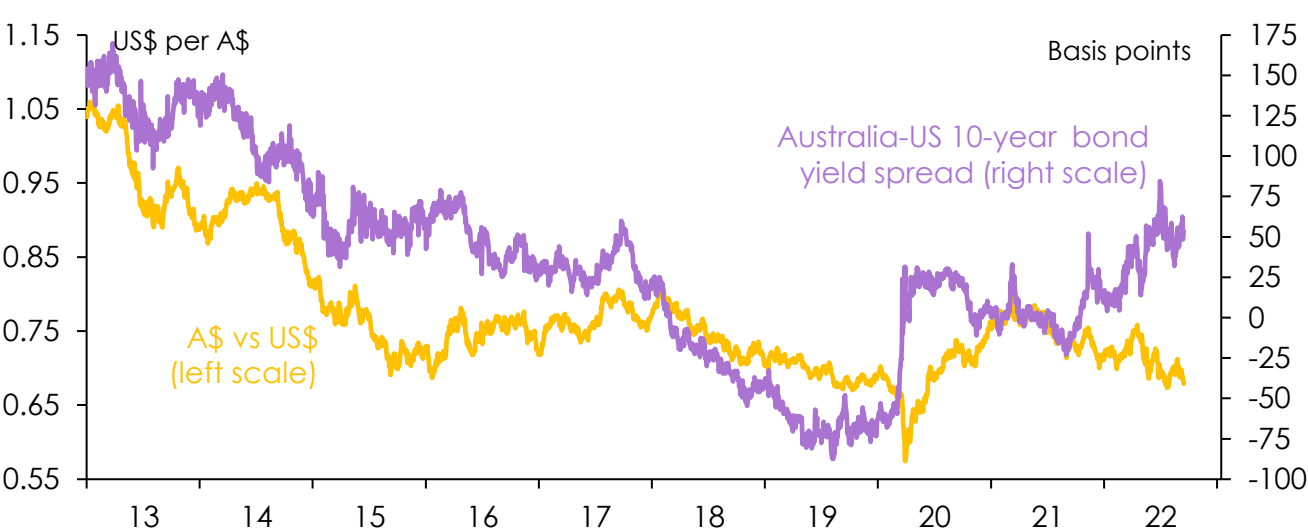
A\$-US\$ and US equity market volatility



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



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

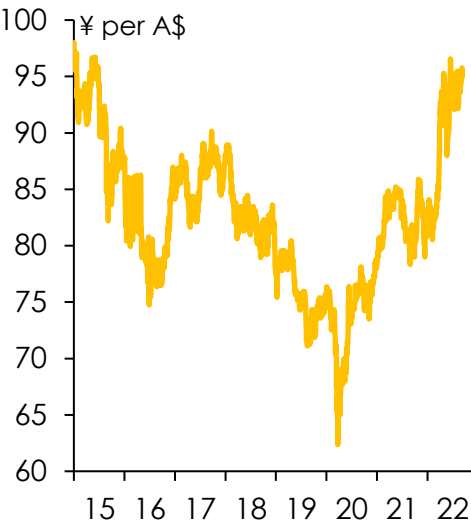


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 2nd September. [Return to "What's New"](#).

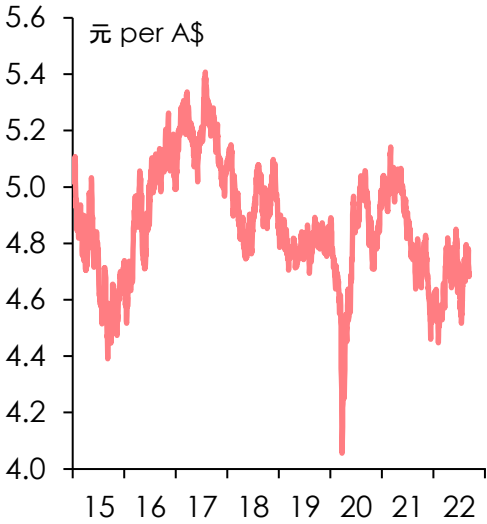
The A\$ was mixed against third currencies this week, firming against the yen and sterling but falling against the euro, NZ\$ and C\$

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

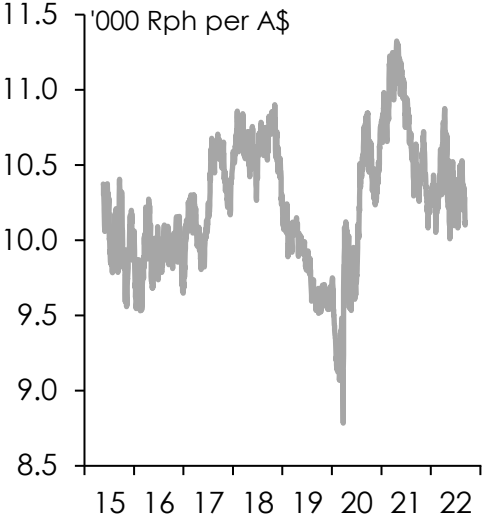
A\$ vs Japanese yen



A\$ vs Chinese yuan



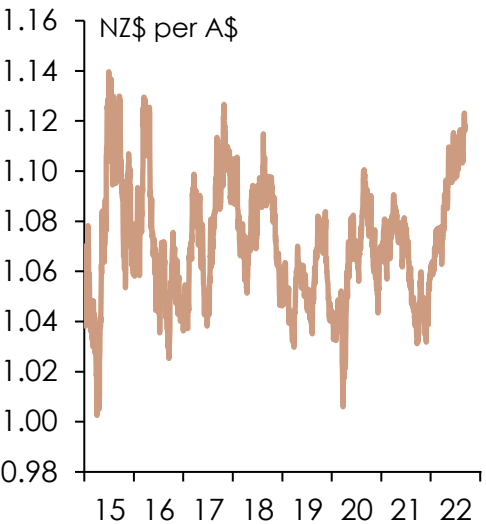
A\$ vs Indo rupiah



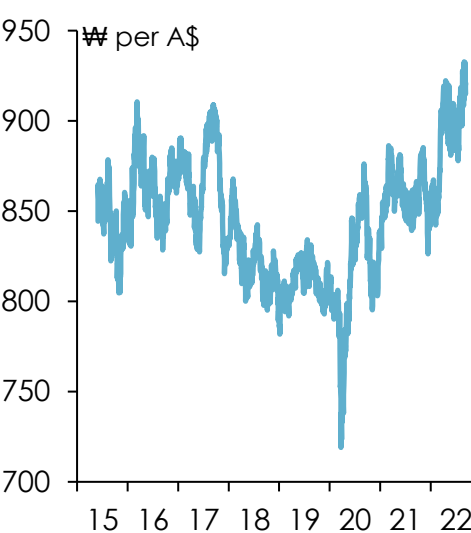
A\$ vs Euro



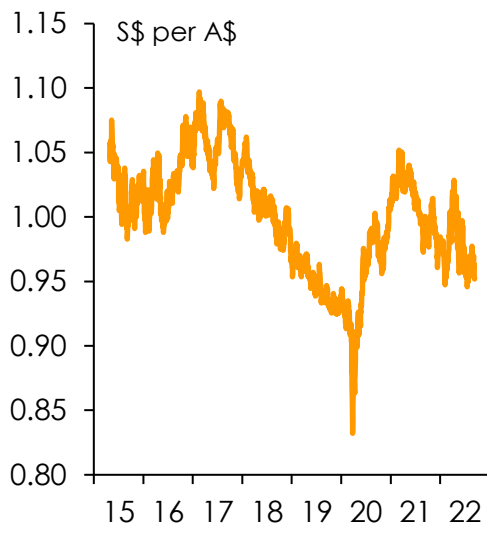
A\$ vs NZ\$



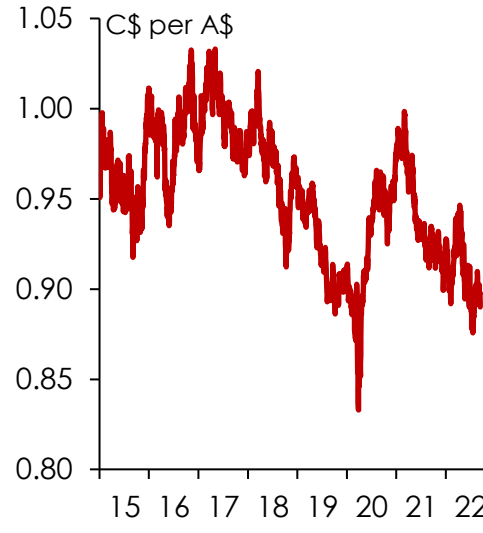
A\$ vs Korean won



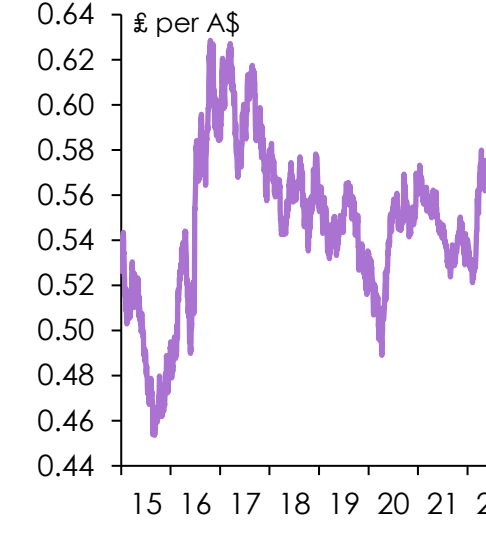
A\$ vs Singapore \$



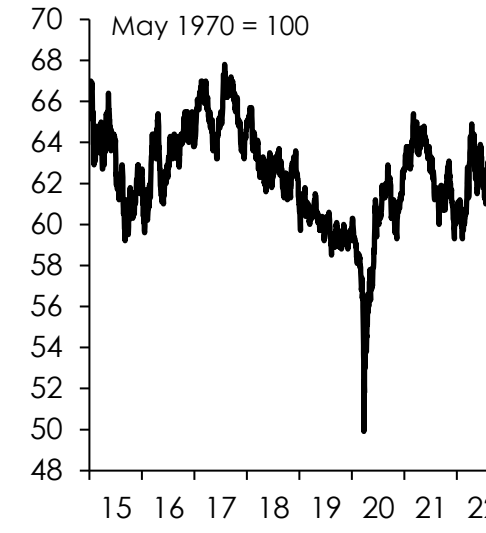
A\$ vs Canadian \$



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 2nd September. [Return to "What's New"](#).

The ASX dropped almost 4% this week, driven by falls in major overseas markets, lower commodity prices and BHP going 'ex-dividend'

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

ASX indices



Key data and events next week

Key data and events for week ended 9th September

THE AUSTRALIAN ECONOMY THIS WEEK – 2ND SEPTEMBER 2022

Monday 5th September	July detailed retail sales; Q2 company profits and business inventories
Tuesday 6th September	Q2 balance of payments; RBA Board meeting
Wednesday 7th September	Q2 GDP and other national accounts aggregates; weekly payroll jobs for four weeks ended 13 th August
Thursday 8th September	July goods and services trade; speech by RBA Governor Lowe on “Inflation and the Monetary Policy Framework”
Friday 9th September	July ABS monthly business turnover indicator

Other important upcoming events

Tuesday 4th October	RBA Board meeting
Tuesday 15th October	Updated & revised Federal Budget

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.

Corinna Economic Advisory is a partner (with Llewellyn Consulting, of 1 St Andrews Hill, London EC4V 5BY, United Kingdom) in Independent Economics.

This document has been prepared for the use of the party or parties named on the first page hereof, and is not to be further circulated or distributed without permission.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. None of Saul Eslake, Corinna Economic Advisory Pty Ltd nor Independent Economics however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. Saul Eslake, Corinna Economic Advisory Pty Ltd and Independent Economics expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS