

Monday, 12 April 2021



## Vaccine setback to test confidence

This week, markets will be looking closely at the latest readings on consumer and business confidence and jobs numbers. Confidence has been around 10-year highs in recent months, buoyed by improving economic conditions and the commencement of the vaccine rollout.

However, the upcoming read on confidence will be tested by delays to the distribution of vaccines.

The rollout was already running behind schedule and struck a major problem late last week when AstraZeneca advised against vaccinating those aged under 50 due to rare but serious side-effects. In response, the Federal government abandoned all targets for the nationwide rollout. Originally, the government had planned to fully vaccinate all 20 million adults by the end of October.

The vaccine hold-up is no doubt an economic setback. It remains to be seen how material a setback. Delays in the rollout increase the risk of disruptive snap lockdowns and state border closures. It will also postpone the return of international tourists and students.

The release of April's consumer sentiment data on Wednesday will provide a first look at how confidence has been impacted by the disruption. The survey was conducted in the week ending April 10.

There was also another short lockdown, this time in Brisbane, which may have hampered confidence in the month. JobKeeper also expired at the end of last month. However, on the flip side, we saw continued better-than-expected outcomes in the labour market.

Surging house prices may also impact sentiment – although this tends to be a divisive issue. On one hand, increasing house prices can support confidence, as home owners benefit from the capital gains. On the other, it can also weigh on sentiment, due to affordability and sustainability concerns.

Data on business conditions and confidence for March is out tomorrow. These data are an important signpost for business investment, which picked up in the December quarter but remains subdued relative to pre-COVID levels. A further boost to business investment is necessary for a sustainable economic recovery.

Later in the week, the March labour force survey will be released. The February data was a remarkably strong and surprised economists to the upside. The economy added 88.7k new jobs and the unemployment rate fell to 5.8% while the participation rate was flat at 66.1%.

Leading indicators of employment, like weekly payrolls and job vacancies all point to ongoing strong demand for labour. We have forecast 32.0k new jobs will be added and that the participation rate will tick up to 66.2%. This will hold the unemployment rate steady at 5.8%.

Over the remainder of the year, the outlook for jobs is favourable, although we are facing a speed bump with the end of JobKeeper. There inevitably will be job losses and the unemployment rate is likely to tick up in the coming months.

Importantly, we still expect the unemployment rate to be lower by the end of the year as the

ongoing economic recovery and momentum in the labour market help to absorb these job losses. Despite the challenges thrown up by the vaccine setback, if we can keep the virus under control, the recovery should continue.

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## Forecasts

End Period:	2021				2022		
	Close (1 April)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
<b>Aust. Interest Rates:</b>							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.04	0.02	0.02	0.02	0.04	0.06	0.08
3 Year Swap, %	0.33	0.30	0.30	0.35	0.50	0.55	0.60
10 Year Bond, %	1.84	1.85	1.95	2.10	2.20	2.30	2.40
<b>US Interest Rates:</b>							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.70	1.75	1.85	2.00	2.10	2.20	2.30
<b>USD Exchange Rates:</b>							
AUD-USD	0.7651	0.79	0.80	0.82	0.85	0.85	0.84
USD-JPY	110.18	109	110	111	112	111	111
EUR-USD	1.1813	1.20	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.3900	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7059	0.72	0.73	0.74	0.76	0.76	0.75
<b>AUD Exchange Rates:</b>							
AUD-USD	0.7651	0.79	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6478	0.66	0.66	0.67	0.68	0.67	0.66
AUD-JPY	84.3	86.1	88.0	91.0	95.2	94.4	93.2
AUD-GBP	0.5504	0.56	0.57	0.58	0.60	0.60	0.59
AUD-NZD	1.0838	1.10	1.10	1.11	1.12	1.12	1.12

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.2	-1.1	4.5	3.0
CPI (Headline), %	1.8	0.9	2.6	2.1
CPI (Trimmed mean), %	1.5	1.2	1.8	2.0
Unemployment Rate, %	5.2	6.8	5.7	5.2
Wages Growth, %	2.2	1.4	1.8	2.0

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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