

# Weekly Economic Outlook

Monday, 15 March 2021



## Jobs, Spending and Central Bankers

Business and consumer confidence are around 10-year highs. This is good news. Confident consumers spend. Confident businesses invest and employ. A further \$1.2 billion worth of spending on airlines and tourism announced last week will add to confidence in parts of the economy.

Before we get carried away, JobKeeper ends soon and that will take some gloss off the picture. There will be job losses but, in the context of almost 13 million employed, the macro impact is expected to be modest. The unemployment rate may tick up a little in the coming months before it continues to fall over the second half of the year. The economy is still expected to grow 4.5% over 2021 and this will create ongoing job opportunities.

Speaking of jobs, the ABS will release the February labour force figures on Thursday. We expect these to show the creation of 30k jobs with the unemployment rate edging down to 6.3%. The relaxation of social distancing rules is adding to the degree of 'normality' in economic activity and creating jobs. The strength of Victoria's recent growth in jobs is testament to the power of opening up the economy. And there is more to come.

Retail spending accounts for over 50% of economic activity in Australia. As such, paying attention to retail spending numbers gives a feel for how the economy is travelling. The numbers can be volatile from month to month, but of late, the readings have been mostly positive. On Friday, the ABS will release the preliminary numbers for February retail sales. These cover around 80% of the full data and have been a good guide to the final release. We expect retail sales rose 1.0% to be up 11.0% on February 2020.

The Reserve Bank of Australia (RBA) was a reluctant entrant into the world of QE (quantitative easing). The larger central banks of the US, Europe and Japan are now old hands at bond purchase programs, aimed at keeping bond yields low.

QE tends to keep bond yields lower than they might otherwise be and acts as a break on currency appreciation. The RBA dipped its toes into the QE process in 2020. The RBA estimates in the absence of the Bank's policy measures, including QE, the AUD would be as much as 5 per cent higher. This would put the AUD in the US82 cent range. A stronger AUD would act as a drag on our recovery by curtailing the demand for Australian exports.

This week, three of the large central banks, the US FOMC, the Bank of England and the Bank of Japan have monetary policy meetings. They seem likely to comment on recent increases in bond yields and reaffirm their desire to keep interest rates low. Generally speaking, central bankers expect any spikes in inflation to be transitory and will argue their case this week. Central bankers have been talking down bond yields during the past week.

Despite a setback last week, we still believe the AUD is heading for \$US80 cents and beyond. Firm commodity prices, strong domestic economic growth, a solid trade surplus, upgrades to global economic forecasts and ever-growing US debt suggest to us a higher AUD in the weeks and

months ahead.

## Forecasts

End Period:	2021				2022		
	Close ( 12 Mar)	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, %	0.32	0.30	0.25	0.30	0.50	0.55	0.60
10 Year Bond, %	1.65	1.85	1.85	1.90	2.05	2.20	2.35
<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, %	1.54	1.65	1.70	1.80	1.95	2.10	2.25
<b>USD Exchange Rates:</b>							
AUD-USD	0.7764	0.79	0.80	0.82	0.85	0.85	0.84
USD-JPY	109.03	109	110	111	112	111	111
EUR-USD	1.1953	1.20	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.3924	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7176	0.74	0.75	0.76	0.78	0.78	0.77
<b>AUD Exchange Rates:</b>							
AUD-USD	0.7764	0.79	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6494	0.66	0.66	0.67	0.68	0.67	0.66
AUD-JPY	84.6	86.1	88.0	91.0	95.2	94.4	93.2
AUD-GBP	0.5576	0.56	0.57	0.58	0.60	0.60	0.59
AUD-NZD	1.0814	1.07	1.07	1.08	1.09	1.09	1.09

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.2	-1.1	4.5	3.0
CPI (Headline), %	1.8	0.9	2.6	2.2
CPI (Trimmed mean), %	1.6	1.2	1.9	2.0
Unemployment Rate, %	5.2	6.8	6.0	5.3
Wages Growth, %	2.2	1.4	1.9	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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