

Weekly Economic Outlook

Monday, 22 March 2021



Limited Data: Time to Reflect

The week ahead is bereft of market moving domestic data. This should provide investors and other market participants with time to reflect on recent developments.

Last week's labour force data was encouraging at the macro level, but the devil is in the detail. There are pockets of the economy (some quite large) that remain at risk in the 'grey area' of transition from recession to recovery. The economy is recovering, but stimulus, in the form of JobKeeper is ending, while restrictions remain in place.

The pockets of pain have been identified. They include those associated restrictions on international travel (tourism, education, agriculture i.e., fruit pickers) and social distancing (arts and recreation, hospitality and events). Policies are in place to assist some of these sectors, but their effectiveness will only be captured by statistics in the months ahead.

The recovery, as forecast by the Reserve Bank Governor, is proving to be bumpy and uneven.

The strength of last week's labour force was encouraging, but we need to remind ourselves that in the months prior to the pandemic being declared, the unemployment rate averaged 5.1%. This was far from full employment and failed to generate substantial wage growth or consumer price inflation. Eight hundred thousand people remain unemployed and many would prefer to work more hours.

It is the interaction between the labour market and wages that sits behind the Reserve Bank's view, and ours, that the cash rate will not be lifted until at least 2024. Monetary policy is set to remain accommodative.

The bond market has been sending signals that reflect the improved outlook for the Australian and global economies. Longer-term yields have been rising in Australia and the US. While this appears appropriate, investors may be anticipating more inflation than seems likely or sustainable. Under its quantitative easing program, the Reserve Bank has been buying bonds to lower yields and keep a lid on the Australian dollar. The program is due to expire at the end of September, although we expect it will be extended.

One data set that will be released this week is business conditions and sentiments. This survey-based release seeks to measure how business revenues, expenses and employment are unfolding as the economy reacts to the stresses and strains of the pandemic induced recession and recovery.

Key findings from the last issue were that two in five (41%) businesses were significantly impacted by COVID-19 restrictions in February. This compares to 53% in April 2020. Also, in February, 41% of businesses reported that cash on hand could cover less than three months of business operations.

The next survey is due for release on Thursday.

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Forecasts

End Period:	2021				2022		
	Close (19 Mar)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.03	0.02	0.02	0.02	0.04	0.06	0.08
3 Year Swap, %	0.33	0.30	0.25	0.30	0.50	0.55	0.60
10 Year Bond, %	1.82	1.85	1.85	1.90	2.05	2.20	2.35
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	1.70	1.65	1.70	1.80	1.95	2.10	2.25
USD Exchange Rates:							
AUD-USD	0.7742	0.79	0.80	0.82	0.85	0.85	0.84
USD-JPY	109.03	109	110	111	112	111	111
EUR-USD	1.1914	1.20	1.21	1.23	1.25	1.26	1.27
GBP-USD	1.3912	1.40	1.40	1.41	1.41	1.41	1.42
NZD-USD	0.7166	0.74	0.75	0.76	0.78	0.78	0.77
AUD Exchange Rates:							
AUD-USD	0.7742	0.79	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6498	0.66	0.66	0.67	0.68	0.67	0.66
AUD-JPY	84.4	86.1	88.0	91.0	95.2	94.4	93.2
AUD-GBP	0.5565	0.56	0.57	0.58	0.60	0.60	0.59
AUD-NZD	1.0804	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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