

Weekly Economic Outlook

Monday, 23 March 2020



Bringing Out the Big Guns

Writing this today, I am trying hard to keep those anxiety levels down, particularly with the yoga studio now shutdown. It is hard to turn anywhere without seeing that sense of stress, from the story of the neighbour now out of work as large events are now cancelled; the panic buying in the supermarket to the frantic handwashing. And then there's the concern from watching those who aren't adhering to the social distancing rules.

Financial markets too, have been under a great deal of stress. The large swings in share markets and a scrambling for cash have led many central banks around the world to do all they can. It includes addressing liquidity issues, dropping interest rates and restarting, expanding or kickstarting quantitative easing programmes.

The Reserve Bank (RBA) last week announced a comprehensive set of stimulus measures. These included a cut to the cash rate to 0.25%, launching a quantitative easing program by setting a target for the 3-year government bond yield at 0.25%, providing term funding for banks with the aim of supporting small and medium-sized businesses and also remunerate exchange-settlement balances held at the RBA at 10 basis points instead of zero.

Fiscal stimulus too has also been deployed, including a \$17.6 billion package announced last week, and a second huge \$66 billion package yesterday. These include cash payments to welfare recipients and those who have been affected by the downturn, as well as supporting cash flows to small and medium-sized businesses. Further stimulus was also flagged over coming months. For more details on the stimulus measures provided, please refer to the slidepack that we sent out last night.

Of course, all of these measures won't bring people into restaurants, won't bring tourists to our shores and won't prevent a decline in economic output i.e. they won't prevent the job cuts, the reduction in spending and the massive disruption to people's lives. They can only provide support to people and businesses through this challenging time, and to ensure that otherwise viable businesses can survive. The stimulus measures will at least help speed up the recovery, once the economy gets there and help build a bridge between now and the recovery.

We had highlighted the risk of a recession last week, and are expecting a deeper downturn than the GFC. The prospects for a deeper recession are growing, as every increasing containment measure poses the threat of further job losses. The unemployment rate will no doubt lift, and the risks are that it rises sharply from the current level of 5.1%. Indeed, the RBA is anticipating significant job losses.

This week, we will continue to watch closely for new cases for COVID-19 globally and Australia, and we expect to see some further volatility in financial markets.

In terms of data, it is still too early to gauge the impact of recent containment measures on the economy. However, we do receive some early signs of how the economy might be faring this week. Generally, purchasing managers' indices (PMIs) measures published by CBA and the ANZ

weekly consumer confidence measure are not so widely watched, however, there could be greater attention this week, given they will provide some early readings on economic activity and confidence this month.

Hope you all stay safe and healthy.

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Forecasts

Due to the rapid change of recent, current and future developments, please note that there is greater than usual uncertainty surrounding the forecasts.

End Period:	2020				2021	
	Close (Mar 20)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.52	0.60	0.55	0.45	0.50	0.50
3 Year Swap, %	0.48	0.40	0.40	0.45	0.50	0.50
10 Year Bond, %	1.14	0.80	0.75	0.75	0.80	0.85
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.85	0.75	0.70	0.75	0.80	0.85
USD Exchange Rates:						
AUD-USD	0.5785	0.65	0.66	0.67	0.68	0.68
USD-JPY	110.93	105	105	105	106	107
EUR-USD	1.0688	1.05	1.04	1.05	1.06	1.07
GBP-USD	1.1629	1.16	1.18	1.20	1.22	1.23
NZD-USD	0.5700	0.61	0.64	0.65	0.65	0.65
AUD Exchange Rates:						
AUD-USD	0.5785	0.64	0.66	0.67	0.68	0.68
AUD-EUR	0.5432	0.62	0.63	0.64	0.64	0.64
AUD-JPY	64.35	68.3	69.3	70.4	72.1	72.8
AUD-GBP	0.4979	0.56	0.56	0.56	0.56	0.55
AUD-NZD	1.0146	1.07	1.03	1.03	1.05	1.05

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.2	1.5
CPI (Headline), %	1.8	1.8	1.5
CPI (Trimmed mean), %	1.8	1.6	1.9
Unemployment Rate, %	5.0	5.2	7.0
Wages Growth, %	2.3	2.2	2.1

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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