

# Weekly Economic Outlook

Monday, 28 June 2021



## Lockdown Deja Vu

Australia has a solid track record for its effective containment of the virus relative to the rest of the world. However, recent weeks have been a sobering reminder that the pandemic still poses a considerable risk to public health and the economy.

Greater Sydney, the Blue Mountains, the Central Coast and Wollongong have been placed into a two-week lockdown as the highly contagious Delta variant has swept New South Wales. So far, 130 cases have been linked to the Bondi cluster. Interstate borders have closed with all or parts of New South Wales.

Darwin is also in 48-hour snap lockdown, and Queensland and Western Australia have tightened restrictions. And this is just after Melbourne emerged from a lockdown earlier this month.

Concerningly, the Delta variant is much more infectious than previous strains. Officials advise the transmissibility is at least double that of previous variants in Australia.

This will be a challenging period for many businesses and households. The New South Wales government is finalising a rescue package for businesses. A one-off disaster relief payment of \$350 or \$500 is available from the Federal government for Australians who cannot work due to the lockdown.

The tightening of restrictions around the country will weigh on economic activity. On the upside, the economy has been quick to bounce back from several mini lockdowns since late 2020. However, the geographical spread of the virus across New South Wales and the high rate of transmission of the Delta variant could mean this lockdown lasts longer than two weeks.

How much this episode drags on the recovery will depend on how quickly the outbreak is contained and how quickly services can reopen. There is also a question as to how much the recent surge in cases will impact consumer and business confidence and, hence, their willingness to spend and invest. The new restrictions will also cause disruptions to interstate supply chains.

The lockdown could dampen economic activity and GDP growth in the September quarter. New South Wales accounts for around 32% of the nation's output. The regions in lockdown in the state account for around 25% of Australia's economic activity. The New South Wales lockdown will have a limited impact on June quarter GDP since the restrictions only took effect at the tail end of the quarter.

If nothing else, this outbreak is a reminder that we cannot afford to be complacent about the vaccine rollout. So far, only around 5% of the population is fully vaccinated and approximately 30% have had their first shot.

Turning to this week's data, we will get another read on the temperature of the housing boom with CoreLogic's dwelling price numbers for June to be released. Dwelling prices continued to surge in May, increasing 2.2% in the month to be up 10.6% over the year. Sydney is rapidly reemerging as the nation's housing hotspot, with house prices up 9.3% in the past three months. However, the gap between house and unit prices has widened significantly to a new record,

suggesting unit prices might soon record a sharper recovery. We expect the national dwelling price index increased a further 2.0% in June. Low interest rates, the recovery in the labour market, and constrained supply all continue to push prices higher.

Housing finance approvals for May will also be released. The value of new loans, excluding refinancing, increased 3.7% in April. Over the year, housing loan commitments were up 68.2% – the fastest rate on record. We expect a further 5.0% increase in May; the decline in construction-related finance, associated with the expiry of the HomeBuilder scheme, will be more than offset by an uplift in investor lending. So far, the housing boom has been led by owner-occupiers although lending to investors has accelerated in recent months. We cannot rule out a tightening in macroprudential controls in 2022.

We will also be examining data on private sector credit growth for May. We expect a 0.3% rise in the month following a 0.2% increase in April. Credit growth remains tepid, but it has turned a corner after the appetite for borrowing soured during most of 2020.

Business credit growth has been weak after businesses built up cash flow buffers over 2020 due to fears about the pandemic and their future revenues. However, there has been an upturn in business investment, supported by generous government tax incentives. As the recovery in business investment continues alongside elevated capacity utilisation, business credit growth is likely to improve more materially. However, the recent setbacks from the resurgence of the virus may push out when businesses are willing to seek additional funds.

Separately, we have forecast that Australia's trade balance will rise to a record surplus of \$10.5 billion in May. This is a \$2.5 billion increase from April, led by strength in exports. Strong growth in commodity prices has supported the widening in the trade surplus.

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## Forecasts

End Period:	2021			2022			
	Close (25 June)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (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, %	0.03	0.04	0.07	0.10	0.15	0.20	0.40
3 Year Swap, %	0.45	0.50	0.60	0.80	0.95	1.10	1.25
10 Year Bond, %	1.56	1.95	2.10	2.20	2.30	2.40	2.50
<b>US Interest Rates:</b>							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.375
US 10 Year Bond, %	1.50	1.85	2.00	2.10	2.20	2.30	2.40
<b>USD Exchange Rates:</b>							
AUD-USD	0.7592	0.78	0.80	0.82	0.85	0.85	0.84
USD-JPY	110.85	111	111	112	112	113	113
EUR-USD	1.1941	1.22	1.23	1.24	1.23	1.22	1.21
GBP-USD	1.3933	1.42	1.43	1.43	1.44	1.45	1.45
NZD-USD	0.7072	0.72	0.74	0.76	0.78	0.78	0.77
<b>AUD Exchange Rates:</b>							
AUD-USD	0.7592	0.78	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6360	0.64	0.65	0.66	0.69	0.70	0.69
AUD-JPY	84.13	86.6	88.8	91.8	95.2	96.1	94.9
AUD-GBP	0.5468	0.55	0.56	0.57	0.59	0.59	0.58
AUD-NZD	1.0735	1.08	1.08	1.08	1.09	1.09	1.09

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.1	-1.0	4.8	3.2
CPI (Headline), %	1.8	0.9	2.5	2.4
CPI (Trimmed mean), %	1.5	1.2	1.6	2.2
Unemployment Rate, %	5.2	6.8	4.4	3.8
Wages Growth, %	2.2	1.4	2.4	2.7

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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