

# The post-COVID19 economy

## Where to for Australia & Western Australia

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AAAC WA - OUTLOOK 2021 Conference

November 2021

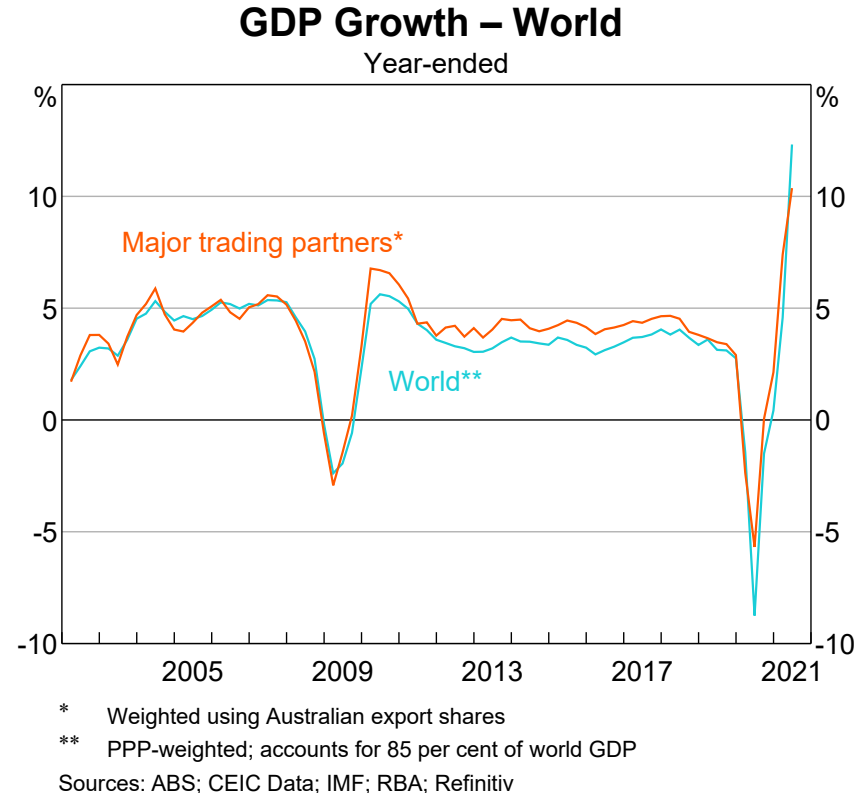
Stephen Koukoulas  
Market Economics

# The 2022 economic recovery will be strong

- Consumers are cashed up & are starting to spend
- There are labour & skills shortages – wages growth is poised to surge as unemployment falls to multi-decade lows
- Inflation is lifting for the first time in a decade – on track for 3%
- Where inflation goes, interest rates follow: Get set for rate hikes in 2022
- The Aussie dollar risks to downside

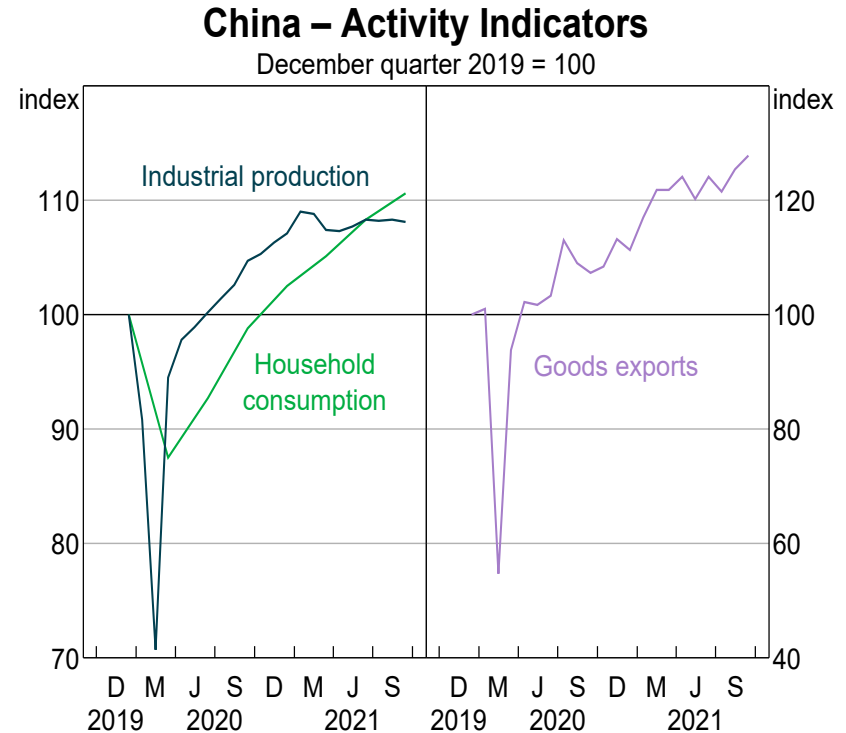
# Global recovery from COVID-19 has been powerful

- The COVID-19 global recession in 2020 was deep, severe, but relatively short-lived
- Huge policy stimulus supported growth in 2021 – most central banks cut interest rates to near zero & they printed money
- 2022 is shaping up as another year of solid strong growth around much of the world, but interest rates will rise



# China recovered strongly in 2020 but is now slowing

- China's economy was hit hard by COVID, but has recovered strongly since the middle of 2020
- The structure of growth is tilting away from manufacturing & industrial production towards domestic consumption
- The export sector remain a key driver of China's economic momentum

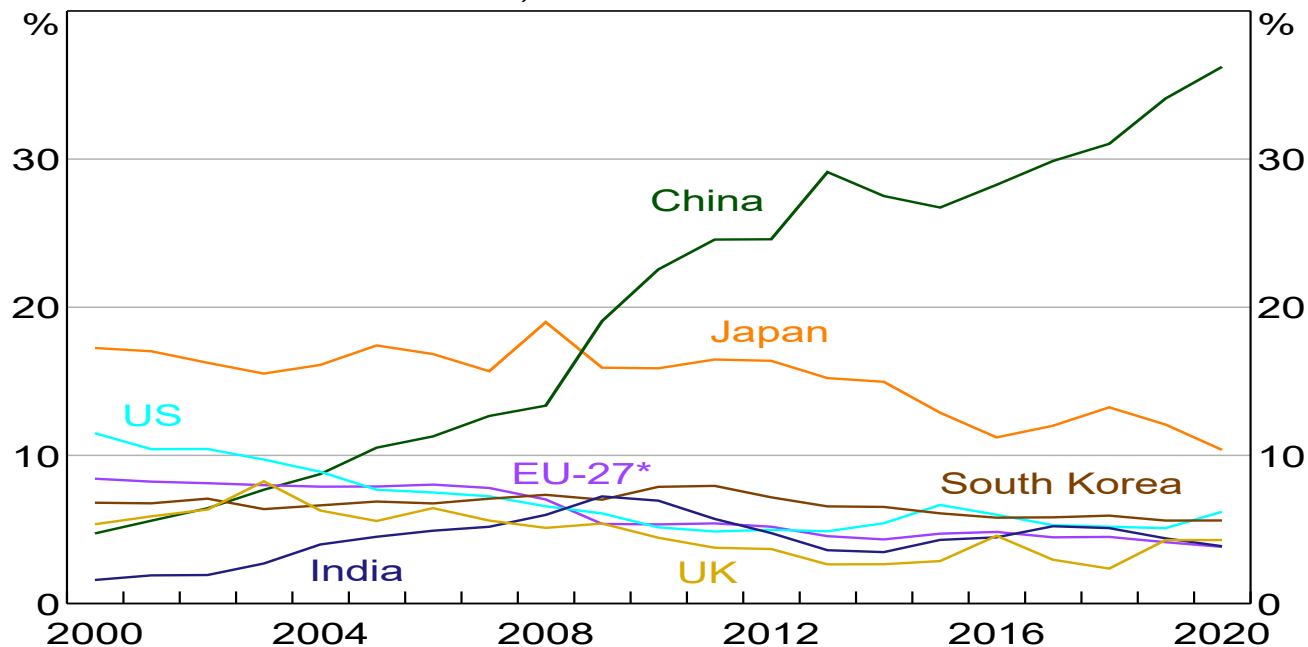


Sources: CEIC Data; RBA

# A simple chart – why China matters to Australia

## Exports by Destination

Annual, share of total values

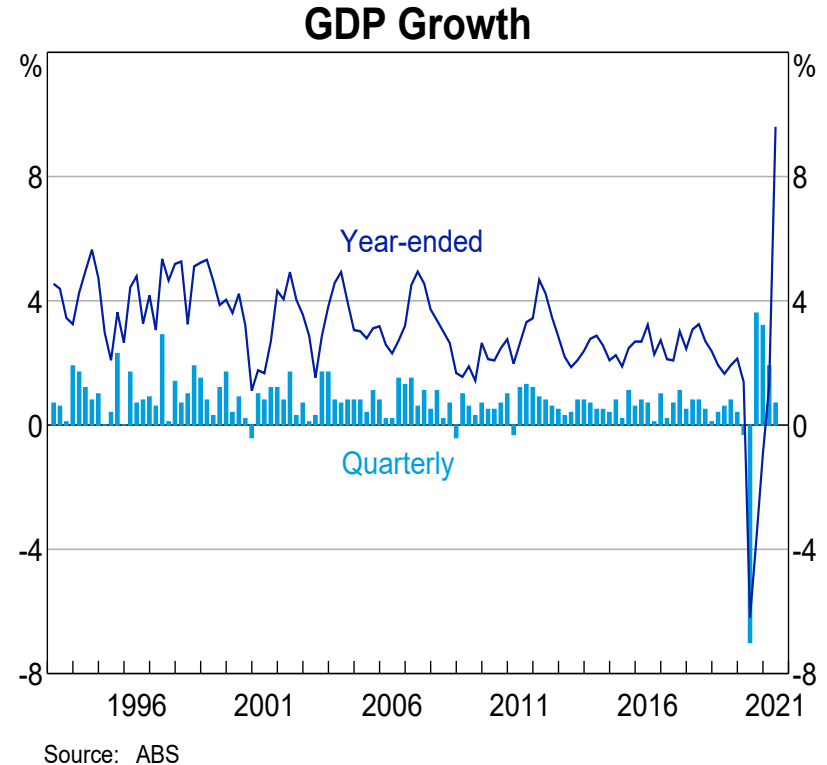


\* The series has been revised to exclude the UK

Sources: ABS; RBA

# Australia's economy has extreme ups and downs

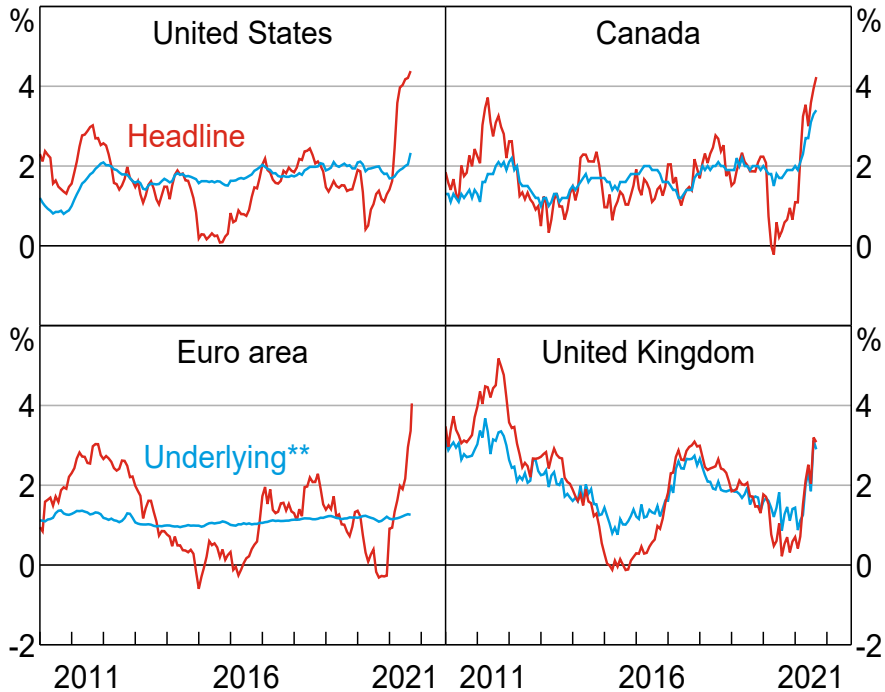
- The Australian economy slumped, boomed and slumped again in reaction to COVID lockdowns and openings
- After what will be a sharp downward hit to GDP in Q3 2021, a strong rebound is underway for the remainder of 2021
- 2022 is sharpening up as a year of very strong growth, driven by a consumer spending & a recovery in business investment



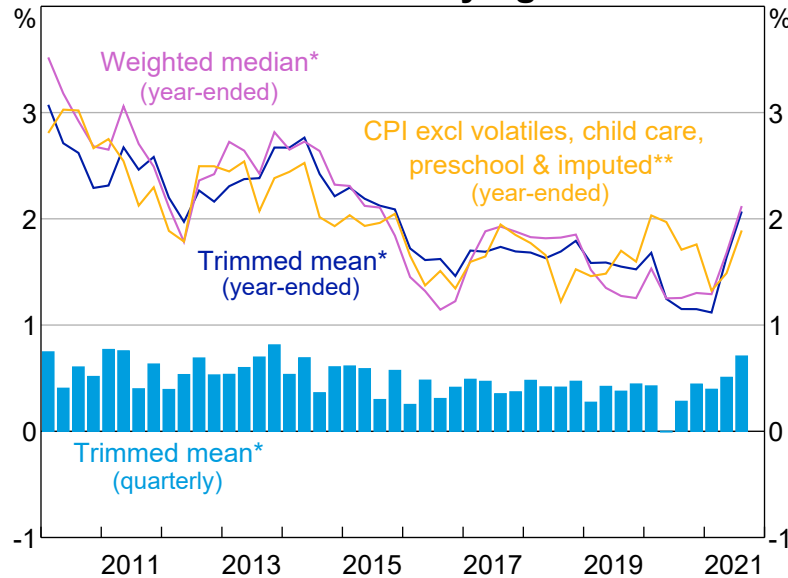
# Higher inflation – transitory or entrenched?

## Consumer Price Inflation\*

Year-ended



## Measures of Underlying Inflation



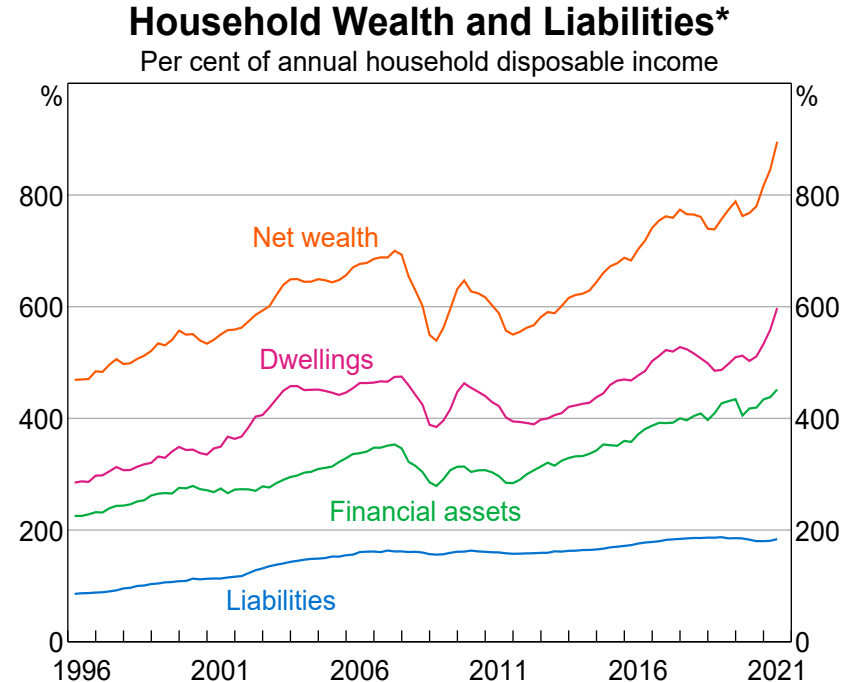
\* Seasonally adjusted

\*\* Not seasonally adjusted; excludes fruit, vegetables, automotive fuel, child care, preschool & primary education and items that were imputed using headline CPI for all capital cities in the June or September quarter 2020

Sources: ABS; RBA

# There is a powerful wealth effect – houses & stocks

- There is a lot of focus on Australia's household debt – which is high
- On the other side of the ledger, is an incredible lift in assets
- **Assets - liabilities = net wealth**
- Net wealth has never been higher as house prices & the ASX hit record highs, which has swamped the rise in debt



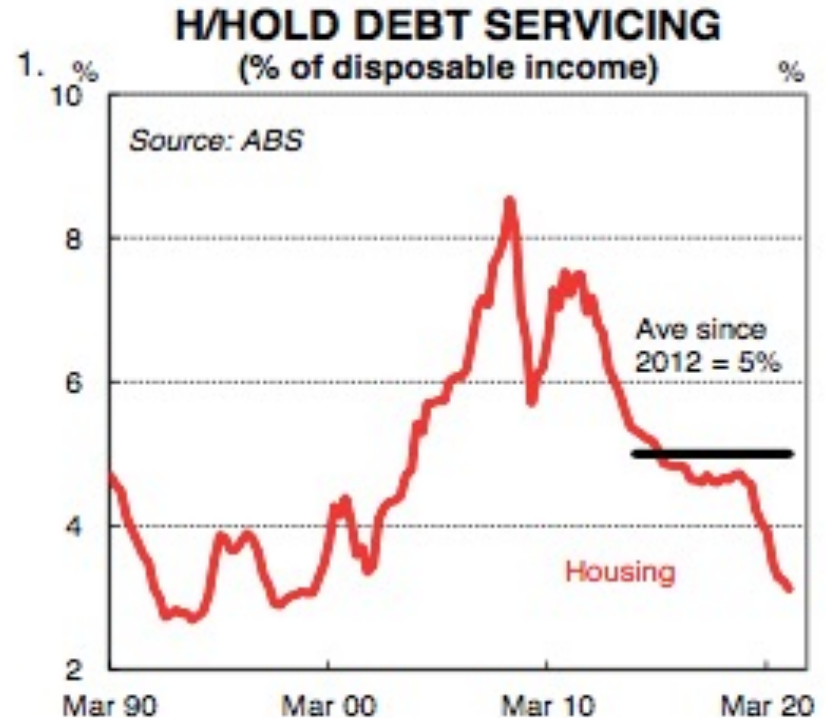
\* Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises

Sources: ABS; RBA



# Householders debt costs are near record lows

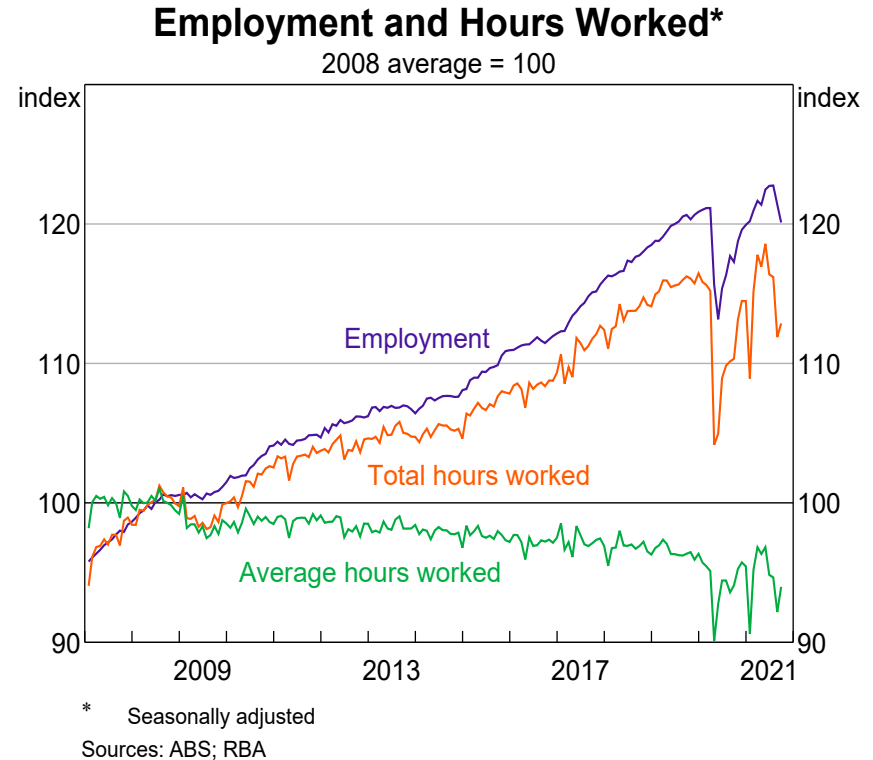
- The decade-long interest rate cutting cycle, with mortgage rates now at record lows, has seen household debt servicing costs slump
- This is despite the surge in house prices & near record levels of household debt
- This is a major benefit for household cash flows which is positive for future consumer spending



Source: AMP

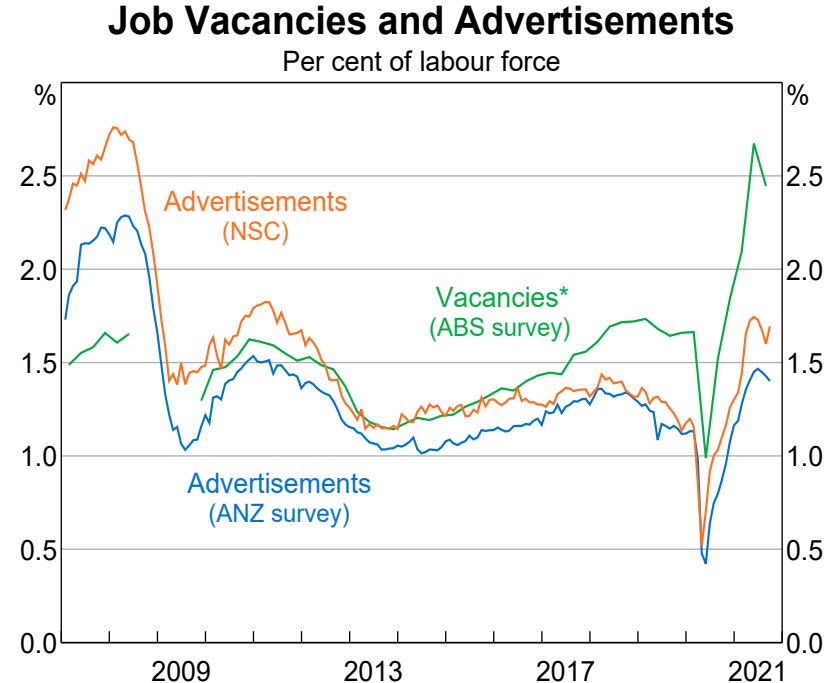
# The labour market hit a Delta air-pocket

- Employment and hours worked have followed the COVID lockdown cycles – with sharp falls in early to mid 2020 and then again in Q3 2021
- There was a strong jobs recovery in late 2020 and early 2021 as lockdowns eased – expect the same for late 2021 and through 2022



# Demand for workers booming

- Businesses are gearing up for a robust economy & this is showing up in a lift in job ads & vacancies
- There is evidence of severe skill shortages – business plans are under threat without the workers
- International borders are slowly reopening – this will help business meet labour demand, but the other issue to emerge will be a lift in wages

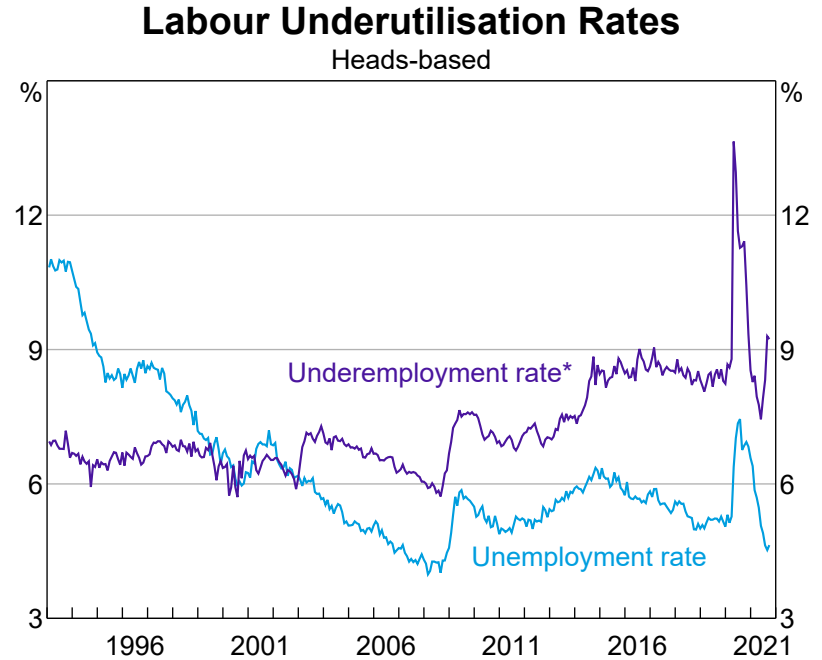


\* This survey was suspended between May 2008 and November 2009

Sources: ABS; ANZ; National Skills Commission (NSC); RBA

# Labour market – the focus for 2022

- The policy issues for 2022 will be all about low unemployment, rising wages growth & how these feed into inflation
- The unemployment rate is on track to hit 4%, possibly lower, which would be a level not seen in over 40 years
- As the economy opens underemployment will also fall, which will underscore wage increases



\* Full-time workers on reduced hours for economic reasons and part-time workers who would like, and are available, to work more hours

Source: ABS

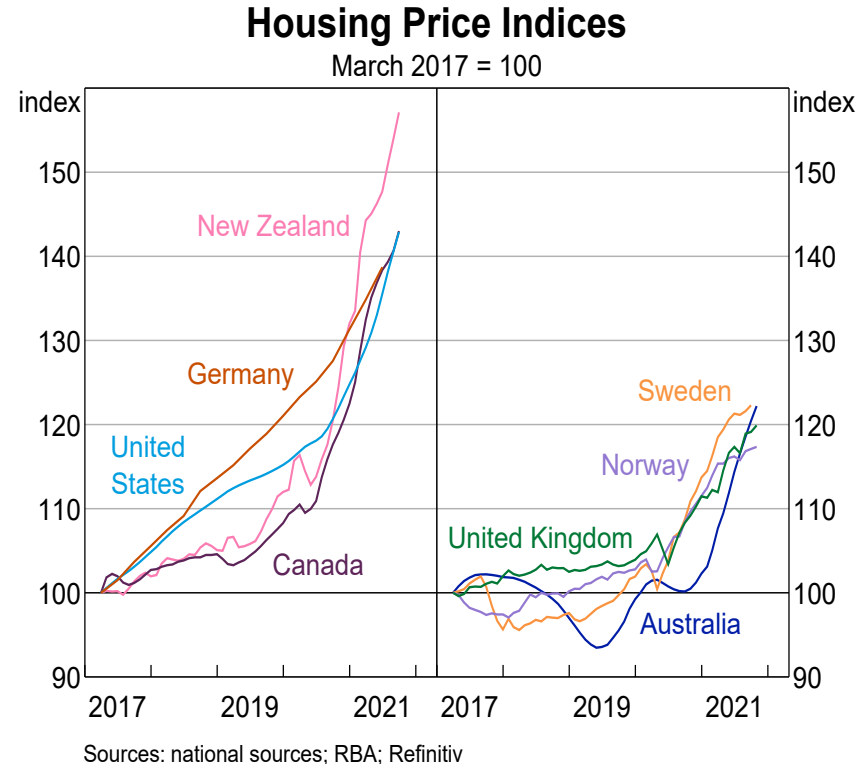
# Private sector wages are already picking up

- A feature of the economy pre-COVID was the steady fall in wages growth
- This continued in the first stage of the pandemic when many public service wages were frozen & in the private sector, wage claims weakened
- There is evidence that private sector wages are picking up – skills shortages will push wages growth higher in 2022



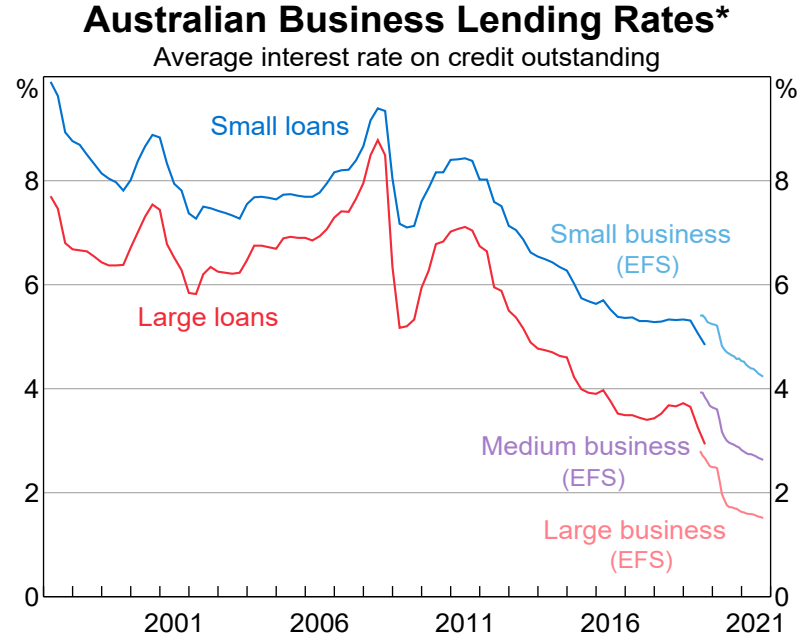
# Australian house prices versus other countries

- Many Aussies think our house prices are crazy
- In this recent period, since 2017, house prices increases in Australia have been well below those in New Zealand, Germany & the US
- Rises are similar to the UK, Sweden & Norway



# Record low interest rates will end soon

- Part of the COVID-19 policy response was to cut interest rates to record lows
- These low rates helped underpin the recovery via business investment & improved cash flows for householders who ramped up their spending
- Low rates are set to end soon as inflation pressures force the RBA to start the first hiking cycle in over a decade

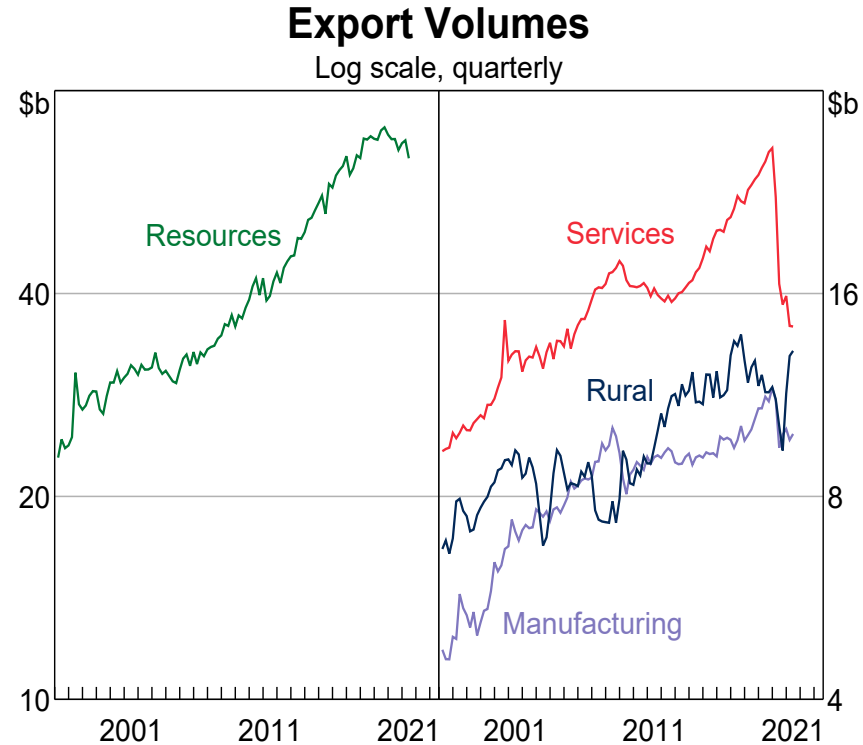


\* Small loans are loans less than \$2 million; large loans are loans \$2 million or more; new series from July 2019 are from the Economic and Financial Statistics (EFS) collection (see Statistical Table F7)

Sources: APRA; RBA

# Australia's exports are mixed – rural volumes rise

- Australia's exports are heavily reliant on the resources sector.
- In recent times, resources exports have edged lower while services exports have slumped on the back of a decline in international tourism & education
- Rural export volumes were hit two years ago by severe drought conditions but are now in a strong upswing

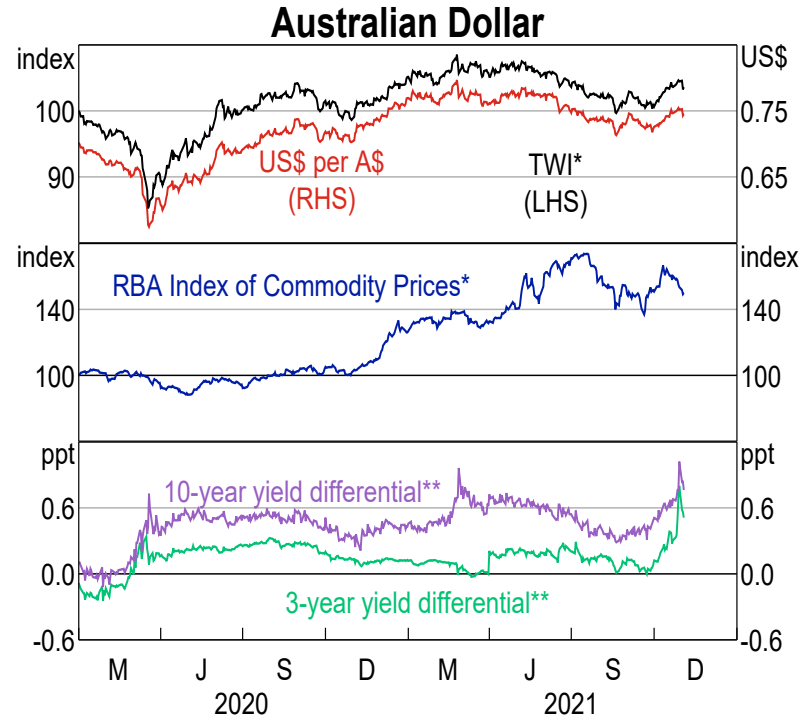


Sources: ABS; RBA



# Aussie dollar has been steady – set to edge lower

- Since the fall in early 2020, the Aussie dollar has been in a range of 71-78 US cents. The key drivers of the Aussie are currently pulling in different directions
- Commodity prices are trending down, most notably iron ore, while the interest rate gap is widening
- On balance it looks like negative influences will prevail – 68 US cents in early 2022

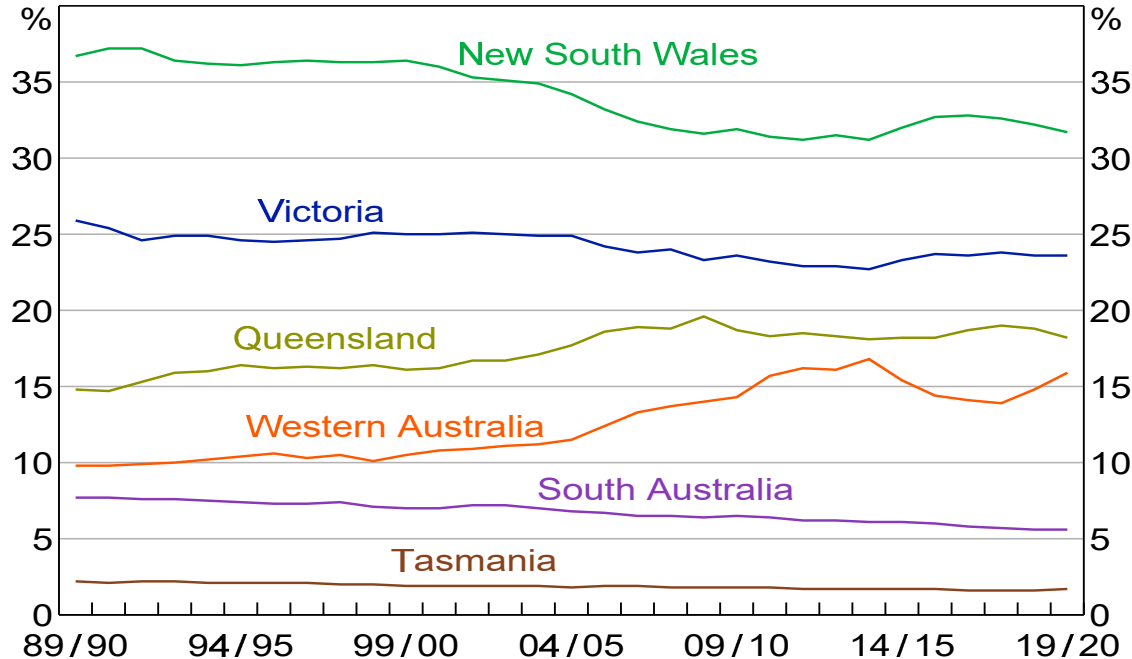


Sources: Bloomberg; RBA

# WA growing in importance – will overtake QLD soon

## State Share of Output

Nominal

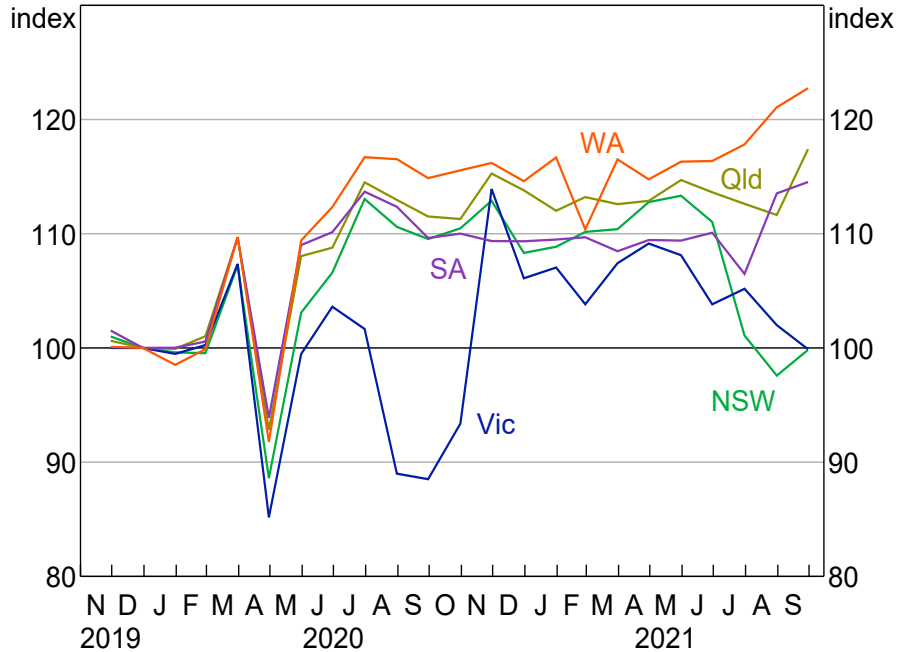


Source: ABS

# WA doing well in lock down

## Retail Sales Values

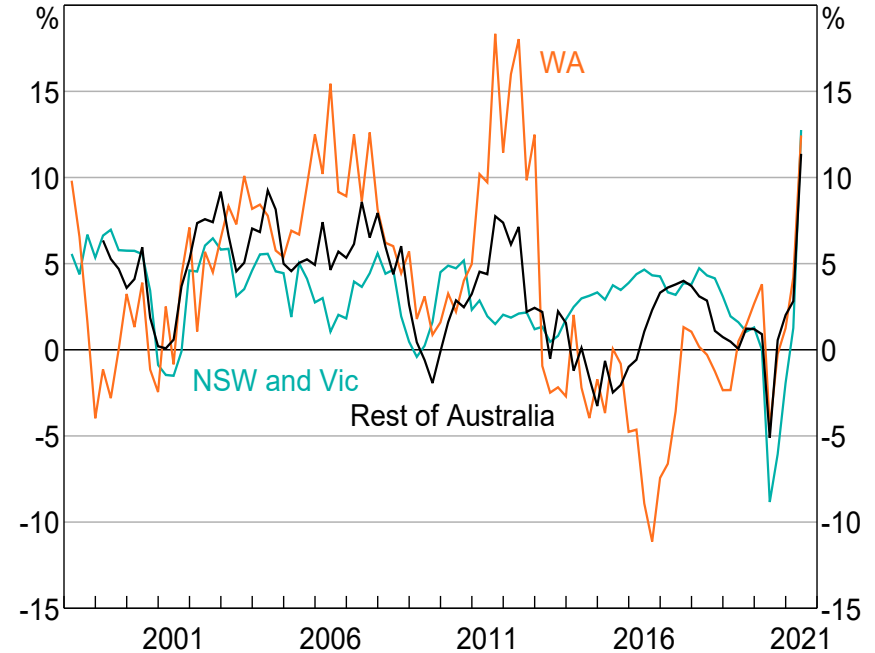
December 2019 = 100



Sources: ABS; RBA

## State Final Demand

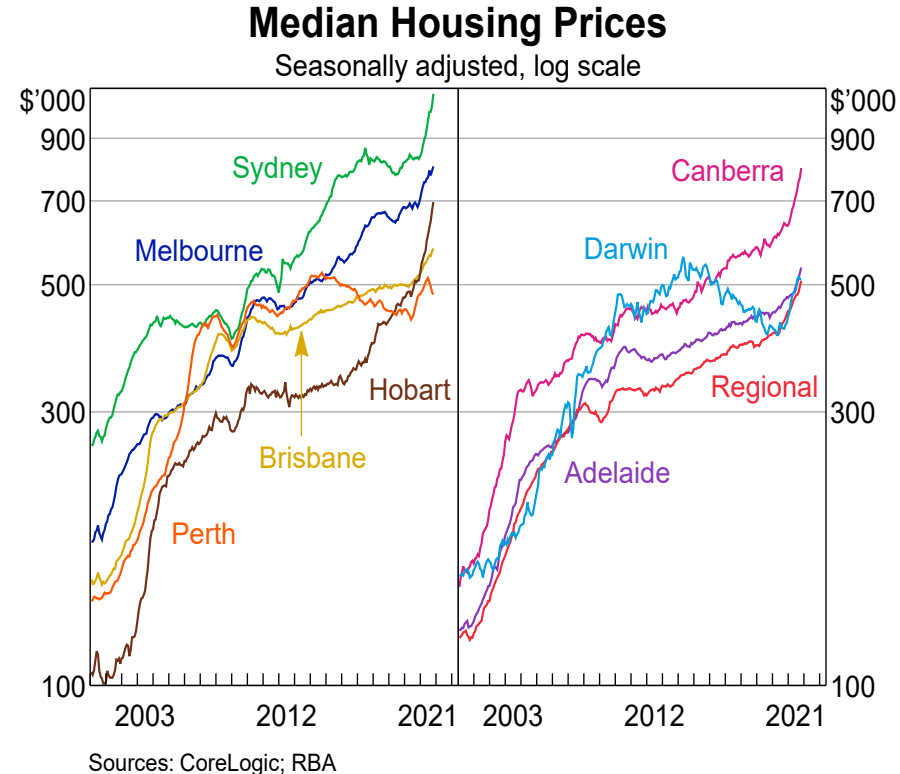
Year-ended growth



Sources: ABS; RBA

# Perth house prices were weak – now recovering

- House prices have been booming over the past year with all cities rising at a strong pace
- The situation in Perth has been distorted by the near decade long period when house prices were flat to lower – the end of the mining investment boom drove this weakness
- Even now, Perth prices are lower in 2013



## Key issues and risks

- We could see a faster economic pick up – inflation & wages even stronger than expected. Unemployment to 4% ... or less
- This would see interest rate hikes in 2022 – watch the labour market data & news of skills shortages for clues
- Will housing top out? That extra supply hitting the market?
- The election – a close run race
- Links with China?