

Australia – Pulling hard on the fiscal lever

Royal Bank of Canada, RBC Capital Markets

Su-Lin Ong (+612) 9033 3088 su-lin.ong@rbccm.com

This report is priced as of market close 21 September 2020

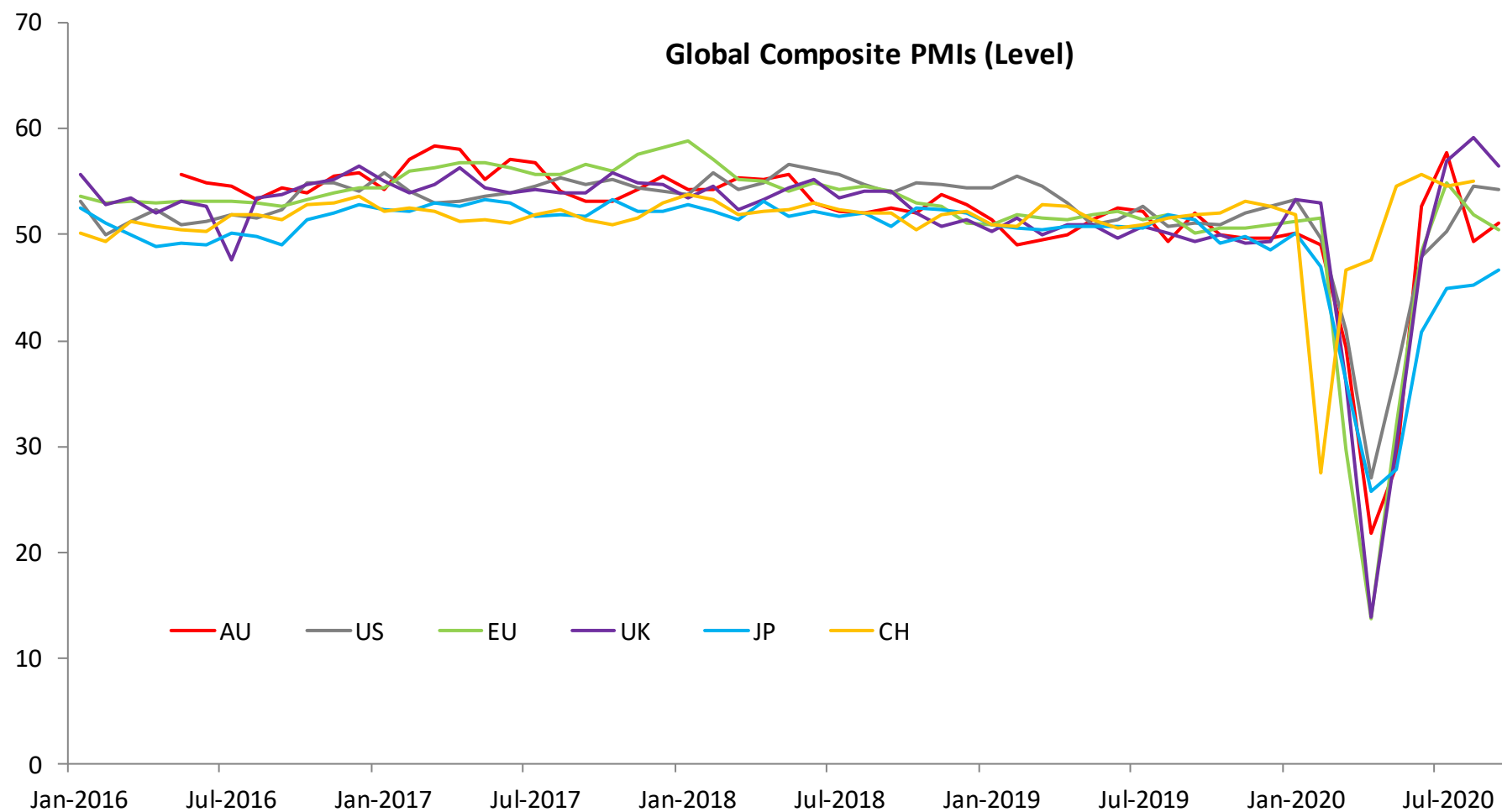
October 2020

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RBC Capital Markets

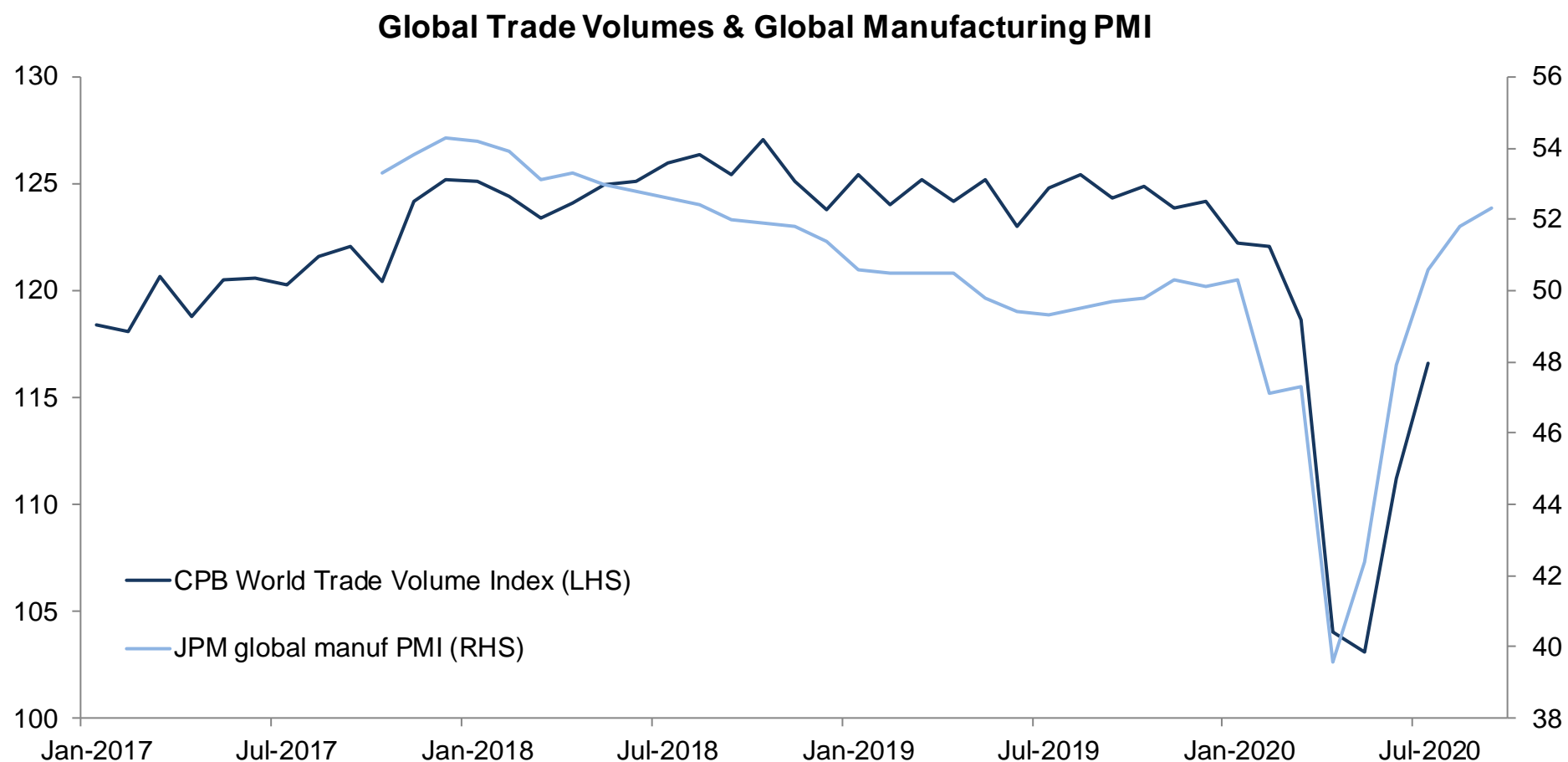
A decent bounce in global activity underway but momentum will ease and the recovery is uneven



Source: Haver, RBC Capital Markets

Asia ex Japan outperforming, EU lagging

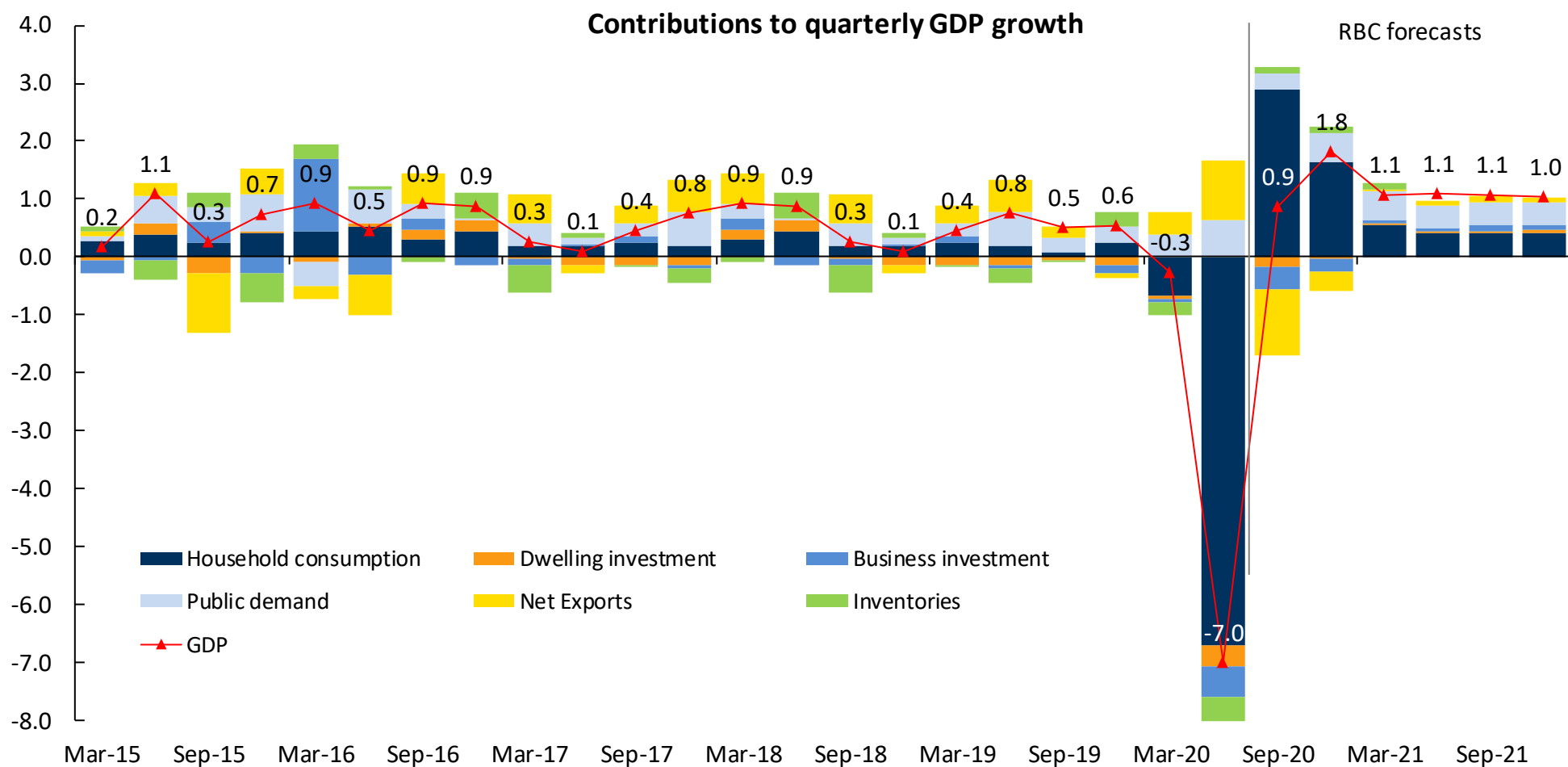
Global trade volumes also recovering and will help sustain the Chinese recovery



Source: Haver, RBC Capital Markets

Chinese demand still lagging with growth mostly driven by production/investment

Australian recovery set back but not derailed by Victoria

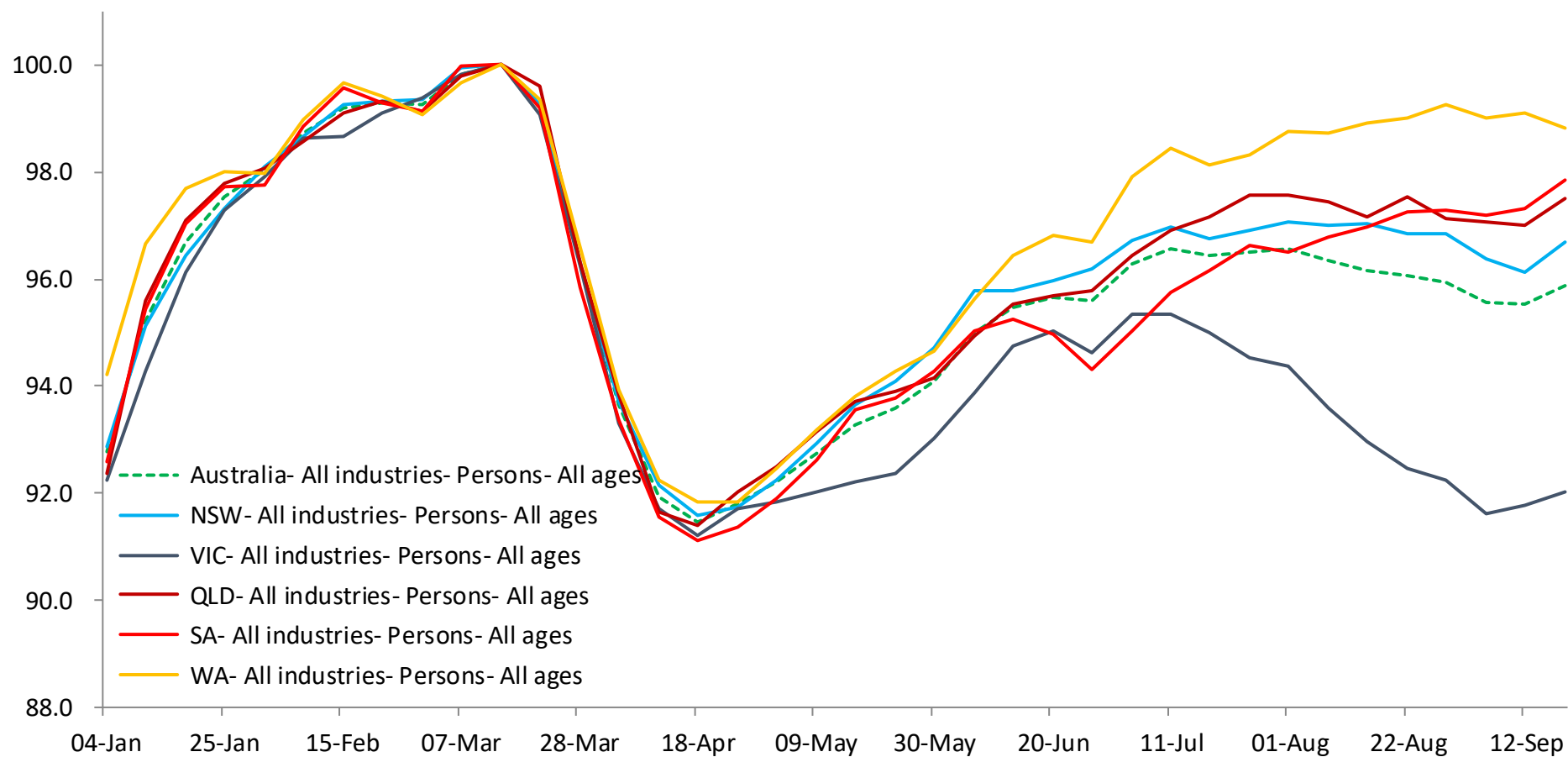


Source: ABS, Haver, RBC Capital Markets

We push growth from Q3 into Q4 and Q1 with budget boost likely

The worst is likely behind us, encouraging signs ex-VIC, some positives emerging

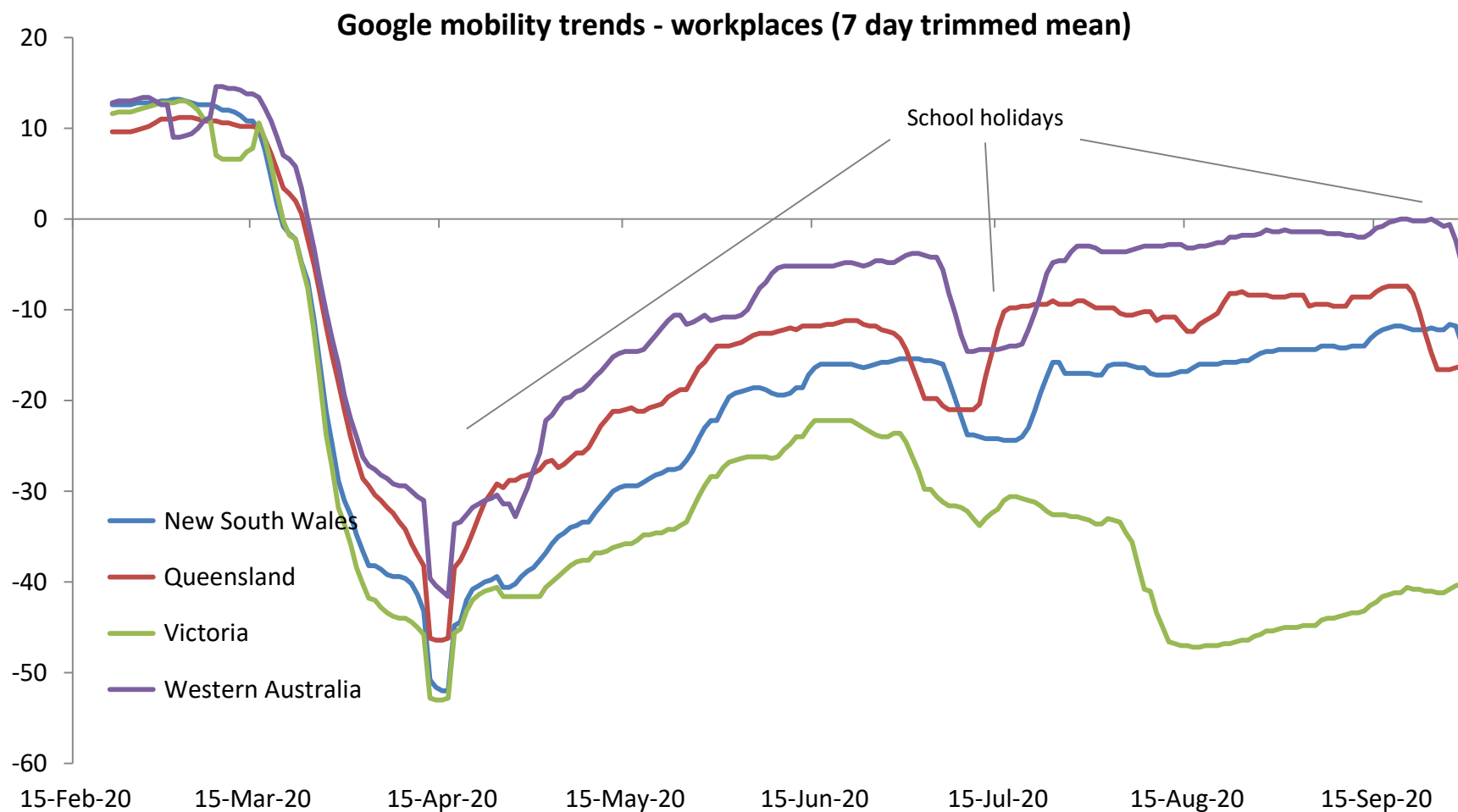
Employee job indices by state/territory



Source: ABS, Haver, RBC Capital Markets

Mostly moving in the right direction

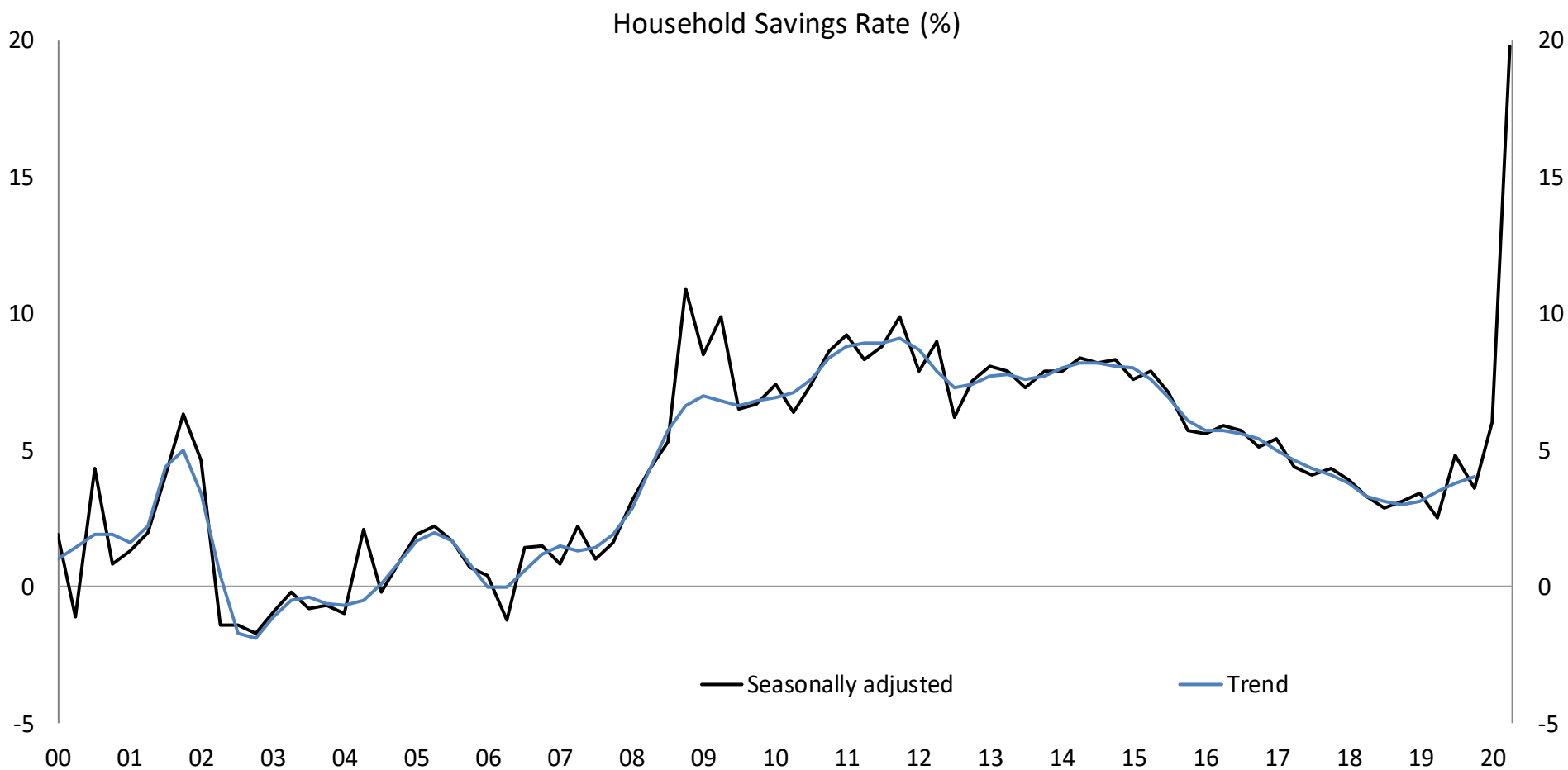
Alternative and timely data also encouraging



Source: ABS, Haver, RBC Capital Markets

Although output unlikely to be fully recouped until 2022

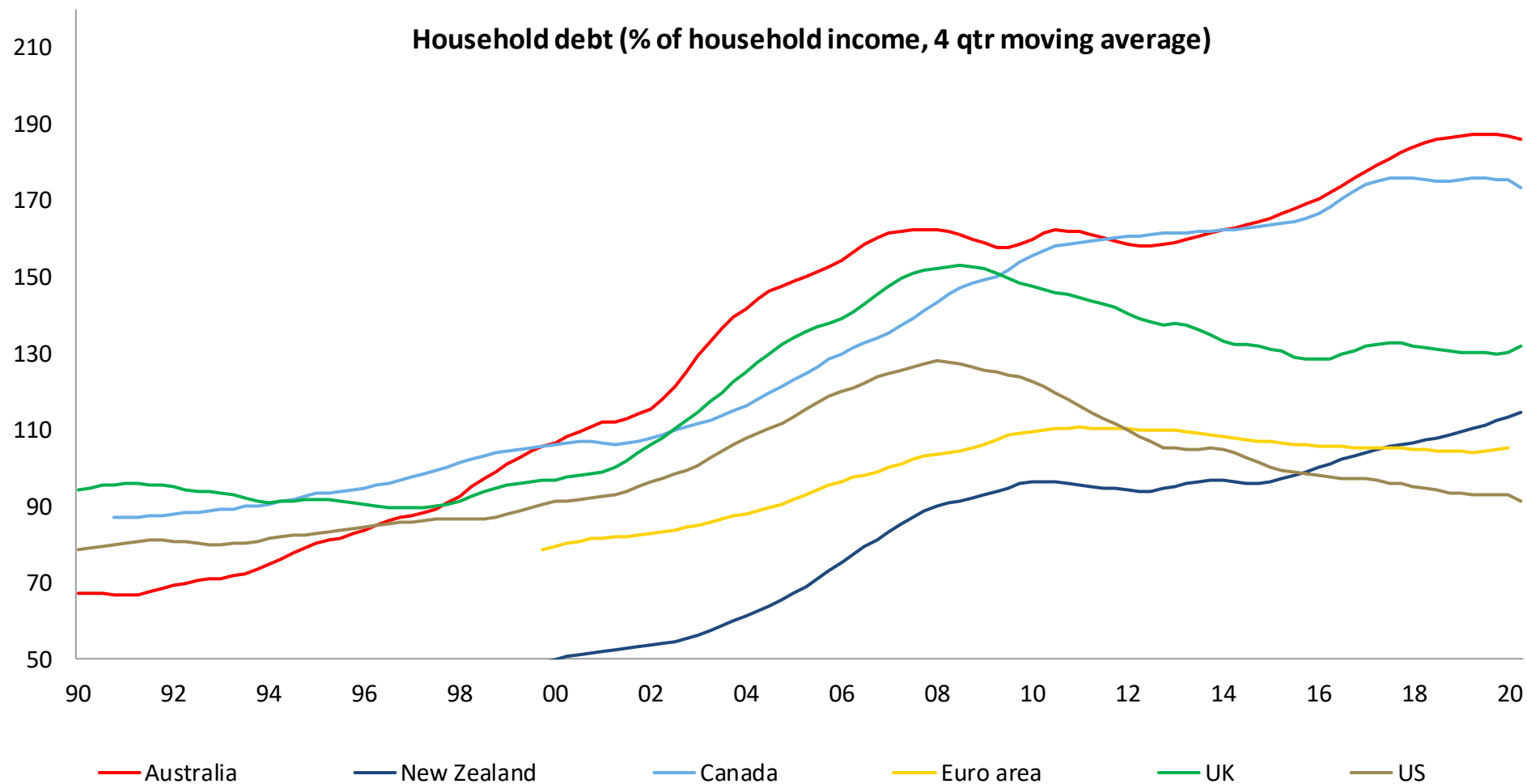
Household savings soars and will provide a buffer



Source: ABS, Haver, RBC Capital Markets

Although much depends on the labour market and confidence

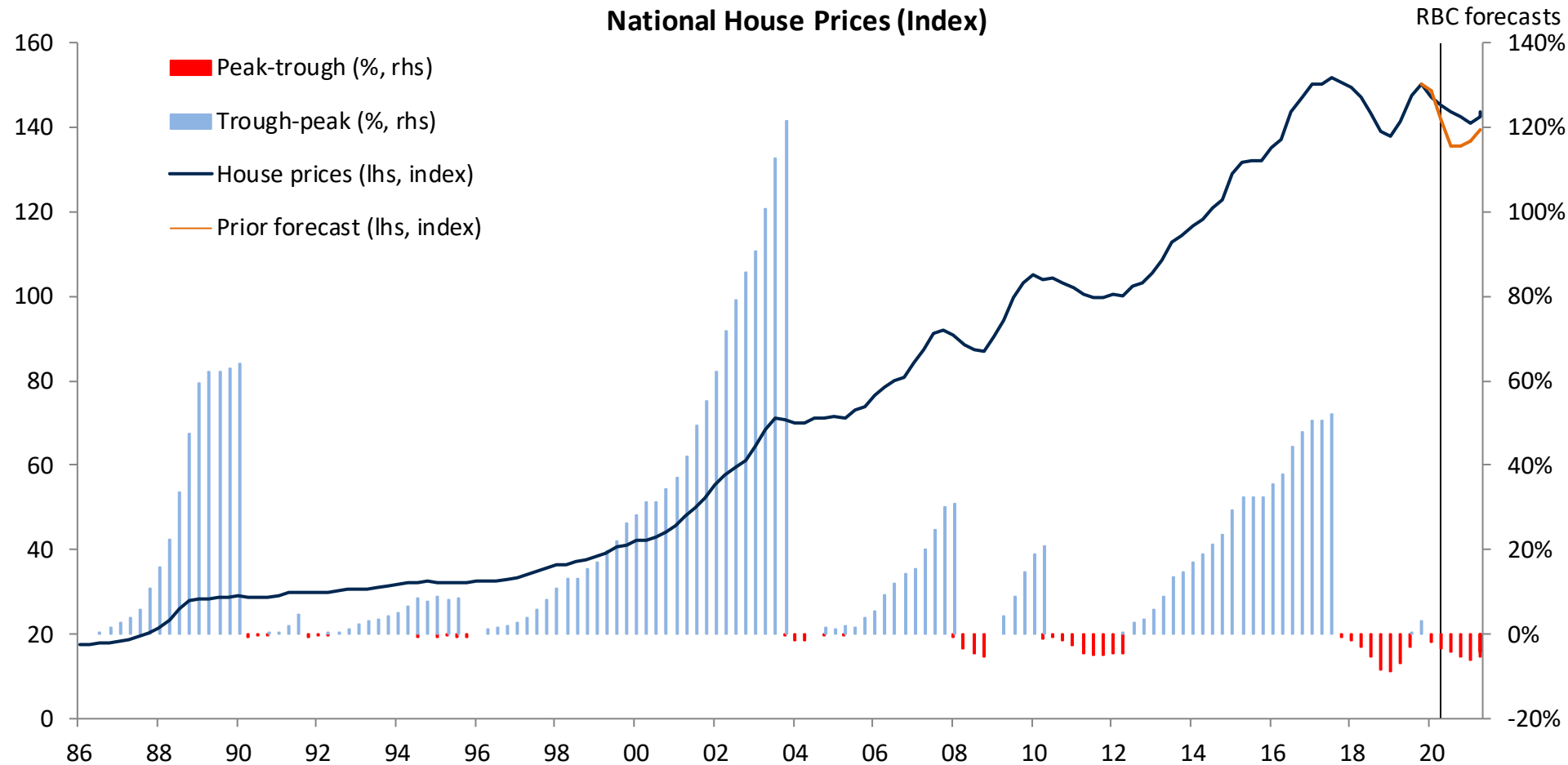
But there are structural headwinds for households



Source: IMF, Haver, RBC Capital Markets

Which will be exacerbated by a weaker labour market

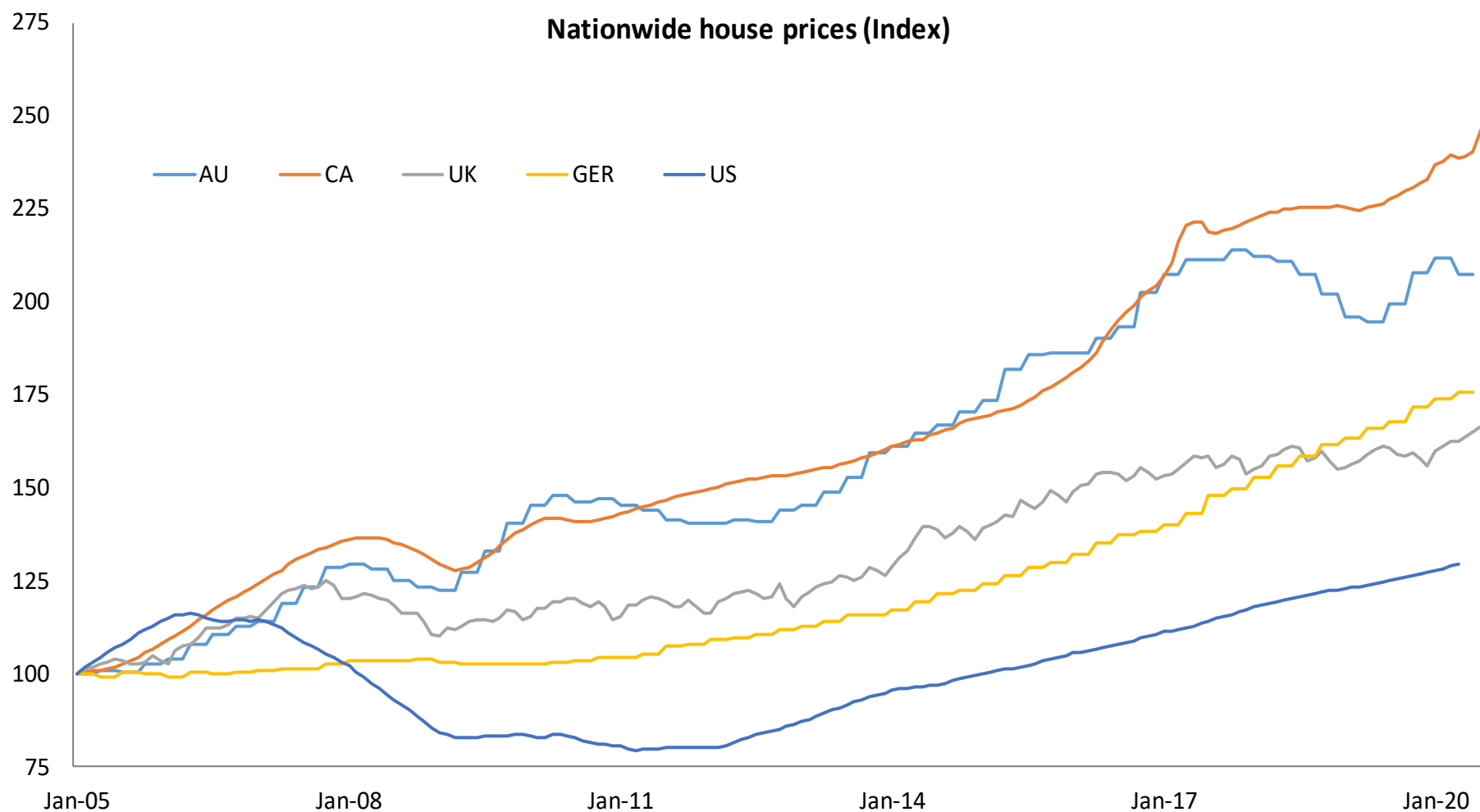
Residential construction to drag, fiscal measures tempering weakness in the housing market



Source: ABS, Haver, RBC Capital Markets

Housing fundamentals still challenging

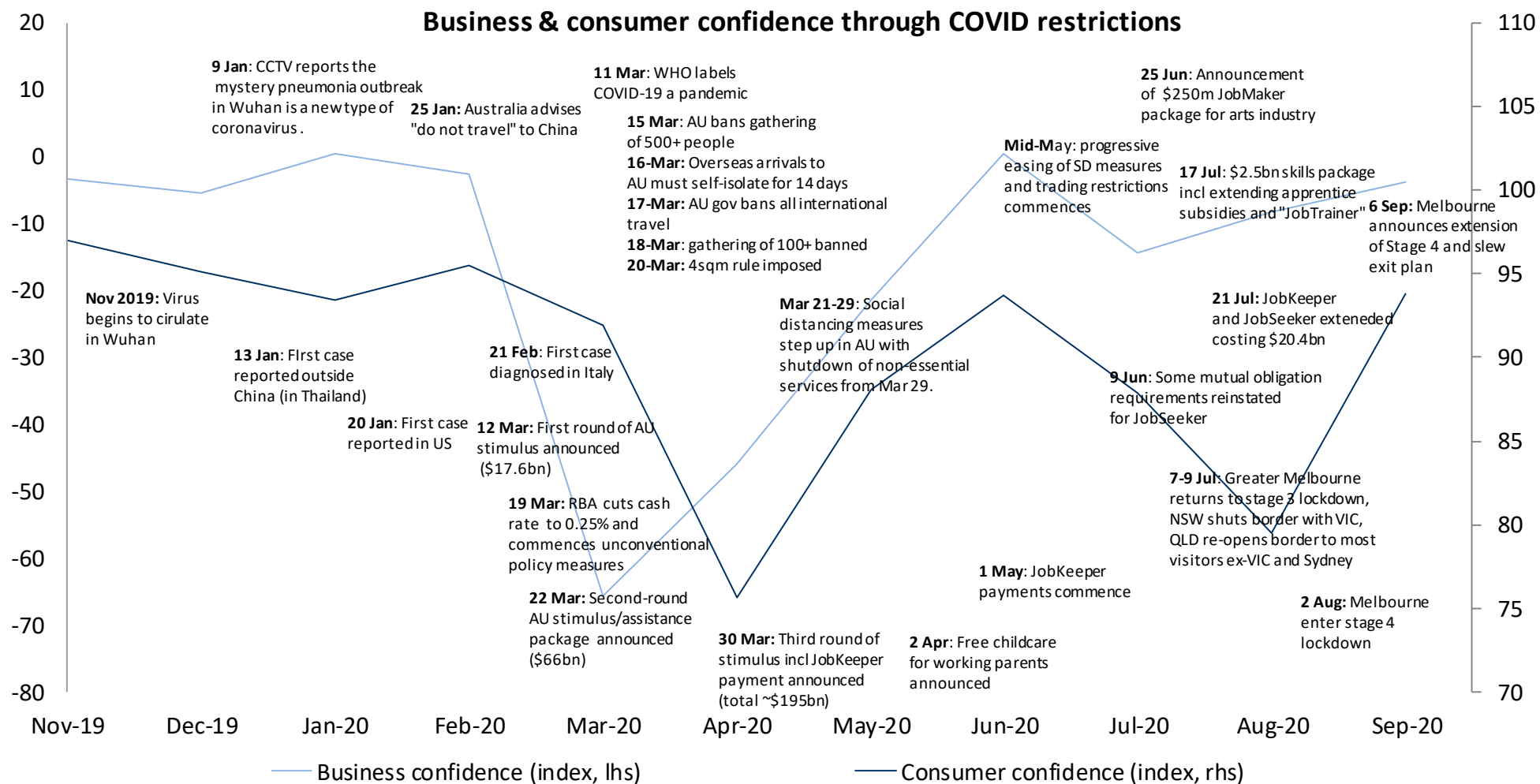
Global house prices also proving resilient



Source: ABS, Haver, RBC Capital Markets

Low rates are the common denominator

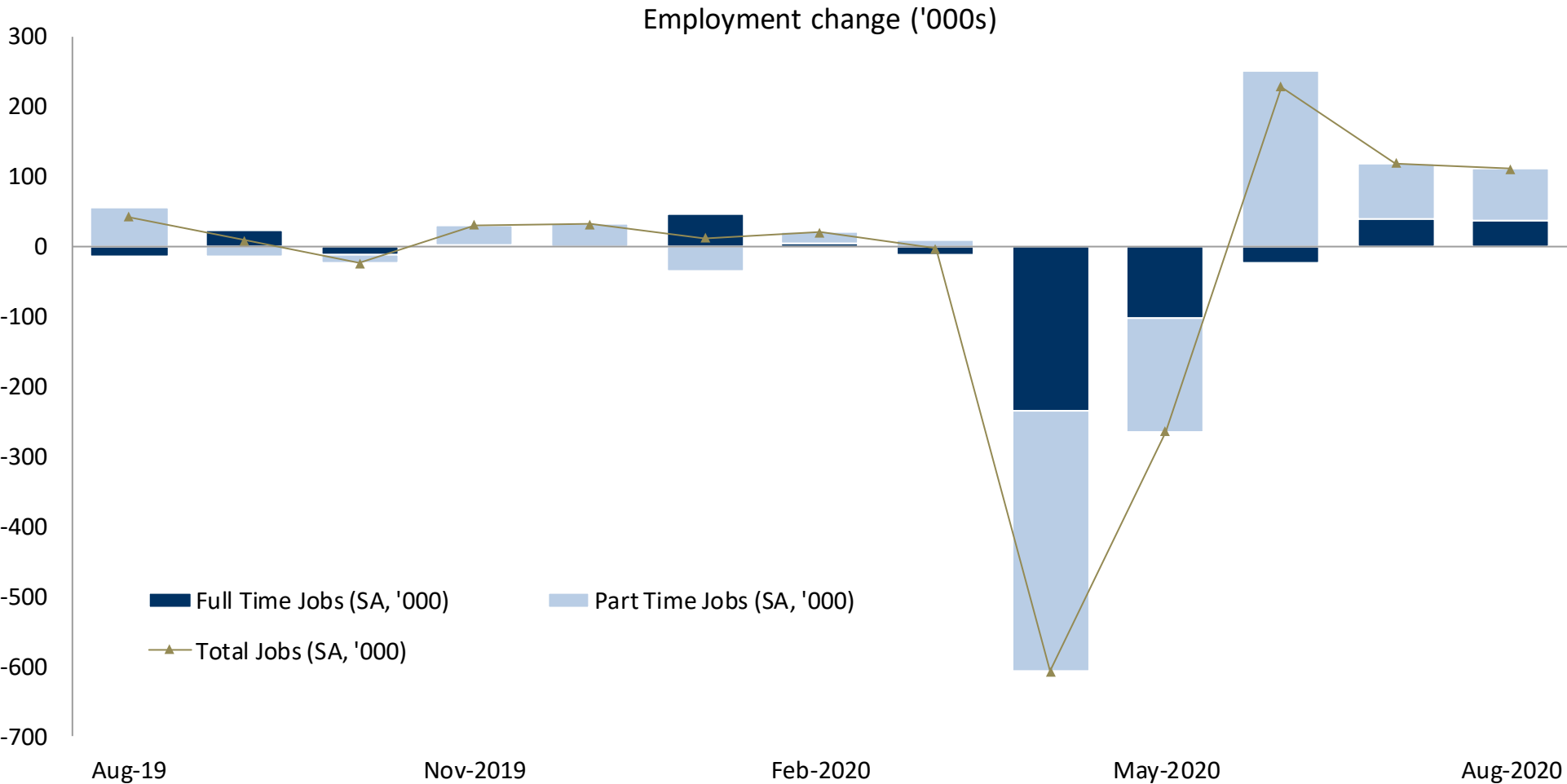
Business investment already weak pre-COVID, confidence is the key



Source: NAB, Westpac, Haver, RBC Capital Markets

Will confidence continue to recover?

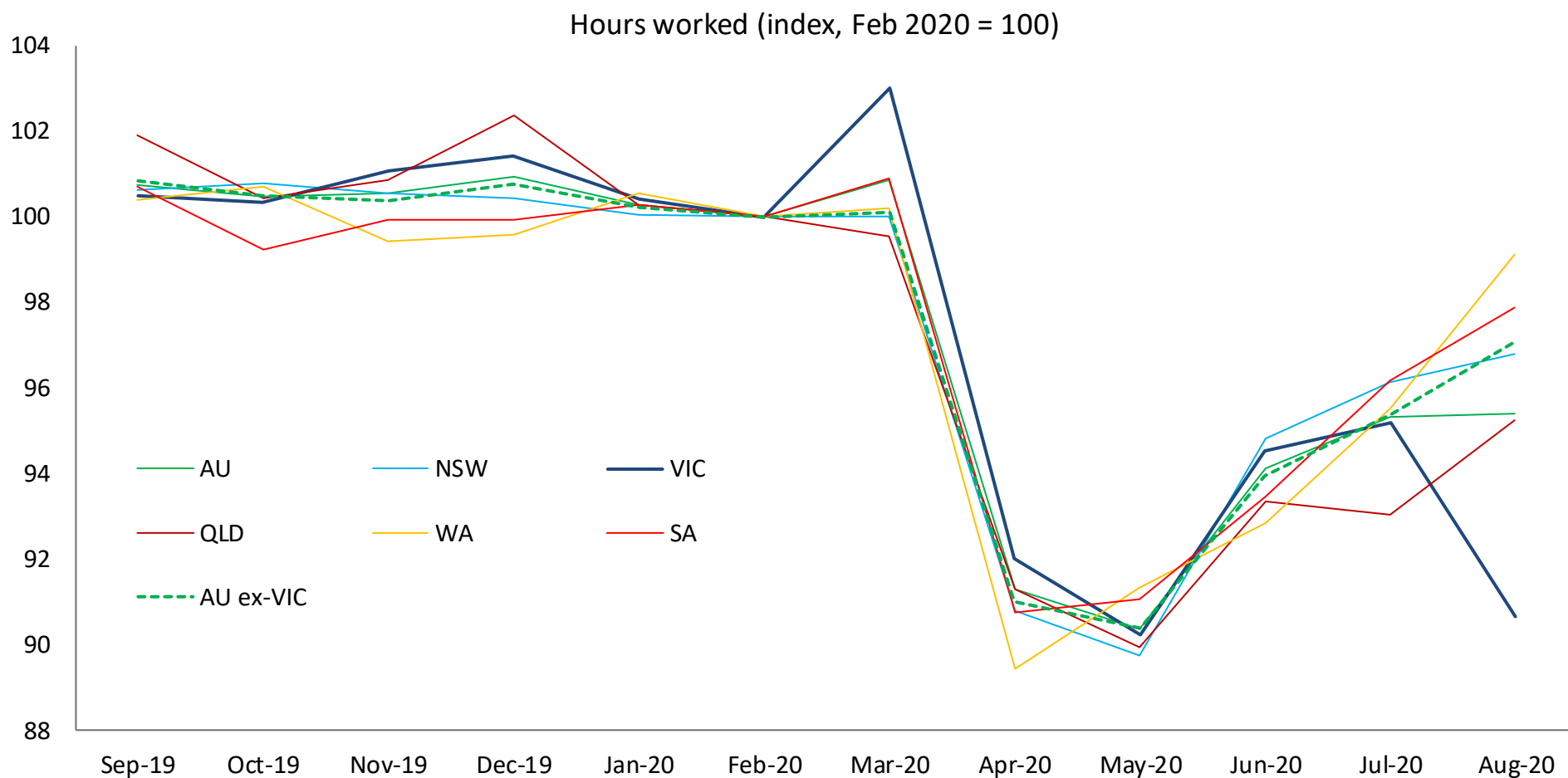
Recovery also underway in the labour market



Source: ABS, Haver, RBC Capital Markets

Just over 50% of jobs have been recouped

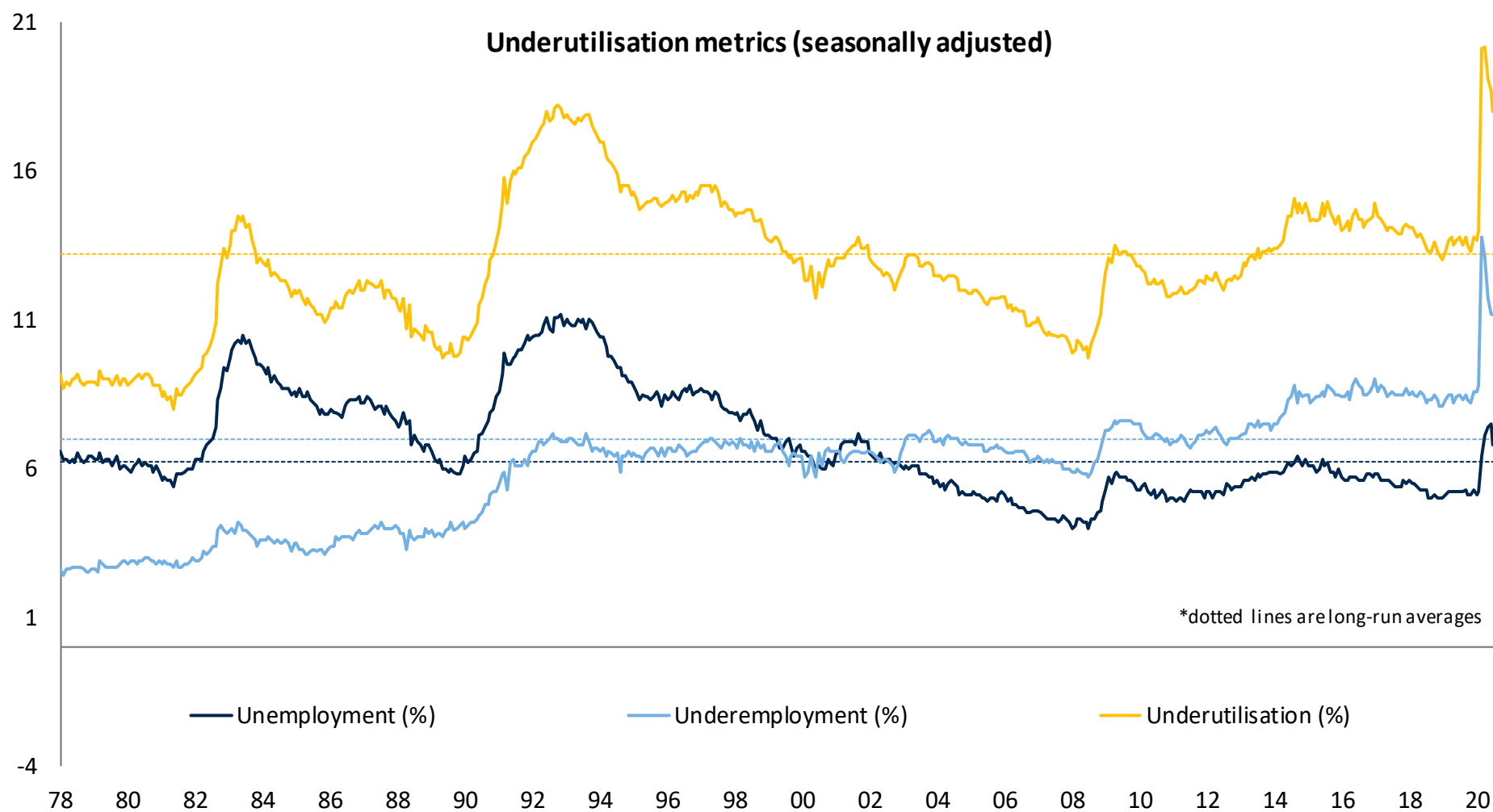
There are encouraging signs ex-VIC



Source: ABS, Haver, RBC Capital Markets

With most States & Territories moving in the right direction

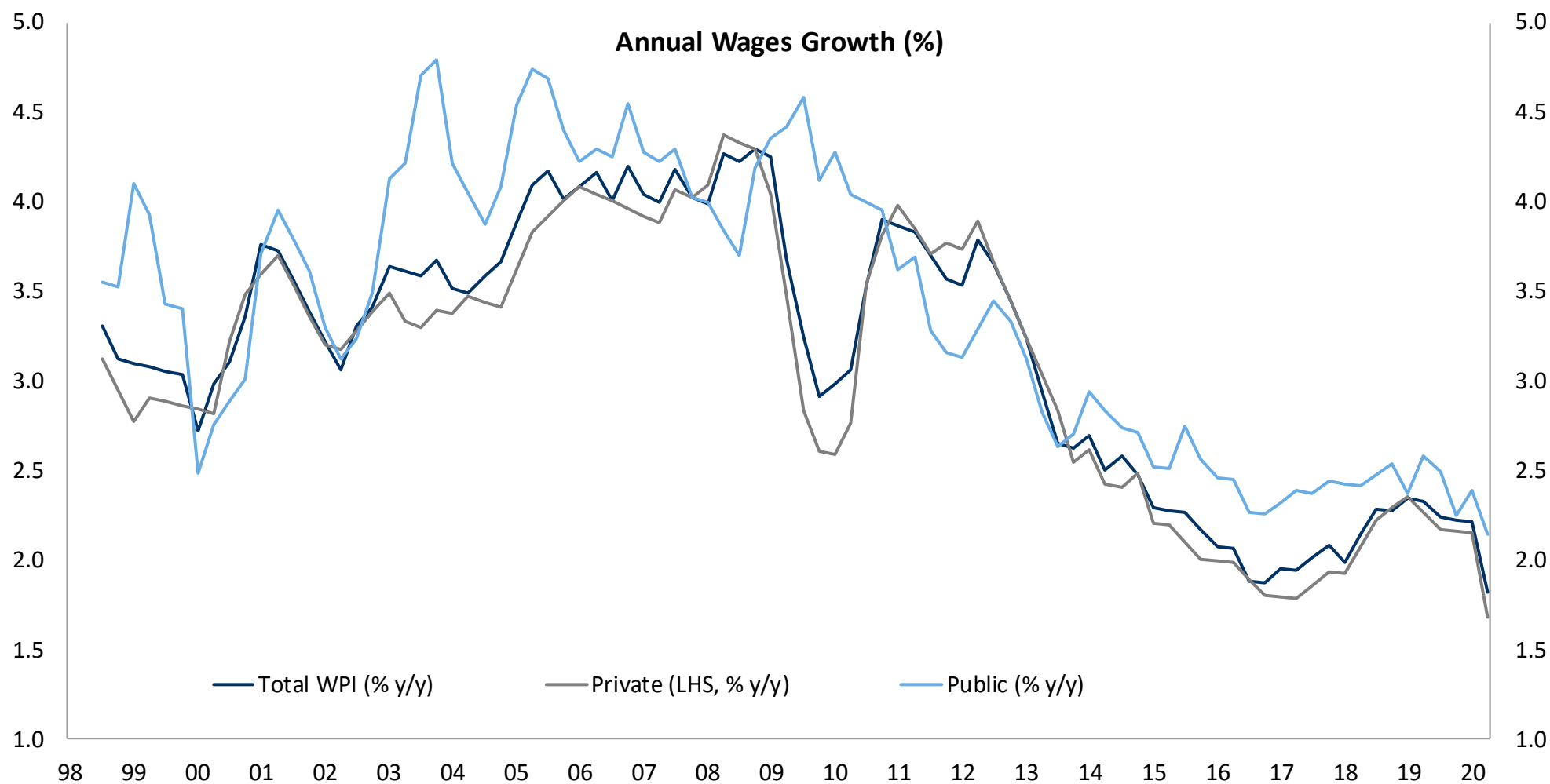
The unemployment rate only tells part of the labour market story



Source: ABS, Haver, RBC Capital Markets

Hours worked, underemployment and participation tell more

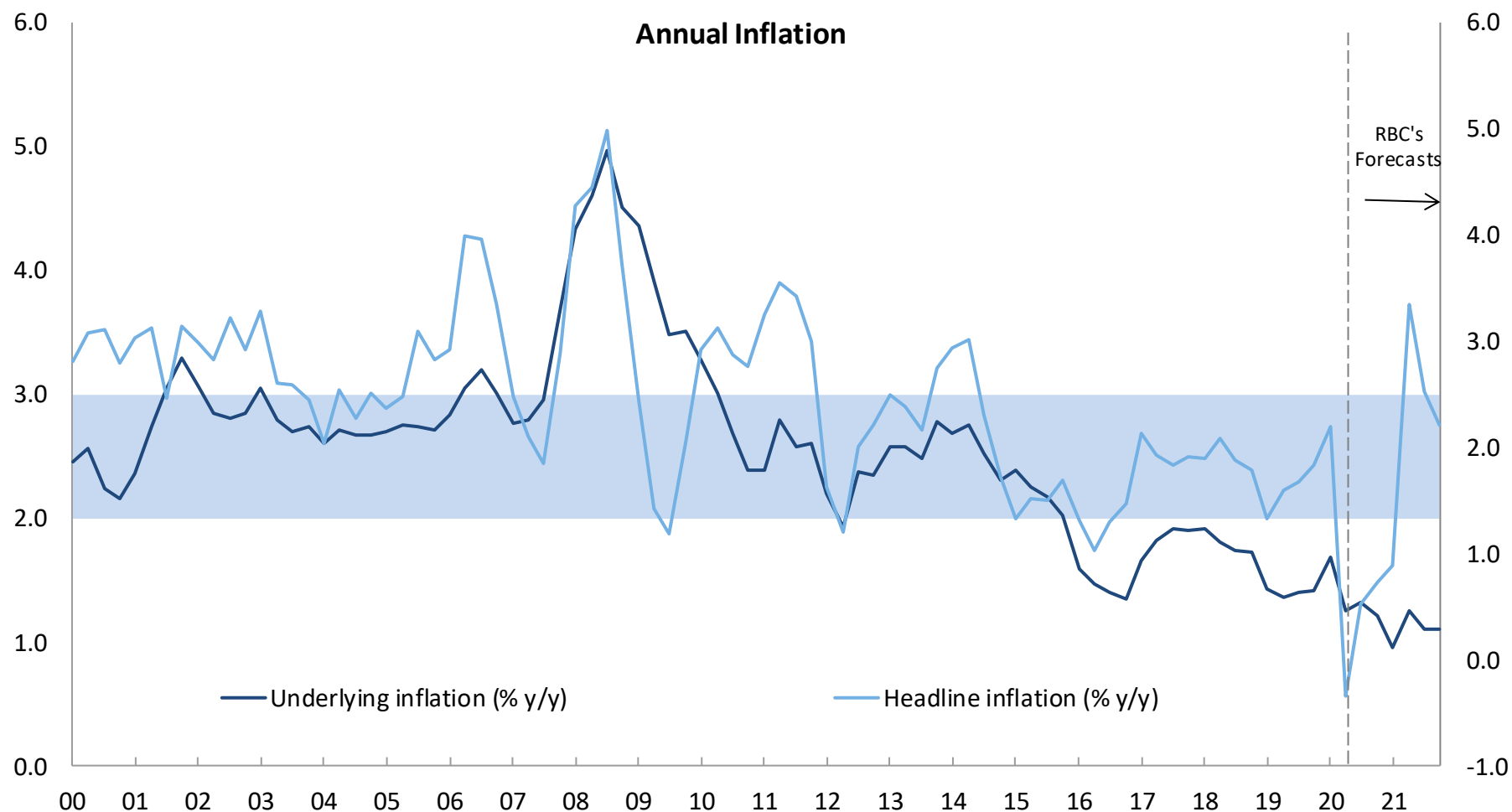
Wages growth to ease further as slack rises and remains elevated



Source: ABS, Haver, RBC Capital Markets

Cyclical and structural headwinds

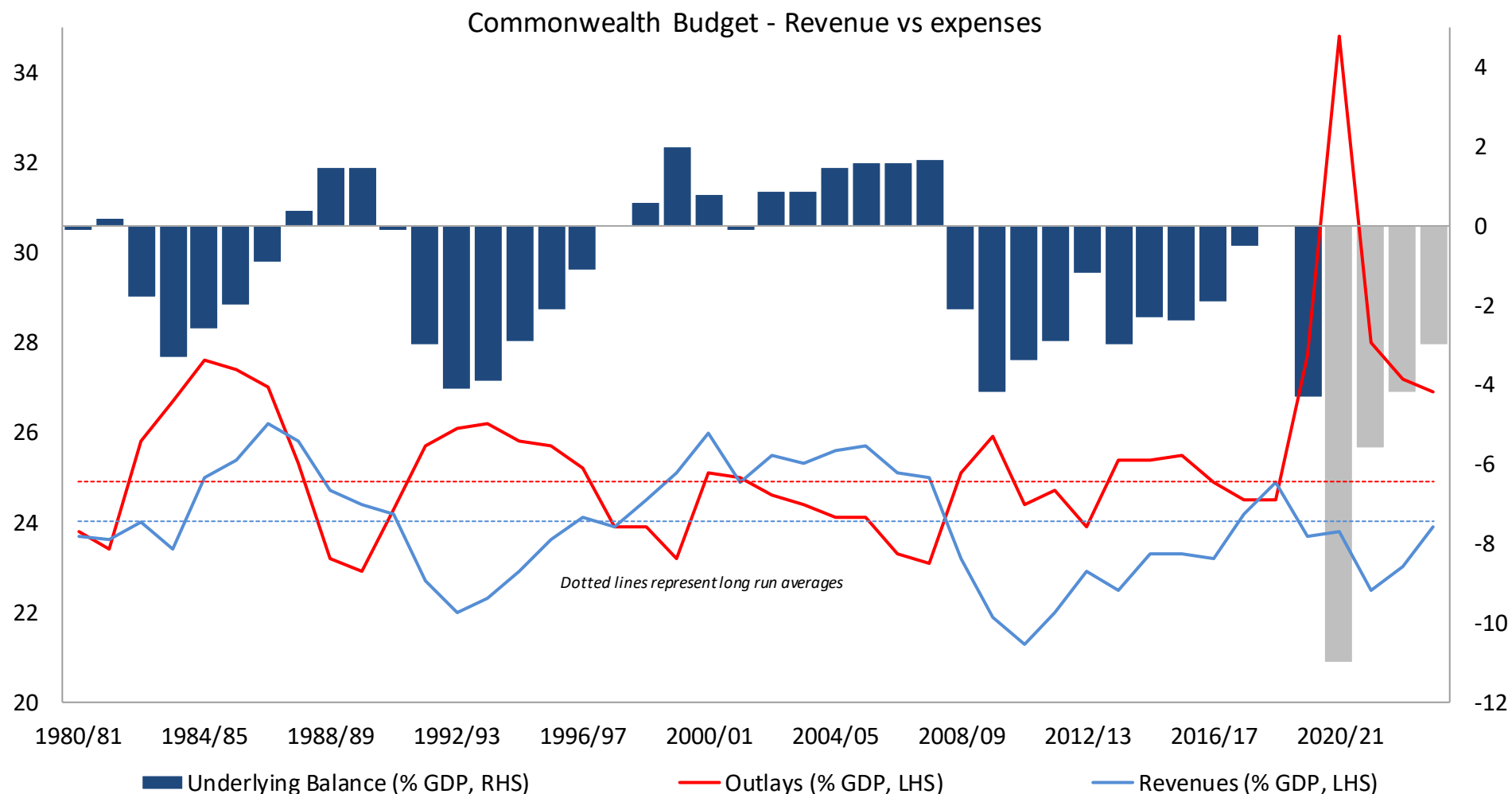
Too much slack, core inflation to ease to 1-1¼%



Source: ABS, Haver, RBC Capital Markets

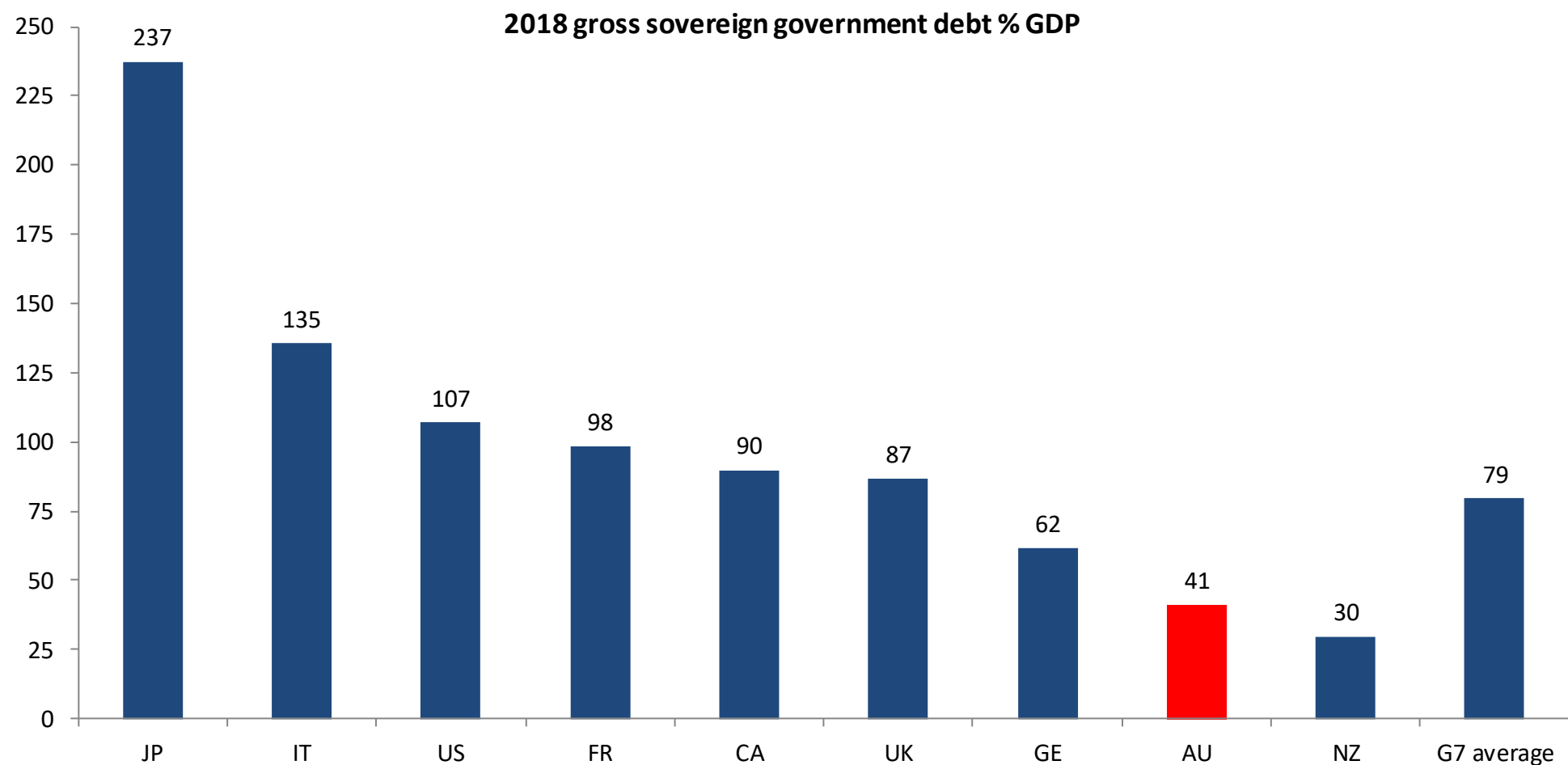
A persistent undershoot of the inflation target

2020-21 Budget - 2 simple aims: to boost confidence and jobs



Source: Commonwealth Budget Papers, RBC Capital Markets

With a mix of measures to lift near term growth as well as longer term potential

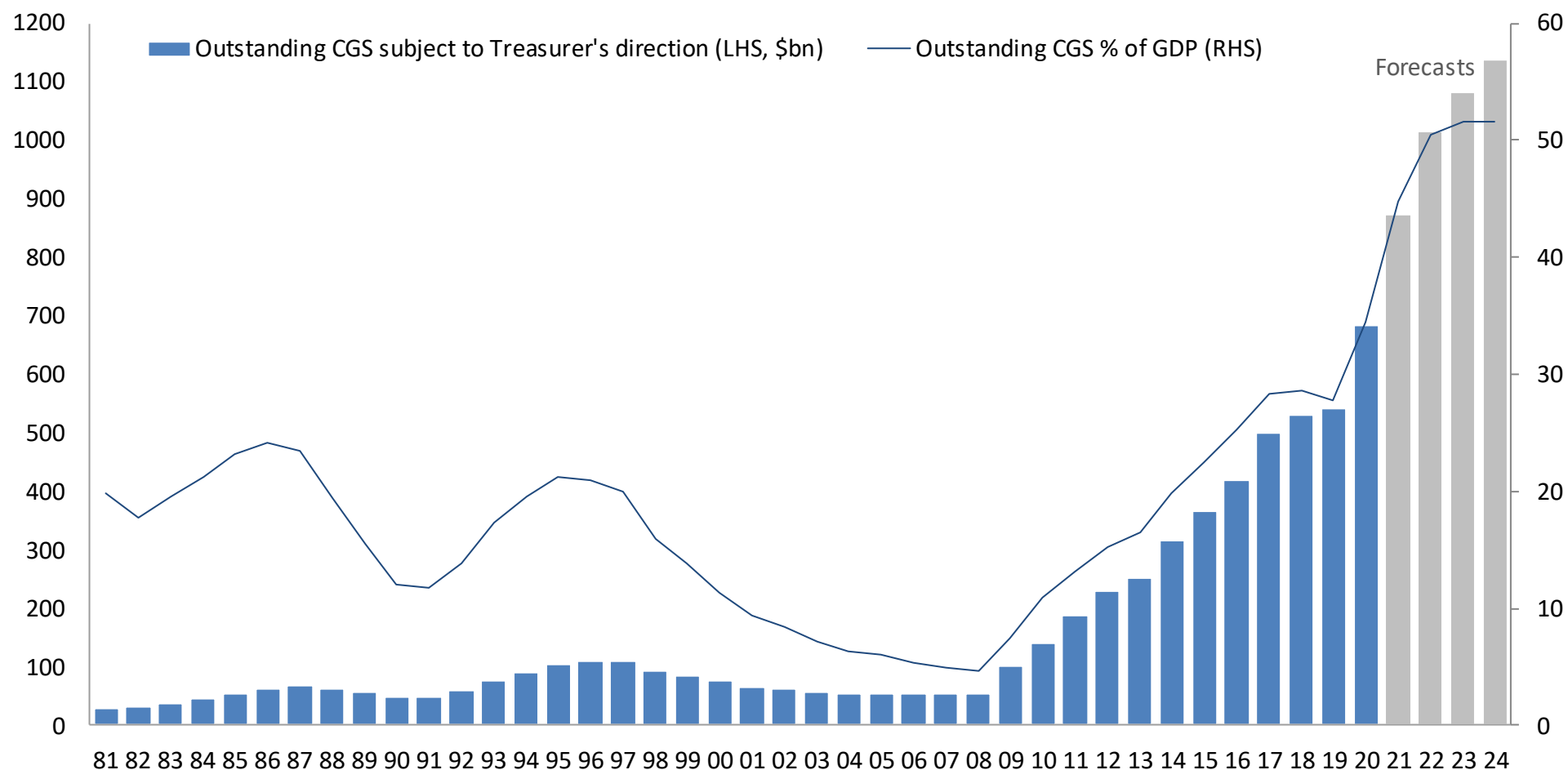


Source: IMF, Haver, RBC Capital Markets

Debt levels low by international standards

Gross debt to exceed 50% of GDP

Outstanding Commonwealth Government Securities (A\$bn)

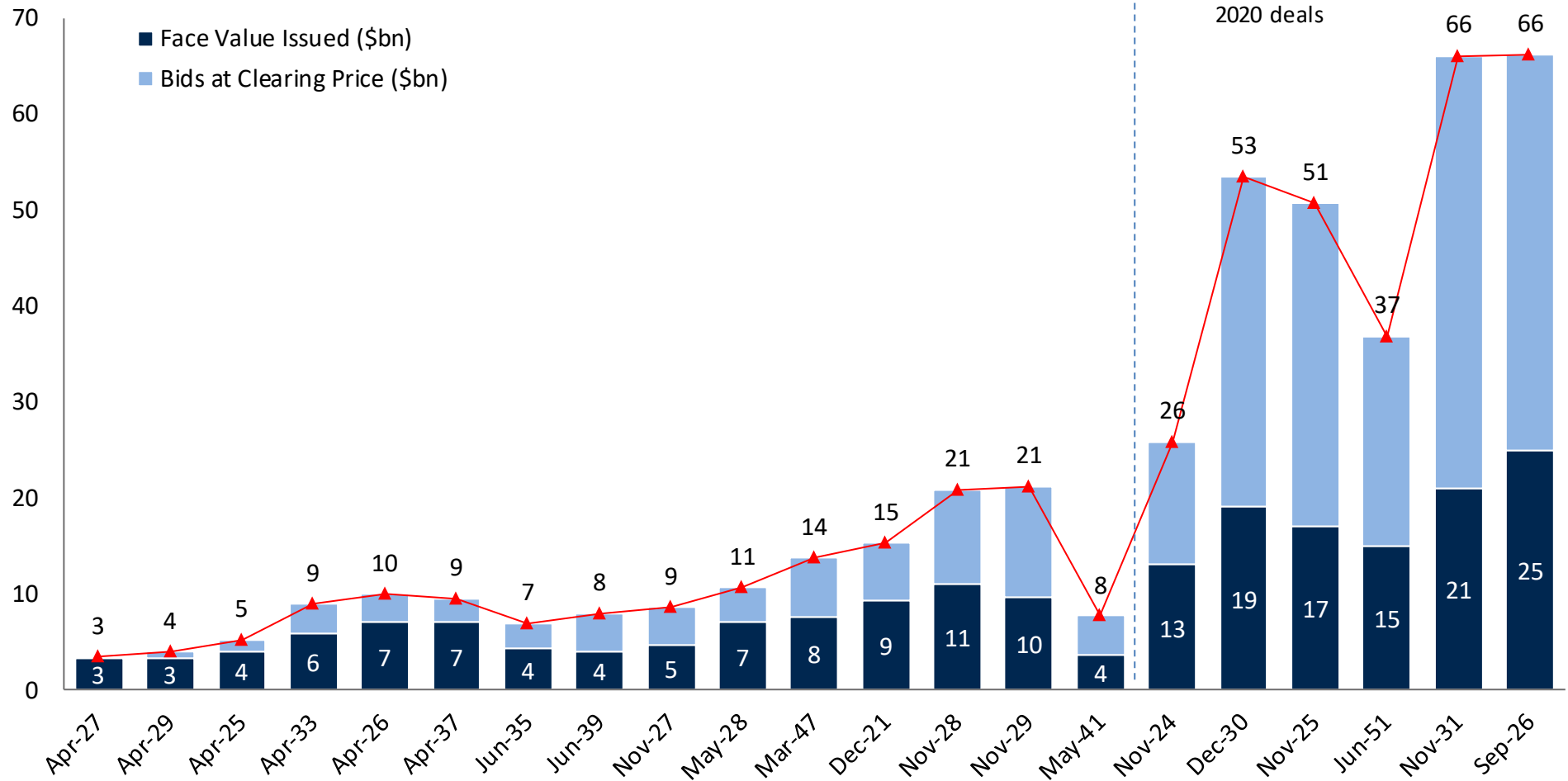


Source: ABS, AOFM, RBC Capital Markets

Elevated bond issuance to continue

Demand for AU bonds remains strong

ACGB deal sizes & bids received

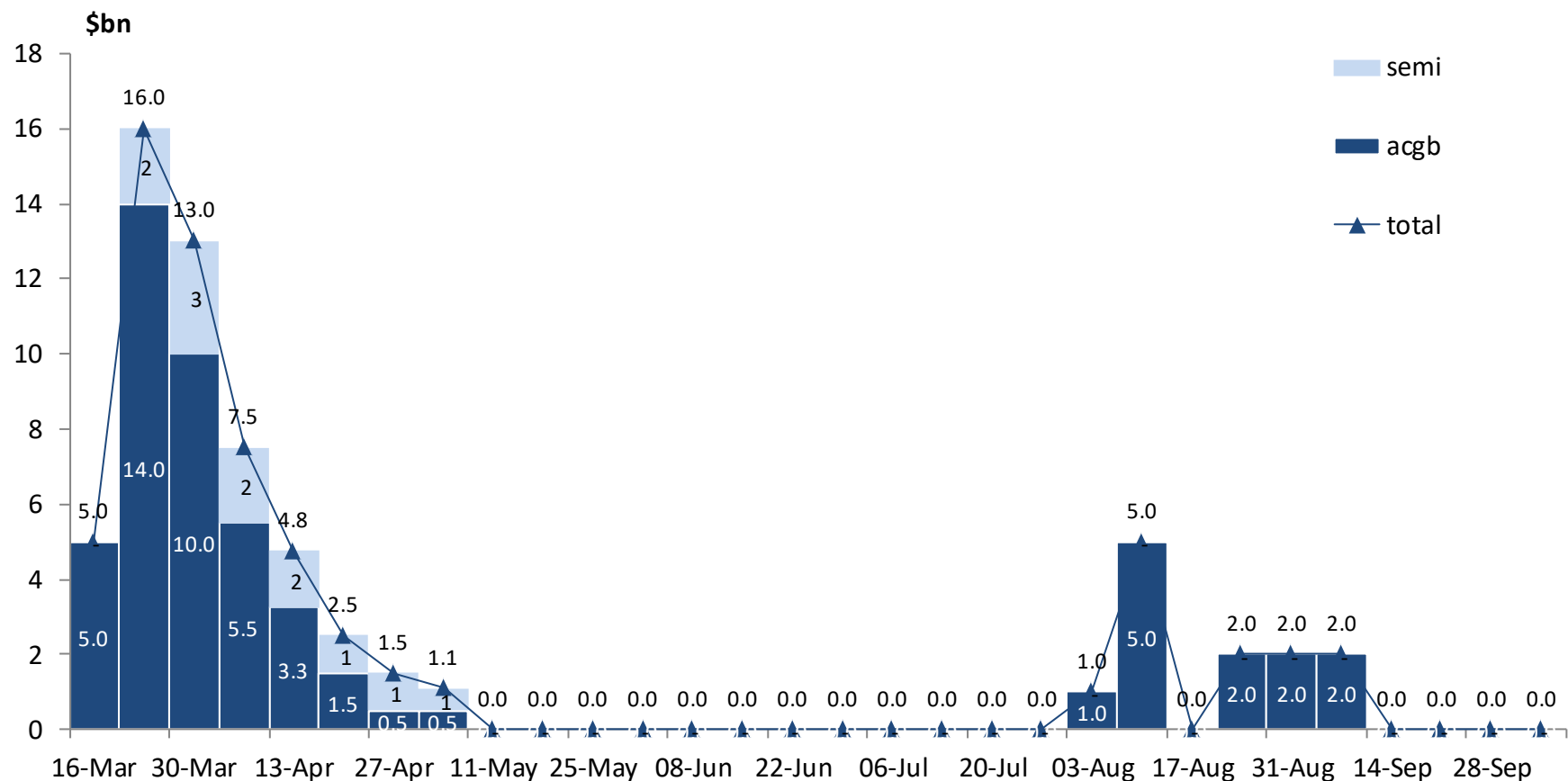


Source: AOFM, RBC Capital Markets

Cheaper and steeper

Increasingly blurry fiscal and monetary policy lines

Weekly RBA purchases of ACGBs and semis



Source: RBA, RBC Capital Markets

Further RBA support likely

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