

Summary

- The economic data has been stronger than expected;
- And this has led to upward revisions to forecasts;
- The biggest uncertainty remains the rollout of the vaccine;
- That uncertainty means a full opening of international borders may be pushed back until at least the second half of next year.

The economy has started the year in a lot better nick than anyone had thought. But the economy rarely travels in a straight line. JobKeeper has come to an end, as have rent and interest payment holidays. It will take a few weeks to get a better understanding of the economic impact from the end of the JobKeeper. If the turbulence hit from the end of JobKeeper is too severe the RBA and Government will almost certainly step in to pilot the economy to a smoother path.

The big 'If' is the future path of the virus. That comes down to the efficiency (and effectiveness) of the vaccine. News about the New Zealand trade bubble was a plus for the tourism industry. The recent Government announcement about the AstraZeneca vaccine is a very significant fly that has flown into the ointment. At a minimum full opening on the international border may now have been pushed back until at least the second half of next year.

Even once the rollout bumps are ironed out a key question will be how long will it take for consumers and firms to fully regain their mojo. The good news is that over time the restrictions have become onerous. But as a society we have been hard-wired to accept that the right number of new COVID cases is zero. So it will be interesting to see how governments' react in the event COVID cases emerge even after a widespread immunisation.

The global economy has also got better in dealing with COVID. The decline of economic activity associated with 'lockdowns' has not been as large as what occurred last year. The improved health and economic outcomes (further turbo-charged by the recent substantial US fiscal package) has led to the IMF to upgrade (again) their 2021 world economic forecast. Upward revisions to Australian economic growth forecasts have also taken place.

The current strength of the labour market is consistent with higher wages growth. But not at the pace that the RBA wants (3%-plus). The RBA again made it clear at its April meeting that it is not looking to change the cash rate until 2024. Everyone agrees that there will be no rate change this year or next. But there is starting to be more debate about the rate outlook in 2023.

A rocky road

The economy has started the year in a lot better nick than anyone had thought possible. Business and consumer confidence is on the up. Jobs ads has rocketed higher. More people are turning up to the Office. People are again complaining about the traffic.

But the economy rarely travels in a straight line. JobKeeper has come to an end, as have rent and interest payment holidays. The aggregate economy will survive but a few firms are likely to be hurt. An ABS survey indicated that firms in the Accommodation, Restaurant and Recreation sectors are least likely to find the current going easy. The same survey indicated that SME's have the thinnest financial buffers. And that JobKeeper was an important source of support for a good portion of firms.

It will take a few weeks to get a better understanding of the economic impact from the end of the JobKeeper. That the economy bounded through the reduced JobKeeper program in September and barely missing a step provides comfort. And if the turbulence hit from the end of JobKeeper is too severe the RBA and Government will almost certainly step in to pilot the economy to a smoother path.

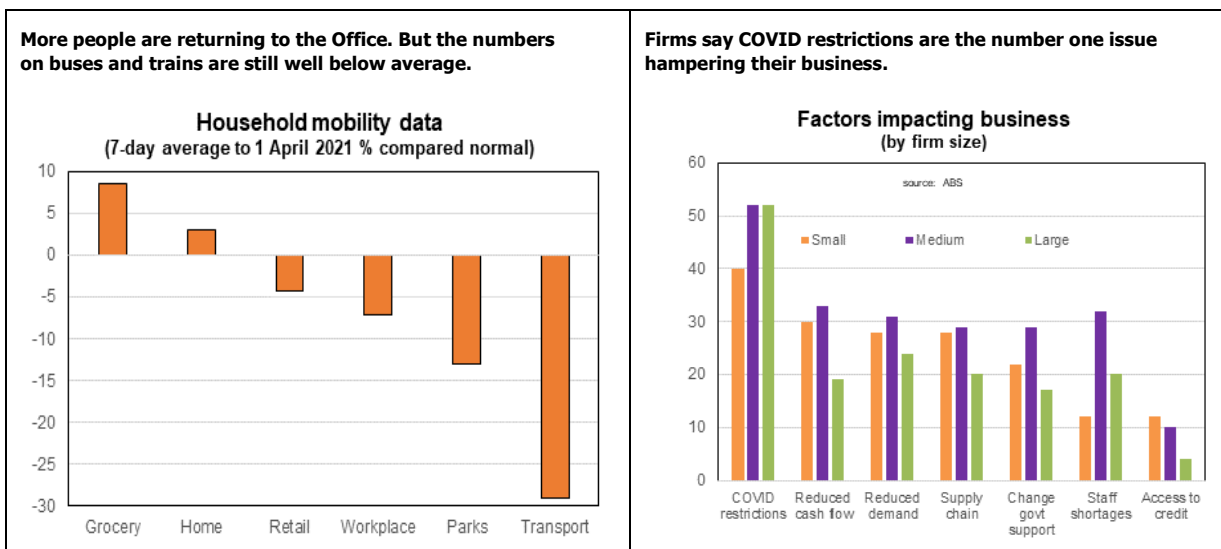
The big 'If' is the future path of the virus. That comes down to the efficiency (and effectiveness) of the vaccine. To date the pace of the rollout could be best described as being 'deliberate', partly hampered by the lack of home-produced vaccines. The hope was that getting the stuff produced locally would allow the rollout process to go smoother.

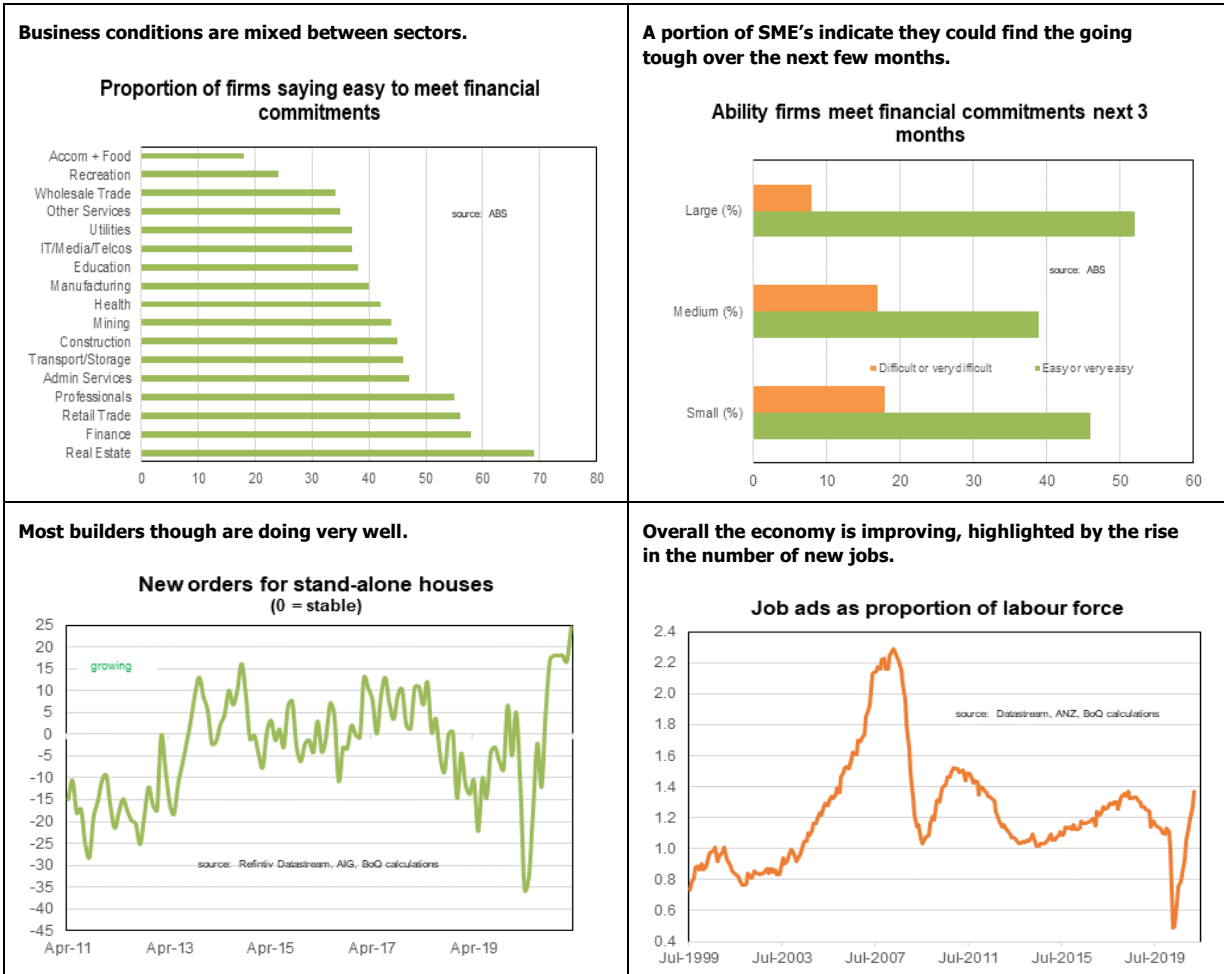
The recent Government announcement that they recommend that people under 50 don't get the AstraZeneca vaccine is a very significant fly that has flown into the ointment. News about the New Zealand trade bubble was a plus for the tourism industry. At a minimum though the full opening of the international border will likely be pushed back until at least the second half of next year.

Even once the rollout bumps are ironed out a key question will be how long will it take for consumers and firms to fully regain their mojo. Certainly some parts of the economy already have. Builders (particularly for standalone housing) couldn't be happier. There were reports about the large number of people hopping on a plane for their Easter holidays. But for some people it will take time to regain the confidence to return to what they were doing pre-COVID.

A related concern is the potential for ongoing restrictions. In the ABS survey firms nominated COVID restrictions as the biggest impediment to their business. Concern about potential border closures is a key factor about why some people are refusing to travel inter-state.

The good news is that over time the restrictions have become onerous. The border closures following the recent Brisbane outbreak finished a lot quicker than earlier episodes. Partly that is because we have a better understanding of how COVID spreads and what needs to be done to combat it. The rollout of the vaccine and the increased capability of each states' testing and tracing capability has also helped. But as a society we have been hard-wired to accept that the right number of new COVID cases is zero. So it will be interesting to see how governments' react in the event COVID cases emerge even after a widespread immunisation.





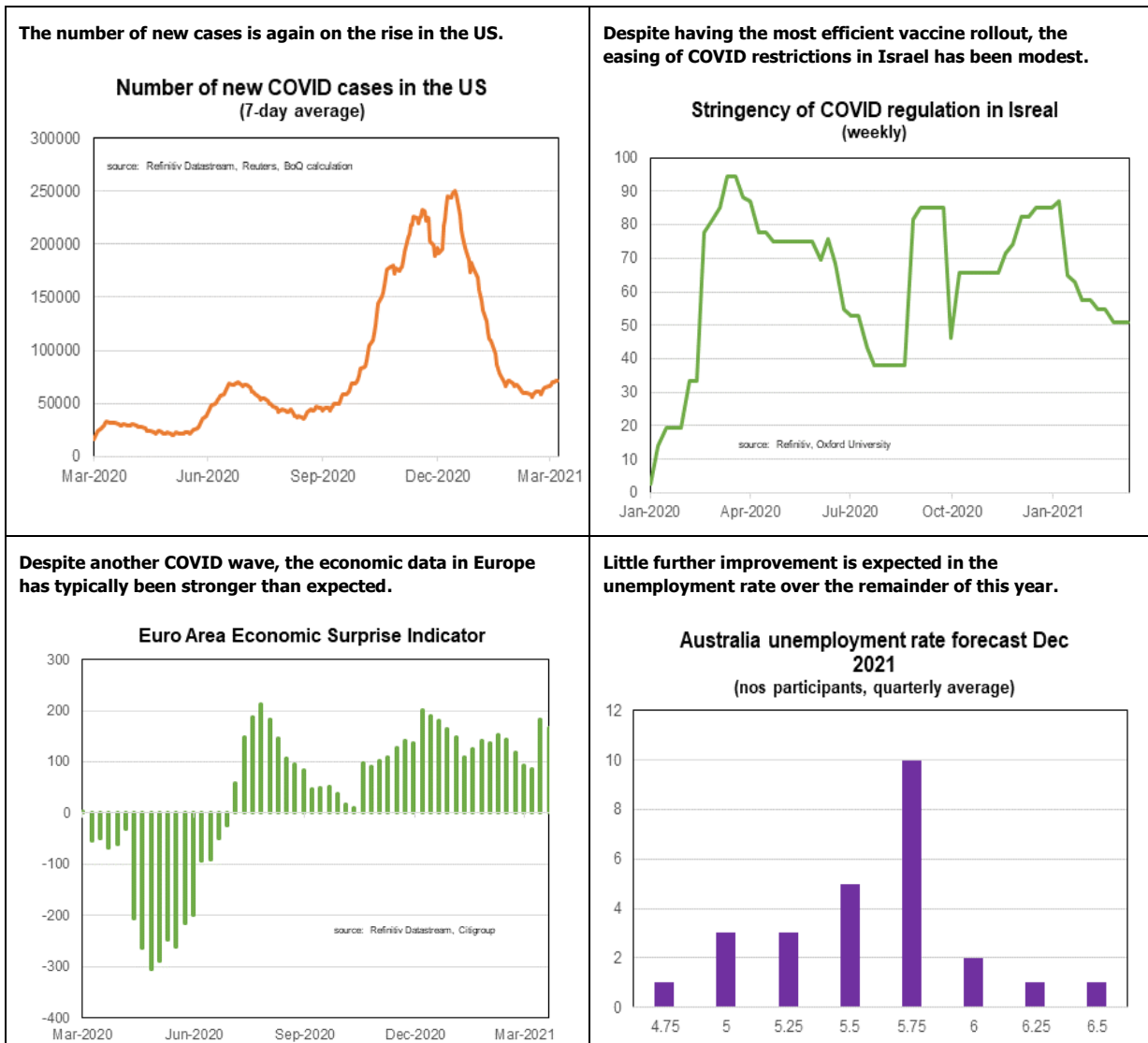
The COVID news globally has been a little mixed in recent weeks. New cases are picking up again in the US. Israel is the poster-child in terms of the efficiency of the vaccine rollout. But the number of new cases there looks to have flattened at a surprisingly high level (at least by Australian standards). This could be the reason why Israeli Government restrictions remains relatively high.

Nonetheless, the global economy has also got better in dealing with COVID. The decline of economic activity associated with 'lockdowns' has not been as large as what occurred last year. European economic data has consistently been stronger than expected in recent months despite fighting a new wave of virus cases.

The improved health and economic outcomes (further turbo-charged by the recent substantial US fiscal package) has led to the IMF to upgrade (again) their 2021 world economic forecast. Upward revisions to Australian economic growth forecasts have also taken place. Despite the more upbeat economic view a recent AFR survey of economists indicated that the unemployment rate would be around its current rate at year-end (5.75%). The range of forecasts though had a distinct downward bias. The most probable reason for expectations of a stable unemployment rate is concerns about the impact of the end of JobKeeper on the labour market.

ECONOMIC UPDATE

PETER MUNCKTON – CHIEF ECONOMIST
WEEK ENDING 9TH APRIL 2021



The current strength of the labour market is consistent with higher wages growth. But not at the pace that the RBA wants (3%-plus). At its current trajectory it is unlikely that wages growth will hit that mark before H2 2023.

The RBA again made it clear at its April meeting that it is not looking to change the cash rate until 2024. Everyone agrees that there will be no rate change this year or next. But there is starting to be more debate about the rate outlook in 2023.

We live in interesting times.

Regards,

Peter Munckton

**Chief Economist
Bank of Queensland**