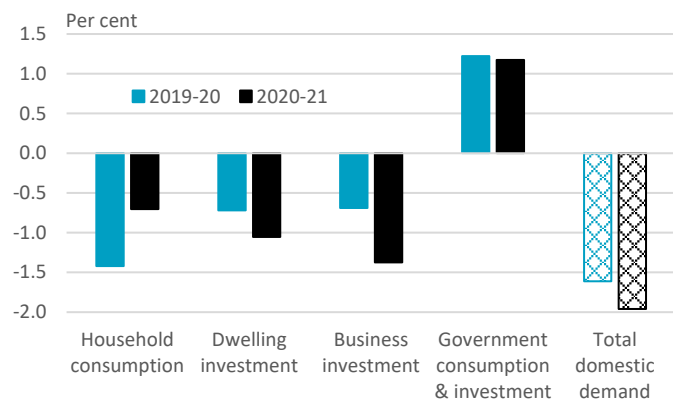


# ASFA Economic Snapshot: week ending 31 July

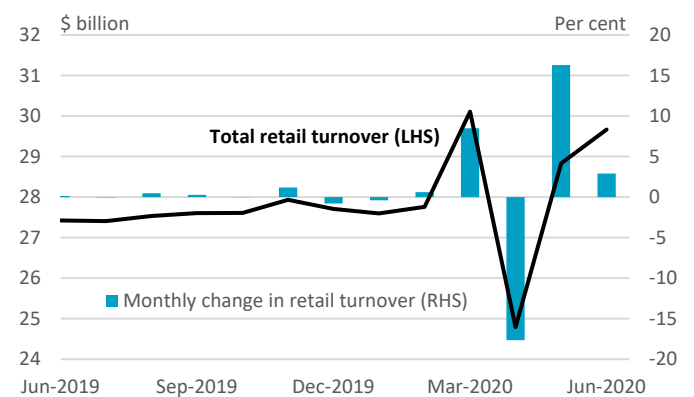
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

## Domestic demand forecast to fall in 2020-21



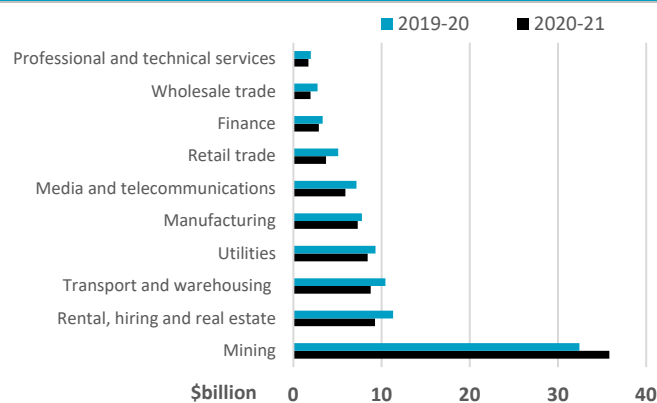
As noted in last week's edition, Treasury has updated its forecasts. For growth in domestic demand, this chart shows contributions from each component (in effect, estimates are *weighted* growth rates). For 2020-21, the key driver of the fall in demand is private investment. More broadly, the deteriorating conditions in Victoria and the prospect of wider lock-downs suggests Treasury's forecasts may be optimistic.

## Household consumption to remain weak



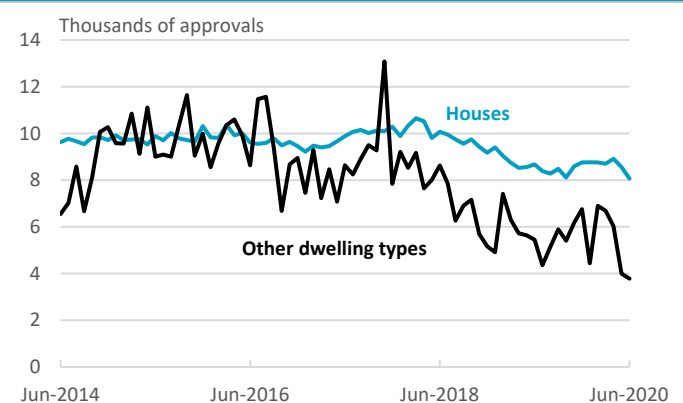
Retail spending by households represents about 30% of their total consumption. In June, retail spending (unadjusted for inflation) rose by 2.4%, following 3 months of heightened volatility. Treasury's forecast for lower consumption in 2020-21 (previous panel) reflects expected persistent weakness in household confidence and incomes, and lower household wealth from expected falls in house prices.

## Broad-based falls in non-mining investment ...



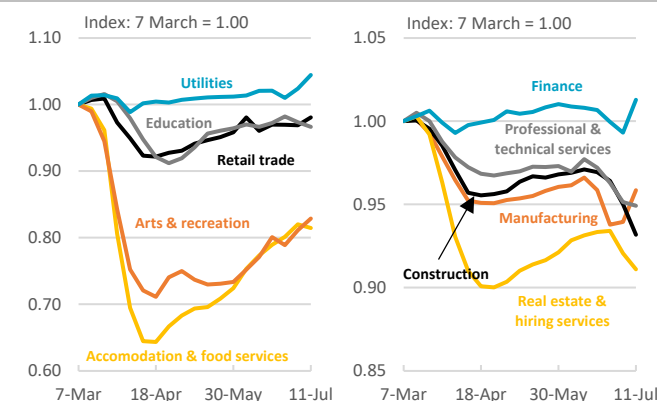
This chart shows firms' expectations for their capital expenditure in 2020-21, compared with (equivalent) expectations for 2019-20. The data suggests that, for almost all non-mining sectors, investment will be lower in 2020-21, while mining investment will be higher. With respect to types of investment, construction is expected to fall by about 10% in total, while equipment is expected to fall by about 5%.

## ... and dwelling investment ...



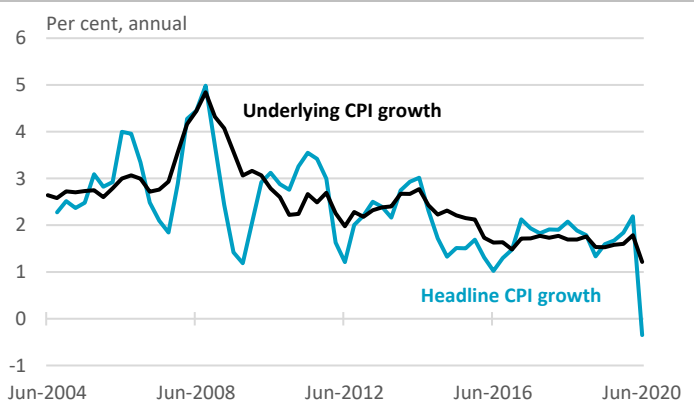
The number of approvals for the construction of new dwellings is a reliable leading indicator of dwelling investment. In June, total approvals fell to their lowest level in eight years – with private sector approvals for both houses and other dwelling types (mainly units) down by about 5.5% for the month. State-by-state, the largest falls were recorded in NSW (down by 15%) and WA (down by 12%).

## ... and is already impacting construction jobs



Data for the number of jobs shows divergent trends across sectors. The easing of social restrictions (in most jurisdictions) has aided a recovery in retail and food-service jobs. On the other hand, the diminishing pipeline of construction projects is leading to a decline in the number of construction jobs – which is likely to continue.

## Inflationary pressures will remain weak



The Headline CPI fell by its largest-ever degree in the March quarter, to be 0.3% lower over the year. The fall largely reflects free child-care and a drop in fuel prices. The Underlying CPI, which excludes volatile items and is a better indicator of general inflation, rose by 1.2%. Falling demand (Panel 1) will ensure ongoing weak inflationary pressures.