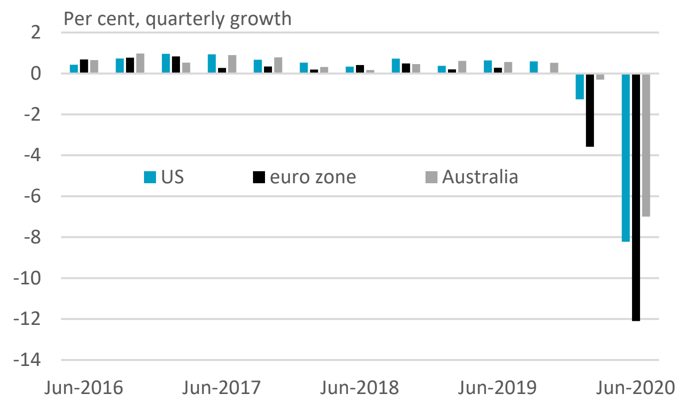
ASFA Economic Snapshot: week ending 7 August

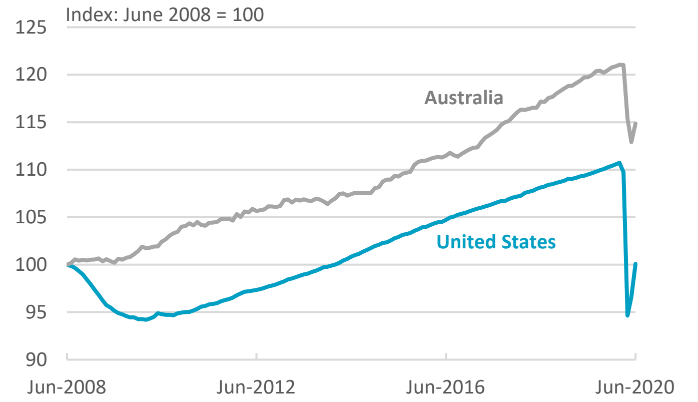
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

GDP falls in June quarter across advanced economies …



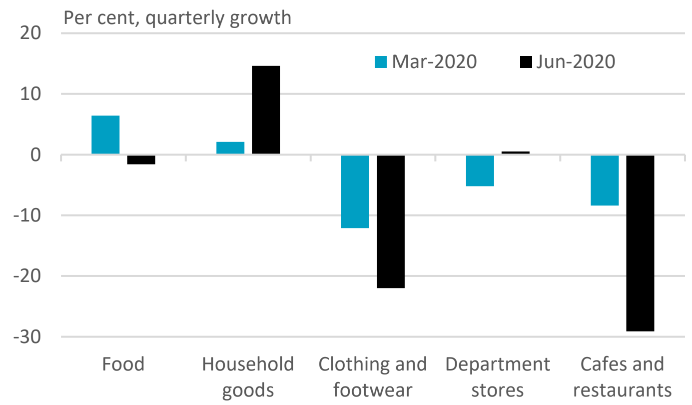
June quarter GDP for the US and euro zone fell by about 8% and 12% respectively. For Australia, Treasury's recent forecasts imply a 7% fall. Looking ahead, Treasury's forecasts for annual GDP growth suggest Australia will fare better than most advanced economies in 2020 (Aust: -3.75%, US: -8%). However, the worsening conditions in Victoria indicate that even recent forecasts for Australia are now out-of-date.

… and employment is sharply lower



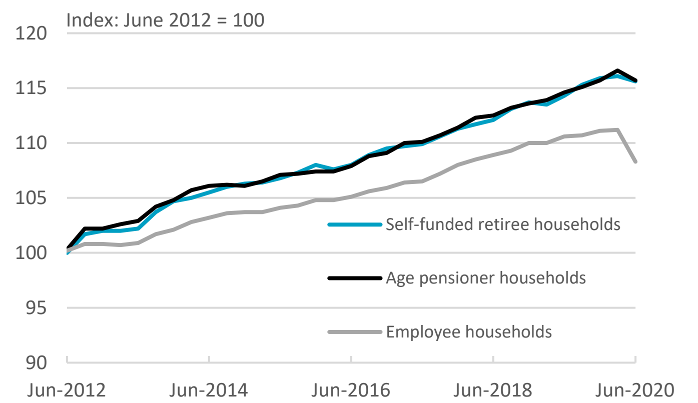
This chart shows indexes for the number of employed people. As at June, US employment was about 10% lower than before the crisis, while Australian employment was about 5% lower (in part due to Job Keeper incentivising firms to retain staff). Other data suggests that Australian employment was stable in July. However, the tightening of restrictions in Victoria means total employment will likely fall again.

Retail spending volumes fall …



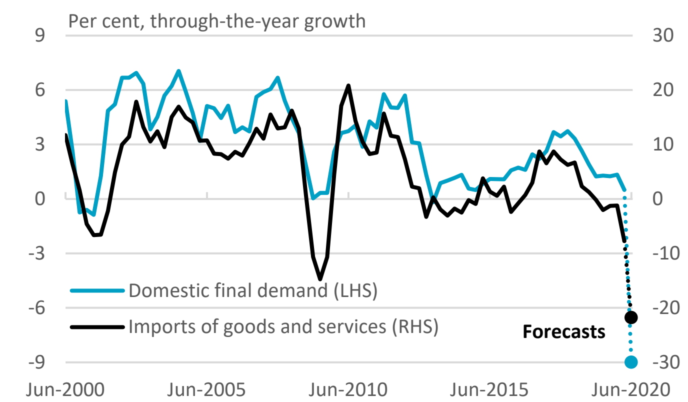
Last week's note reported preliminary retail trade data. This chart shows quarterly growth in (real) retail spending, which fell by 3.4% in the June quarter. This is in-line with Treasury's estimate for total consumption growth for 2019-20 (-2.5%). However, reduced spending in Victoria represents a down-side risk to forecast growth for 2020-21.

… although the cost-of-living improves for some



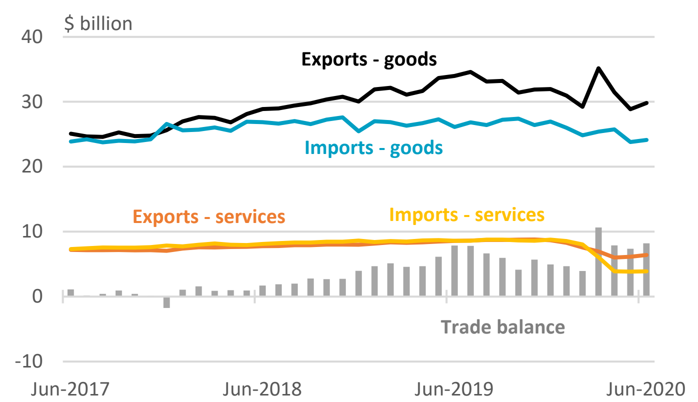
The ABS publishes indexes for the cost-of-living for various household types. As reported last week, prices for child-care and fuel fell markedly in the June quarter. As the above chart shows, this will tend to benefit younger families. Of course, for families where adults have lost their job, this will do little to alleviate household budget pressures.

Weaker domestic demand drives imports lower …



For Australia, the above chart shows the relationship between (year-on-year) growth in domestic demand and total imports (in real terms). As noted last week, domestic demand has declined markedly – the dots in the chart are Treasury's (implied) estimates for the June quarter. Domestic demand is estimated to be 9% lower than a year ago – which drives a large fall in imports (20% lower than a year ago).

… which supports the trade surplus



Other data show that the *value* of total imports (reflecting volumes *and* prices) for June is 19% lower than a year ago. The value of exports is 15% lower than a year ago – with recent volatility due, in part, to a rise in iron ore volumes to China and sharp drops in coal prices. That imports have been weaker than exports has sustained a relatively high trade surplus and contributed to the recent appreciation of the AUD.

Sources for each panel: (1 & 2) FRED Economic Database; (3) ABS, *Retail Trade*, June; (4) ABS, *Selected Living Cost Indexes*, June; (5)) ABS, *National Accounts*, March and The Commonwealth of Australia, *Economic and Fiscal Update*, July and ASFA calculations; (6) ABS, *International Trade in Goods and Services*, June.