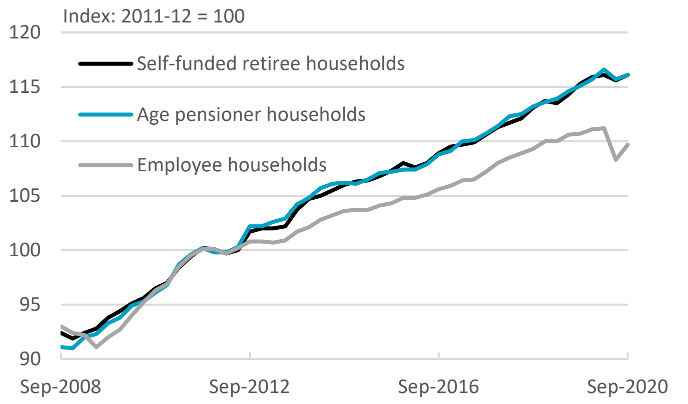
ASFA Economic Snapshot: week ending 6 November

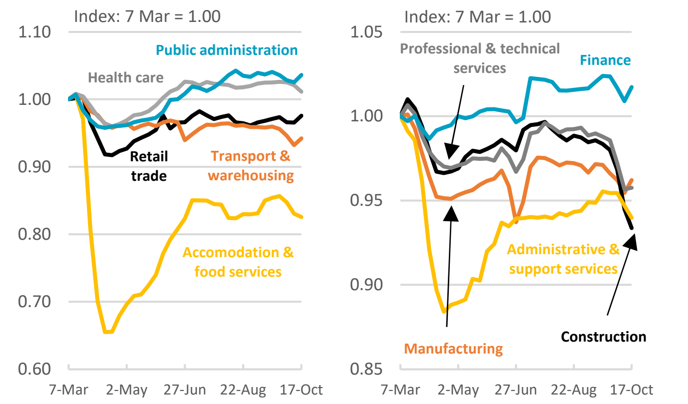
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Cost-of-living pressures moderating for households …



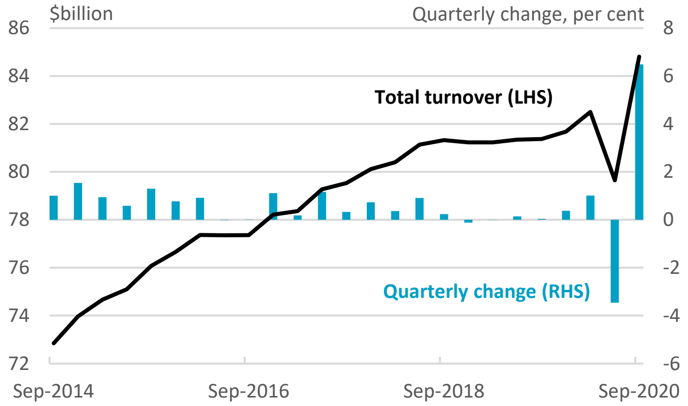
Lower inflation since March has led to a general moderation of cost-of-living pressures. For young families (most of which are *Employee households*), free childcare – which ended on 13 July – also provided temporary relief. Of course, families where an adult has lost their job face more acute budgetary pressure (Note: the diverging trends above partly reflect the impact of falling interest rates on debt servicing).

… but some are experiencing job losses



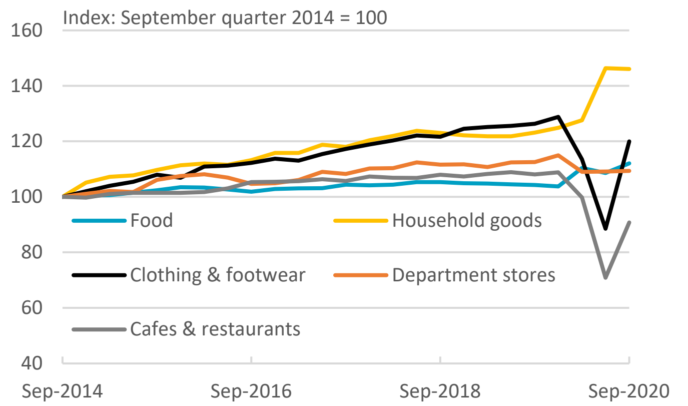
Data for the number of payroll jobs emphasises the divergent conditions across the 10 largest industries. While employment is trending-up in some (e.g. health), job-shedding is continuing in others – particularly construction and professional services (including those that support construction). Job growth in sectors hit hardest by the crisis (e.g. accommodation & food services) appears to have stalled.

Retail spending rebounds in September …



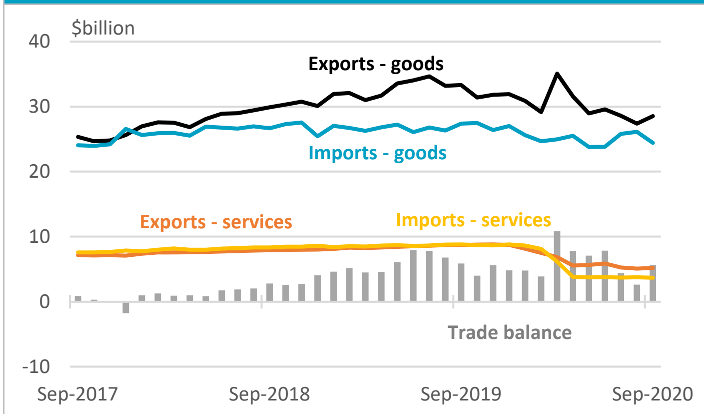
Total (real) retail spending increased by 6.5% in the September quarter, after a 3.5% fall in the June quarter, with the level of spending now higher than before the crisis. However, the strong September quarter outcome reflects, in part, temporary factors (Panel 4), such that total retail spending is likely to be lower in the December quarter.

… but some of the increase is temporary



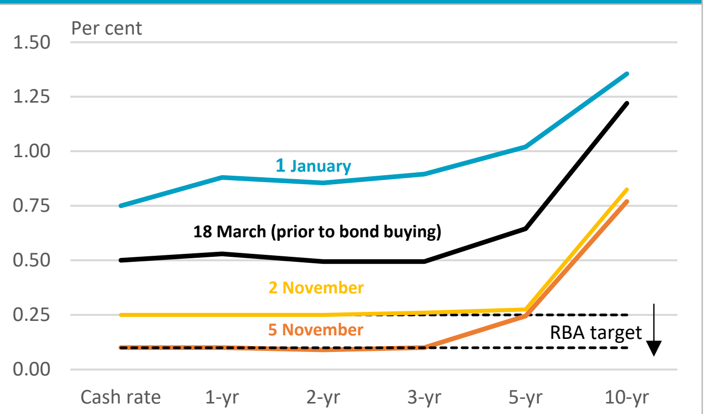
This chart shows the components of (real) retail spending as indexes. Since March, spending on household goods has increased by 14%, driven by purchases of hardware supplies and appliances. It is likely that many households have brought-forward such purchases – in part funded by lower spending on other components (e.g. dining out).

Some further headwinds for Australian exports



Since March, the *value* of goods imports has trended down – largely due to reduced demand from firms for new equipment. The *value* of goods exports is also lower, reflecting weak global demand. Prolonged Chinese restrctions on selected Austrlaian exports will only add to the downward pressure. That imports have been weaker than exports has sustained a trade surplus and contributed to the AUD appreciation.

The RBA has little policy room left to boost demand



The RBA has cut the cash-rate from 0.25% to 0.10%. The RBA also ramped-up its purchases of government bonds (in the secondary market) across the yield curve to reduce rates to the RBA's new, lower target of 0.1%. In response, banks have reduced some lending rates for housing and business (partly or in full). As noted in last week's note, the RBA has reached the effective limit of traditional monetary policy.

Sources for each panel: (1) ABS, *Selected Living Cost Indexes*, September; (2) ABS, *Weekly Payroll Jobs and Wages in Australia*, week of 17 October; (3&4) ABS, *Retail Trade*, September; (5) ABS, *International Trade in Goods and Services*, September; (6) RBA, *Statistical tables*, F1 and F2.