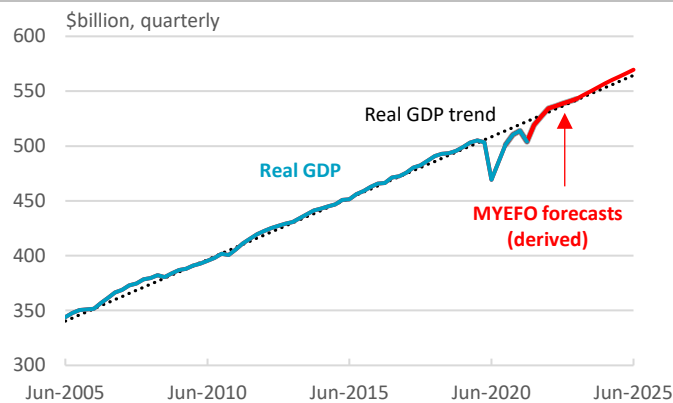


ASFA Economic Snapshot: Federal MYEFO 2021-22

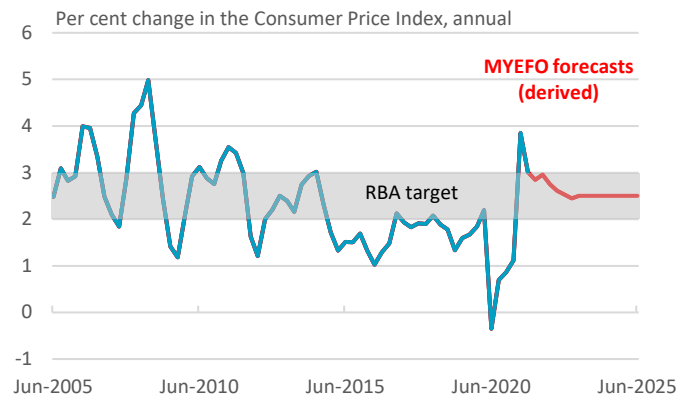
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

An economy in recovery



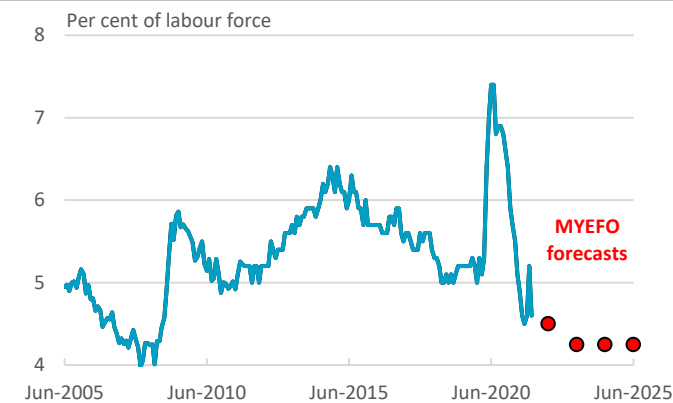
In broad terms, the MYEFO forecasts imply that by the end of 2022 GDP will be around the level it would have been in the absence of the COVID crisis (assuming trend growth). That said, significant uncertainty remains around the outlook for economic growth (and the labour market). In particular, the risk of future outbreaks of COVID variants remains elevated, as does the risk of associated restrictions.

Inflation high now, but expected to moderate



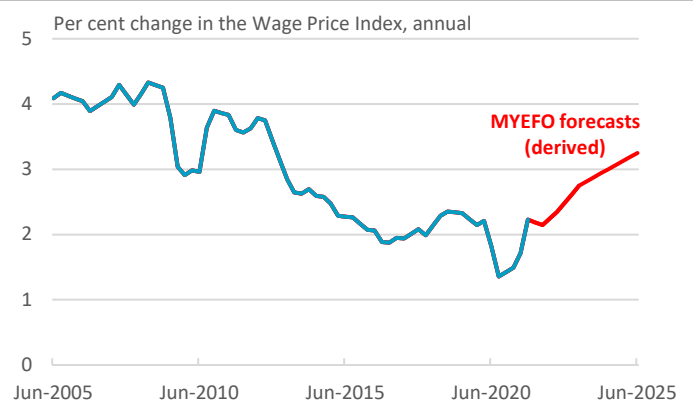
The recent spike in annual rates of inflation reflects the reversal of free childcare and the re-bounce in global oil prices, but also constraints in global supply chains. Treasury expects supply bottlenecks to be largely resolved by the second half of 2022. With spare capacity in the domestic economy diminishing (Panels 1 and 3), the RBA is expected to raise policy interest rates to contain inflationary pressures.

Unemployment will continue to decline



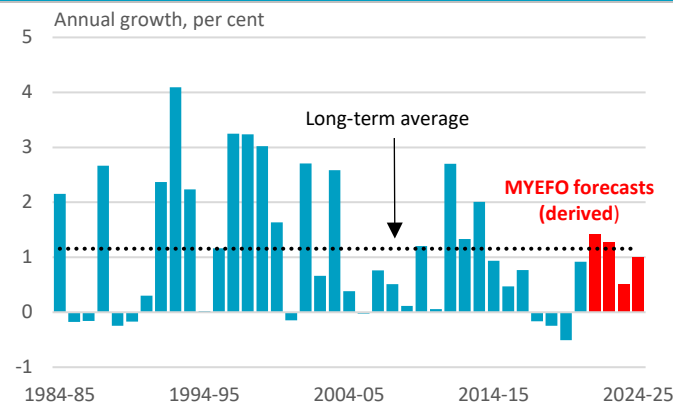
As the economy recovers, the labour market will continue to improve and employment will continue to rise. The unemployment rate, which is currently 4.6%, is expected to fall to 4.25% by June 2025. With labour shortages becoming increasingly prevalent across industries and locations, firms will need to bid up wages in order to attract workers.

Wage growth will rise



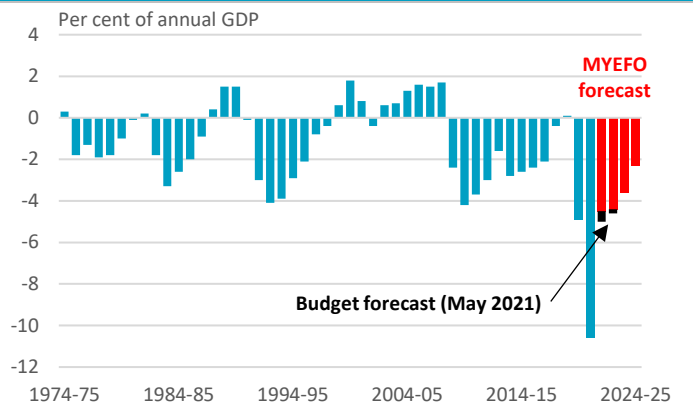
The Wage Price Index (WPI) includes the wages of about 18,000 jobs. Annual growth is expected to rise over the forecast period, to be 3.25% by June 2025. Even so, growth will be below the historical average (3.6% prior to the GFC). Given that inflation is forecast to be around 2.5% to 2024-25, the WPI forecast implies a modest rise in real wages.

Productivity growth to return



The MYEFO forecasts imply a rebound in growth in labour productivity (real GDP *per worker*), to near its average growth rate for the past four decades. Over the long-term, real wages tend to move in line with labour productivity. That wages are forecast to grow slightly above inflation (Panels 2 and 4) suggests that, in broad terms, part of the productivity dividend will accrue to workers as higher wages.

The Federal Budget position improves



Notwithstanding the economic impact of the Delta-COVID shock (largely in NSW, Victoria, ACT), the forecasts show a slightly improved outlook for the Federal Budget. This largely reflects higher taxation receipts than expected in the May 2021 Budget. For 2021-22, tax receipts from super funds are up by \$8 billion – in part due to strong returns (likely to average above 10%) for the 2021 calendar year.