Monday, 16 October 2023

More Balanced Market Amid Uncertainty

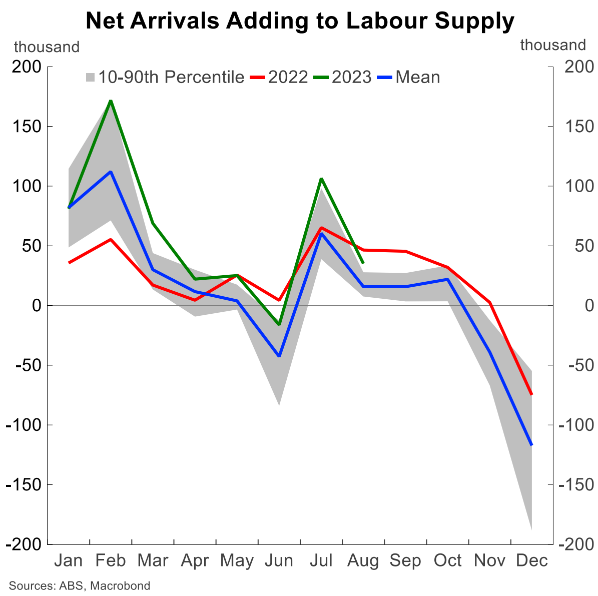
There are growing fears the Israel-Hamas conflict which started last week could broaden and escalate. This follows reports over the weekend that Iran has warned it will respond if Israel proceeds with its planned offensive into Gaza. There have also been reports that Lebanese militant group, Hezbollah, attacked Israeli military posts near the Lebanese border.

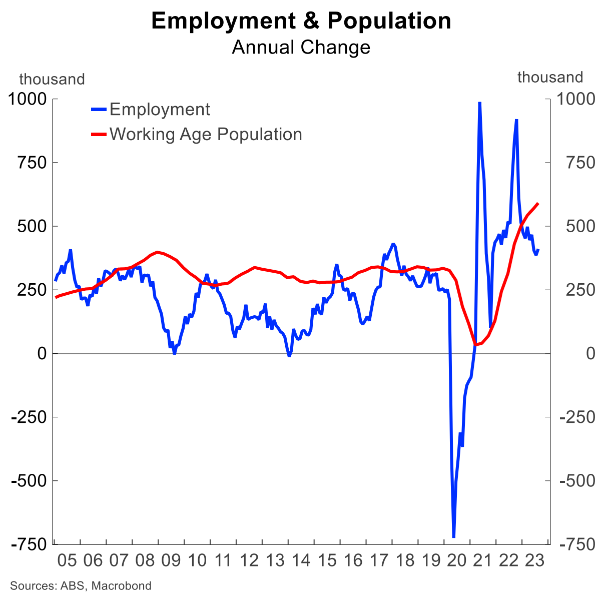
Against this highly volatile backdrop, investor risk aversion has increased, and global capital has flowed to safer assets. This has seen the US dollar and the Swiss Franc advance, government bond yields decline, and a selloff in major global share markets. The price of oil has also jumped, with the West Texas Intermediate (WTI) futures price moving from a low of US$81.50 per barrel on Friday 6 October, to a high of US$87.80 per barrel on Friday the 13 October - a weekly increase of almost 8%, the largest one week jump in over a month.

Domestic economic data

At home last week, business surveys pointed to resilient conditions coupled with a moderation in cost pressures. Growth in labour costs eased to 2.0% over the quarter to September, well below the 3.3% rate recorded over the same period last year. This suggests that underlying momentum in wages growth is moderating. We also saw a moderation in the growth of input prices, which grew by 1.8% over the quarter to September, a step down from the 2.9% recorded over the quarter to August. Higher oil prices, if sustained, could put in jeopardy some of this hard-fought progress on inflationary pressures.

We also received data on net international arrivals. While the data is subject to revision, net inflows into Australia, particularly the capital cities along the east coast, show little sign of slowing.

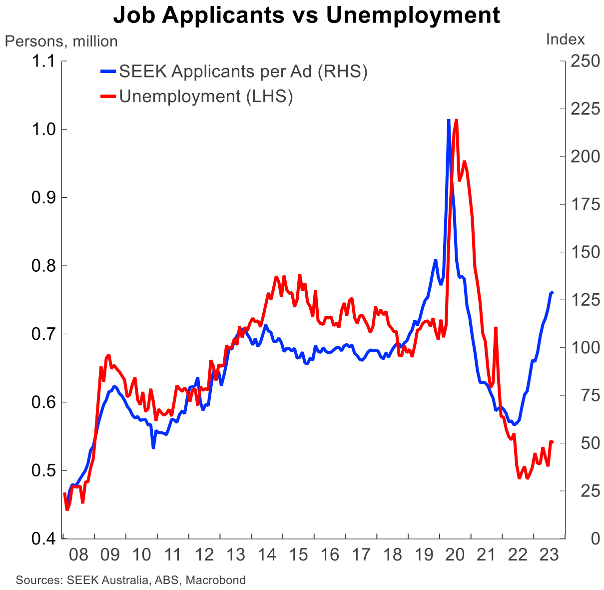


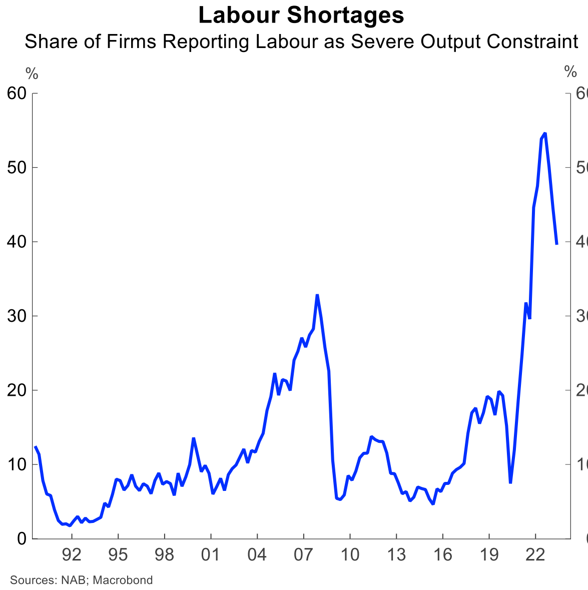


Over the September quarter 2023, net inflows in the temporary and permanent visa categories that add to labour supply were just under 190k. This was higher than the 160k recorded over the September quarter 2022. In the May Federal Budget Government forecasts had net overseas migration reaching a record high of 400k in 2022-23, before slowing to 315k in 2023-24. Real time arrival data suggest there are significant upside risks to the 2023-24 forecast.

When it comes to the economic impacts of high migration and strong population growth there are two main channels – a demand and a supply channel. On the demand side, a larger population will increase demand for essential goods and services, which includes housing. The strong inflow makes the Government's 5-year 1.2 million new home target even more important to achieve. On supply, the larger population allows businesses to deal with skills shortages more effectively. Businesses are telling us labour shortages have become less acute in certain sectors. We are also seeing more applicants per vacancies and a decline in job ads – further signs the labour market is coming into better balance.

Stronger population growth means more jobs need to be created to accommodate the higher supply. Currently, around 30k jobs per month are required to ensure the unemployment rate remains unchanged, assuming the participation rate remains steady. When the labour force survey is released on Thursday, we expect jobs growth of around 20k in the month of September and a tick down in the participation rate to 66.9% from 67.0% last month, which will leave the unemployment rate unchanged at 3.7%.





The Reserve Bank (RBA) will release the minutes from the meeting in early October when the Board decided to leave the cash rate unchanged at 4.1%. The policy statement released that day made very little changes compared to the previous month. It appears the RBA is signalling that it is on the "narrow path" and will only "calibrate" rates if a set of economic indicators consistently suggests it has veered off the path. Assistant Governor, Chis Kent, reminded us that the Board is aware the impact of rate hikes to date are still flowing through to households and businesses. We expect minor changes in the RBA Board minutes released tomorrow.

International economic data

On the global front, US retail trade, housing and activity indicators will be released. There will also be activity data coming out of China. Any pickup in activity is likely to be tentative. In normal times this could have provided the Aussie with a tailwind. However, given the high degree of risk aversion, this is unlikely to be the case, with the short-term fate of the Aussie more likely to depend on global risk sentiment.

Pat Bustamante, Senior Economist
Ph: +61 468 571 786

Group Forecasts

		2023	2024				2025
End Period:	**Close (13 Oct)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	4.10	4.10	4.10	4.10	3.85	3.60	3.35
90 Day BBSW, %	4.15	4.30	4.30	4.22	3.97	3.72	3.47
3 Year Swap, %	4.14	3.95	3.90	3.80	3.70	3.60	3.50
10 Year Bond, %	4.46	4.00	3.80	3.60	3.40	3.30	3.22
US Interest Rates:							
Fed Funds Rate, %	5.375	5.375	5.125	4.875	4.625	4.375	4.125
US 10 Year Bond, %	4.61	4.10	3.90	3.70	3.50	3.40	3.30
USD Exchange Rates:							
AUD-USD	0.6296	0.66	0.67	0.68	0.69	0.70	0.71
USD-JPY	149.57	144	142	140	138	136	133
EUR-USD	1.0510	1.10	1.11	1.12	1.13	1.14	1.15
GBP-USD	1.2143	1.27	1.28	1.29	1.30	1.30	1.30
NZD-USD	0.5885	0.61	0.61	0.62	0.62	0.62	0.63
AUD Exchange Rates:							
AUD-USD	0.6296	0.66	0.67	0.68	0.69	0.70	0.71
AUD-EUR	0.5991	0.60	0.60	0.61	0.61	0.61	0.62
AUD-JPY	94.19	95.0	95.1	95.2	95.2	95.2	94.4
AUD-GBP	0.5189	0.52	0.52	0.53	0.53	0.54	0.55
AUD-NZD	1.0698	1.08	1.10	1.10	1.11	1.13	1.13

	2021	**2022**	**2023 (f)**	**2024 (f)**
GDP, %	4.6	2.7	1.2	1.6
CPI (Headline), %	3.5	7.8	3.9	3.2
CPI (Trimmed mean), %	2.6	6.9	3.8	3.1
Unemployment Rate, %	4.7	3.5	3.8	4.7
Wages Growth, %	2.3	3.4	3.8	3.2

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
+61 404 844 817

Senior Economist
Pat Bustamante
pat.bustamante@banksa.com.au
+61 468 571 786

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
+61 481 476 436

Economist
Jameson Coombs
jameson.cooombs@banksa.com.au
+61 401 102 789