

AUSTRALIAN MARKETS WEEKLY

An unusual recovery in job advertising in the smaller states



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The main conclusions suggested by a more detailed look at trends in WA job ads, which along with Tasmania and the Northern Territory now exceed pre-COVID levels are:

- Many of the smaller states' economies are benefiting from both better virus numbers along with relatively smaller exposures to business services/smaller CBDs;
- The recovery in job advertising holds out the prospect of a near-term stabilisation in unemployment rates in these smaller states, though unemployment is likely to continue to rise sharply in Victoria in coming months; and
- In the medium term, much still depends on the interplay of infection rates and the removal of government assistance, primarily the JobKeeper and JobSeeker programs but also numbers accessing early superannuation withdrawals. These programs have played a very substantial and positive role supporting the Australian economy during this very difficult pandemic period. The phasing down of these levels of support will be a considerable drag on the economy beginning in Q4, unless there is excellent progress controlling the virus and reopening continues apace. Otherwise, further government spending in the 6 October Budget is likely to be necessary to avoid quite a weak Q4 GDP outcome, although it's likely by then that Victoria will be emerging from its strict lockdown.

The week ahead

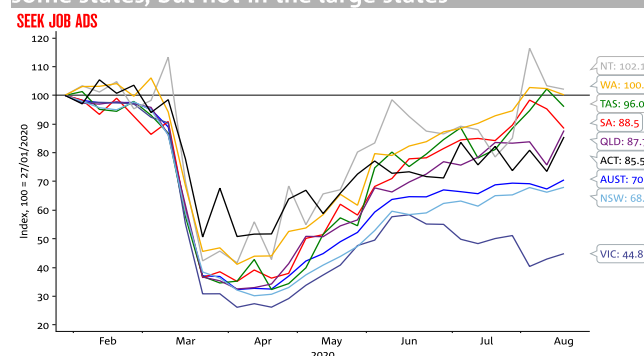
- A very busy week ahead. In Australia the final pieces of the Q2 GDP puzzle, which will be revealed on Wednesday, where we expect to see the Australian economy contracted by around 5% in Q2 (most of that early in the quarter) before recovery commenced through May and June, before the renewed Victorian lockdown. Partial data released in recent days has shown the government's support package has significantly supported the economy, meaning a smaller contraction than first predicted. The RBA Board Meeting on Tuesday isn't expected to see any change in policy or messaging, but the Board has continued to remind that the package of measures introduced in March could be adjusted if circumstances warranted.
- Internationally, after the Fed signalled last week that it had moved to an average inflation target of 2% and would permit inflation above 2% after periods of undershooting, a speech by Governor Clarida on the Monetary Policy Framework on Monday night is arguably the highlight of an otherwise busy week. In response to the Fed's shift in its framework, the US\$ has weakened again, pushing the \$A to the highest level in over two years and leading to some rise in very longer-dated yields on medium-term inflation concerns. Other international news includes Chinese and US PMIs and the latest update on US employment and unemployment.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7365	2.8	RBA cash	0.13	0.0
AUD/CNY	5.05	1.8	3y swap	0.19	0.0
AUD/JPY	77.8	2.5	ASX 200	6074	-0.6
AUD/EUR	0.619	1.8	Iron ore	119.7	-0.4
AUD/NZD	1.093	-0.4	Brent oil	45.9	0.5

Source: Bloomberg

Chart of the week: Job ads recover pre-Covid levels in some states, but not in the large states



Source: National Australia Bank, SEEK

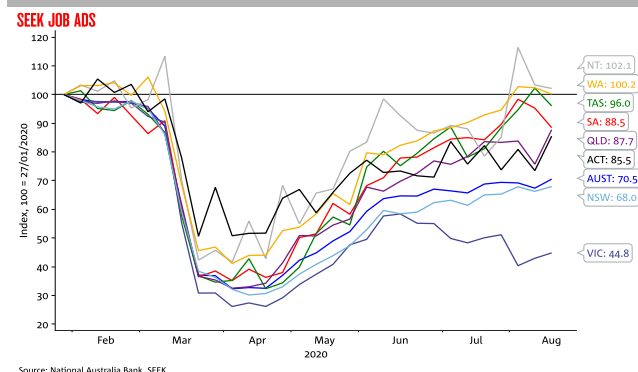
An unusual recovery in job ads in the smaller states

There have been (at least) three quite unusual developments in the performance of the Australian economy during the pandemic to date. These highlight the unusual complexity of this health/economic shock and the important role that government policy is playing in neutralising the effects on the economy, which the Q2 national accounts on Wednesday are likely to reveal at somewhere close to a 5% q/q contraction. [The latter is smaller than initially expected as incoming data reveals how significant the government support for the economy has been].

The three quite unusual developments have been:

- Retail sales are around 10% above pre-pandemic levels, despite the official unemployment rate of 7.5% and various “effective” rates of unemployment being at low double-digit levels;
- House prices have fallen only modestly to date, despite significantly reduced immigration, reduced foreign student numbers, increased vacancies, declining rents and higher unemployment; and
- Job advertising outside of the two largest states has recovered far more quickly than would normally be expected given the shock to economic growth and the related elevated levels of unemployment. Three jurisdictions have seen job advertising broadly back to pre-covid levels.

Chart 1: Job ads above pre-covid levels in WA and NT



While, the relatively quick recovery in job ads will be the focus of this weekly, first a brief comment on retail sales and the housing market. It's likely that the answer for both of these somewhat unexpected developments given the size of the contraction in the economy, reflects the very substantial policy stimulus packages put in place by the government. The housing sector has also been supported by banks allowing customers to defer interest repayments.

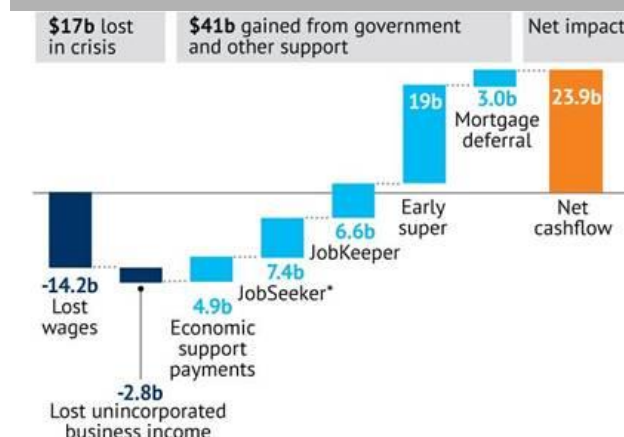
Table 1 and chart 2 show the size of this government support, with the JobKeeper wage subsidy package (for businesses suffering a >30% drop in revenue (>50% for large businesses)), the doubling in unemployment benefits (JobSeeker supplement) for those unemployed and early withdrawals from superannuation, the big-ticket items. These payments, along with interest rate deferrals, mean that the income

hit to households has been significantly offset (in aggregate) – and possibly more than offset in the near term - by increased transfer payments (chart 2 from Alphabeta/Illion suggests quite a large boost). This highlights why the scaling back and removal of these support packages remains one of the key inputs and uncertainties in the outlook for the economy and house prices which are currently lagging. It remains crucially important that the withdrawal of the support is timed/aligned to infection rates and the recovery in activity in specific sectors and the overall economy. It's also worth acknowledging that the support packages on the whole have done an excellent job supporting the economy over the very difficult first phase of the lockdown and continue to provide important support as Victoria battles its second wave.

Table 1: Massive government fiscal support

Australia: COVID-19 Economic Policy Response	\$Abn	% of GDP
JobKeeper (wage subsidy/forlough)	106.3	5.3
Income support, incl. welfare payments	28.2	1.4
Cash flow support for businesses	31.9	1.6
Business depreciation/tax changes	9.9	0.5
JobTrainer, skills, apprenticeships	2.0	0.1
HomeBuilder (housing construction)	0.7	0.0
Regional Recovery Fund	1.0	0.1
Additional infrastructure investment	3.3	0.2
Health reponse uplift	9.4	0.5
Childcare support	1.9	0.1
Aviation industry support	1.9	0.1
Aged care	1.2	0.1
Arts and entertainment	0.3	0.0
Education	0.1	0.0
Early access to superannuation (as at 16 Aug '20)	31.7	1.6
Total	229.7	11.5

Chart 2: Boost to household cash flows (Q2 v pre-crisis)

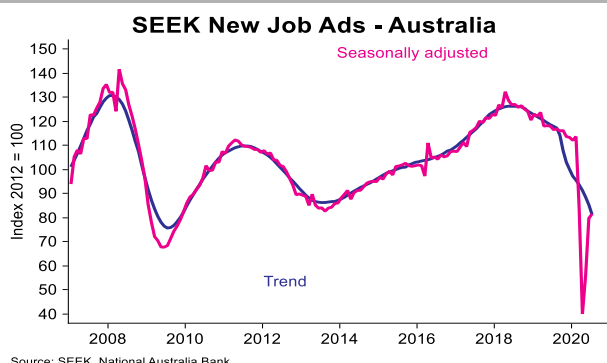


There are also a complex range of distributional issues at play in relation to retail spending and possibly also for housing markets. These include impacts, both geographically, with many businesses in CBDs suffering from significant working from home, and differentially on various items of spending significantly affected by social distancing and border restrictions (eg travel, accommodation, meals out, clubs, cinemas). This has seen households switch spending to other consumption items.

What's going on with job advertising in the smaller states and territories?

SEEK job ads – like the NAB survey – have done an excellent job highlighting developments in the Australian economy over the past six months as the pandemic struck. Job ads plunged in March and April as the first wave of the pandemic and associated lockdowns played out, before beginning to recover in May (chart 3). As chart 1 shows, this recovery has continued in recent months in all states and territories except for Victoria, which has of course suffered a significant second wave of infections and renewed lockdown.

Chart 3: SEEK Job Ads captured swings in the economy

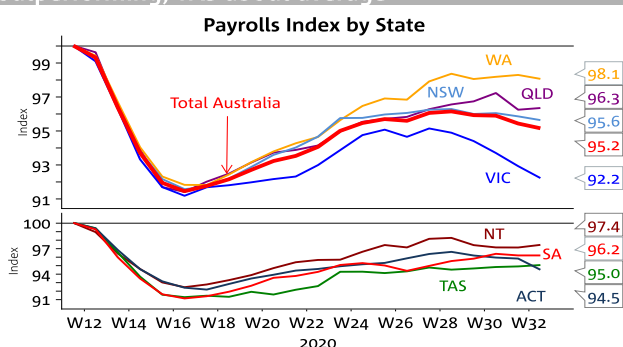


The monthly data shown in chart 3 shows job ads falling 65% between February and April, but recently having recovered to around 30% below February levels. The more regular fortnightly updates that SEEK has published (chart 1) highlight not only quite disparate state performances, with the larger states – and unsurprisingly Victoria – lagging, but also that a number of states, namely the NT, WA and TAS have broadly seen overall job advertising fully recover to pre-covid levels.

What might explain these divergent trends? And what might be the implications?

The official payrolls data provide a similar picture to the fortnightly SEEK job ads data, showing WA and the NT outperforming and Tassie around the national average. The data also show Victoria significantly underperforming and NSW payrolls employment also softening a little in recent weeks and QLD remaining relatively flat (chart 4). Unemployment rates are less

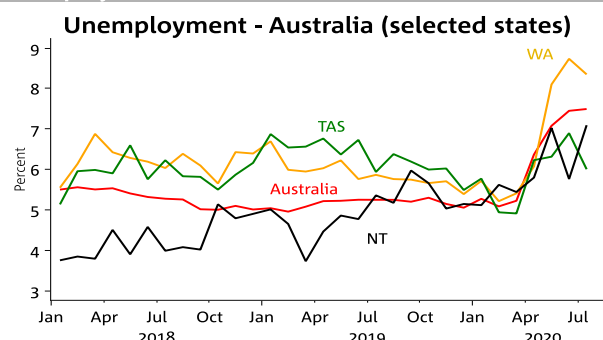
Chart 4: Payrolls data also suggests WA and NT outperforming; TAS about average



Source: National Australia Bank, ABS

consistent, with WA above the national average, but NT and TAS below average (monthly state unemployment data are notoriously volatile, however, and must be treated with a healthy degree of caution).

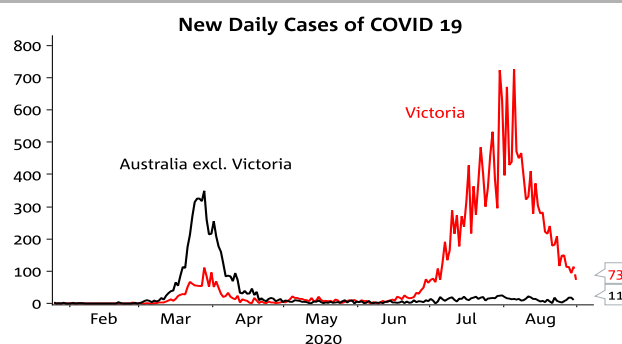
Chart 5: Some improvement in WA and Tas unemployment rates?



Source: Macrobond

This of course highlights the importance of control of virus numbers to facilitate reopening of economic activity. Encouragingly, Victoria's numbers for new infections fell below the 100 mark again today, while NSW numbers remain contained, but non-zero (the latter is the case for most other Australian states).

Chart 6: Victoria back on track



Source: National Australia Bank, government sources gathered by covid19data.com

SEEK's fortnightly job ad updates have highlighted the importance of business services in driving weakness in Victorian and NSW job advertising, and similarly outperformance of regional areas. Looking a little deeper into WA job ads trends, we can see the structure of WA's economy has been helpful, with a significantly larger exposure to Mining and Trades & Services and correspondingly lower share of services in the economy.

That said, chart 7 (see next page) also reveals some relative strength in a number of sectors that don't quite fit the story in evidence in the broader economy, with jobs ads in WA in Hospitality and Tourism and Retail and Consumer Products now above February levels, along with six other job classifications. This reminds again that this is quite a complex shock with some unusual developments across many sectors and regions of the economy. Importantly, however, to the extent that job ads remain above pre-COVID-19 levels, it suggests that unemployment levels should begin to stabilise or even reduce in these states in the near term, albeit, the reverse conclusion is likely to be true in Victoria.

Medium term, the course of infections and the reduction of government support will be key.

Chart 7: WA economy has larger mining/trades exposures, less exposure to services than rest of Aust.

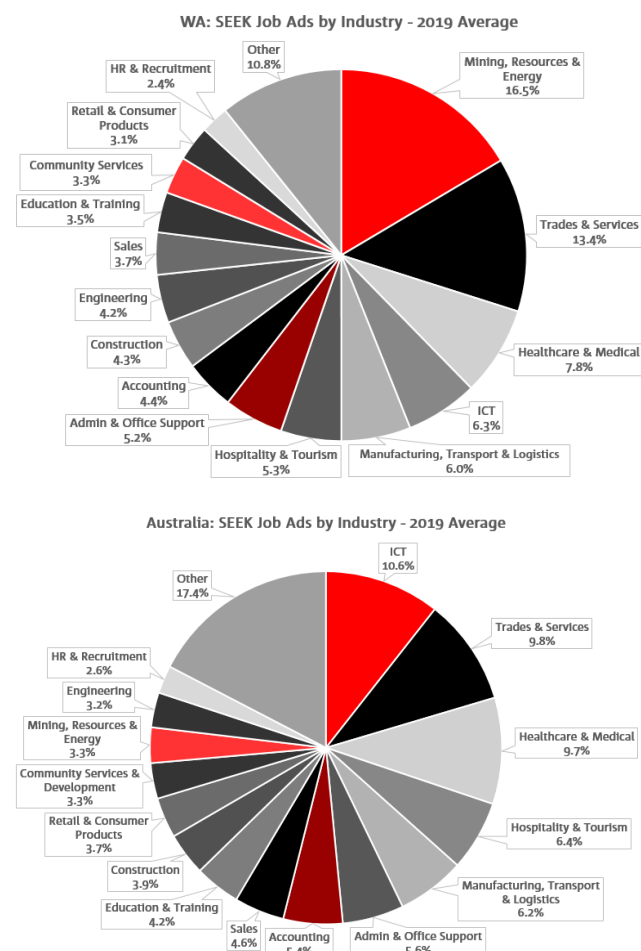
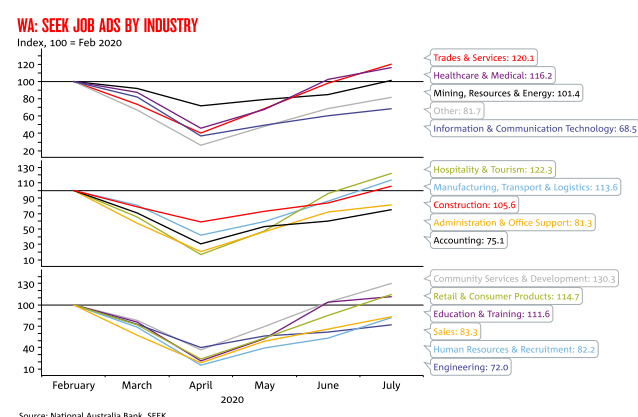


Chart 8: WA office and other services weak as in other states; remaining sectors recovering (some surprises)



The main conclusions suggested by a more detailed look at trends in WA job ads are:

- Many of the smaller states' economies are benefiting from both better virus infection numbers along with relatively smaller exposures to business services/smaller CBDs;
- The recovery in job advertising holds out the prospect of a near-term stabilisation in unemployment rates in these smaller states, though unemployment is likely to continue to rise sharply in Victoria in coming months; and
- In the medium term, much still depends on the interplay of infection rates and the removal of government assistance, primarily the JobKeeper and JobSeeker programs but also numbers accessing early superannuation withdrawals. These programs have played a very substantial and positive role supporting the Australian economy during this very difficult pandemic period. The phasing down of these levels of support will be a considerable drag on the economy beginning in Q4, unless there is excellent progress controlling the virus and reopening continues apace. Otherwise, further government spending in the 6 October Budget is likely to be necessary to avoid quite a weak Q4 GDP outcome, although it's likely by then that Victoria will be emerging from its strict lockdown.

Ivan Colhoun

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday 31 August 2020								
JN	Industrial Production YoY	Jul P		-17.7		-18.2	22.50	9.50
AU	Melbourne Institute Inflation MoM	Aug		--		0.9	0.00	11.00
NZ	ANZ Business Confidence	Aug F		--		-42.4	0.00	11.00
CH	Manufacturing PMI	Aug		51.1		51.1	0.00	11.00
CH	Non-manufacturing PMI	Aug		54.1		54.2	0.00	11.00
AU	Melbourne Institute Inflation YoY	Aug		--		1.3	0.00	11.00
AU	Private Sector Credit MoM / YoY	Jul	-0.1 / 2.6	-0.1 / 2.6		-0.2 / 2.9	0.30	11.30
AU	Company Operating Profit QoQ	2Q	-8	-6		1.1	0.30	11.30
AU	Inventories SA QoQ	2Q	-5	-1.1		-1.2	0.30	11.30
GE	CPI YoY	Aug P		0.1		-0.1	11.00	22.00
US	Fed's Clarida speaks						12.00	23.00
Tuesday 01 September 2020								
AU	AiG Perf of Mfg Index	Aug		--		53.5	21.30	8.30
NZ	Building Permits MoM	Jul		--		0.5	21.45	8.45
JN	Jobless Rate	Jul		3		2.8	22.30	9.30
JN	Jibun Bank Japan PMI Mfg	Aug F		--		46.6	23.30	10.30
AU	Building Approvals MoM	Sep	2	-1		-4.9	0.30	11.30
AU	Net Exports of GDP	2Q	1.6	1		0.5	0.30	11.30
AU	BoP Current Account Balance	2Q		13		8	0.30	11.30
CH	Caixin China PMI Mfg	Aug		52.5		52.8	0.45	11.45
AU	RBA Cash Rate Target	Sep 1	0.25	0.25		0.25	3.30	14.30
AU	Commodity Index SDR YoY	Aug		--		-12	5.30	16.30
GE	Unemployment Claims Rate SA	Aug		6.4		6.4	6.55	17.55
EC	Markit Eurozone Manufacturing PMI	Aug F		51.7		51.7	7.00	18.00
EC	Unemployment Rate	Jul		8		7.8	8.00	19.00
EC	CPI Estimate YoY	Aug		0.2		0.4	8.00	19.00
US	ISM Manufacturing	Aug		54.4		54.2	13.00	0.00
US	Construction Spending MoM	Jul		1.1		-0.7	13.00	0.00
US	Fed's Brainard speaks						16.00	3.00
Wednesday 02 September 2020								
NZ	QV House Prices YoY	Aug		--		7.5	16.00	3.00
AU	GDP SA QoQ	2Q	-5.8	-6		-0.3	0.30	11.30
AU	GDP YoY	2Q	-5.1	-5.2		1.4	0.30	11.30
US	ADP Employment Change	Aug		900		167	11.15	22.15
US	Durable Goods Orders	Jul F		--		11.2	13.00	0.00
US	Fed's Williams speaks						13.00	0.00
US	Fed's Mester speaks on US outlook and monetary policy						15.00	2.00
Thursday 03 September 2020								
AU	AiG Perf of Construction Index	Aug		--		42.7	21.30	8.30
NZ	ANZ Commodity Price	Aug		--		2.3	0.00	11.00
AU	Trade Balance	Jul	6000	5000		8202	0.30	11.30
CH	Caixin China PMI Services	Aug		54		54.1	0.45	11.45
EC	Retail Sales YoY	Jul		3.7		1.3	8.00	19.00
US	Initial Jobless Claims	Aug 29		--		1006	11.30	22.30
US	Trade Balance	Jul		-51.7		-50.7	11.30	22.30
US	ISM Non-Manufacturing Index	Aug		57.2		58.1	13.00	0.00
US	Fed's Evans speaks on outlook and monetary policy						15.30	2.30
Friday 04 September 2020								
AU	Retail Sales MoM	Jul	3.3	3.3		2.7	0.30	11.30
GE	Factory Orders MoM	Jul		6		27.9	5.00	16.00
CA	Hourly Wage Rate Permanent Employees YoY	Aug		--		5.7	11.30	22.30
CA	Unemployment Rate	Aug		--		10.9	11.30	22.30
CA	Net Change in Employment	Aug		--		418.5	11.30	22.30
US	Change in Nonfarm Payrolls	Aug		1518		1763	11.30	22.30
US	Unemployment Rate	Aug		9.9		10.2	11.30	22.30
US	Average Hourly Earnings YoY	Aug		4.5		4.8	11.30	22.30
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		Sep 1	0.25	0.25		0.25		
Canada, BoC		Sep 9	0.25	0.25		0.25		
Europe, ECB		Sep 10	-0.50	-0.50		-0.50		
Japan, BoJ		Sep 17	-0.10	-0.10		-0.10		
US, Federal Reserve		Sep 16	0/0.25	0/0.25		0/0.25		
UK, BOE		Sep 17	0.10	0.10		0.10		
New Zealand, RBNZ		Sep 23	0.25	0.25		0.25		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

FORECASTS

Economic Forecasts																				
	Annual % change				Quarterly % change															
					2019				2020				2021				2022			
	2019	2020	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																				
Household Consumption	1.4	-5.0	1.7	2.9	0.4	0.3	0.1	0.5	-1.1	-7.0	1.5	0.9	0.8	1.0	1.1	0.4	0.7	0.8	0.7	0.7
Underlying Business Investment	-1.7	-23.6	-26.5	3.2	0.8	-0.2	-1.7	-1.5	-1.0	-17.6	-15.5	-8.7	-7.7	-1.8	0.6	0.1	1.4	1.1	1.4	1.2
Residential Construction	-6.9	-16.0	-7.9	14.5	-1.7	-3.5	-0.7	-4.1	-1.7	-10.5	-4.5	-3.8	-2.8	0.9	2.6	3.5	4.0	3.5	4.3	3.1
Underlying Public Spending	4.9	4.7	3.8	3.1	1.1	1.7	1.8	0.4	1.5	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Net Exports (a)	0.9	1.7	-0.5	-0.8	0.2	0.6	0.1	-0.1	0.5	1.6	-0.2	-0.1	0.0	-0.2	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2
Inventories (a)	-0.2	-0.5	0.8	0.1	0.0	-0.4	0.1	0.2	-0.2	-1.5	1.4	0.3	0.2	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Domestic Demand (q/q %)	--	--	--	--	0.3	0.4	0.4	0.2	-0.5	-6.0	-0.5	-0.1	0.1	0.8	1.0	0.7	0.9	1.0	0.9	0.9
Dom Demand (y/y %)	1.3	-4.8	-0.5	3.6	1.2	1.3	1.2	1.3	0.5	-5.9	-6.8	-7.0	-6.4	0.4	1.9	2.6	3.4	3.6	3.5	3.7
Real GDP (q/q %)	--	--	--	--	0.5	0.6	0.6	0.5	-0.3	-6.1	0.5	0.3	0.6	1.0	0.9	0.5	0.7	0.7	0.7	0.6
Real GDP (y/y %)	1.8	-3.8	0.8	2.9	1.7	1.6	1.8	2.2	1.4	-5.4	-5.5	-5.7	-4.8	2.4	2.9	3.1	3.2	2.9	2.7	2.8
CPI headline (q/q %)	--	--	--	--	0.0	0.6	0.5	0.7	0.3	-1.9	1.6	0.7	0.4	0.3	0.3	0.4	0.2	0.3	0.5	0.7
CPI headline (y/y %)	1.6	0.8	1.6	1.4	1.3	1.6	1.7	1.8	2.2	-0.3	0.7	0.5	0.6	2.9	1.5	1.4	1.2	1.2	1.5	1.7
CPI underlying (q/q %)	--	--	--	--	0.2	0.4	0.4	0.4	0.5	0.0	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.3	0.4	0.5
CPI underlying (y/y %)	1.4	1.3	1.1	1.0	1.4	1.4	1.5	1.4	1.7	1.3	1.2	1.1	1.0	1.3	1.2	1.1	0.8	0.8	1.1	1.4
Private wages (q/q %)	--	--	--	--	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Private wages (y/y %)	2.3	1.8	1.2	2.0	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5	1.8	2.0	2.0	2.0
Unemployment Rate (%)	5.1	7.5	8.6	7.0	5.1	5.1	5.2	5.2	5.2	7.1	8.4	9.2	9.6	8.9	8.2	7.6	7.3	7.1	6.8	6.6
Terms of trade	5.1	0.1	2.2	1.3	3.3	1.4	0.2	-5.2	2.9	0.1	1.1	1.0	0.1	0.9	0.2	0.2	0.2	0.5	0.5	-0.1
Current Account (% GDP)	0.6	2.8	2.9	2.2	-0.6	1.0	1.4	0.3	1.7	3.4	3.2	3.2	3.1	3.1	2.8	2.7	2.5	2.3	2.2	2.0

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts						
	31-Aug	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Majors						
AUD/USD	0.737	0.72	0.74	0.76	0.77	0.77
NZD/USD	0.67	0.66	0.68	0.69	0.70	0.71
USD/JPY	105.6	105	103	103	100	100
EUR/USD	1.19	1.18	1.22	1.23	1.25	1.26
GBP/USD	1.33	1.31	1.36	1.40	1.40	1.43
USD/CNY	6.87	7.00	6.90	6.85	6.70	6.70
USD/CAD	1.31	1.36	1.34	1.33	1.30	1.23
USD/CHF	0.90	0.91	0.91	0.91	0.91	0.91

Australian Cross Rates						
AUD/NZD	1.09	1.09	1.09	1.10	1.10	1.08
AUD/JPY	77.8	76	76	78	77	77
AUD/EUR	0.62	0.61	0.61	0.62	0.62	0.61
AUD/GBP	0.55	0.55	0.54	0.54	0.55	0.54
AUD/CNY	5.06	5.04	5.11	5.21	5.16	5.16
AUD/CAD	0.96	0.98	0.99	1.01	1.00	0.95
AUD/CHF	0.67	0.66	0.67	0.69	0.70	0.70

Interest Rate Forecasts						
	31-Aug	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Australian Rates						
RBA cash rate	0.25	0.25	0.25	0.25	0.25	0.25
3 month bill rate	0.09	0.10	0.15	0.20	0.20	0.20
3 Year Swap Rate	0.19	0.18	0.18	0.17	0.15	0.15
10 Year Swap Rate	0.87	0.85	0.90	1.00	1.15	1.25
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
ECB deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
BoE repo rate	0.10	0.10	0.10	0.10	0.10	0.10
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	0.25	0.25	0.25	0.25	-0.25	-0.50
10-year Bond Yields						
Australia	0.97	0.95	1.05	1.15	1.25	1.35
United States	0.72	0.70	0.80	0.90	1.00	1.10
New Zealand	0.61	0.88	1.03	1.28	1.38	1.63

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP			
	2019	2020	2021
Australia	1.8	-3.8	0.8
United States	2.2	-5.1	3.7
Eurozone	1.3	-7.0	5.9
United Kingdom	1.4	-8.2	6.5
Japan	0.7	-6.2	3.0
China	6.1	1.5	9.5
India	4.9	-1.5	8.0
New Zealand	2.3	-7.8	3.0
World	3.0	-3.8	5.9

Commodity prices (\$US)						
	31-Aug	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Brent oil	45.9	45	49	53	55	55
Gold	1974	1725	1725	1750	1775	1800
Iron ore	na	93	87	85	90	80
Hard coking coal*	108	115	120	125	140	135
Thermal coal	52	55	59	59	61	62
Copper	6698	5750	6000	6250	6500	6750
Aus LNG**	10	7	7	7	8	8

* FOB quarterly contract prices (thermal coal is JFY contract)

** Implied Australian LNG export prices

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