

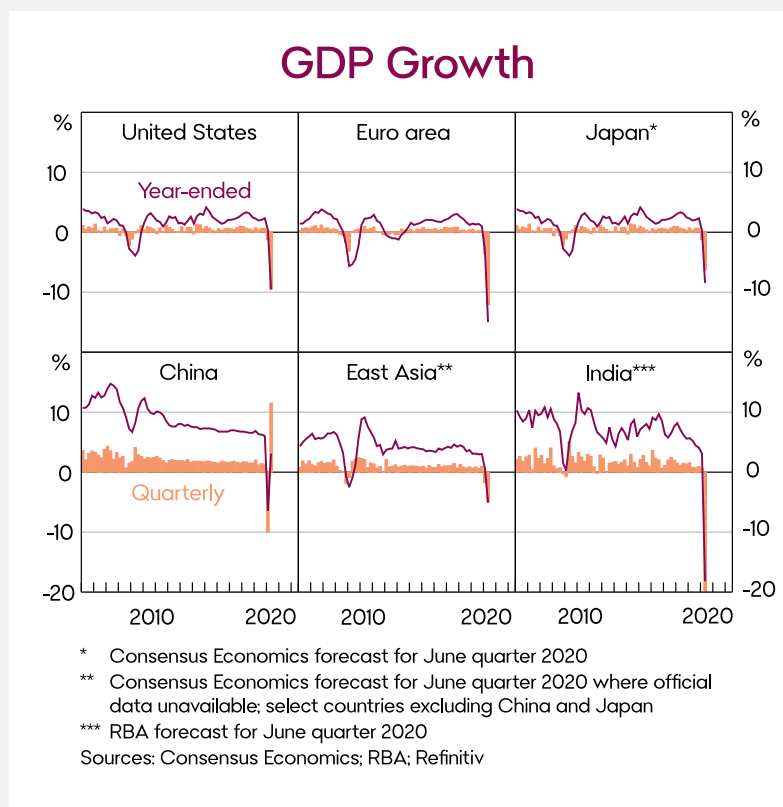
Economic and market update

Economic Overview from Bendigo Bank analyst David Robertson – as at 20 August 2020

Global markets

If you were told at the start of 2020 that the US stock market would hit a record high in February and then fresh record peaks in August you wouldn't have concluded that between these months the world would experience its largest recession for 80 years; nor that there would be a global pandemic, and that the US would have around 25% of the cases. The devastating human toll of COVID-19 is shocking, and the economic consequences far reaching, but equity markets continue to bank on endless policy support and faith in the resilience of the post-pandemic economy.

Records are also being set for GDP falls. In China there was a drop of 9.8% quarter on quarter in Q1, for the USA it was -9.5% for Q2, and for the UK it was -20.4% for Q2.



In the Euro area the second quarter contraction was 12.1%, with German GDP falling 10% and Spain 18.5%, but in many respects this data is secondary to the main question: what will the recovery in 2021 look like? The answer is dependent on further fiscal support, how the health crisis is managed, and other variables including progress on vaccines. However the unknown impact of longer-term scarring for jobs and wages, and structural damage for central bank balance sheets is perplexing.

In the US, beyond the above issues, we have the Presidential election in November to consider, developments in trade and technology disputes, and the pace of recovery in the US jobs market. The latter has seen unemployment rise from 3.5% in February to 15% in April and is now back at 10.2%. Recent US data has been better than expected but Congress is divided over ongoing fiscal support.

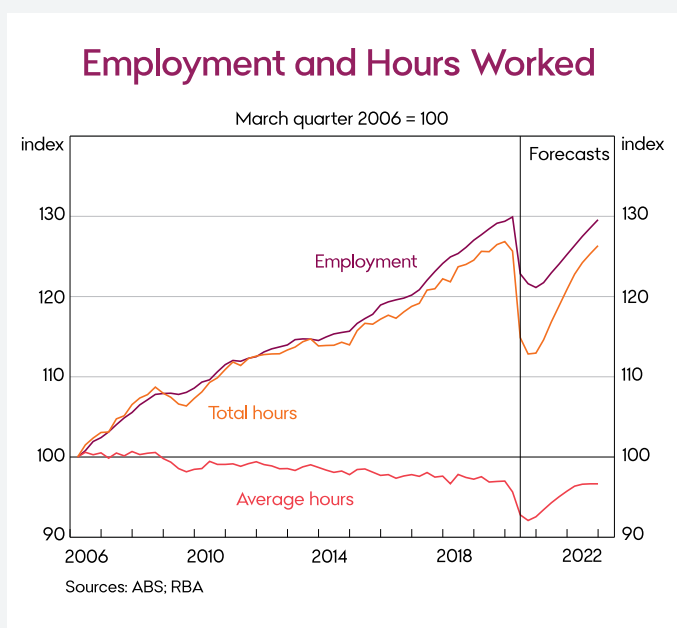
In China the data has also beaten expectations and may be more sustainable than elsewhere given its unique position and strong track record of stimulus measures being effective. Indeed, Asia more broadly appears to be coping better with the economic fallout of COVID-19 than North America and Europe, but even here the outlook for 2021 is opaque at best.

Domestic economy

The health impacts of the pandemic continue to reverberate around Australia, with Victorian stage 3 and stage 4 restrictions thus far appearing effective, despite the alarming impact on aged-care residents and health workers. Like the global outlook, the domestic economic outlook remains highly uncertain, but the most important data to monitor at present to gain forward looking insights is new infection numbers. These have fallen from a peak of above 700 a day to around 220 a day, and that trend will determine how quickly restrictions can be lifted, and then how quickly the economy can recover. The Prime minister's announcement that Australia has an agreement with AstraZeneca for their vaccine (refer last month's report) was welcome, but remains dependent on the success of further trials.

The unemployment rate and official unemployed numbers are still lagging the recovery in employment, which fell sharply between March and May, before recovering through June and July. The July jobs data showed an increase of 115,000 jobs, or 343,000 when combined with June. There was also another rise in total hours worked, but this data preceded the most restrictive measures for Melbourne.

Beyond monitoring health developments, the total employment number and hours worked remain the best measure of the economic and financial impact of the pandemic. Fiscal support is still imperative for the jobs market, and so the recent relaxing of eligibility criteria for JobKeeper is very welcome. This will be especially important for the Victorian economy which will likely lag the rest of Australia for some time.



The latest RBA Statement on Monetary Policy updated its forecasts including employment (see above) GDP, unemployment and other key metrics (refer appendix). The Reserve Bank has reset its baseline forecasts, and again provided upside and downside scenarios. Most would lean to downside risks given the nature of these uncharted waters, but it is worthwhile to recall that prior to the Melbourne 'second wave' our economy was tracking well ahead of May's baseline. Nevertheless, the median outlook for 2021 is now a slower recovery for jobs and growth than had been the case.

Australia's trade relationship with China continues to be tested with China's government launching an 'anti dumping' trade investigation on wine. However offsetting this development the iron ore price continues to rally, up to US\$120 per tonne. Meanwhile retail sales data locally has been resilient, helped by stimulus measures. House price declines have mainly been contained to the larger capital cities. House prices in other regions and capitals are at record highs and have actually risen through the COVID period.

Interest Rate Outlook

The RBA has cut the cash rate to its effective floor of 0.25%, and has stated that it expects the official cash rate to remain at this level for some years. Quantitative easing yield curve control measures will also anchor the three-year bond rate at 0.25%, so a very flat yield curve is very likely to remain in place for two or more years.

	30/6/19	30/6/20	31/7/20	20/8/20
90-day bills	1.22 %	0.10 %	0.10 %	0.10 %
3-year swap	1.06 %	0.23 %	0.19 %	0.21 %
5-year swap	1.23 %	0.44 %	0.35 %	0.38 %
AUD/USD	.7025	.6905	.7145	.7170
ASX 200	6 619	5 898	5 928	6 103
Credit Index (iTraxx- 5 yr)	64	88	76	67

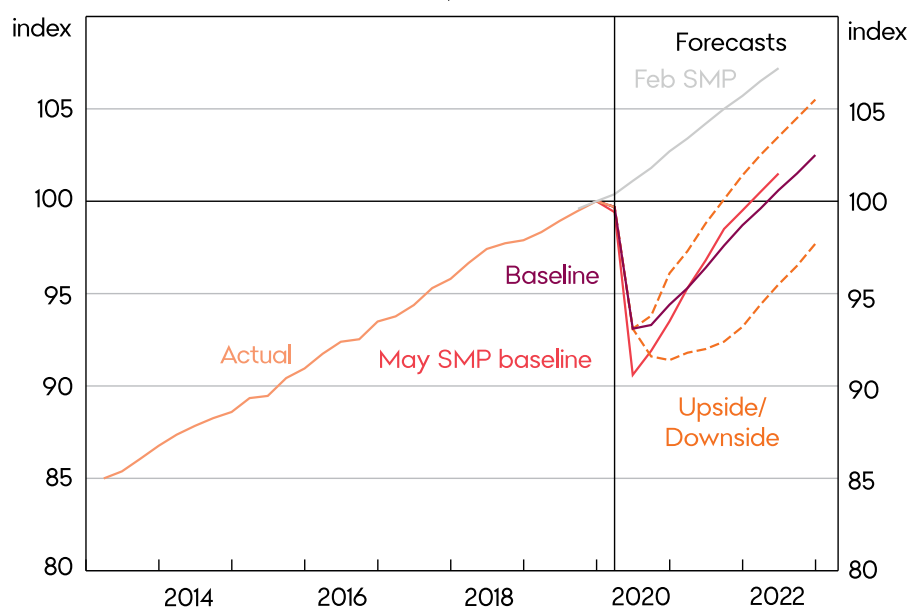
Source: Refinitiv

Appendix

RBA forecasts: August Statement on Monetary Policy

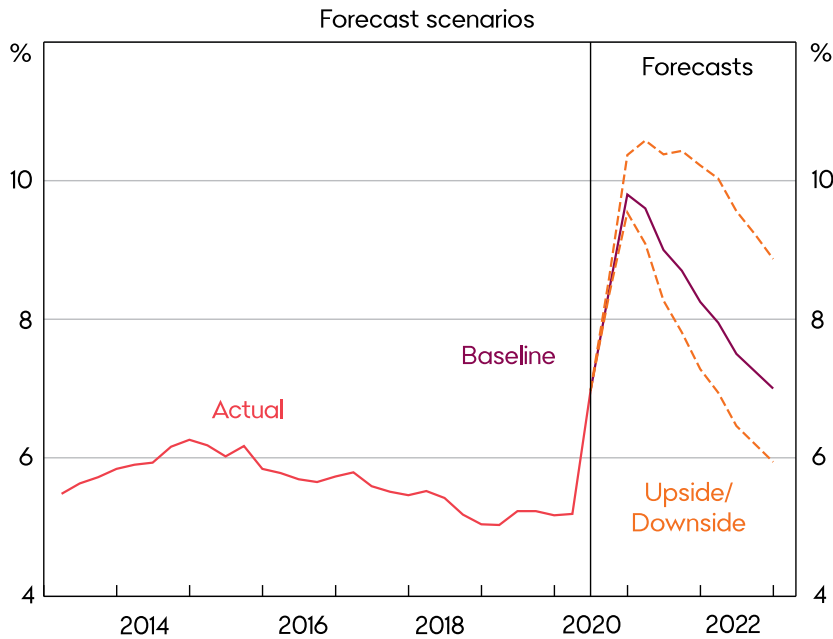
GDP

Forecast scenarios, December 2019 = 100



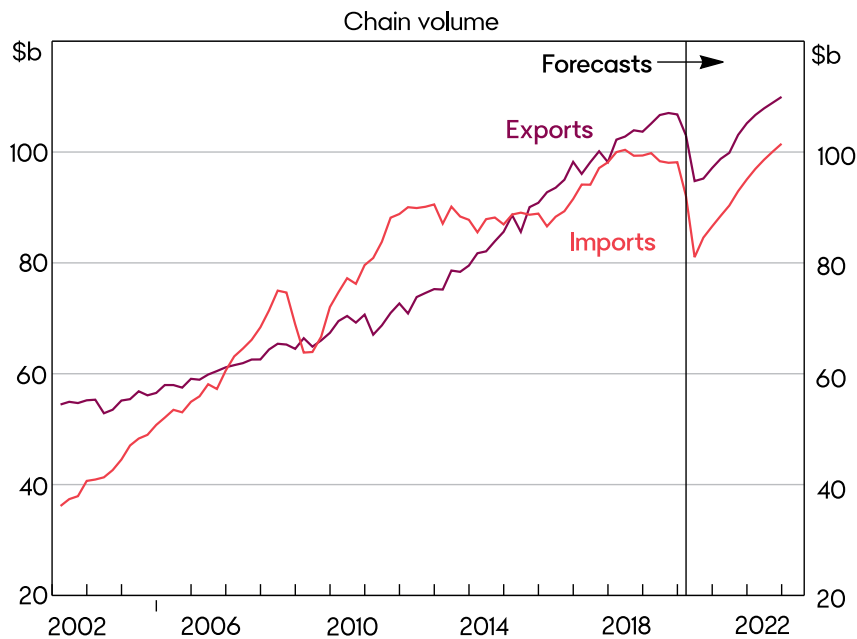
Sources: ABS; RBA

Unemployment Rate



Sources: ABS; RBA

Trade in Goods and Services



Sources: ABS; RBA

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