



# Australia in 2021: summary

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4 February 2021

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Key themes as at 4 February 2021: recovery but the economy will not be where it would have been without the pandemic; uncertainty; caution.

Economy and unemployment

Government income support tailing off

Pandemic: vaccine availability and effectiveness

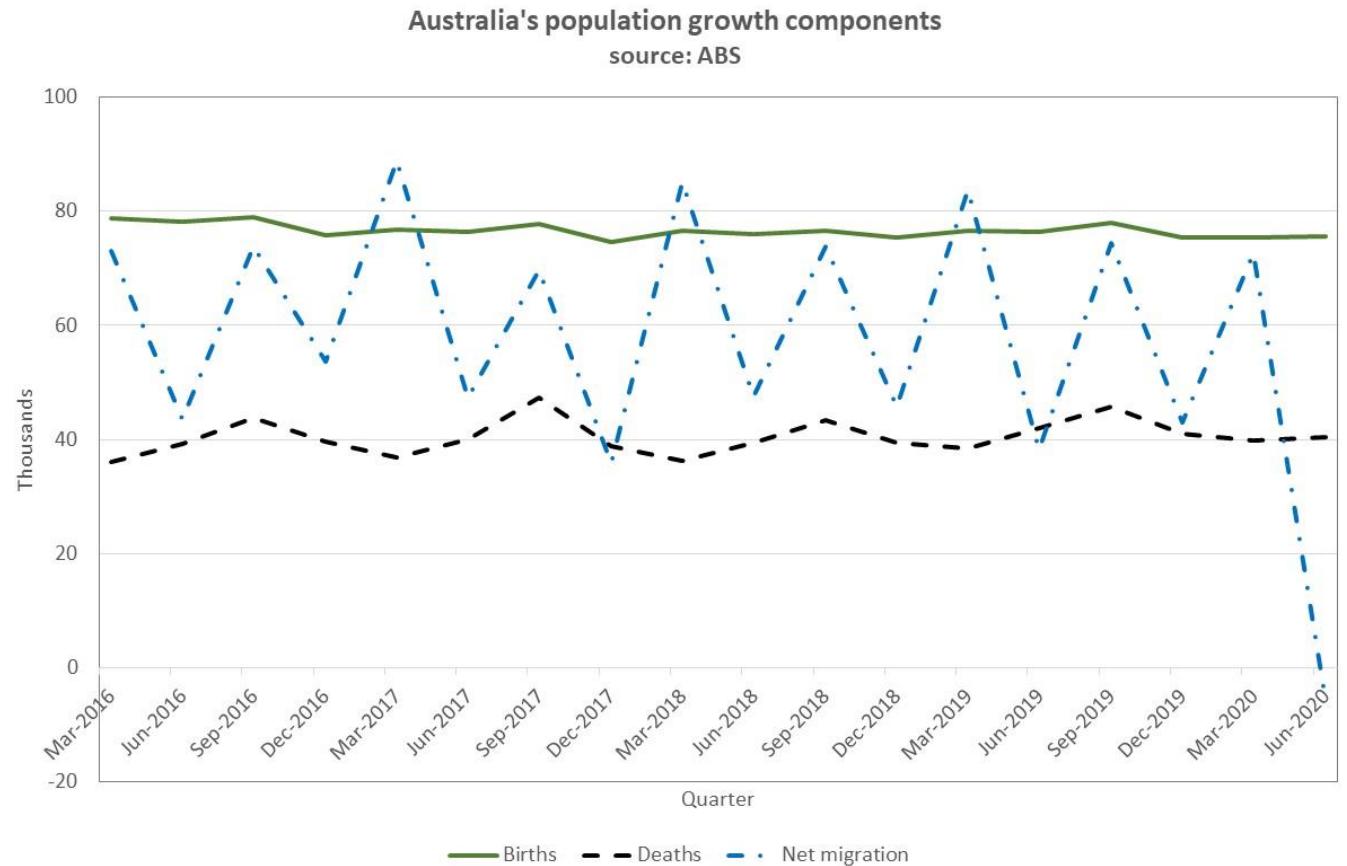
Income uncertainty

Health uncertainty

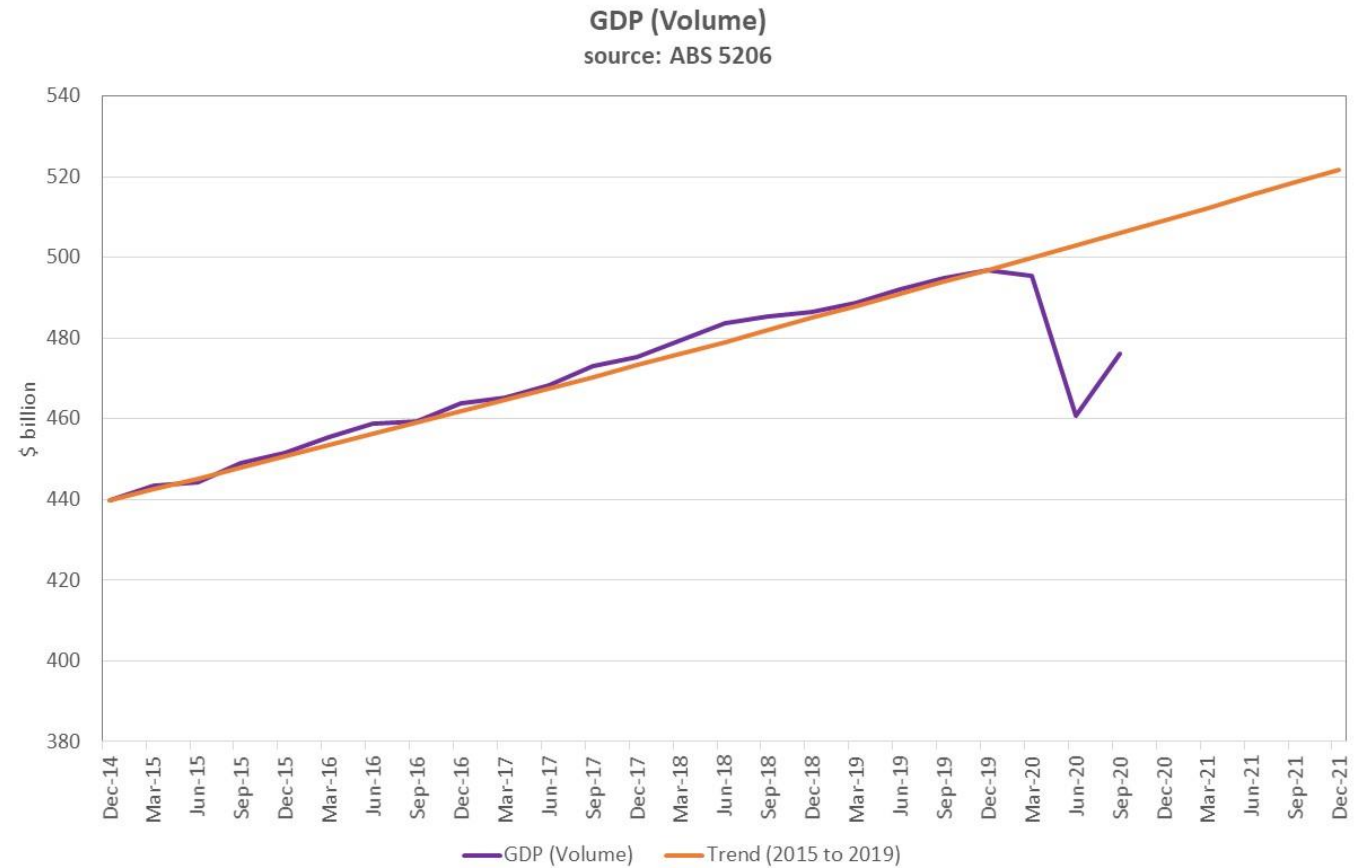
Consumer caution

Need to identify consumers most willing and able to spend, understand their needs, and communicate empathetically

Australia's population growth rate has slowed from 1.5% to 0.5% due to zero net migration. Immigration is unlikely to increase much during 2021. The February 2020 predictions of 16,000 to 150,000 deaths have been avoided. By the end of 2021, the population could be up to 350,000 lower than it otherwise would have been.



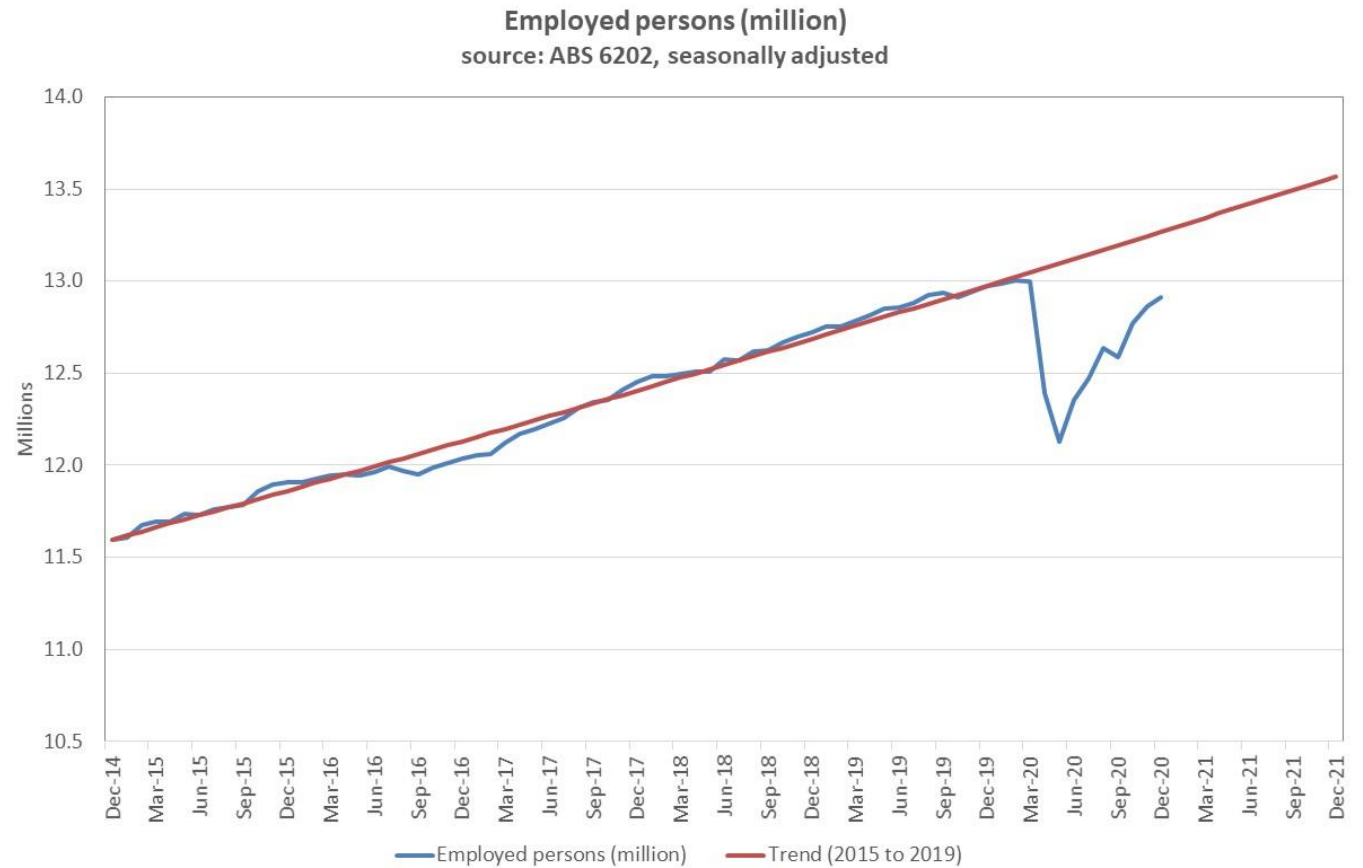
GDP is recovering from the recession but would have to grow by an annualised rate of 7.6% to be back to trend by the end of 2021. This rate of growth has not occurred for at least 37 years. Forecasts for 2021 currently centre on 3.5%. We may be back to late 2019 level by mid-2021.



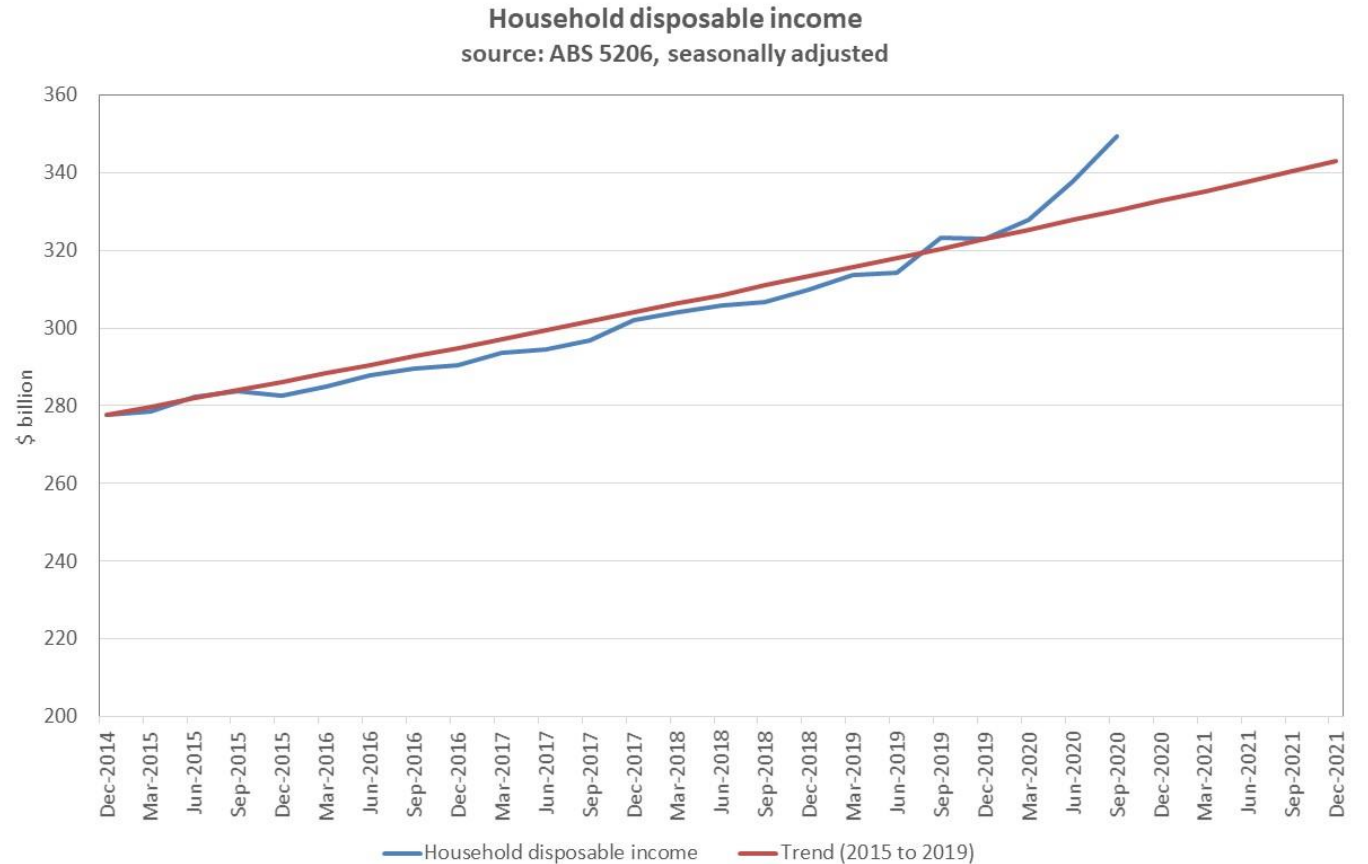
“When the National Accounts are published for the December quarter, they are likely to show that the level of GDP is 4 per cent lower than where we thought it would be a year ago. This is a big gap”.

Phillip Lowe, Governor of the Reserve Bank of Australia, 3 February 2021

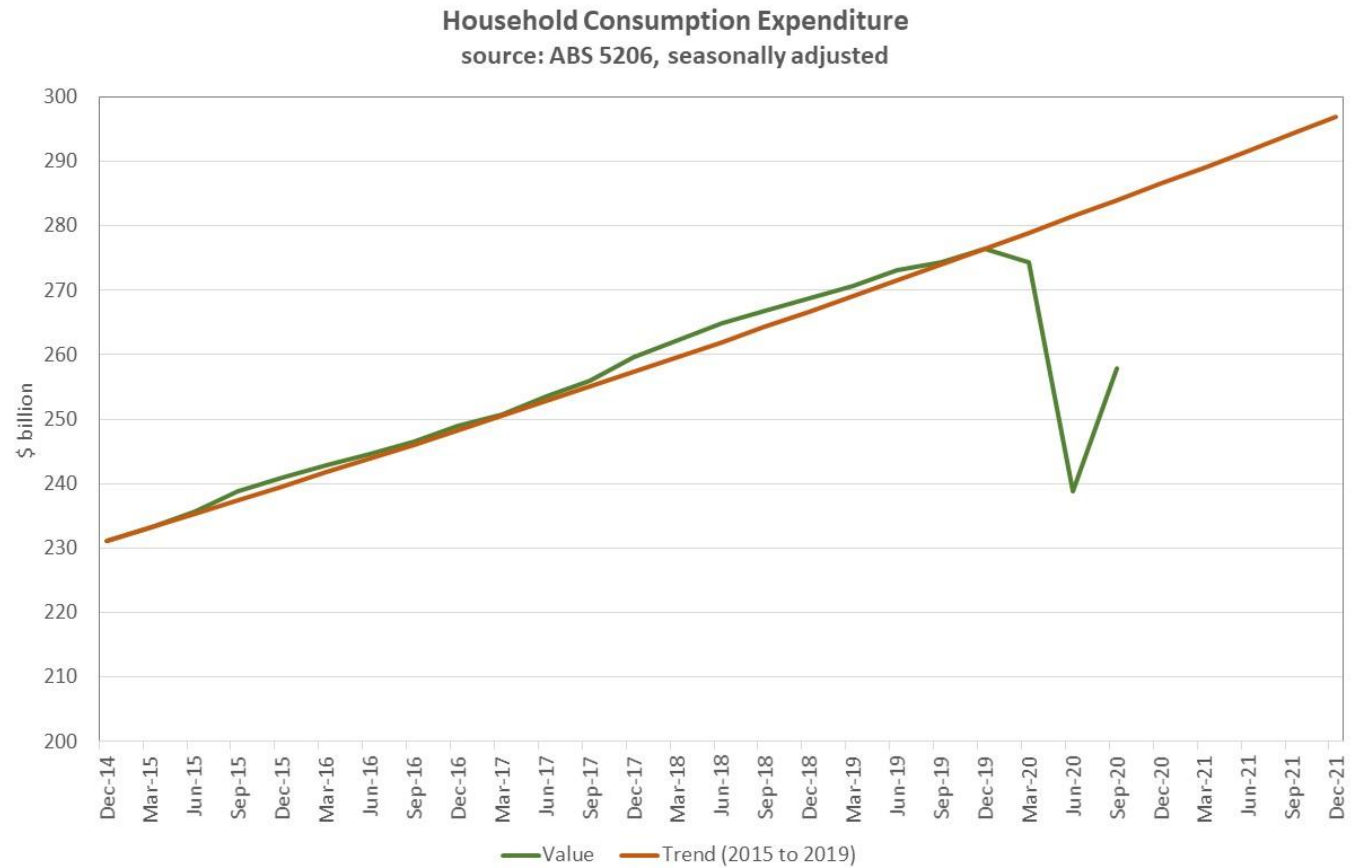
Employment has nearly recovered to where it was before the pandemic, but would have to increase by 700,000 in 2021 to be back to where it would otherwise have been. The average 12 months growth has been 159,000 since 1990 and the maximum was 430,000 in the year to January 2019.



Household disposable income growth has been higher than in recent years due to government income support payments, such as JobKeeper. This rate of income growth will slow significantly as these payments tail off.



Household consumption spending, which includes all goods and services is recovering from recession but is unlikely to recover to trend in 2021. That would require an annualised growth rate of 12% and industries such as domestic tourism and education are unlikely to be fully recovered in 2021.

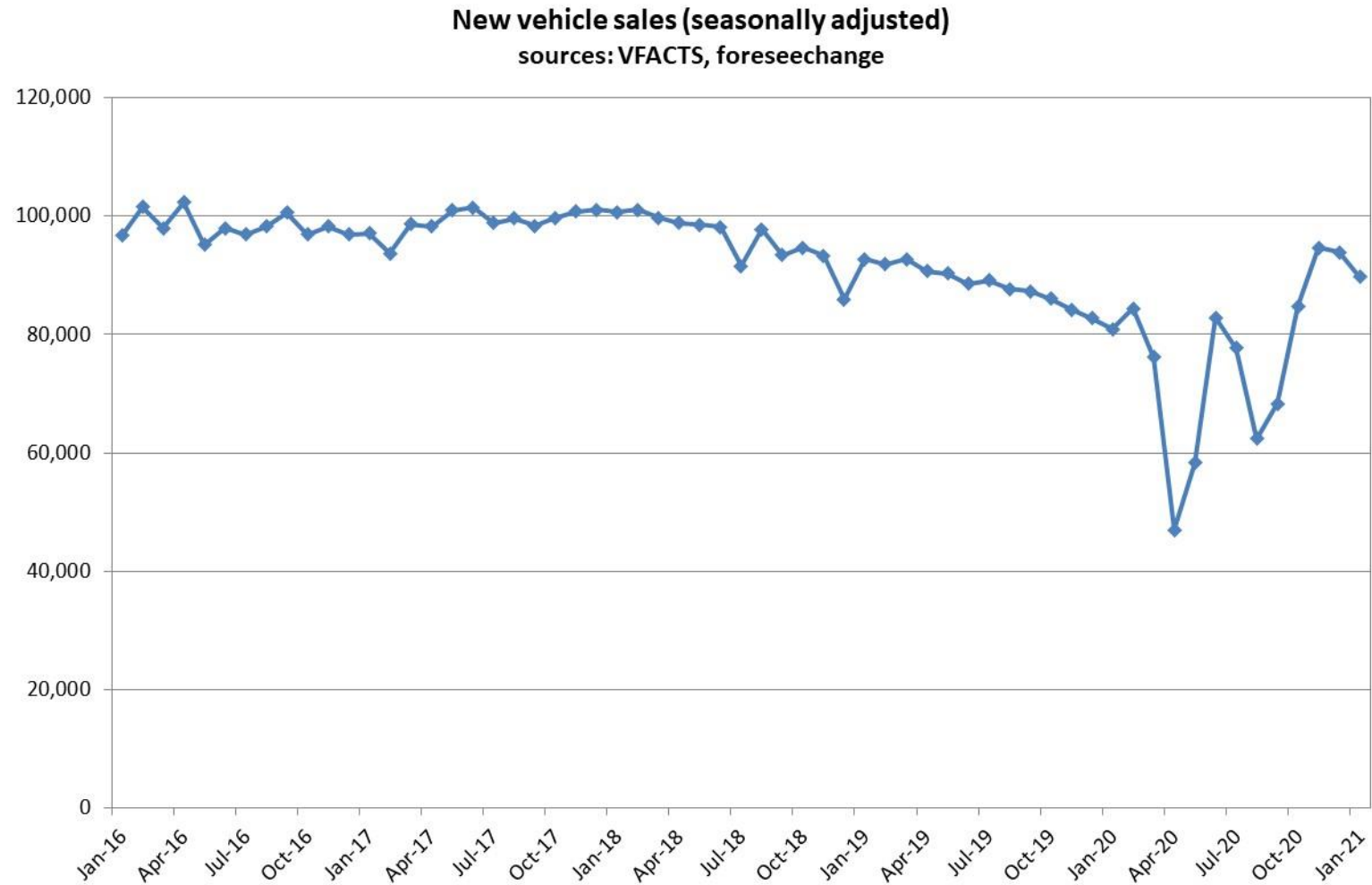


Retail sales has increased well above trend as consumers bought food and household goods for a period of cocooning and working from home. Savings from items not available to spend on, such as holidays, and items not needed so much, such as motor fuel, helped to finance this – as did government income support. This rate of growth will tail off as income growth slows and less durables are needed.





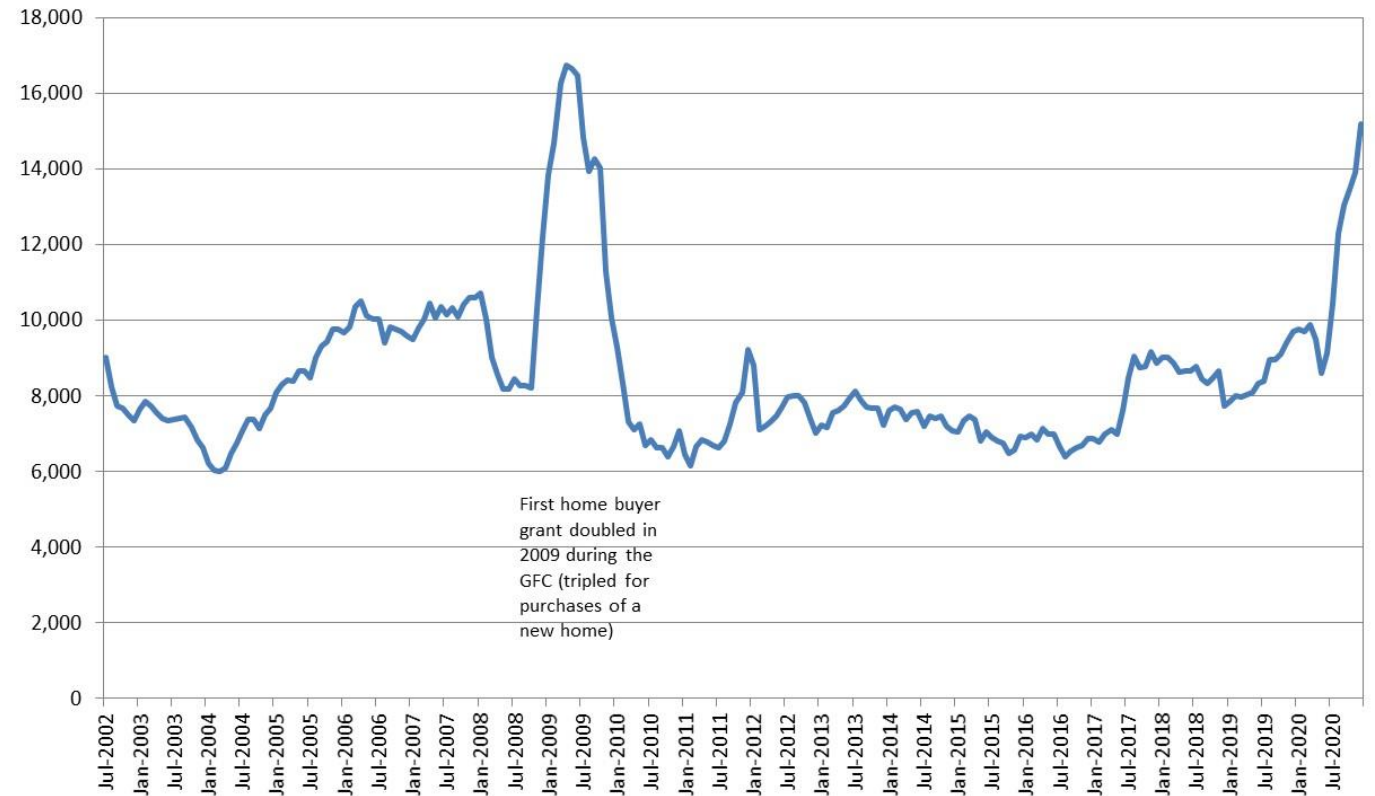
New vehicle sales have increased significantly in November, December and January after more than two years in decline. Instant tax write-offs have helped and there would have been some pent-up demand. Sales will increase in 2021, compared with 2020, but are unlikely to set a new record.



This is the first data for January 2021 and is positive: sales are up by 11.1% on January 2020, driven by private buyers.

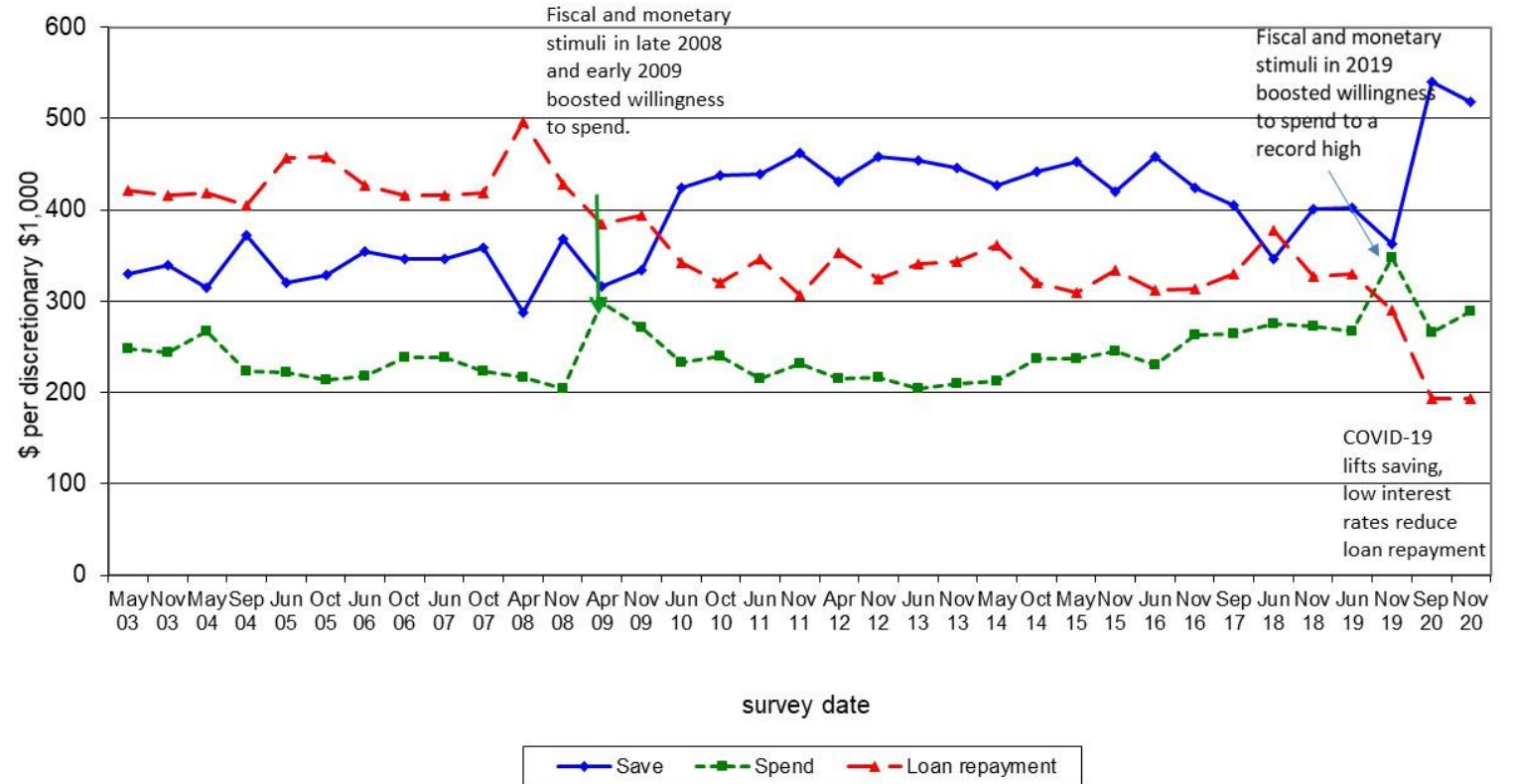
There is a boom in first home buyer finance commitments, fuelled by pent-up demand, record low interest rates, drawdowns of superannuation, and government assistance. Dwelling approvals for houses hit a record high in December, although approvals for apartments are down from their peak. This demand for housing is good for the economy.

Number of dwellings financed - first home buyers for owner occupation  
source: ABS 5601



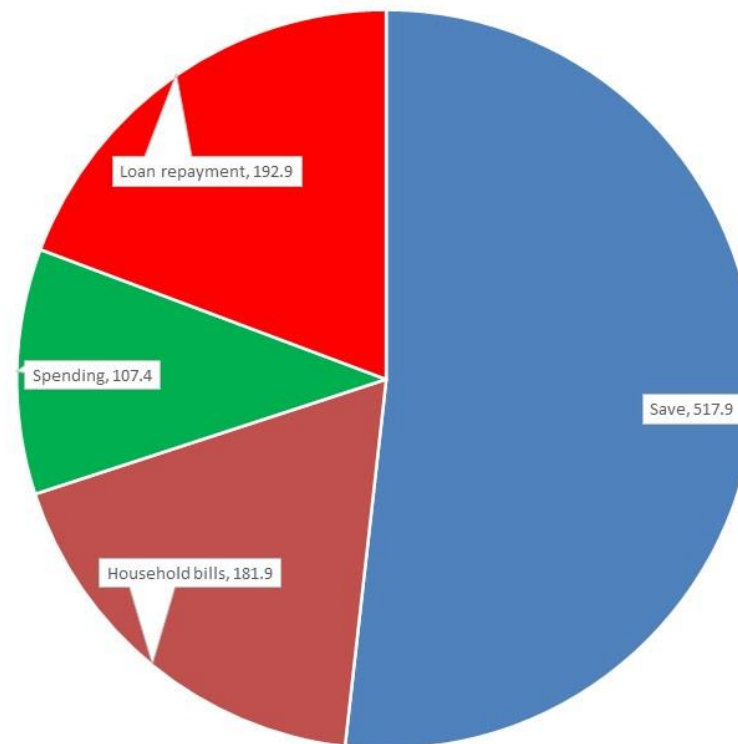
How would consumers allocate a discretionary \$1,000? The allocation to saving has increased very substantially to a record high since the pandemic and the allocation to loan repayment has dropped to a record low as interest rates have fallen. \$289 would be allocated to spending, higher than the long-term average.

**Willingness to spend and determination to save - all adults**  
source: foreseechange

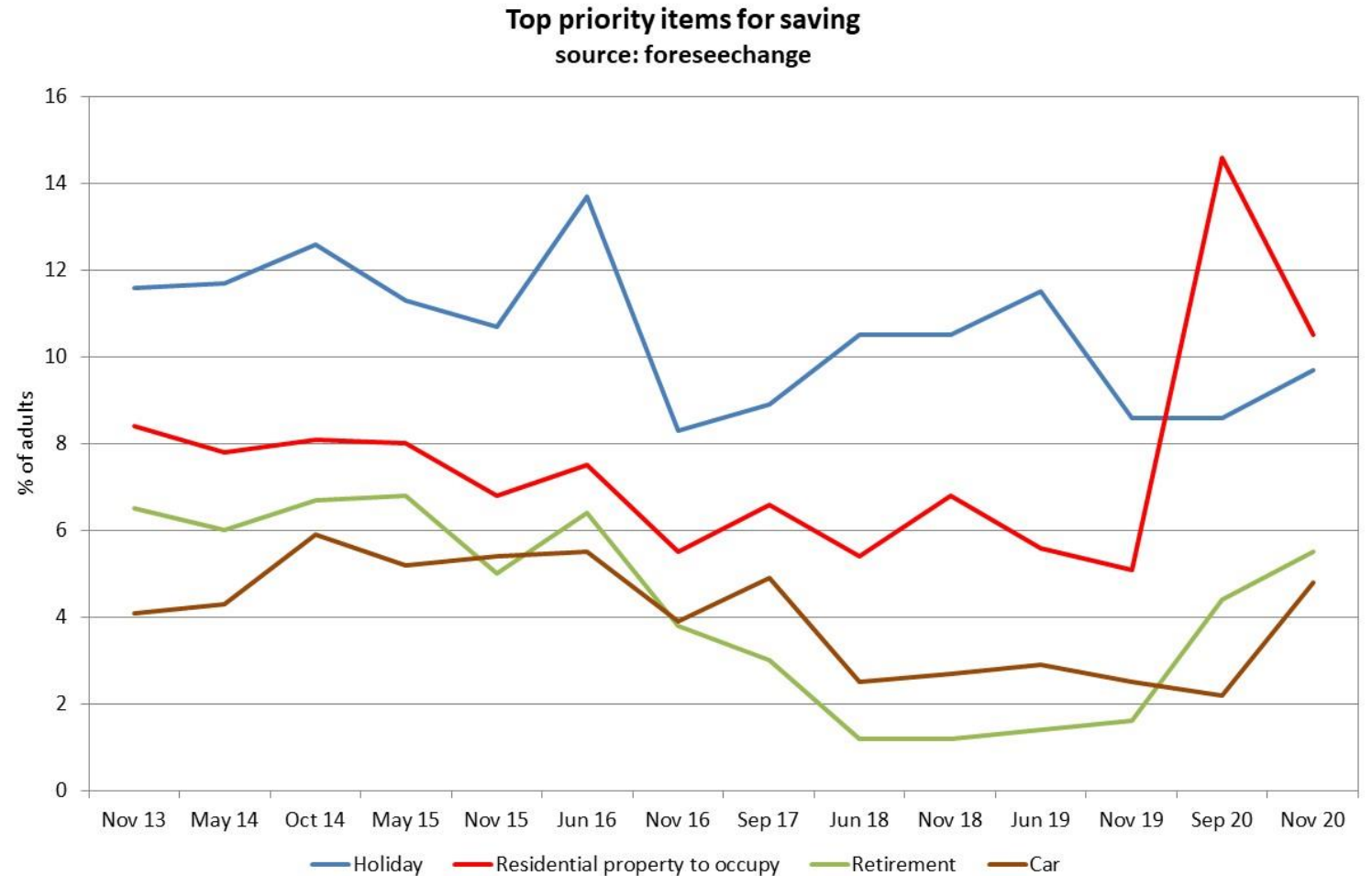


Much of the allocation to spending would go to paying household bills. Only \$107 of a discretionary \$1,000 would be for discretionary spending.

Allocation of discretionary \$1,000  
source: foreseechange, November 2020



What are people saving for? Apart from precautionary saving (15% of adults) the most frequently cited items are a holiday and residential property to occupy. The latter lifted to a record high in 2020, presaging the first home buyer boom. Saving for retirement and a car also lifted in 2020. Some of this saving will gradually lead to spending.

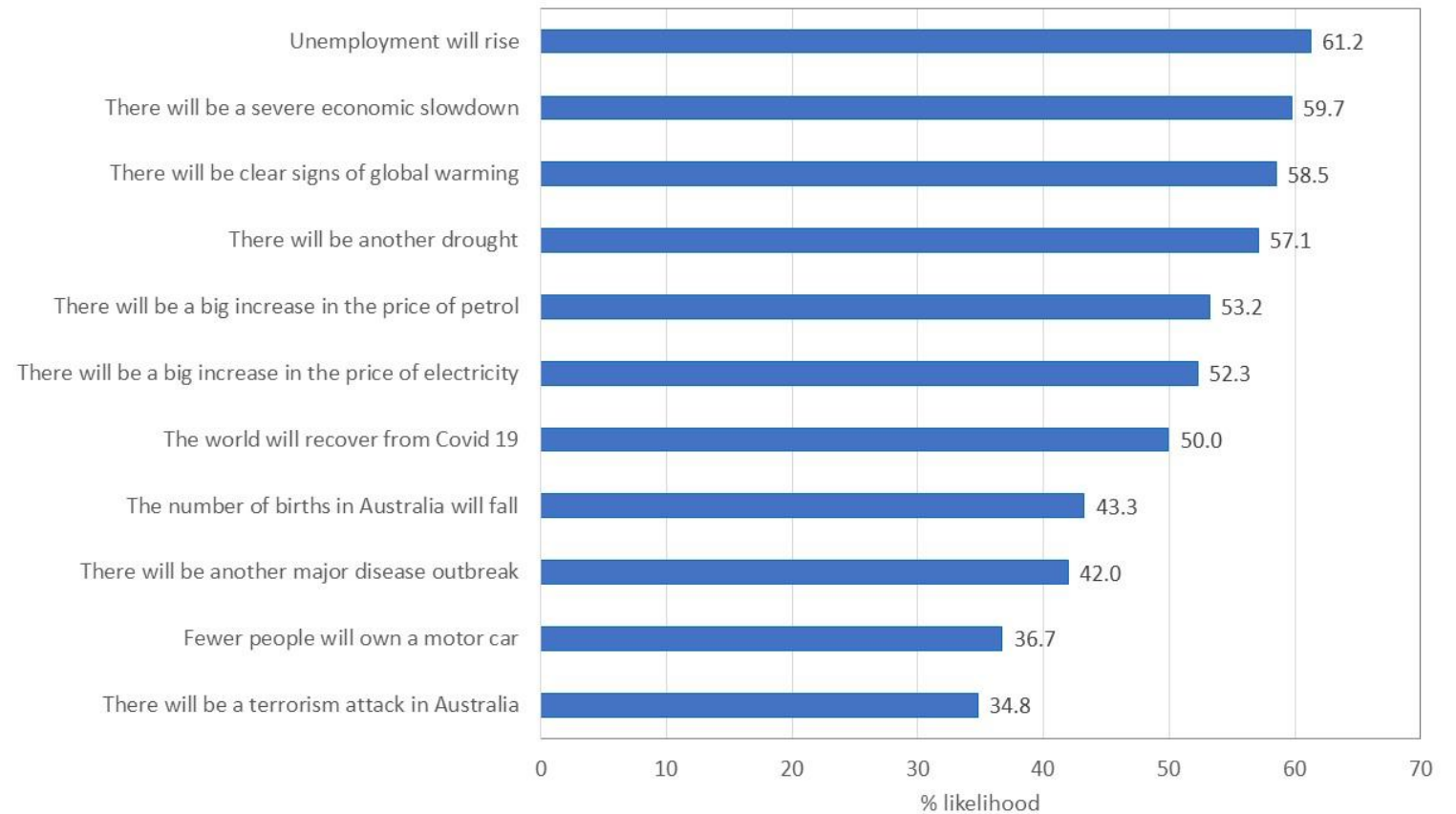


The increased incidence of saving for a car, in November, has been followed by much better new vehicle sales.

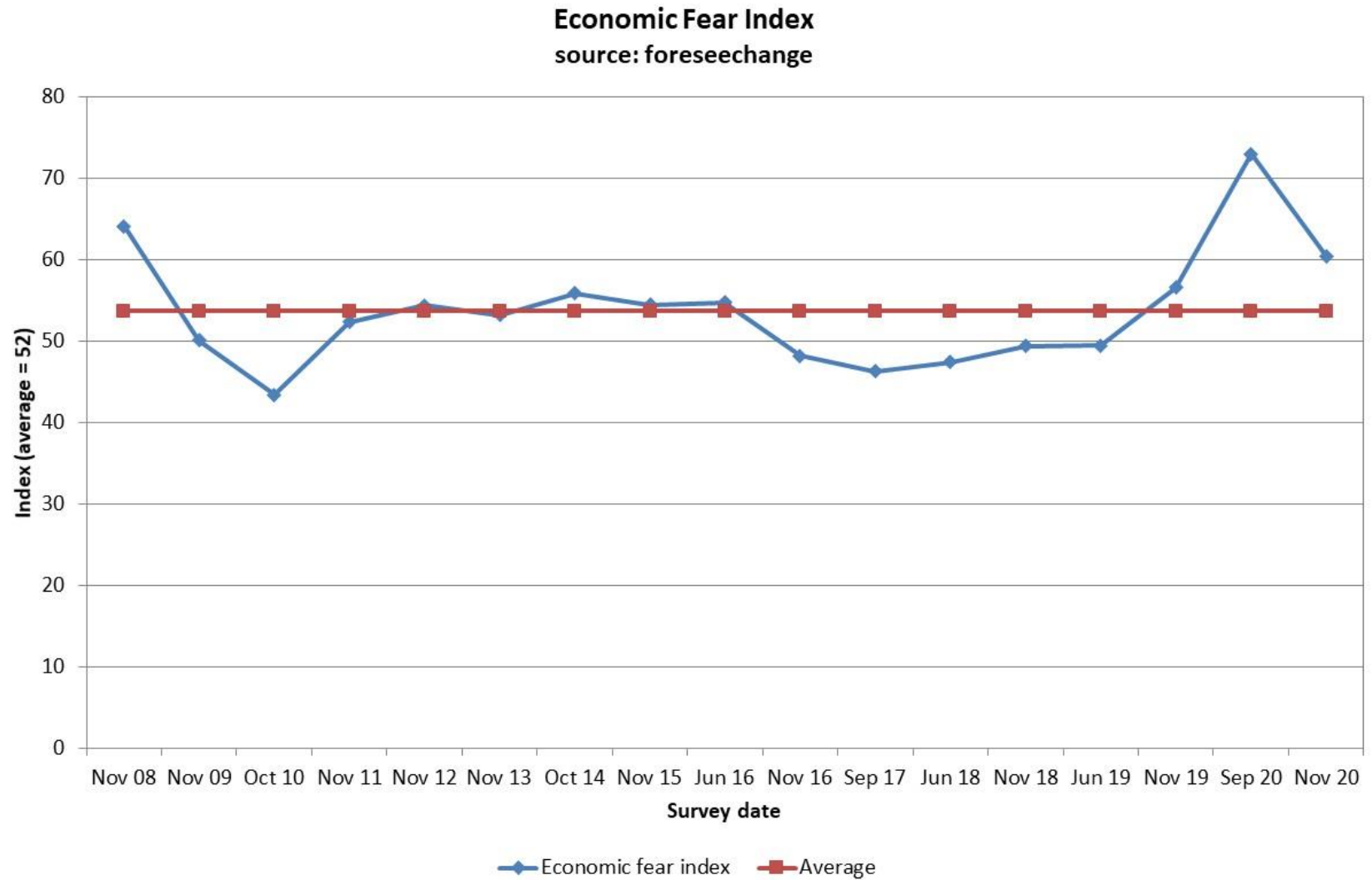
The Wisdom of the Masses for 2021: likelihood of specified events on a zero to 100 scale. Economic problems considered most likely, followed by global warming. A 50% likelihood of Covid-19 recovery and a 42% likelihood of another disease outbreak. These expectations will influence behaviour, suggesting caution.

### Likelihood of occurrence in the next 12 months

source: foreseechange, November 2020



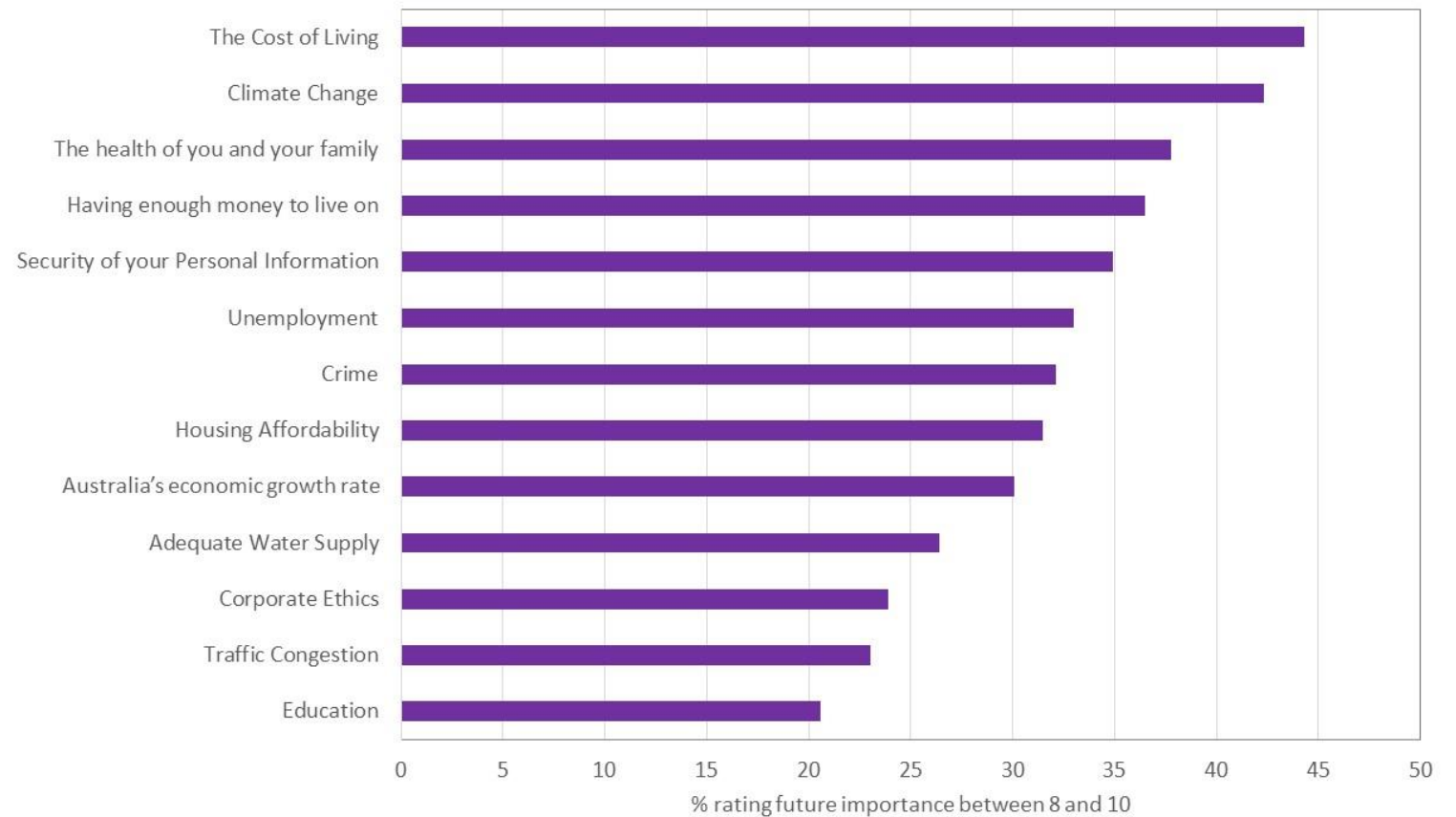
The economic fear index is based on expectations about the economy and unemployment. The index was still elevated in November, but below the level of September and when the GFC emerged in late 2008.



The expected level of future concern about issues is measured on a scale of zero (= not at all concerned) to 10 (= extremely concerned). The cost of living and climate change have the highest prevalence of expected high concern, followed by health, having enough money to live on and security of personal information. These concerns will be factored into behaviour.

### Proportion of respondents indicating expected future concern score of 8 to 10

source: foreseechange, November 2020

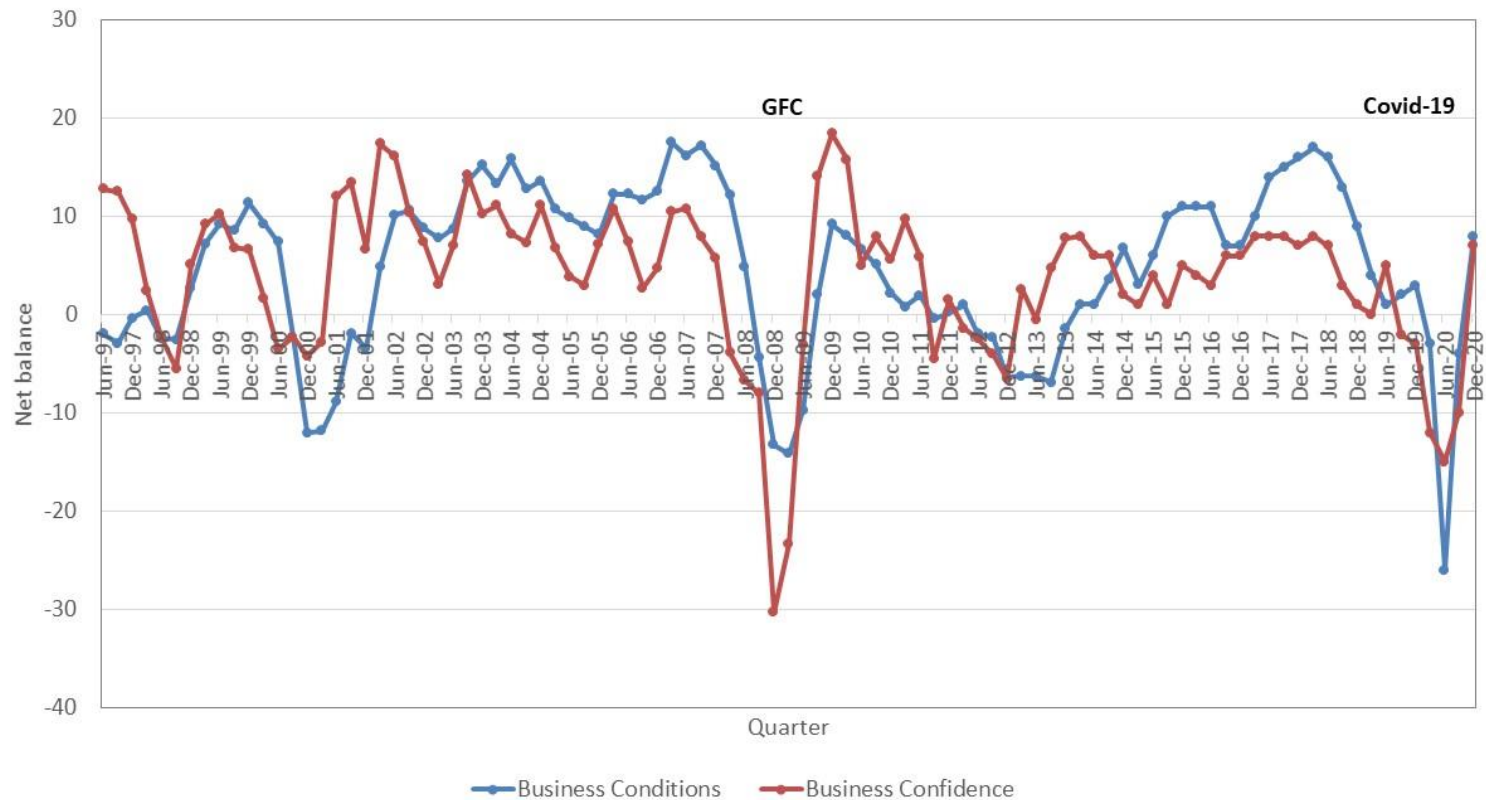




Business confidence and conditions have improved strongly from the depths of mid-2020. This is a good sign for advertising investment.

### Business conditions and confidence (net balance)

source: NAB



# Summary and updating

Concerns about the cost of living and having enough money to live on, combined with reductions in government income support suggest a heightened degree of caution in spending. The marginal propensity to save is high.

Uncertainty about the availability and effectiveness of the covid-19 vaccines suggest caution about the activities which people engage in, such as travel.

Another uncertainty is the prospect of a federal election and the outcome. The election can be held between August 2021 and April 2022. An election would be good for advertising spending.

Given these uncertainties, foreseechange will be providing frequent updates and extensions to our analysis.

An update with economic forecasts will be available in the second week of February.

An update including analysis of the economy to the December 2020 quarter will be available in the second week of March.

Our Consumer Pulse and Wisdom of the Masses surveys will be updated in March and analysis will be available in early April.

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