

Market Musings

Everybody Hurts

This week's economic data releases encapsulate the challenges, constraints and conundrums facing the Australian economy.

Long standing and growing pressures covering housing affordability and household debt, butting up against job insecurities and stagnant wages growth will likely trouble policy-makers for many years to come.

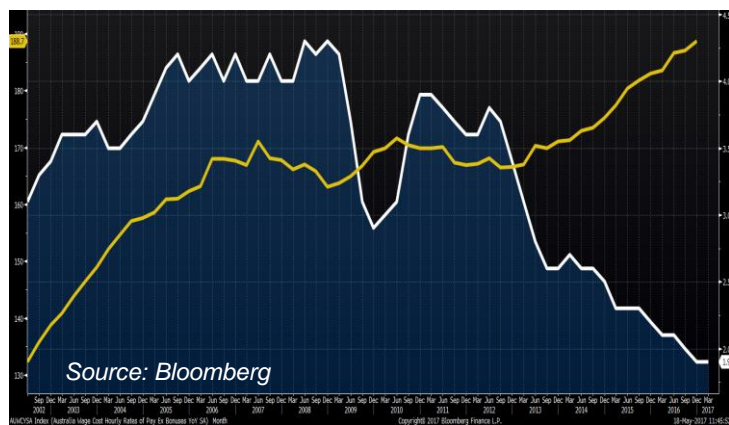
The *volume* of home loans fell 0.5% in March, although the *value* of loans rose 0.9%. Lower volumes suggest the housing cycle has peaked, whilst higher values inflame the housing affordability debate. Although, the weekly CoreLogic House Price Index snuck 0.4% lower for the five capital city markets.

New car sales climbed a mere 0.3% in April, to lift year on year sales back into positive by the slimmest of margins at 0.1%.

Consumer confidence fell a further 1.1% in May, resulting in six consecutive months below the 100 (pass mark).

Wages growth posted a 0.5% gain for the first quarter, but annual wage growth slipped to a new record low at 1.865% from 1.874%. As a result, wage growth sits below the rate of consumer price inflation at 2.1%.

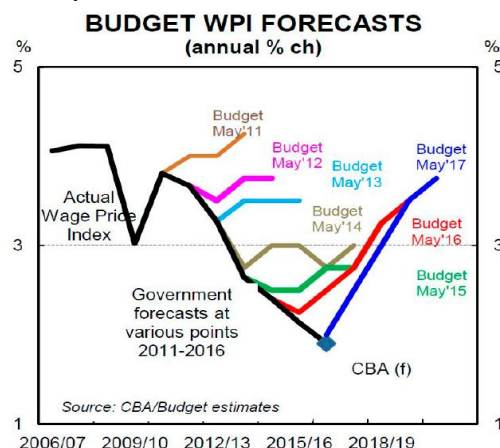
Household Debt (yellow) soars as Wage Growth (white) sours



The monthly labour force numbers revealed a consecutive jump in employment to just shy of 100,000 positions over the last two months. The full-time to part-time mix made a welcome comeback over the last three months, but the casualisation of the Australian workforce remains an enduring trend.

To summarise all this, Australians are getting paid less to work less, but more us are employed!

Wages happen to be the cornerstone of the 2017/18 Federal Budget returning to an elusive surplus. Whereby, the budget assumes a doubling in wages growth, but the trouble is budget forecasting has been wrong for six years now!



The reality is something has fundamentally changed with regard to wages throughout the developed world! Wage growth is anaemic in New Zealand, Canada, Australia and the UK, although a little firmer in the US relative to rates of inflation. In all cases (excluding the US) wage growth is below the prevailing rates of consumer price inflation. That is, negative real wages.

This year's Federal Budget will further erode household disposable incomes (that is wages less taxes) via the Medicare Levy (admittedly, there is a two year grace period).

Furthermore, discretionary incomes (that is disposable income less basic spending on necessities) are likely to be squeezed further by recent out of cycle rate hikes on borrowings (plus impacts from the Bank Tax), rising energy costs (notably gas) and food price inflation arising from Cyclone Debbie (albeit temporary).

Given, consumption comprises circa 60% of the domestic economy, further deteriorations in household wages, confidence and spending may see the Aussie economy approach stall speed.

*"Win or lose, we go shopping after the election."
~ Imelda Marcos*