Economic Insights

CommSec

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# New car sales lift; Reserve Bank optimism

## Reserve Bank Governor speech; New vehicle sales; Living cost indexes

- **<u>Reserve Bank Governor speech:</u> Philip Lowe delivered a speech entitled, *"The Year Ahead"*.**
- **<u>New vehicle sales:</u> New vehicle sales totalled 79,666 units in January, up 11.1 per cent on a year ago. It was the third month of annual growth after 31 months of falling sales.**
- **<u>Living cost indexes:</u> In the December quarter, the cost of living for employee households rose by 0.8 per cent to be down 0.5 per cent on the year. The cost of living rose 0.7 per cent over the past year for pensioner & beneficiary households; rose 0.4 per cent for aged pensioners; and rose 0.8 per cent for self-funded retirees. The broader Consumer Price Index (CPI) rose by 0.9 per cent over the year.**

***New vehicle sales data provides insights into business and consumer spending and provides guidance on conditions for the Autos and Components sector of the sharemarket. The speech from the Reserve Bank Governor is important in setting interest rate guidance.***

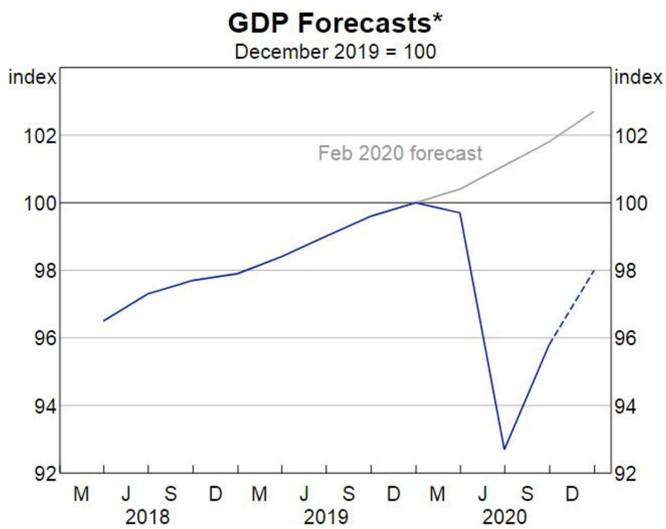
### What does it all mean?

- The Reserve Bank Governor has highlighted the success Australia has had in suppressing the virus, leading to an earlier and stronger economic recovery. The Governor has also reiterated the new 'top level' economic forecasts and the current approach to monetary policy.
- On interest rates, the Governor noted: *"The Board has no appetite to go into negative territory and has done as much as it reasonably can with interest rates."*
- The new motor vehicle market continues to recover – now up in annual terms for three months. Lack of supply continues to hold back sales as lockdowns are crimping production of vehicle and parts such as semi-conductors across the globe.
- For those in the workforce, the cost of living rose by 0.8 per cent in the December quarter to be down by 0.5 per cent over the year. But for age pensioners, self-funded retirees and pensioner & beneficiary households, the cost of living rose over the year. Still, if you don't smoke, don't require child care services and didn't fork out for holiday accommodation over the summer then living costs may have been flat or declined in 2020. But the cost of living is something for the authorities to watch, especially as wages and benefits are also barely growing at present.

### What do you need to know?

**<u>Reserve Bank Governor speech – key points</u>**

- "I would like to offer 3 observations on the year we have just been through.
  - ➢ The first is that Australians respond well in a crisis.
  - ➢ The second is that the economic downturn was not as deep as was initially feared and the bounce-back has been earlier and stronger than we were expecting.
  - ➢ And the third is that as we start 2021, there is still quite a way to go before we reach our goals of full




* RBA forecast for December quarter 2020
Sources: ABS; RBA

**Craig James, Chief Economist**
**Twitter: @CommSec**

employment and inflation consistent with the target.

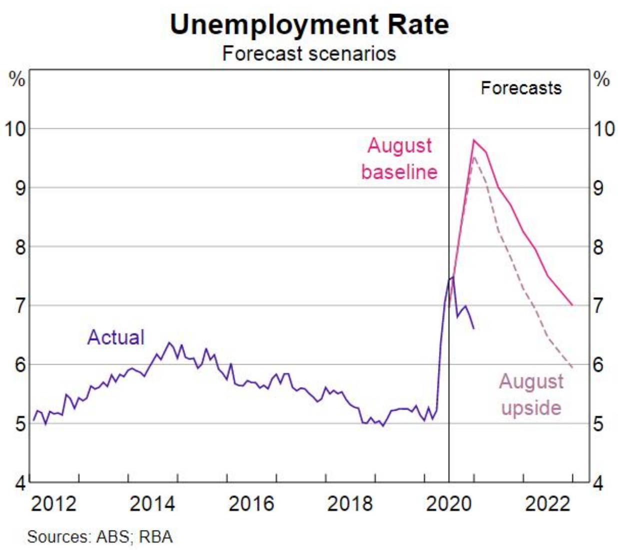
- What explains these better-than-expected outcomes?
  - The first is the success that Australia has had in containing the virus.
  - The second factor is the very significant fiscal policy support in Australia.
  - The third factor is that Australians adapted and innovated.
- Despite the positive economic news over recent months, we still have quite a way to go.
  - There is still very substantial spare capacity in the Australian economy.
- Year ahead:
  - As was the case in 2020, much depends upon the path of the pandemic.
  - GDP is expected to increase by 3½ per cent over both this year and 2022. Given the recovery we have seen so far, we are expecting the level of GDP to return to its end-2019 level by the middle of this year, which is 6 to 12 months earlier than we previously expected.
  - Unemployment: In the central scenario, it is expected to reach 6 per cent by the end of this year and around 5¼ per cent by mid 2023.
  - Inflation the central forecast for 2021 is 1¼ per cent and for 2022 it is 1½ per cent.
- I would like to highlight 2 specific issues that have a bearing on the forecasts.
  - The first is how households respond over coming months to the tapering of the fiscal and other support measures. Another important factor bearing on household spending is the housing market.
  - The second specific issue I want to highlight is the outlook for investment.
- I would now like to turn to monetary policy.
  - The first conclusion is that last year's monetary policy package is working broadly as expected and is supporting the economy.
  - The second conclusion is that very significant monetary support will need to be maintained for some time to come.
  - The third conclusion is that we will continue to purchase bonds issued by the Australian Government and the states and territories at the completion of the current $100 billion program in mid April."
- *"The cash rate will be maintained at 10 basis points for as long as is necessary. The Board has no appetite to go into negative territory and has done as much as it reasonably can with interest rates."*
- *"Before increasing the cash rate, the Board wants to see inflation sustainably within the 2 to 3 per cent target range. Meeting this condition will require a tighter labour market and stronger wages growth than we are currently forecasting. It is difficult to determine exactly when this condition might be met but, based on the outlook I have discussed today, we do not expect it to be before 2024, and it is possible that it will be later than this."*

**<u>New vehicle sales - January</u>**

- New vehicle sales totalled 79,666 units in January, up 11.1 per cent on a year ago. While sales have now grown in annual terms for three months, it follows 31 months of falling sales.

**The Federal Chamber of Automotive Industries reported:**

- *"The January 2021 market of 79,666 new vehicle sales is an increase of 7,935 vehicle sales or 11.1 per cent on January 2020 (71,731) vehicle sales. January 2020 and January 2021 each had 24 selling days and this resulted in an increase of 330.6 vehicle sales per day.*
- *The Passenger Vehicle Market is down by 1,914 vehicle sales (-9.3 per cent) over the same month last year; the Sports Utility Market is up by 6,161 vehicle sales (17.4 per cent); the Light Commercial Market is up by 3,450 vehicle sales (24.6 per cent); and the Heavy Commercial Vehicle Market is up by 238 vehicle sales (13.2 per cent) versus January 2020.*
- *Sales across states and territories over the year to January: NSW (up 9.1 per cent); Victoria (up 1.9 per cent); Queensland (up 18.1 per cent); South Australia (up 17.0 per cent); Western Australia (up 24.9 per cent); Tasmania (up 6.6 per cent); Northern Territory (up 38.7 per cent); ACT (up 16.6 per cent).*
- *The sales growth in January 2021 compared to*



*January 2020 was due to increased demand from private buyers, with sales up 25.4 per cent in that category. Sales to business buyers was down 1.3 percent, with sales to Government and Rental also falling by 11.2 per cent and 12.4 per cent respectively.*

- *Sales of passenger vehicles were down 9.3 per cent on January 2020, while sales of SUVs were up 17.4 per cent and sales of light commercial vehicles were up 24.6 per cent.*
- *Toyota was the leading brand in January with sales of 16,819 vehicles (21.1 per cent of the market), followed by Mazda with 8,508 (10.7 per cent), Hyundai with 5,951 (7.5 per cent), Kia with 5,500 (6.9 per cent) and Mitsubishi with 5,179 (6.5 per cent)."*

## What is the importance of the economic data?

- The **Federal Chamber of Automotive Industries** releases estimates of **new vehicle sales** on the third business day of the month. The figures highlight the strength of consumer spending as well as conditions facing auto & components companies.
- The **Australian Bureau of Statistics** releases data each quarter on **Living Cost Indexes** – essentially price trends (inflation) for different demographic segments. The data is useful in understanding consumer spending trends.
- **The Reserve Bank Governor's speeches** enables investors to have more insights on the economy and the operation of monetary policy.

## What are the implications for investors?

- Economic recovery is proceeding in Australia. The Reserve Bank Governor remains positive on the outlook but acknowledges that much depends on the success of the vaccine rollout.
- The Governor covered a lot of ground in the latest speech but there few 'new' elements added to the economic debate.
- On other issues the Governor said if we need more fiscal stimulus "I hope we get it"; but he doesn't expect to continue quantitative easing for years' and he is not concerned about asset price inflation.
- One point of clarification from the Reserve Bank Governor is that he hasn't pledged to leave the cash rate unchanged until 2024. Rather it is his firm view or expectation that rates will stay at record lows for this period of time.

*Craig James, Chief Economist, CommSec*
*Twitter: @CommSec*