

'STATE OF THE NATION'

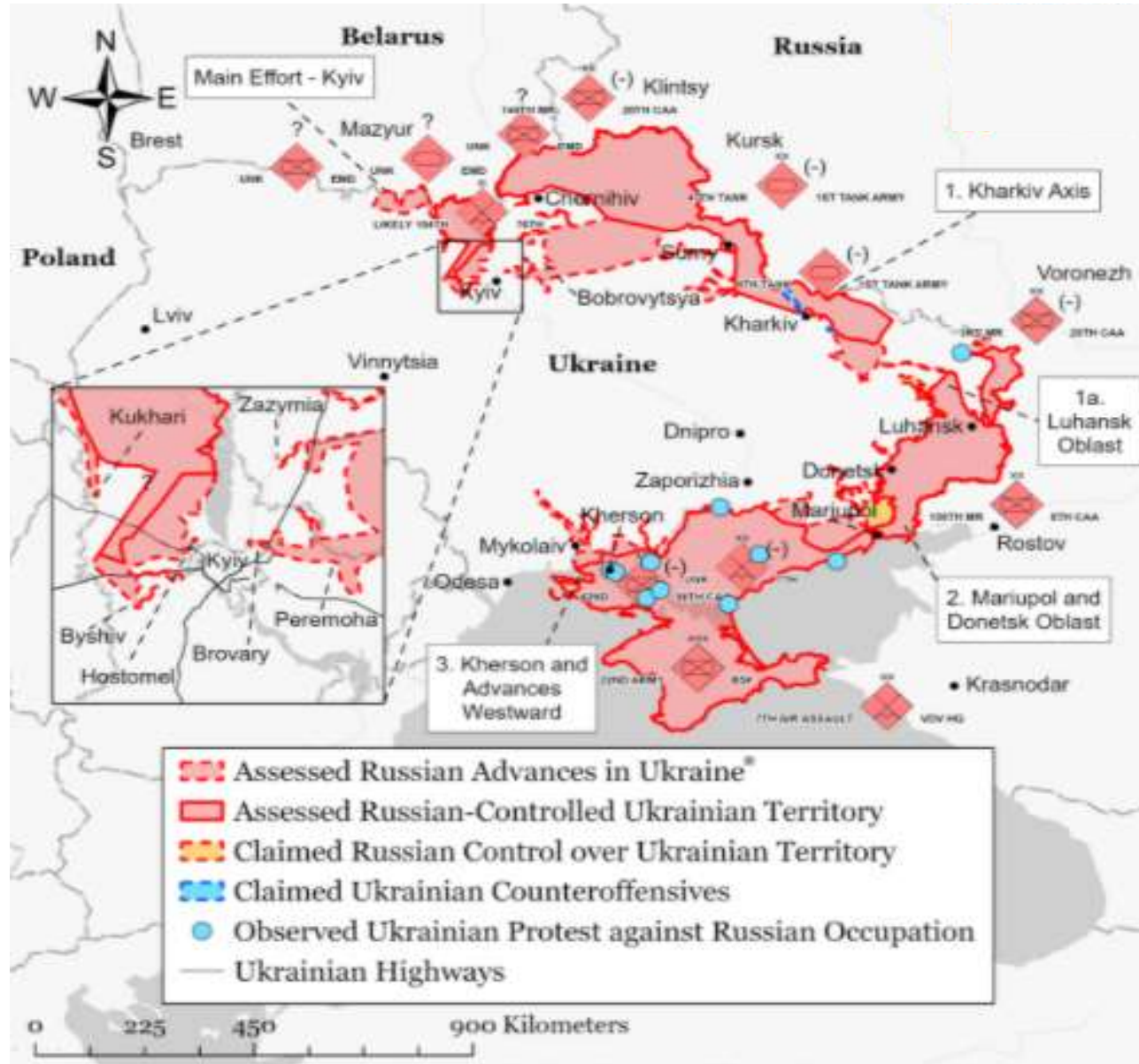
PRESENTATION TO THE NATIONAL APPRENTICE EMPLOYMENT NETWORK
NATIONAL CONFERENCE

HOTEL GRAND CHANCELLOR, HOBART
16TH MARCH 2022

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

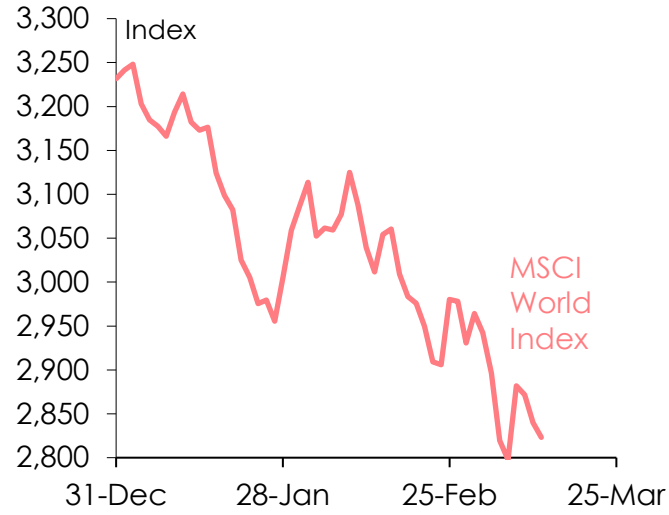
Despite the resistance displayed by the Ukrainian military and civilians, the Russians seem likely to end up getting whatever it is they want in Ukraine



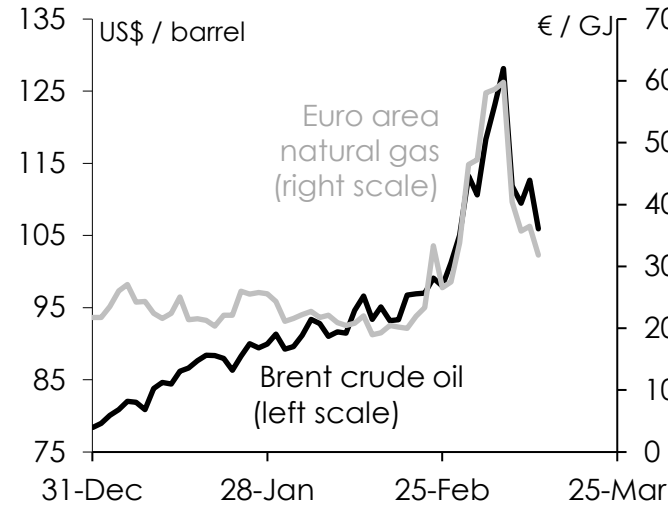
- ❑ Holding on to it whatever territorial gains Russia makes, and maintaining a 'puppet government' in Kyiv, may prove very (perhaps ruinously) expensive (for Russia as well as Ukraine)
- ❑ And Russia will pay a very high on-going cost as a result of Western sanctions
- ❑ No-one has any idea whether Putin will stop at Ukraine
- ❑ Nor does anyone have any idea what might happen if, perchance, Putin fails to achieve a military victory

Markets have reacted in more-or-less predictable ways to the war in Ukraine although initial surges have been wound back

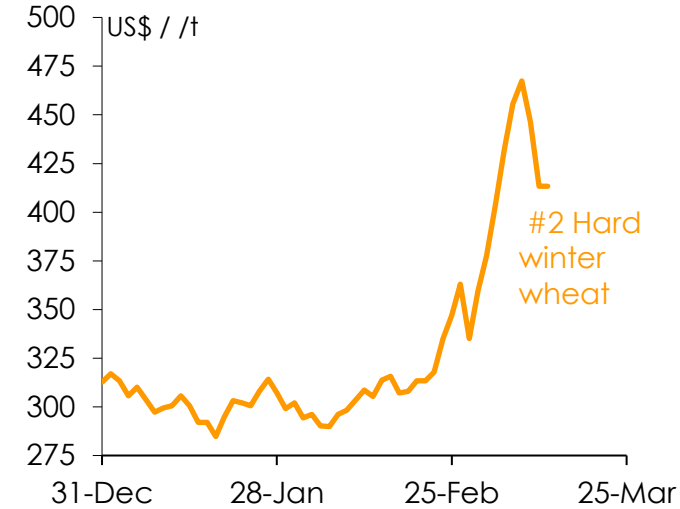
Stockmarkets



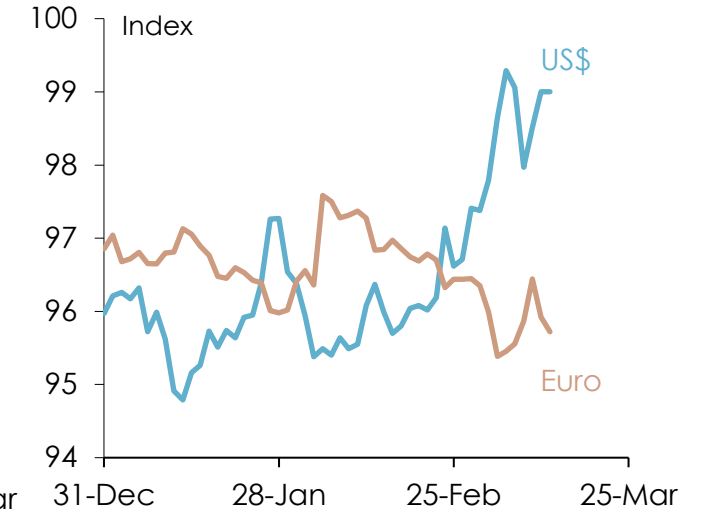
Energy prices



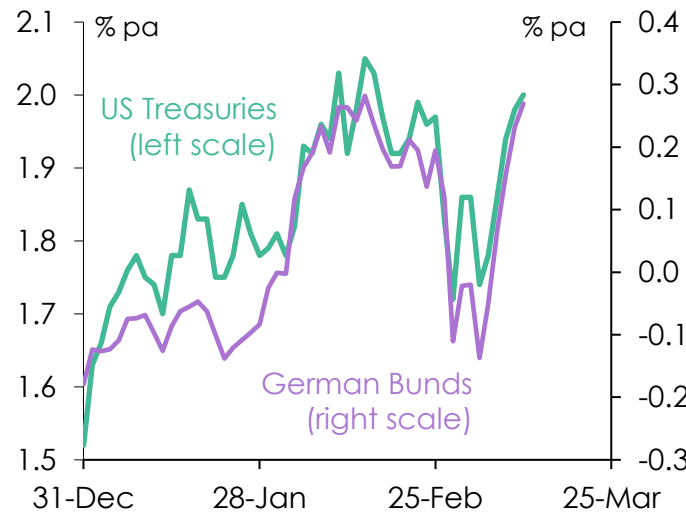
Wheat price



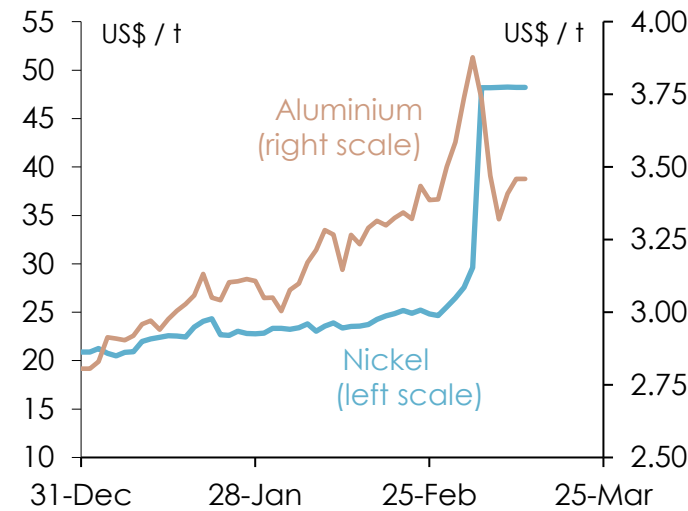
Currencies



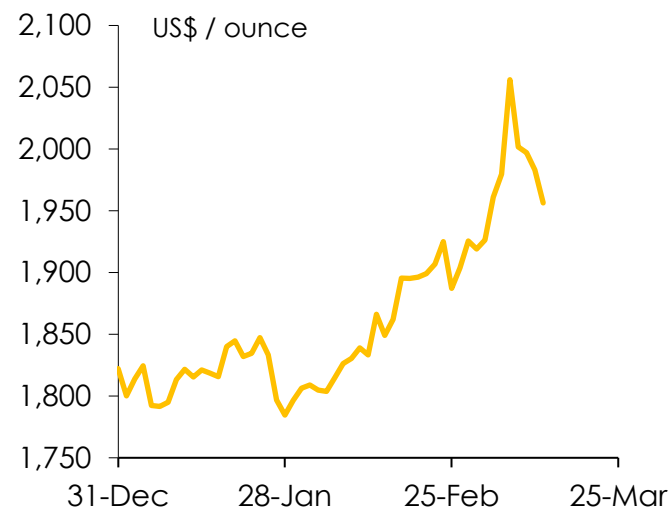
10-year bond yields



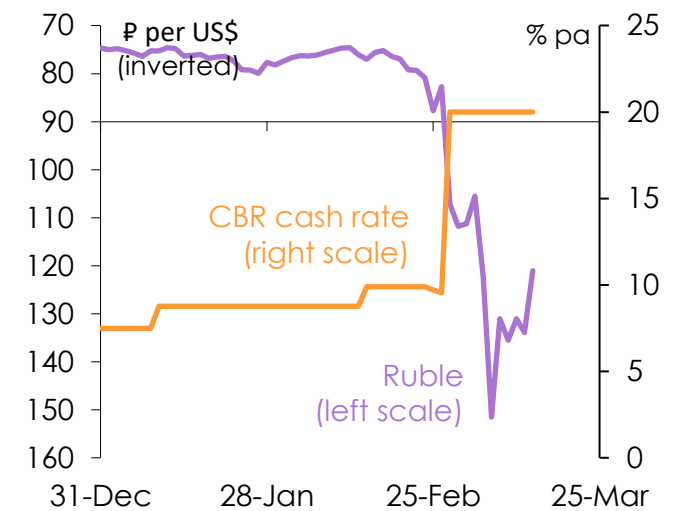
Base metal prices



Gold price



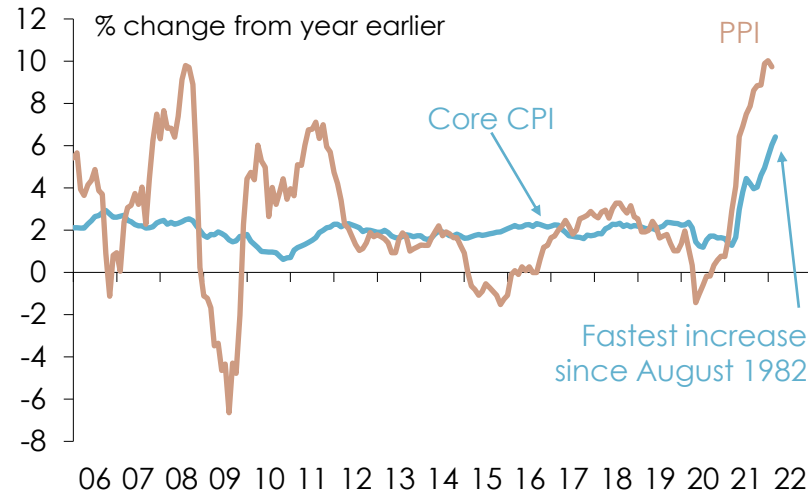
Russian markets



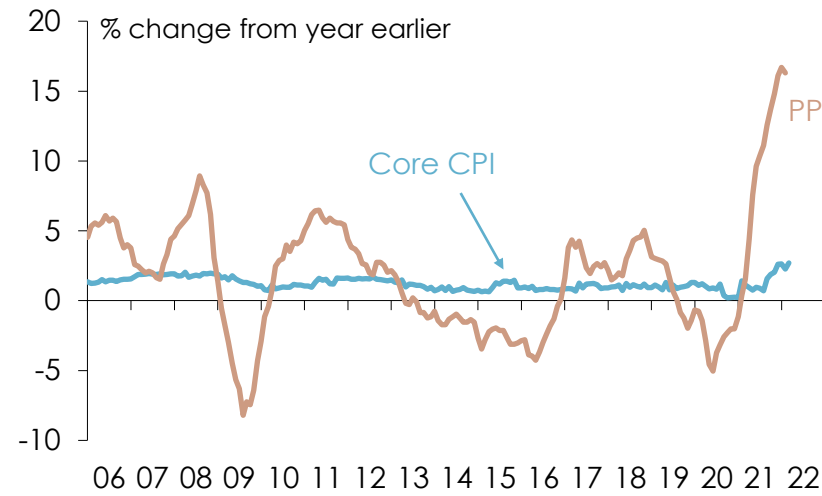
Note: Data up to 14th March. Source: Refinitiv Datastream.

Higher energy and food prices will exacerbate the rise in inflation which was already occurring in 'advanced' economies

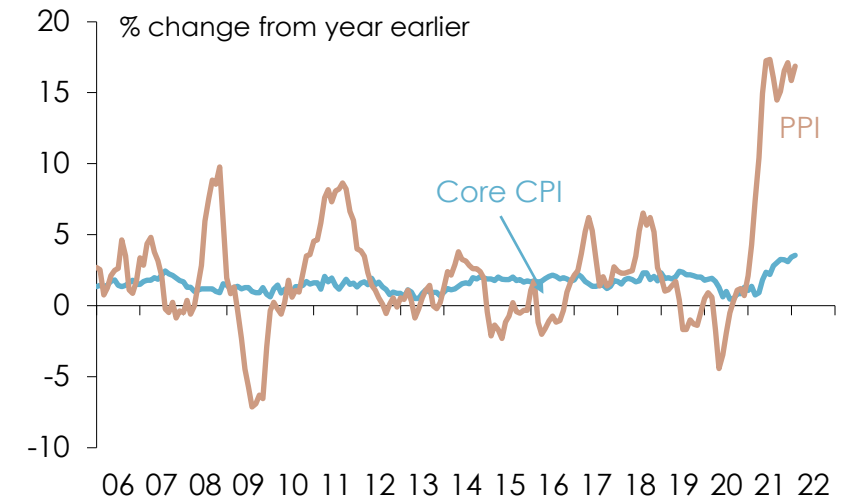
United States



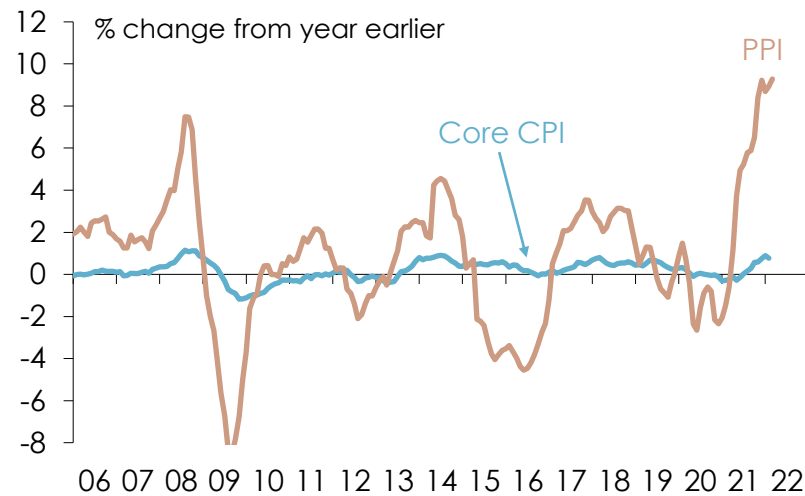
Euro area



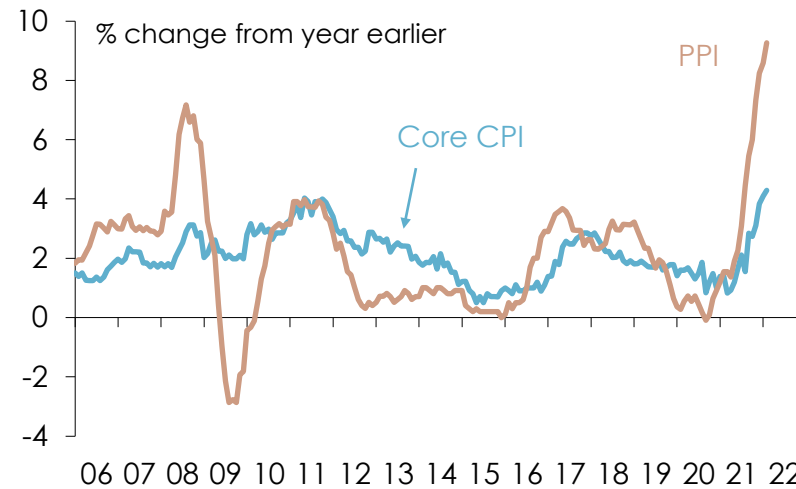
Canada



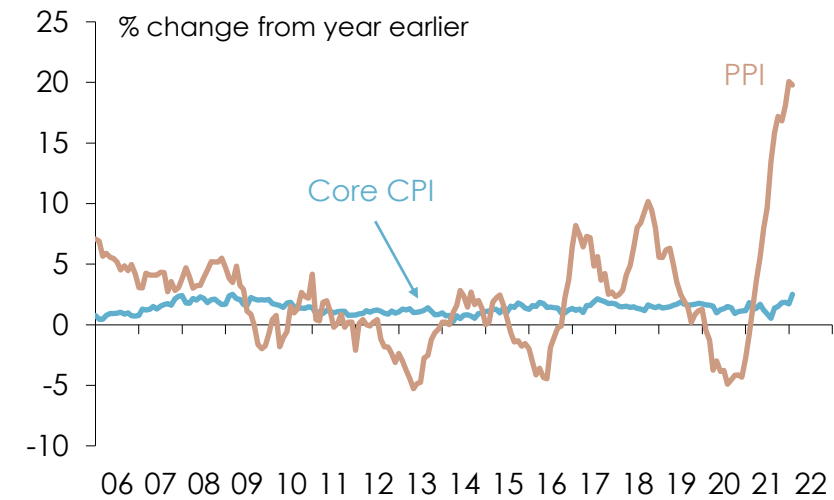
Japan



United Kingdom



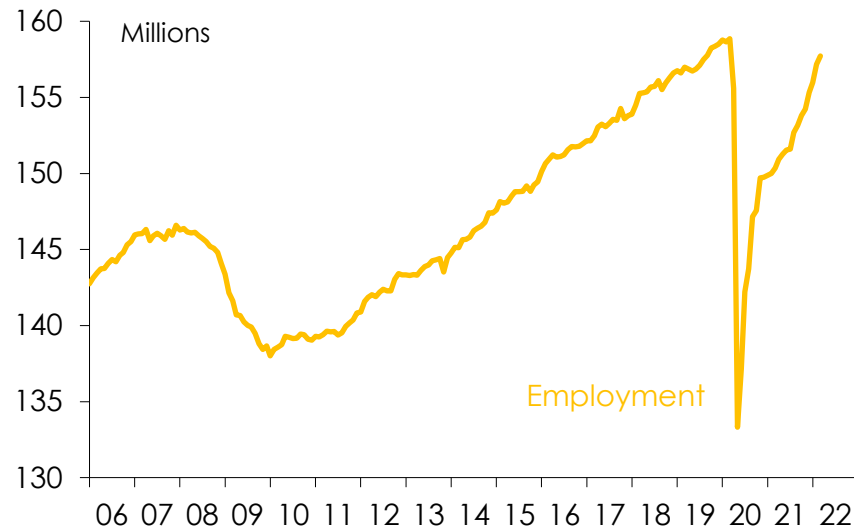
Sweden



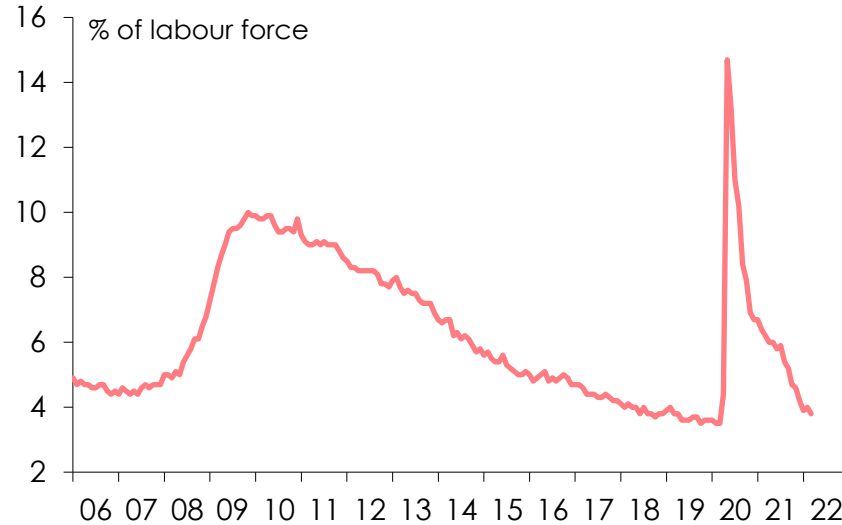
Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Statistics Sweden](#).

The US labour market has become very tight, even without unemployment falling to its pre-pandemic low, and wage inflation has picked up sharply

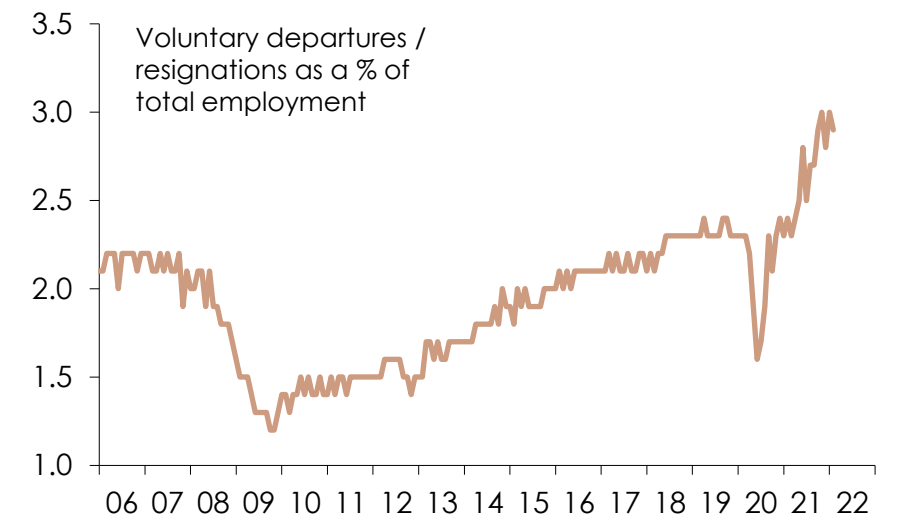
Employment



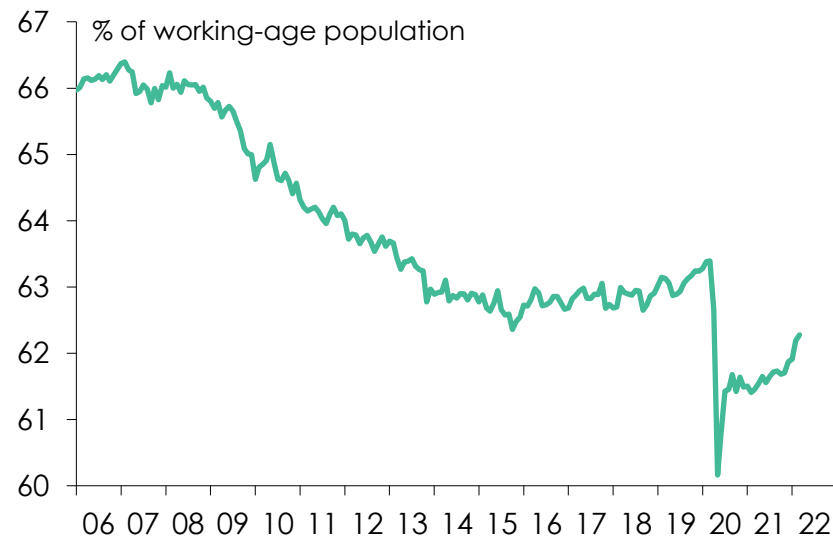
Unemployment rate



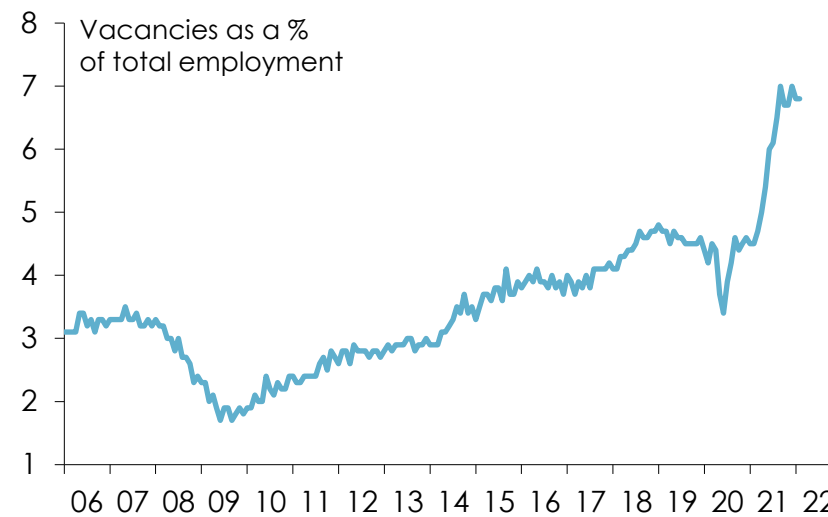
'Quit rate'



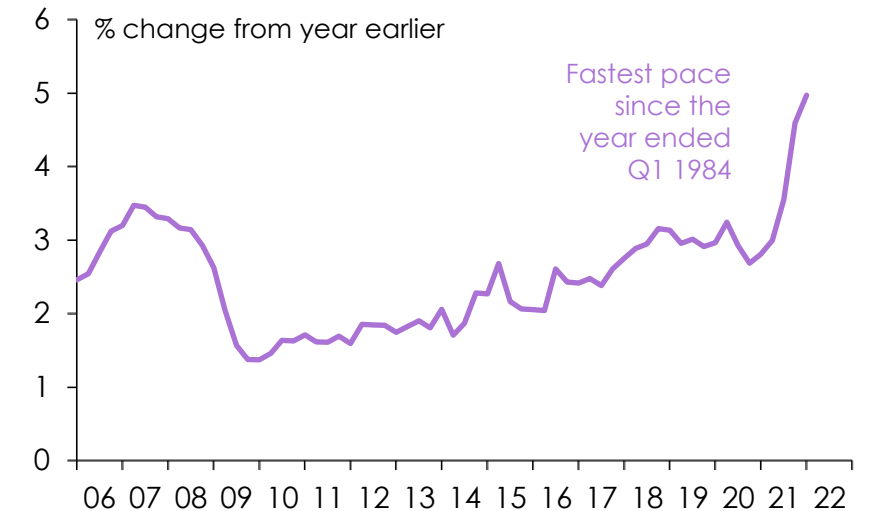
Labour force participation rate



Job vacancies rate



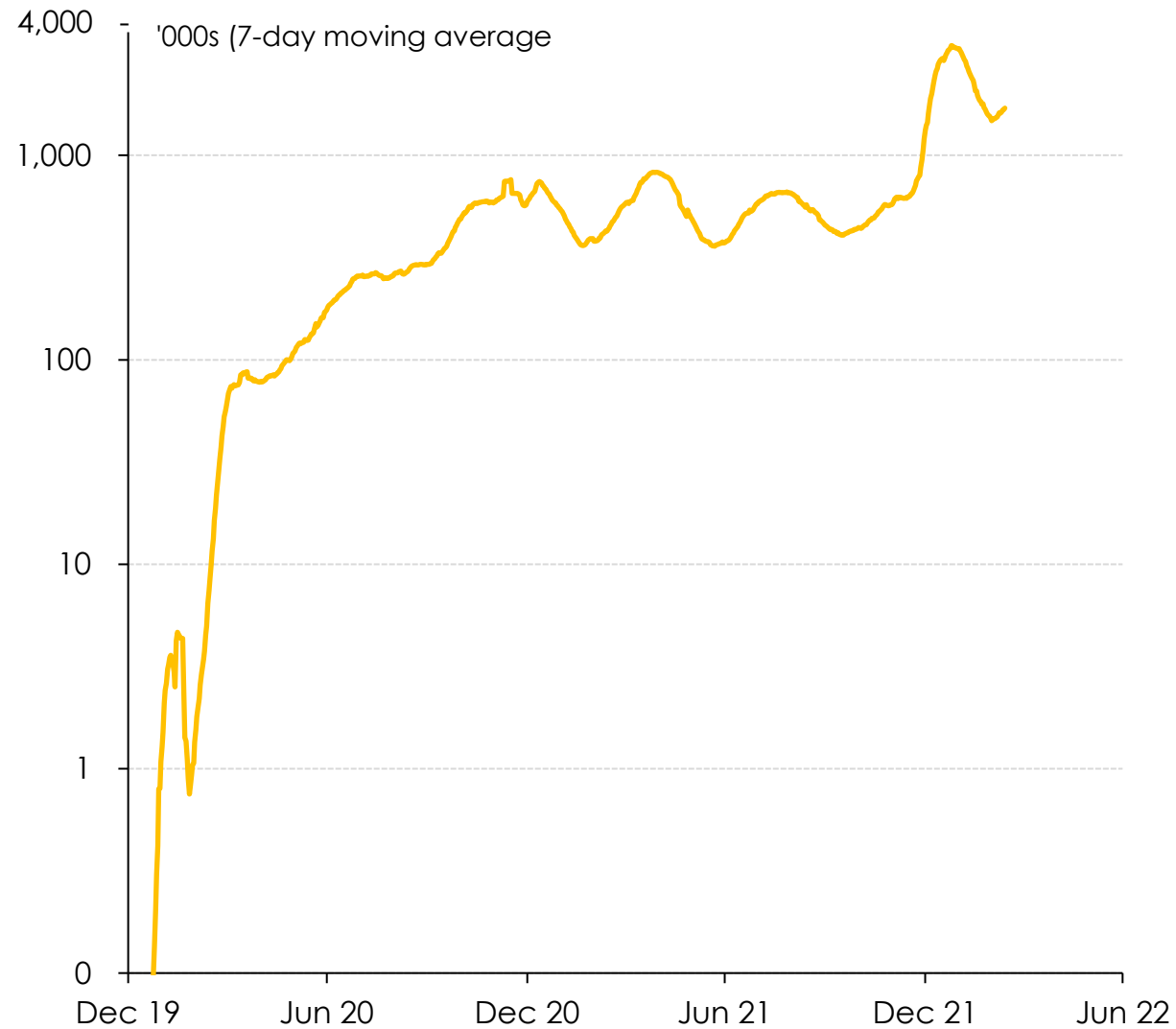
Wages growth



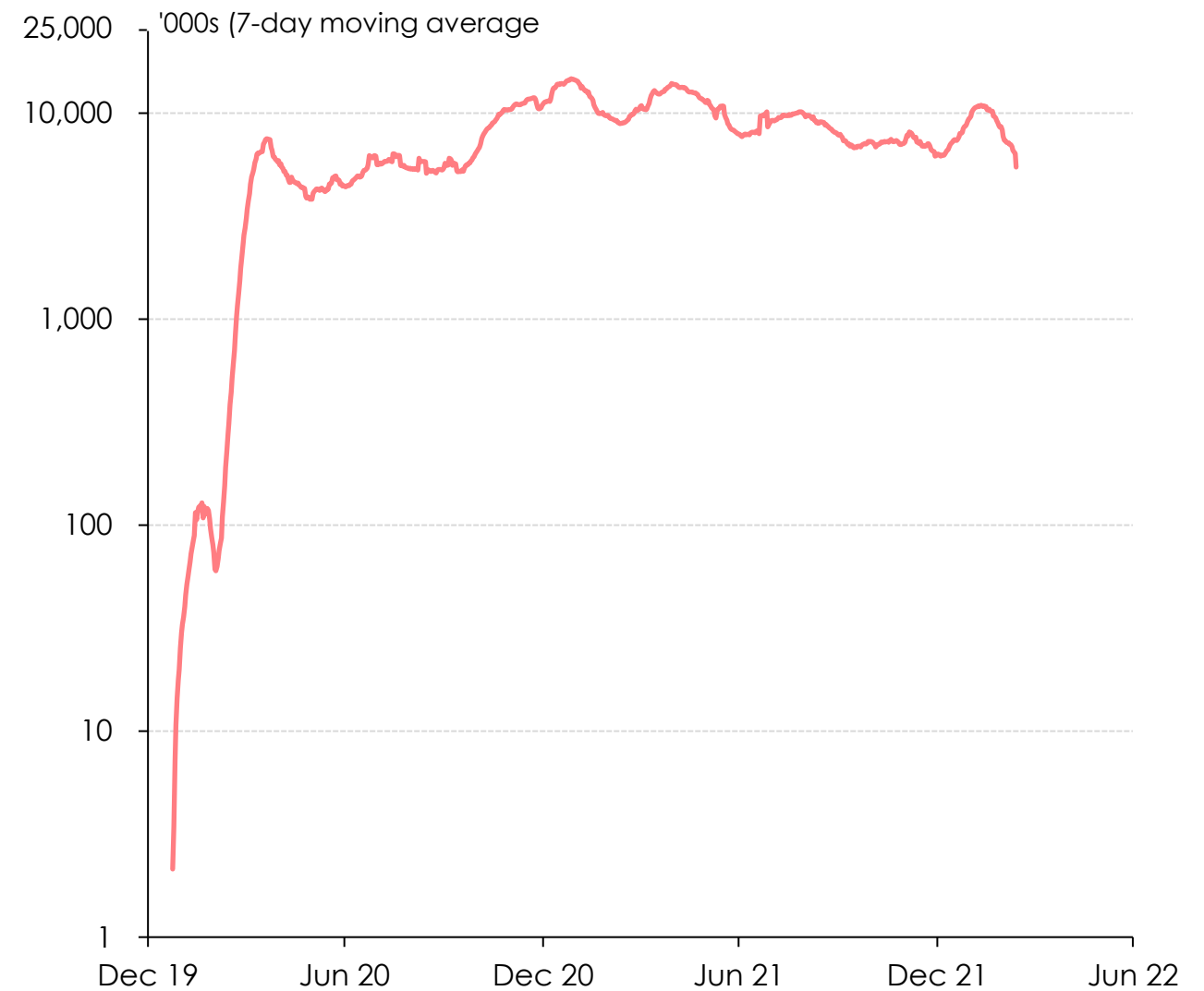
Sources: US Bureau of Labor Statistics, [Employment Situation](#); [Job Openings and Labor Turnover Survey](#); and [Employment Cost Trends](#).

Covid-19 hasn't gone away either: indeed, a new 'wave' may be starting (although seemingly not as serious as 'delta' or earlier variants)

New Covid-19 infections – global total

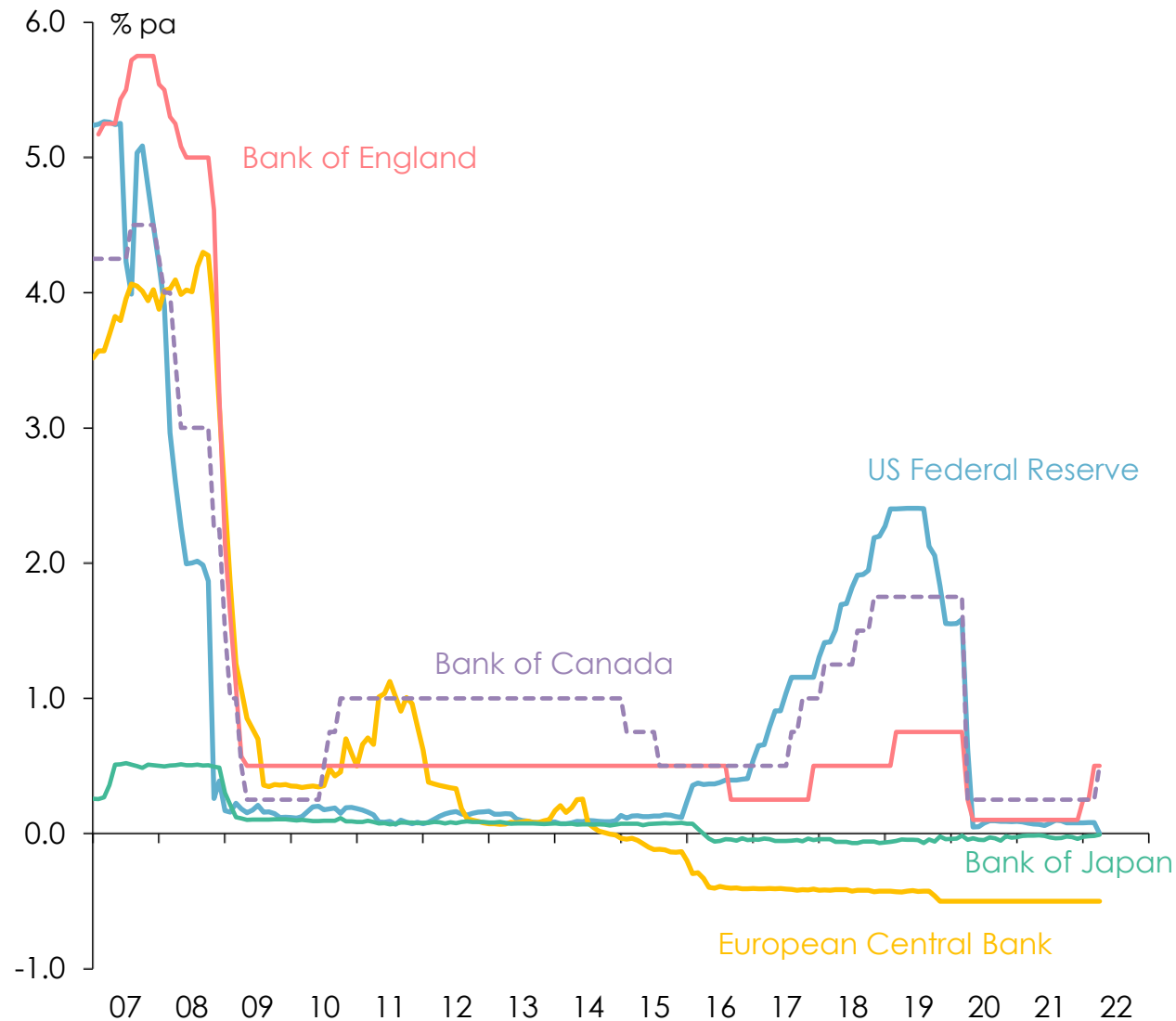


New 'official' Covid-19 deaths – global total

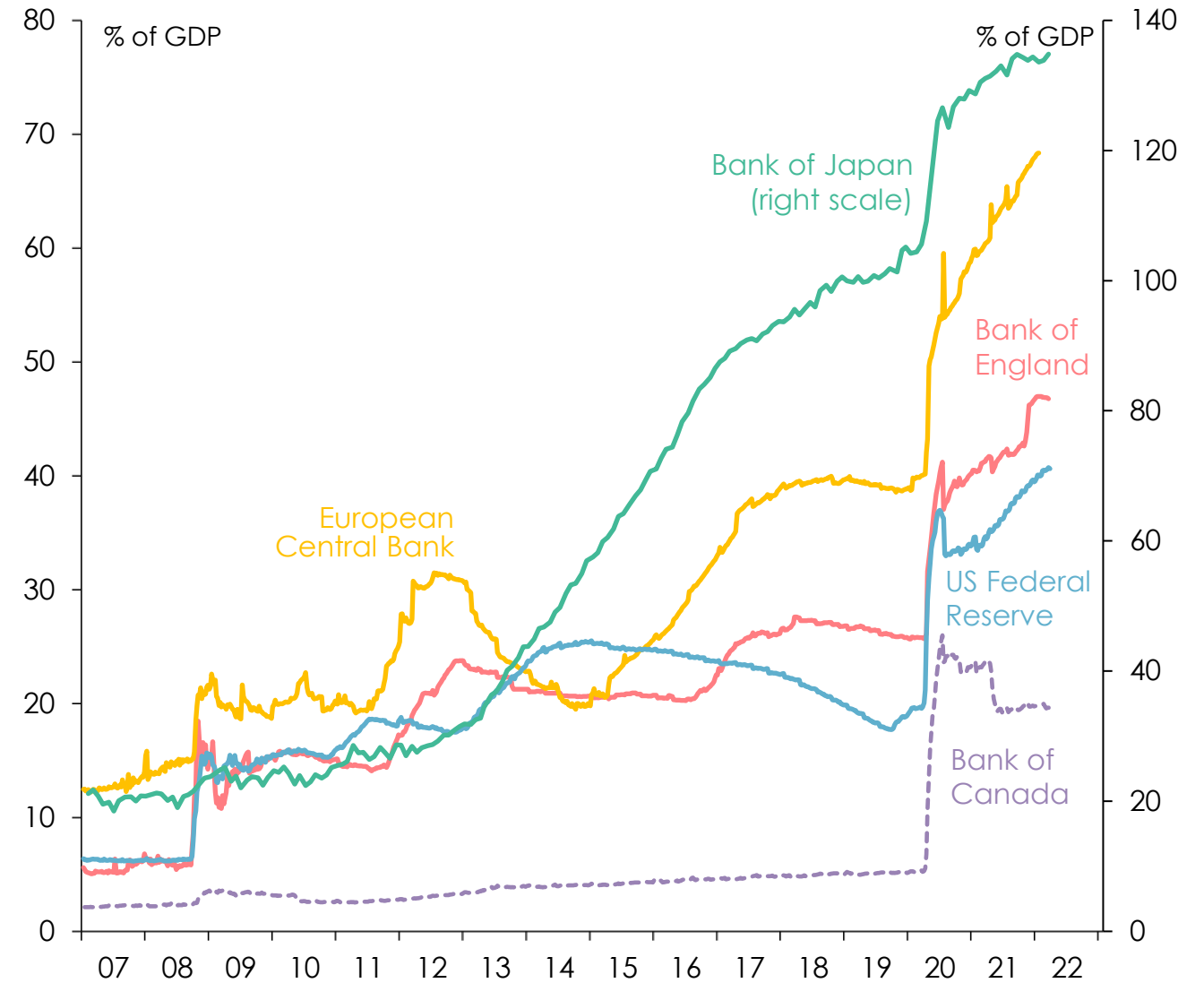


Central banks in all of the major 'advanced' economies except Japan will be raising interest rates and shrinking their balance sheets

Major central bank policy interest rates



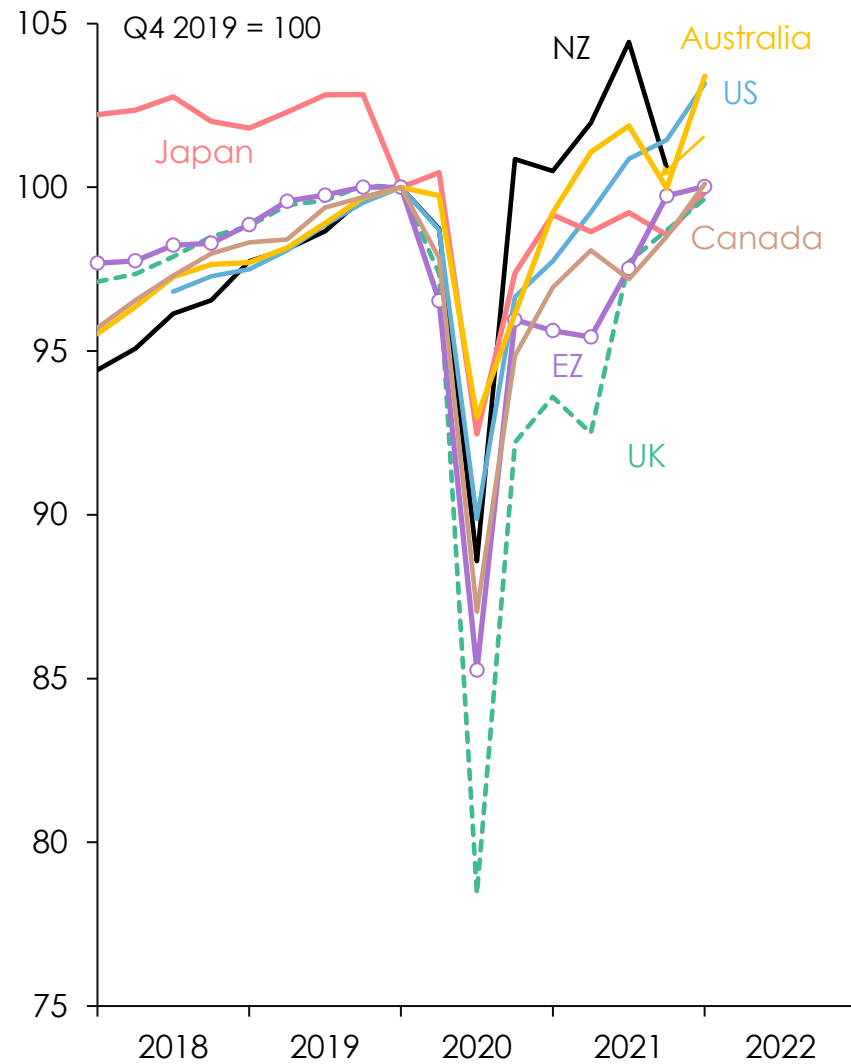
Major central bank balance sheets



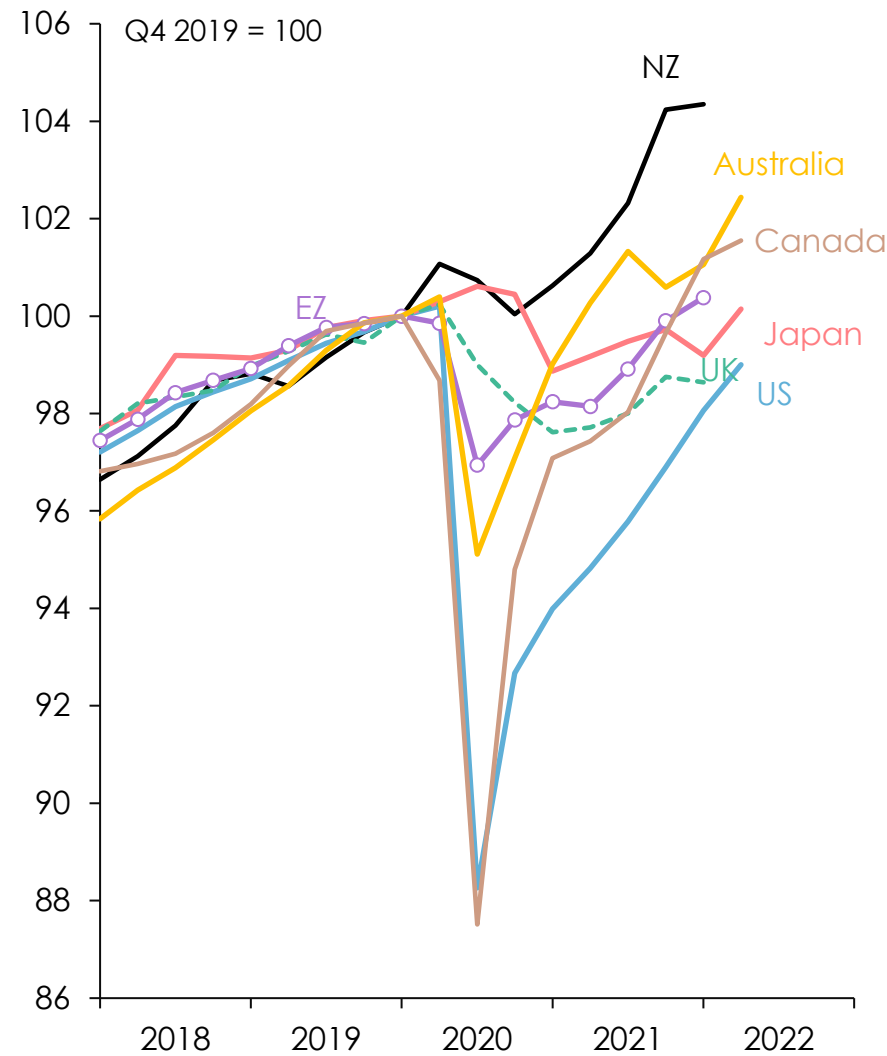
Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); national statistical agencies; Corinna.

Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies

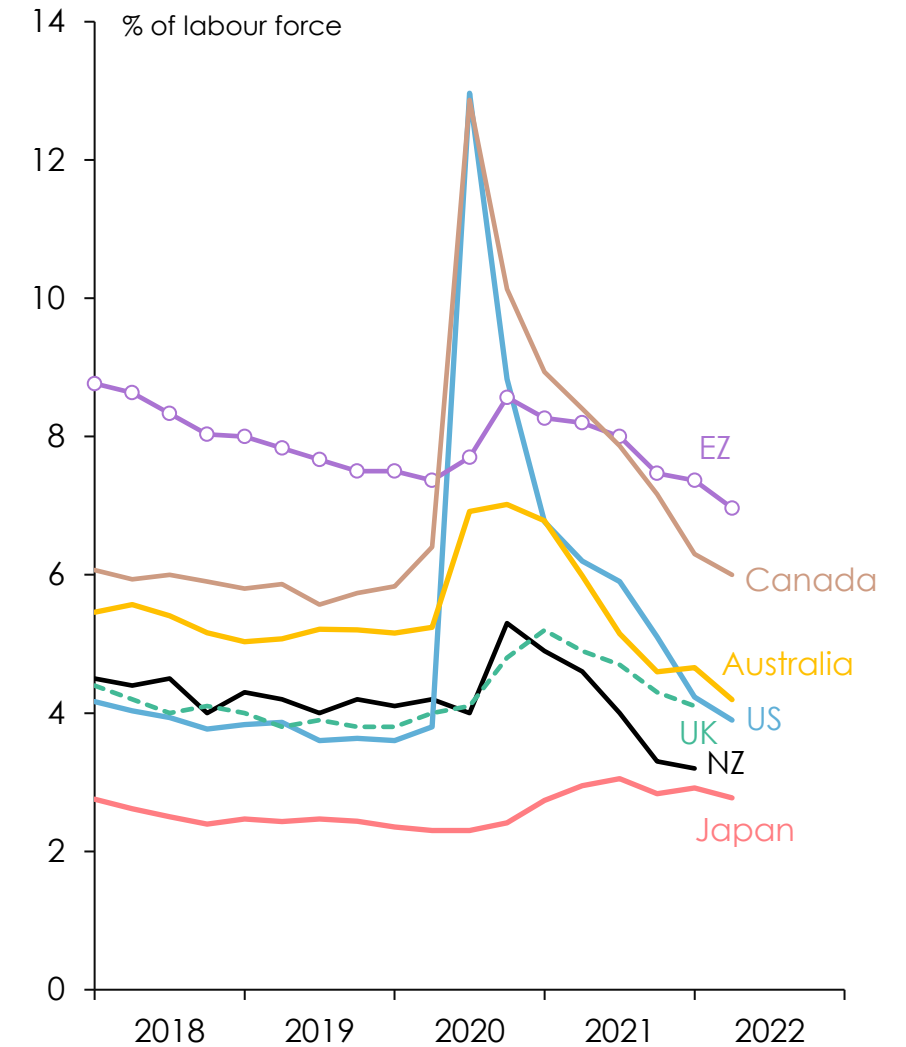
Level of real GDP



Employment



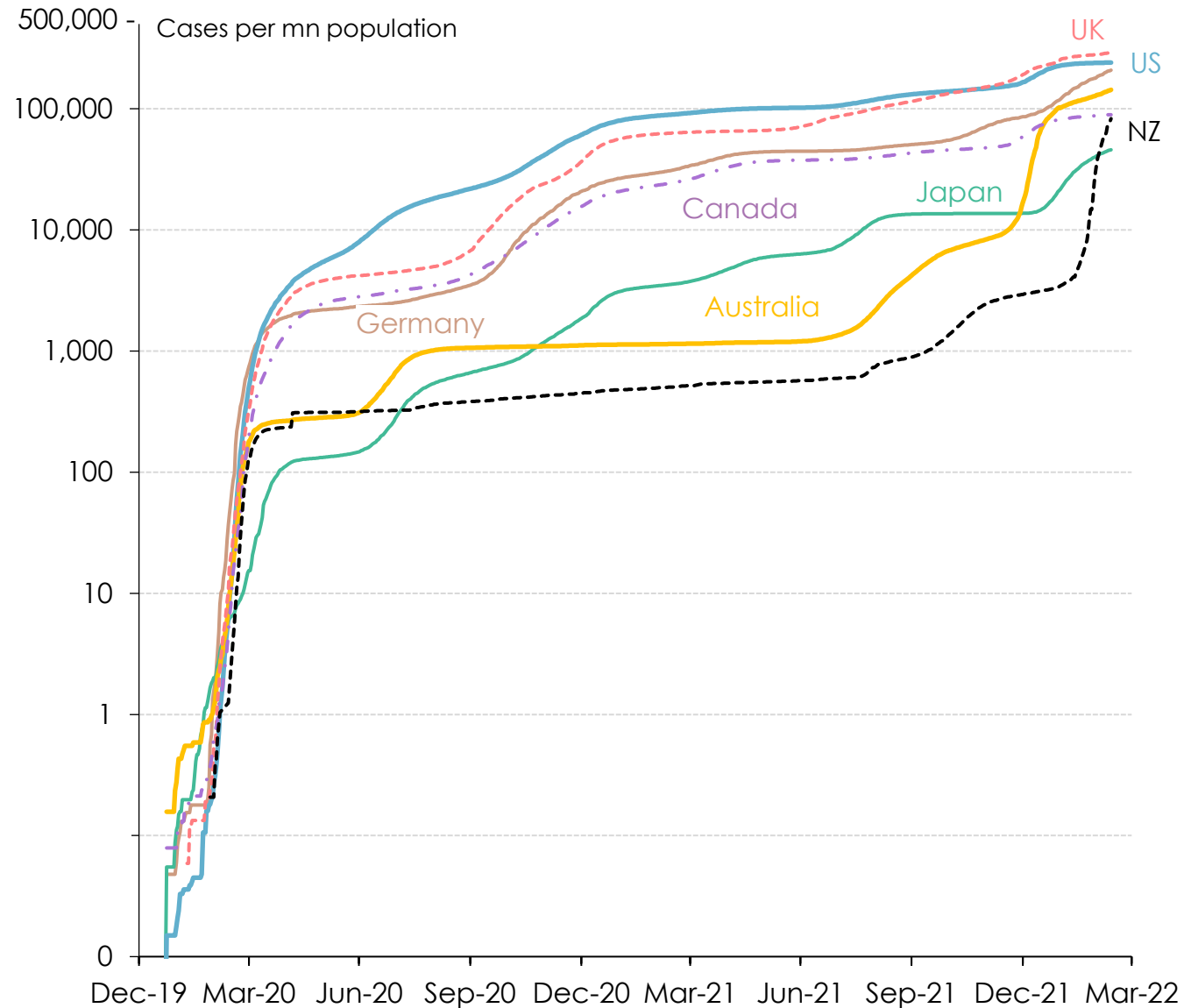
Unemployment



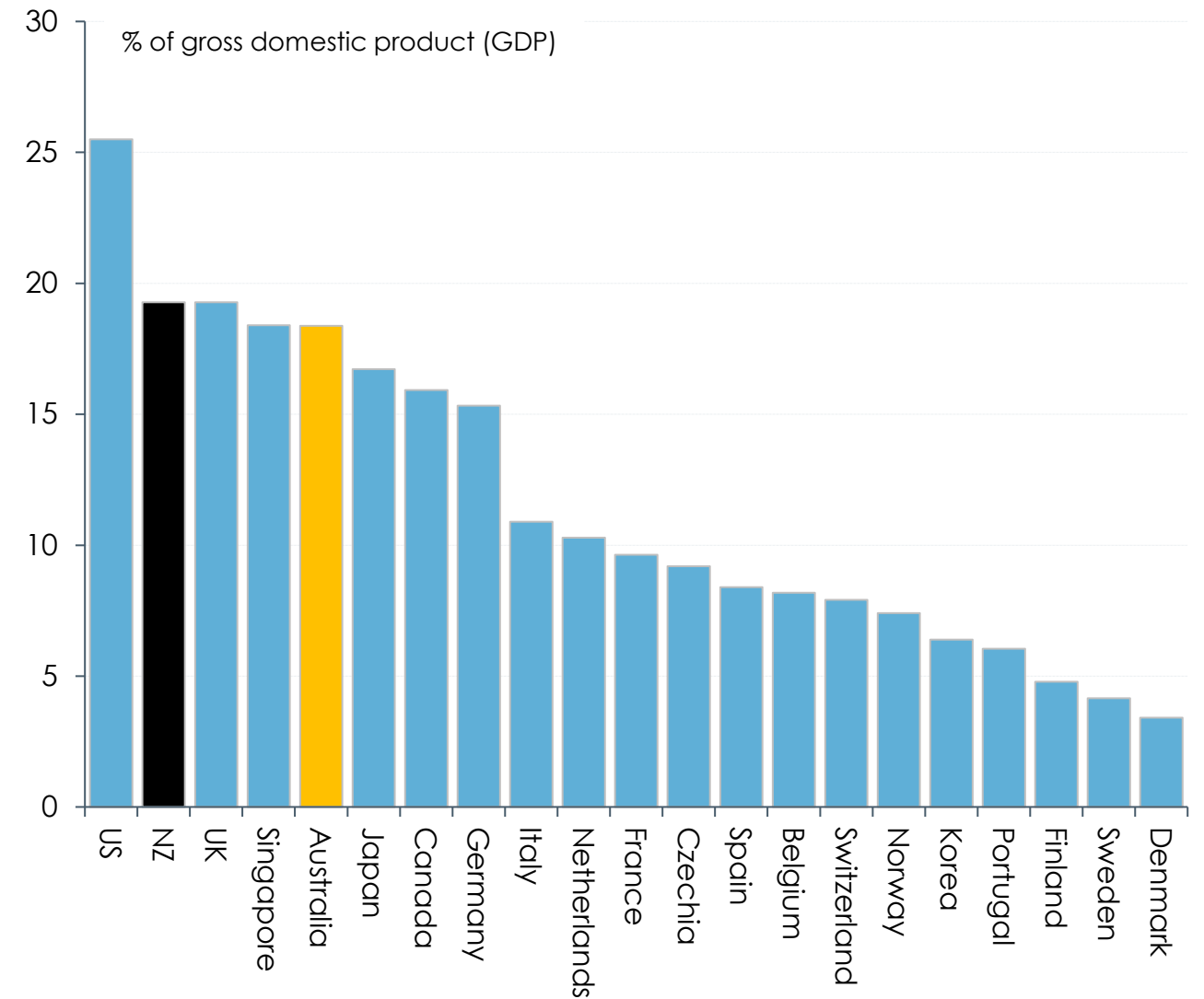
Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

That was because Australia did a better job than most other countries of keeping the virus at bay – and its fiscal response was larger than most

Cumulative Covid-19 cases per mn population



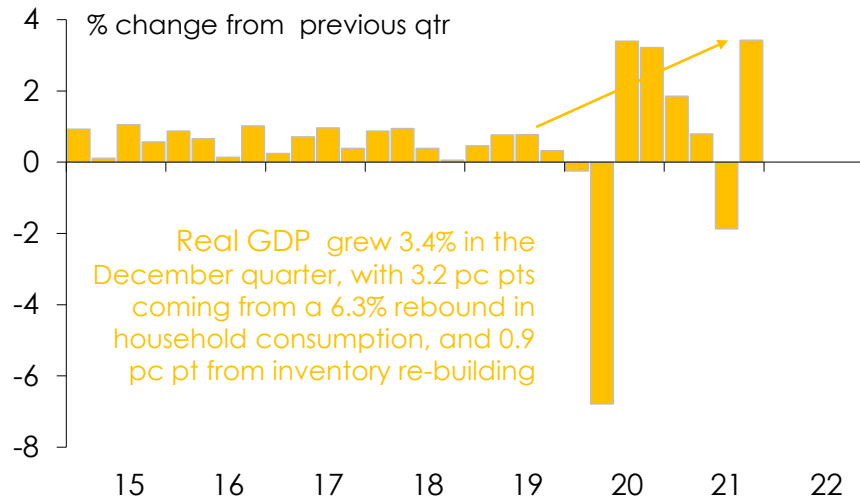
Fiscal policy responses to Covid-19



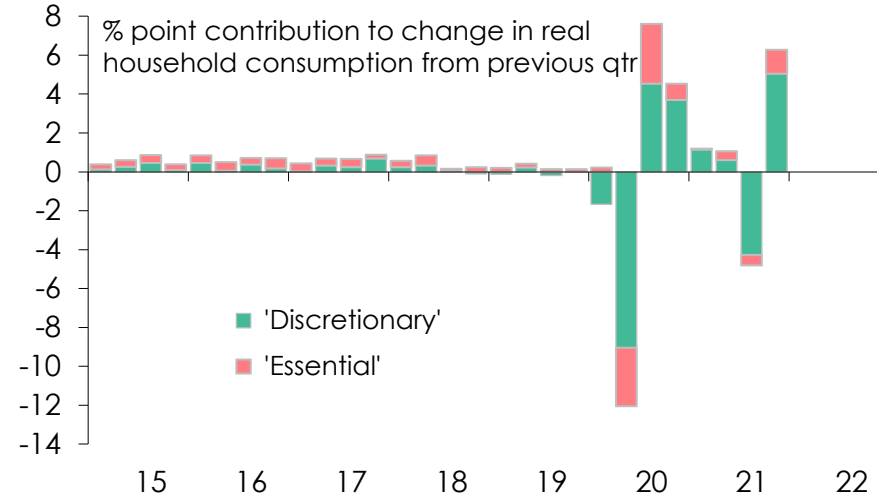
Sources: University of Oxford, [Our World in Data](#) (data up to 14th March); IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), October 2021

Australia's economy rebounded strongly in the December quarter last year from its second recession in two years (after 29 years without one at all)

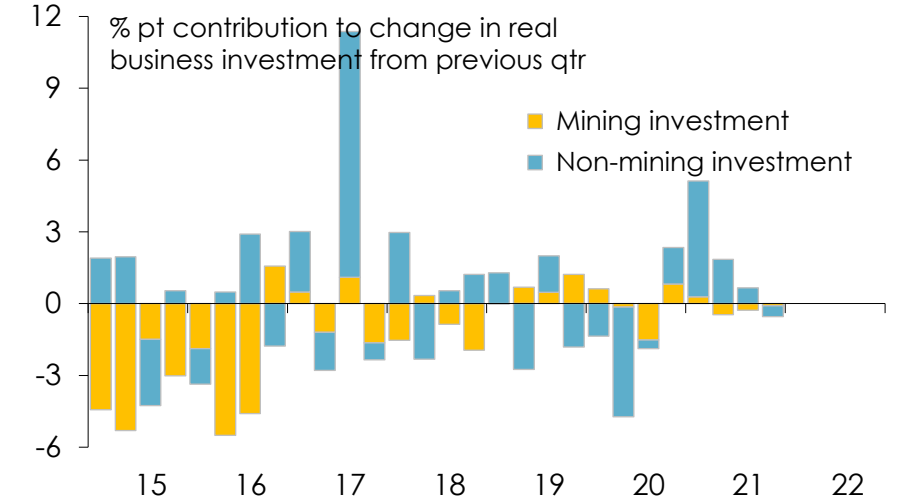
Quarterly change in real GDP



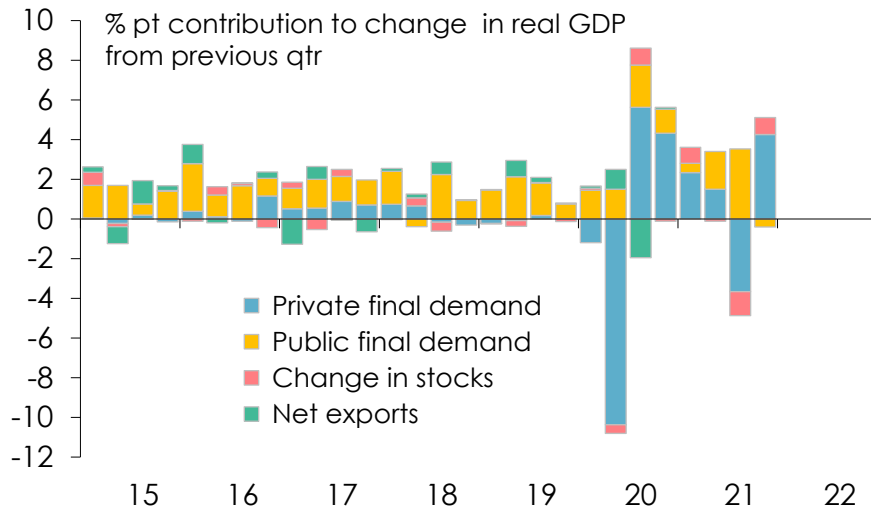
Household consumption expenditure



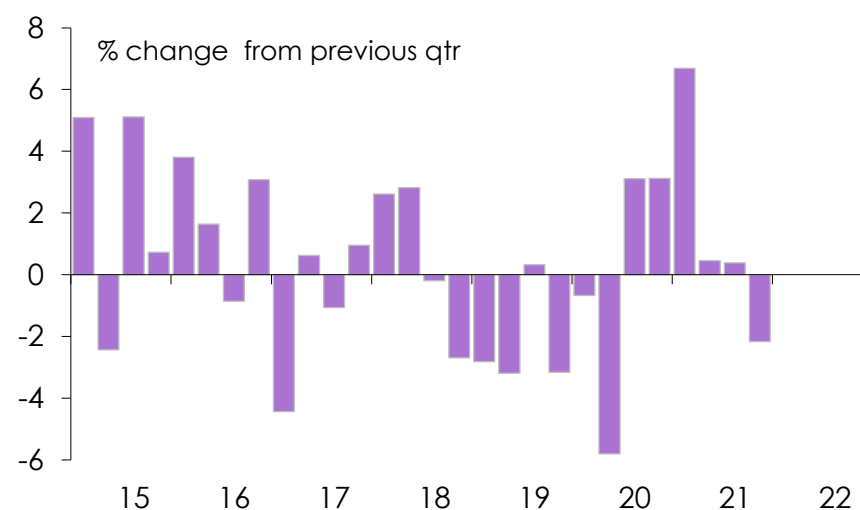
Business investment expenditure



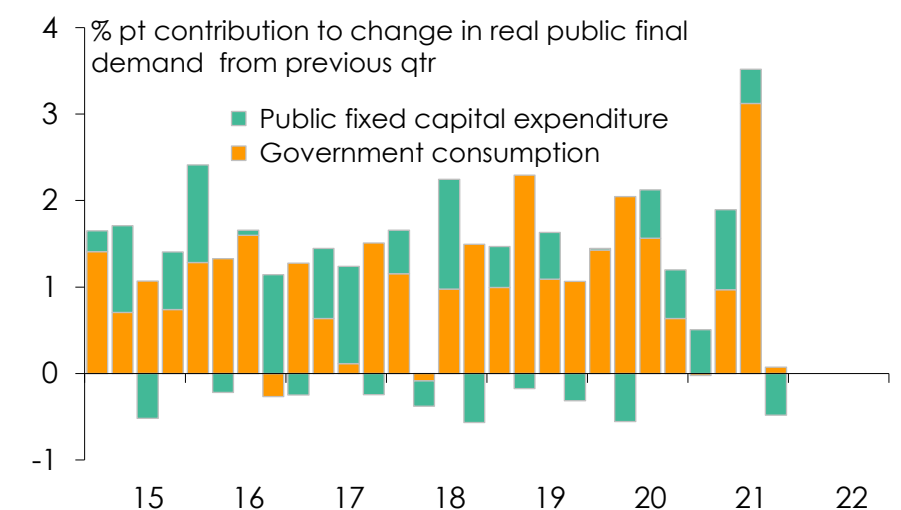
Contributions to quarterly GDP growth



Dwelling investment expenditure

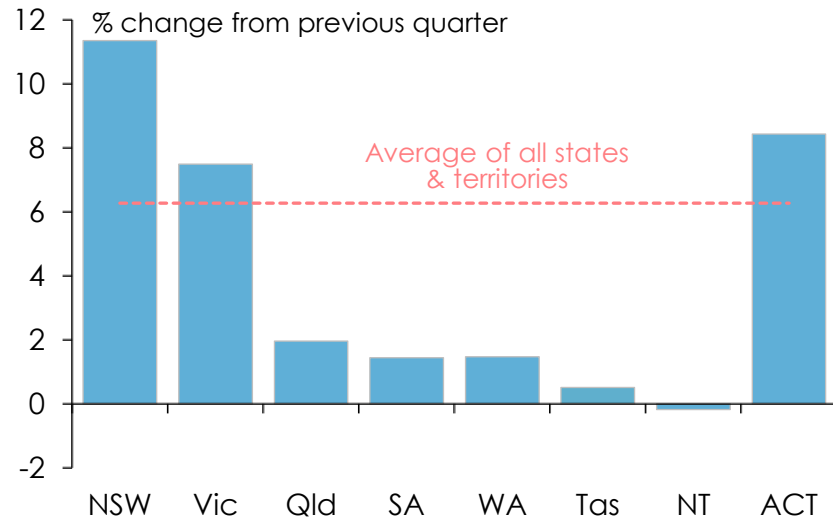


Public expenditure

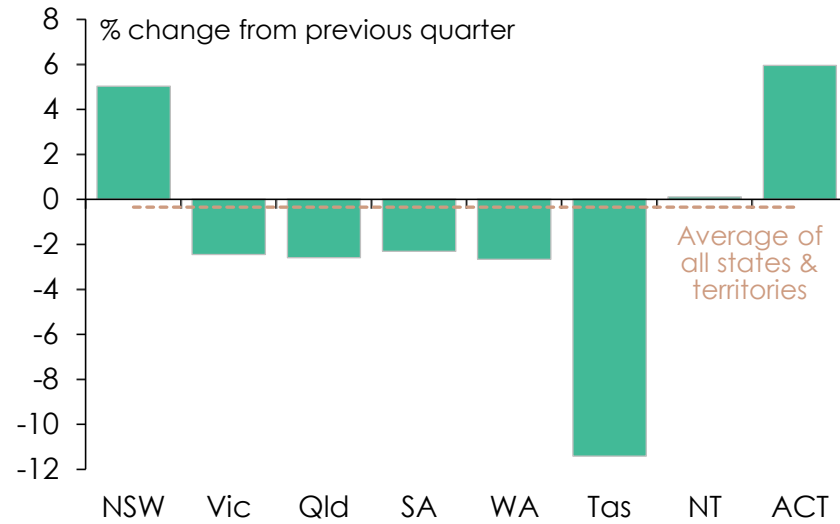


The December quarter rebound was largely driven by post-lockdown surges in consumer spending in New South Wales, Victoria and the ACT

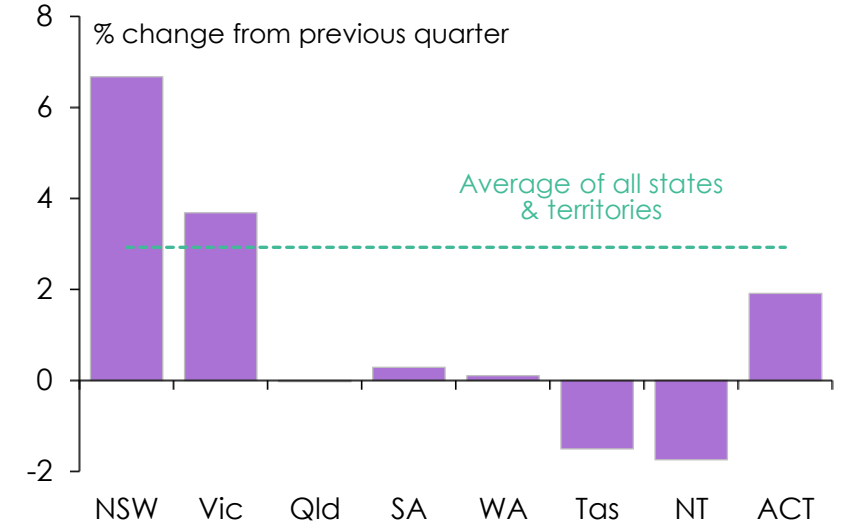
Household consumption



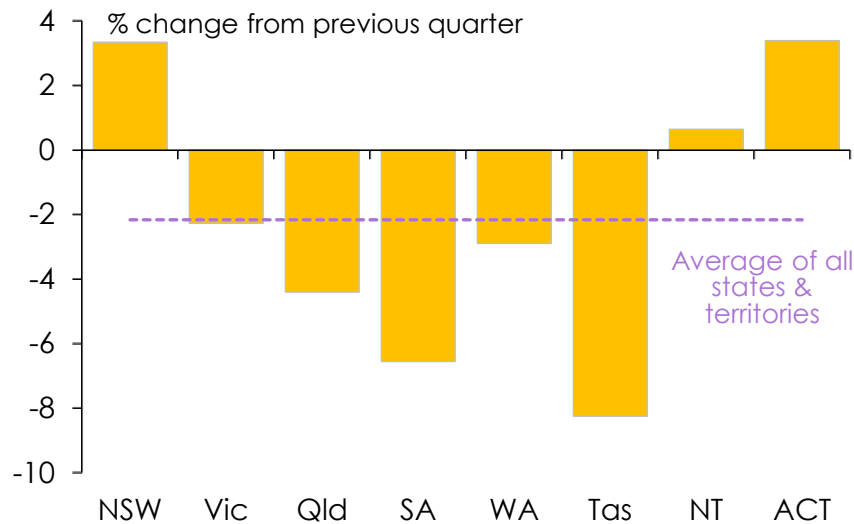
Business investment



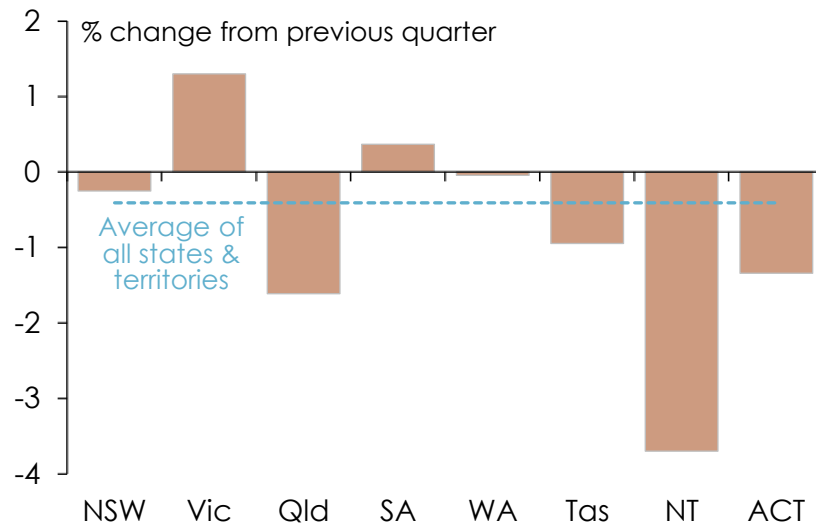
State final demand



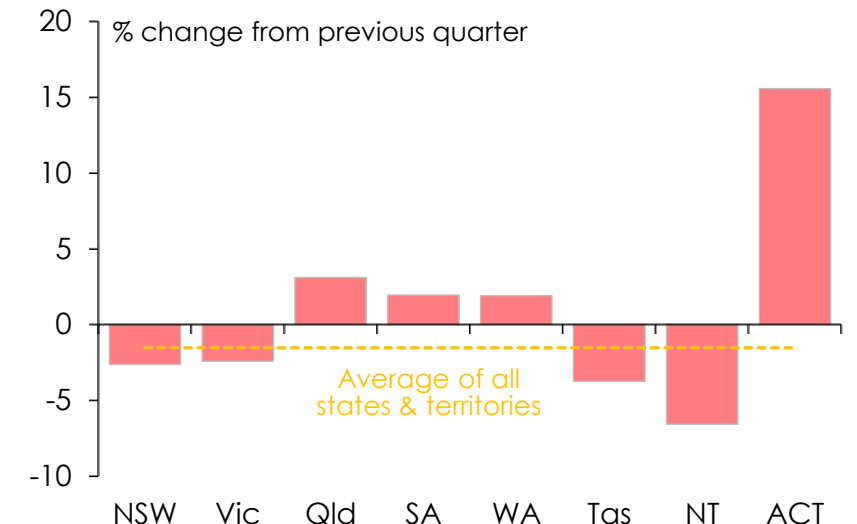
Dwelling investment



Public spending



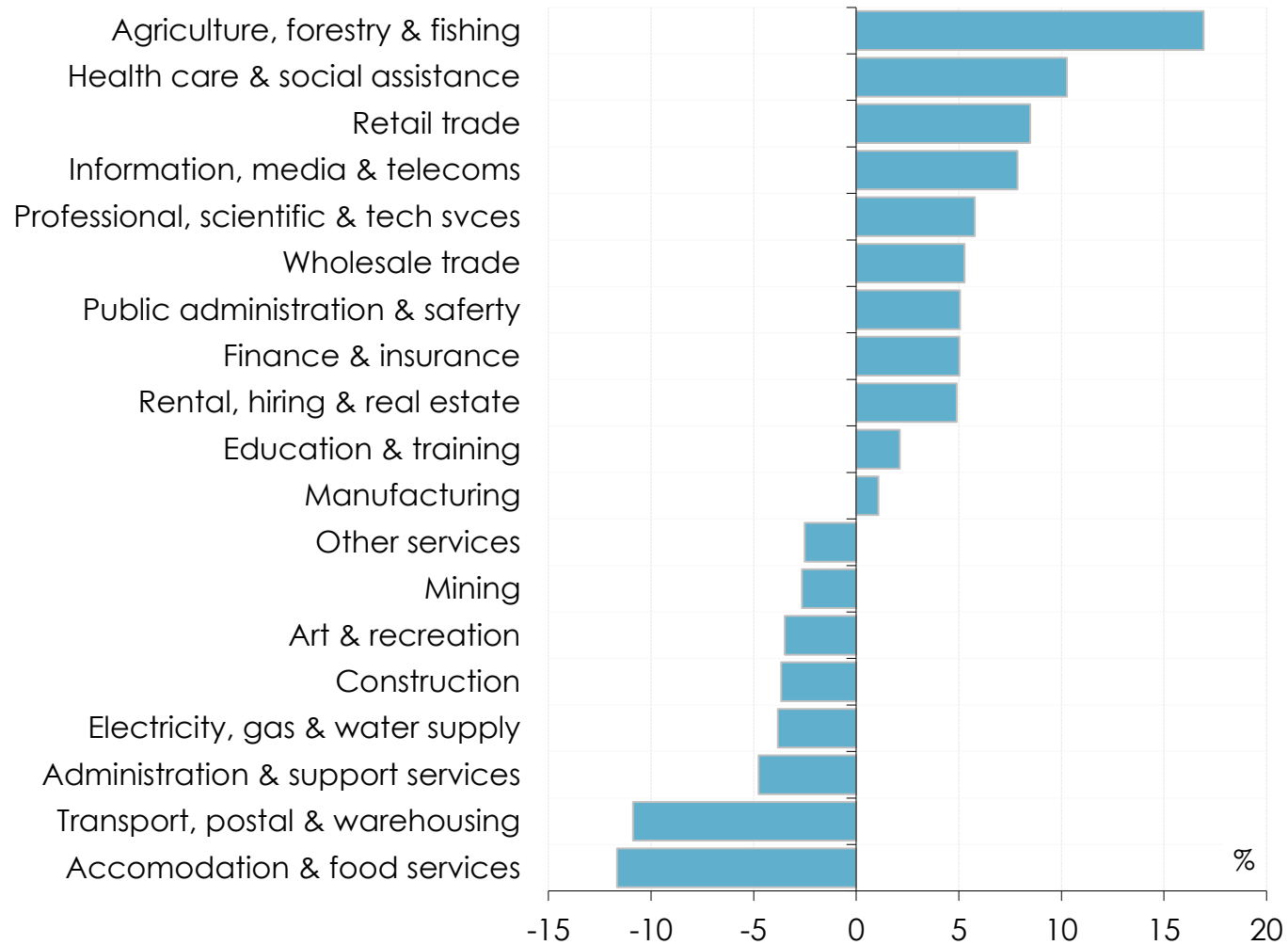
International exports



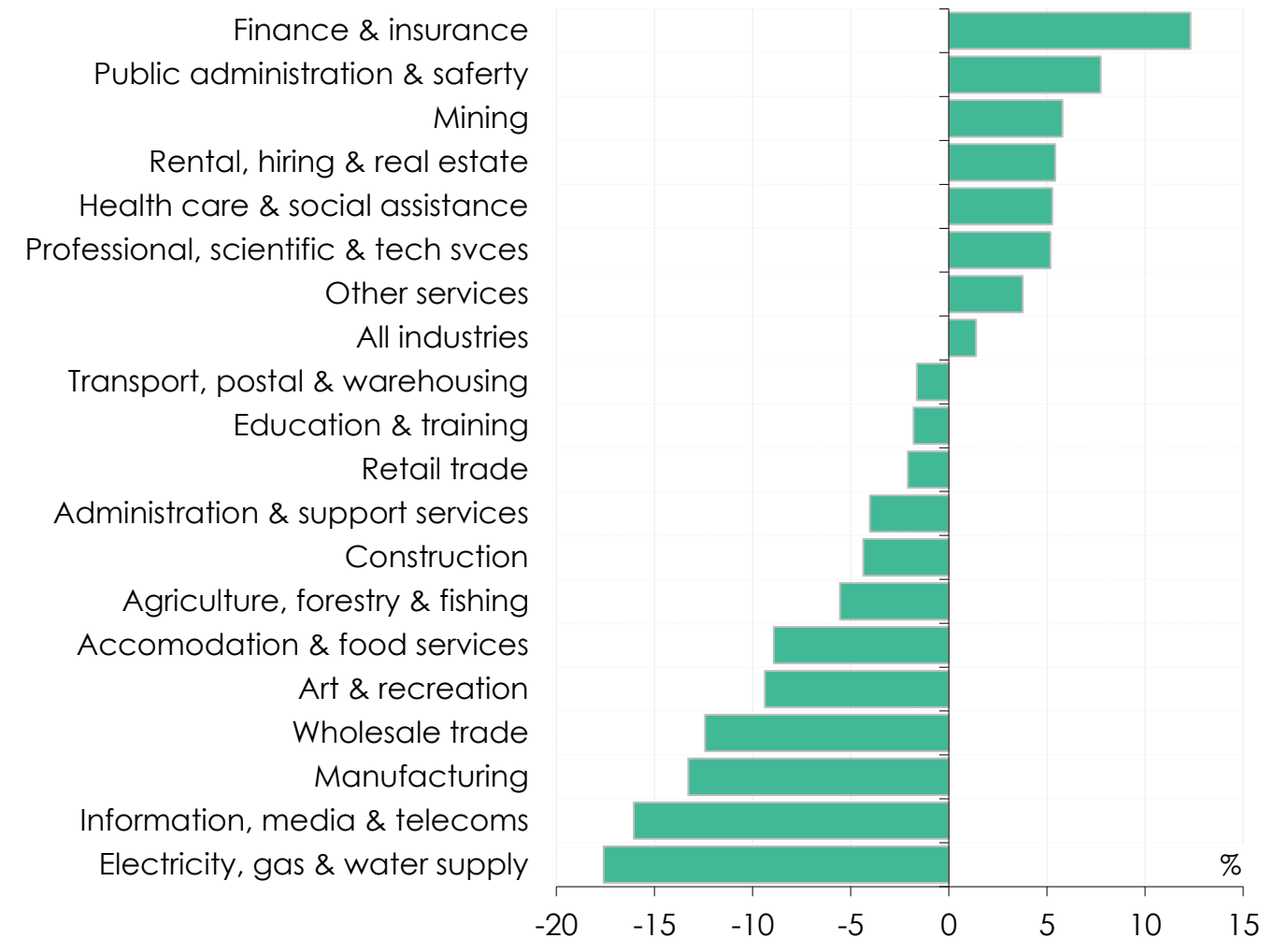
Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; [Balance of Payments and International Investment Position, Australia](#), December quarter 2021.

Some sectors of the economy remain considerably smaller than they were on the eve of the pandemic

Q4 2021 real gross value added by industry – change from pre-pandemic peak



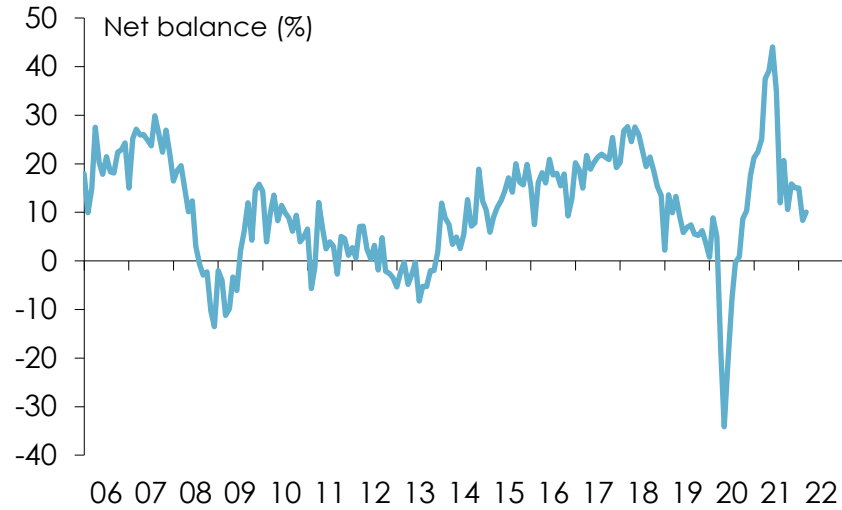
Q4 2021 employment by industry – change from pre-pandemic peak



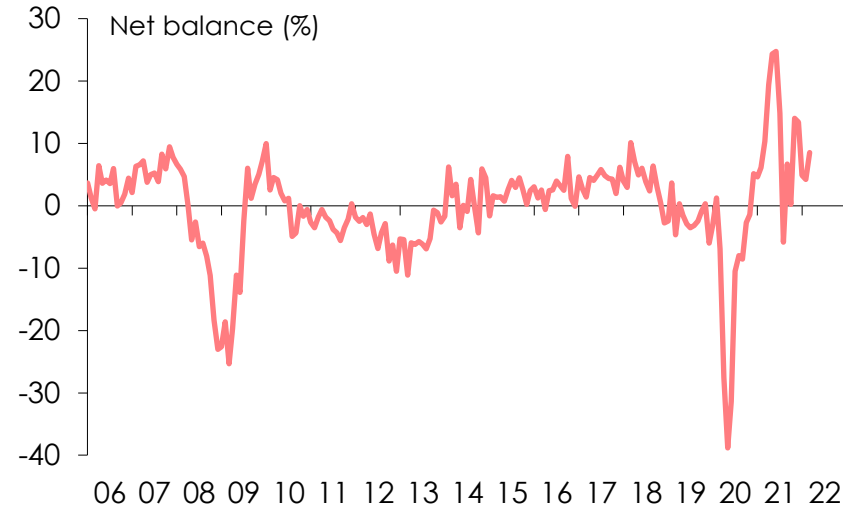
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2021; and [Labour Force, Australia, Detailed](#), November 2021.

Business conditions remain reasonably positive, with hiring and capex intentions both above their long-run averages

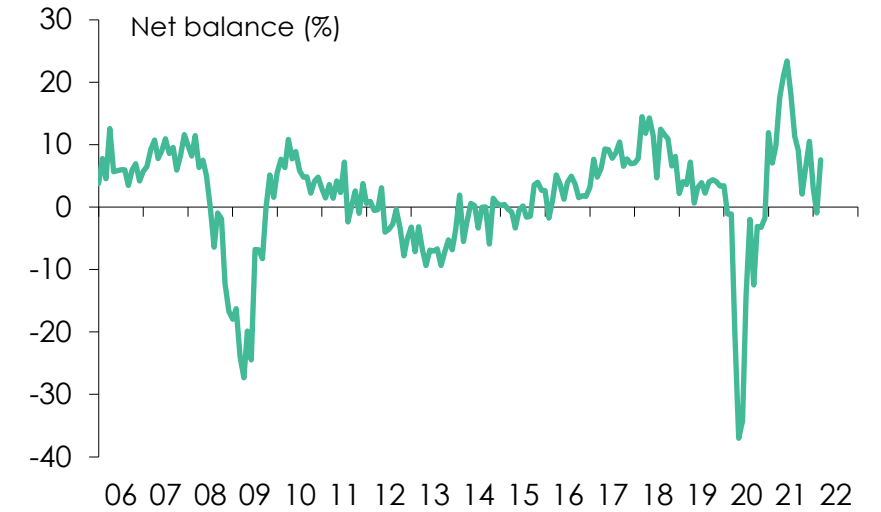
Trading conditions



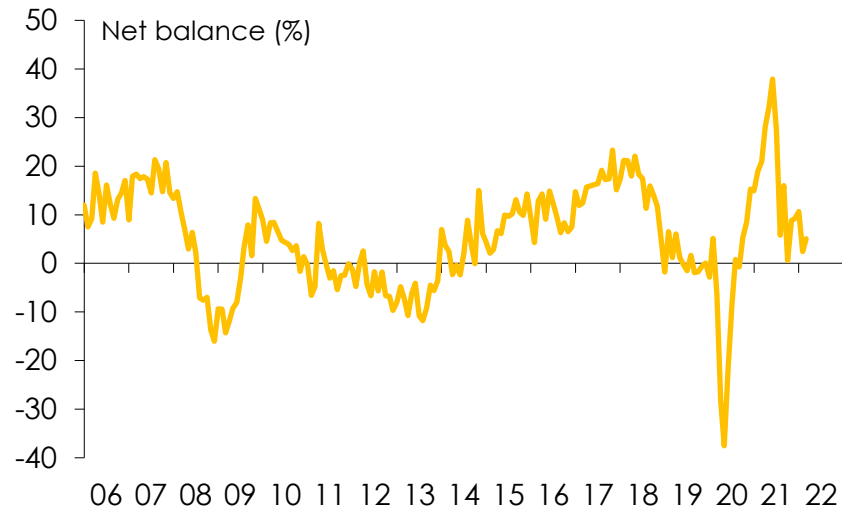
Forward orders



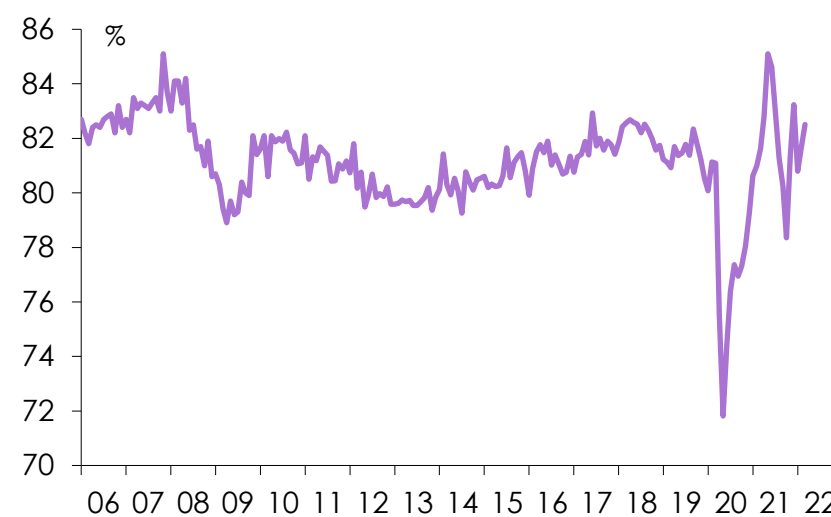
Employee hiring intentions



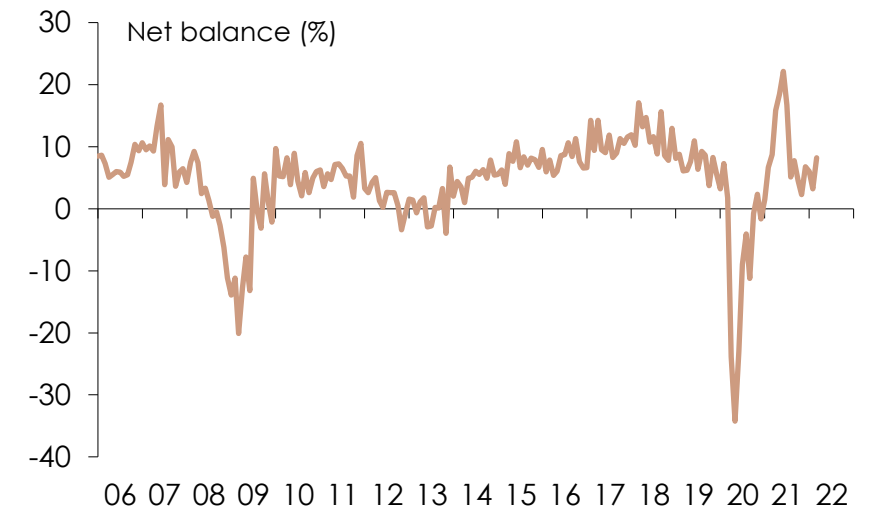
Profitability



Capacity utilization

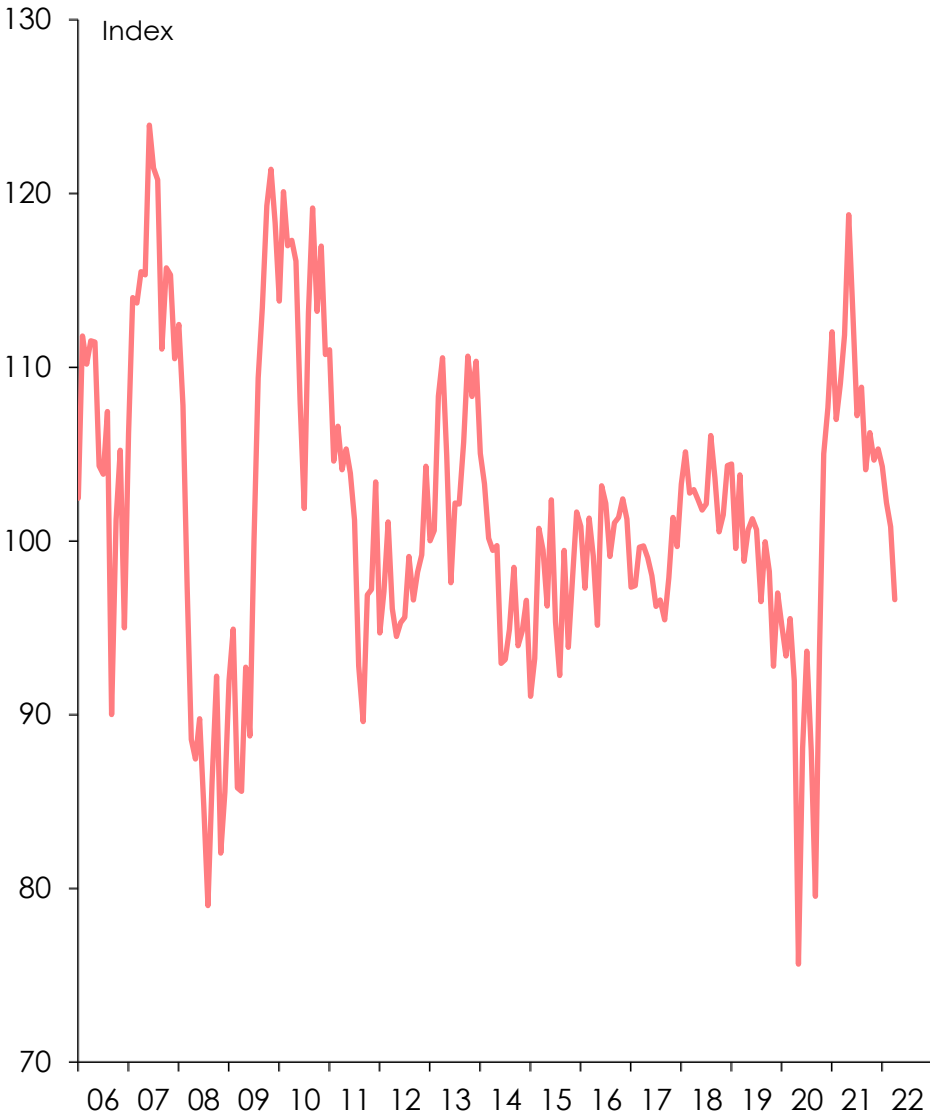


Capital expenditure intentions

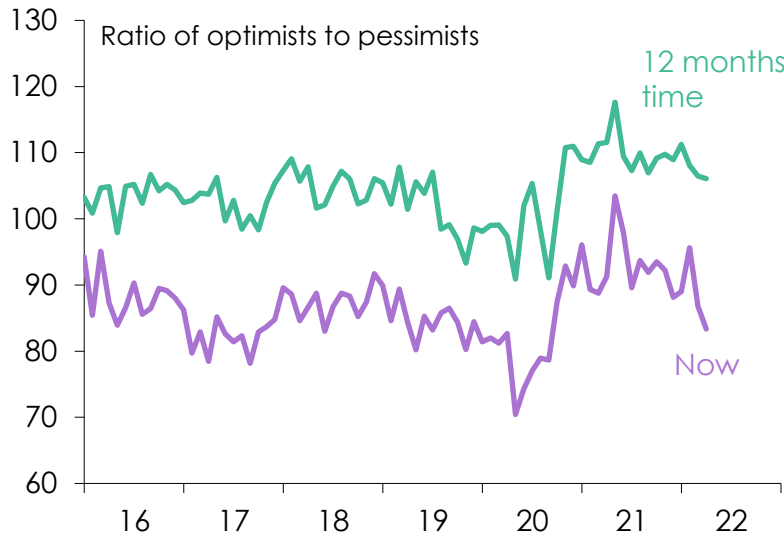


Consumer confidence has been affected by concerns over housing affordability, and more recently by rising inflation and the floods

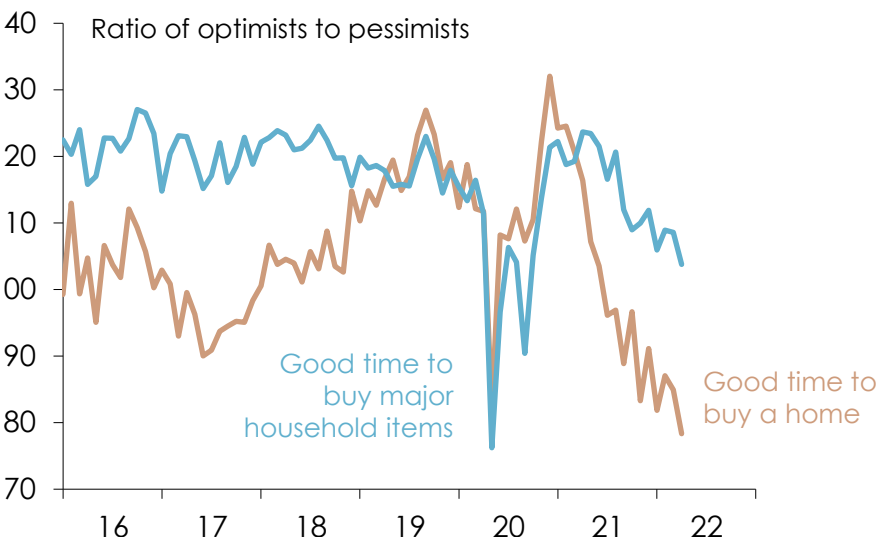
Consumer confidence index



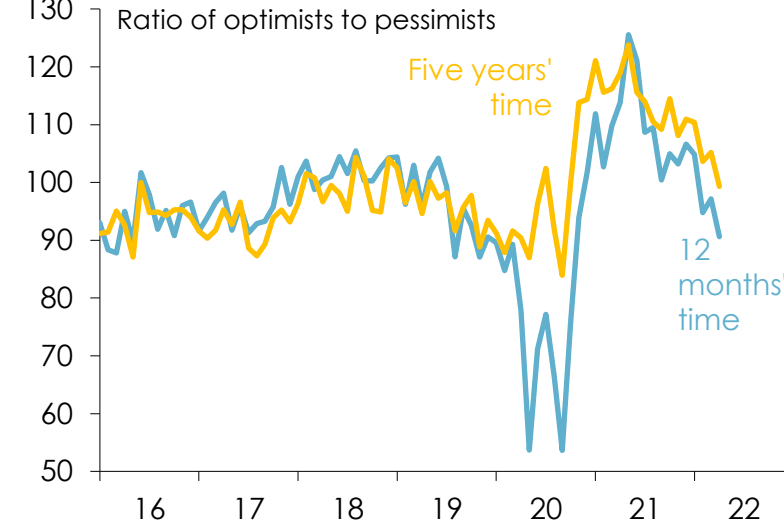
Household finances assessment



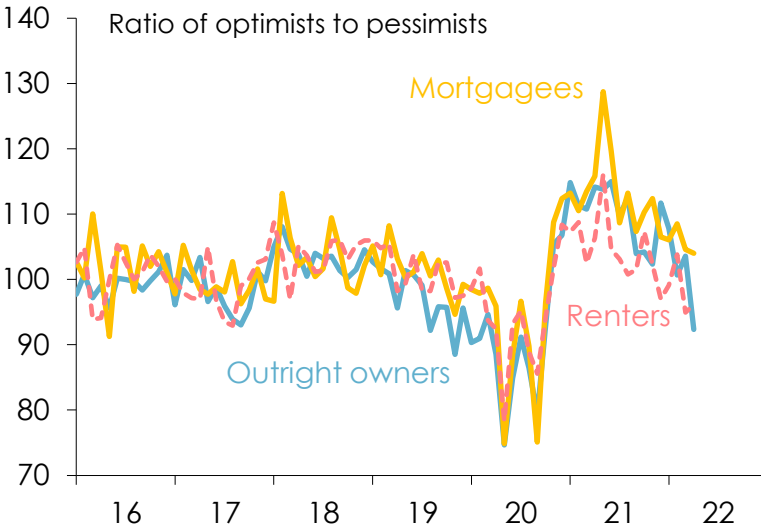
Buying conditions assessment



Economic conditions assessment



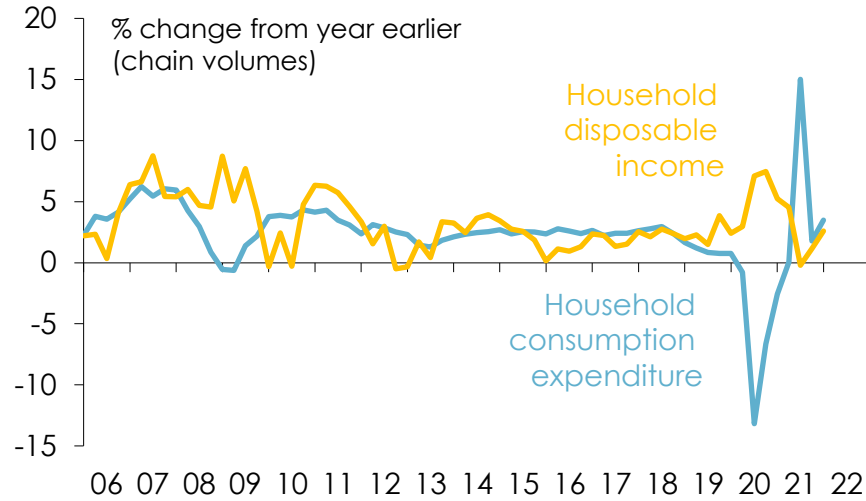
Confidence by housing tenure



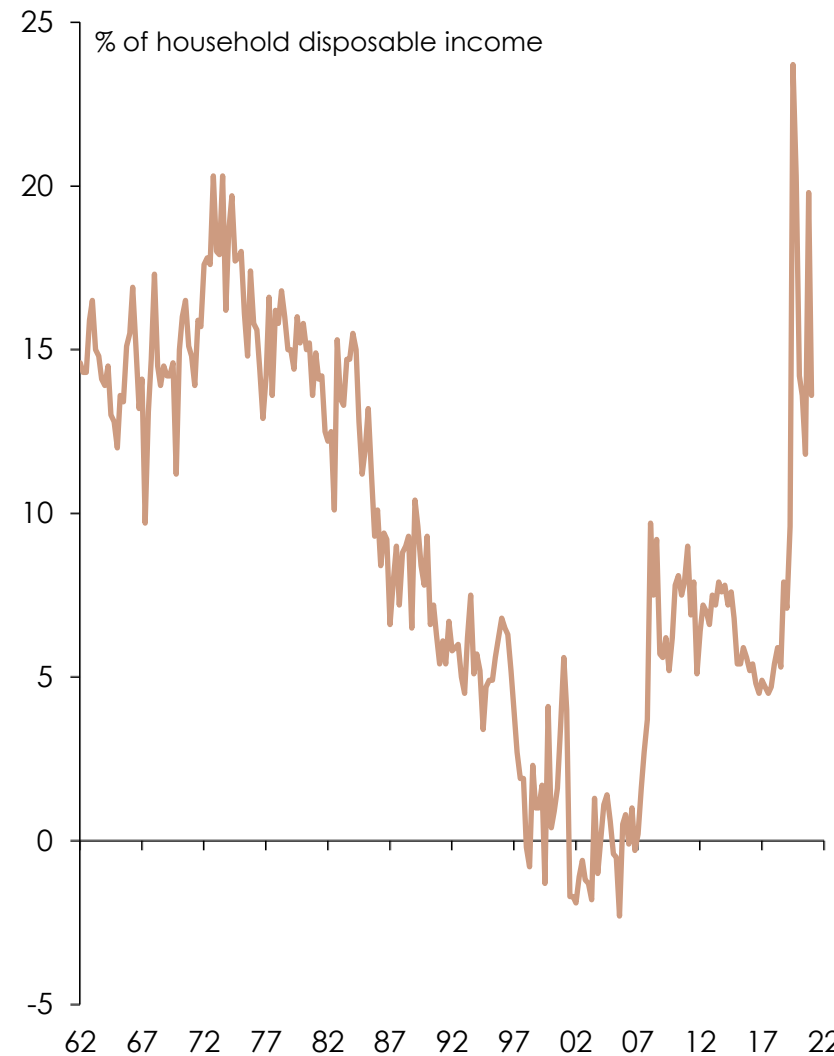
Source: [Westpac Banking Corporation](https://www.westpac.com.au).

Nonetheless households have, in aggregate, considerable latent spending capacity

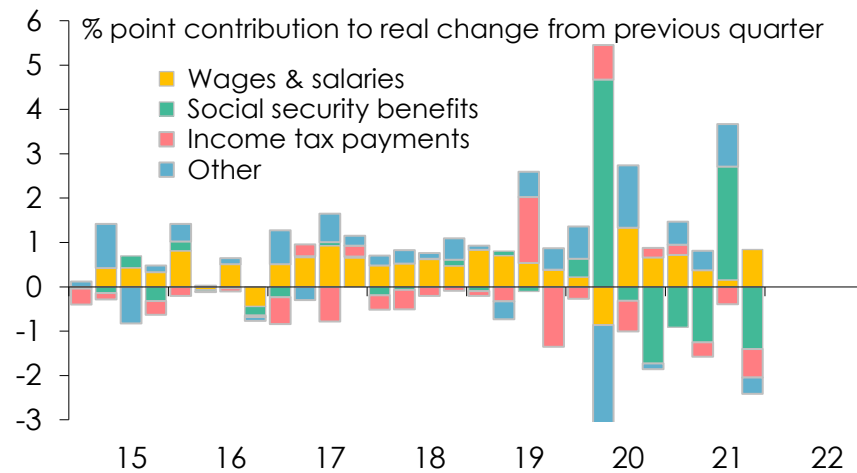
Household income and spending



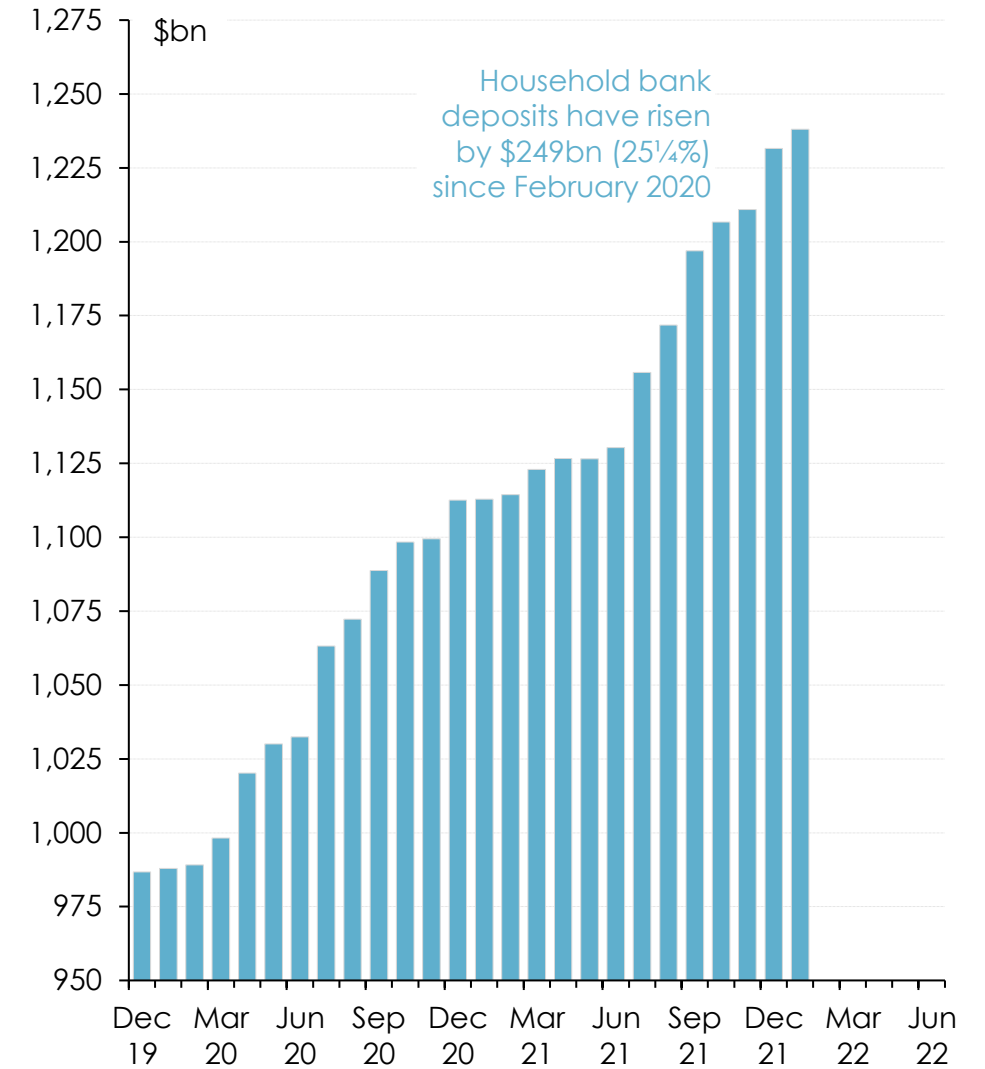
Household saving ratio



Sources of household income



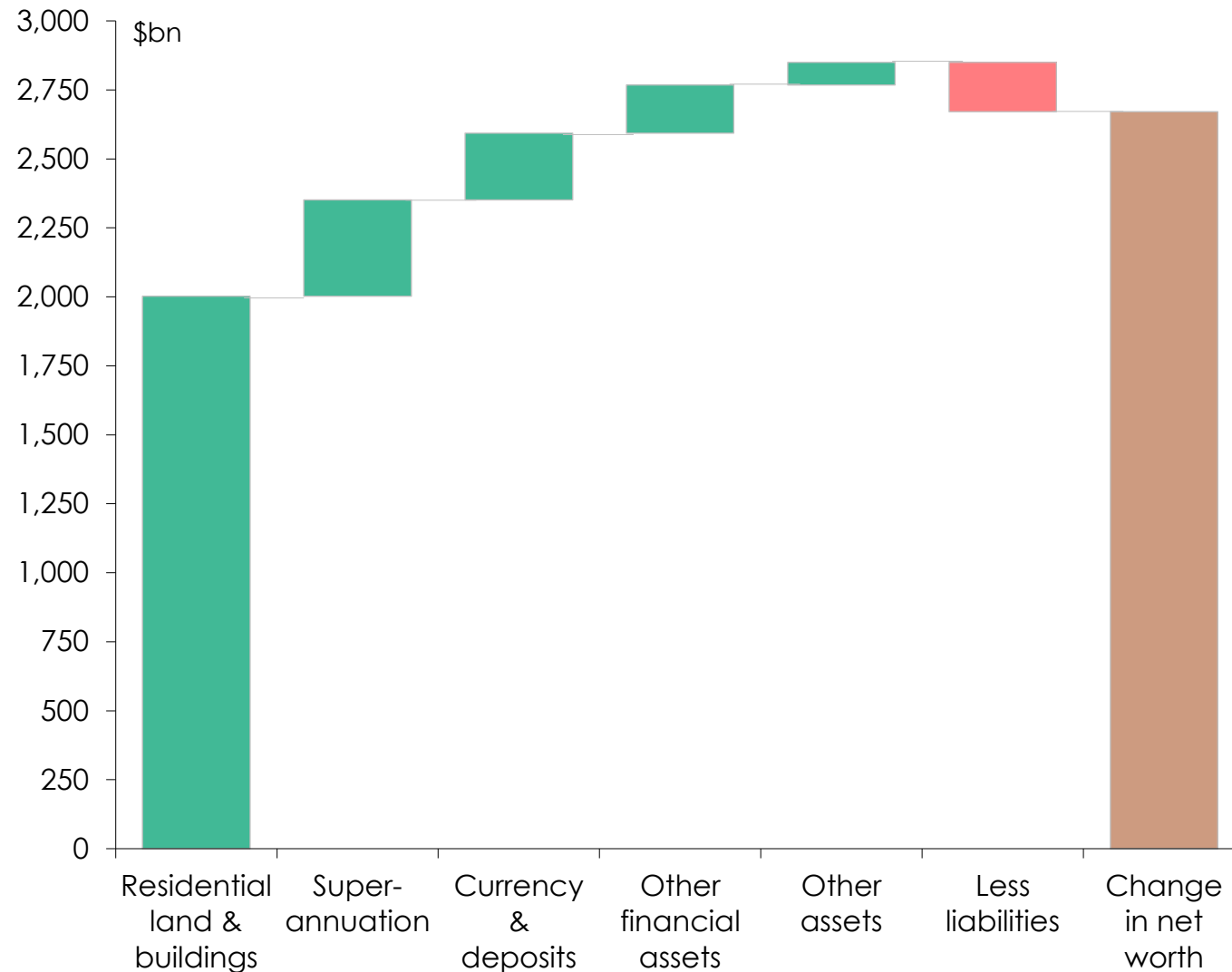
Household bank deposits



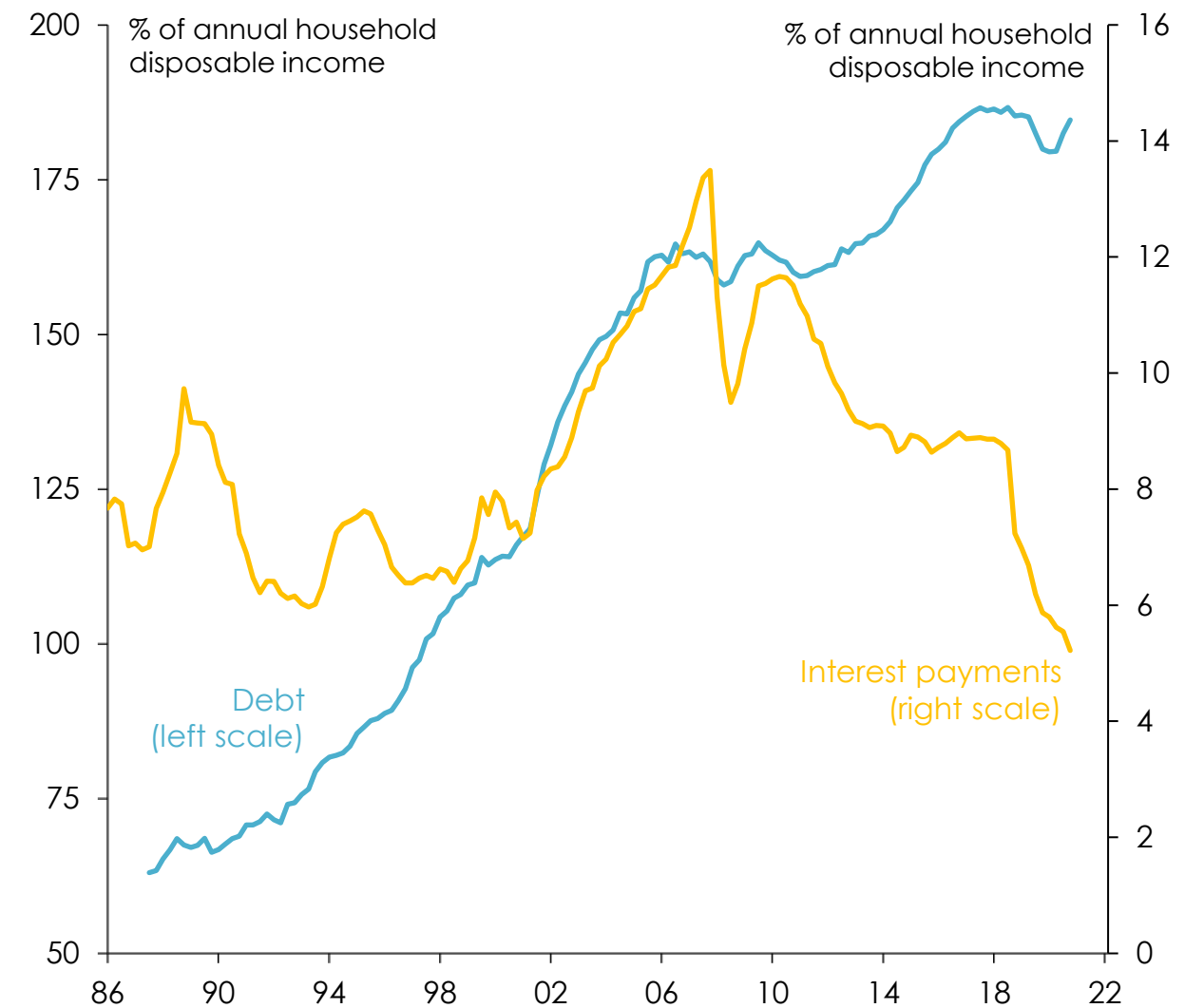
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#).

Household net worth has risen by \$2.7trn (23³/₄%) since the end of 2019, while debt service payments have fallen as a pc of income

Sources of gains in household net worth, Q4 2019 to Q3 2021



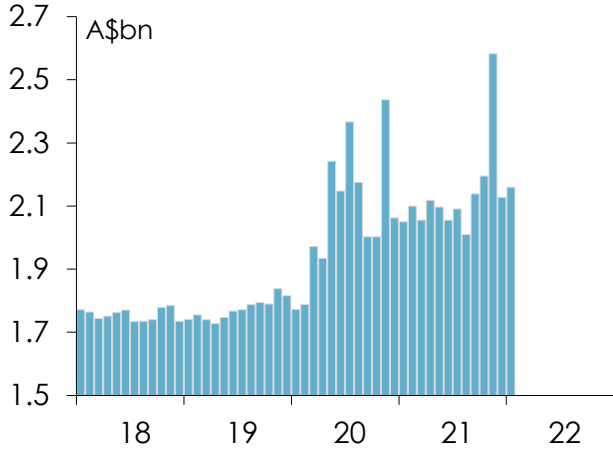
Household net debt and interest payments as a percentage of disposable income



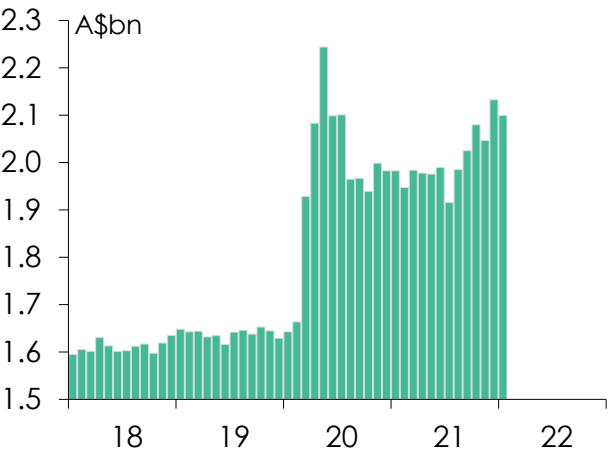
Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; RBA, [Statistical Tables](#) E1 & E2.

Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

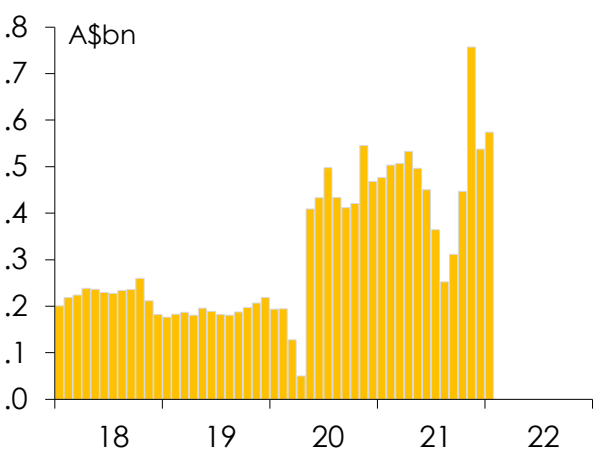
Electronic & electrical goods



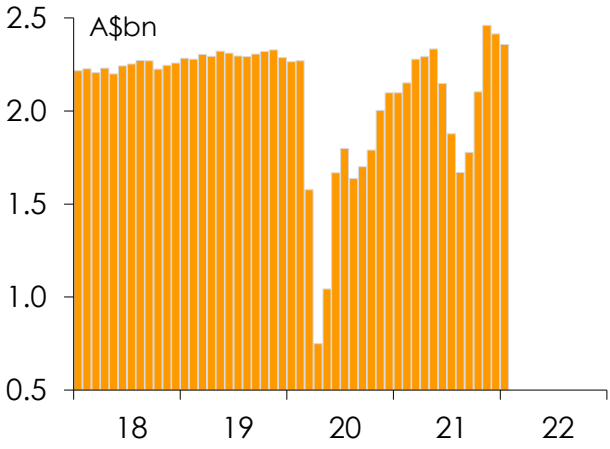
Hardware, building & garden supplies



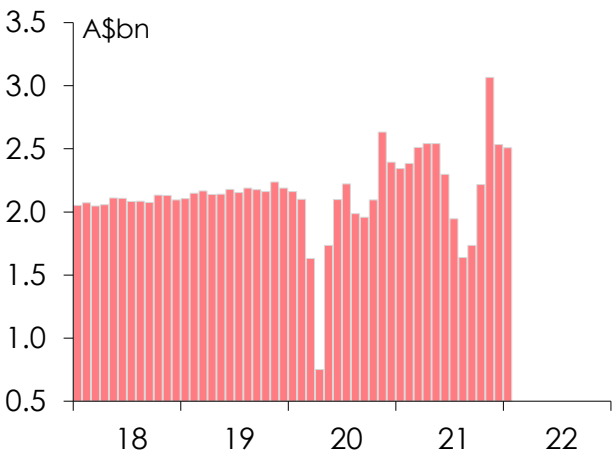
Floor coverings, furniture, housewares etc



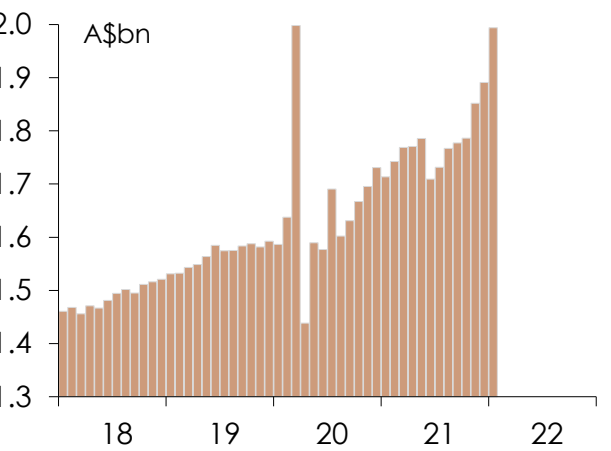
Cafes and restaurants



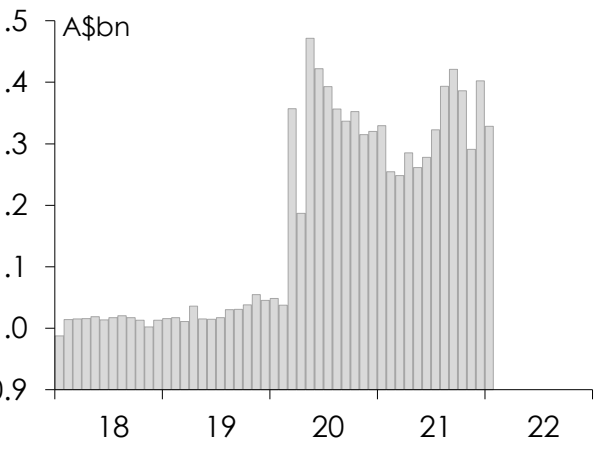
Clothing, footwear & personal accessories



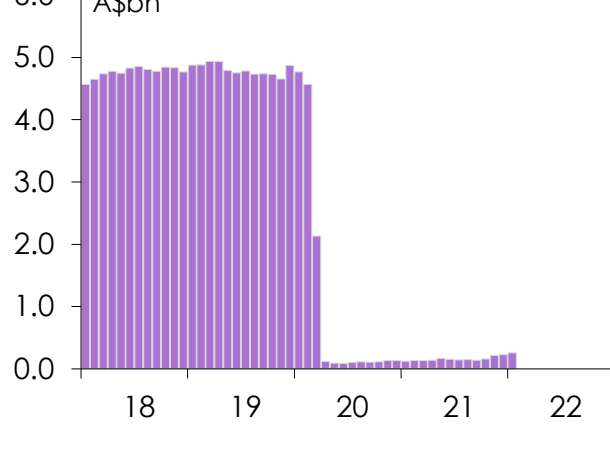
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



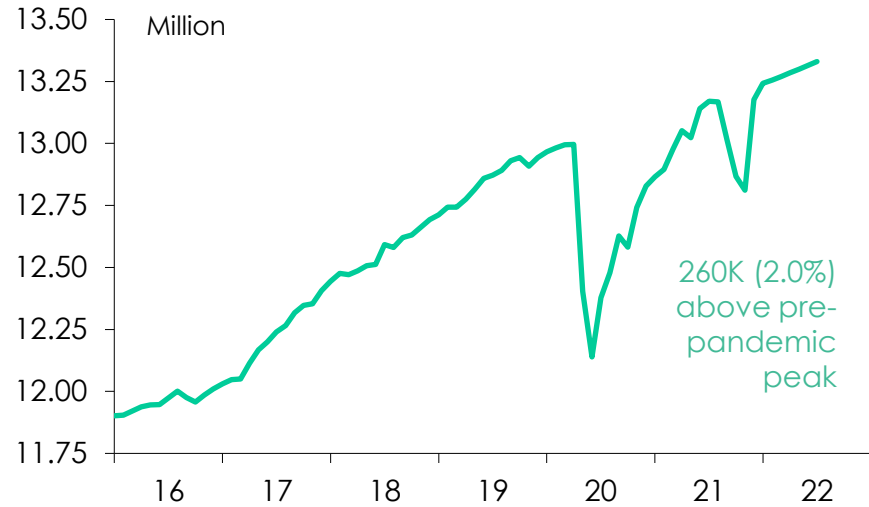
Overseas travel



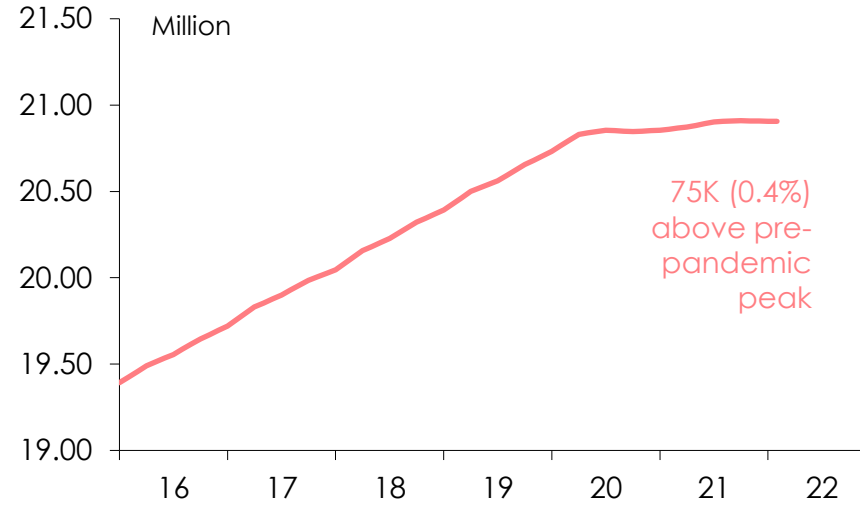
Sources: ABS, [Retail Trade, Australia](#), January 2022 and [International Trade in Goods and Services, Australia](#), January.

The Australian labour market has tightened more rapidly than expected

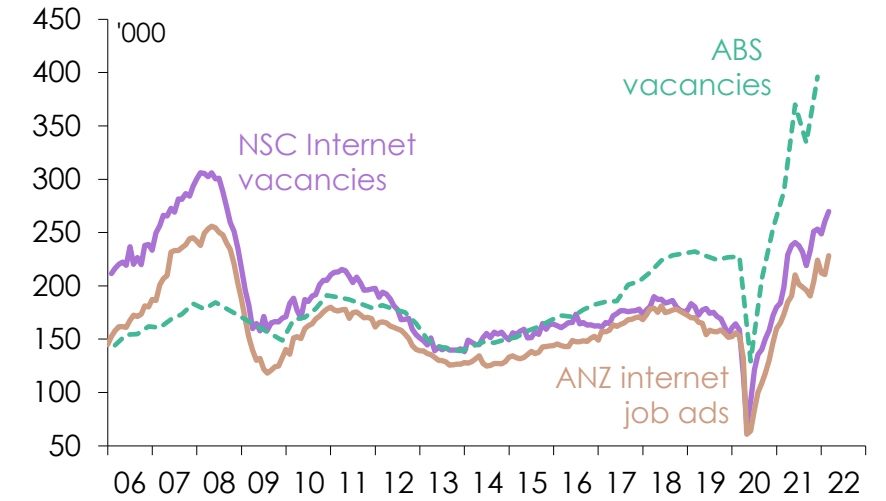
Employment



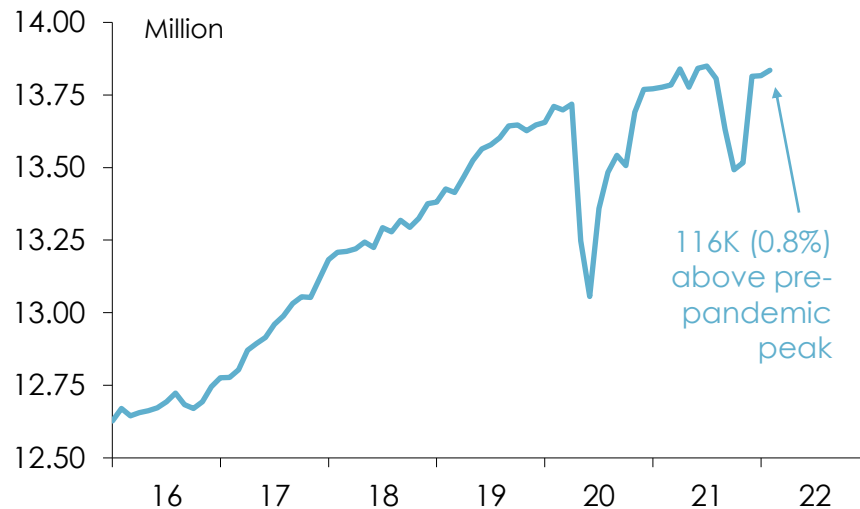
Civilian working-age population



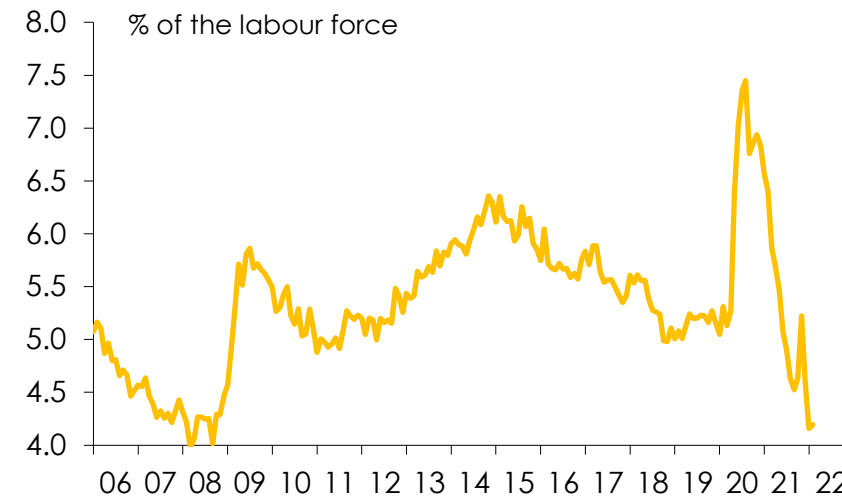
Job vacancies



Labour force



Unemployment rate



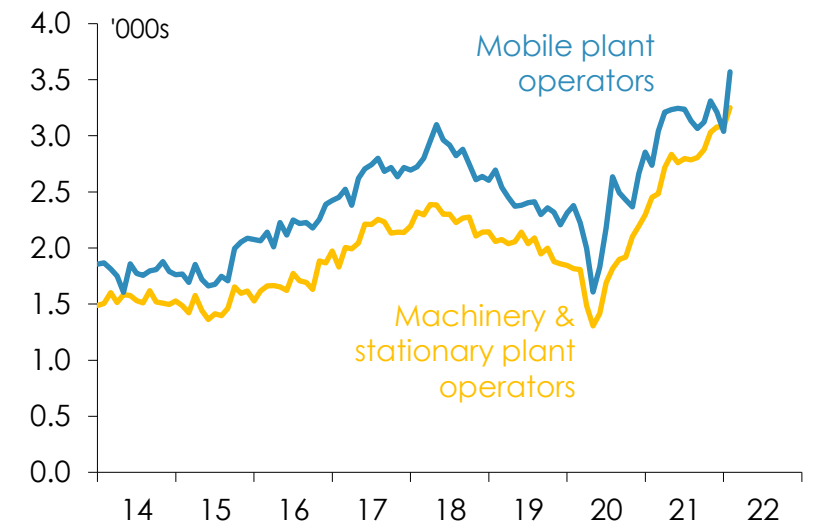
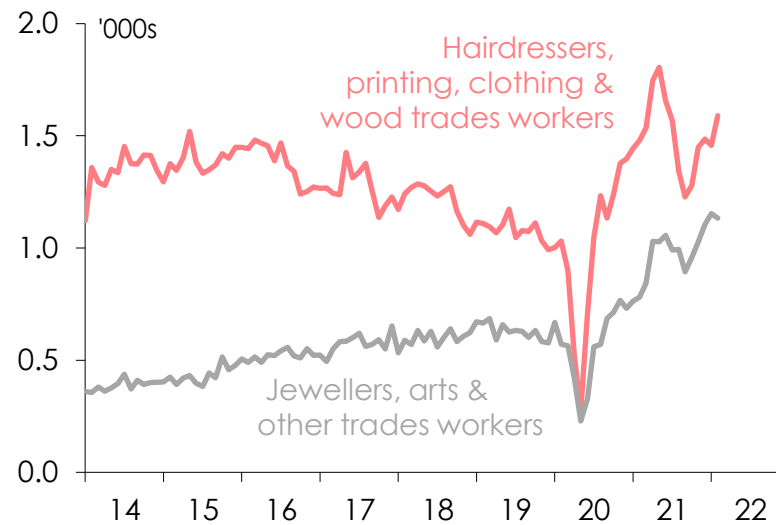
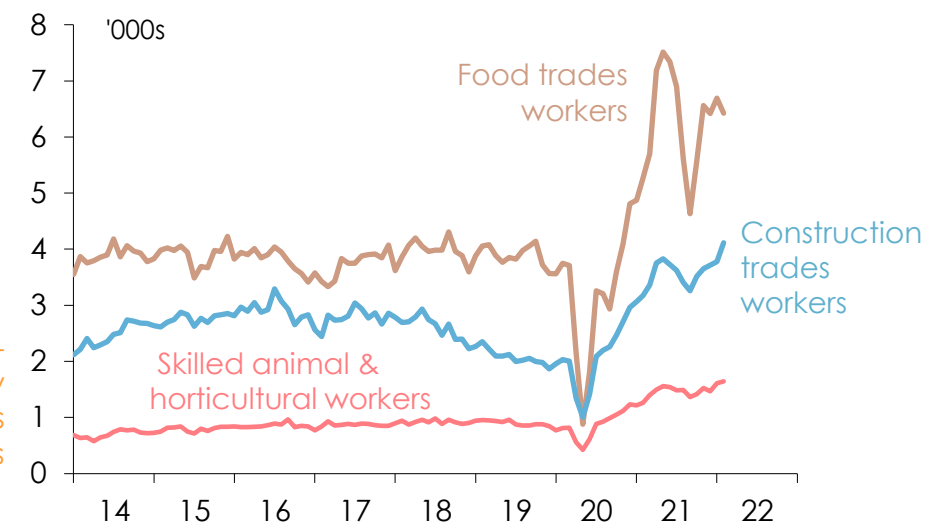
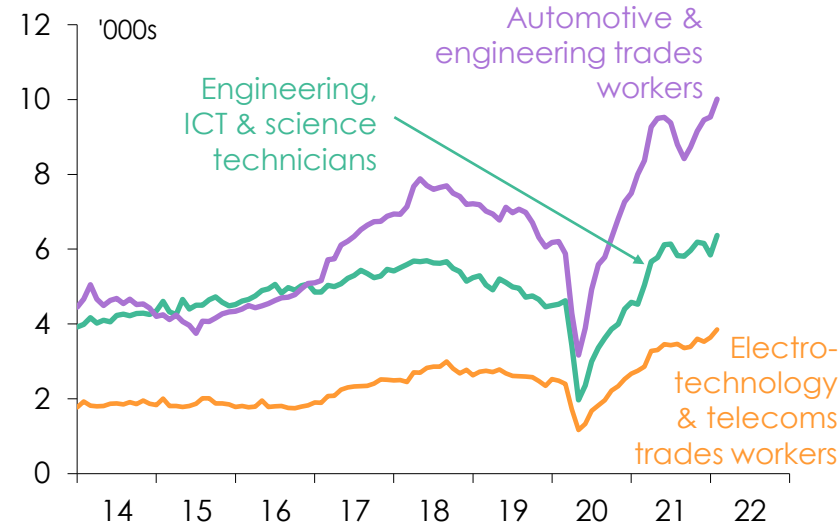
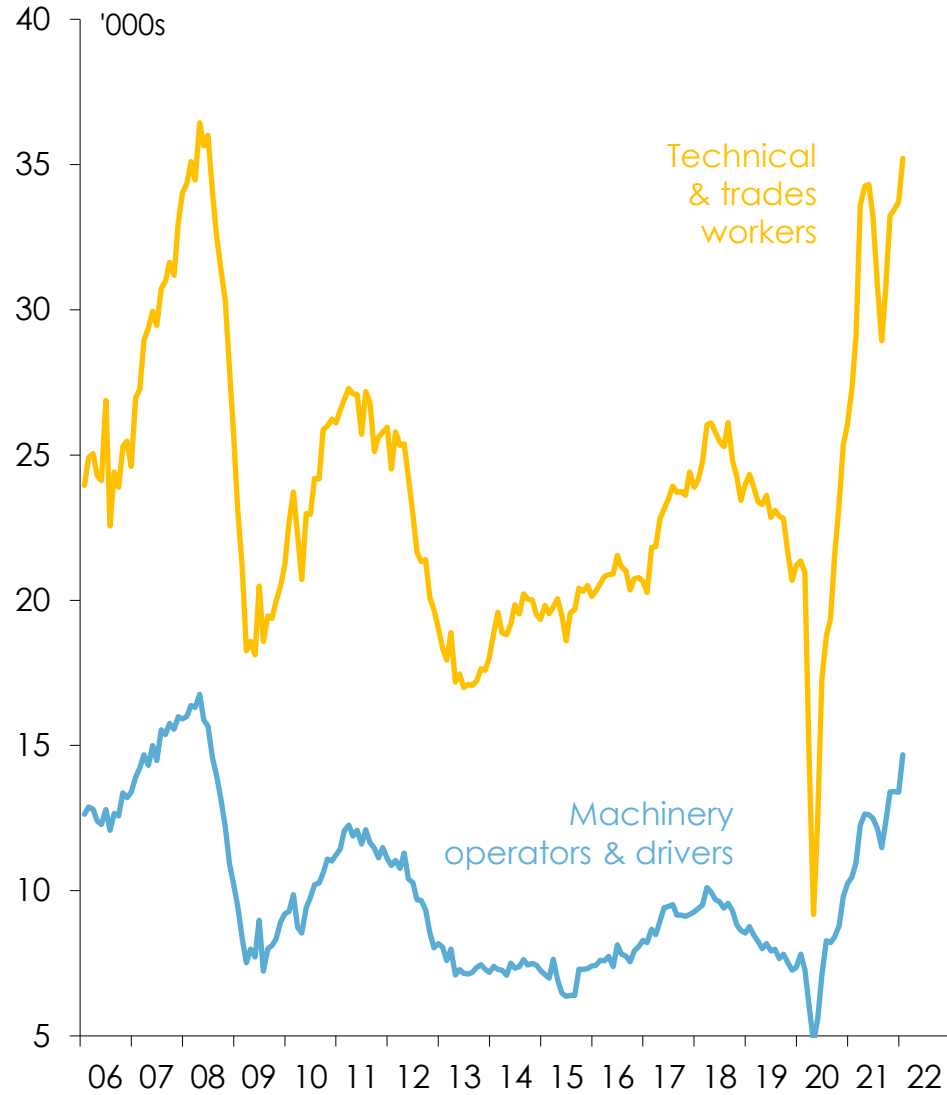
Unemployed people per vacancy



Source: ABS, [Labour Force, Australia](#), January 2022; Australian Government, [Labour Market Information Portal](#); ANZ Research; ABS, [Job Vacancies, Australia](#).

Job vacancies for occupations typically filled by people who have acquired their skills through apprenticeships are at their highest in 15 years

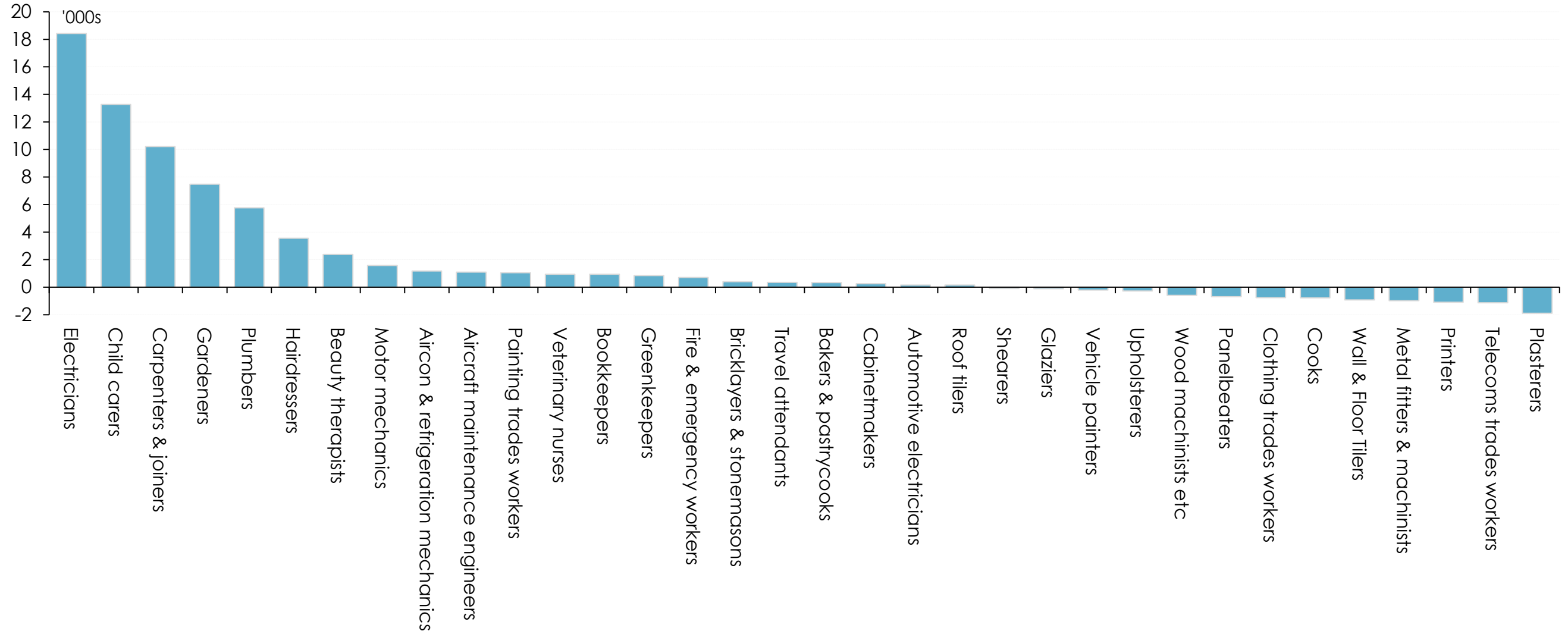
Job vacancies for occupations which commonly call for skills acquired through apprenticeships



Source: Australian Government Labour Market Information Portal, [Vacancy Report](#), January 2022.

Some of these vacancies reflect likely long-term demand for particular skills, others are more short-term

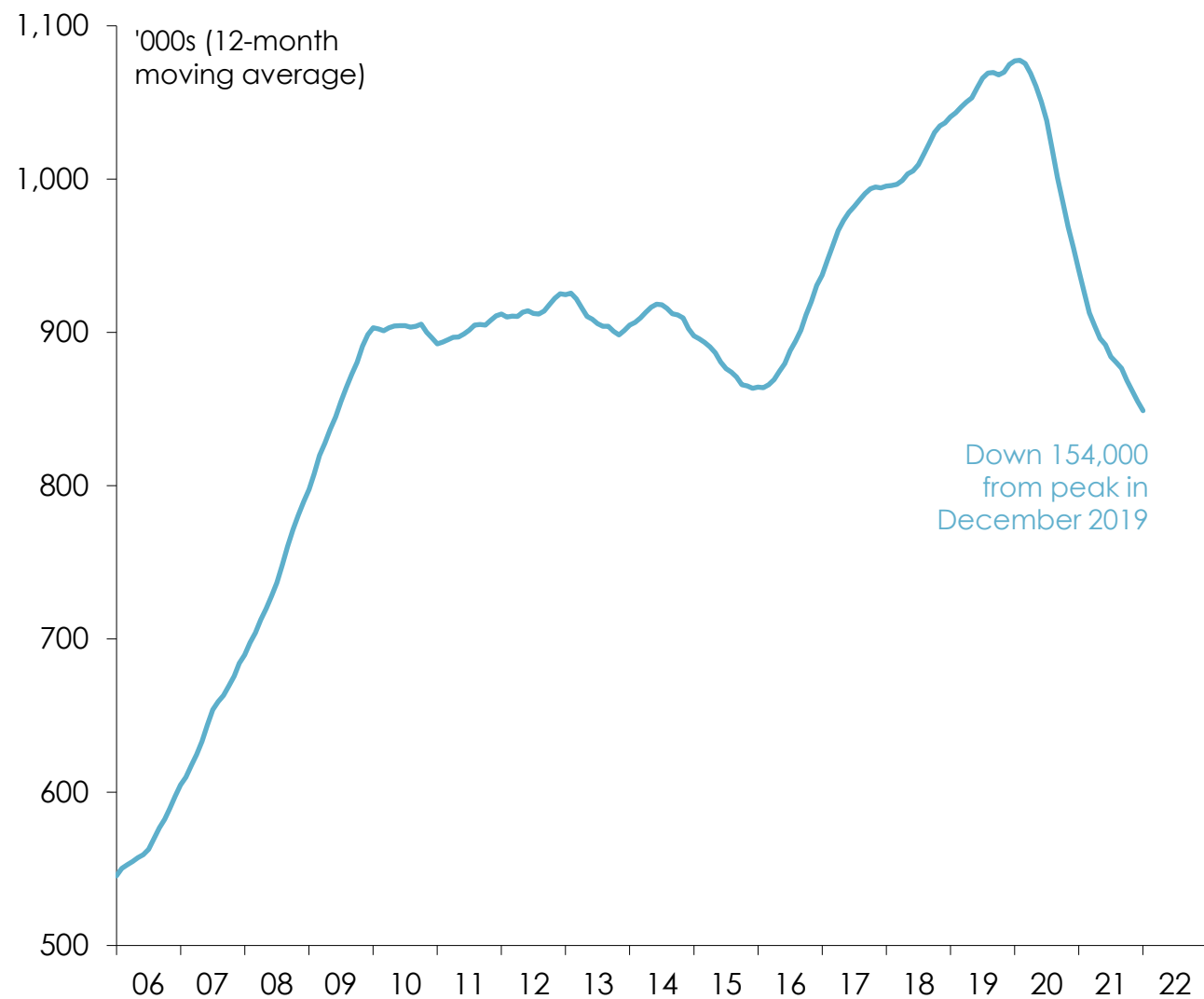
Projected increases in employment over the five years to November 2025: occupations with skill levels commensurate with Certificate III or IV including at least two years on-the-job training



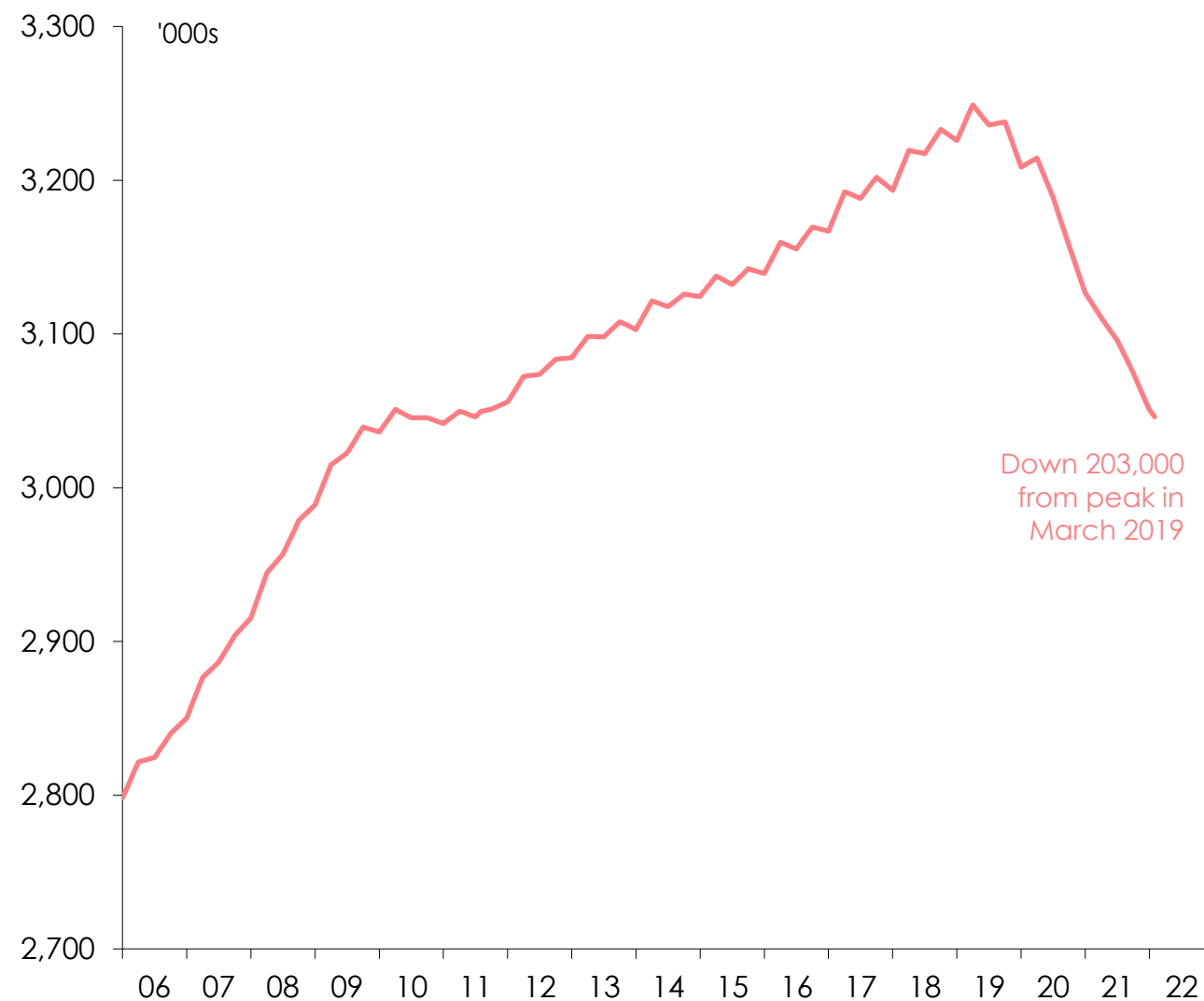
Source: National Skills Commission, [Employment Projections](#), August 2021.

Another reason for the tight labour market has been the loss of migrants, and in particular young migrants (including students)

Migrants who have arrived in past 5 years



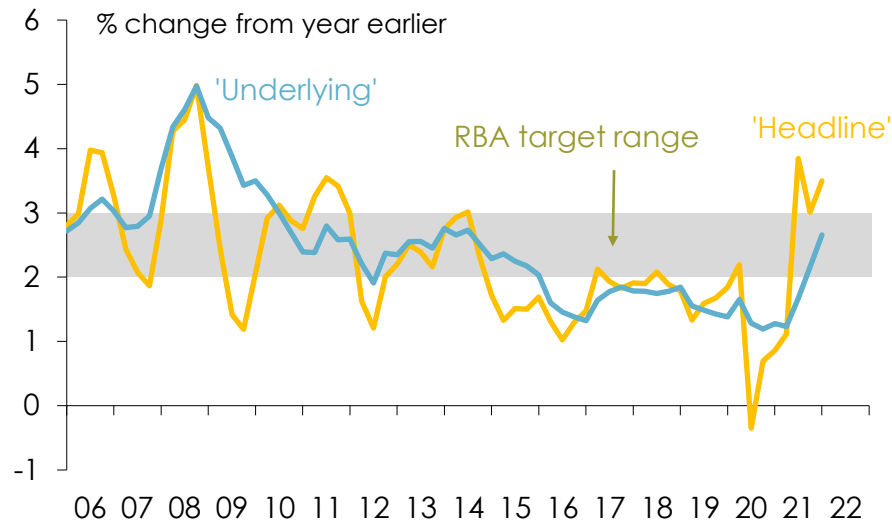
People aged 15-25



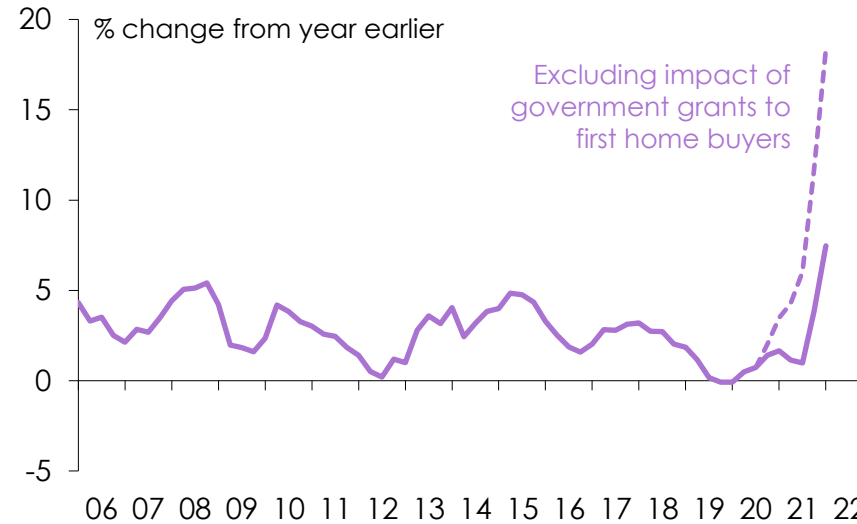
Source: ABS, [Labour Force, Australia, Detailed](#), January 2022.

Australia's inflation rate has clearly picked up, but largely due to a small number of factors and the RBA is as yet unsure it's "sustainable"

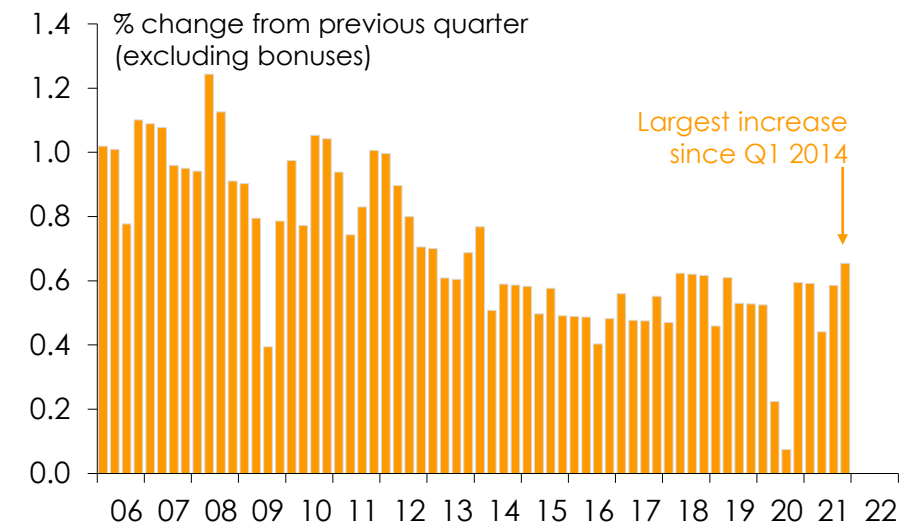
Consumer prices – annual change



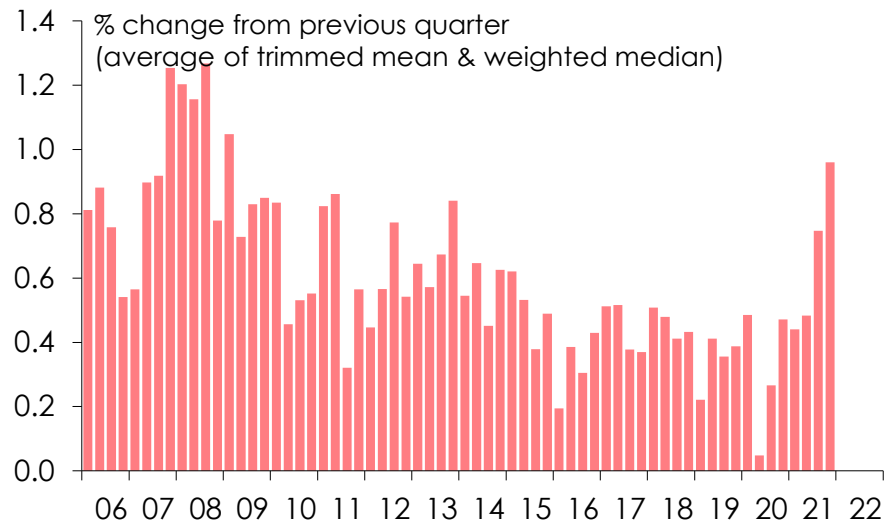
New dwelling purchase costs



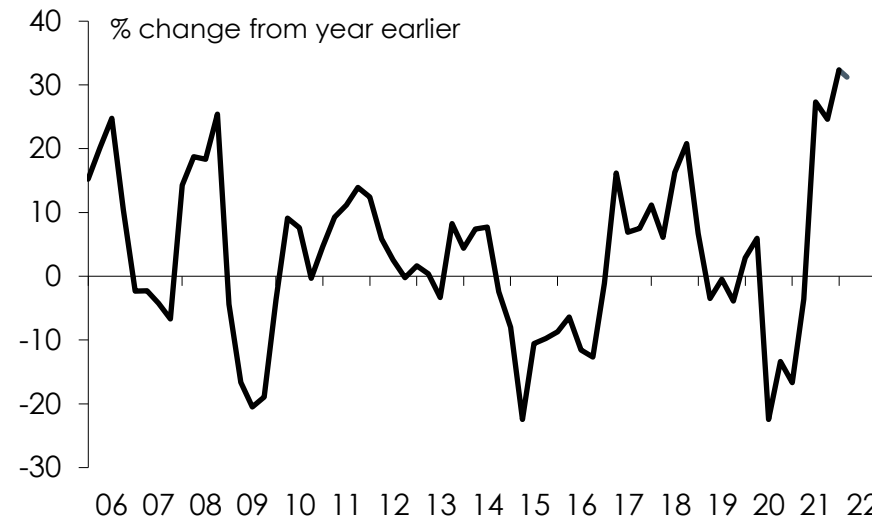
Quarterly wage price index



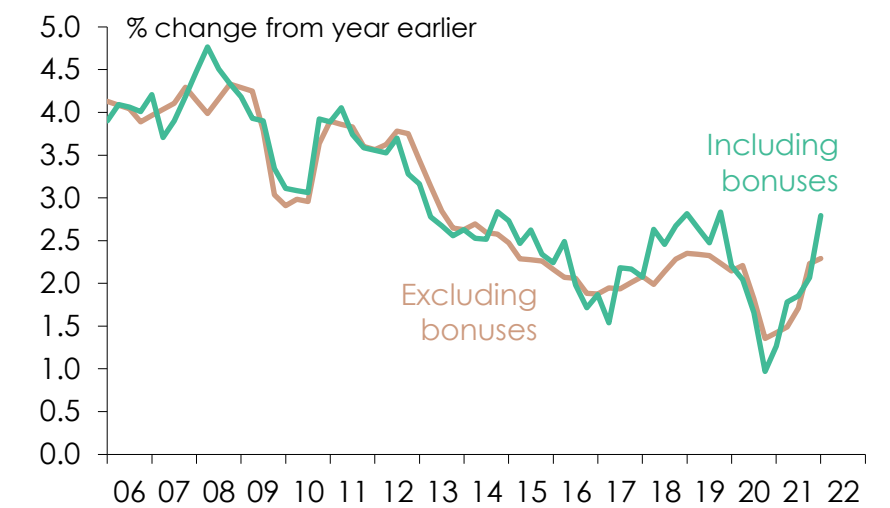
Quarterly 'underlying' inflation



Automotive fuel prices



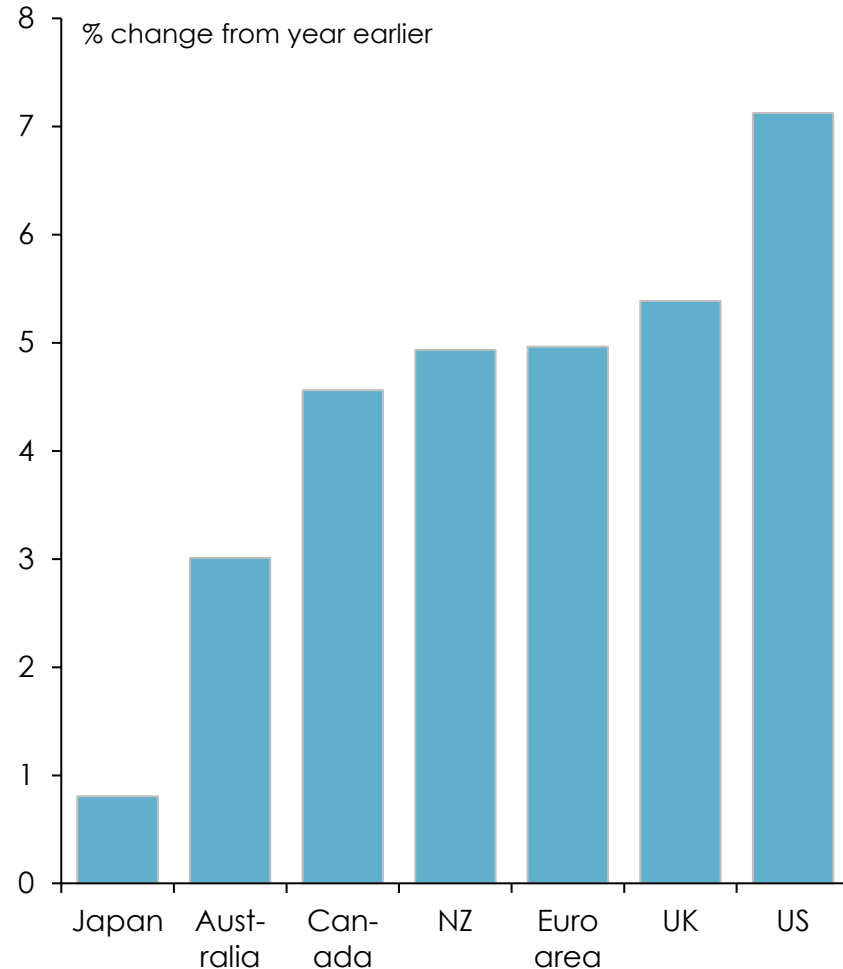
Wage price index – annual change



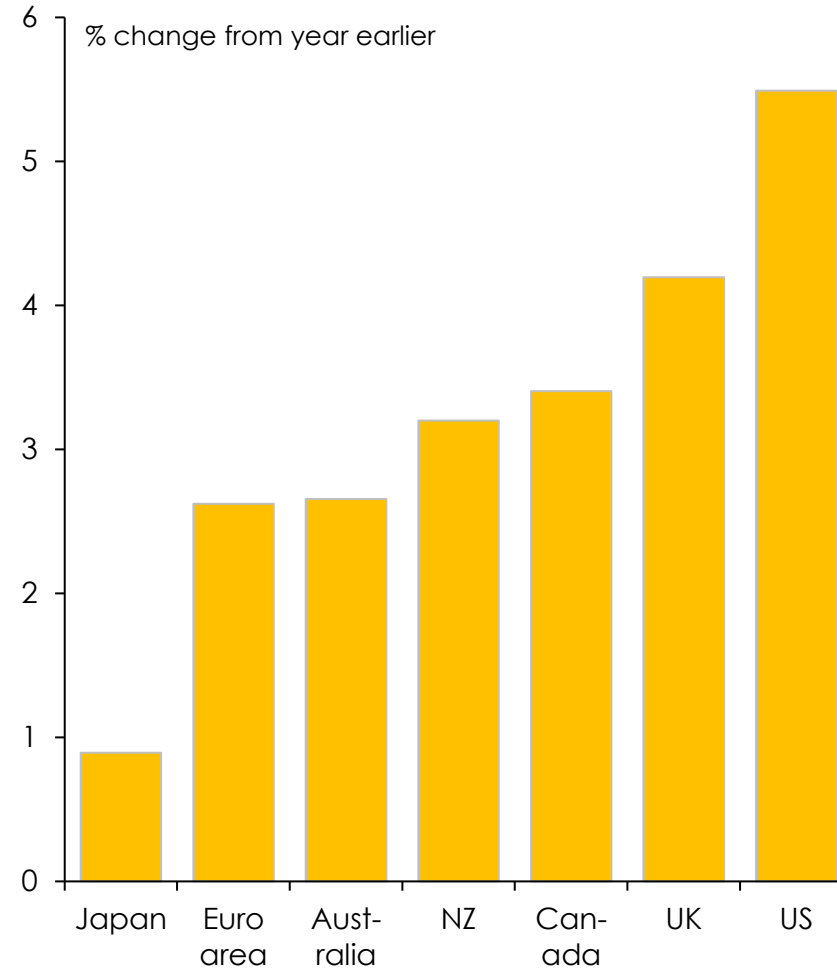
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Source: ABS, [Consumer Price Index, Australia](#), December; [Wage Price Index, Australia](#)

Neither wage nor price inflation in Australia has risen nearly as much as in the US, the UK, Canada or New Zealand

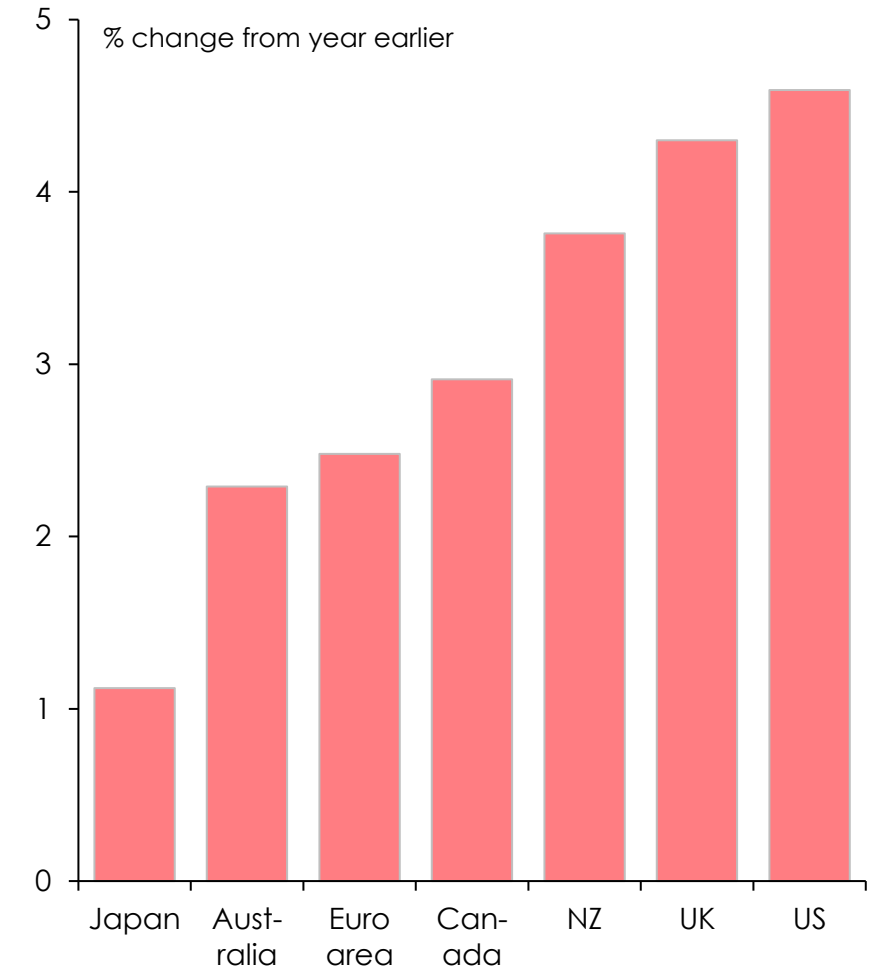
'Headline' consumer price inflation



'Underlying' or 'core' consumer price inflation



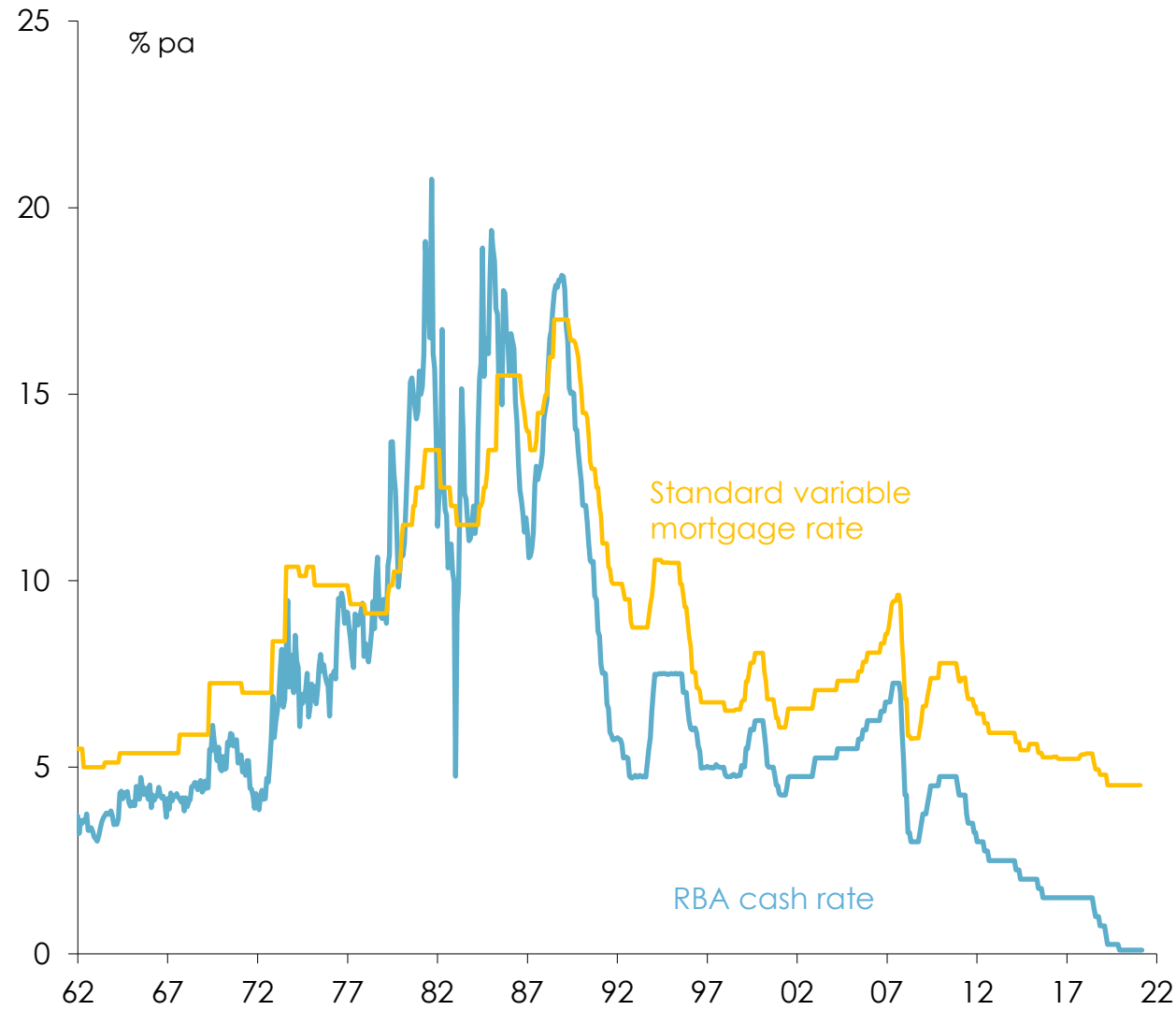
Wage inflation



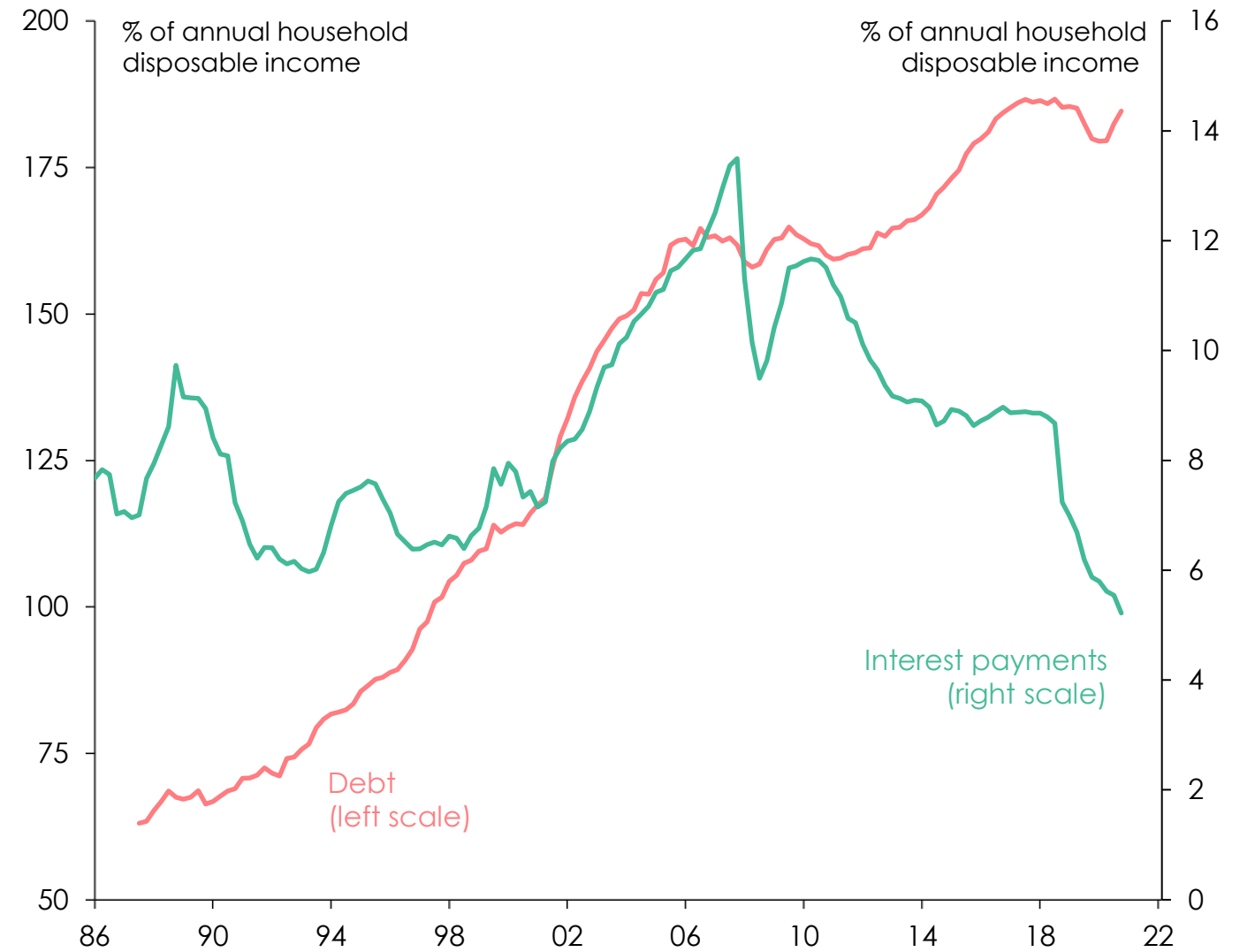
'Core' inflation is CPI excluding food & energy for the US, UK and Canada; trimmed mean for Japan and Australia; and 'sectoral factor model' for NZ. Wage inflation is average hourly earnings for Japan, the UK and Canada (and hence affected by changes in workforce composition), and wage price index or equivalent for the US, euro area and Australia. Sources: [ABS](#); [US Bureau of Labor Statistics](#); [Eurostat](#); [Statistics Bureau of Japan](#) and [Bank of Japan](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Statistics New Zealand](#) and [Reserve Bank of New Zealand](#).

The RBA will probably start raising rates in August – but it won't have to raise them much to have a noticeable impact on household spending

Australian interest rates



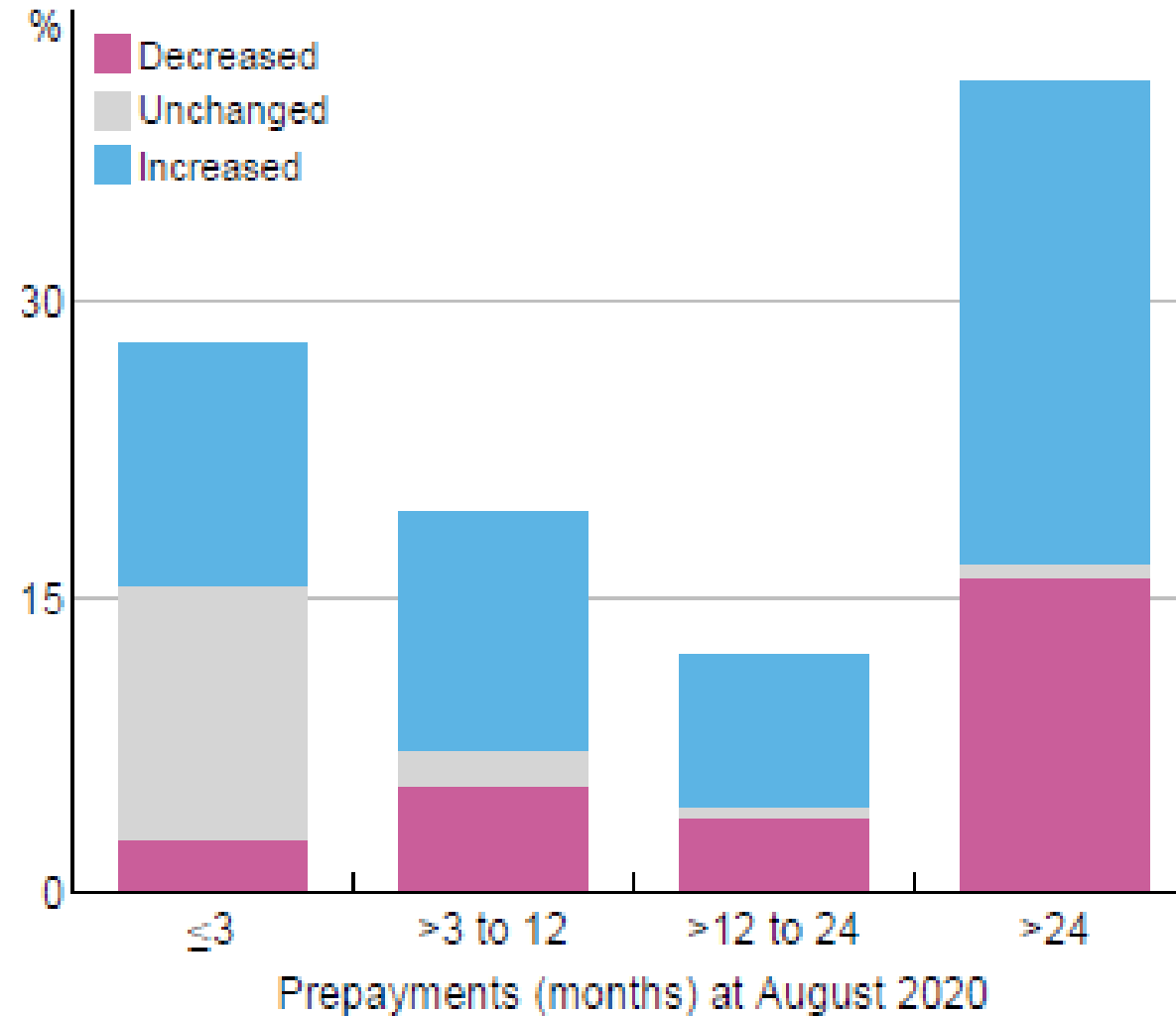
Australian household debt & interest payments



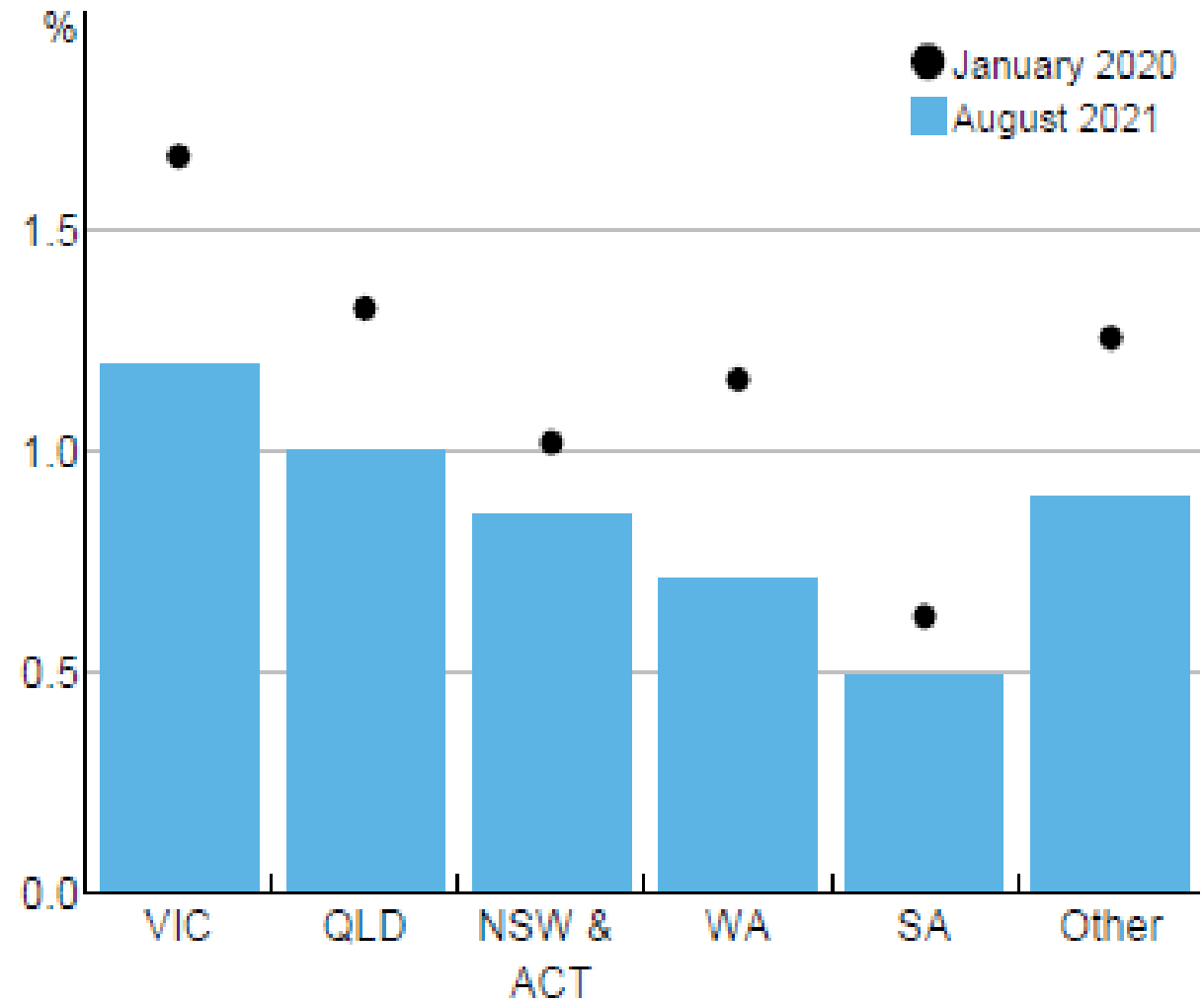
Sources: Reserve Bank of Australia, [Statistical Tables F1.1](#), [F6](#) and [E2](#).

Most (though not all) mortgage borrowers will have some 'buffers' against increases in interest rates

Change in housing loan pre-payments over the twelve months to August 2021



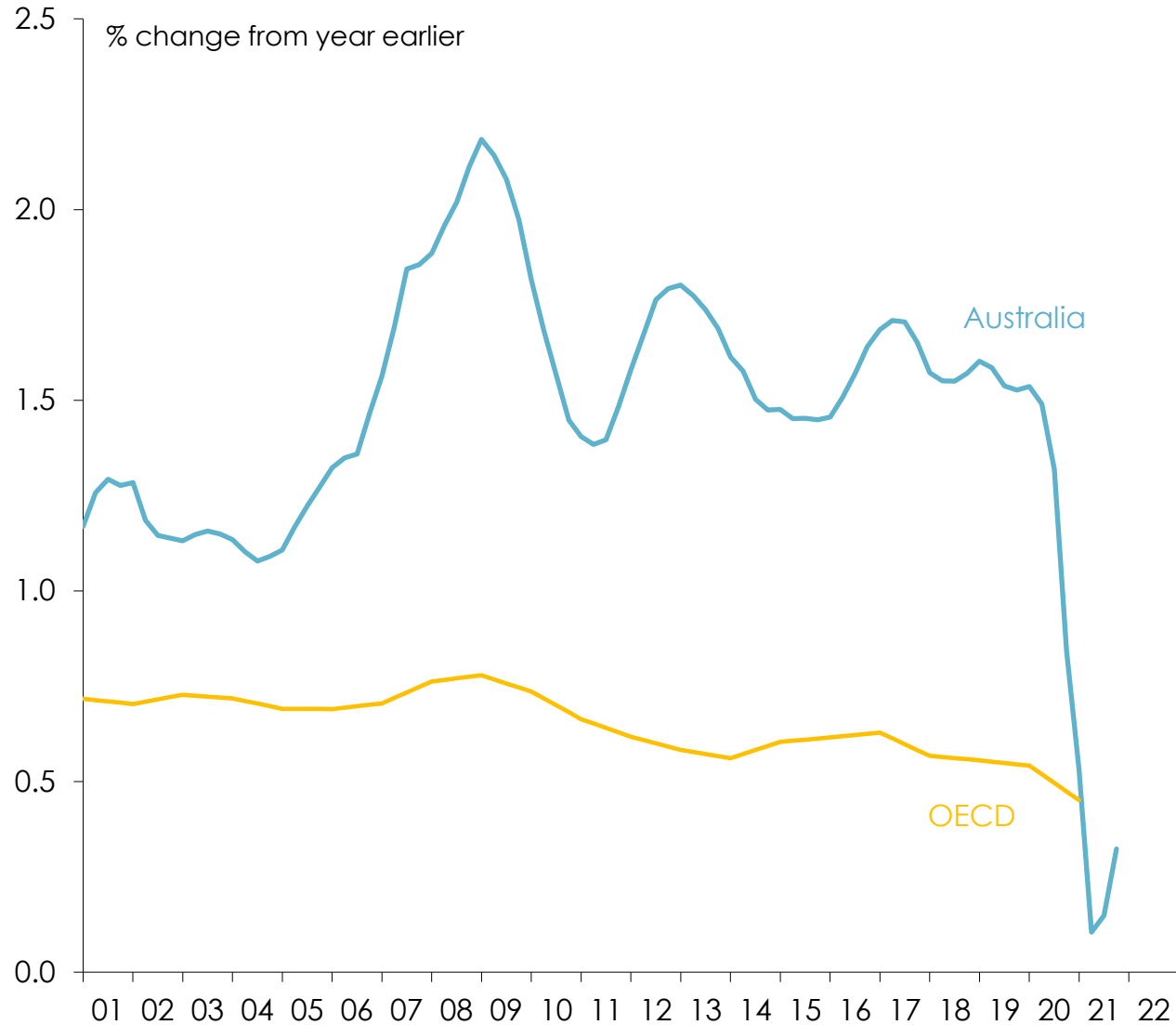
Owner-occupier mortgage borrowers with high DTI ratios and low pre-payment 'buffers'



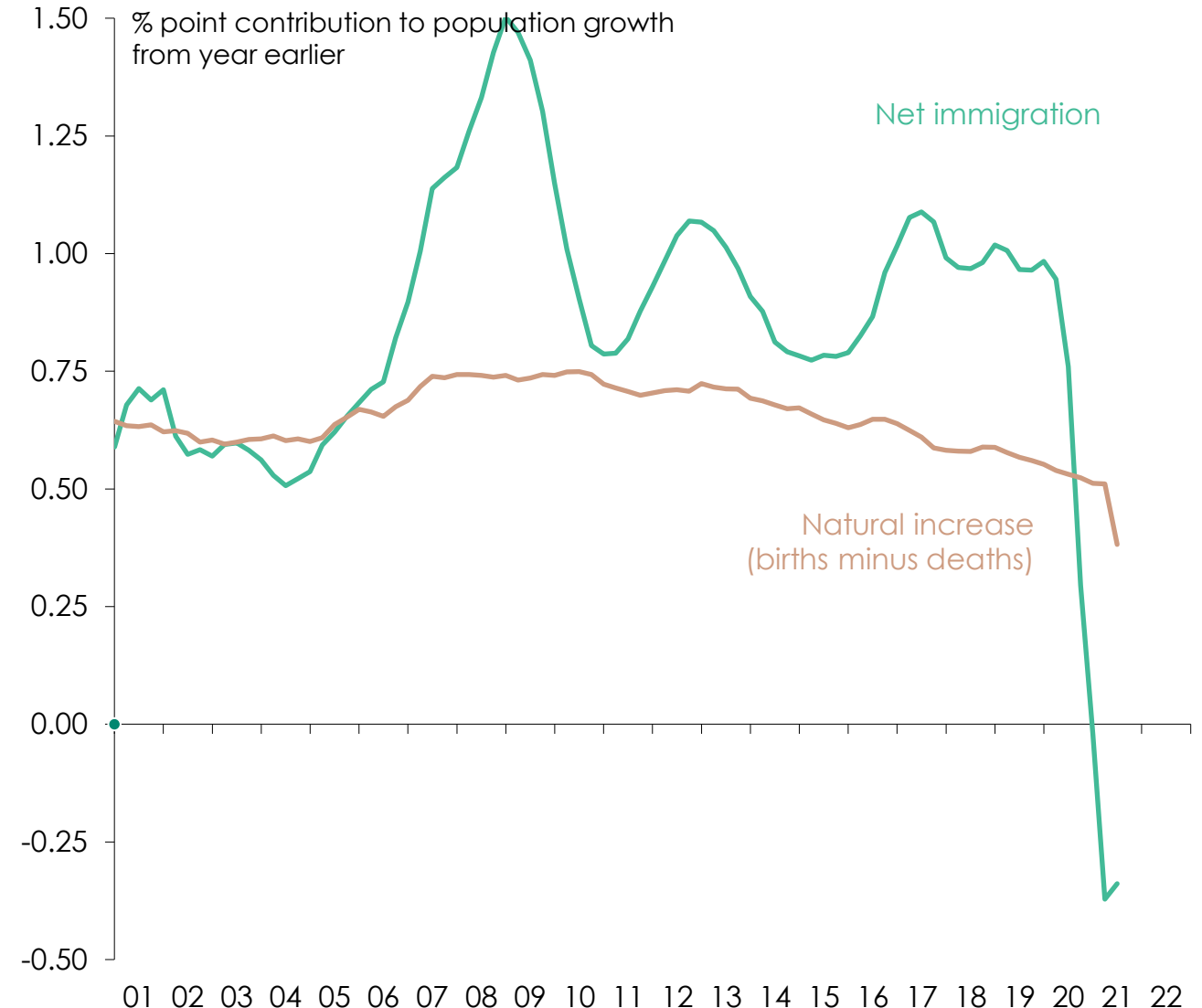
Note: Pre-payments are measured in months of repayments and expressed as a share of loans (excluding fixed-rate and investor loans). 'High debt and low buffer' households are those with a DTI > 6 and less than one month of pre-payments. Source: Reserve Bank of Australia, [Financial Stability Review](#), 8th October 2021.

Australia's population growth probably won't return to as rapid a pace as experienced over the first two decades of this century

Australia and OECD population growth

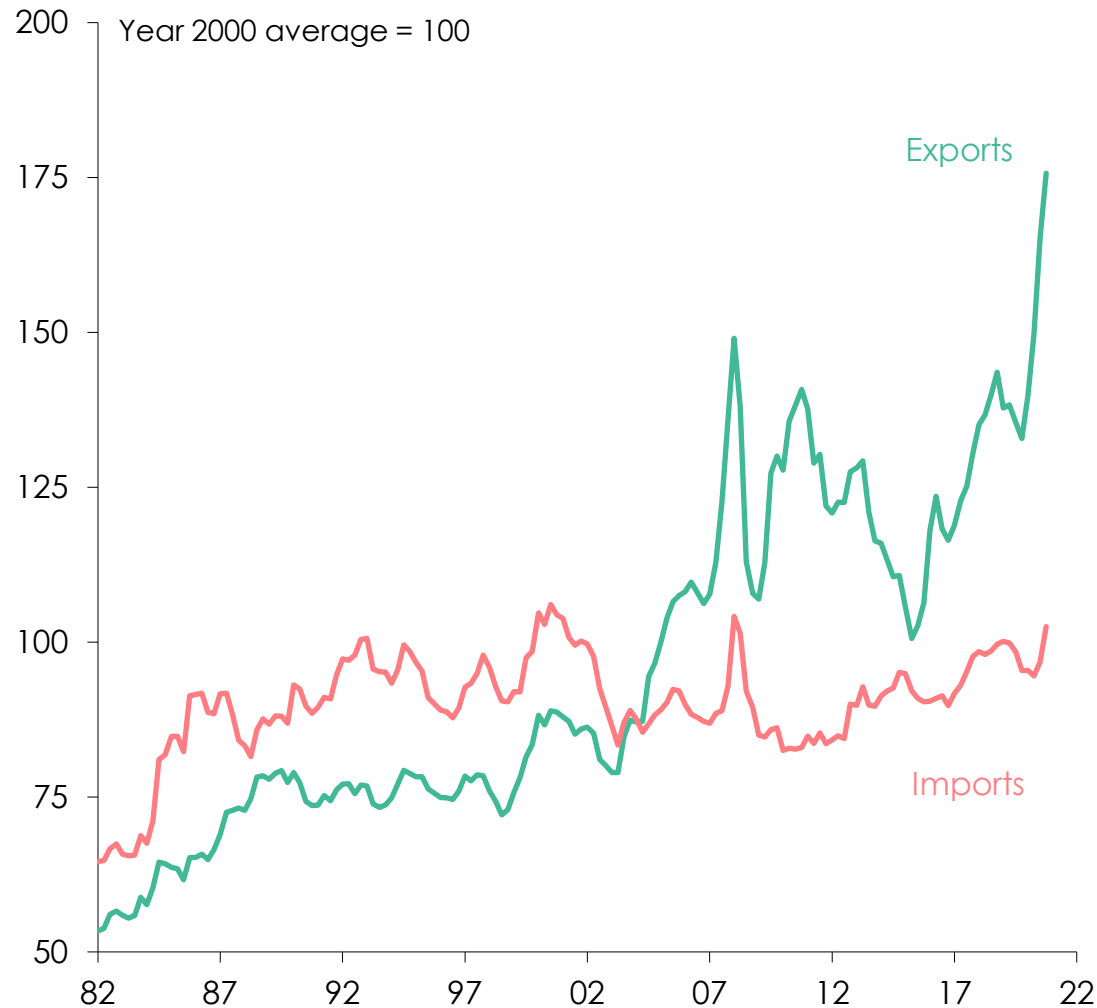


Sources of Australia's population growth

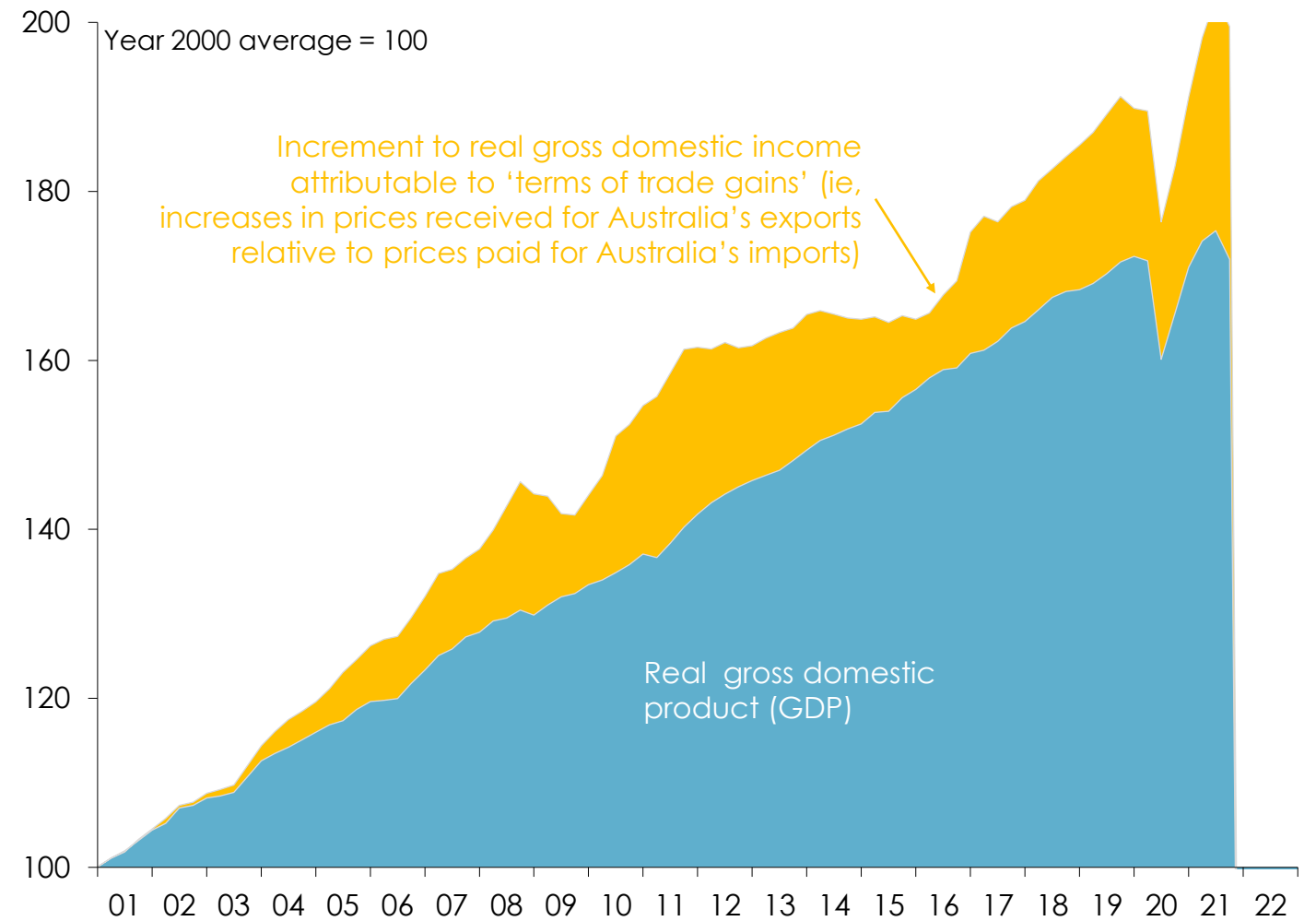


Australia almost certainly won't enjoy a 'free ride' from improvements in the relative prices of our exports over the next two decades

Prices of Australia's exports and imports of goods and services

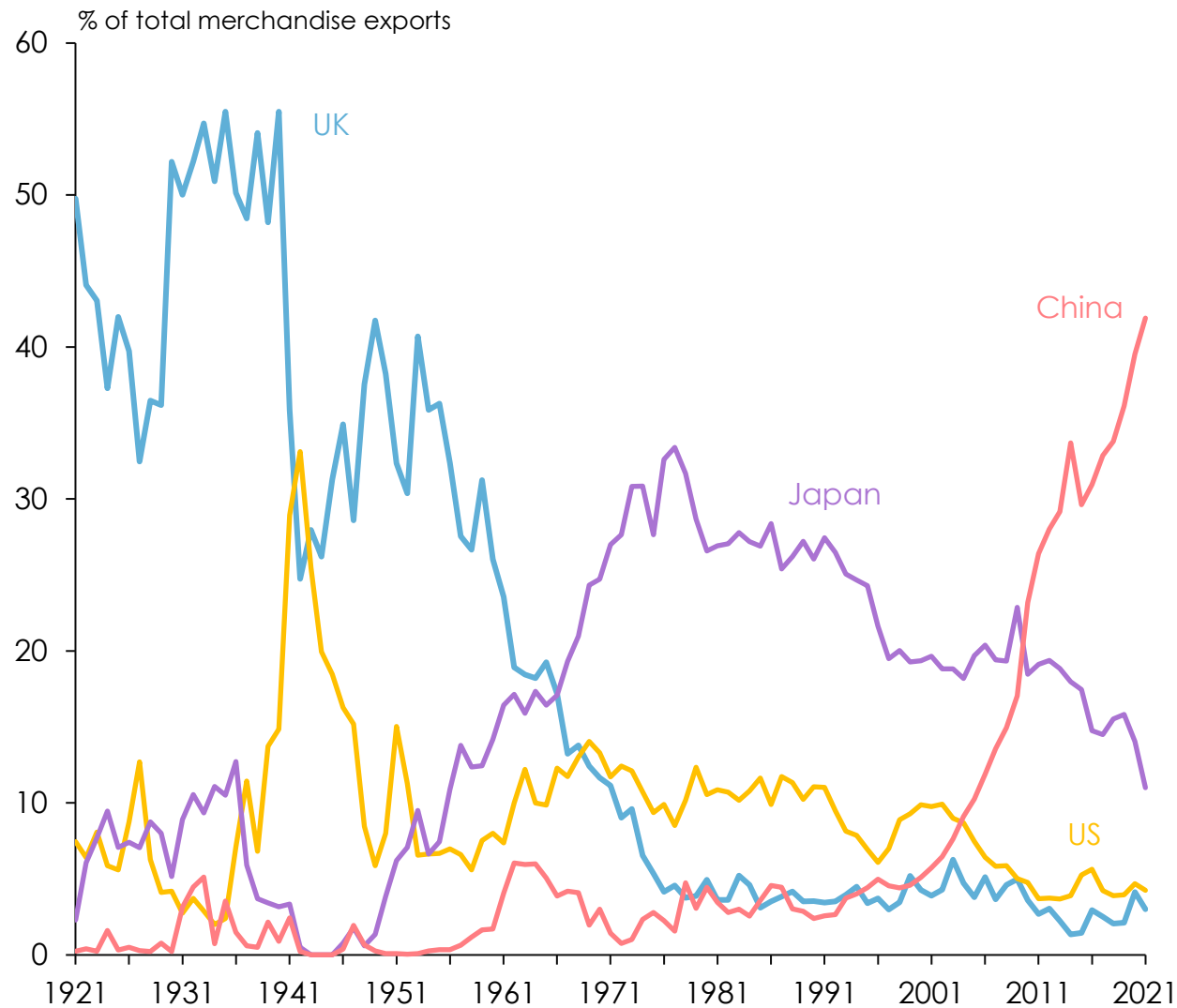


Additions to Australia's national income from terms of trade gains

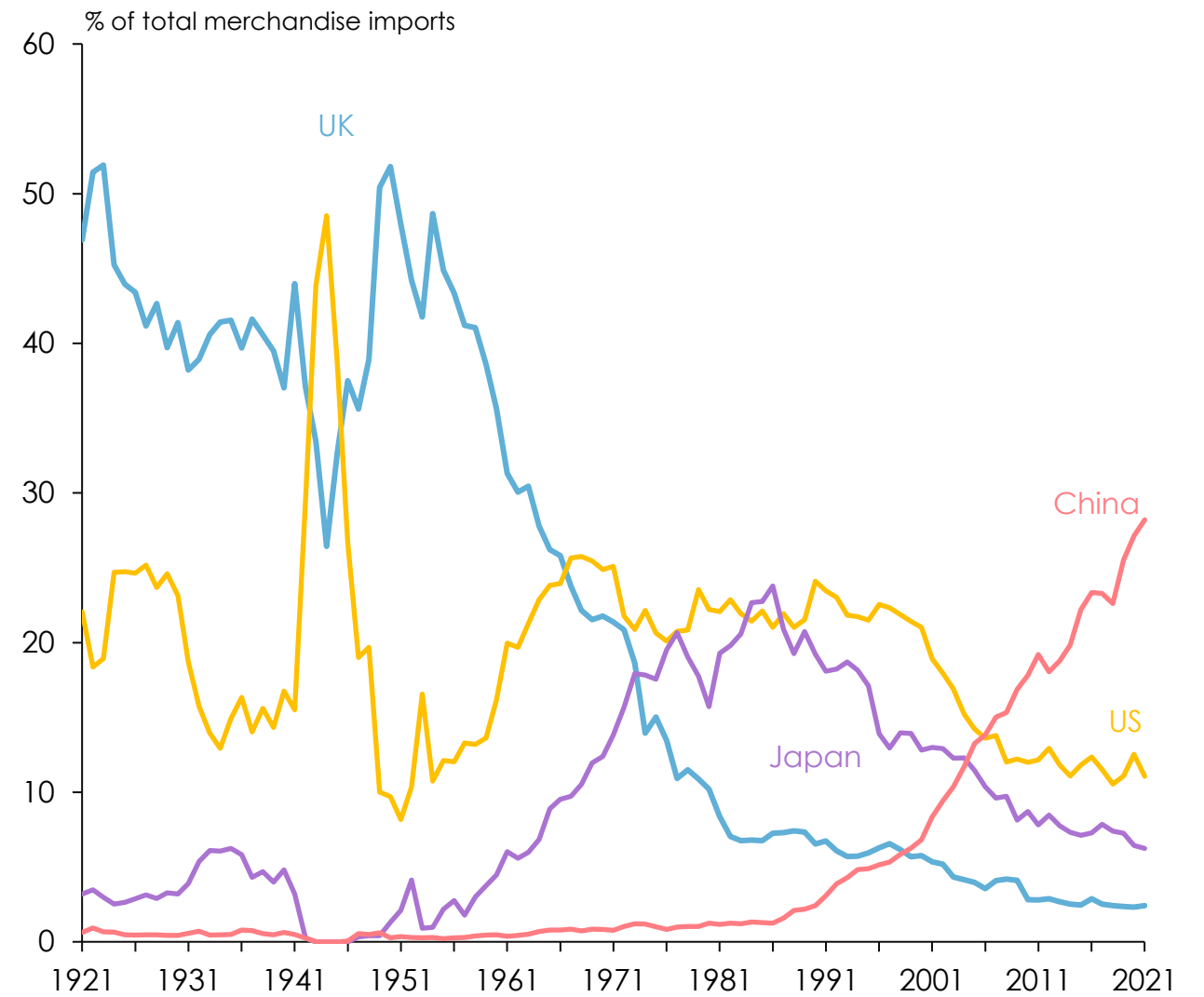


Australia has gained enormous economic benefits from its relationship with China over the past two decades – but that’s unlikely to be repeated

Australia’s major export markets, 1921-2021



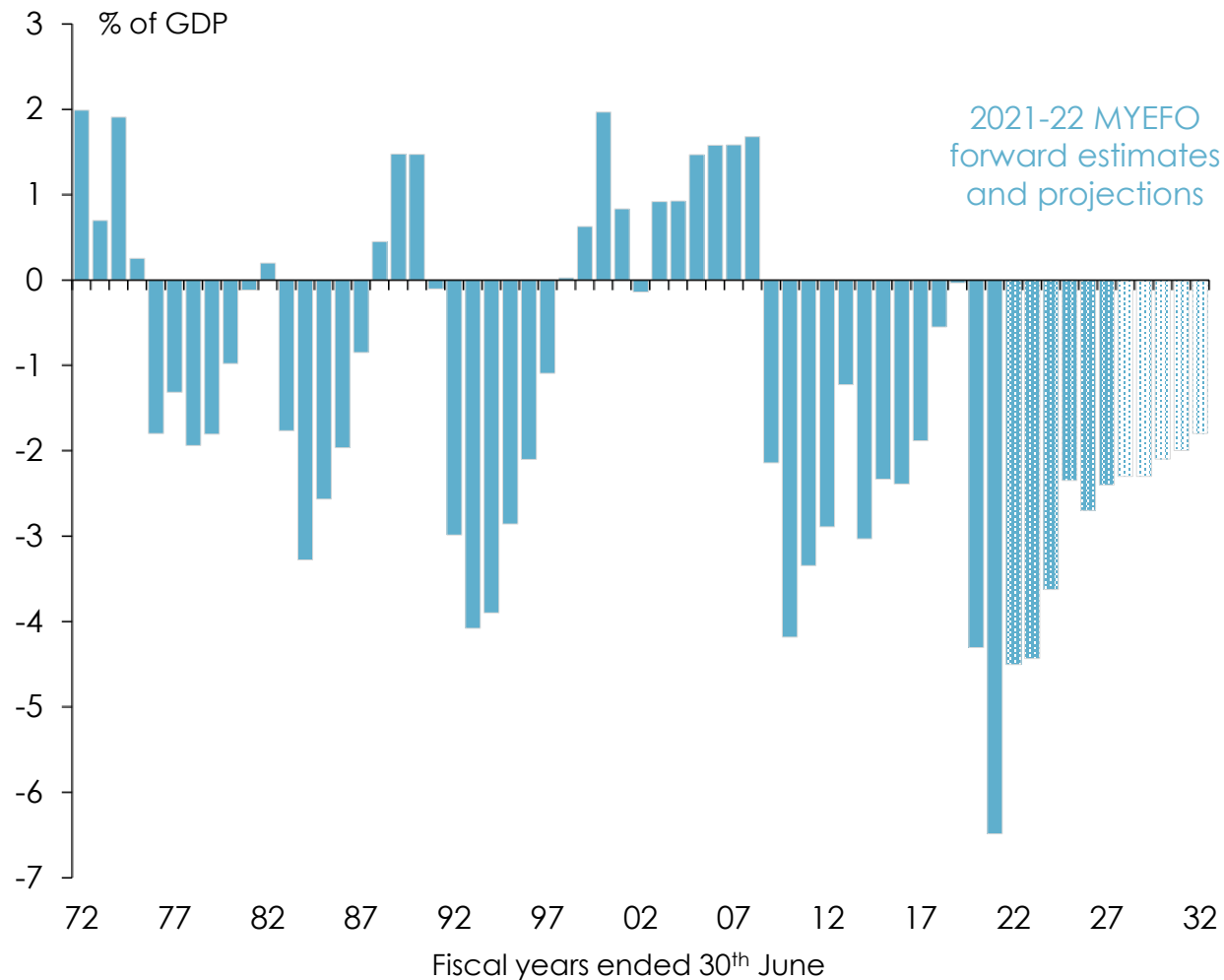
Australia’s major import sources, 1921-2021



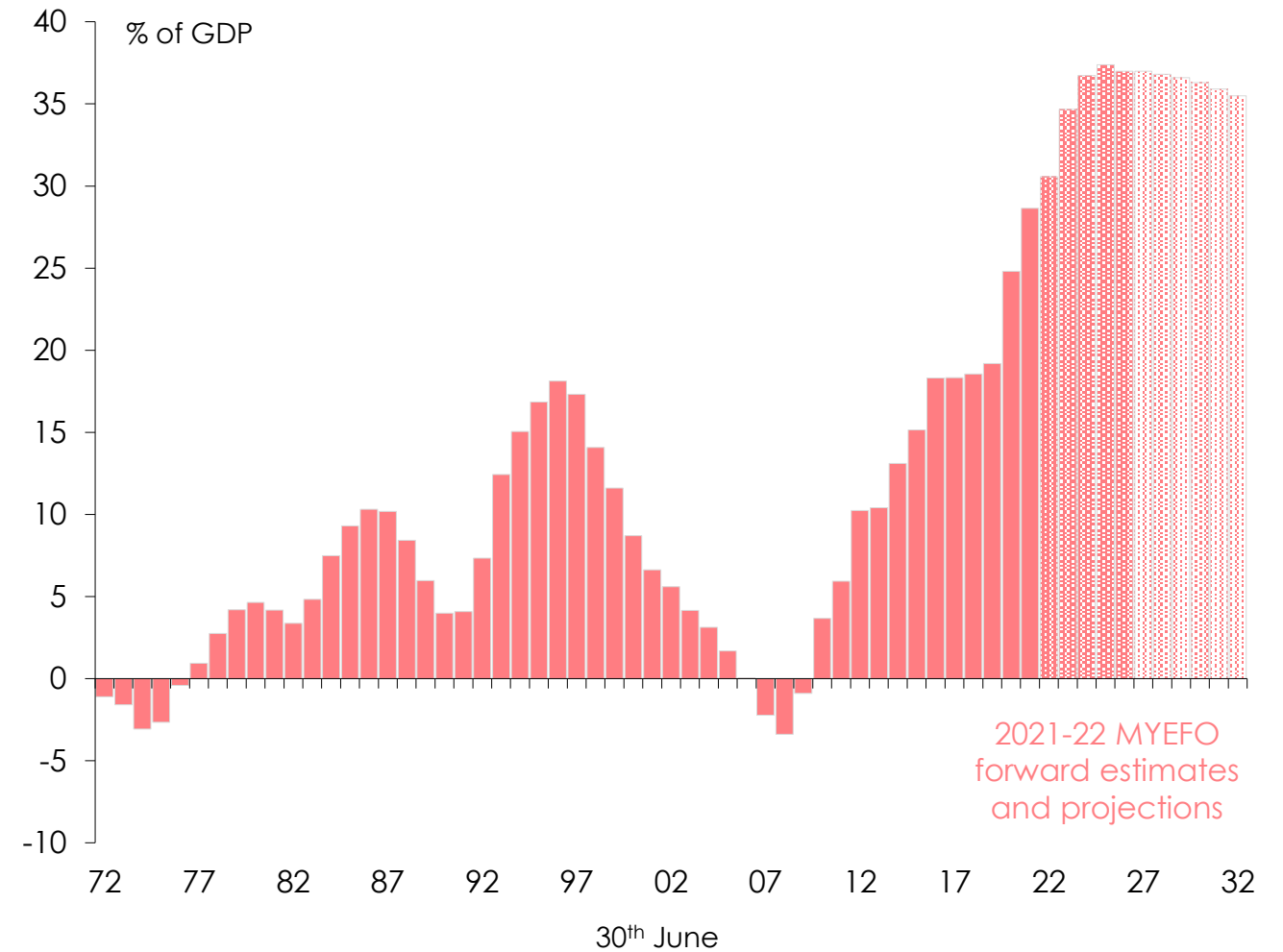
Whoever wins the Federal election due before 21st May this year will be under some pressure to reduce the budget deficit and public debt

'Medium-term' projections of the 'underlying cash balance' and net debt

'Underlying' cash balance



Net debt

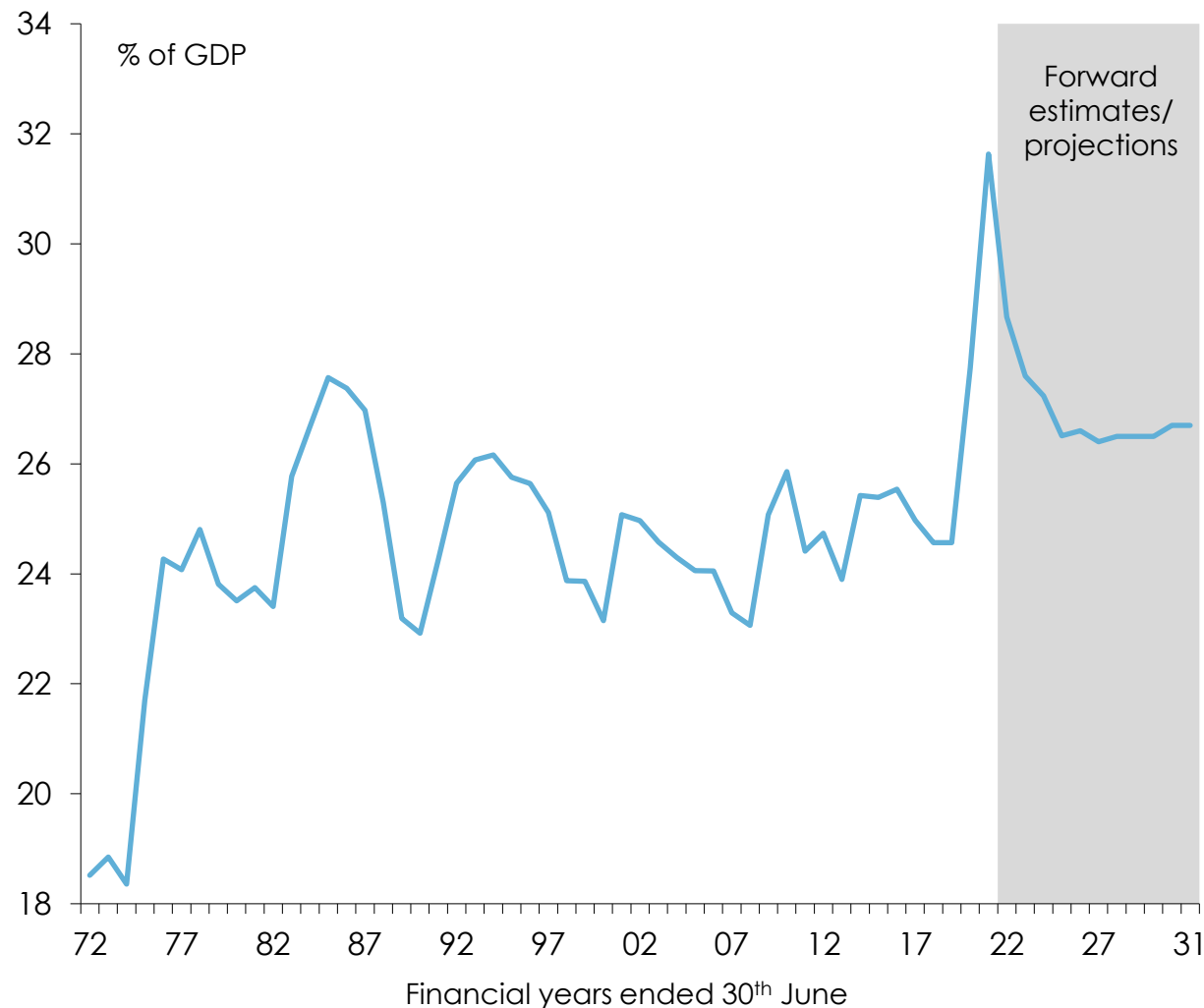


Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. Forward estimates and projections will be updated in the 2022-23 Federal Budget to be presented on 29th March.

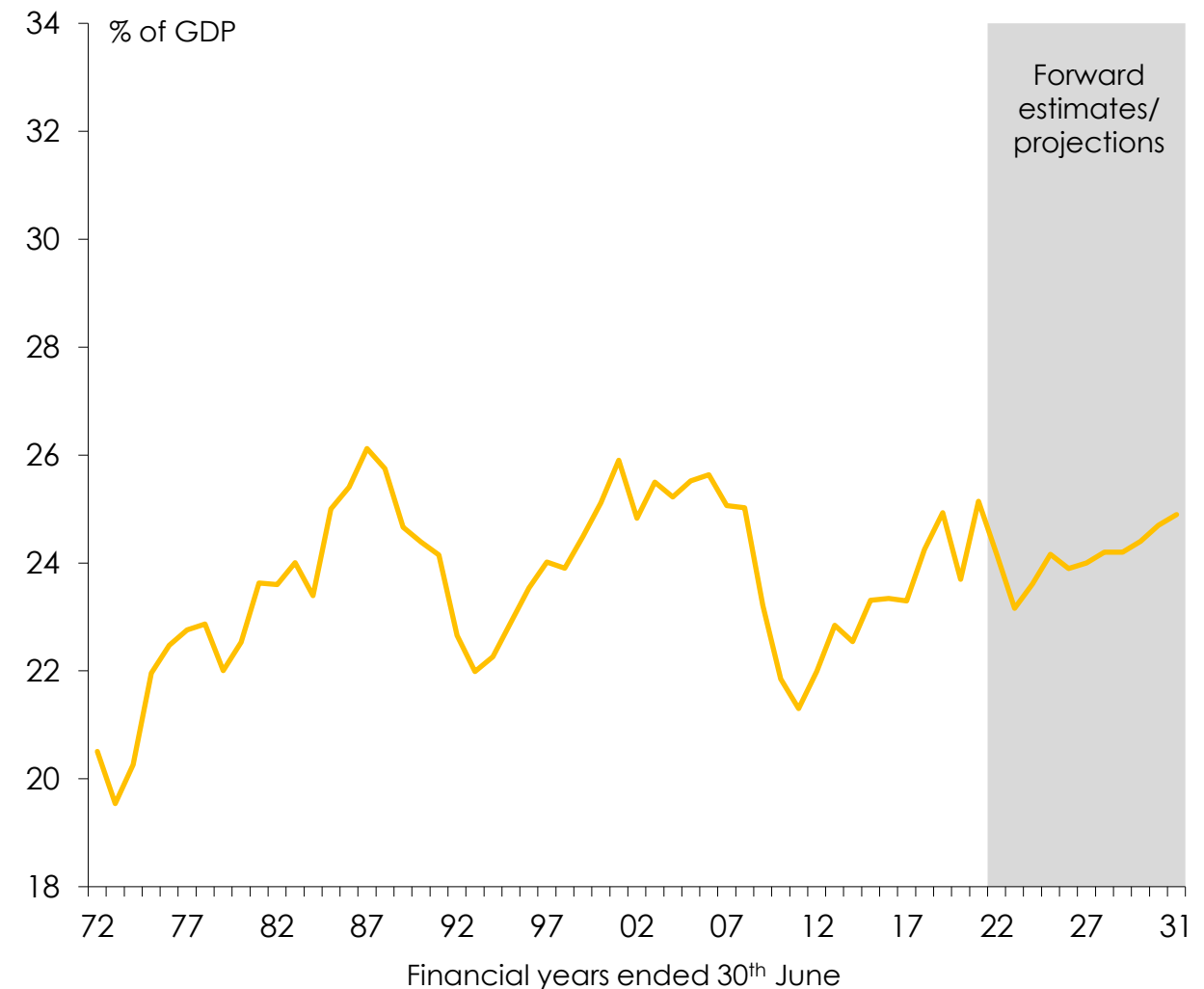
Most of whatever 'budget repair' is undertaken should, and will in the end almost certainly have to, come from the revenue side

'Medium-term' projections of Budget 'underlying' payments and receipts

'Underlying' payments



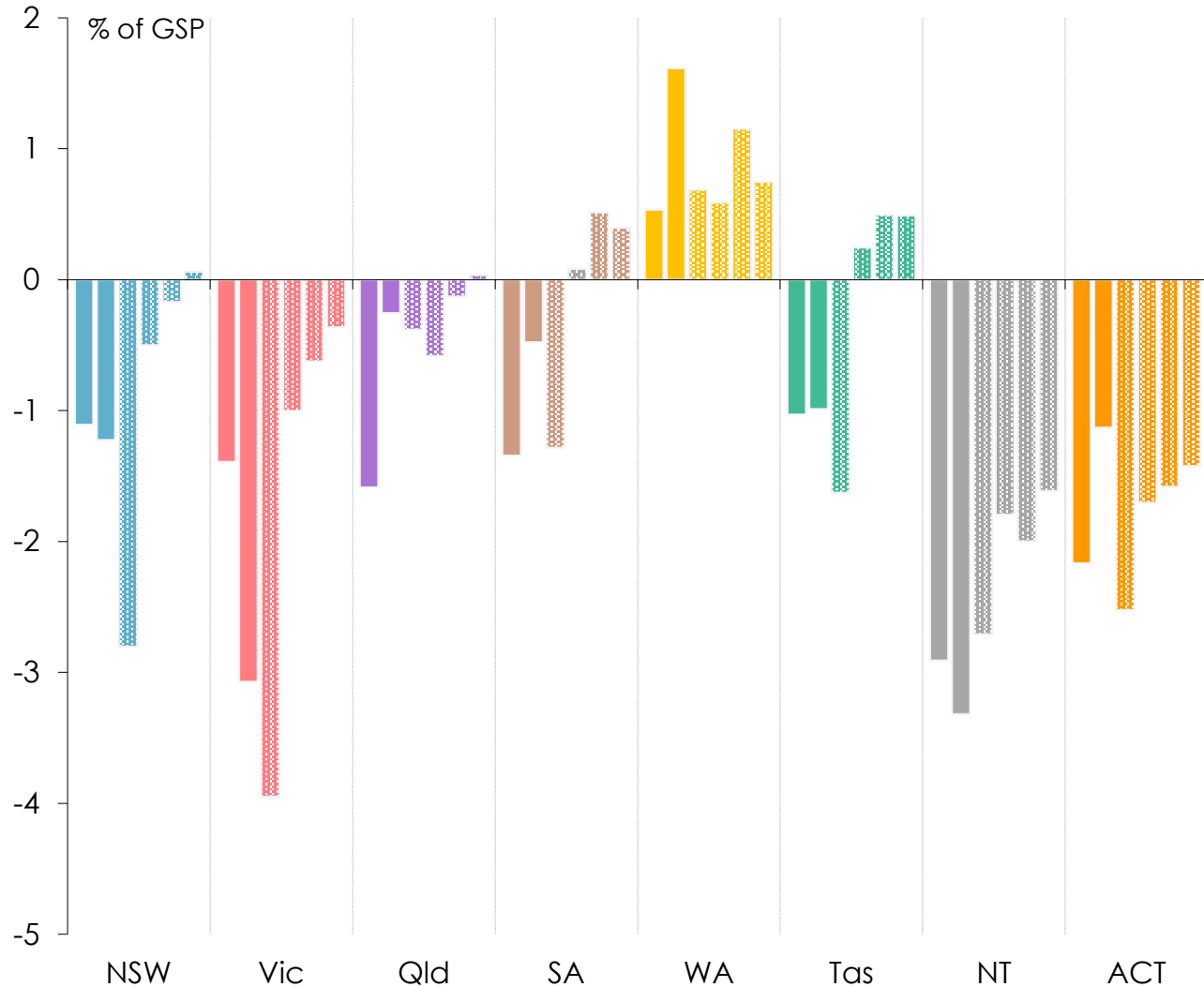
Receipts



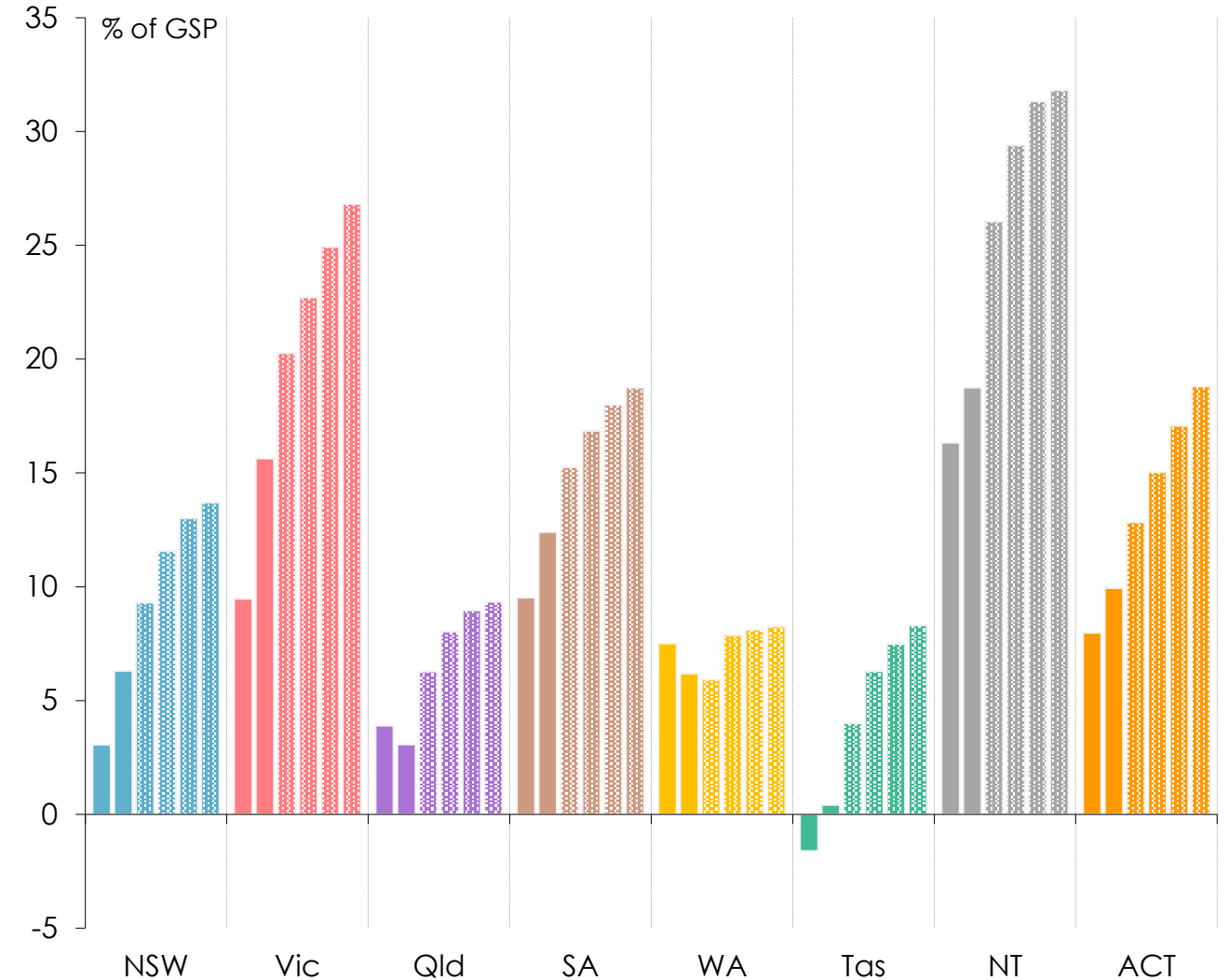
Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. Forward estimates and projections will be updated in the 2022-23 Federal Budget to be presented on 29th March.

Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

States and territories – ‘net operating balances’



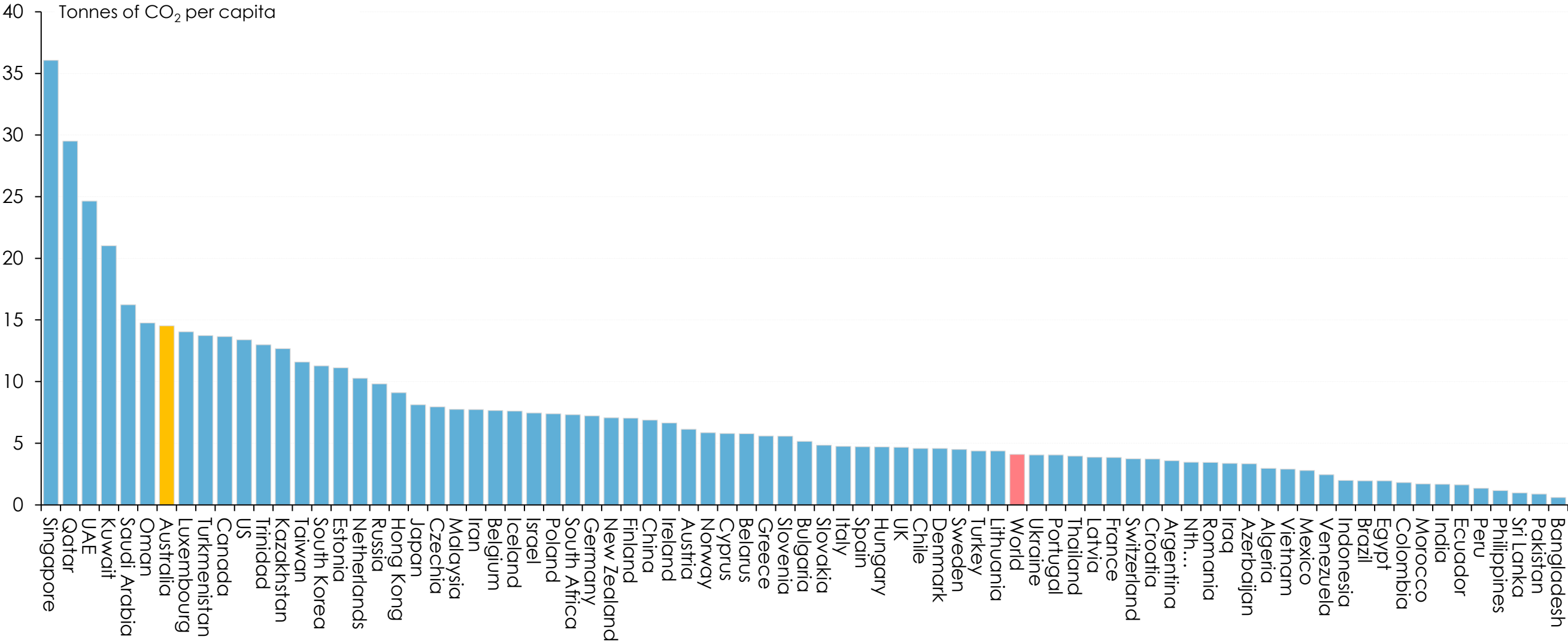
States and territories – net debt



Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or Treasury estimates of real GSP growth combined with Federal Treasury estimates of the (national) GDP price deflator. Sources: State and Territory 2021-22 Mid-Year Reviews.

Australia risks being seen as a 'climate change pariah' with potentially adverse consequences for our trade

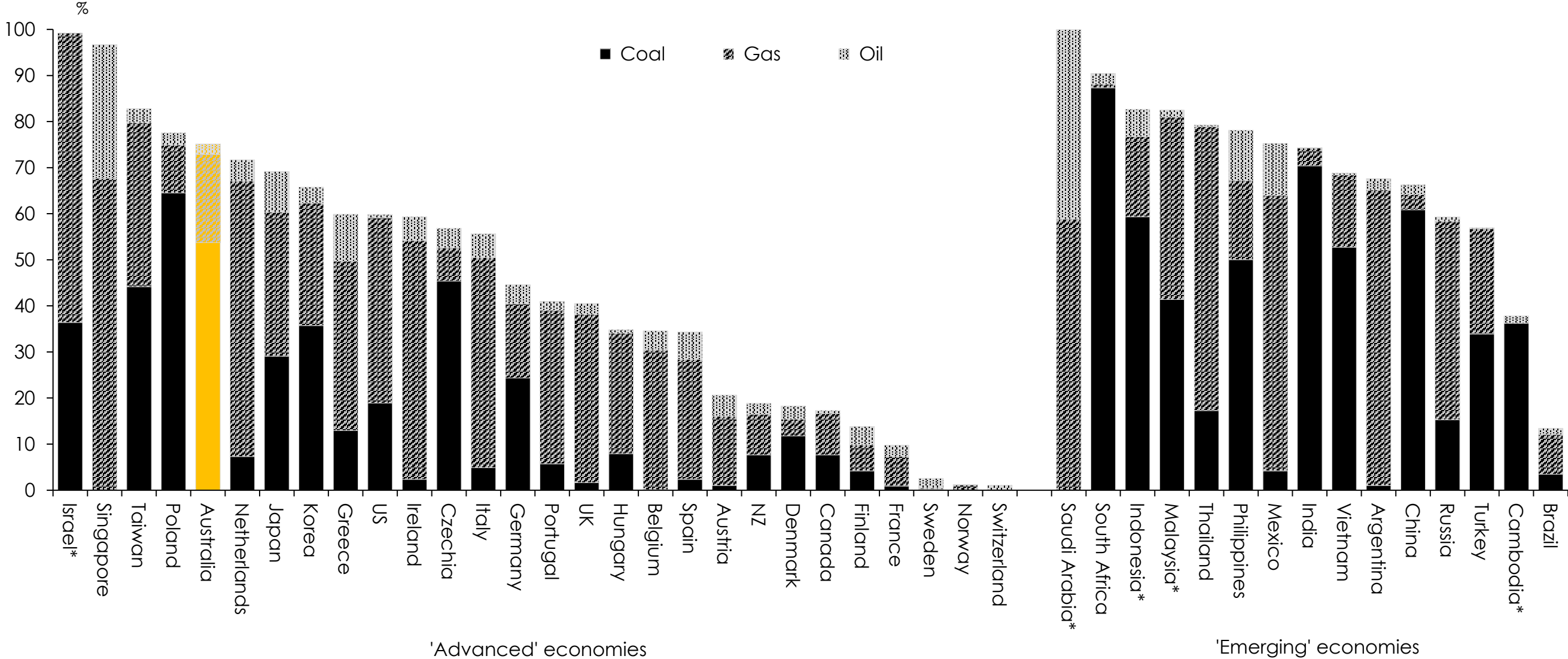
CO₂ emissions per capita, 2020



Source: BP, [Statistical Review of World Energy 2021](#).

In any event Australia has a greater challenge than most 'advanced' economies in reducing its dependence on fossil fuels for energy generation

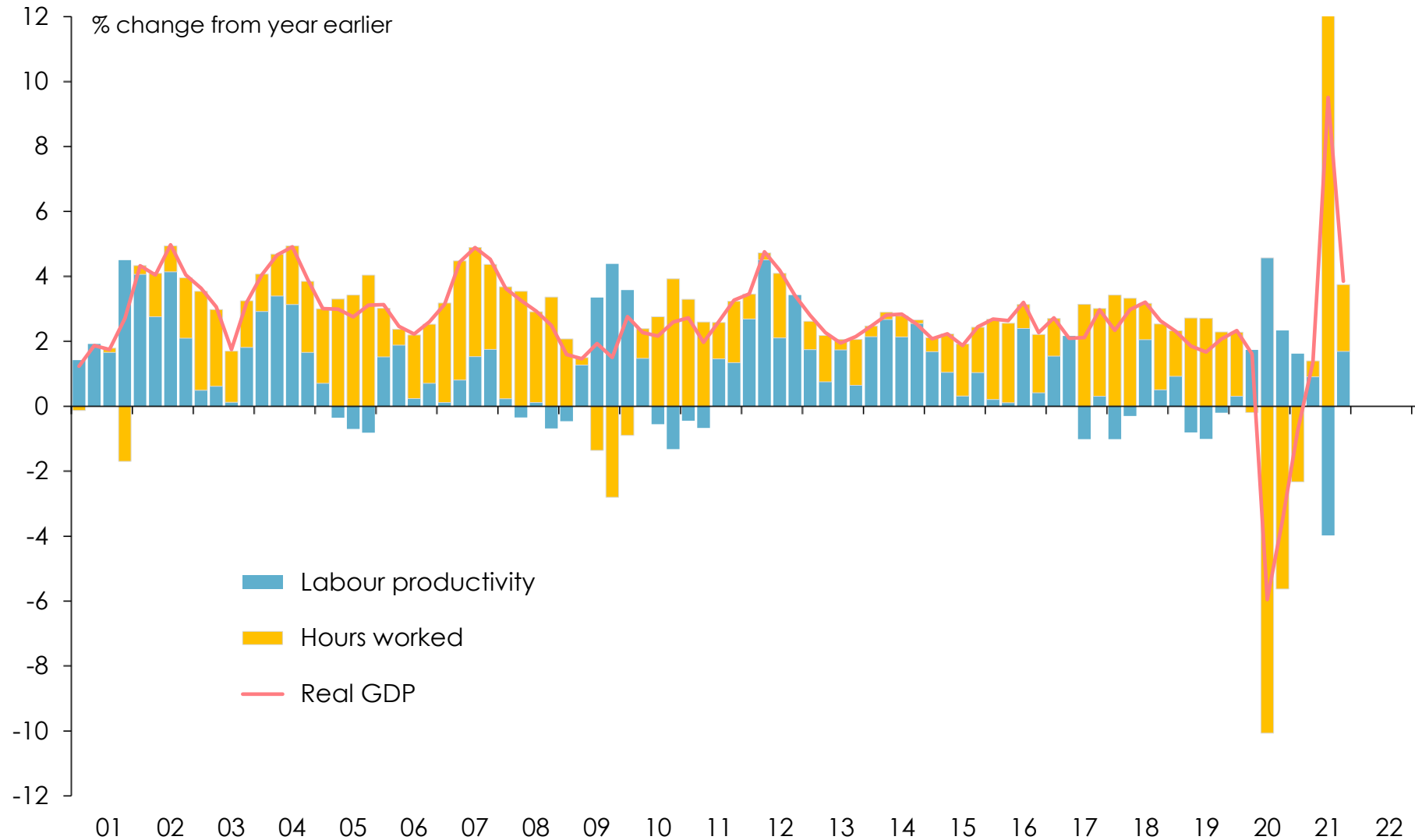
Source of electricity generation, by country, 2020



* 2019. Source: Ember, [Global Electricity Review 2021](#).

If Australia is to sustain the growth rates to which we'd become accustomed before Covid we'll need to lift our productivity performance

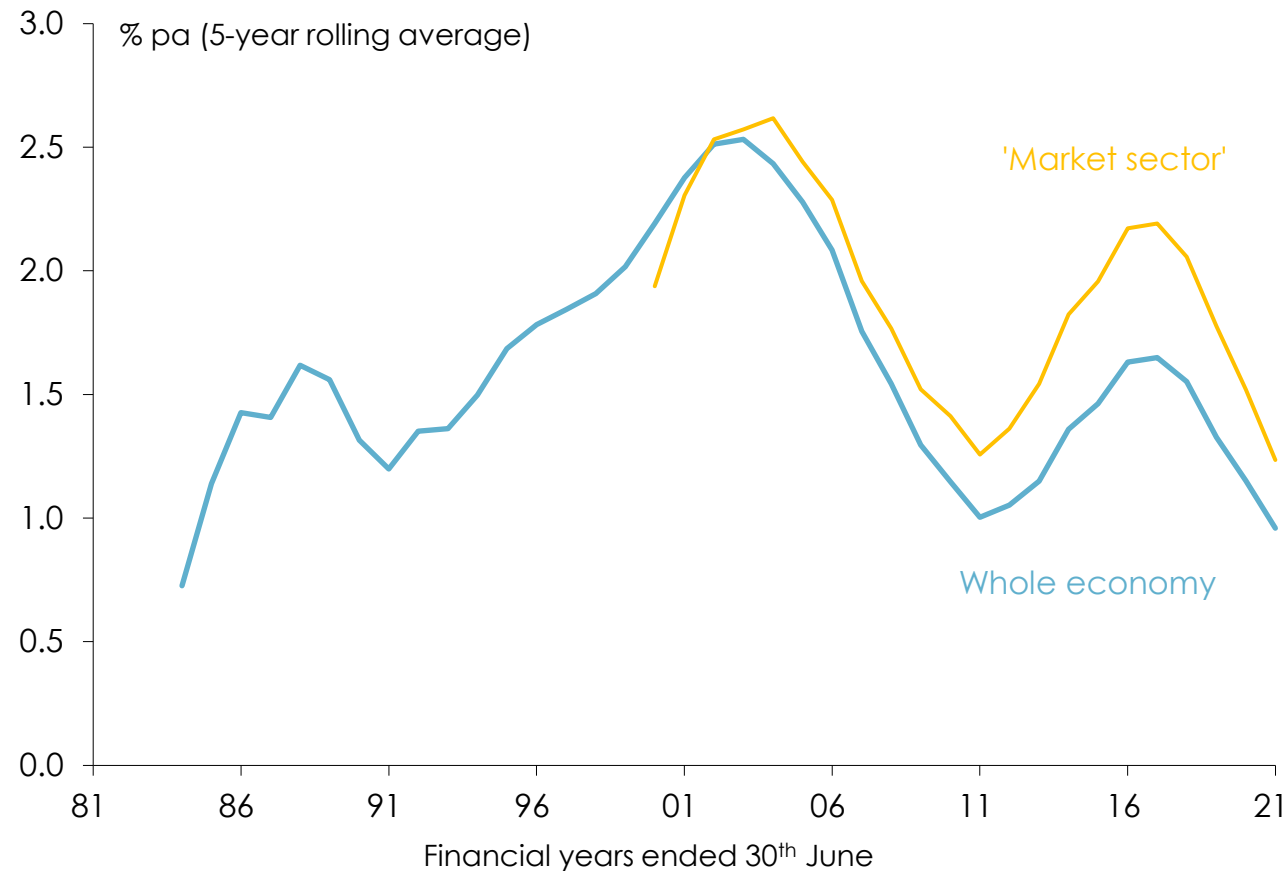
Labour input and labour productivity contributions to Australian real GDP growth



- ❑ Over the five years between the end of the 'mining boom' and the onset of the Covid-19 pandemic, 72% of Australia's real GDP growth came from increased labour input, and only 28% from labour productivity growth
- ❑ By contrast, between the end of the early 1990s recession and the onset of the global financial crisis, 46% of Australia's real GDP growth came from increased labour input and 54% from productivity growth

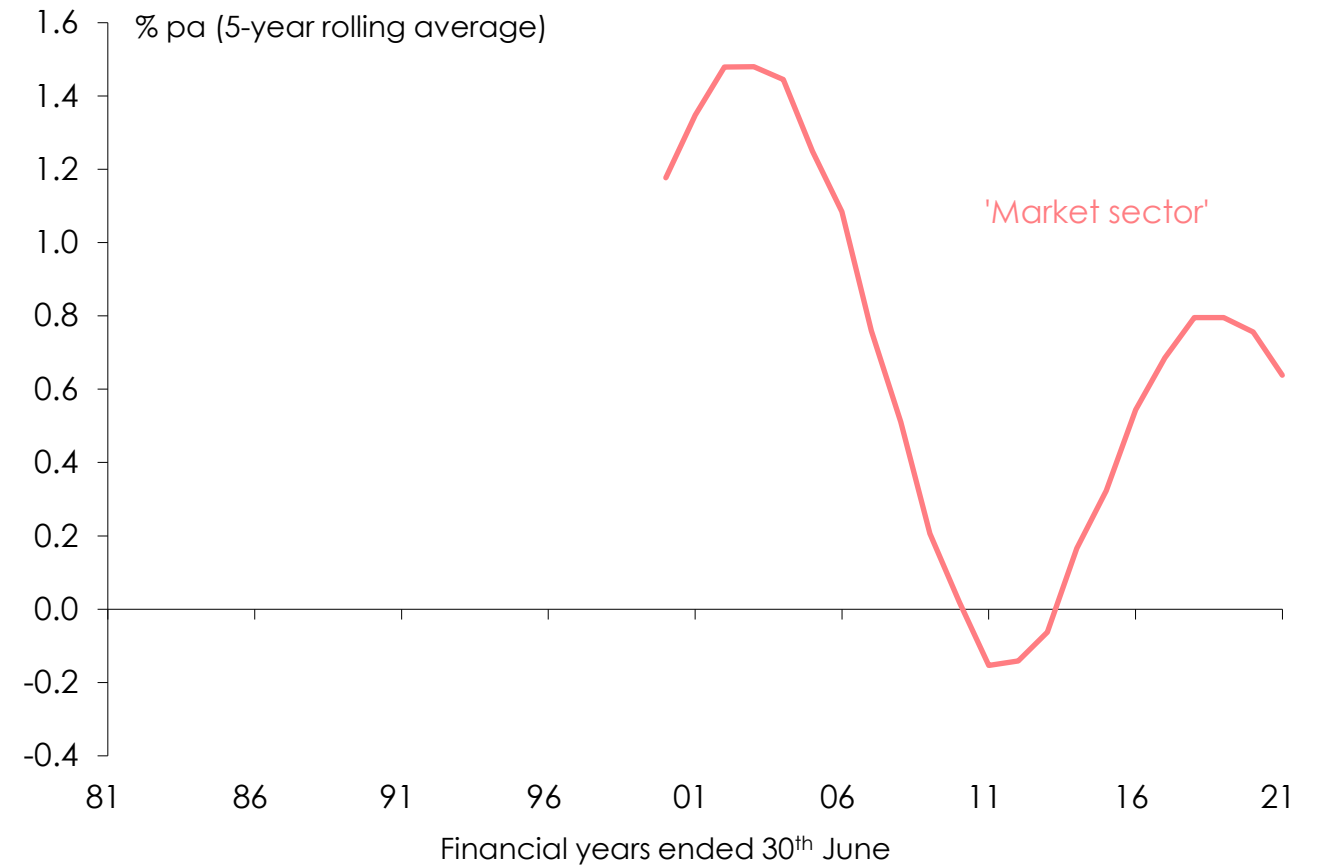
Australia's productivity performance has been pretty ordinary (to put it mildly) over the past decade or so

Labour productivity growth



- ❑ Labour productivity growth averaged 1.3% pa between the GFC and the onset of Covid-19, down from 2.0% pa between the end of the early 1990s recession and the beginning of the GFC

'Multi-factor' productivity growth



- ❑ 'Multi-factor' productivity (which measures the efficiency with which labour & capital are combined) grew at an average rate of 0.5% pa over the decade to 2019-20, down from 1.0% pa over the 12 years to 2007-08

Note: the 'market sector' excludes the public administration & safety, education & training, and health care & social assistance sectors, where productivity is much harder to measure directly. Productivity is measured on an 'hours worked' basis. Sources: ABS, [Australian System of National Accounts](#), 2020-21 and [Estimates of Industry Multifactor Productivity](#), 2020-21.