

# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

18<sup>TH</sup> JULY 2020

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CORINNA ECONOMIC ADVISORY PTY LTD

# What's new?

## The world

- ❑ 1,542,017 new Covid-19 cases were confirmed this week, the highest so far, taking the cumulative total to 13¾mn; while 34,967 people died, taking the total number of deaths to 589,688 – the global fatality rate seems to be declining
- ❑ 8 countries (the US, Brazil, India, South Africa, Mexico, Colombia, Indonesia & the Philippines) accounted for 72% of the world's new cases last week (see slide 5)
- ❑ Indonesia's central bank has adopted its own version of QE and 'modern monetary theory' (slide 26)
- ❑ China's economy rebounded by 11.5% in Q2, reversing a 10.0% decline in Q1 – although the 'demand' side of the Chinese economy still looks soft (see slides 31-33) and the Chinese sharemarket continued to slide (slide 27)
- ❑ Singapore's economy contracted by 12.2% in Q2, after a 1.2% decline in Q1 (slide 37)
- ❑ US retail sales rose 6.4% in June after a 17.1% increase in May, fully reversing the fall over March and April, although consumer sentiment weakened in early July (slide 40)
- ❑ US industrial production rose 5.4% in June but is still 11% below its pre-pandemic level; likewise June housing starts were 24% below February's rate despite a 17.3% rise from May (slide 40)
- ❑ The US recorded a US\$846bn budget deficit in June, bringing the 12-month moving total to US\$3trn (16% of GDP – the largest since 1945) and gross federal debt to 154% of GDP (slide 42)
- ❑ NZ's CPI fell in the June quarter (slide 105) while the Opposition changed leaders for the second time in 8 weeks (slide 107)

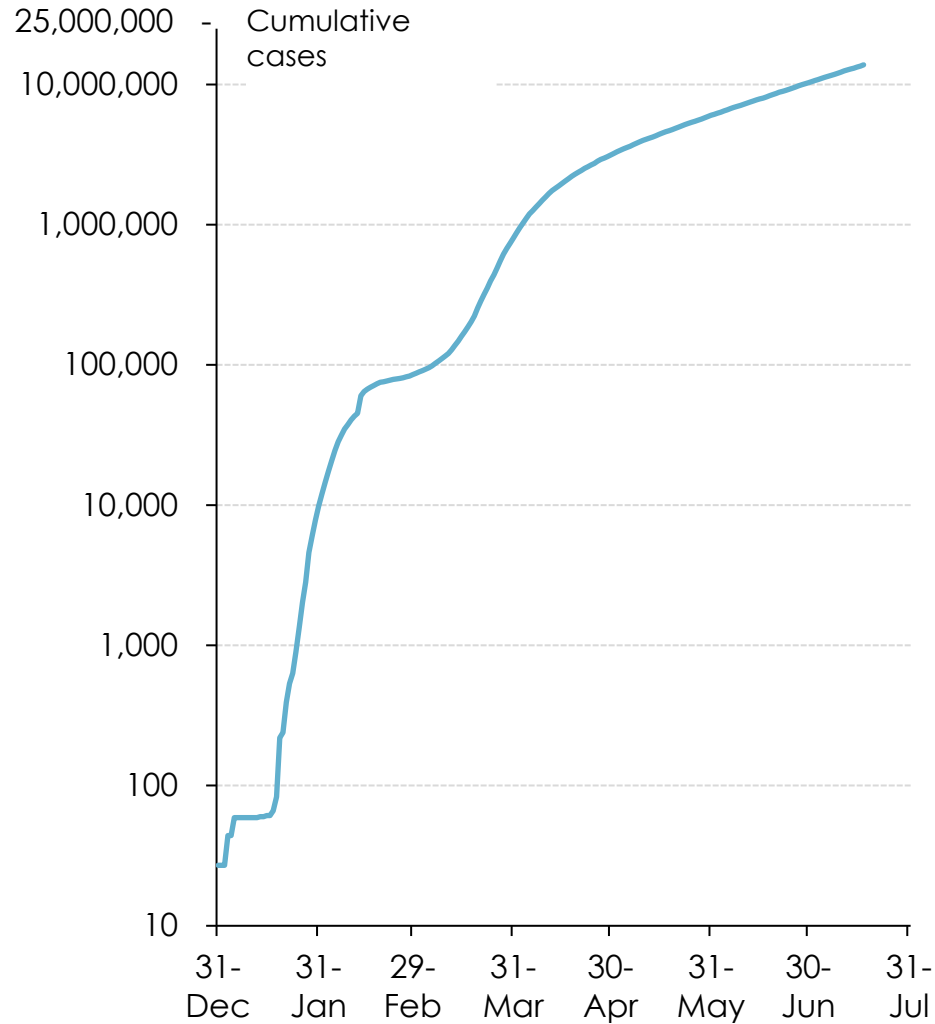
## Australia

- ❑ Australia recorded 1,999 new Covid-19 cases this week, the highest number since the week ended 3<sup>rd</sup> April (slide 7)
- ❑ Victoria accounted for 1,786 (89%) of the new cases reported this week, bringing its total to 5,165 – 51% more than NSW, even though NSW's population is 1½ mn (22%) larger than Victoria's (slide 8)
- ❑ NSW recorded 68 new cases this week, its highest total since the week ended 17<sup>th</sup> April, as a result of which the NSW State Government tightened some restrictions – including (in it's Premier's words) 'no singing, no dancing and no mingling' at weddings
- ❑ Employment rose by 211K in June, suggesting that almost ¼ of the 872K people who lost their jobs during April and May have returned to work, albeit to less than full-time hours (slide 52);
- ❑ The unemployment rate rose 0.3 pc pts to 7.4% in June, as more people started looking for work, pushing the participation rate up 1.3 pc pts (slide 52)
- ❑ If those working zero hours but classed as 'employed', and those who've dropped out of the work force since March, were counted as 'unemployed', the unemployment rate in June would have been 11.5%, down from 14% in May (slide 53)
- ❑ Business confidence improved significantly in June, but consumer confidence fell back sharply in July (slide 63)
- ❑ Iron ore prices rose further this week (slides 69-70)
- ❑ The Government is having no difficulty financing its growing deficit, with a 4½-year bond issue oversubscribed 3 times this week (slide 78)
- ❑ Treasurer Frydenberg provides an Economic and Budget Update this coming Thursday

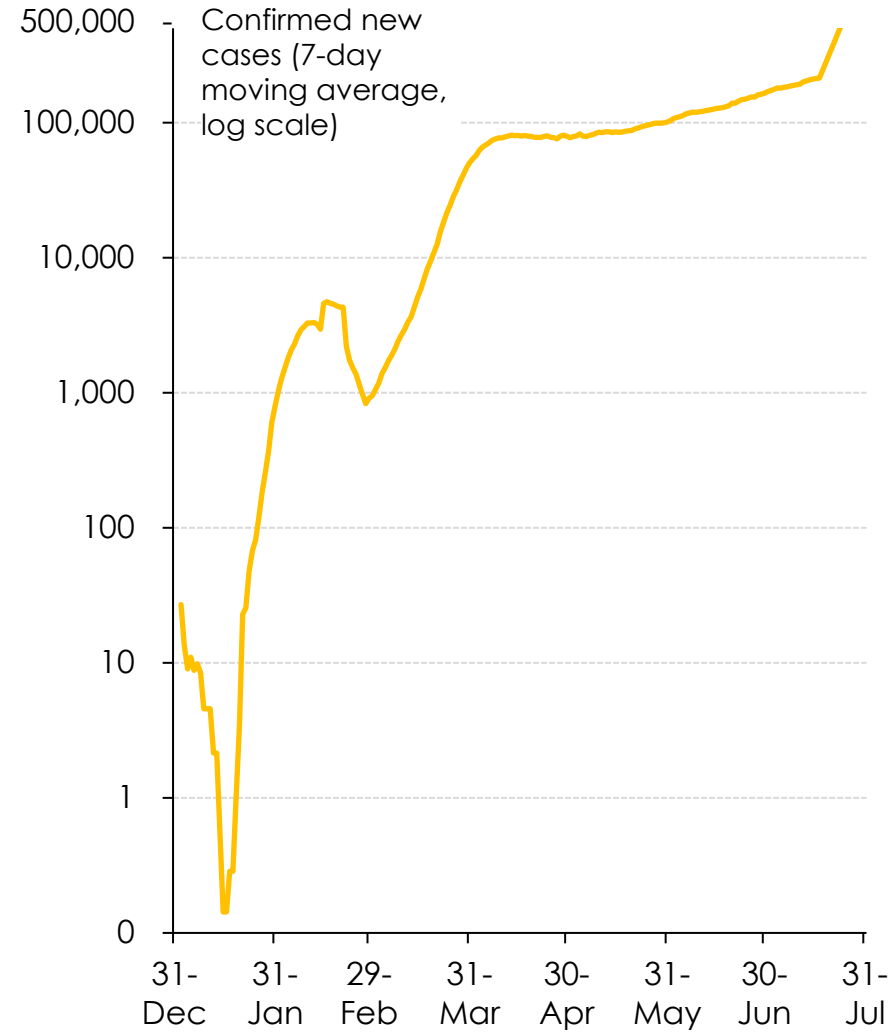
**The virus**

# There have been 1½ mn new cases world-wide over the past 7 days, taking the global total to 13¾mn, while the death toll is now almost 590,000

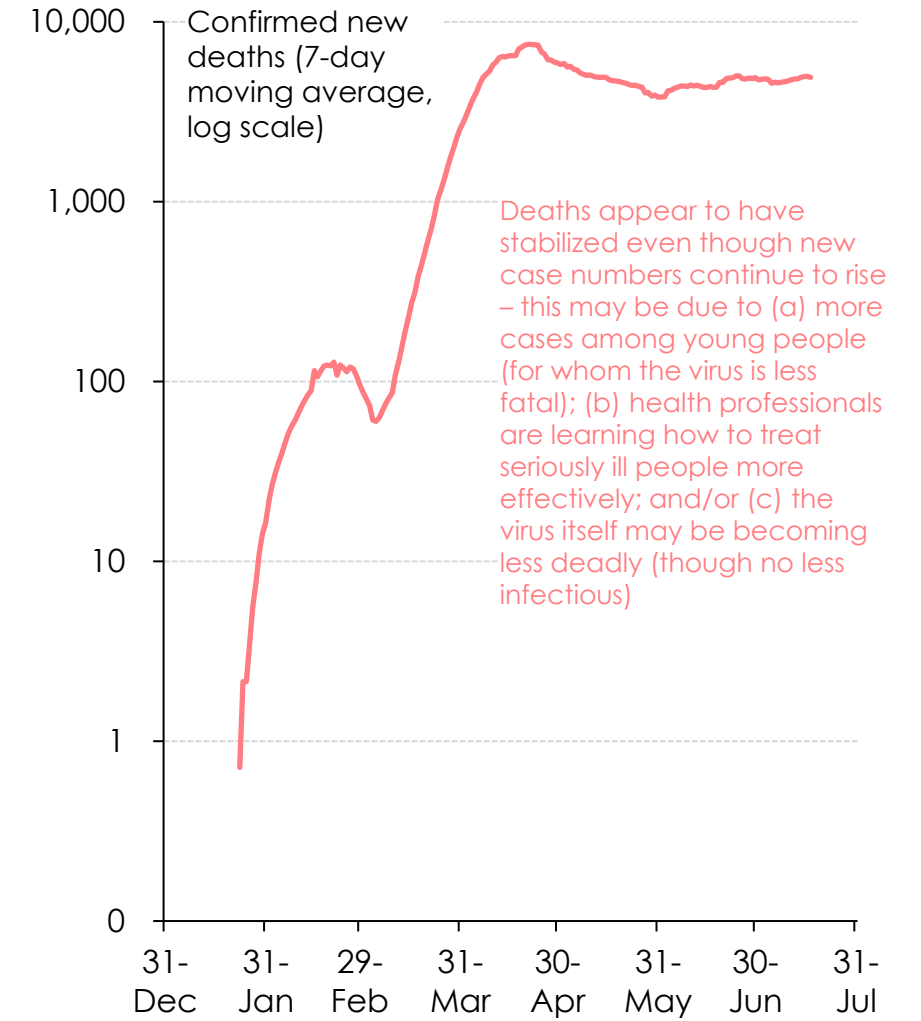
## Cumulative confirmed cases – global total



## New confirmed cases – global total



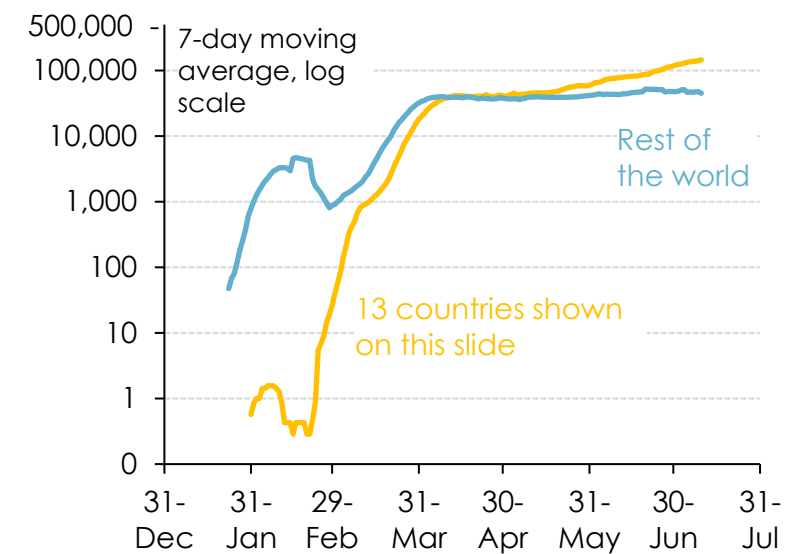
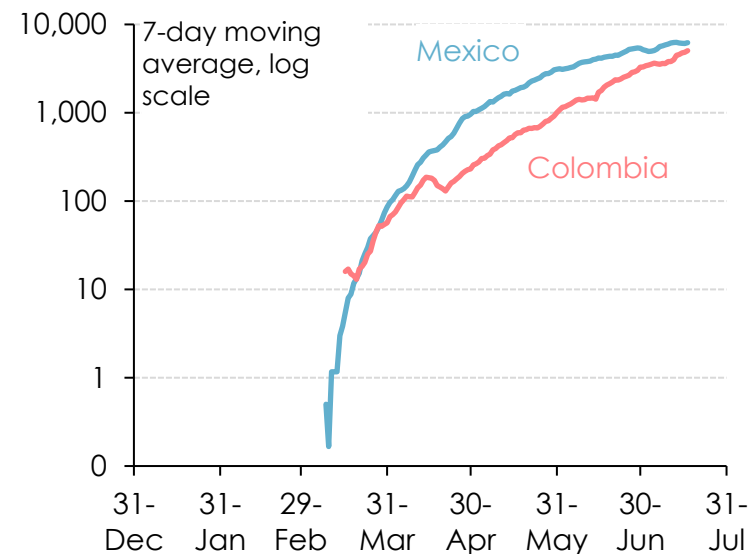
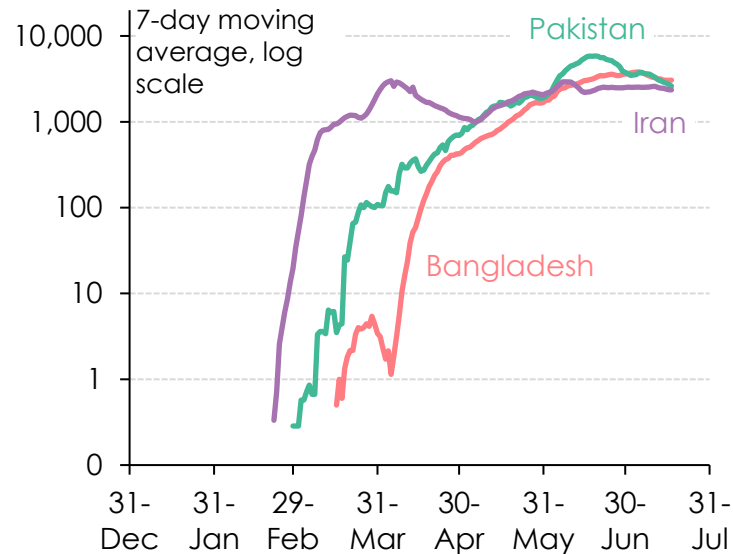
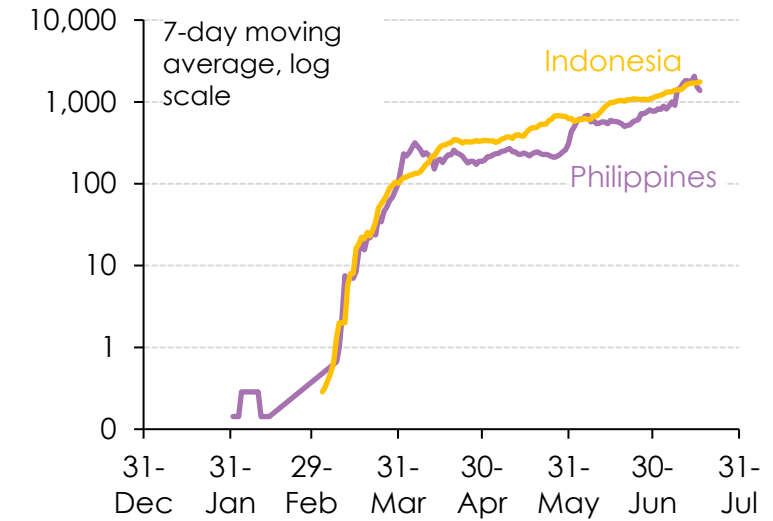
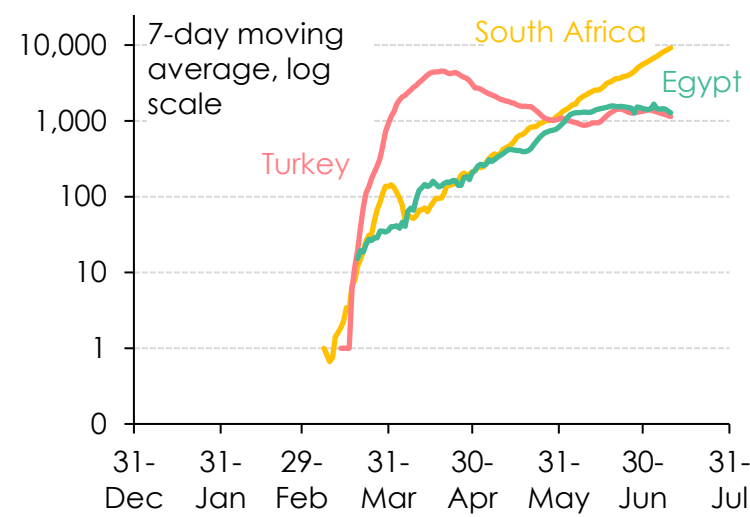
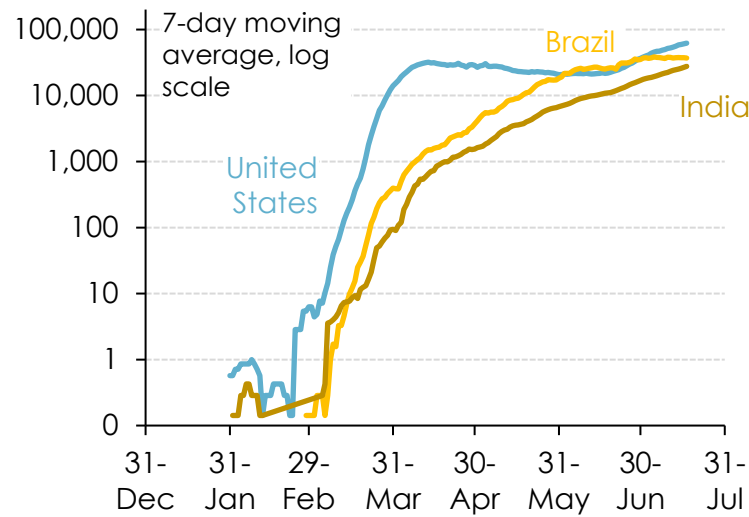
## New deaths – global total



Note: Data up to 17<sup>th</sup> July. Source: University of Oxford, *Our World in Data*.

# 8 countries with large populations have yet to 'flatten their curves' – although another 5 appear now to have done so

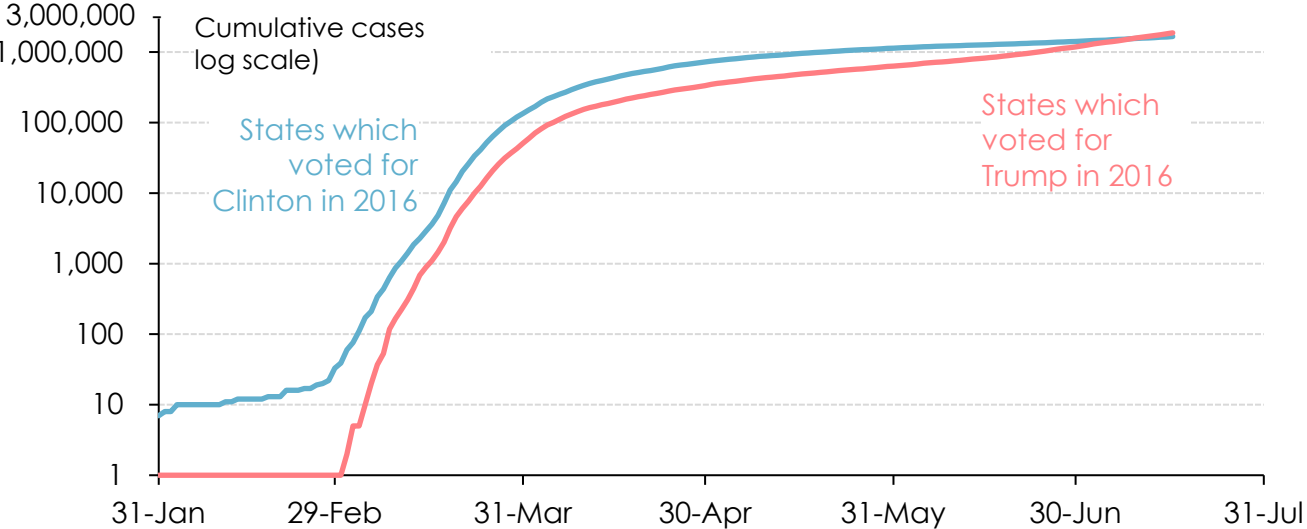
## Daily new cases



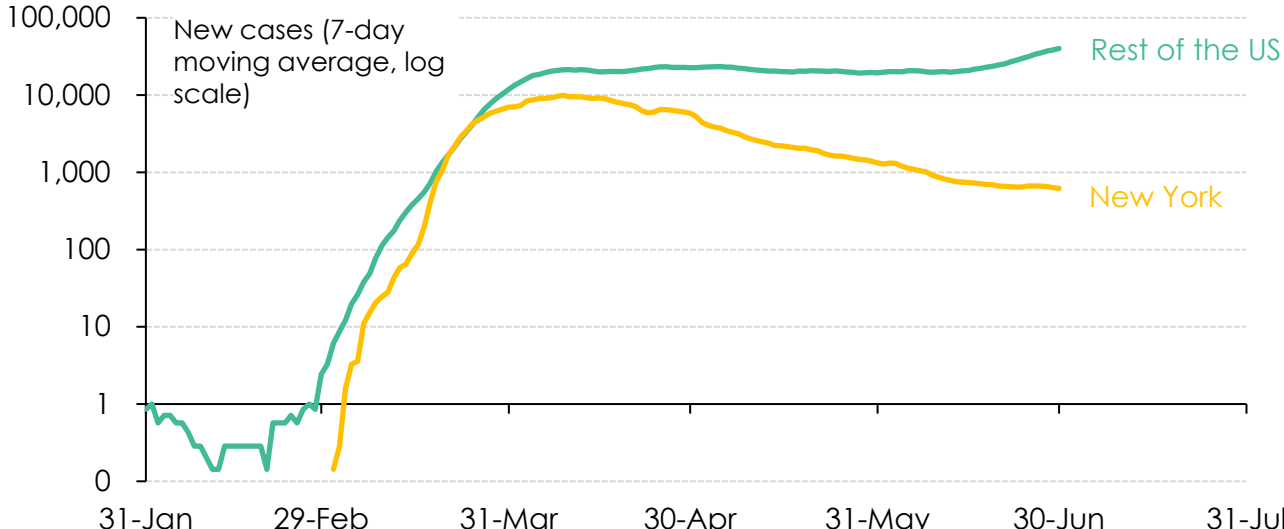
Note: Data up to 17<sup>th</sup> July. For data suggestive of the 'credibility' of selected countries' testing regimes see slide 11.  
Source: University of Oxford, Our World in Data; Corinna.

# In the United States, new Covid-19 cases in 'red states' now outnumber those in 'blue states'

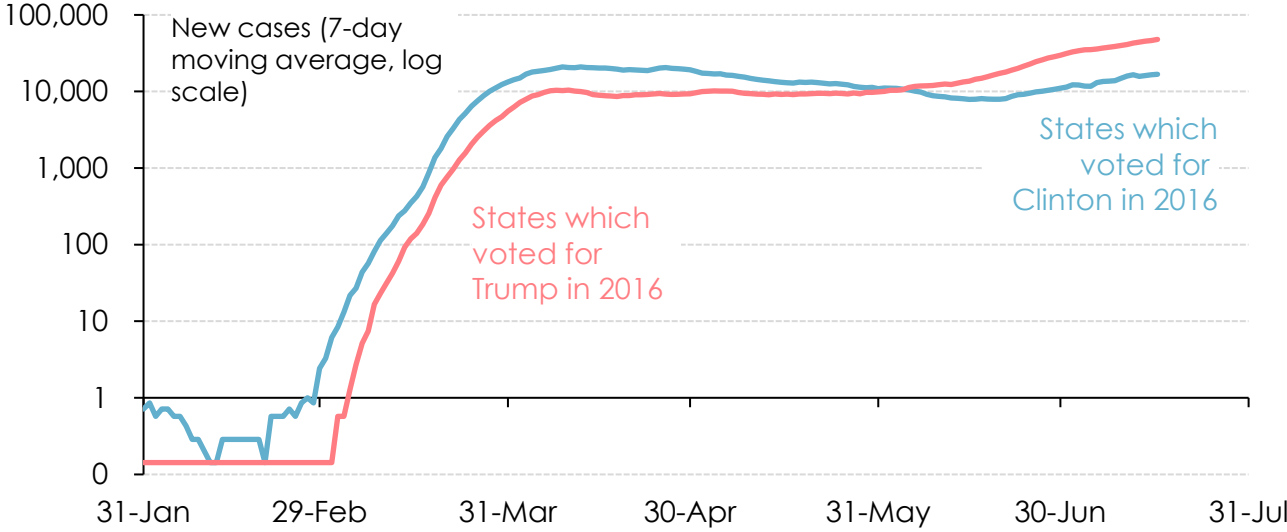
### Cumulative cases, by 2016 Electoral College vote



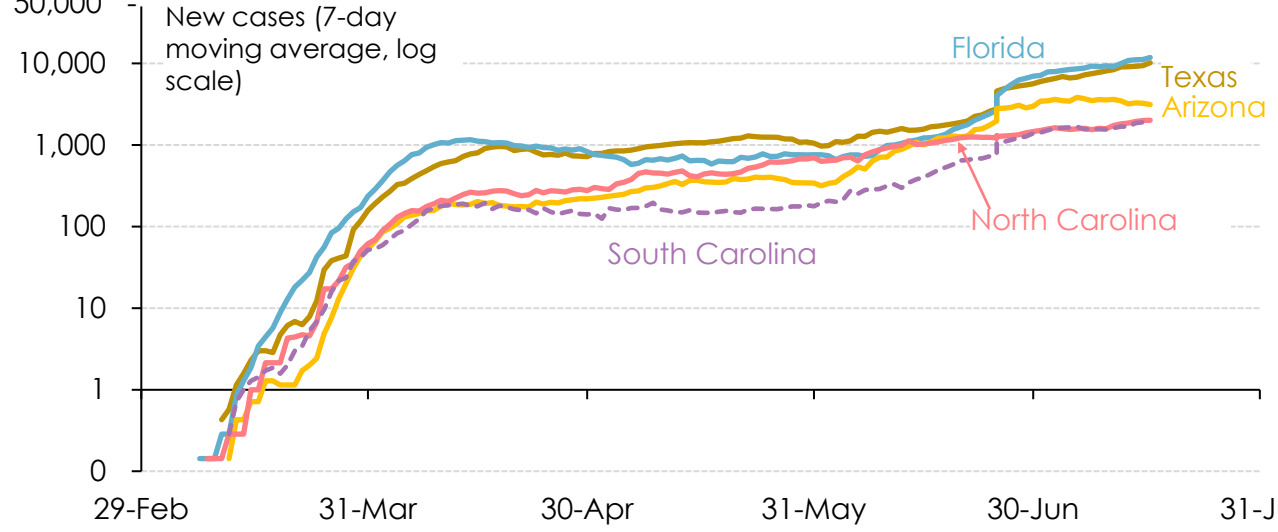
### New cases, New York vs rest of the United States



### New cases, by 2016 Electoral College vote



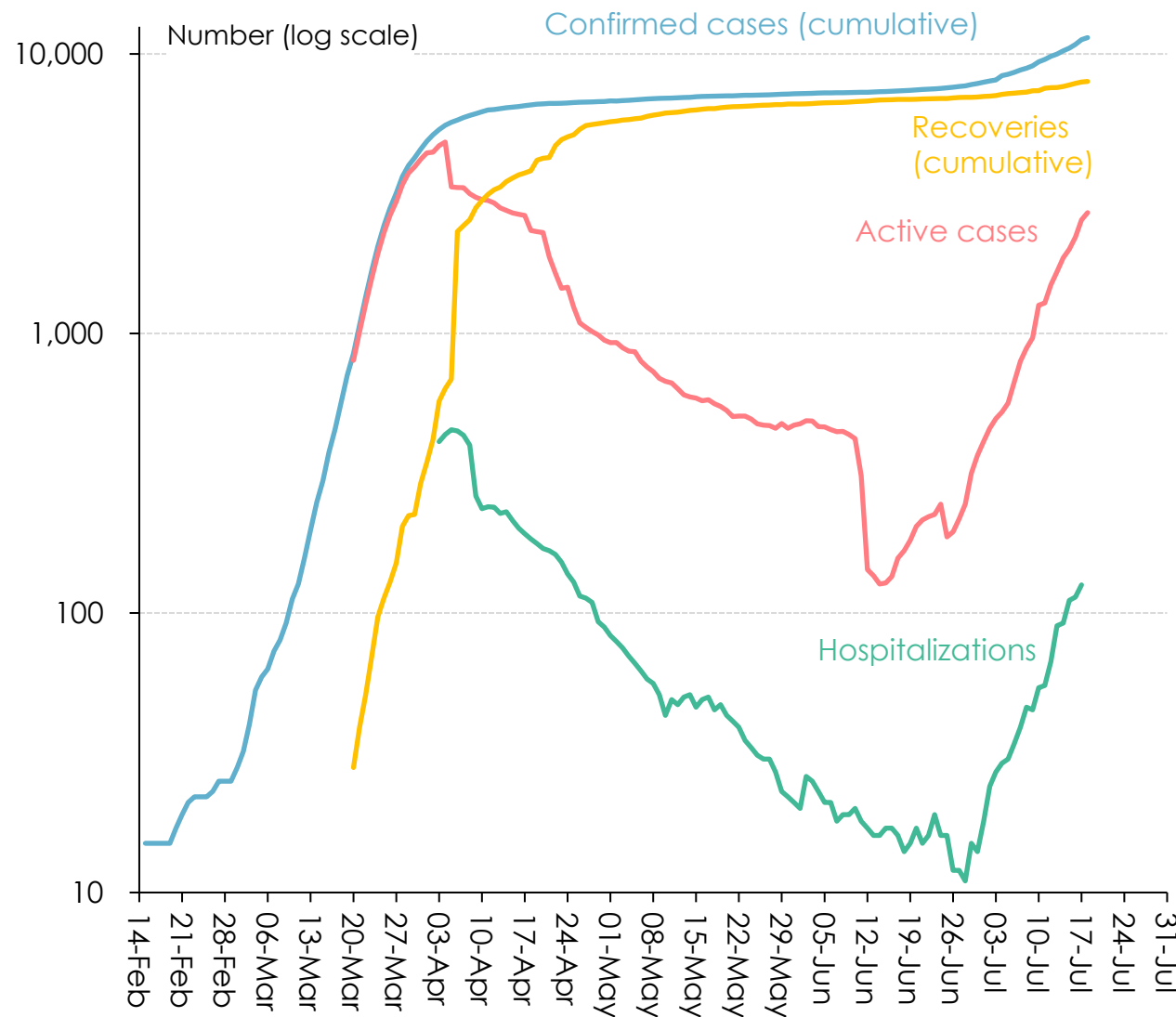
### States with fastest recent increases in new cases



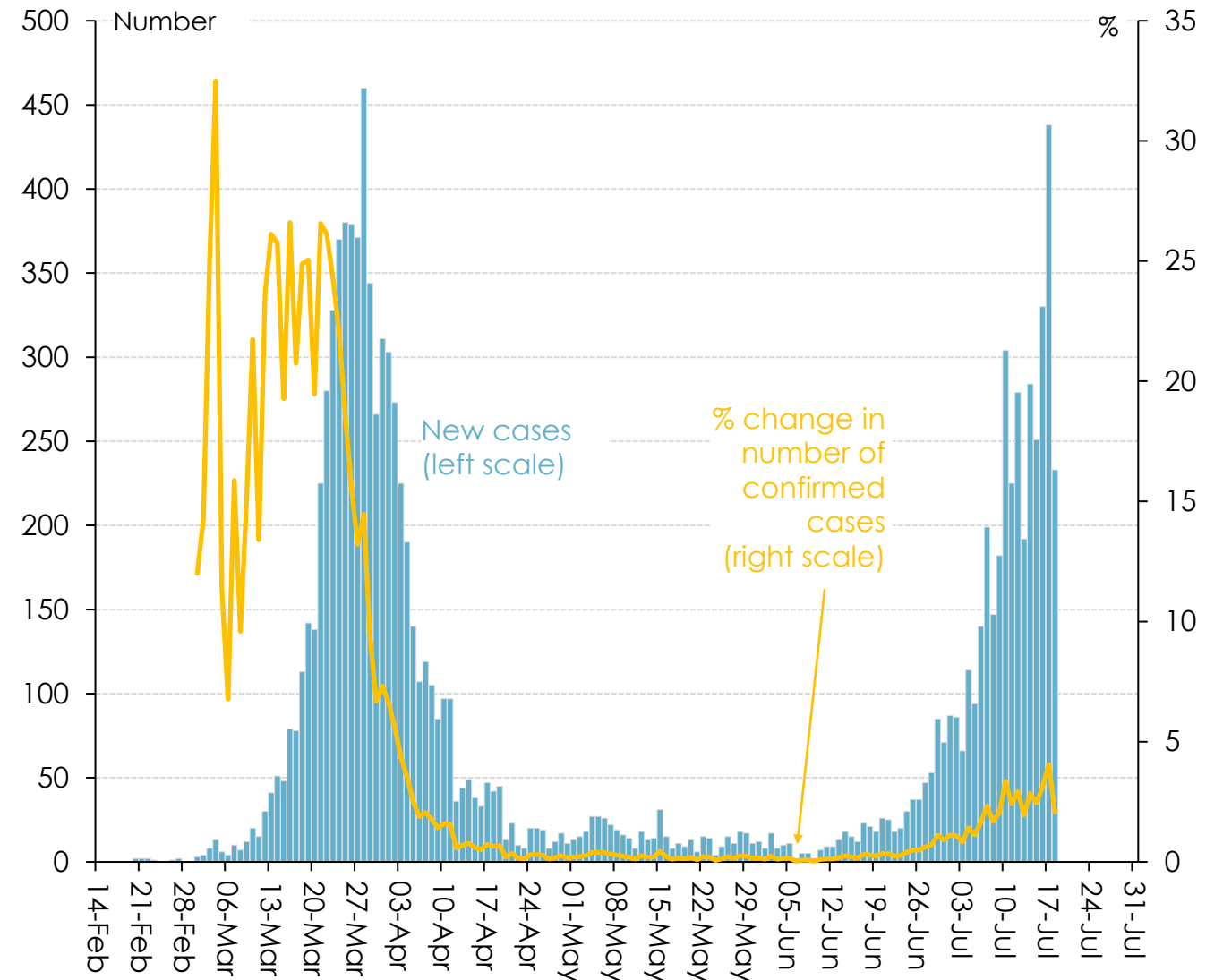
Note: Cases for Maine (whose Electoral College votes are awarded separately by each of its two Congressional districts) are split by how each of its 16 counties voted in 2016. Sources: USAFacts.org; Centers for Disease Control and Prevention; Corinna. Latest data are for 16<sup>th</sup> July.

# The number of new cases in Australia has risen rapidly since the end of June, when restrictions began to be eased in most states

## Cases, recoveries and hospitalizations



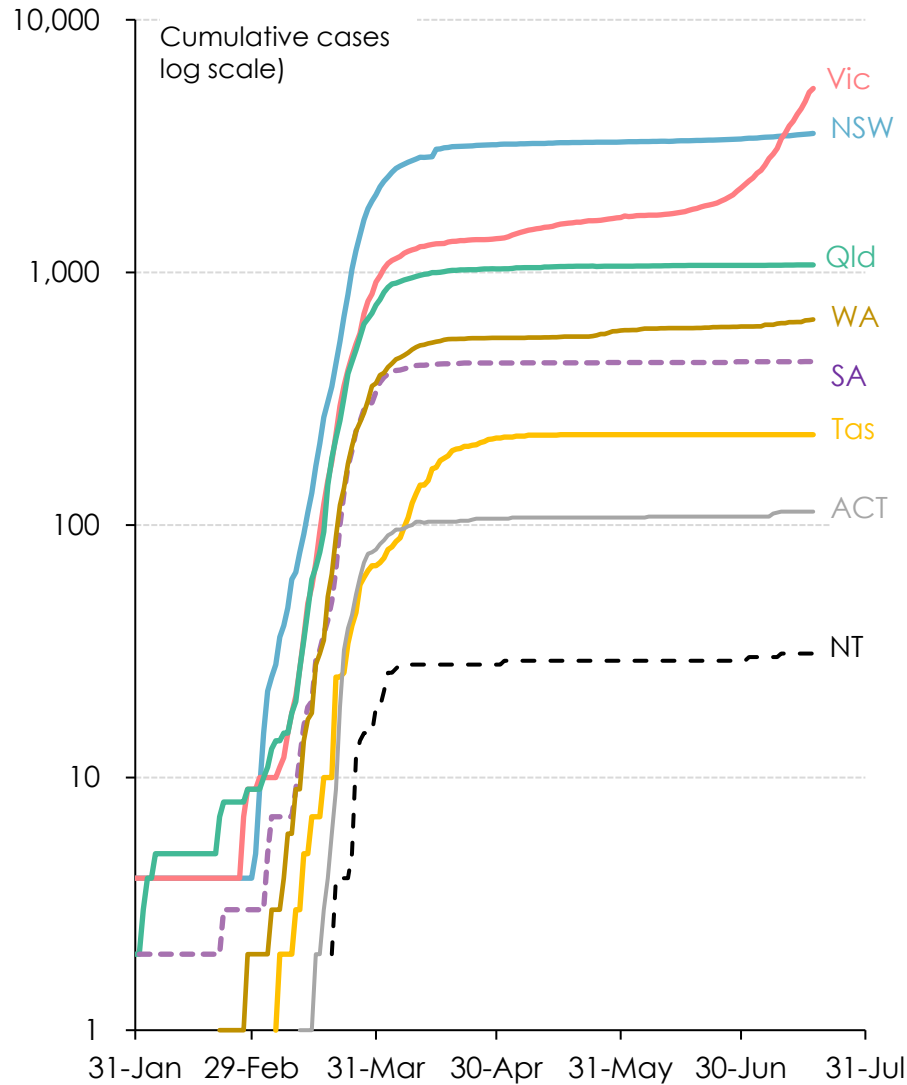
## New cases



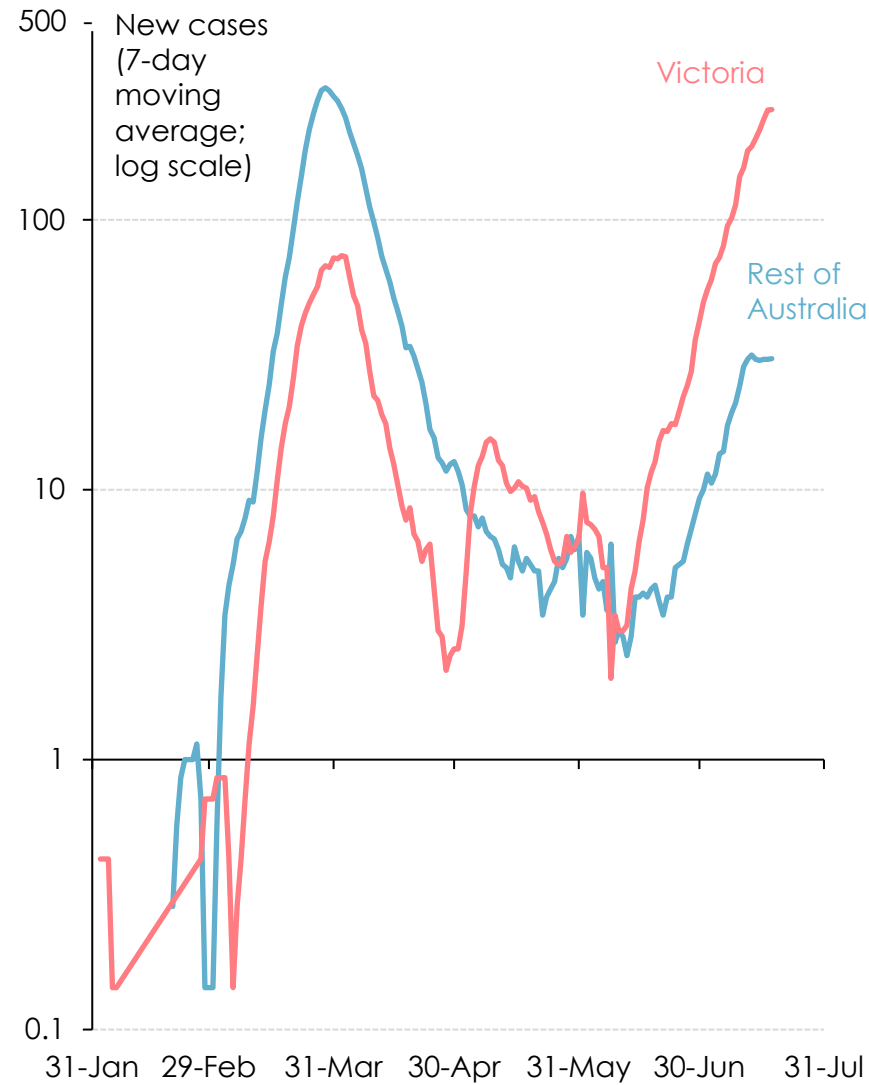
Note: Data up to 18<sup>th</sup> July. Source: covid19data.com.au

# 93% of the new cases in Australia over the past three weeks have been in Victoria (and 5% in New South Wales)

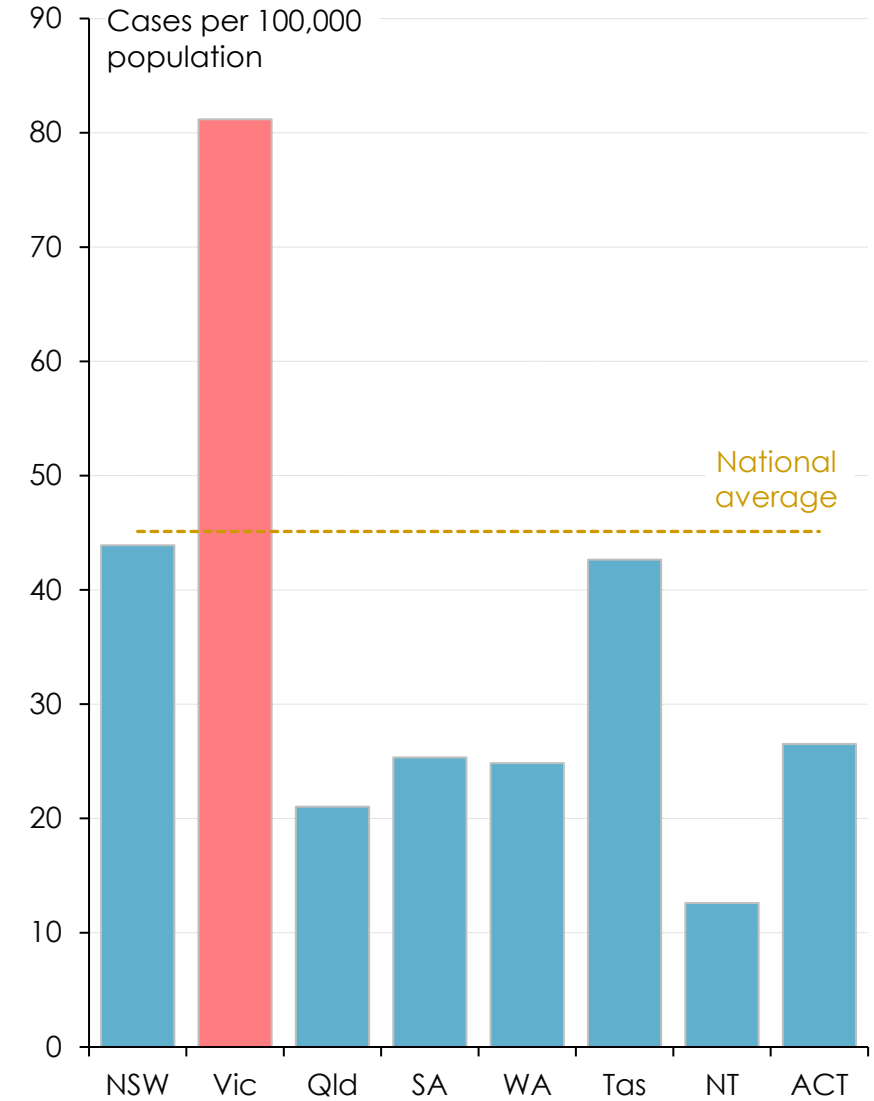
## Cumulative cases, by State



## New cases



## Cases per 100,000 population

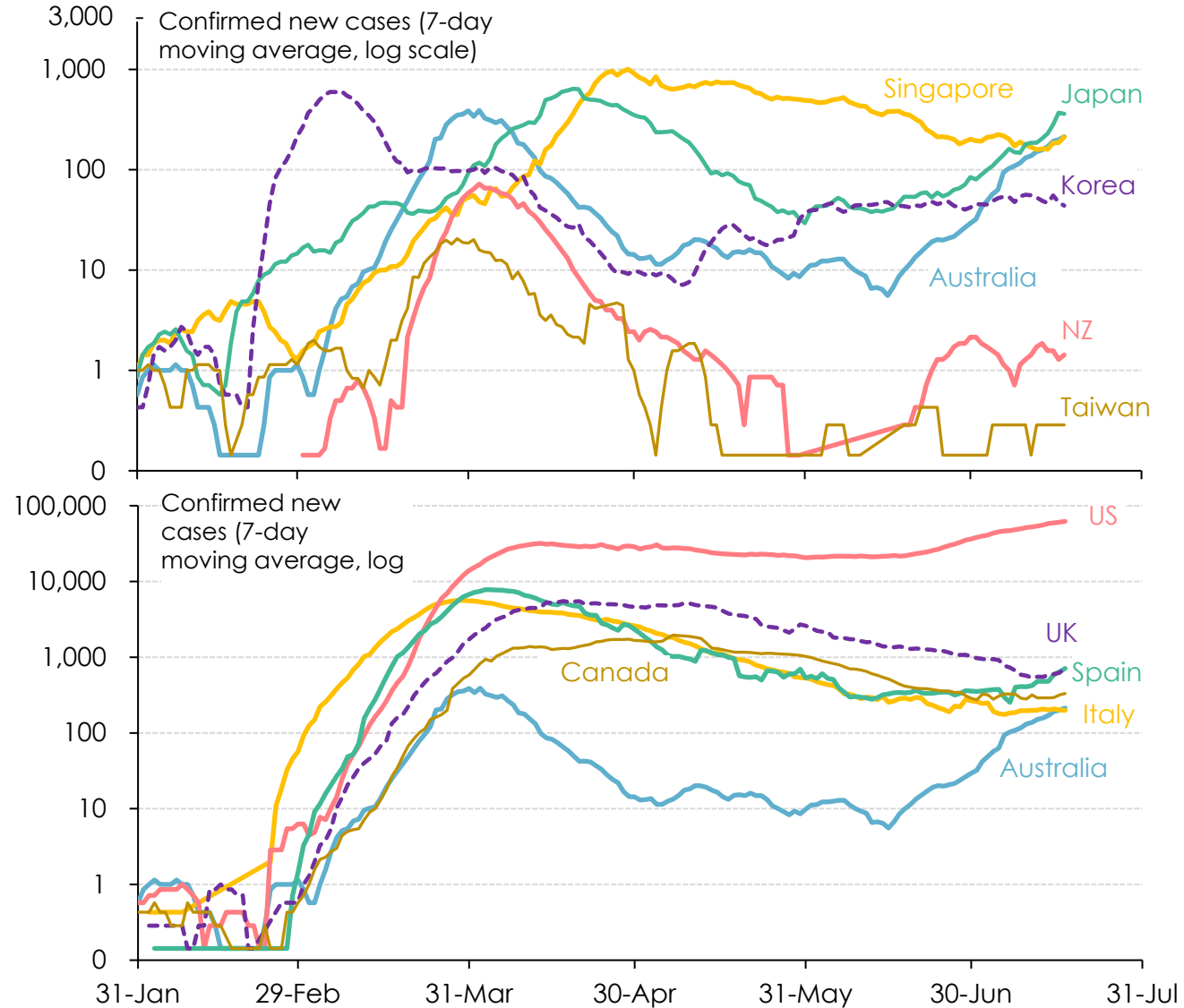


Note: Data up to 18<sup>th</sup> July. Source: covid19data.com.au

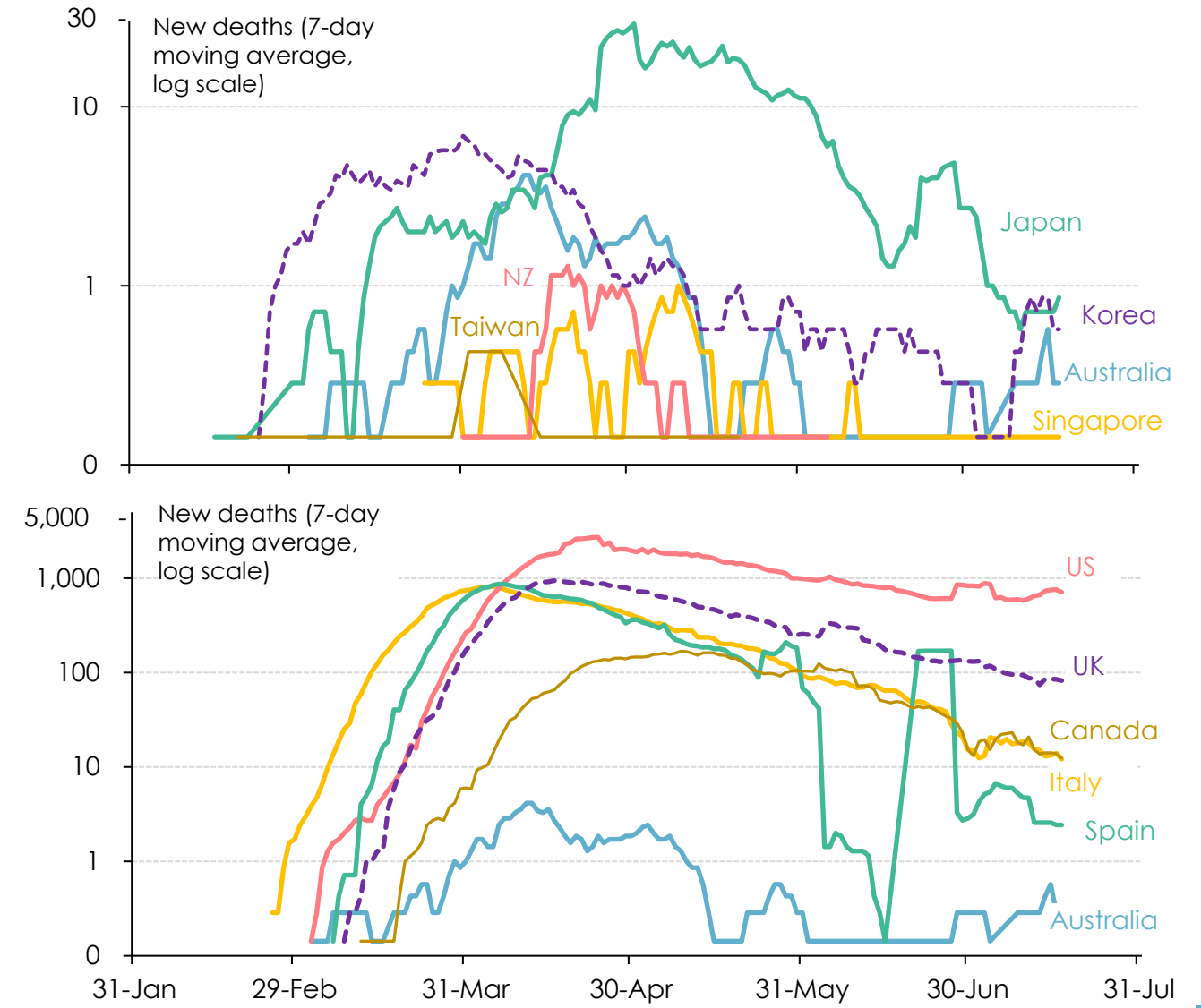


# Australia, along with the US and Japan, is among a handful of 'advanced' nations experiencing a renewed upsurge in cases

## Daily new cases



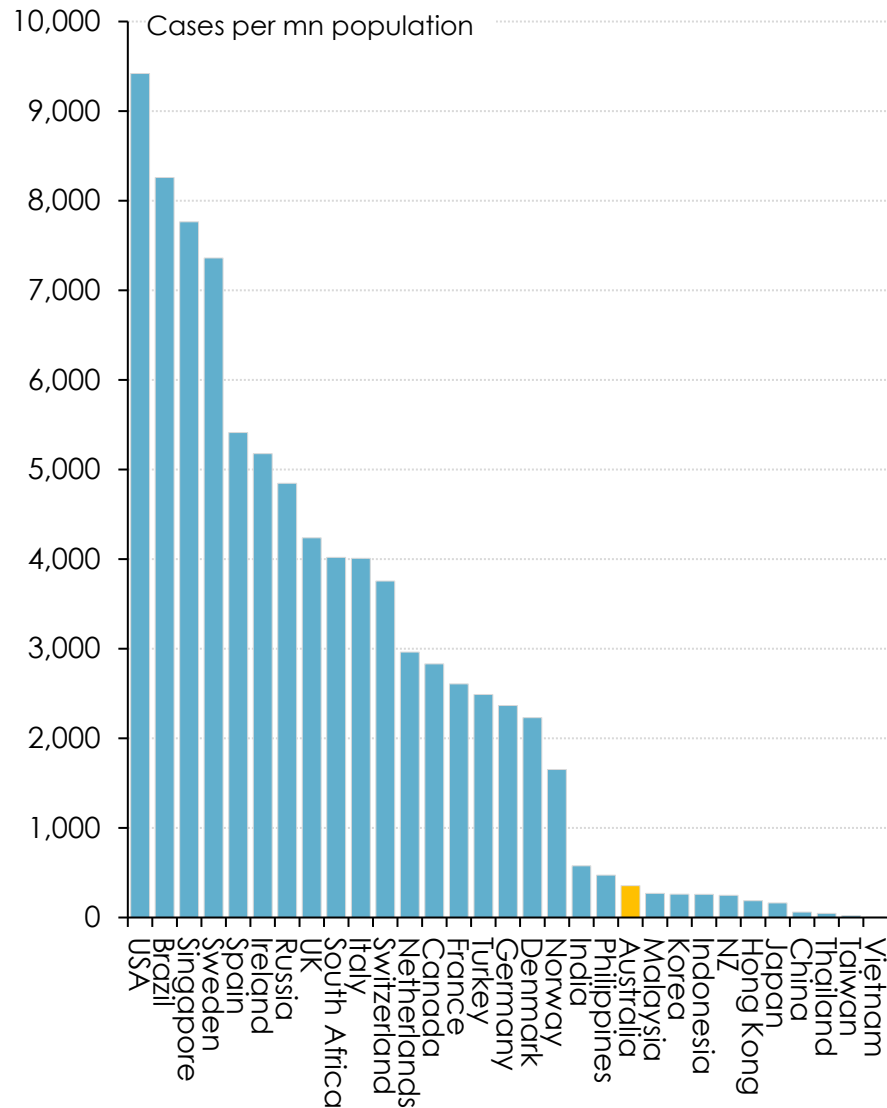
## Daily new deaths



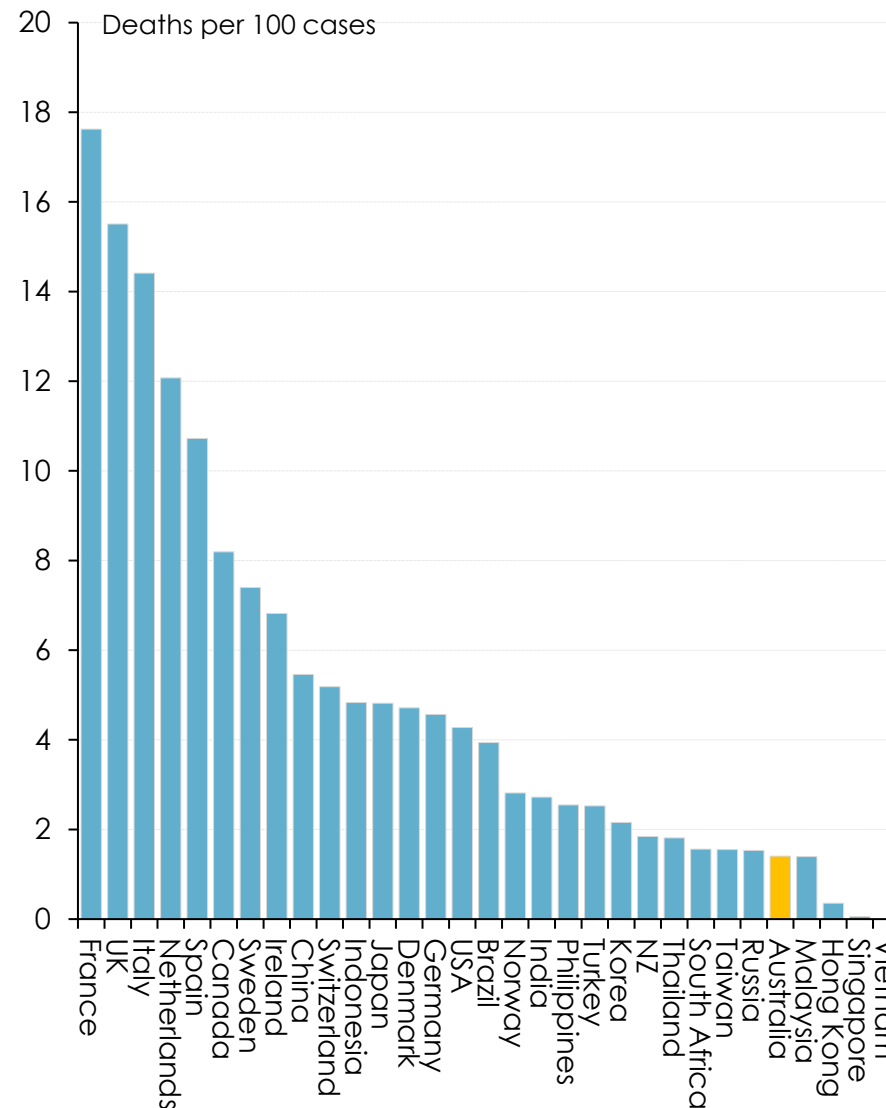
Note: Data up to 17<sup>th</sup> July. Source: University of Oxford, Our World in Data; Corinna.

# Even so, Australia's infection and fatality rates remain, along with NZ's and most East Asian countries', low by international standards

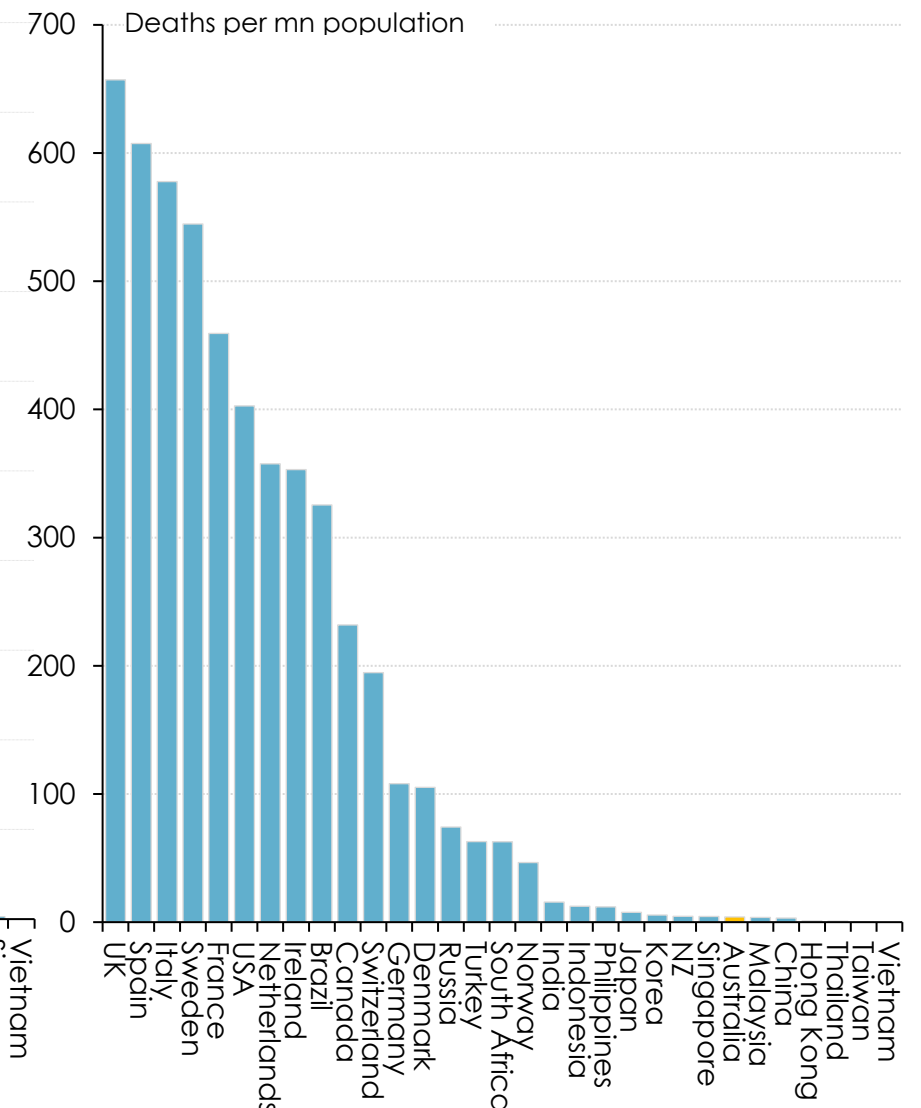
## Apparent infection rate



## Apparent death rate



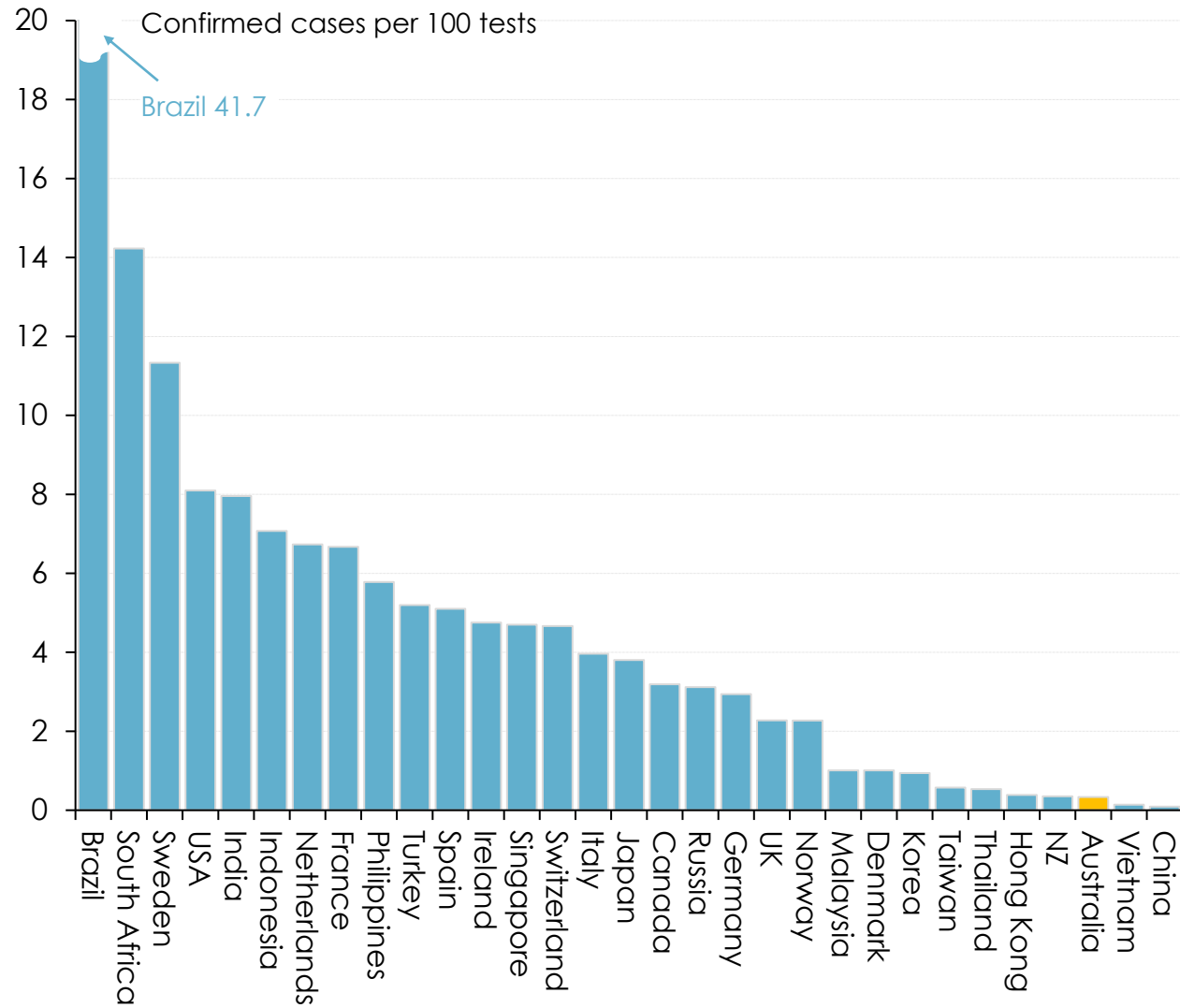
## Deaths per mn population



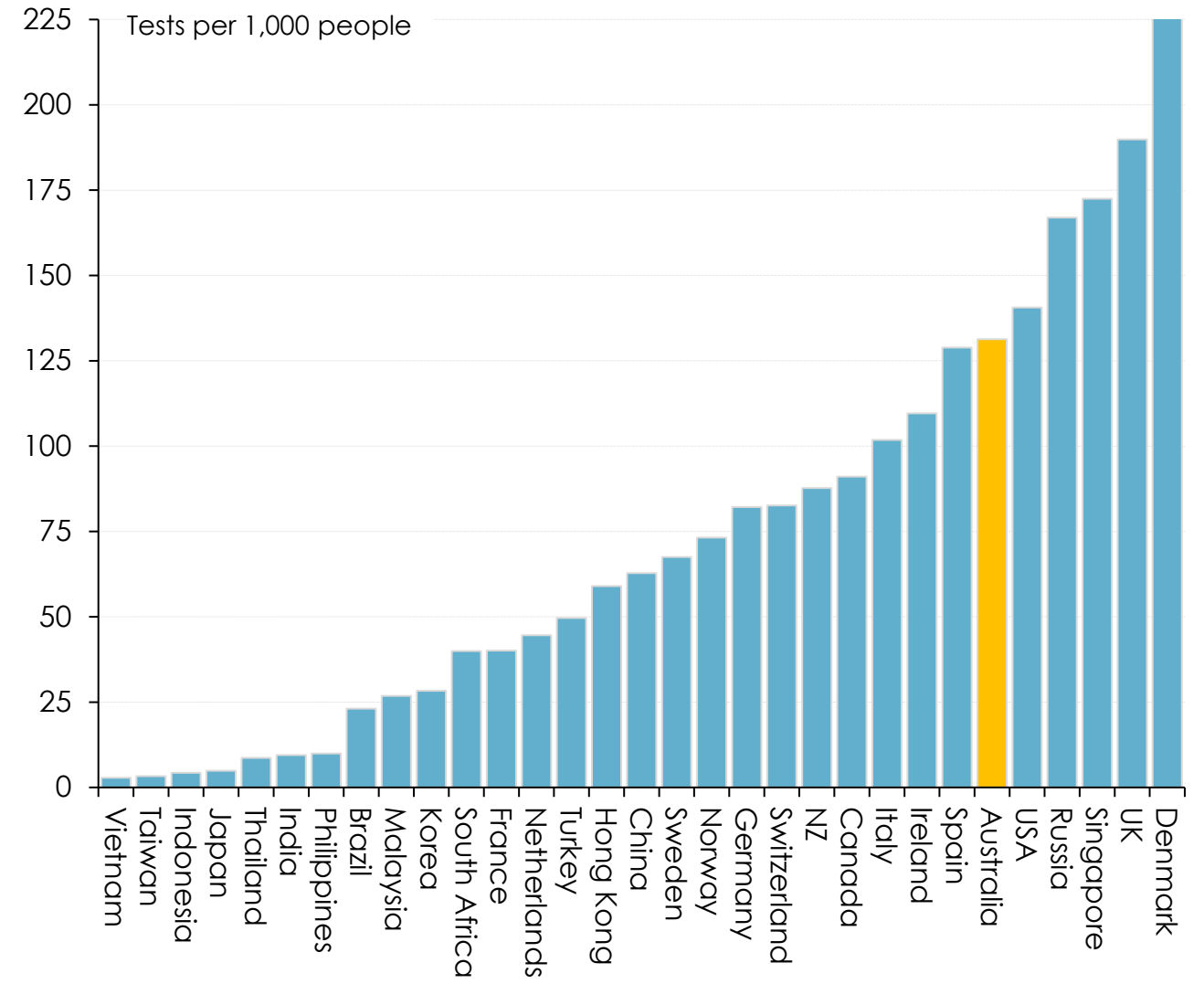
Note: Data up 17<sup>th</sup> July (except for Spain, 16<sup>th</sup> July). Source: University of Oxford, Our World in Data; Corinna.

# Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

## Confirmed cases per 100 tests



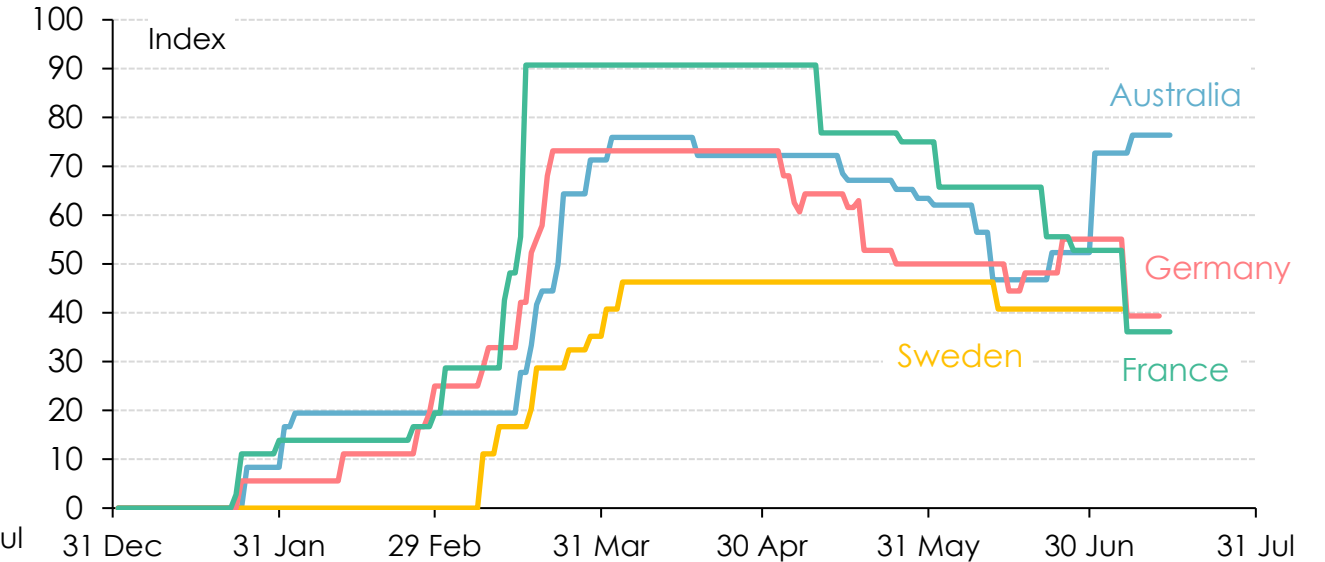
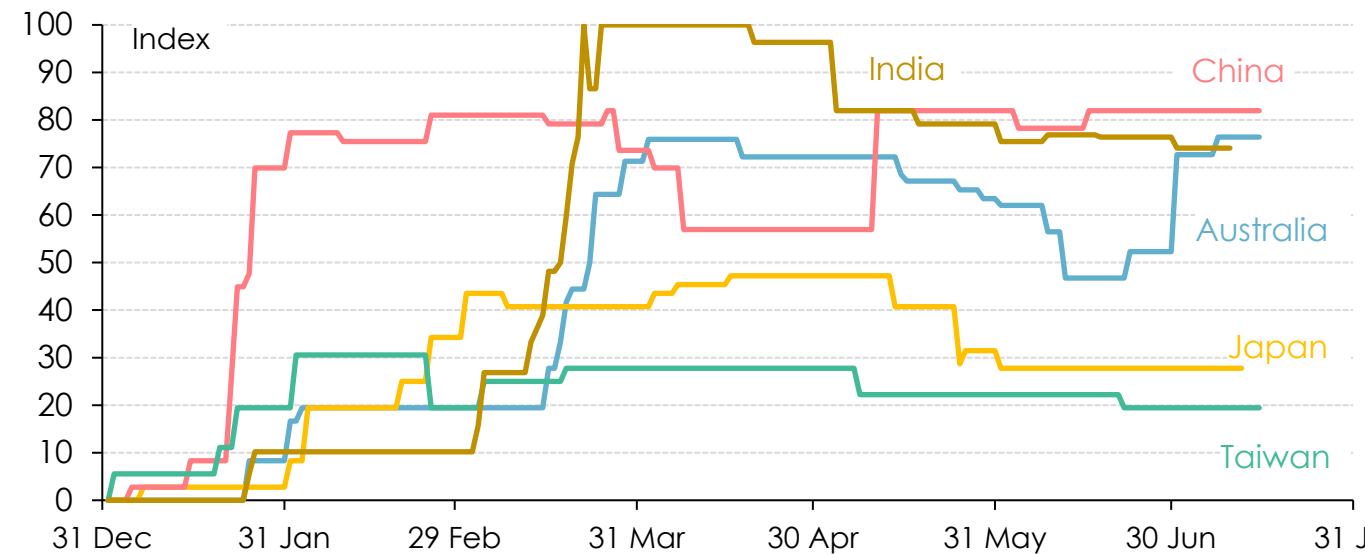
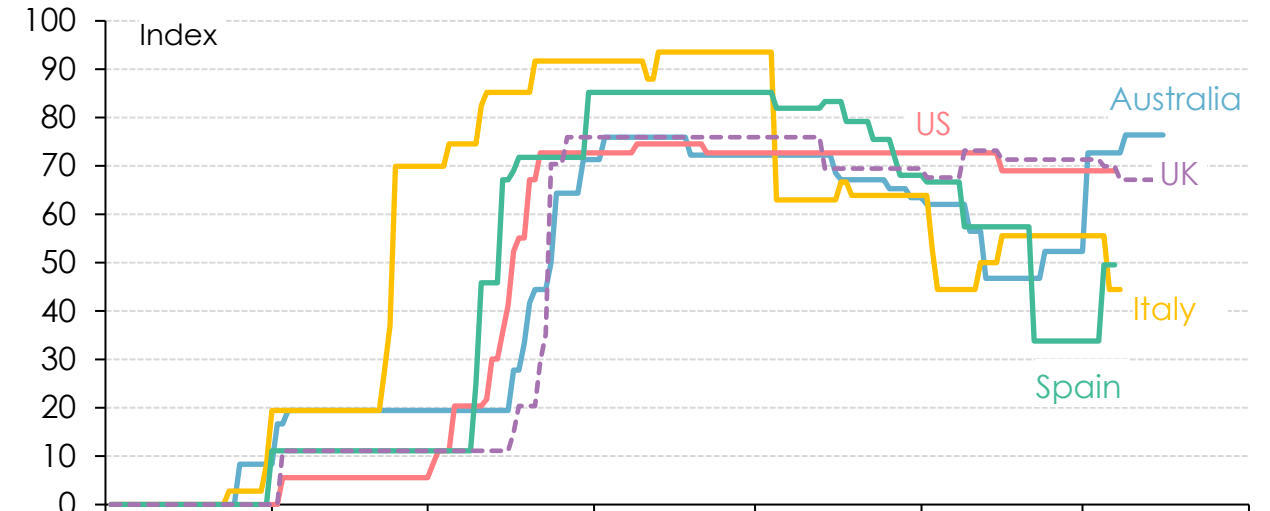
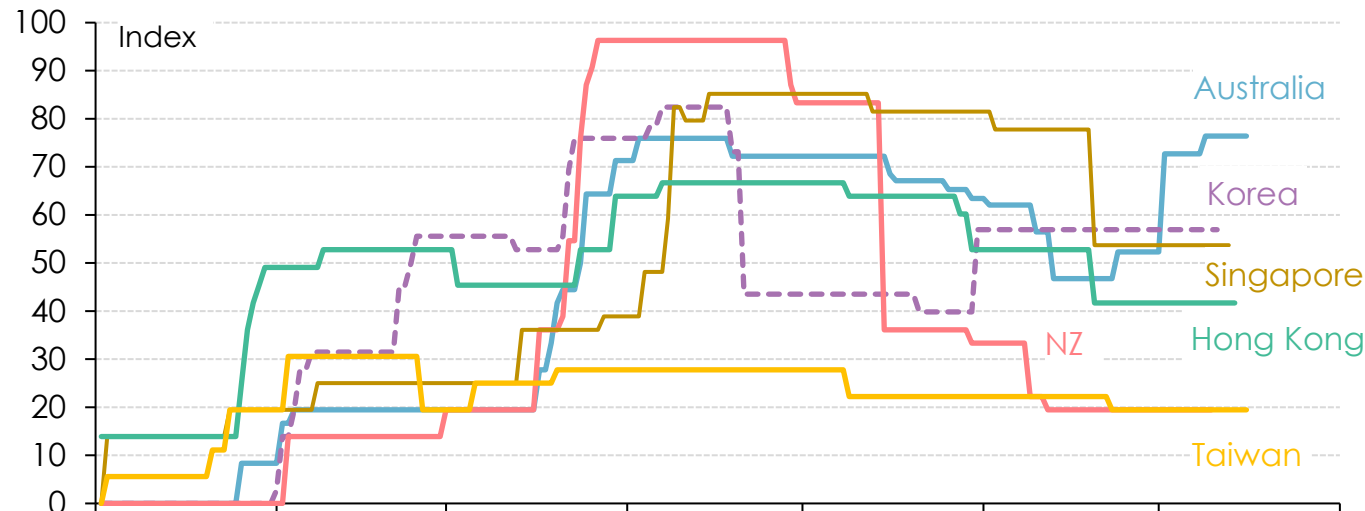
## Tests per thousand of population



Note: Data up to 17<sup>th</sup> July. A high number of confirmed cases per 100 tests combined with a low number of tests per 000 population is *prima facie* evidence of an inadequate testing regime. Source: Worldometers; Corinna.

# Restrictions continue to be eased in most countries, though some countries (including Australia) have re-imposed restrictions in local 'hot spots'

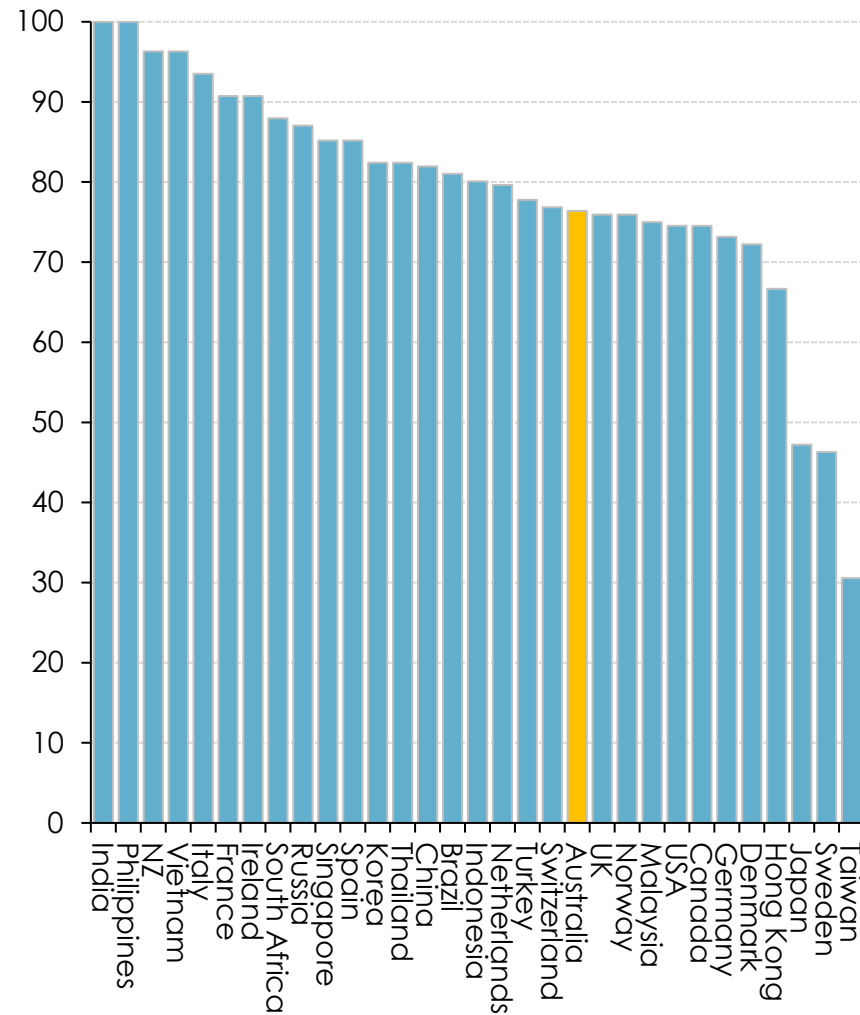
## Timing and severity of government restrictions on movement and gathering of people



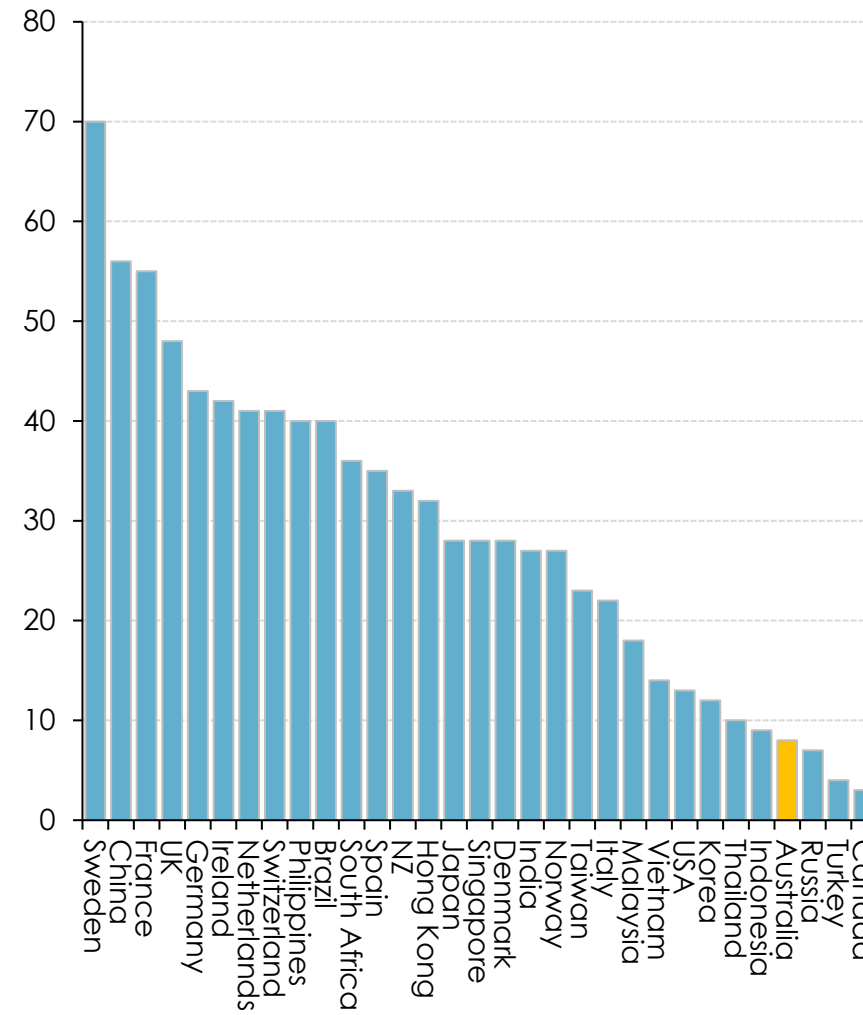
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. The increase in the index for Australia since 1 July reflects the lockdown imposed on 36 Melbourne suburbs in response to outbreaks there. Source: Blavatnik School of Government, Oxford University. Data up to 8<sup>th</sup> -15<sup>th</sup> July

# Australia's restrictions were, on average, less stringent than in most other 'advanced' economies, or other economies in our region

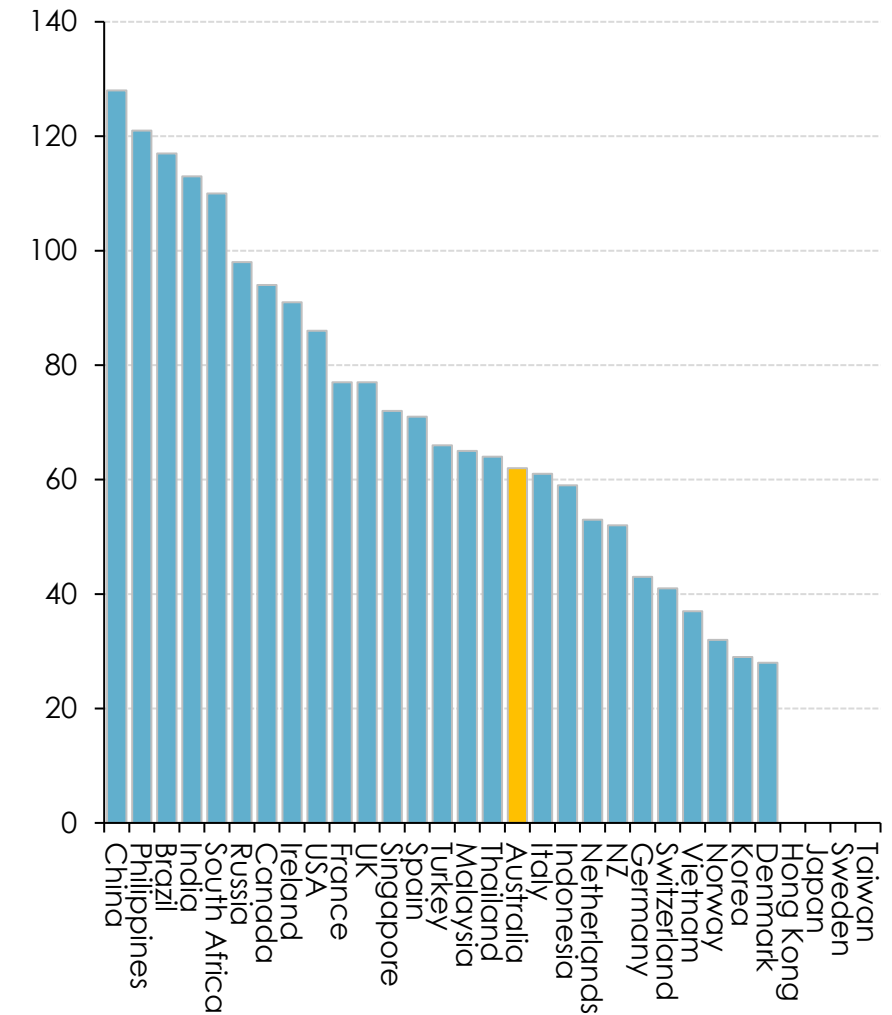
## Highest level of restrictions imposed



## Number of days restrictions at highest level



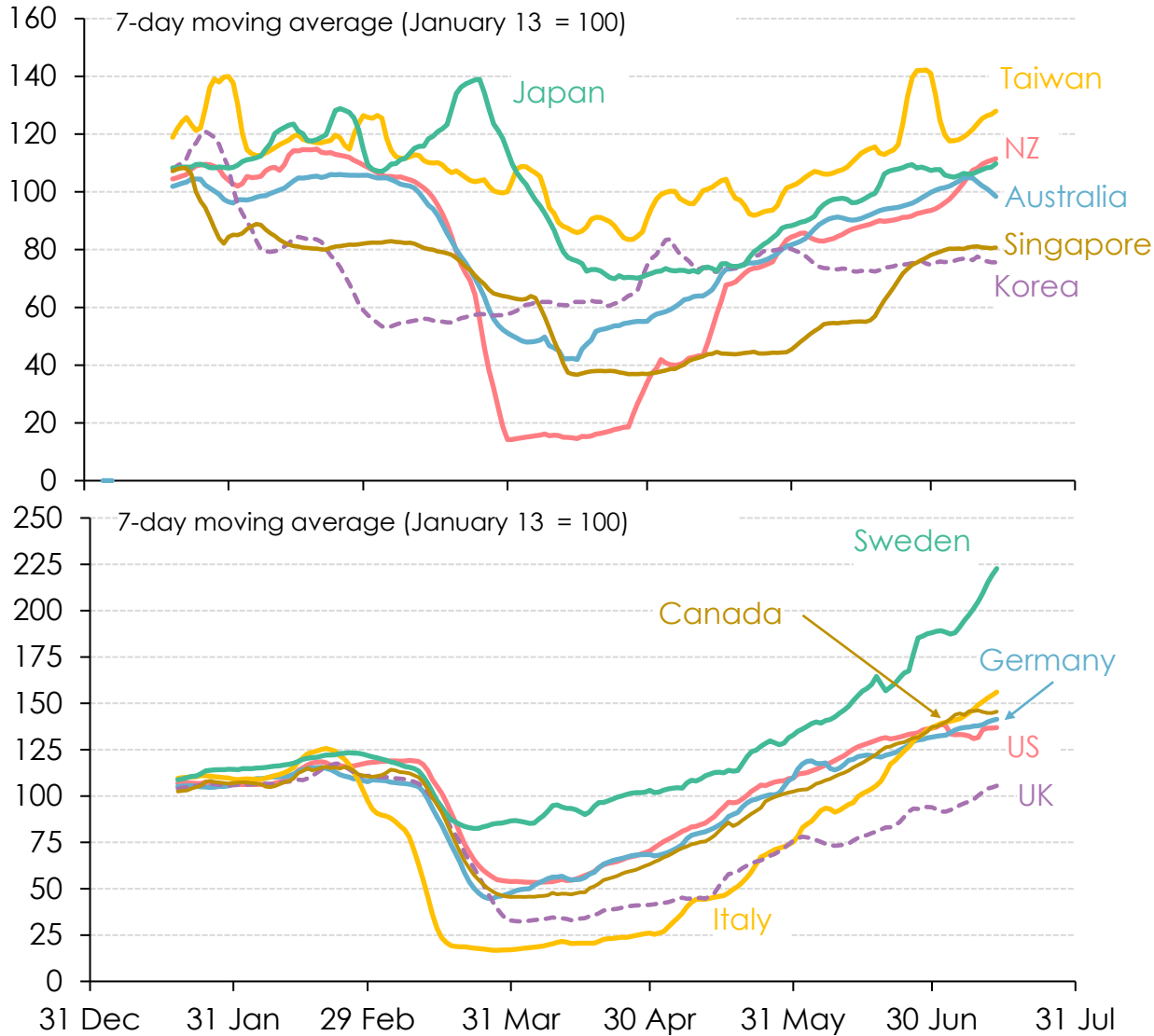
## Number of days restrictions above 70 on Oxford index



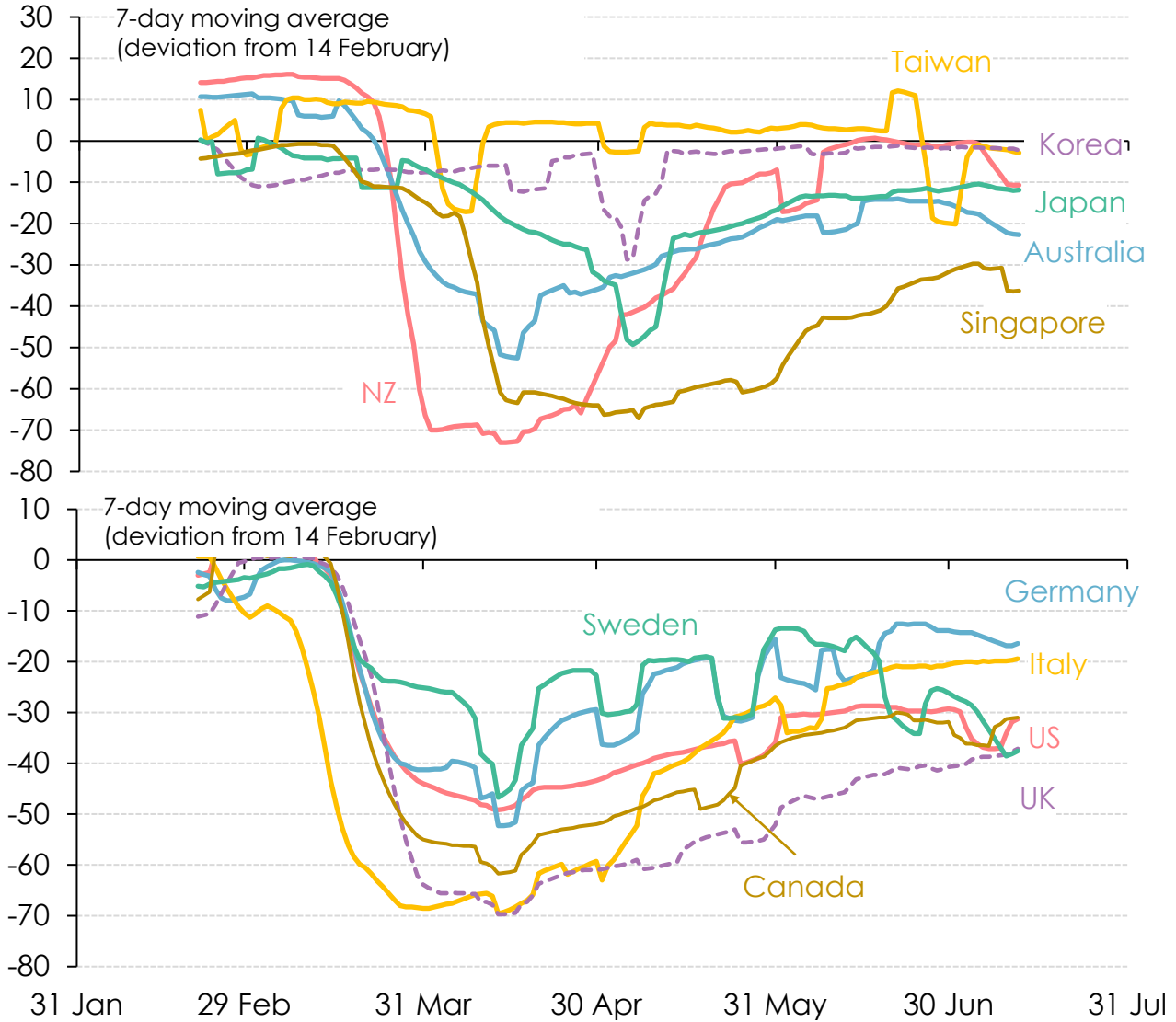
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: Blavatnik School of Government, Oxford University. Data up to 6<sup>th</sup>-15<sup>th</sup> July.

# Mobility data suggest that much of Asia is continuing to return toward more normal levels of activity, but people in the US are becoming more cautious

## Time spent driving



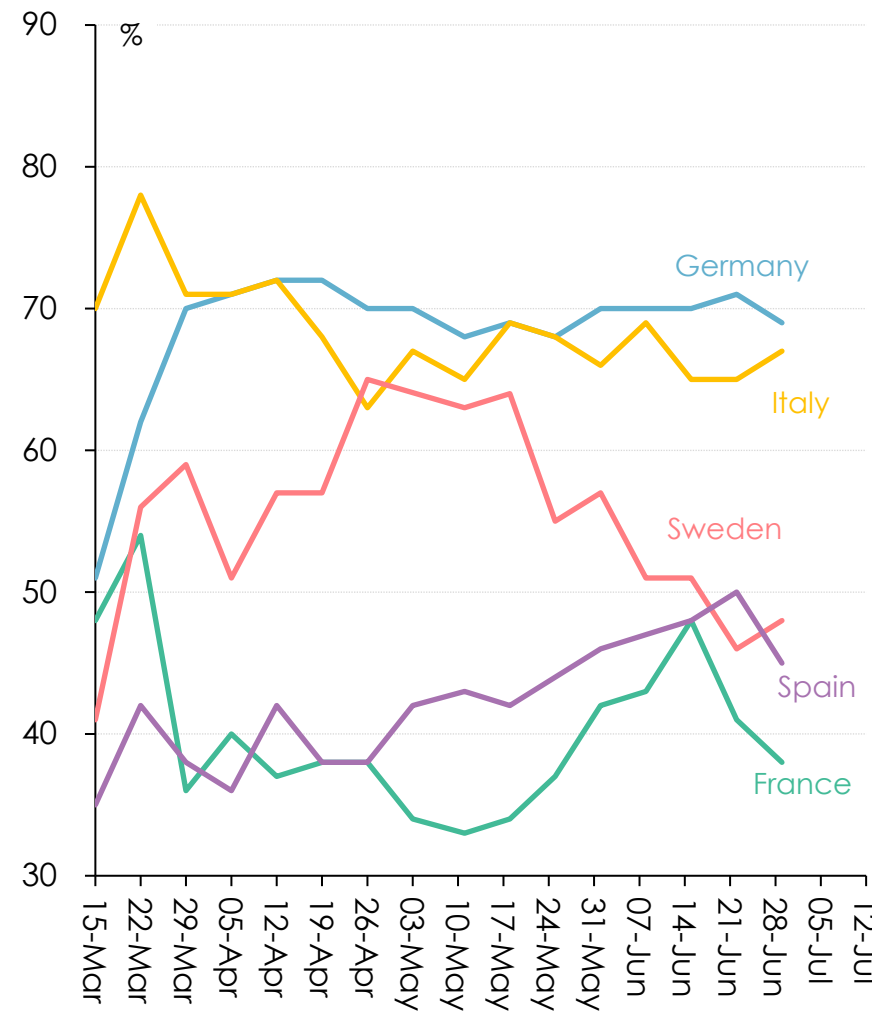
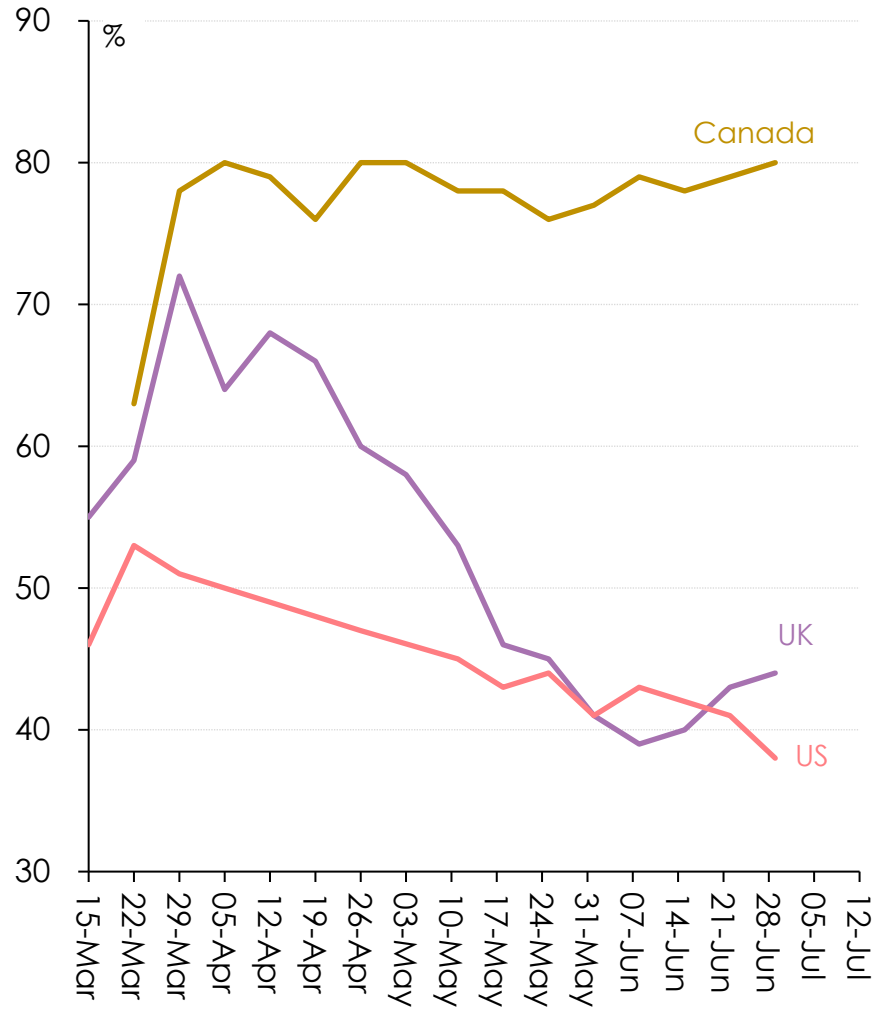
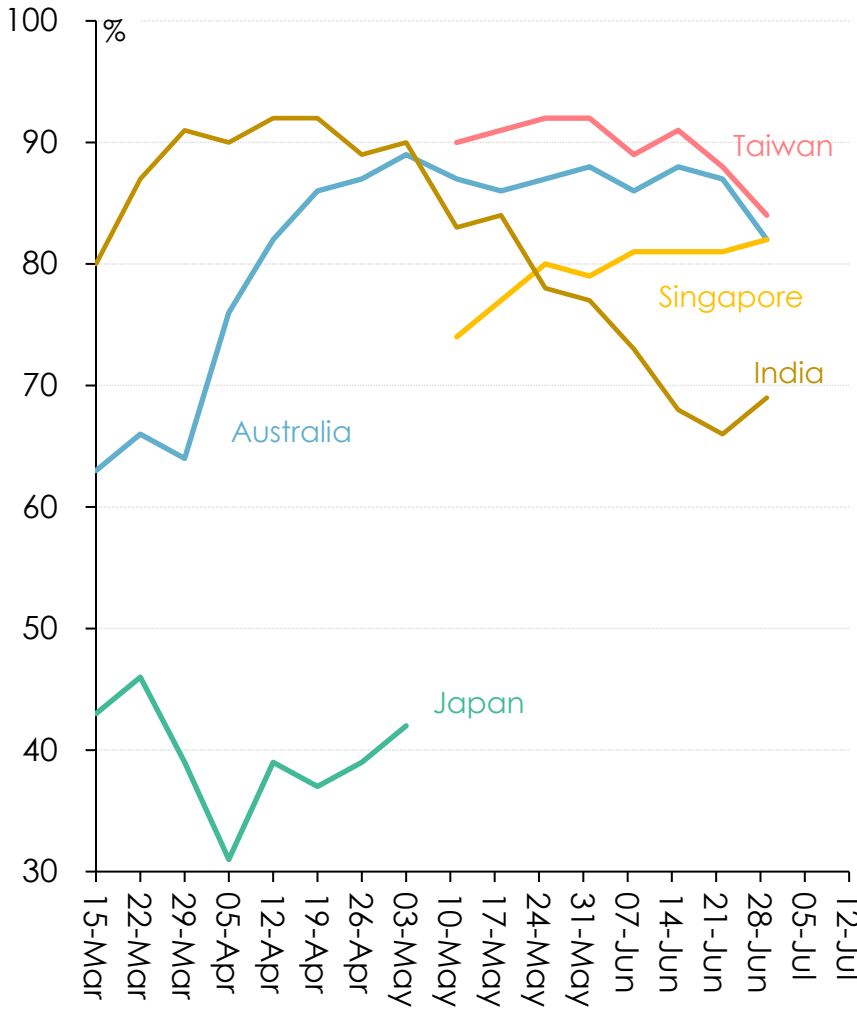
## Time spent in work places



Sources: Apple Mobility Trends Reports (data up to 14<sup>th</sup> July); Google Covid-19 Community Mobility Reports (data up to 12<sup>th</sup> July).

# Satisfaction with governments' handling of the pandemic has declined in the US, Sweden, France and (from a higher base) Australia in recent weeks

Percentage of opinion poll respondents who think their government has handled the coronavirus outbreak 'well' or 'very well'



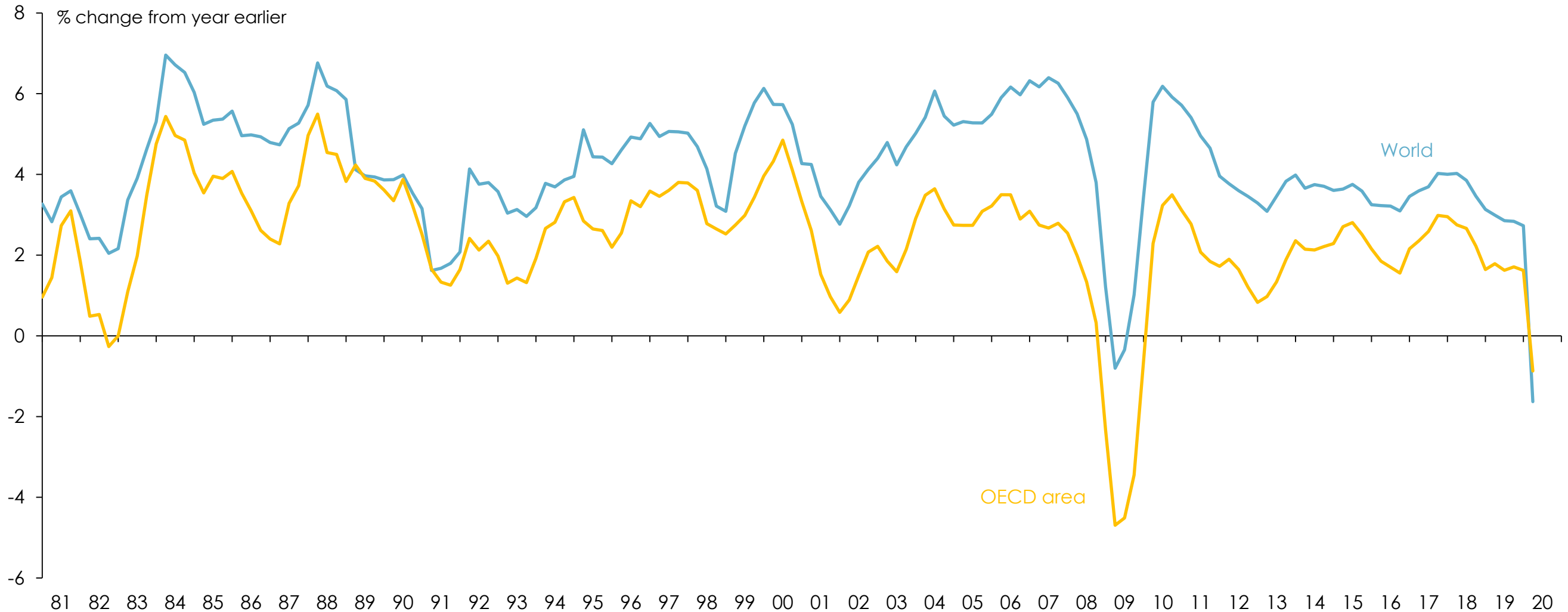
Source: YouGov. Latest data are for 29-30<sup>th</sup> June.

**The world**



# The world economy experienced its sharpest year-on-year contraction for at least 40 years in Q1 this year – with worse to come in Q2

## World and OECD area real GDP growth



Note: Estimates of global GDP growth compiled by Corinna using data for 95 countries accounting for 90% of 2018 world GDP as measured by the IMF; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998.  
Sources: national statistical agencies and central banks; Eurostat; OECD; IMF.

# All of the major international economic forecasting institutions expect 2020 to be the worst year for global growth since the 1930s

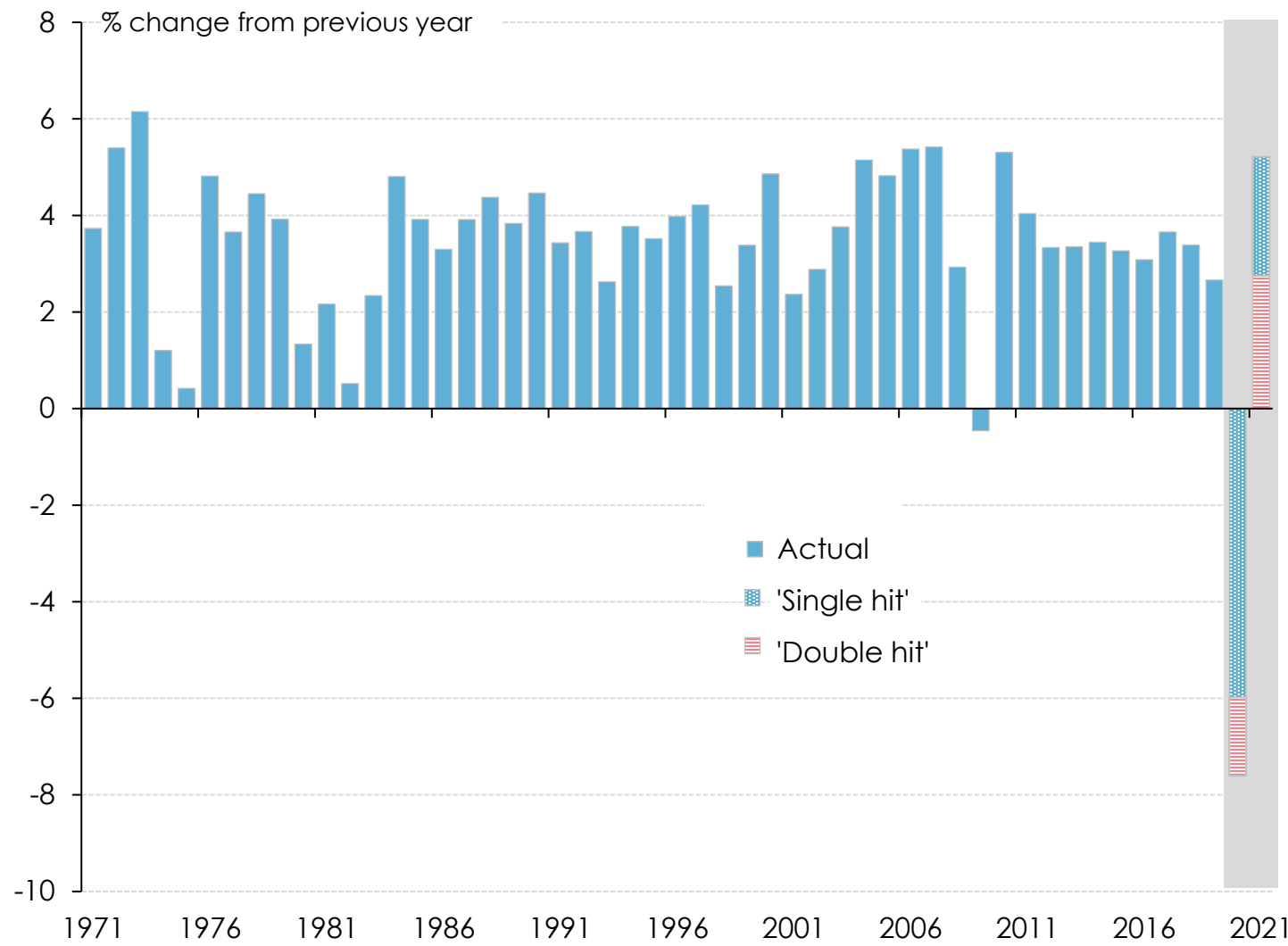
## Major global institutions' growth forecasts for 2020 and 2021 compared

	<i>Actual</i>	<i>IMF</i>		<i>World Bank</i>		<i>OECD*</i>	
	2019	2020	2021	2020	2021	2020	2021
US	2.3	-8.0	4.5	-6.1	4.0	-7.3	4.1
China	6.1	1.0	8.2	1.0	6.9	-2.6	6.8
Euro area	1.2	-8.0	4.5	-9.1	4.5	-9.1	6.5
India	4.2	-4.5	6.0	-3.2	3.1	-3.7	7.9
Japan	0.7	-5.8	2.4	-6.1	2.5	-6.0	2.1
UK	1.4	-10.2	6.3	na	na	-11.5	9.0
Australia	1.8	-4.5	4.0	na	na	-5.0	4.1
New Zealand	2.2	-7.2 <sup>†</sup>	5.9 <sup>†</sup>	na	na	-8.9	6.6
World	2.9	-4.9	5.4	-5.2	4.2	-6.0	5.2
World trade	0.9	-11.9	8.0	-13.4	5.3	-9.5	6.0

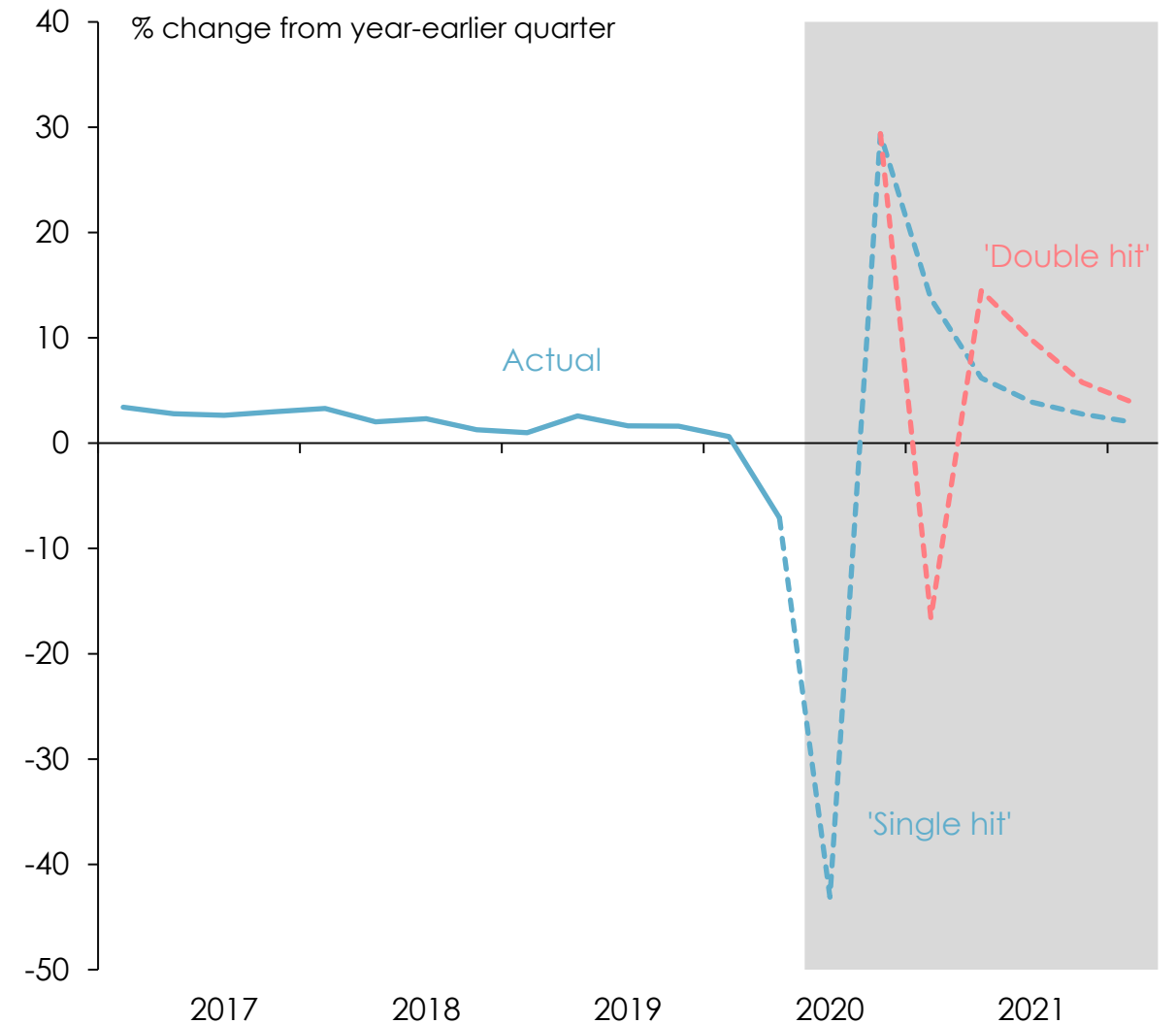
\* OECD forecasts are their 'single hit' scenario to be consistent with the assumptions of the other institutions. <sup>†</sup> The IMF did not publish revised forecasts for New Zealand in its latest WEO publication. Source : International Monetary Fund (IMF), *World Economic Outlook*, 24<sup>th</sup> June 2020; The World Bank, *Global Economic Prospects*, 8<sup>th</sup> June 2020; Organization for Economic Co-operation & Development (OECD), *Economic Outlook*, Volume 2020 Issue 1, 10<sup>th</sup> June 2020.

# The OECD forecasts a 6% decline in world GDP this year, followed by a 5.2% rebound in 2021 – or -7.2% followed by +2.8% if there's a 'second wave'

## Annual growth in global real GDP, 1961-2021



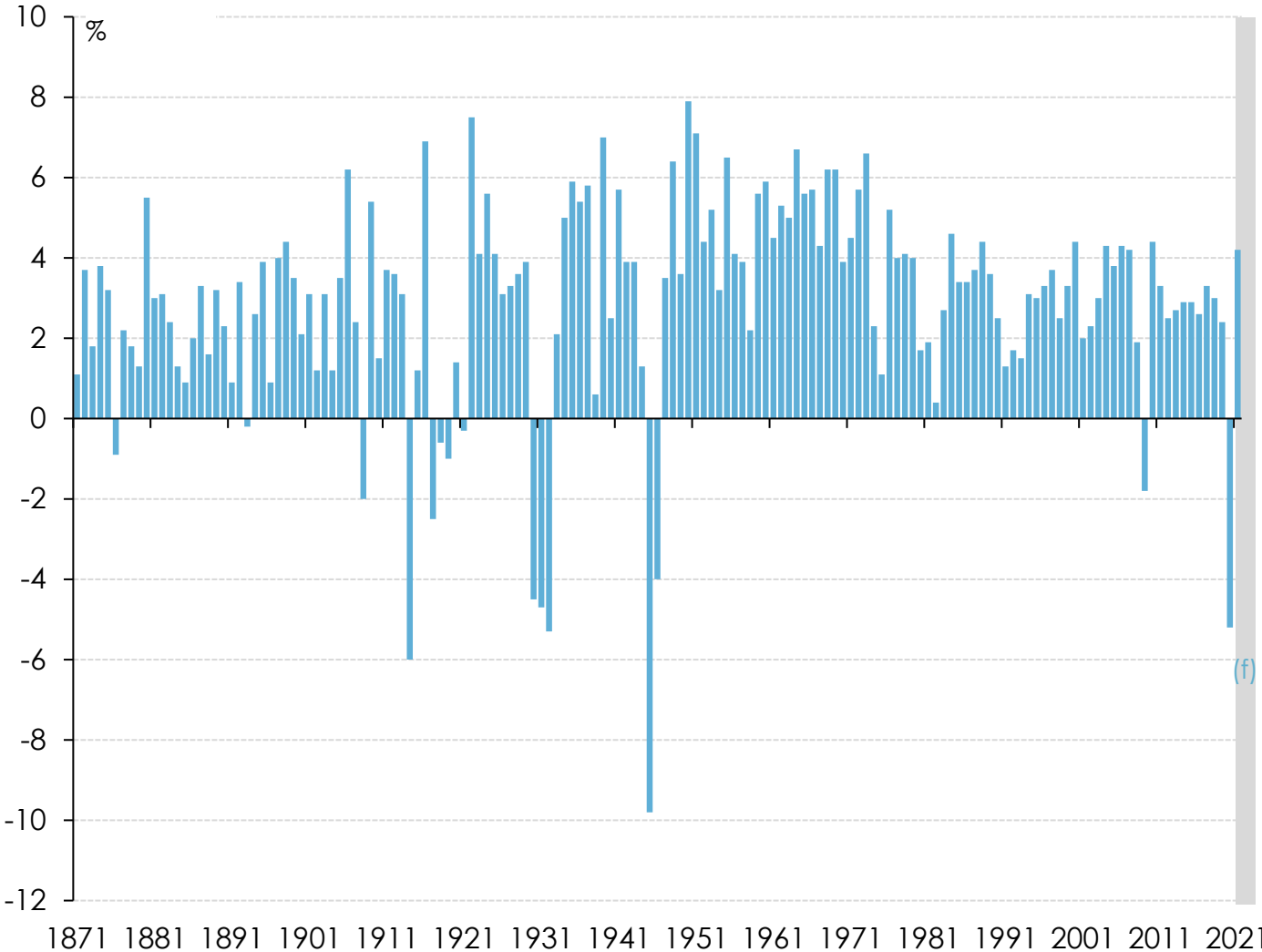
## Quarterly growth and forecasts, 2017-2021



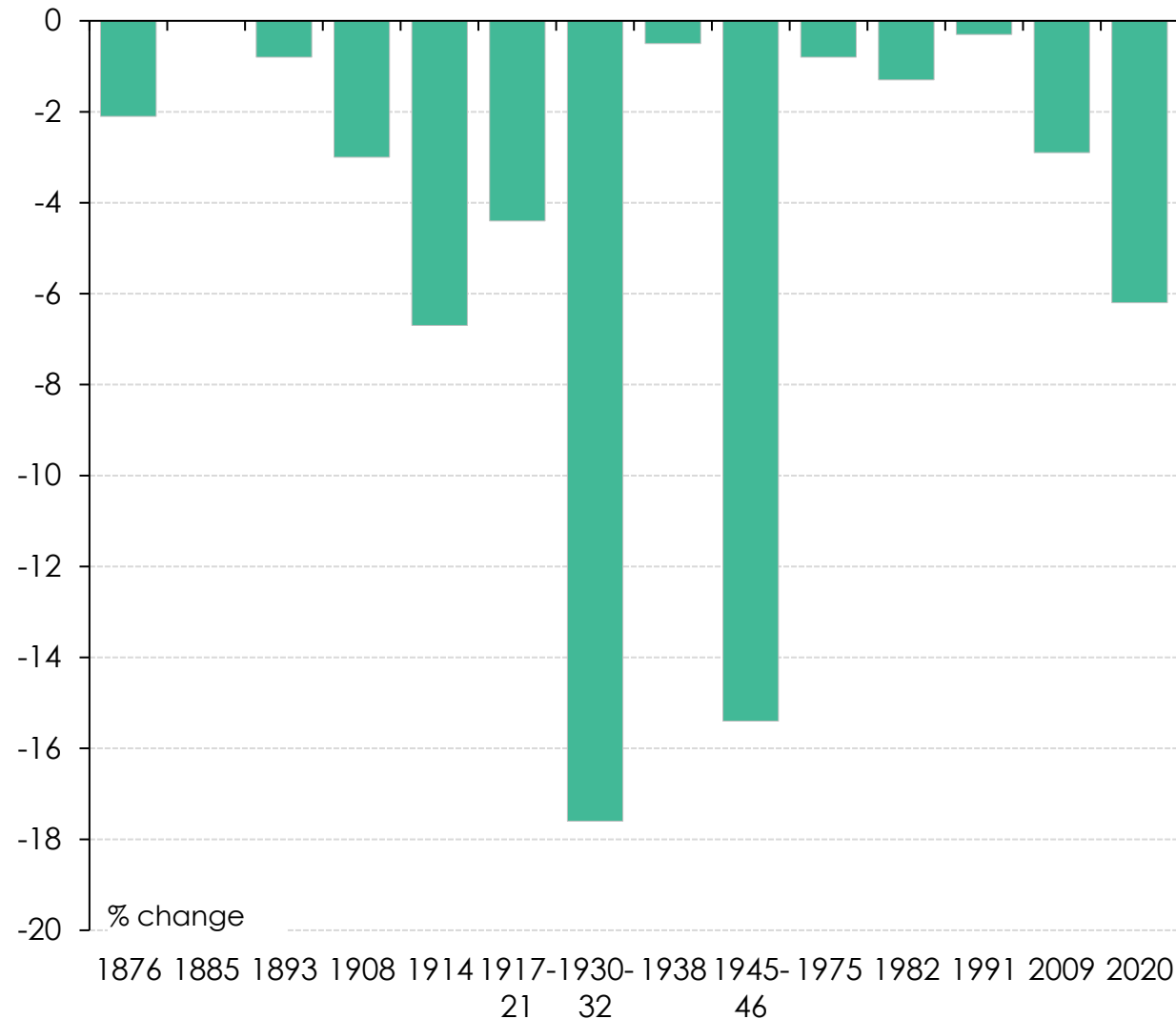
Note: The 'double hit' scenario assumes a 'second wave' of Covid-19 infections and deaths "in all economies towards the end of this year", while the 'single hit' scenario assumes this 'second wave is avoided'. The OECD regards each scenario as "equally likely". Source: OECD, *Economic Outlook*, No. 107, Volume 2020 Issue 1, 10<sup>th</sup> June 2020.

# The World Bank forecasts a 5.2% decline in world GDP this year, with a 4.2% increase in 2021 - the 4<sup>th</sup> worst global downturn in 150 years

Growth in global real GDP, 1871-2001



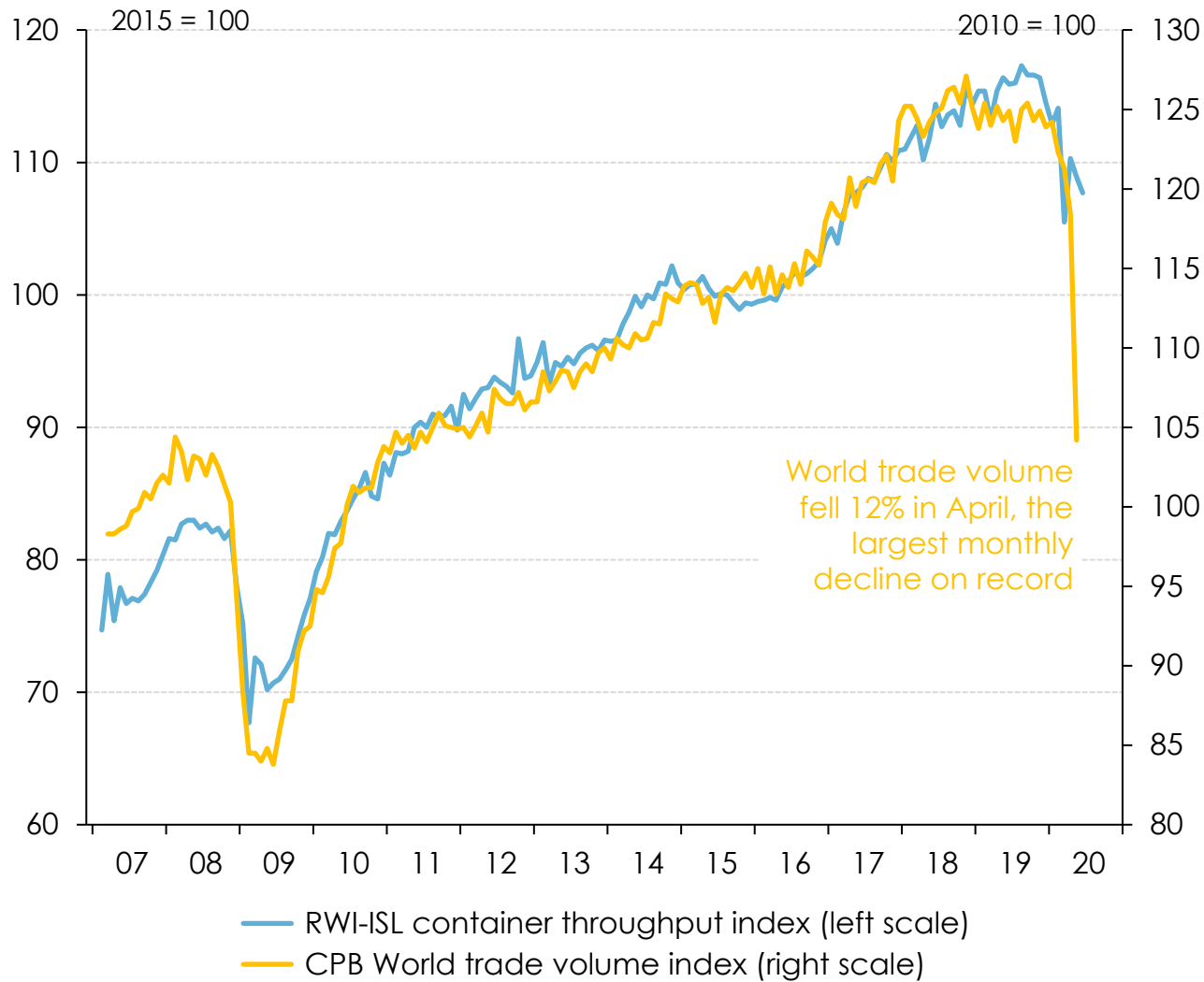
Cumulative decline in real per capita GDP during global recessions



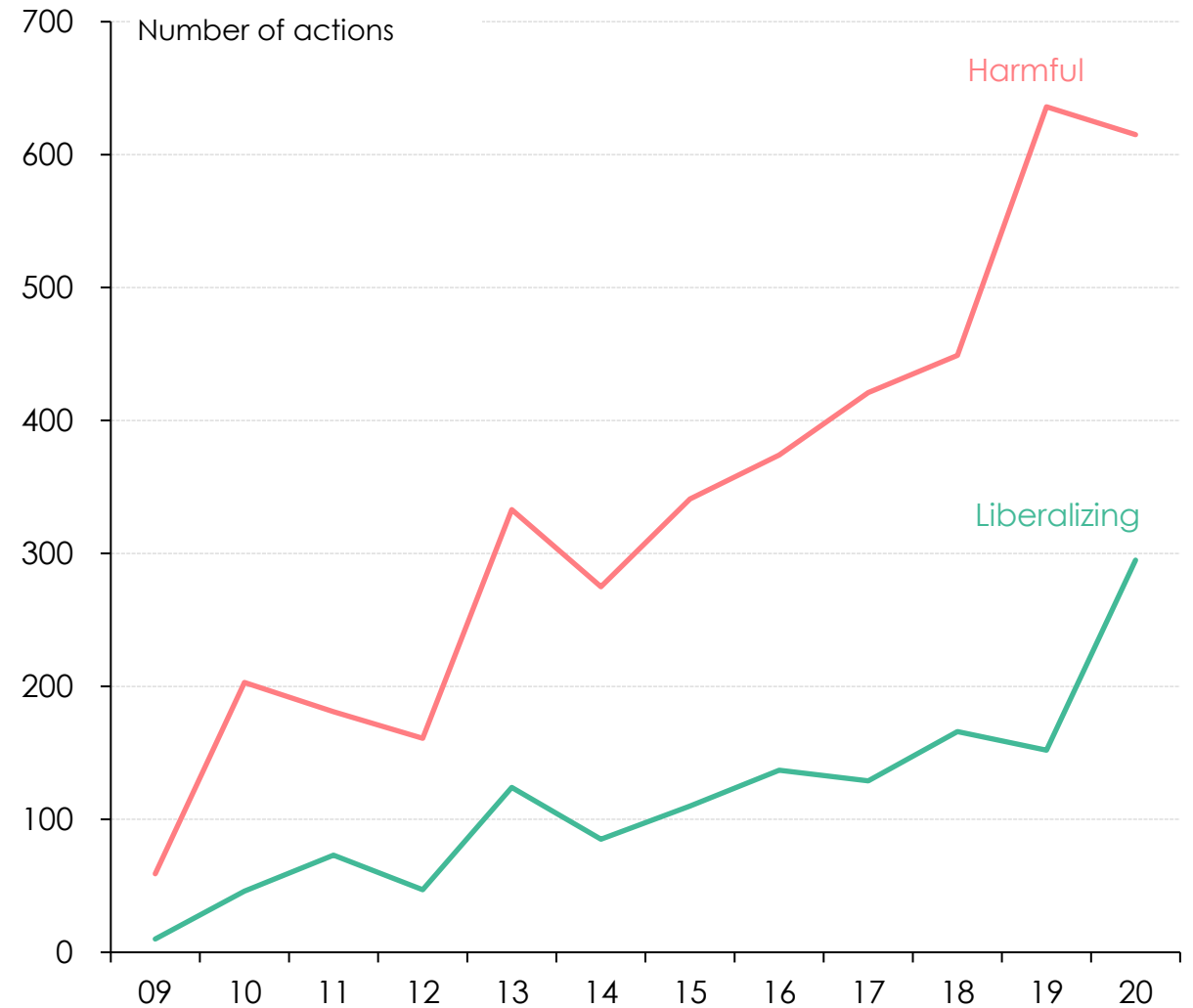
Source: The World Bank, *Global Economic Prospects*, 8<sup>th</sup> June 2020.

# World merchandise trade volumes fell sharply in April

## World trade volumes and container throughput



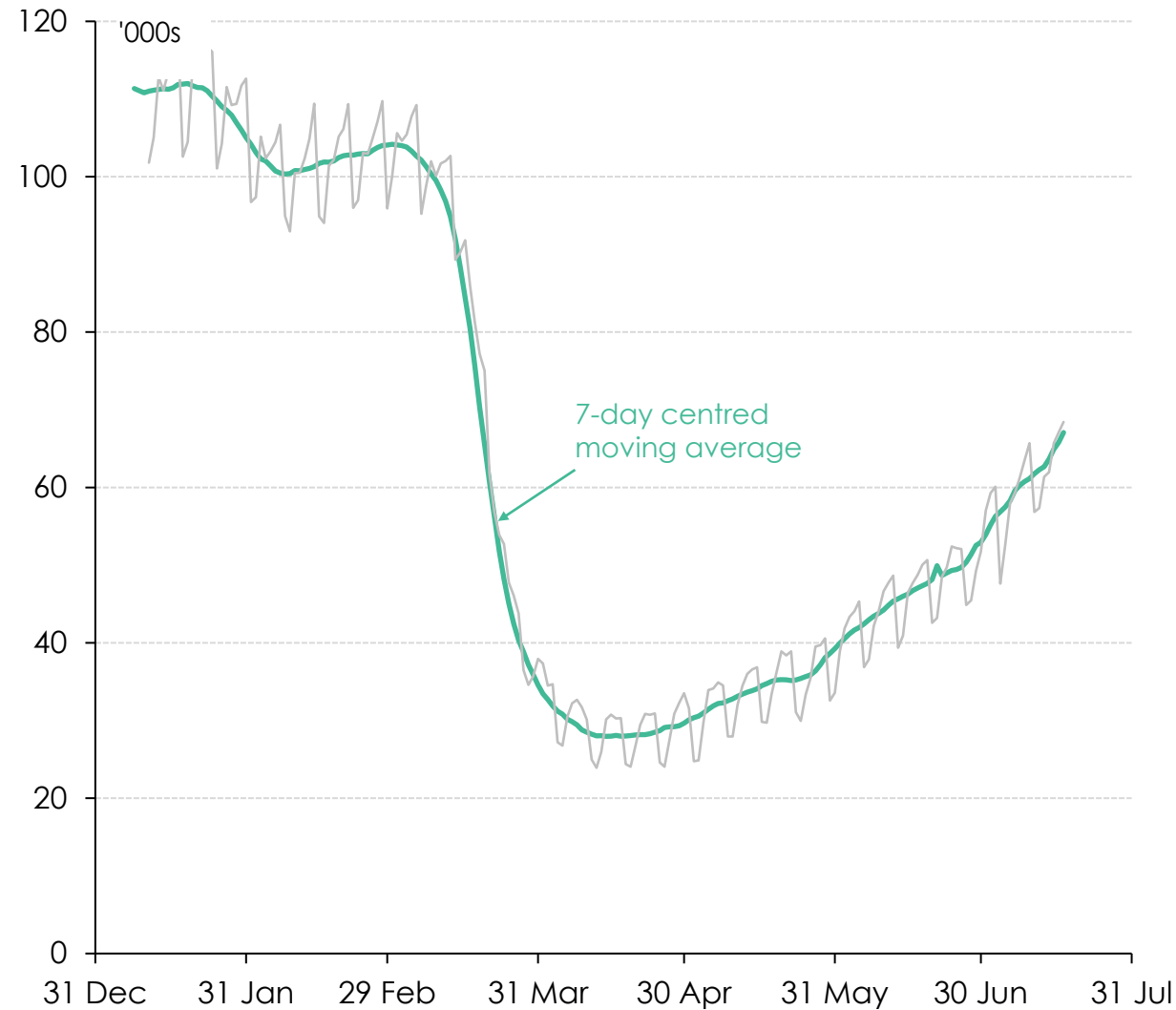
## Pro- and anti-trade policy interventions



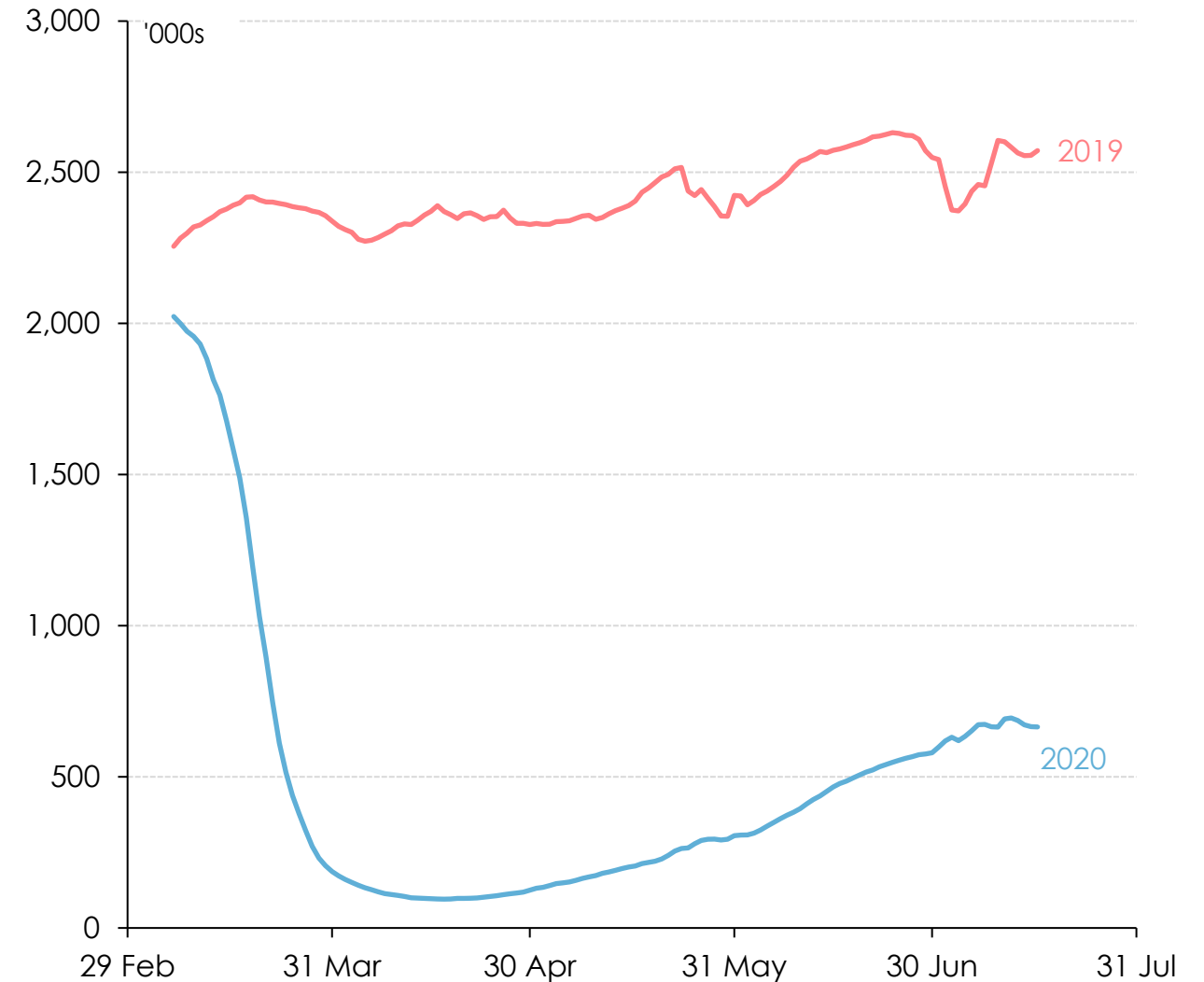
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.  
Sources: CPB Netherlands Economic Planning Bureau, *World Trade Monitor*; Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) *Container Throughput Index*; Global Trade Alert *Global Dynamics* (latest report 16<sup>th</sup> July).

# Global flight numbers are steadily improving (though still ~36% below pre-pandemic levels), but in the US traffic appears to have stalled

## Daily commercial flights worldwide



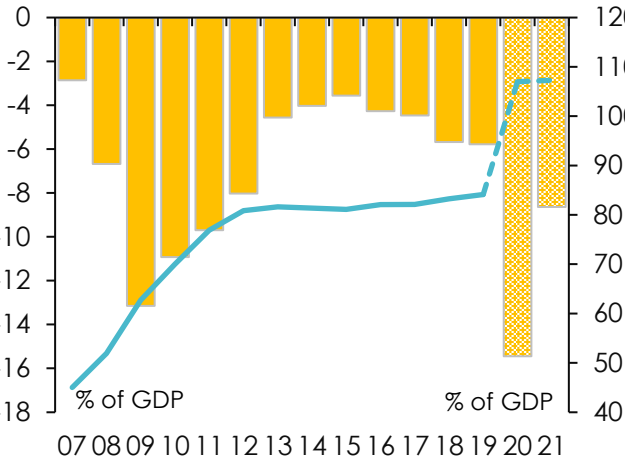
## Daily US TSA security checks



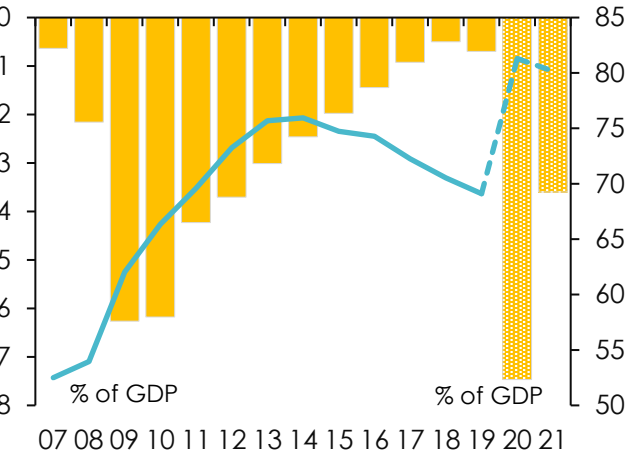
Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 17<sup>th</sup> July.  
Sources: Flightradar24.com; US Transport Safety Administration (at last, something useful produced by aviation 'security'!!!)

# Governments around the world are doing more by way of fiscal stimulus than they did during the global financial crisis

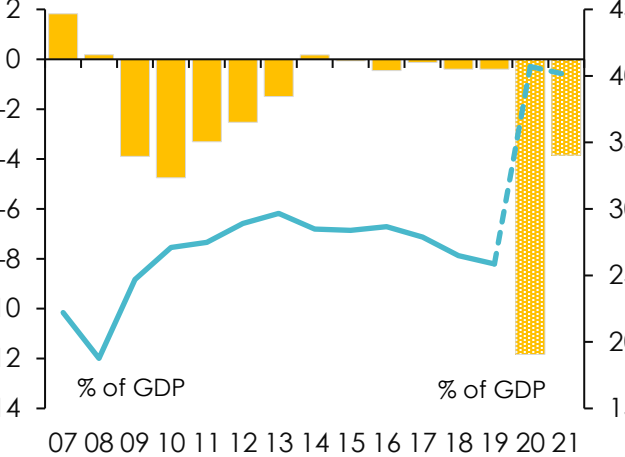
## United States



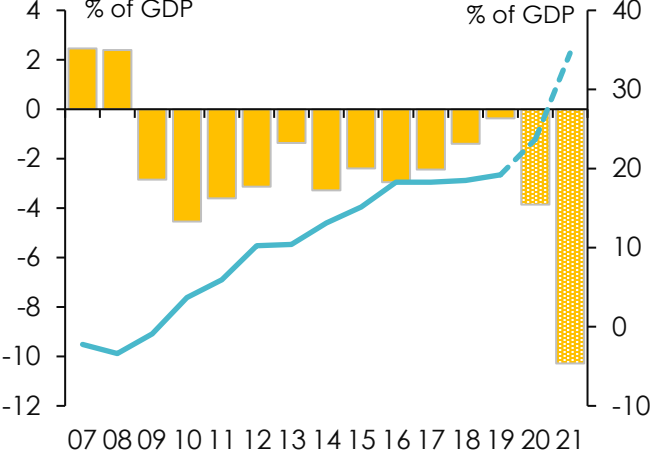
## Euro area



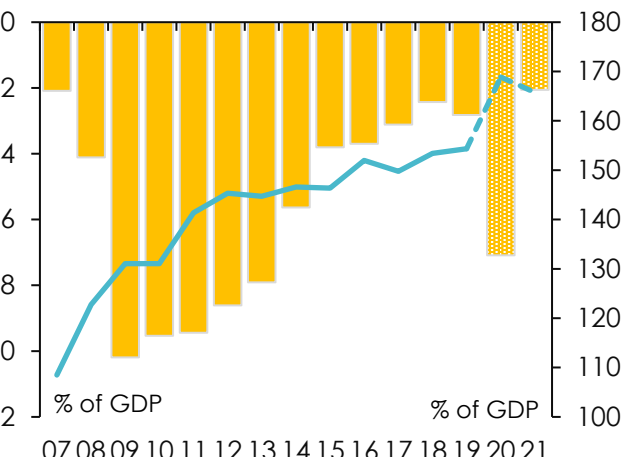
## Canada



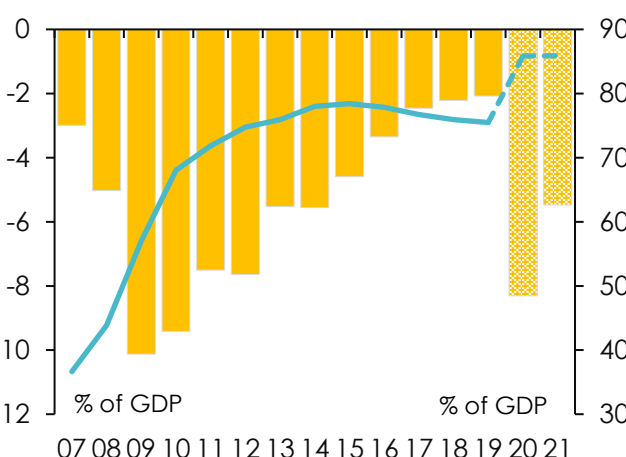
## Australia



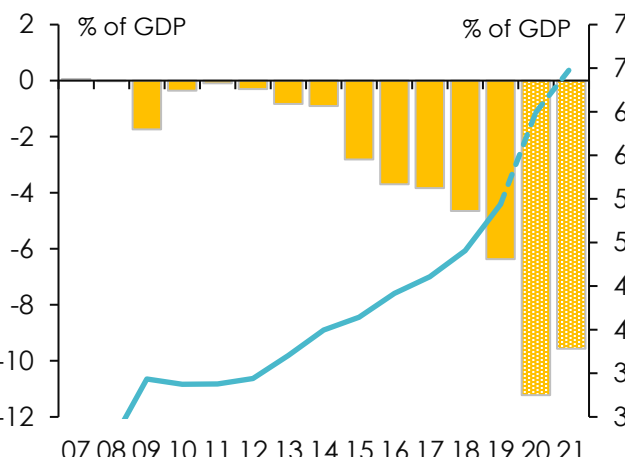
## Japan



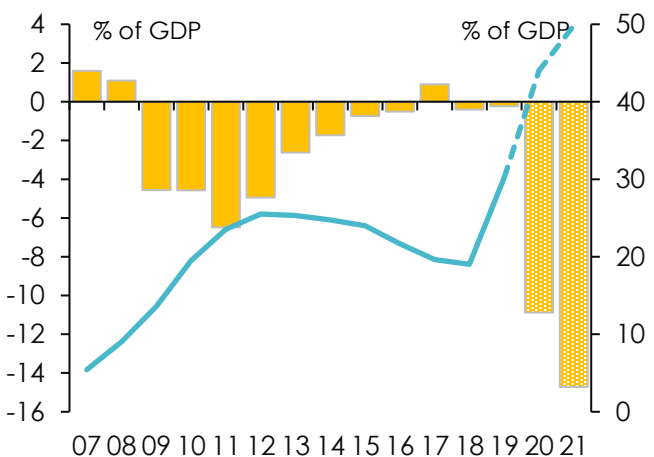
## United Kingdom



## China



## New Zealand

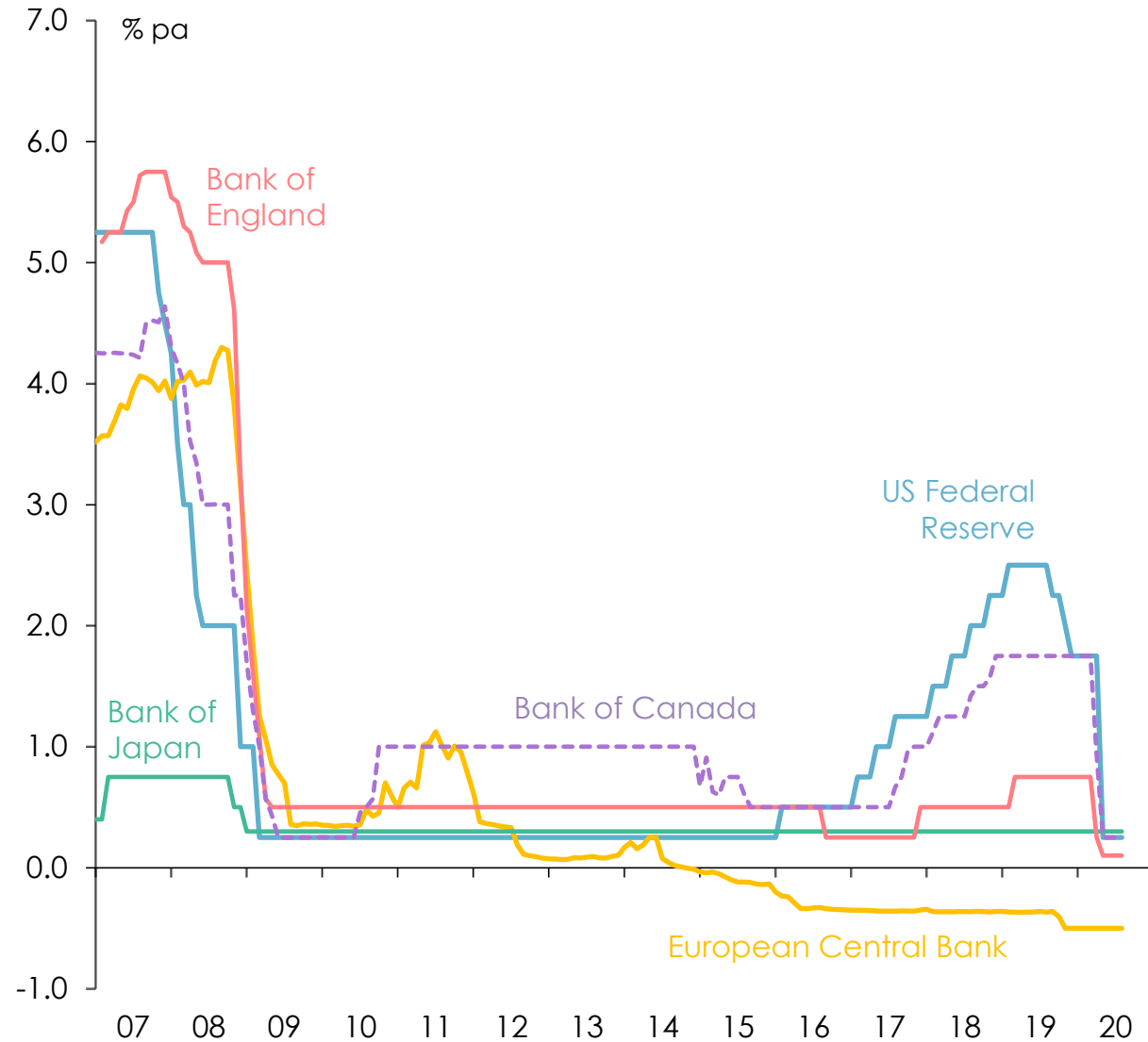


General government overall fiscal balance (left scale)
  General government net debt (right scale)

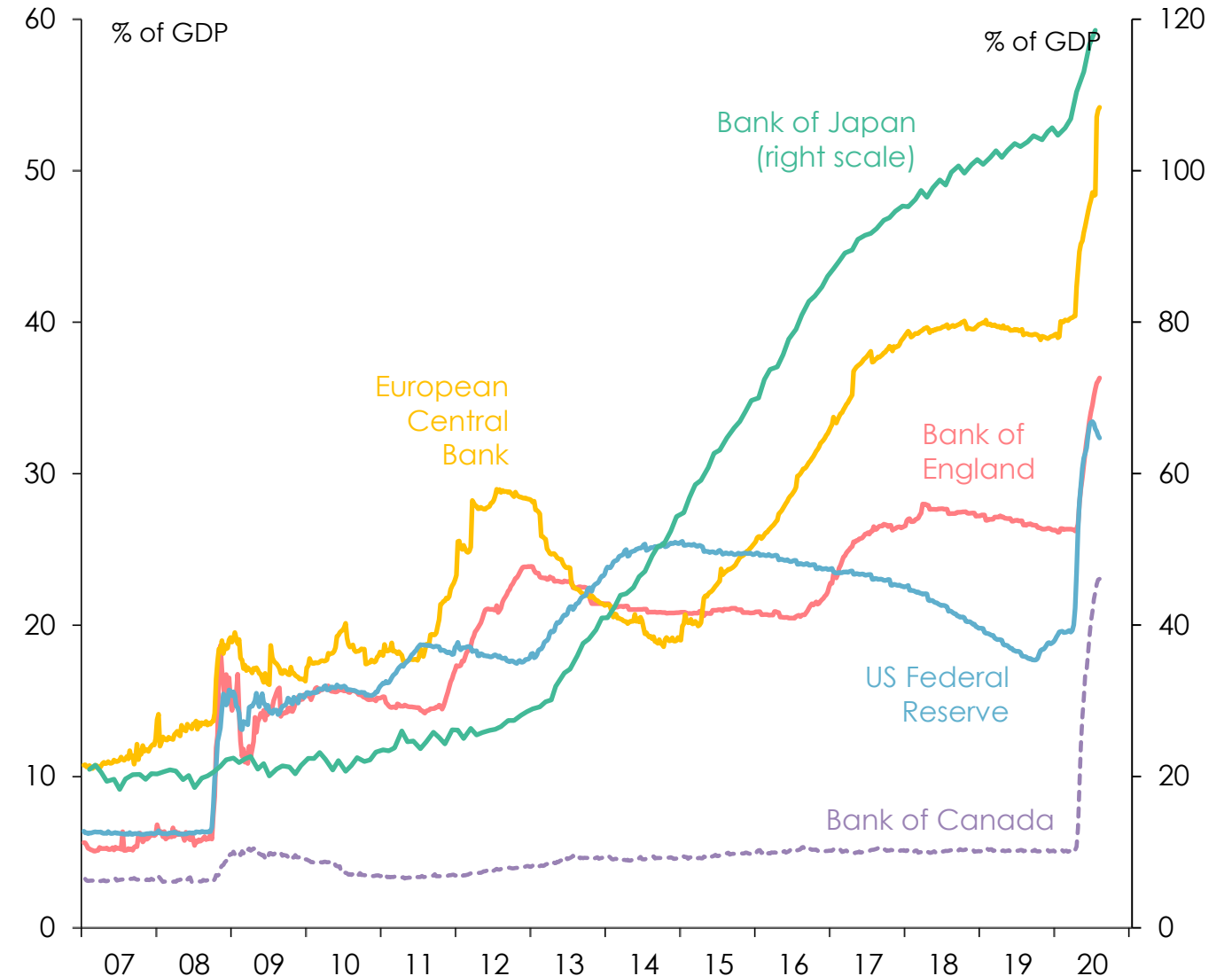
Note: UK data does not include the measures announced by the Chancellor on 8<sup>th</sup> July; China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30<sup>th</sup> June; NZ data are for fiscal years ended 31<sup>st</sup> March. Sources: International Monetary Fund, *Fiscal Monitor*, April 2020, and *World Economic Outlook*, June 2020; Australian Parliamentary Budget Office, *Medium-term fiscal projections: impact of Covid-19 pandemic and response*, June 2020; New Zealand Treasury, *Budget Economic & Fiscal Update*, May 2020.

# Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

## Major central bank policy interest rates



## Major central bank balance sheets

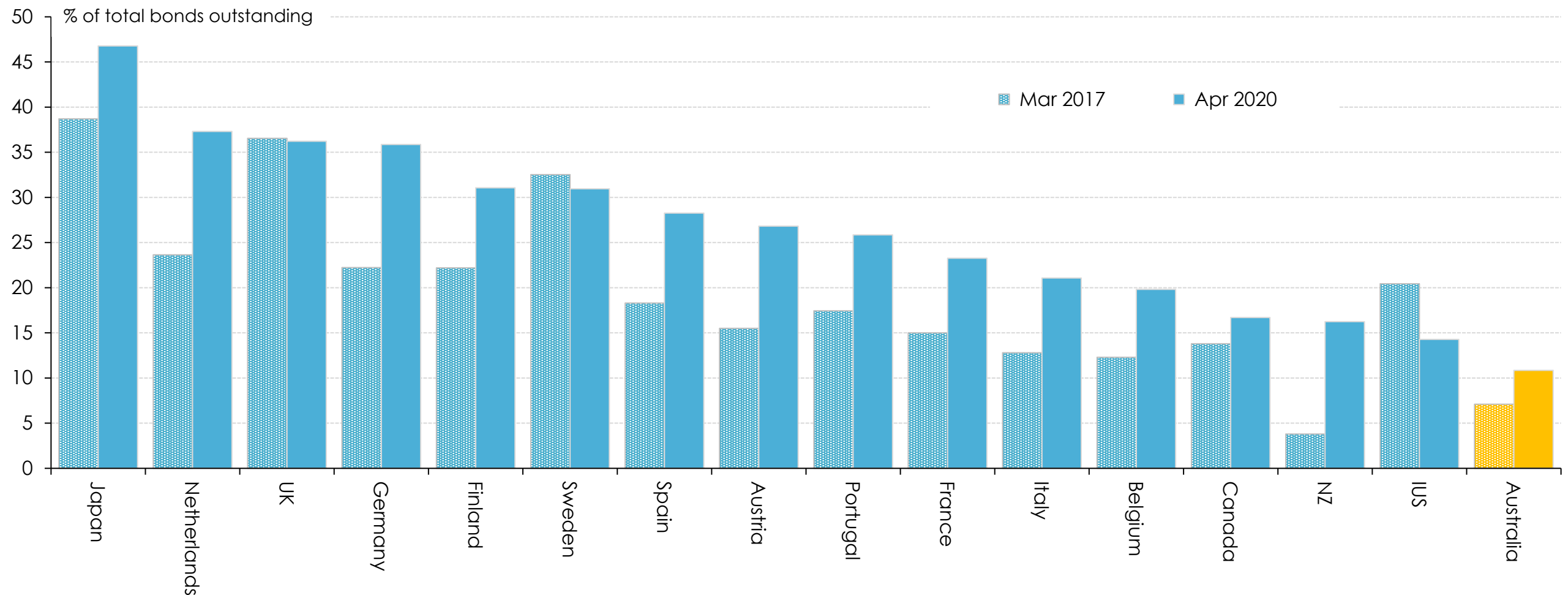


Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; Bank of Canada.



# Central banks now hold significant proportions of total government debt in a growing number of countries

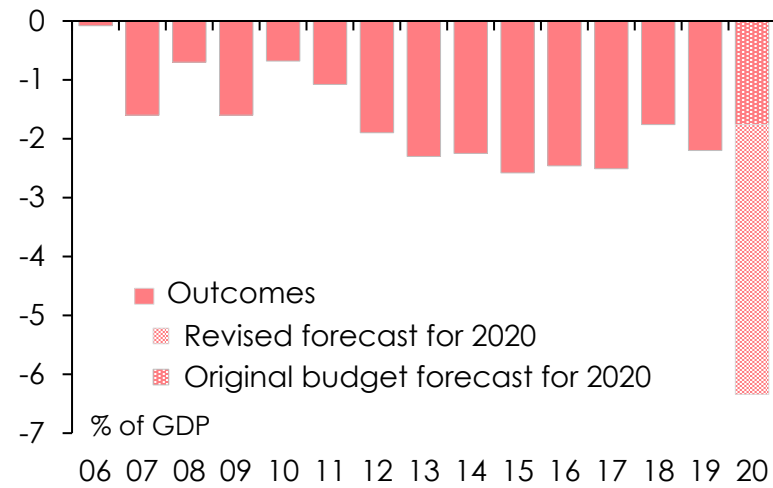
## Central bank holdings of central government bonds



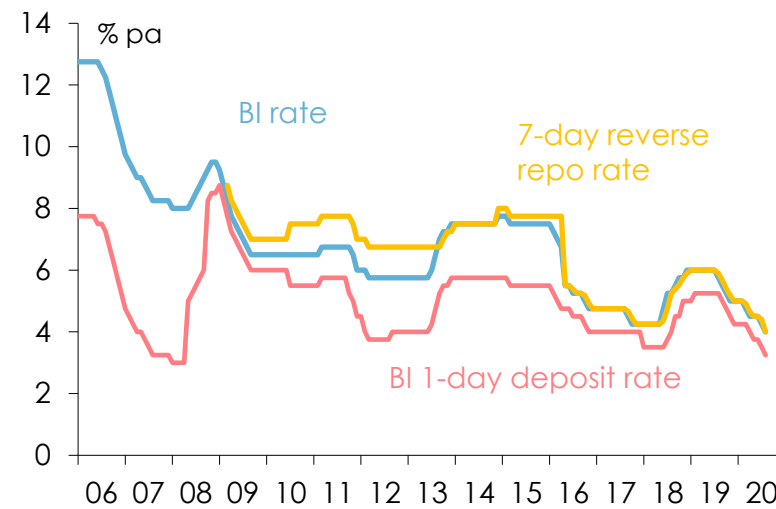
Sources: Surprisingly, the RBA does not disclose its holdings of Australian Government bonds in its weekly balance sheet statement (see RBA Statistical Table A1. Hence the figure shown here for Australia at March 2017 was derived from ABS *Finance and Wealth*, and that for April 2020 by adding to RBA holdings as per the December 2019 issue of *Finance and Wealth*, disclosed RBA purchases of Australian Government bonds up to end-April, divided by the amount of Australian Government securities outstanding disclosed in the Government's *Monthly Financial Statement*. The figures for RBNZ holdings of NZ government securities are published in Table r1 on the RBNZ's website while figures for total NZ government securities outstanding are in Table D30. All others are from OECD, *Economic Outlook* No. 107 (June 2020) and No. 104 (June 2017).

# Bank Indonesia is pursuing a mixture of quantitative easing and 'modern monetary theory' (MMT)

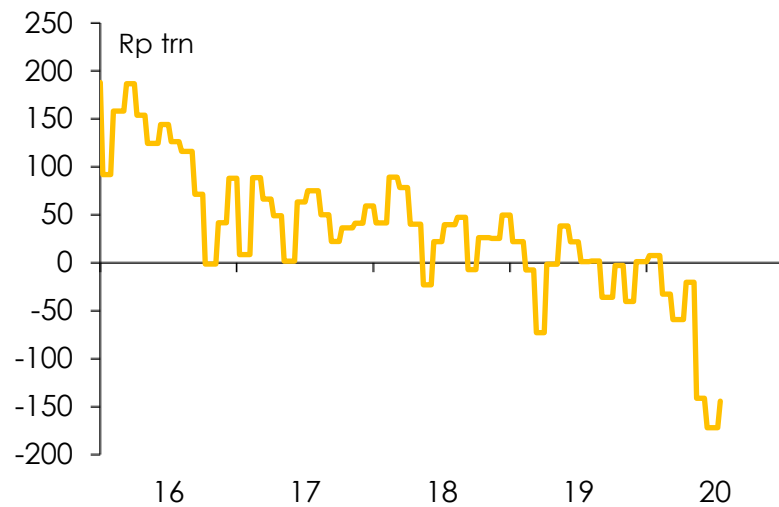
## Indonesia budget deficit



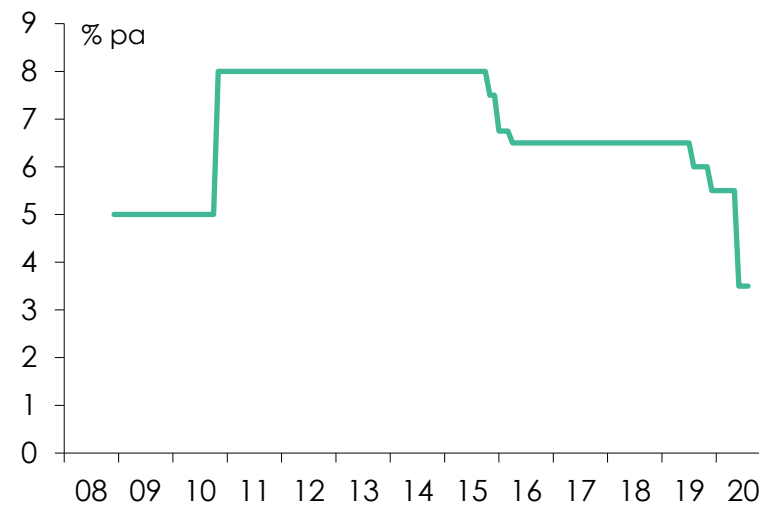
## BI monetary policy rates



## BI claims on central government



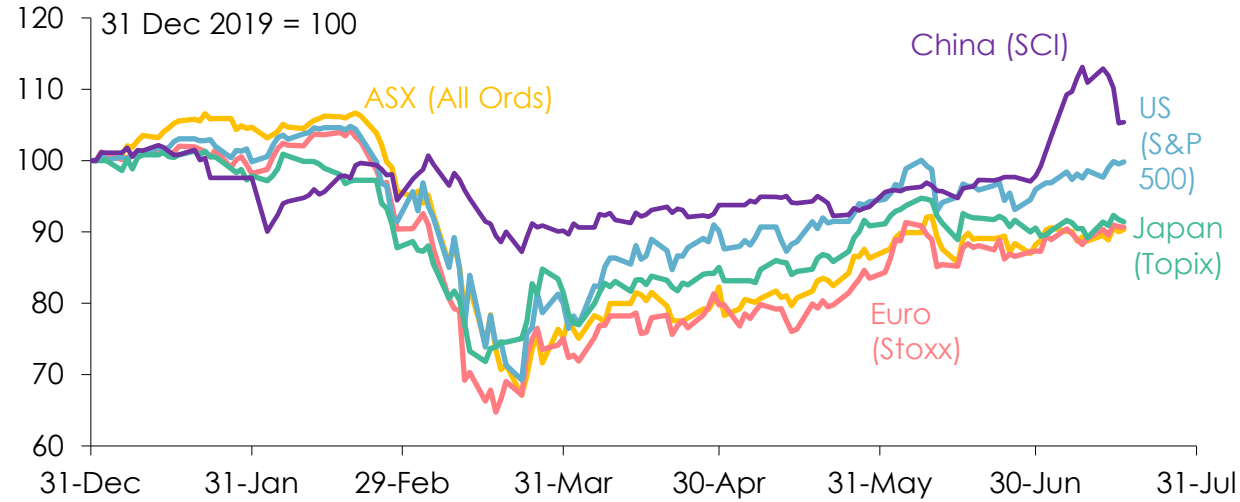
## Bank reserve requirement ratio



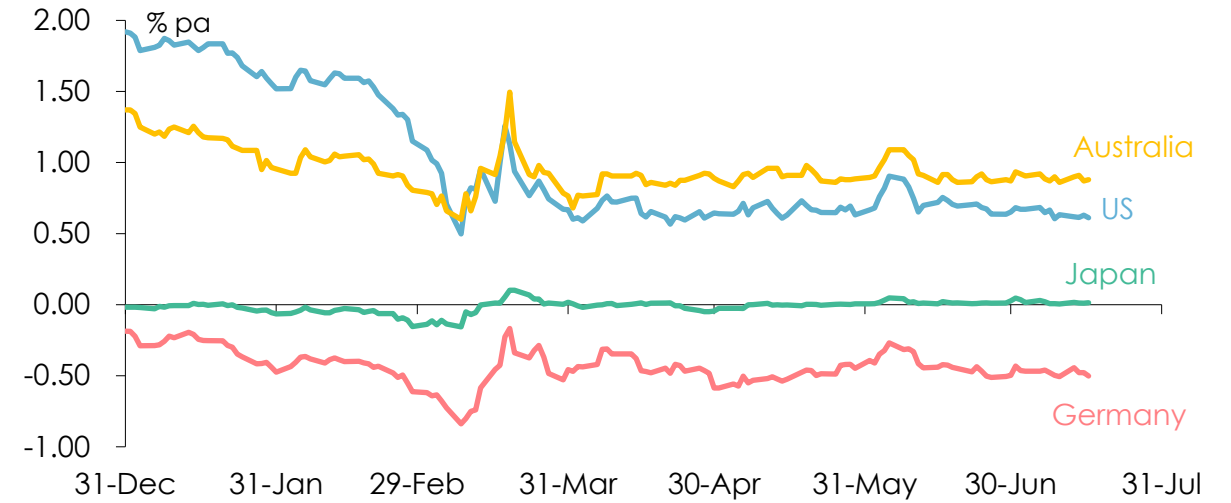
- Last week the Indonesian Government and Bank Indonesia agreed on a 'burden sharing' scheme under which BI will directly purchase from the Government almost Rp400 trn of bonds (SBNs) – equivalent to about 1/4 of this year's deficit financing requirement – at its benchmark reverse repo rate, and return the interest received to the Government
  - up to this week BI has purchased Rp36.7 trn of SBNs (although this isn't clear from BI's weekly balance sheet)
  - prior to this BI had also purchased at least Rp166trn of SBNs in the secondary market
- BI will also subsidise the interest on another Rp177trn of bonds issued to fund loans to micro, small and medium-sized businesses
- This follows BI's decision in mid-April to cut banks' reserve requirement ratio by 200bp, coupled with a requirement that banks use the funds thus 'freed up' to purchase SBNs
- BI calls all this 'synergic monetary expansion'
- BI is also doing conventional monetary policy: at its monetary policy meeting this Thursday, it cut its policy indicator rates by 25bp

# Most sharemarkets (apart from Shanghai) rose 1½-3% last week, while bonds again moved sideways and the euro strengthened against the US\$

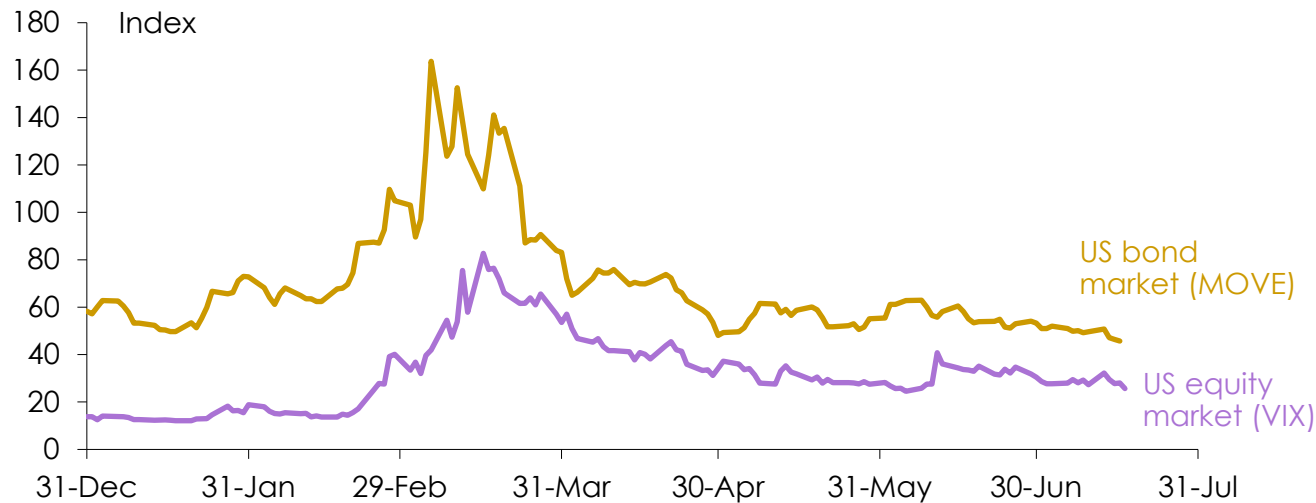
## Stock markets



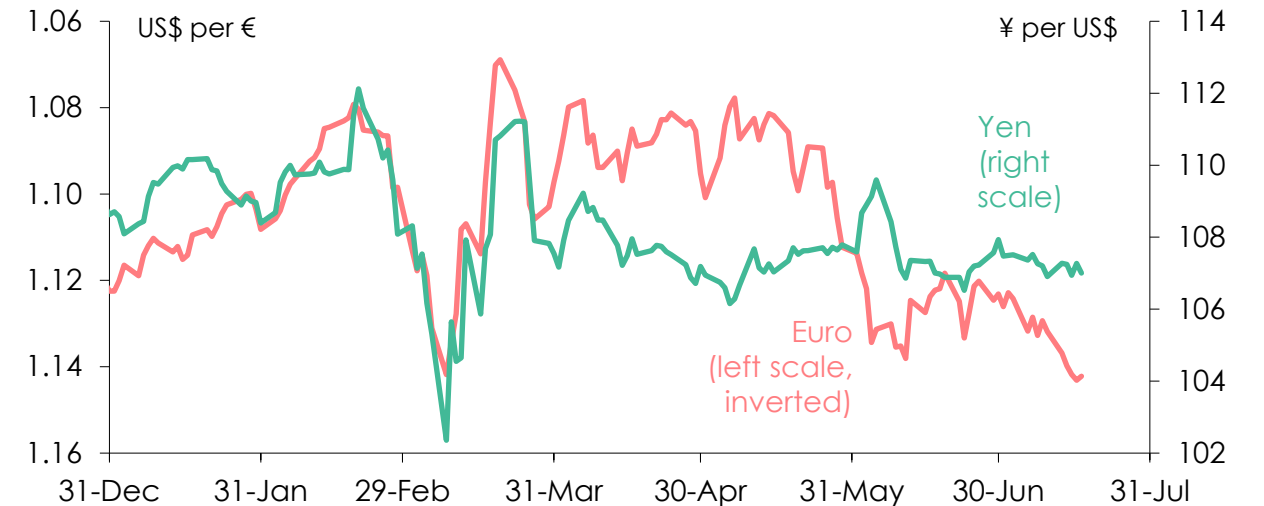
## 10-year bond yields



## Measures of market volatility

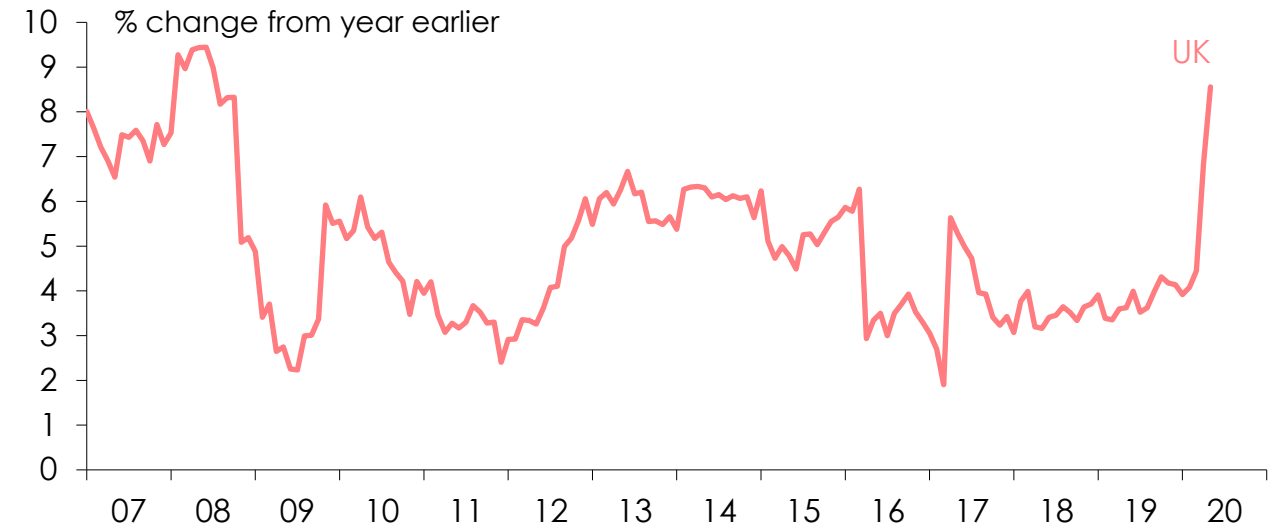
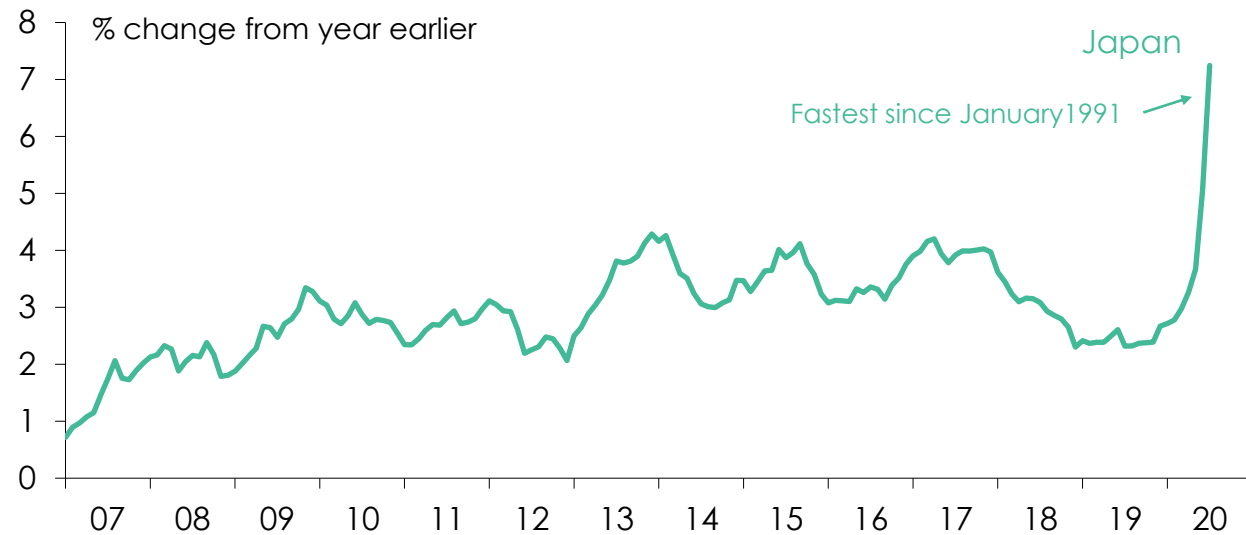
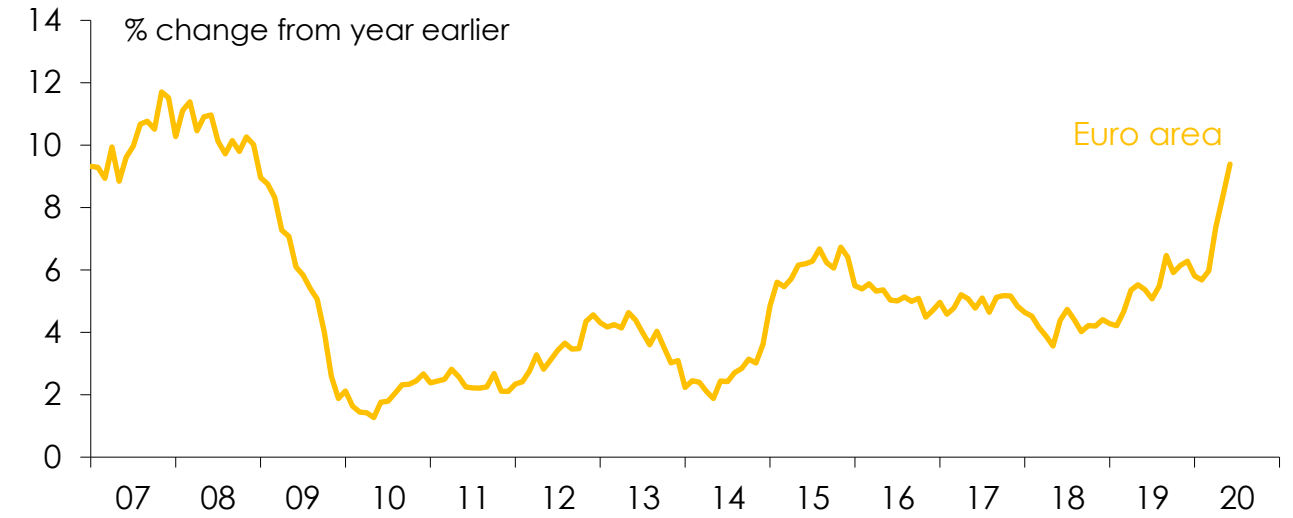
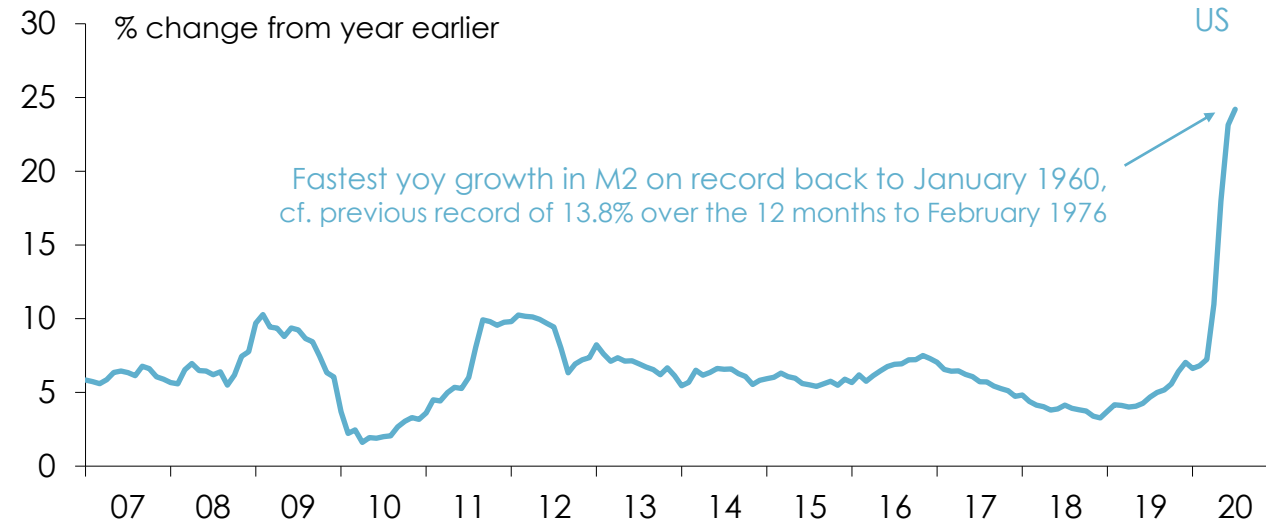


## US dollar vs euro and yen



# 'Quantitative easing' has prompted a more rapid acceleration in money supply growth than it did during the global financial crisis ...

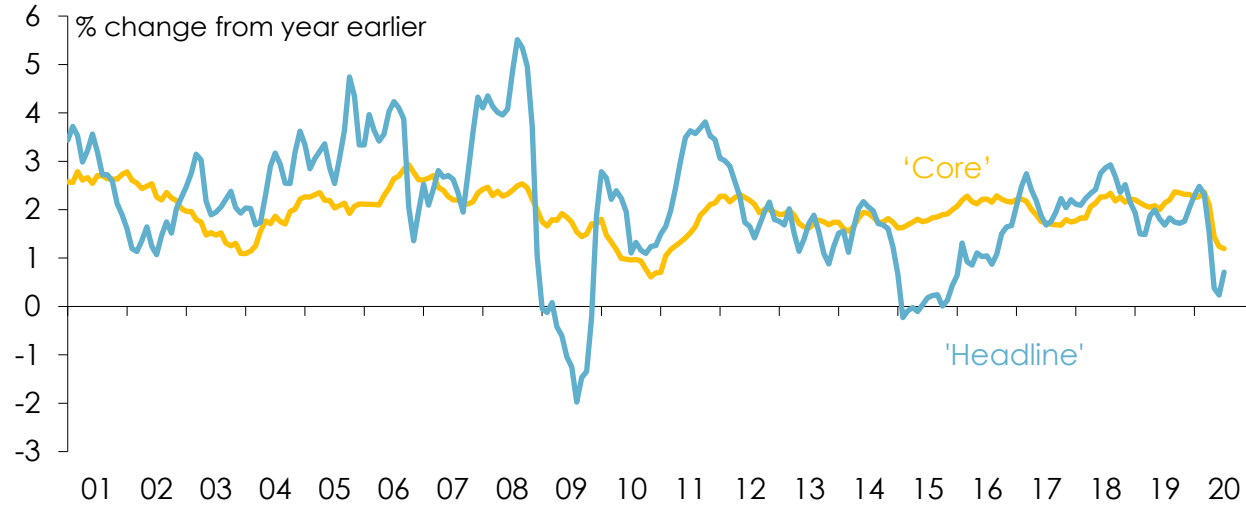
## M2 money supply growth



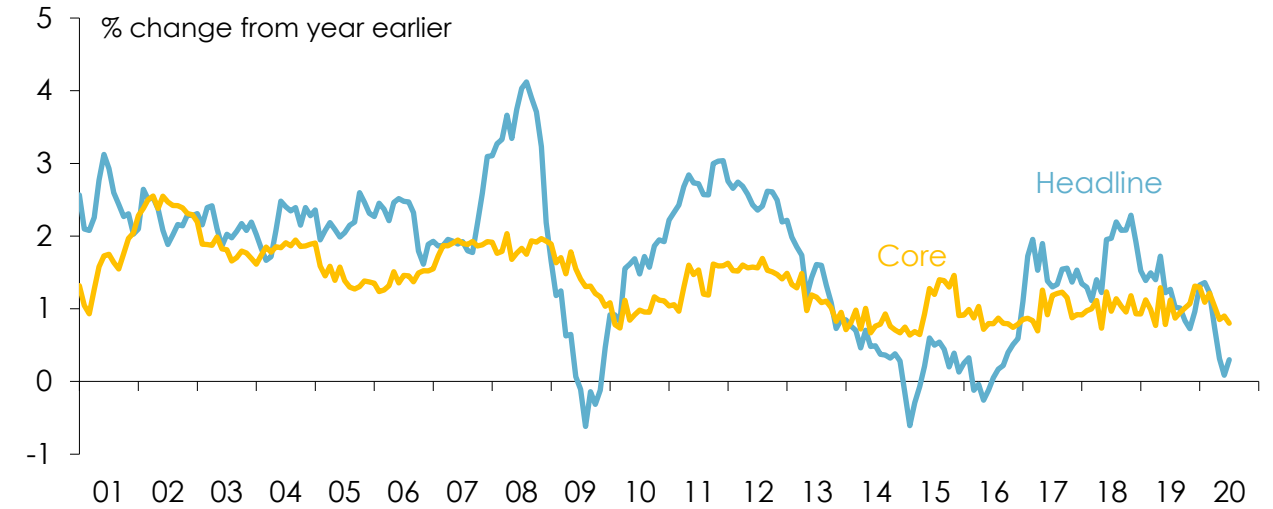
Note: Japan is M2+CDs; UK is M4. Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England.

# ...but so far at least, inflation has been falling rather than rising, even discounting the impact of lower oil prices

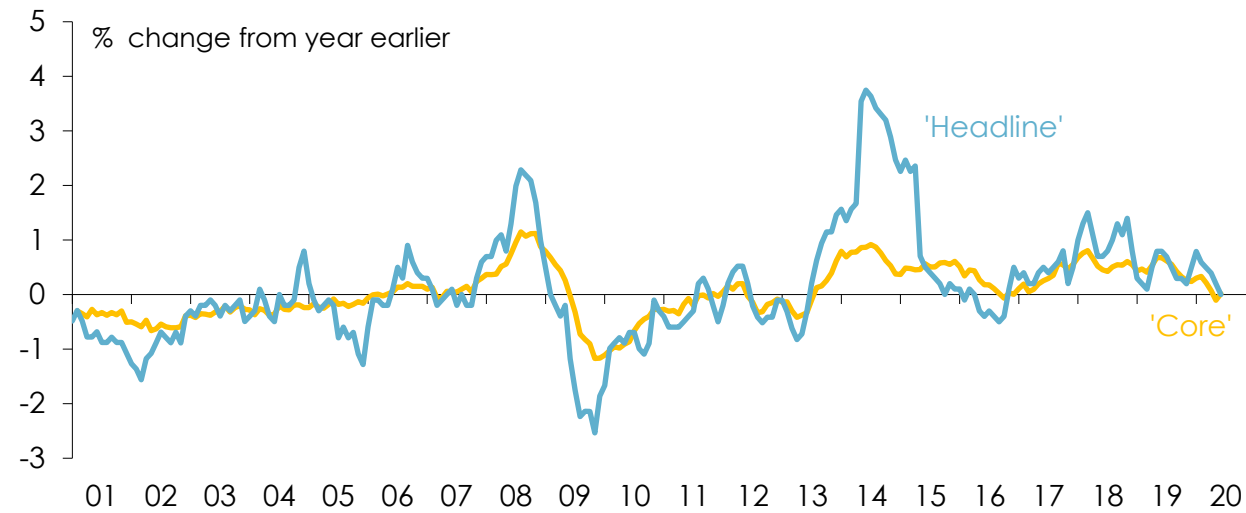
## 'Headline' and 'core' inflation - US



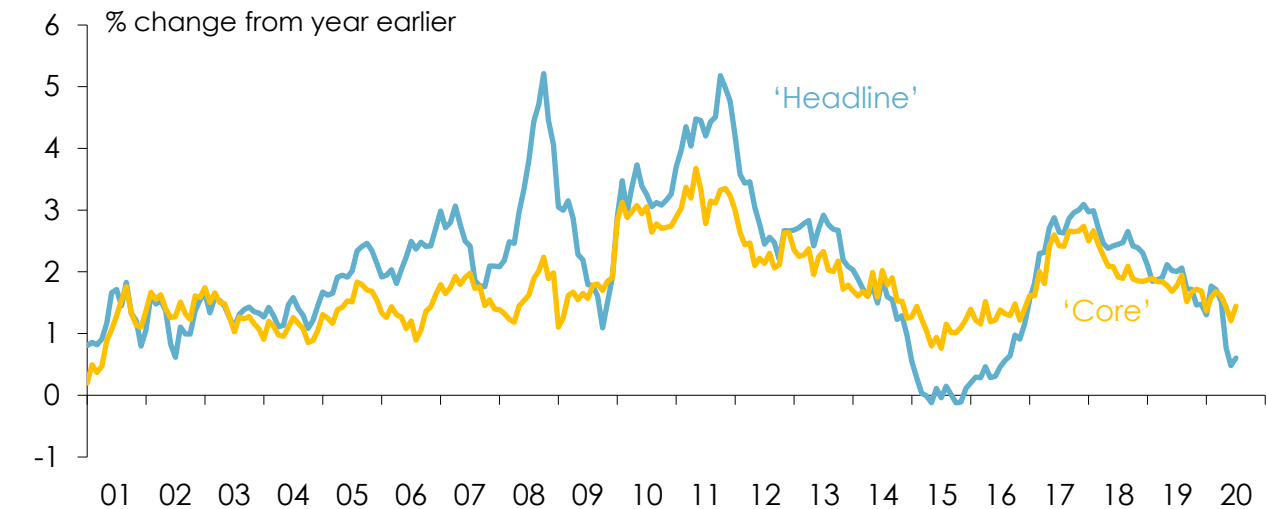
## 'Headline' and 'core' inflation – Euro area



## 'Headline' and 'core' inflation - Japan

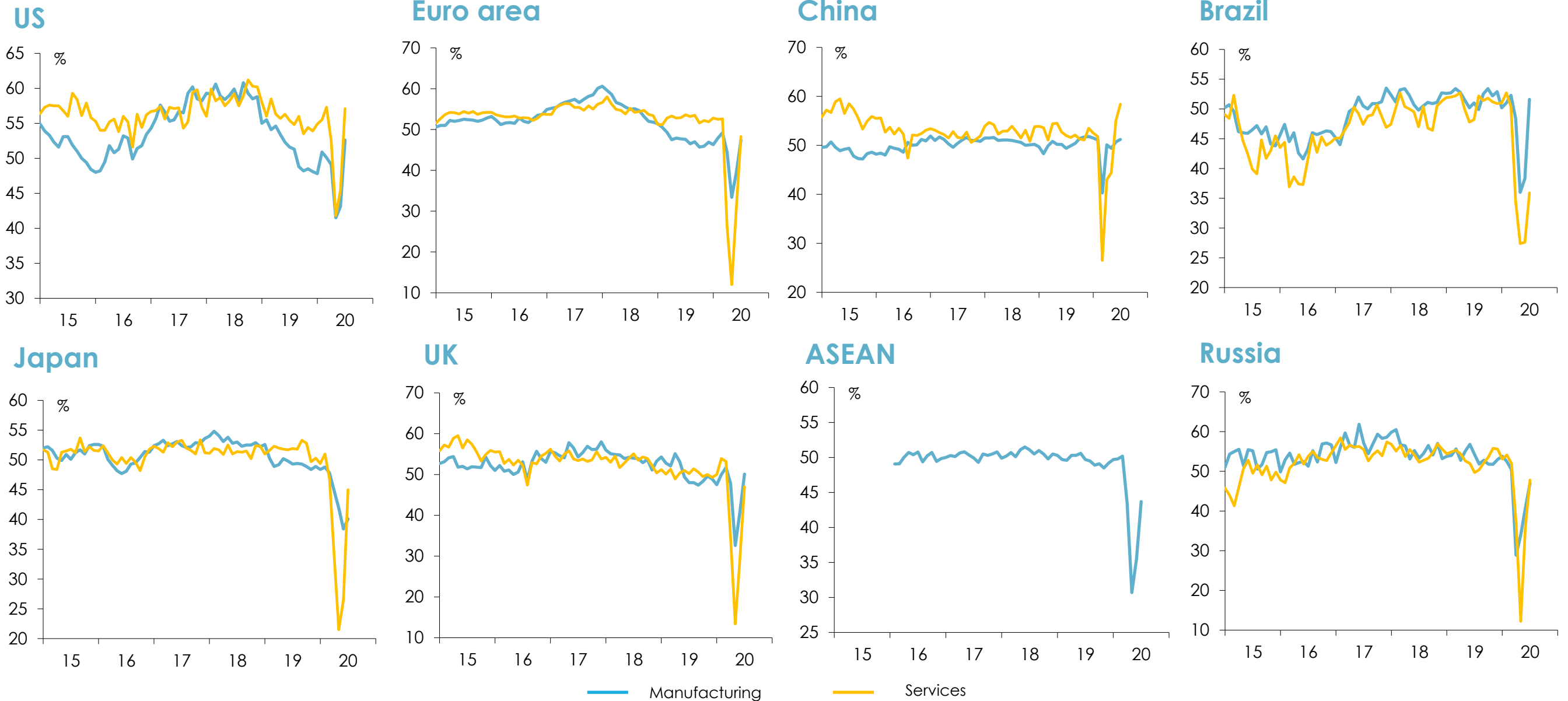


## 'Headline' and 'core' inflation – UK



Note: 'Core' inflation is the CPI excluding food & energy in the US; excluding food, energy, alcohol & tobacco in the euro area; and excluding energy & seasonal foods in the UK. The 'core' inflation measure for Japan is the weighted median CPI calculated by the Bank of Japan. Sources: US Bureau of Labor Statistics; Eurostat; Statistics Bureau of Japan; Bank of Japan; UK Office for National Statistics.

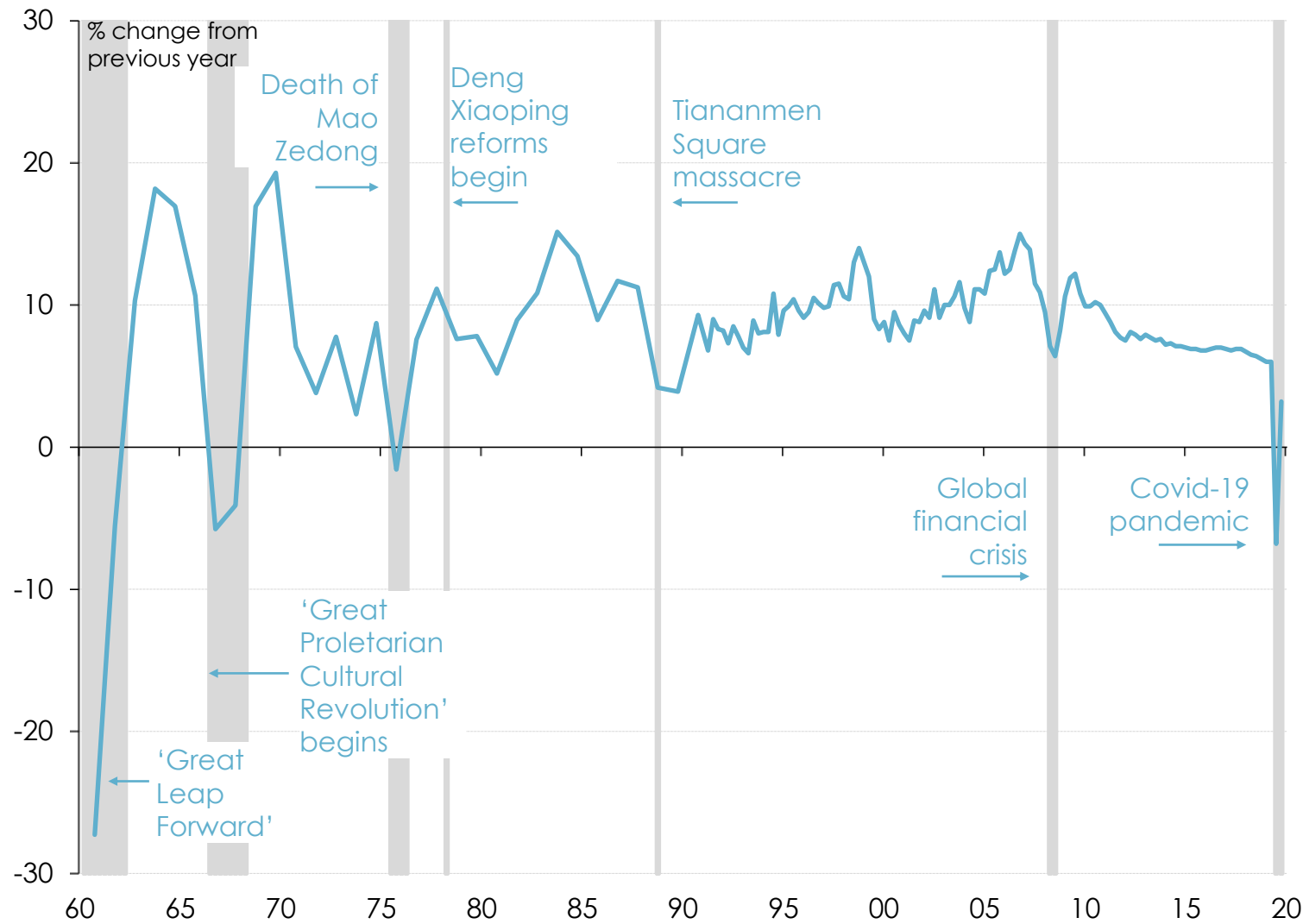
# Purchasing managers' indices (PMIs) point to an ongoing rebound in both manufacturing and services in major economies since May



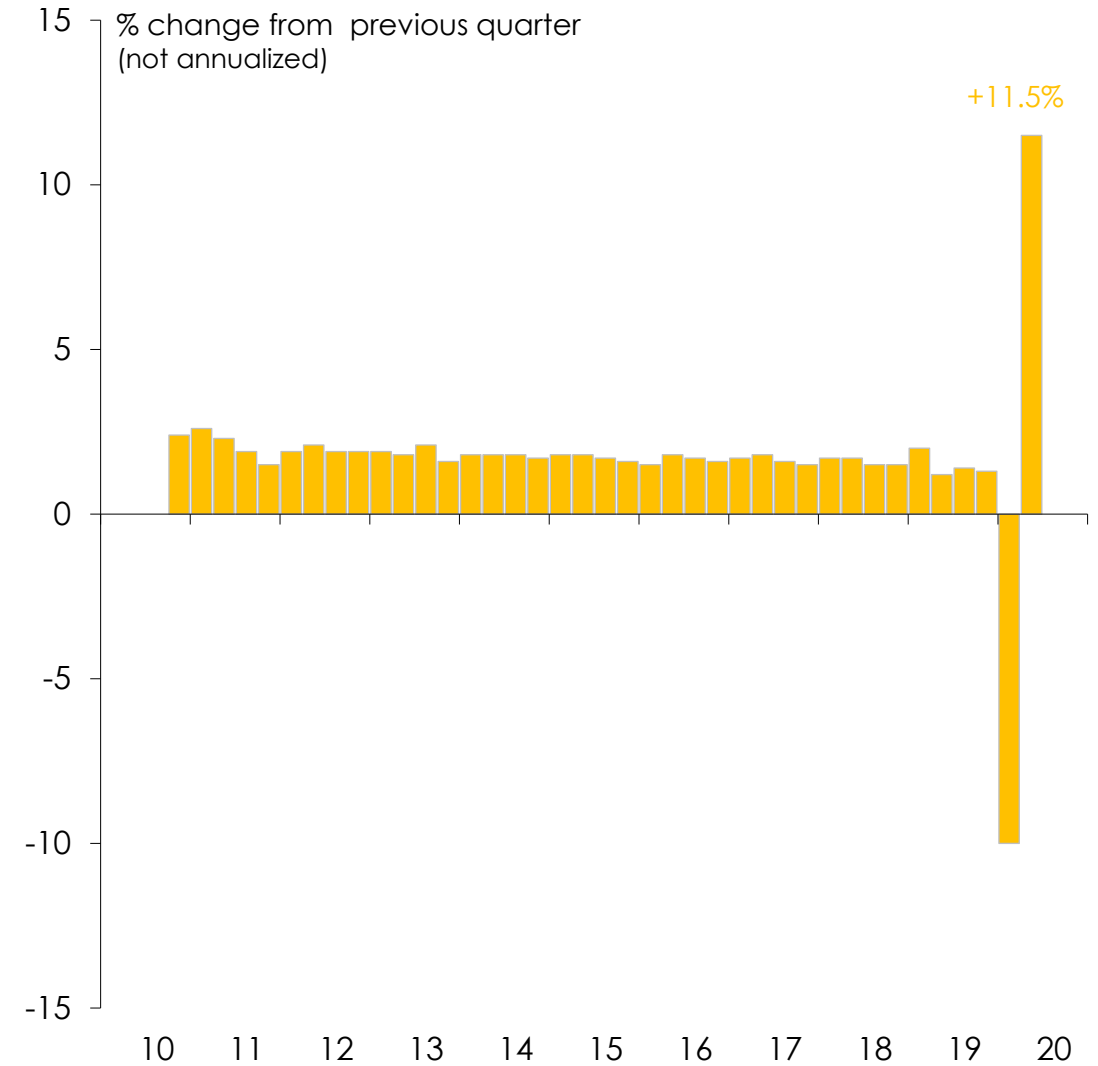
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for June. See also PMIs for other Asia-Pacific economies on slide 38. Sources: US Institute of Supply Management; INH Markit; Caixin; Refinitiv Datastream.

# China's economy rebounded strongly in Q2 from what had been the worst downturn in almost 60 years in Q1

## Real GDP growth, from year earlier, 1961-2020



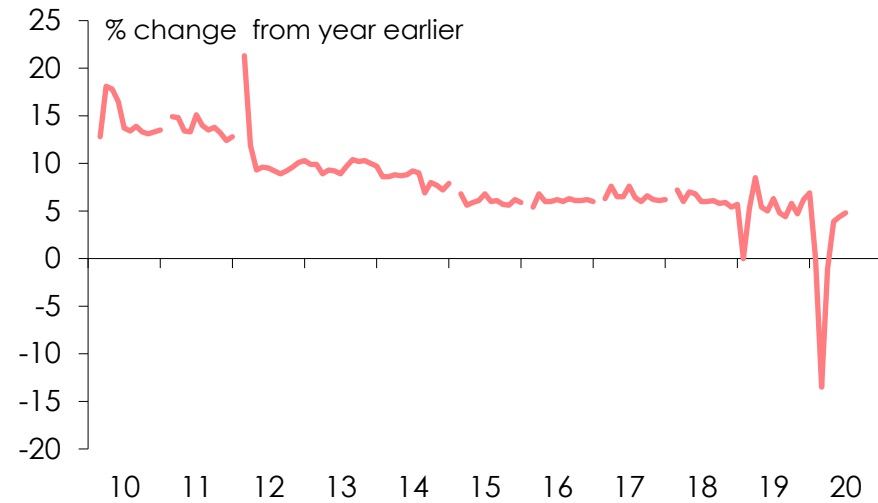
## Quarterly real GDP growth, 2010-2020



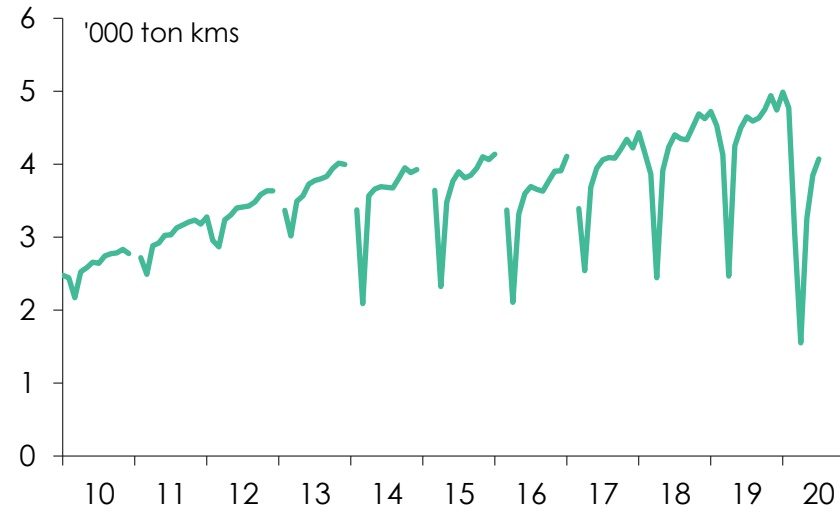
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics.

# The production side of the Chinese economy rebounded strongly in the June quarter

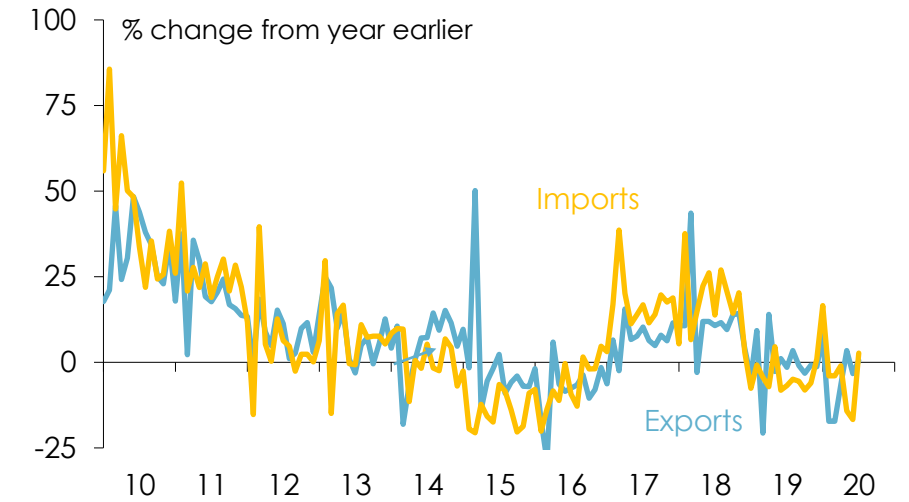
## Industrial production



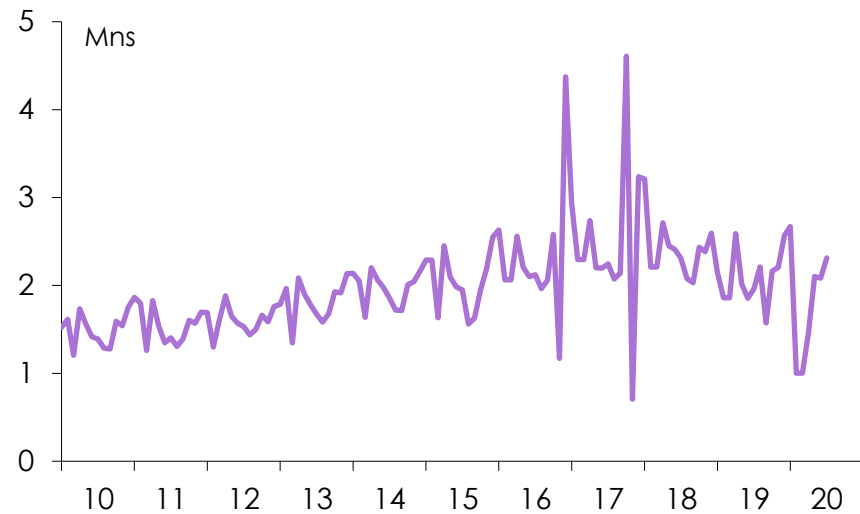
## Freight traffic volumes



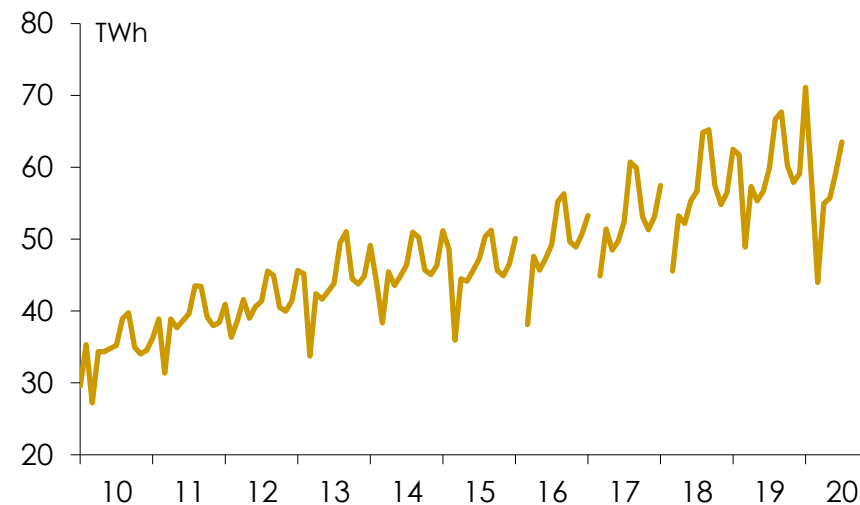
## Merchandise trade



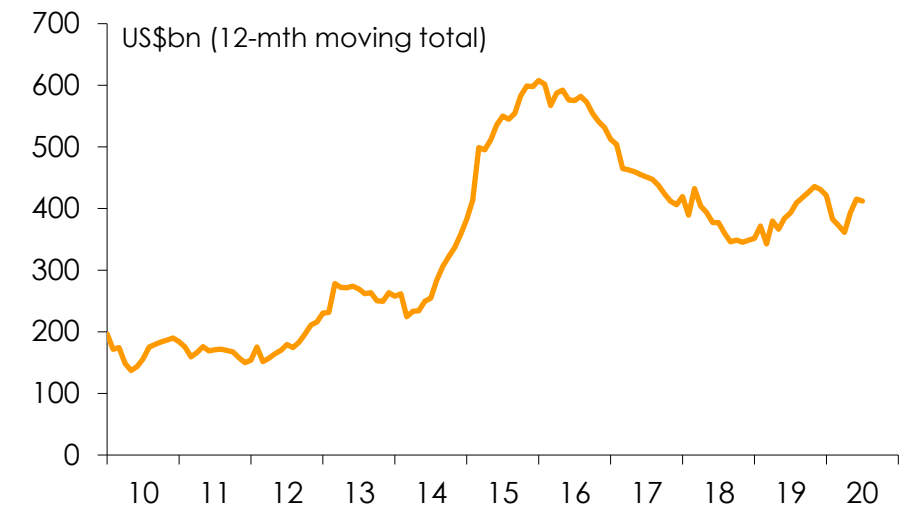
## Motor vehicle production



## Primary electricity production



## Merchandise trade balance



Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs.

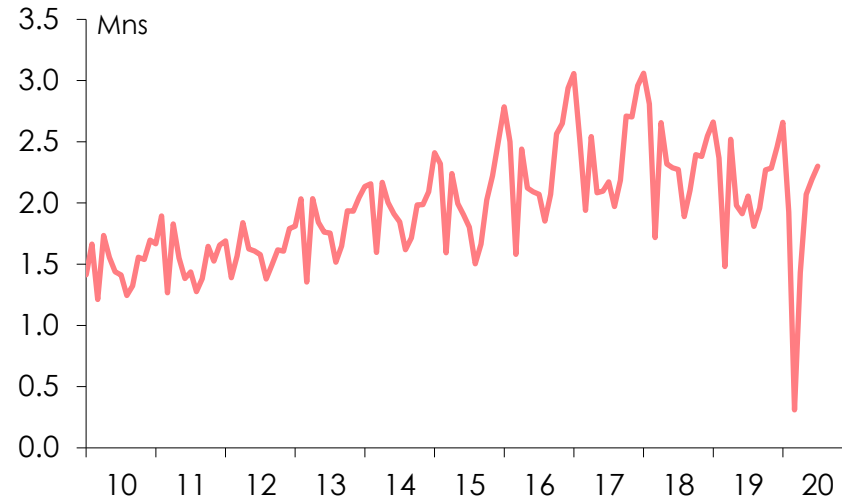


# However the 'demand' side of the Chinese economy – both household and business – is recovering rather more gradually

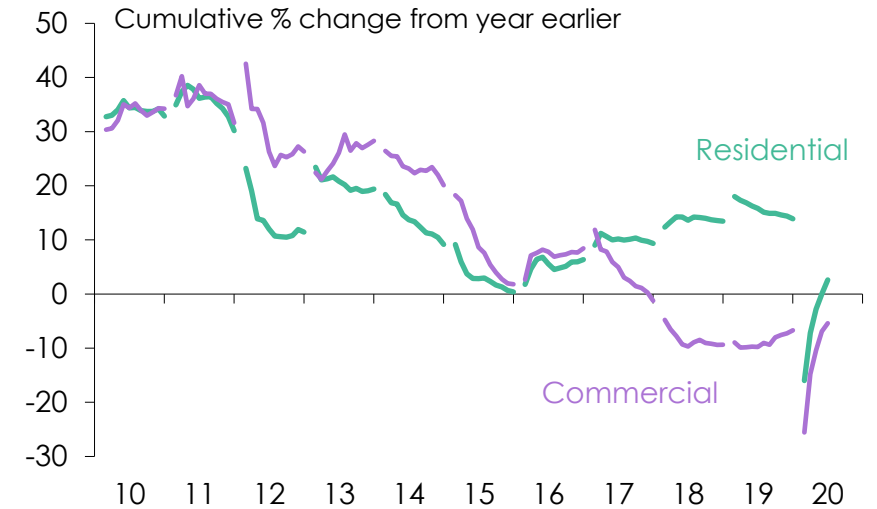
## Consumer sentiment



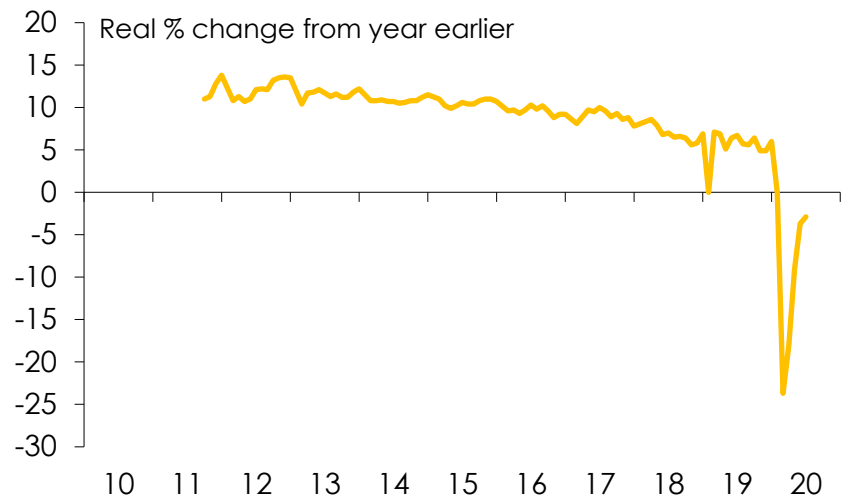
## Motor vehicle sales



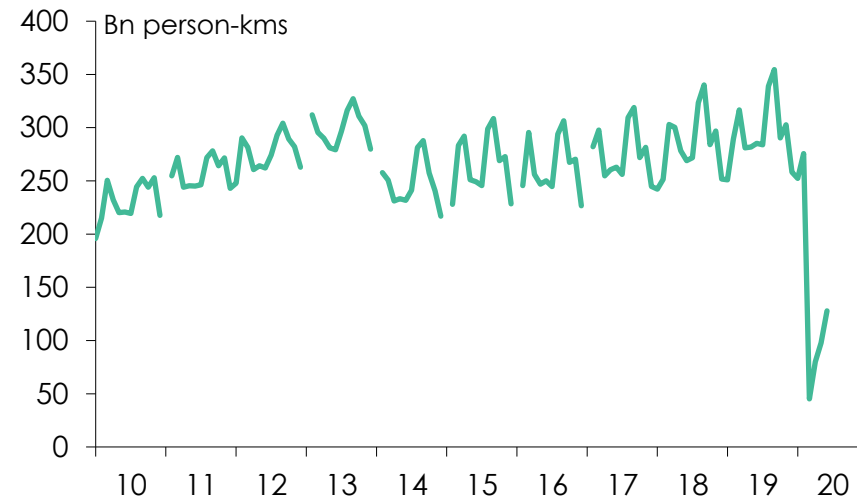
## Real estate investment



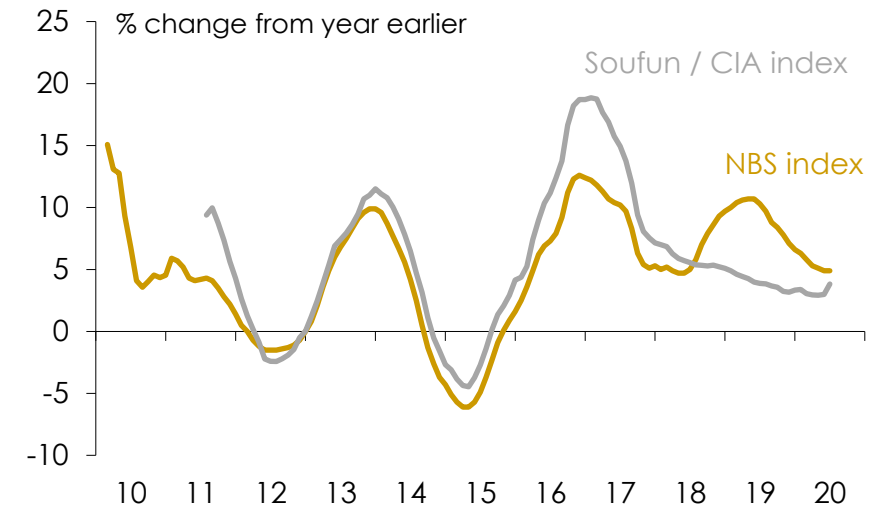
## Retail sales volume



## Passenger traffic volumes



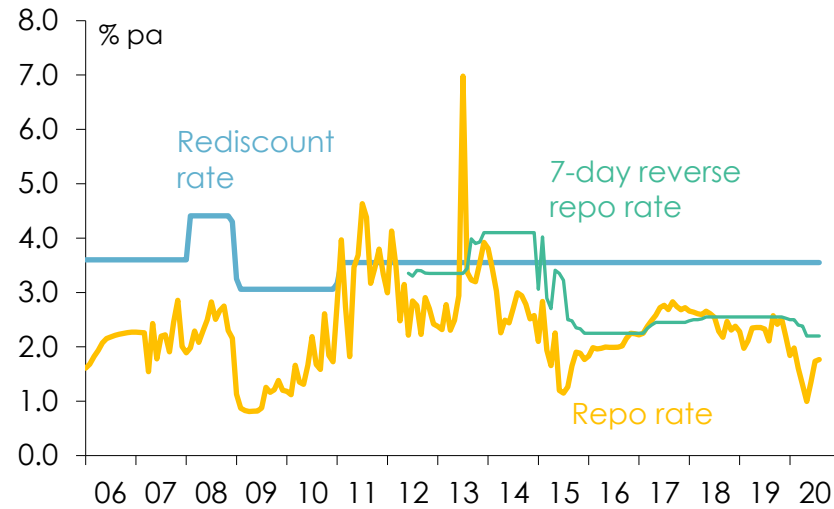
## Residential real estate prices



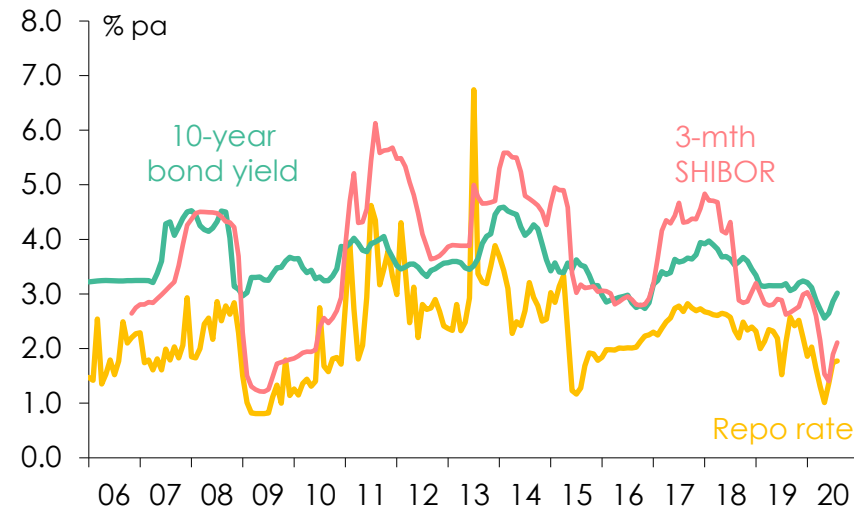
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy.

# The PBoC has been more cautious about stimulus than it was in 2008-09 or 2015-16, perhaps because it's still concerned about financial stability

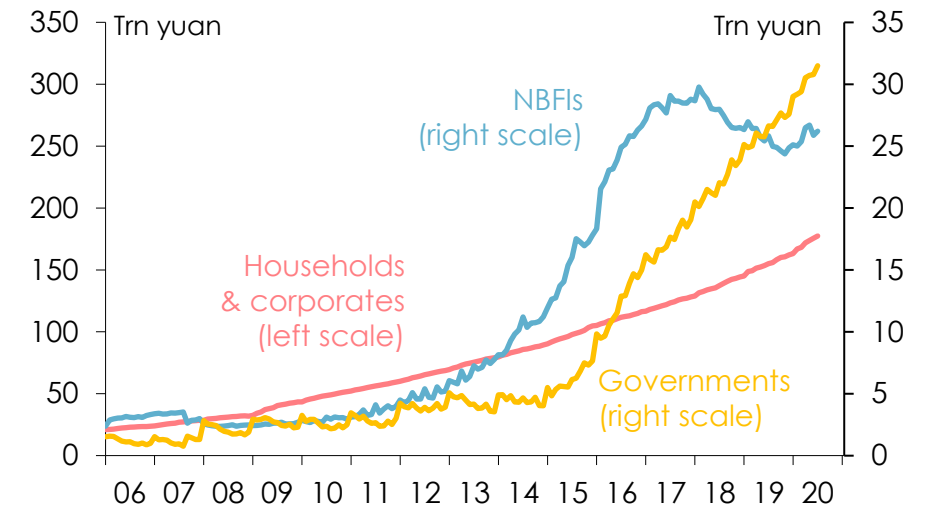
## PBoC policy interest rates



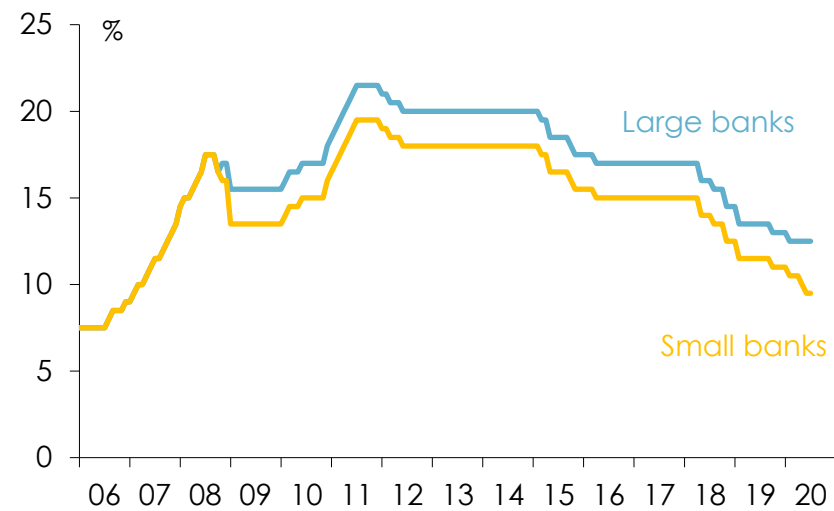
## Market interest rates



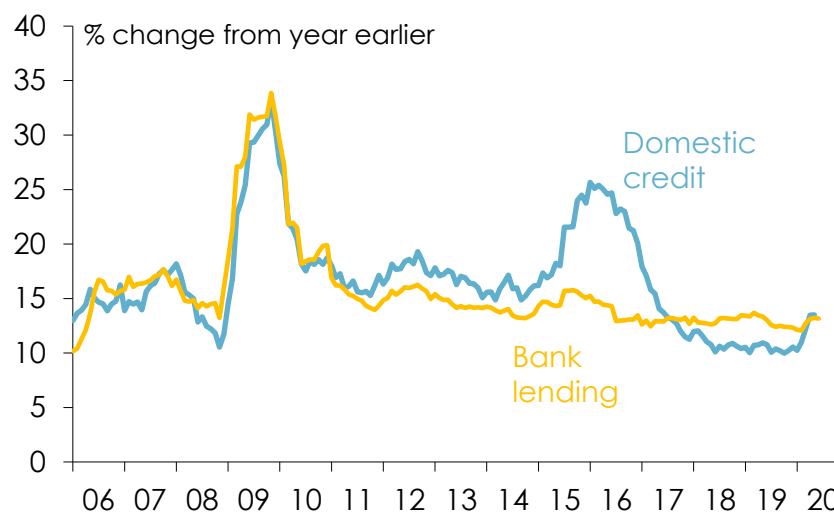
## Depository corporation assets



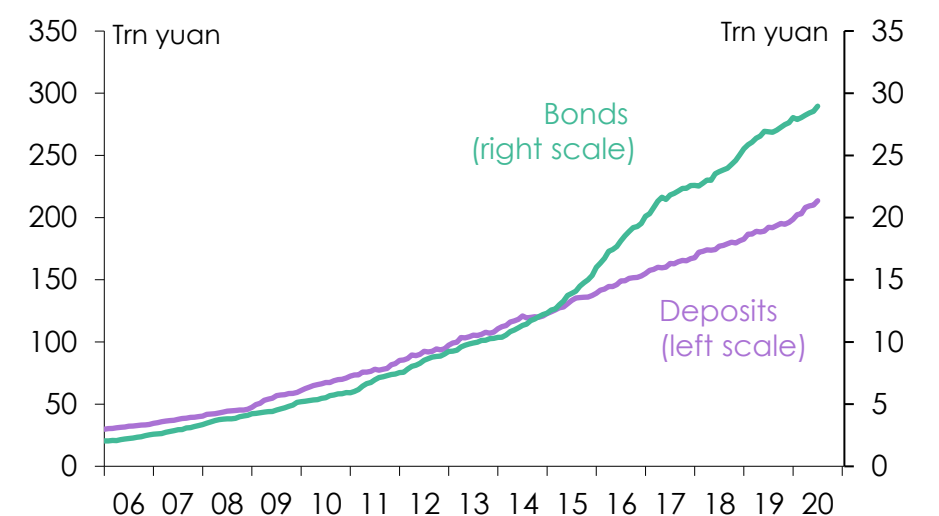
## Bank reserve requirement ratios



## Credit growth



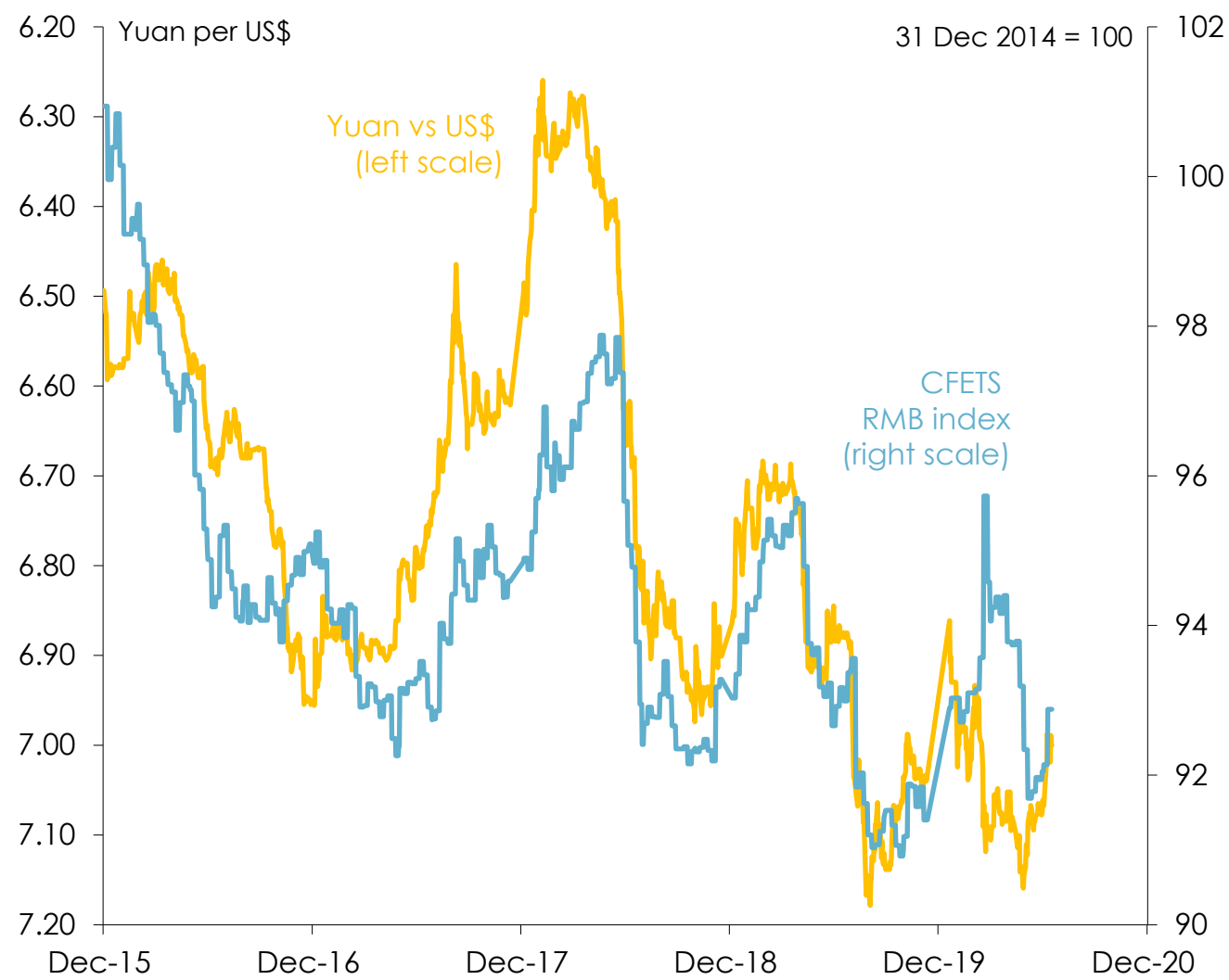
## Depository corporation liabilities



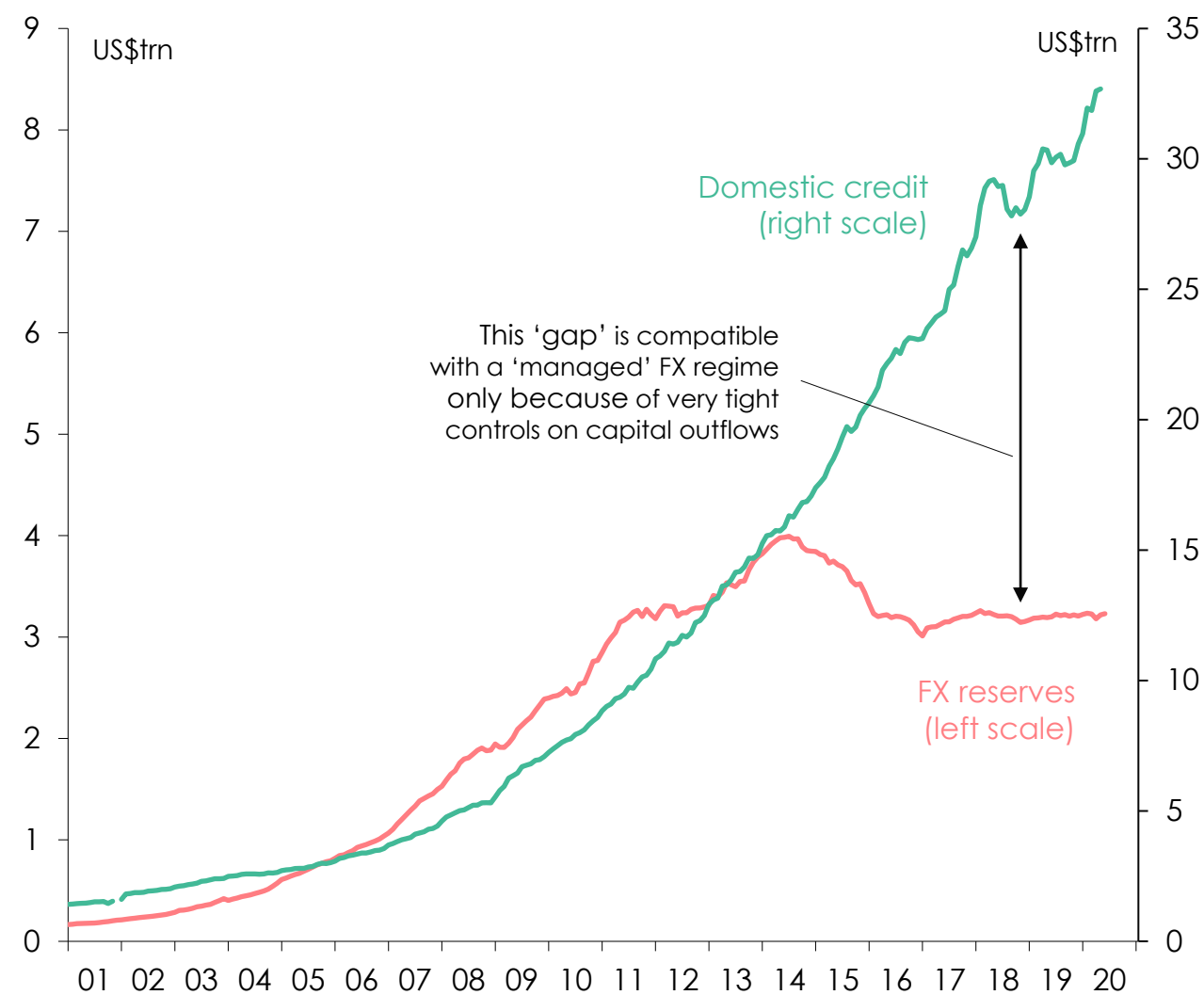
Sources: Refintiv Datastream; People's Bank of China.

# The yuan has risen by 2% against the US\$ since the end of May, mainly reflecting US\$ weakness – but the FX regime depends on capital controls

## Chinese yuan vs US\$ and trade-weighted index



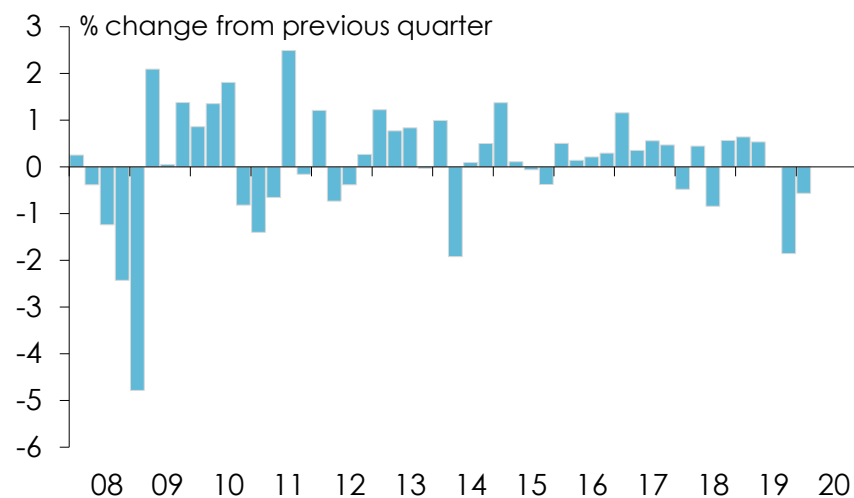
## FX reserves and domestic credit



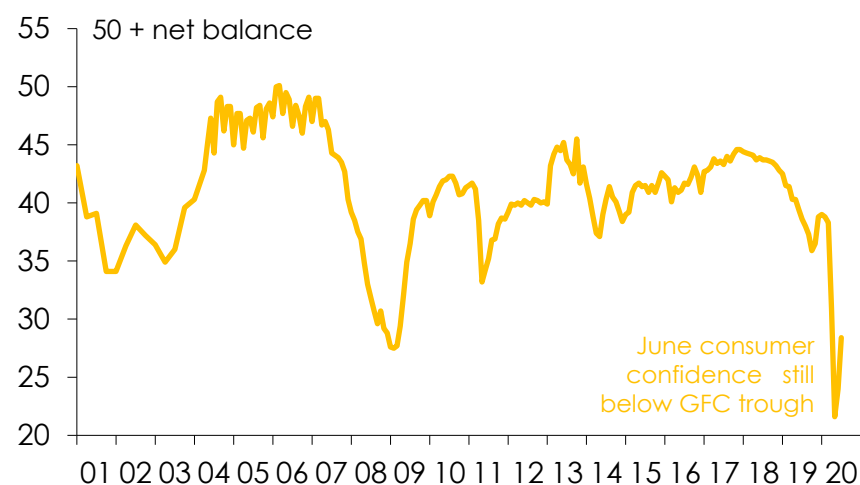
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China.

# Japan entered its fourth recession since 2000 after hiking its GST rate last October, and the pandemic has worsened it

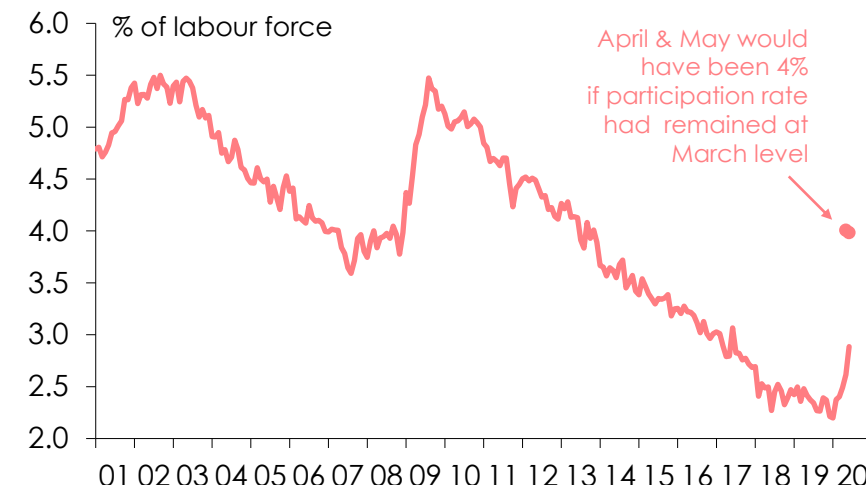
## Real GDP



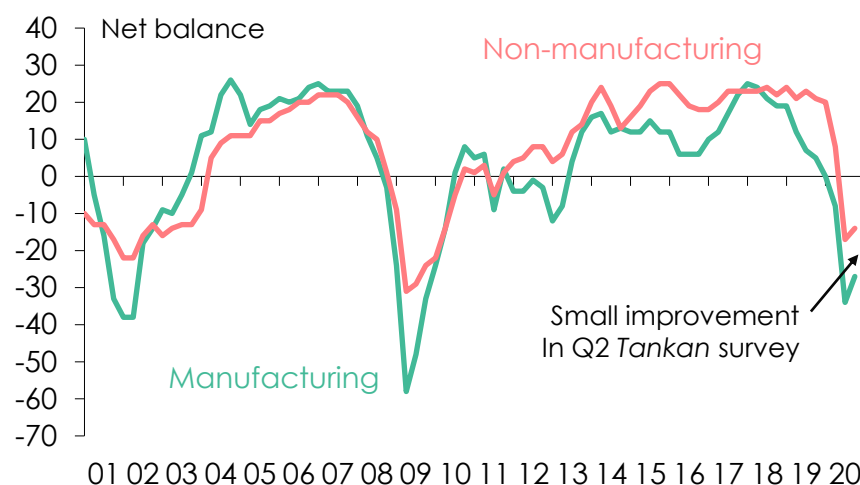
## Consumer confidence



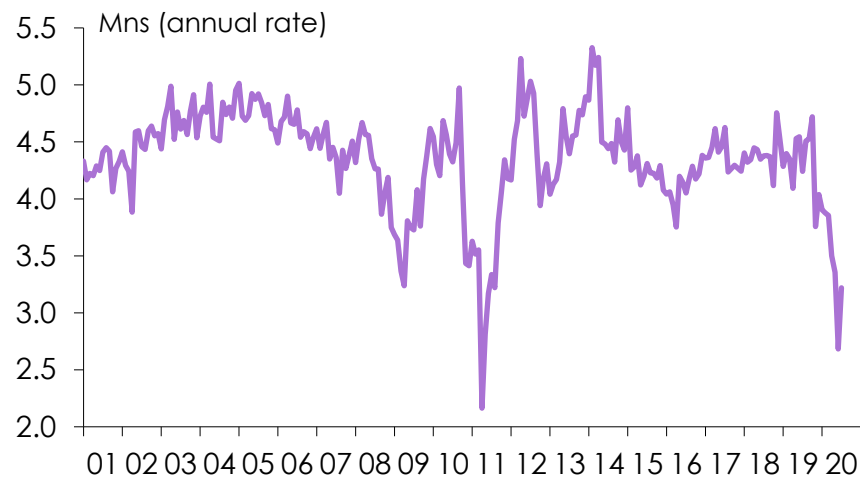
## Unemployment



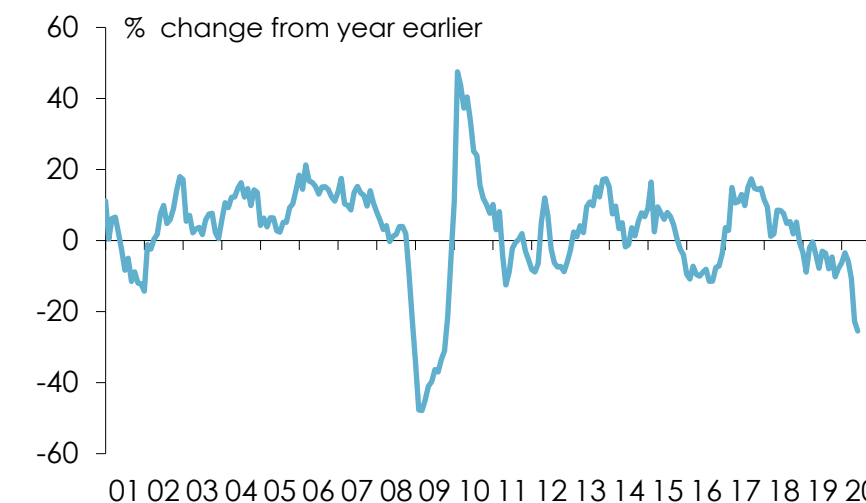
## Business conditions – large firms



## Passenger vehicle sales



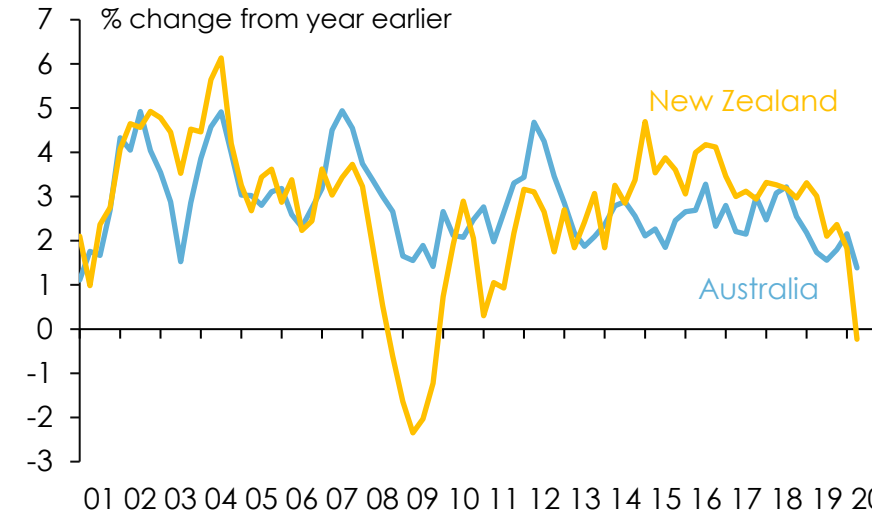
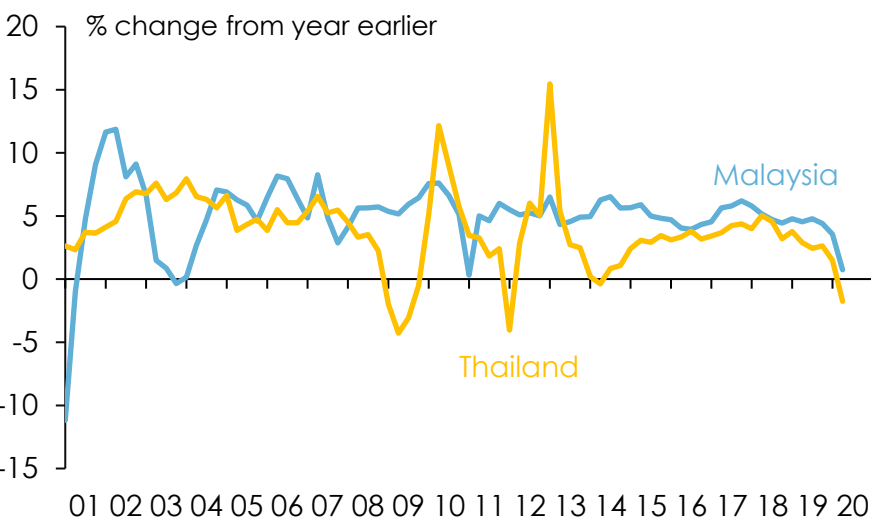
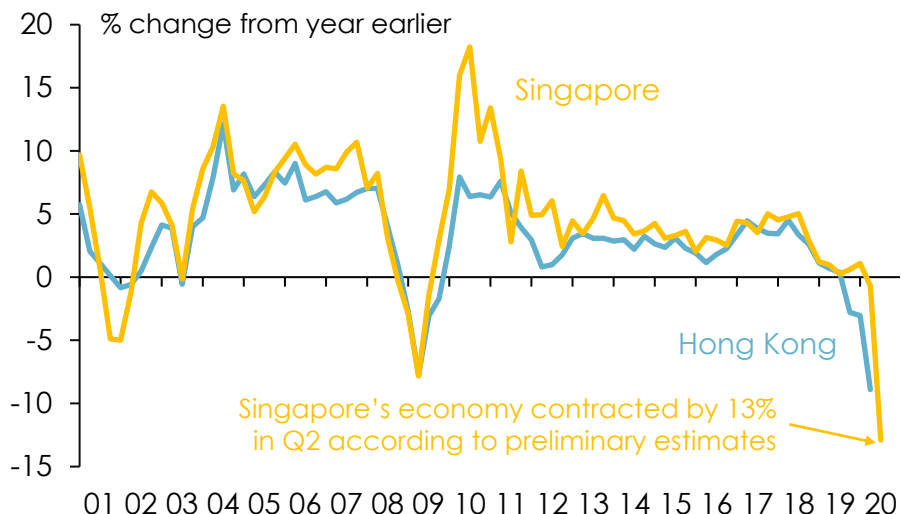
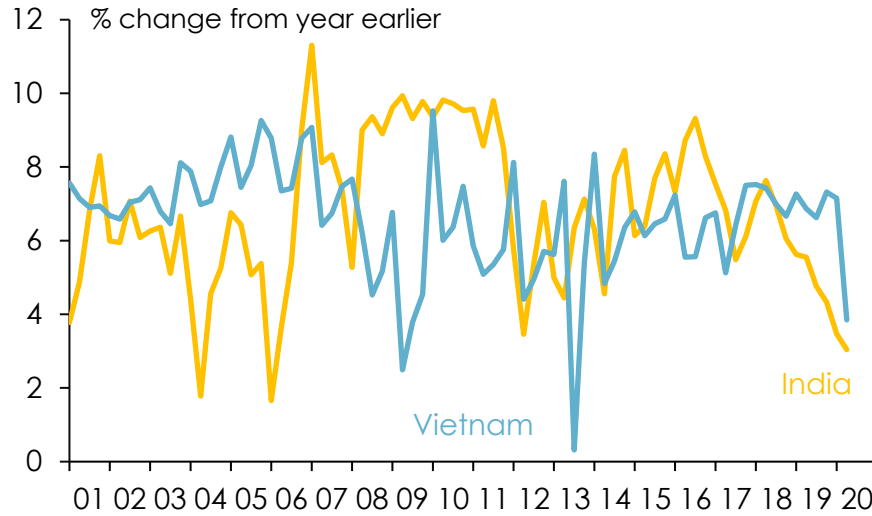
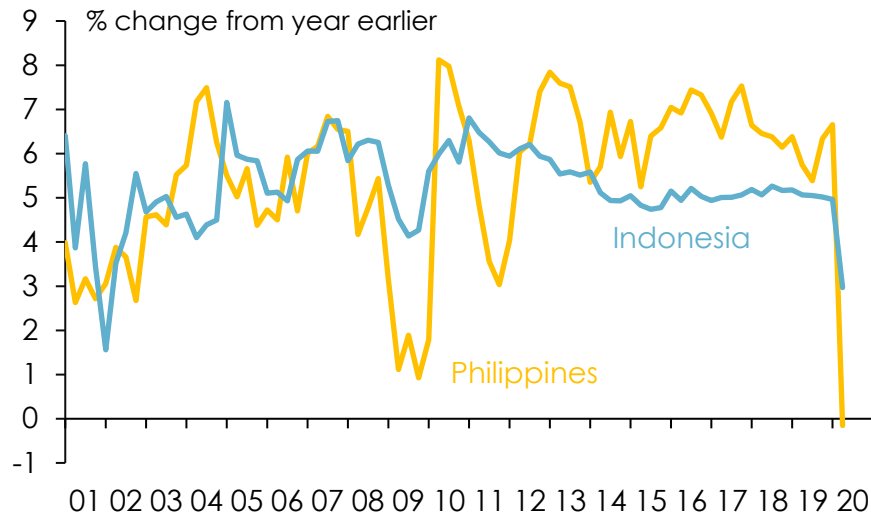
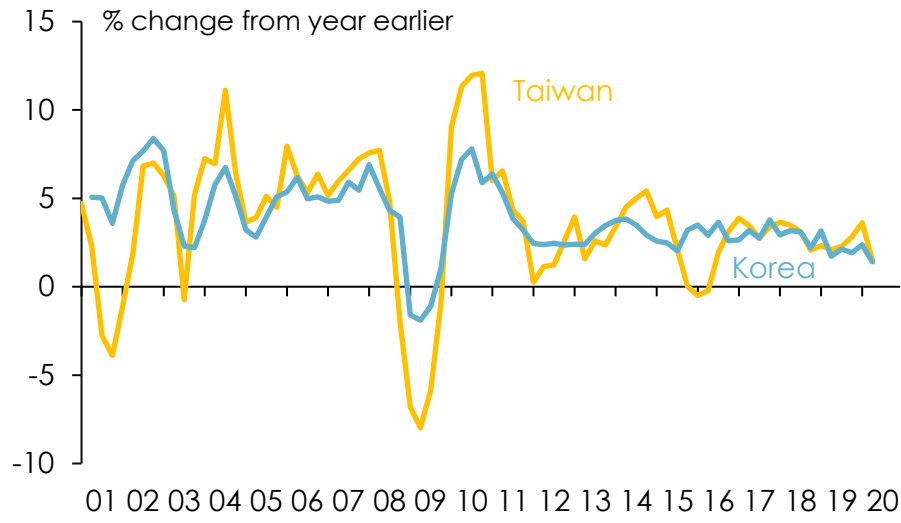
## Merchandise exports



Sources: Japan Cabinet Office; Bank of Japan; Japan Automobile Dealers' Association; Ministry of Health, Labour & Welfare. The first estimate of Q2 GDP will be released on 17<sup>th</sup> August.

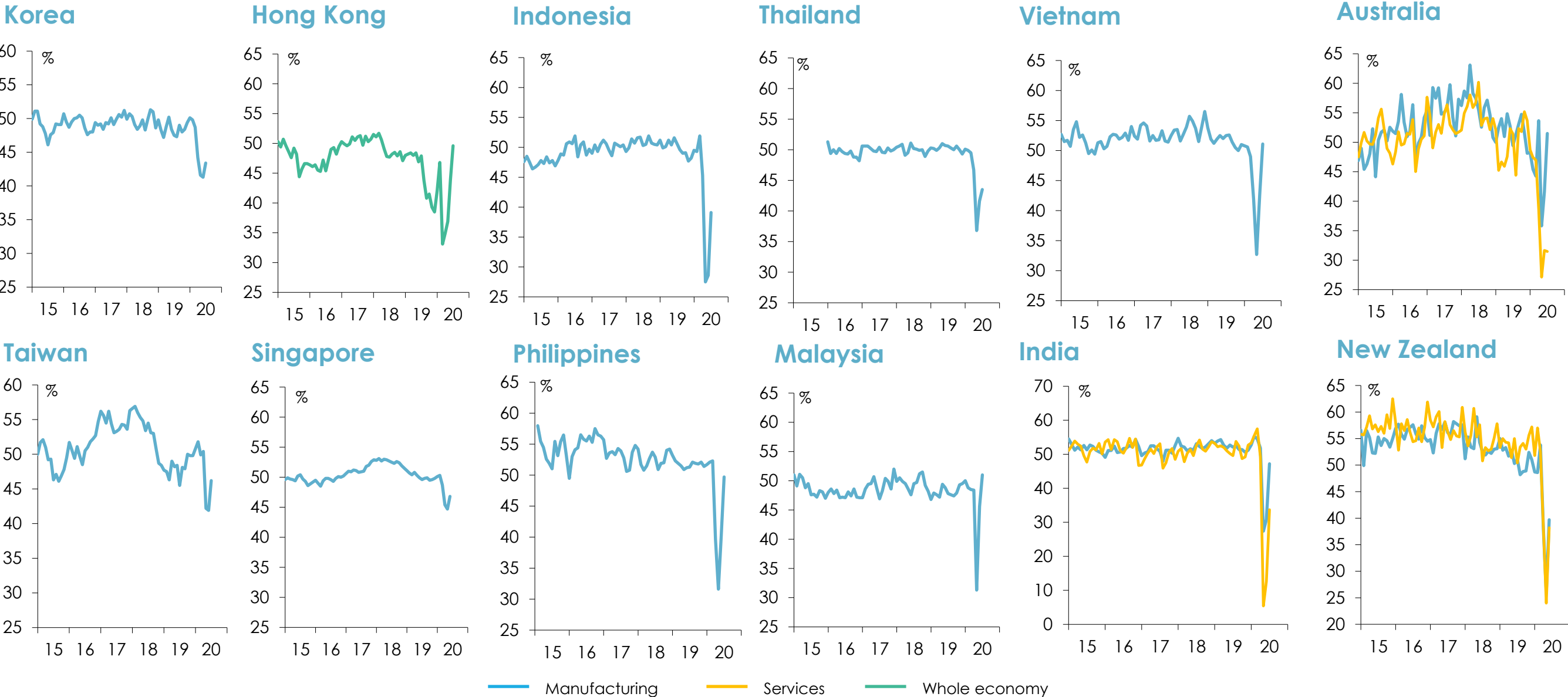
# Most other Asian economies experienced a slowdown during the first quarter of 2020, with worse to come in the second quarter

## Real GDP growth – Asia-Pacific economies



Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; India Ministry of Statistics & Programme Implementation; Australian Bureau of Statistics; Statistics New Zealand; .

# Purchasing managers' indices suggest activity in Asia-Pacific economies started to recover in May and improved further in June

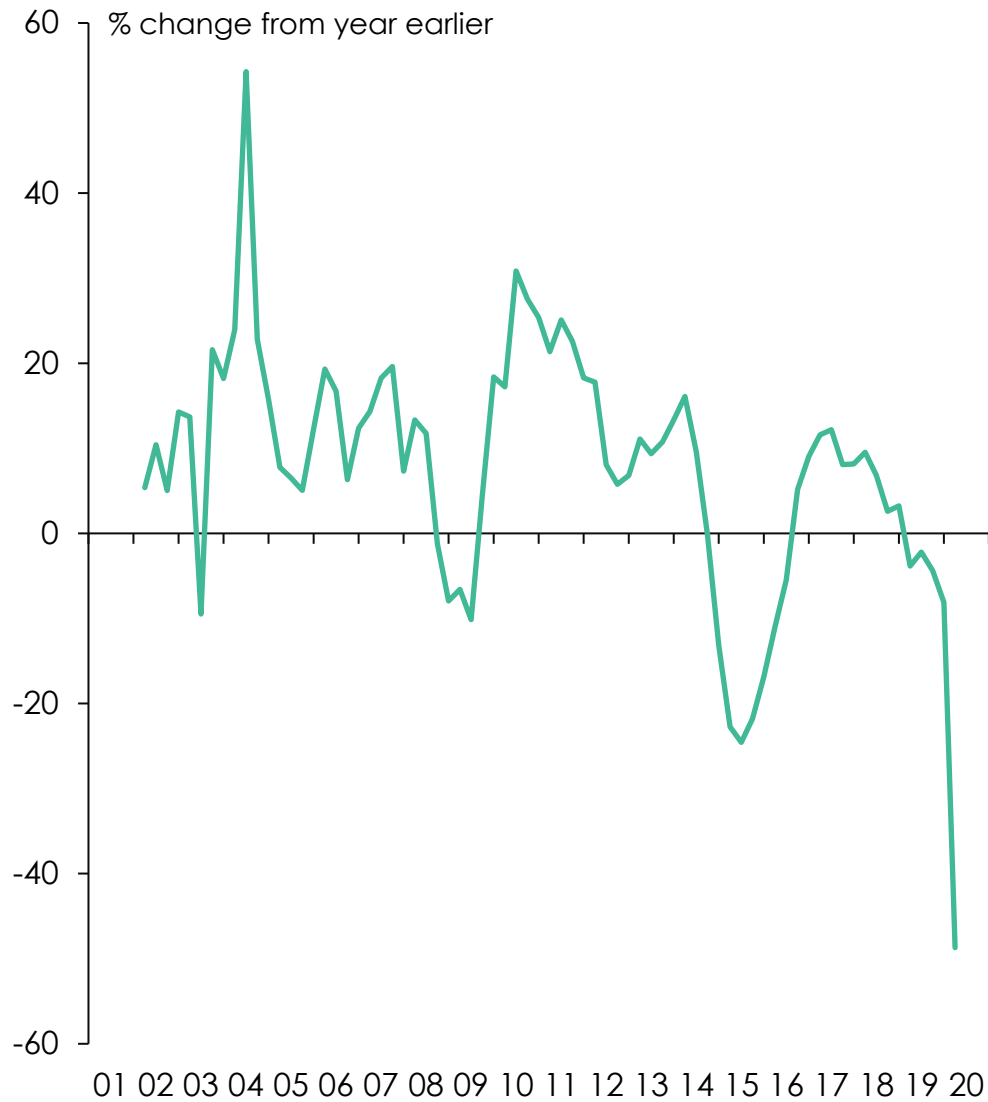


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for June, except for New Zealand, which are May.

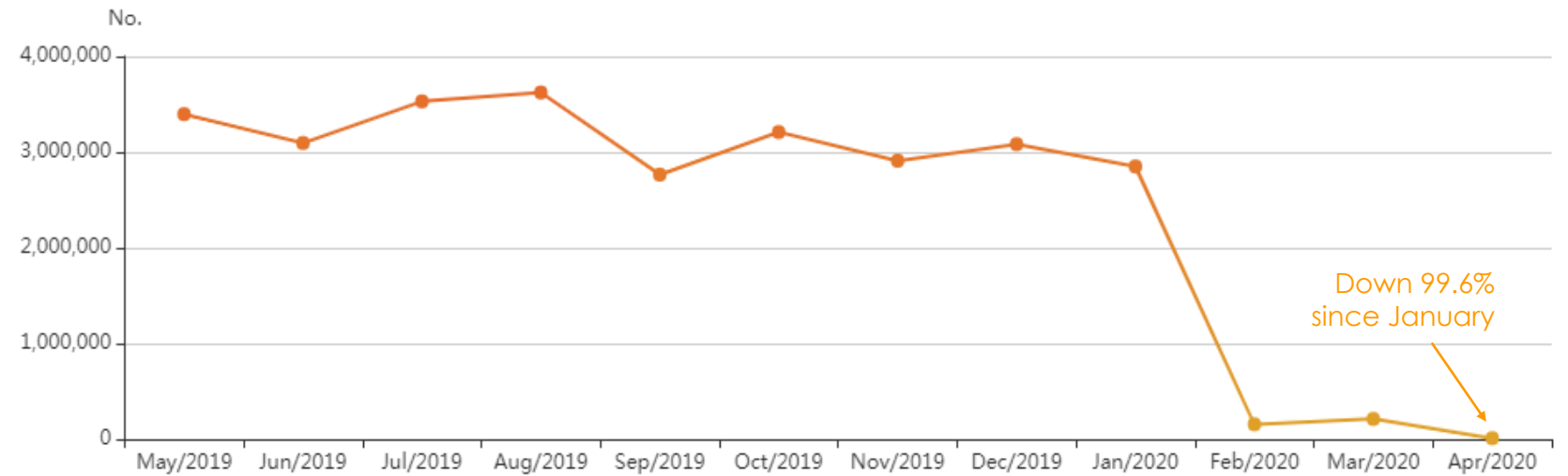
Sources: IHS Markit; Singapore Institute of Purchasing & Materials Management; Australian Industry Group; Business NZ; Refinitiv Datastream.

# The world's worst recession is probably in Macau

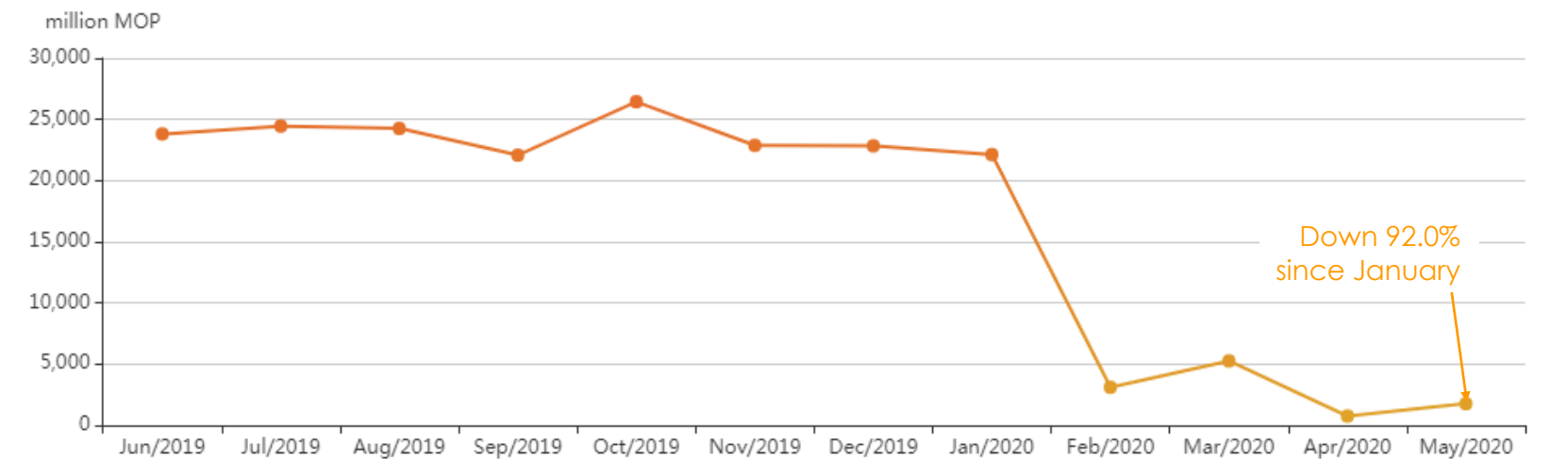
## Macau – real GDP



## Visitor arrivals



## Gambling revenue

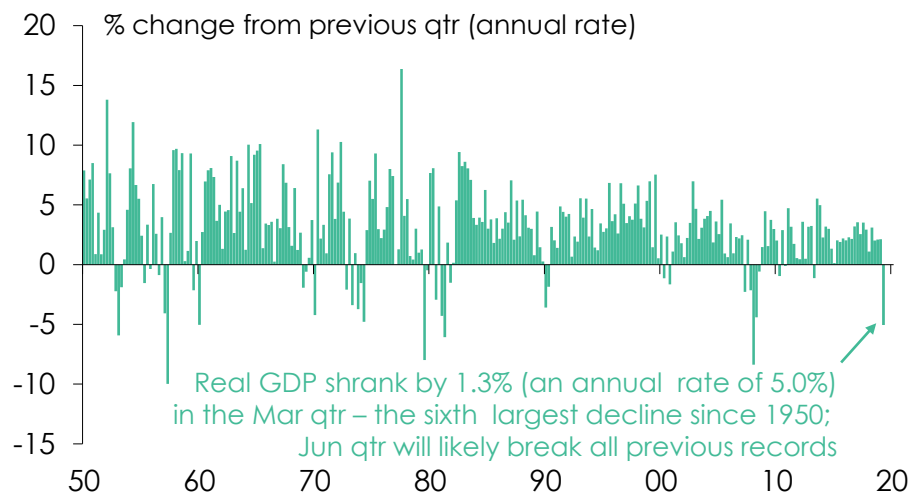


Source: Macau Statistics and Census Service.

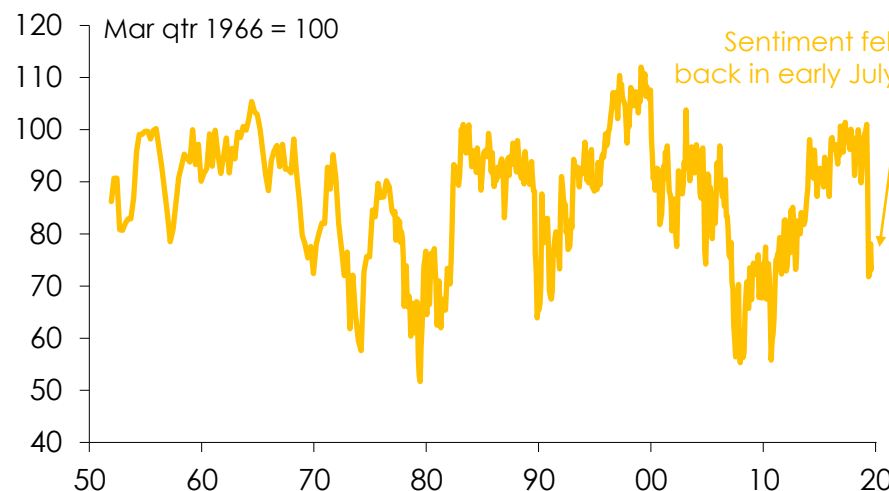


# The US economy has experienced its sharpest contraction since the 1930s, but there are increasing signs that a rebound began in May

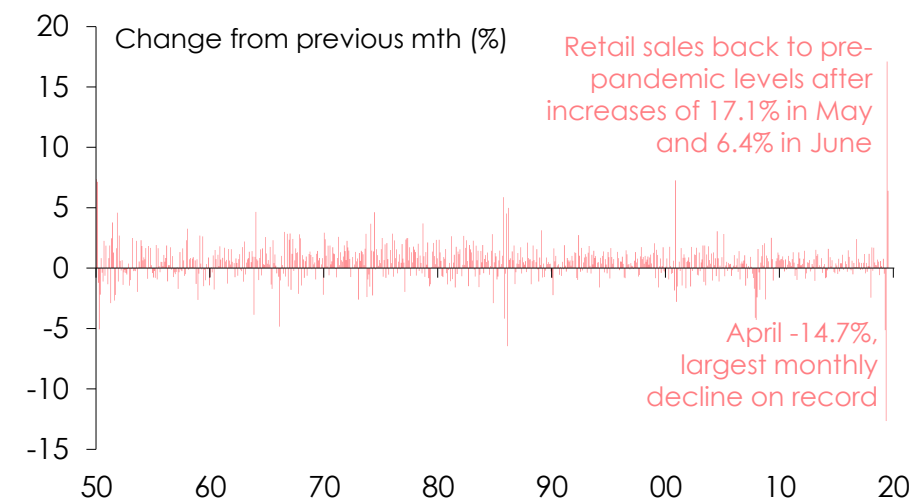
## Real GDP



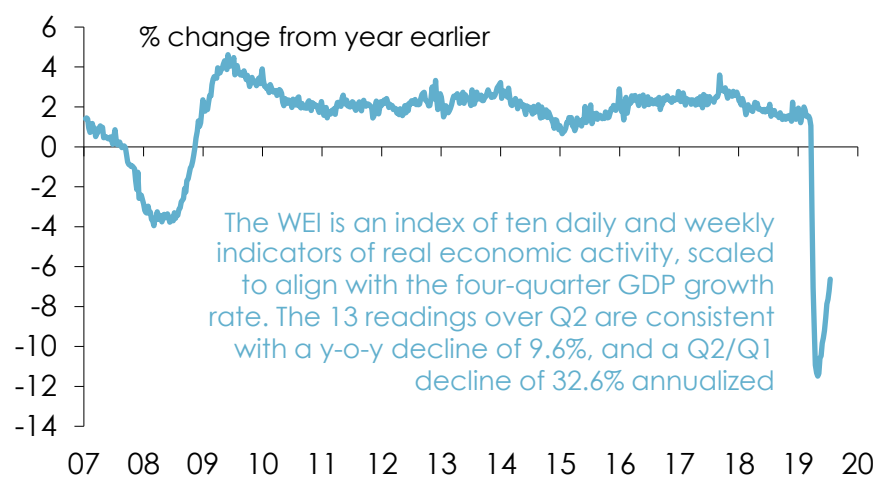
## Consumer sentiment



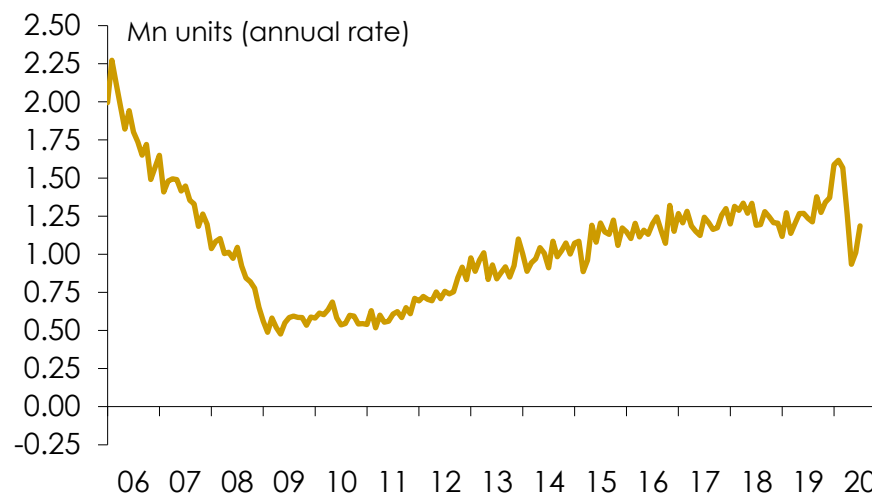
## Retail sales



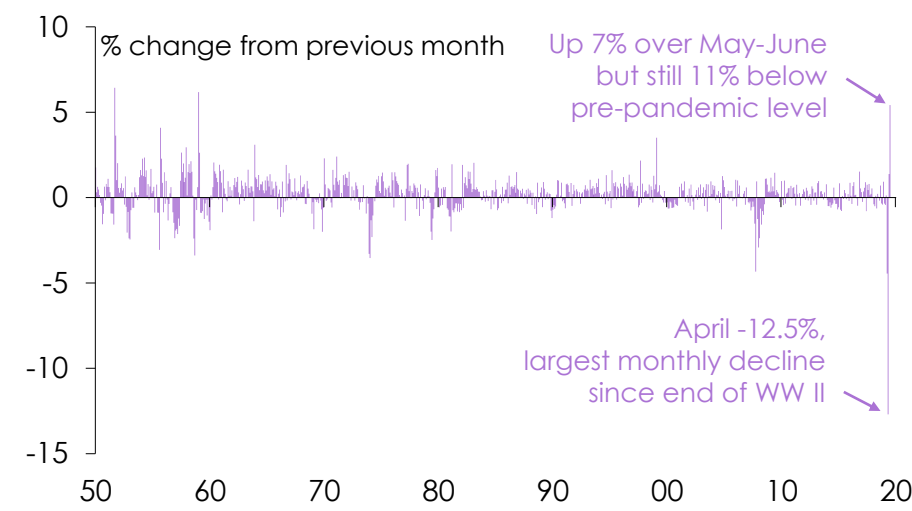
## NY Fed weekly economic index



## Housing starts



## Industrial production

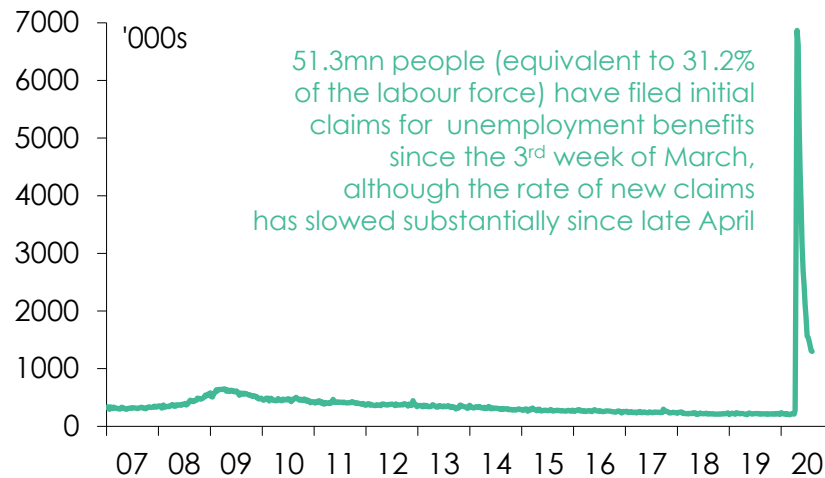


Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System. The first estimate of Q2 GDP will be released on 30<sup>th</sup> July.

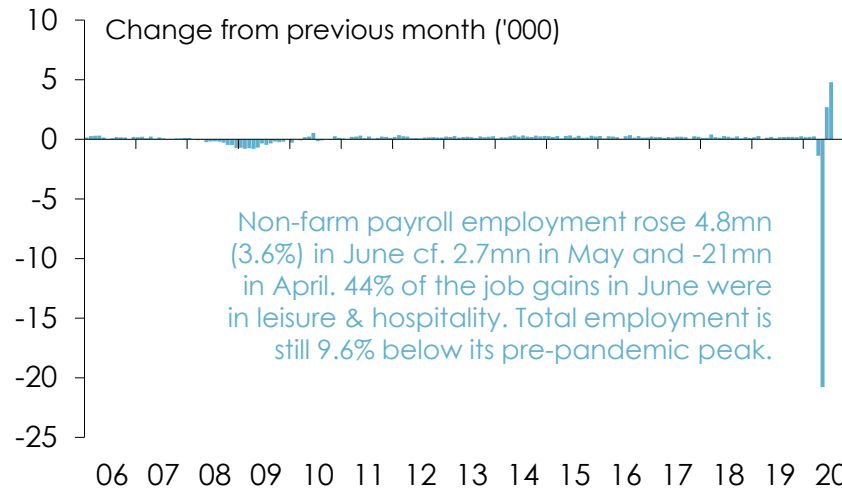


# The impact on the US labour market has been particularly severe – although employment rose, and unemployment fell, in May and June

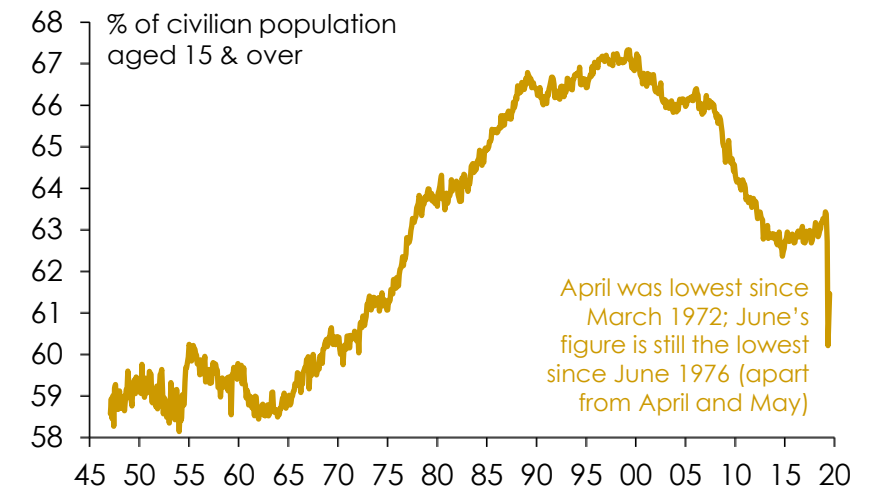
## Unemployment benefit claims



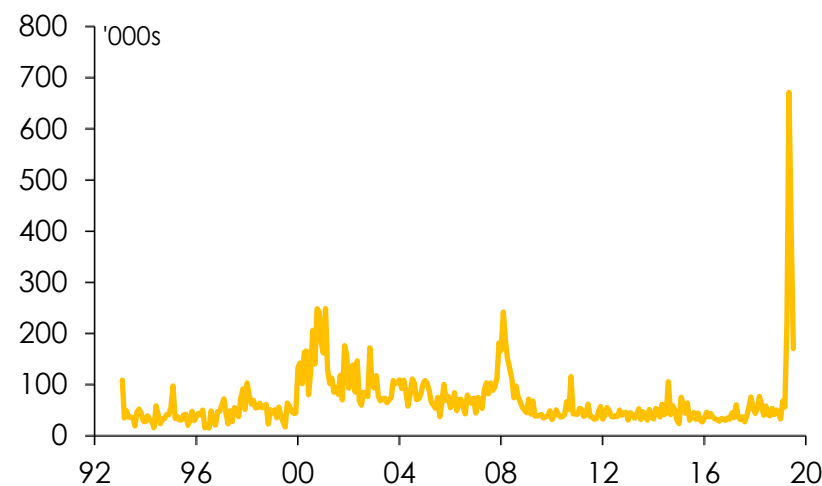
## Non-farm payroll employment



## Labour force participation rate



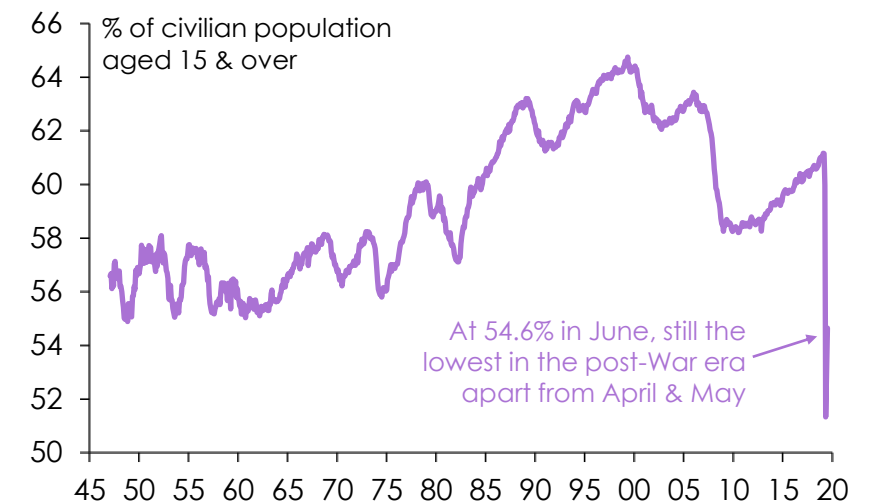
## Layoff announcements



## Unemployment rate



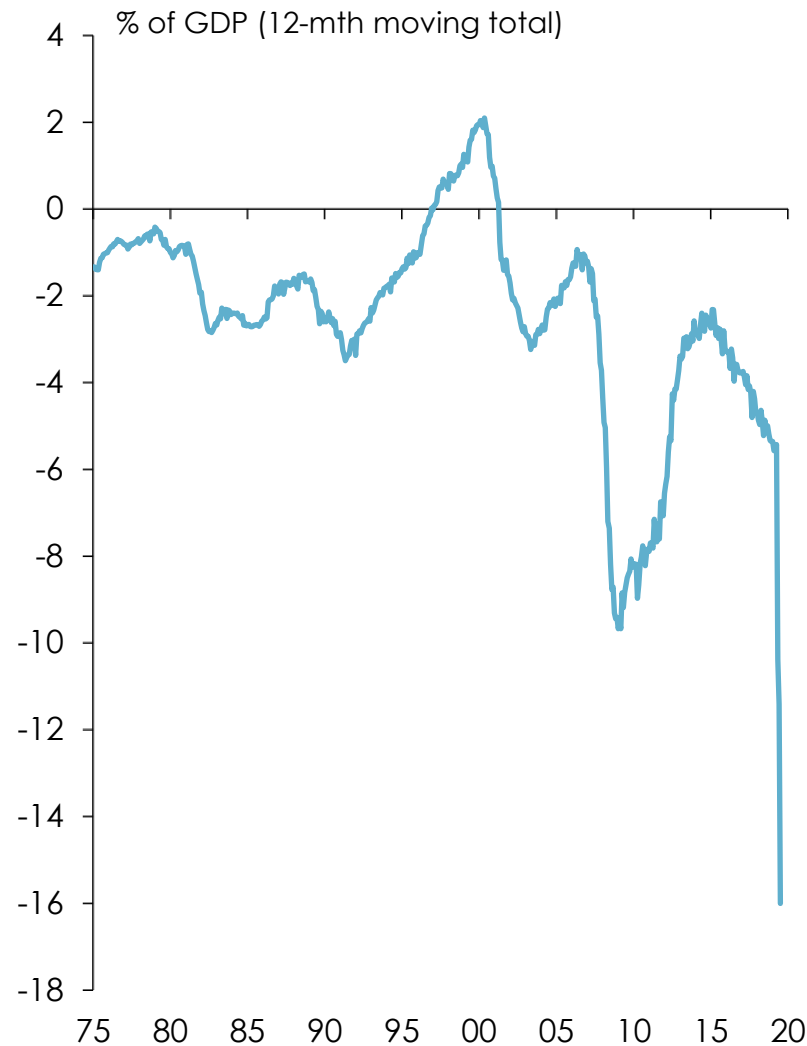
## Employment to population ratio



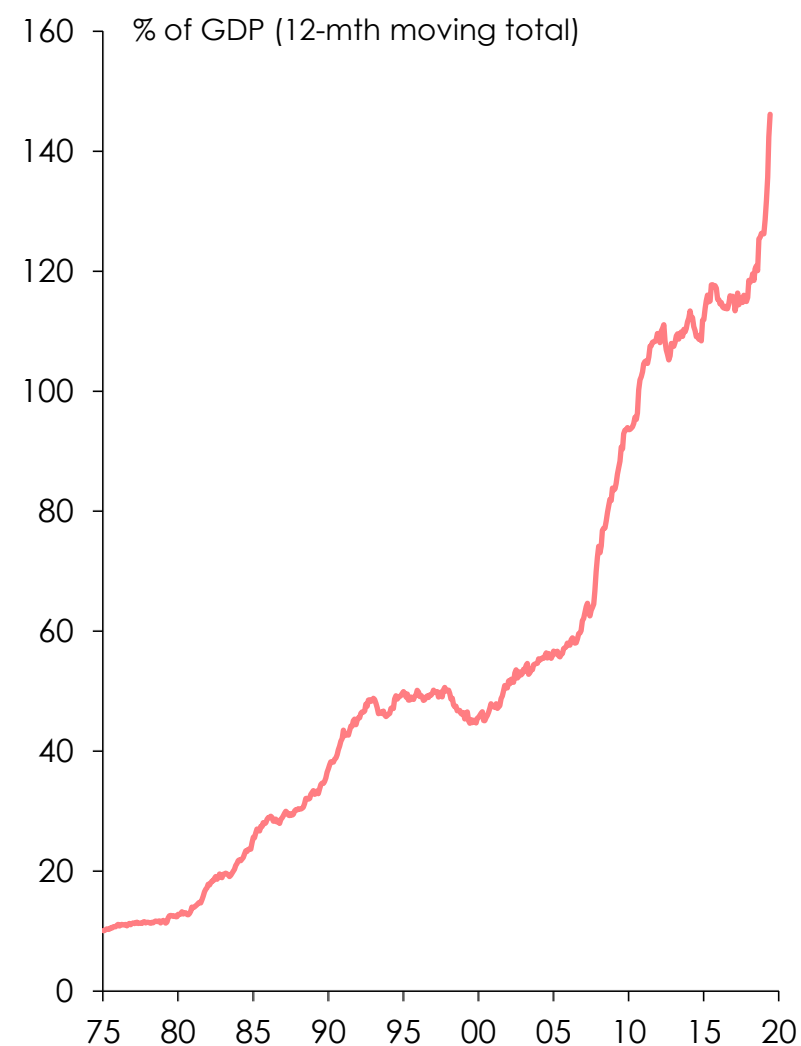
Sources: US Department of Labor; Challenger, Gray & Christmas; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. July employment and other labour force data will be released on 7<sup>th</sup> August.

# The US budget deficit has blown out dramatically since the end of March, reaching 16% of GDP in the 12 months ended June

## US Federal budget deficit



## US gross Federal debt

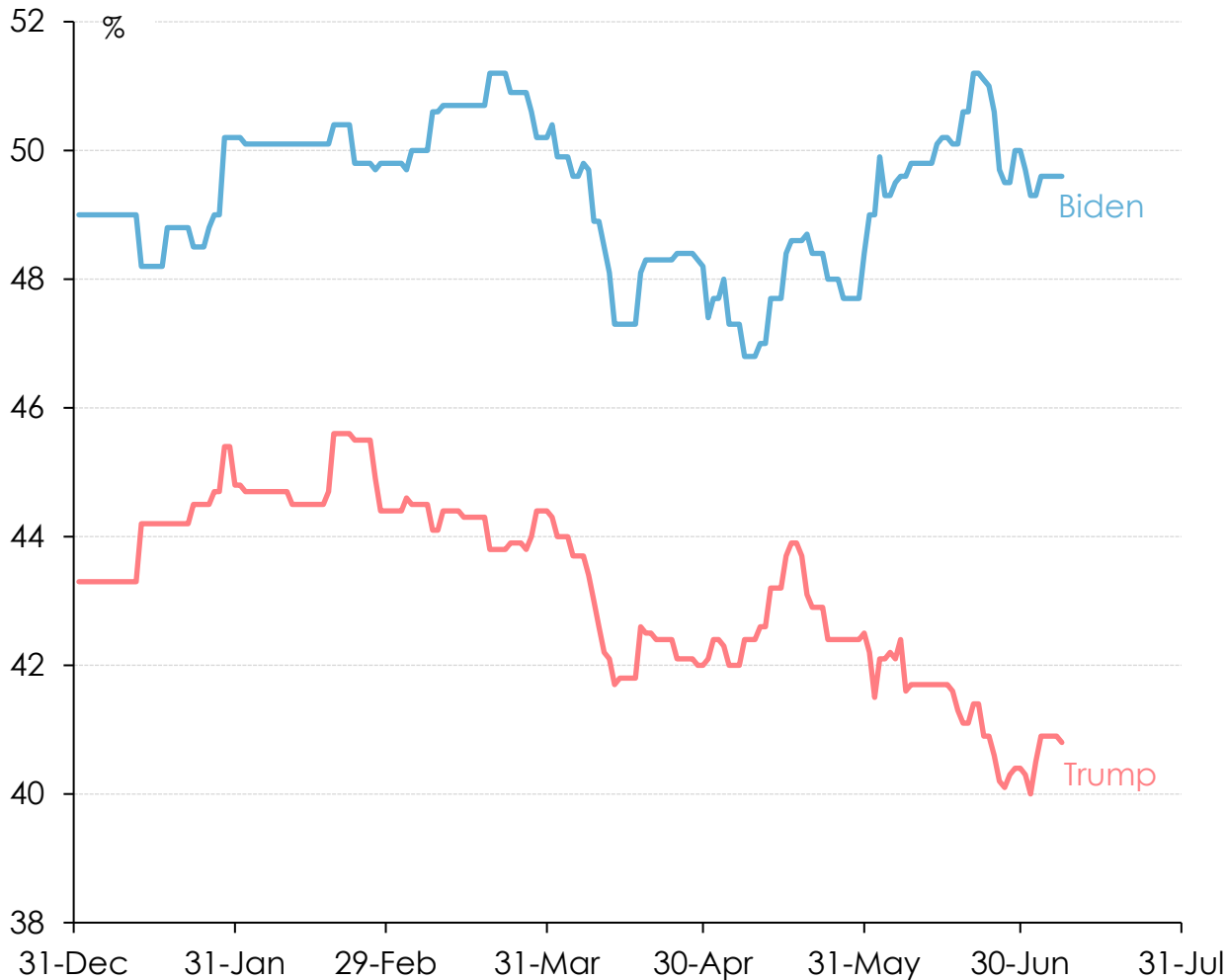


- ❑ The US federal budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to US\$24.1trn (126% of GDP)
- ❑ In March, the Congressional Budget Office forecast the deficit would remain above US\$1trn every year over the next decade, reaching US\$1.7 trn (5.6% of GDP) by 2030
- ❑ The budget deficit for April, May and June amounted to US\$2.0trn (reflecting the impact of Covid-19 related measures), bringing the 12-month moving total to US\$3.0 trn (16.0% of GDP), cf. a peak of 9.7% of GDP during the GFC (and the largest since 20.8% of GDP in FY 1945)
- ❑ Gross federal debt increased by US\$727 bn to US\$28.7 trn (154% of GDP)

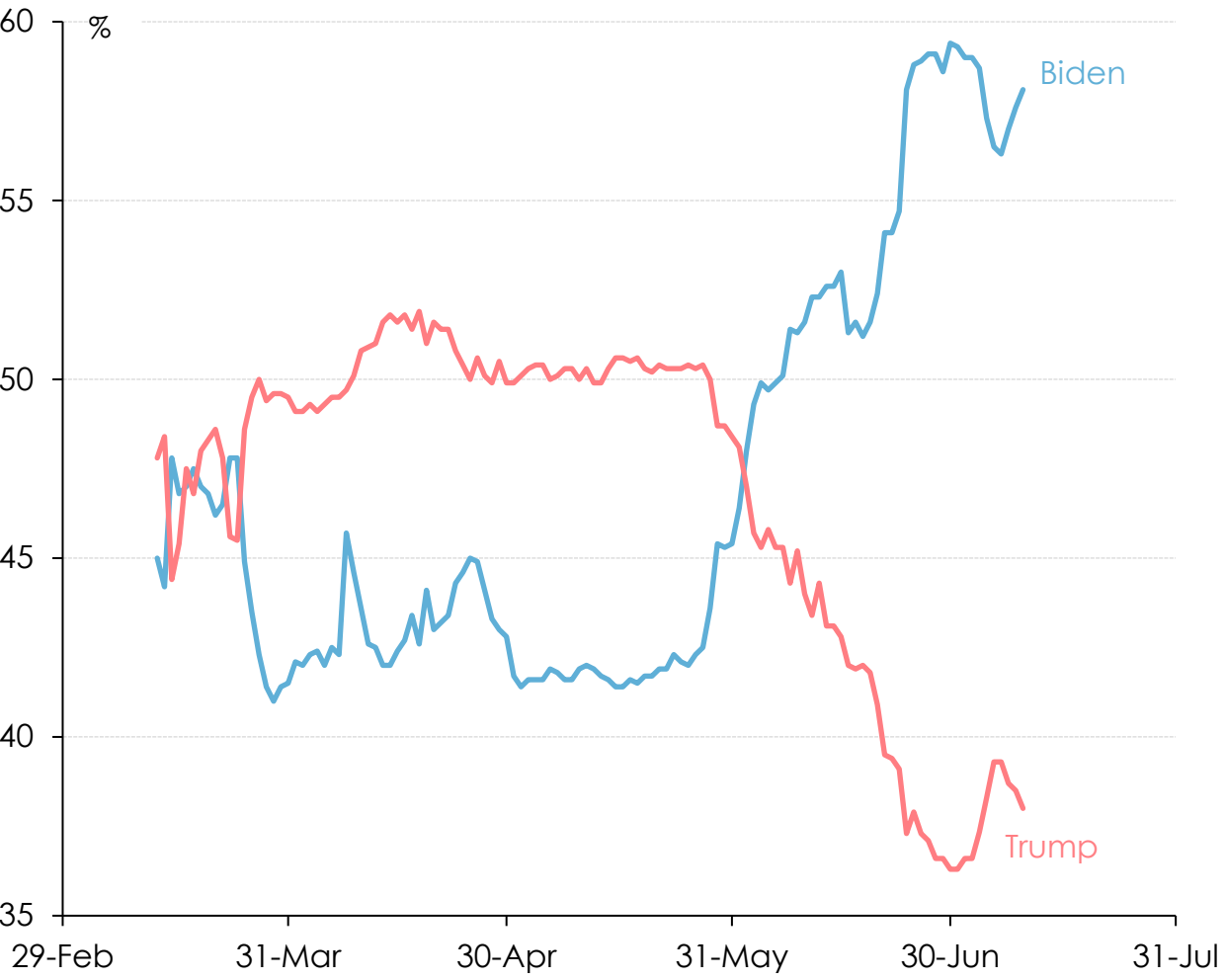
Note: The measure of US gross federal debt is at market value. Sources: US Treasury Department; Federal Reserve Bank of Dallas; US Bureau of Economic Analysis; US Congressional Budget Office; Corinna. July budget data are released on 12<sup>th</sup> August.

# Joe Biden's lead in opinion polls remained under 9 pc pts this week, but his lead in betting markets widened to over 22 pc pts

Winner of November US Presidential election  
– average of all opinion polls



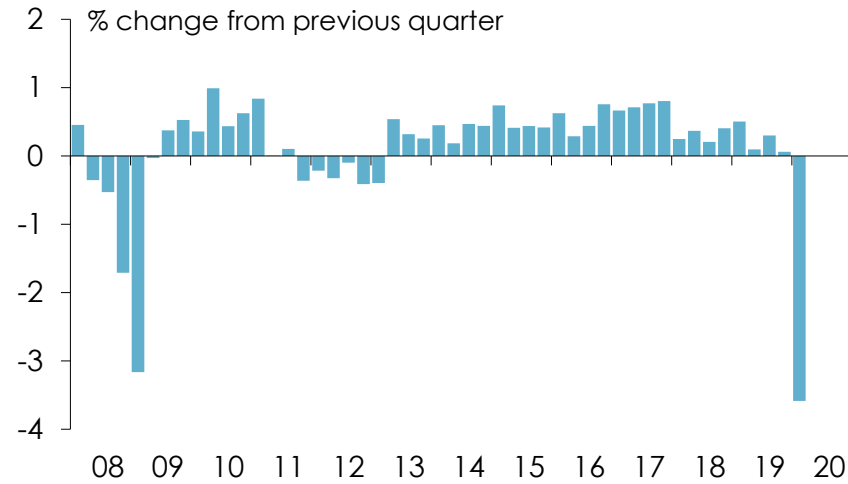
Winner of November US Presidential election  
– betting odds



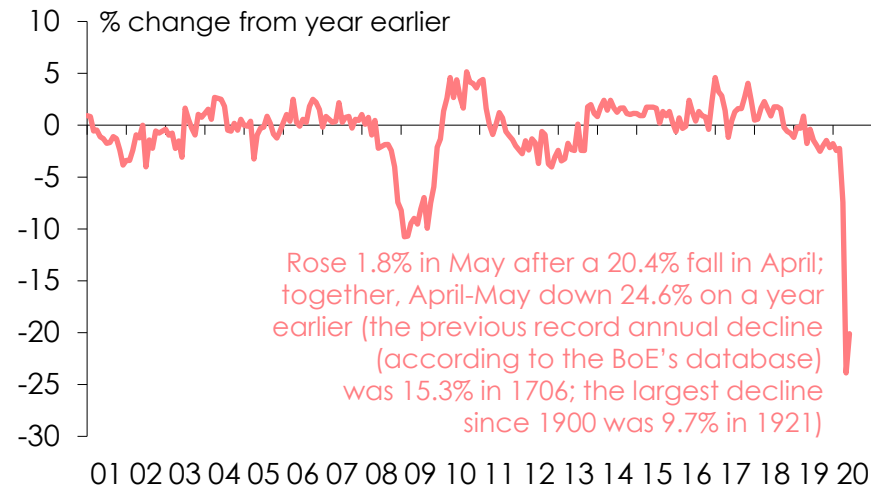
Note: The opinion poll average is based on 9 different polls; the betting odds average is based on 6 different markets. Latest opinion poll data is 15th July; latest betting odds are 17th July. Source: RealClearPolitics.

# Europe is also experiencing a sharp downturn although unemployment probably won't rise as much as it has in the US

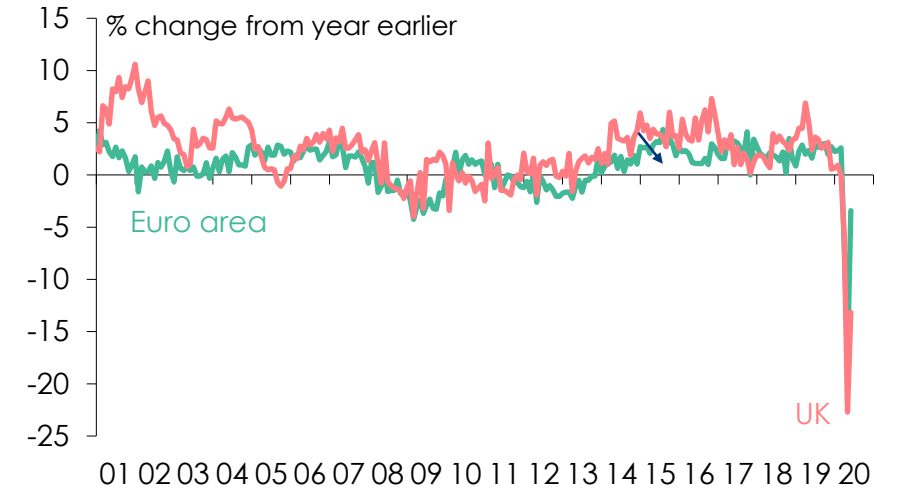
## Euro area real GDP



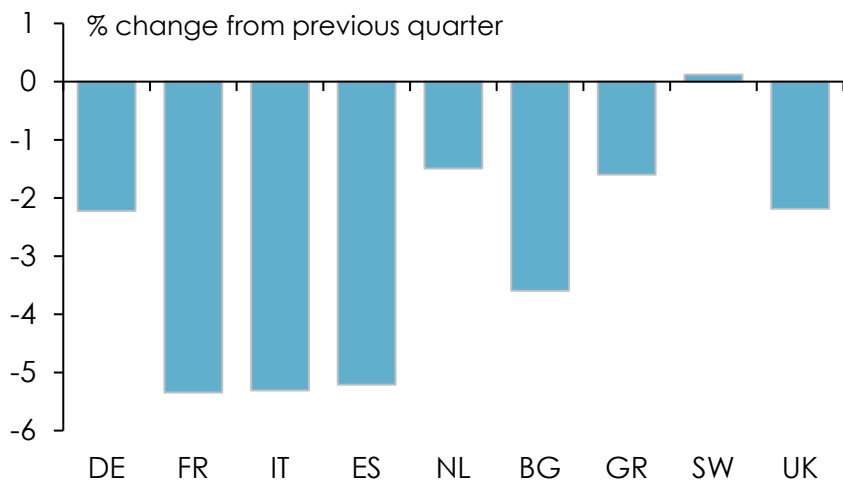
## UK monthly GDP



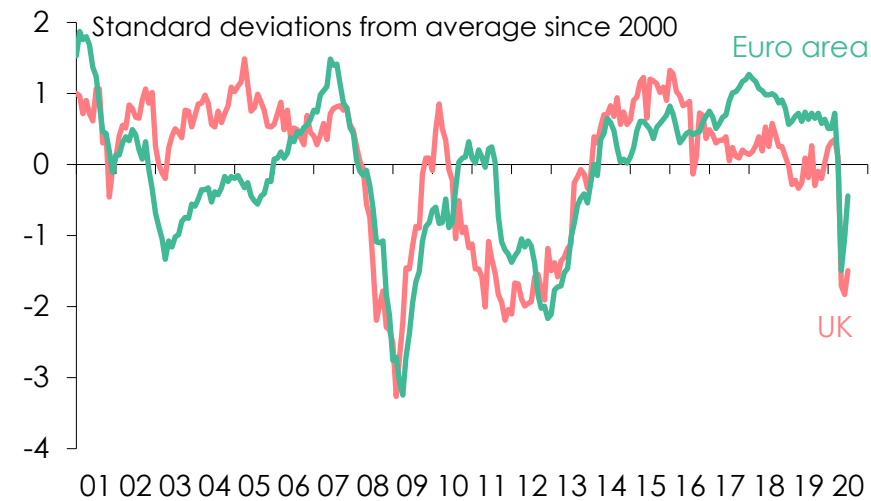
## Retail sales volume



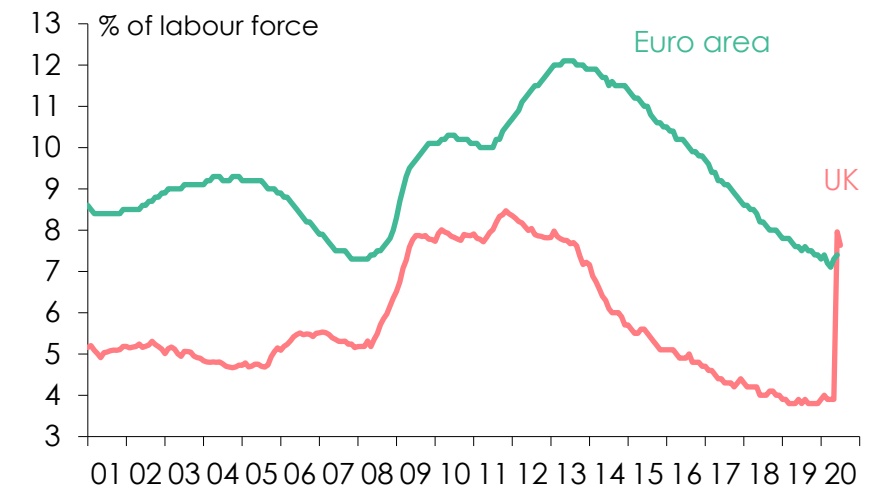
## March quarter GDP by country



## Consumer confidence



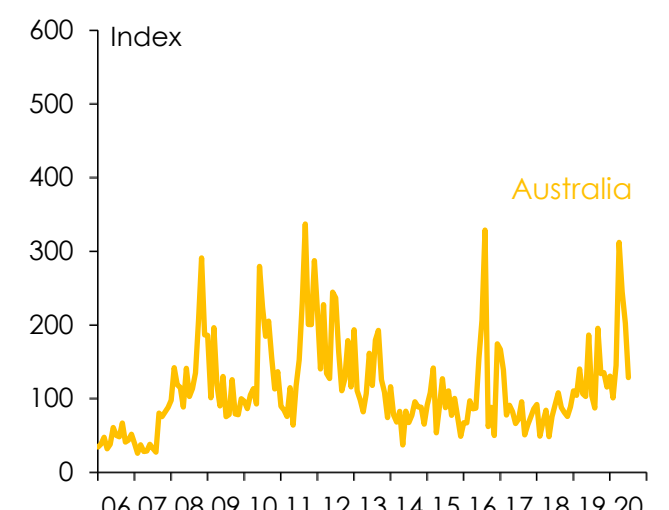
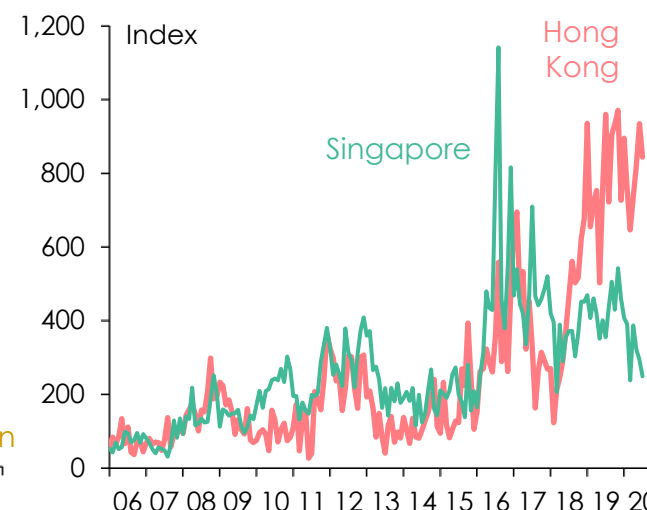
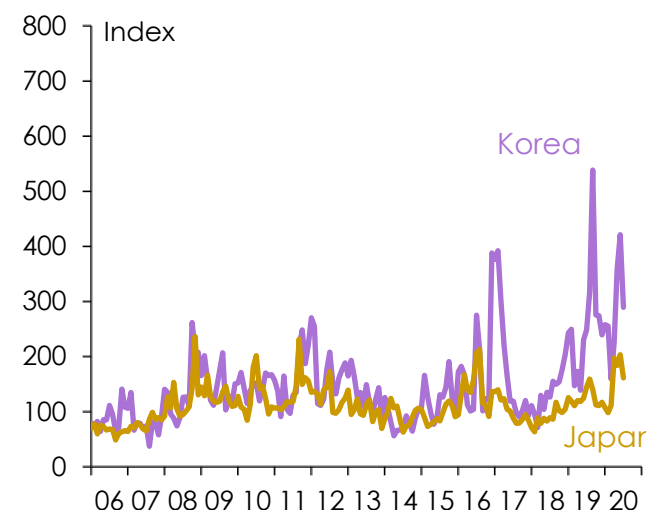
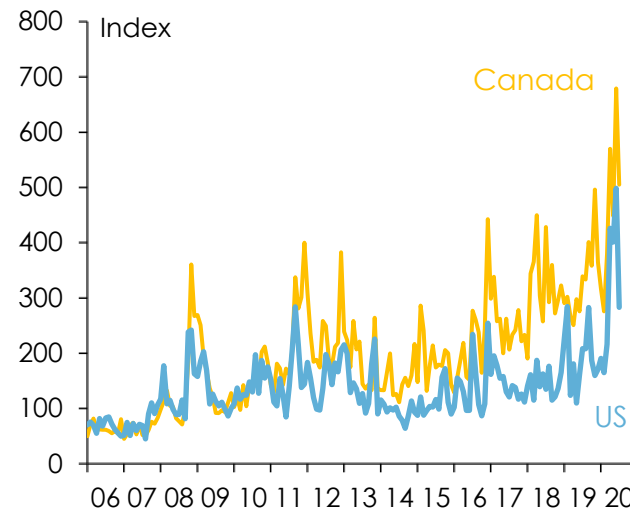
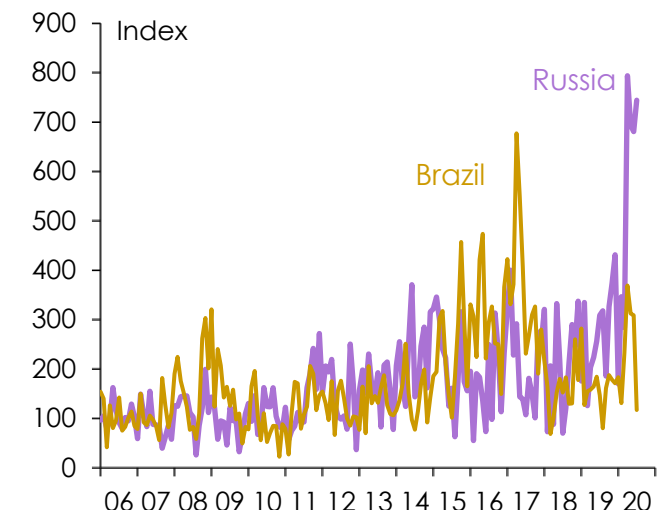
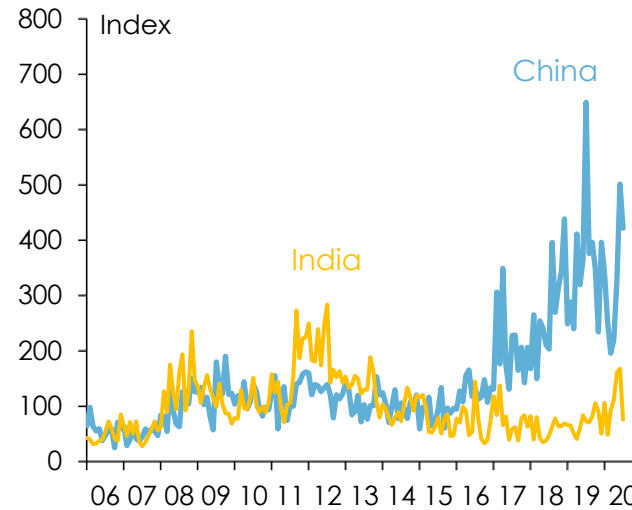
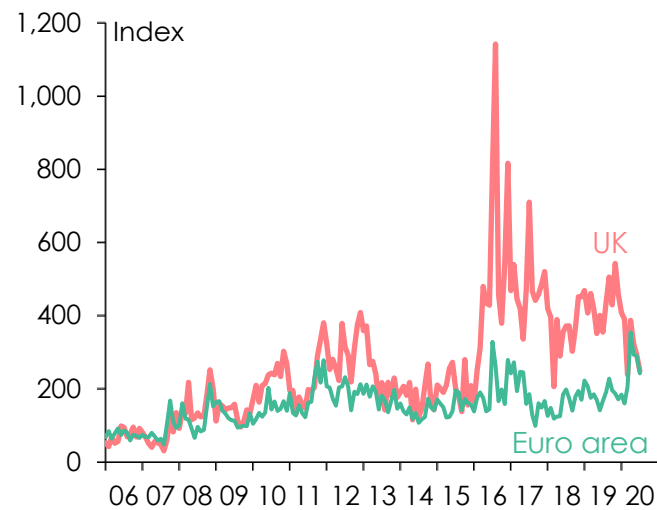
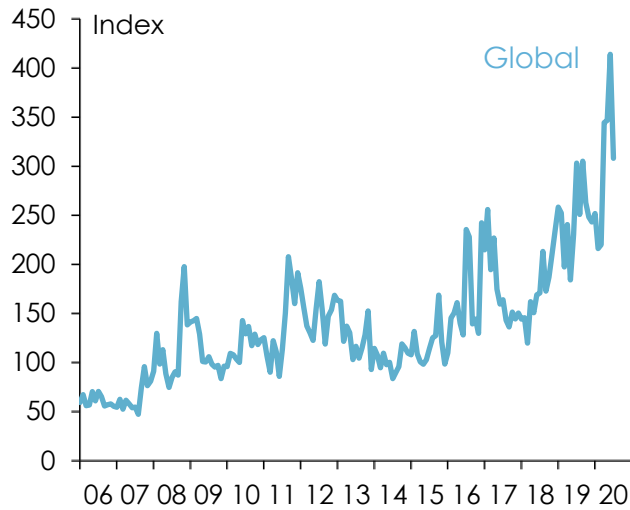
## Unemployment



Sources: Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average; the most recent observation (for May) is derived by adding to the 'claimant count' unemployment rate the average margin between that rate and the conventionally defined unemployment rate over the preceding 12 months. Preliminary estimates of Q2 GDP for the UK and euro area will be released on 12<sup>th</sup> and 14<sup>th</sup> August respectively.

# Perhaps surprisingly, economic policy uncertainty eased almost everywhere in June – although it remains elevated by historical standards

## Economic policy uncertainty indices

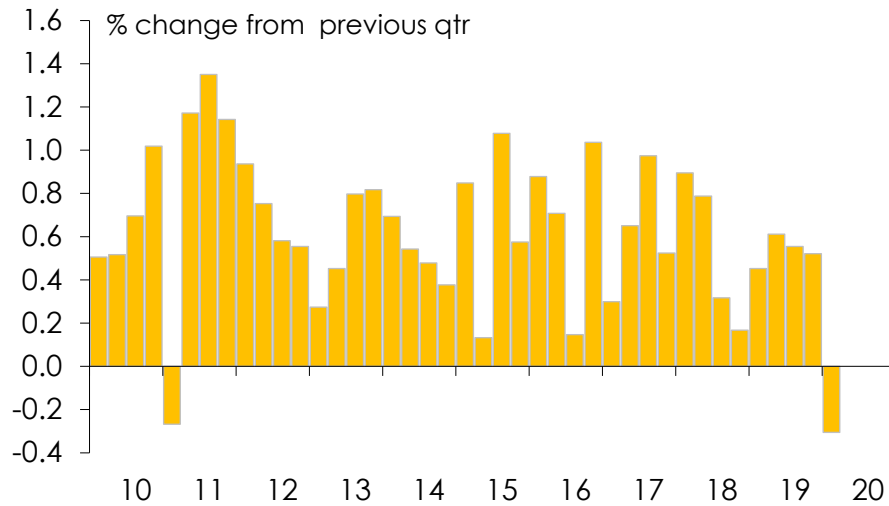


Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words “uncertain” or “uncertainty”, “economy” or “economic”, and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The index for the euro area is a GDP-weighted average of indices for Germany, France, Italy, Spain, the Netherlands and Ireland constructed by Corinna. Latest data are for June 2020.  
Source: PolicyUncertainty.com; Scott Banker, Nick Bloom & Steven Davis, ‘Measuring Economic Policy Uncertainty’, *Quarterly Journal of Economics*, 131, no. 4 (November 2016), pp. 1593-1636.

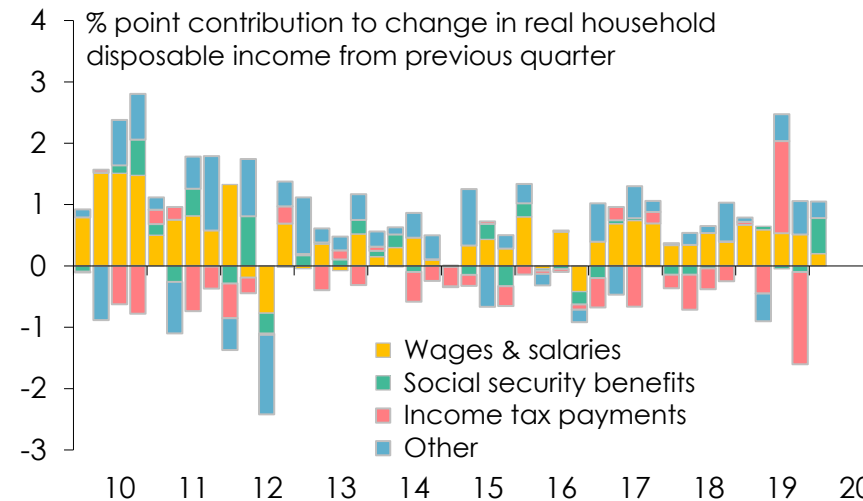
**Australia**

# In Australia GDP declined in Q1 for the first time in 9 years, reflecting the impact of bushfires and 'social distancing' restrictions on private demand

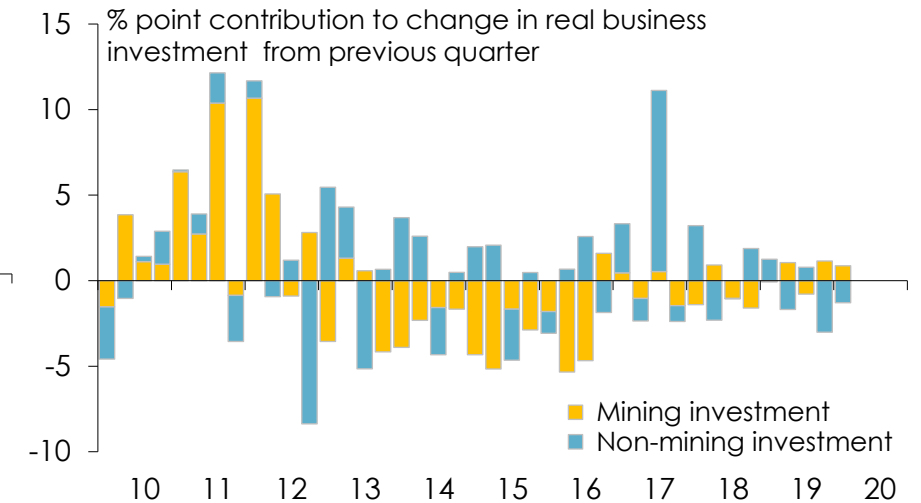
## Quarterly change in real GDP



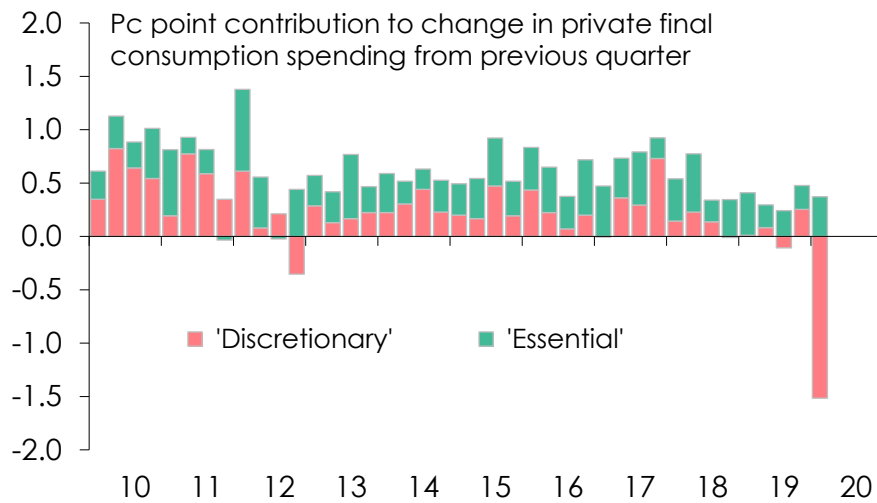
## Household disposable income



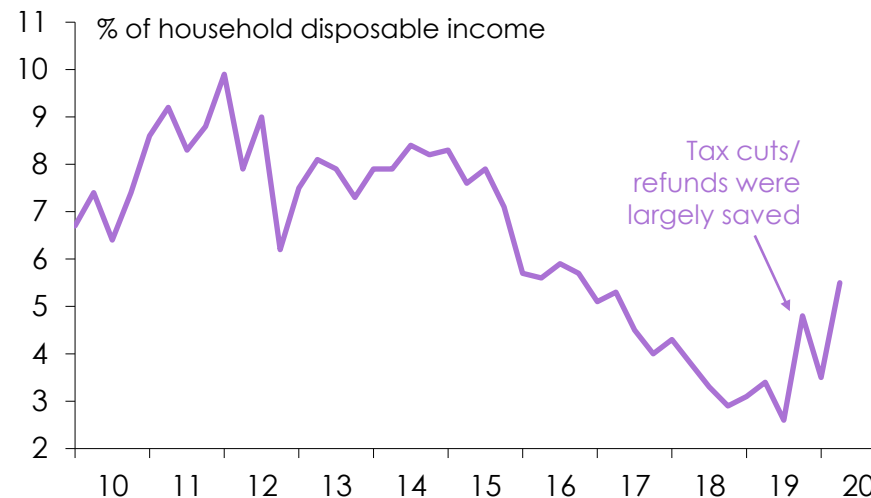
## Business investment expenditure



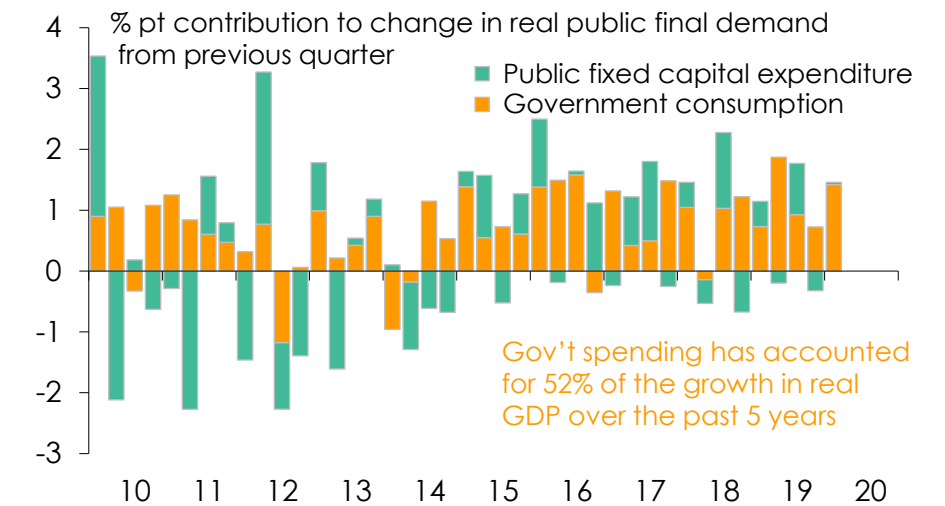
## Household consumption expenditure



## Household saving rate



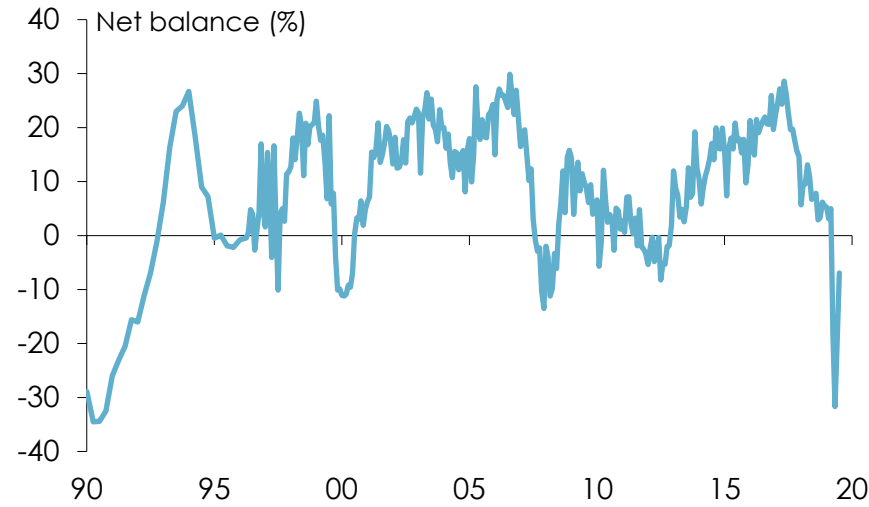
## Public expenditure



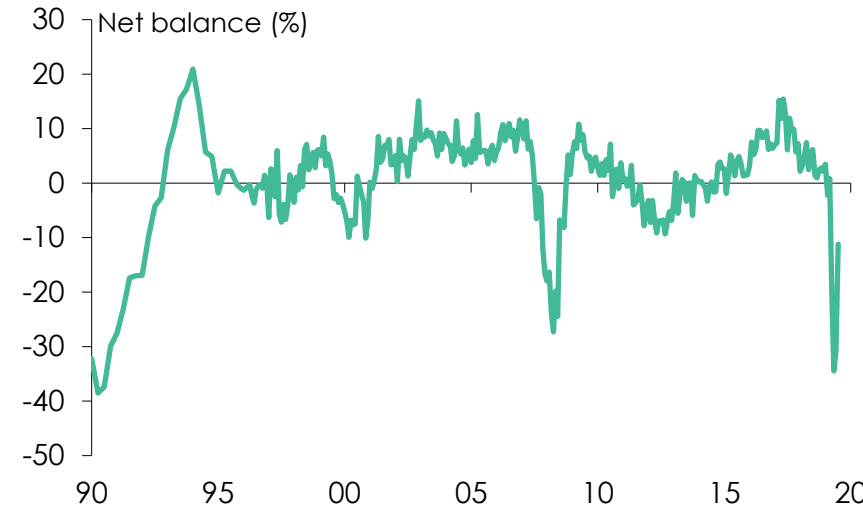
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure. Source: ABS. June quarter national accounts released on 2<sup>nd</sup> September.

# All of the components of the NAB monthly survey improved substantially in June, following an initial bounce in May, but they remain negative

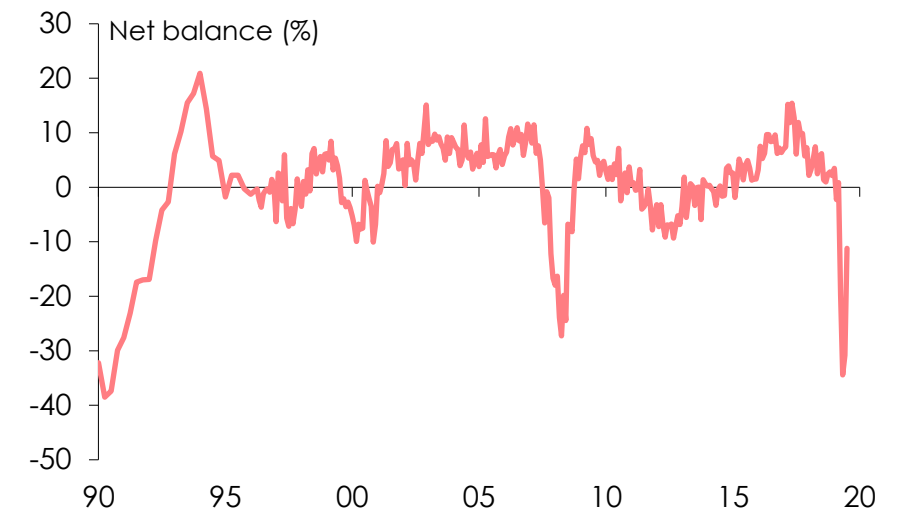
## Trading conditions



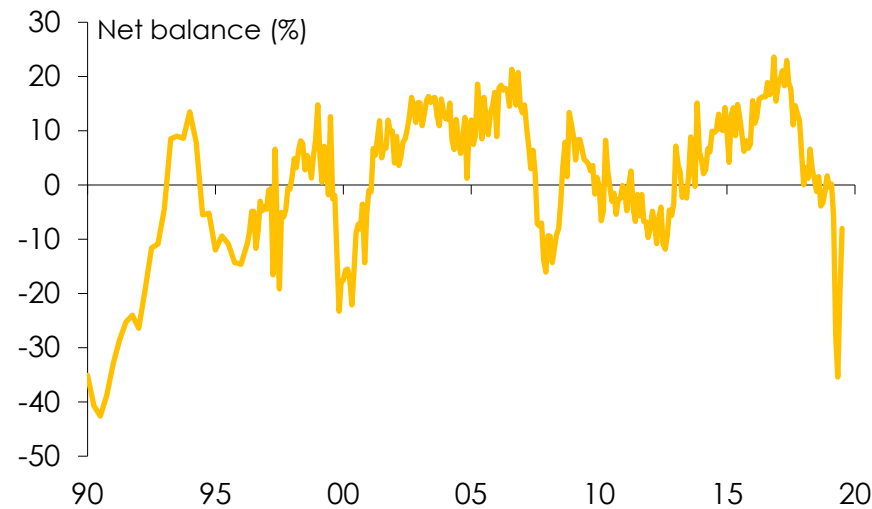
## Forward orders



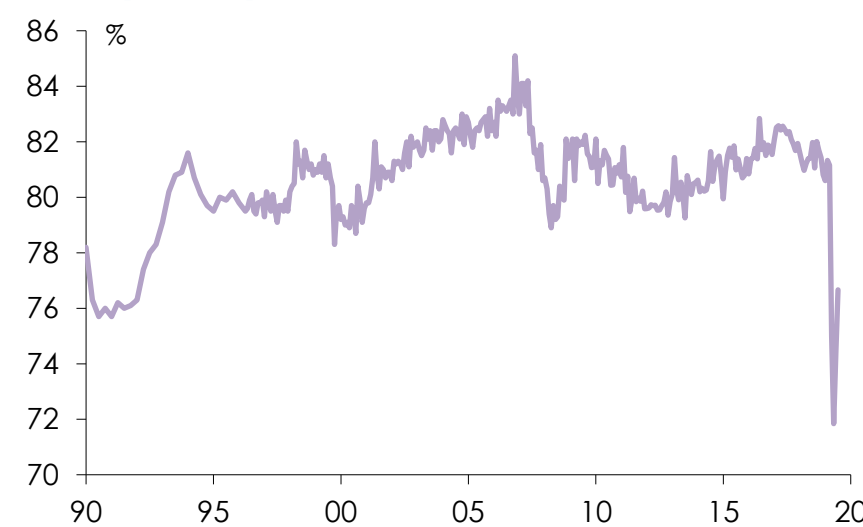
## Employee hiring intentions



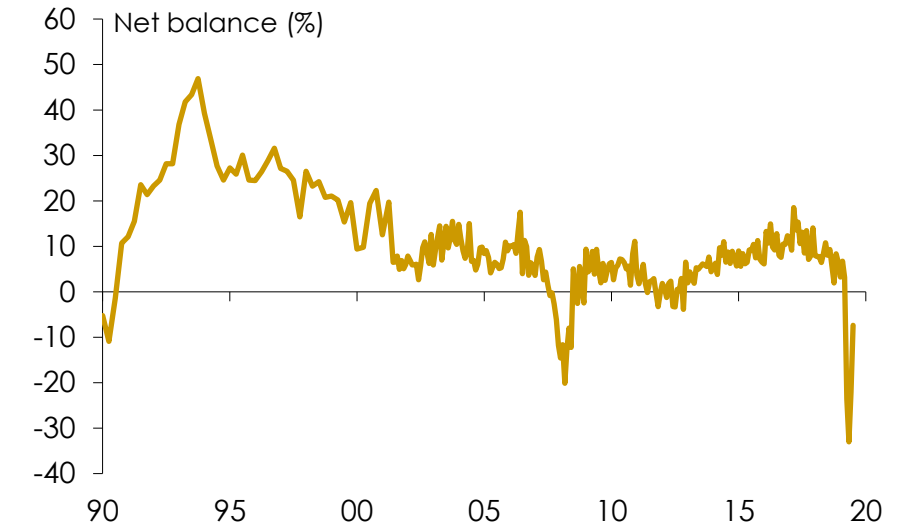
## Profitability



## Capacity utilization



## Capital expenditure intentions

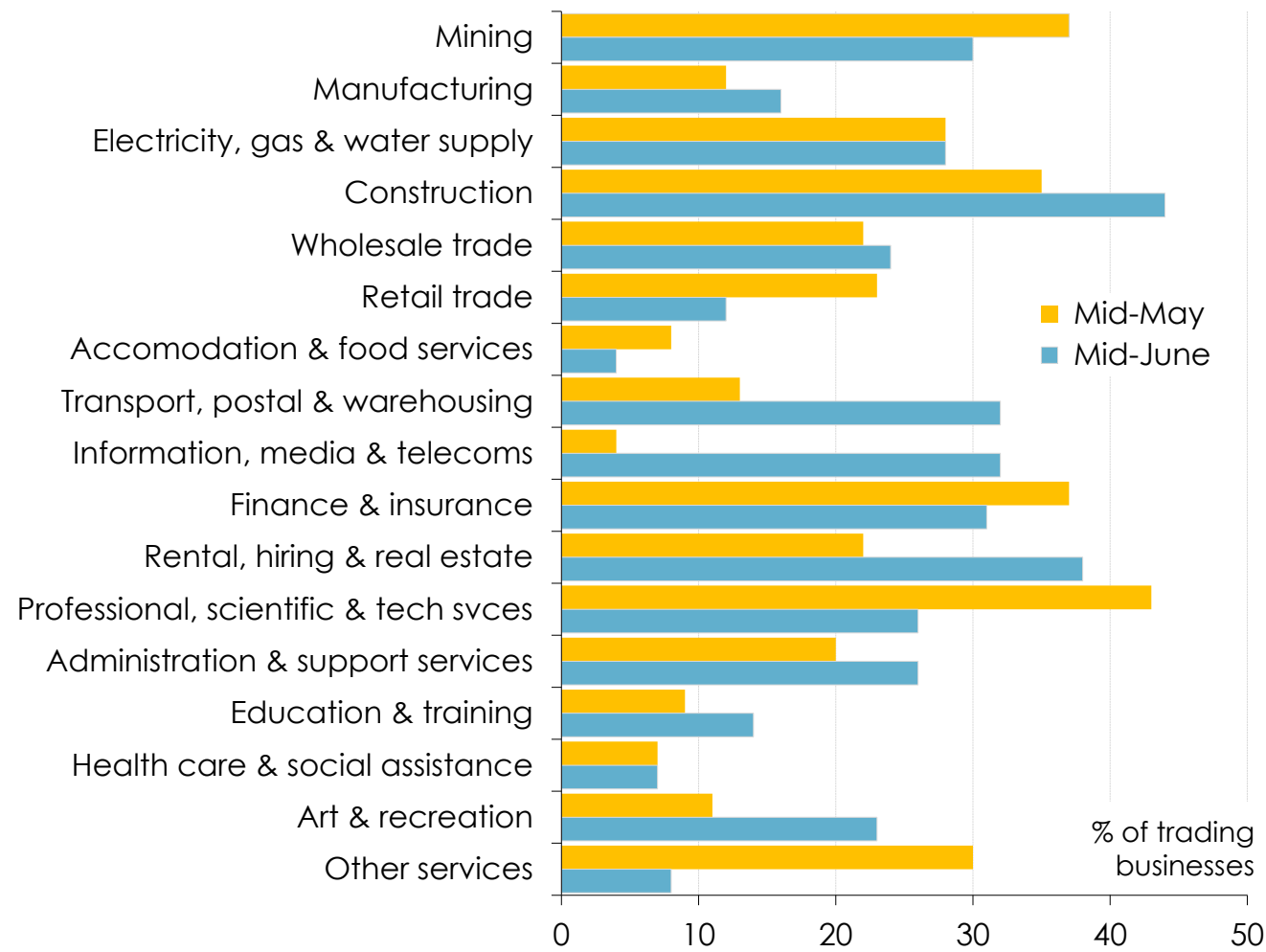


Note: Quarterly data up to March 1987 (May 2002 for capex intentions), monthly thereafter (latest data June 2020). Source: National Australia Bank (July survey results will be released on 12<sup>th</sup> August).

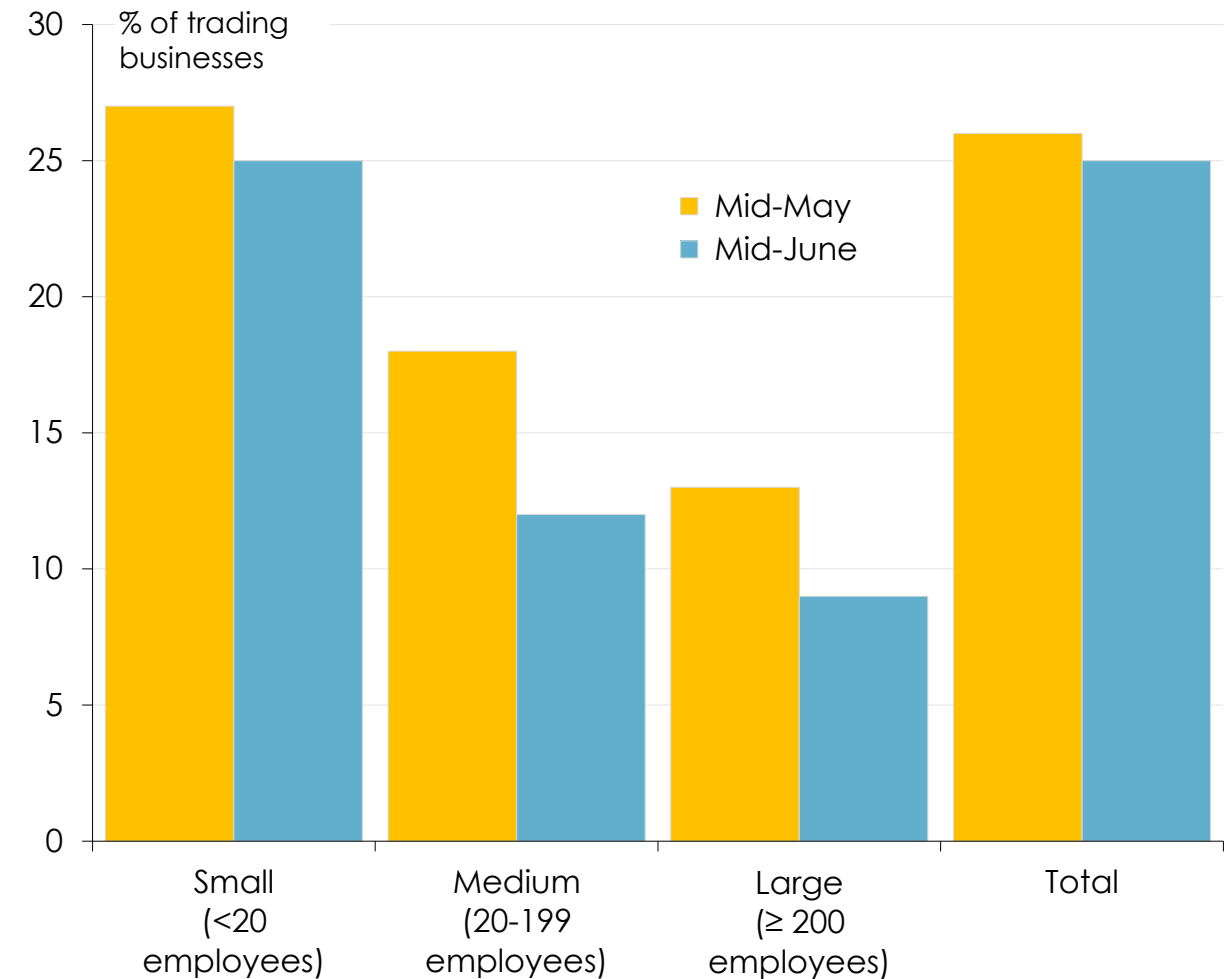


# Three-quarters of businesses are still operating under 'modified conditions' – with fewer large business operating as 'normal' than small ones

Proportion of 'trading businesses' which are operating 'as normal' – by industry



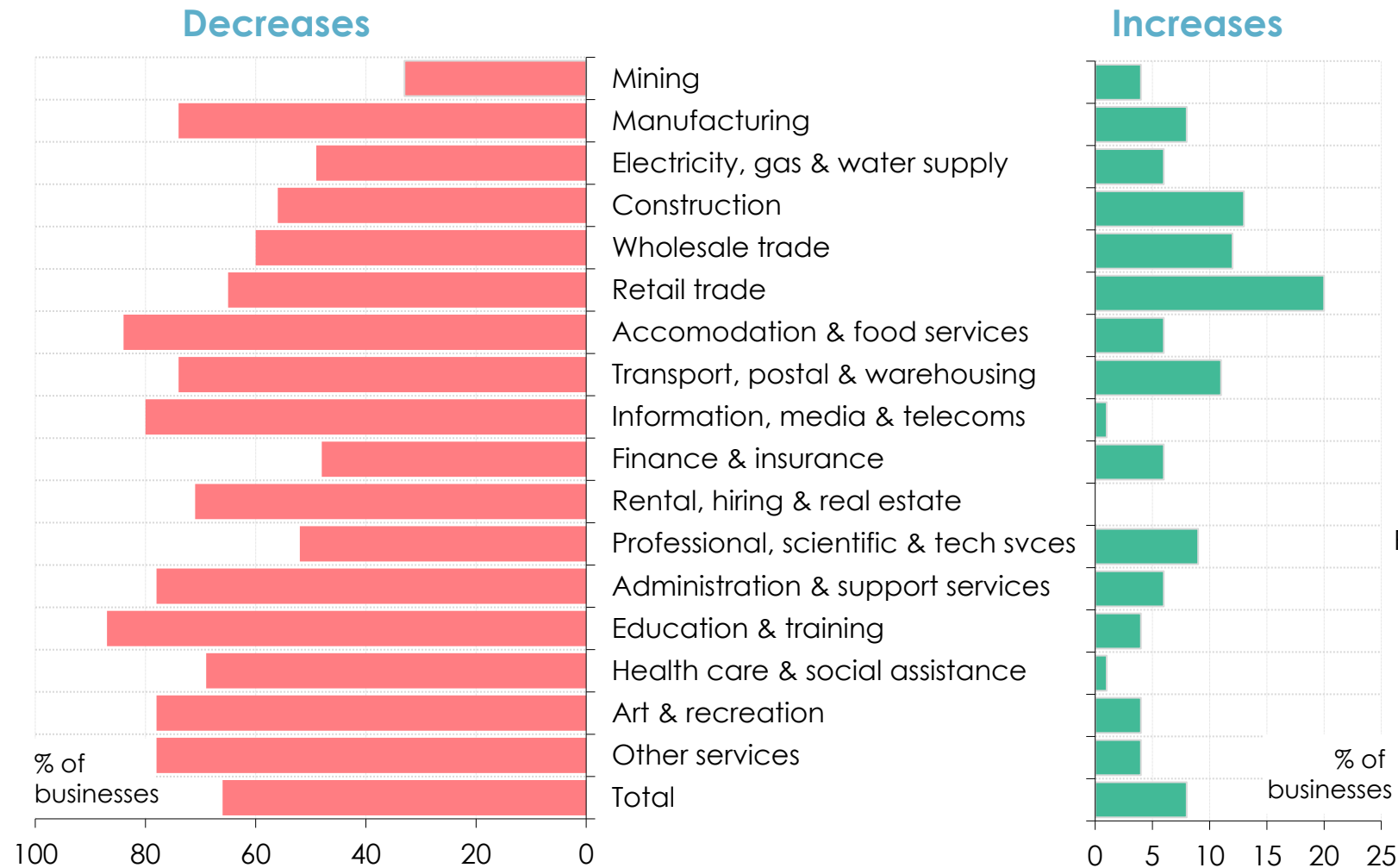
Proportion of 'trading businesses' which are operating 'as normal' – by size



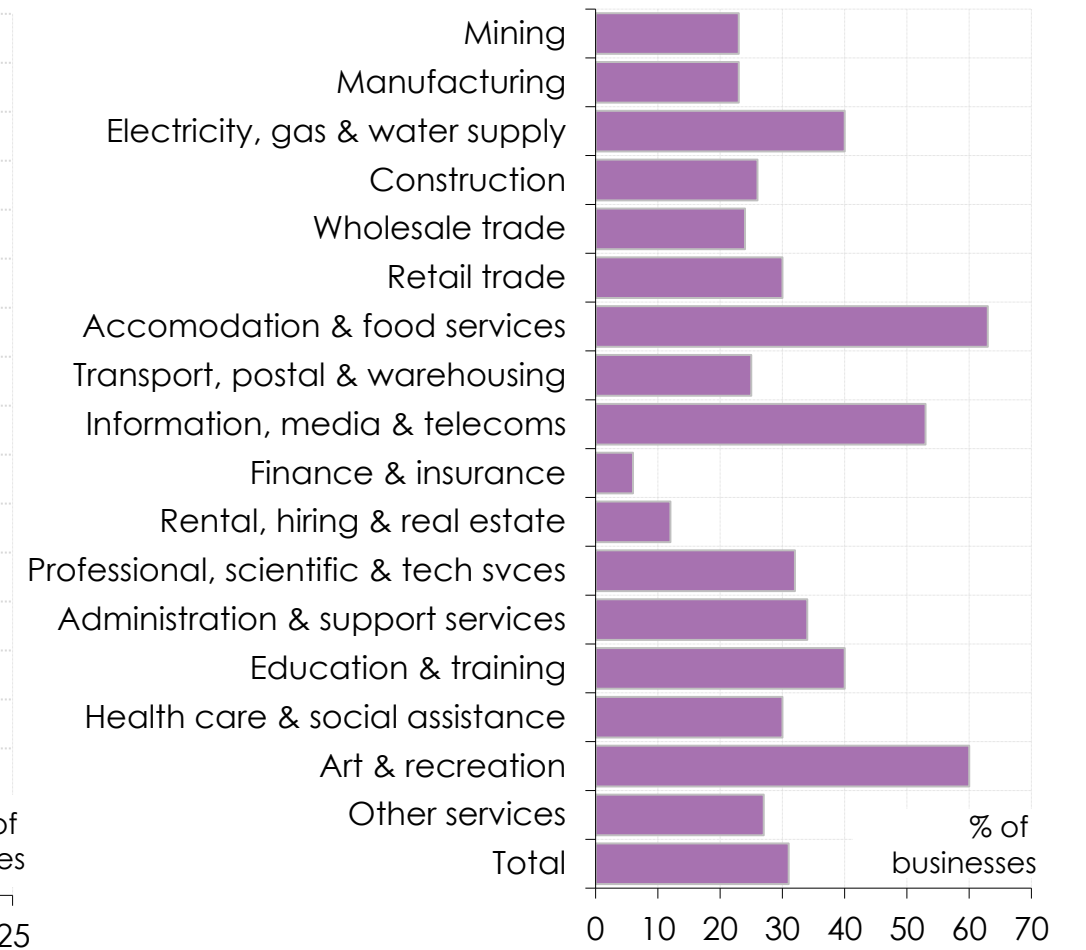
Source: ABS Business Indicators, Business Impacts of COVID-19, May 2020 (based on survey conducted between 13<sup>th</sup> and 22<sup>nd</sup> May) and June 2020 (based on survey conducted between 10<sup>th</sup> and 17<sup>th</sup> June).

# Two-thirds of all businesses reported lower revenue in June compared with June last year – and 30% of them reported declines of more than 50%

Proportion of businesses reporting decreases or increases in revenue in June 2020 cf. June last year, by industry



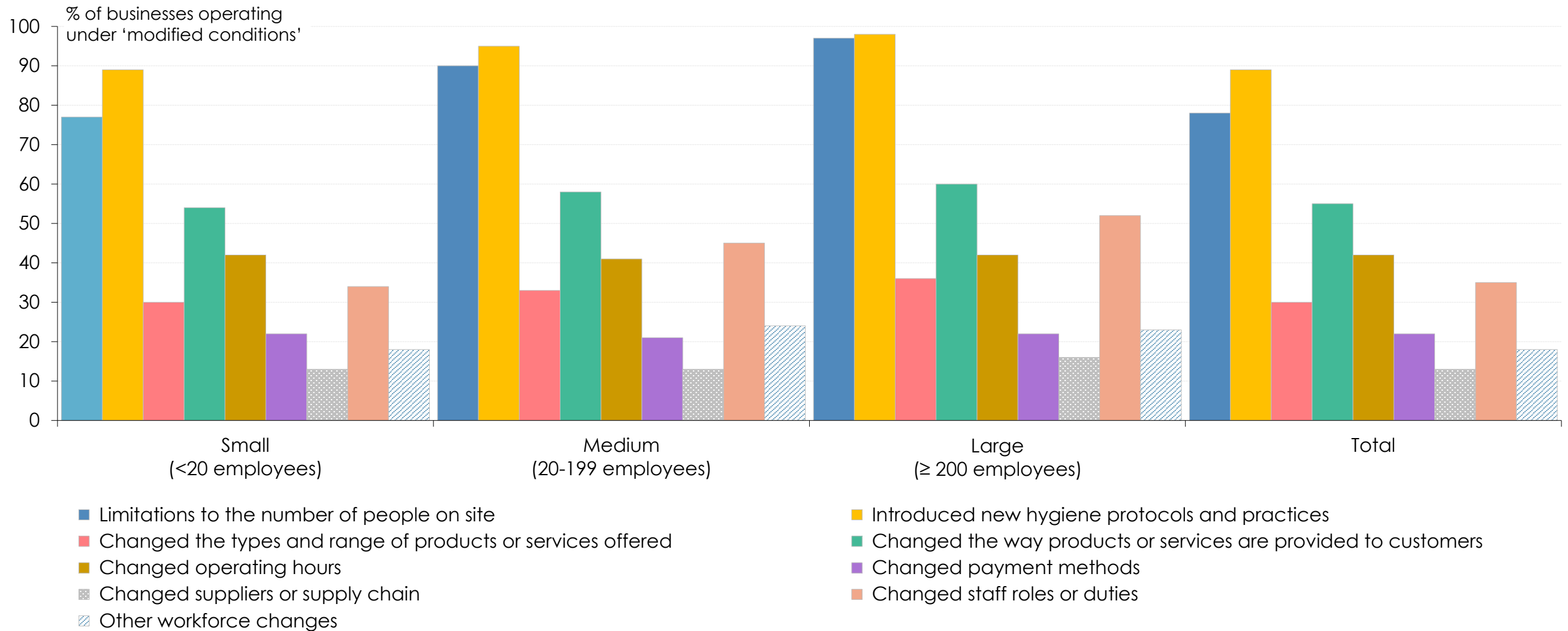
Businesses with revenue decreases of 50% or more in June cf. June last year, as a pc of businesses with lower revenue



Source: ABS Business Indicators, Business Impacts of COVID-19, June 2020 (based on survey conducted between 10<sup>th</sup> and 17<sup>th</sup> June).

# The biggest changes made by businesses have been limits on the no. of people on site, hygiene protocols, product delivery methods and staff roles

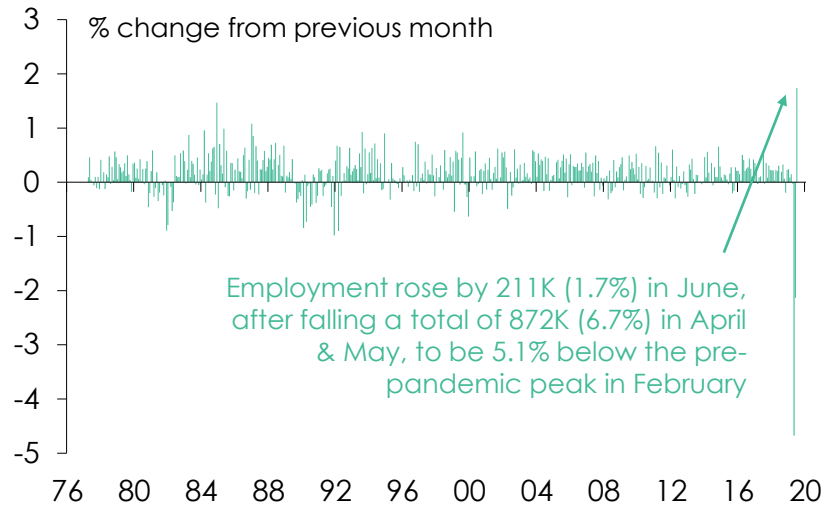
## Changes made to business operations, by size of business



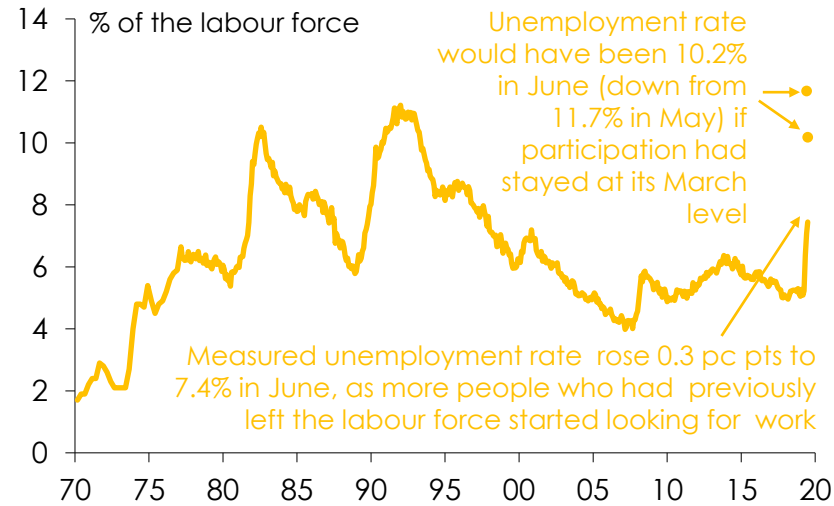
Source: ABS Business Indicators, Business Impacts of COVID-19, June 2020 (based on survey conducted between 10<sup>th</sup> and 17<sup>th</sup> June).

# 211,000 (24%) of those who lost their jobs in March-April are now back at work, while another 70,000 started looking for work

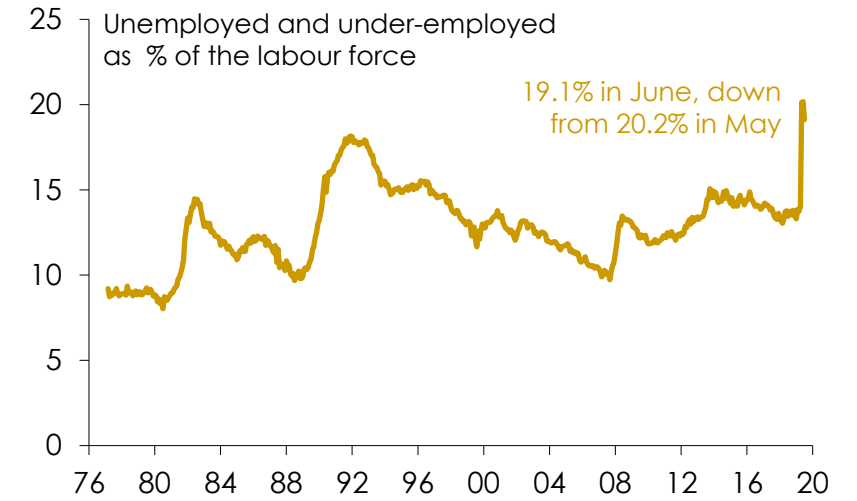
## Employment



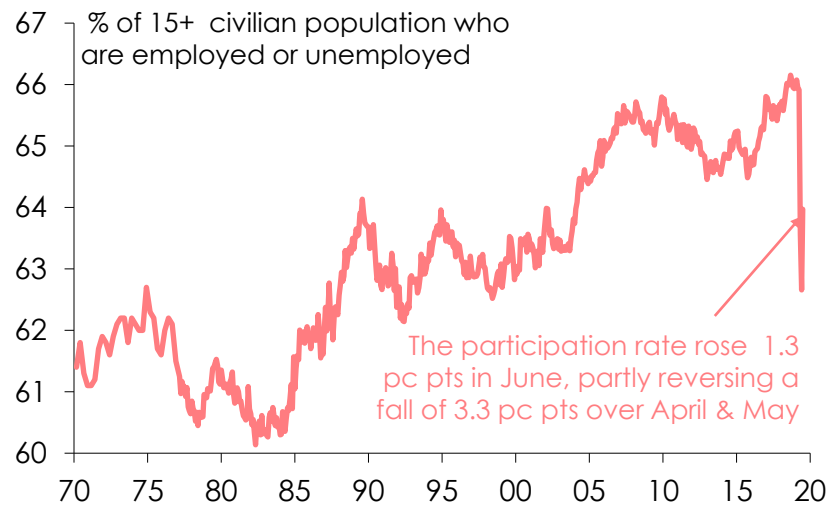
## Unemployment rate



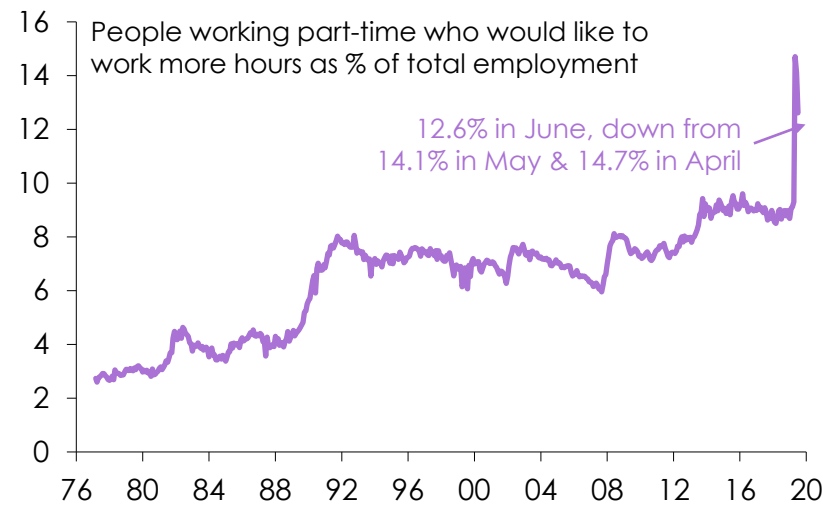
## 'Under-utilization' rate



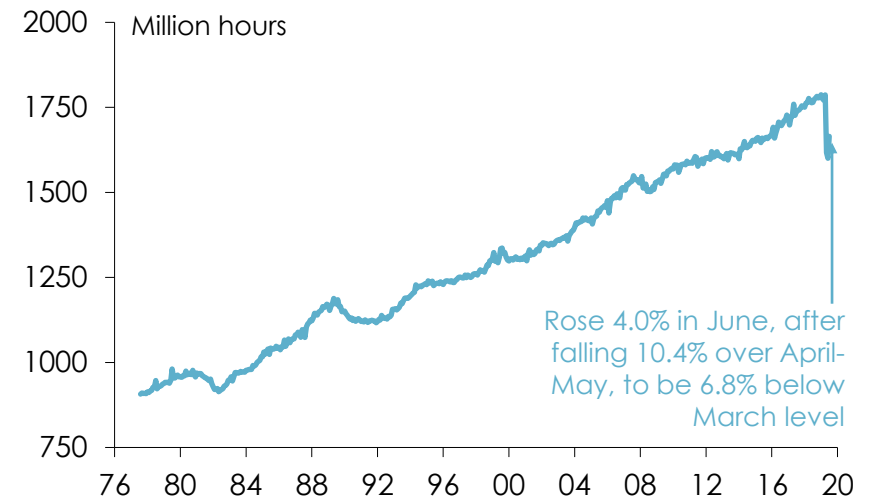
## Labour force participation rate



## Under-employment ratio



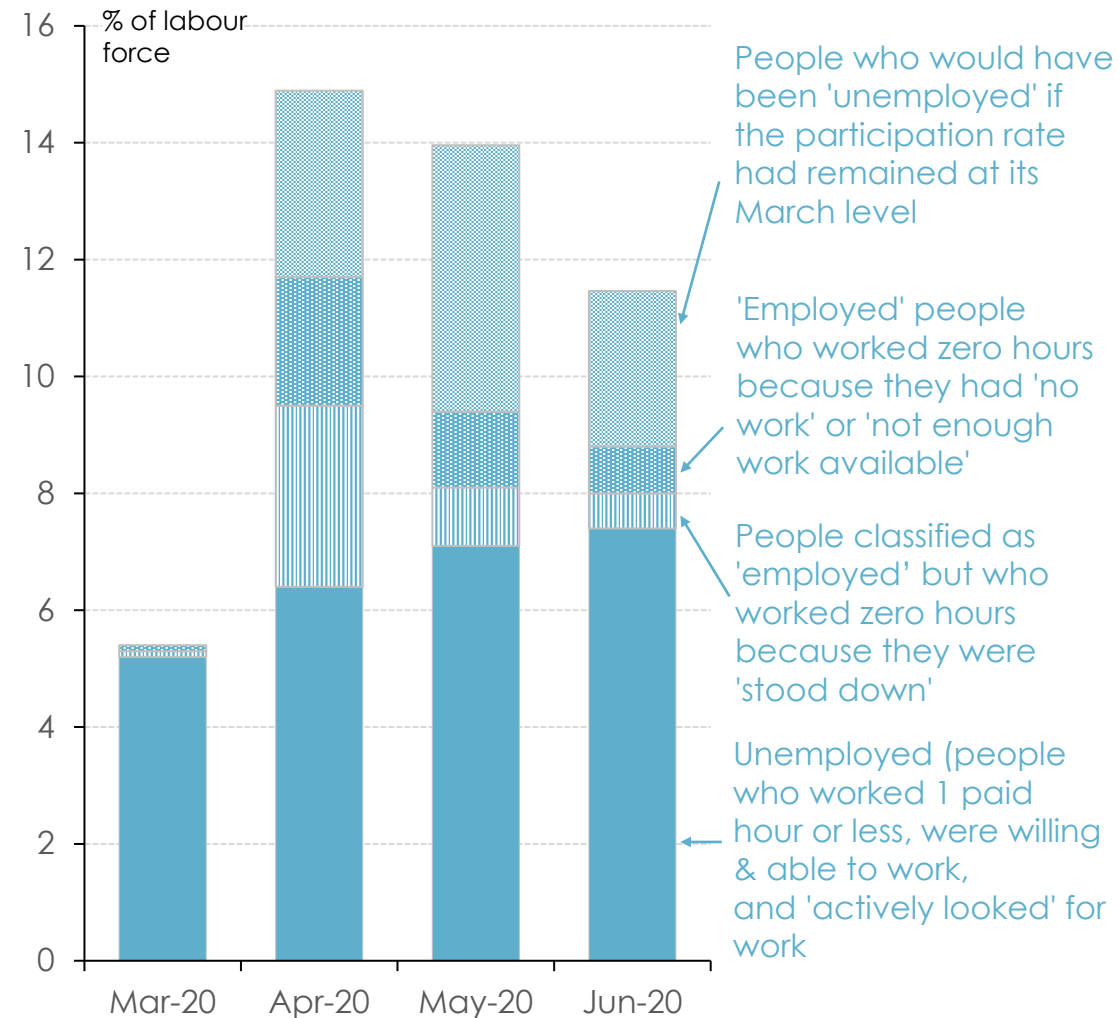
## Total hours worked



Note: The ABS classifies people on JobKeeper who worked zero hours in the survey week as 'employed'. Had it not done so, the unemployment rate in May would have been 9.5% (down from 11.7% in April). The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS. July data will be released on 13<sup>th</sup> August.

# The June unemployment rate would have been 11½% if people working zero hours and those who dropped out of the labour force were counted

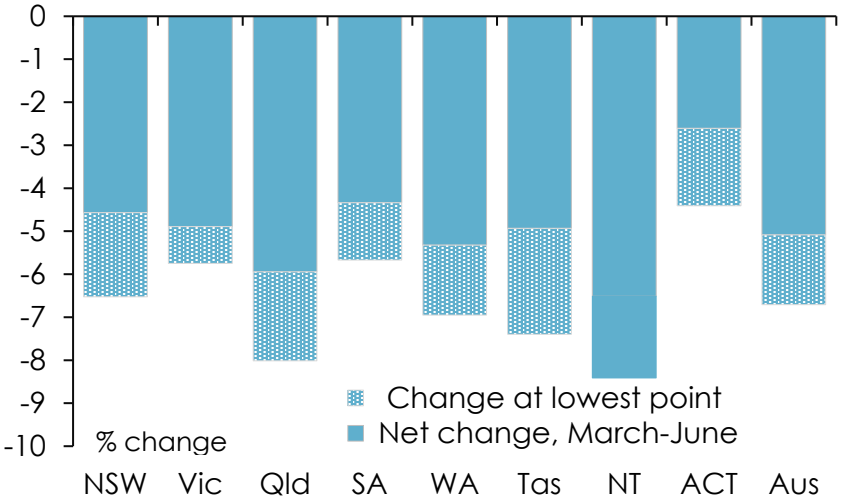
## Alternative measures of unemployment



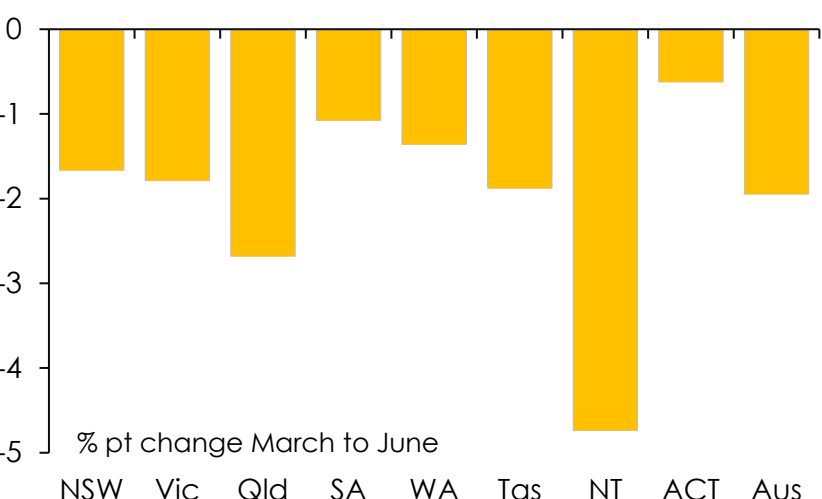
- ❑ The Government's JobKeeper program pays eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30 March and 27 September
- ❑ Eligible employers are those with
  - annual turnover of <\$1bn whose turnover has fallen by >30%
  - annual turnover of >\$1bn (other than major banks) whose turnover has fallen by >\$1bn
  - Registered charities whose turnover has fallen by >15%
- ❑ Eligible employees are Australian citizens who are (or were at 1 March) permanent full- or part-time employees, or casuals who had at least 12 months 'regular employment'
- ❑ For labour force survey purposes the ABS classifies people being paid through JobKeeper as 'employed' – even if they have been stood down, or worked no hours during the survey week
  - in the US and Canada, such people are classified as unemployed
- ❑ If these people, and those who've dropped out of the labour force since March, were counted as unemployed, then the unemployment rate in June would have been 11.5% - down from 14.0% in May and 14.9% in April

# Tasmania, Queensland & NSW had the strongest recoveries in employment in June, while the NT has continued to shed jobs

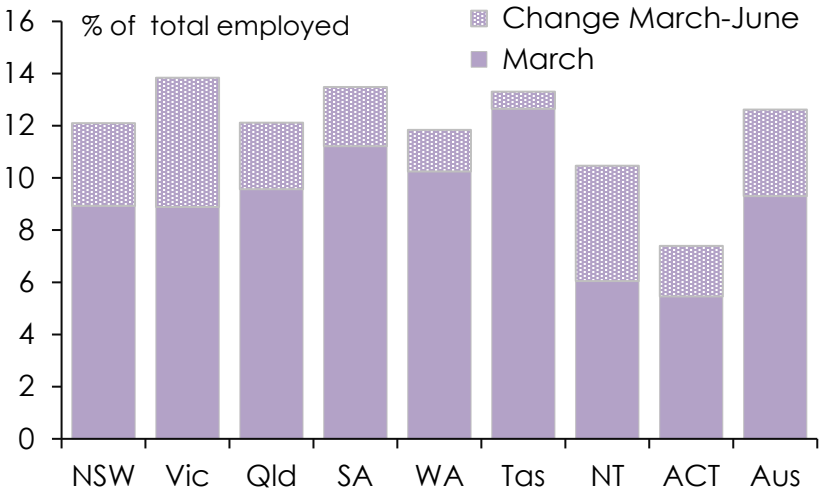
### Employment



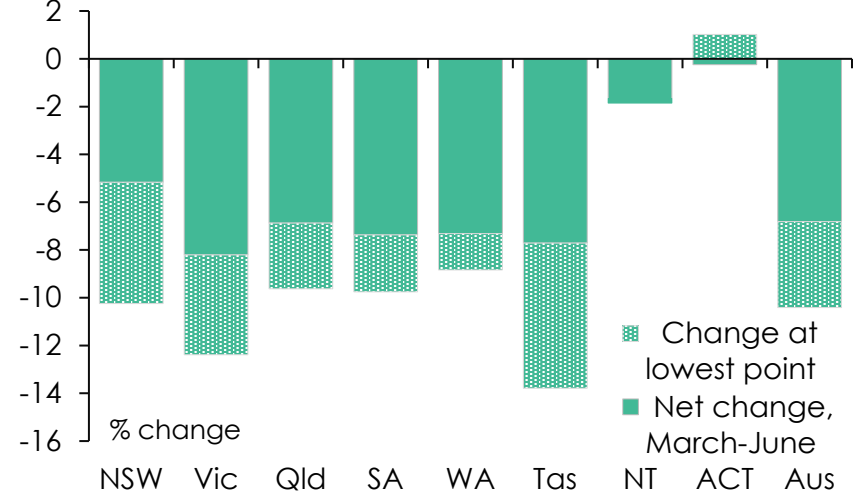
### Labour force participation rate



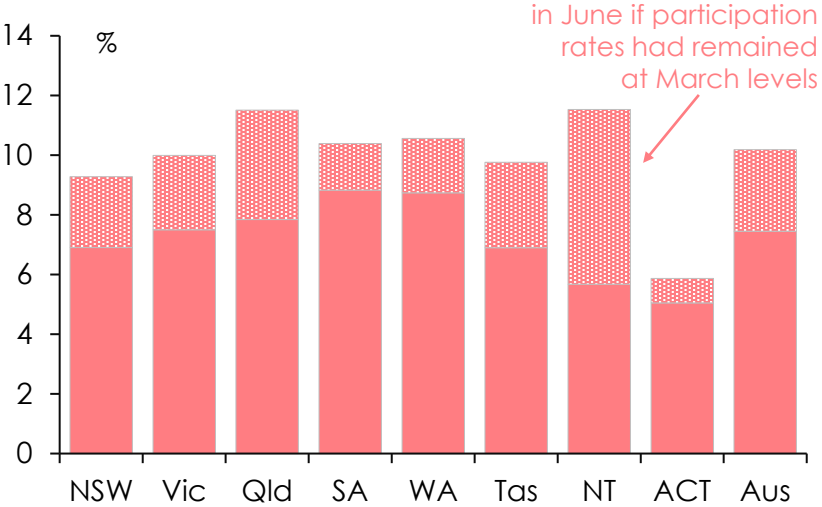
### Under-employment ratio



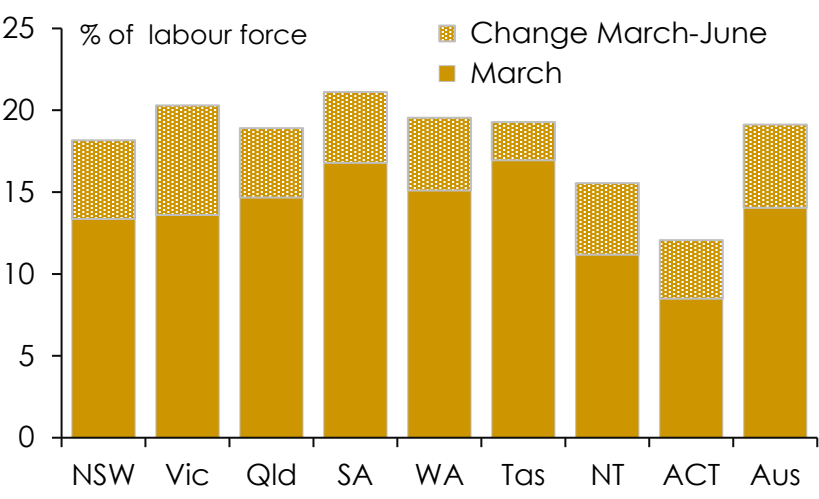
### Total hours worked



### Unemployment rate



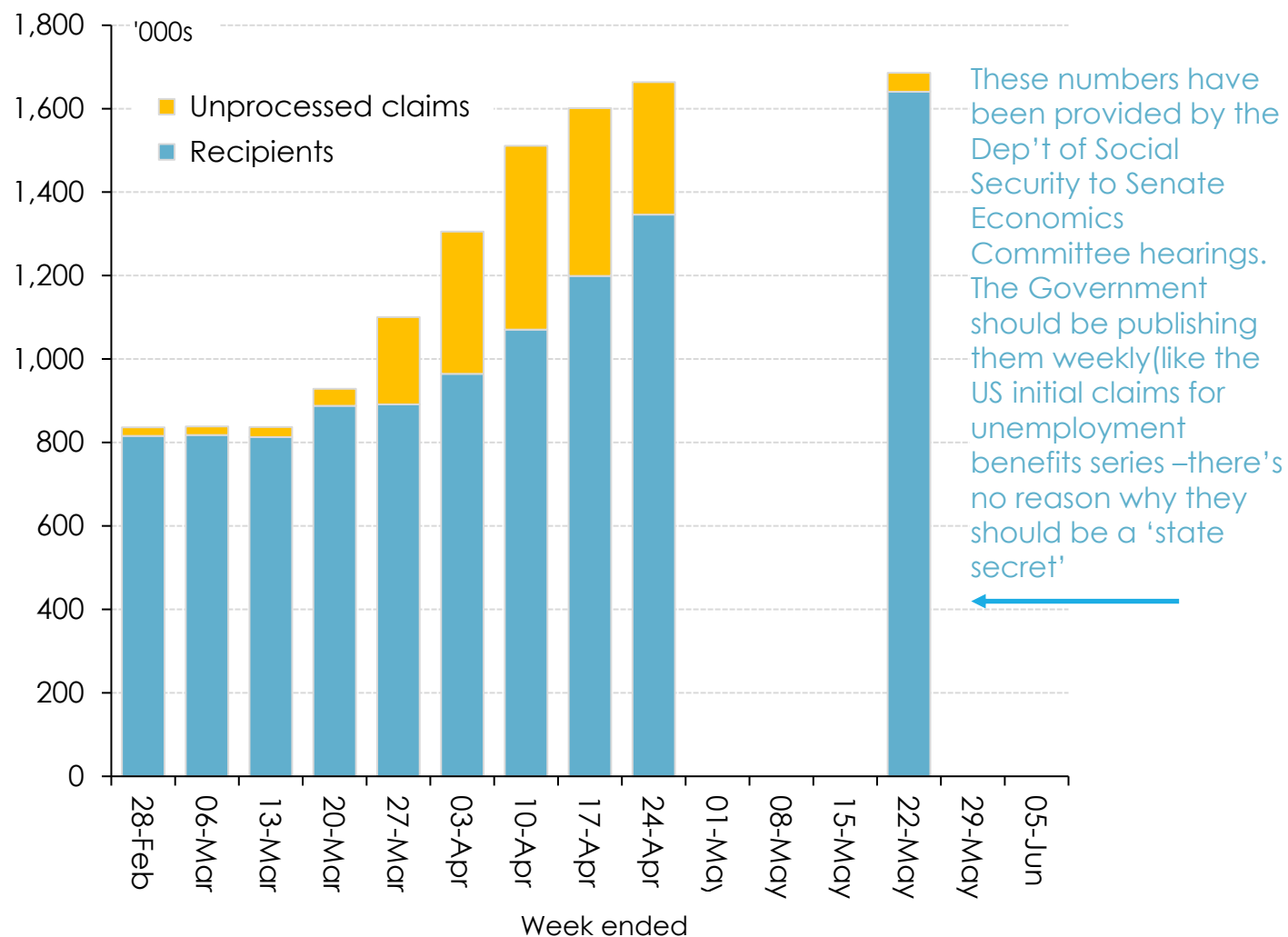
### 'Under-utilization' rate



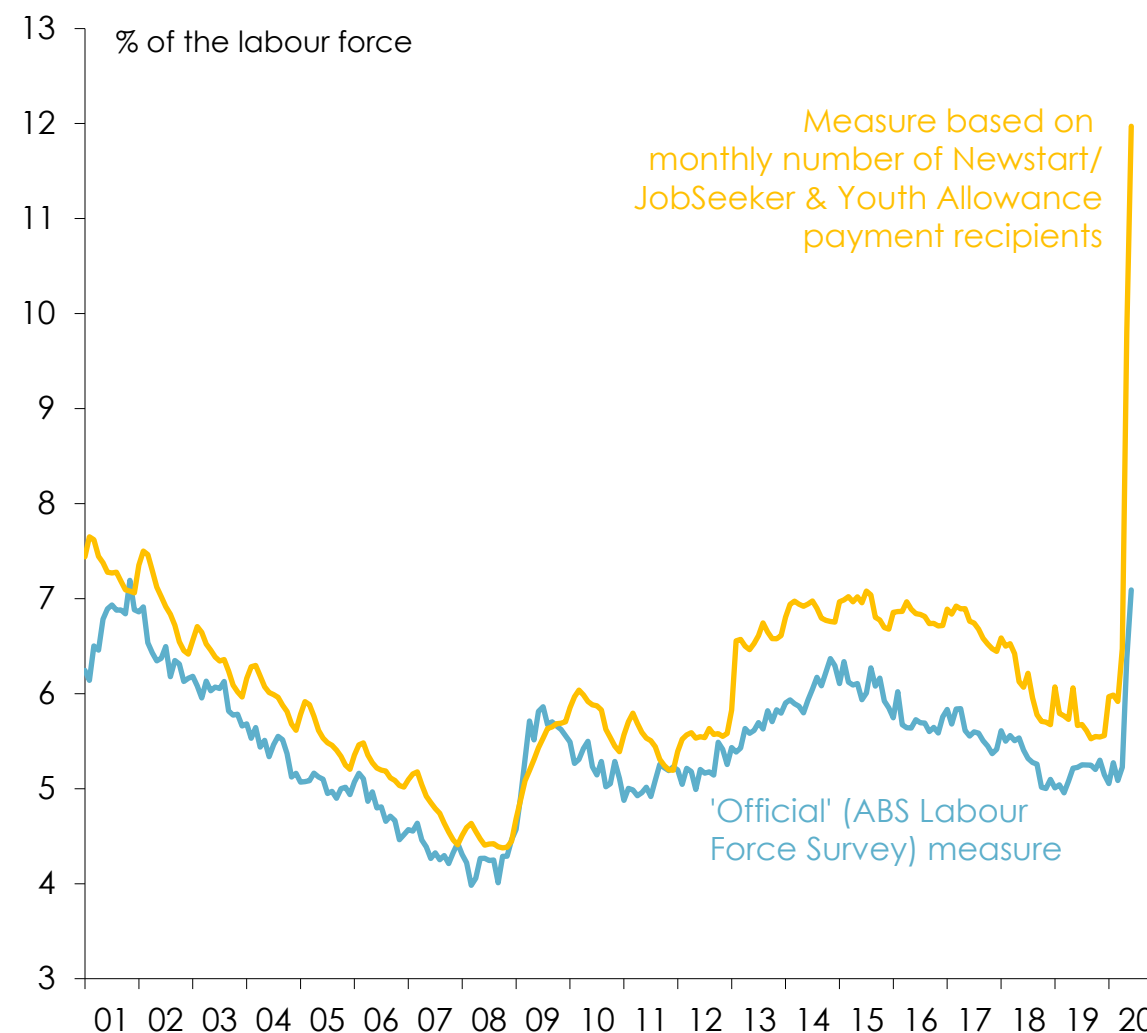
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS (July data will be released this Thursday, 13<sup>th</sup> August).

# The measured unemployment rate is understating the 'true' extent of job losses

## Number of people receiving or seeking Newstart/JobSeeker or Youth Allowance payments



## Alternative measures of the 'unemployment rate'



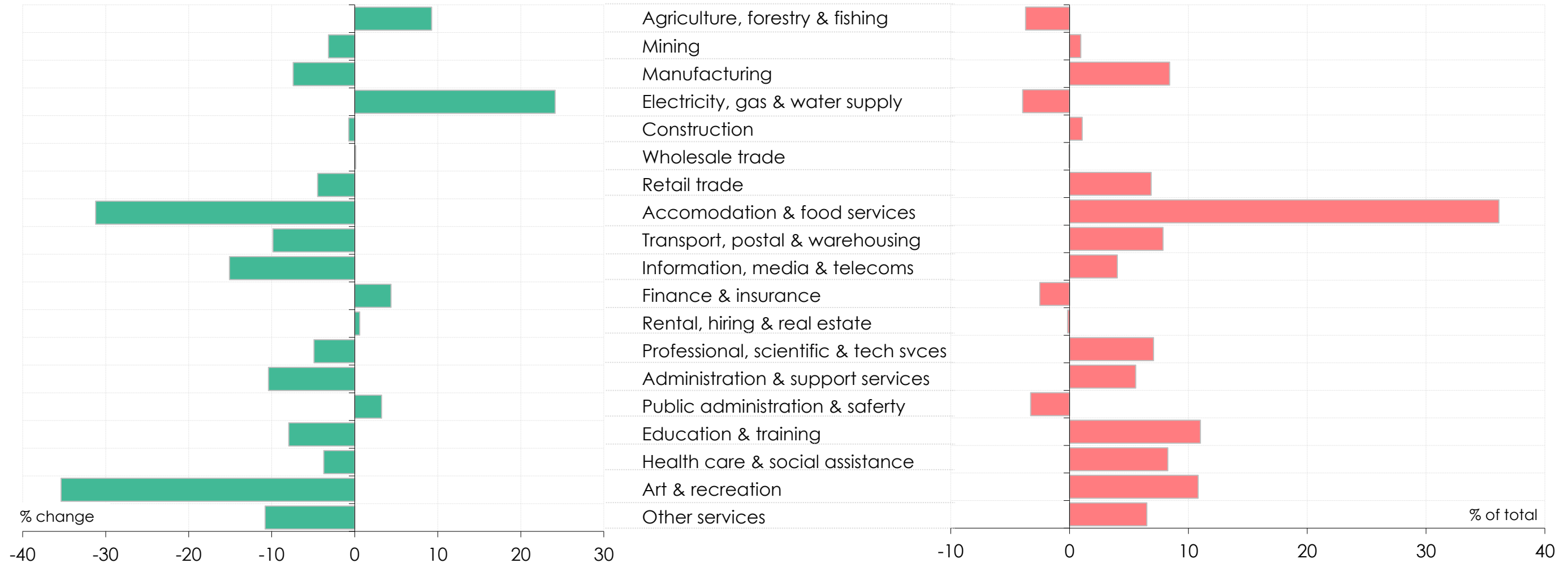
Sources: Department of Social Security; ABS. Note: Youth Allowance recipients excludes full-time students. Number of Newstart/JobSeeker and Youth Allowance recipients is not seasonally adjusted.



# 58% of total job losses between February & May were in accommodation & food services, education & training, and arts & recreation

Change in employment between February and March 2020, by industry

Proportion of change in total employment between February and March 2020, by industry

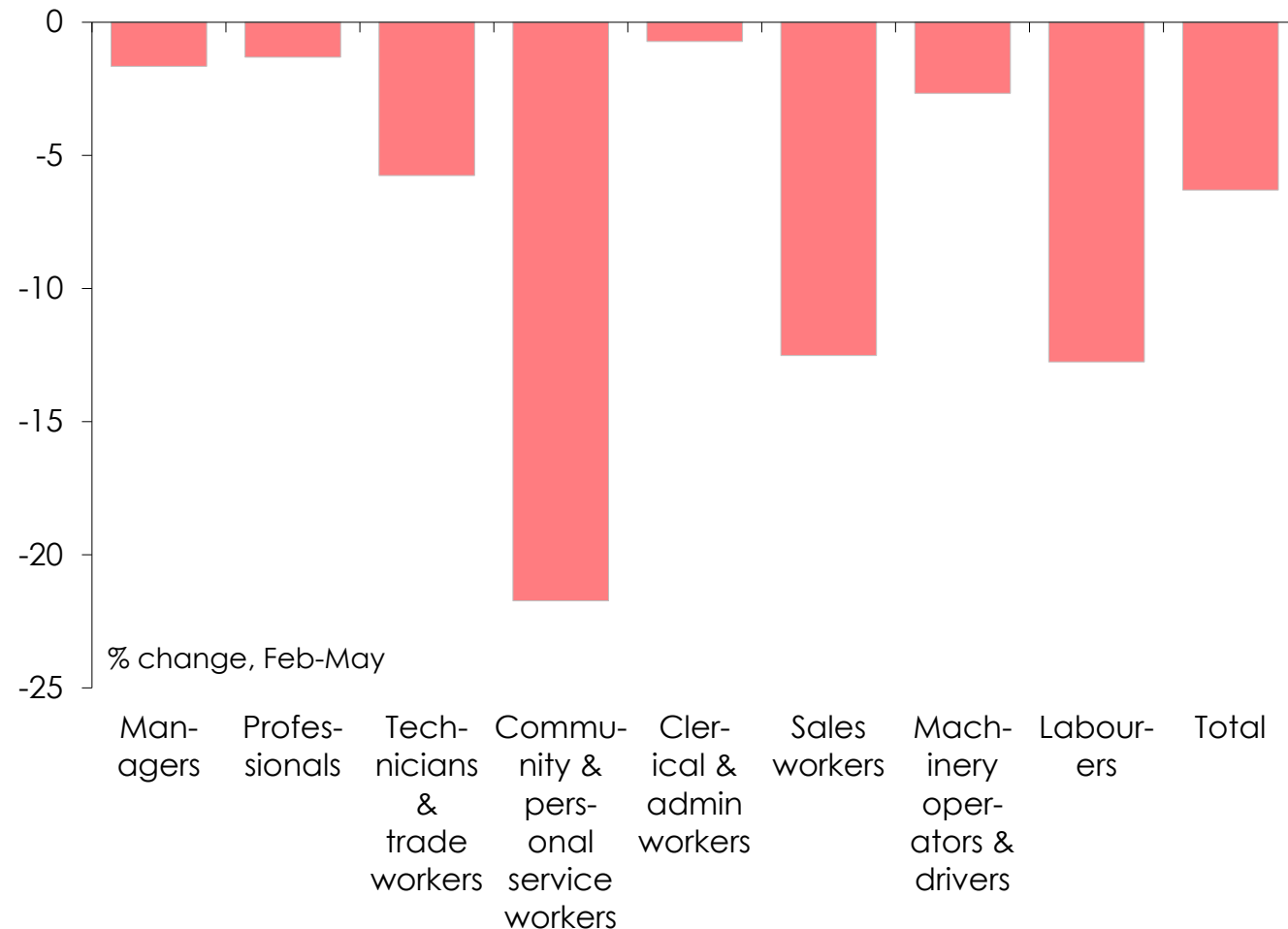


Note: The accommodation & food services, education & training, and arts & recreation services sectors accounted for 15% of total employment in February.  
 Source: ABS, Detailed quarterly labour force data, May 2020. August data will be released on 24<sup>th</sup> September.

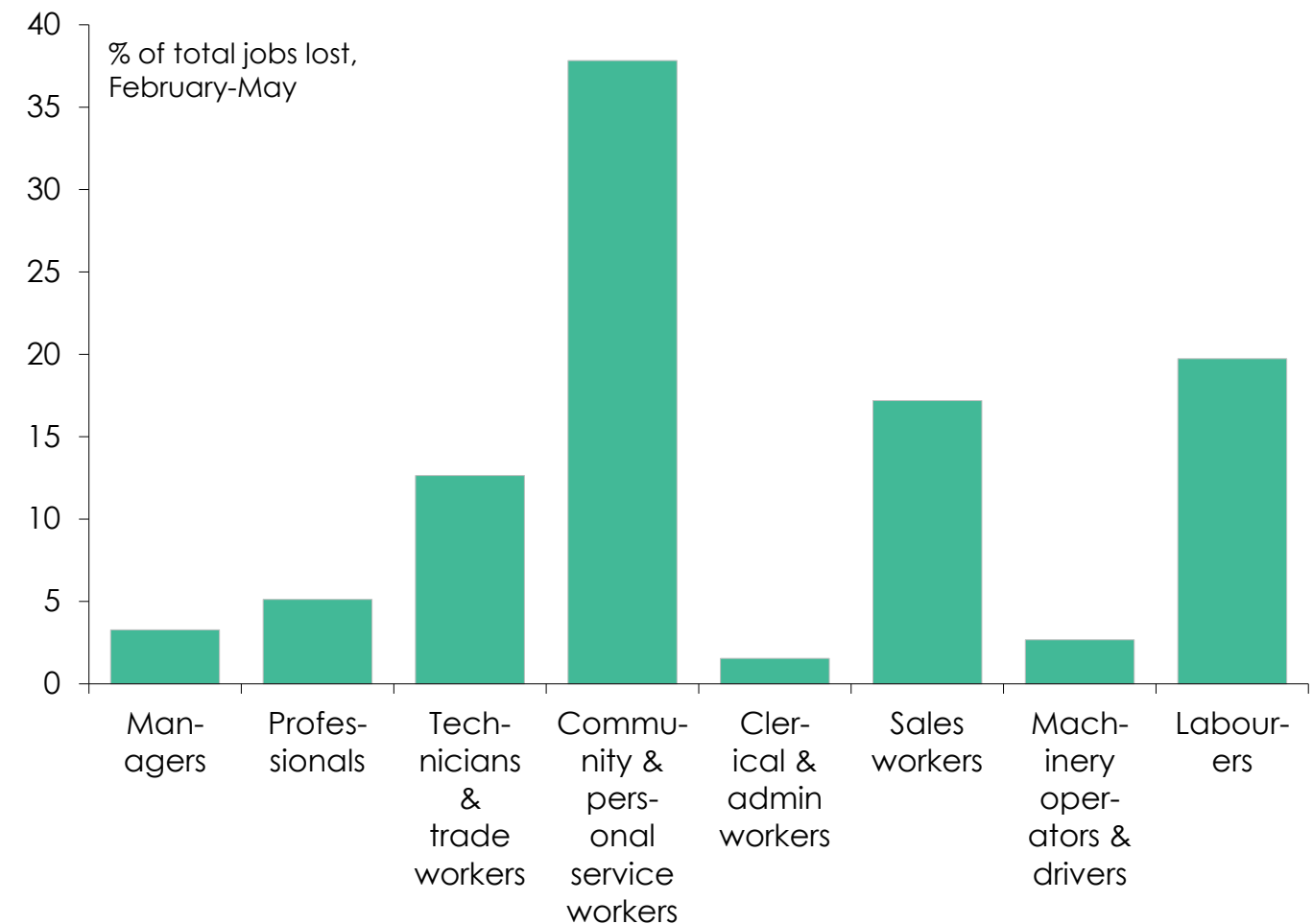


# Community & personal service workers, sales workers and labourers have accounted for 75% of job losses since February

Change in employment between February and March 2020, by occupation



Proportion of change in total employment between February and March 2020, by occupation



Source: ABS, Detailed quarterly labour force data, May 2020. August data will be released on 24<sup>th</sup> September.

# Women bore 53% of the job losses between February & May, in part because they typically work in occupations or industries which have been hardest hit

## Women's share of jobs in February, and of job losses since February, by occupation



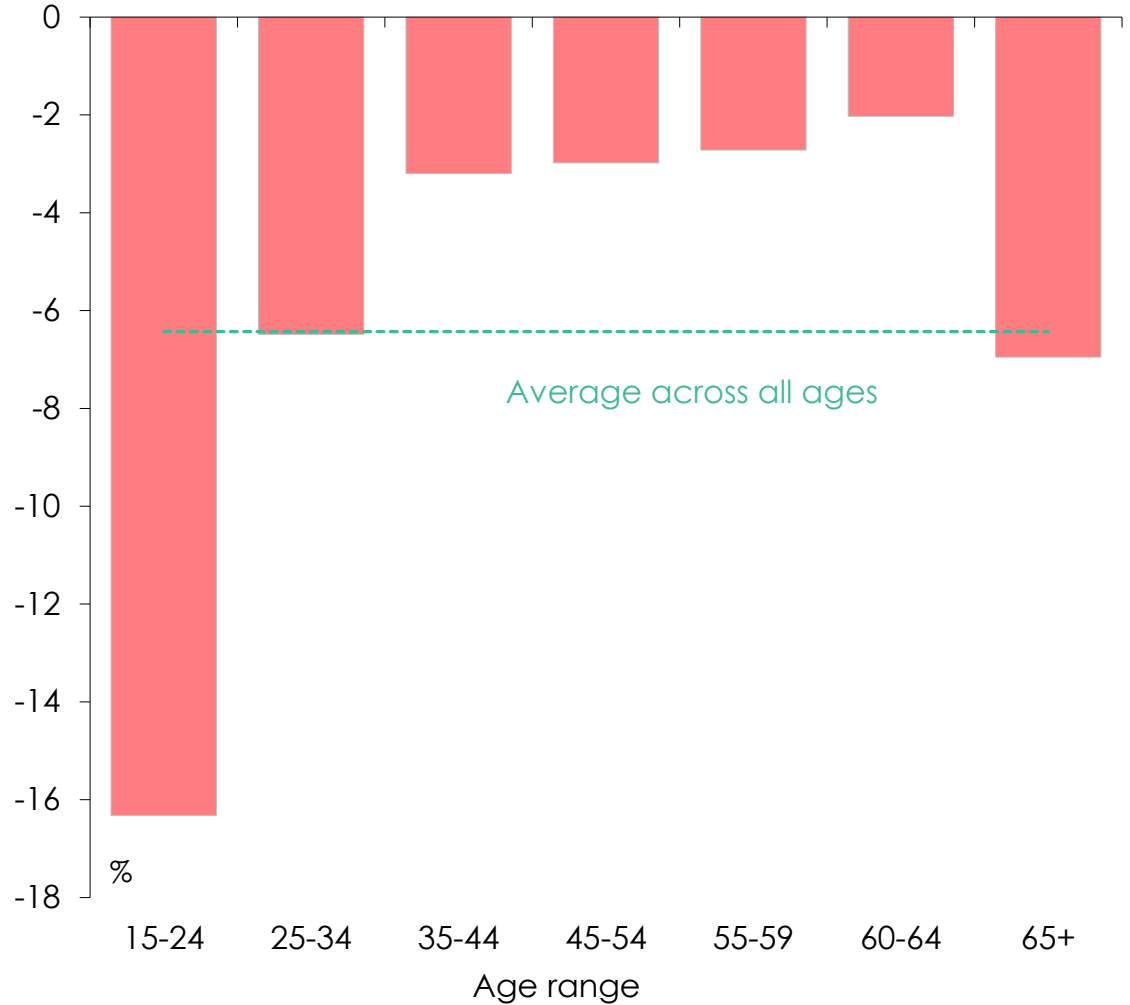
## Women's share of jobs in February, and of job losses since February, by industry



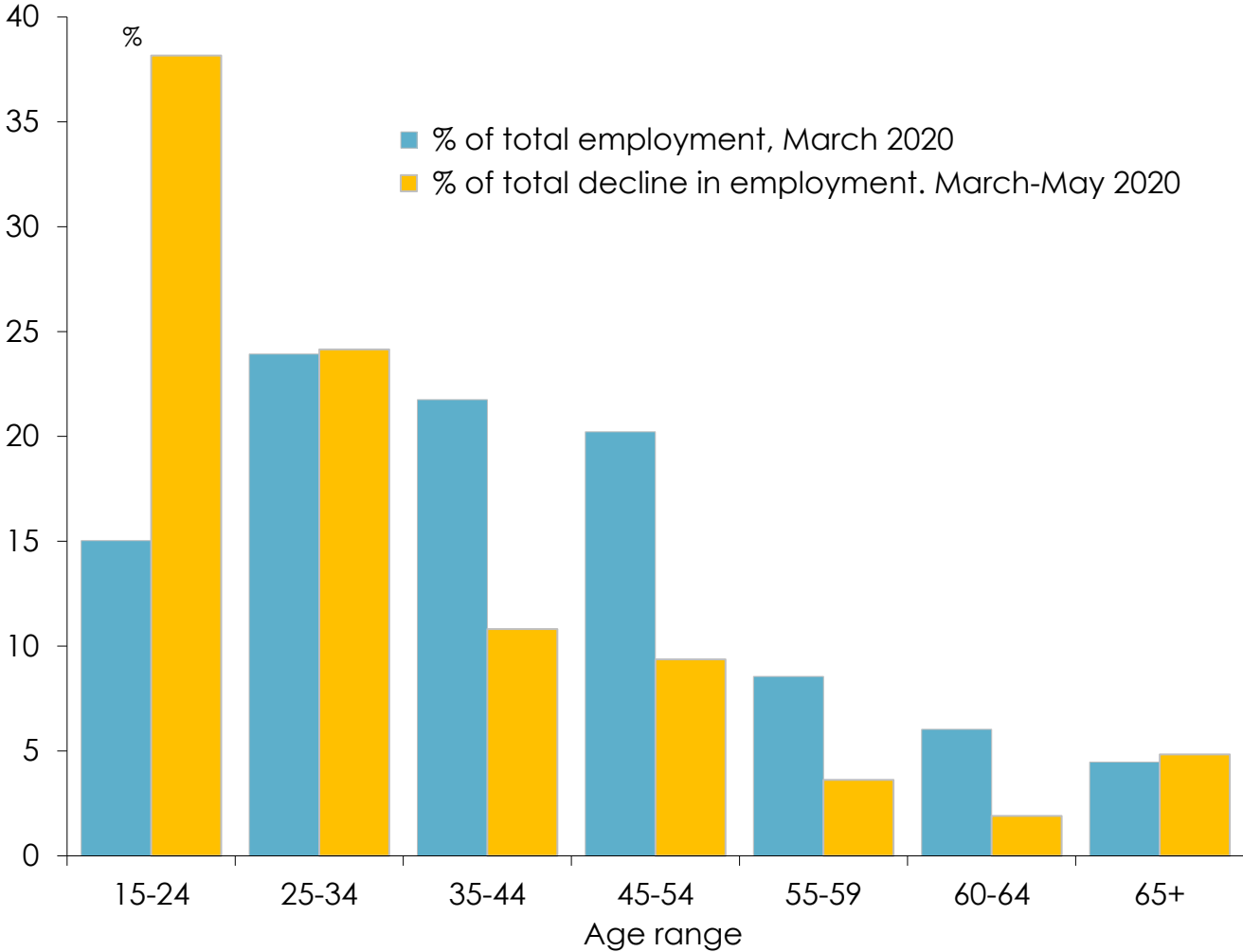
Note: Data depicted in these charts are not seasonally adjust. "nm" = "not meaningful", because employment of women in the industry thus marked either increased between February and May 2020; or fell despite total employment in that industry rising between February and May.  
 Source: ABS, Detailed quarterly labour force data, May 2020. August data will be released on 24th September.

# People aged 15-24 accounted for 15% of total pre-pandemic employment but have experienced 38% of the jobs lost since March

Change in employment, March-May 2020, by age range



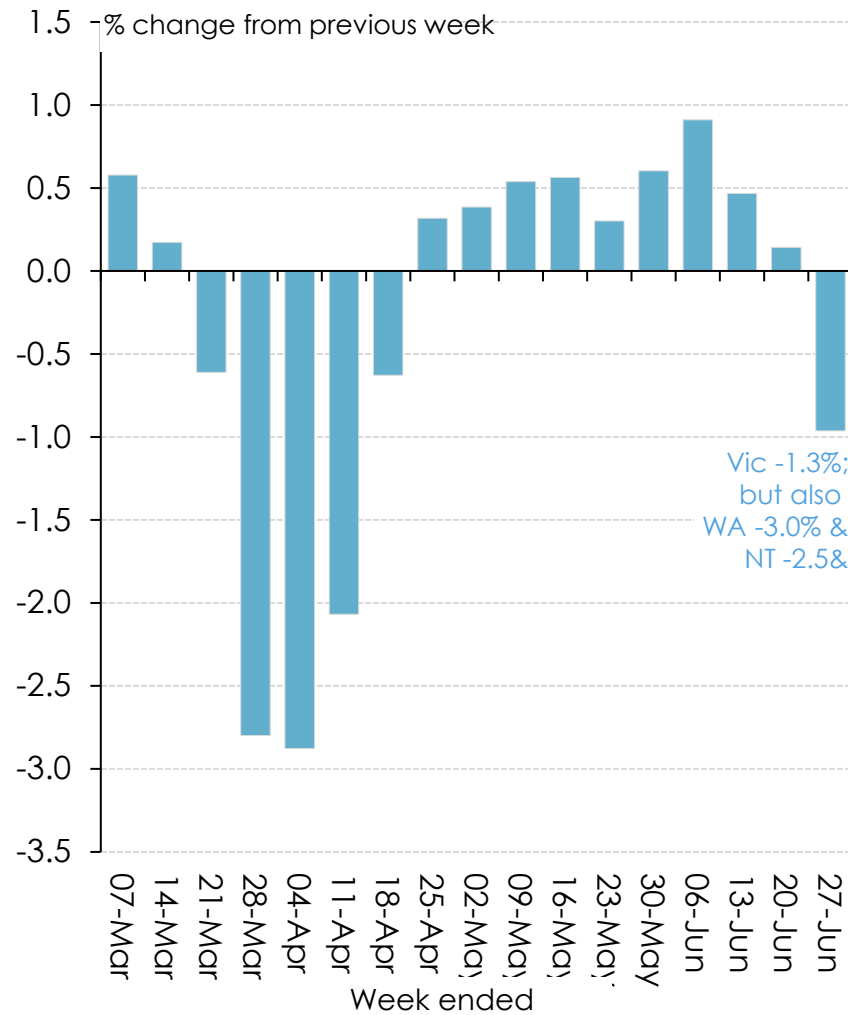
Share of total job losses between March and May 2020 and share of total employment in March, by age group



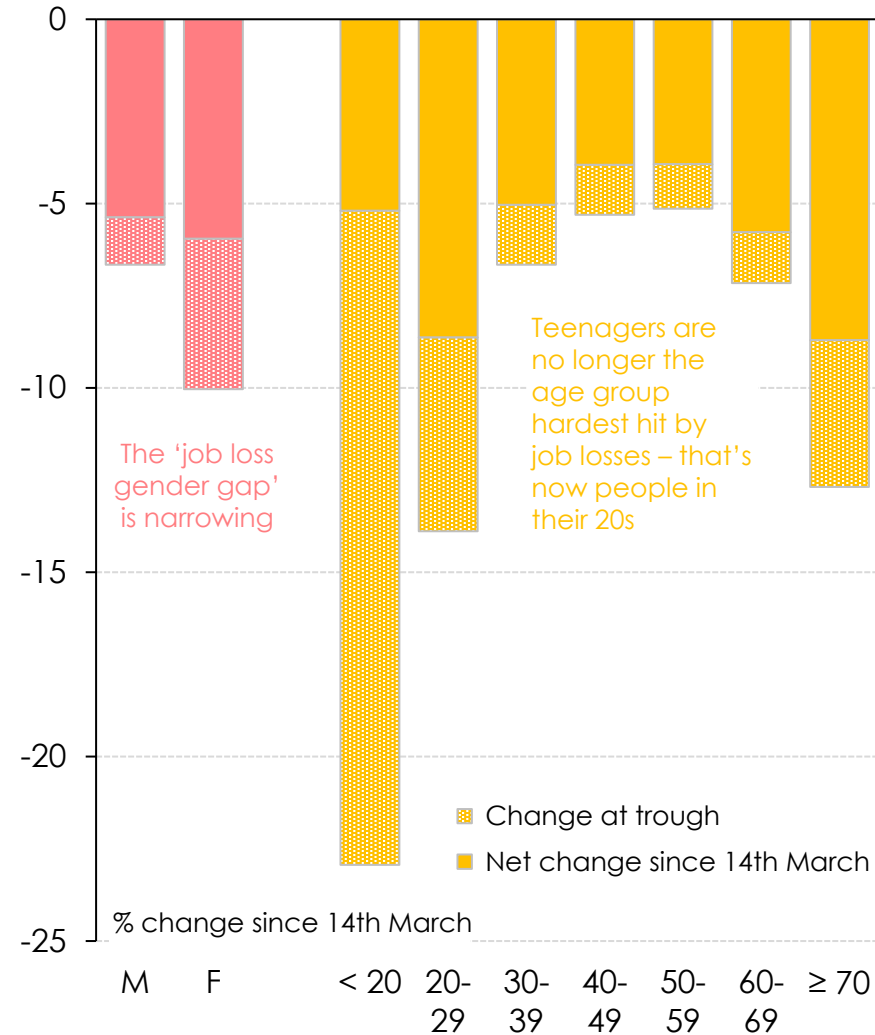
Source: ABS detailed monthly labour force data, May 2020; Corinna. August data will be released on 24th September.

# The recovery in payroll employment stalled and went into reverse in the second half of June – and not just because of Victoria

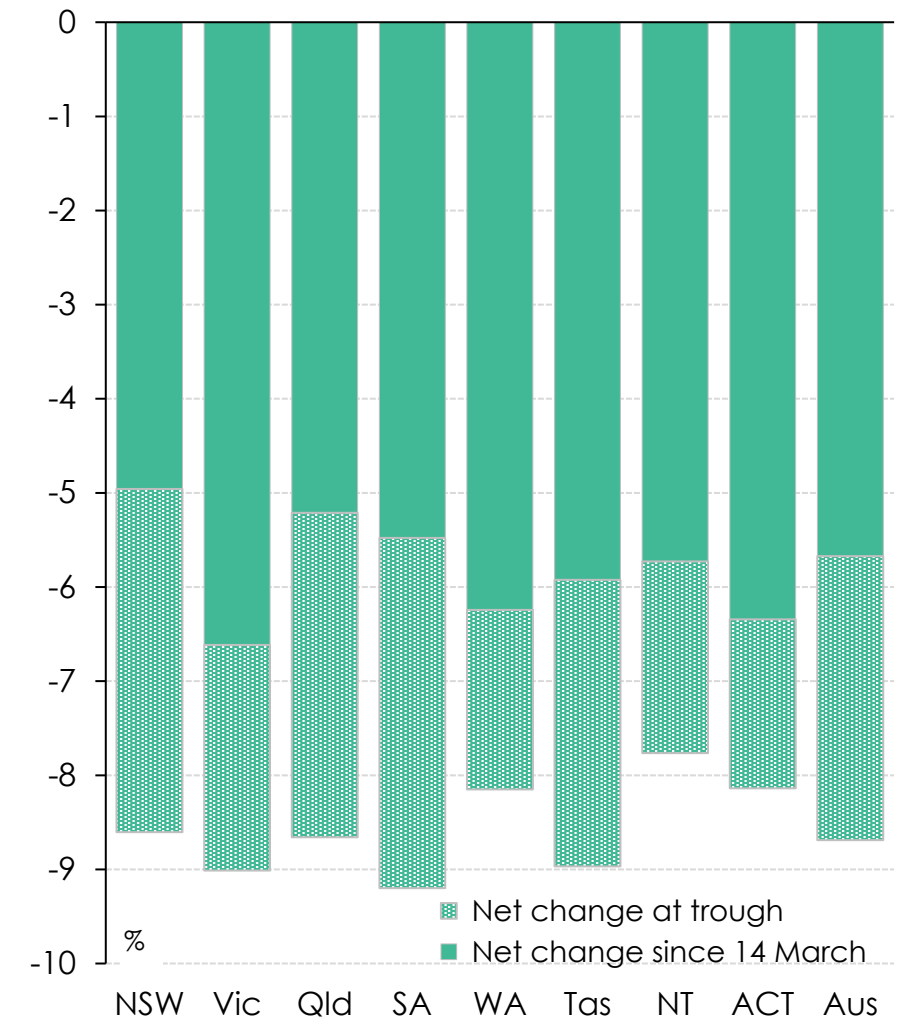
## Weekly change in number of payroll jobs



## Change in payroll jobs by age & gender



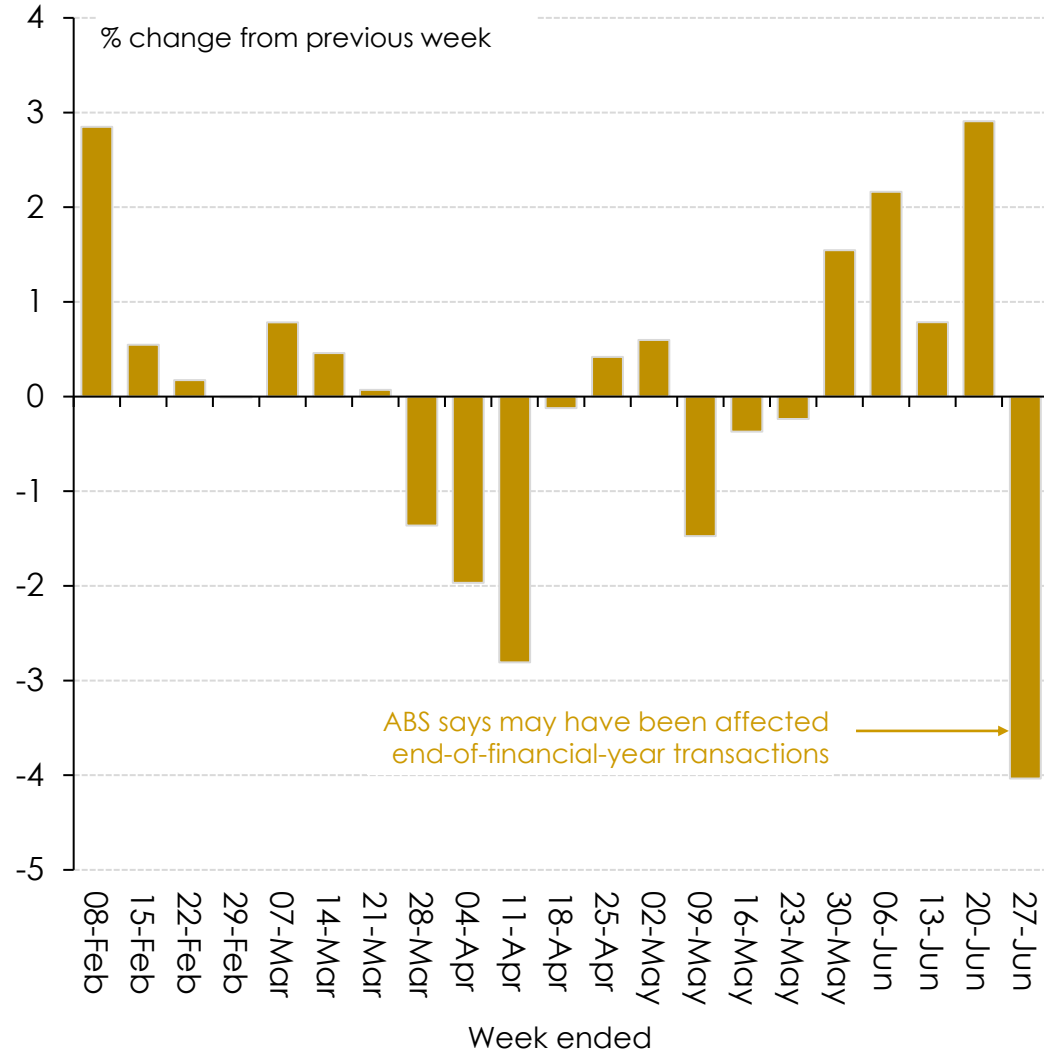
## Change in payroll jobs by State & Territory



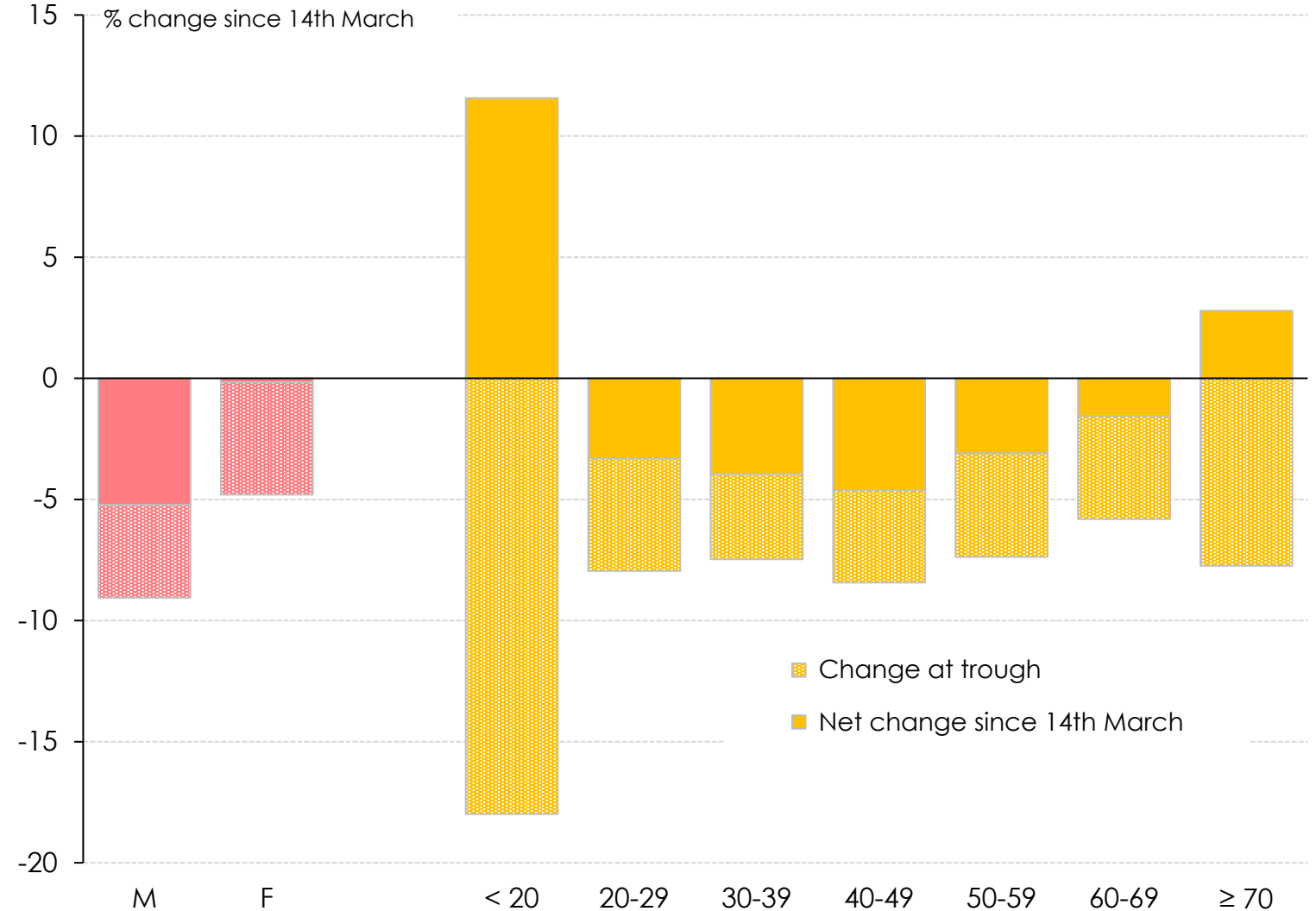
Source: ABS. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are counted more than once. Data are not seasonally adjusted. Data for weeks up to week ended 11<sup>th</sup> July will be released on 28<sup>th</sup> July.

# Wages have risen since the Government's JobKeeper program started, and teenagers are getting paid more than they were before the shutdown

## Weekly change in total wages paid



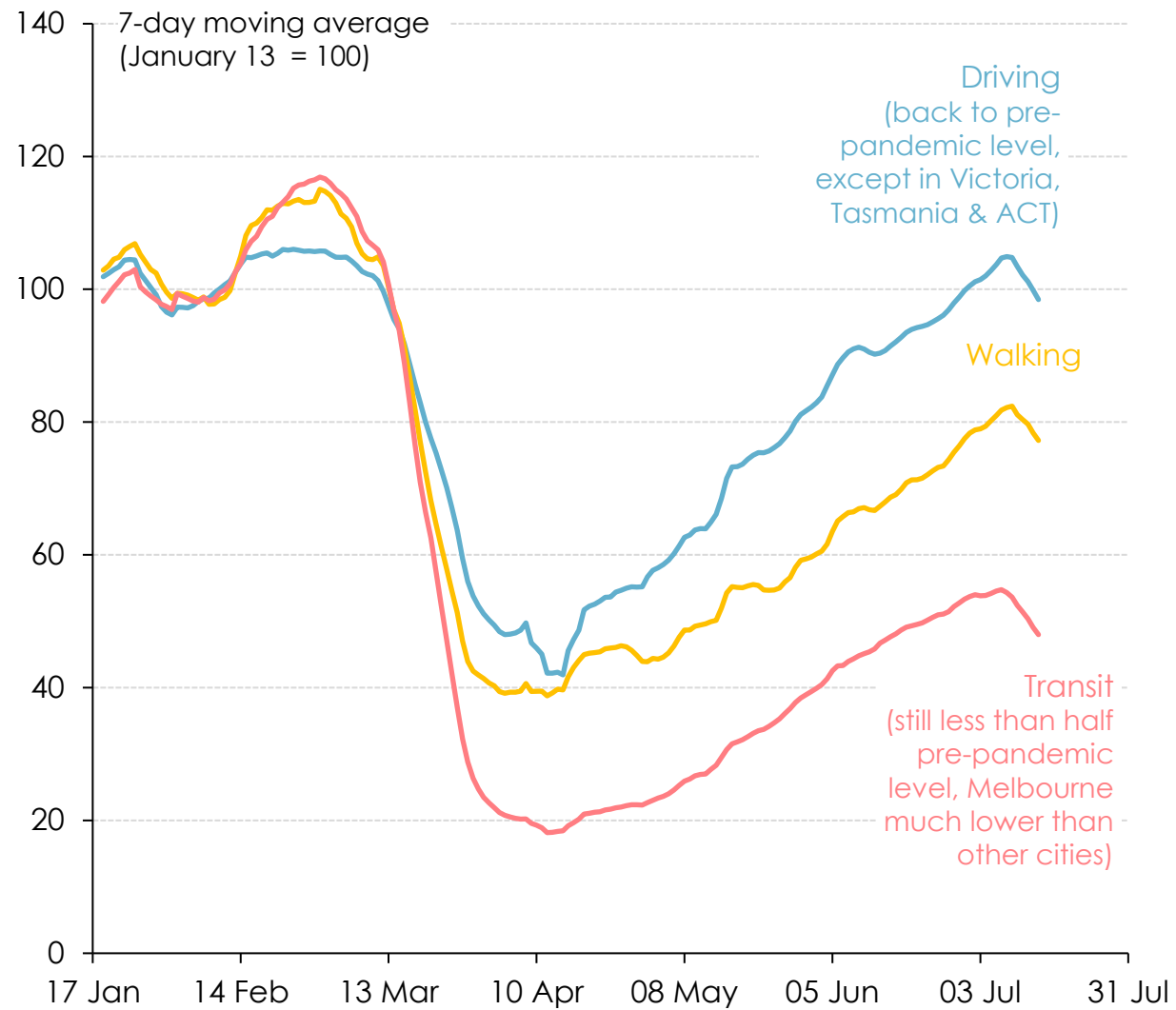
## Change in total wages paid by gender and age group



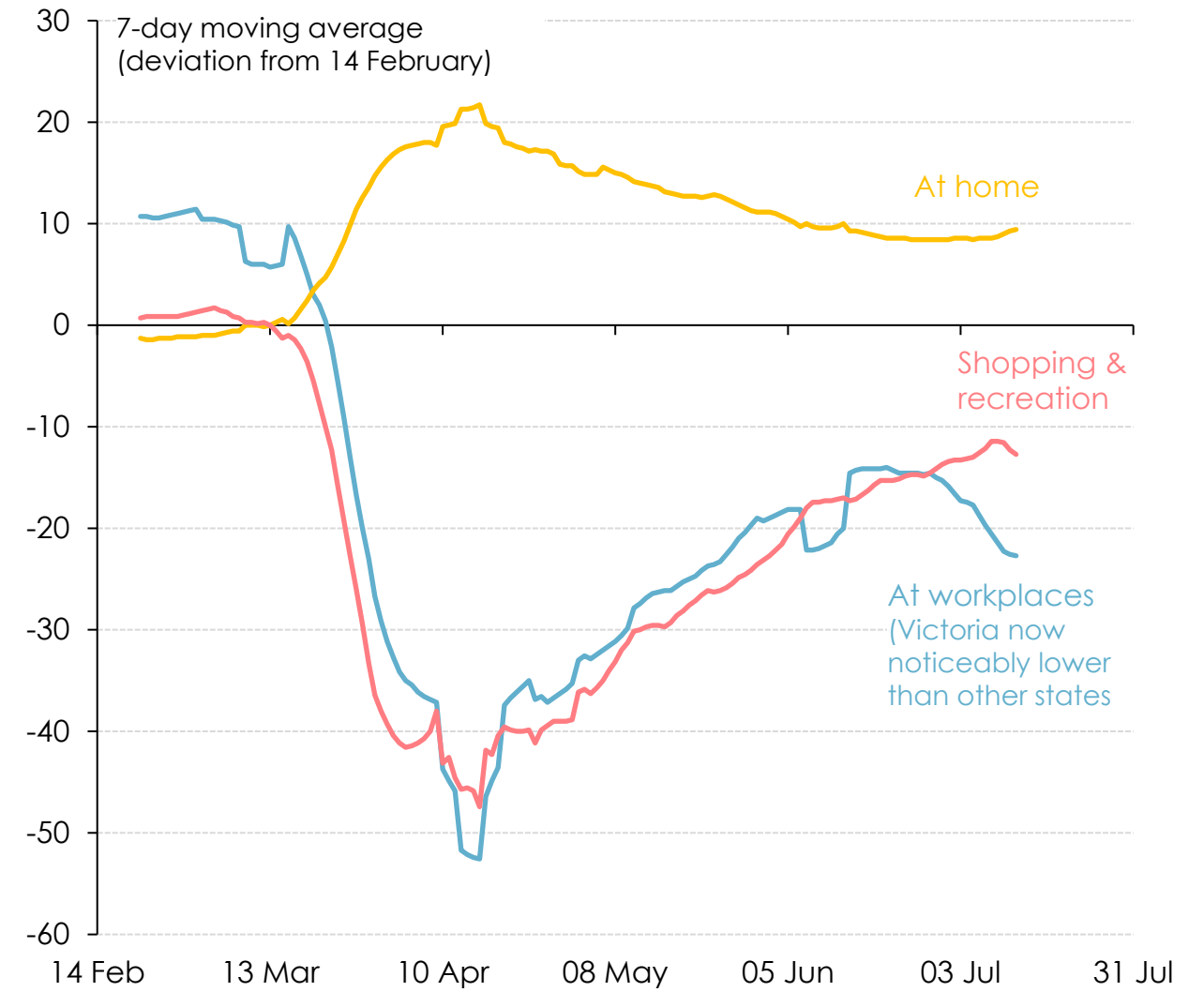
Note: The smaller fall in women's wages than men's likely reflects the fact that JobKeeper payments (at a flat rate of \$1500 per employee per fortnight) represent a higher proportion of women's (lower) average earnings than men's. Ditto for teenagers (most of whom work part-time). Source: ABS. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are counted more than once. Data are not seasonally adjusted.

# Australians are starting to get out and about again as restrictions ease, but many people are avoiding public transport

## Time spent driving, walking and in transit



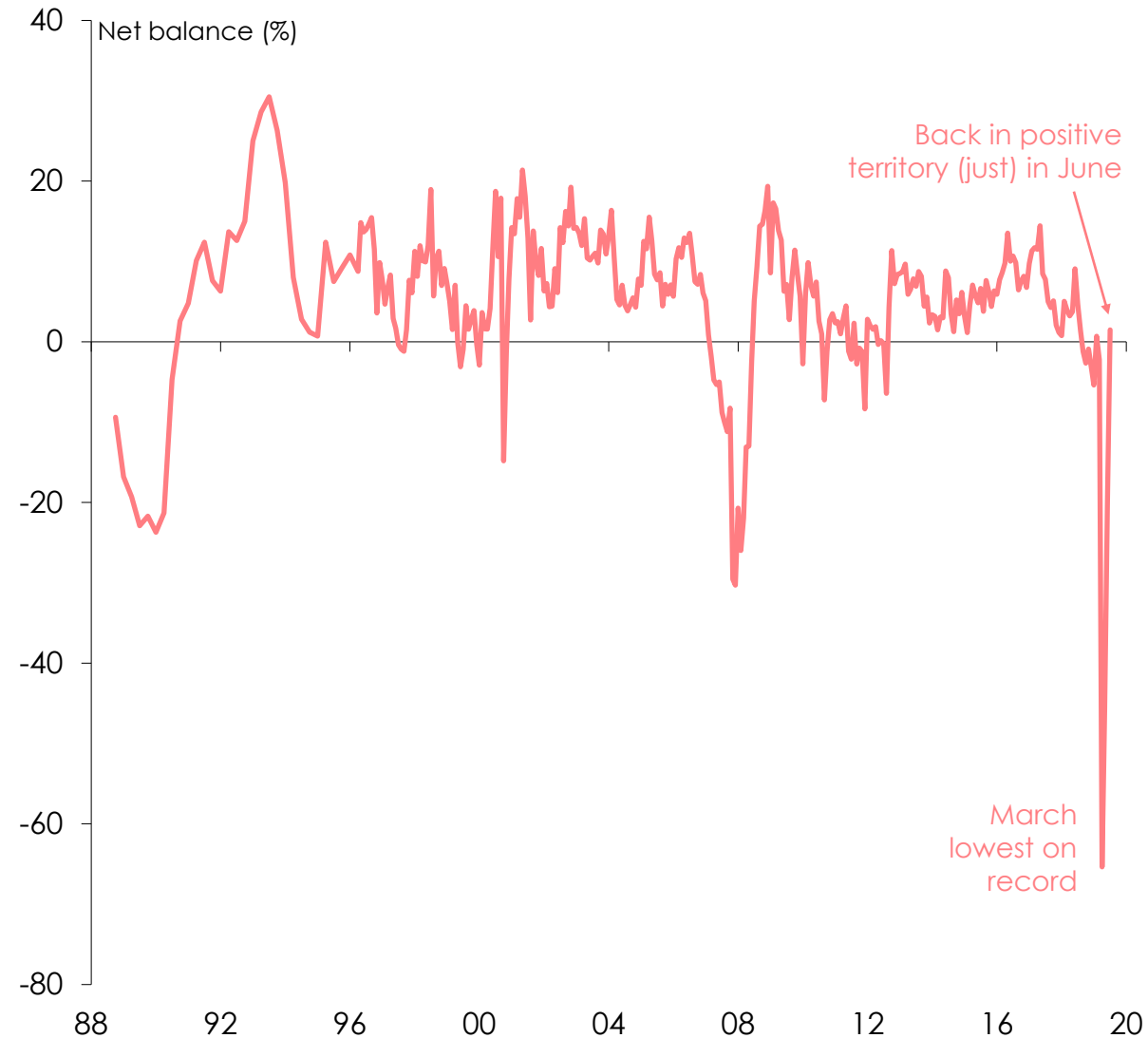
## Time spent working, at home, shopping & playing



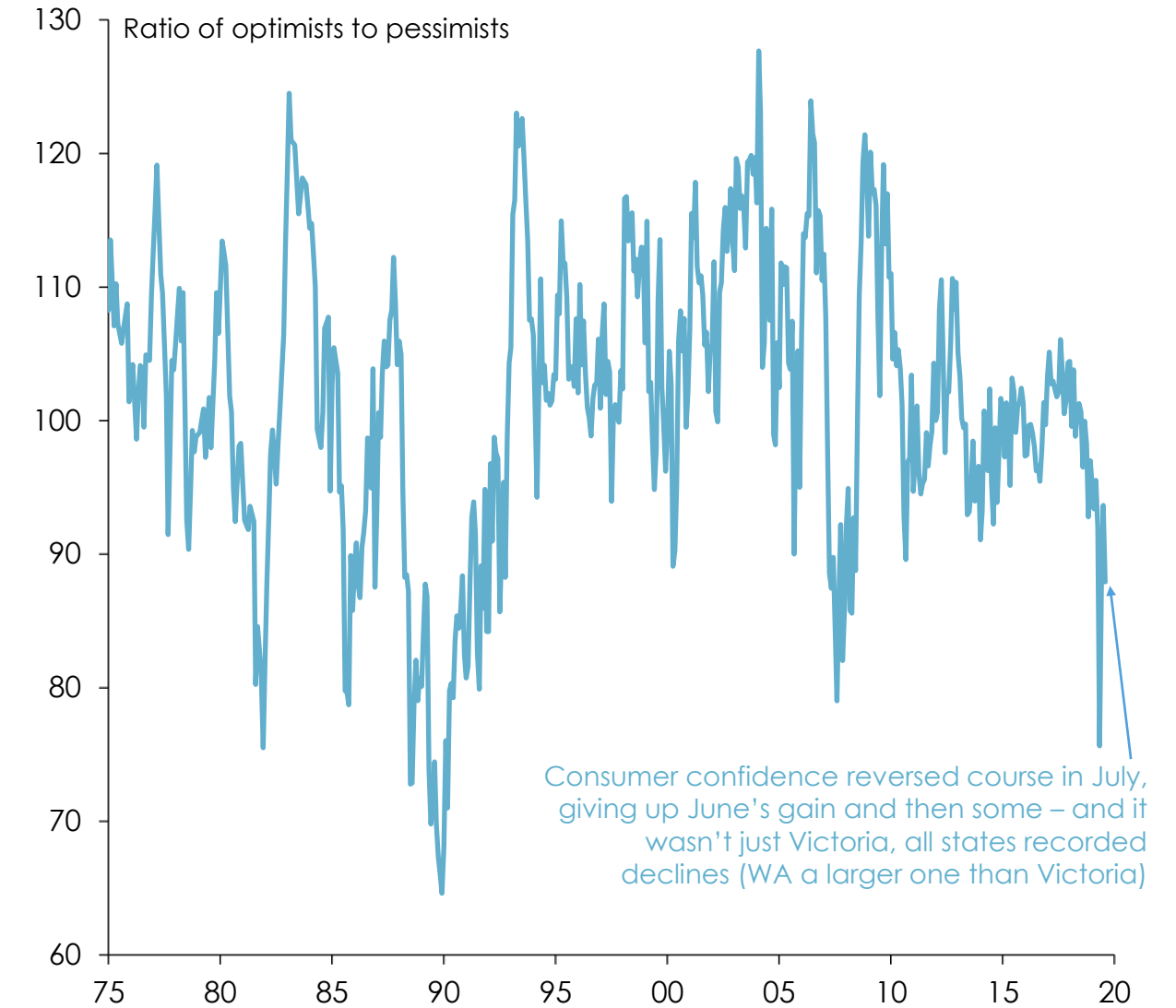
Note: 'transit' means using public transport. Sources: Apple Mobility Trends Reports (data up to 14<sup>th</sup> July); Google Covid-19 Community Mobility Reports (data up to 12<sup>th</sup> July). For state-level data see slide 91.

# Business confidence improved significantly in June, but the June gains in consumer confidence were more than reversed in July

## Business confidence



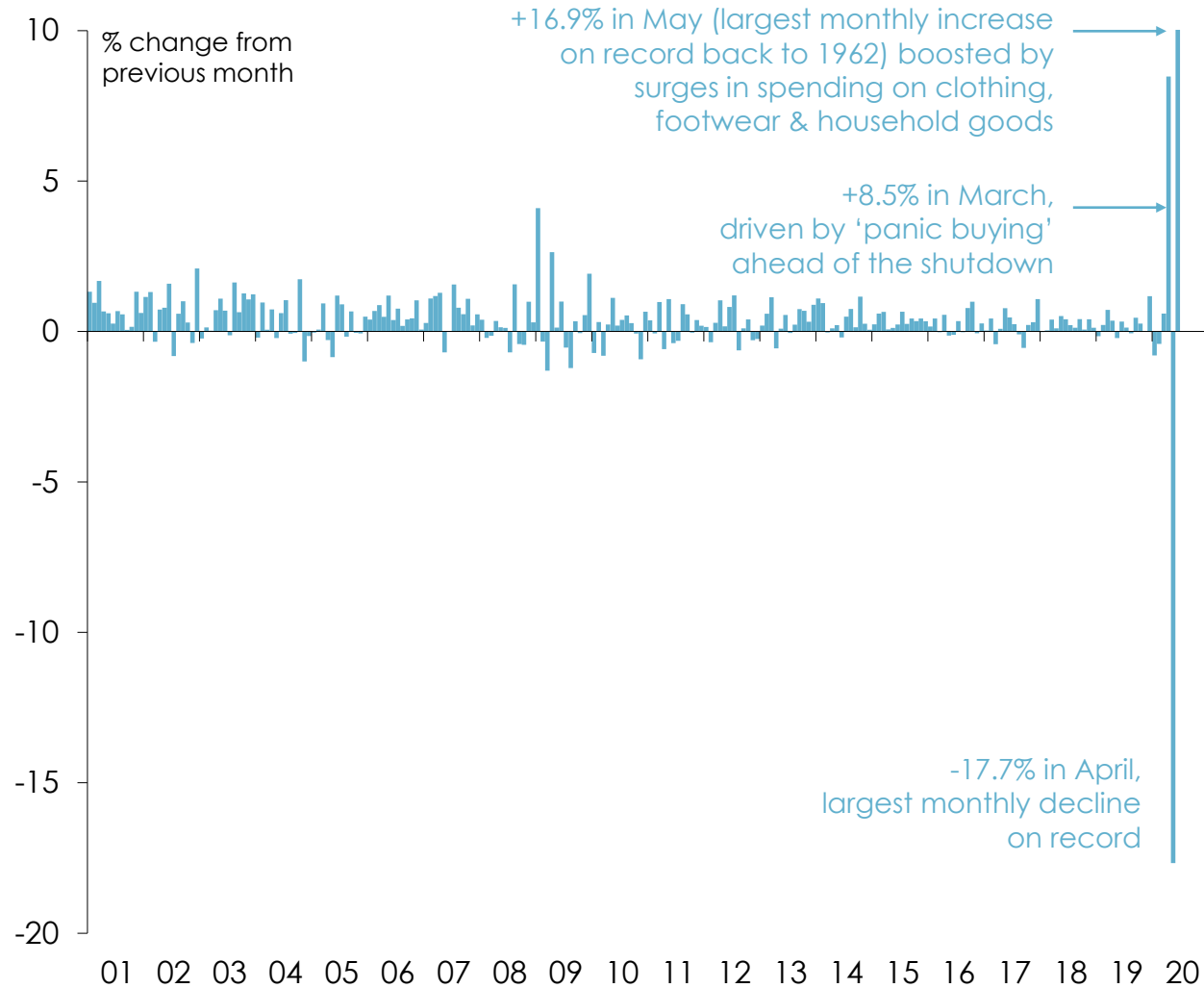
## Consumer confidence



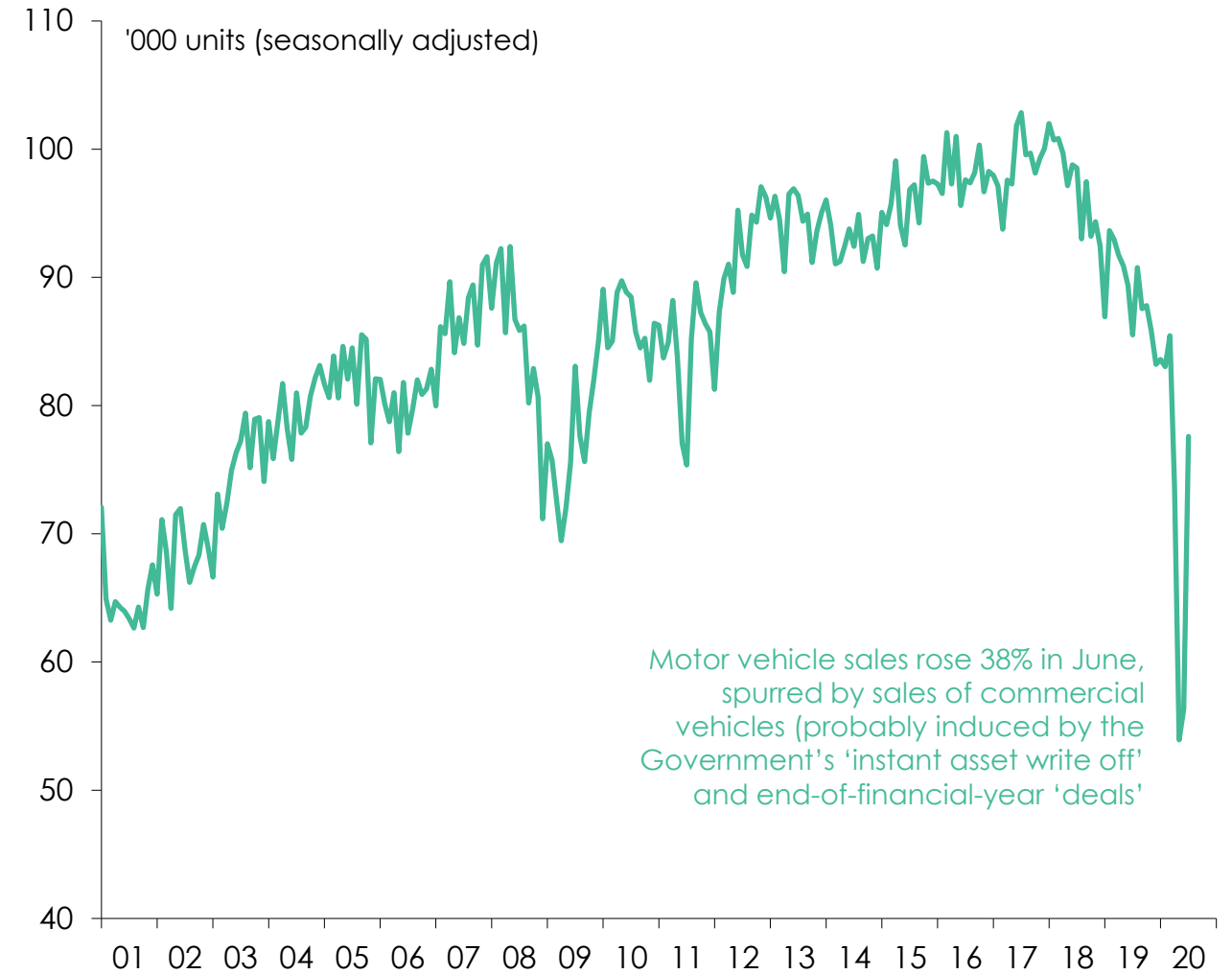
Sources: National Australia Bank; Westpac-Melbourne Institute. July and August data will be released on 11<sup>th</sup> and 12<sup>th</sup> August, respectively.

# Retail sales rebounded 16.9% in May after a 17.7% decline in April; while vehicle sales surged in June (though still well below year-earlier levels)

## Retail sales



## Motor vehicle sales

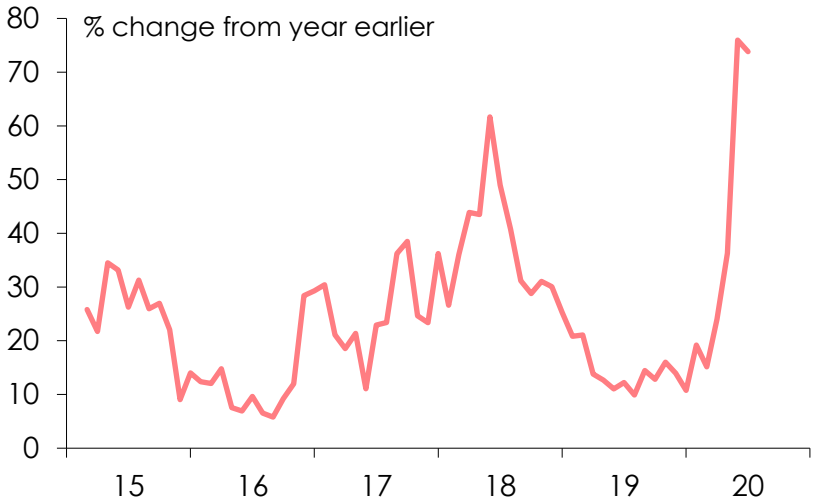


Sources: ABS; Federal Chamber of Automotive Industries VFACTS (seasonal adjustment of FCAI data by Corinna). Preliminary retail sales data for June will be released on 22<sup>nd</sup> July, final data on 4<sup>th</sup> August.

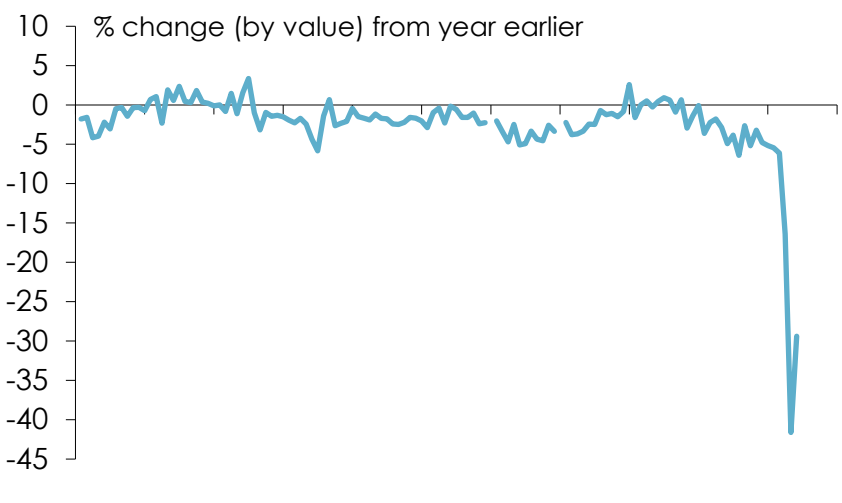


# The pandemic and lockdown has accelerated changes in the way Australians shop, and make payments

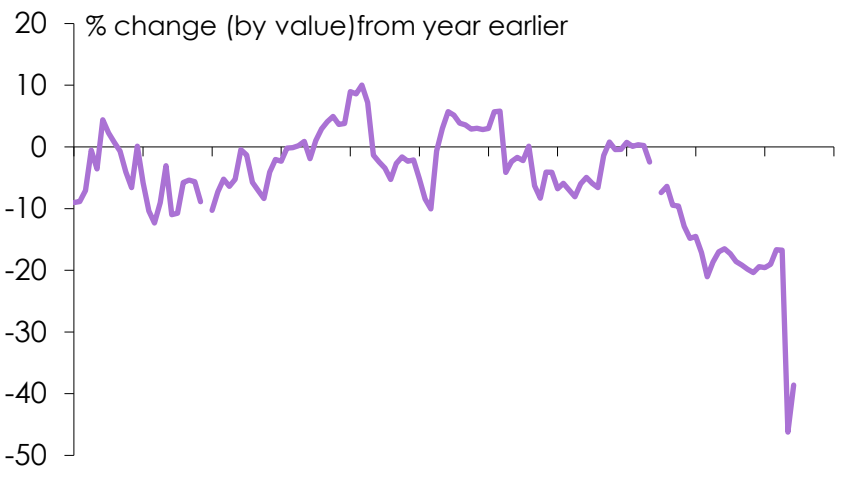
**Growth in online retail sales**



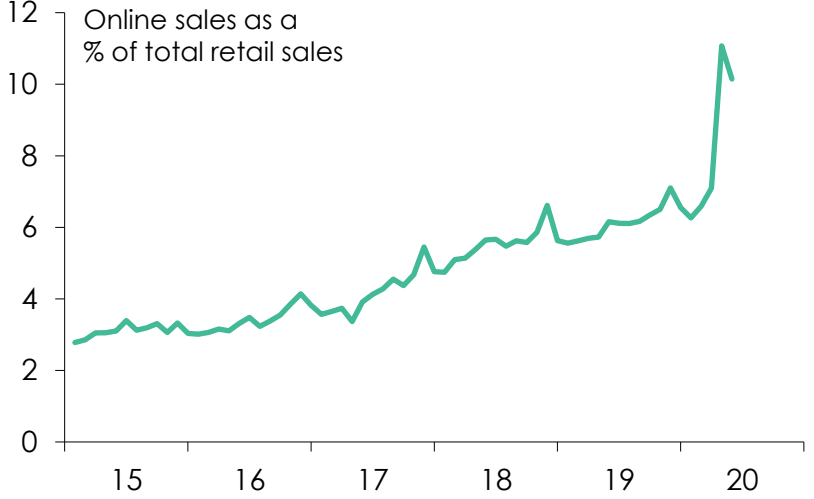
**ATM cash withdrawals**



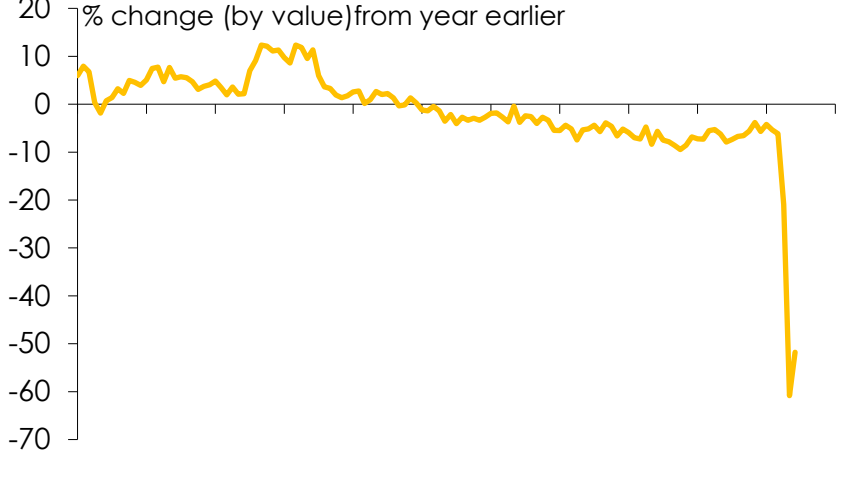
**Credit card cash advances**



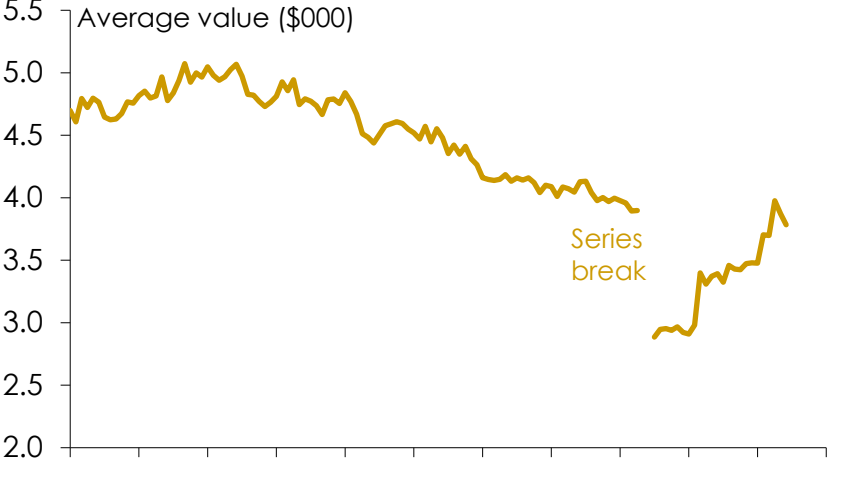
**Online retail 'market share'**



**Debit card cash-outs**



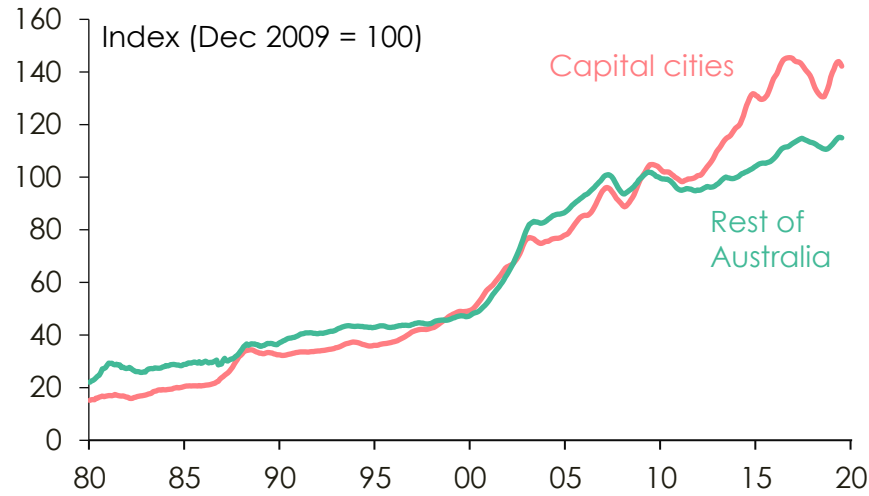
**Direct entry payments**



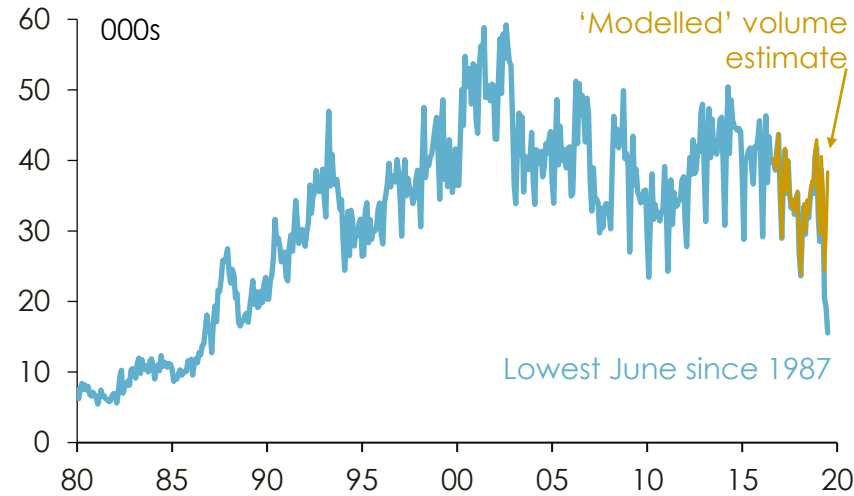
Sources: ABS; RBA. Latest data are for June: online retail sales data for July will be released on 4<sup>th</sup> August and payments system data on 10<sup>th</sup> August.

# Property prices fell by an average of 1.0% over May and June on thin volumes, largely reflecting falls in top quartile prices

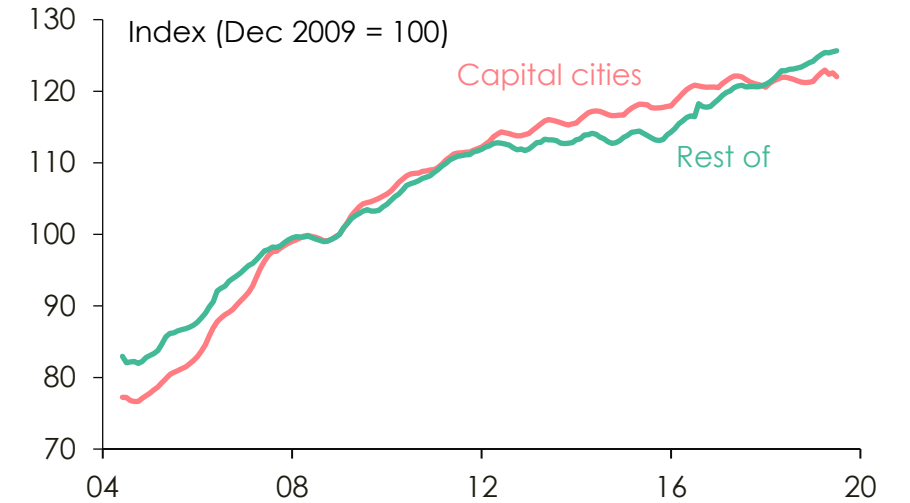
## Residential property prices



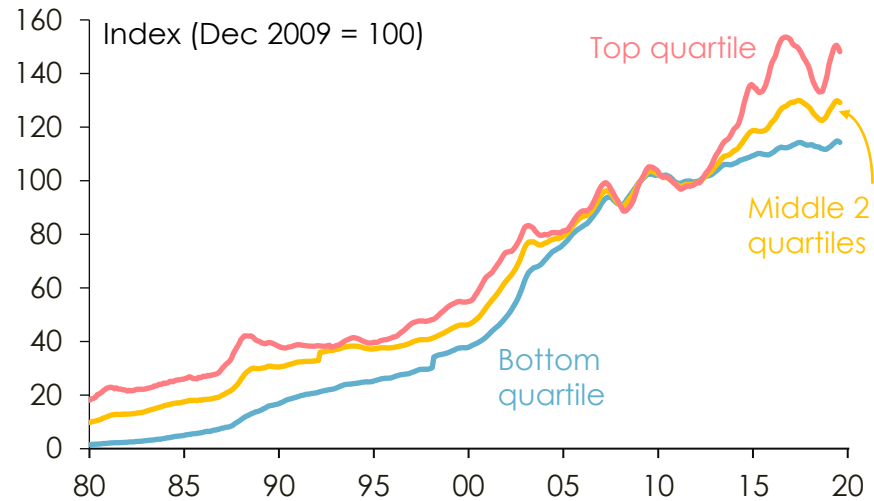
## Residential property sales volumes



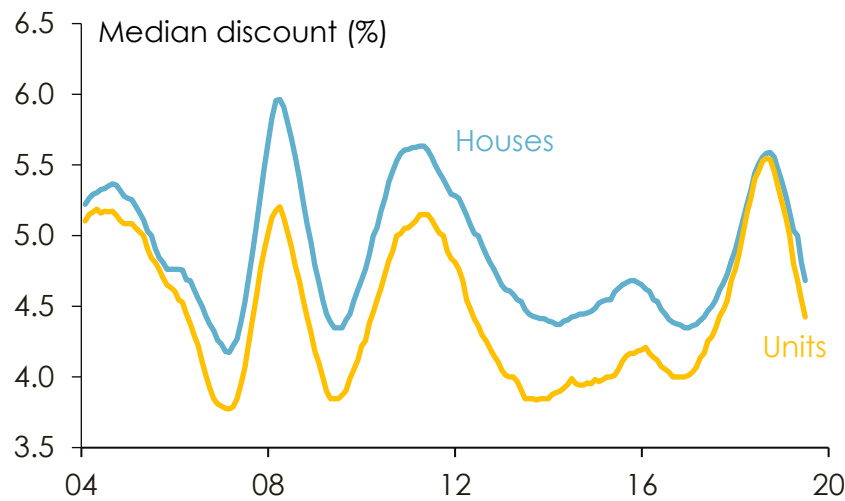
## Residential rents



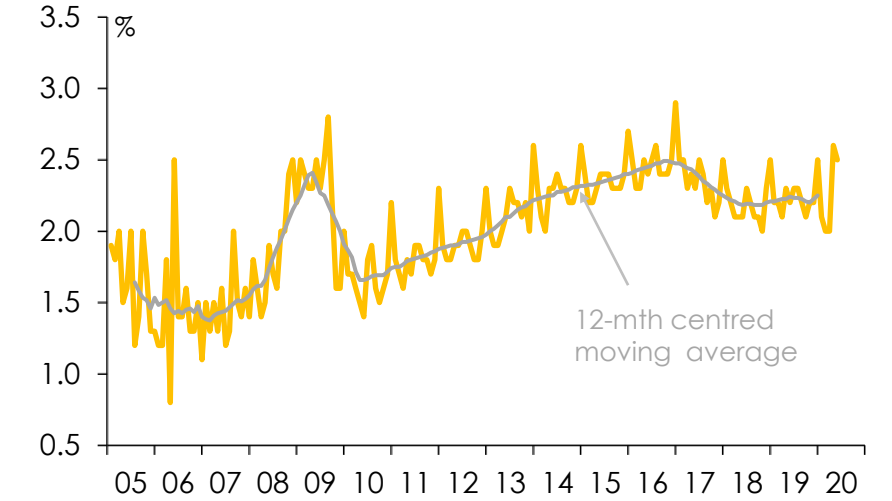
## Property prices by tier



## Vendor discounting



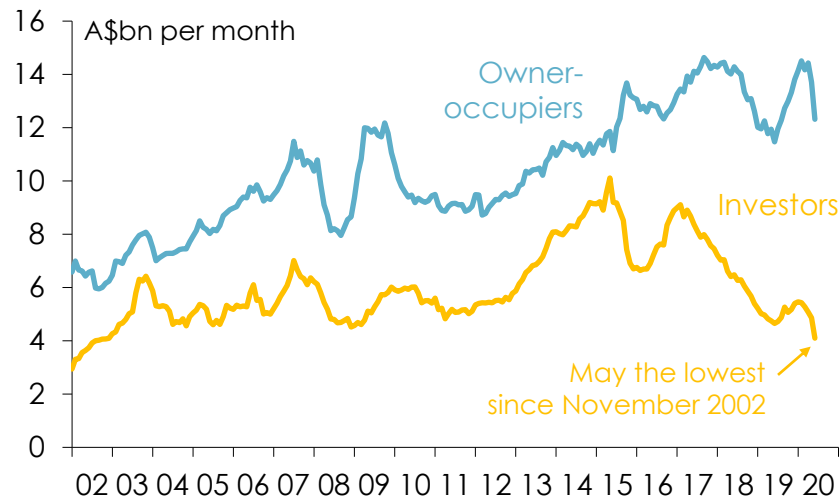
## Capital city rental vacancy rates



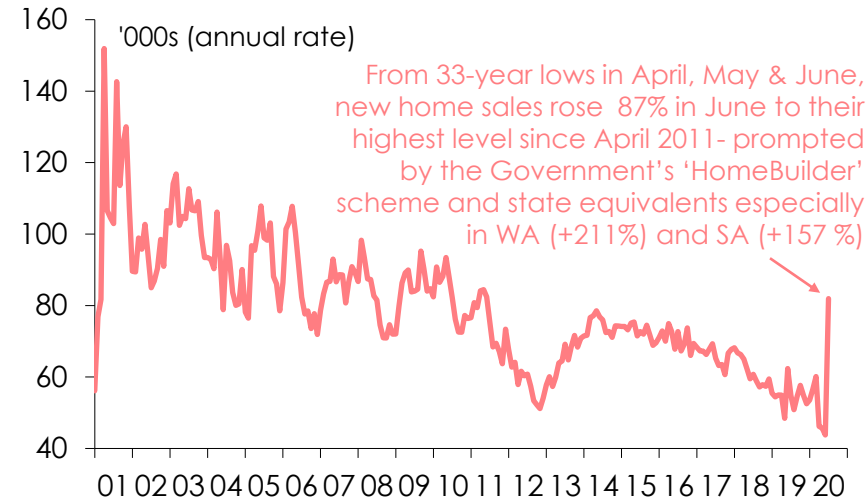
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. The index of residential rents uses a similar methodology to measure the 'organic' change in underlying rents. The 'modelled' sales volume estimates seek to account for delays in receiving information on transactions that have yet to settle (which can be more than six weeks after the contract date). Latest data are for June 2020; July data released on 3<sup>rd</sup> August. Sources: CoreLogic; SQM Research.

# Residential building activity will turn down over the next few months and longer-term will be adversely affected by sharply lower immigration

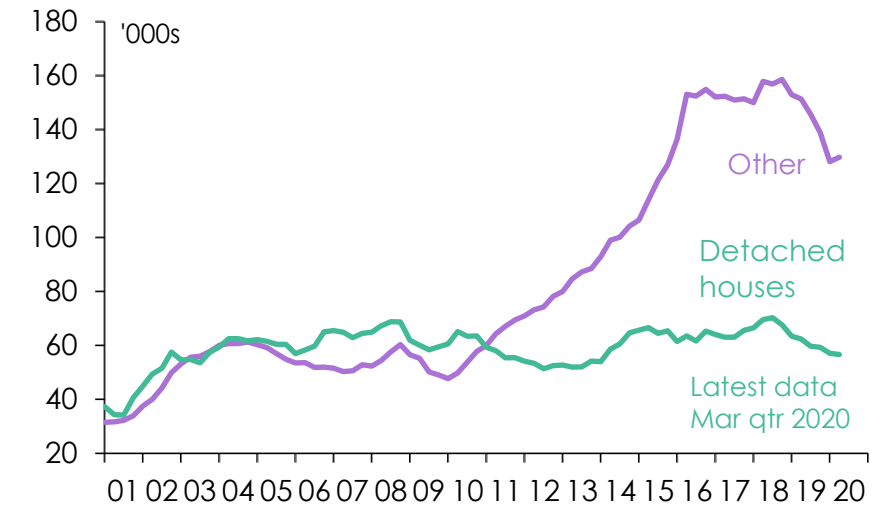
## Housing finance commitments



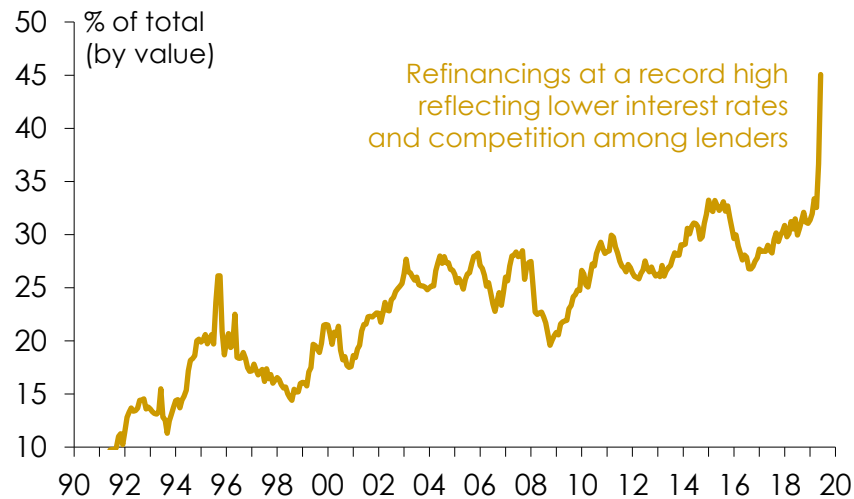
## Large builders' new home sales



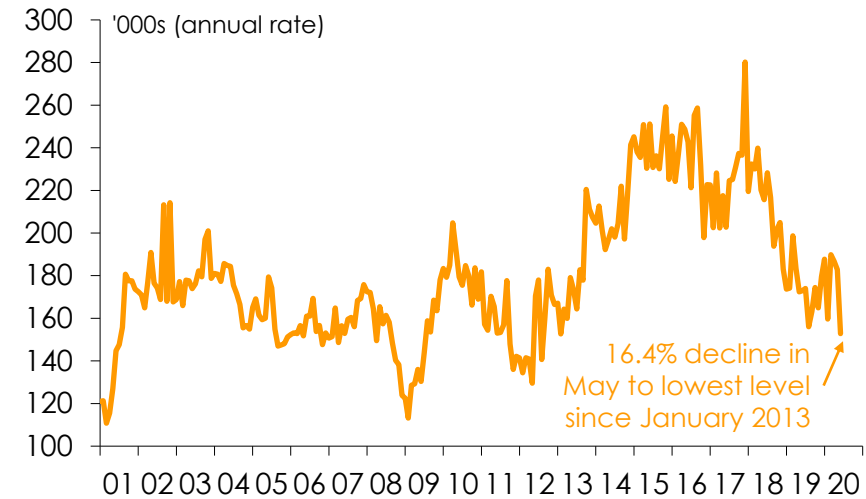
## Dwellings under construction



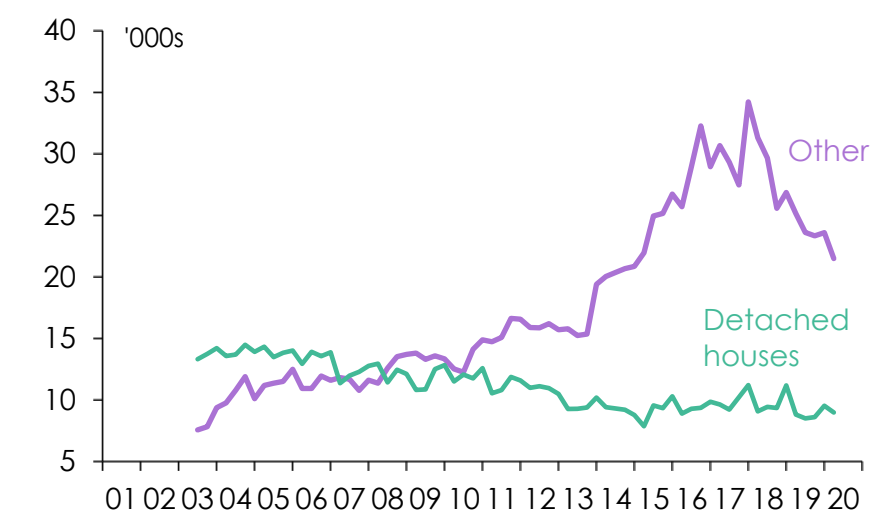
## Refinancings as pc of total



## Residential building approvals



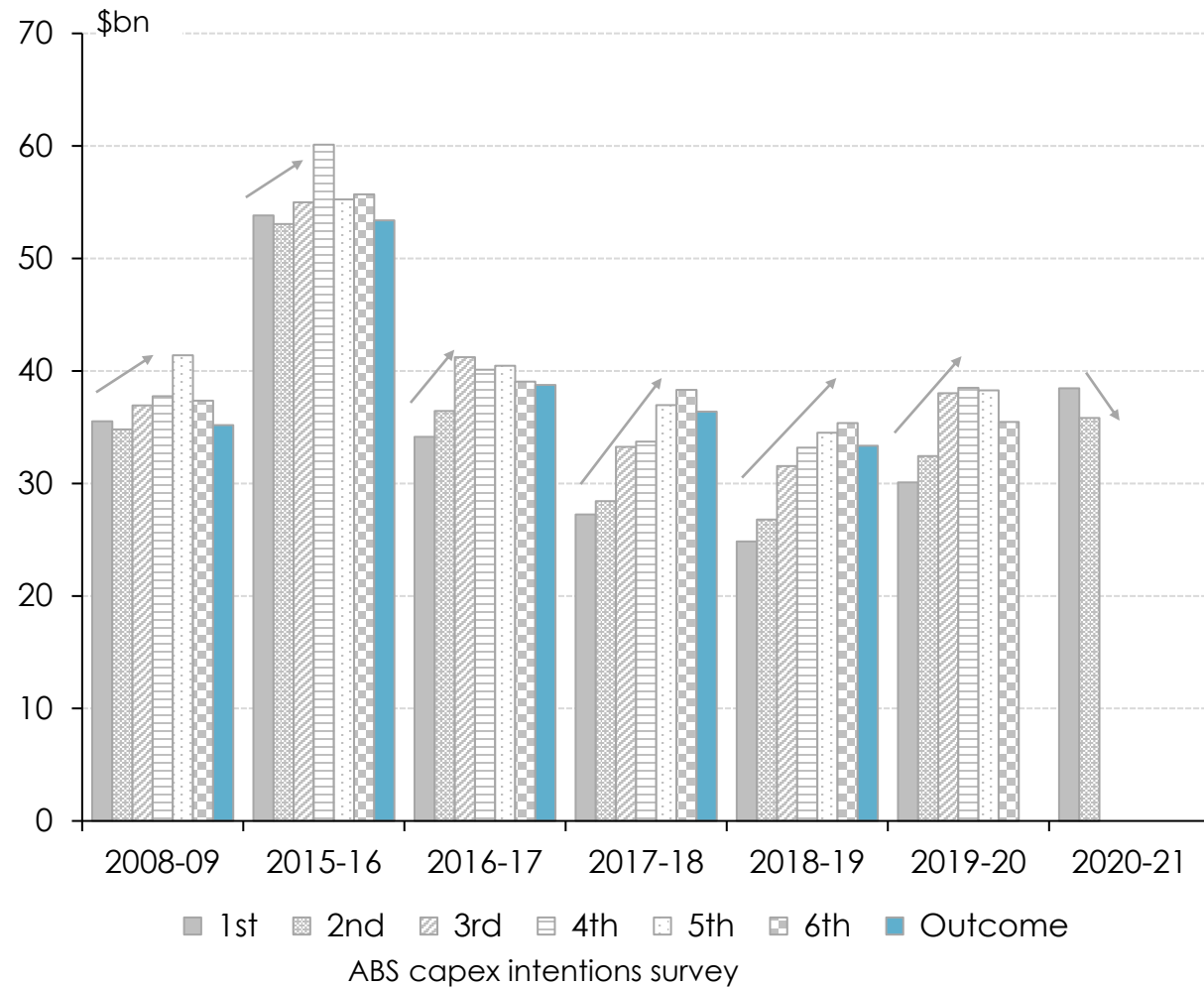
## 'Pipeline' of work yet to be done



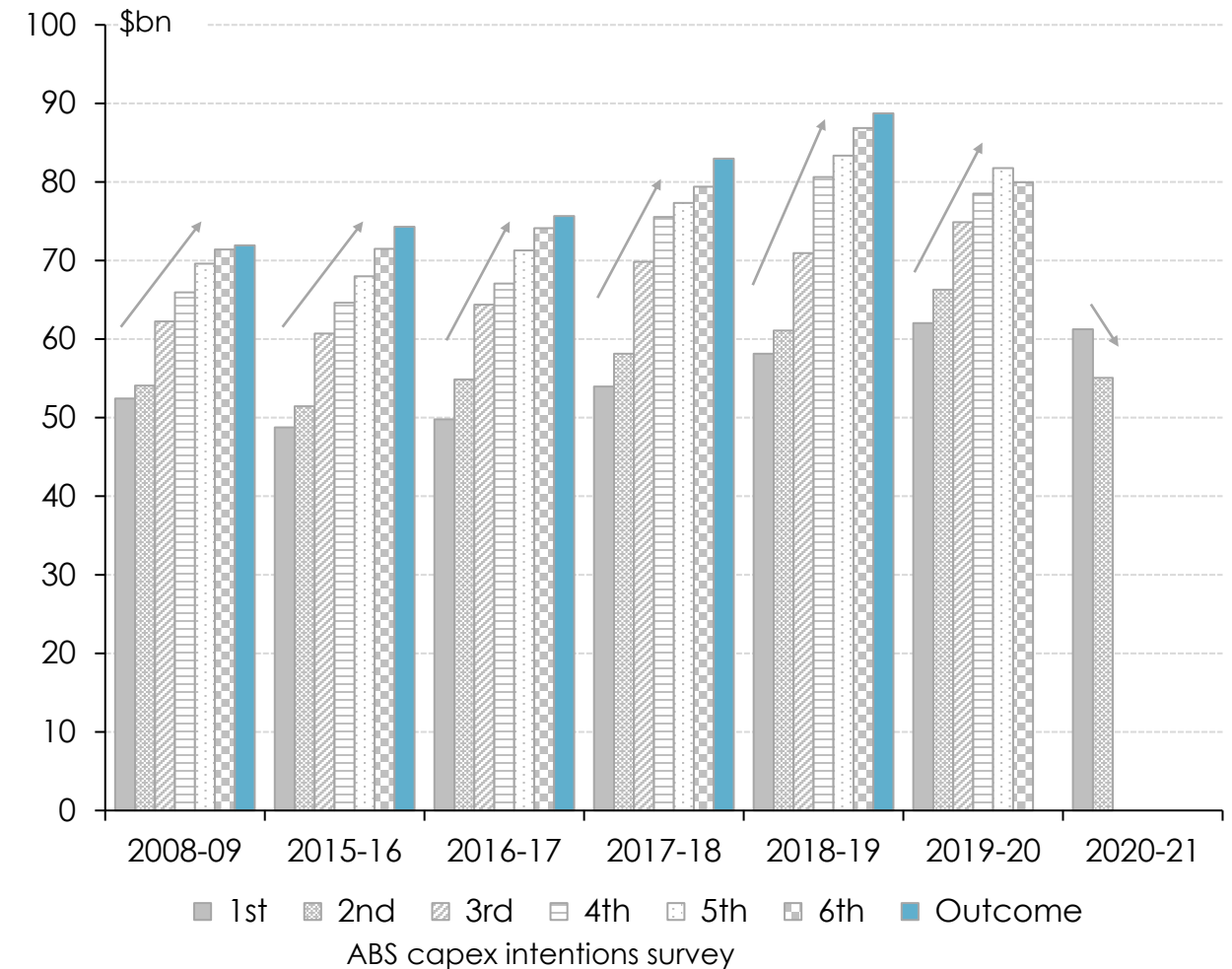
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. June housing finance data will be released on 7<sup>th</sup> August; and June quarter dwellings under construction and 'pipeline' data on 14<sup>th</sup> October.

# Businesses have cut back their capital expenditure intentions for 2020-21, which is unusual for this time of year

## Capital expenditure intentions - mining

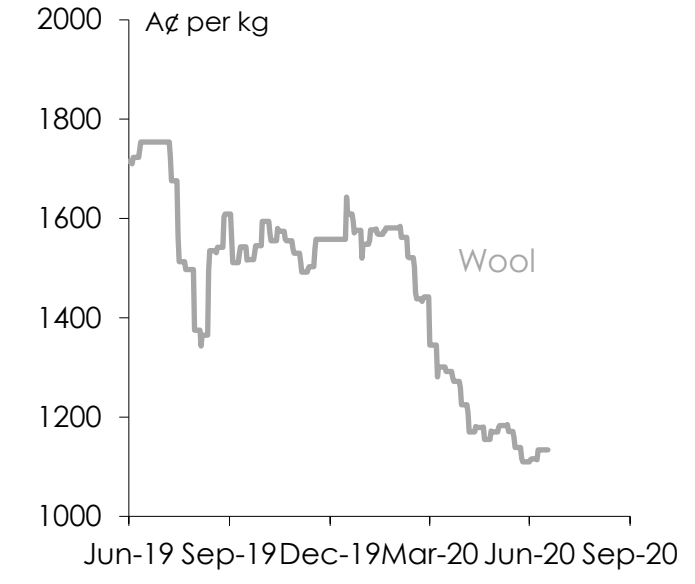
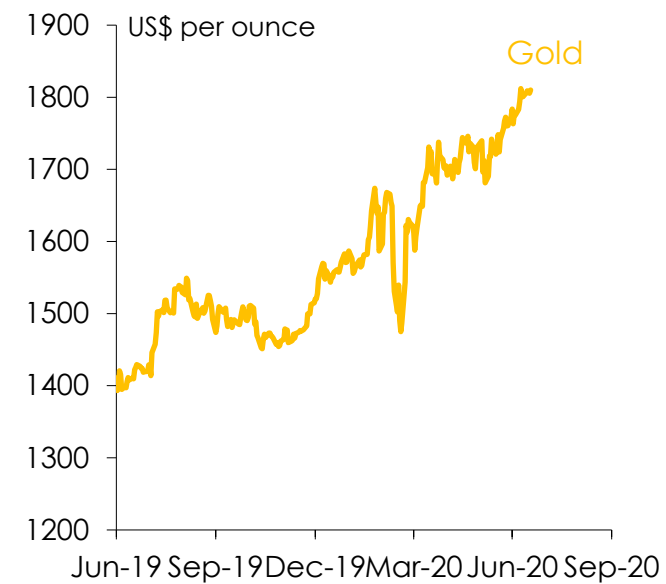
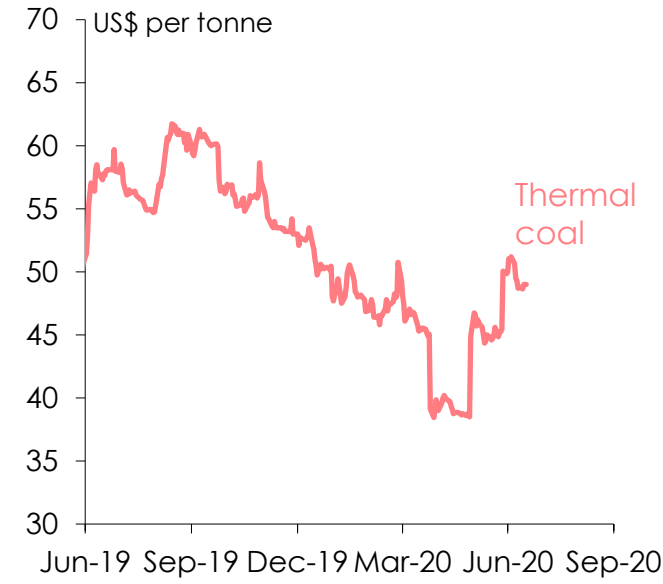
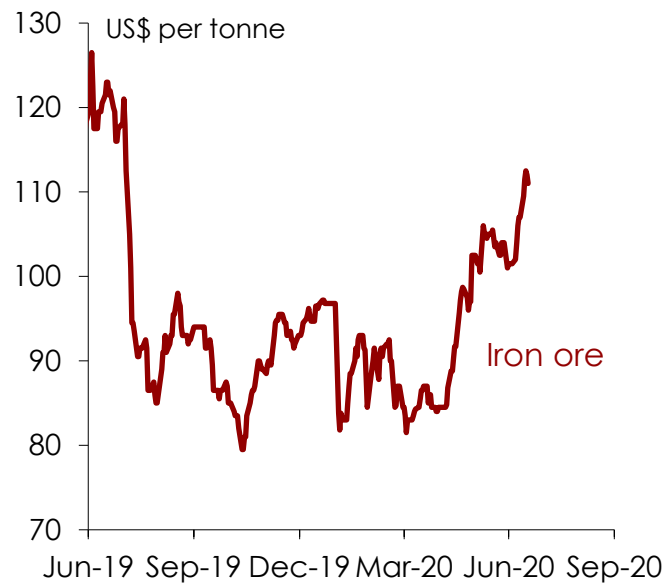
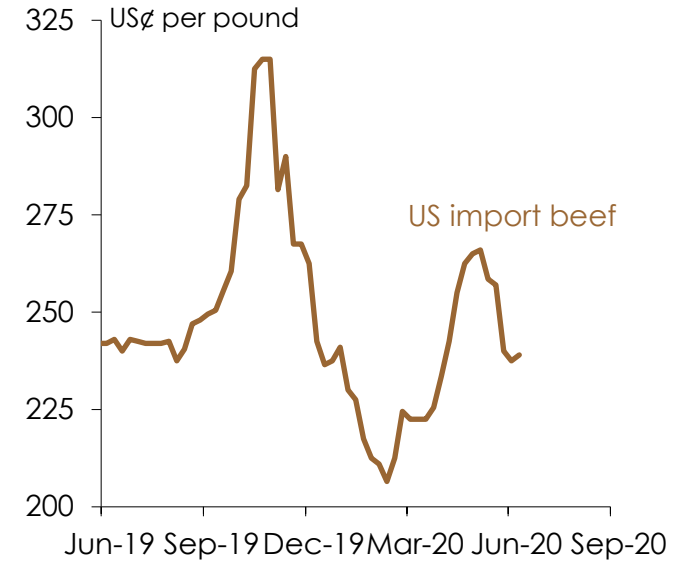
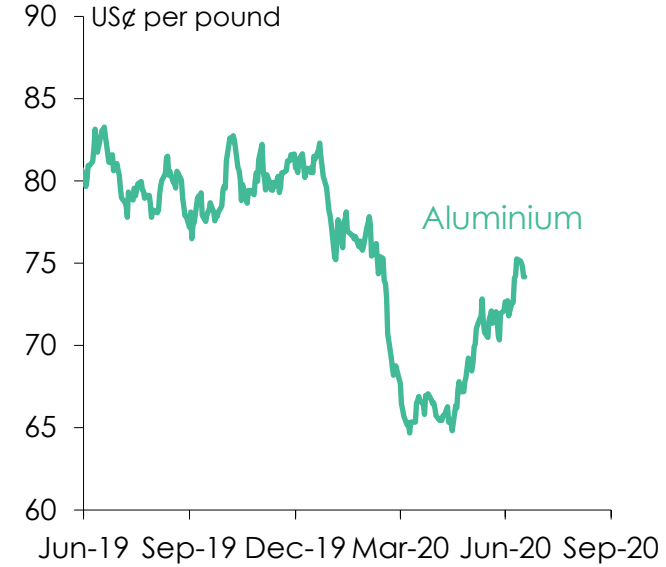
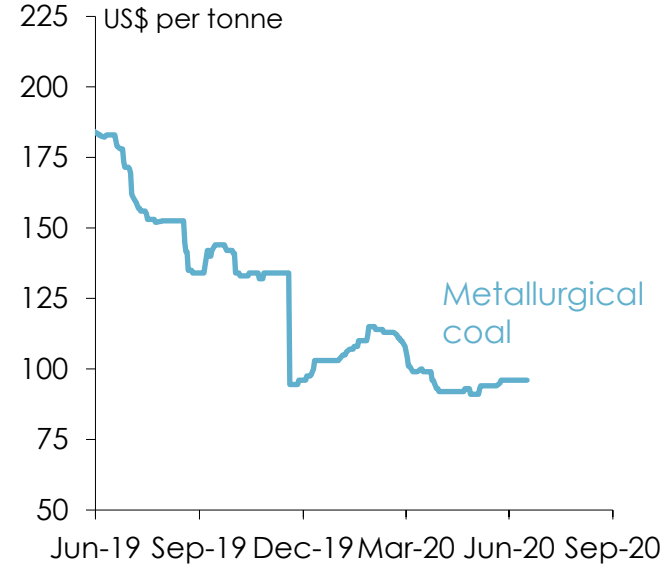
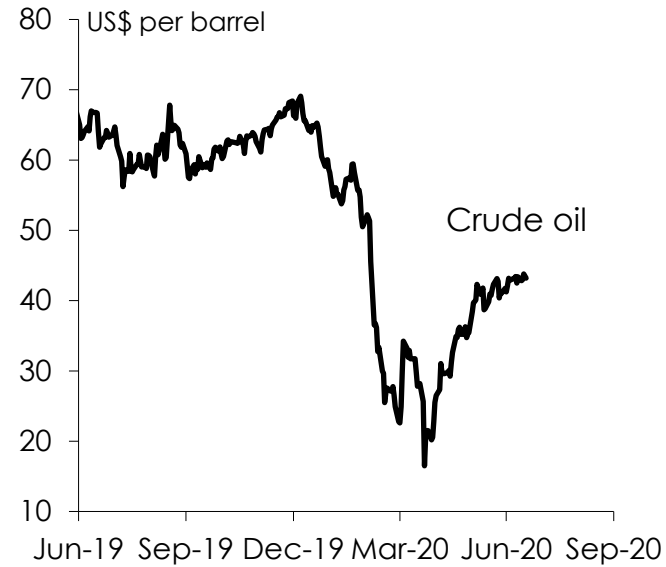


## Capital expenditure intentions – non-mining



Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & November, the fifth in January & February of the financial year, and the sixth in May & June. The outcome (actual capital expenditure in the financial year) is determined from the survey taken in July & August after the end of the financial year. The survey excludes businesses in the agriculture, forestry & fishing; and public administration and safety sectors, and also superannuation funds. The education & training, and health care & social assistance sectors have been included in the surveys since December 2019 but are not included in the above charts (to assist in comparisons). Source: ABS (next update 27<sup>th</sup> August).

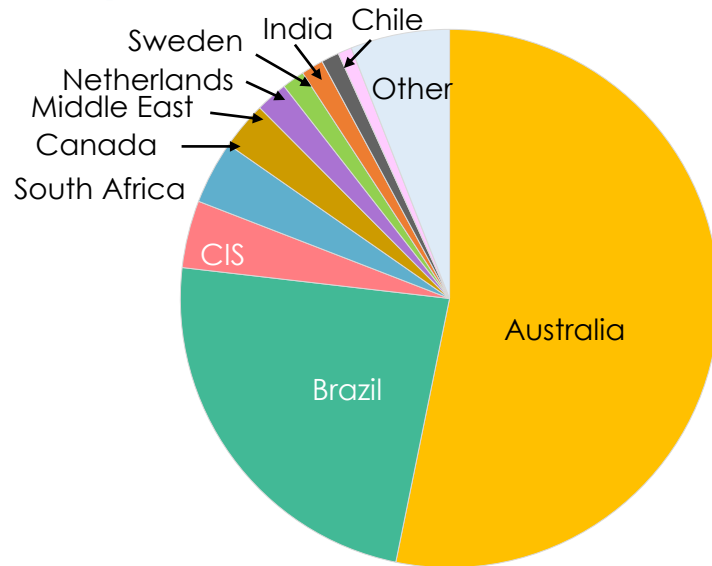
# Resources and energy prices have continued to strengthen in recent weeks, but agricultural commodities have been trending down



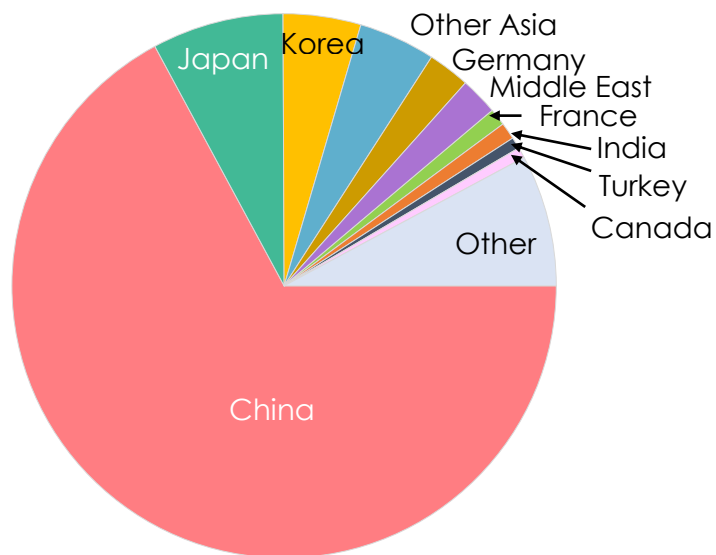
Sources: Refintiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. Data up to 17<sup>th</sup> July.

# The resilience of iron ore prices stems from strong Chinese demand, declining Chinese production and constraints on Brazilian exports

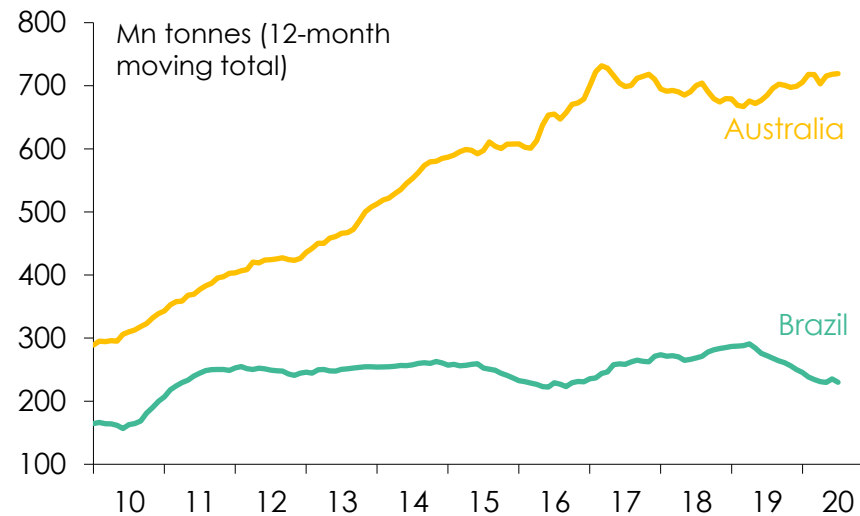
## Iron ore exports, 2018



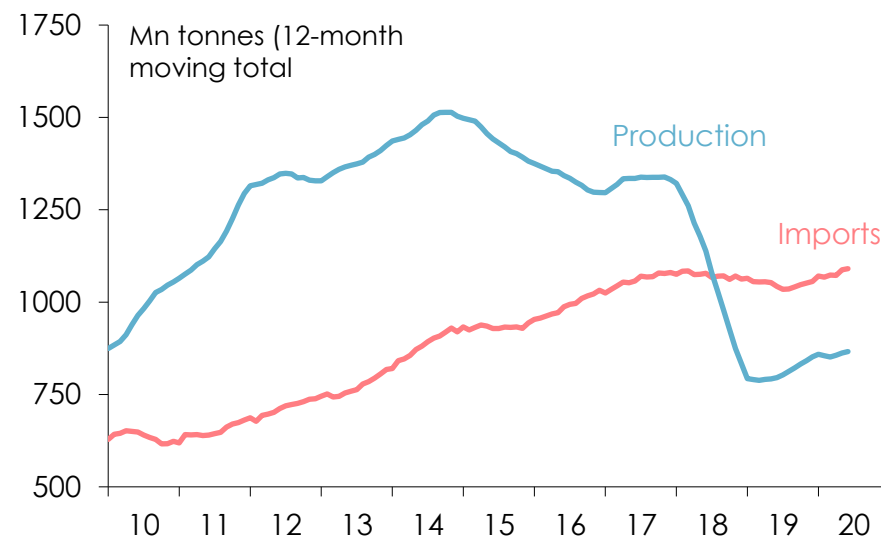
## Iron ore imports, 2018



## Australia & Brazil iron ore exports



## China iron ore production & imports

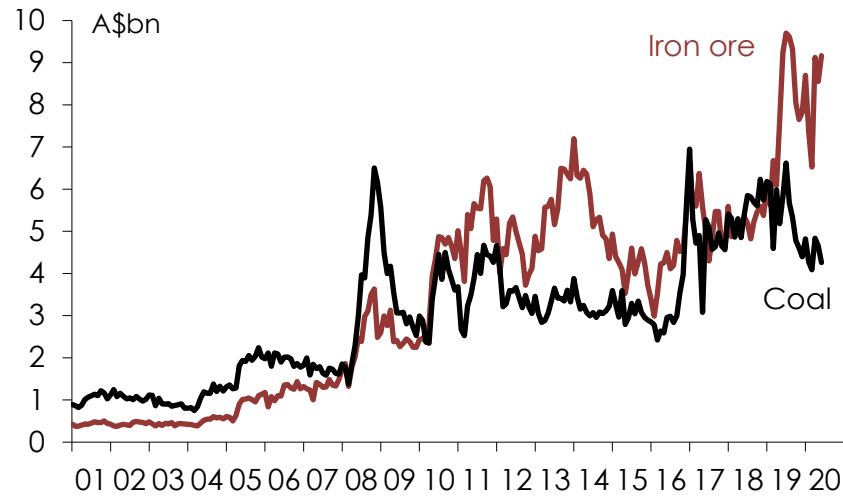


- ❑ The global seaborne iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use)
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese steel mills to become more dependent on imports in response to increased demand driven by stimulus measures
- ❑ Meanwhile Brazilian production and exports have been curtailed by a series of tailing dam collapses over the past five years, and more recently by Covid-19 outbreaks at four large mine sites
- ❑ China is seeking to develop other sources especially in West Africa but this is a slow process

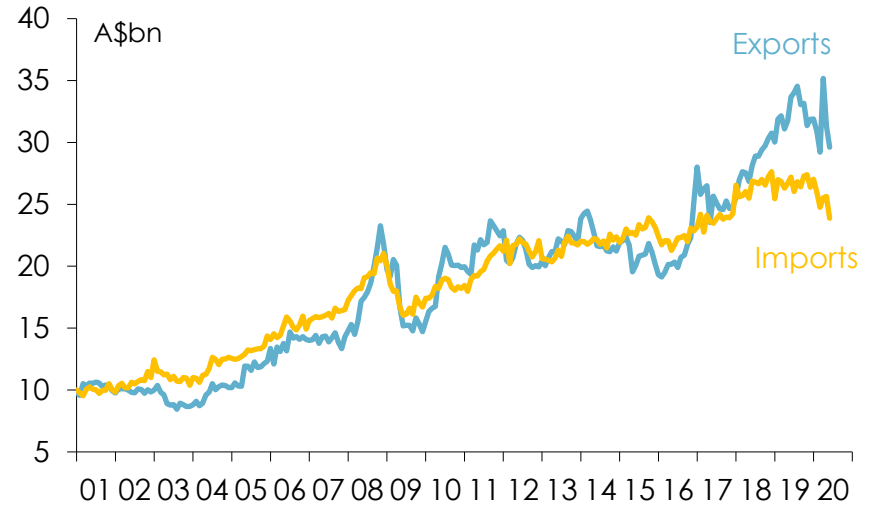
Note: Export volume data for Australia and Brazil derived by dividing export values (in US\$) from ABS and IGBE by the average US\$ price of Chinese iron ore imports.  
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS; IGBE; Corinna.

# Exports of most items except iron ore have fallen since March, but that's been offset by big falls in imports, especially services & consumer goods

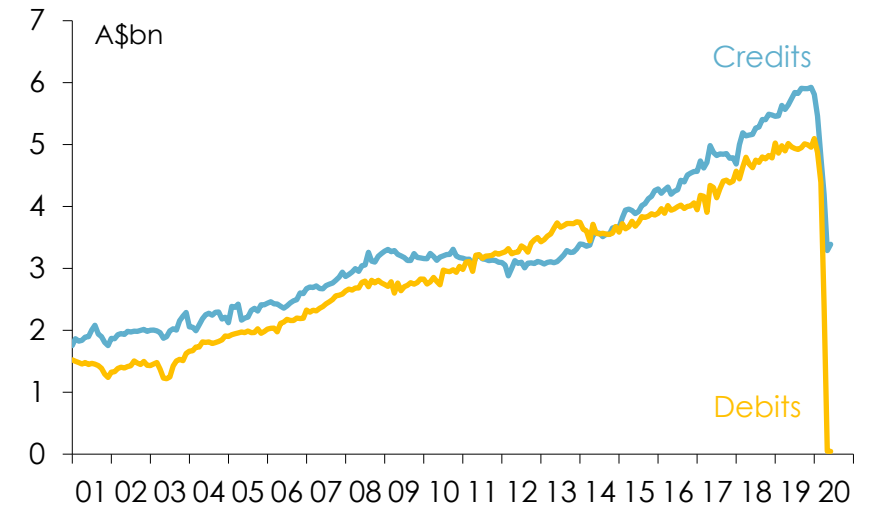
## Iron ore and coal exports



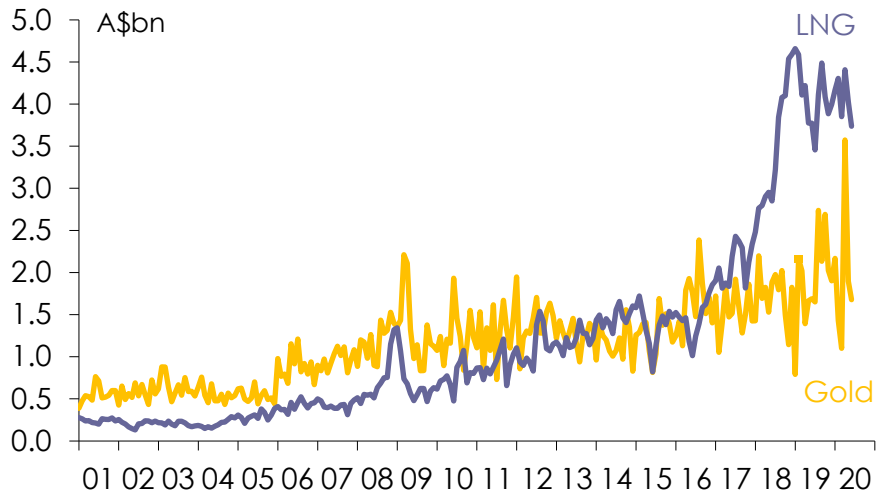
## Merchandise exports and imports



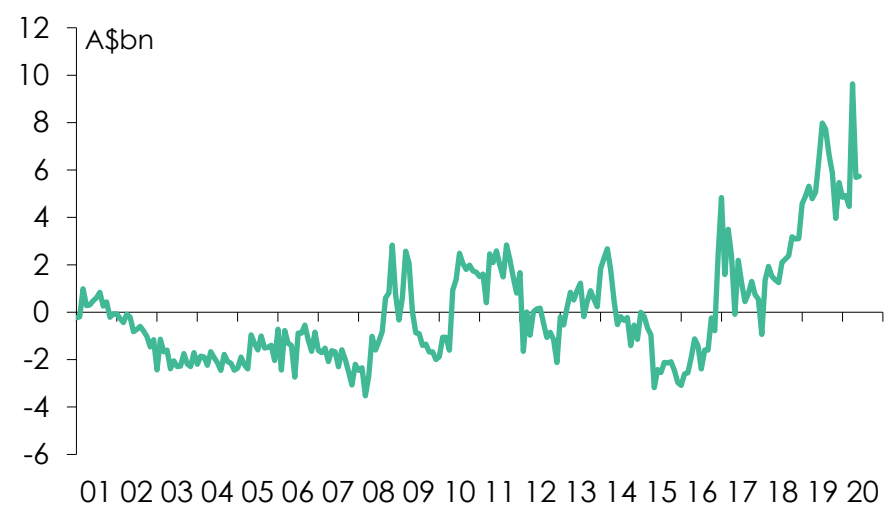
## Tourism-related services trade



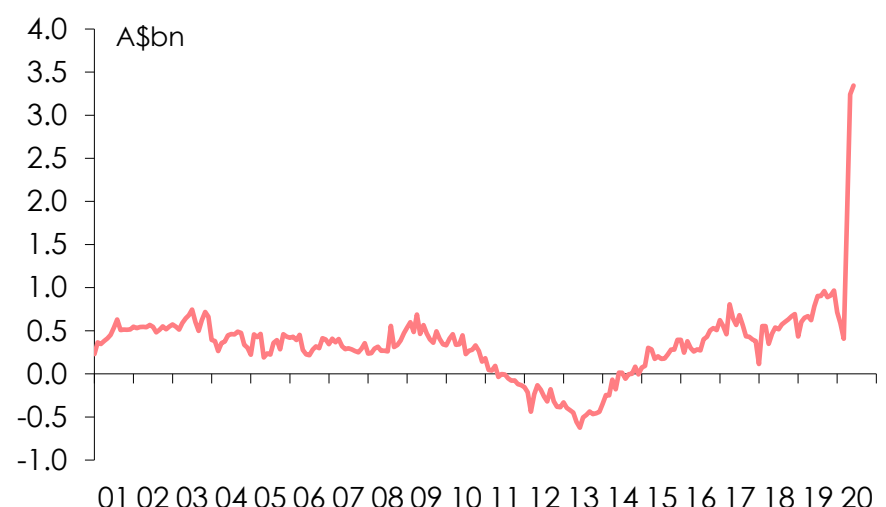
## LNG and gold exports



## Merchandise trade balance



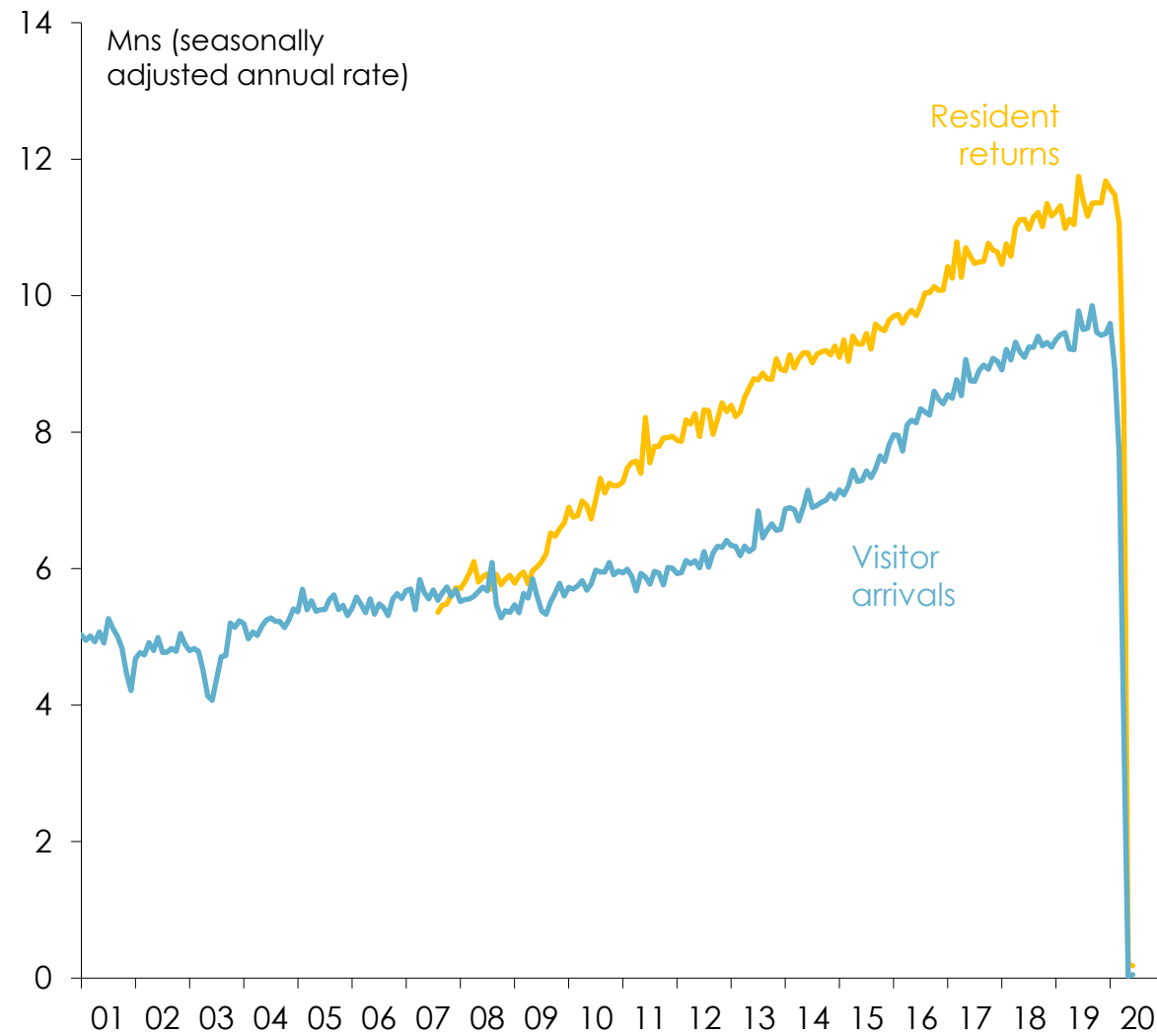
## Tourism services trade balance



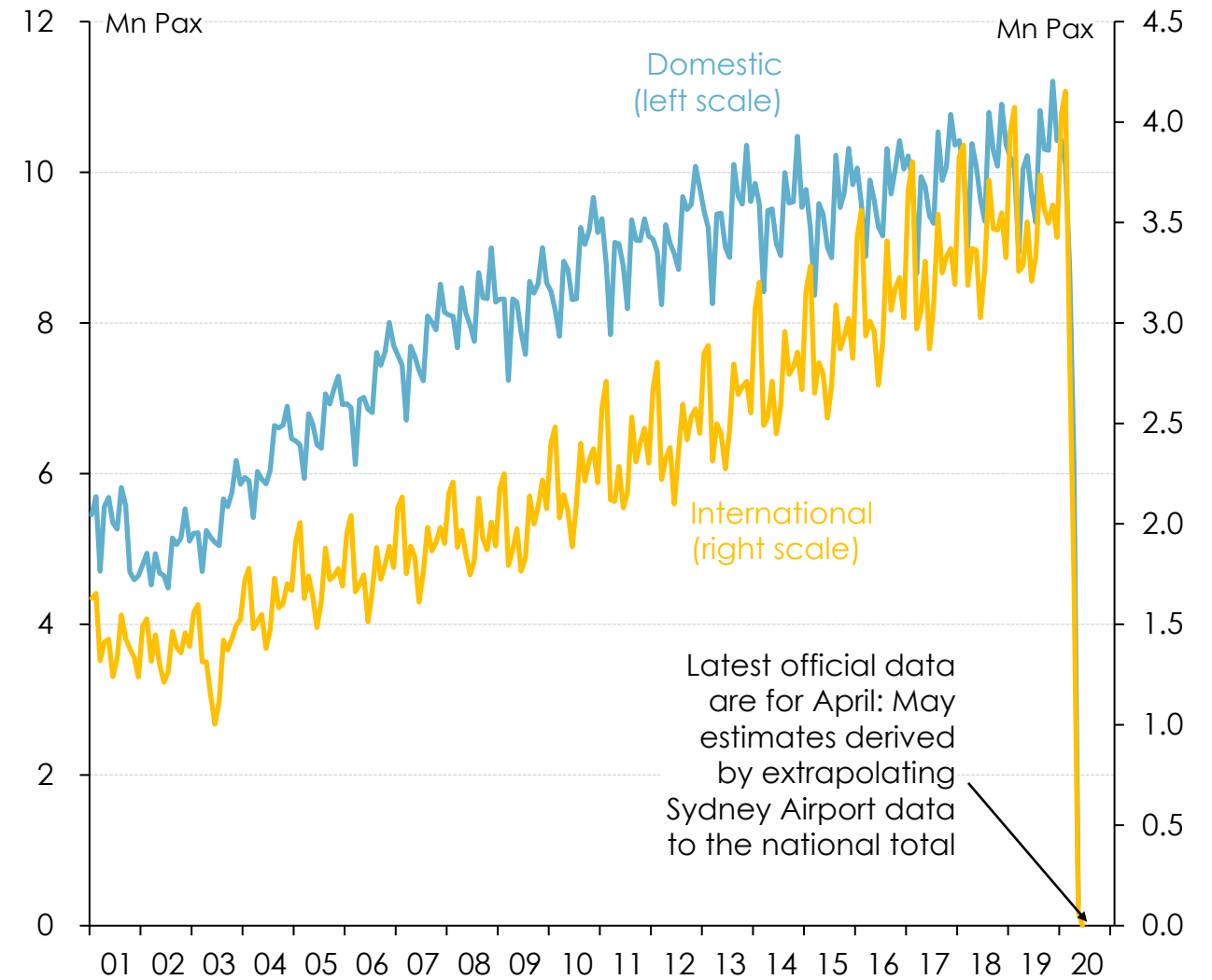


# Tourism and aviation have been severely impacted by the closure of international and most state borders

## Short-term visitor arrivals and resident returns



## Airport passenger movements



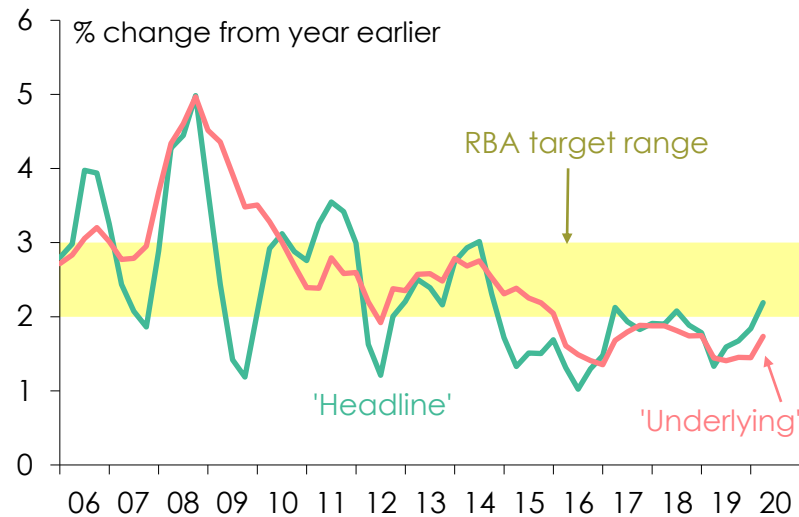
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019.

Sources: ABS; Bureau of Industry, Transport and Resources Economics; Sydney Airport Ltd; Corinna.

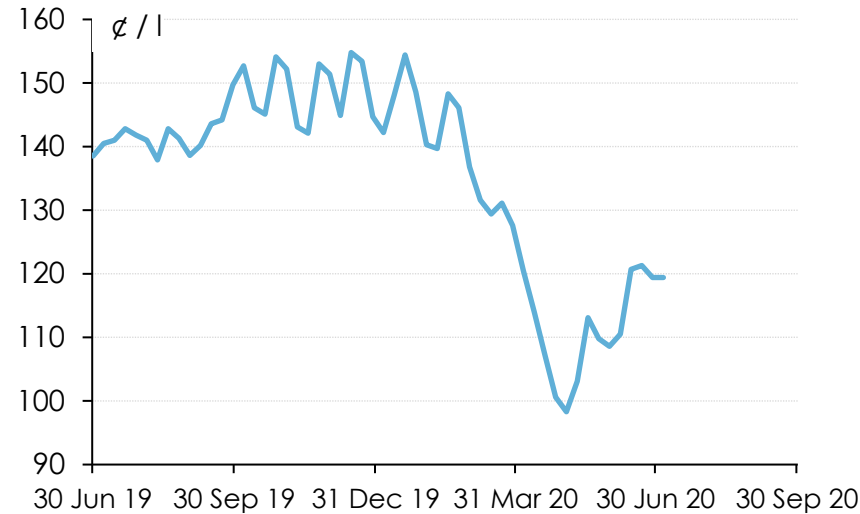


# Inflation will turn negative, temporarily, in Q2 and likely remain below the RBA's target until at least the second half of 2021

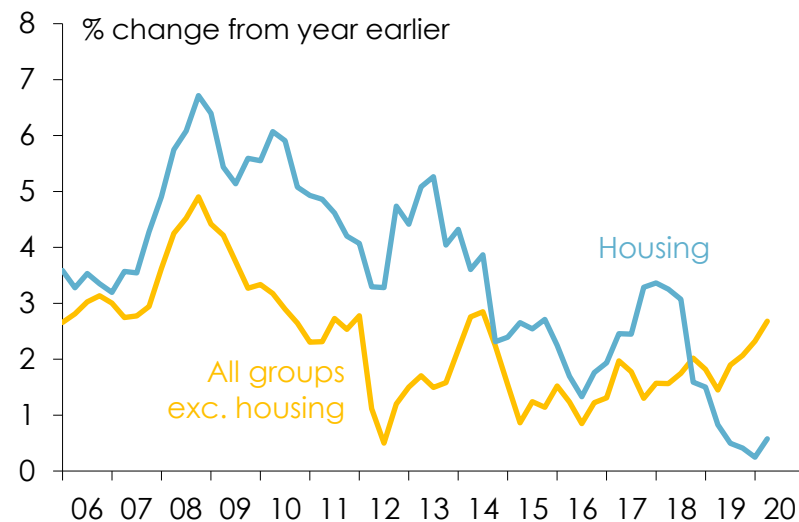
## Consumer prices



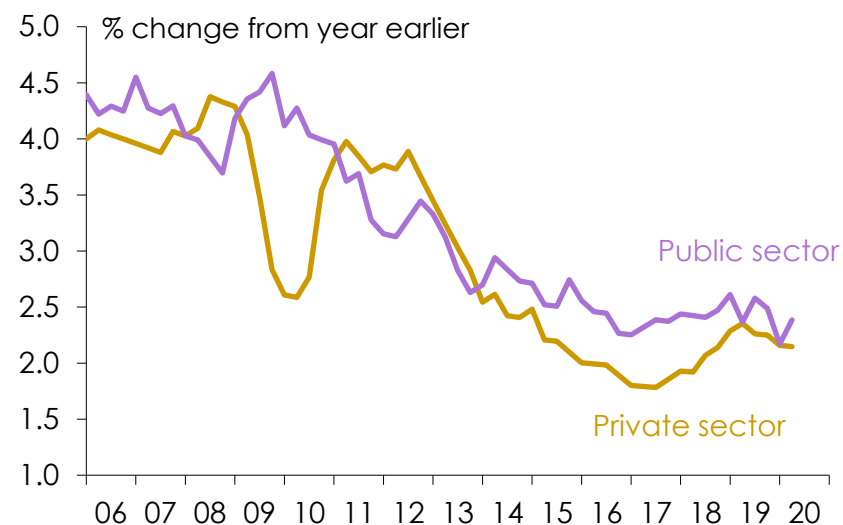
## Retail petrol prices



## Housing costs in the CPI



## Wage price index

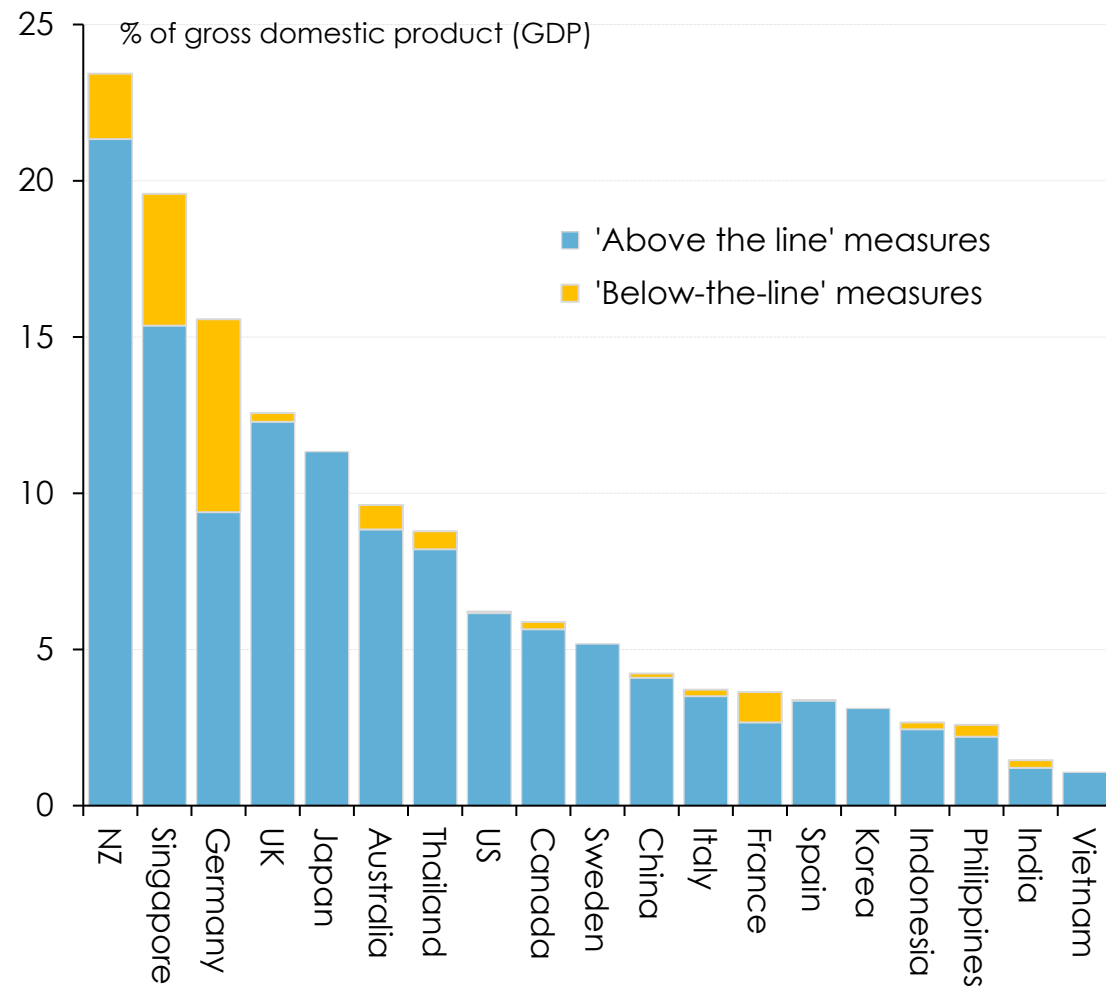


- ❑ The RBA has undershot its 2-3% target for 'underlying' inflation for four years in a row
- ❑ Q2 inflation will likely be negative (both qoq and yoy) as a result of lower petrol prices (down 21% on average in the quarter) and the Government's provision of free child care during the shutdown
- ❑ Conversely the removal of free child care from 12<sup>th</sup> July and the rebound in petrol prices will boost the CPI in Q3
- ❑ Freezes on utilities charges in some states will detract from inflation in Q3
- ❑ House prices and rents will continue to exert downward pressure on inflation over at least the next 6-12 months
- ❑ Wages haven't been a source of price pressure for the past six years, and are unlikely to be in the next 1-2 years either

Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bouses.  
Sources: ABS (June quarter CPI will be released on 29<sup>th</sup> July); Australian Institute of Petroleum.

# The Australian Government's policy measures have been large by historical and international standards

Fiscal policy responses to Covid-19 – selected 'advanced' & Asia-Pacific economies



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. Source: IMF, *Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic*, 24<sup>th</sup> June 2020.

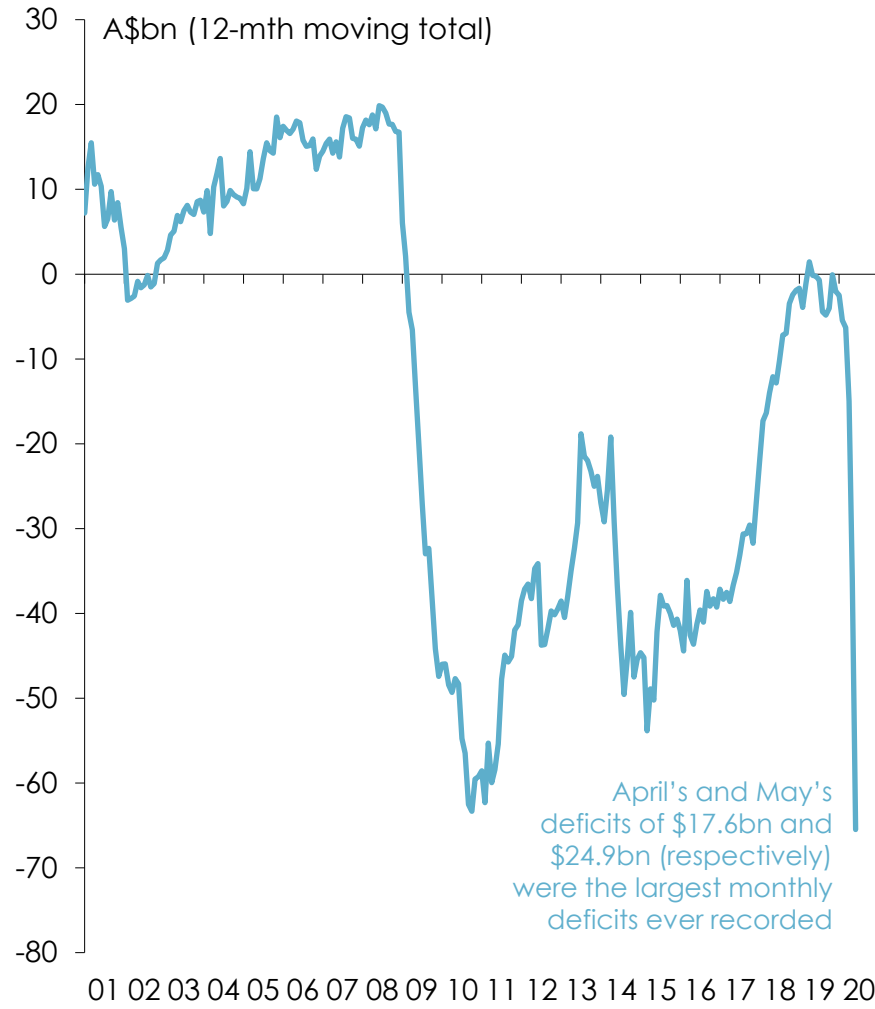
- ❑ Policy measures announced thus far by the Australian Government total \$180bn (allowing for the downward revision to the cost of JobKeeper), or about 9% of GDP – which is large by international standards (and double what was done during the GFC)
- ❑ Principal objectives of policy measures have been to –
  - maximize the 'survival prospects' of businesses affected by the shutdown
  - minimize the impact of the shutdown on employment
  - provide additional income support to those who lose their jobs
  - strengthen the capacity of the health care system to cope with increased demand
- ❑ Policy measures have been designed to be 'simple' to administer, and to make greatest use of existing systems rather than having to create new mechanisms
  - which has resulted in some anomalies
- ❑ Policy measures also designed to be readily 'switched off' once the need for them has passed
  - most of them scheduled to terminate at the end of September
  - which poses the risk of a 'setback' at that time unless the Government 'tapers' some programs

# The Australian Government's 'bottom line' has begun to deteriorate sharply, and ...

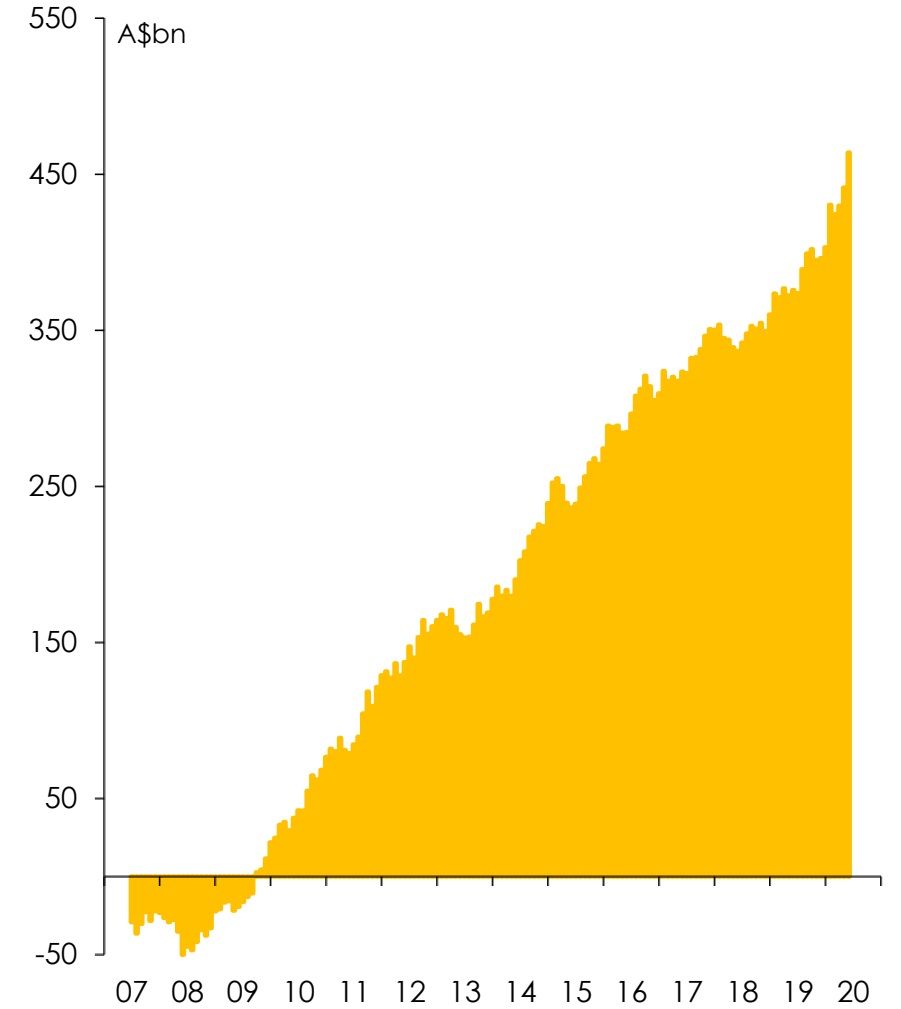
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



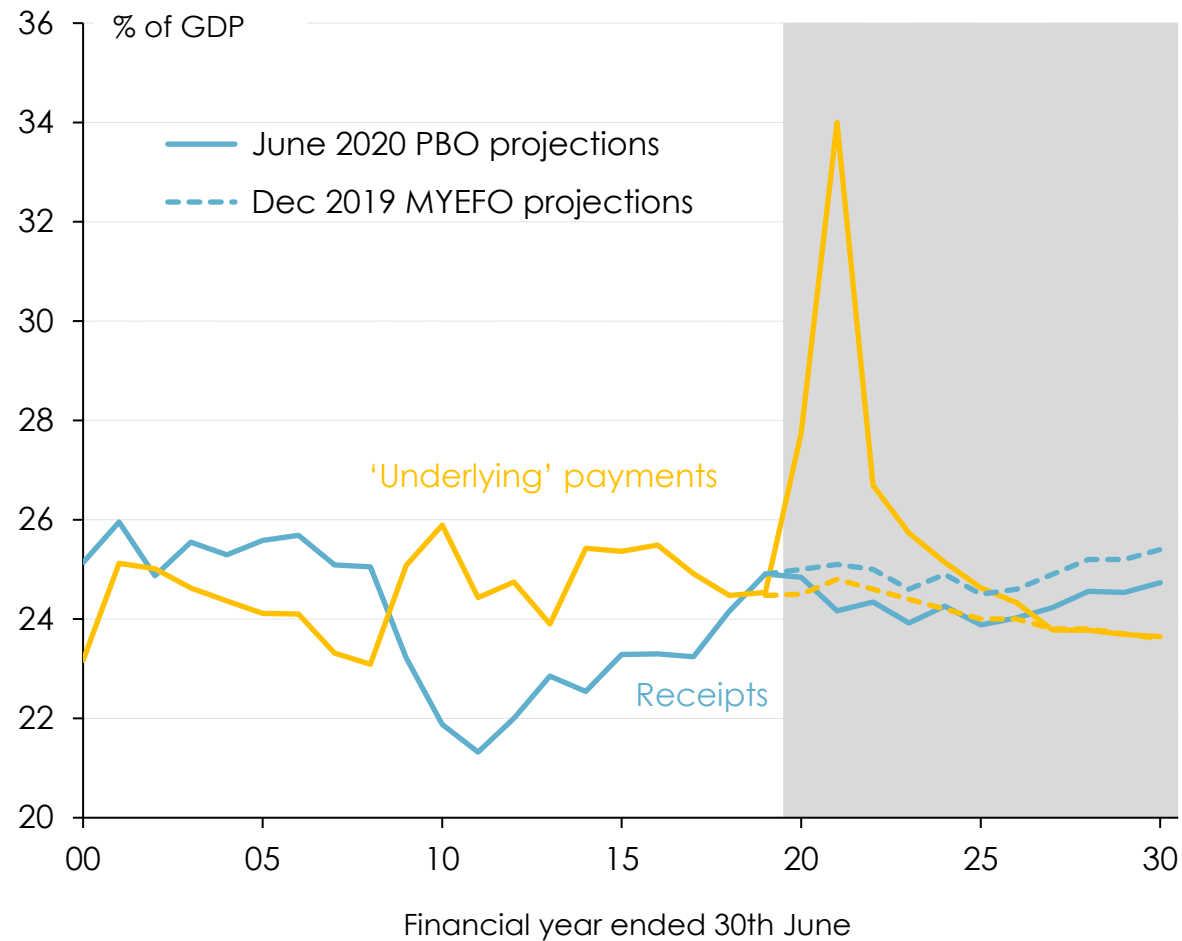
## Australian Government net debt



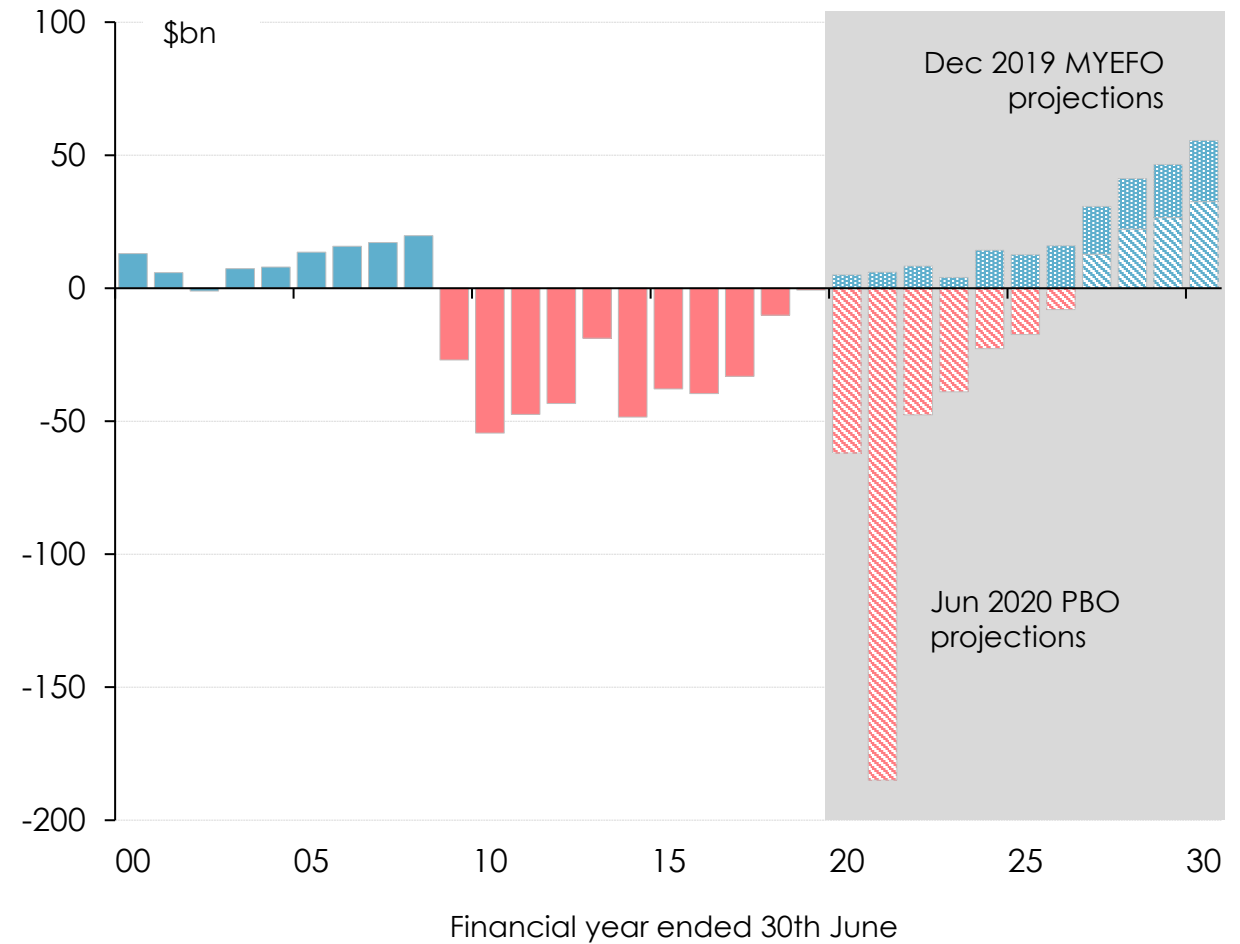
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, loans and other borrowing) minus cash and deposits, advances paid, and (interest-bearing) loans, placements and investments. Source: Department of Finance.

... will blow out to over \$60bn in 2019-20, around \$185bn in 2020-21, and won't return to surplus (on unchanged policies) until 2026-27 – but ...

### Australian Government receipts and 'underlying' payments



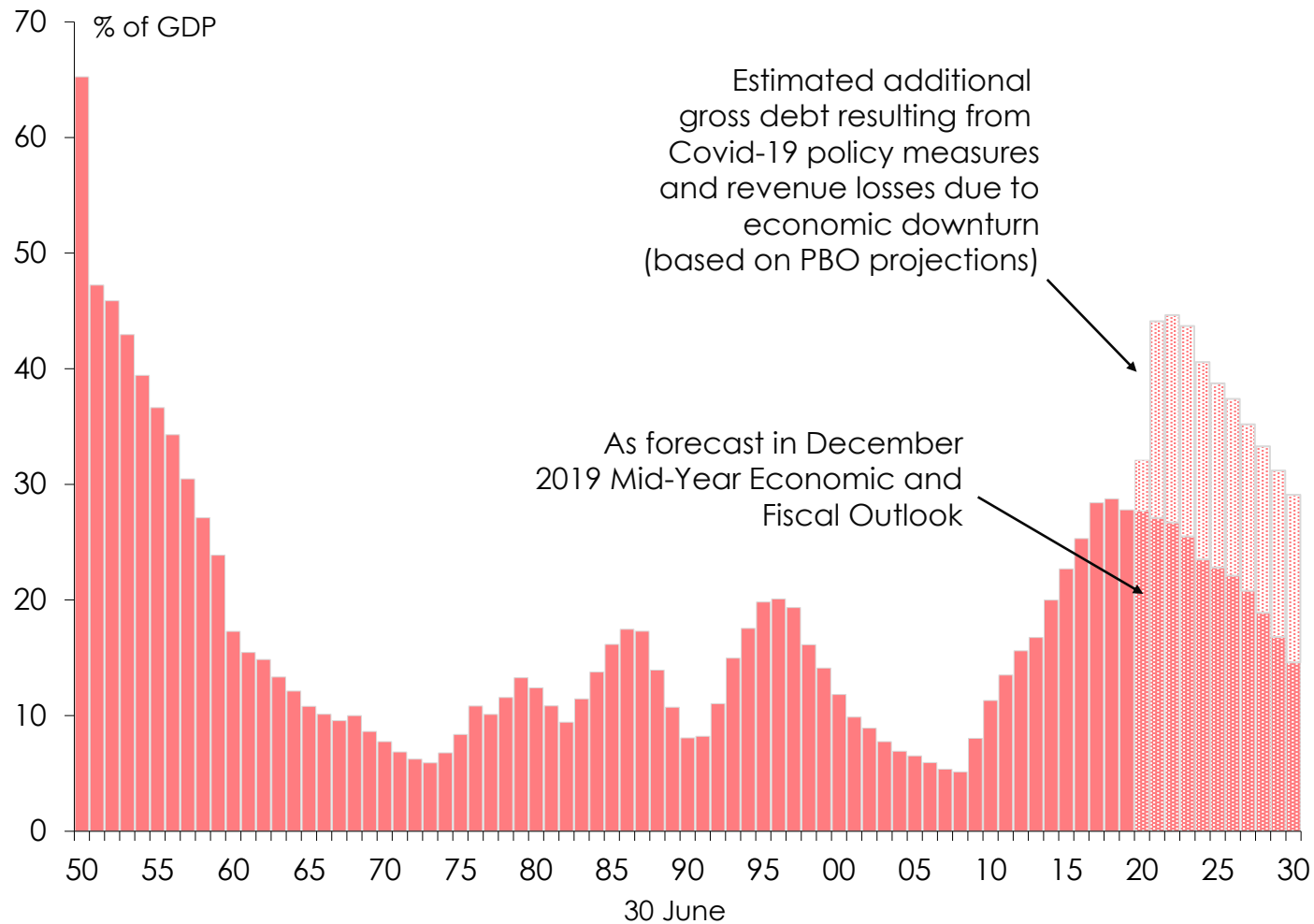
### Australian Government 'underlying' cash balance



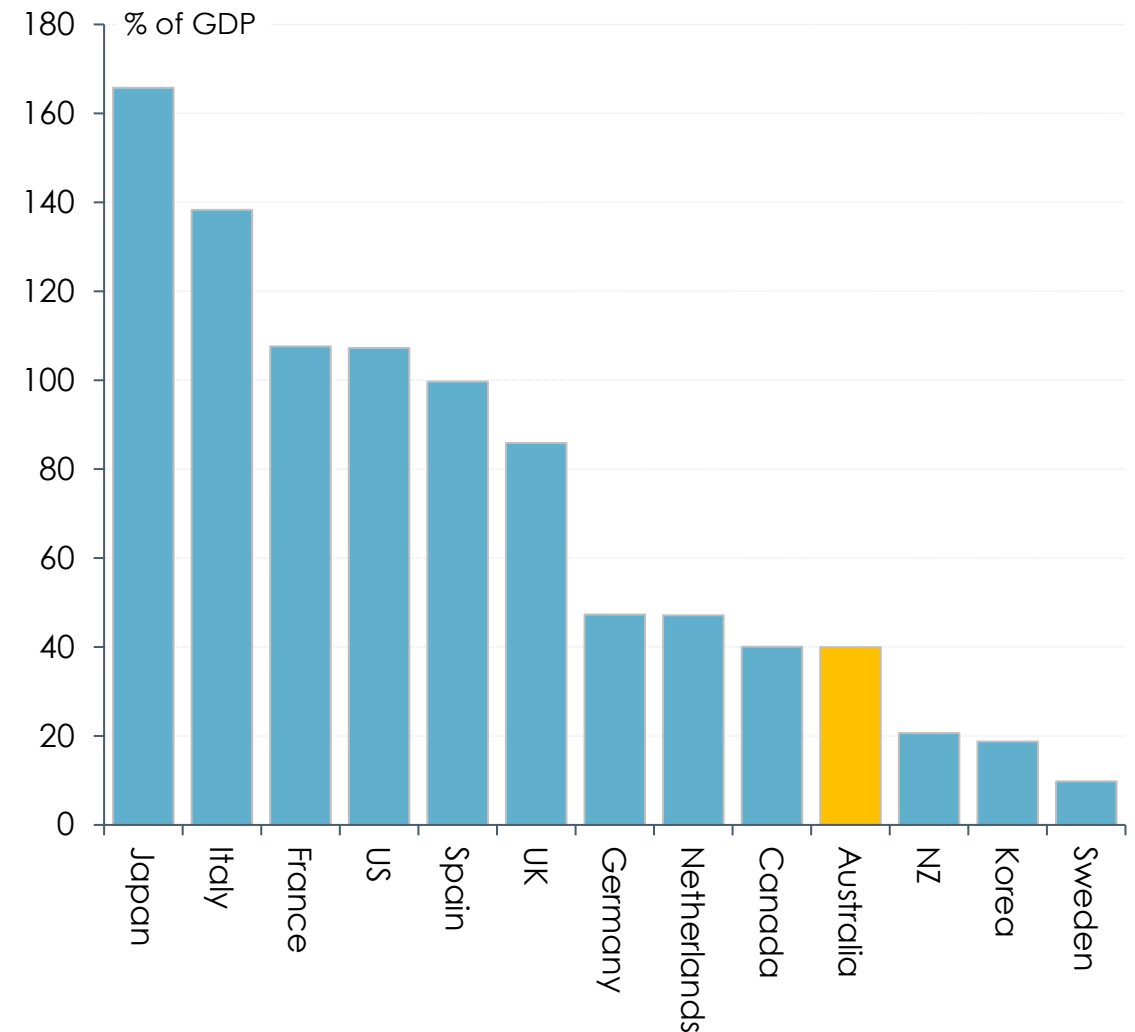
Note: 'Underlying' payments excludes net investment in financial assets for policy purposes. The 'underlying' cash balance also excludes net earnings of the Future Fund prior to 2020-21. Sources: Australian Government, *Mid-Year Economic and Fiscal Outlook (MYEFO)*, December 2019; Parliamentary Budget Office (PBO), *Medium-term fiscal projections: impact of Covid-19 pandemic and response* (5<sup>th</sup> June 2020). The PBO projections were compiled using the RBA's 'baseline' scenario outlined in its May 8<sup>th</sup> *Statement on Monetary Policy* for economic parameters. The Treasurer will give an update of fiscal and economic forecasts on 23<sup>rd</sup> July.

# ... there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

## Australian Government gross public debt



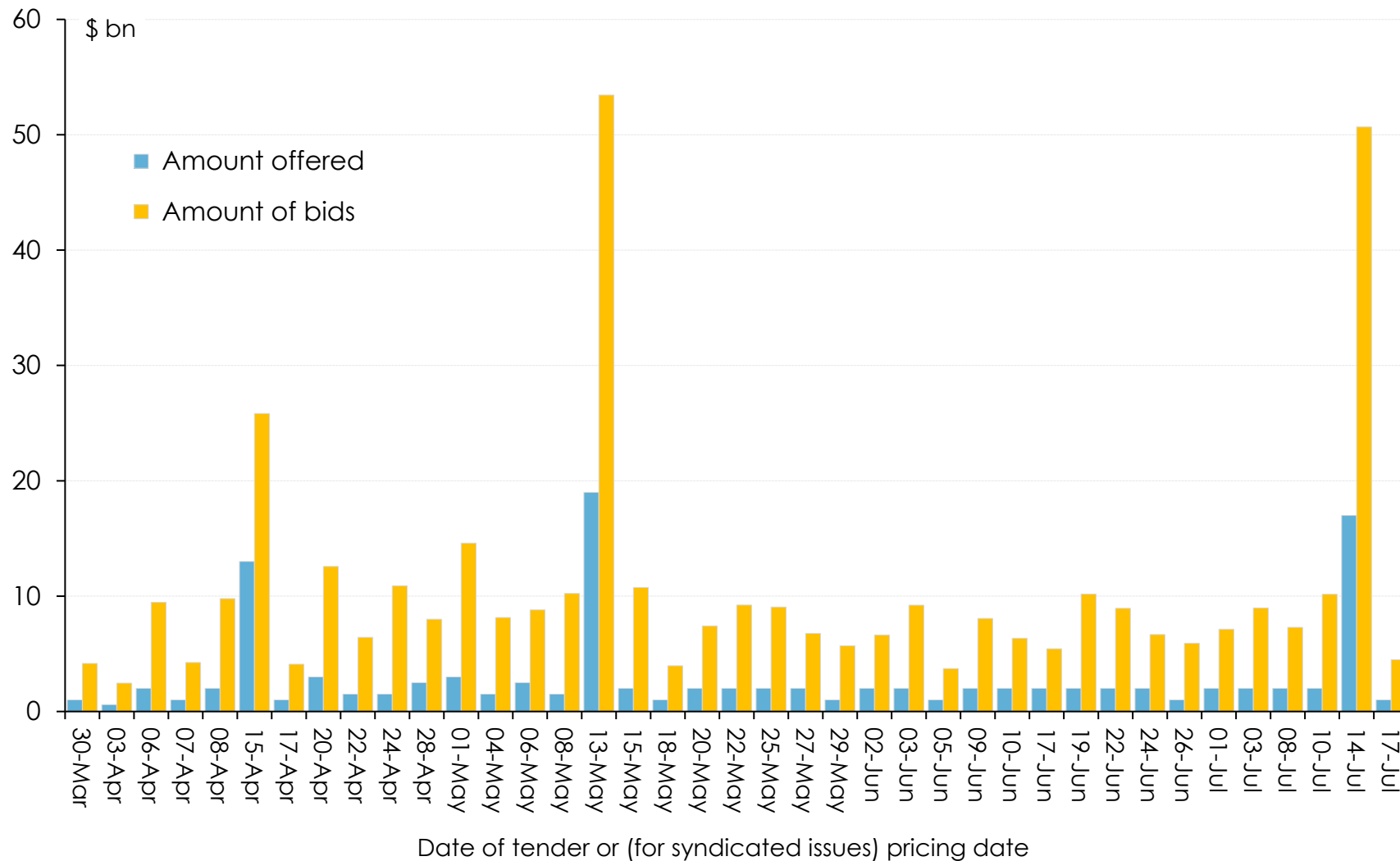
## General government net debt, 2021



Note: Estimates of additional gross debt from 2019-20 onwards are derived by assuming that gross debt rises by the same dollar amount as net debt projected by the Parliamentary Budget Office in its 'baseline' scenario. Sources: Katrina Di Marco, Mitchell Pirie and Wilson Au-Yeung, *A History of Public Debt in Australia* (Australian Treasury, 2011); Australian Government, *Mid-Year Economic and Fiscal Outlook* (MYEFO), December 2019; Parliamentary Budget Office (PBO), *Medium-term fiscal projections: impact of Covid-19 pandemic and response* (5<sup>th</sup> June 2020); International Monetary Fund, *Fiscal Monitor*, April 2020.

# The Australian Government has so far had absolutely no difficulty financing its significantly higher deficits

## Australian government bond issuance since March 2020



- ❑ Since 30<sup>th</sup> March, the Australian Office of Financial Management (which conducts the Government's borrowing programs) has issued \$112.6bn of Treasury bonds
- ❑ Based on the volume of bids received at bond tenders or for syndicated issues, the AOFM could have borrowed \$406bn (that is, 3.6 times as much as it actually accepted) – with the highest yields on unsuccessful bids averaging 34bp above the highest accepted yields
- ❑ This past Tuesday, AOFM received offers worth \$50.7bn for \$17bn of 4½ year bonds carrying a coupon rate of 0.25% pa – the average yield on successful bids was 0.495%
  - 42% of the bonds were bought by banks, 27% by fund managers, 23% by hedge funds, and 8% by (foreign) central banks

Source: Australian Office of Financial Management data hub.

# The Treasurer has foreshadowed ‘bringing forward’ personal income tax cuts scheduled for 2022 and 2024 as a form of fiscal stimulus

## Legislated personal income tax cuts

Rates from 2017-18 to 2023-24	New thresholds from 2018-19 to 2021-22	New thresholds from 2022-23 to 2023-24
Nil	Up to \$18,200 pa	Up to \$18,200 pa
19 %	\$18,201 - \$37,000	\$18,201 - \$45,000
32.5 %	\$37,001 - \$90,000	\$45,001 - \$120,000
37 %	\$90,001 - \$180,000	\$120,001 - \$180,000
45 %	Above \$180,000	Above \$180,000
Low & middle income tax offset	Up to \$1,080	-
Low income tax offset	Up to \$445	Up to \$700
Rates from 2024-25	New thresholds from 2024-25	
Nil	Up to \$18,200 pa	
19 %	\$18,201 – \$45,000 pa	
30 %	\$45,001 – \$200,000 pa	
45 %	Above \$200,000 pa	
Low income tax offset	Up to \$700	

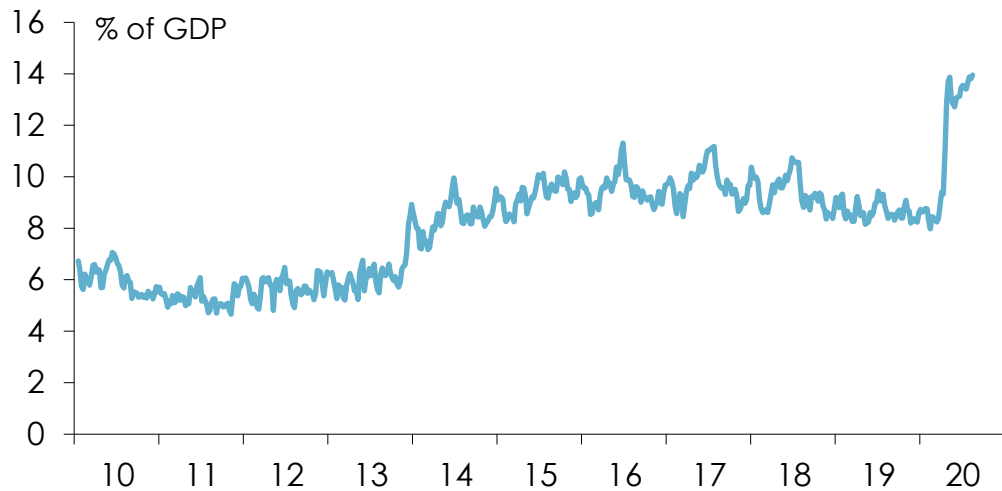
- ❑ Treasurer Josh Frydenberg has foreshadowed bringing forward the personal income tax cuts currently legislated to come into effect on 1<sup>st</sup> July 2022, as a way to ‘boost aggregate demand, boost consumption [and] put more money in people’s pockets’
- ❑ These were estimated to ‘cost’ \$4½bn (in revenue foregone) in FY2022-23 and (together with the further cuts legislated to take effect from the beginning of FY2023-2024) \$143bn over the ten years to 2029-30
  - bringing forward these tax cuts would likely provide a lift to demand and activity – but, inevitably, at least some of the boost in after-tax incomes would be saved and/or used to pay down debt (as happened with the enhanced tax refunds paid out in the Sep quarter of last year – slide 47)
  - whereas the same dollar amount spent (eg) on infrastructure, or on cash handouts to low-income earners who don’t pay tax, would boost demand by a larger amount
- ❑ This week the Government announced an extension of its wage subsidy scheme for apprentices to end-March 2021 (from end-September) and broadened the range of eligible employers, as well as a \$1bn boost for skills training programs
- ❑ Details of changes to the JobKeeper and JobSeeker programs are likely to be announced in the Treasurer’s Updated Economic and Fiscal Outlook Statement this coming Wednesday

Source: Australian Government, 2019-20 Budget Paper No. 1, *Budget Strategy and Outlook*, April 2019.

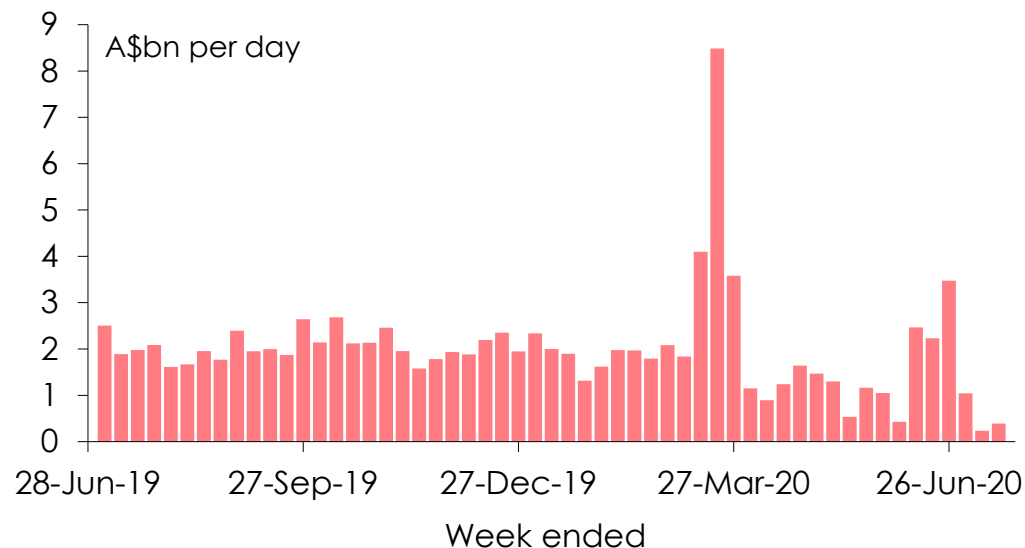


# With official interest rates as low as they can go, the RBA has implemented a range of 'quantitative' monetary policy measures

## Reserve Bank assets as a pc of GDP



## Reserve Bank daily repo transactions

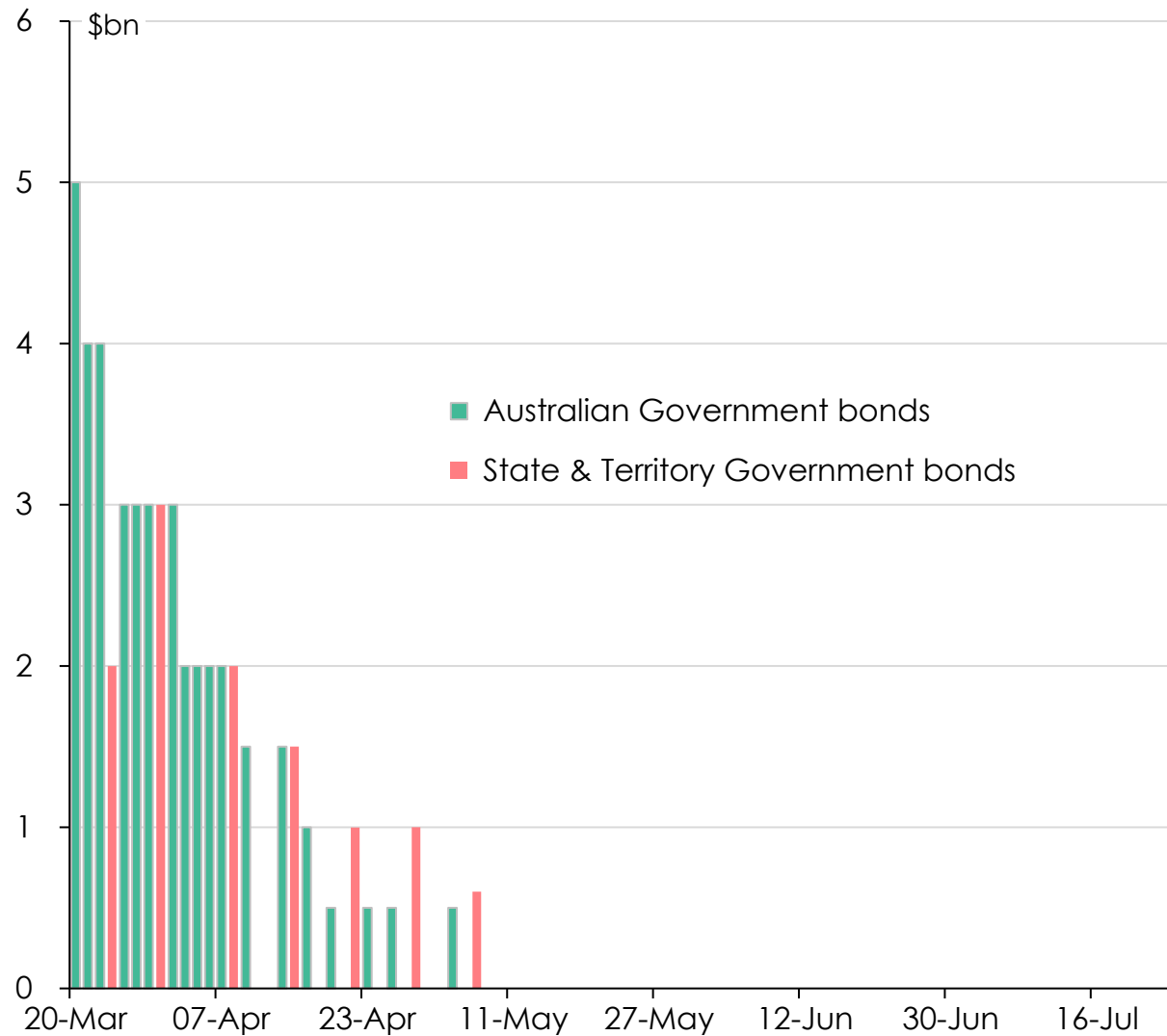


- ❑ **The RBA again left its cash rate target at 0.25% this week**
  - the RBA has committed to keeping it at this level 'until progress is made towards full employment' and 'it is confident inflation will be sustainably within the 2-3% target band'
  - RBA has 'no appetite' for negative rates
- ❑ **RBA has committed to purchase bonds in the secondary market with a view to keeping the 3-year yield at 0.25%**
  - to date RBA bond purchases amount to \$50bn (~ 2½% of GDP)
  - the RBA hasn't purchased any bonds since 6<sup>th</sup> May (but is prepared to 'scale up' these purchases again 'if necessary')
  - RBA assets are now equivalent to 14% of GDP (cf. BoC 23%, US Fed 33%, BoE 36%, ECB 54%, BoJ 119% - see slide 24) and RBNZ 17.5%
- ❑ **RBA provided additional liquidity through 'open market operations' to prevent disruption of credit markets in March**
  - RBA repo transactions averaged just over \$1 bn a day since the beginning of April (except for the last two three weeks of the 2019-20 financial year), down from peak of almost \$8½ bn a day in 3<sup>rd</sup> week of March
- ❑ **'Term Funding Facility' to provide up to \$90 bn at 0.25% pa to lending institutions for increased lending, especially to businesses with annual turnover of less than \$50 mn**
  - to date \$23.3 bn has been provided through this facility (of which \$7.3 bn was drawn this week, by far the largest so far)



# The RBA is targeting the 3-year bond yield at 0.25% pa – and hasn't needed to purchase bonds since 6<sup>th</sup> May in order to keep it there

## RBA open market bond purchases



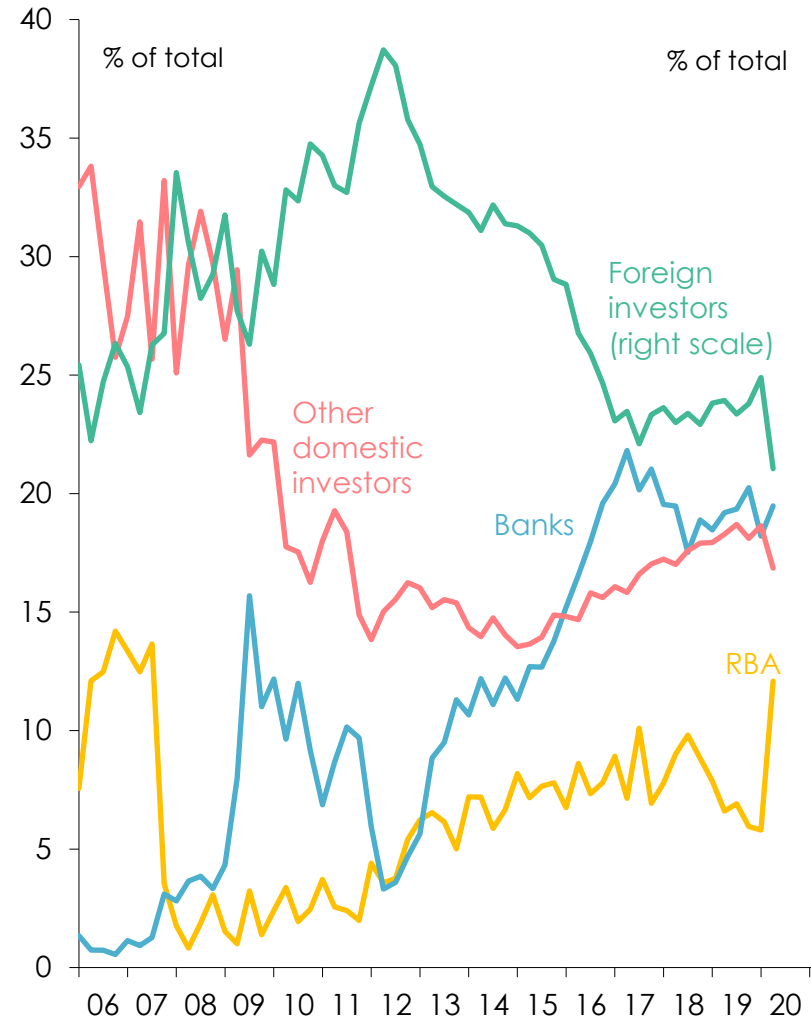
## Interest rates



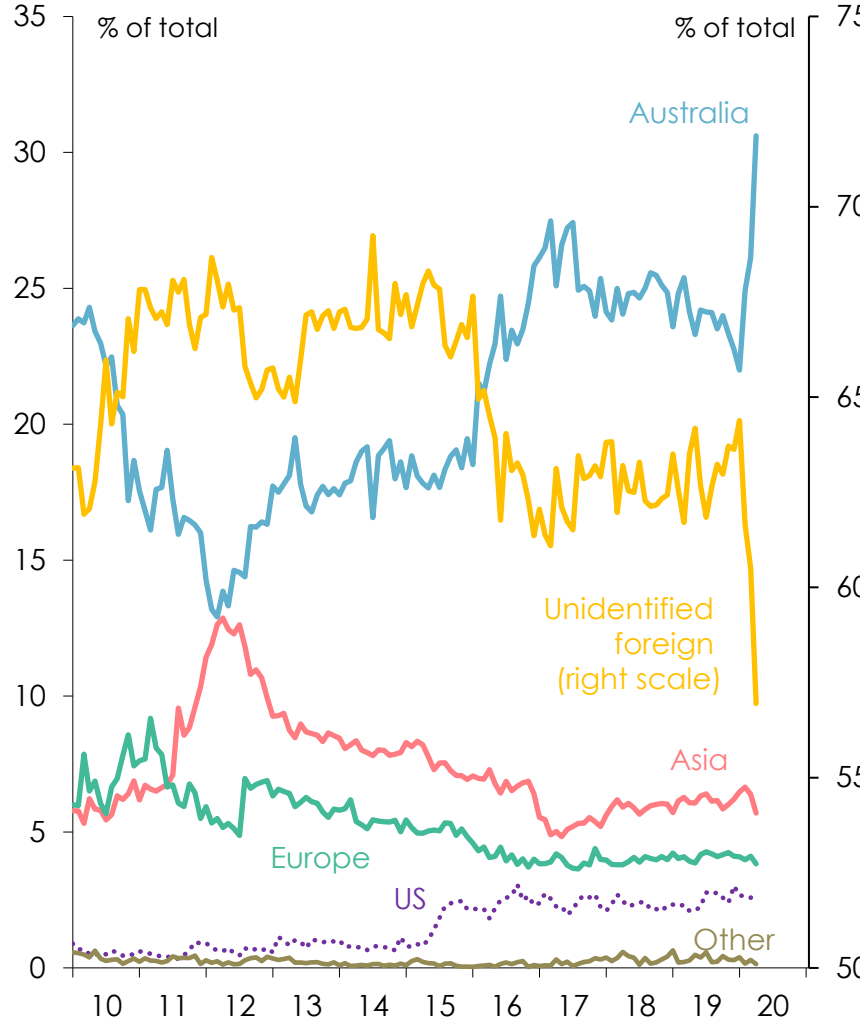
Source: Reserve Bank of Australia. Data up to 17<sup>th</sup> July.

# The RBA in effect more than absorbed the increase in Commonwealth and State debt, and sales by foreign investors, during the March quarter

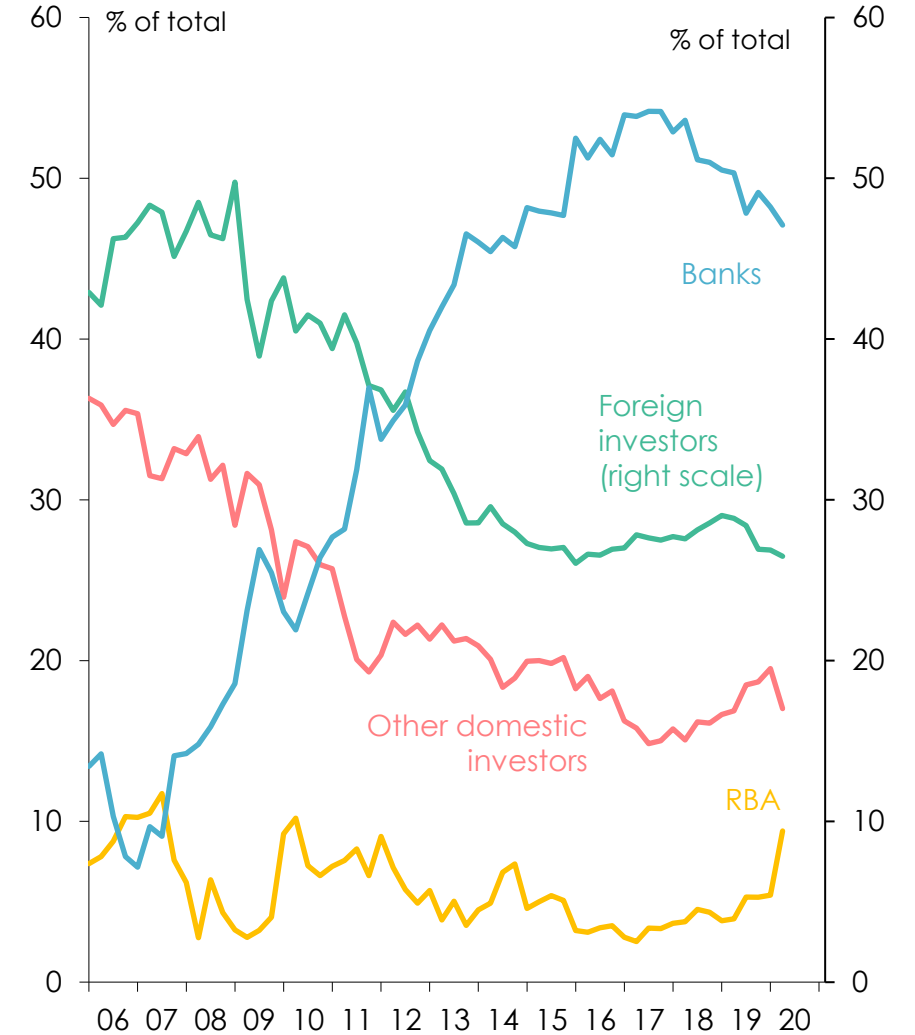
## Holder of Australian Government bonds



## Nationality of Australian Government bond holders



## Holder of State and Territory Government bonds



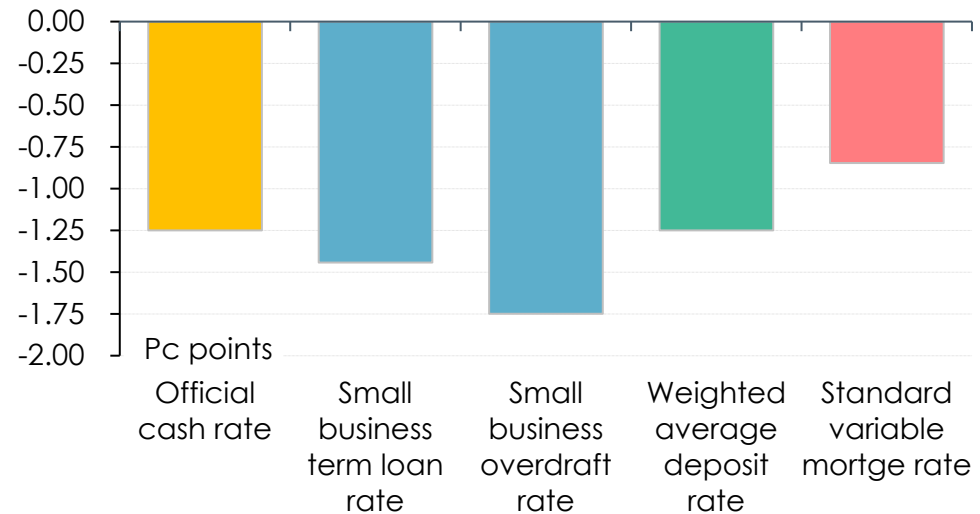
Sources: ABS (Finance & Wealth Accounts); Australian Office of Financial Management. June quarter data will be released on 24<sup>th</sup> September.

# RBA Deputy Governor Guy Debelle made five important points in an online presentation to the Economic Society last month

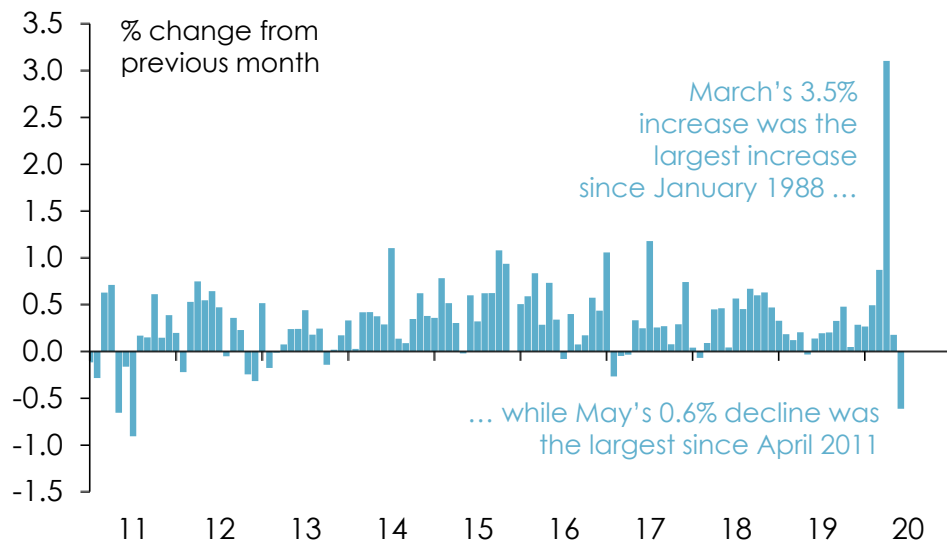
- ❑ **It will likely be 'some years' before the RBA lifts the cash rate**
  - “the cash rate will not be raised until progress is being made towards full employment and [the Board] is confident that inflation will be sustainably within the 2-3% target band ... this is likely to be some years away”
- ❑ **The RBA hasn't directly financing the Government's deficit**
  - “When the RBA is buying government bonds, we are buying them in the secondary market. That is, they are bonds that have been issued to investors some time earlier. .... The RBA is not participating in any of the [Australian Office of Financial Management's] AOFM's bond tenders and does not purchase bonds directly from the state government borrowing authorities”
- ❑ **The RBA's 'QE' program won't lead to higher inflation**
  - “While the bond purchases by the RBA increase liquidity in the system, I do not see this posing any risk of generating excessively high inflation in the foreseeable future. Indeed, the opposite seems to be the more likely challenge in the current economic climate, that is, that inflation will remain below the RBA's target”
- ❑ **There is no cause for undue alarm over the increase in Australian Government debt**
  - “Nor do I see any issue at all with the capacity of the Government to repay the bonds it has issued. Firstly, even with the increased issuance to fund the fiscal stimulus, the stock of government debt relative to the size of the Australian economy remains low. Secondly, the Government is borrowing at yields that are very low historically.
  - “Importantly, the yields on government debt are considerably below the long-run growth rate of the economy; that is,  $r$  is less than  $g$ . While ever this remains the case ... there are no concerns at all about fiscal sustainability from increased debt issuance. This is because growth in the economy will work to lower government debt as a share of nominal GDP”
- ❑ **Monetary and fiscal policy will need to remain expansionary for a long time**
  - “it is still quite likely that this decline [in economic activity] will have a long-lived impact that will require considerable policy support for quite some time to come. While much of that support is likely to be on the fiscal side, the Reserve Bank will maintain the current policies to keep borrowing costs low and credit available, and stands ready to do more as the circumstances warrant”

# For now at least, banks are 'part of the solution', not 'part of the problem'

## Changes in interest rates since June 2019



## Business credit outstanding

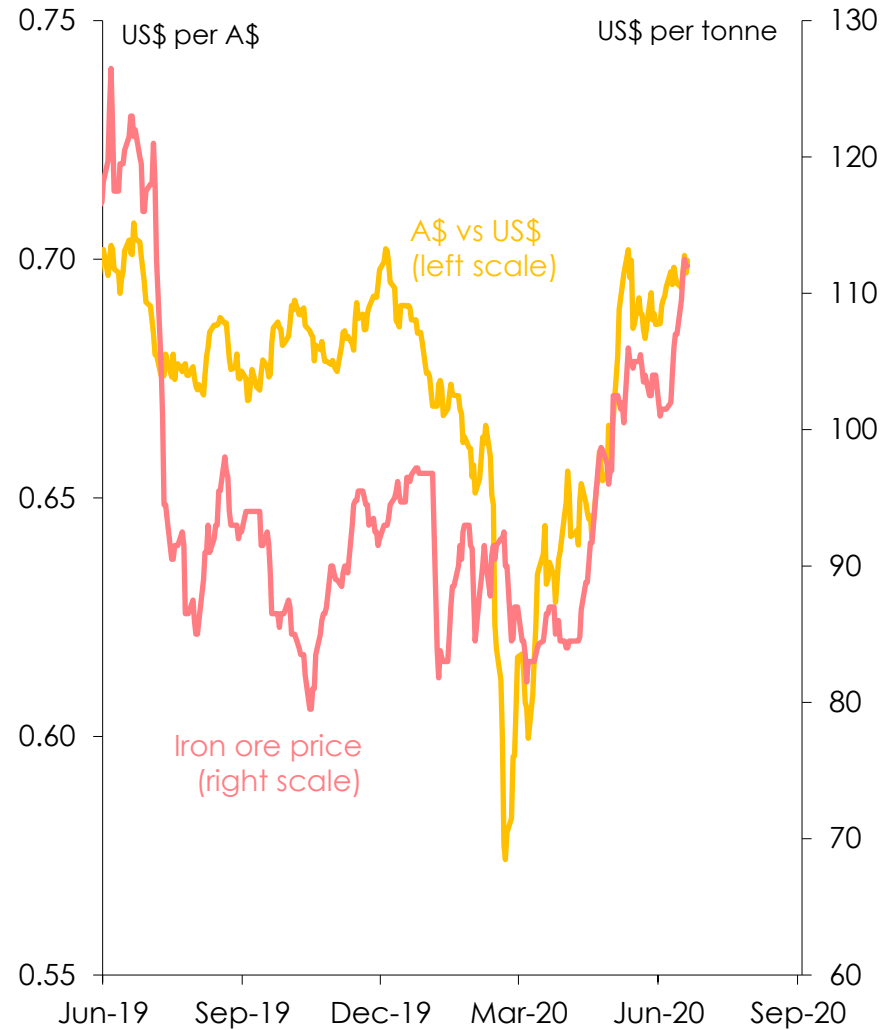


- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- ❑ Banks have extended 'repayment holidays' of up to six months to business and home mortgage borrowers who request it (about 13% of mortgages and 20% of SME loans)
  - although it is important to note that under these arrangements interest payments are deferred and capitalized, not foregone
- ❑ These 'repayment holidays' are due to expire at end-September, but banks this week announced that they would be extended for up to four months for those customers who were still experiencing difficulties but have good prospects of eventually repaying
- ❑ Major banks have cut or deferred dividends
- ❑ At end-2019, the Australian banking system had a Common Equity Tier 1 capital ratio of 11.3% of risk-weighted assets - well above the 10.5% required for major banks since 2017
  - APRA will allow banks CET1 ratios to drop below the 2017 requirements during the Covid-19 period provided they remain above other minimum prudential capital requirements
- ❑ Banks may be hit by increased loan impairment charges after 30<sup>th</sup> September

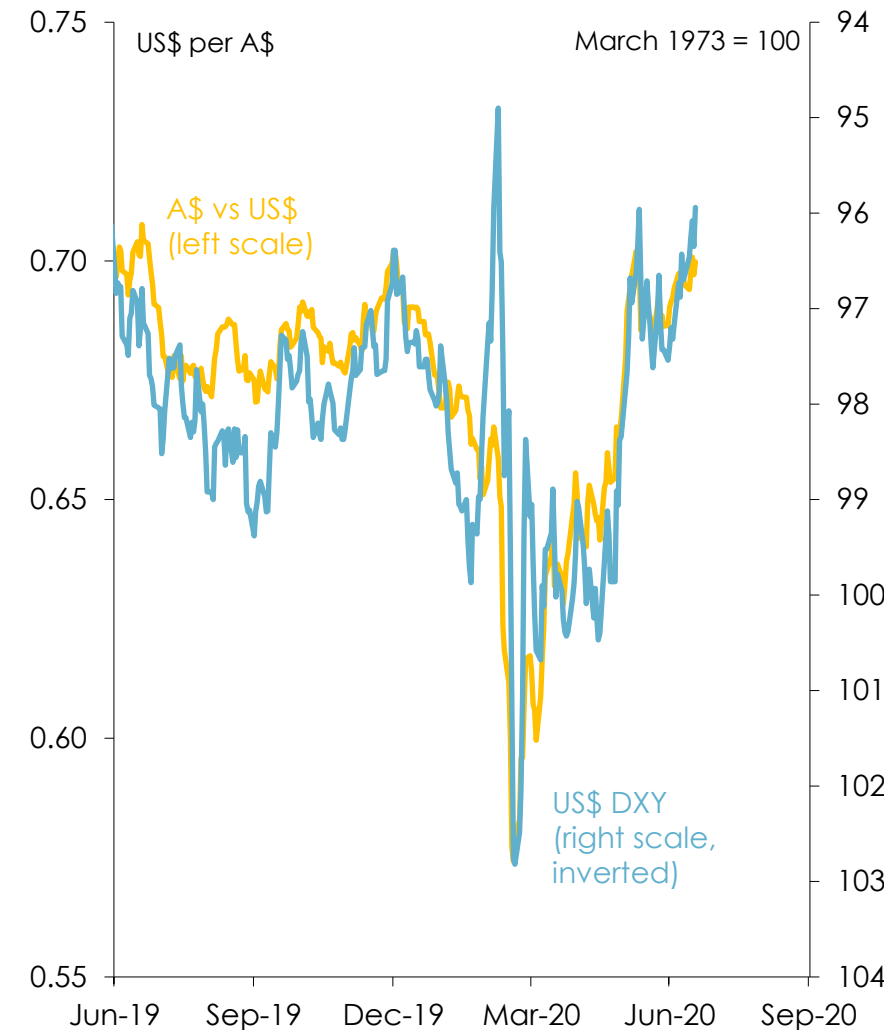
Source: Reserve Bank of Australia.

# The A\$ traded close to US70¢ this week, buoyed by higher iron ore prices and a weaker US dollar

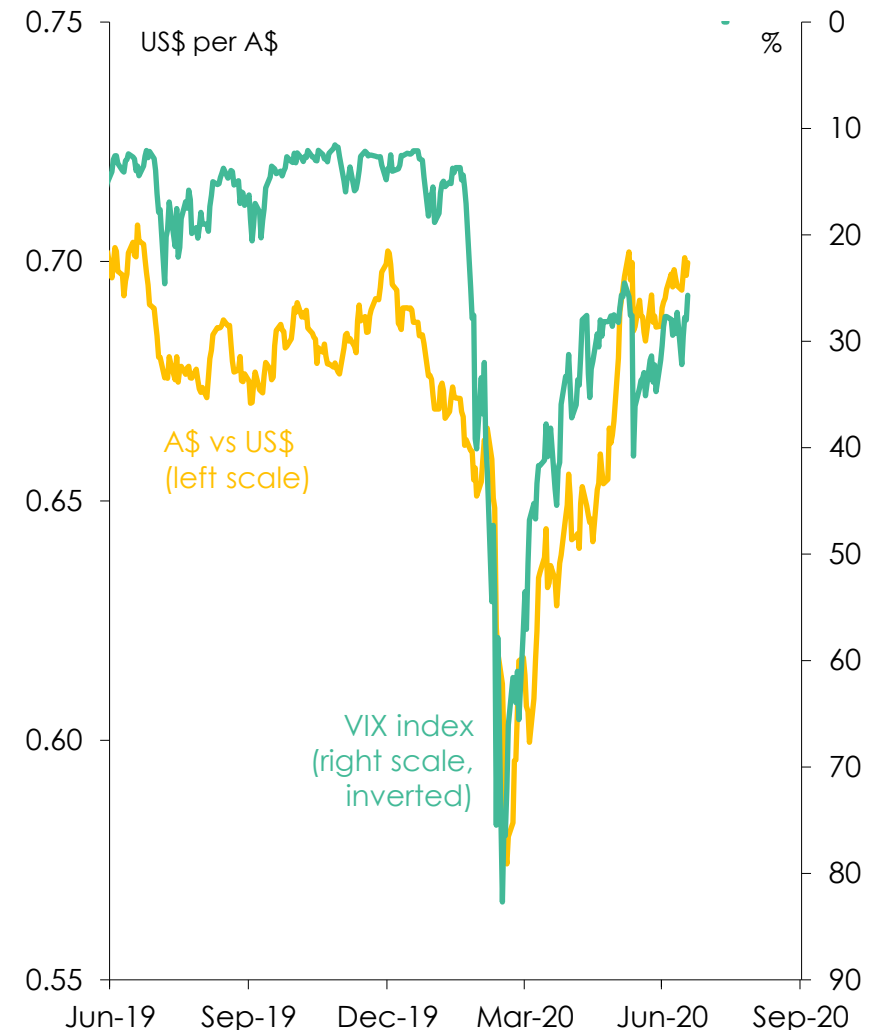
## A\$-US\$ and spot iron ore prices



## A\$-US\$ and US\$ trade-weighted index



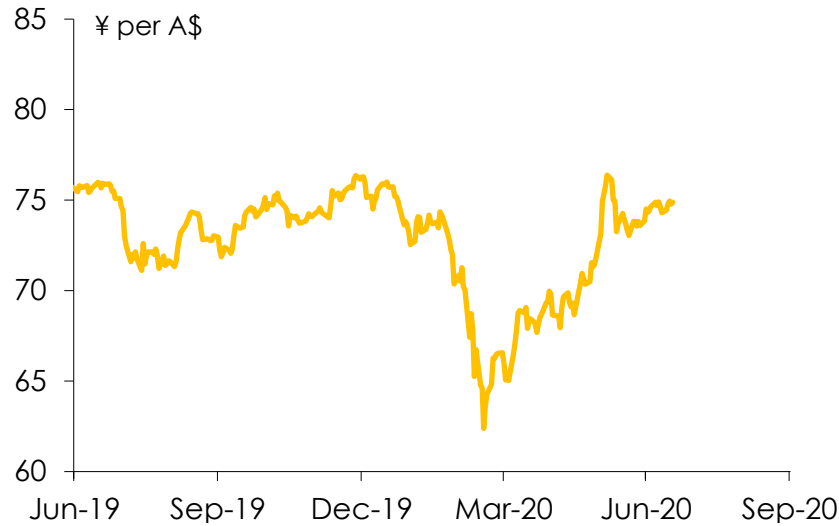
## A\$-US\$ and US equity market volatility



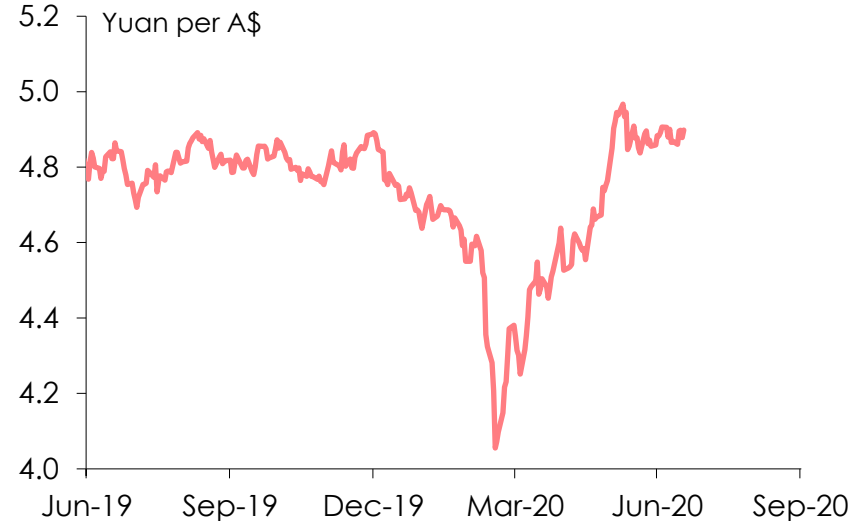
Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see slide 70. Source: Refinitiv Datastream. Data up to 17<sup>th</sup> July.

# The A\$ also rose against most third currencies this week, apart from the euro and the yuan

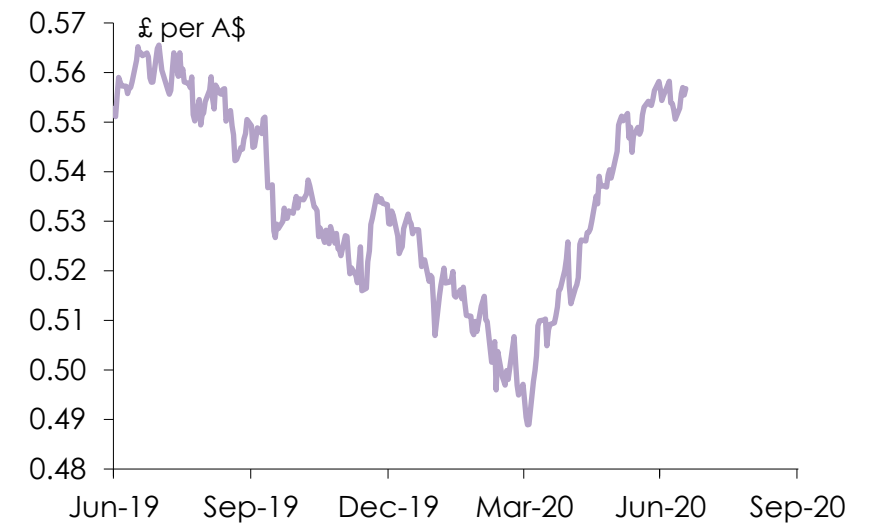
## A\$ vs Japanese yen



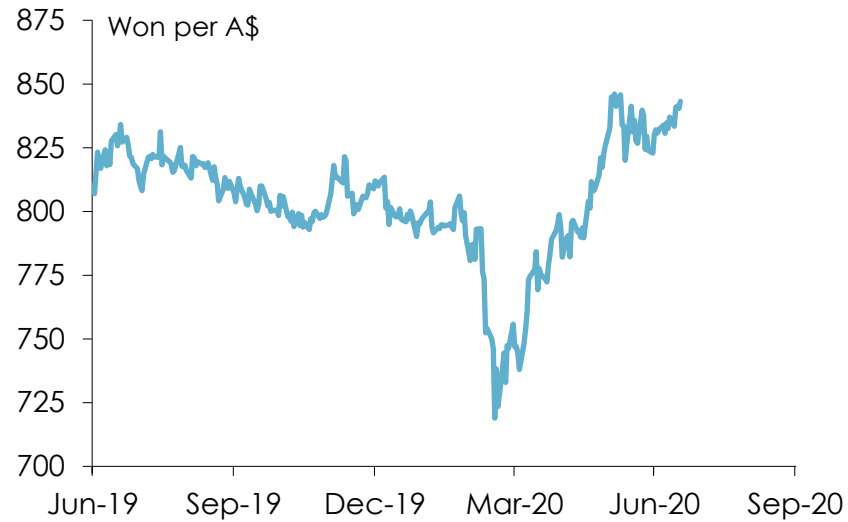
## A\$ vs Chinese yuan



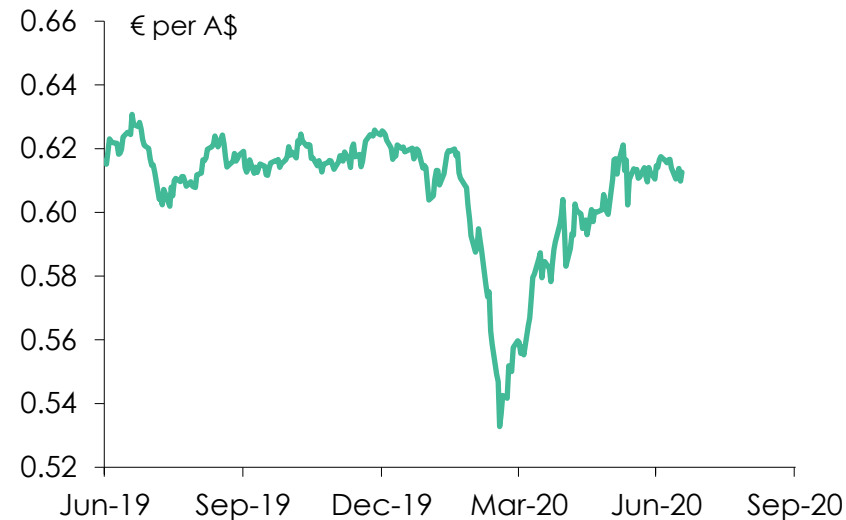
## A\$ vs British pound



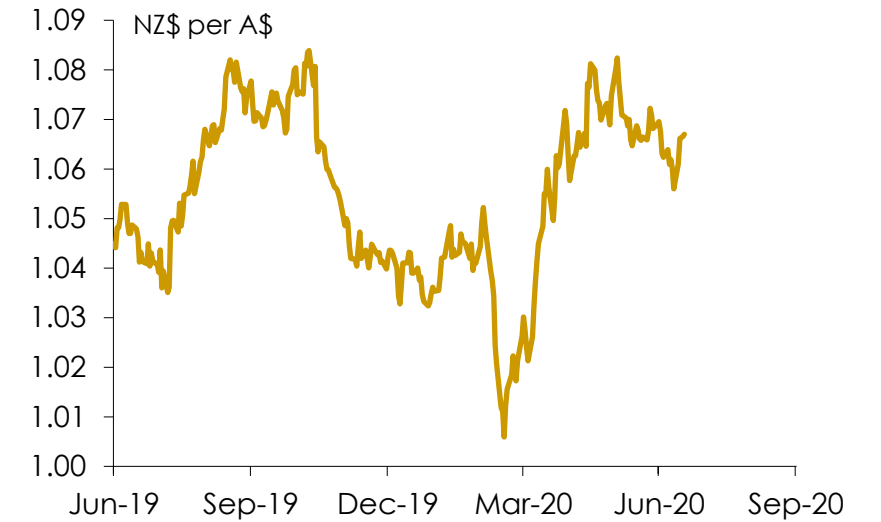
## A\$ vs Korean won



## A\$ vs Euro



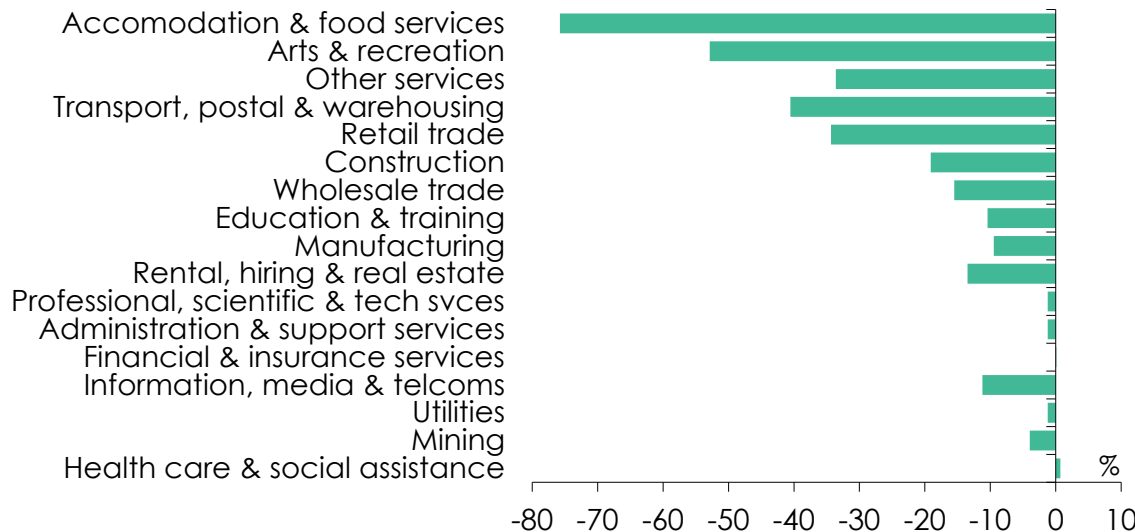
## A\$ vs NZ\$



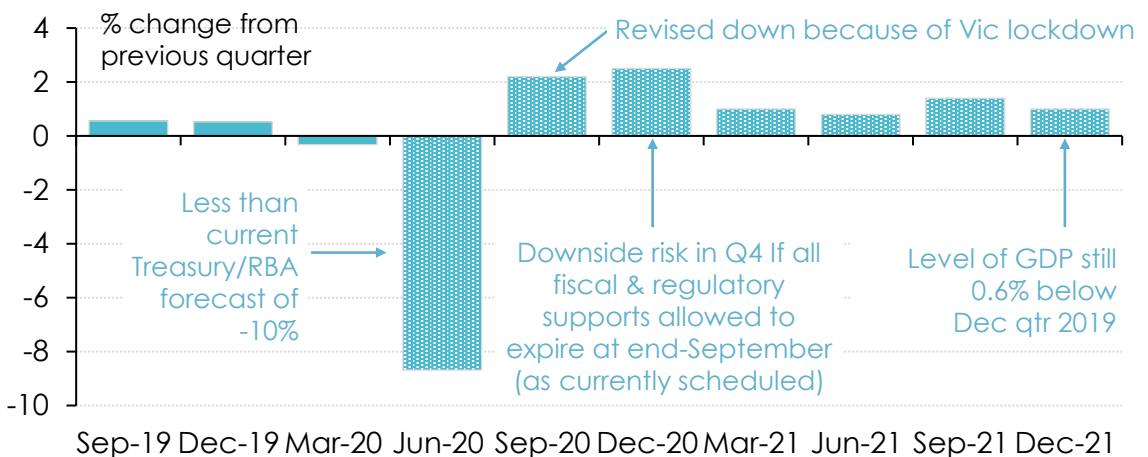
Source: Refinitiv Datastream. Data up to 17<sup>th</sup> July.

# Real GDP is likely to have shrunk by ~9% in the June quarter; the Sep qtr forecast has been revised down because of the Melbourne lockdown

## Projected peak-to-trough decline in output, by sector



## Projected quarterly real GDP profile



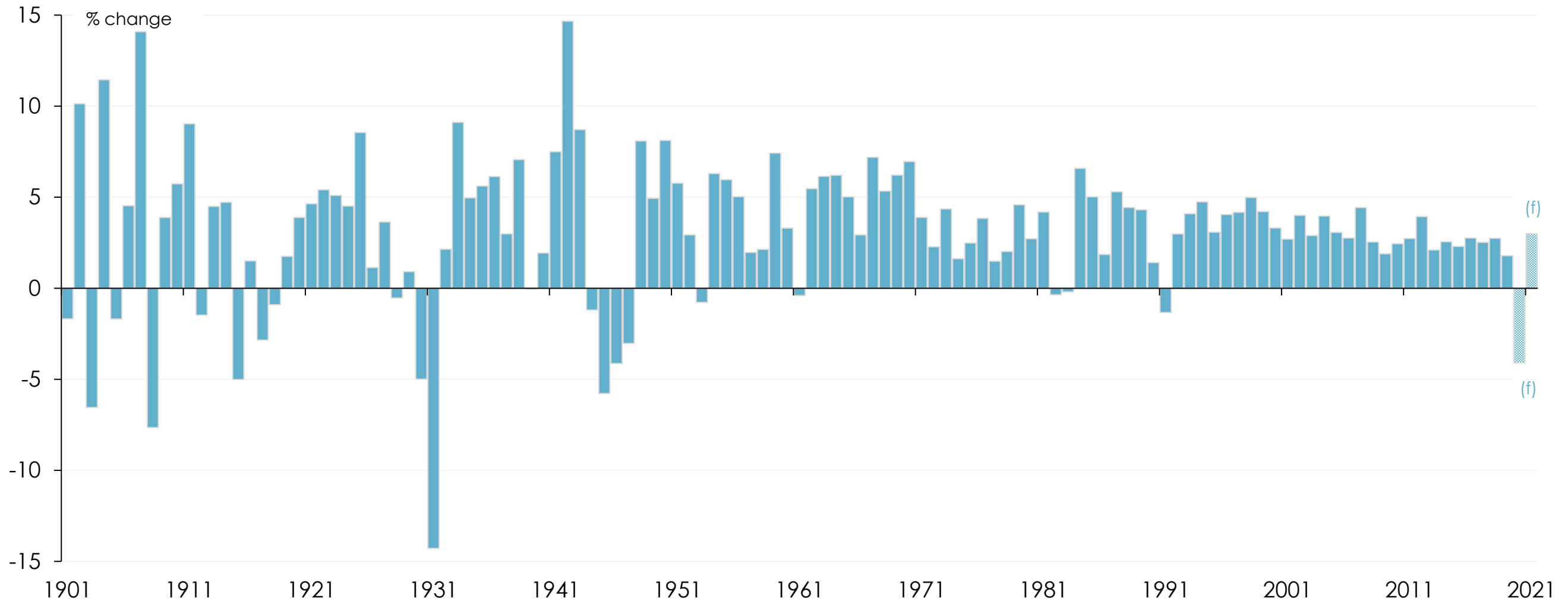
- ❑ GDP forecasts have been constructed using estimates of notional monthly changes in gross value added by industry, rather than the conventional approach of quarterly changes in the major expenditure components of GDP (consumption, housing & business investment, government spending, net exports etc)
- ❑ When the lock-down began, governments were indicating that restrictions would likely remain in force until the end of September
- ❑ On that basis, real GDP seemed likely to decline by at least 12 % between Dec qtr 2019 and the probable trough in Sep qtr 2020
- ❑ However with restrictions being eased (gradually) from mid-May onwards, the peak-to-trough decline in GDP may be 9% or less, with positive growth resuming in the Sep qtr
- ❑ The renewed lockdown in Greater Melbourne will likely detract 1-1¼ pc pts from national GDP growth in the Sep qtr – not enough to turn it into a 3<sup>rd</sup> consecutive negative quarter – but there will presumably be some mechanical boost to Dec qtr growth
- ❑ Assuming the end-September ‘fiscal cliff’ is tempered, the forecast now envisages year-average growth of about -¾% for FY 2019-20 and -2% for FY 2020-21; or -4½% for CY2020 and +3¼% for CY 2021
- ❑ Even with an earlier easing of restrictions, a ‘V-shaped’ recovery looks unlikely (see slides 92 & 95) – and some additional fiscal stimulus is likely to be required to support the recovery that will occur

Source: ABS; Corinna.



# The contraction in real GDP in 2020 will still be the largest since the Great Depression

## Australian real GDP growth since 1901

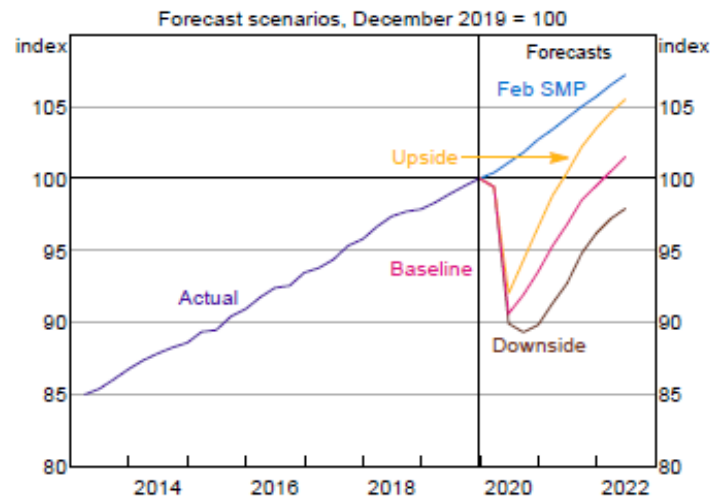


Note: From 1901 to 1960 data are for years ended 30<sup>th</sup> June; from 1961 onwards data are for years ended 31<sup>st</sup> December. Sources: ANU Source Papers in Economic History; ABS; Corinna.

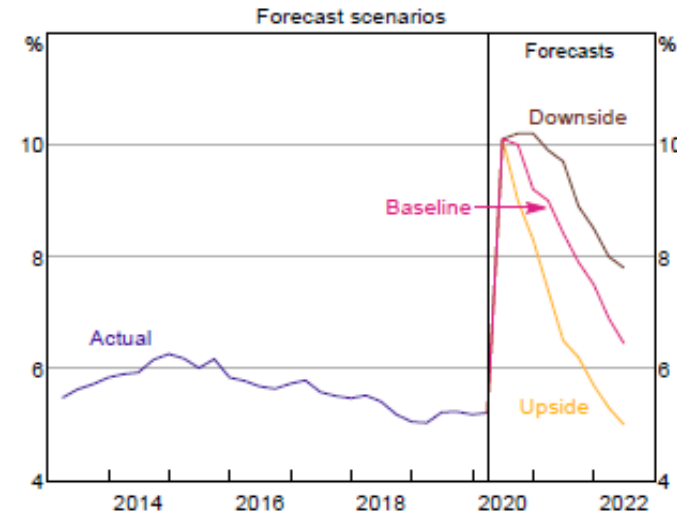


# The RBA's most recent Monetary Policy Statement presented three alternative scenarios

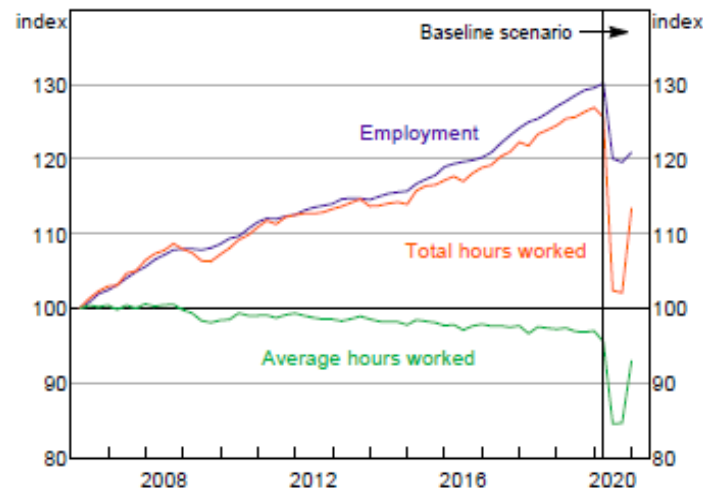
## GDP



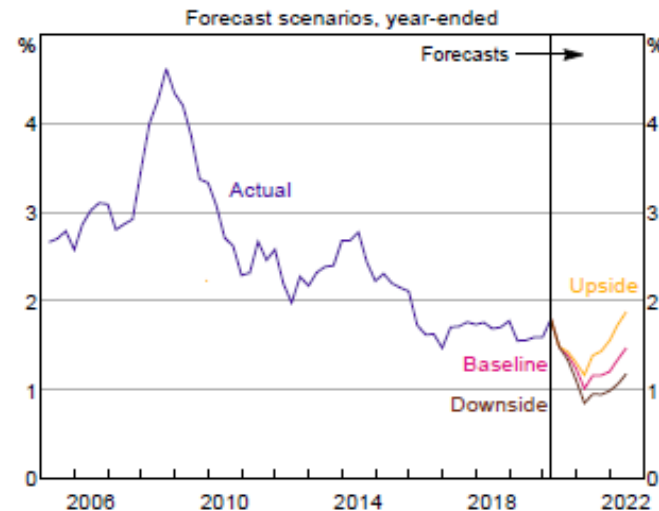
## Unemployment



## Employment



## 'Underlying' inflation



- ❑ The RBA's 'baseline' scenario assumes that most 'social distancing' restrictions are lifted by the end of the September quarter, apart from those on large public gatherings and events, and international borders (which aren't opened until early 2021)
- ❑ In this scenario real GDP declines by 5% in 2020 but rebounds by 4% in 2021, while unemployment peaks at around 10% in the current (June quarter) and declines to 6½% by Dec qtr 2021
- ❑ The RBA's 'upside' scenario assumes most restrictions are phased out over coming months (which is more in line with the Government's "Three Step Plan" announced on 9<sup>th</sup> May)
- ❑ Under this scenario most of the initial decline in real GDP is reversed by mid-2021, while unemployment could be back to 5¼% by mid-2022
- ❑ The 'downside' scenario assumes restrictions are retained for longer or need to be reimposed
- ❑ In this scenario GDP would remain close to its trough through end-2020, and unemployment would remain close to 10% until 'well into 2021'

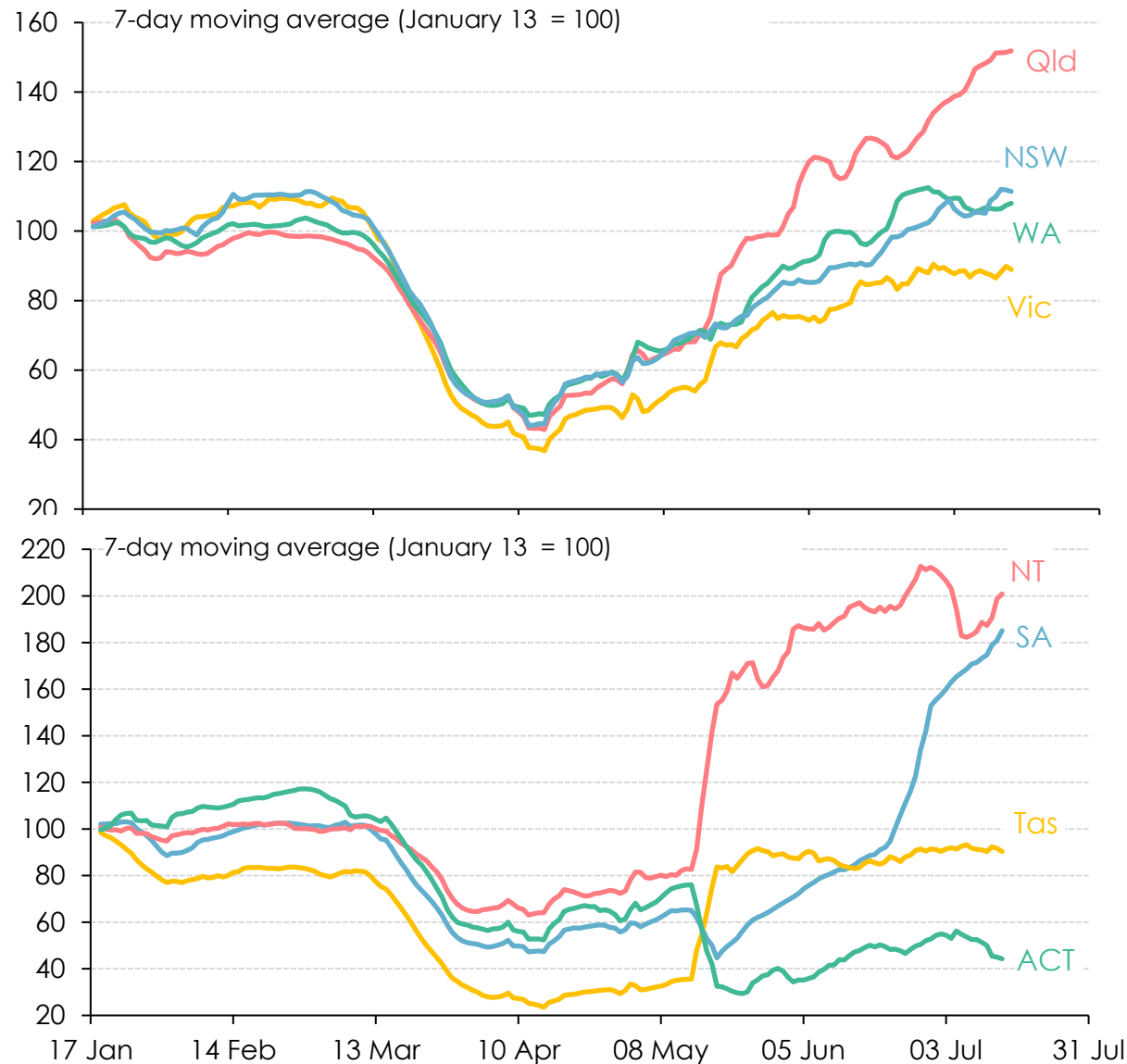
# The Government's "3-Step Framework" for the easing of restrictions doesn't amount to a complete recovery

	GATHERINGS & WORK	EDUCATION & CHILDCARE	RETAIL & SALES	CAFES & RESTAURANTS	ENTERTAINMENT & AMUSEMENT VENUES	SPORT & RECREATION	ACCOMMODATION	DOMESTIC TRAVEL
Step 1	<p>Non-work gatherings of up to 10</p> <p>Up to 5 visitors at home in addition to normal residents</p> <p>Work from home if it works for you and your employer</p> <p>Workplaces develop a COVIDSafe plan</p> <p>Avoid public transport in peak hour</p>	<p>Child care centres, primary and secondary schools open as per state and territory plans</p> <p>Universities/technical colleges to increase face-to-face where possible and prioritise hands-on, skills based learning</p>	<p>Retail stores open</p> <p>Retail stores and shopping centre managers must develop COVIDSafe plans</p> <p>Auctions/open homes can have gatherings of up to 10, recording contact details</p>	<p>May open and seat up to 10 patrons at one time</p> <p>Need to maintain an average density of 4m<sup>2</sup> per person</p> <p>Food courts are to remain closed to seated patrons</p>	<p>To remain closed: Indoor movie theatres, concert venues, stadiums, galleries, museums, zoos, pubs, registered and licensed clubs, nightclubs, gaming venues, strip clubs and brothels</p> <p>Exception: Restaurants or cafes in these venues may seat up to 10 patrons at one time</p>	<p>No indoor physical activity including gyms</p> <p>Community centres, outdoor gyms, playgrounds and skate parks allow up to 10 people</p> <p>Outdoor sport (up to 10 people) consistent with the AIS Framework for Rebooting Sport</p> <p>Pools open with restrictions</p>	<p>Continue current arrangements for caravan parks and camping grounds (closed to tourists in some states and territories)</p> <p>Hostels and hotels are open for accommodation</p>	<p>Allow local and regional travel for recreation</p> <p>Refer to state and territory governments for border restrictions and biosecurity conditions</p>
Step 2	<p>Non-work gatherings of up to 20</p> <p>States and territories may allow larger numbers in some circumstances</p> <p>Work from home if it works for you and your employer</p> <p>Workplaces develop a COVIDSafe plan</p> <p>Avoid public transport in peak hour</p>	<p>Child care centres, primary and secondary schools open as per state and territory plans</p> <p>Universities/technical colleges to increase face-to-face where possible and prioritise hands-on, skills based learning</p>	<p>Retail stores open</p> <p>Retail stores and shopping centre managers must develop COVIDSafe plans</p> <p>Auctions/open homes can have gatherings of up to 20, recording contact details</p>	<p>Cafes and restaurants can seat up to 20 patrons at one time</p> <p>Need to maintain an average density of 4m<sup>2</sup> per person</p> <p>Food courts are to remain closed to seated patrons</p>	<p>Indoor movie theatres, concert venues, stadiums, galleries, museums, zoos may have up to 20 patrons</p> <p>To remain closed: pubs, registered and licensed clubs, RSL clubs, casinos, nightclubs, strip clubs and brothels</p> <p>Exception: Restaurants or cafes in these venues may seat up to 20 patrons at one time</p>	<p>Up to 20 people allowed to participate in outdoor sports consistent with the AIS Framework for Rebooting Sport</p> <p>Up to 20 people allowed to participate in all indoor sports, including gyms</p> <p>Need to maintain an average density of 4m<sup>2</sup> per person</p> <p>Pools open with restrictions</p>	<p>Caravan parks and camping grounds fully open</p> <p>All accommodation areas open and allow gatherings of up to 20 people</p>	<p>Allow local and regional travel for recreation</p> <p>Consider allowing interstate recreational travel depending on the situation in each state and territory</p> <p>Refer to state and territory governments for biosecurity conditions</p>
Step 3	<p>Non-work gatherings of up to 100 people</p> <p>Larger gatherings to be considered</p> <p>Return to workplace</p> <p>Workplaces develop a COVIDSafe plan</p> <p>Avoid public transport in peak hour</p>	<p>Child care centres, primary and secondary schools open as per state and territory plans</p> <p>Universities/technical colleges to increase face-to-face where possible and prioritise hands-on, skills based learning</p> <p>Consider reopening residential colleges and international student travel</p>	<p>Retail stores open</p> <p>Retail stores and shopping centre managers must develop COVIDSafe plans</p> <p>Auctions/open homes can have gatherings of up to 100, recording contact details</p>	<p>Cafes, restaurants and food courts can seat up to 100 people</p> <p>Need to maintain an average density of 4m<sup>2</sup> per person</p>	<p>Venues open in Step 2 may have up to 100 patrons</p> <p>Consideration will be given to opening bar areas and gaming rooms</p> <p>Exception: Restaurants or cafes in these venues may seat up to 100 patrons at one time</p> <p>To remain closed: strip clubs and brothels</p>	<p>All venues allowed to operate with gatherings of up to 100 people</p> <p>Need to maintain an average density of 4m<sup>2</sup> per person</p> <p>Community sport expansion to be considered consistent with the AIS Framework for Rebooting Sport</p>	<p>All accommodation areas open and allow gatherings of up to 100 people</p>	<p>Allow interstate travel</p> <p>Refer to state and territory governments for biosecurity conditions</p>

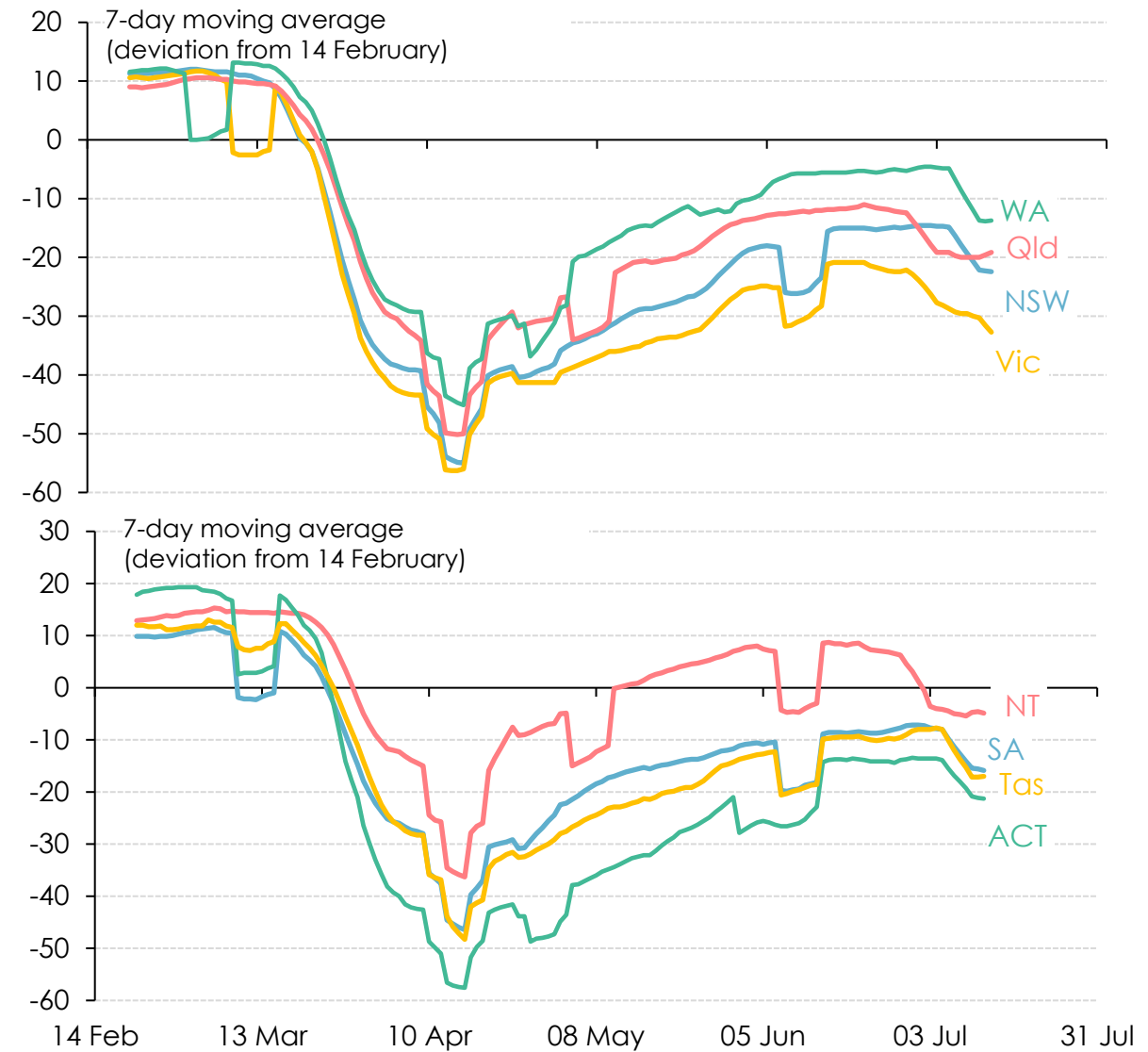
- ❑ Treasury expects 250,000 jobs to be regained, and \$3bn of GDP to be recouped, from 'Step 1'
- ❑ Full implementation of all 3 steps is expected to enable 850,000 people to return to work, and generate \$9.4bn per month of additional GDP
- ❑ These figures compare with job losses to date of around 975,000, and Treasury estimates of a \$50bn decline in GDP during the June quarter (about \$16bn per month)

# Mobility data suggest Northern Territory, Queensland & Western Australia returning to 'normal' fastest, with New South Wales & Victoria lagging

## Time spent driving, by State and Territory



## Time spent working, by State and Territory



Sources: Apple Mobility Trends Reports (data up to 14<sup>th</sup> July); Google Covid-19 Community Mobility Reports (data up to 12<sup>th</sup> July).

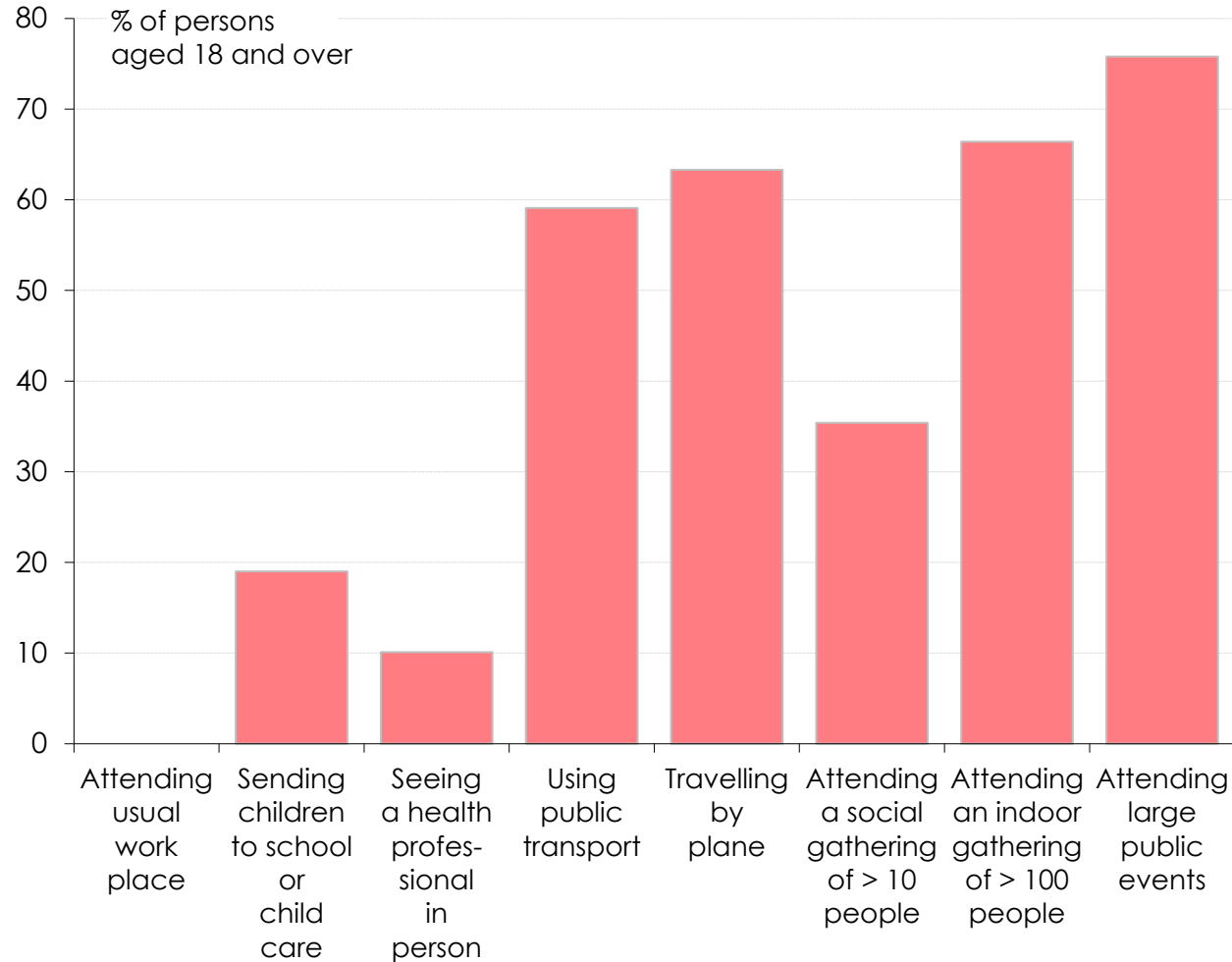
# The path out of the current downturn will be more gradual than the path into it was

- ❑ **‘Social distancing’ requirements will be relaxed gradually rather than ‘all at once’**
  - new health and safety regulations will likely limit the number of employees and customers who can be ‘on premises’ (which may make it uneconomic for some businesses to re-open until restrictions are relaxed)
  - and many people may remain wary of exercising all of their newly-regained ‘freedoms’ (see slide 93)
- ❑ **‘At least some businesses won’t have survived the shutdown period, and many of those which do will not immediately return to pre-outbreak levels of employment**
  - so employment will remain below pre-outbreak levels for some time rather than ‘snapping back’ quickly
  - and those returning to work may work reduced hours (compared with pre-outbreak) for some time
- ❑ **The recovery in household spending is likely to be gradual, rather than rapid**
  - if the recovery in employment is only gradual, so too will be the recovery in household disposable income
  - most households will have run down discretionary savings to at least some extent, as well as having their superannuation balances depleted by market movements and/or withdrawals – and so will likely want to rebuild savings
  - households with mortgages who have deferred repayments will face higher or longer mortgage repayments, constraining their spending capacity to some extent
  - household spending may also be affected by ‘negative wealth effects’ from lower property prices
- ❑ **There is some risk of a ‘setback’ when government support programs come to an end (nearly all of them at the end of September), or if restrictions on the movement or gathering of people have to be re-imposed**
- ❑ **International borders (except with NZ) will likely remain closed until a vaccine is widely available – which is in turn likely to be at least 12 months away**
  - implying that there will be no near-term recovery in international tourism or international education
- ❑ **Businesses are likely to be very hesitant about investment spending for an extended period (with some exceptions)**

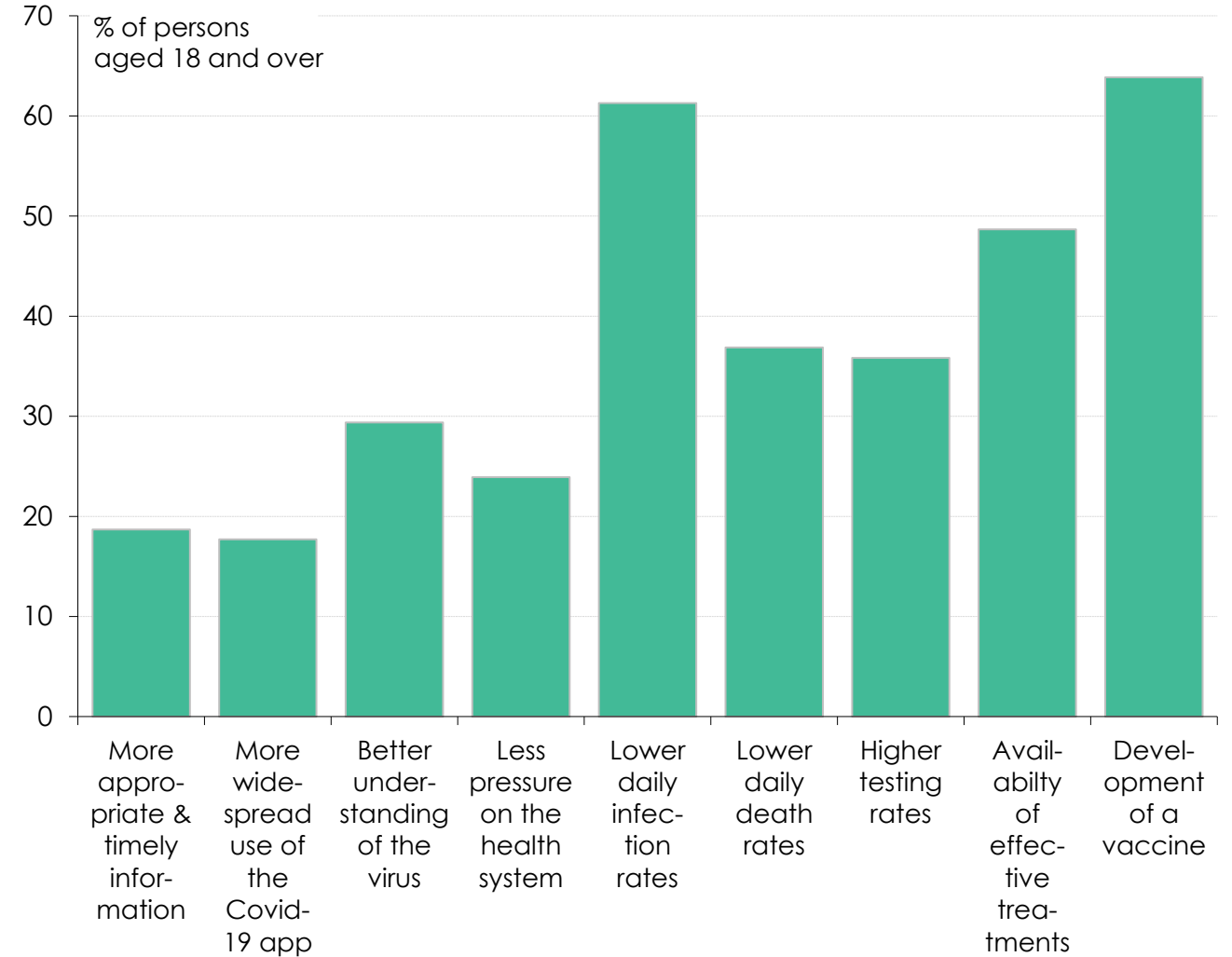


# Australians seem likely to continue to be wary of travel and large gatherings, at least until a vaccine for Covid-19 is developed

Proportion of adults feeling 'uncomfortable' with selected activities as restrictions are eased



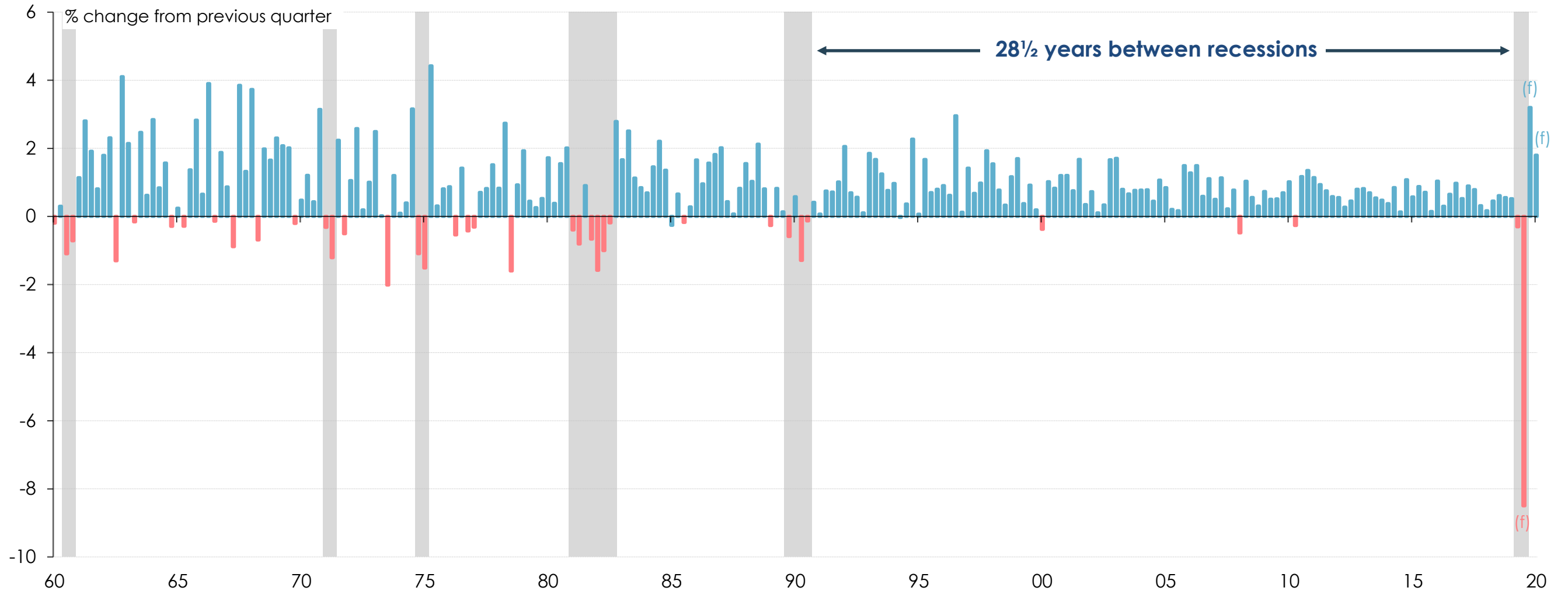
Actions that would improve people's comfort with activities as restrictions are eased



Source: ABS, Household Impacts of Covid-19 Survey, 26<sup>th</sup>-29<sup>th</sup> May (published 15<sup>th</sup> June).

# Australia's record-breaking run of almost 30 years without a recession has come to an end

## Quarterly growth in Australian real GDP, 1960-2020



Note: Shaded areas denote recessions. Source: ABS.

# The factors which helped us achieve almost 30 years of continuous economic growth may not be so helpful in the post-Covid environment

Australia's record-breaking run of almost 30 years without two or more consecutive quarters of negative real GDP growth owed a lot to four factors -

## ❑ Population growth

- Australia's population grew at an average annual rate of 1.5% pa over the 19 years to 2019, compared with 0.6% pa for all 'advanced' economies
- net immigration accounted for 58% of this growth – ie, in the absence of immigration Australia's population would have grown by only 0.7% per annum, on average, and would have aged more rapidly

## ❑ Our unusual (for an 'advanced' economy) economic relationship with China

- China's rapid economic growth, industrialization and urbanization significantly boosted both the volumes and prices of many of our commodity exports, under-wrote the post-GFC mining investment boom, pushed down the prices of many of the things which we import, and contributed significantly to the growth of our tourism and education sectors
- By contrast, China's rapid economic growth undermined the competitiveness of manufacturing industries which account for a much larger share of most other 'advanced' economies, put downward pressure on the prices of their exports and put upward pressure on the prices of commodities which they import

## ❑ The 'housing boom'

- Australia's 'housing boom' started earlier (mid-1990s) and ended later (2017, rather than 2007-08) than in most other 'advanced' economies (some – such as Japan, Italy and France – didn't have a housing boom at all)
- the two-way interaction between rising house prices and rising household debt underwrote stronger growth in household consumption spending, for longer, than would have occurred otherwise

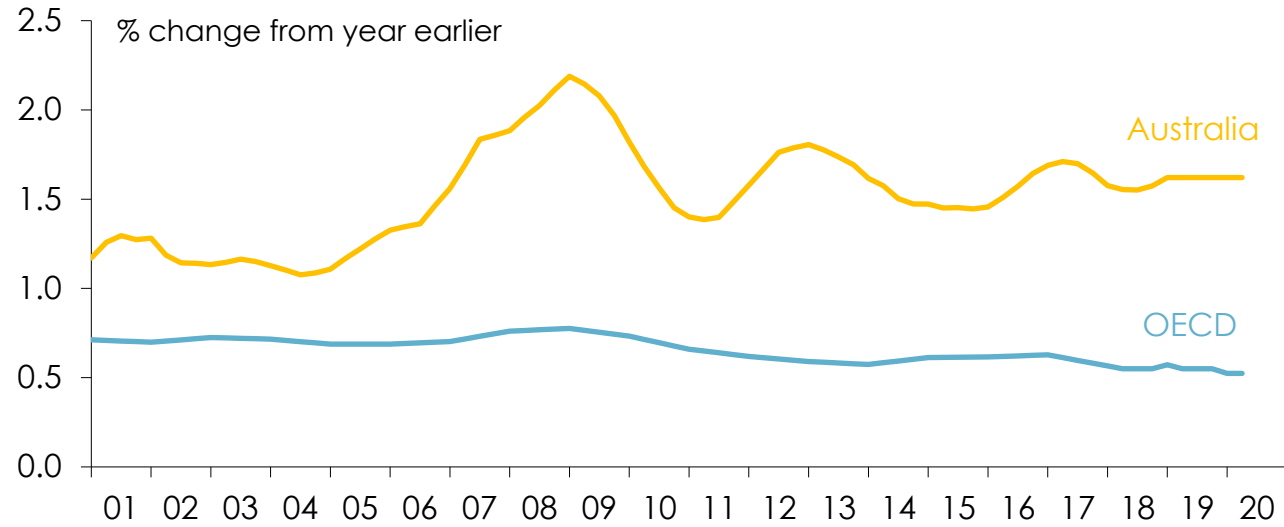
## ❑ (Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies

- although we haven't done nearly as well as we once did on the micro-economic front (especially with regard to productivity)

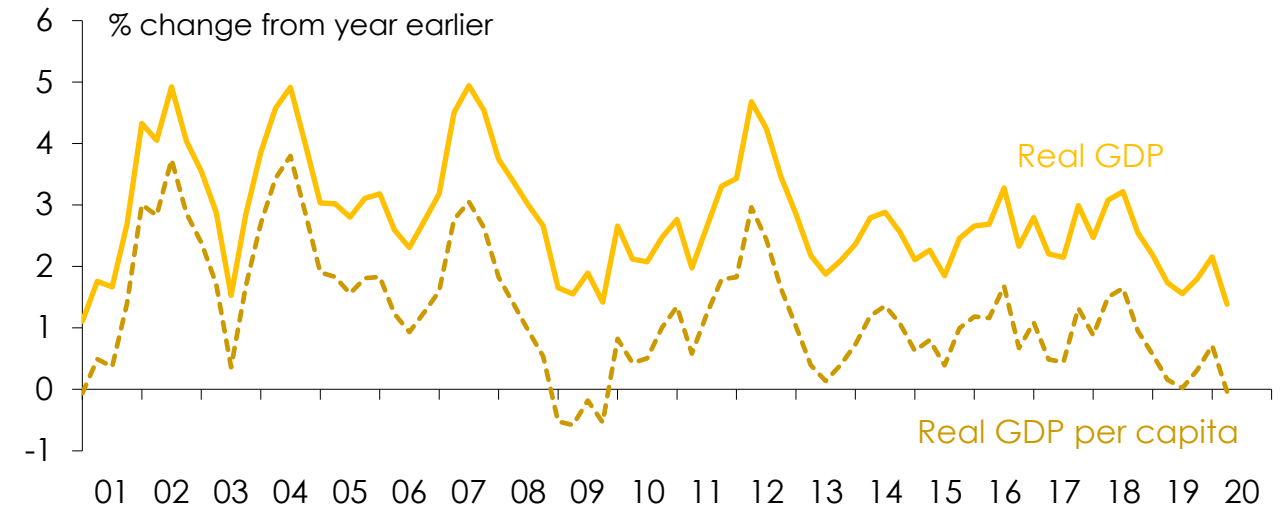
The first three of these are likely to be of less assistance from now on

# Australia's above-average economic growth over the past 20 years owes a lot to above-average population growth: that's about to change

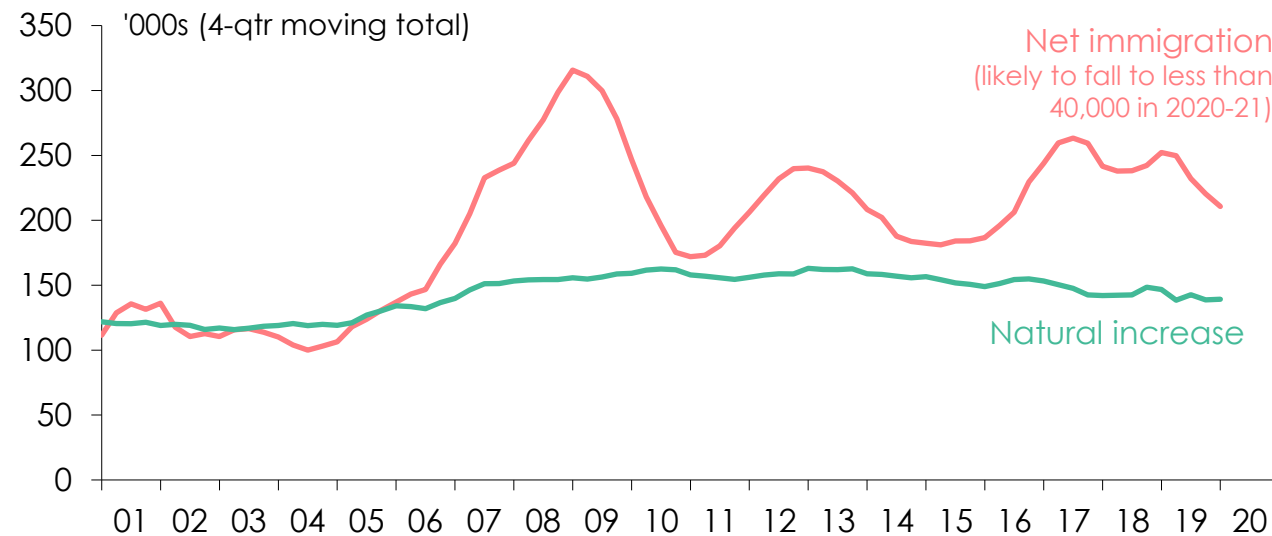
## Australia and OECD population growth



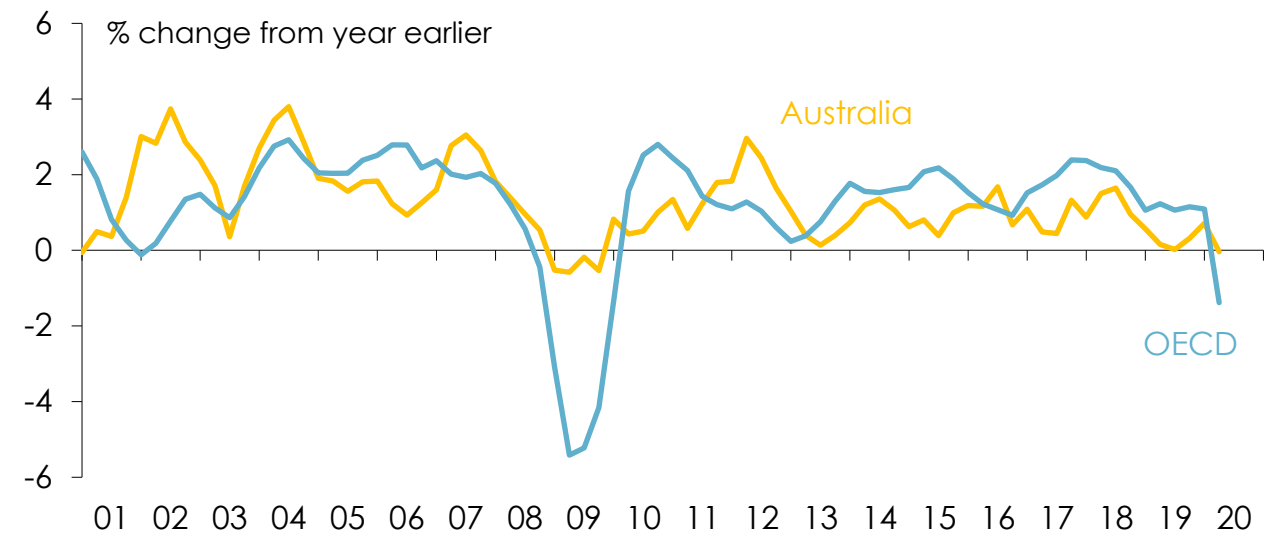
## Australian GDP and per capita GDP growth



## Sources of Australia's population growth



## Australia and OECD per capita real GDP growth

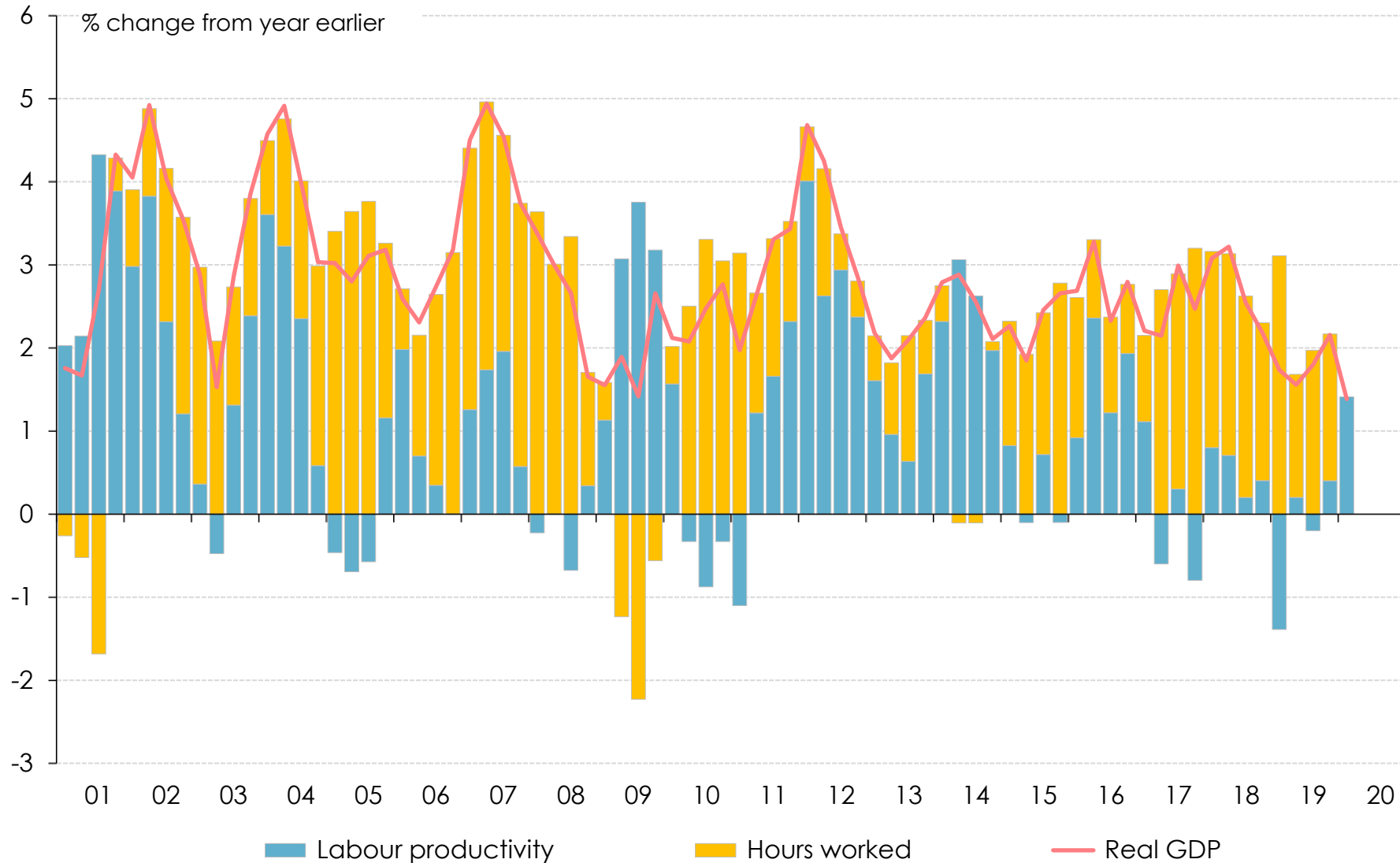


Sources: ABS; OECD.



# Australia has come to rely much more heavily on increased labour input to drive economic growth in recent years – we can't keep doing that

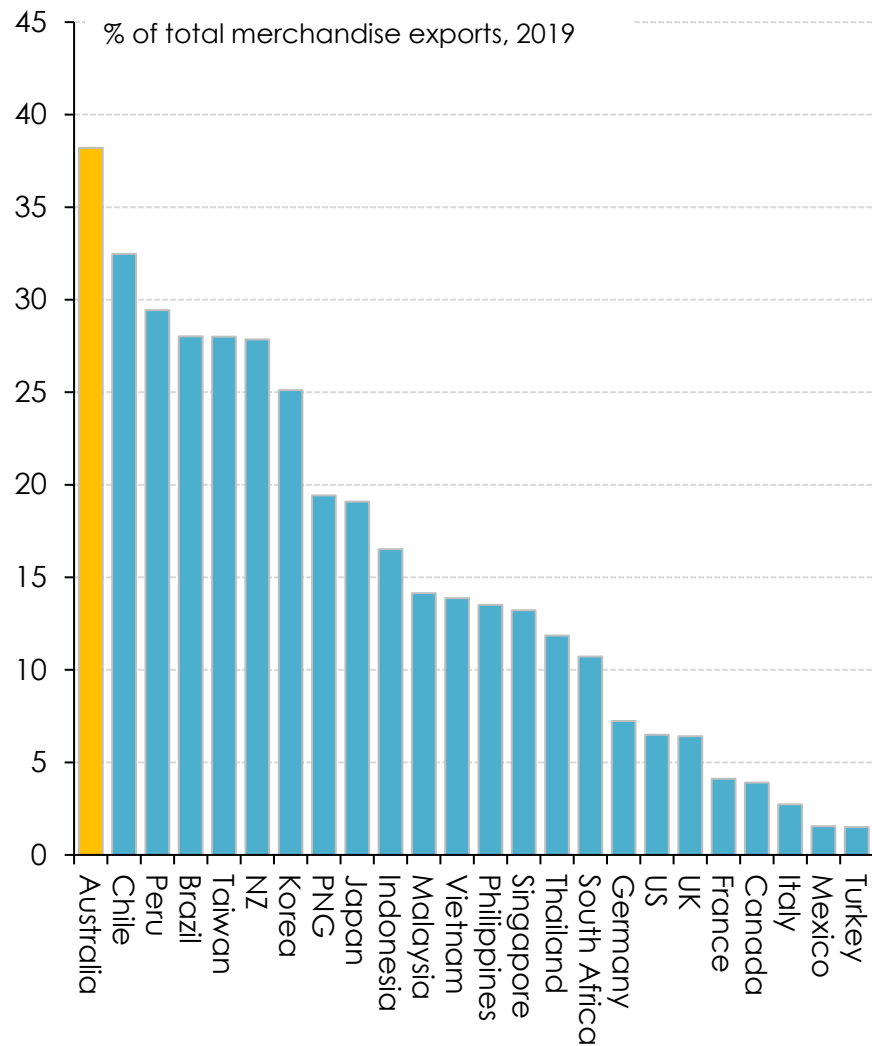
## Labour input and labour productivity contributions to Australian real GDP growth



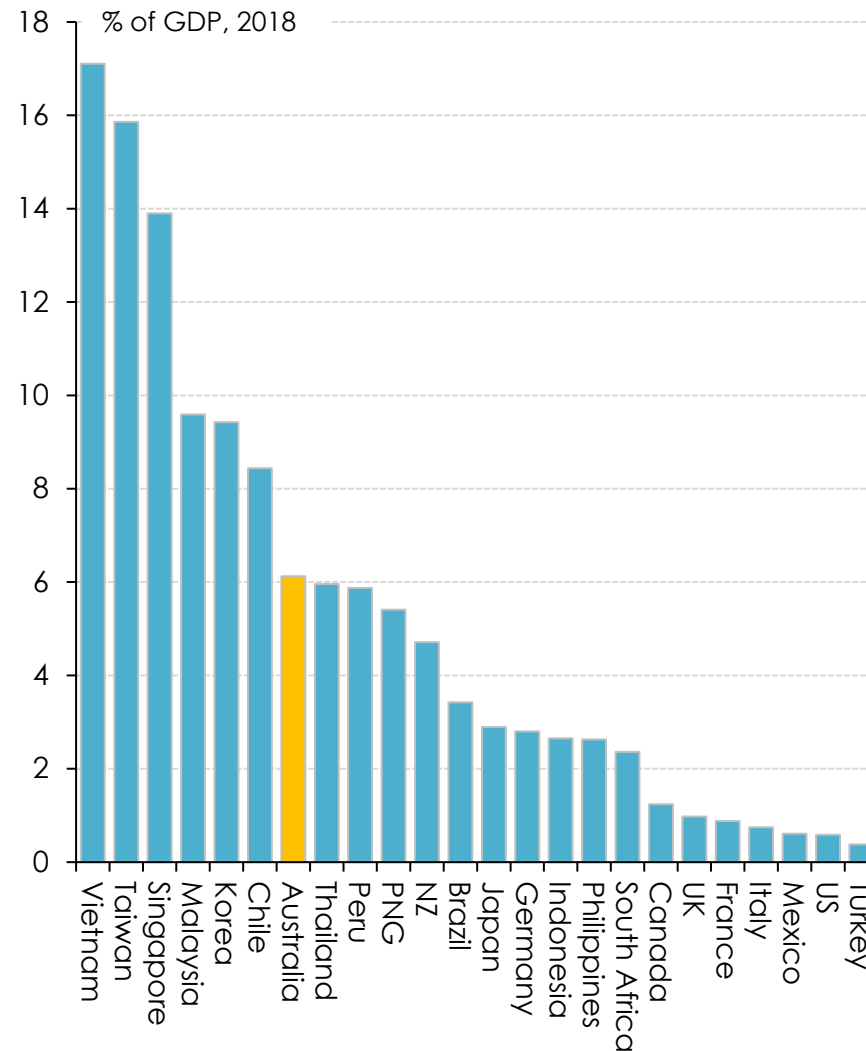
- ❑ Over the past five years, 72% of Australia's real GDP growth has come from increased labour input, and only 28% from labour productivity growth
- ❑ By contrast, between the end of the early 1990s recession and the onset of the global financial crisis, 46% of Australia's real GDP growth came from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

# Australia has benefited enormously from its economic relationship with China over the past 25 years, but will that continue to be the case?

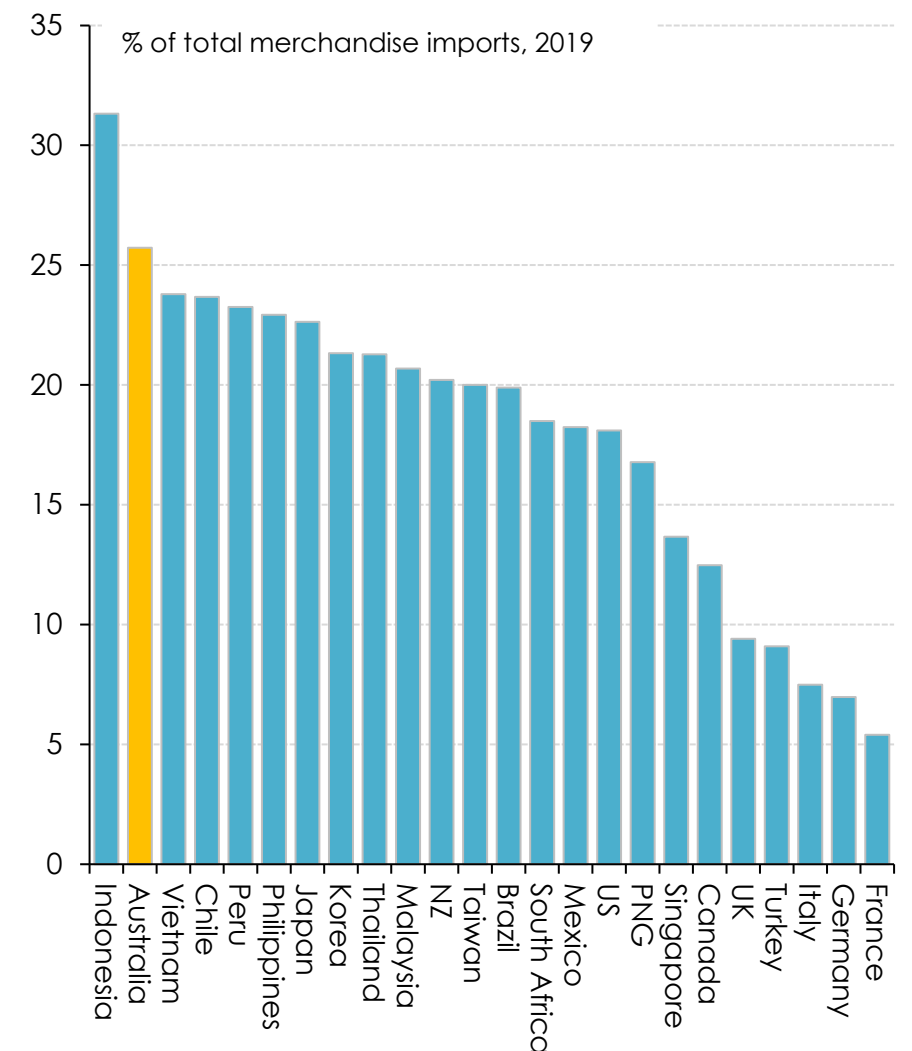
## Merchandise exports to China as a pc of total



## Merchandise exports to China as a pc of GDP



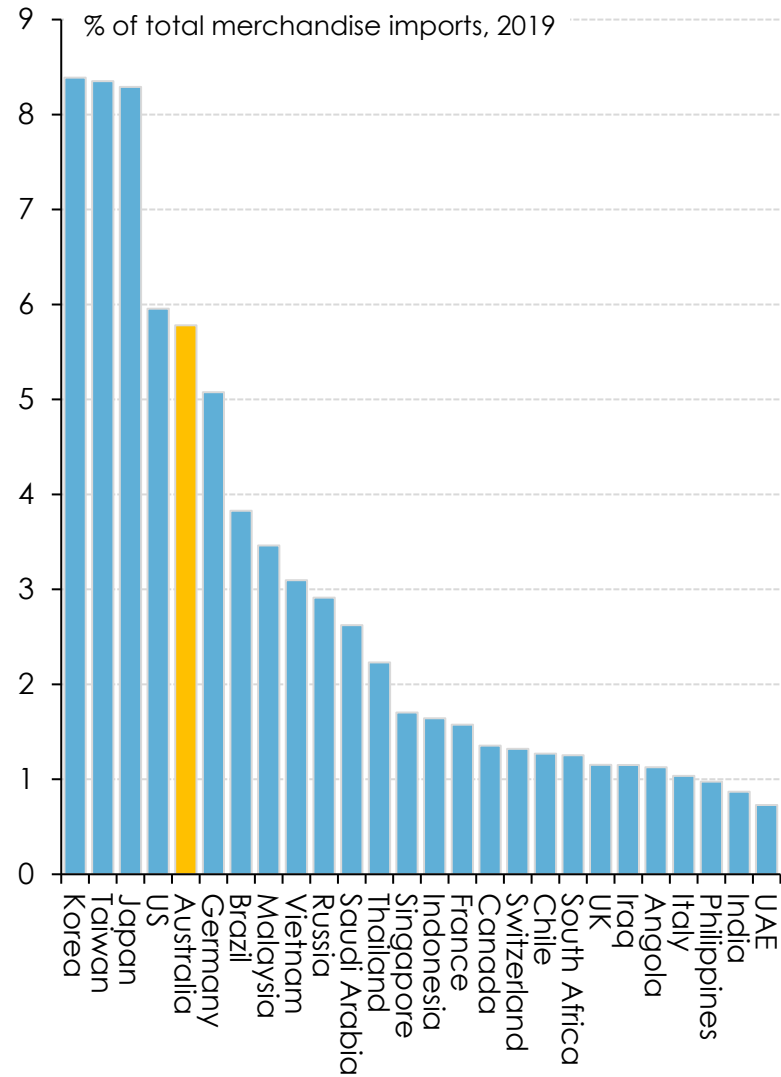
## Merchandise imports from China as a pc of total



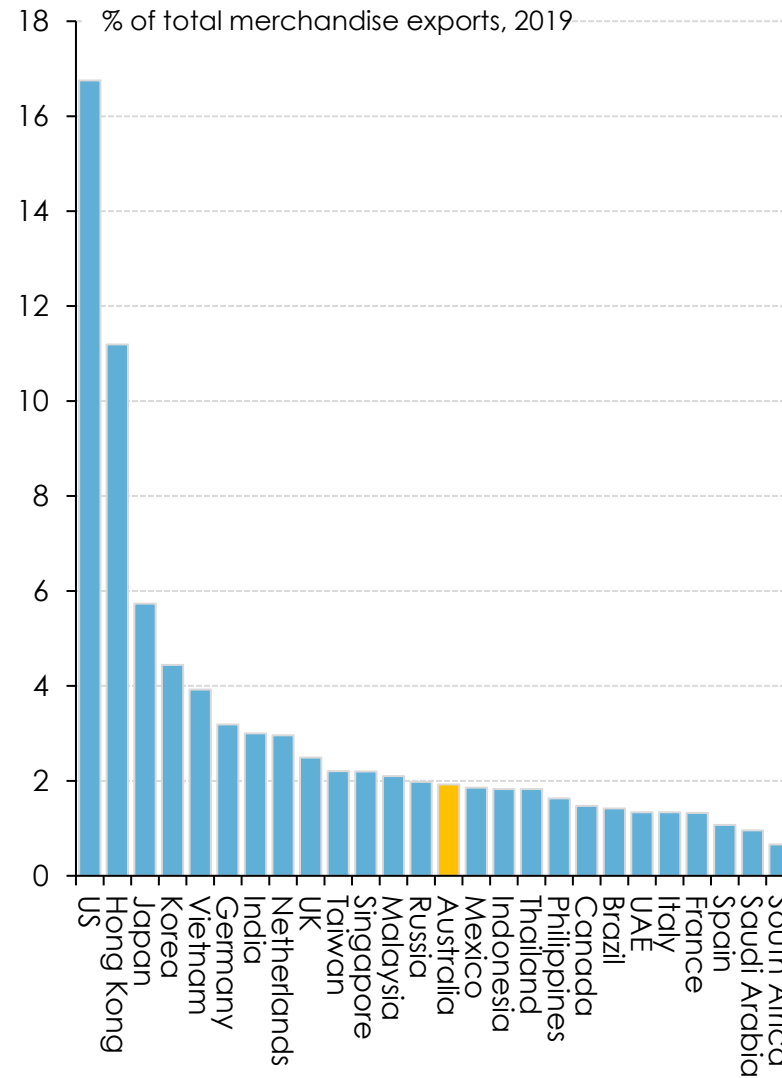
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade.

# Australia is China's 5<sup>th</sup> biggest source of imports (of goods), 14<sup>th</sup> biggest export market, and has the 2<sup>nd</sup>-largest bilateral trade surplus with China

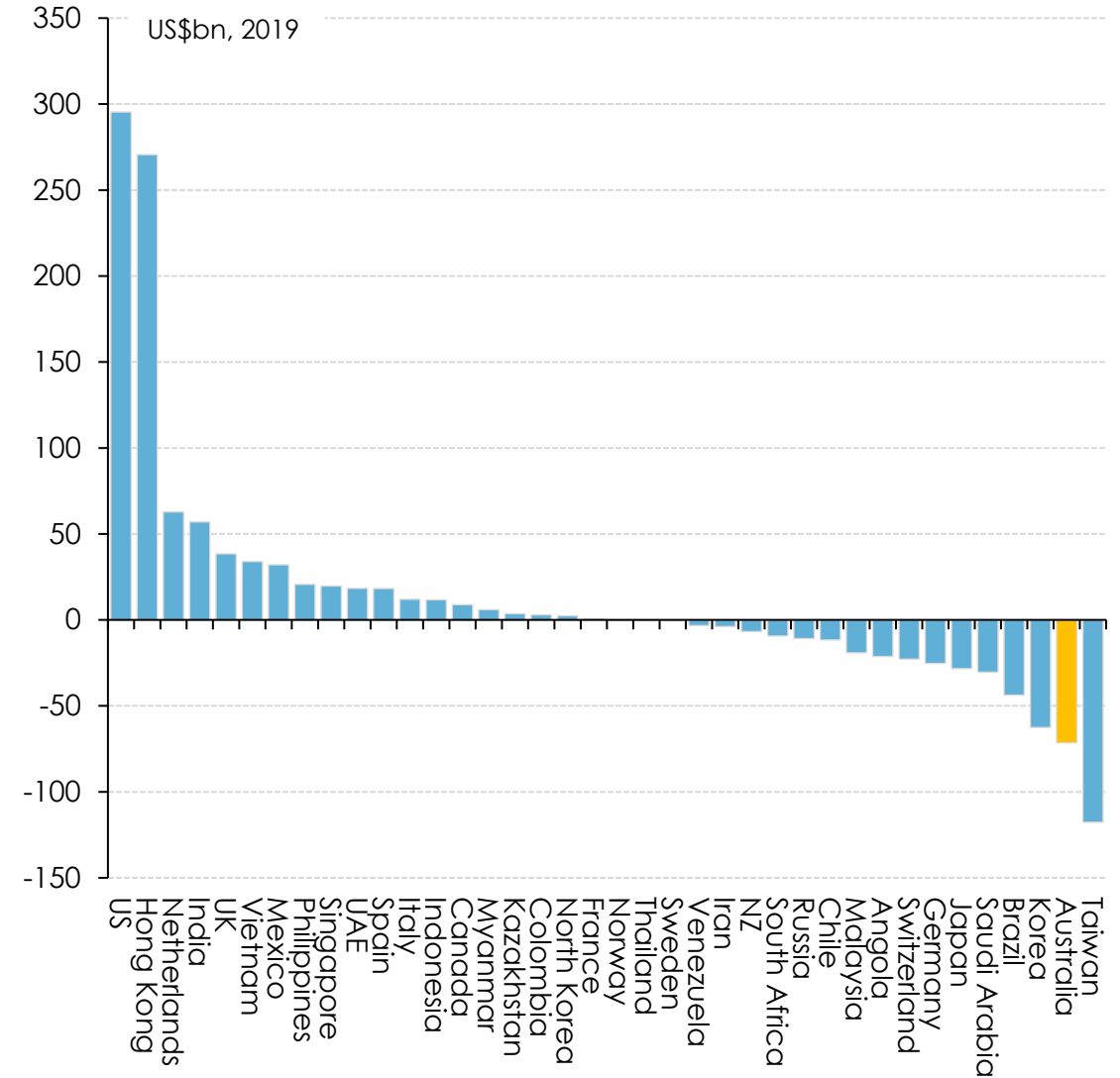
## China's sources of imports



## China's export destinations



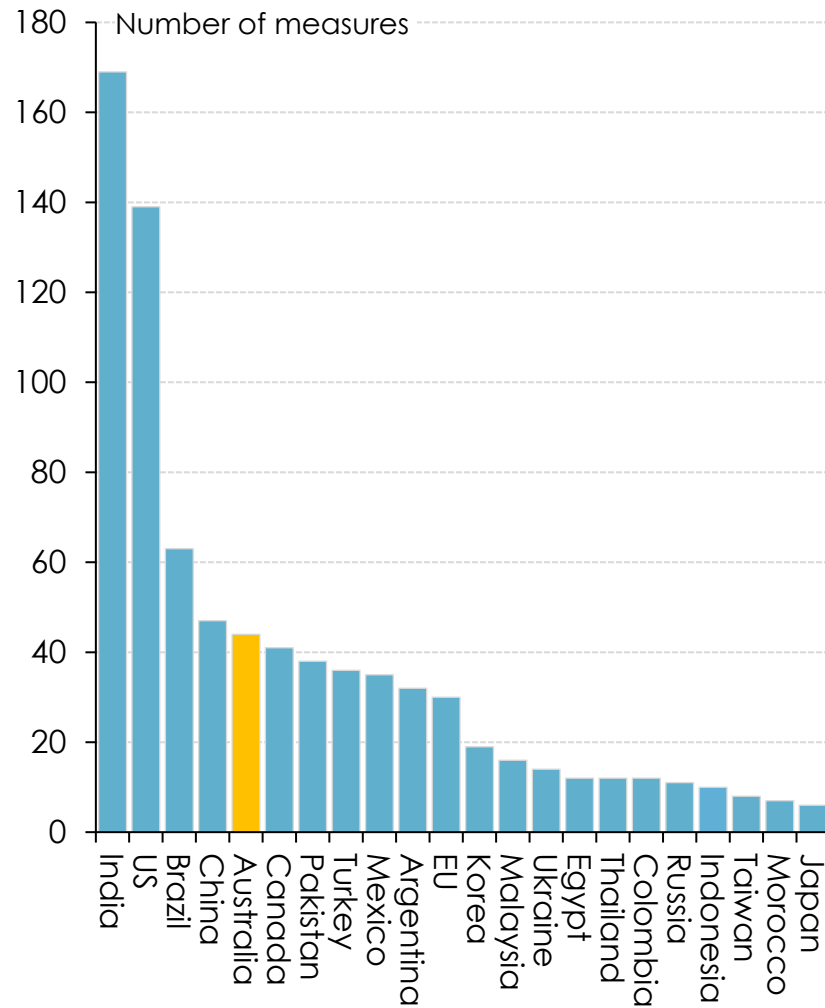
## China's bilateral merchandise trade balances



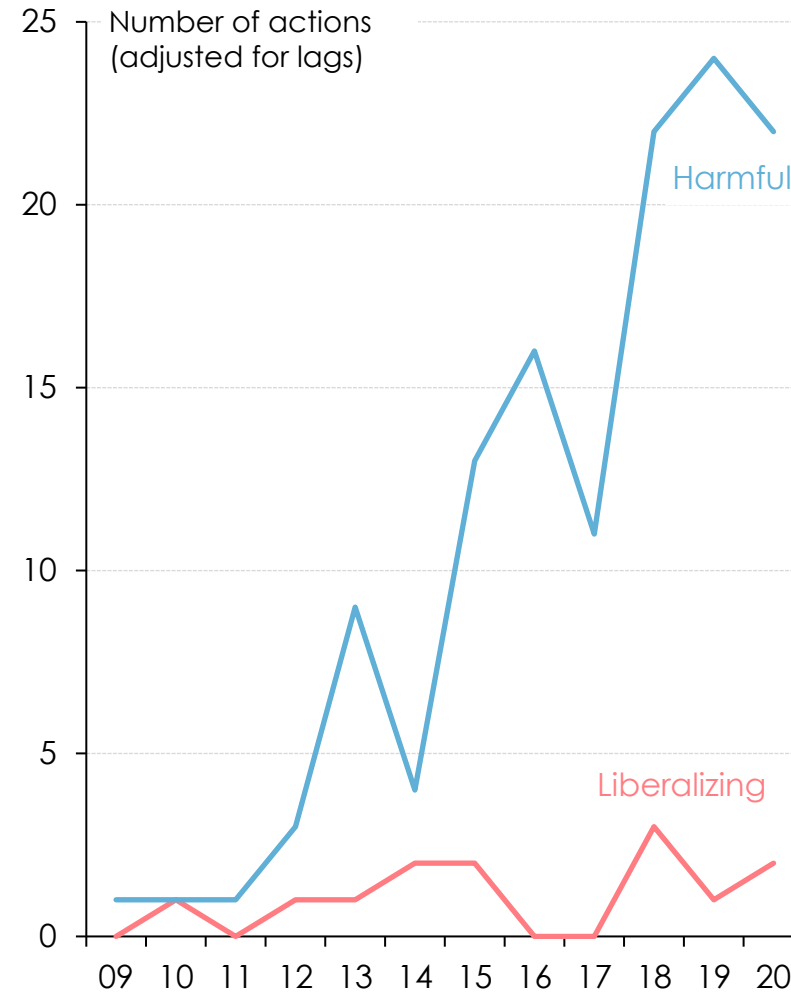
Source: International Monetary Fund, *Direction of Trade Statistics*.

# China's threats against Australian exports of barley, beef, coal, tourism and education aren't justified, but we aren't complete innocents either

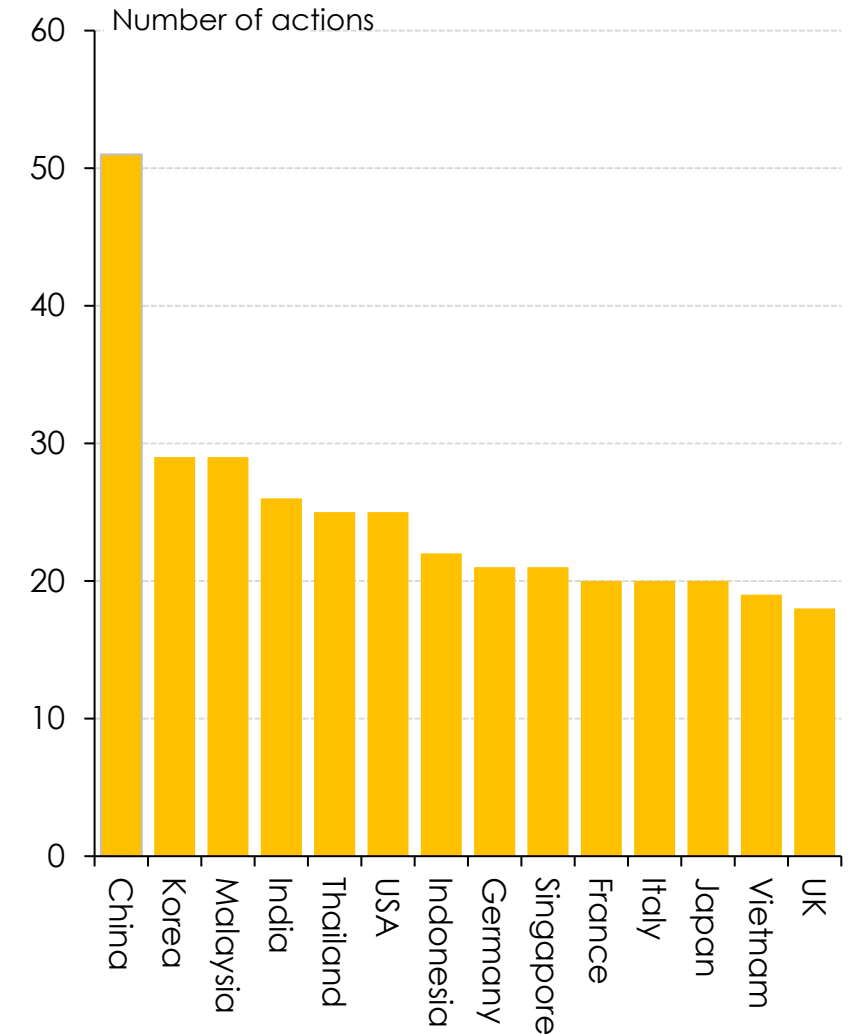
## Number of anti-dumping measures imposed, 2015-19



## Australian trade policy measures since 2009



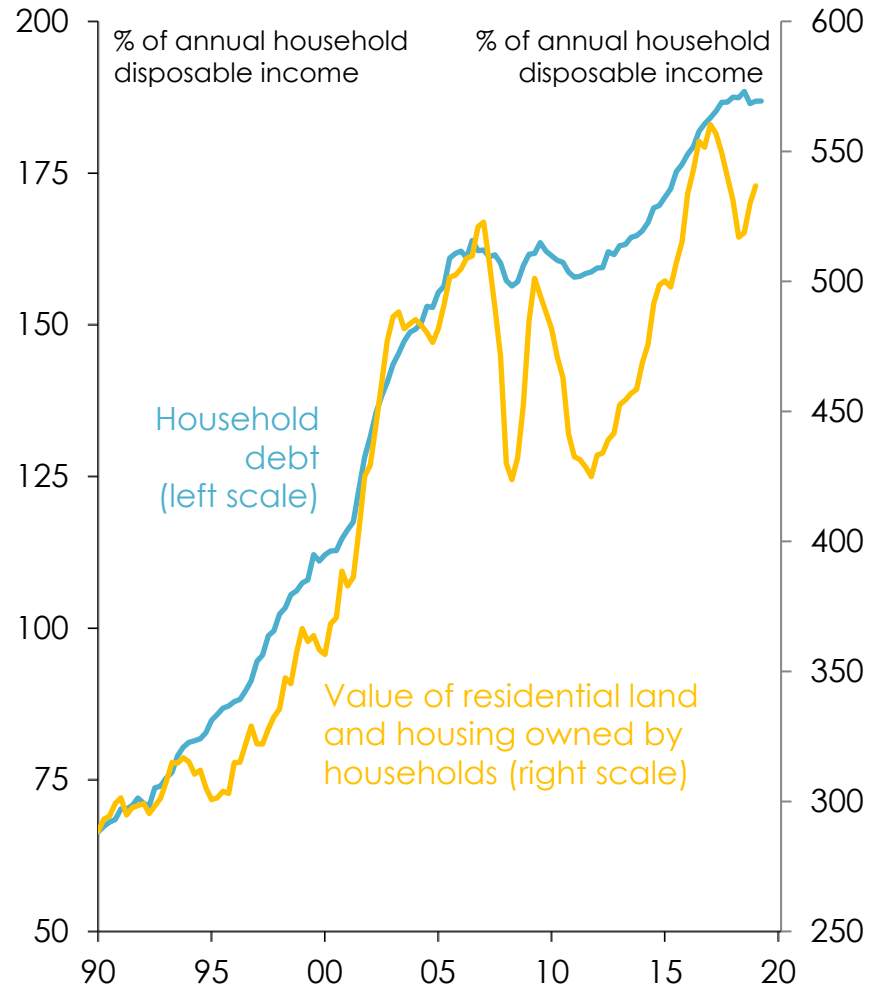
## Countries adversely affected by 'harmful' Australian trade actions



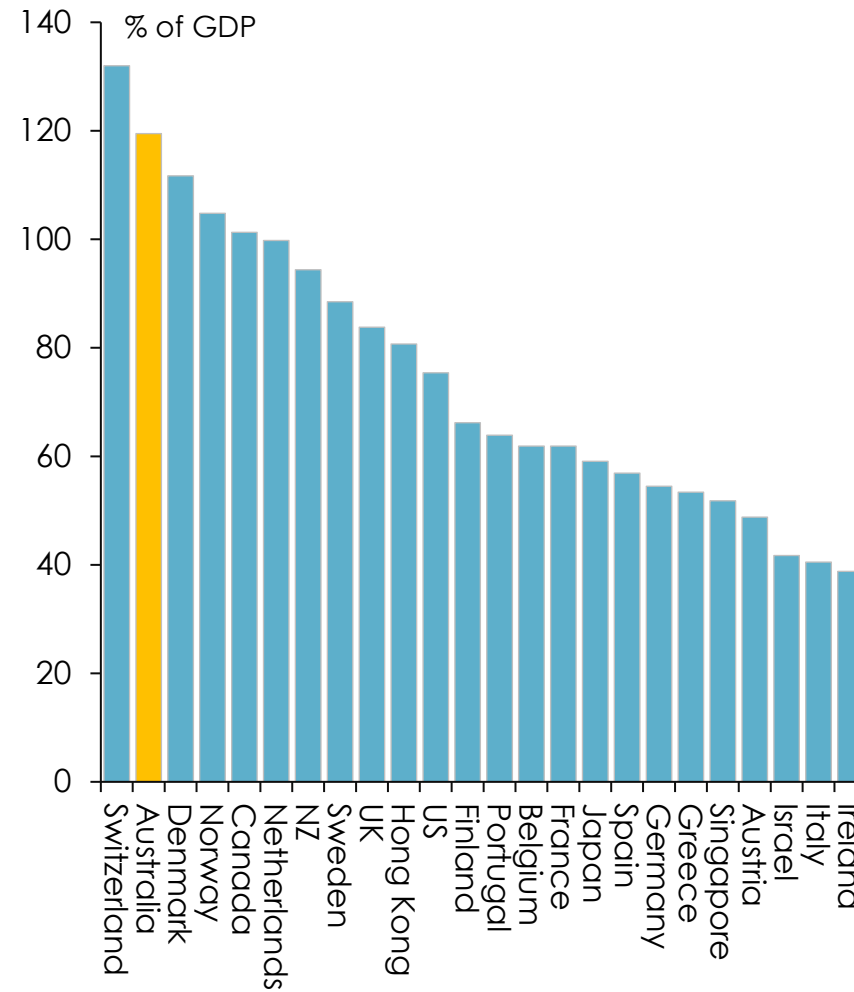
Sources: World Trade Organization; Global Trade Alert (data up to 16<sup>th</sup> July).

# Rising property prices and household debt are unlikely to underpin Australian economic growth as they have done for most of the past 30 years

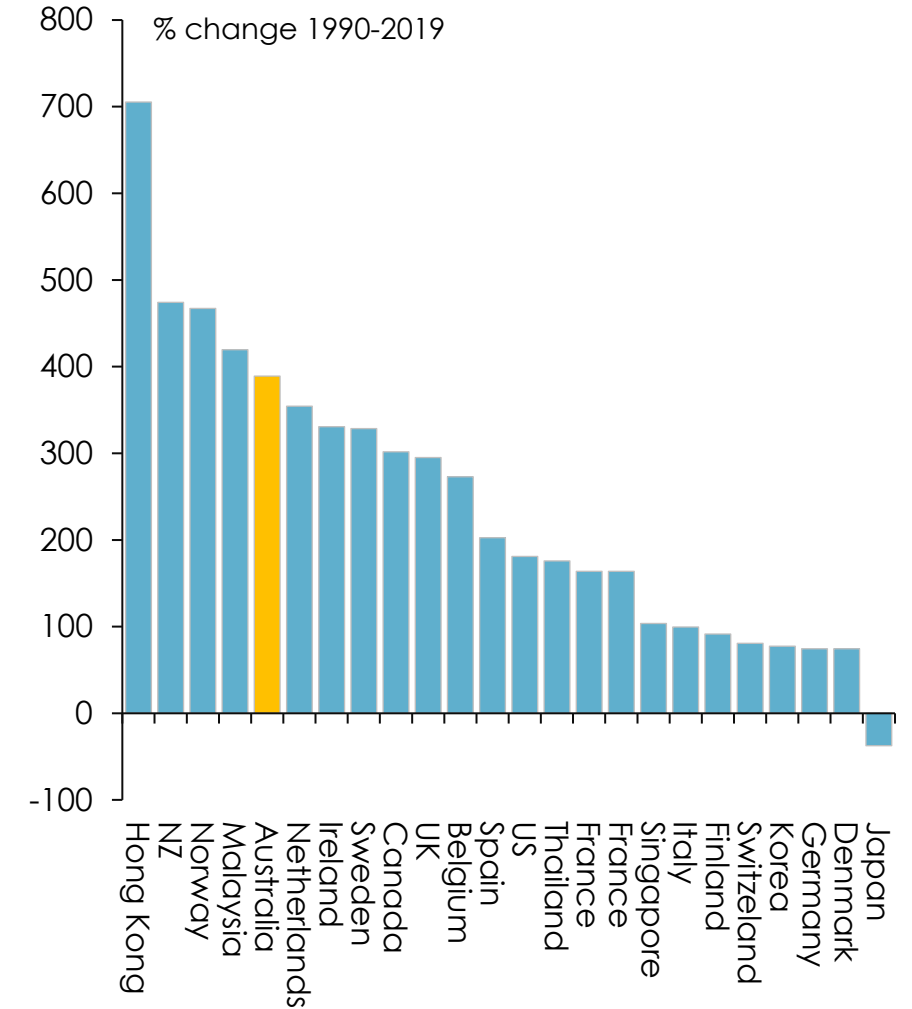
## Australian housing wealth and household debt



## Household debt as a pc of GDP, December 2019



## Increase in residential property prices, 1990-2019

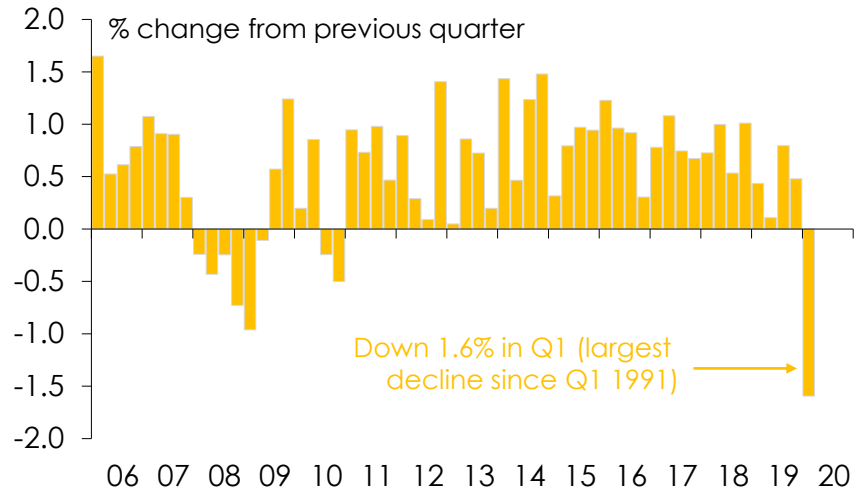


Note: Singapore property price increase is from March quarter 1999. Sources: ABS; Bank for International Settlements.

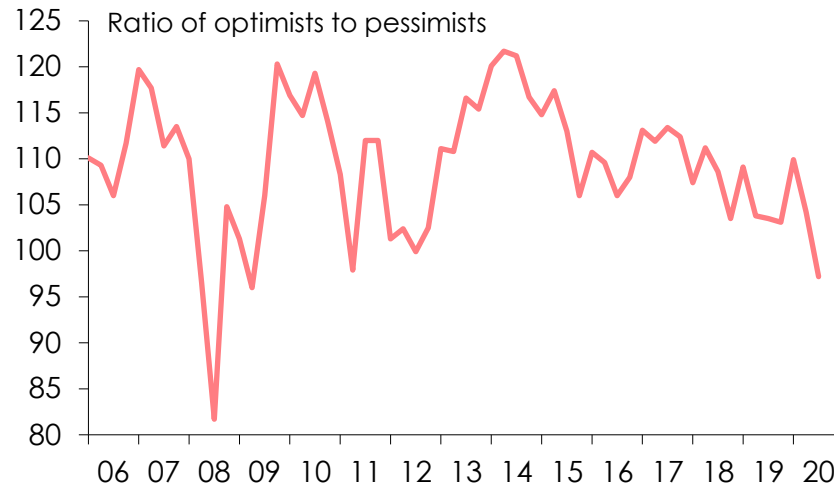
**New Zealand**

# New Zealand has paid a high economic price for its success in (nearly) eradicating the Covid-19 virus

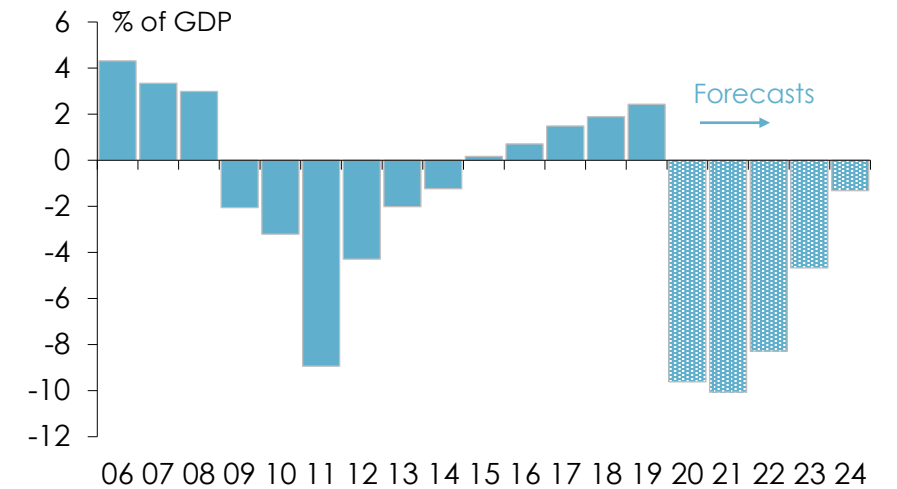
## Real GDP



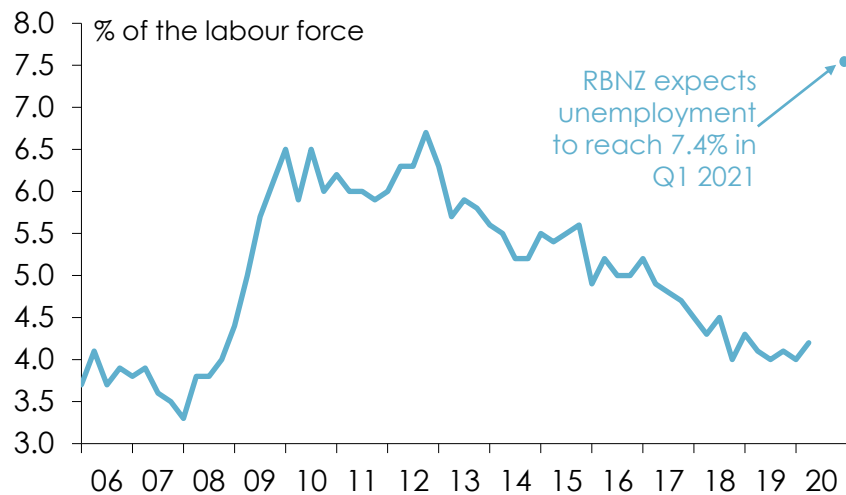
## Consumer confidence



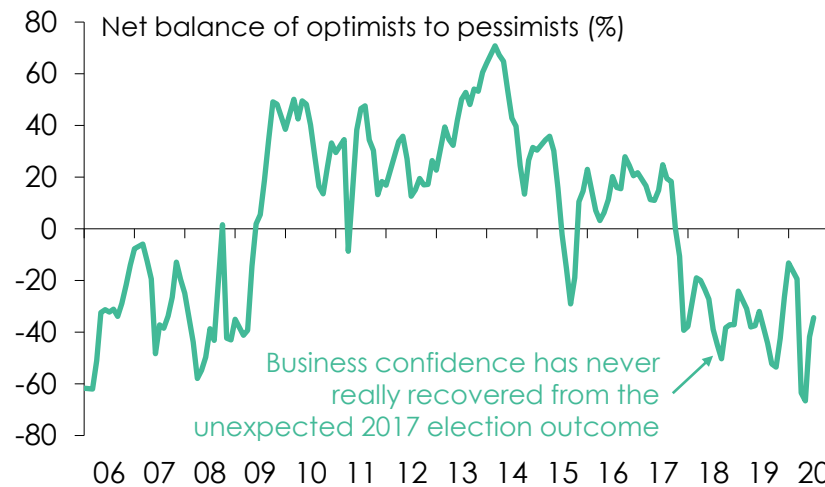
## NZ government budget balance



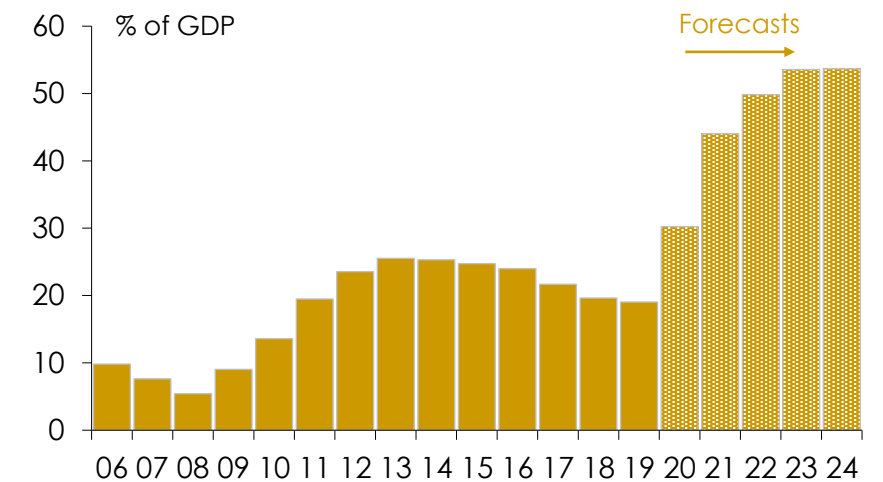
## Unemployment rate



## Business confidence



## NZ 'core Crown debt'



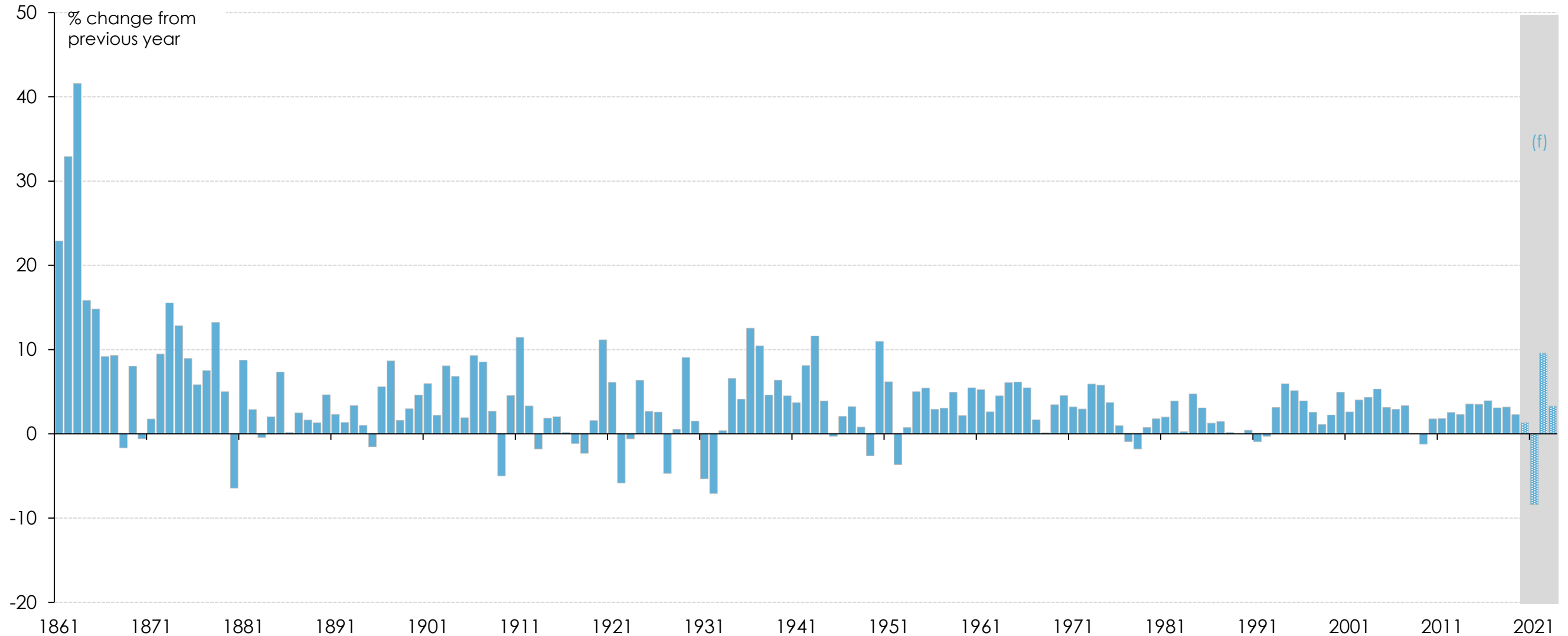
Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', operating balance excluding gains and losses (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy purposes. Fiscal data (the two right-hand charts) are for fiscal years ended 30<sup>th</sup> June.

Sources: Statistics NZ; Westpac-McDermott Miller; ANZ Bank; NZ Treasury *Budget Economic and Fiscal Update 2020*. Q2 GDP estimates will be released on 17<sup>th</sup> September.



# The Reserve Bank of New Zealand is expecting the fall in real GDP in the year ended March 2021 to be the biggest in recorded NZ history

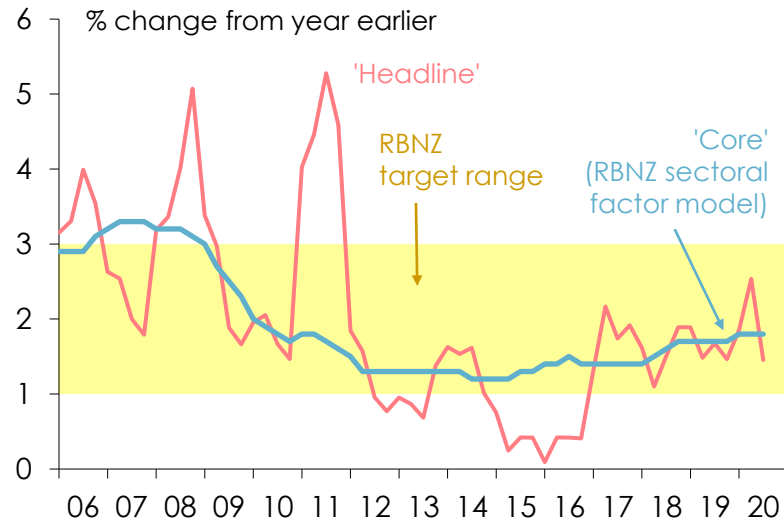
## Annual growth in New Zealand real GDP, 1861-2023



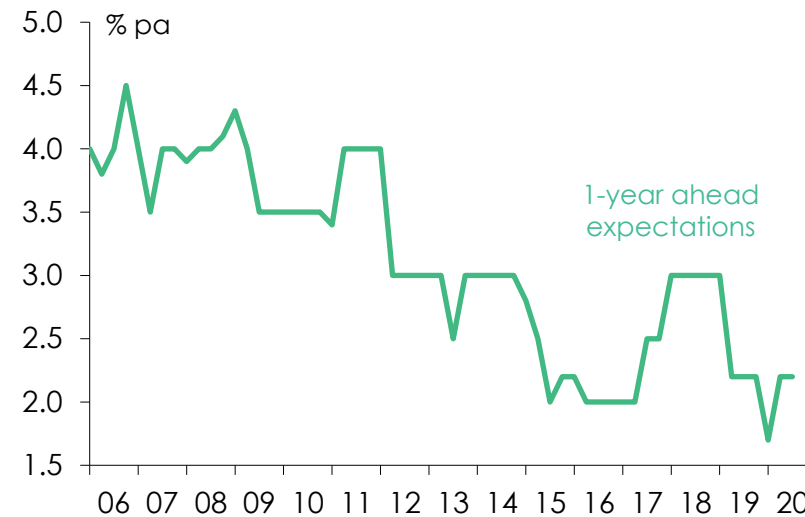
Note: Forecasts are for years ended 31 March. Source: RBNZ, Monetary Policy Statement, May 2020.

# Inflation remained comfortably in the RBNZ's target band in the June quarter

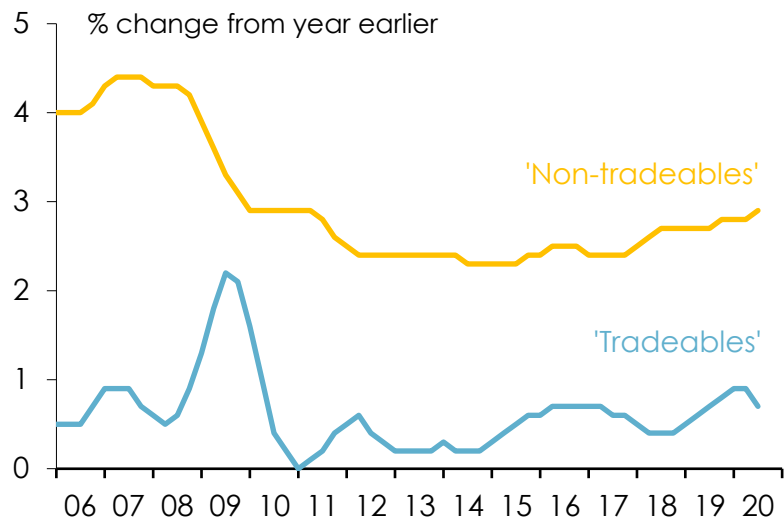
## Consumer prices



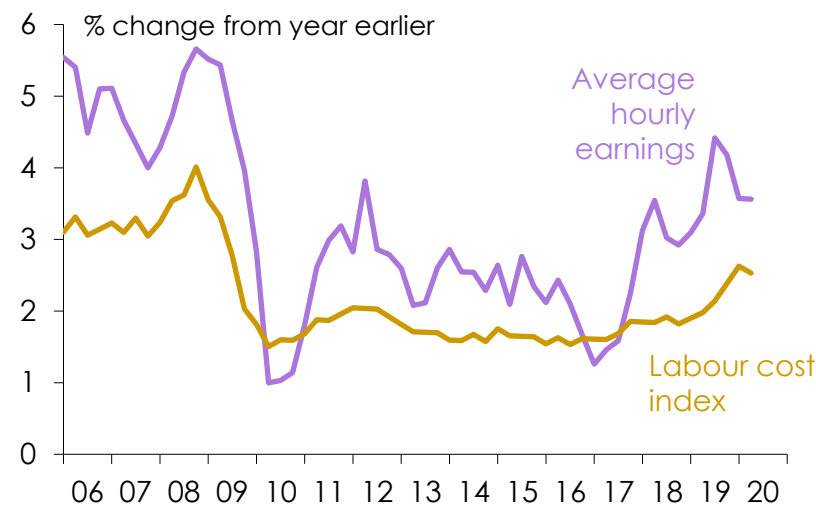
## Household inflation expectations



## Components of 'core' inflation



## Labour costs

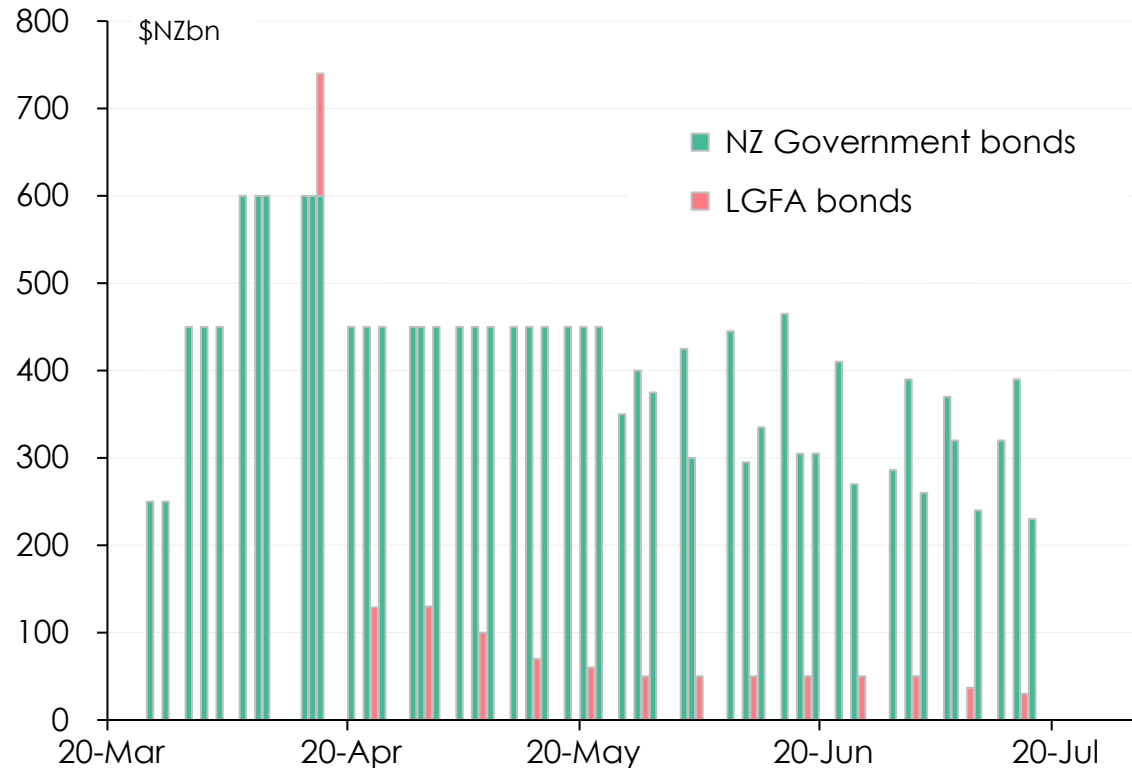


- ❑ The CPI fell 0.5% in the June quarter, reflecting a 12% fall in petrol prices, partly offset by a 16% increase in food prices and SNZ's inability to capture fully the effect of freeze on residential rents between 26<sup>th</sup> March and 25<sup>th</sup> September
- ❑ The June quarter result cut the annual 'headline' inflation rate to 1.5%, from the 8-year high of 2.5% recorded in the March quarter (which resulted from large increases in rents, food and cigarette & tobacco prices)
- ❑ The annual 'core' inflation rate remained unchanged at 1.8%, with a further slight acceleration in 'core' non-tradeables inflation (to its highest level in 9 years) offset by an easing in 'core' tradeables inflation
- ❑ Inflation expectations remain low, and pressures from labour costs are likely to abate given the weakening in the labour market since March

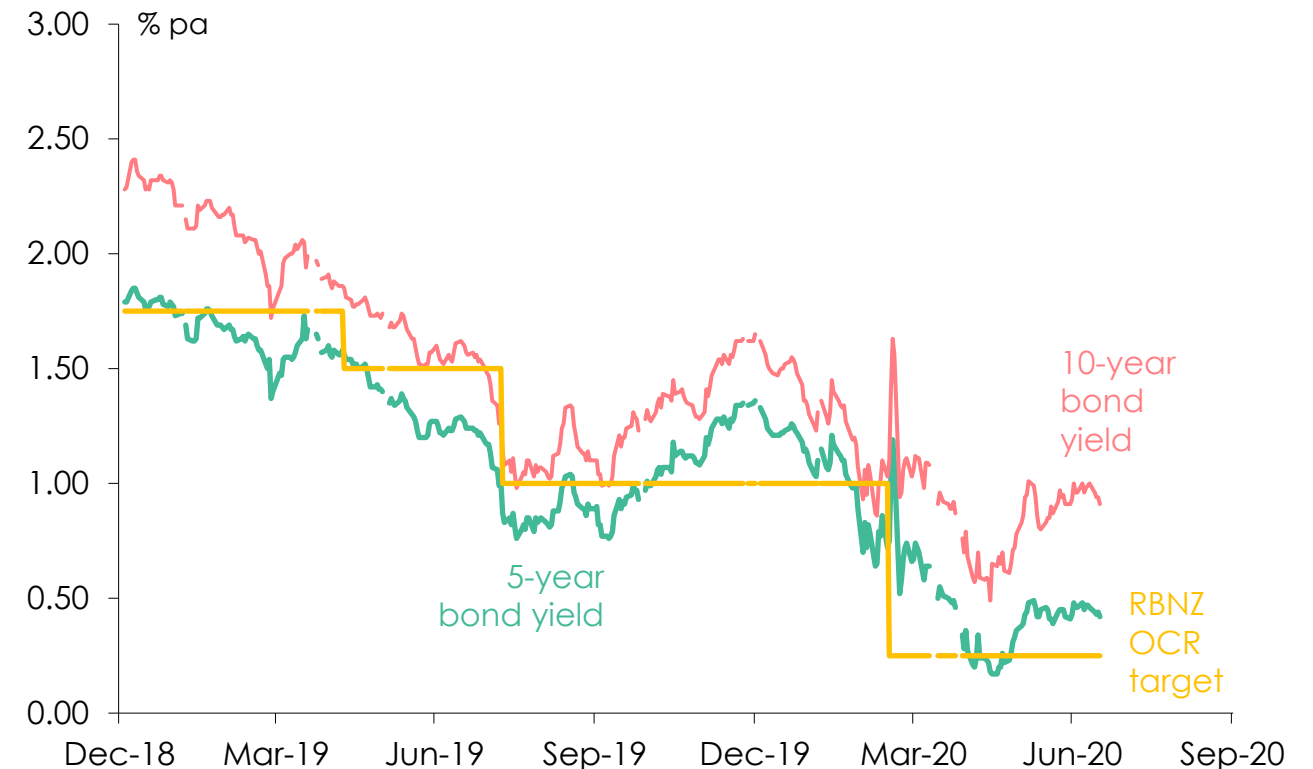
Sources: Statistics NZ; Reserve Bank of New Zealand. September quarter CPU will be released on 23<sup>rd</sup> October.

# The RBNZ's 'QE' program has been larger than the RBA's, but less successful in stabilizing bond yields

## RBNZ open market bond purchases



## New Zealand interest rates

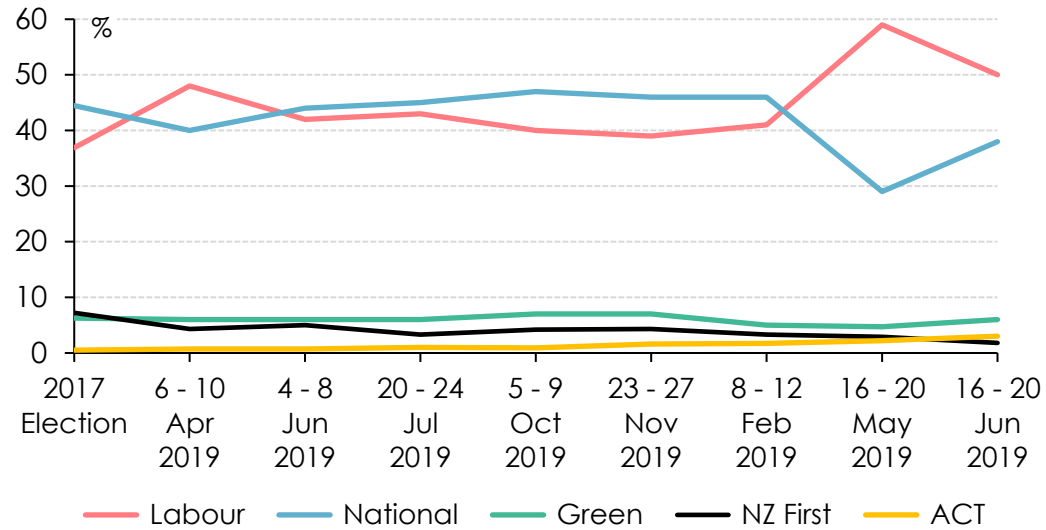


- ❑ RBNZ has adopted an ECB-style QE program, establishing a Large Scale Asset Program initially set at \$NZ33bn (10½% of GDP), since increased to \$60bn (19% of GDP)
- ❑ Since 25<sup>th</sup> March RBNZ bond purchases have amounted to \$NZ21 bn (6.7% of GDP) – but have been less successful than the RBA's in stabilizing medium-term bond yields
- ❑ The RBNZ has asked banks to prepare operationally for the possibility of negative interest rates

Note: LGFA = Local Government Financing Authority. Source: Reserve Bank of New Zealand. Data up 17<sup>th</sup> July.

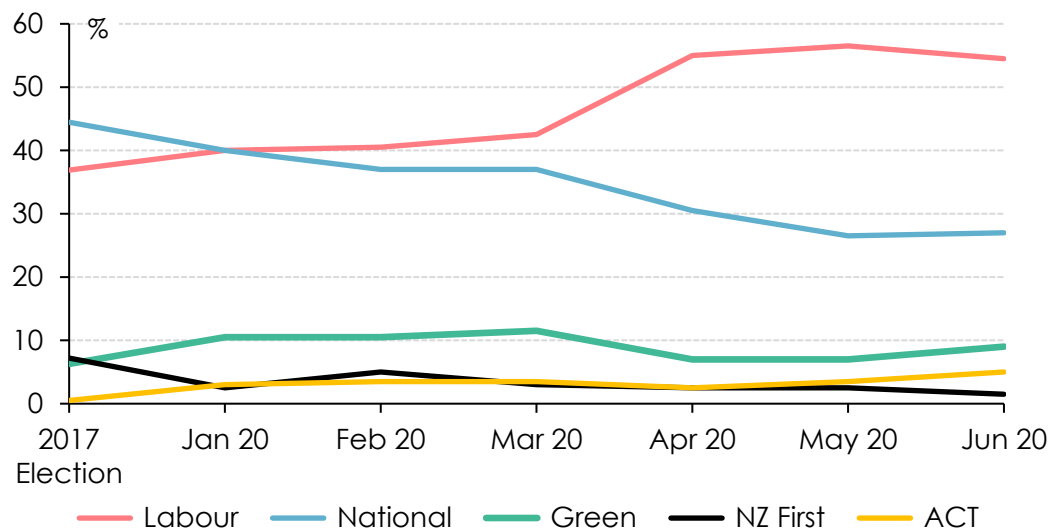
# PM Jacinda Ardern's Labour Party seems likely to win a majority in its own right at the elections to be held on 19<sup>th</sup> September

## Colmar-Brunton 1-News poll



- New Zealand uses a 'mixed member proportional' (MMP) system to determine the composition of its 120-seat Parliament
  - 71 members are elected from constituencies (of which 7 are reserved for Māori) on a 'first past the post' basis (as used in Britain)
  - the other 49 are chosen from party lists such that each party has the same share of seats in the Parliament as its share of the national vote, provided it has won at least 5% of the national vote or one constituency seat (similar to the system used for the German Bundestag)
  - each elector has two votes, one for his or her constituency and one for a party list
- At the 2017 election, the then incumbent centre-right National Party won 56 seats with 44.6% of the vote, but Labour which won 46 seats with 36.9% of the vote was able to form government in coalition with the conservative-populist NZ First (9 seats with 7.2% of the vote) and the Greens (8 seats with 6.3% of the vote)
- For the second time eight weeks, National changed leaders, installing Judith Collins (known to her colleagues as 'Crusher' Collins) after the resignation of Todd Muller for 'health reasons'
- Labour's lead in opinion polls has narrowed but still looks likely to win 62 seats, enough to govern in its own right
  - the Greens appear likely to retain their place in Parliament but NZ First is well short of the 5% threshold

## Roy Morgan poll



Note: 'ACT' is the Association of Consumers and Taxpayers, a libertarian party which currently holds one constituency seat in the NZ Parliament. Sources: NZ Electoral Commission; Colmar Brunton; Roy Morgan NZ Single Source.

**Some possible longer-term consequences**

# Some other possible longer-term consequences of the pandemic

- ❑ **An accelerated retreat from ‘globalization’**
  - prompted by mistrust of international supply chains and desire for greater self-sufficiency in ‘essential’ products
  - greater government control over movement of people and capital across international borders likely to persist
- ❑ **Greater expectations of government**
  - having done things previously considered ‘unthinkable’ during this downturn, governments may be expected to do more during future downturns
  - there may be heightened demand for hitherto unprecedented government intervention to address other issues (for example climate change)
- ❑ **A reduced role for (conventional) monetary policy in managing economic cycles**
  - implying a greater role for fiscal policy (or, alternatively, bigger and perhaps more frequent cycles)
- ❑ **Changes in ways of working**
  - at least some employers and employees are likely to maintain the option of (or preference for) ‘working from home’
  - possible implications for demand for commercial office space
- ❑ **Diminished use of mass transit**
- ❑ **Accelerated decline in the use of cash for transactions**
- ❑ **Re-think of relationships with China**
  - especially challenging for Australia given our unusual (for an ‘advanced’ economy) economic relationship with China
- ❑ **Erosion of respect for US leadership and competence**
  - unless Trump loses the November election and Biden can reverse the damage done to perceptions of US credibility, competence and commitment

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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