

ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

10TH OCTOBER 2020

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What's new?

The world

- ❑ 2,212,290 new Covid-19 cases were confirmed this week, a new record high, taking the cumulative total to 36.6 million; while 38,982 people died, bringing the cumulative death toll over 1 million, to 1,0262,978 ([slide 4](#))
- ❑ The rising global trend in new cases is largely attributable to Europe, but new infections are also rising again in the US, Russia, Mexico and Canada; continuing to rise in Indonesia and Iran; and starting to rise (from a low base) in Malaysia; while seemingly having peaked in India, Iraq and Israel ([slide 5](#))
- ❑ 83 countries (including all the substantial ones) have now reported Q2 GDP estimates, with 8 reporting contractions of more than 20% and 41 of between 10 and 20% ([slide 18](#)) and overall world GDP shrinking by 9% ([slide 19](#))
- ❑ Not surprisingly, uncertainty about economic policy remains high by historical standards in most countries – although, rather more surprisingly, uncertainty about economic policy in the US has declined since July ([slide 23](#)) ...
- ❑ ... even though both opinion polls and betting markets are pointing by increasing margins to a Biden victory at next month's US Presidential election) – and yes, the polls were wrong in 2016 but the 'undecided' vote is now much lower than at this stage of the 2016 election campaign ([slide 53](#))
- ❑ 'Risk appetite' returned in financial markets this week, with stocks up, US (but not other markets) bond yields up and the US dollar down ([slide 31](#)) – which may perhaps suggest investors are comfortable with the prospect of a Biden victory on 3rd November

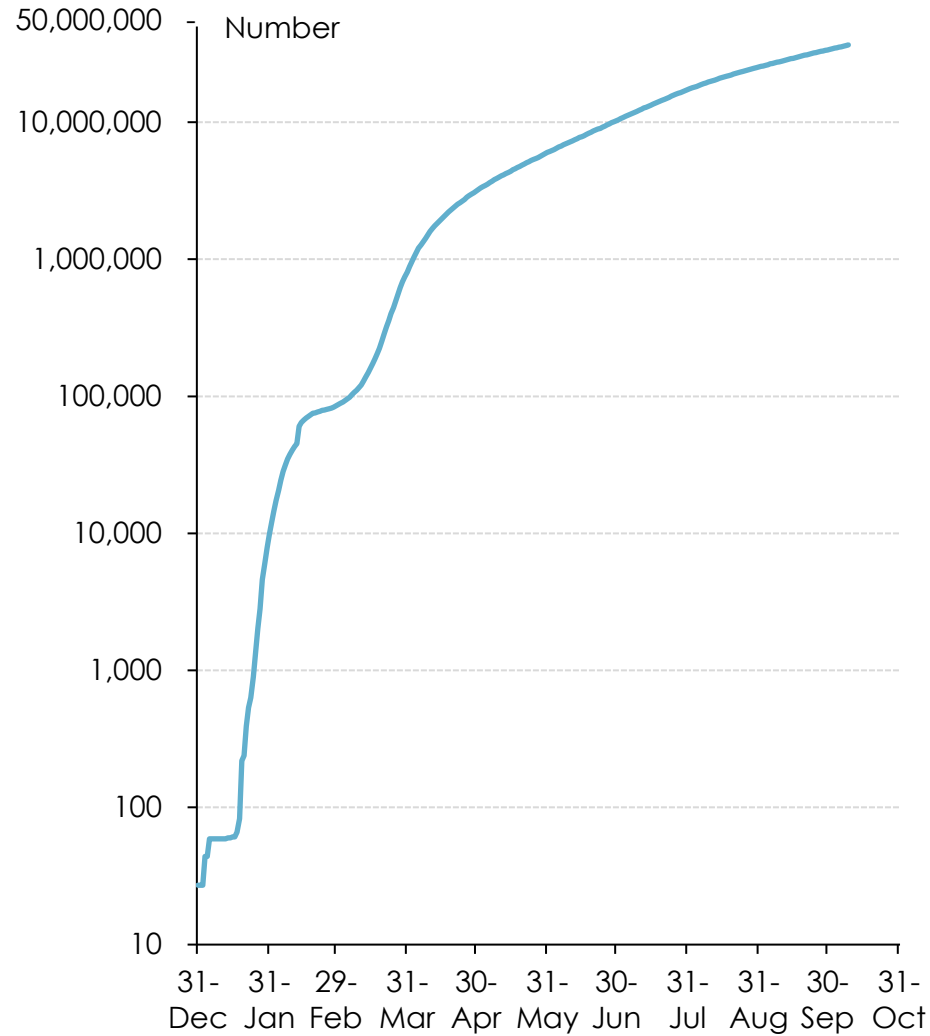
Australia

- ❑ Australia recorded 116 new Covid-19 cases this week, three more than last week but otherwise the lowest since the second week of June; there were 243 active cases on Friday (the lowest since 23rd June); and this week's death toll of 7 was the lowest since the week ended 11th July ([slide 8](#))
- ❑ Victoria recorded 66 new cases reported this week, the lowest since the week ended 12th June, while New South Wales reported 40 new cases, the highest number in three weeks ([slide 9](#))
- ❑ 'Business conditions' recorded a small positive in September for the first time since January, although forward indicators for hiring and capex remained negative ([slide 65](#)) and business confidence also stayed in negative territory ([slide 80](#))
- ❑ Payroll employment rose in the week ended 19th September, the first increase in seven weeks ([slide 75](#))
- ❑ Lending for housing rose a record 12.6% in August, to its highest level since January 2018, led by a 13.6% increase in lending to owner-occupiers ([slide 85](#))
- ❑ The delayed 2020-21 Federal Budget foreshadowed a deficit of \$214bn (11% of GDP – the largest since 1944-45) ([slide 99](#)), with subsequent deficits expected to push net debt to over \$1 trn (43% of GDP) by 2024-25 ([slide 102](#)) - although servicing this debt will not be unduly onerous at current and prospective interest rates ([slide 103](#))
- ❑ The Budget strategy relies heavily on business responding positively to investment and hiring incentives and households to tax cuts ([slide 97](#))
- ❑ By contrast, the Western Australian state budget is rolling in cash thanks to buoyant iron ore prices ([slide 105](#))

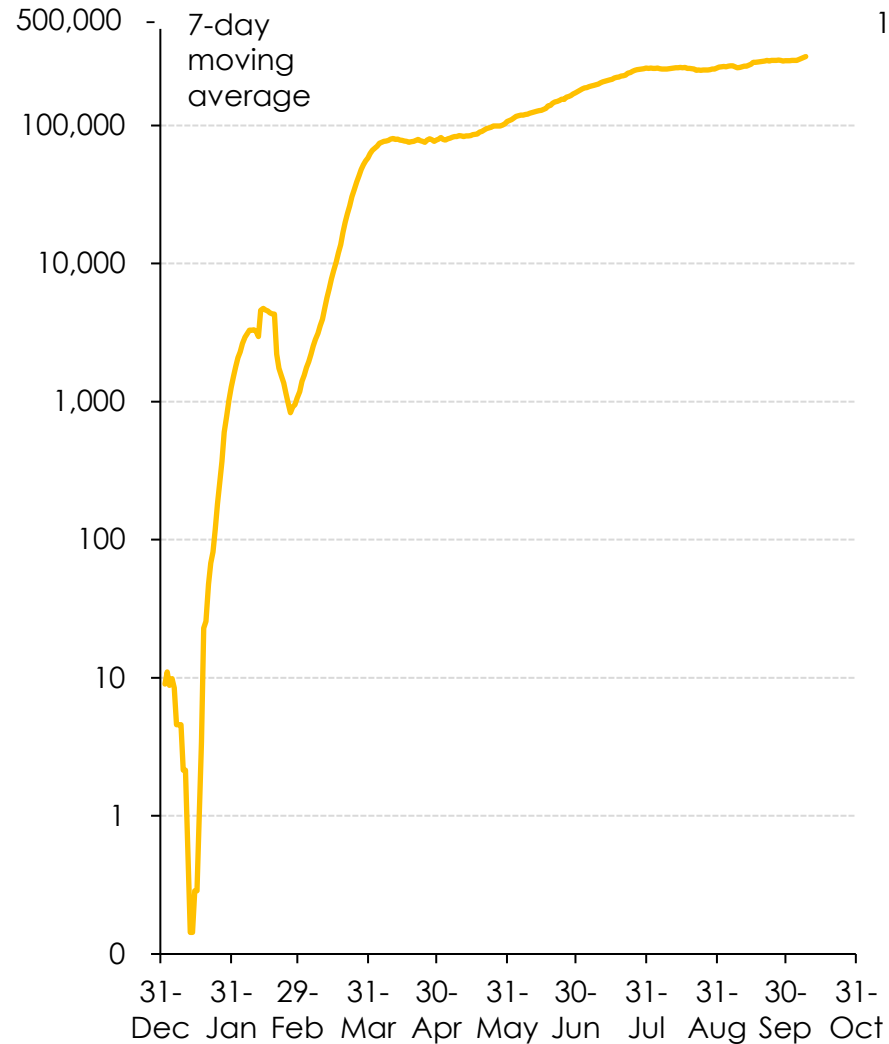
The virus

Last week saw a record number of new cases (2.2 mn) taking the total to 36.6 mn, although last week's death toll of 39k was 'only' the 11th highest

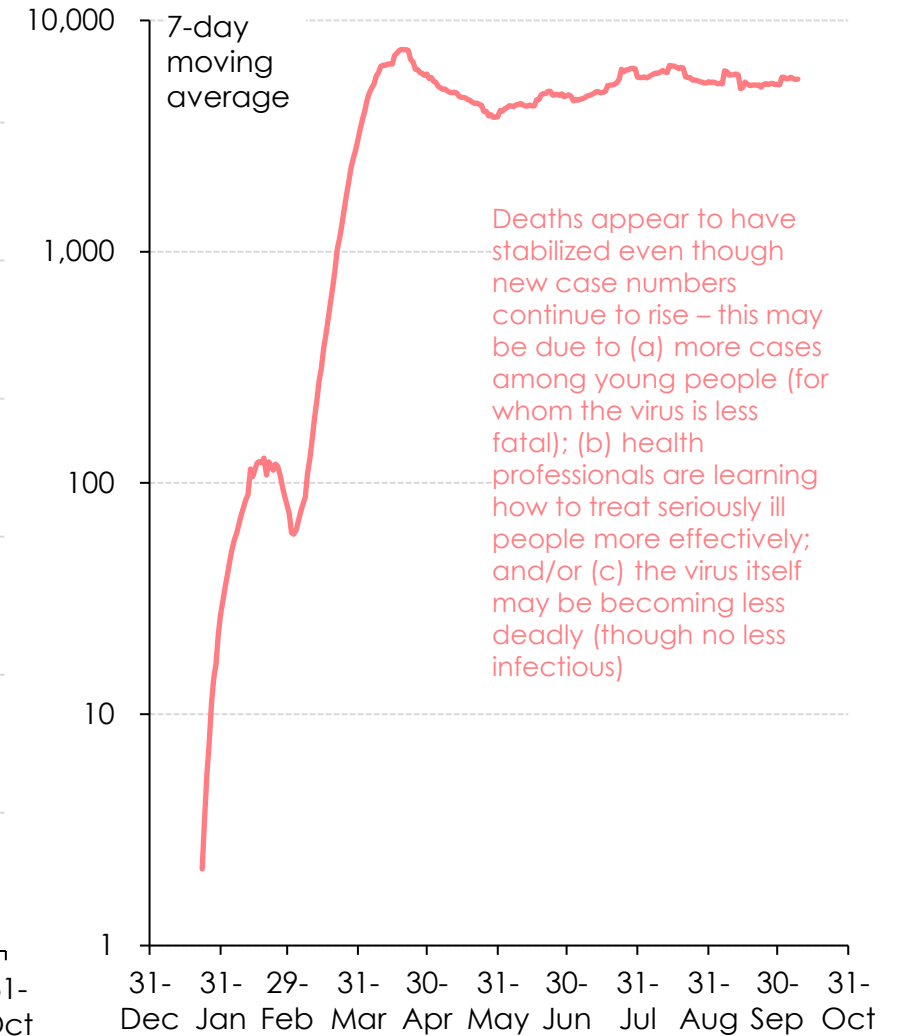
Cumulative confirmed cases – global total



New confirmed cases – global total



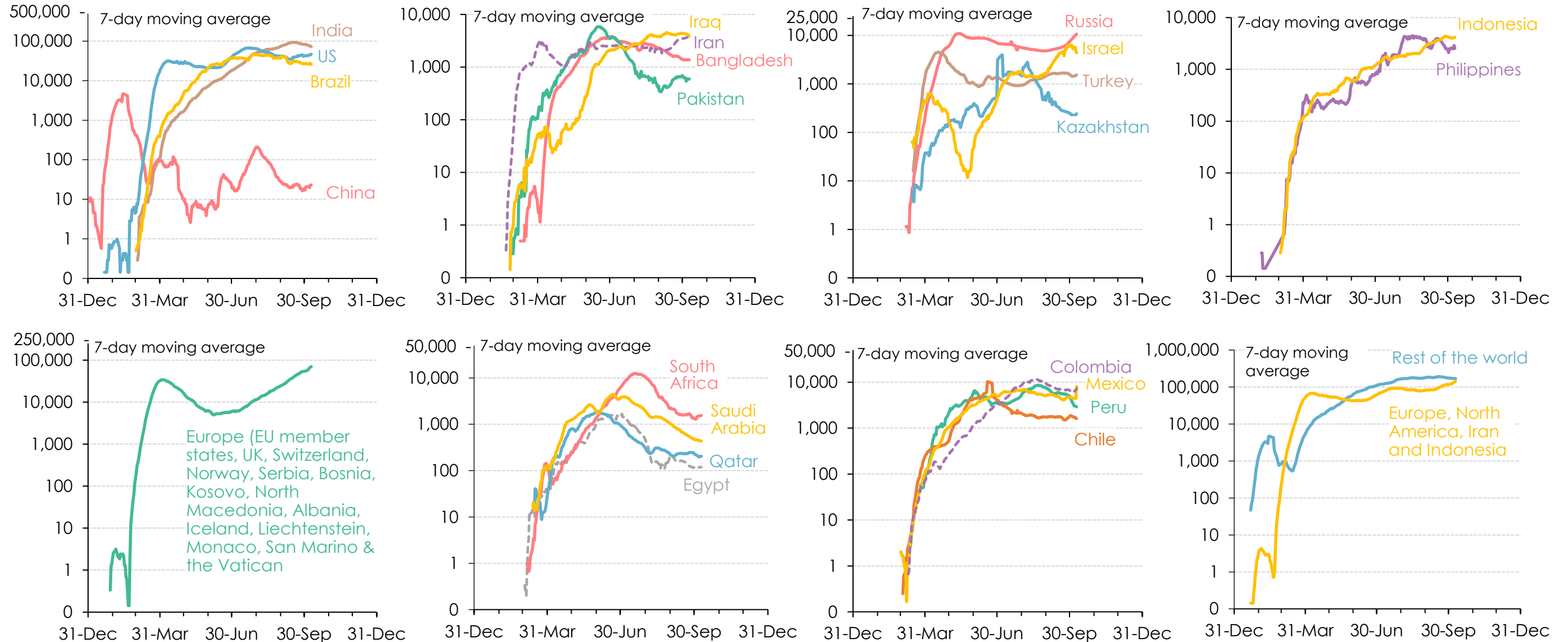
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 9th October. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

The ongoing rise in global case numbers is now being driven by Europe, North America, Iran and Indonesia

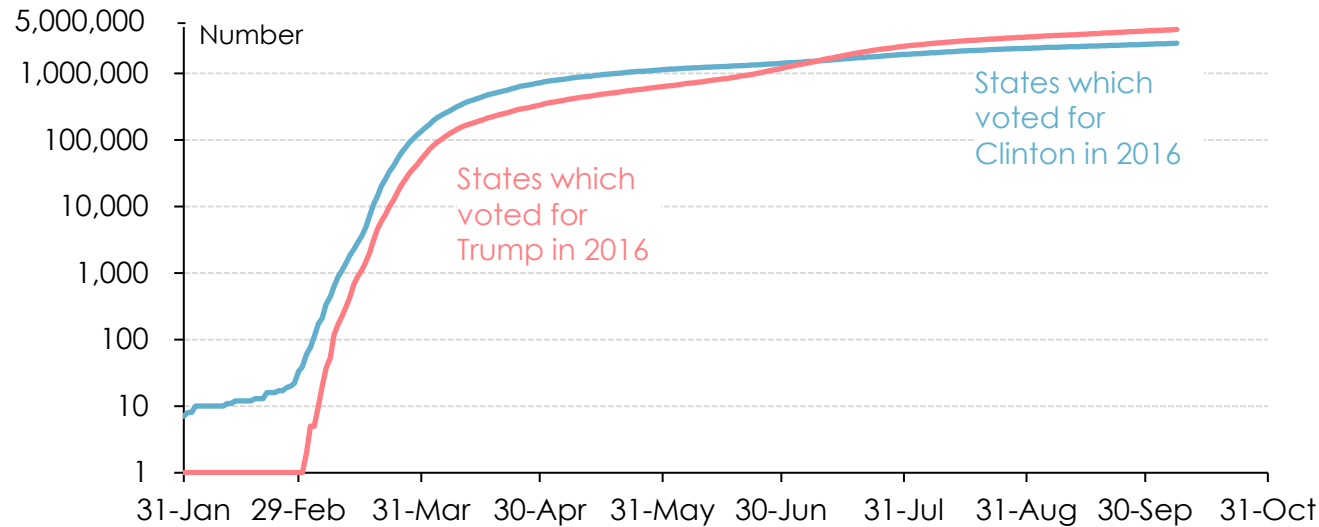
Daily new cases – selected countries with large populations and/or rapid growth in cases



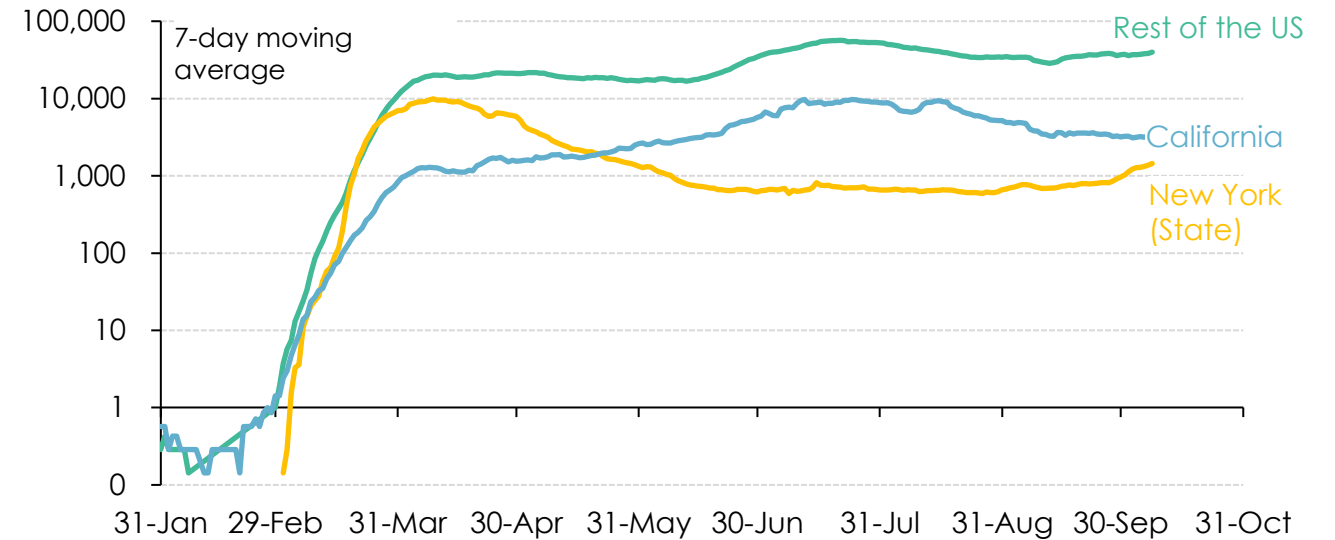
Note: All charts are on logarithmic scales. Data up to 9th October. 'North America' is the US, Canada and Mexico.
 Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

In the US, new Covid-19 cases in 'red states' continue to outnumber those in 'blue' states – although in aggregate new cases numbers are flattening

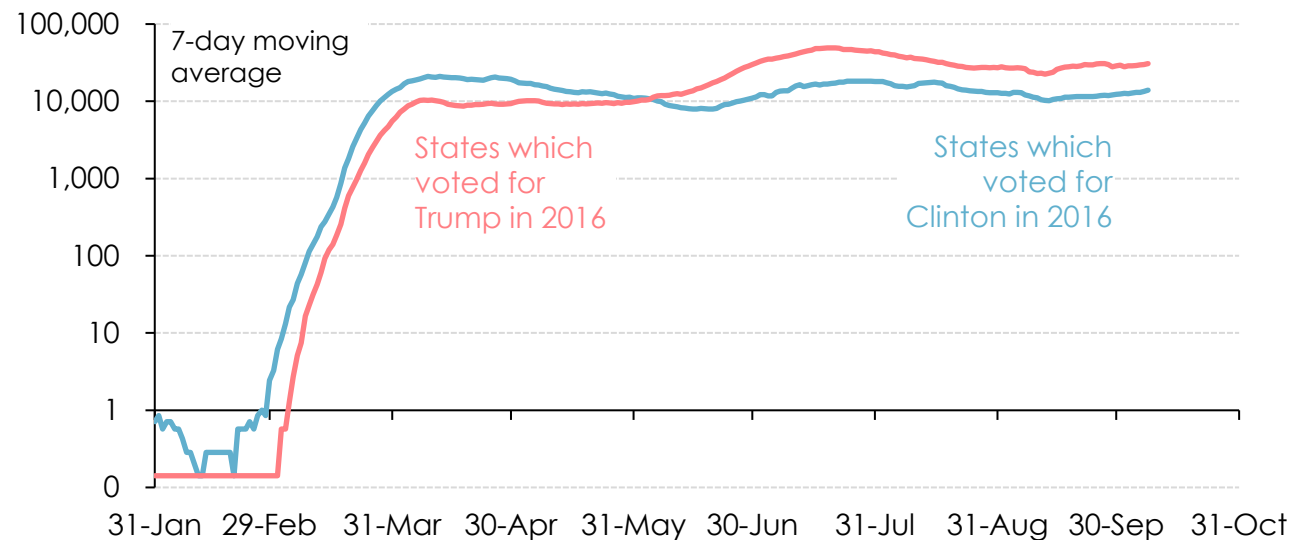
Cumulative cases, by 2016 Electoral College vote



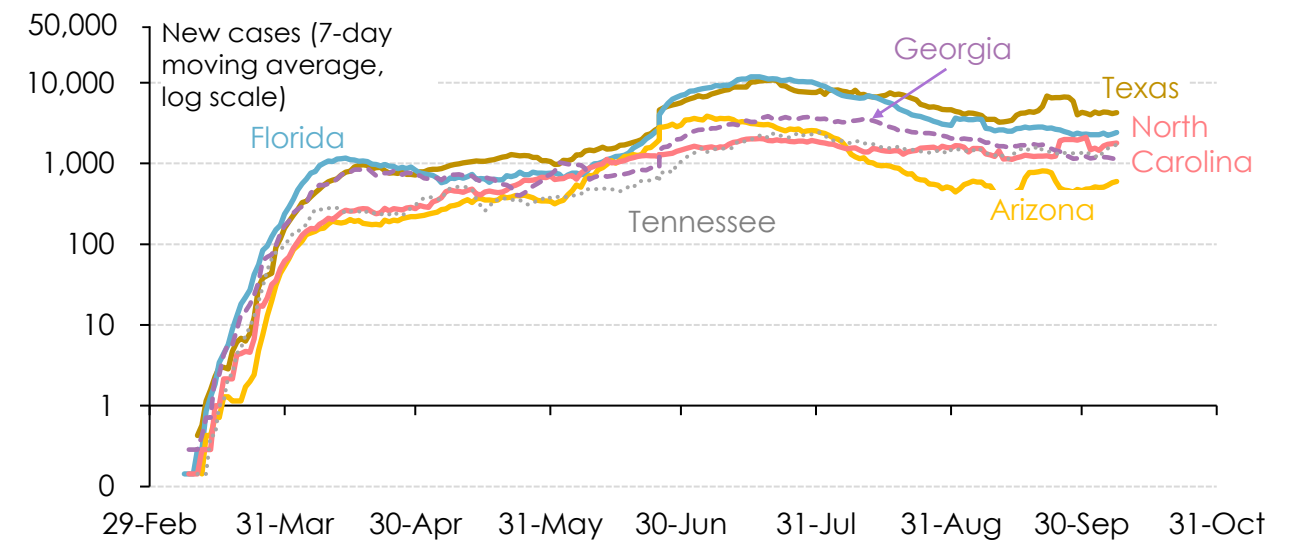
New cases – New York, California & the rest of the US



New cases, by 2016 Electoral College vote



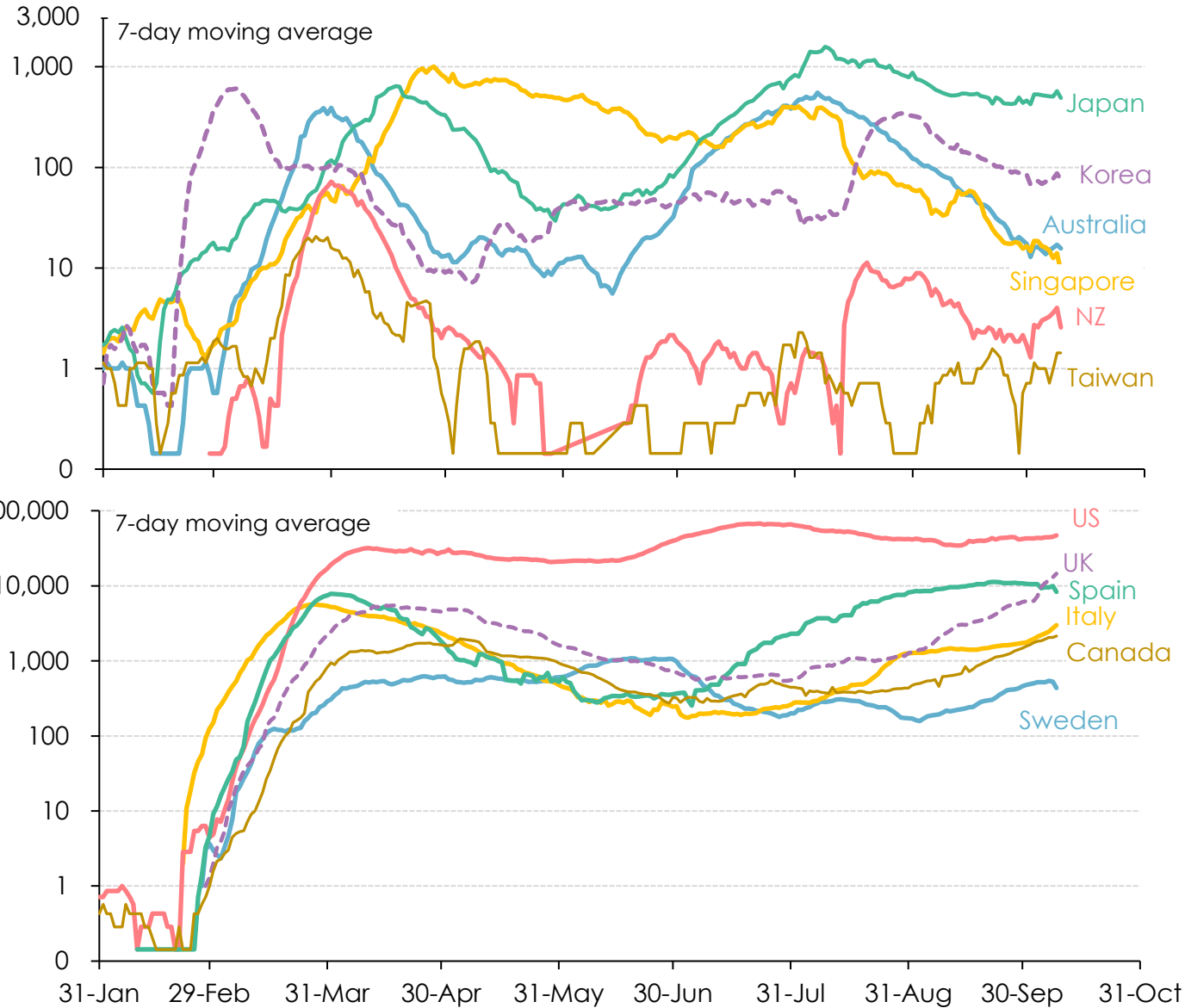
States with fastest recent increases in new cases



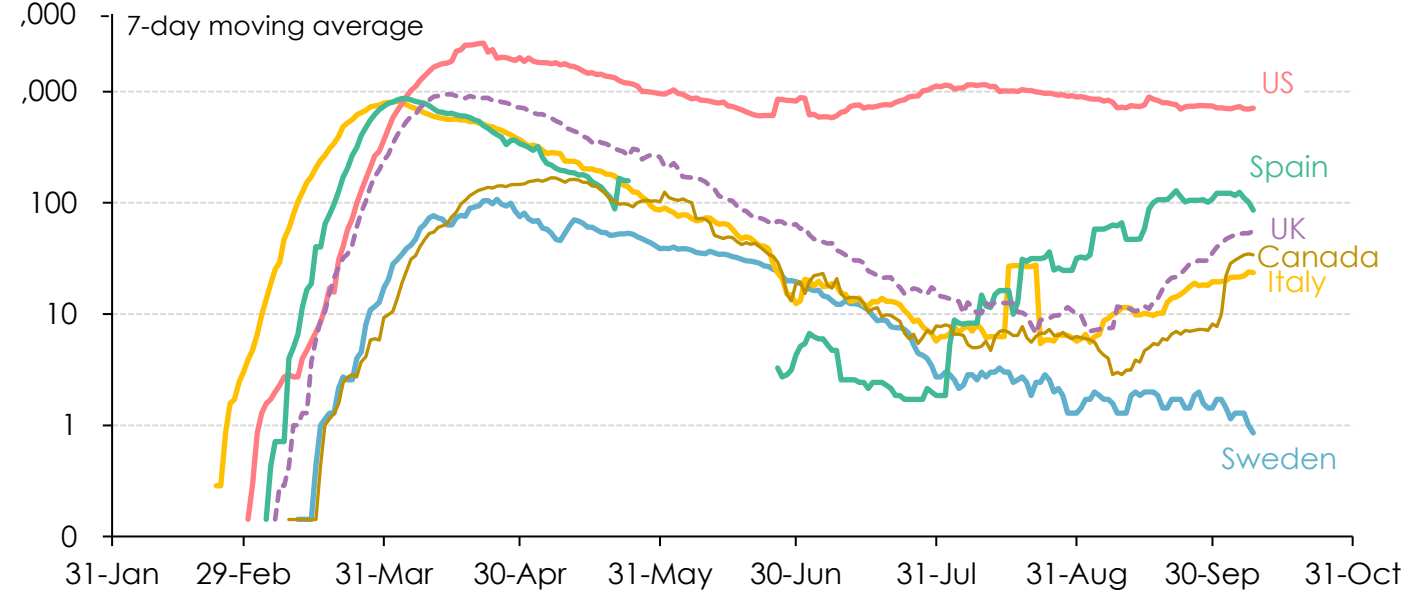
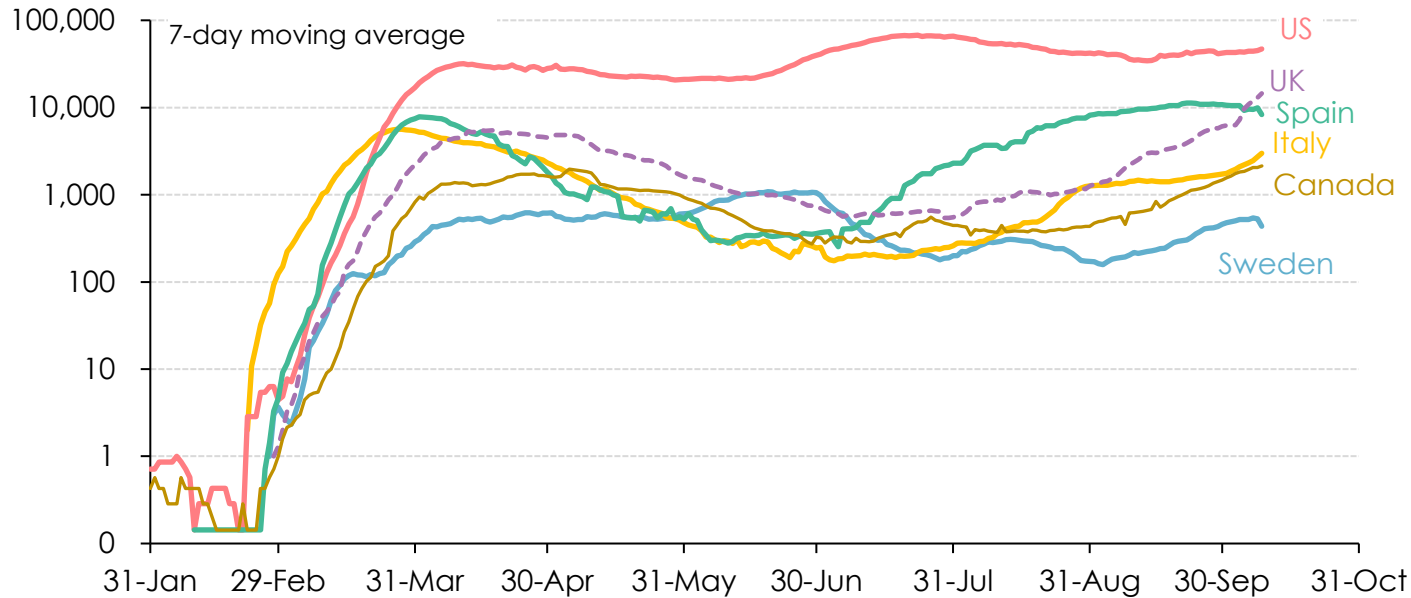
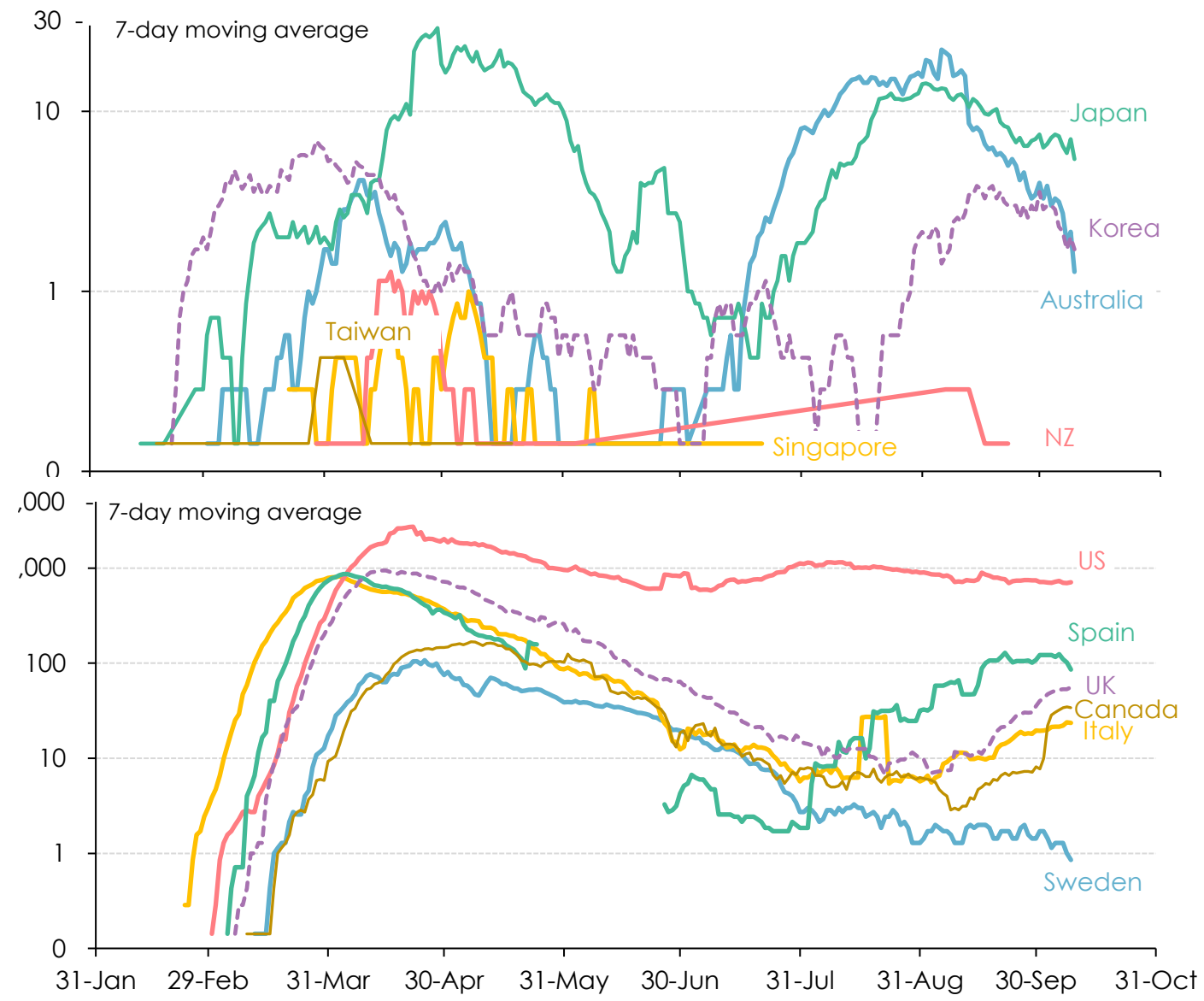
Note: All charts are on logarithmic scale. Cases for Maine (whose Electoral College votes are awarded separately by each of its two Congressional districts) are split by how each of its 16 counties voted in 2016. Sources: [USAfacts](#); [Centers for Disease Control and Prevention](#); Corinna. Latest data are for 8th October. [Return to "What's New"](#).

North Asia's, Australia's & New Zealand's 'second waves' are ebbing, but case numbers are trending up again in the US, Canada and Europe

Daily new cases



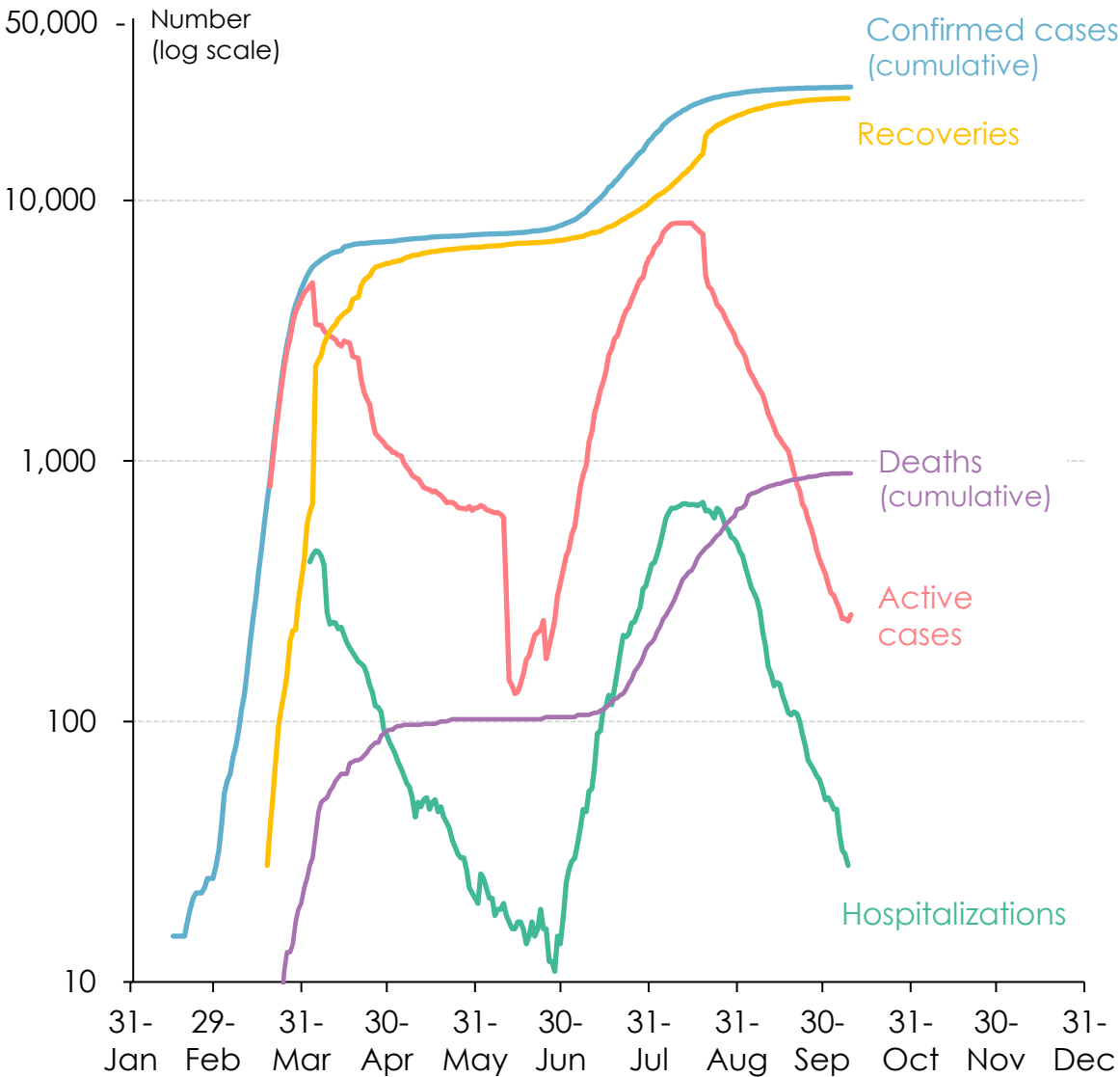
Daily new deaths



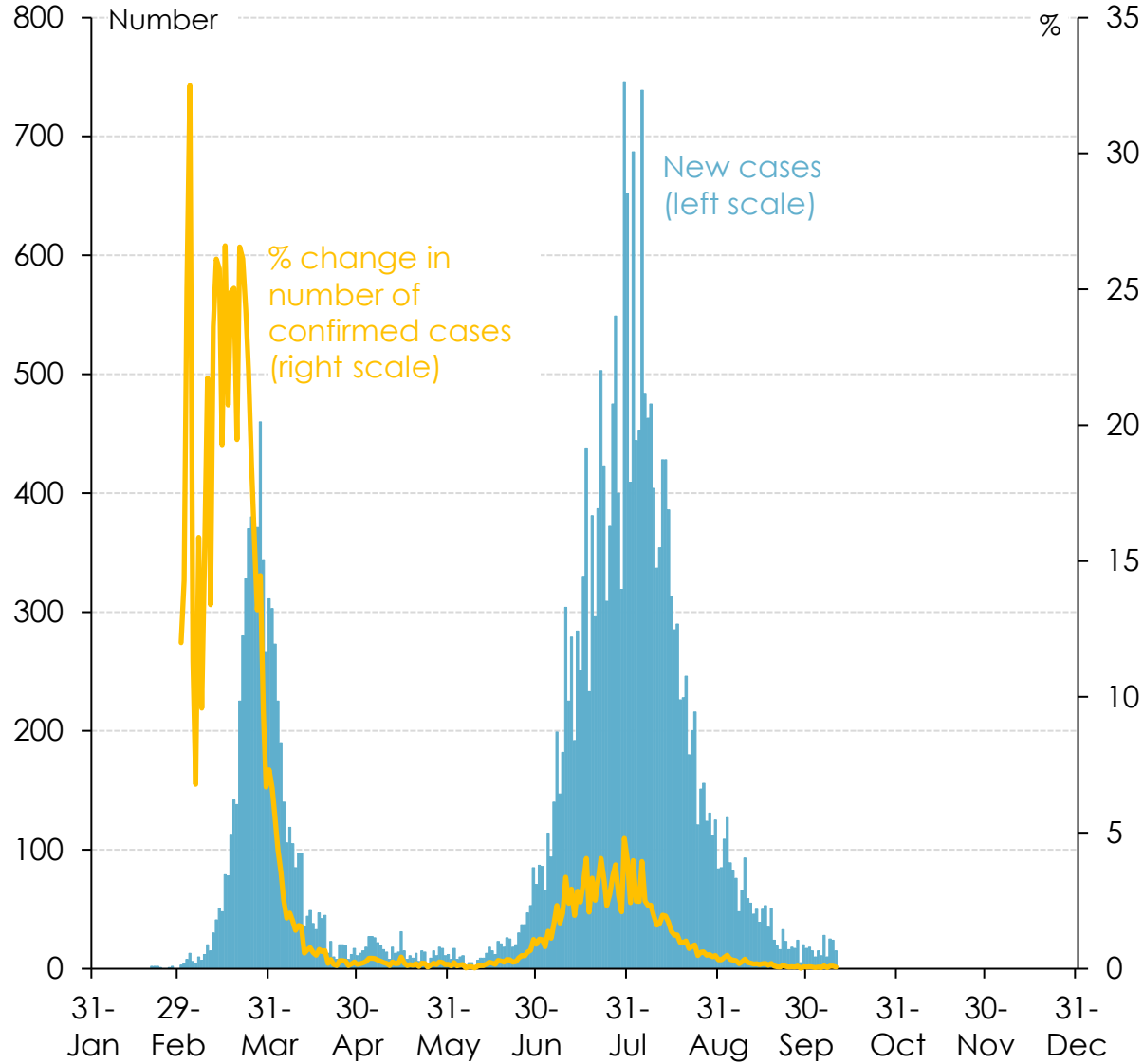
Note: All charts are on logarithmic scales. Data for new deaths in Spain between 25th May and 19th June not shown because of distortions caused by reclassifications on those dates. Data up to 9th October. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

The number of new cases in Australia over the past week was the lowest since the 2nd week of June, and deaths the lowest since the 3rd week of July

Cases, recoveries, hospitalizations and deaths



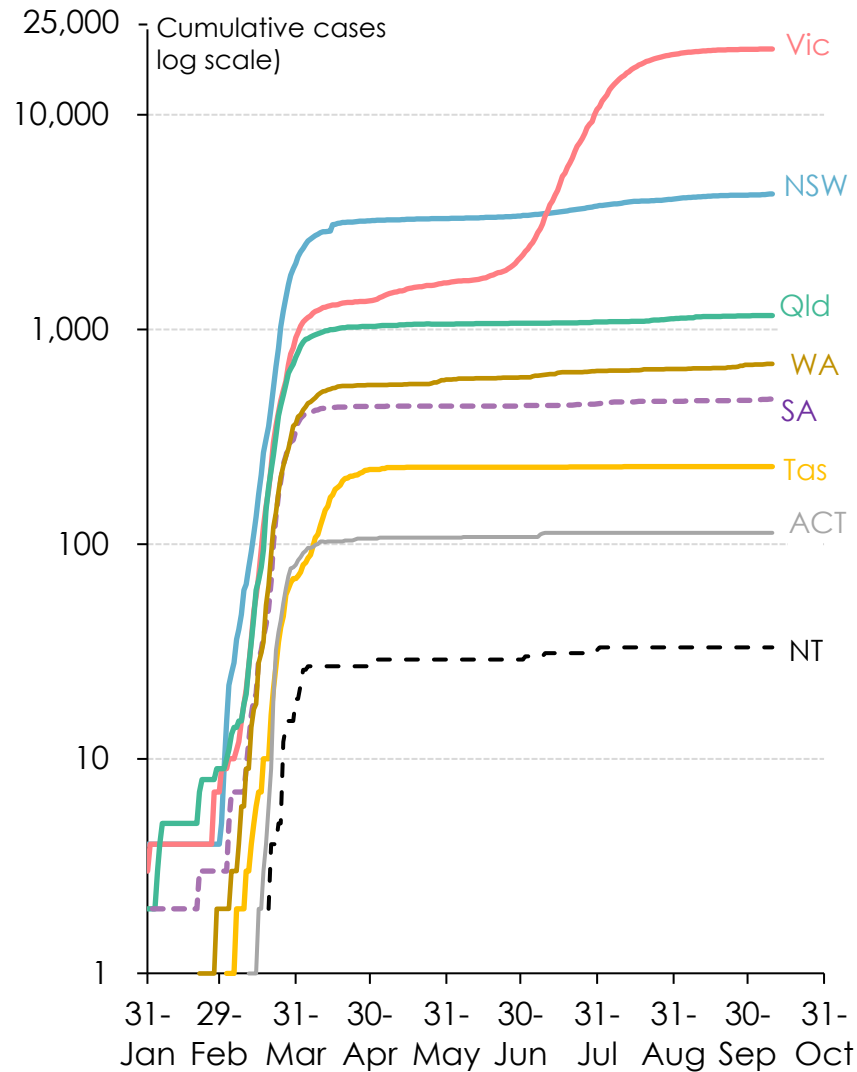
New cases



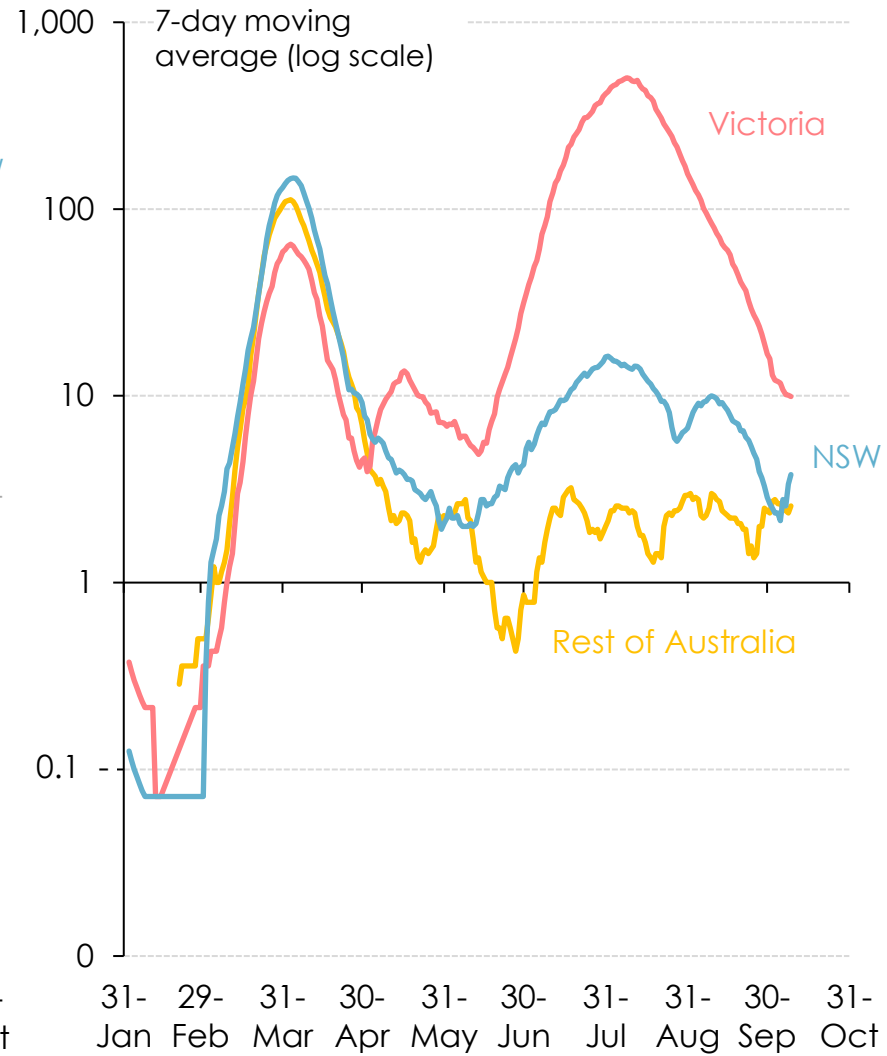
Note: Data up to 9th October. Source: covid19data.com.au. [Return to "What's New"](#).

Victoria's "second wave" of infections has continued to ebb, leading to rise hopes of an easing in that state's restrictions before the end of the month

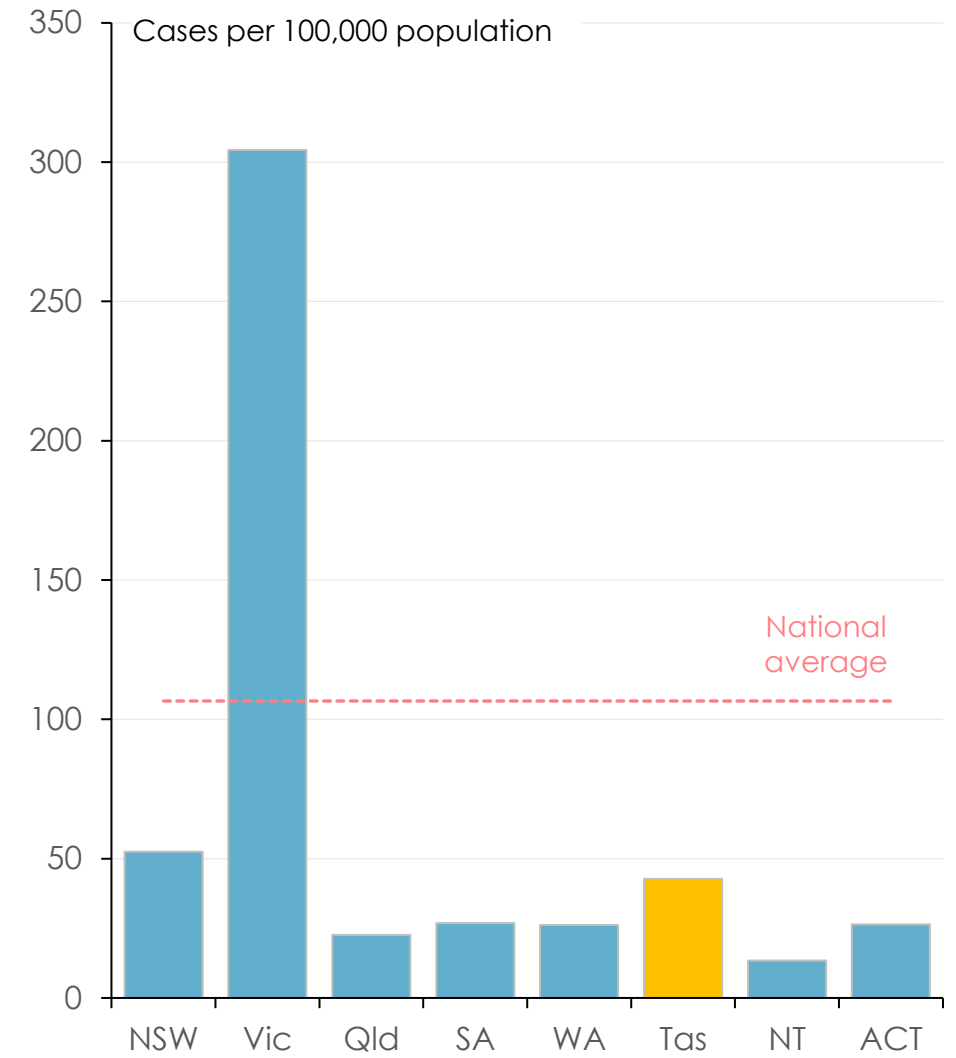
Cumulative cases, by State



New cases



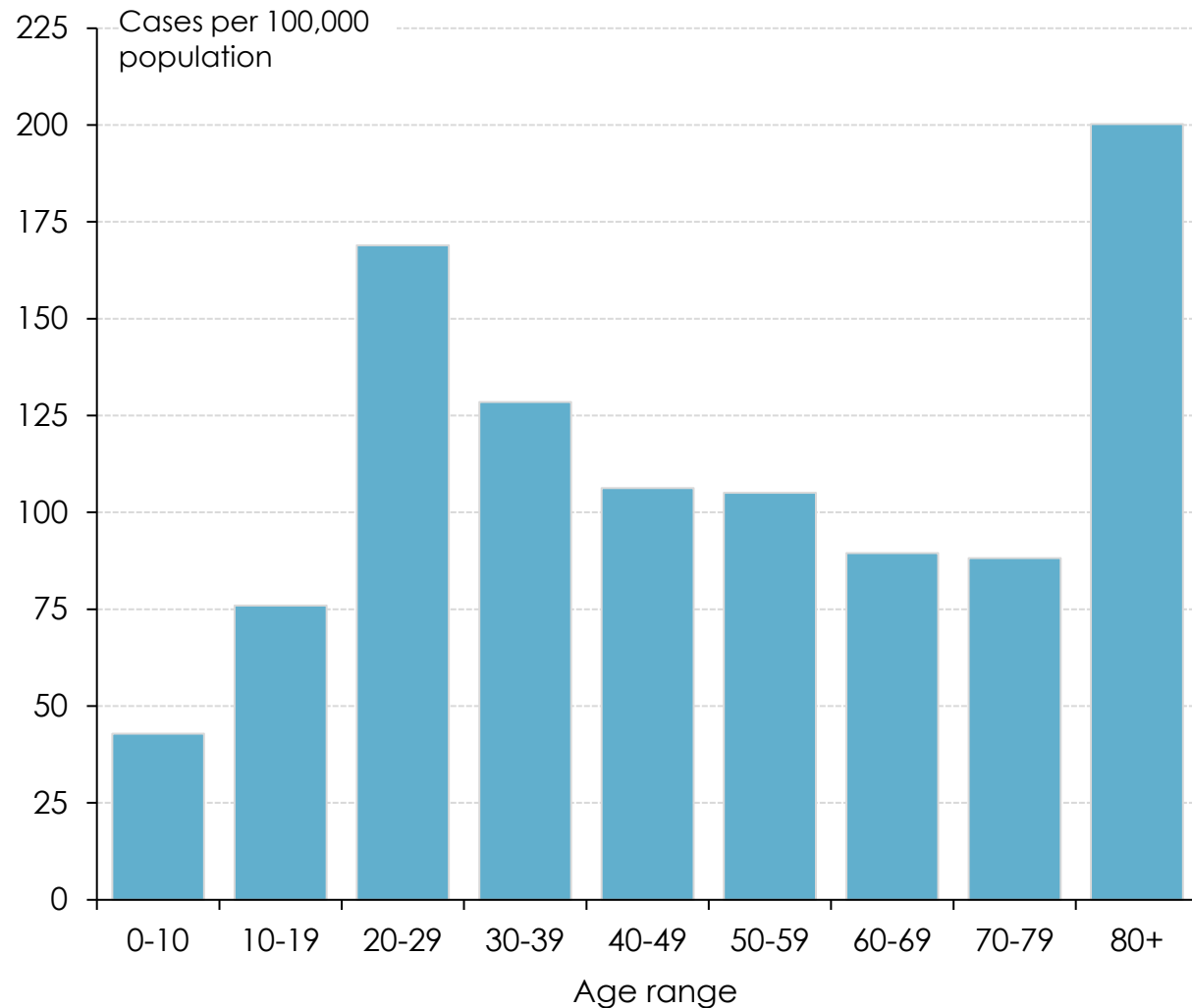
Cases per 100,000 population



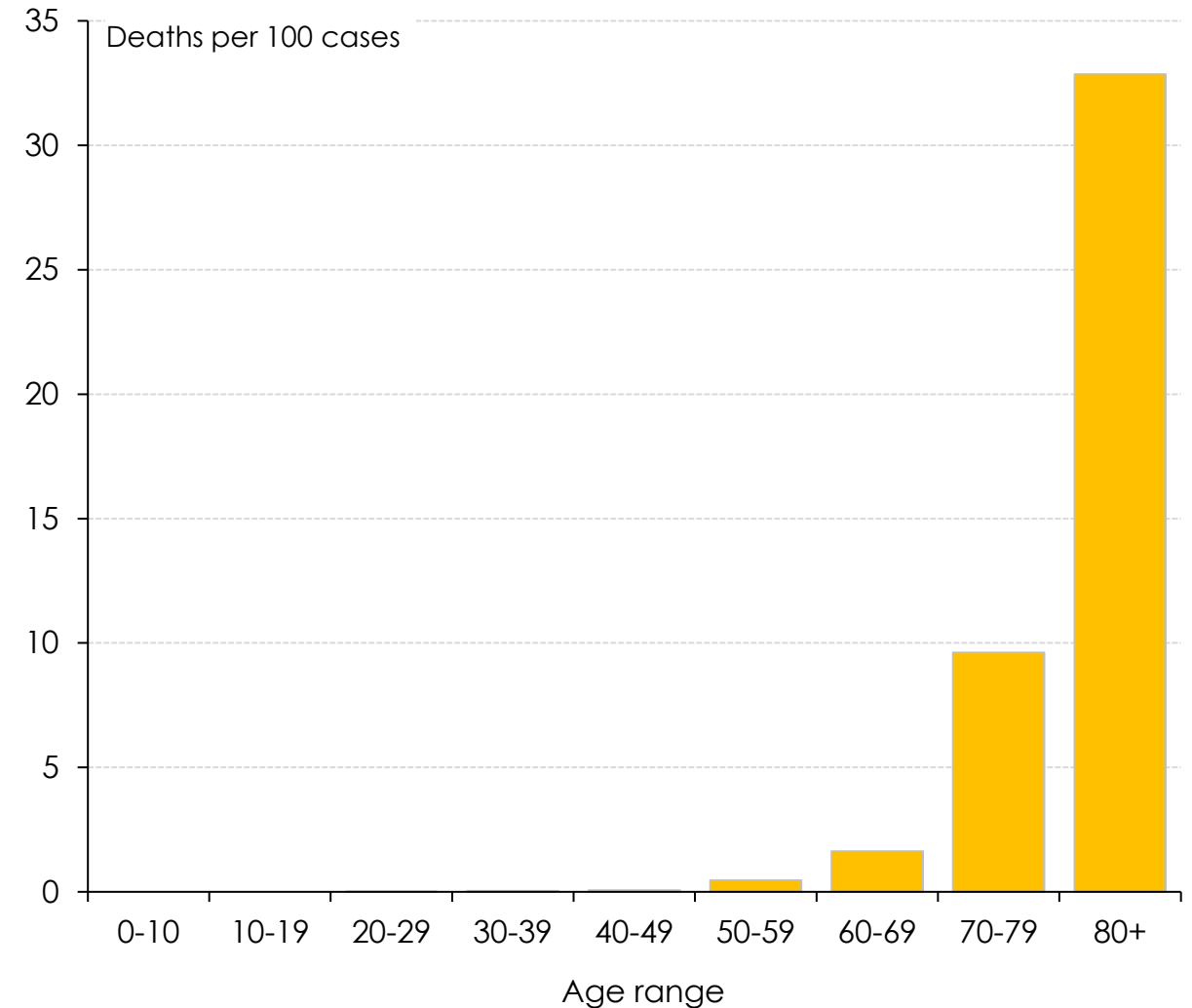
Note: Data up to 9th October. Source : covid19data.com.au. [Return to "What's New"](#).

Infection rates now higher among people in their 20s & 30s than among those in their 40s though 70s, though fatality rates are higher for over-60s

Cumulative confirmed cases per 100,000 population, by age group



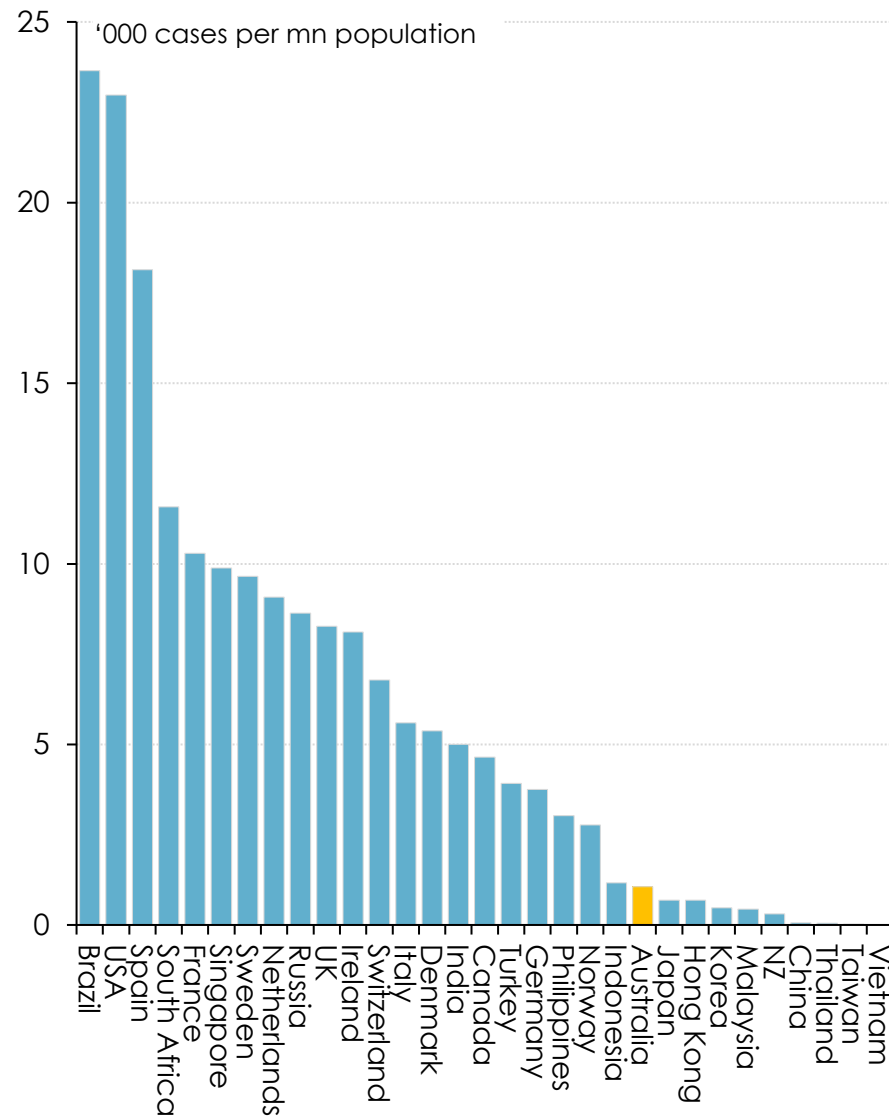
Deaths from Covid-19 per 100 cases, by age group



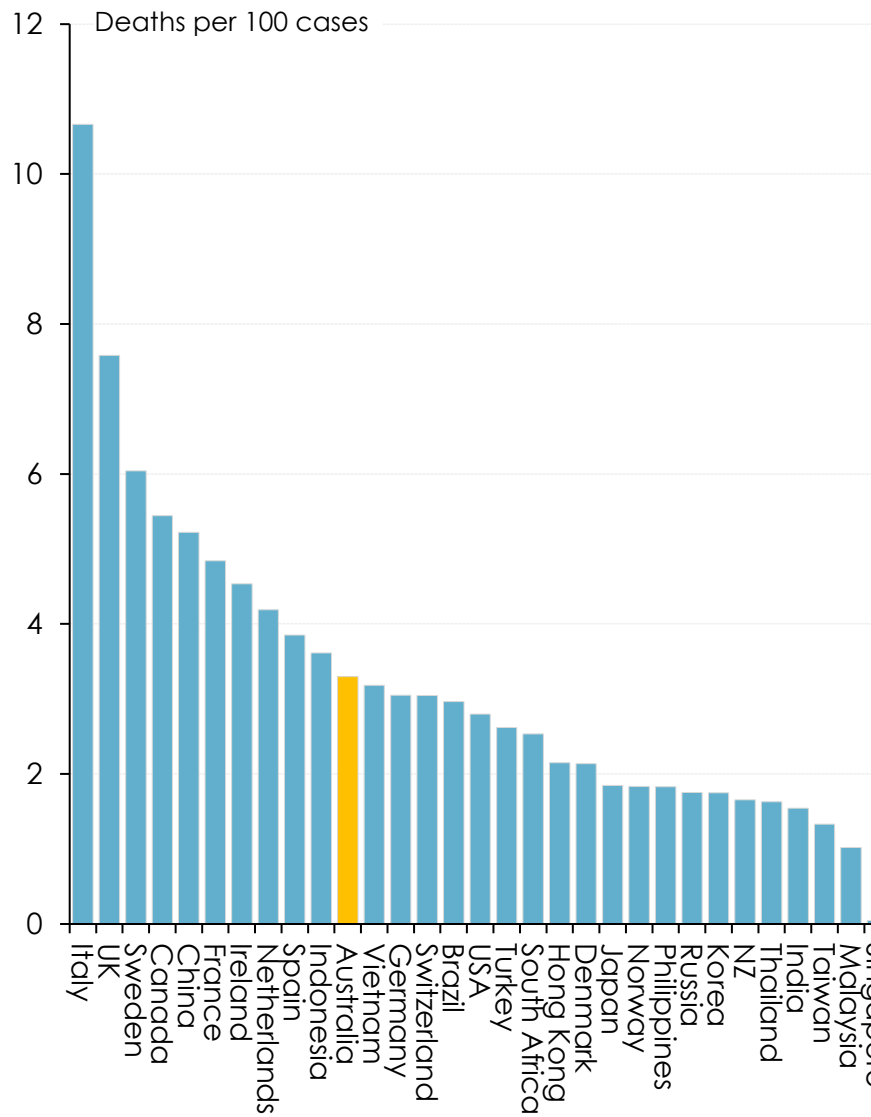
Note: Data up to 9th October. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna. [Return to "What's New"](#).

Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

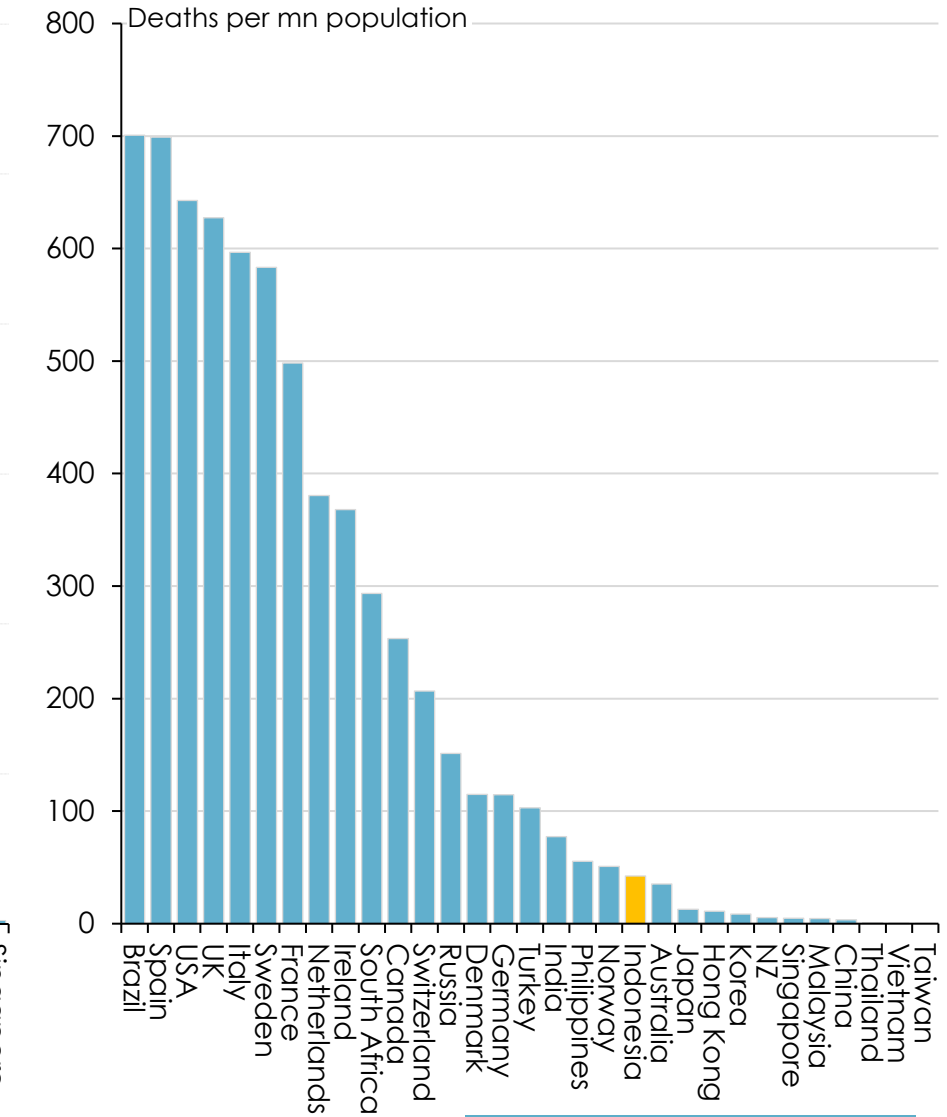
Apparent infection rate



Apparent fatality rate



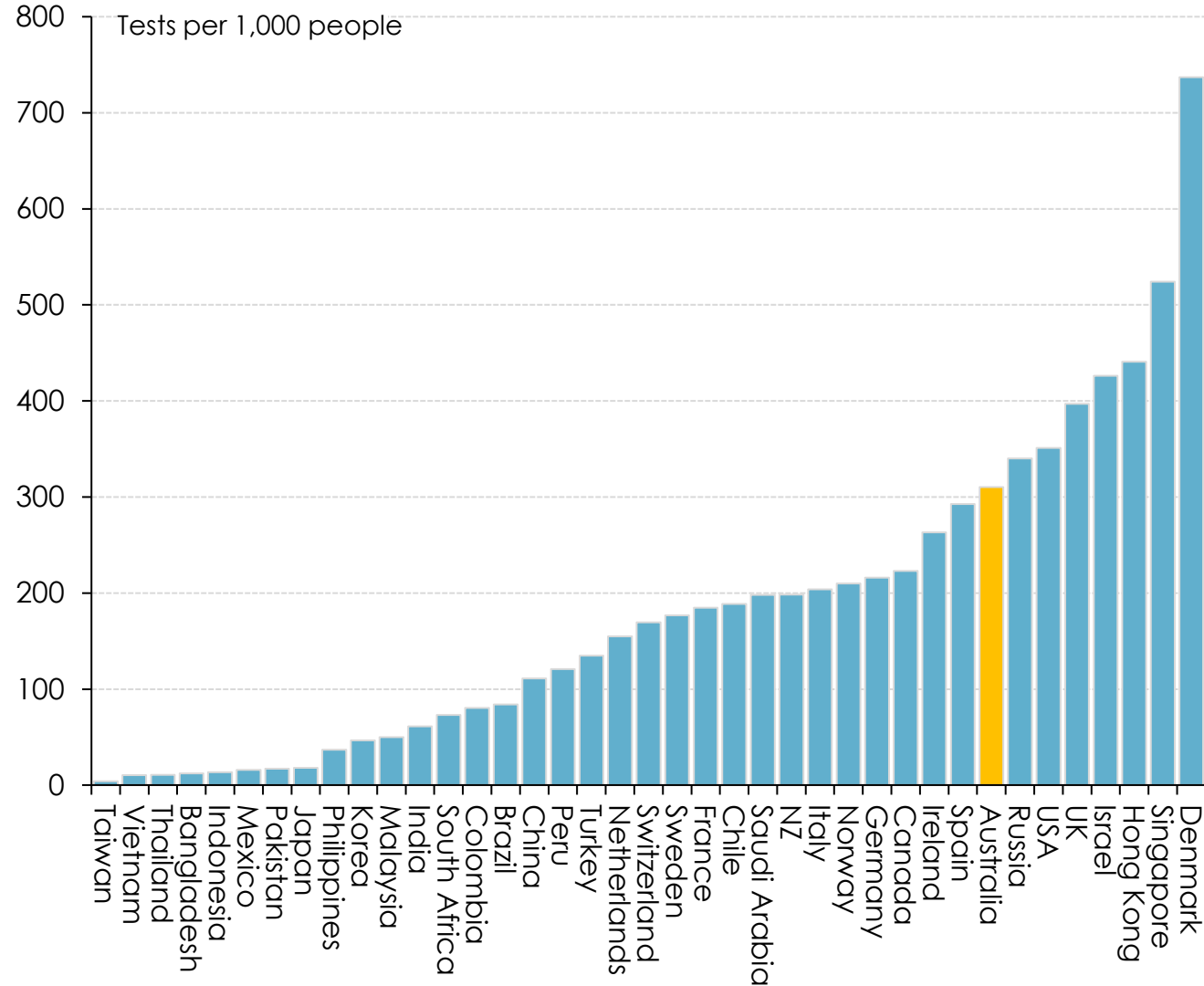
Death rate



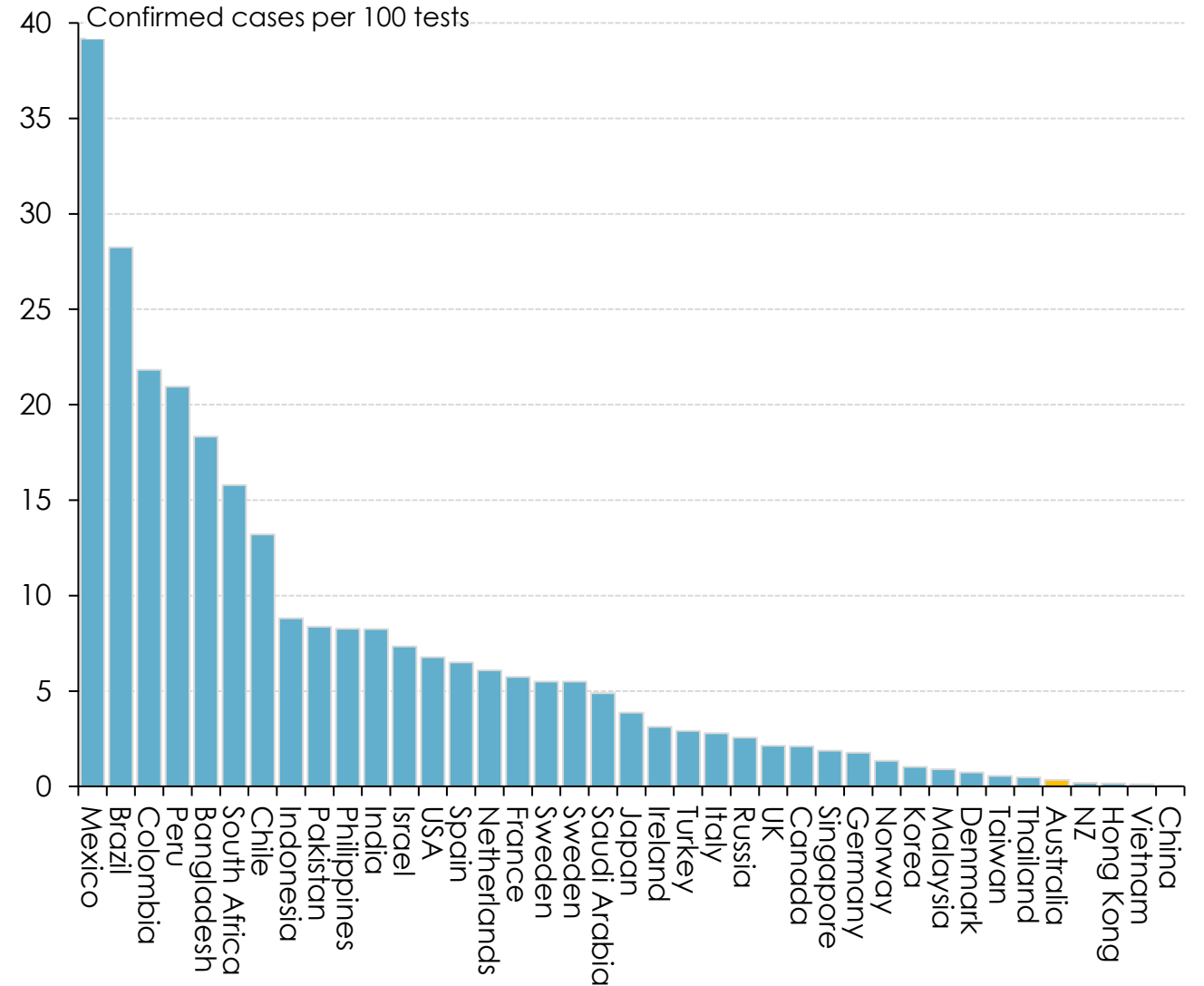
Note: Data up 9th October. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

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)

Tests per thousand of population



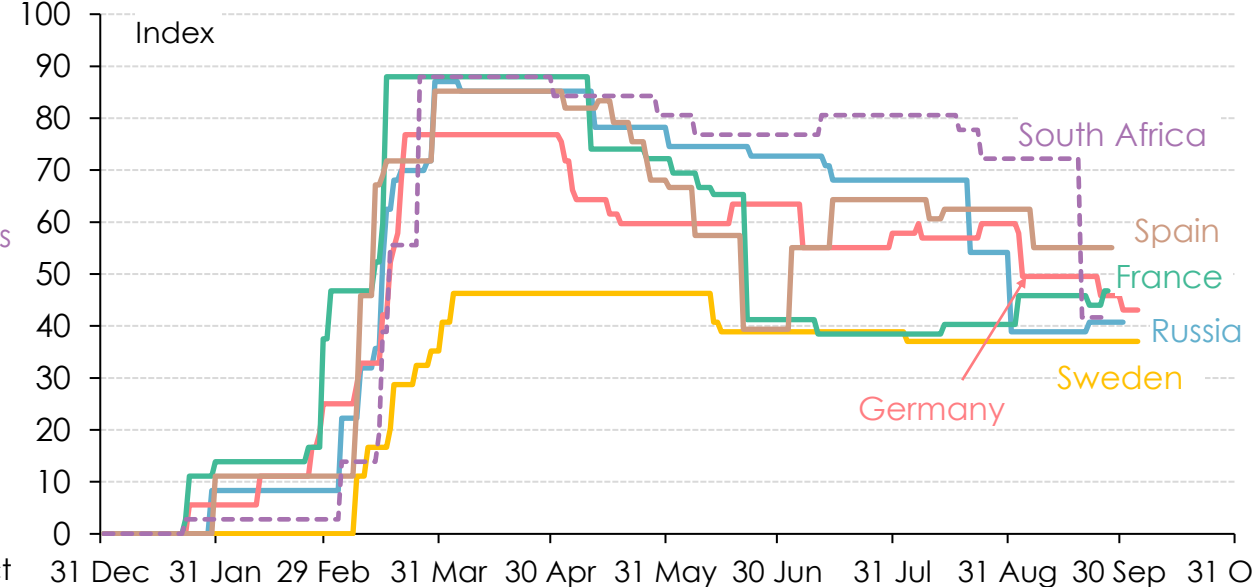
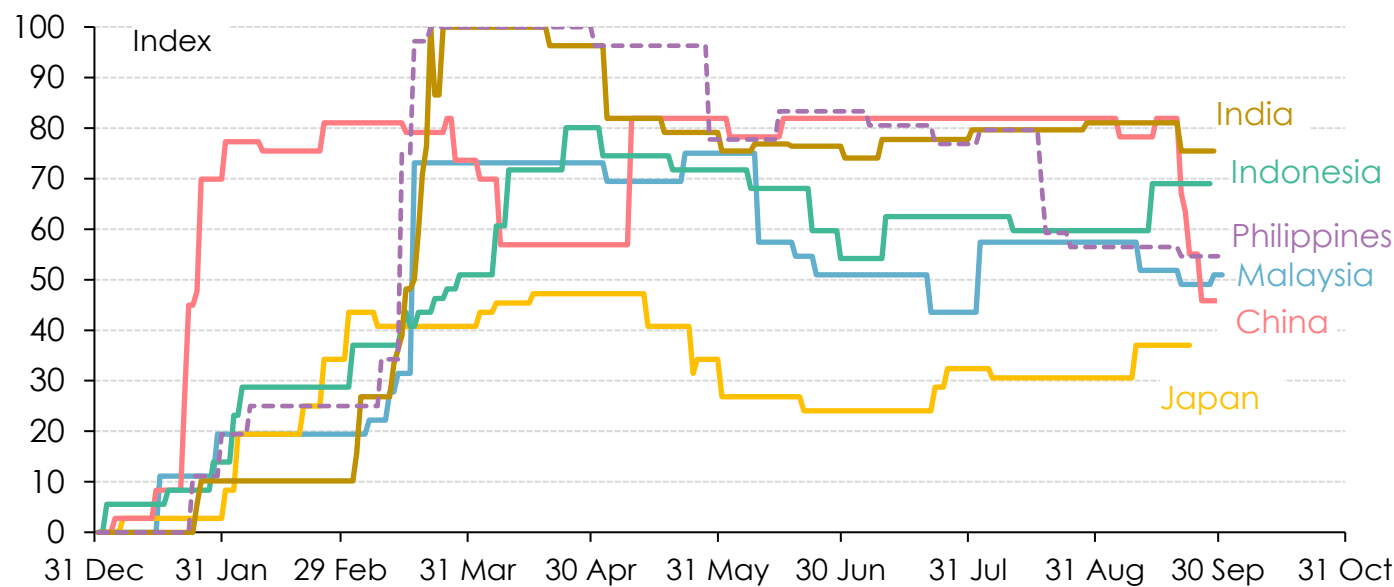
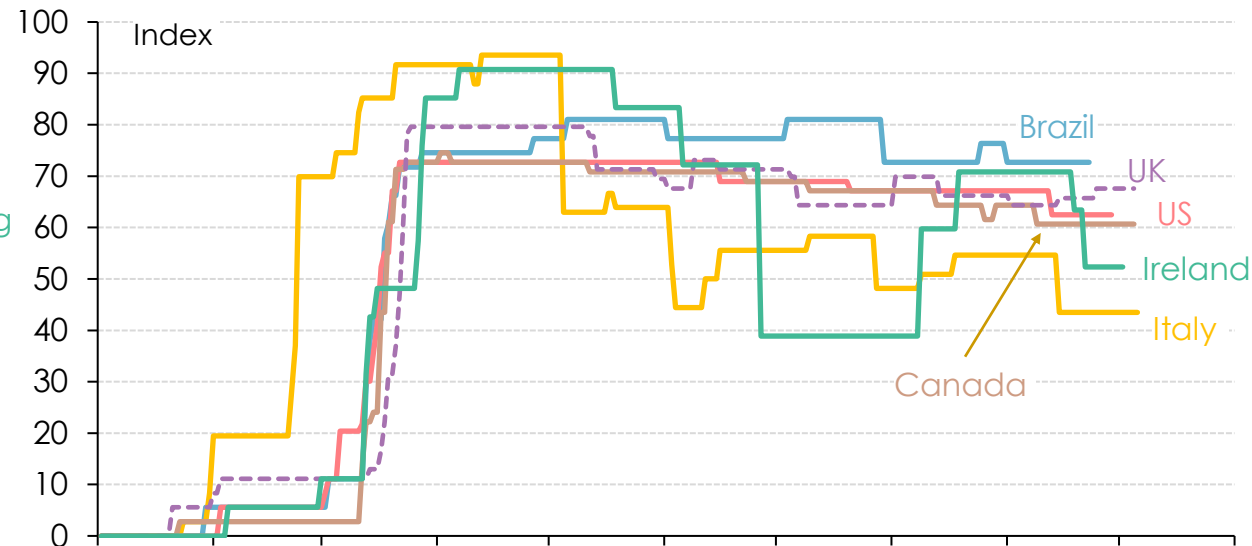
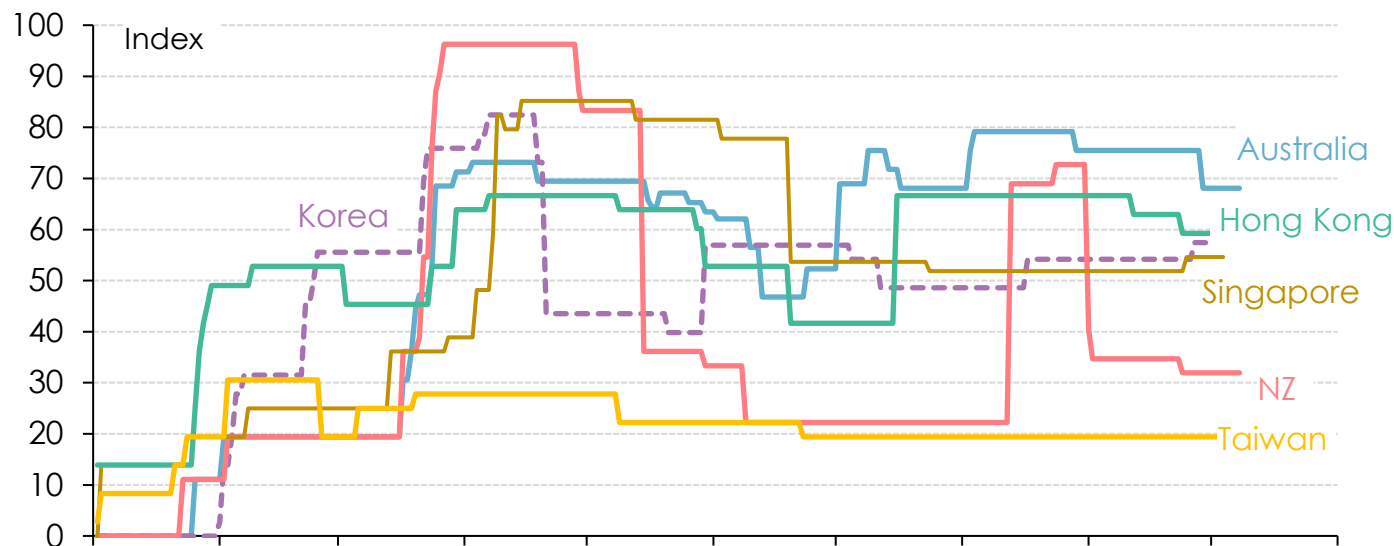
Confirmed cases per 100 tests



Note: Data up to 9th October. A high number of confirmed cases per 100 tests combined with a low number of tests per 000 population is (all else being equal) prima facie evidence of an inadequate testing regime. Source: [Worldometers](#); Corinna. [Return to "What's New"](#).

Restrictions have been tightened at a locality or regional level in countries where infections are rising again, but not all captured by the Oxford index

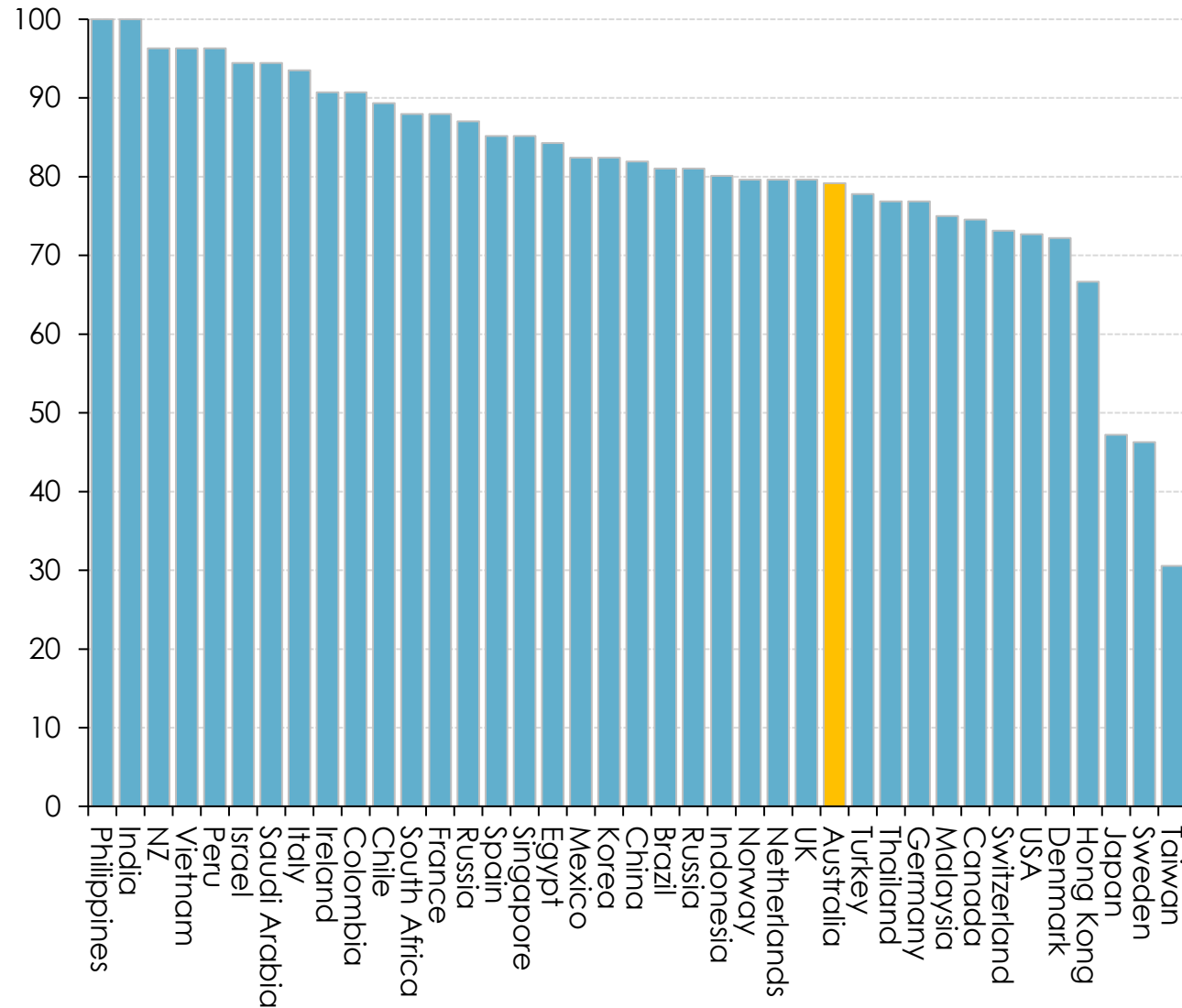
Timing and severity of government restrictions on movement and gathering of people



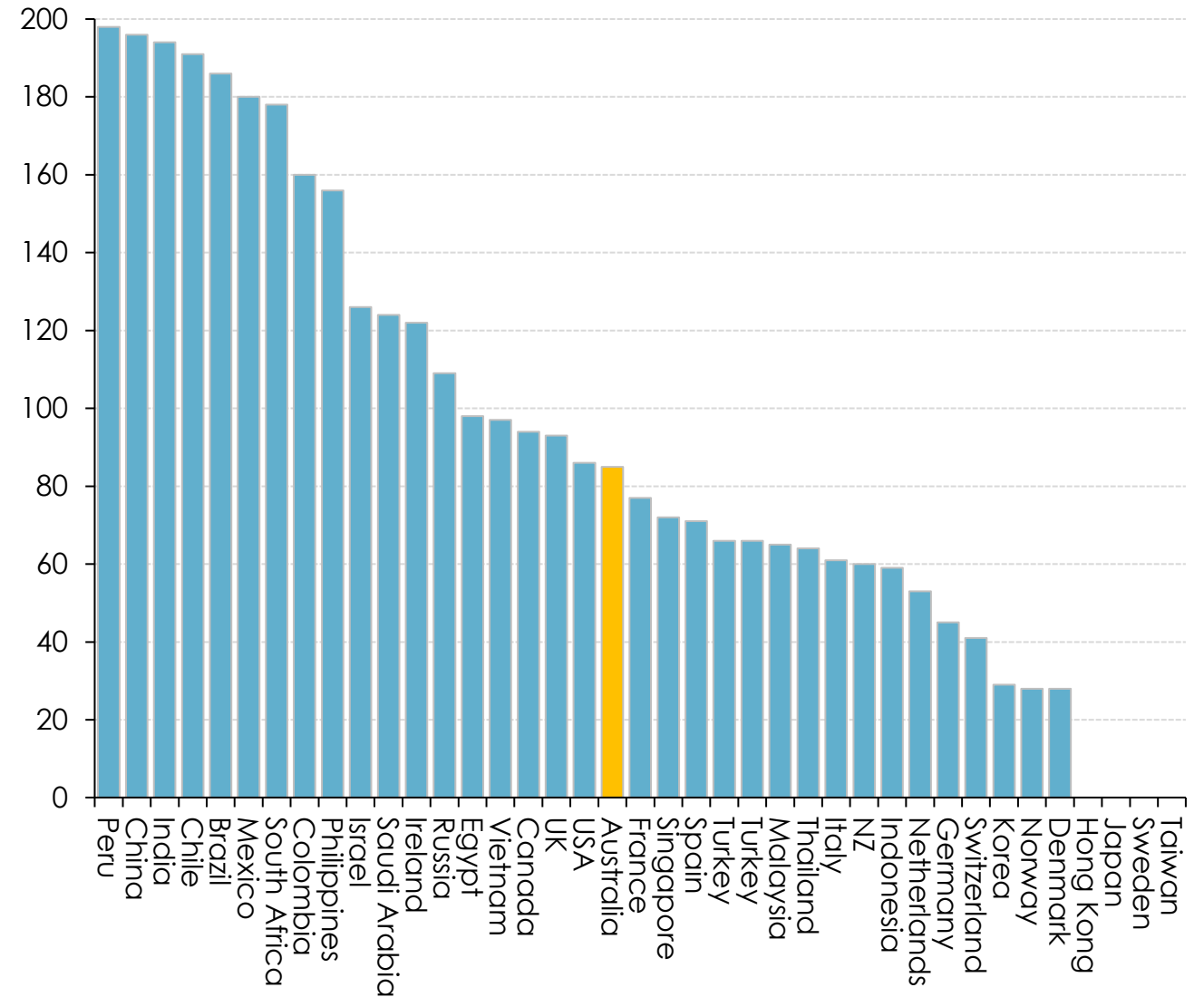
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 27th September – 7th October. [Return to "What's New"](#).

Australia's restrictions have been, on average, less stringent than in most other countries – though we have crept up the list in the past two months

Highest level of restrictions imposed



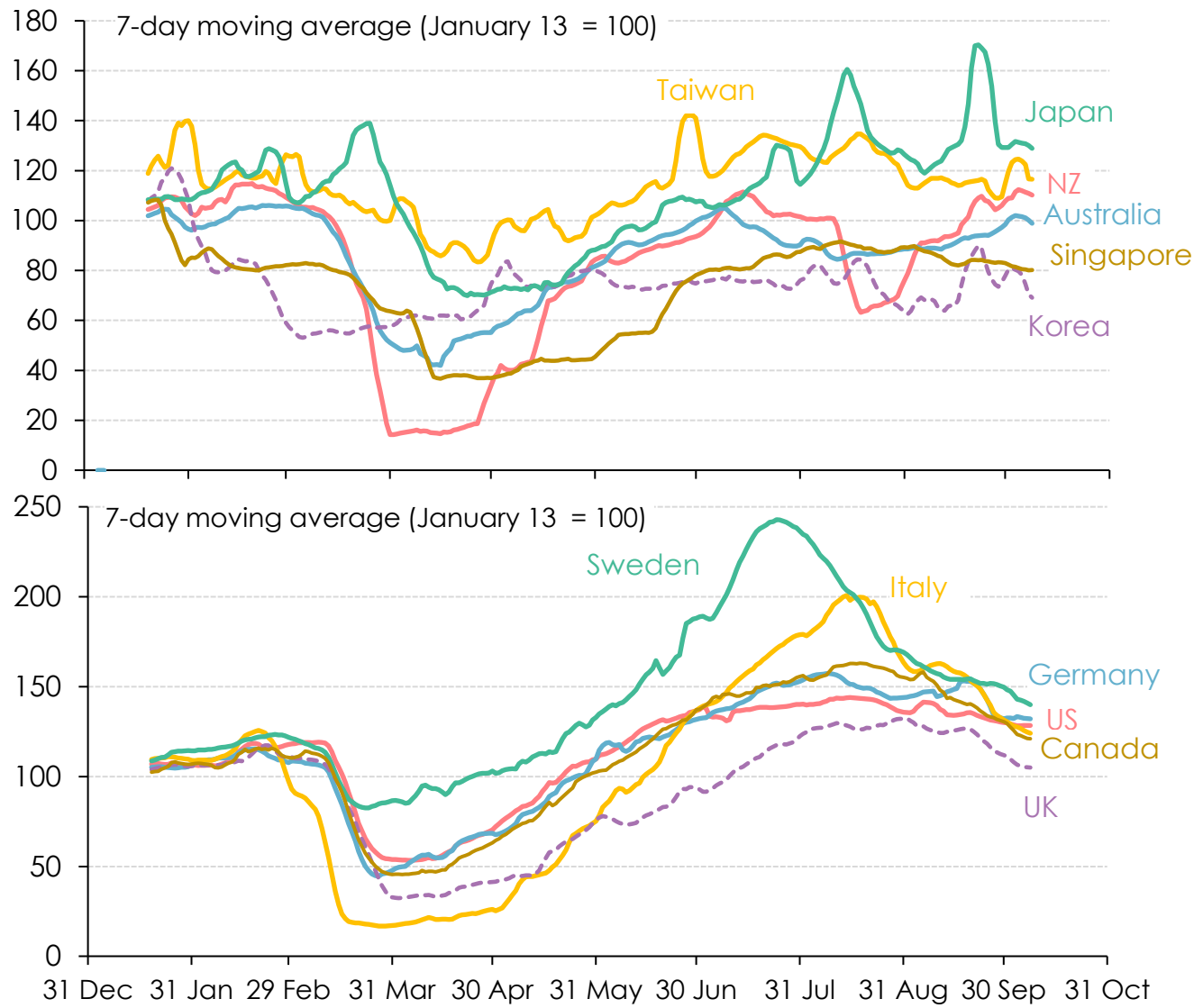
Number of days restrictions above 70 on Oxford index



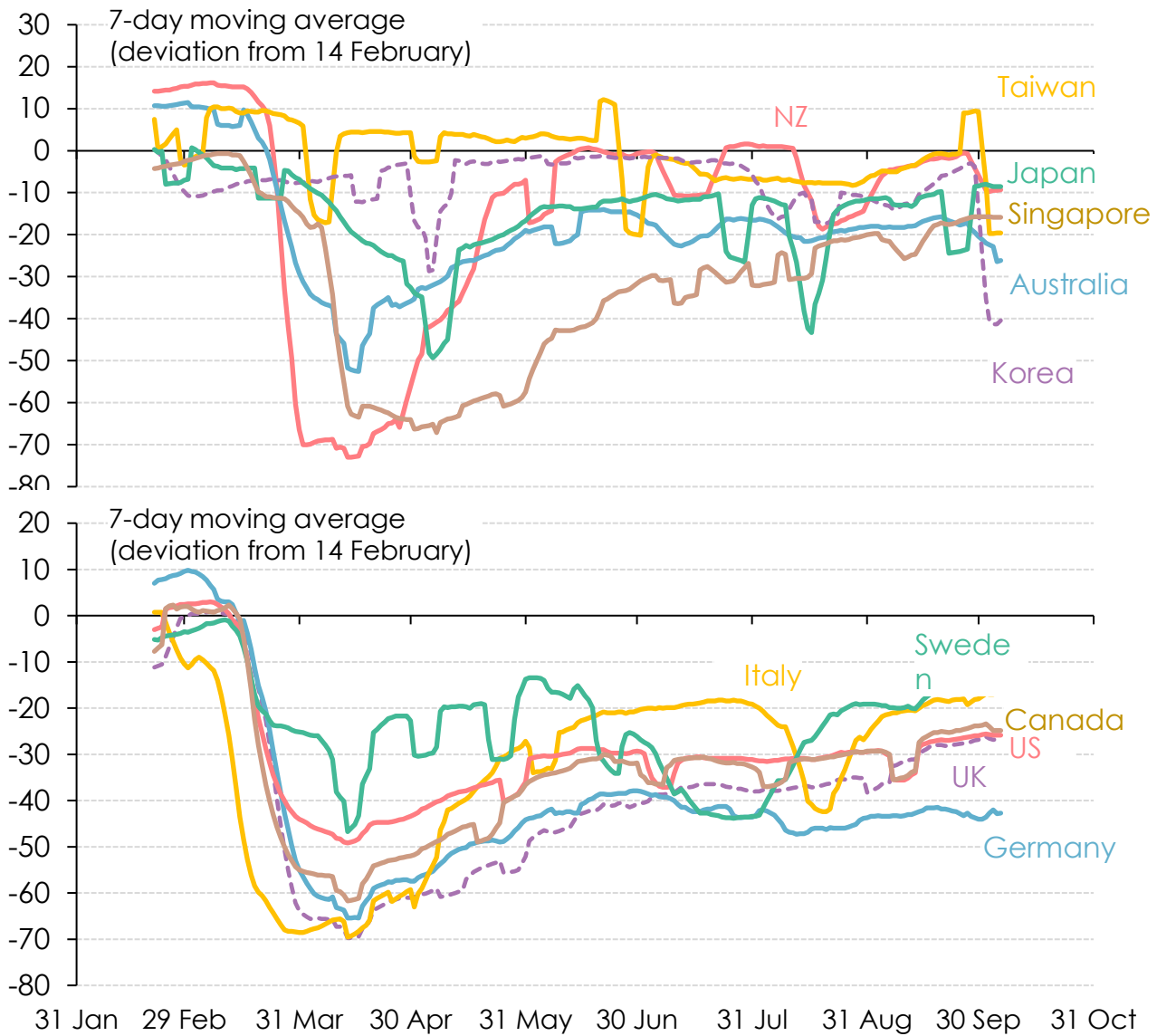
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Mobility trends have been generally improving in Asia in recent weeks, but slowing in the US, Canada and most major European countries

Time spent driving



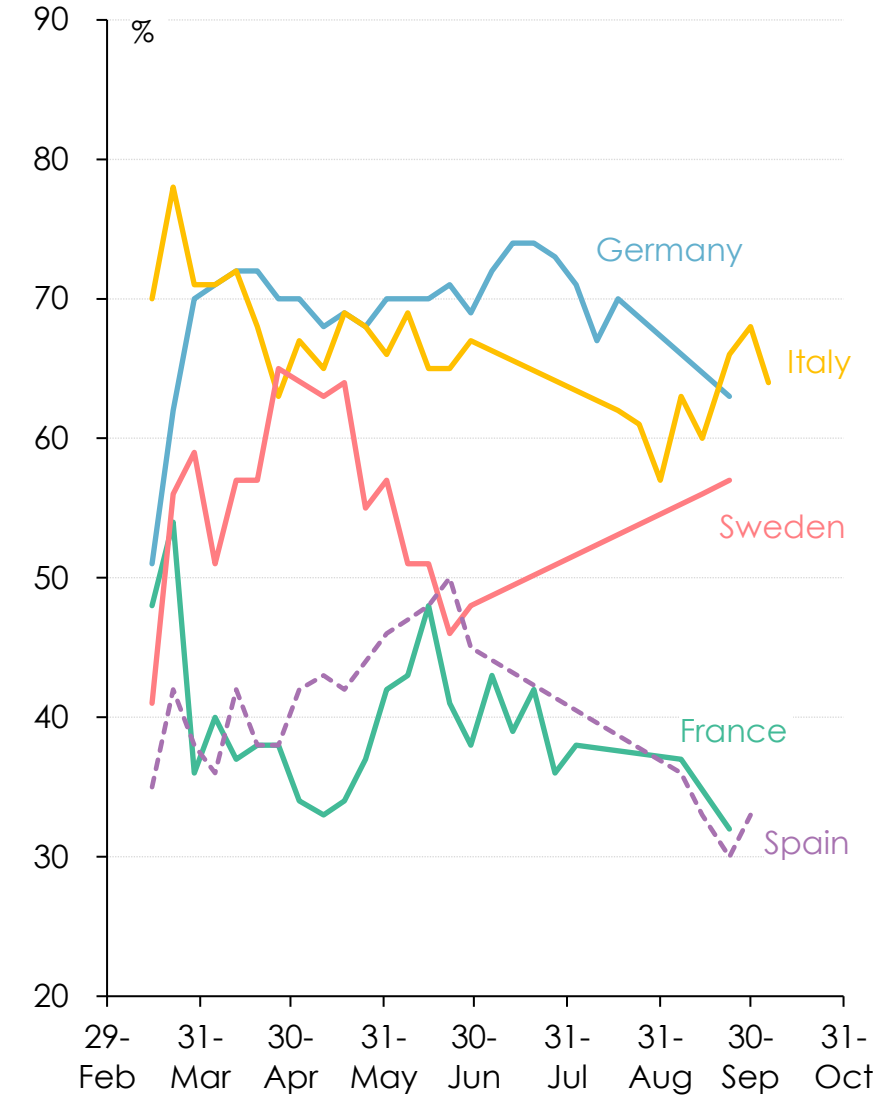
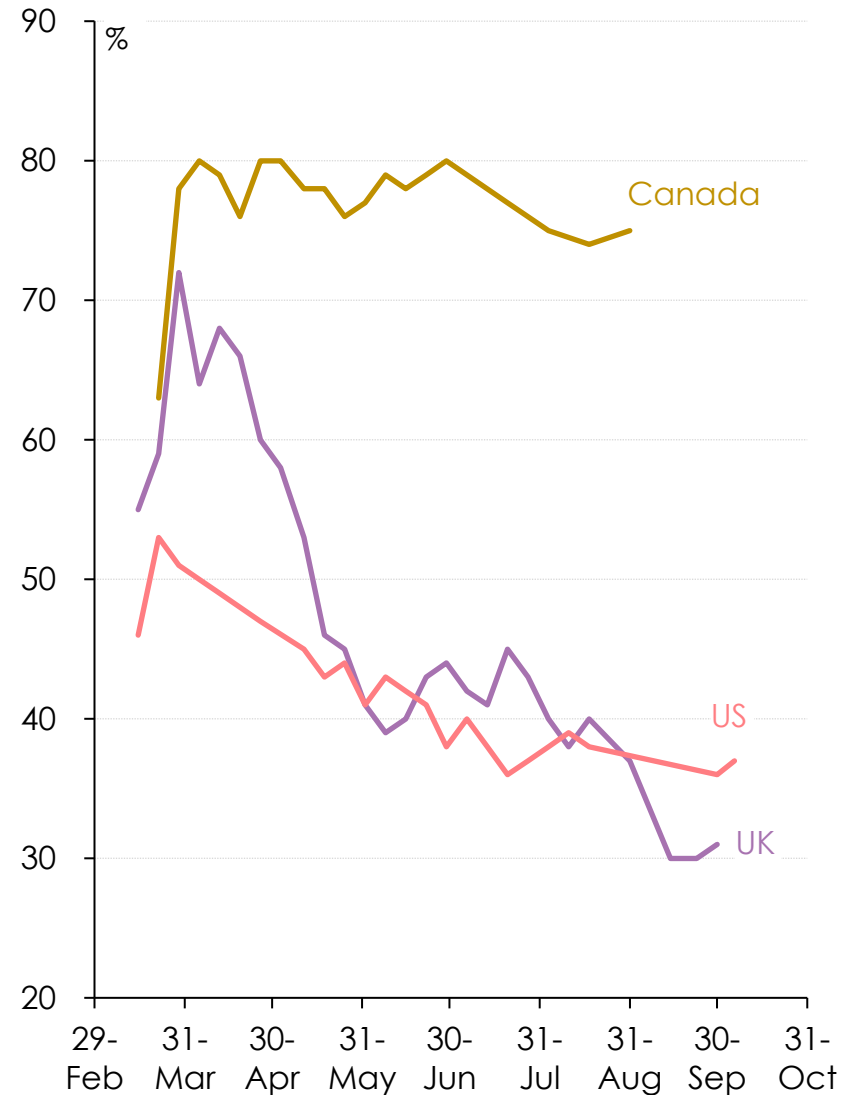
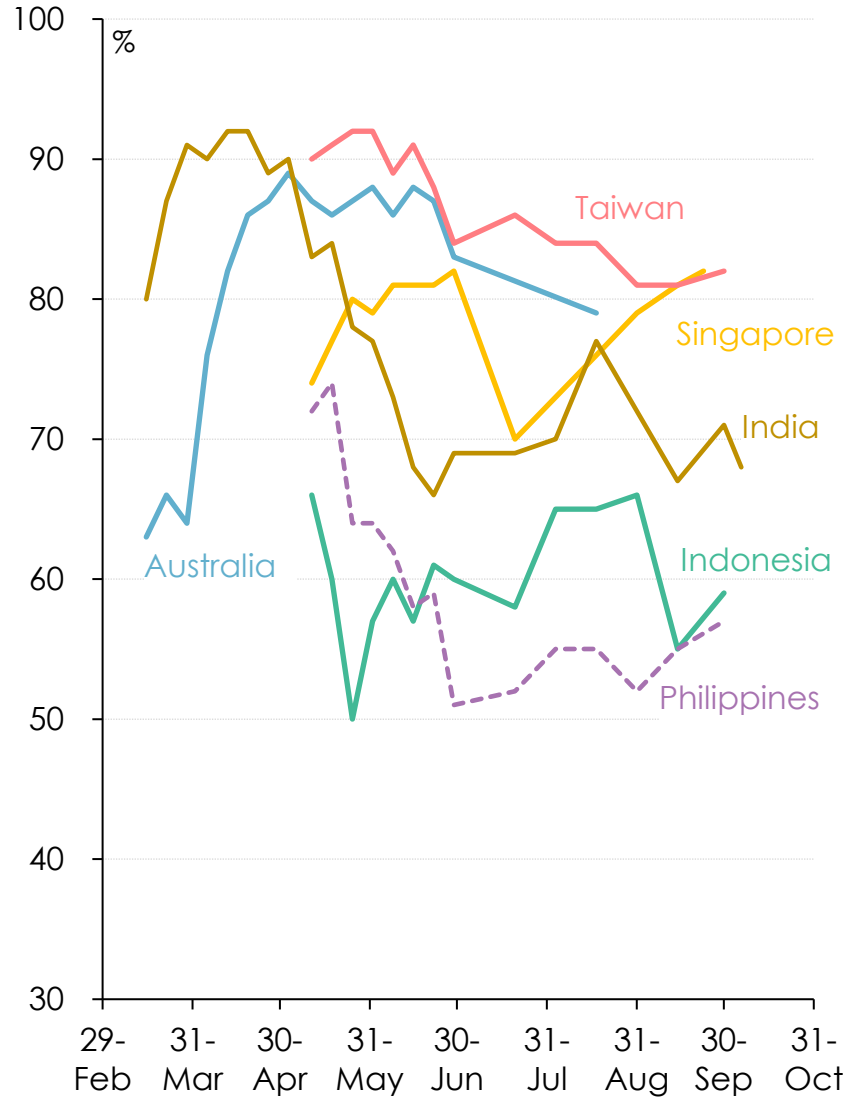
Time spent in workplaces



Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 8th October); [Google Community Mobility Reports](#) (data up to 6th October). [Return to "What's New"](#).

Voters in most Asian countries and Canada are much happier with their governments' handling of the pandemic than those in the US or Europe

Voter approval of their government's handling of the coronavirus pandemic

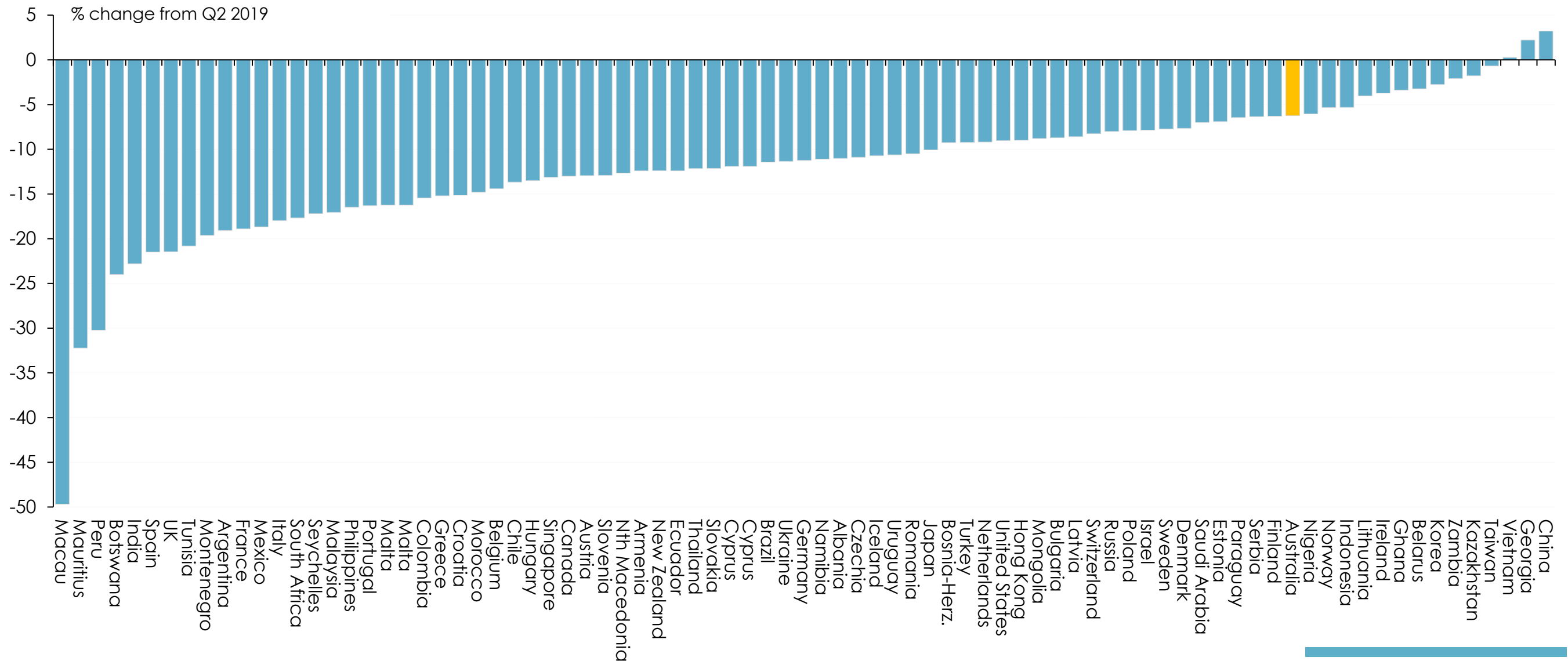


Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

The world

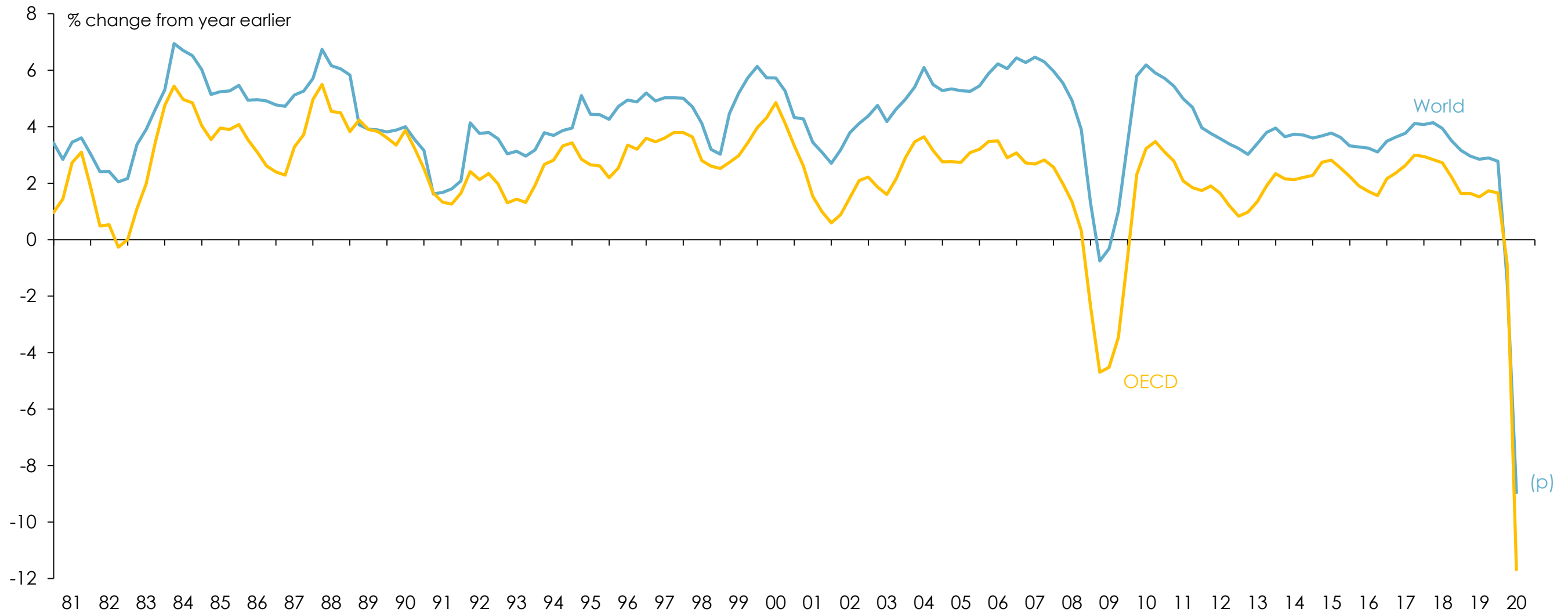
Of the 83 economies which have reported Q2 GDP data so far, 8 have reported contractions of more than 20% and only 3 have reported growth

Real GDP growth over the year to Q2 2020



The world economy experienced has contracted by about 9%, and the OECD area economy by 11³/₄%, over the year to 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. (p) Estimate for Q2 is a preliminary estimate based on published results for the 83 countries shown in the [next slide](#).

Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

All major forecasters expect 2020 to be the worst year since the 1930s: the OECD this week revised 2020 forecasts up (a bit) but 2021 down

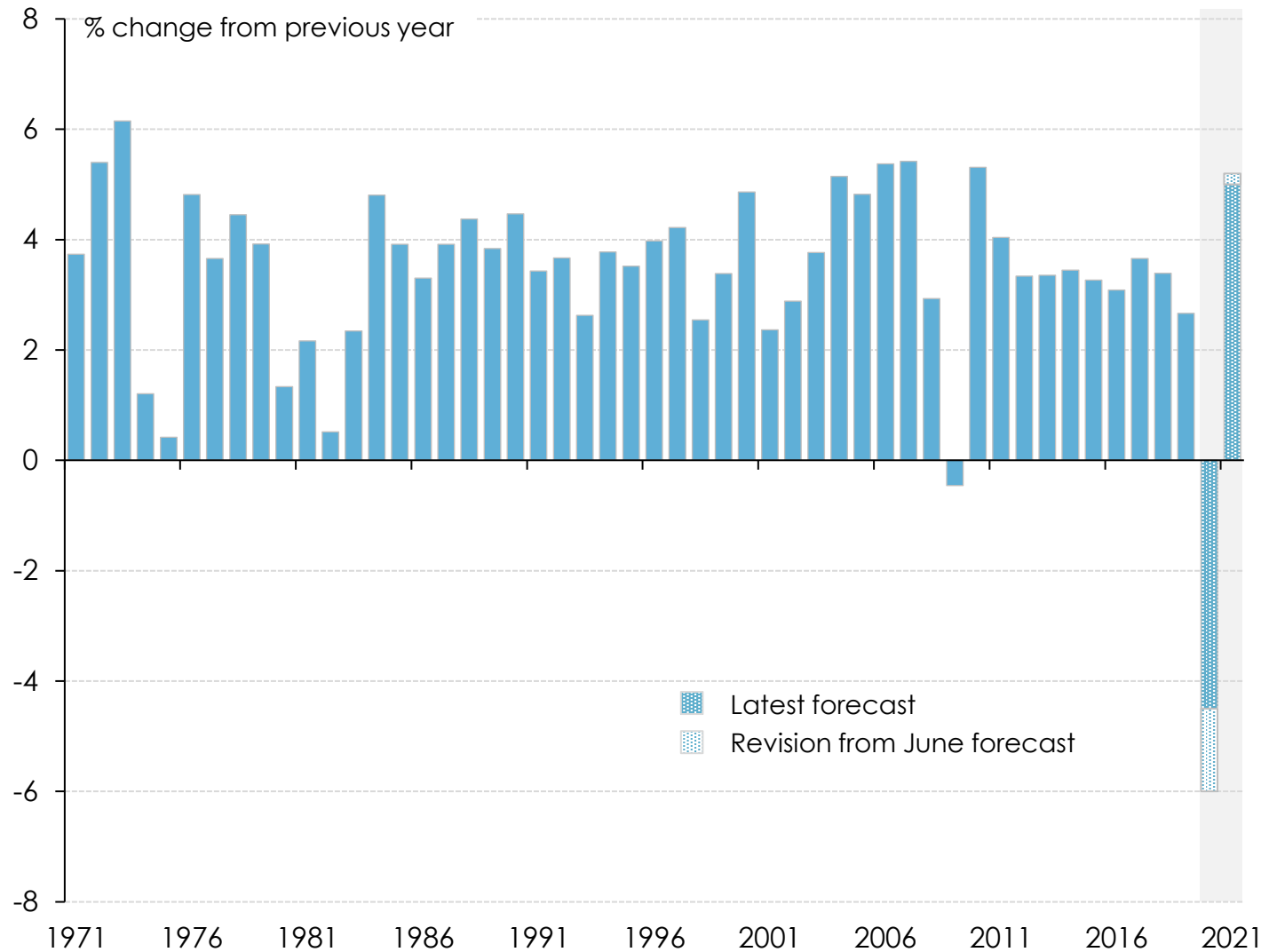
Major global institutions' growth forecasts for 2020 and 2021 compared

	<i>Actual</i>	<i>IMF</i>		<i>World Bank</i>		<i>OECD*</i>		<i>Australian Treasury</i>	
	2019	2020	2021	2020	2021	2020	2021	2020	2021
US	2.3	-6.1	4.5	-6.1	4.0	-3.8	4.1	-5.5	2.5
China	6.1	1.2	9.2	1.0	6.9	1.8	8.0	1.8	8.0
Euro area	1.2	-7.5	4.7	-9.1	4.5	-7.9	6.5	-9.0	3.5
India	4.2	1.9	7.4	-3.2	3.1	-3.7	5.1	-9.0	9.0
Japan	0.7	-5.2	3.0	-6.1	2.5	-5.8	1.5	-5.8	2.5
UK	1.4	-6.5	4.0	na	na	-10.1	10.7	na	na
Australia	1.8	-6.7	7.1	na	na	-4.1	2.5	-3.8	2.5
New Zealand	2.2	-7.2 [†]	5.9 [†]	na	na	-8.9	6.6	na	na
World	2.9	-3.0	5.8	-5.2	4.2	-4.5	5.0	-4.5	5.0
World trade	0.9	-11.0	8.4	-13.4	5.3	-9.5	6.0	na	na

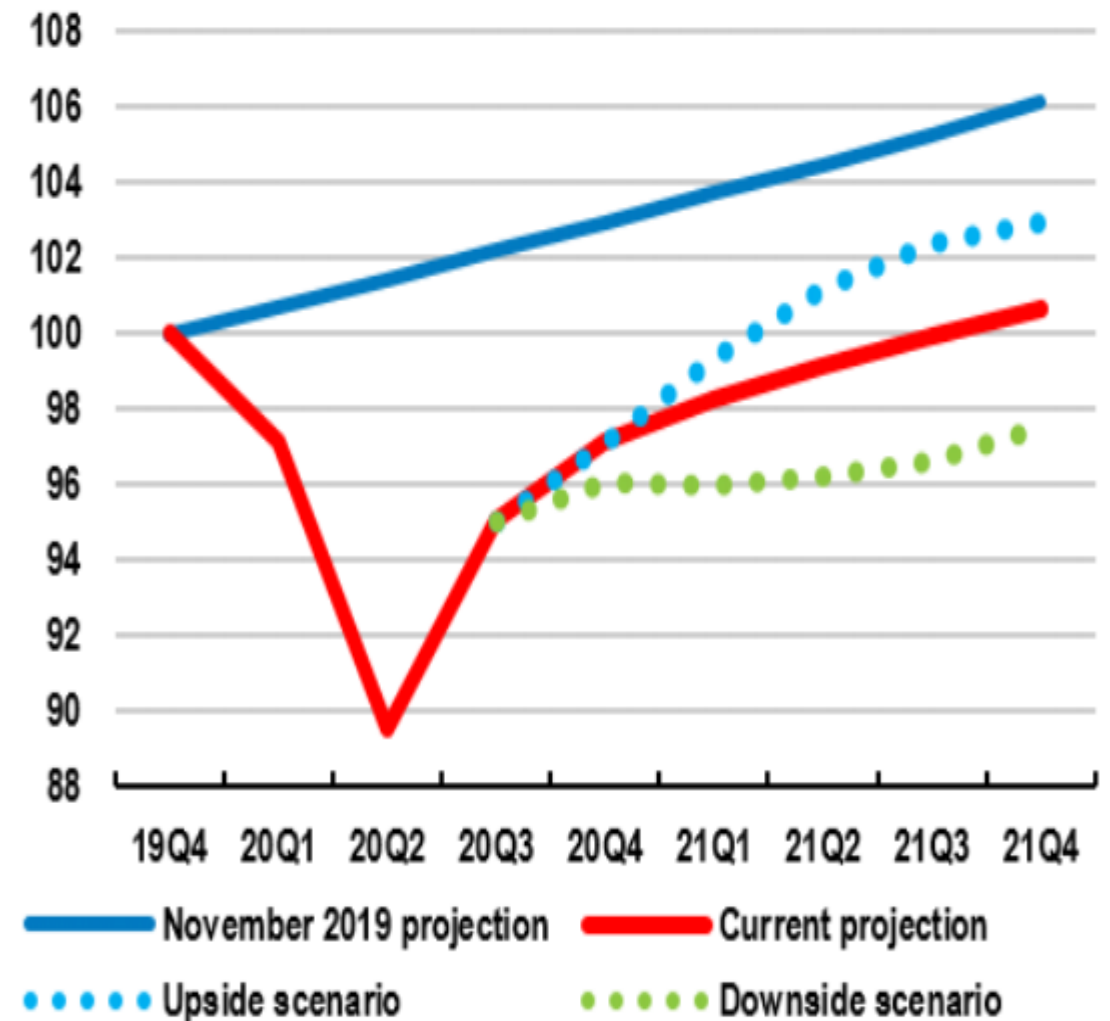
* OECD forecasts are their 'single hit' scenario to be consistent with the assumptions of the other institutions. †The IMF did not publish revised forecasts for New Zealand in its latest WEO publication. Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 24th June 2020; The World Bank, [Global Economic Prospects](#), 8th June 2020; Organization for Economic Co-operation & Development (OECD), [Economic Outlook - Interim Report](#) 16th September 2020; Australian Treasury, [Economic and Fiscal Update](#), 23rd July 2020. The IMF forecasts will be updated with the release of the next WEO on 13th October; the Australian Treasury's forecasts are from the 2020-21 Budget presented on 6th October. [Return to "What's New"](#).

The OECD's latest forecast for world GDP growth in 2020 is -4½% (revised from -5% in June) and for 2021 is + 5% (revised from 5.2%)

Annual growth in global real GDP, 1961-2021



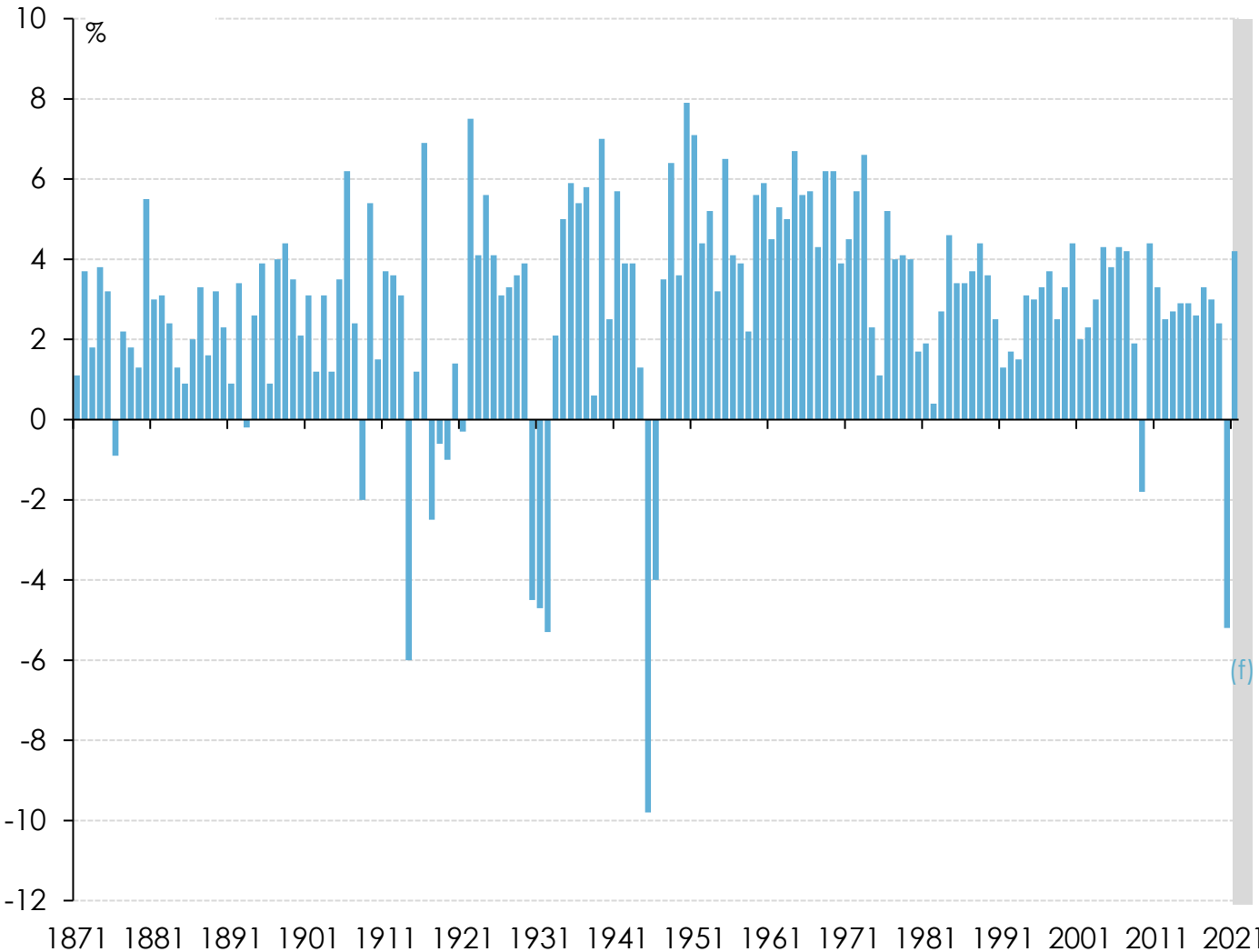
Quarterly growth and forecasts, 2017-2021



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 Interim Report](#), 16th September 2020. [Return to "What's New"](#).

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

Growth in global real GDP, 1871-2001



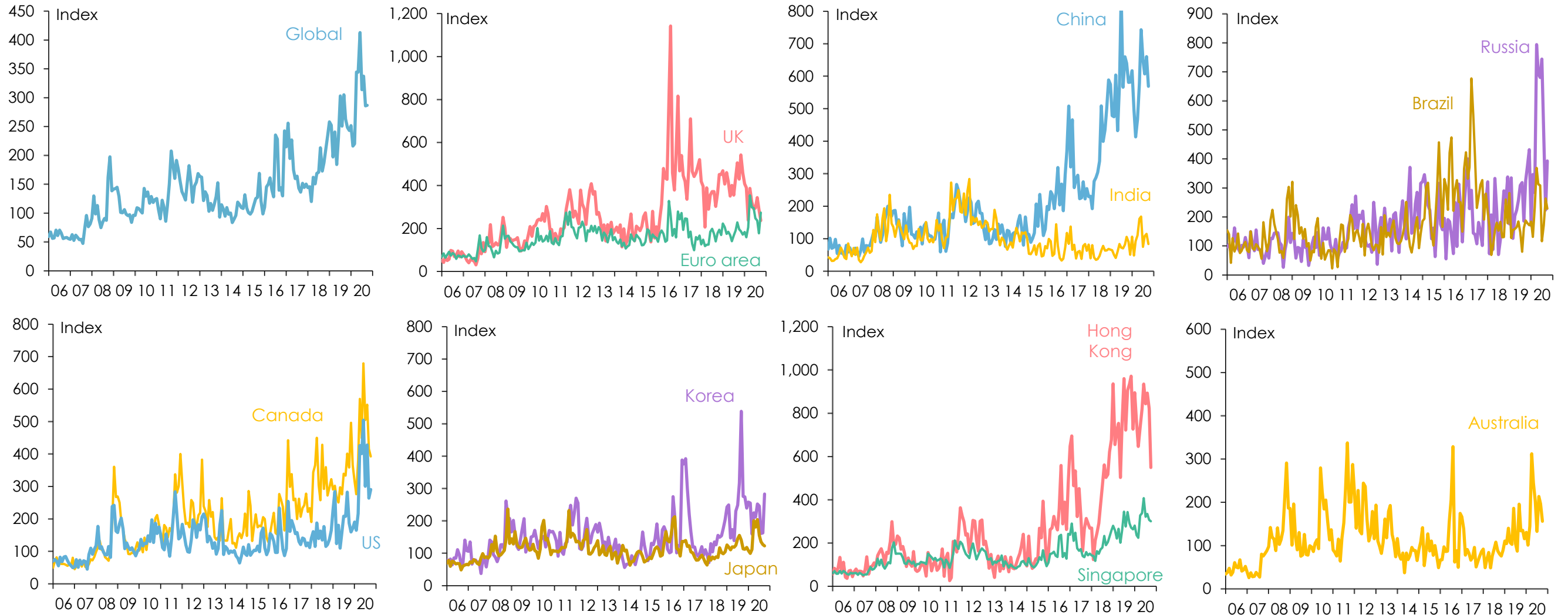
Cumulative decline in real per capita GDP during global recessions



Source: The World Bank, [Global Economic Prospects](#), 8th June 2020. [Return to "What's New"](#).

Uncertainty about economic policy remains high by historical standards in most countries, although (surprisingly) has declined in the US

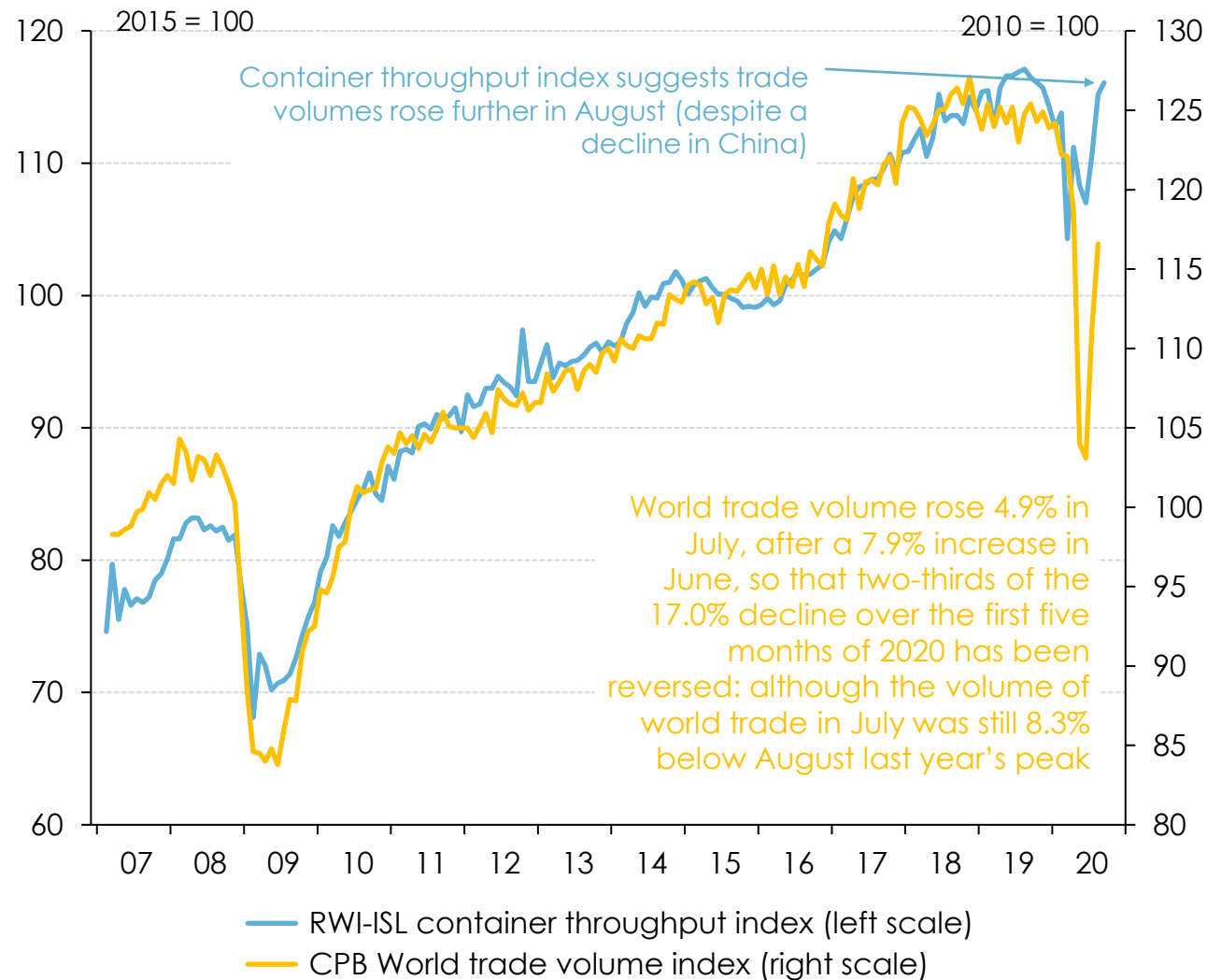
Economic policy uncertainty indices



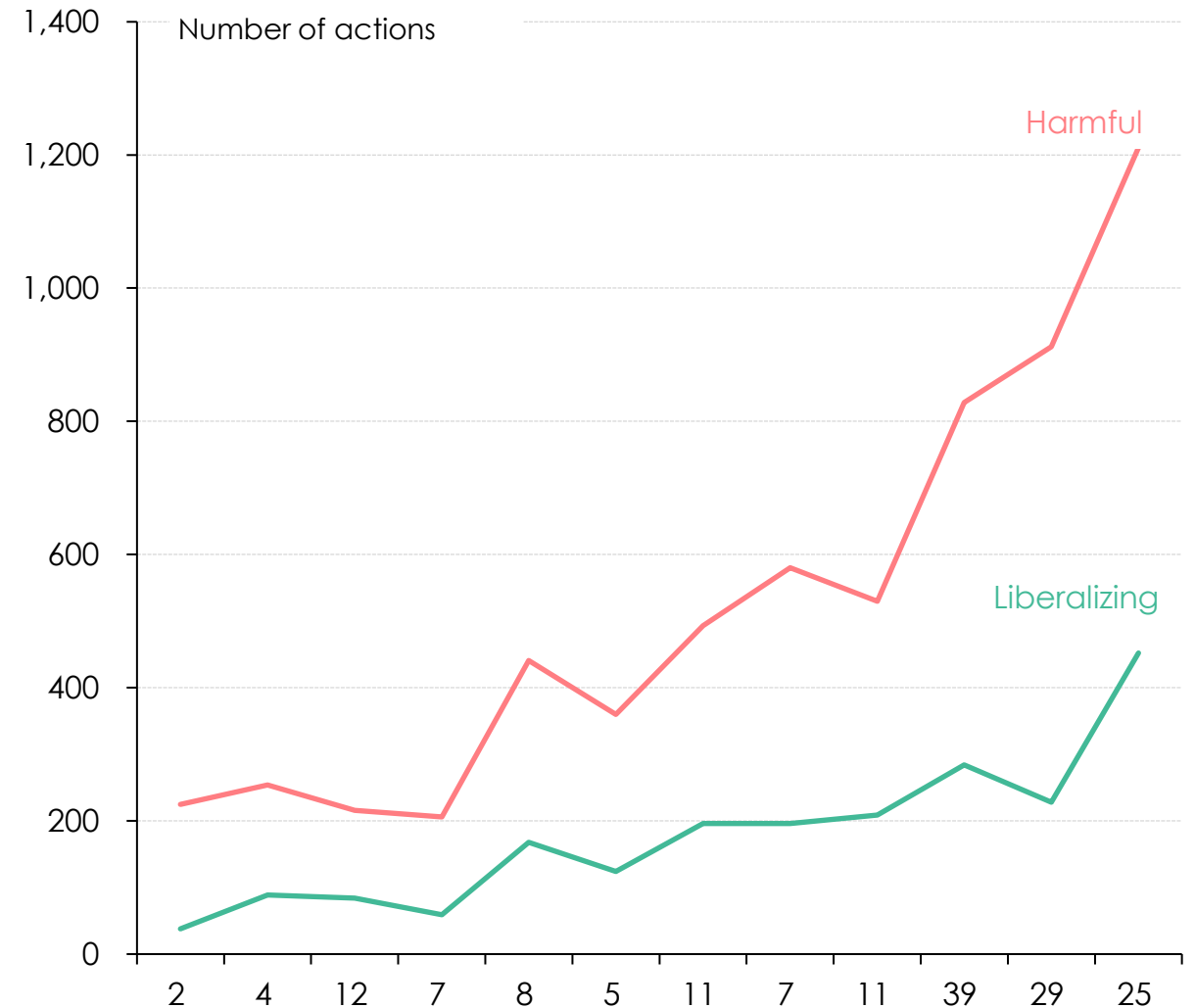
Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words "uncertain" or "uncertainty", "economy" or "economic", and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The 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 September 2020. Source: [Global Policy Uncertainty](#); Scott Banker, Nick Bloom & Steven Davis, 'Measuring Economic Policy Uncertainty', *Quarterly Journal of Economics*, 131, no. 4 (November 2016), pp. 1593-1636. [Return to "What's New"](#).

World merchandise trade volumes rebounded in June but are still 13% below their October 2018 peak

World trade volumes and container throughput



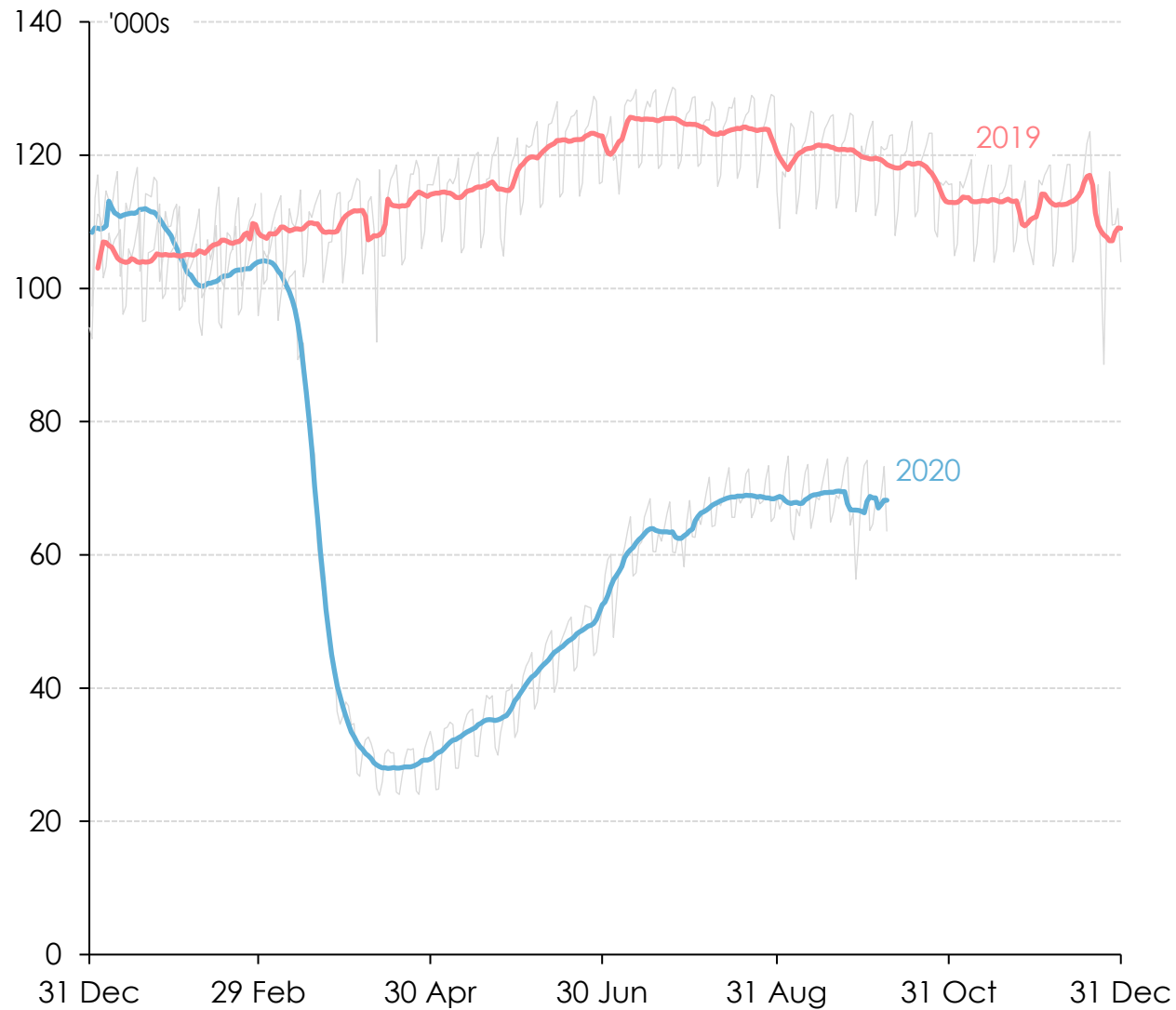
Pro- and anti-trade policy interventions



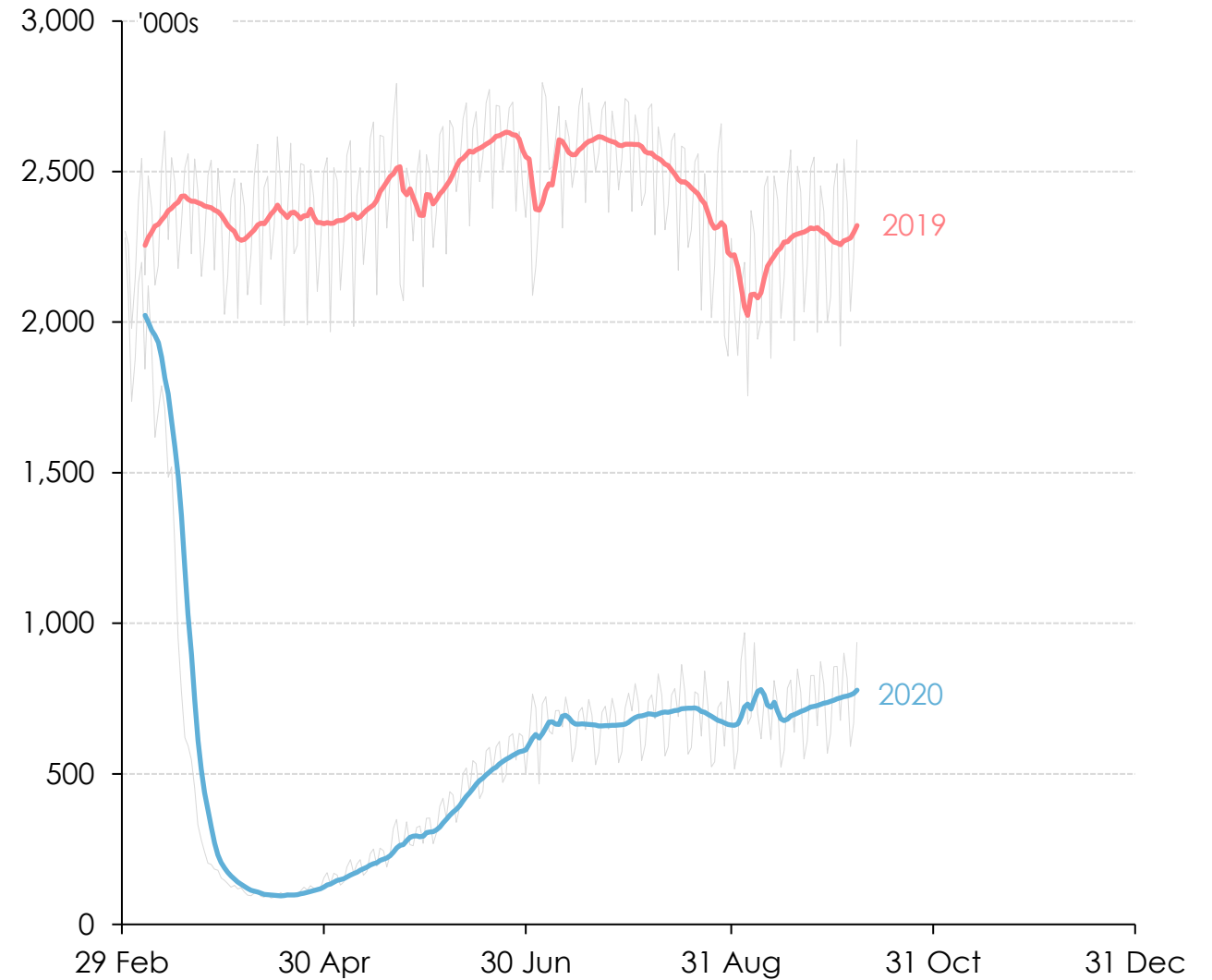
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (August data to be released on 23rd October); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) [Container Throughput Index](#); Centre for Economic Policy Research, [Global Trade Alert Global Dynamics](#) (data up to 2nd October). [Return to "What's New"](#).

Global aviation traffic was steady this week at 57% of year-earlier levels, while US TSA checks were the highest relative to year-earlier in four weeks

Daily commercial flights worldwide



Daily US TSA security checks

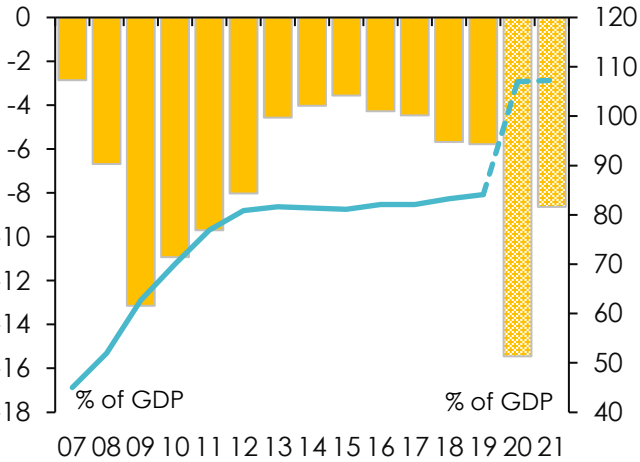


Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 9th October for commercial flight numbers and 8th October for TSA checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines.

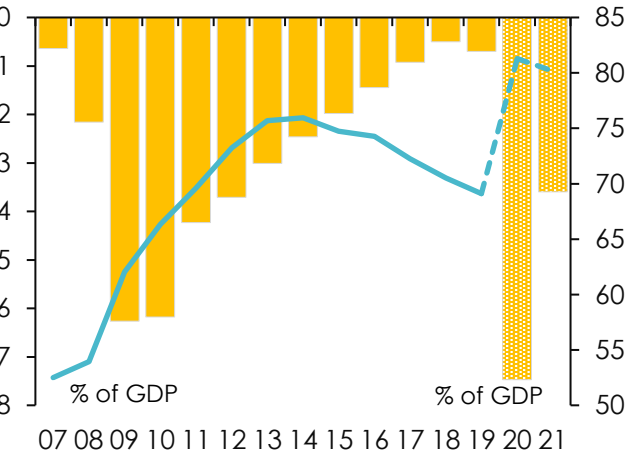
Sources: [Flightradar24.com](https://www.flightradar24.com); [US Transport Safety Administration](https://www.tsa.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

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

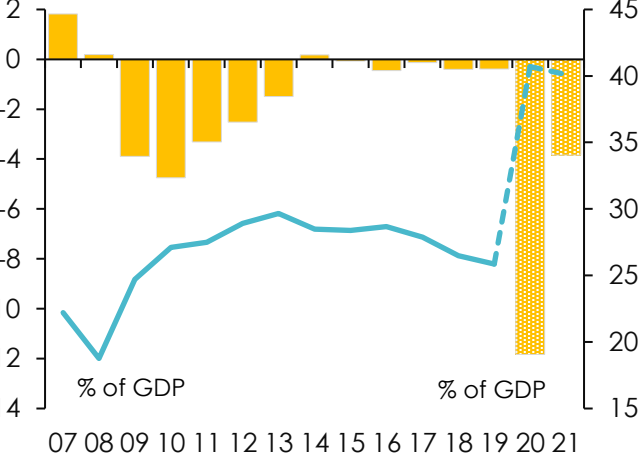
United States



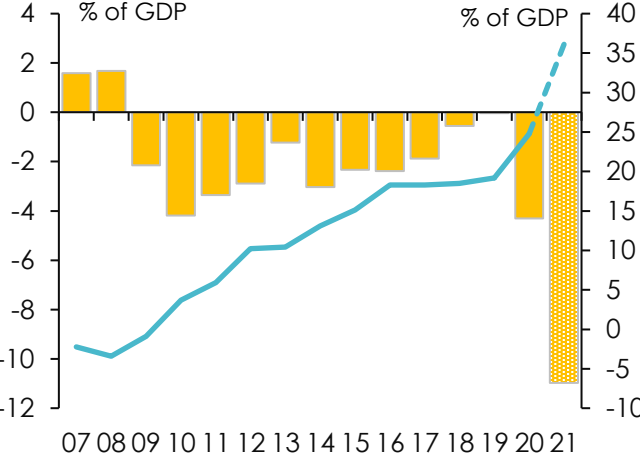
Euro area



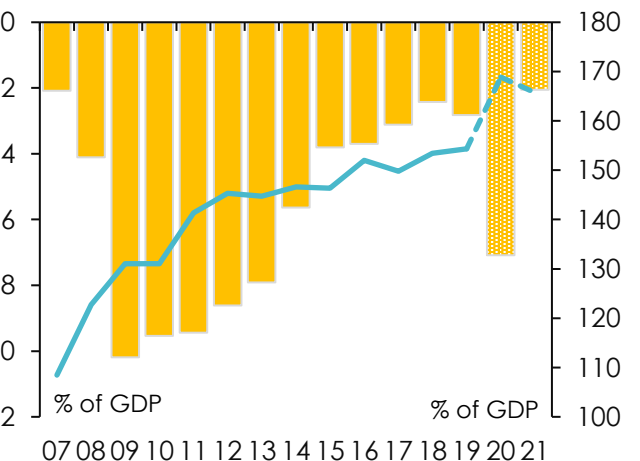
Canada



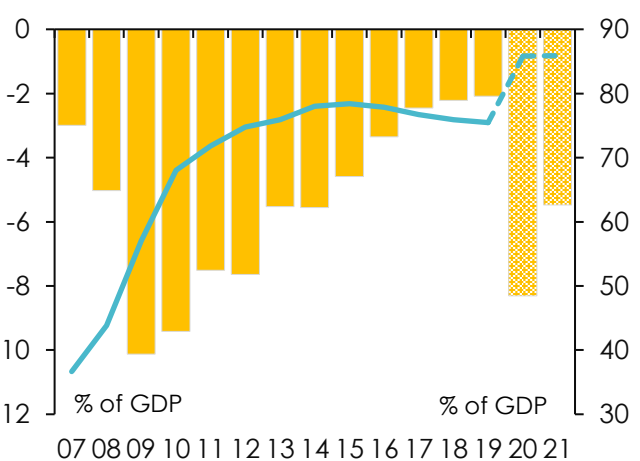
Australia



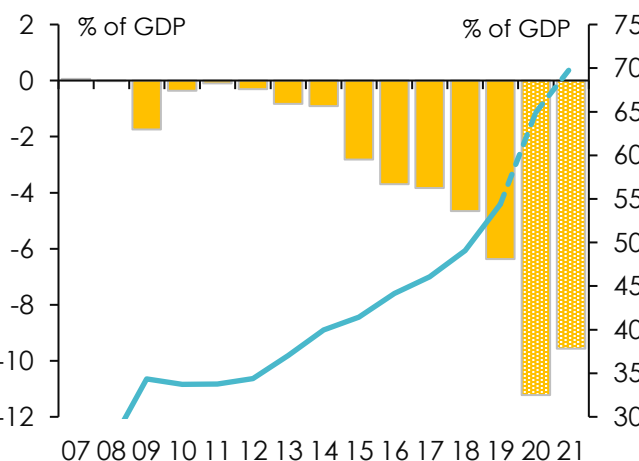
Japan



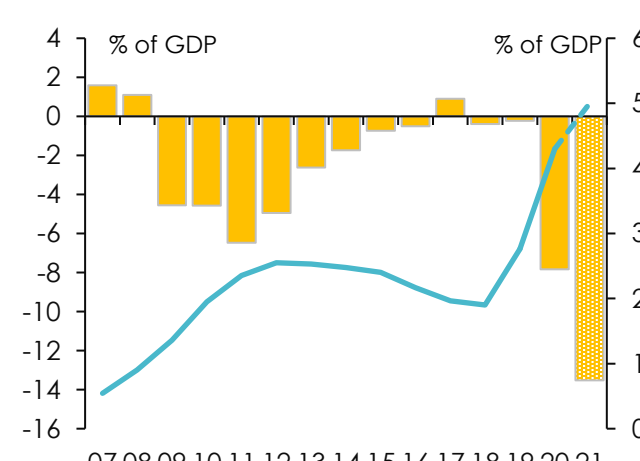
United Kingdom



China



New Zealand

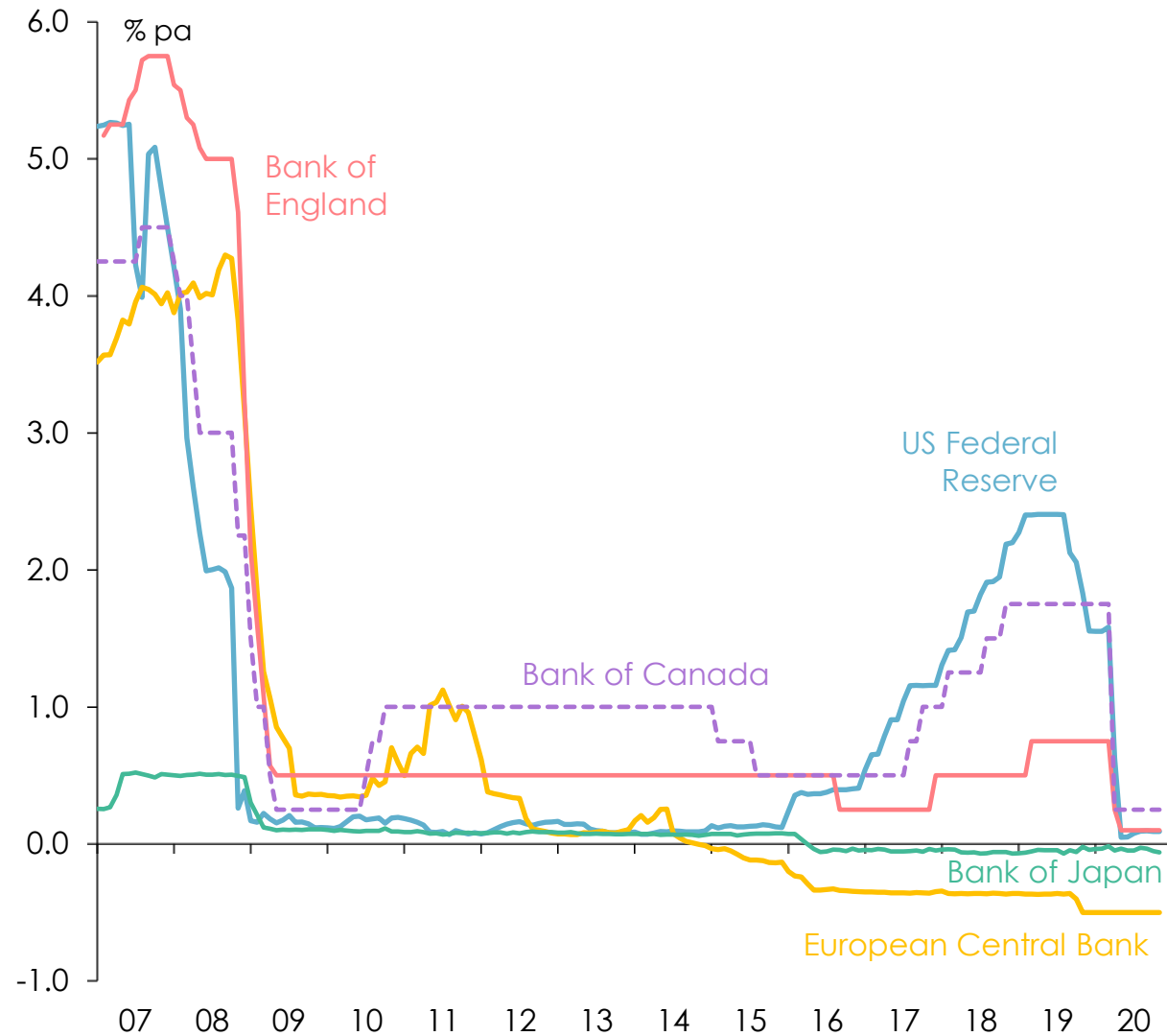


General government overall fiscal balance (left scale)
 General government net debt (right scale)

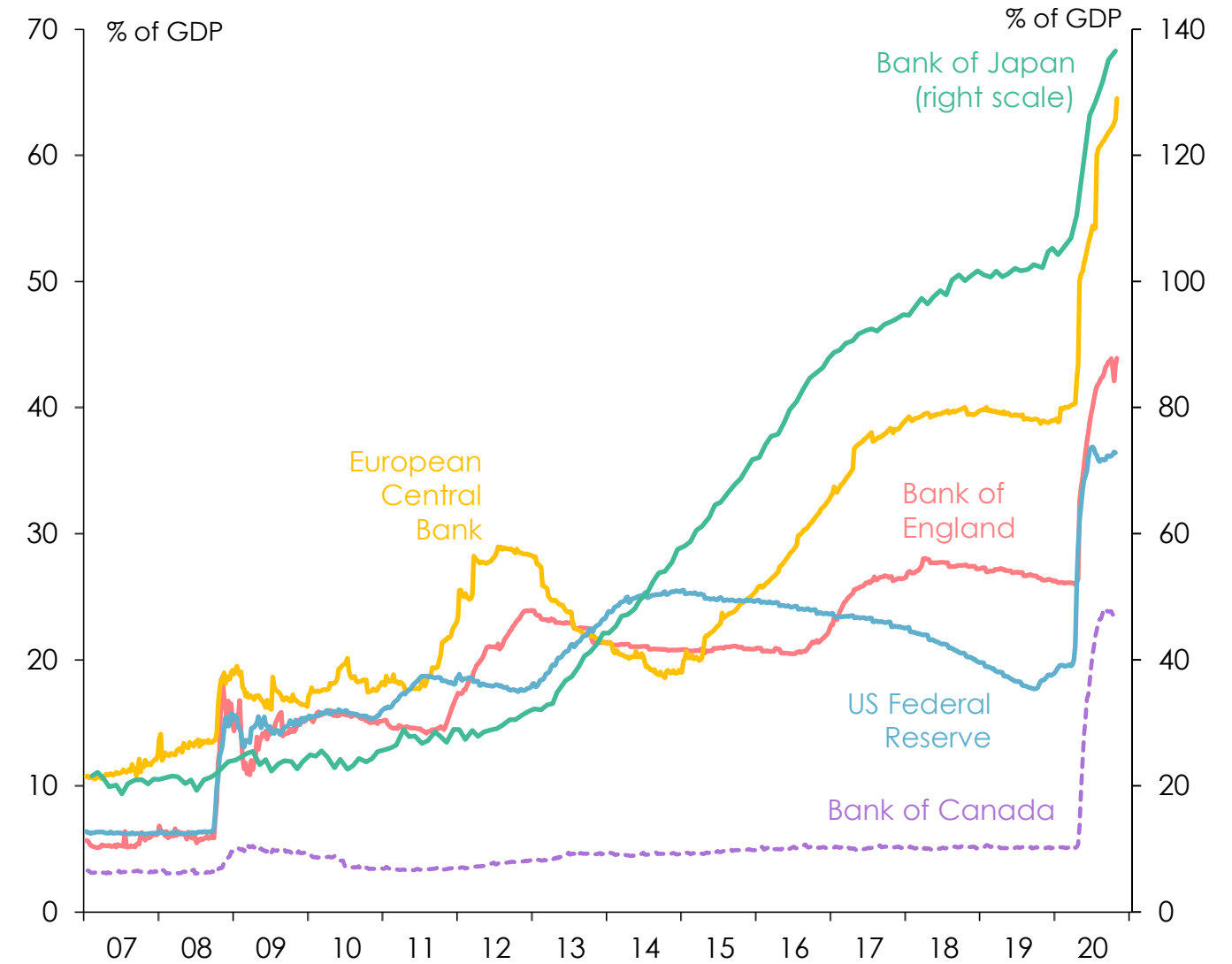
Note: UK data does not include the measures announced by the Chancellor on 8th July; China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30th June; NZ data are for fiscal years ended 31st March. Sources: International Monetary Fund, [Fiscal Monitor](#), April 2020, and [World Economic Outlook](#), June 2020; Australian Government, 2020-21 [Budget Paper No. 1](#), October 2020; New Zealand Treasury, [Pre-Election Economic and Fiscal Update](#), September 2020. Note most of these forecasts will be updated with the release of the IMF's next *Fiscal Monitor* on 14th October. [Return to "What's New"](#).

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



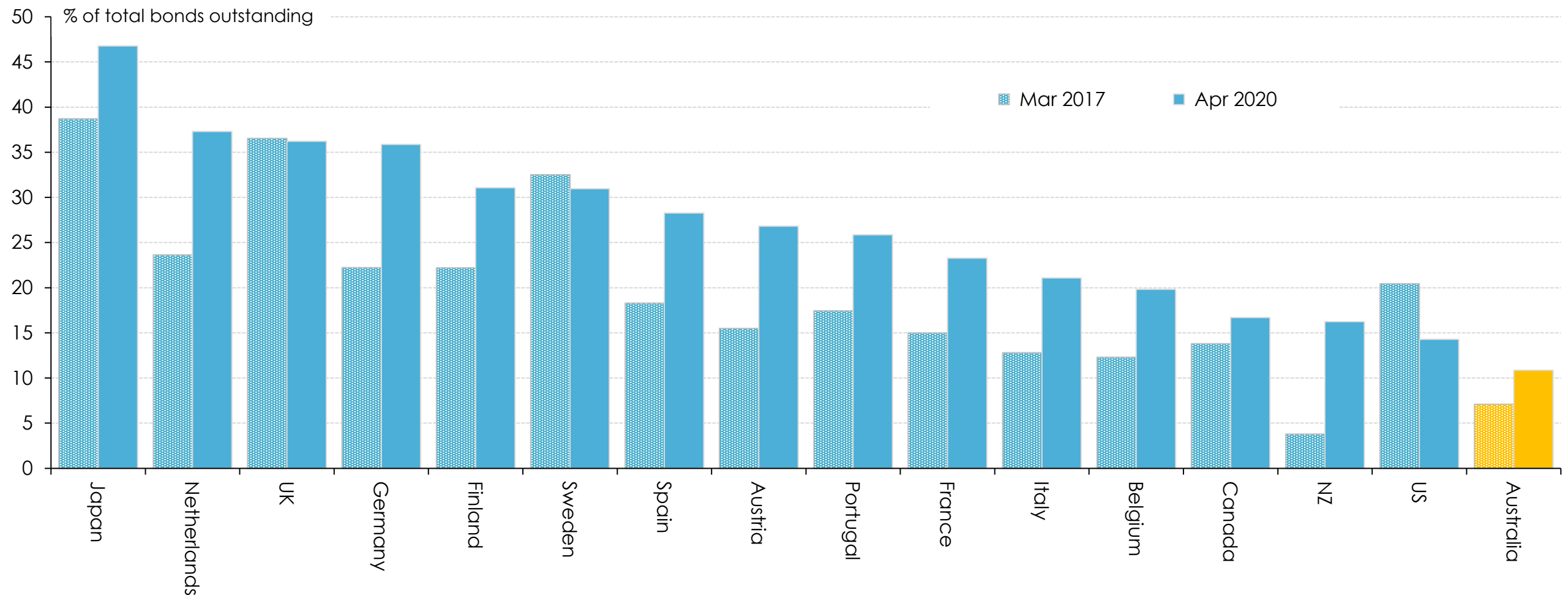
Major central bank balance sheets



Note: estimates of central bank assets as a pc of GDP for weeks or months since the beginning of April have been inflated by the sharp falls in nominal GDP recorded in Q2 (especially for the UK, on which see [slide 56](#)): Q2 nominal GDP will be used as the denominator for these estimates until Q3 data are available, beginning in November. Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); national statistical agencies; Corinna. [Return to "What's New"](#).

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). [Return to "What's New"](#).

The Fed last month gave a bit more substance to the new monetary policy framework outlined by Chair Jerome Powell in August ...

- ❑ The Fed's policy-setting Open Market Committee last month approved changes to its [Statement on Longer-Run Goals and Monetary Policy Strategy](#), which Jerome Powell enlarged on in his address to the (virtual) Jackson Hole policy conference hosted by the Kansas City Fed
- ❑ The Fed has adjusted its inflation target from “2%” to “an average of 2% over time”
 - this sounds a bit like the RBA's long-standing ‘flexible inflation target’ of ‘2-3% on average over the course of the cycle’
 - but the Fed is actually a bit more specific, spelling out that “following periods when inflation has been running persistently below 2%” (which it has been since 2012) “appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time”
- ❑ The Fed has also (significantly) changed the way it interprets the “maximum employment” part of its ‘dual mandate’
 - the new Statement emphasizes that “maximum employment is a broad and inclusive goal” and that monetary policy decisions will be informed by its assessments of the “*shortfalls* of employment from its maximum level” rather than (as previously) “*deviations* from its maximum level” (emphasis in the original)
 - Powell explained in his speech that this means that “employment can run at or above real-time estimates of its maximum level without causing concern, unless accompanied by signs of unwanted increases in inflation or the emergence of other risks that could impede the attainment of our goals” (other risks probably refers to risks to financial stability)
- ❑ At its 16th September meeting the Federal Open Market Committee (FOMC) formally committed to achieving “inflation moderately above 2% for some time so that inflation averages 2% over time”
 - and indicated that it will keep its target range for the Fed funds rate at 0-1/4% “until labour market conditions have reached levels consistent with [its] assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed [sic] 2% for some time”

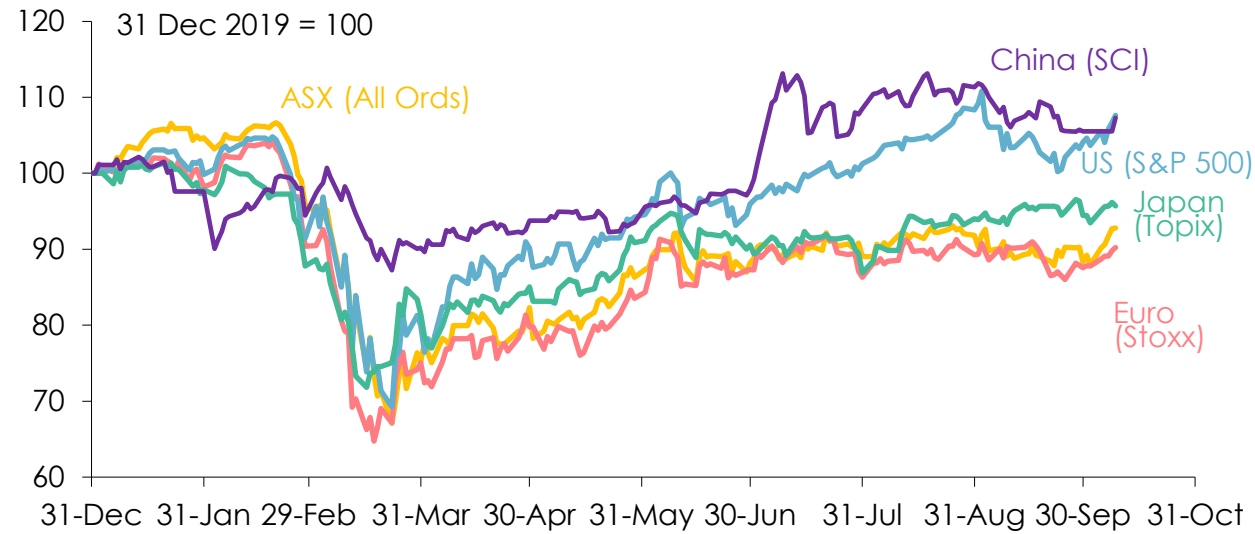
Note: Jerome Powell's 27th August Jackson Hole speech is [here](#); the FOMC's 16th September statement is [here](#). [Return to "What's New"](#).

... while the Bank of England is (like the RBNZ) entertaining the possibility of negative interest rates

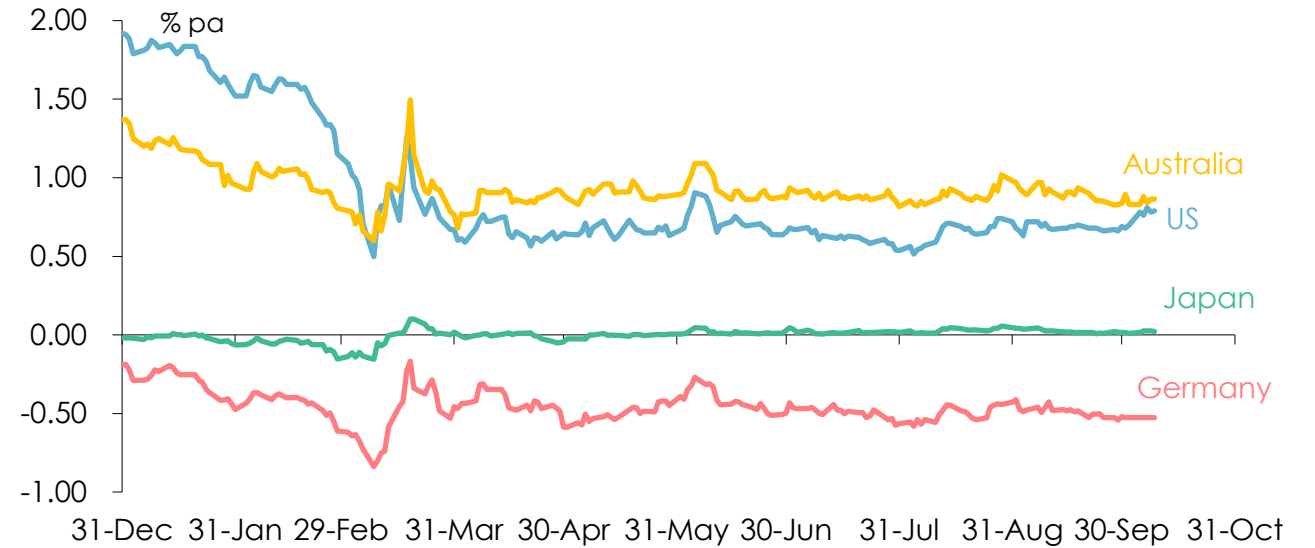
- ❑ The [minutes](#) of the Bank of England's September 16th Monetary Policy Committee meeting indicate that the Committee had "been briefed on the Bank's plans to explore how a negative Bank Rate could be implemented effectively, should the outlook for inflation and output warrant it at some point"
 - this follows an extended discussion of the "pros and cons" of negative policy interest rates in the Bank's [August Monetary Policy Report](#), which noted that moving to negative policy rates could be less effective in stimulating economic activity than previous reductions in [positive] rates, because interest rates on household deposits probably wouldn't go below zero, so that banks' profitability could fall, adversely affecting their ability to lend (and to pass negative rates on to their loan customers) – which could in turn "provide a headwind to spending"
- ❑ The Reserve Bank of New Zealand is also actively considering the possibility of a negative official cash rate (OCR):
 - in May, the RBNZ's Deputy Governor [wrote to bank CEOs](#) informing them that "negative interest rate functionality ... remains a priority from an operational and risk management perspective" and asking them to "discuss [with the RBNZ] the purpose of zero interest rate floor clauses" in retail loan product documentation
 - the RBNZ's [August Monetary Policy Statement](#) reported that, having considered a range of 'alternative monetary policy tools' that could be used to "achieve its remit objectives", the Monetary Policy Committee "expressed a preference for a negative OCR, and a 'Funding for Lending' program (FLP) in addition to its current program of bond purchases"
 - at its 23rd September meeting the MPC [directed](#) the RBNZ to have an FLP "ready to deploy before the end of the year", while also indicating that it was "prepared to lower the OCR to provide additional stimulus if required"
- ❑ The ECB & BoJ have had negative policy interest rates since 2016 ([slide 27](#)) and the Swiss National Bank since 2014
 - it is perhaps instructive that *none* of these central banks have taken their policy rates further into negative territory since the onset of the pandemic (which is what one *would* have expected them to do *if they really* believed that negative rates could stimulate economy activity (the main motivation for the SNB's negative rates appears to be preventing currency appreciation)
 - Sweden's Riksbank, which had instituted a negative policy rate in 2015, [abandoned it](#) in January this year, and hasn't reverted to it since the onset of the pandemic

'Risk appetite' increased further this week, making it a good week for stocks but a bad one for US bonds (though not others) and for the US dollar

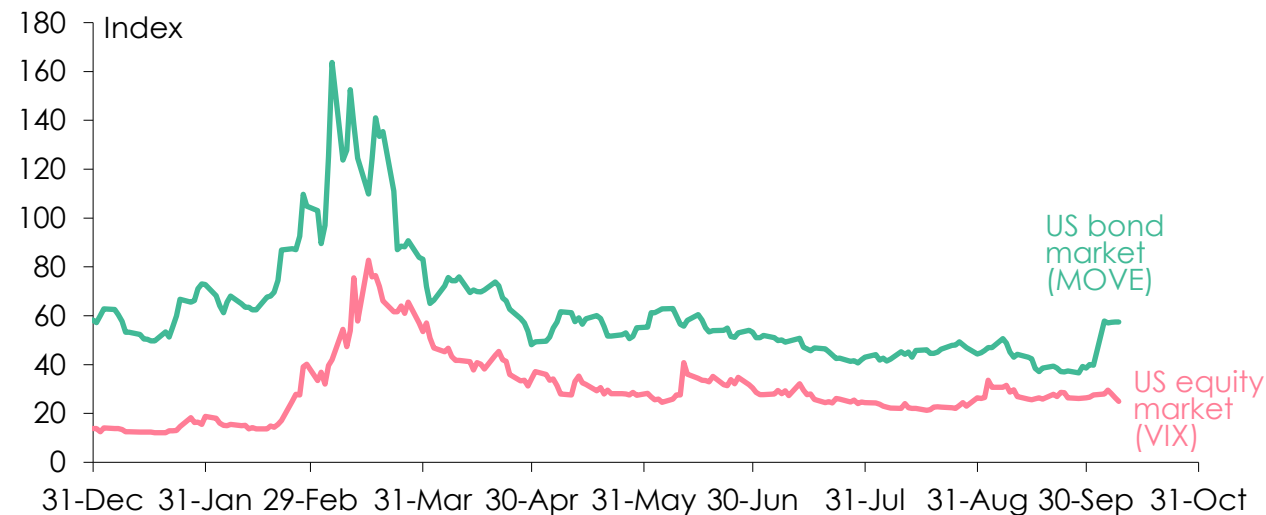
Stock markets



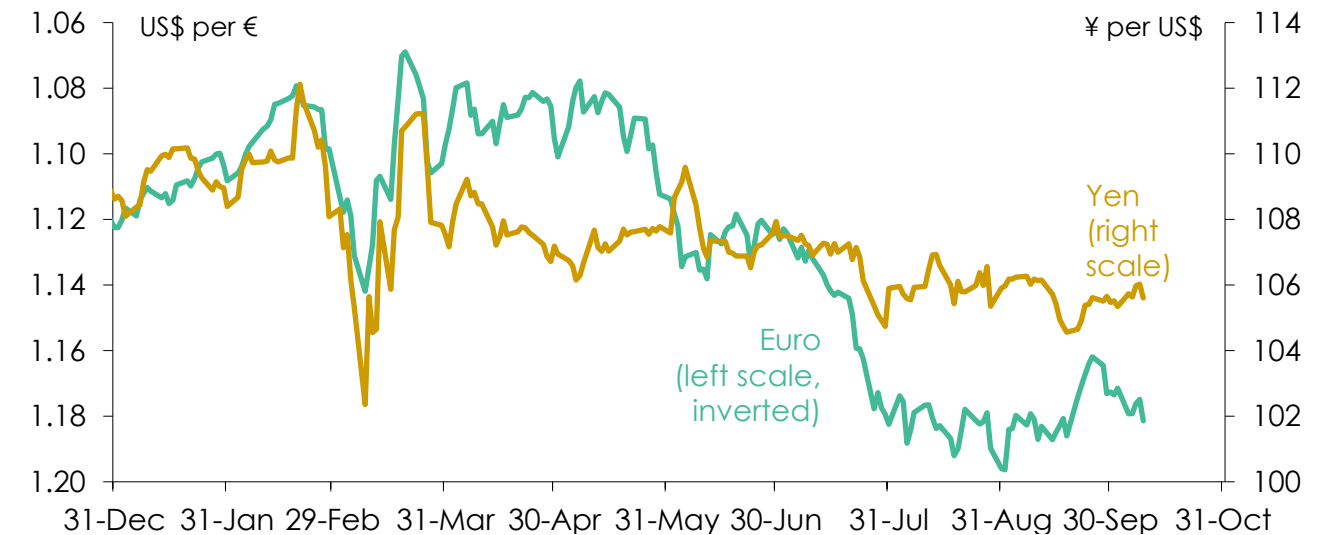
10-year bond yields



Measures of market volatility



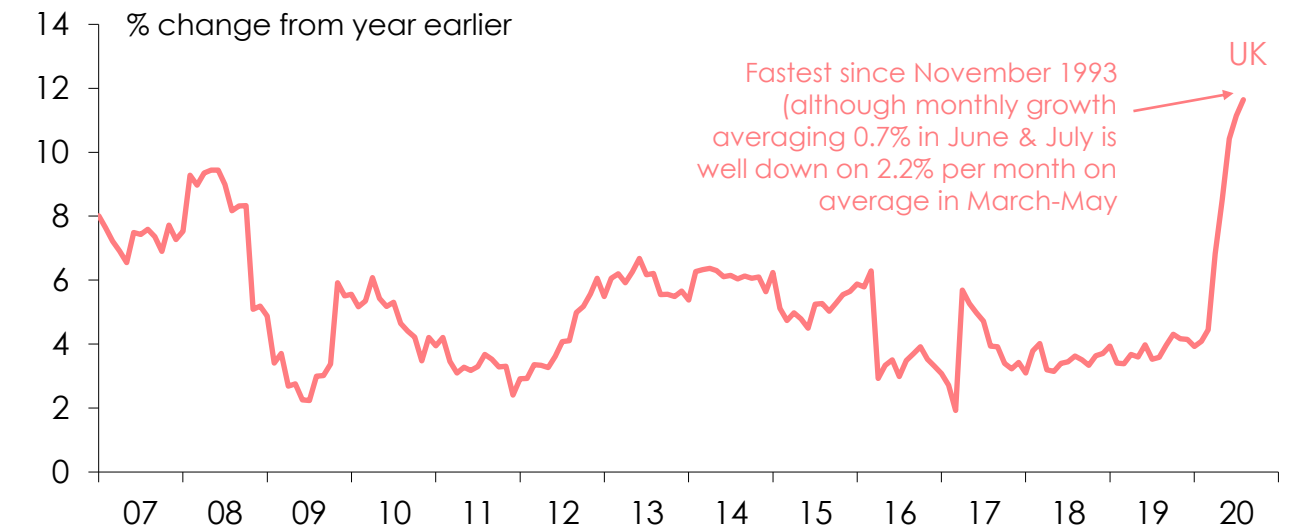
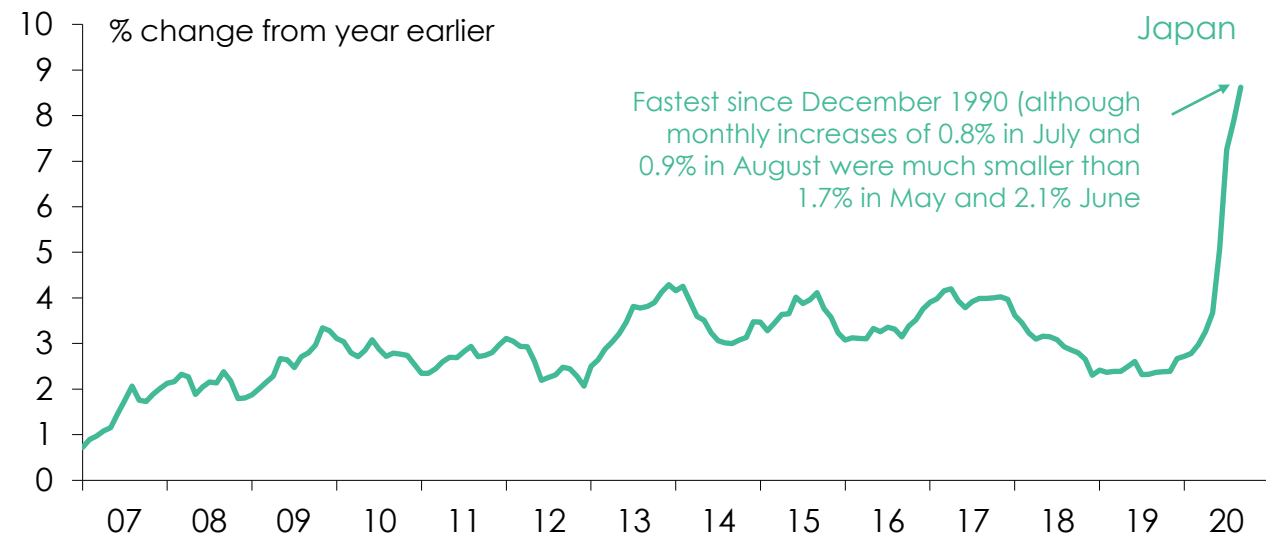
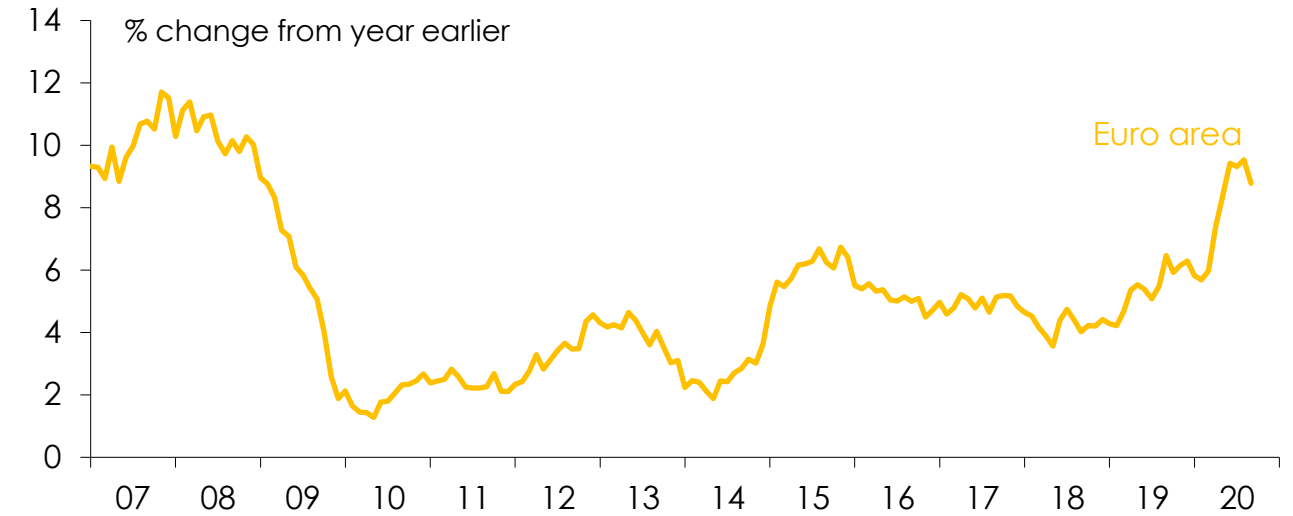
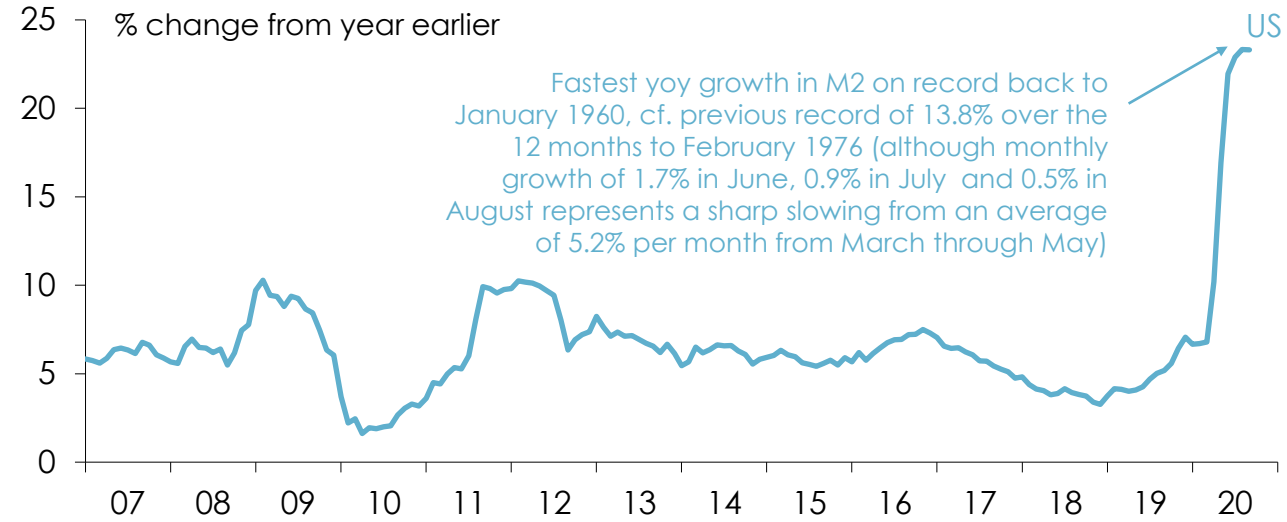
US dollar vs euro and yen



Source: Refinitiv Datastream. Data up to 9th October. [Return to "What's New"](#).

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

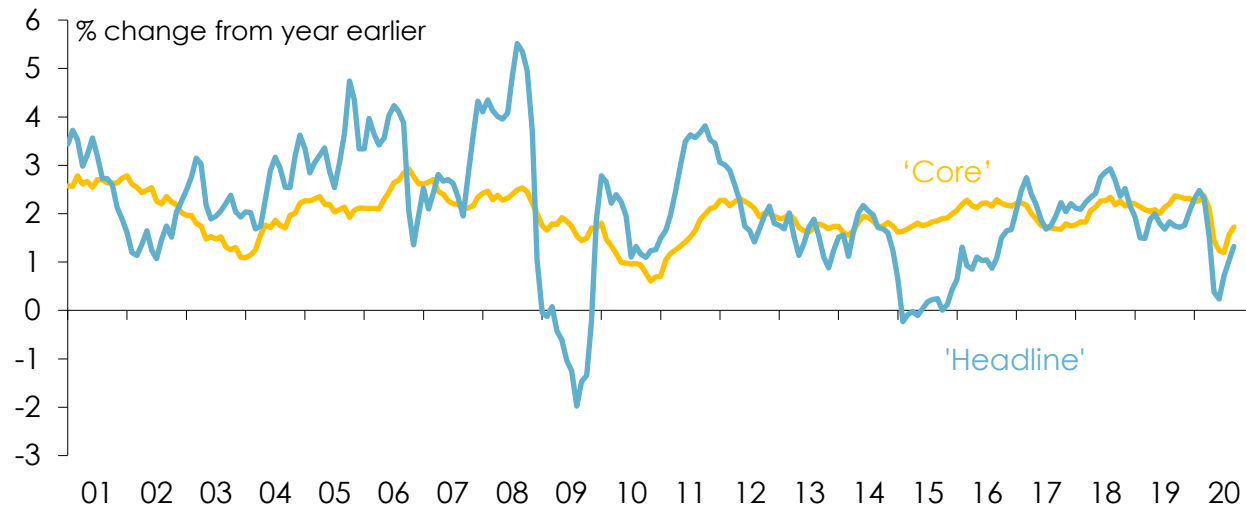
M2 money supply growth



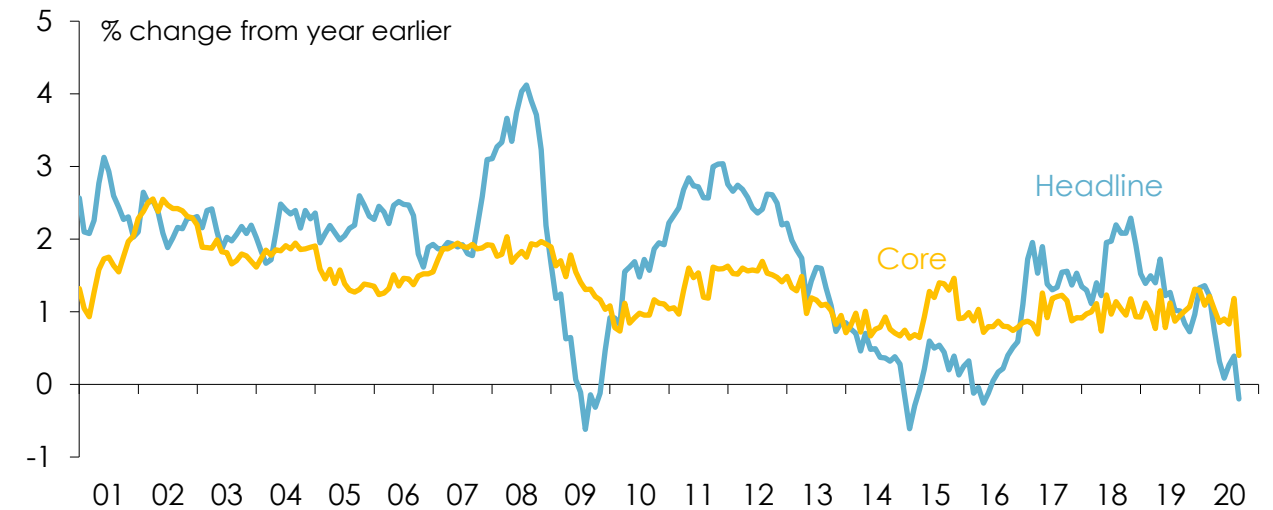
Note: Japan is M2+CDs. Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England. [Return to "What's New"](#).

...but so far at least, inflation has remained below central bank targets – although both ‘headline’ and ‘core’ US inflation ticked up in July & August

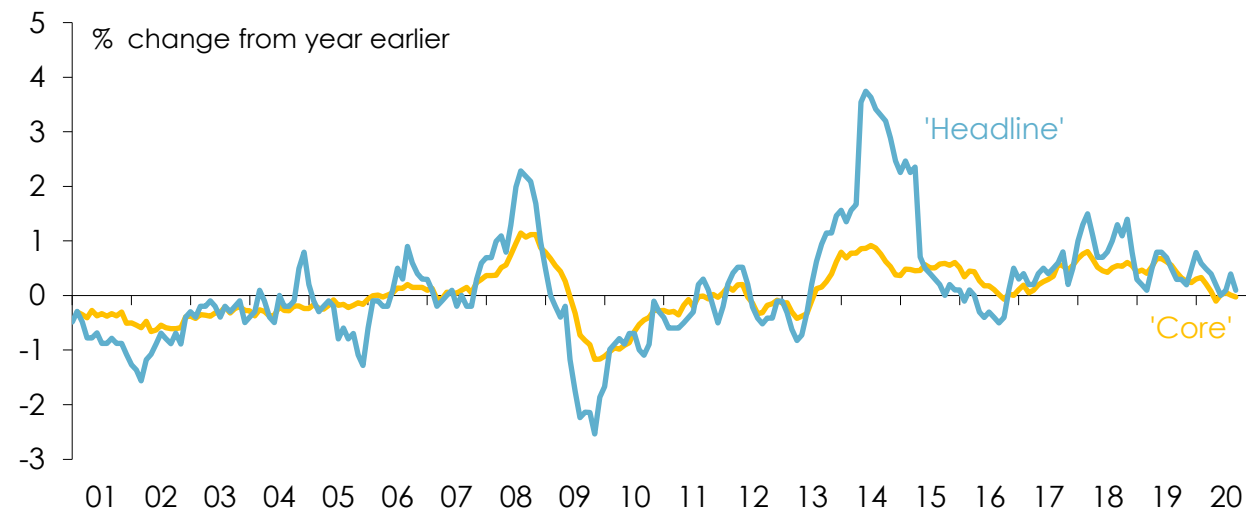
‘Headline’ and ‘core’ inflation - US



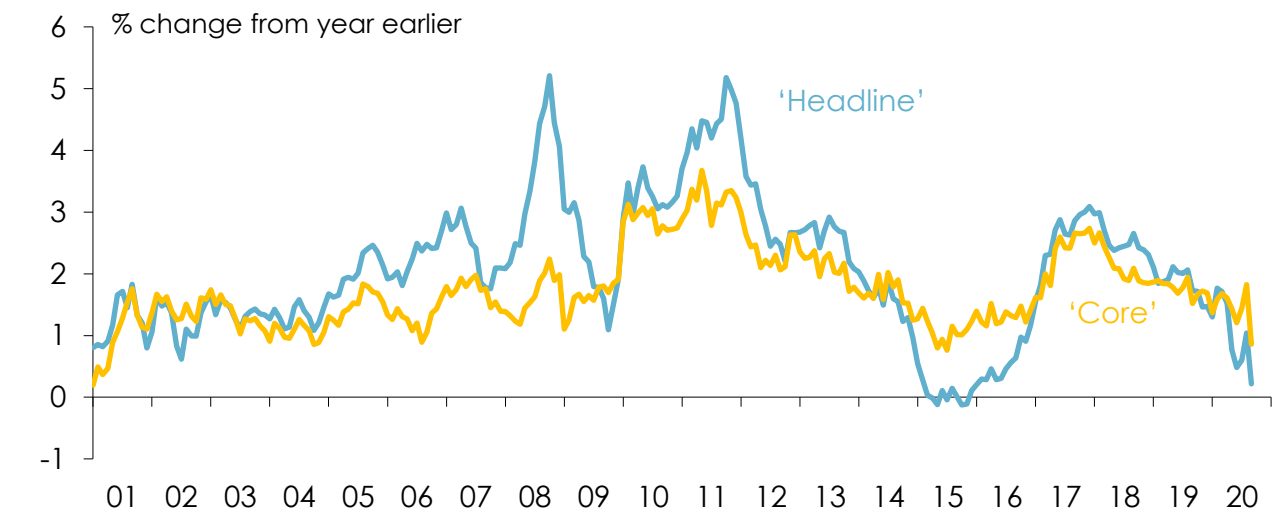
‘Headline’ and ‘core’ inflation – Euro area



‘Headline’ and ‘core’ inflation - Japan



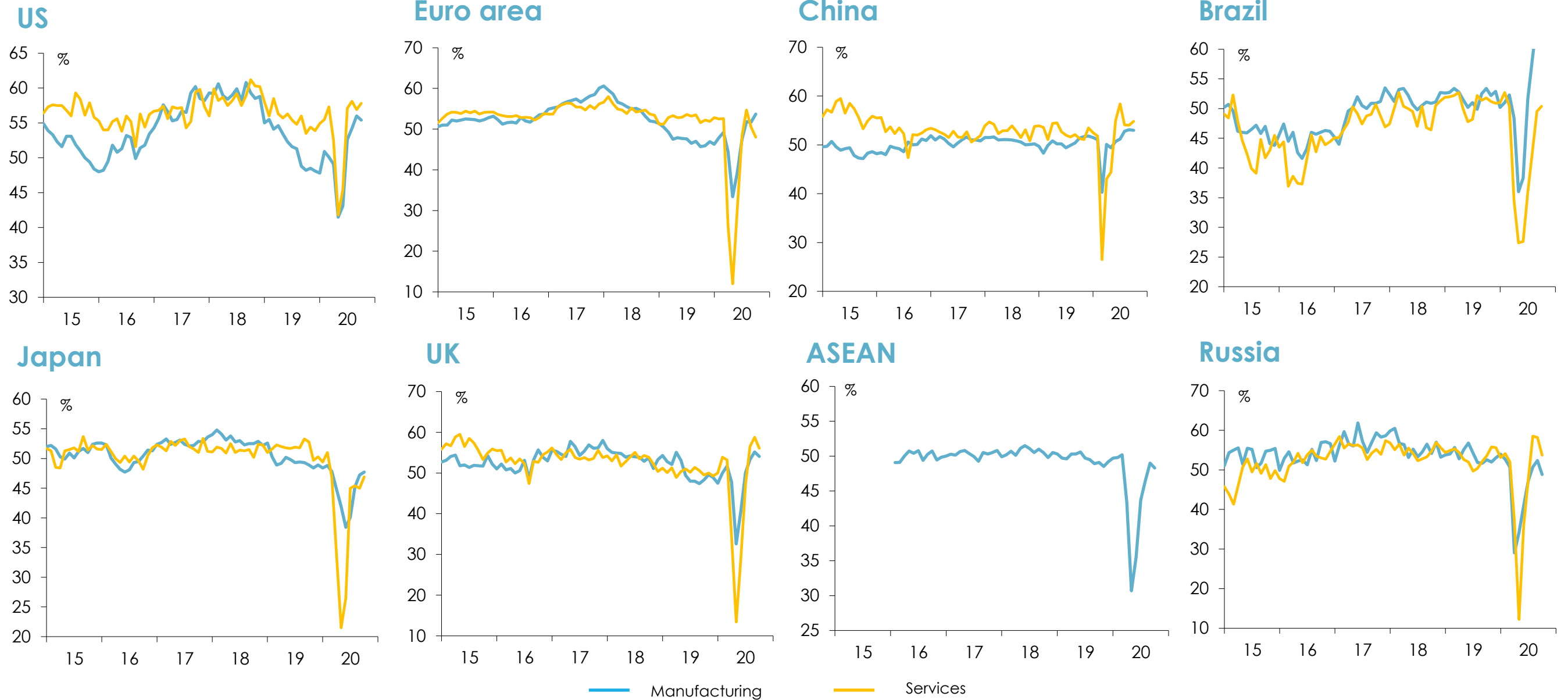
‘Headline’ and ‘core’ inflation – UK



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](#). [Return to "What's New"](#).

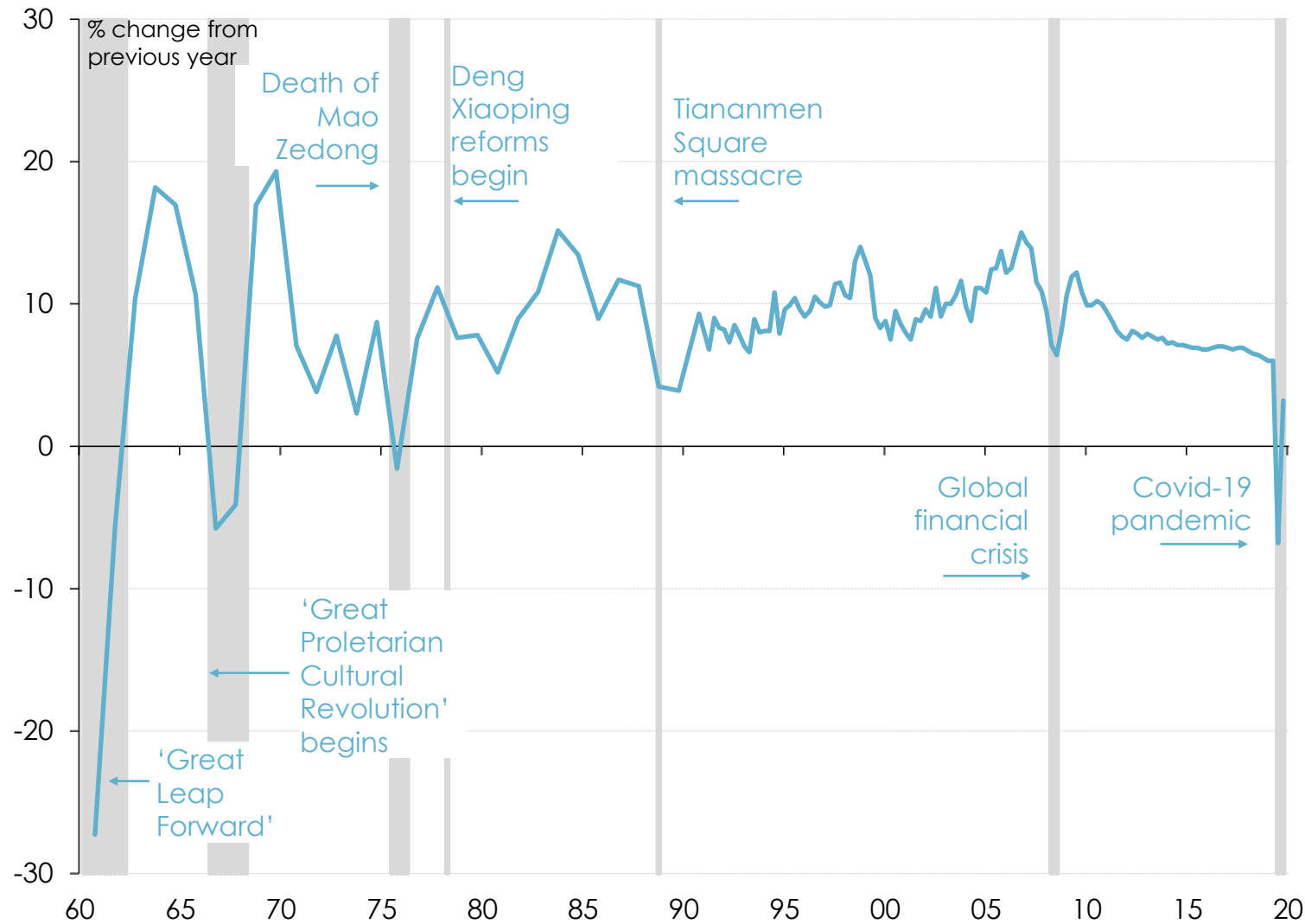
Purchasing managers' indices (PMIs) mostly point to further growth in manufacturing in August-September, but some softening in services activity



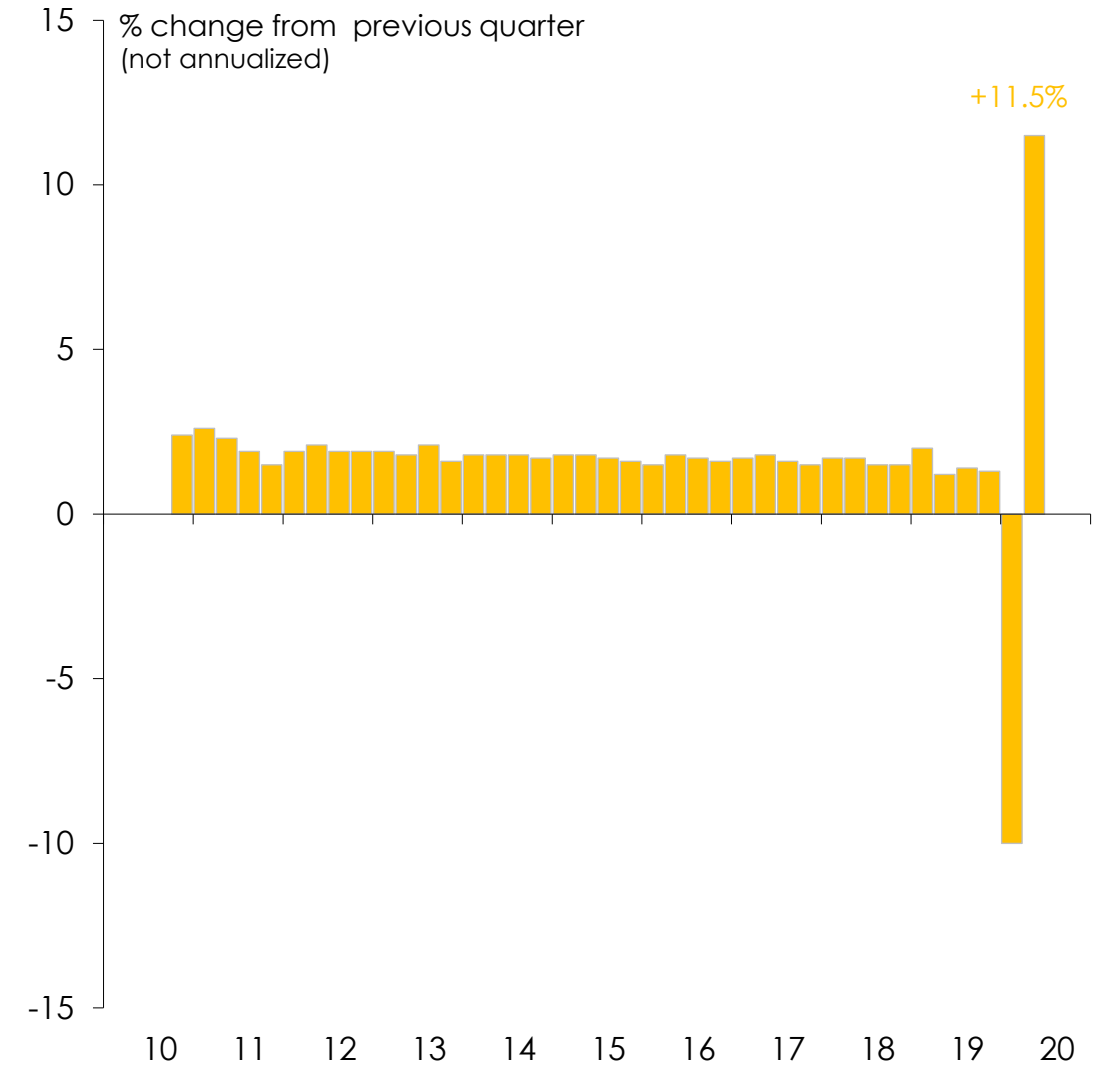
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for September. See also PMIs for other Asia-Pacific economies on [slide 42](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

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



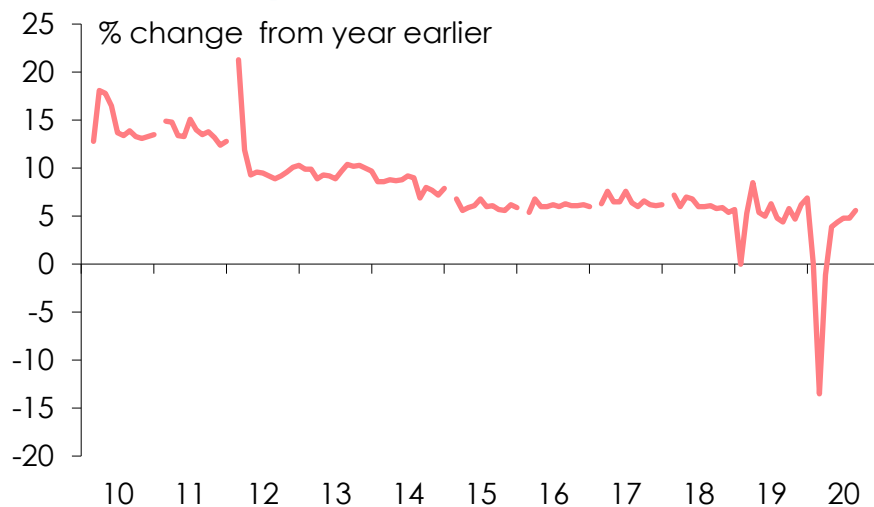
Quarterly real GDP growth, 2010-2020



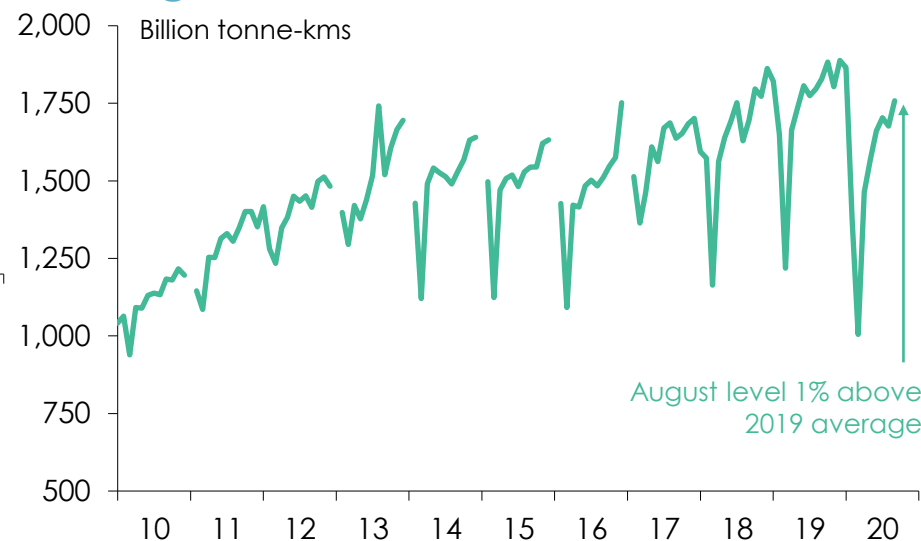
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. [Return to "What's New"](#).

The production side of the Chinese economy has continued to recover in Q3 and some areas are almost back to pre-pandemic levels

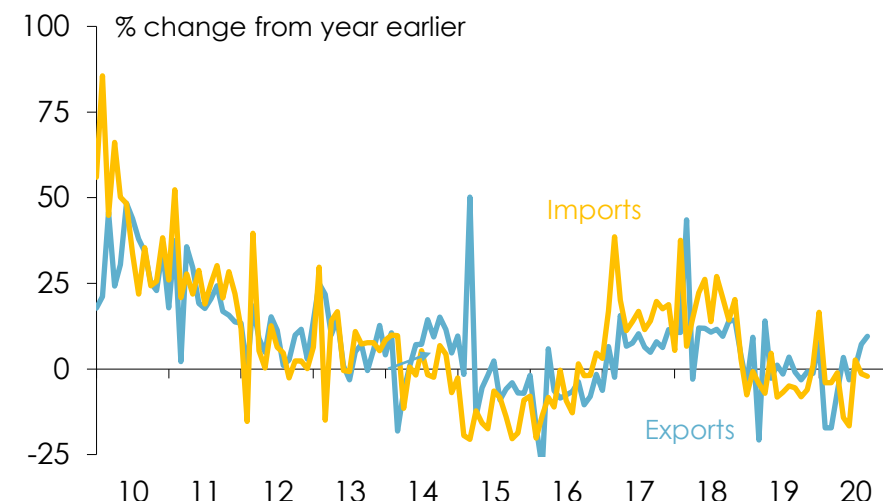
Industrial production



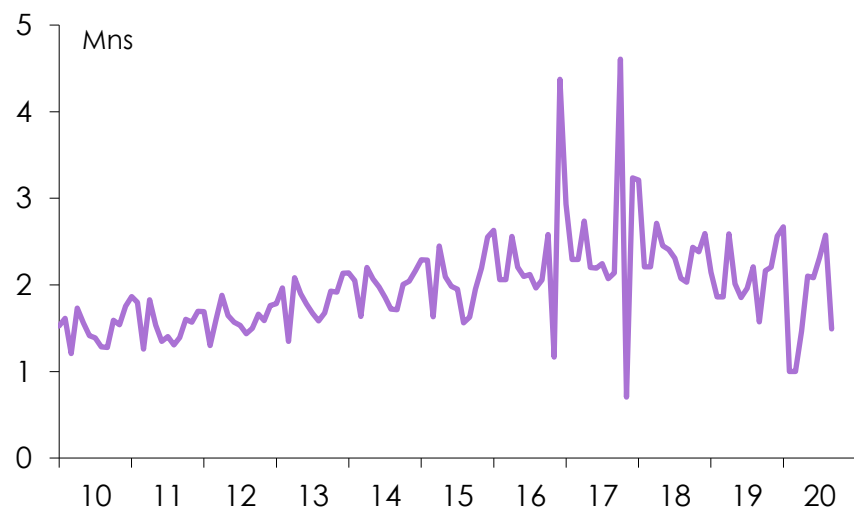
Freight traffic volumes



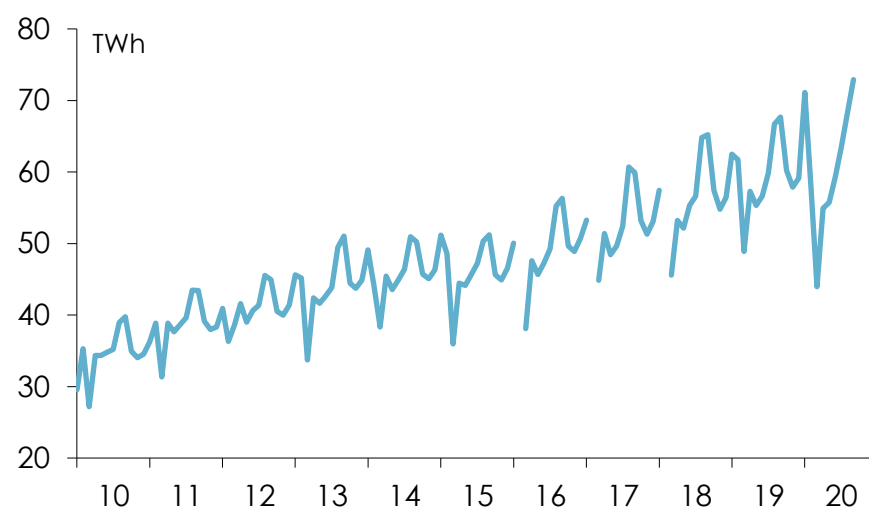
Merchandise trade



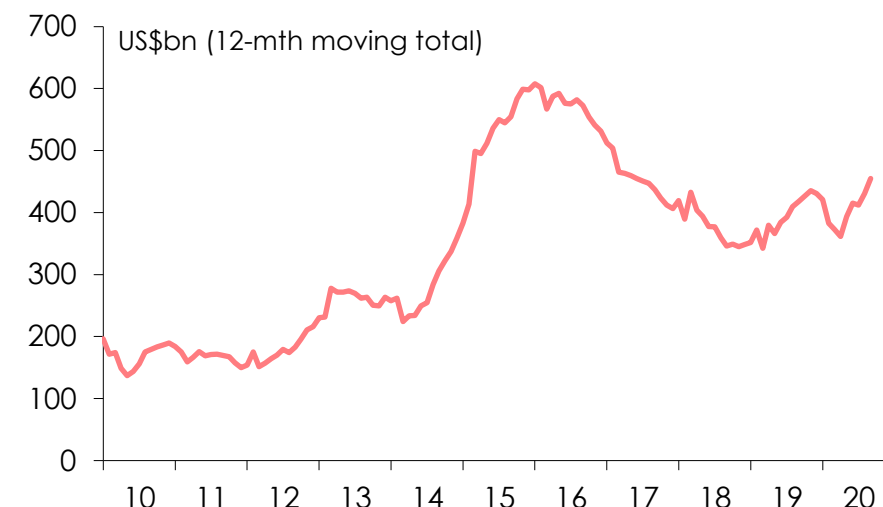
Motor vehicle production



Primary electricity production



Merchandise trade balance

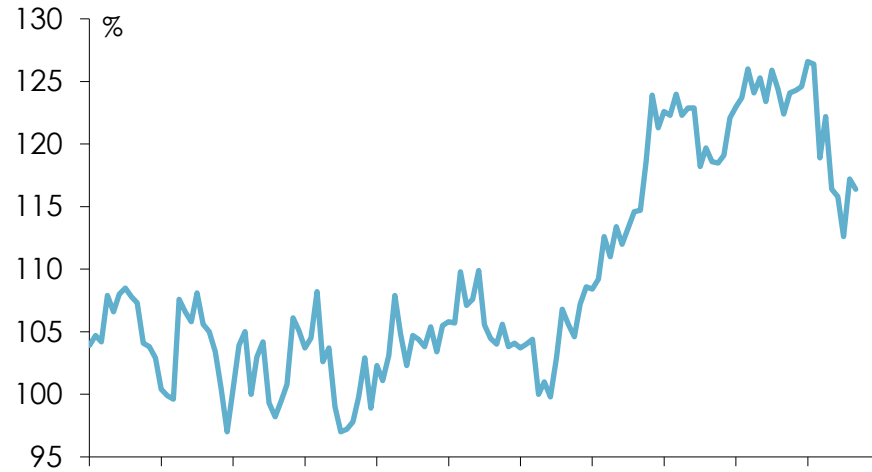


Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest data are for August.

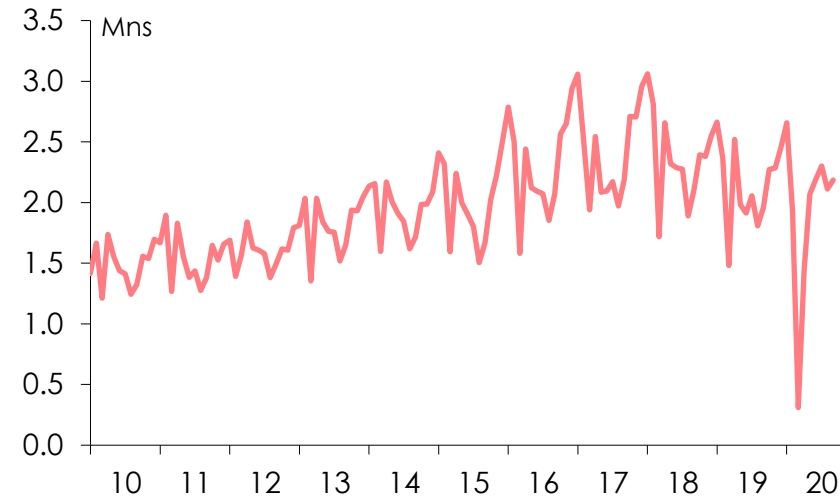
[Return to "What's New"](#).

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

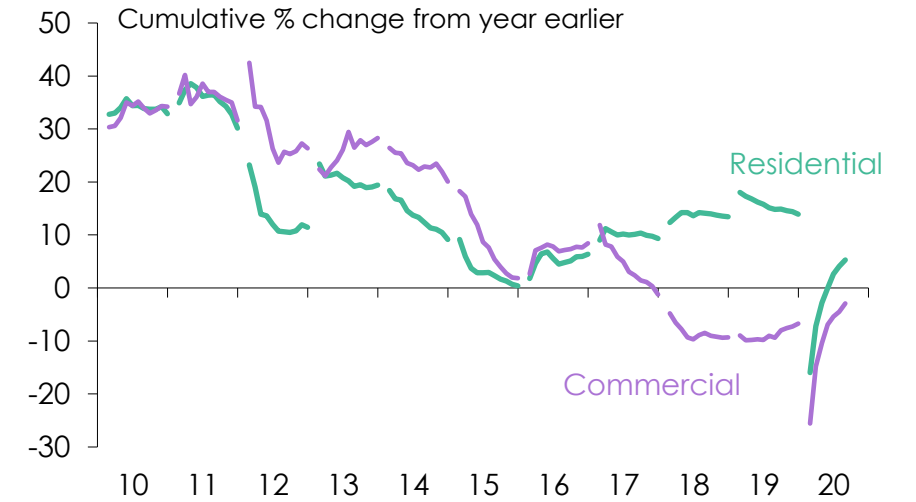
Consumer sentiment



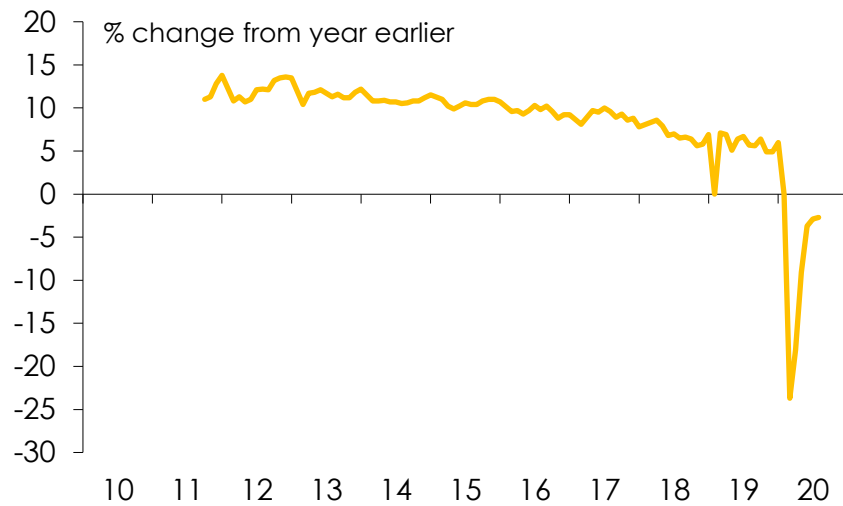
Motor vehicle sales



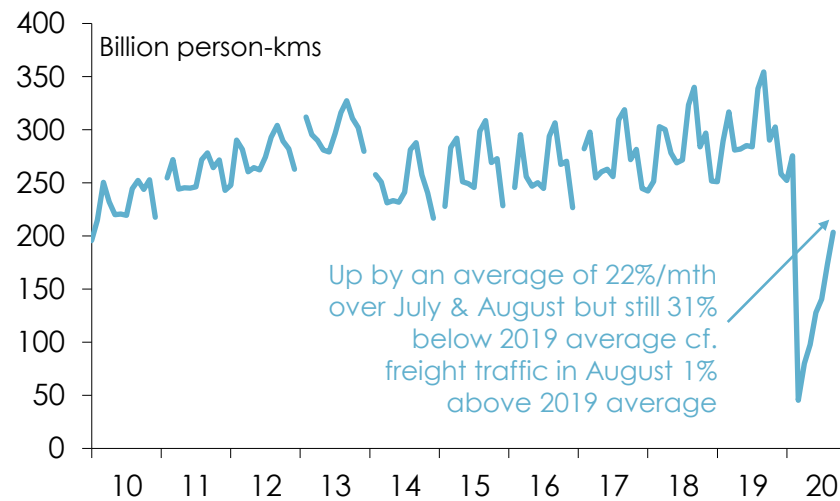
Real estate investment



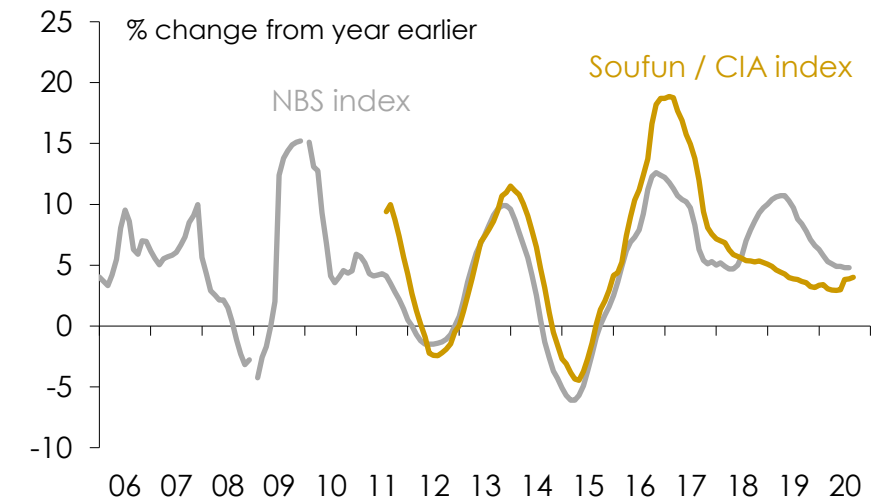
Retail sales volume



Passenger traffic volumes

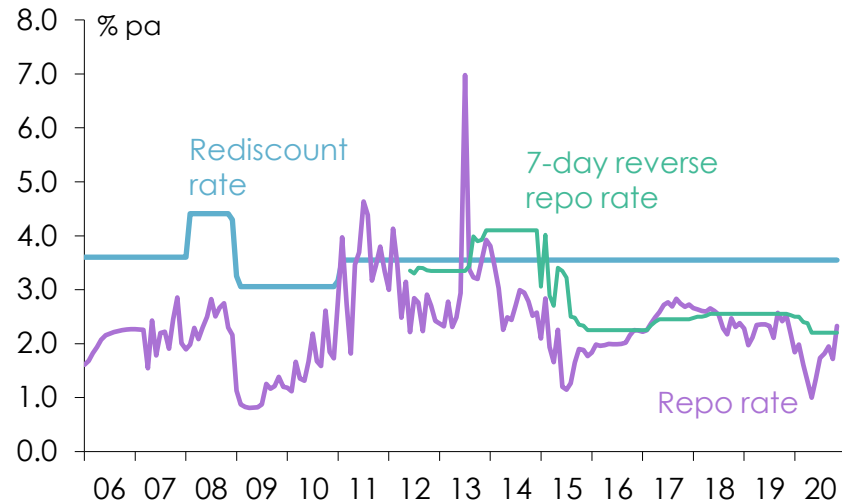


Residential real estate prices

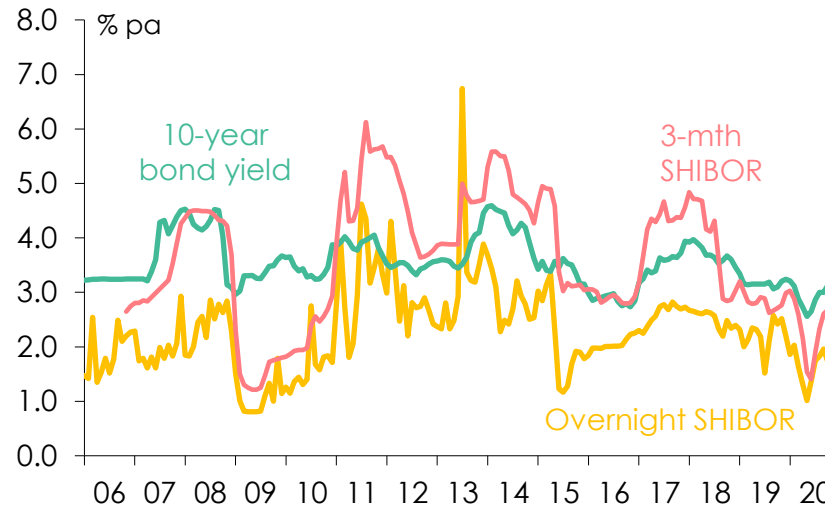


The PBoC has been more cautious about stimulus than it was in 2008-09 or 2015-16, perhaps because it's still concerned about financial stability

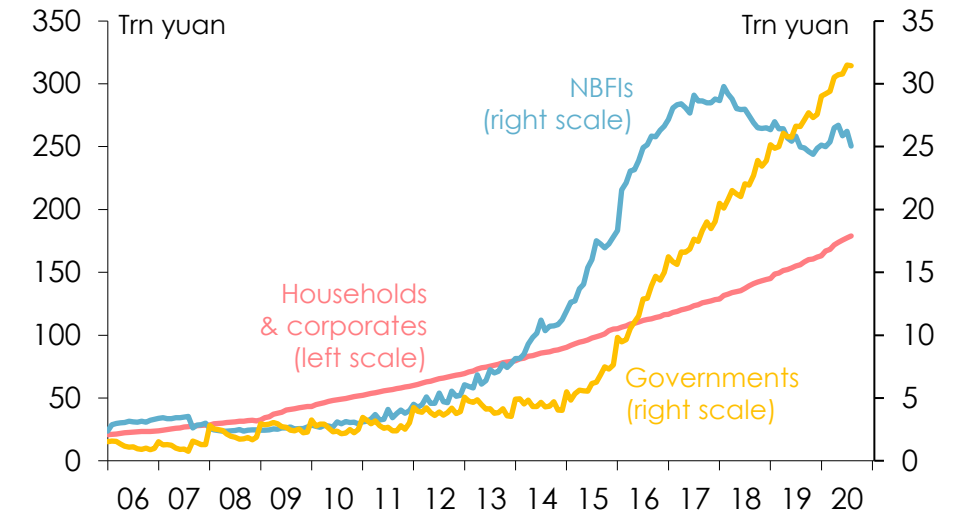
PBoC policy interest rates



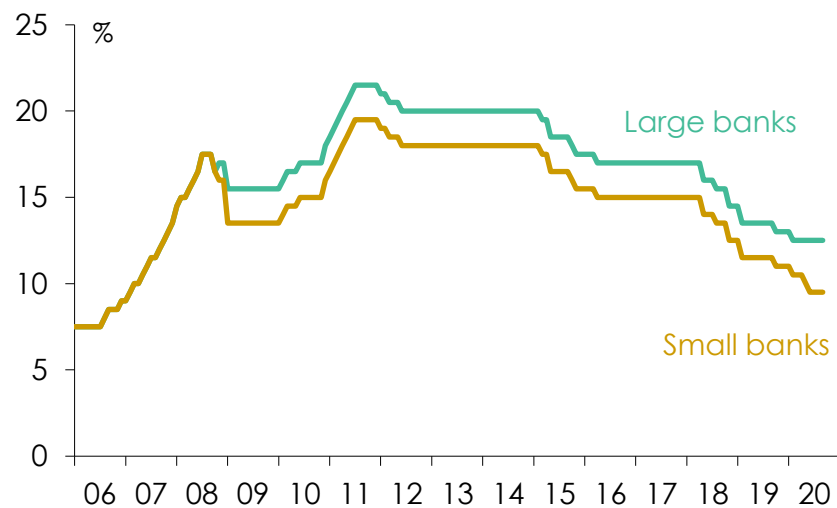
Market interest rates



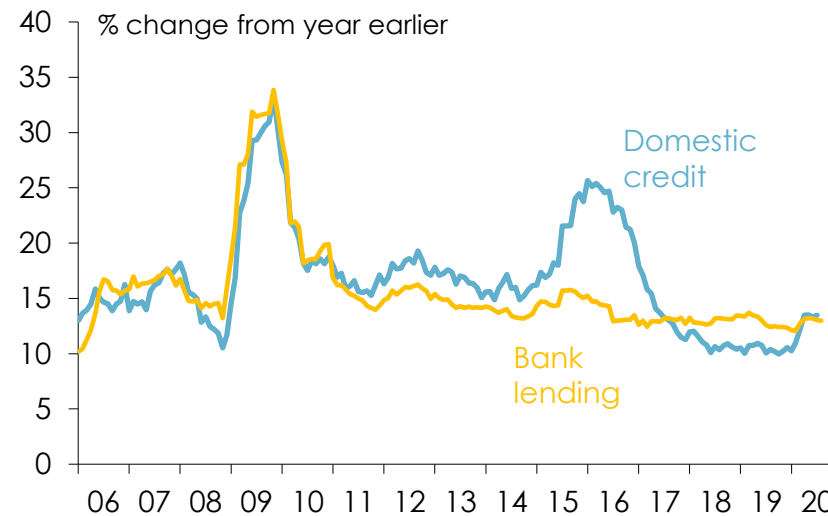
Depository corporation assets



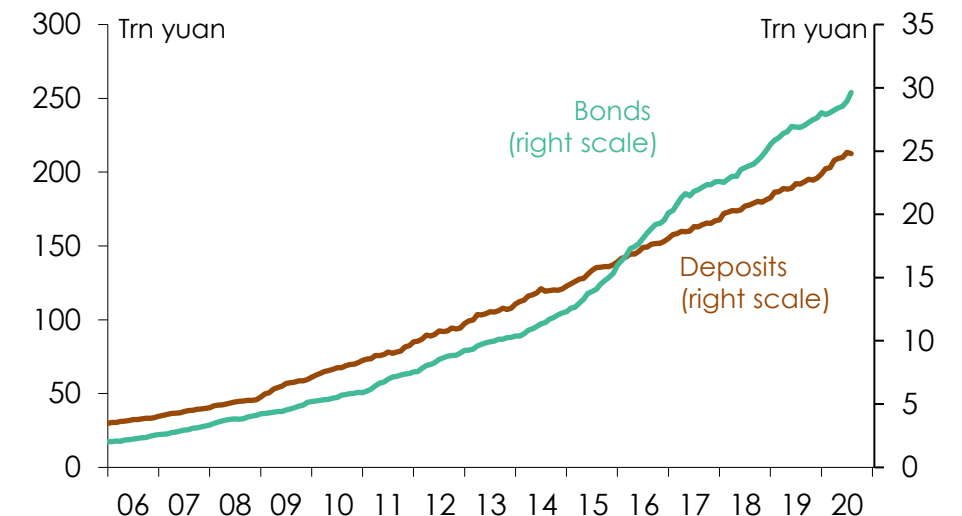
Bank reserve requirement ratios



Credit growth



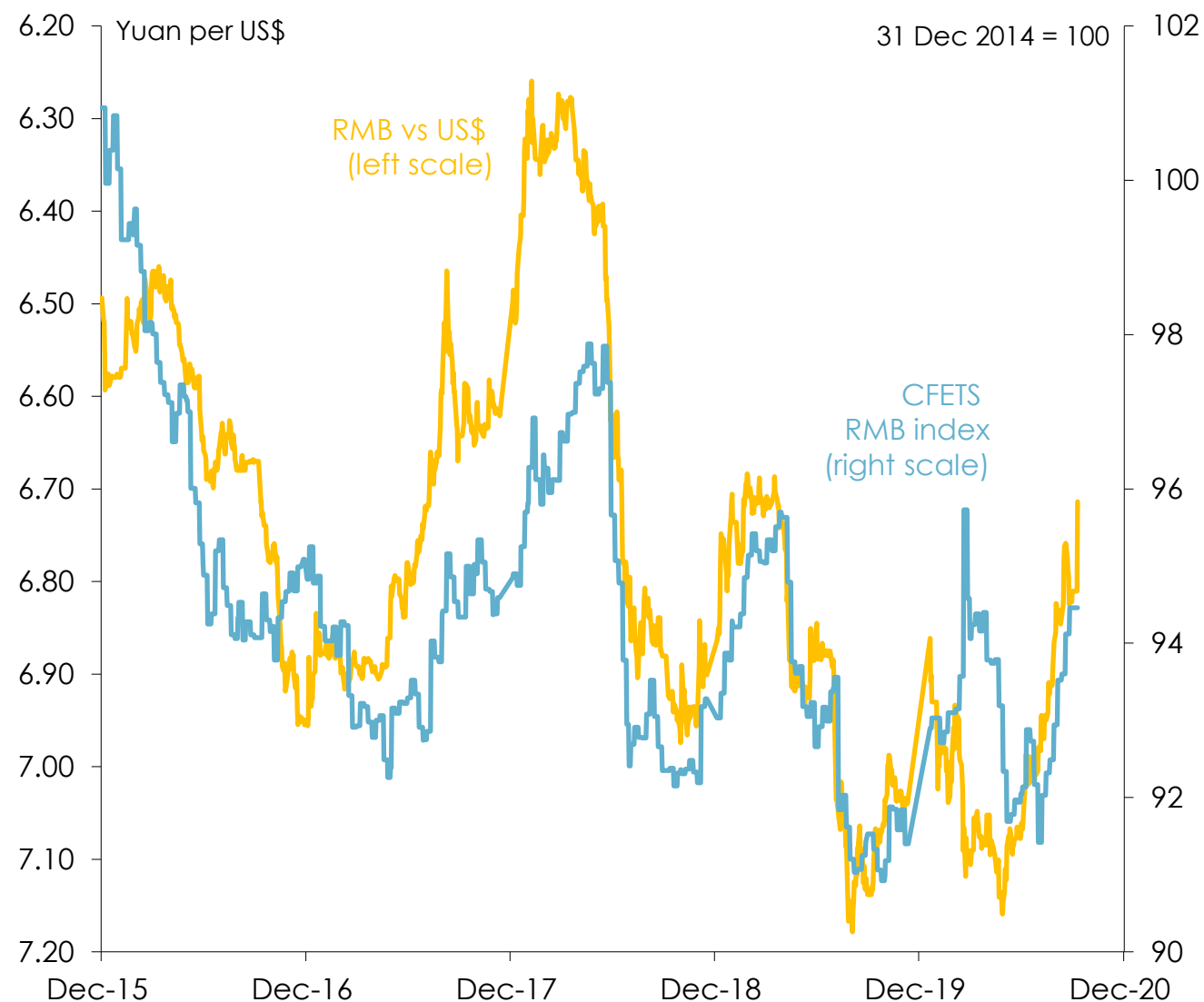
Depository corporation liabilities



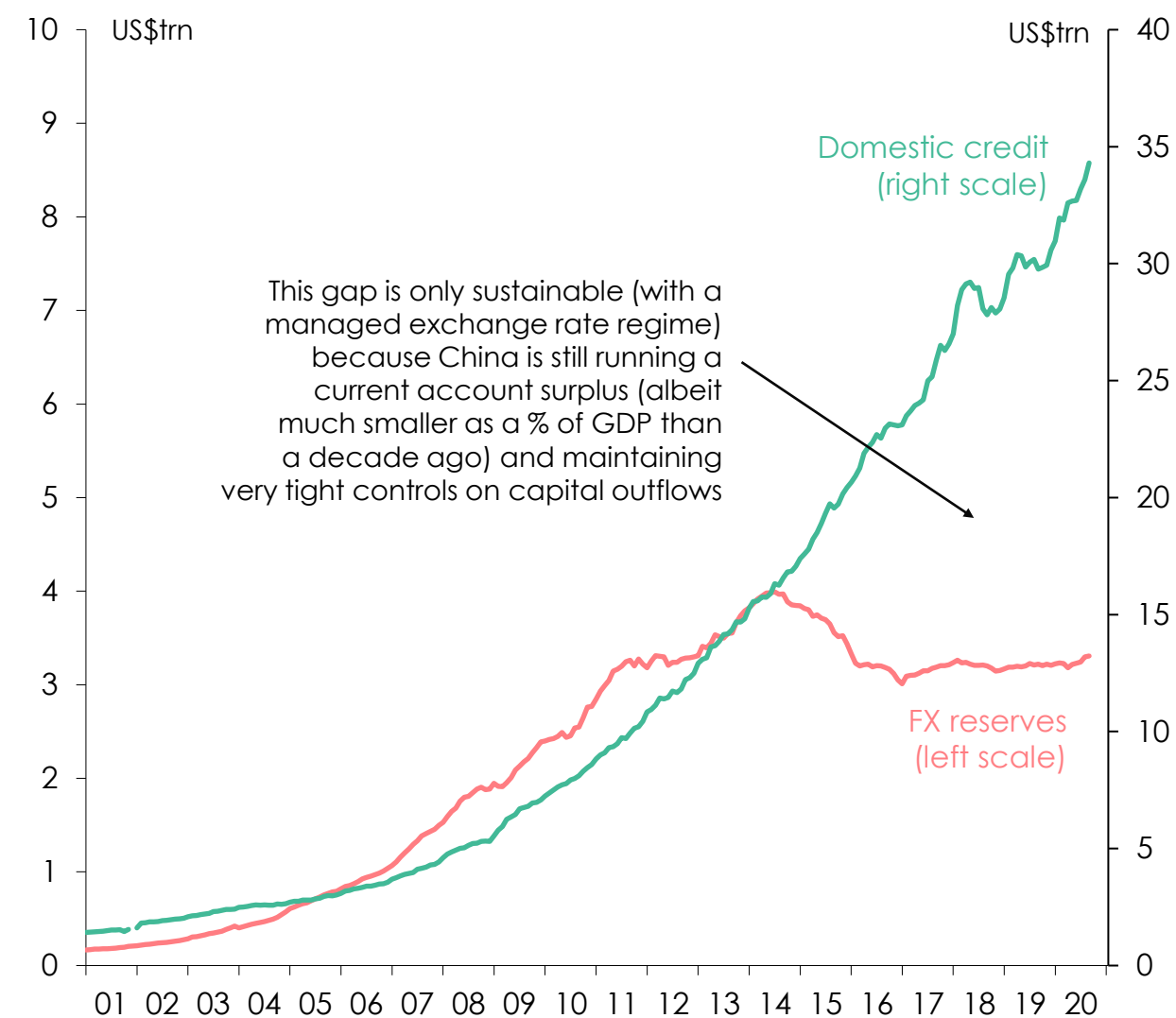
Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refinitiv Datastream; People's Bank of China. [Return to "What's New"](#).

The Rmb rose almost 1½% against the US\$ this week (to its strongest since April 2019) despite being unchanged in trade-weighted terms

Chinese renminbi vs US\$ and trade-weighted index



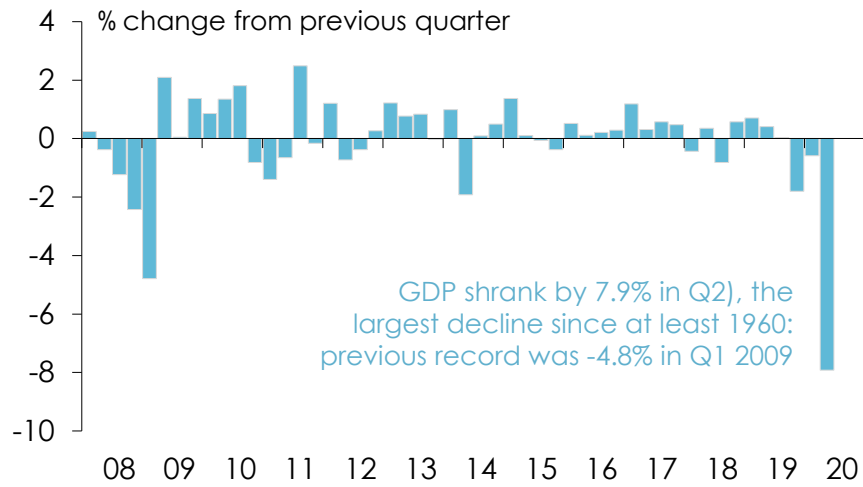
FX reserves and domestic credit



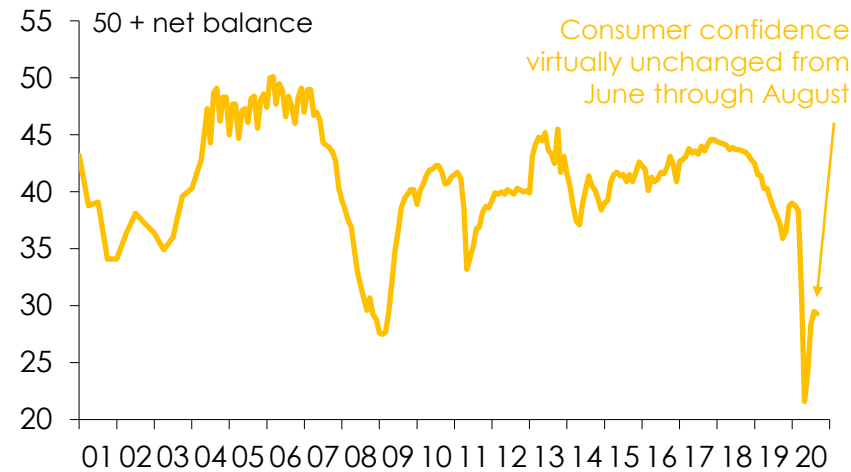
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 8th October; credit and FX reserves data up to August. [Return to "What's New"](#).

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

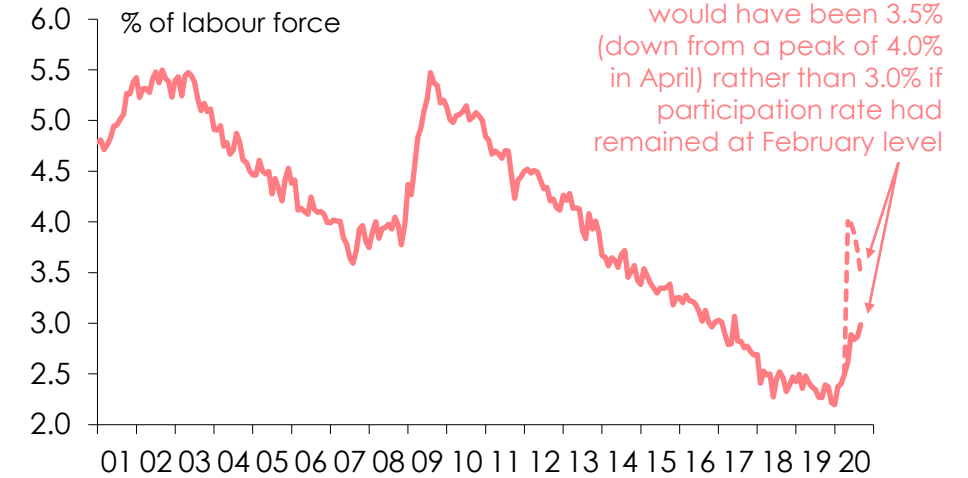
Real GDP



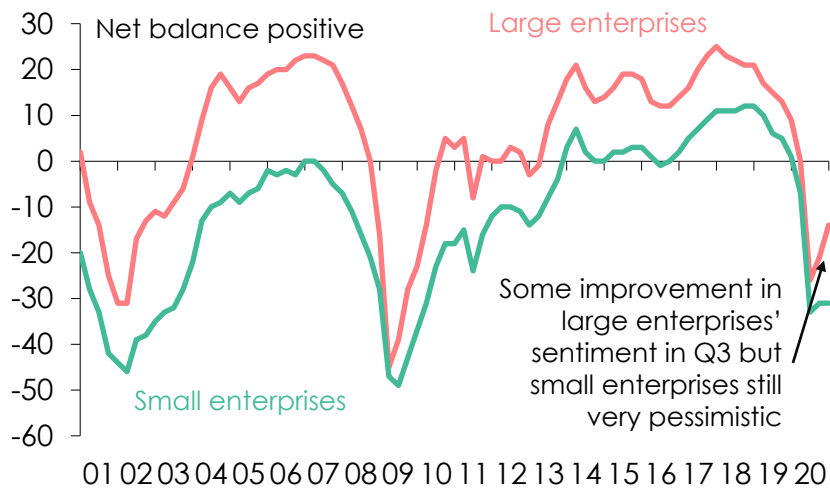
Consumer confidence



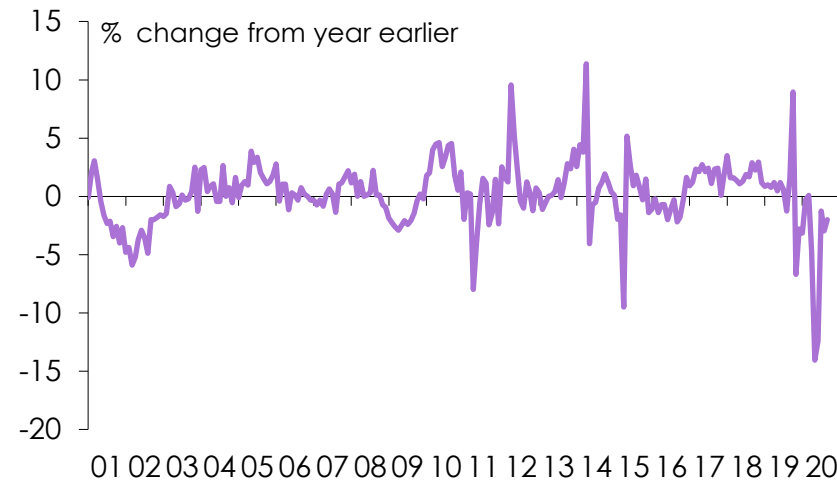
Unemployment



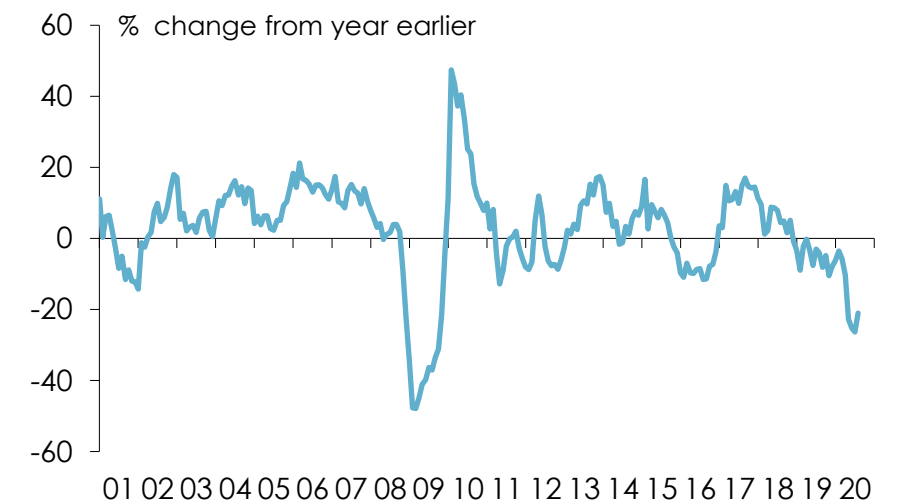
BoJ Tankan business conditions



Value of retail sales



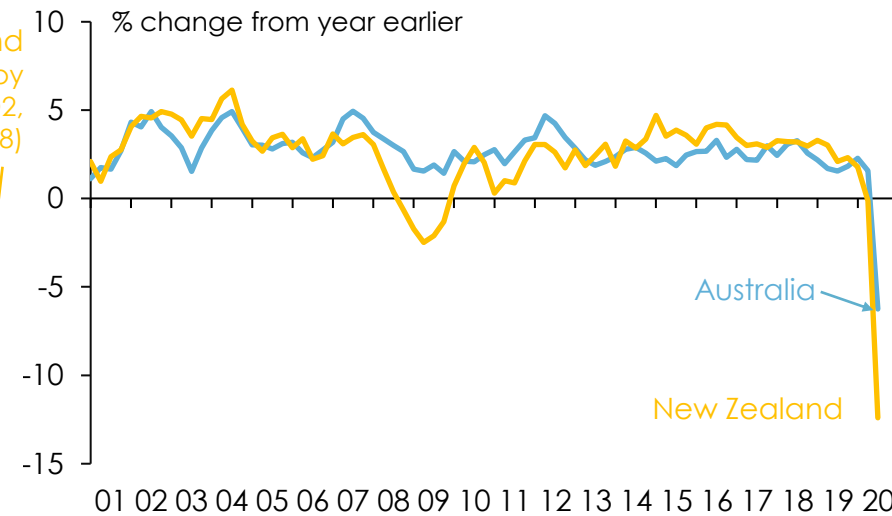
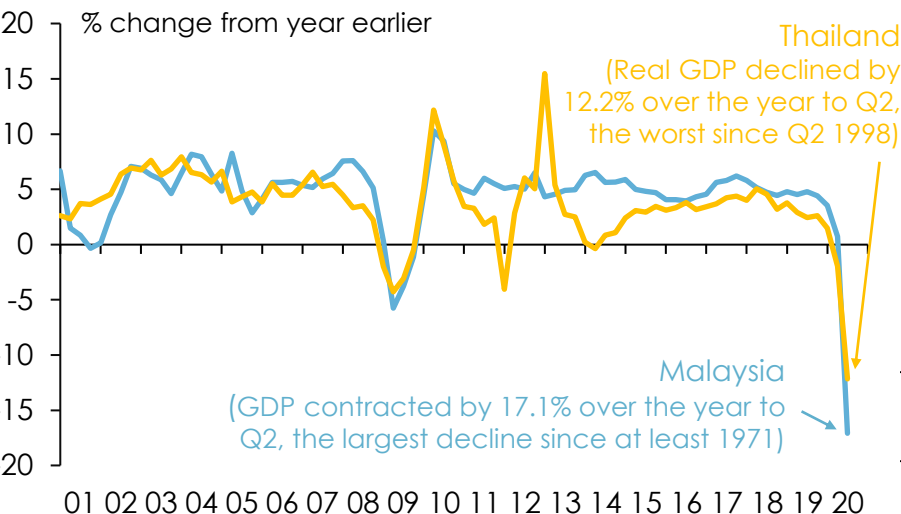
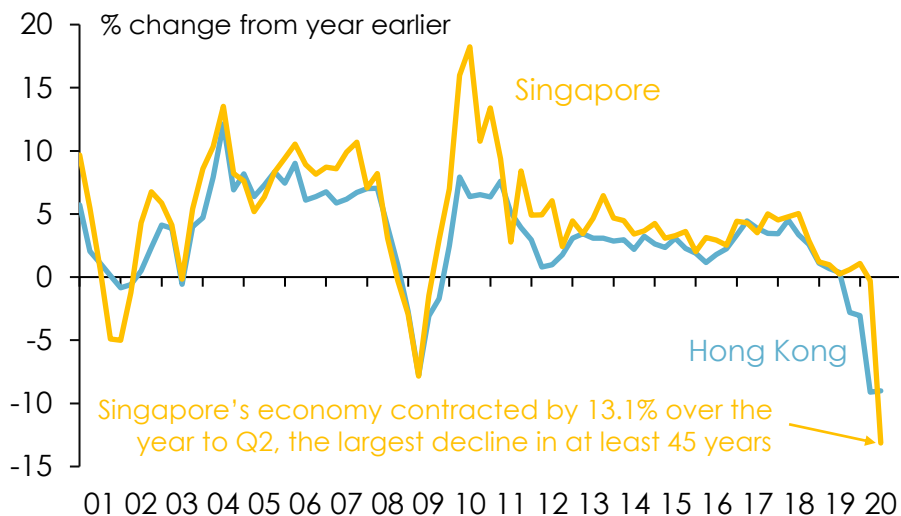
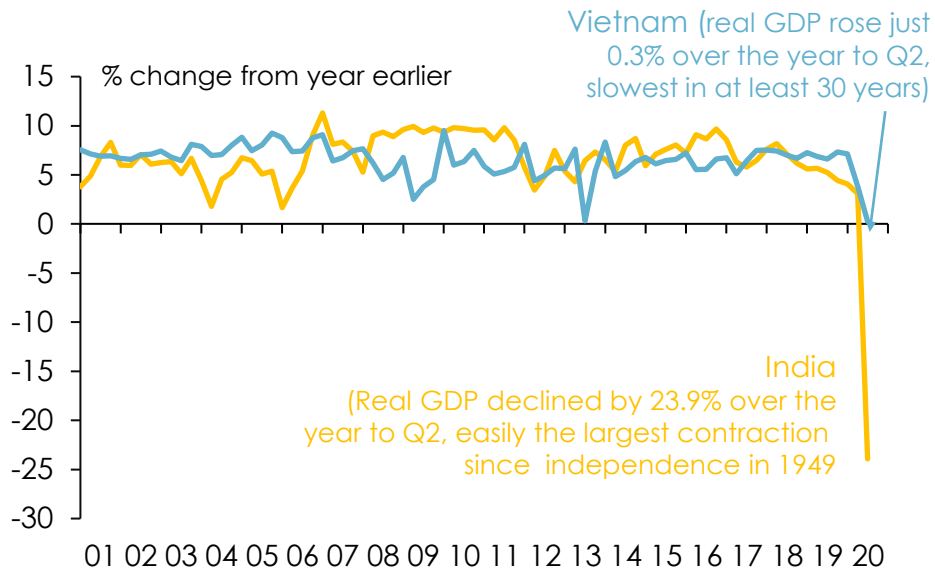
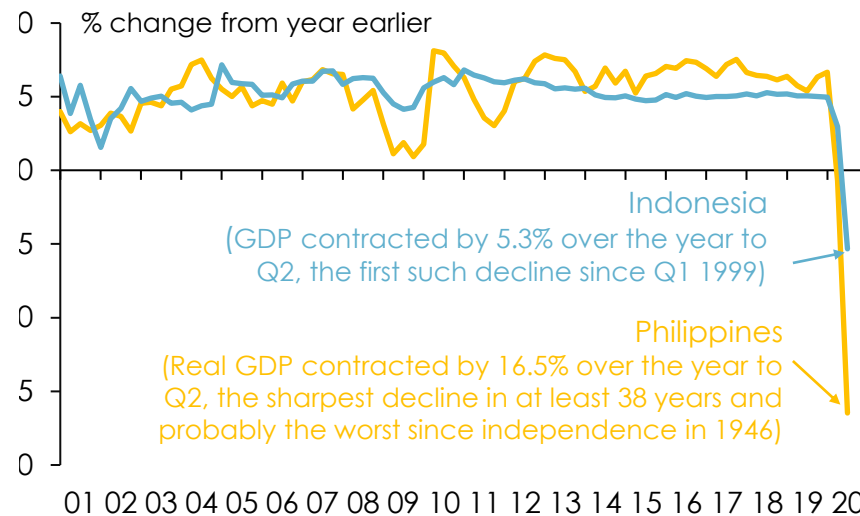
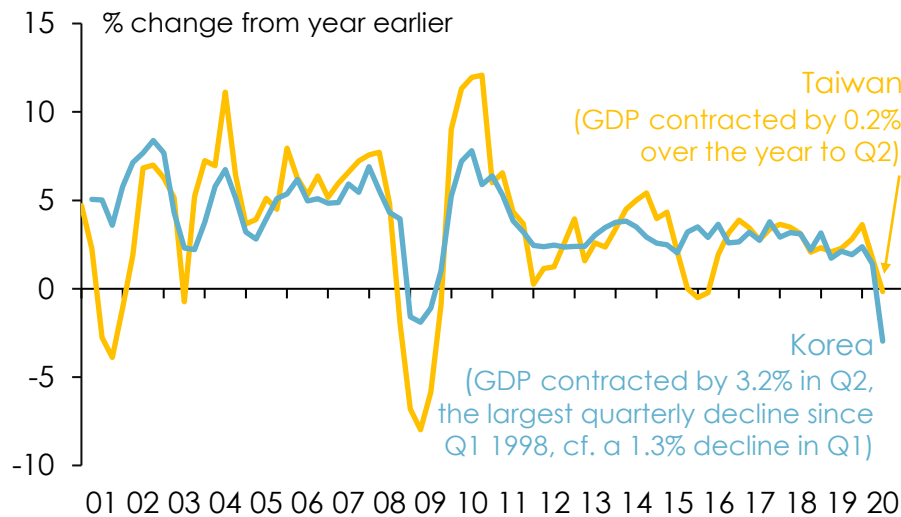
Merchandise export volumes



Sources: Japan Cabinet Office [Economic and Social Research Institute](#); [Bank of Japan](#); [Statistics Bureau of Japan](#); Japan [Ministry of Finance](#). [Return to "What's New"](#).

All other Asian economies, except Vietnam, have experienced outright contractions from Q2 2019

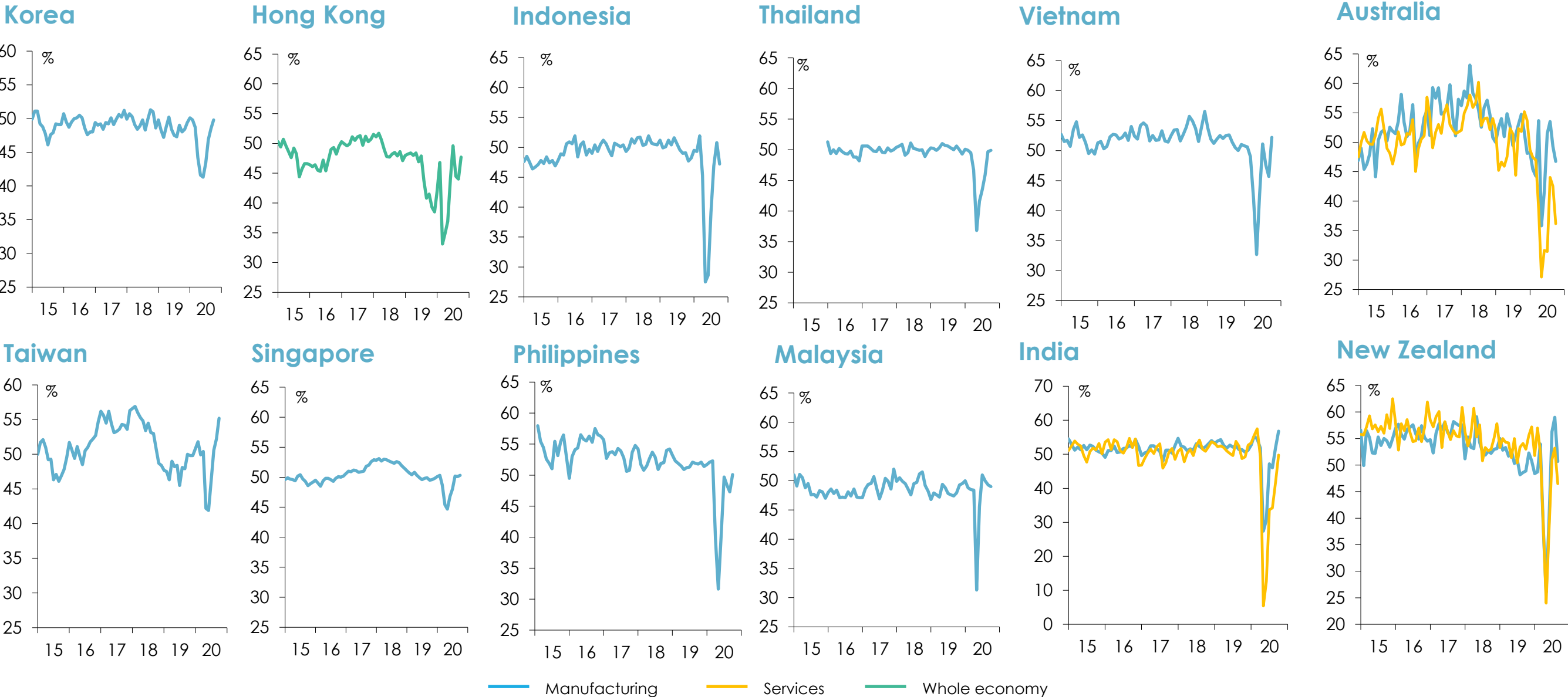
Real GDP growth – Asia-Pacific economies



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.

[Return to "What's New".](#)

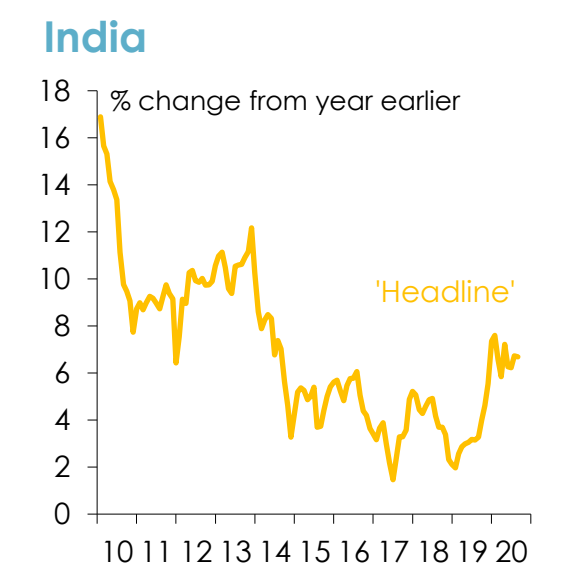
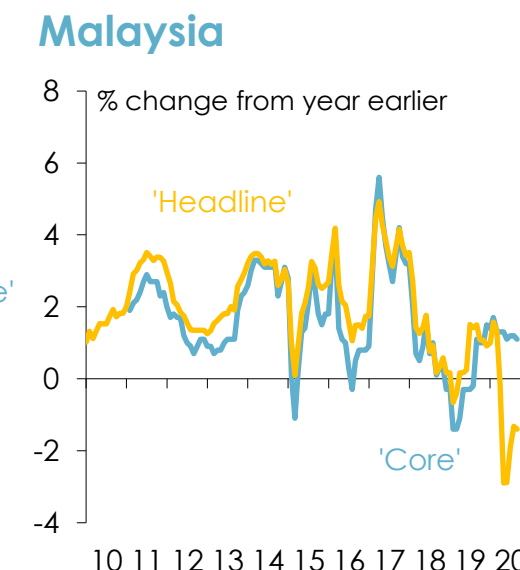
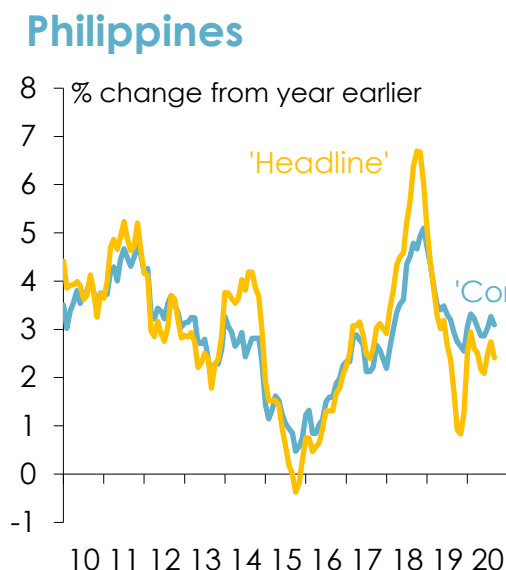
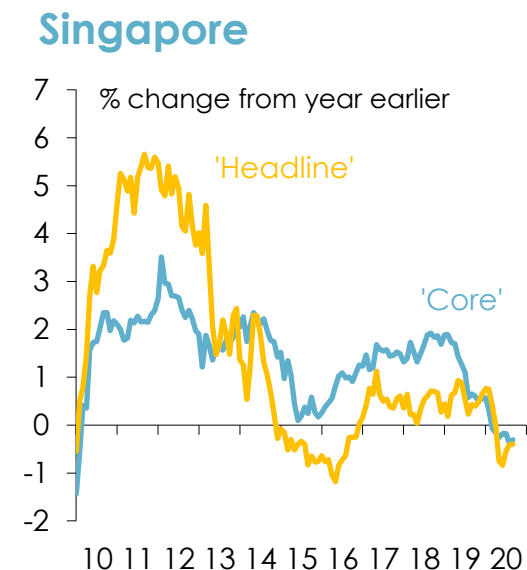
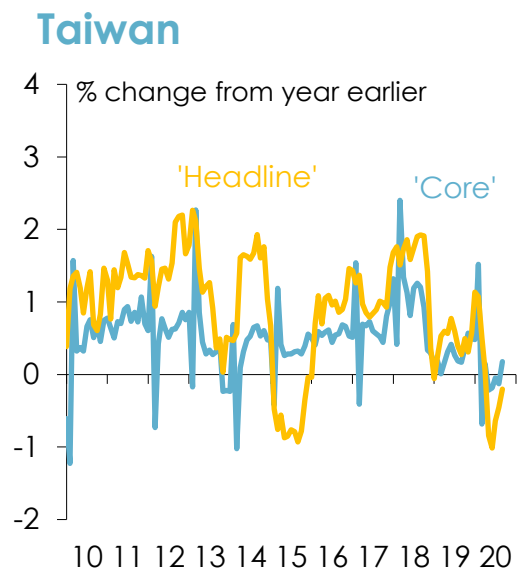
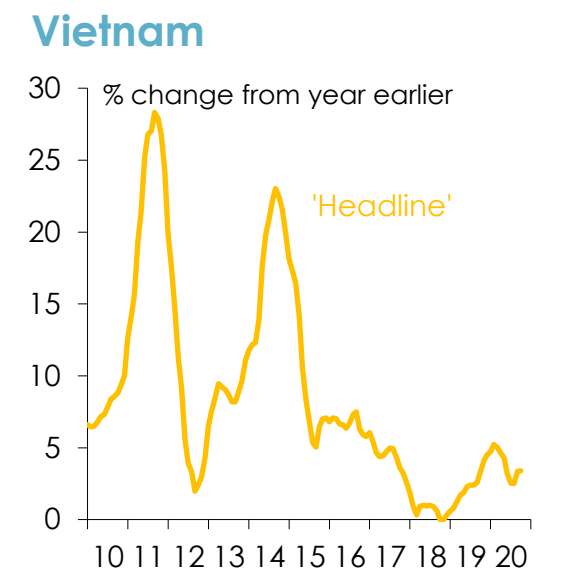
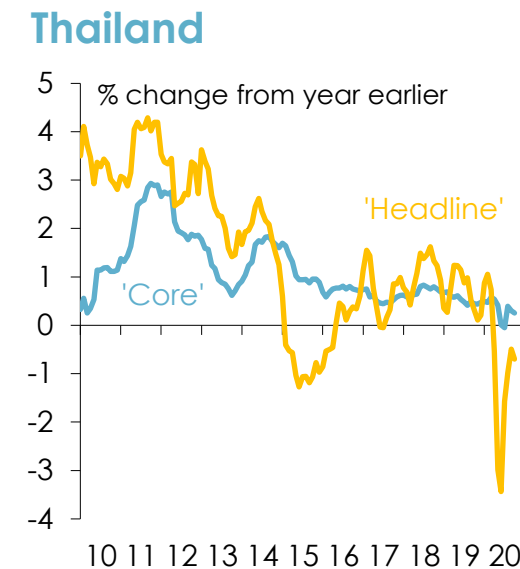
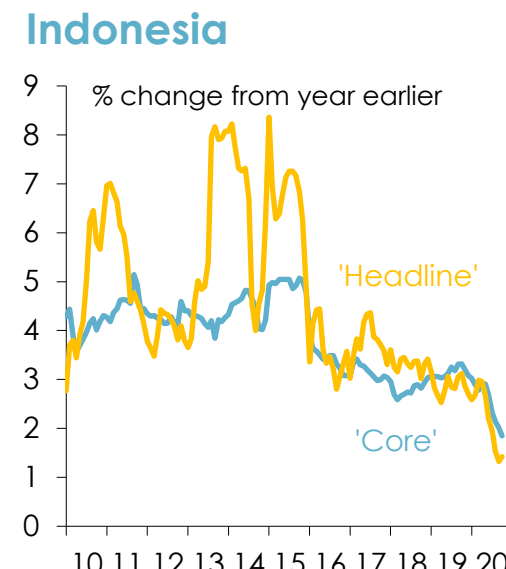
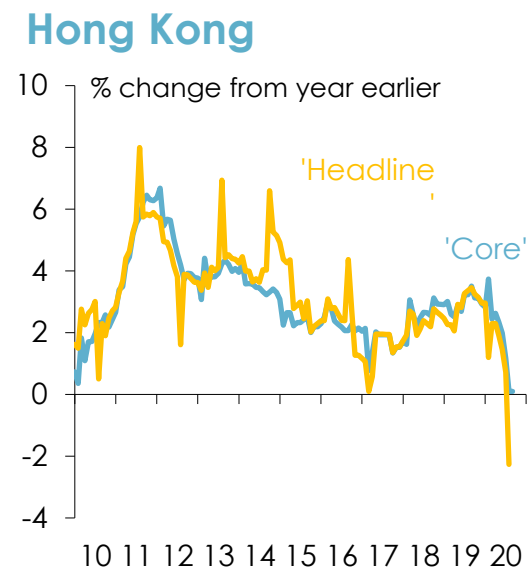
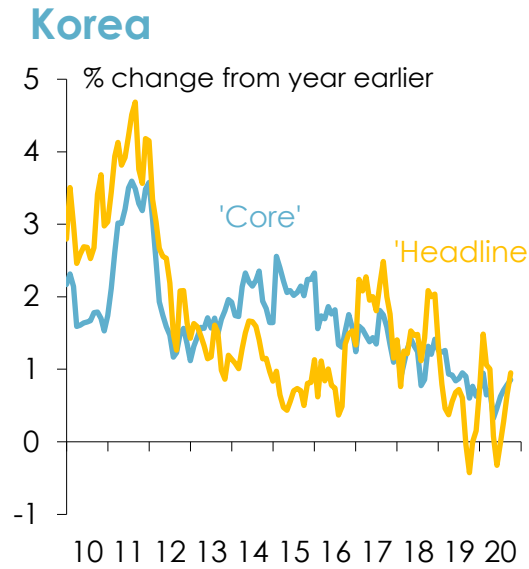
Manufacturing PMIs rose further in August in most Asia-Pacific economies except for Philippines, Vietnam, Australia & NZ



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 September, except for New Zealand, August.

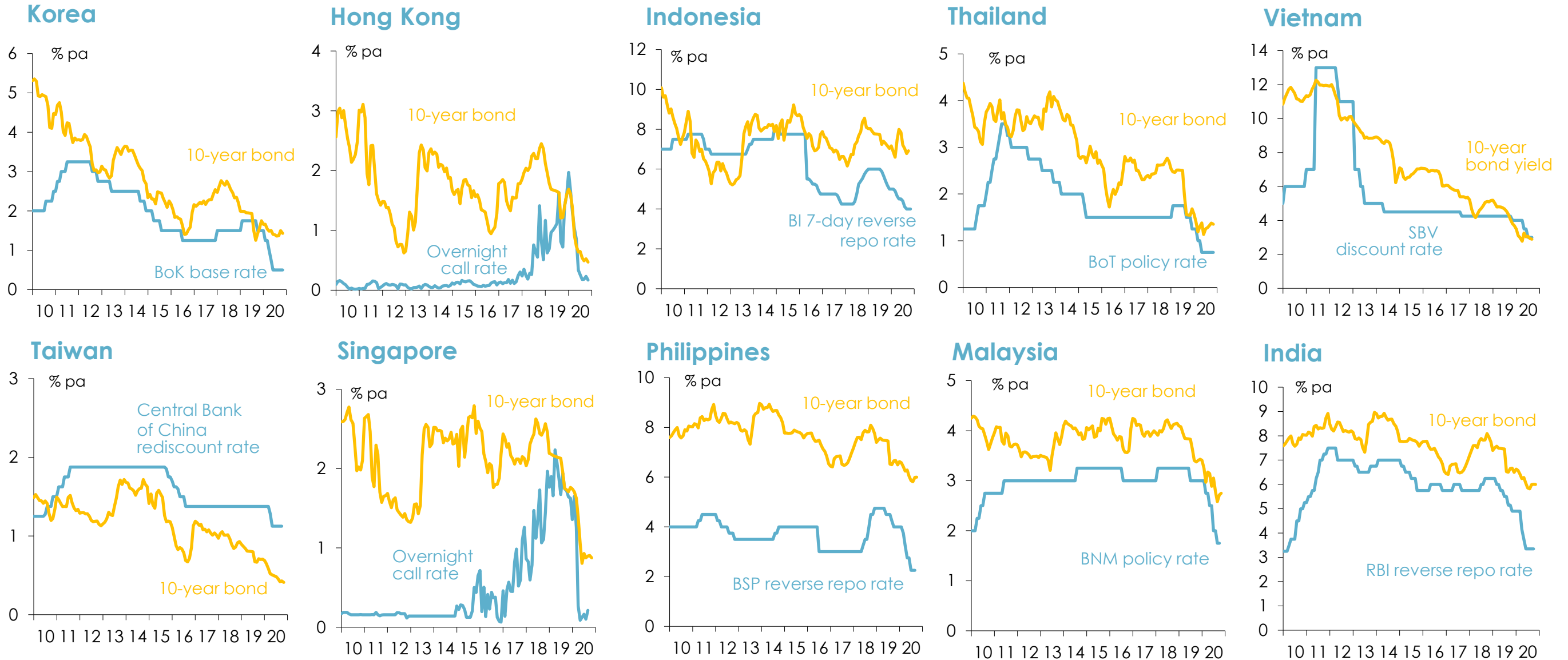
Sources: [IHS Markit](#); [Singapore Institute of Purchasing and Materials Management](#); [Australian Industry Group](#); [Business NZ](#); Refinitiv Datastream. [Return to "What's New"](#).

Inflation remains very low across Asian economies (including Indonesia & Philippines where it had been stubbornly high) – except for India



Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes 'volatile foods' and changes in 'administered prices' (such as fuel subsidies, transport fares and electricity prices); in the Philippines it excludes rice, corn, meat, fish, cultivated vegetables and fuels; in Thailand it excludes fresh or raw food and energy; and in Malaysia it excludes fresh food and 'administered' prices. Vietnam and India do not publish measures of 'core' inflation. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

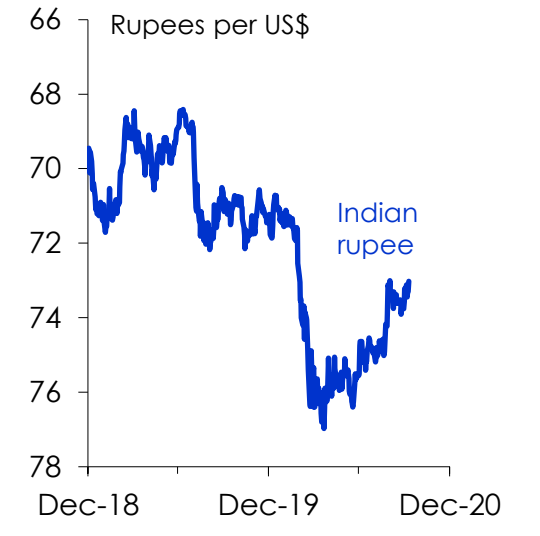
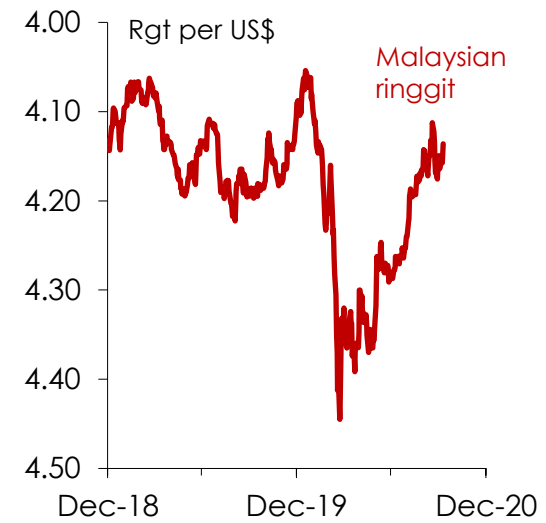
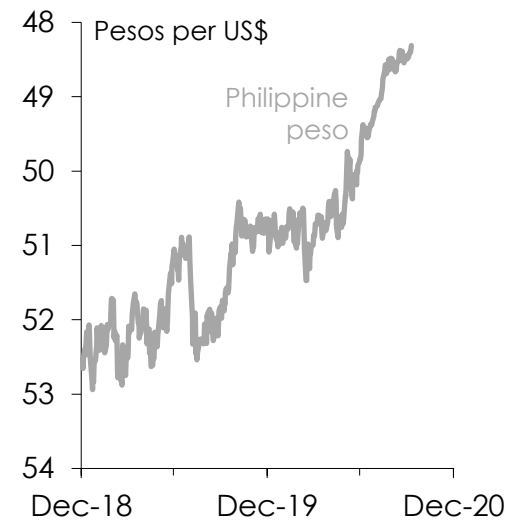
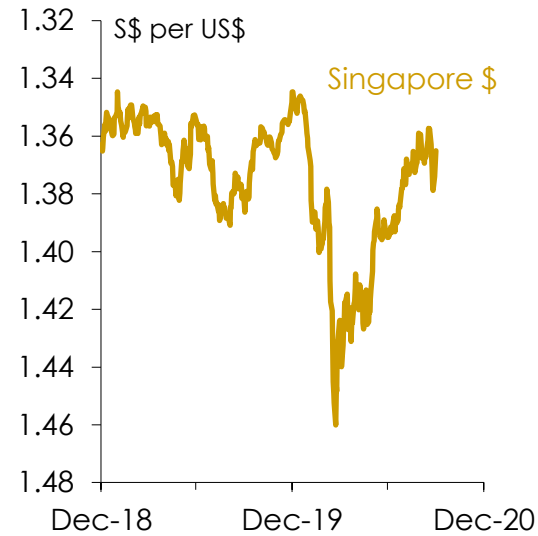
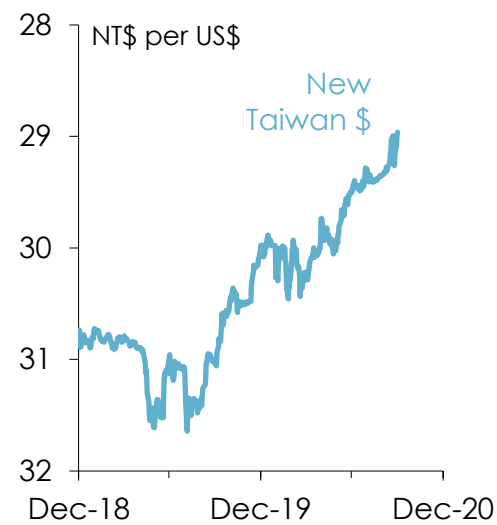
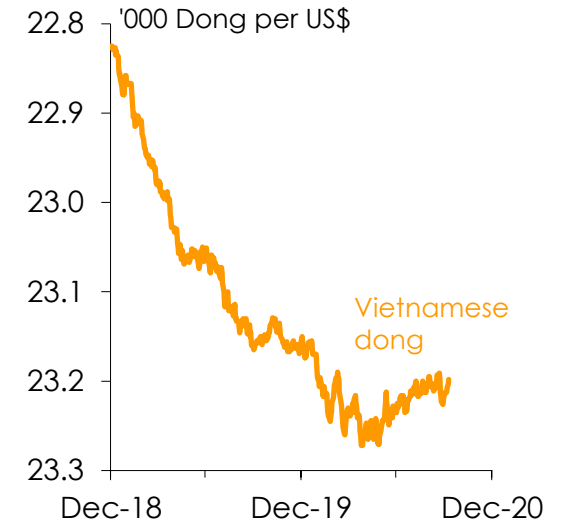
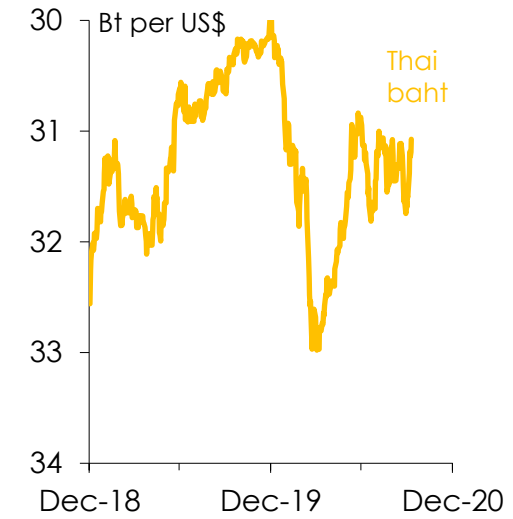
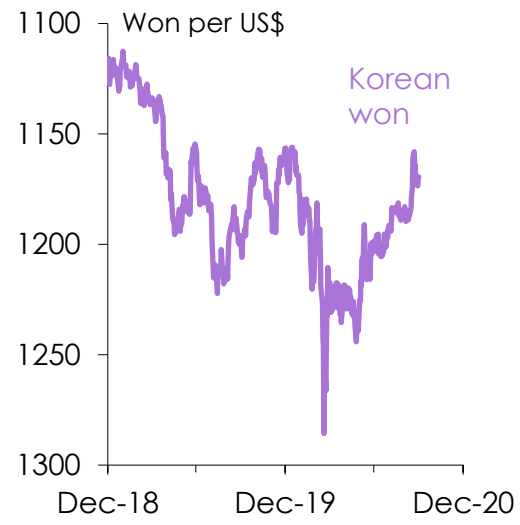
Policy interest rates across Asia are at record lows, but there's scope for more conventional monetary policy easing if required



Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy interest rate. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

Most Asian currencies strengthened against the weaker US dollar this week

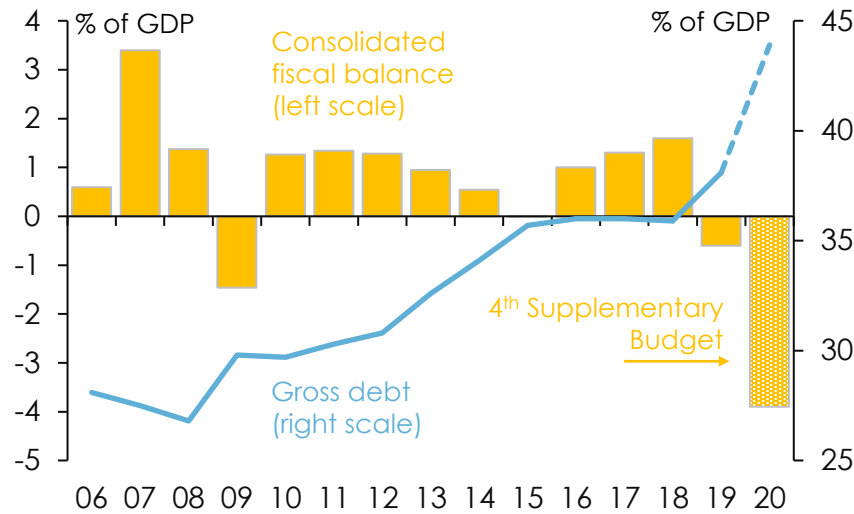
Asian currency exchange rates vs US dollar



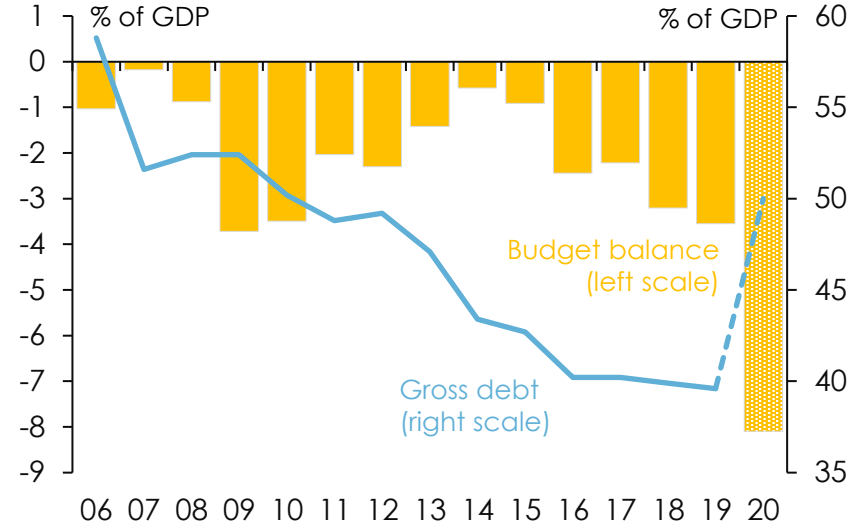
Note: Data up to 9th October. Source: Refinitiv Datastream. [Return to "What's New"](#).

The Korean and Philippines central banks have engaged in different variants of 'quantitative easing' ...

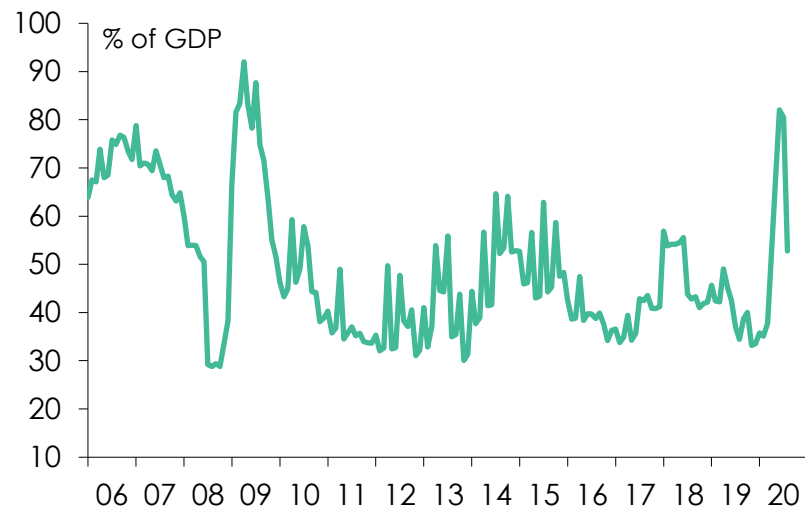
Korea central government budget



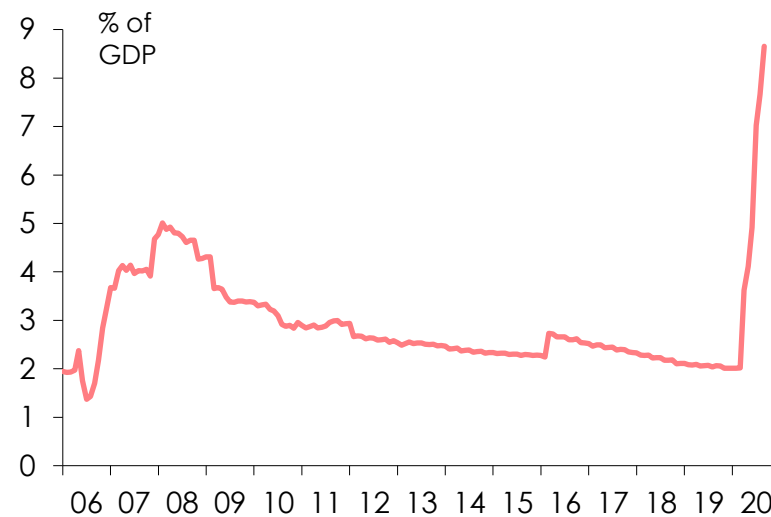
Philippines NG budget



BoK domestic assets



BSP claims on national gov't

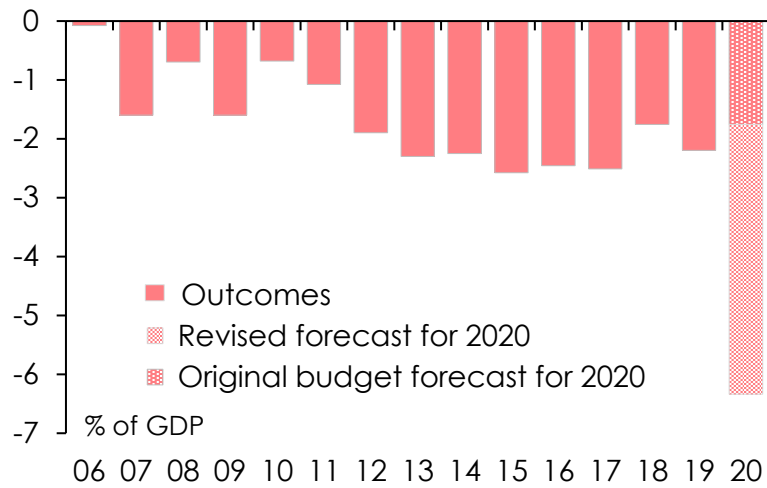


- ❑ The Bank of Korea has cut its policy rate by 100bp so far this year to a record low of 0.50%
- ❑ After its last rate cut in May, Governor Lee Ju-Yeol indicated the BoK was considering using 'unconventional monetary tools' to support growth
 - since March, the BoK has been willing to supply 'unlimited liquidity' to financial institutions, accepting a wider range of collateral in repos
 - In April the BoK lent ₩8 trn to a ₩10 trn SPV established to buy corporate bonds and CP
- ❑ BoK's total domestic assets more than doubled between end-February and end-May – reflecting increased holdings of bonds, reverse repos and lending to both government and the private sector – but fell back to 53% in July, as loans were repaid and repos reversed
- ❑ The Philippines National Government (NG) expects its budget deficit to reach 8.1% of GDP this year, and public debt to rise to 50% of GDP
- ❑ In March, the BSP purchased ₱300bn (US\$6bn) of bonds directly from the Treasury Bureau under a 6-mth repo arrangement, and reportedly bought another ₱500bn in the secondary market through to the end of July

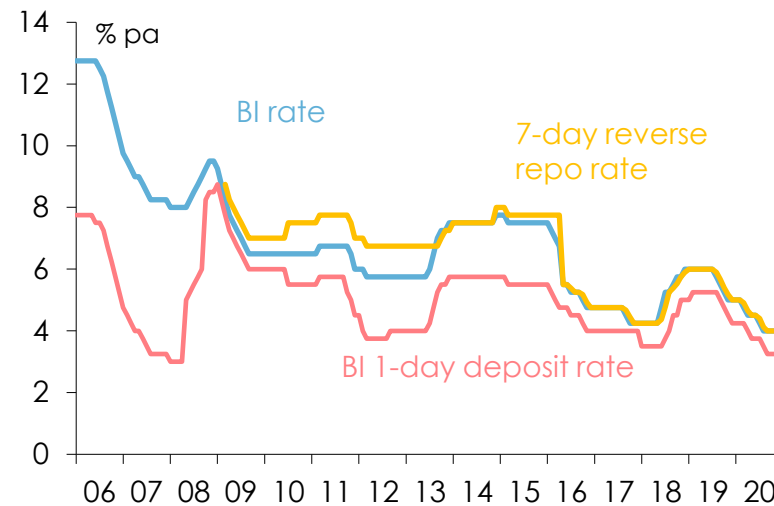
Sources: [Korea Ministry of Economy and Finance](#); [Bank of Korea](#); Philippines Development Budget Co-ordination Committee; [Philippines Bureau of the Treasury](#); [Bangko Sentral ng Pilipinas](#). [Return to "What's New"](#).

... as has Bank Indonesia, but its independence could be at risk from proposals currently under consideration

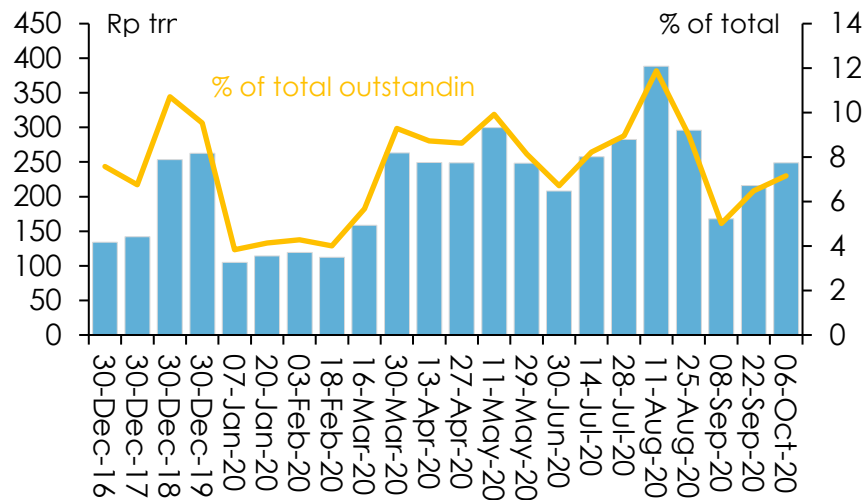
Indonesia budget deficit



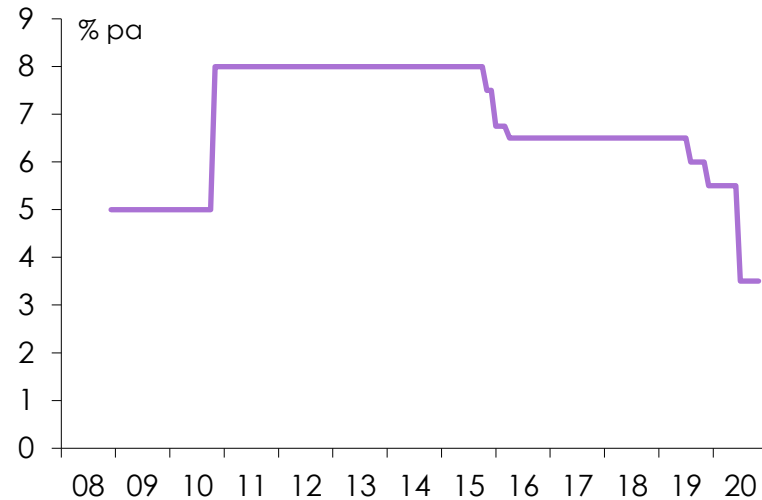
BI monetary policy rates



BI holdings of tradeable SBNs



Bank reserve requirement ratio



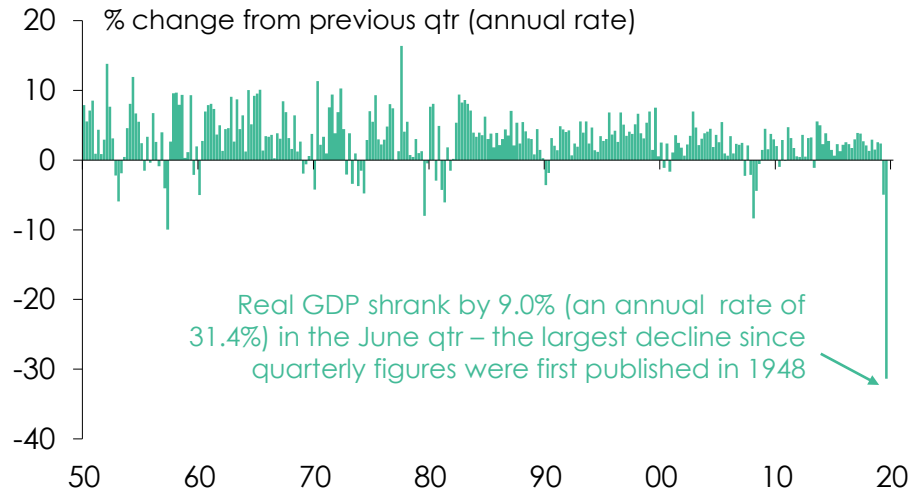
- In July, the Indonesian Government and Bank Indonesia (BI) formally agreed a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
 - as of 15th September BI had purchased Rp48 trn of SBN in the primary market, and provided an additional Rp 99trn through private placements for 'burden sharing' to fund public goods
- Finance Minister Sri Mulyani Indrawati and, separately, a group of parliamentarians, have proposed a 'Perppu' ('Decree in lieu of Law') on 'Financial System Reform' which would
 - give BI an employment mandate in addition to its inflation target;
 - give the Finance Minister and other ministers voting rights on the BI's policy-making board
 - 'allow' BI to purchase zero-coupon government bonds 'at a discount, and to provide 'temporary financing' to offset revenue shortfalls of up to 20% of revenue projections
 - transfer responsibility for bank supervision to BI from the Financial Services Authority (OJK)

- There's nothing untoward about the first or fourth of these proposals – but the second is worrying, and the third could be as well

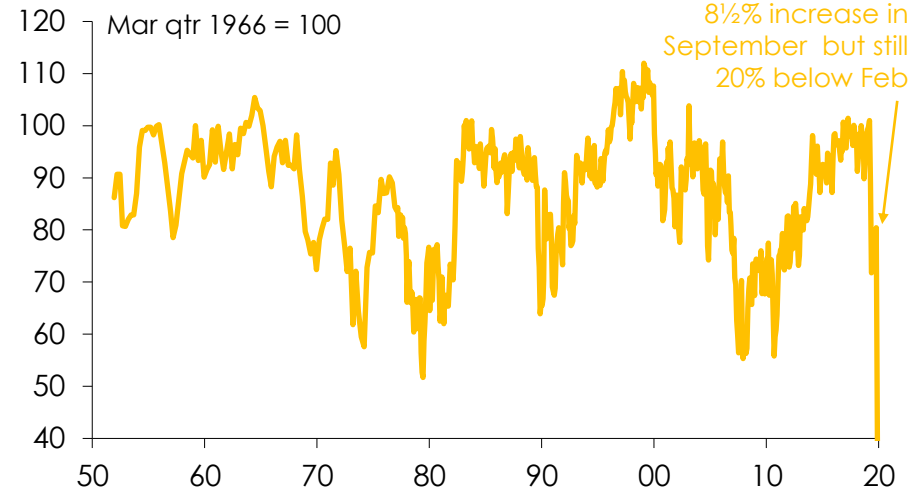
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

The US economy experienced its sharpest contraction since the 1930s in the first half of 2020, although growth has turned moderately positive in Q3

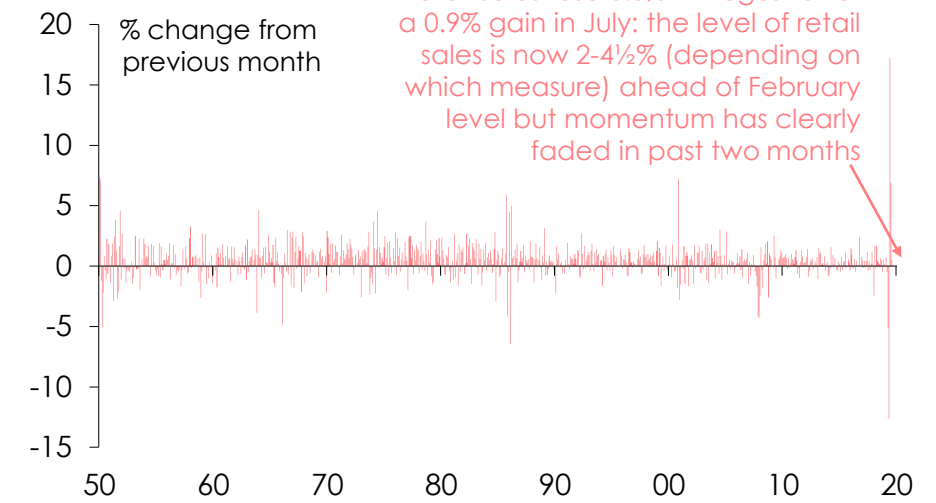
Real GDP



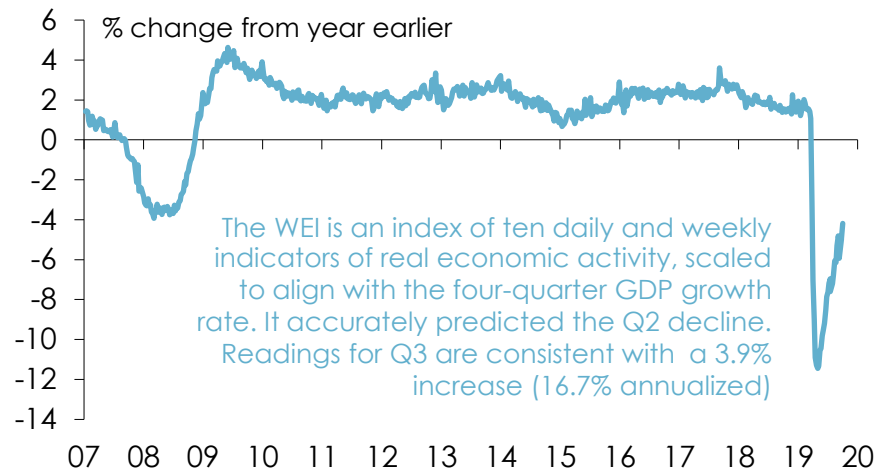
Consumer confidence



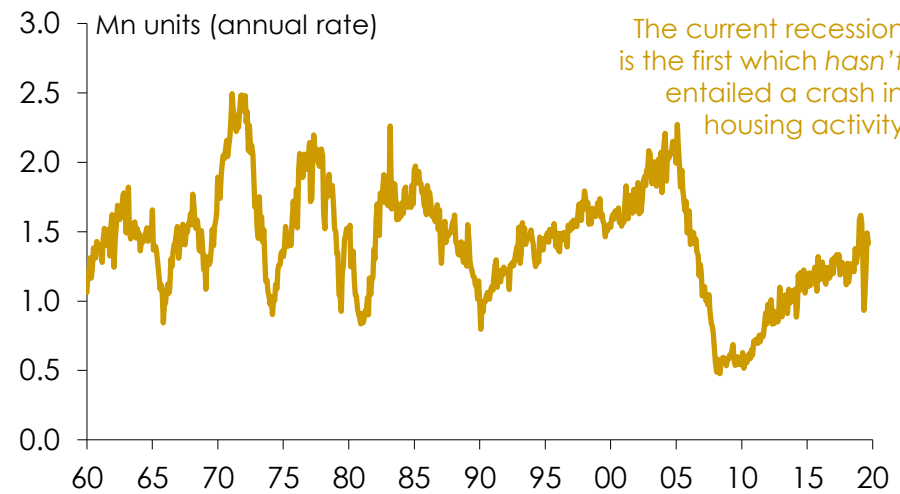
Retail sales



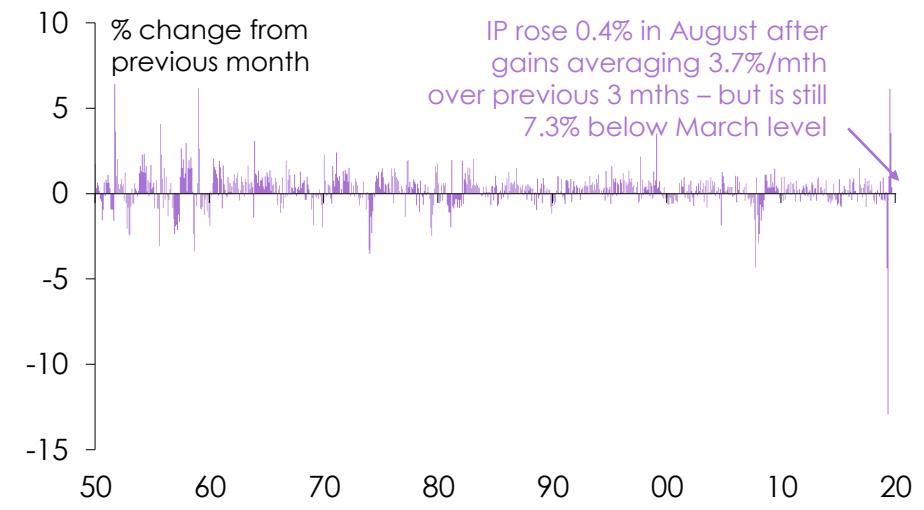
NY Fed weekly economic index



Housing starts



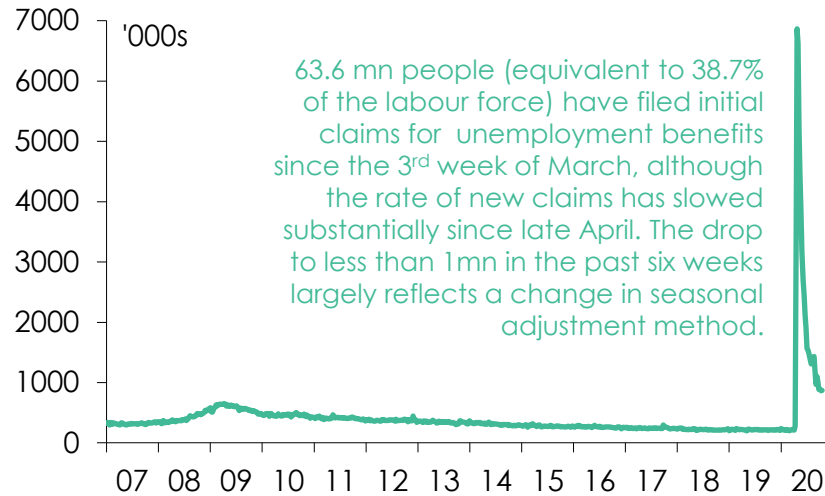
Industrial production



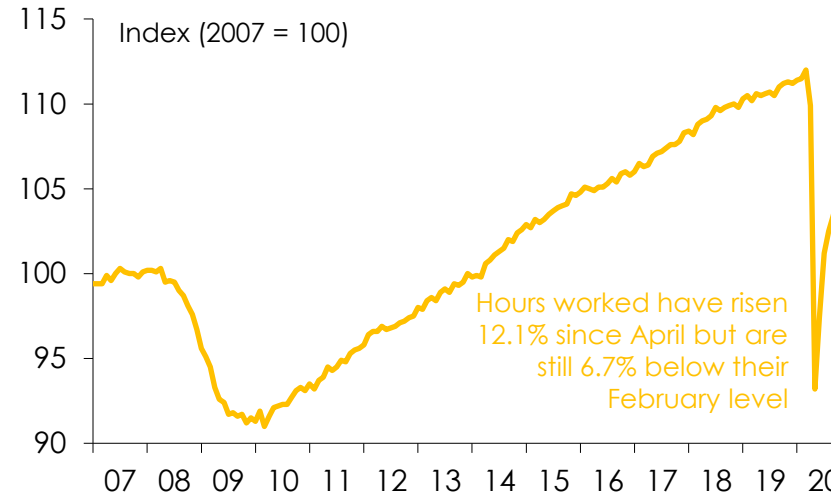
Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System. [Return to "What's New"](#).

September's 661K increase in payrolls was the smallest since employment bottomed in April: the 'effective' unemployment rate is still 11%

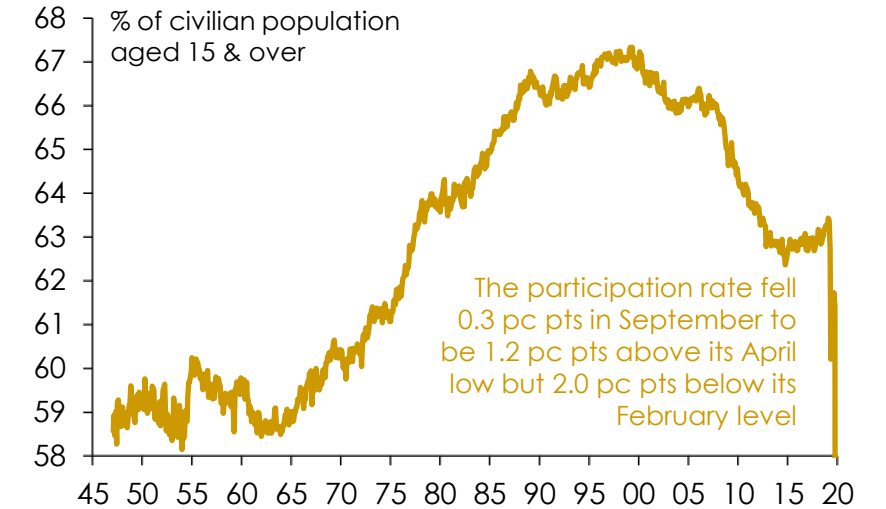
Unemployment benefit claims



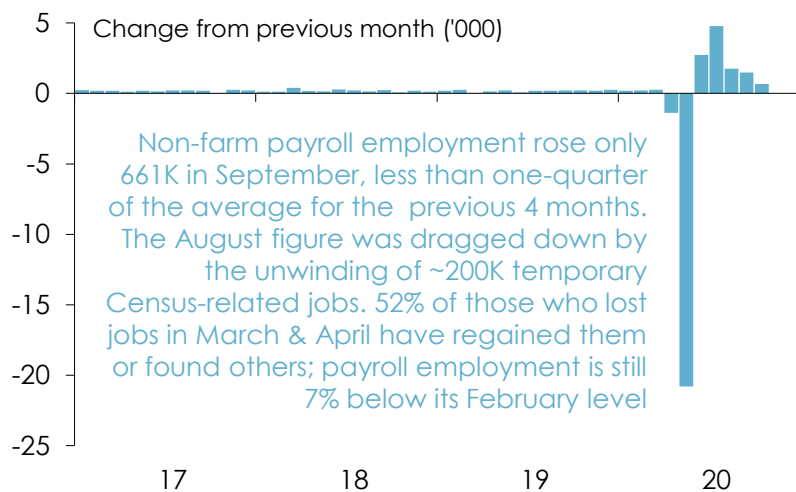
Hours worked (private sector)



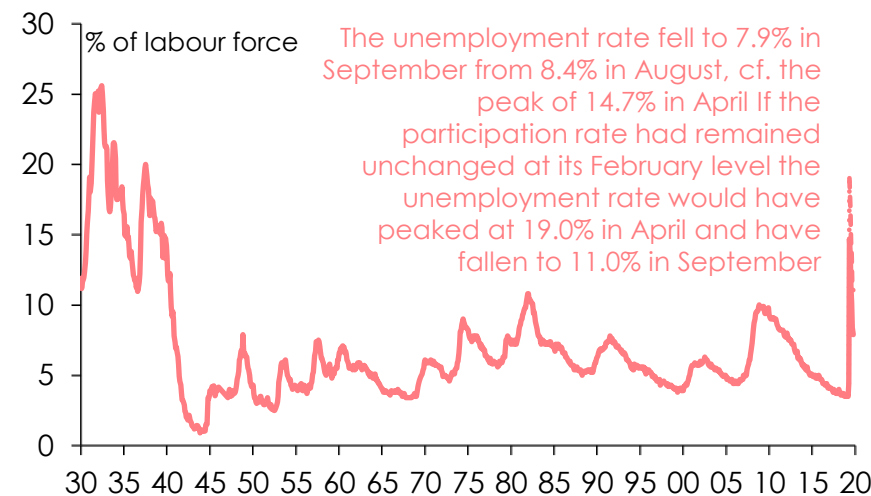
Labour force participation rate



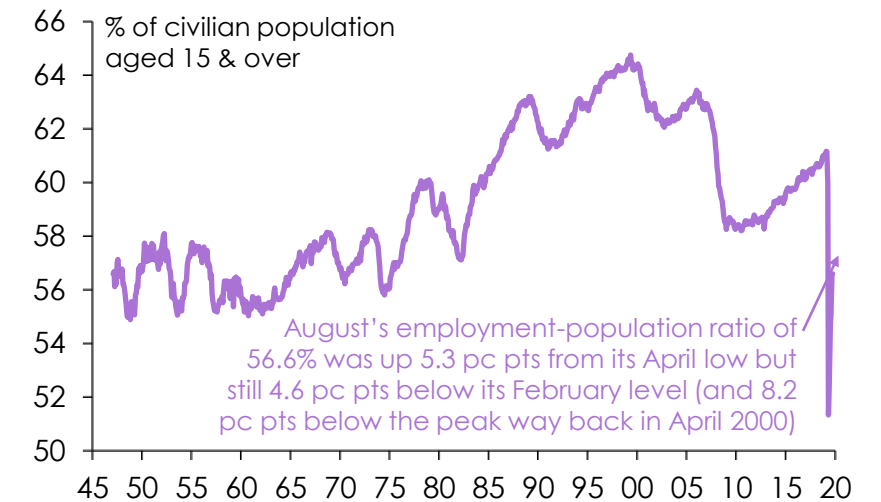
Non-farm payroll employment



Unemployment rate

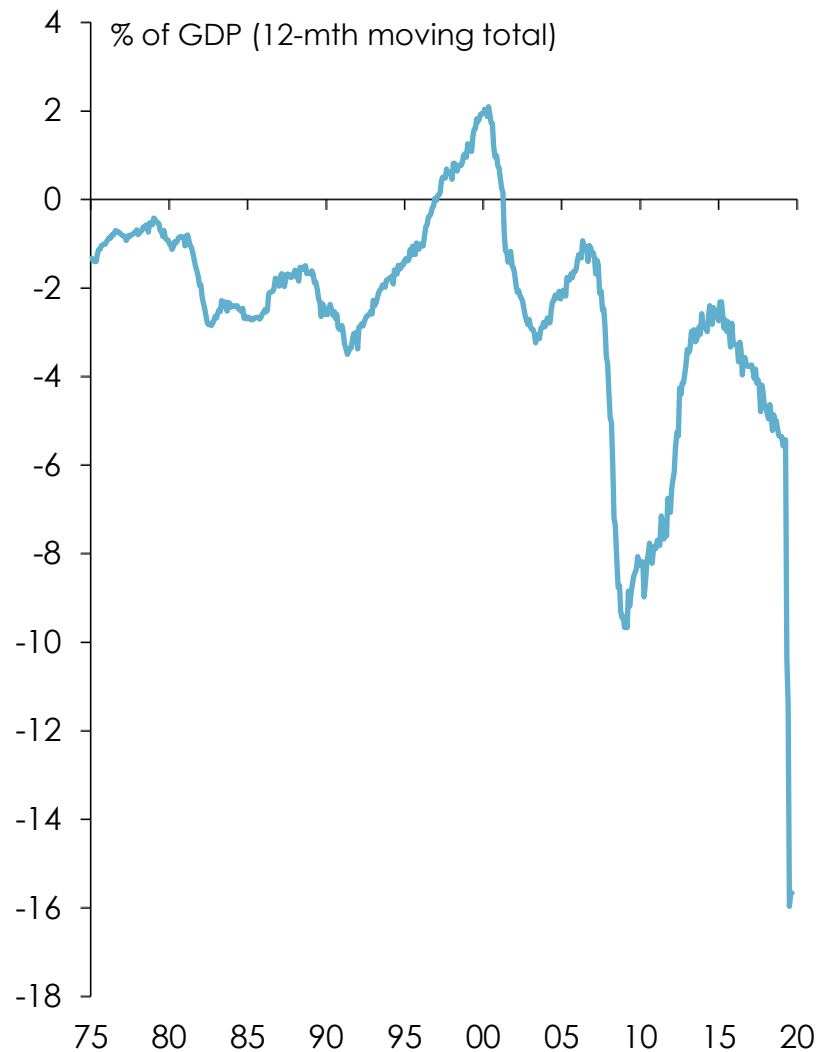


Employment to population ratio

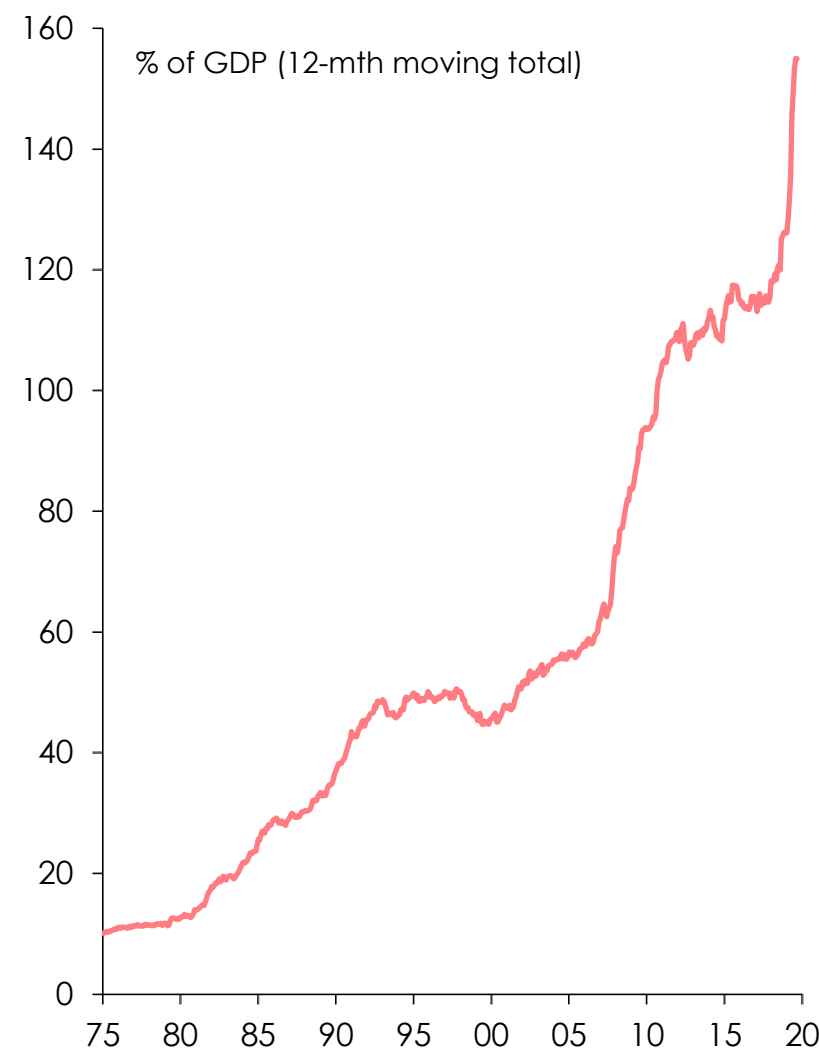


The US budget deficit has blown out dramatically since the end of March, reaching nearly 16% of GDP in the 12 months ended August

US Federal budget deficit



US gross Federal debt

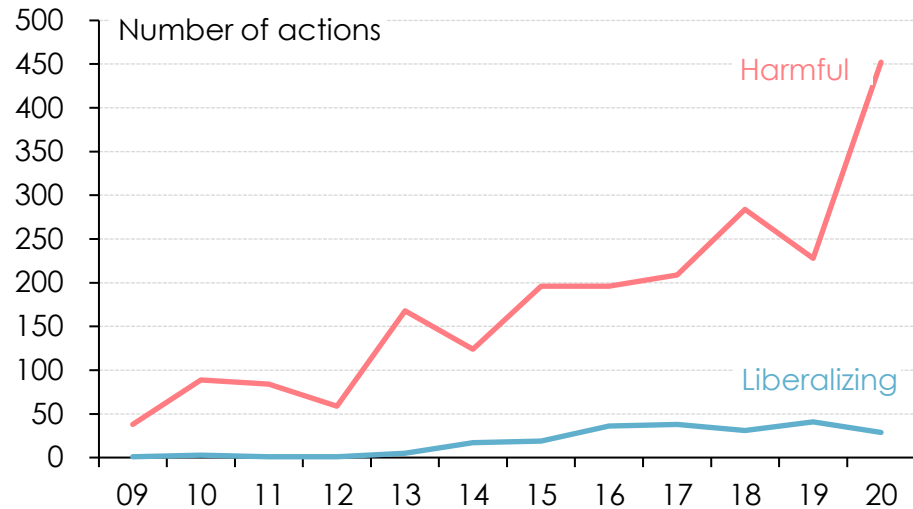


- ❑ The US budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to \$24.1trn (126% of GDP)
- ❑ The budget was in deficit by US\$200bn in August, about the same as the two previous Augusts, after narrowing sharply to US\$63bn in July due to the receipt of tax payments deferred from the normal dates in Q2
- ❑ However the 12-month moving total deficit remains close to US\$3 trn (15.7% of GDP), cf. a peak of 9.7% of GDP during the GFC (and the largest since 20.8% of GDP in FY 1945)
- ❑ The market value of gross federal debt remained unchanged at \$29trn (155% of GDP)
- ❑ Last month the non-partisan Congressional Budget Office forecast that the deficit would blow out to US\$3.3trn (16% of GDP) in FY 2020 (the largest since 1945) and remain above US\$1trn pa until at least 2030, with gross debt reaching \$38trn by 2030

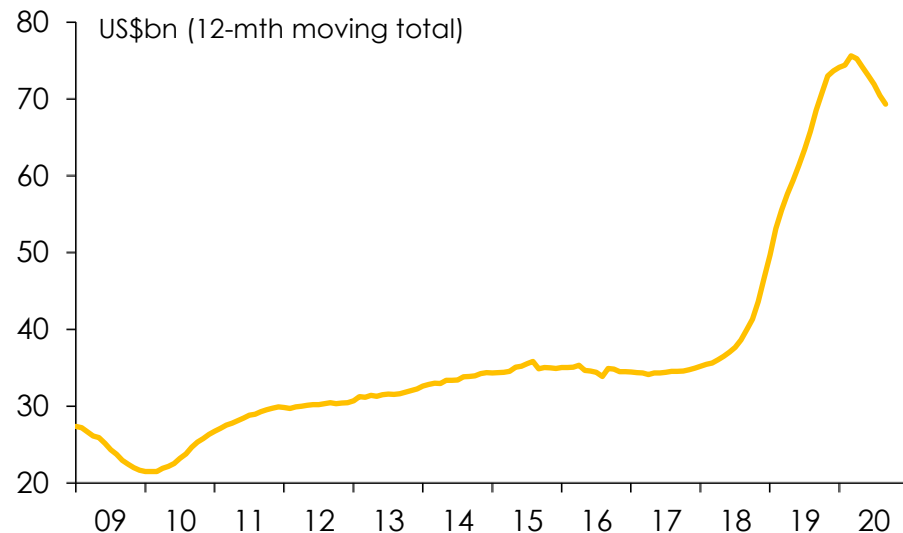
Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna. September budget data will be released on 12th October. [Return to "What's New"](#).

President Trump's tariffs have hurt consumers and business, haven't created jobs (on net), and haven't helped US 'national security' either

US trade policy actions



US customs duty revenue

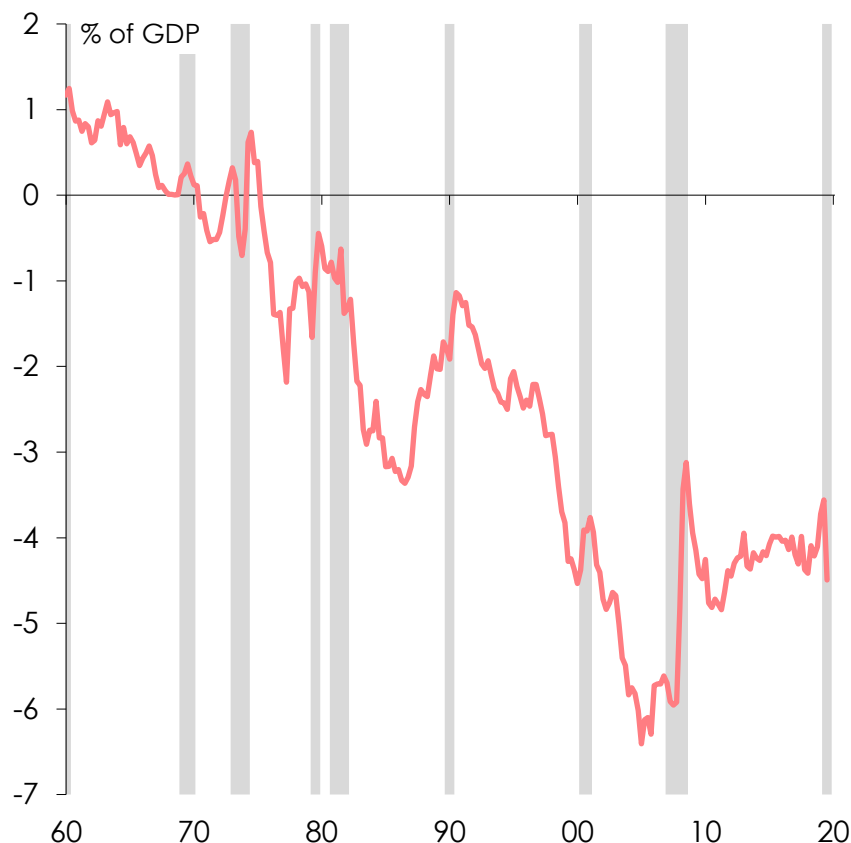


Sources: The Brookings Institution; Centre for Economic Policy Research, [Global Trade Alert Global Dynamics](#) (data up to 2nd October); [US Treasury Department](#). [Return to "What's New"](#).

- ❑ The Washington DC-based Brookings Institution last month published a [useful and incisive analysis](#) of the impact of the Trump Administration's trade policies
- ❑ It suggests, first, that the average American household has paid anywhere between "several hundred" and "a thousand dollars or more" per annum in higher prices attributable to tariffs
 - consistent with what is widely understood by economists, but (sadly) by few others, that tariffs are *not* something governments make foreigners pay to their goods into a country, but rather something they make *their own consumers* (or businesses) pay to keep foreign goods out of a country
- ❑ Second, it shows that while the Administration's tariffs have created 'several thousand' jobs in the US steel industry, and about 1,800 jobs in manufacture of washing machines, these and other gains in import-competing industries have been more than offset by "losses in industries that use imported inputs and face retaliation on their foreign exports"
 - moreover, American consumers appear to have paid (in total) US\$817,000 in higher prices for every new job in the washing machine industry, and US\$900,000 for every new job in the steel industry
- ❑ Third, it concludes that the Administration's trade policies have "made the US a less desirable trade partner for other countries"
- ❑ And fourth, it concludes that "while there might be a case for ensuring domestic production capacity" for items like steel or aluminium, the Administration's tariffs have "antagonized many of America's closest security partners" and made it "more difficult for the US to push back when other countries cloak protectionism in tenuous appeals to national security"

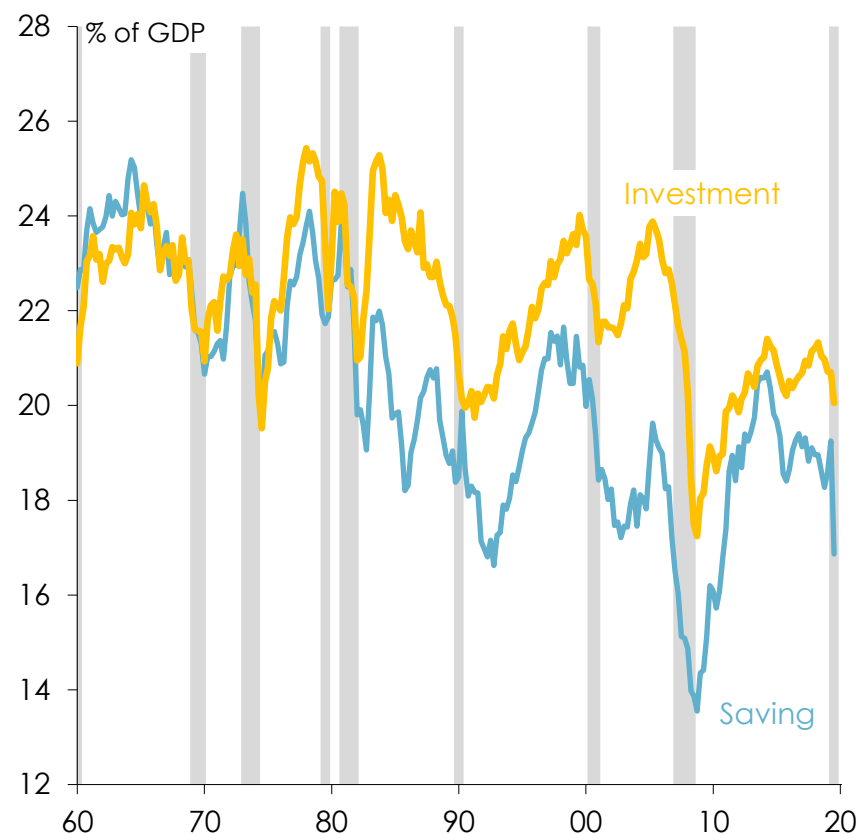
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



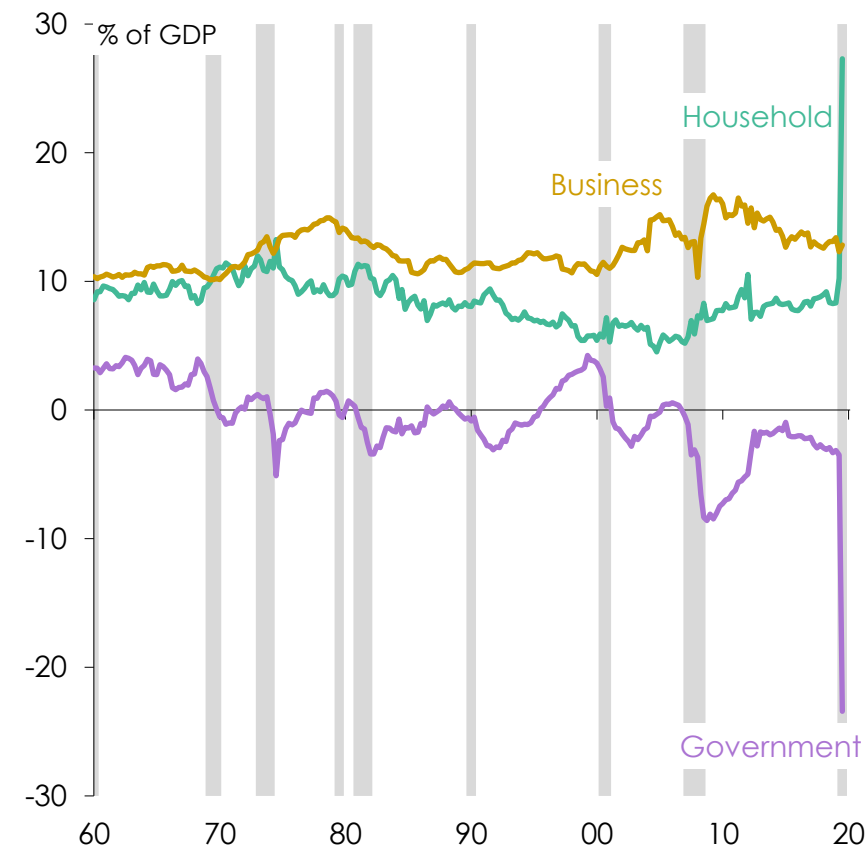
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

Gross saving and investment



Investment *hasn't* fallen much (so far) during this recession – perhaps because it didn't rise as much as usual during the preceding expansion (corporate tax cuts notwithstanding)

Gross saving by sector



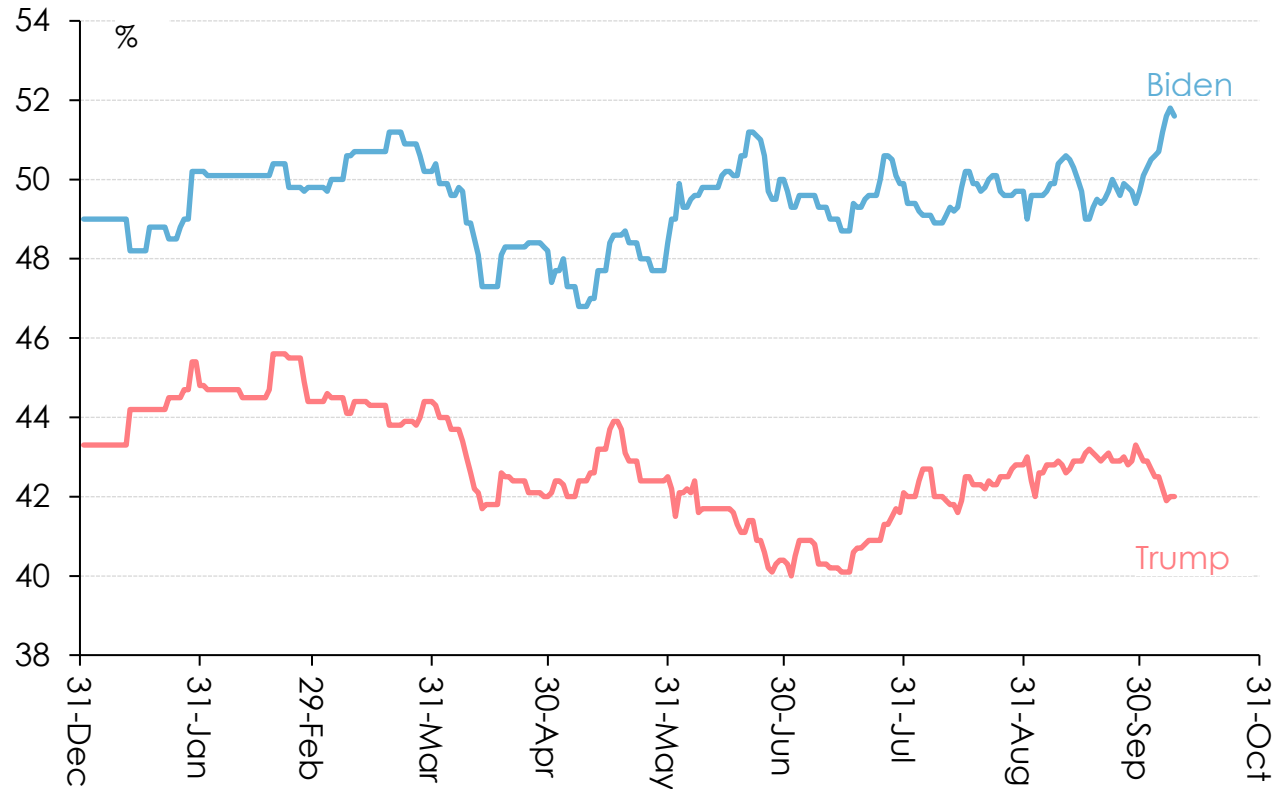
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving (though monthly data says household saving fell in Q3)

Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#).

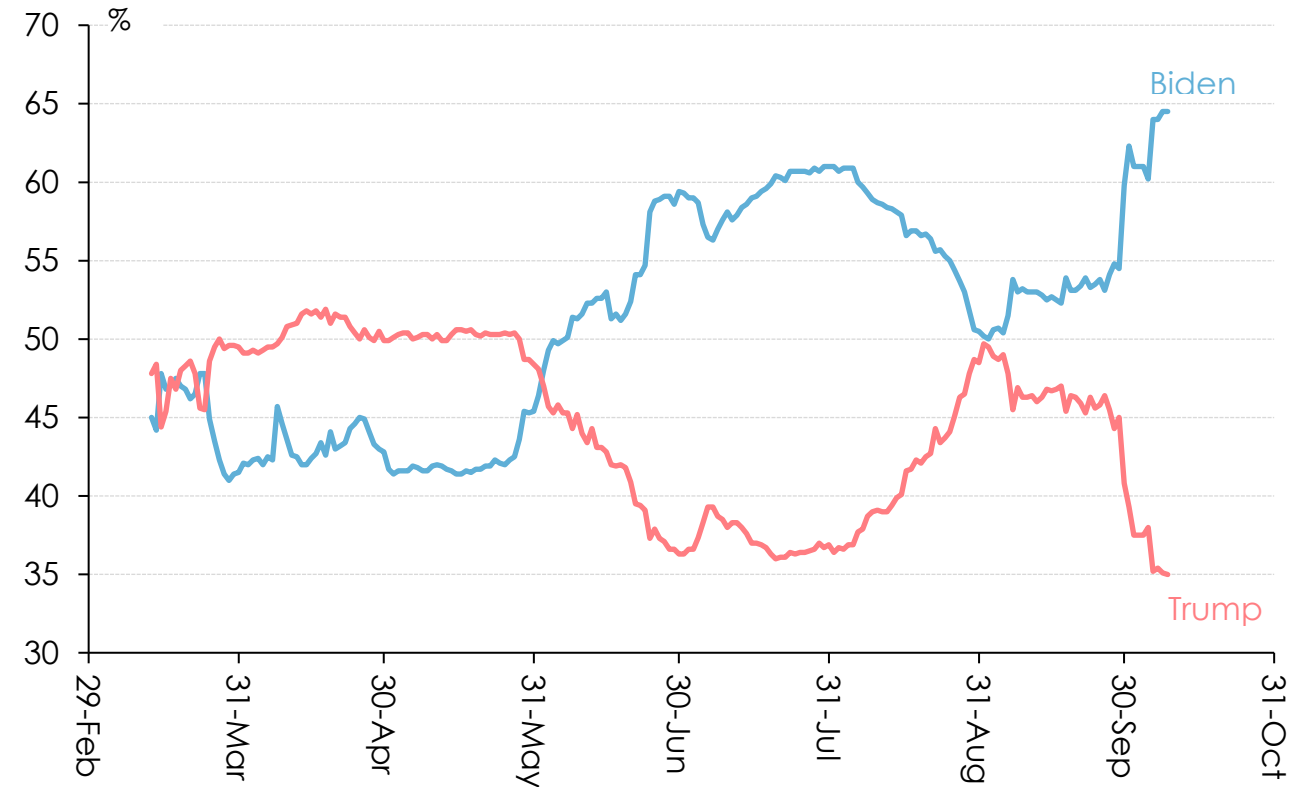
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

Biden's opinion poll lead over Trump widened to over 9½ pc points this week, and his margin in betting odds to almost 30 pc points

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



Winner of November US Presidential election
– betting odds

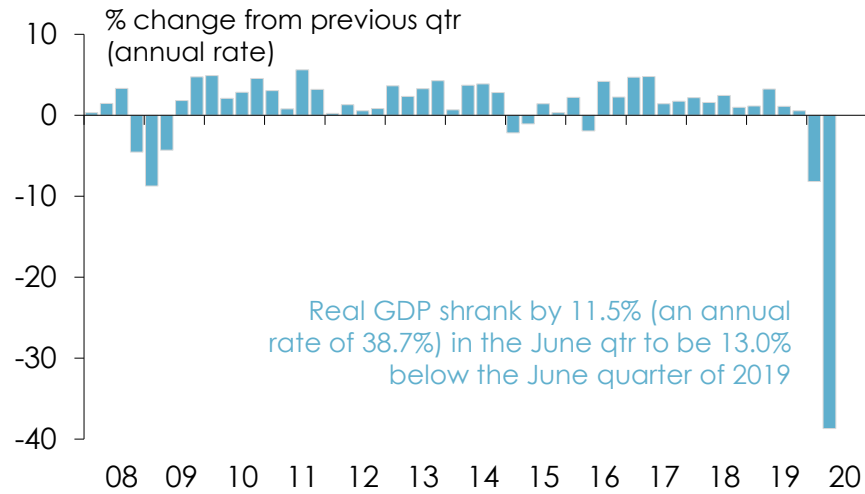


- ❑ Yes, the opinion polls were wrong in 2016 – and the outcome is determined in the Electoral College (which gives a greater weight to votes in smaller states), not by the popular vote – but Biden's lead in the polls is now much larger than Hillary Clinton's was at this stage four years ago and there are significantly fewer undecided voters (among whom Trump ended up doing very well in 2016) now than there were this time four years ago

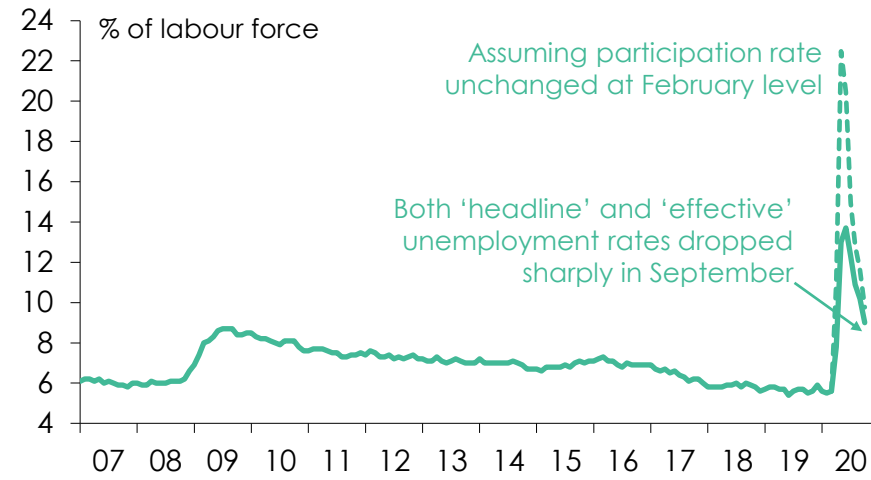
Note: The opinion poll average is based on 9 different polls; the betting odds average is based on 6 different markets. Latest opinion poll and betting odds data are for 8th October. Source: [RealClearPolitics](#). [Return to "What's New"](#).

Canada has had a more severe recession than the US – or Australia (although Canadian house prices are holding up remarkably well)

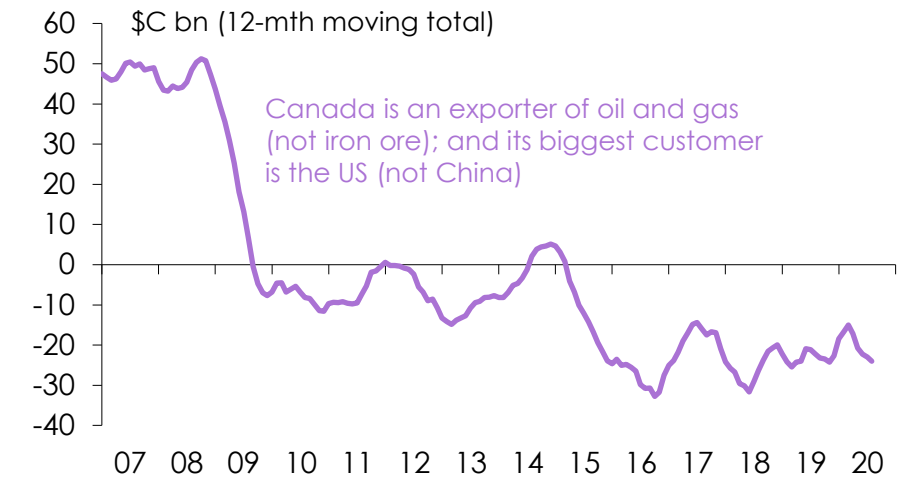
Real GDP



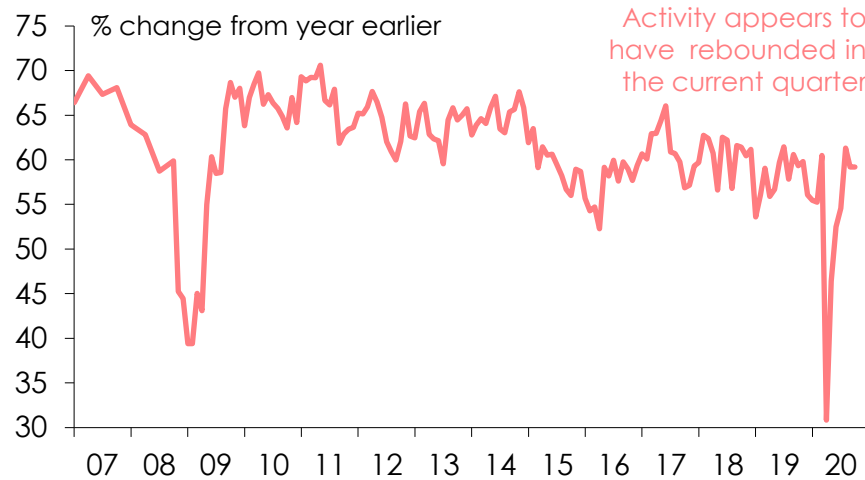
Unemployment rate



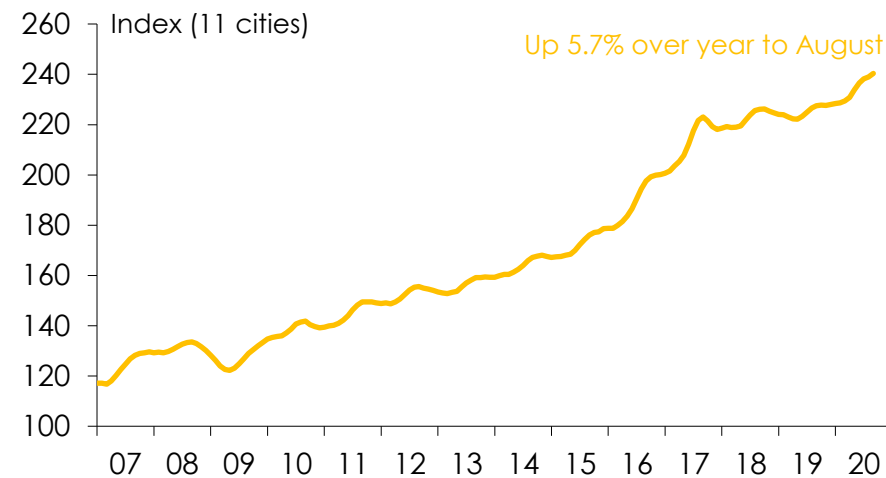
Merchandise trade balance



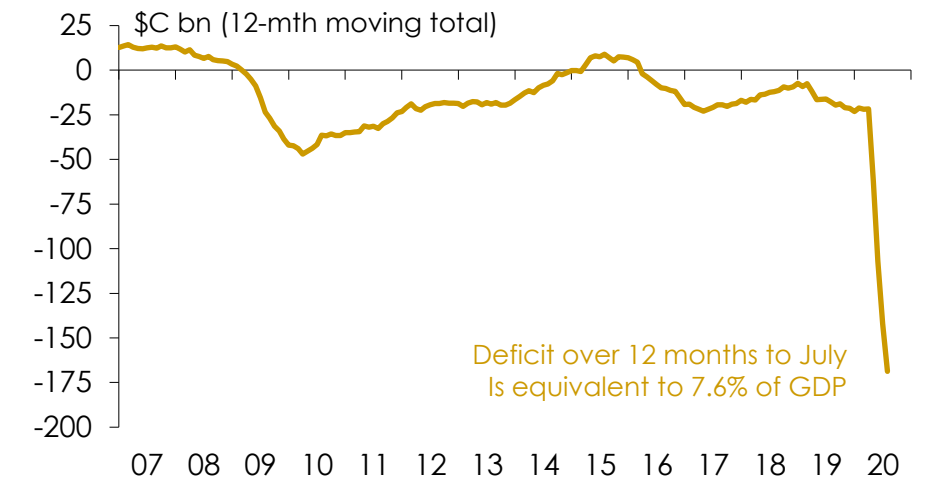
CFIB 'business barometer'



House prices

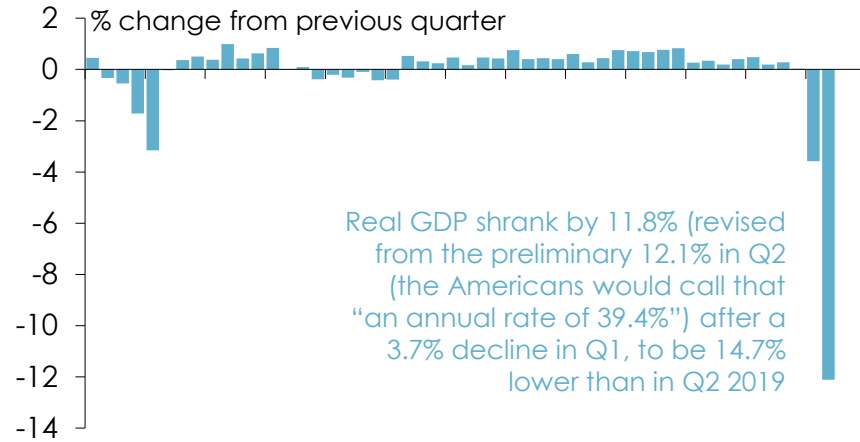


Federal budget balance

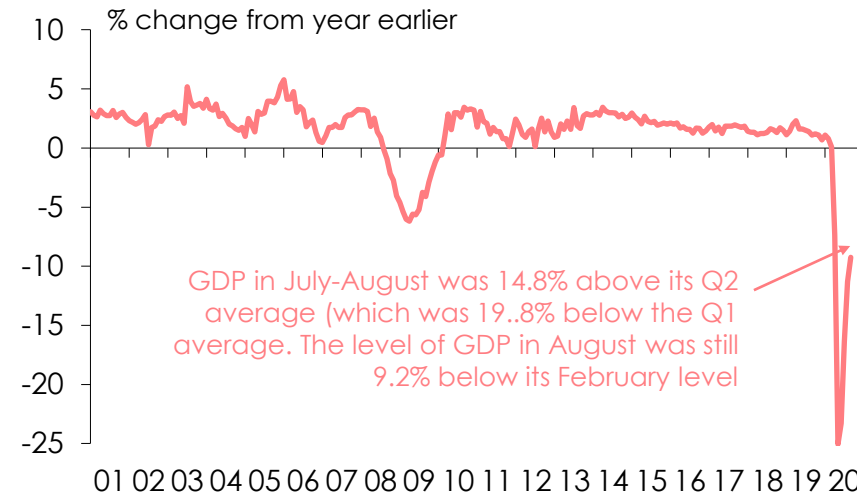


Europe has experienced a larger contraction in real GDP than the US – although unemployment hasn't risen nearly as much

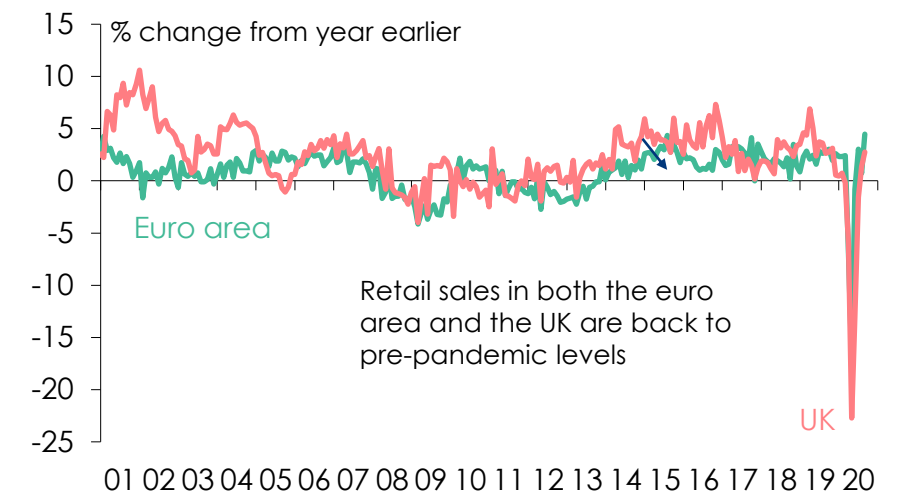
Euro area real GDP



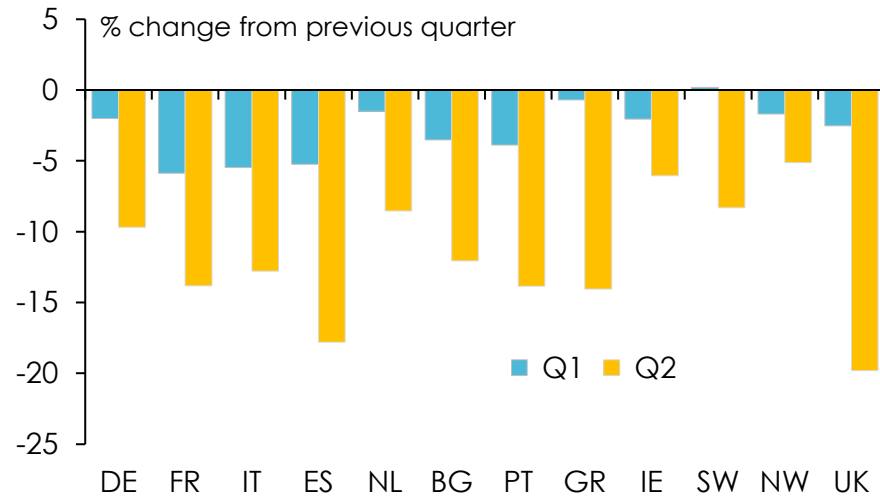
UK monthly GDP



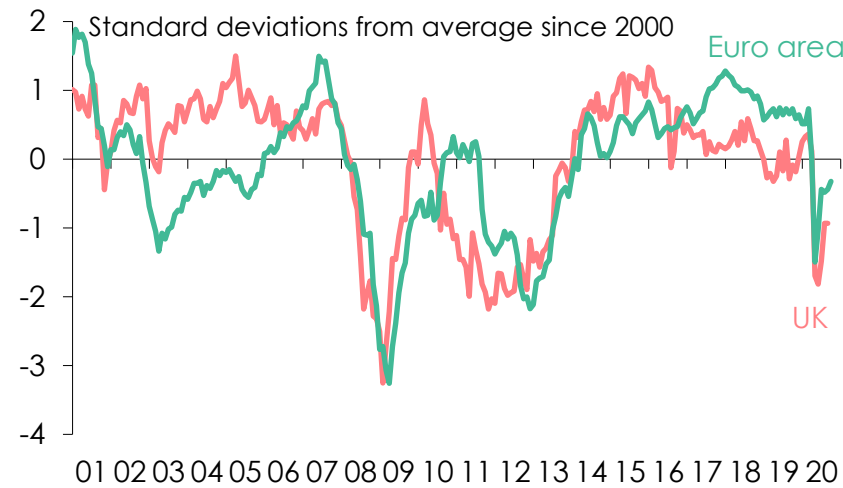
Retail sales volume



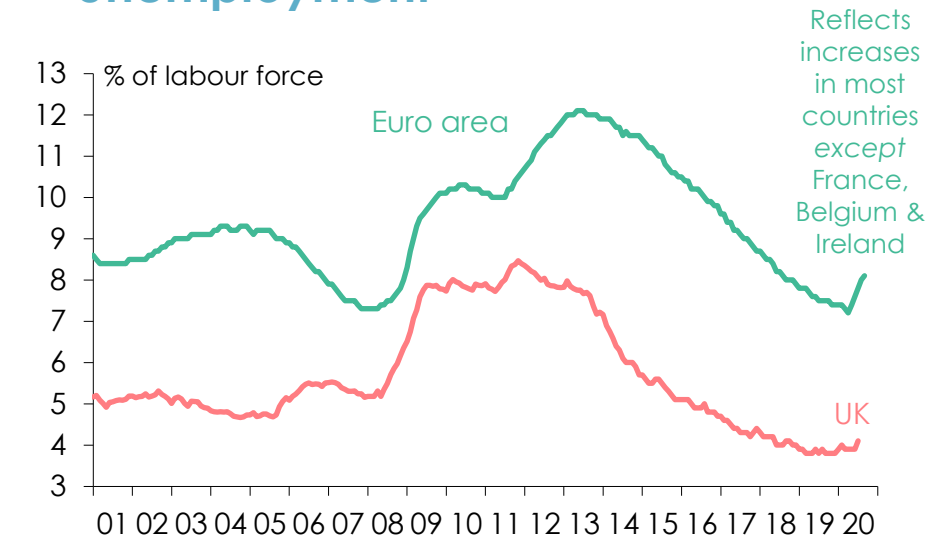
Quarterly GDP by country



Consumer confidence



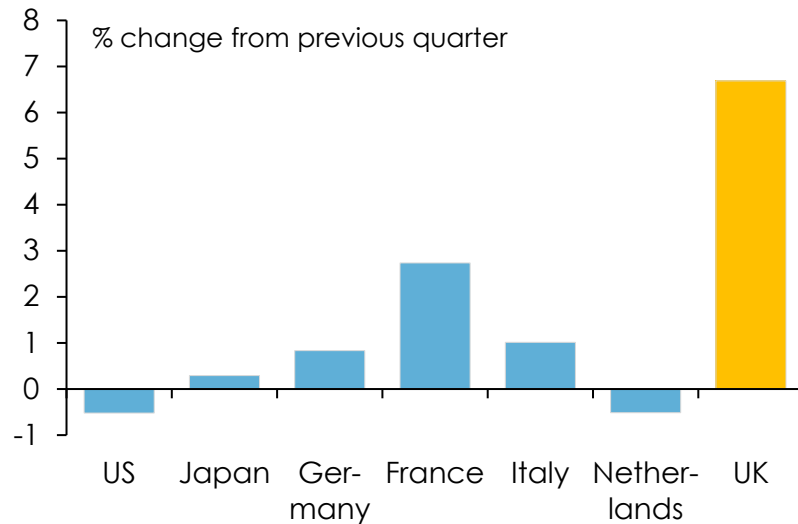
Unemployment



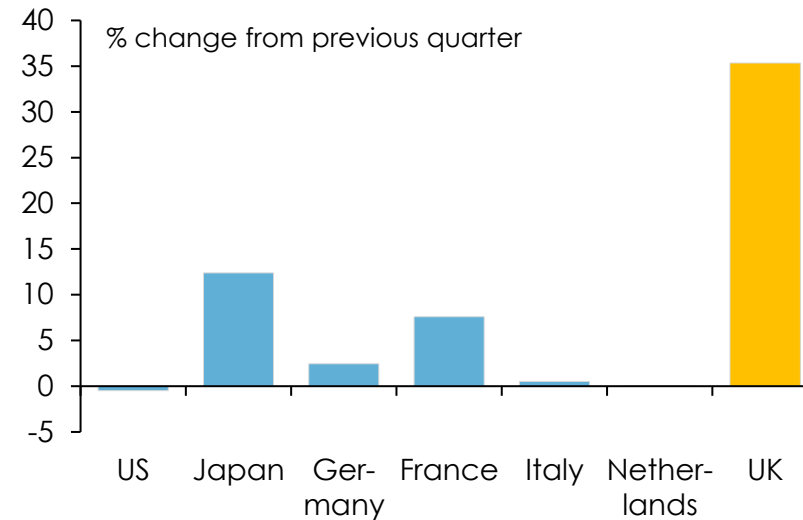
Sources: Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average.
[Return to "What's New"](#).

There's something fishy about the deflators used in compiling the UK's Q2 national accounts

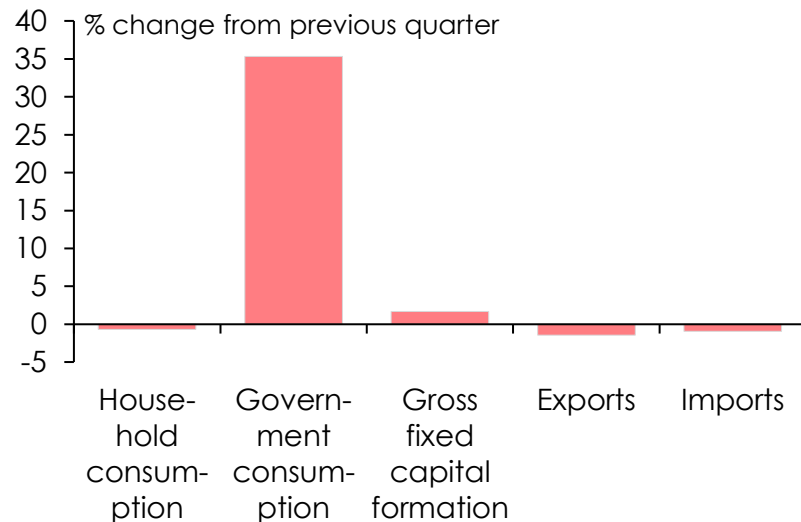
Q2 GDP deflators



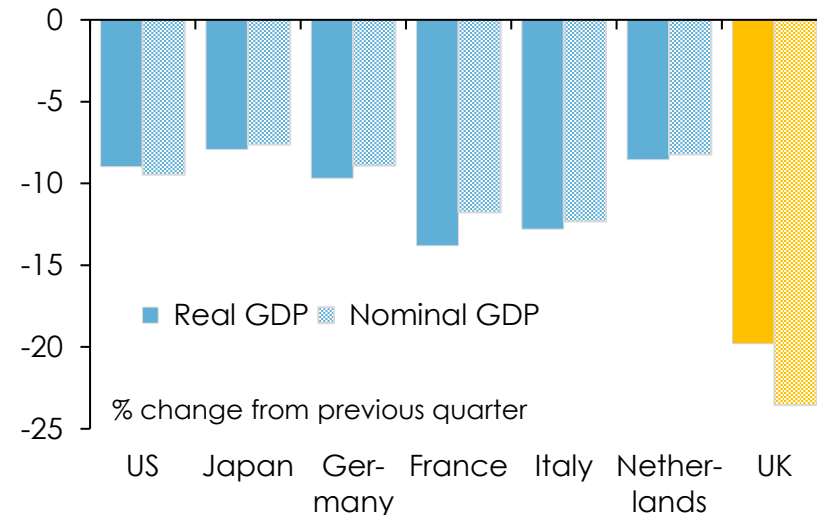
Q2 gov't consumption deflators



UK Q2 expenditure deflators



Q2 real and nominal GDP

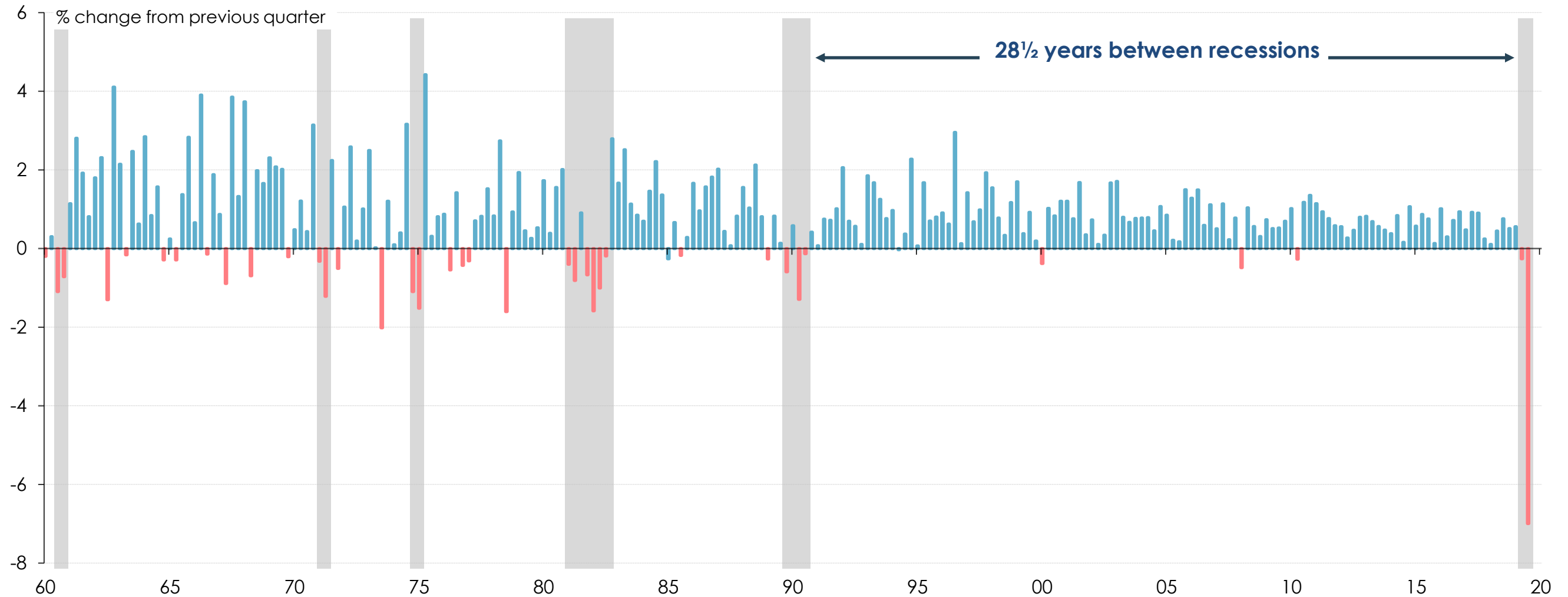


- ❑ According to the UK's Office for National Statistics, the UK's real GDP fell by 19.8% in Q2, but nominal GDP fell by 23.6% - implying that prices (as measured by the implicit price deflator of GDP) rose by 6.7% in Q2
- ❑ This is totally inconsistent with all other measures of UK inflation in Q2 – for example the CPI was flat, producer output prices fell 0.3% and producer input prices fell 7.3%
- ❑ Closer inspection of the Q2 national accounts shows that the main contributor to the rise in the GDP deflator was a 35% increase in the deflator for government consumption
- ❑ ONS commentary on the Q2 estimates implies that this was a by-product of the way they accounted for school closures, cancellation of elective surgery, etc, due to Covid-19
- ❑ However none of the other major European economies, the US or Japan have reported anything similar in their Q2 national accounts
- ❑ It could be that real GDP fell by (even) more in Q2 than estimated, or nominal GDP by less

Australia

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

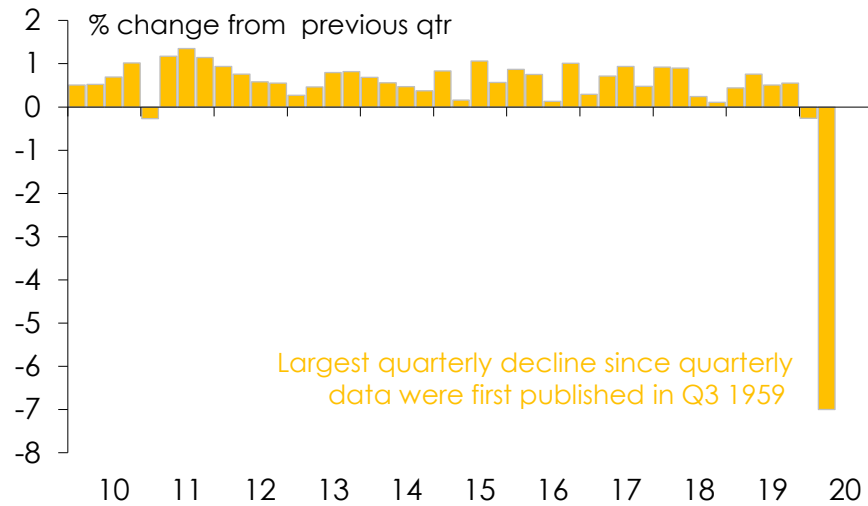
Quarterly growth in Australian real GDP, 1960-2020



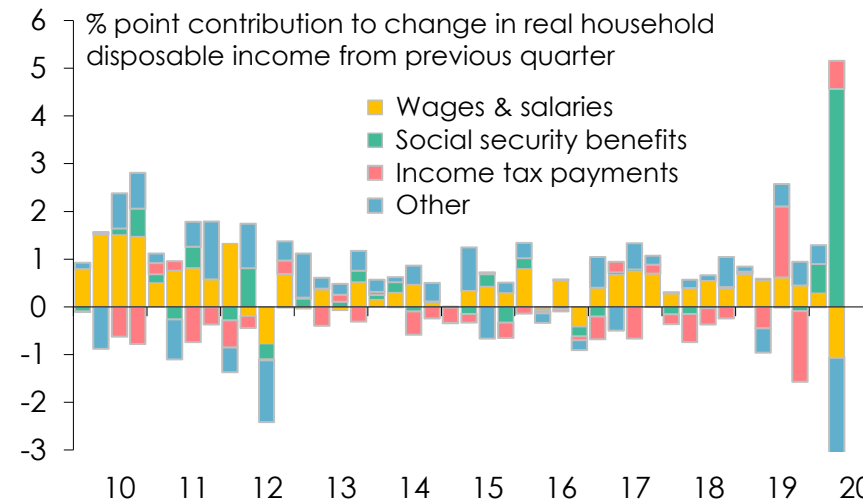
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020. September quarter (Q3) national accounts will be released on 2nd December. [Return to "What's New"](#).

Real GDP fell a record 7.0% in Q2 after a 0.3% decline in Q1, the first time there have been two consecutive declines since Q1 and 12 1991

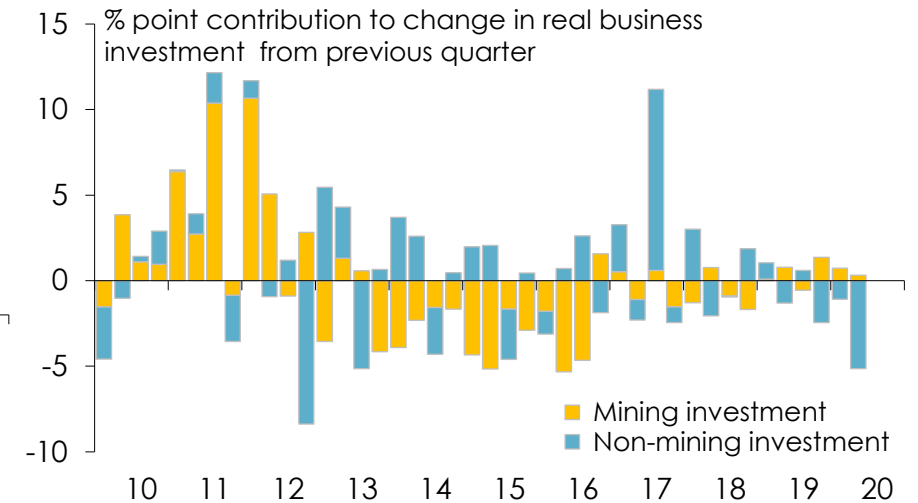
Quarterly change in real GDP



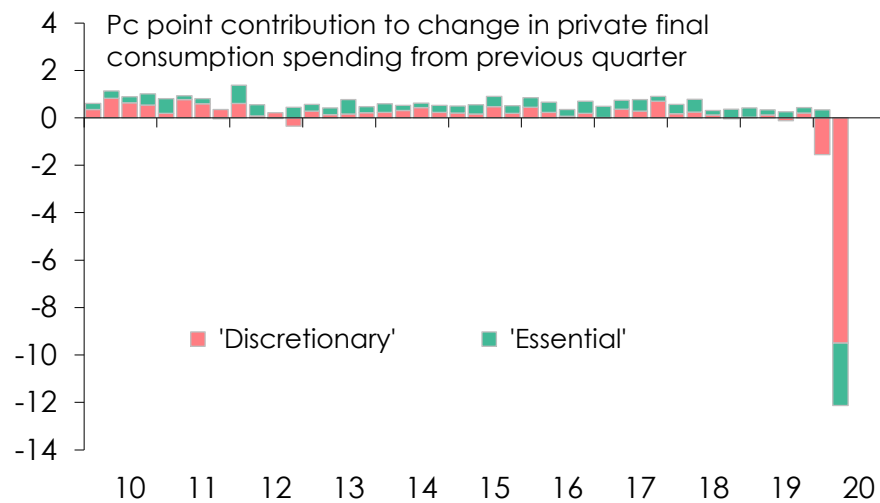
Household disposable income



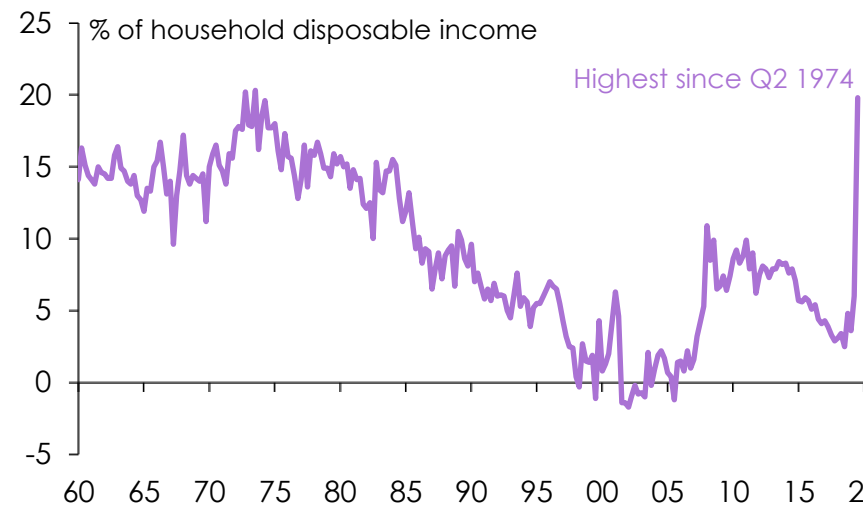
Business investment expenditure



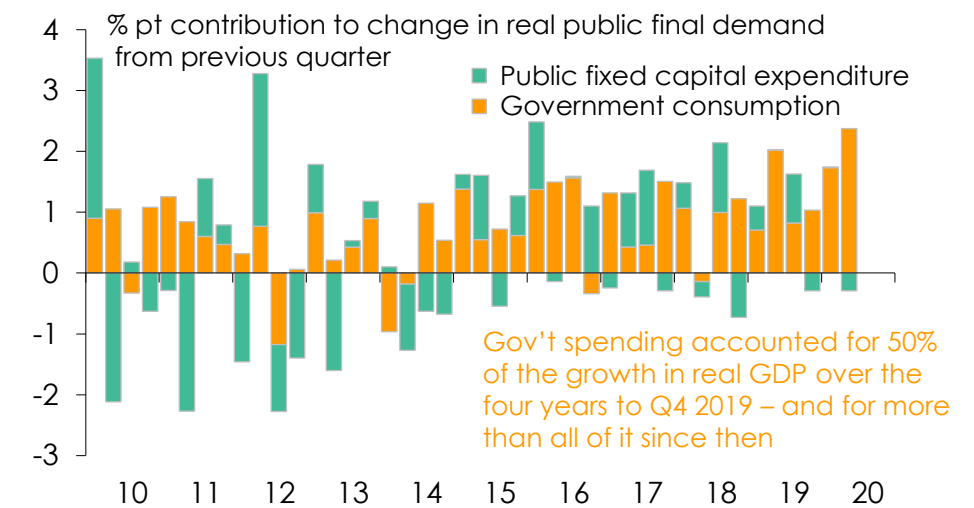
Household consumption expenditure



Household saving rate



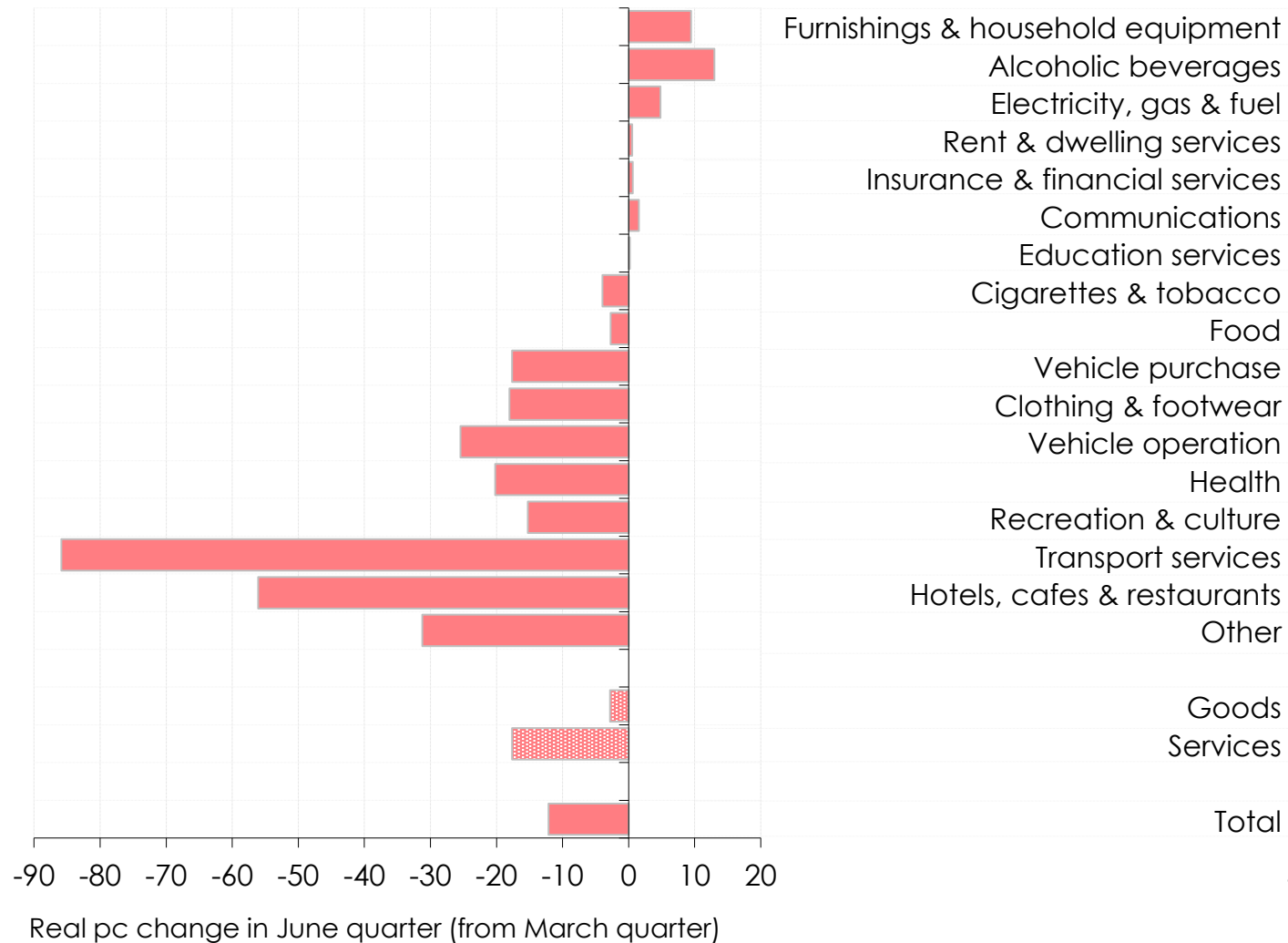
Public expenditure



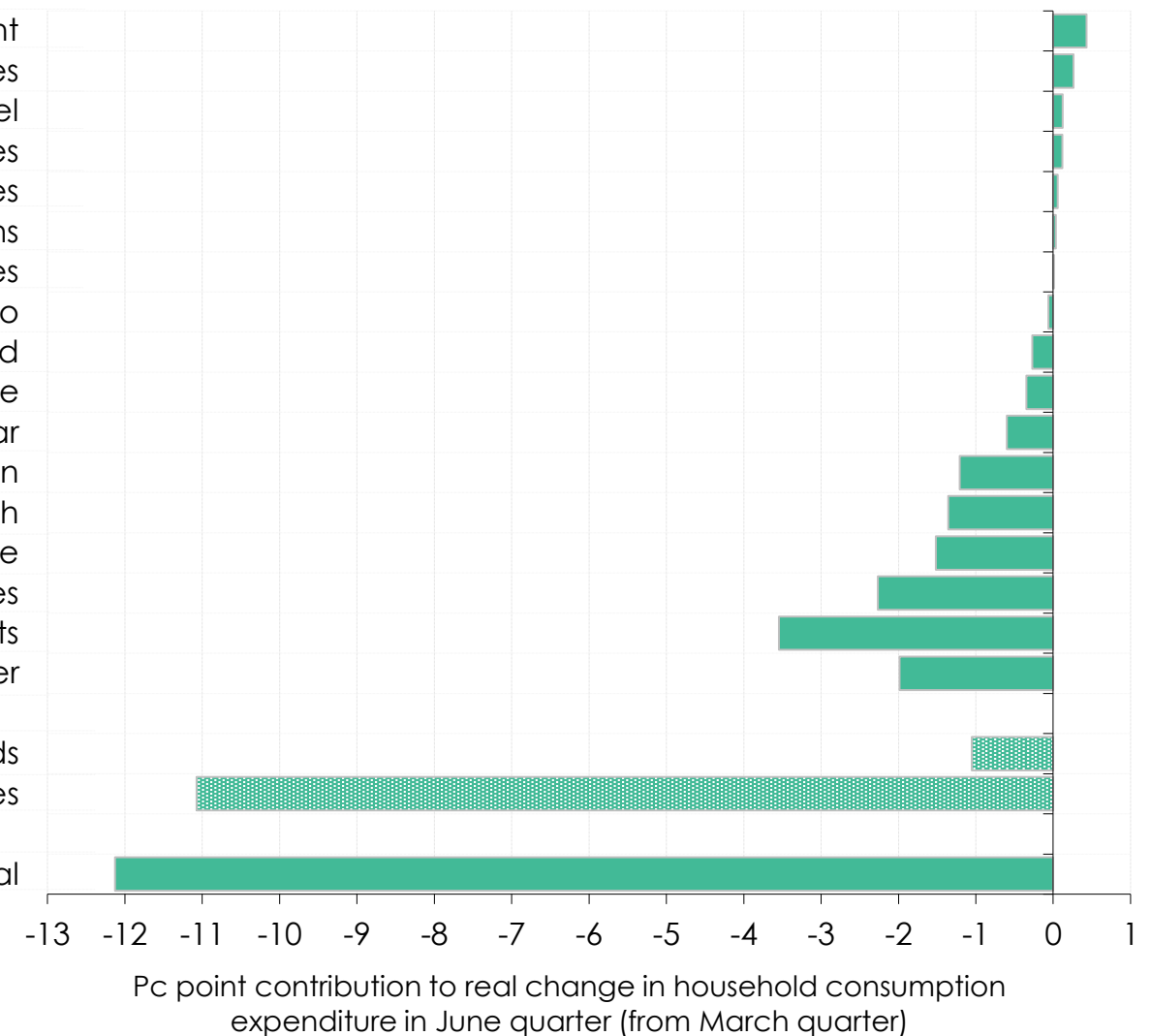
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure. Source: [ABS](#). September quarter national accounts will be released on 2nd December. [Return to "What's New"](#).

The record 12.1% fall in consumer spending in Q2 was largely driven by sharp declines in spending on discretionary services

Change in household consumption spending, by category, June quarter



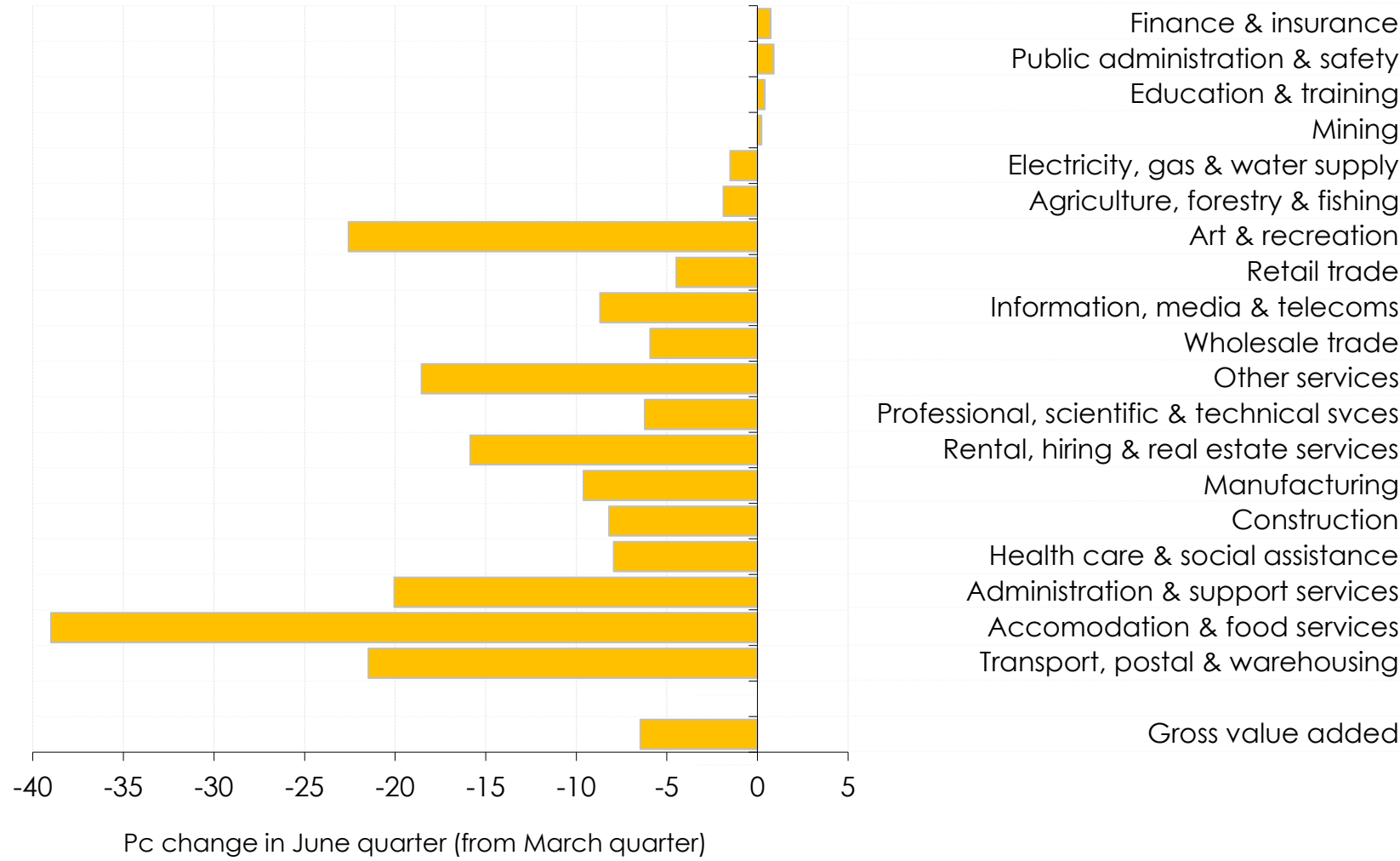
Contribution to change in household consumption spending, by category, June quarter



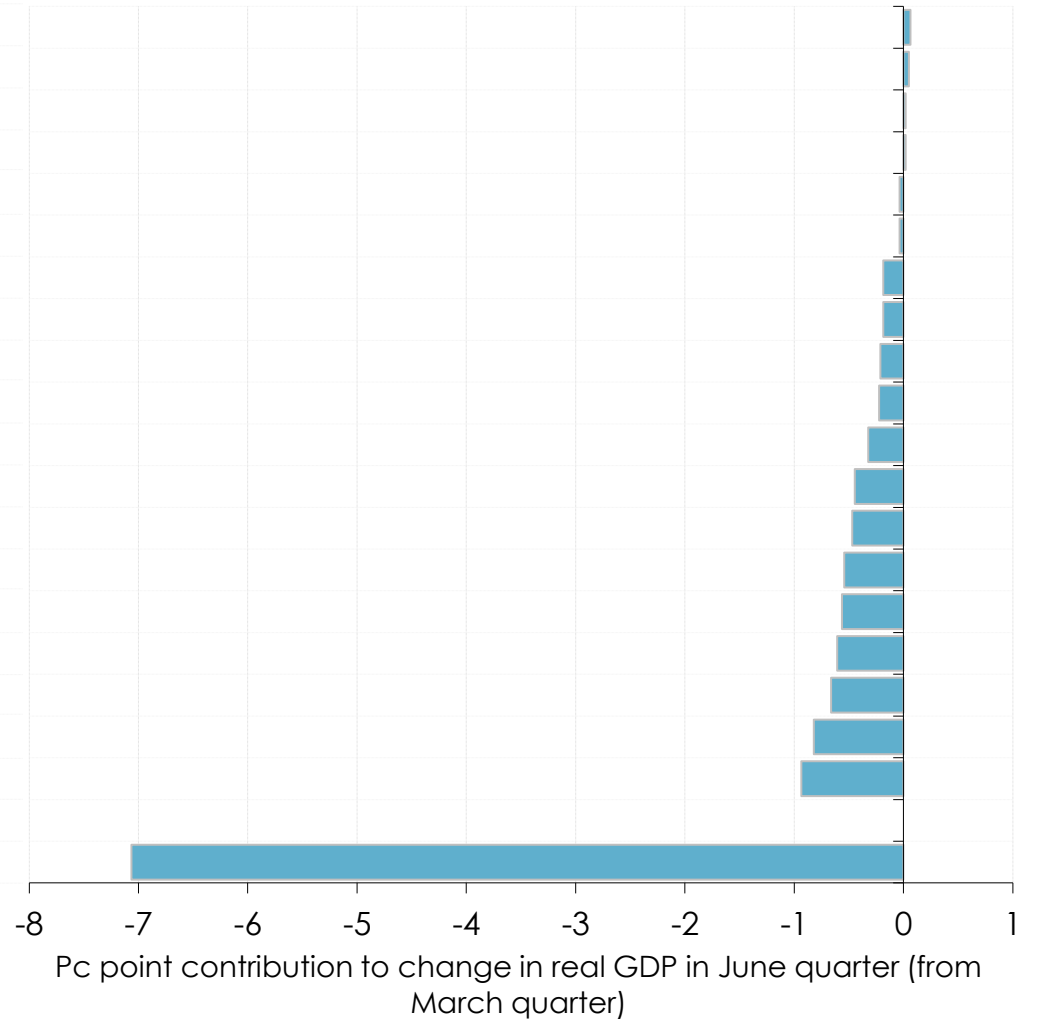
Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). Source: [ABS. Return to "What's New"](#).

From an industry standpoint the record decline in real GDP in Q2 was driven by falls in manufacturing, construction and private sector services

Change in real gross value added, by industry, June quarter



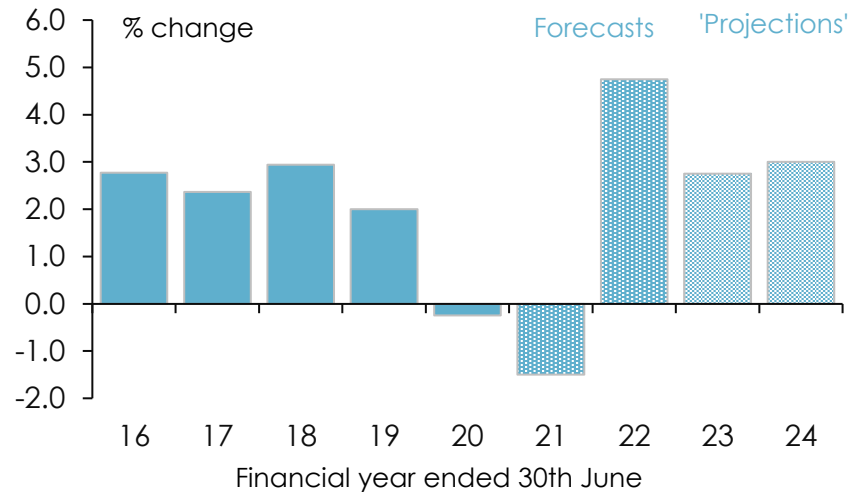
Contribution to change in real GDP, by industry, June quarter



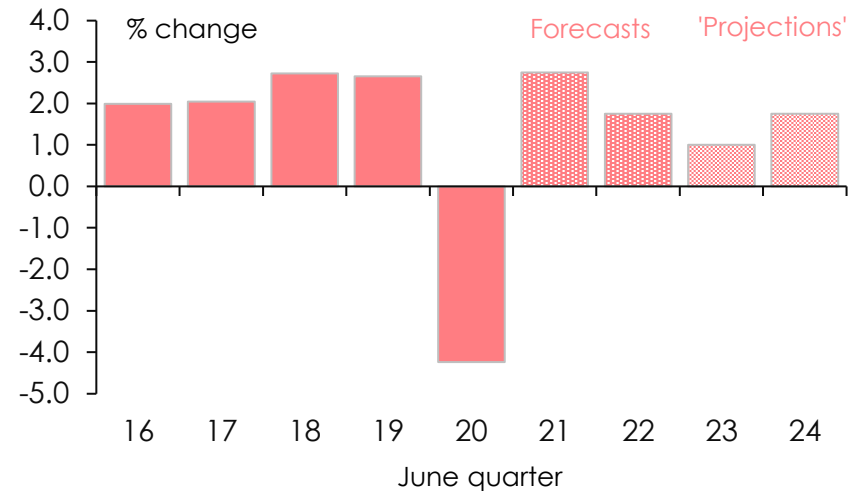
Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts. Source: [ABS](#). [Return to "What's New"](#).

In this week's Budget Treasury predicted a strong turnaround in economic activity with 4¼% real GDP growth in calendar 2021 after -3¾% in 2020

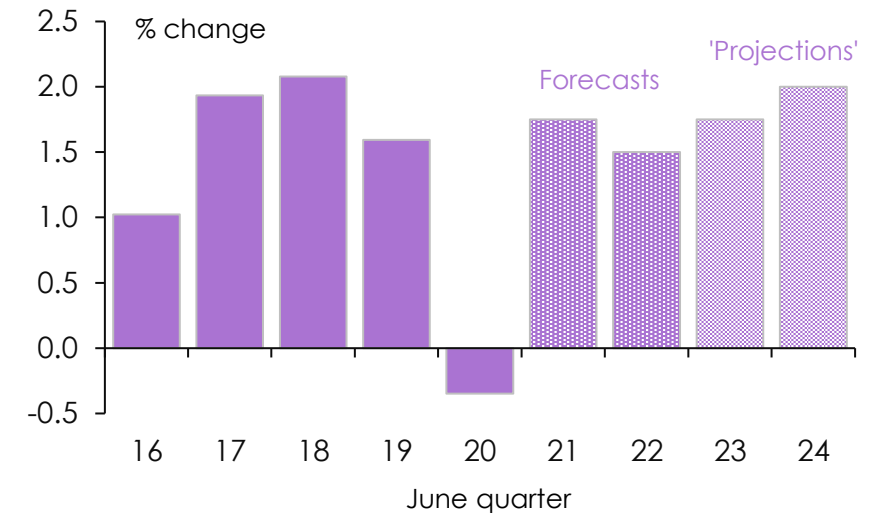
Real GDP



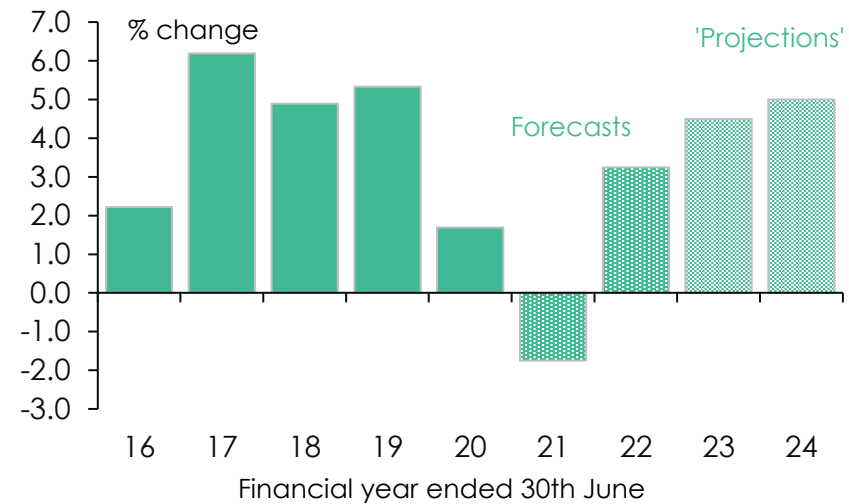
Employment



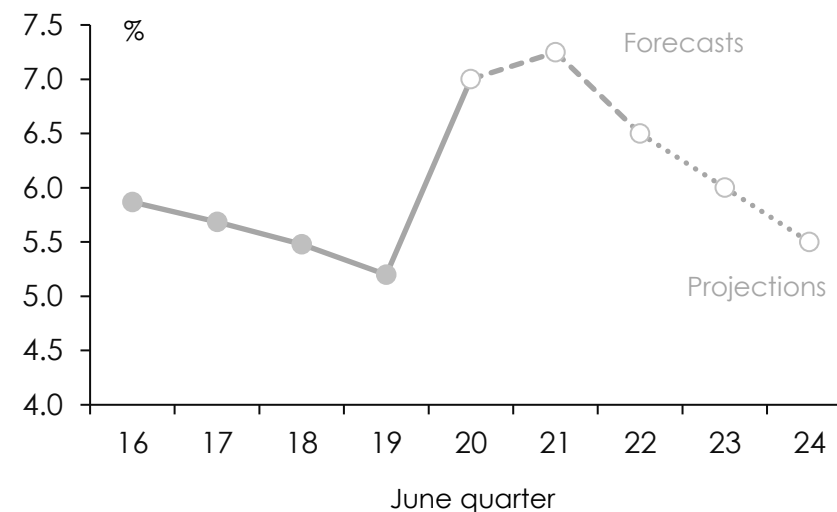
Consumer price index



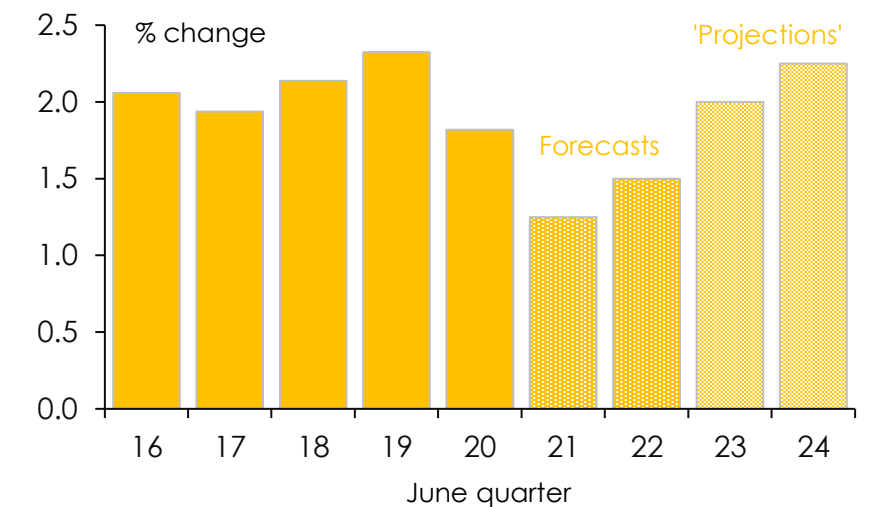
Nominal GDP



Unemployment rate



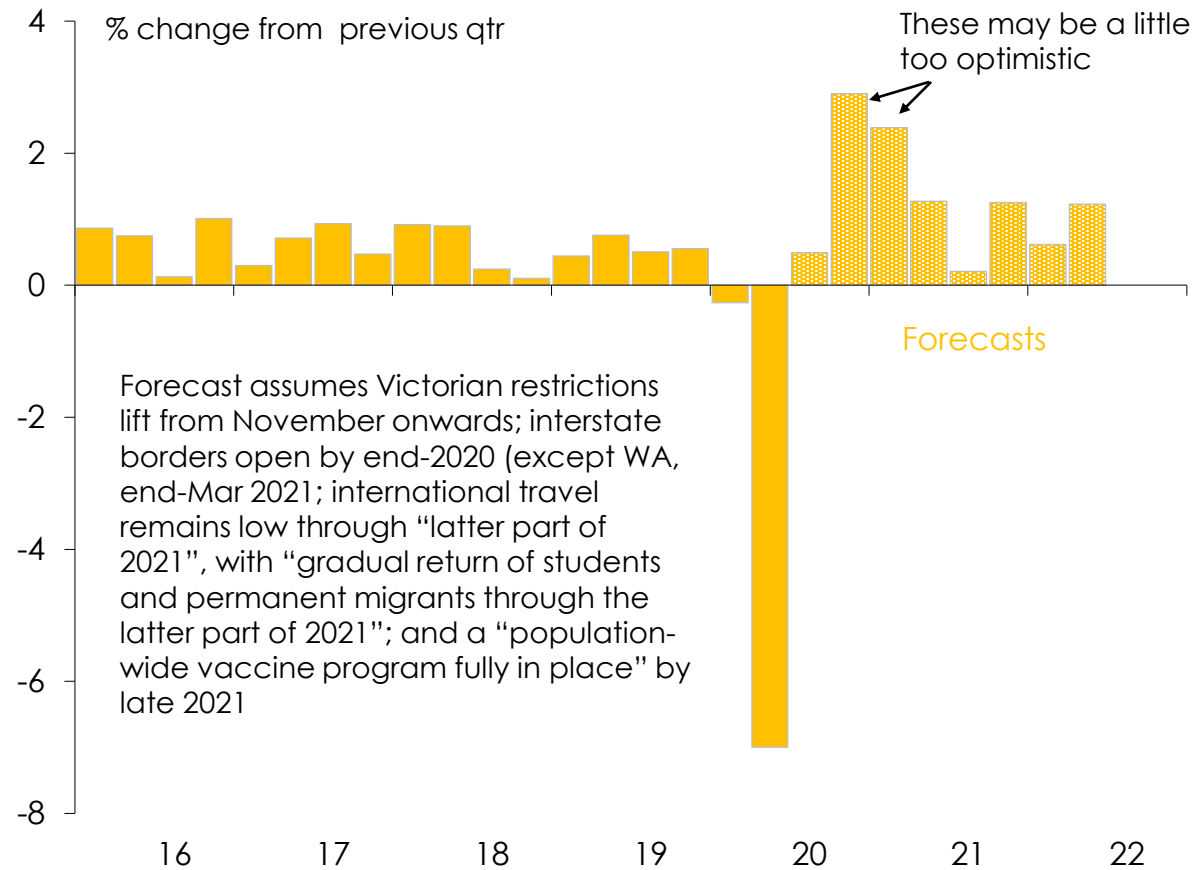
Wage price index



Note: 'Forecasts' are Treasury's 'best endeavours' estimates for the current and following financial years. By convention, 'projections' for the following two financial years are *not* forecasts, but rather result from a 'medium-term methodology and supply side assumptions' based on a premise that 'any spare capacity in the economy is absorbed over five years following the end of the forecast period' (ie from 2022-23 through 2027-28 inclusive). Sources: ABS; 2020-21 [Budget Paper No. 1, Statement No. 2](#).

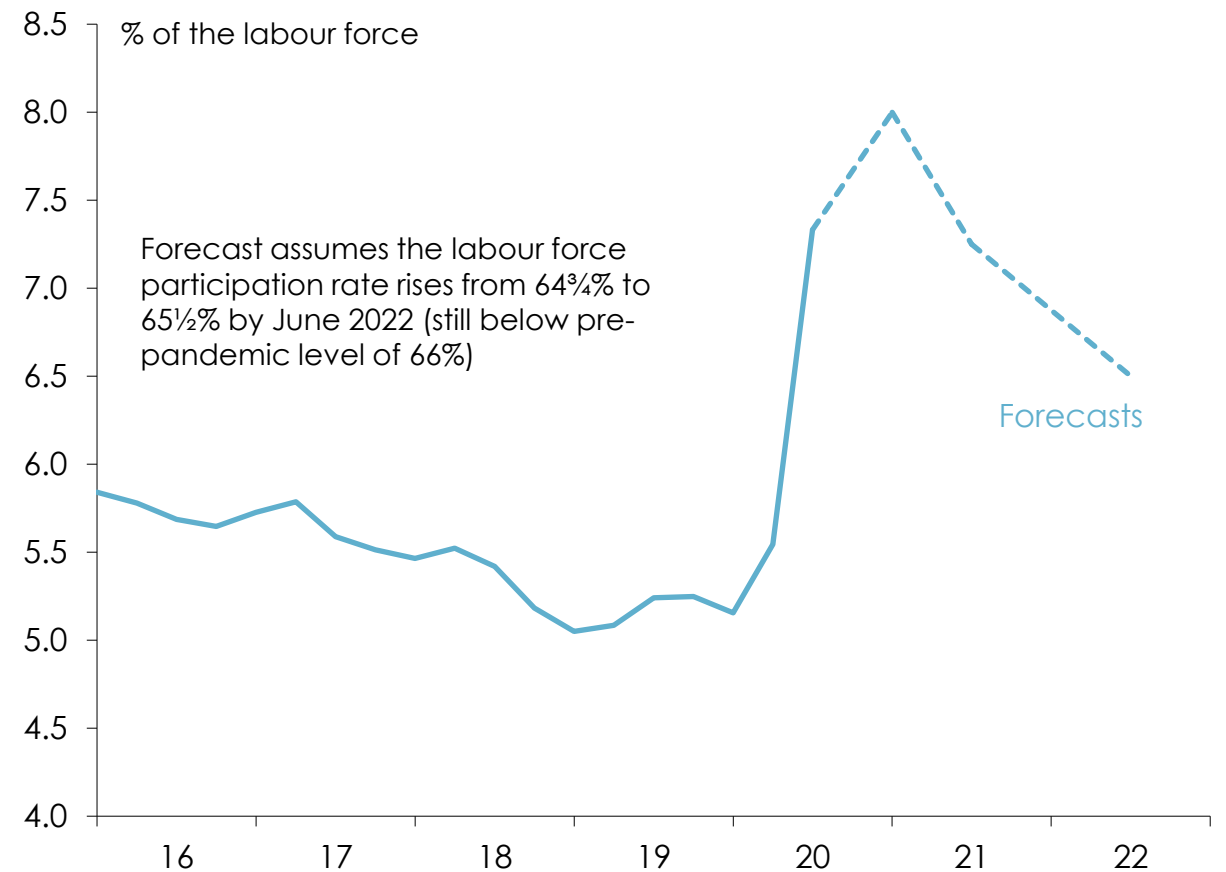
More detailed forecasts show the Government expects a 'growth surge' over summer followed by more modest growth in 2021-22

Real GDP growth



- Treasury expects that economic growth resumed in the September quarter, will reach almost 3% in the December quarter, 2½% in the March quarter 2021 and then average ¾% per quarter for the next 5 quarters

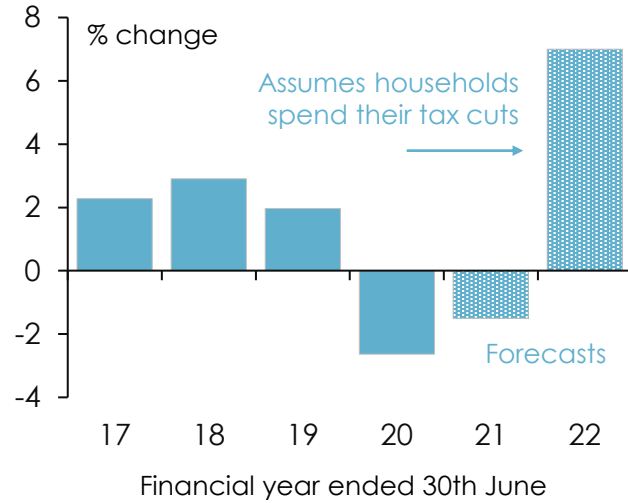
Unemployment



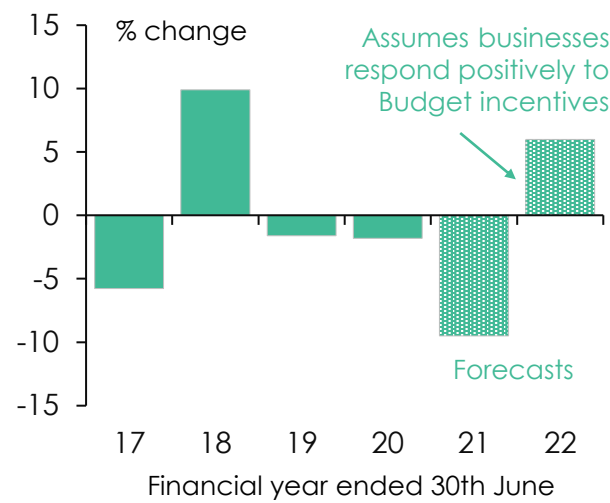
- Treasury expects the unemployment rate to peak at 8% in the December quarter, and then fall to 6½% by the June quarter 2022

Household consumption and housing investment are expected to drive the recovery, while the current account balance is set to back into deficit

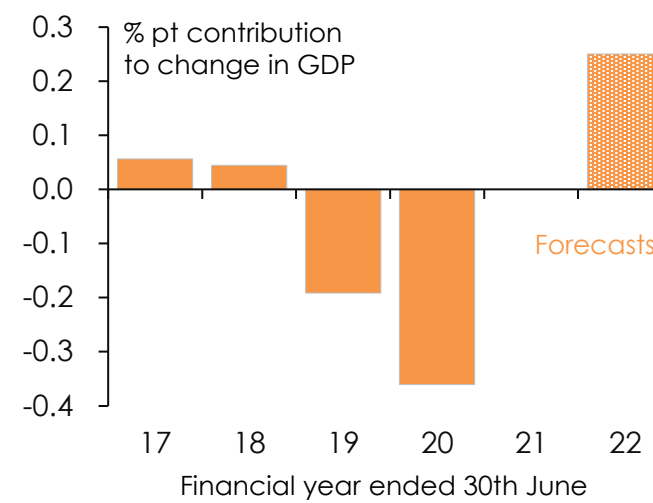
Household consumption



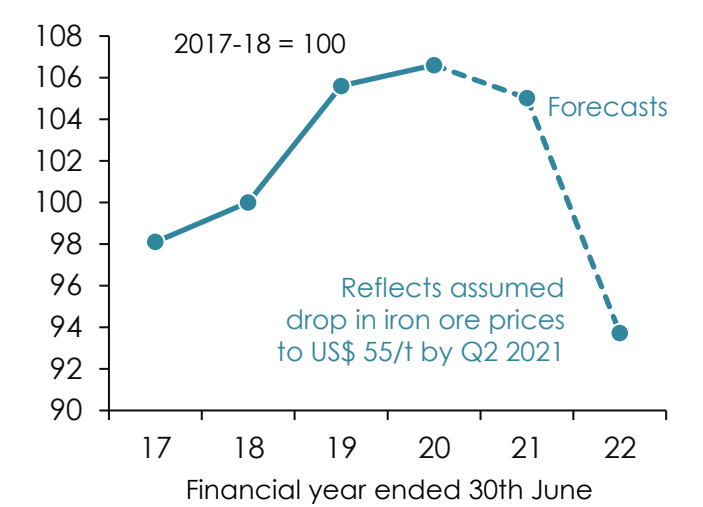
Business investment



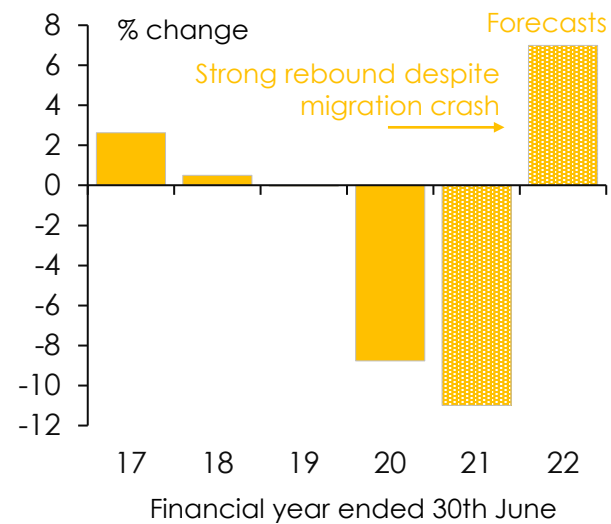
Change in inventories



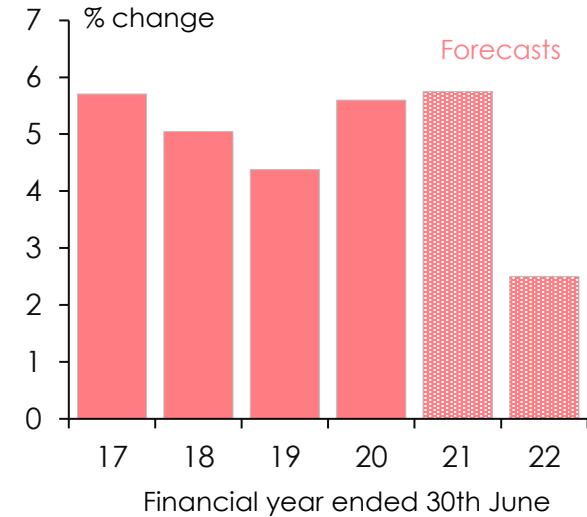
Terms of trade



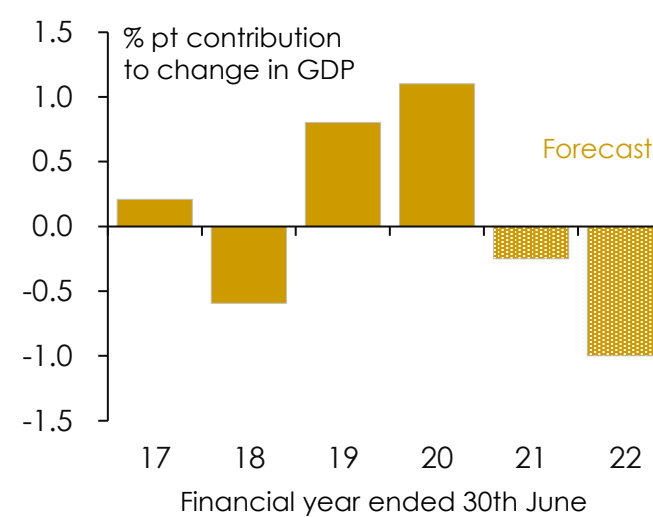
Dwelling investment



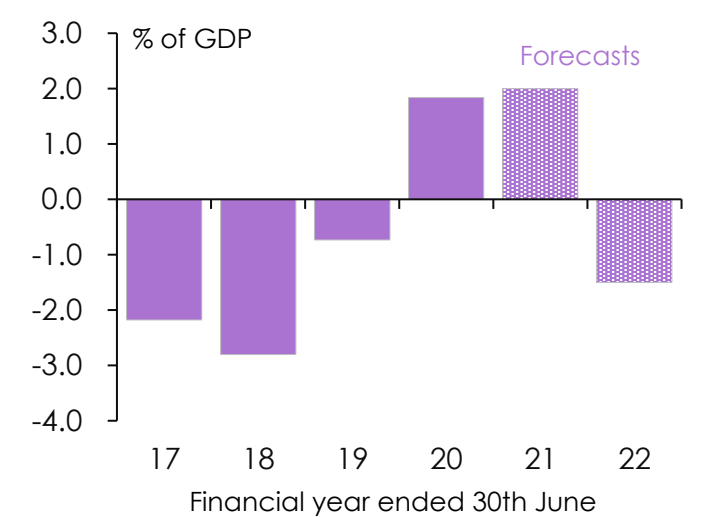
Public spending



Net exports



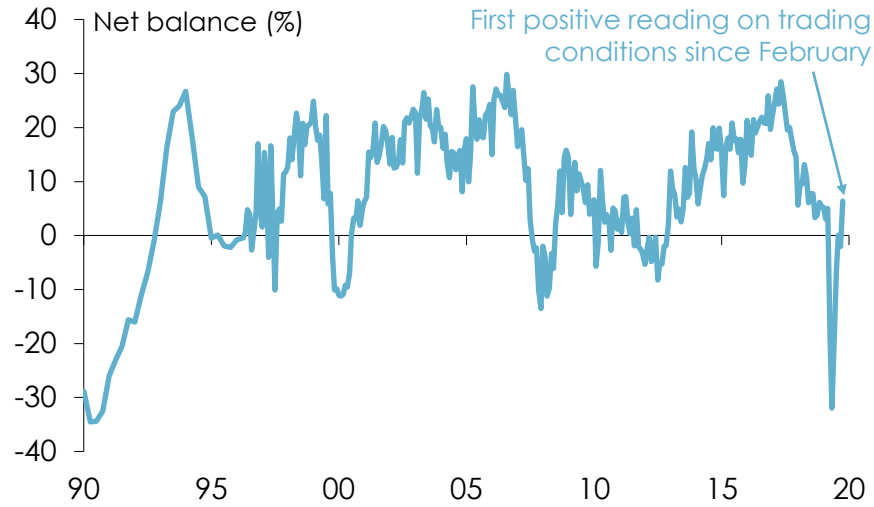
Current account balance



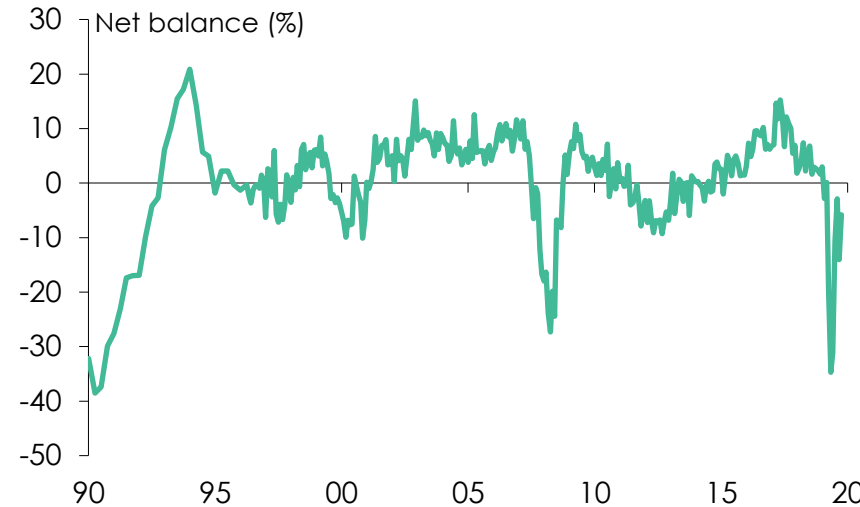
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K in 2020-21 and -22K in 2021-22; international travel bans lifted gradually through 2021; iron ore price falling to US\$55/t FoB by June 2021; metallurgical and thermal coal prices remaining at US\$108/t and \$51/t respectively; oil prices at US\$46/bbl; and the A\$ remaining at around US72¢. Sources: ABS; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 2](#).

All of the components of the NAB business conditions index improved in September, although hiring intentions in particular remain soft

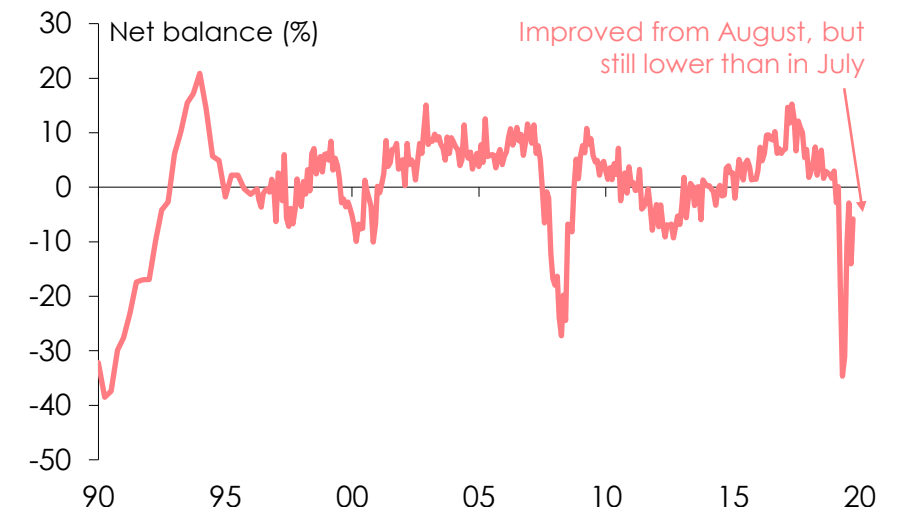
Trading conditions



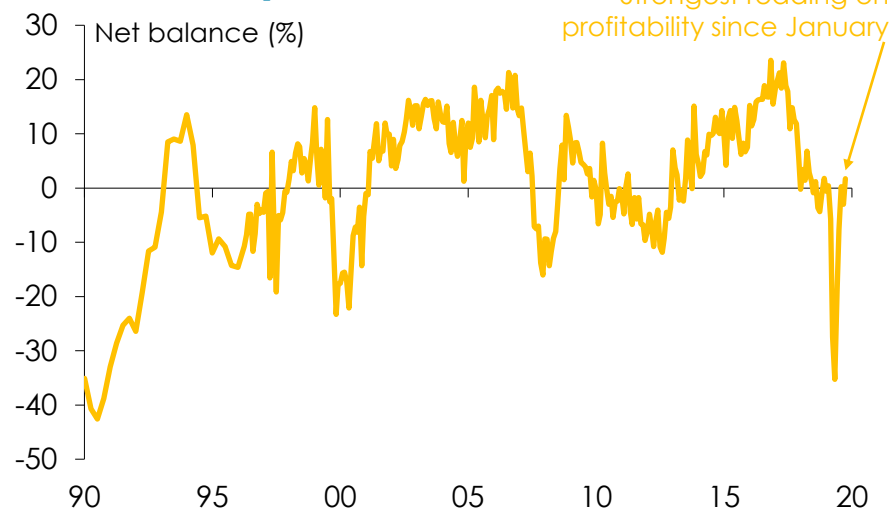
Forward orders



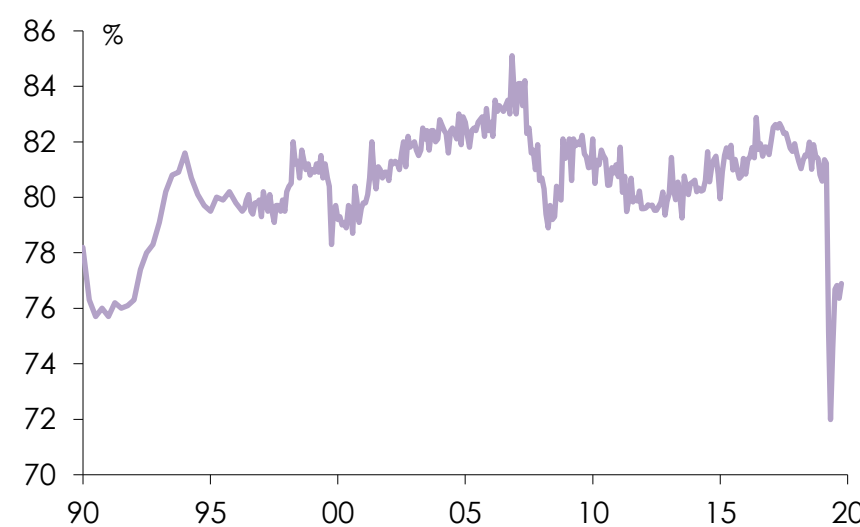
Employee hiring intentions



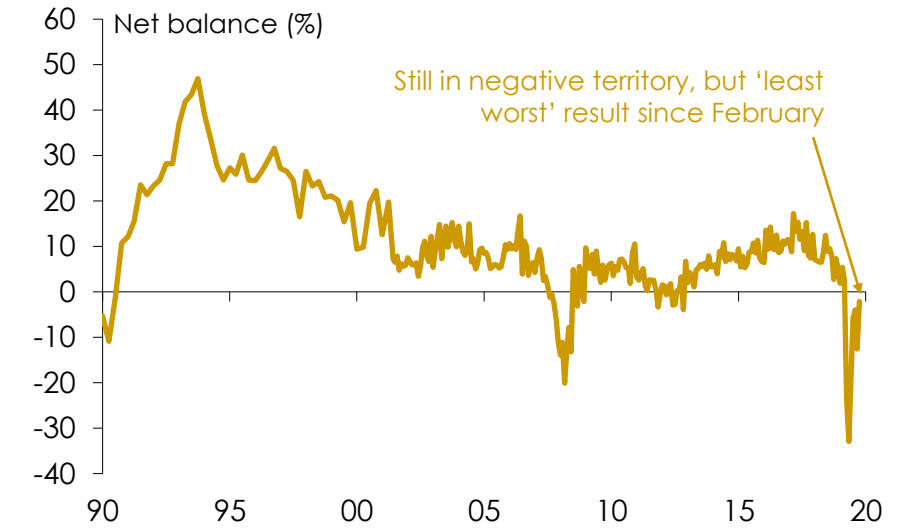
Profitability



Capacity utilization



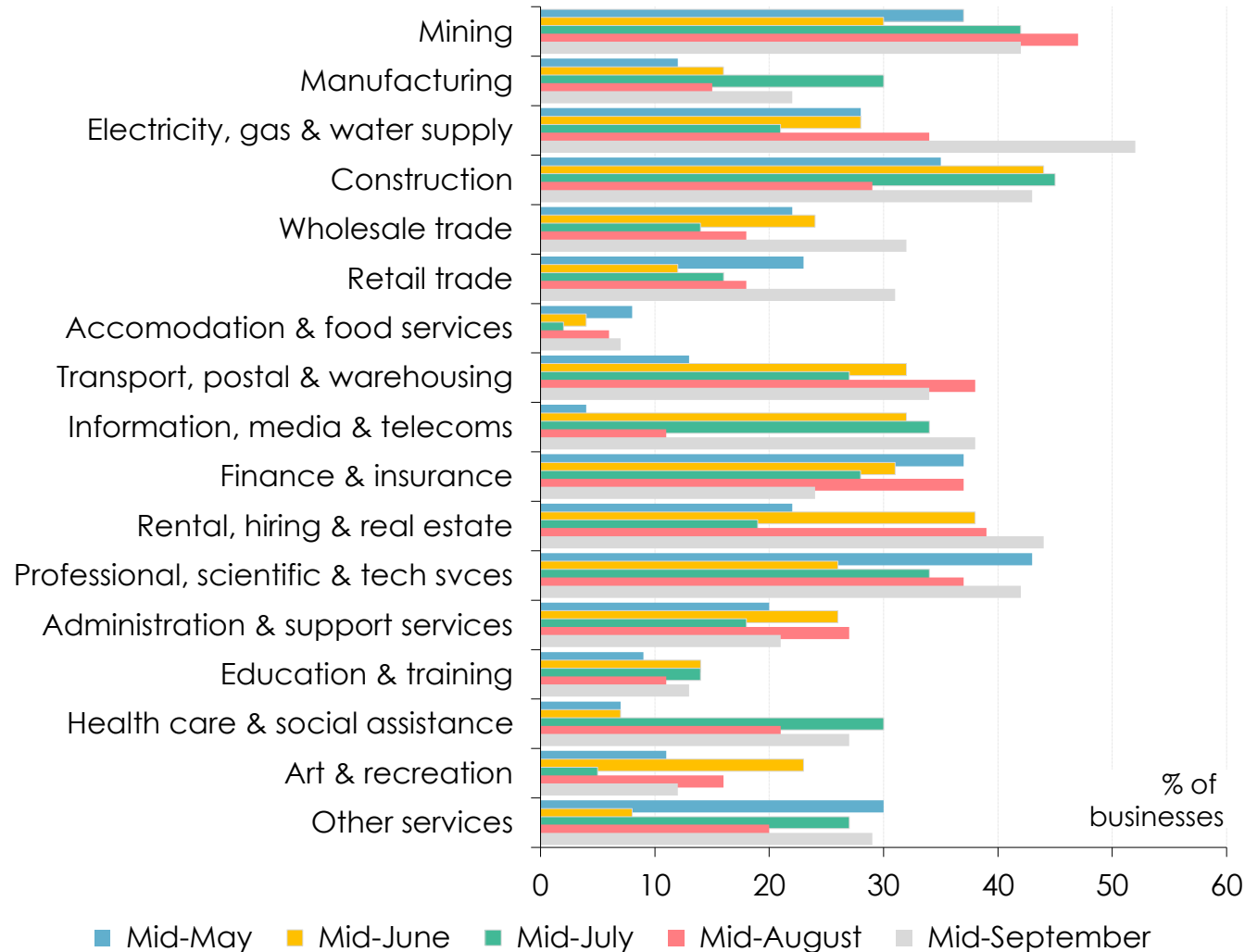
Capital expenditure intentions



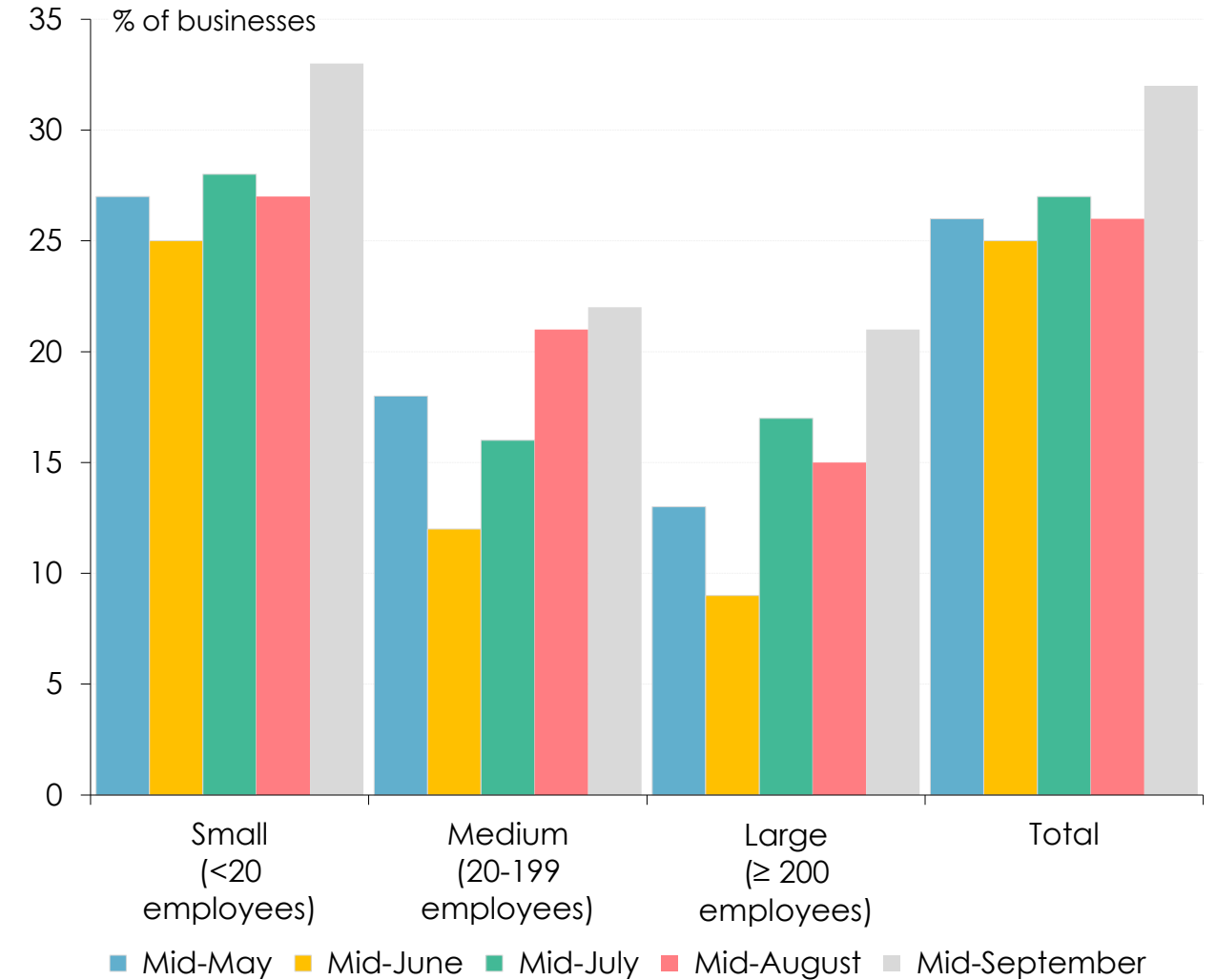
Note: Quarterly data up to March 1987 (May 2002 for capex intentions), monthly thereafter (latest data September 2020). See also chart of business confidence on [slide 80](#). Source: National Australia Bank [Monthly Business Survey August 2020](#); October survey results will be released on 10th November. [Return to "What's New"](#).

Almost one-third of businesses were operating 'as normal' in mid-September – up from one-quarter in each of the previous four months

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



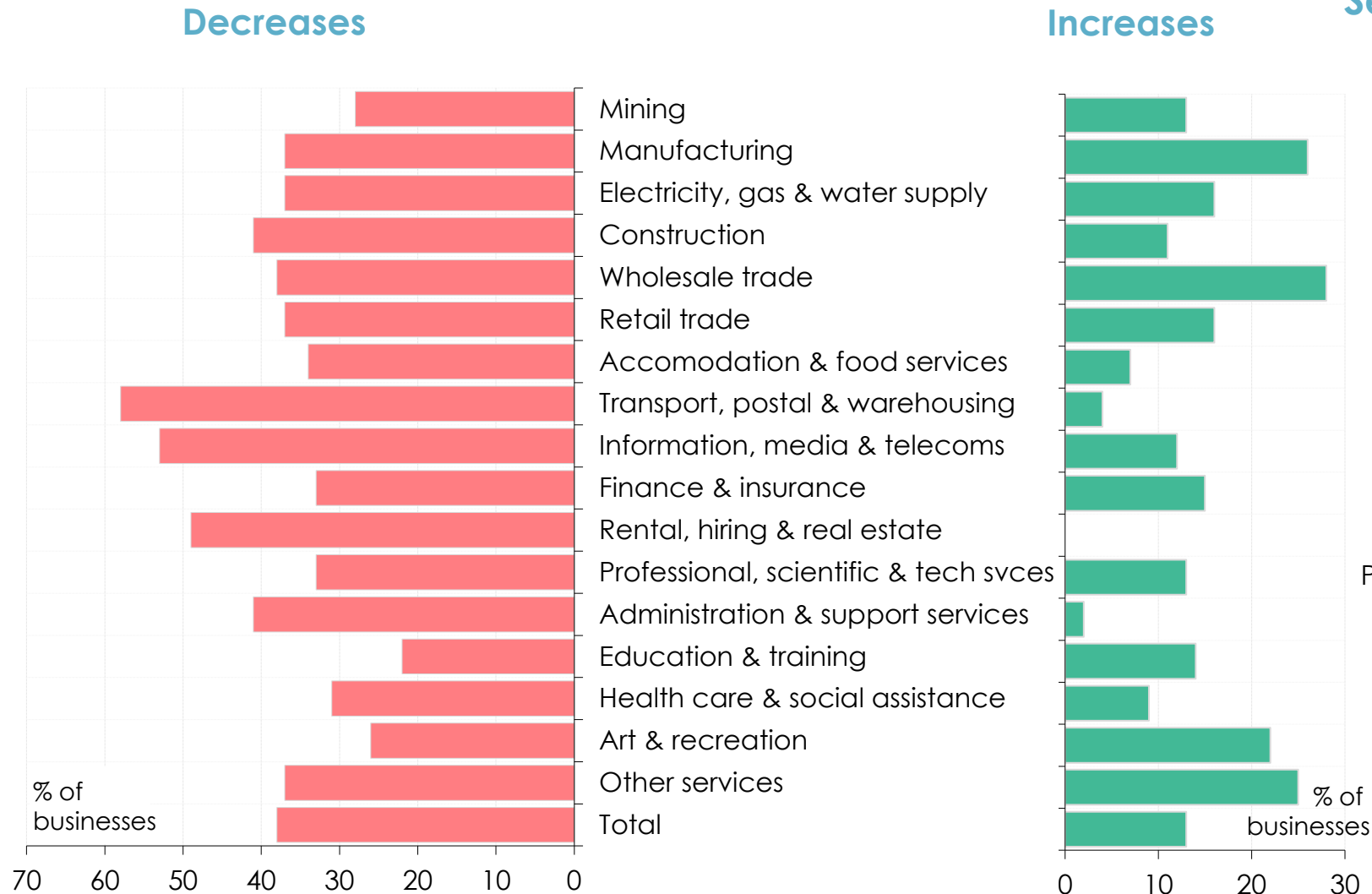
Proportion of 'trading businesses' which are operating 'as normal' – by size



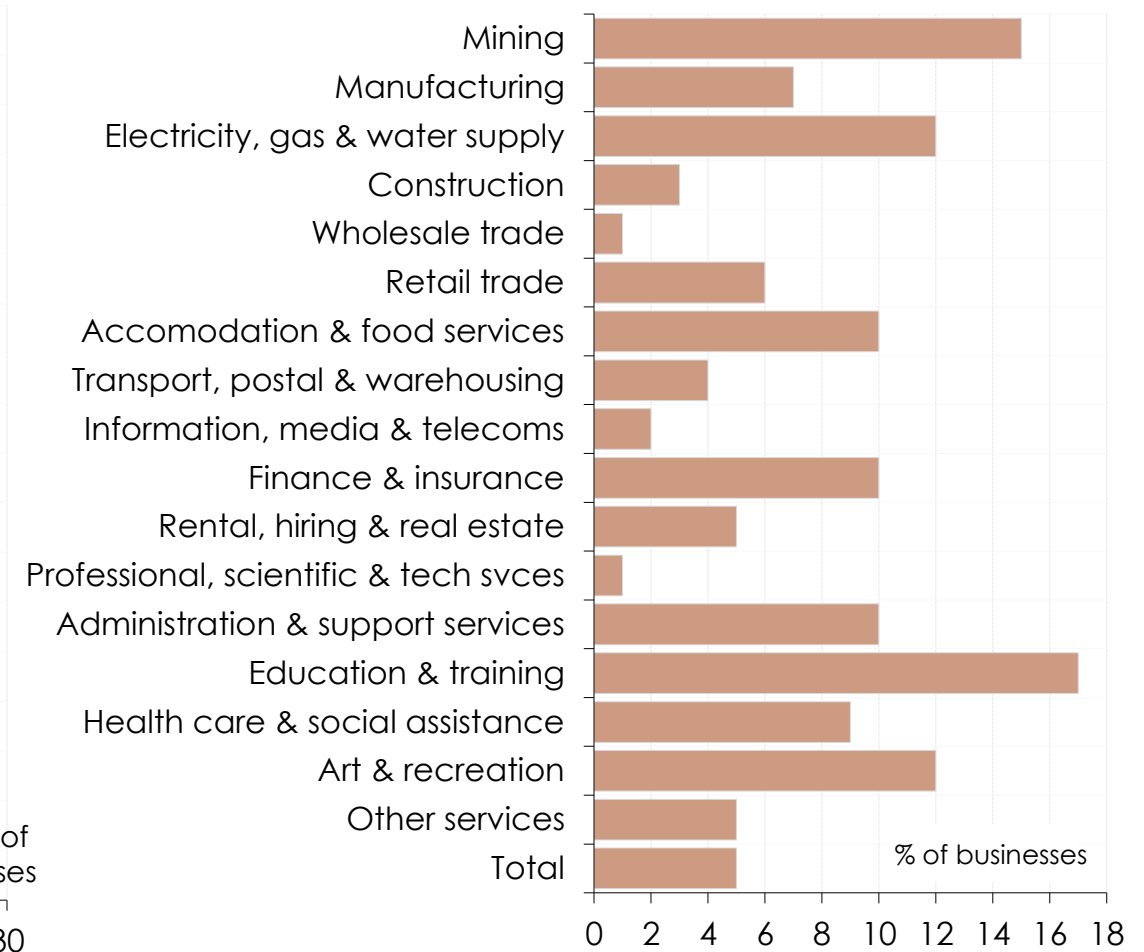
Source: ABS, [Business Impacts of Covid-19](#), May 2020 (based on survey conducted between 13th and 22nd May), June 2020 (based on survey conducted between 10th and 17th June), July (survey conducted between 15th and 23rd July); August (survey conducted between 12th and 19th August); and September (survey conducted between 10th and 16th September). [Return to "What's New"](#).

38% of all businesses reported lower revenue in September – down from 41% in August and 66% in June, but only 5% plan to increase in employment

Proportion of businesses reporting decreases or increases in revenue in September 2020, by industry



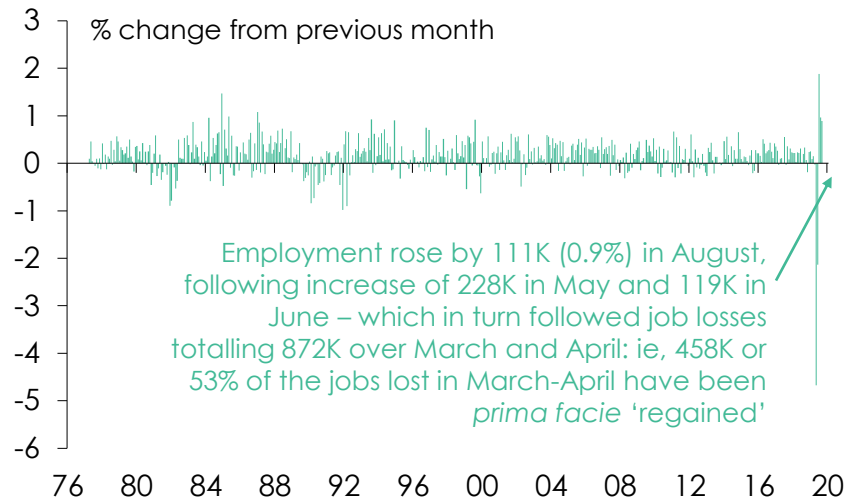
Proportion of businesses planning to increase employee numbers in the next month, September 2020, by industry



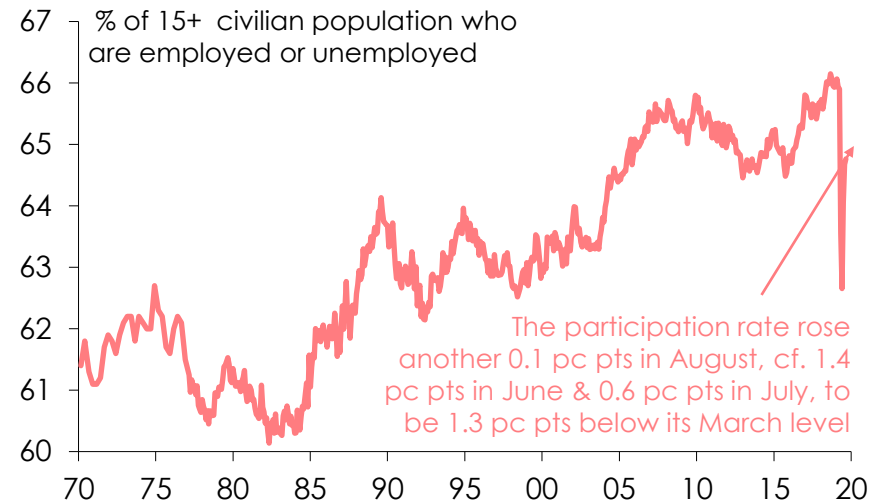
Source: ABS, [Business Impacts of Covid-19](#), September 2020 (based on survey conducted between 10th and 16th September). [Return to "What's New"](#).

458,000 (53%) of those who lost their jobs in March-April are now back at work, although only 11% of those job gains have been full-time

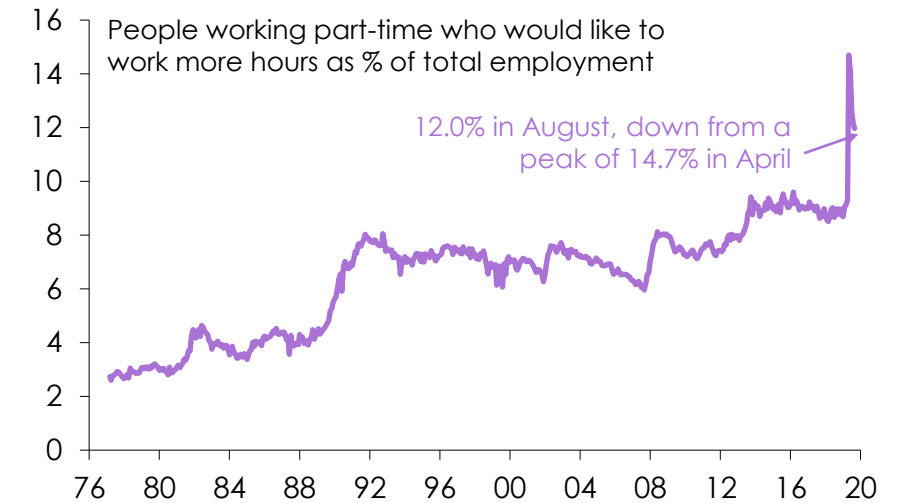
Employment



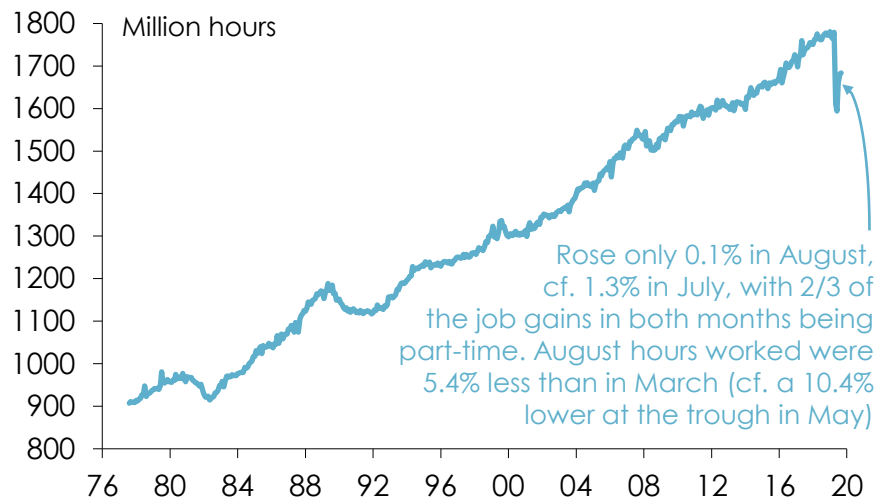
Labour force participation rate



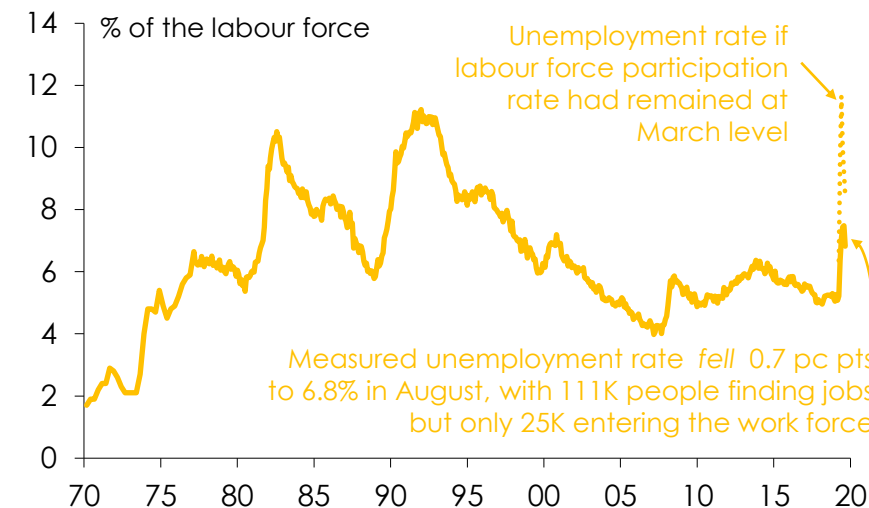
Under-employment ratio



Total hours worked



Unemployment rate



'Under-utilization' rate

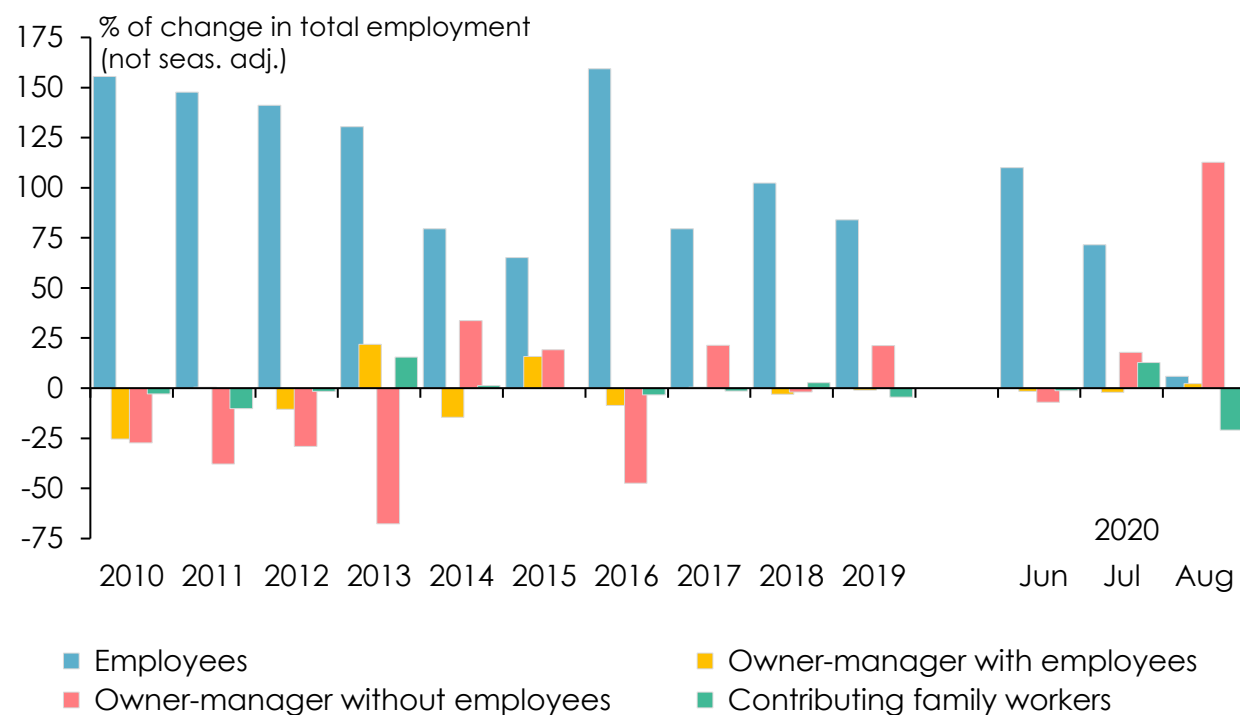


Note: The ABS classifies people on JobKeeper who worked zero hours in the survey week as 'employed'. Had it not done so, the unemployment rate in August would have been 7.9% (down from 11.8% in April) – see also next slide. The 'under-employment ratio' is the percentage of employed persons who are working 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.

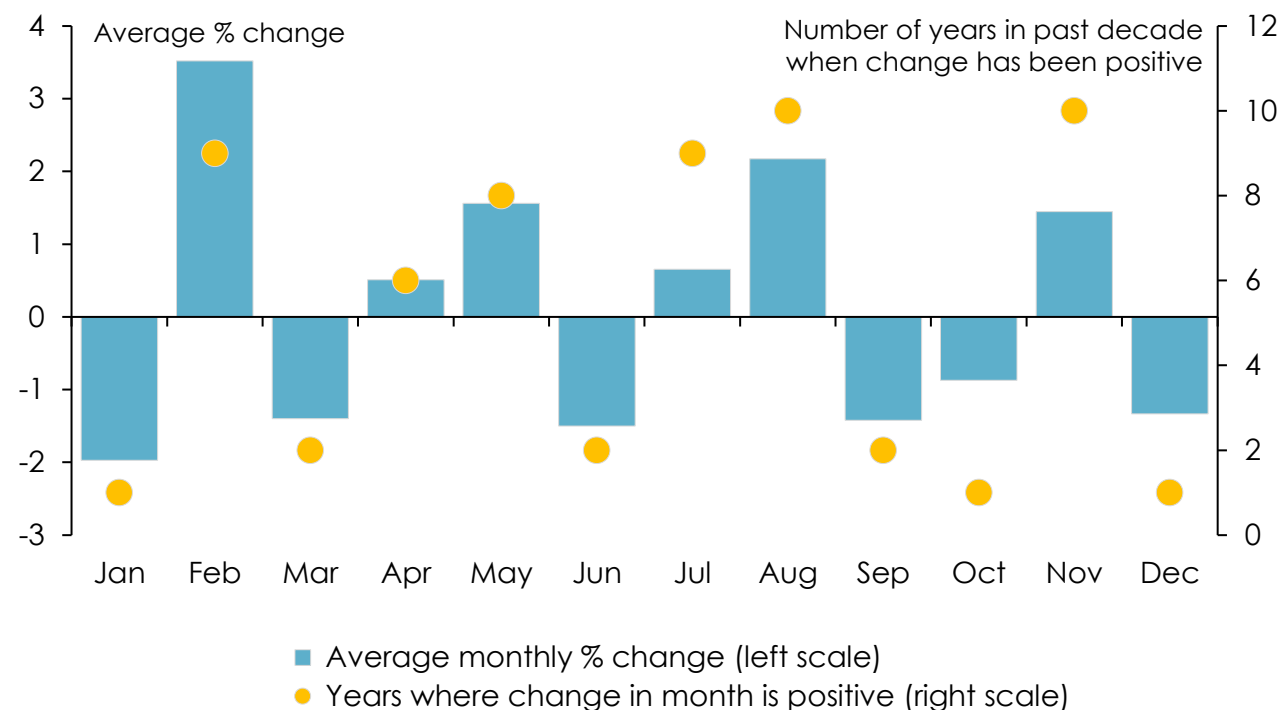
Source: ABS, [Labour Force, Australia](#). September data will be released on 15th October. [Return to "What's New"](#).

An unusually large 4% increase in self-employment apparently more than accounted for all of the increase in employment in August

Proportion of change in employment by employment status, 2010 to August 2020



Average change in number of owner-managers with no employees, by month, 2010-2019



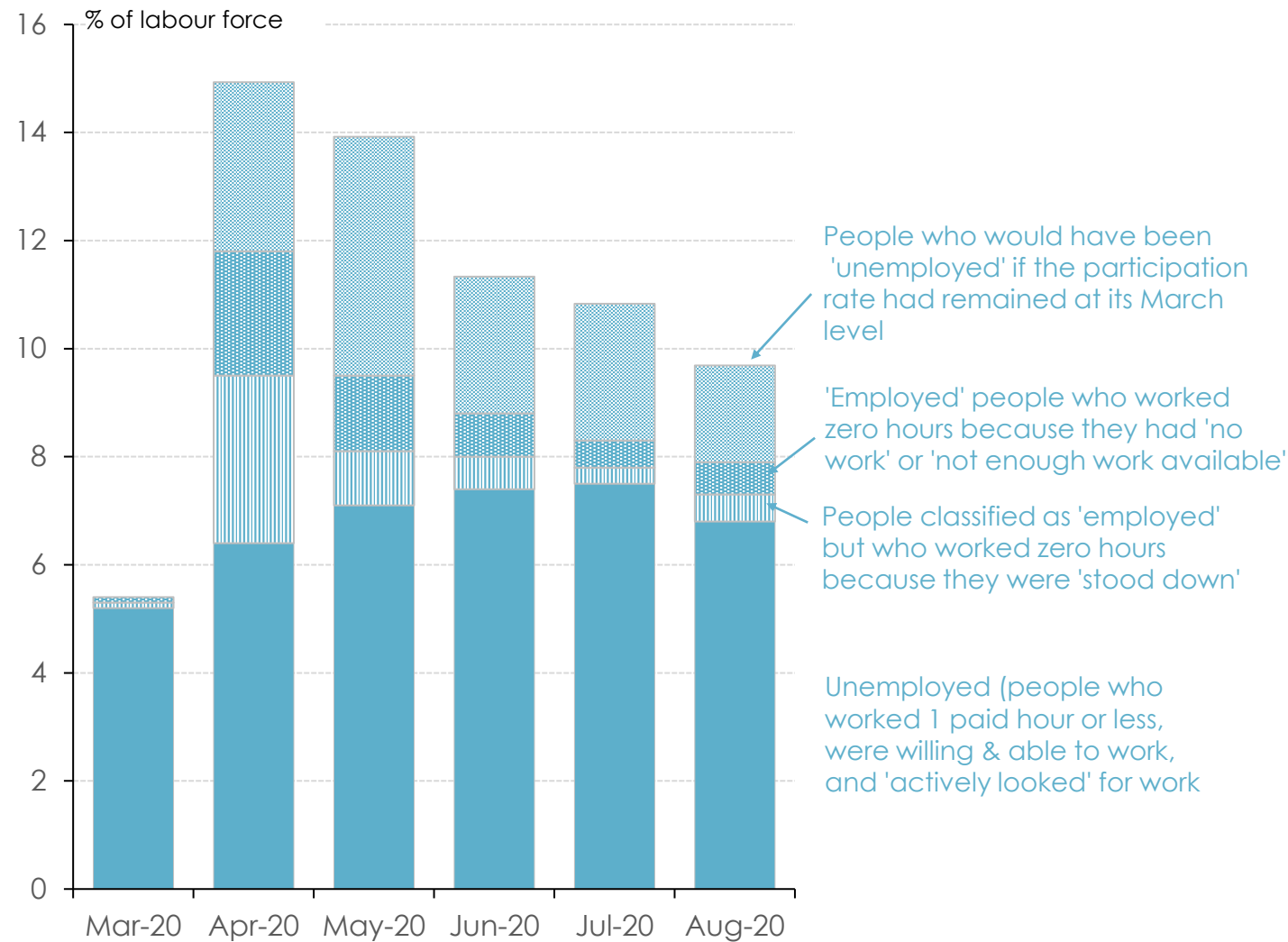
In March 2020 (just before the onset of the pandemic) there were just over 1.3 mn owner-managers of businesses with no employees (including me!), equivalent to 10½% of total employment: they had accounted for 6½% of the increase in total employment over the ten years to December 2019 (and had fallen in five of those ten years)

The middle months of quarters seem to be the most auspicious months for starting one-person businesses – August is one of only two months (November is the other) in the past 10 years in which the number of owner-managers with no employees has never fallen. August 2020’s 3.9% increase was unusually large – but it is too soon to conclude it means that the ‘gig’ economy is the only game in town

Note: data on employment by employment status used in these charts are not seasonally adjusted.
 Source: ABS, [Labour Force, Australia, Detailed](#), August 2020. September data will be released on 22nd October. [Return to "What's New"](#).

The unemployment rate would have been 9.7% in August if people working zero hours and those who dropped out of the labour force were counted

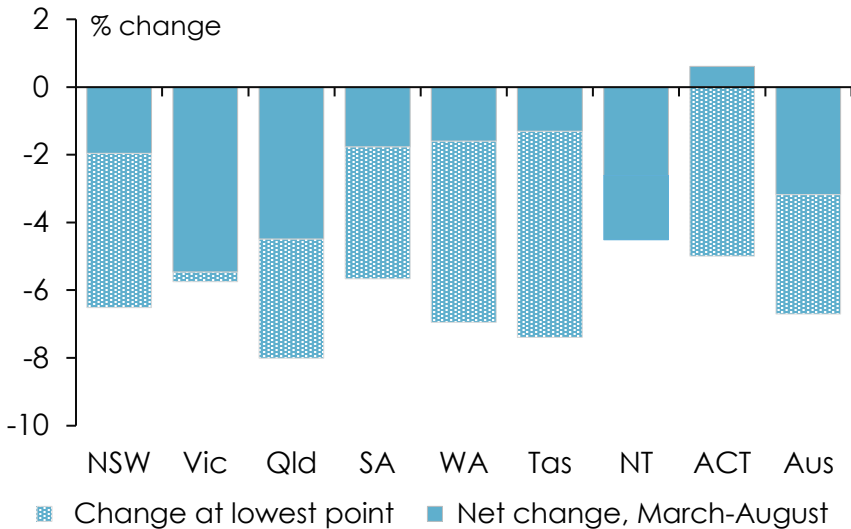
Alternative measures of unemployment



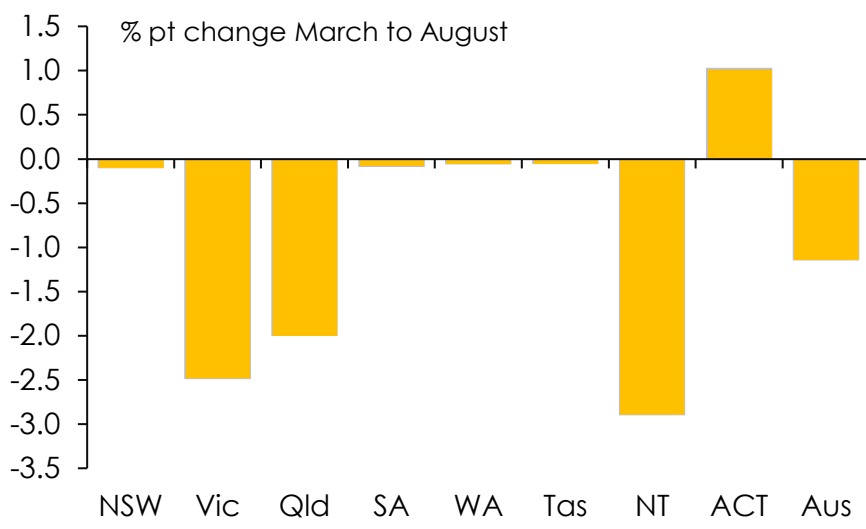
- ❑ The Government's JobKeeper program has paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll since 30th March
- ❑ From 28th September the JobKeeper payment will reduce to \$1200 per fortnight, with a lower rate of \$750 per fortnight for employees who were working fewer than 20 hours per week in the four weeks prior to 1st March ...
- ❑ ... and will reduce further to \$1000 per fortnight (and \$650 per fortnight for those who had been working fewer than 20 hours per week) from 4th January until 28th March, when JobKeeper is currently scheduled to end
- ❑ Employers will also need to demonstrate that they continued to meet the 'drop in turnover' criteria (30% for businesses with turnover of \$1 bn or less, 50% for large employers, 15% for not-for-profits) in both Q3 and Q4 to remain eligible for JobKeeper payments

Tasmania, WA, the ACT and NSW have seen the strongest jobs recoveries since June, while Victoria has (for obvious reasons) had the weakest

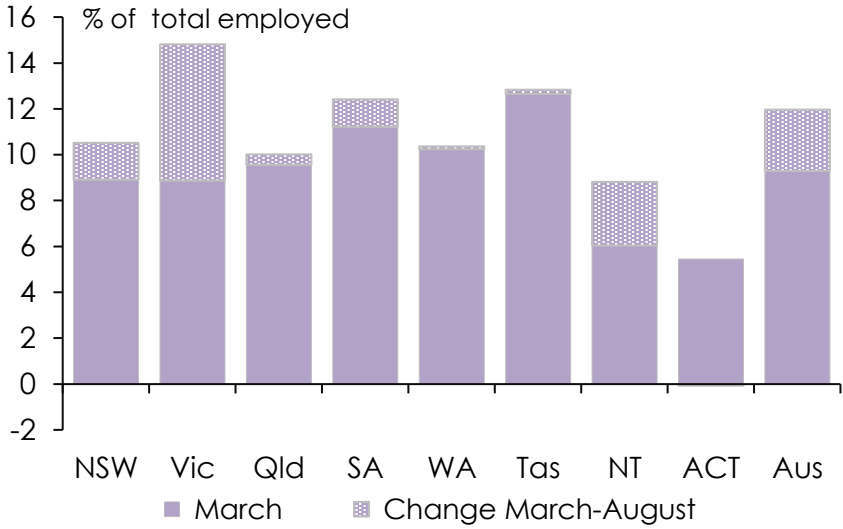
Employment



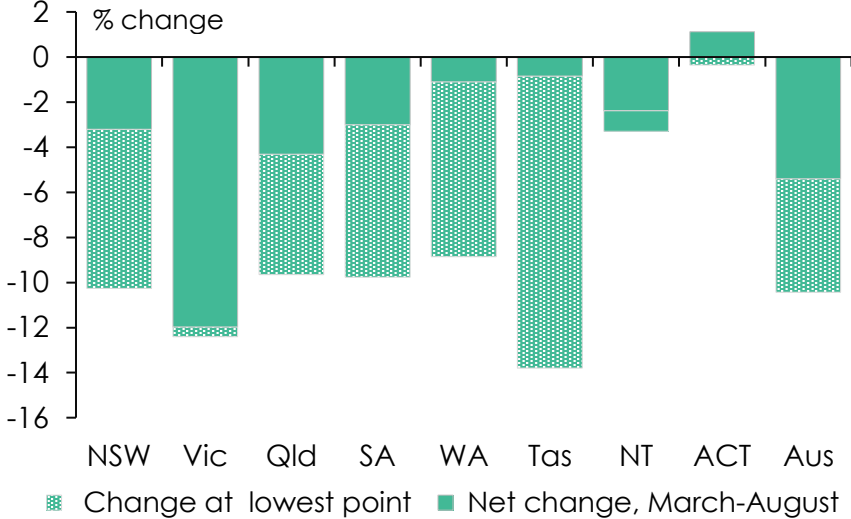
Labour force participation rate



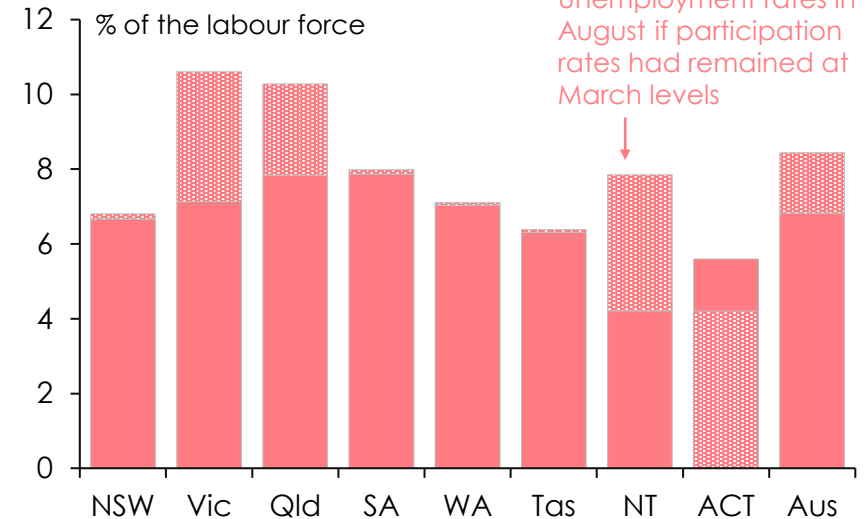
Under-employment ratio



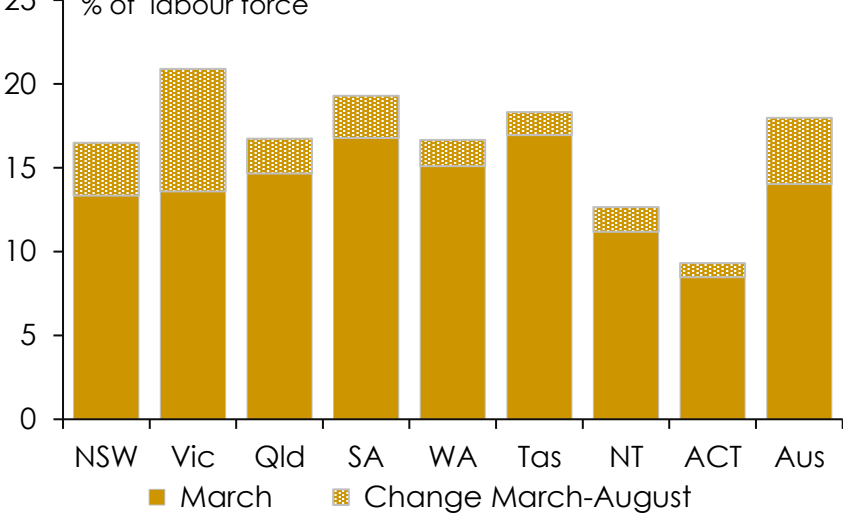
Total hours worked



Unemployment rate



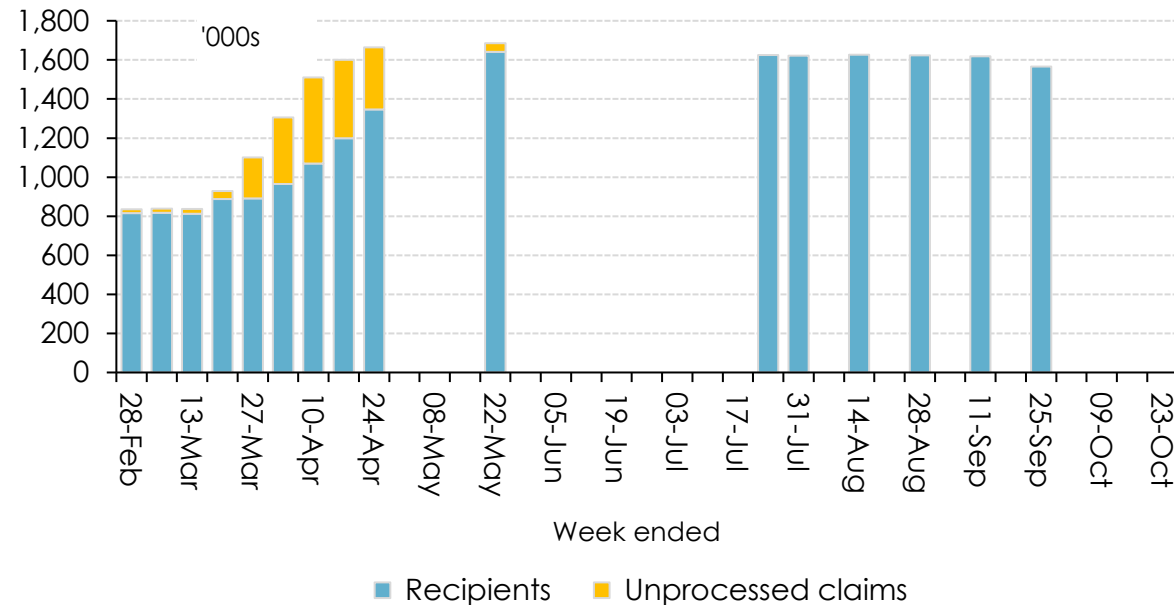
'Under-utilization' rate



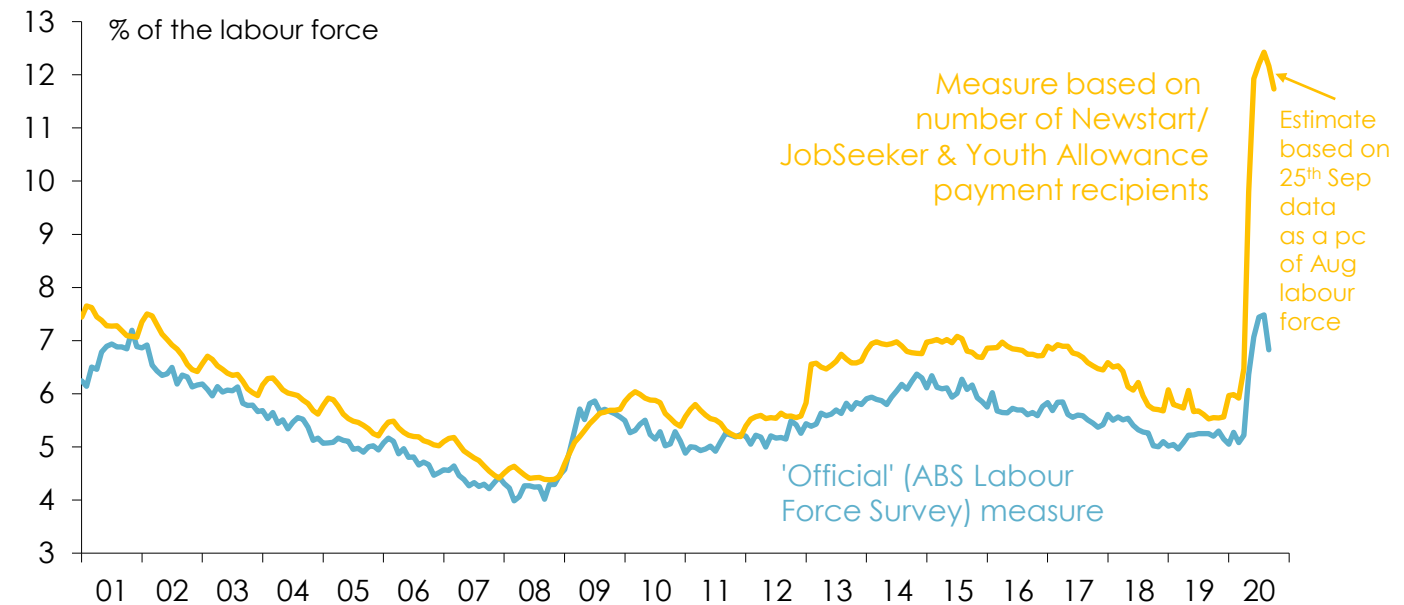
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS, [Labour Force, Australia](#); September data will be released on 15th October. [Return to "What's New"](#).

The Australian Government (unlike the US Government) seems to regard weekly data on the number of joblessness beneficiaries as a 'state secret'

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



Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force

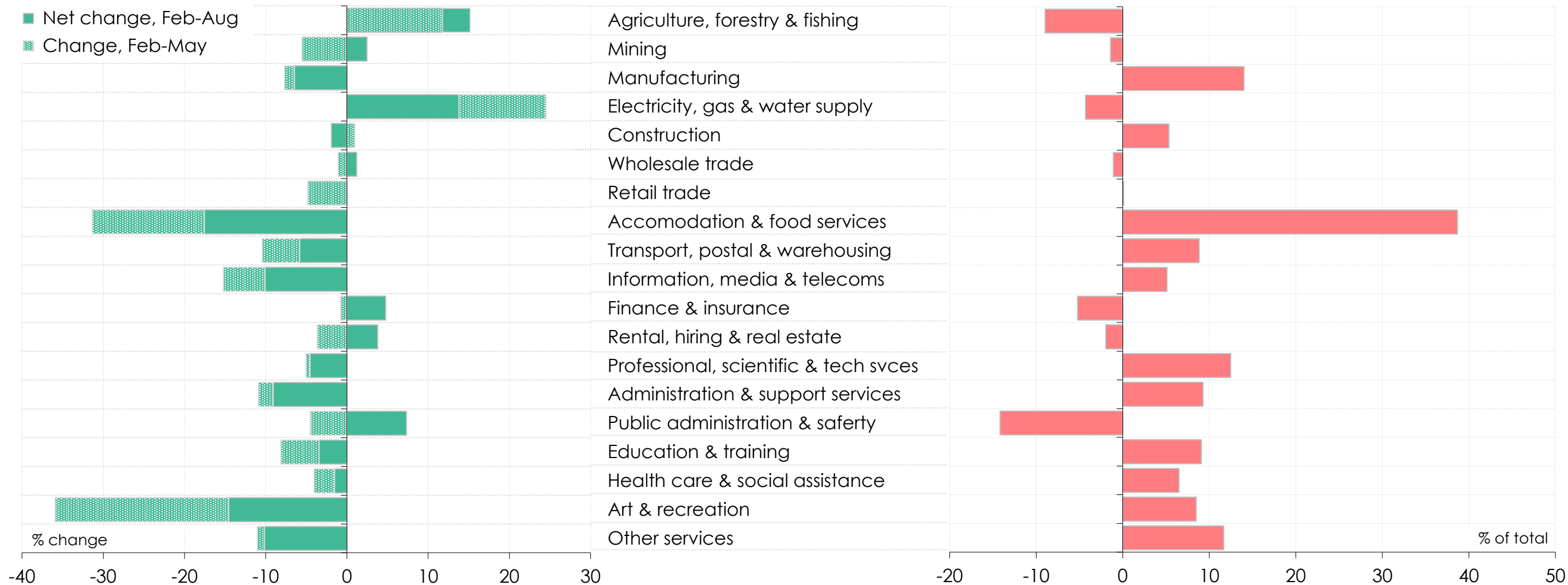


- ❑ The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available
- ❑ On two occasions earlier this year the Secretary of DSS provided weekly data to the Senate Select Committee on Covid-19, and on 29th July promised to provide fortnightly and monthly data to this Committee; however so far only three sets of data have been provided, the latest being for 25th September, and the Government is keeping the weekly data secret
- ❑ By contrast, the US Labor Department has been making the equivalent data (the 'initial claims' series) available every Thursday morning since 1968: there is no valid reason why Australia shouldn't do the same

Accommodⁿ & food services, arts & recreaⁿ, and educⁿ & training accounted for 56% of job losses from Feb to May, and 56% of job gains Feb-August

Change in employment between February and August 2020, by industry

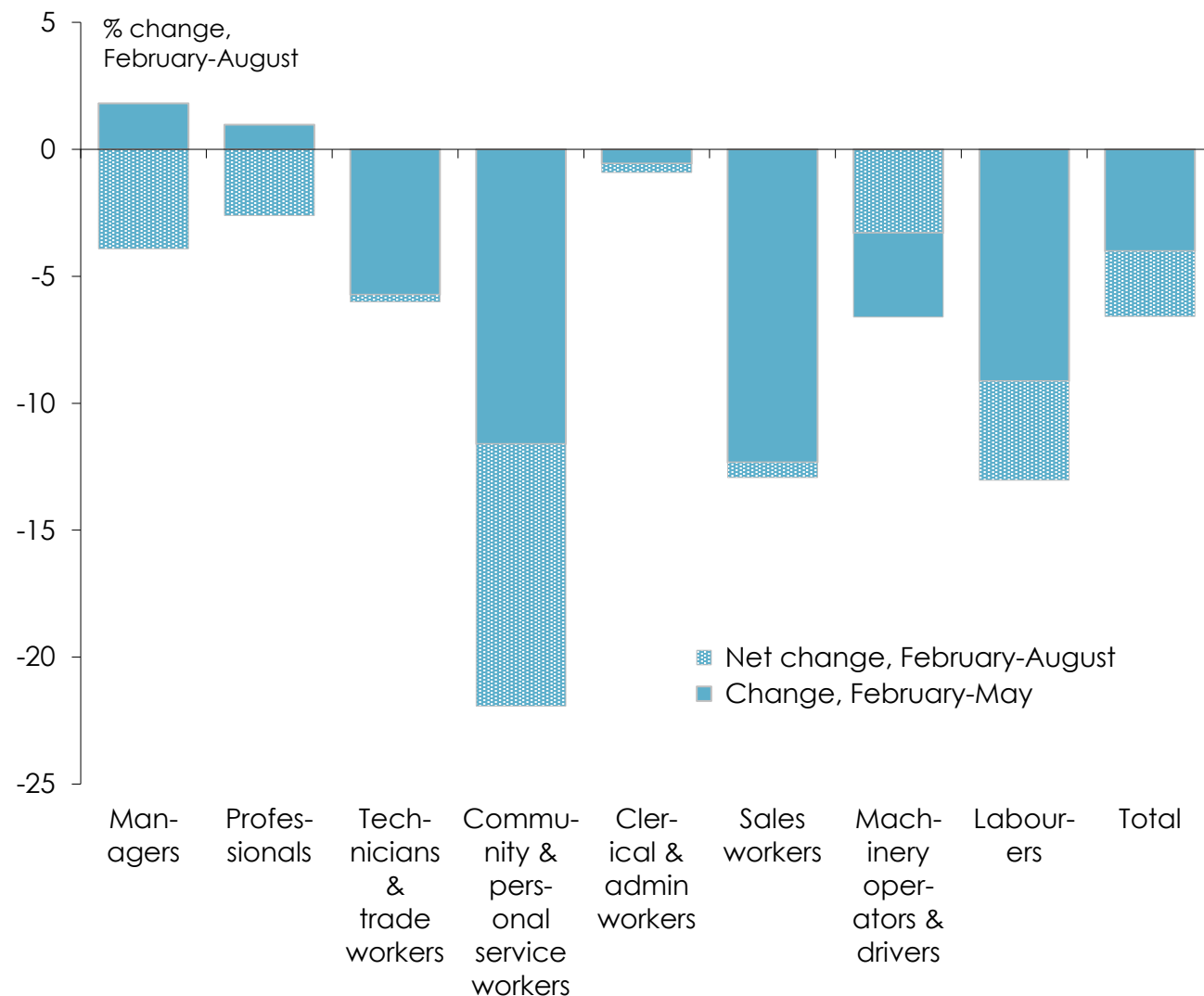
Proportion of change in total employment between February and August 2020, by industry



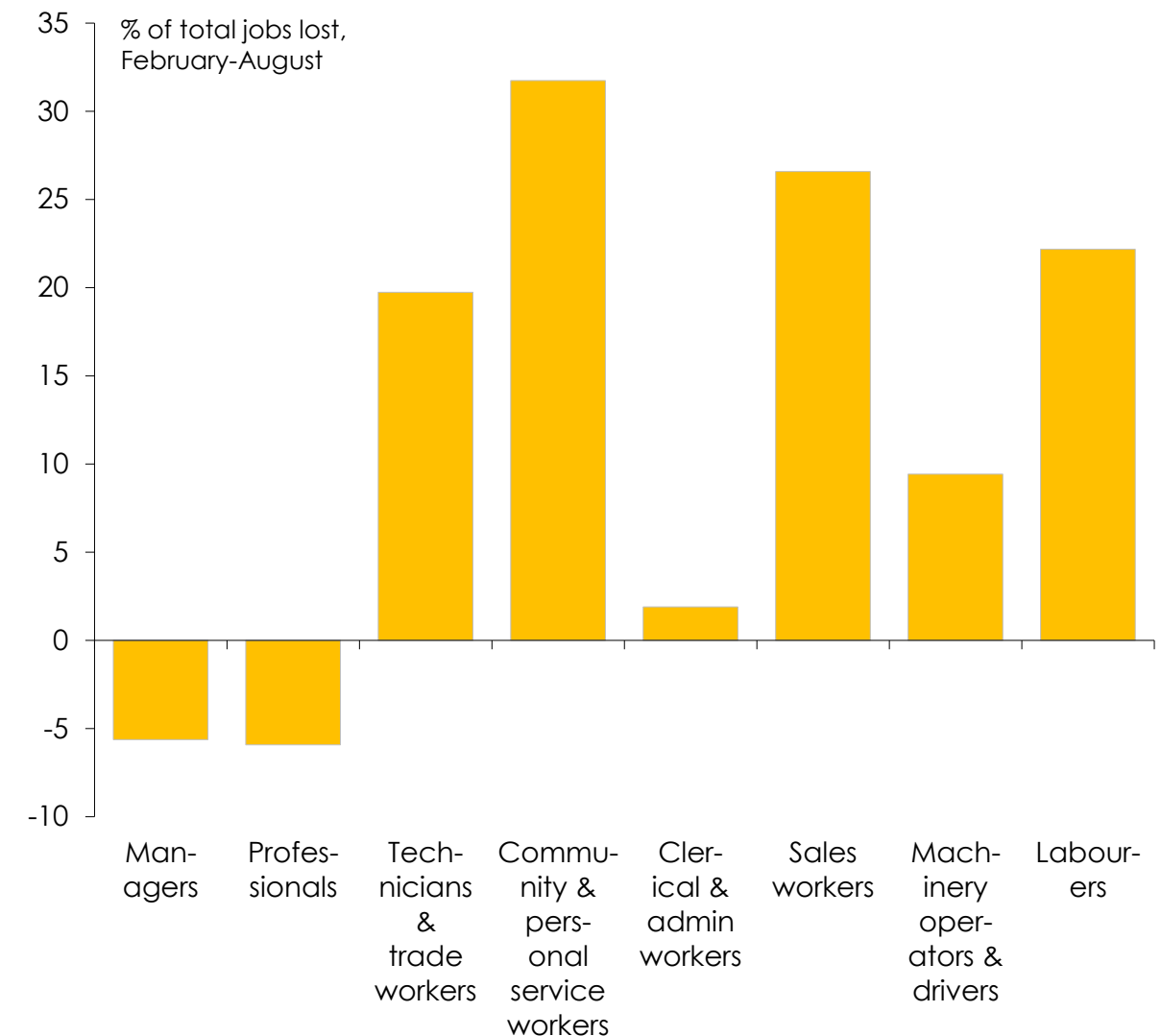
Note: The accommodation & food services, education & training, and arts & recreation services sectors accounted for 15% of total employment in February.
 Source: ABS, [Labour Force, Australia, Detailed](#), August 2020. November data will be released on 23rd December. [Return to "What's New"](#).

Community & personal service workers, sales workers and labourers have accounted for 81% of all net job losses since February

Change in employment between February and March 2020, by occupation



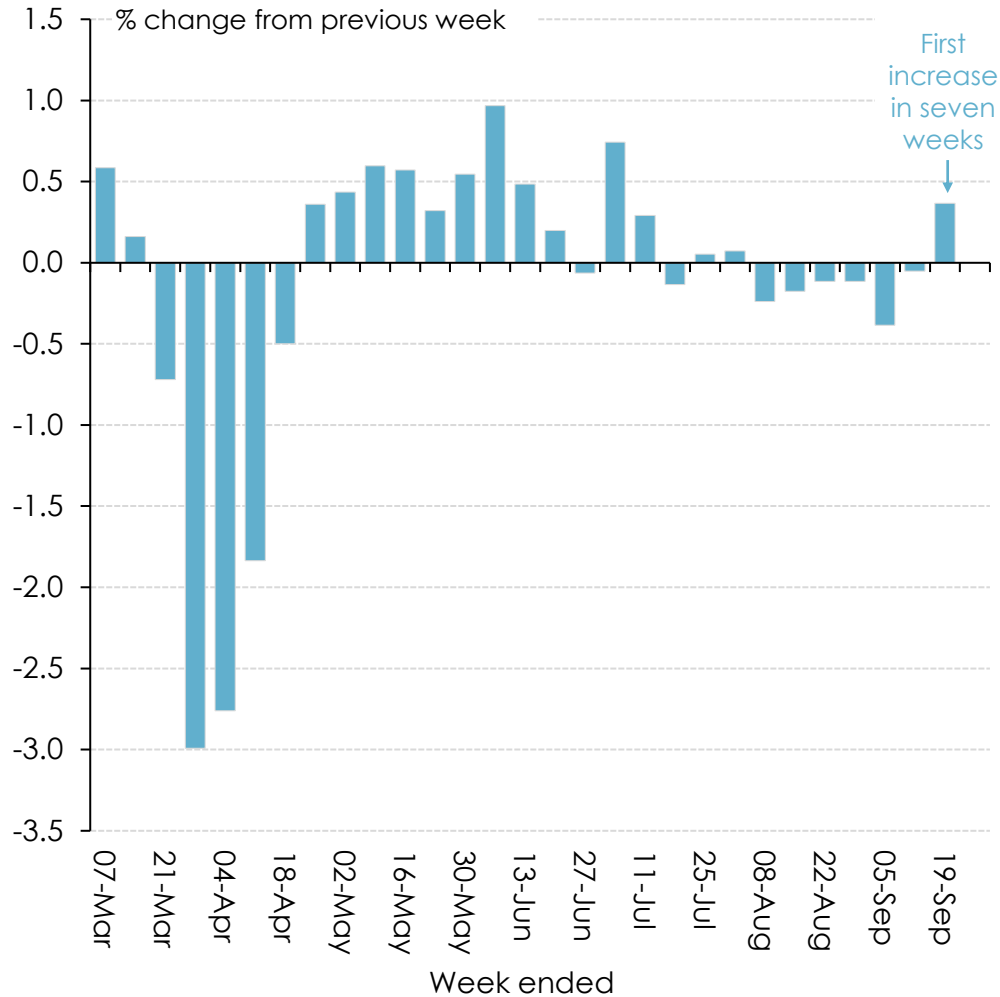
Proportion of change in total employment between February and March 2020, by occupation



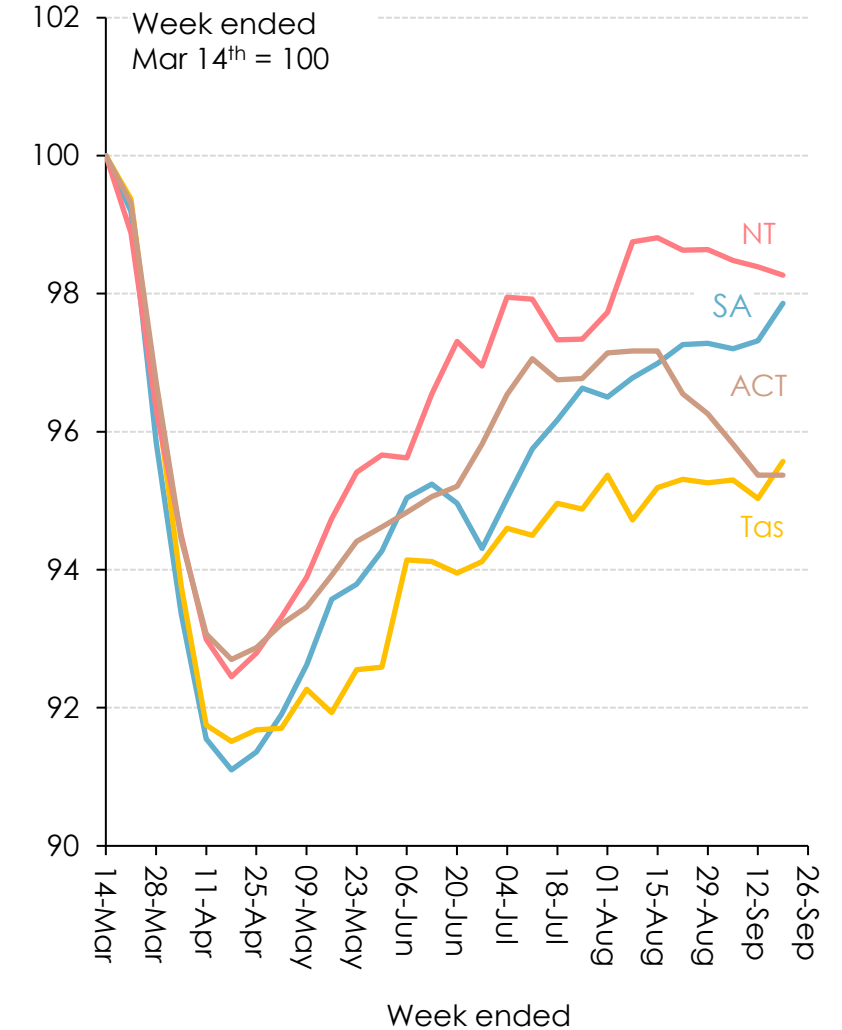
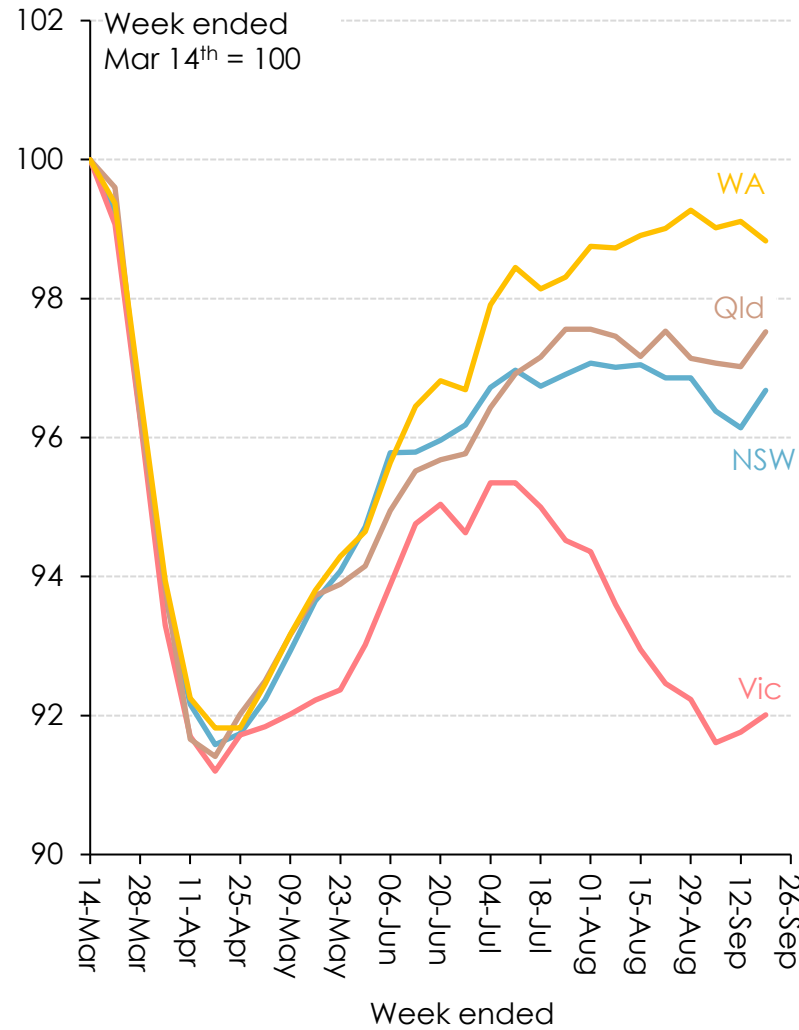
Source: ABS, [Labour Force, Australia, Detailed](#), August 2020. November data will be released on 23rd December. [Return to "What's New"](#).

Payroll employment rose in the week ended 19th September for the first time in 7 weeks, largely thanks to gains in Victoria for the first time in 12 weeks

Weekly change in number of payroll jobs



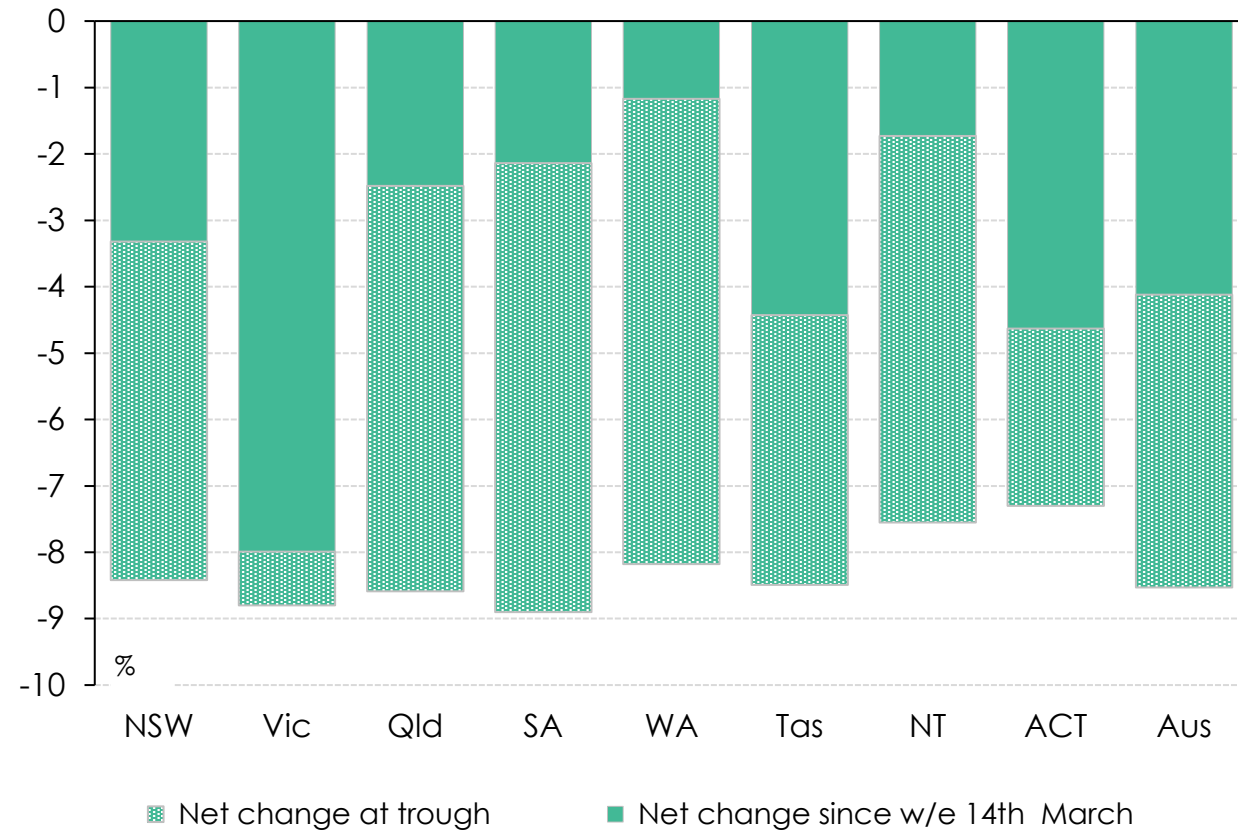
Payroll jobs by State & Territory



Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). 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 double-counted; employers and the self-employed are not included. Data are not seasonally adjusted (so at least some of the week-to-week variations could be due to 'normal' seasonal factors). Data for weeks up to week ended 3rd October will be released on 20th October. [Return to "What's New"](#).

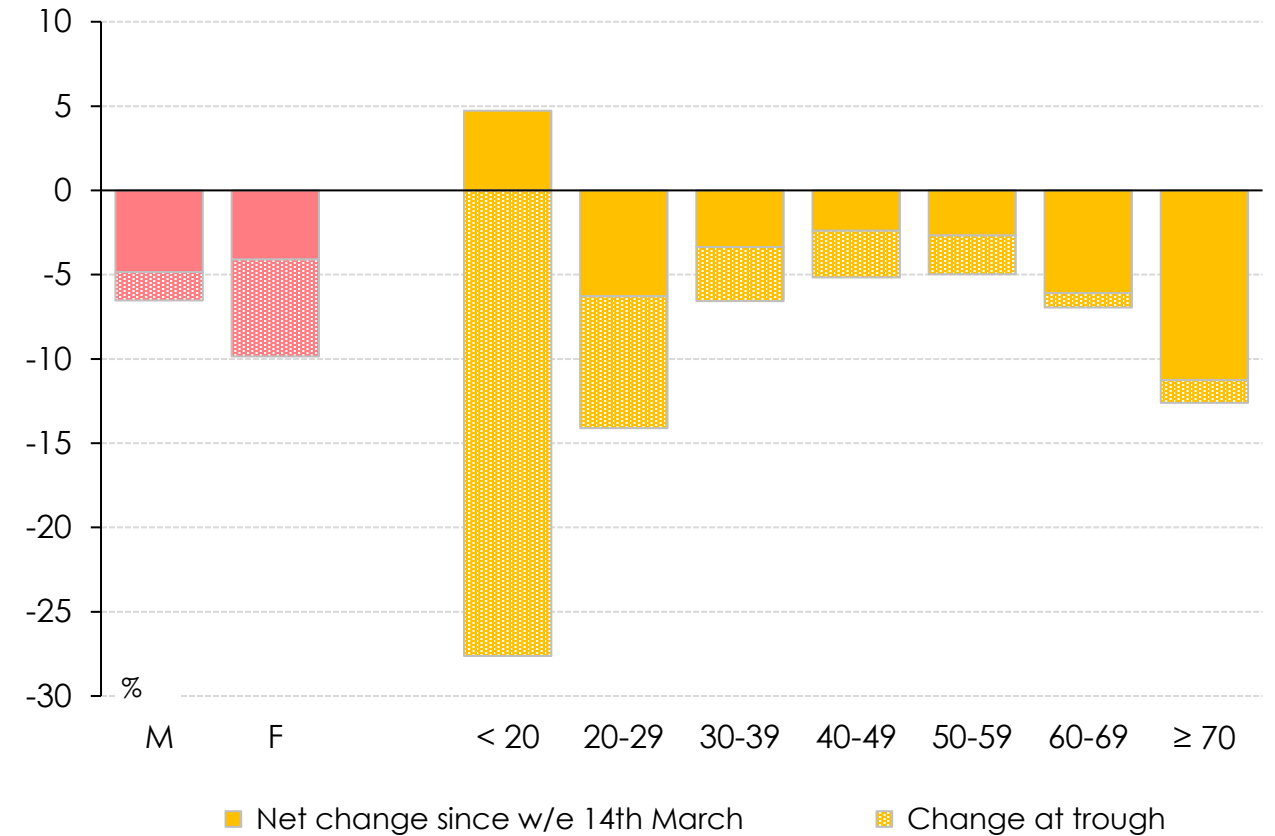
Victoria has experienced the largest net job losses, by a wide margin: but it's no longer true that women and teenagers have

Net change in the number of payroll jobs since the week ended 14th March, by state and territory



Vic payroll jobs are still down 8% on net from pre-pandemic: other states between 1¼% and 4½%

Net change in the number of payroll jobs since the week ended 14th March, by gender and age group

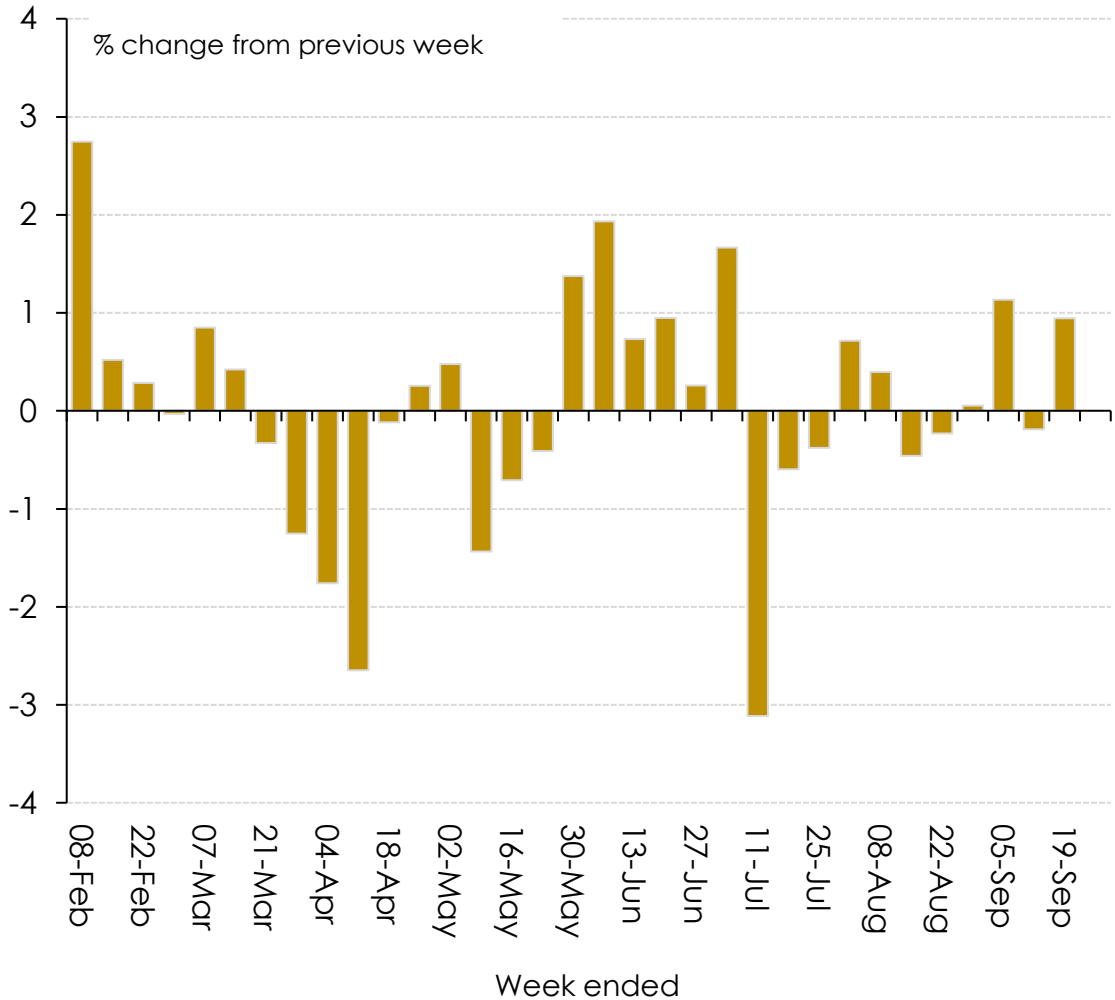


It's no longer the case that women and teenagers have borne the brunt of job losses

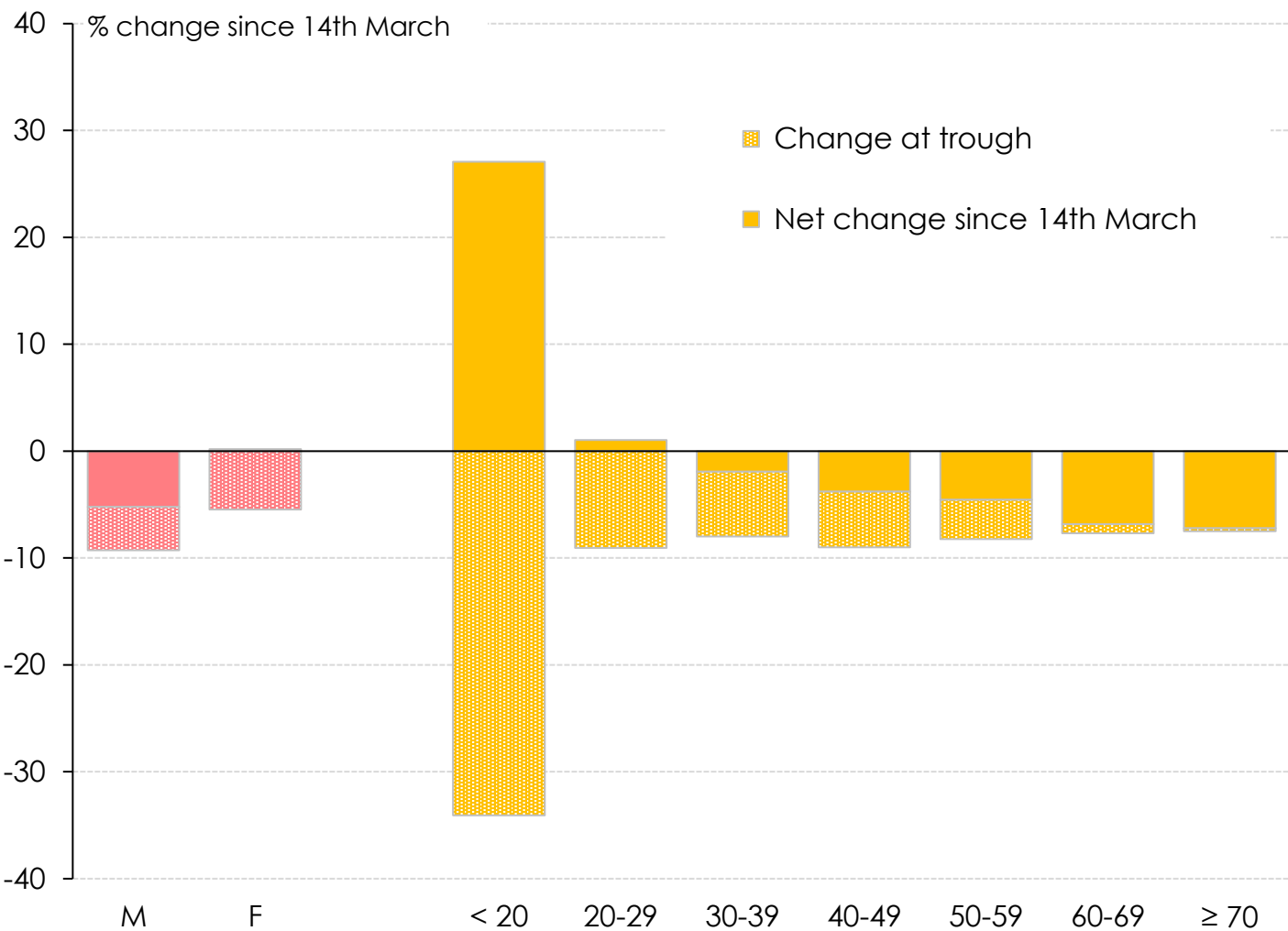
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are double-counted; employers and the self-employed are not included. Data are not seasonally adjusted (so at least some of the week-to-week variations could be due to 'normal' seasonal factors). Data for weeks up to week ended 19th September will be released on 7th October. [Return to "What's New"](#).

The index of wage payments is now back to where it was at the end of June thanks to large rises in two of the past three weeks

Weekly change in total wages paid



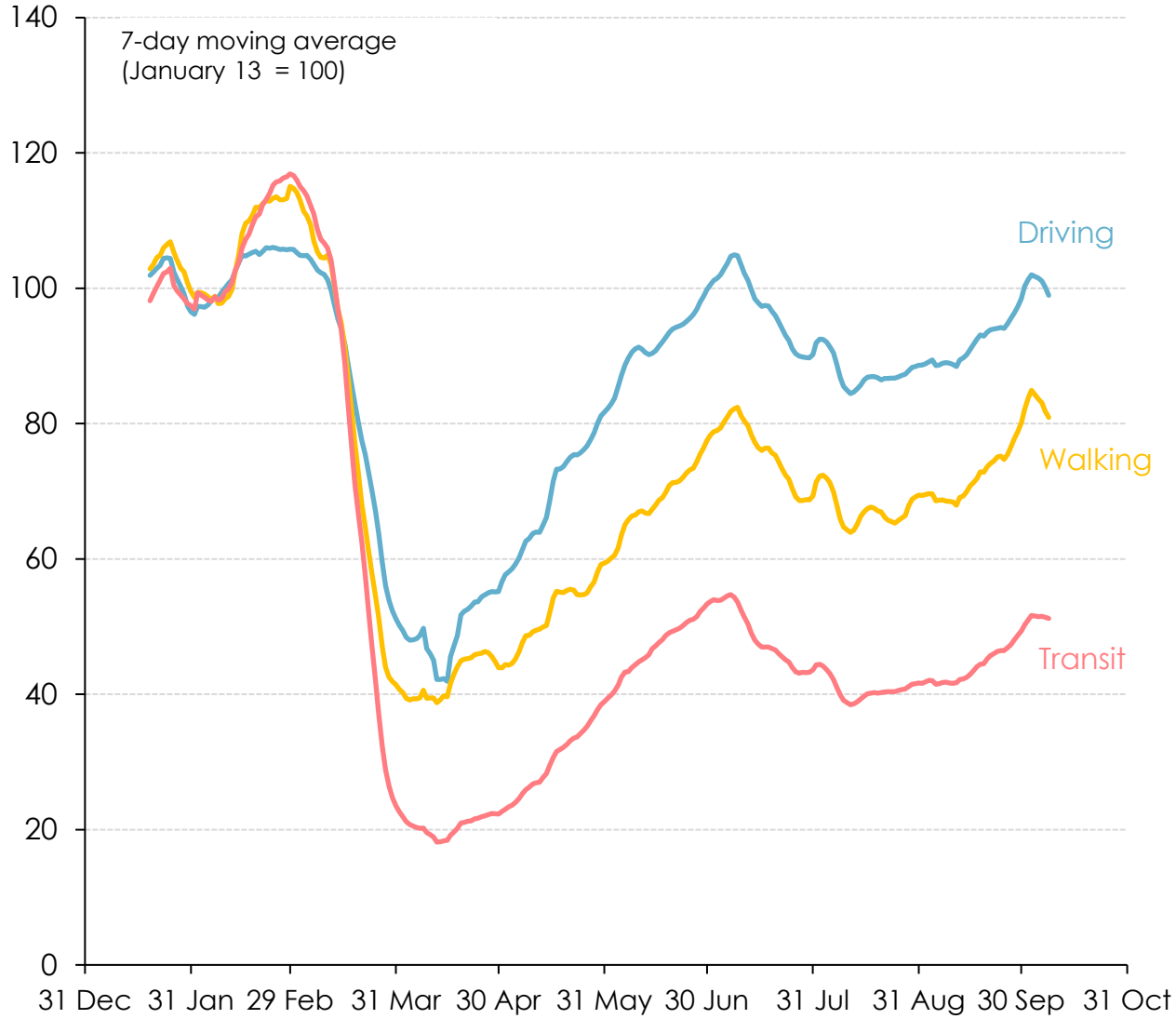
Change in total wages paid by gender and age group



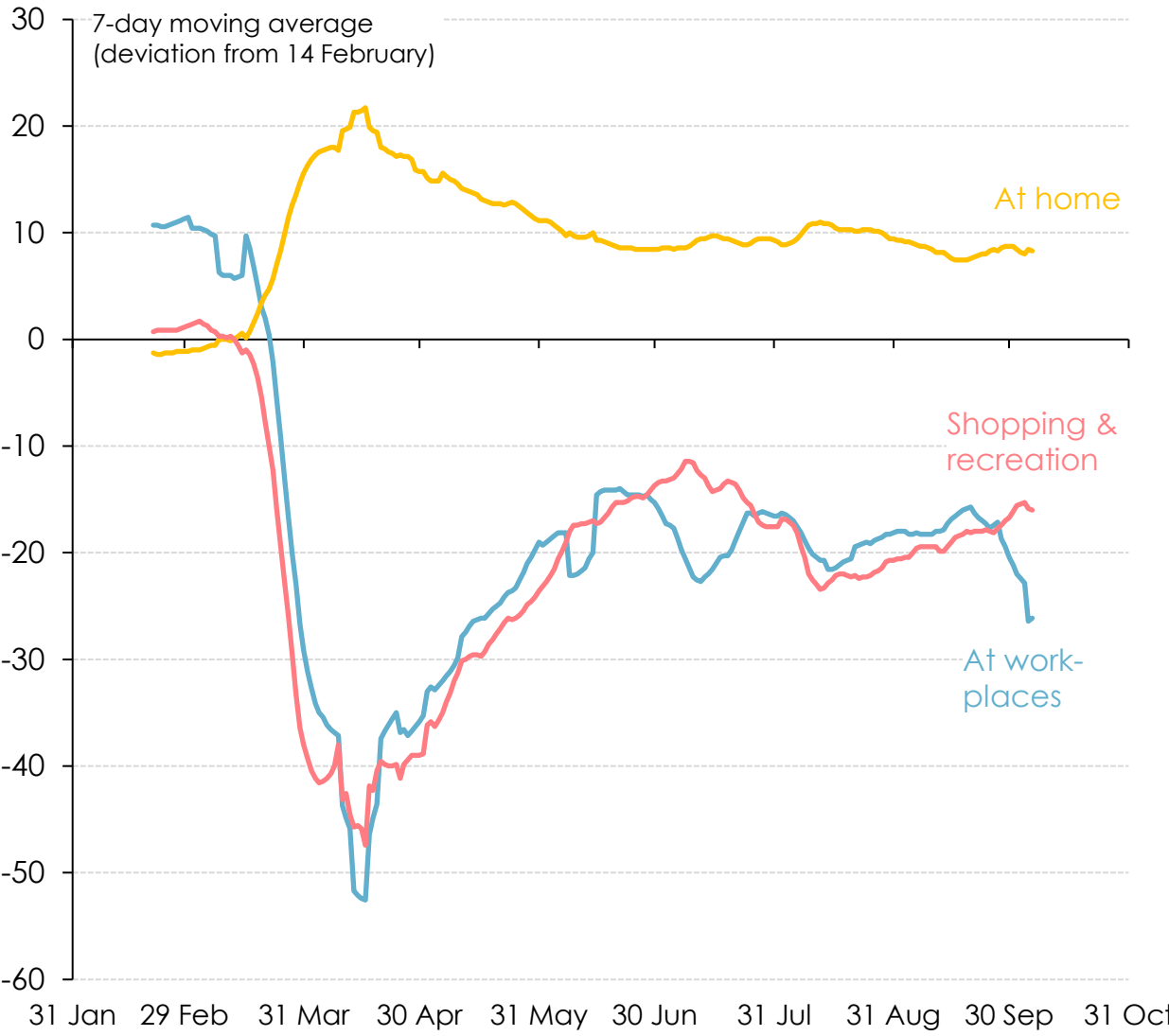
Note: The smaller fall in women's wages than men's likely reflects the fact that JobKeeper payments (at a flat rate of \$1500 per employee per fortnight) represent a higher proportion of women's (lower) average earnings than men's. Ditto for teenagers (most of whom work part-time). Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). 'Trough' refers to the week in which payroll employment for the state/territory, gender or age group was at its lowest level since mid-March. Data are not seasonally adjusted, so some of the week-to-week movements in wages could be due to 'normal' seasonal factors (for example end-of-financial year bonuses). [Return to "What's New"](#).

Mobility indicators picked up with the easing of lockdown restrictions in regional Victoria in September, but have fallen again over the past week

Time spent driving, walking and in transit



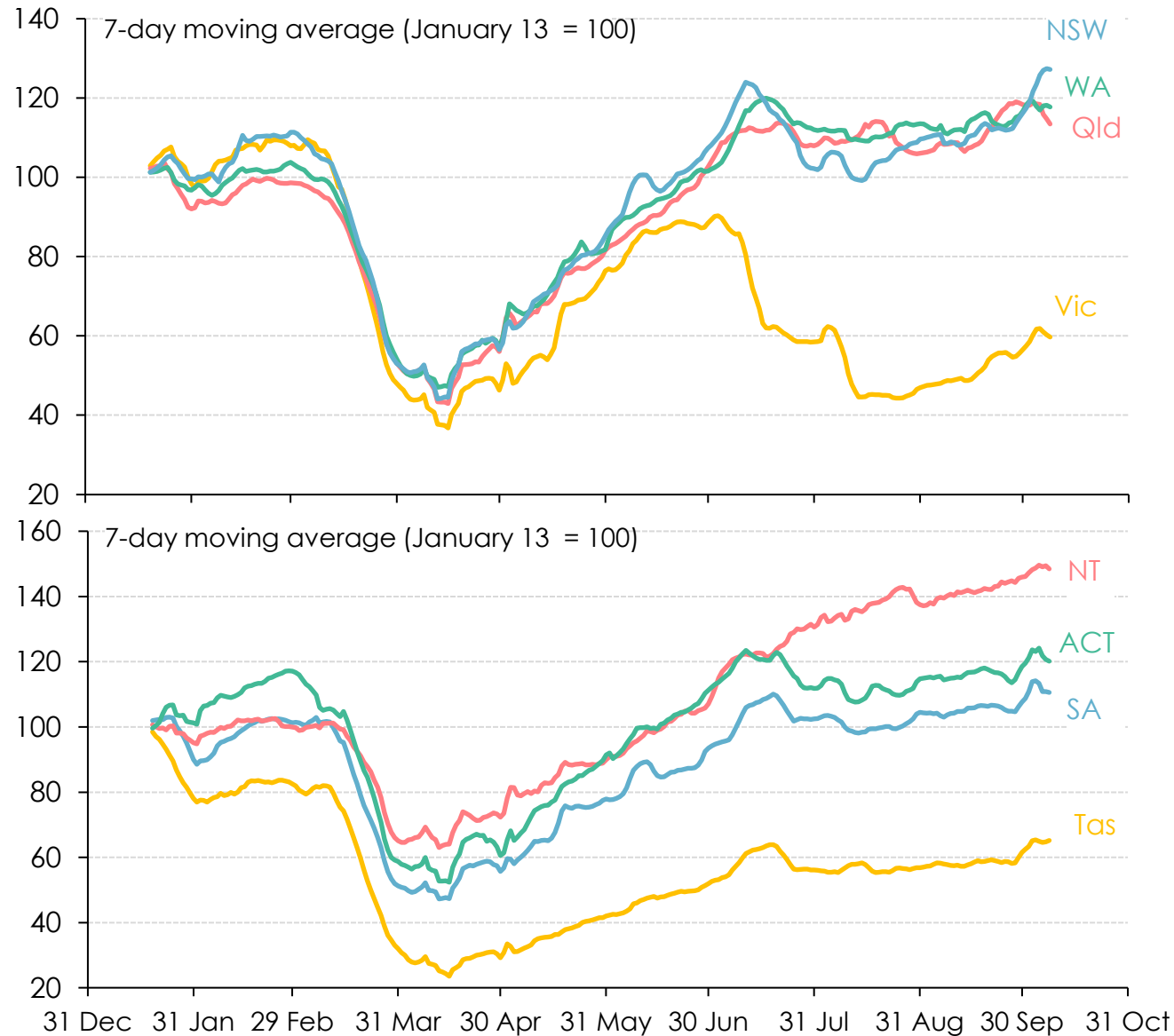
Time spent working, at home, shopping & playing



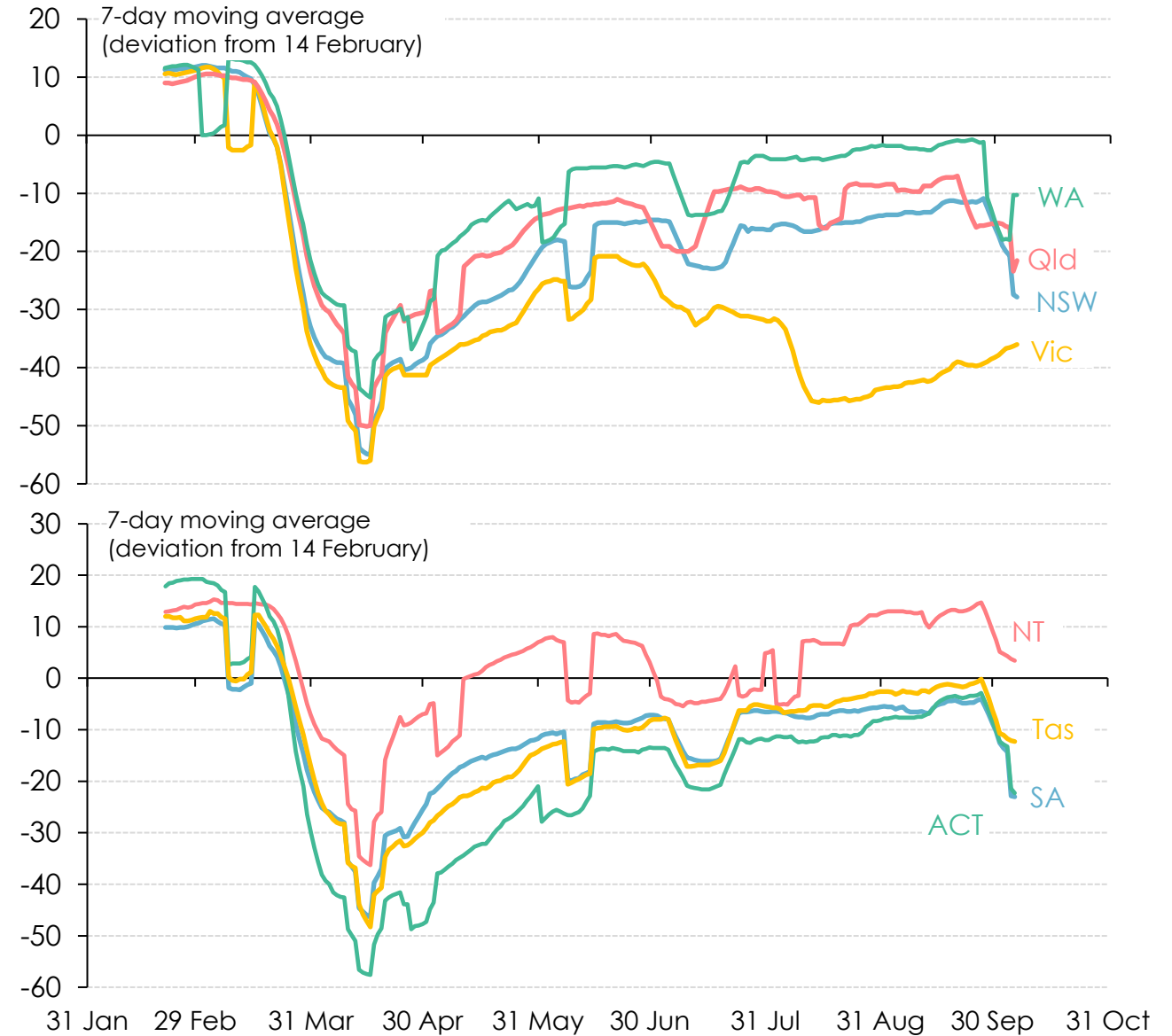
Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 8th October); [Google Community Mobility Reports](#) (data up to 6th October). For state-level data see [next slide](#). [Return to "What's New"](#).

Victoria remains well below other states and territories on mobility indicators – not clear why some indicators have dropped in the past week

Time spent driving, by State and Territory



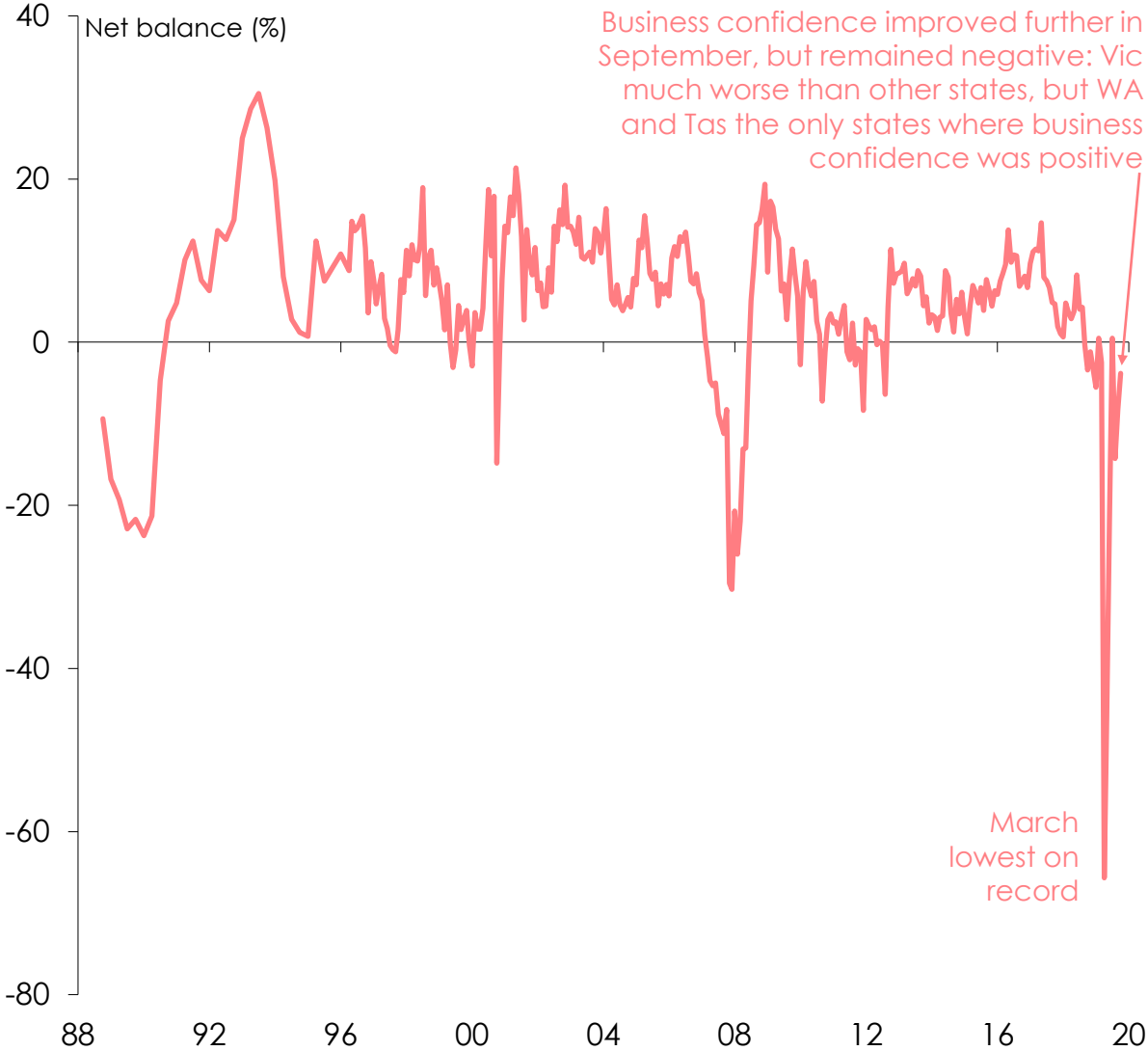
Time spent working, by State and Territory



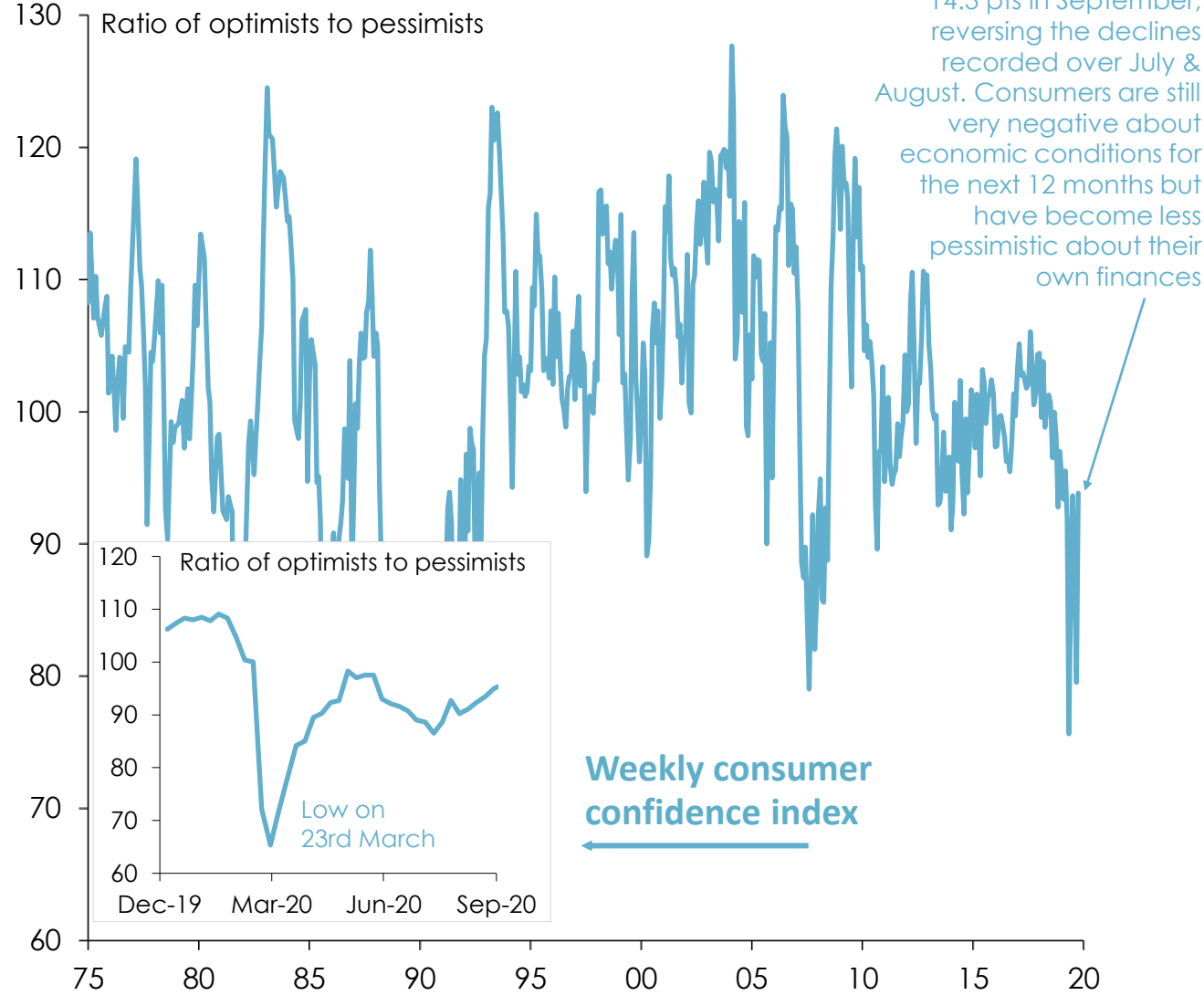
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 8th October); [Google Community Mobility Reports](#) (data up to 6th October). [Return to "What's New"](#).

Business confidence improved a bit in September, but remains weak by historical standards, consumer confidence improved in October

Business confidence



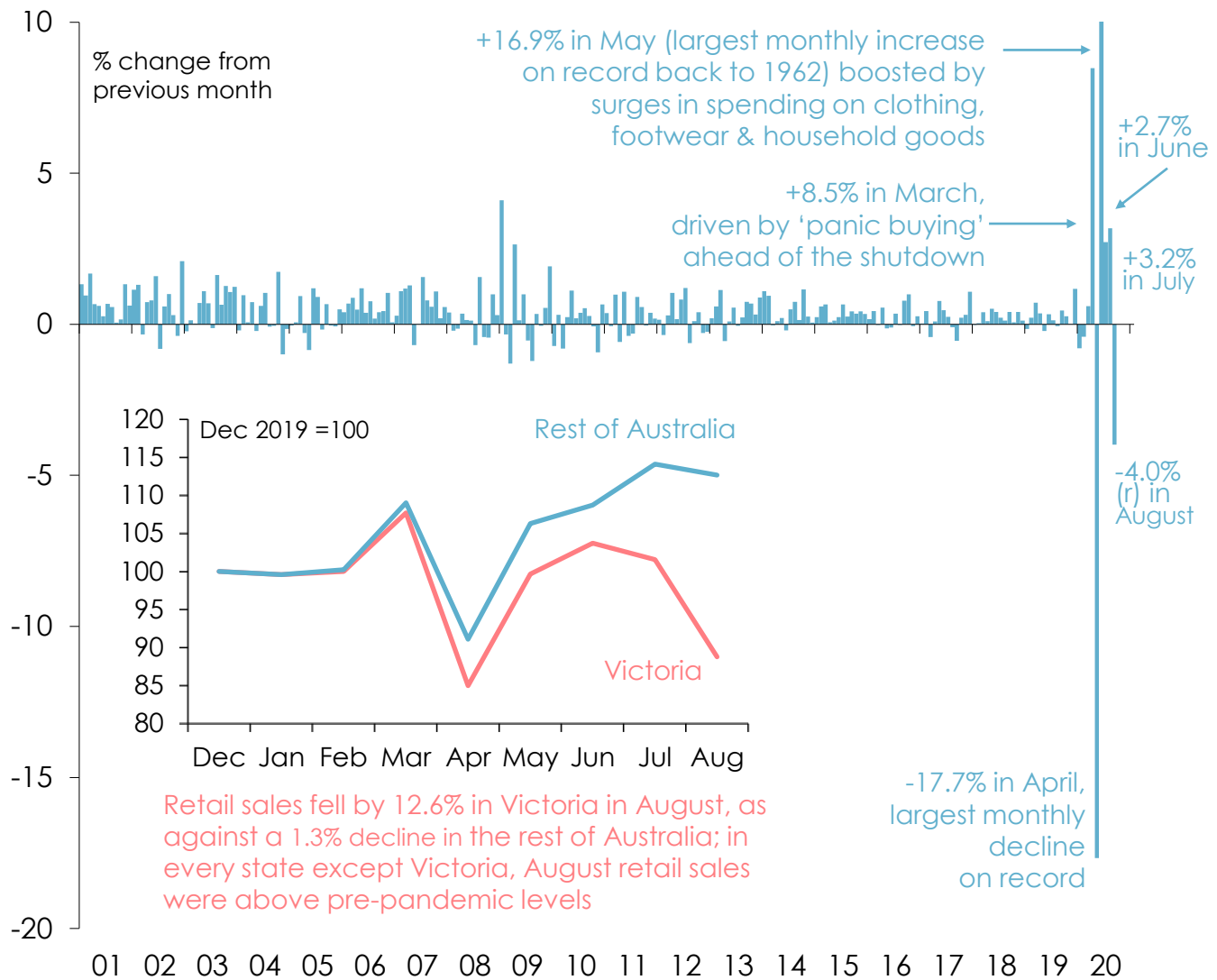
Consumer confidence



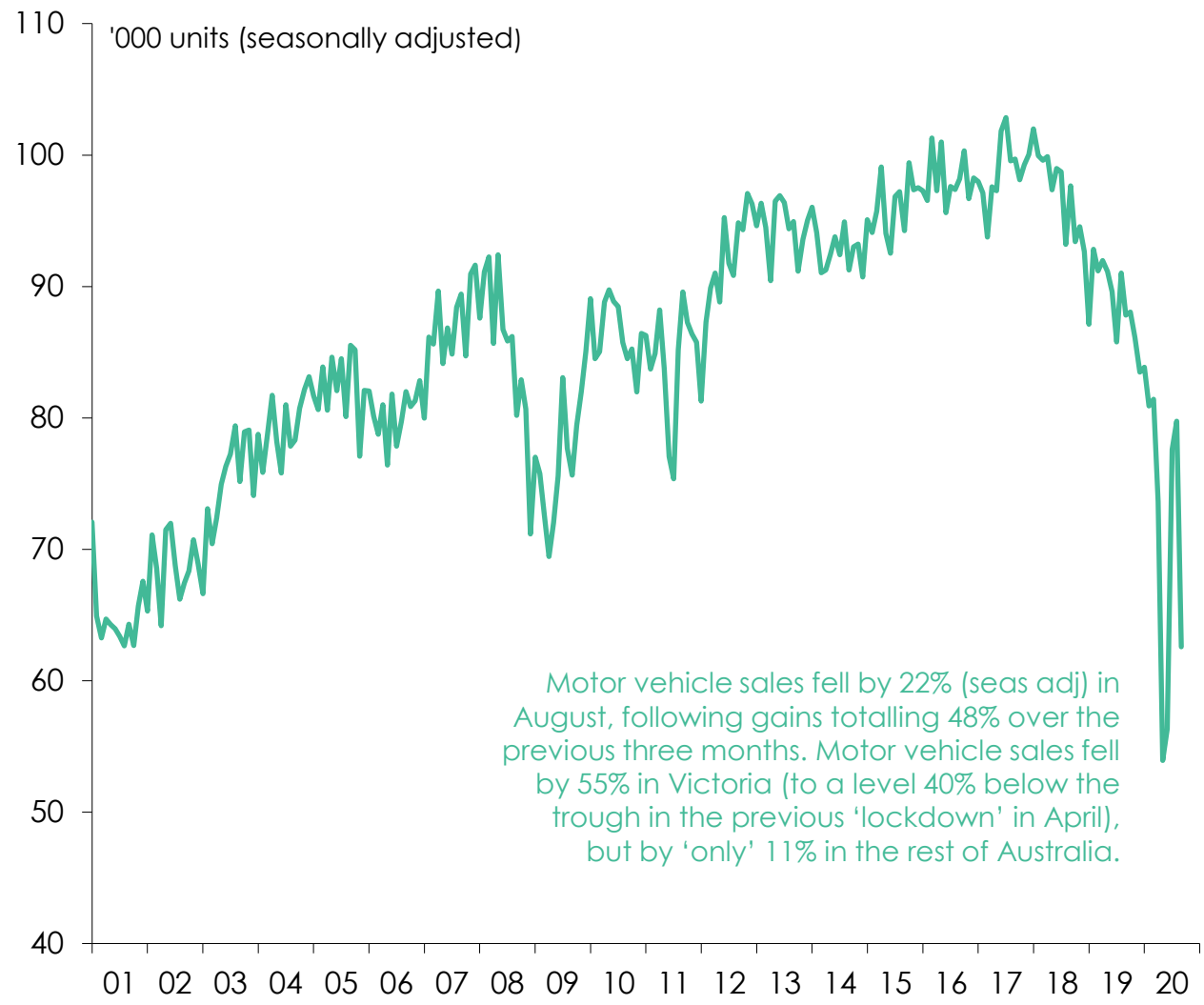
Sources: National Australia Bank; Westpac-Melbourne Institute; ANZ-Roy Morgan (weekly index). See [slide 67](#) for other components of the NAB monthly business survey from which the business confidence figure is derived. October business confidence data will be released on 10th November, and November consumer confidence on 11th November. [Return to "What's New"](#).

Retail sales fell 4.0% in August (Victoria down 12.6%), while motor vehicle sales fell 22% in August (dragged down by a 55% slump in Victoria)

Retail sales



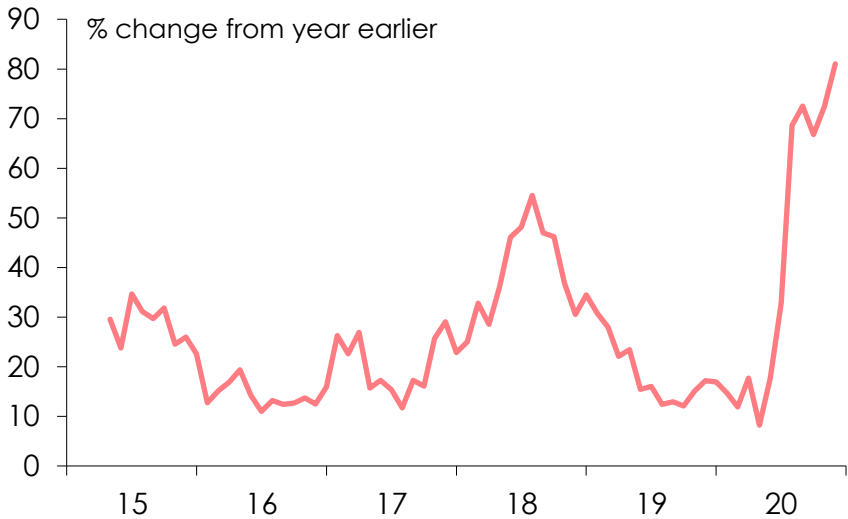
Motor vehicle sales



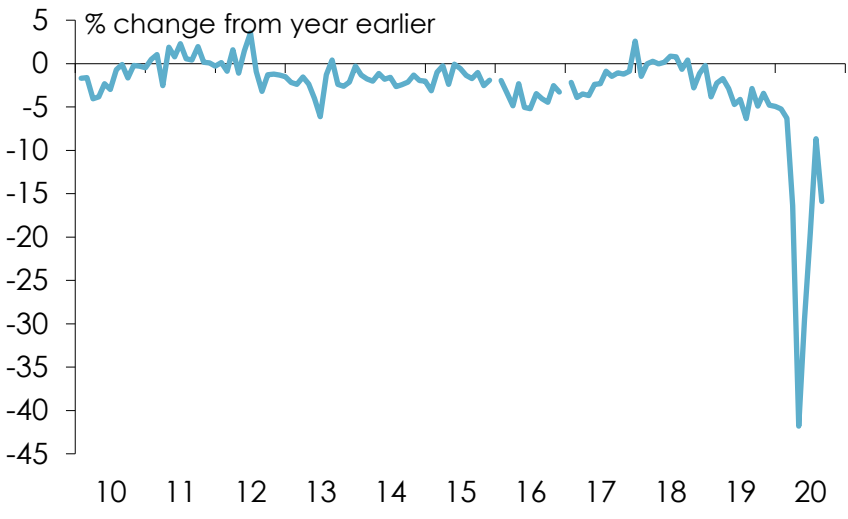
Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Retail sales data are up to July and motor vehicle sales to August. Preliminary retail sales data for September will be released on 21st October and final figures on 4th November; September motor vehicle sales data will be released on or around 5th October. [Return to "What's New"](#).

The pandemic and lockdown prompted some dramatic changes in how Australians made payments, accelerating trends already under way

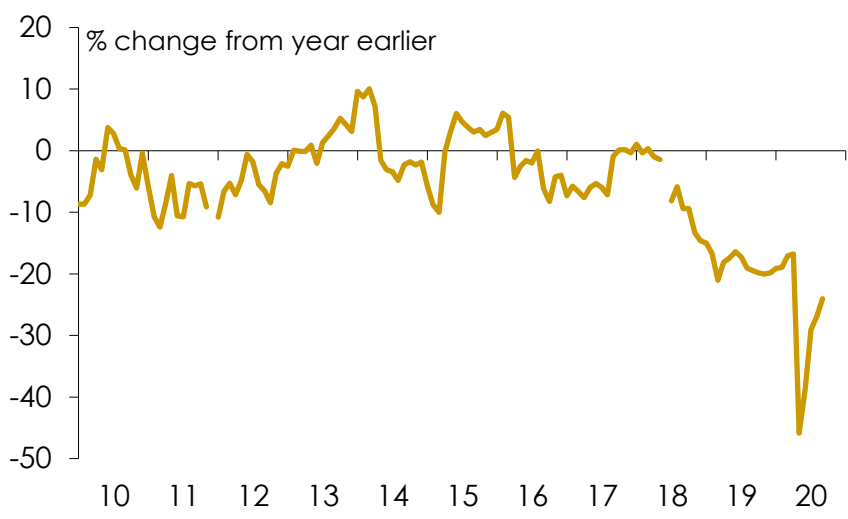
Growth in online retail sales



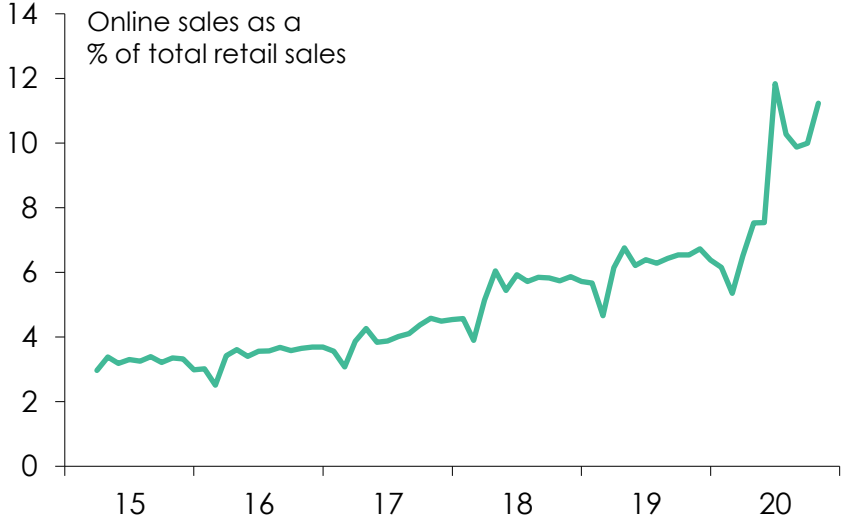
ATM cash withdrawals



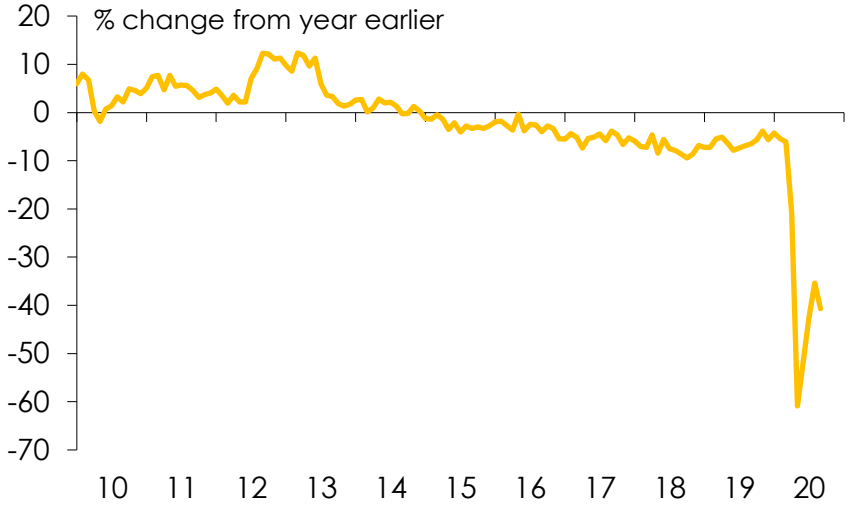
Credit card cash advances



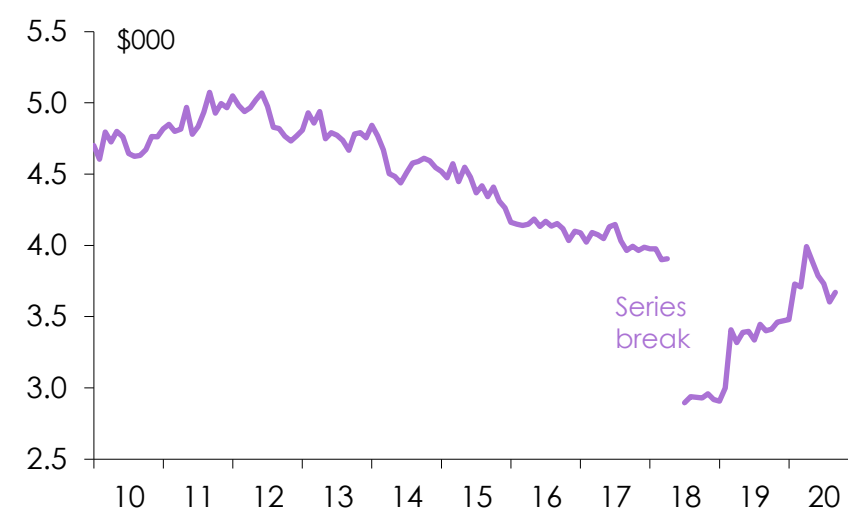
Online retail 'market share'



Debit card cash-outs



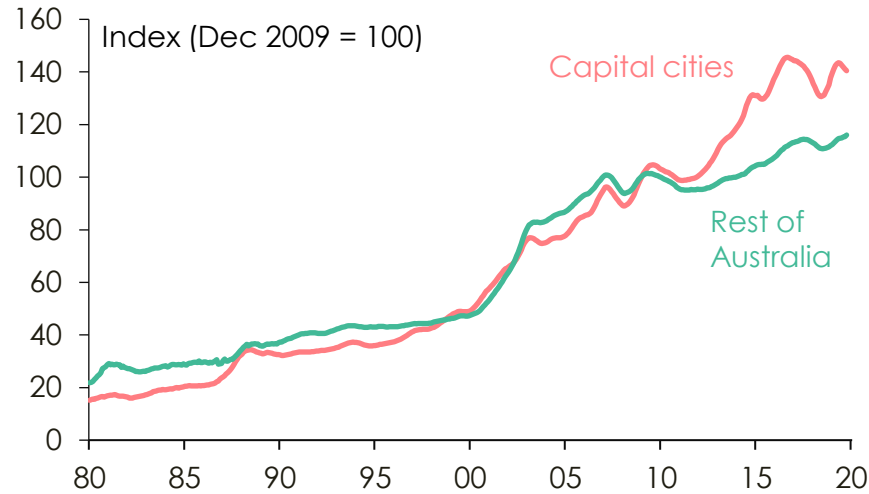
Direct entry payments



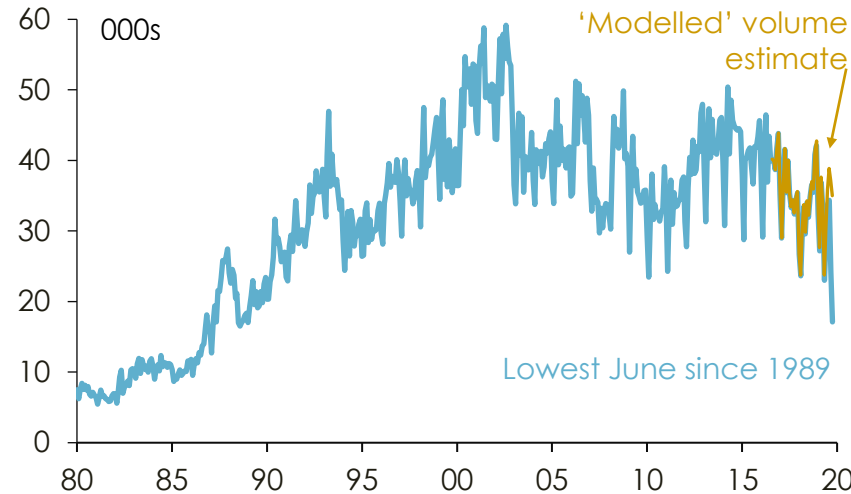
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data for August; online retail sales data for September will be released on 4th November, and payments system data for August on 9th November. [Return to "What's New"](#).

Property prices fell by an average of 1.4% from April to September, on thin volumes, with bigger falls in cities than regions, and in 'top tier' properties

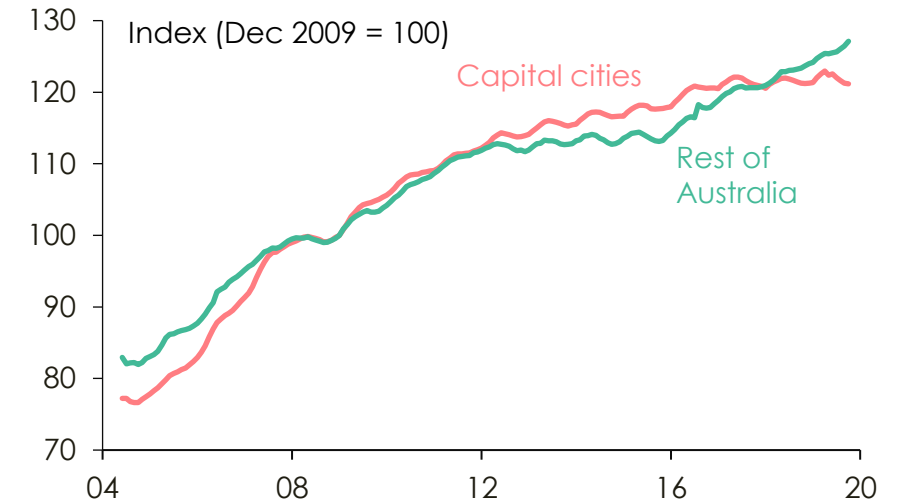
Residential property prices



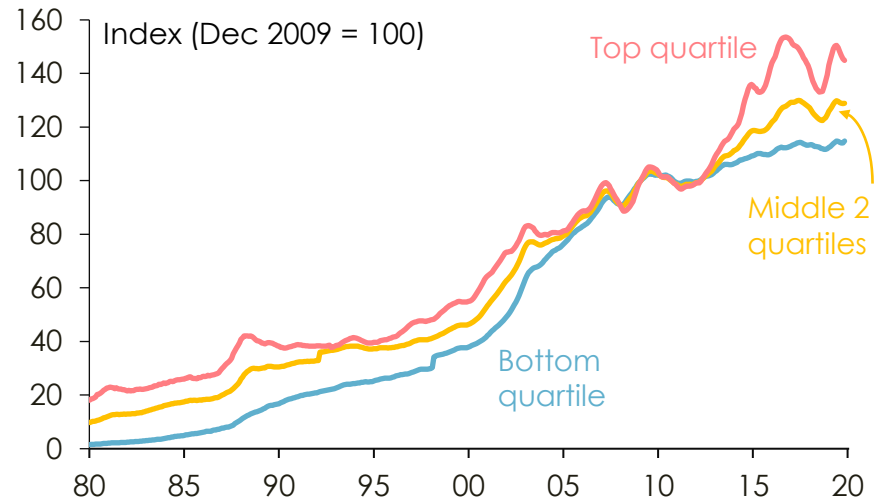
Residential property sales volumes



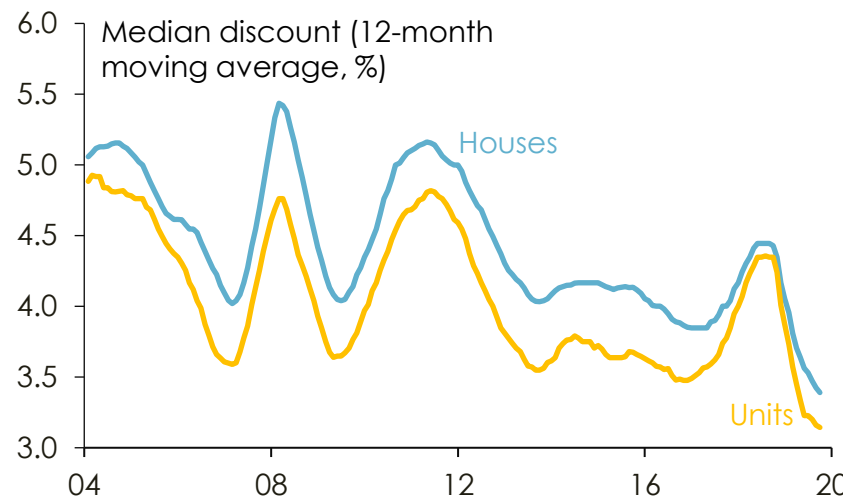
Residential rents



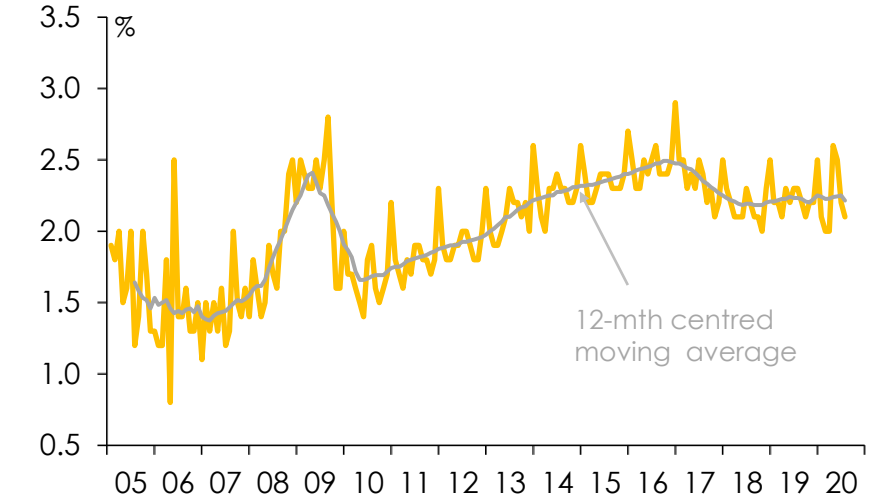
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

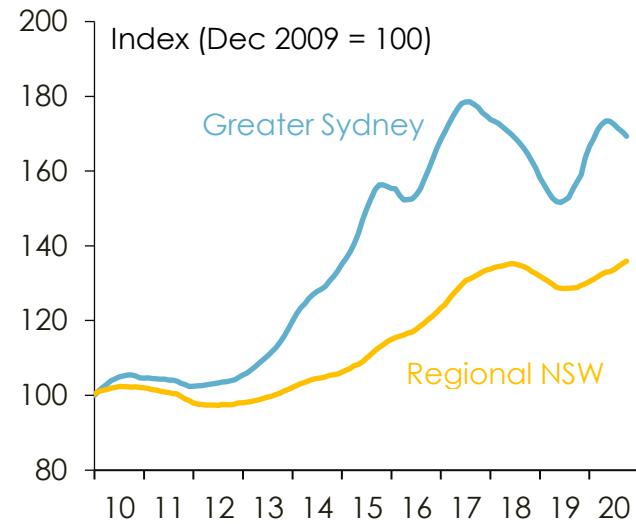


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential 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 September 2020; October data will be released on 2nd November.

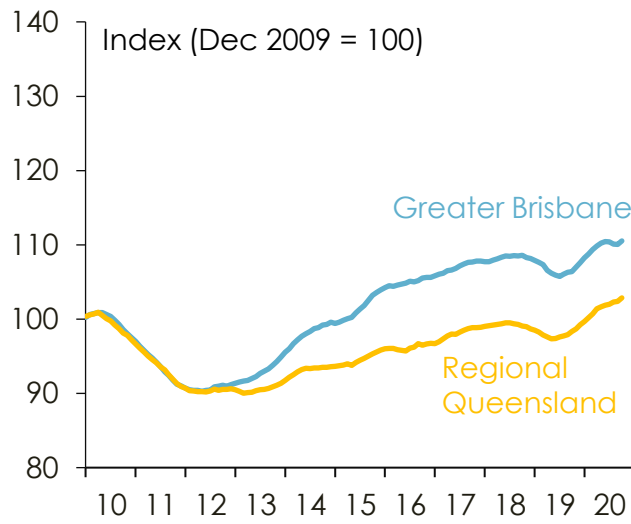
Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

Property prices have fallen more in regional WA, Melbourne, Sydney and Perth since March than elsewhere, and have risen in Adelaide and Hobart

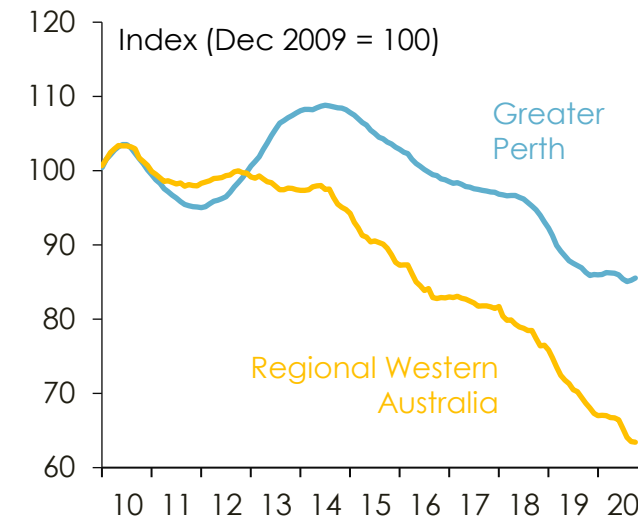
New South Wales



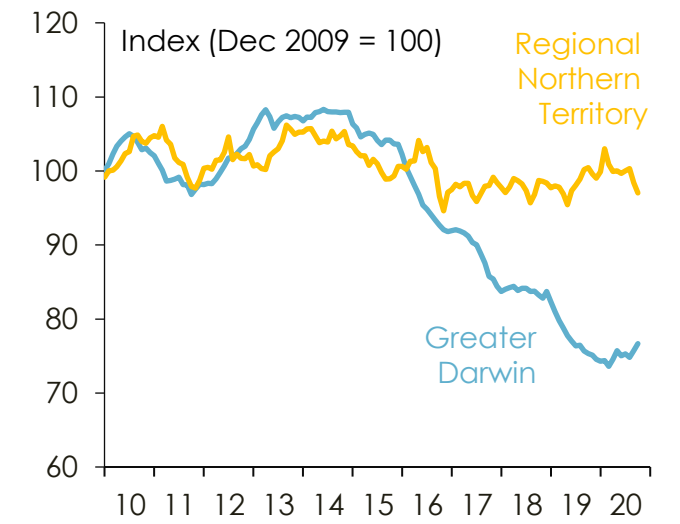
Queensland



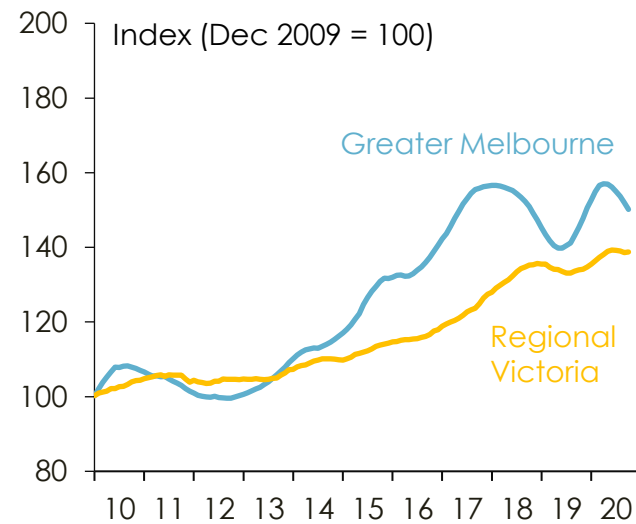
Western Australia



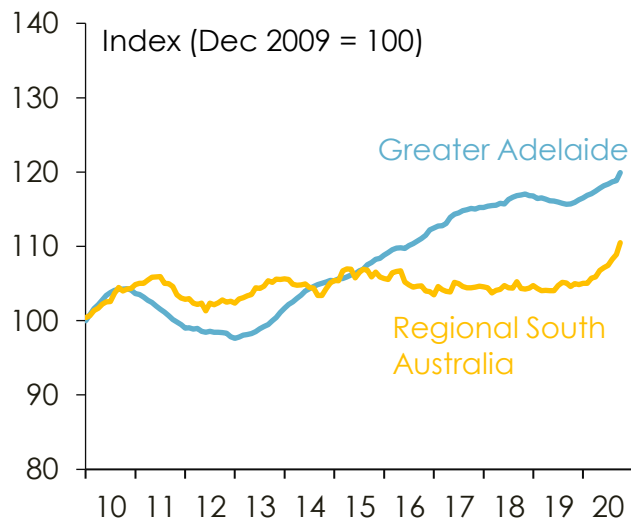
Northern Territory



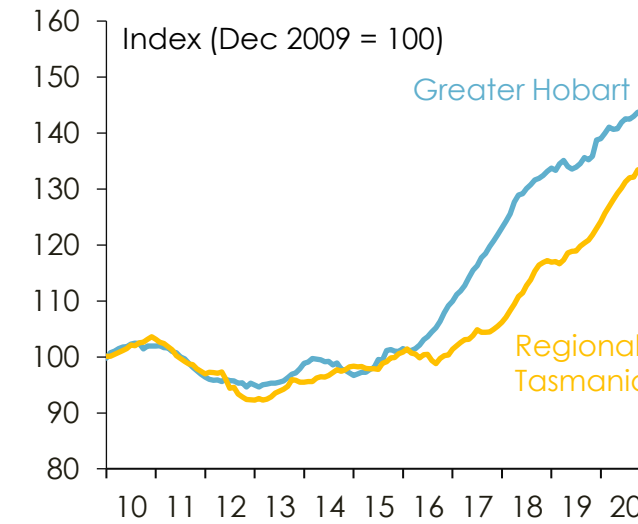
Victoria



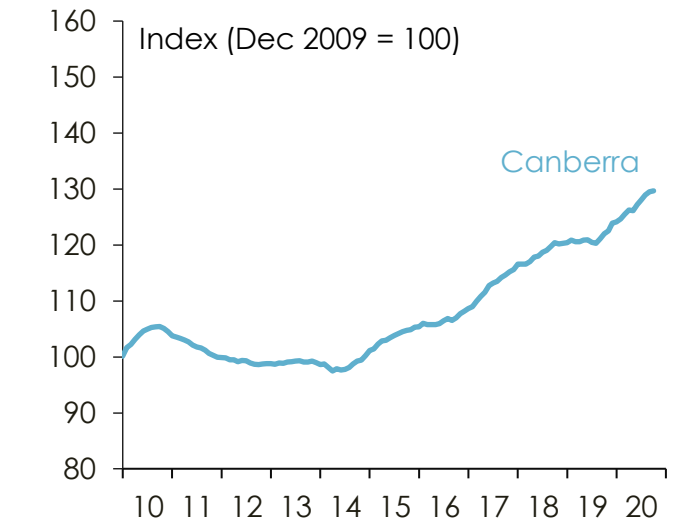
South Australia



Tasmania



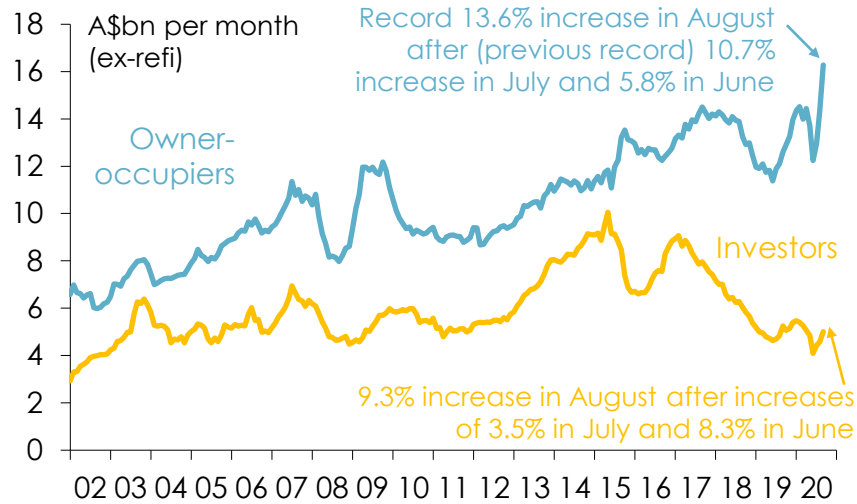
Australian Capital Territory



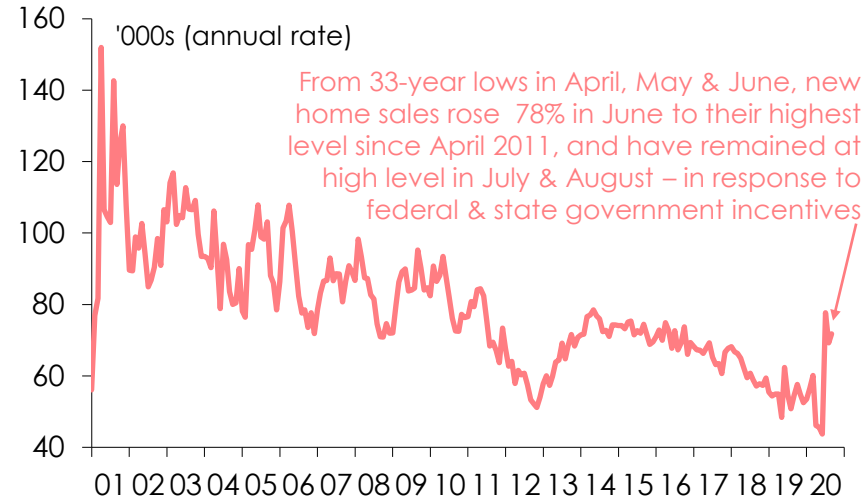
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for September 2020; October data will be released on 2nd November. Source: [CoreLogic](#). [Return to "What's New"](#).

Housing lending and new home sales have been very strong in recent months although longer term the outlook for housing still seems poor

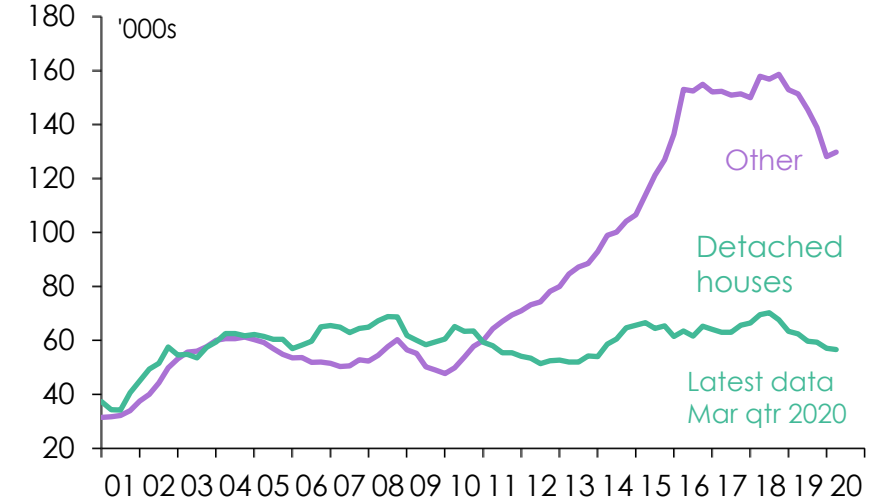
Housing finance commitments



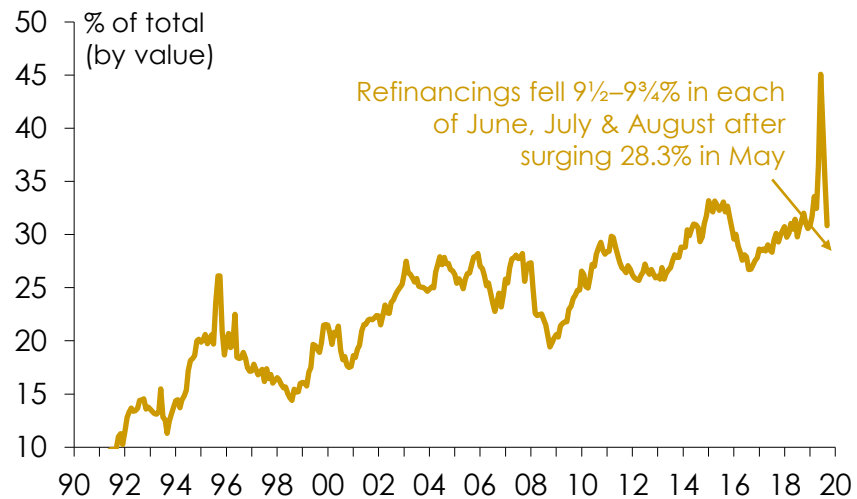
Large builders' new home sales



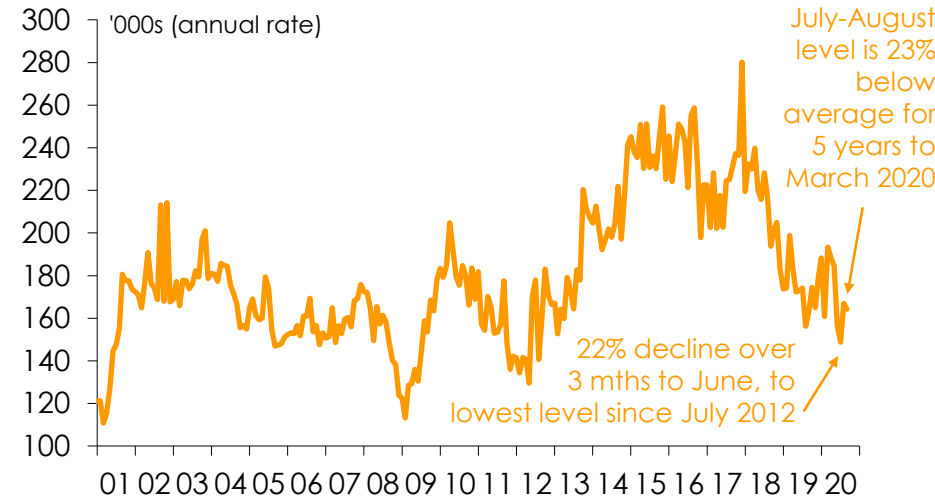
Dwellings under construction



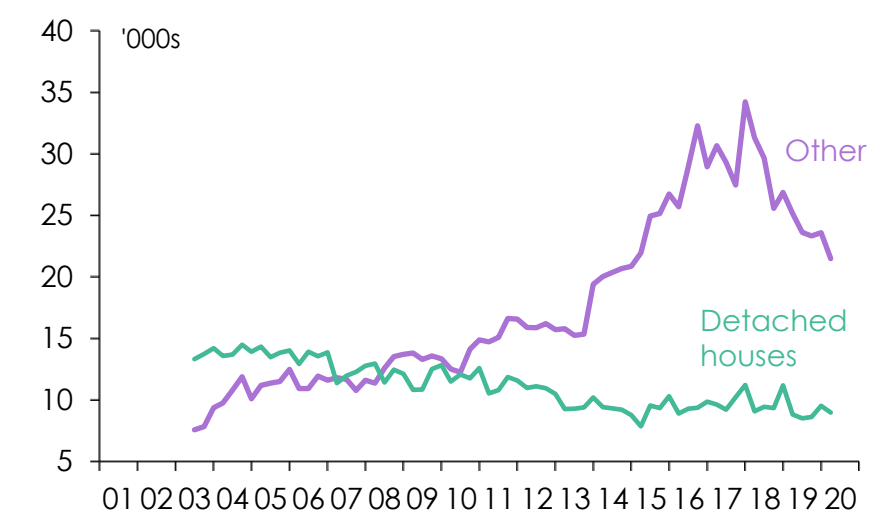
Refinancings as pc of total



Residential building approvals



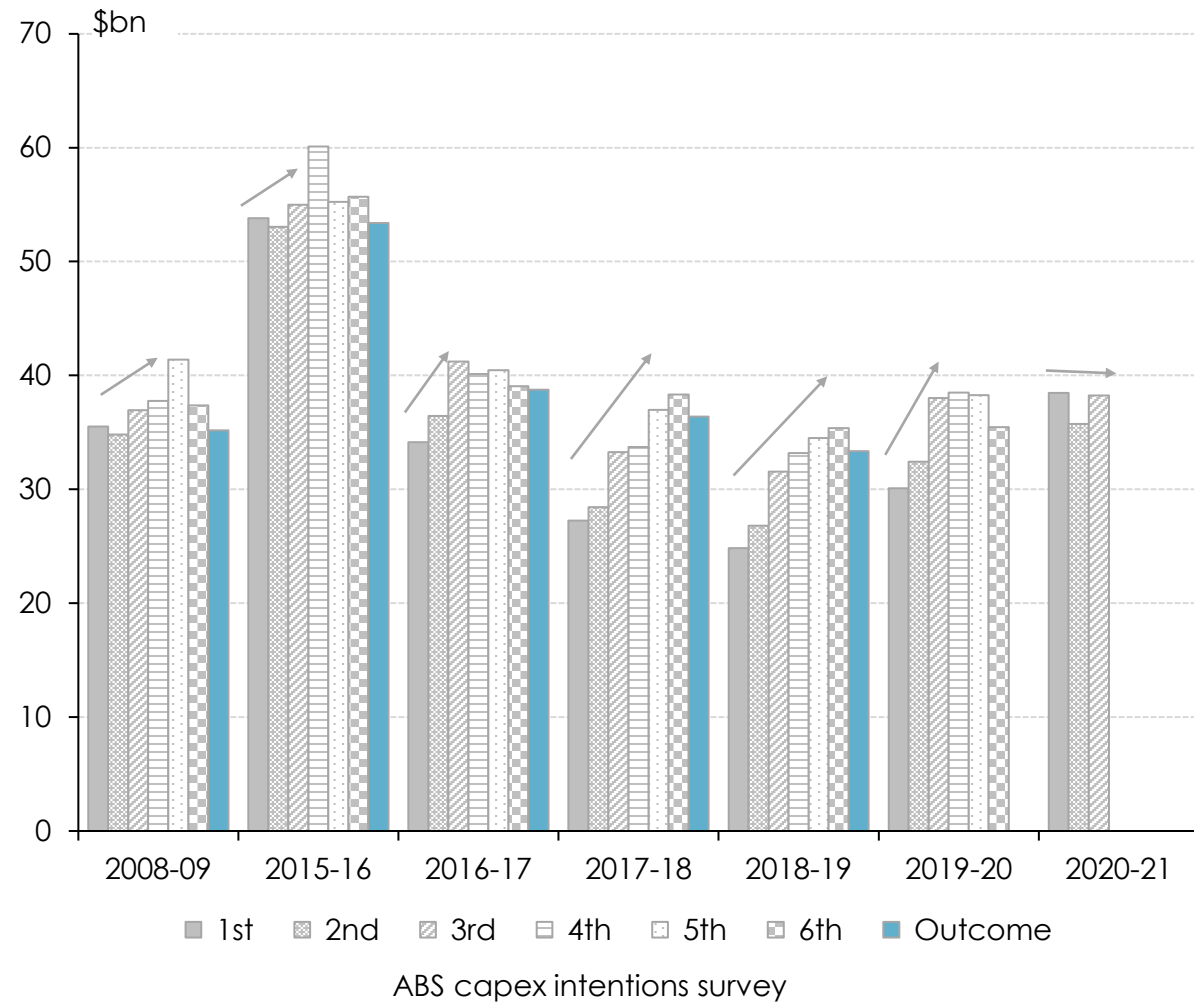
'Pipeline' of work yet to be done



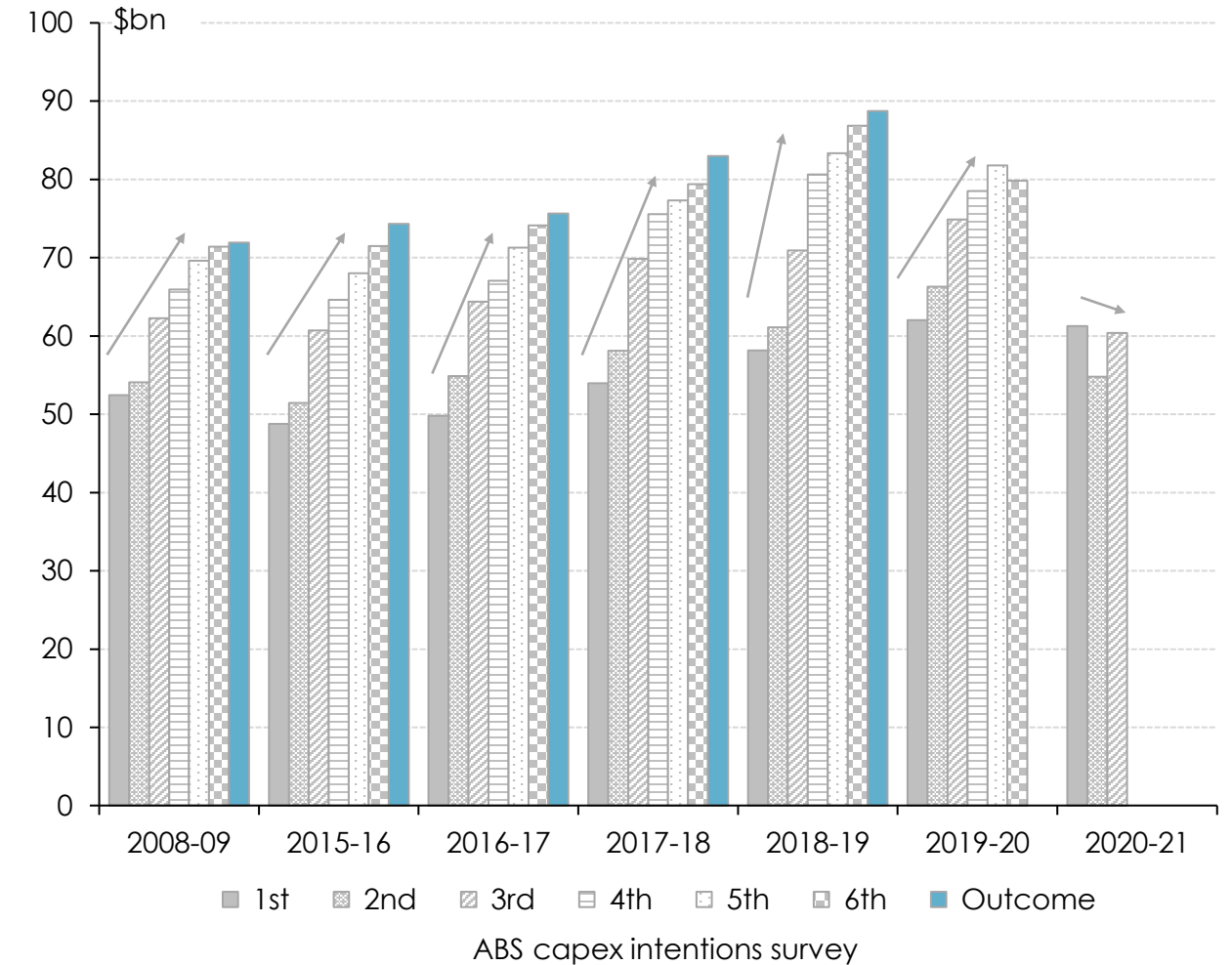
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. September building approvals data will be released on 2nd November; September housing finance also on 2nd November; and June quarter dwellings under construction and 'pipeline' data on 14th October. [Return to "What's New"](#).

Business capex intentions for the current financial year are lower than they were six months ago – for the first time in at least 33 years

Capital expenditure intentions - mining

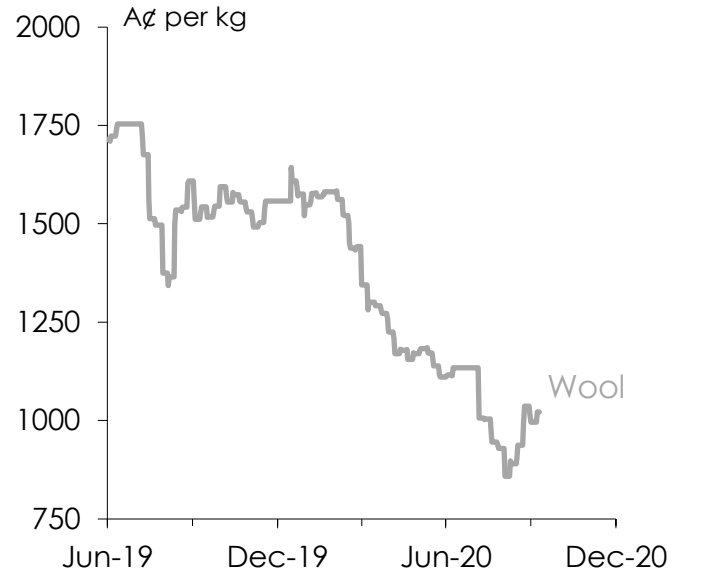
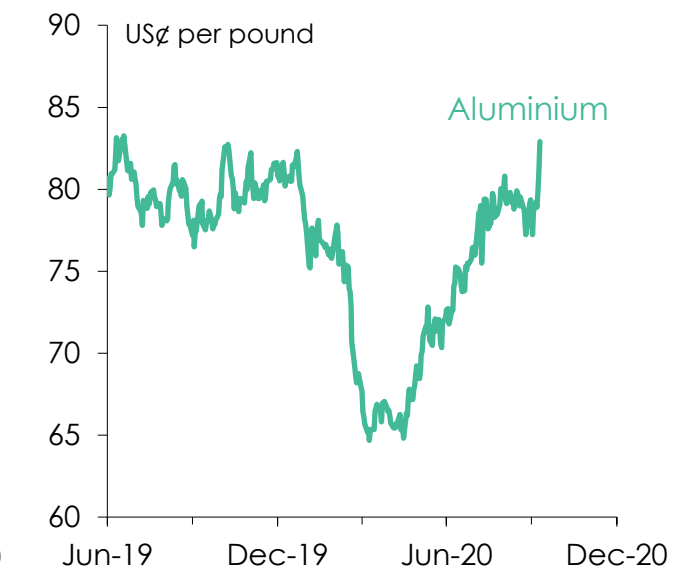
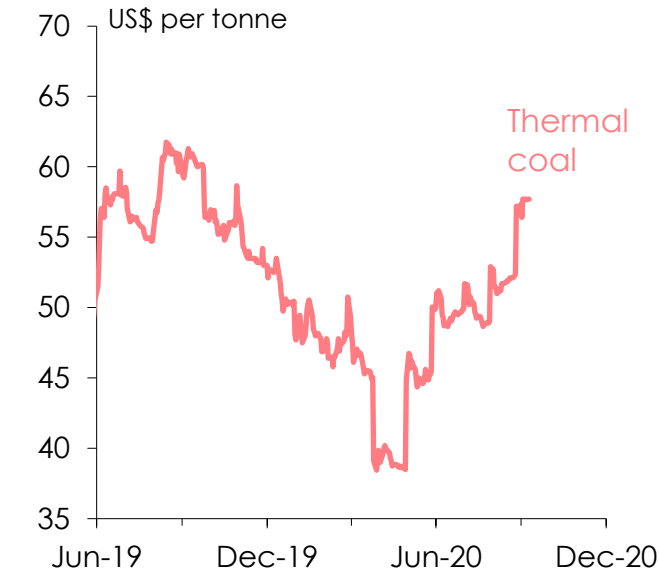
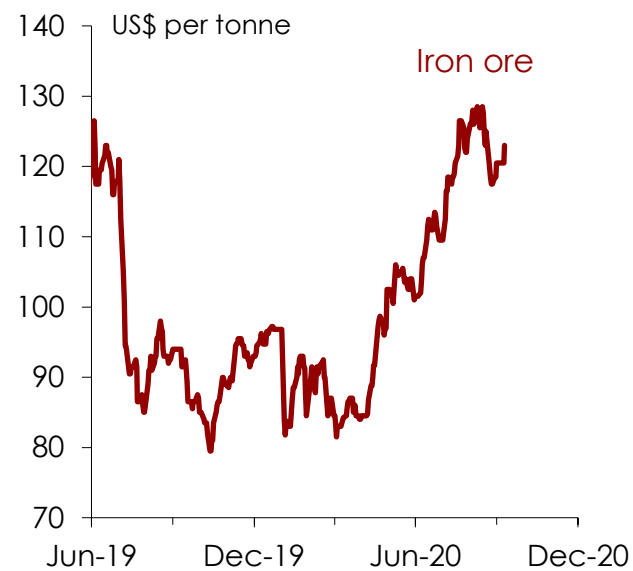
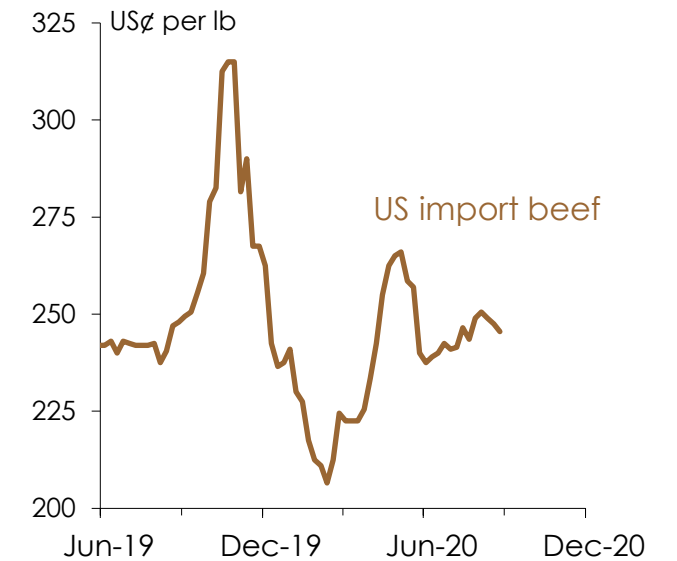
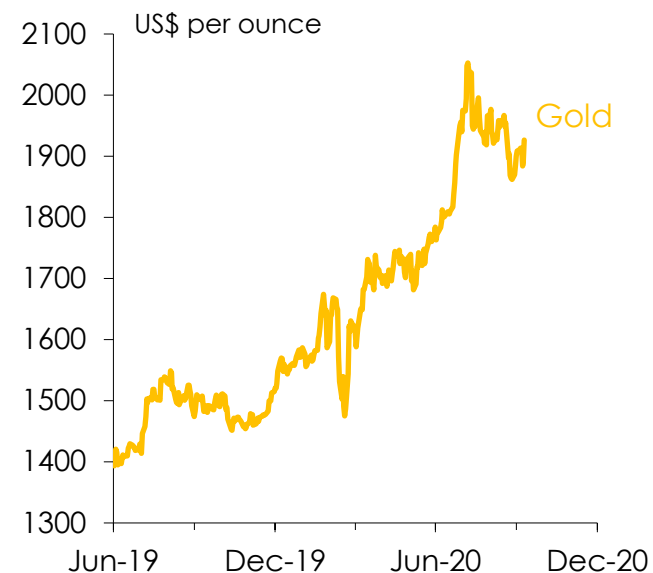
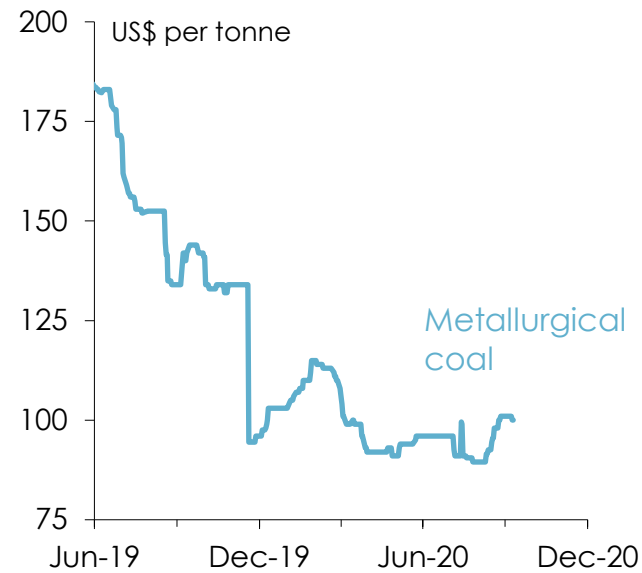
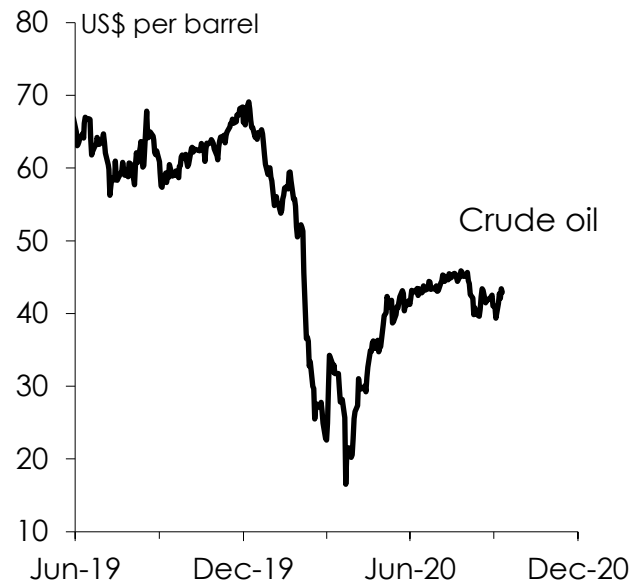


Capital expenditure intentions – non-mining



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, [Private New Capital Expenditure and Expected Expenditure, Australia](#) (next update 26th November).

Commodity prices generally rose this week on the back of a weaker US\$

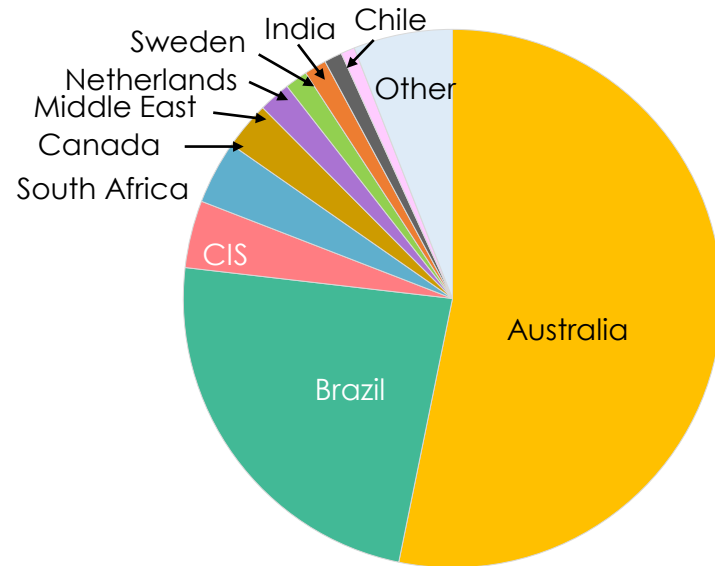


Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 9th October.

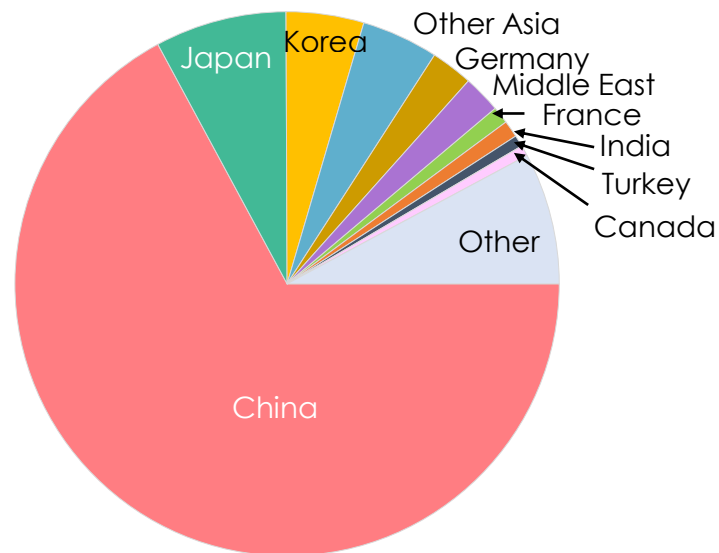
[Return to "What's New"](#).

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

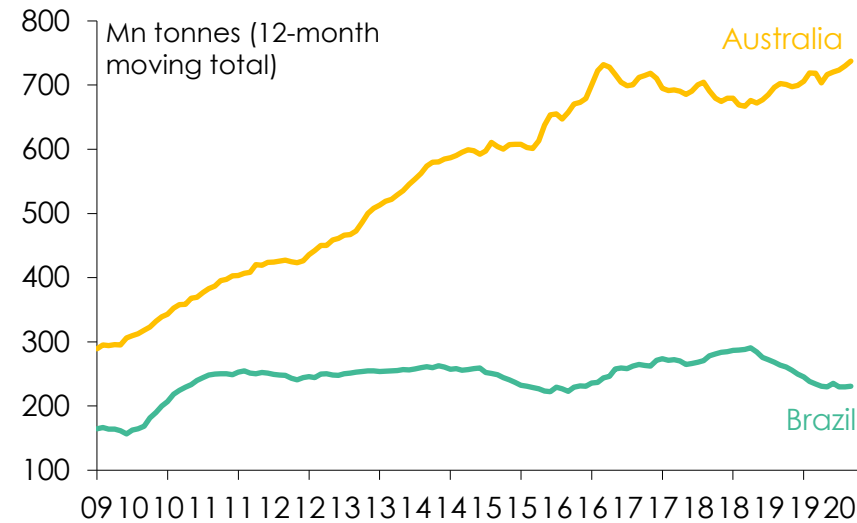
Iron ore exports, 2018



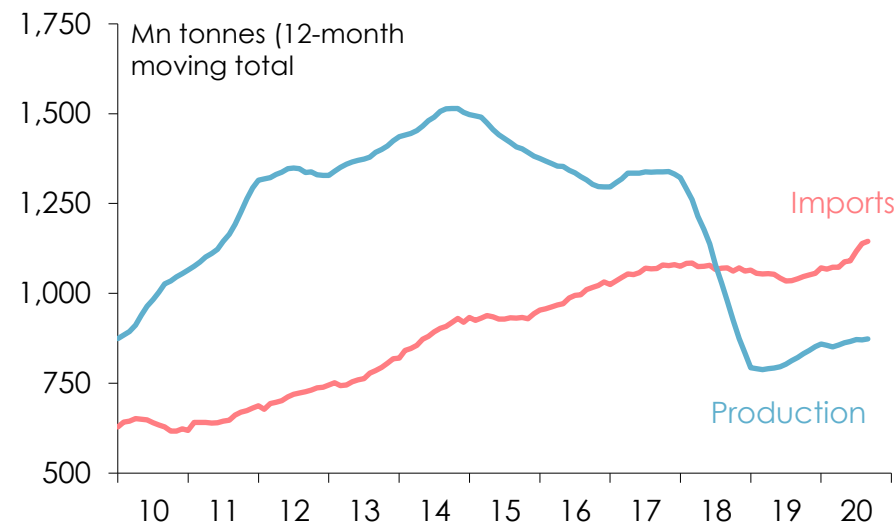
Iron ore imports, 2018



Australia & Brazil iron ore exports



China iron ore production & imports

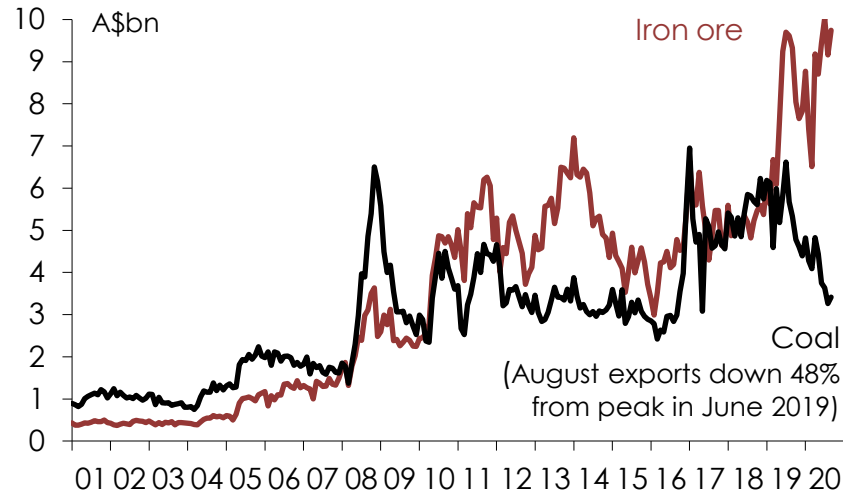


- ❑ The global seaborne iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use)
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese steel mills to become more dependent on imports
- ❑ 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 in West Africa although there are big logistical hurdles to be overcome there
- ❑ BHP said this week that iron ore prices “can be expected to ease as Brazilian supply recovers” and that “in the second half of the 2020s, China’s demand for iron ore is expected to be lower than today as crude steel production plateaus and the scrap-to-steel ratio rises”

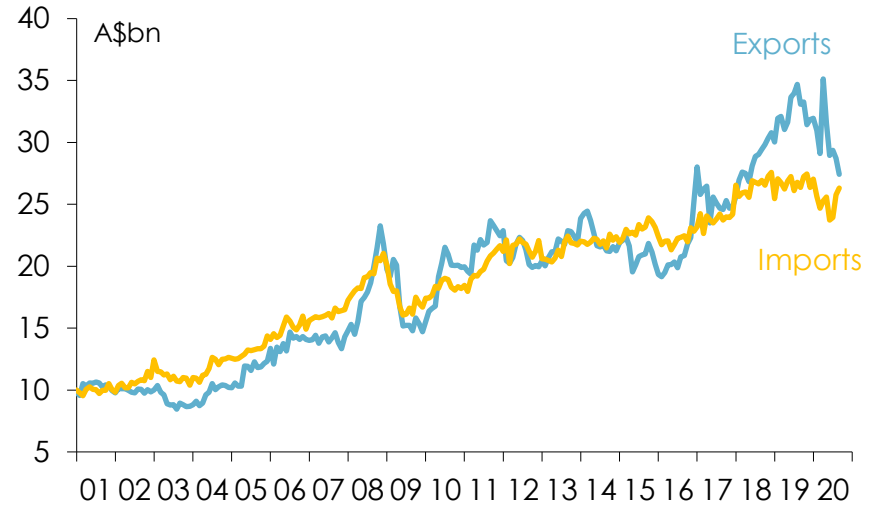
Note: Export volume data for Australia and Brazil derived by dividing export values (in US\$) from ABS and IGBE by the average US\$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream;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

Australia's recorded its smallest trade surplus in 18 months in August, with exports down 4% (due to a 62% fall in gold exports) and imports up 2%

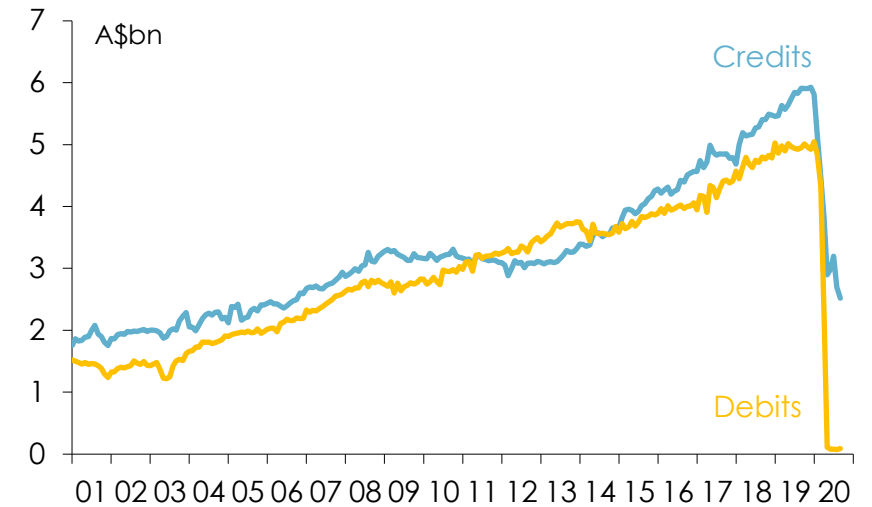
Iron ore and coal exports



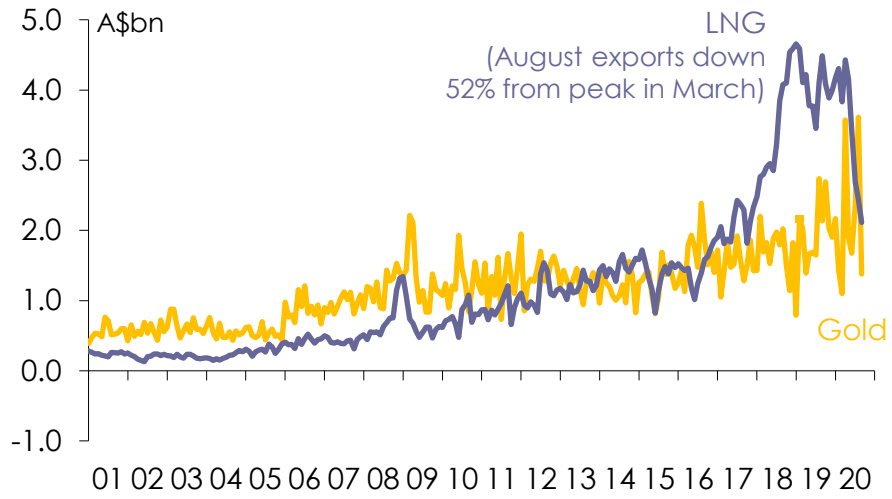
Merchandise exports and imports



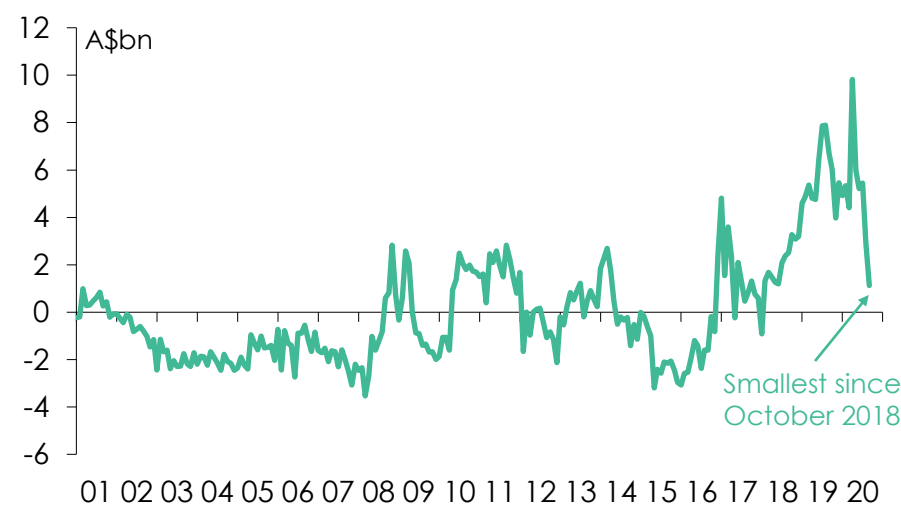
Tourism-related services trade



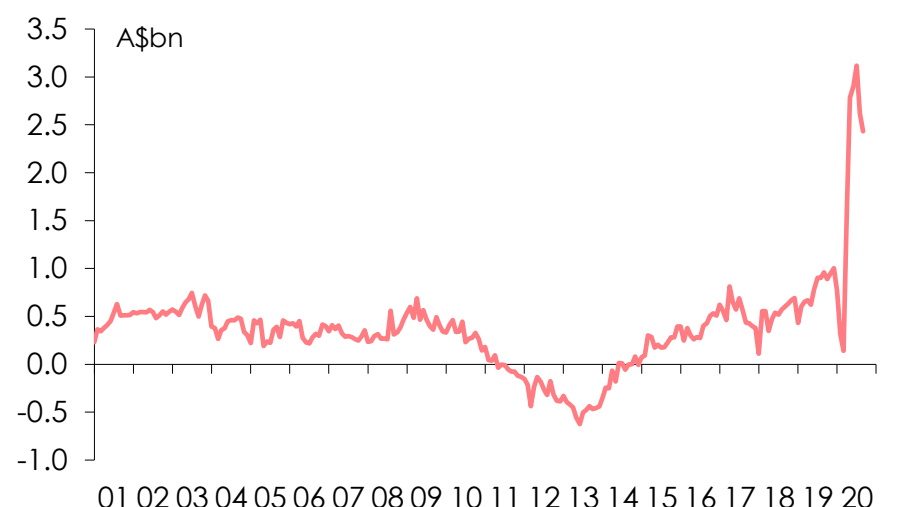
LNG and gold exports



Merchandise trade balance



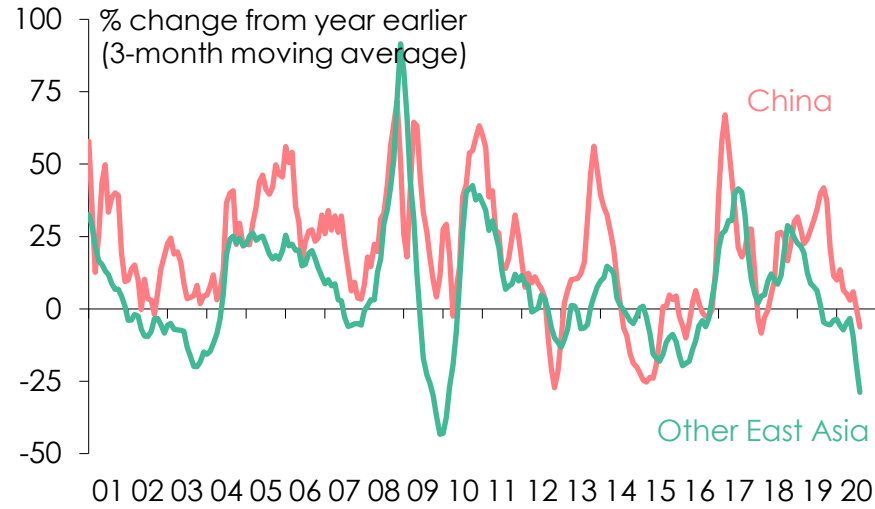
Tourism services trade balance



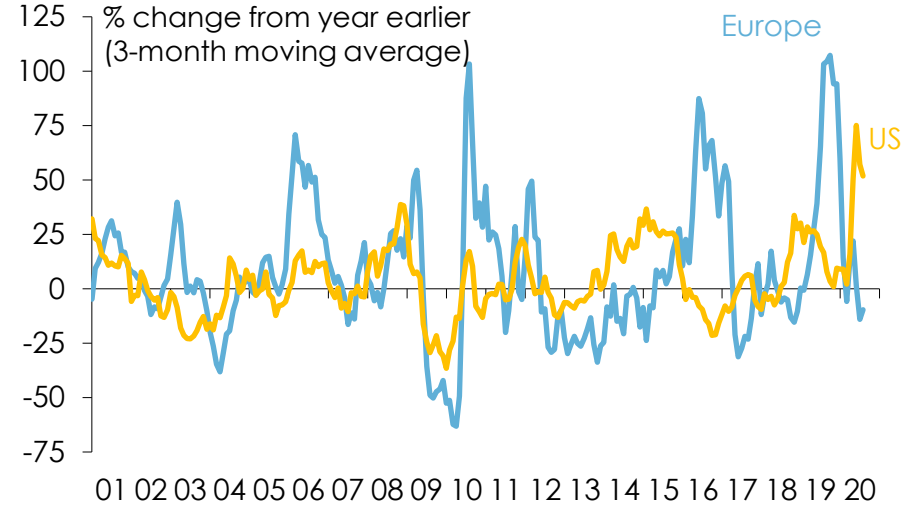
Source: ABS, [International Trade in Goods and Services, Australia](#). September data will be released on 5th November (with preliminary merchandise trade data about a week earlier). [Return to "What's New"](#).

Despite strong iron ore exports, Australia's exports to China are now below year-earlier levels, as are exports to other markets (apart from the US)

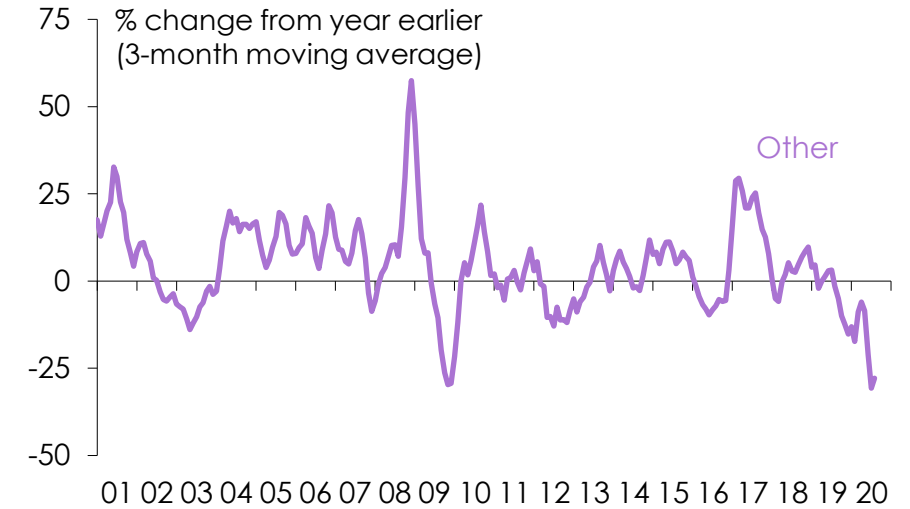
Merchandise exports – East Asia



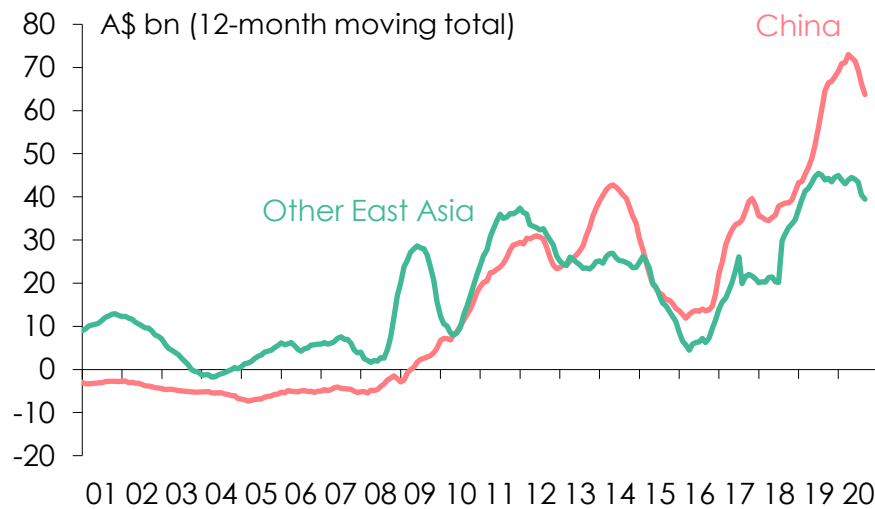
Merchandise exports – US & Europe



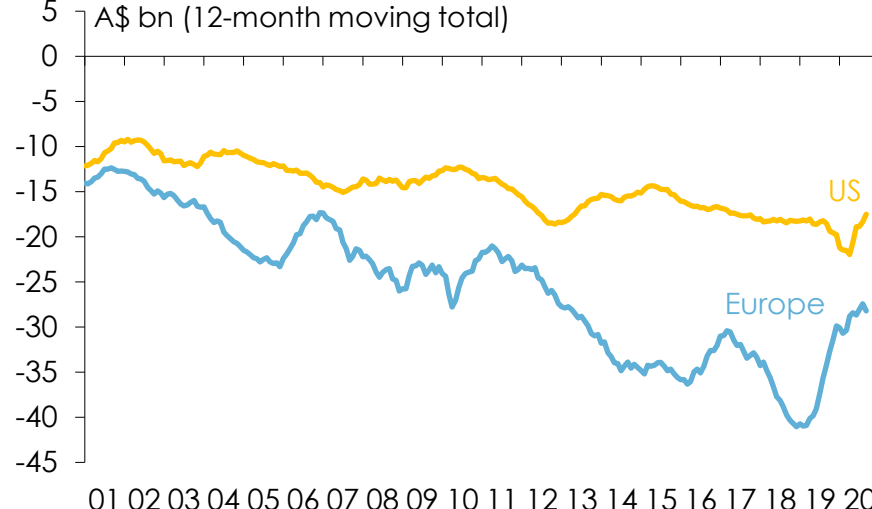
Merchandise exports – other



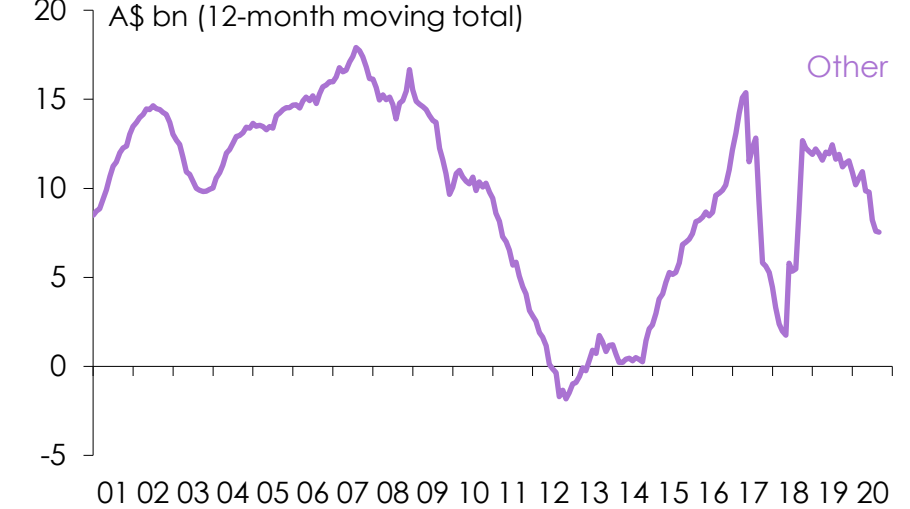
Goods trade balance – East Asia



Goods trade balance – US & Europe



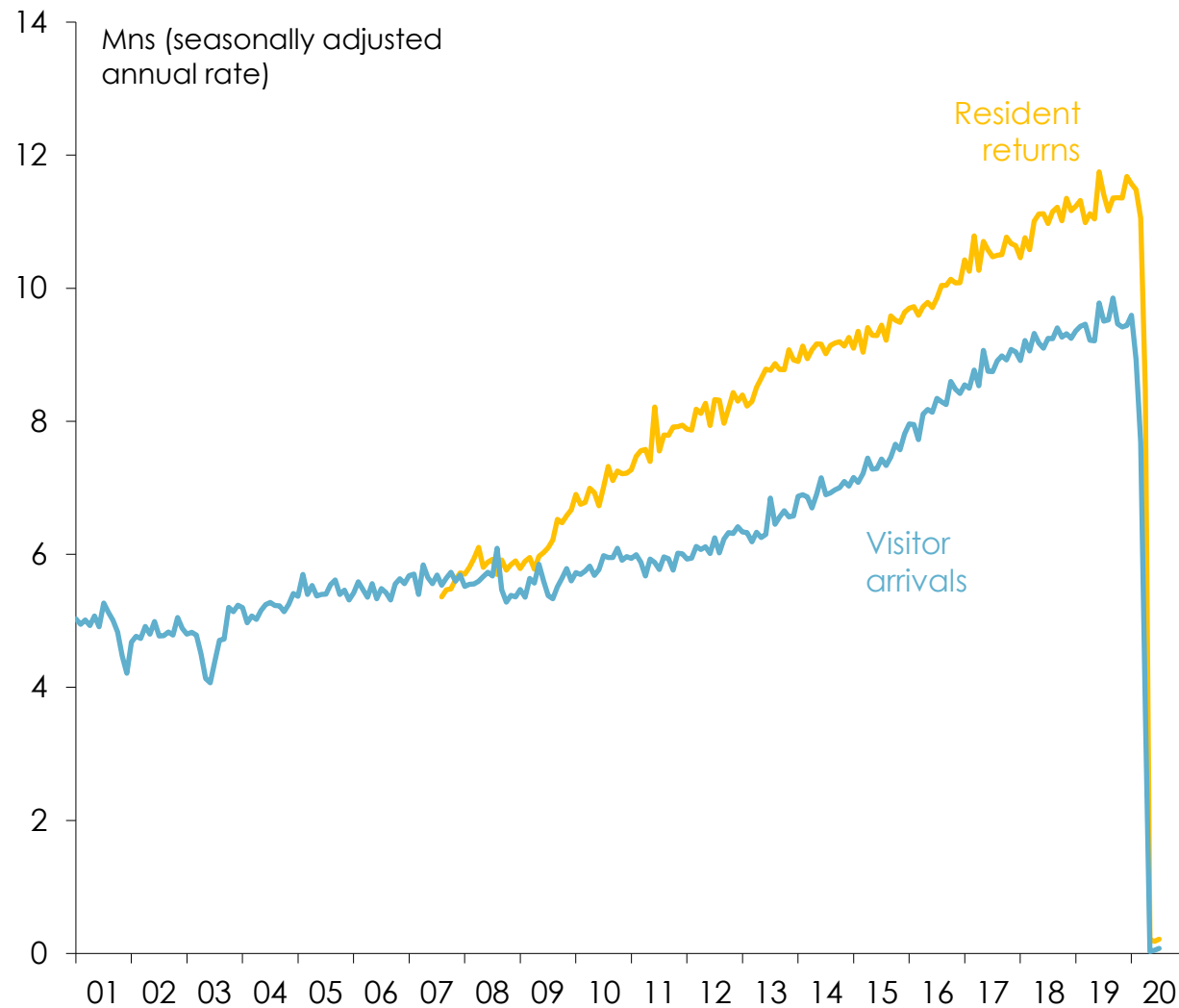
Goods trade balance – other



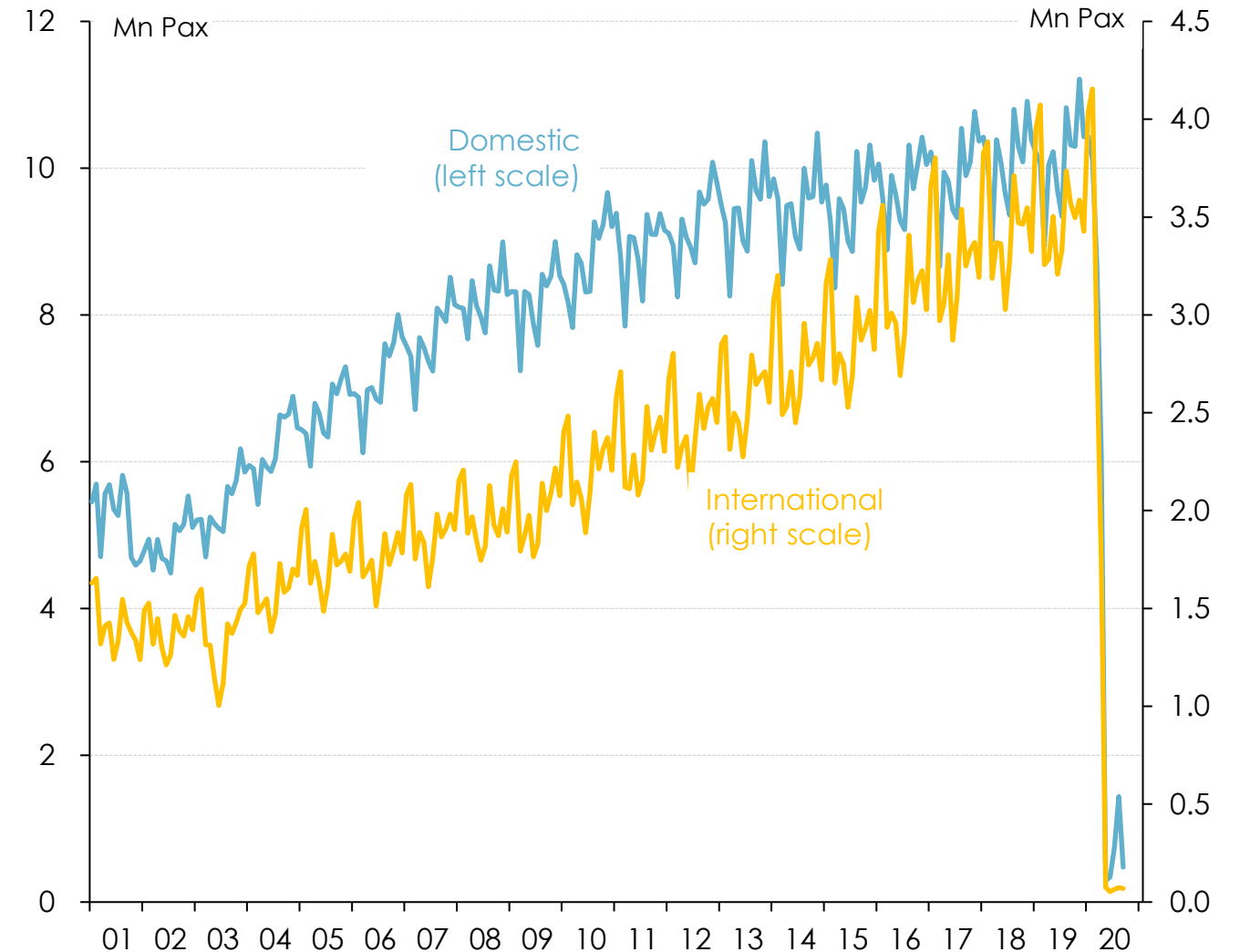
Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in Goods and Services, Australia](#). Latest data is for August; September data will be released on 5th November. [Return to "What's New"](#).

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

Short-term visitor arrivals and resident returns



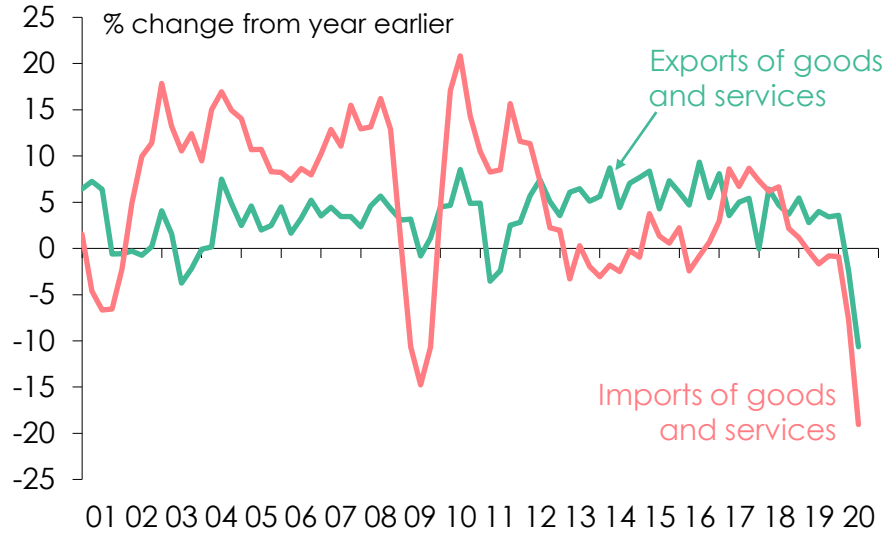
Airport passenger movements



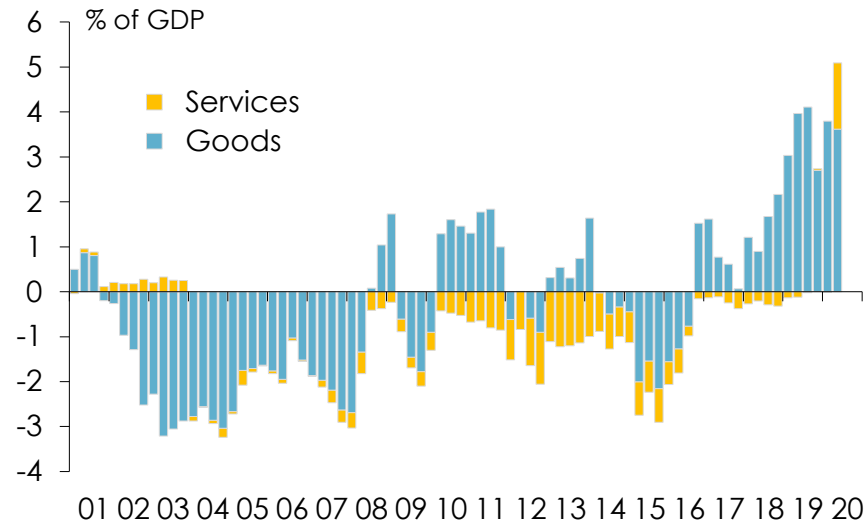
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest BITRE data on airport passenger movements are for July; August data has been extrapolated from data for Sydney Airport published by Sydney Airport Ltd. Sources: ABS; [Bureau of Industry, Transport and Resources Economics \(BITRE\)](#); [Sydney Airport Ltd](#); Corinna. [Return to "What's New"](#).

Australia recorded its largest-ever current account surplus in Q2, and is now a capital exporter, paying down debt and building up equity assets

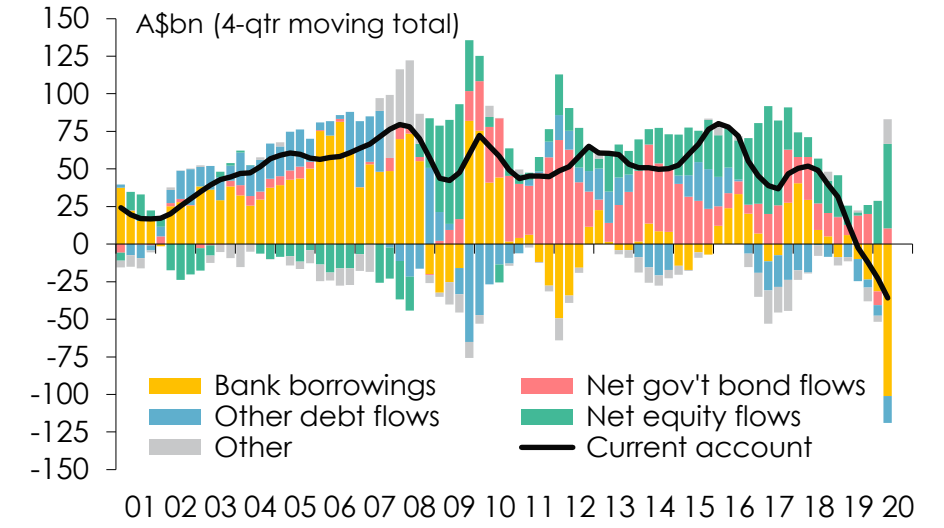
Export and import volumes



Goods & services trade balances



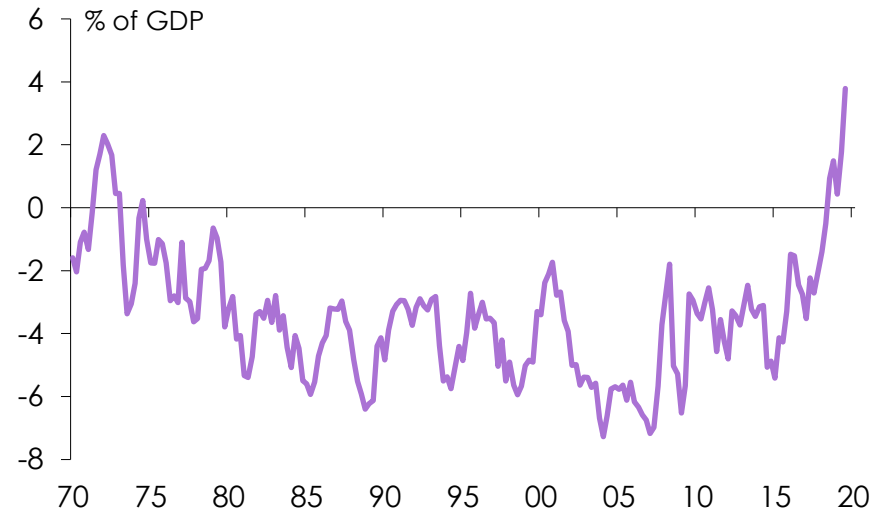
Capital flows



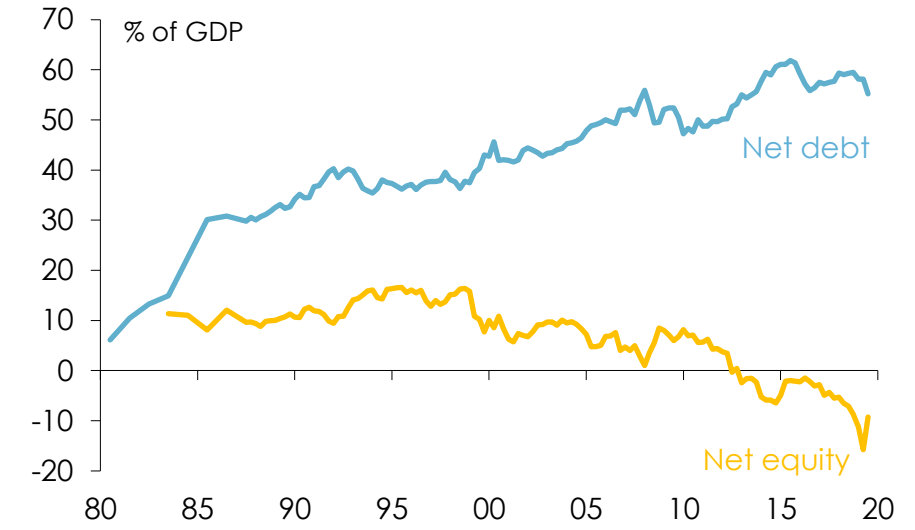
Export and import prices



Current account balance



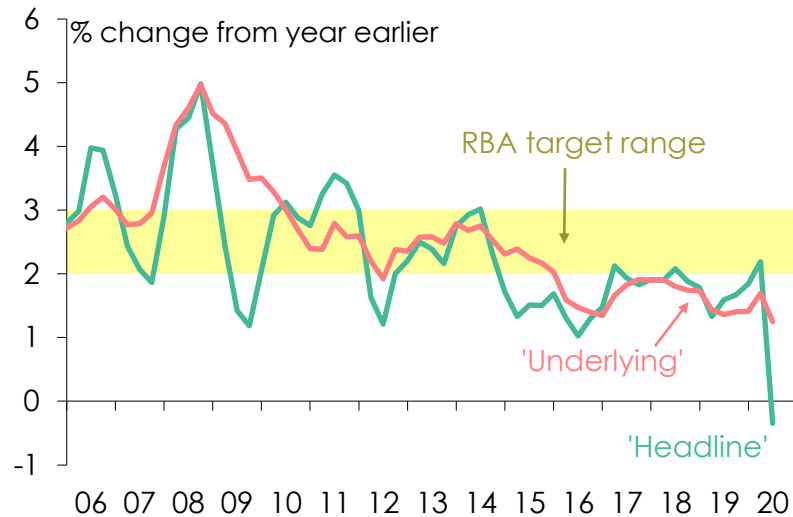
Net international investment position



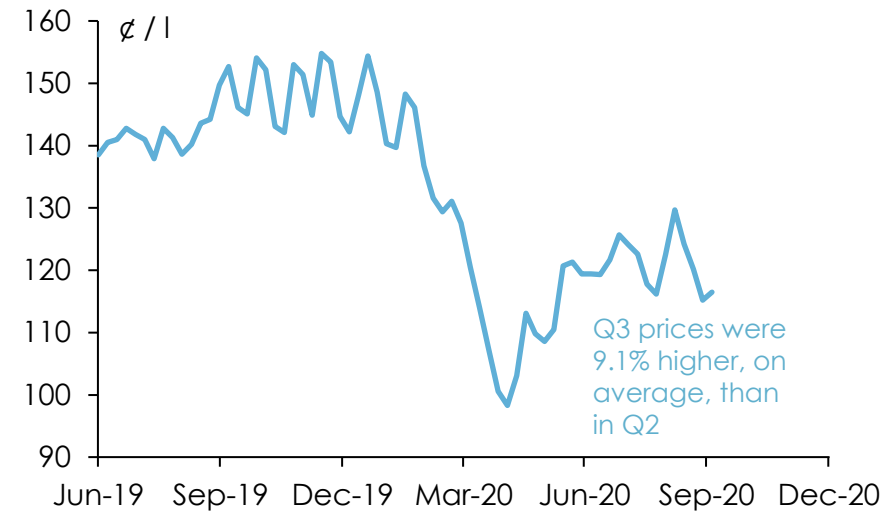
Source: ABS, [Balance of Payments and International Investment Position, Australia](#). September quarter data will be released on 1st December. [Return to "What's New"](#).

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

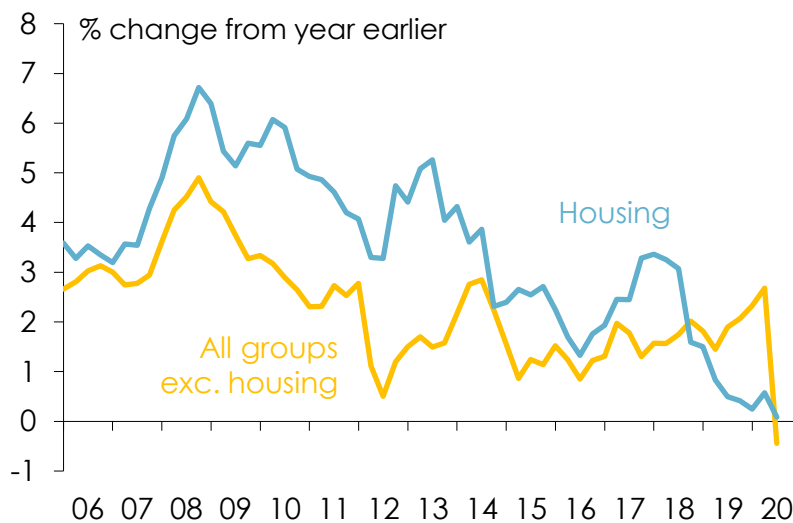
Consumer prices



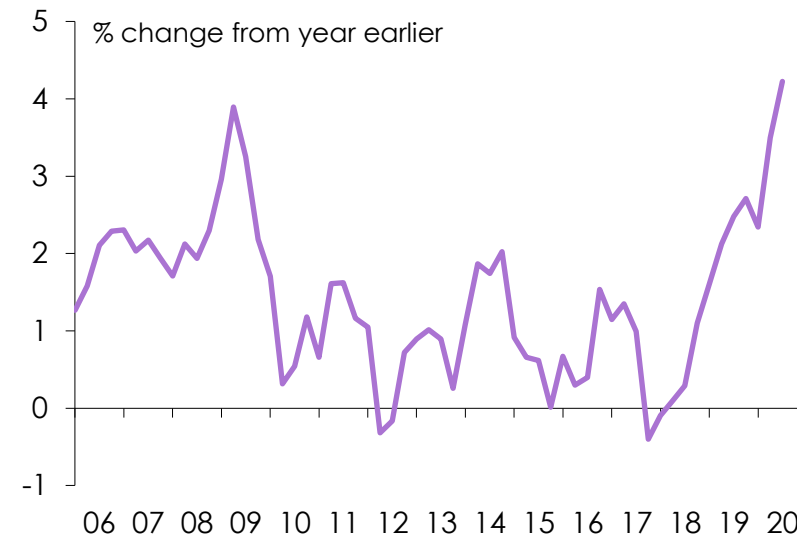
Retail petrol prices



Housing costs in the CPI



Retail sales implicit price deflator

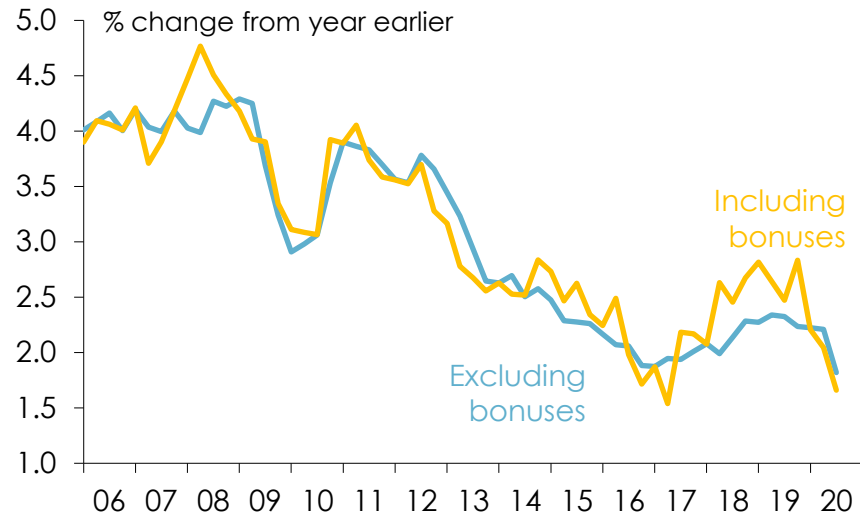


- ❑ The CPI fell (by 1.9%) in the June quarter, the largest quarterly decline since 1931 and only the 11th decline in 60 years
- ❑ The annual 'headline' inflation rate fell to -0.3%, the lowest since Q3 1997 (which was artificially induced by falling mortgage rates, which are no longer included in the CPI), or otherwise since Q3 1944
- ❑ The fall in the CPI in Q2 was largely due to the provision of free childcare between 6th April and 28th June, which subtracted 1.1pc pts from the CPI; and a 19% fall in petrol prices, which subtracted 0.7 pc pts
 - both of these items reversed in Q3
- ❑ 'Underlying' inflation was flat in Q2 and 1.3% from Q2 last year – it's now been below the RBA's target for more than four years
- ❑ In contrast to the CPI, the retail sales price deflator rose 1.2% in Q2 to be 4.2% higher than in Q2 2019 – the biggest annual increase since Q2 2001 – largely driven by a 6.7% increase in food prices

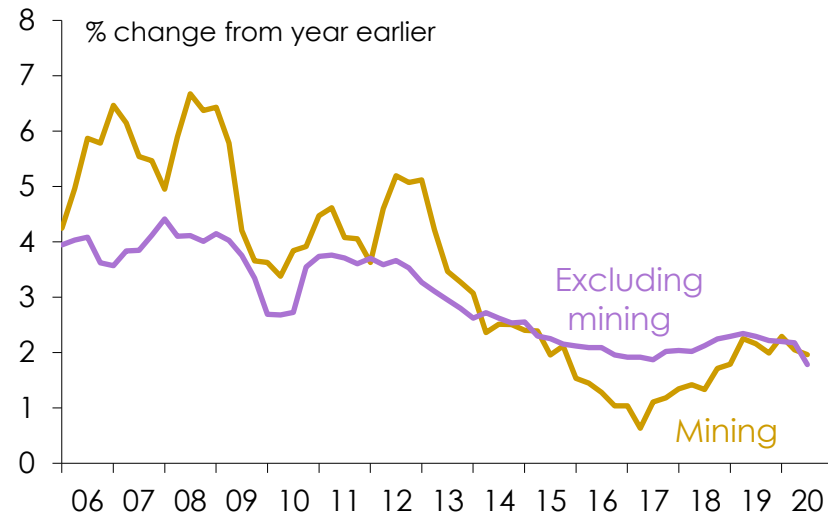
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
 Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The September quarter (Q3) CPI will be released on 28th October.
[Return to "What's New"](#).

Wages growth over the year to the June quarter was the lowest for at least 23 years

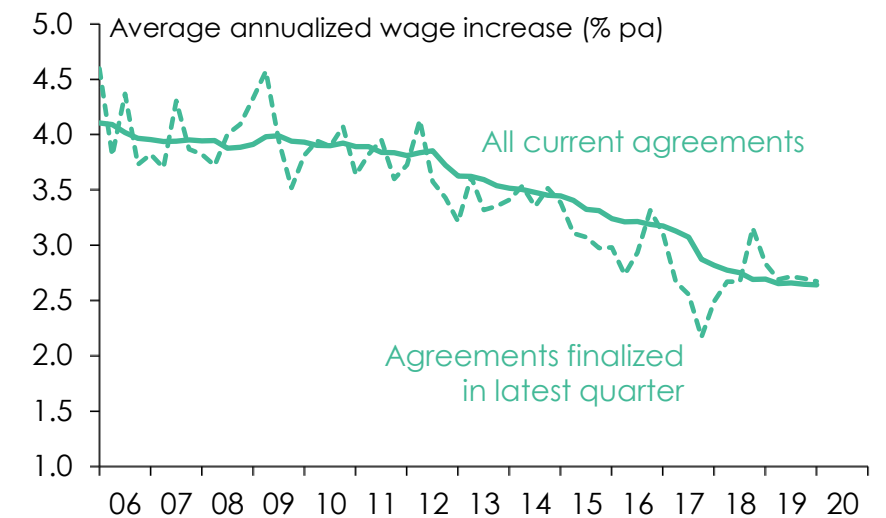
Wage price index – all sectors



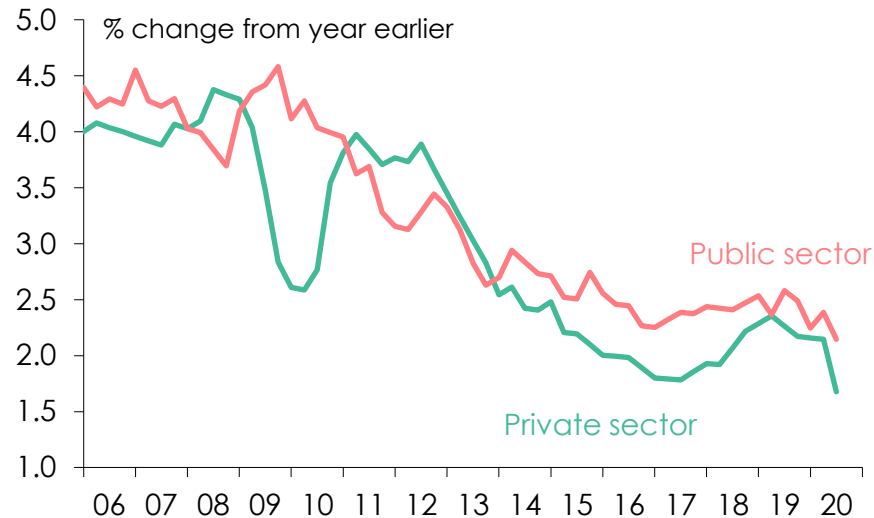
WPI by industry



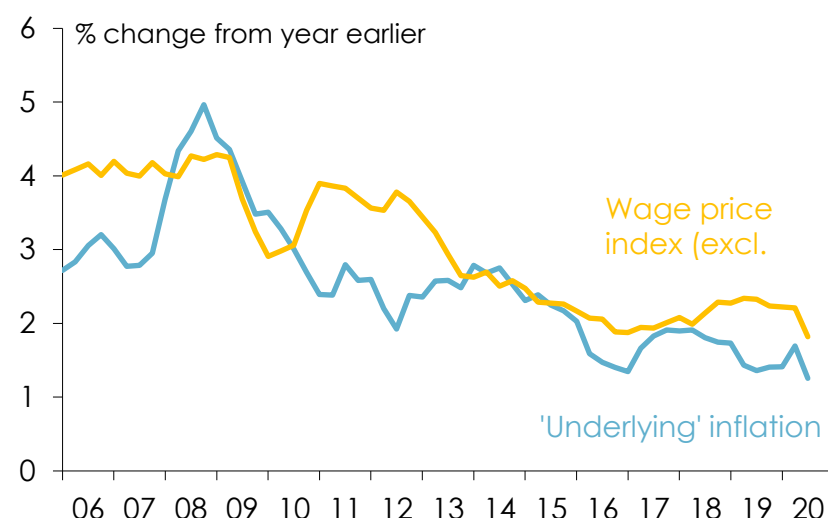
Enterprise bargaining agreements



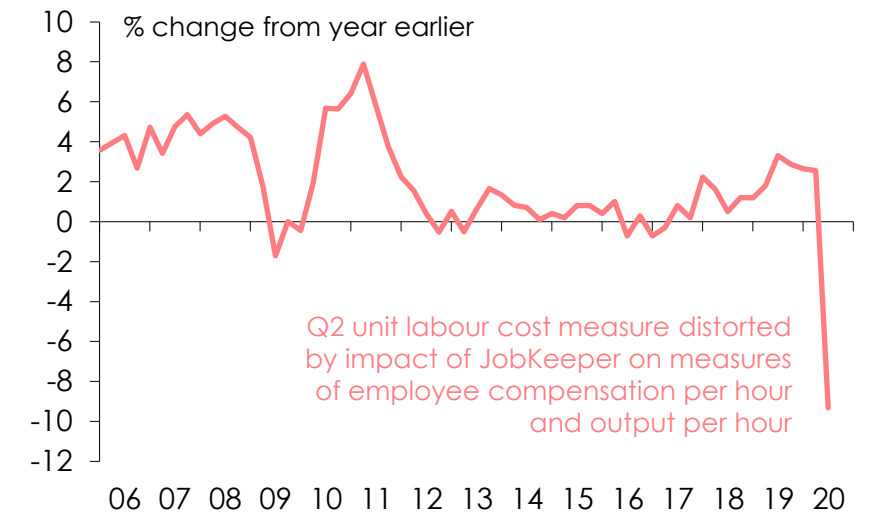
WPI – private vs public sectors



WPI and 'underlying' CPI inflation



Unit labour costs



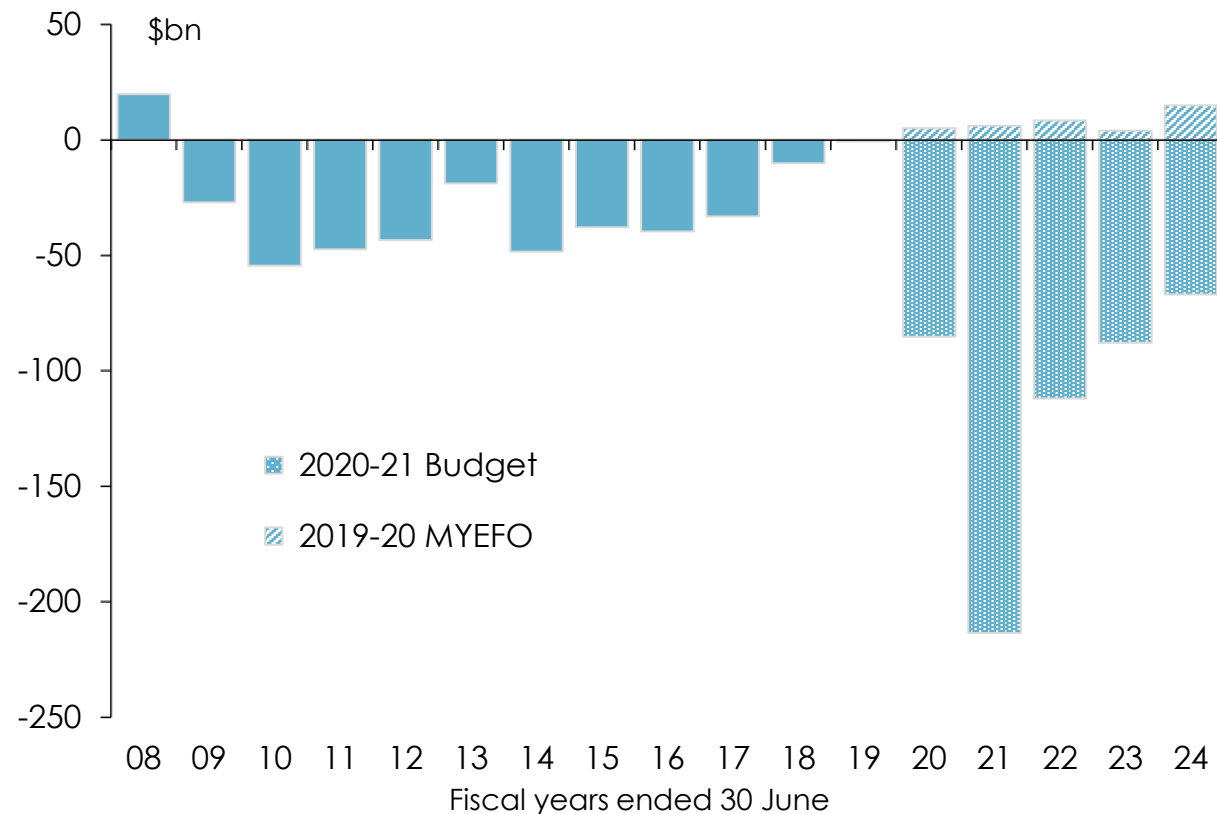
Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Source: ABS; Attorney-General's Department. September quarter WPI data will be released on 18th November.

[Return to "What's New".](#)

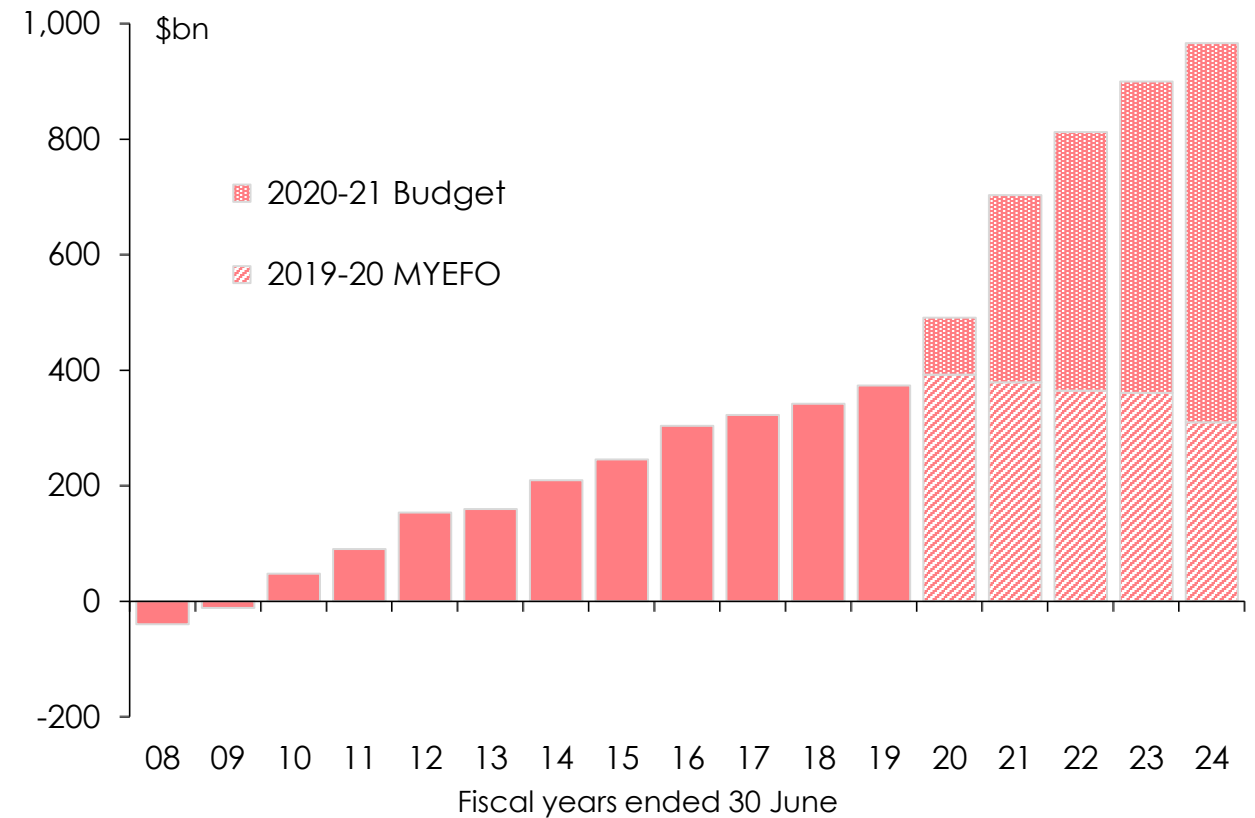
The FY 2020-21 Budget, unveiled this week, confirms a dramatic deterioration in the Government's fiscal position

2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

'Underlying' cash balance



Net debt

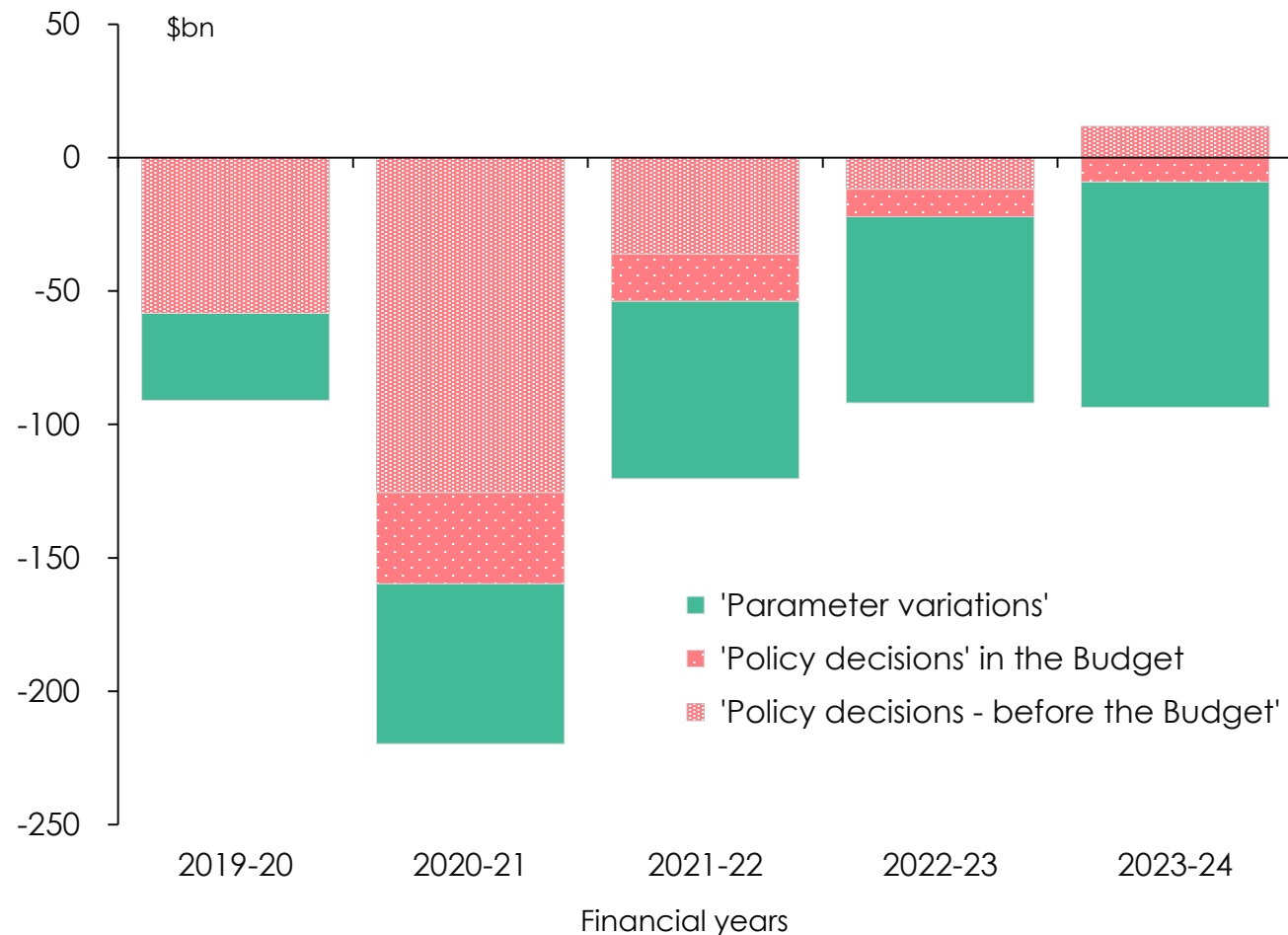


❑ Last December, the Government was confidently predicting a return to budget surpluses – now, it is forecasting deficits totalling \$566bn over the five years to 2023-24

❑ Last December, net debt was expected to have peaked at \$392bn in June 2020, and fall to \$310bn by June 2024 – instead it rose to \$490bn at June 2020, and is now expected to reach \$966bn by June 2024

The deterioration in the budget 'bottom line' is roughly equally attributable to 'policy decisions' and changes in the economic outlook

Sources of the changes in forward estimates of the budget's 'underlying cash balance' between the 2019-20 MYEFO and the 2020-21 Budget



- ❑ In December last year the Government was anticipating budget surpluses totalling \$38.4bn over the five years to 2023-24: now it is forecasting deficits totalling \$566bn – a 'turnaround' of \$605bn
- ❑ Of that \$605bn 'turnaround',
 - \$292bn (just under half) is attributable to 'policy decisions', that is, conscious decisions to spend money or reduce taxes
 - and \$313bn (just under half) is attributable to what the Budget Papers call 'parameter variations', that is, changes in economic forecasts or other assumptions on which forward estimates of receipts and payments depend
- ❑ \$232bn (or 80%) of the 'policy decisions' were taken before the 2020-21 Budget (most of them in the first three months of the pandemic)
- ❑ 'Policy decisions in the 2020-21 Budget amount to 'only' \$62bn
- ❑ \$160bn (55%) of the total 'policy decisions' affect the 2020-21 financial year

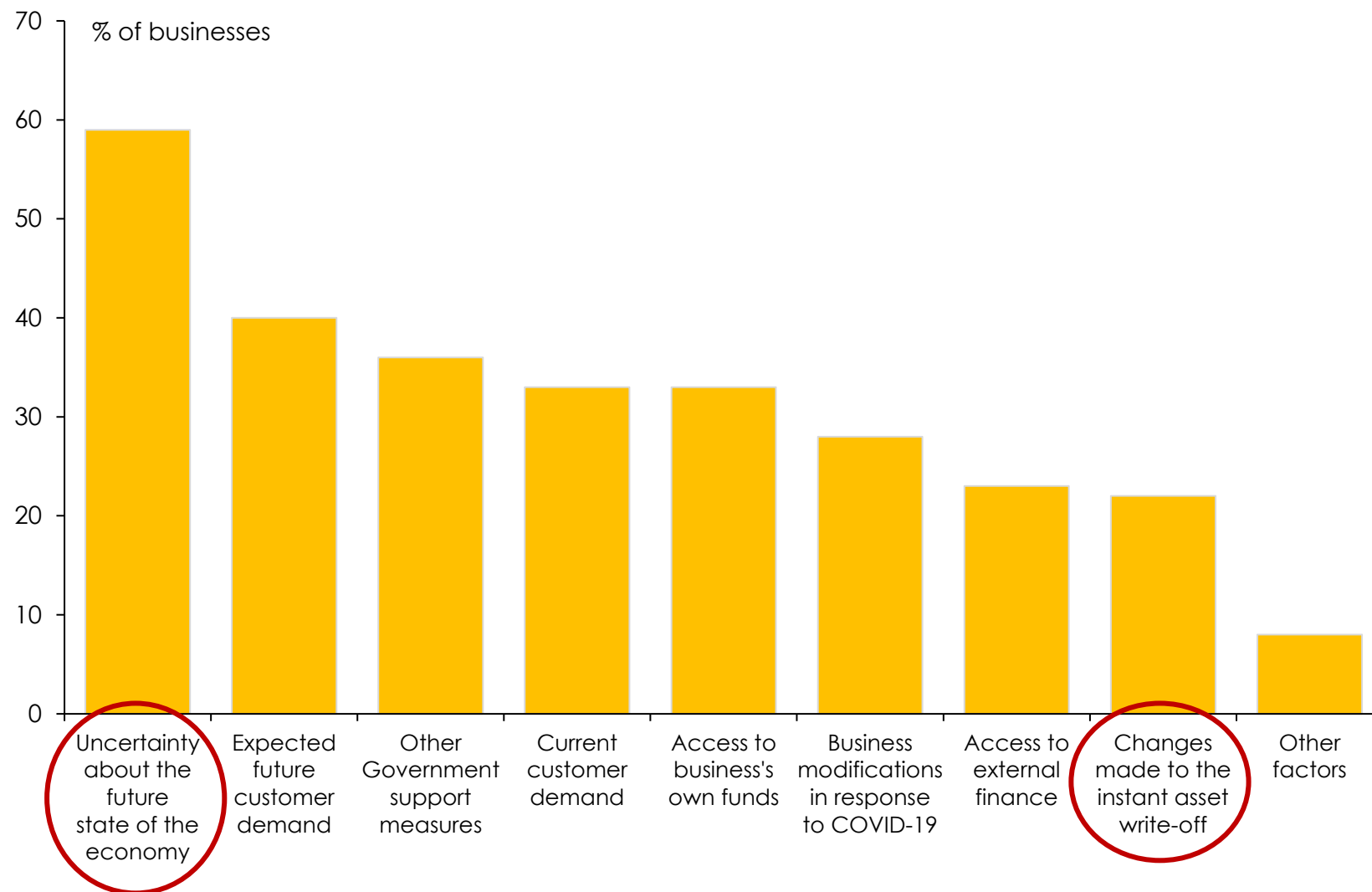
Source: Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#) and [Budget Paper No. 2, Budget Measures](#); Corinna.

Budget announcements were mainly about incentives for business and earlier personal income tax cuts for households

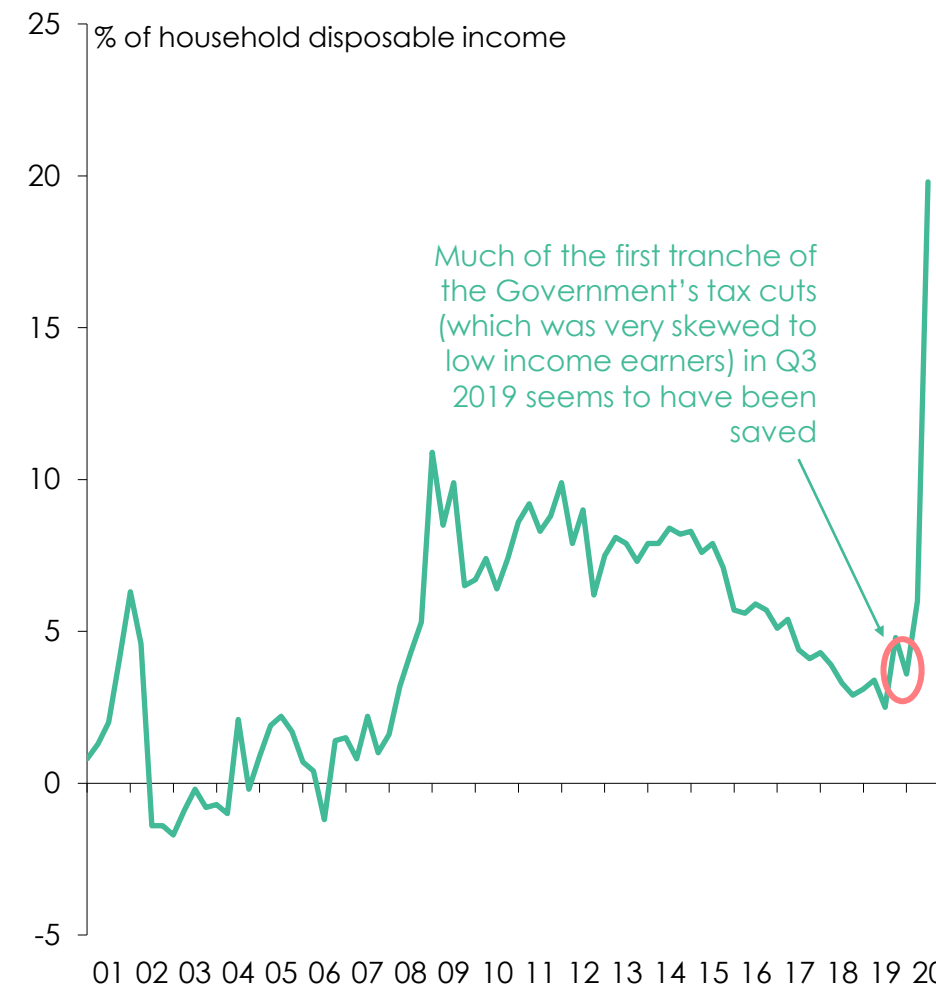
- ❑ The biggest single measure in the Budget was the ‘temporary full expensing’ of purchases of depreciable assets by businesses with turnover of less than \$5bn, available until 30th June 2022 (at a cost to revenue of \$26.7bn over four years)
 - this is in effect an extension of the ‘instant asset write off’ for small businesses (introduced five years ago and extended in March this year) to almost 99% of all businesses
- ❑ Companies with turnover of up to \$5bn will also be able to claim refunds of tax paid in or after 2018-19 if they incur tax losses during the 2019-20, 2020-21 or 2021-22 years (at a cost to revenue of \$4.9bn over four years)
- ❑ There are also two big wage subsidy programs for business to encourage hiring
 - the JobMaker Hiring Credit provides \$4bn over four years for incentives (wage subsidies of up to \$200 per week for 12 months) to hire people aged 16-35 who have previously been JobSeeker or Youth Allowance (Other) recipients for at least one of the three previous months – with what appear to be adequate safeguards against employers sacking older workers to replace them with subsidized younger ones
 - \$1.2bn for a 50% wages subsidy up to \$7000 per quarter for new apprentices and trainees until September next year
- ❑ For individuals the largest measure was the (previously flagged) bring-forward by two years of the personal income tax cuts previously legislated to take effect from 1st July 2022 (at a cost to revenue of \$17.8bn)
 - the Government is obviously sensitive to suggestions that these tax cuts are skewed towards middle- and higher-income earners, because it has left the third tranche of cuts (which come into effect on 1st July 2024) unchanged, and extended the ‘Lamington’ (the Low & Middle Income Tax Offset) for another year
 - while this measure obviously will put a lot of “money into people’s pockets”, there’s no guarantee they will take it out and spend it, especially given uncertainties over the end of JobKeeper, mortgage repayment holidays etc
- ❑ Most of the spending measures (including \$8³/₄bn of additional funding to states for infrastructure, \$2bn for aged care, \$1¹/₂bn for the ‘modern manufacturing’ strategy) had been detailed or deliberately leaked before the budget

It's by no means certain that businesses and households will respond to the budget incentives in the way that the budget assumes

Factors affecting business investment decisions, August 2020



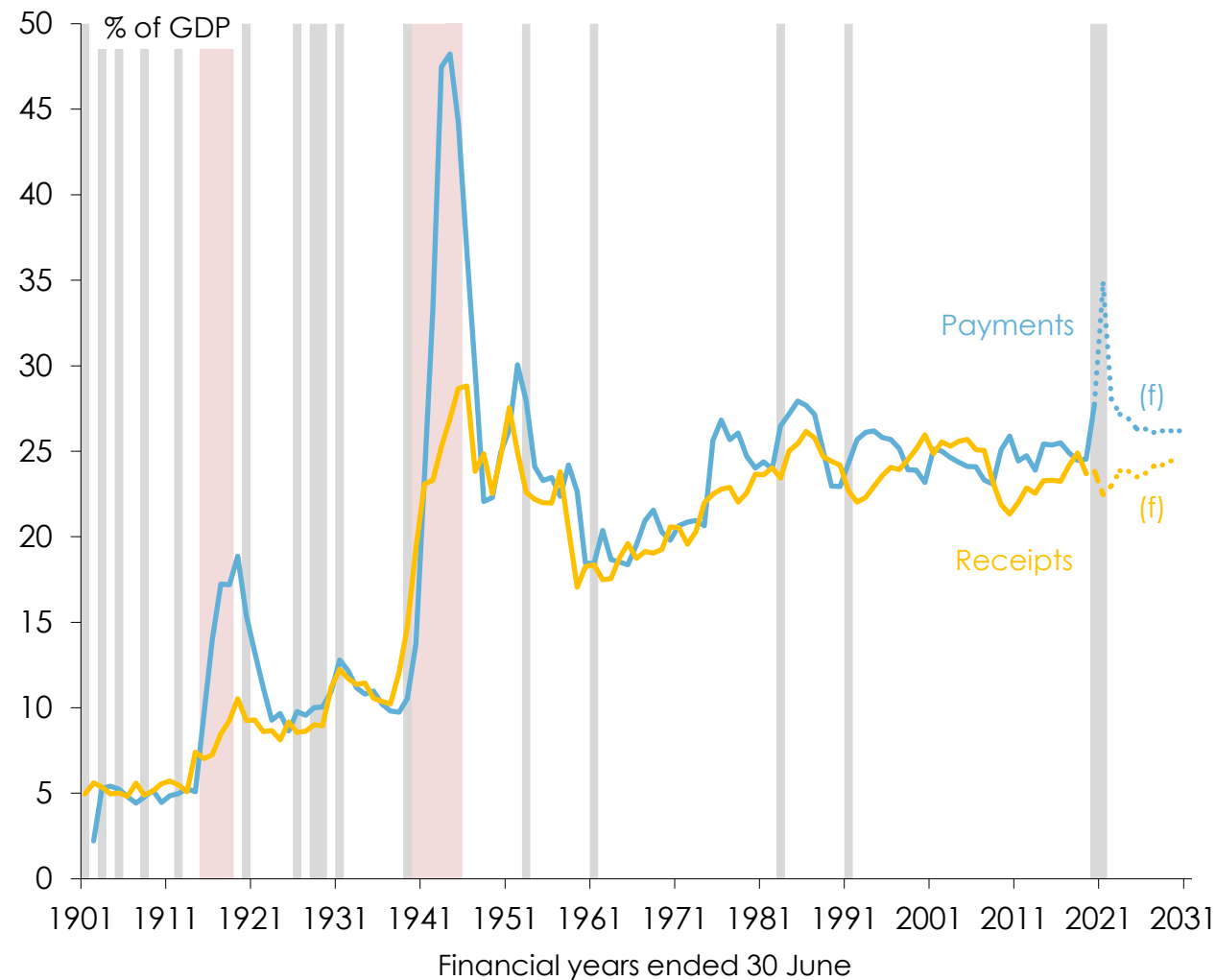
Household saving rate



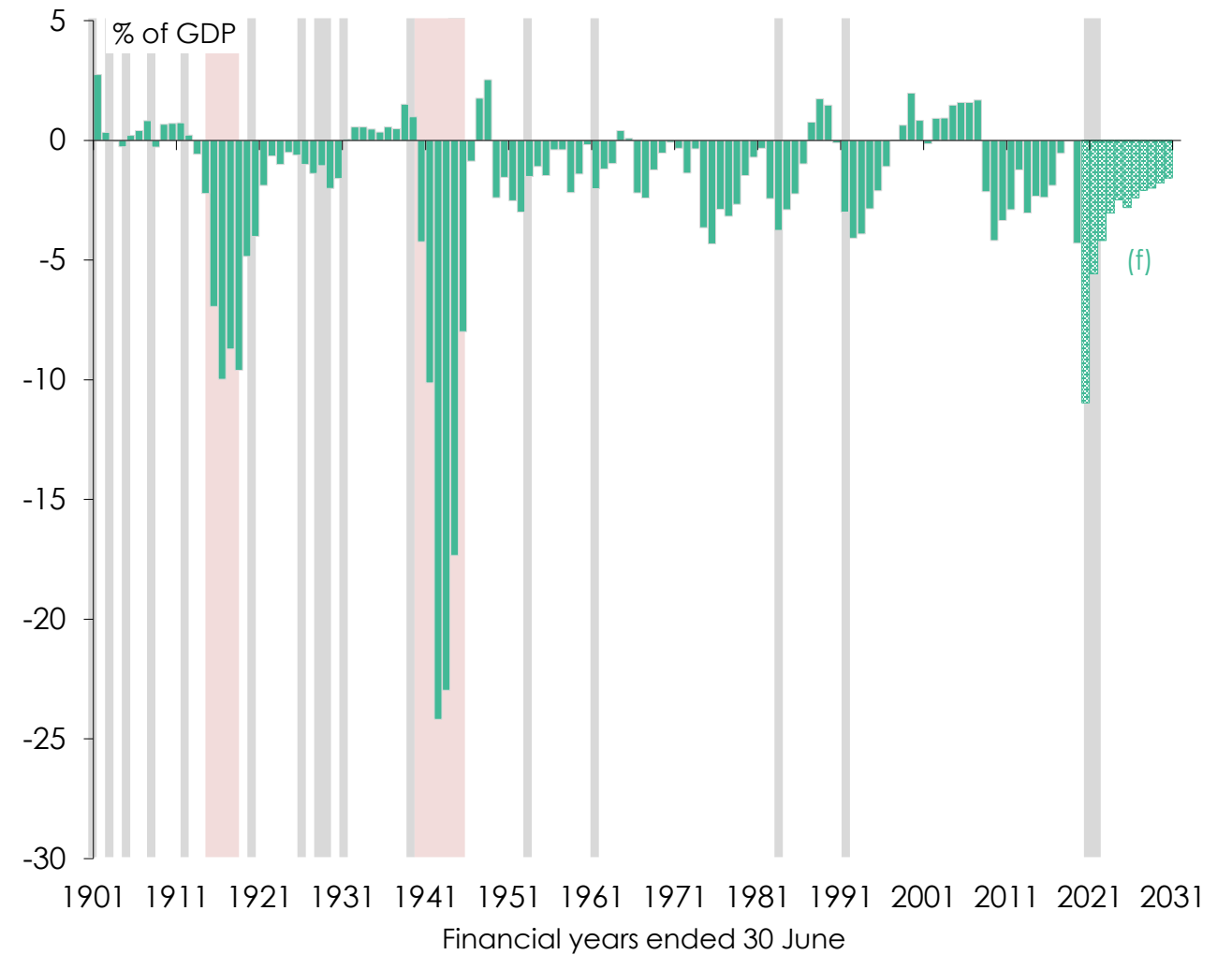
Sources: ABS, [Business Impacts of Covid-19](#), August 2020 (based on survey conducted between 12th and 19th August); [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020.

The 2020-21 deficit of \$214bn (11% of GDP) will be the biggest since 1944-45 – and (on current policies) deficits will persist for the rest of the decade

Australian Government receipts and payments



Australian Government budget deficit or surplus

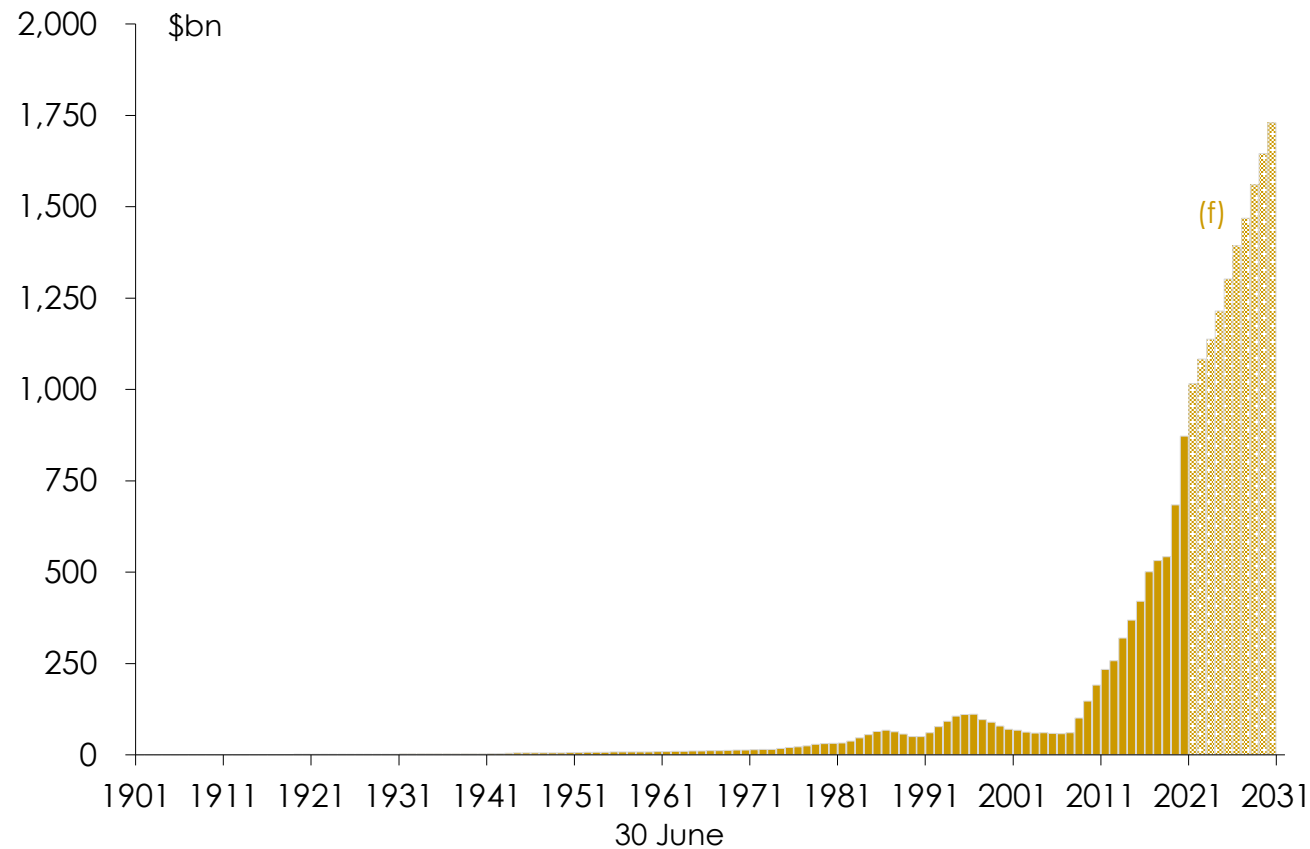


Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which real GDP contracted; areas shaded in pink are World Wars I and II. (f) denotes forecasts or projections.

Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#).

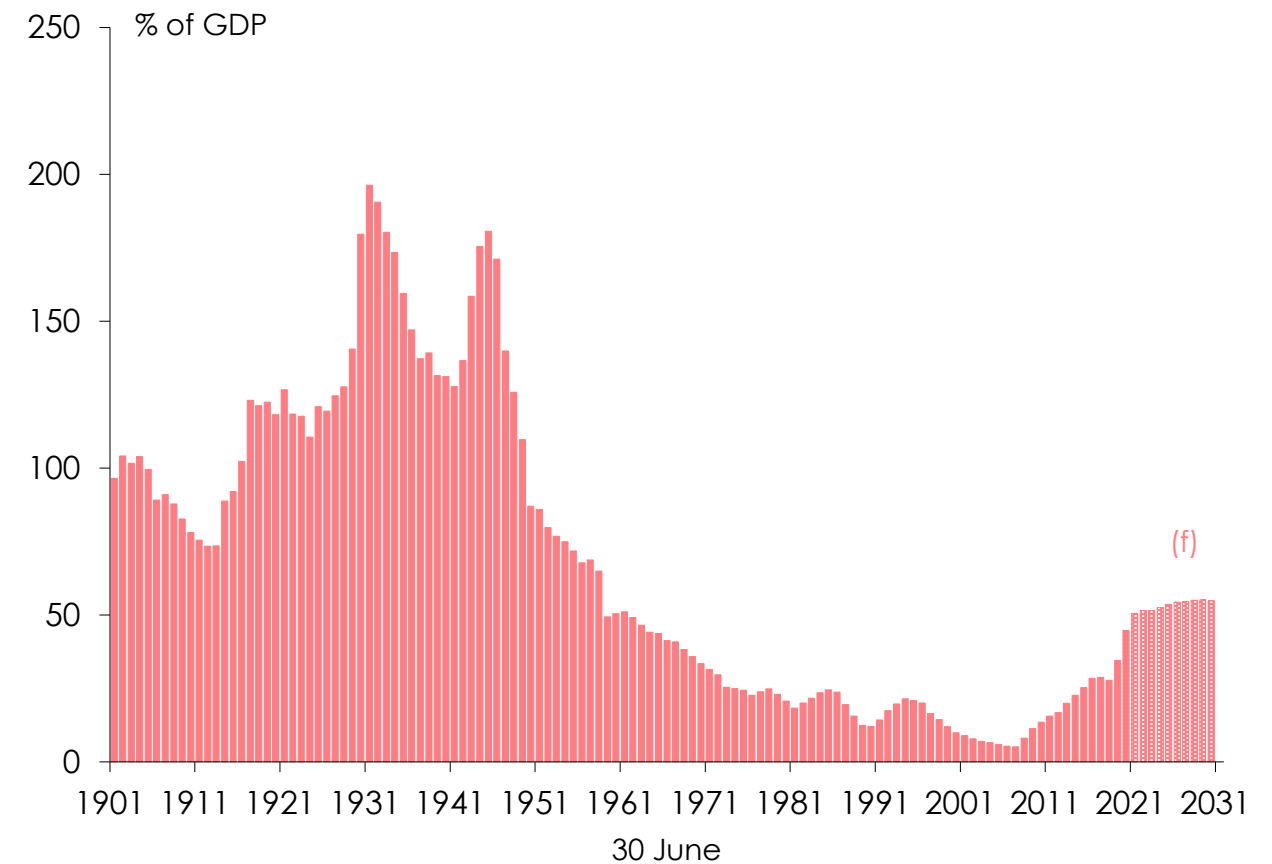
However there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

Australian Government gross public debt in \$



- ❑ The Government's gross debt will top \$1 trillion during the 2021-22 financial year, and reach almost \$1¾ trillion by the end of the decade

Australian Government gross debt as a pc of GDP

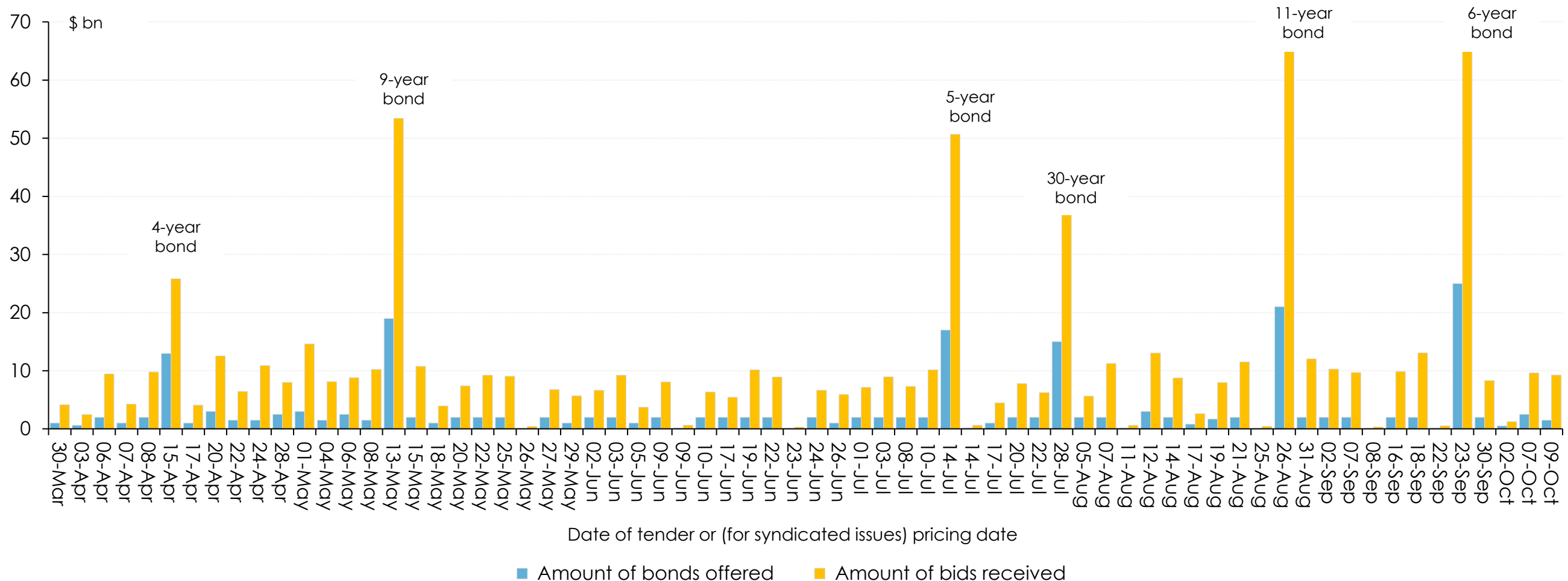


- ❑ However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an independent nation

Note: (f) denotes forecasts and projections. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#).

The Australian Government continues to have absolutely no difficulty financing its significantly higher deficits

Australian government bond issuance since March 2020

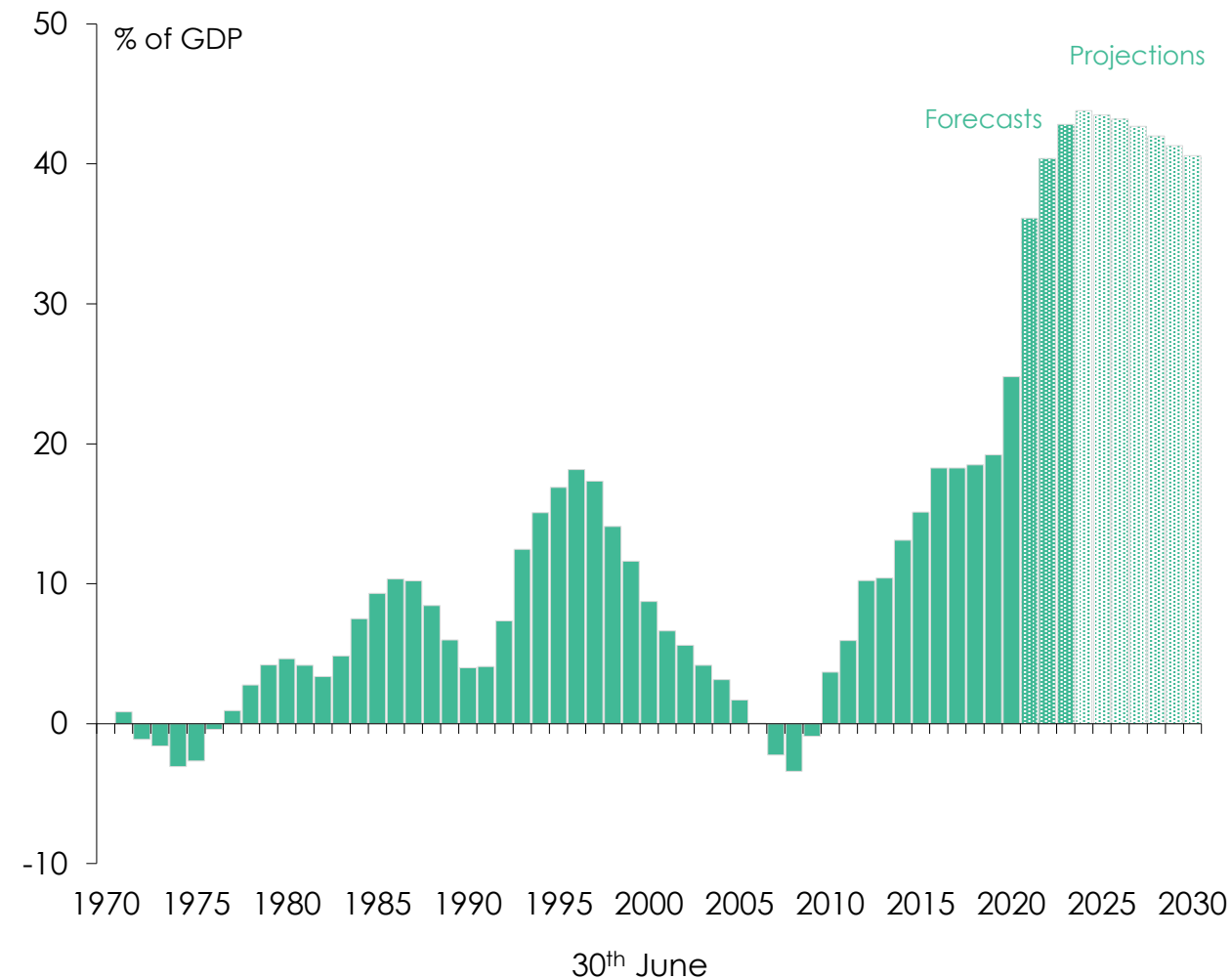


□ Since 30th March, the Australian Office of Financial Management (which conducts the Government’s borrowing programs) has issued \$208.6bn of Treasury bonds - based on the volume of bids received it could have borrowed \$737bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted

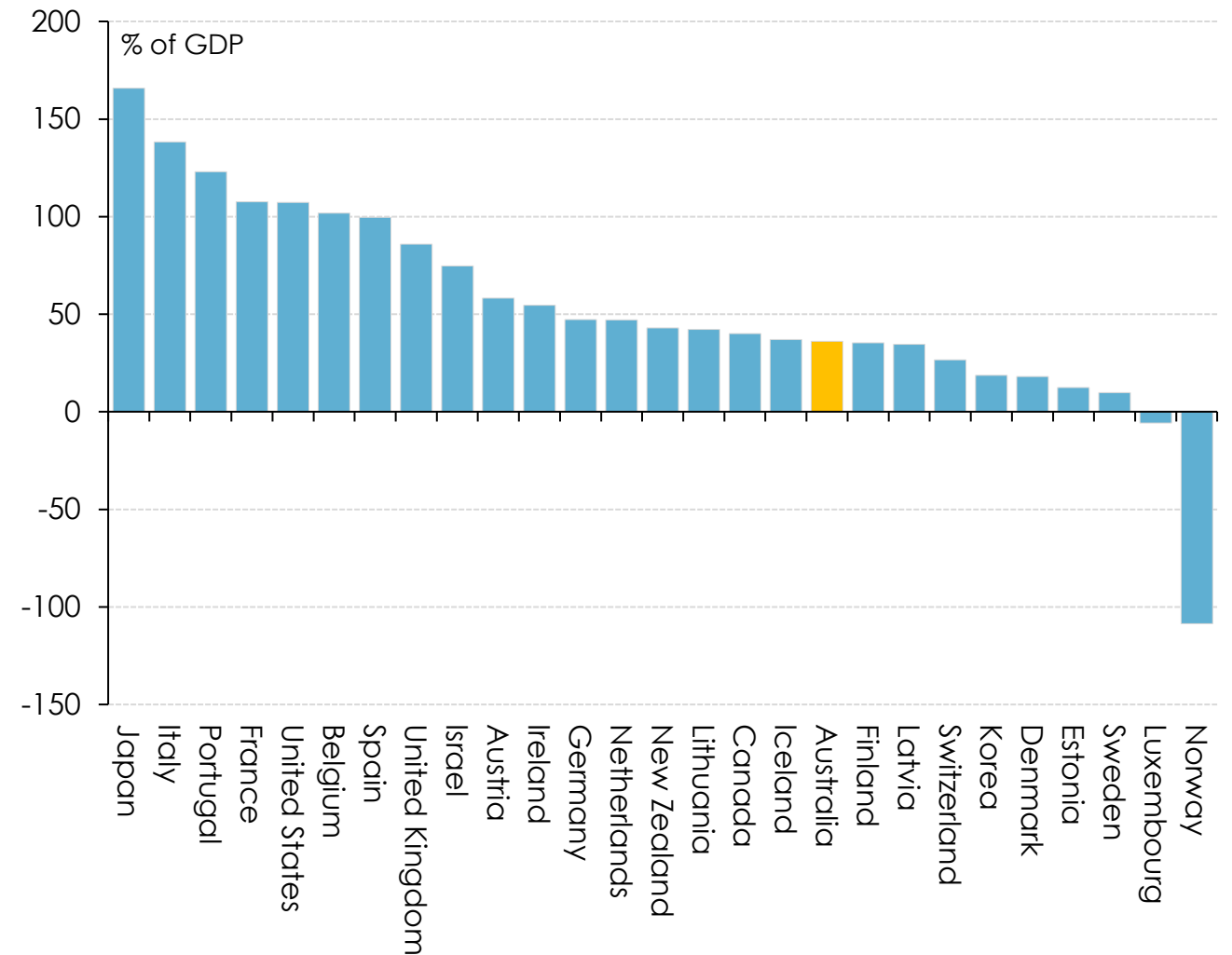
Source: Australian Office of Financial Management [data hub](https://datahub.aofm.gov.au/); Corinna.

Although Australia's government net debt will reach new record highs, it will still be relatively low by comparison with most 'advanced' economies

Australian Government net debt as a percentage of GDP



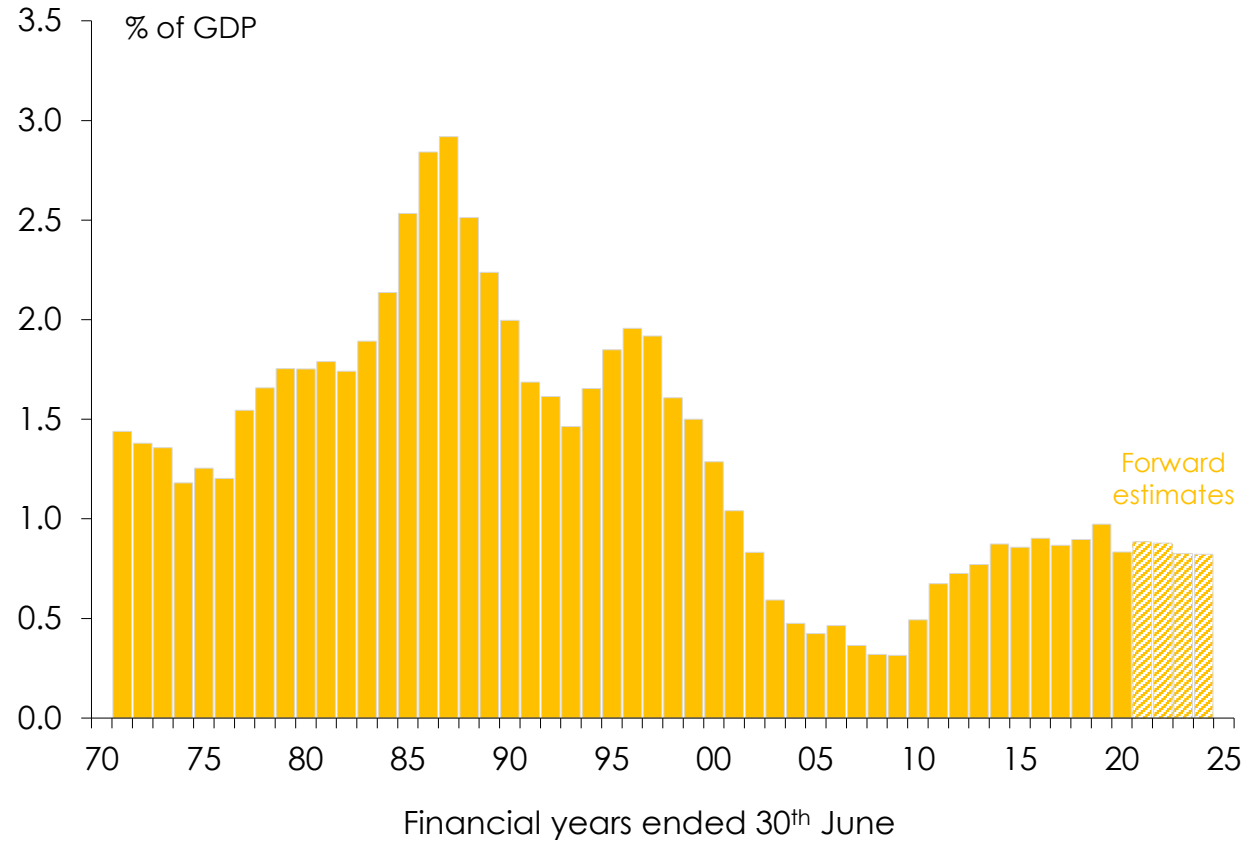
Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2021



Sources: Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); New Zealand Treasury, [Pre-Election Economic and Fiscal Update](#), 16th September 2020; IMF, [Fiscal Monitor](#), April 2020 (note – the next edition of *Fiscal Monitor* will be released this Wednesday 14th October (Washington DC time)).

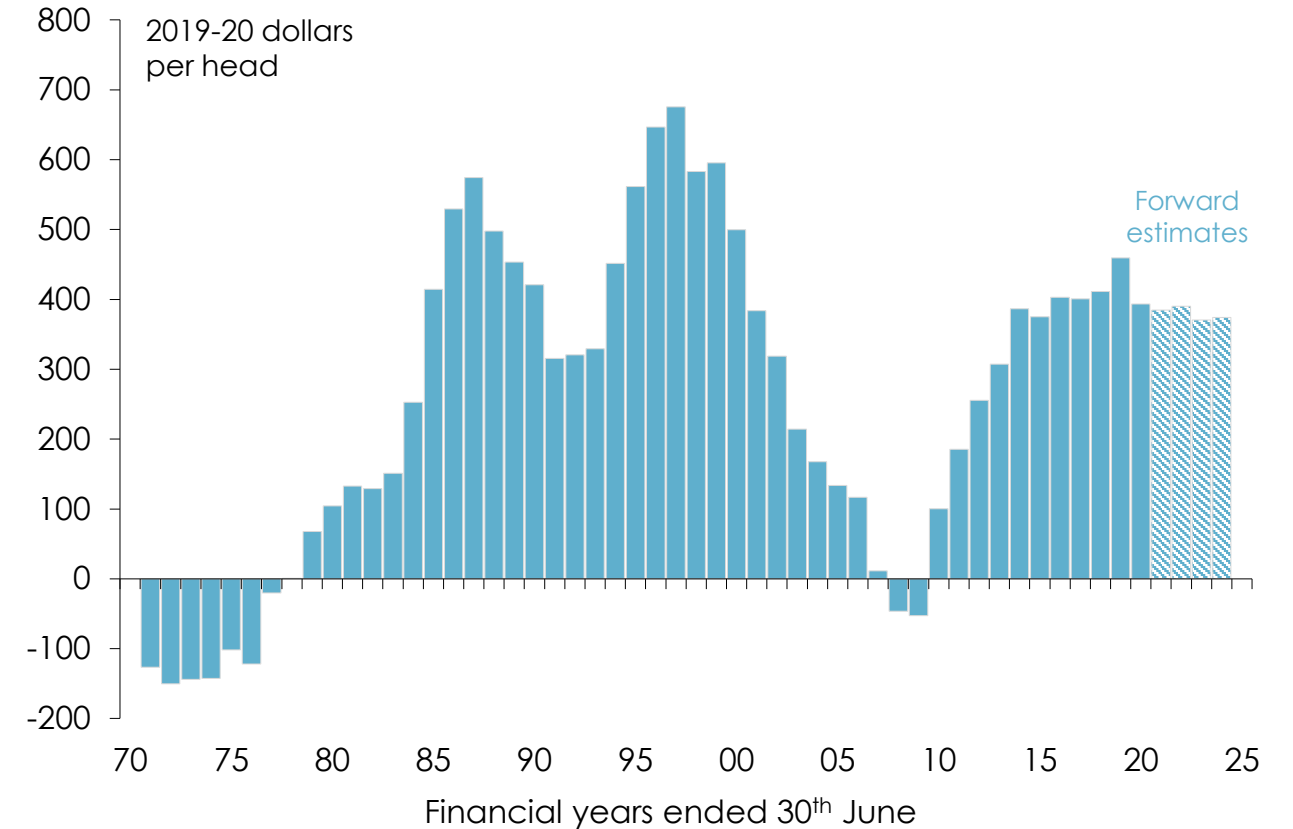
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



❑ As a percentage of GDP, the Government's gross interest payments will be less than they were in the 1970s, 1980s and 1990s, and less than they were in 2017-18 or 2018-19

Australian Government net interest payments per head of population in 2019-20 dollars

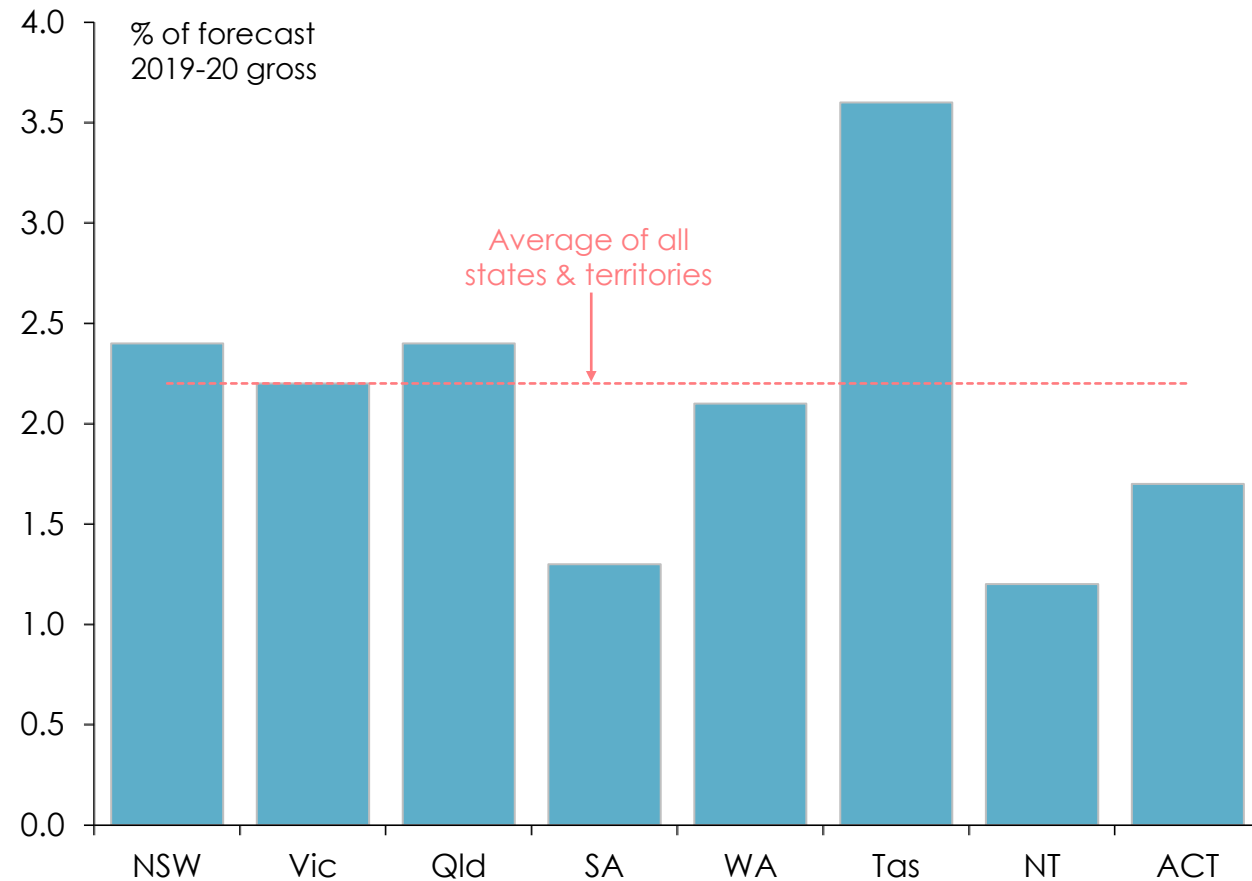


❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

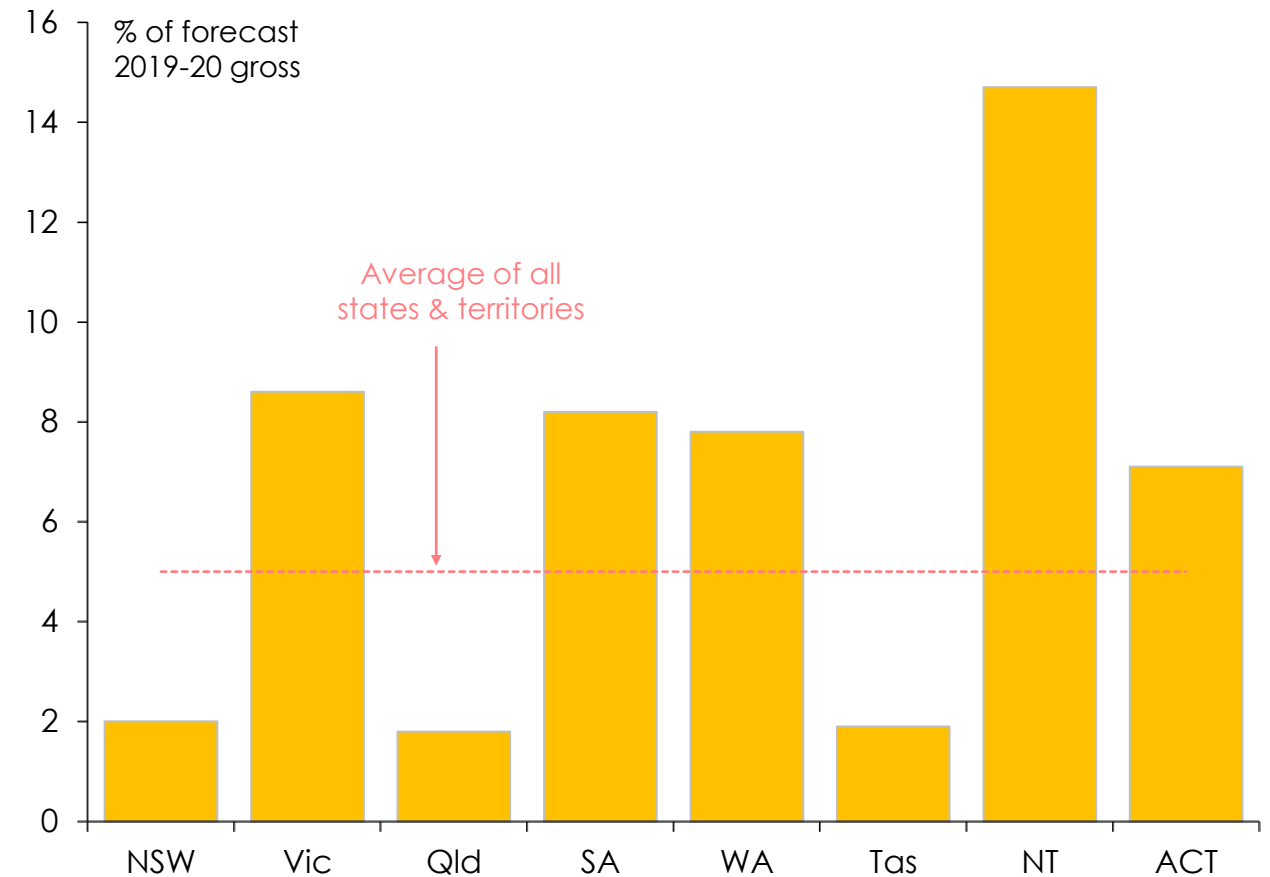
Note: (f) denotes forecasts. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); Corinna.

There's been considerable difference in the size of state and territory governments' fiscal responses to Covid-19

State & territory Covid-19 support and response measures as a pc of gross state product



State & territory general government net debt as at 30 June 2020

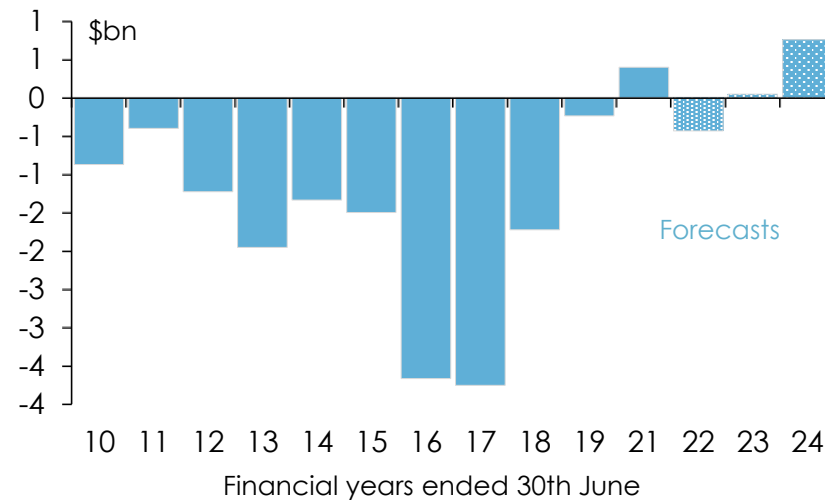


- ❑ In August RBA Governor Phillip Lowe advised state and territory governments to spend an additional \$40bn (2% of GDP) on infrastructure investment – an amount which S&P Global Ratings said state and territory balance sheets had “plenty of room to accommodate”

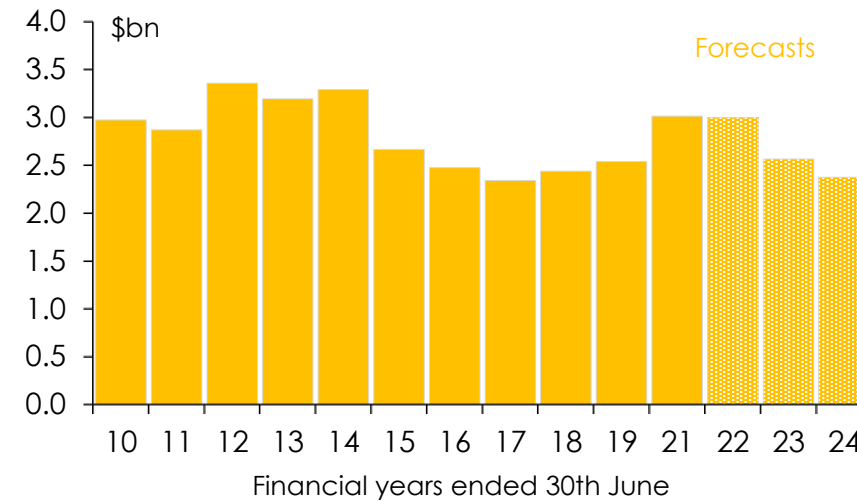
Sources: Commonwealth Treasury, 6th August 2020; Australian Financial Review, 14th August 2020; The Australian, 22nd August 2020. [Return to "What's New"](#).

By contrast with the Federal Government, Western Australia's 2020-21 state budget shows cash surpluses bolstered by buoyant iron ore royalties

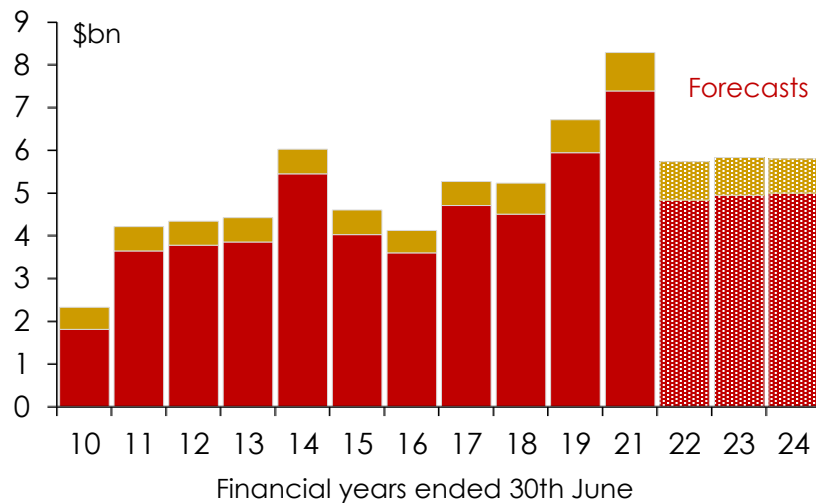
Cash balance



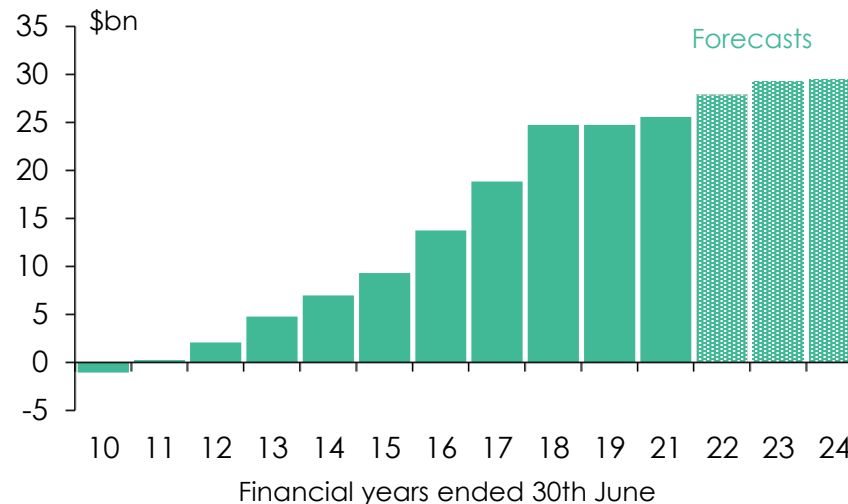
Infrastructure spending



Royalties revenue



Net debt

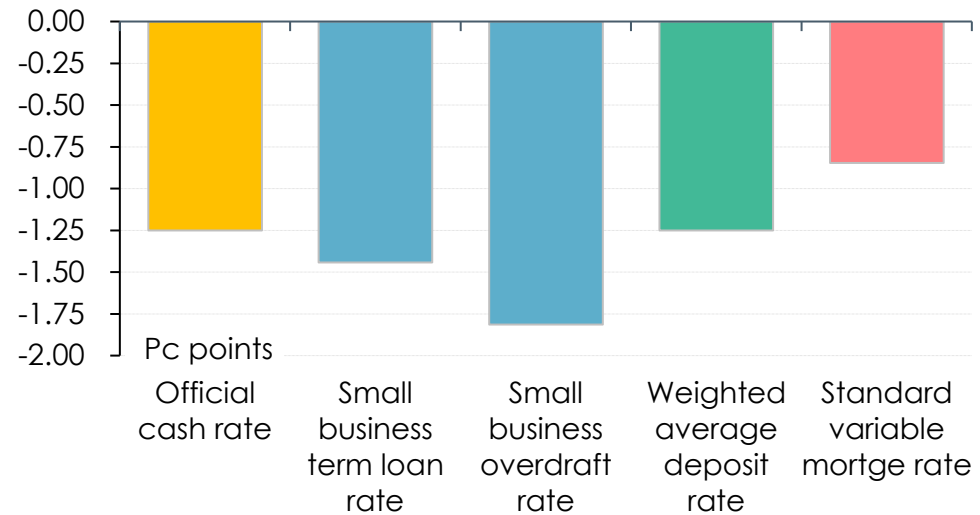


- ❑ Western Australia's state budget (delivered on Thursday) projected modest cash surpluses in three of the next four years, following the largest surplus in 14 years in 2019-20
- ❑ WA's budget has benefited from buoyant iron ore prices (32% higher in 2019-20 than assumed in last year's budget) and strong export volumes
 - this year's budget assumes a 34% drop in the iron ore price from an average of US\$96.60/t CFR (ie including freight of ~ \$10/t) in 2019-20 to US\$64/t in 2020-21 through 2023-24
 - each US\$1 per tonne change in iron ore prices adds/subtracts A\$83mn pa from royalty revenues
- ❑ This revenue windfall has allowed the WA Government (which faces an election on 13th March next year) to fund its \$5½bn 'WA Recovery Plan' with only modest increases in net debt
 - WA's infrastructure spending program is quite modest
- ❑ One wonders what the justification was for WA receiving \$814bn in 'transitional GST top up payments' from the Federal Government in 2019-20 (on top of \$434mn which was 'pre-paid' in 2018-19), in light of the iron ore bonanza

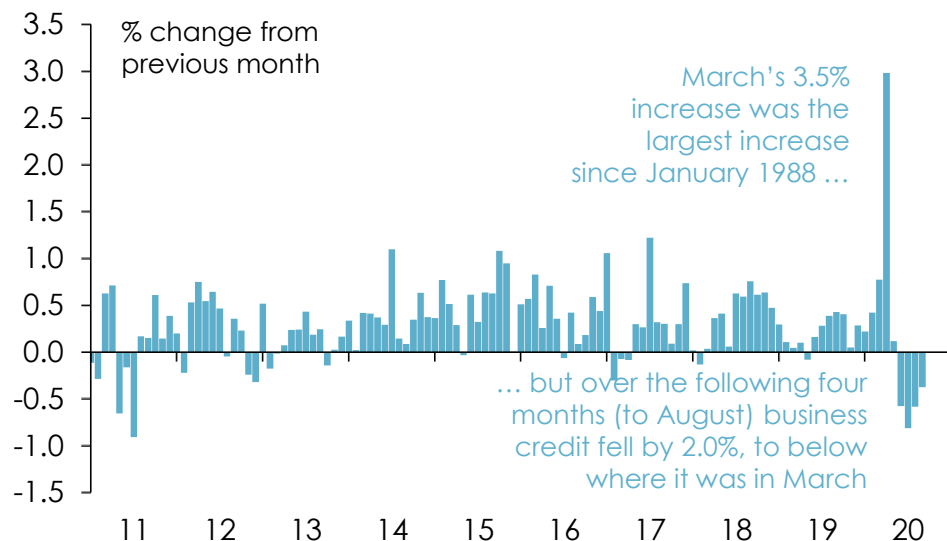
Note: Budgetary aggregates shown in the above charts refer to WA's 'general government' sector (ie, excluding public corporations). Source: Government of Western Australia, 2020-21 [Budget Paper No. 3: Economic and Fiscal Outlook](#). [Return to "What's New"](#).

Banks have been playing an important role in assisting mortgagees and businesses cope with shutdowns, and credit law reforms are now in train

Changes in interest rates since June 2019



Business credit outstanding



Source: Reserve Bank of Australia. [Return to "What's New"](#).

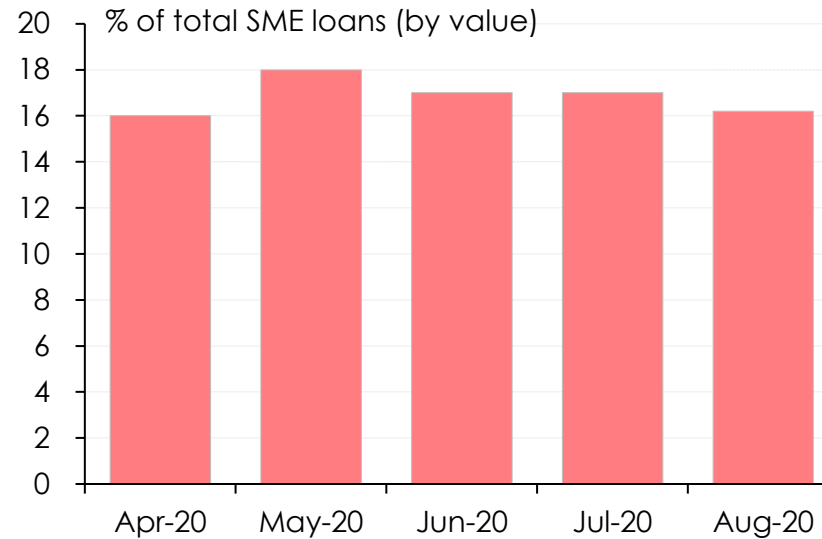
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- ❑ Banks have extended 'repayment holidays' to business and home mortgage borrowers who request it (see [next slide](#) for more details)
 - although it is important to note that under these arrangements interest payments are deferred and capitalized, not foregone
- ❑ These 'repayment holidays' were due to expire at end-September, but banks have 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
- ❑ Last month the Treasurer foreshadowed [changes to credit laws](#) intended to "reduce the cost and time it takes consumers and businesses to access credit" by, among other things
 - allowing lenders to rely on information provided by borrowers, replacing the 'lender beware' principle with a 'borrower responsibility' one
 - removing 'responsible lending' obligations from national consumer credit protection legislation, except for small amount credit contracts
 - requiring debt management firms to hold a credit licence when representing consumers in disputes with financial institutions
- ❑ The Government also unveiled [proposed reforms to insolvency laws](#) inspired by US 'Chapter 11' processes to give more flexibility to distressed businesses to restructure or wind up their operations

Bankruptcies and insolvencies are at record lows during the worst recession since the 1930s: this can't last indefinitely

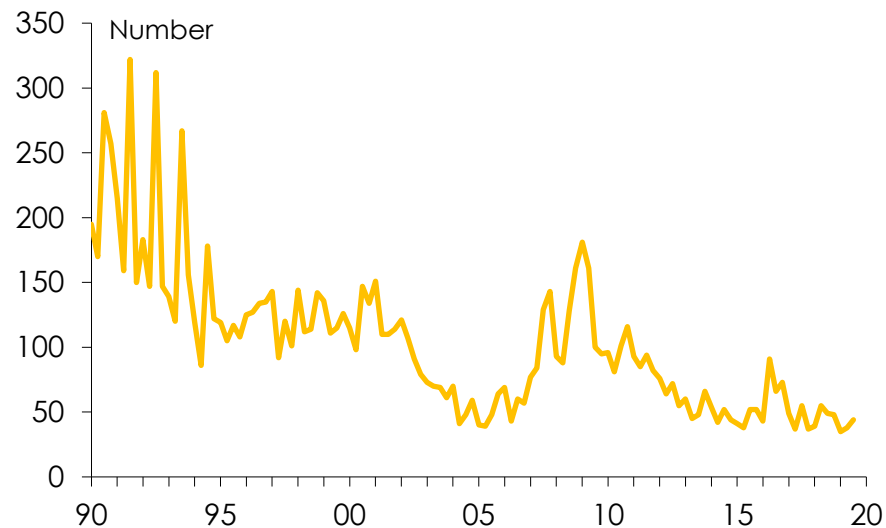
Bankruptcies



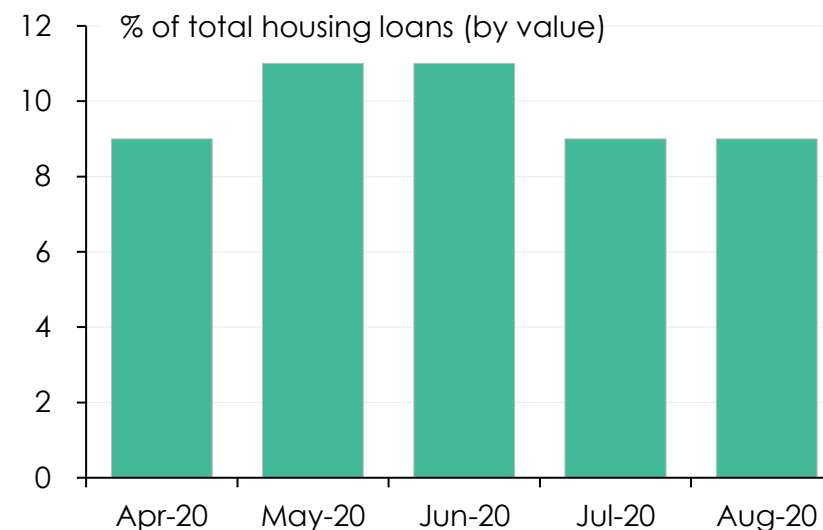
SME loan repayment deferrals



Personal insolvencies



Mortgage repayment deferrals

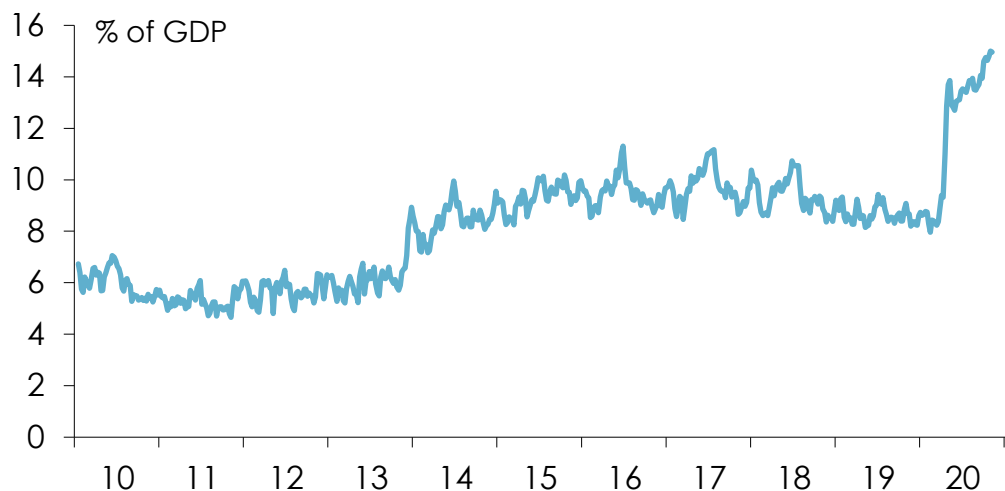


Sources: [Australian Financial Security Authority](#); [Australian Prudential Regulatory Authority](#). [Return to "What's New"](#).

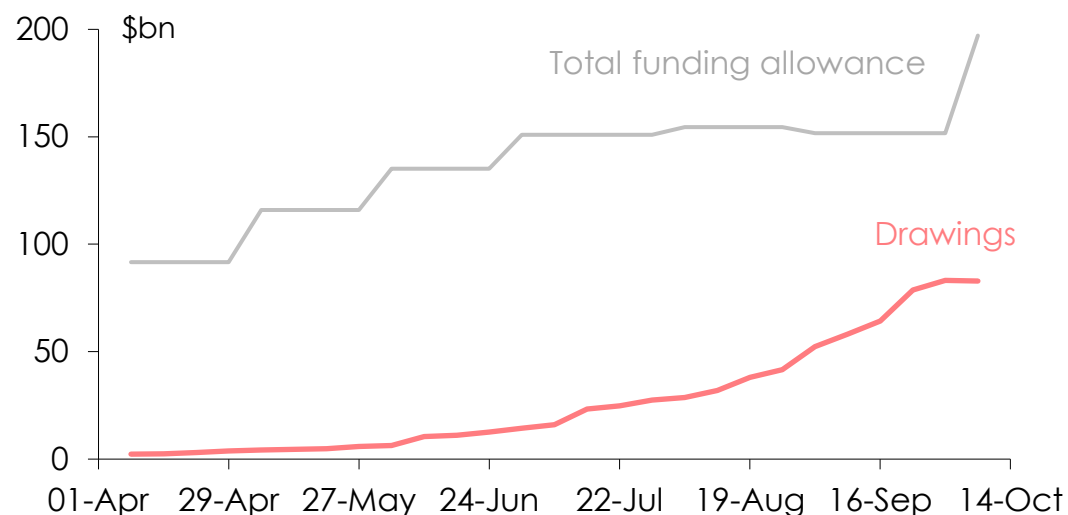
- ❑ Counter-intuitively, bankruptcies and personal insolvencies have fallen to record lows during the worst recession since the Great Depression
- ❑ This reflects the effect of
 - interest rates falling to record lows
 - support programs instituted by the federal and state governments, including JobKeeper, 'Boosting Cash Flow for Employers, and relief from rent payments
 - suspension of the obligations on directors under the Corporations Law to avoid trading while insolvent
 - debt service repayment 'holidays' offered by banks to mortgage and SME customers
- ❑ The last two measures were originally scheduled to expire at the end of September
 - relief from directors' duty to prevent insolvent trading has been extended to 31st December
 - banks have agreed to extend loan repayment holidays by up to four months, to no later than 31st March 2021 – although loan customers will be expected to demonstrate that they will be able to resume repayments
- ❑ The Government last month foreshadowed [changes to bankruptcy laws](#) which would allow businesses with debts of less than \$1mn greater control of debt restructuring

The RBA has left its cash rate target unchanged at 0.25% pa since March, but now appears to contemplating further easing measures

Reserve Bank assets as a pc of GDP



RBA Term Funding Facility

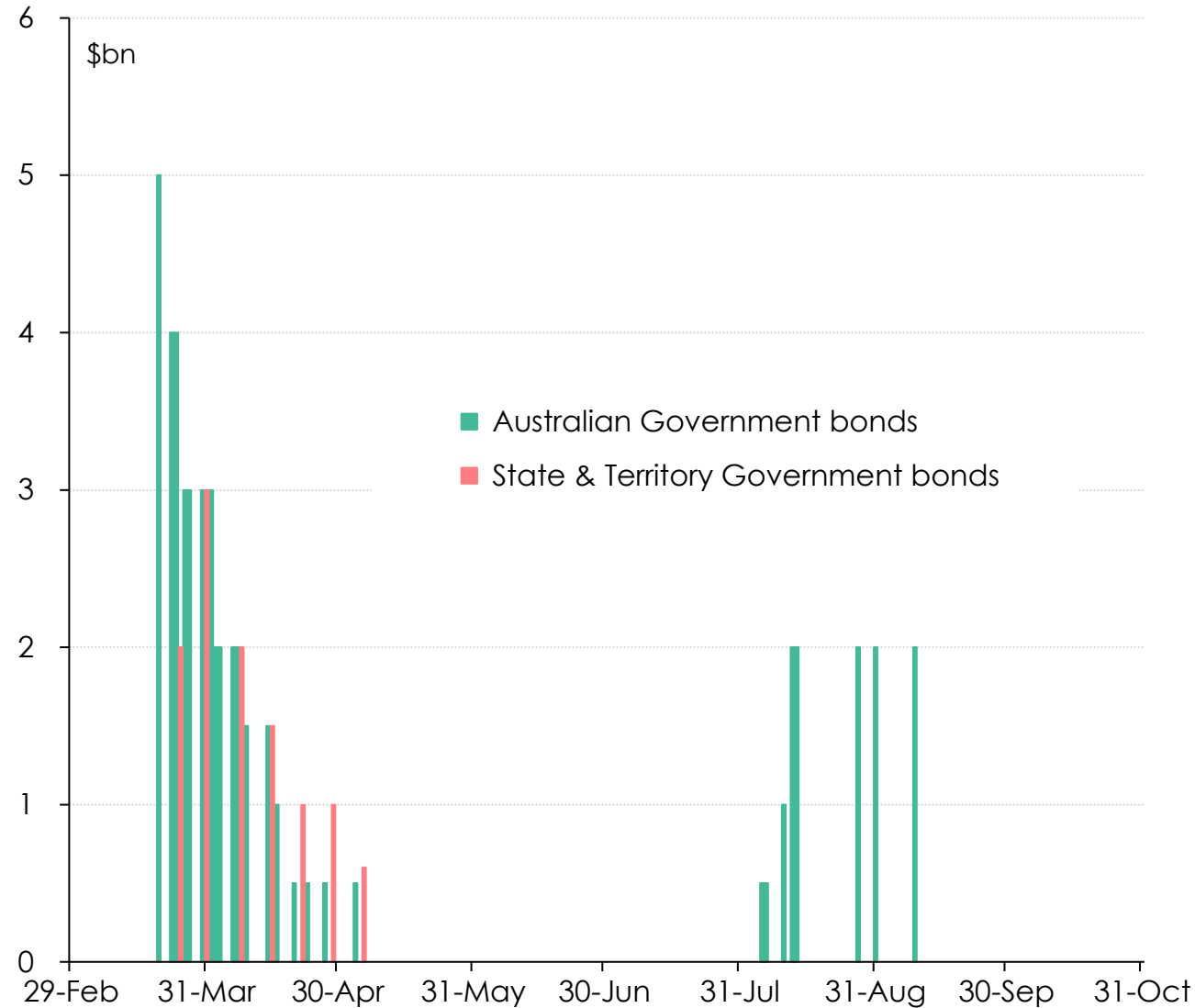


Source: Reserve Bank of Australia, [Statistical Tables](#) A1 and A3, [Return to "What's New"](#).

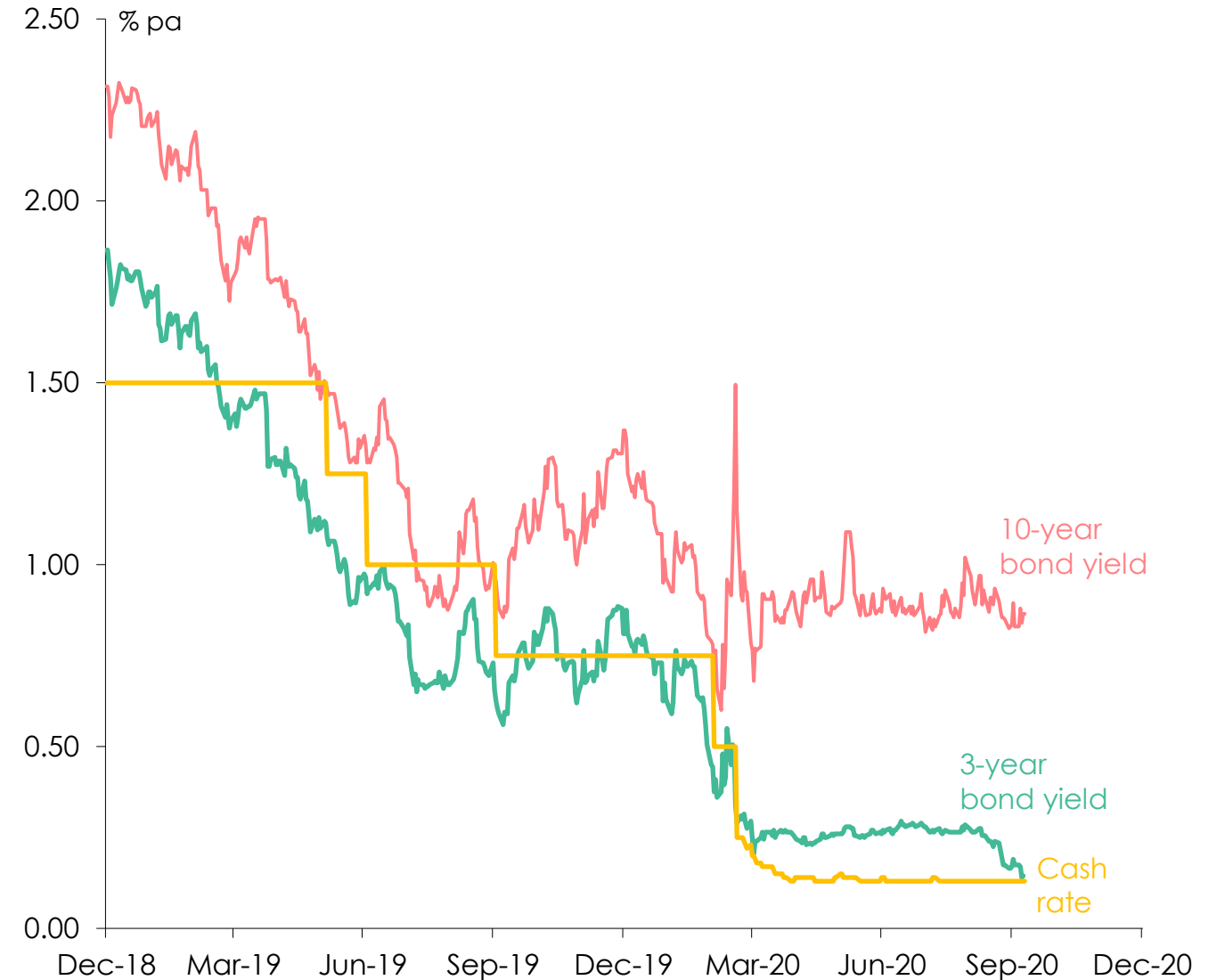
- ❑ The RBA kept its cash rate unchanged at 0.25% (where it has been since March), at this week's Board meeting
 - although the cash rate has actually traded at around half the target rate since May
- ❑ The Governor's [post-meeting statement](#) identified (for the first time in these terms) "addressing the high rate of unemployment as an important national priority", and re-iterated that "the Board continues to consider how additional monetary easing could support jobs as the economy opens up further"
- ❑ This statement, taken with earlier remarks by Deputy Governor Debelle ([here](#)) and Governor Lowe ([here](#)) strongly hint at further easing at the RBA's November Board meeting
 - Further easing is likely to take the form of a cut in the cash rate target to 0.10%, with similar reductions in the target for the 3-year yield and the interest rate on the Term Funding Facility, as well as possibly an expansion in the RBA's bond purchasing program to incorporate longer-dated bonds
- ❑ The RBA was again absent from the bond market this week, as it has been since the week ended 9th September ([next slide](#))
- ❑ The RBA has provided \$82bn of three-year funding at 0.25% pa to banks and other lenders for on-lending to business, especially SMEs, through its Term Funding Facility
 - lenders made net repayments of \$295mn to the TFF in the week ended 7th October, the first time this has occurred since the facility was set up in March

The RBA hasn't bought any bonds since 9th September, but the market is now pricing another cut in the cash rate, and in the 3-year yield target

RBA open market bond purchases



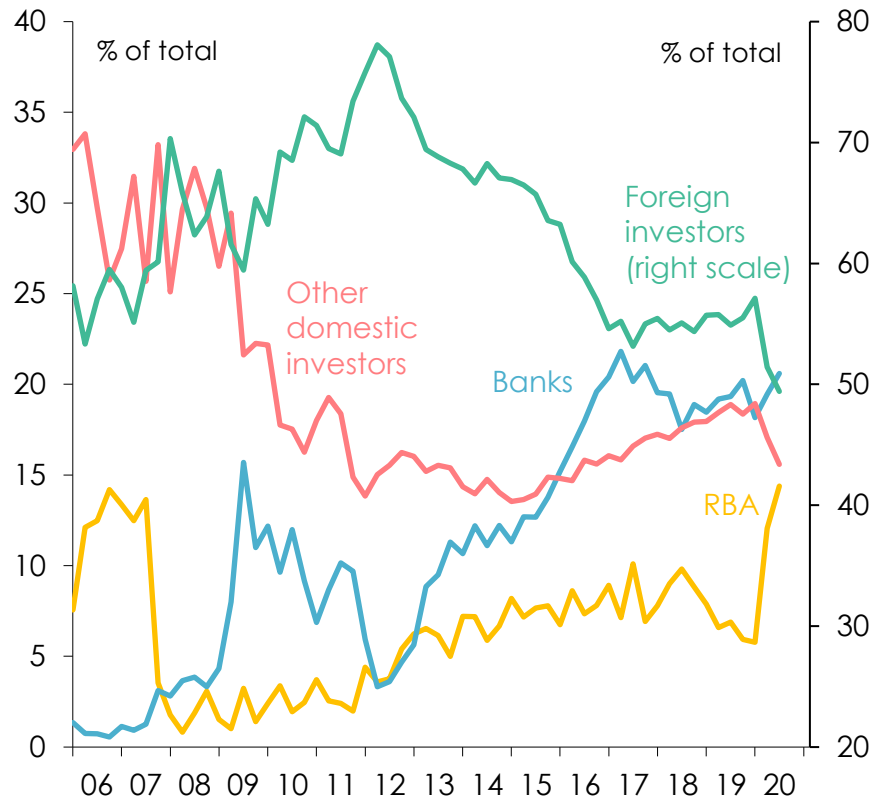
Interest rates



Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F2. Data up to 9th October. [Return to "What's New"](#).

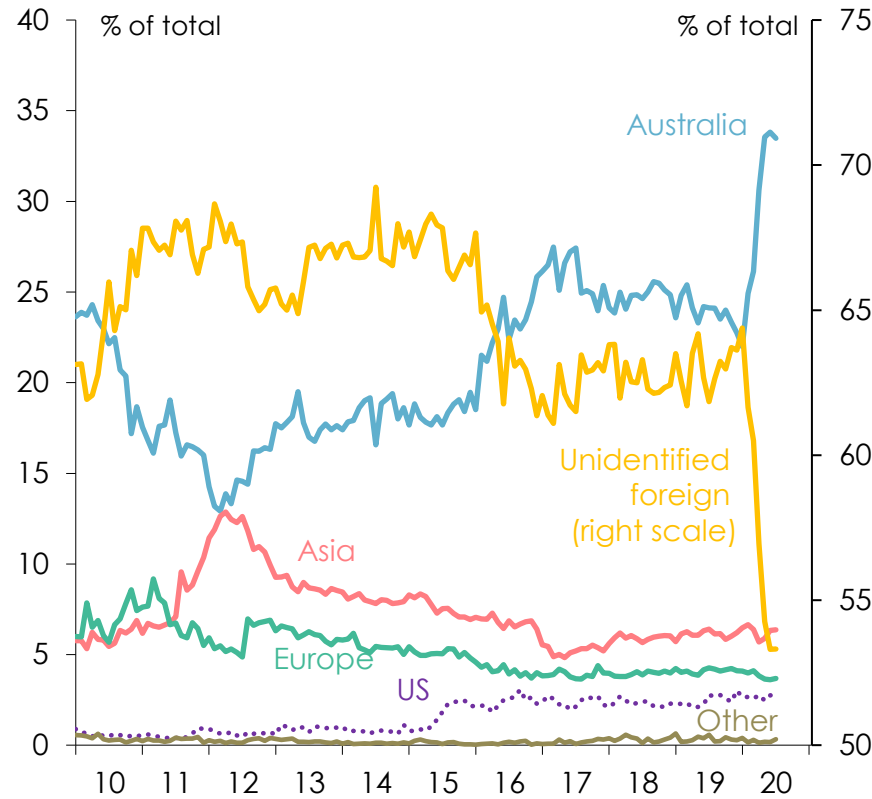
The RBA increased its holdings of federal & state bonds by \$92bn in the first half of 2020, absorbing 70% & 53% of the increase in the total stock

Holder of Australian Government bonds



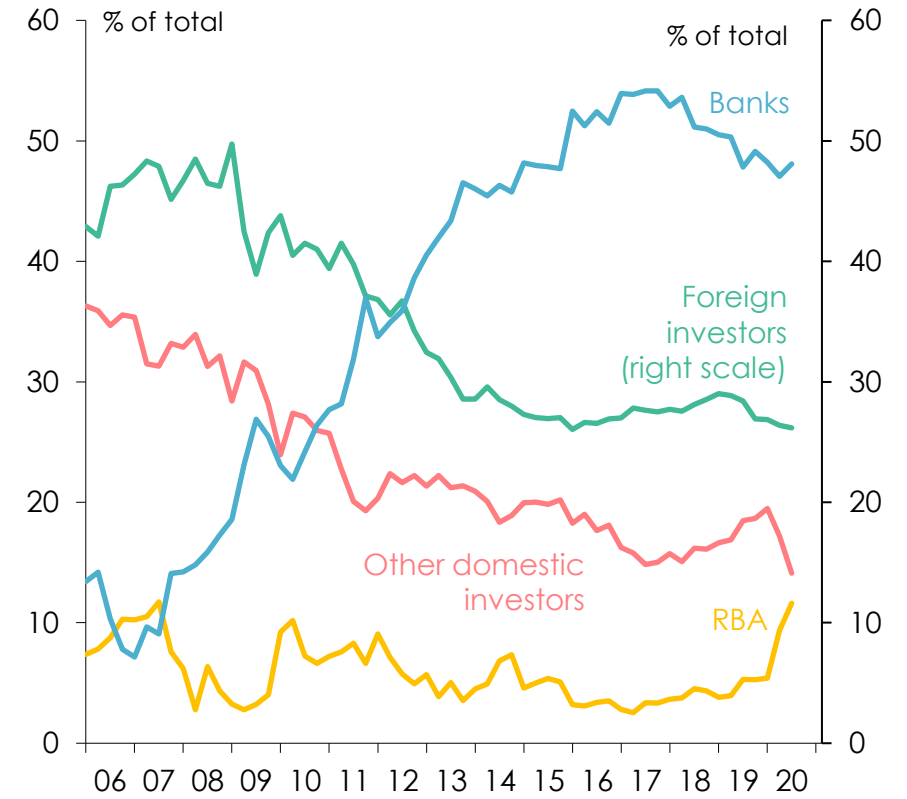
Australian Gov't bonds on issue rose by \$99bn over the first half of 2020 – the RBA's holdings rose by \$69bn (almost 70% of the total increase), while banks' holdings rose by \$36bn

Nationality of Australian Government bond holders



Foreign investors haven't reduced their holdings of Australian Gov't bonds this year, but nor have they added to them, so their share of total holdings has fallen

Holder of State and Territory Government bonds

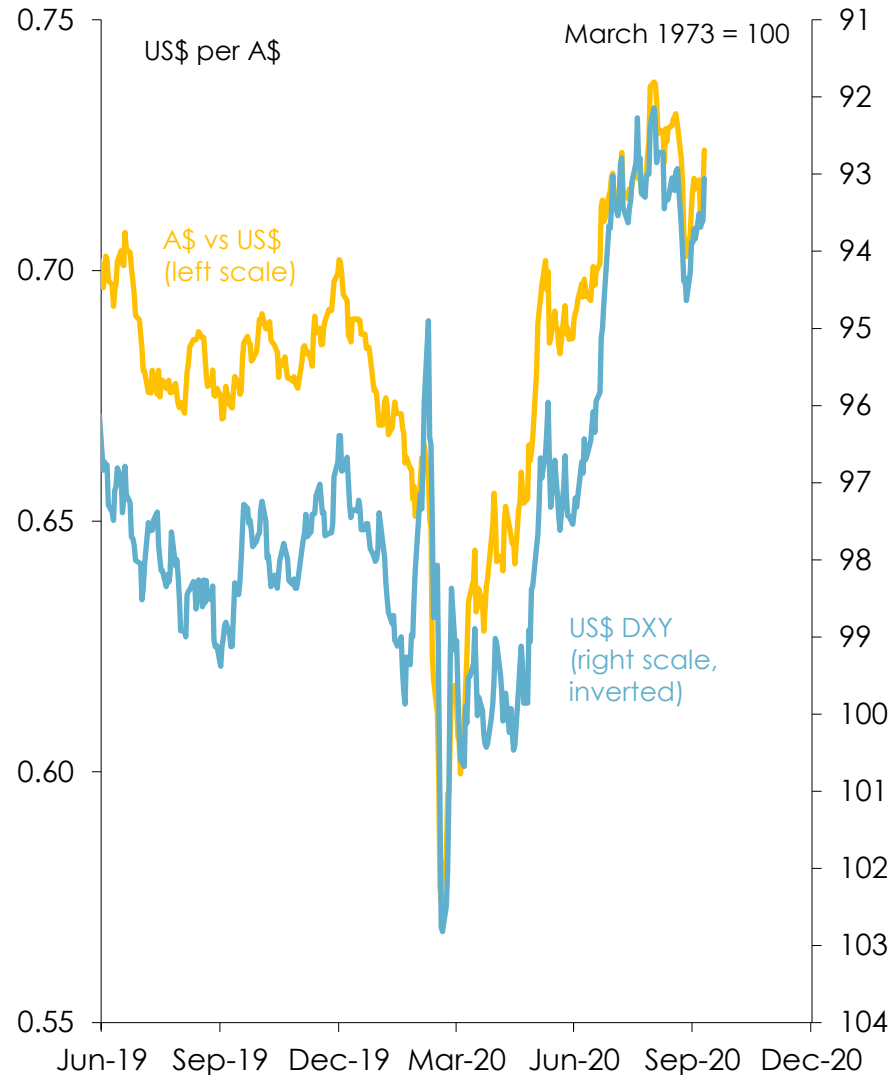


State & Territory Gov't bonds outstanding increased by \$44bn over the first half of 2020, with the RBA and banks increasing their holdings by \$23bn and \$21bn respectively

Sources: ABS ([Finance and Wealth Accounts](#)); [Australian Office of Financial Management](#). September quarter data will be released on 17th December. [Return to "What's New"](#).

The A\$ rose another 1% against the US\$ this week, mirroring the US\$'s weakness against most currencies

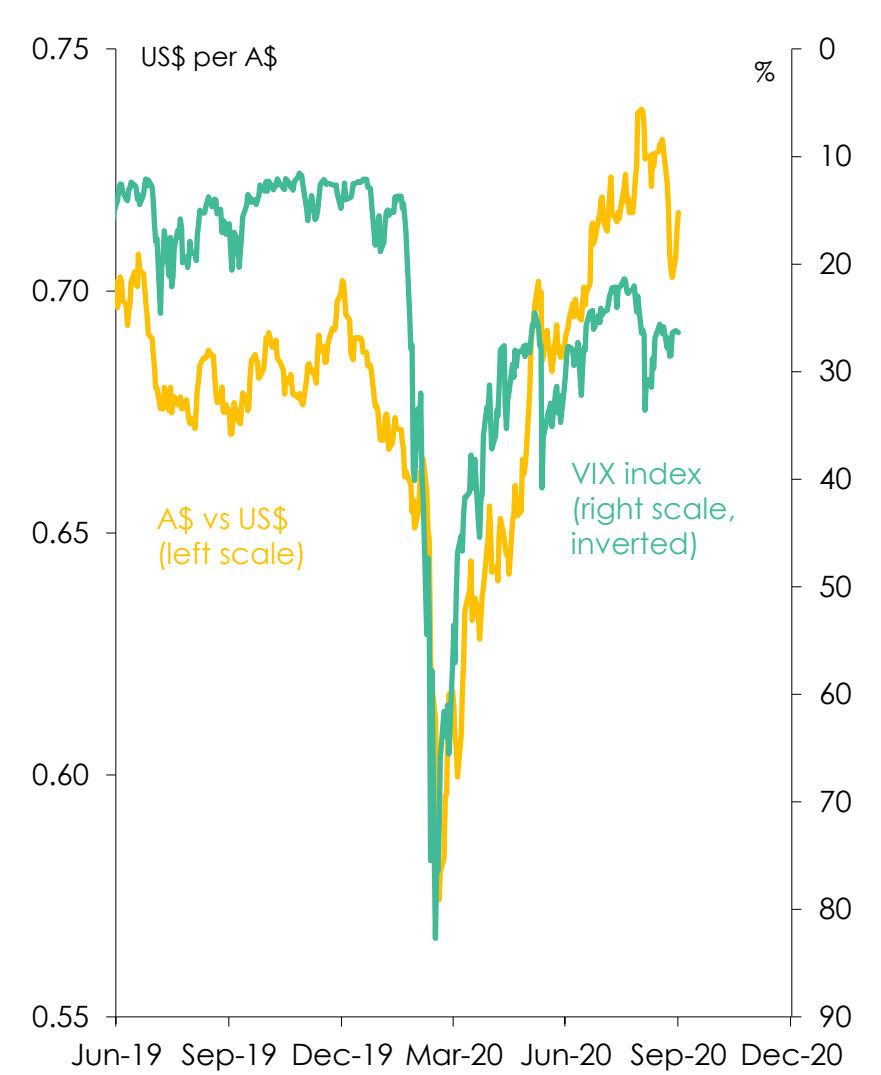
A\$-US\$ and US\$ trade-weighted index



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



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



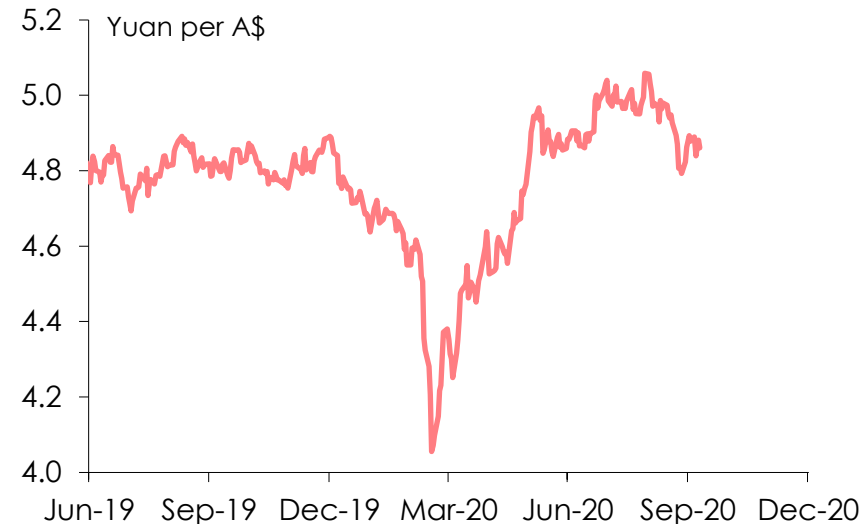
Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see [slide 88](#). Source: Refinitiv Datastream. Data up to 9th October. [Return to "What's New"](#).

The A\$'s gains against other currencies last week were more modest, and the A\$ actually fell about 0.3% against the Chinese yuan and Korean won

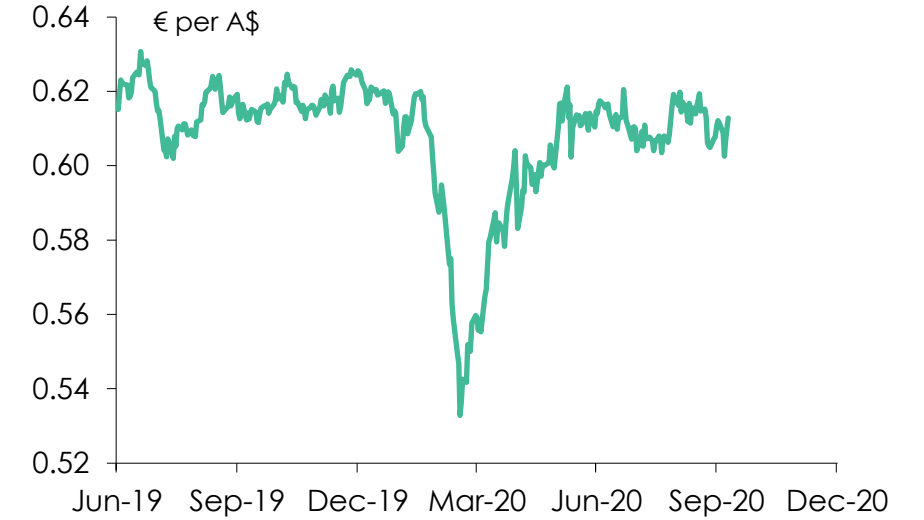
A\$ vs Japanese yen



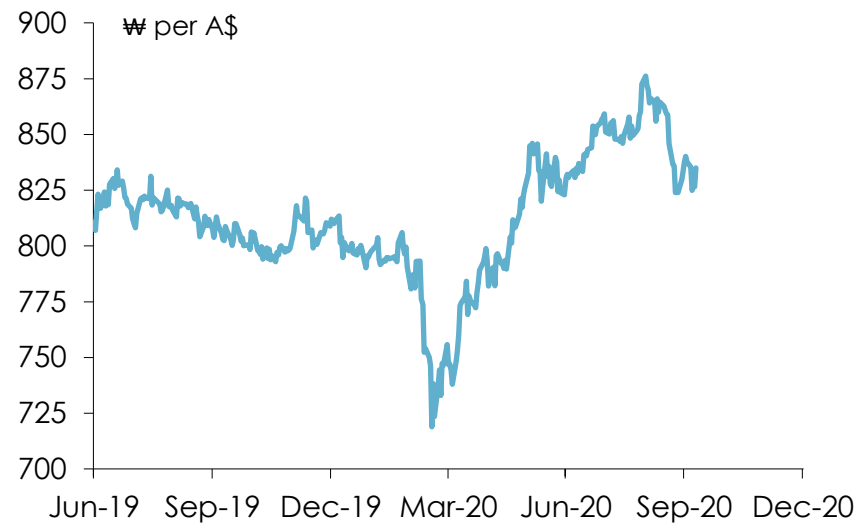
A\$ vs Chinese yuan



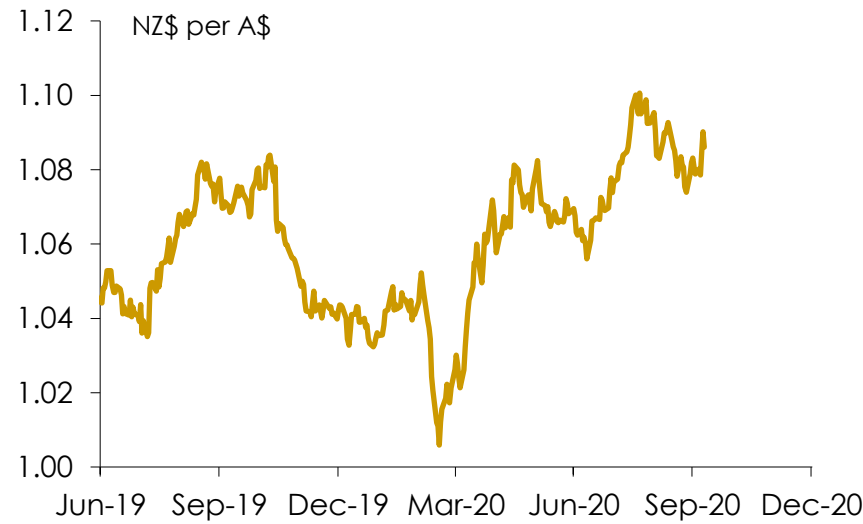
A\$ vs Euro



A\$ vs Korean won



A\$ vs NZ\$



A\$ vs British pound



Source: Refinitiv Datastream. Data up to 9th October. [Return to "What's New"](#).

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

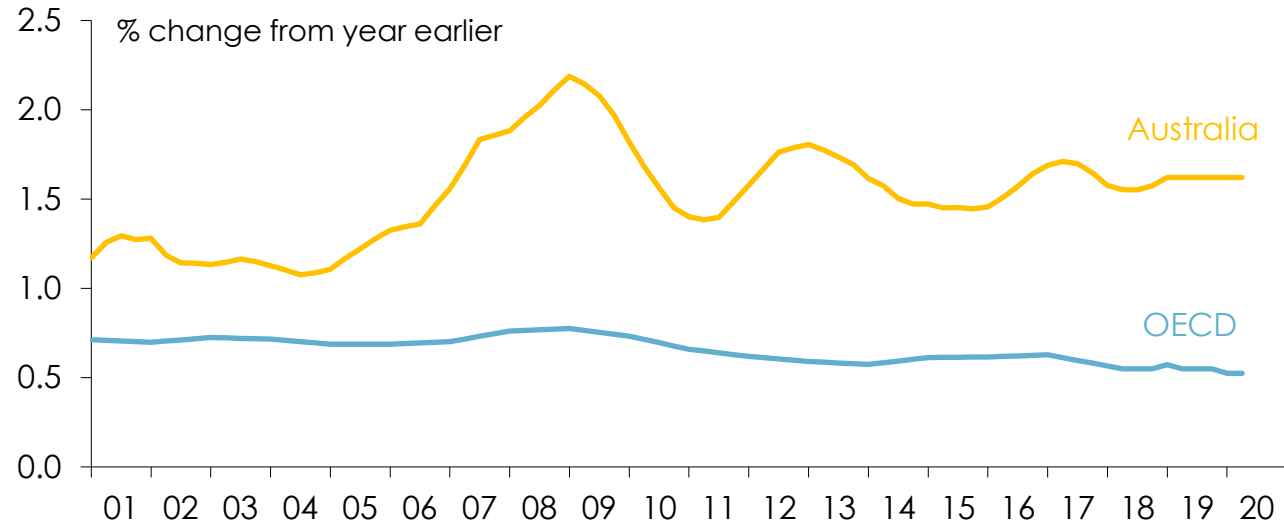
❑ **(Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies**

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

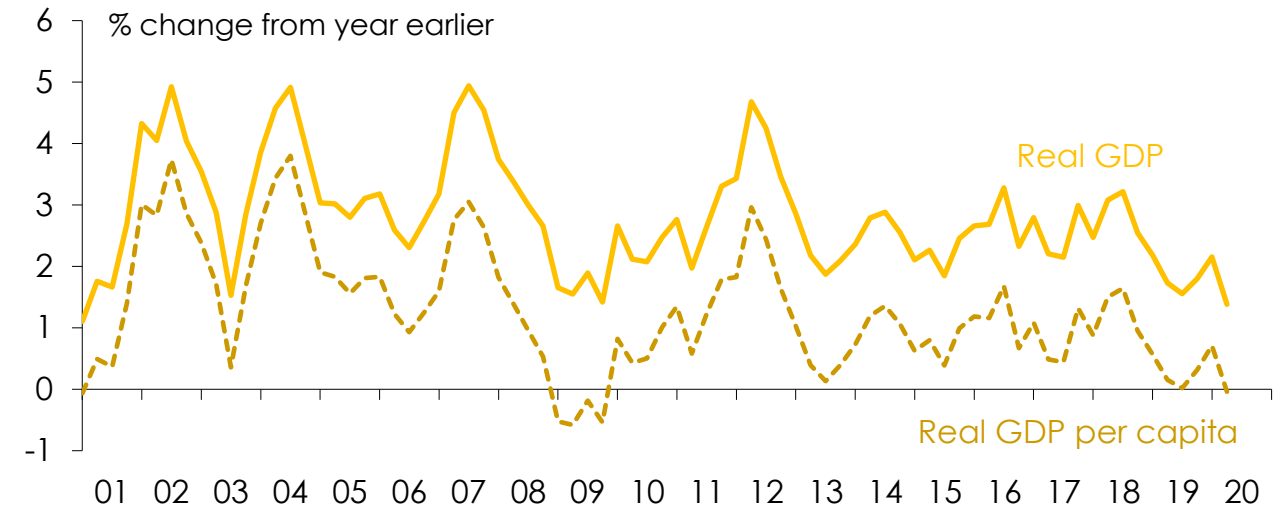
The first three of these are likely to be of less assistance from now on

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

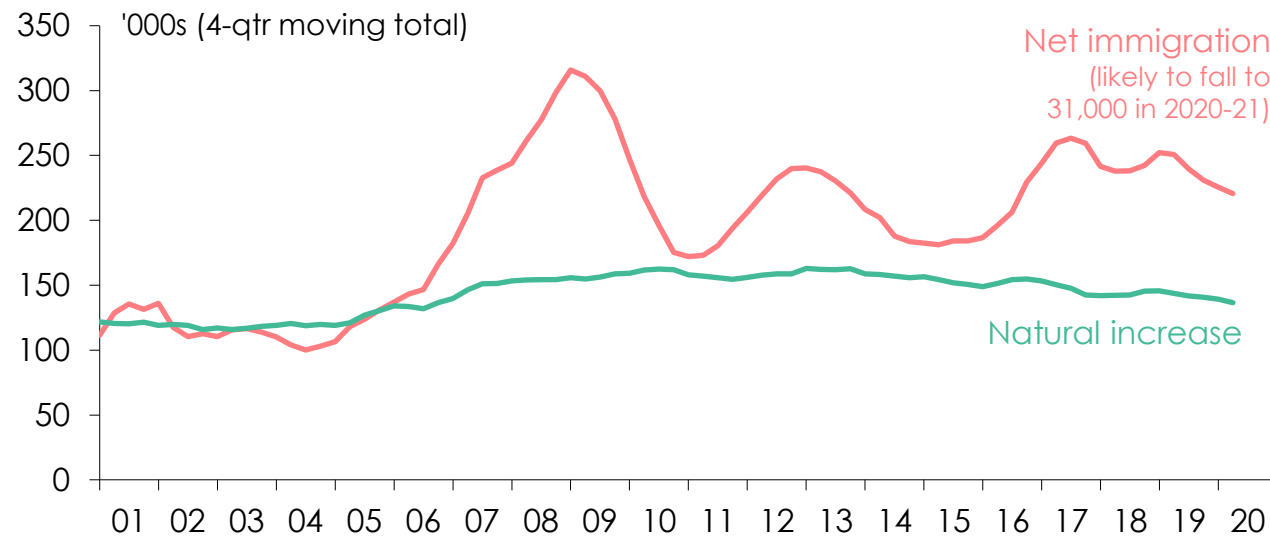
Australia and OECD population growth



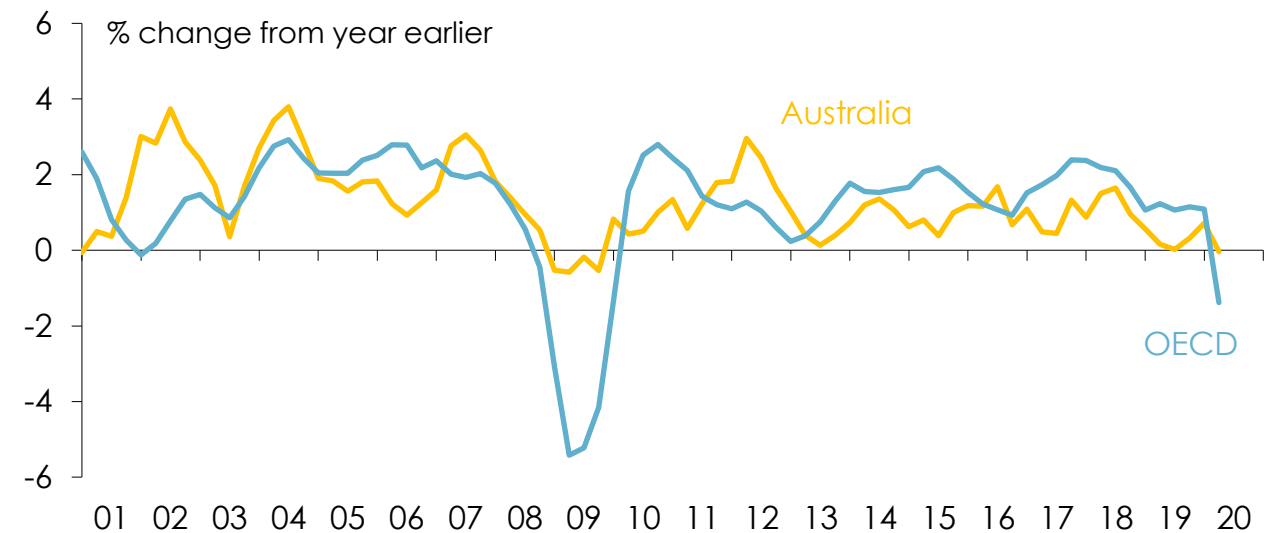
Australian GDP and per capita GDP growth



Sources of Australia's population growth



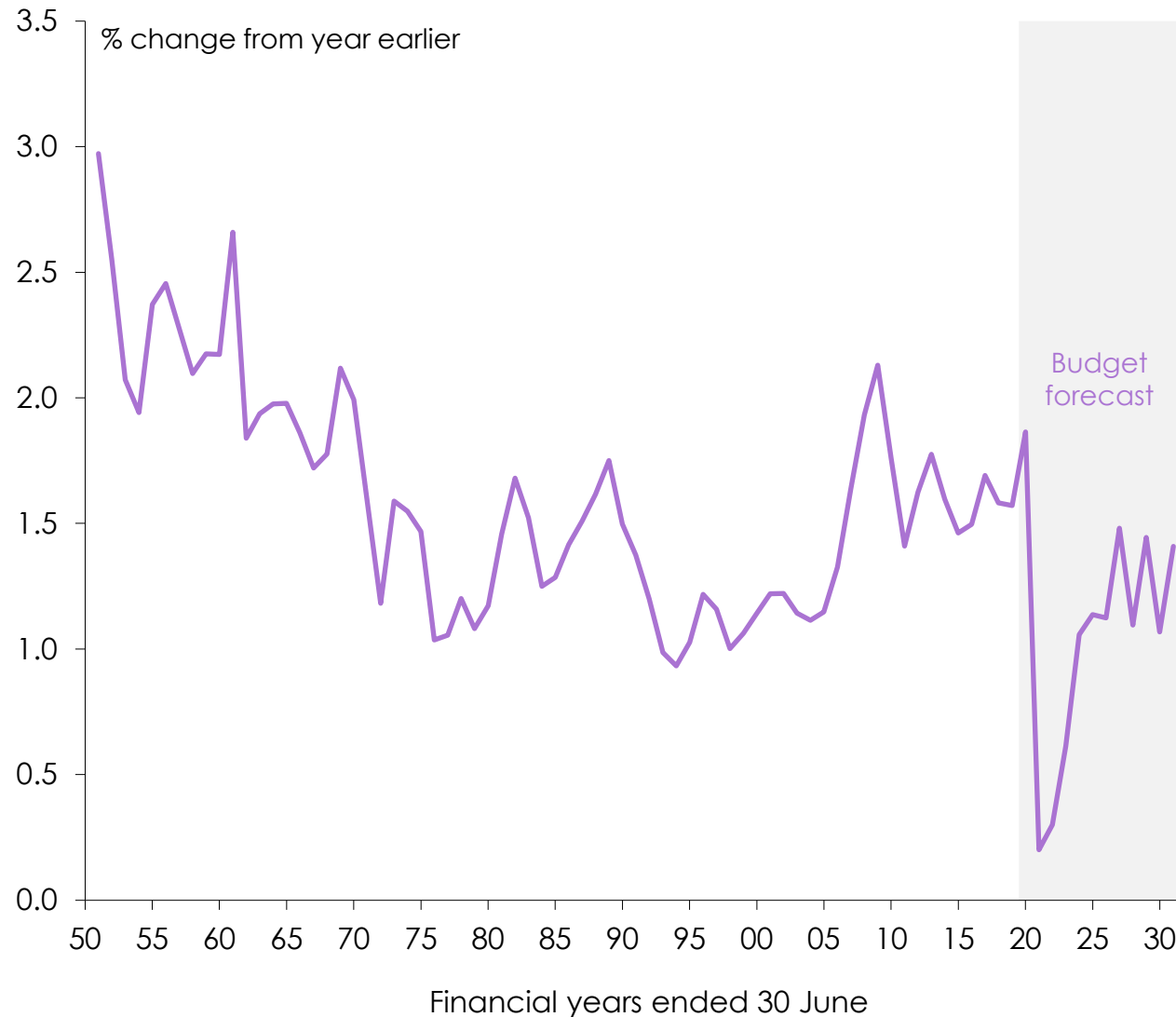
Australia and OECD per capita real GDP growth



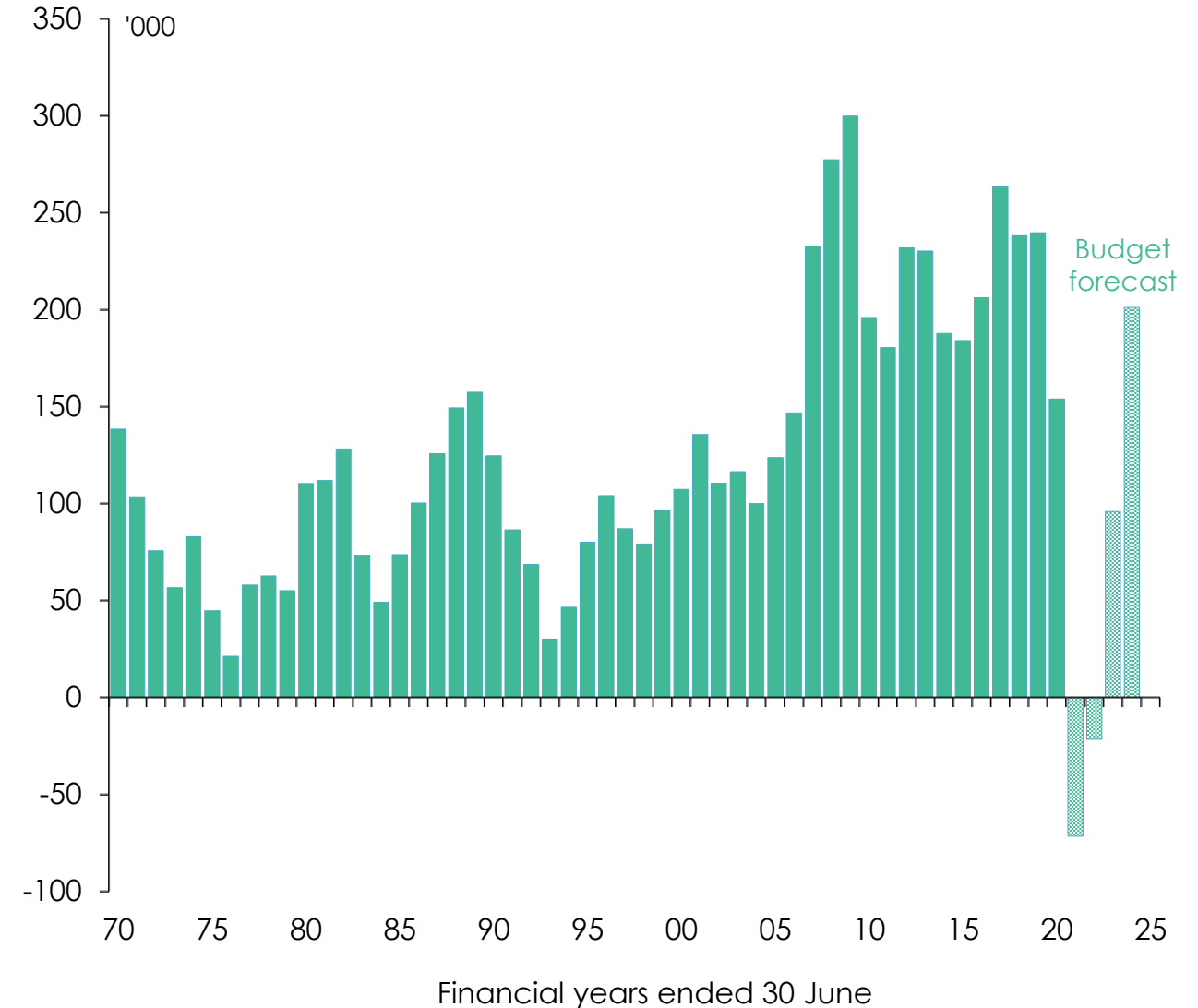
Note: Q2 2020 data not shown in the charts of GDP and per capita GDP growth. Sources: ABS; OECD. [Return to "What's New"](#).

This week's federal Budget incorporated a forecast of negative net migration in 2020-21 and 2021-22, and a 100-year low in population growth

Population growth



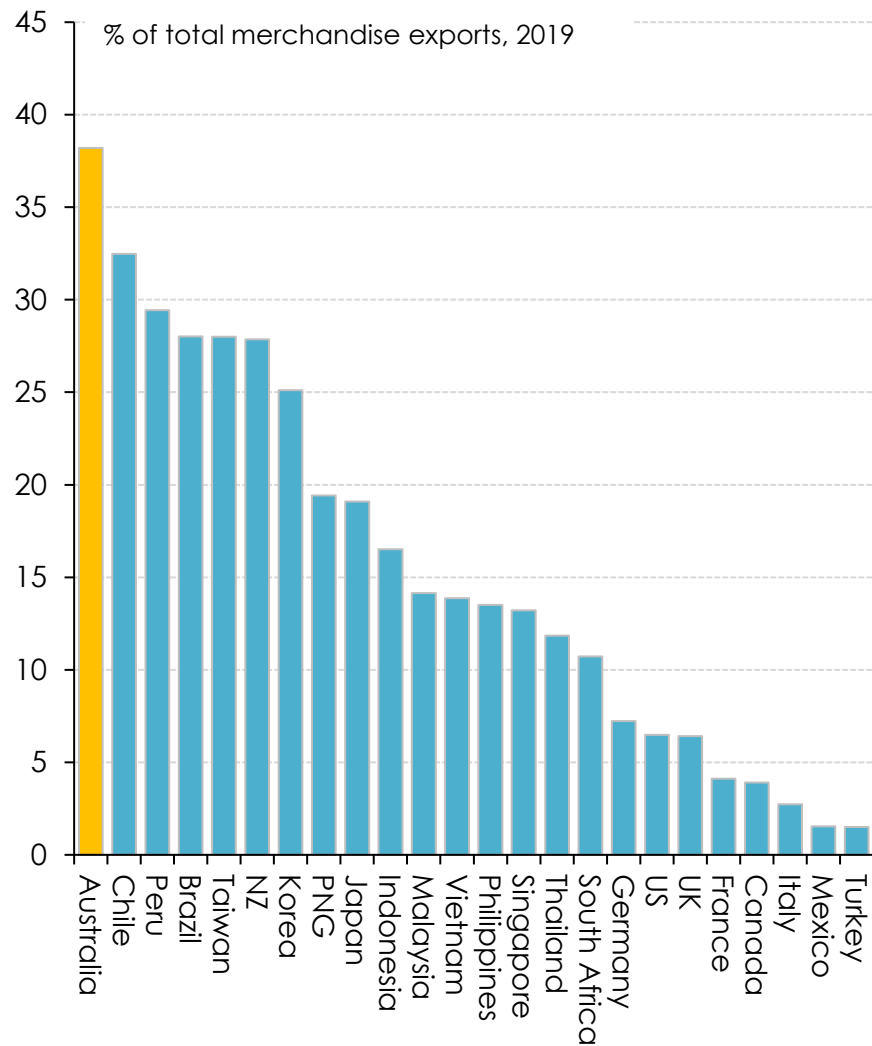
Net overseas migration



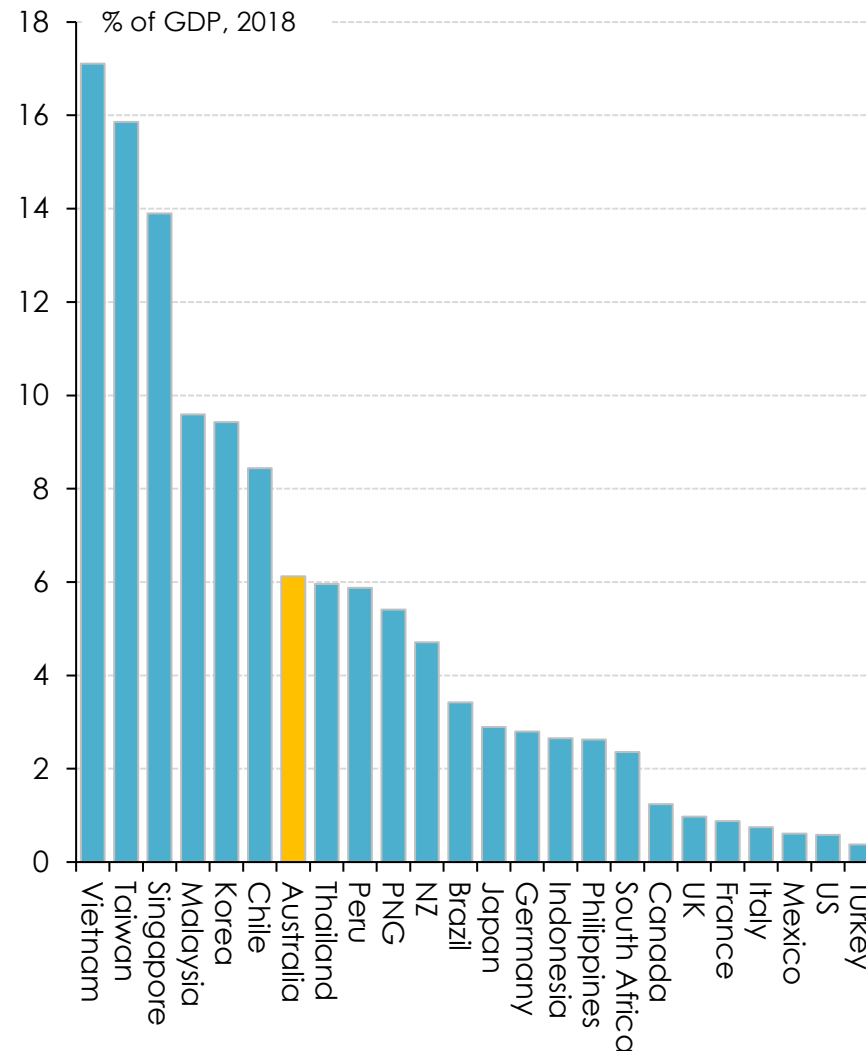
Sources: ABS, [National, state and territory population](#); Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 2](#) and [Budget Paper No. 3, Appendix A](#).

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

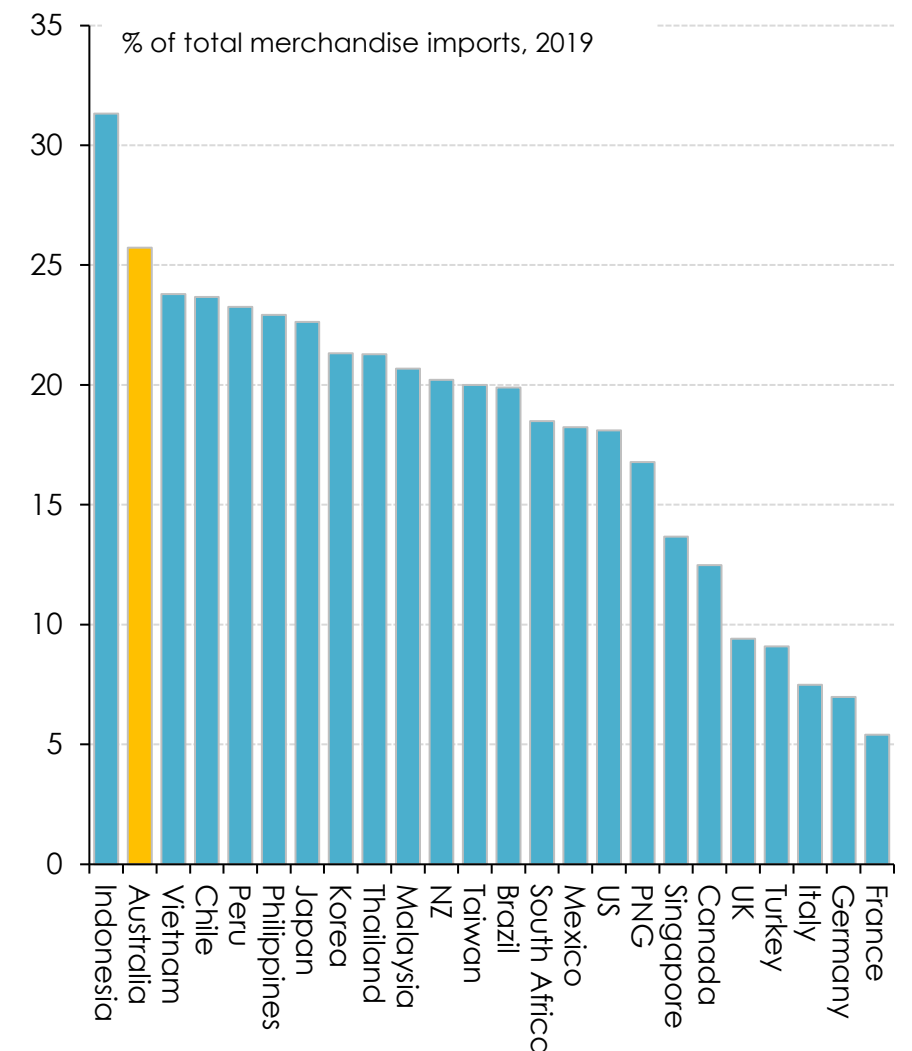
Merchandise exports to China as a pc of total



Merchandise exports to China as a pc of GDP



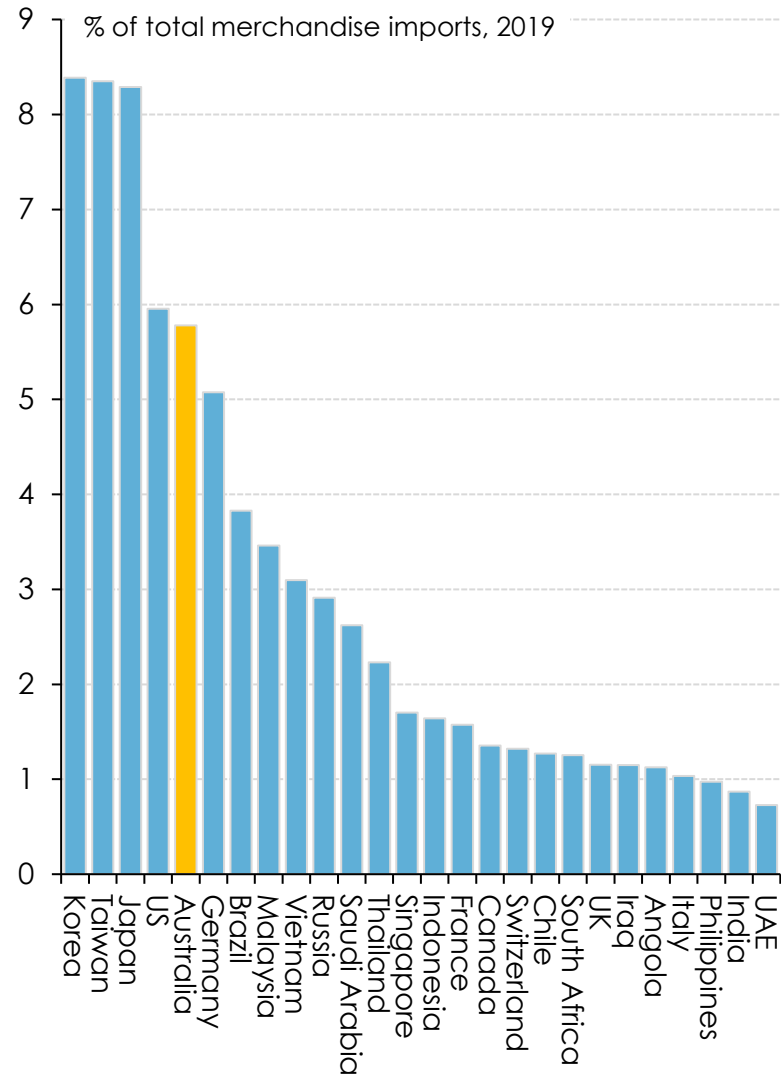
Merchandise imports from China as a pc of total



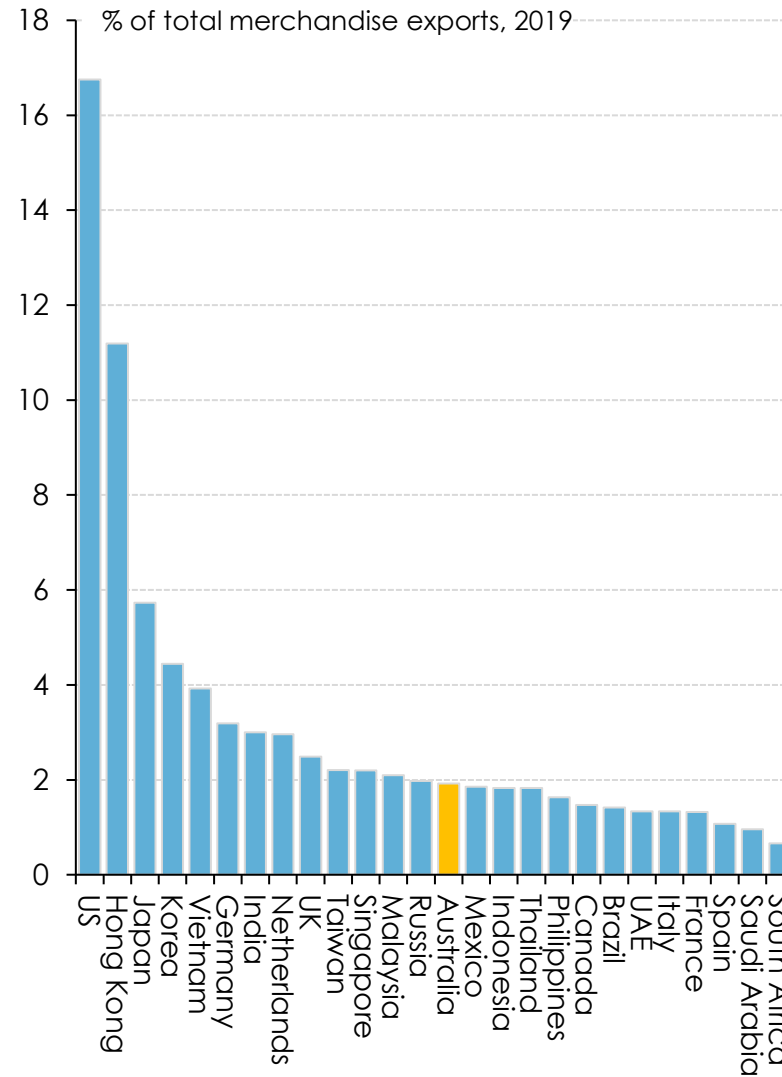
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

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

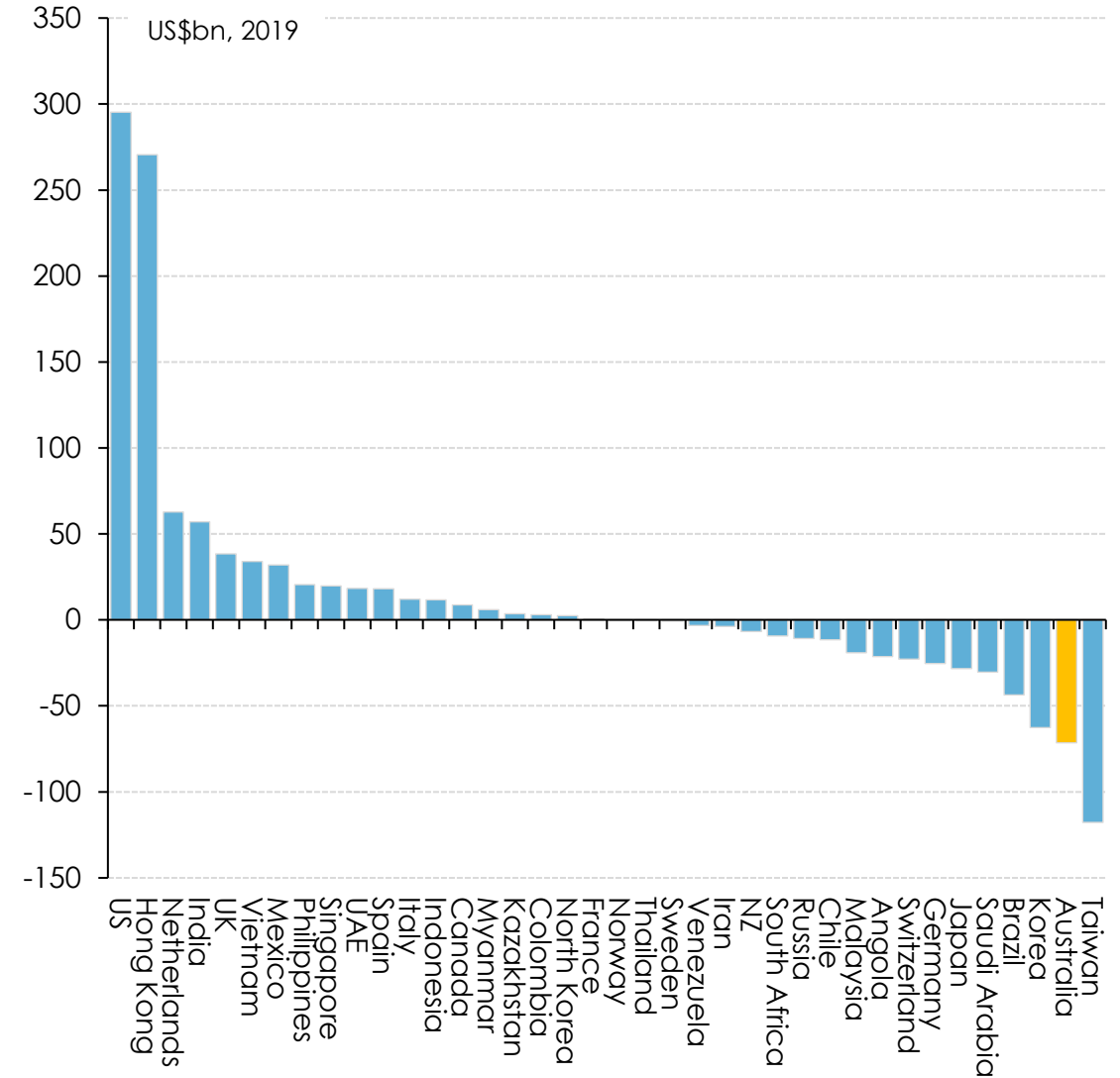
China's sources of imports



China's export destinations



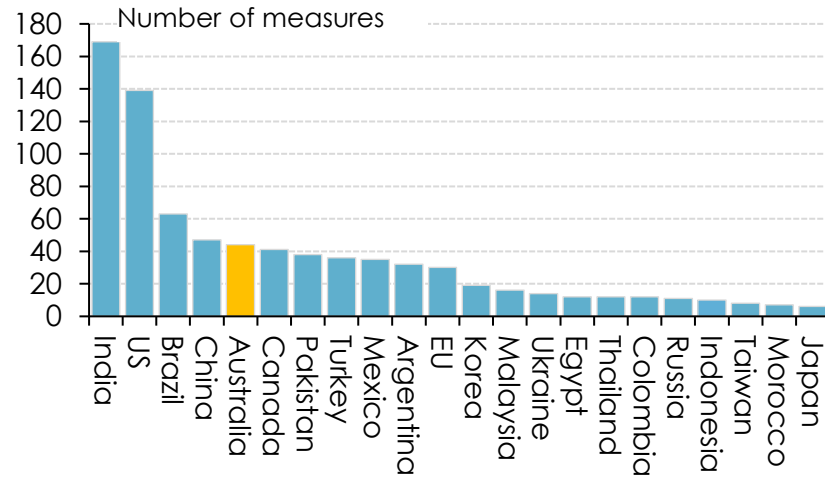
China's bilateral merchandise trade balances



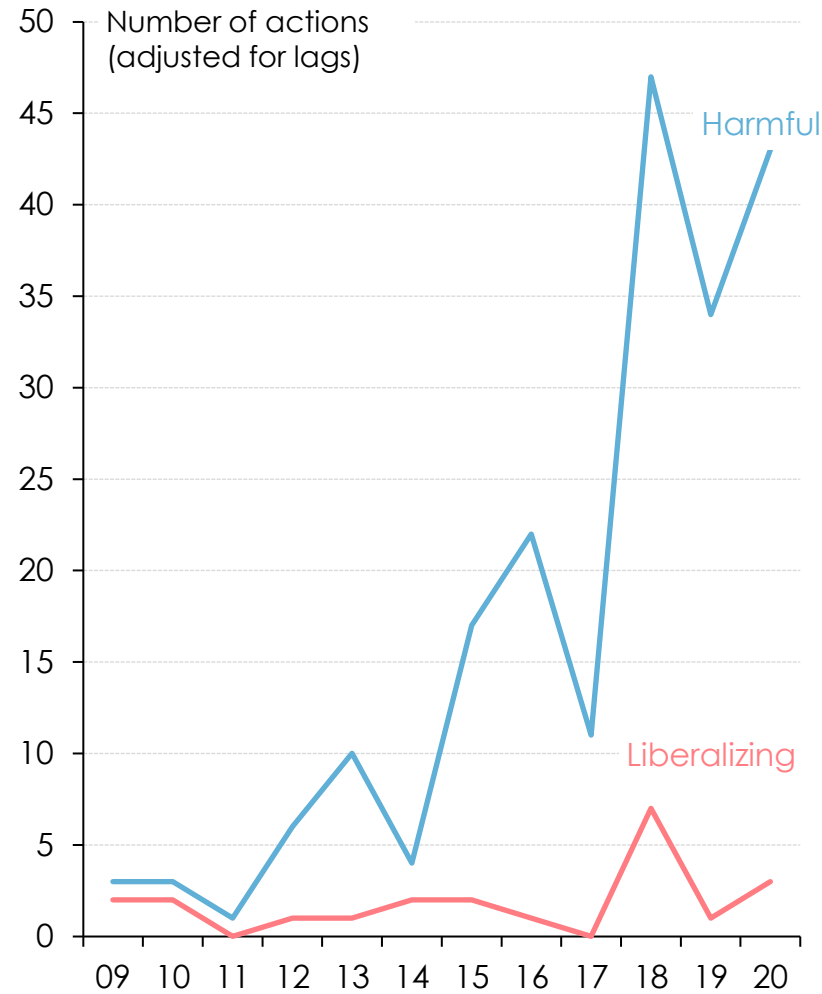
Source: International Monetary Fund, [Direction of Trade Statistics](#). [Return to "What's New"](#).

China's actions and threats against a growing range of Australian exports aren't justified: but we're not exactly Snow White on trade policy either

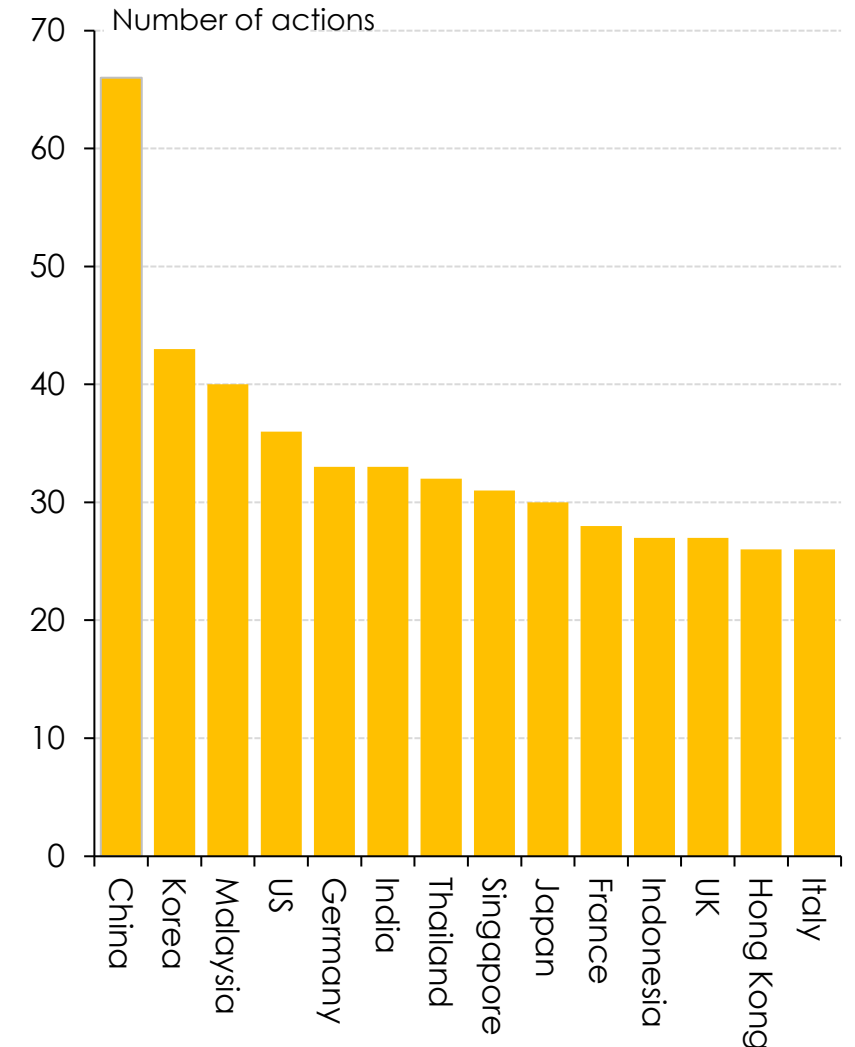
Number of anti-dumping measures imposed, 2015-19



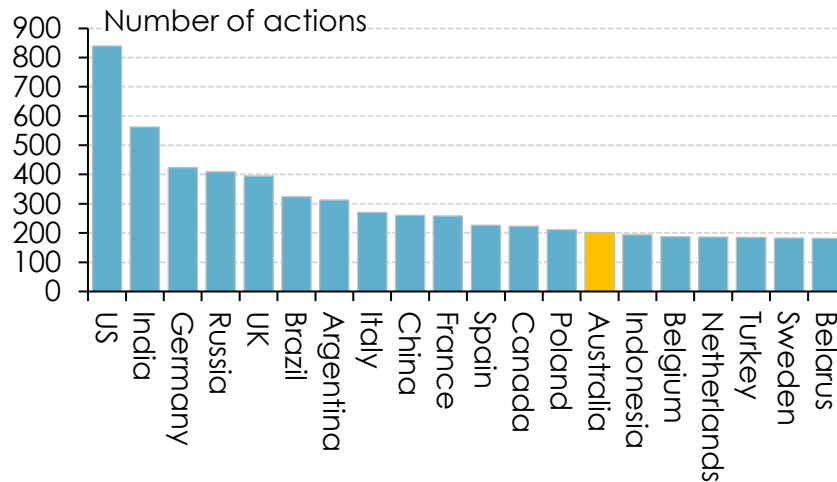
Australian trade policy measures since 2009



Countries adversely affected by 'harmful' Australian trade actions

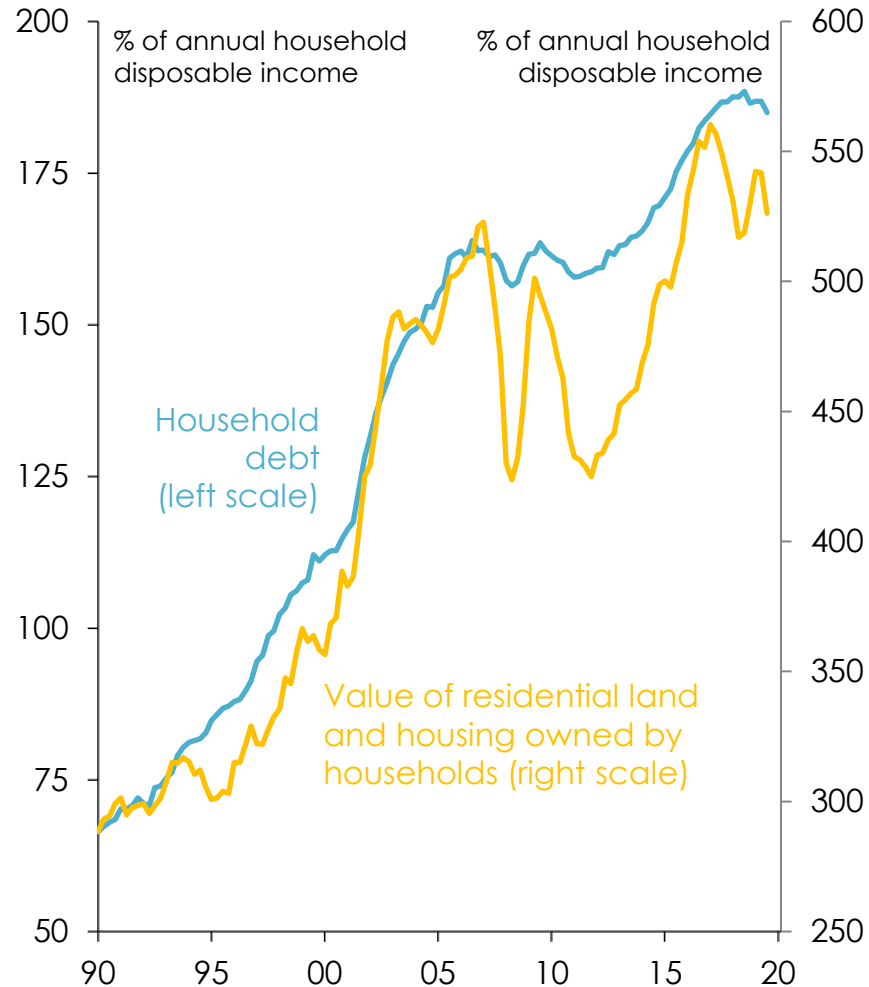


Number of harmful trade policy interventions, 2009-2020

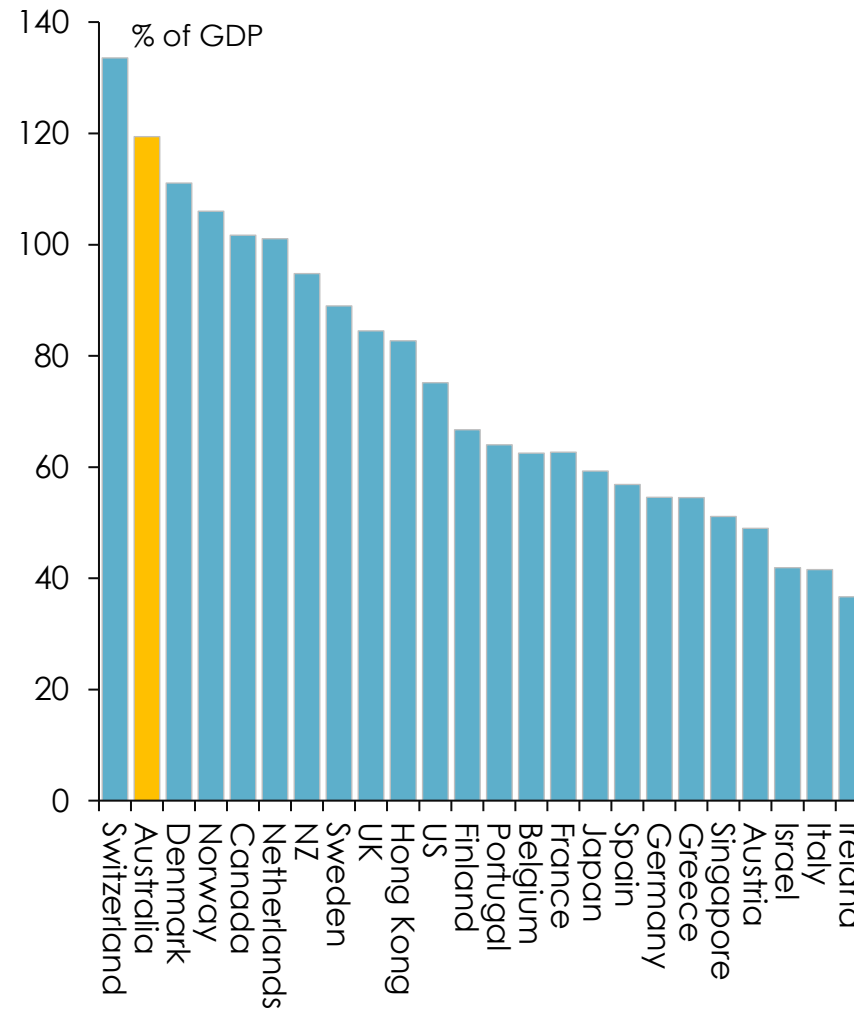


Rising property prices and household debt are unlikely to underpin Australian economic growth as they have done for most of the past 30 years

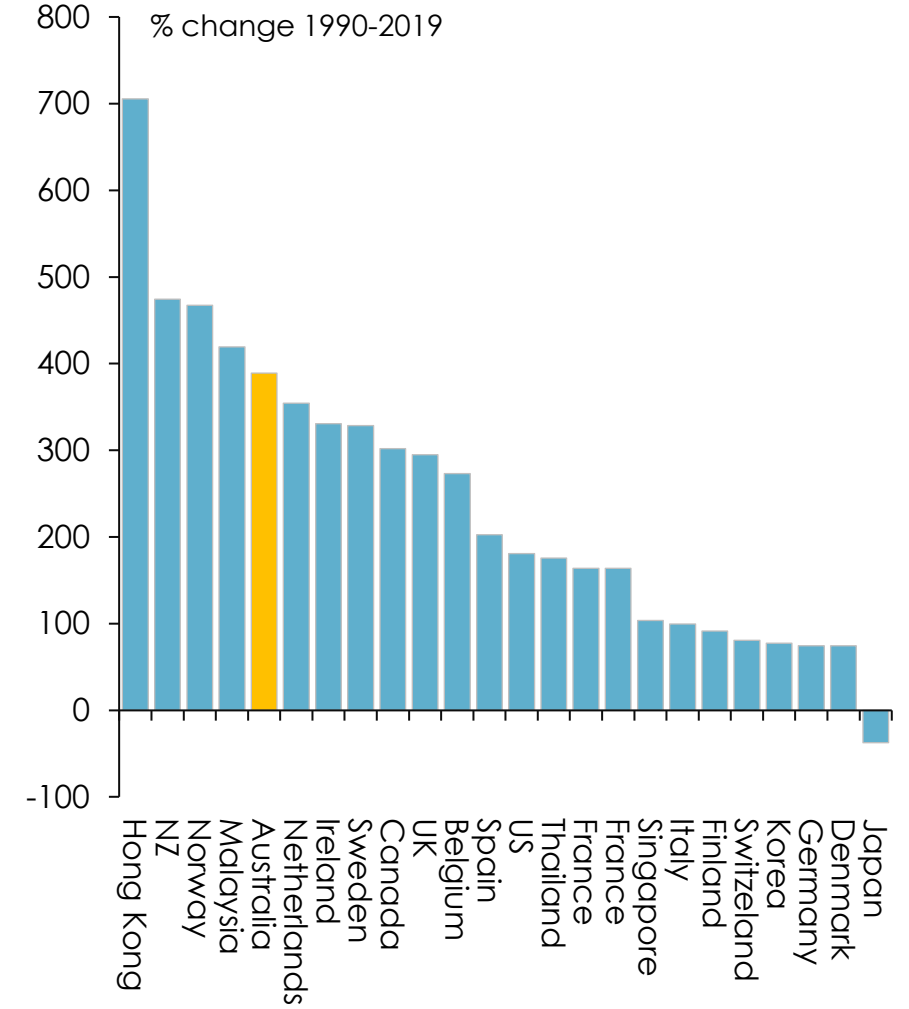
Australian housing wealth and household debt



Household debt as a pc of GDP, March 2020



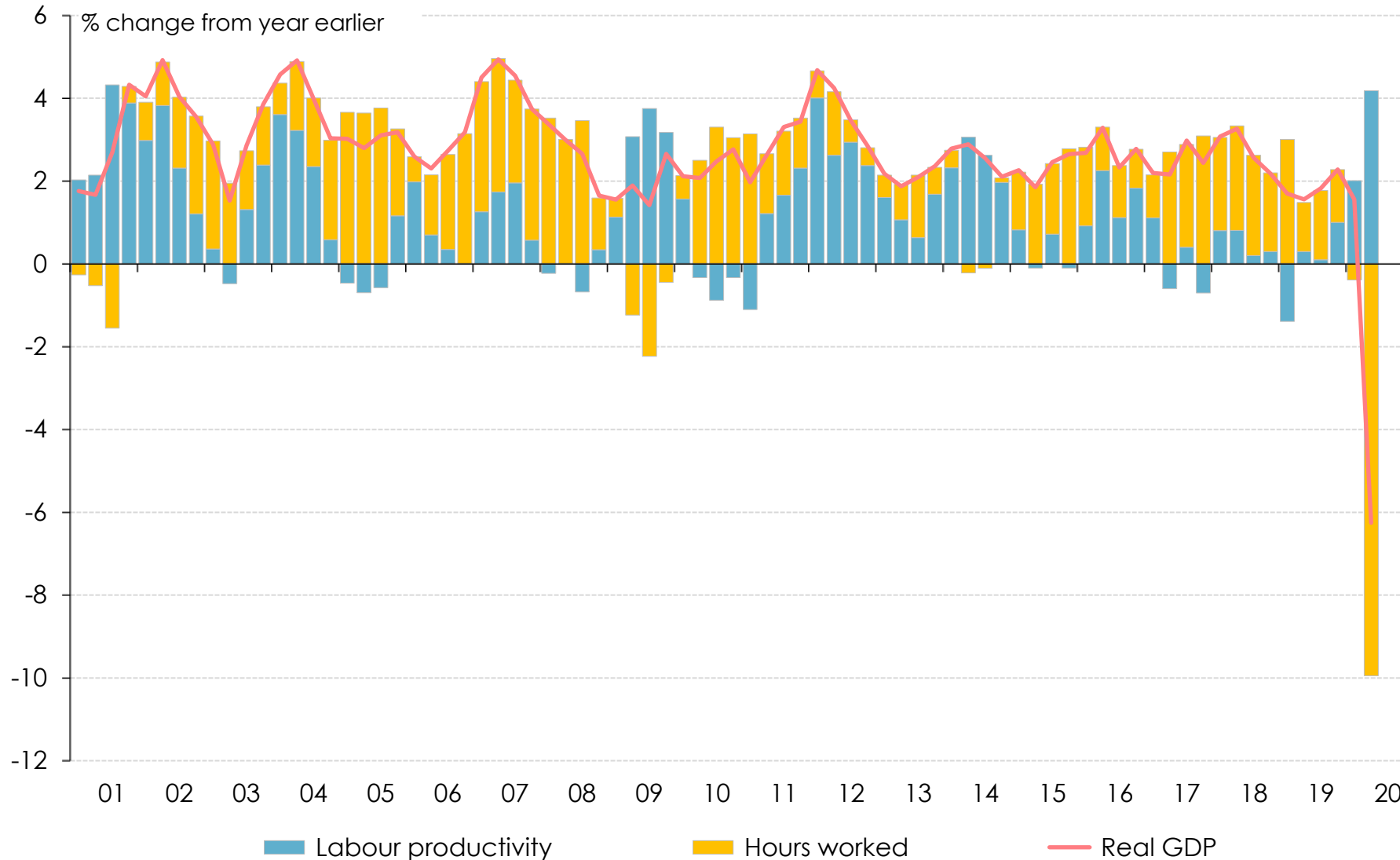
Increase in residential property prices, 1990-2019



Note: Singapore property price increase is from March quarter 1999. Sources: ABS, [Australian National Accounts: Finance and Wealth](#); RBA, [Household Finances - Selected Ratios](#); Bank for International Settlements, [Credit to the non-financial sector](#) and [Property price statistics. Return to "What's New"](#).

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



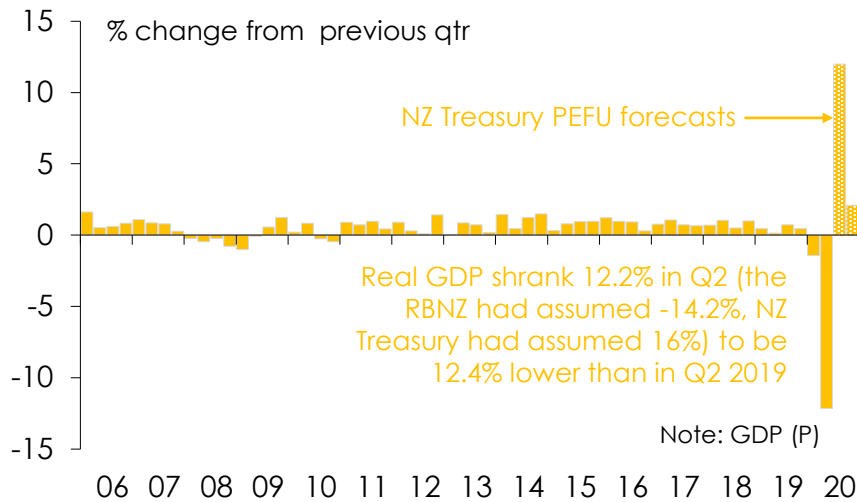
- ❑ Over the five years between the end of the 'mining boom' and the onset of the Covid-19 pandemic, 72% of Australia's real GDP growth came from increased labour input, and only 28% from labour productivity growth
- ❑ By contrast, between the end of the early 1990s recession and the onset of the global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

Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020; Corinna. [Return to "What's New"](#).

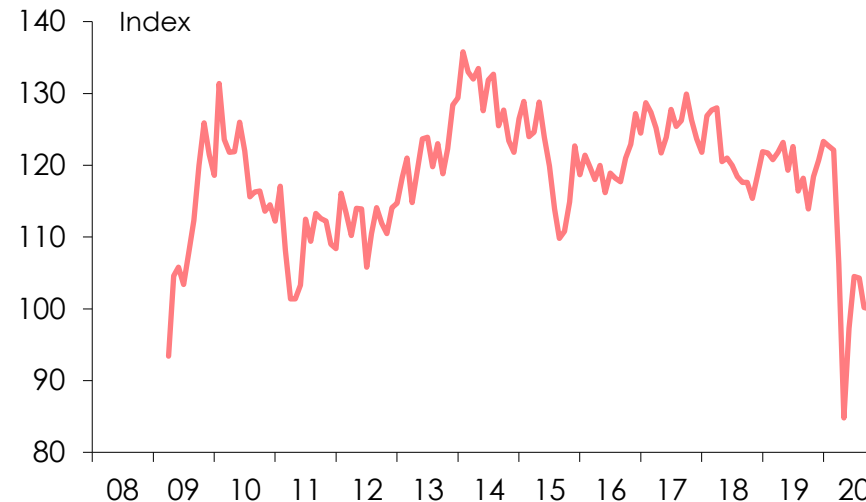
New Zealand

New Zealand's economy shrank 12.2% in Q2 – less than expected – and the budget position isn't quite as dire as forecast in the May Budget

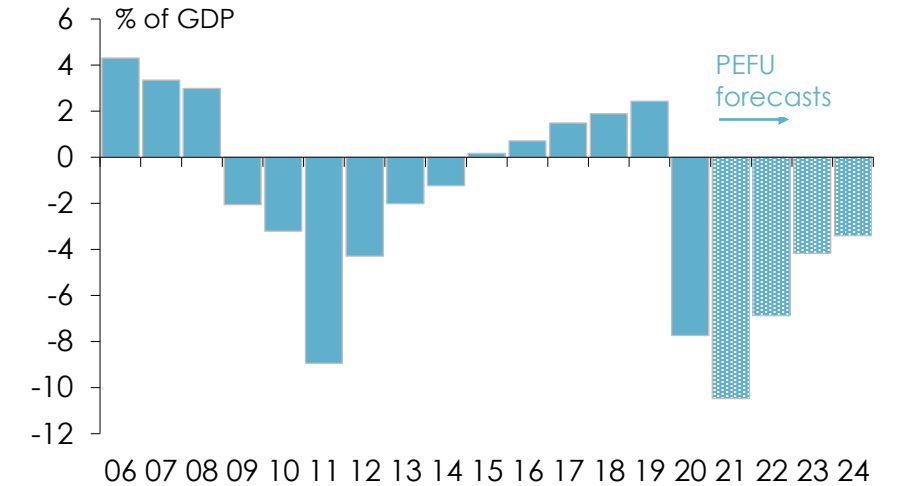
Real GDP



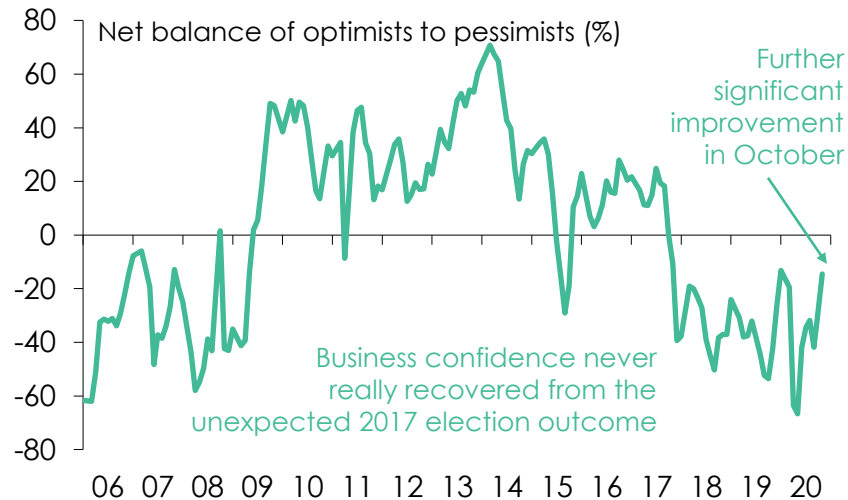
Consumer confidence



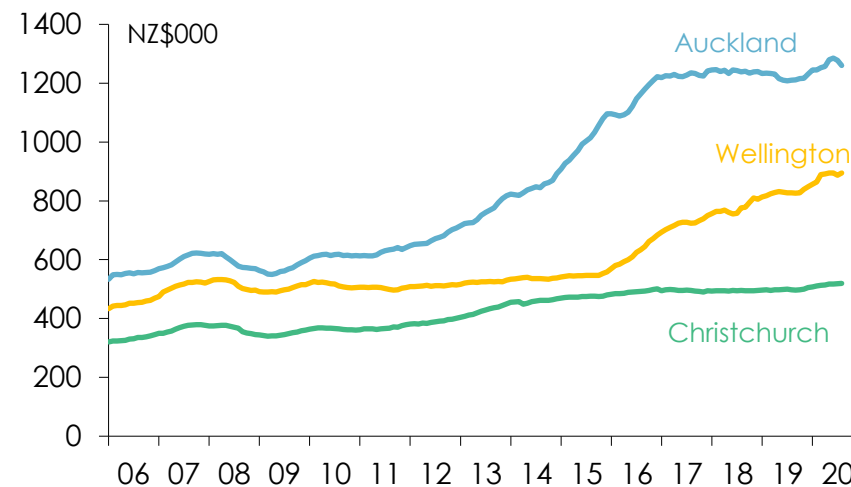
NZ government budget balance



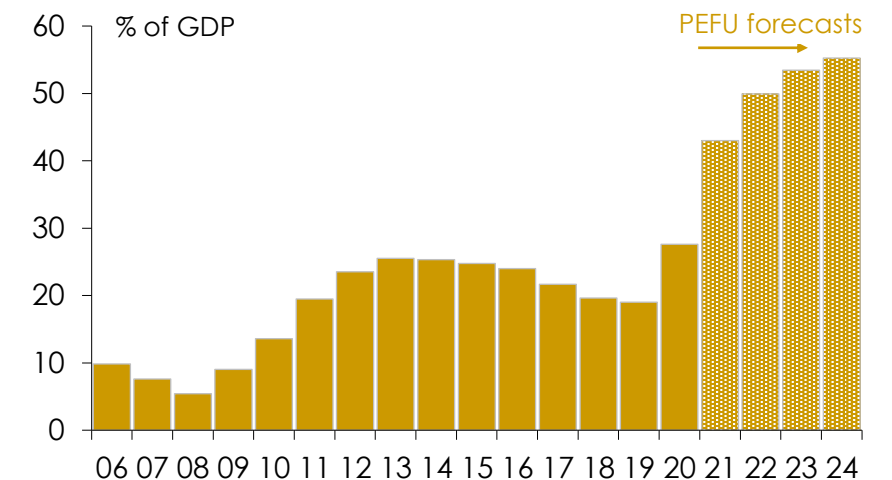
Business confidence



Residential property prices



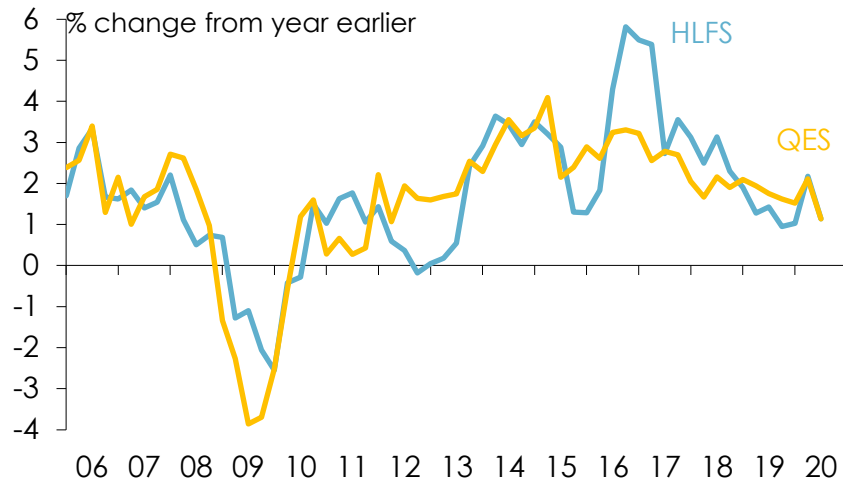
NZ 'core Crown debt'



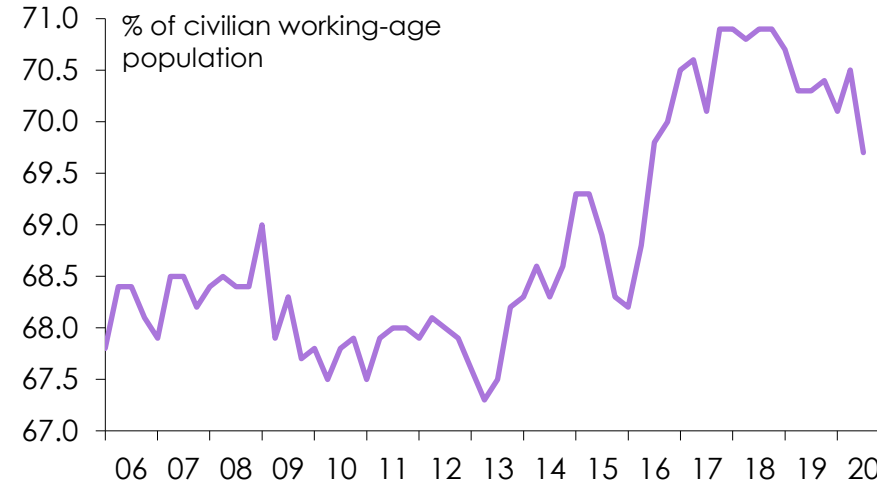
Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', operating balance excluding gains and losses (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy purposes. Fiscal data (the two right-hand charts) are for fiscal years ended 30th June. Sources: [Statistics NZ](#); ANZ-Roy Morgan; [ANZ Bank NZ](#); Quotable Value NZ; NZ Treasury [Pre-Election Economic and Fiscal Update](#) 2020. [Return to "What's New"](#).

New Zealand's wage subsidy scheme appears to have prevented a large rise in unemployment, although hours worked have fallen sharply

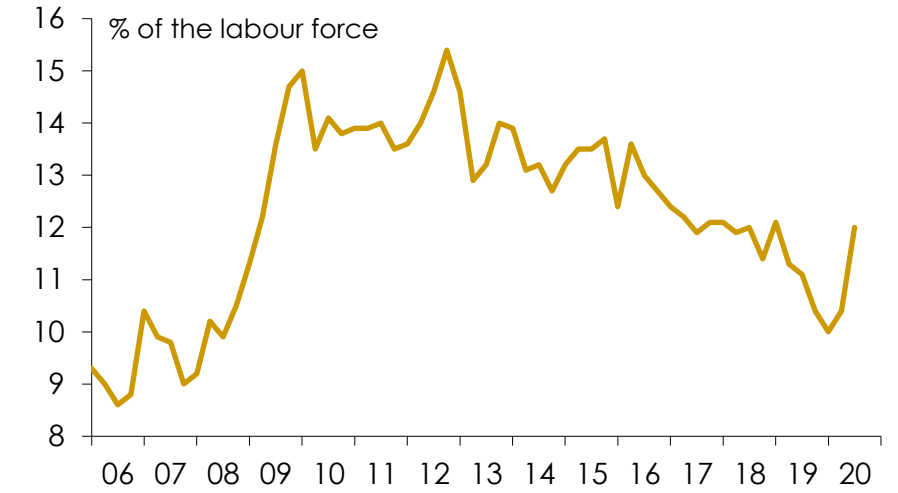
Employment



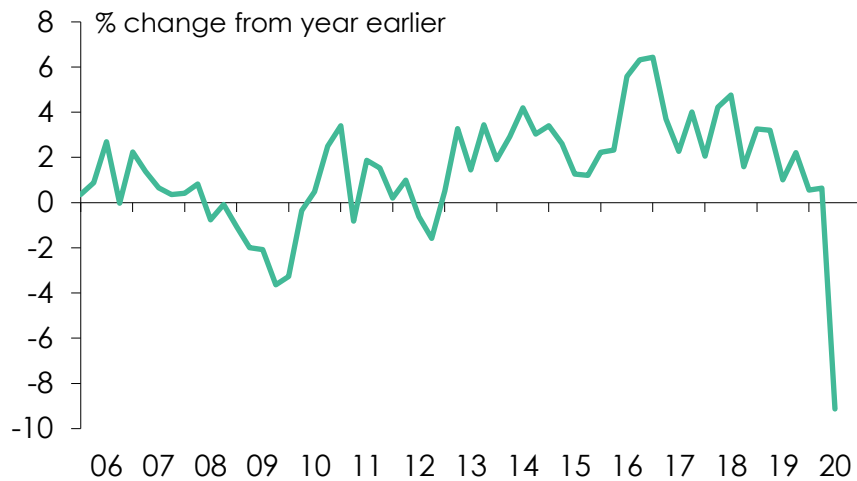
Labour force participation rate



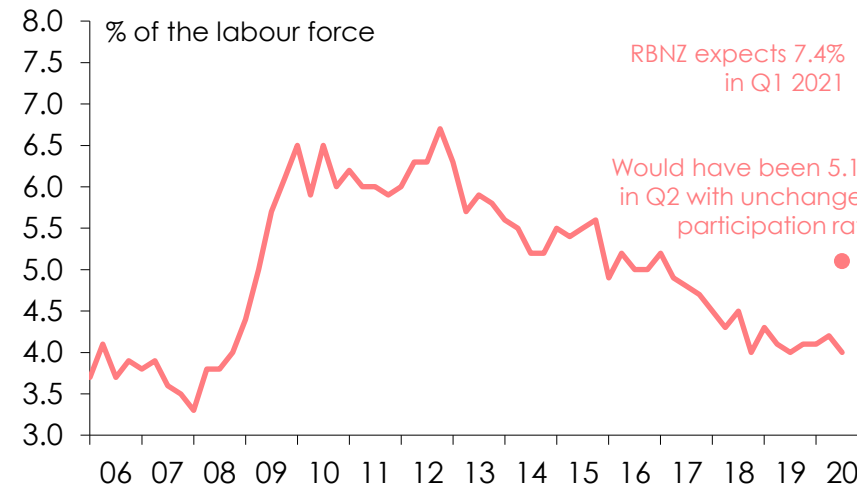
Labour force under-utilization rate



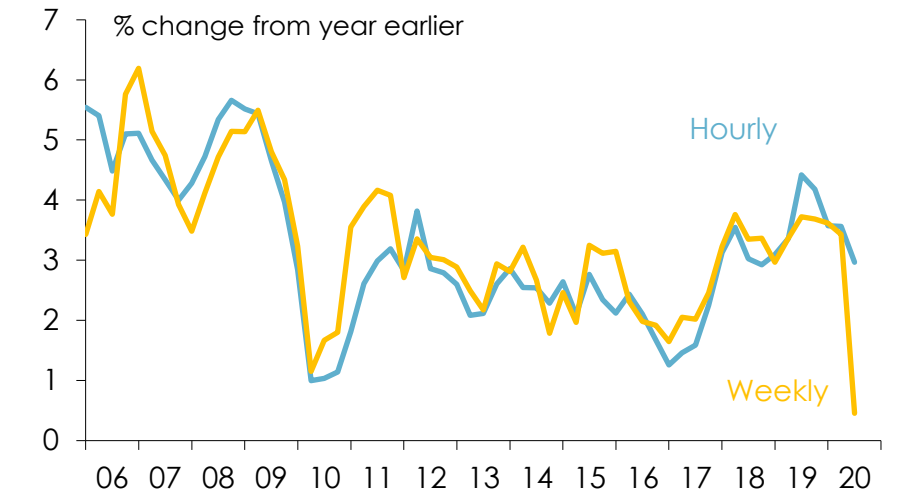
Hours worked



Unemployment rate



Average weekly earnings

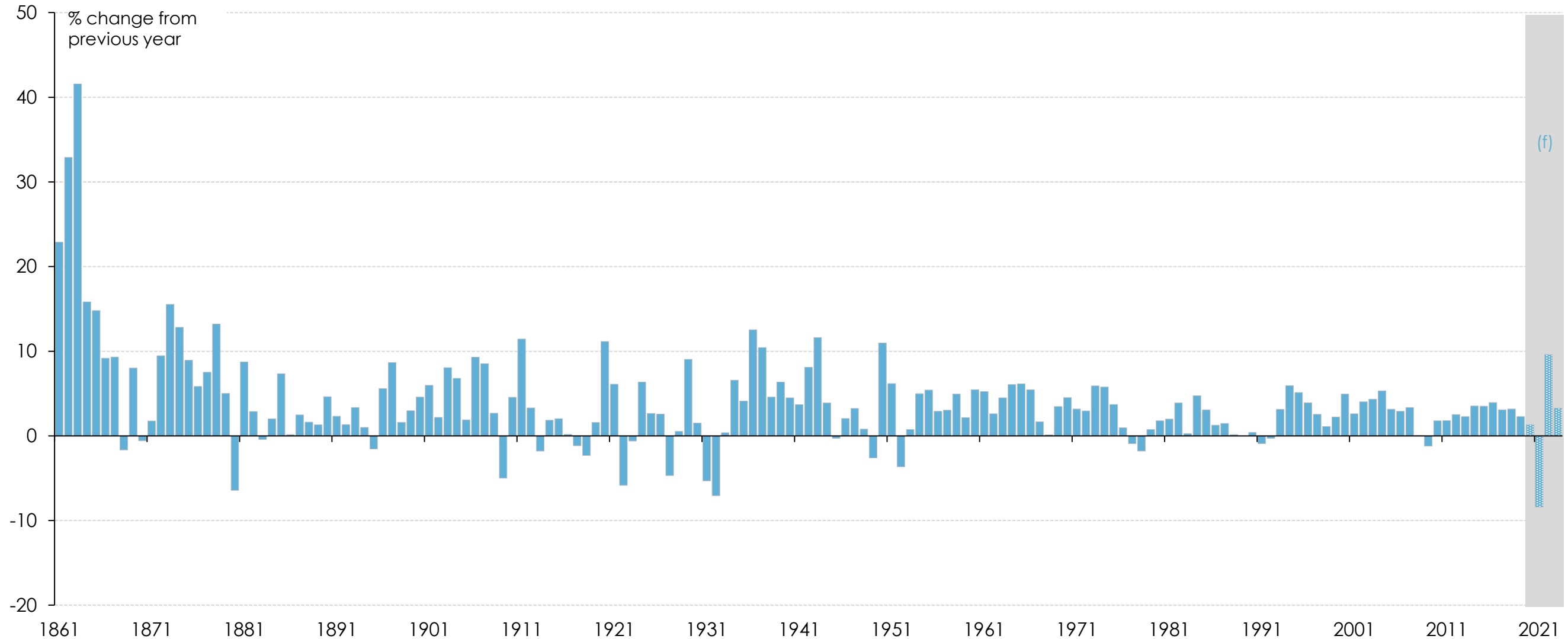


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled jobs' at 'economically significant enterprises' in the 'reference week' in the middle of the quarter, excluding the self-employed and those working in agriculture and fishing. The labour force under-utilization rate measures those who are unemployed plus those who are employed part-time but working fewer hours than they are able and willing to work.

Source: [Statistics NZ](https://www.stats.govt.nz/). September quarter data will be released on 4th November. [Return to "What's New"](#).

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

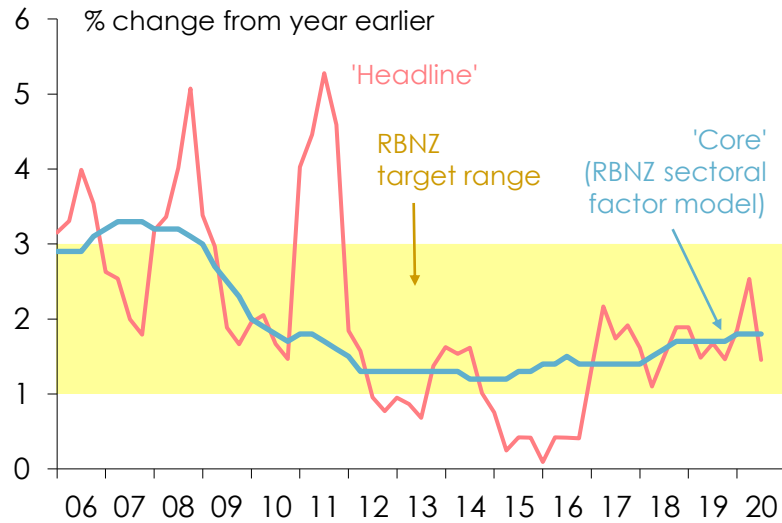
Annual growth in New Zealand real GDP, 1861-2023



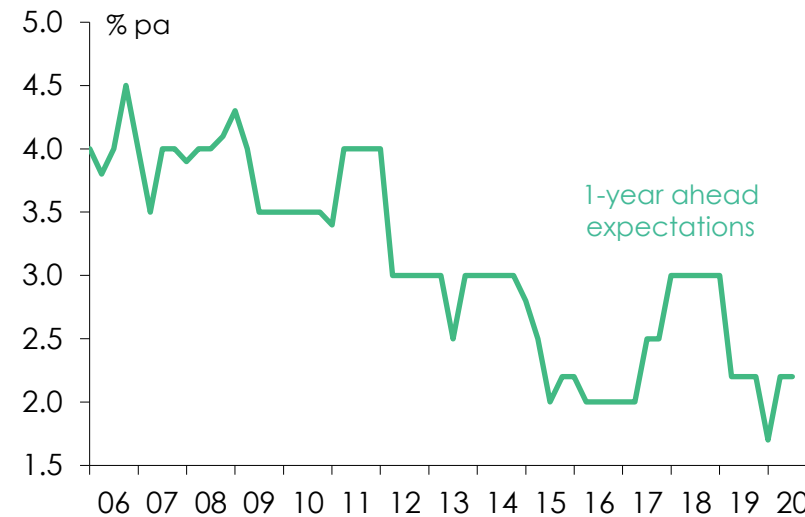
Note: Forecasts are for years ended 31 March. Source: RBNZ, [Monetary Policy Statement](#), May 2020. [Return to "What's New"](#).

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

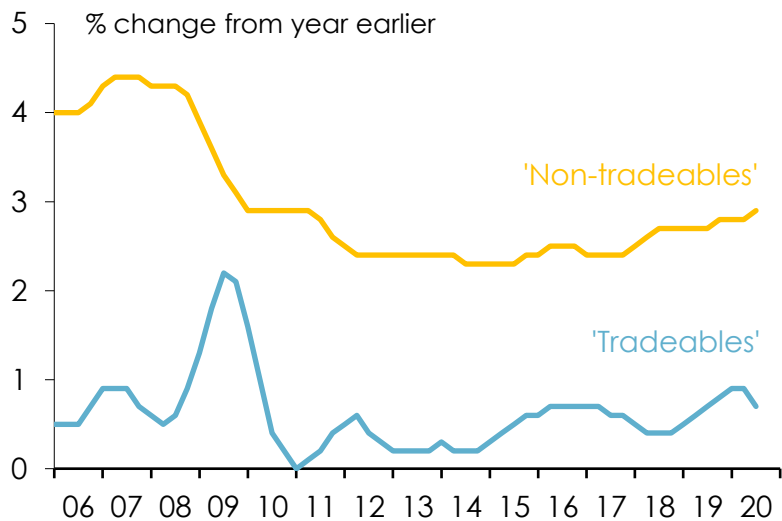
Consumer prices



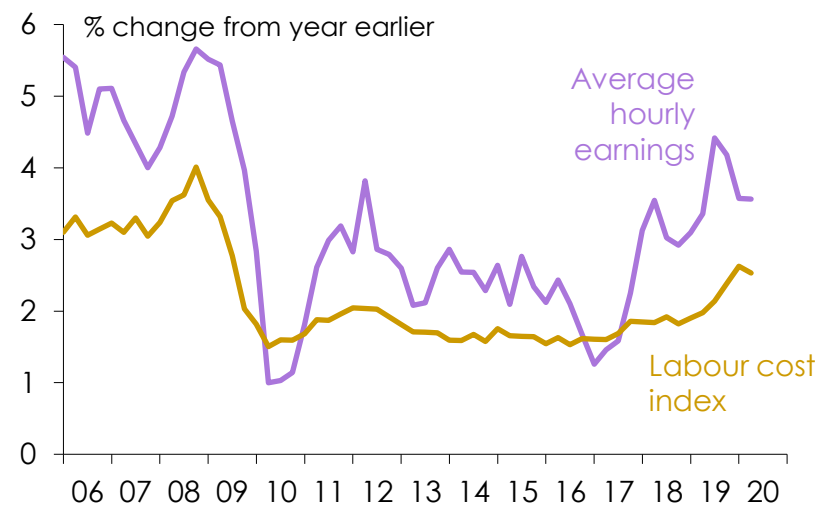
Household inflation expectations



Components of 'core' inflation



Labour costs

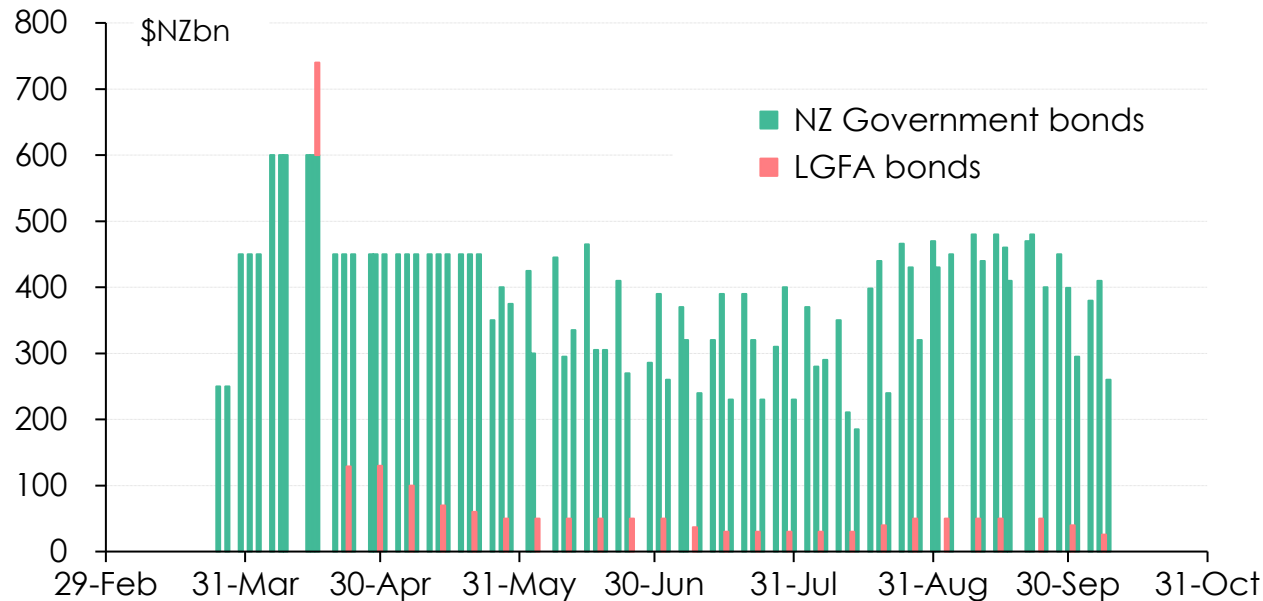


- ❑ The CPI fell 0.5% in the June quarter, reflecting a 12% fall in petrol prices, partly offset by a 16% increase in food prices and SNZ's inability to capture fully the effect of freeze on residential rents between 26th March and 25th September
- ❑ The June quarter result cut the annual 'headline' 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

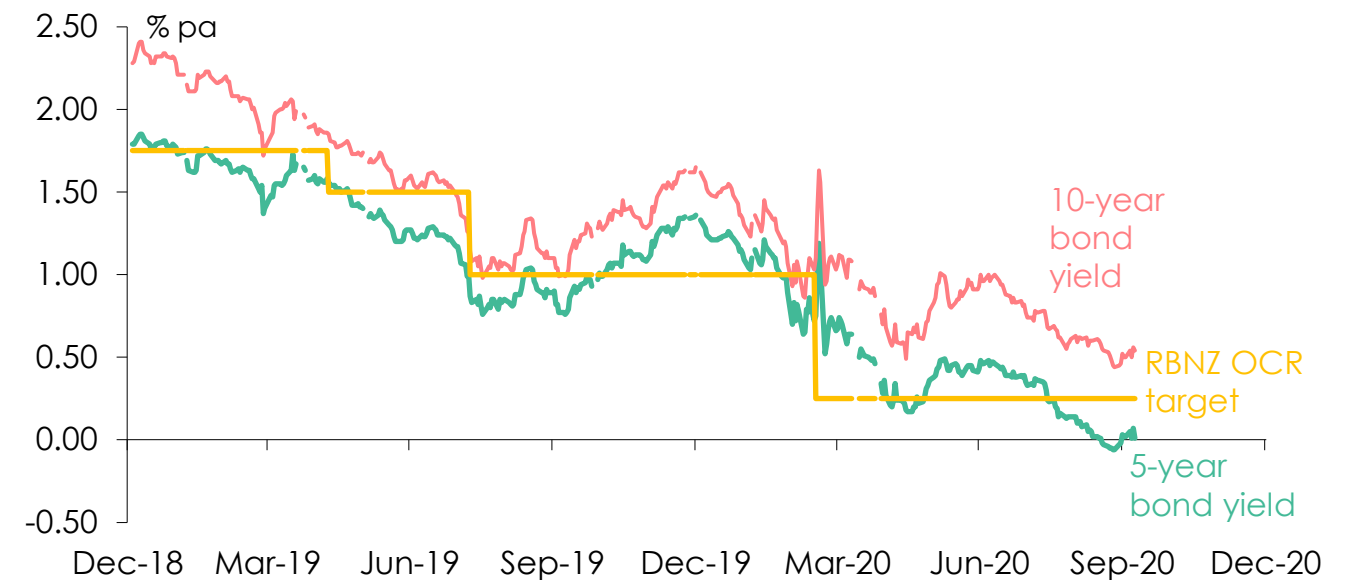
Sources: [Statistics NZ](#); Reserve Bank of New Zealand. September quarter CPI will be released on 23rd October. [Return to "What's New"](#).

The RBNZ has expanded its 'QE' program, floated the possibility of negative rates (again), as well as a 'funding for lending' program

RBNZ open market bond purchases



New Zealand interest rates

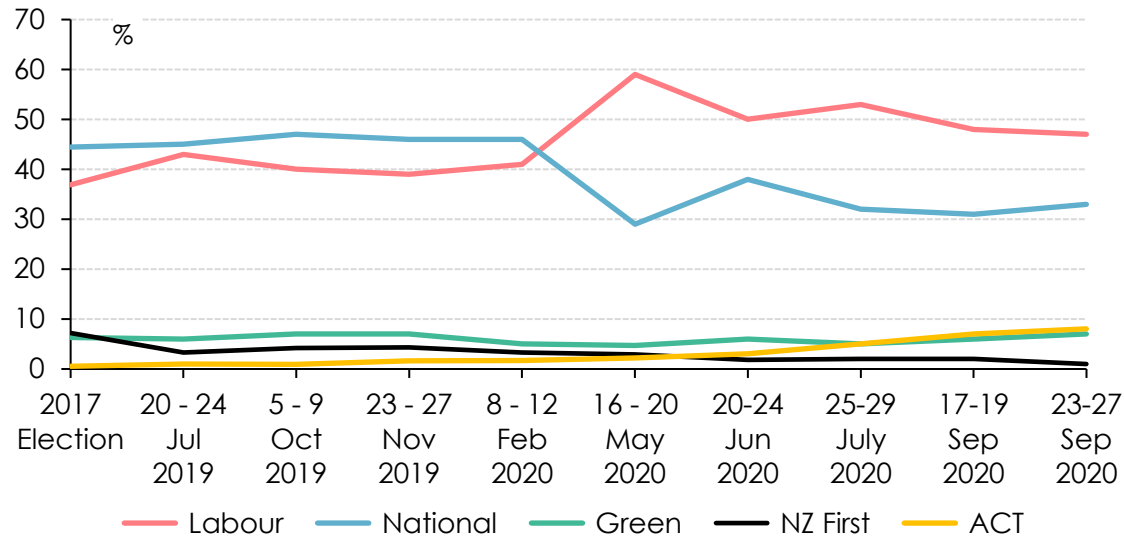


- ❑ RBNZ has adopted an ECB-style QE, establishing a Large Scale Asset Program initially set at \$NZ33bn (10½% of GDP), increased to \$60bn (19½% of GDP) in May, and last month to \$100bn (32½% of GDP) by June 2022
- ❑ This week the RBNZ again bought NZ\$1.1bn of bonds, bringing its total purchases since 25th March to \$NZ34.5bn (11.2% of GDP): 3- and 5-year yields rose a little further this week in line with global trends
- ❑ Last month's Monetary Policy Committee meeting **directed** the RBNZ to have an FLP "ready to deploy before the end of the year", while also indicating that it was "prepared to lower the OCR to provide additional stimulus if required" (and noted that "market participants now believed that it was likely the OCR would be reduced below zero next year")

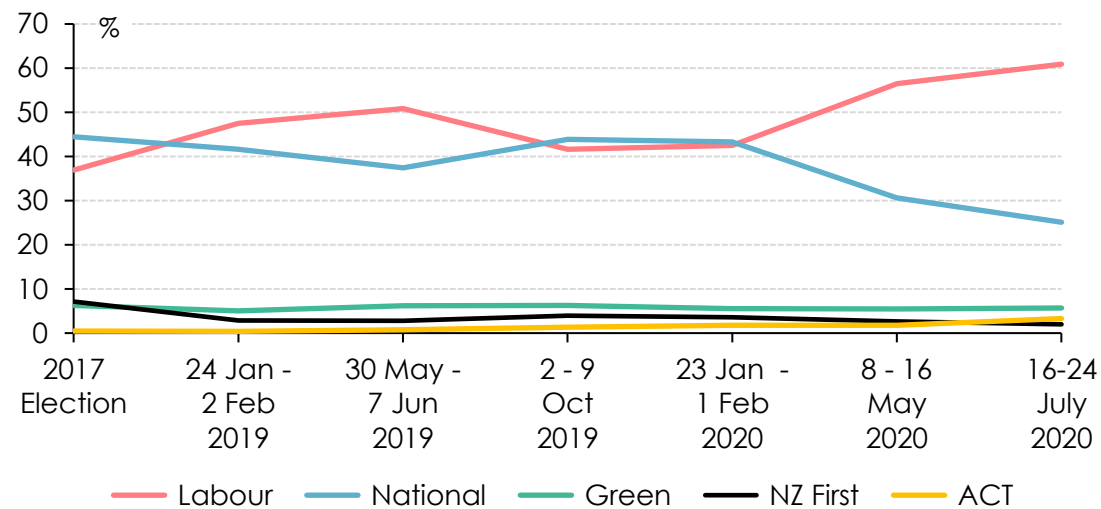
Note: LGFA = Local Government Financing Authority. Source: Reserve Bank of New Zealand, [Statistics](#) Tables B2 and D3. Data up to 9th October. [Return to "What's New"](#).

Latest opinion poll still foreshadows a victory for PM Jacinda Ardern's Labour Party on 17th October, but may have to rely on Greens to govern

Colmar-Brunton 1-News poll



Reid Research / TV3 poll



Note: 'ACT' is the Association of Consumers and Taxpayers, a libertarian party which currently holds one constituency seat in the NZ Parliament. Sources: [New Zealand Electoral Commission](#); [Colmar Brunton](#); [Reid Research](#). [Return to "What's New"](#).

- ❑ New Zealand uses a 'mixed member proportional' (MMP) system to determine the composition of its 120-seat Parliament
 - each voter has two votes, one for his or her constituency and one for a party list
 - 71 members are elected from constituencies, while 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
- ❑ 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)
- ❑ Labour has promised to introduce a new top personal income tax rate of 39% on incomes over NZ\$ 180K (currently the top rate is 33% and it applies to incomes of over NZ\$70K)
- ❑ The latest poll, by Colmar Brunton (taken before Wednesday's leaders' debate), showed a further slight narrowing in Labour's lead over National, but still enough to assure it victory
 - if replicated at the election Labour would win 59 seats (up 3, but no longer enough to govern in its own right, as earlier polls had implied), National 43 (down 13), ACT 10 (up 9) and the Greens 8 (unchanged), while Deputy PM Winston Peters' NZ First would lose all its seats

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 as a result 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)
 - and as Treasury Secretary Stephen Kennedy has [pointed out](#), “it is highly likely that fiscal multipliers are larger when interest rates are near zero and expected to remain there for the foreseeable future”
- ❑ **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 (see [slide 82](#))**
- ❑ **Re-think of relationships with China (see [slide 90](#) and [slides 116-118](#))**
 - 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 (see [slide 53](#)) and Biden as President can reverse the damage done to perceptions of US credibility, competence and commitment

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