

# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

17<sup>TH</sup> OCTOBER 2020

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**SAUL ESLAKE**  
CORINNA ECONOMIC ADVISORY PTY LTD

# What's new?

## The world

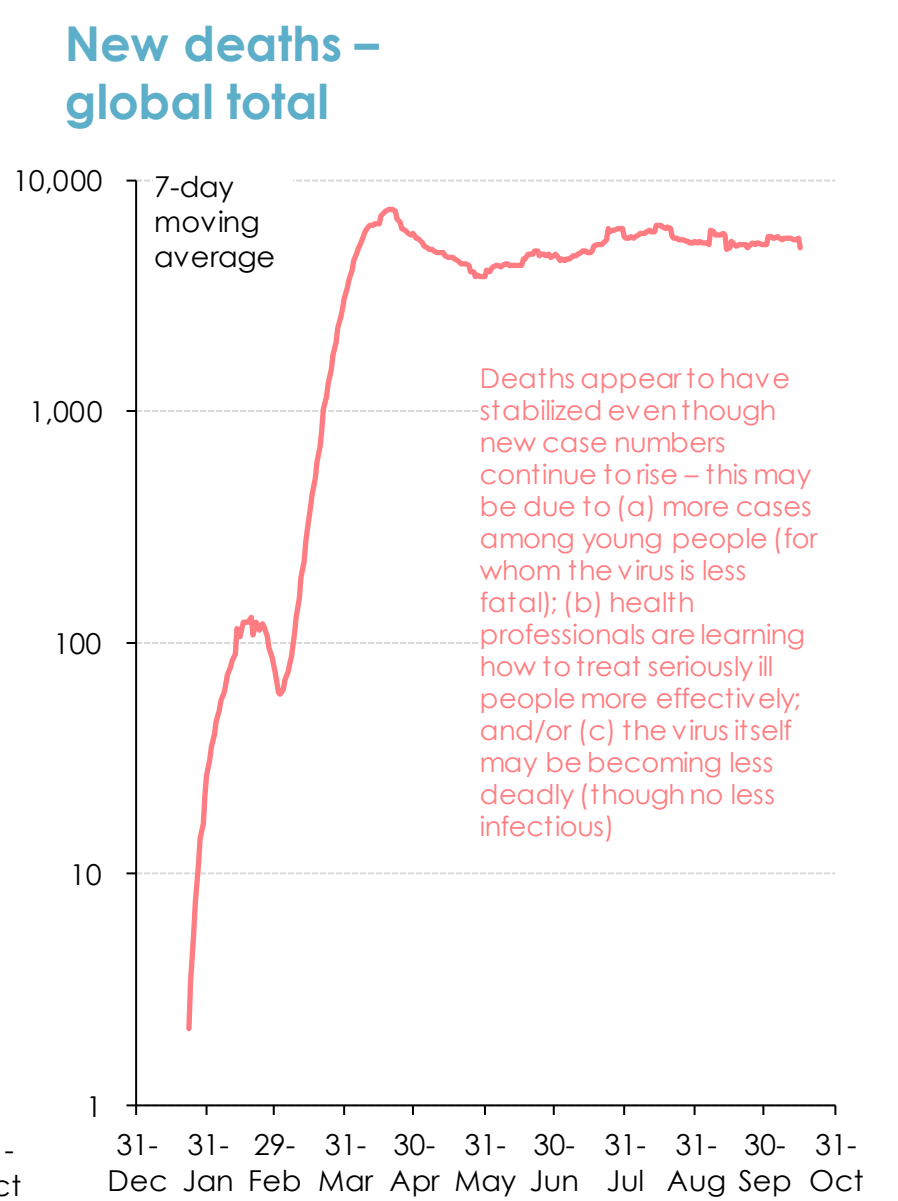
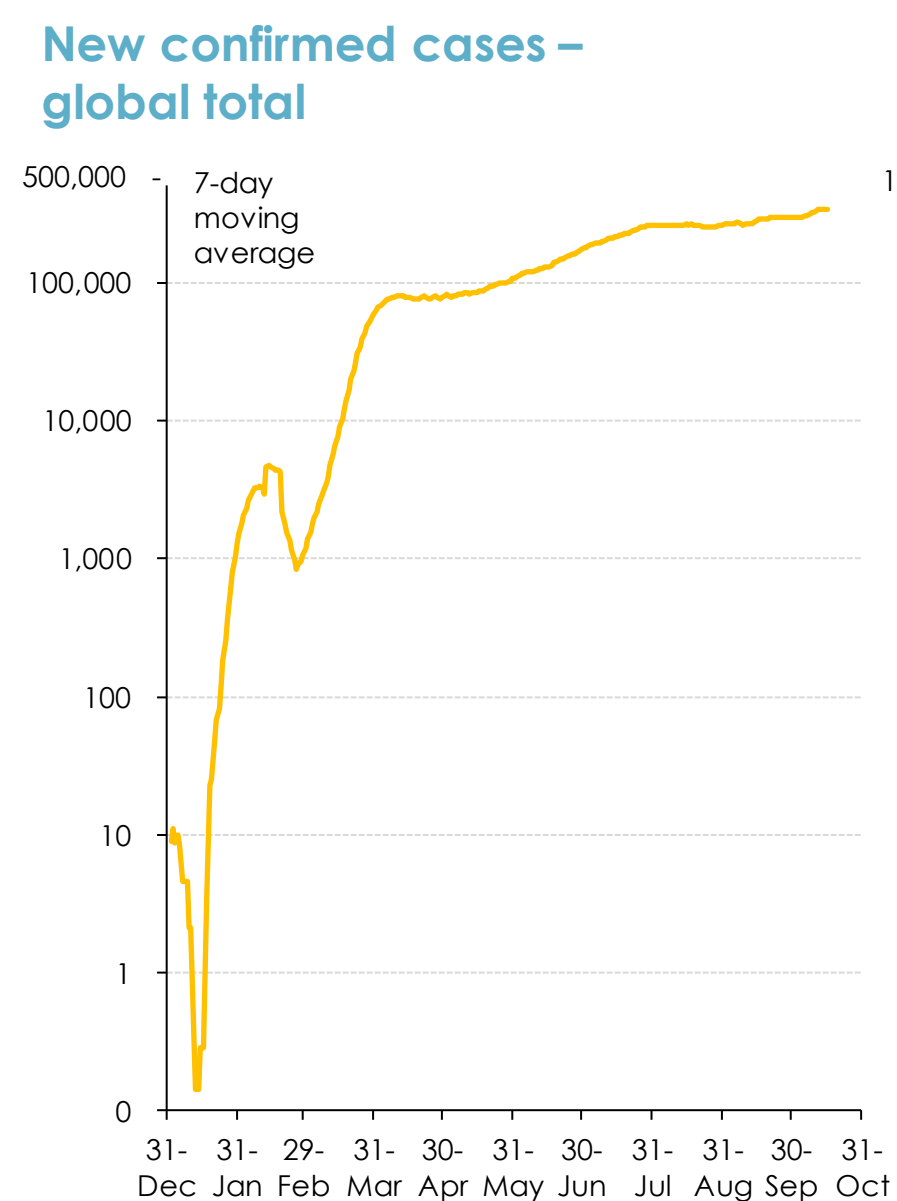
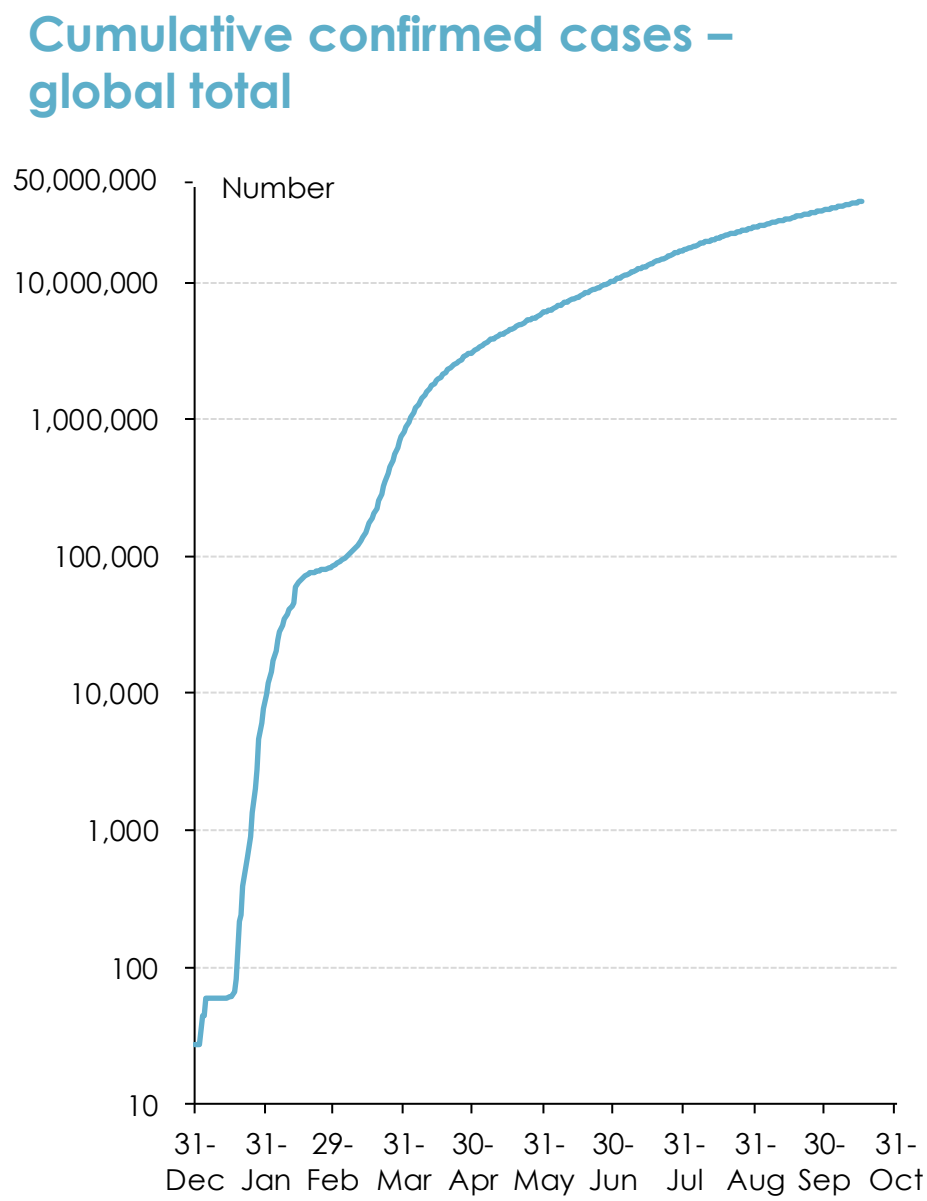
- ❑ 2,371,605 new Covid-19 cases were confirmed this week, a new record high, taking the cumulative total to 39 million; while 35,931 people died (the smallest number since mid-July), bringing the cumulative death toll to 1,099,184 ([slide 4](#))
- ❑ Europe accounted for 28% of the world's new cases last week, the US for 16%, and Russia, Iran & Indonesia for a further 6%; India & Brazil accounted for a further 20% and 6% respectively, but the numbers in both those countries are now falling ([slide 5](#))
- ❑ 89 countries (of the 100 which publish quarterly GDP estimates) have now reported Q2 GDP estimates, with 9 reporting contractions of more than 20% and 41 of between 10 and 20% ([slide 18](#)) and overall world GDP shrinking by 9% ([slide 19](#))
- ❑ The IMF raised its 2020 global growth forecast by 0.8 pc pts to -4.4% but cut its 2021 forecast by 0.2 pts to 5.2% ([slide 21](#)) and provided some uncommonly frank advice to policy-makers ([slide 22](#))
- ❑ Surging used car prices (as people seek alternatives to public transport) have pushed US inflation higher in both August and September, but in the euro area headline inflation has turned negative again ([slide 33](#))
- ❑ The US budget deficit topped US\$3 trn (16.8% of GDP) in the 12 months ended September ([slide 51](#))
- ❑ New Zealand votes are today (Saturday) expected to return PM Jacinda Ardern's Labour Party for a second term, possibly with a majority in its own right (which would be the first time any party has achieved that since the introduction of the 'Mixed Member Proportional' voting system in 1996 ([slide 129](#)))

## Australia

- ❑ Australia recorded 142 new Covid-19 cases this week, the highest in four weeks but well down on the most recent peak of almost 3,400 in the first week of August; there were 227 active cases on Friday (the lowest since 27<sup>th</sup> June); and this week's death toll of 7 was (together with last week's) the lowest since the week ended 11<sup>th</sup> July ([slide 8](#))
- ❑ Victoria's new cases appear to have stabilized at an average of 10 per day over the past two weeks, prompting some questioning of the Victorian Government's stated target of 5 for an easing in restrictions; meanwhile NSW's new case daily average has crept up to 7 ([slide 9](#))
- ❑ Employment fell by 29,500 (0.2%) in September, the first decline since May, and the measured unemployment rate ticked up 0.1 pc pt to 6.9% ([slide 69](#)); including people 'working' zero hours, and those who have dropped out of the workforce since March, the 'effective' unemployment rate rose 0.4 pc pts to 10.6% ([slide 71](#))
- ❑ Consumer confidence surged in October to its highest level since July 2018, suggesting that this month's federal Budget has been well received by households ([slide 81](#))
- ❑ Reserve Bank Governor Phillip Lowe signalled a shift in the way the RBA will interpret its inflation target – basing monetary policy decisions on *actual* rather than *forecast* inflation; noted that a 'tight' labour market would be needed to ensure that actual inflation returns to the 2-3% target band; and strongly hinted at a further easing of monetary policy at the RBA Board's 3<sup>rd</sup> November meeting ([slide 110](#))
- ❑ China added cotton and coal to the (growing) list of Australian exports it is boycotting ([slide 120](#))
- ❑ ACT voters are likely to return Labor to office today (Saturday), as are Queensland voters next Saturday

**The virus**

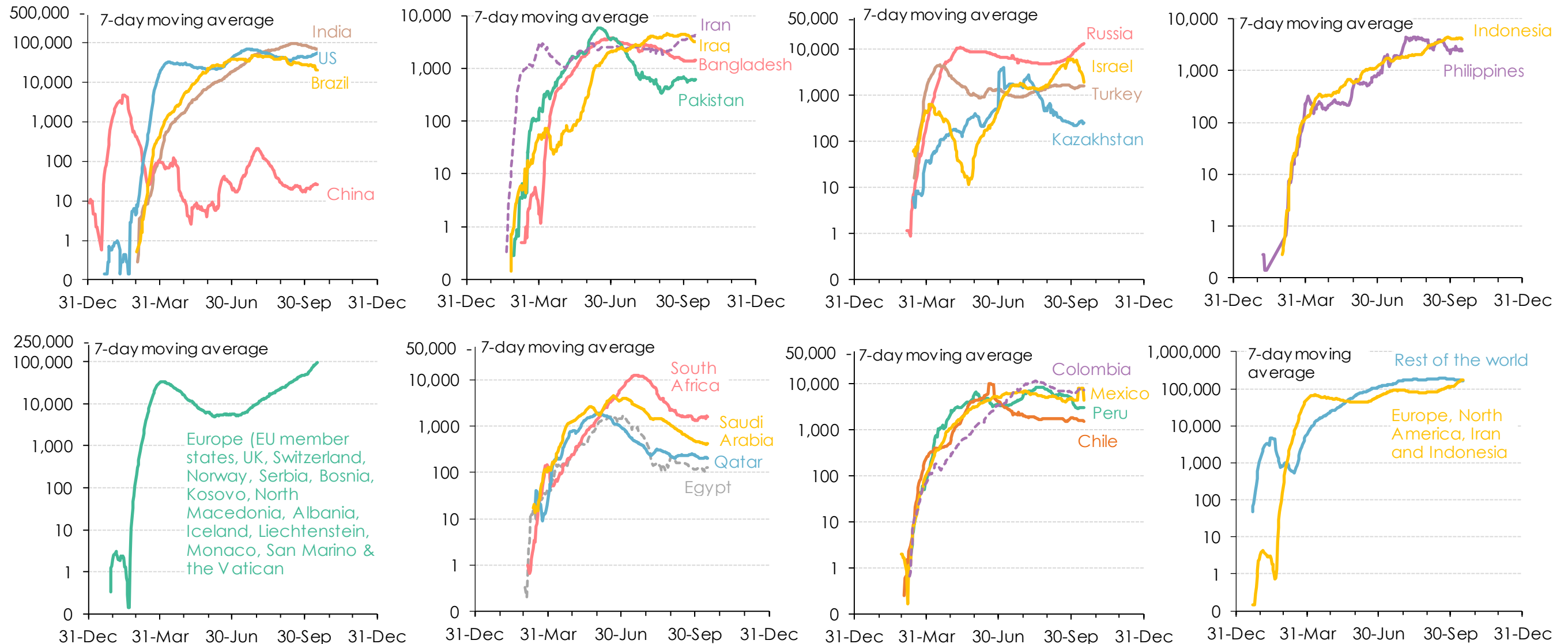
# Last week saw a new record number of new cases (2.4 mn) taking the total to 39 mn, although last week's death toll of 36K was 'only' the 16<sup>th</sup> highest



Note: All charts are on logarithmic scales. Data up to 16<sup>th</sup> October. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

# 28% of new cases are now in Europe, 16% in the US and 6% in Russia, Iran & Indonesia: another 20% are in India & 6% in Brazil, but they're now falling

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

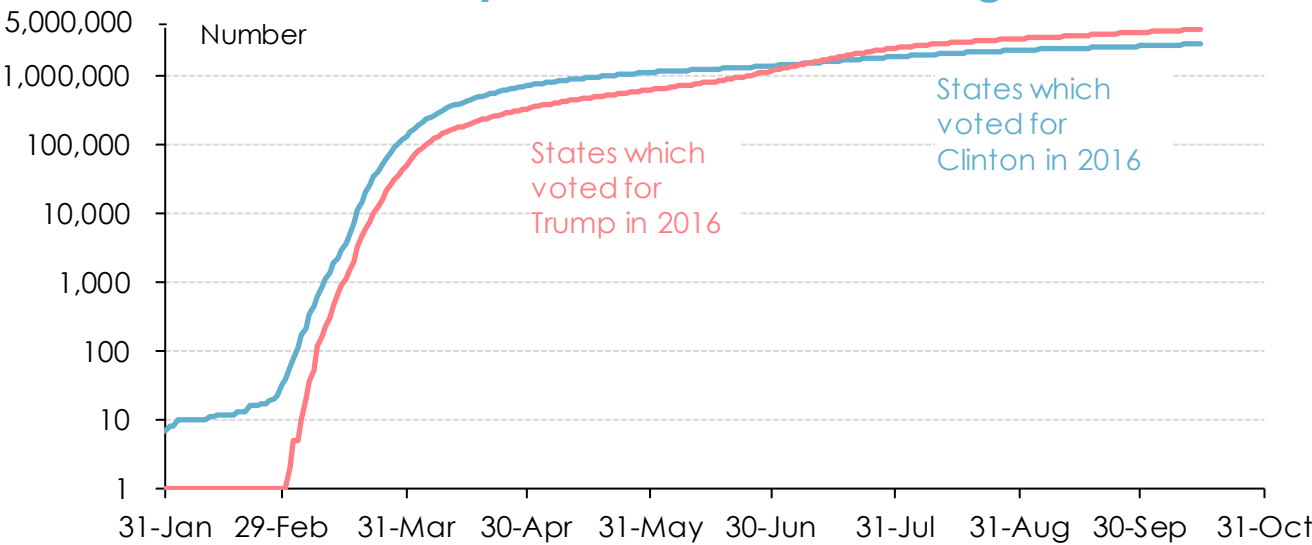


Note: All charts are on logarithmic scales. Data up to 16<sup>th</sup> October. 'North America' is the US, Canada and Mexico.

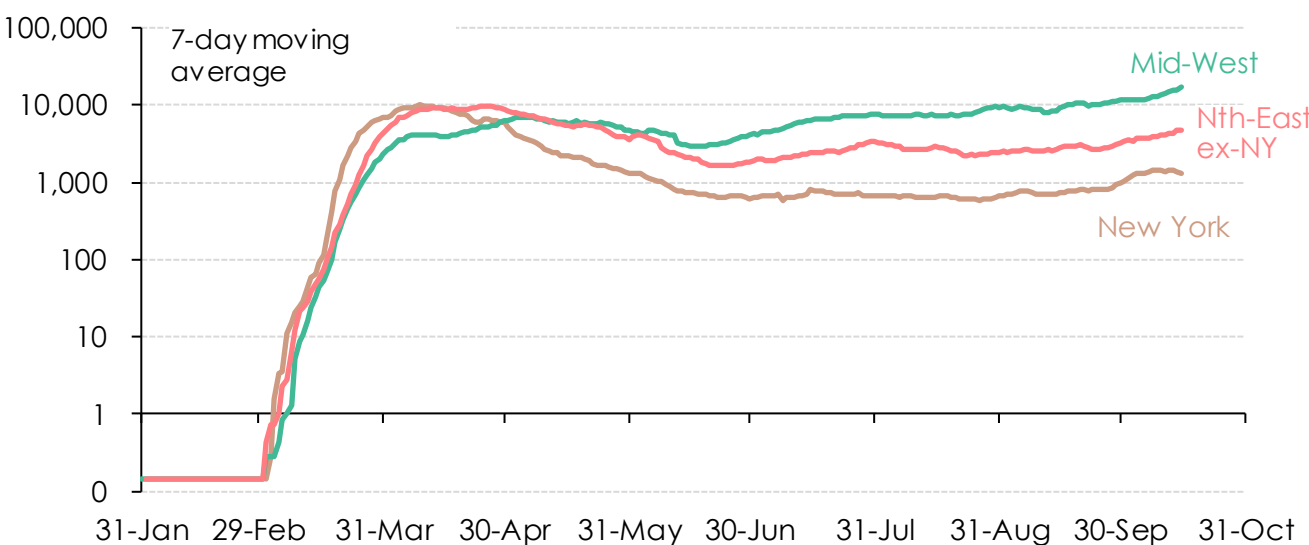
Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# In the US, new Covid-19 cases in 'red states' continue to outnumber those in 'blue' states – case numbers are rising particularly in the Mid-West

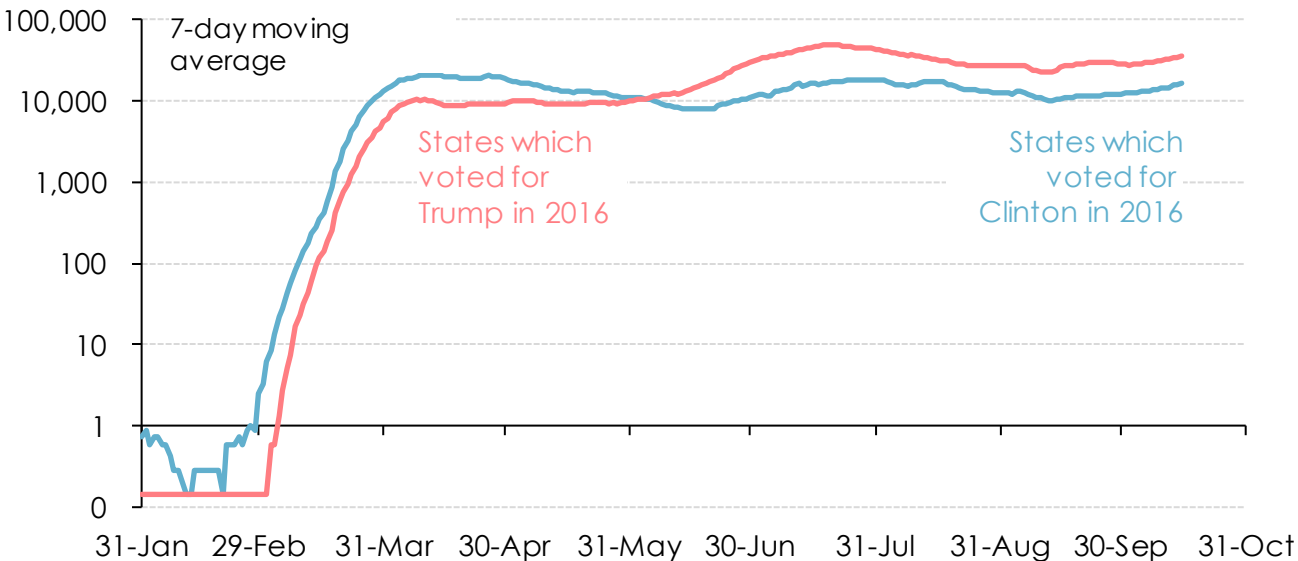
Cumulative cases, by 2016 Electoral College vote



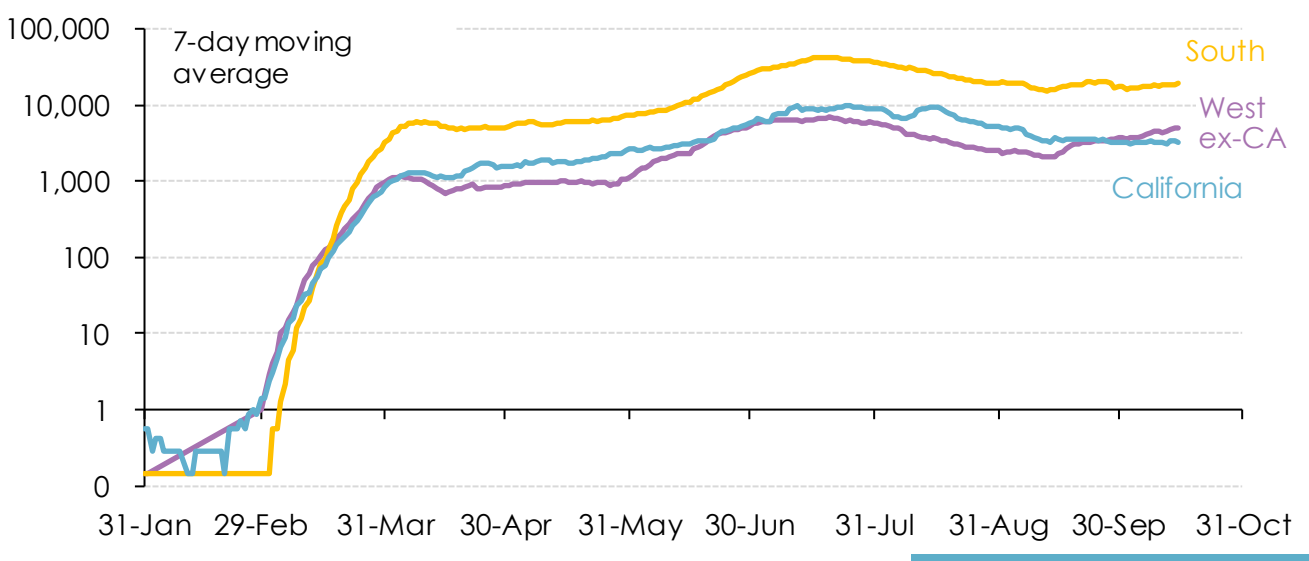
New cases – Mid-West and North-East



New cases, by 2016 Electoral College vote



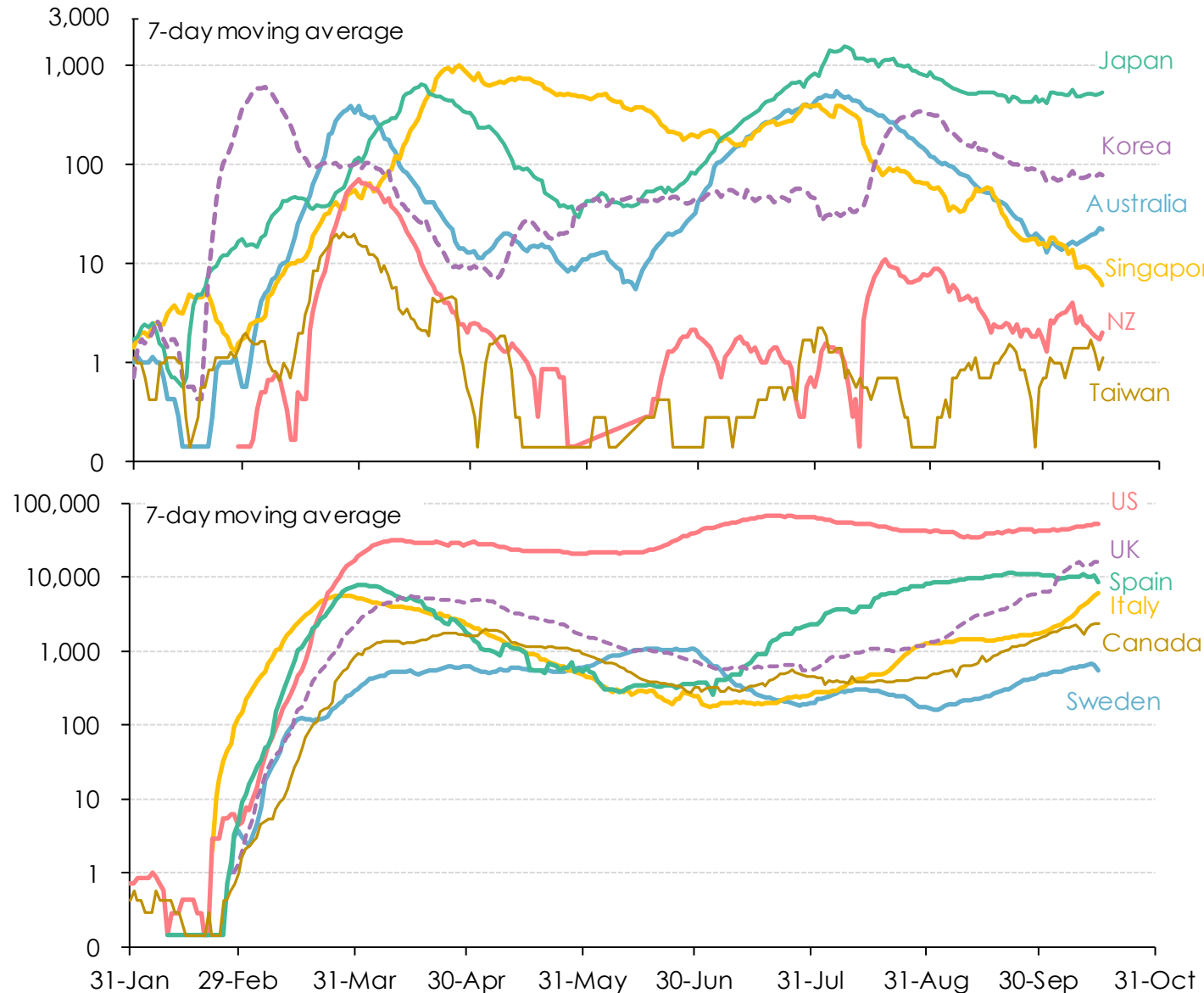
New cases – South and West



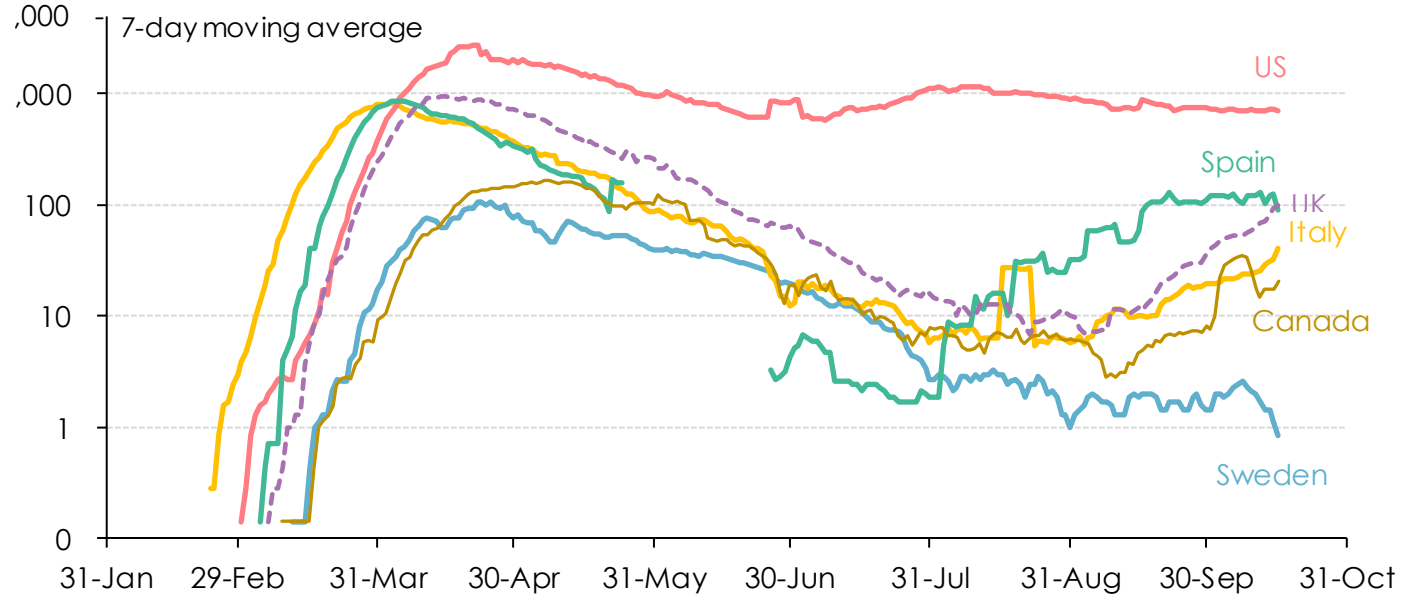
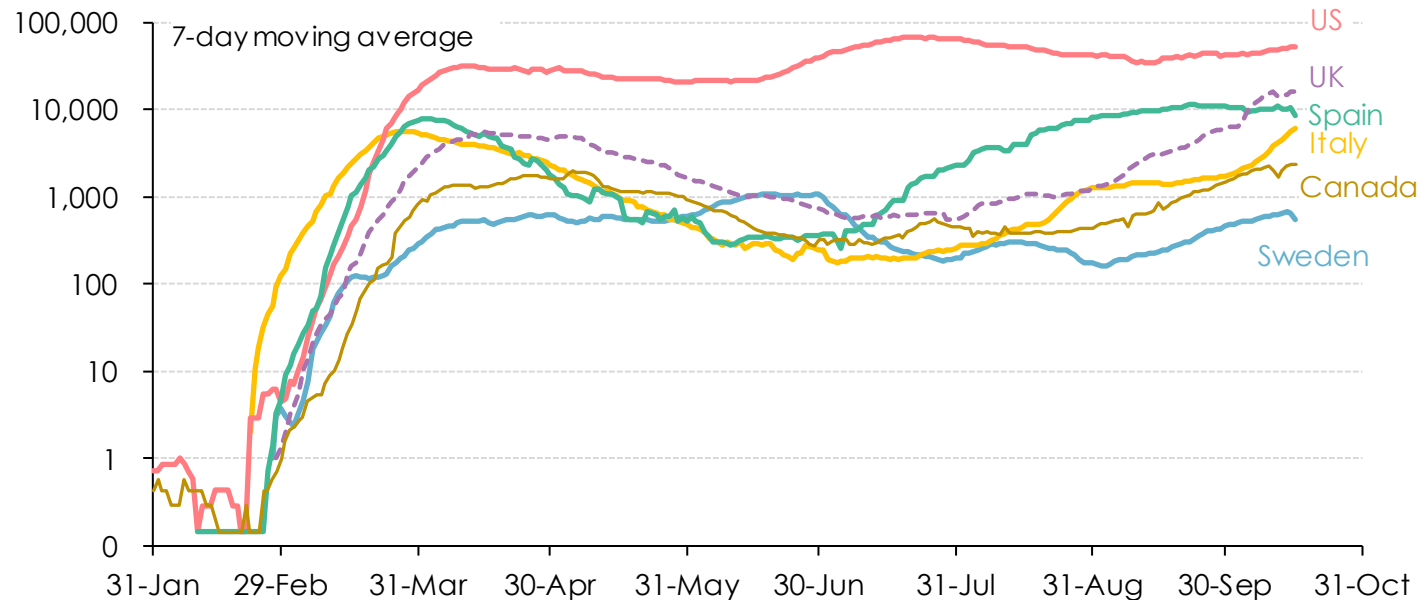
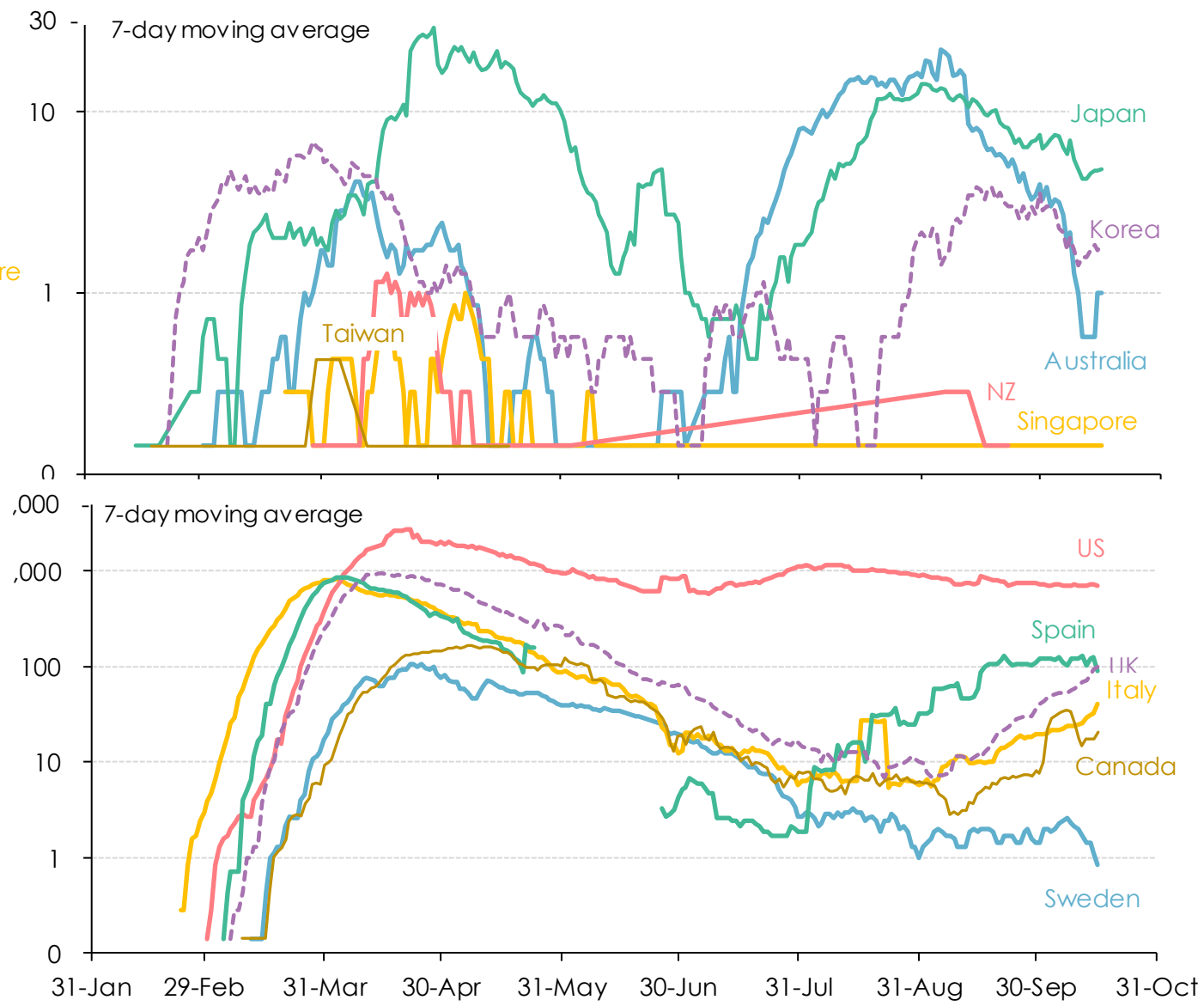
Note: All charts are on logarithmic scale. Cases for Maine (whose Electoral College votes are awarded separately by each of its two Congressional districts) are split by how each of its 16 counties voted in 2016. Sources: [USA Facts](#); [Centers for Disease Control and Prevention](#); Corinna. Latest data are for 15<sup>th</sup> 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



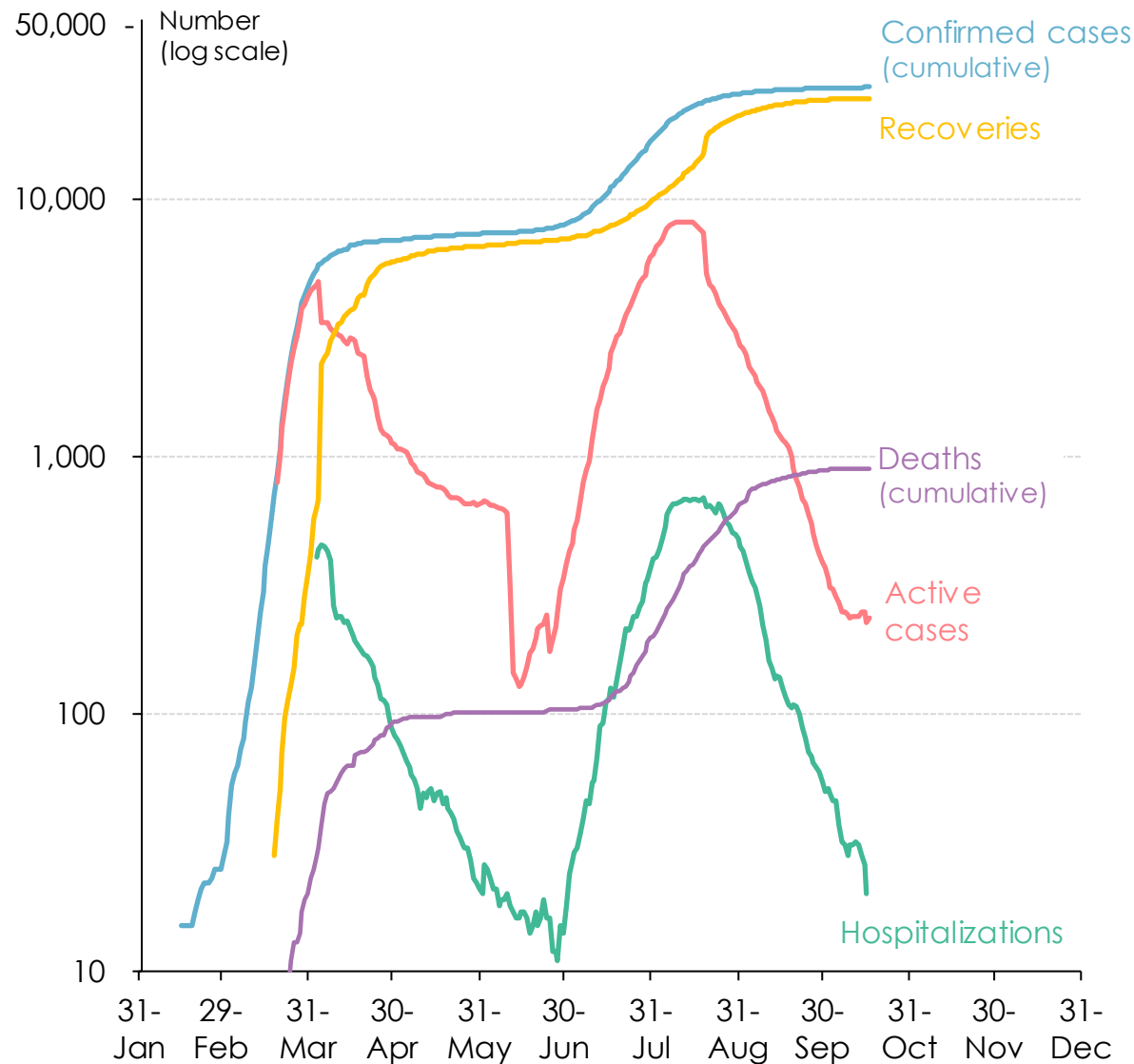
Daily new deaths



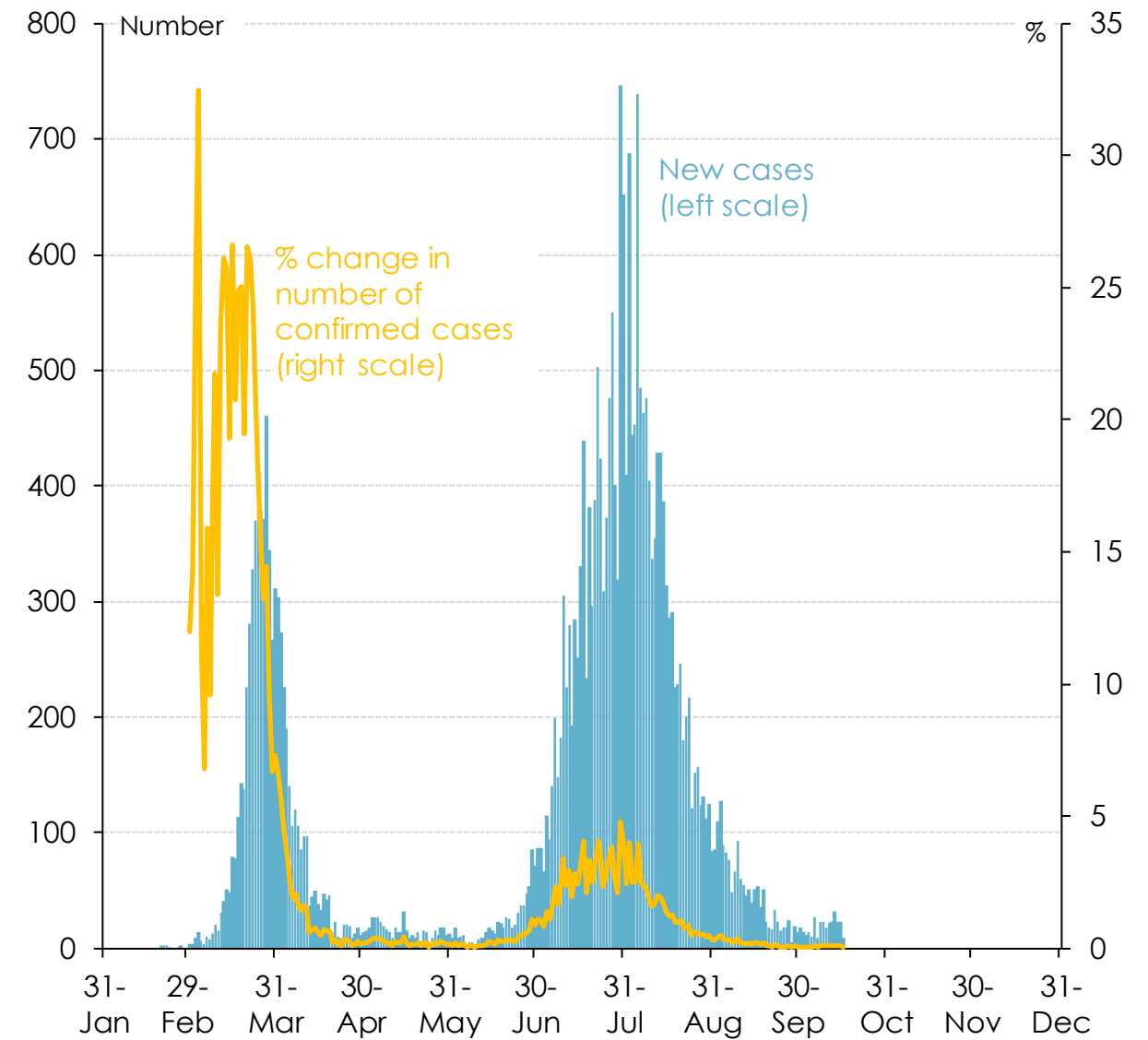
Note: All charts are on logarithmic scales. Data for new deaths in Spain between 25<sup>th</sup> May and 19<sup>th</sup> June not shown because of distortions caused by reclassifications on those dates. Data up to 16<sup>th</sup> October. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# Australia recorded 142 new cases last week, the highest number in 4 weeks, but 'only' 7 deaths, same as last week but otherwise the lowest since July

## Cases, recoveries, hospitalizations and deaths



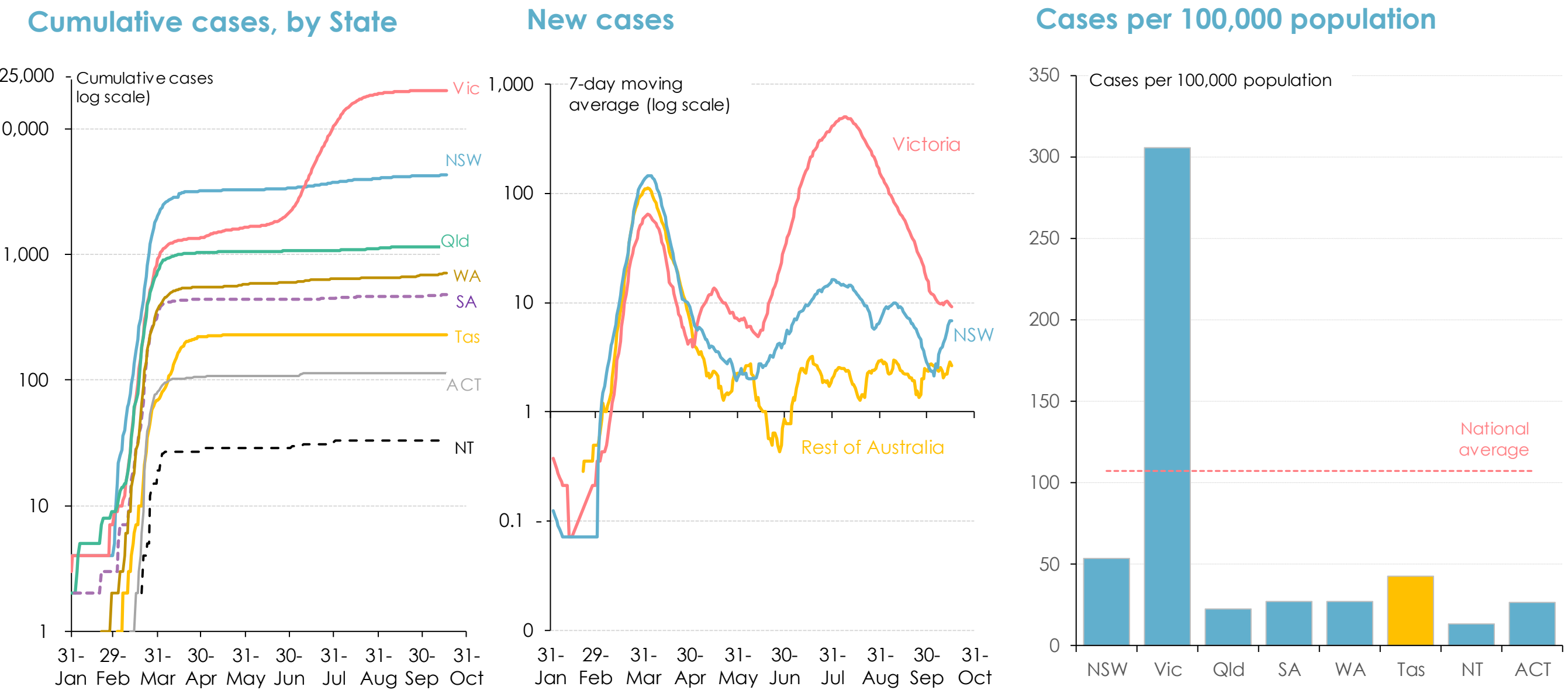
## New cases



Note: Data up to 16<sup>th</sup> October. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).



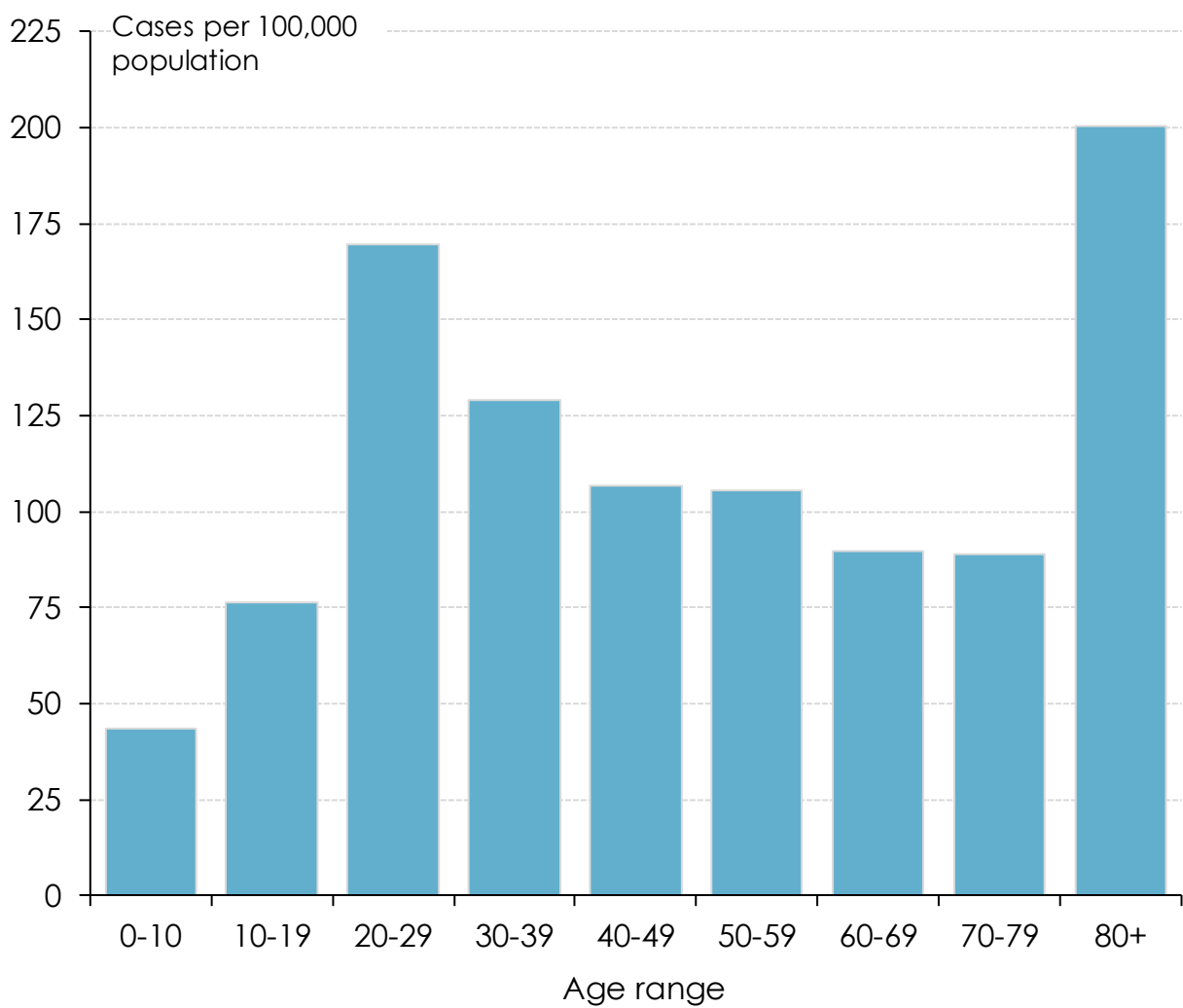
# Victoria's new cases have stabilized at an average of 10 a day (prompting a possible re-think of the 'target'), while NSW's average has climbed to 7



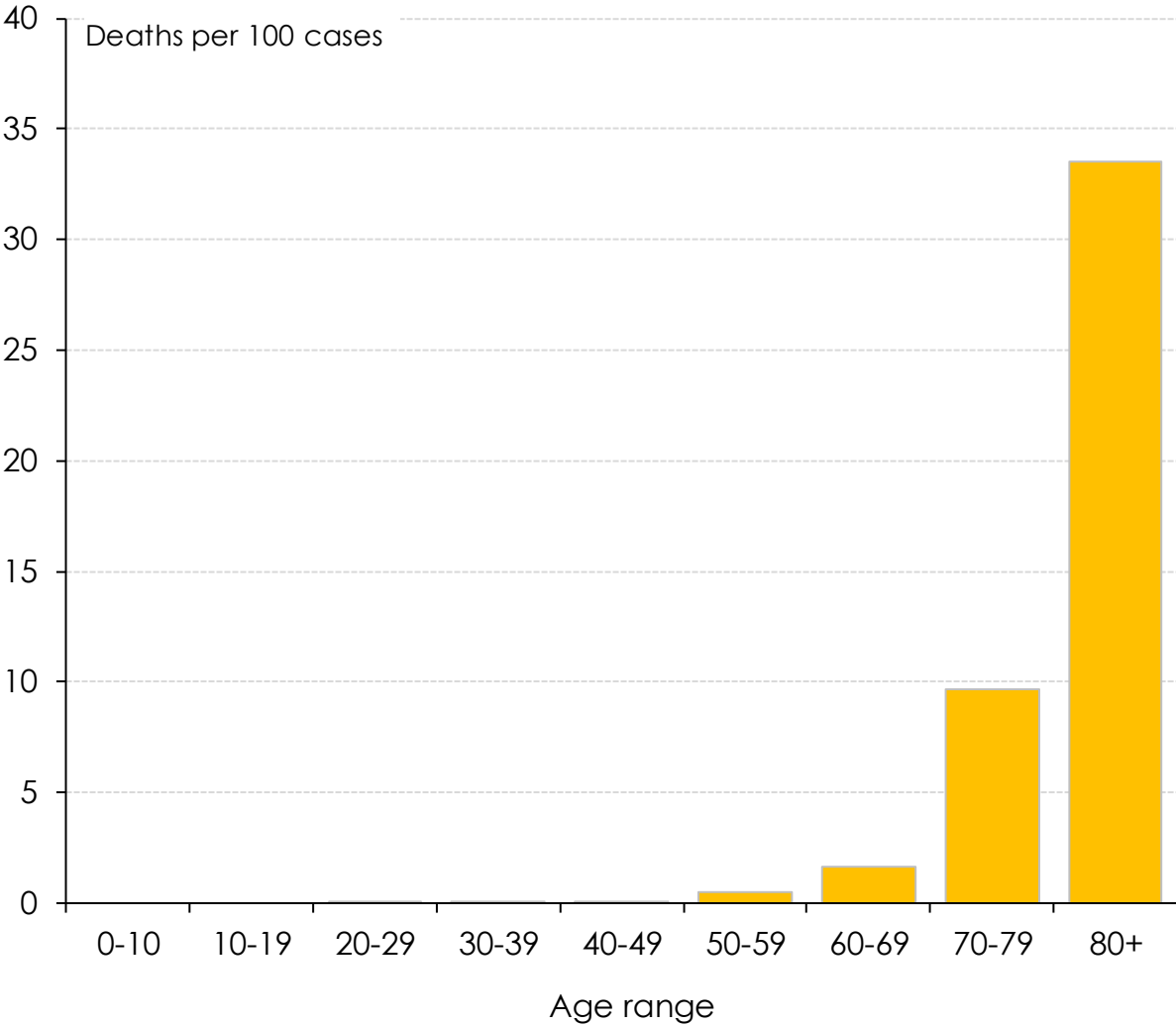
Note: Data up to 16<sup>th</sup> October. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# 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



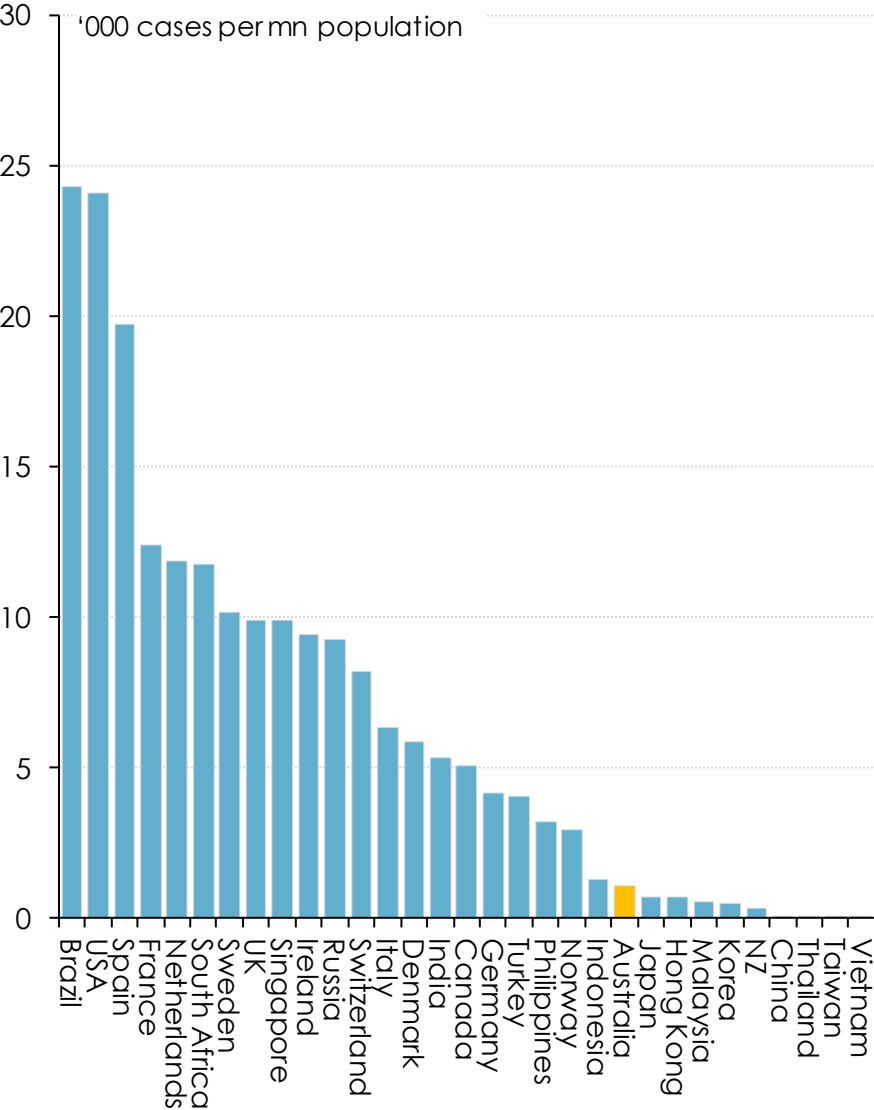
Deaths from Covid-19 per 100 cases, by age group



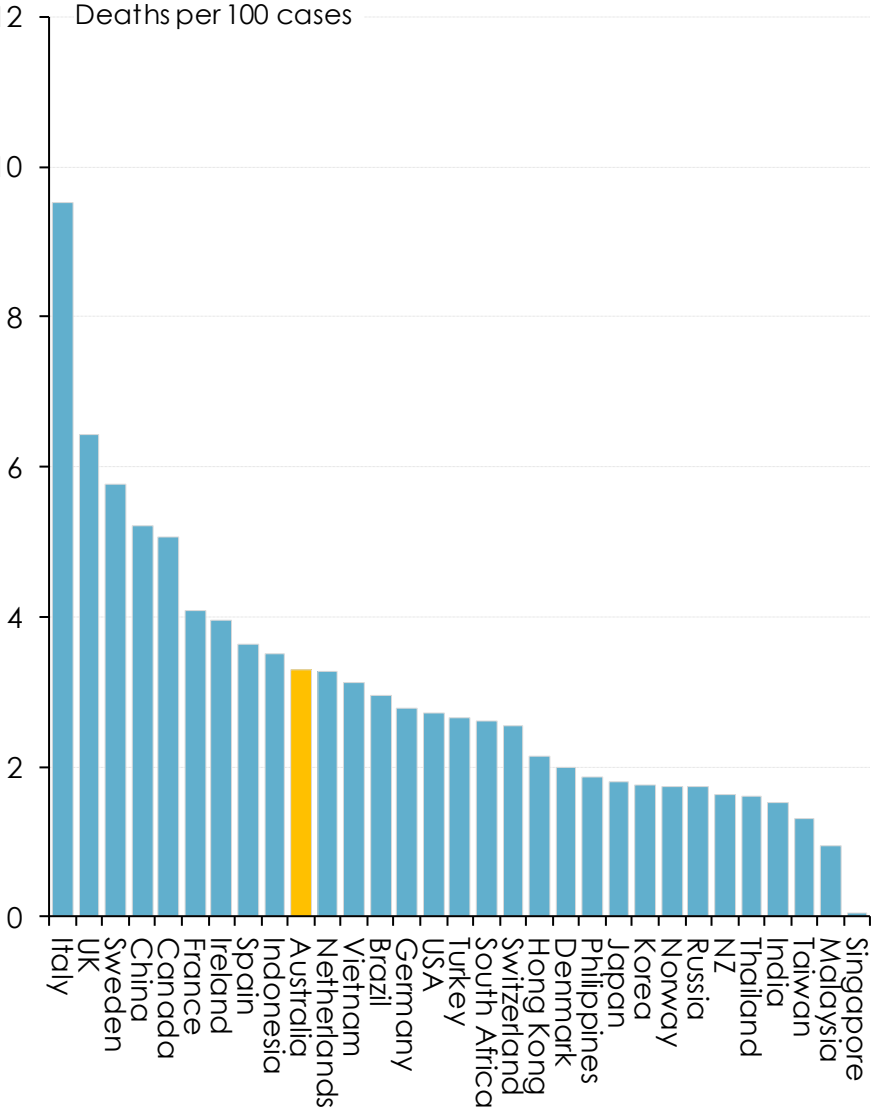
Note: Data up to 16<sup>th</sup> October. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna. [Return to "What's New"](#).

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

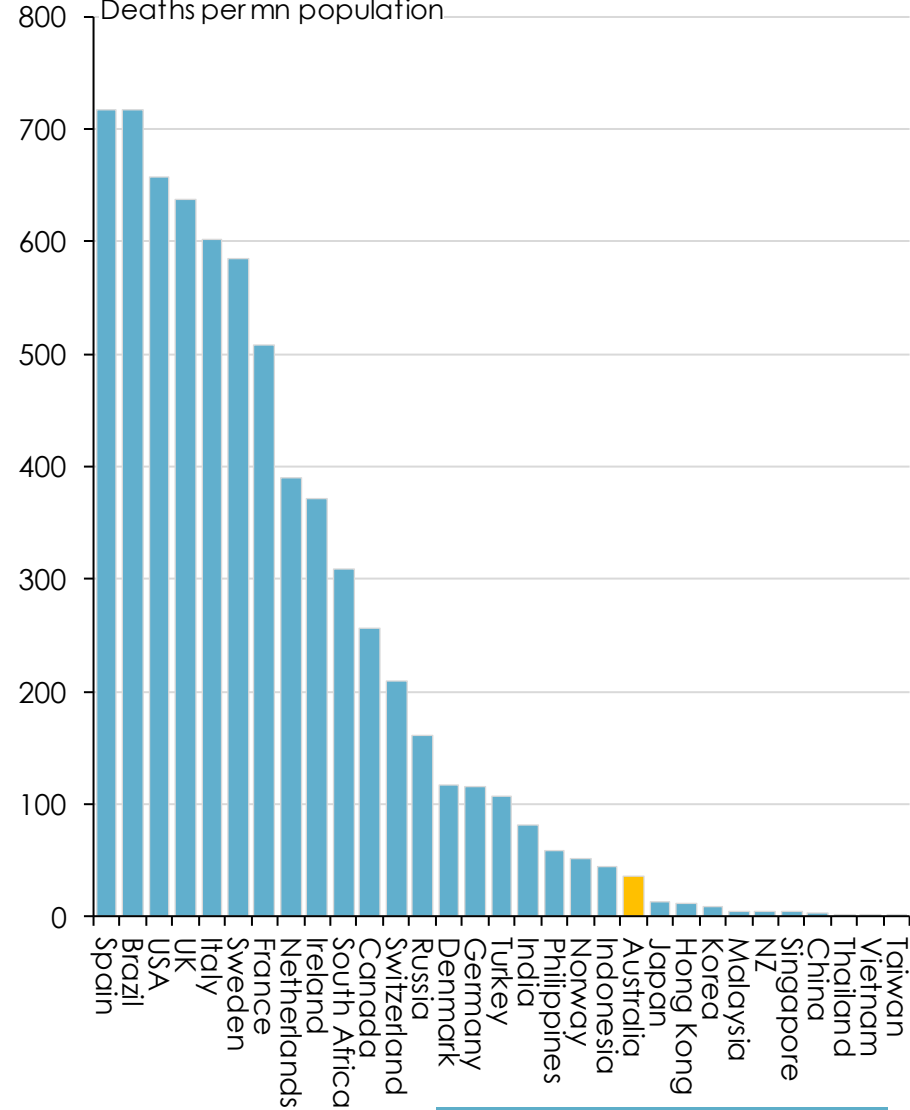
Apparent infection rate



Apparent fatality rate



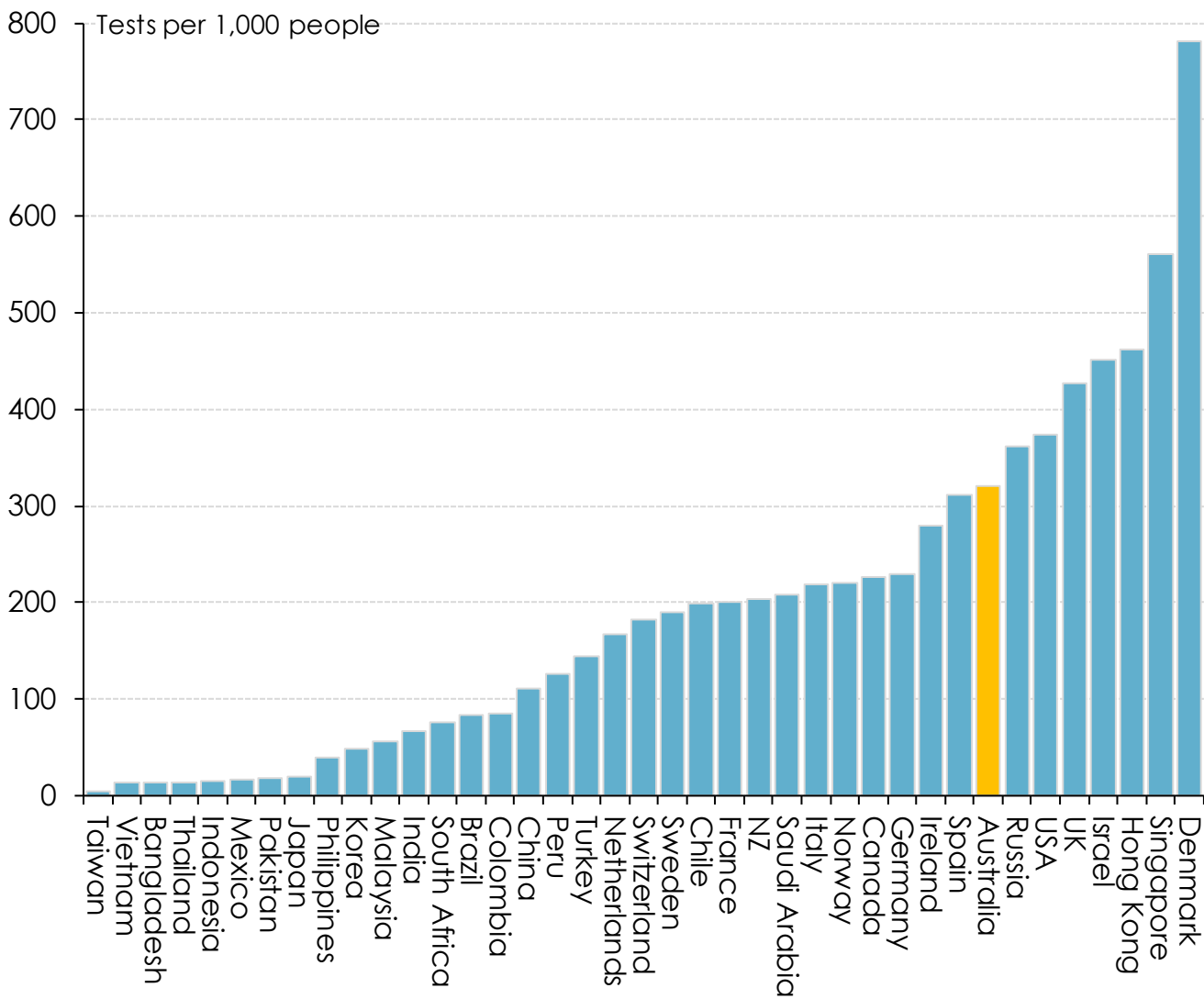
Death rate



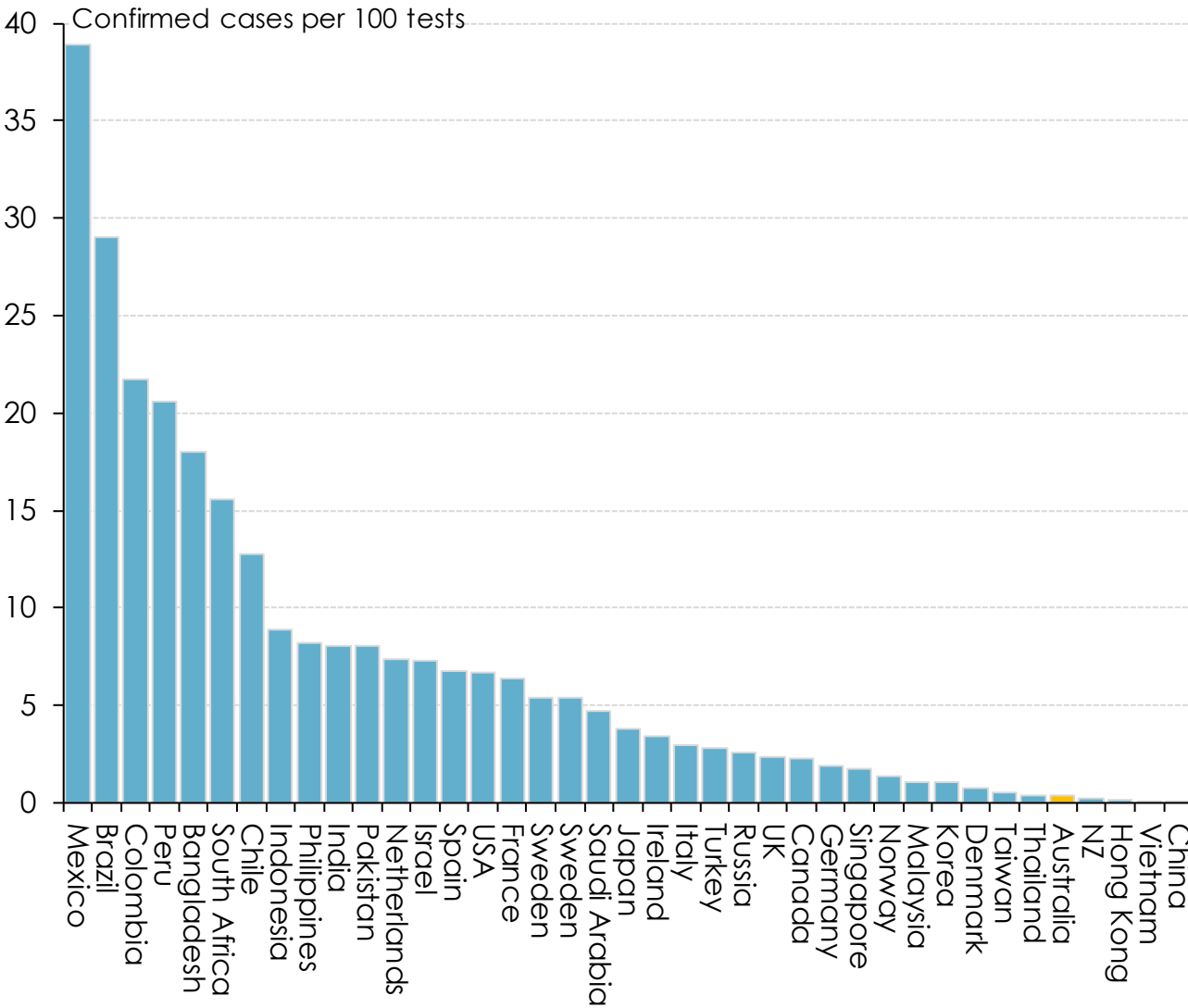
Note: Data up 16<sup>th</sup> October. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# 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



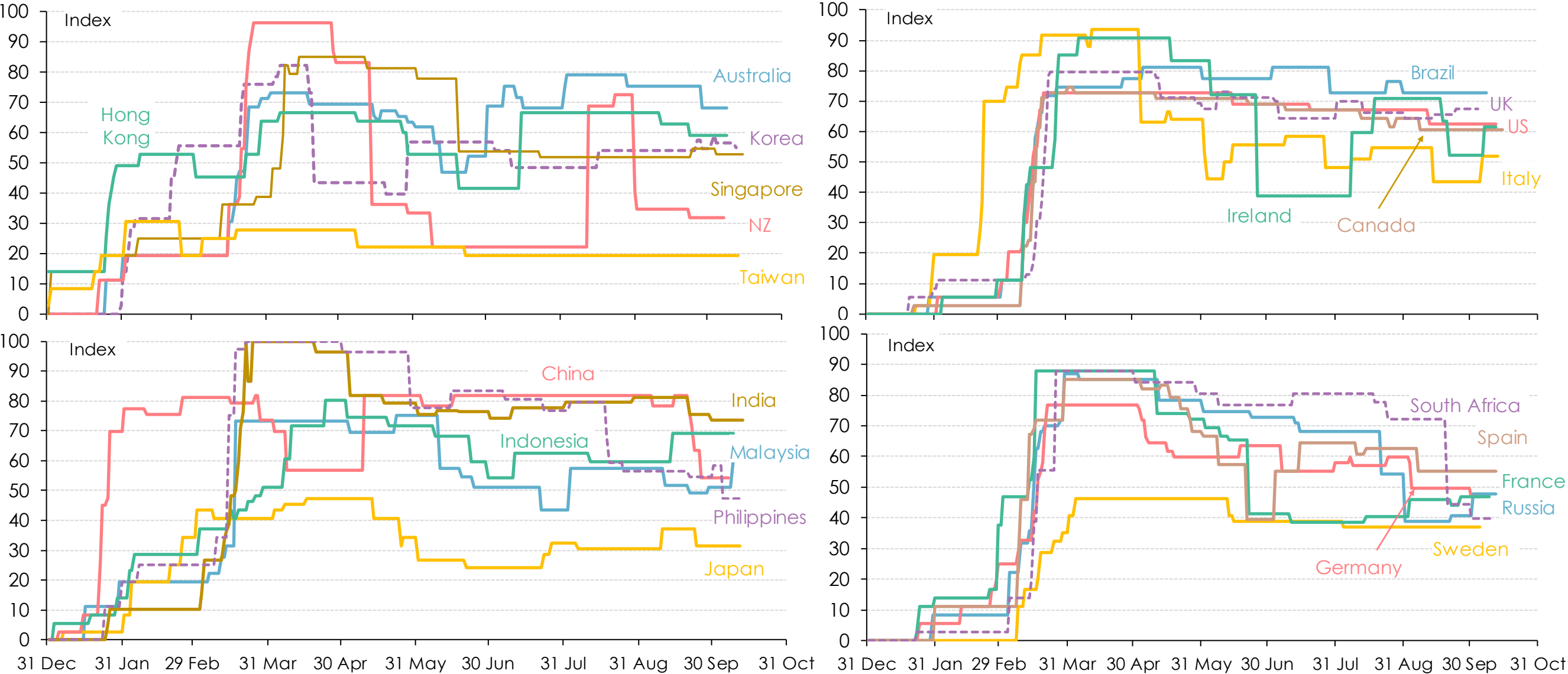
Confirmed cases per 100 tests



Note: Data up to 16<sup>th</sup> 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

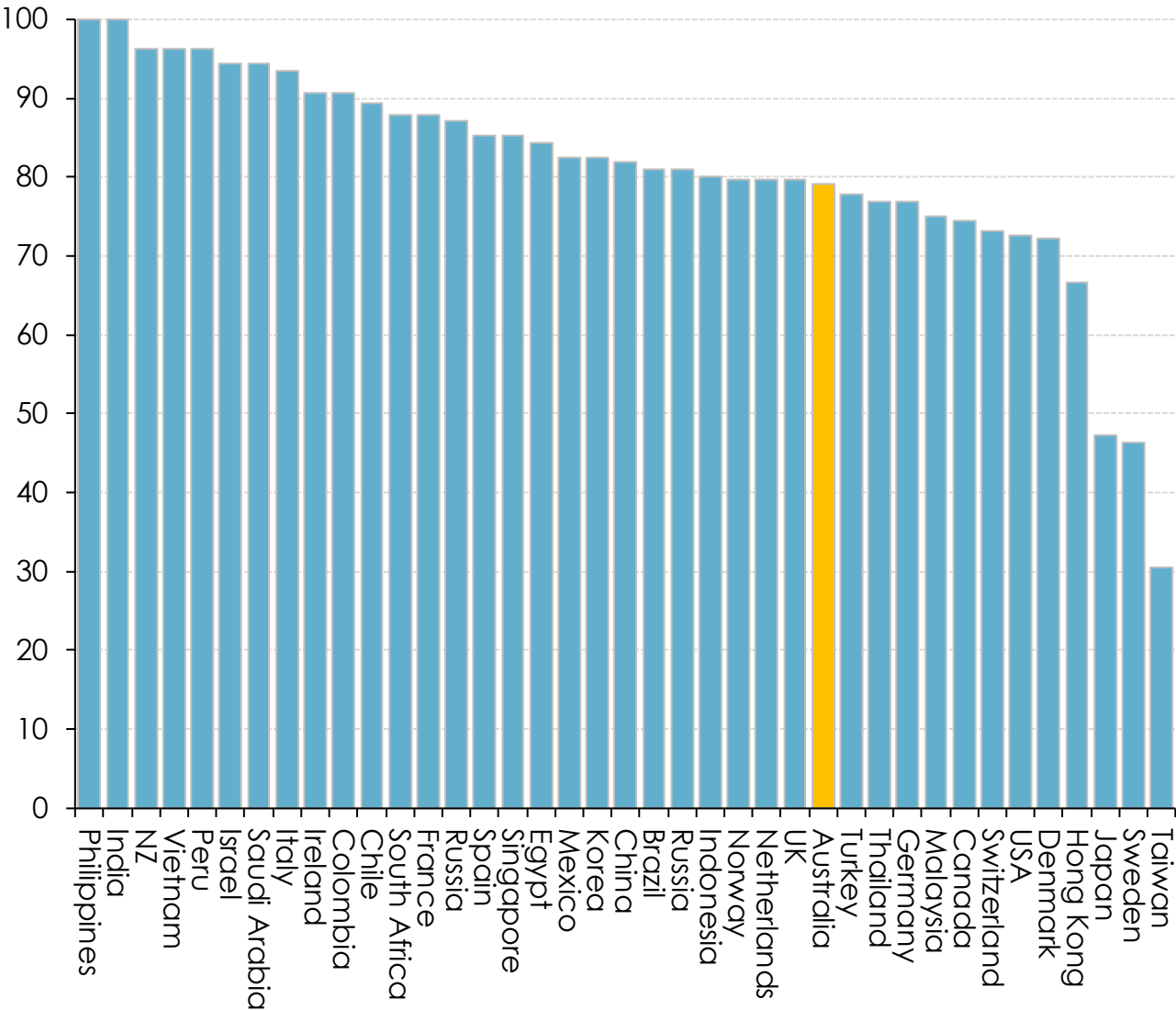
Timing and severity of government restrictions on movement and gathering of people



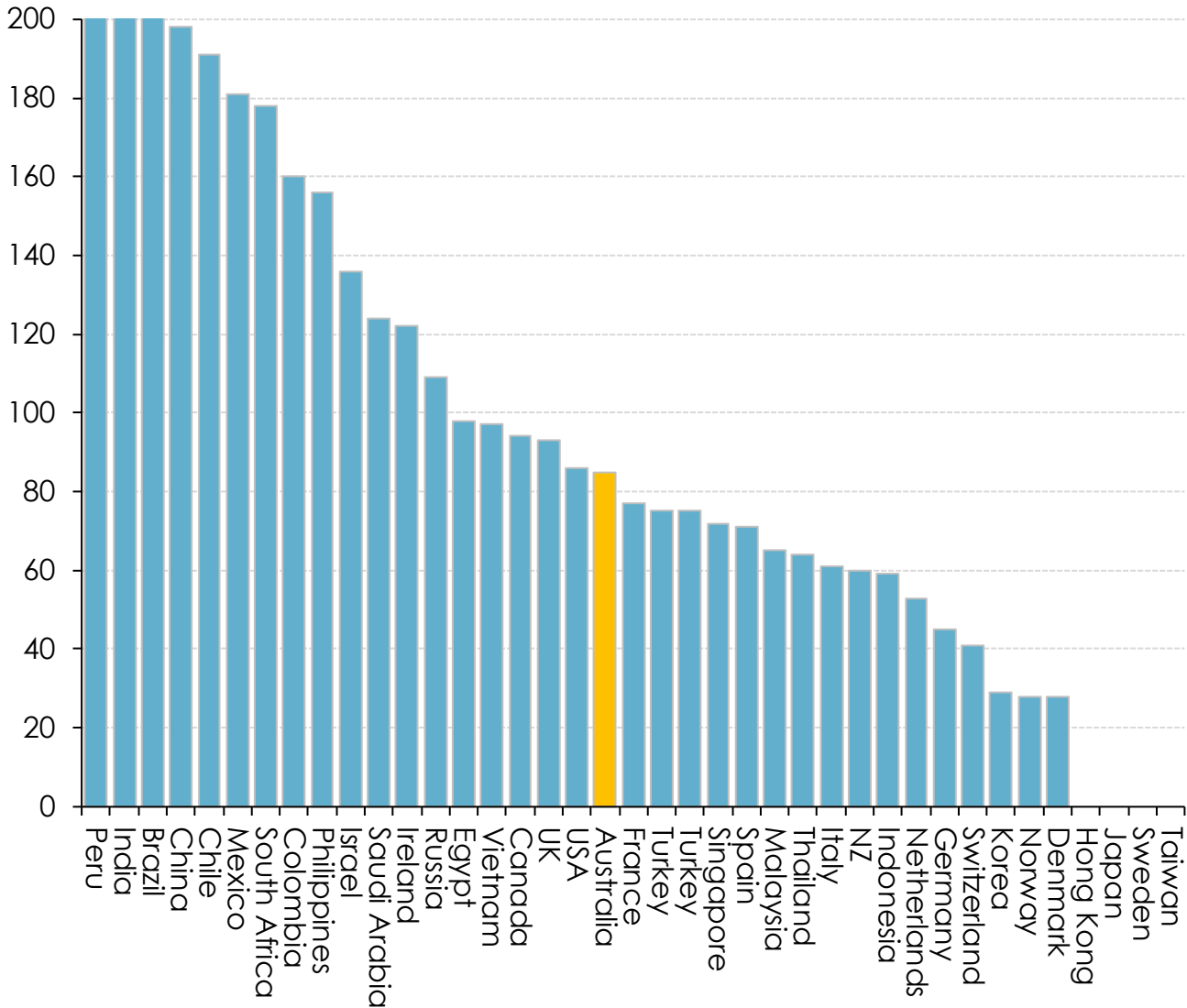
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 3<sup>rd</sup> – 15<sup>th</sup> 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



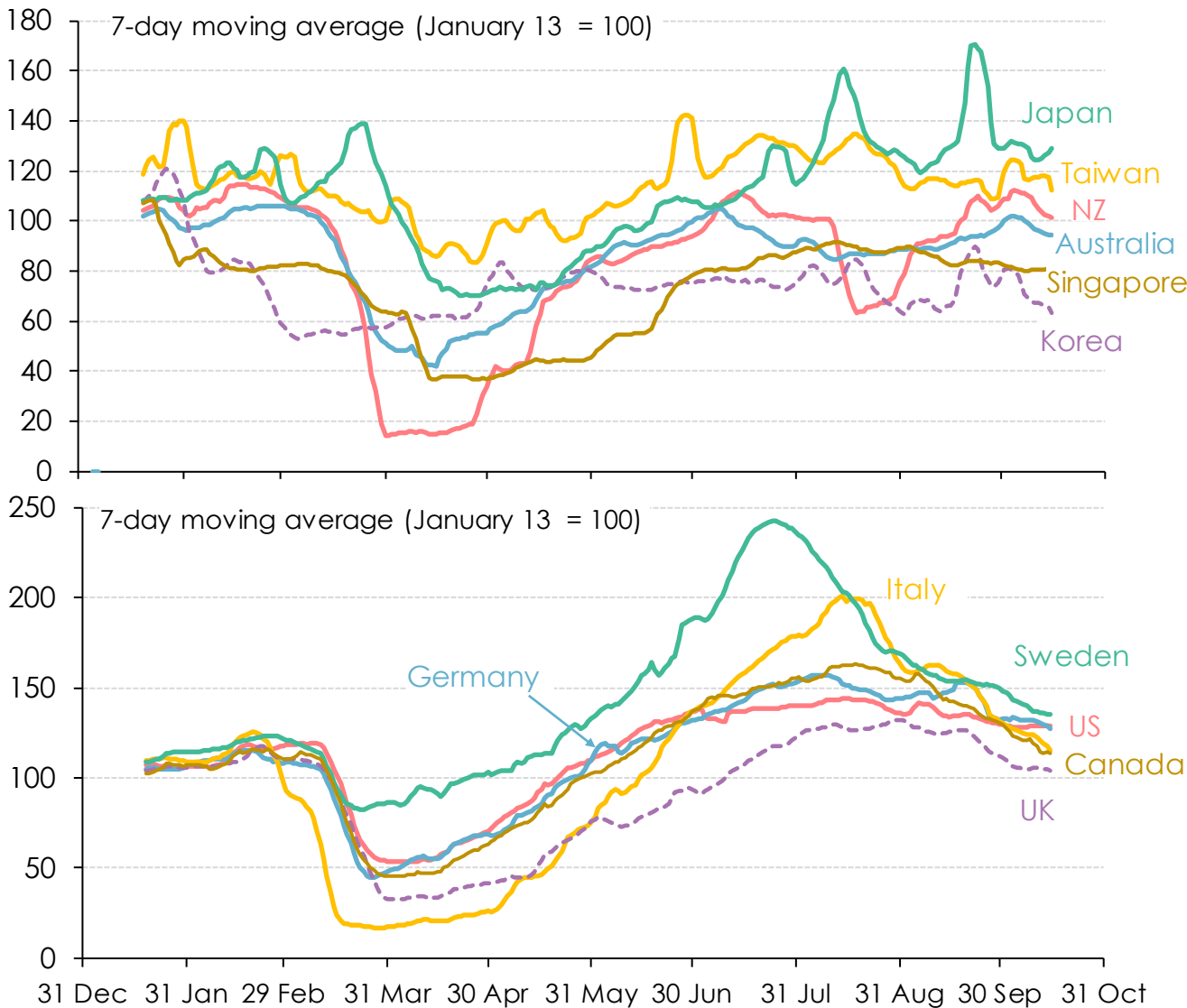
Number of days restrictions above 70 on Oxford index



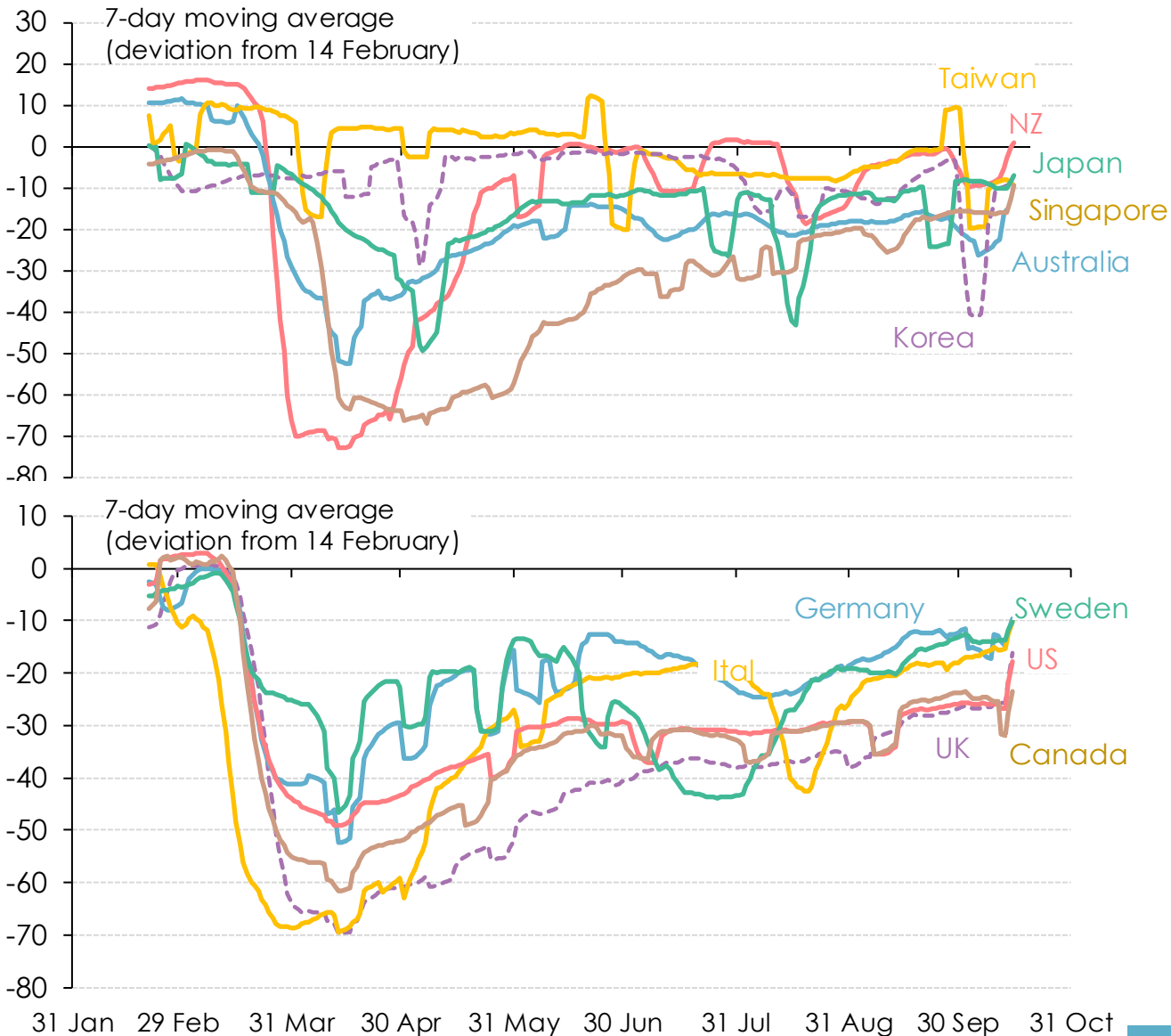
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# Mobility trends have slowed a bit in Asia over the past week, as they have done in Europe and the US over a longer period

Time spent driving



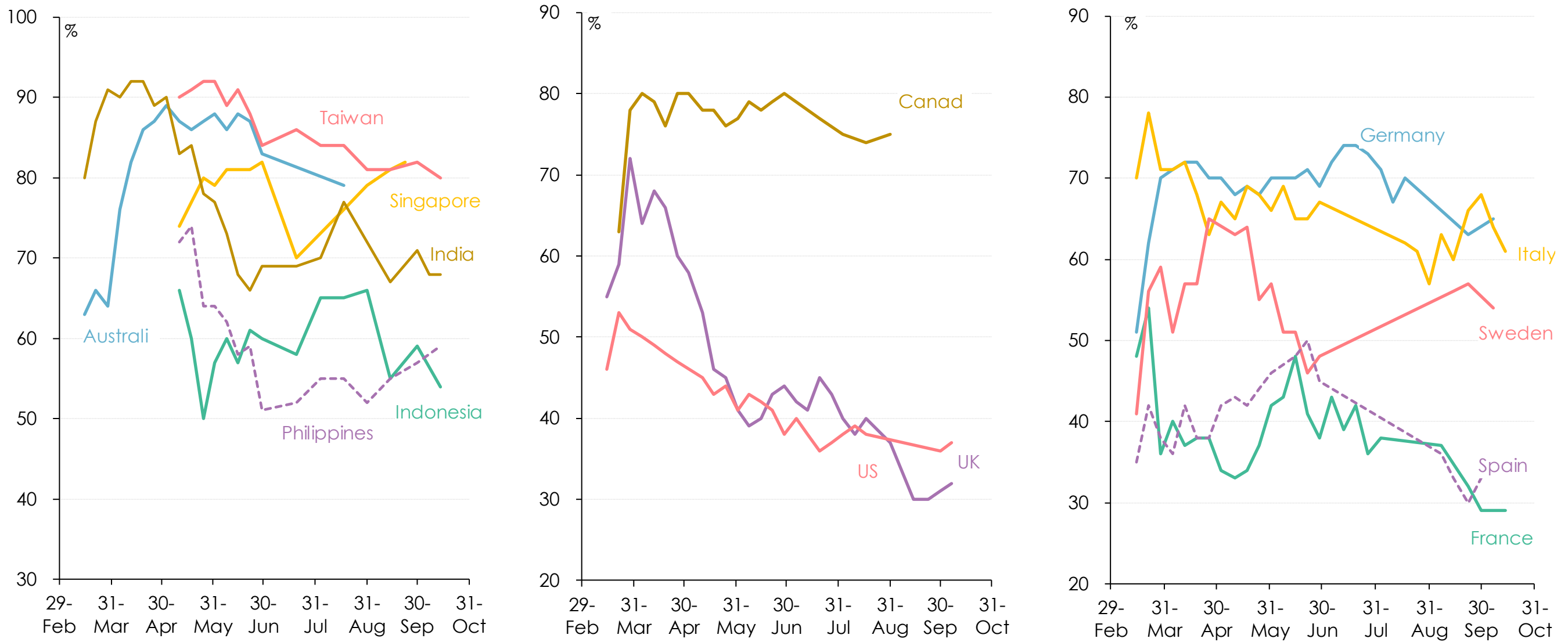
Time spent in workplaces



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 15<sup>th</sup> October); [Google Community Mobility Reports](#) (data up to 15<sup>th</sup> 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



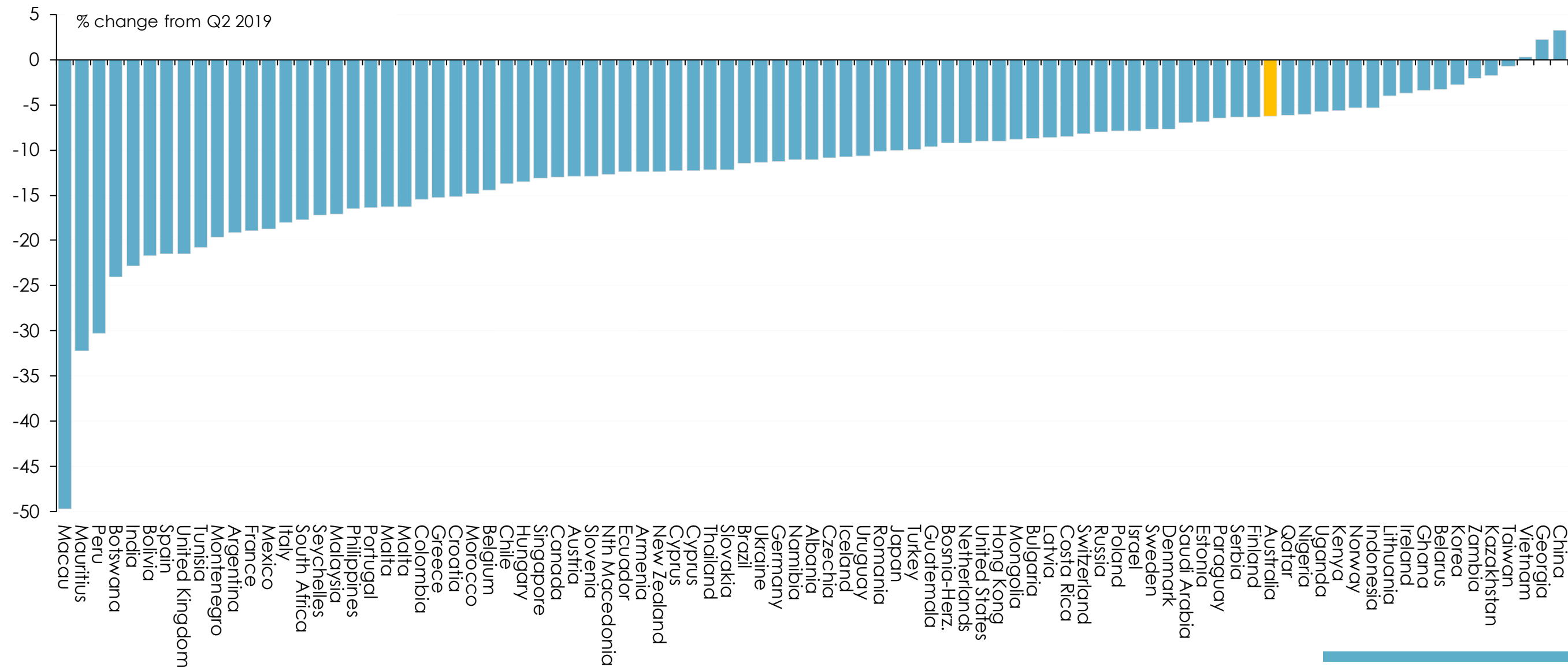
Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).



**The world**

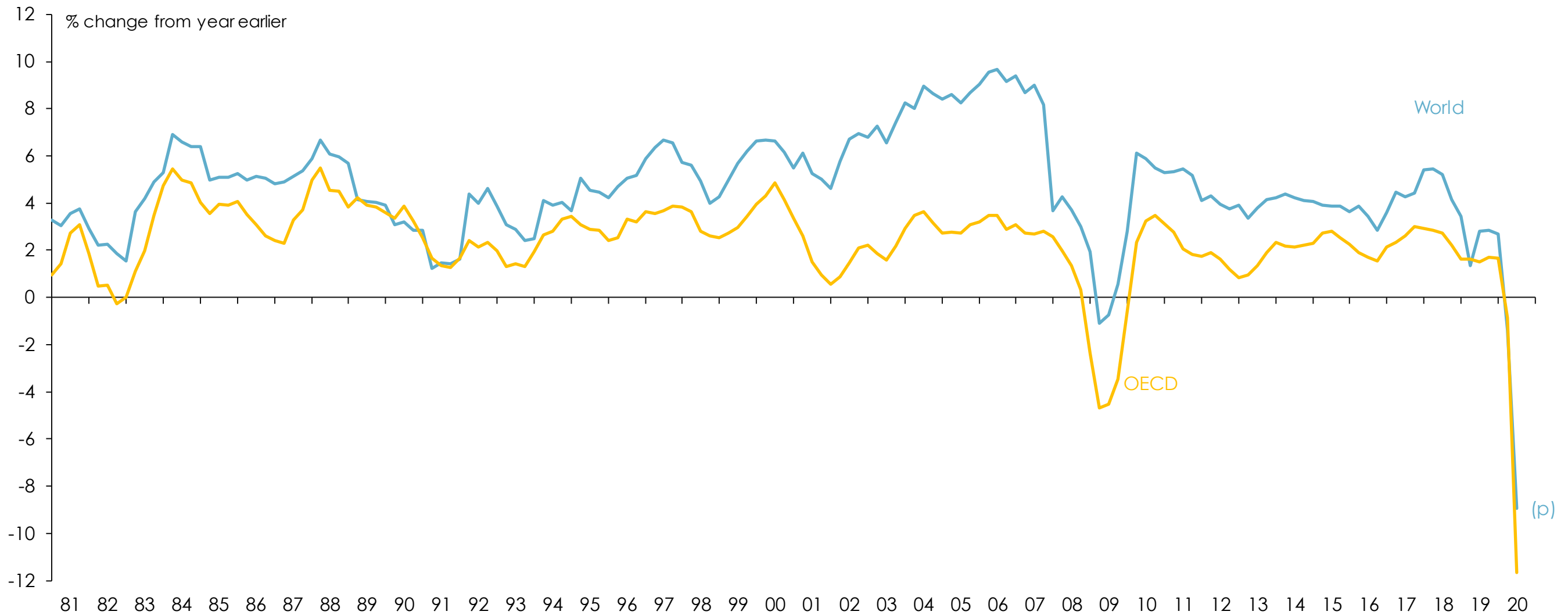
# Of the 89 economies which have reported Q2 GDP data so far, 8 have reported contractions of more than 20% and only 3 have reported growth

Real GDP growth over the year to Q2 2020



# The world economy experienced has contracted by about 9%, and the OECD area economy by 11<sup>3</sup>/<sub>4</sub>%, over the year to Q2

## World and OECD area real GDP growth



Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019. ; 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 89 countries shown in the [previous 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 IMF this week revised 2020 forecasts up (a bit) but 2021 down

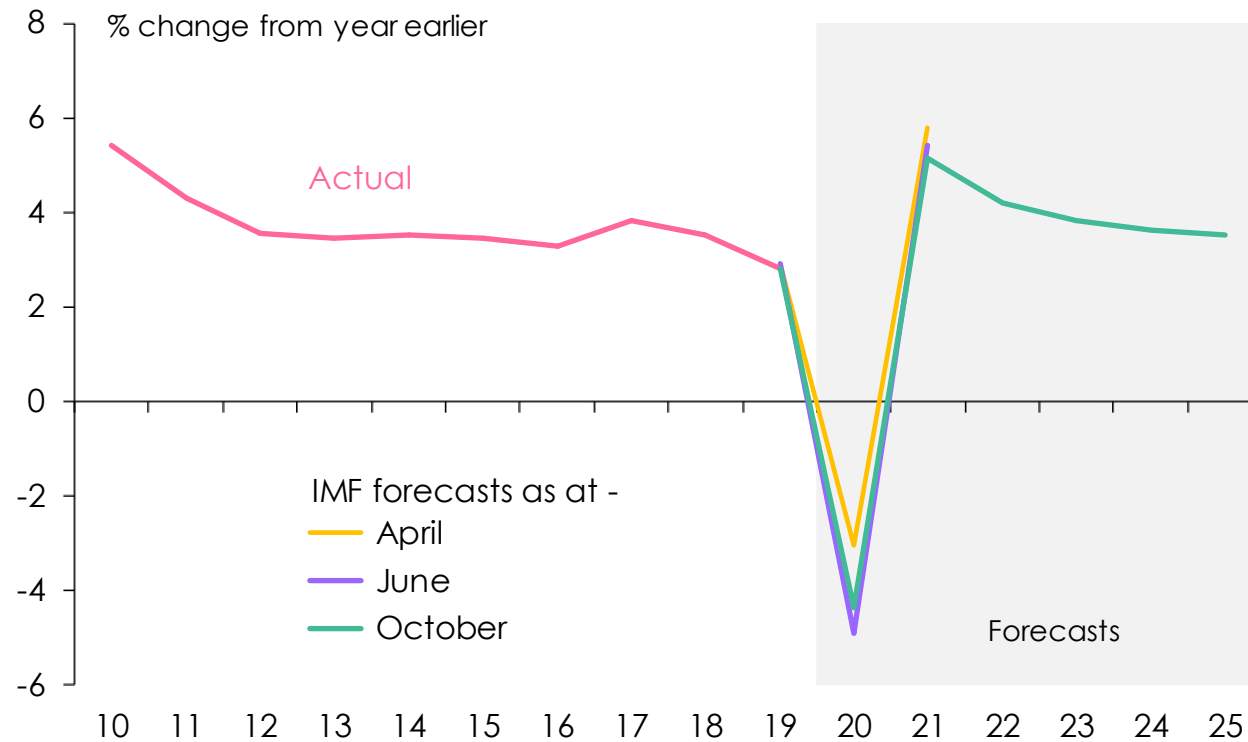
## Major global institutions' growth forecasts for 2020 and 2021 compared

	<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	2.2	-4.3	3.1	-6.1	4.0	-3.8	4.1	-5.5	2.5
China	6.1	1.9	8.2	1.0	6.9	1.8	8.0	1.8	8.0
Euro area	1.3	-8.3	5.2	-9.1	4.5	-7.9	6.5	-9.0	3.5
India	4.2	-10.3	8.8	-3.2	3.1	-3.7	5.1	-9.0	9.0
Japan	0.7	-5.3	2.3	-6.1	2.5	-5.8	1.5	-5.8	2.5
UK	1.5	-9.8	5.9	na	na	-10.1	10.7	na	na
Australia	1.8	-4.2	3.0	na	na	-4.1	2.5	-3.8	2.5
New Zealand	2.2	-6.1	4.4	na	na	-8.9	6.6	na	na
World	2.8	-4.4	5.2	-5.2	4.2	-4.5	5.0	-4.5	5.0
World trade	1.0	-10.4	8.3	-13.4	5.3	-9.5	6.0	na	na

Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 13<sup>th</sup> October 2020; The World Bank, [Global Economic Prospects](#), 8<sup>th</sup> June 2020; Organization for Economic Co-operation & Development (OECD), [Economic Outlook-Interim Report](#) 16<sup>th</sup> September 2020; Australian Treasury, [2020-21 Budget Paper No. 1, Statement No. 2](#) 6<sup>th</sup> October 2020.  
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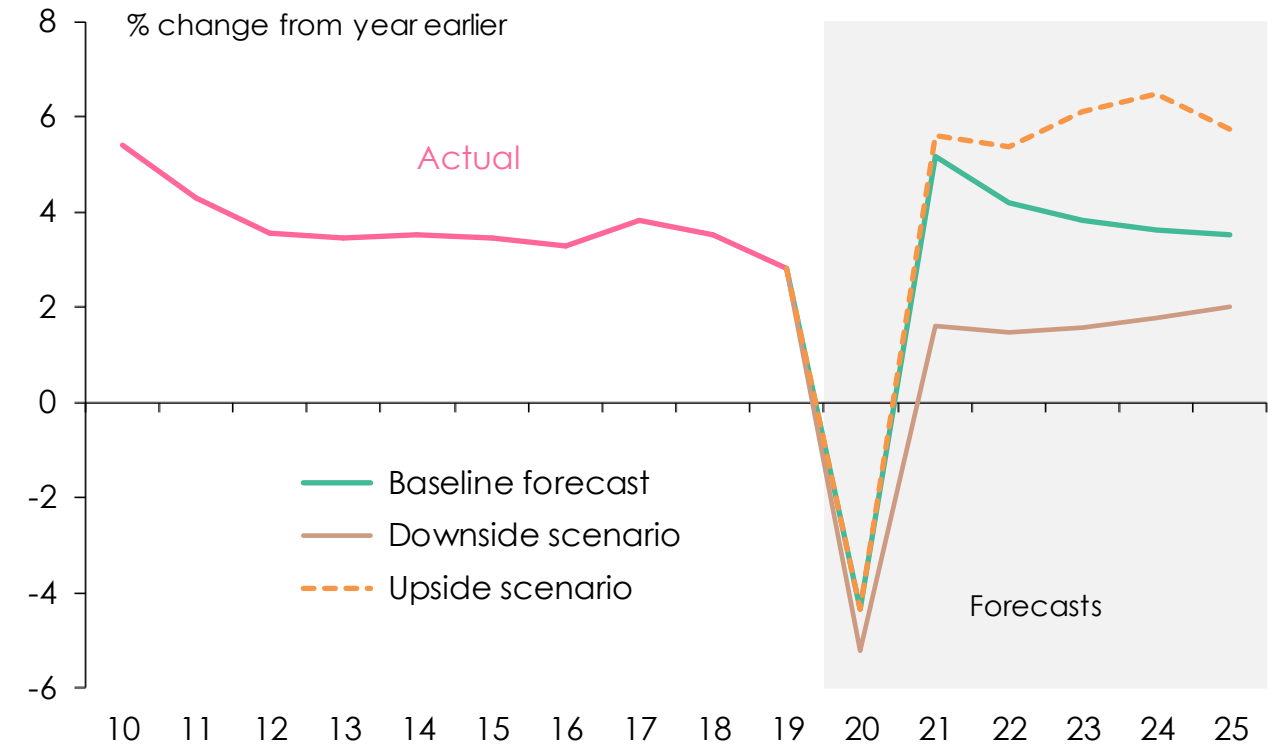
# This week's new IMF forecasts envisage a 'long, uneven and uncertain ascent' from the 2020 recession, with 'lasting damage to supply potential'

## Successive IMF World Economic Outlook forecasts



In its latest WEO the IMF raised its forecast for global growth in 2020 by 0.8 pc pts to -4.4% (having lowered it by 1.9 pc pts in June) but cut its 2021 forecast by 0.2 pc pts to 5.2% (after lowering it 0.4 pc pts in June); it also explicitly forecasts a slowing in global growth over the medium term to 3½% pa reflecting 'scarring' effects of the 2020 recession

## Alternative scenarios in the IMF forecast



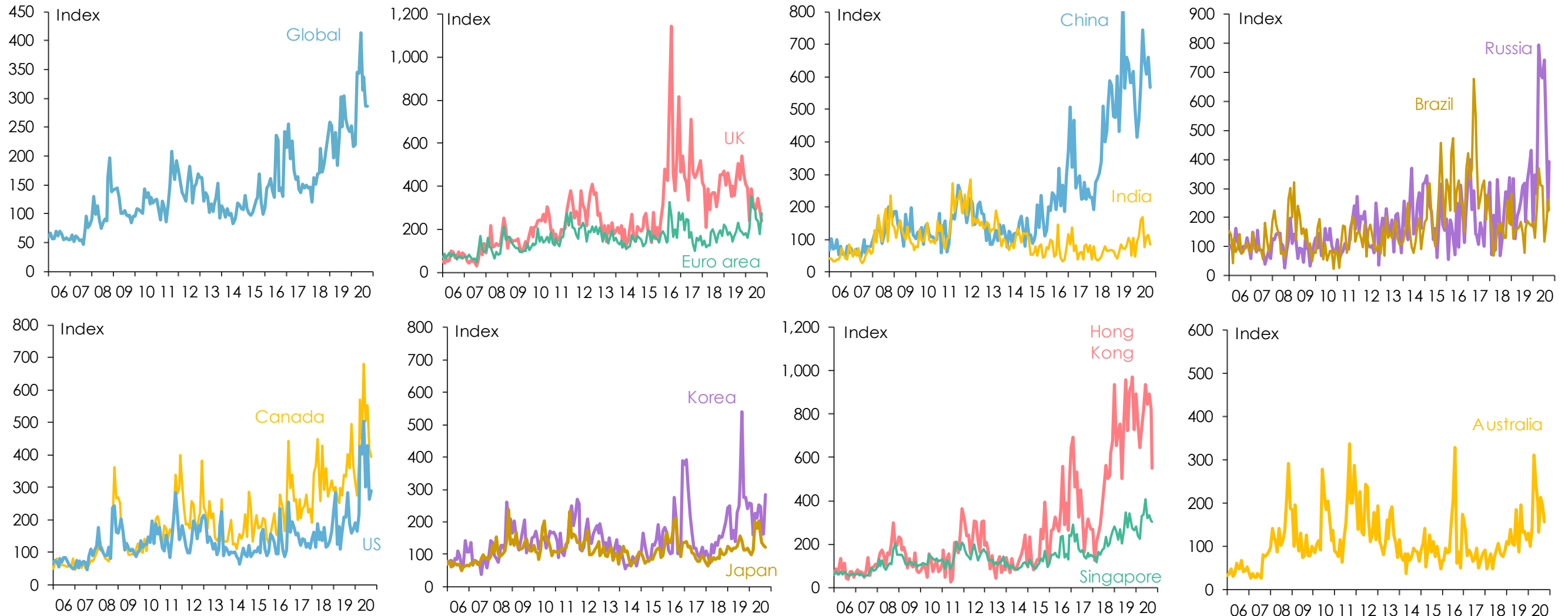
The IMF presents a 'downside' scenario in which "progress on all fronts against the virus is slower than assumed" in 2021, with adverse effects on domestic demand & trade, tighter financial conditions and greater damage to 'supply capacity'; and an 'upside' scenario with earlier access to a vaccine and less damage to 'supply capacity'

# The IMF's is unusually forthright about both the consequences of the pandemic, and what governments should do

- ❑ The [World Economic Outlook](#) says that “the pandemic will reverse the progress made since the 1990s in reducing global poverty and will increase inequality”, noting that “close to 90 mn people could fall below the US\$1.90 a day income threshold of extreme deprivation this year”
  - the pandemic is having “particularly adverse effects on economically more vulnerable people, including younger workers and women”, with “low-wage workers at an appreciably higher risk of losing their jobs than people in the upper quintiles of the wage distribution”
  - extensive school closures are likely to have “long lasting consequences on individuals’ lifetime earning potential and economy-wide productivity growth”, with the possibility of “a persistent increase in dropouts and large numbers of people in neither education, employment nor training”
- ❑ Policy responses need to “avoid locking people and inputs into sectors unlikely to return to pre-pandemic vitality” and to “reduce barriers to entry that may hamper the redeployment of resources to growing sectors”
  - which we would interpret (in the Australian context) as supporting the idea of abandoning tax and other preferences for small businesses *simply because they are small* and, instead, supporting and preferencing *new* businesses
- ❑ The [Fiscal Monitor](#) counsels an emphasis on public investment rather than tax cuts
  - “public investment has larger short-term multipliers than public consumption, taxes or transfers” – although “high efficiency and good institutional quality are required to reap ... large benefits from public investment”
  - “maintenance of existing infrastructure ... can be deployed quickly and has major economic benefits”
  - “a generalized cut in taxes ... would have limited impact on promoting economic growth and jobs and could put public finances under stress”
- ❑ Governments may need to consider “revenue-enhancing measures”
  - which could include “raising progressive taxes on more affluent individuals and those relatively less affected by the crisis (including increasing taxes on higher income brackets, high-end property, capital gains and wealth) as well as changes to corporate taxation that ensure firms pay taxes commensurate with their profitability”

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

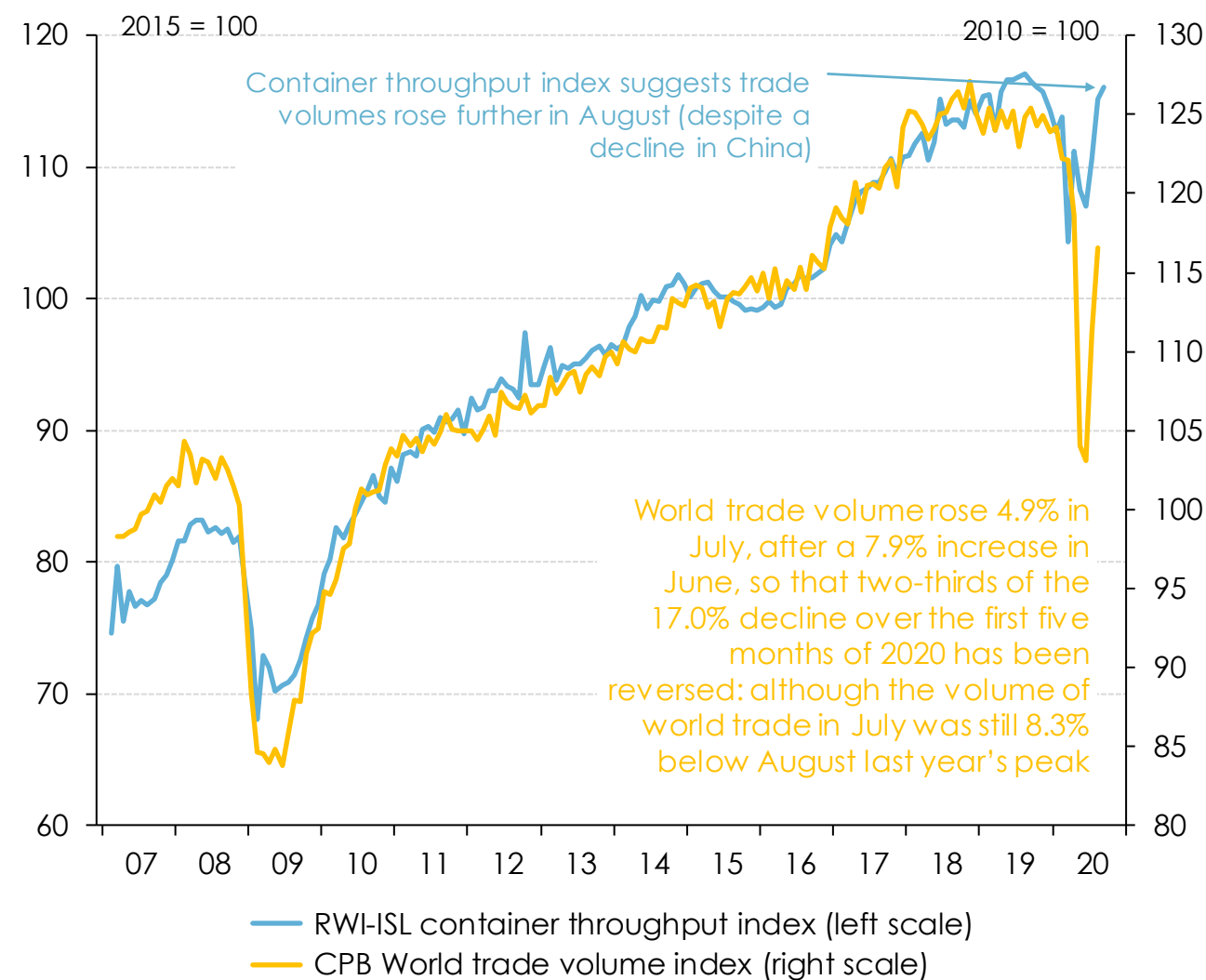
## Economic policy uncertainty indices



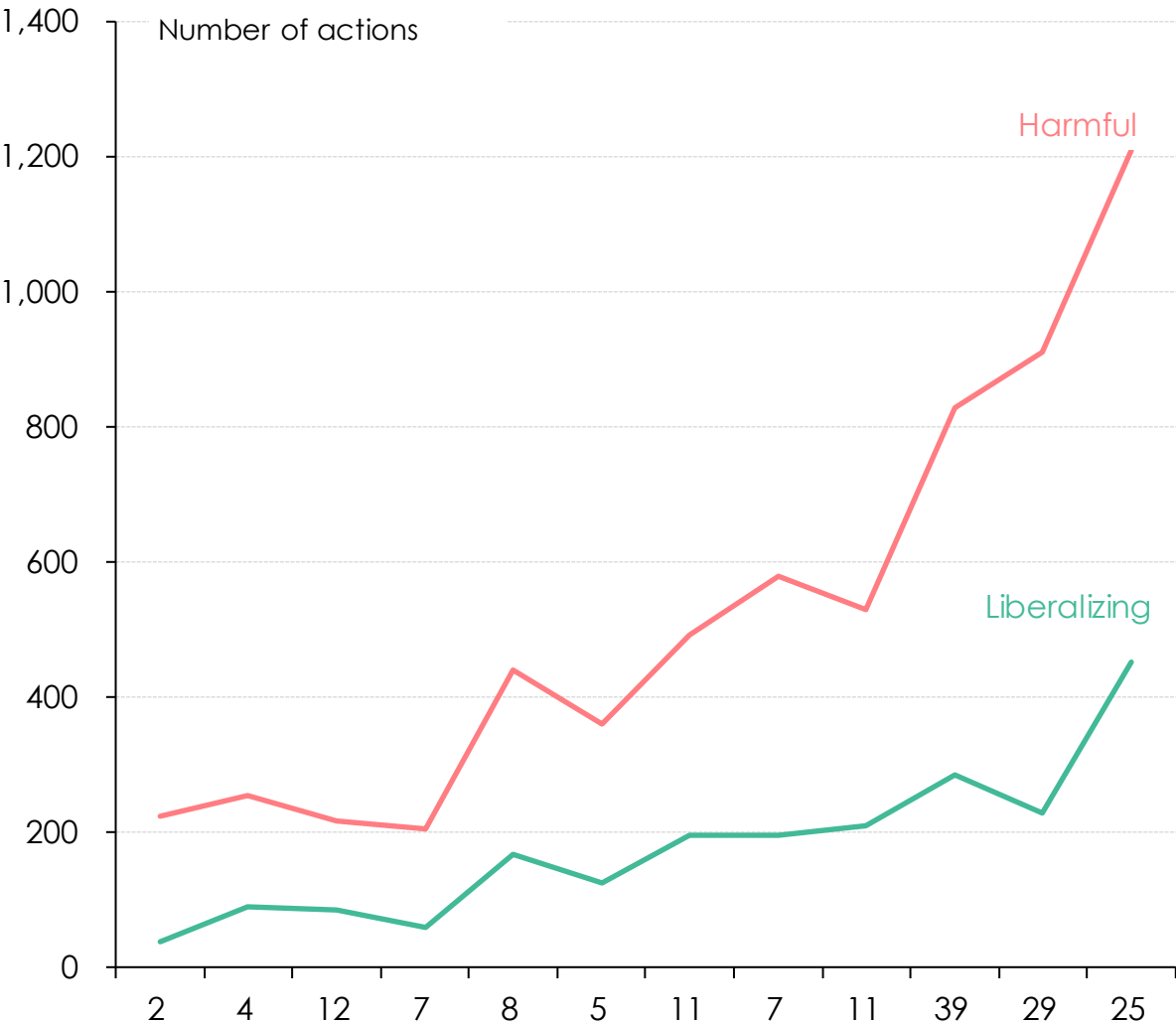
Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words “uncertain” or “uncertainty”, “economy” or “economic”, and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The 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

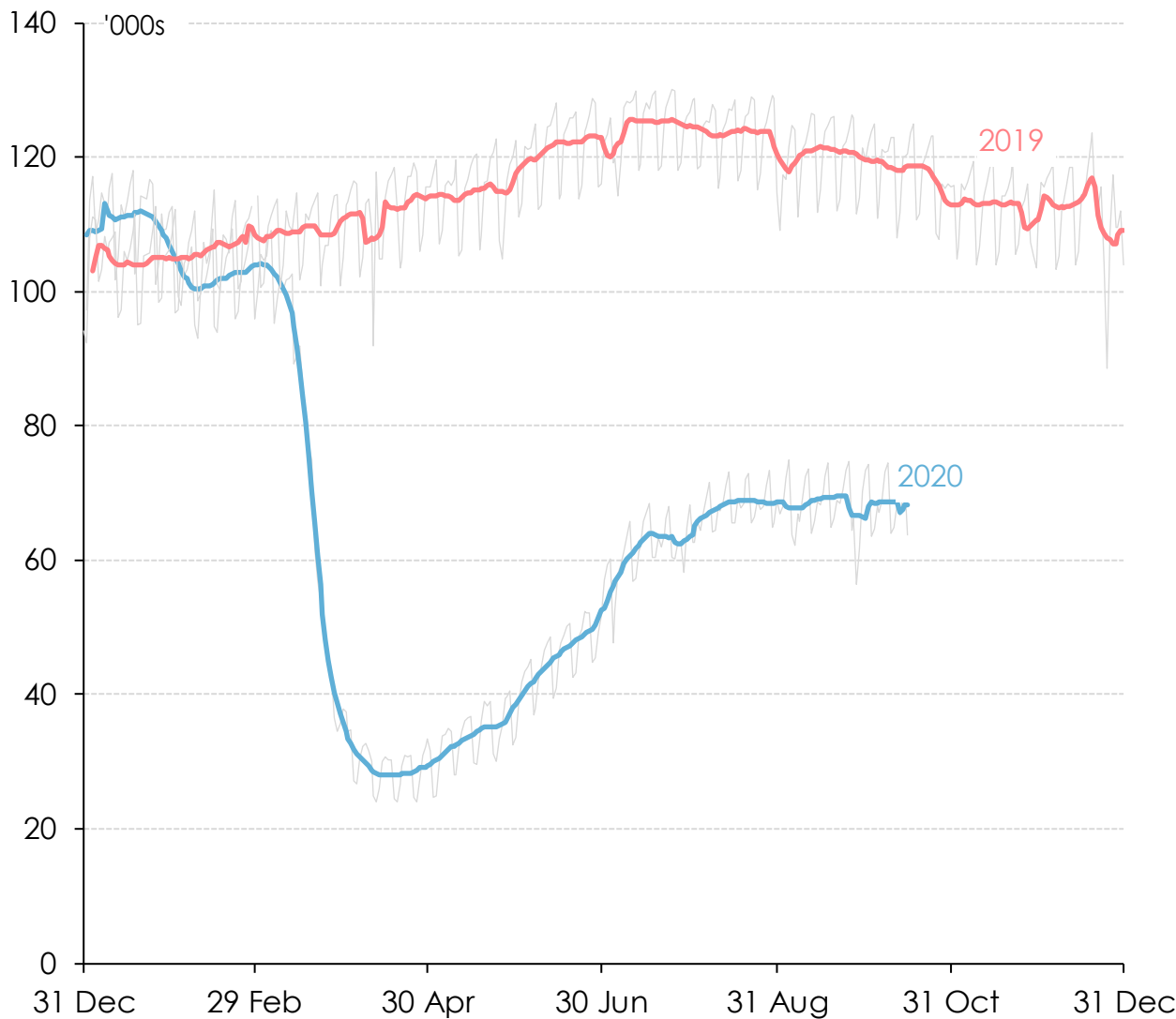


Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.  
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (August data to be released on 23rd October); Institute of Shipping Economics & 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"](#).

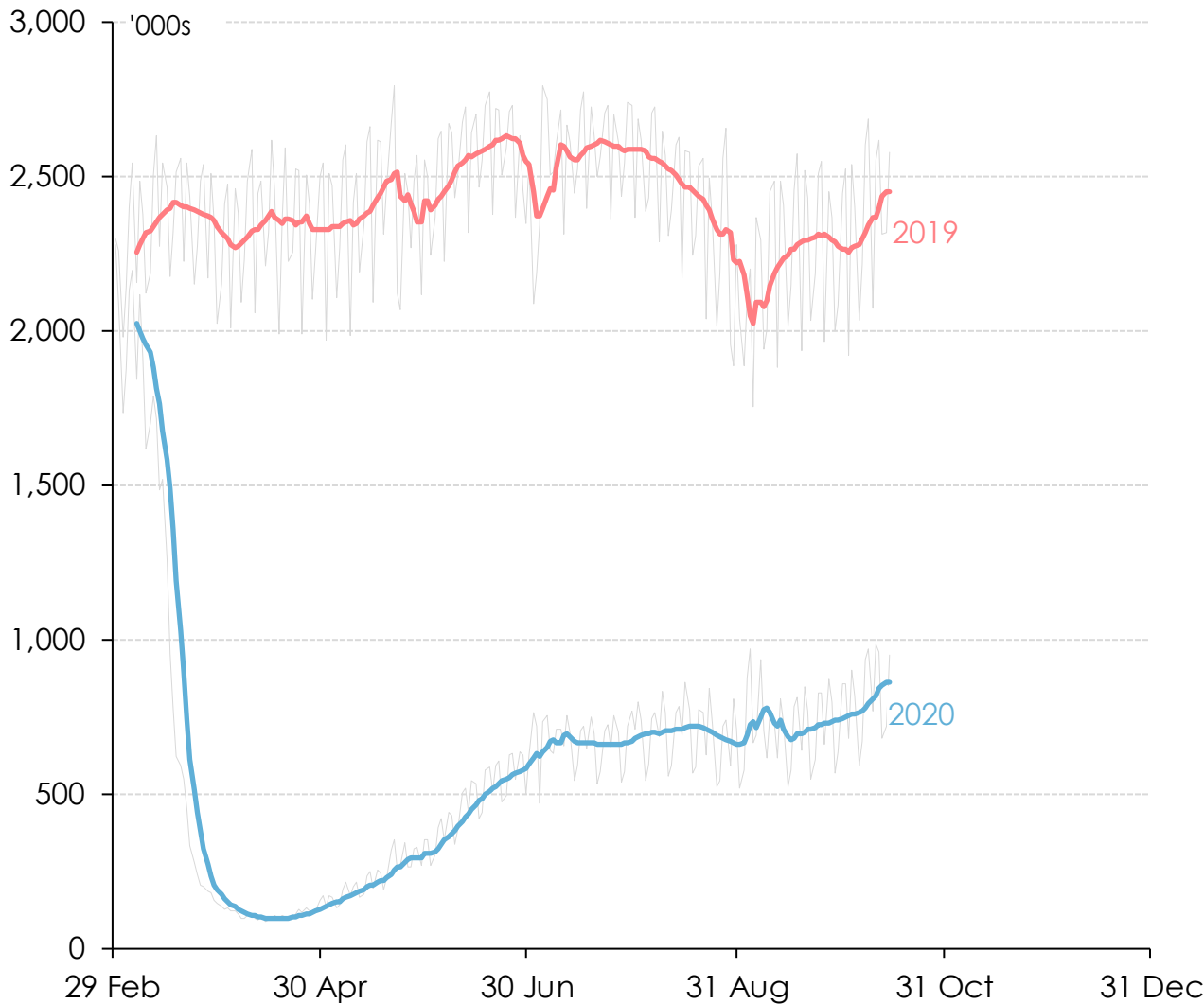


# Global aviation traffic has been steady this week at 57% of year-earlier levels since early September

Daily commercial flights worldwide

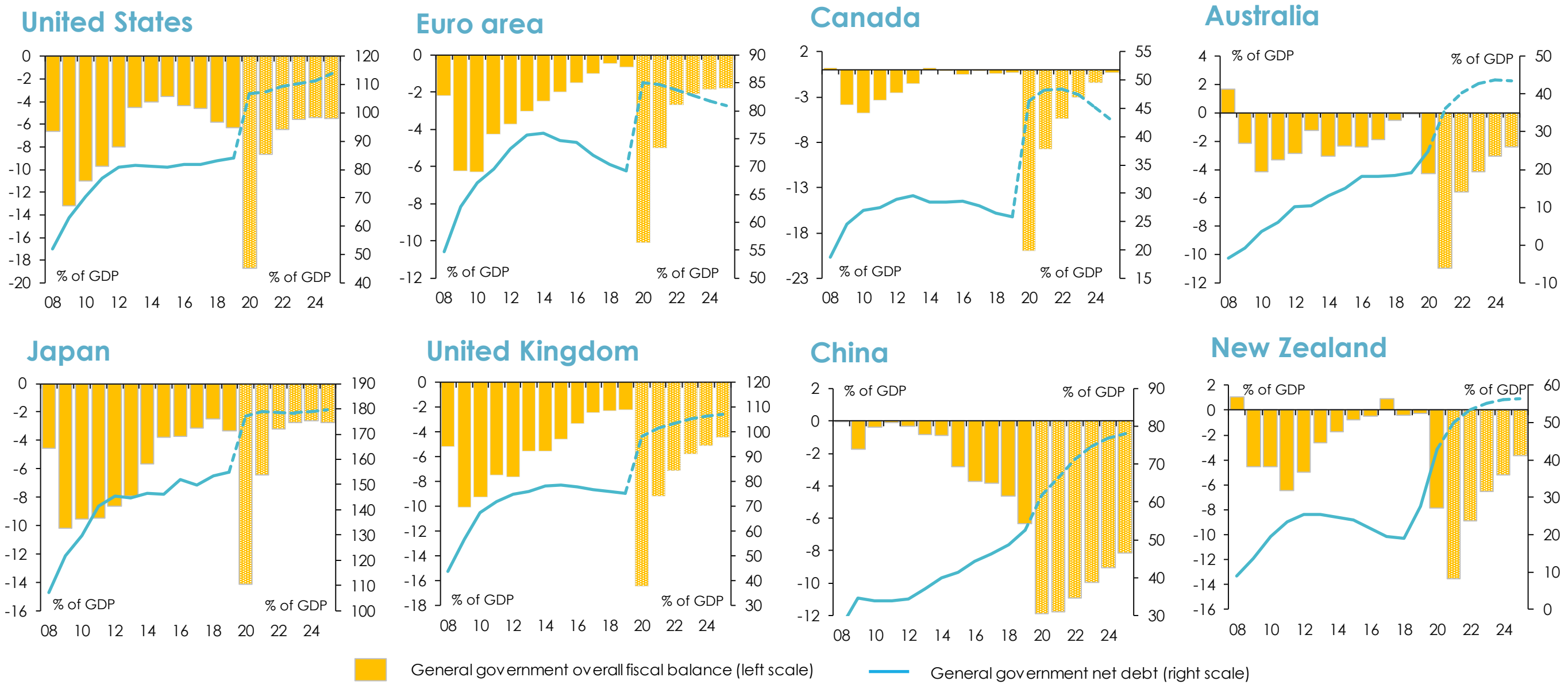


Daily US TSA security checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 16<sup>th</sup> October for commercial flight numbers and 15<sup>th</sup> 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.transportation.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

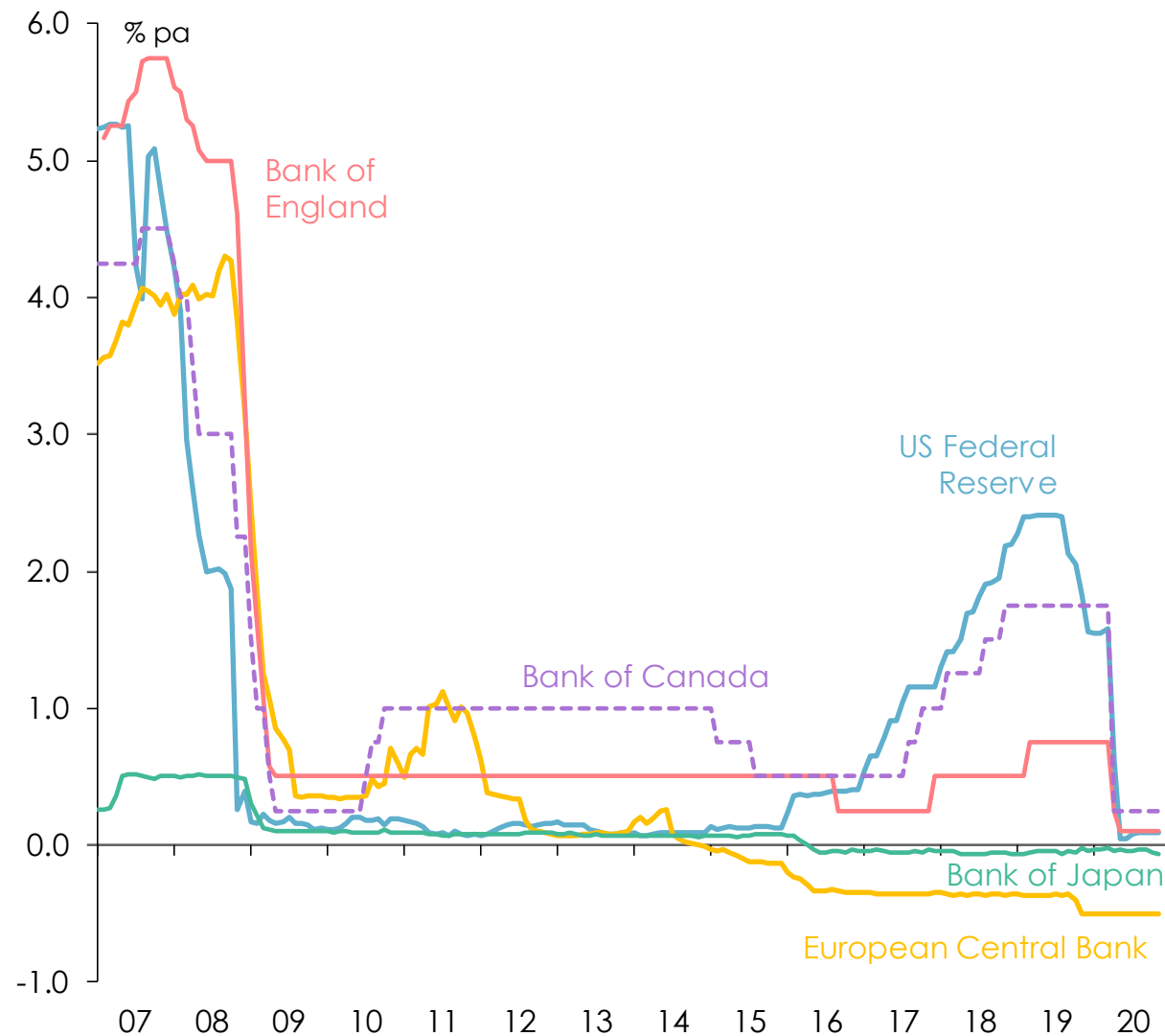
# The IMF estimates that fiscal measures taken by governments around the world have amounted to US\$11.7 trn, or 12% of global GDP



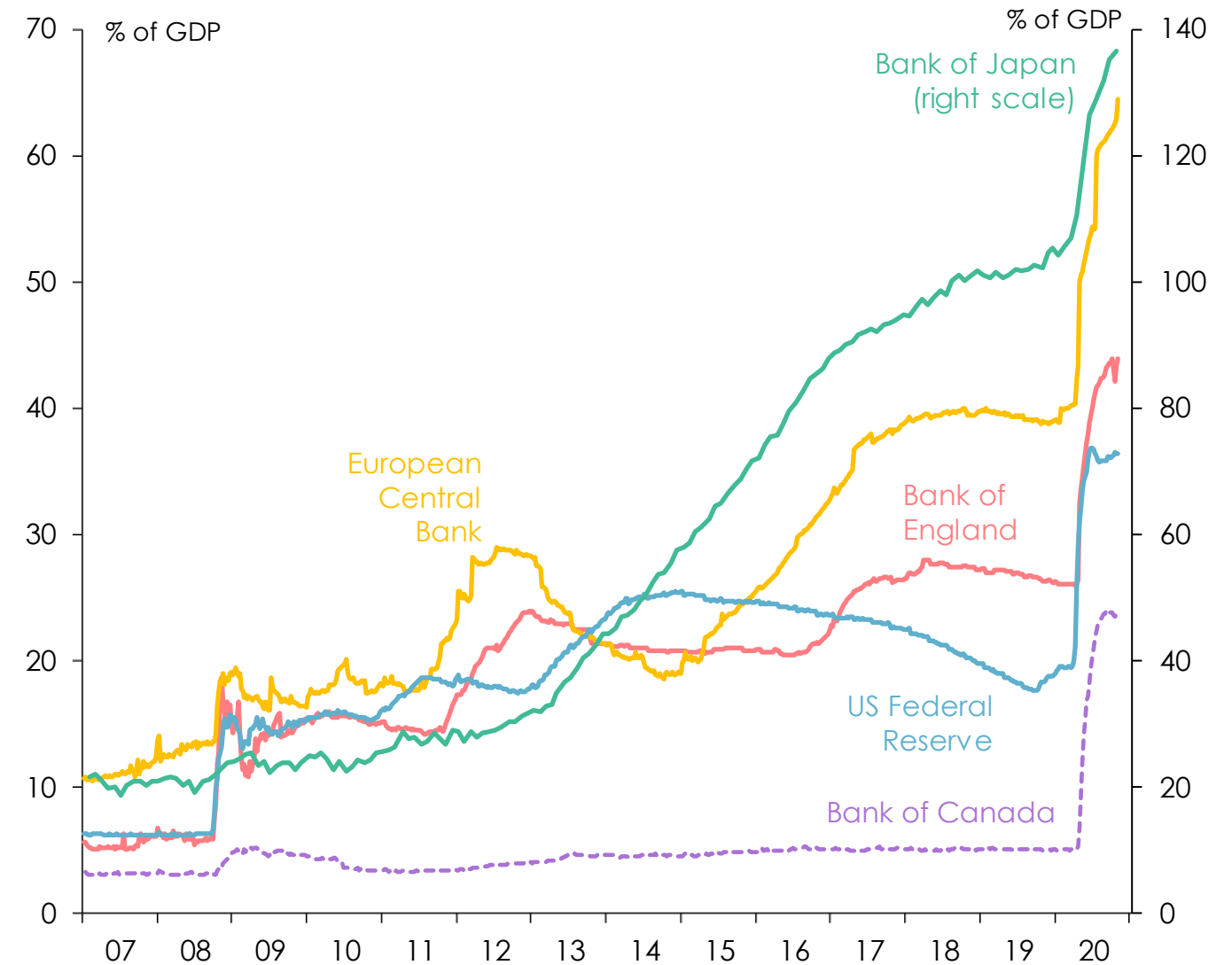
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30<sup>th</sup> June; NZ data are for fiscal years ended 31<sup>st</sup> March. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2020; Australian Government, 2020-21 [Budget Paper No. 1](#), October 2020; New Zealand Treasury, [Pre-Election Economic and Fiscal Update](#), September 2020. [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



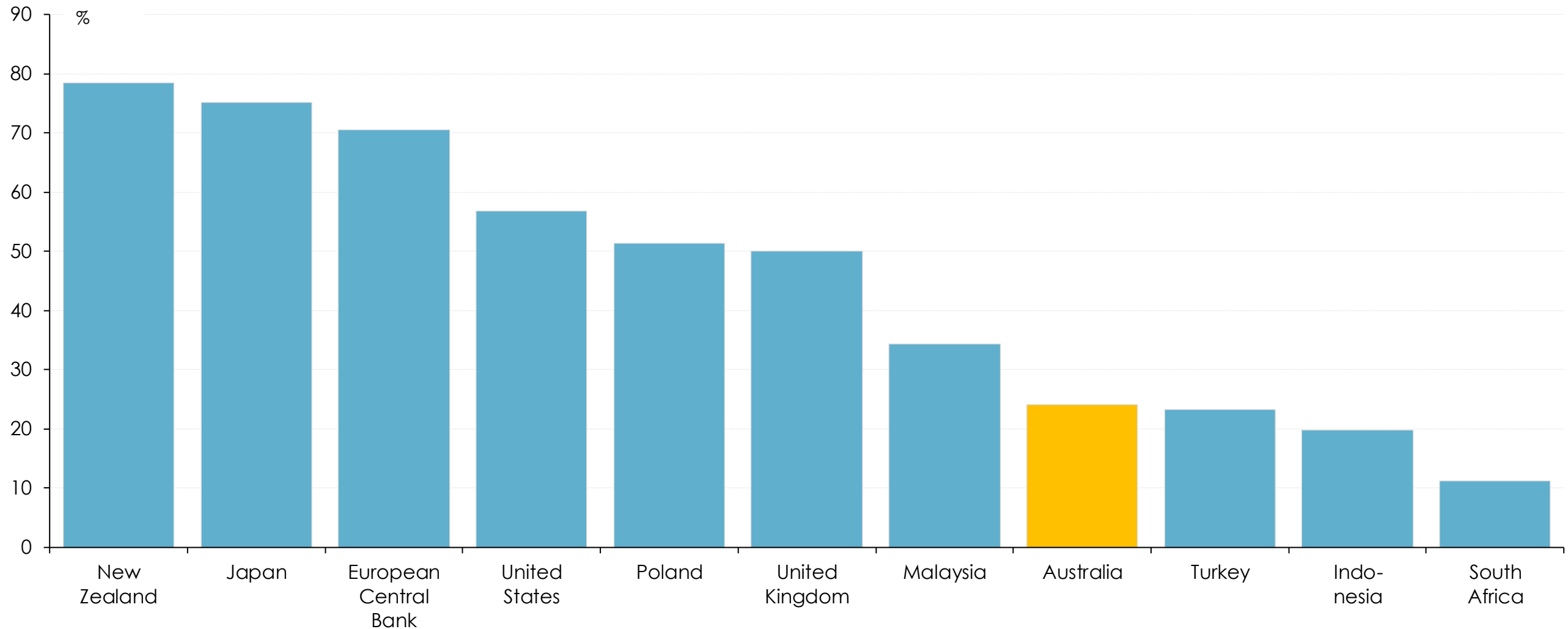
## Major central bank balance sheets



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 57](#)): 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 have (indirectly) absorbed a significant proportion of government debt issuance since the onset of the pandemic

Central bank purchases of national government marketable securities or debt, as a percentage of total gross issuance, since end-February 2020



Sources: IMF, [Fiscal Monitor](#), October 2020; and for Australia and New Zealand, calculations by Corinna using data sourced from [Australian Office of Financial Management \(AOFM\)](#), [Reserve Bank of Australia](#), [New Zealand Treasury](#) and [Reserve Bank of New Zealand](#) (excludes purchases and issuance of Treasury notes).  
[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 16<sup>th</sup> 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"

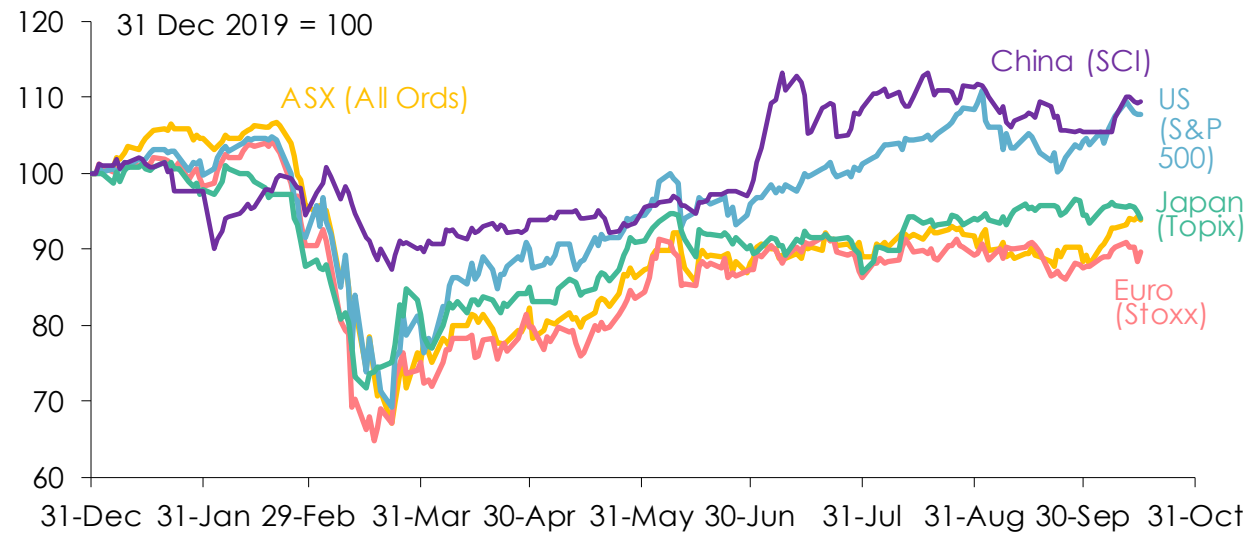
Note: Jerome Powell's 27<sup>th</sup> August Jackson Hole speech is [here](#); the FOMC's 16<sup>th</sup> September statement is [here](#). [Return to "What's New"](#).

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

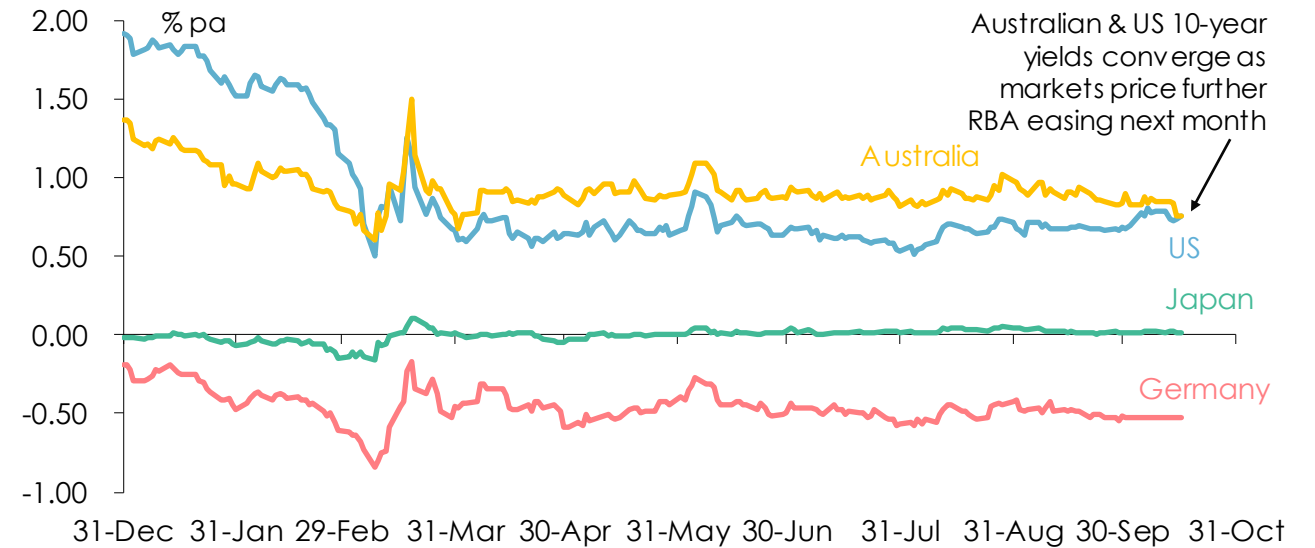
- ❑ The [minutes](#) of the Bank of England's September 16<sup>th</sup> Monetary Policy Committee meeting indicate that the Committee had "been briefed on the Bank's plans to explore how a negative Bank Rate could be implemented effectively, should the outlook for inflation and output warrant it at some 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 23<sup>rd</sup> 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

# Rising Covid-19 case numbers in Europe dampened investor appetite for most 'risk assets' except for US stocks

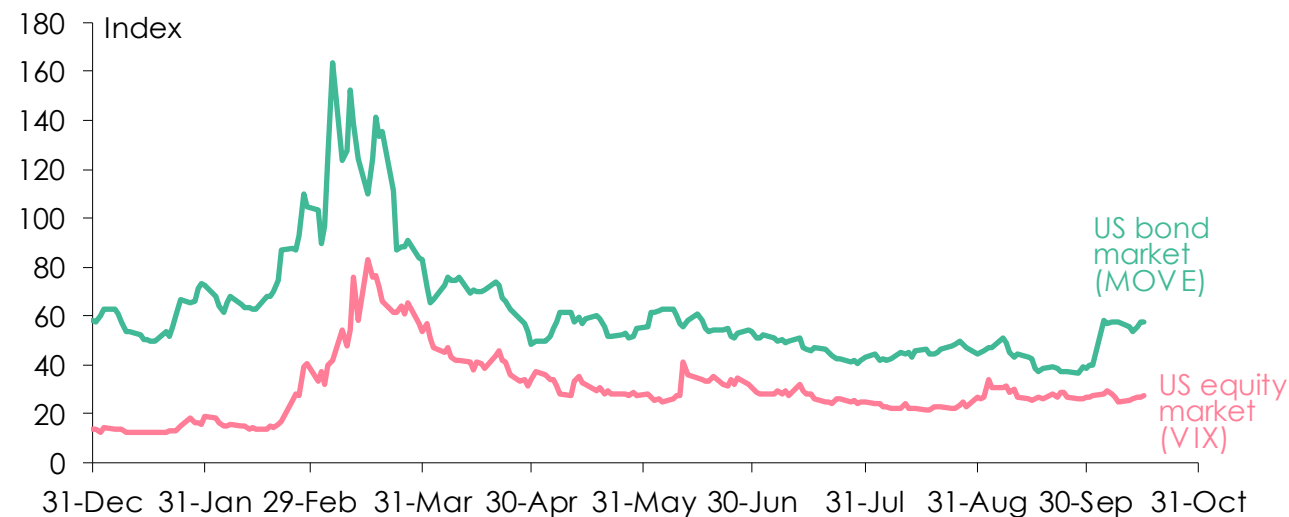
## Stock markets



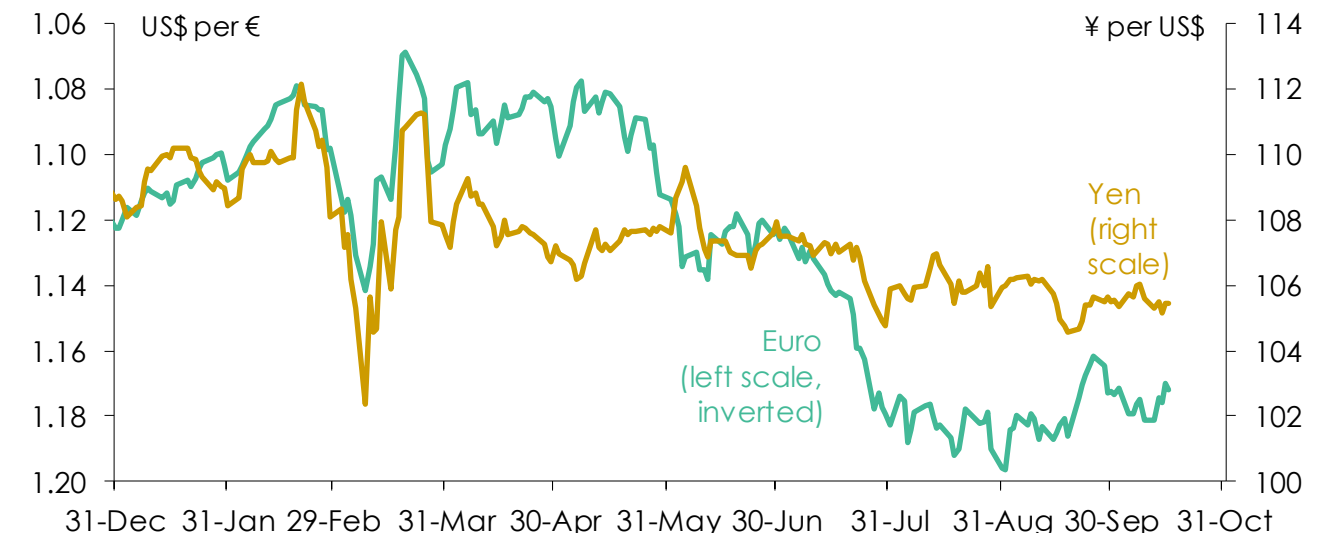
## 10-year bond yields



## Measures of market volatility



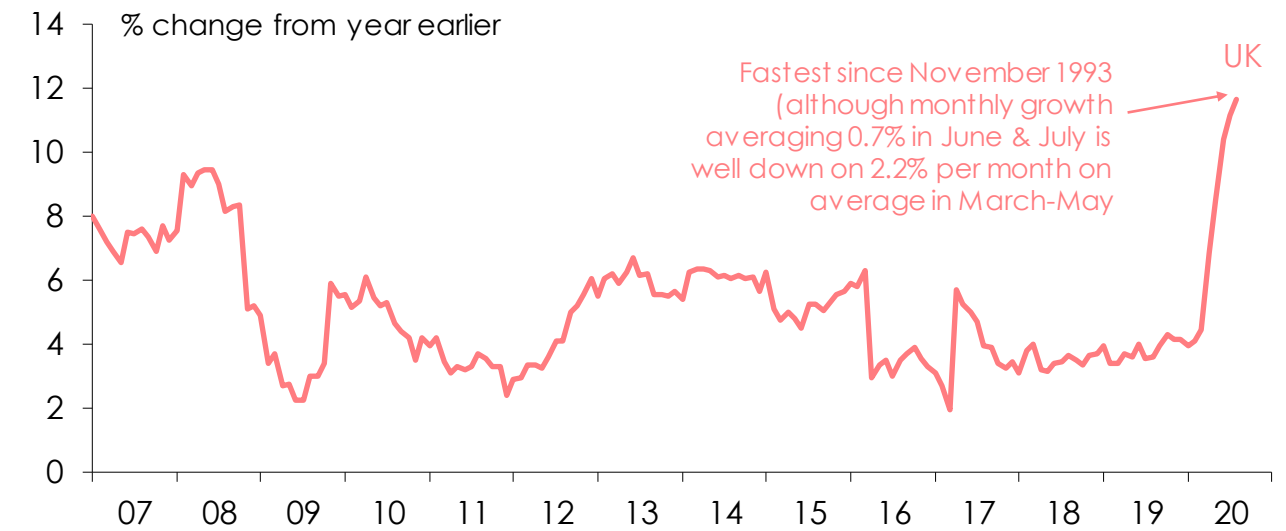
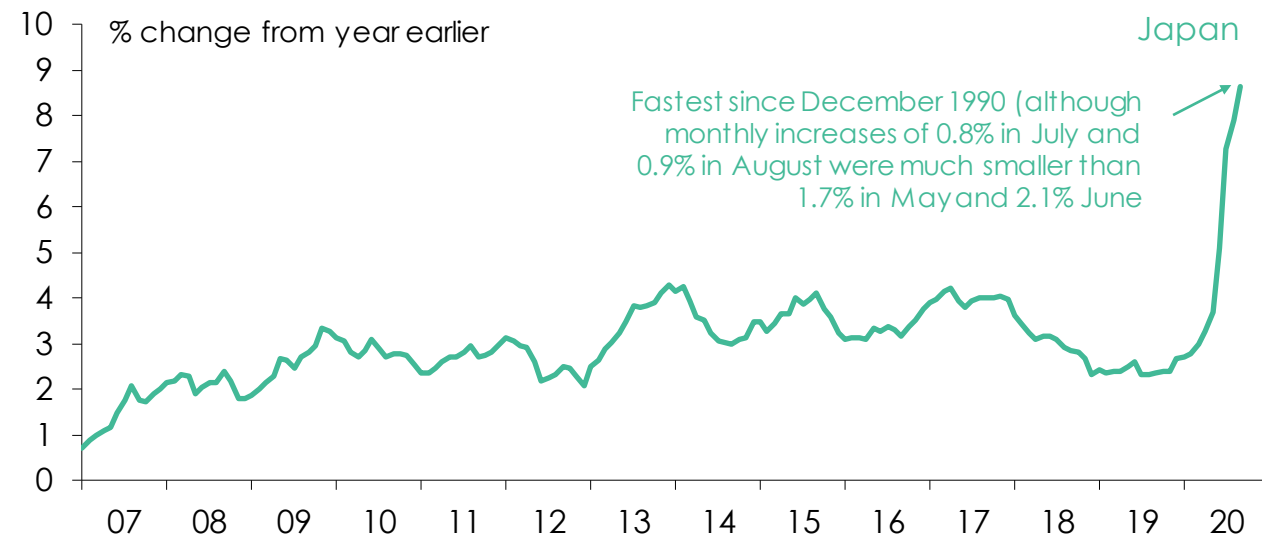
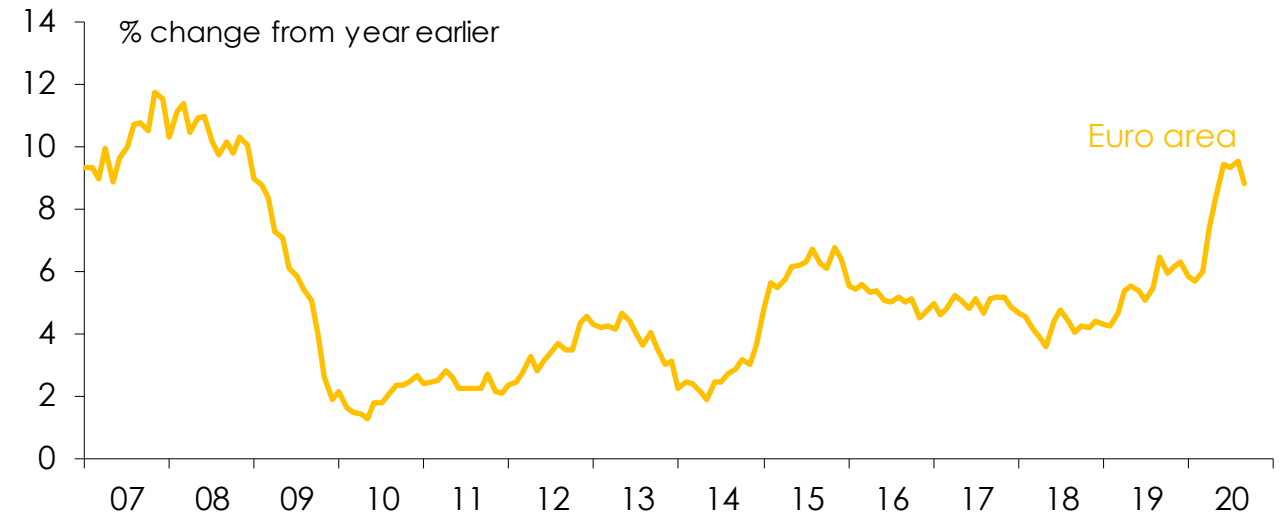
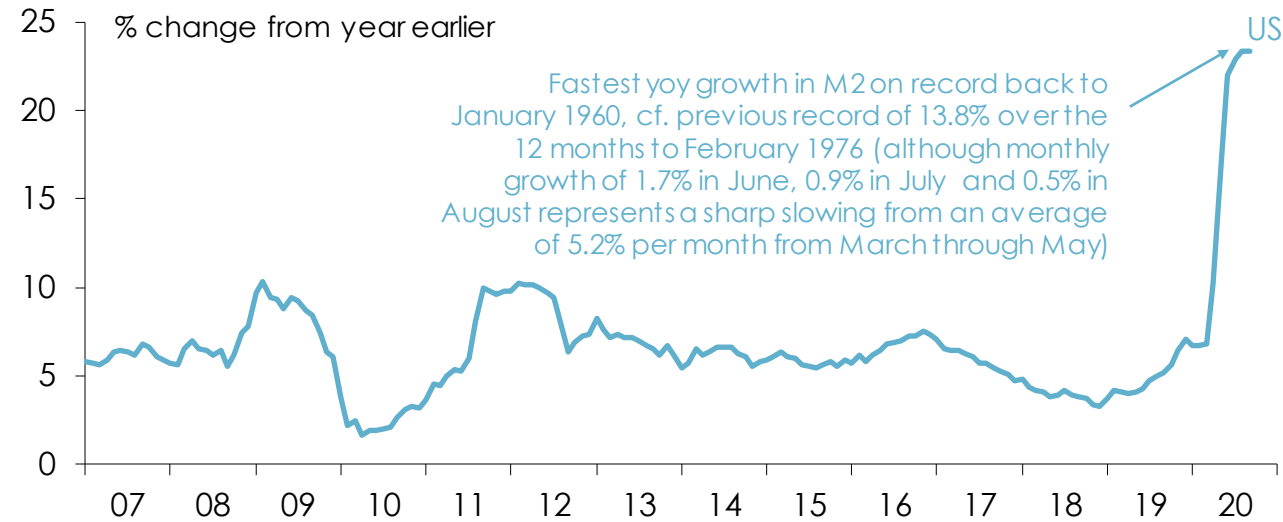
## US dollar vs euro and yen





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

## M2 money supply growth

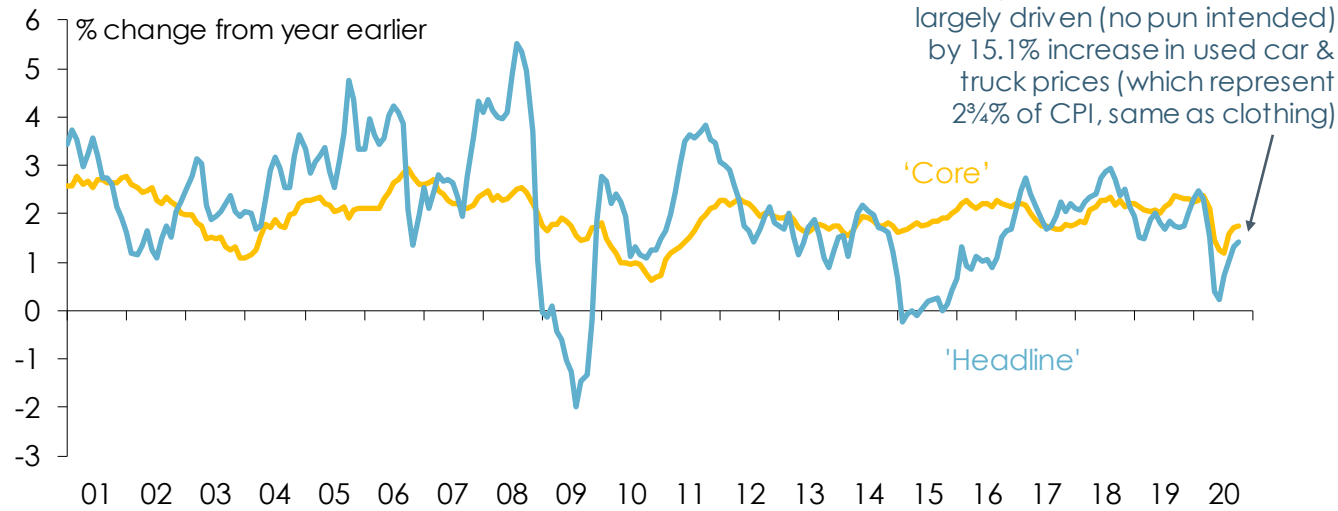


Note: Japan is M2+CDs. Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England. [Return to "What's New"](#).

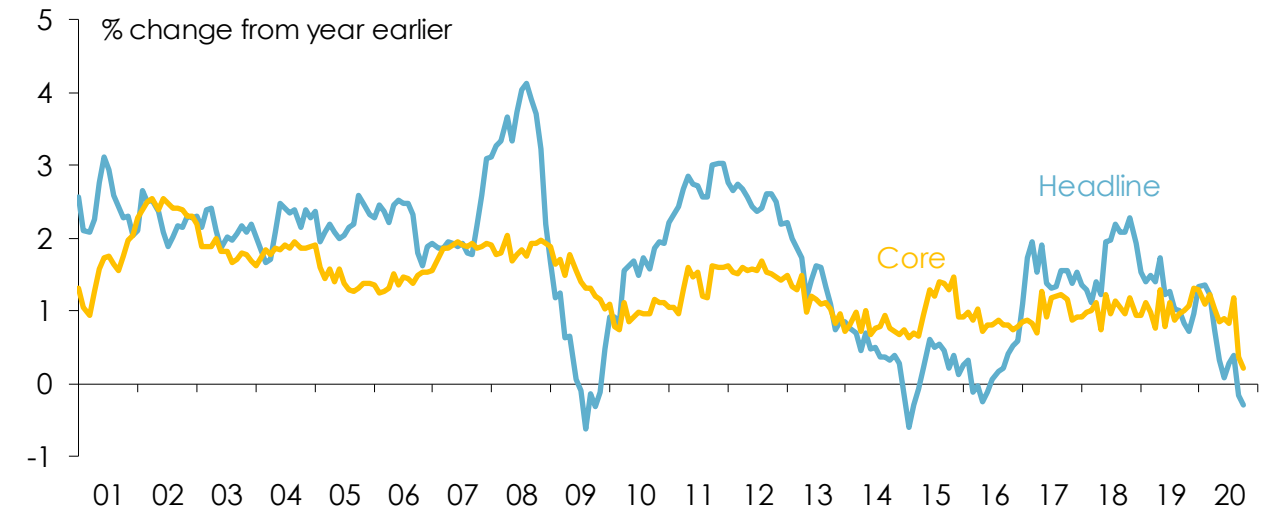


# ...but so far at least, inflation has remained below central bank targets – although both ‘headline’ and ‘core’ have ticked up since July in the US

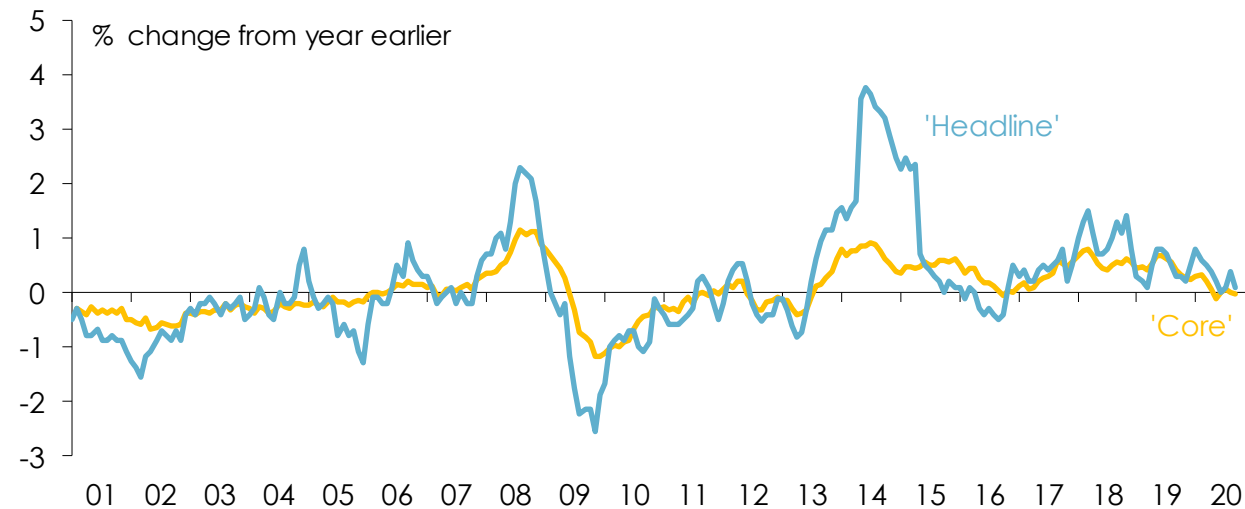
## ‘Headline’ and ‘core’ inflation - US



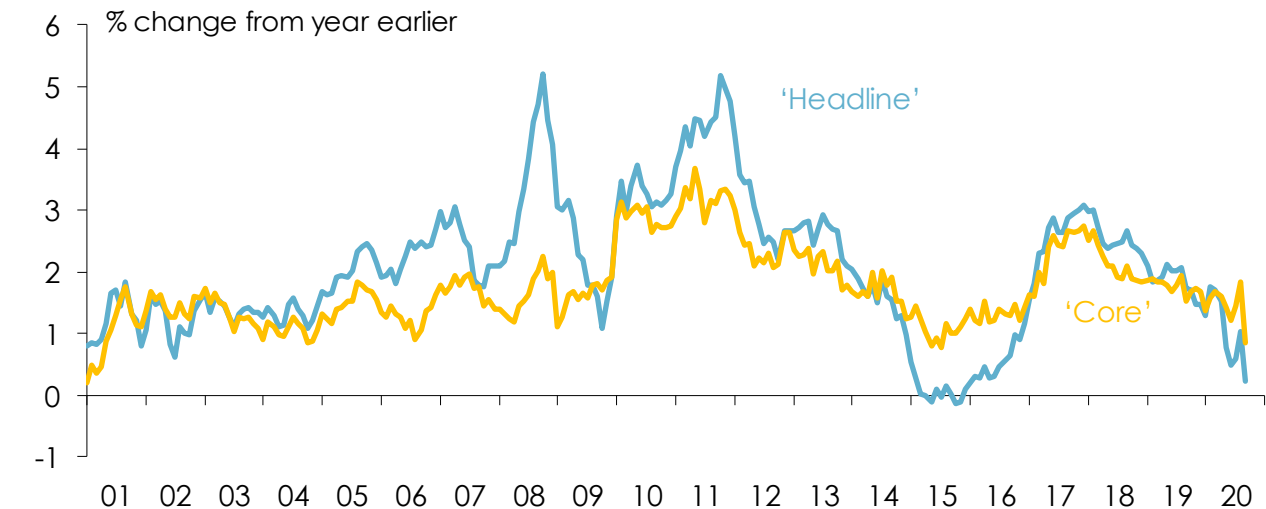
## ‘Headline’ and ‘core’ inflation – Euro area



## ‘Headline’ and ‘core’ inflation - Japan



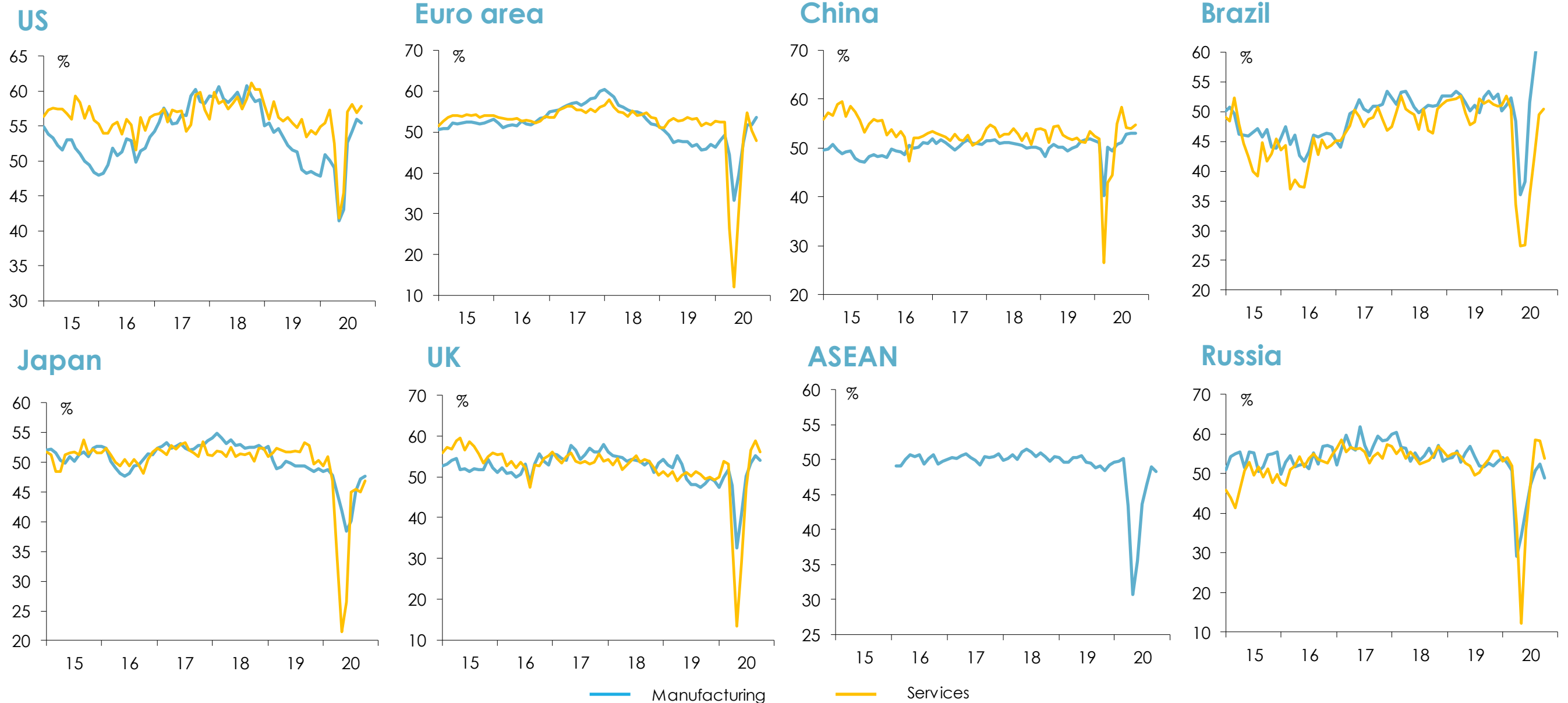
## ‘Headline’ and ‘core’ inflation – UK



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"](#).

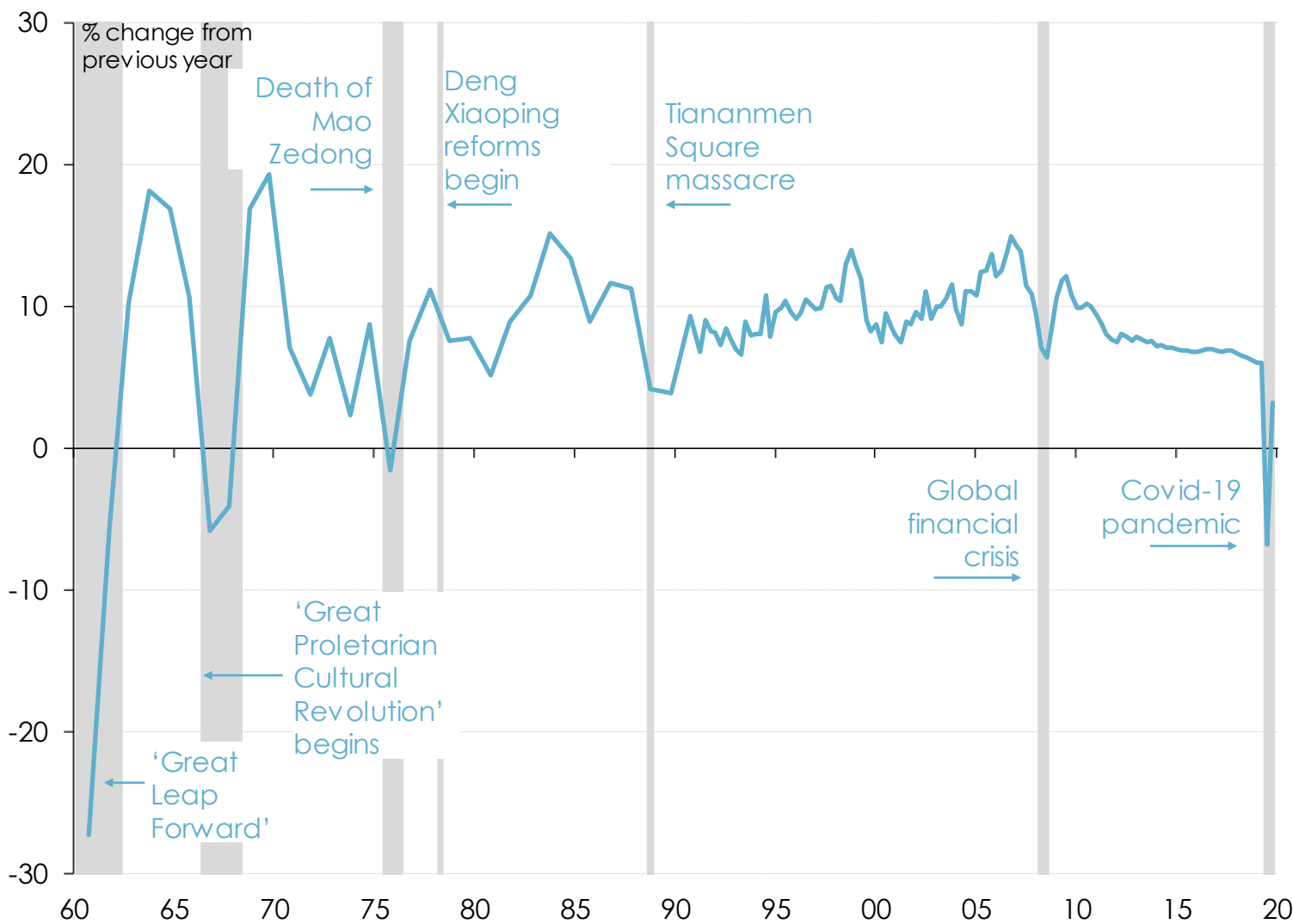
# Purchasing managers' indices (PMIs) mostly point to further growth in manufacturing in August-September, but some softening in services activity



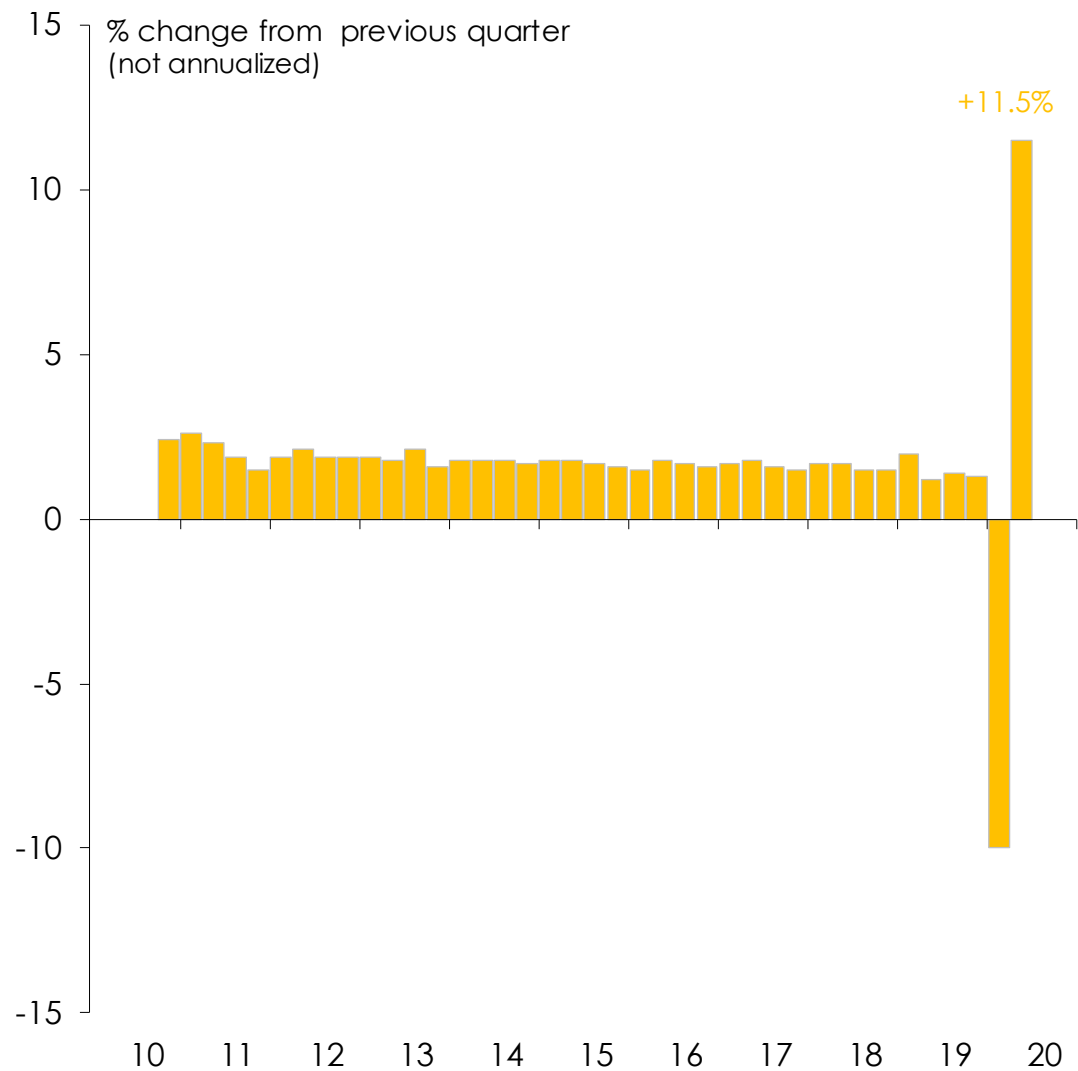
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous 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



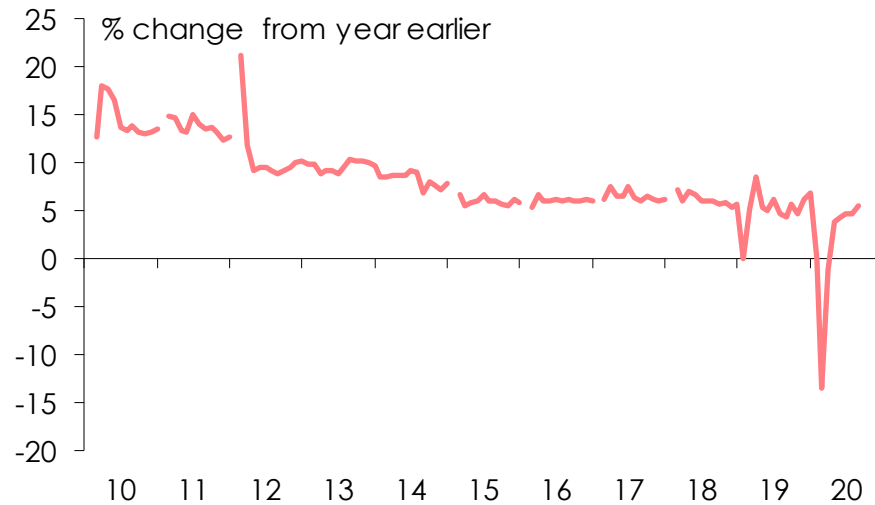
Quarterly real GDP growth, 2010-2020



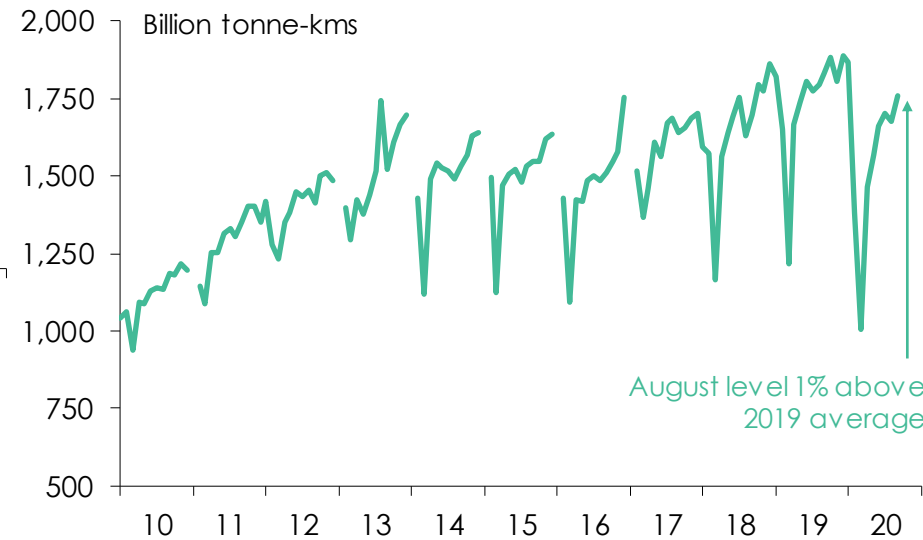
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. [Return to "What's New"](#).

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

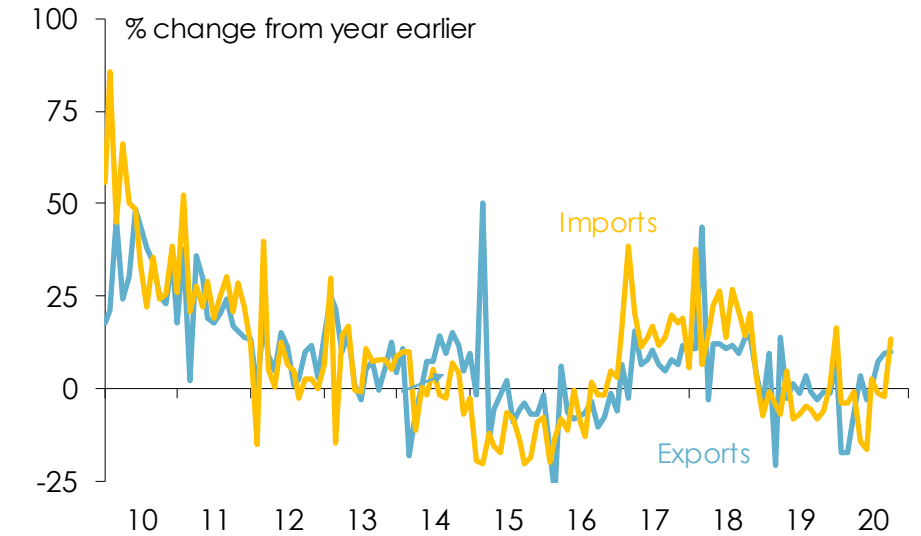
## Industrial production



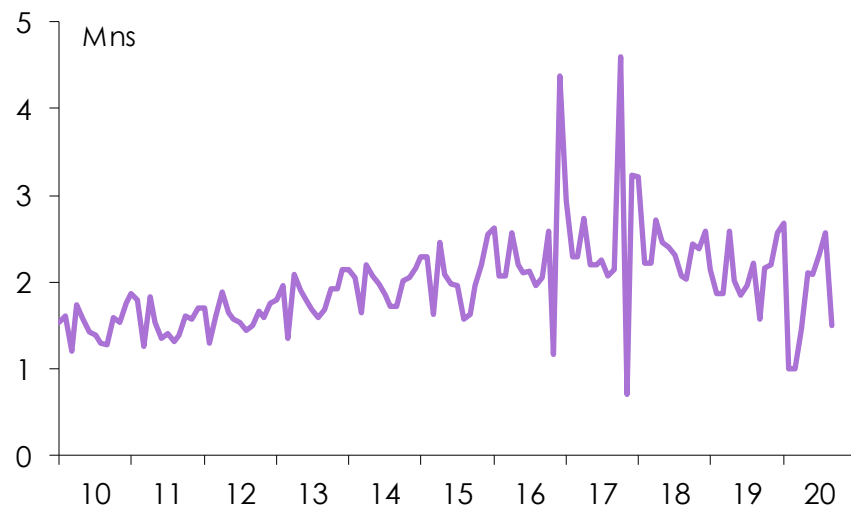
## Freight traffic volumes



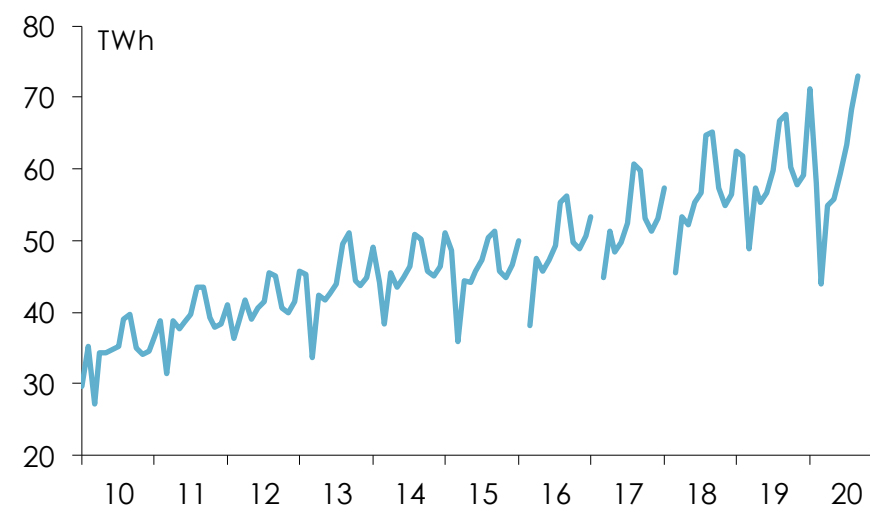
## Merchandise trade



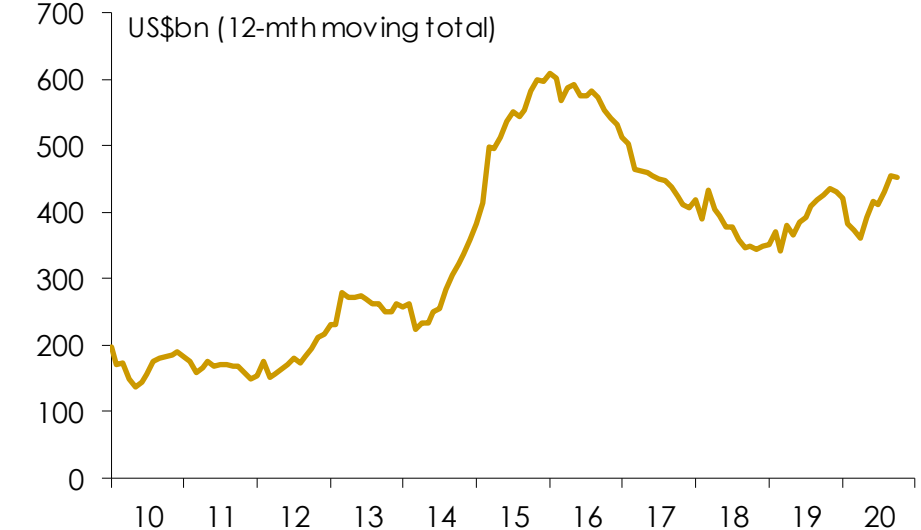
## Motor vehicle production



## Primary electricity production



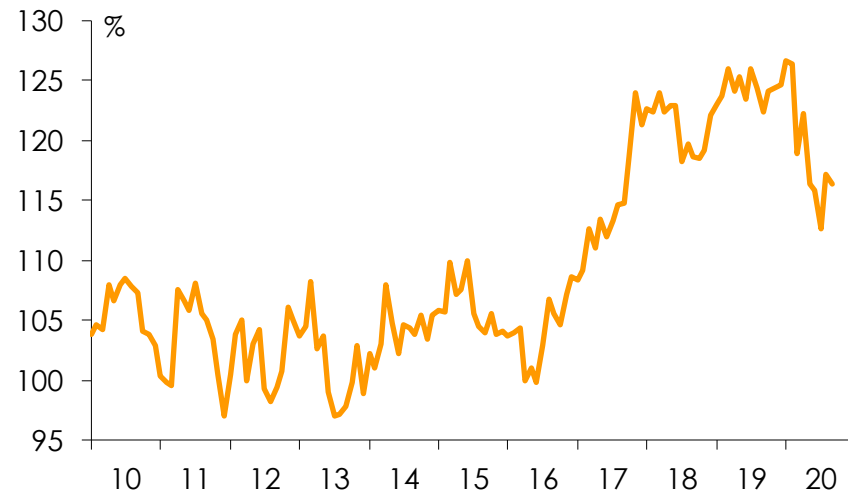
## Merchandise trade balance



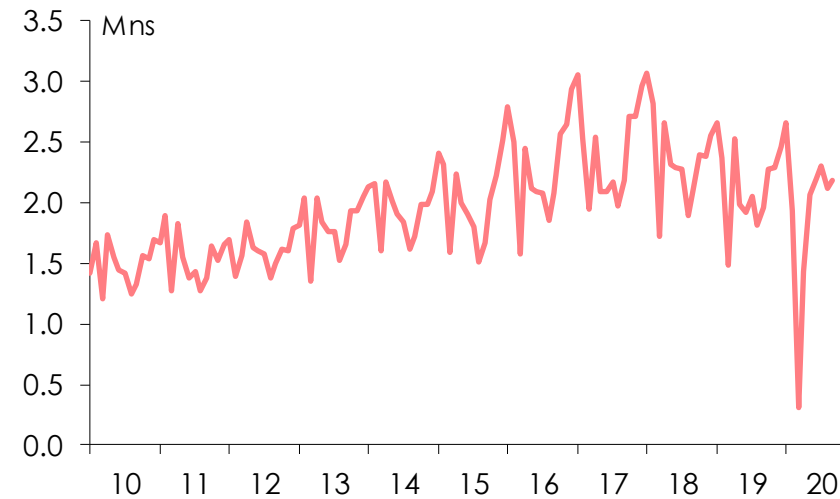
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest merchandise trade data are for September; other data are for August but will be updated this coming week. [Return to "What's New"](#).

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

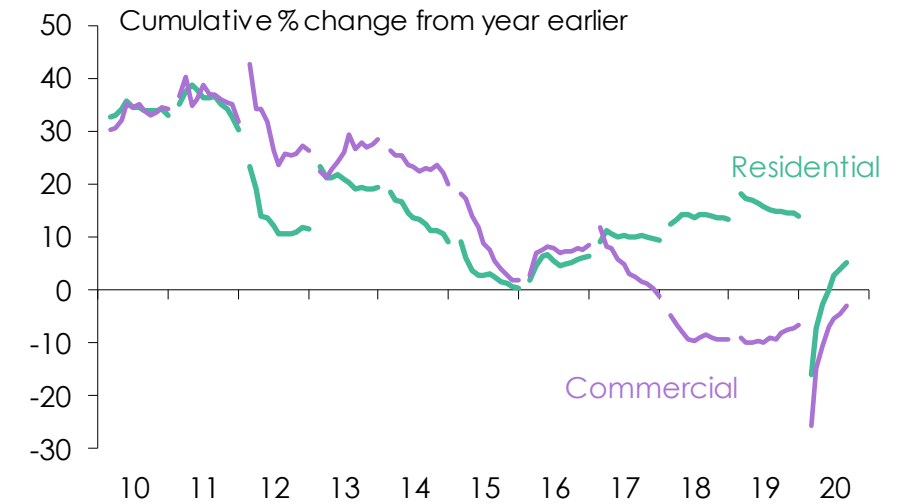
## Consumer sentiment



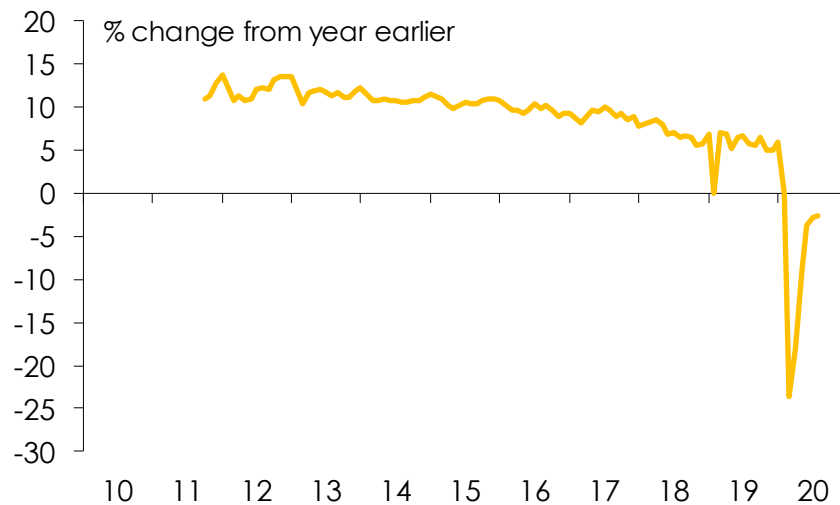
## Motor vehicle sales



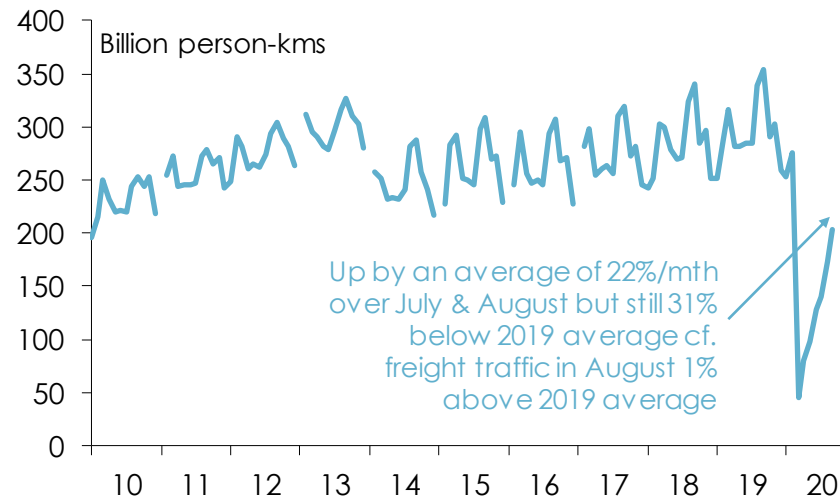
## Real estate investment



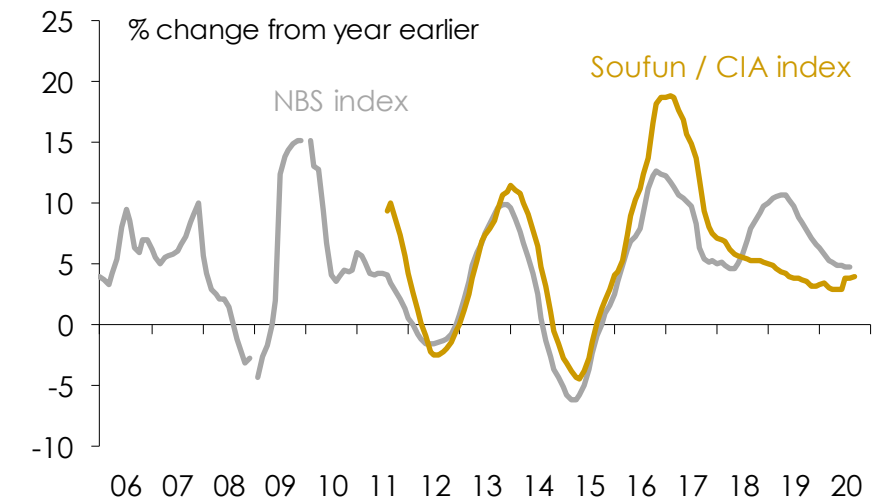
## Retail sales volume



## Passenger traffic volumes



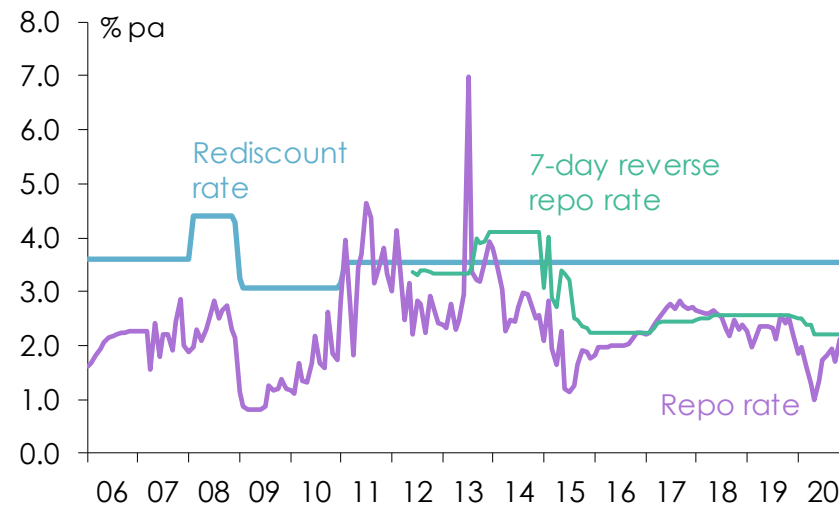
## Residential real estate prices



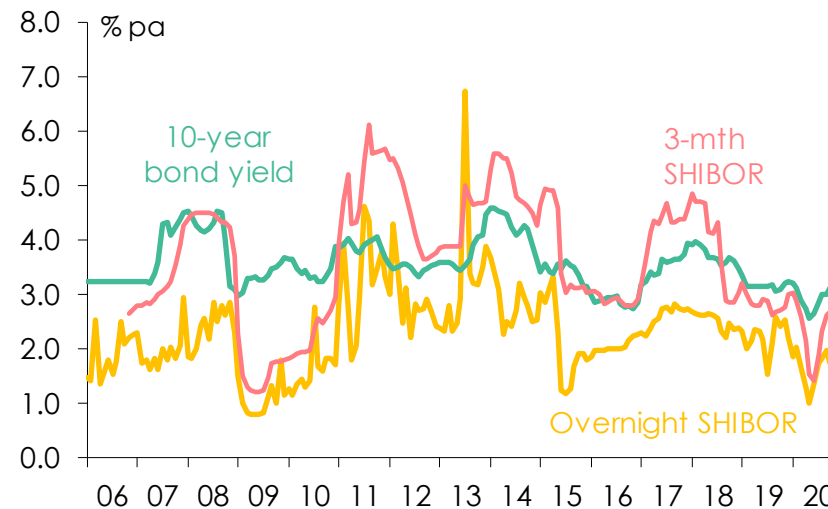
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy. Latest data are for August: September data for most of the series shown above will be released this coming week. [Return to "What's New"](#).

# 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

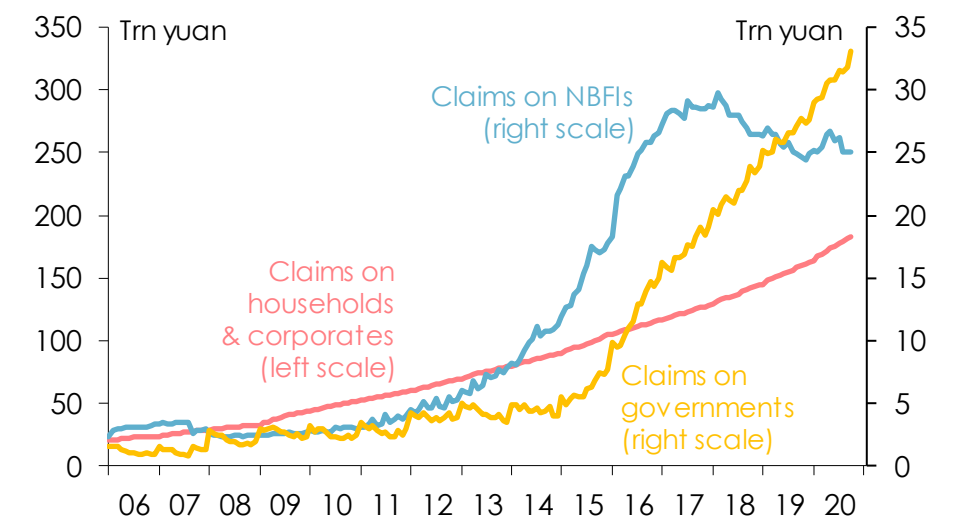
## PBoC policy interest rates



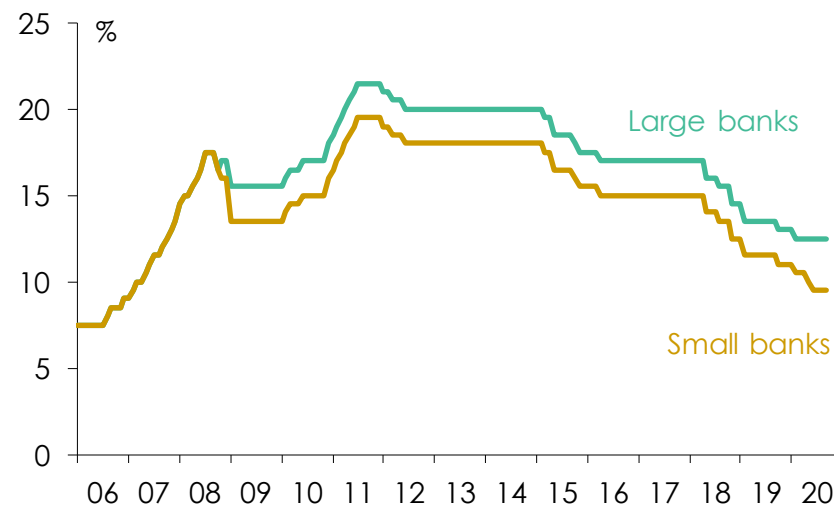
## Market interest rates



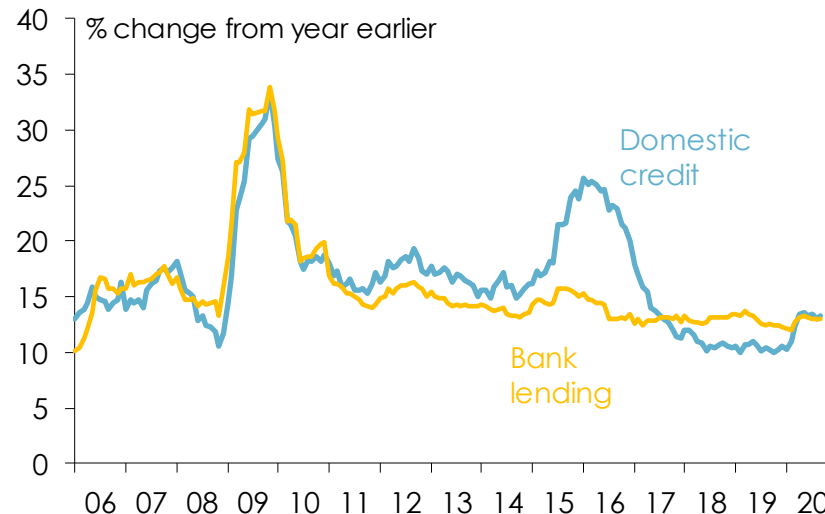
## Depository corporation assets



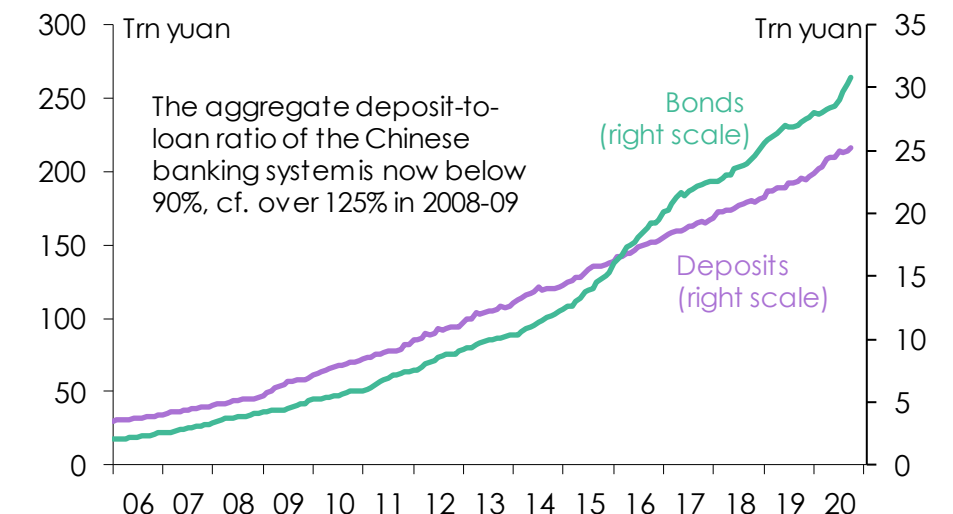
## Bank reserve requirement ratios



## Credit growth



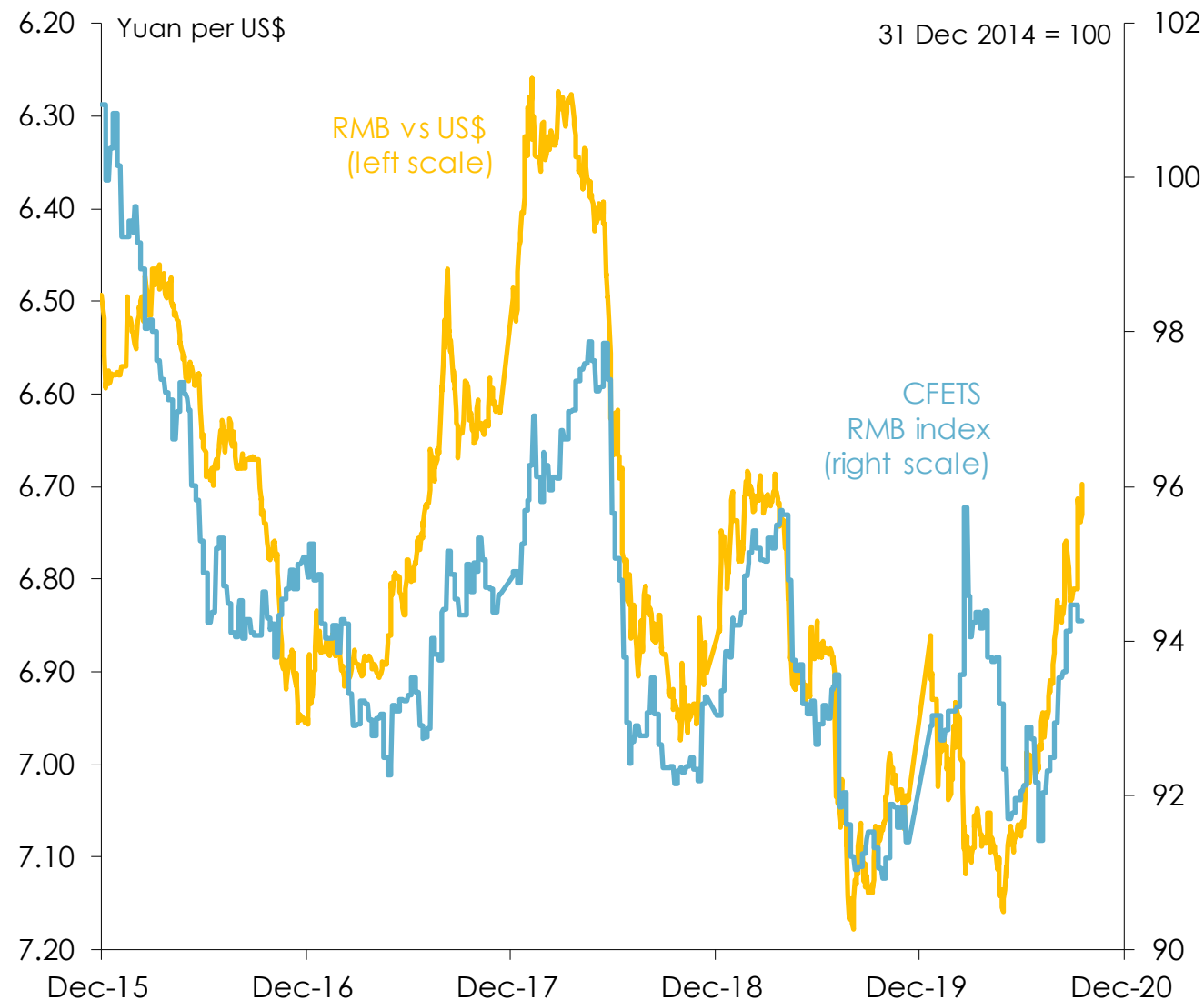
## Depository corporation liabilities



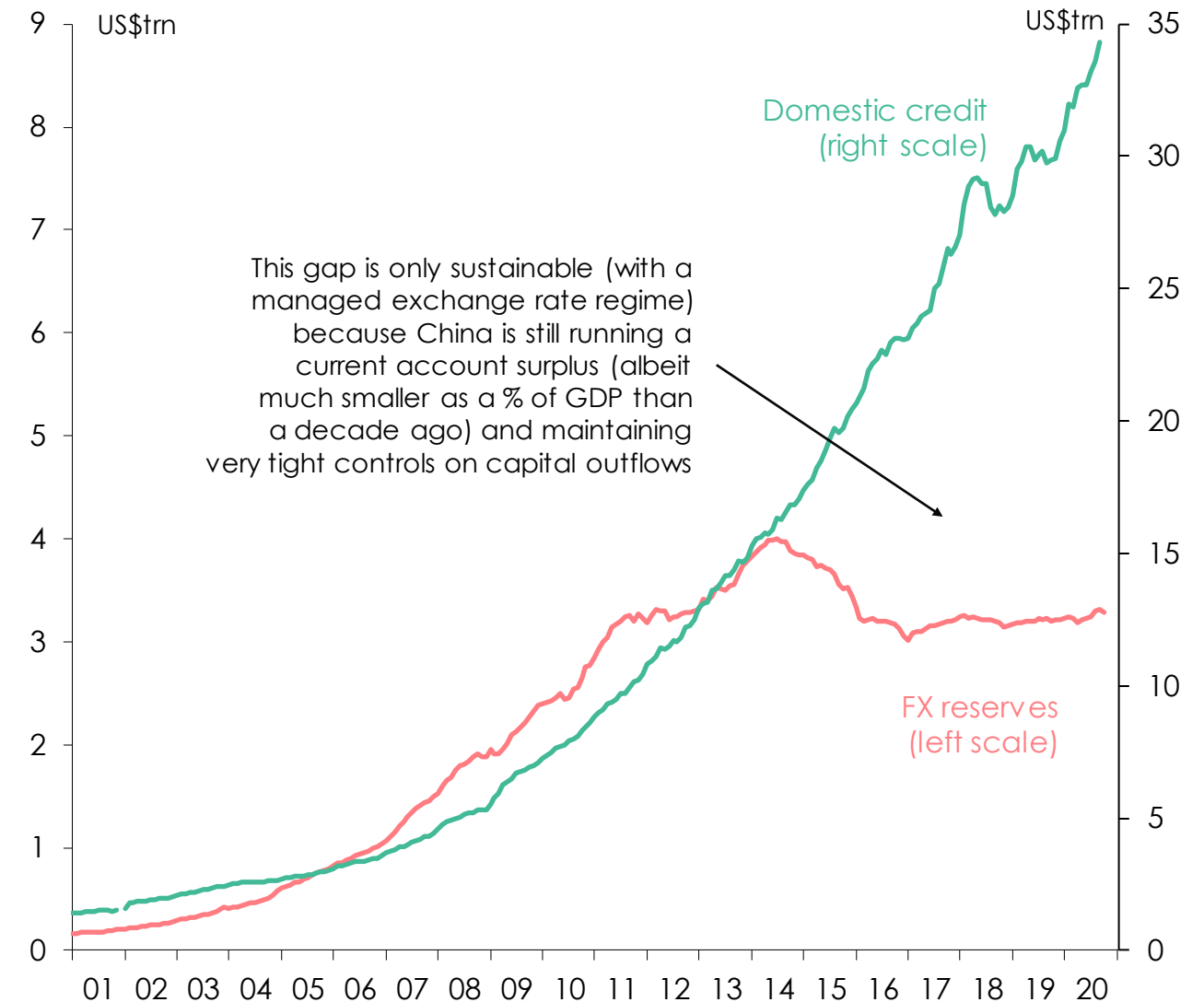
Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refinitiv Datastream; People's Bank of China. [Return to "What's New"](#).

# The Rmb rose a little further this week despite the PBoC dropping a 2-year old 20% reserve requirement for banks' FX purchases

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



## FX reserves and domestic credit

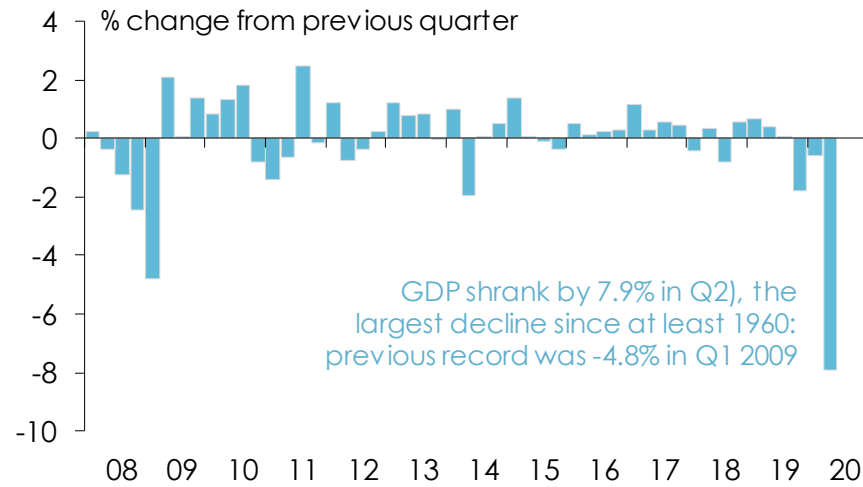


Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 6<sup>th</sup> October; credit and FX reserves data up to September. [Return to "What's New"](#).

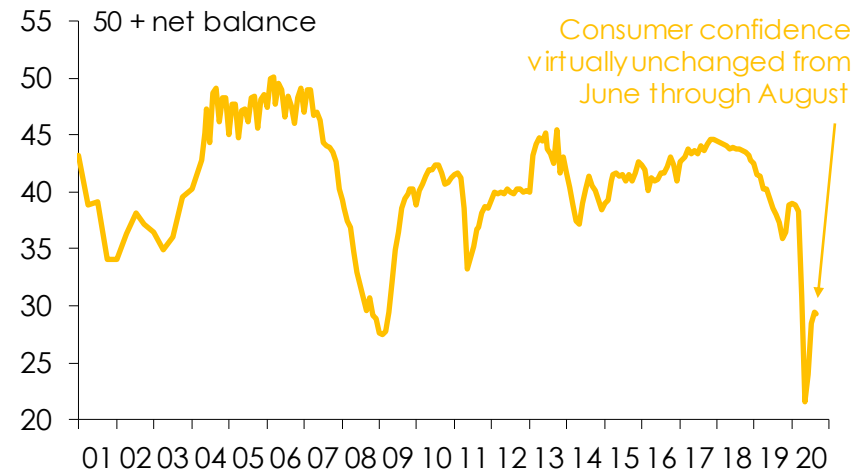


# Japan entered its fourth recession since 2000 after hiking its GST rate last October, and the pandemic has worsened it

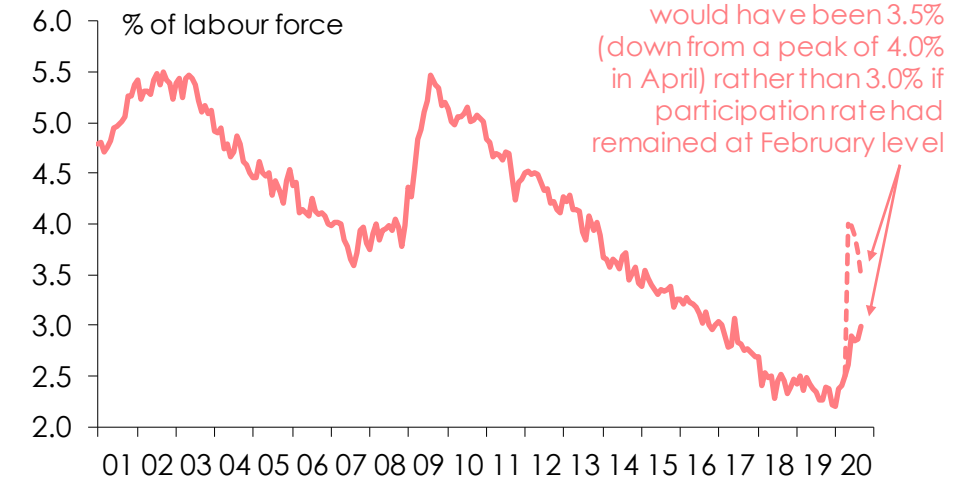
## Real GDP



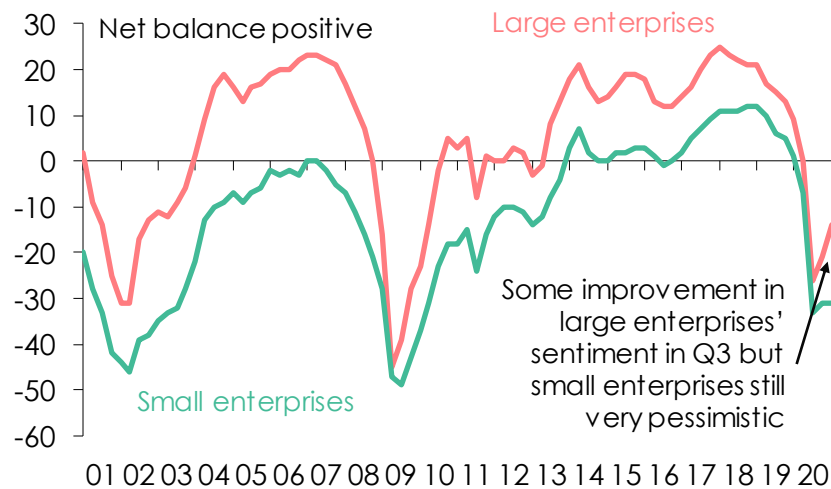
## Consumer confidence



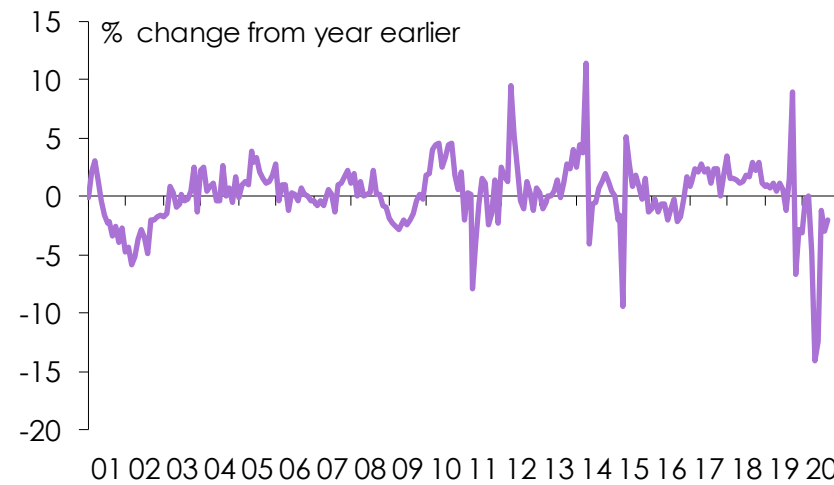
## Unemployment



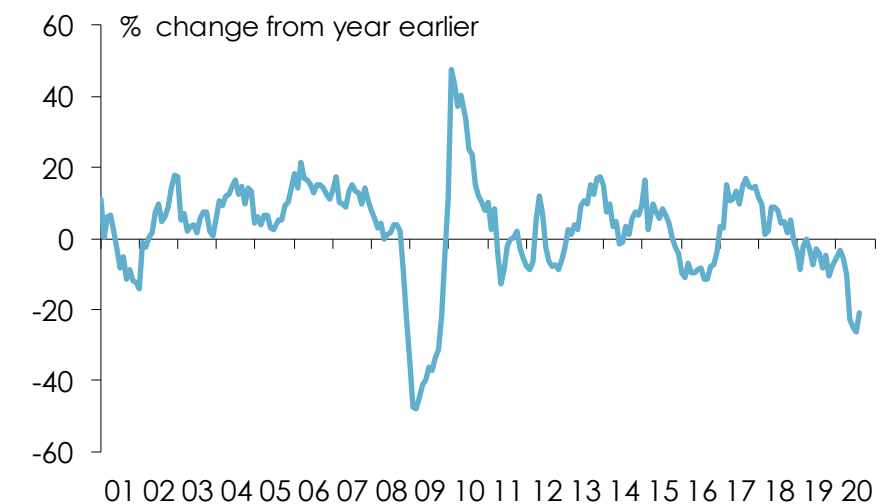
## BoJ Tankan business conditions



## Value of retail sales



## Merchandise export volumes

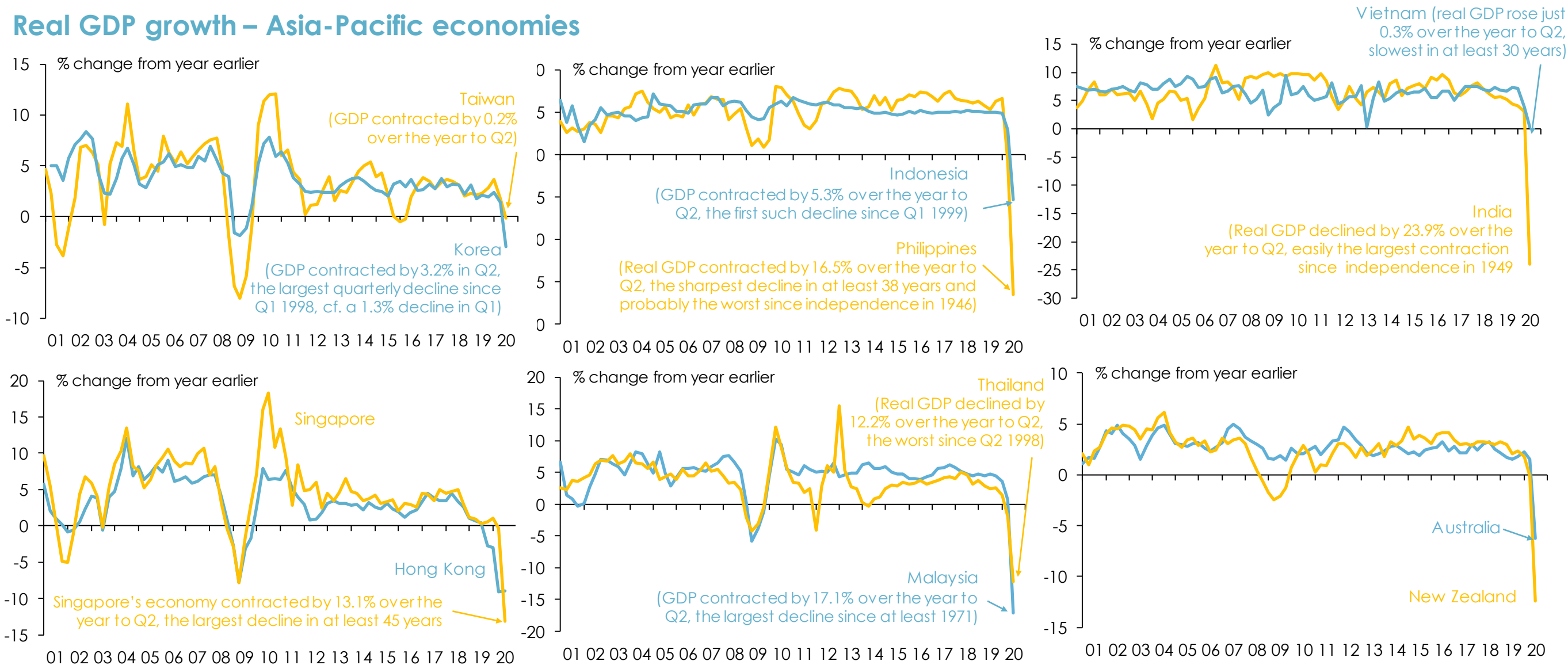


Sources: Japan Cabinet Office [Economic and Social Research Institute](#); [Bank of Japan](#); [Statistics Bureau of Japan](#); Japan [Ministry of Finance](#). [Return to "What's New"](#).



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

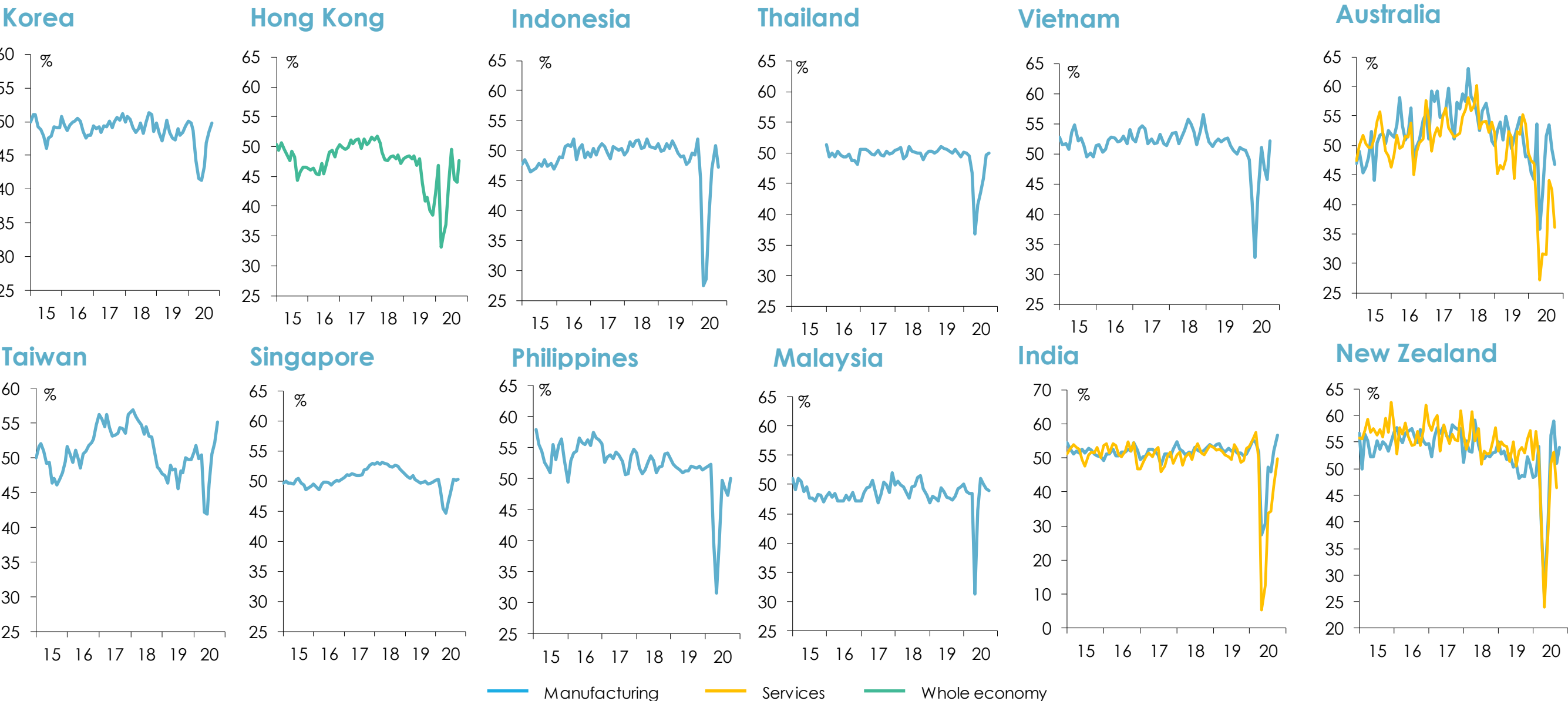
## Real GDP growth – Asia-Pacific economies



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".](#)

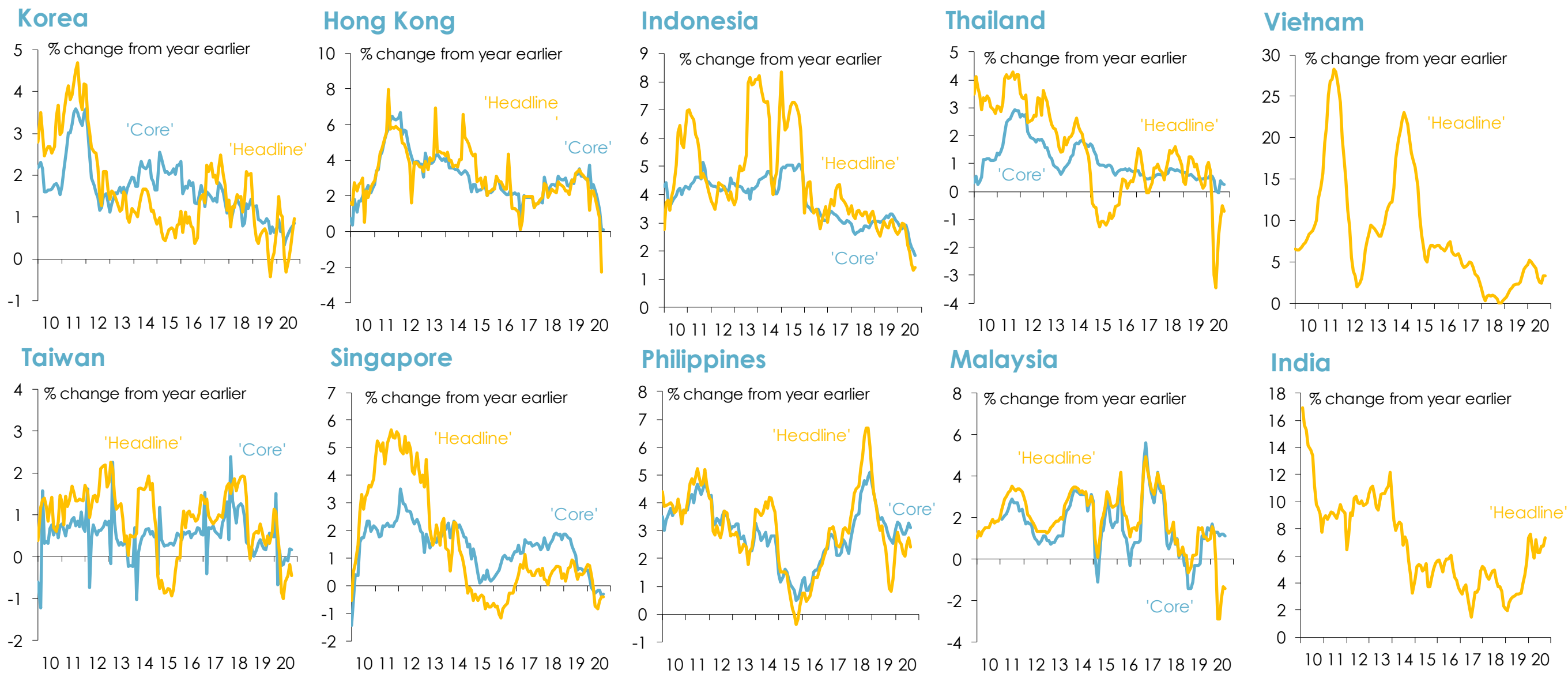
# Manufacturing PMIs rose further in August in most Asia-Pacific economies except for Philippines, Vietnam, Australia & NZ



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 services, August.

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

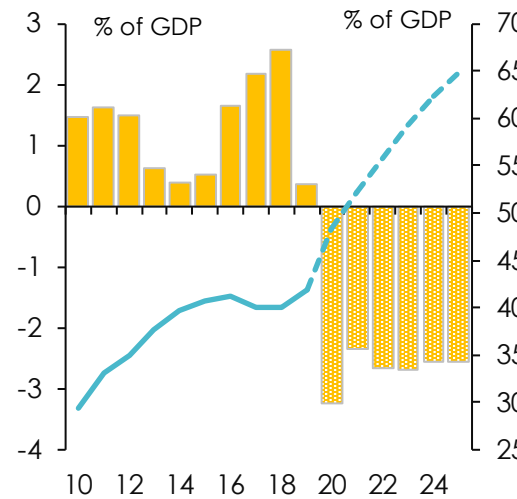
# Inflation remains very low across Asian economies (including Indonesia & Philippines where it had been stubbornly high) – except for India



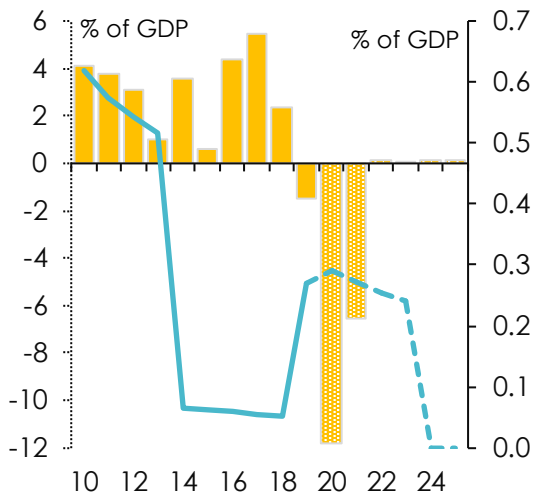
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia 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"](#).

# Asian governments will run much larger fiscal deficits in 2020, and in most cases deficits are set to remain large over the medium term

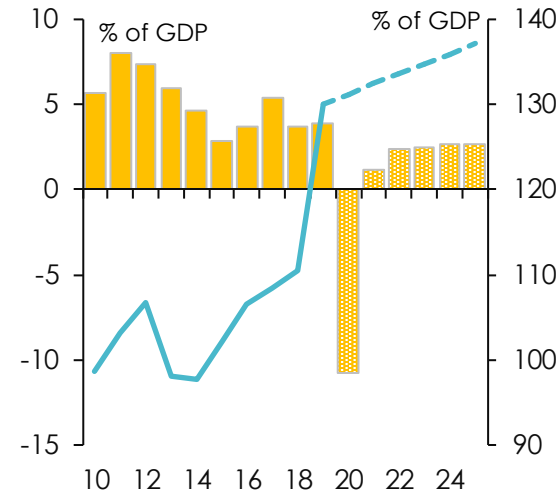
Korea



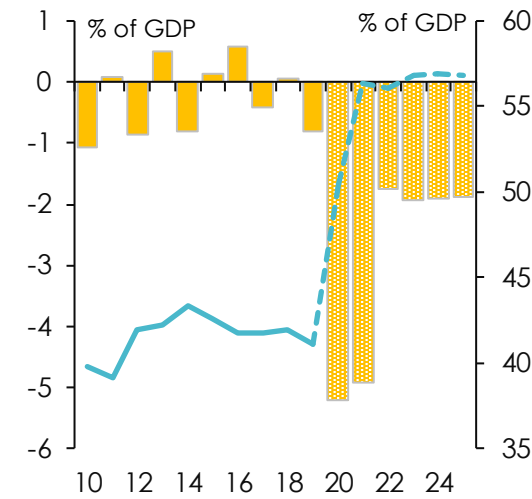
Hong Kong



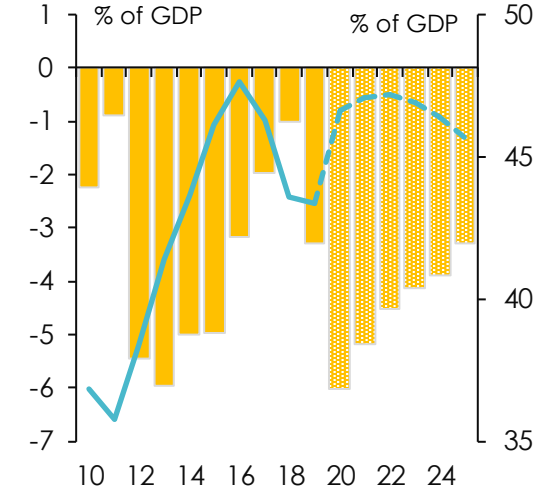
Indonesia



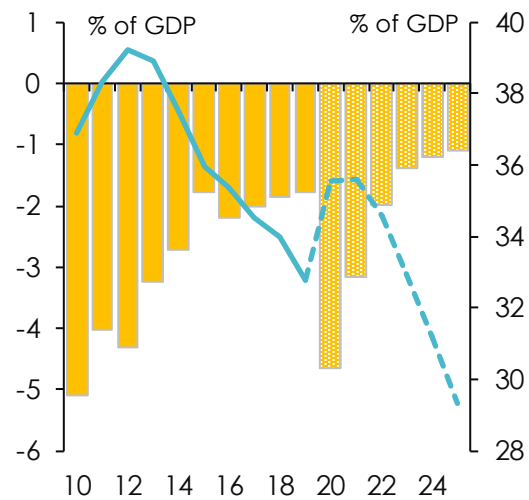
Thailand



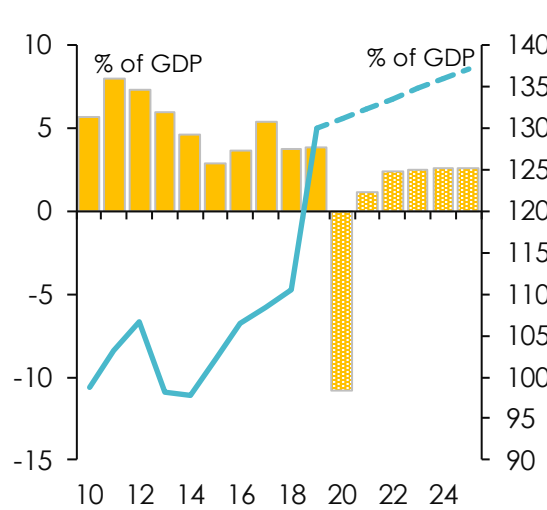
Vietnam



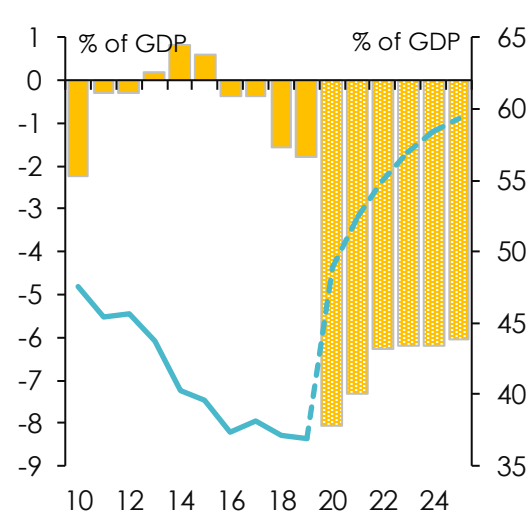
Taiwan



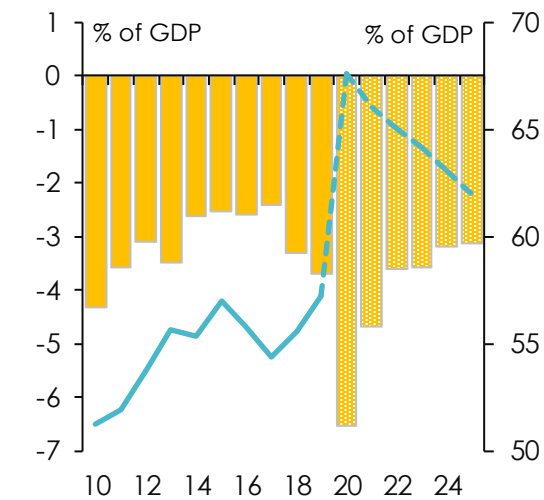
Singapore



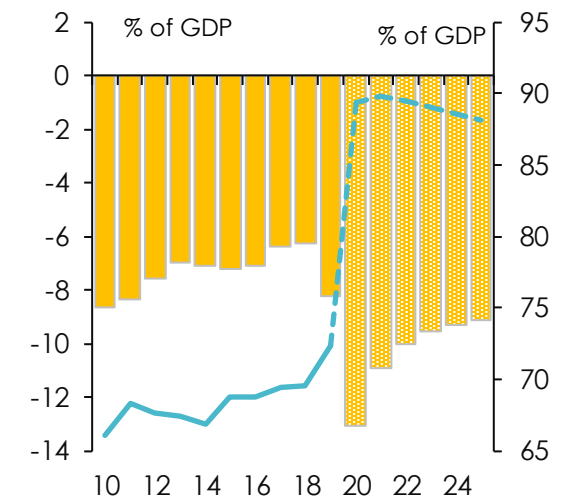
Philippines



Malaysia

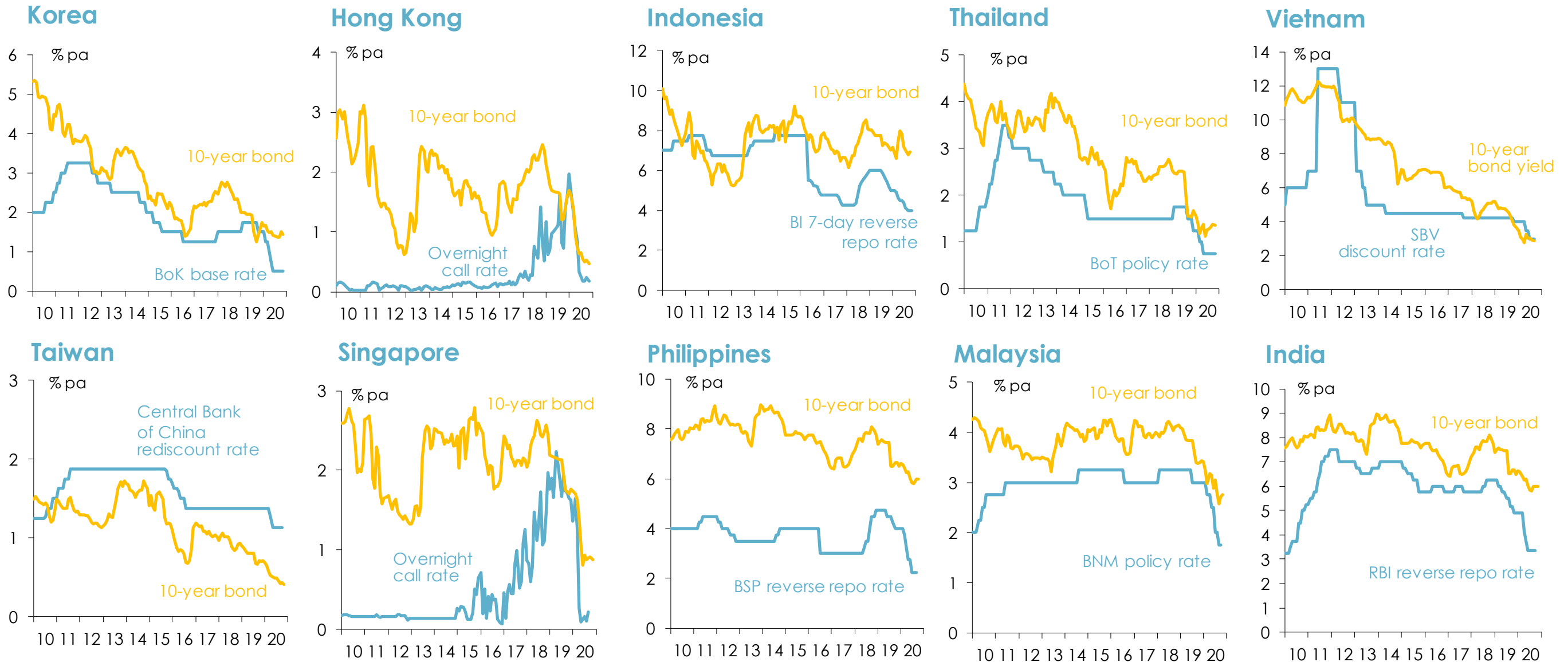


India



Note: Some governments, most conspicuously Hong Kong, are financing part of their deficits by transfers from reserve or sovereign wealth funds, so that there is not necessarily a direct correlation between the budget balance and the change in gross debt from year to year.  
Source: IMF, [Fiscal Monitor](#), and (for Taiwan) [World Economic Outlook](#), October 2020. [Return to "What's New"](#).

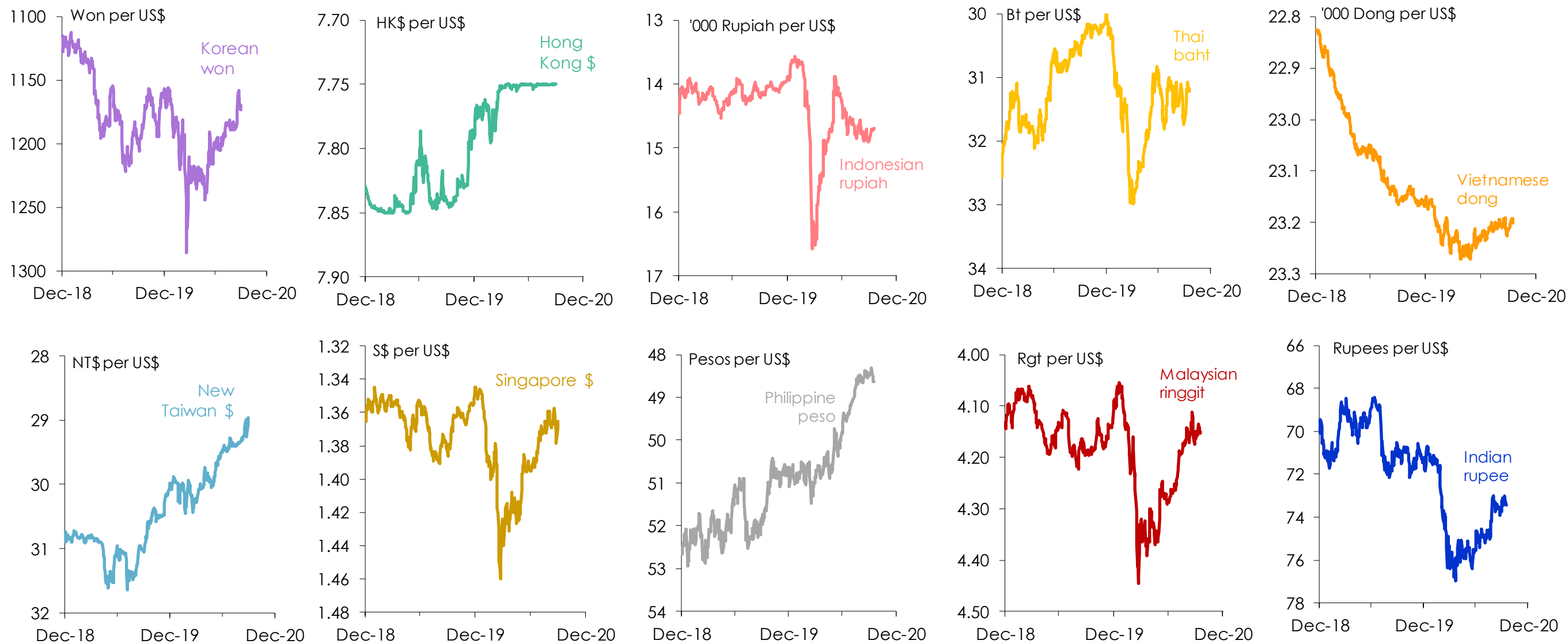
# Policy interest rates across Asia are at record lows, but there's scope for more conventional monetary policy easing if required



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"](#).

# Asian currencies softened 1/4–1/2% against the US\$ last week, except for the Korean won ahead of this Wednesday's BoK meeting

## Asian currency exchange rates vs US dollar

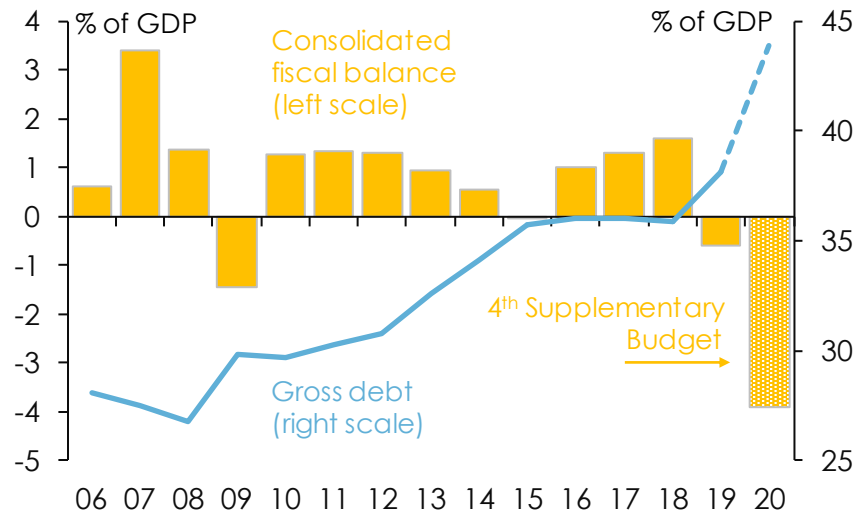


Note: Data up to 16<sup>th</sup> October. Source: Refinitiv Datastream. [Return to "What's New"](#).

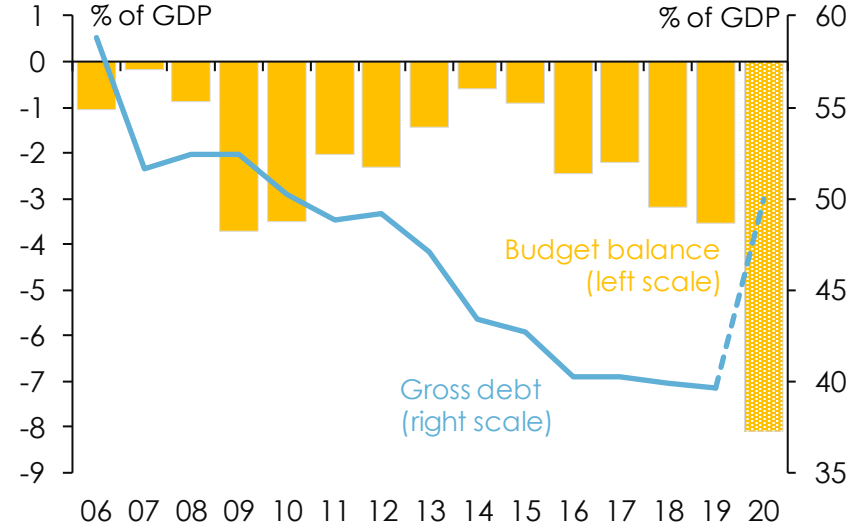


# The Korean and Philippines central banks have engaged in different variants of 'quantitative easing' ...

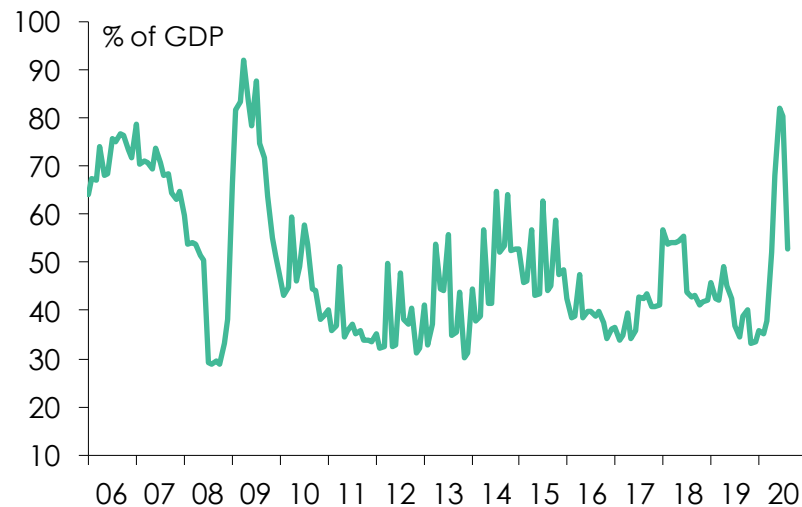
## Korea central government budget



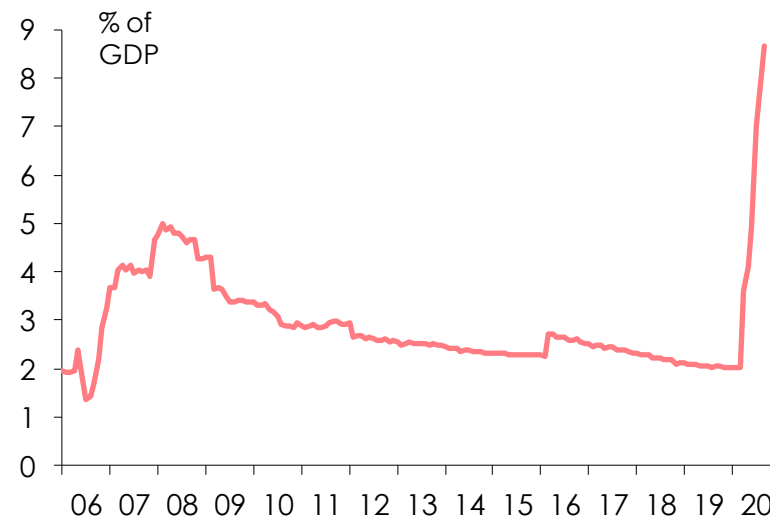
## Philippines NG budget



## BoK domestic assets



## BSP claims on national gov't

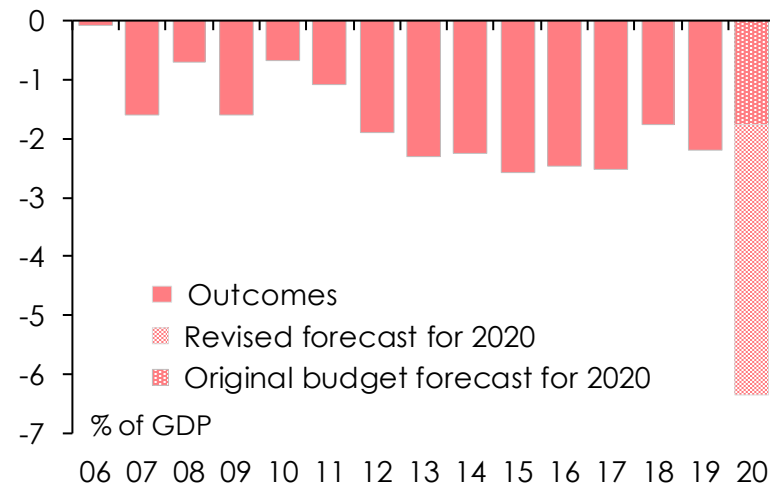


- ❑ The Bank of Korea has cut its policy rate by 100bp so far this year to a record low of 0.50%
- ❑ After its last rate cut in May, Governor Lee Ju-Yeol indicated the BoK was considering using 'unconventional monetary tools' to support growth
  - since March, the BoK has been willing to supply 'unlimited 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

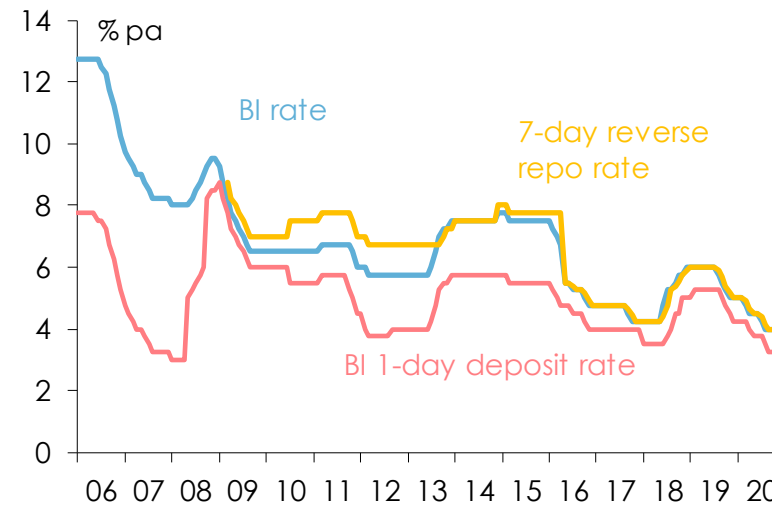
Sources: [Korea Ministry of Economy and Finance](#); [Bank of Korea](#); Philippines Development Budget Co-ordination Committee; [Philippines Bureau of the Treasury](#); [Bangko Sentral ng Pilipinas](#). [Return to "What's New"](#).

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

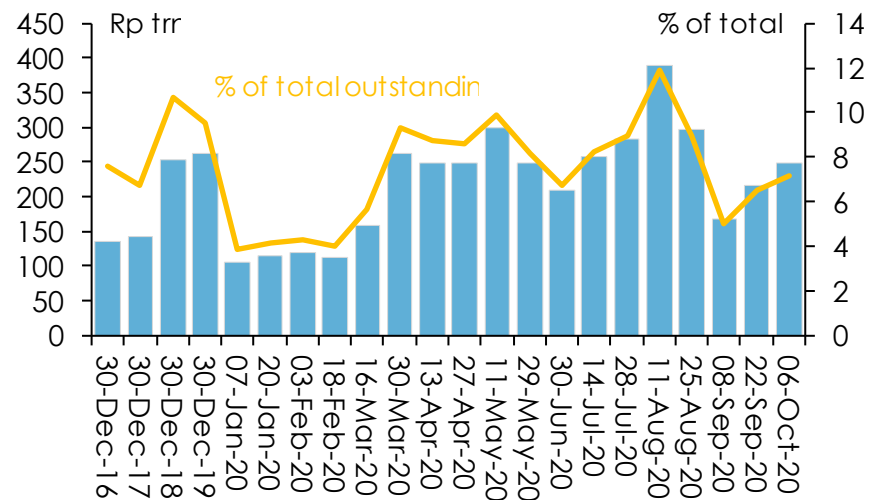
## Indonesia budget deficit



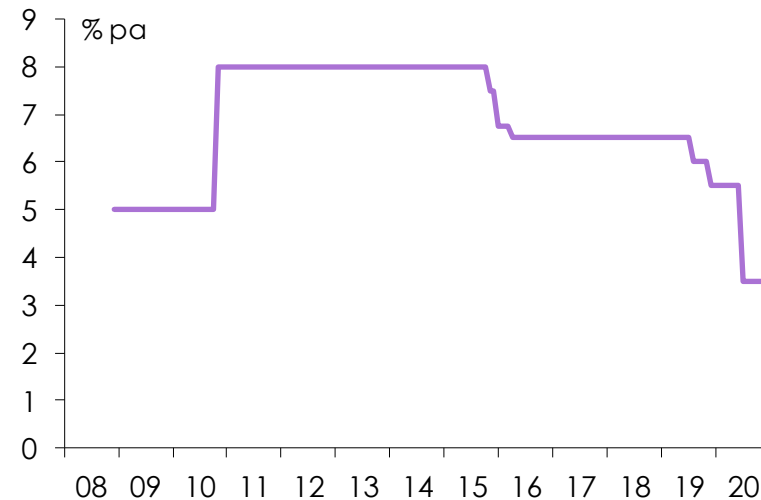
## BI monetary policy rates



## 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 15<sup>th</sup> 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)

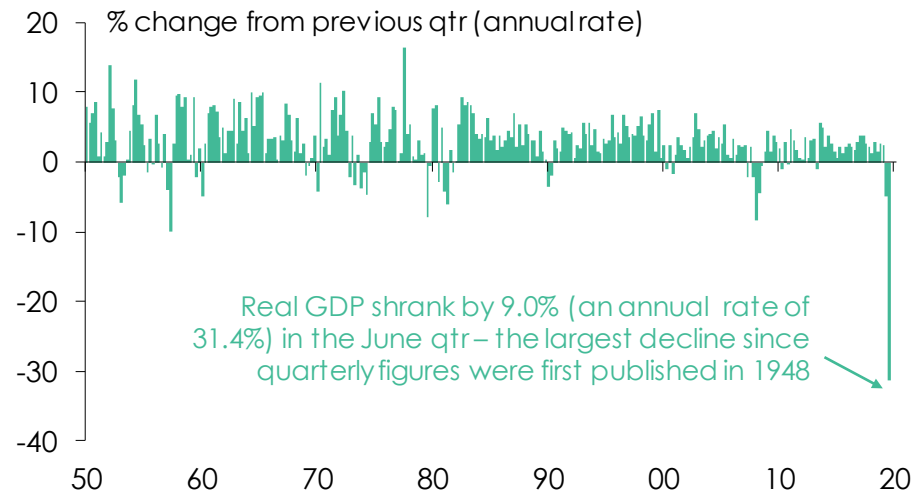
- There's nothing untoward about the first or fourth of these proposals – but the second is worrying, and the third could be as well

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

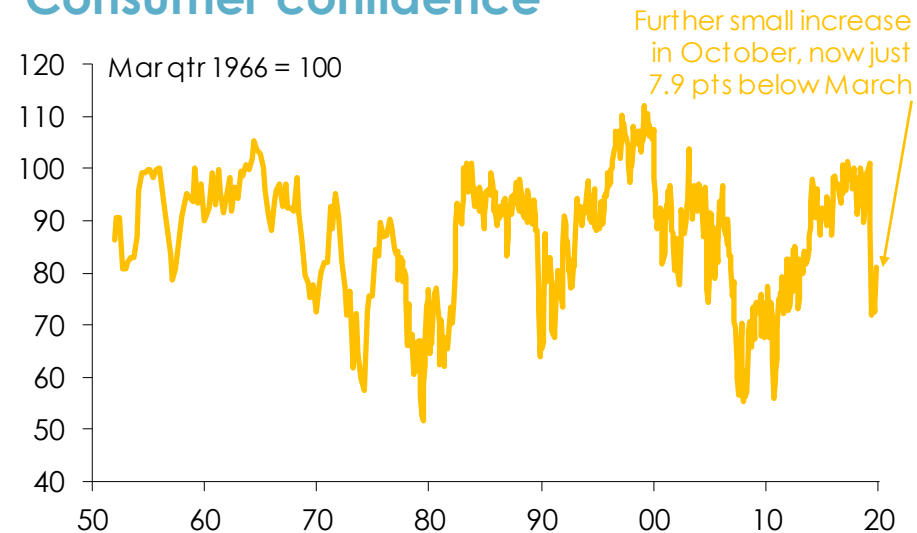


# After its sharpest contraction since the 1930s in the first half of this year, growth in the US economy rebounded in Q3, but may be slowing in Q4

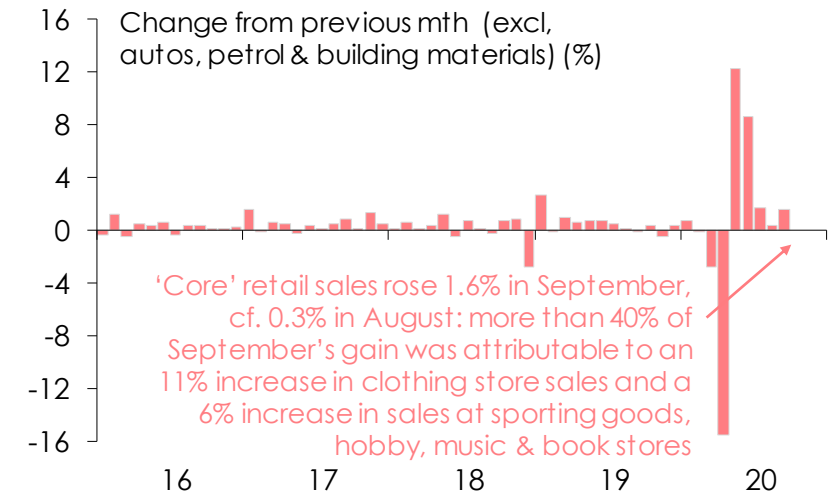
## Real GDP



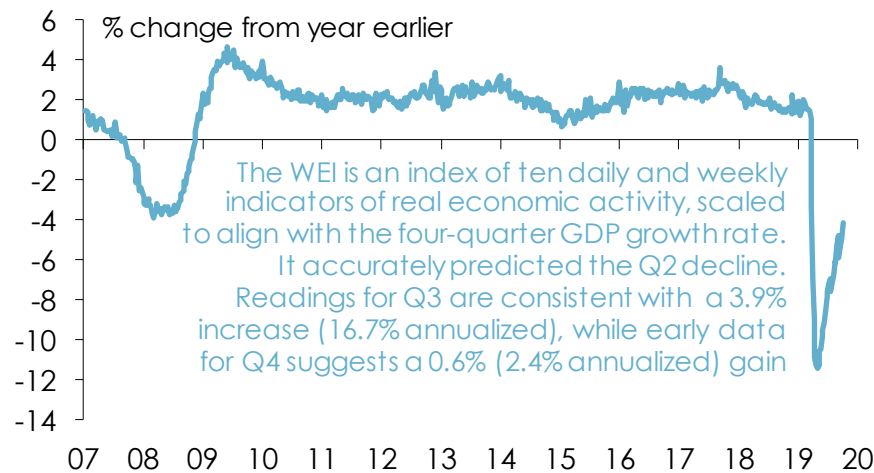
## Consumer confidence



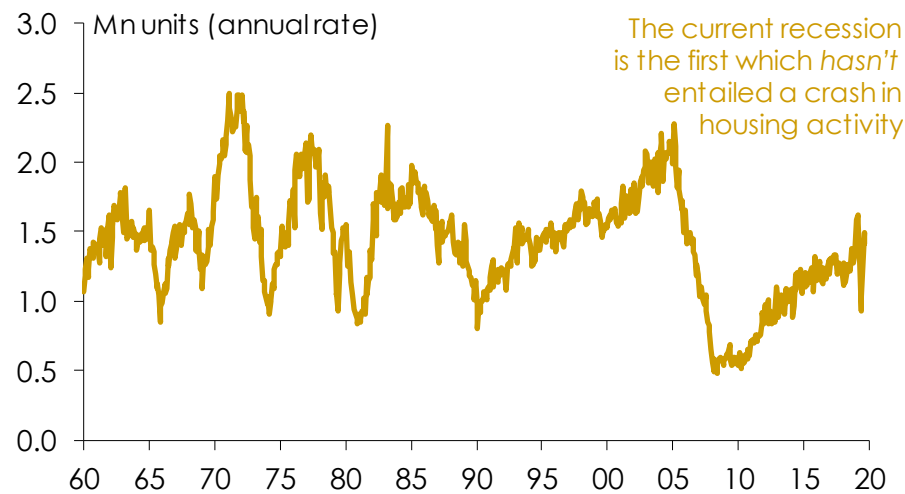
## 'Core' retail sales



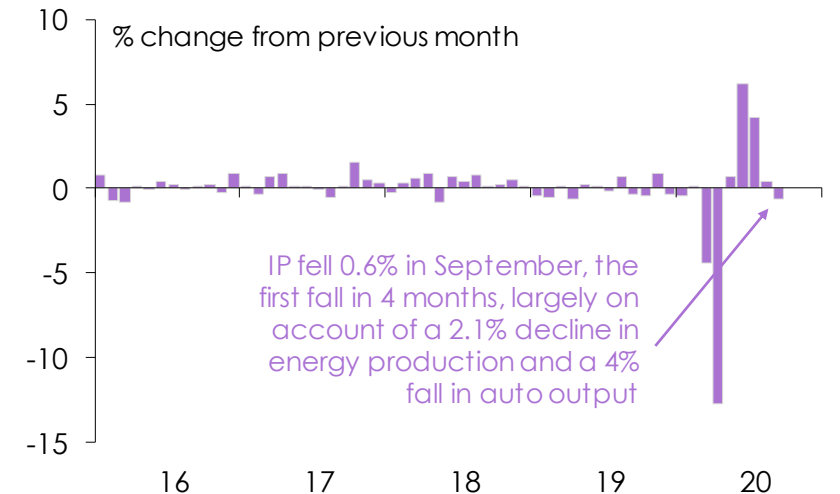
## NY Fed weekly economic index



## Housing starts

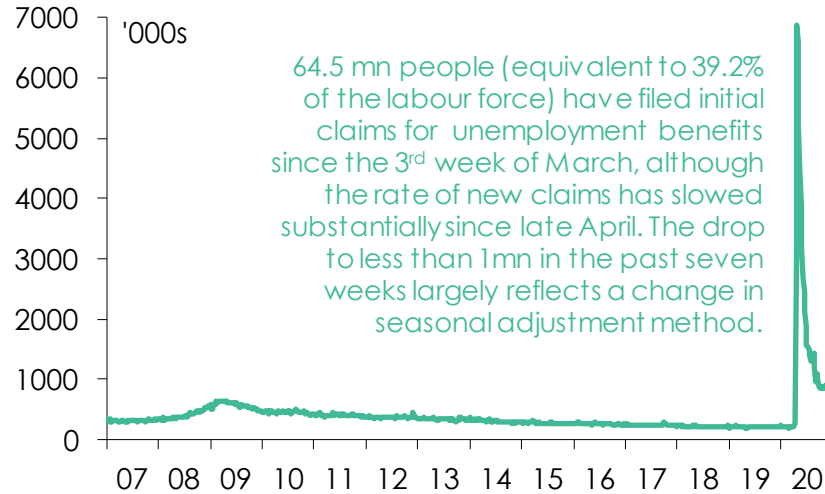


## Industrial production

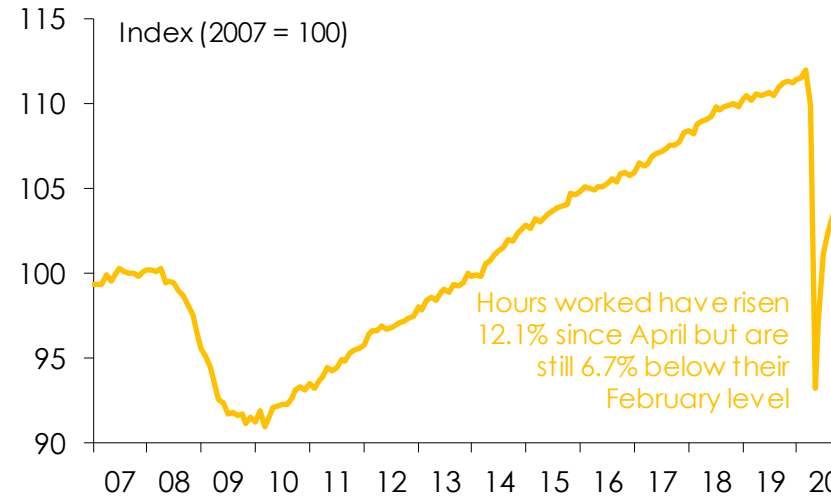


# September's 661K increase in payrolls was the smallest since employment bottomed in April: the 'effective' unemployment rate is still 11%

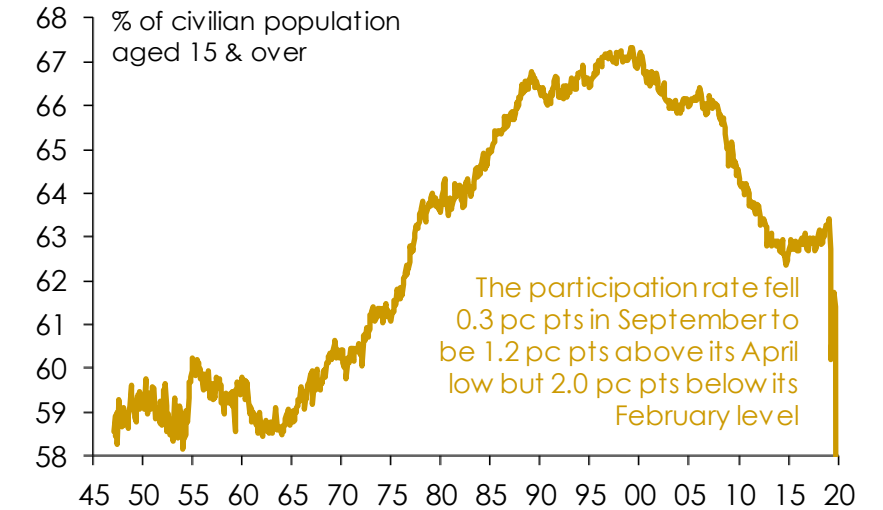
## Unemployment benefit claims



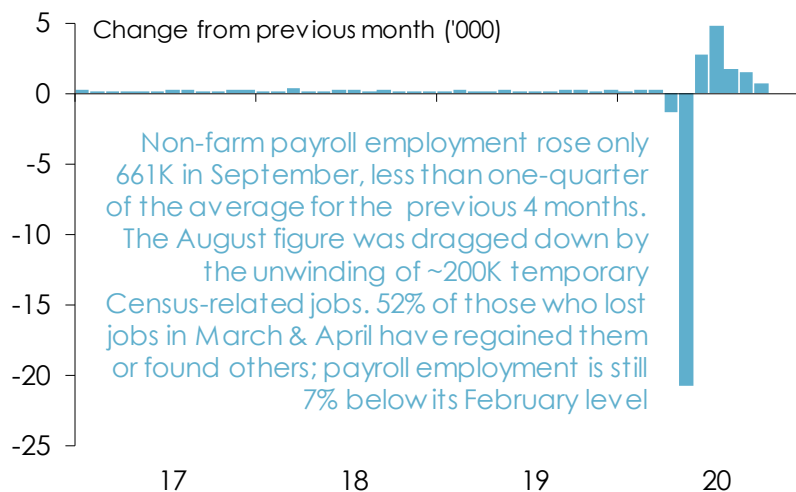
## Hours worked (private sector)



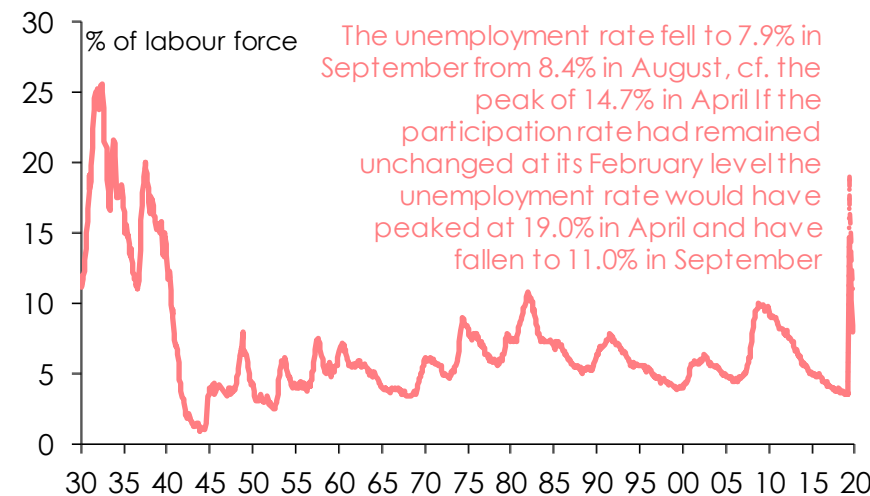
## Labour force participation rate



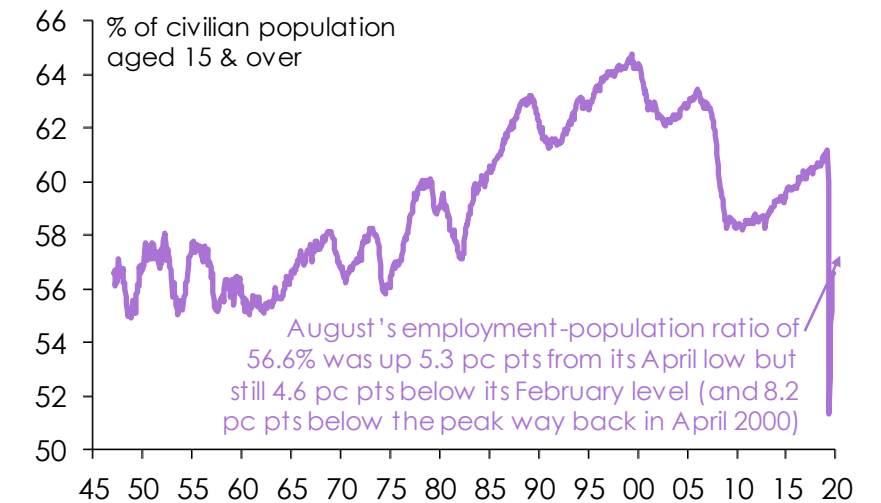
## Non-farm payroll employment



## Unemployment rate

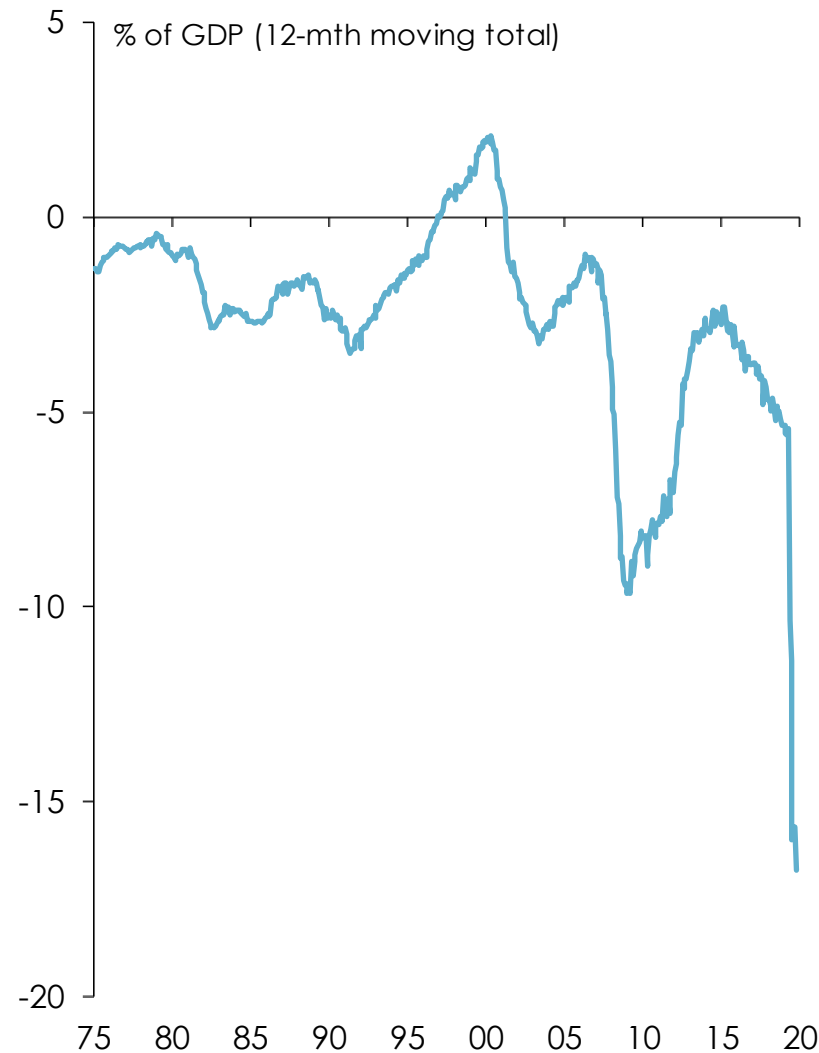


## Employment to population ratio

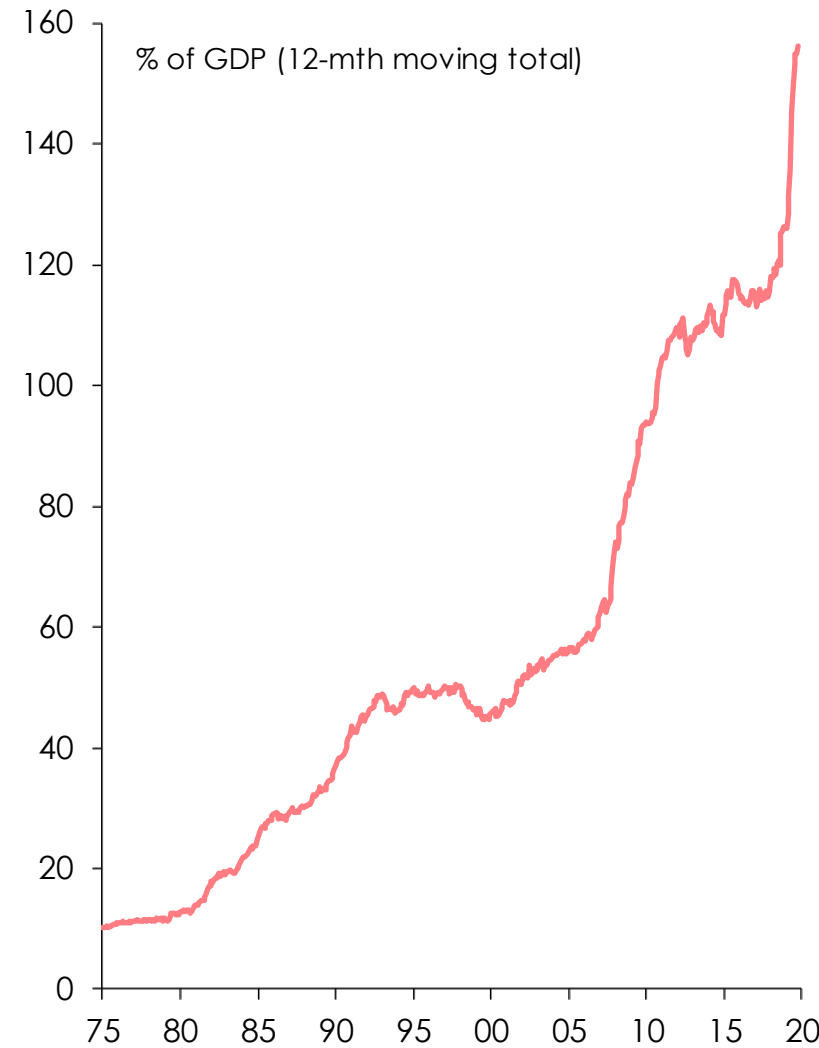


# The US budget deficit has blown out dramatically since the end of March, reaching US\$3.1 trn (16¾% of GDP) in the 12 months ended September

## US Federal budget deficit



## US gross Federal debt

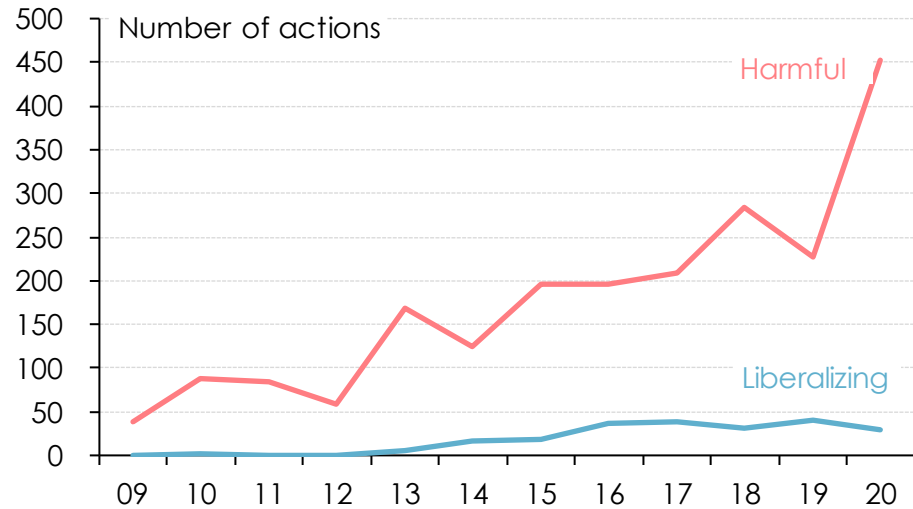


- ❑ The US budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to \$24.1trn (126% of GDP)
- ❑ The budget was in deficit by US\$125bn in September, a month in which there's usually a surplus (the last September deficit was in 2011)
- ❑ Over the 12 months to September the deficit was US\$3.1trillion, equivalent to 16.8% of GDP (cf. the previous peak of 9.0% of GDP in the 12 months ended December 2009, and the highest since 1945 when the deficit reached 20.8% of GDP)
- ❑ The market value of gross federal debt rose \$237bn to \$29.2 trn (156% 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

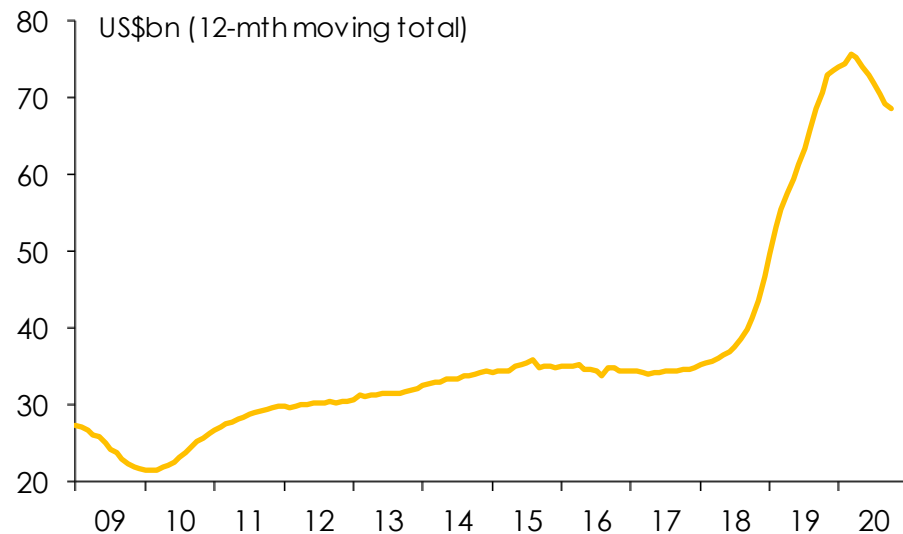
Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna. The October budget data will be released on 11<sup>th</sup> November. [Return to "What's 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

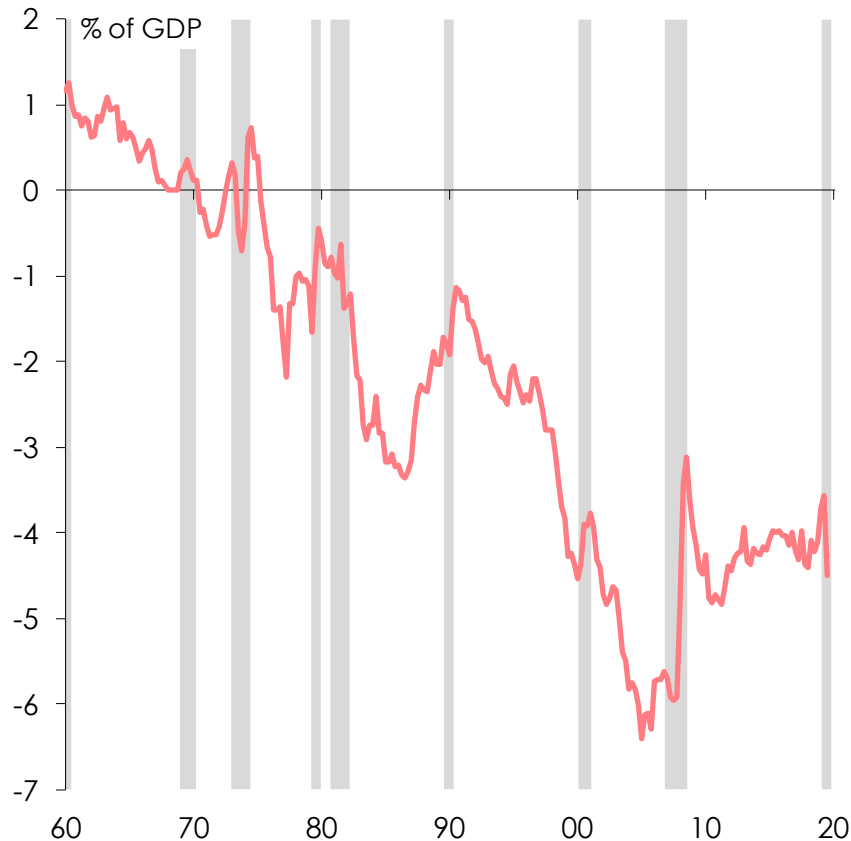


Sources: The Brookings Institution; Centre for Economic Policy Research, [Global Trade Alert](#); Global Dynamics (data up to 2<sup>nd</sup> October); [US Treasury Department](#). [Return to "What's New"](#).

- ❑ 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"

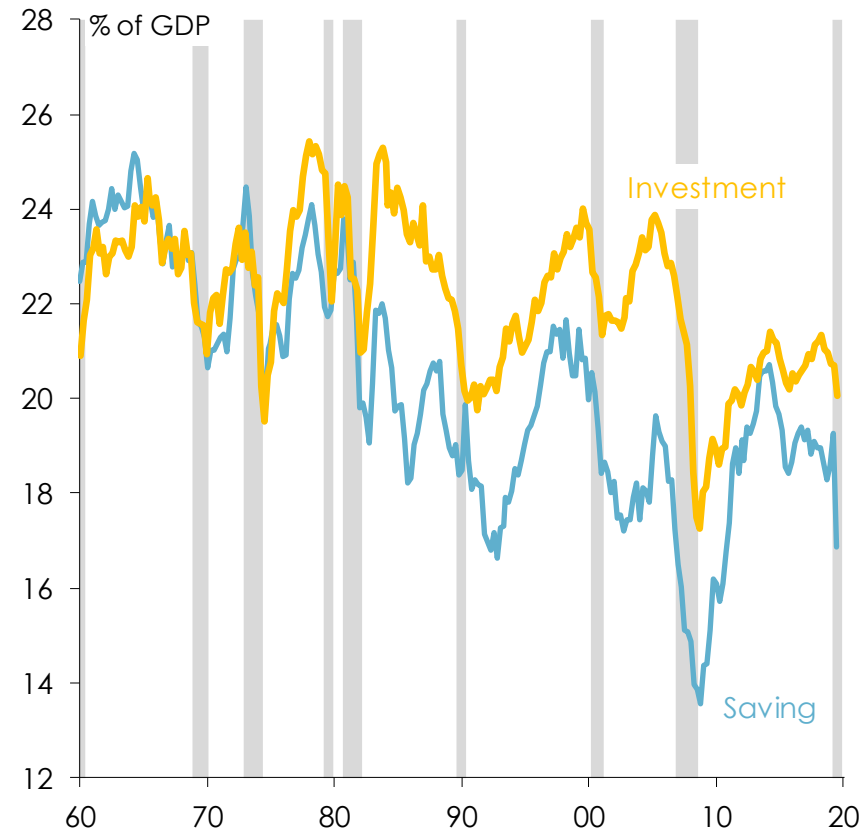
# Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

## US current account balance



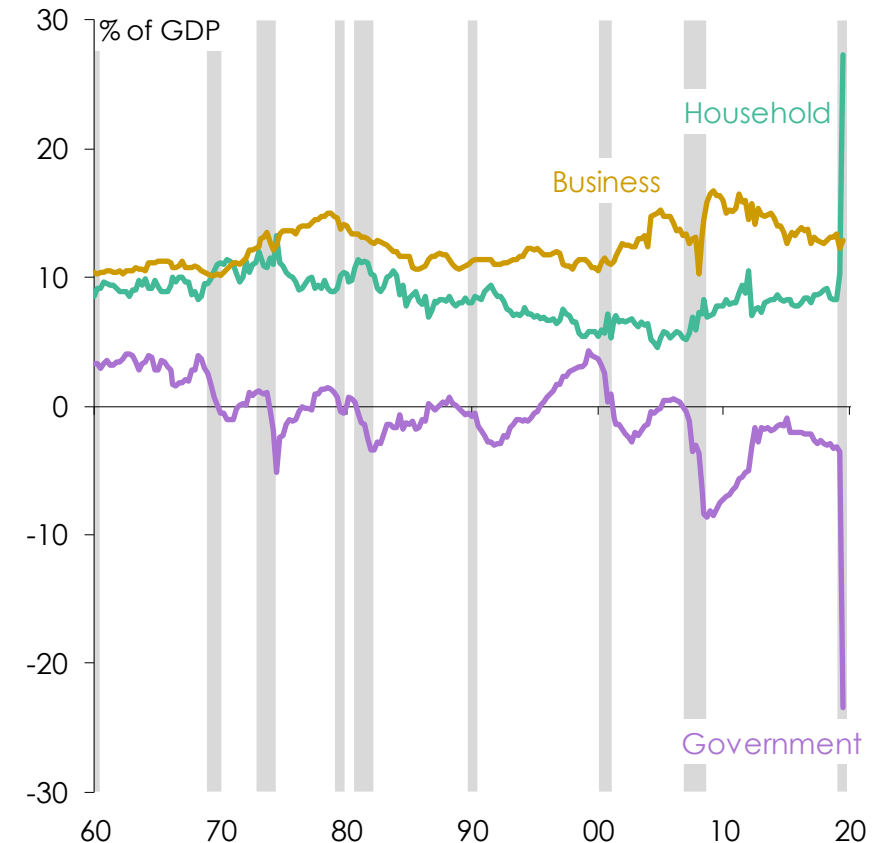
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

## 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

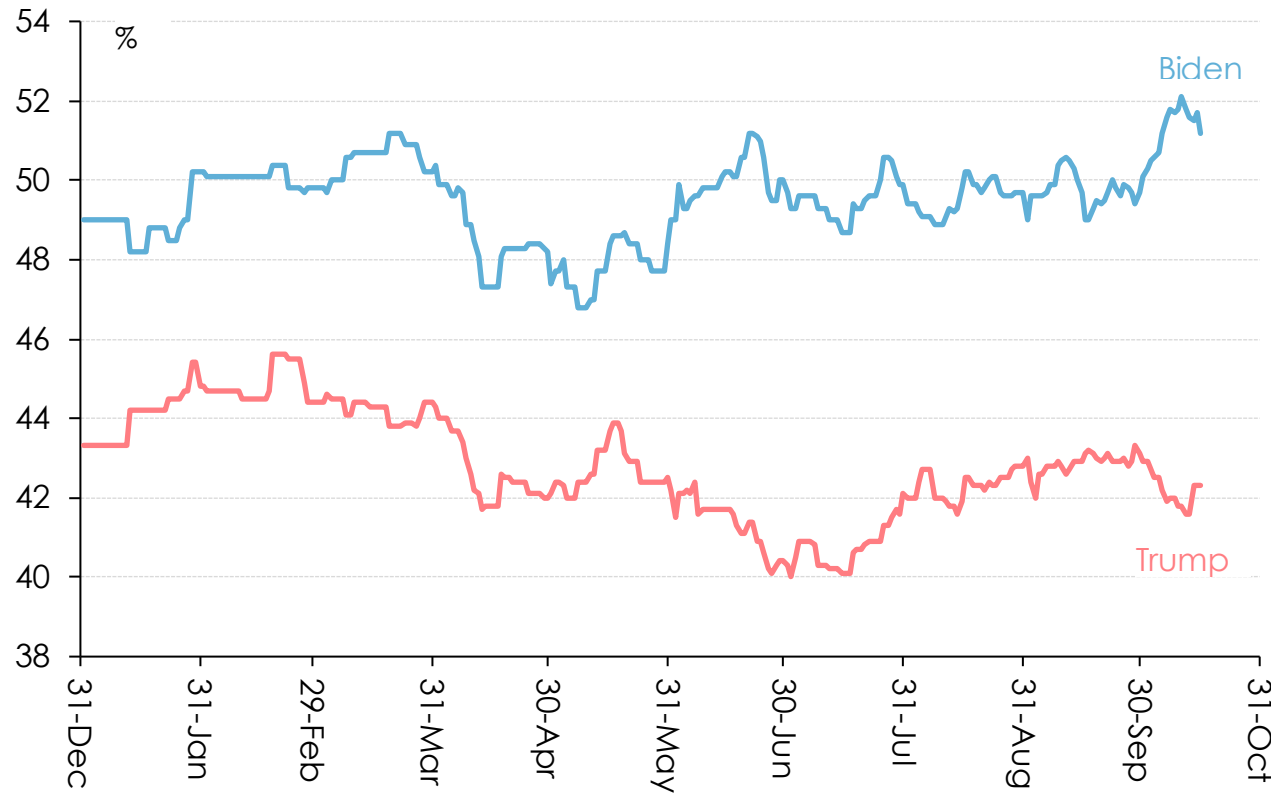


The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving (though monthly data says household saving fell in Q3)

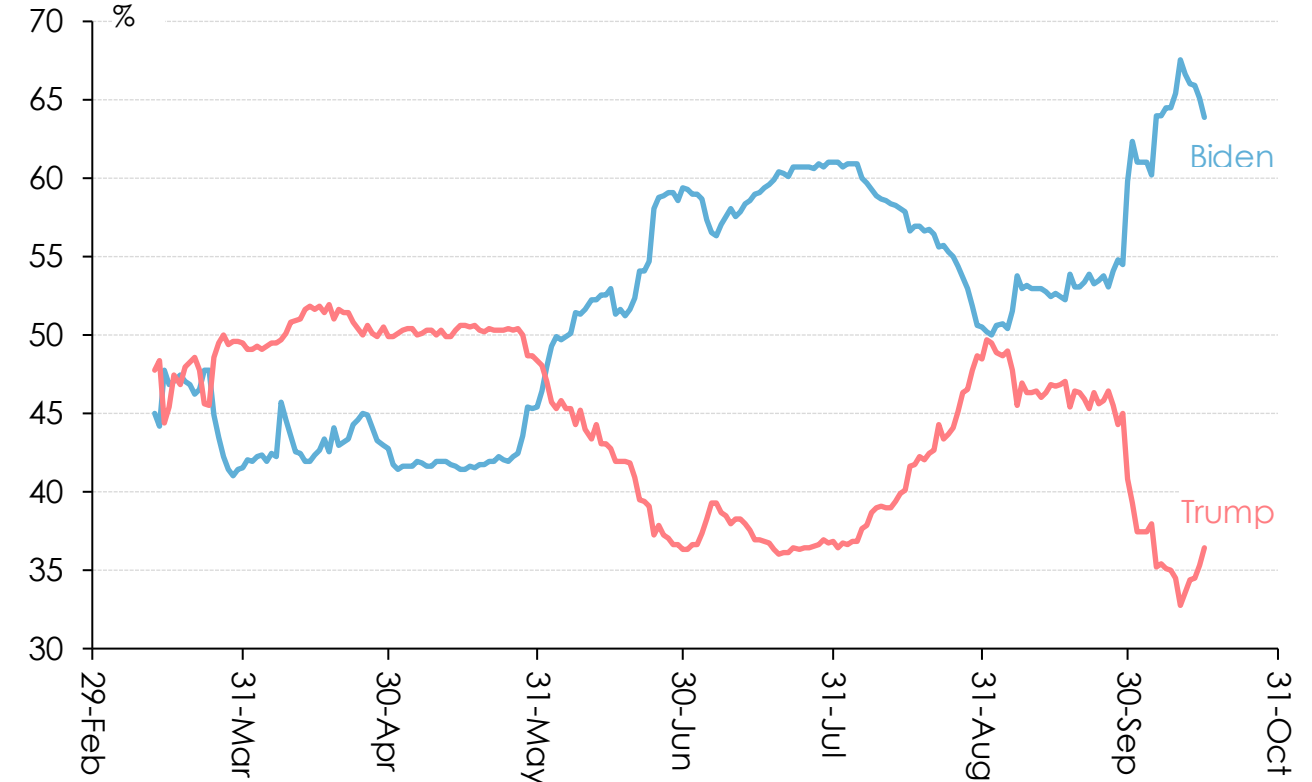
Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#).  
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

# Biden's lead over Trump in both opinion polls and betting odds narrowed this week, but still remains substantial

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



Winner of November US Presidential election  
– betting odds



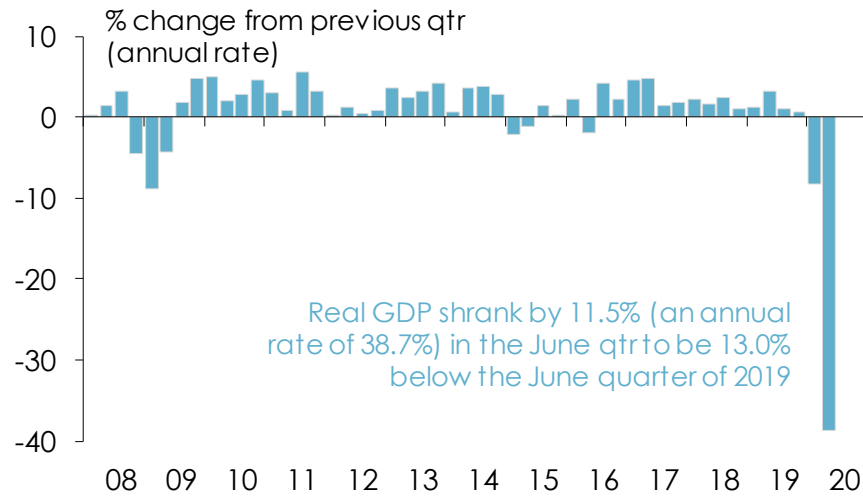
- ❑ Yes, the opinion polls were wrong in 2016 – and the outcome is determined in the Electoral College (which gives a greater weight to votes in smaller states), not by the popular vote – but Biden's lead in the polls is now much larger than Hillary Clinton's was at this stage four years ago and there 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 16<sup>th</sup> October. Source: [RealClearPolitics](#). [Return to "What's New"](#).

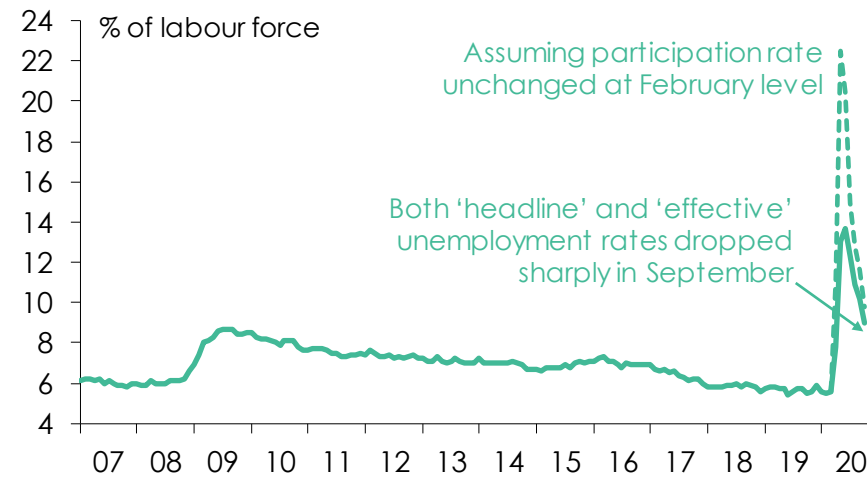


# Canada has had a more severe recession than the US – or Australia (although Canadian house prices are holding up remarkably well)

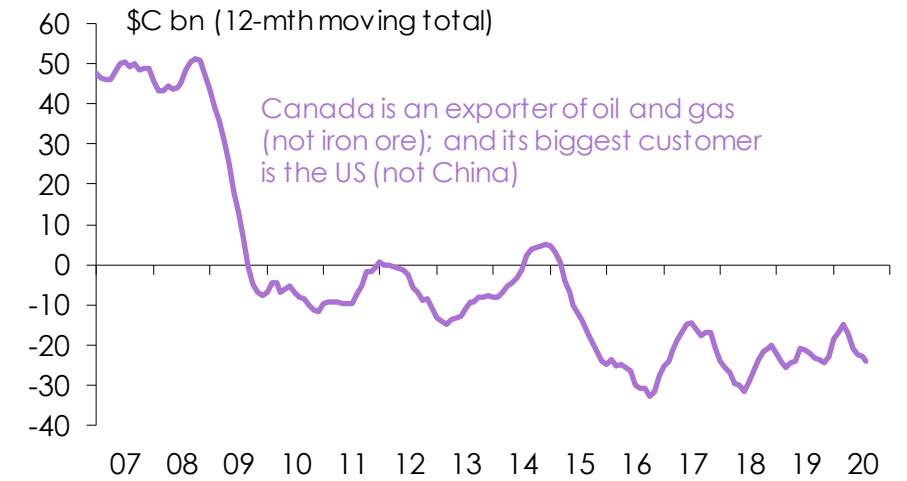
## Real GDP



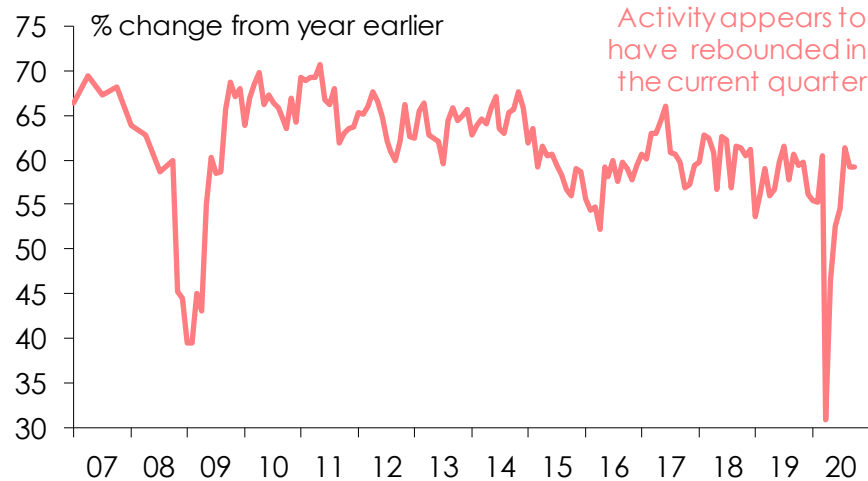
## Unemployment rate



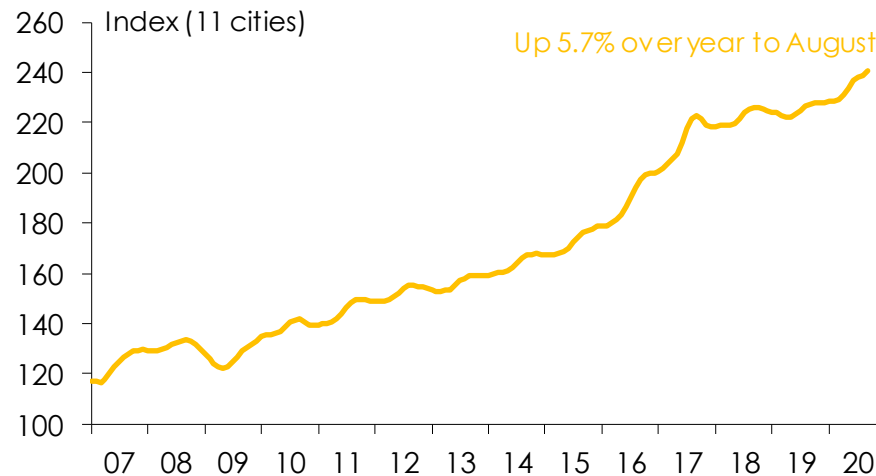
## Merchandise trade balance



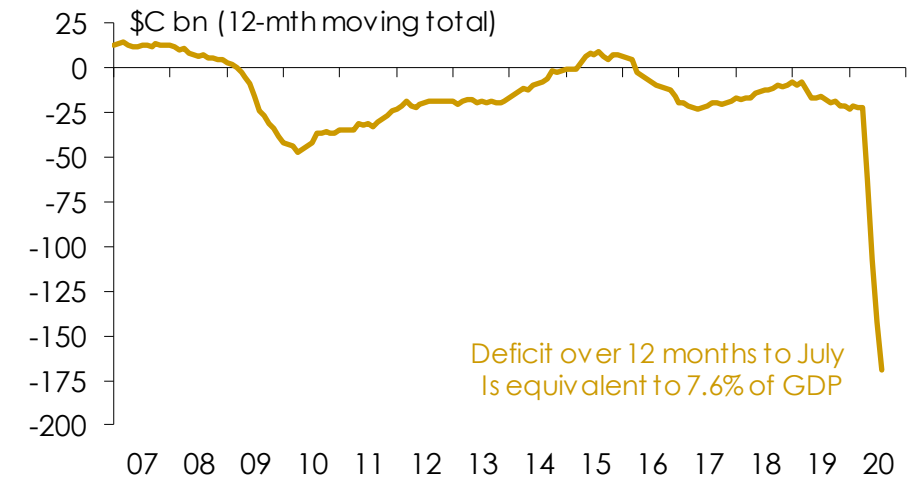
## CFIB 'business barometer'



## House prices

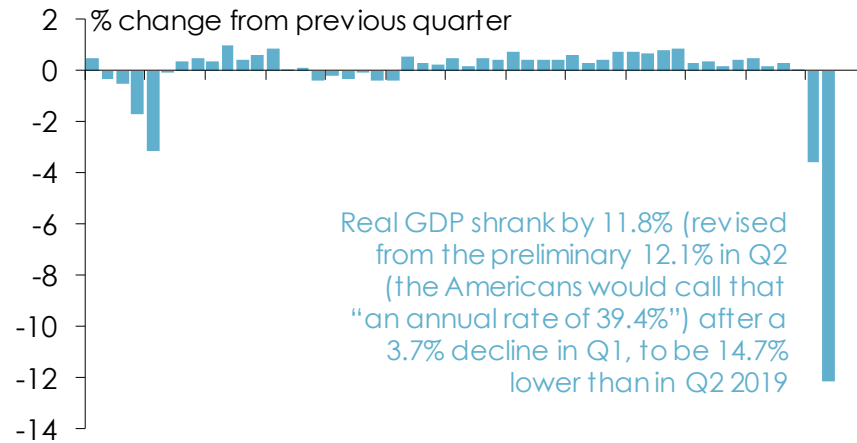


## Federal budget balance

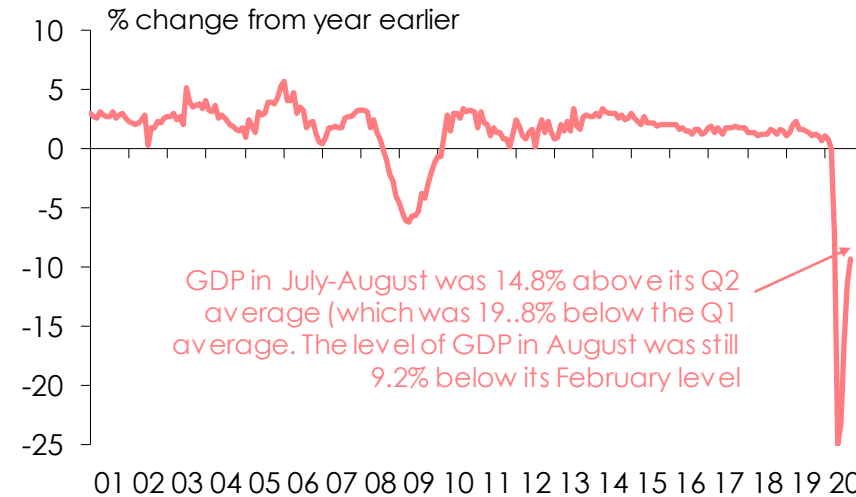


# Europe has experienced a larger contraction in real GDP than the US – although unemployment hasn't risen nearly as much

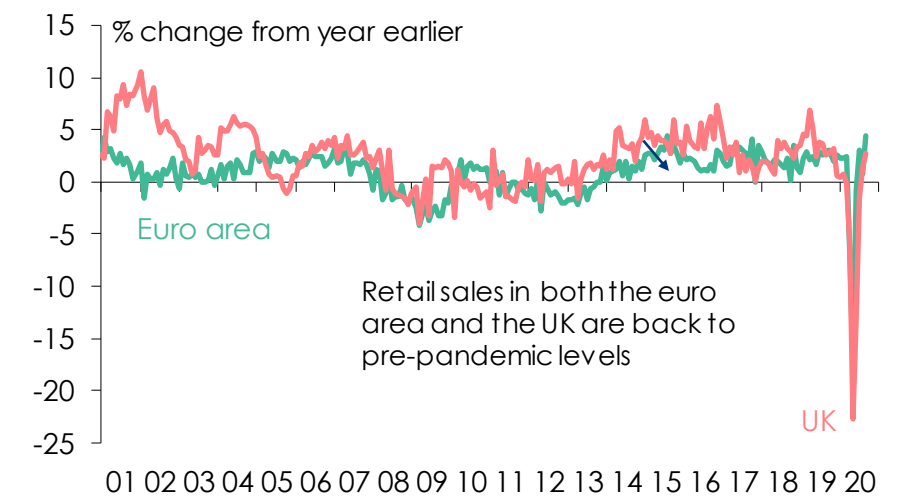
## Euro area real GDP



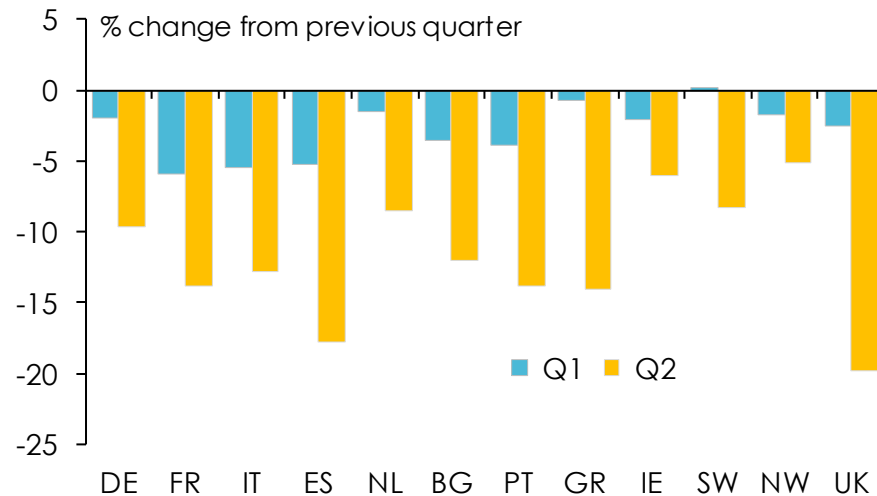
## UK monthly GDP



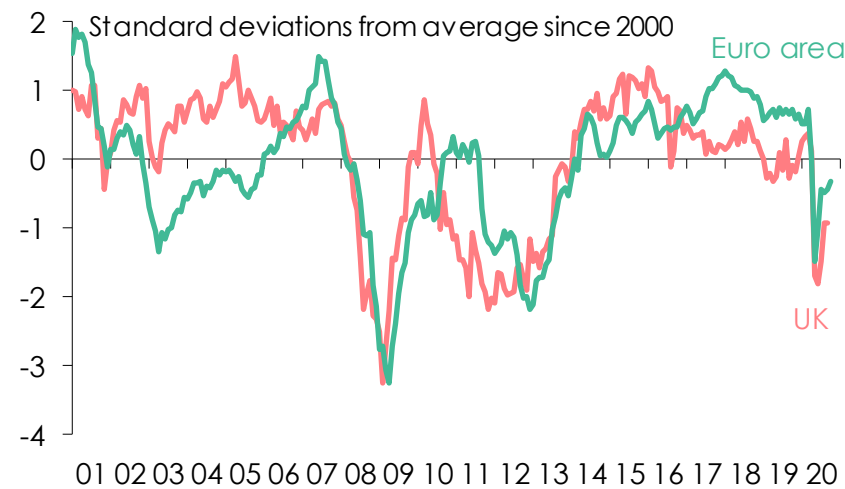
## Retail sales volume



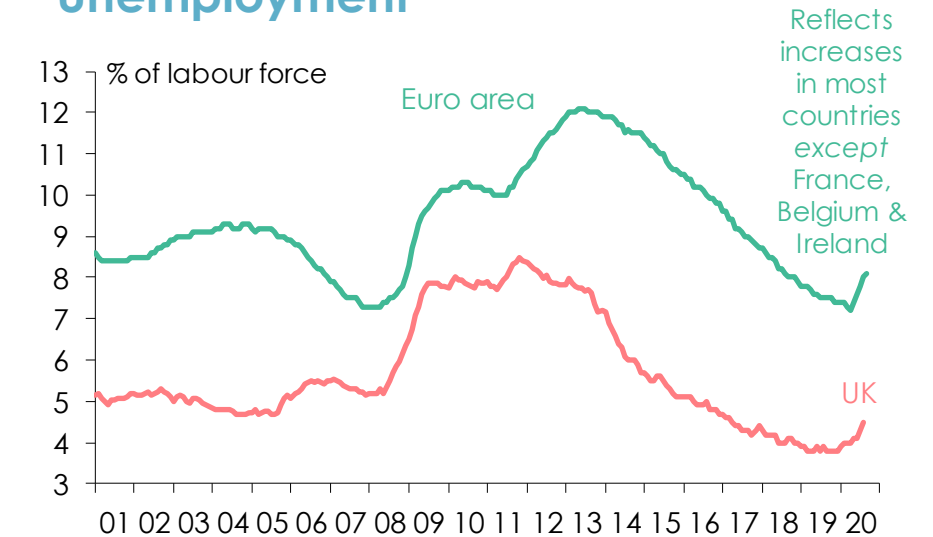
## Quarterly GDP by country



## Consumer confidence



## Unemployment

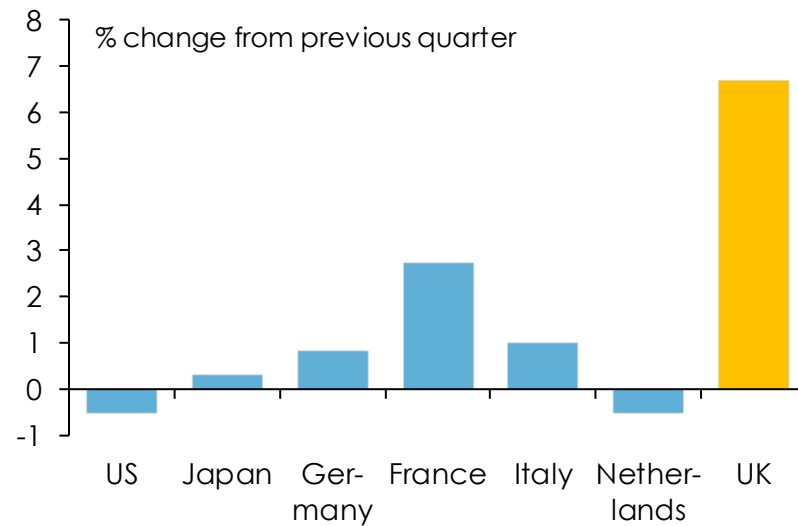


Sources: Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average.  
[Return to "What's New"](#).

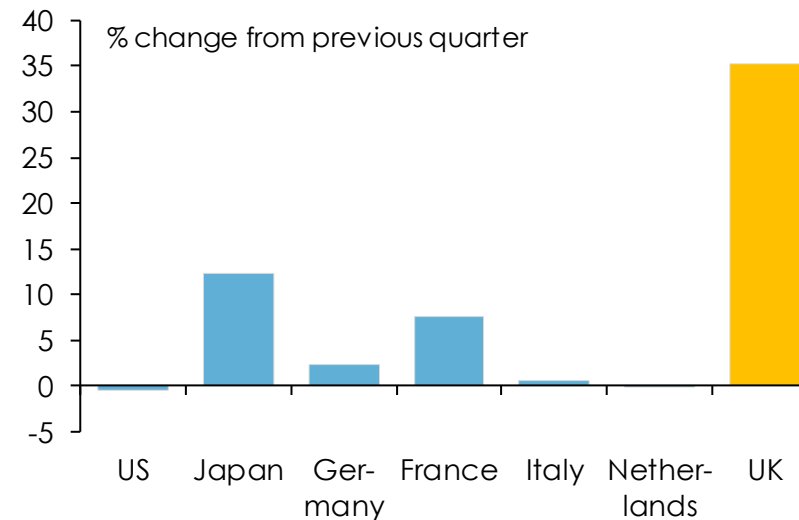


# There's something fishy about the deflators used in compiling the UK's Q2 national accounts

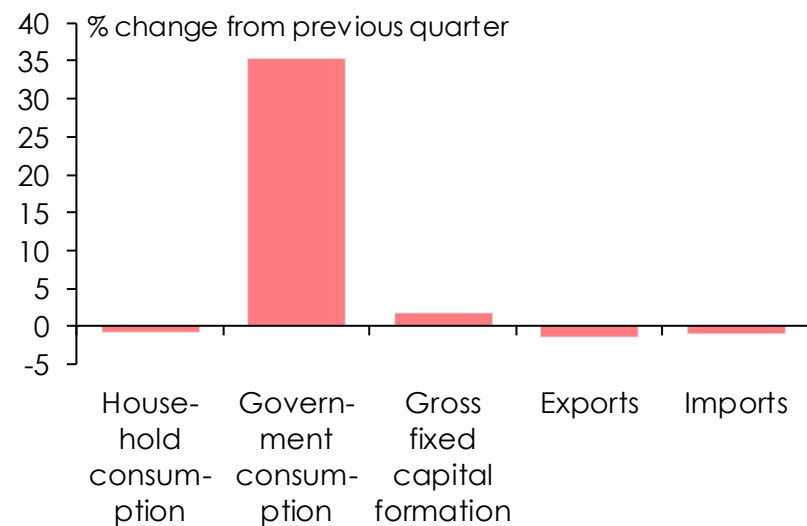
## Q2 GDP deflators



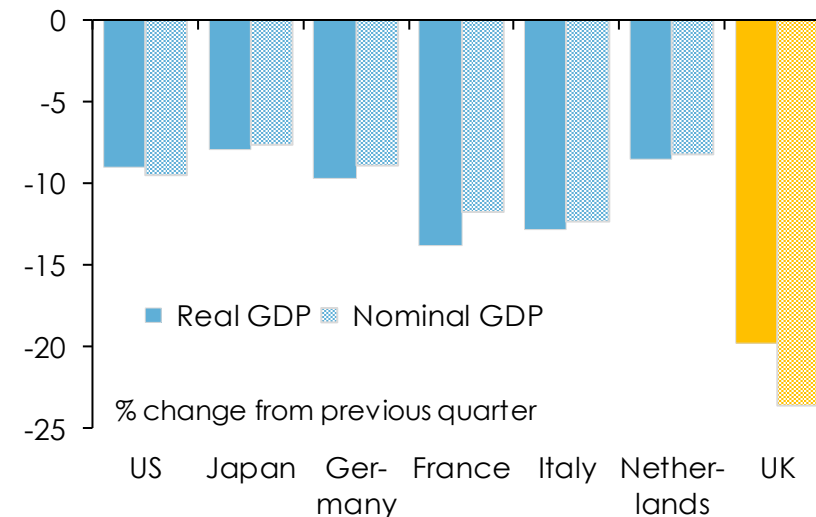
## Q2 gov't consumption deflators



## UK Q2 expenditure deflators



## Q2 real and nominal GDP

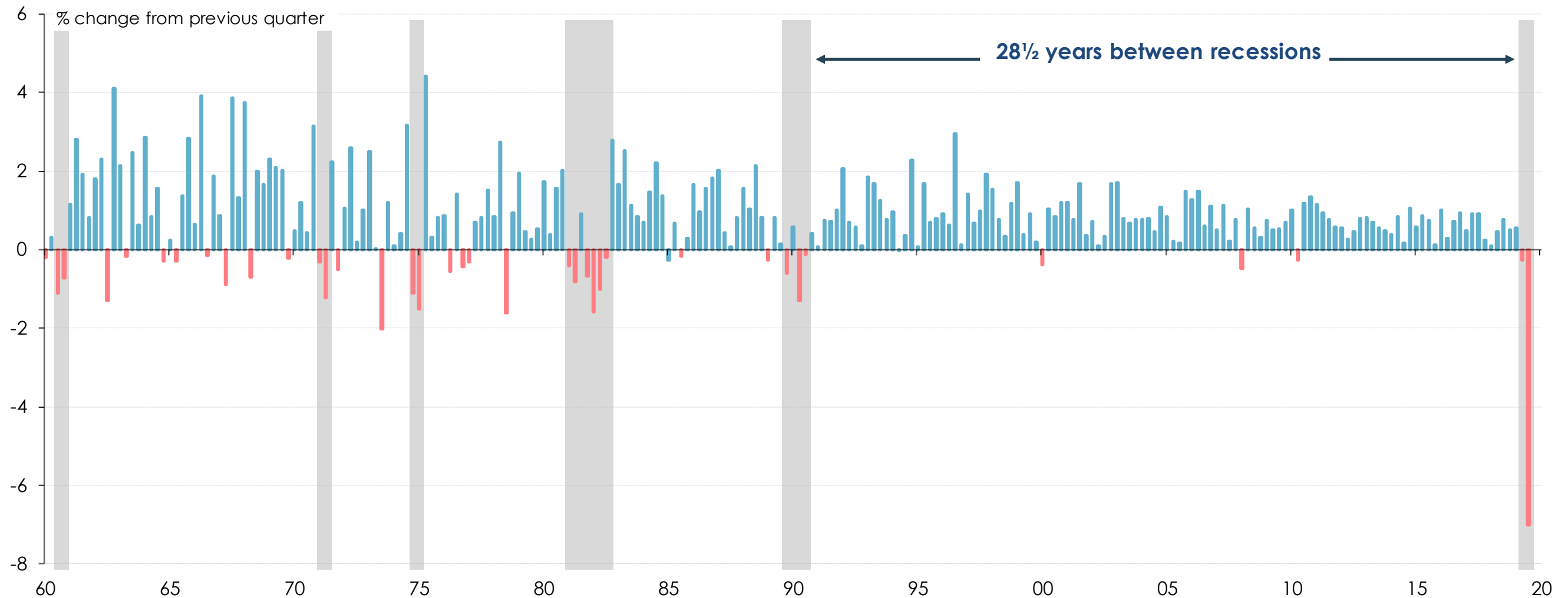


- ❑ According to the UK's Office for National Statistics, the UK's real GDP fell by 19.8% in Q2, but nominal GDP fell by 23.6% - implying that prices (as measured by the implicit price deflator of GDP) rose by 6.7% in Q2
- ❑ This is totally inconsistent with all other measures of UK inflation in Q2 – 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

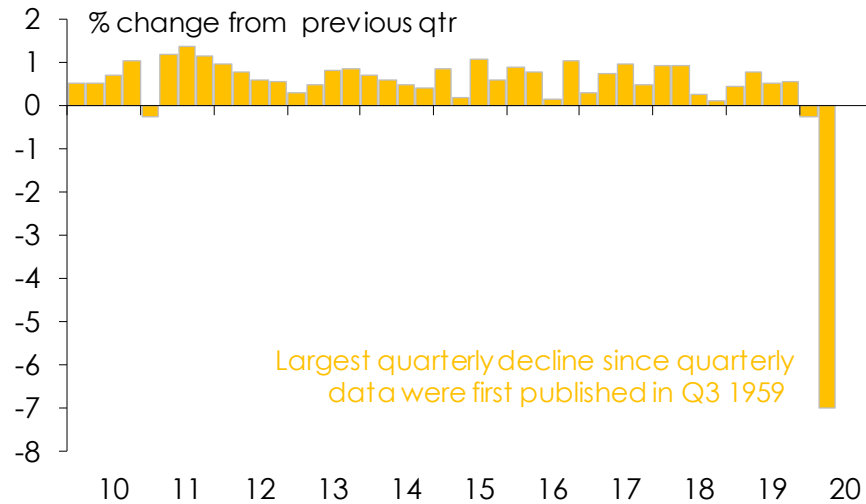
## Quarterly growth in Australian real GDP, 1960-2020



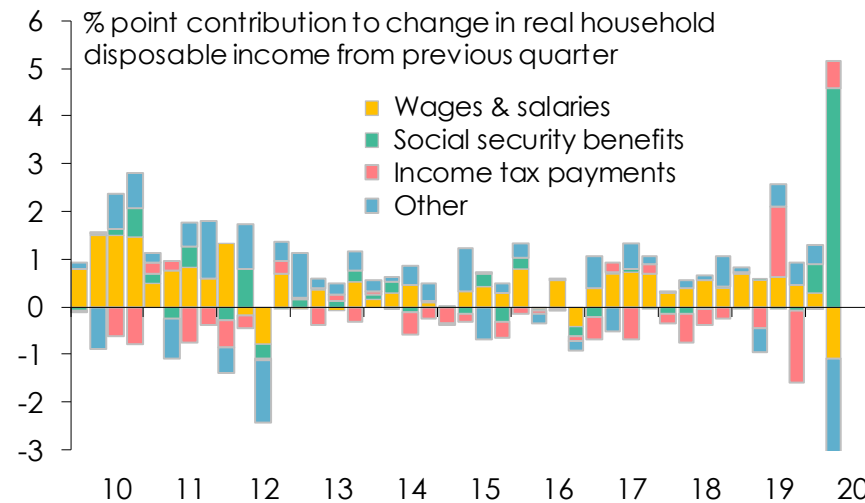
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020. September quarter (Q3) national accounts will be released on 2<sup>nd</sup> December. [Return to "What's New"](#).

# 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

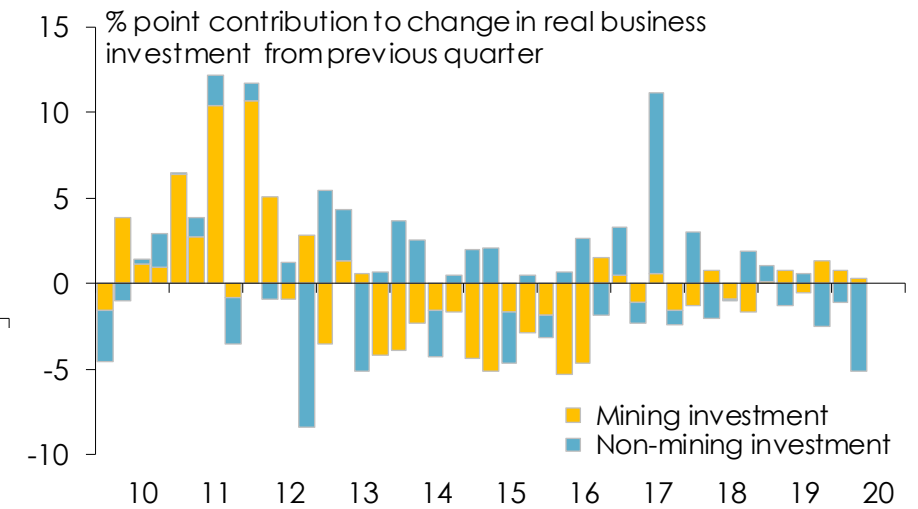
## Quarterly change in real GDP



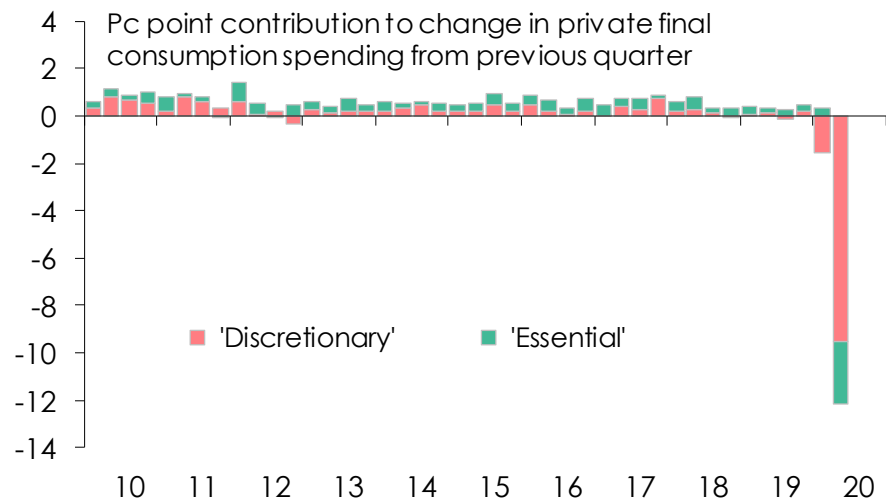
## Household disposable income



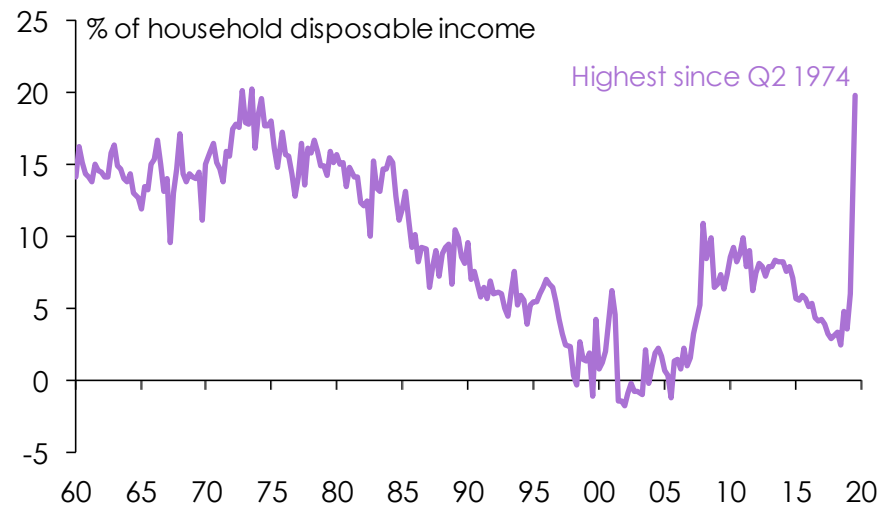
## Business investment expenditure



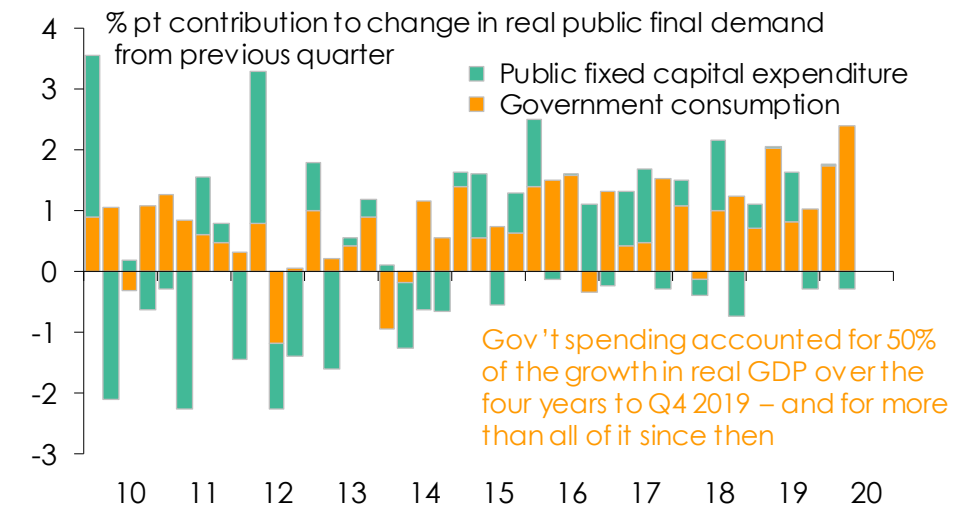
## Household consumption expenditure



## Household saving rate



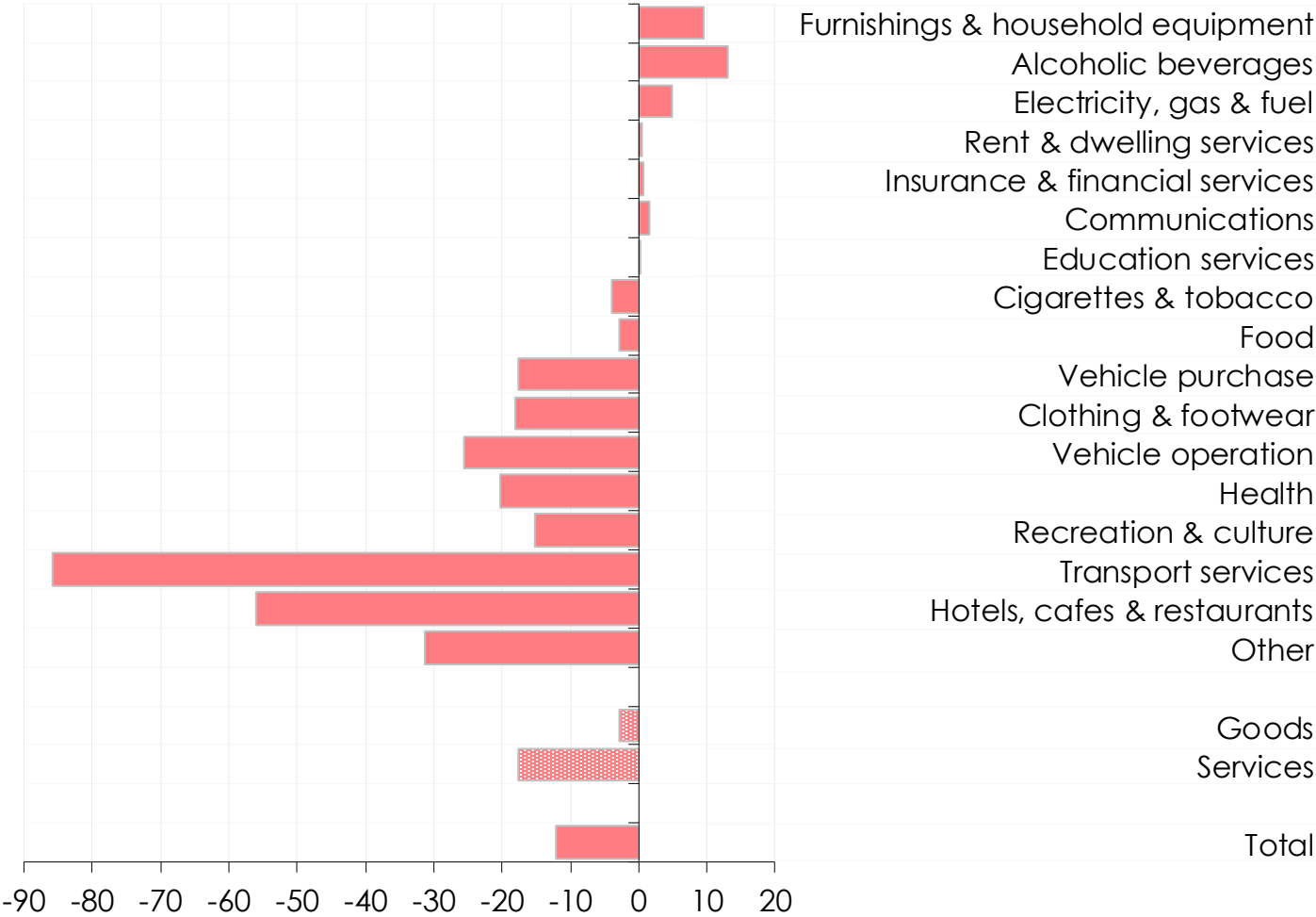
## Public expenditure



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 2<sup>nd</sup> December. [Return to "What's New"](#).

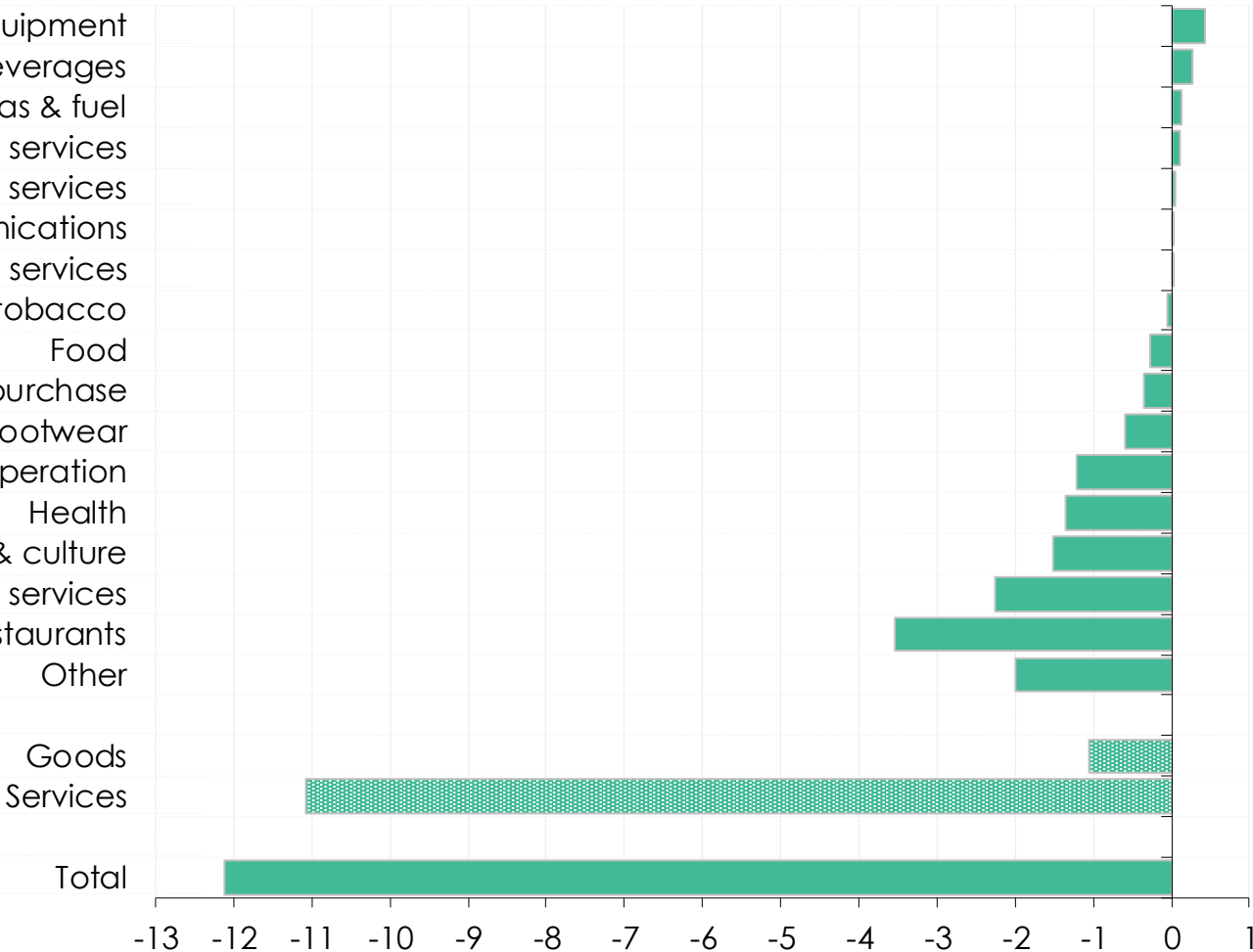
# The record 12.1% fall in consumer spending in Q2 was largely driven by sharp declines in spending on discretionary services

Change in household consumption spending, by category, June quarter



Real pc change in June quarter (from March quarter)

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

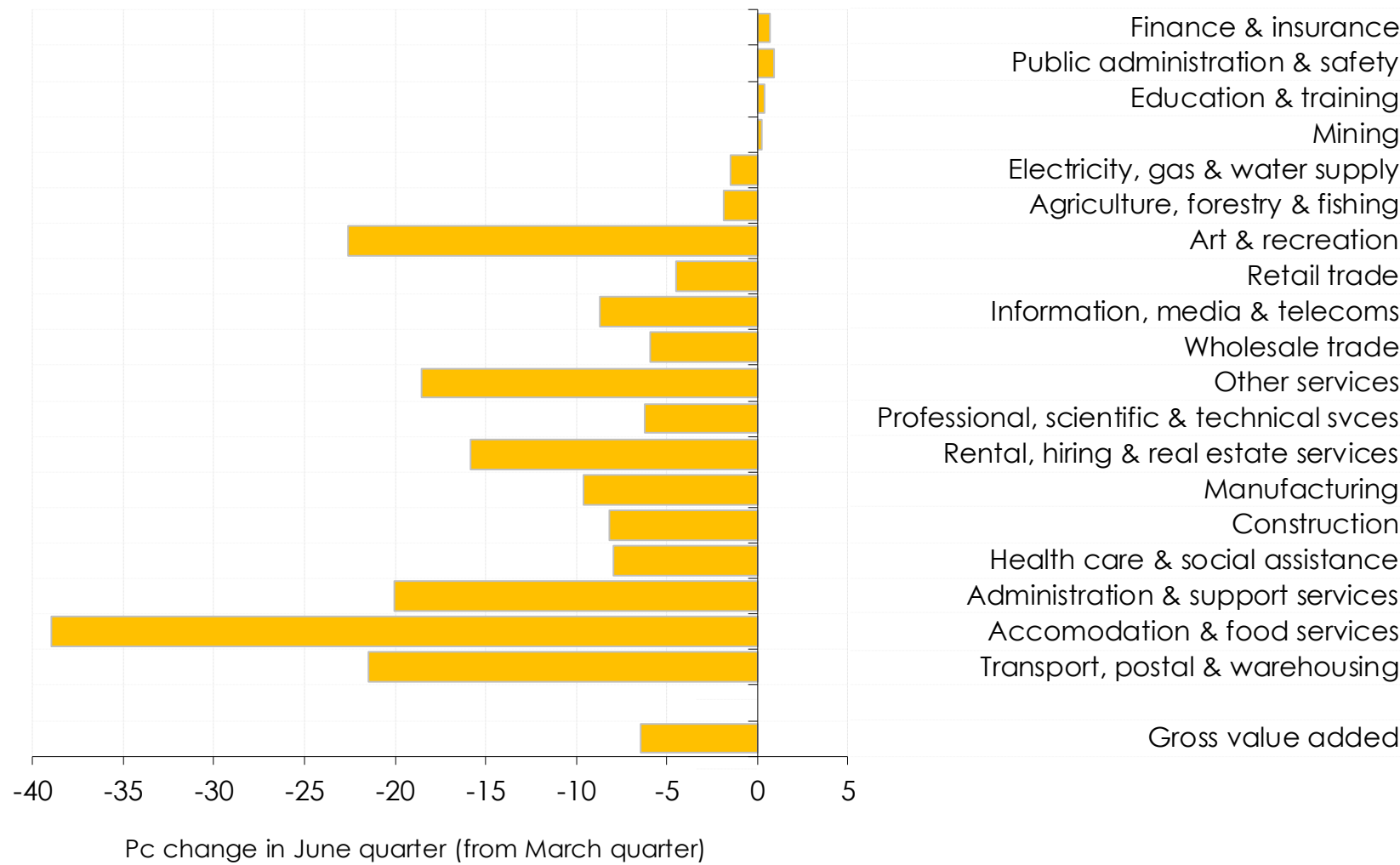


Pc point contribution to real change in household consumption expenditure in June quarter (from March quarter)

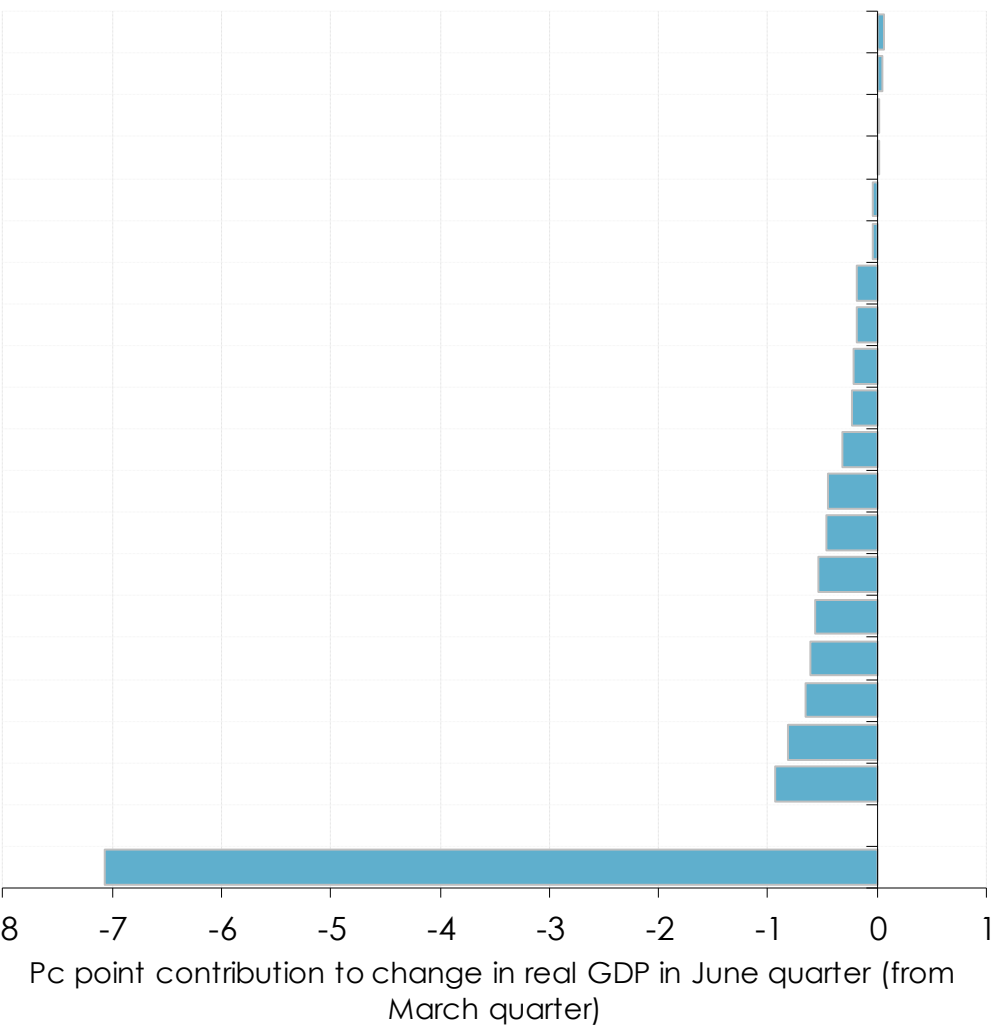
Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). Source: [ABS](#). [Return to "What's New"](#).

# 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



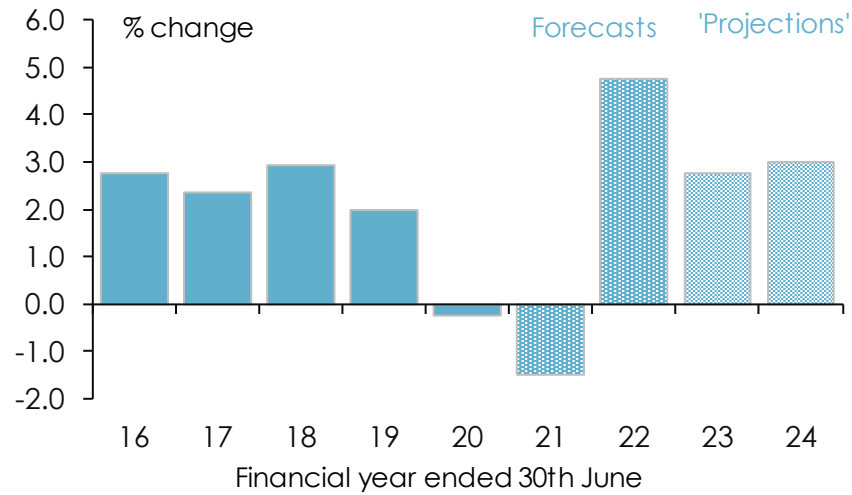
Contribution to change in real GDP, by industry, June quarter



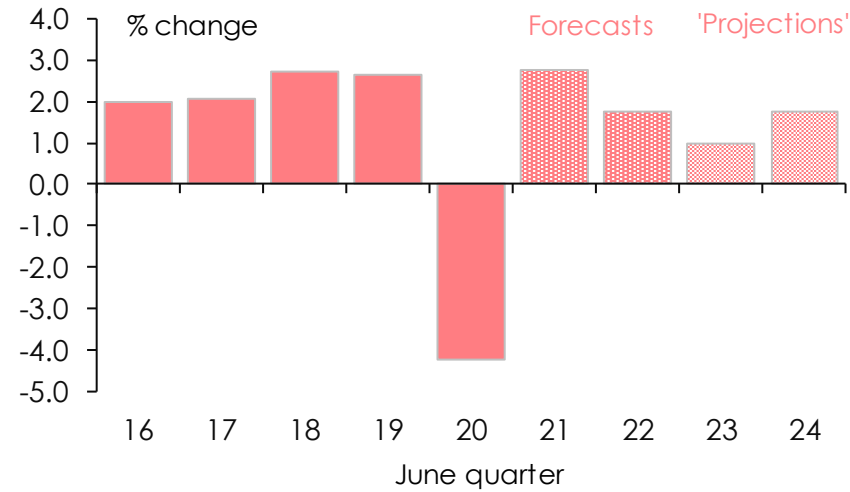
Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts. Source: [ABS](#).  
[Return to "What's New"](#).

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

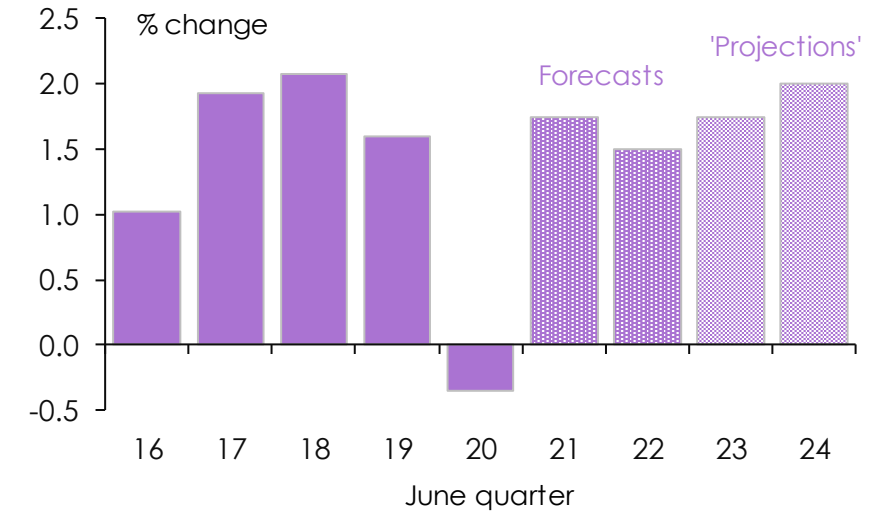
## Real GDP



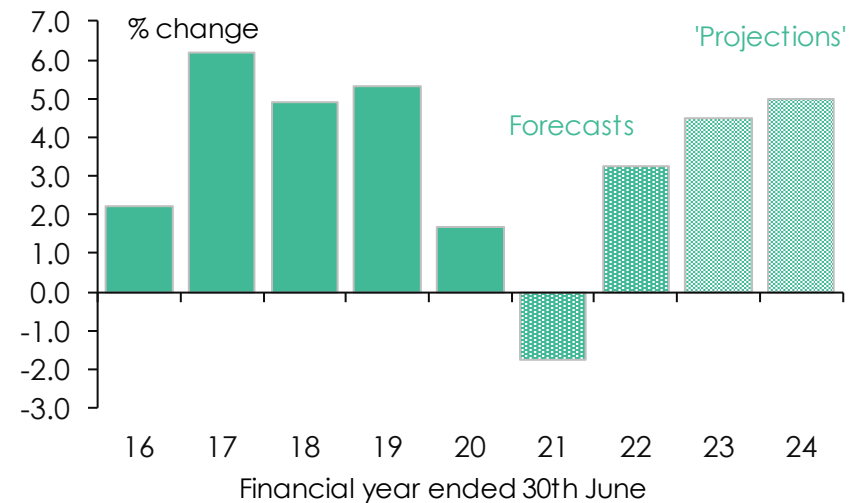
## Employment



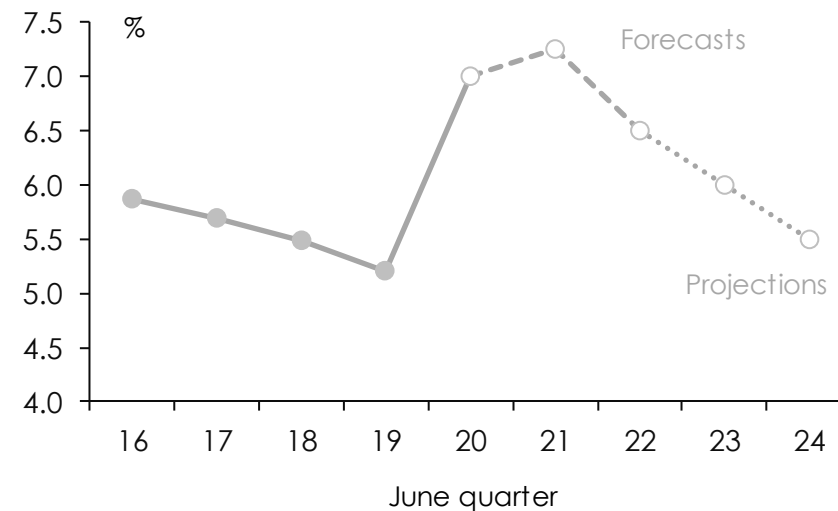
## Consumer price index



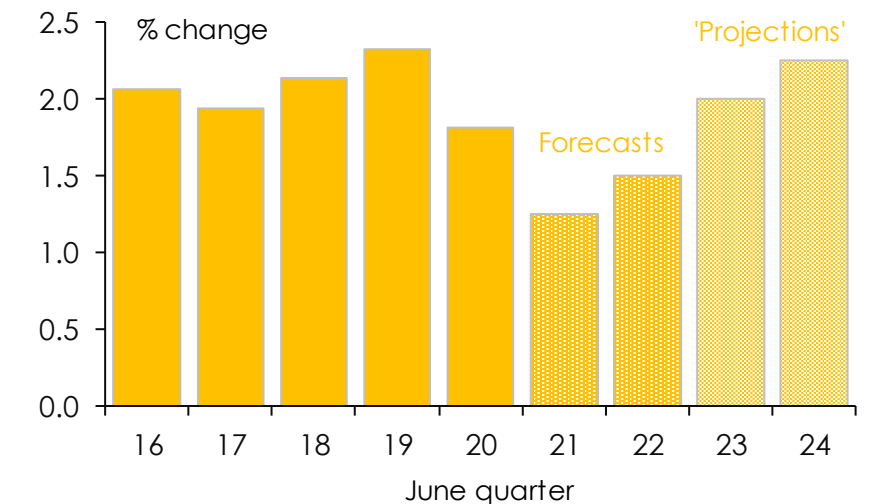
## Nominal GDP



## Unemployment rate



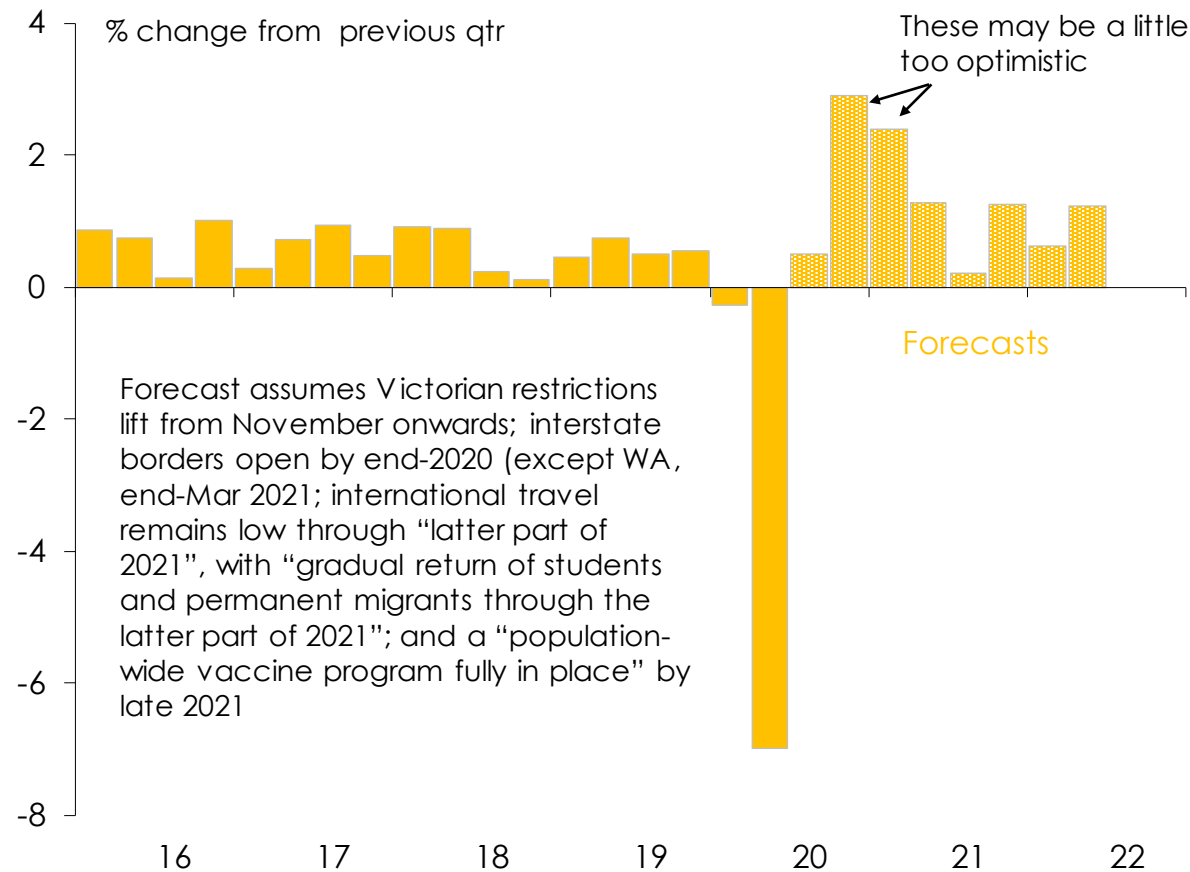
## Wage price index



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](#).

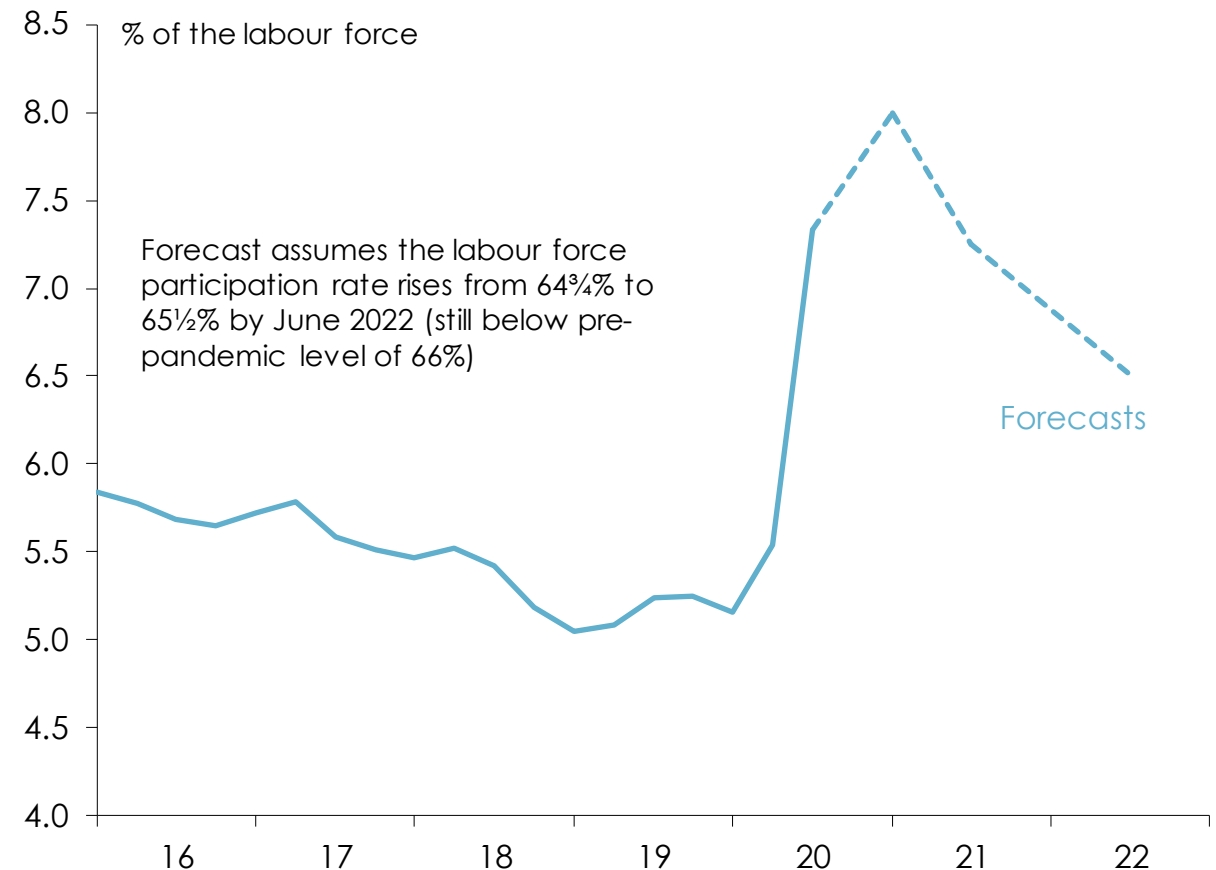
# More detailed forecasts show the Government expects a 'growth surge' over summer followed by more modest growth in 2021-22

## 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

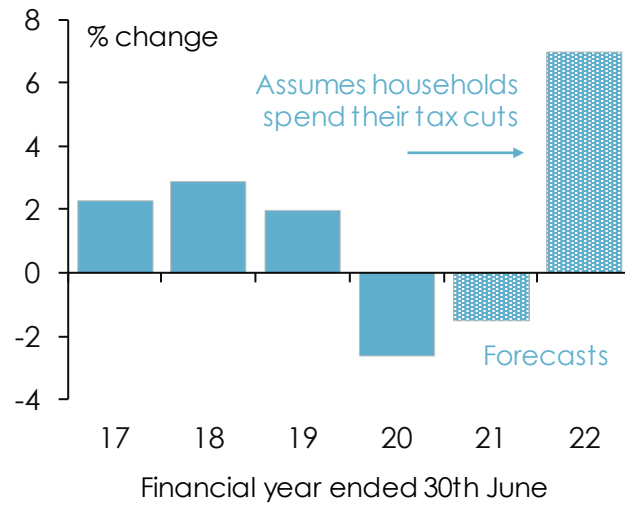


- Treasury expects the unemployment rate to peak at 8% in the December quarter, and then fall to 6½% by the June quarter 2022

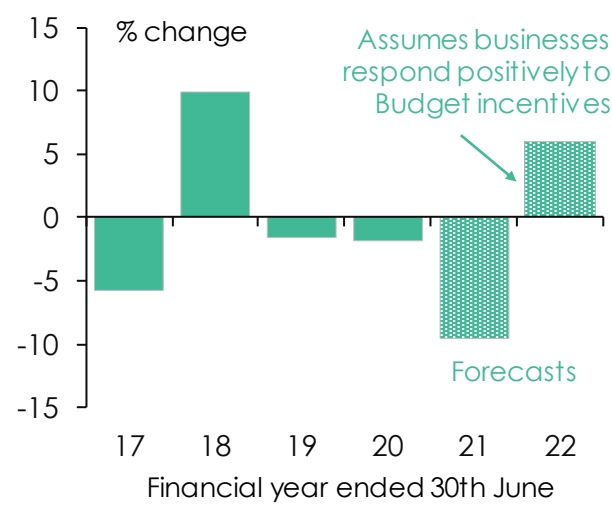


# Household consumption and housing investment are expected to drive the recovery, while the current account balance is set to back into deficit

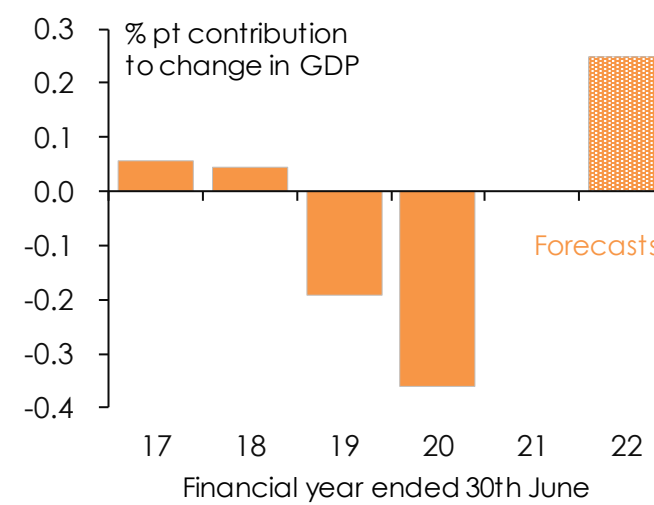
## Household consumption



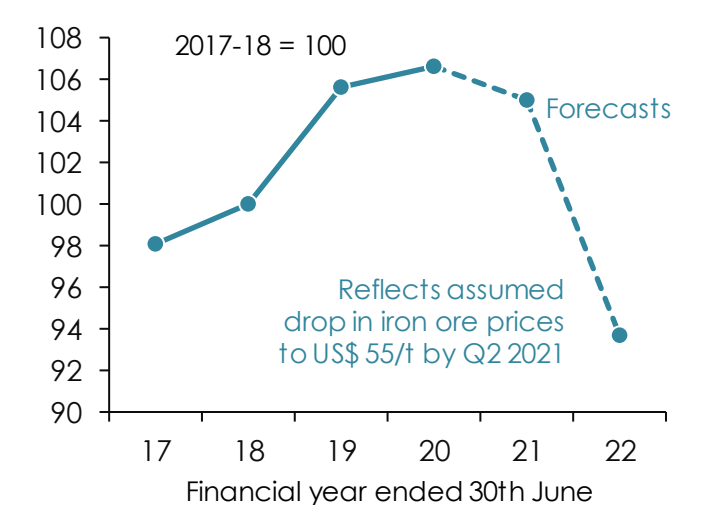
## Business investment



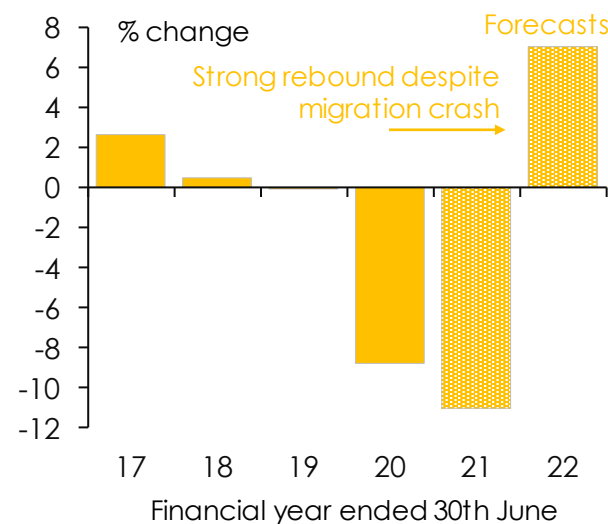
## Change in inventories



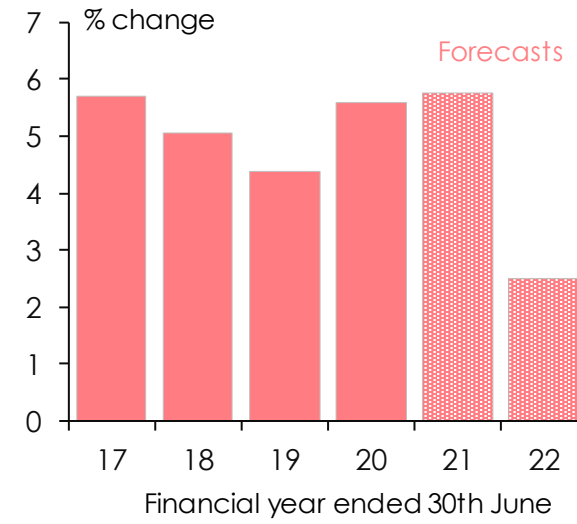
## Terms of trade



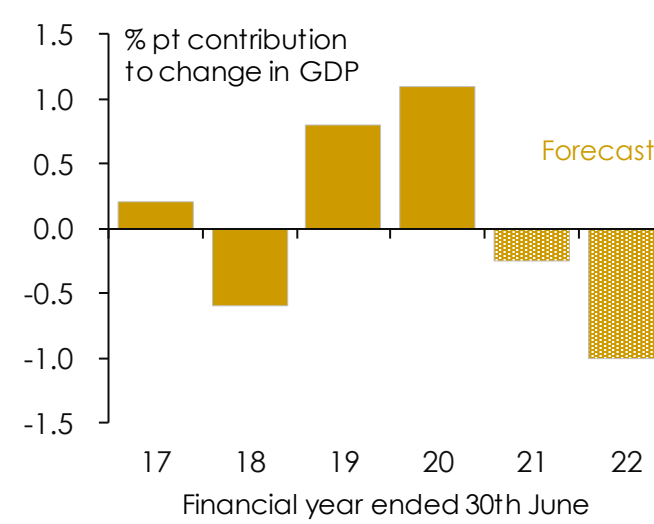
## Dwelling investment



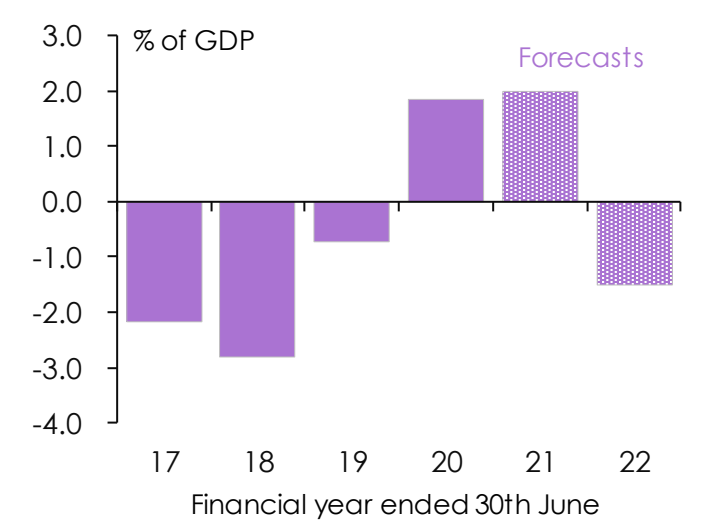
## Public spending



## Net exports



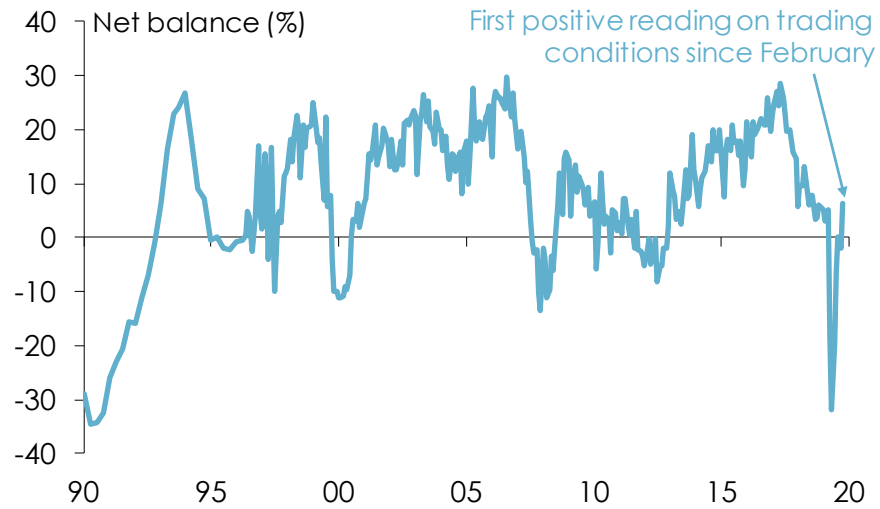
## Current account balance



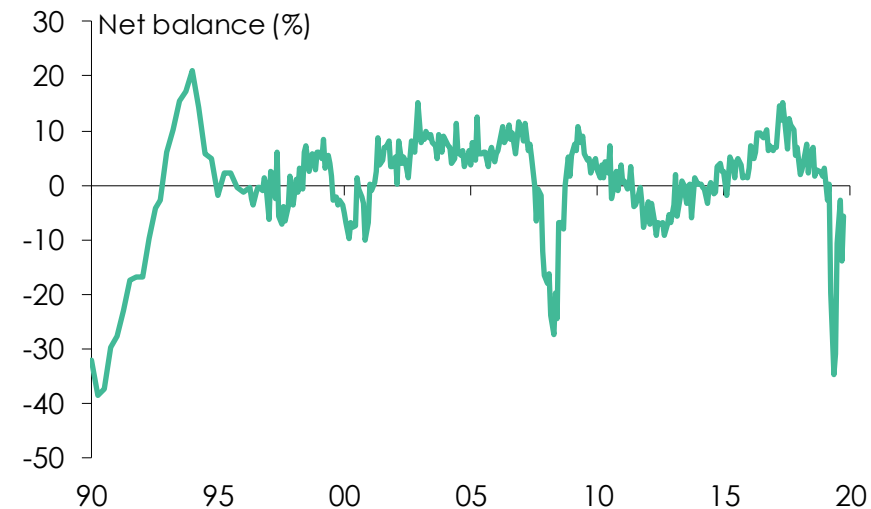
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K 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

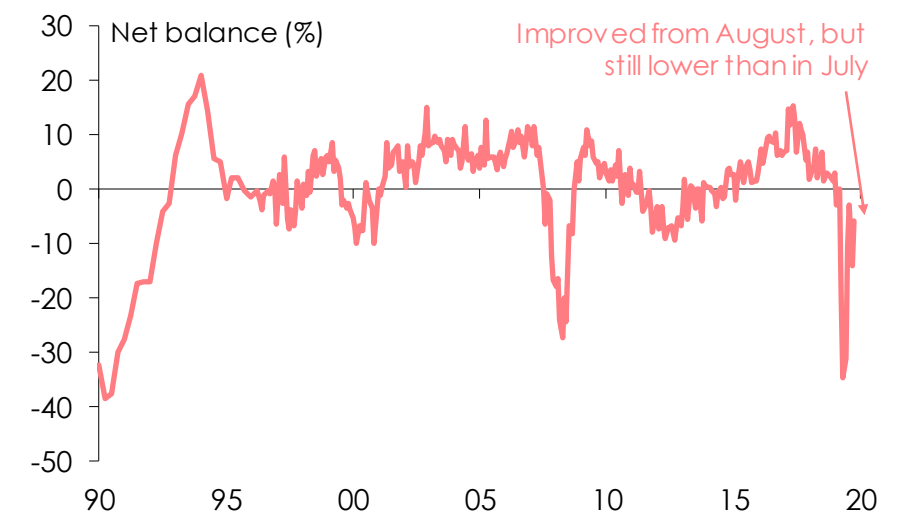
## Trading conditions



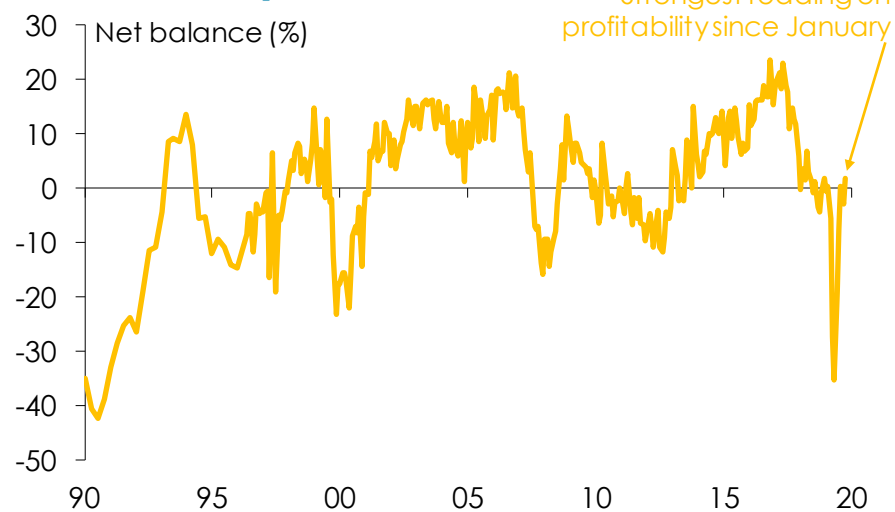
## Forward orders



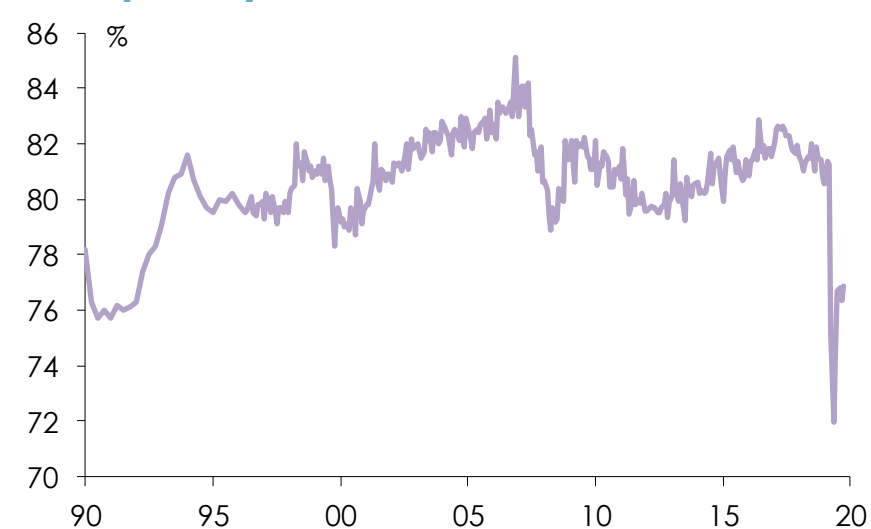
## Employee hiring intentions



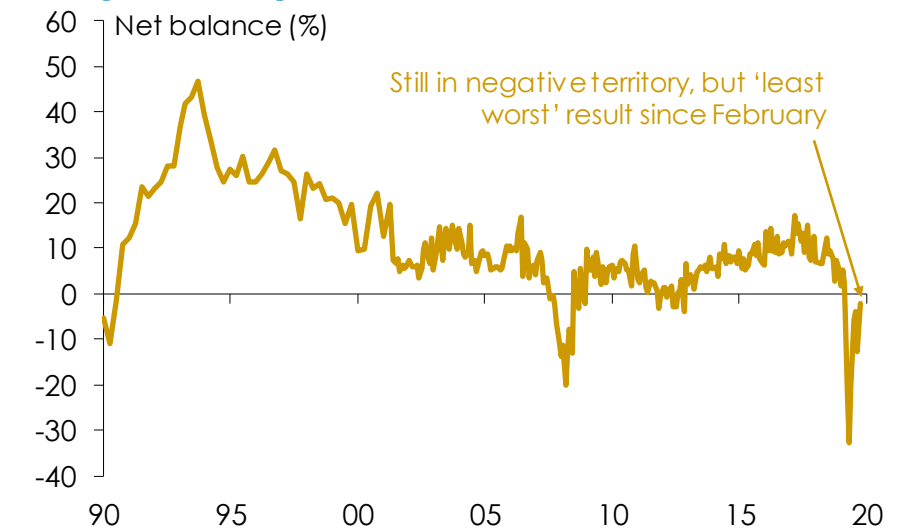
## Profitability



## Capacity utilization



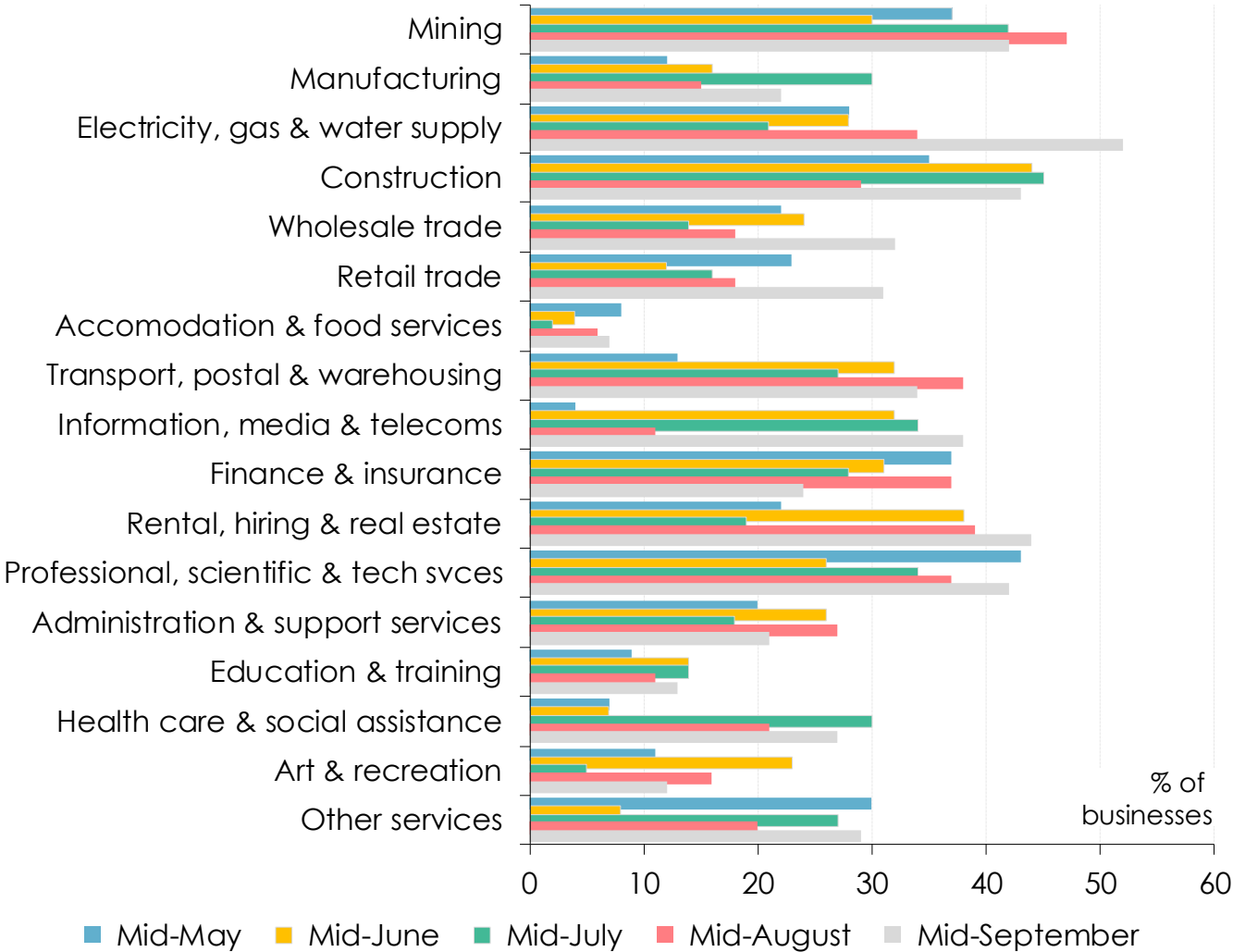
## Capital expenditure intentions



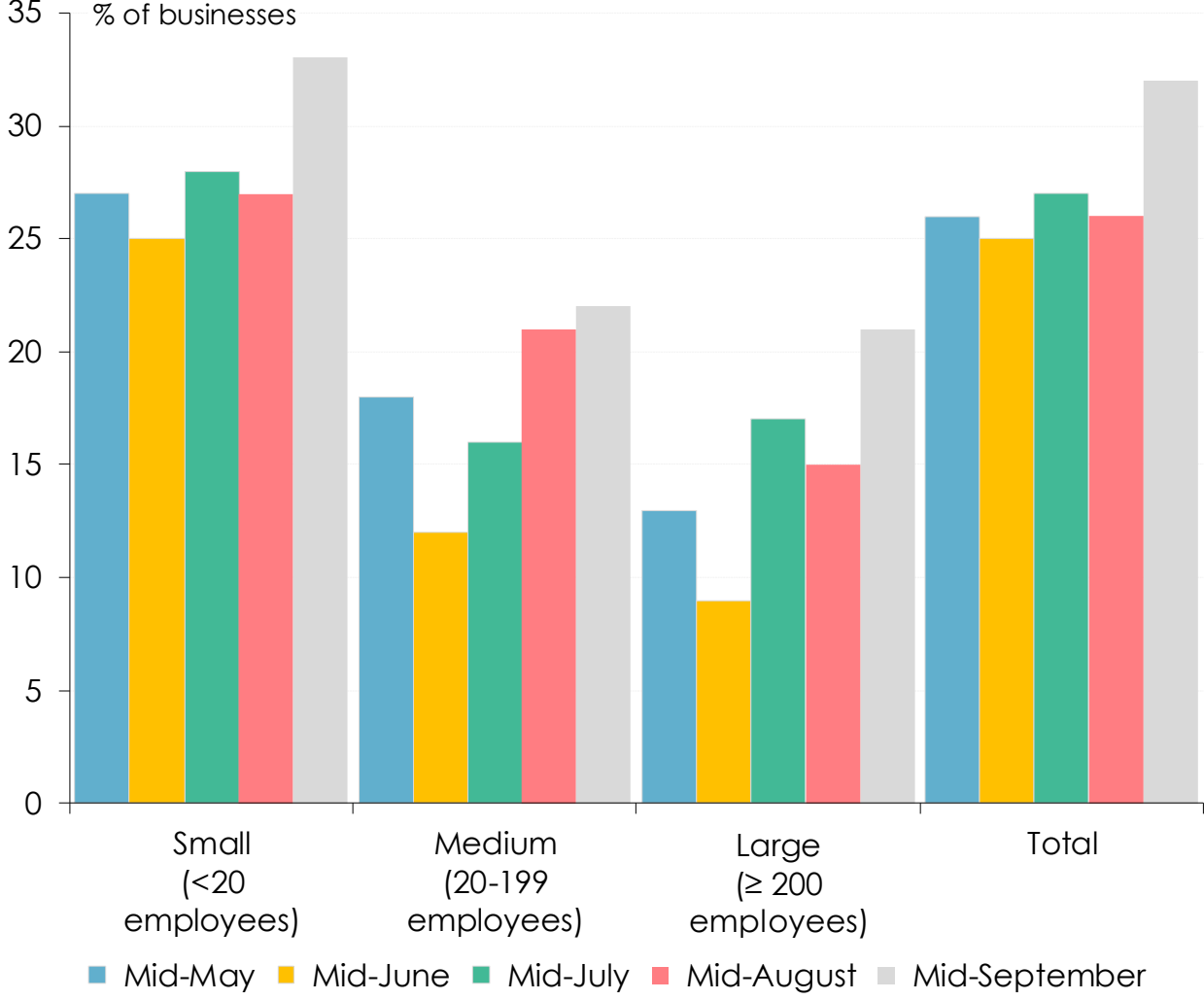
Note: Quarterly data up to March 1987 (May 2002 for capex intentions), monthly thereafter (latest data September 2020). See also chart of business confidence on [slide 81](#). Source: National Australia Bank [Monthly Business Survey](#) August 2020; October survey results will be released on 10<sup>th</sup> 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



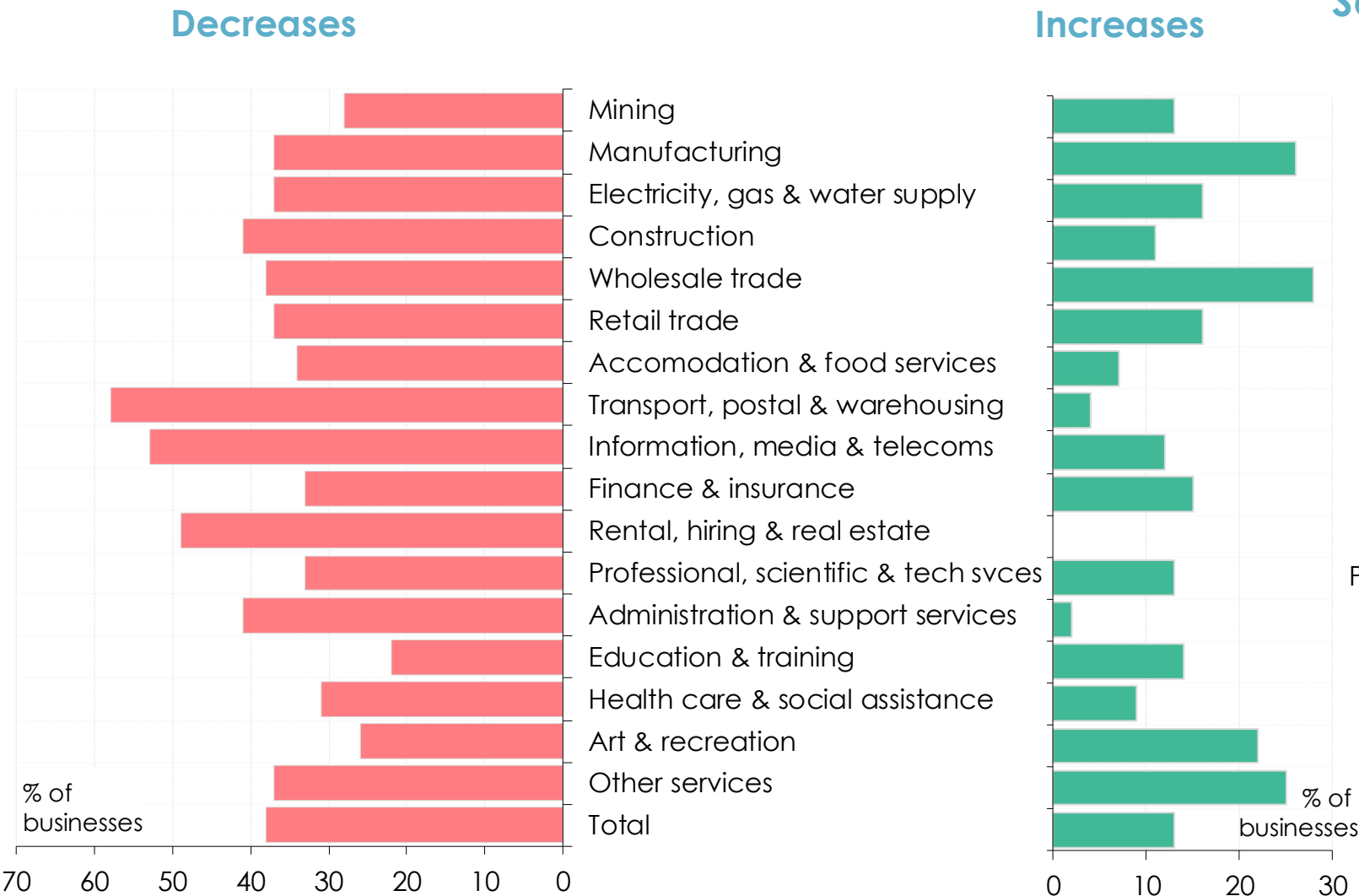
Proportion of 'trading businesses' which are operating 'as normal' – by size



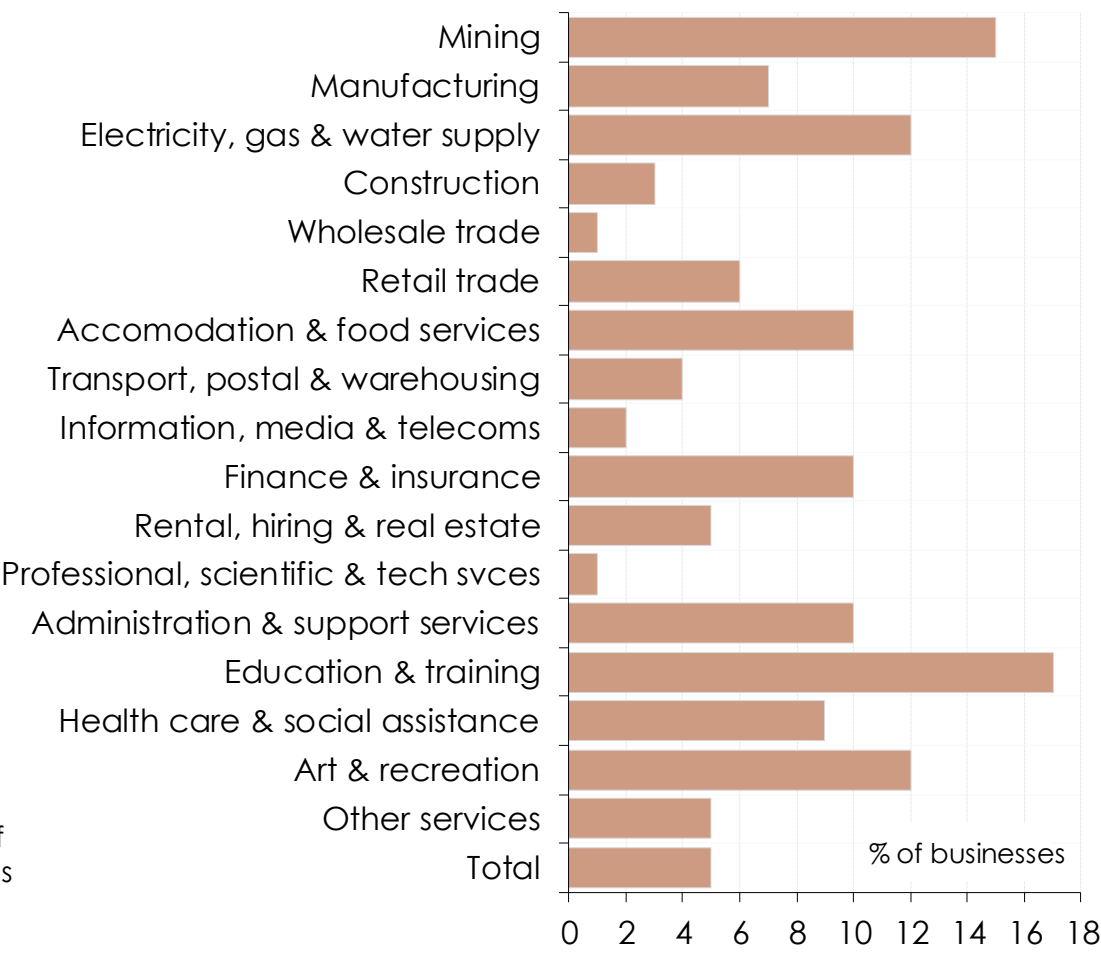
Source: ABS, [Business Impacts of Covid-19](#), May 2020 (based on survey conducted between 13<sup>th</sup> and 22<sup>nd</sup> May), June 2020 (based on survey conducted between 10<sup>th</sup> and 17<sup>th</sup> June), July (survey conducted between 15<sup>th</sup> and 23<sup>rd</sup> July); August (survey conducted between 12<sup>th</sup> and 19<sup>th</sup> August); and September (survey conducted between 10<sup>th</sup> and 16<sup>th</sup> 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



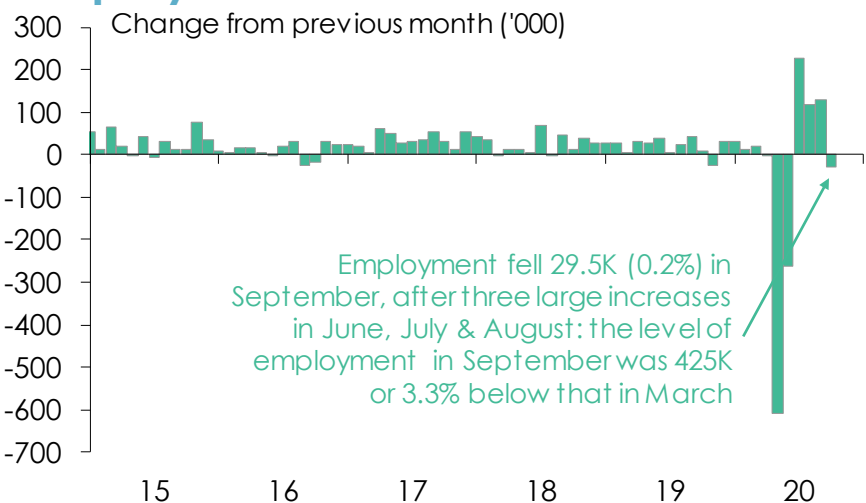
Proportion of businesses planning to increase employee numbers in the next month, September 2020, by industry



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

# Employment fell in September, for the first time since May, and the measured unemployment rate ticked up 0.1 pc pt to 6.9%

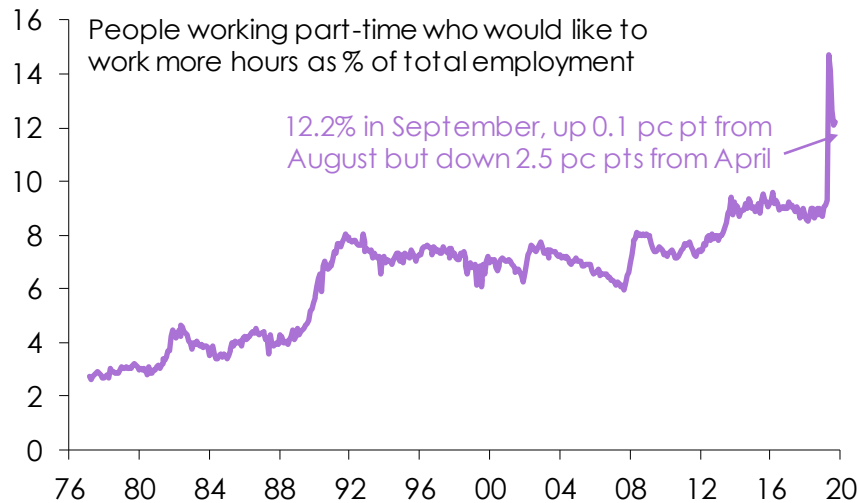
## Employment



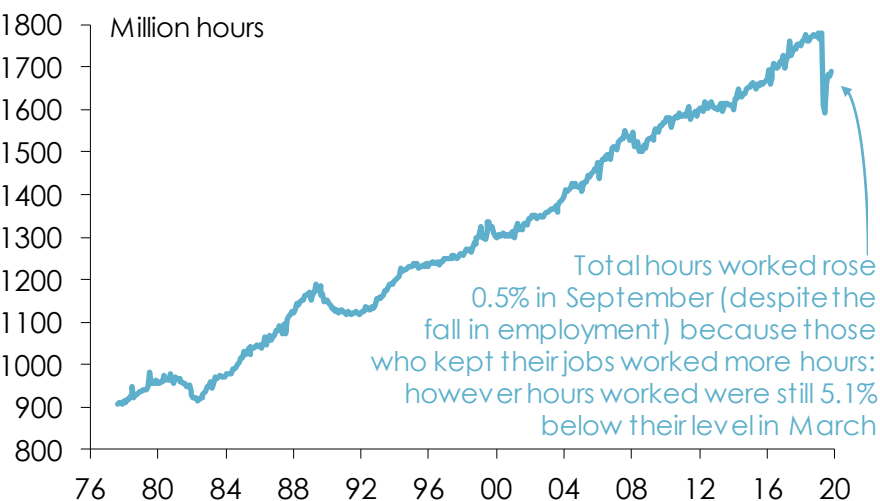
## Labour force participation rate



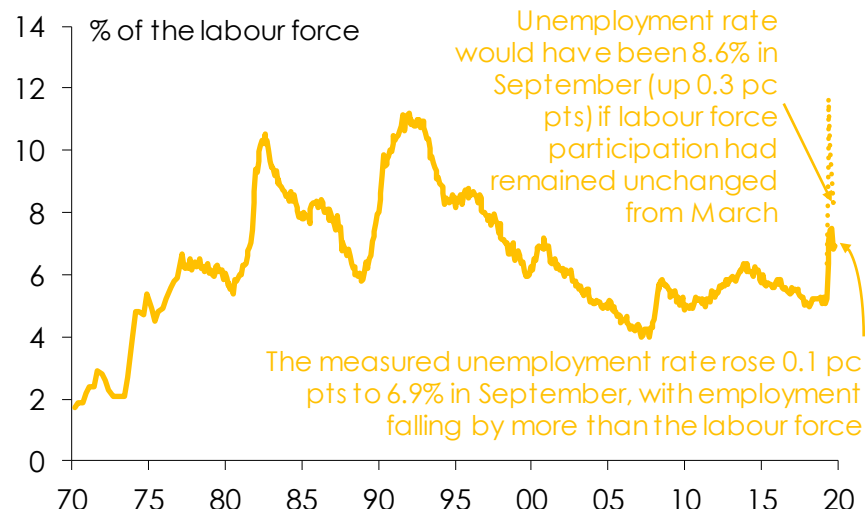
## Under-employment ratio



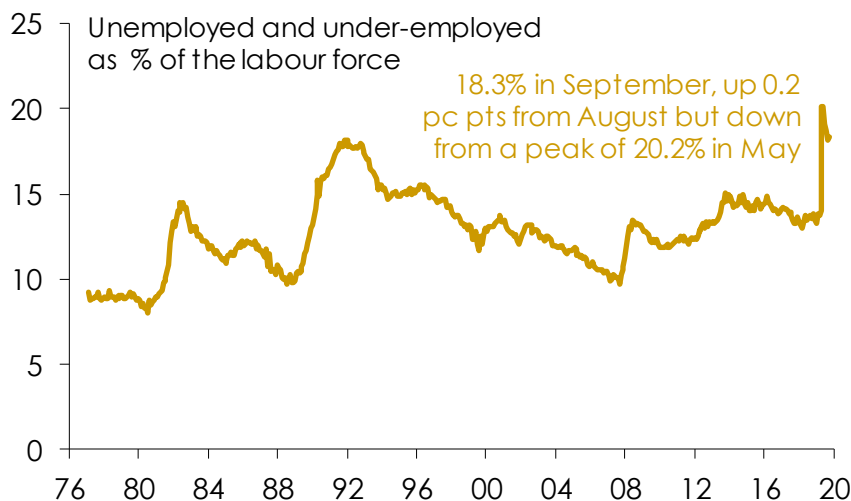
## Total hours worked



## Unemployment rate



## 'Under-utilization' rate

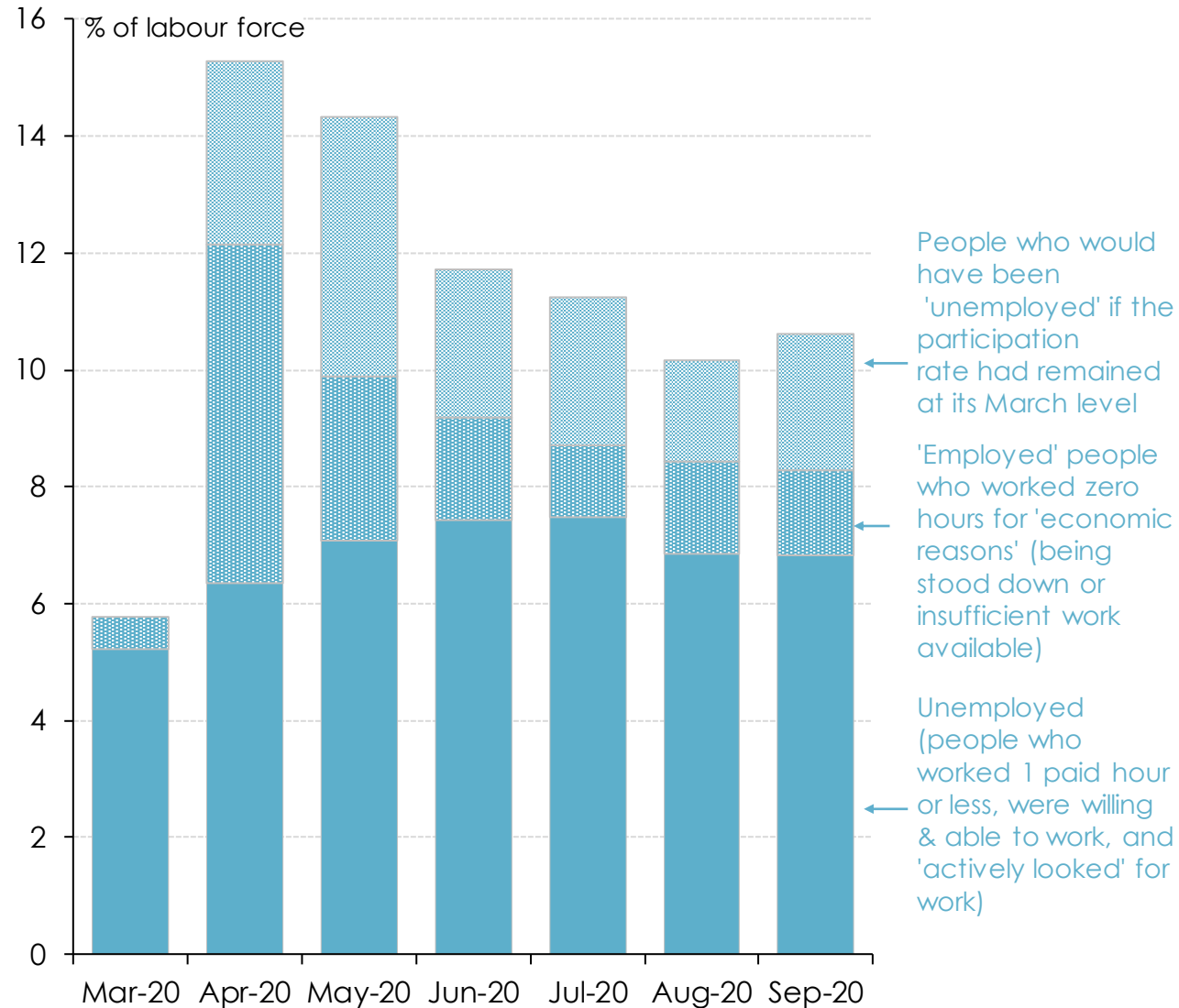


Note: The ABS classifies people on JobKeeper who worked zero hours in the survey week as 'employed'. Had it not done so, the unemployment rate in August would have been 7.9% (down from 11.8% in April) – see also next slide. The 'under-employment ratio' is the percentage of employed persons who are working 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](#). October data will be released on 19<sup>th</sup> November. [Return to "What's New"](#).

# The unemployment rate would have been 10.6% in September including people who worked zero hours or had dropped out of the labour force

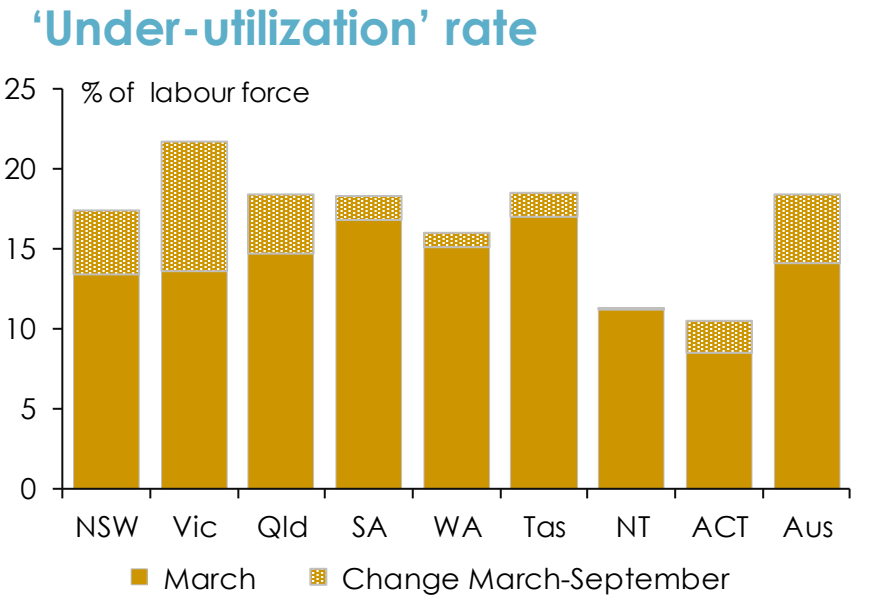
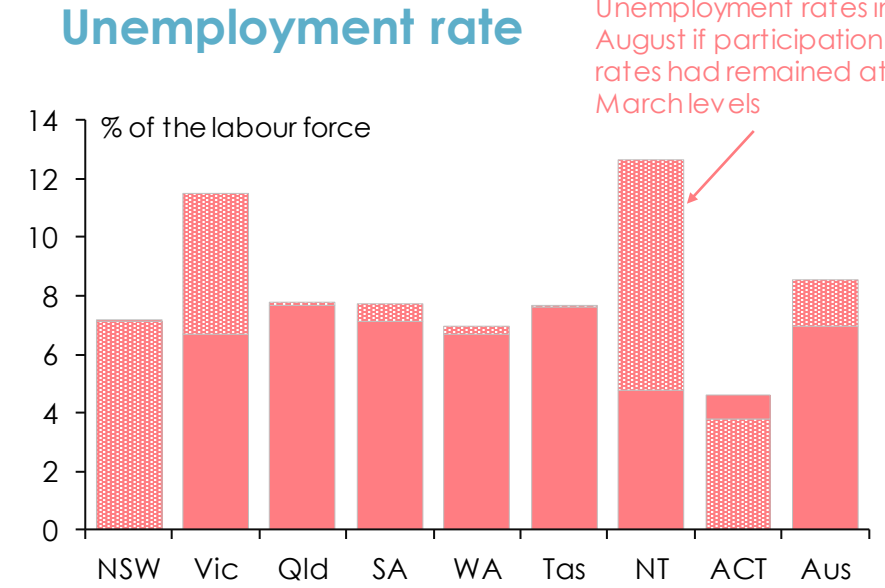
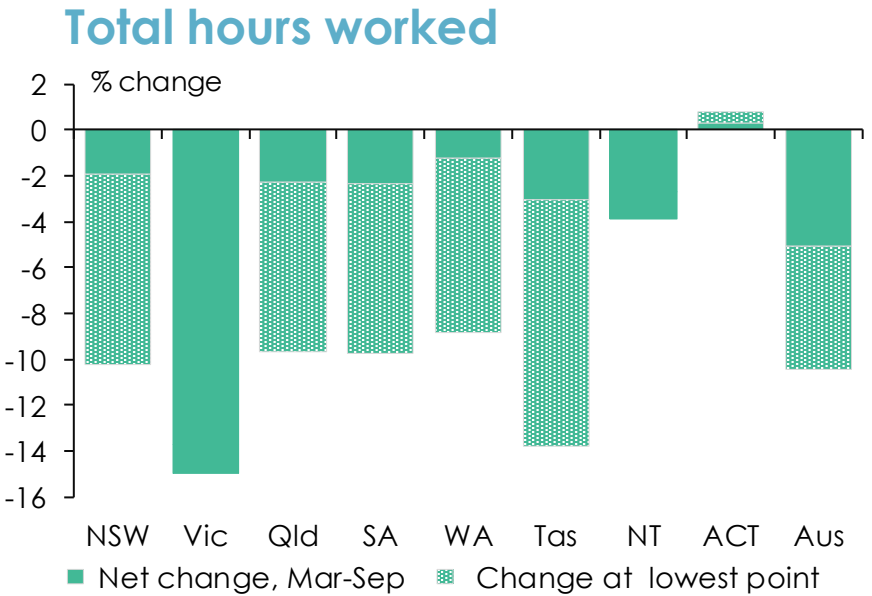
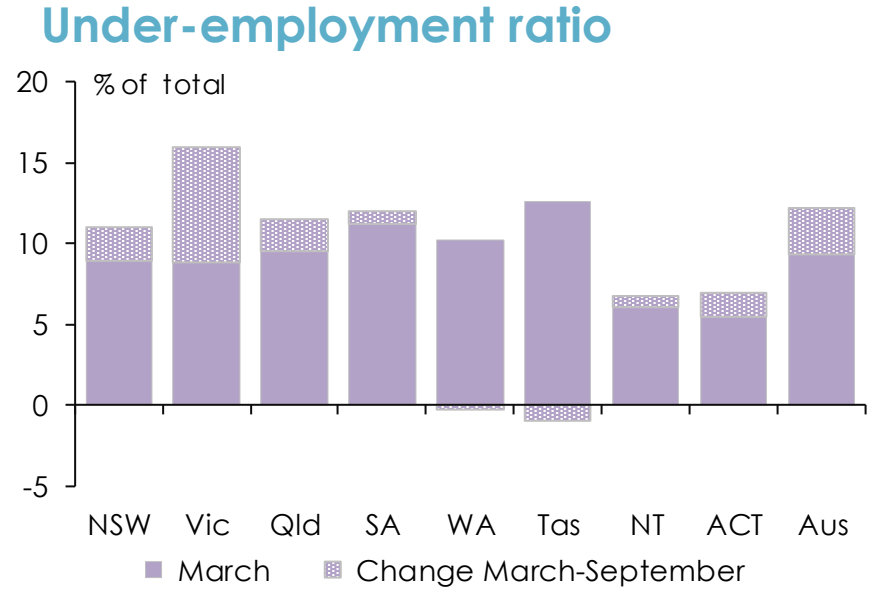
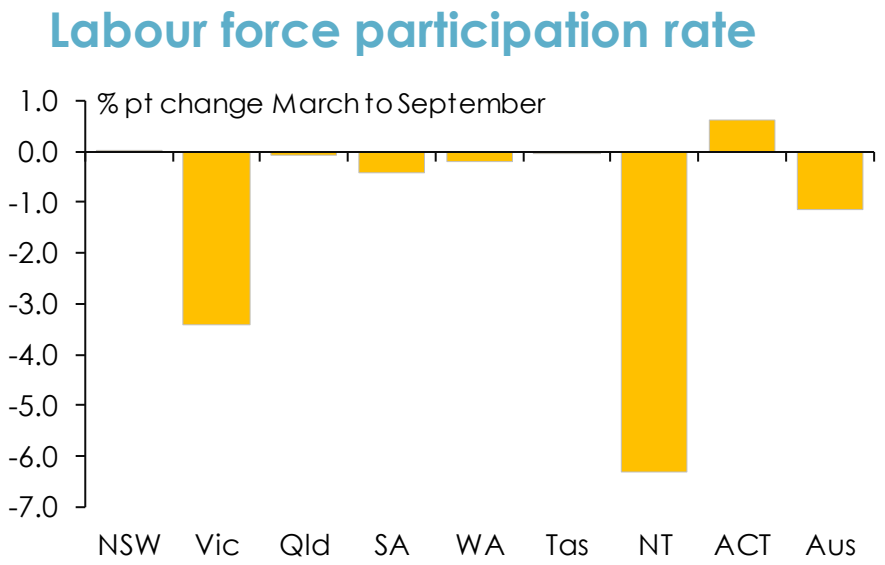
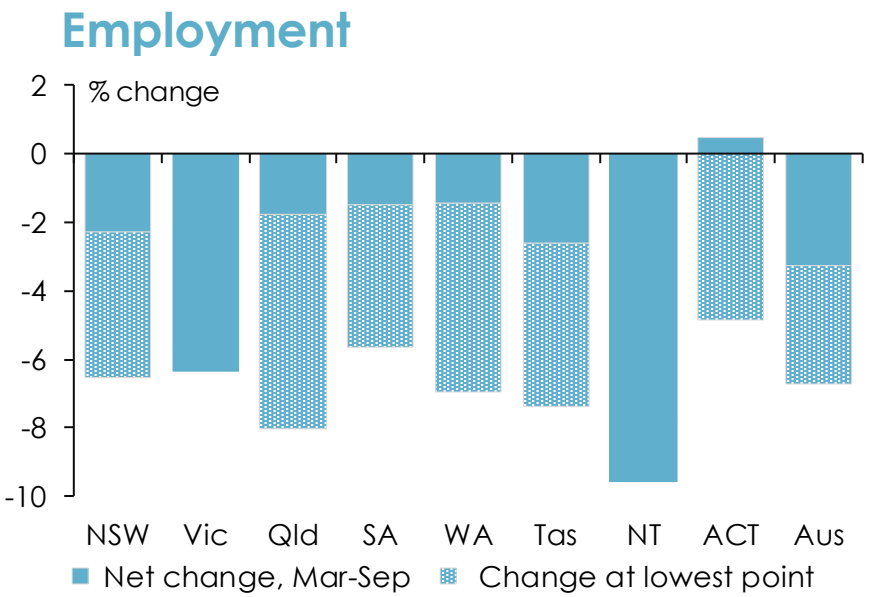
## Alternative measures of unemployment



- ❑ The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30<sup>th</sup> March and 27<sup>th</sup> September (although payments didn't start until the beginning of May)
- ❑ About 3.35 mn people (27% of total employment) are currently being supported through JobKeeper
- ❑ From 28<sup>th</sup> September the JobKeeper payment reduced 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 1<sup>st</sup> 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 4<sup>th</sup> January until 28<sup>th</sup> 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



# Victoria and the Northern Territory have had the weakest labour market experience while the ACT, WA and Queensland have had the strongest

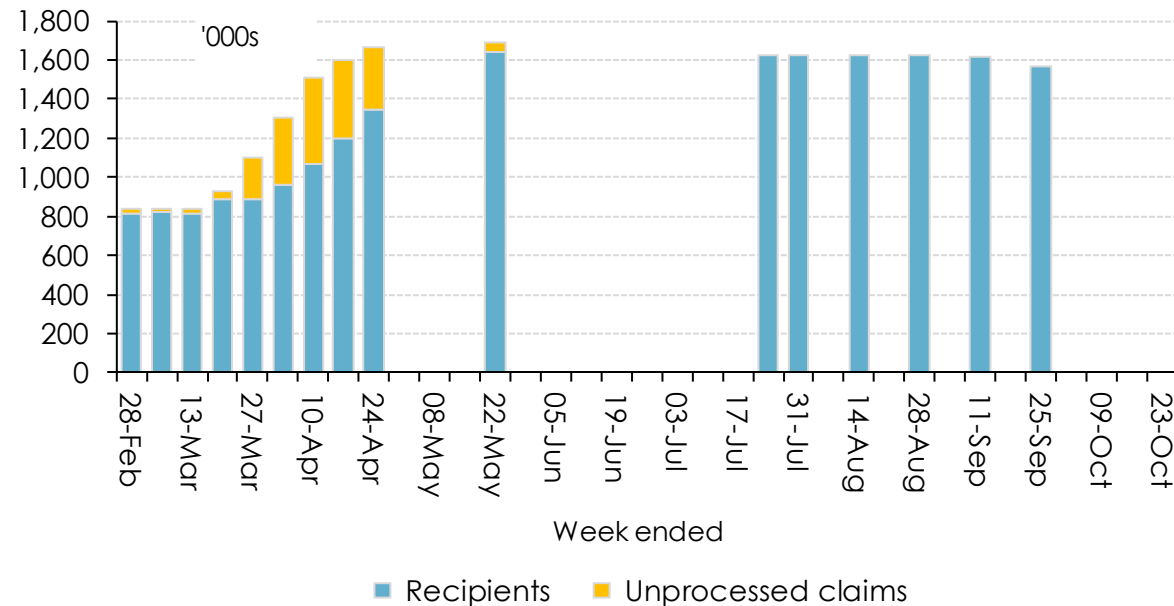


Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS, [Labour Force, Australia](#). October data will be released on 19<sup>th</sup> November. [Return to "What's New"](#).

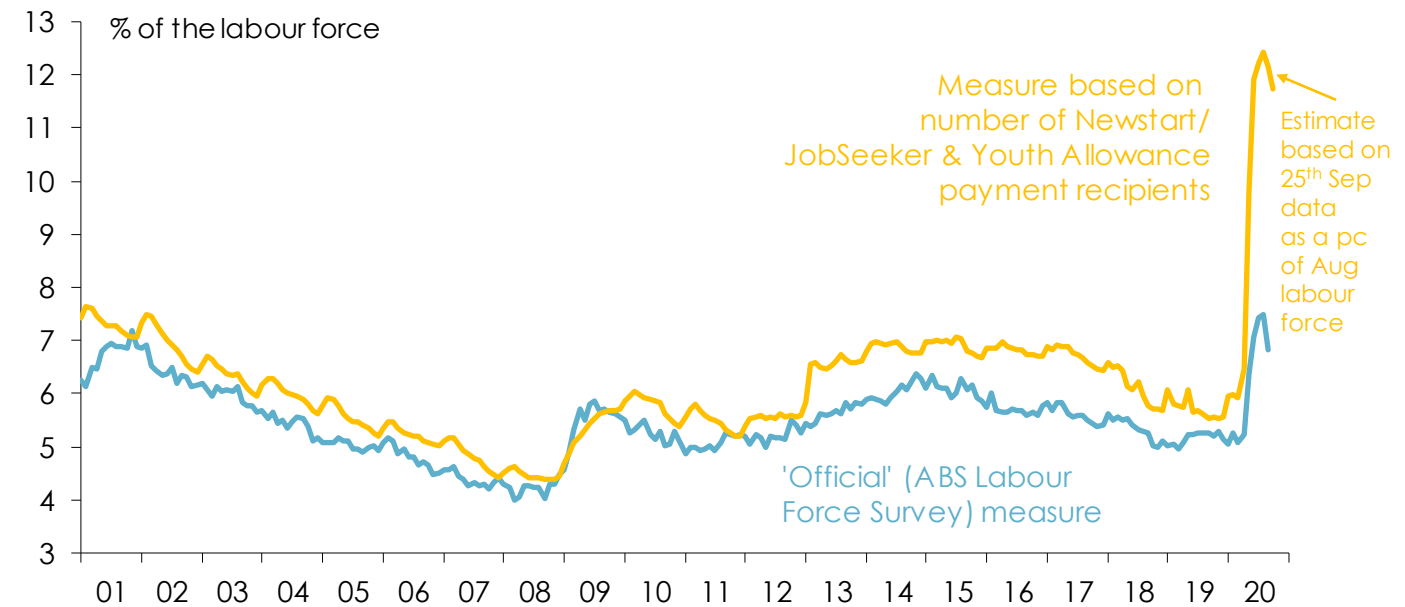


# The Australian Government (unlike the US Government) seems to regard weekly data on the number of joblessness beneficiaries as a 'state secret'

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

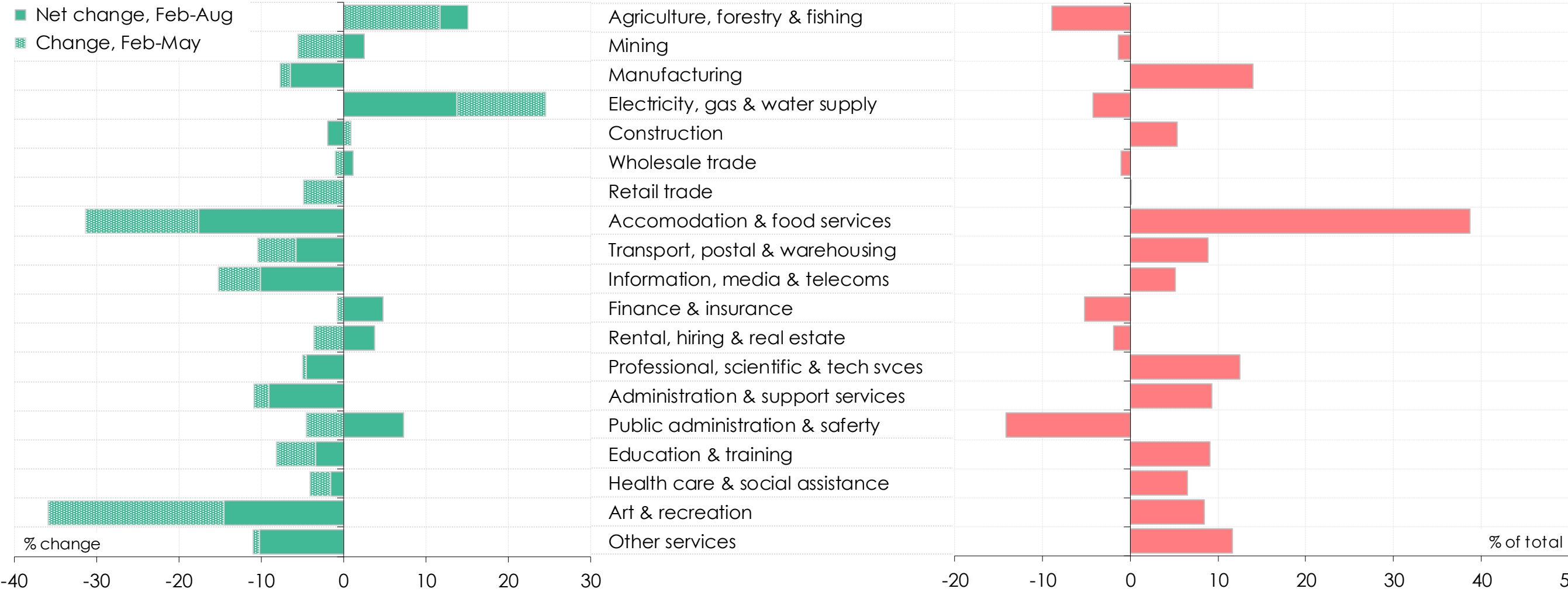


- ❑ The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available
- ❑ On two occasions earlier this year the Secretary of DSS provided weekly data to the Senate Select Committee on Covid-19, and on 29<sup>th</sup> 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 25<sup>th</sup> 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

# Accommod<sup>n</sup> & food services, arts & recrea<sup>n</sup>, and educ<sup>n</sup> & 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

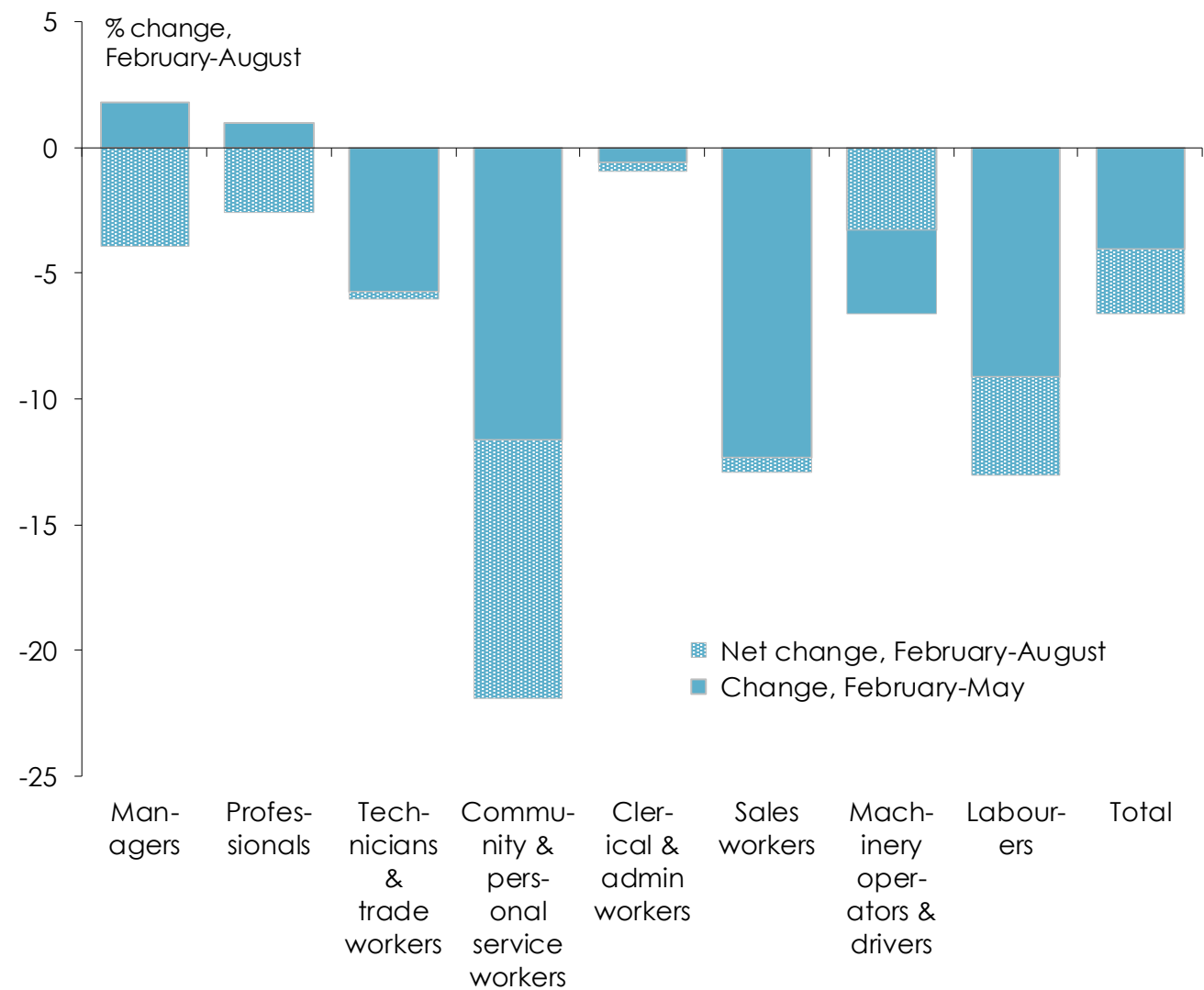
Proportion of change in total employment between February and August 2020, by industry



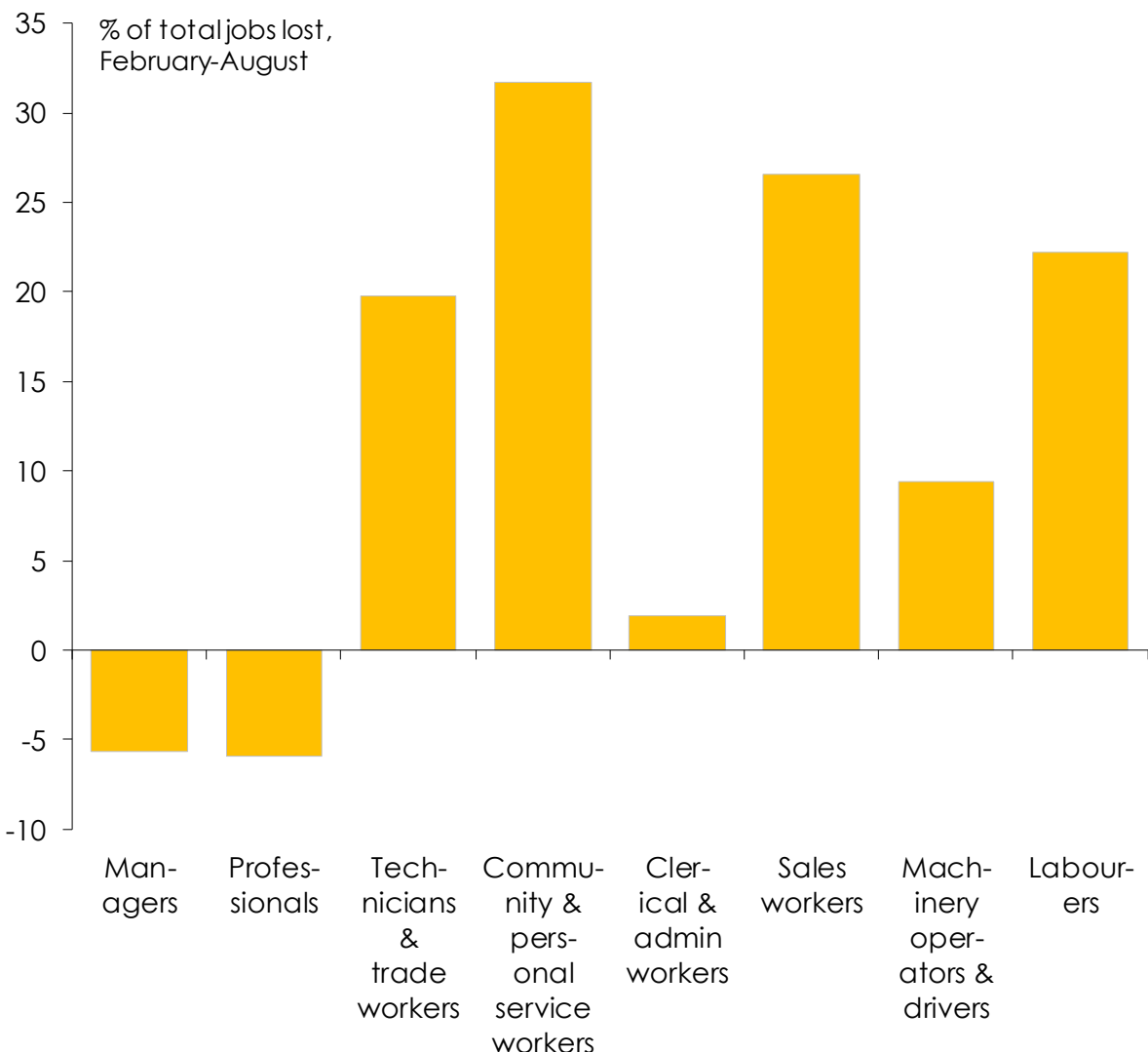
Note: The accommodation & food services, education & training, and arts & recreation services sectors accounted for 15% of total employment in February.  
Source: ABS, [Labour Force, Australia, Detailed](#), August 2020. November data will be released on 23rd December. [Return to "What's New"](#).

# 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



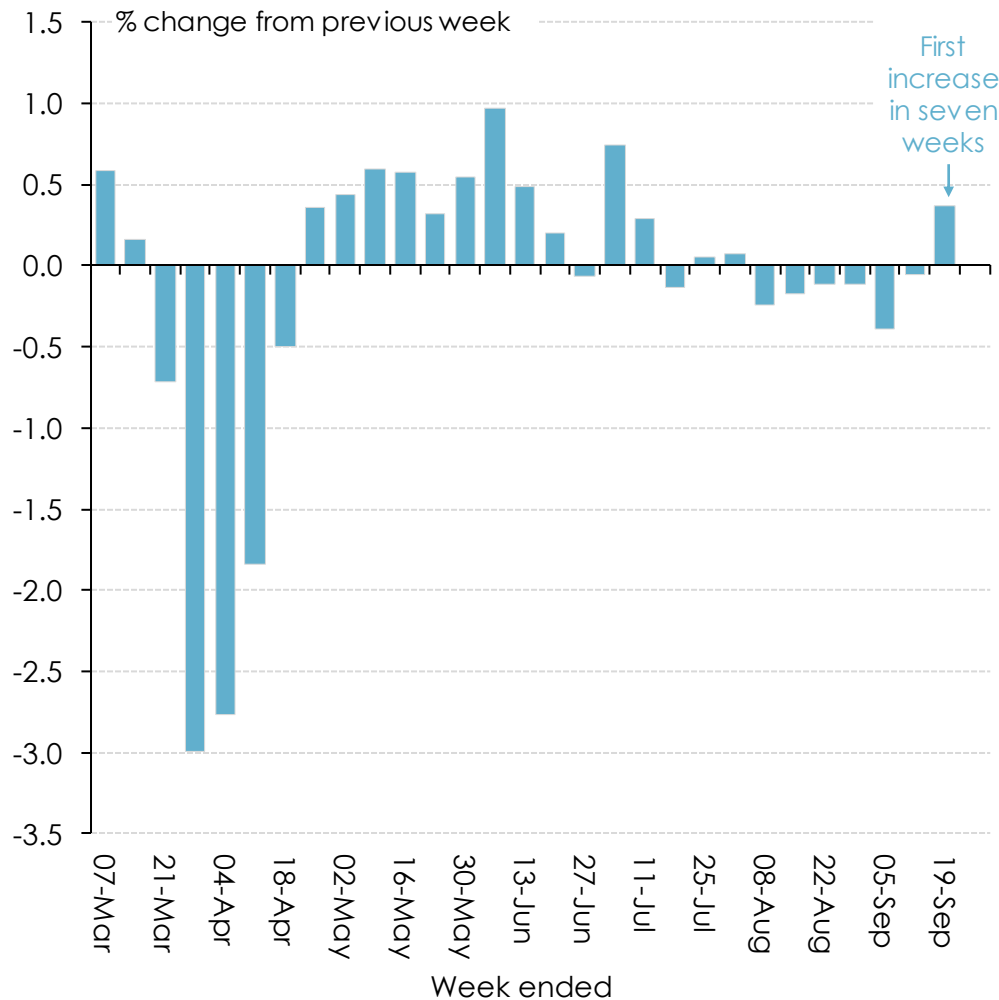
Proportion of change in total employment between February and March 2020, by occupation



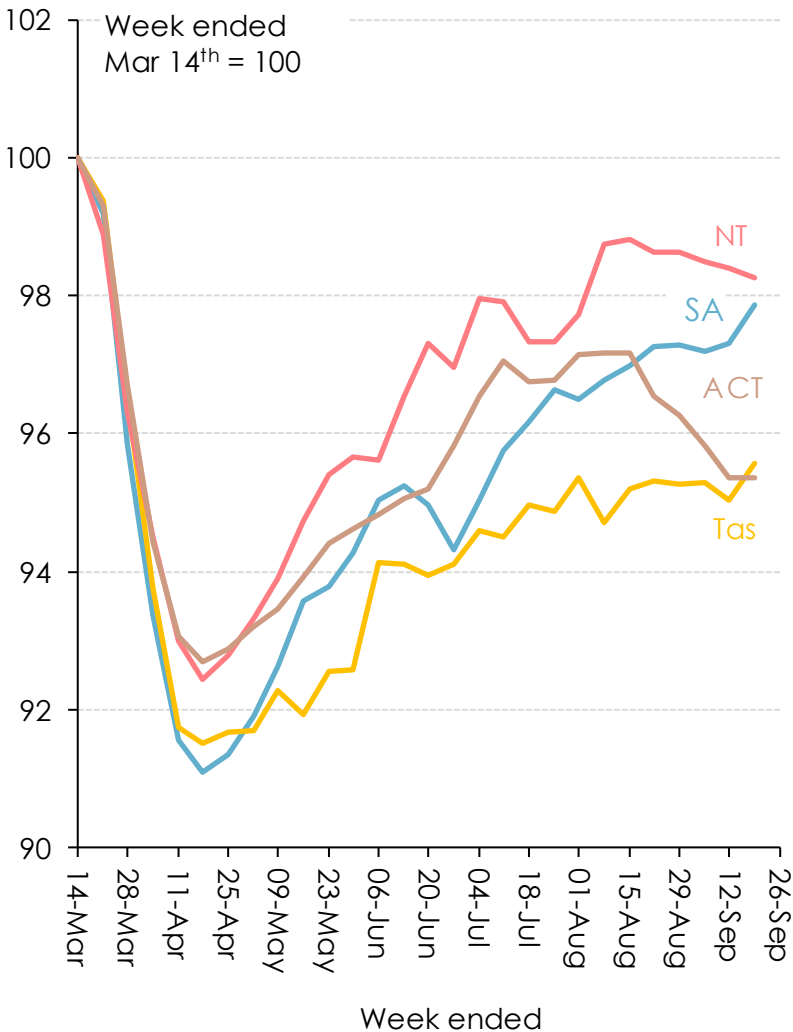
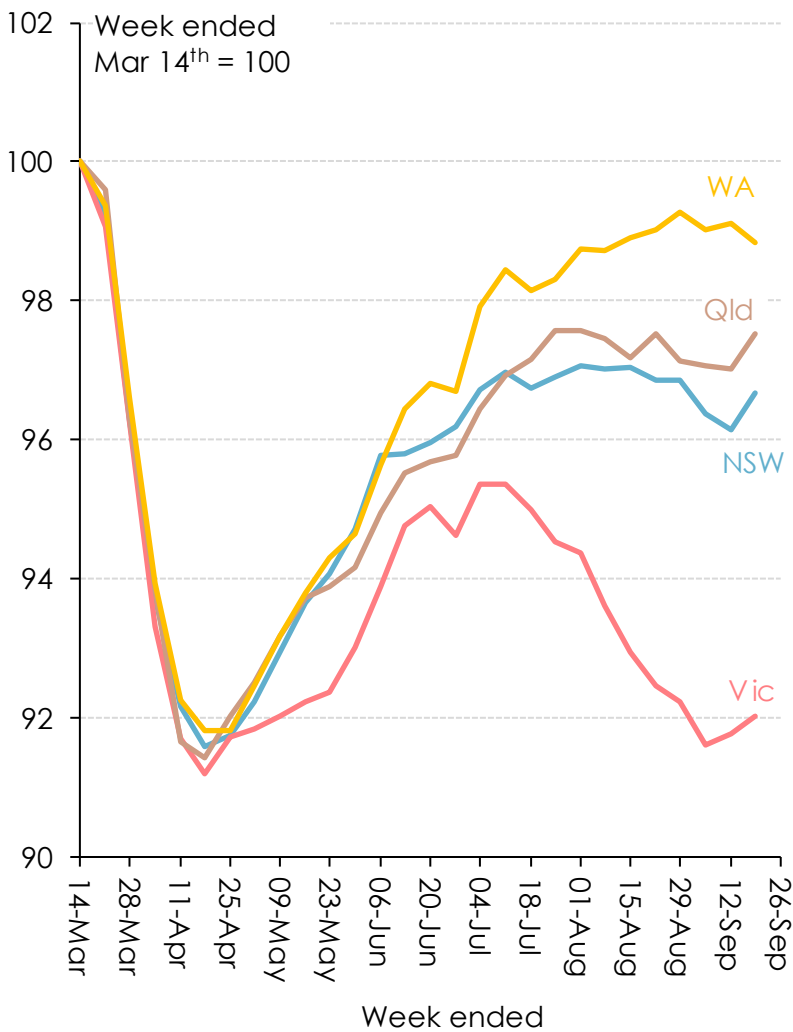
Source: ABS, [Labour Force, Australia, Detailed](#), August 2020. November data will be released on 23rd December. [Return to "What's New"](#).

# Payroll employment rose in the week ended 19<sup>th</sup> 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



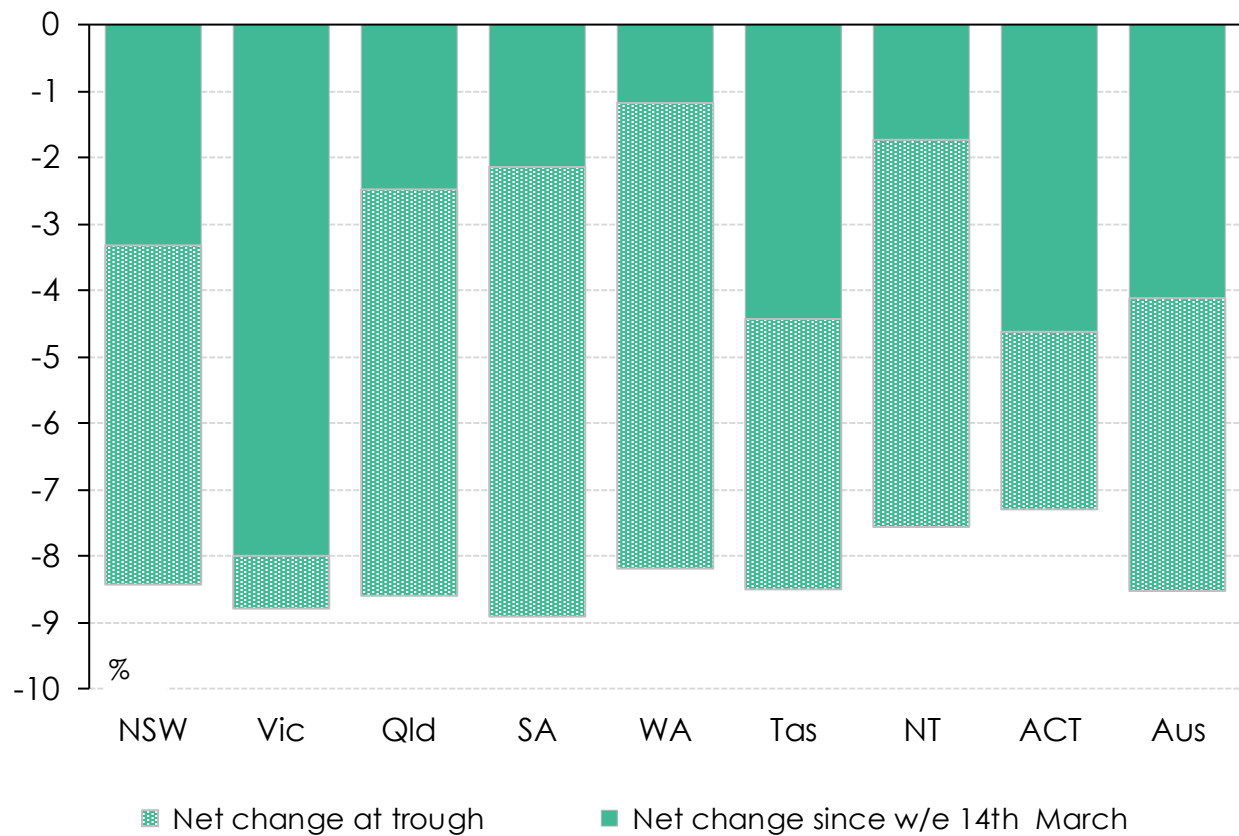
Payroll jobs by State & Territory



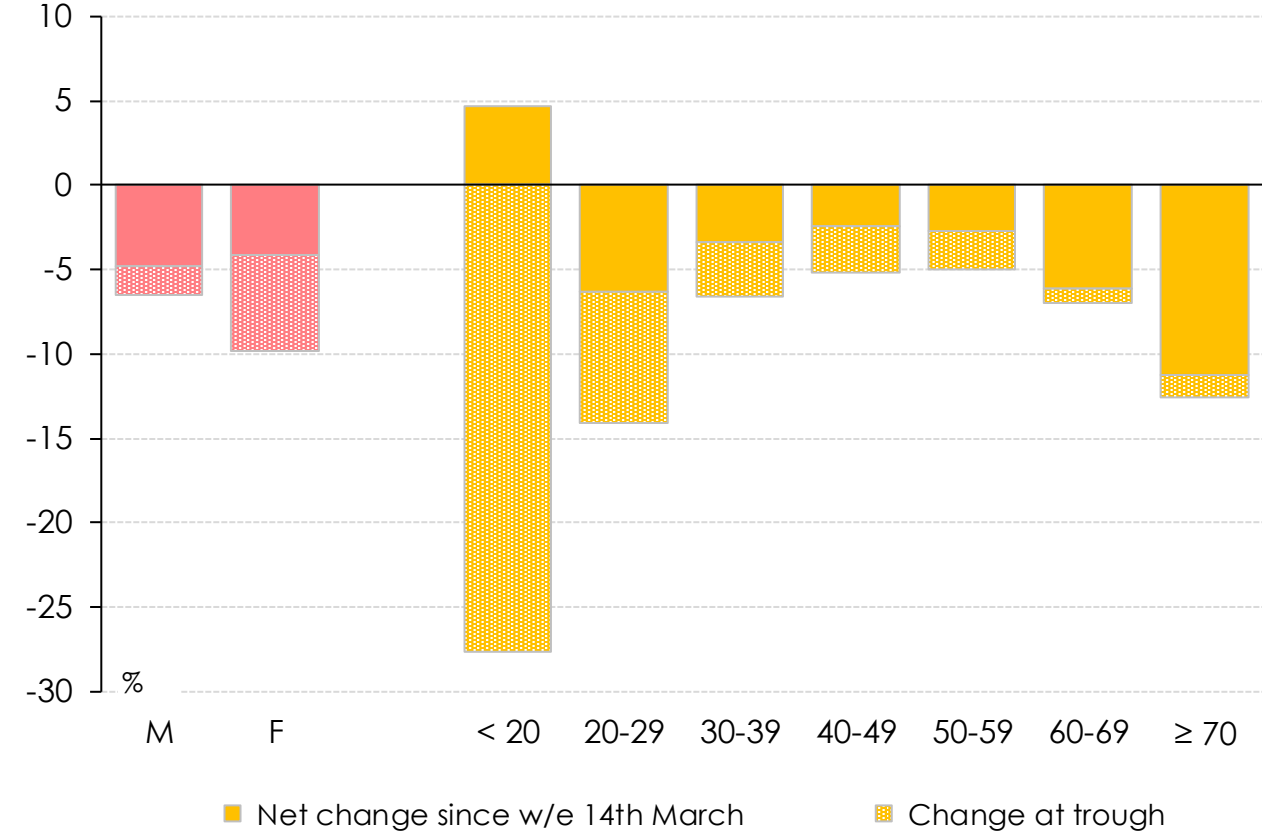
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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 3<sup>rd</sup> October will be released on 20<sup>th</sup> 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 14<sup>th</sup> March, by state and territory



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



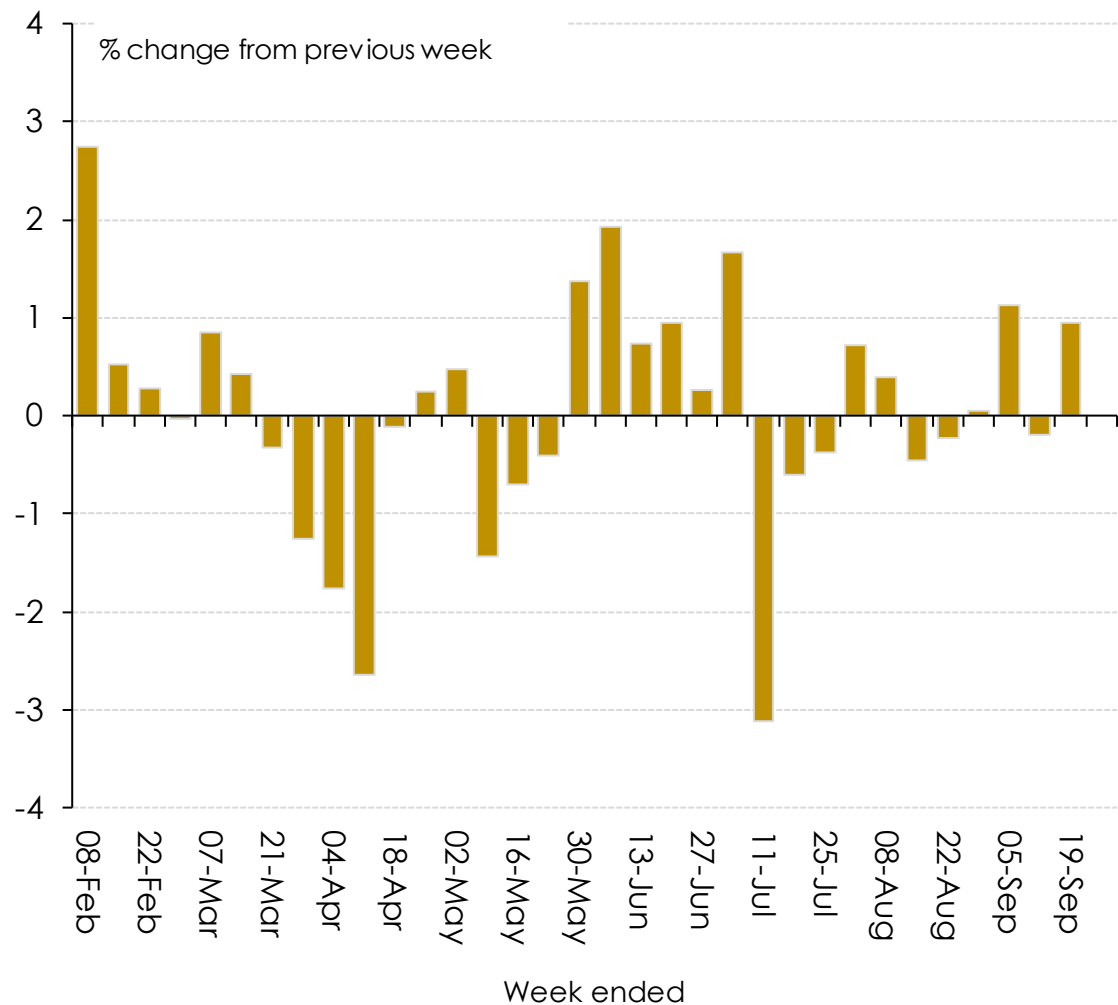
☐ **Vic payroll jobs are still down 8% on net from pre-pandemic: other states between 1¼% and 4½%**

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

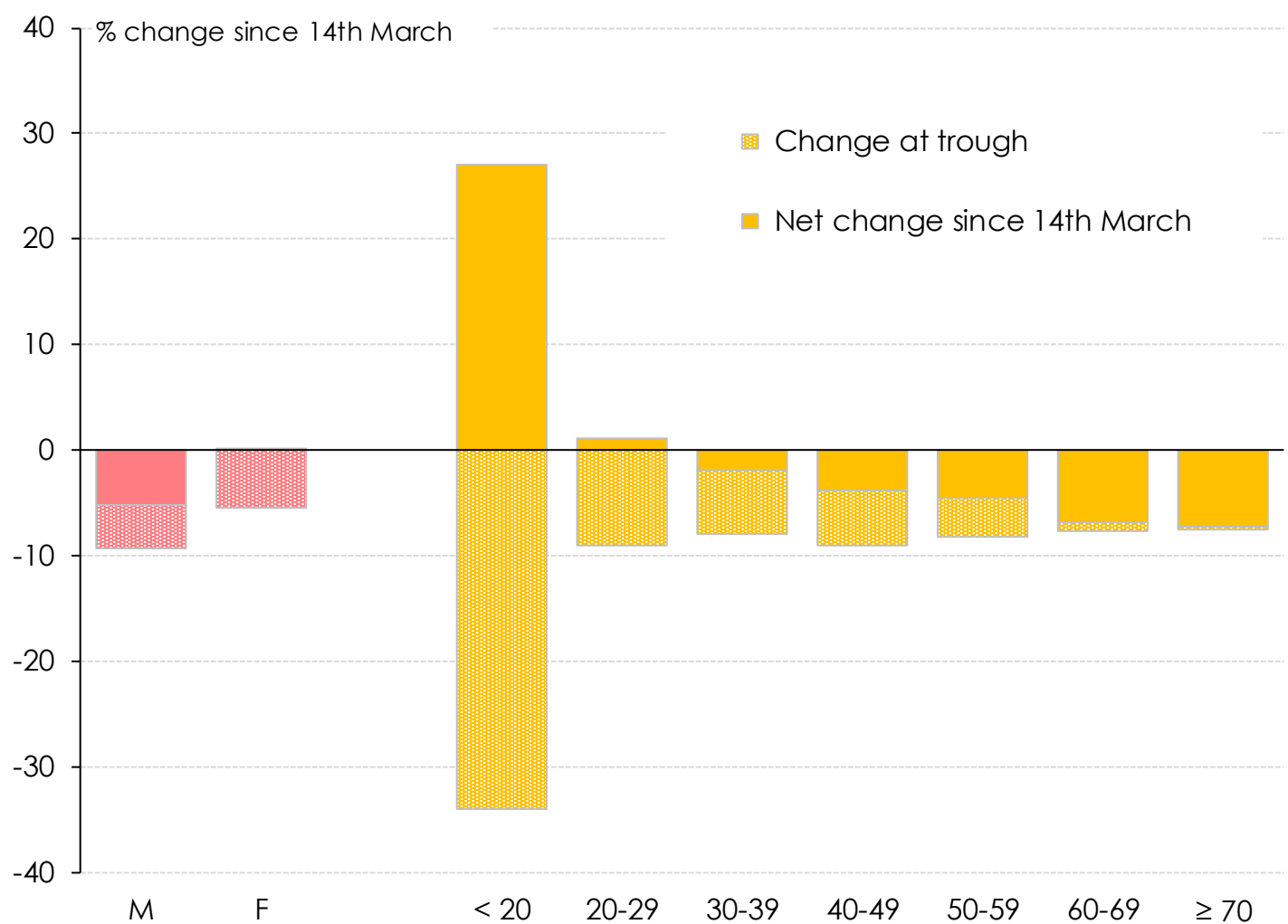
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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 19<sup>th</sup> September will be released on 7<sup>th</sup> 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



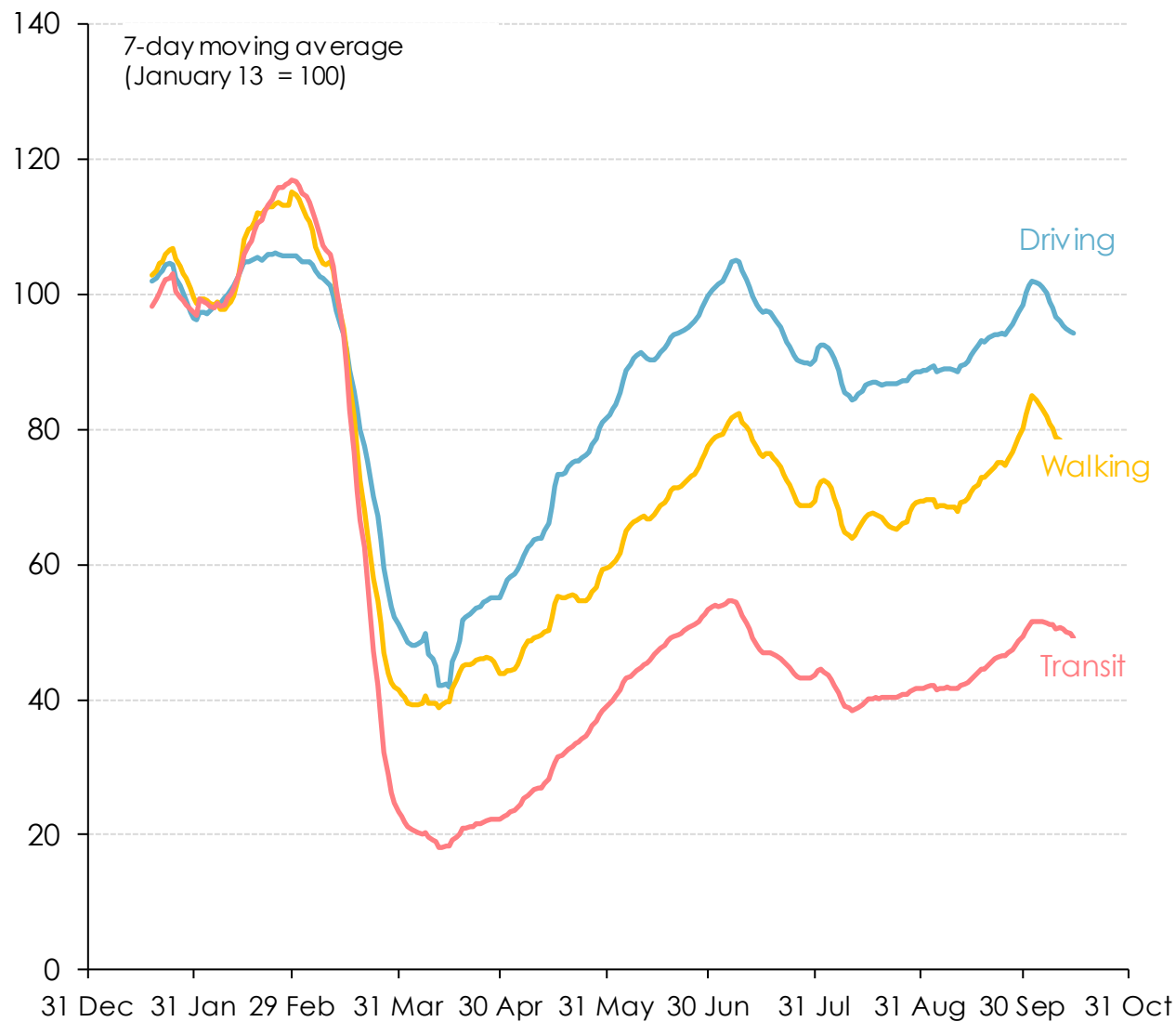
Change in total wages paid by gender and age group



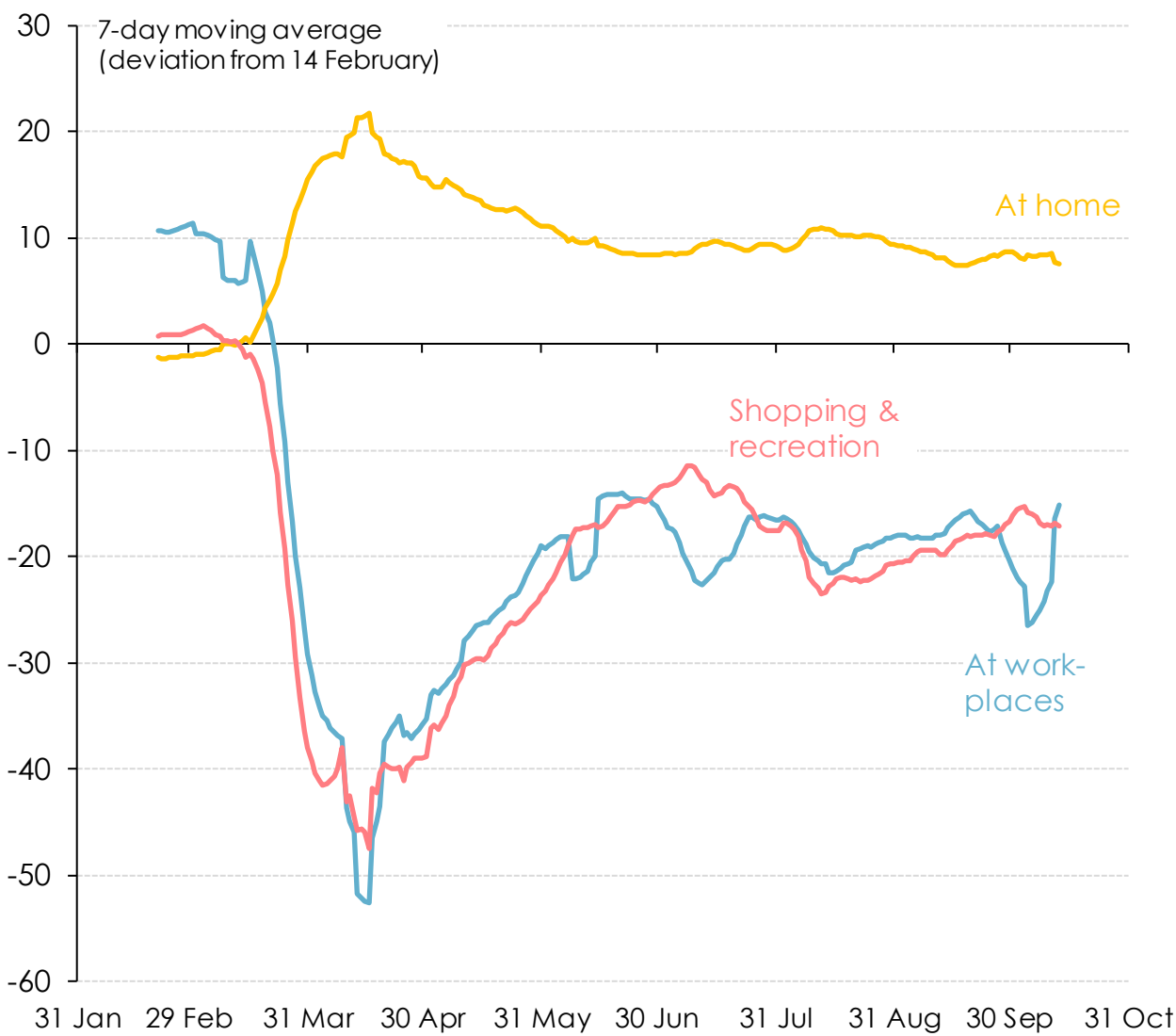
Note: The smaller fall in women's wages than men's likely reflects the fact that JobKeeper payments (at a flat rate of \$1500 per employee per fortnight) represent a higher proportion of women's (lower) average earnings than men's. Ditto for teenagers (most of whom work part-time). Source: ABS, [Weekly 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 levels 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 last month, but have fallen again over the past 2 weeks

Time spent driving, walking and in transit



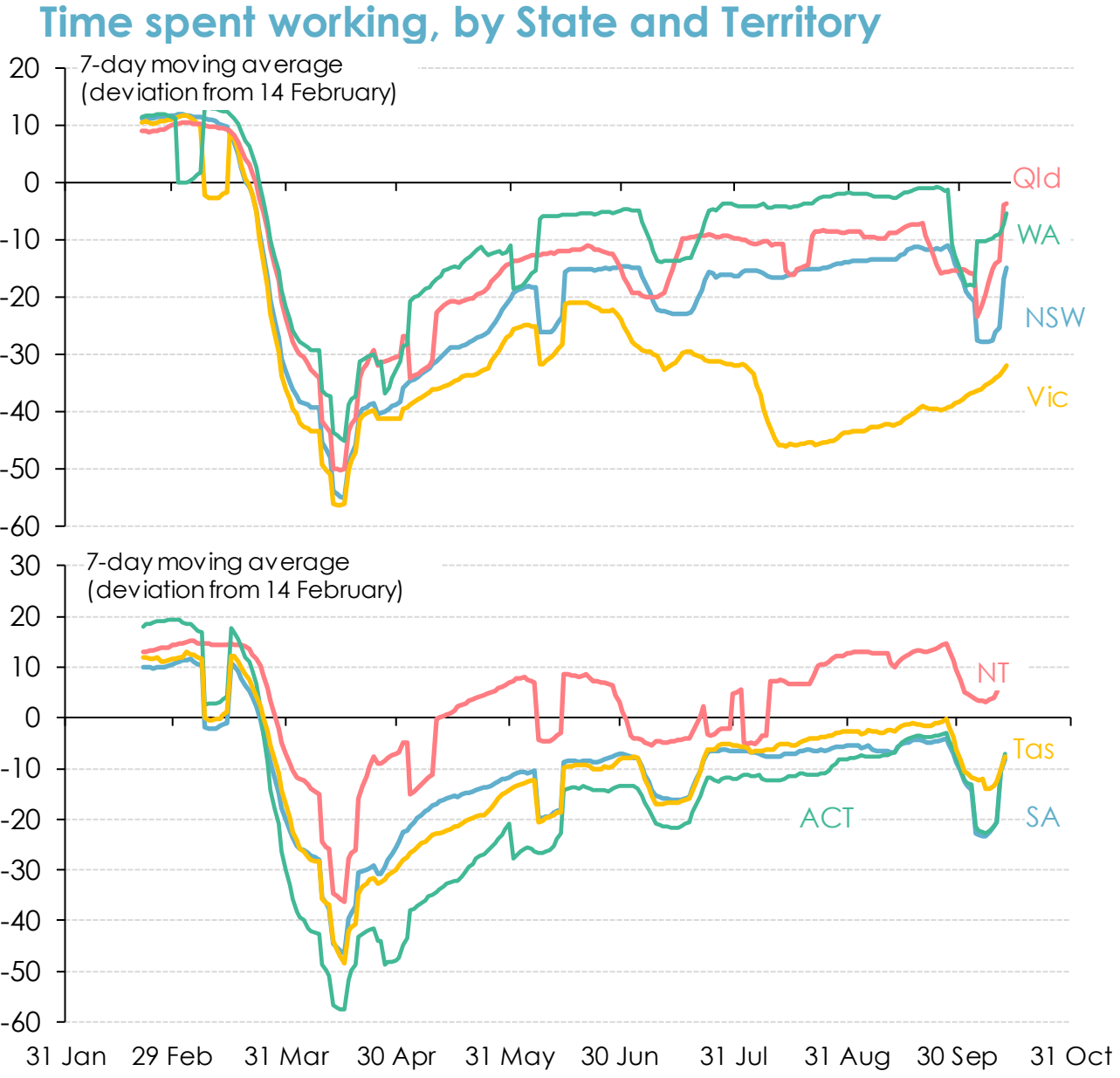
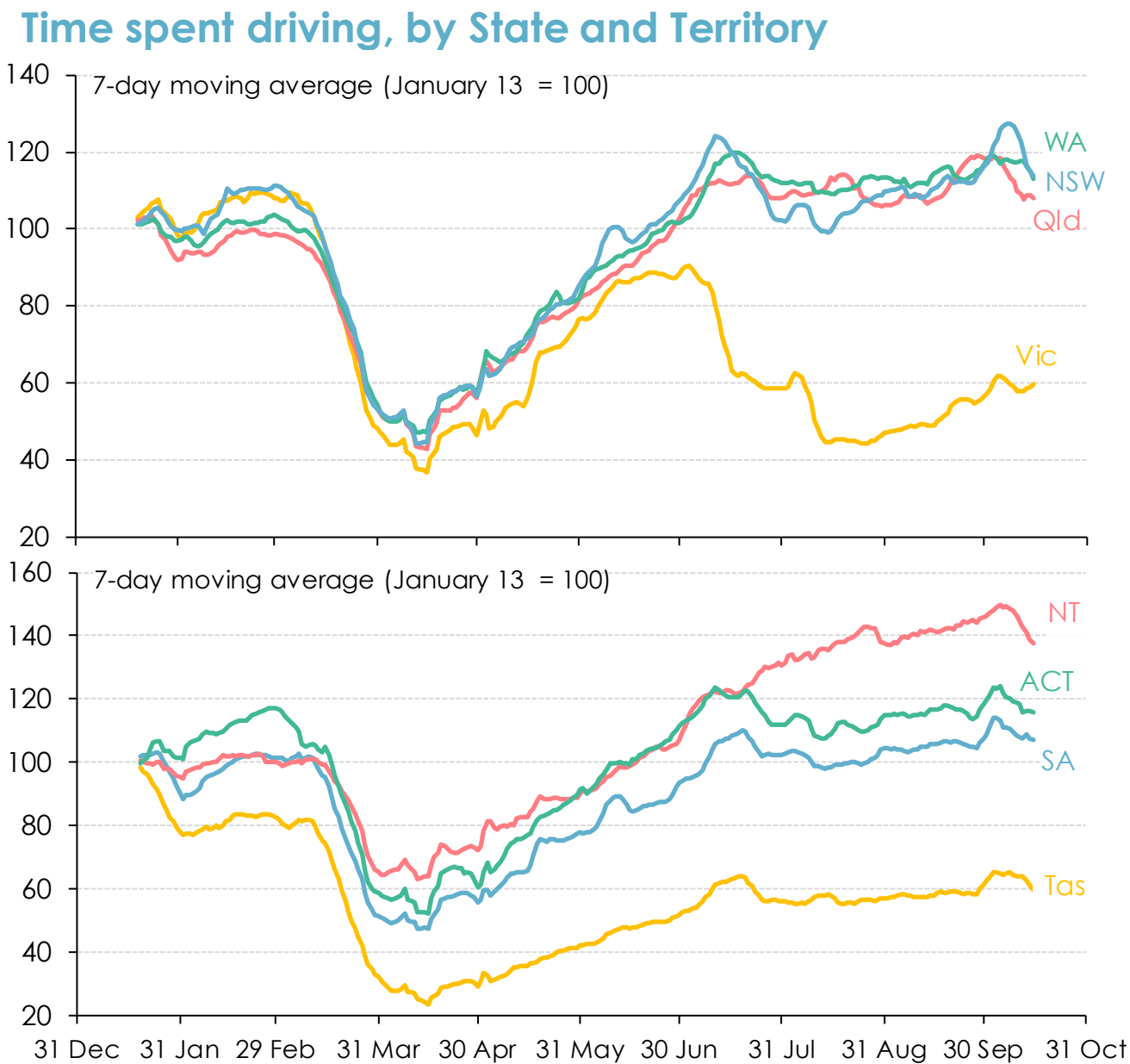
Time spent working, at home, shopping & playing



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 15<sup>th</sup> October); [Google Community Mobility Reports](#) (data up to 15<sup>th</sup> October). For state-level data see [next slide](#). [Return to "What's New"](#).



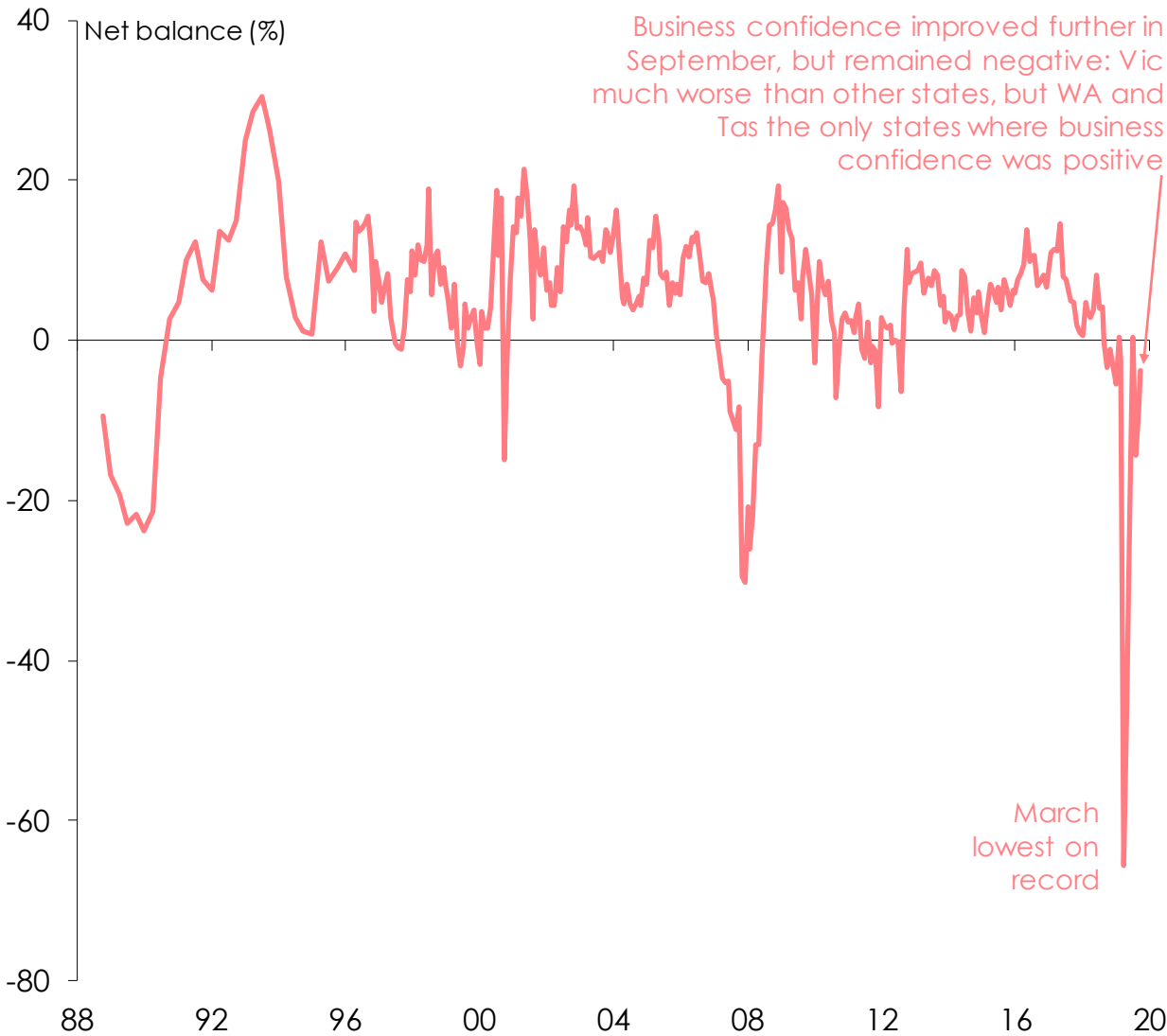
# Victoria remains well below other states and territories on mobility indicators – other states have seen a pick-up in workplace attendance



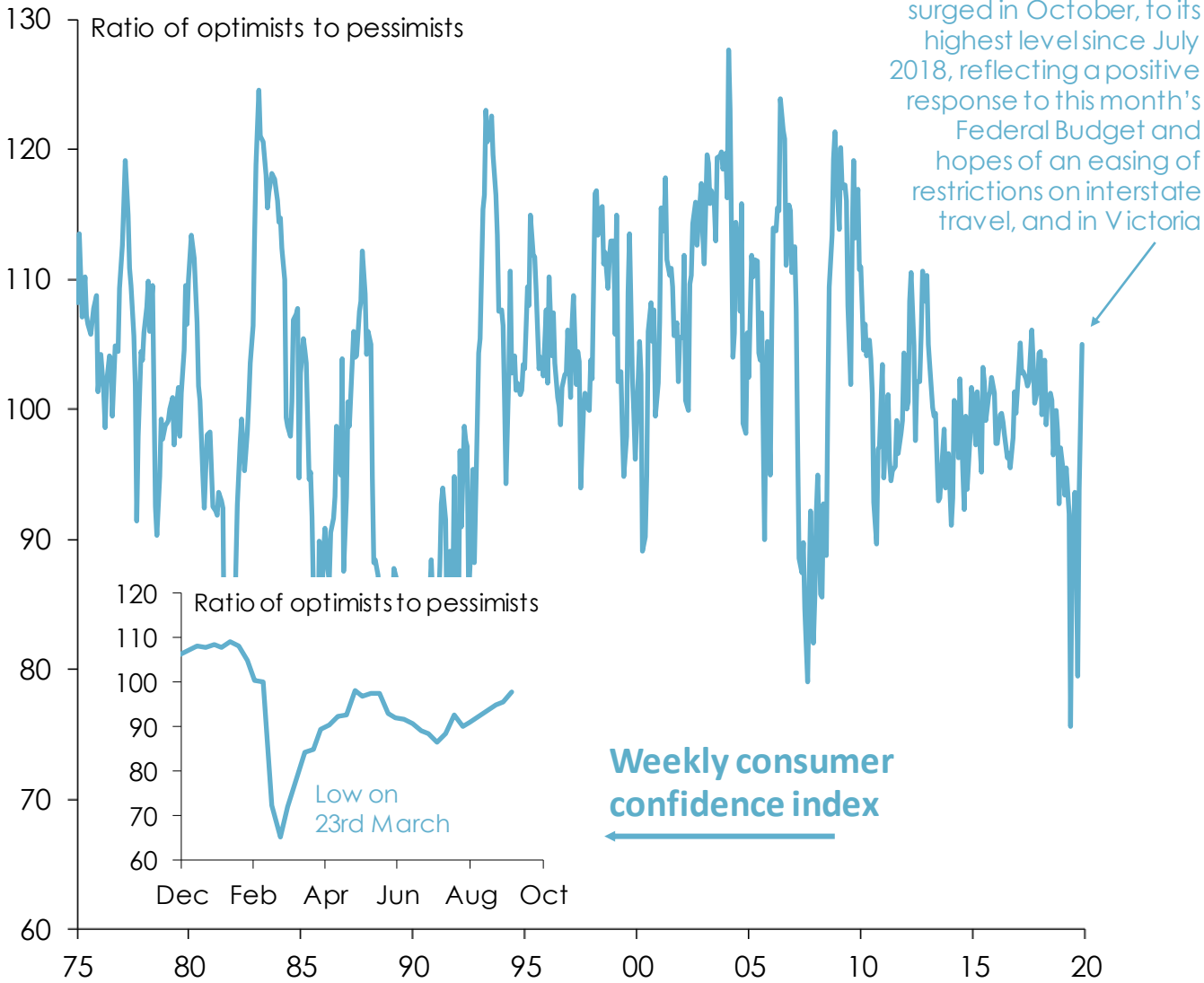
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 15<sup>th</sup> October); [Google Community Mobility Reports](#) (data up to 15<sup>th</sup> October). [Return to "What's New"](#).

# Consumer confidence surged in October, suggesting that this month's federal budget has been well-received by households

## Business confidence



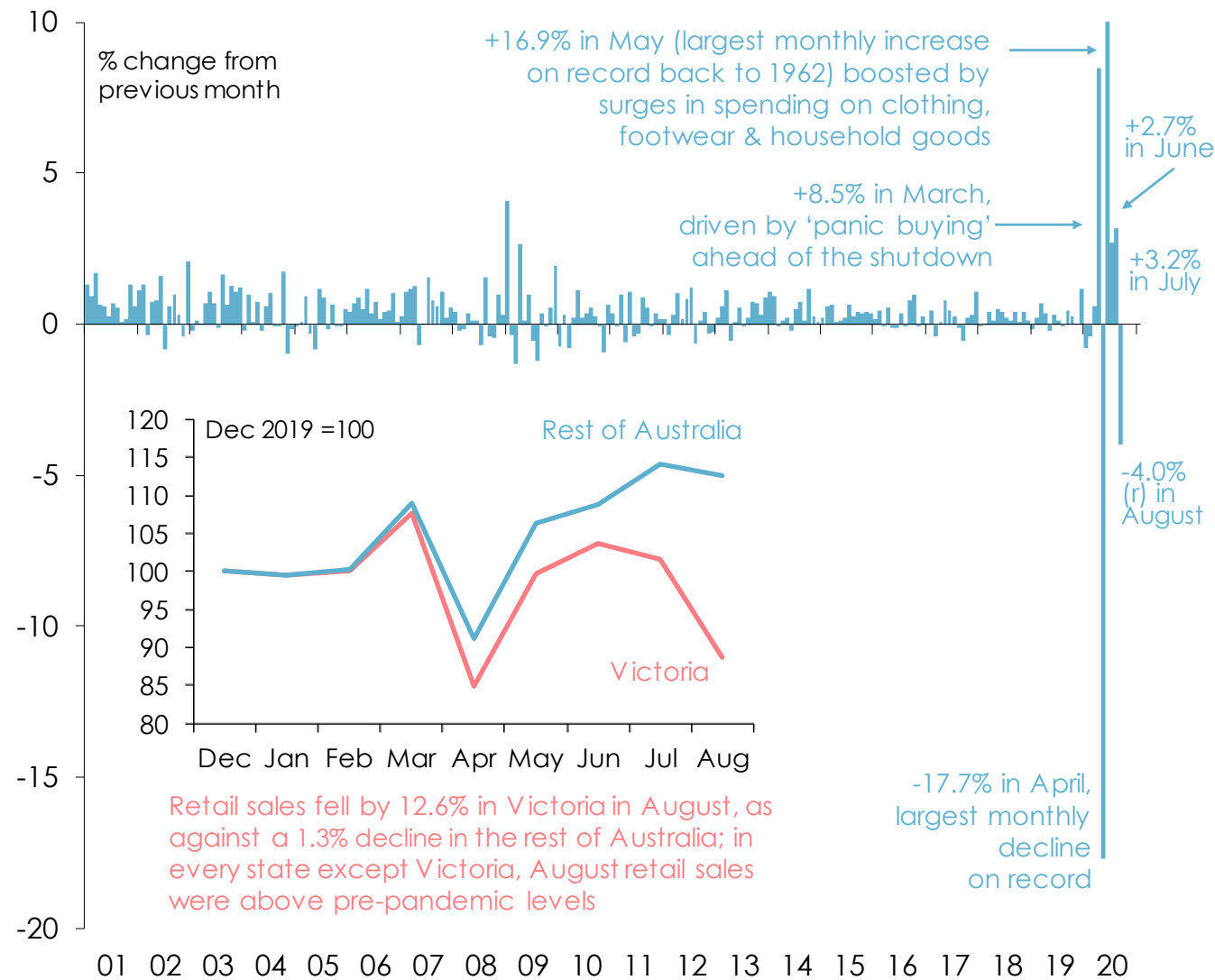
## Consumer confidence



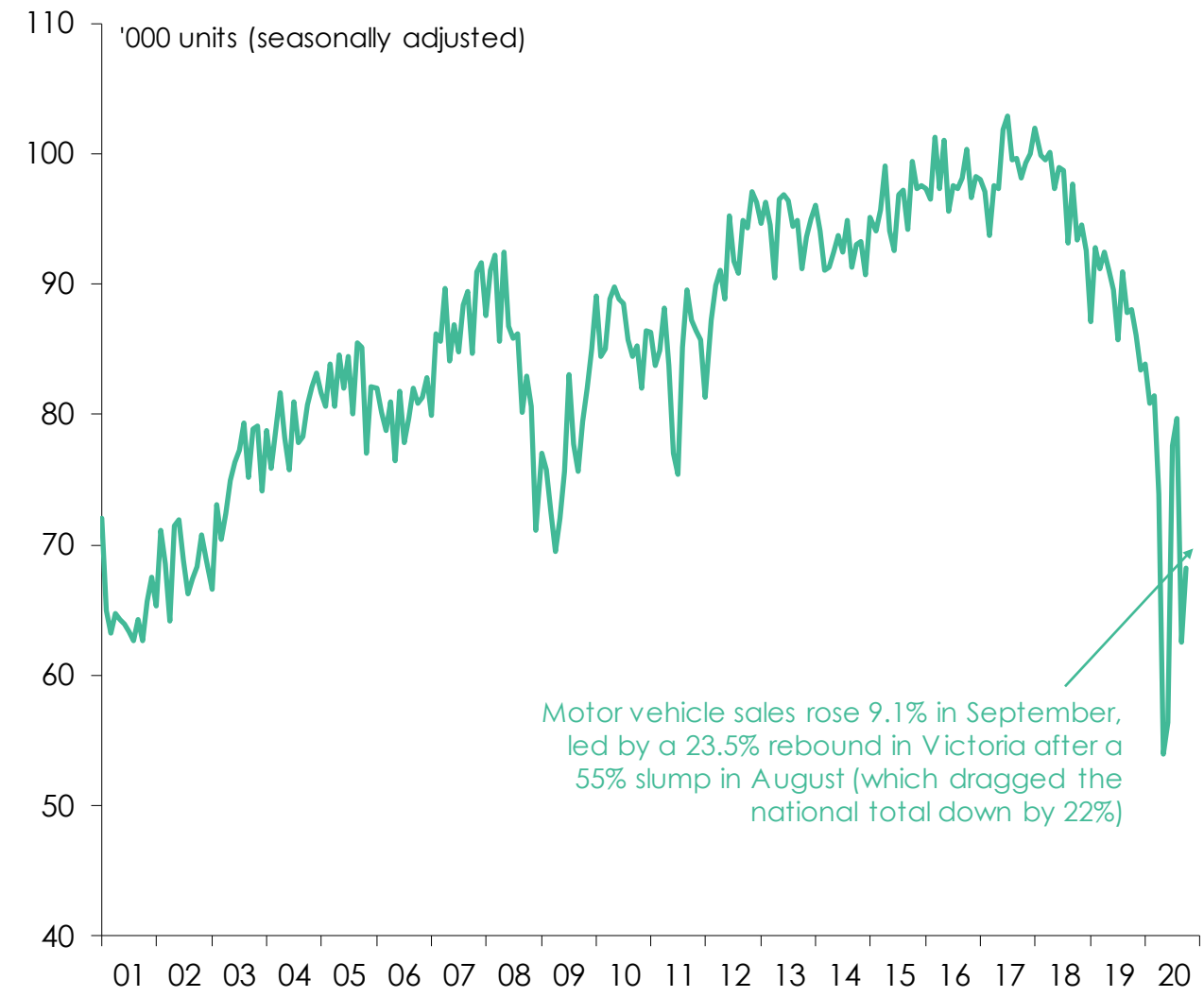
Sources: National Australia Bank; Westpac-Melbourne Institute; ANZ-Roy Morgan (weekly index). See [slide 66](#) for other components of the NAB monthly business survey from which the business confidence figure is derived. October business confidence data will be released on 10<sup>th</sup> November, and November consumer confidence on 11<sup>th</sup> November. [Return to "What's New"](#).

# Retail sales fell 4.0% in August (Victoria down 12.6%), while motor vehicle rose 9.1% in September partly reversing a 22% slump in August

## Retail sales



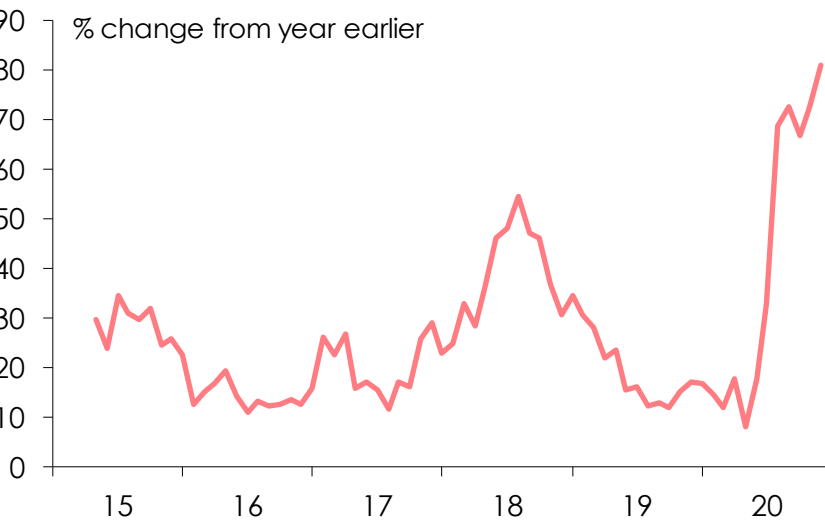
## Motor vehicle sales



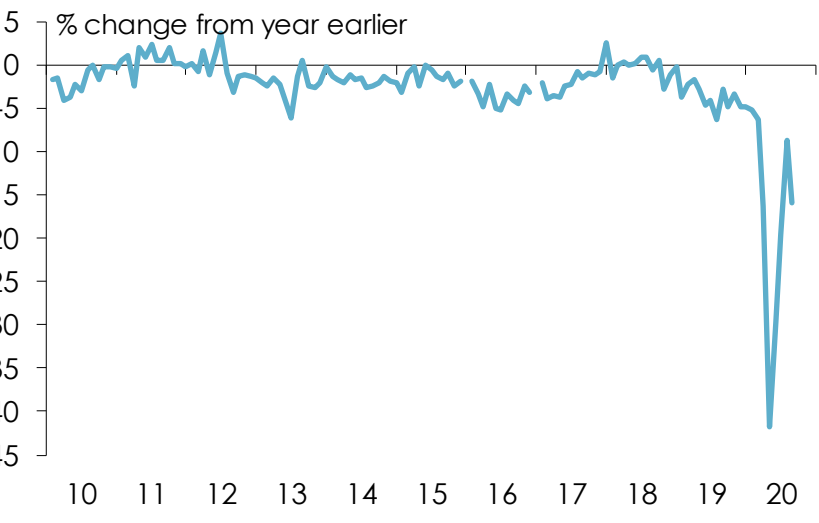
Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Retail sales data are up to July and motor vehicle sales to August. Preliminary retail sales data for September will be released on 21<sup>st</sup> October and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

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

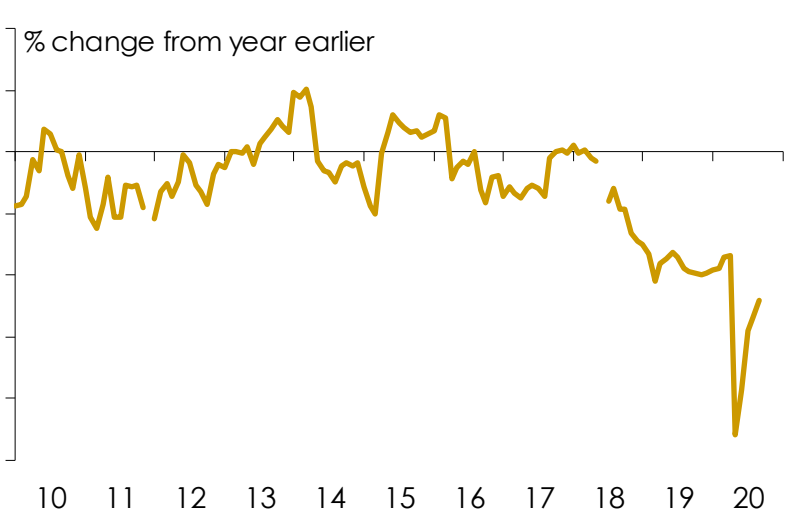
### Growth in online retail sales



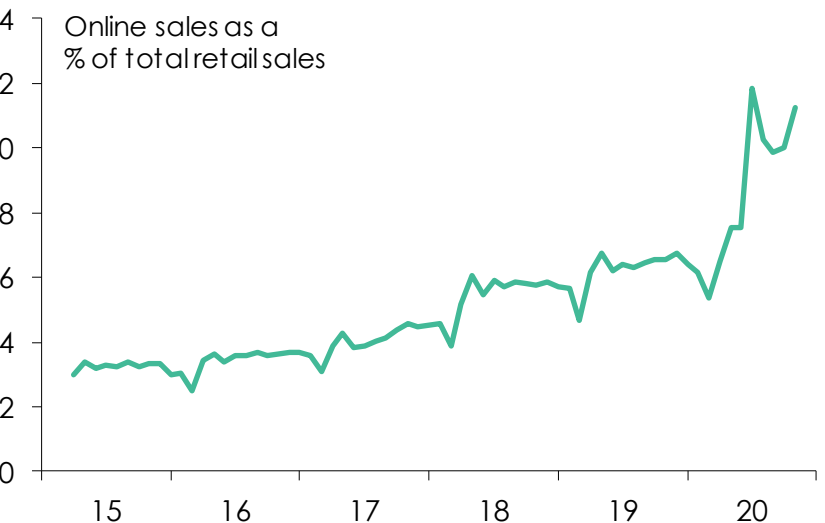
### ATM cash withdrawals



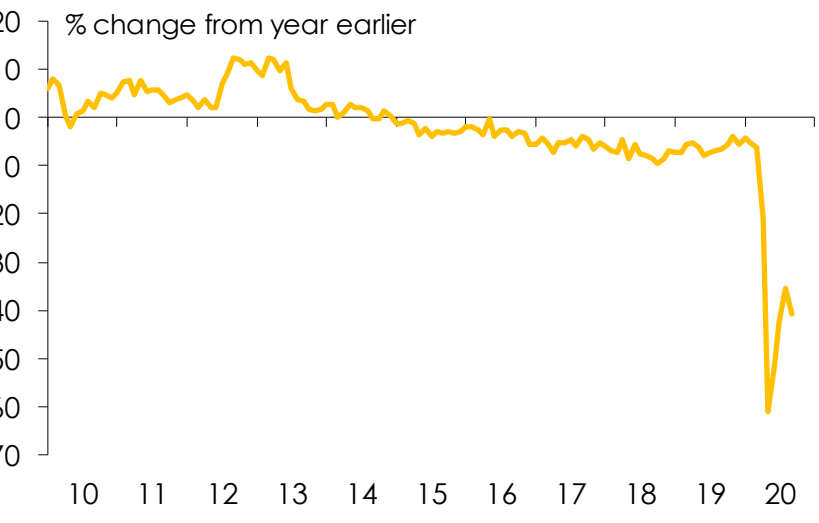
### Credit card cash advances



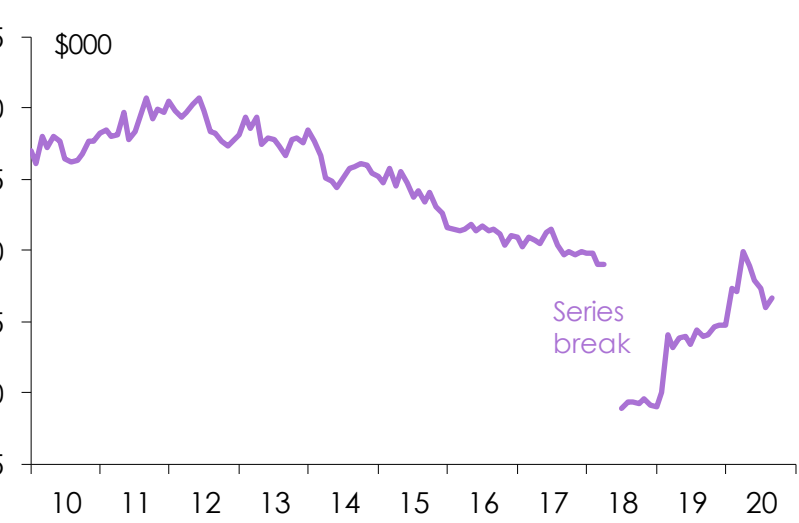
### Online retail 'market share'



### Debit card cash-outs



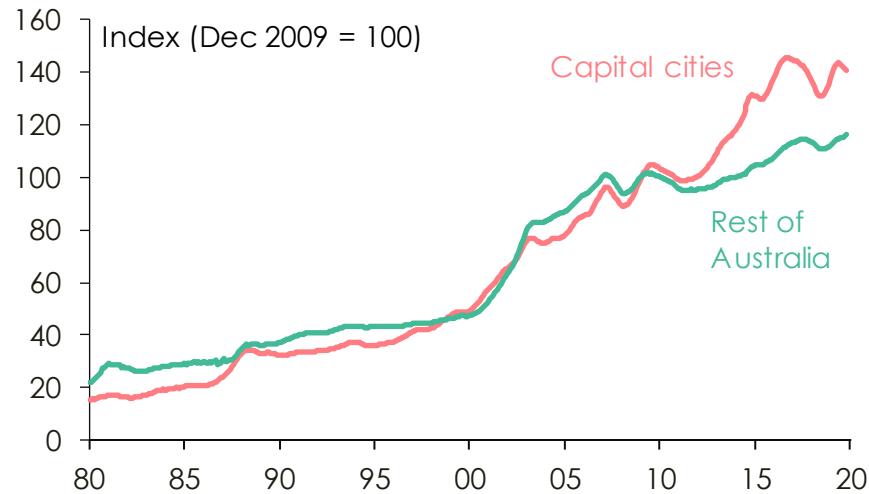
### Direct entry payments



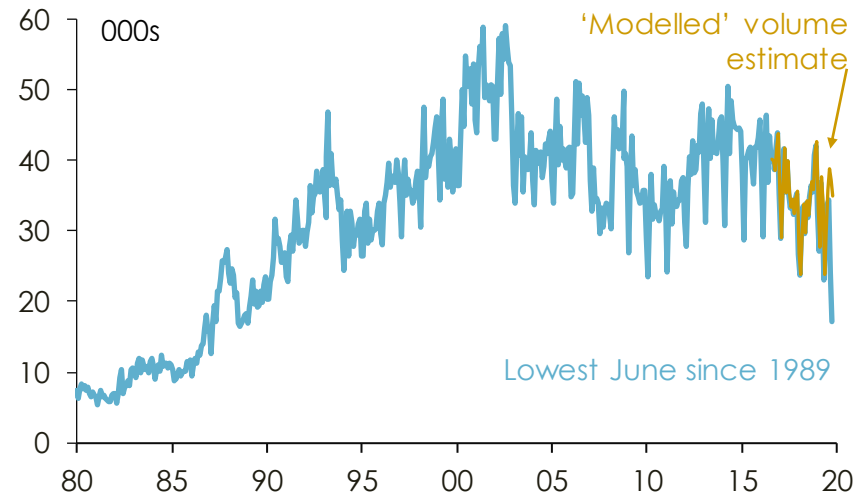
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data for August; online retail sales data for September will be released on 4<sup>th</sup> November, and payments system data for August on 9<sup>th</sup> November. [Return to "What's New"](#).

# 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

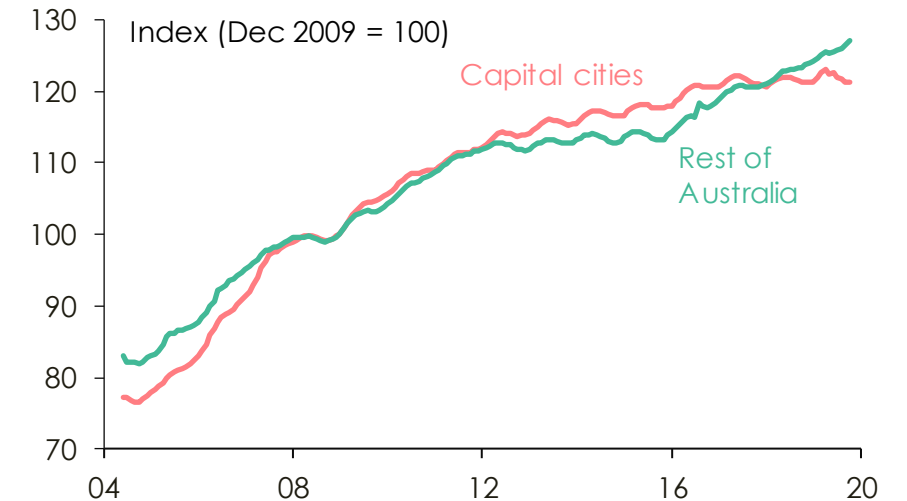
## Residential property prices



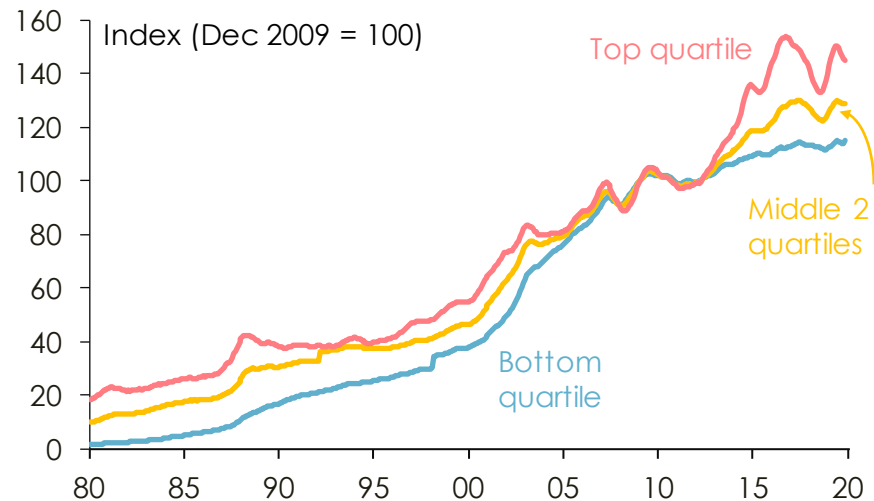
## Residential property sales volumes



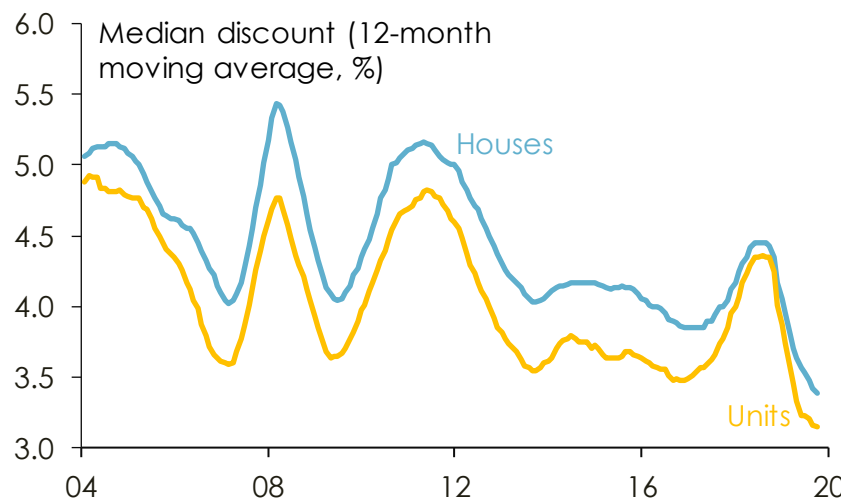
## Residential rents



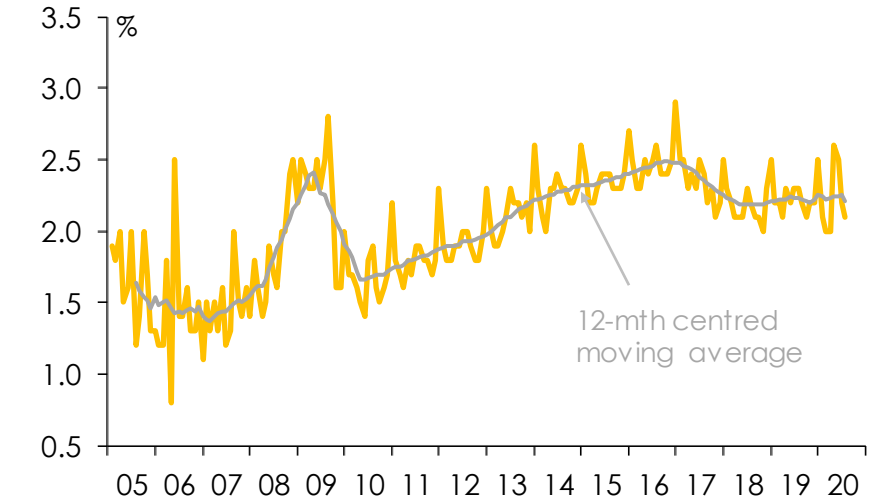
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

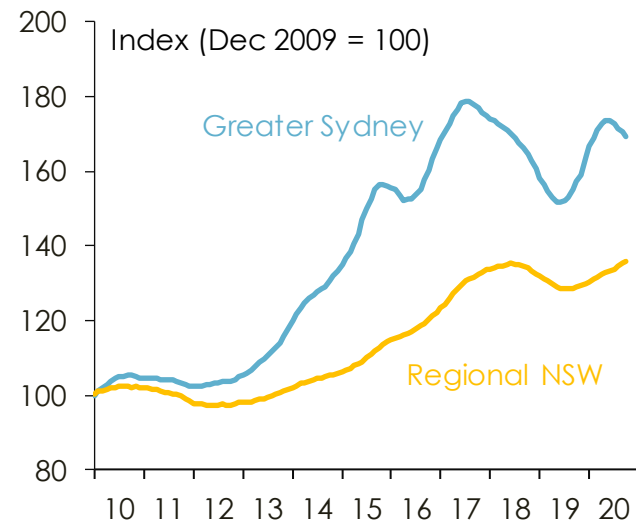


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential 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 2<sup>nd</sup> November.

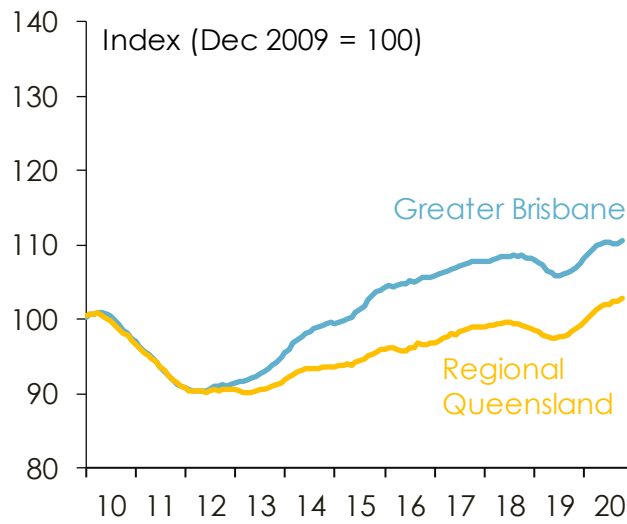
Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

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

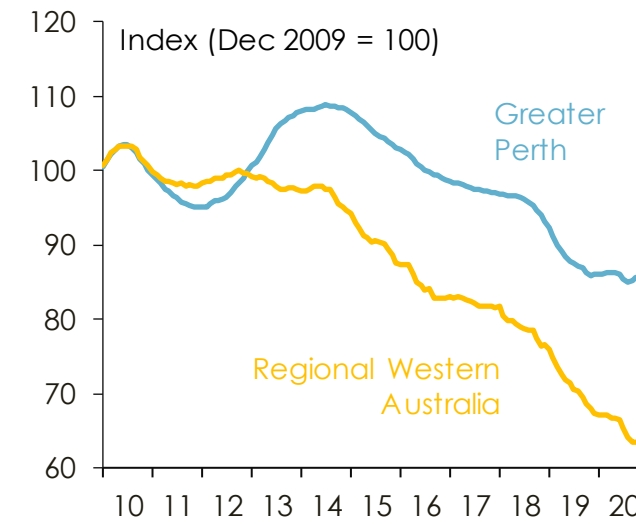
## New South Wales



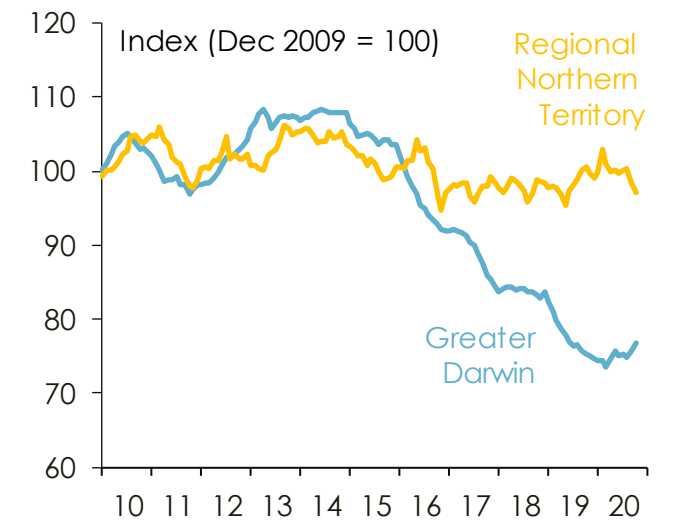
## Queensland



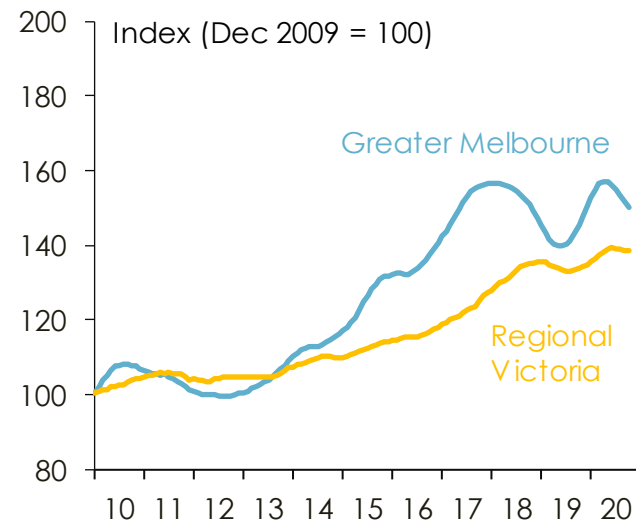
## Western Australia



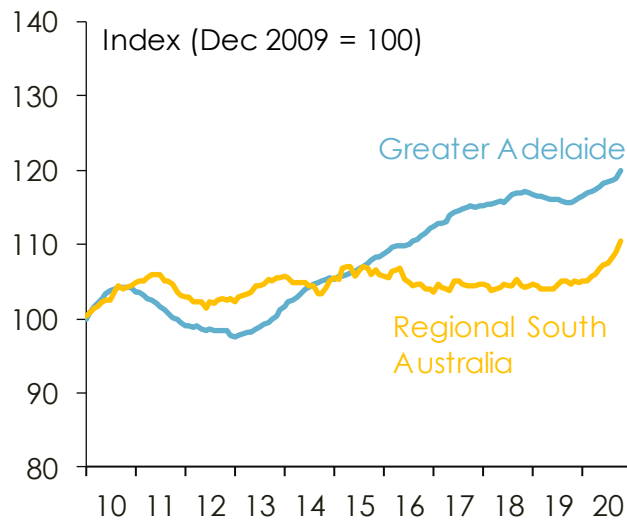
## Northern Territory



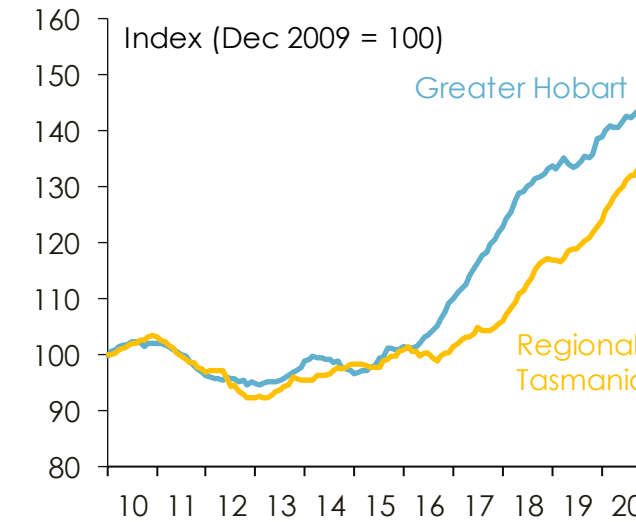
## Victoria



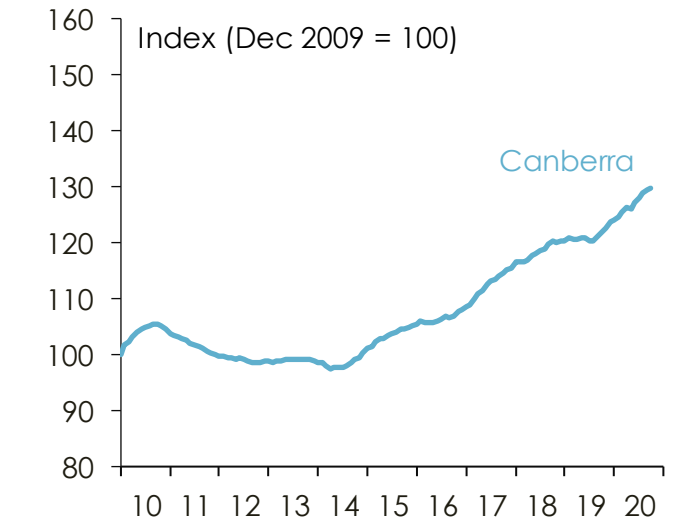
## South Australia



## Tasmania



## Australian Capital Territory

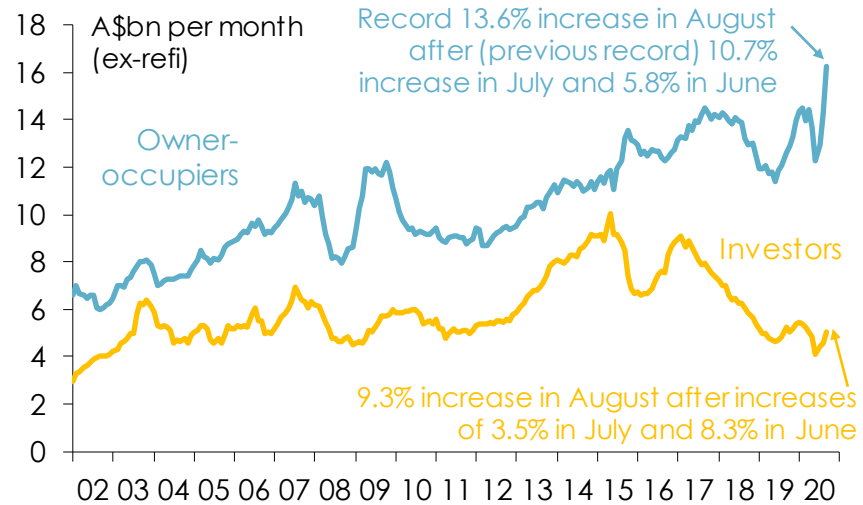


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

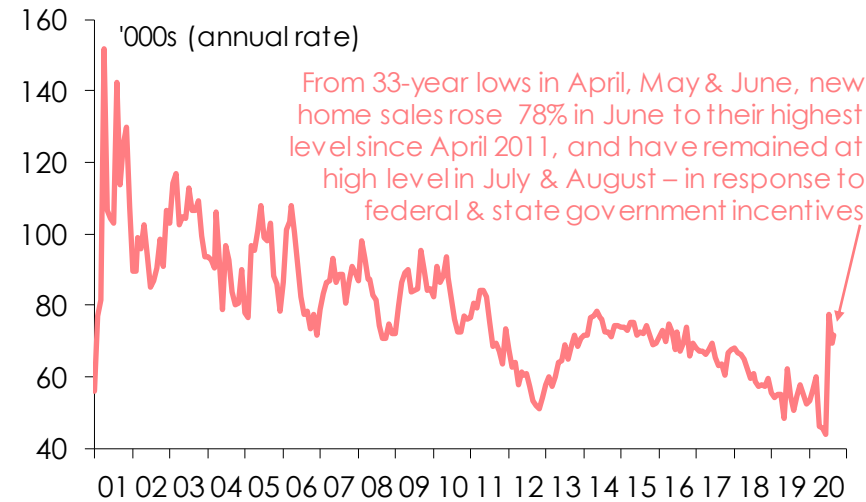


# Housing lending and new home sales have been very strong in recent months although longer term the outlook for housing still seems poor

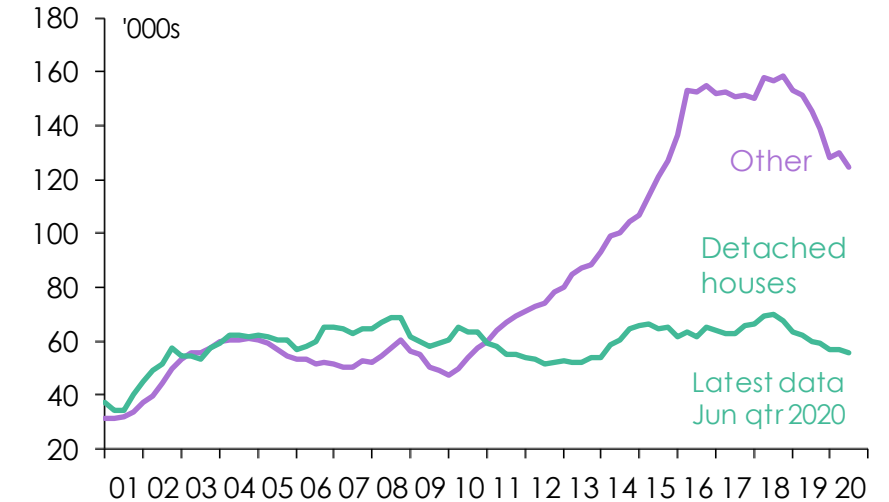
## Housing finance commitments



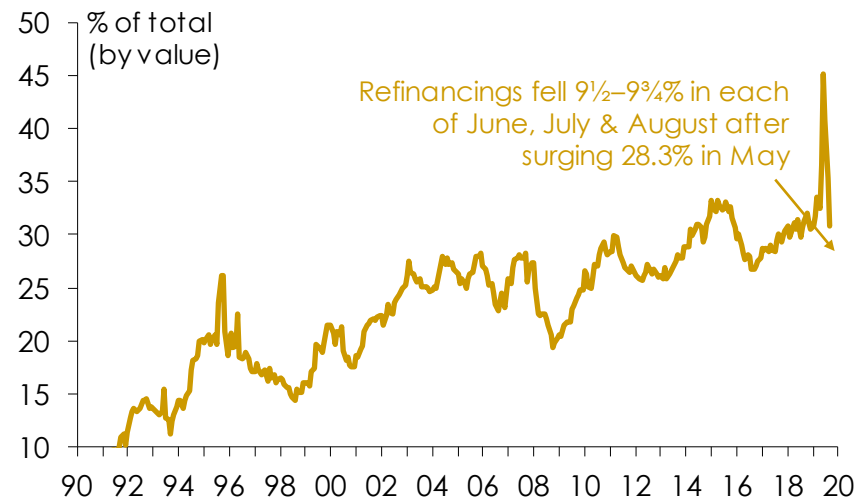
## Large builders' new home sales



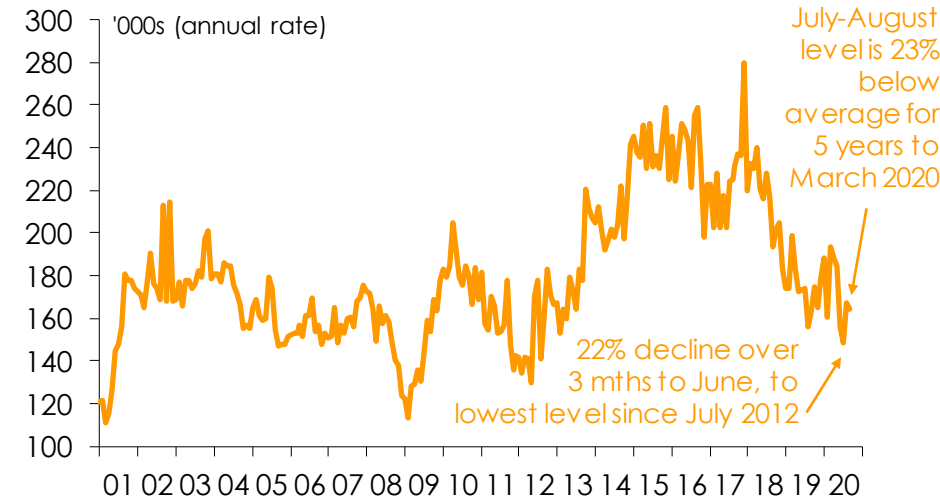
## Dwellings under construction



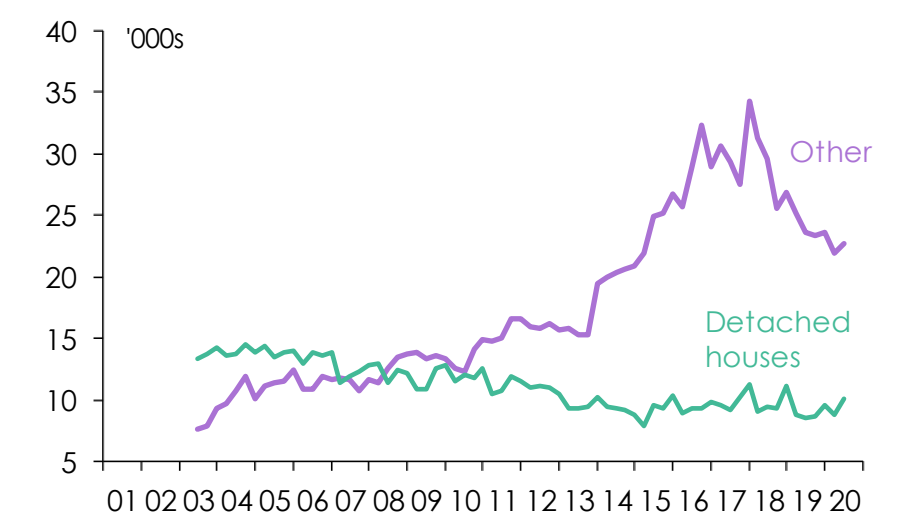
## Refinancings as pc of total



## Residential building approvals



## 'Pipeline' of work yet to be done

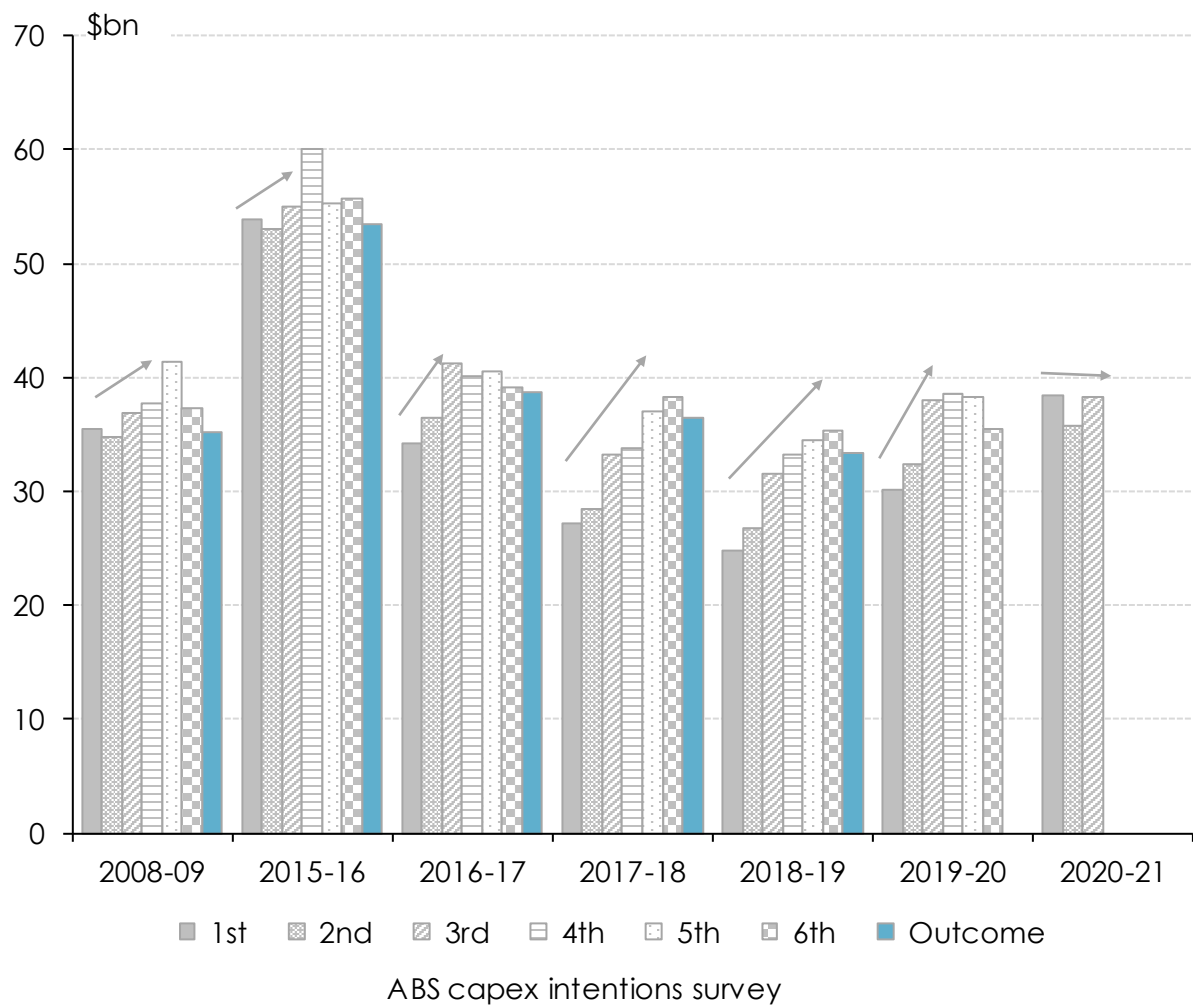


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. September building approvals data will be released on 2<sup>nd</sup> November; September housing finance also on 2<sup>nd</sup> November; and September quarter dwellings under construction and 'pipeline' data on 20<sup>th</sup> January 2021. [Return to "What's New"](#).

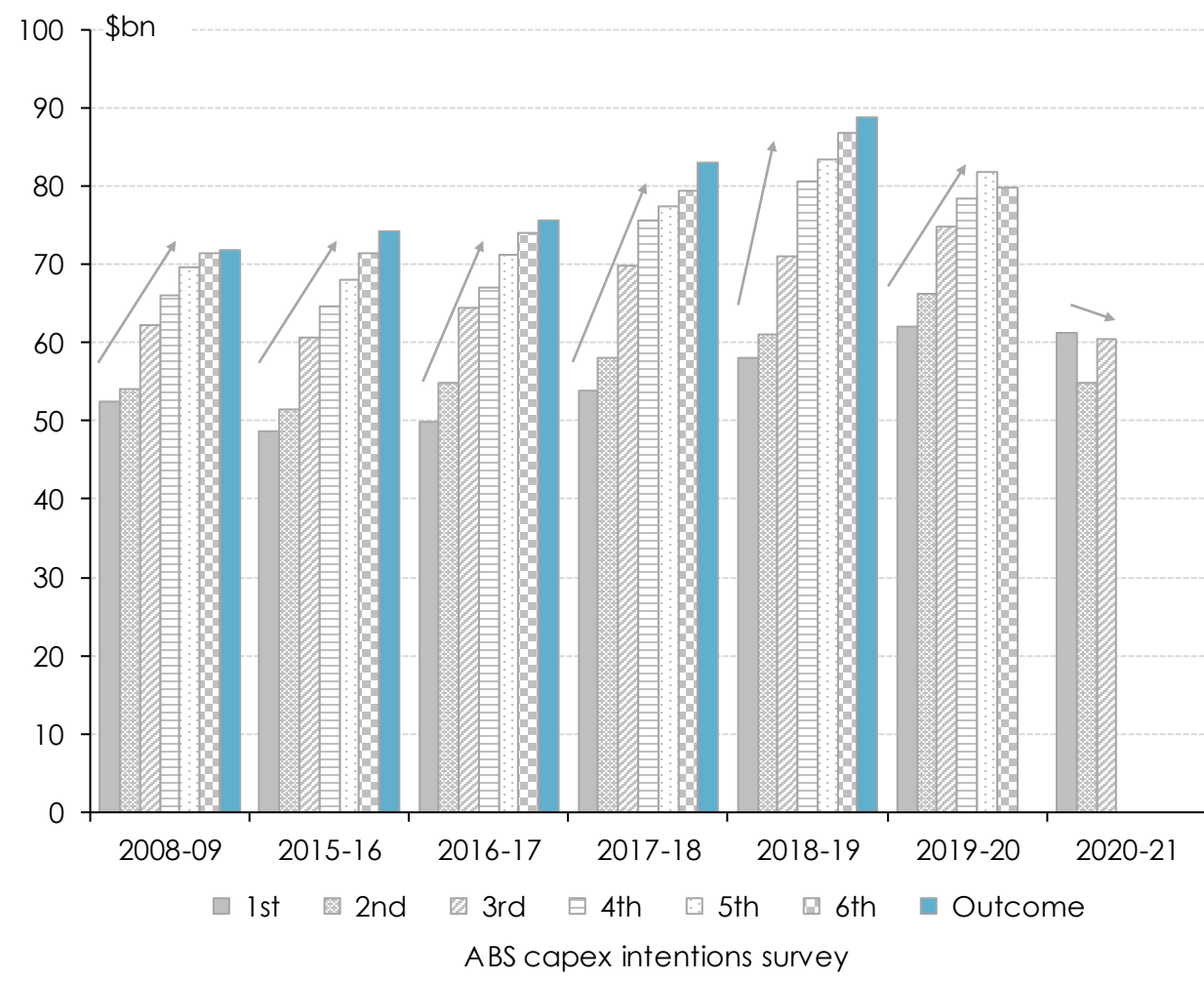


# Business capex intentions for the current financial year are lower than they were six months ago – for the first time in at least 33 years

Capital expenditure intentions - mining

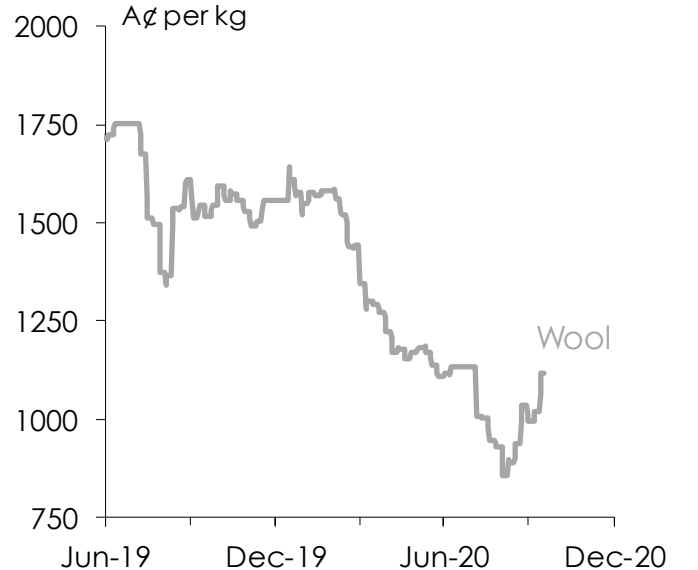
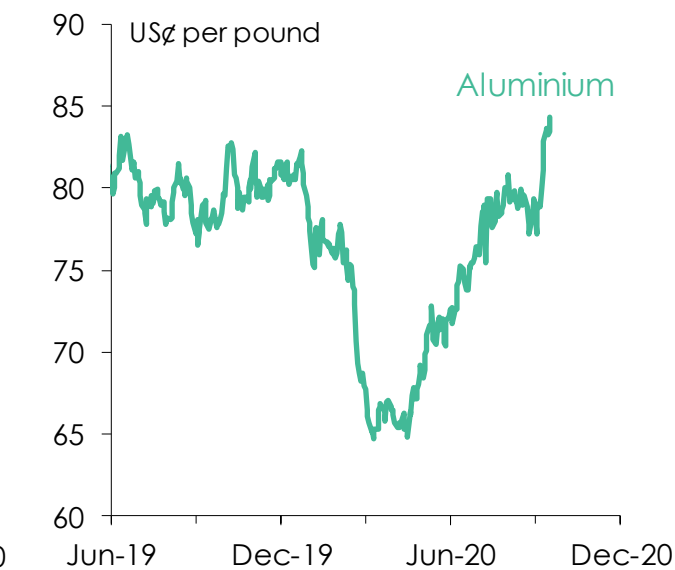
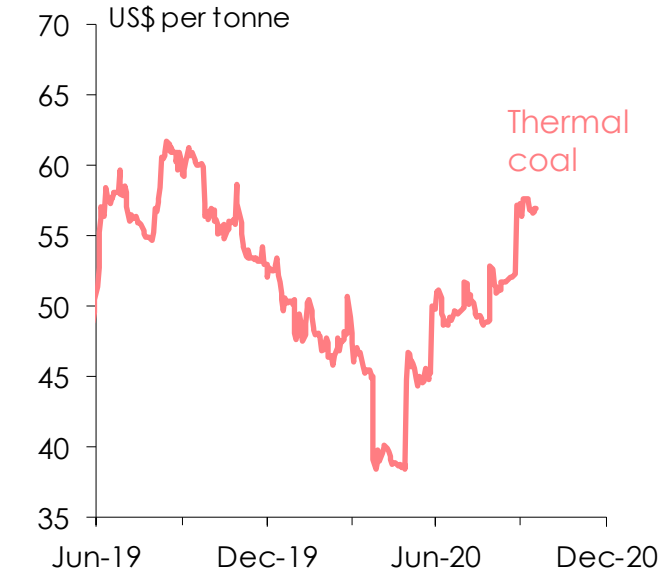
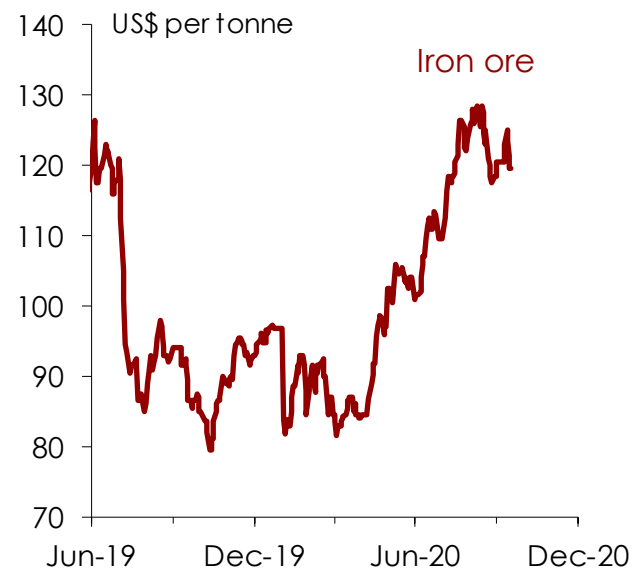
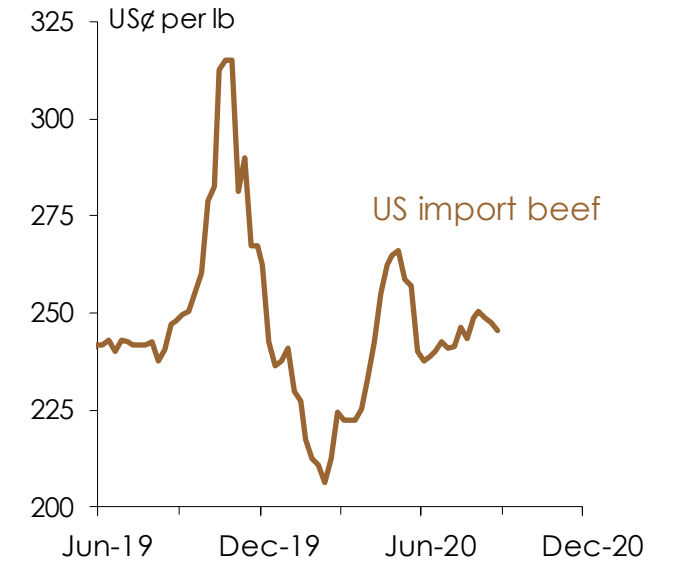
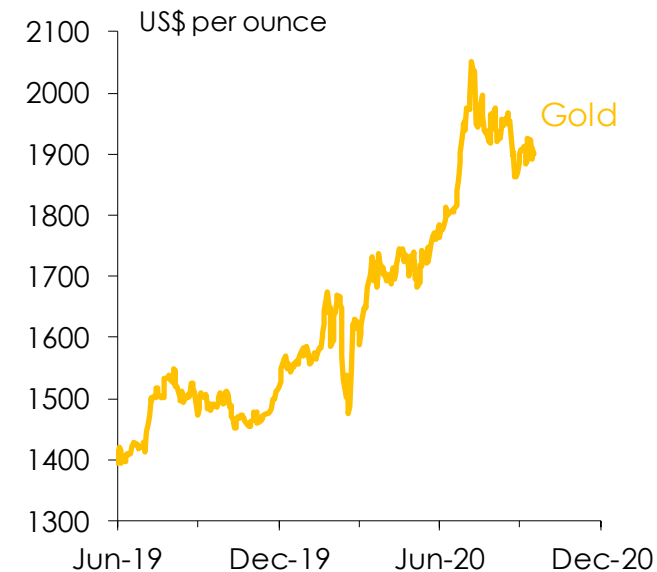
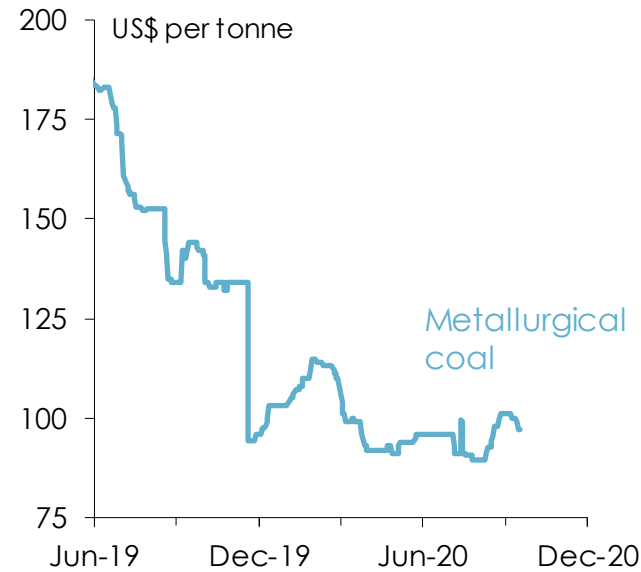
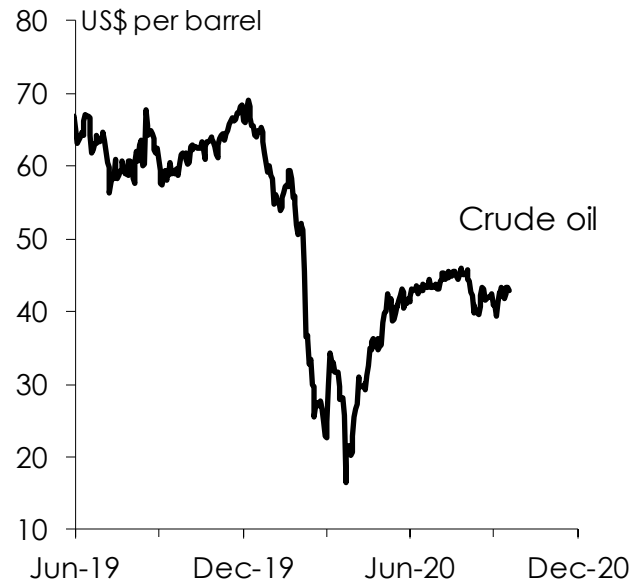


Capital expenditure intentions – non-mining



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 26<sup>th</sup> November).

# Aluminium prices reached an 18-month high this week on firmer demand and wool prices continued to recover, but others were little changed

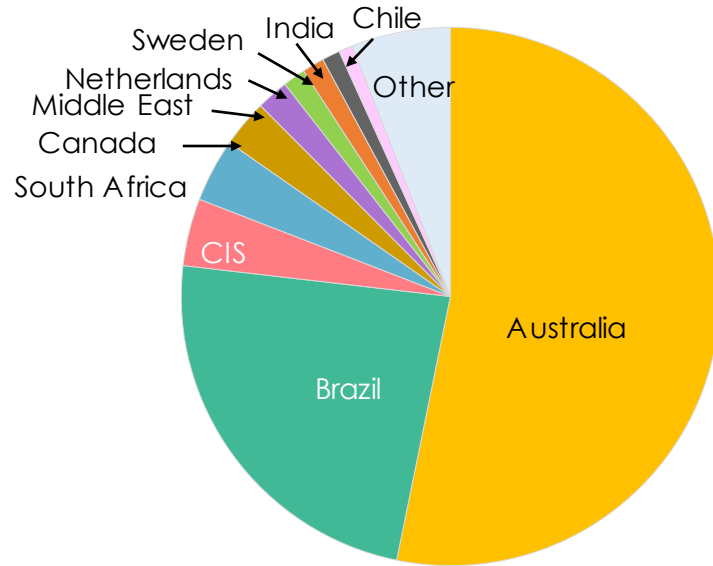


Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 16<sup>th</sup> October.

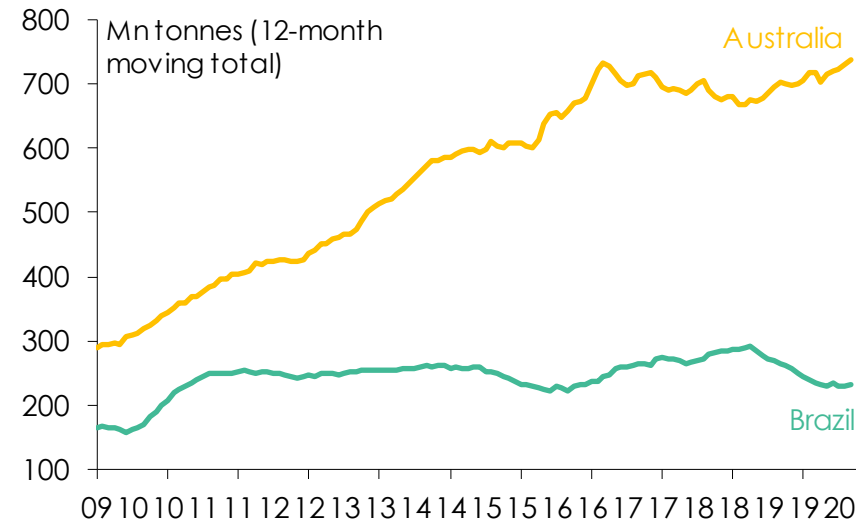
[Return to "What's New".](#)

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

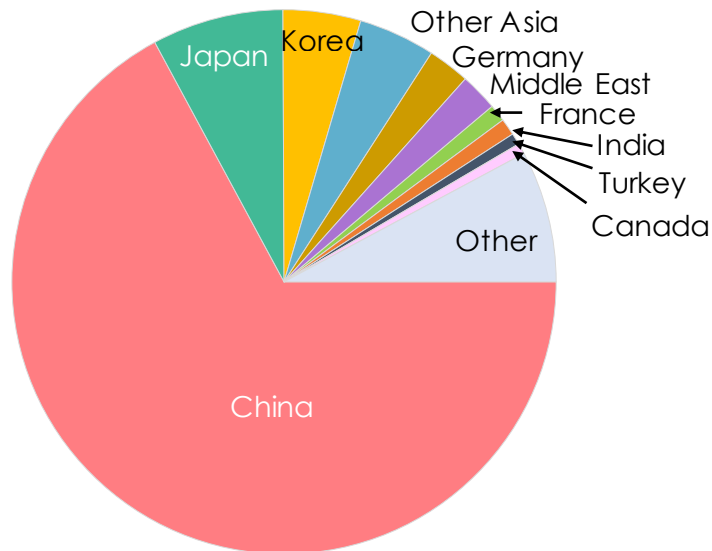
## Iron ore exports, 2018



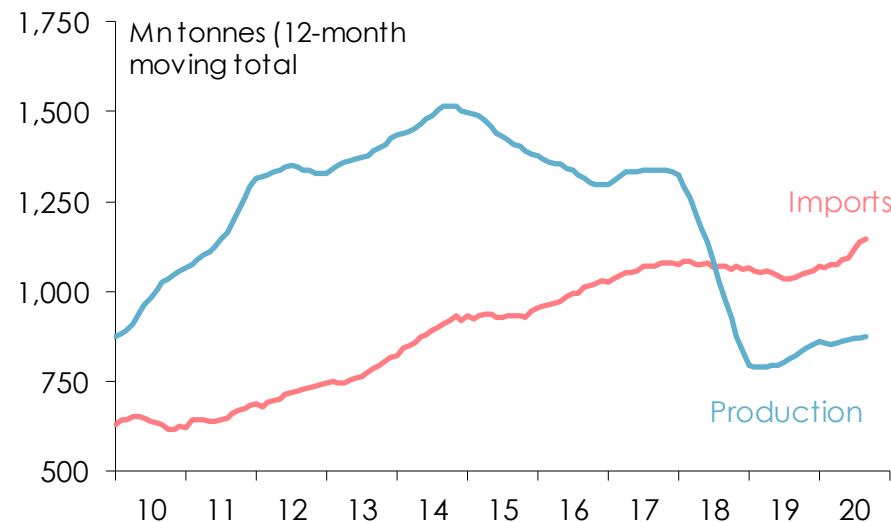
## Australia & Brazil iron ore exports



## Iron ore imports, 2018



## China iron ore production & imports



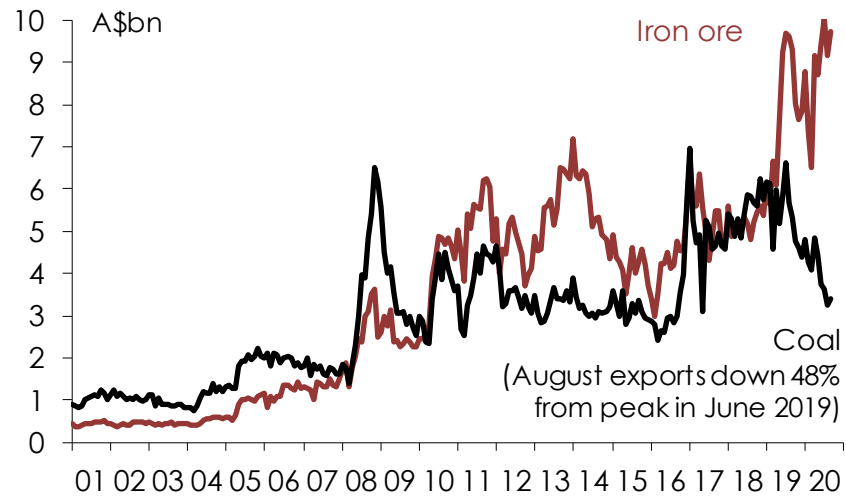
- ❑ The global seaborne iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use)
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese 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.

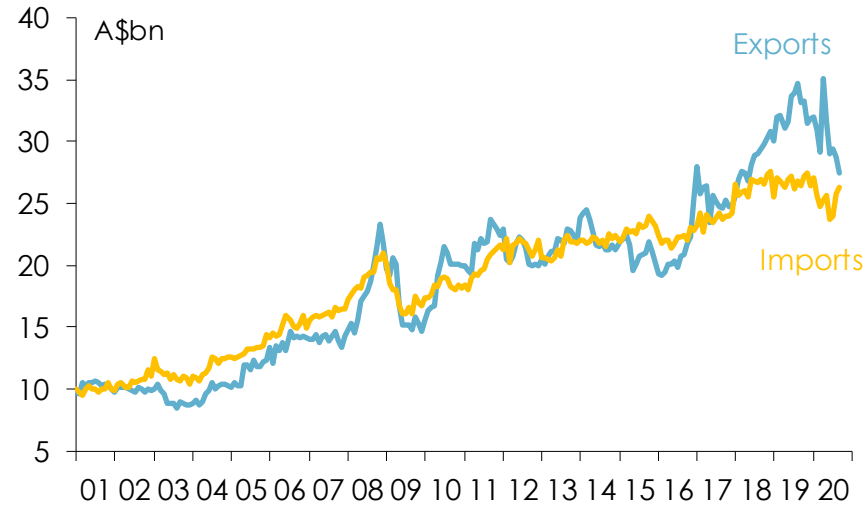
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS; IGBE; BHP; Corinna.

# 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%

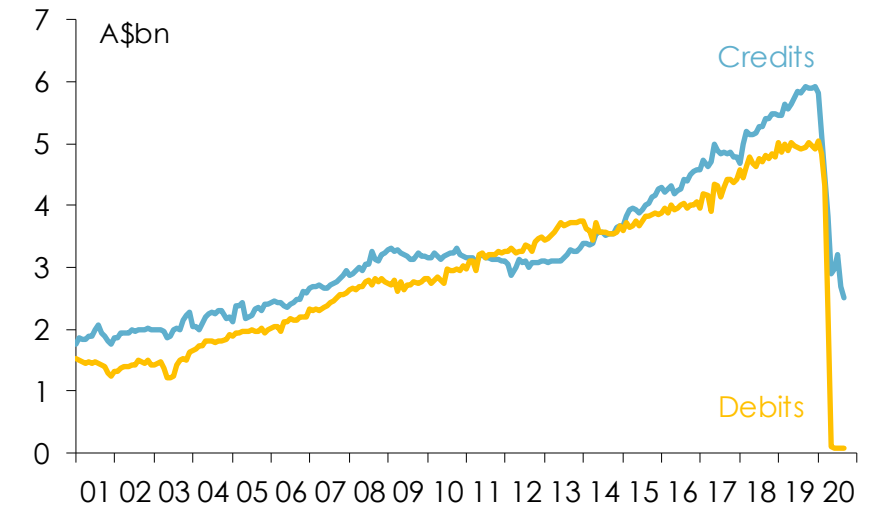
## Iron ore and coal exports



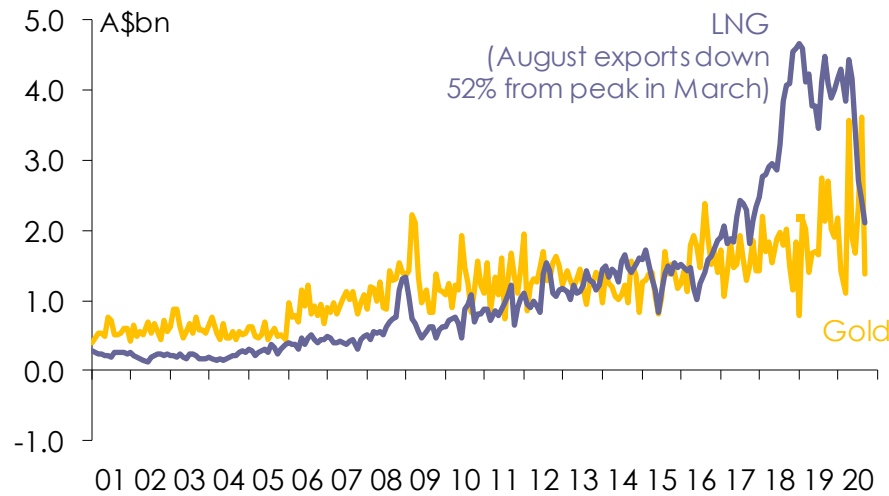
## Merchandise exports and imports



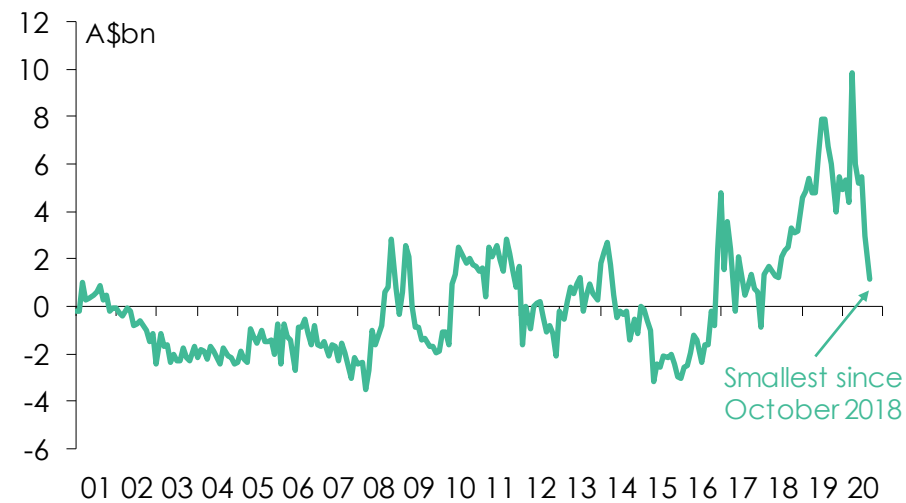
## Tourism-related services trade



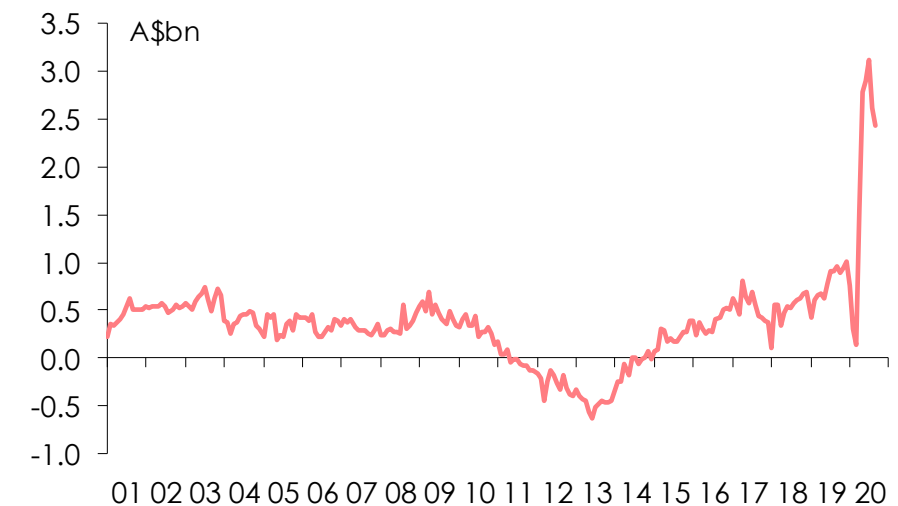
## LNG and gold exports



## Merchandise trade balance



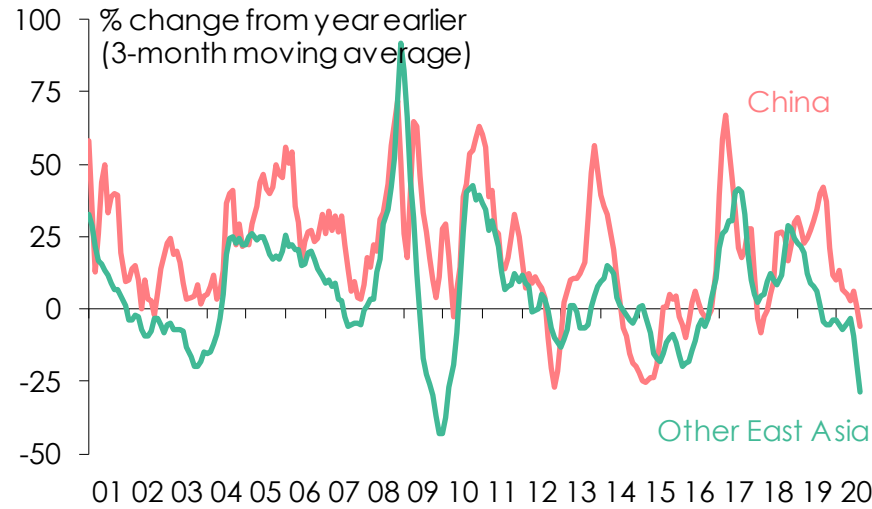
## Tourism services trade balance



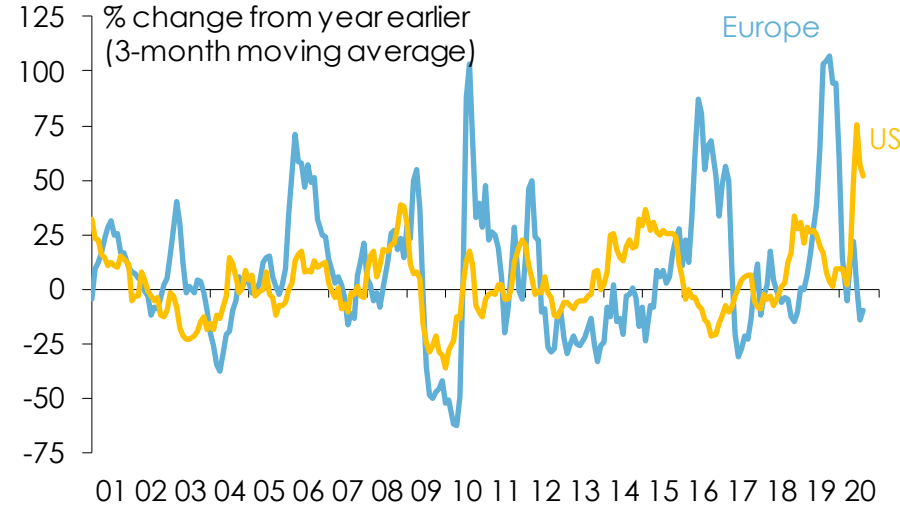
Source: ABS, [International Trade in Goods and Services, Australia](#). September data will be released on 5<sup>th</sup> November (with preliminary merchandise trade data about a week earlier). [Return to "What's New"](#).

# 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)

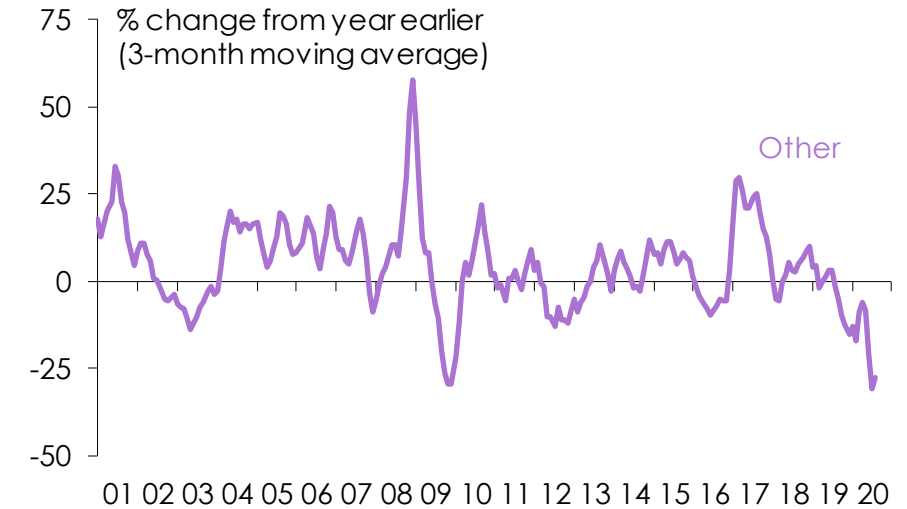
## Merchandise exports – East Asia



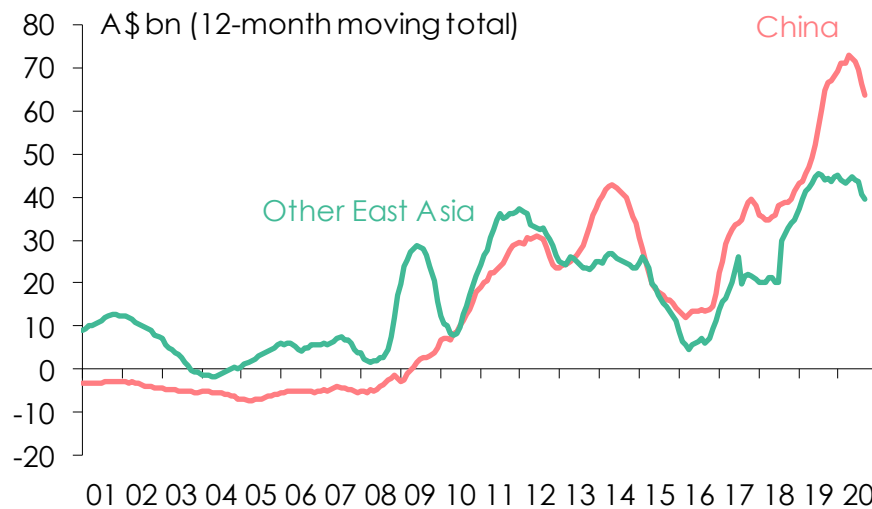
## Merchandise exports – US & Europe



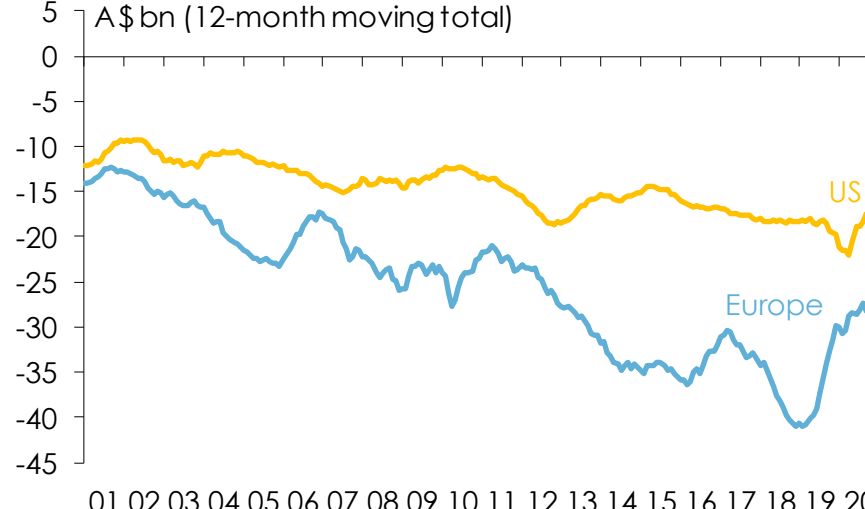
## Merchandise exports – other



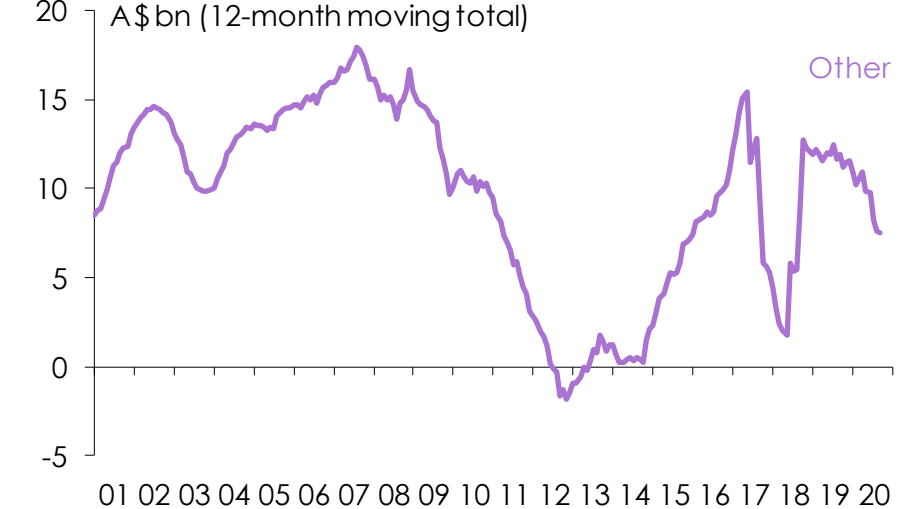
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



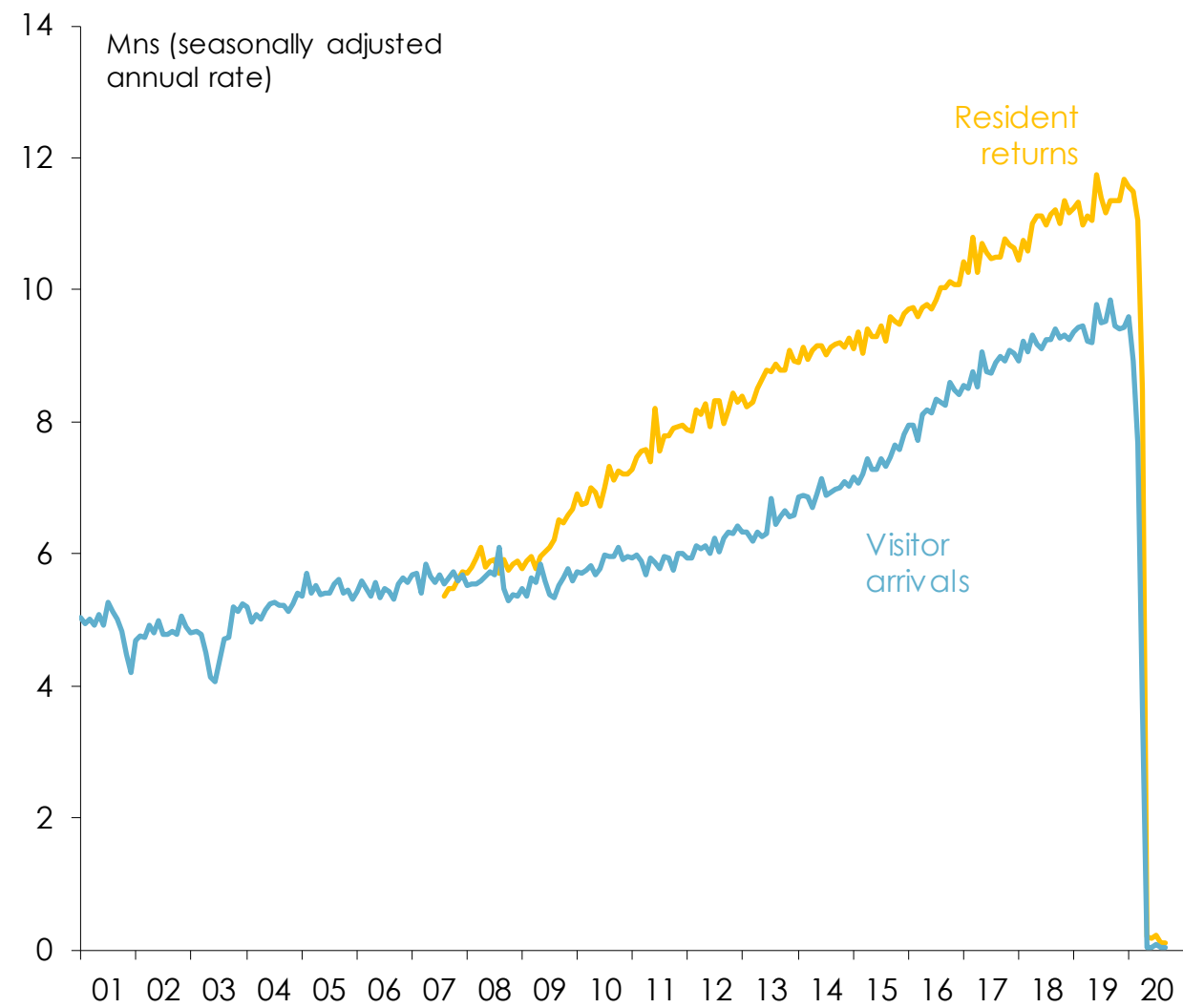
## Goods trade balance – other



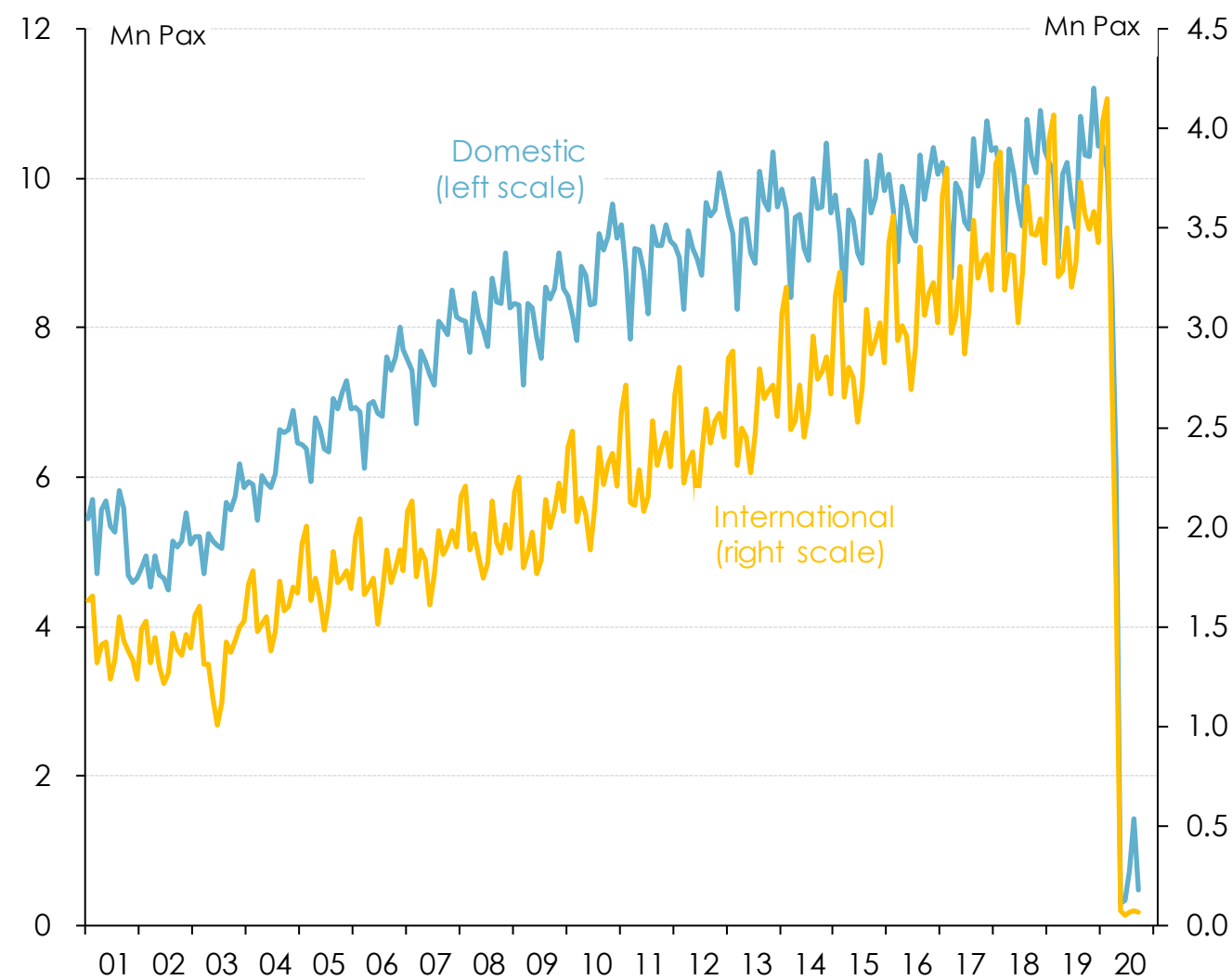
Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in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

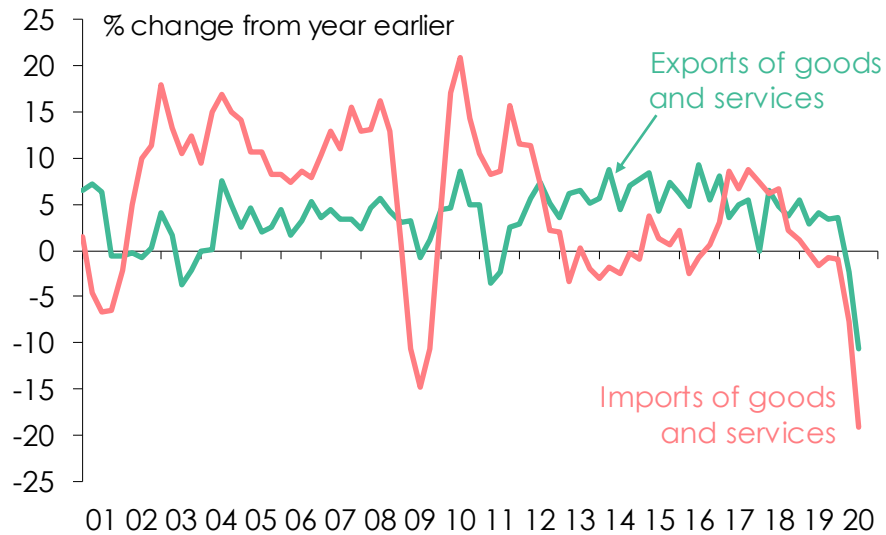


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

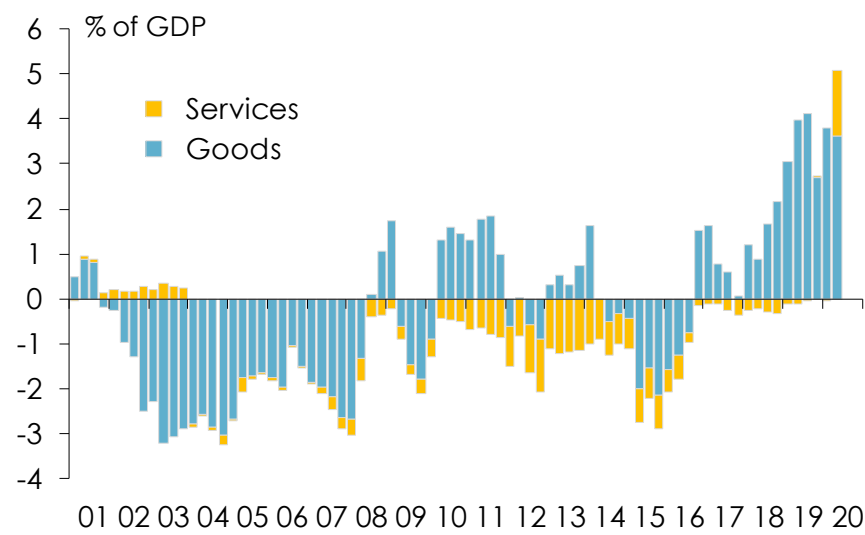


# Australia recorded its largest-ever current account surplus in Q2, and is now a capital exporter, paying down debt and building up equity assets

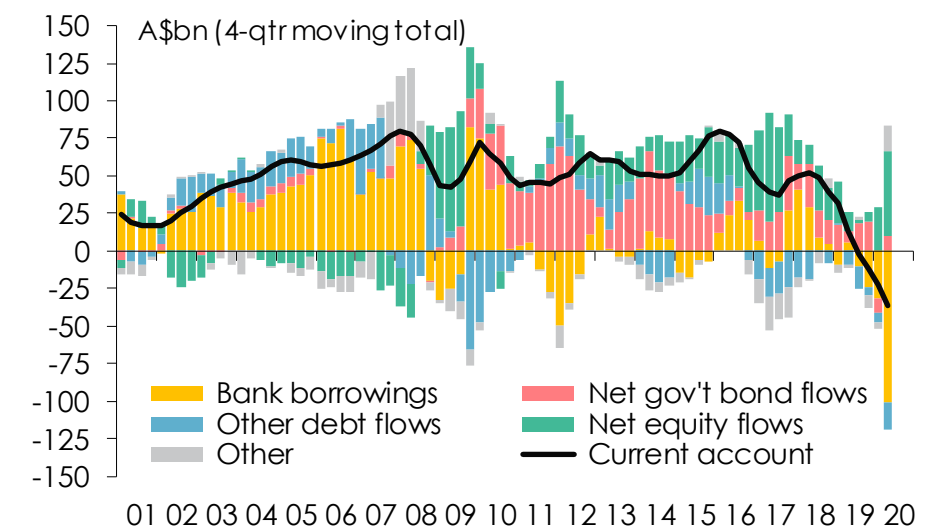
## Export and import volumes



## Goods & services trade balances



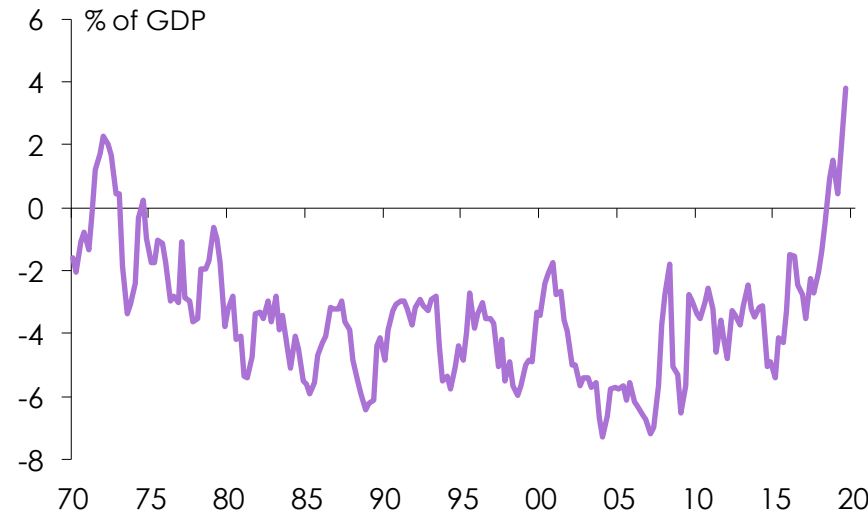
## Capital flows



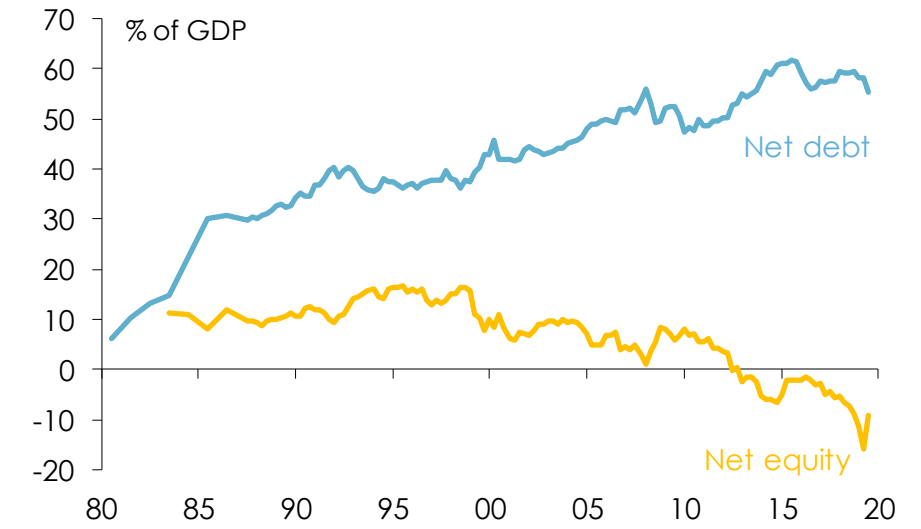
## Export and import prices



## Current account balance



## Net international investment position

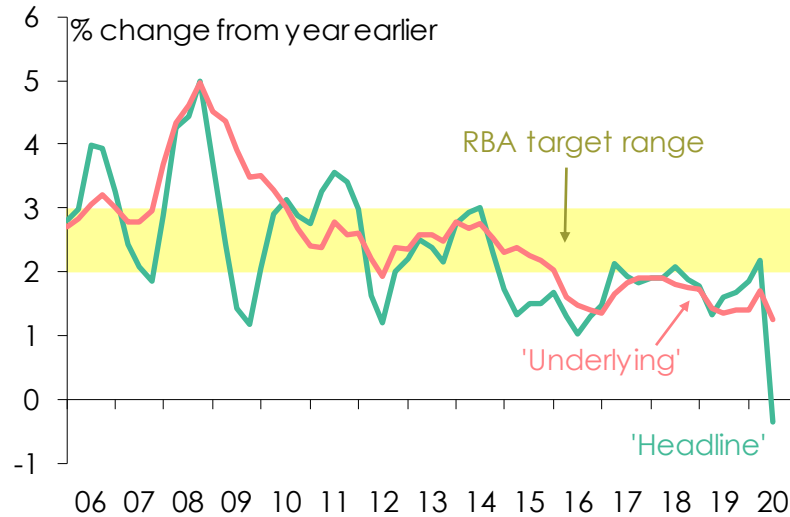


Source: ABS, [Balance of Payments and International Investment Position, Australia](#). September quarter data will be released on 1<sup>st</sup> December. [Return to "What's New"](#).

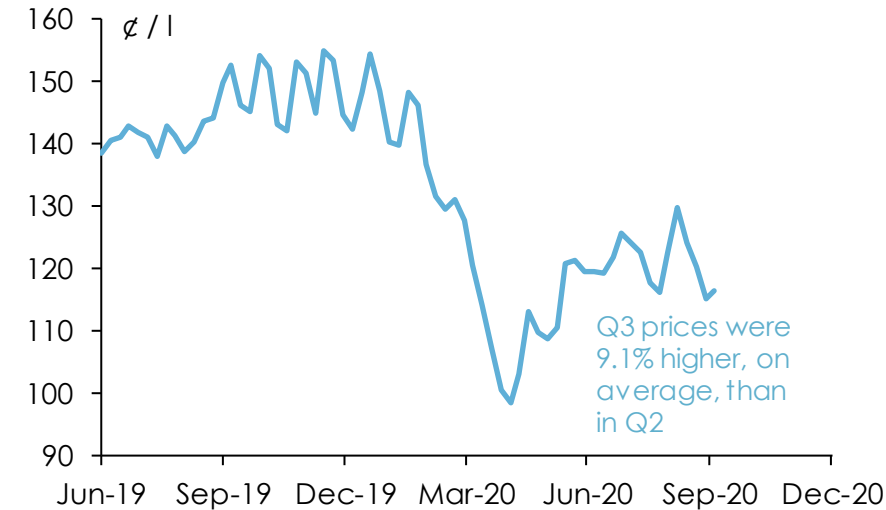


# Inflation turned negative, temporarily, in Q2 and will remain below the RBA's target until at least the second half of 2021

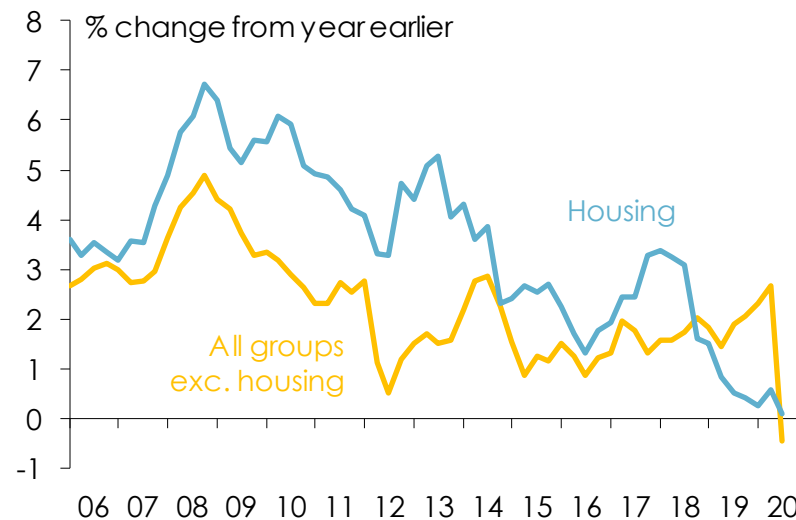
## Consumer prices



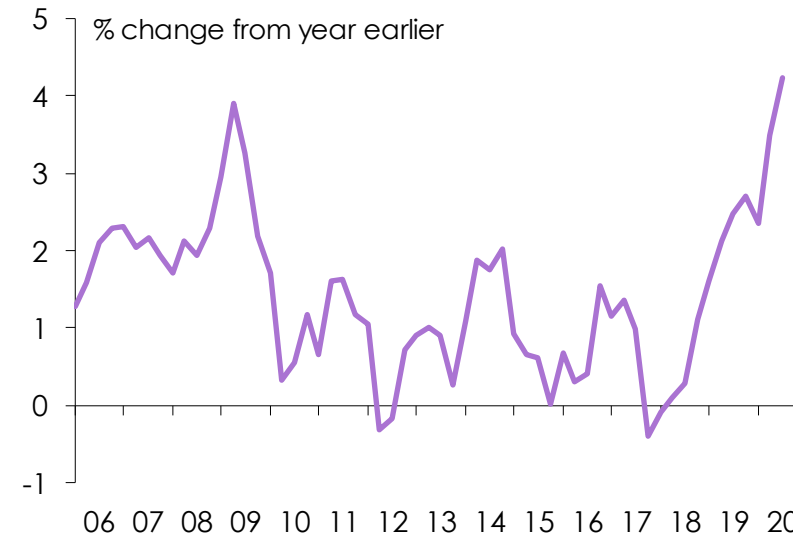
## Retail petrol prices



## Housing costs in the CPI



## Retail sales implicit price deflator

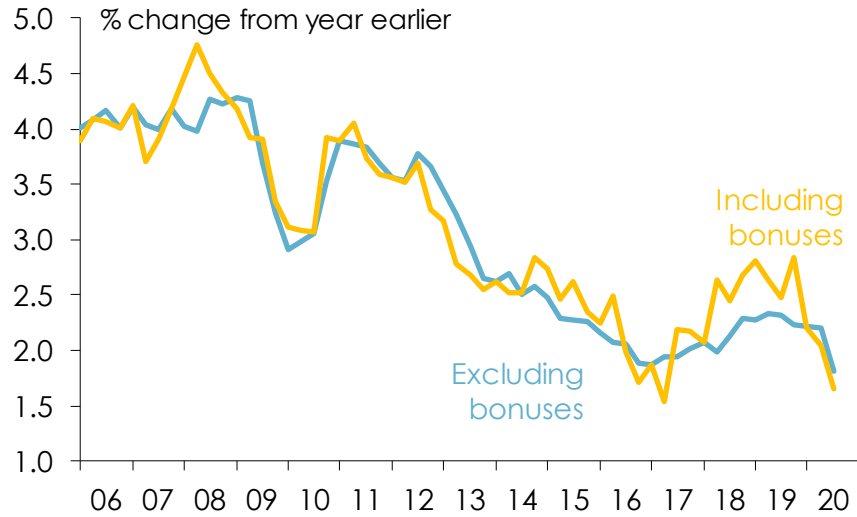


- ❑ The CPI fell (by 1.9%) in the June quarter, the largest quarterly decline since 1931 and only the 11<sup>th</sup> decline in 60 years
- ❑ The annual 'headline' inflation rate fell to -0.3%, the lowest since Q3 1997 (which was artificially induced by falling mortgage rates, which are no longer included 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 6<sup>th</sup> April and 28<sup>th</sup> 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

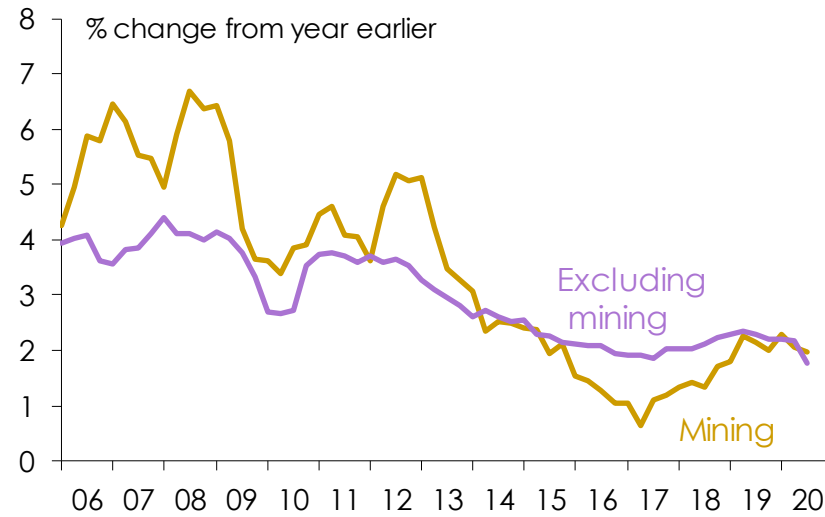
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.  
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The September quarter (Q3) CPI will be released on 28<sup>th</sup> October.  
[Return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

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

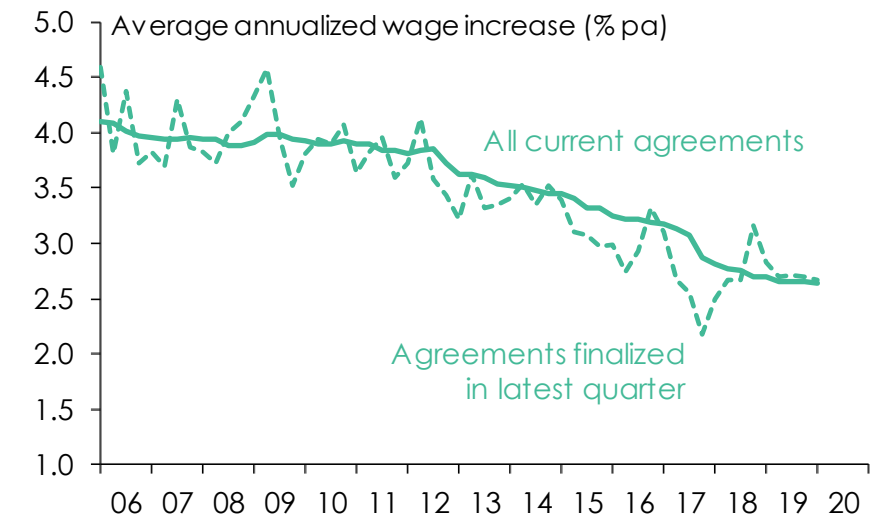
## Wage price index – all sectors



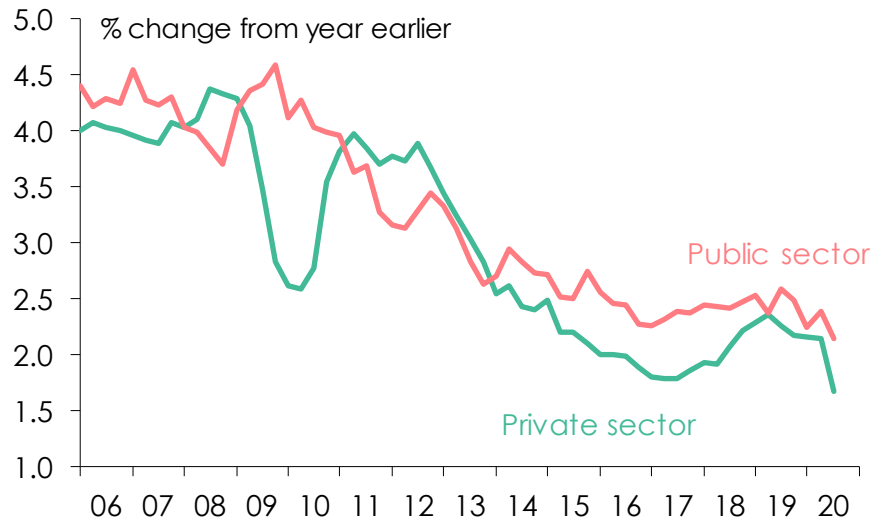
## WPI by industry



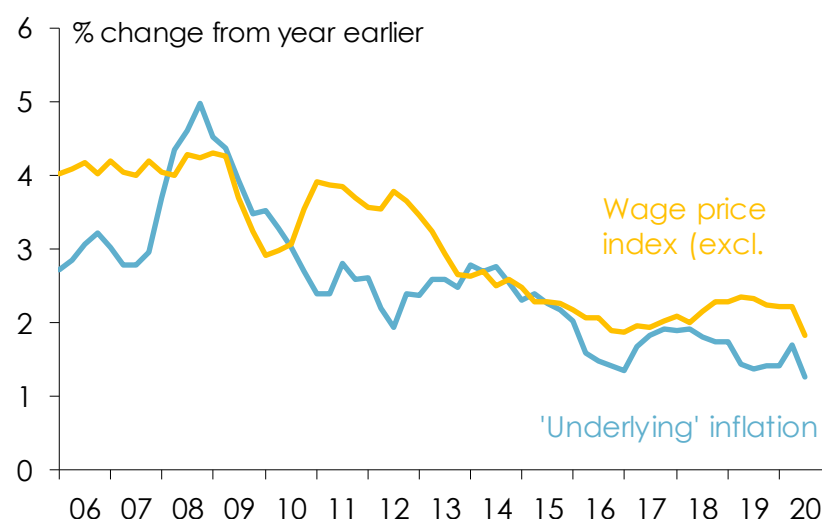
## Enterprise bargaining agreements



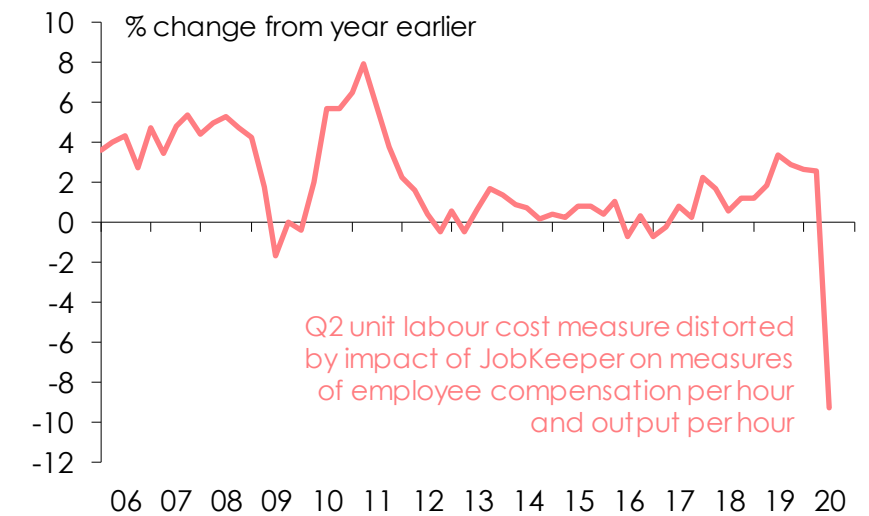
## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation



## Unit labour costs

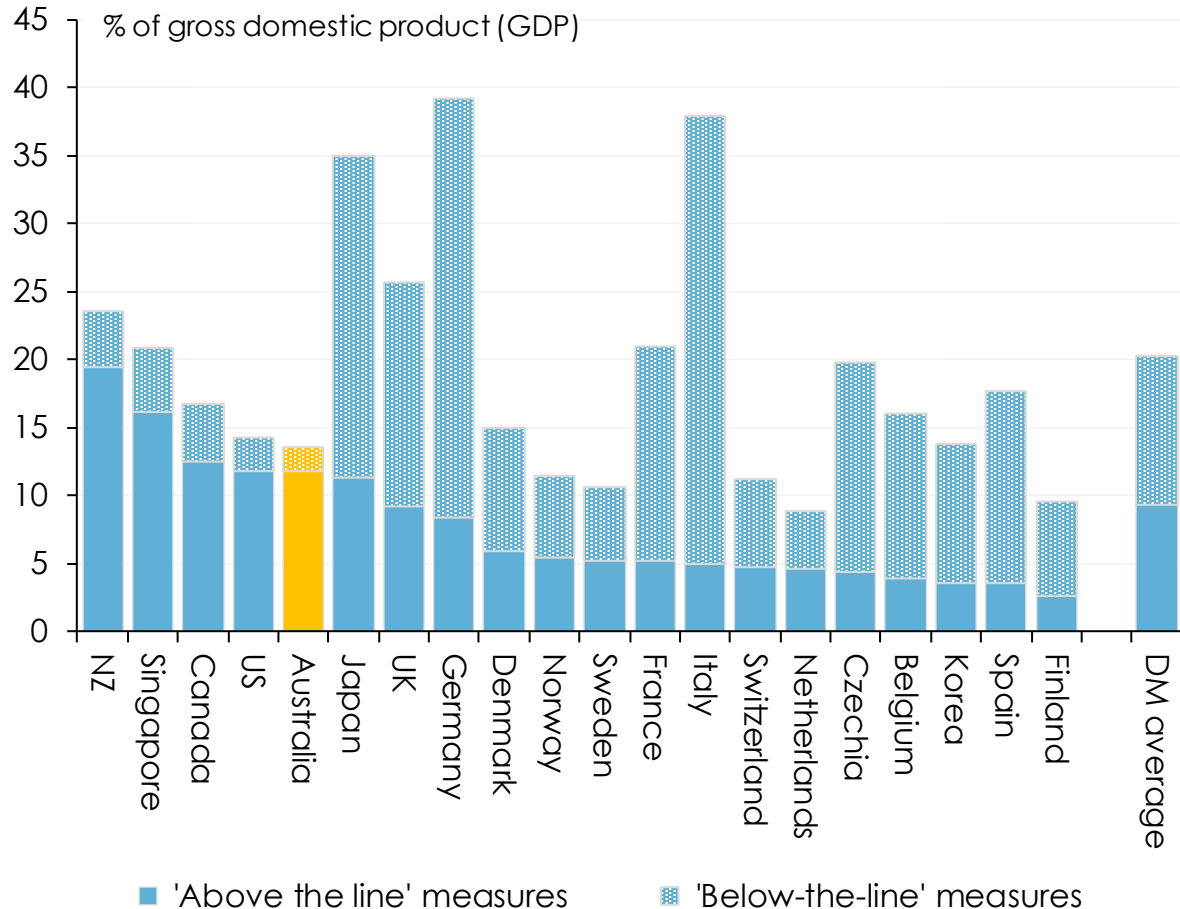


Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Source: ABS; Attorney-General's Department. September quarter WPI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

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

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

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



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 20<sup>th</sup> September 2020.

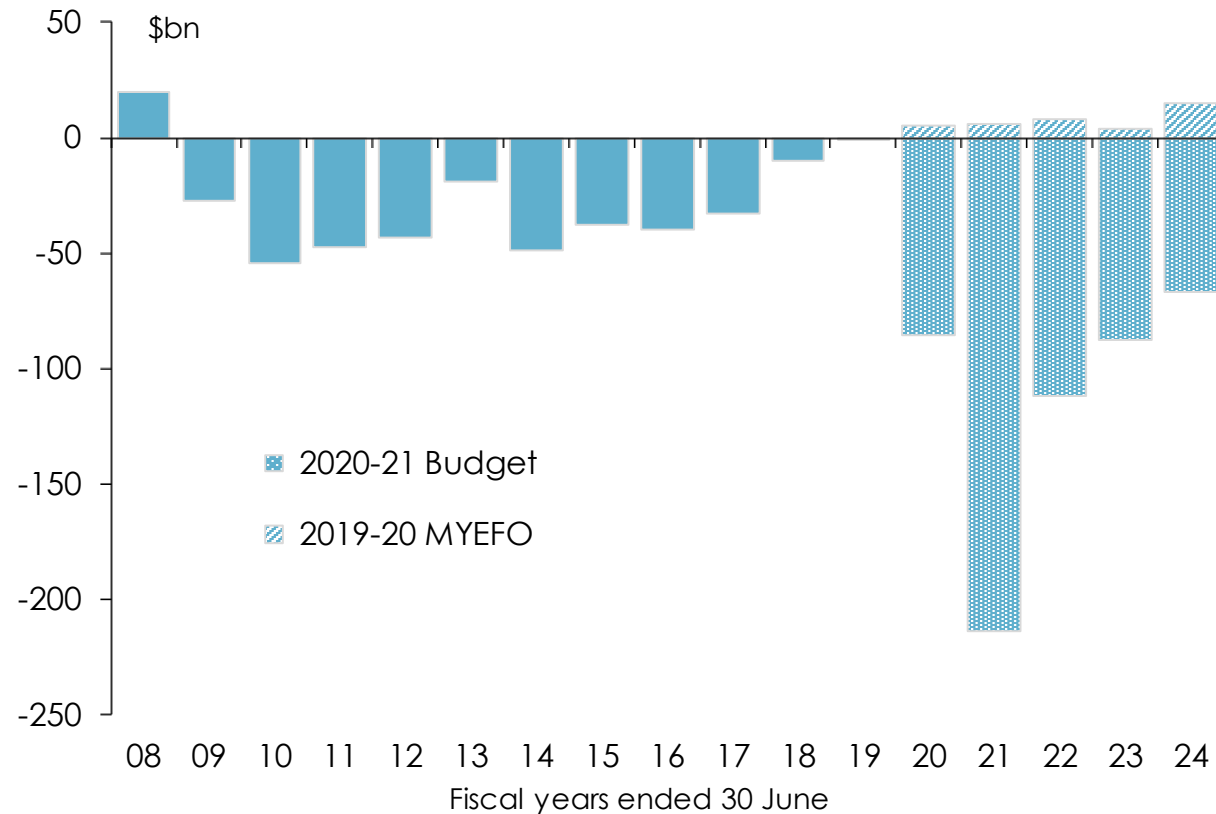
Source: IMF, [Fiscal Monitor](#), October 2020.

- ❑ Policy measures announced prior to this month's federal Budget totalled A\$232bn over FYs 2019-20 and 2020-21 or about 11¾% of one year's GDP – which is large by international standards (and double what was done during the GFC)
- ❑ Principal objectives of policy measures have been to –
  - maximize the 'survival prospects' of businesses affected by shutdowns, across Australia during the first (national) shutdown and more recently in Victoria
  - minimize the impact of the shutdown on employment
  - provide additional income support to those who lose their jobs
  - strengthen the capacity of the health care system to cope with increased demand
- ❑ Policy measures have been designed to be 'simple' to administer, and to make greatest use of existing systems rather than having to create new mechanisms
  - which (inevitably) resulted in some anomalies that took time to correct
- ❑ Policy measures also designed to be readily 'switched off' once the need for them has passed

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

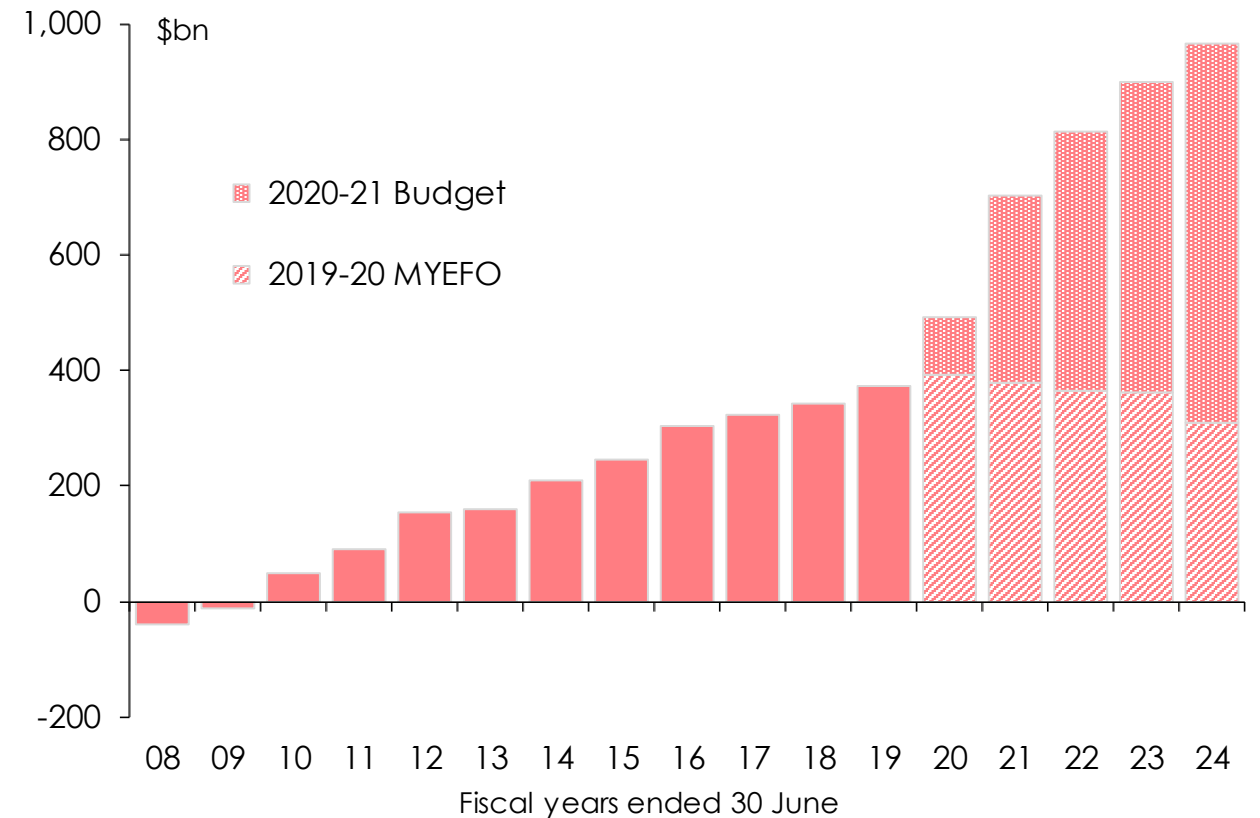
## 2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

### 'Underlying' cash balance



- ❑ 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

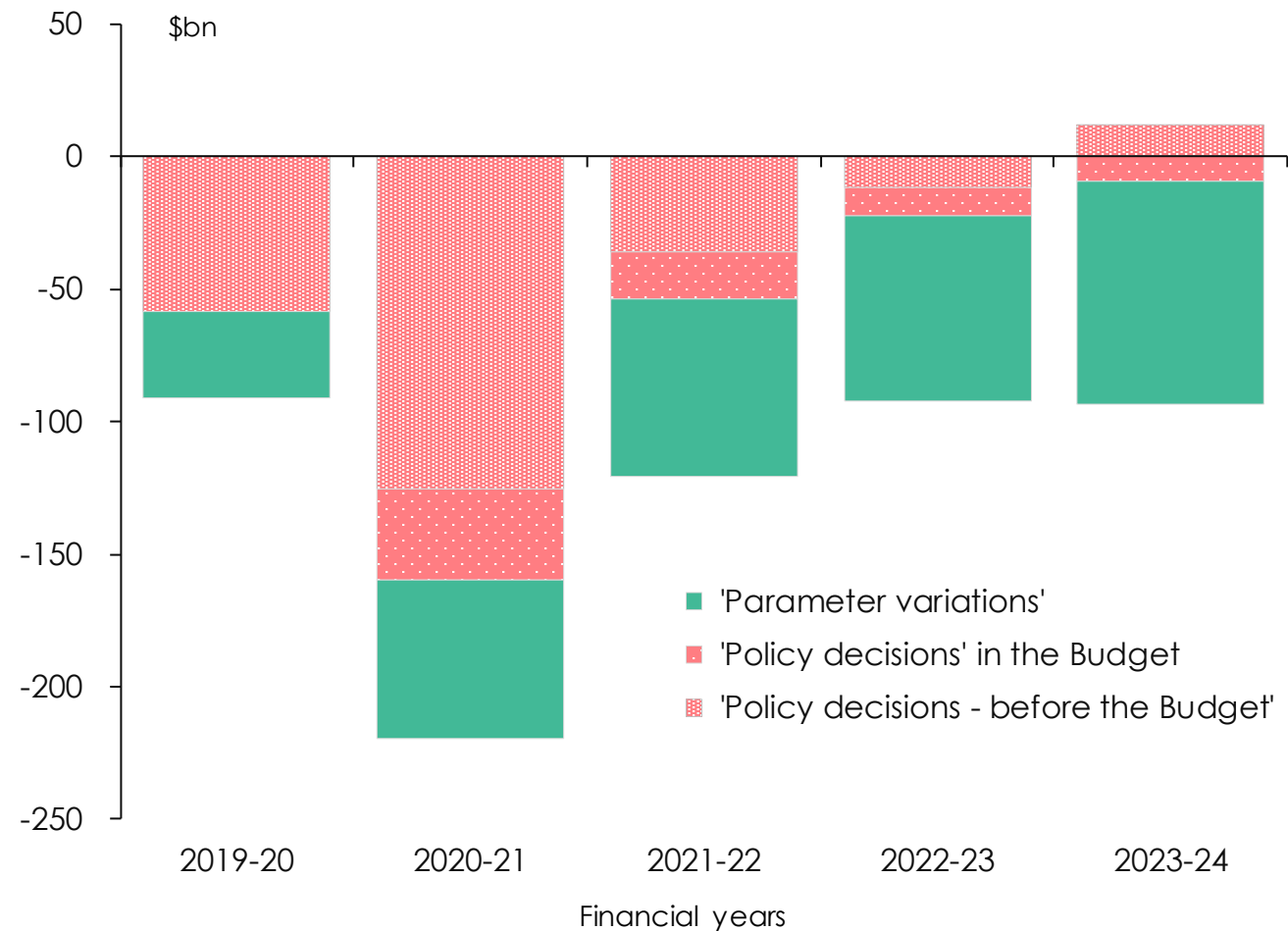
### Net debt



- ❑ 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.

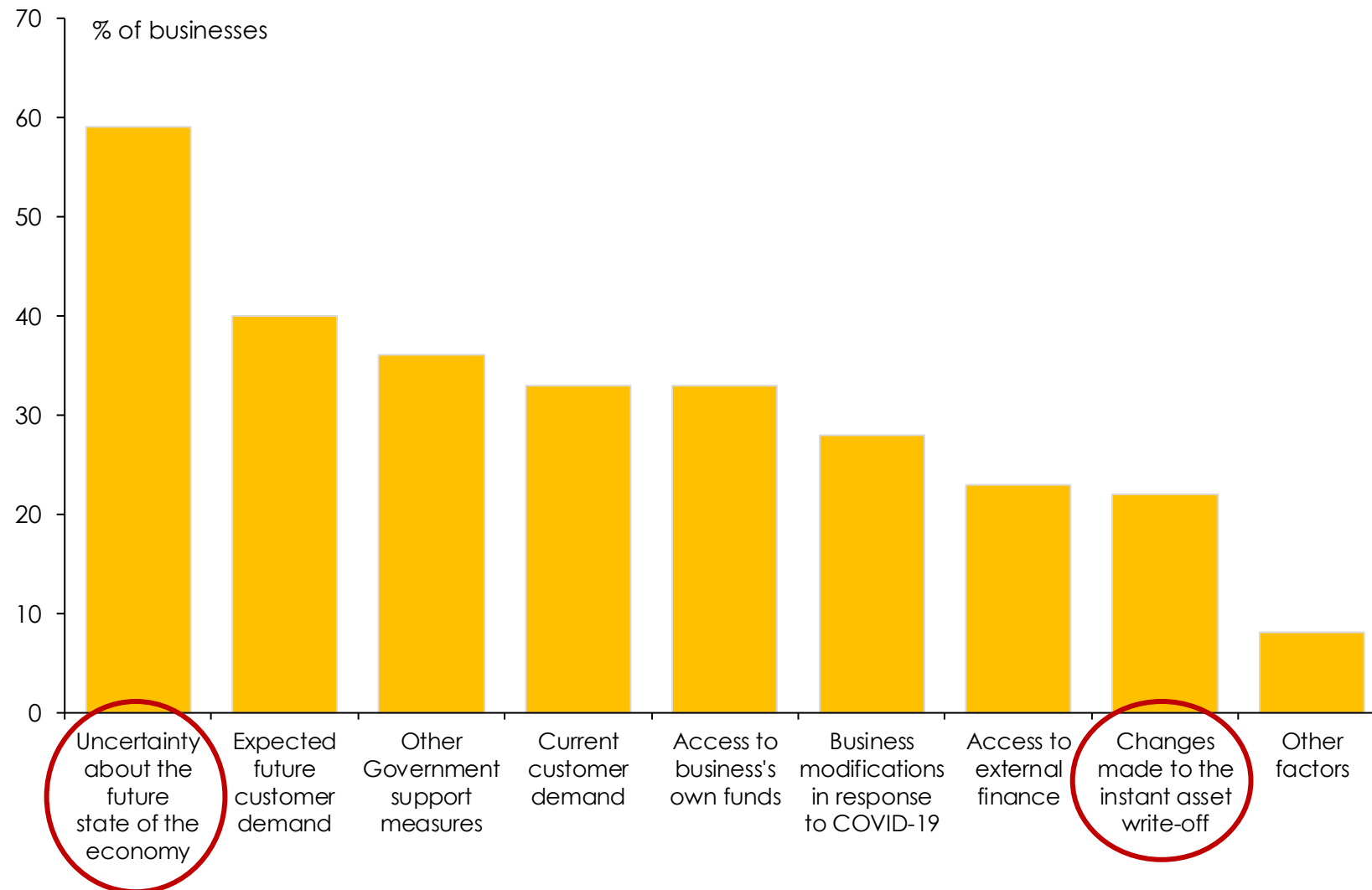
# Budget announcements were mainly about incentives for business and earlier personal income tax cuts for households

- ❑ 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 30<sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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 \$8¾bn of additional funding to states for infrastructure, \$2bn for aged care, \$1½bn for the ‘modern manufacturing’ strategy) had been detailed or deliberately leaked before the budget

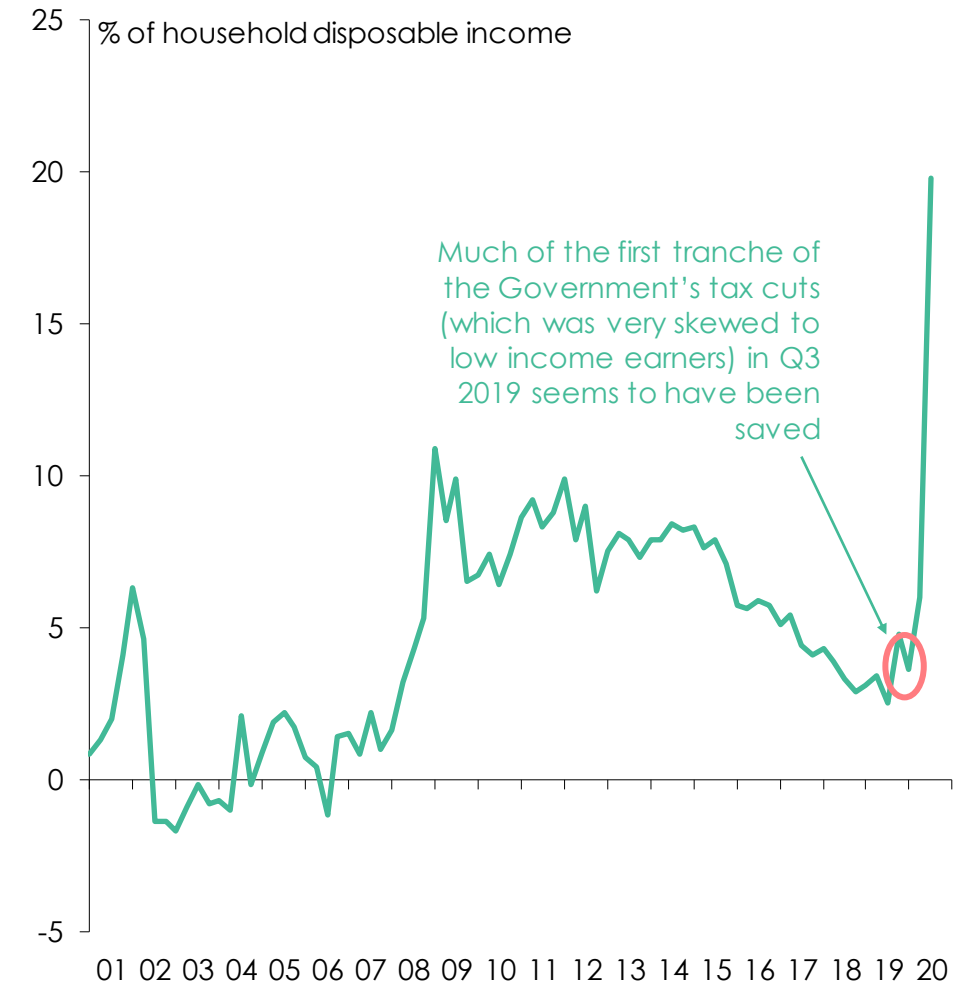


# It's by no means certain that businesses and households will respond to the budget incentives in the way that the budget assumes

## Factors affecting business investment decisions, August 2020



## Household saving rate

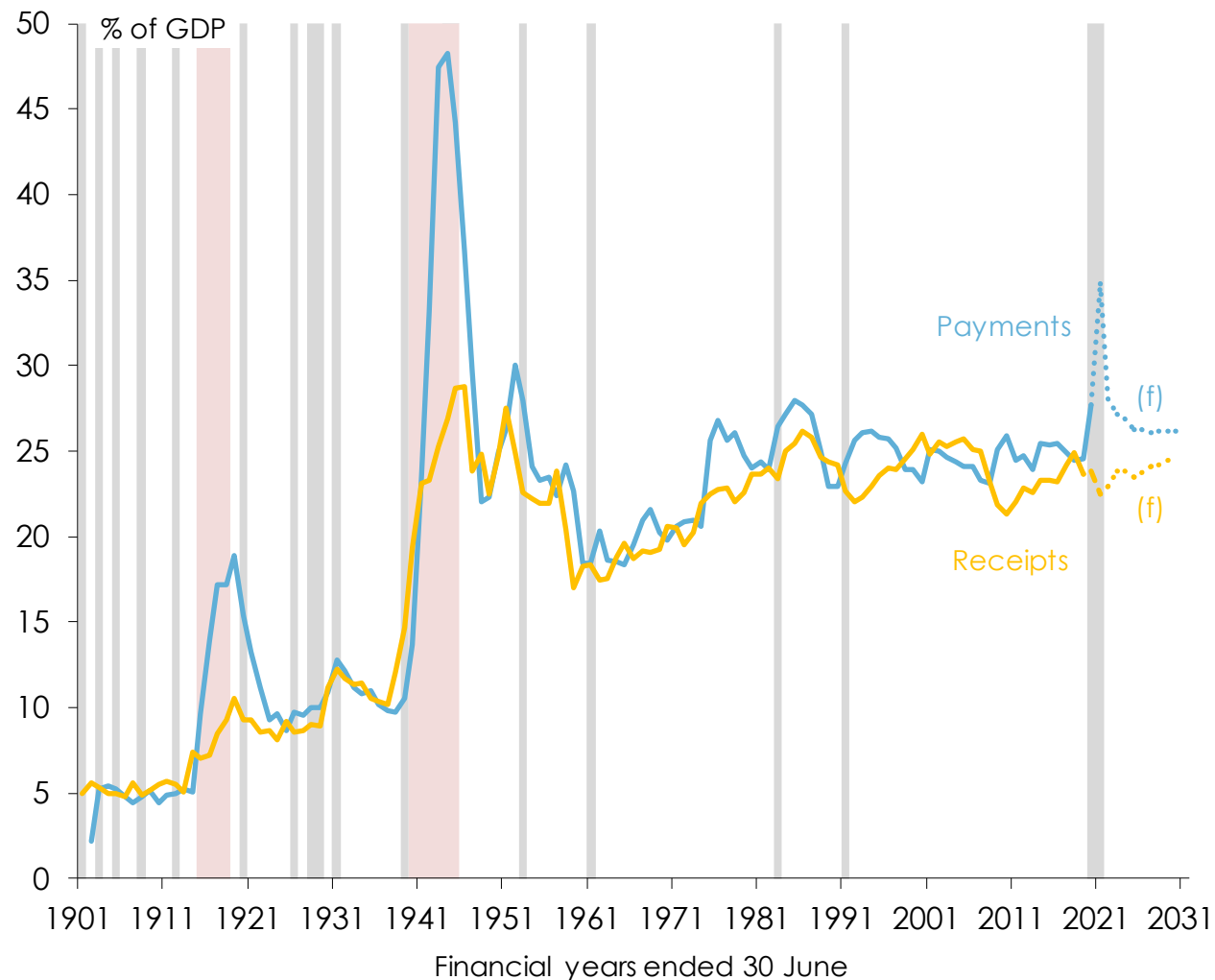


Sources: ABS, [Business Impacts of Covid-19](#), August 2020 (based on survey conducted between 12<sup>th</sup> and 19<sup>th</sup> August; [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020.

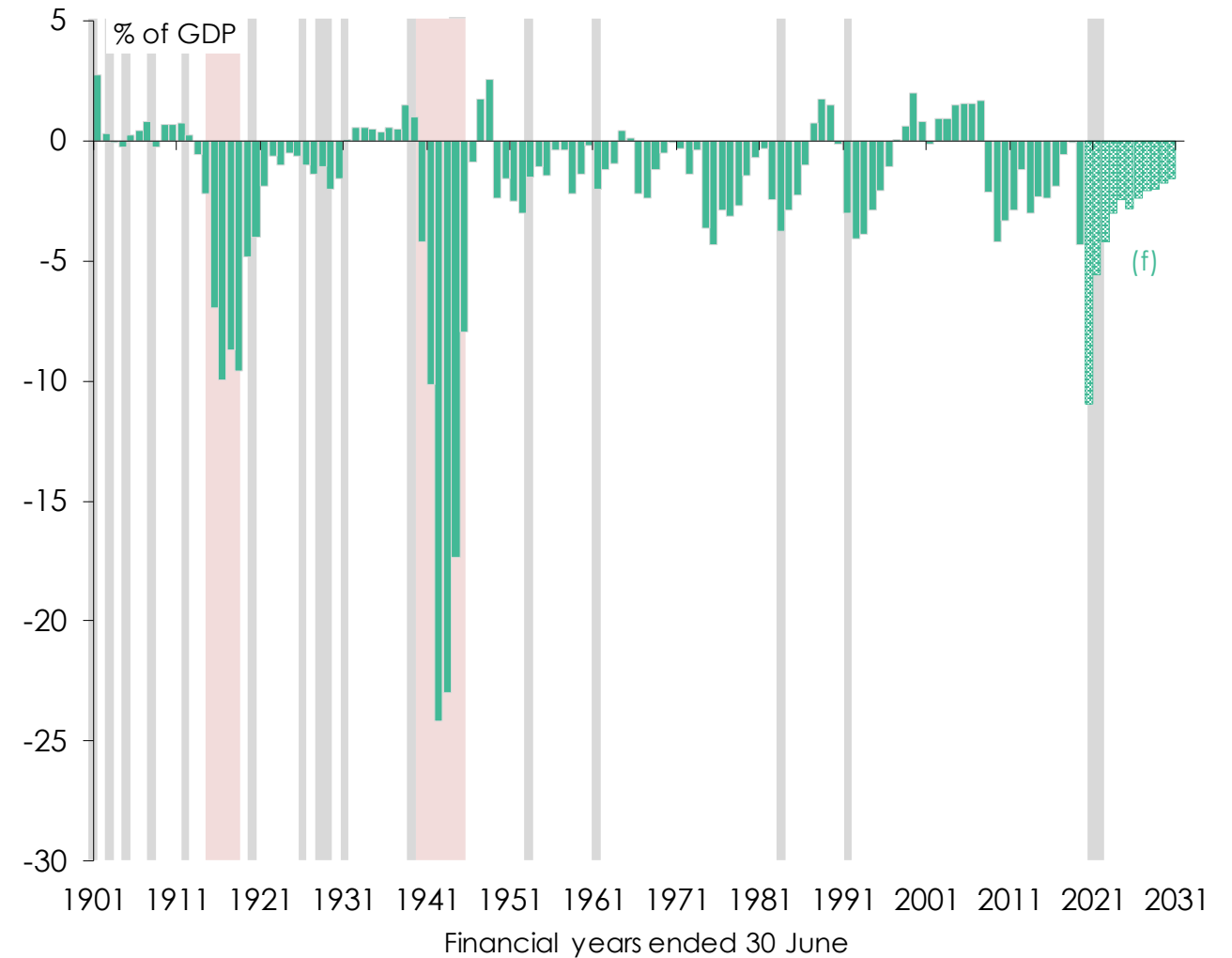


# The 2020-21 deficit of \$214bn (11% of GDP) will be the biggest since 1944-45 – and (on current policies) deficits will persist for the rest of the decade

## Australian Government receipts and payments



## Australian Government budget deficit or surplus

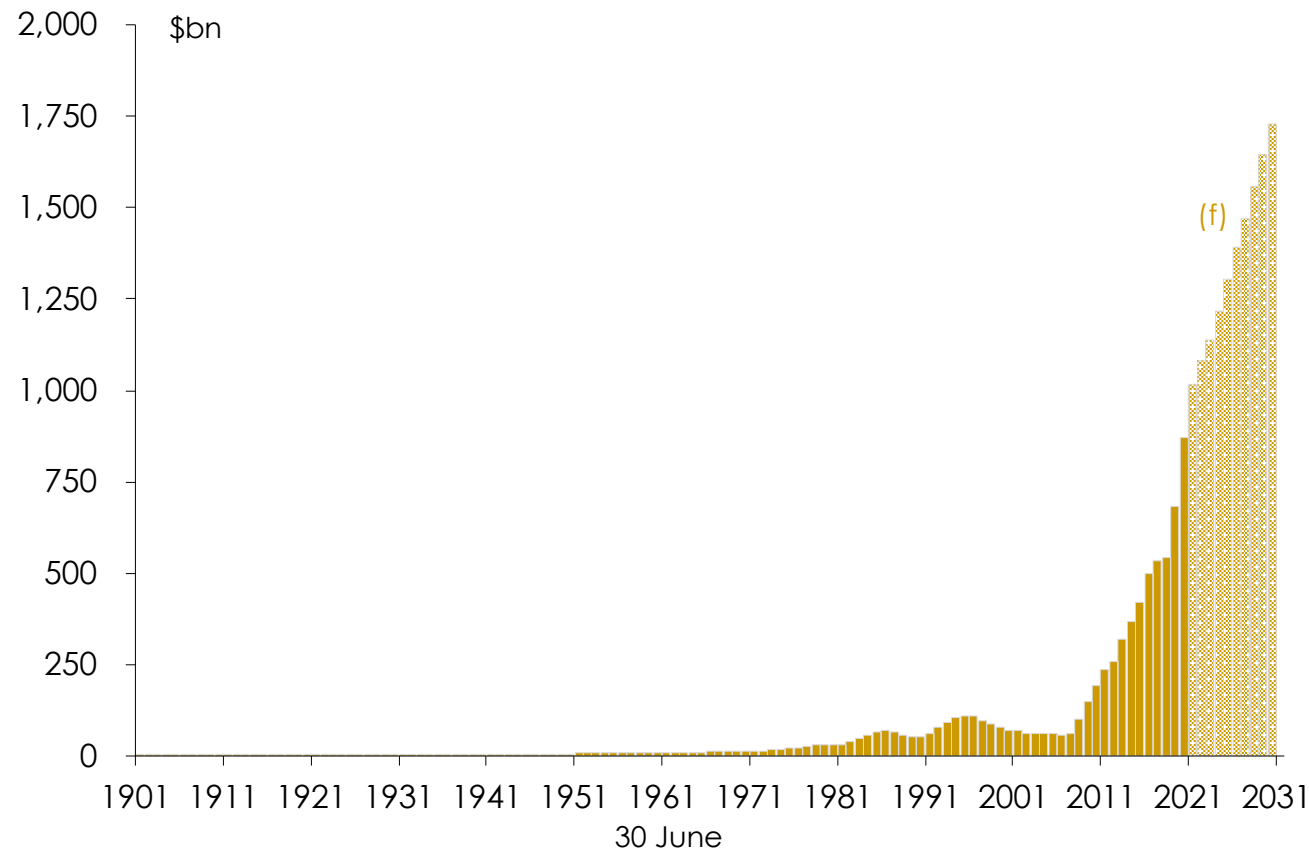


Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which 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](#).

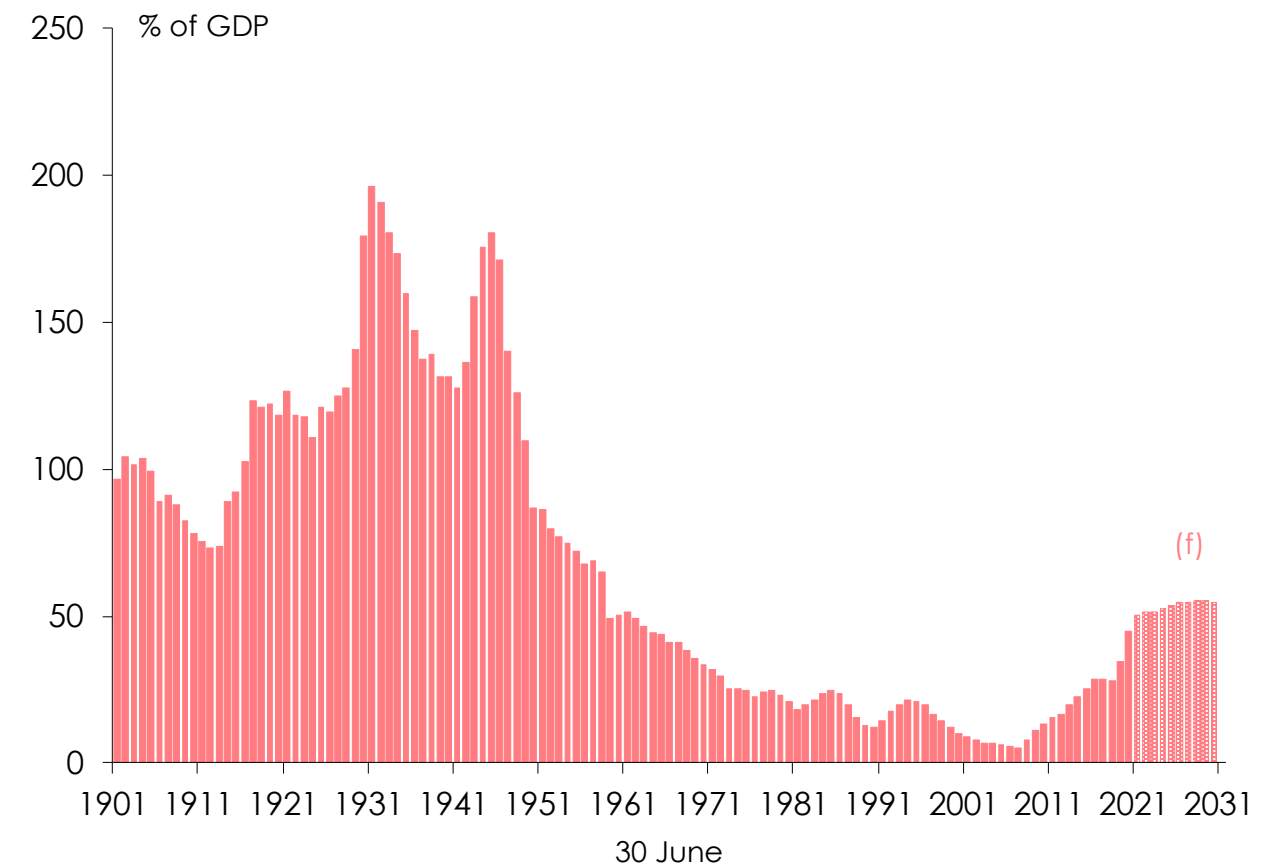
# However there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

## 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

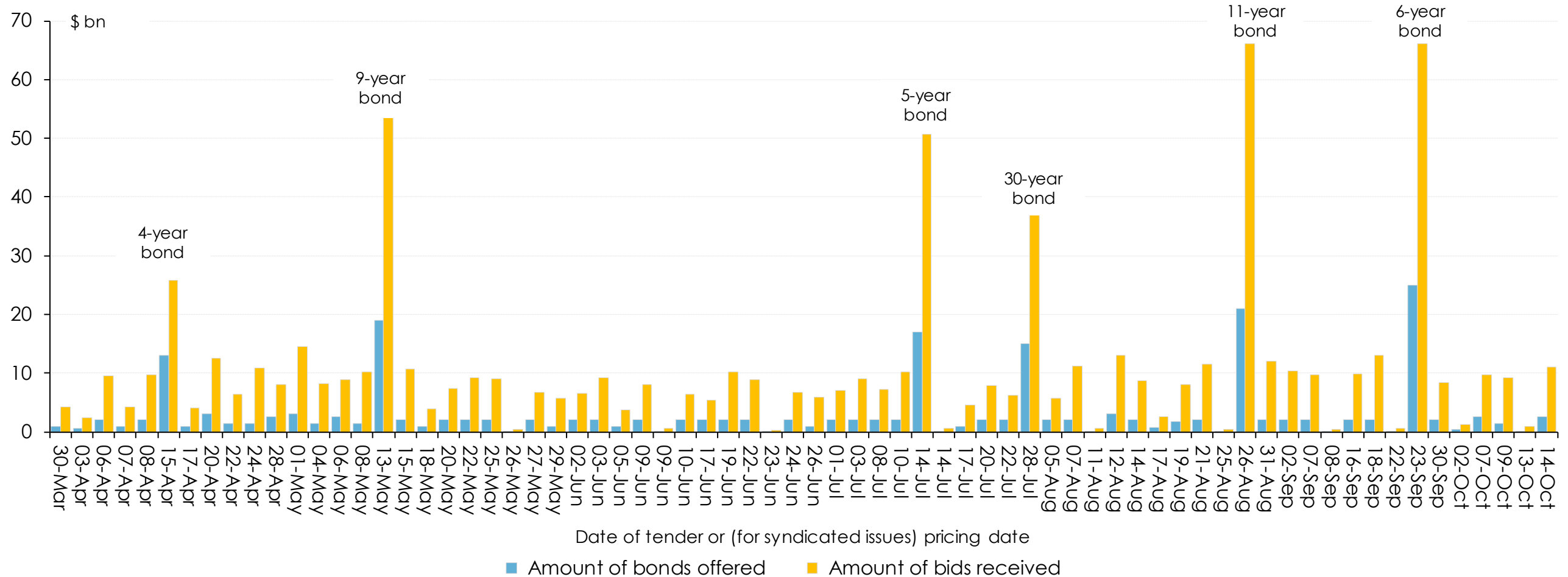


- ❑ However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an independent nation

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

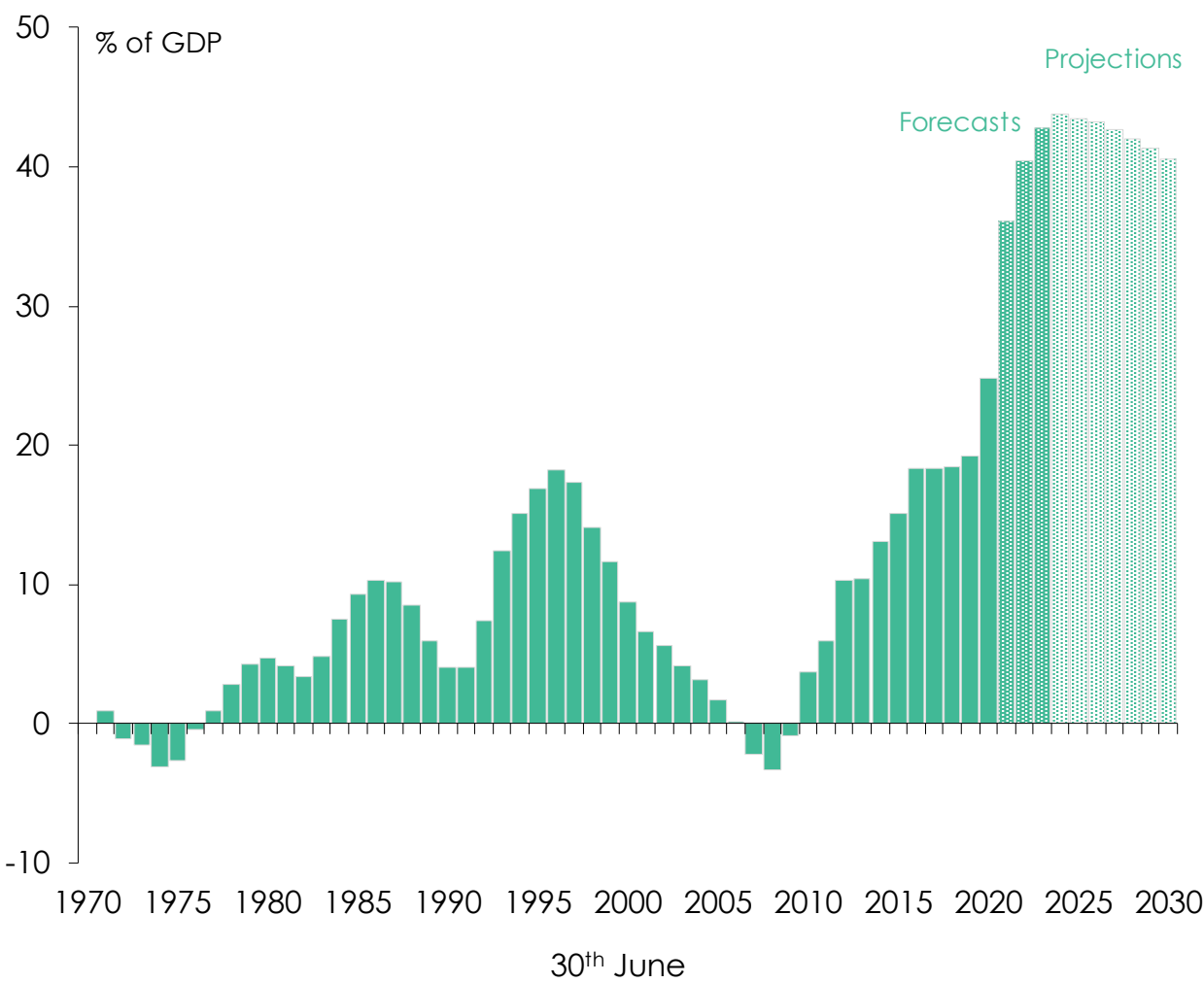


- ❑ Since 30<sup>th</sup> March, the Australian Office of Financial Management (which conducts the Government's borrowing programs) has issued \$211.3bn of Treasury bonds - based on the volume of bids received it could have borrowed \$749bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted

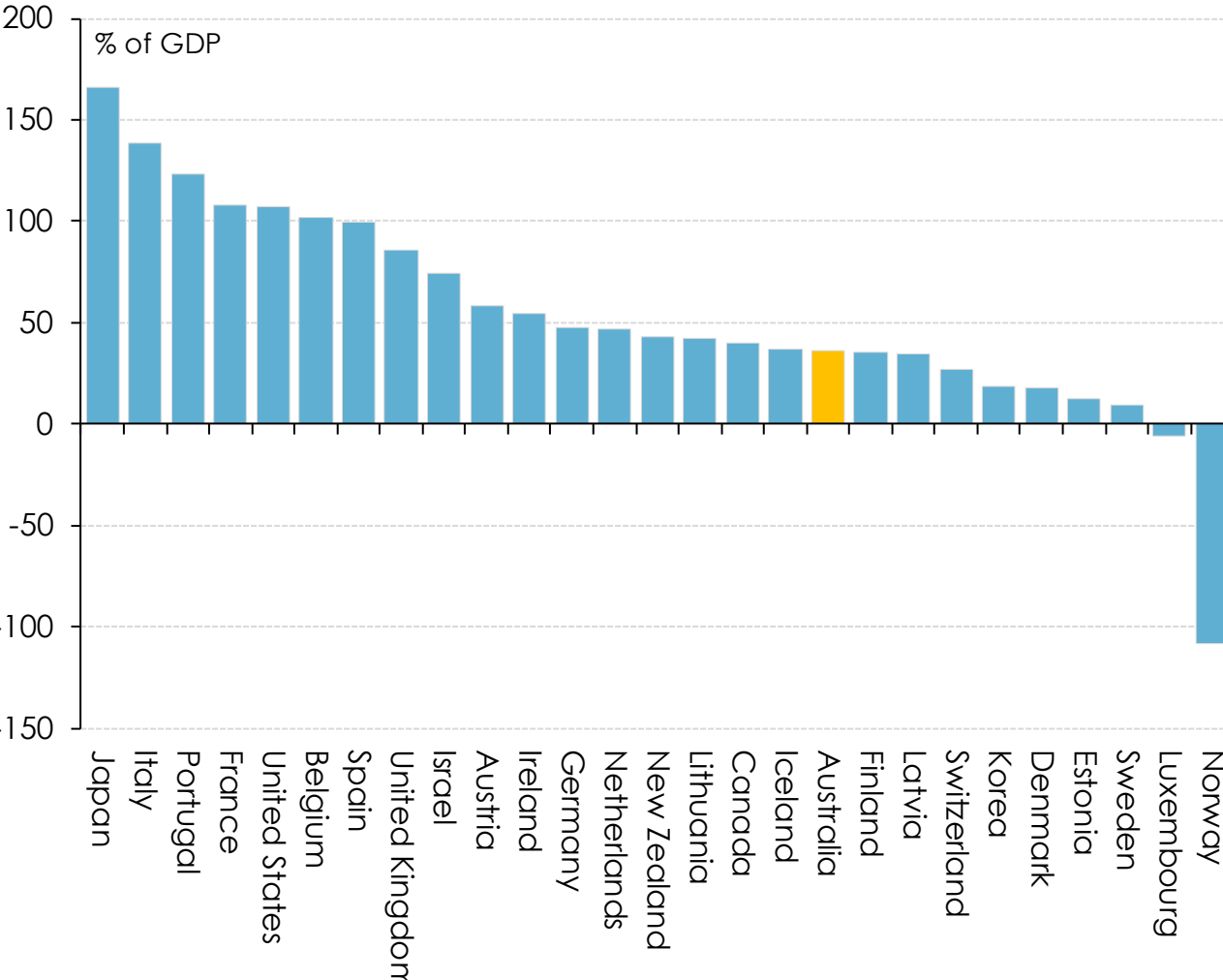
Source: Australian Office of Financial Management [data hub](#); Corinna.

# 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



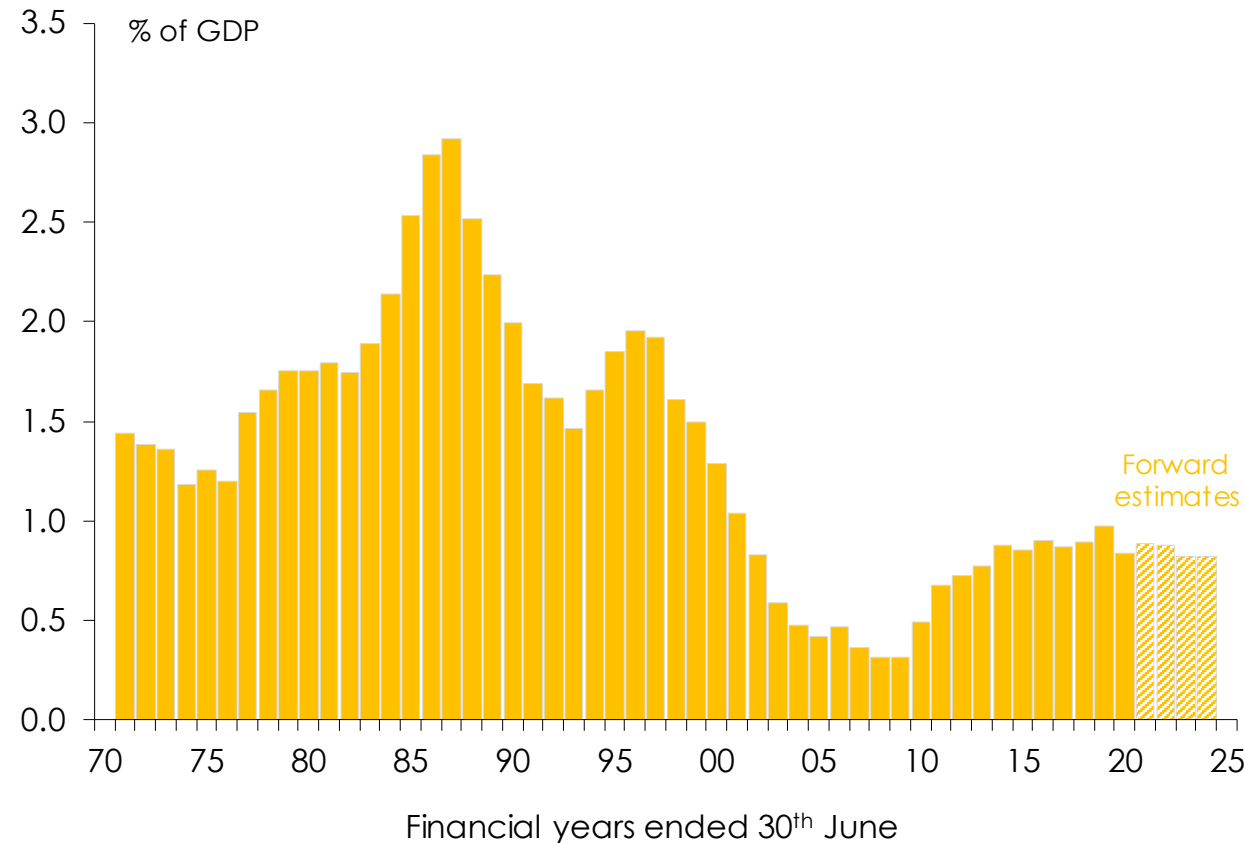
Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2021



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

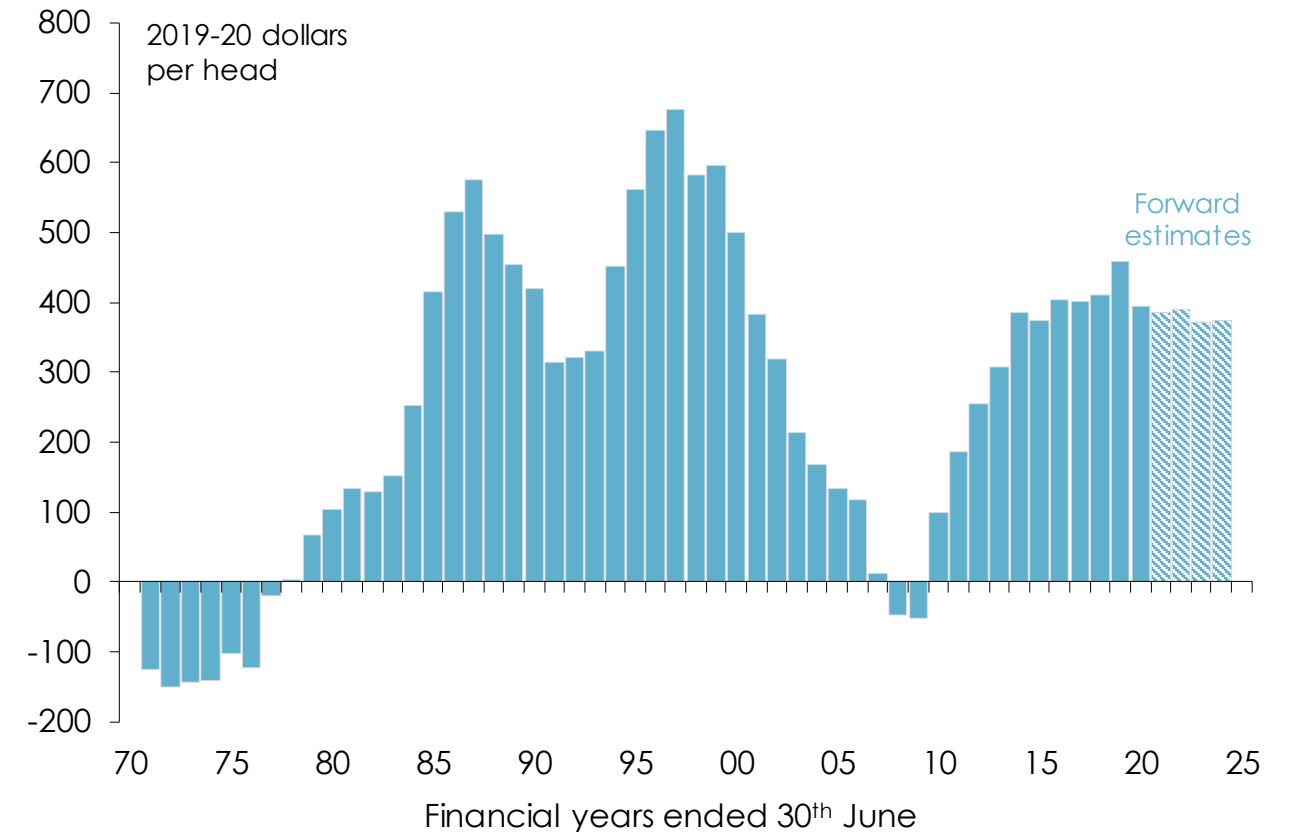
# Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

## 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

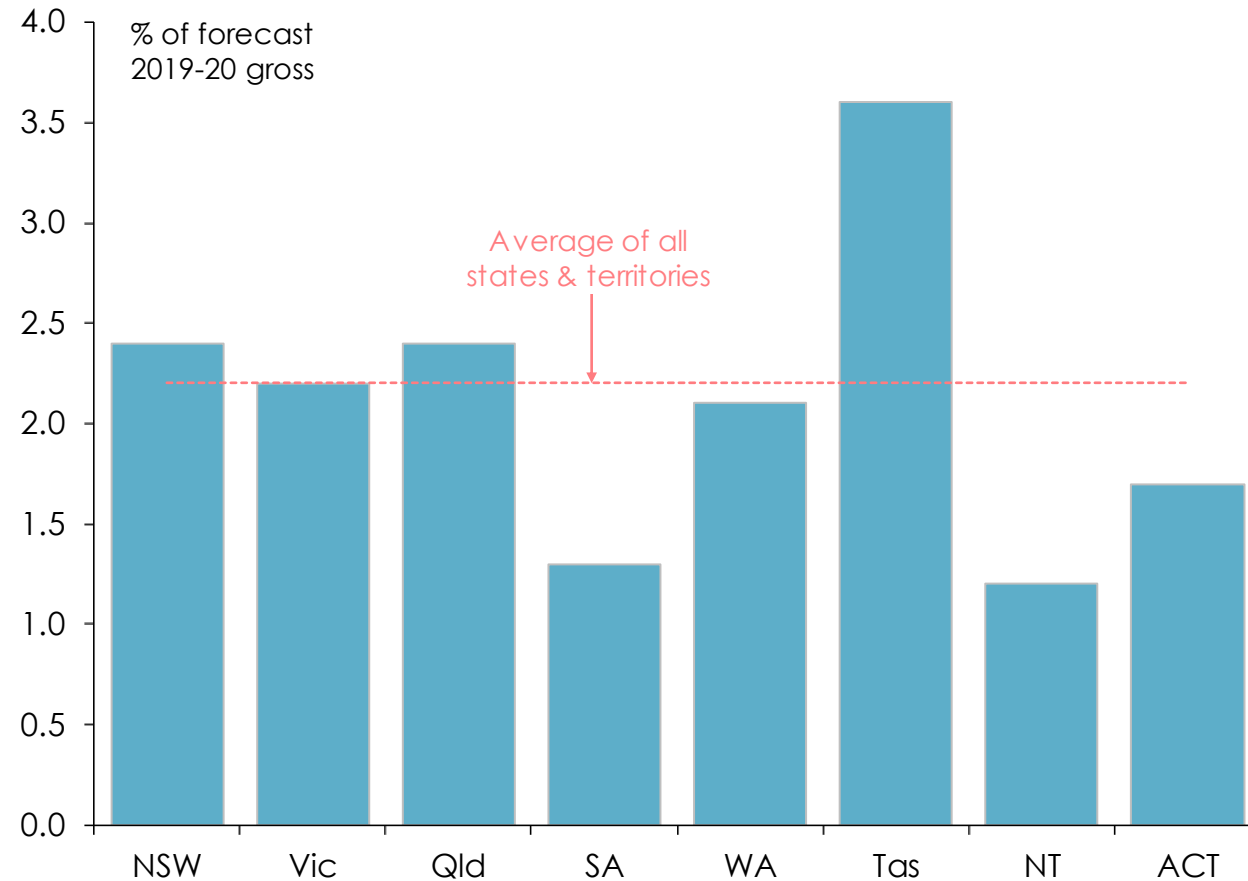


- ❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

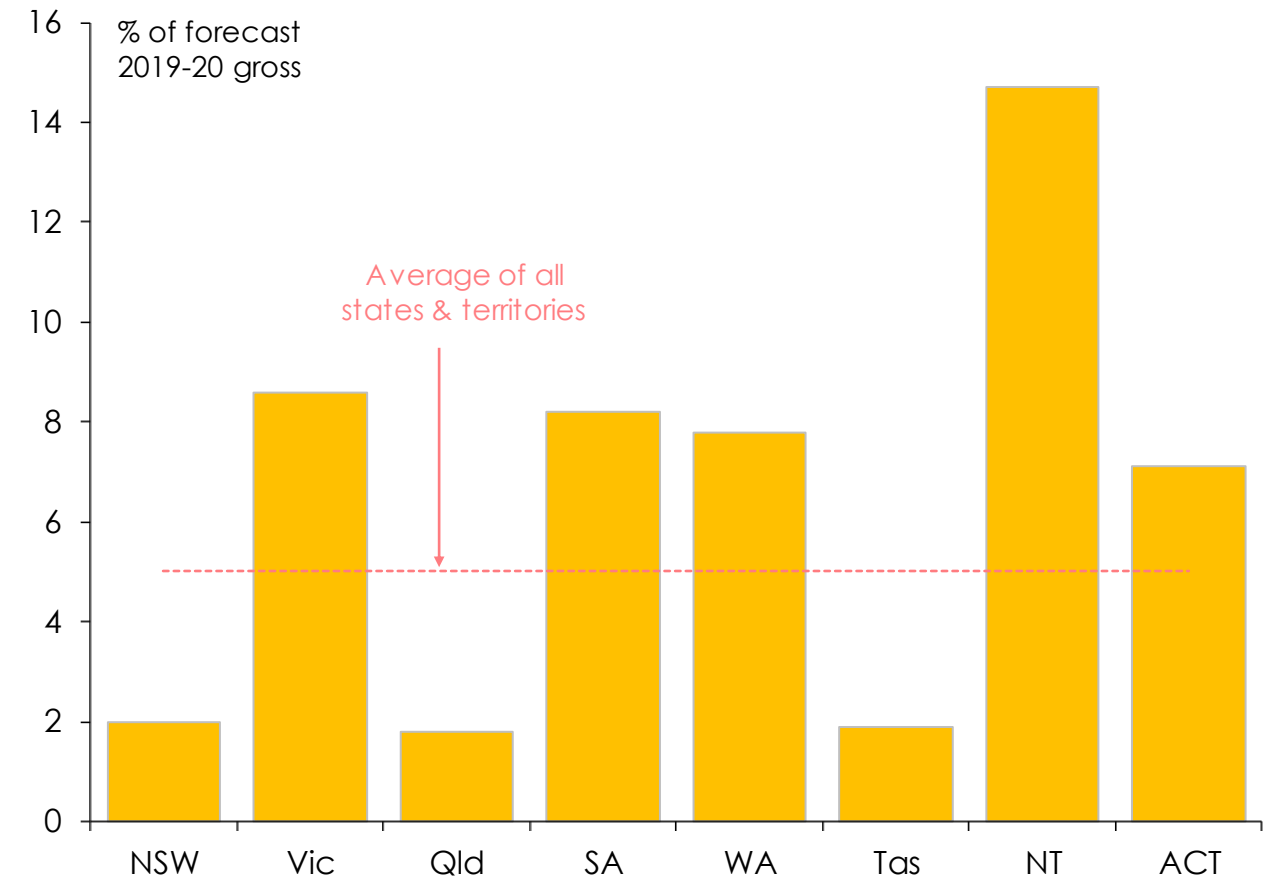
Note: (f) denotes forecasts. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); Corinna.

# 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

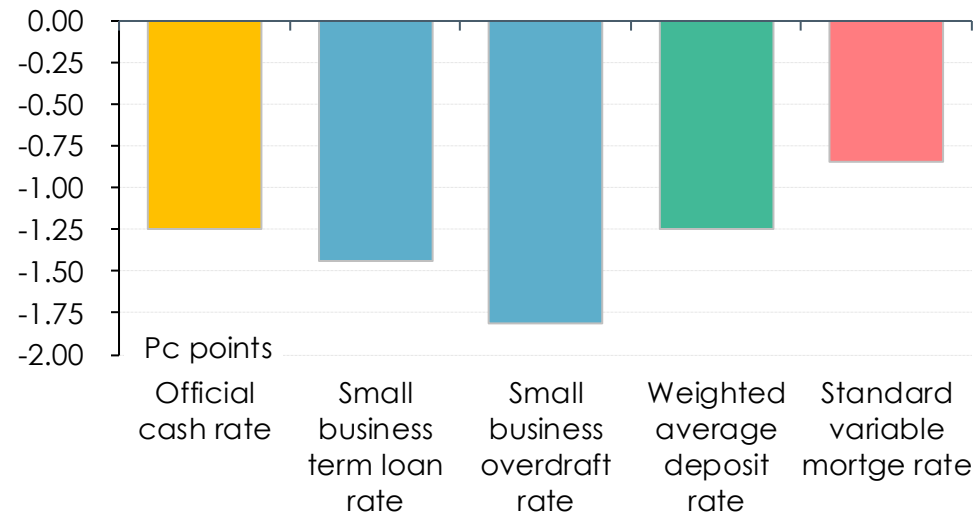


- ❑ In August RBA Governor Phillip Lowe advised state and territory governments to spend an additional \$40bn (2% of GDP) on infrastructure investment – an amount which S&P Global Ratings said state and territory balance sheets had “plenty of room to accommodate”

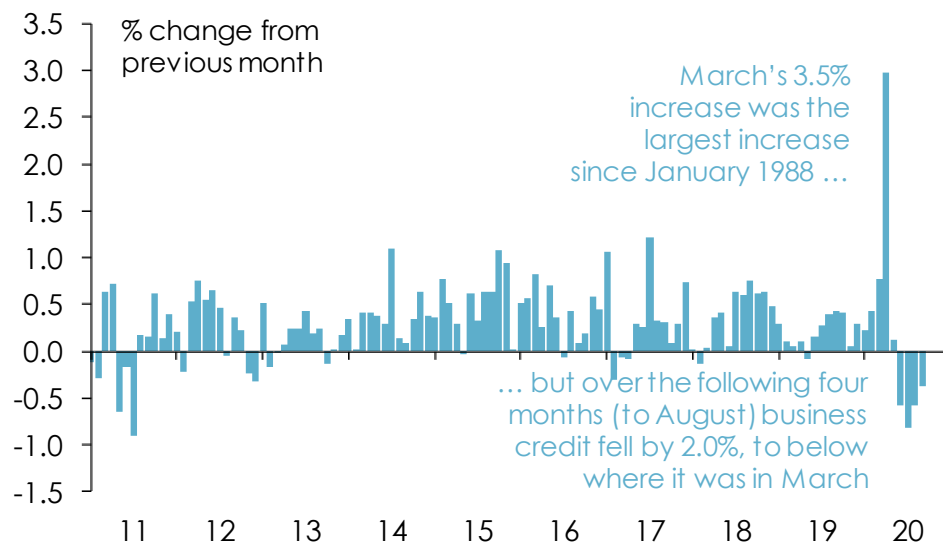
Sources: Commonwealth Treasury, 6<sup>th</sup> August 2020; Australian Financial Review, 14<sup>th</sup> August 2020; The Australian, 22<sup>nd</sup> August 2020. [Return to "What's New"](#).

# 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



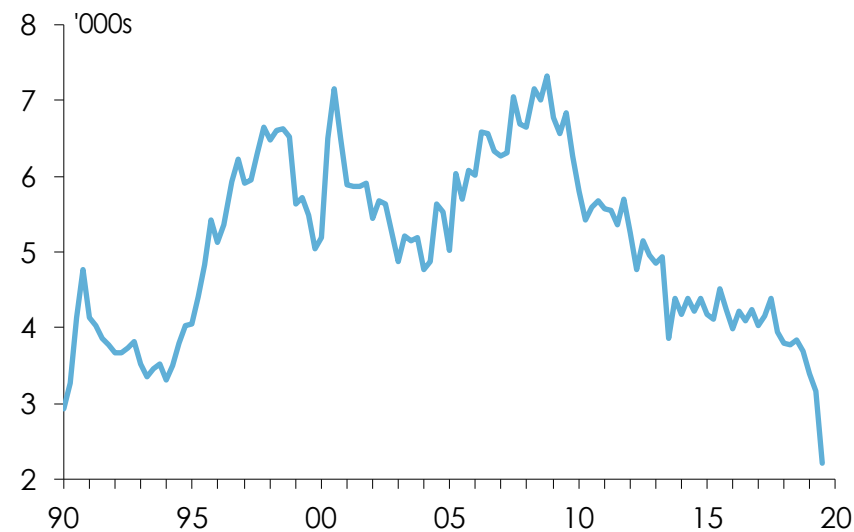
Source: Reserve Bank of Australia. [Return to "What's New"](#).

- ❑ 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

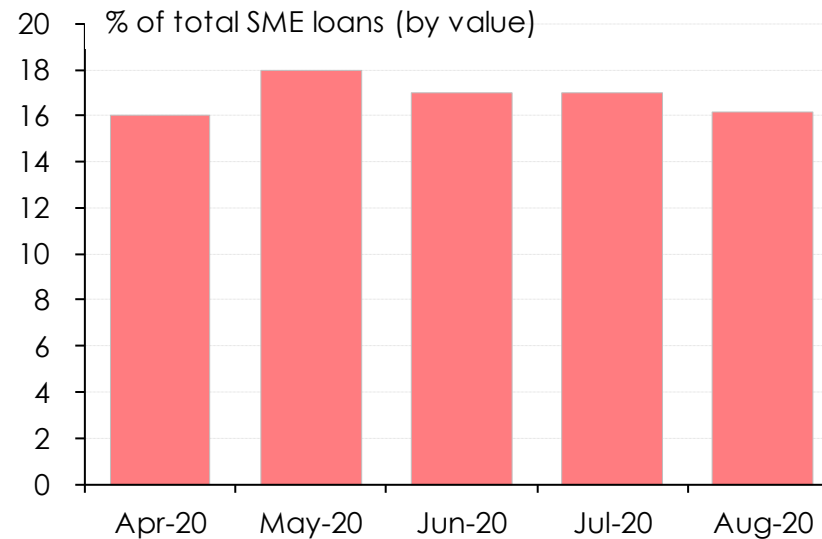


# Bankruptcies and insolvencies are at record lows during the worst recession since the 1930s: this can't last indefinitely

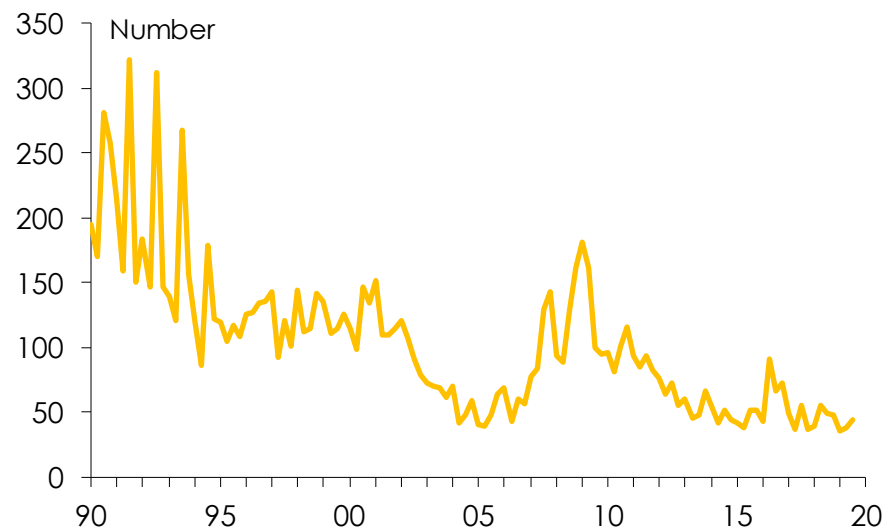
## Bankruptcies



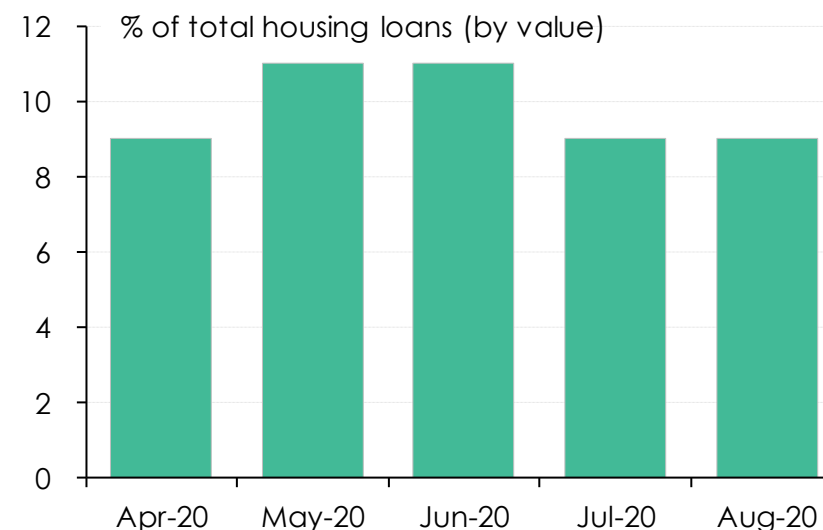
## SME loan repayment deferrals



## Personal insolvencies



## Mortgage repayment deferrals

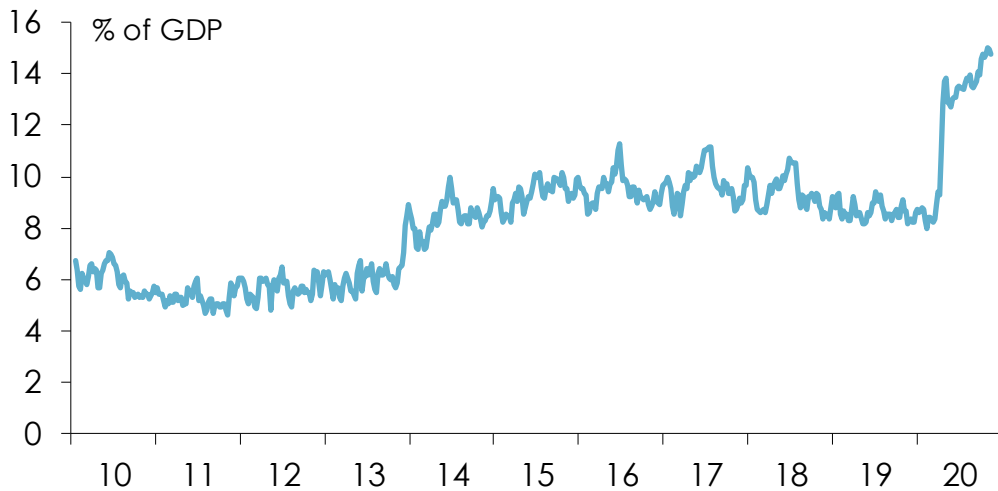


Sources: [Australian Financial Security Authority](#); [Australian Prudential Regulatory Authority](#). [Return to "What's New"](#).

- ❑ 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 31<sup>st</sup> December
  - banks have agreed to extend loan repayment holidays by up to four months, to no later than 31<sup>st</sup> 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

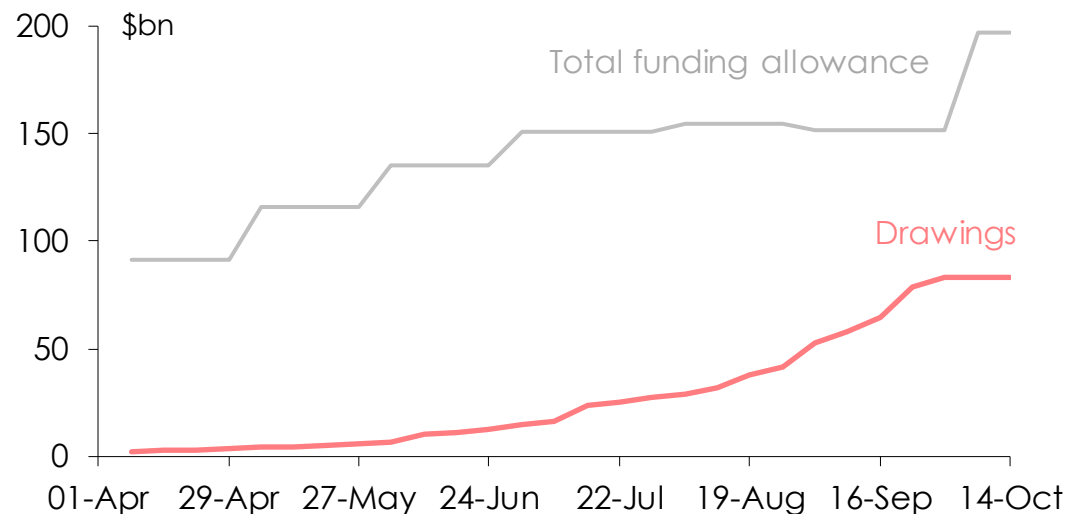
# The RBA has left its cash rate target unchanged at 0.25% pa since March, but now appears to be contemplating further easing measures

## Reserve Bank assets as a pc of GDP



- ❑ The RBA cut its cash rate to a record low of 0.25% in March, and has since repeatedly pledged to not to raise it until 'progress is being made towards full employment' and it is confident "inflation will be sustainably within the 2-3% target band"
  - the cash rate has actually traded at around half the target rate since May
- ❑ The RBA has also been buying bonds (intermittently) in the secondary market with a view to keeping 3-year yields at 0.25%, to re-inforce its view that it doesn't expect to increase rates for some years
  - after purchasing \$50bn of bonds in the first six weeks after launching its BoJ-style 'QE' program, the RBA has since then only bought a further \$12bn, and hasn't bought any since 9<sup>th</sup> September
  - the RBA's QE program has been much smaller than that of other central banks, either as a pc of GDP or as a proportion of government debt issuance – largely because the Government has had no difficulty at all financing its deficit at yields consistent with the RBA's target
- ❑ 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
  - there have been no drawings from the TFF over the past two weeks
- ❑ This week Governor Lowe affirmed a significant change in the way the RBA will interpret its inflation target, and on the weight it attaches to its inflation and employment objectives (next slide)

## RBA Term Funding Facility



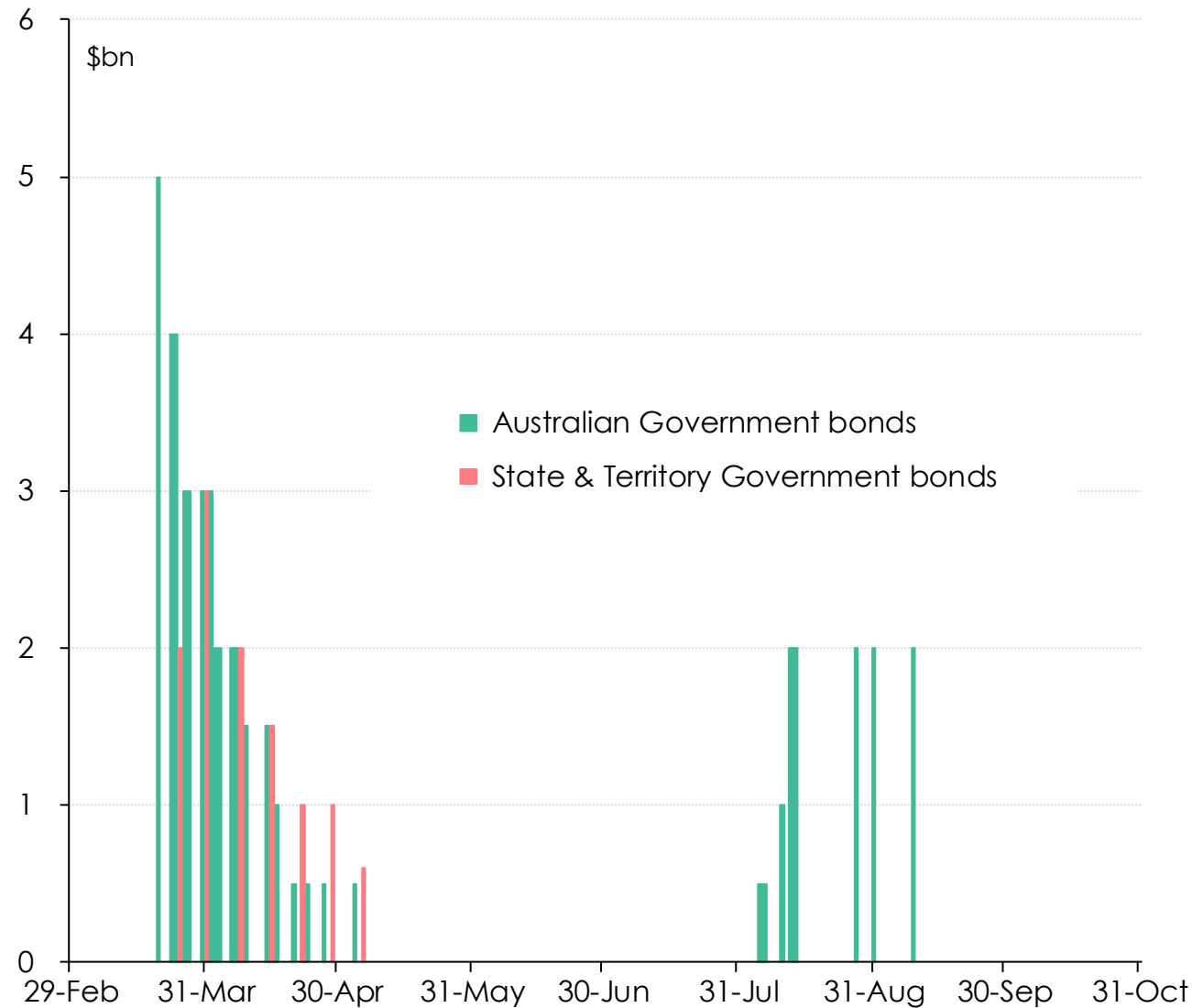
Source: Reserve Bank of Australia, [Statistical Tables](#) A1 and A3. [Return to "What's New"](#).

# RBA Governor Lowe this week affirmed a significant change in the way the RBA interprets its inflation objective, and hinted at further easing

- ❑ Since its adoption of an inflation target in 1993, the RBA has characterized its approach as ‘inflation *forecast* targeting’ – see for example this [1999 speech](#) by former Governor Glenn Stevens, or this [2009 speech](#) by current Deputy Governor Guy Debelle (both given when they were Assistant Governors)
  - that is, the RBA would be heavily influenced in its monetary policy decisions by whether its *forecast* for (underlying) inflation was in the 2-3% target range, rather than by whether the *actual* inflation rate was in the target range
- ❑ In a [‘real’ speech](#) (his first in person since February) on Thursday, Governor Phillip Lowe unveiled a significant change to this approach, indicating that the RBA “will now be putting a greater weight on actual, not forecast, inflation” in its decision-making
  - specifically, he said that the RBA “will not be increasing the cash rate until *actual* inflation is sustainably within the target range ... it is not enough for inflation to be *forecast* to be in the target range” (emphasis added)
- ❑ Governor Lowe also stated that the Bank wants to see “more than just ‘progress towards full employment’”
  - noting that “achieving inflation consistent with the target range is likely to require a return to a *tight* labour market” (emphasis added), echoing the shift in emphasis foreshadowed by Fed Chair Jay Powell in August (see [slide 29](#))
- ❑ He also downplayed previous concerns that further monetary easing could raise financial stability concerns
  - “to the extent that an easing of monetary policy helps people get jobs it will help private sector balance sheets and lessen the number of problem loans ... in so doing, it can reduce financial stability risks”
- ❑ The Governor hinted at an imminent further easing of monetary policy, noting that there had been “little to be gained from further easing” while people’s activity had been heavily restricted – but that “as the economy opens up ... it is reasonable to expect that further monetary easing would get more traction than ... earlier”
- ❑ Finally, the Governor hinted that the RBA was conscious that other countries’ central banks had expanded their balance sheets by more than the RBA, and that this has had an impact on (Australia’s) exchange rate and yield curve – suggesting that the RBA was contemplating increasing and/or broadening its ‘QE’ program

# The RBA hasn't bought any bonds since 9<sup>th</sup> 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



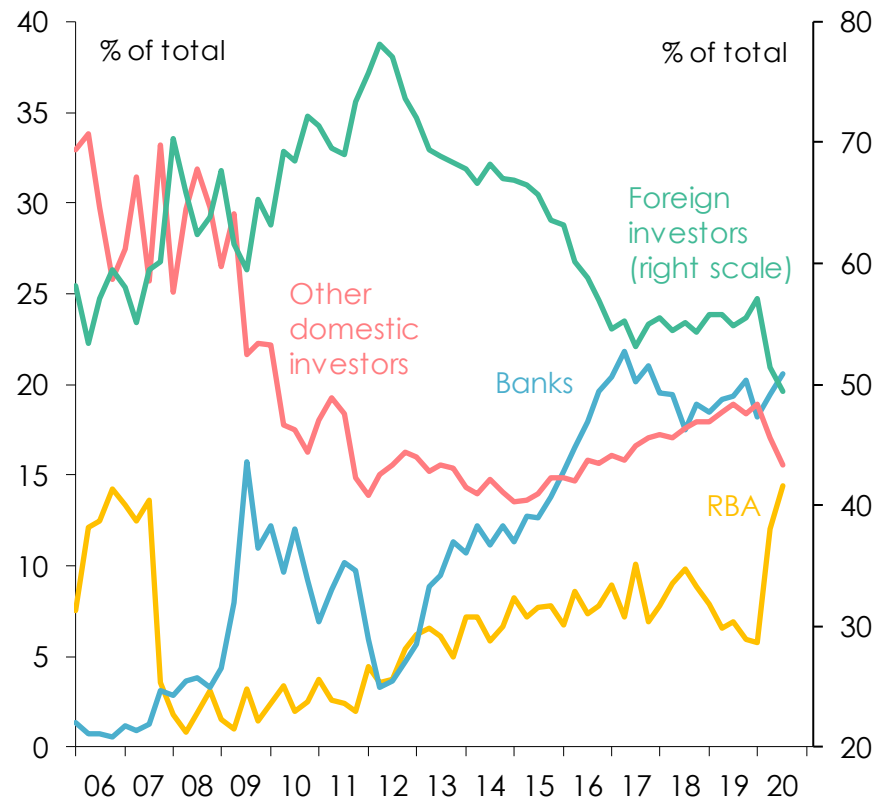
## Interest rates



Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F2. Data up to 16<sup>th</sup> October. [Return to "What's New"](#).

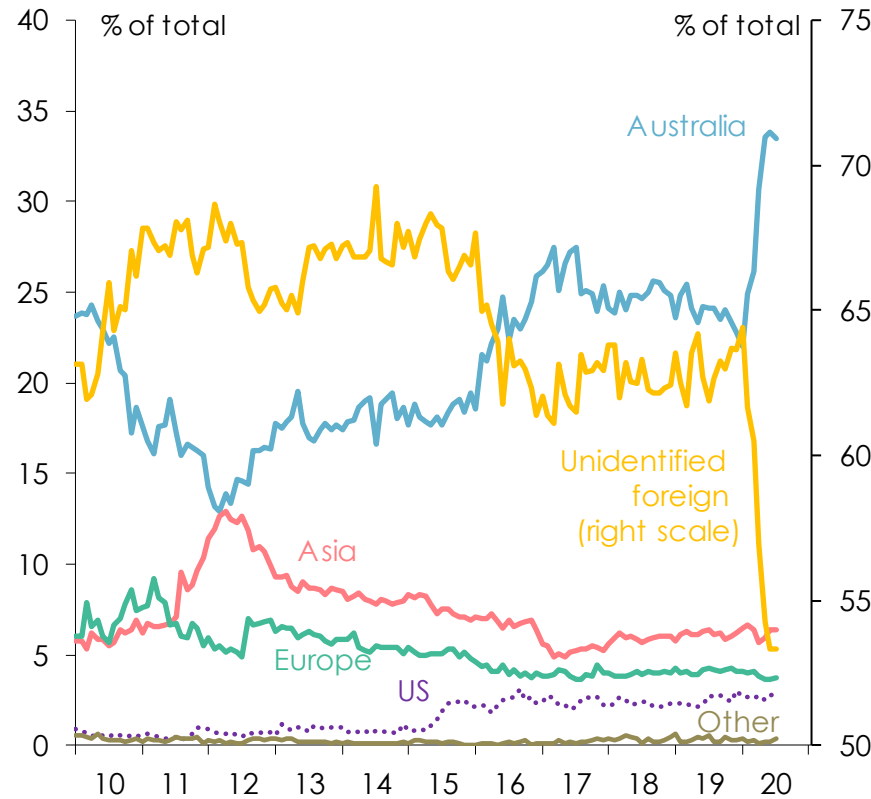
# The RBA increased its holdings of federal & state bonds by \$92bn in the first half of 2020, absorbing 70% & 53% of the increase in the total stock

## Holder of Australian Government bonds



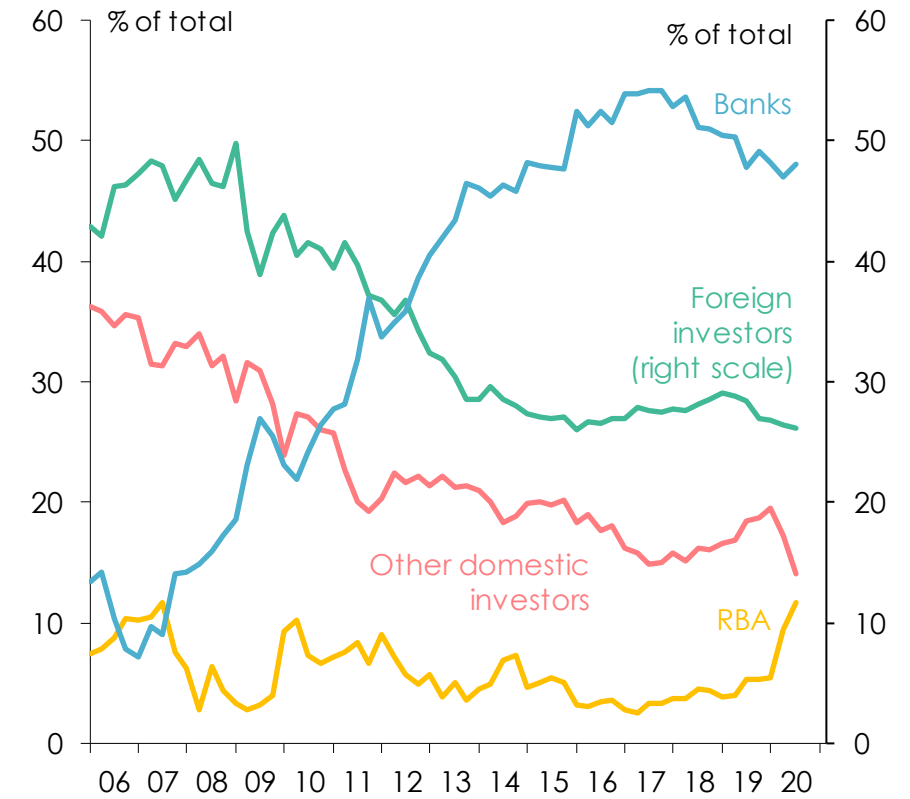
Australian Gov't bonds on issue rose by \$99bn over the first half of 2020 – the RBA's holdings rose by \$69bn (almost 70% of the total increase), while banks' holdings rose by \$36bn

## 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

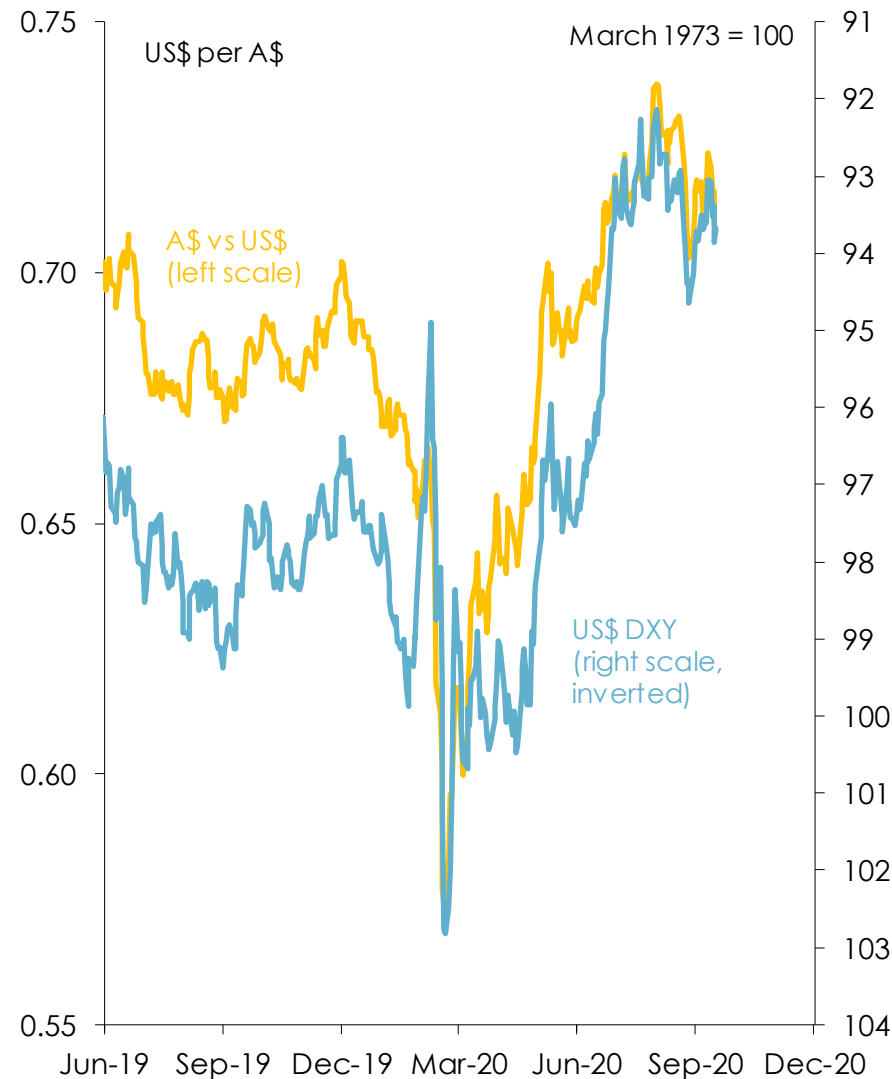
## Holder of State and Territory Government bonds



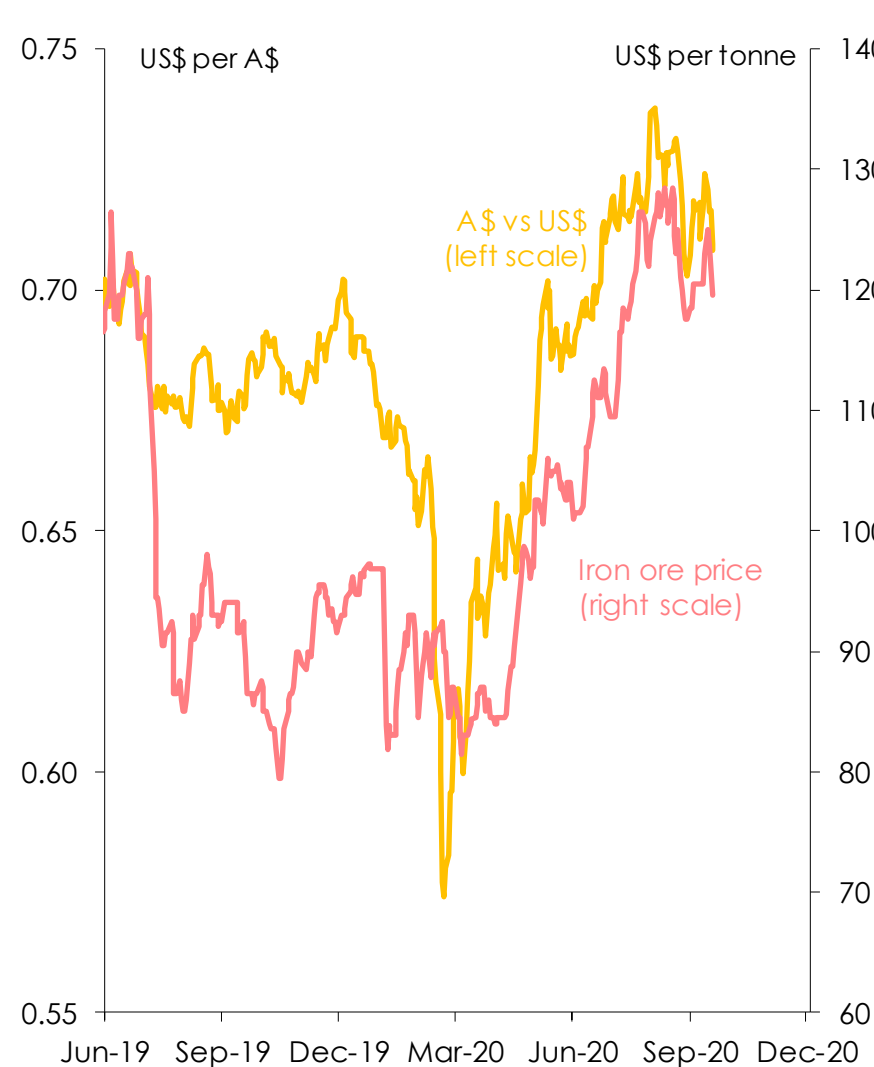
State & Territory Gov't bonds outstanding increased by \$44bn over the first half of 2020, with the RBA and banks increasing their holdings by \$23bn and \$21bn respectively

# The A\$ fell 2% against the US\$ last week, following RBA Governor Lowe's strong hints of further easing of Australian monetary policy

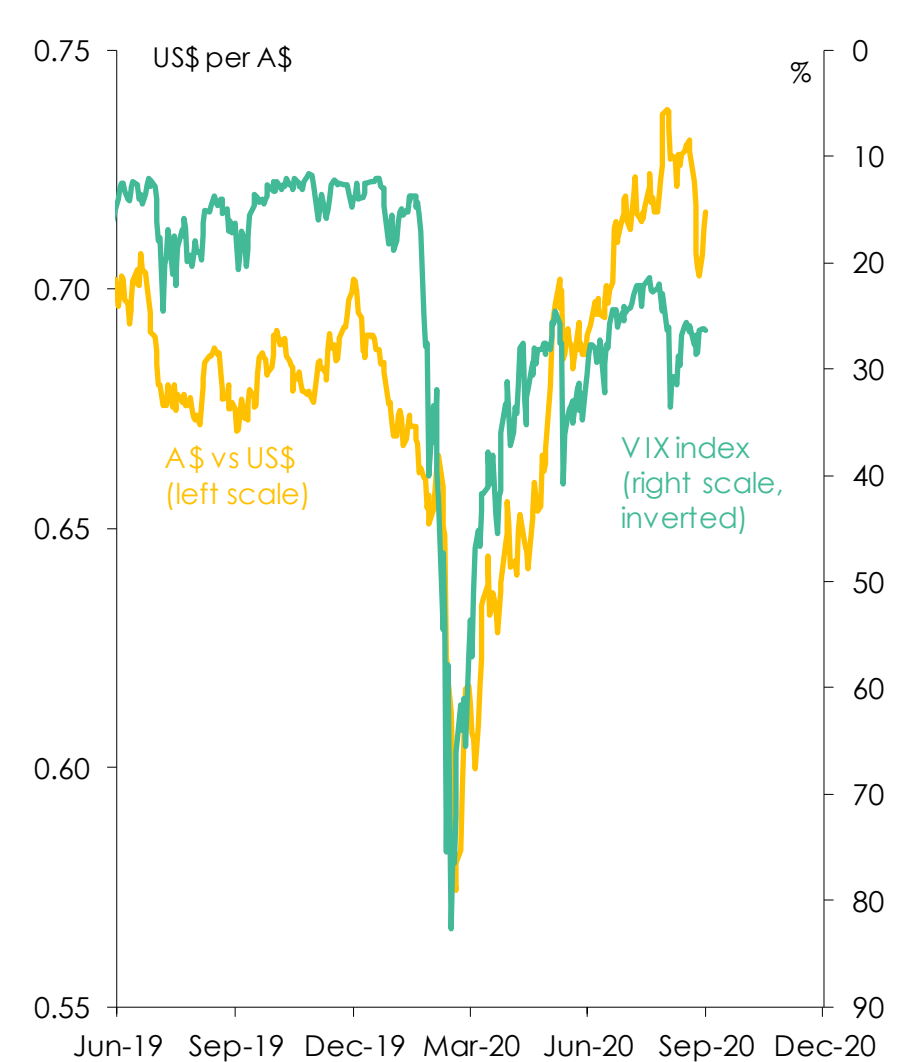
## A\$-US\$ and US\$ trade-weighted index



## 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 89](#). Source: Refinitiv Datastream. Data up to 16<sup>th</sup> October. [Return to "What's New"](#).

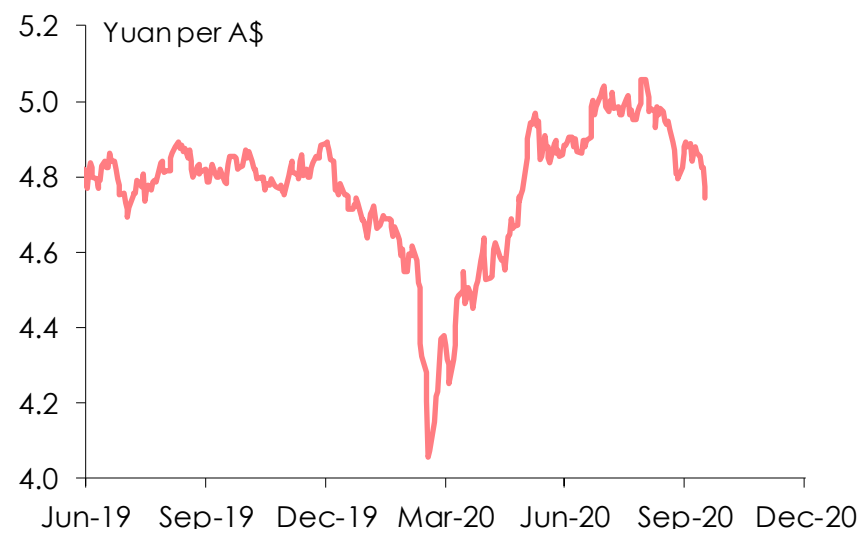


# The A\$ also weakened against most other currencies, except the euro

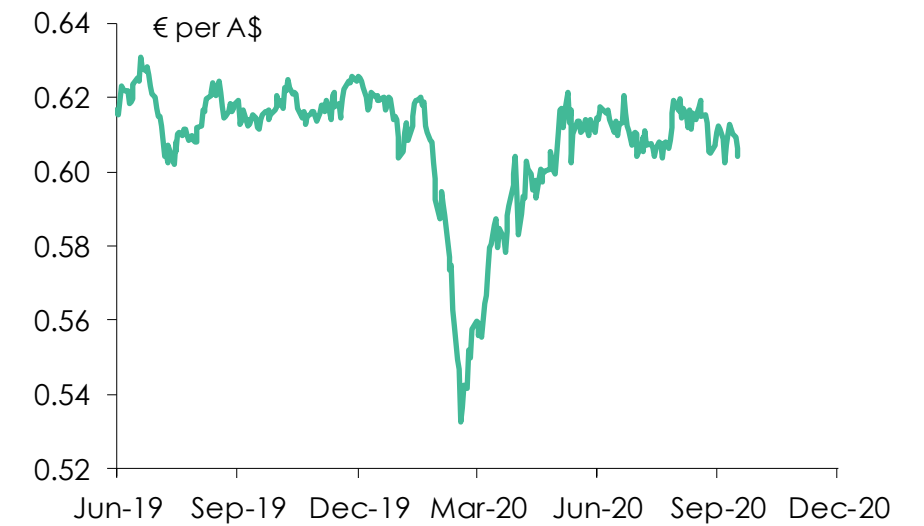
## A\$ vs Japanese yen



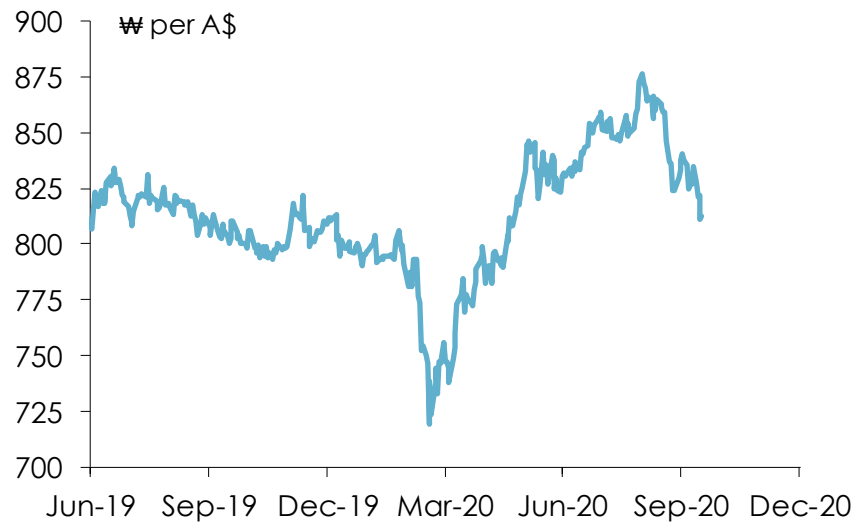
## A\$ vs Chinese yuan



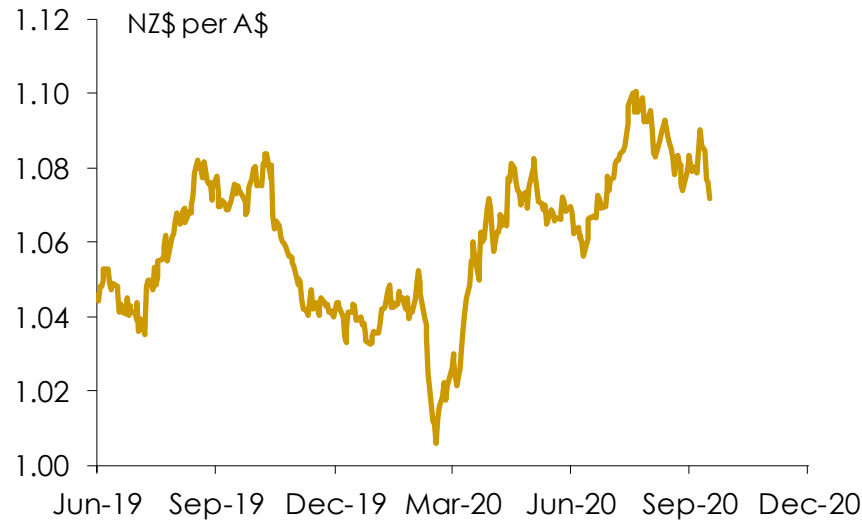
## A\$ vs Euro



## A\$ vs Korean won



## A\$ vs NZ\$



## A\$ vs British pound



Source: Refinitiv Datastream. Data up to 16th 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

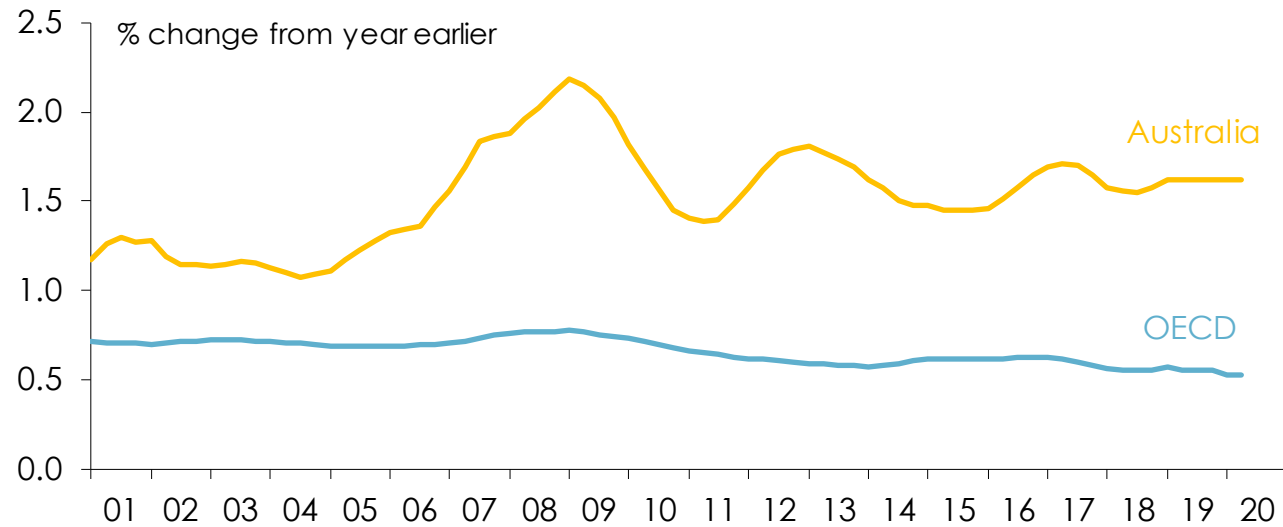
## ❑ **(Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies**

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

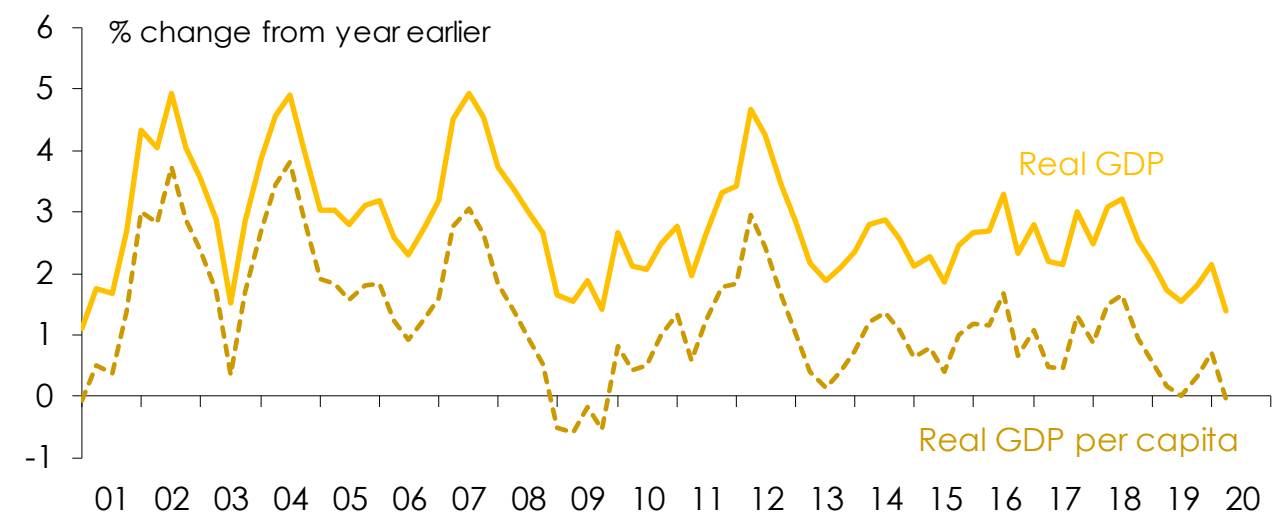
The first three of these are likely to be of less assistance from now on

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

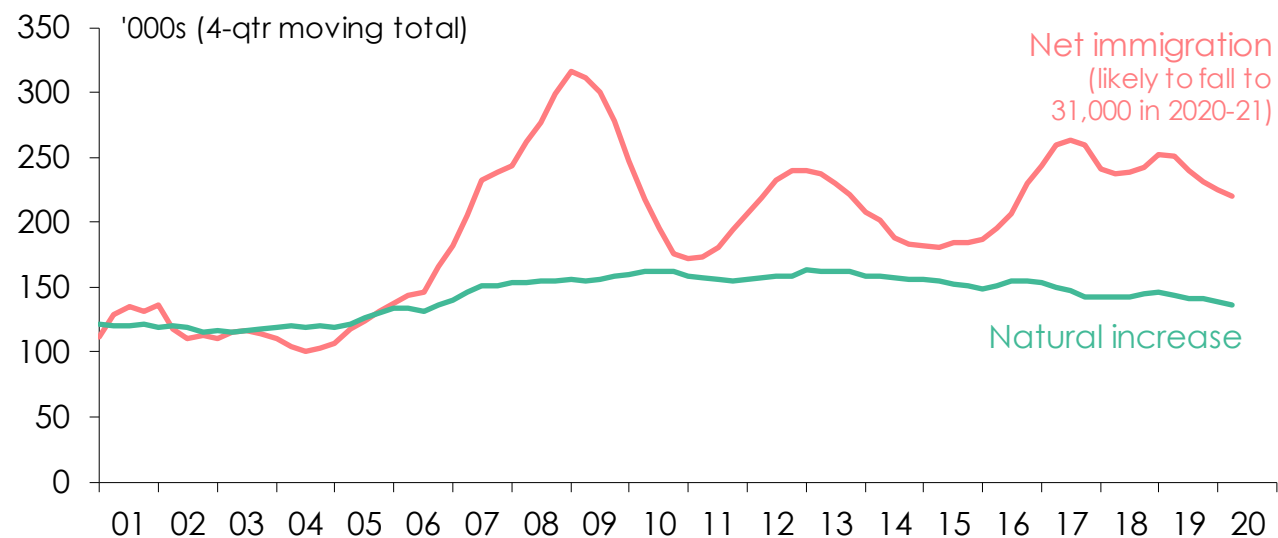
## Australia and OECD population growth



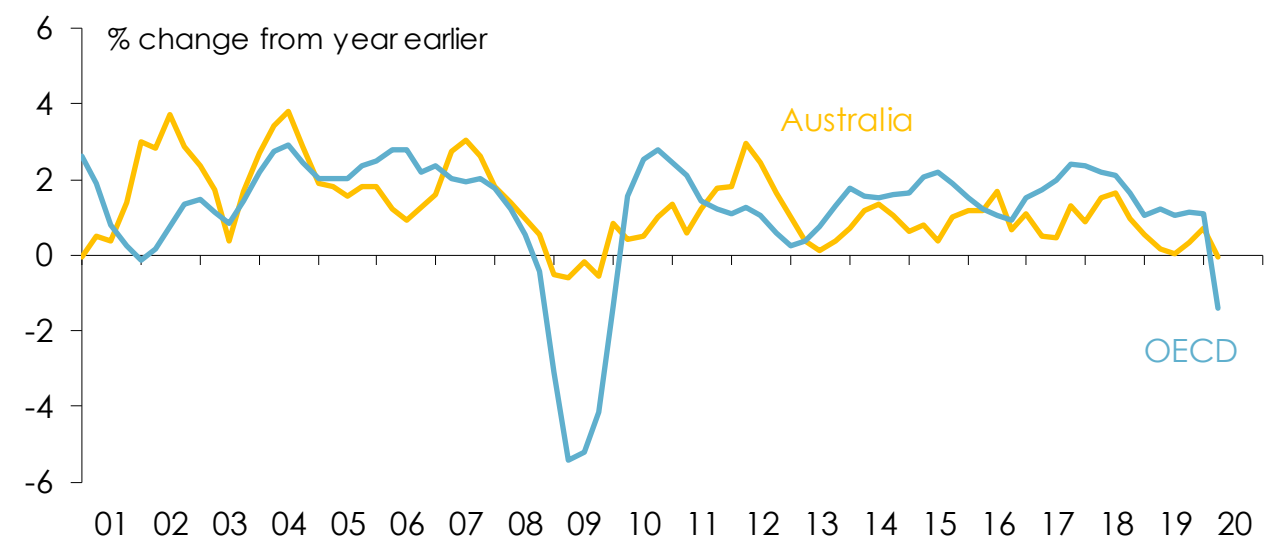
## Australian GDP and per capita GDP growth



## Sources of Australia's population growth



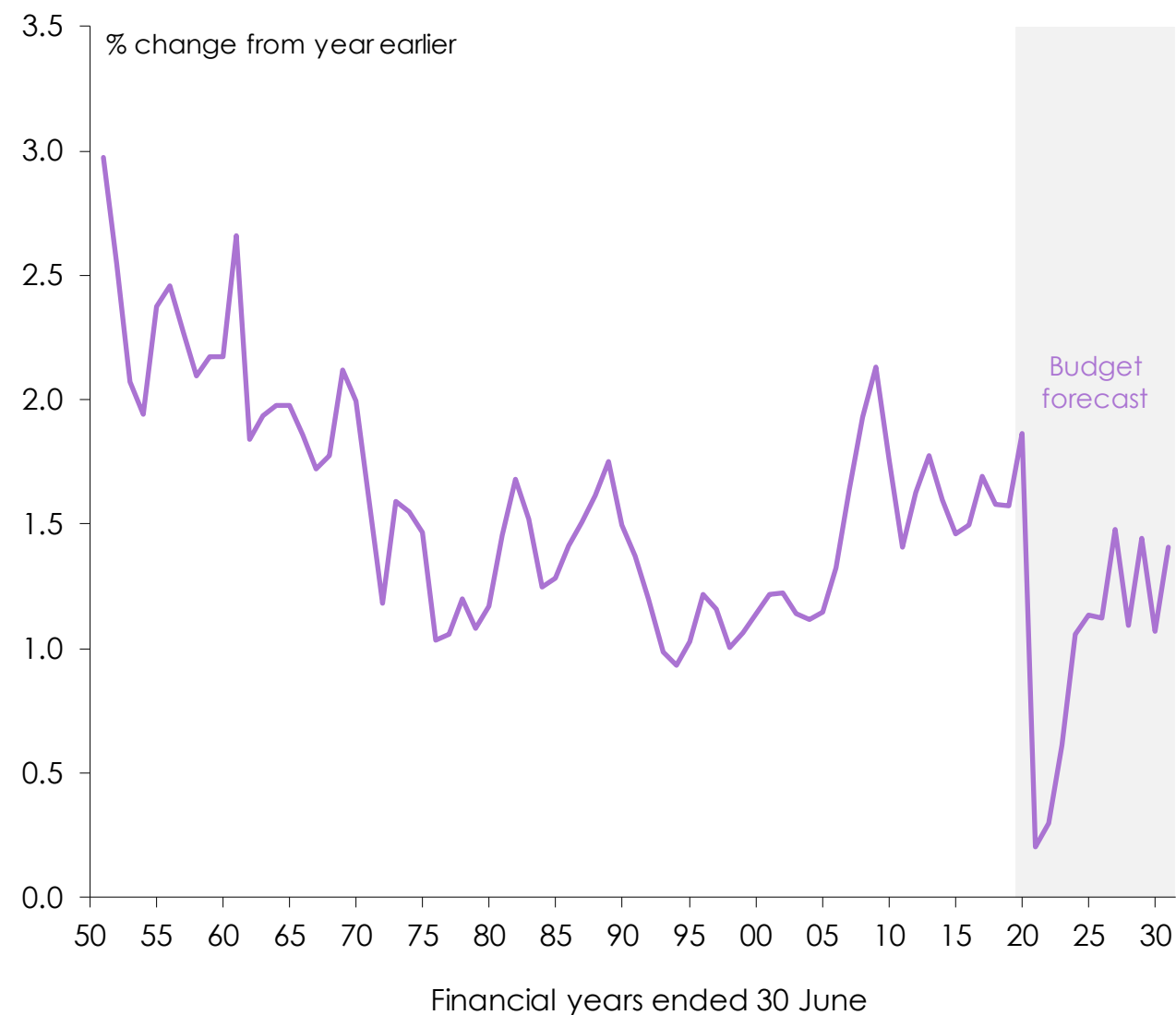
## Australia and OECD per capita real GDP growth



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 month'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



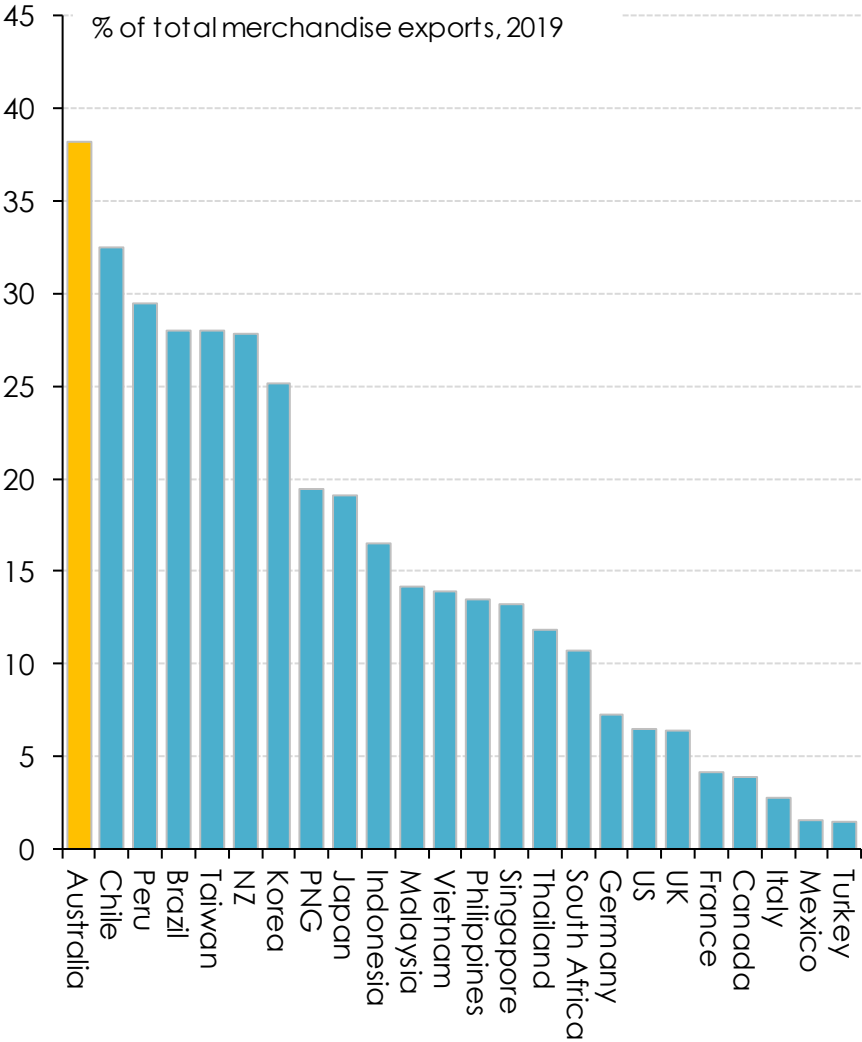
Net overseas migration



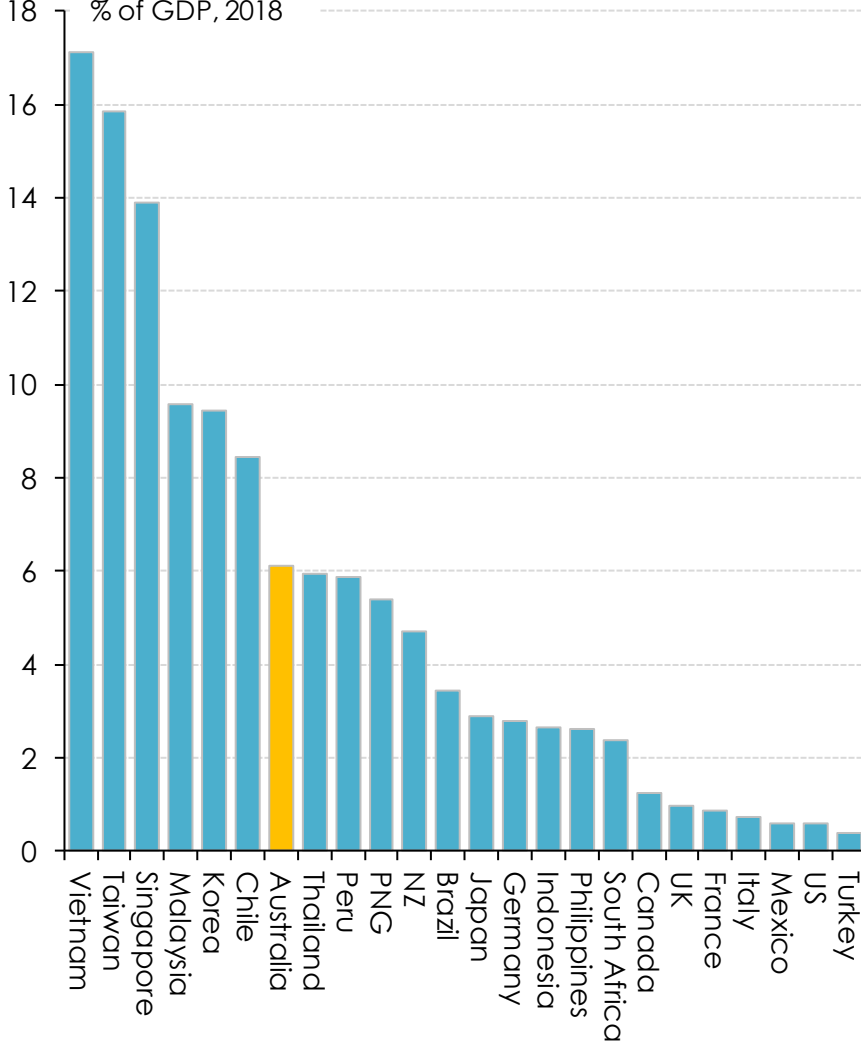
Sources: ABS, [National, state and territory population](#); Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 2](#) and [Budget Paper No. 3, Appendix A](#).

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

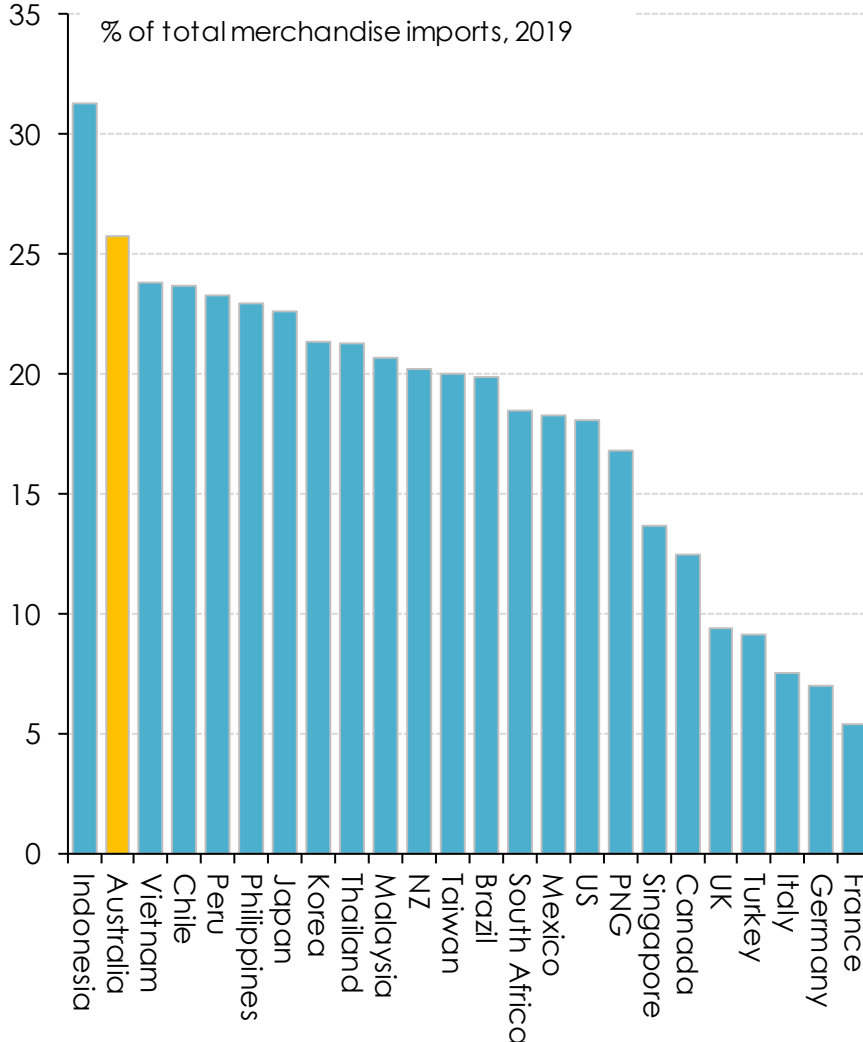
Merchandise exports to China as a pc of total



Merchandise exports to China as a pc of GDP



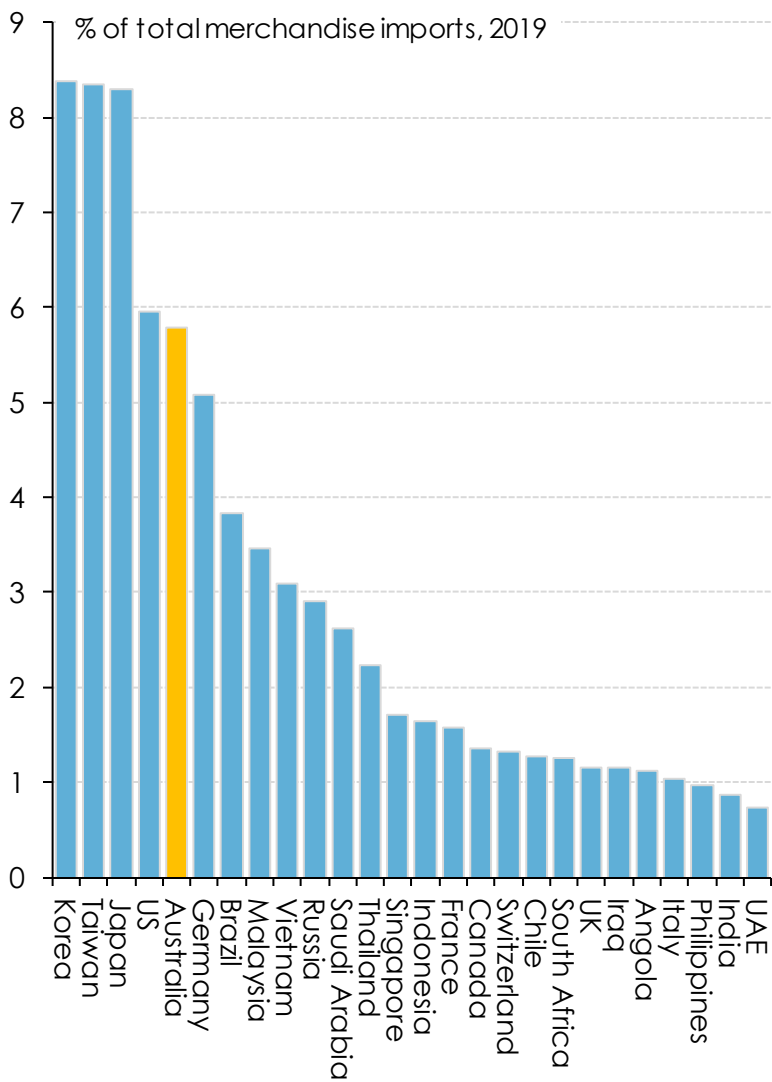
Merchandise imports from China as a pc of total



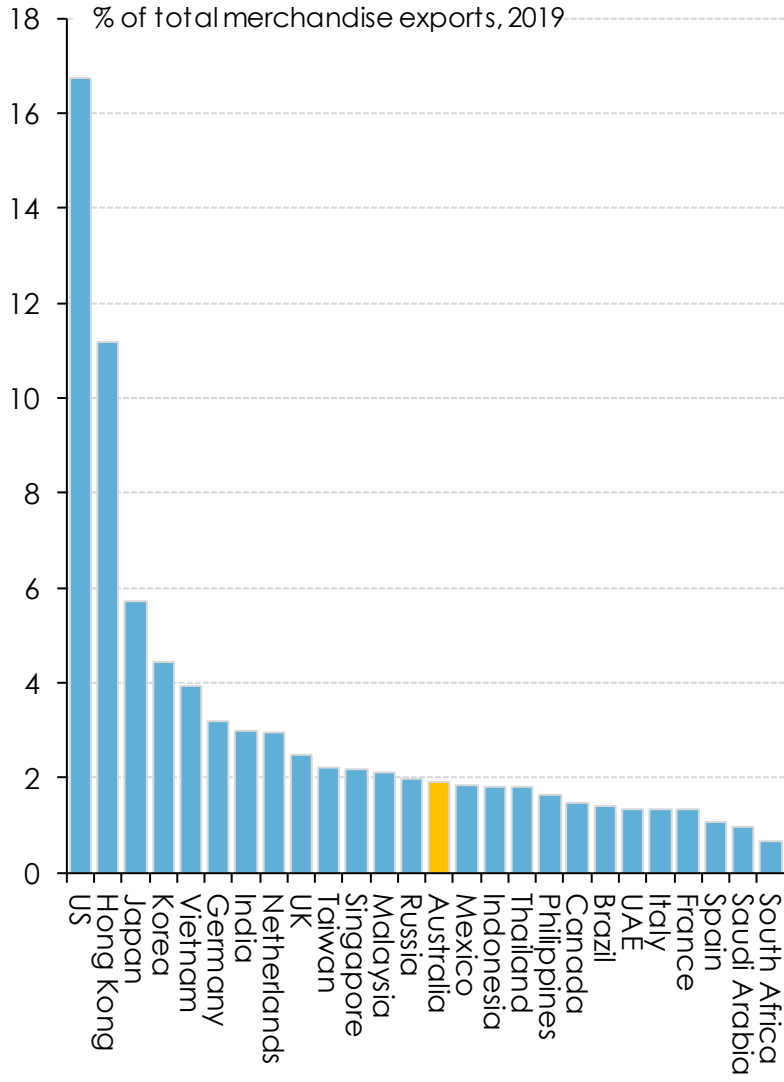
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

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

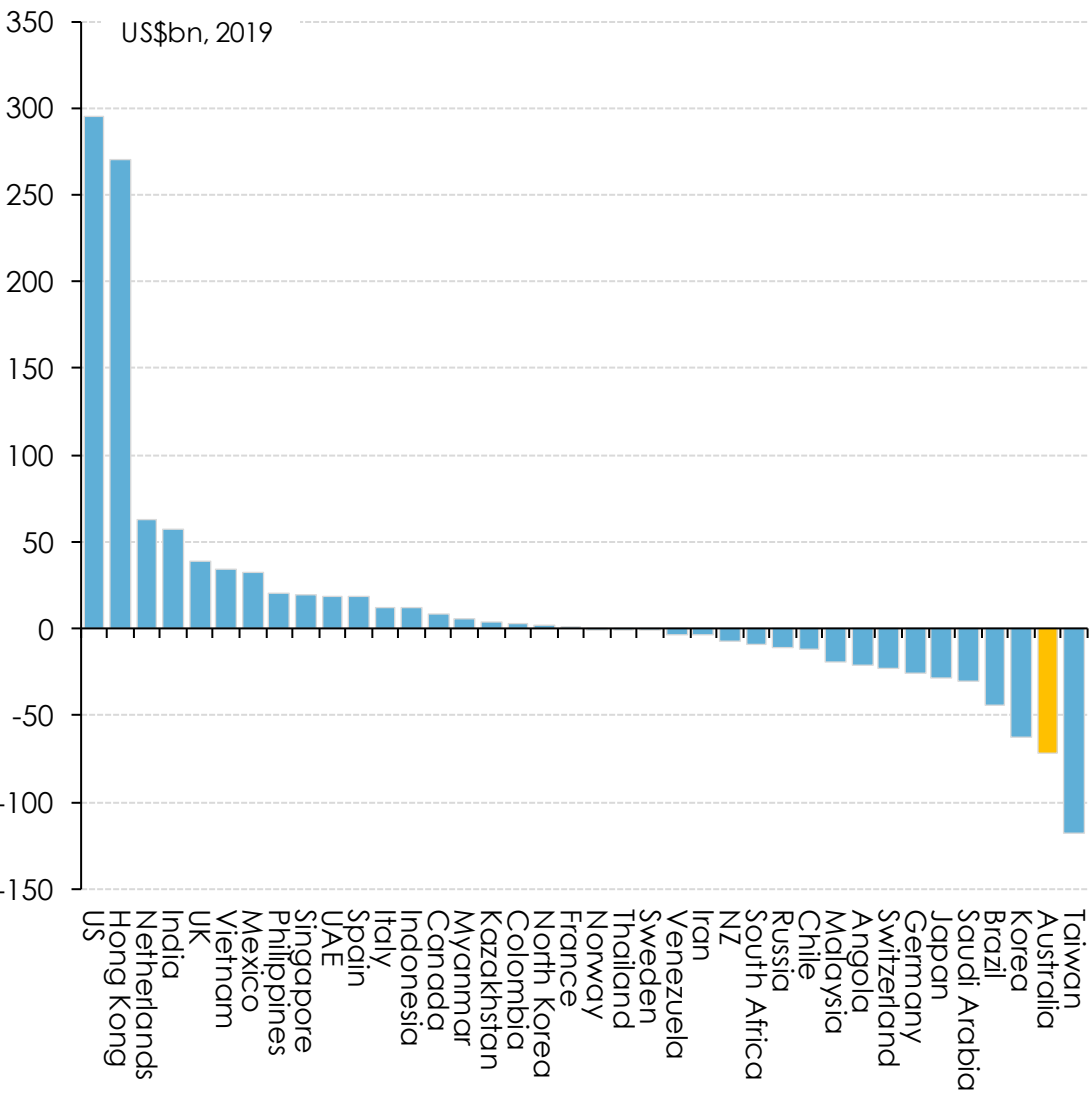
China's sources of imports



China's export destinations



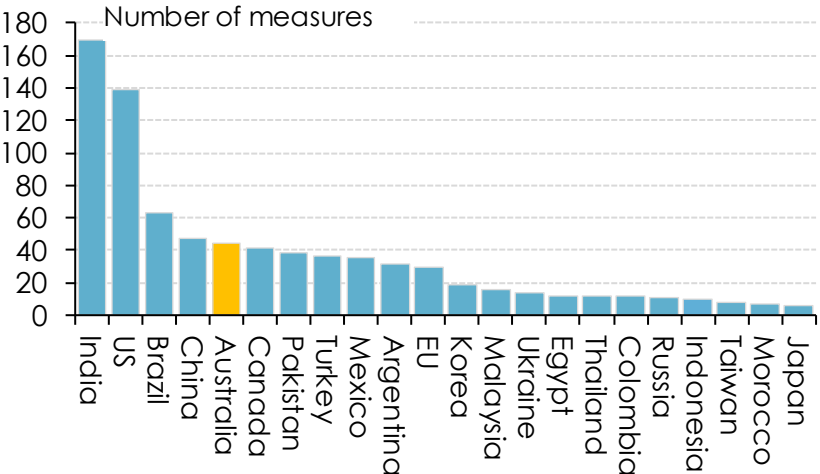
China's bilateral merchandise trade balances



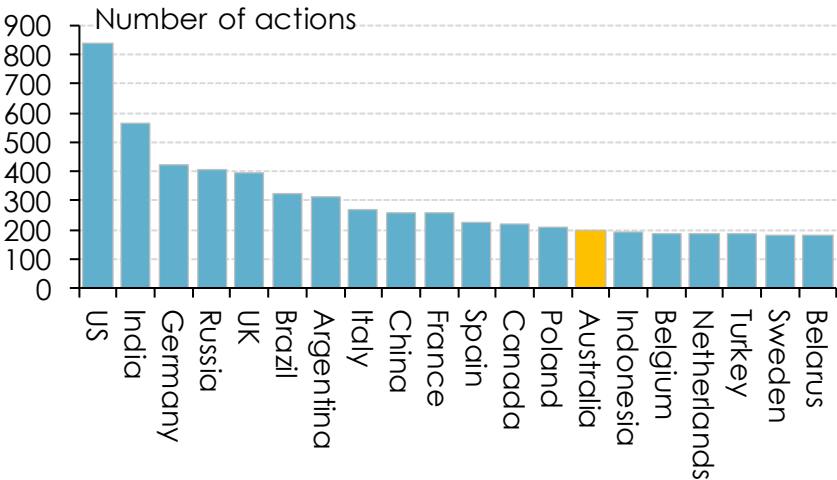
Source: International Monetary Fund, [Direction of Trade Statistics](#). [Return to "What's New"](#).

# China this week added coal and cotton to the Australian exports on its 'hit list' – but while unjustified, Australia isn't exactly 'Snow White' on trade either

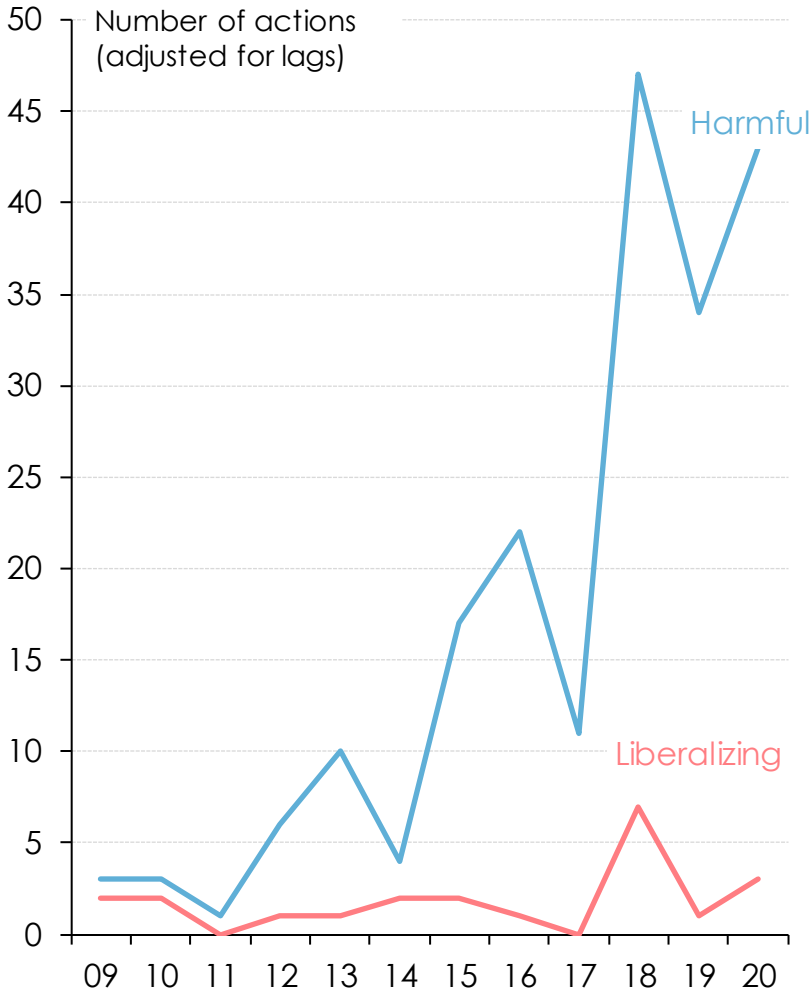
Number of anti-dumping measures imposed, 2015-19



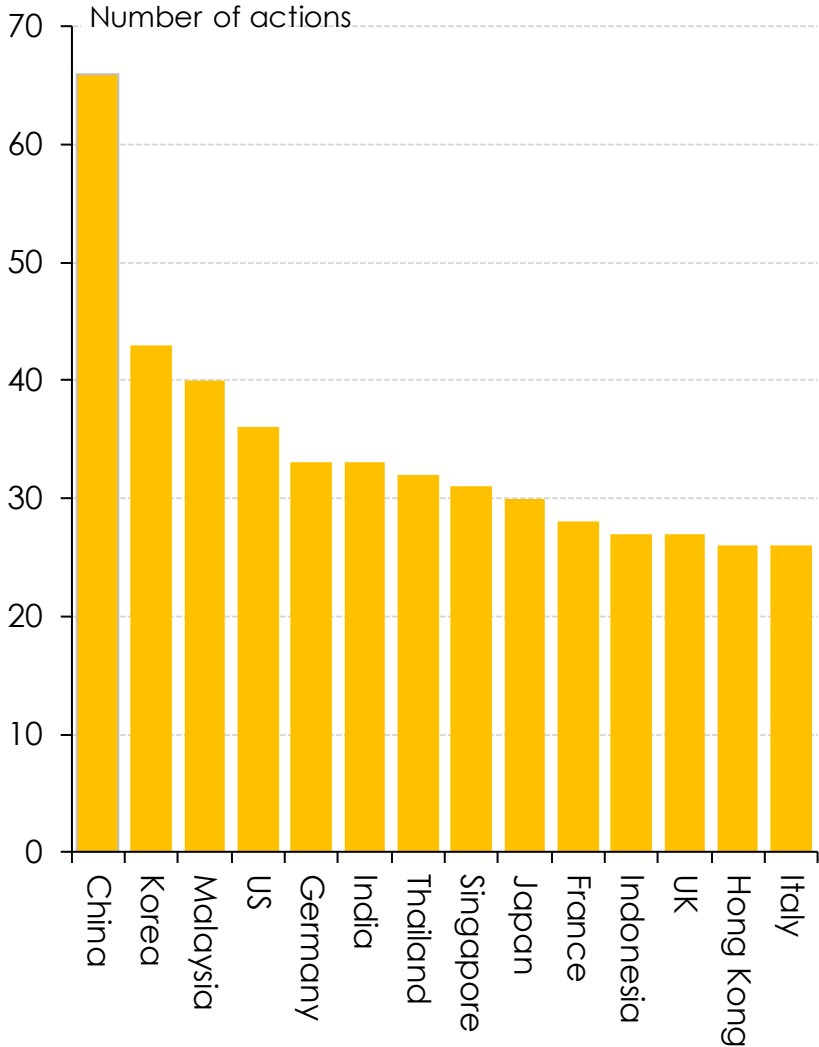
Number of harmful trade policy interventions, 2009-2020



Australian trade policy measures since 2009

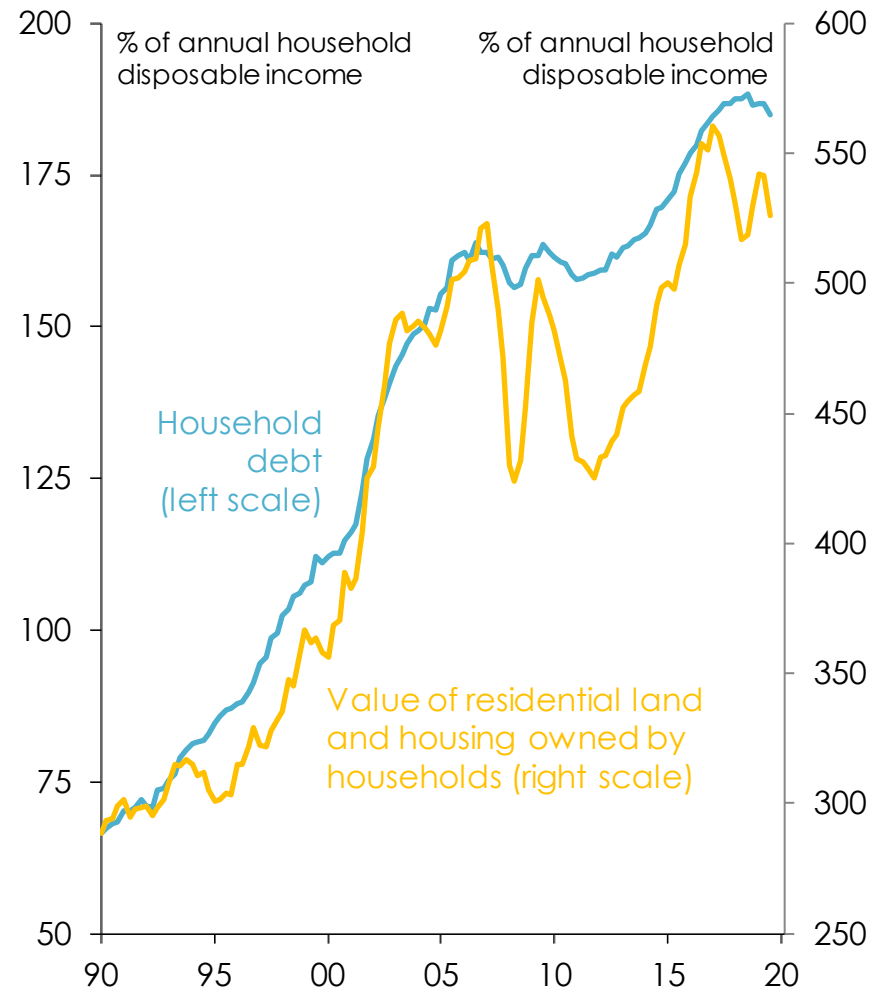


Countries adversely affected by 'harmful' Australian trade actions

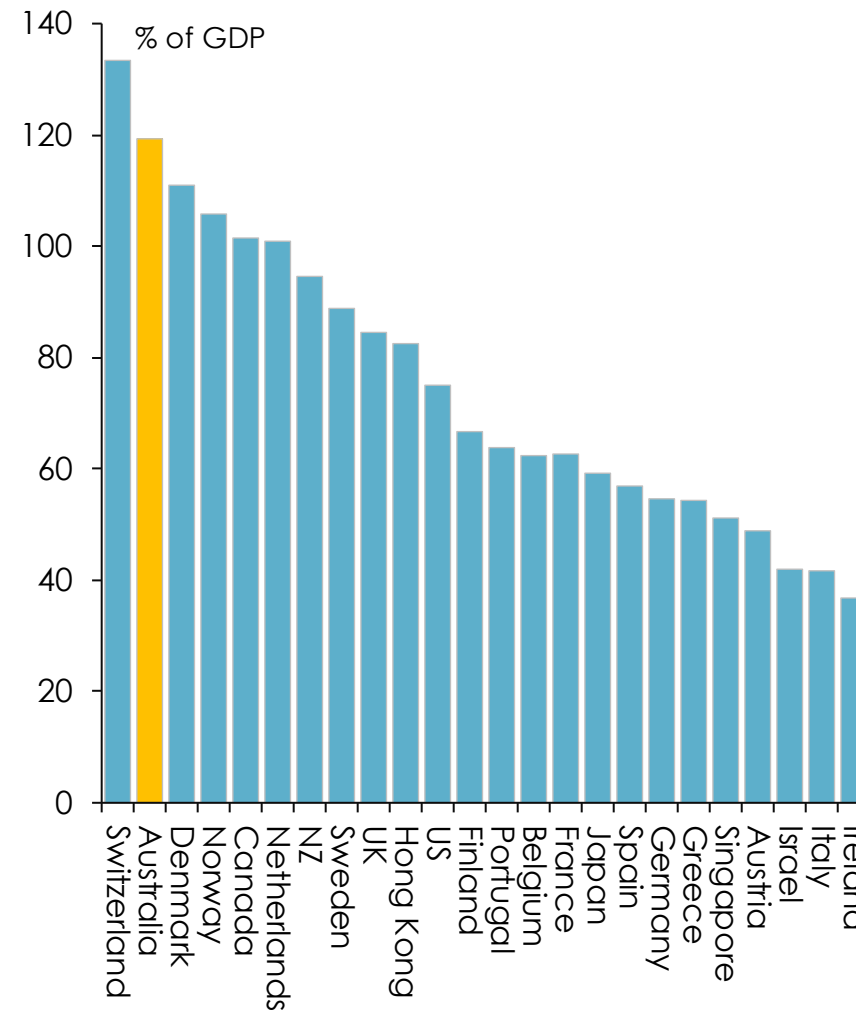


# Rising property prices and household debt are unlikely to underpin Australian economic growth as they have done for most of the past 30 years

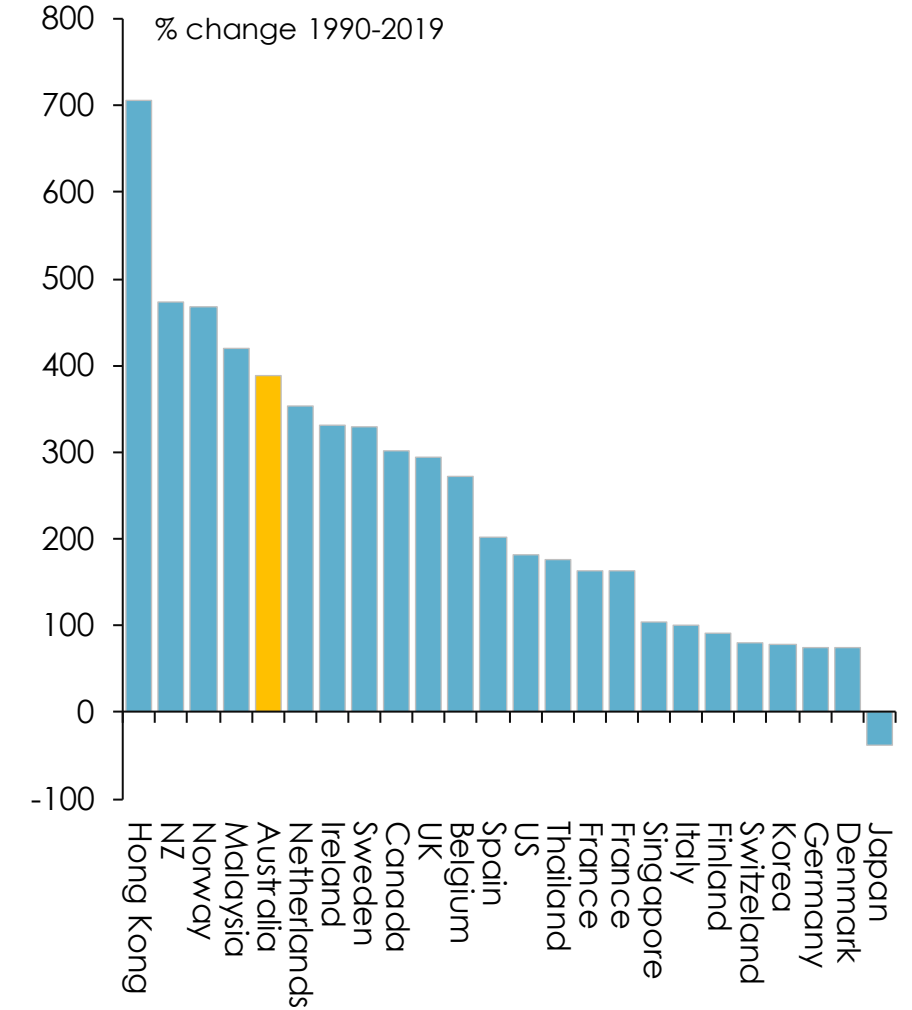
## Australian housing wealth and household debt



## Household debt as a pc of GDP, March 2020



## Increase in residential property prices, 1990-2019

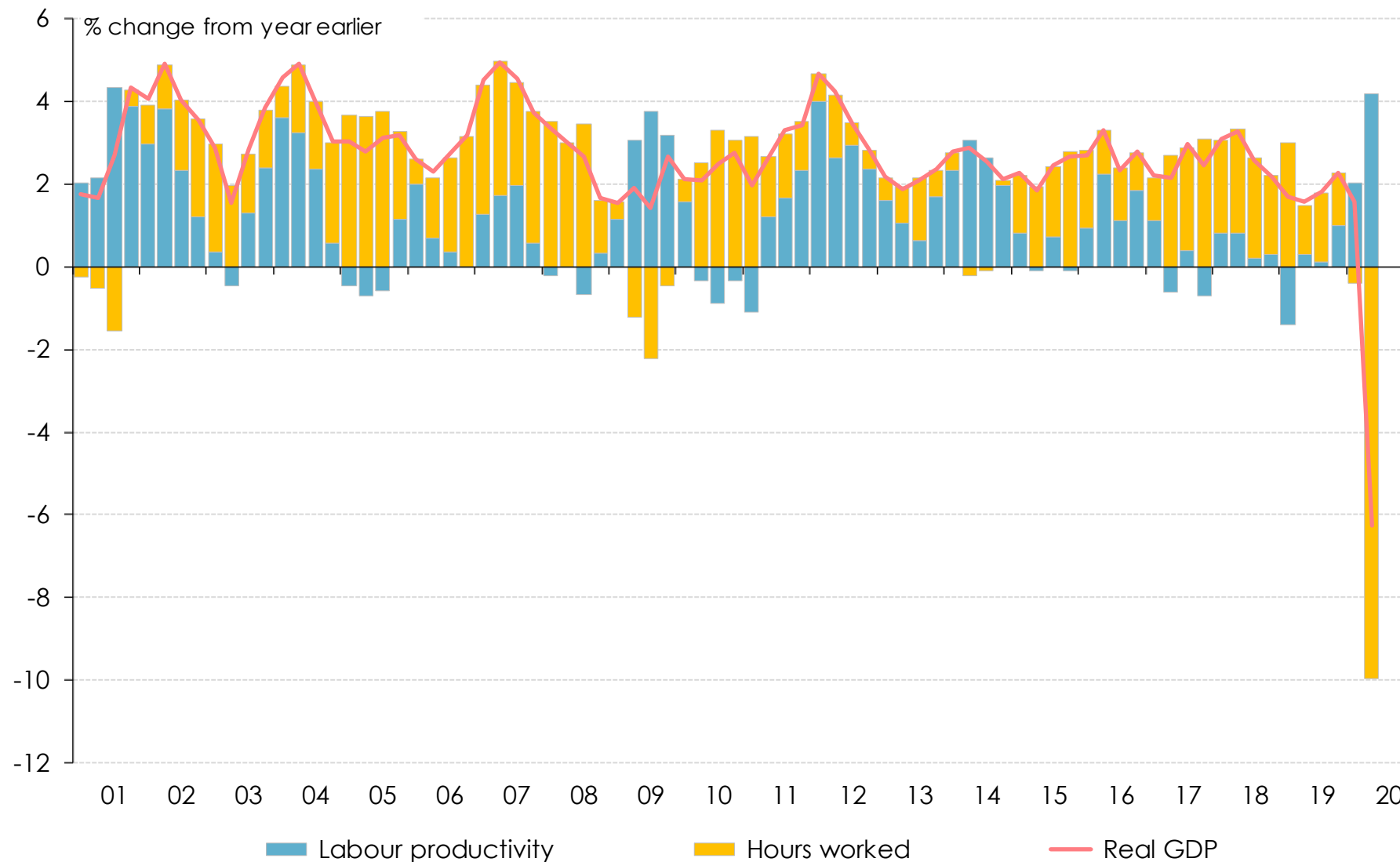


Note: Singapore property price increase is from March quarter 1999. Sources: ABS, [Australian National Accounts: Finance and Wealth](#); RBA, [Household Finances - Selected Ratios](#); Bank for International Settlements, [Credit to the non-financial sector](#) and [Property price statistics](#). [Return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



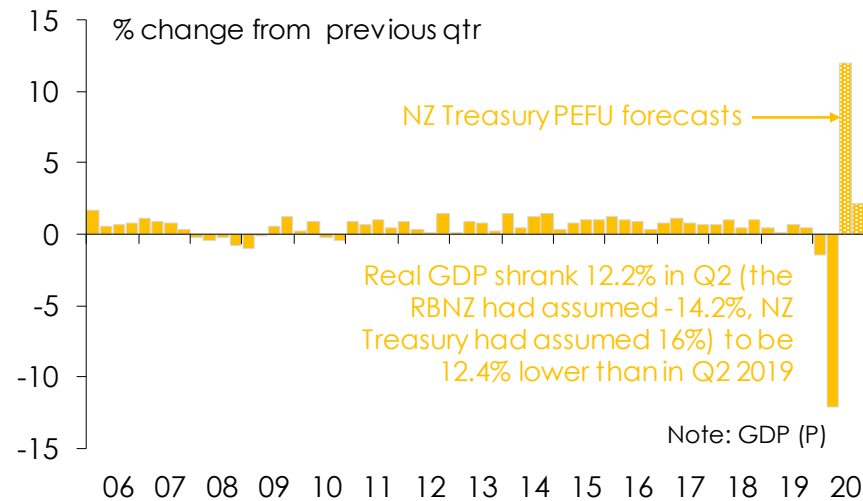
- ❑ Over the five years between the end of the 'mining boom' and the onset of the Covid-19 pandemic, 72% of Australia's real GDP growth came from increased labour input, and only 28% from labour productivity growth
- ❑ By contrast, between the end of the early 1990s recession and the onset of the global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

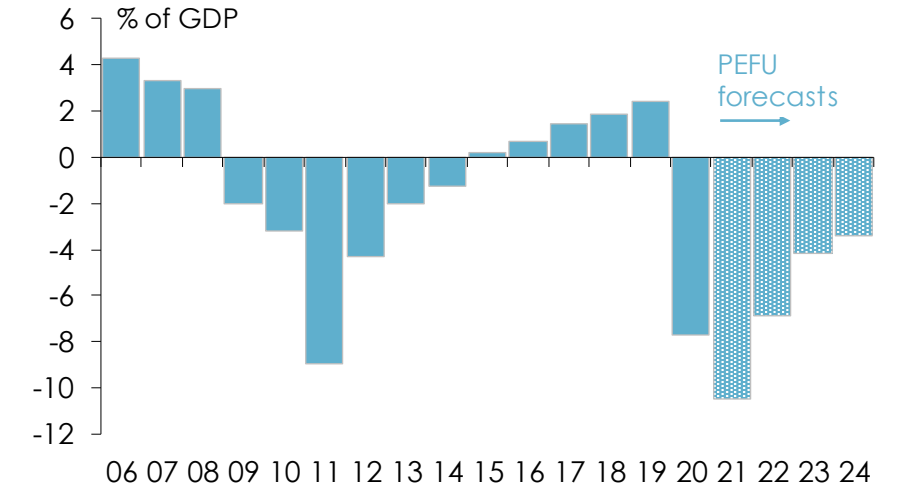
## Real GDP



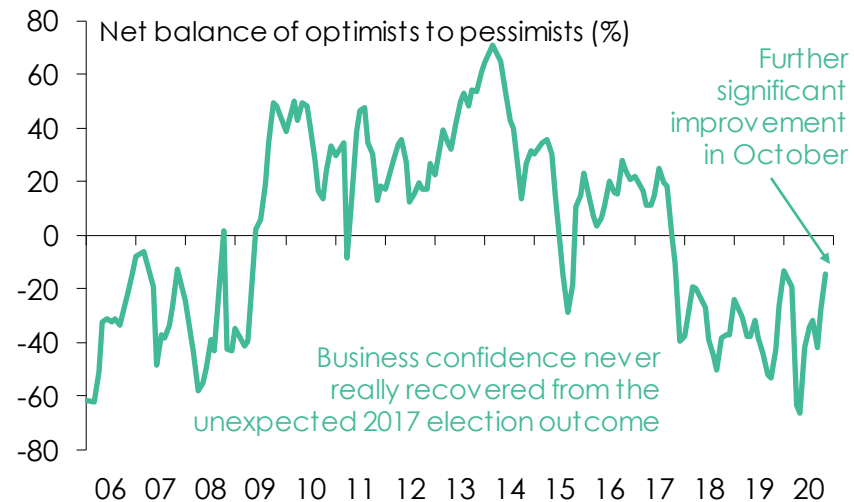
## Consumer confidence



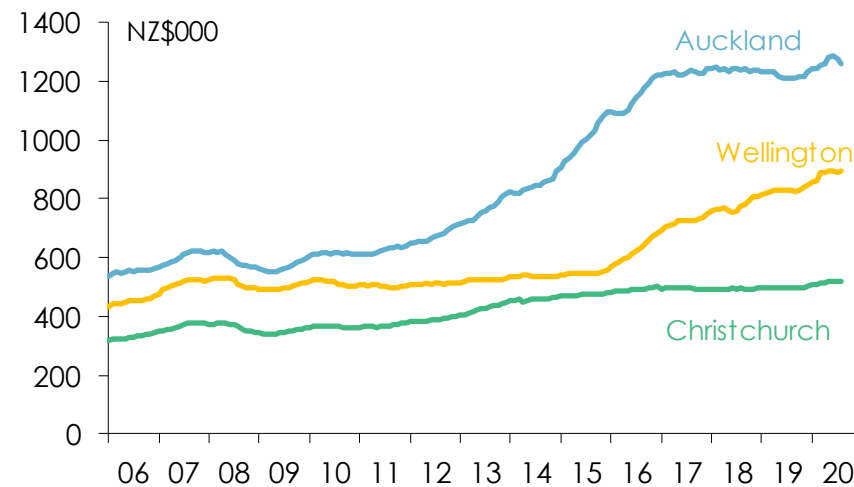
## NZ government budget balance



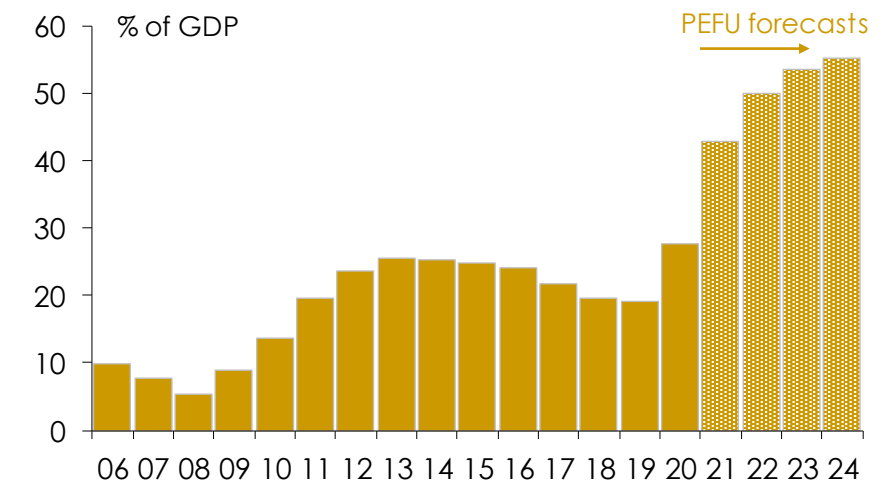
## Business confidence



## Residential property prices



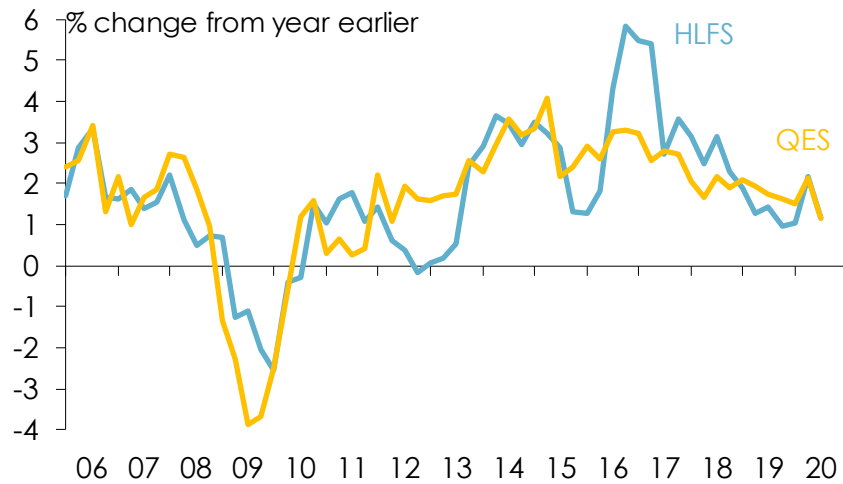
## NZ 'core Crown debt'



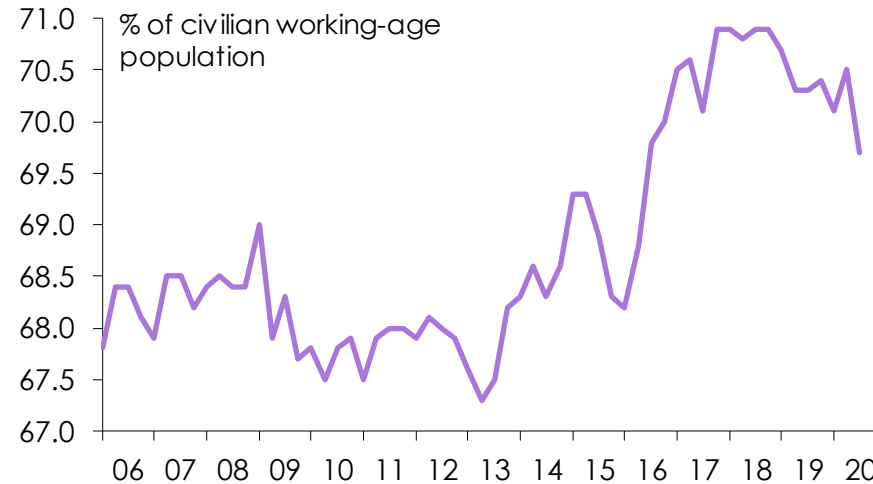
Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', operating balance excluding gains and losses (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student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

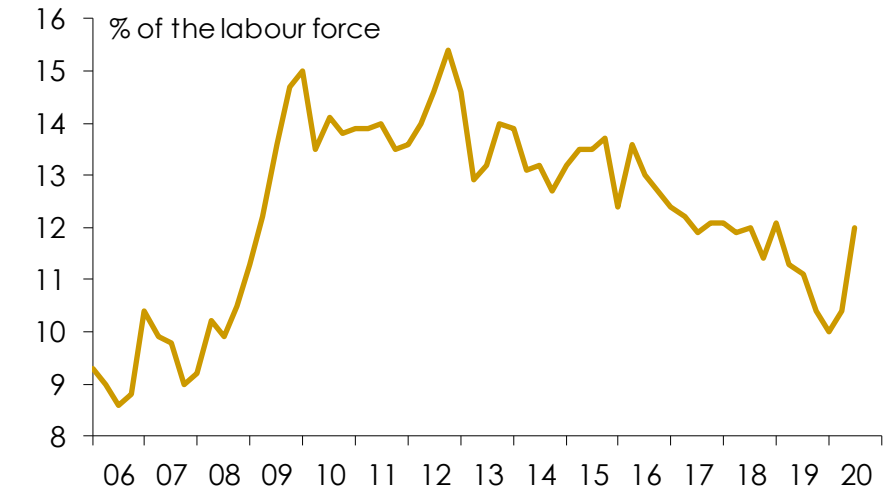
## Employment



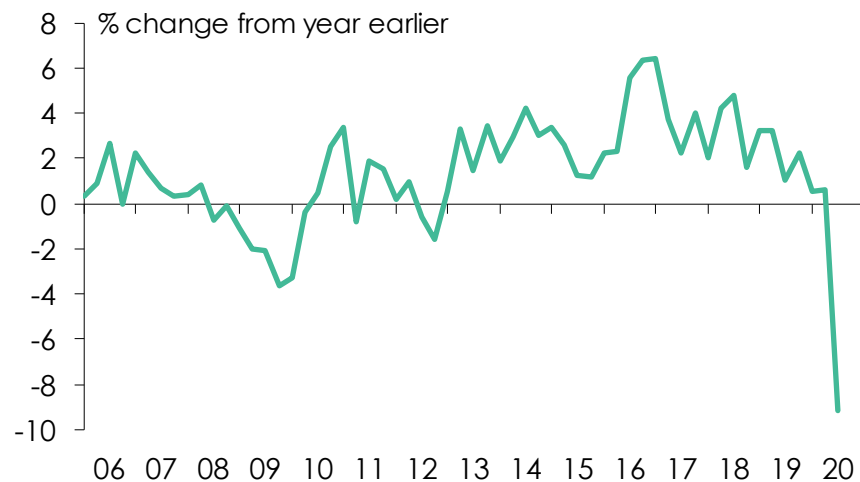
## Labour force participation rate



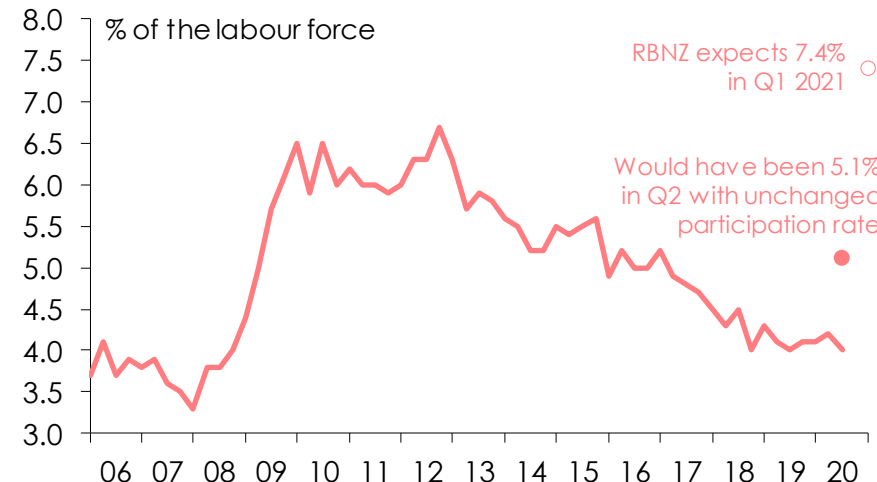
## Labour force under-utilization rate



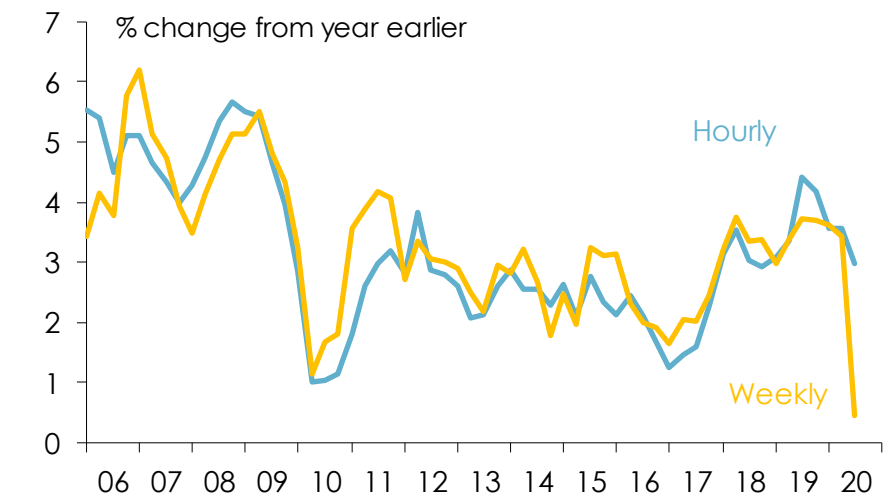
## Hours worked



## Unemployment rate



## Average weekly earnings

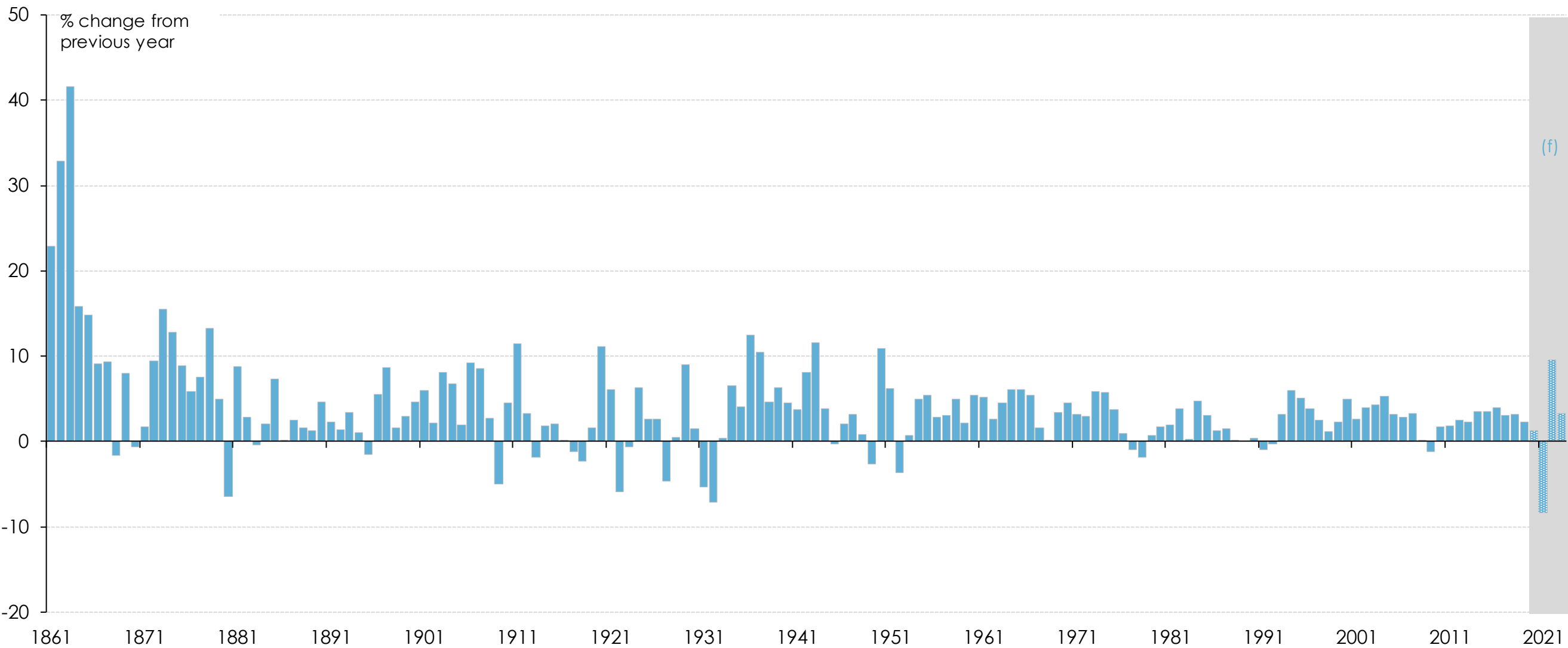


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled 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: [StatisticsNZ](https://www.stats.govt.nz/). September quarter data will be released on 4<sup>th</sup> 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

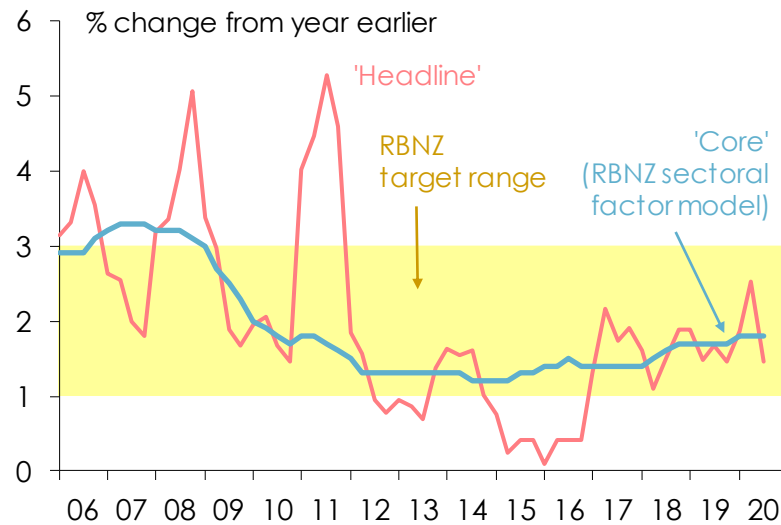
Annual growth in New Zealand real GDP, 1861-2023



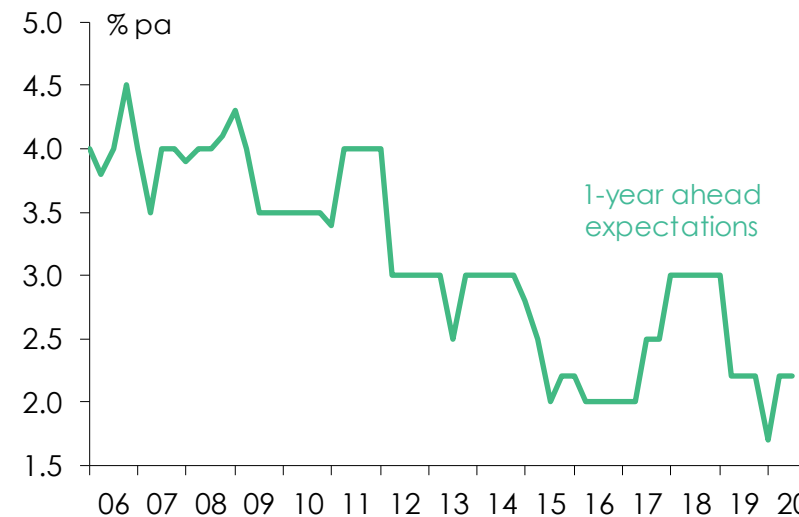
Note: Forecasts are for years ended 31 March. Source: RBNZ, [Monetary Policy Statement](#), May 2020. [Return to "What's New"](#).

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

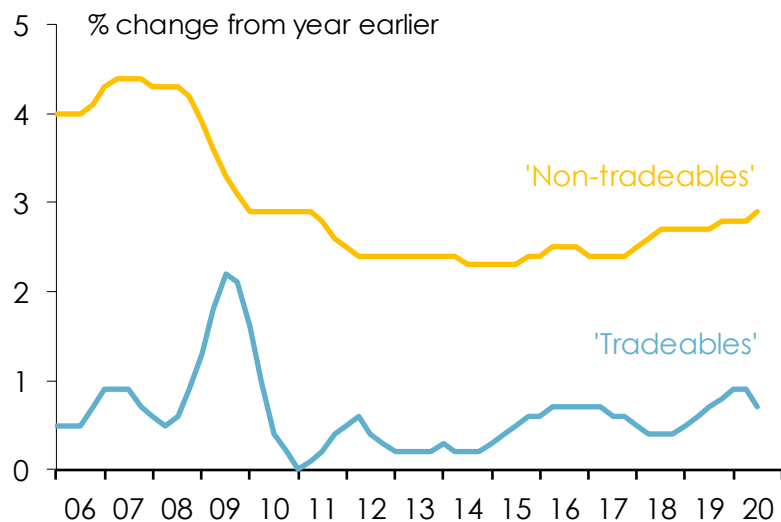
## Consumer prices



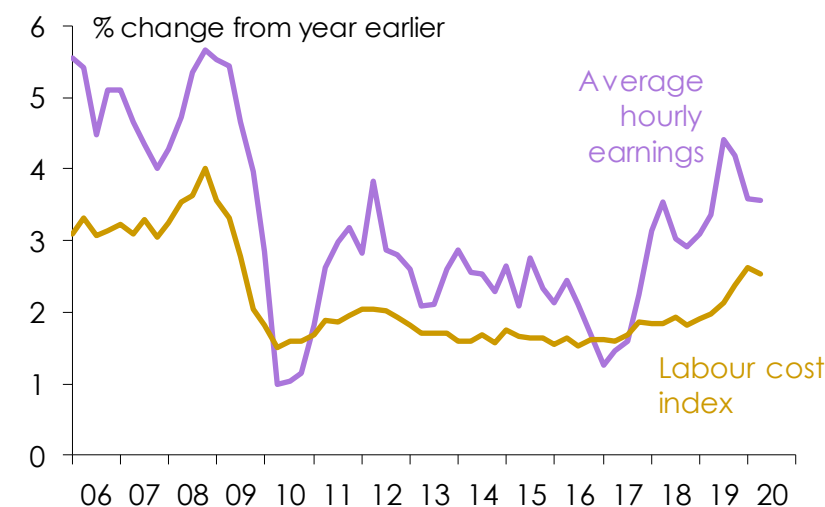
## Household inflation expectations



## Components of 'core' inflation



## Labour costs

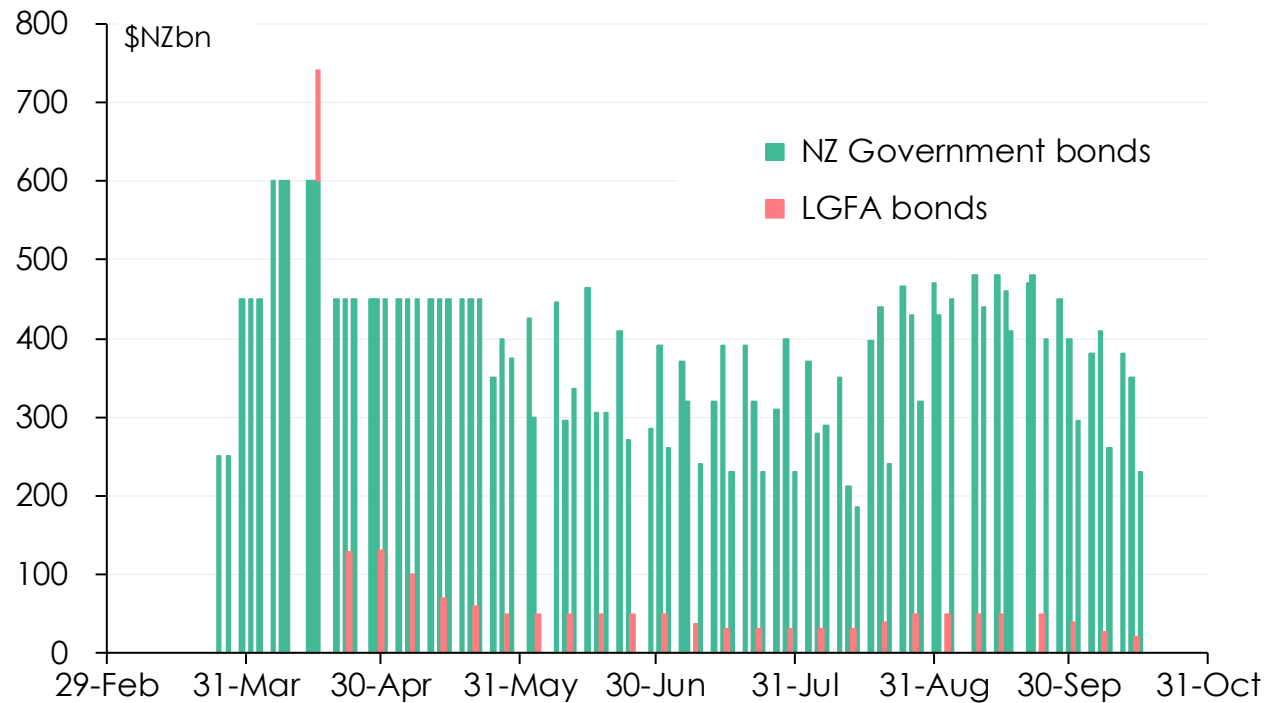


- ❑ The CPI fell 0.5% in the June quarter, reflecting a 12% fall in petrol prices, partly offset by a 16% increase in food prices and SNZ's inability to capture fully the effect of freeze on residential rents between 26<sup>th</sup> March and 25<sup>th</sup> September
- ❑ The June quarter result cut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

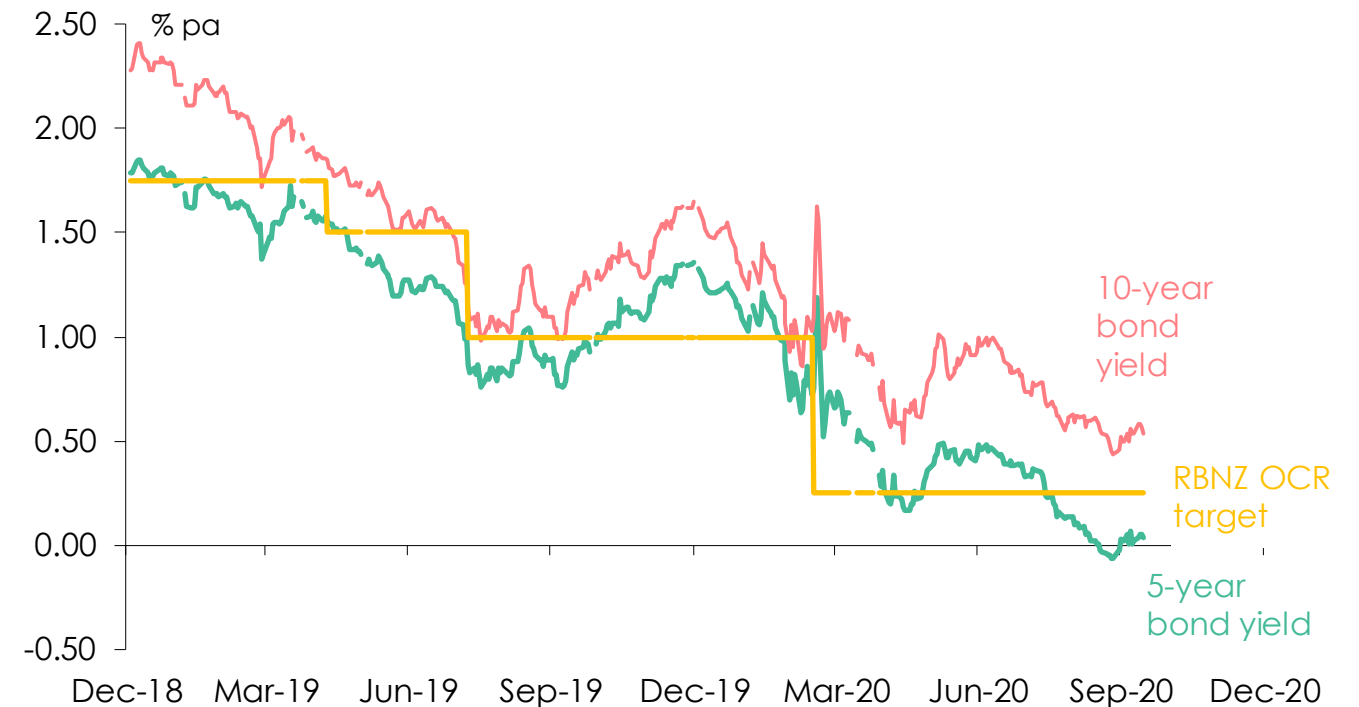
Sources: [Statistics NZ](#); Reserve Bank of New Zealand. September quarter CPI will be released on 23<sup>rd</sup> October. [Return to "What's New"](#).

# 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 bought NZ\$980mn of bonds (the smallest amount in 5 weeks) bringing its total purchases since 25<sup>th</sup> March to \$NZ35.5bn (11.5% of GDP): 3- and 5-year yields rose a little further this week
- ❑ This week RBNZ Assistant Governor Christian Hawkseby reiterated that the RBNZ's talk about a negative OCR target was "not bluff", and that there were "no concerns" that negative rates would be "problematic for banks"

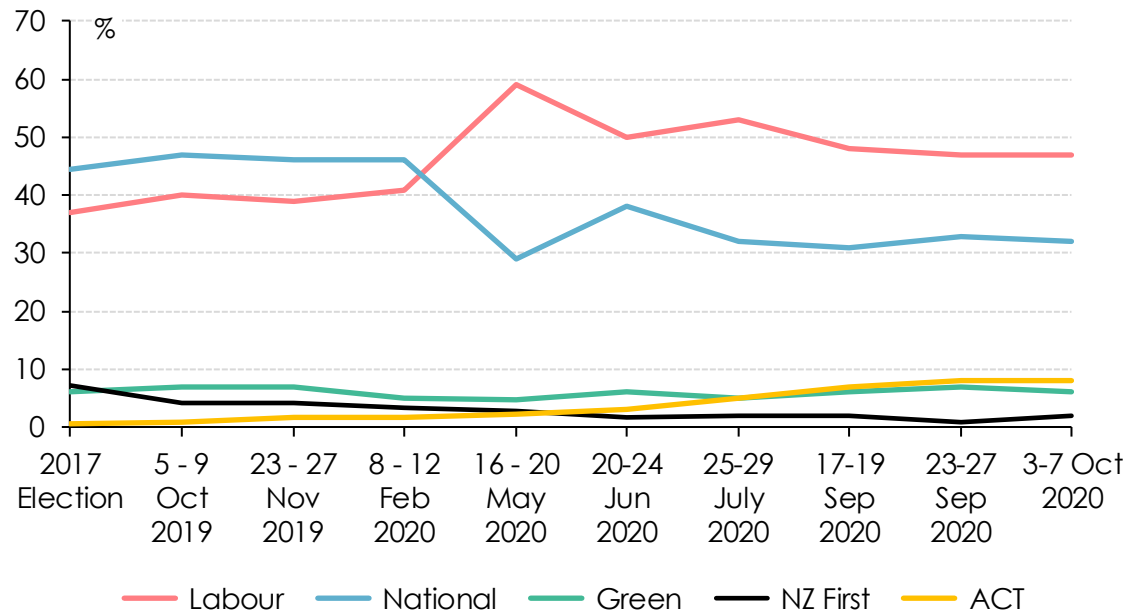
Note: LGFA = Local Government Financing Authority. Source: Reserve Bank of New Zealand, [Statistics](#) Tables B2 and D3. Data up to 16<sup>th</sup> October.

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



# Latest opinion poll still foreshadows a victory for PM Jacinda Ardern's Labour Party this Saturday, but it may have to rely on Greens to govern

Colmar-Brunton 1-News poll



- ❑ 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)

- ❑ The last Colmar Brunton poll, taken last week, showed Labour unchanged with 47%, but a small drift away from National (with 32%) to minor parties which (except for libertarian ACT) are nonetheless most unlikely to win a constituency seat or cross the 5% threshold required to win list seats
  - if replicated at the election this poll implies Labour would win 60 seats (up 4, but not enough to govern in its own right, as earlier polls had implied), National 41 (down 15), ACT 11 (up 10) and the Greens 8 (unchanged), while Deputy PM Winston Peters' NZ First would lose all its seats
- ❑ As of Wednesday, 1.57mn voters (45½% of those enrolled) had already voted – almost double the number who had voted early at the corresponding stage of the 2017 election

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

**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 83](#))**
- ❑ **Re-think of relationships with China (see [slide 91](#) and [slides 118-120](#))**
  - 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 54](#)) and Biden as President can reverse the damage done to perceptions of US credibility, competence and commitment

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

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