

ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

31ST OCTOBER 2020

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CORINNA ECONOMIC ADVISORY PTY LTD

What's new?

The world

- ❑ 3,281,628 new Covid-19 cases were confirmed this week, a new record high, taking the cumulative total to over 45 million; while 43,336 people died (the highest number in 11 weeks), bringing the cumulative death toll to 1,182,408 ([slide 4](#))
- ❑ Europe (which has 7% of the world's population) accounted for 65% of the world's new cases last week, while the US (4% of the world's population) accounted for a further 16% ([slide 5](#))
- ❑ The rising tide of infections in Europe and the US prompted an increase in investor risk aversion this week ([slide 31](#)), leading in turn to falls in commodity prices ([slide 95](#)) and the A\$ ([slide 101](#))
- ❑ The US economy rebounded by 7.4% (33% annualized) in Q3, not quite erasing the 9% (31% annualized) fall in Q2 ([slide 49](#)) – reflecting huge swings in personal consumption and inventories ([slide 50](#))
- ❑ The euro area economy came back even more strongly than the US, with real GDP rising 12.7% (61% annualized) in Q3 after contracting 11.8% (40% annualized) in Q2 – with huge swings in France, Italy and Spain, and a smaller ones in Germany ([slide 64](#))
- ❑ The ECB left monetary policy settings unchanged this week but clearly signalled further easing in December ([slide 30](#))
- ❑ US voters (apart from the 80+ million who have voted already) go to the polls on Tuesday to choose between President Trump and former Vice-President Biden, and to determine the composition of the Senate (among many other contests) – opinion polls suggest that Biden will win, and although they were wrong four years ago they seem more likely to be right this time ([slides 55 through 62](#))

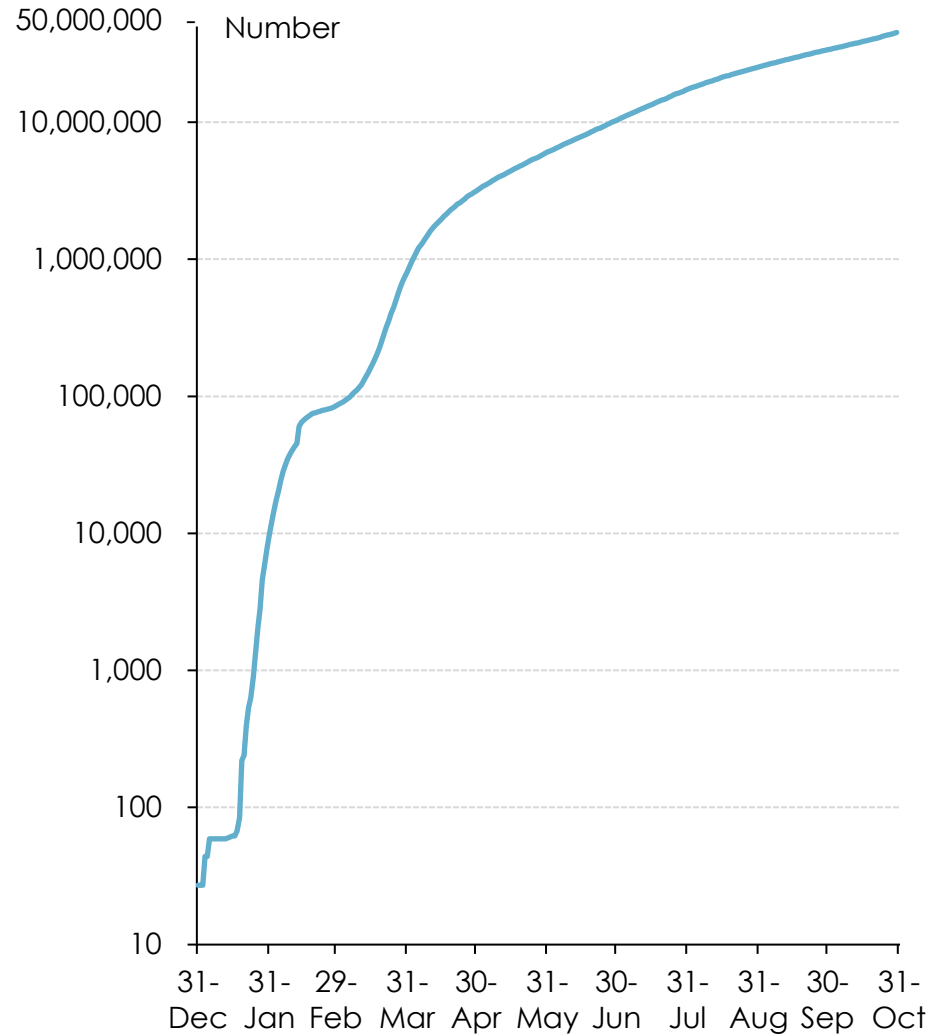
Australia

- ❑ Australia recorded only 98 new Covid-19 cases this week (the lowest number since mid-June), bringing the cumulative total to 27,586, and there were only 2 deaths, bringing the total to 907; there are only 200 active cases at end-October, the lowest number since 26th June ([slide 8](#))
- ❑ Victoria's daily average number of new cases dropped to just 6 (from over 500 in early August), less than NSW's 11 ([slide 9](#)) – allowing the Victorian Government to announce a significant relaxation of restrictions in Melbourne
- ❑ Australia's CPI rose 1.6% in Q3, reversing Q2's 1.9% slide (exactly as expected), pushing the annual inflation rate to 0.7% (from -0.3%); 'underlying' inflation remained at 1.2%, marking 4½ years that the RBA's preferred inflation measure has been below its 2-3% target range ([slide 103](#))
- ❑ Australia's merchandise trade surplus likely topped A\$5½bn (seasonally adjusted) in September, with a surge in gold exports more than offsetting falls in exports of thermal coal and LNG ([slide 97](#))
- ❑ The Federal Government's incurred a budget deficit of \$169bn in the first three months of the 2020-21 fiscal year, bringing the deficit for the 12 months ended September to \$240bn, \$15bn more than the forecast for 2020-21 as a whole ([slide 108](#))
- ❑ The Reserve Bank is expected to cut its cash rate, its target for 3-year bond yields, and the interest rate on its Term Funding Facility to 0.10% (from 0.25%), and announce an expansion of its bond-buying program to include longer-dated maturities on Tuesday ([slides 121 and 122](#))
- ❑ Queensland voters seem likely to return Premier Palaszczuk's Labor Government to office at next Saturday's election – a special look at Queensland (see slides 98-106 in [last week's Chart Pack](#))

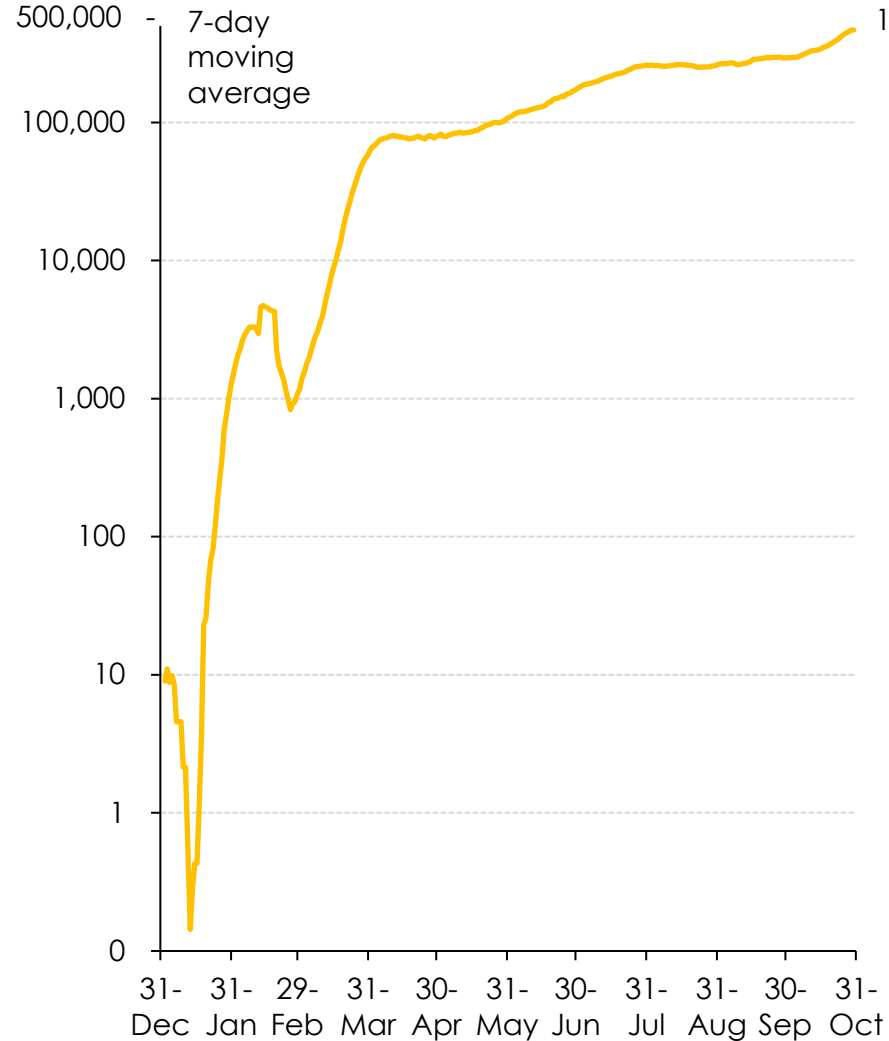
The virus

Over the past week there've been over 3¼mn new cases (a record), taking the cumulative total to over 45mn – although the fatality rate is steady

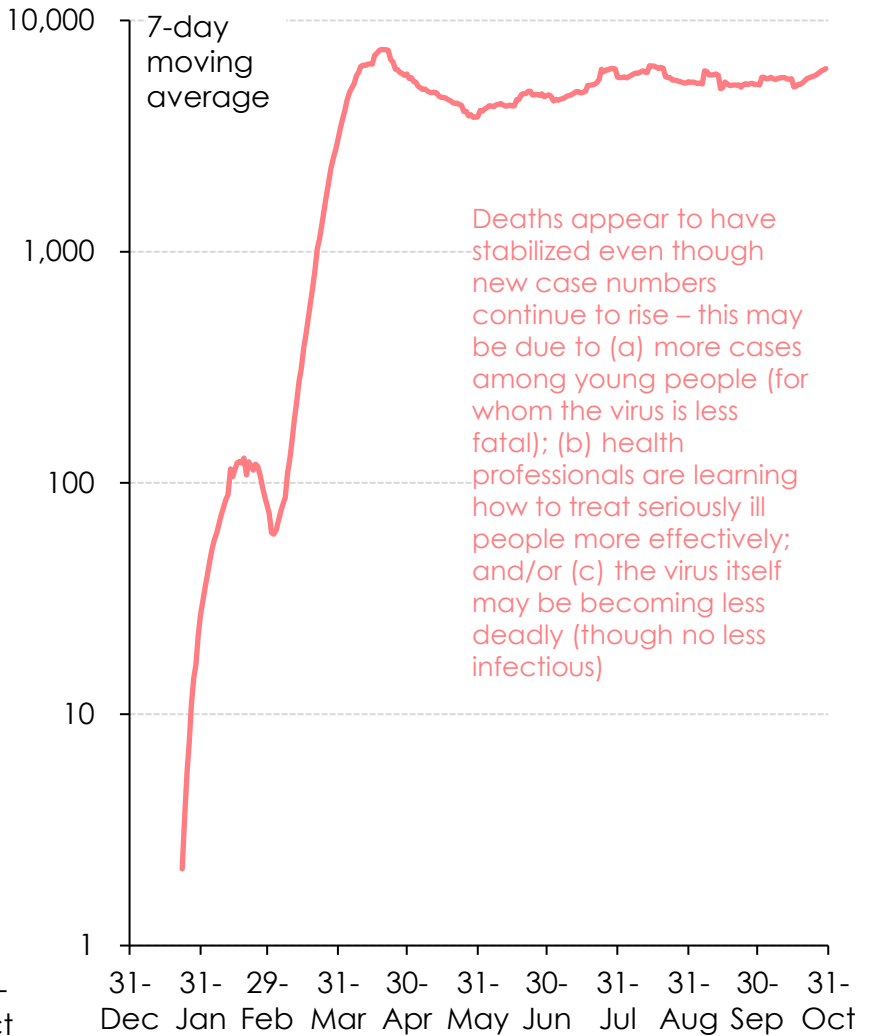
Cumulative confirmed cases – global total



New confirmed cases – global total



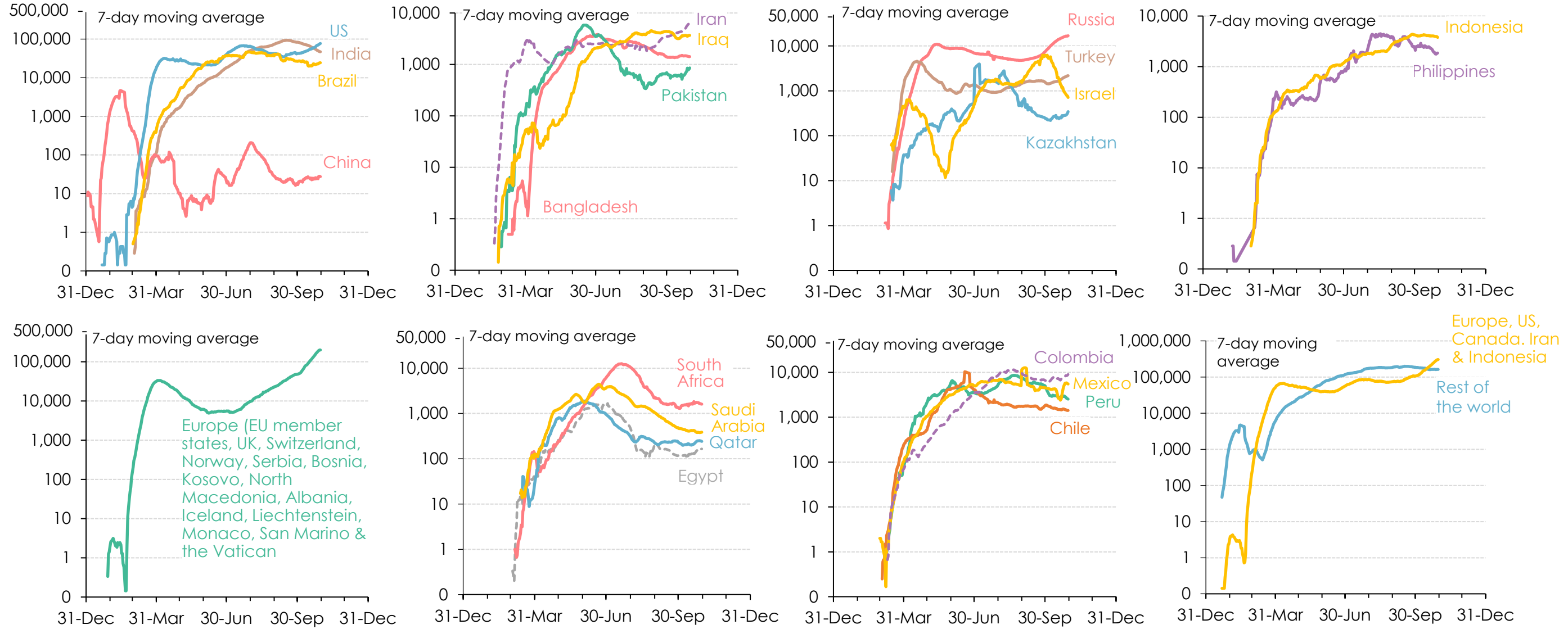
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 30th October. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

65% of new cases are now in Europe, 16% in the US and 5¾% in Russia, Iran & Indonesia; 10% are in India (where cases are now falling) & 5¼% in Brazil

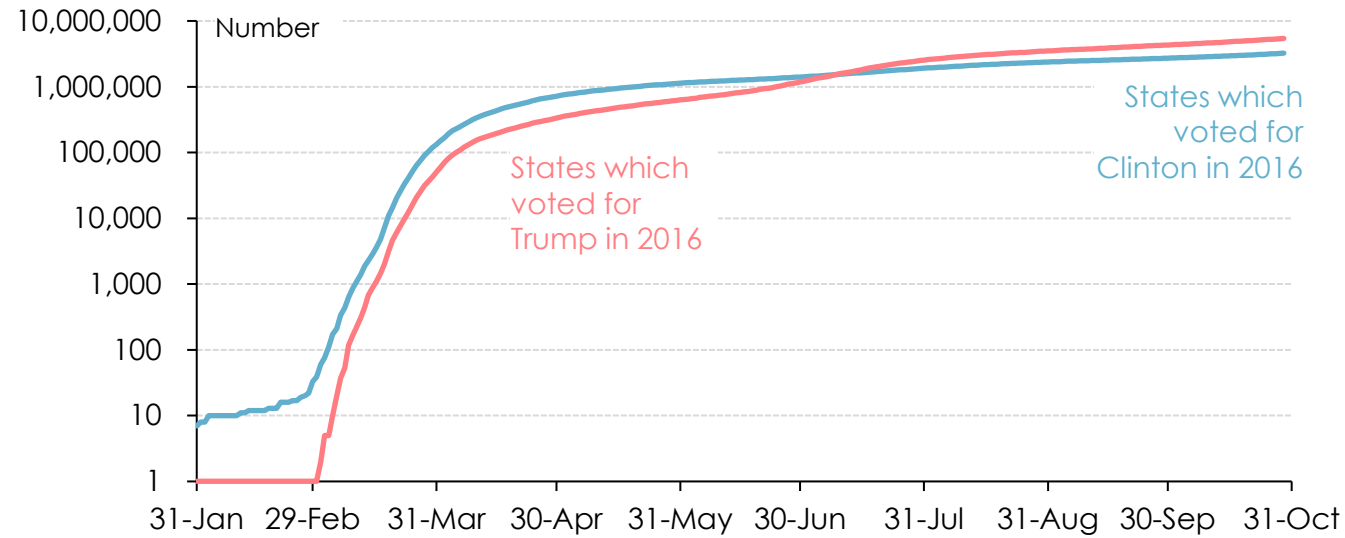
Daily new cases – selected countries with large populations and/or rapid growth in cases



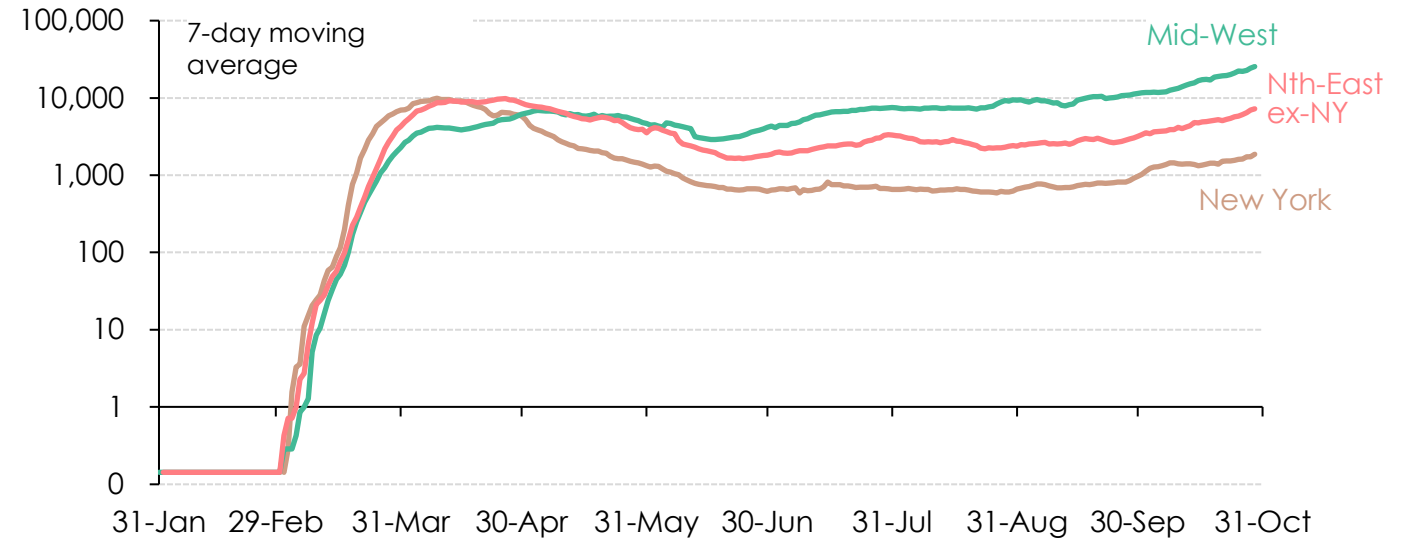
Note: All charts are on logarithmic scales. Data up to 30th October. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

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

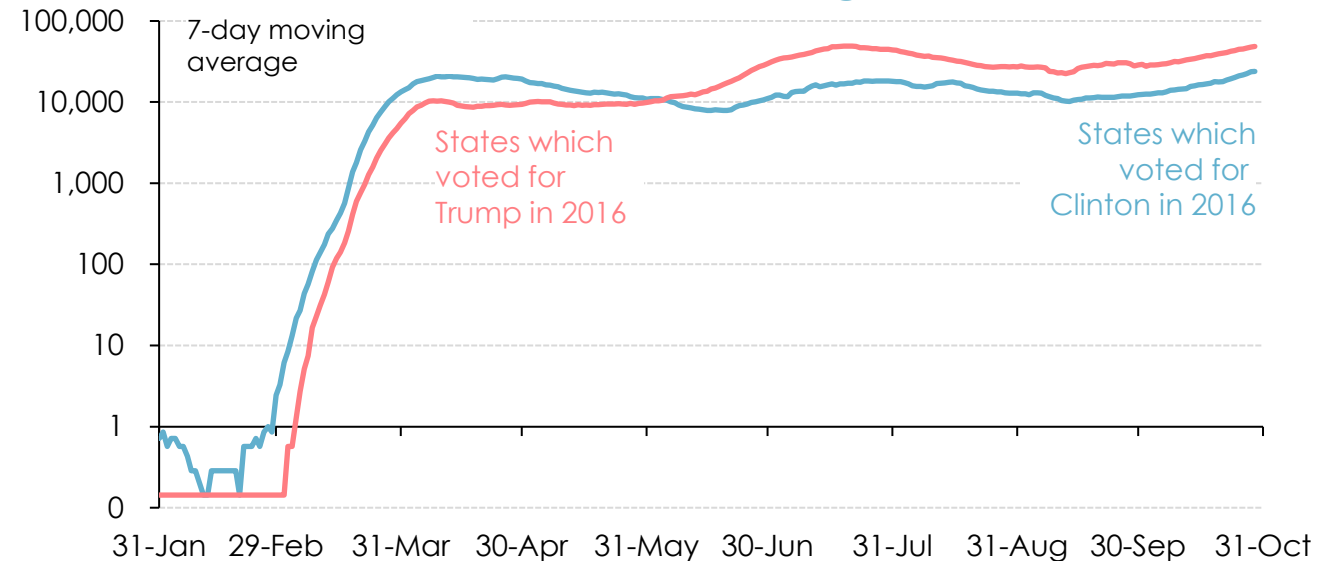
Cumulative cases, by 2016 Electoral College vote



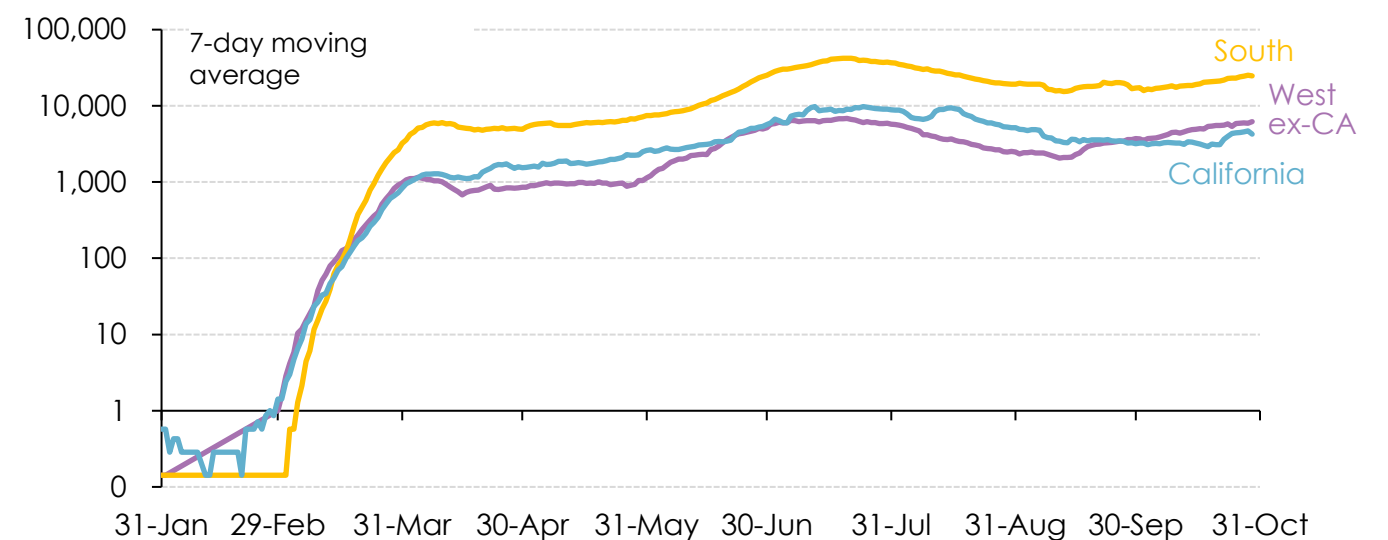
New cases – Mid-West and North-East



New cases, by 2016 Electoral College vote



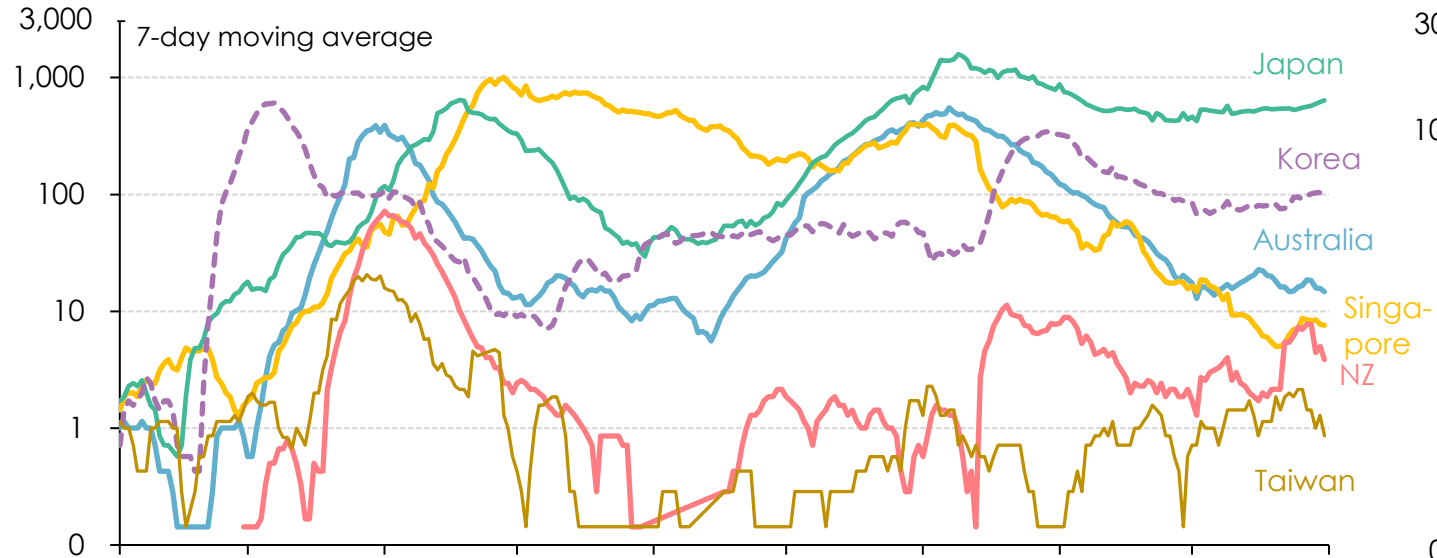
New cases – South and West



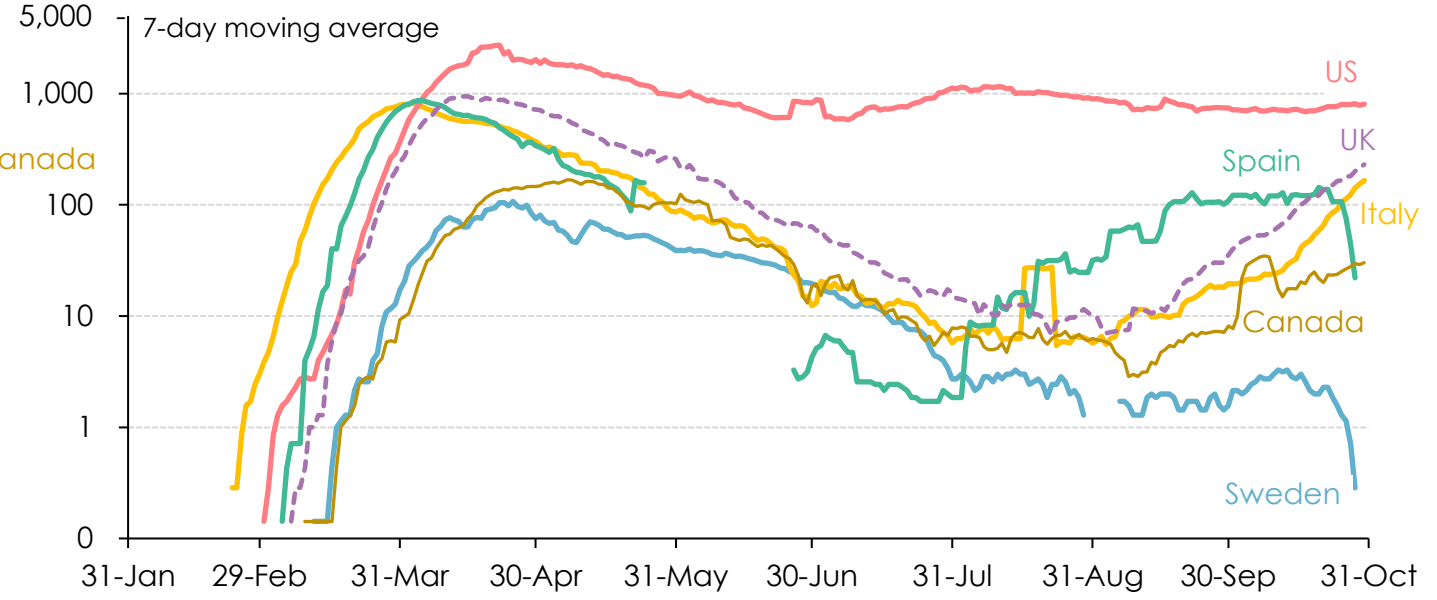
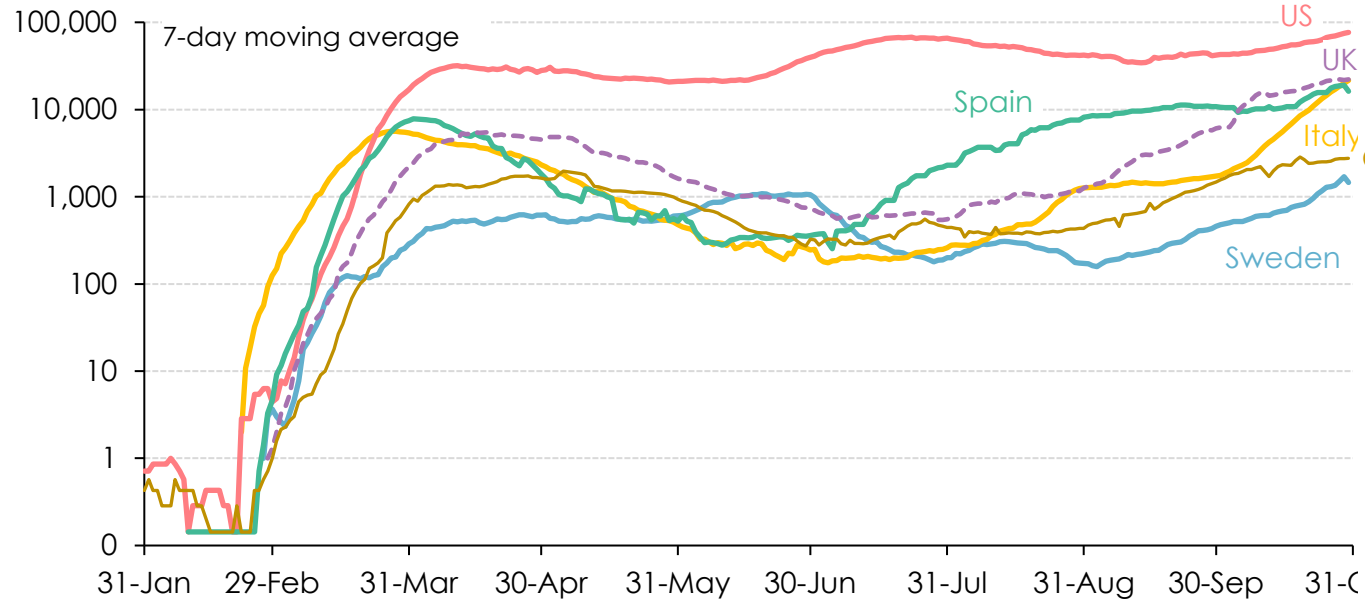
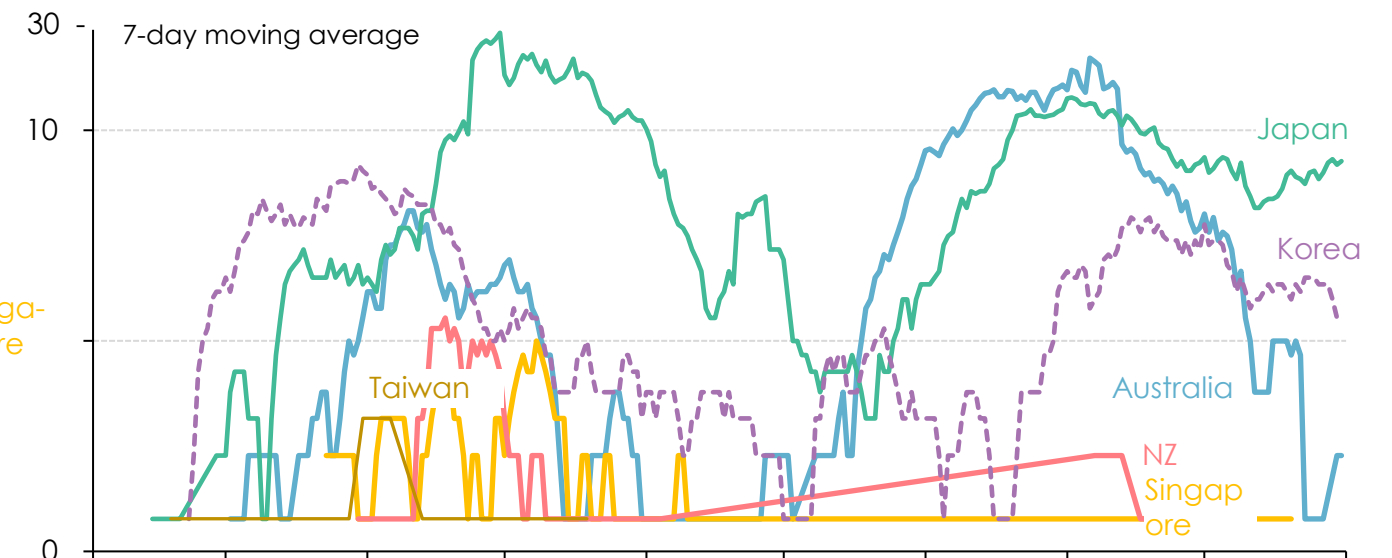
Note: All charts are on logarithmic scale. Cases for Maine (whose Electoral College votes are awarded separately by each of its two Congressional districts) are split by how each of its 16 counties voted in 2016. Sources: [USAfacts](#); [Centers for Disease Control and Prevention](#); Corinna. Latest data are for 29th October. [Return to "What's New"](#).

New case numbers are rising in a growing number of countries (though they are declining in Australia), though deaths remain below previous peaks

Daily new cases



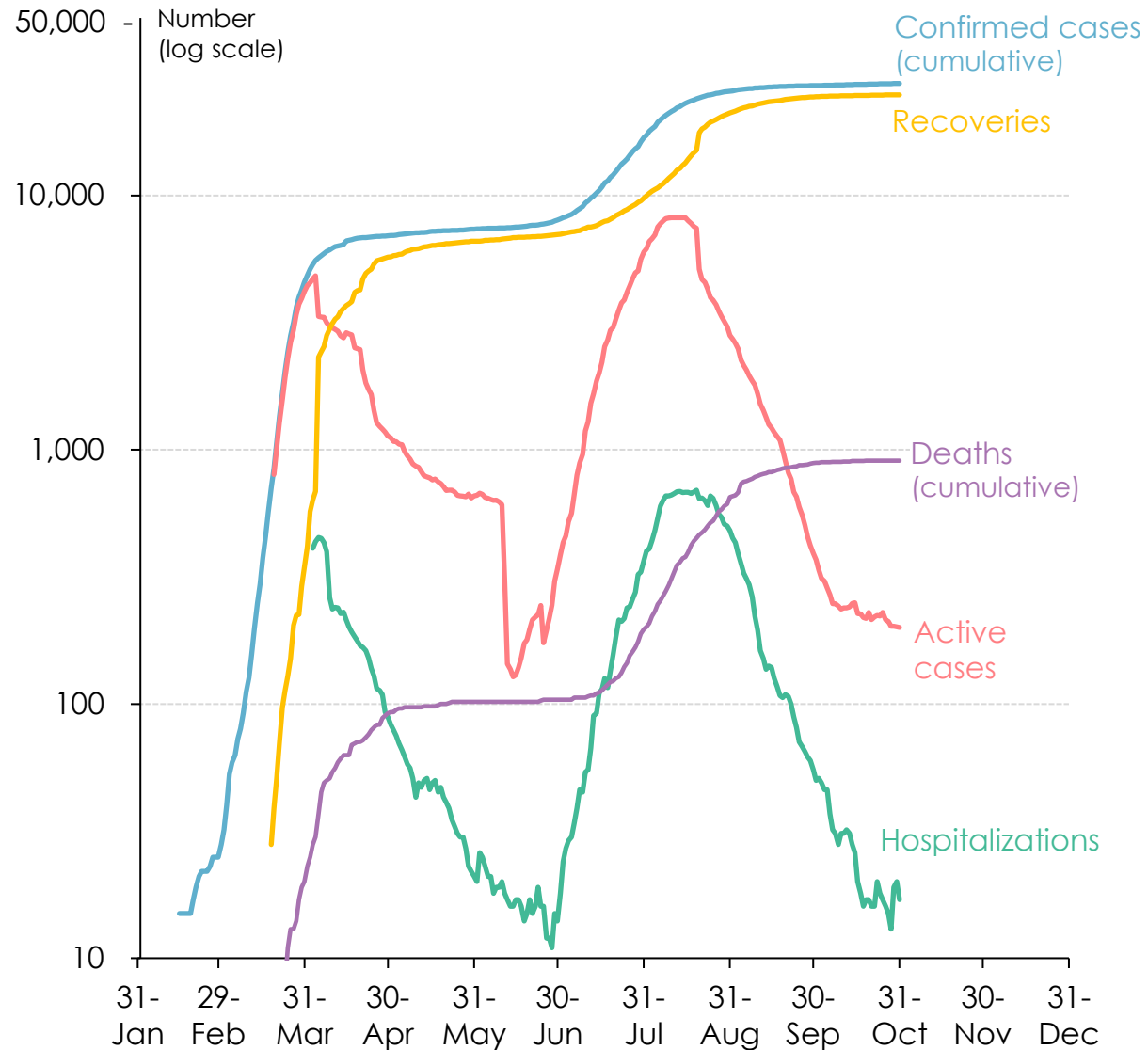
Daily new deaths



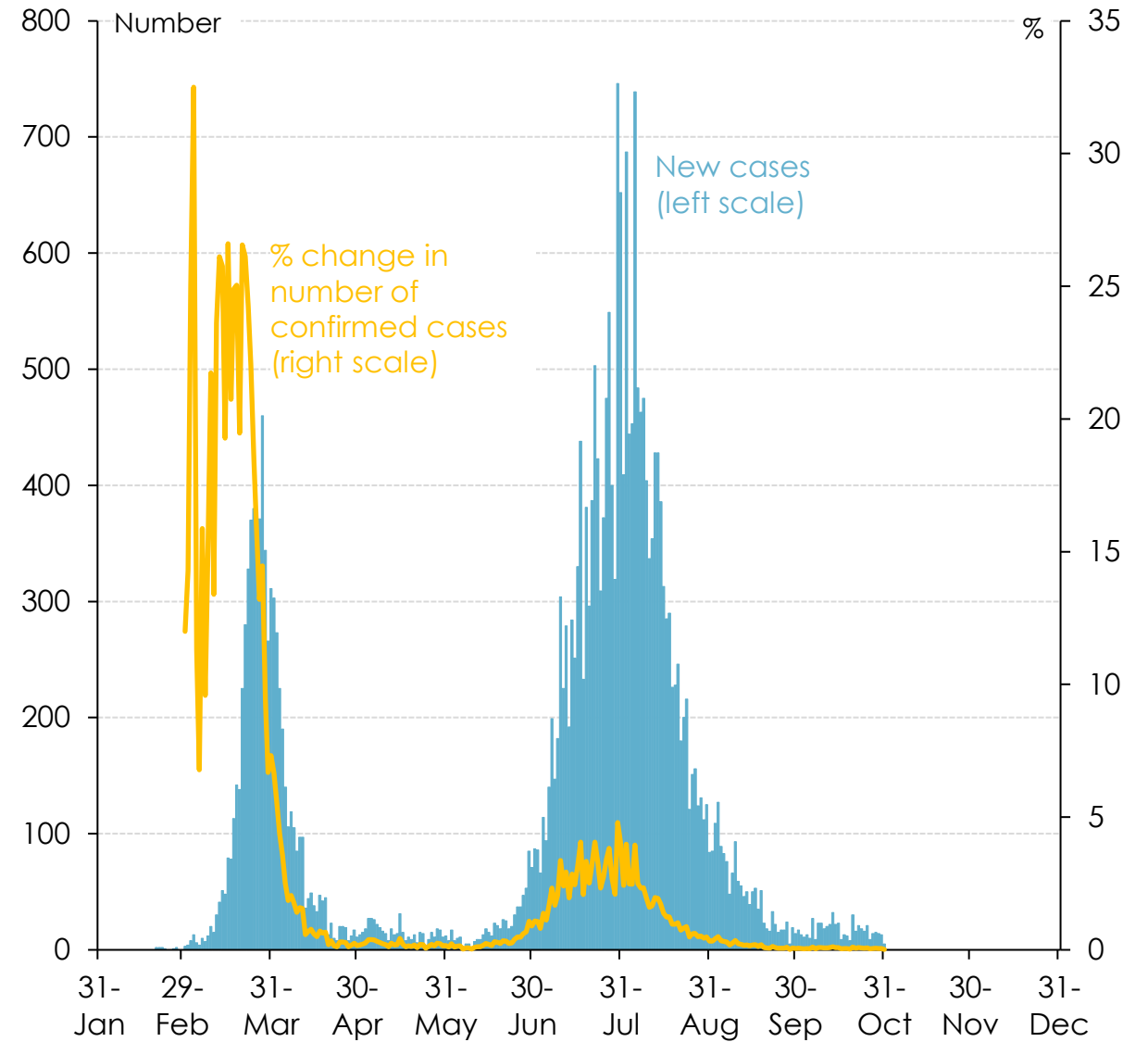
Note: All charts are on logarithmic scales. Data for new deaths in Spain between 25th May and 19th June not shown because of distortions caused by reclassifications on those dates. Data up to 30th October. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

Australia's 'second wave' of infections is now over, with fewer than 100 new cases this week for the first time since mid-June and only 200 active cases

Cases, recoveries, hospitalizations and deaths

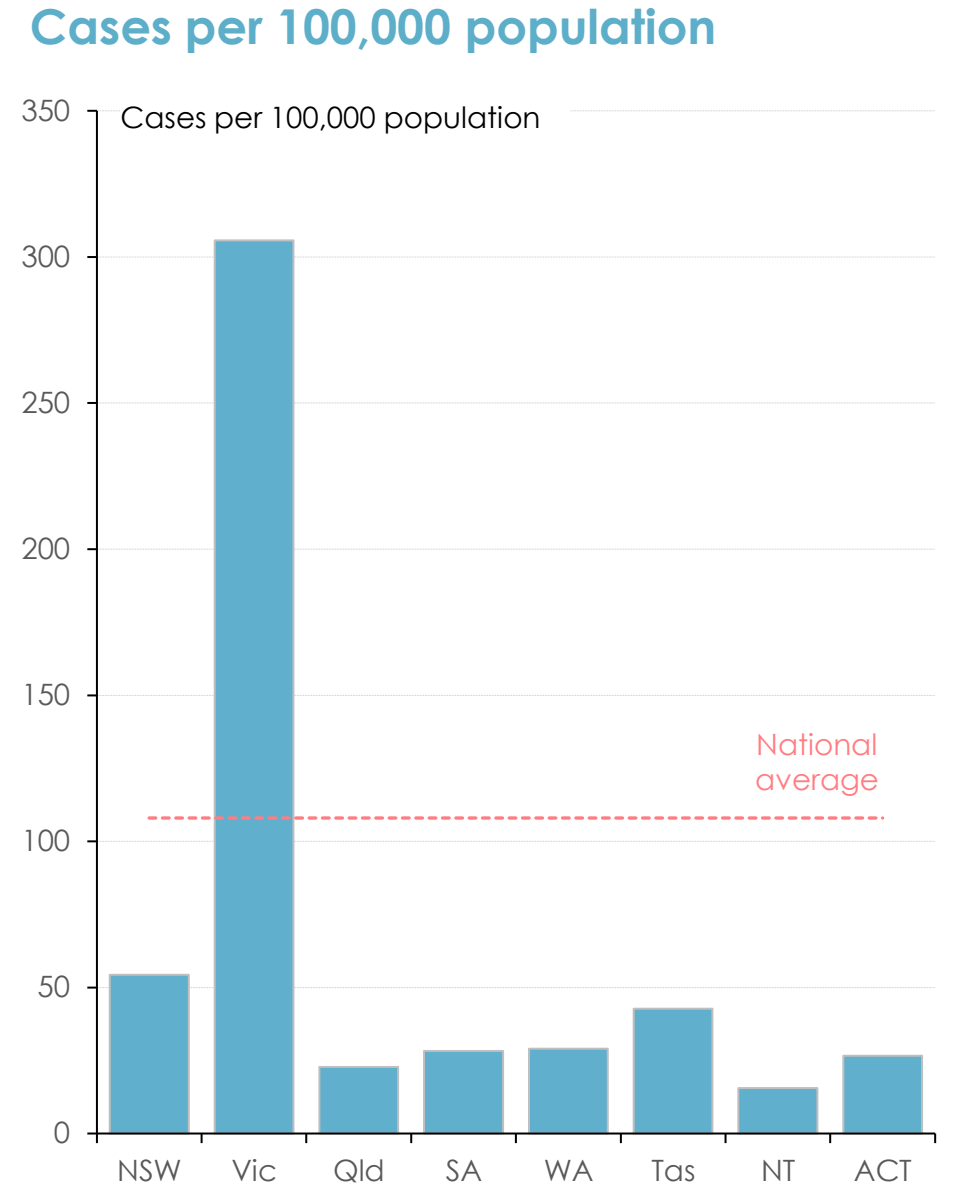
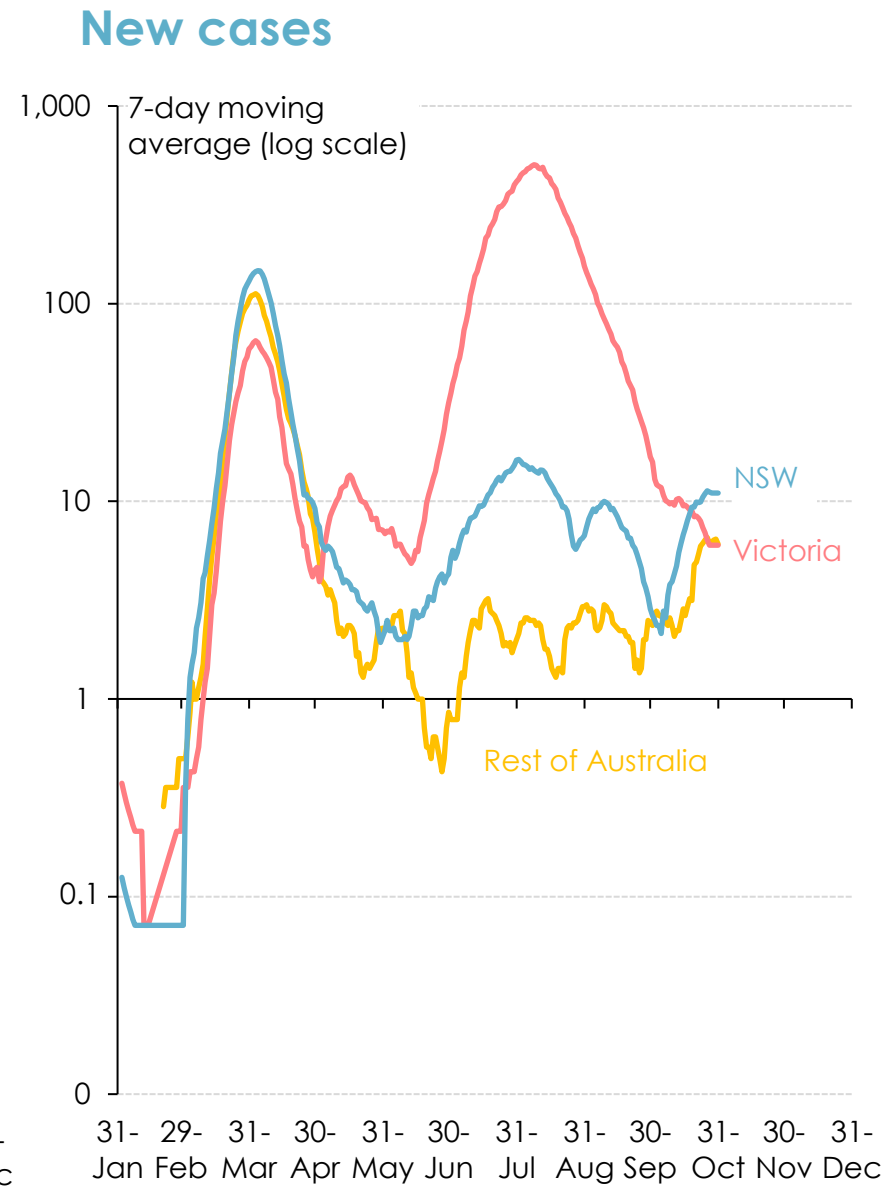
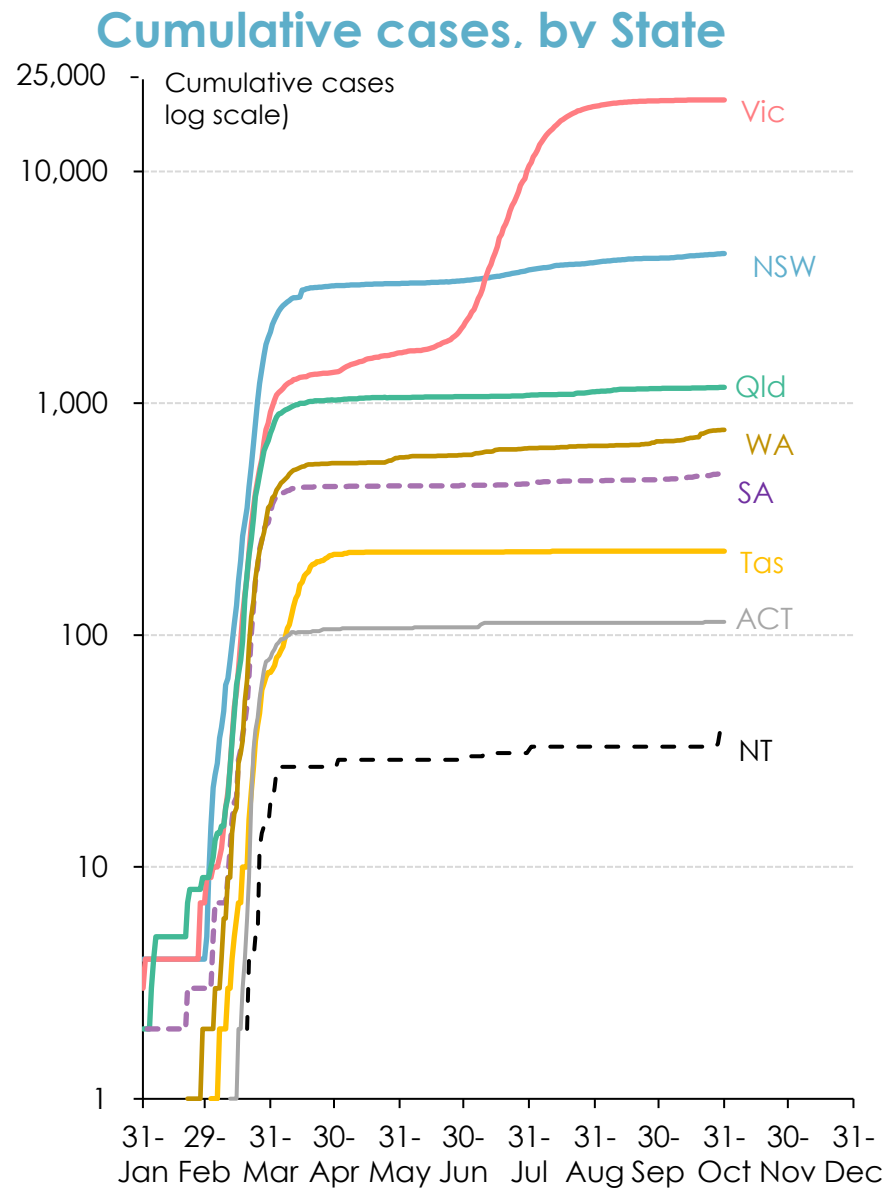


New cases



Note: Data up to 31st October. Source: covid19data.com.au. [Return to "What's New"](#).

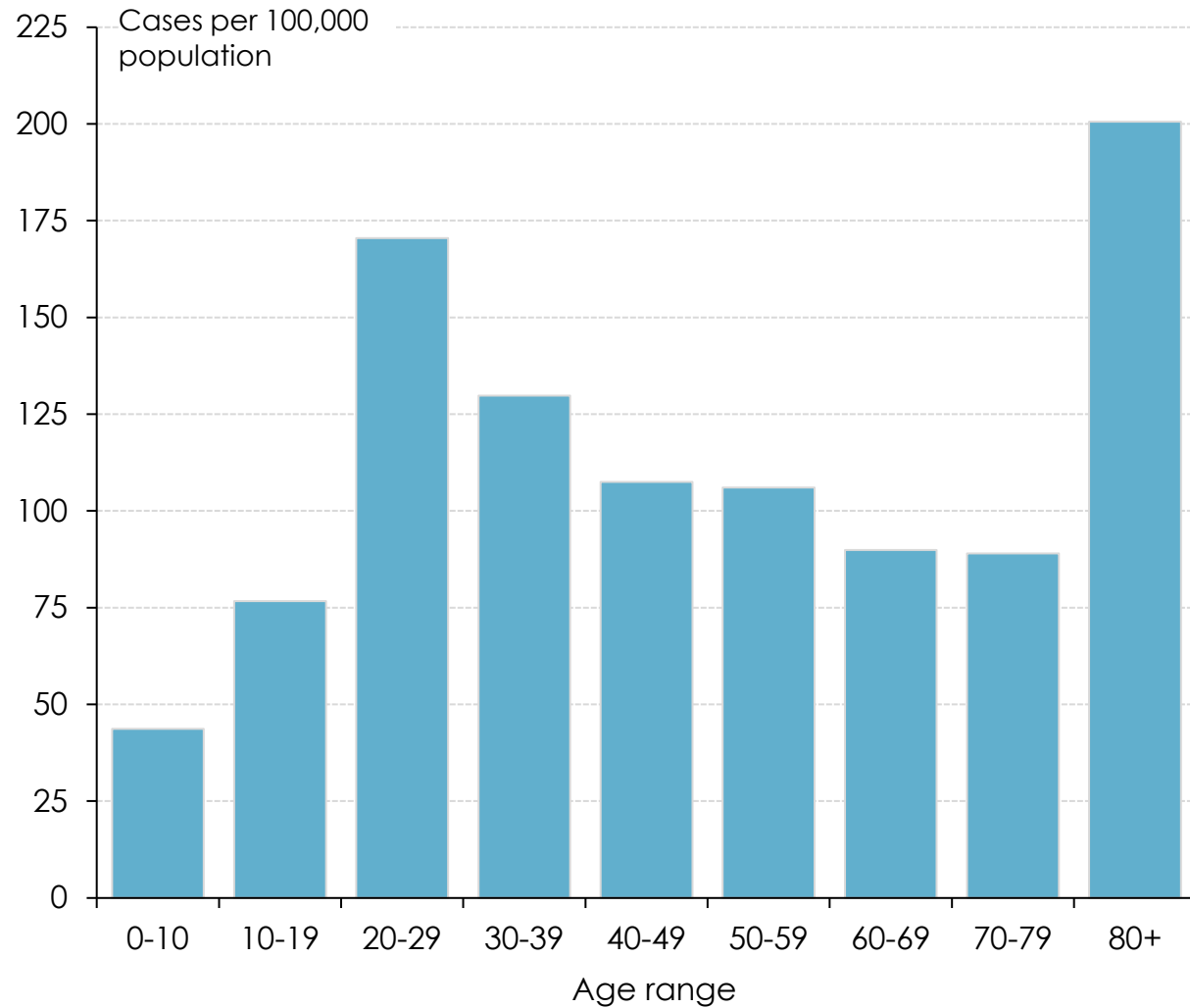
Victoria's new cases have declined to an average of 6 a day (from a peak of over 500 in early August) – that's now less than NSW's 11



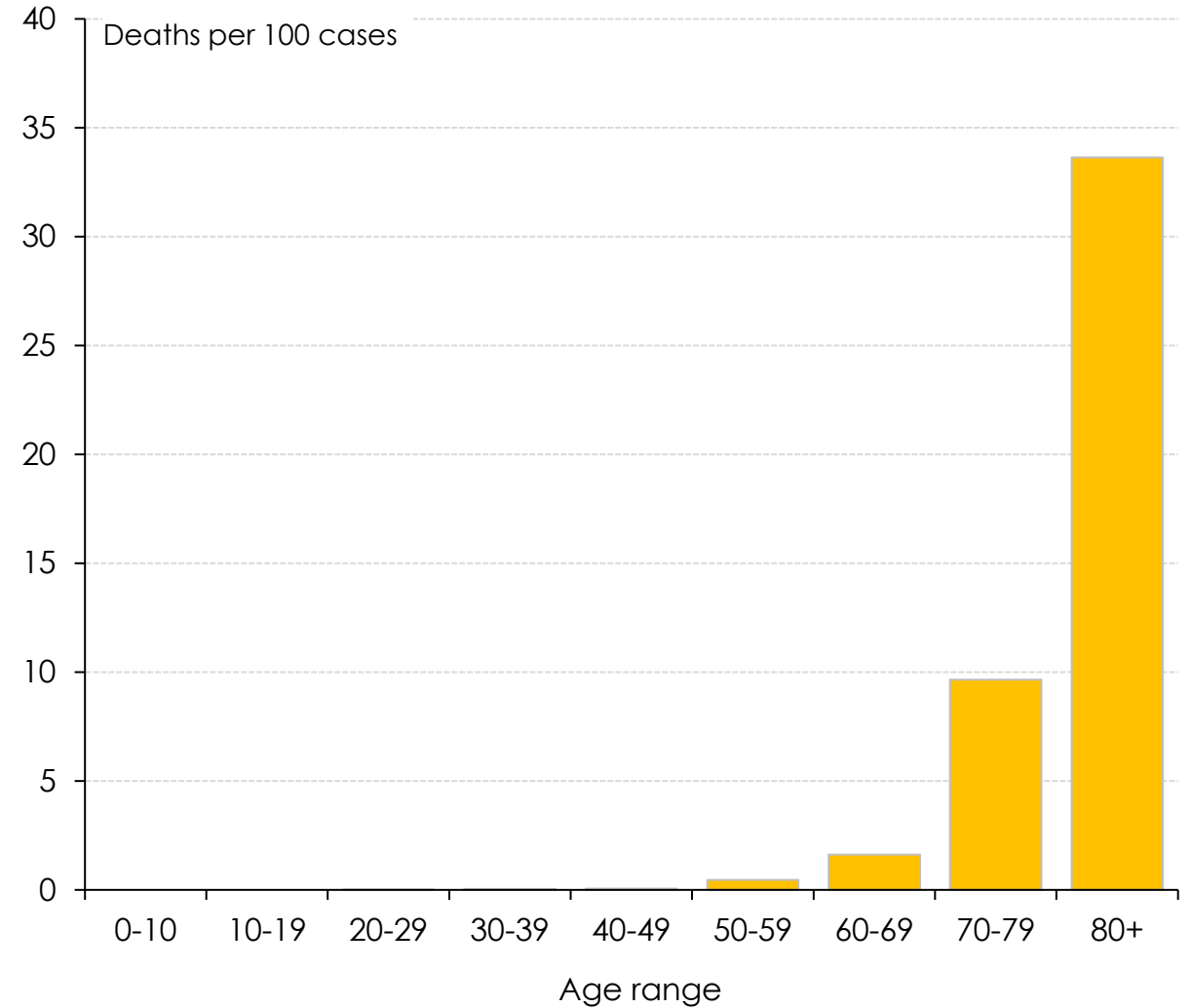
Note: Data up to 31st October. Source : covid19data.com.au. [Return to "What's New"](#).

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

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



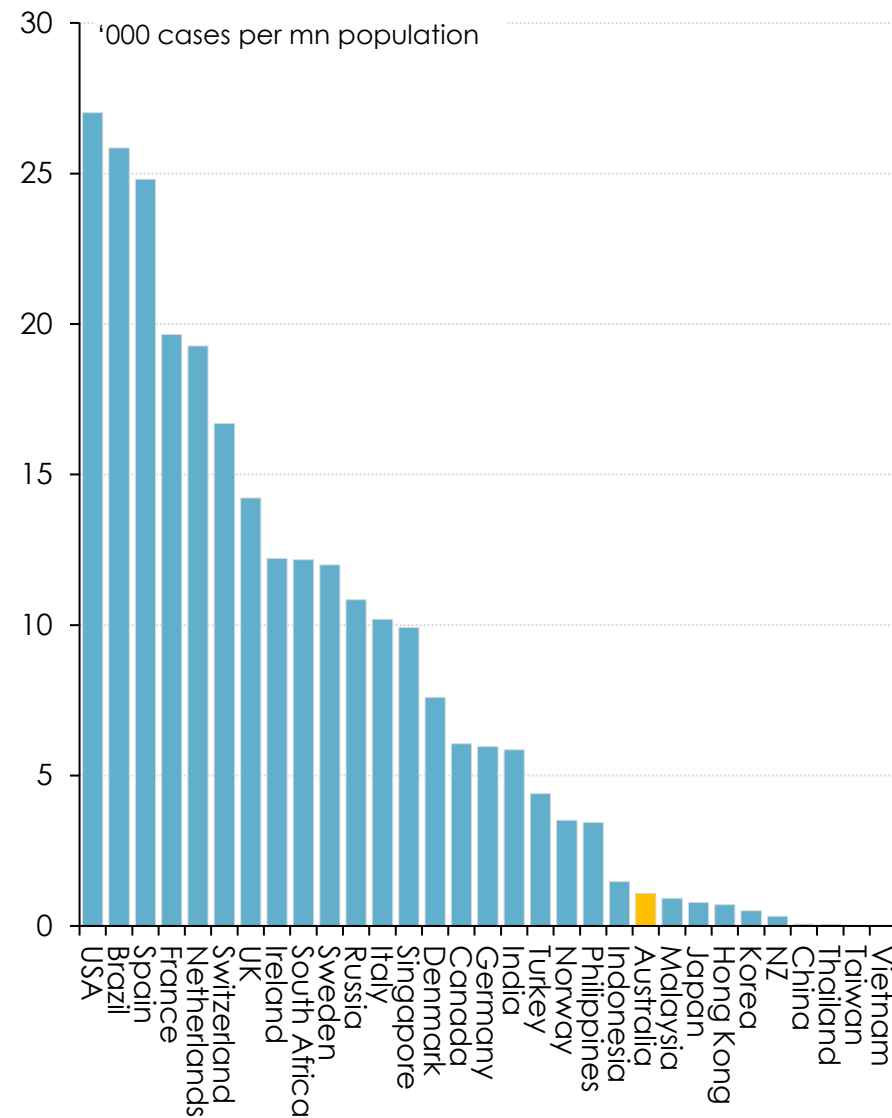
Deaths from Covid-19 per 100 cases, by age group



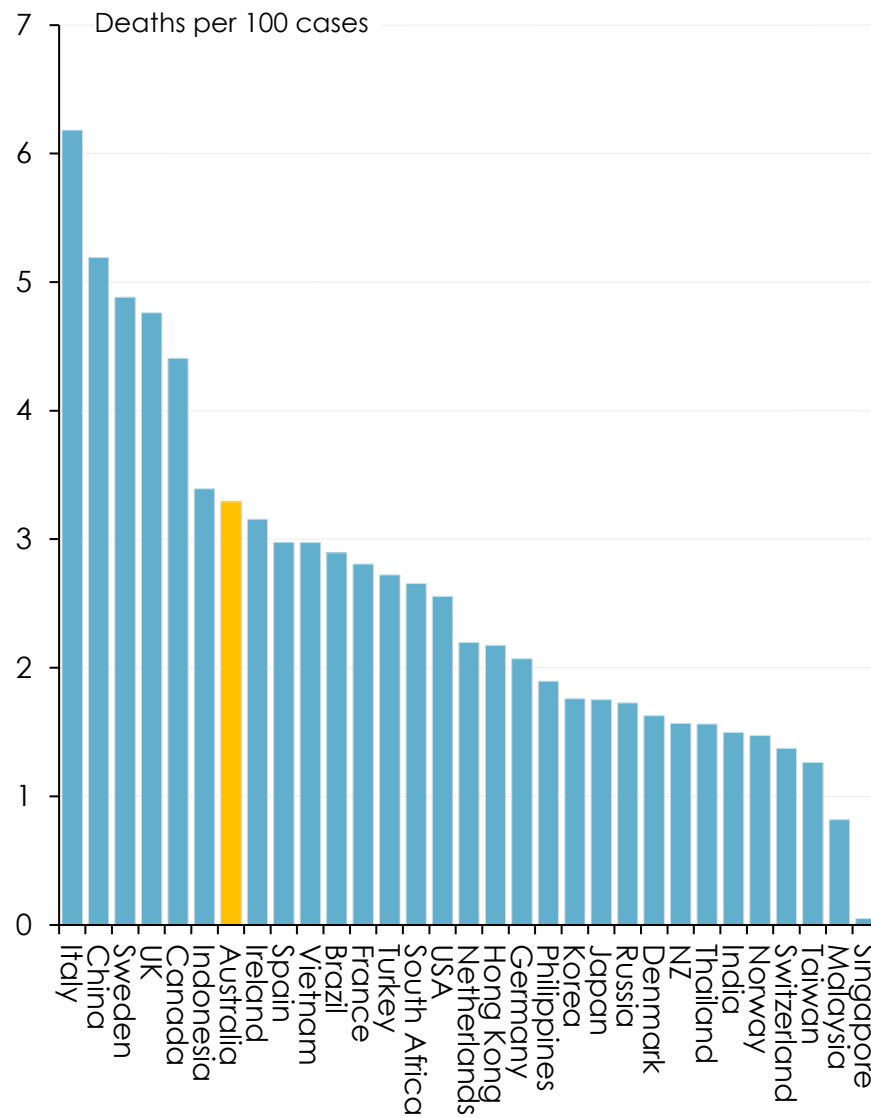
Note: Data up to 29th October. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna. [Return to "What's New"](#).

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

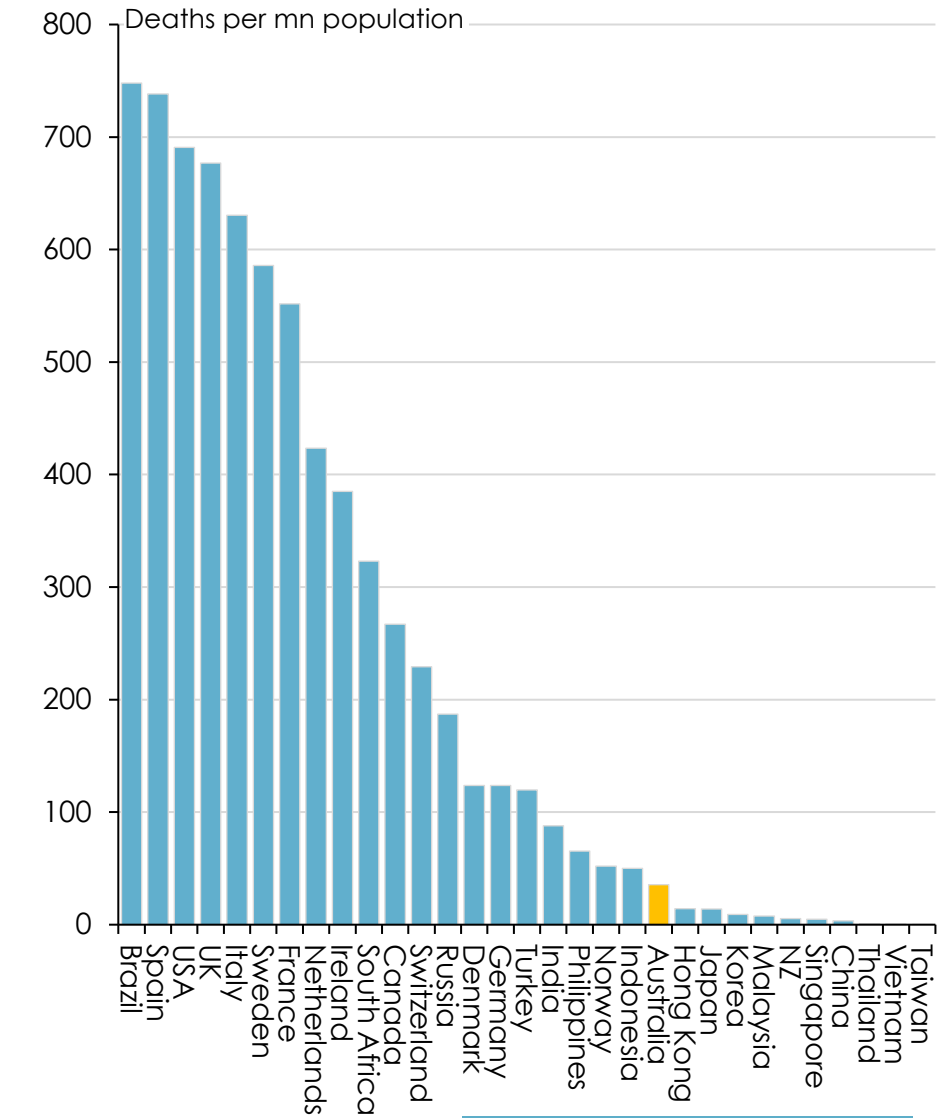
Apparent infection rate



Apparent fatality rate



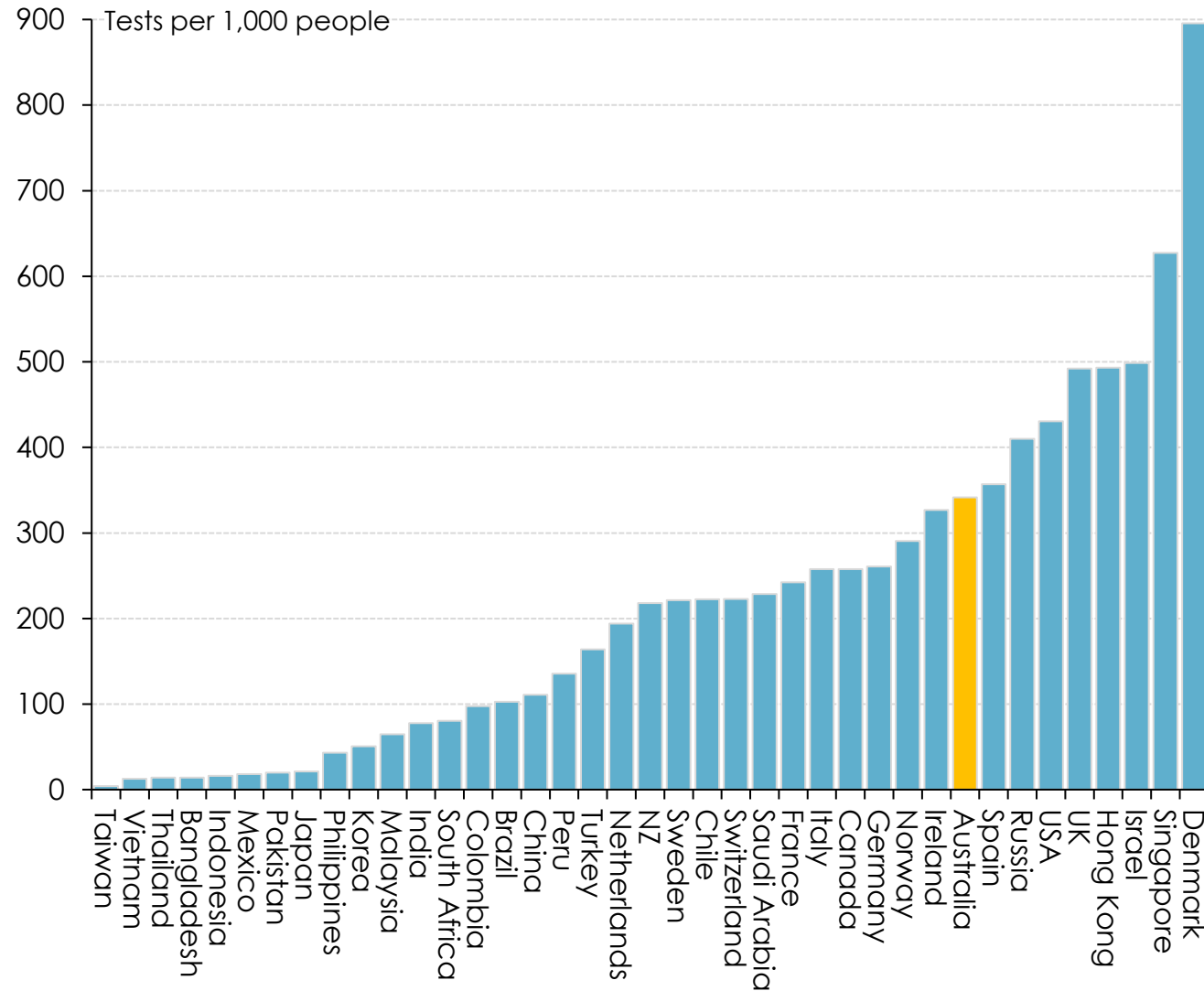
Death rate



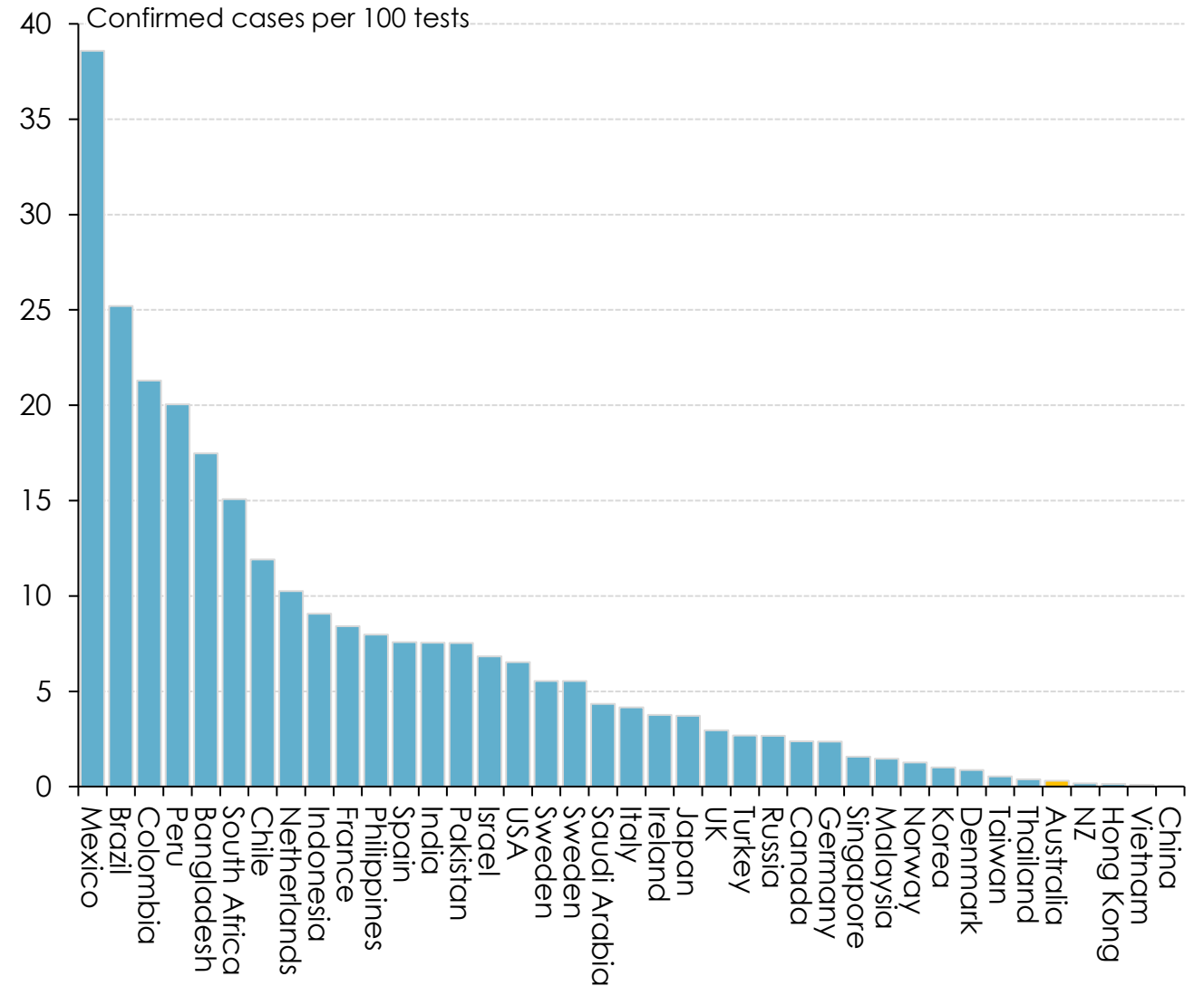
Note: Data up 30th October. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

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



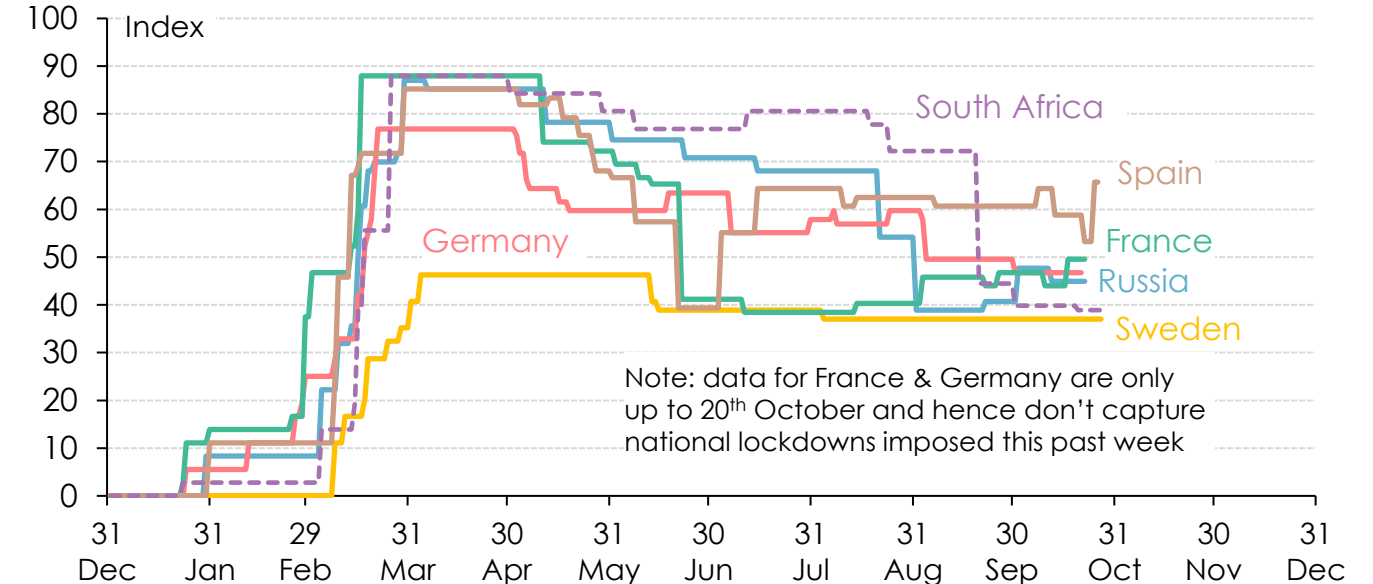
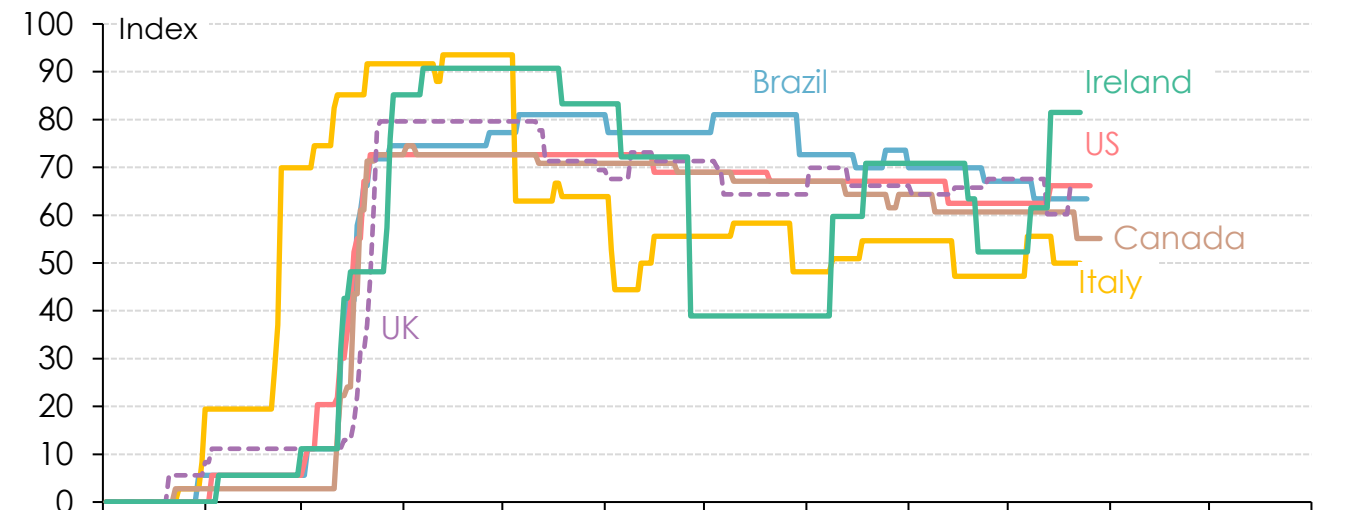
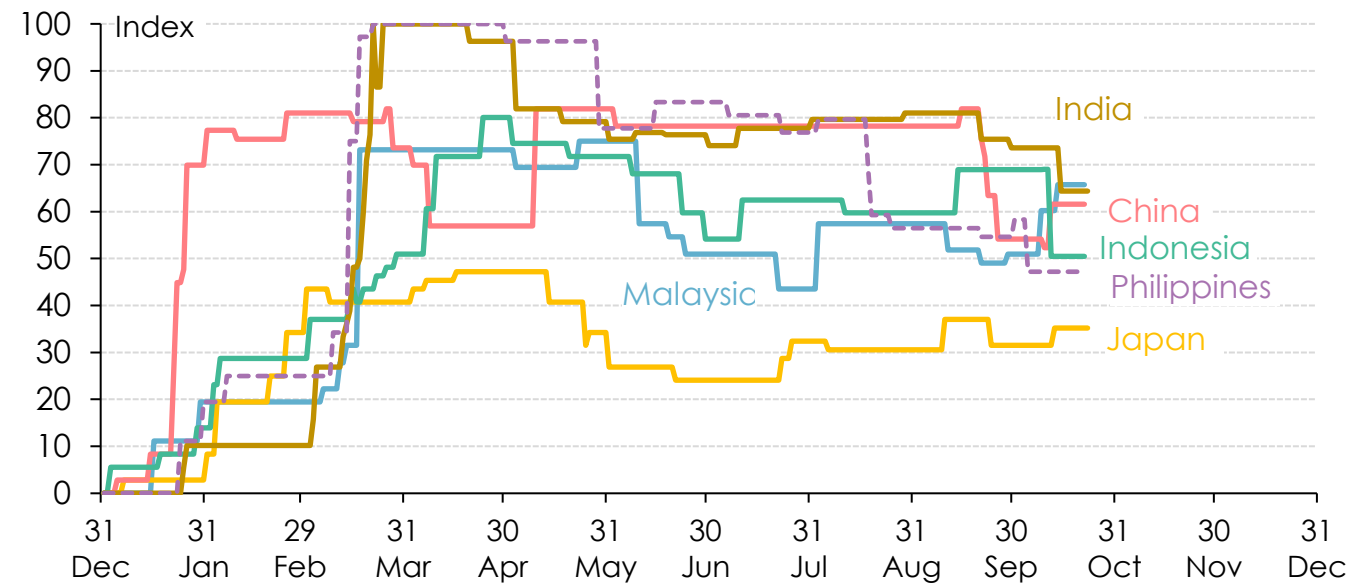
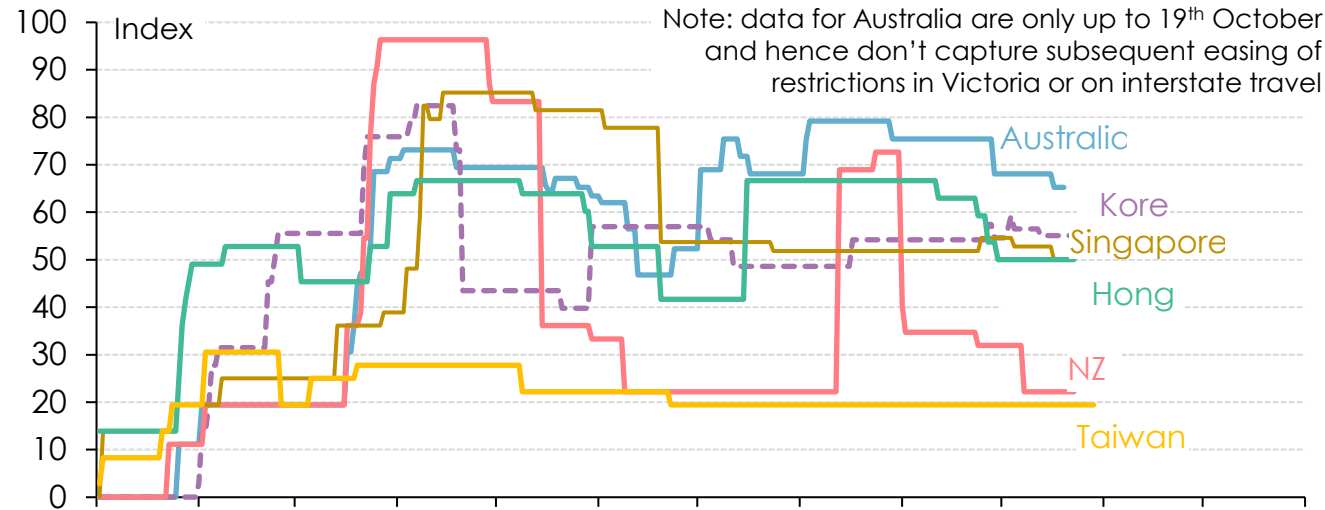
Confirmed cases per 100 tests



Note: Data up to 30th 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 are being re-imposed across Europe, though not (so far) in the US or Canada, and are being eased across most of Asia

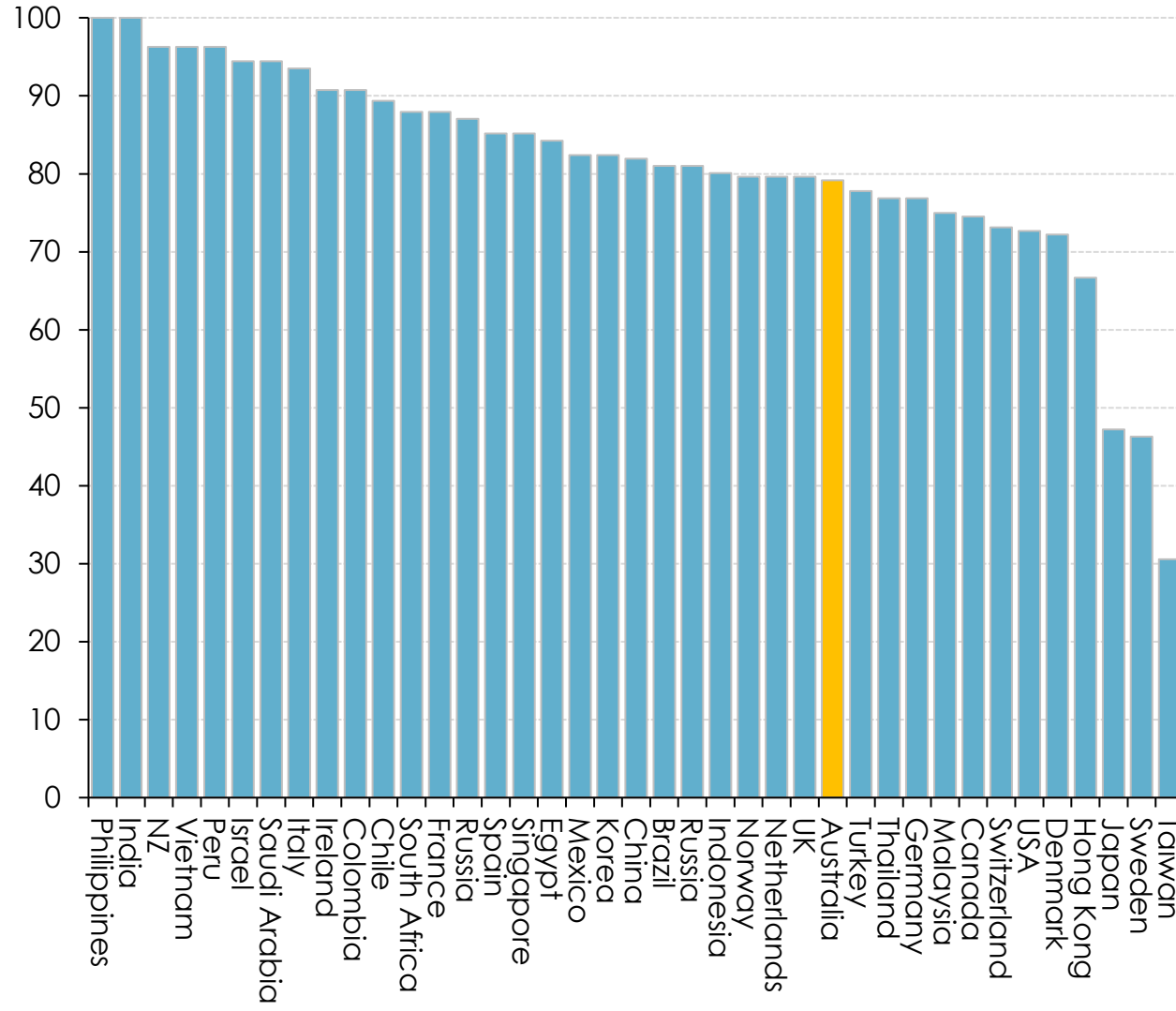
Timing and severity of government restrictions on movement and gathering of people



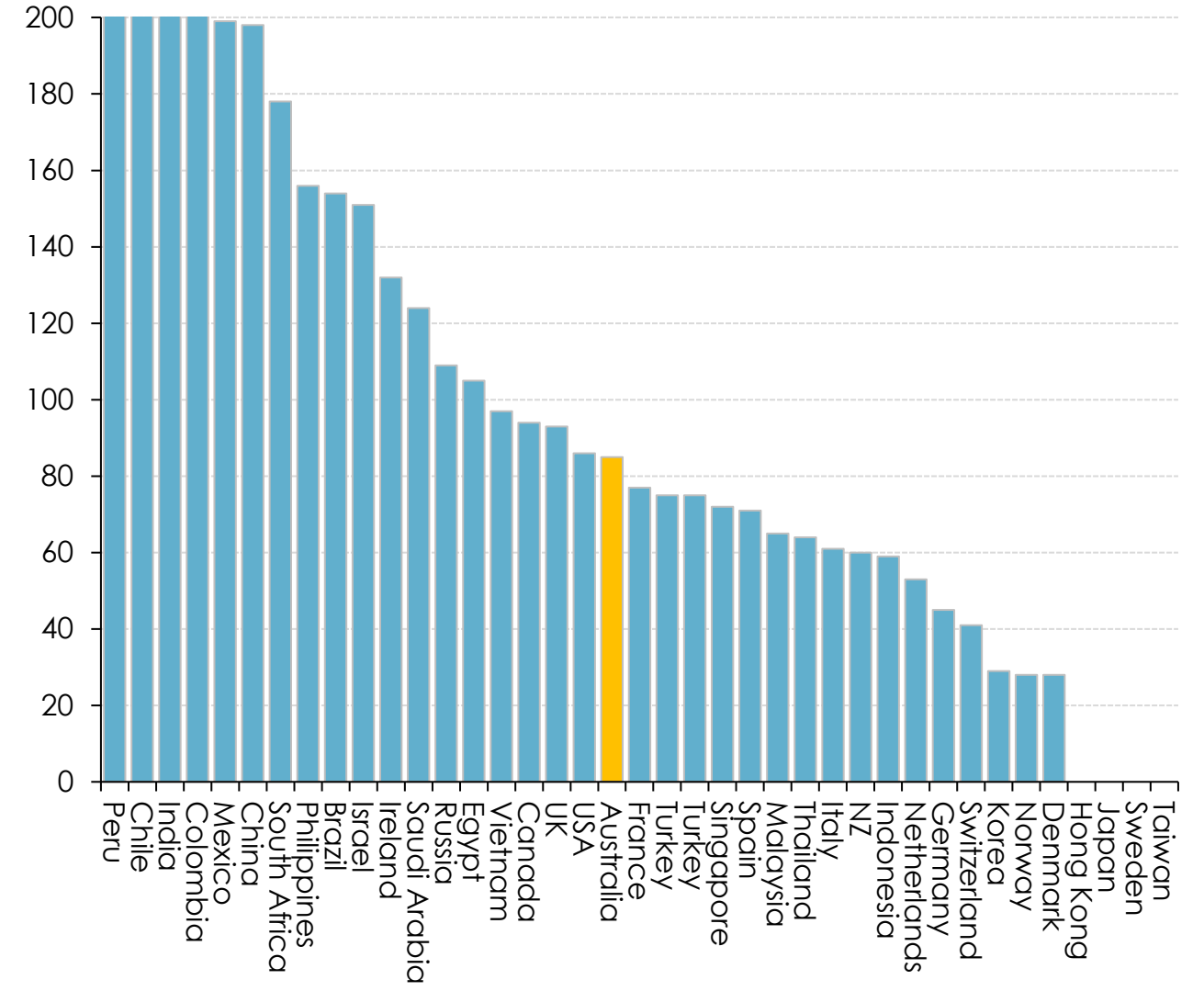
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 19th – 28th 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

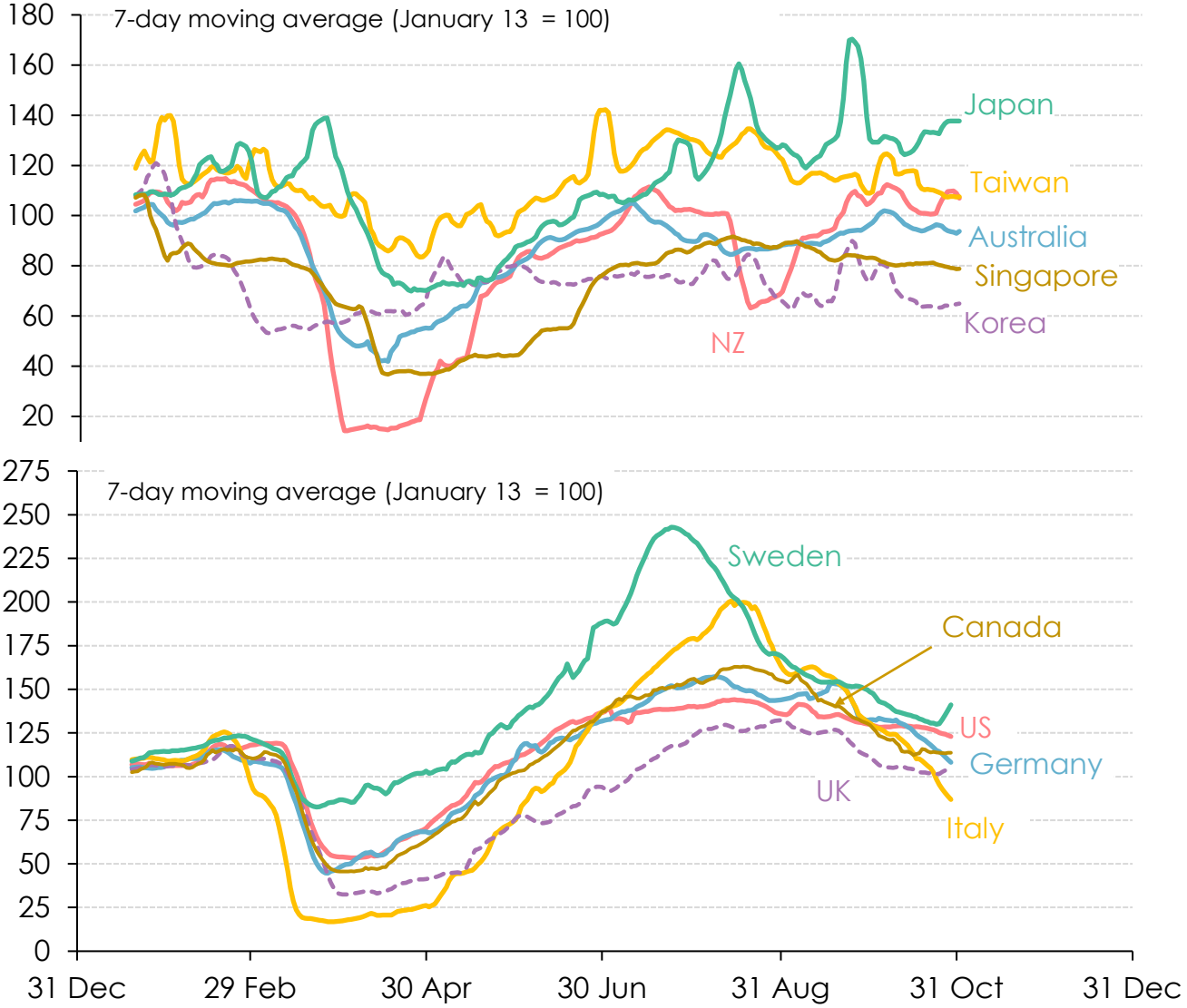


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 19th – 28th October.

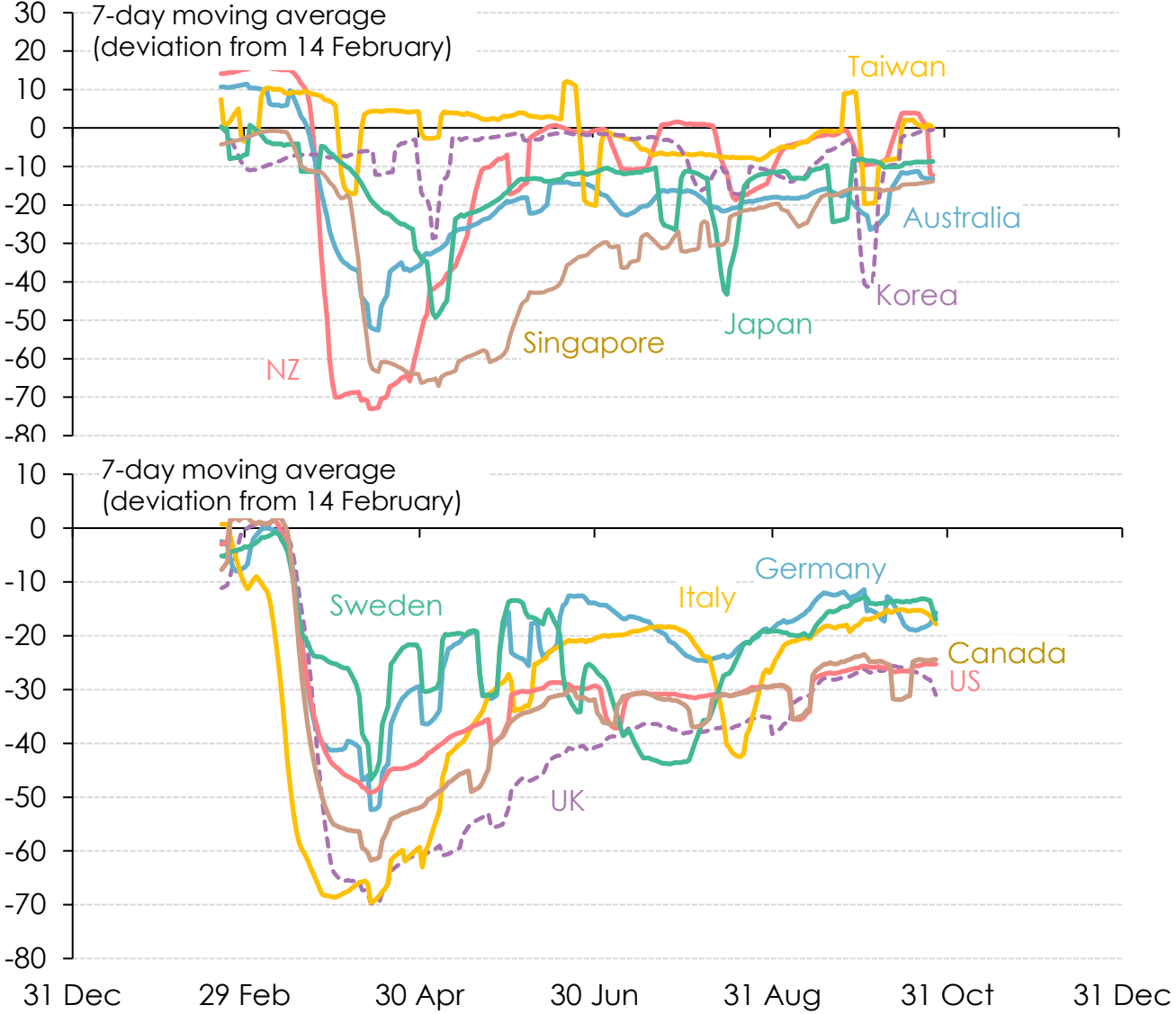
[Return to "What's New"](#).

Mobility trends clearly show the slowdown in Europe, and to a lesser extent in the US & Canada, as the 'second wave' spreads

Time spent driving



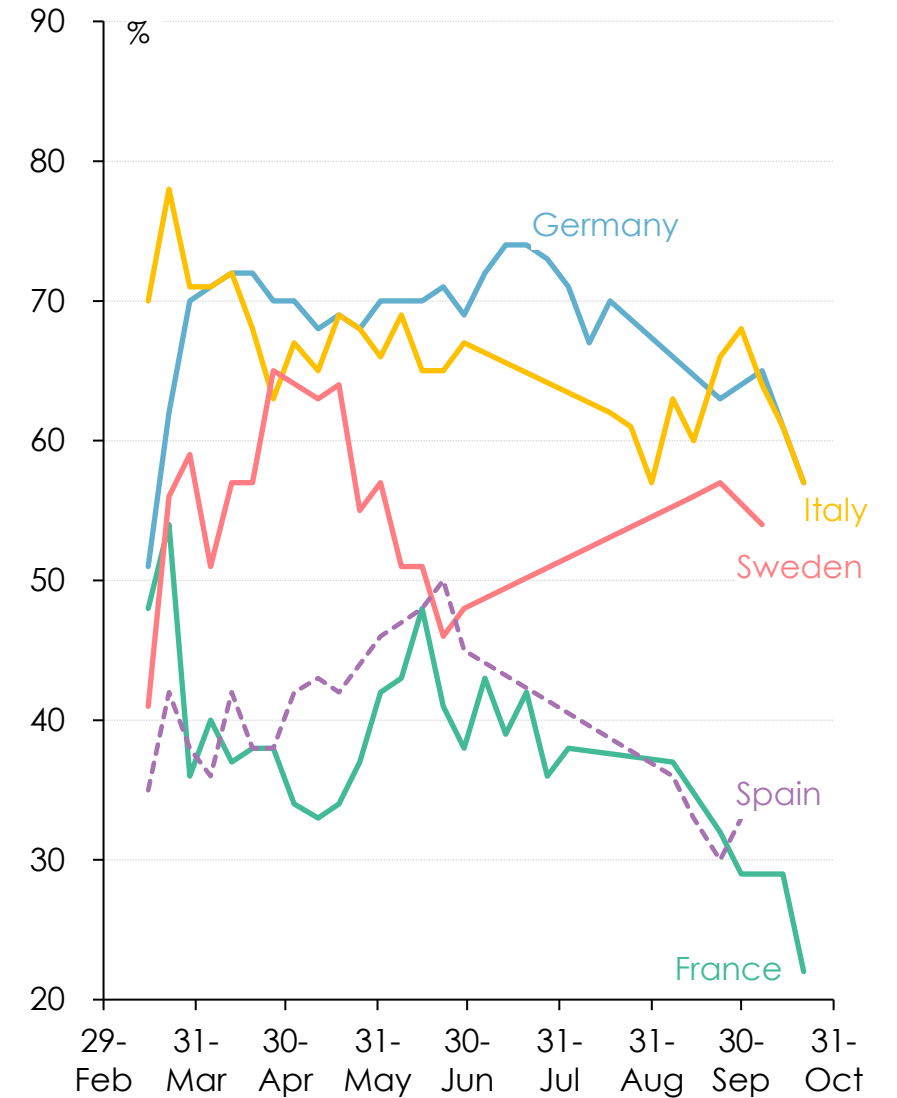
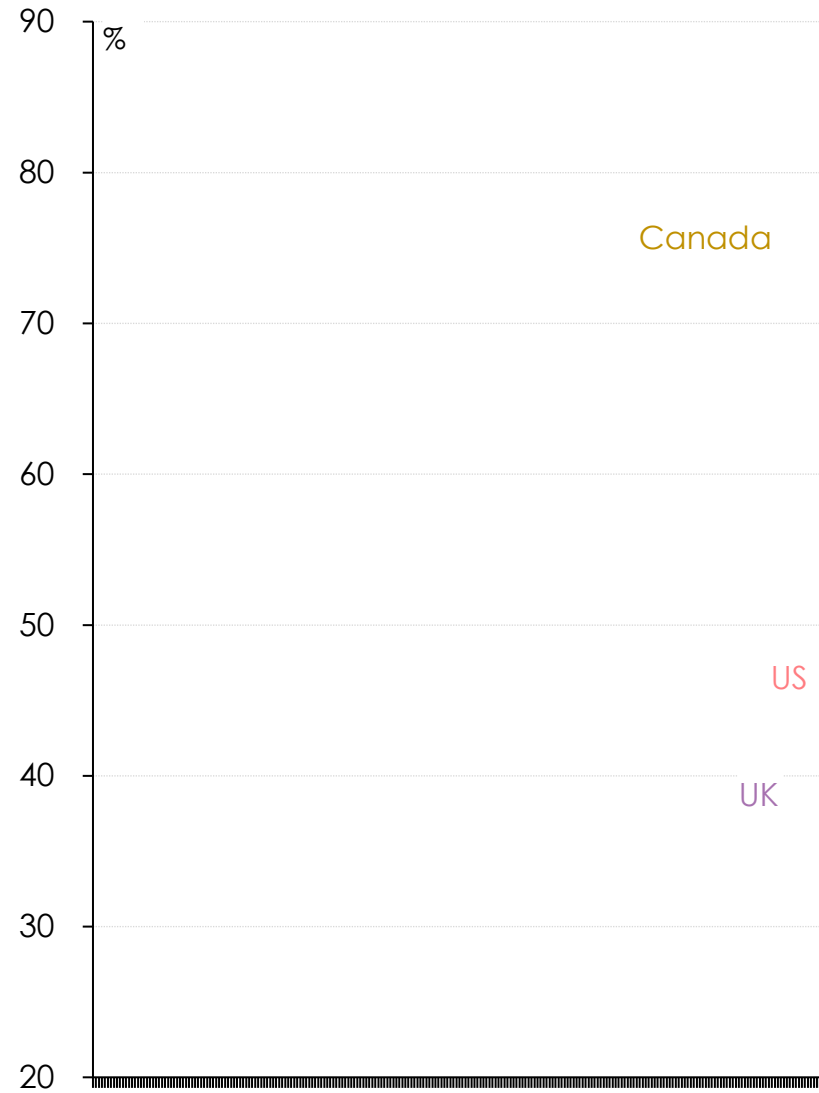
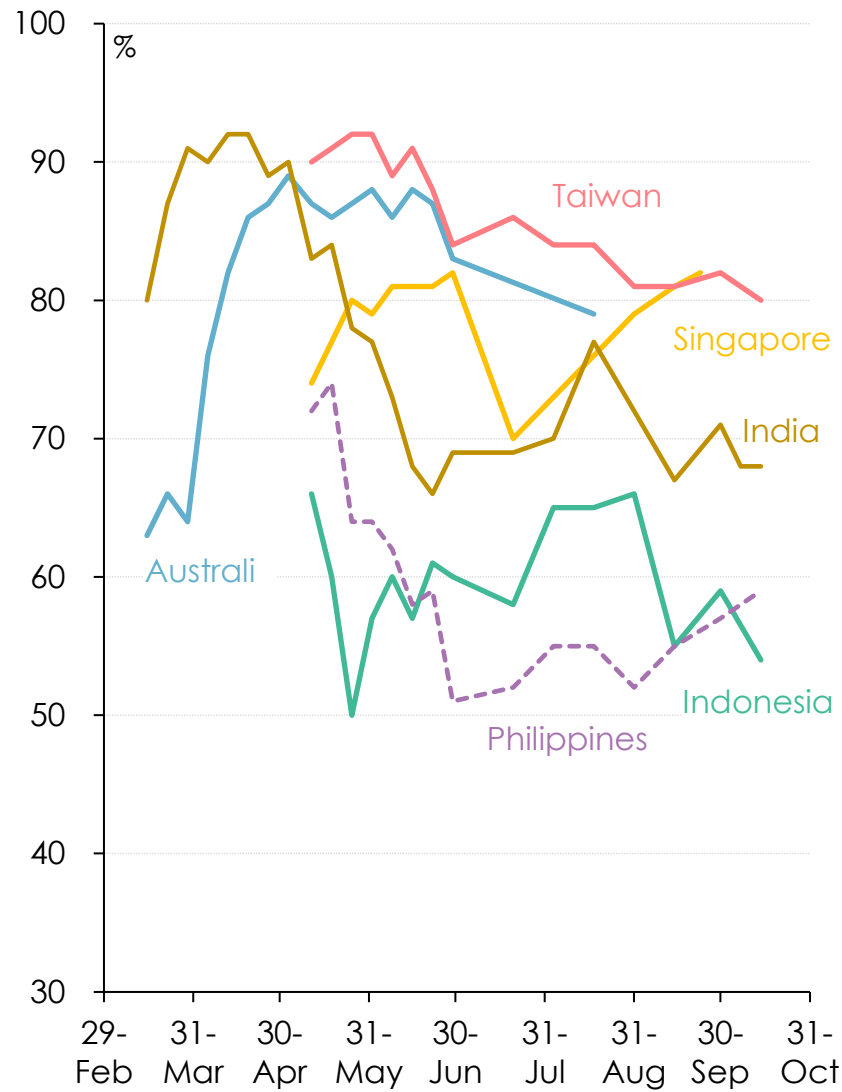
Time spent in workplaces



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 29th October); [Google Community Mobility Reports](#) (data up to 27th October). [Return to "What's New"](#).

Voters in most Asian countries, Canada, Germany and Italy approve of their governments' handling of the pandemic – not so the US, UK or France

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

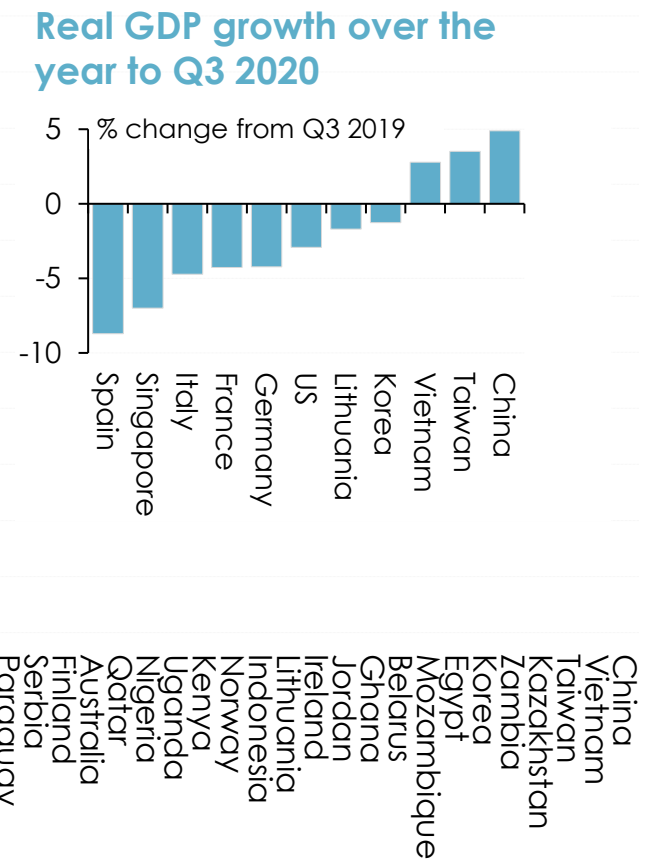
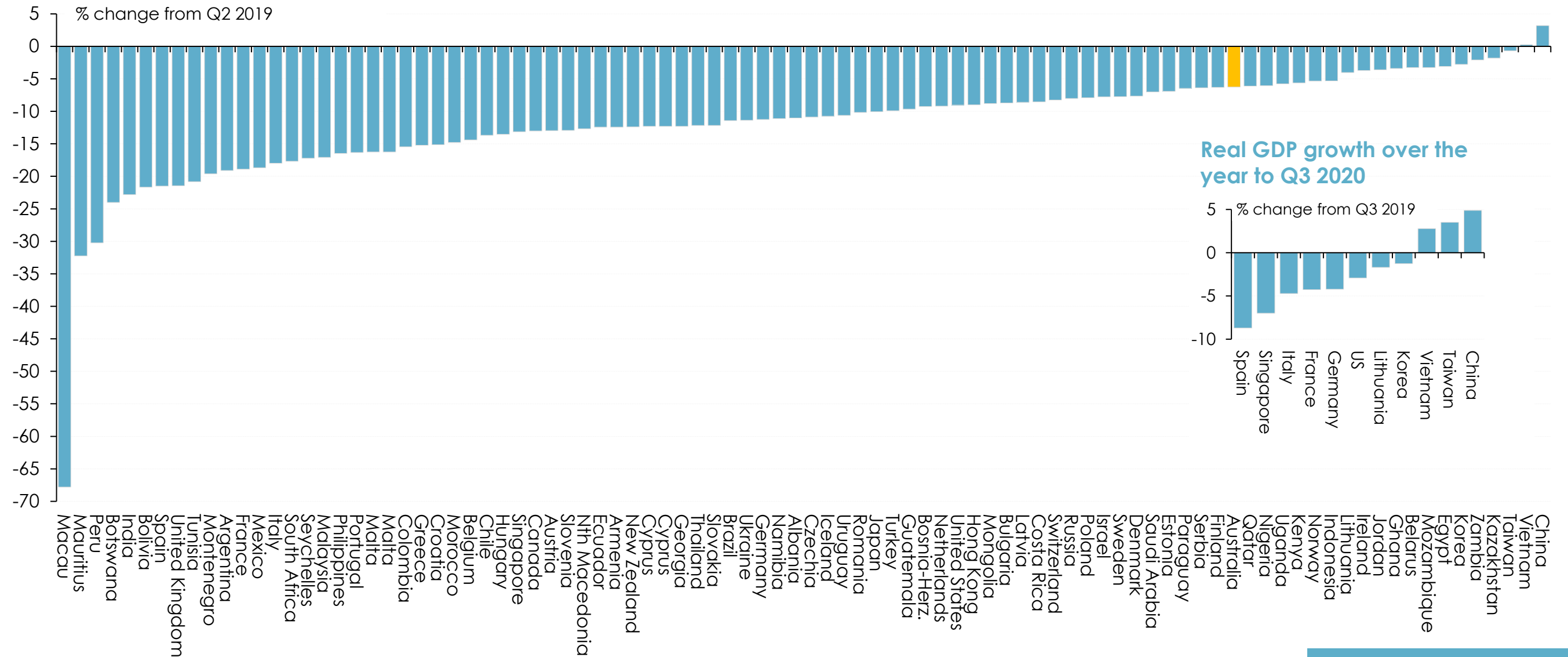


Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

The world

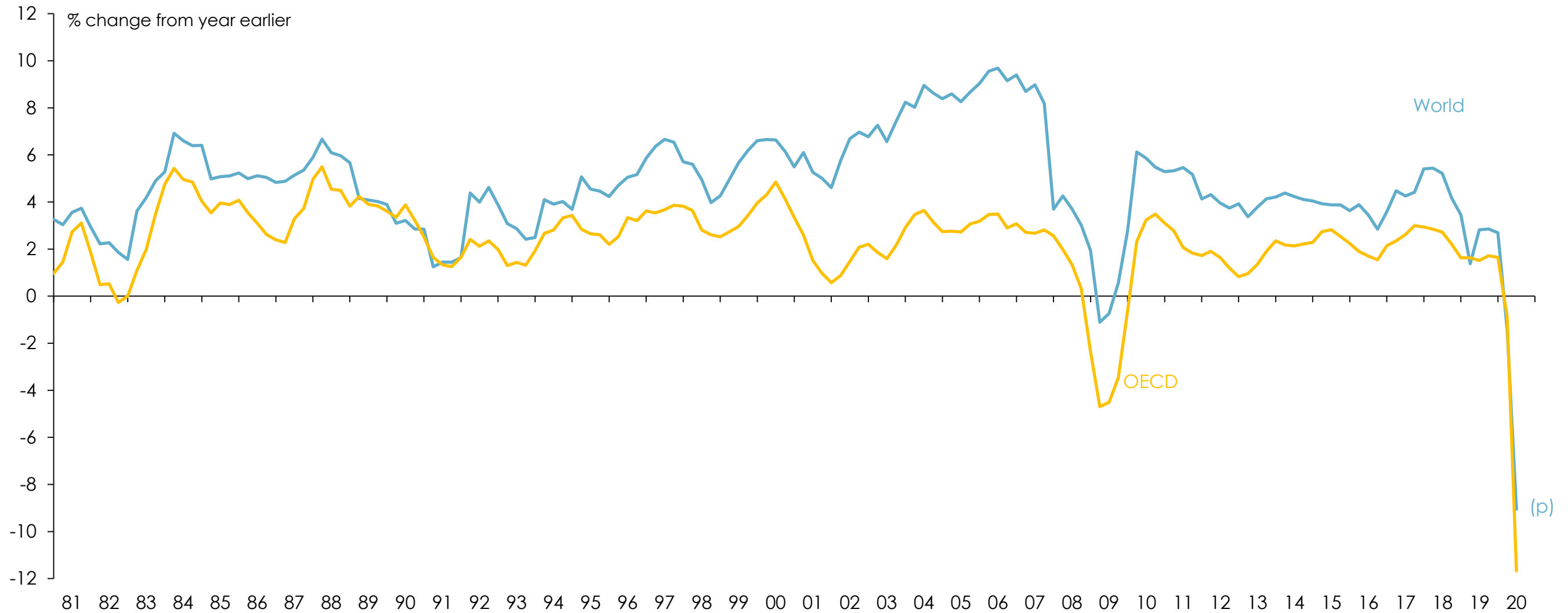
Only 2 out of 92 countries reported positive GDP growth over the year to Q2, but preliminary Q3 estimates are pointing to an improvement

Real GDP growth over the year to Q2 2020



The world economy experienced has contracted by 9%, and the OECD area economy by 11³/₄%, over the year to Q2

World and OECD area real GDP growth



Note: Estimates of global GDP growth compiled by Corinna using data for 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 92 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 month revised 2020 forecasts up (a bit) but 2021 down

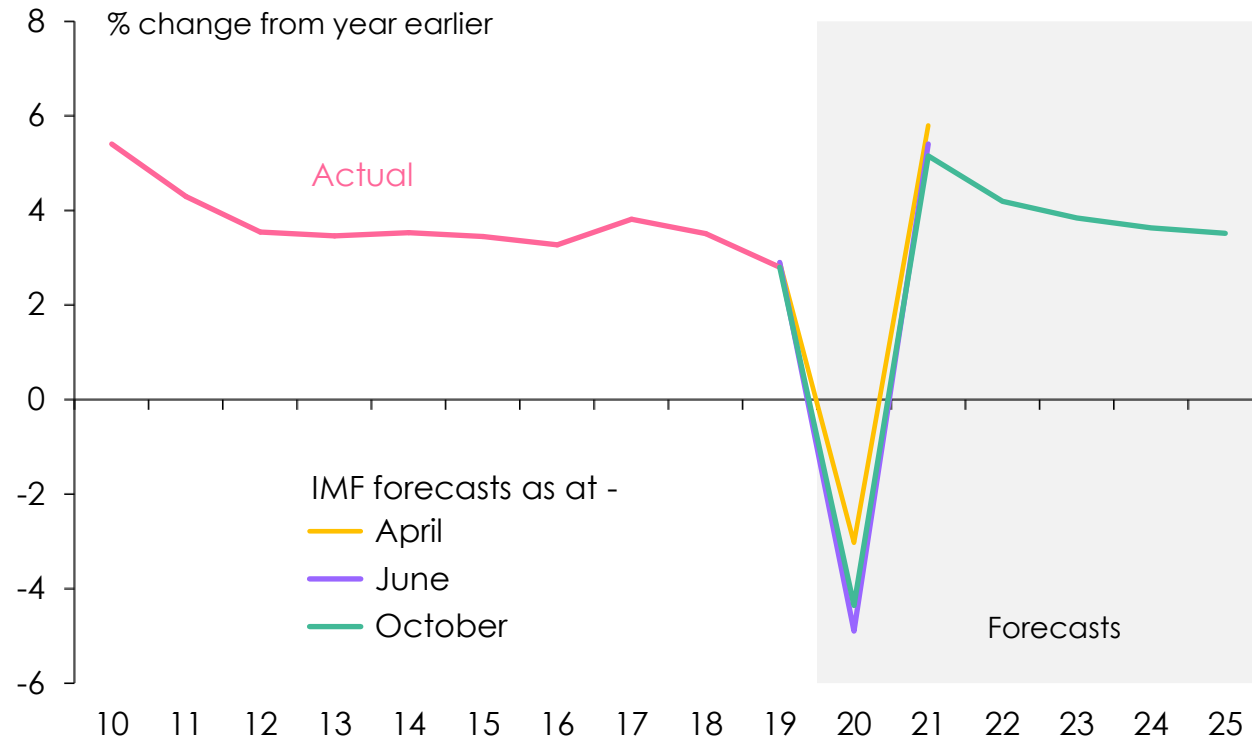
Major global institutions' growth forecasts for 2020 and 2021 compared

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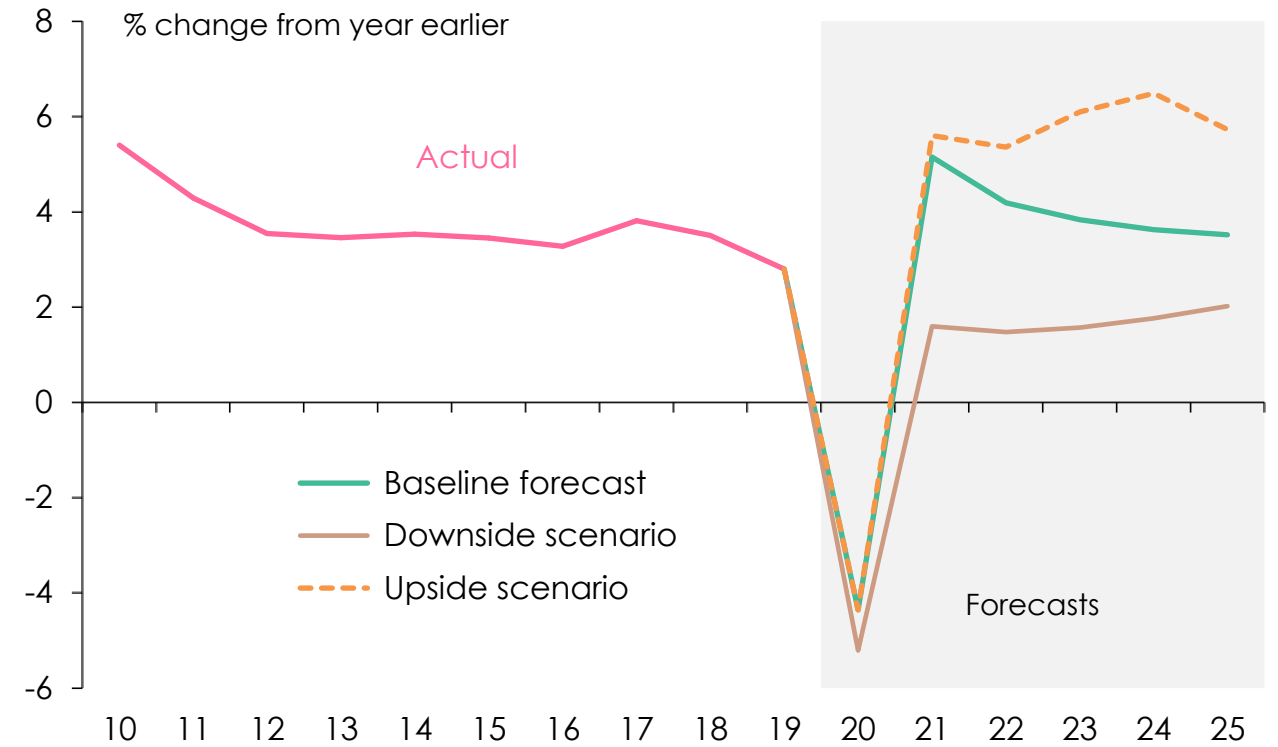
The IMF's latest forecasts envisage a 'long, uneven and uncertain ascent' from the 2020 recession, with 'lasting damage to supply potential'

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



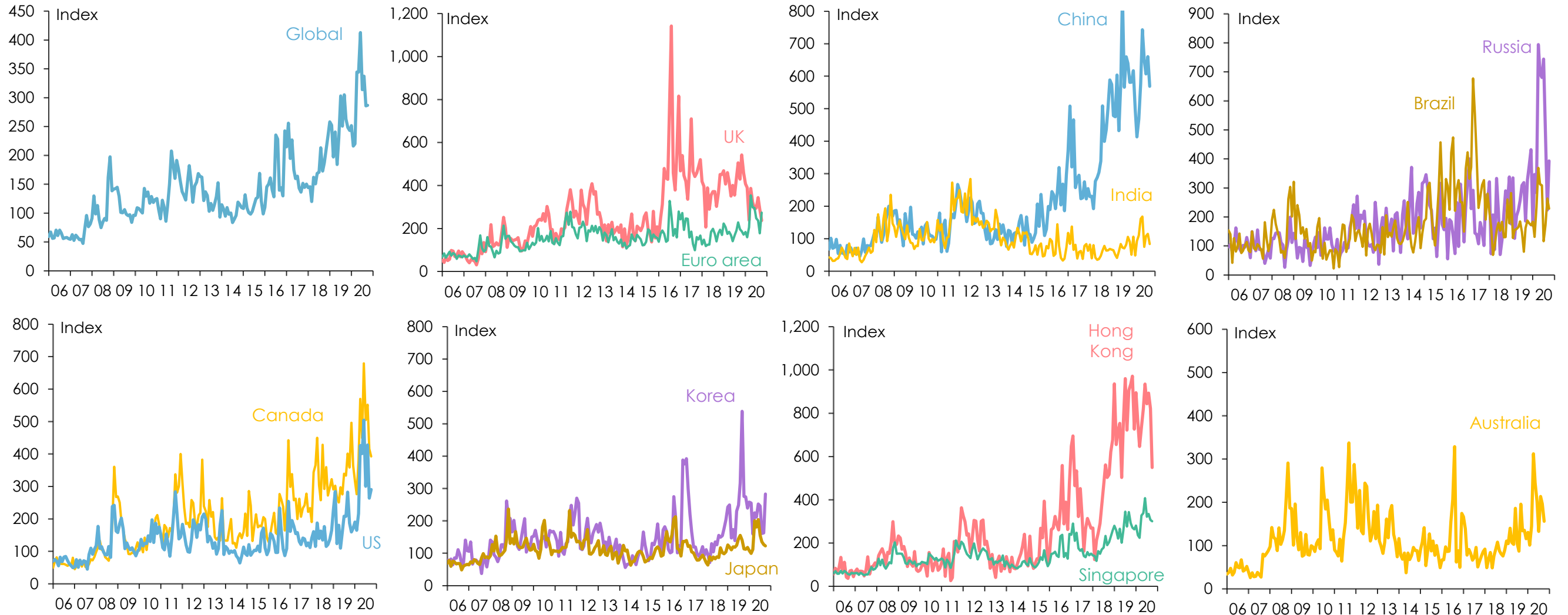
The IMF presents a 'downside' scenario in which "progress on all fronts against the virus is slower than assumed" in 2021, with adverse effects on domestic demand & trade, tighter financial conditions and greater damage to 'supply capacity' ; and an 'upside' scenario with earlier access to a vaccine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

The IMF was 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

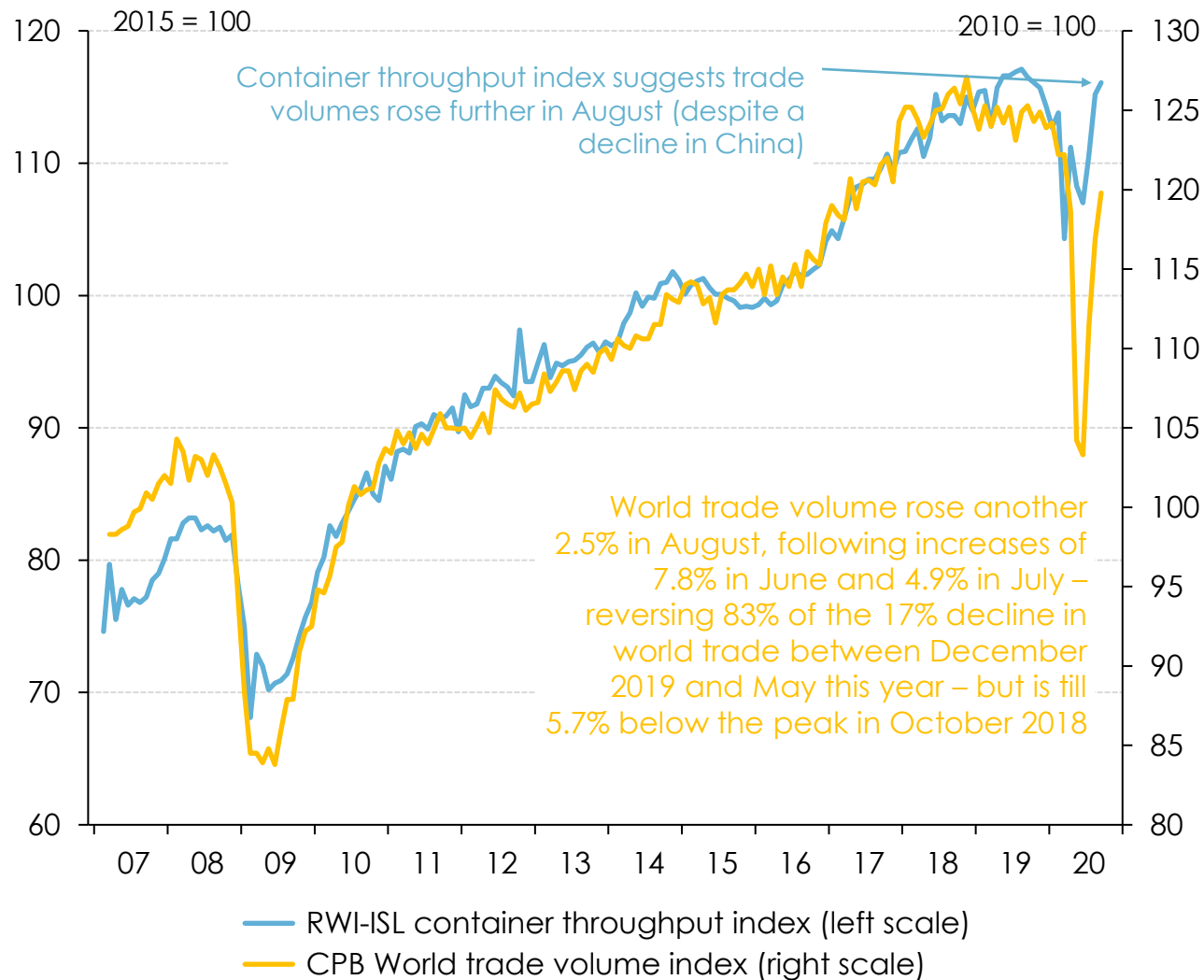
Economic policy uncertainty indices



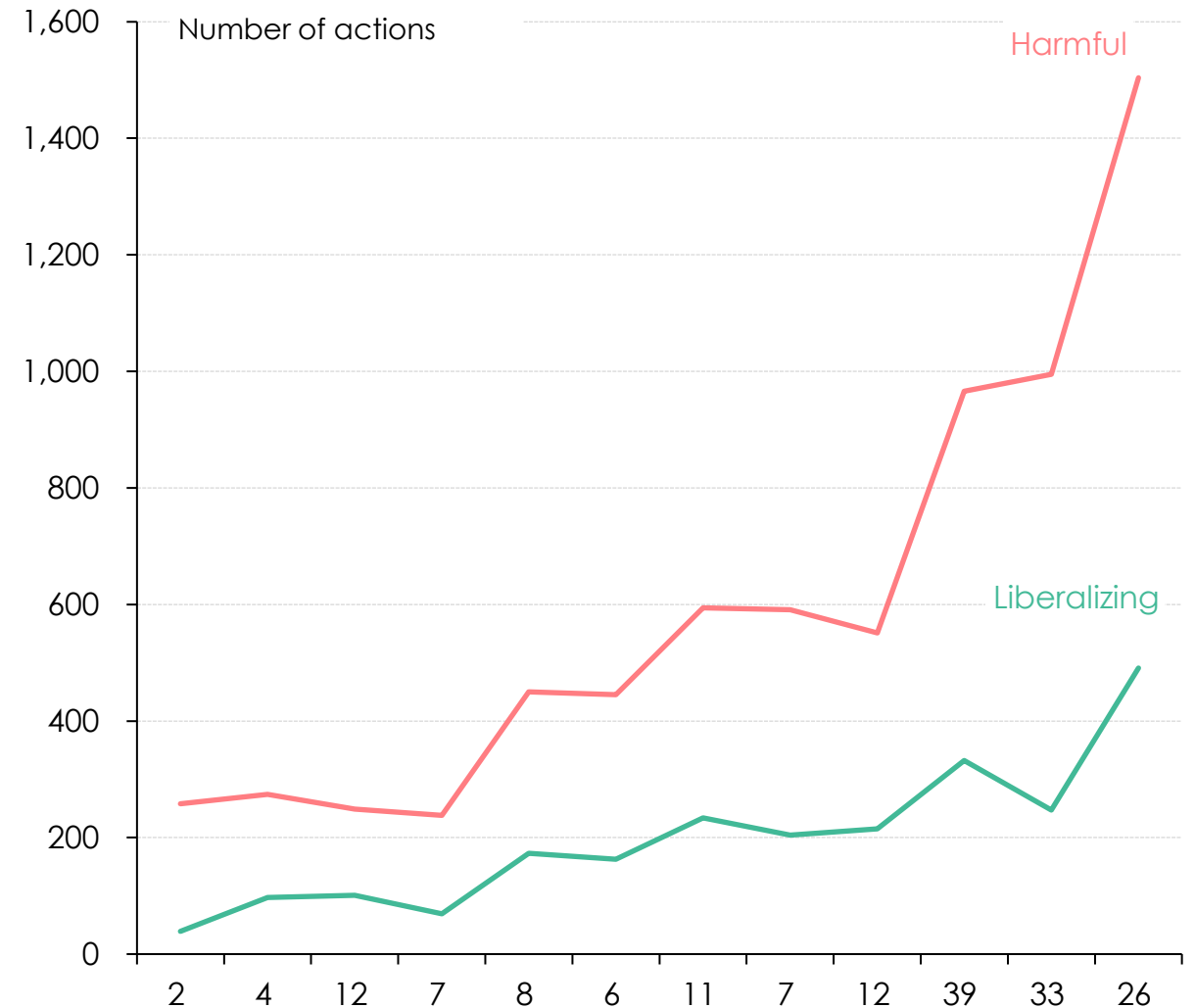
Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words “uncertain” or “uncertainty”, “economy” or “economic”, and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The 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 rose further in August but are still 6% below their October 2018 peak, as anti-trade policies continue to spread

World trade volumes and container throughput



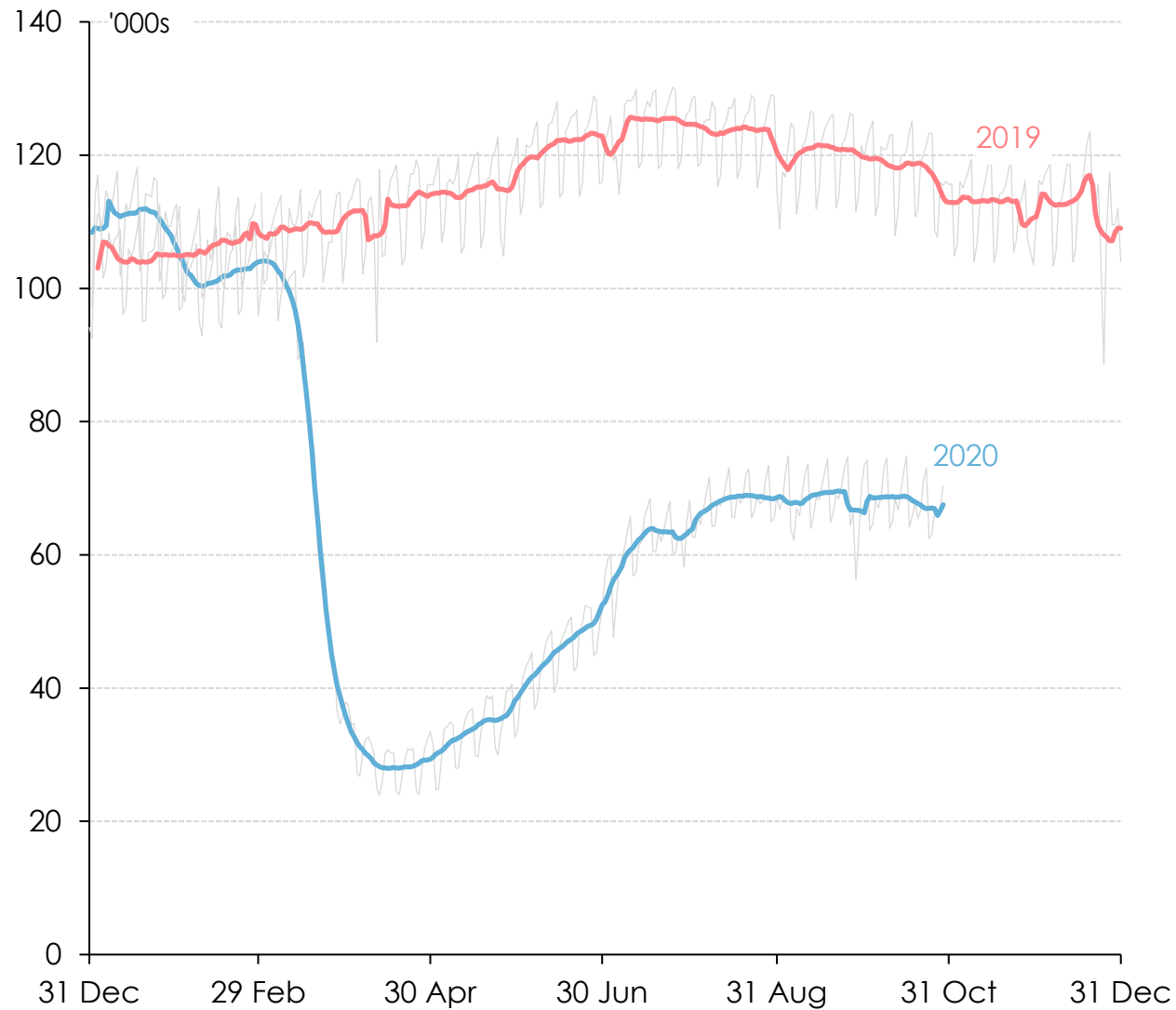
Pro- and anti-trade policy interventions



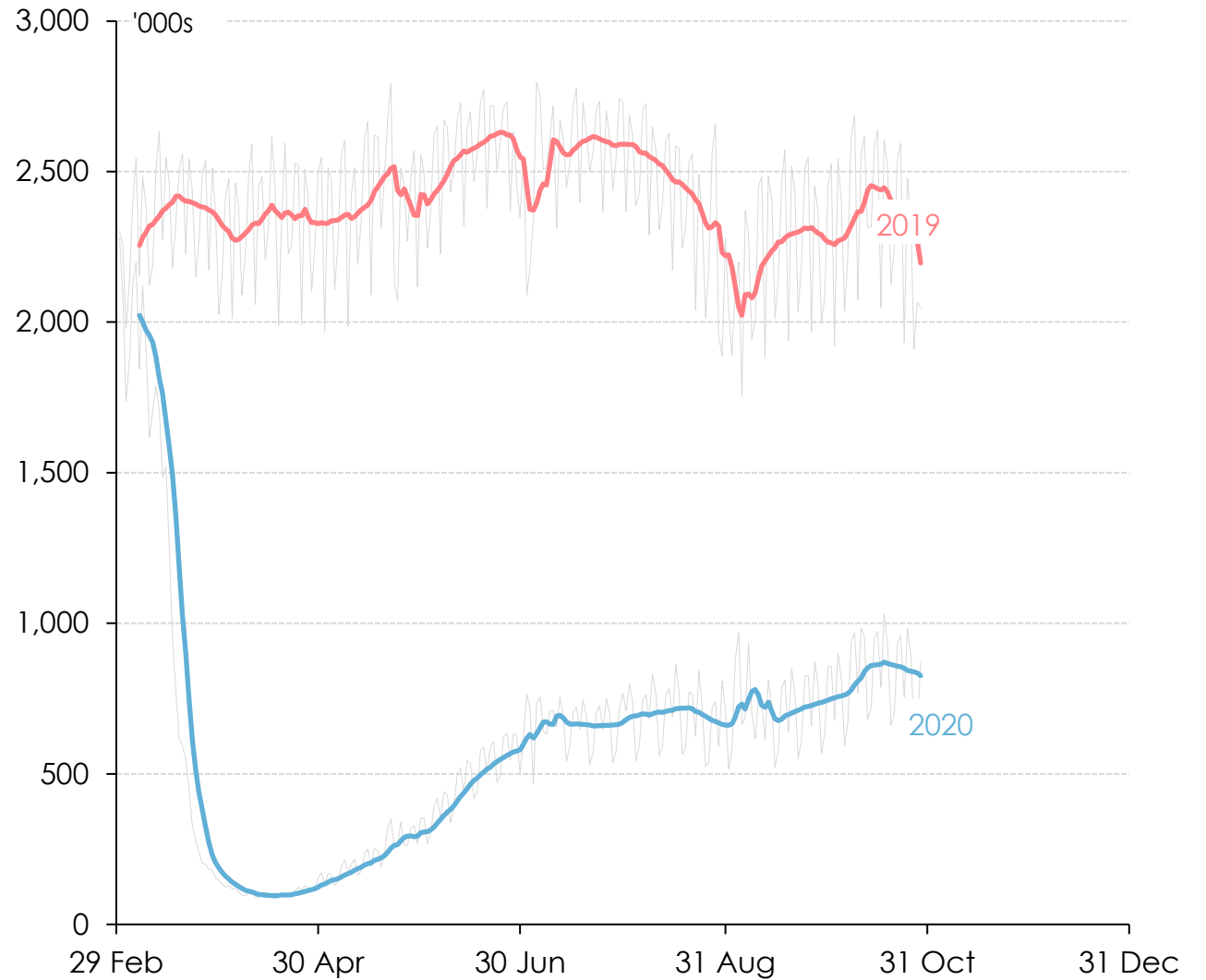
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (September data to be released on 25th November); Institute of Shipping Economics & 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 23rd October). [Return to "What's New"](#).

Civil aviation traffic eased off a little over the past week, both globally and in the US, possibly as a result of rising case numbers in Europe and the US

Daily commercial flights worldwide



Daily US TSA security checks

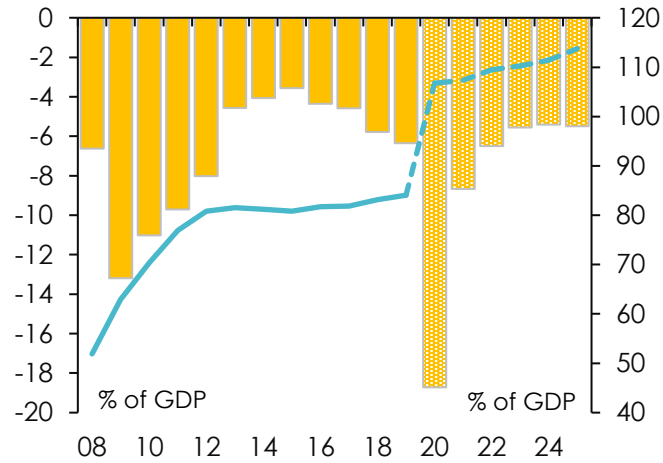


Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 29th October. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines.

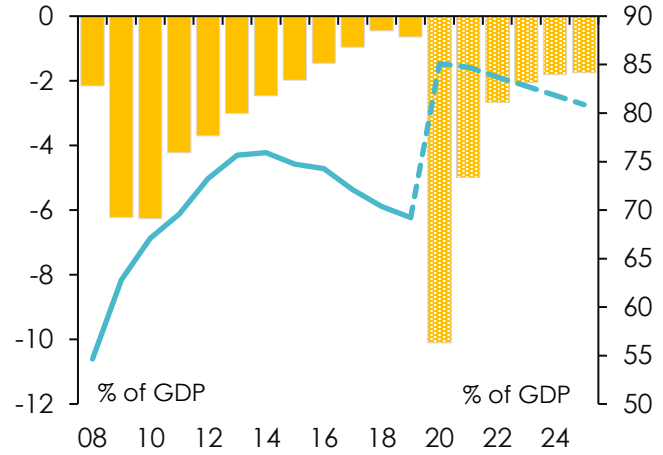
Sources: [Flightradar24.com](https://www.flightradar24.com); [US Transport Safety Administration](https://www.tsa.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

Every government is doing more by way of fiscal stimulus than during the financial crisis – and the US, Canada and the UK are doing more than most

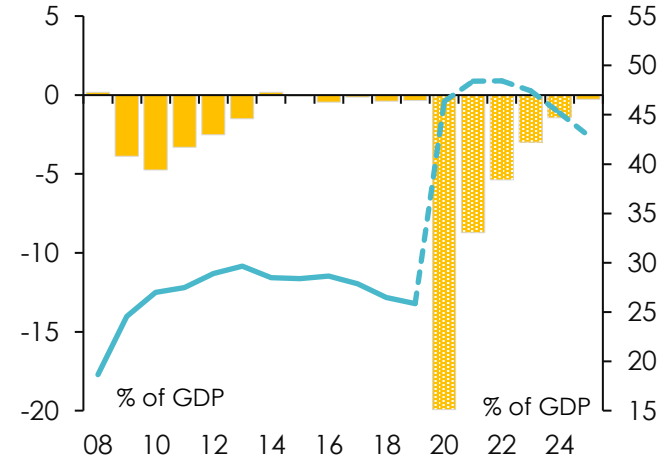
United States



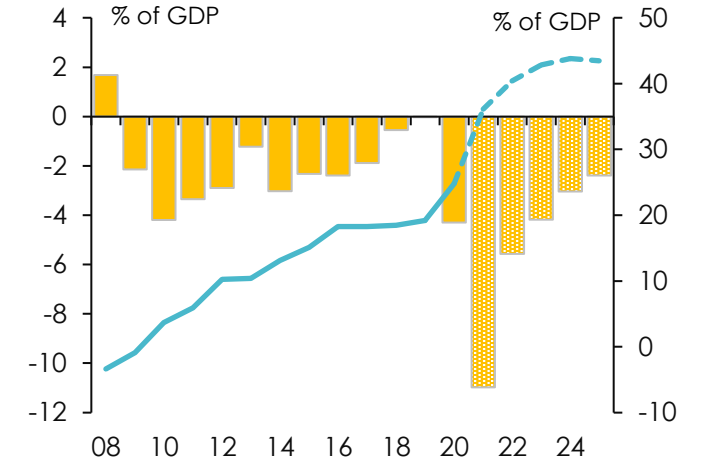
Euro area



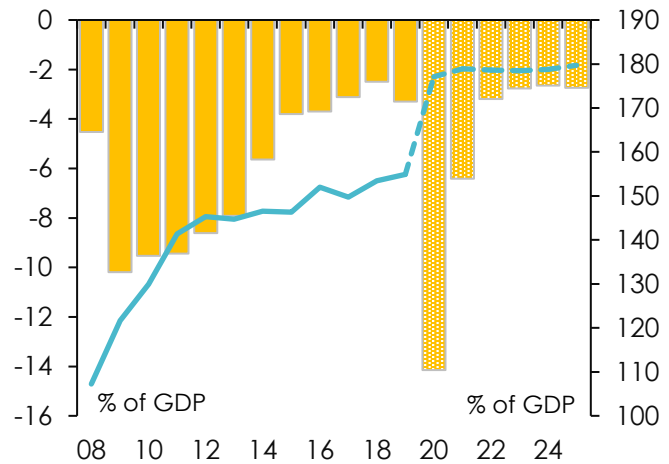
Canada



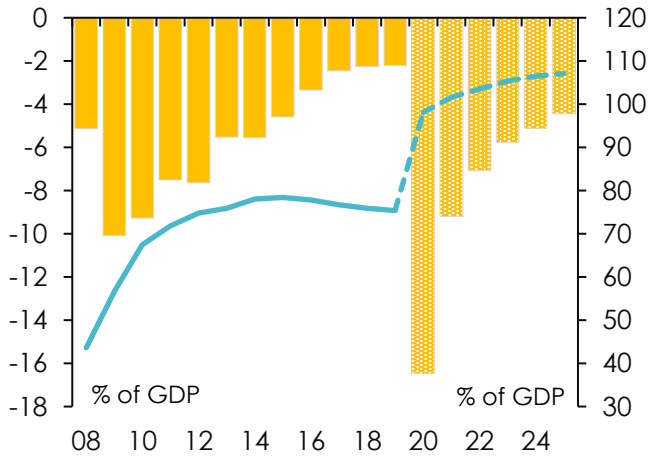
Australia



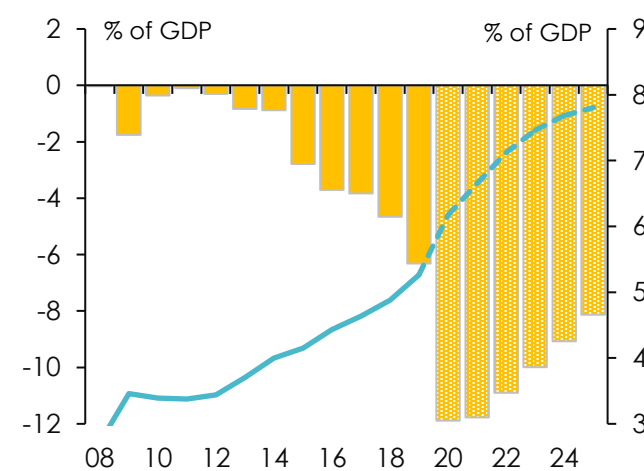
Japan



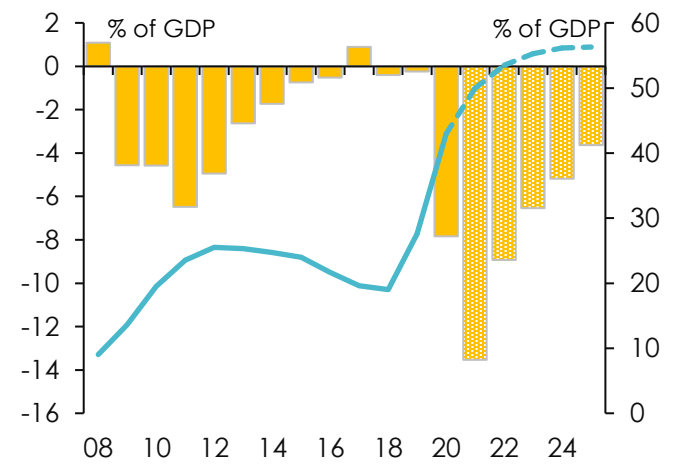
United Kingdom



China



New Zealand



General government overall fiscal balance (left scale)

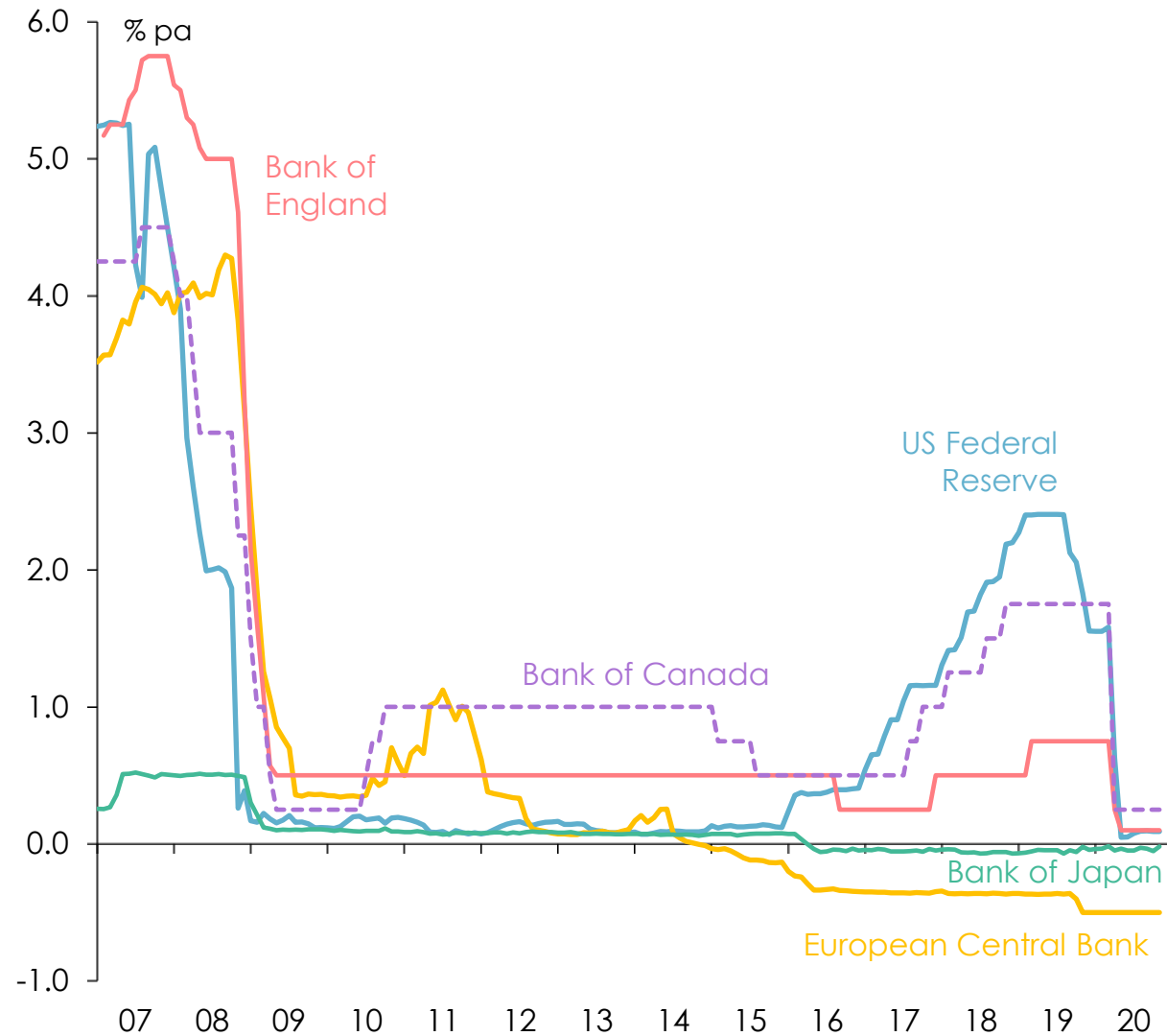


General government net debt (right scale)

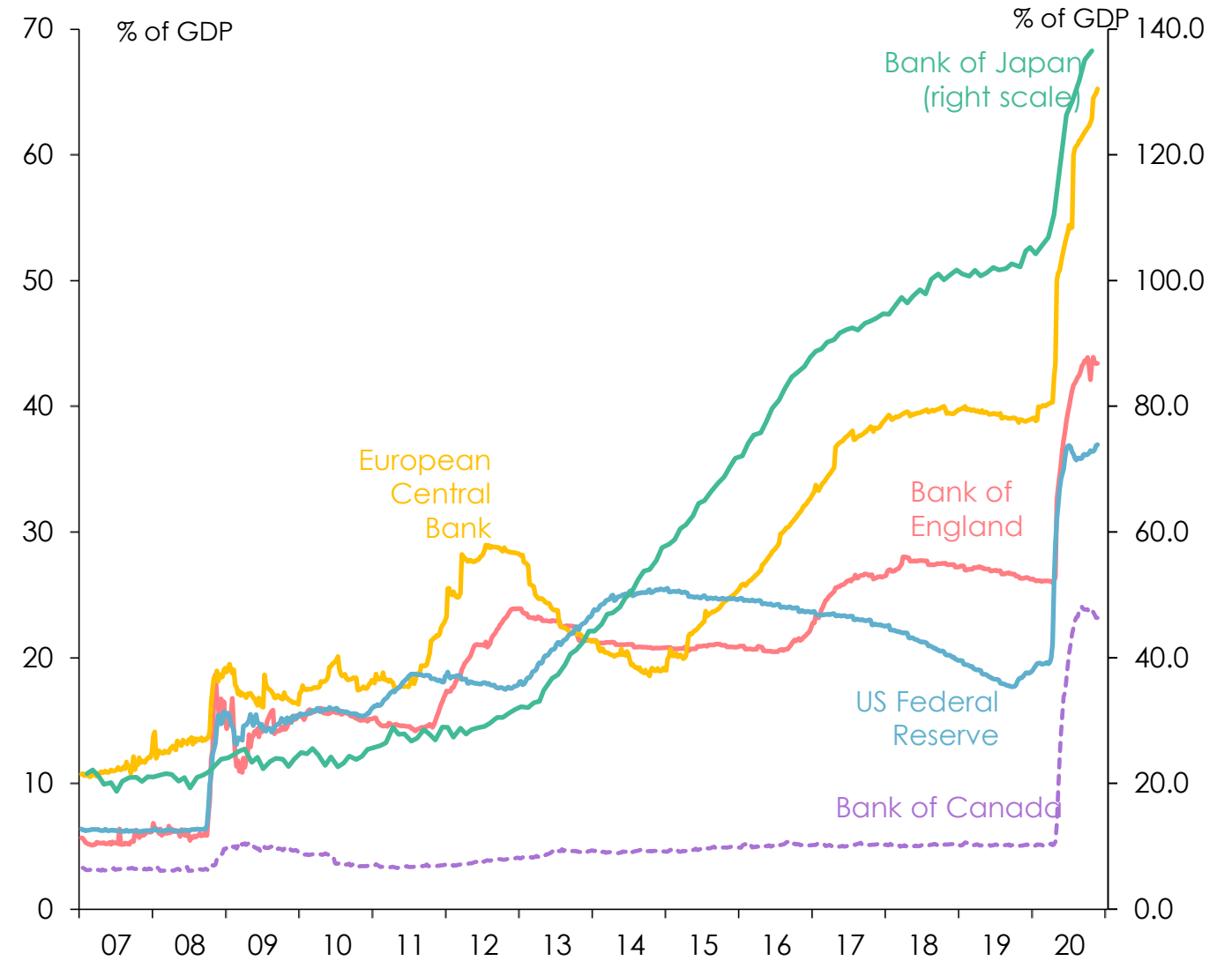
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30th June; NZ data are for fiscal years ended 31st March. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2020; Australian Government, 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



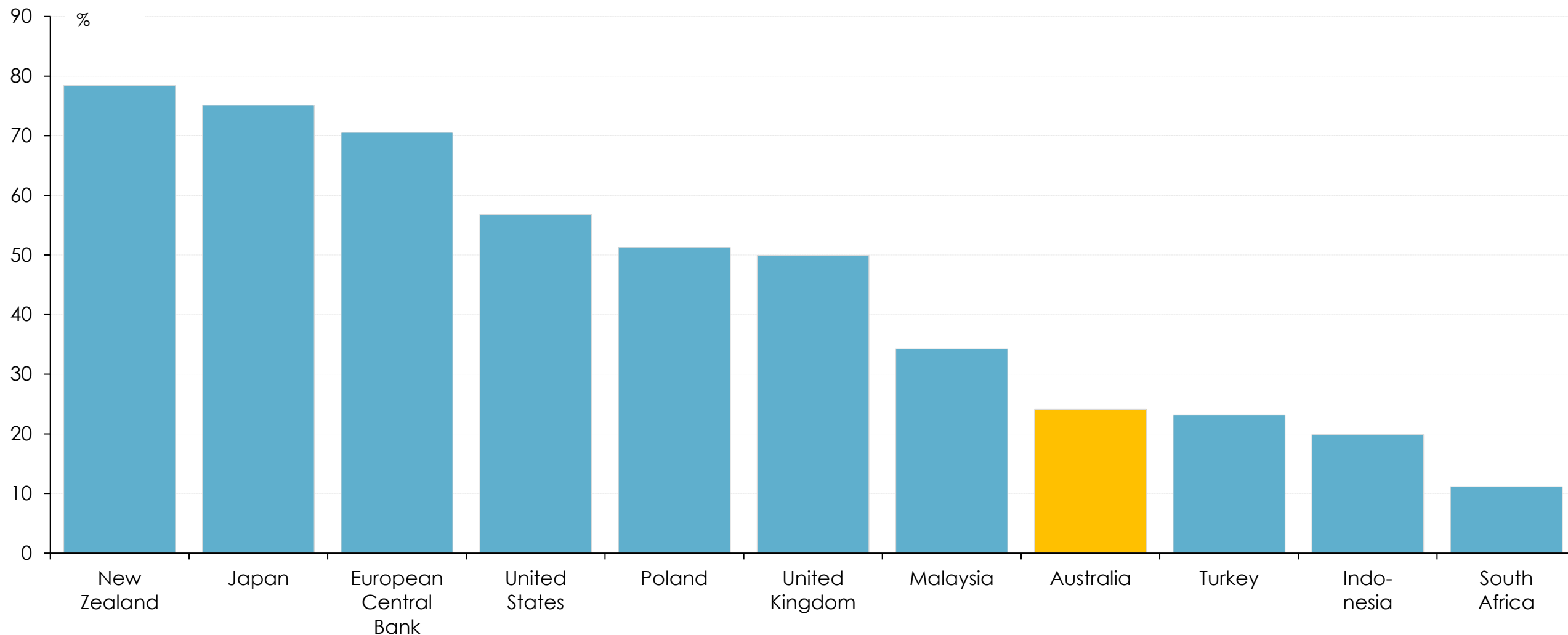
Major central bank balance sheets



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 65](#)): 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

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

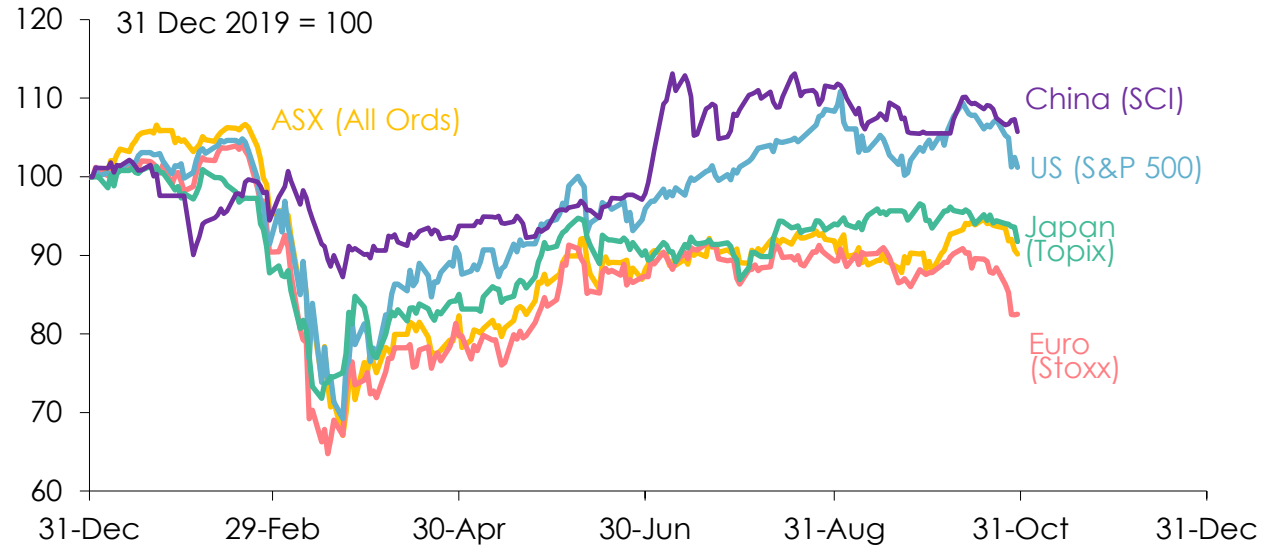
Note: Jerome Powell's 27th August Jackson Hole speech is [here](#); the FOMC's 16th September statement is [here](#). [Return to "What's New"](#).

The ECB flagged signalled that further monetary easing was likely at its December meeting, while the BoE and RBNZ still flirt with negative rates

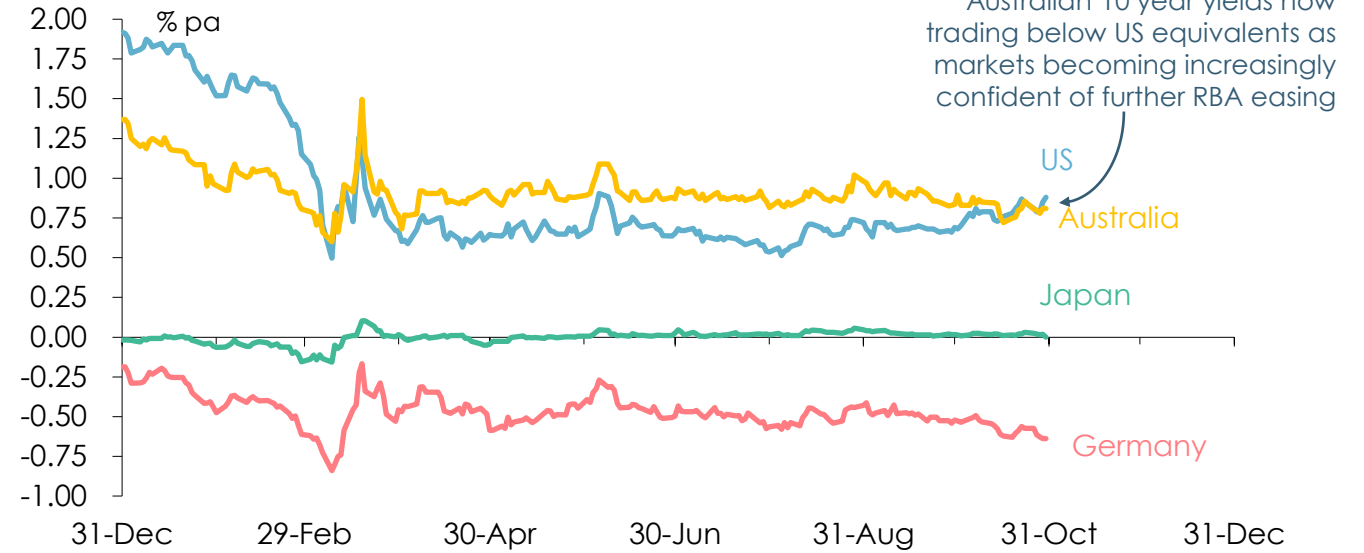
- ❑ Although the ECB left monetary policy settings unchanged at this week's Governing Council meeting, it clearly signalled further easing of monetary policy at the next meeting on 10th December
 - President Christine Lagarde noted that risks were “clearly tilted to the downside” and that, after receiving a new round of staff forecasts in December, the ECB will “recalibrate its [policy] instruments ... to ensure that financing conditions remain favourable to support the economic recovery and counteract the negative impact of the pandemic”
- ❑ The minutes of the Bank of England's September 16th Monetary Policy Committee meeting indicate that the Committee had “been briefed on the Bank's plans to explore how a negative Bank Rate could be implemented effectively, should the outlook for inflation and output warrant it at some point”
 - MPC member Gertjan Vlieghe said in a speech on 20th October that “the risks to the monetary policy stance are ... skewed towards additional monetary stimulus” and that “the risks that negative rates end up being counterproductive to the aims of monetary policy is low”
- ❑ The Reserve Bank of New Zealand is also actively considering the possibility of a negative official cash rate (OCR):
 - the RBNZ's August Monetary Policy Statement reported that, having considered a range of ‘alternative monetary policy tools’ that could be used to “achieve its remit objectives”, the Monetary Policy Committee “expressed a preference for a negative OCR, and a ‘Funding for Lending’ program (FLP) in addition to its current program of bond purchases”
 - at its 23rd September meeting the MPC directed the RBNZ to have an FLP “ready to deploy before the end of the year”, while also indicating that it was “prepared to lower the OCR to provide additional stimulus if required”
 - On 14th October Assistant Governor Christian Hawkesby said the RBNZ “wasn't bluffing” (trying to ‘jawbone’ the NZ\$ lower) in foreshadowing the prospect of a negative OCR
 - and on 20th October Governor Adrian Orr said that negative interest rates “can be highly effective and highly efficient”, and also indicated that the RBNZ was operating “with a medium term focus” and in that context would rather “deal with more inflation than battle deflation”

Rising tide of infections in Europe and the US prompted a 'risk off' mood in markets which saw stocks and the euro down, and the US\$ and yen up

Stock markets



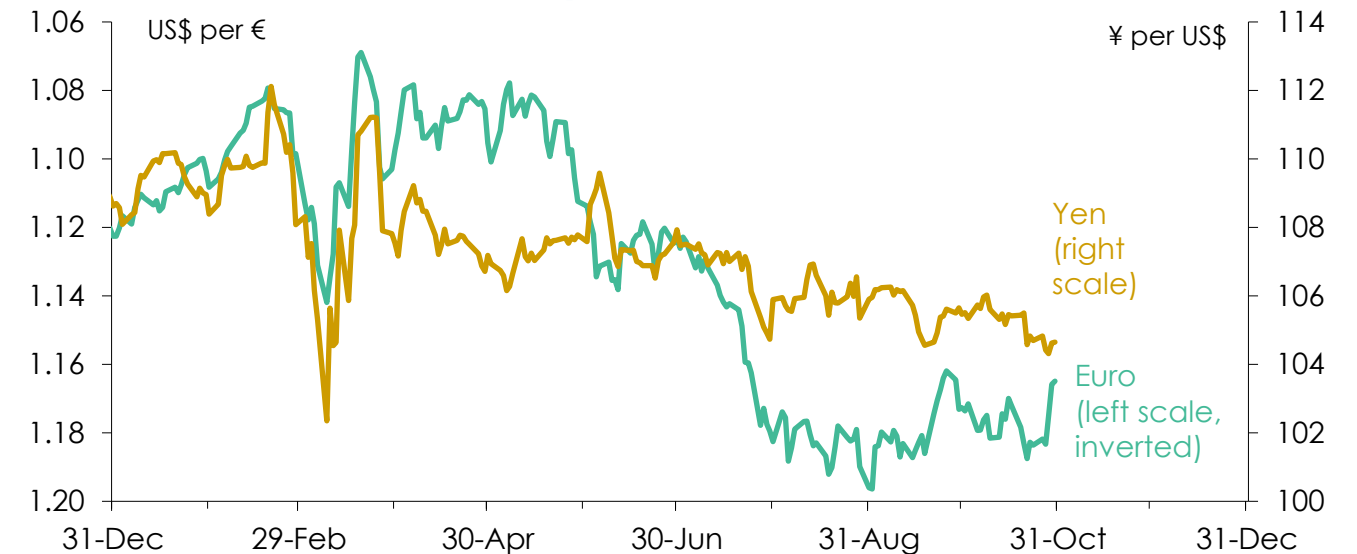
10-year bond yields



Measures of market volatility



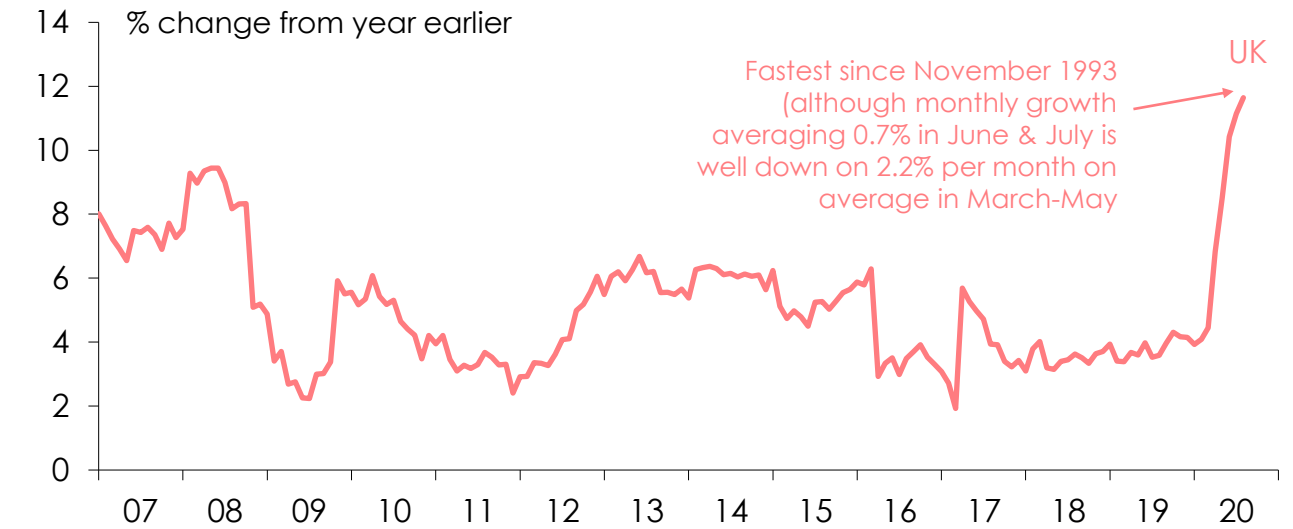
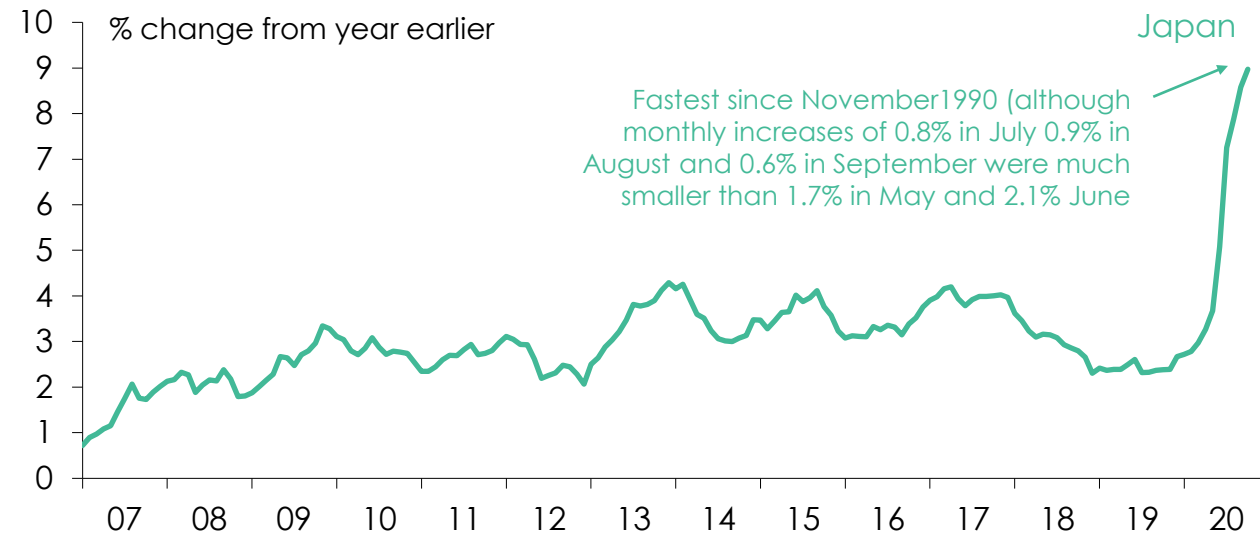
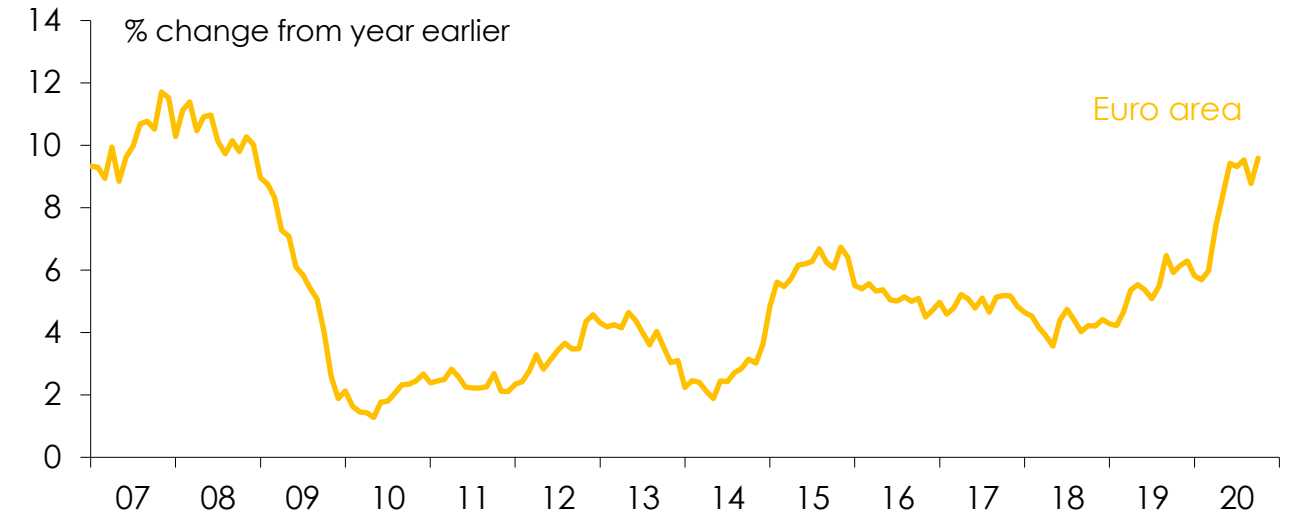
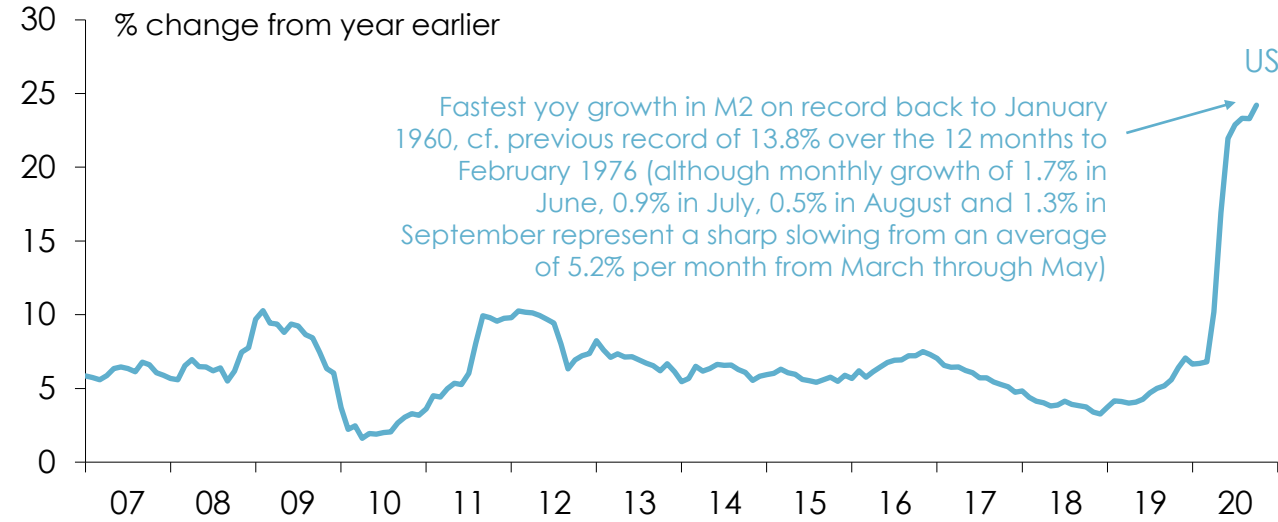
US dollar vs euro and yen



Source: Refinitiv Datastream. Data up to 30th October. [Return to "What's New"](#).

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

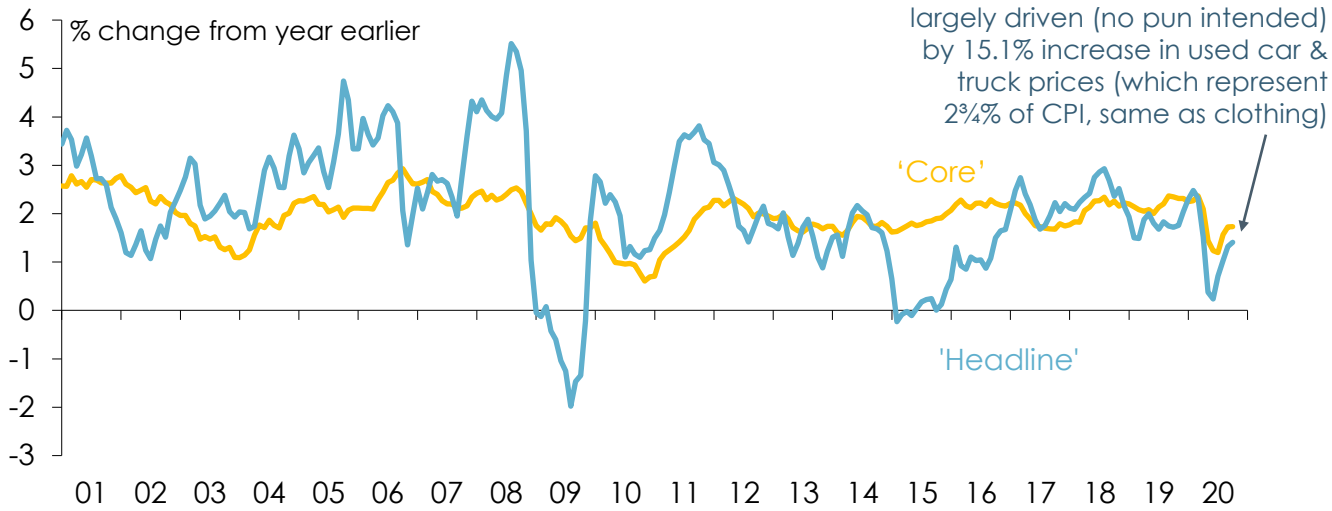
M2 money supply growth



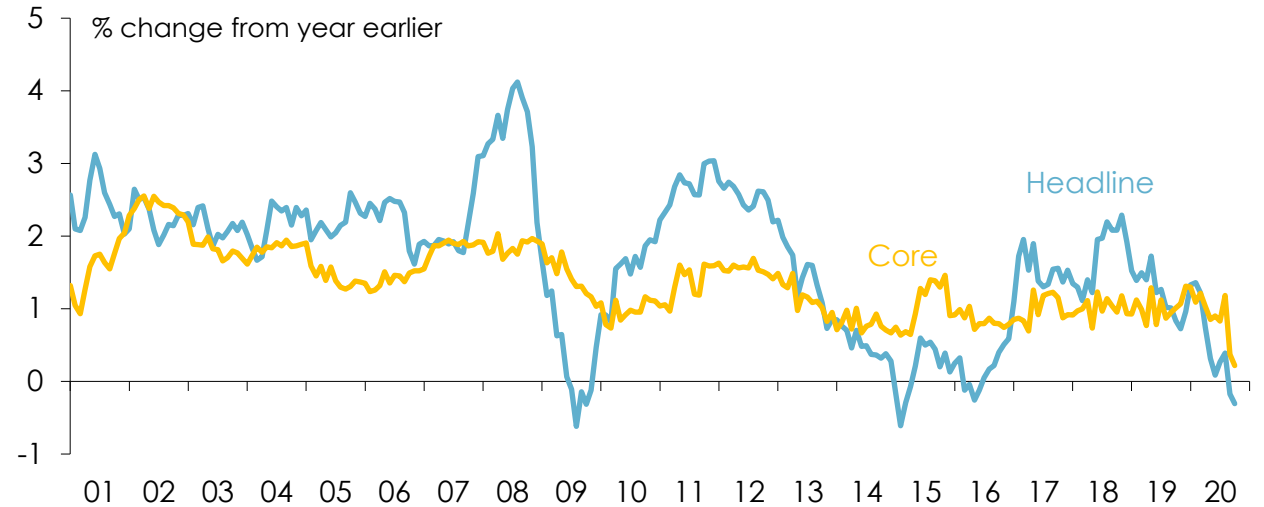
Note: Japan is M2+CDs. Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England. [Return to "What's New"](#).

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

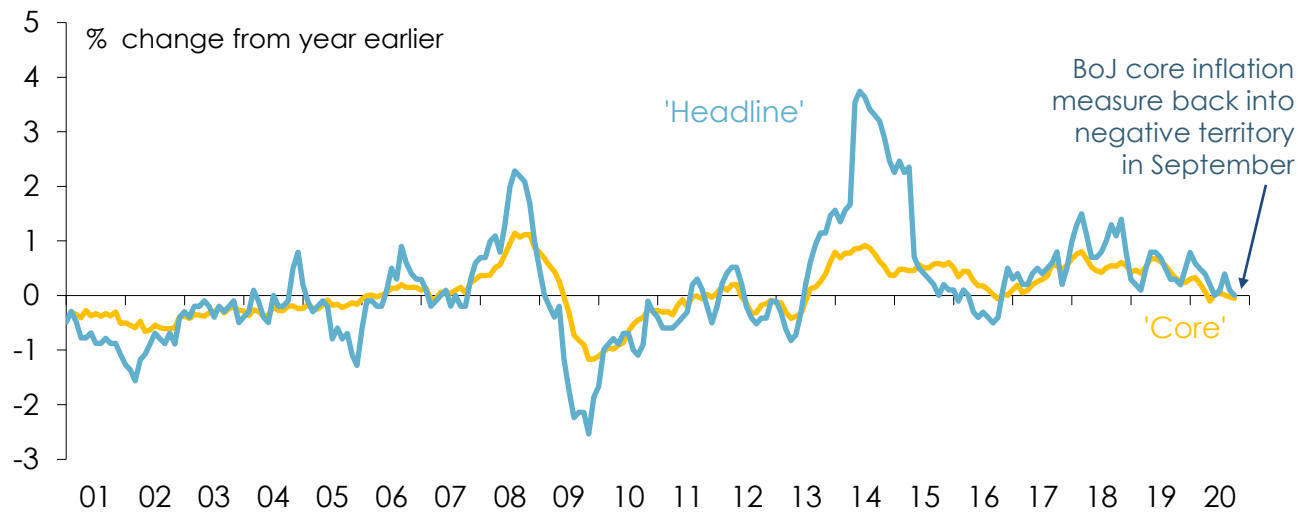
‘Headline’ and ‘core’ inflation - US



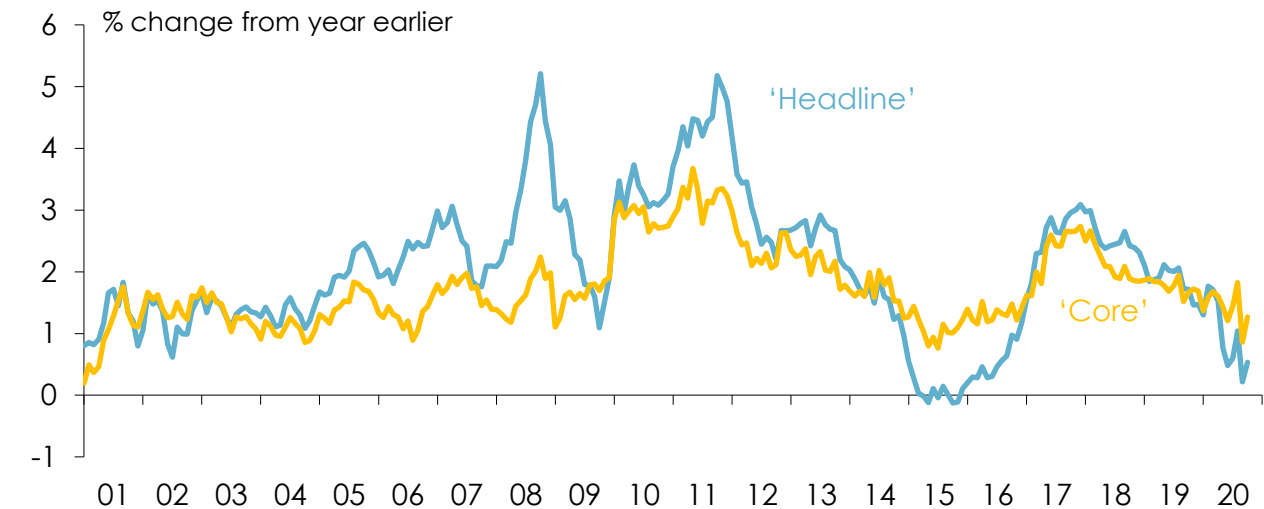
‘Headline’ and ‘core’ inflation – Euro area



‘Headline’ and ‘core’ inflation - Japan



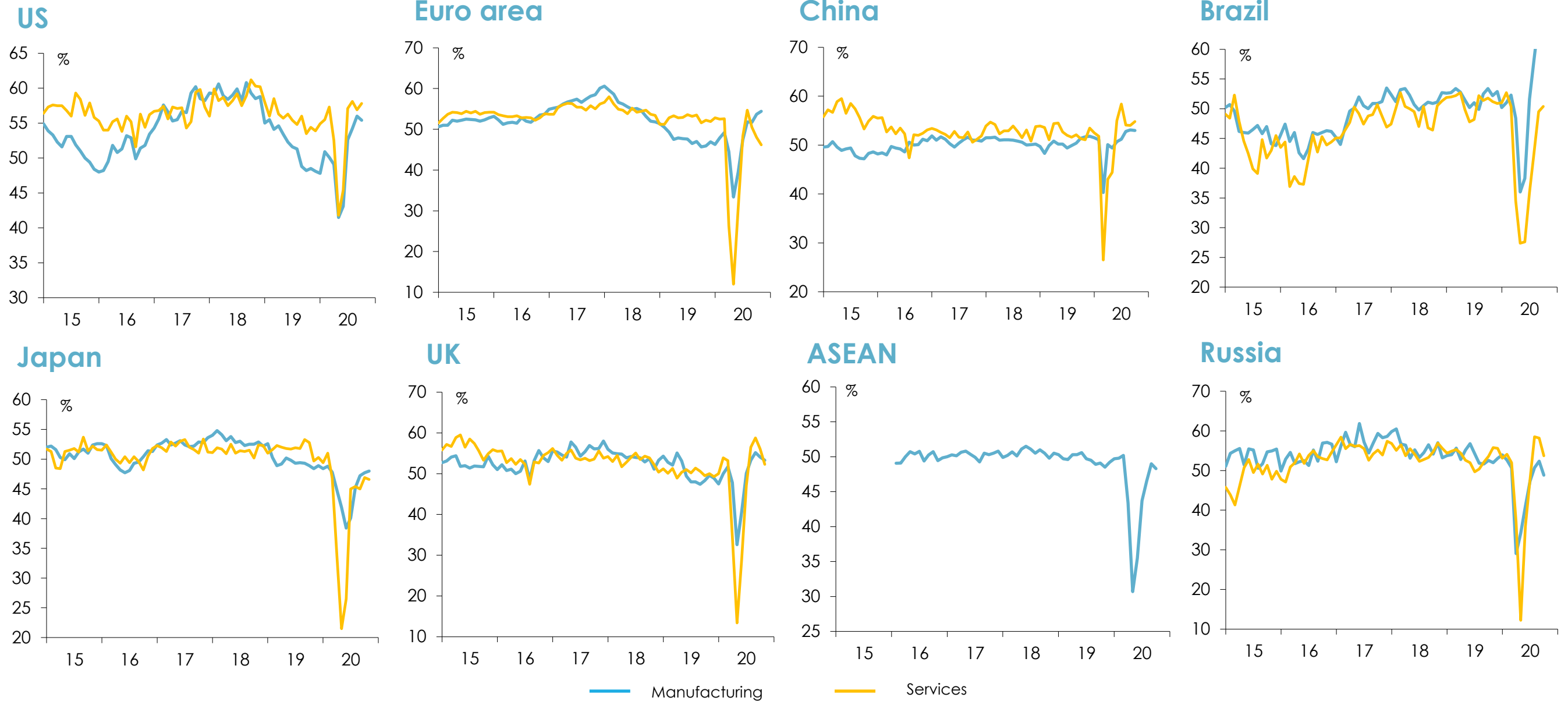
‘Headline’ and ‘core’ inflation – UK



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"](#).

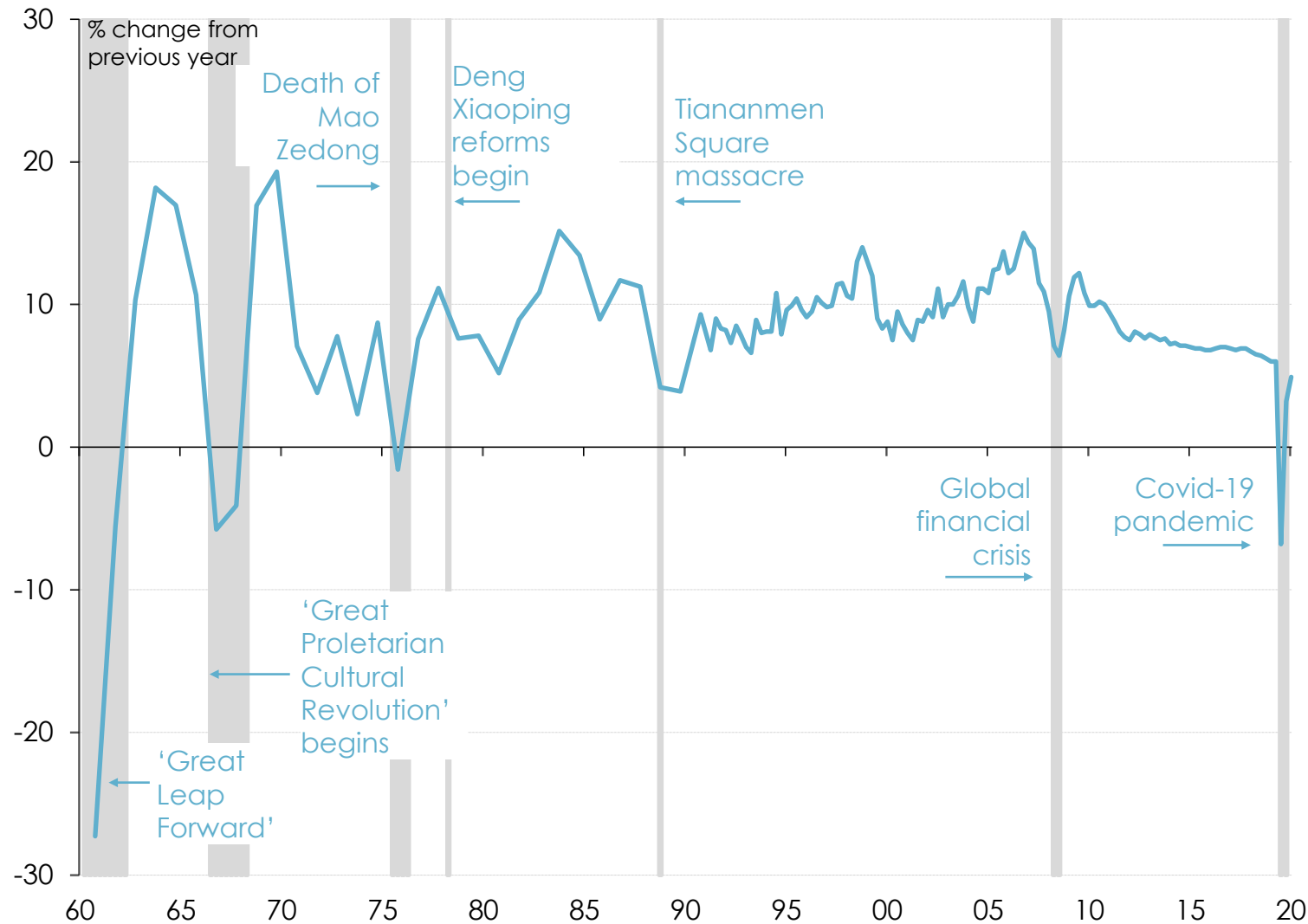
Preliminary October PMIs for Europe and Japan continue to suggest manufacturing faring better than services sectors



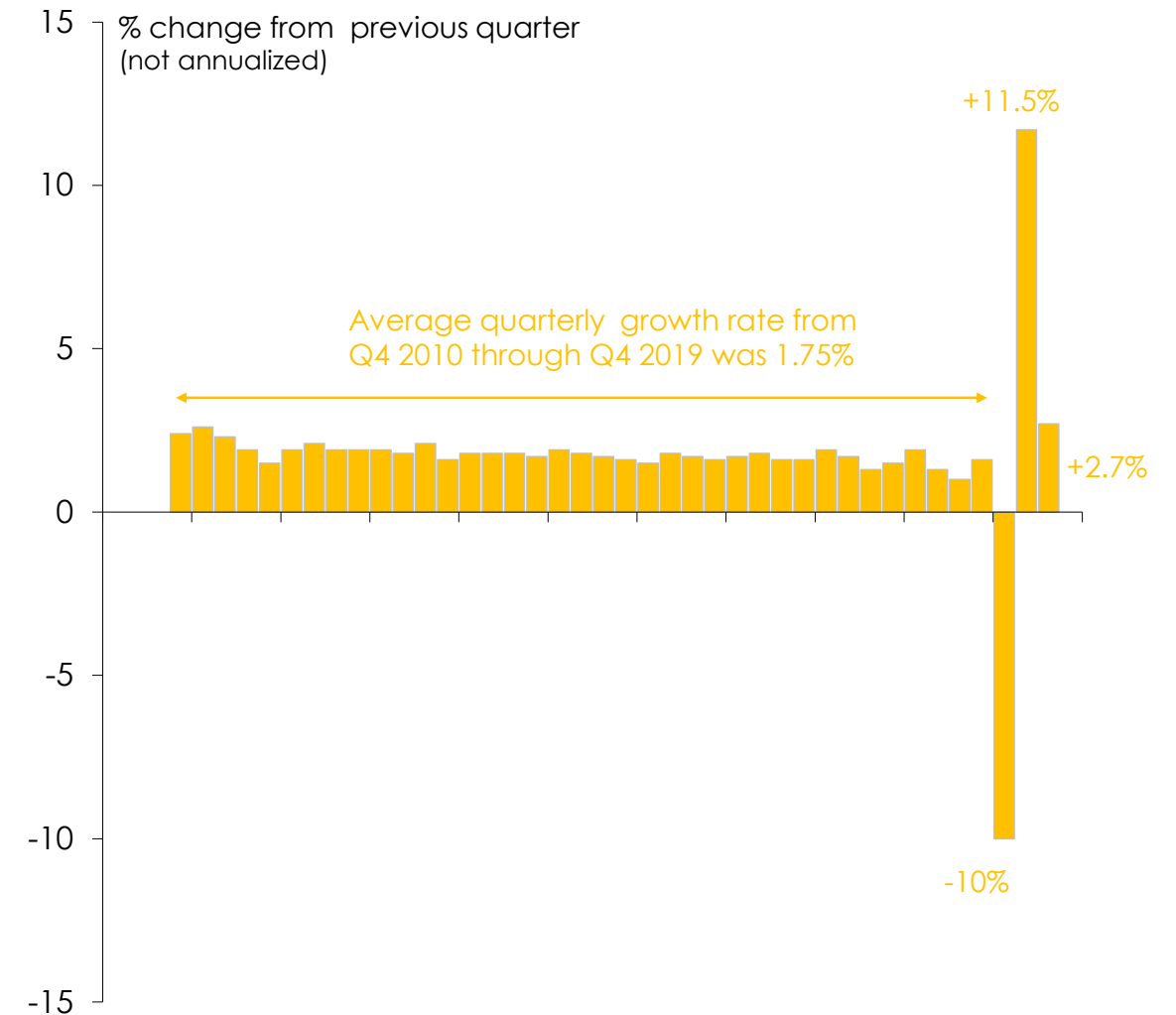
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are preliminary October for Japan, euro area and UK, elsewhere 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 grew 2.7% in Q3, after an 11.7% rebound in Q2, implying that the 10% drop in output in Q1 has been fully recouped

Real GDP growth, from year earlier, 1961-2020



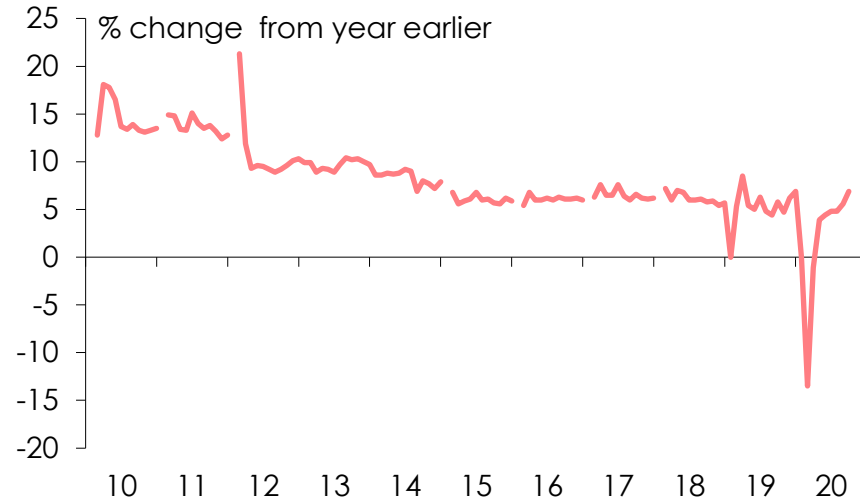
Quarterly real GDP growth, 2010-2020



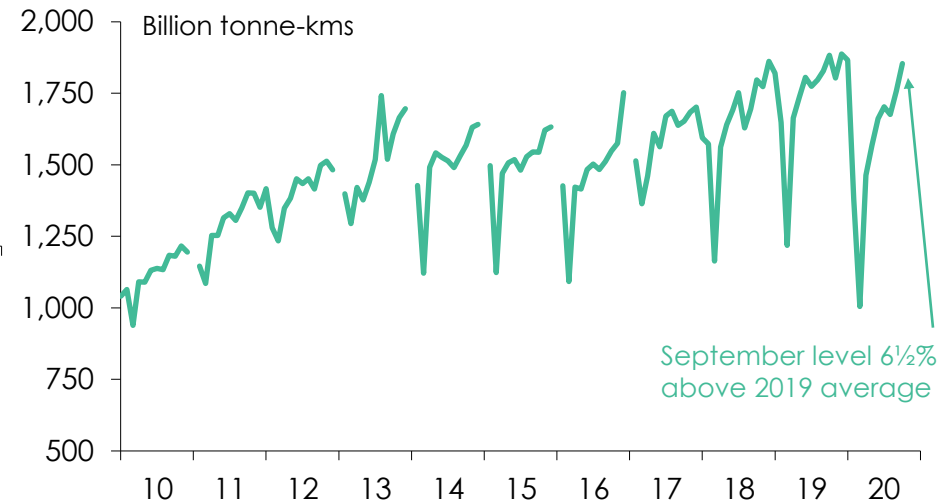
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. [Return to "What's New"](#).

Most areas of the 'production side' of the Chinese economy are now back to, or above, pre-pandemic levels

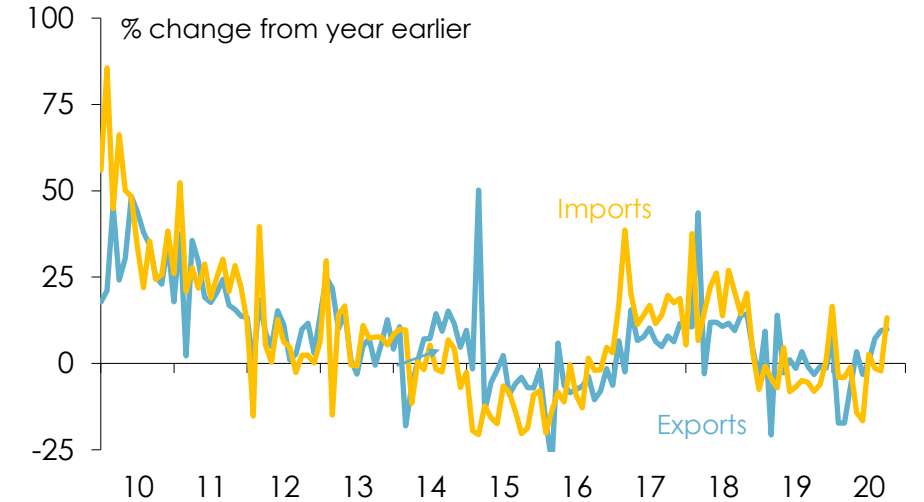
Industrial production



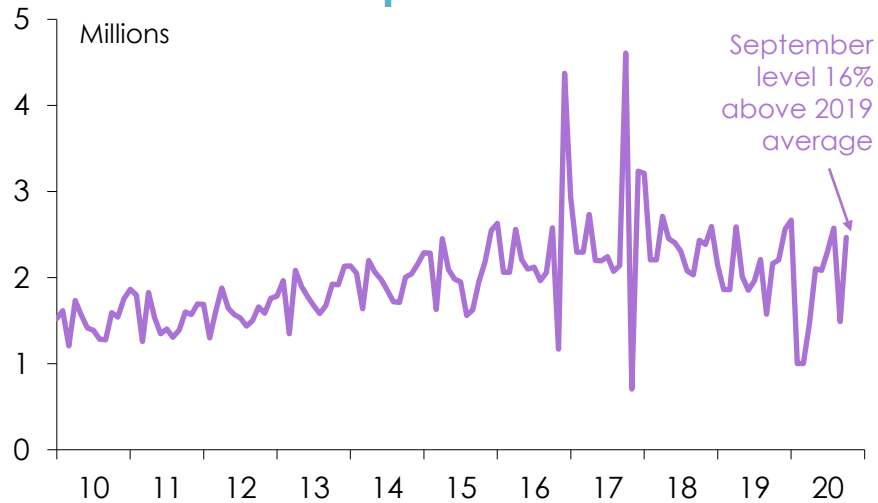
Freight traffic volumes



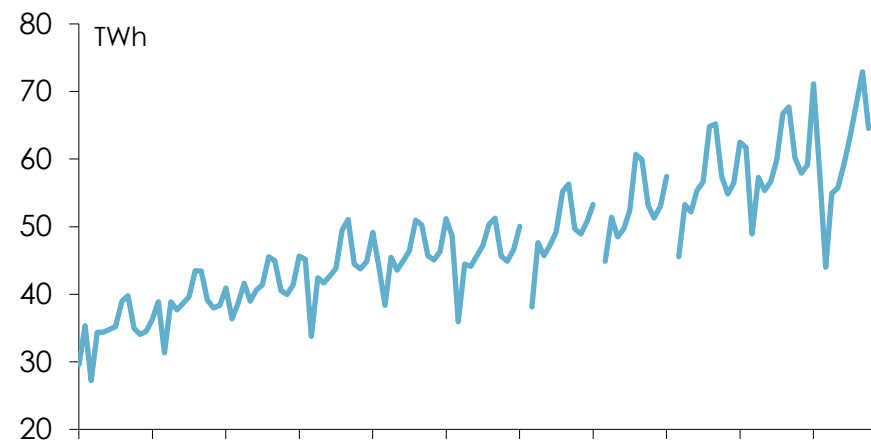
Merchandise trade



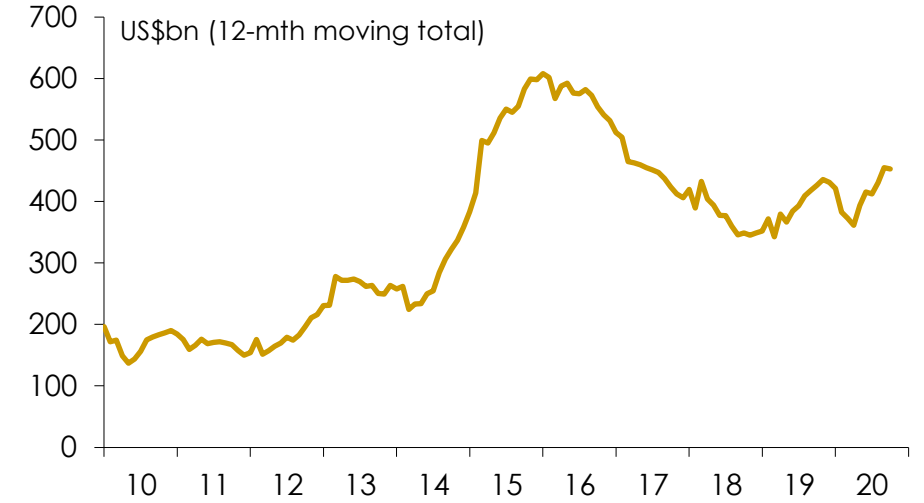
Motor vehicle production



Primary electricity production



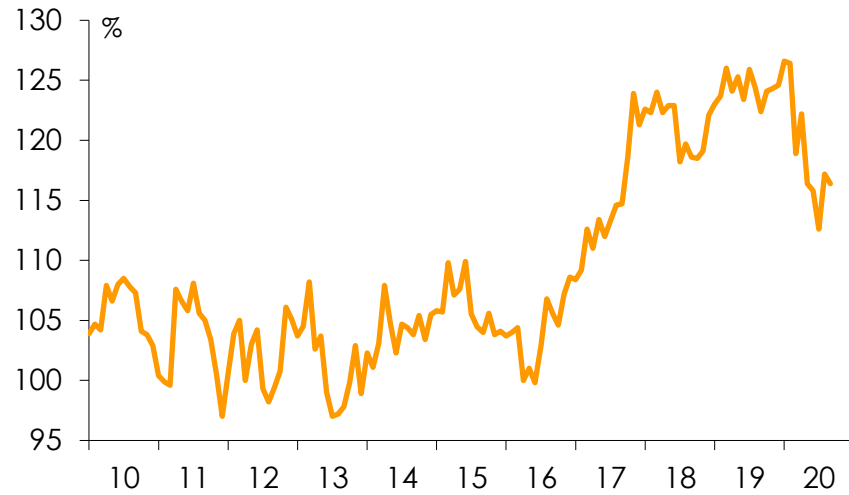
Merchandise trade balance



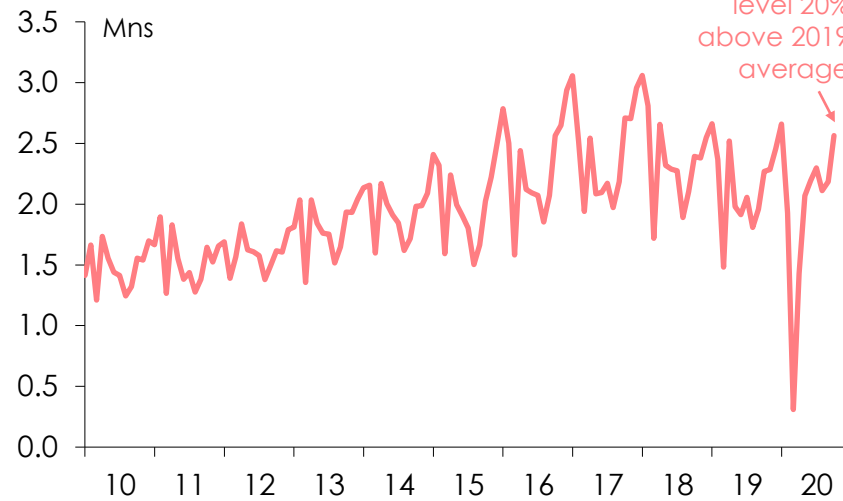
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest merchandise trade data are for September. [Return to "What's New"](#).

The 'demand' side of the Chinese economy – both household & business – is recovering rather more gradually, though September was stronger

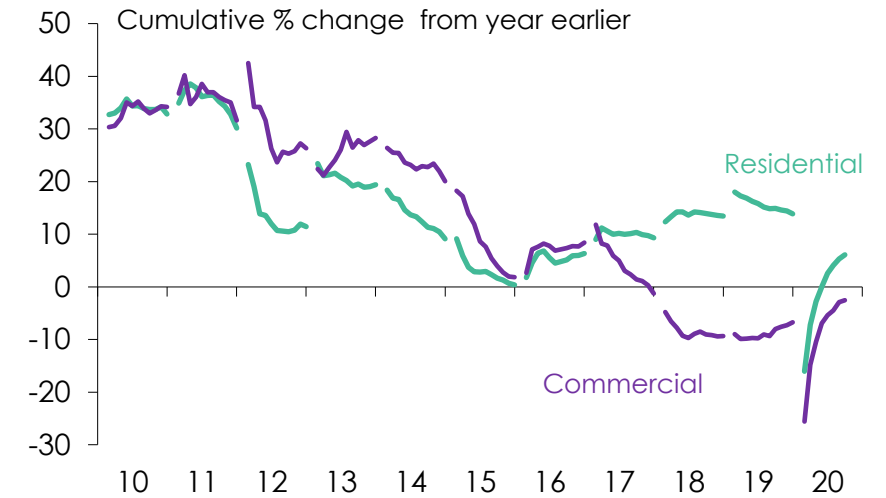
Consumer sentiment



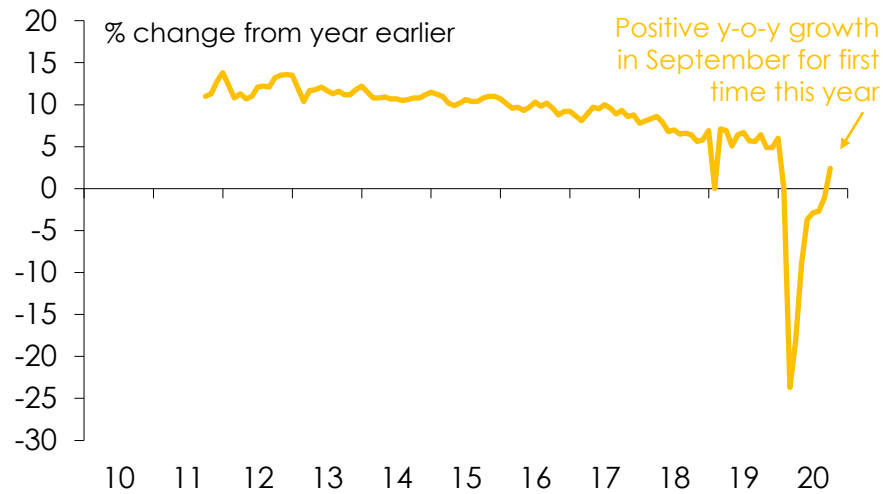
Motor vehicle sales



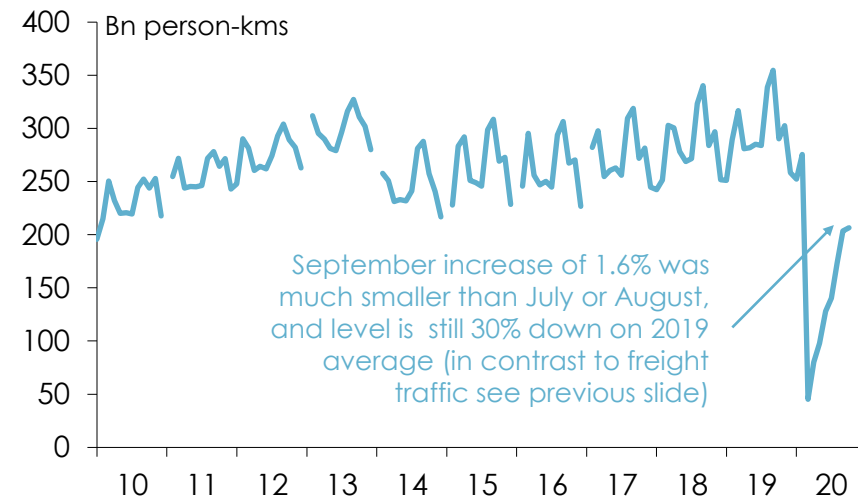
Real estate investment



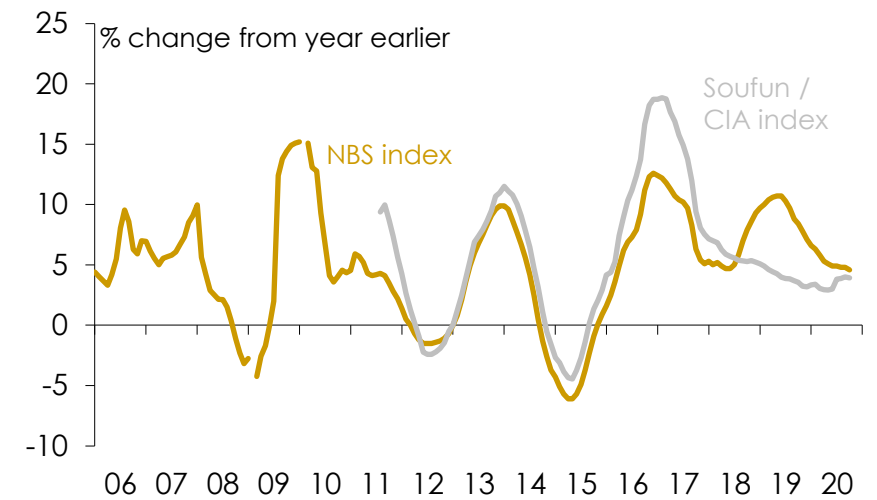
Retail sales volume



Passenger traffic volumes



Residential real estate prices

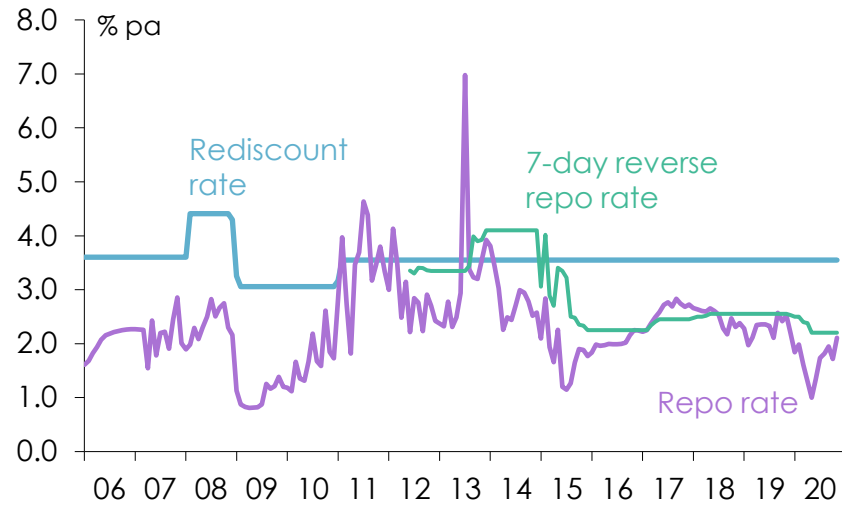


Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for September.

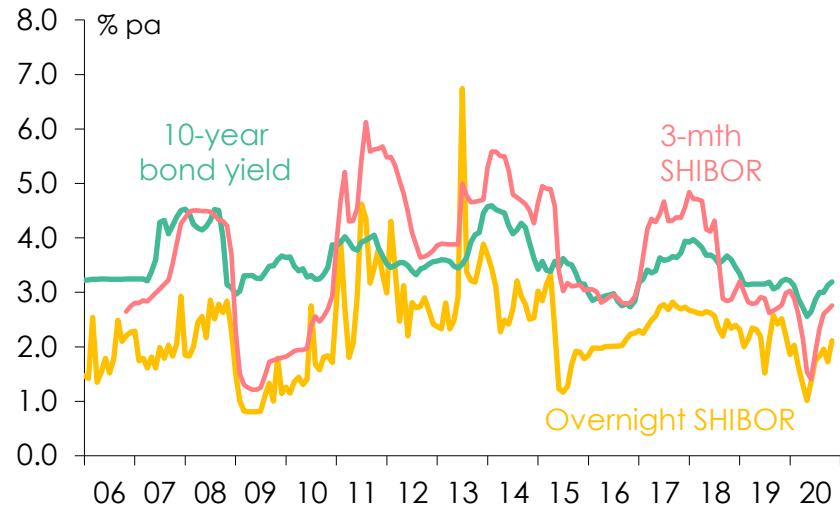
[Return to "What's New".](#)

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

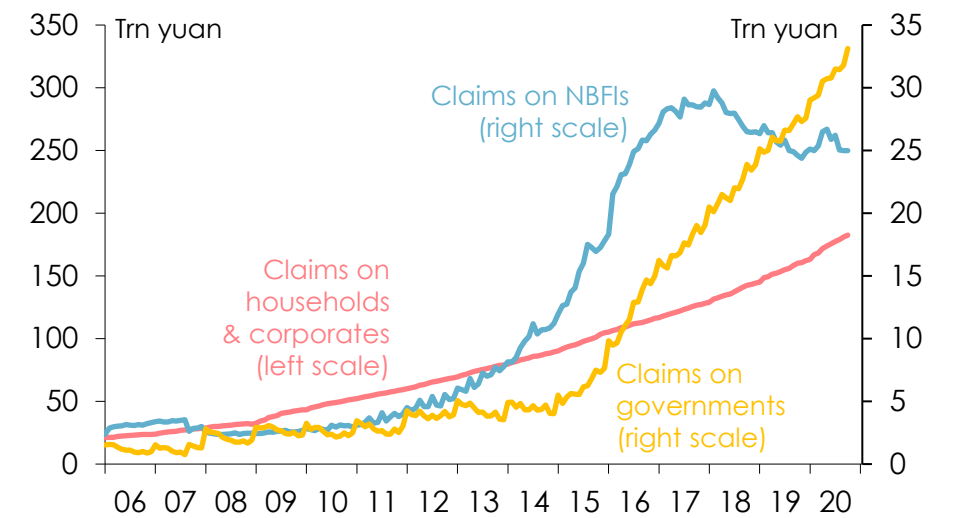
PBoC policy interest rates



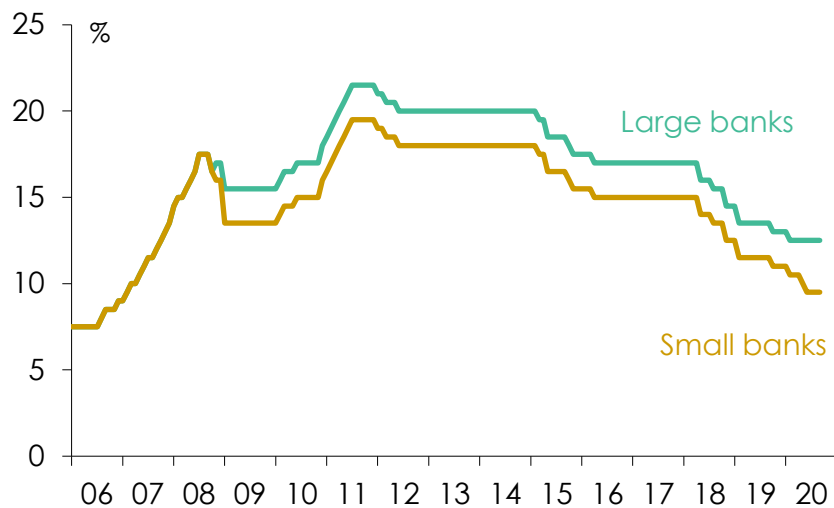
Market interest rates



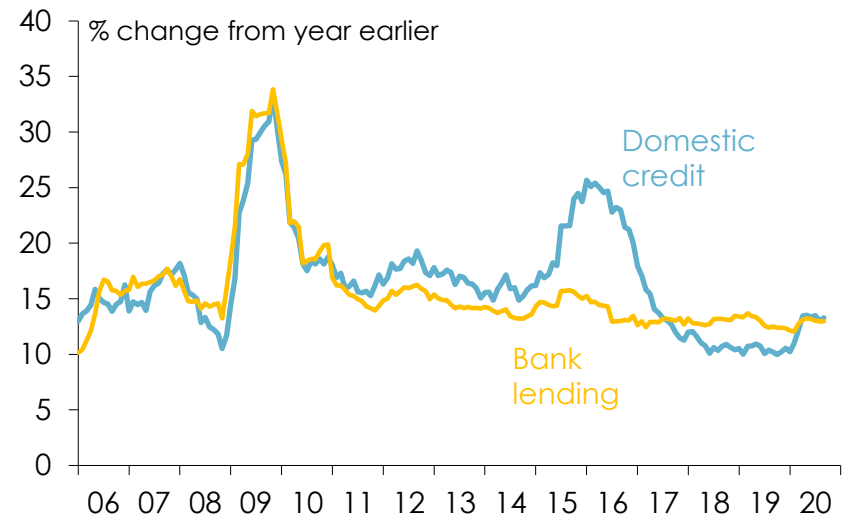
Depository corporation assets



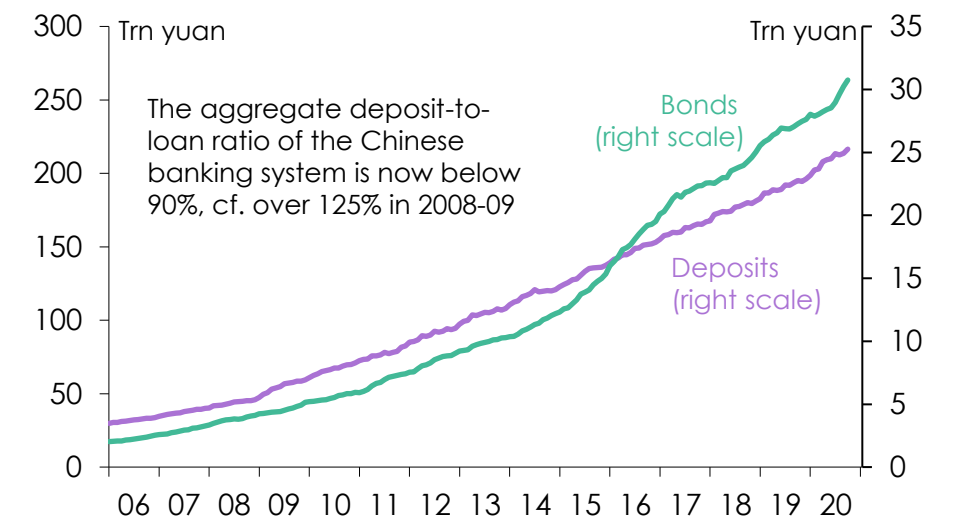
Bank reserve requirement ratios



Credit growth



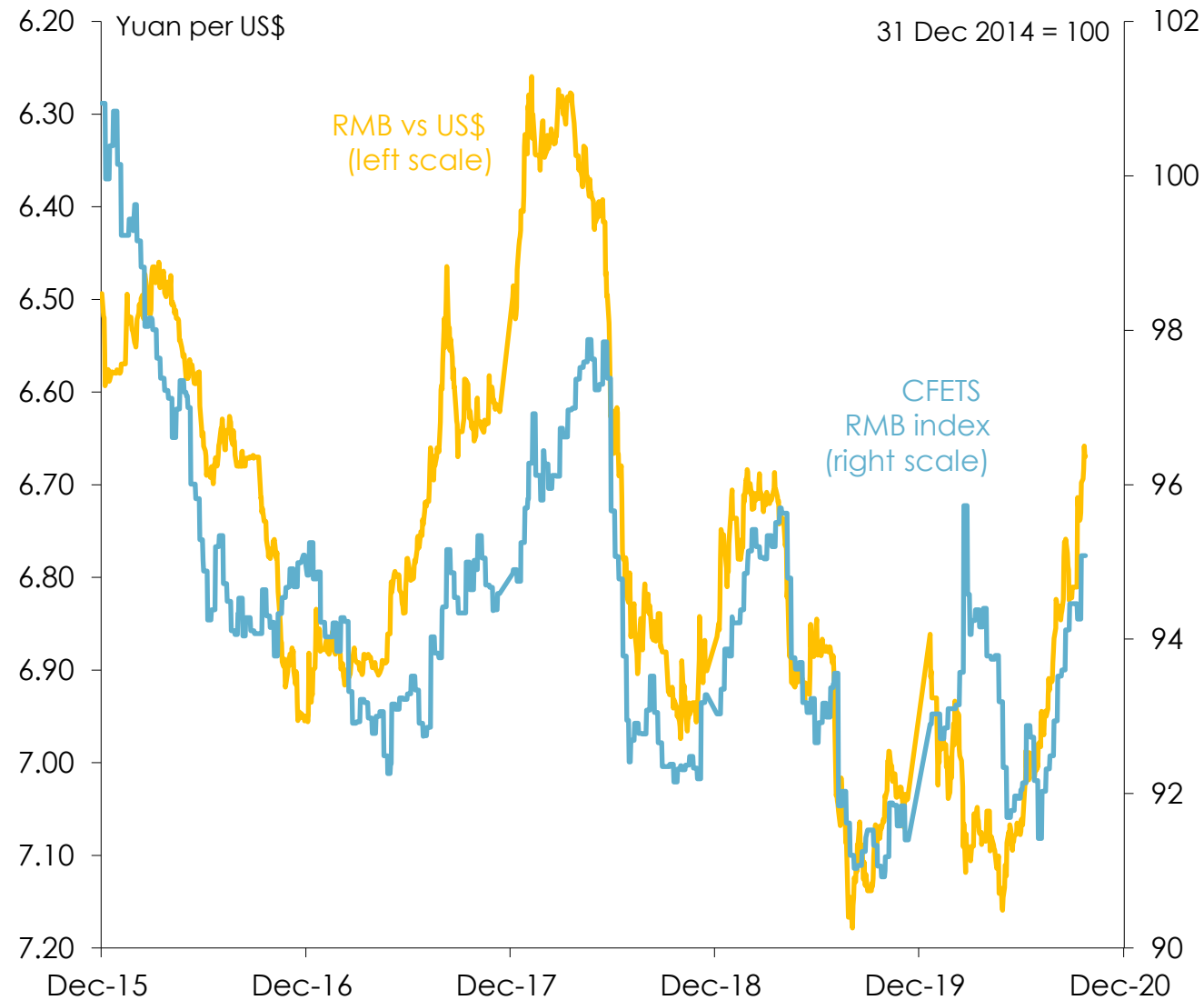
Depository corporation liabilities



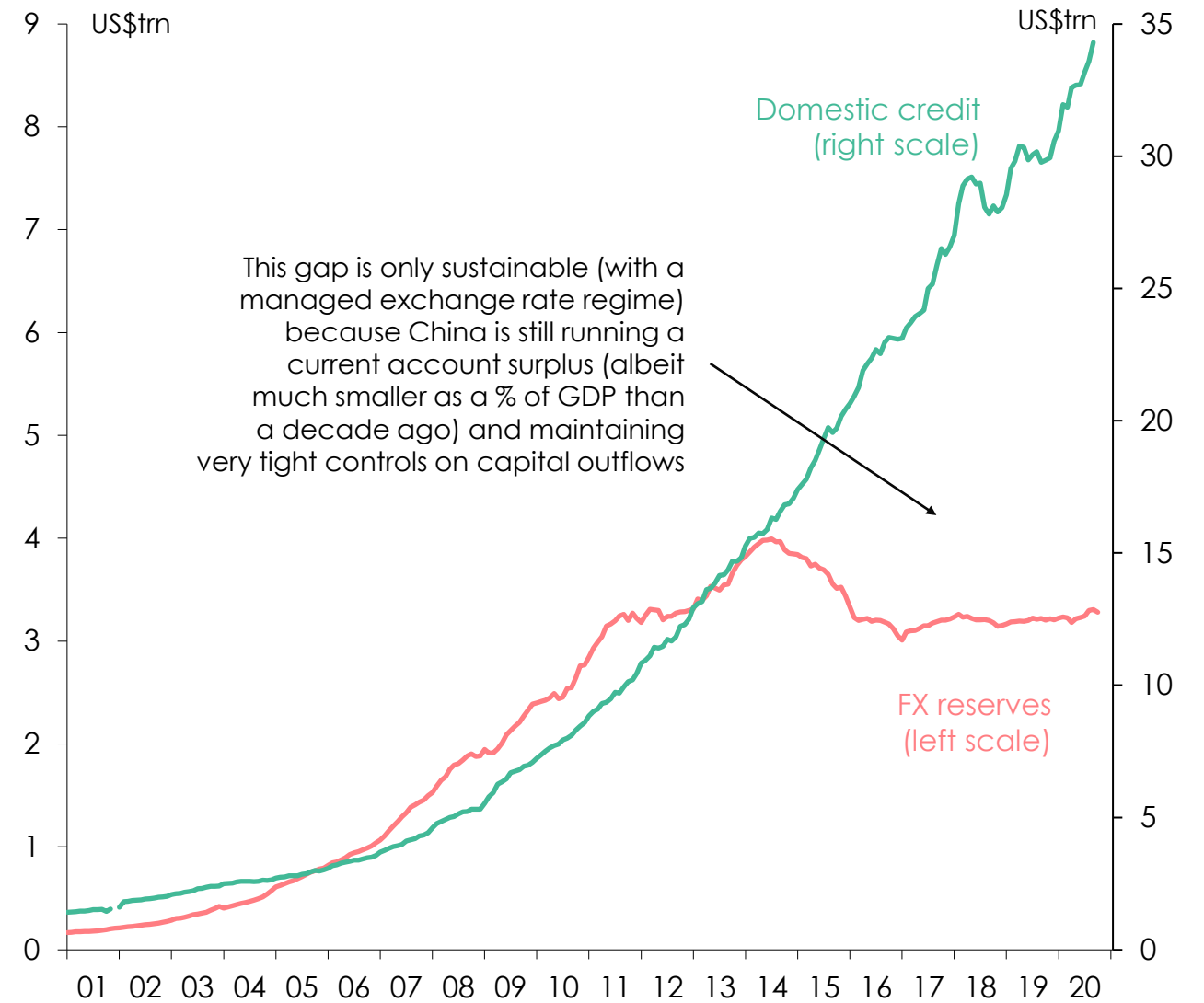
Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Sources: Refinitiv Datastream; People's Bank of China. [Return to "What's New"](#).

The Rmb rose another 0.4% against the US\$ and 0.9% in trade-weighted terms, despite the previous week's easing of restrictions on FX purchases

Chinese renminbi vs US\$ and trade-weighted index



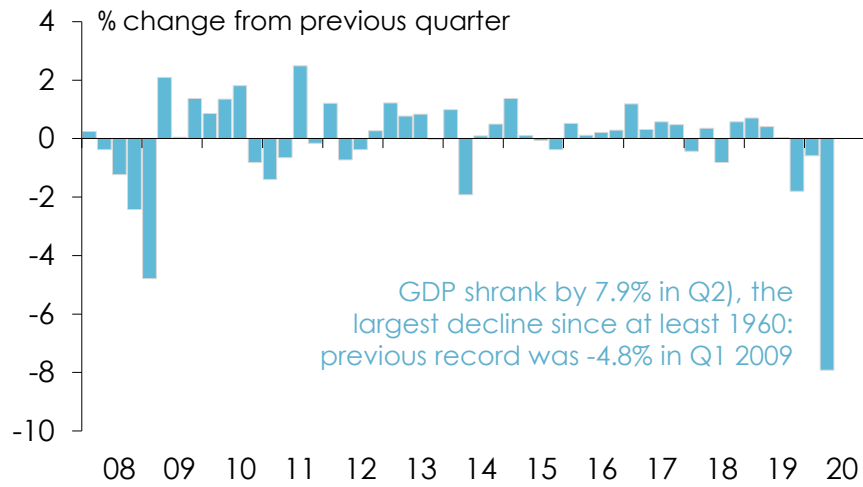
FX reserves and domestic credit



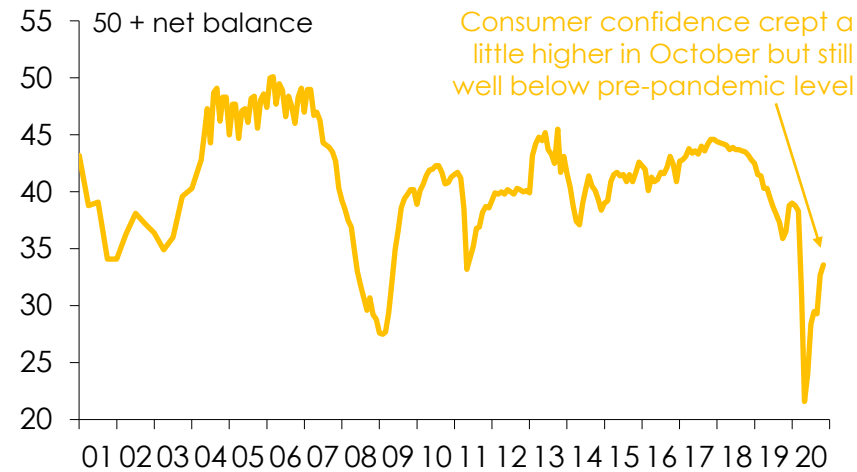
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 23rd October; credit and FX reserves data up to September. [Return to "What's New"](#).

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

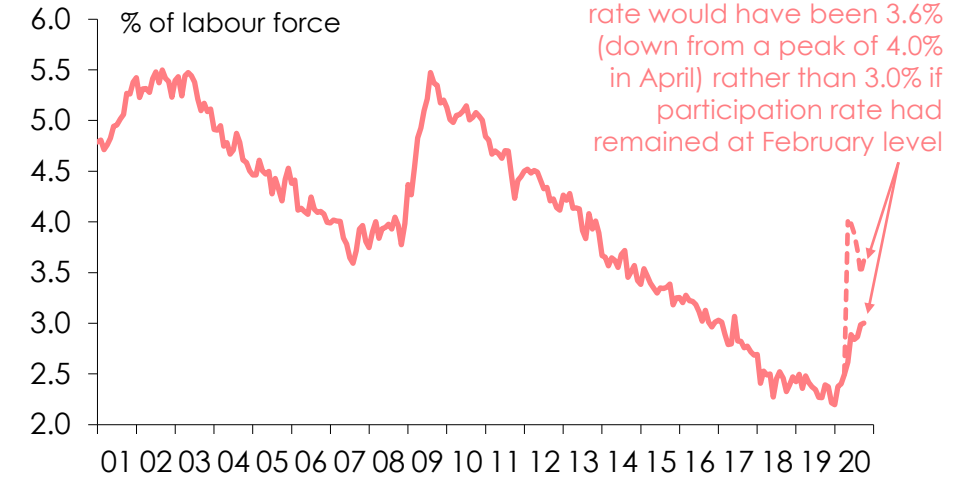
Real GDP



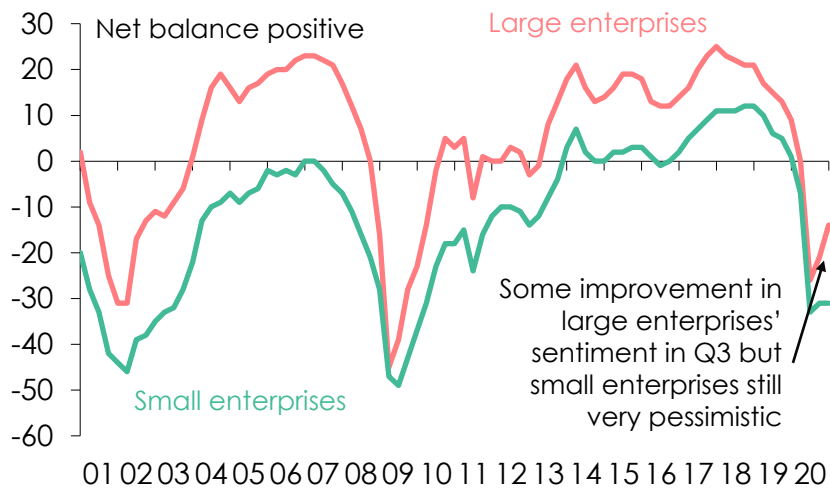
Consumer confidence



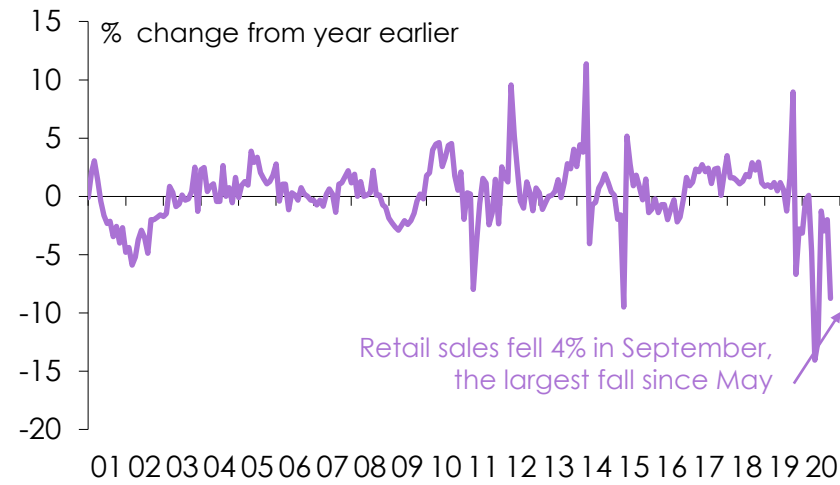
Unemployment



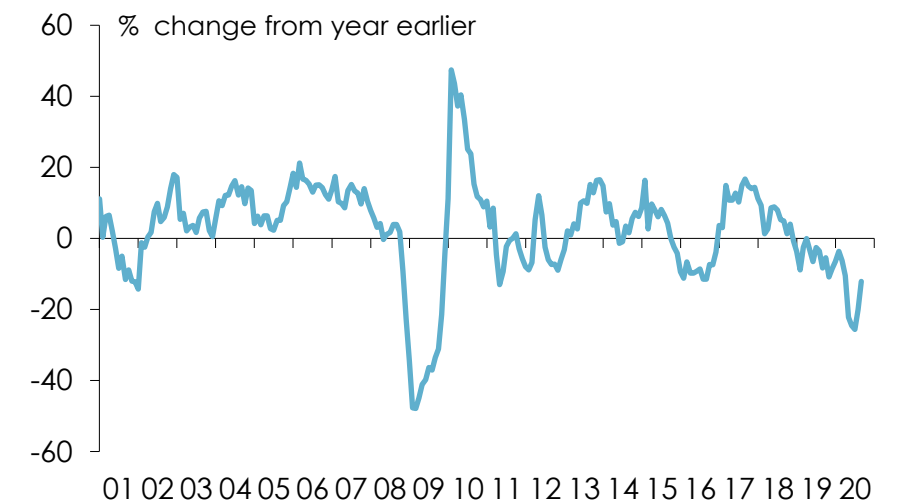
BoJ Tankan business conditions



Value of retail sales



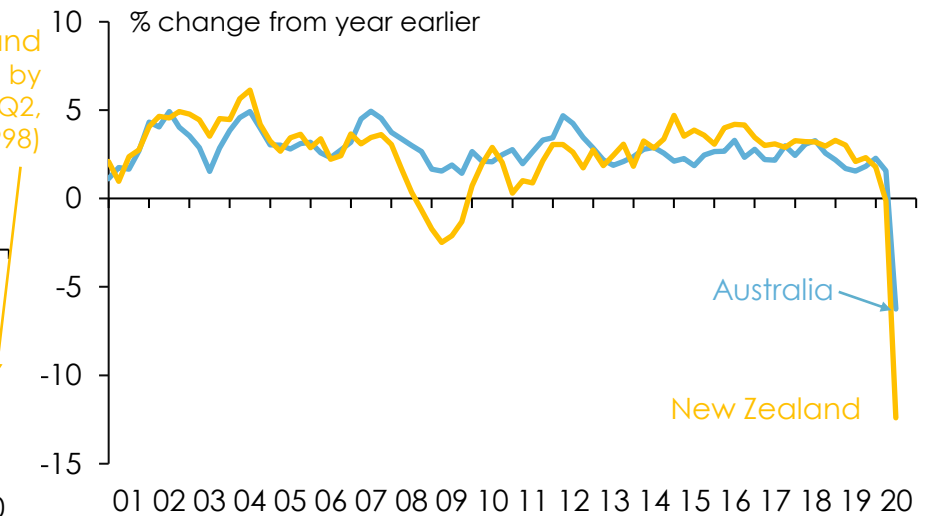
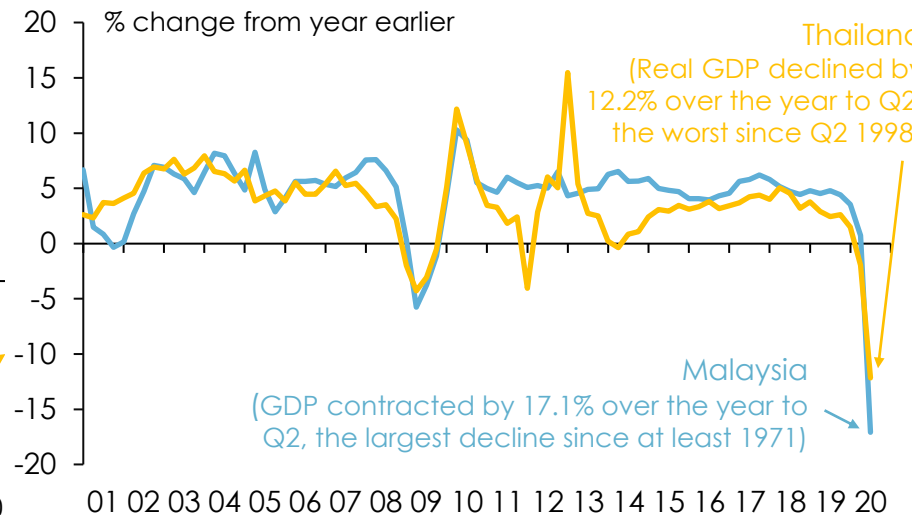
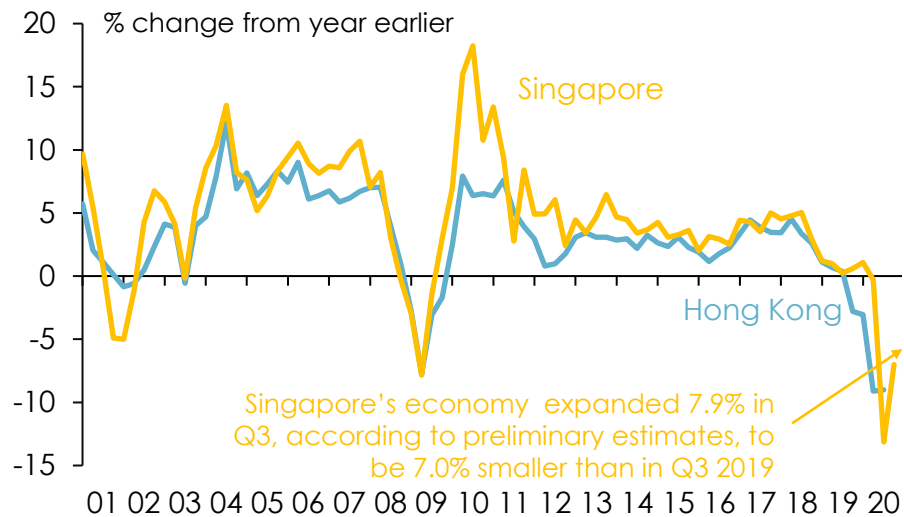
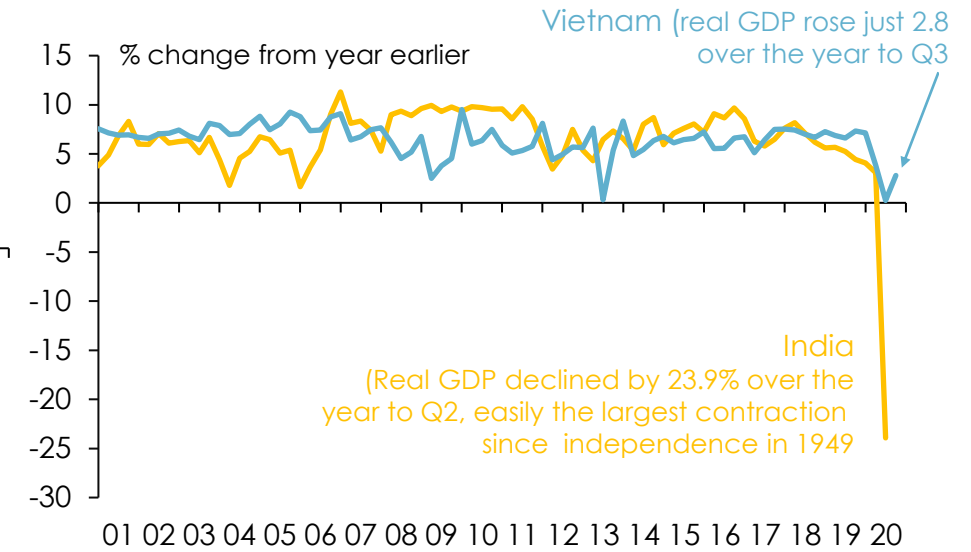
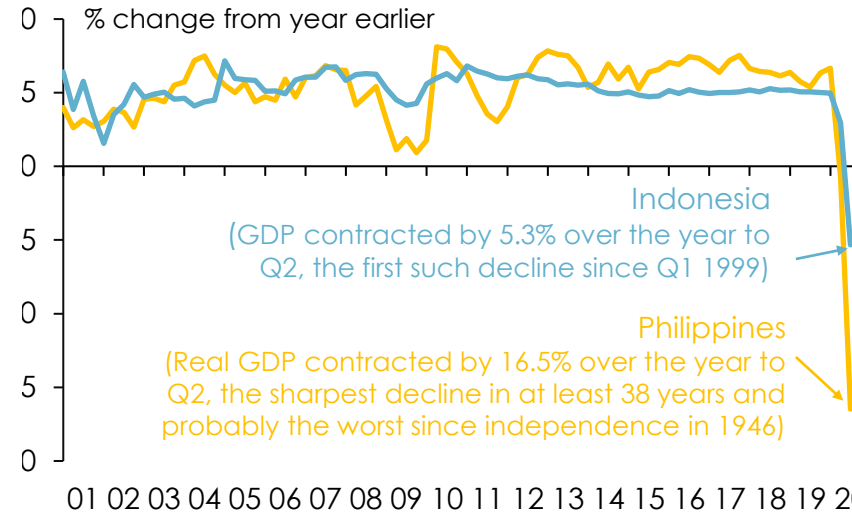
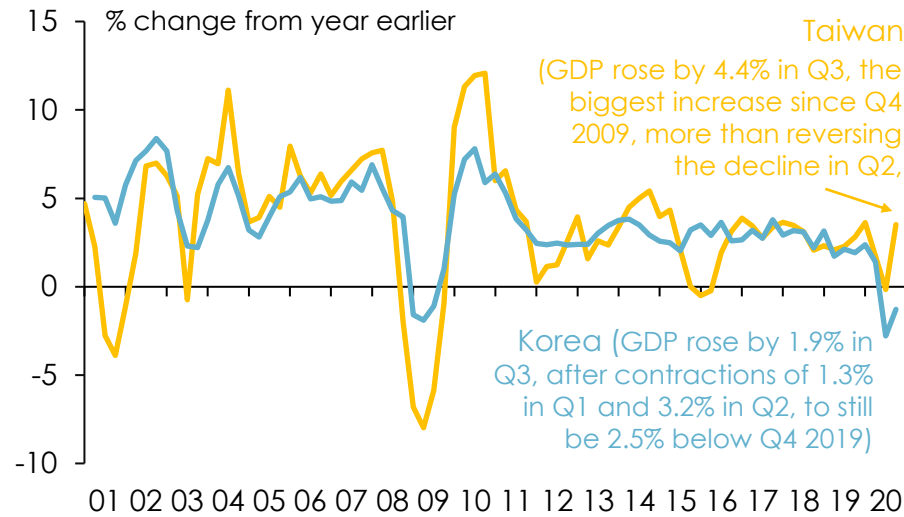
Merchandise export volumes



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"](#).

Preliminary Q3 national accounts data show tepid recoveries in Korea, Singapore and Vietnam, but a stronger upturn in Taiwan

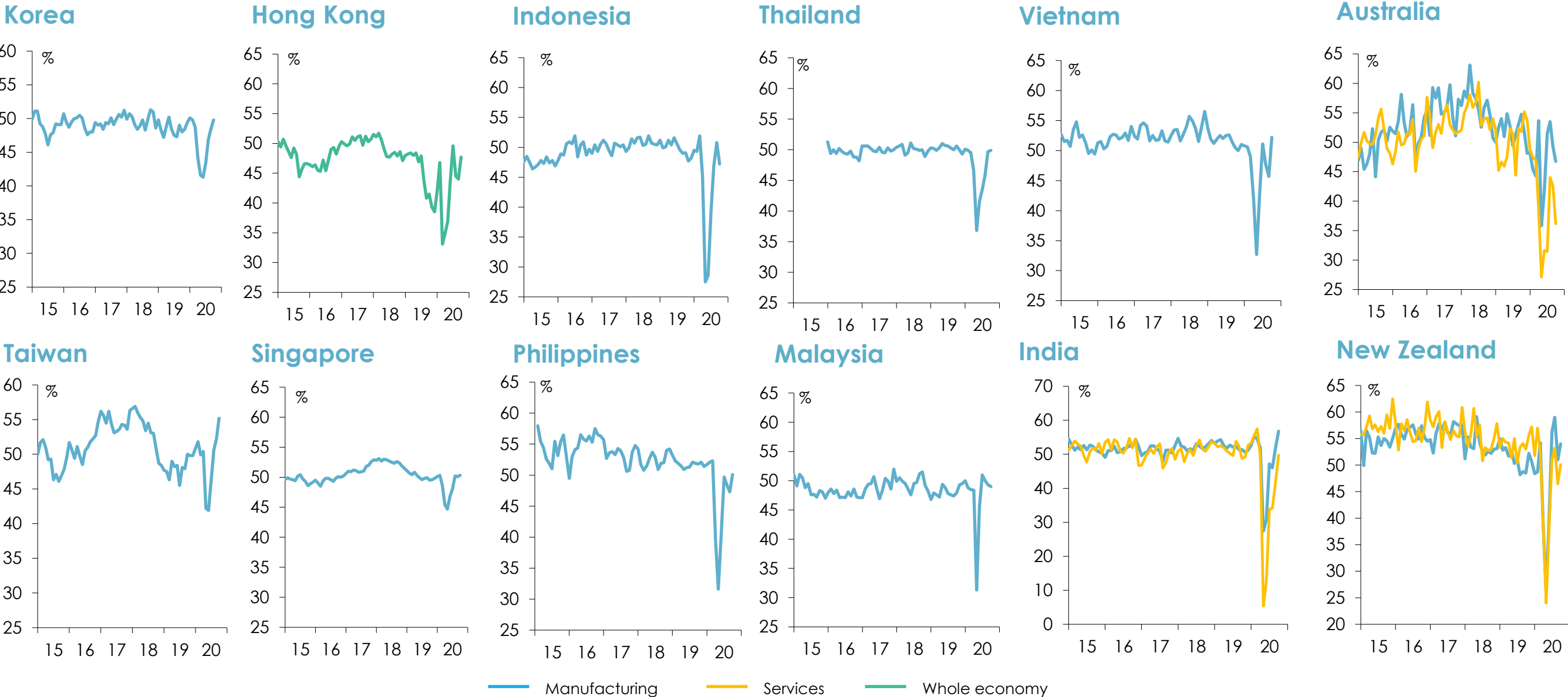
Real GDP growth – Asia-Pacific economies



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".](#)

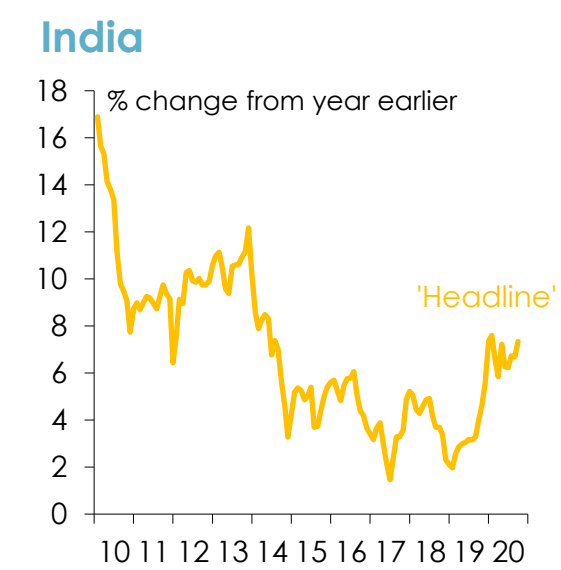
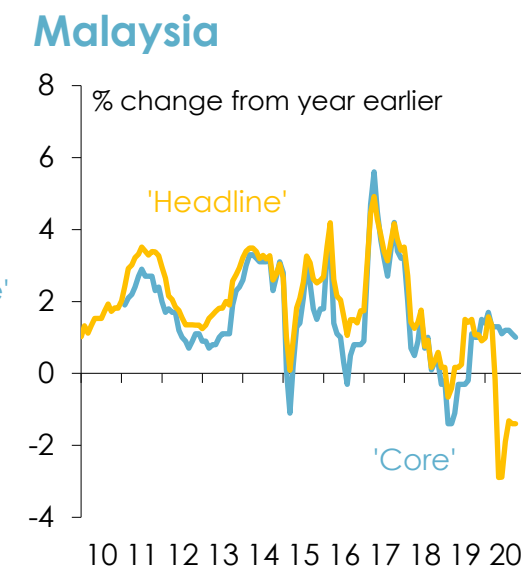
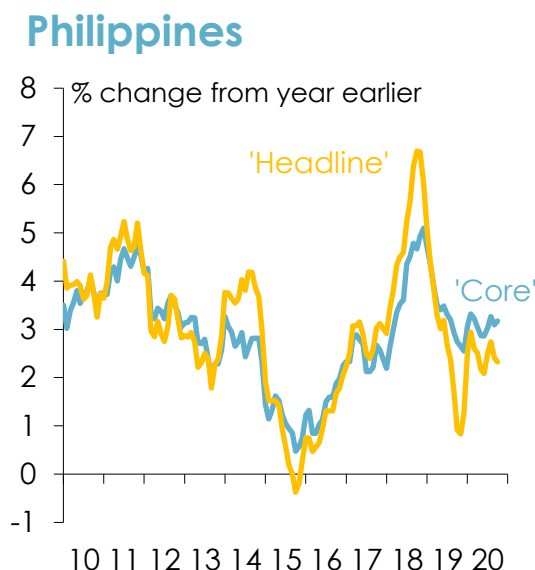
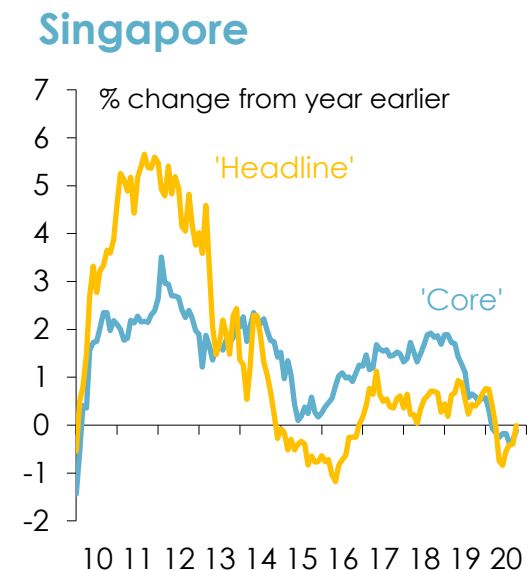
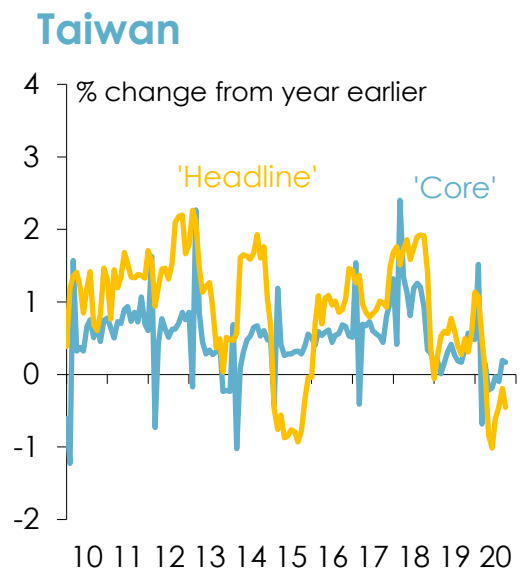
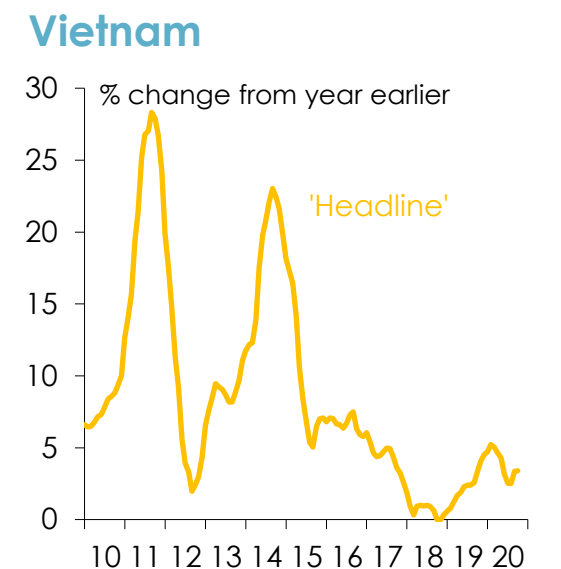
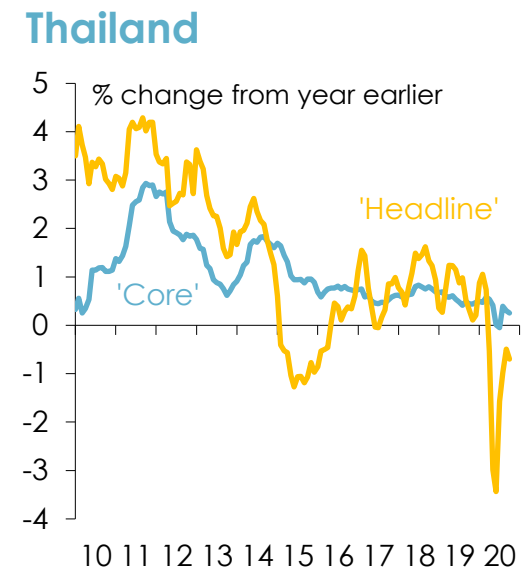
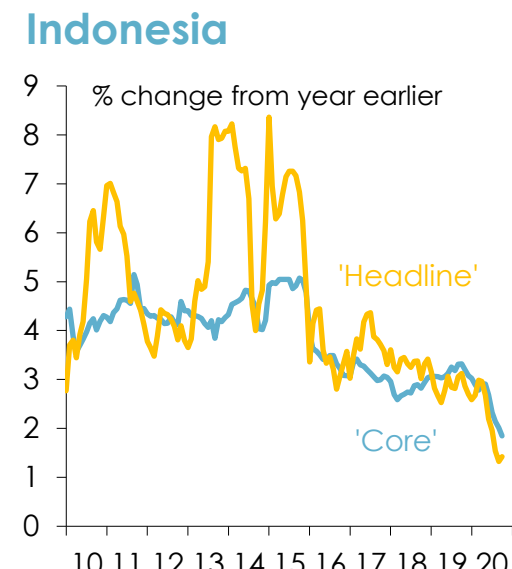
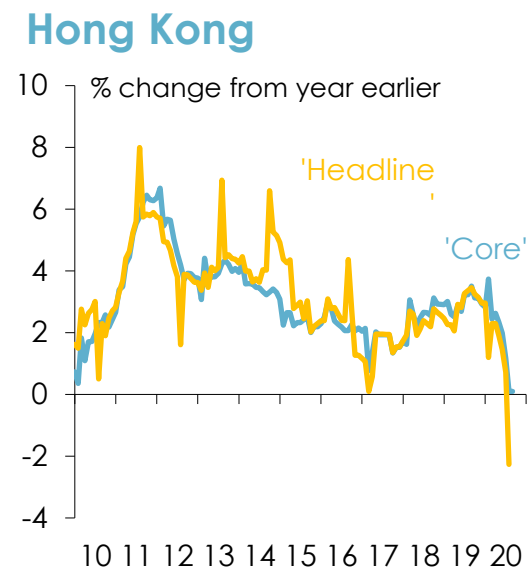
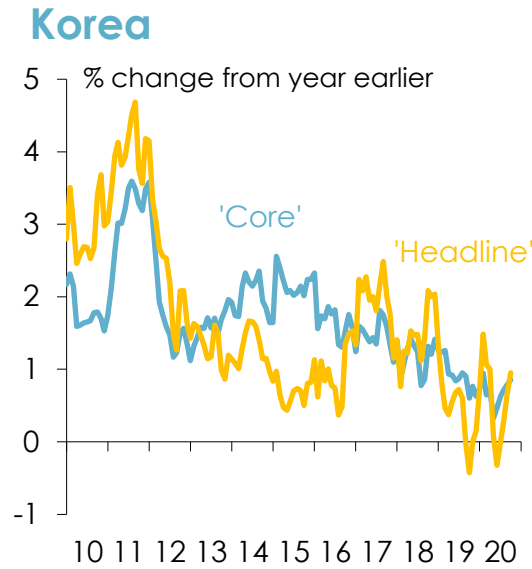
Manufacturing PMIs rose further in August in most Asia-Pacific economies except for Philippines, Vietnam, Australia & NZ



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.

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

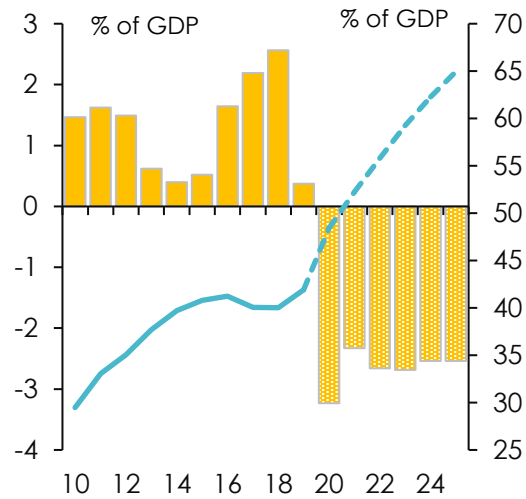
Inflation remains very low across Asian economies (including Indonesia & Philippines where it had been stubbornly high) – except for India



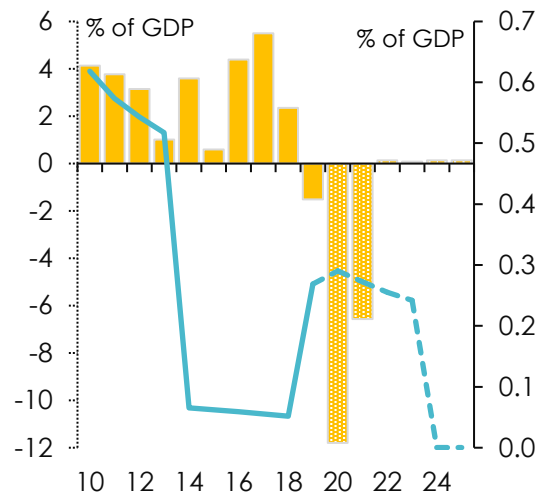
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

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

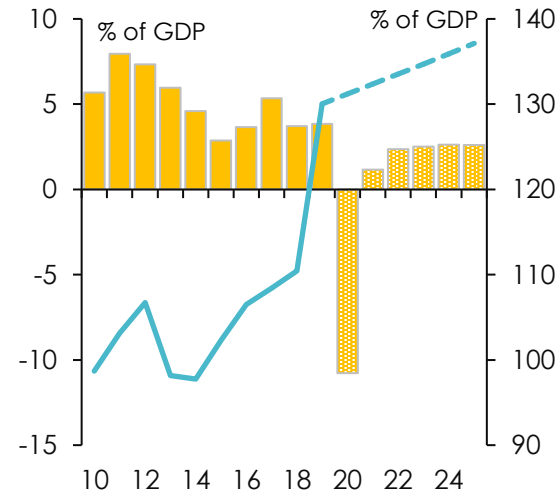
Korea



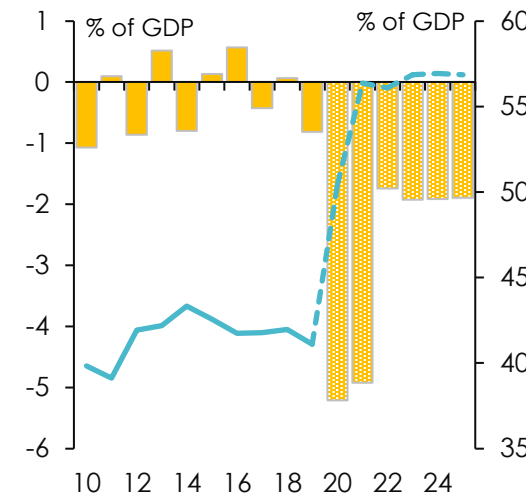
Hong Kong



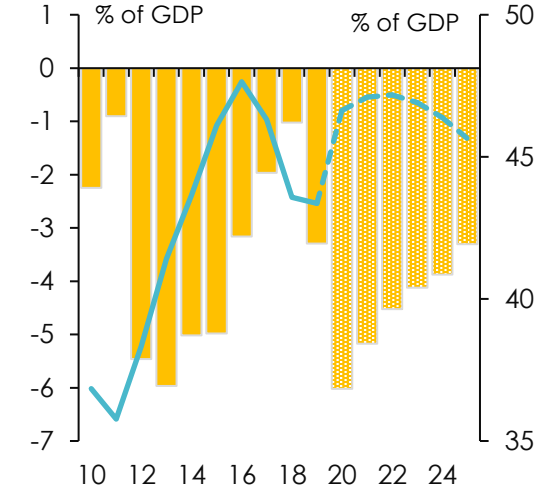
Indonesia



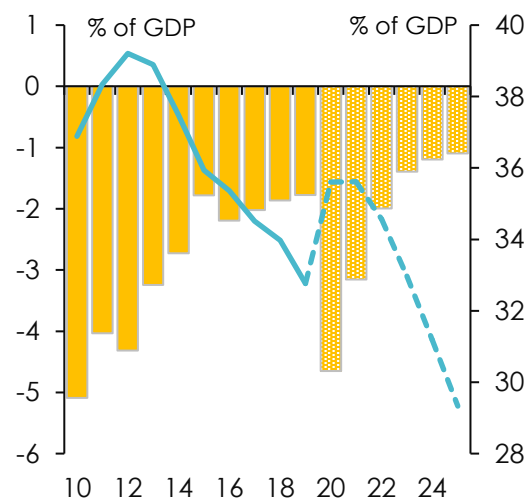
Thailand



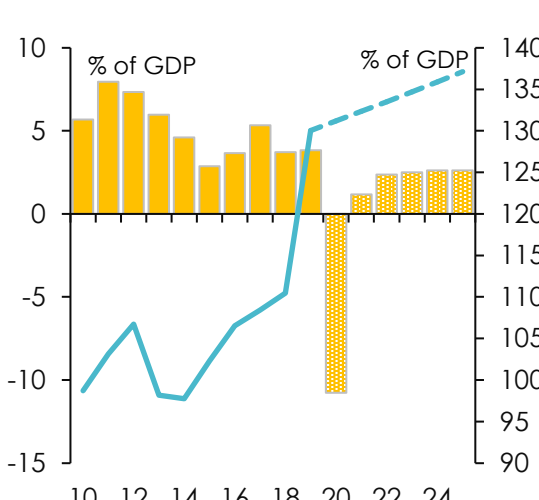
Vietnam



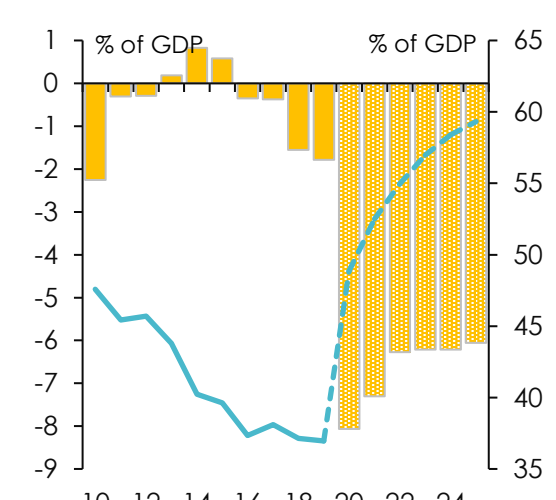
Taiwan



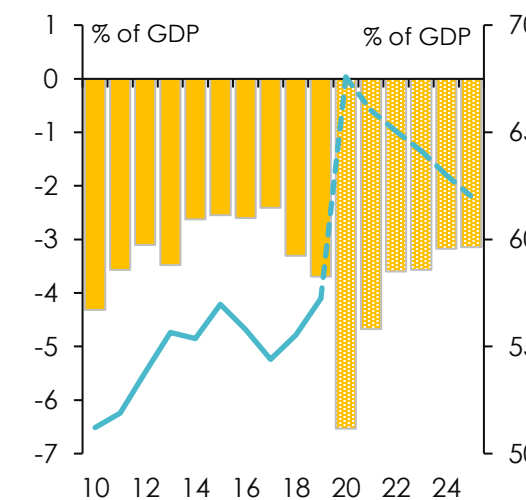
Singapore



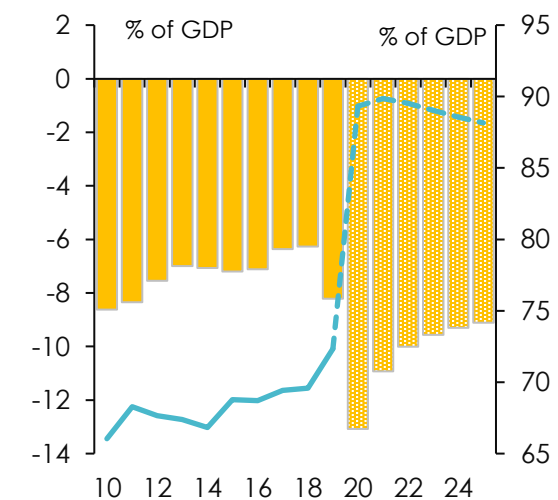
Philippines



Malaysia

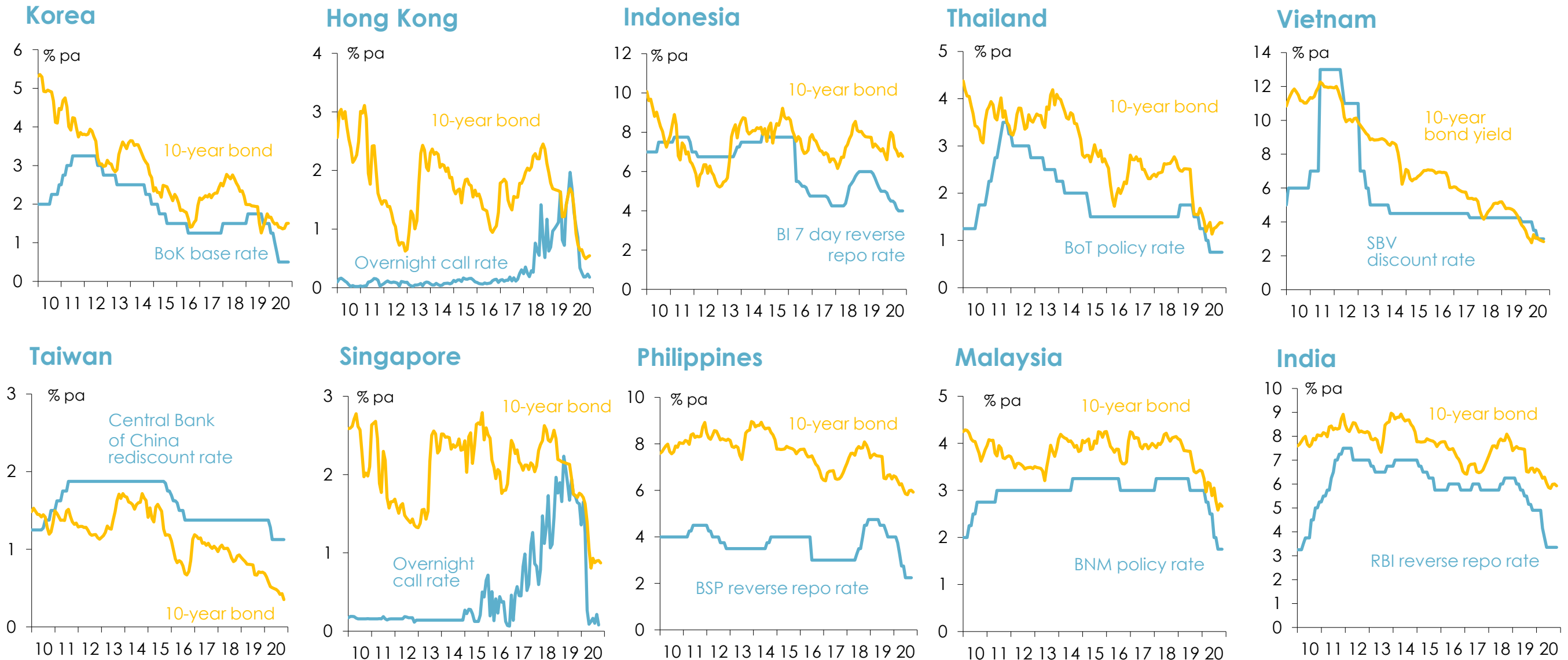


India



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"](#).

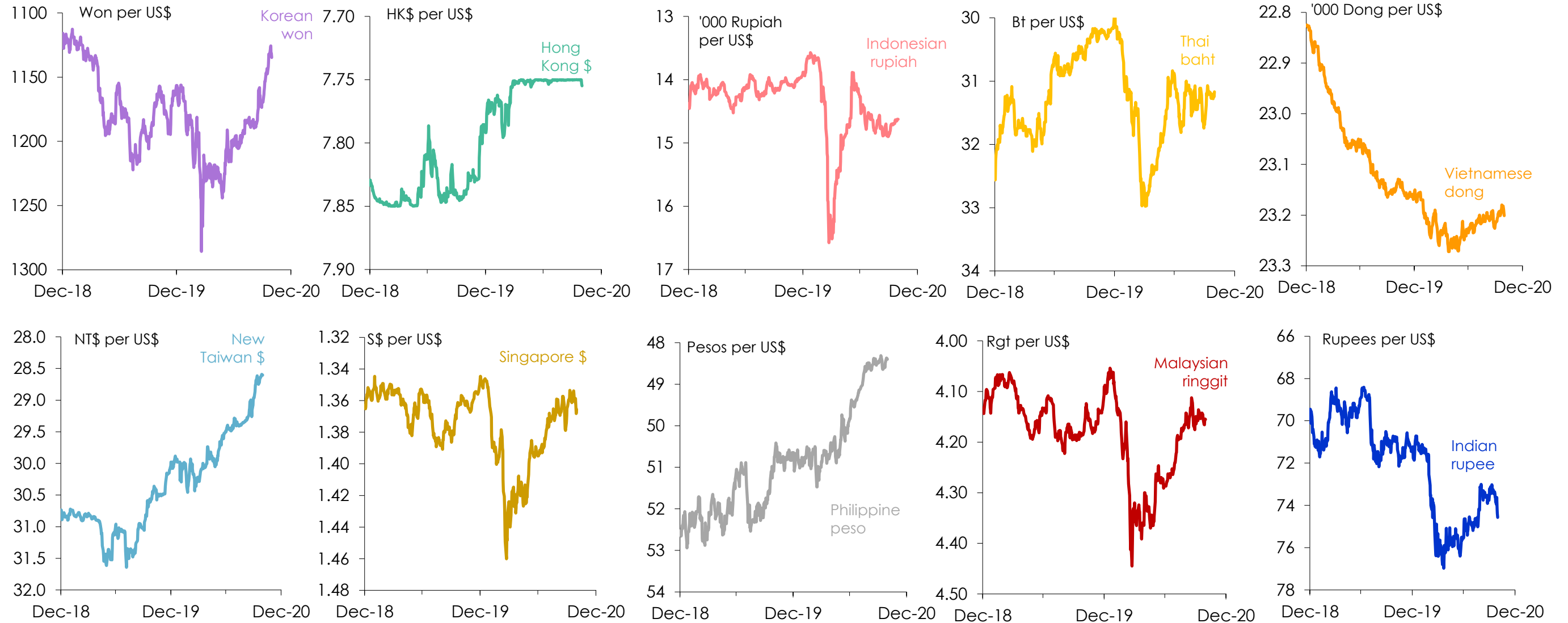
Policy interest rates across Asia are at record lows, but there's scope for more conventional monetary policy easing if required



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"](#).

The global 'risk off' mood weighed particularly on the Indian rupee which was down 1% this week, while south-east Asian currencies firmed a little

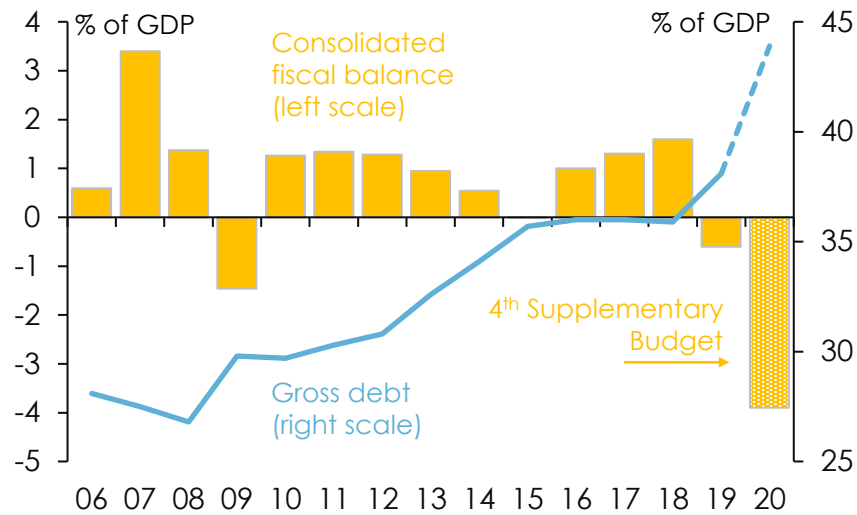
Asian currency exchange rates vs US dollar



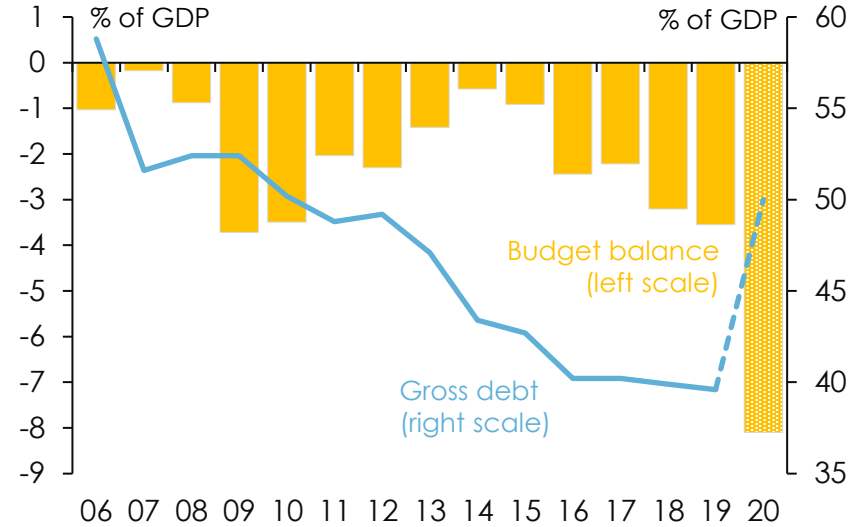
Note: Data up to 30th October. Source: Refinitiv Datastream. [Return to "What's New"](#).

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

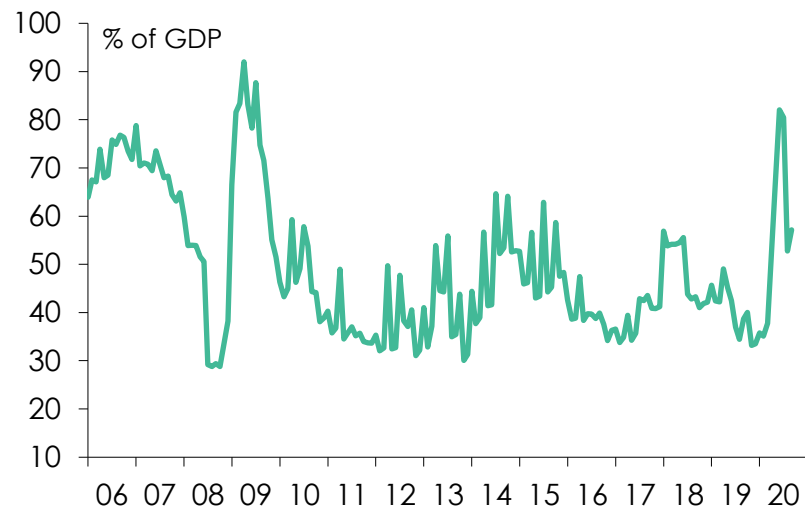
Korea central government budget



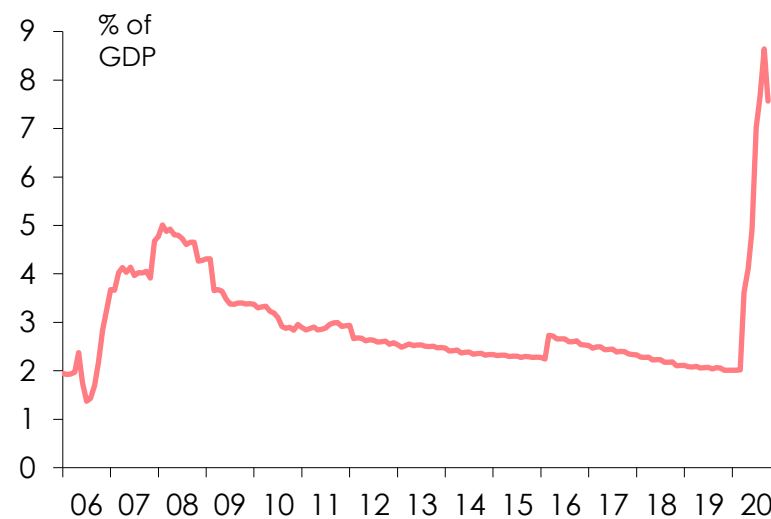
Philippines NG budget



BoK domestic assets



BSP claims on national gov't

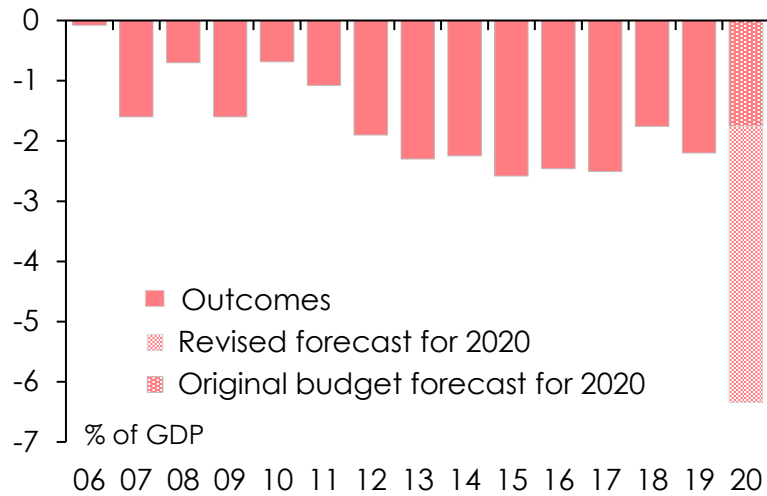


- ❑ The Bank of Korea has cut its policy rate by 100bp so far this year to a record low of 0.50%
- ❑ After its last rate cut in May, Governor Lee Ju-Yeol indicated the BoK was considering using 'unconventional monetary tools' to support growth
 - since March, the BoK has been willing to supply 'unlimited 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 & the private sector – but fell back to 57% in August as loans were repaid & 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

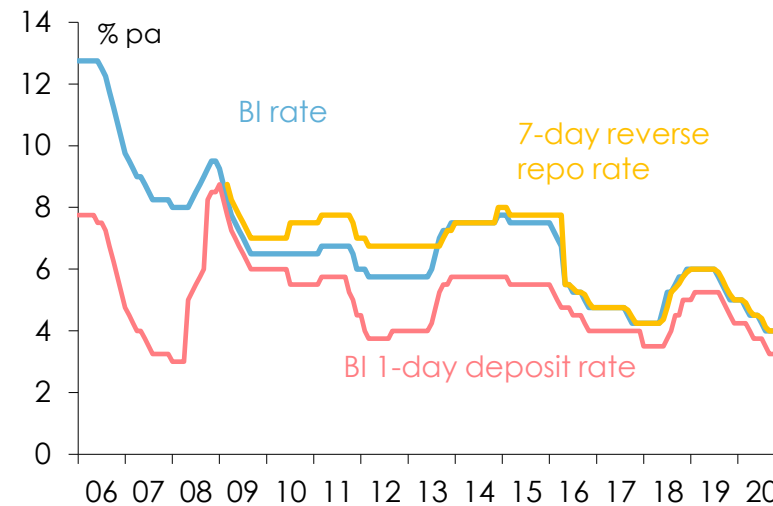
Sources: [Korea Ministry of Economy and Finance](#); [Bank of Korea](#); Philippines Development Budget Co-ordination Committee; [Philippines Bureau of the Treasury](#); [Bangko Sentral ng Pilipinas](#). [Return to "What's New"](#).

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

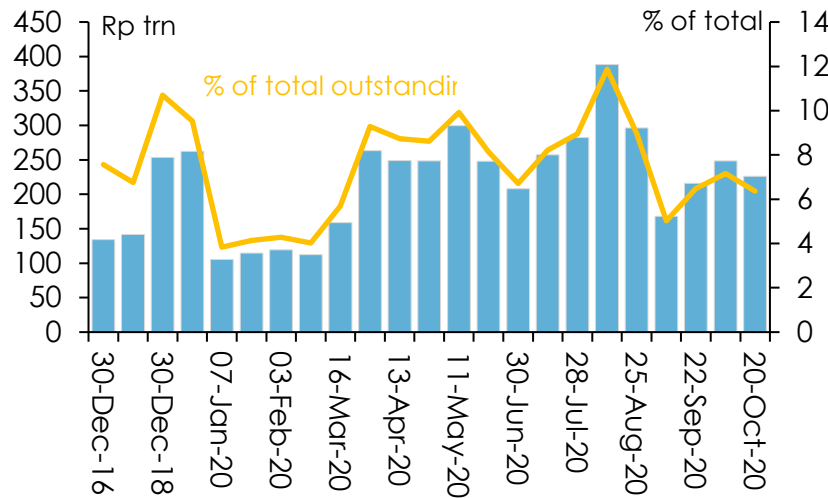
Indonesia budget deficit



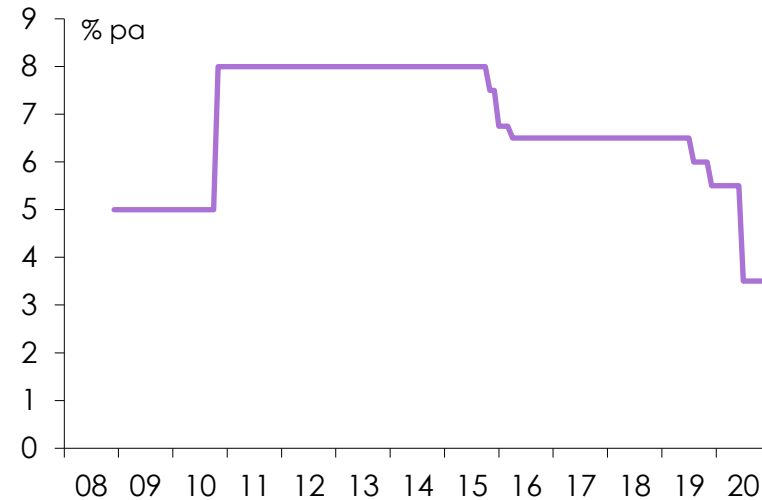
BI monetary policy rates



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 20th October BI had purchased Rp48 trn of SBN in the primary market, and provided an additional Rp 99trn through private placements for 'burden sharing' to fund public goods

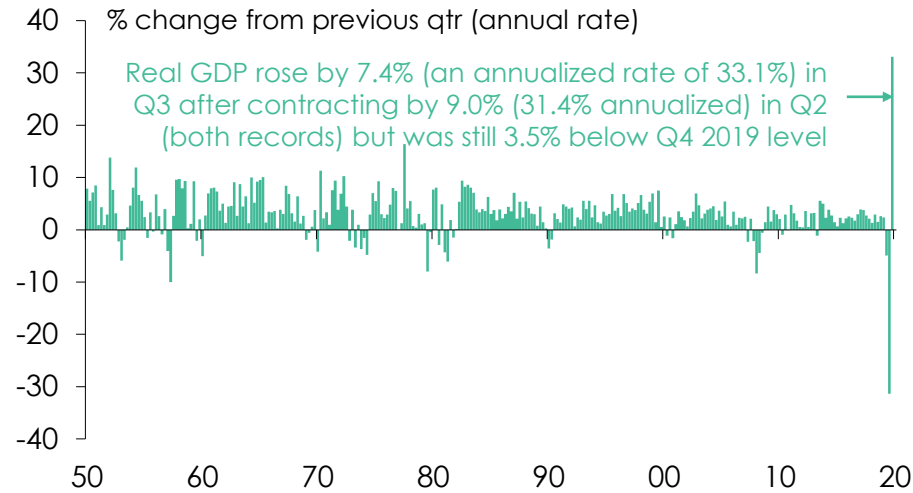
- Finance Minister Sri Mulyani Indrawati and, separately, a group of parliamentarians, have proposed a 'Perppu' ('Decree in lieu of Law') on 'Financial System Reform' which would
 - give BI an employment mandate in addition to its inflation target;
 - give the Finance Minister and other ministers voting rights on the BI's policy-making board
 - 'allow' BI to purchase zero-coupon government bonds 'at a discount, and to provide 'temporary financing' to offset revenue shortfalls of up to 20% of revenue projections
 - transfer responsibility for bank supervision to BI from the Financial Services Authority (OJK)

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

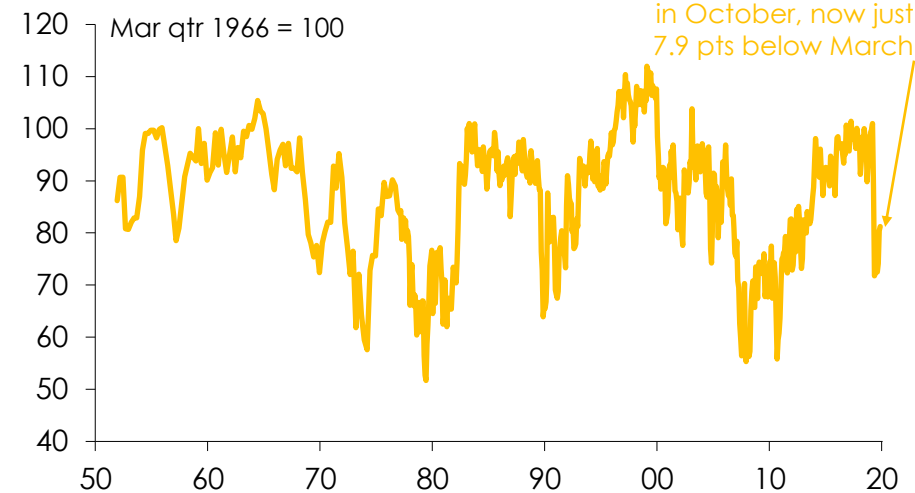
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

The US economy bounced back strongly in Q3 (7.4% after -9.0% in Q2) but looks to be slowing in Q4

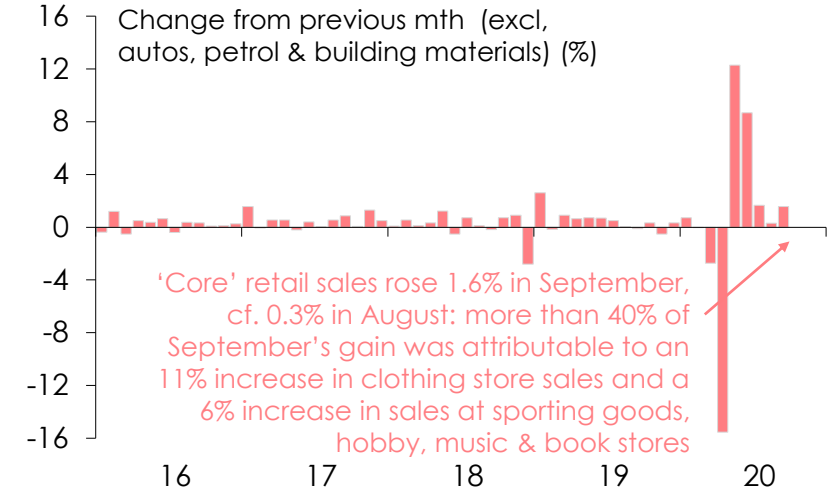
Real GDP



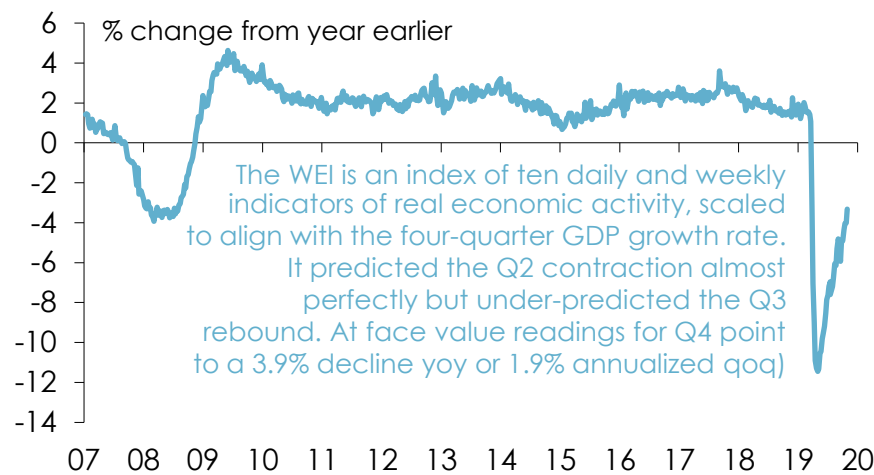
Consumer confidence



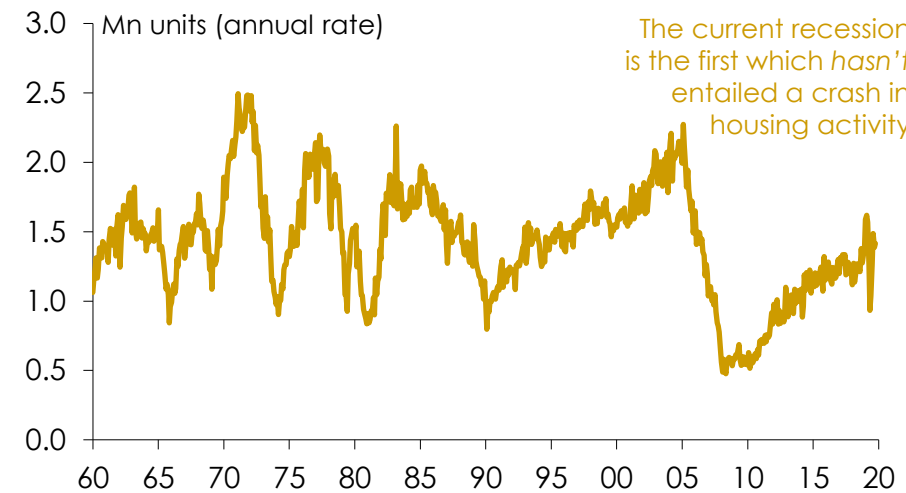
'Core' retail sales



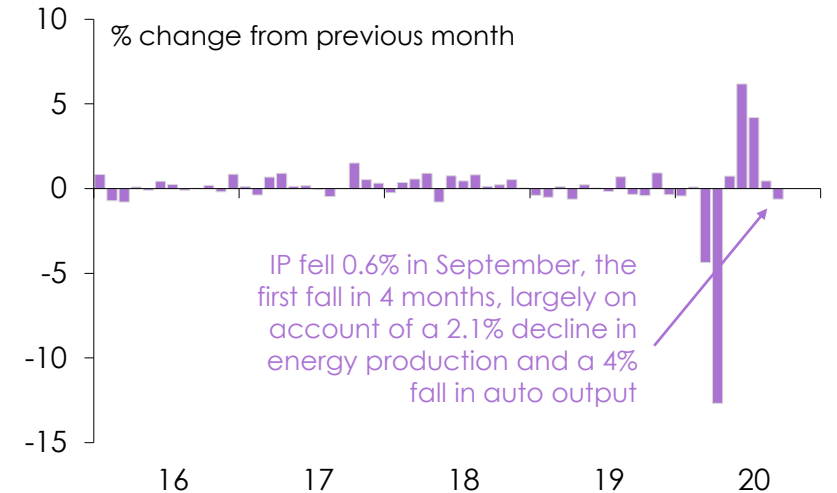
NY Fed weekly economic index



Housing starts

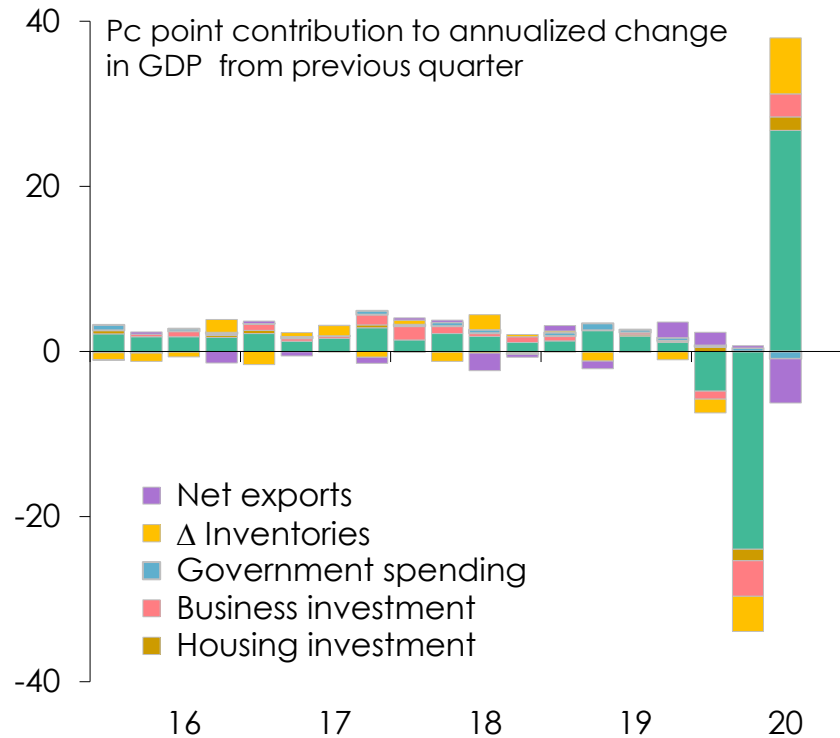


Industrial production



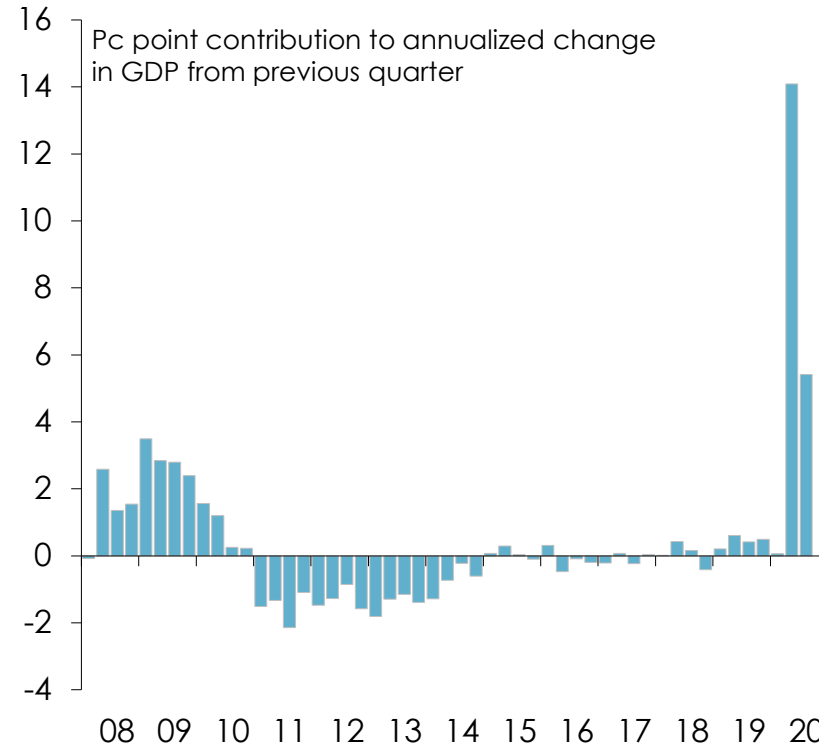
The huge gyrations in US real GDP in Q2 and Q3 reflect swings in personal consumption and inventories, fiscal policy and personal saving

Major expenditure aggregates contribution to quarterly changes in real GDP



The unprecedented fall and rise in real GDP in the past two quarters were driven by huge swings in personal consumption spending and inventory depletion & re-building

Contribution of changes in taxes and government spending to quarterly changes in real GDP



Fiscal policy made an unprecedented contribution to constraining the fall in real GDP in Q2 and to boosting the rebound in GDP in Q3

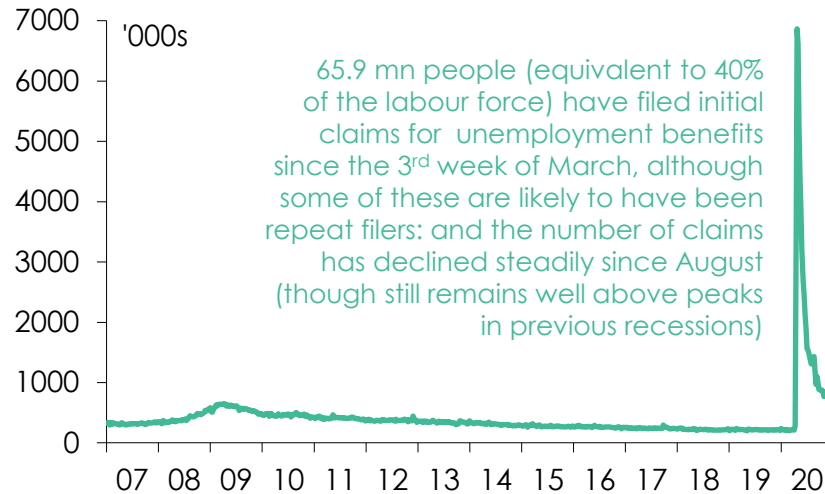
Personal saving rate



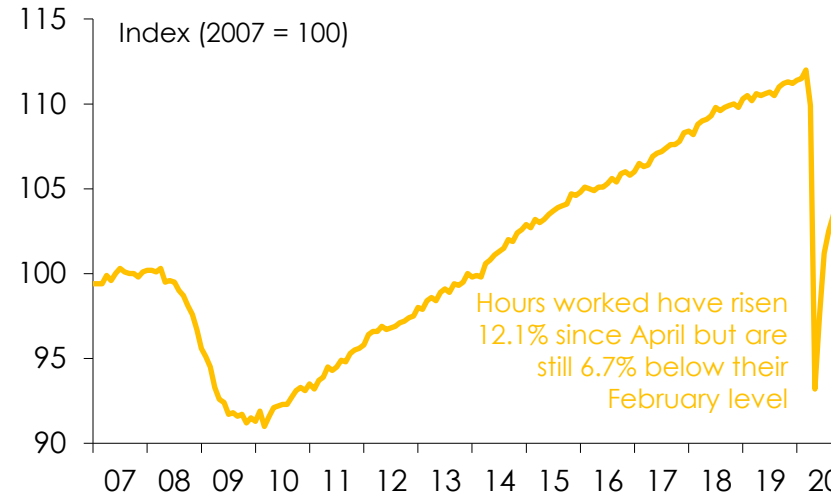
The swings in real GDP were magnified by an unprecedented rise and then fall in personal saving – reflecting the impact of government transfer payments, and of restrictions on spending in Q2

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

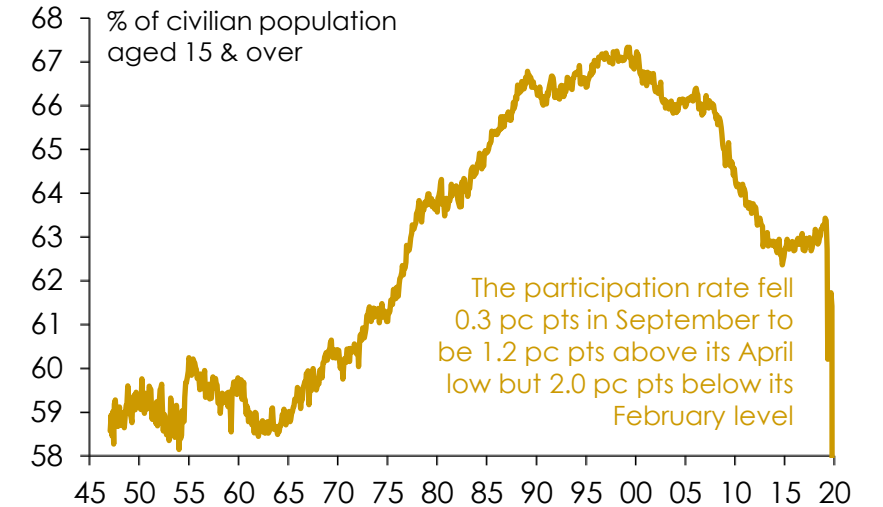
Unemployment benefit claims



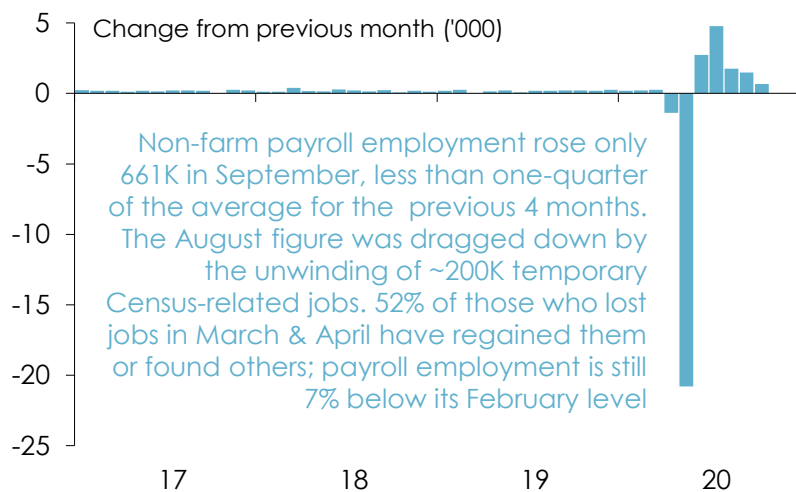
Hours worked (private sector)



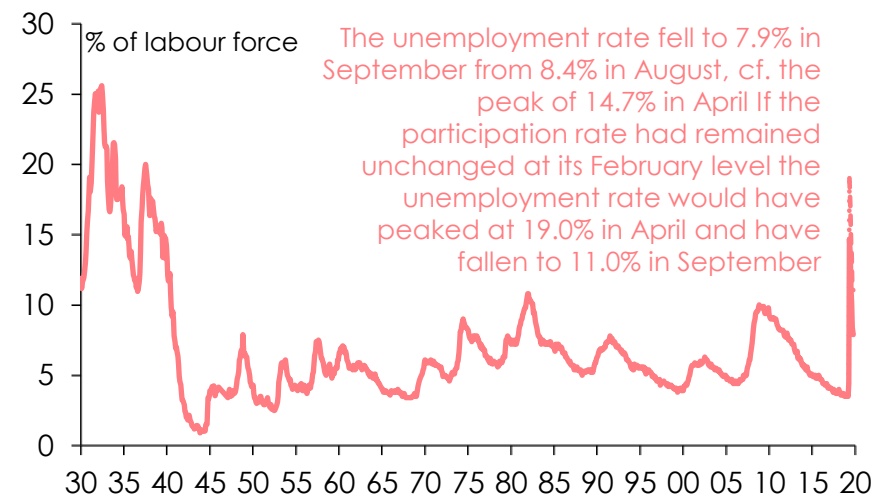
Labour force participation rate



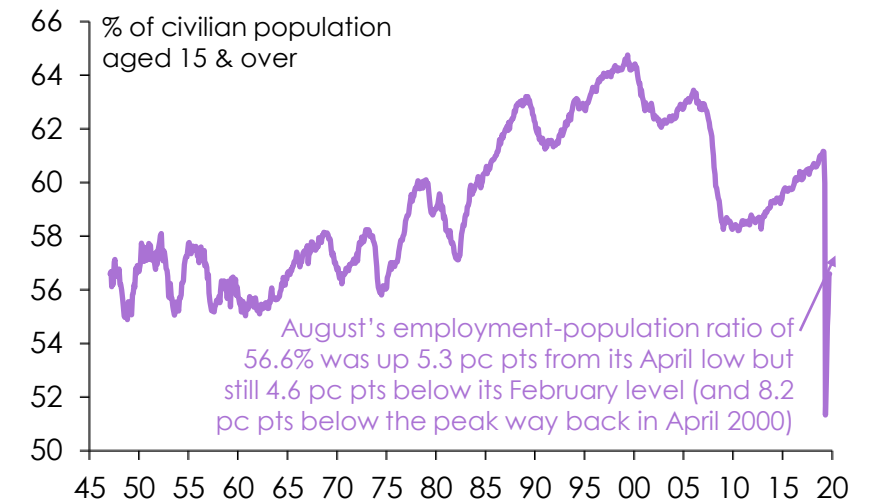
Non-farm payroll employment



Unemployment rate

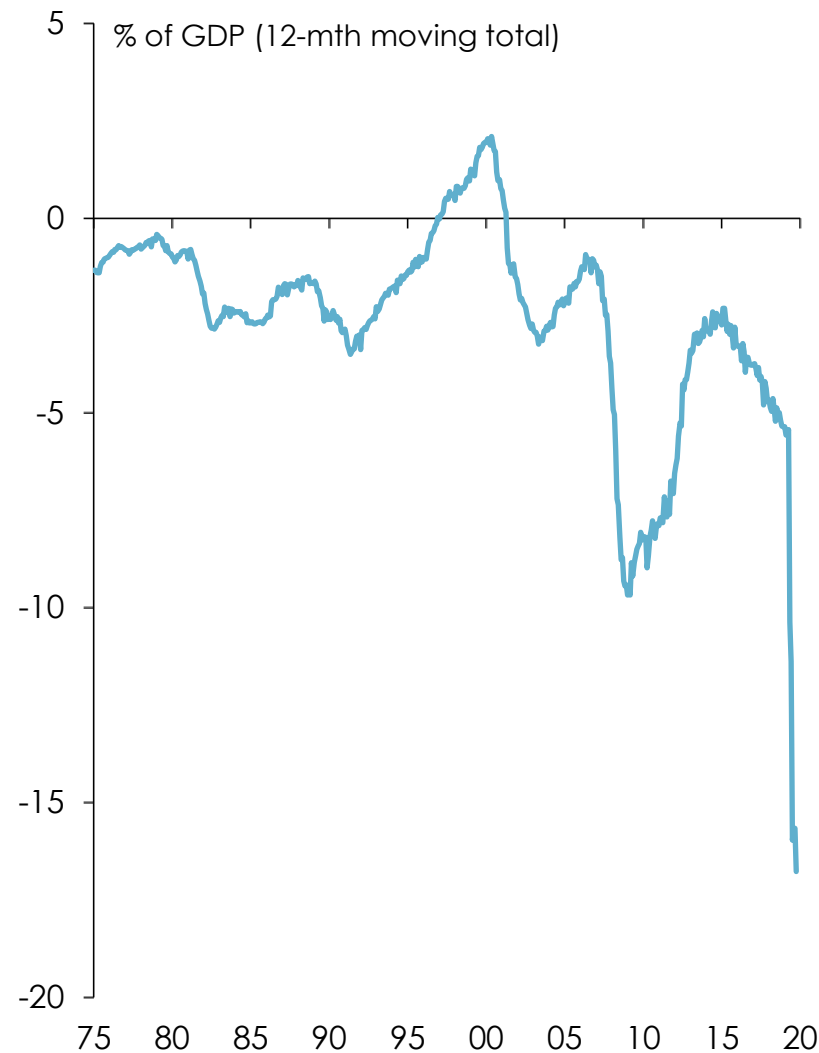


Employment to population ratio

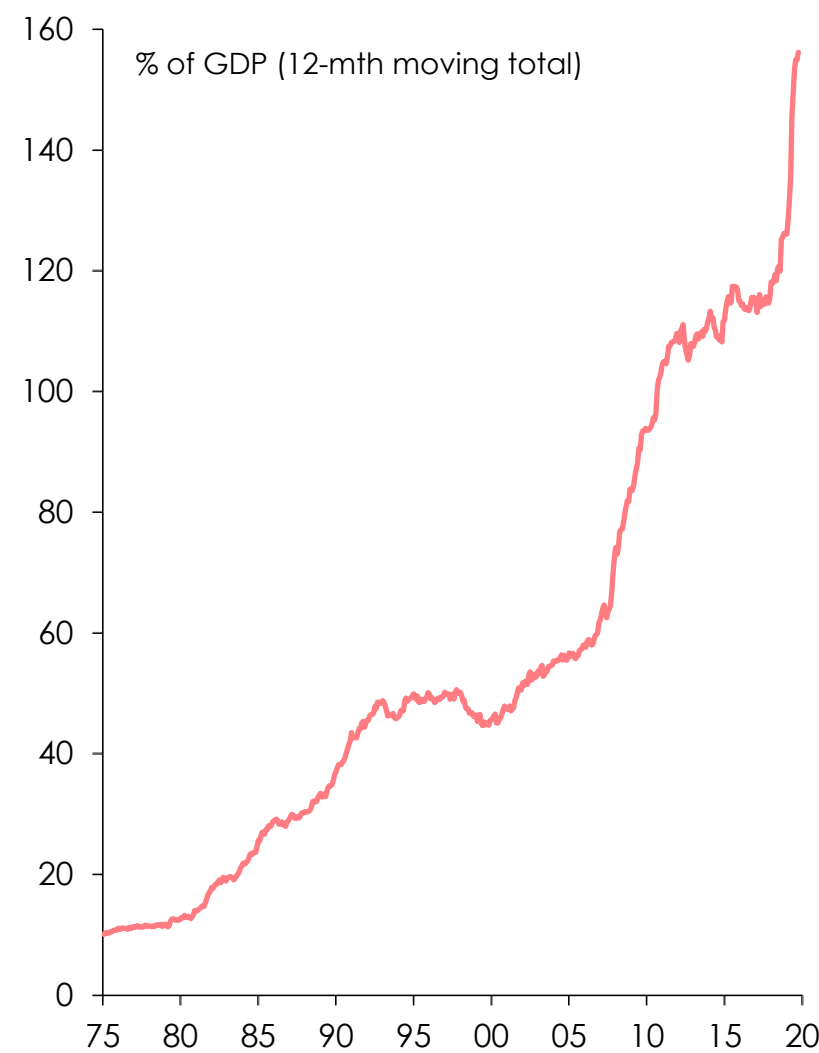


The US budget deficit has blown out dramatically since the end of March, reaching US\$3.1 trn (16³/₄% of GDP) in the 12 months ended September

US Federal budget deficit



US gross Federal debt

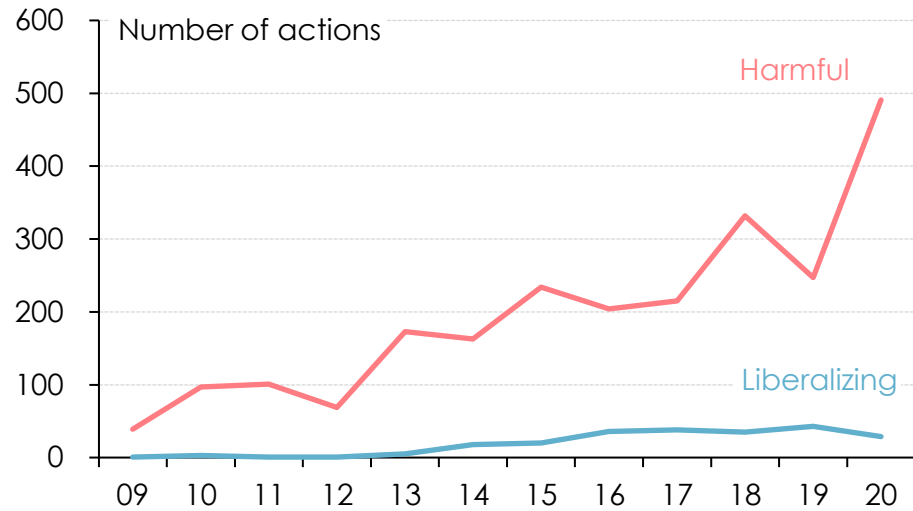


- ❑ The US budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to \$24.1trn (126% of GDP)
- ❑ The budget was in deficit by US\$125bn in September, a month in which there's 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

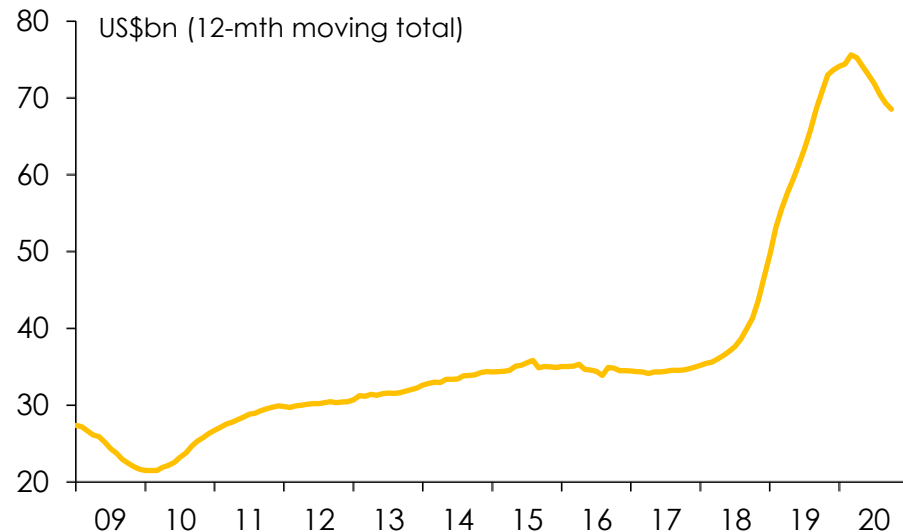
Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna. The October budget data will be released on 11th November. [Return to "What's New"](#).

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

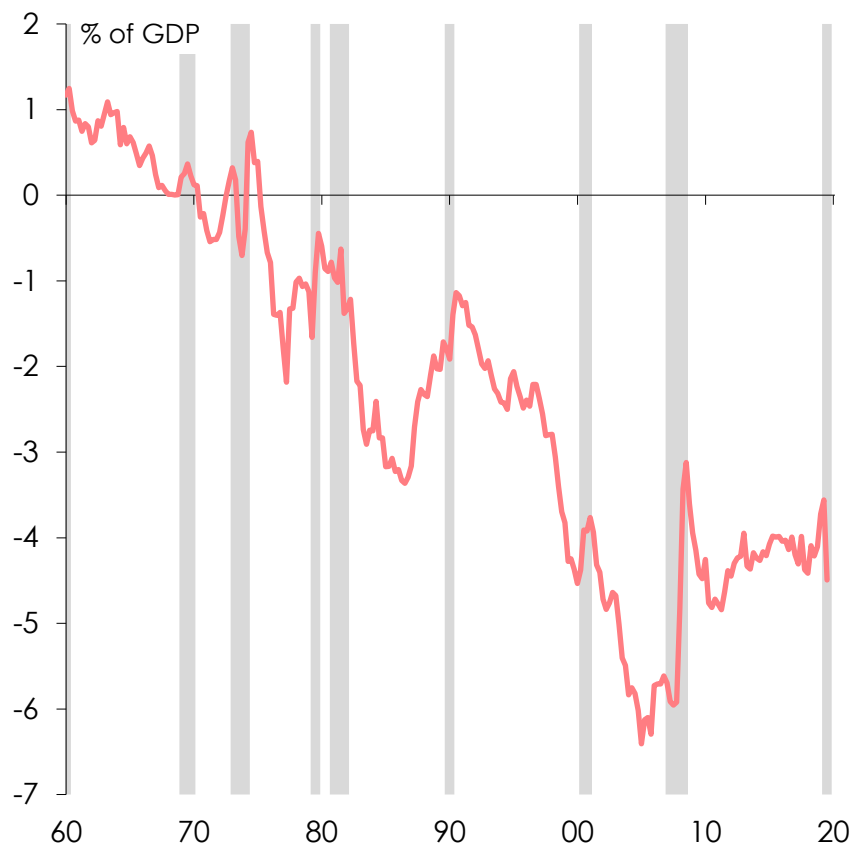


Sources: The Brookings Institution; Centre for Economic Policy Research, [Global Trade Alert Global Dynamics](#) (data up to 23rd October); [US Treasury Department](#). [Return to "What's New"](#).

- ❑ The Washington DC-based Brookings Institution has 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"

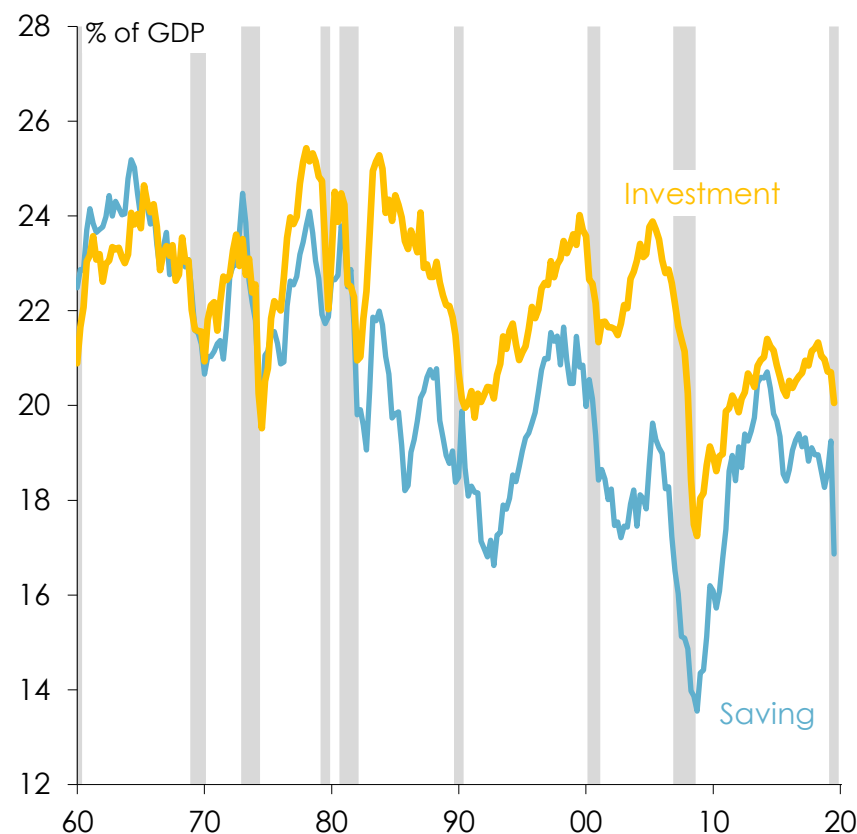
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



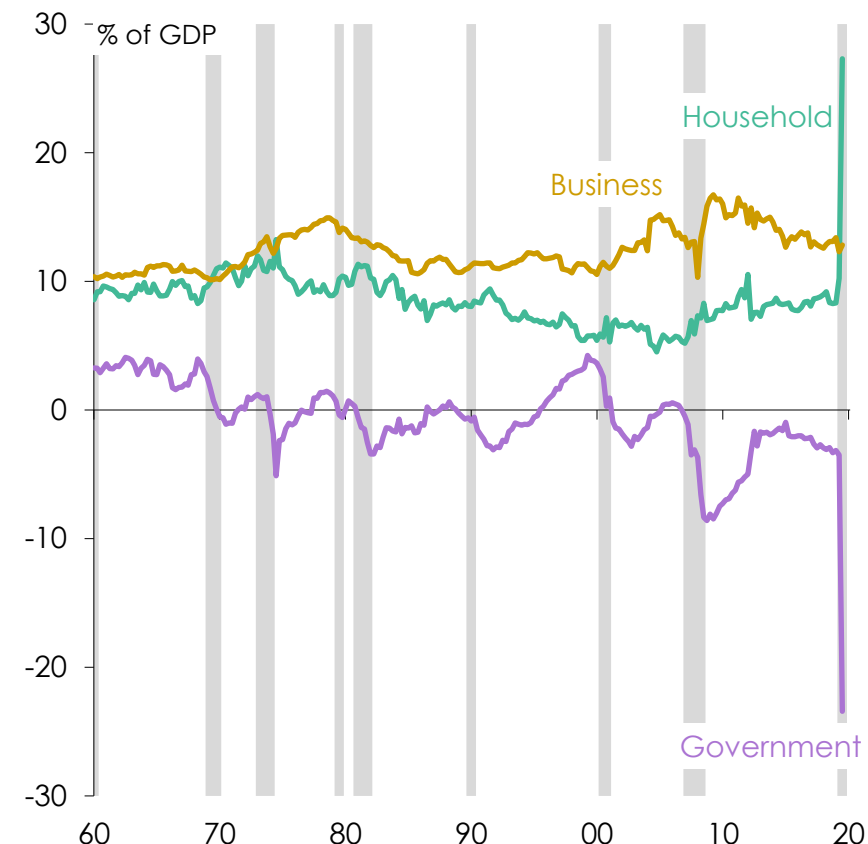
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

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)

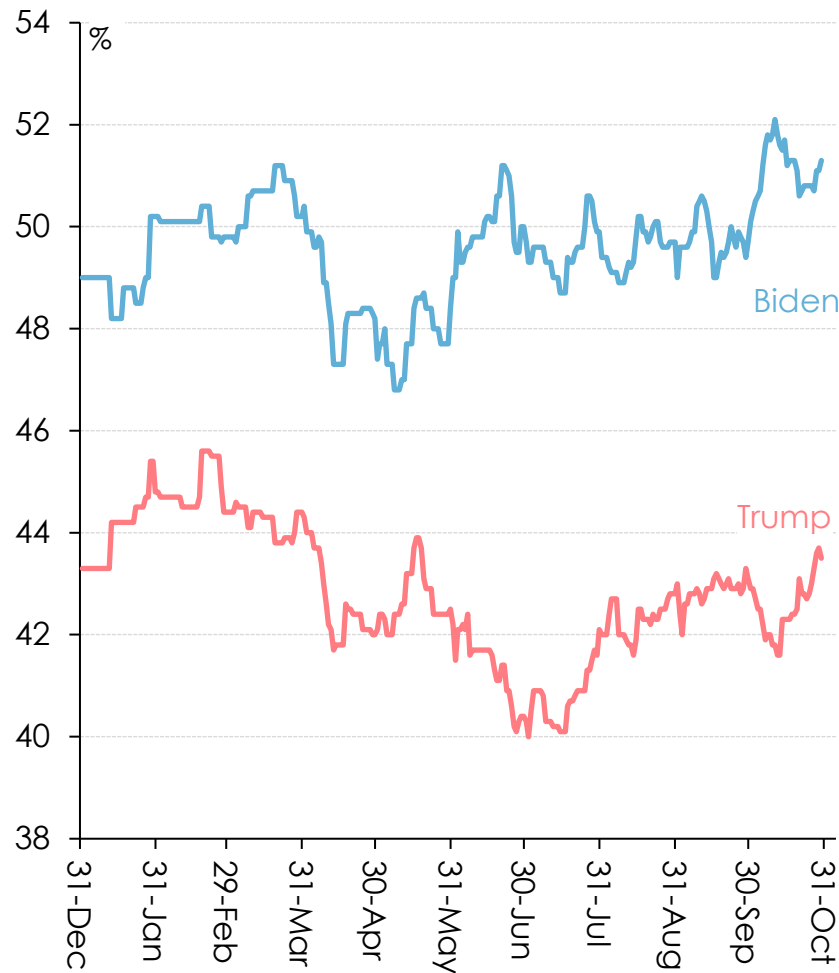
Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#).

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

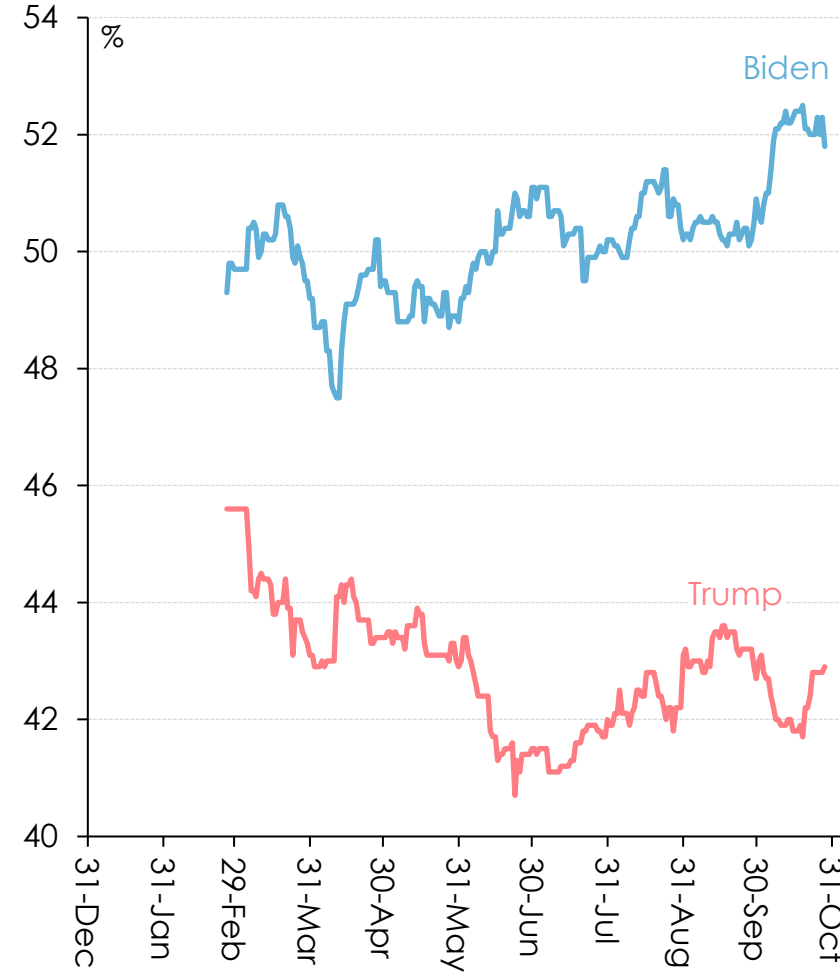
Democrat candidate Joe Biden goes into Tuesday's vote with a 7-9 pc point lead in national opinion polls and a 29 pc point margin in betting odds

Winner of November US Presidential election

RealClearPolitics poll average



FiveThirtyEight poll average



Winner of November US Presidential election – betting odds

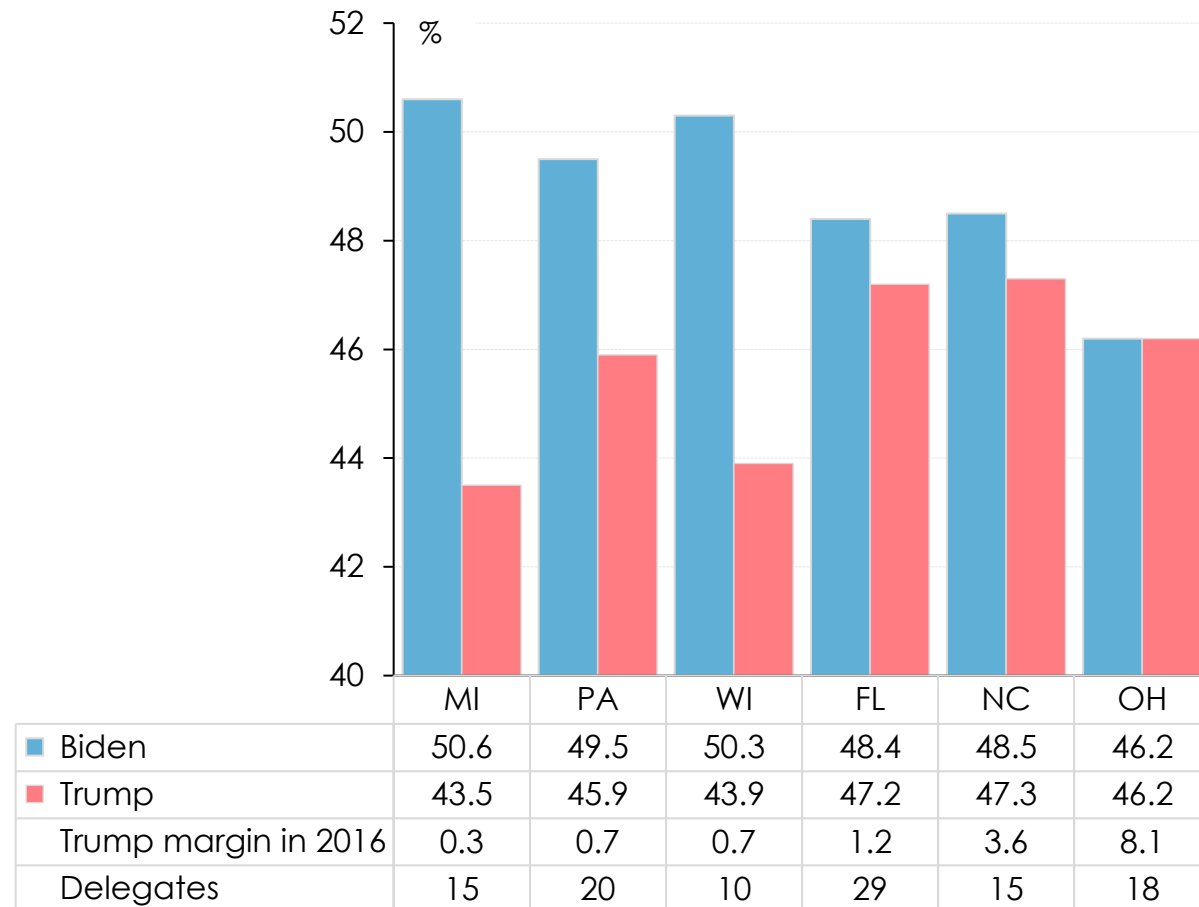


Note: The RCP opinion poll average is based on 9 different polls; the FiveThirtyEight 1 opinion poll average is a more complicated weighted average of 452 different polls. Betting odds (compiled by RCP) average is based on 6 different markets. Latest opinion poll and betting odds data are for 30th October.

Sources: [RealClearPolitics](#); [FiveThirtyEight](#). [Return to "What's New"](#).

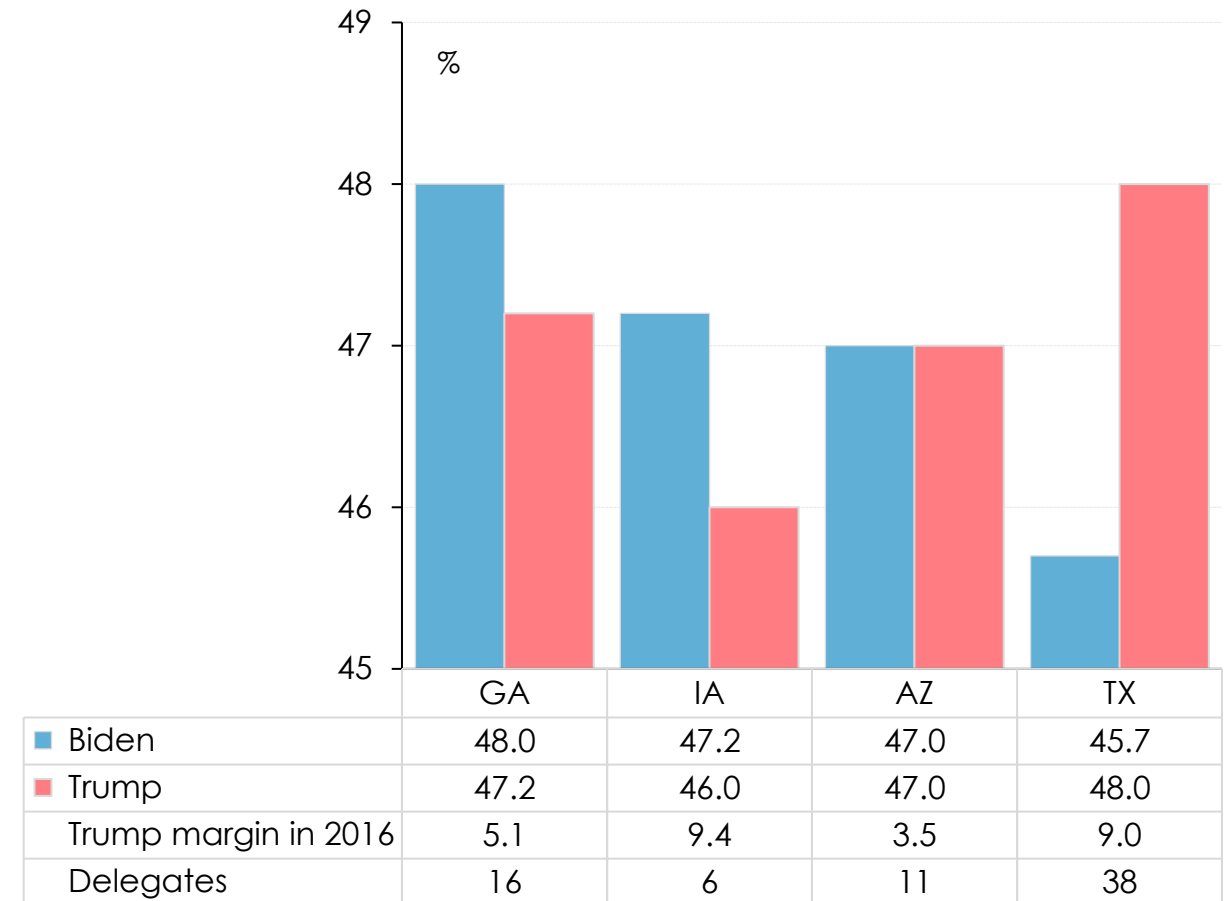
Biden has 228 Electoral College votes 'in the bag' and Trump has 181 – the outcome hinges on the other 129 Electoral College votes in ten states

Average of opinion polls – states which were critical to Trump's victory in 2016



Biden leads the polls in all of the critical states which Trump won in 2016 – with the exception of Ohio: if Biden wins Florida and Pennsylvania it doesn't really matter what happens in the other states

Average opinion polls – four other states which Trump won easily in 2016



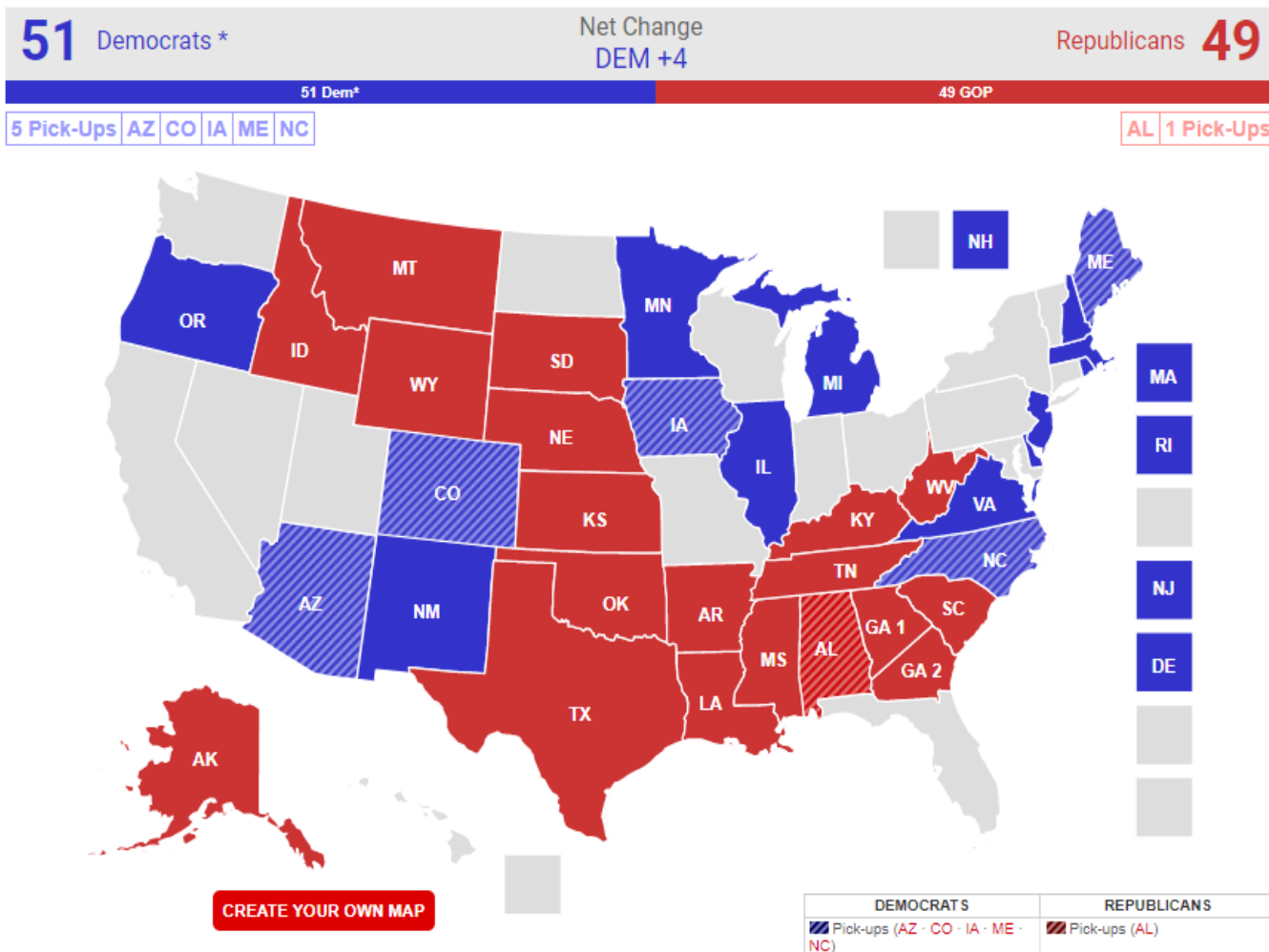
Trump will likely win Texas (though much more narrowly than in 2016) but may lose Iowa, Georgia and even Arizona (which has only voted for a Democrat once since 1953)

Of course the polls and the betting markets were both wrong in 2016 – but here are five reasons why they probably won't be wrong again

- ❑ Donald Trump ran as an 'insurgent', or 'outsider', last time – this time he is running as an incumbent President with a record to defend
 - and over the entire course of his first term, Trump's approval ratings have been lower than those of any other first-term President since the end of World War II
- ❑ Although Hillary Clinton maintained a lead over Trump in the opinion polls throughout most of the 2016 campaign, it was never as wide as Biden's has been since he became the Democratic nominee, and she rarely polled over 50%
 - moreover, Biden's opinion poll lead hasn't narrowed substantially over the last few weeks of the campaign, as Clinton's did
- ❑ It was easier for Trump to win in the Electoral College despite losing the popular vote because the share of votes won by third party and independent candidates was unusually high in 2016, especially in some of the states that turned out to be critical
 - by contrast the vote for third party and independent candidates in 2020 appears to be much more like it was in 1972, 1976, 1984, 1988, 2004, 2008 and 2012 elections when the successful candidate won more than 50% of the popular vote
- ❑ An unusually large proportion of voters remained undecided until very late in the 2016 campaign – and most of those ended up voting for Trump, possibly after the FBI re-opened its investigation of Hillary Clinton's emails
 - whereas this time around the undecided vote is much smaller – voters appear to have made up their minds already to a much greater extent than four years ago
- ❑ More than 85 million voters (about 35% of all registered voters) have voted already
 - and early voting (whether in person or by mail) appears to be favouring the Democrats
 - if the high number of early votes also presages a very high overall turnout (some pundits predict 65% or more which would be the highest since 1908) which would also likely favour Democrats (since cohorts who lean Democratic, in particular young adults and ethnic minorities) usually have lower turnout rates

The Senate contest is also crucial: with opinion polls suggesting that the Democrats will narrowly regain control of the Senate

Opinion poll predictions of Senate contest outcomes



- ❑ US States each have two Senators, who serve six-year terms – so that 33 or 34 Senate seats are contested every two years (usually only one per state unless there’s a ‘special election’ which occurs after a casual vacancy has been filled by a State, as in Georgia this year)
- ❑ This year Republicans are defending 24 vacancies and Democrats 10 (these being seats last contested in 2014, when the Republicans gained 9 seats, the largest by either party since 1980, to regain control of the Senate)
- ❑ Opinion polls suggest that the Democrats will lose the Senate seat in Alabama which they picked up at a ‘special election’ in 2017 to replace Jeff Sessions (Trump’s first Attorney-General), but will hold their other 9 contested seats
- ❑ However polls also suggest the Democrats will ‘flip’ Republican-held seats in Colorado, Iowa, Arizona and (probably) Maine and North Carolina (where the Democrat candidate was involved in a ‘sexting’ scandal)
- ❑ That would give the Democrats control of the Senate, 51-49 (plus Kamala Harris’ casting vote as President of the Senate)
- ❑ Note Senate Democrats are typically more ‘centrist’ than their House counterparts, and the newly-elected Senators will re-inforce that tendency

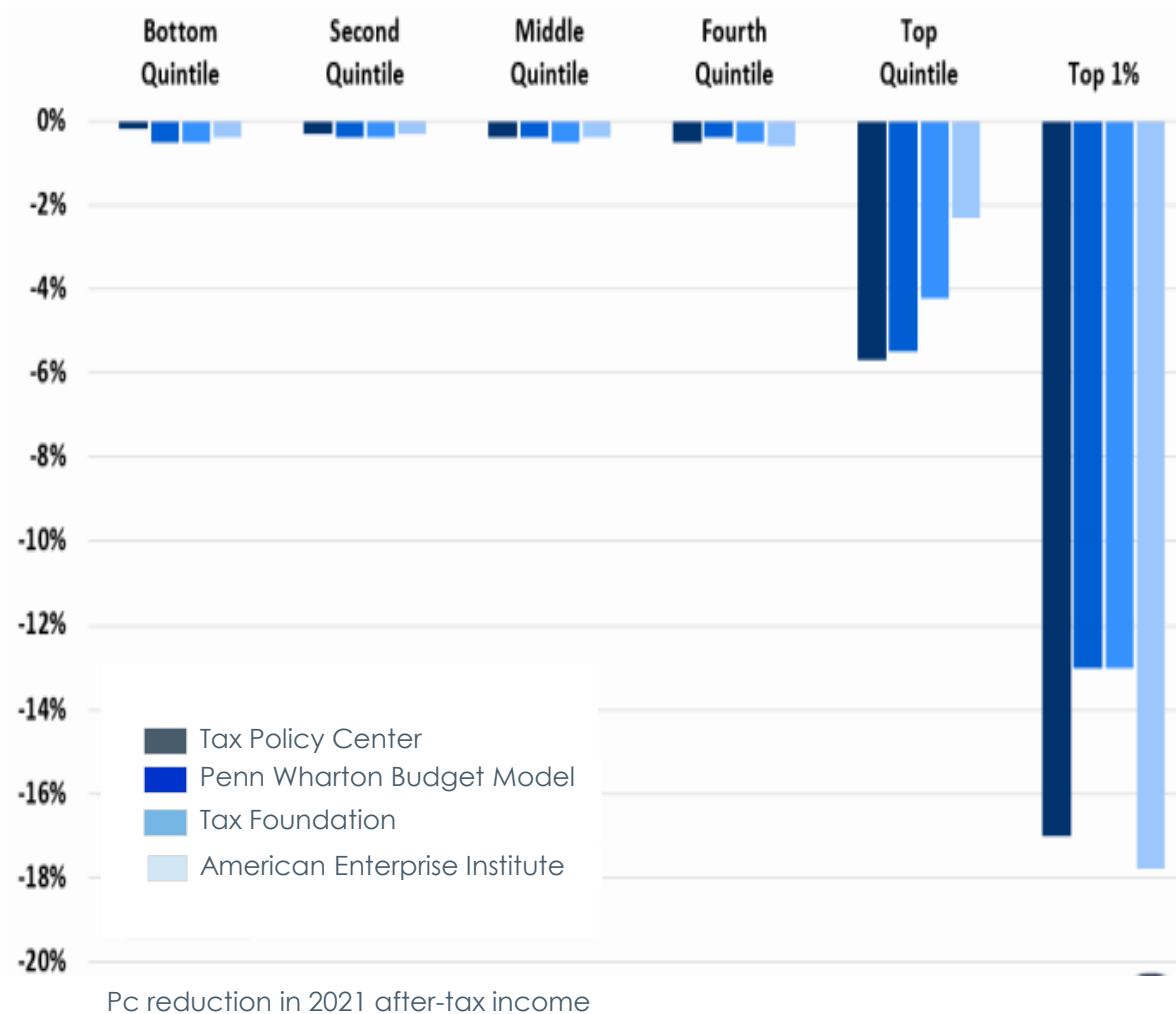
Source: [RealClearPolitics](https://www.realclearpolitics.com).

A Biden Administration with a Senate majority would reverse the Trump corporate and personal tax cuts (but that's all), and raise minimum wages

- ❑ **A Biden Administration would obviously stand to the left of the Trump Administration – but would not be conspicuously more ‘liberal’ (left-wing) than the Obama Administration**
 - Biden has been at pains, during the formal part of the campaign, to emphasize the distance between himself and the ‘progressive’ wing of the Democratic Party (spear-headed by Elizabeth Warren, Bernie Sanders etc)
 - Biden is *not* going to appoint Warren as Treasury Secretary (if only so as to avoid creating a Senate vacancy in Massachusetts, which would then be filled by a Republican Governor)
- ❑ **A Biden Administration would reverse the Trump Administration’s 2017 corporate tax cuts and cuts in top income tax rates, and impose payroll (social security) tax on high incomes**
 - the corporate tax rate would revert to 28% from 21%, and impose an ‘alternative minimum tax’ of 15% on corporations with book profits of US\$100mn or higher
 - the top (federal) personal income tax rate (payable on incomes above US\$400K) would revert from 37% to 39.6%, and also apply that rate to capital gains and dividends which exceed US\$1 million, while limiting itemized deductions to 28% of value for taxpayers earning more than \$400K
 - a 12.4% Social Security (payroll) tax, evenly split between employers and employees would apply to incomes over US\$400K (currently this tax cuts out at US\$137,700)
 - the top rate of estate tax would revert to 45% (from 40%) and the exemption returned to US\$3.5mn from US\$11.58mn
 - the Obama Administration’s First Home Buyers’ Tax Credit would be restored, and the Child Tax Credit increased from US\$2,000 to \$3,000 for 2021 “and as long as economic conditions require”
- ❑ **A Biden Administration would seek to raise the federal minimum wage to US\$15 per hour by 2026**
 - The federal minimum wage has been set at US\$7.25 per hour since July 2009
 - 29 states currently have higher minimum wages than the federal minimum, including DC (\$14), CA and WA (\$13) and MA (\$12.75)
 - CA and MA are set to raise their minima to \$15 by January 2023, and IL by January 2025

Biden's tax proposals would increase tax paid by the top 20% of income earners but have very little impact on the bottom 80% of households

Alternative estimates of the distributional impact of Biden's tax proposals



Source: [Committee for a Responsible Federal Budget](#).

- According to the non-partisan Committee for a Responsible Federal Budget, Biden's tax proposals would raise US\$4.3 trillion in additional taxes over 10 years (equivalent to about 1.7% of GDP), partly offset by US\$800mn of increases in refundable tax credits
- US\$2.3 trillion of this amount comes from increased taxes on individuals (higher personal income and payroll tax rates, increased taxes on capital gains and dividends, and limits on deductions)
 - however *all* of these tax increases apply *only* to households with incomes in excess of US\$400,000 (A\$570,000), who account for about 1.5% of all American households
- The remaining US\$1.8 trillion of additional tax revenue comes from increases in taxes on corporations (in essence reversing the Trump Administration's 2017 corporate tax cuts, and doubling the tax rate on Global Intangible Low Tax Income (GILTI) of foreign subsidiaries of US firms to 21%)
- Allowing for the indirect impact of increased corporate taxes on individuals as shareholders or workers, taxes for the bottom 80% of households would rise by 0.2-0.6%, for the top 20% by 2.3-5.7%, and (within that) for the top 1% (earning over US\$837,000) by 13-17.8%

A Biden Administration would still seek to 'disengage' from China, but would be more supportive of the rules-based world trade system

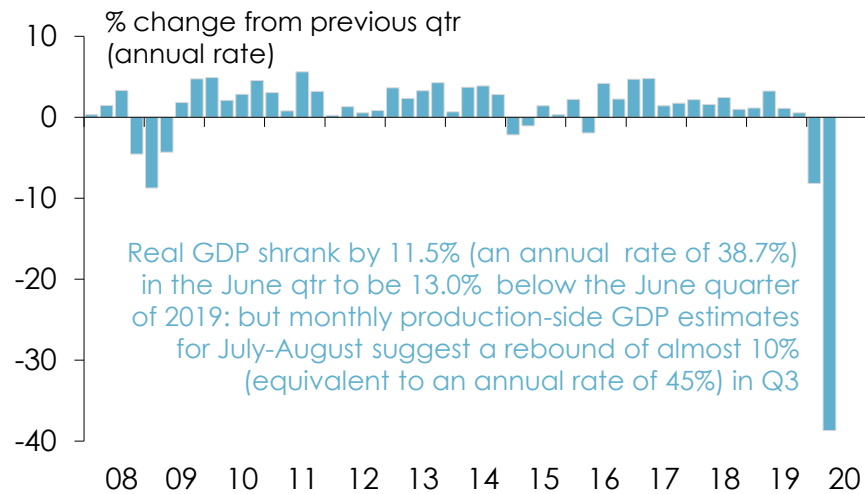
- ❑ **A desire to reduce the depth and breadth of US economic engagement with China is one of the few areas of bi-partisan agreement in the US**
 - a Biden Administration would probably not lower or reverse current tariffs on Chinese exports to the US (even though Biden acknowledges that these are effectively paid by American consumers and businesses, not by Chinese exporters)
 - and a Biden Administration would continue to use 'national security' laws to restrict imports of certain products from China
 - the Democratic Party platform says that they will “protect the American worker from unfair trade practices by the Chinese Government including currency manipulation and benefiting from a misaligned exchange rate with the dollar”, although Biden hasn't specifically committed to any measures under that heading
- ❑ **Importantly from an Australian perspective, the Democratic Party Platform advocates the imposition of a “carbon adjustment fee at the border” (ie, a tariff) to “products from countries that fail to live up to their commitments under the Paris Climate Agreement”**
 - which would increase the likelihood of similar measures being implemented by the EU (and now Japan)
- ❑ **A Biden Administration may strengthen 'Buy American' rules on government procurement, especially with regard to steel and cement**
 - may adversely affect trade with, eg, Canada, Mexico, Japan and Korea but few implications for Australia
- ❑ **A Biden Administration may seek to re-engage with the Trade Partnership of the Pacific, in particular as a gesture towards restoring relations with allies in Asia damaged by Trump**
 - although the US may seek to renegotiate labour and environmental standards as a condition of full entry
- ❑ **A Biden Administration would likely be more supportive of the World Trade Organization**
 - and in particular end the Trump Administration's embargo on appointments to dispute resolution tribunals, which have severely hampered the WTO's capacity to resolve trade disputes

A Biden Administration would face some significant foreign policy challenges but would seek to work with allies, not with dictators

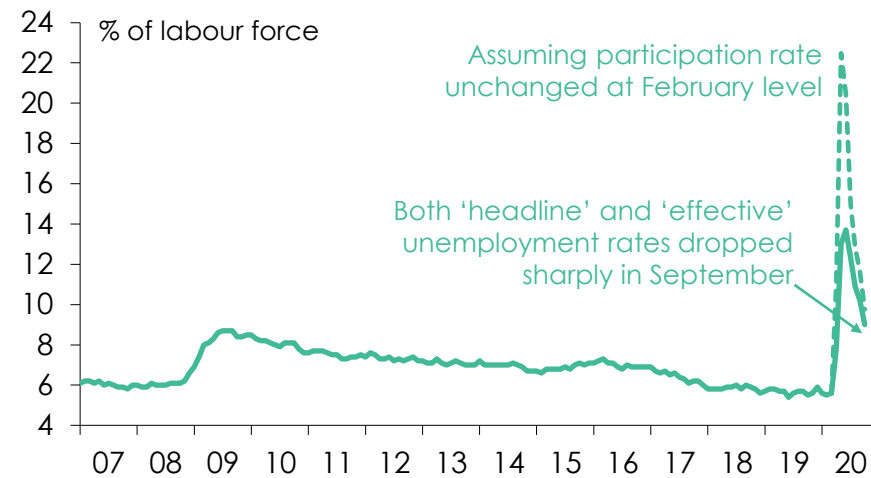
- ❑ **The Democratic Party's platform says that "as a Pacific power" the US "should work closely with its allies and partners to advance our shared prosperity, security and values"**
 - specifically it says "rather than denigrate our partners and encourage tensions between our allies, the United States
 - will work to strengthen ties with and between our key allies in the region, including Japan, South Korea, and Australia, and we will work to ensure that our alliances with Thailand and the Philippines live up to the values that our peoples share"
- ❑ **A Biden Administration would re-engage with multi-lateral institutions – including the WTO, the WHO, and the UN**
 - and would "immediately rejoin" the Paris Climate Agreement
 - the Democrats' platform includes a specific commitment to "reinvigorate" America's commitment to "robust engagement with regional multilateral institutions like ASEAN" to help "promote the rule of law and sustainable, inclusive economic growth on both sides of the Pacific"
- ❑ **It's possible – perhaps even likely – that China will seek to 'test' a new Administration's resolve to defend Taiwan**
 - in much the same way as Nikita Khrushchev sought to test John F Kennedy's resolve by installing nuclear missiles in Cuba in 1962 – which brought the world perilously close to nuclear war
 - Xi Jinping is unlikely to launch a full-scale military invasion of Taiwan (although the PLA has been conducting 'exercises' with that objective seemingly in mind), but rather something less aggressive or dangerous, such as assaulting the Taiwanese-controlled islands of Quemoy and Matsu (as Mao Zedong did in 1958), having military aircraft overfly Taiwanese air-space, or having PLA Navy vessels venture close to (or into) Taiwanese territorial waters ...
 - ... with a view to establishing whether a Biden Administration would continue the apparent decline in the US' willingness to project power into the western Pacific (which began under Obama and continued under Trump)
 - although it may be significant that this week the Chinese Communist Party Central Committee re-inserted the word 'peaceful' into its official statement about 're-unification' with Taiwan, having conspicuously omitted it at the National People's Congress in May

Canada had a more severe downturn in Q2 than the US, but may have rebounded more quickly in Q3 – however could be slowing again in Q4

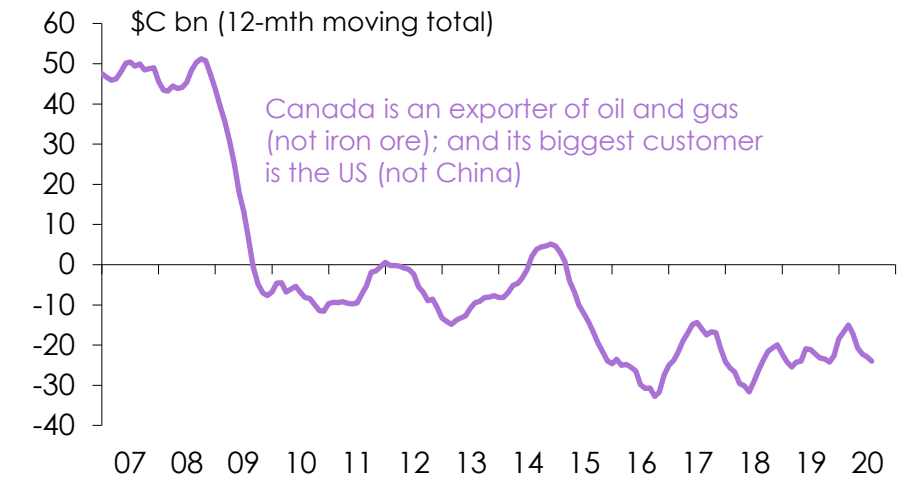
Real GDP



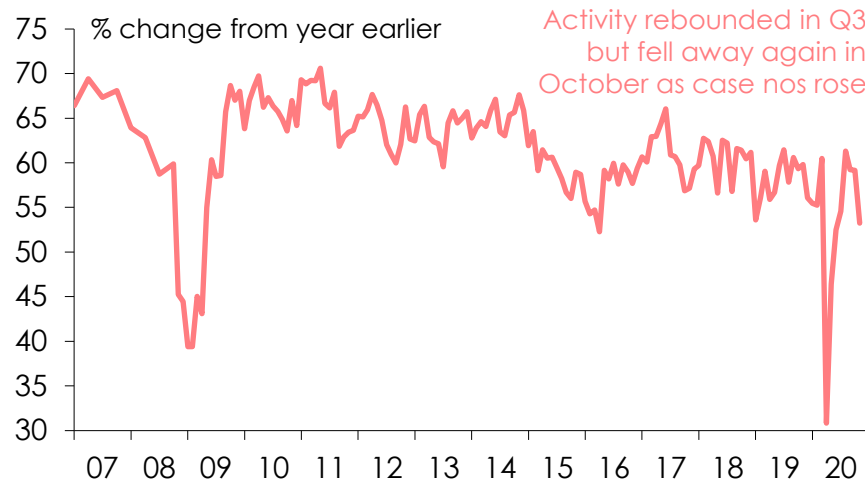
Unemployment rate



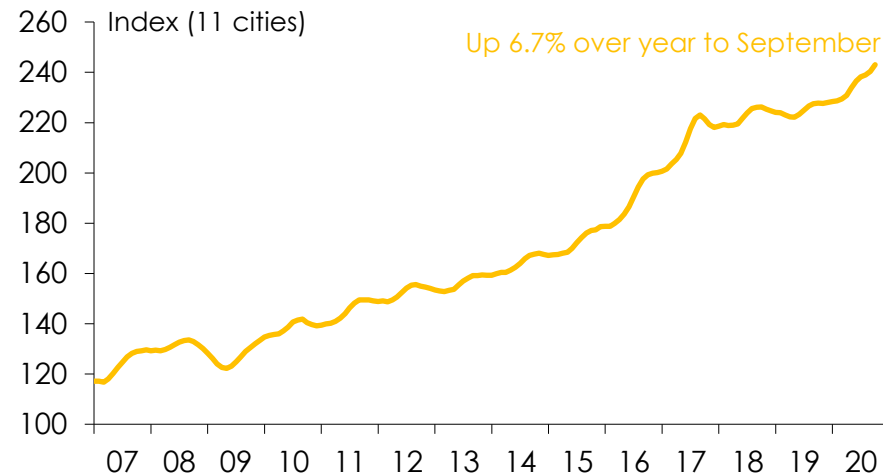
Merchandise trade balance



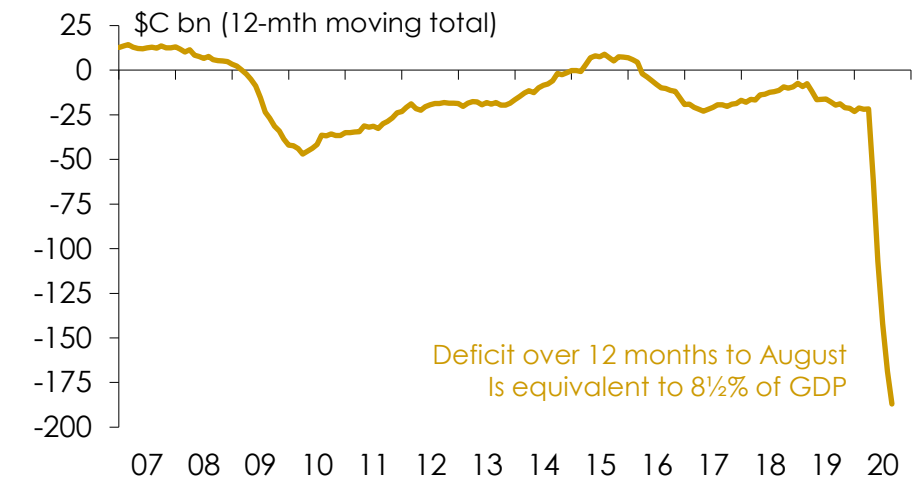
CFIB 'business barometer'



House prices

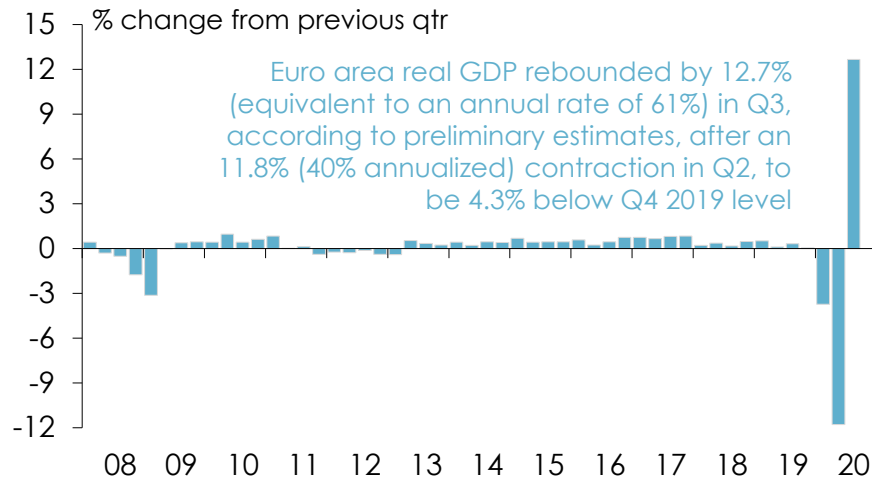


Federal budget balance

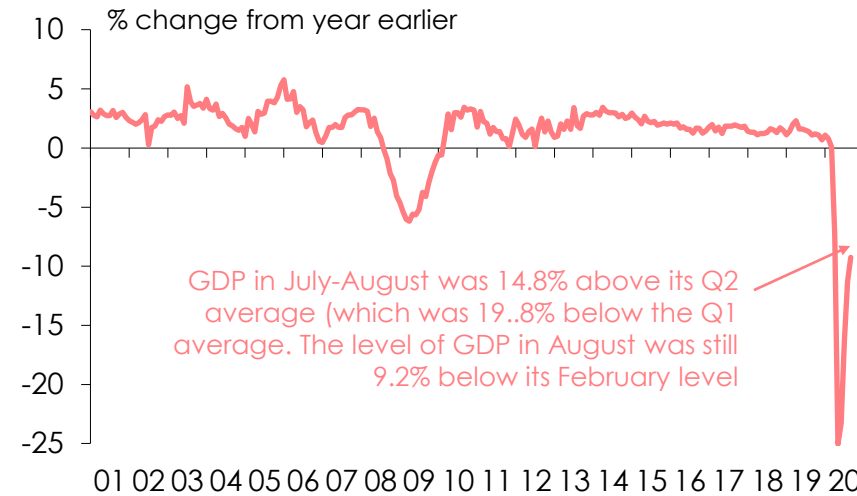


The euro area economy contracted more in Q2 but rebounded faster in Q3 than the US, but has experienced a smaller rise in unemployment

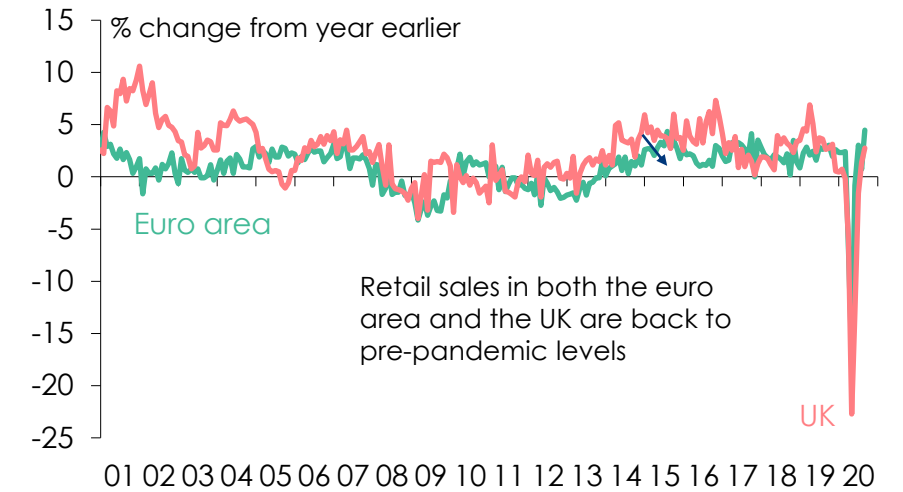
Euro area real GDP



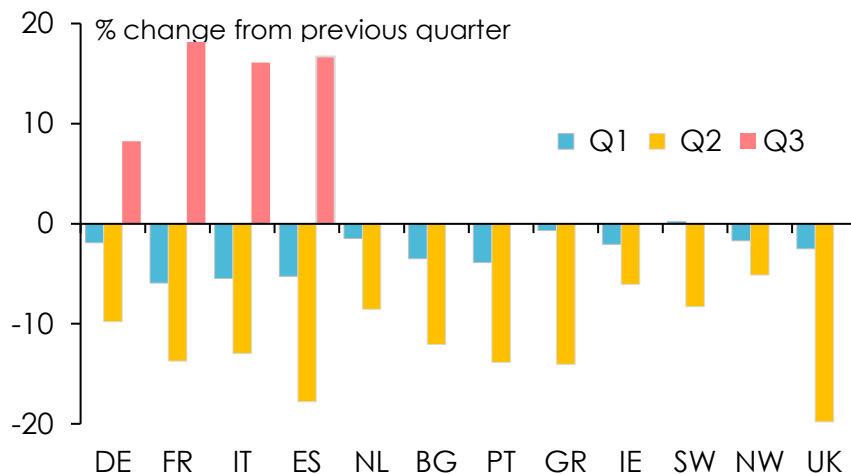
UK monthly GDP



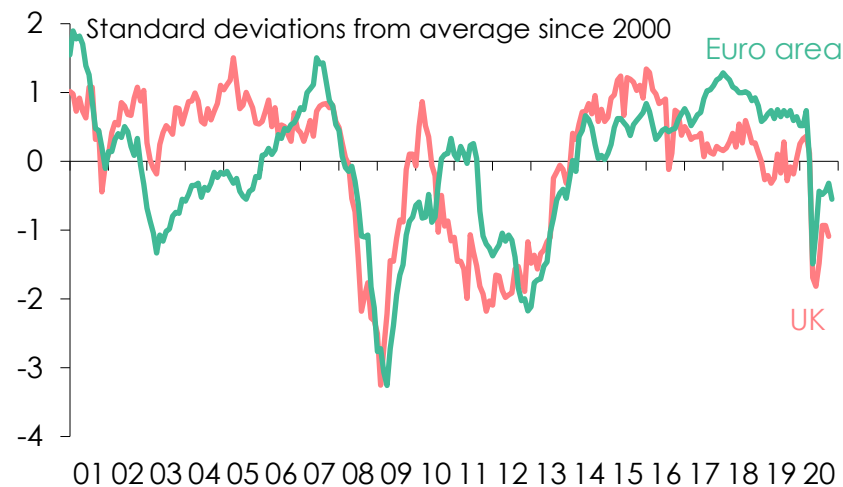
Retail sales volume



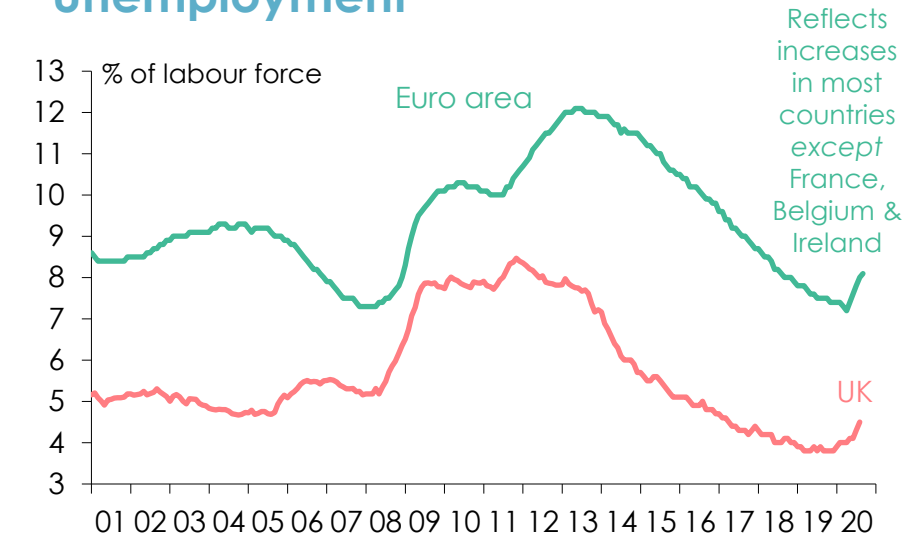
Quarterly GDP by country



Consumer confidence



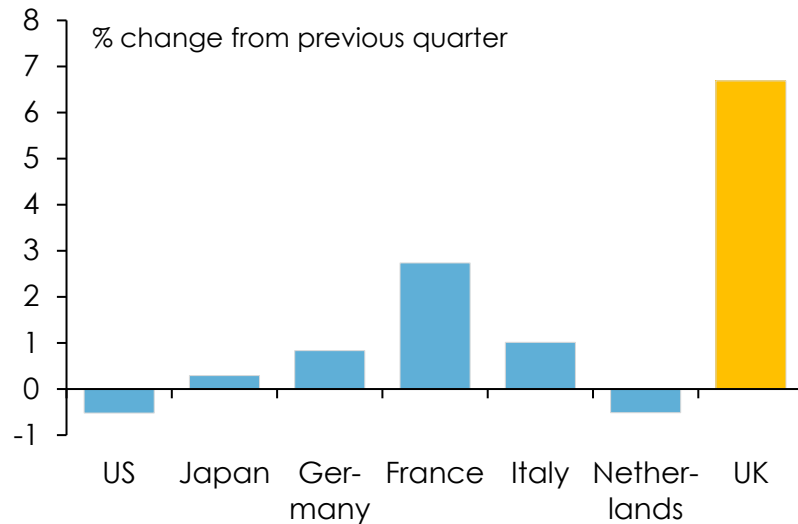
Unemployment



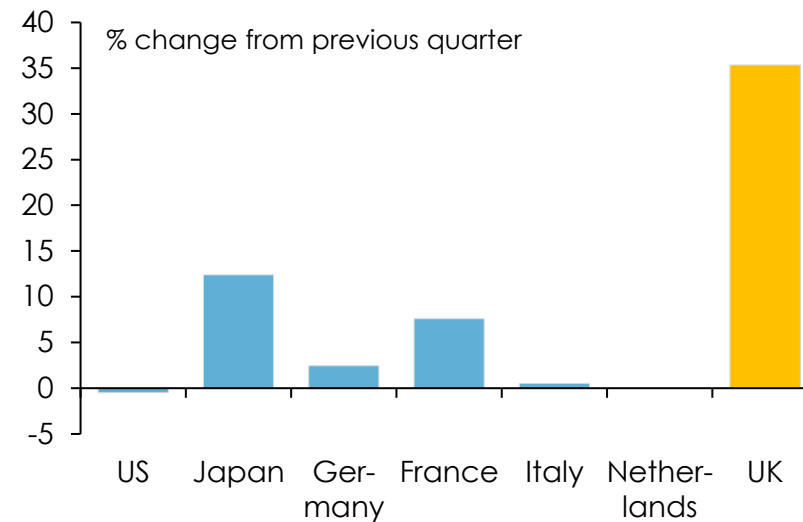
Sources: Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average.
[Return to "What's New"](#).

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

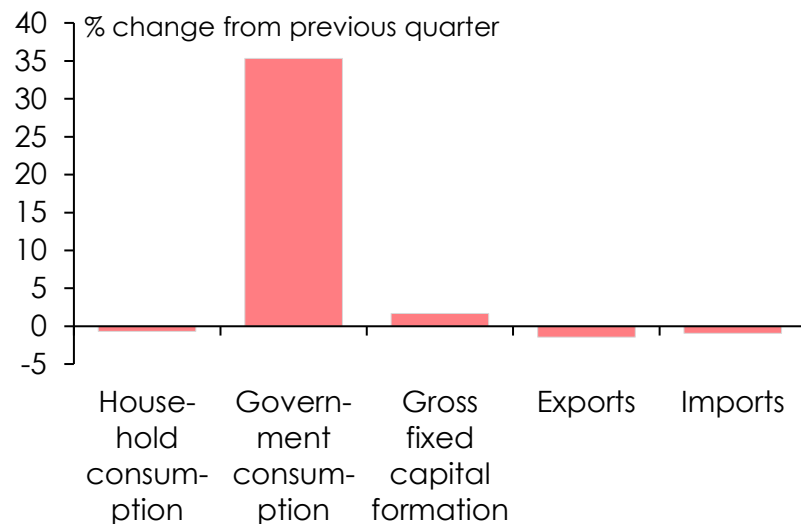
Q2 GDP deflators



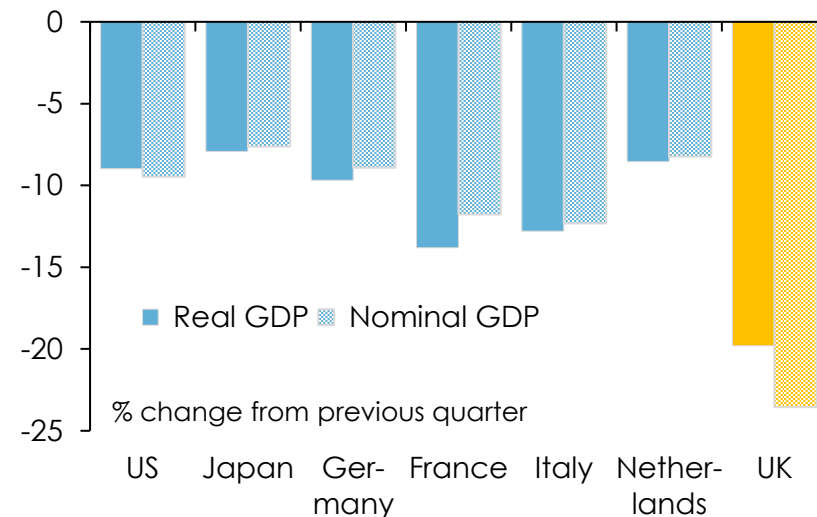
Q2 gov't consumption deflators



UK Q2 expenditure deflators



Q2 real and nominal GDP

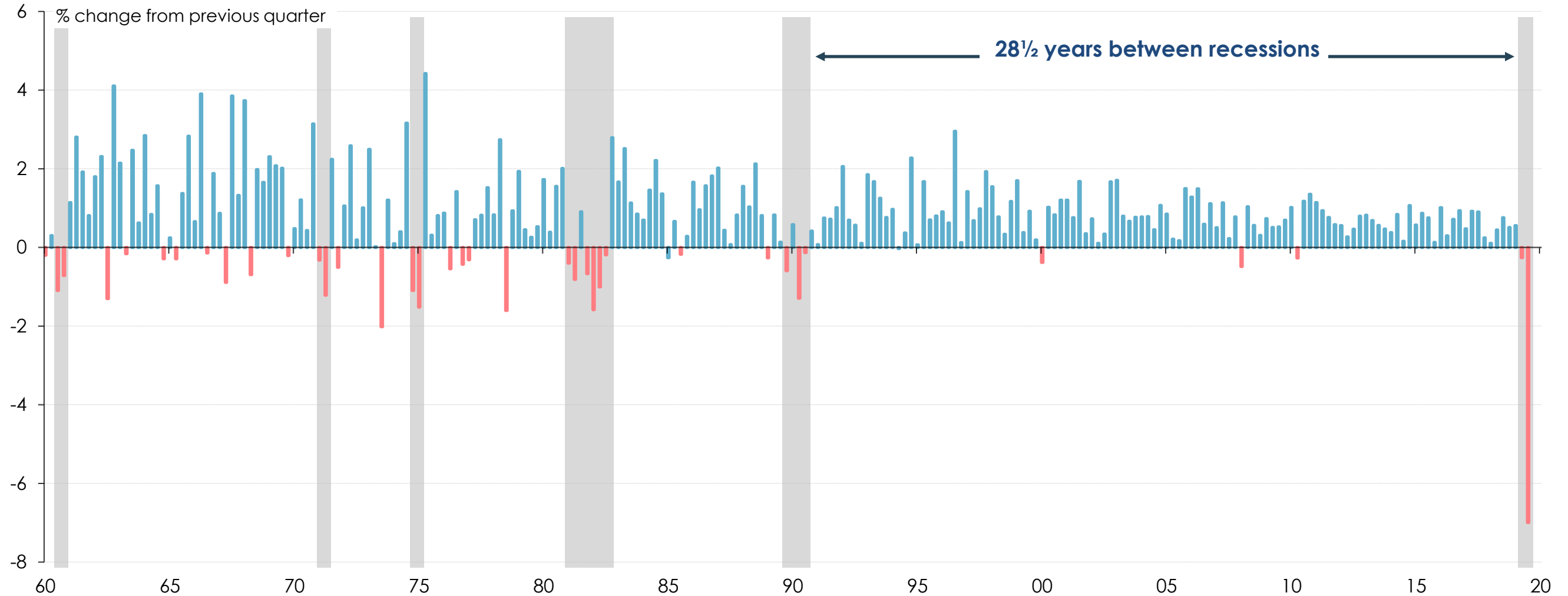


- ❑ According to the UK's Office for National Statistics, the UK's real GDP fell by 19.8% in Q2, but nominal GDP fell by 23.6% - implying that prices (as measured by the implicit price deflator of GDP) rose by 6.7% in Q2
- ❑ This is totally inconsistent with all other measures of UK inflation in Q2 –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

Australia

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

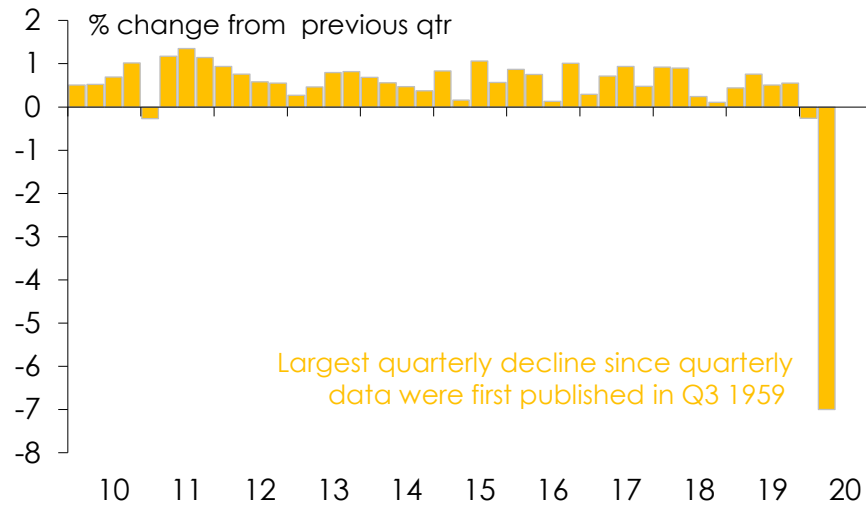
Quarterly growth in Australian real GDP, 1960-2020



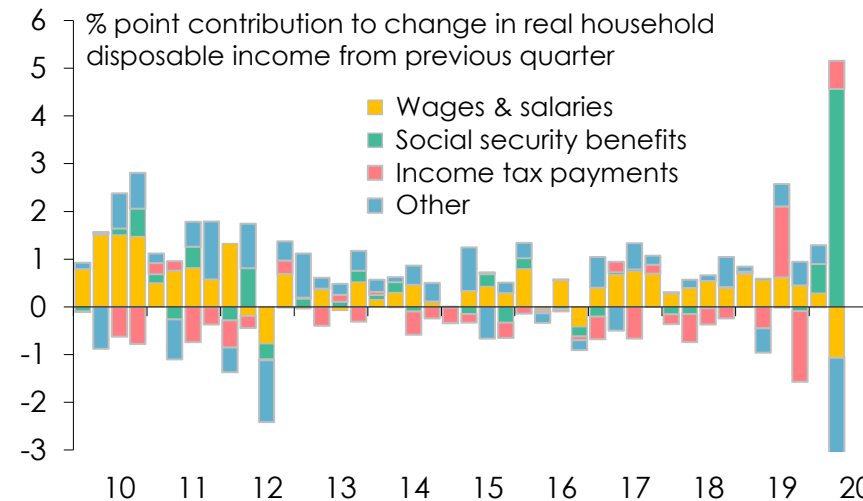
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020. September quarter (Q3) national accounts will be released on 2nd December. [Return to "What's New"](#).

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

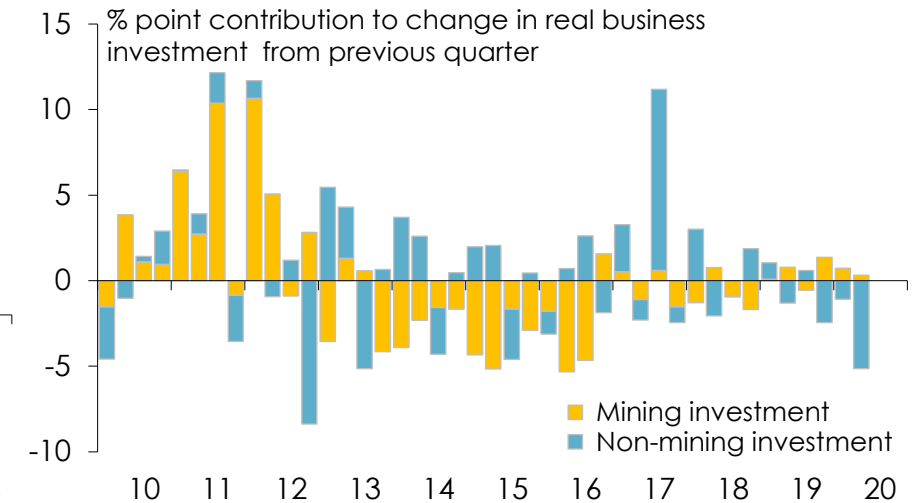
Quarterly change in real GDP



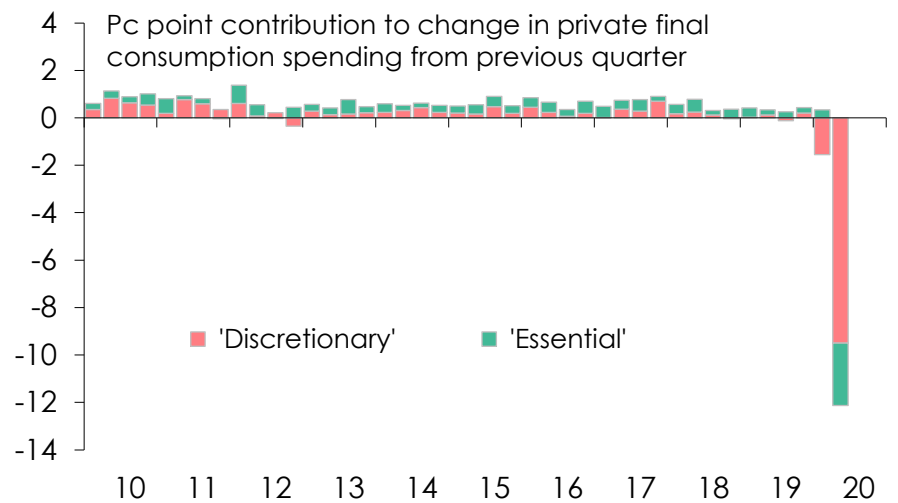
Household disposable income



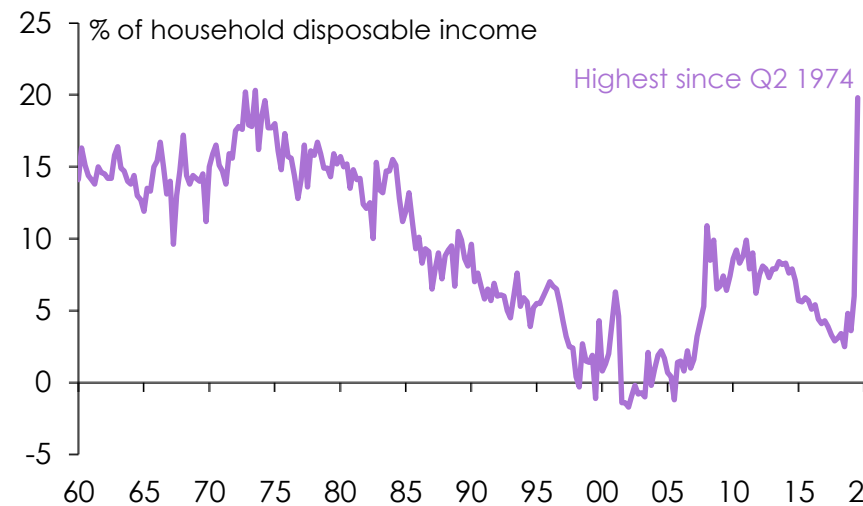
Business investment expenditure



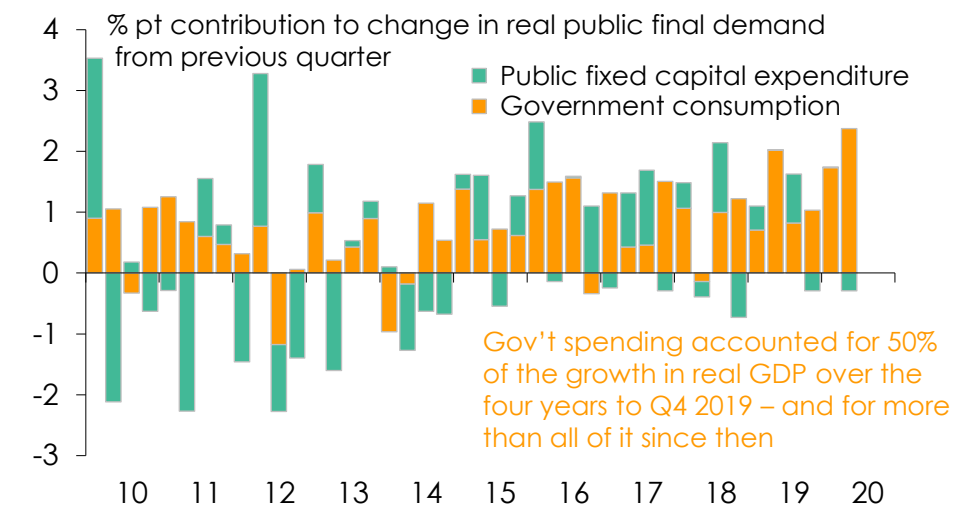
Household consumption expenditure



Household saving rate



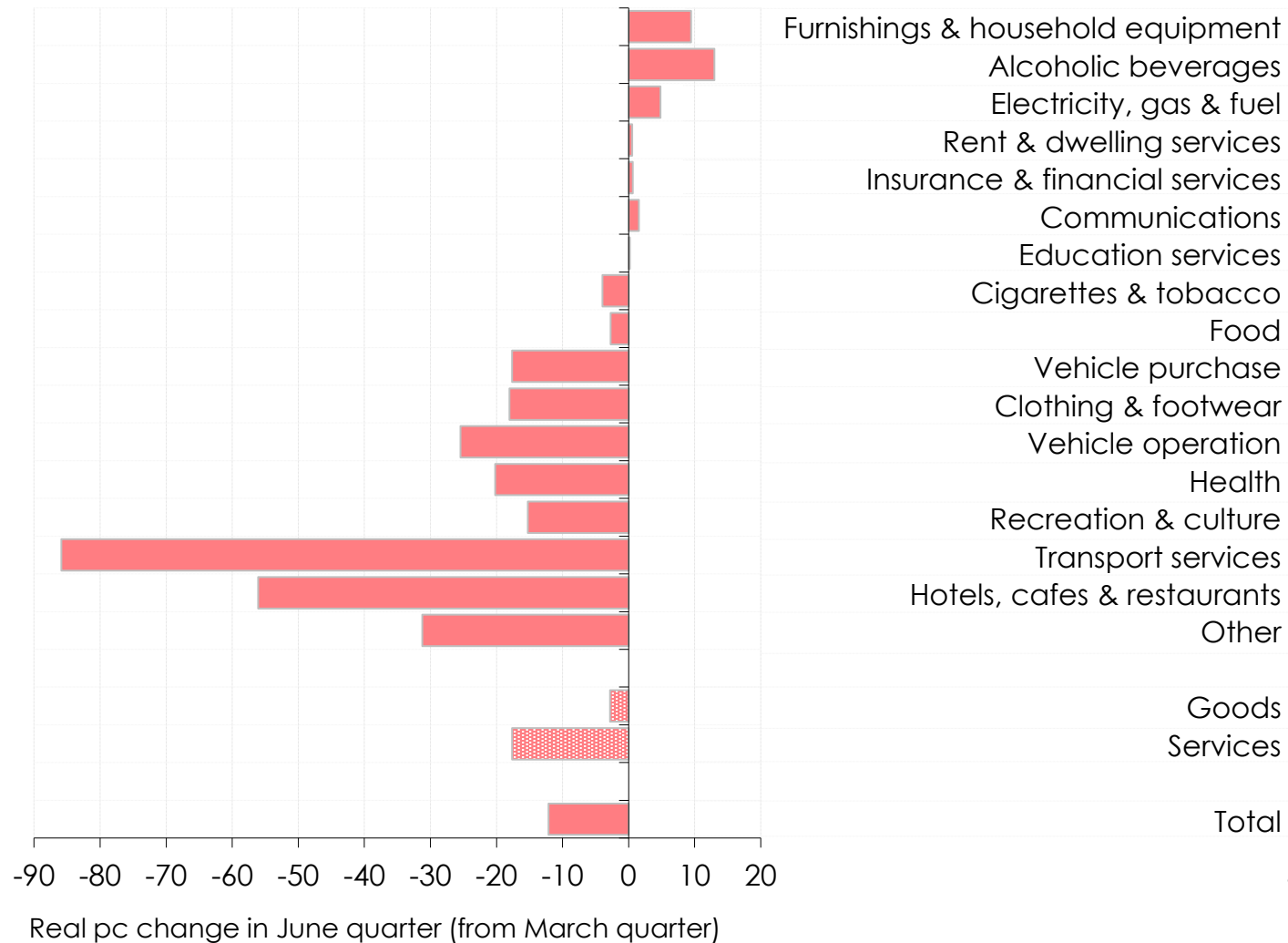
Public expenditure



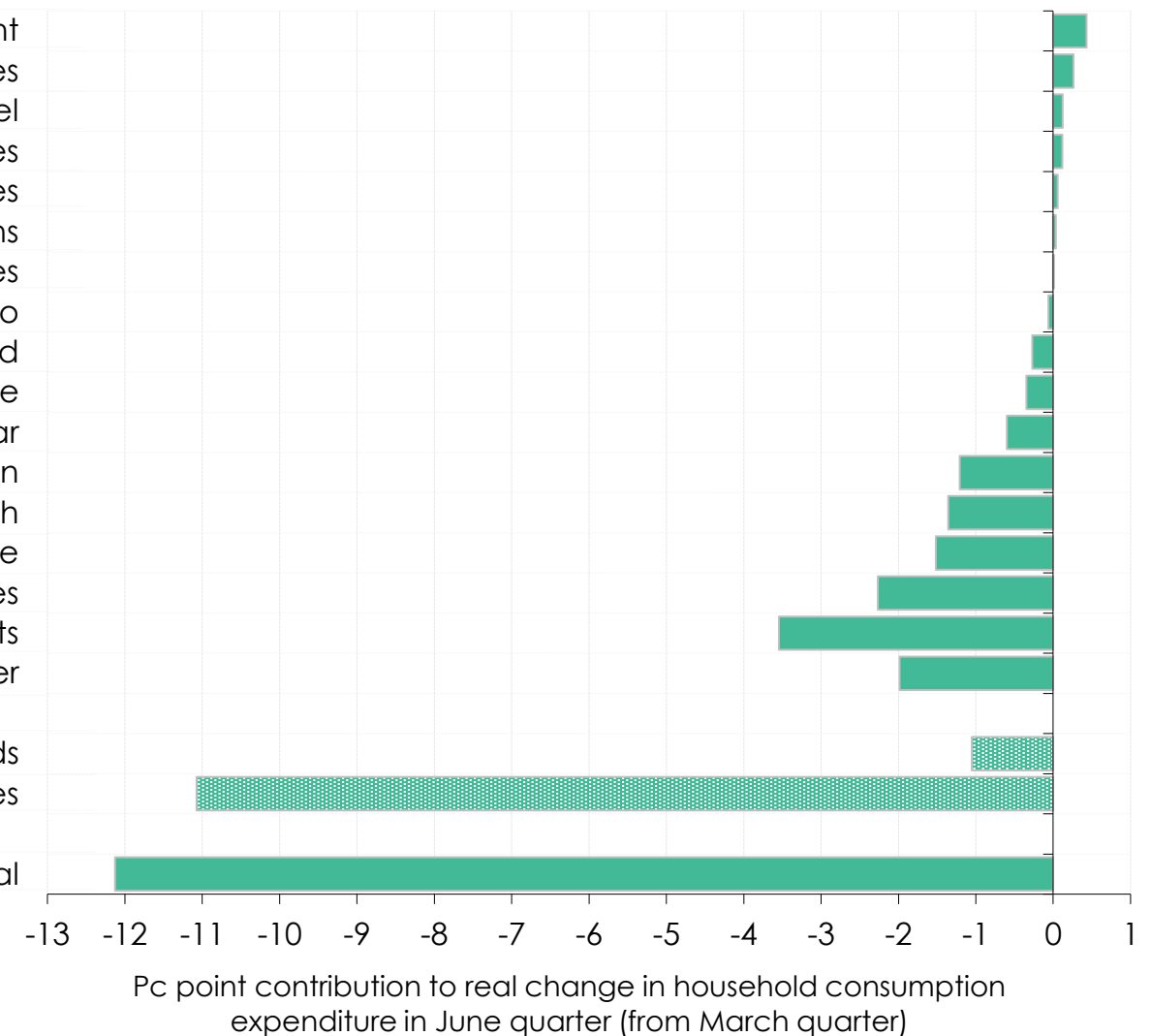
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are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

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

Change in household consumption spending, by category, June quarter



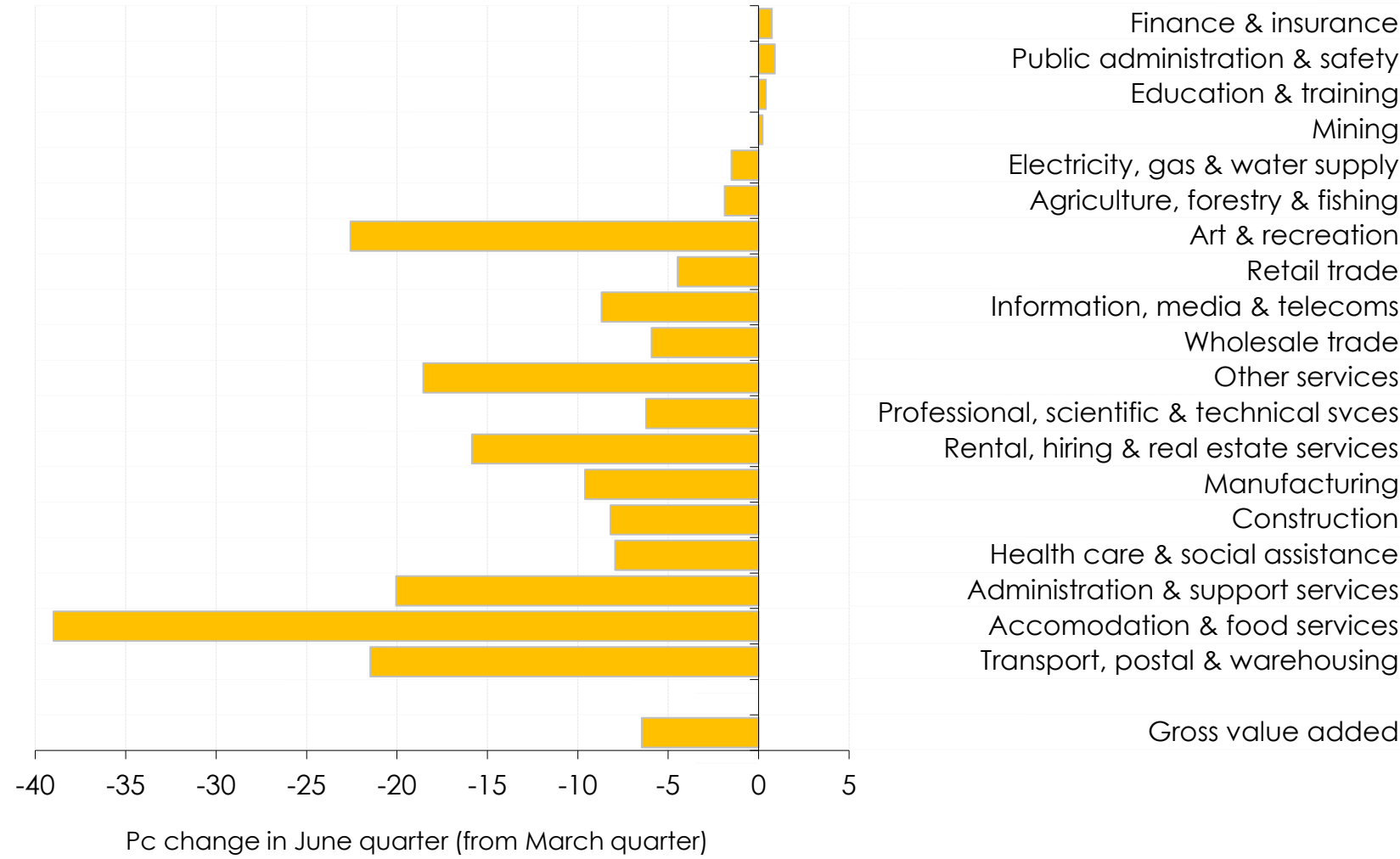
Contribution to change in household consumption spending, by category, June quarter



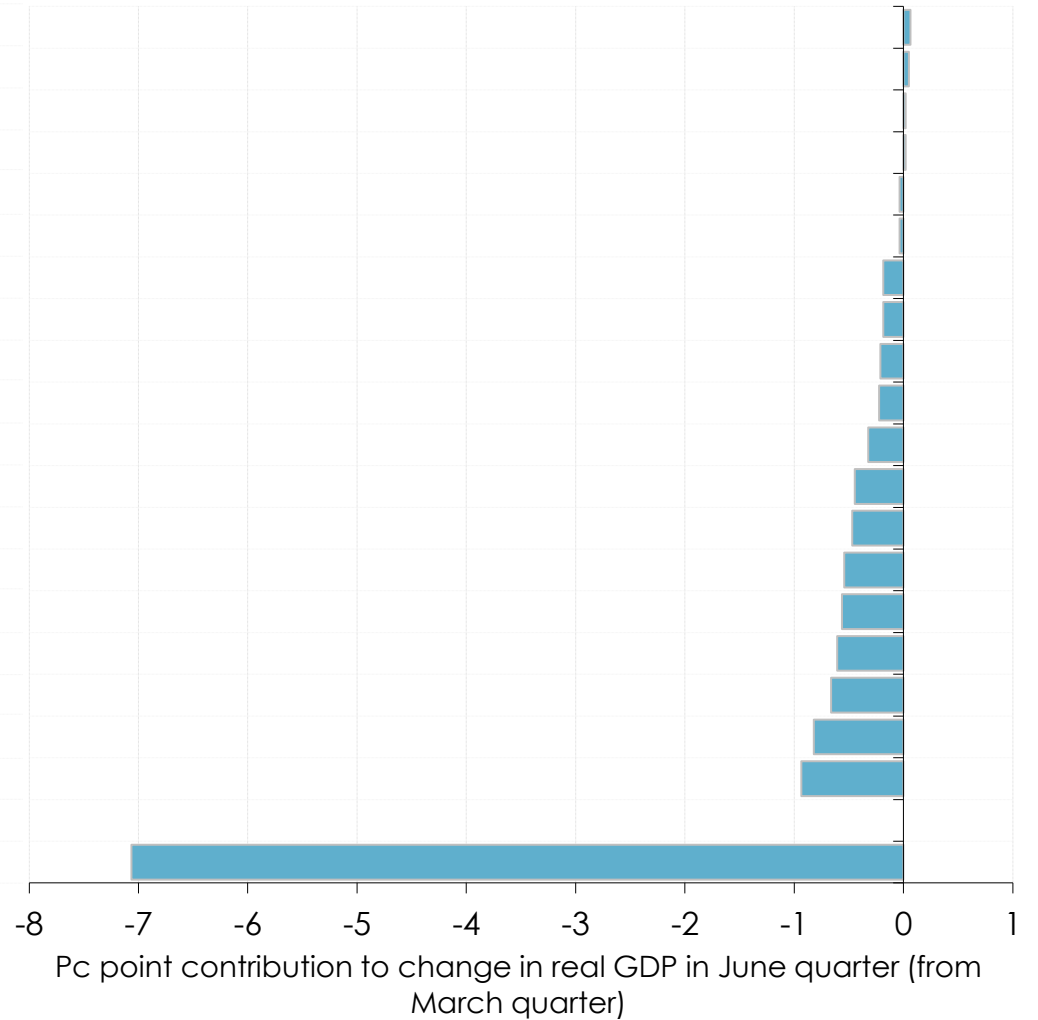
Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). Source: [ABS. Return to "What's New"](#).

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

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



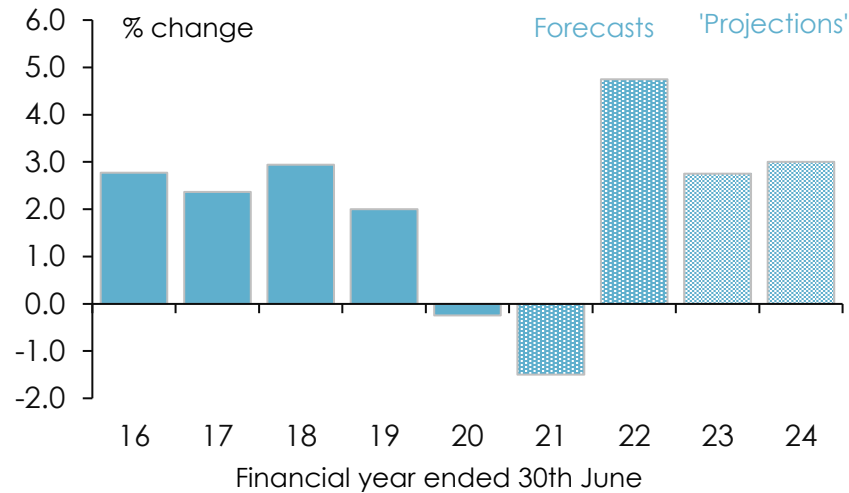
Contribution to change in real GDP, by industry, June quarter



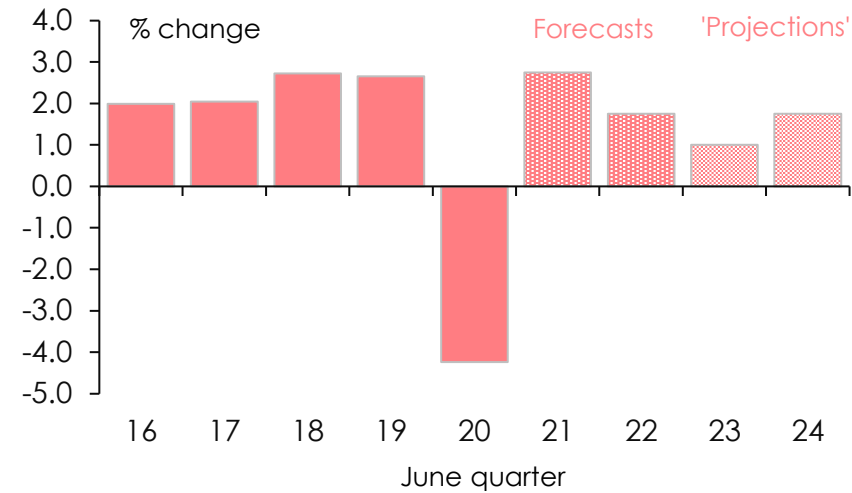
Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts. Source: [ABS](#). [Return to "What's New"](#).

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

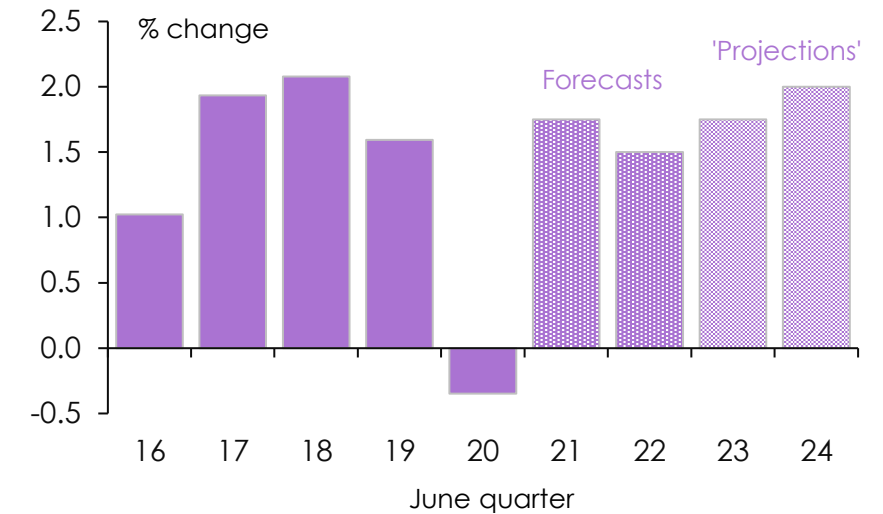
Real GDP



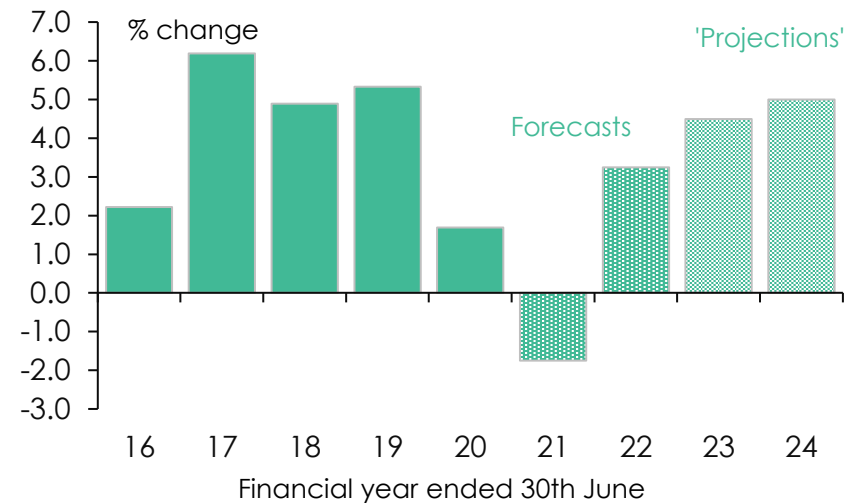
Employment



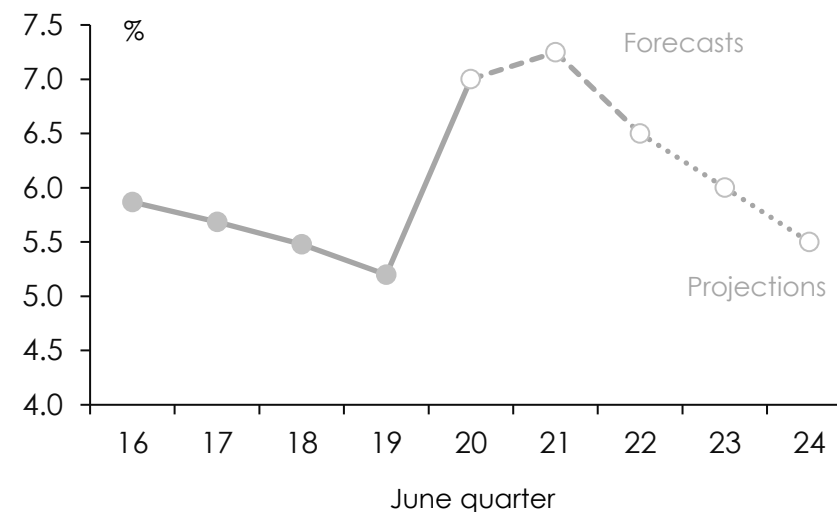
Consumer price index



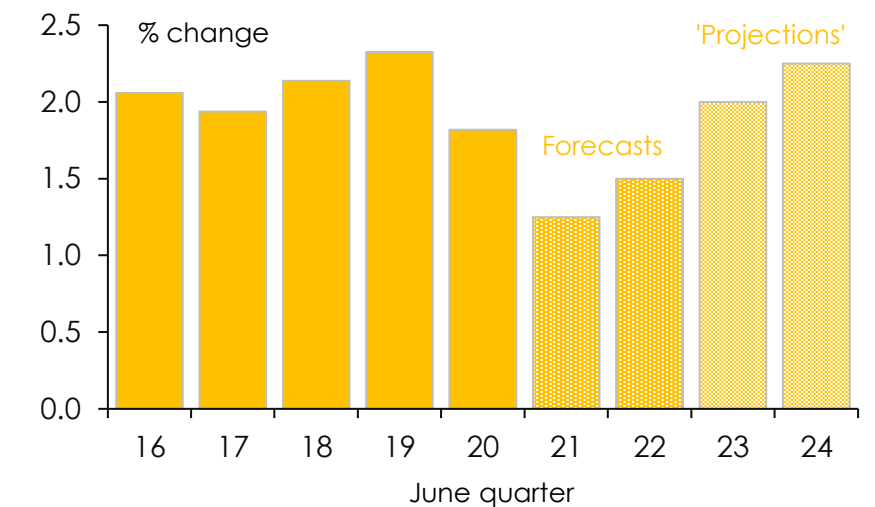
Nominal GDP



Unemployment rate



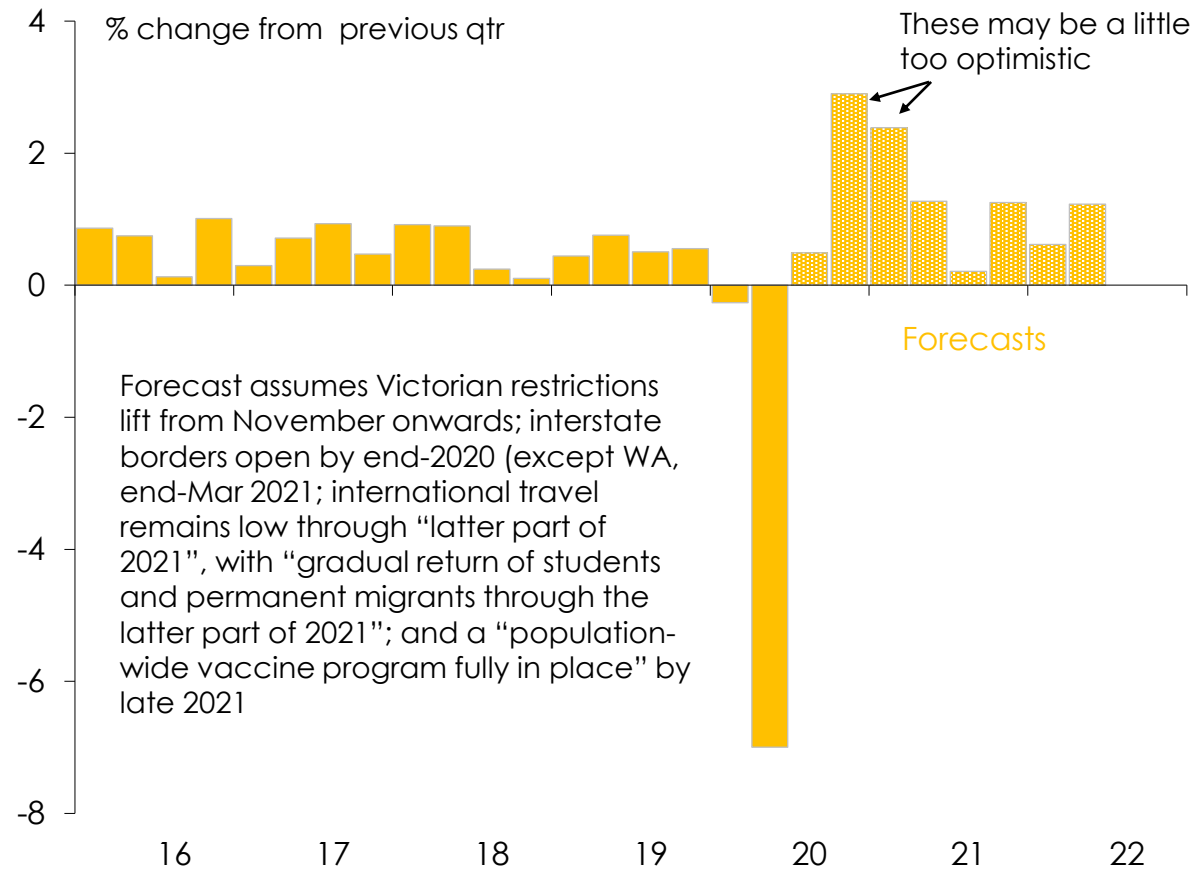
Wage price index



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](#).

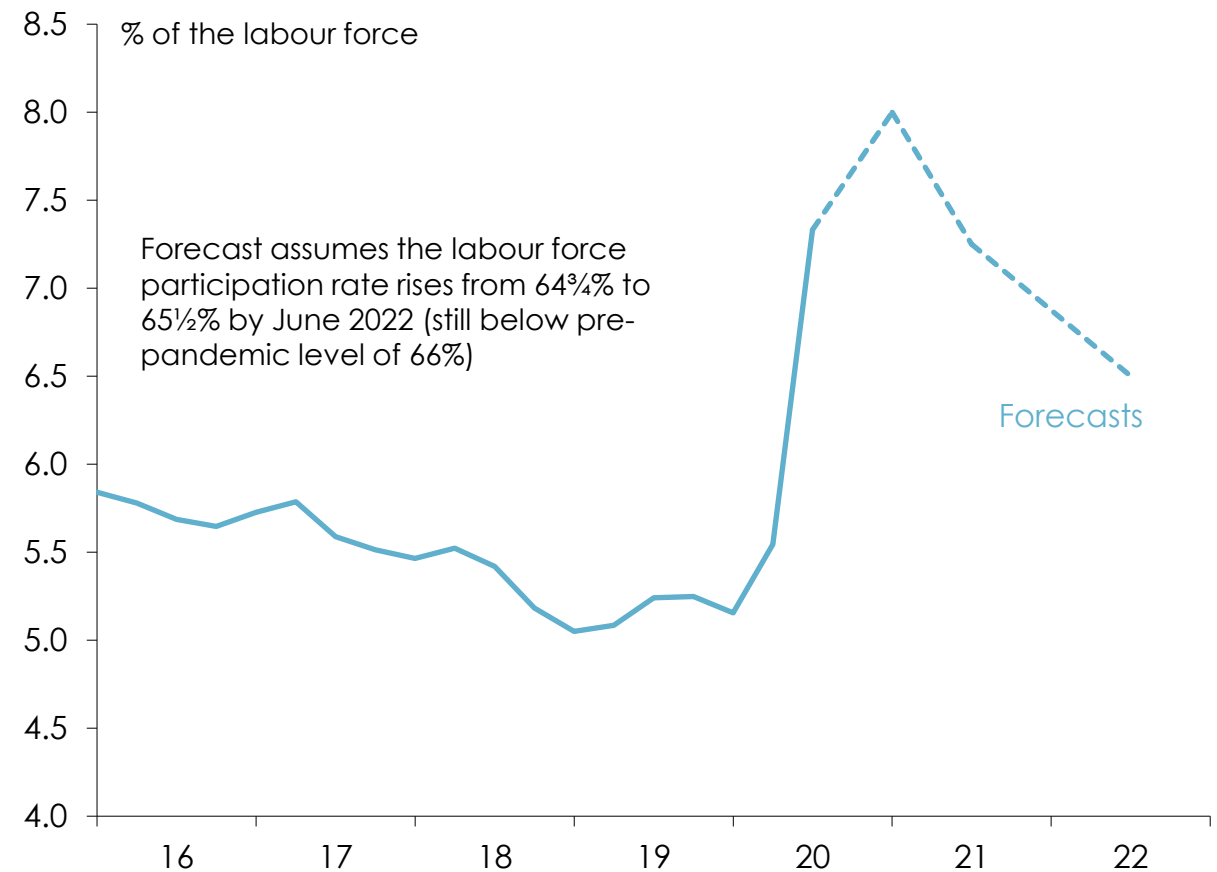
More detailed forecasts show the Government expects a 'growth surge' over summer followed by more modest growth in 2021-22

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

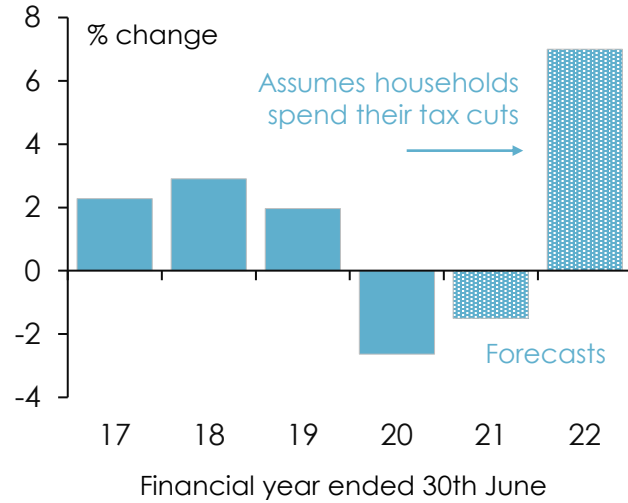
Unemployment



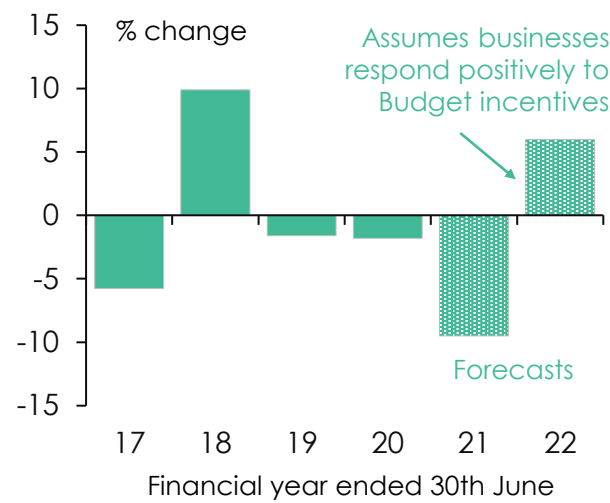
- Treasury expects the unemployment rate to peak at 8% in the December quarter, and then fall to 6½% by the June quarter 2022

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

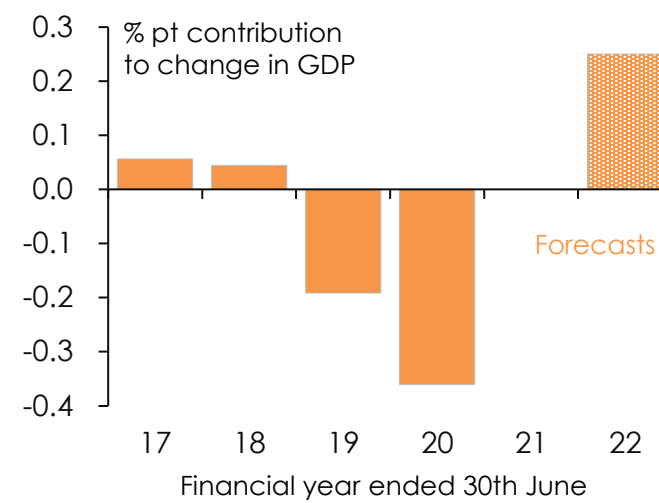
Household consumption



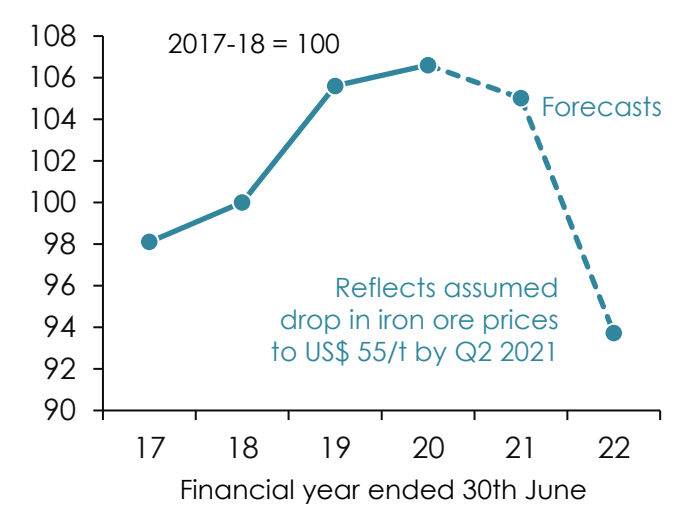
Business investment



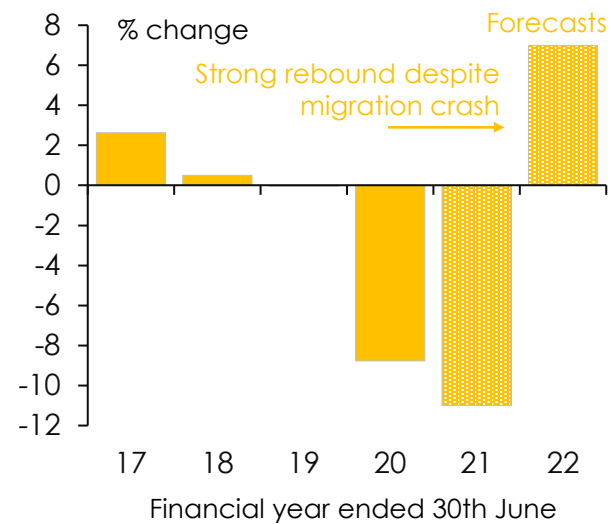
Change in inventories



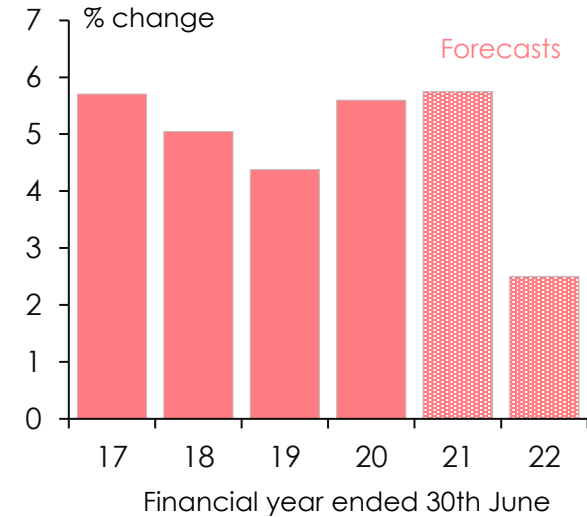
Terms of trade



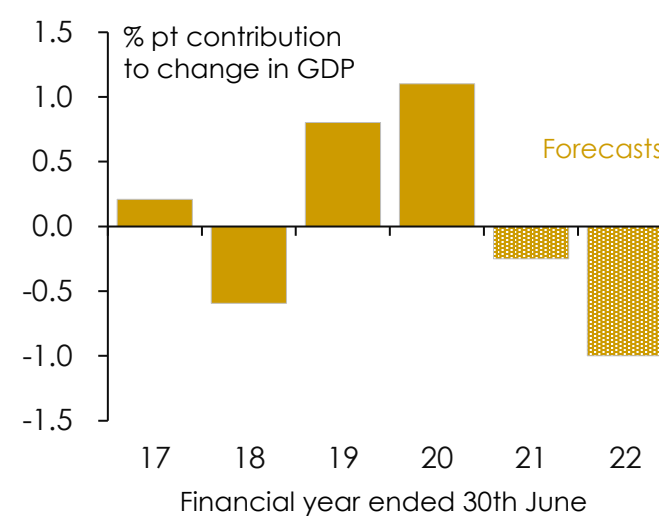
Dwelling investment



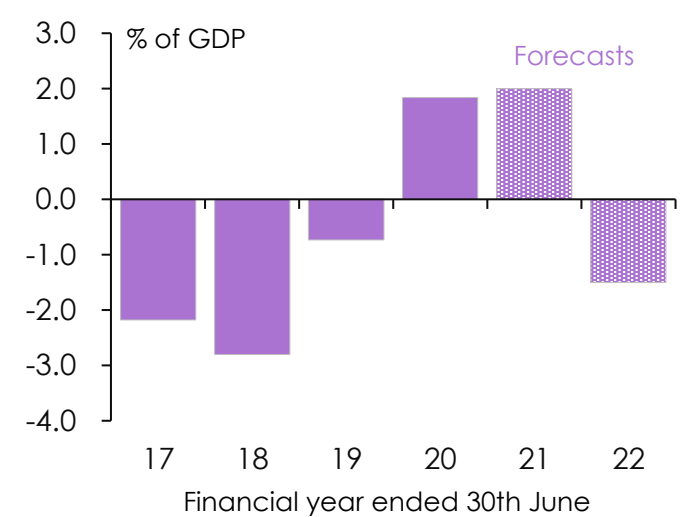
Public spending



Net exports



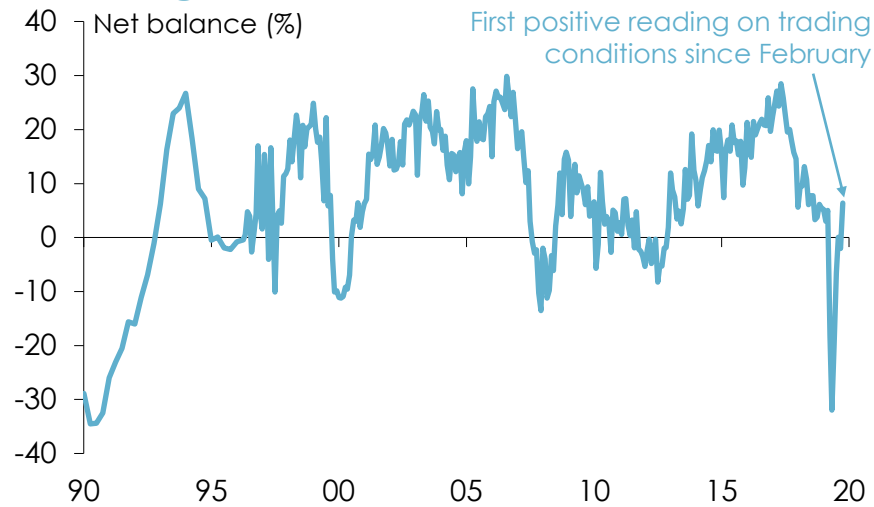
Current account balance



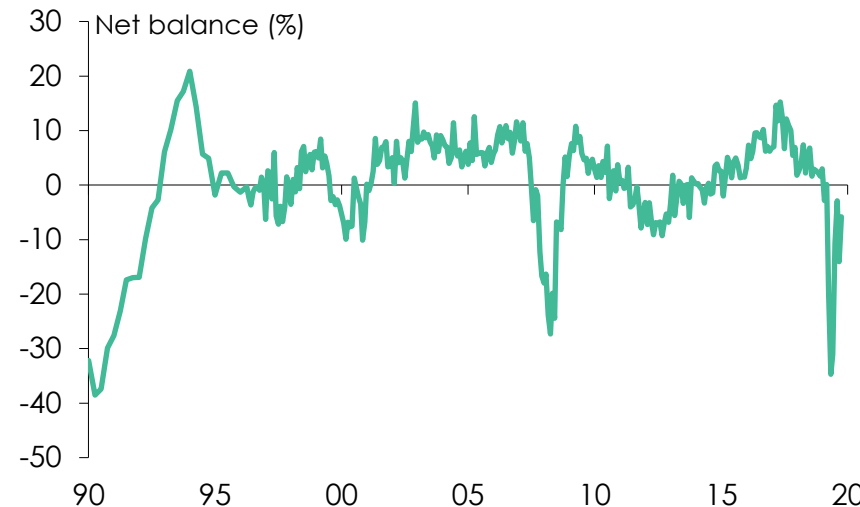
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K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

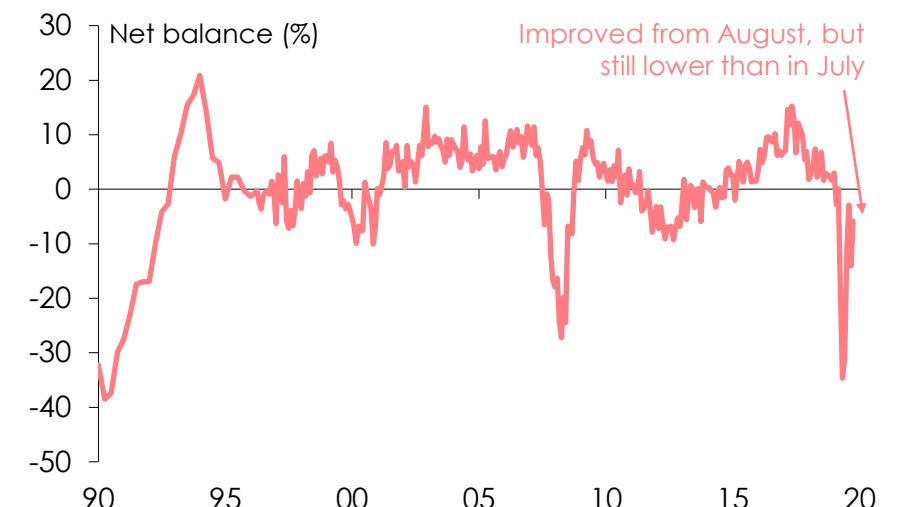
Trading conditions



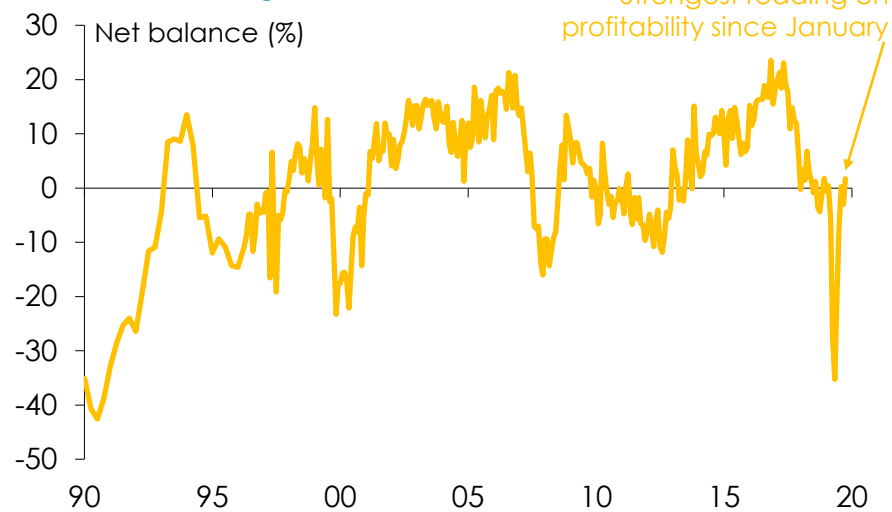
Forward orders



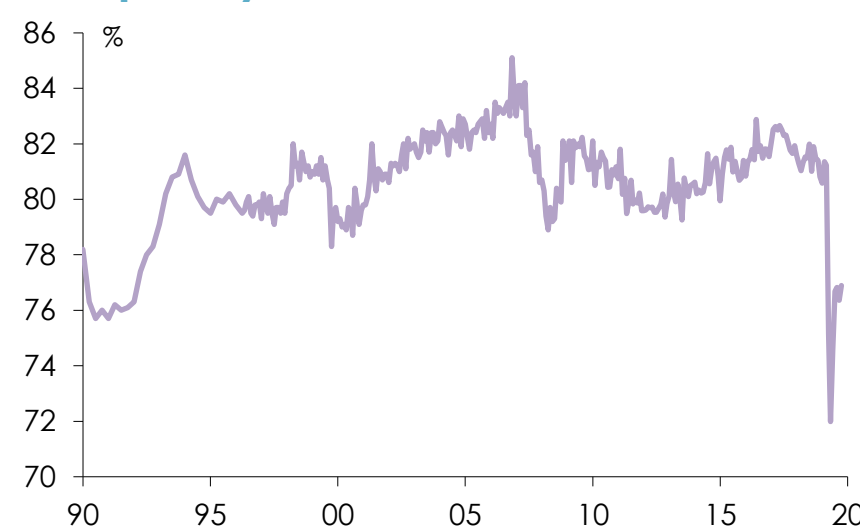
Employee hiring intentions



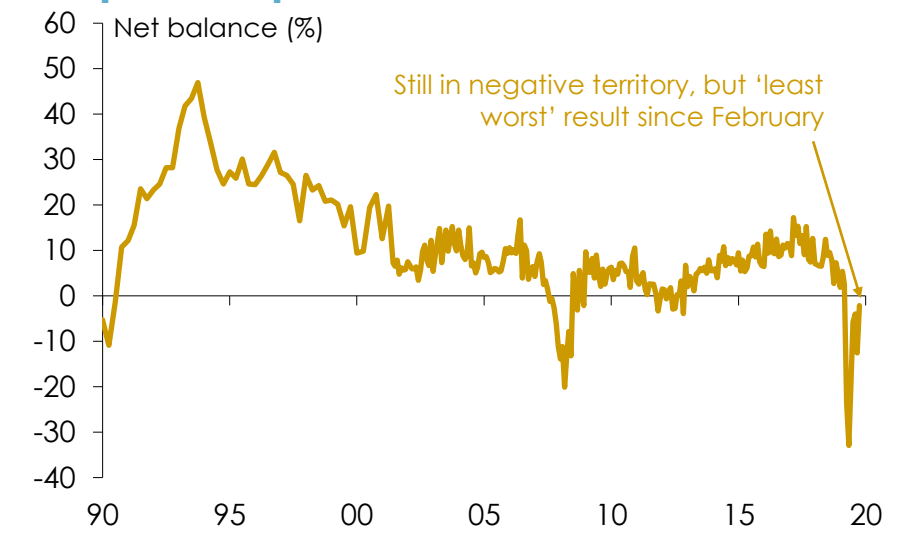
Profitability



Capacity utilization



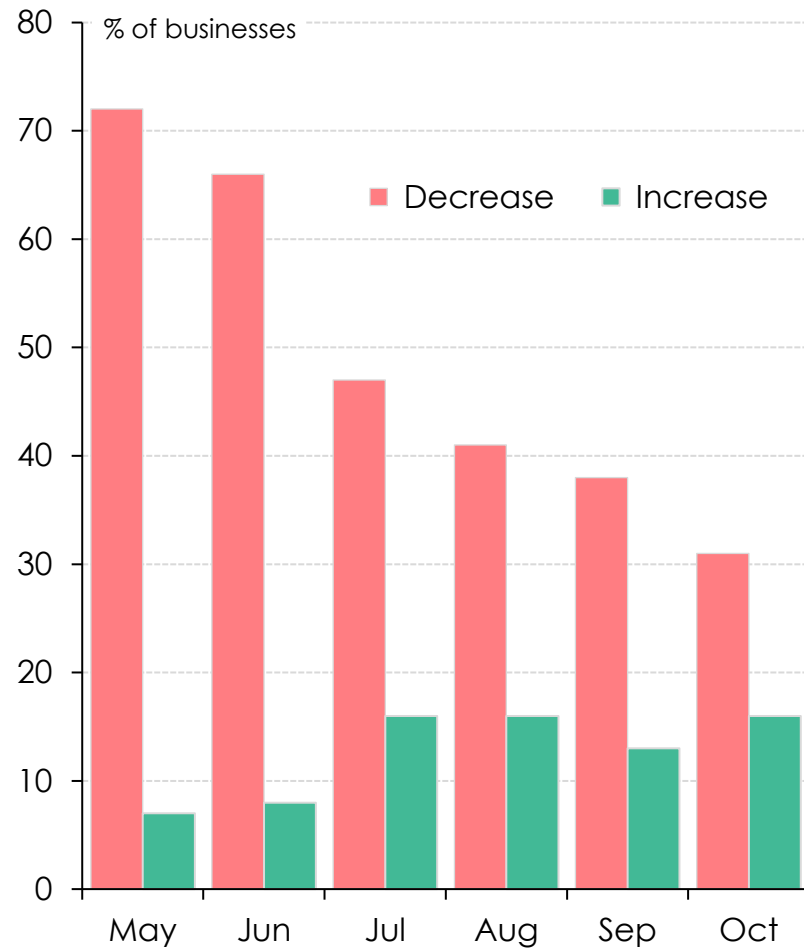
Capital expenditure intentions



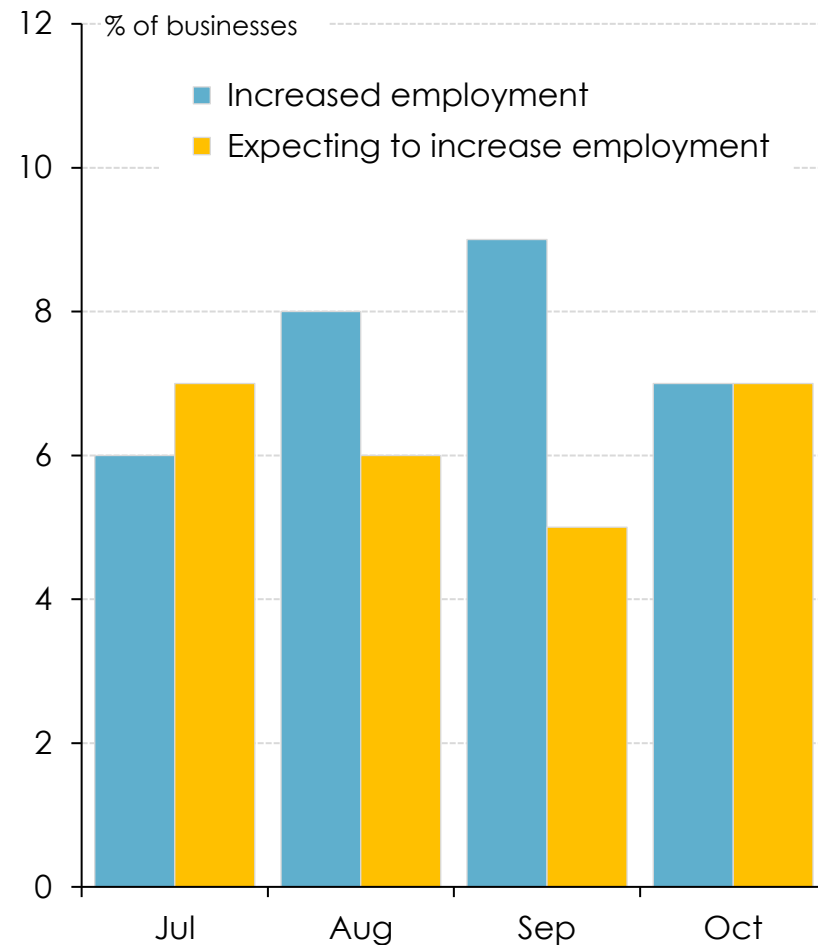
Note: Quarterly data up to March 1987 (May 2002 for capex intentions), monthly thereafter (latest data September 2020). See also chart of business confidence on [slide 88](#). Source: National Australia Bank [Monthly Business Survey](#) September 2020; October survey results will be released on 10th November. [Return to "What's New"](#).

Fewer businesses are reporting falls in revenue, but hiring intentions aren't improving: 43% of firms don't have enough cash to last six months

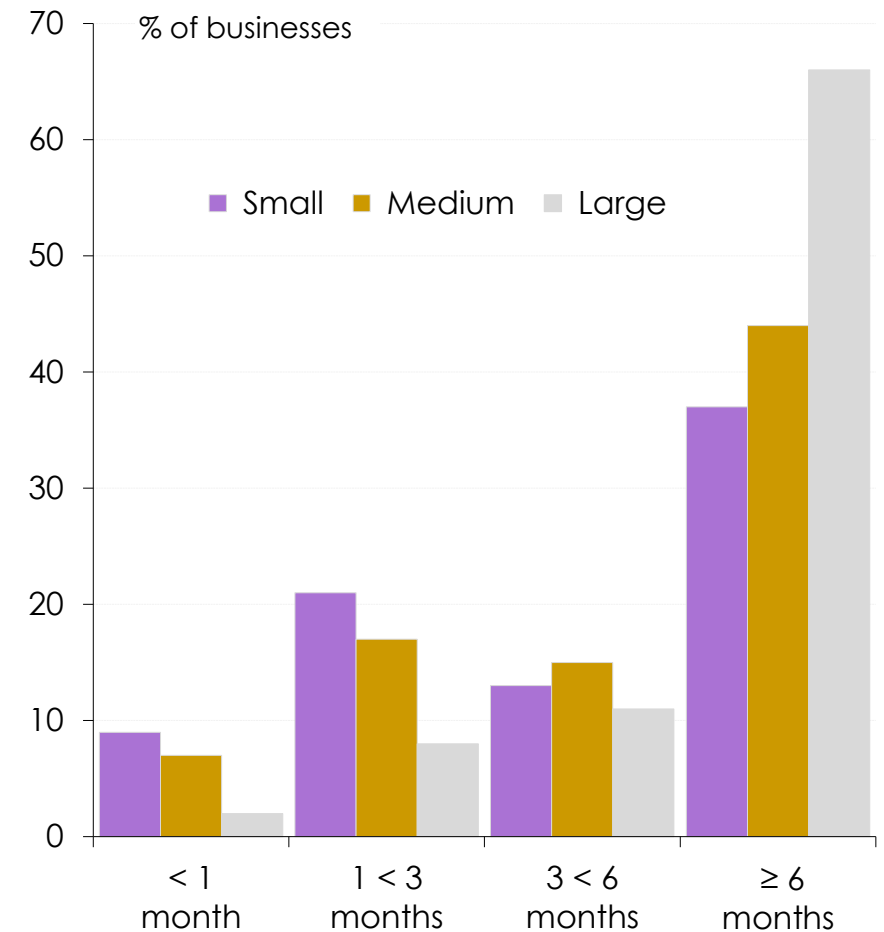
Proportion of businesses reporting decreases or increases in revenue



Proportion of businesses increasing and expecting to increase employee numbers



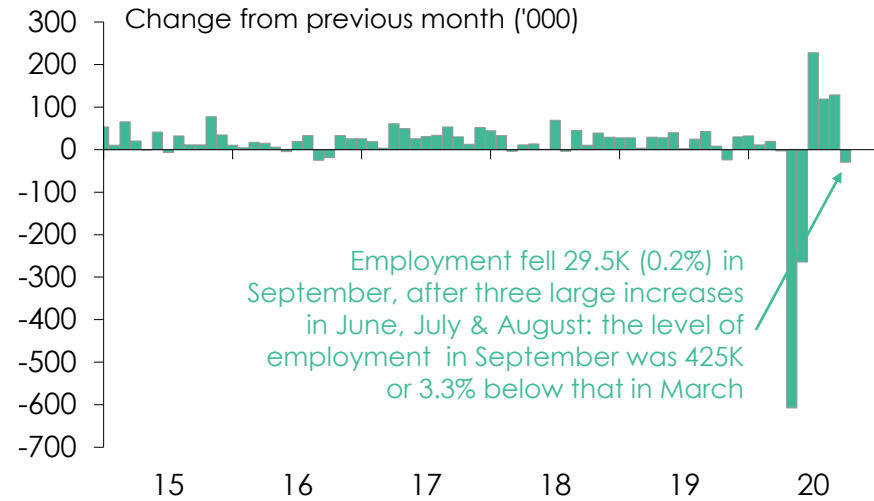
Length of time business operations could be sustained by currently available cash, October



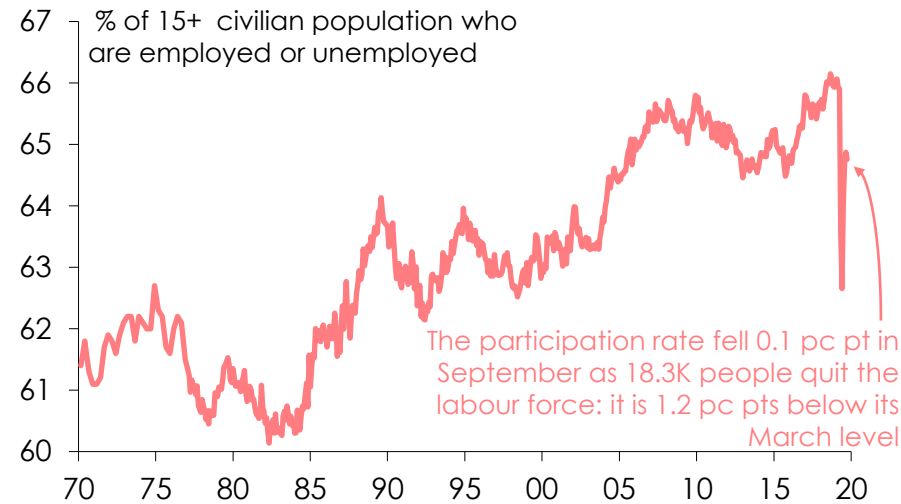
Source: ABS, [Business Impacts of Covid-19](#), October 2020. November survey to be released on 19th November. [Return to "What's New"](#).

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

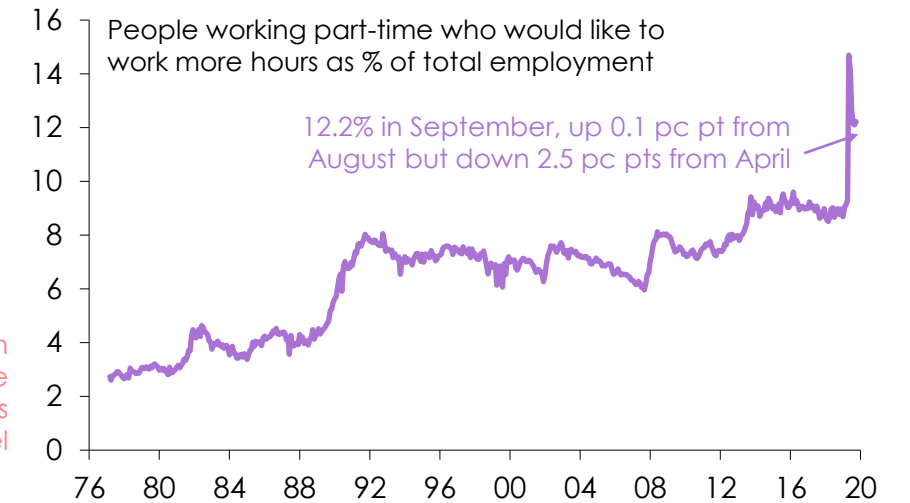
Employment



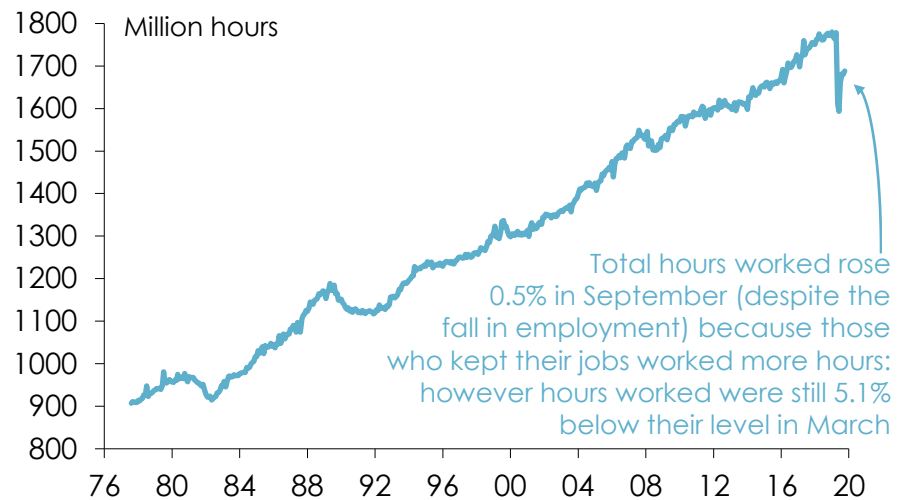
Labour force participation rate



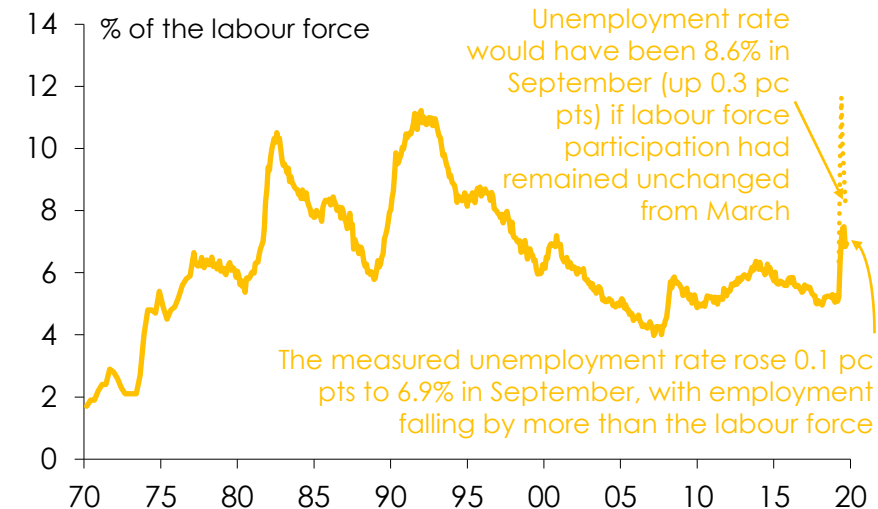
Under-employment ratio



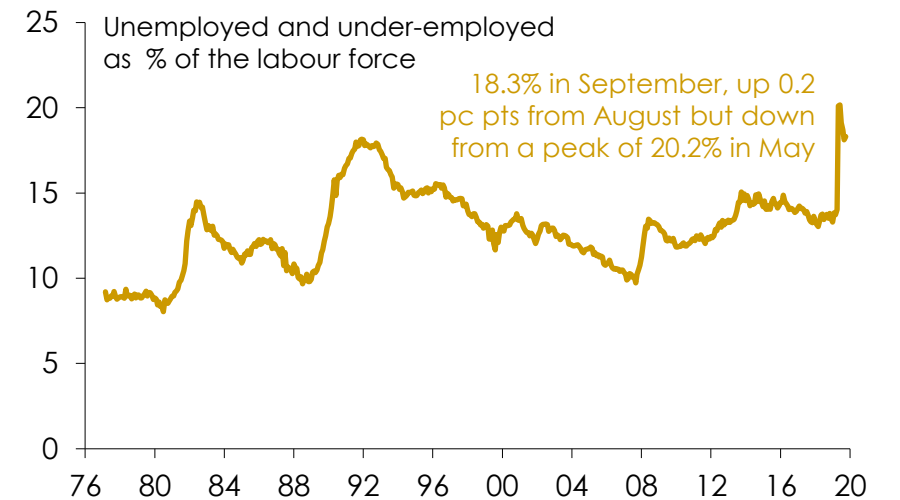
Total hours worked



Unemployment rate



'Under-utilization' rate

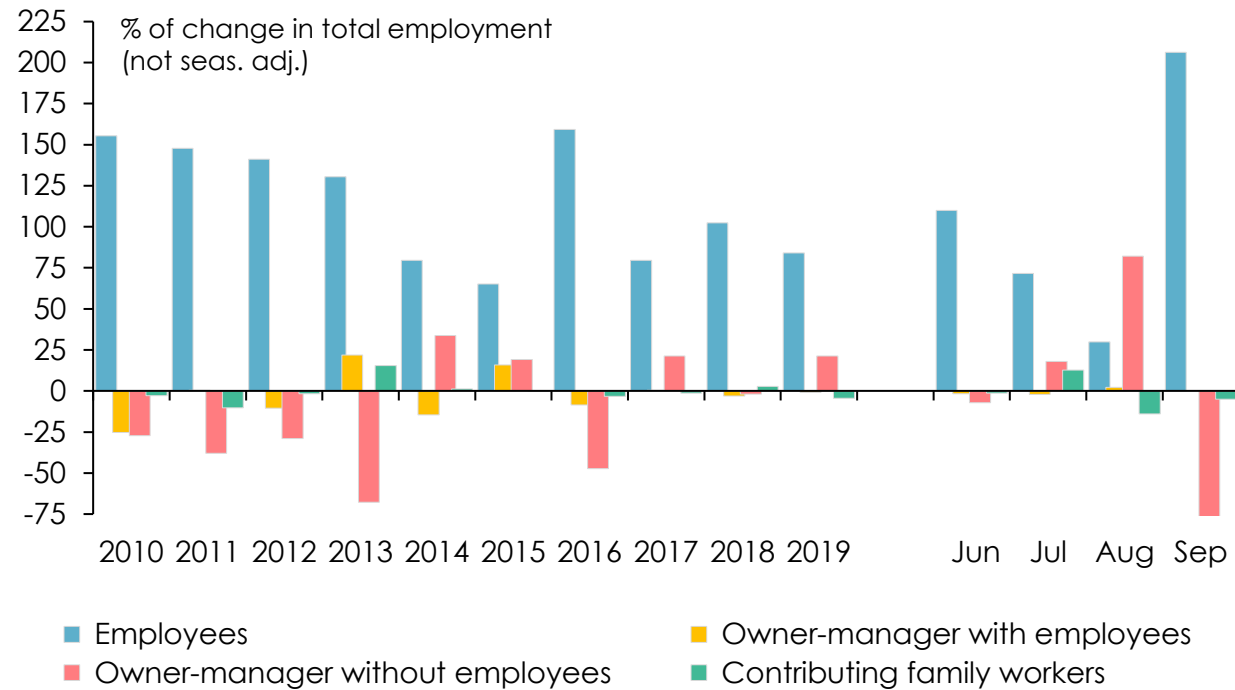


Note: The ABS classifies people on JobKeeper who worked zero hours in the survey week as 'employed'. Had it not done so, the unemployment rate in August would have been 7.9% (down from 11.8% in April) – see also next slide. The 'under-employment ratio' is the percentage of employed persons who are working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

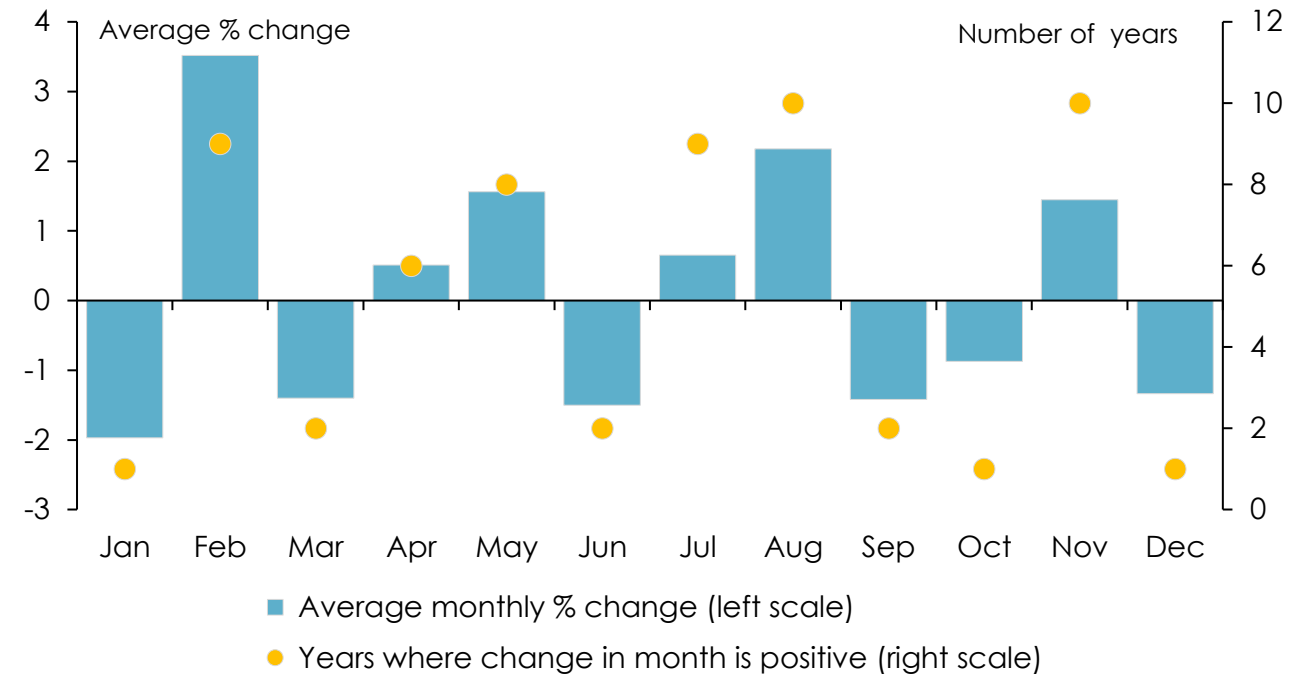
Source: ABS, [Labour Force, Australia](#). October data will be released on 19th November. [Return to "What's New"](#).

A substantial proportion of the apparent surge in 'gig economy' jobs in August was reversed in September (as per the usual seasonal pattern)

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



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



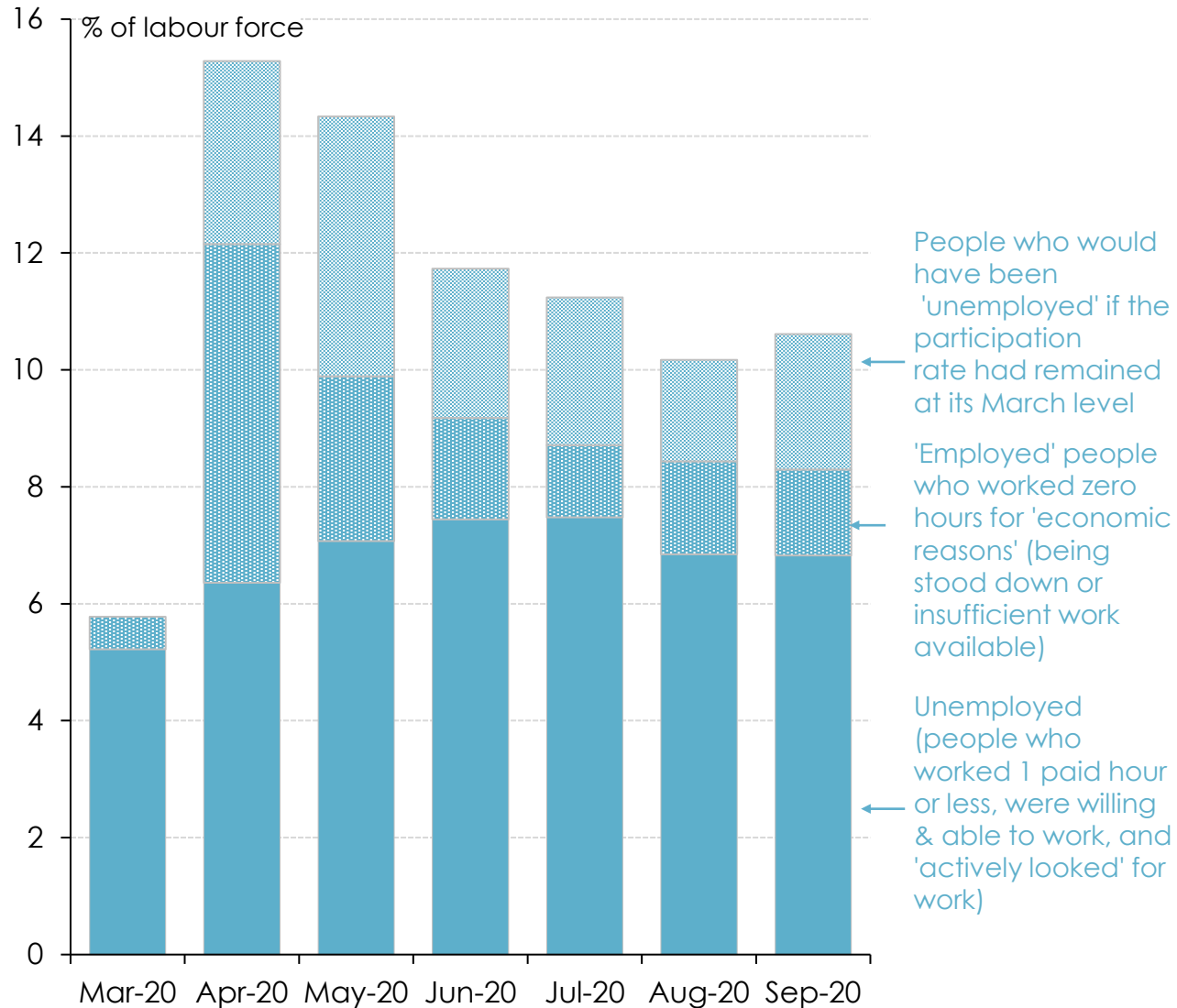
A month ago, an outsized 4% increase in the number of owner-managers of businesses with no employees in August (accounting for 83% of the increase in total employment) prompted speculation that much of the post-pandemic growth in employment would be in the 'gig' economy: about 40% of that gain was reversed in September

The middle months of quarters seem to be the most auspicious months for starting one-person businesses – August is one of only two months (November is the other) in the past 10 years in which the number of owner-managers with no employees has *never* fallen. As suggested here last month, the rise in August was a larger-than-usual instance of a normal seasonal pattern and didn't really tell us anything new

Note: data on employment by employment status used in these charts are not seasonally adjusted.
 Source: ABS, [Labour Force, Australia, Detailed](#), September 2020. October data will be released on 26th 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

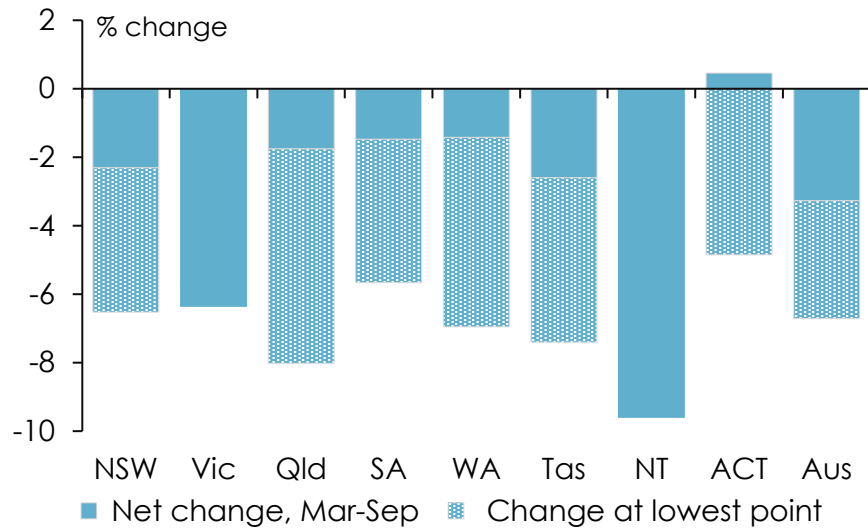
Alternative measures of unemployment



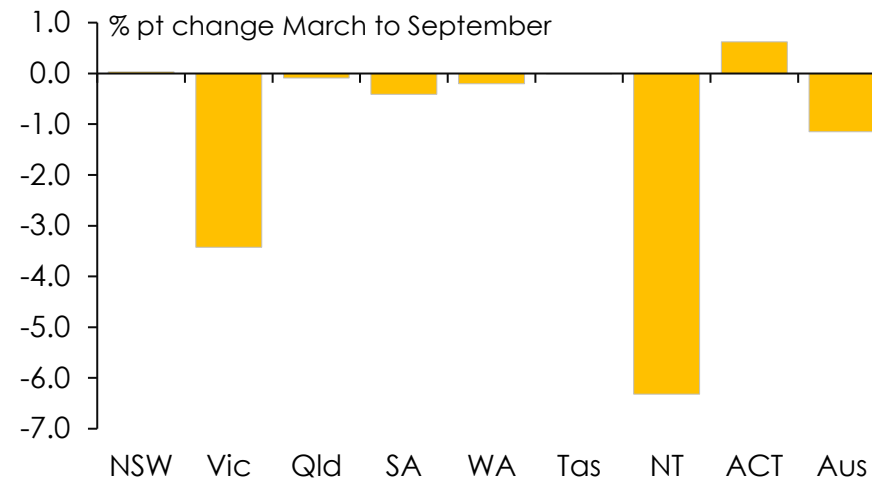
- ❑ The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30th March and 27th September (although payments didn't start until the beginning of May)
- ❑ About 3.35 mn people (27% of total employment) are currently being supported through JobKeeper
- ❑ From 28th 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 1st March ...
- ❑ ... and will reduce further to \$1000 per fortnight (and \$650 per fortnight for those who had been working fewer than 20 hours per week) from 4th January until 28th March, when JobKeeper is currently scheduled to end
- ❑ Employers will also need to demonstrate that they continued to meet the 'drop in turnover' criteria (30% for businesses with turnover of \$1 bn or less, 50% for large employers, 15% for not-for-profits) in both Q3 and Q4 to remain eligible for JobKeeper payments

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

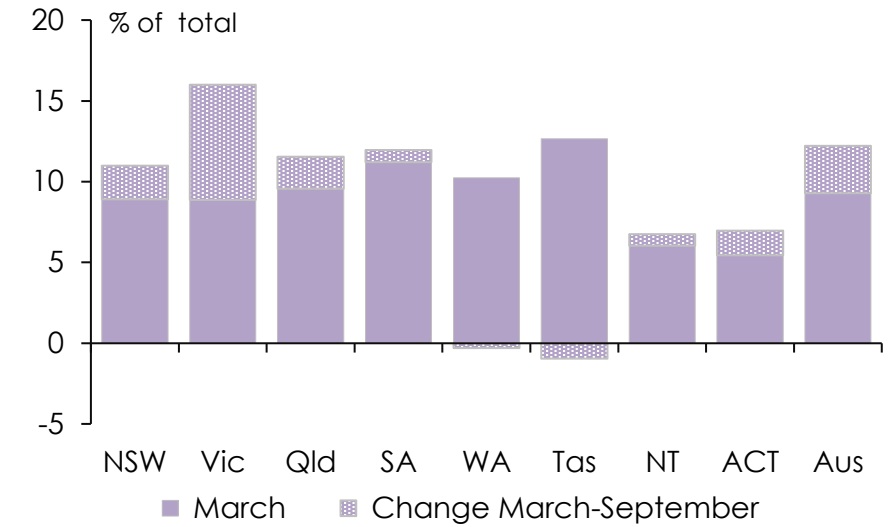
Employment



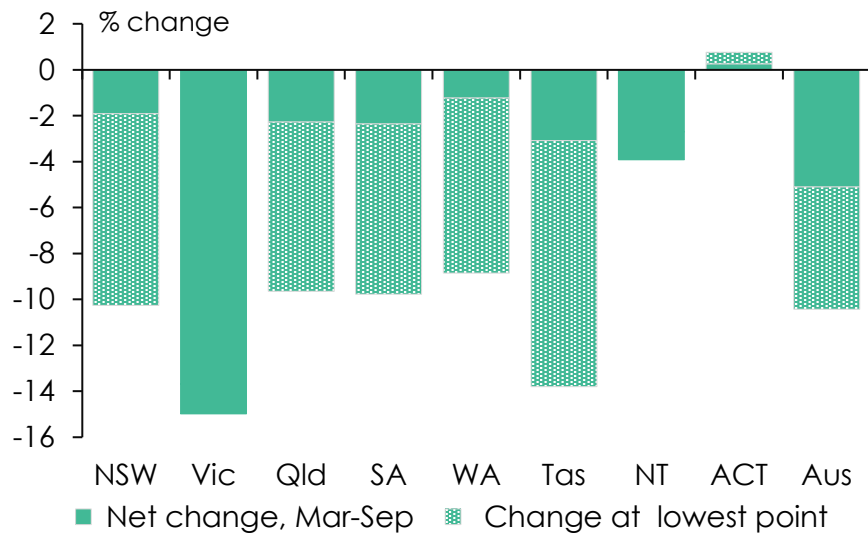
Labour force participation rate



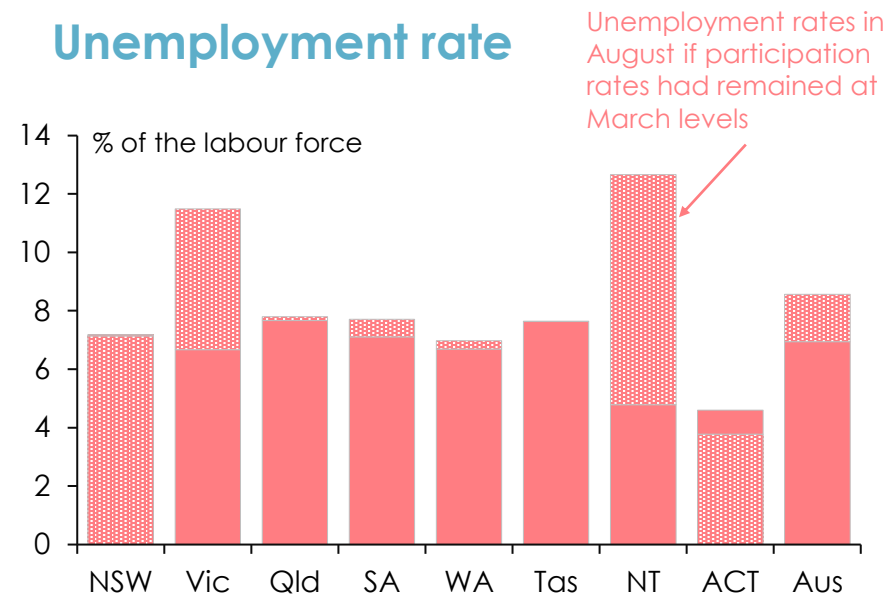
Under-employment ratio



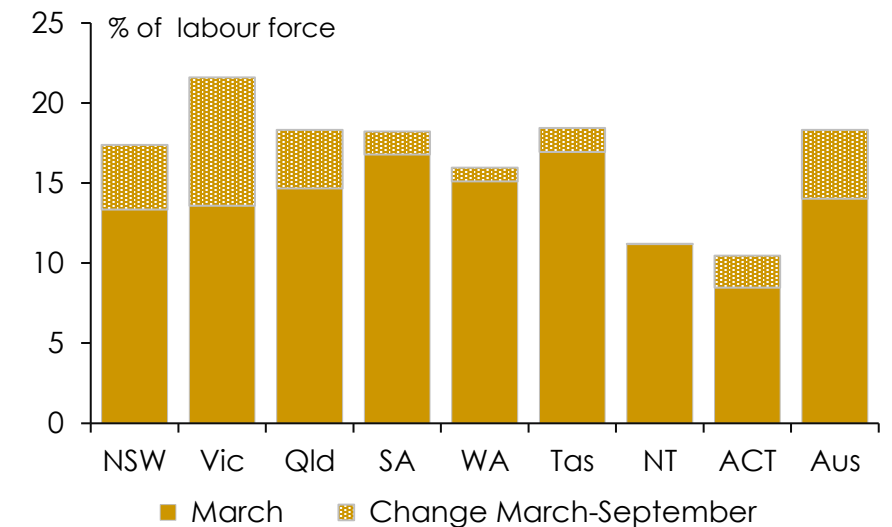
Total hours worked



Unemployment rate



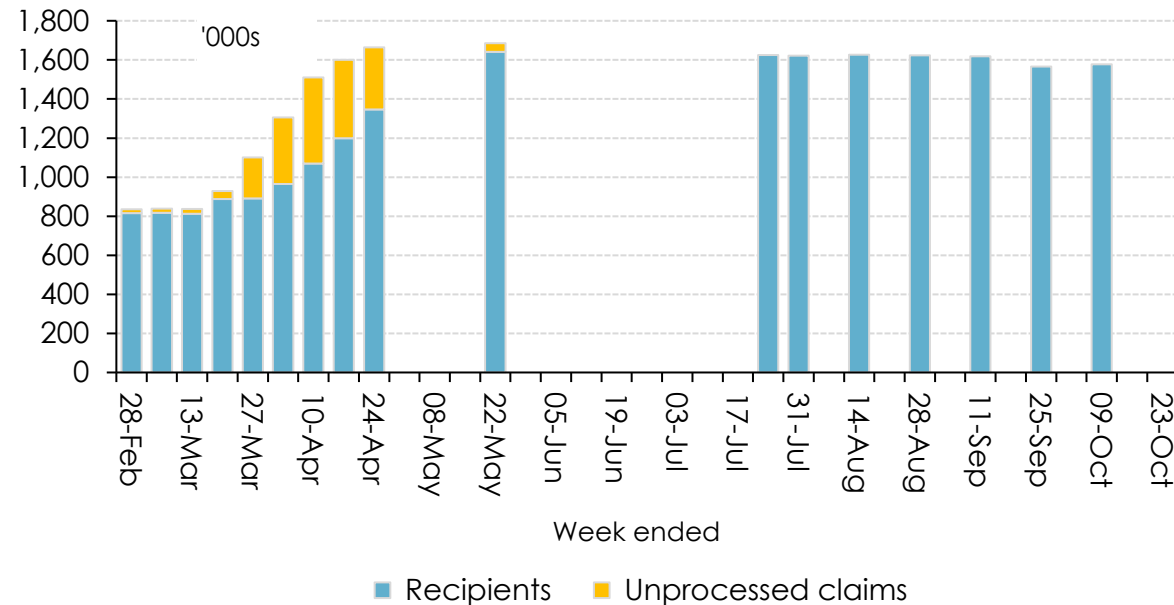
'Under-utilization' rate



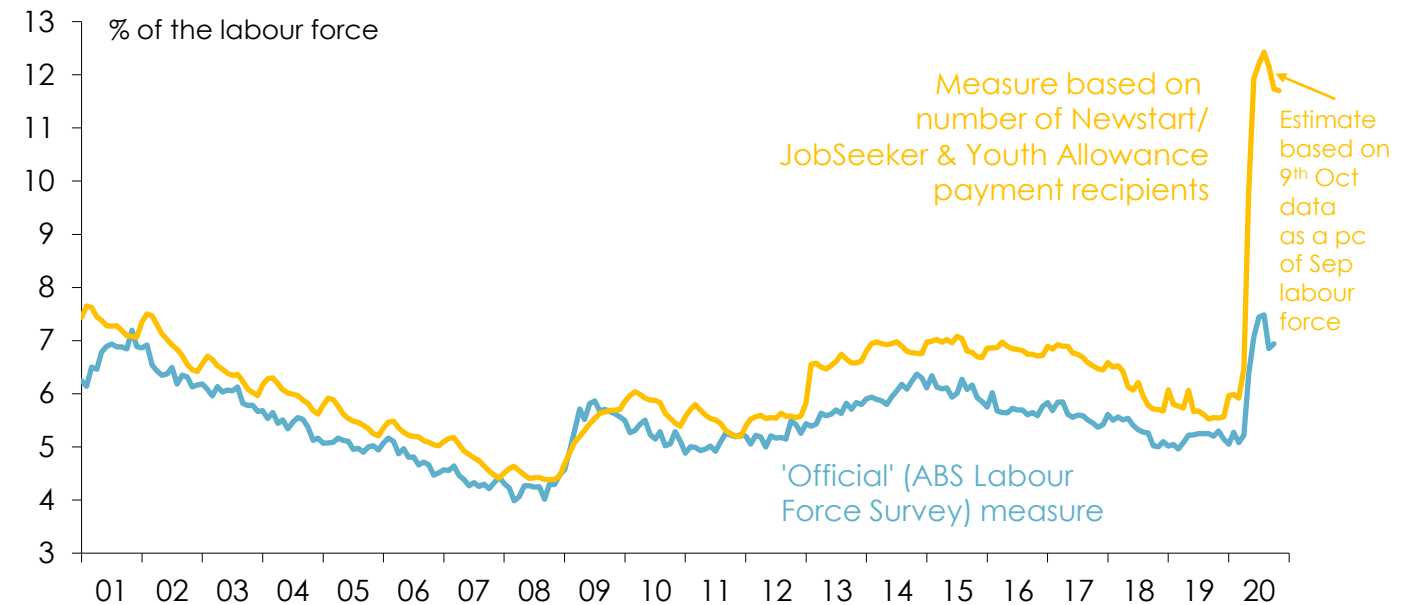
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS, [Labour Force, Australia](#). October data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



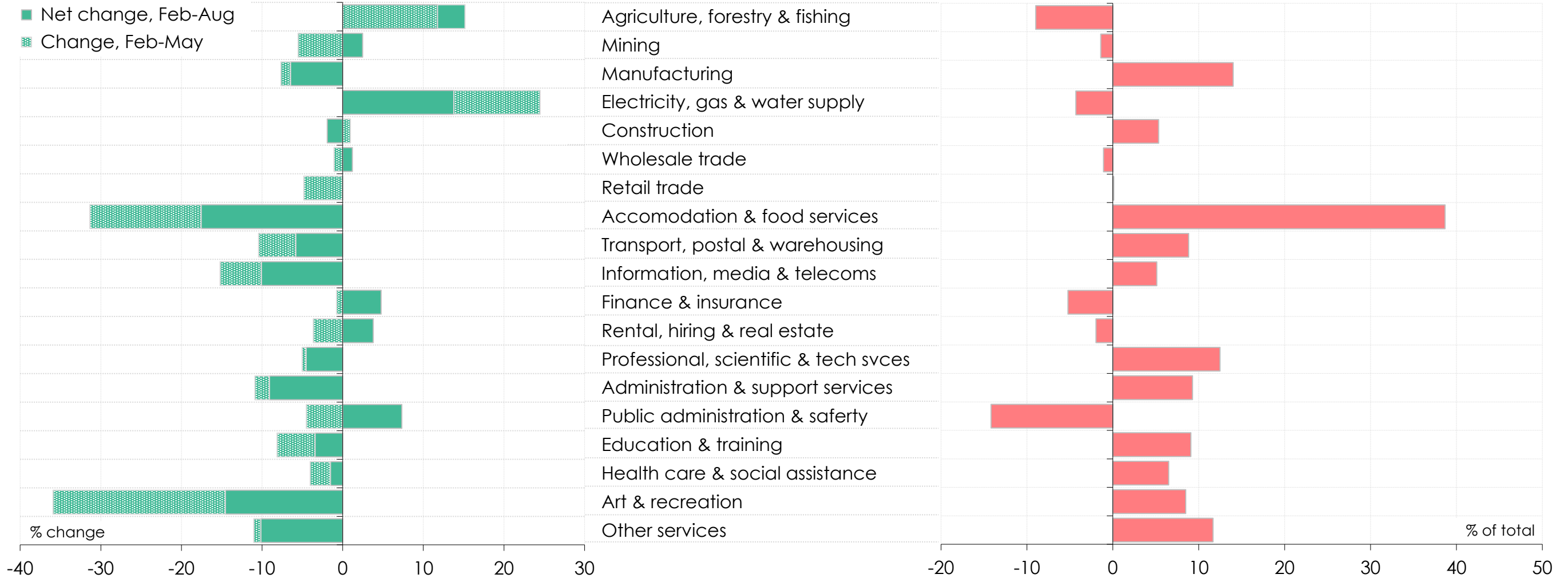
- ❑ The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available
- ❑ On two occasions earlier this year the Secretary of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

Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). [Return to "What's New"](#).

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

Change in employment between February and August 2020, by industry

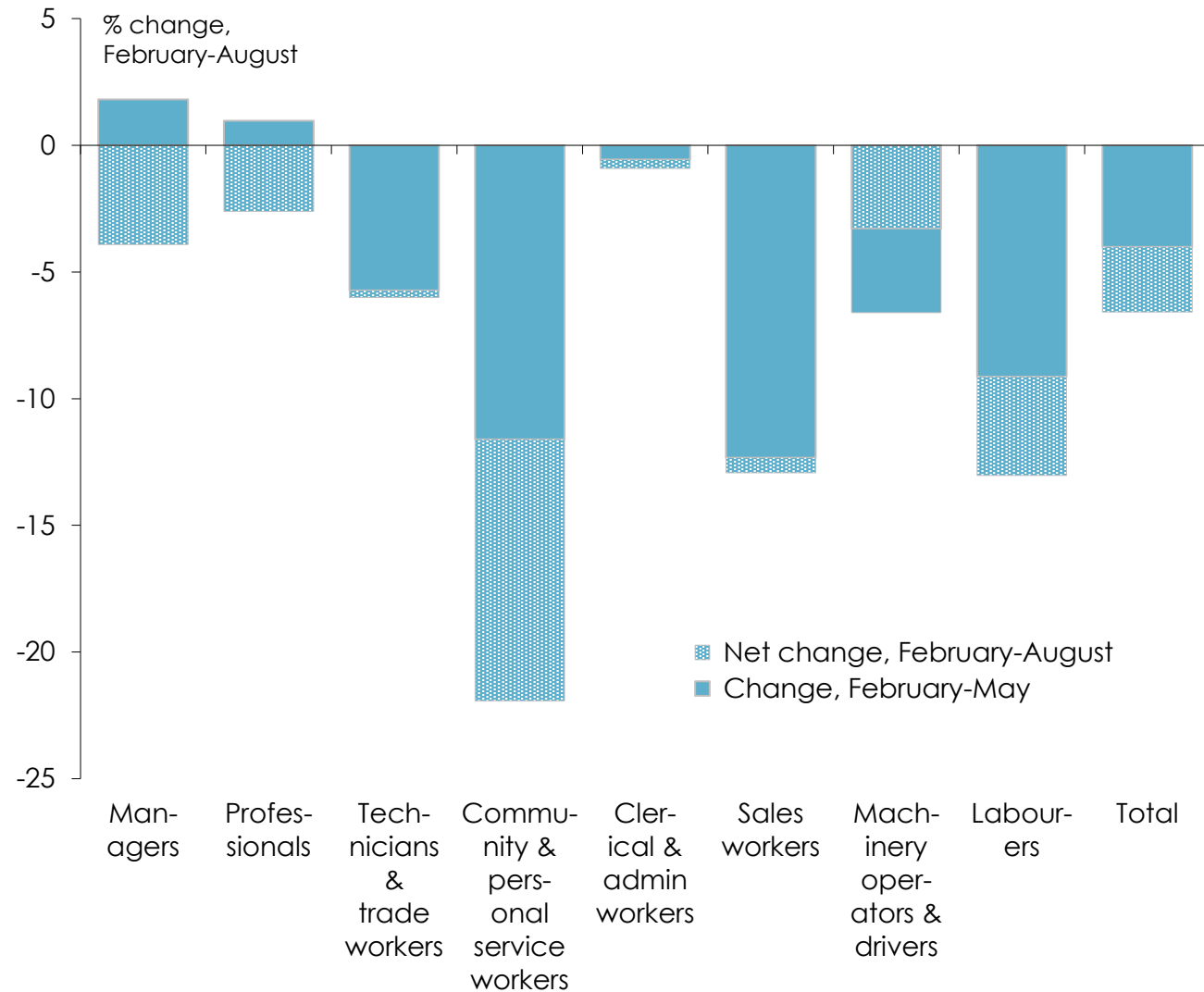
Proportion of change in total employment between February and August 2020, by industry



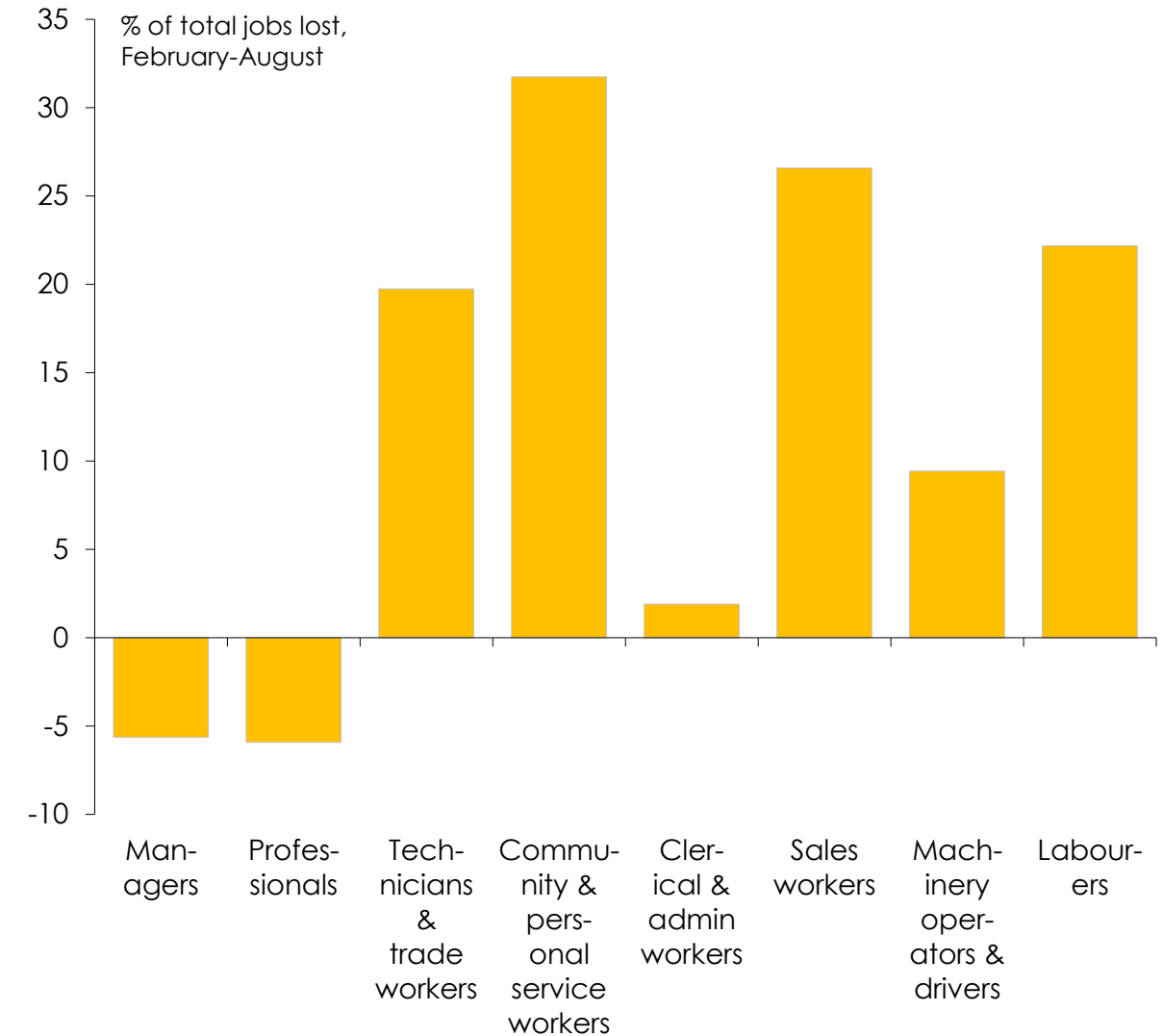
Note: The accommodation & food services, education & training, and arts & recreation services sectors accounted for 15% of total employment in February.
 Source: ABS, [Labour Force, Australia, Detailed](#), August 2020. November data will be released on 23rd December. [Return to "What's New"](#).

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

Change in employment between February and March 2020, by occupation



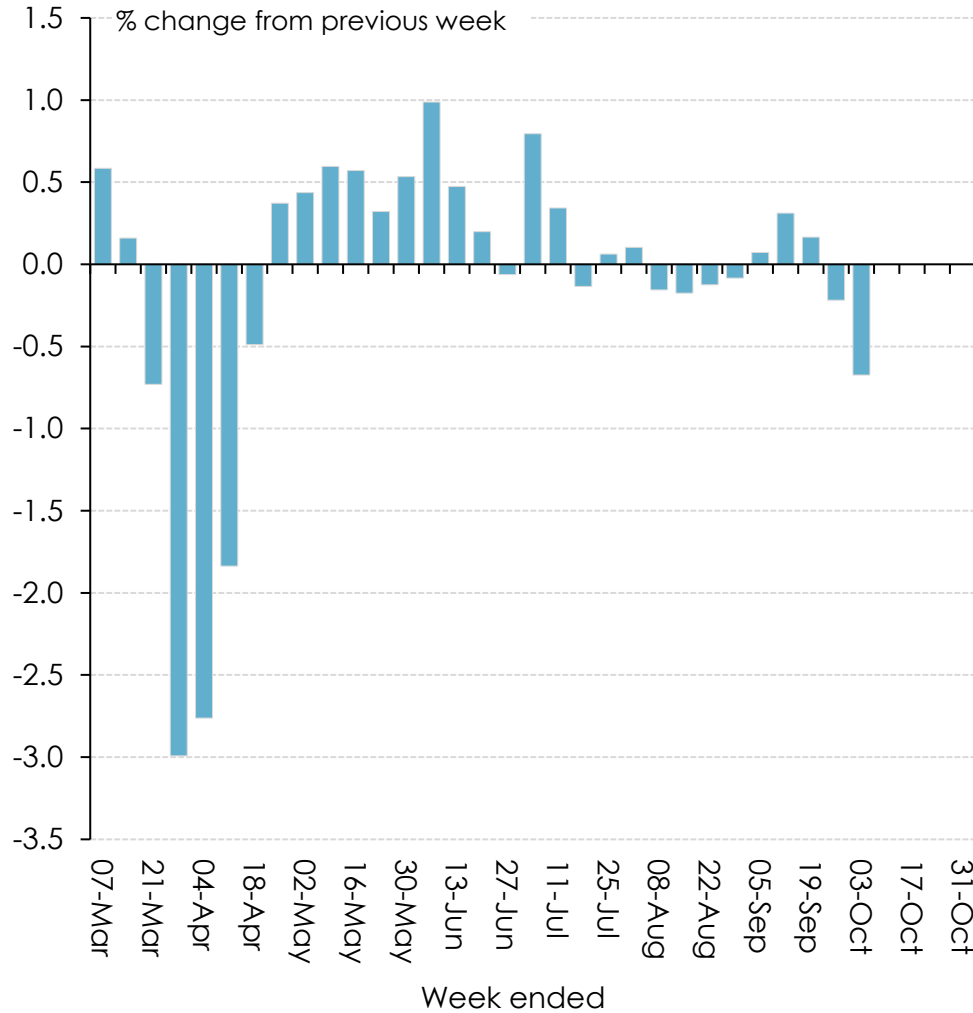
Proportion of change in total employment between February and March 2020, by occupation



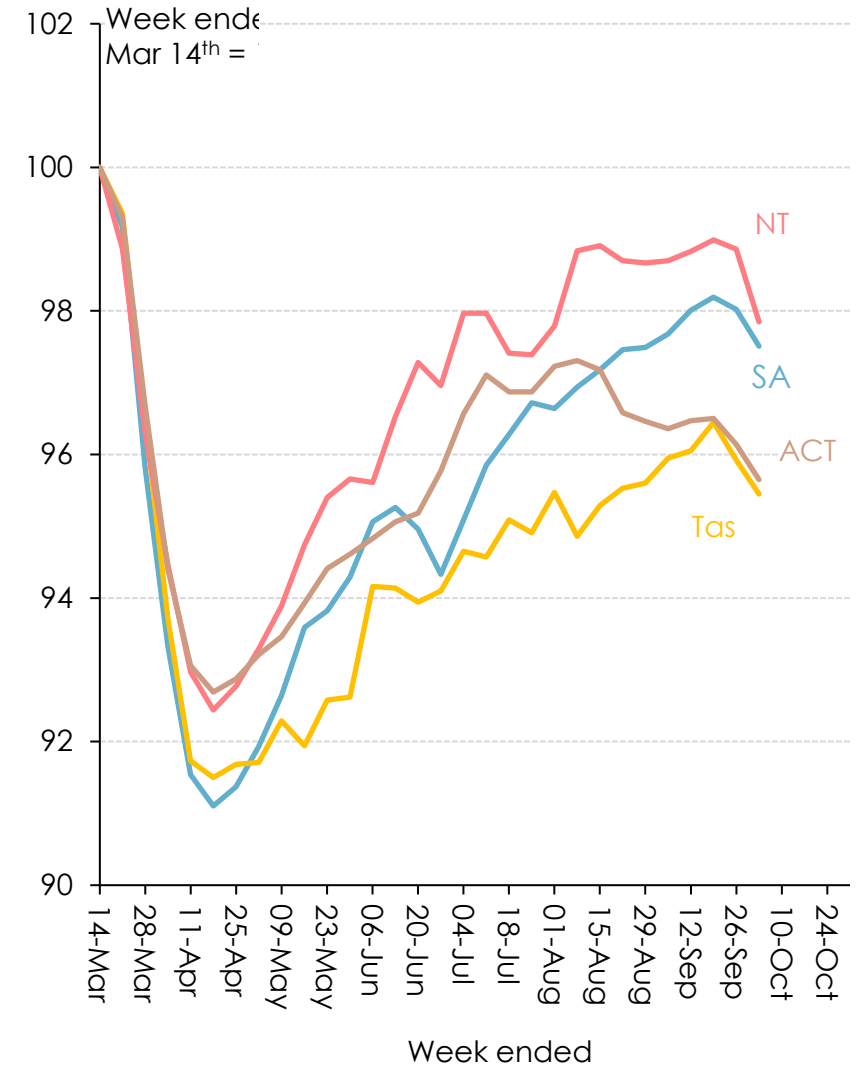
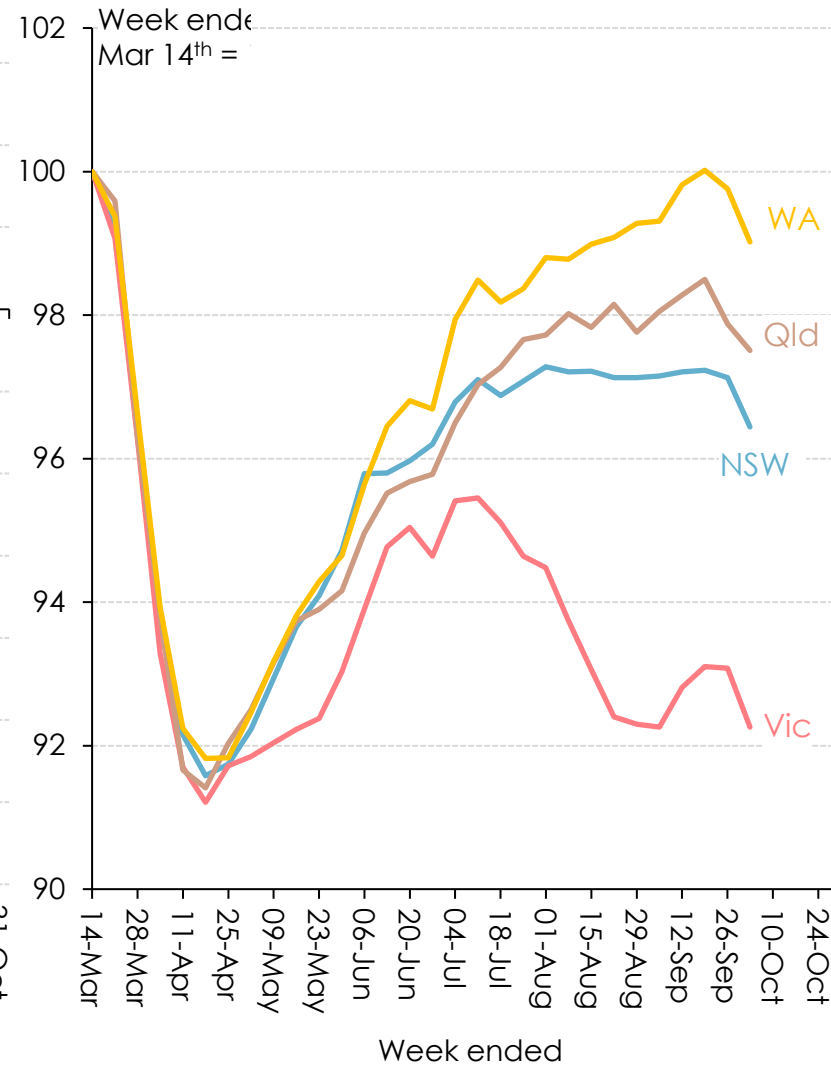
Source: ABS, [Labour Force, Australia, Detailed](#), August 2020. November data will be released on 23rd December. [Return to "What's New"](#).

Payroll employment fell 0.7% in the first week of October, after the stepping down of the level of JobKeeper, with falls in every state and territory

Weekly change in number of payroll jobs



Payroll jobs by State & Territory



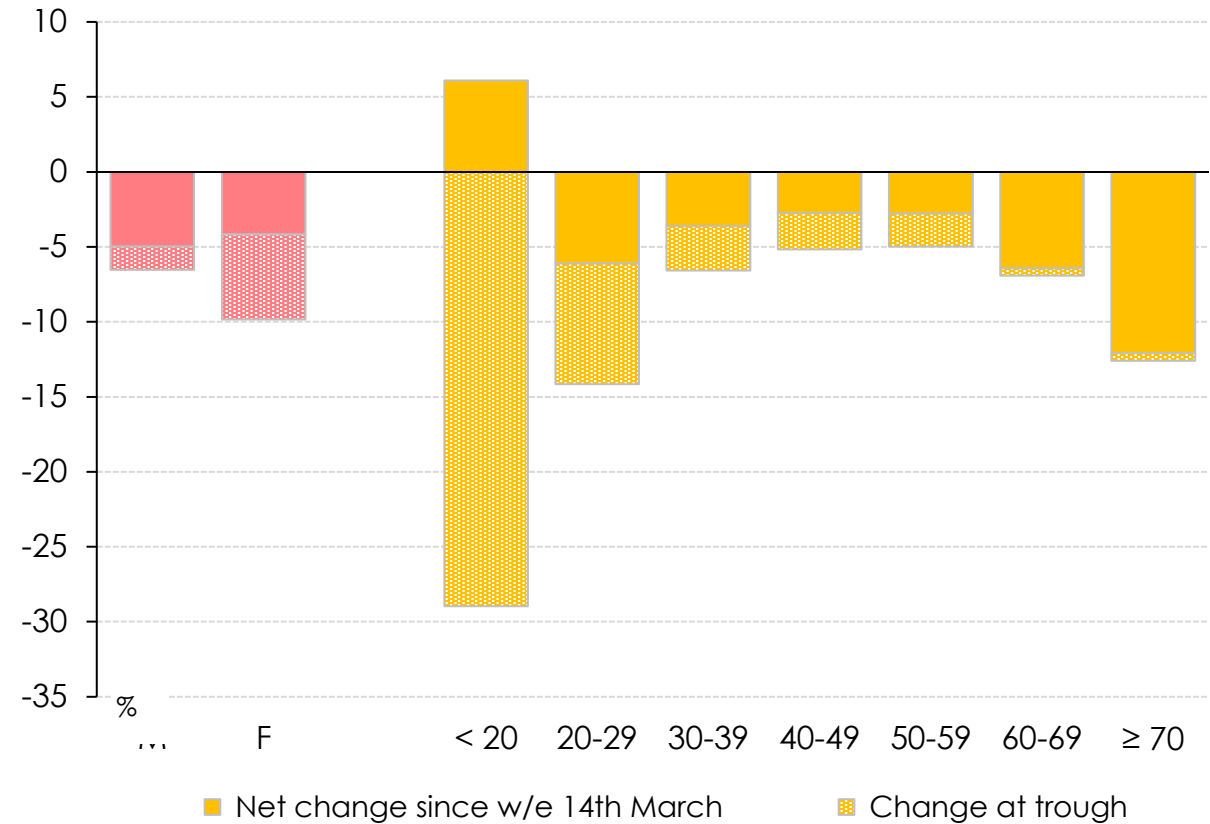
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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 17th October will be released on 21st October. [Return to "What's New"](#).

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

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



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



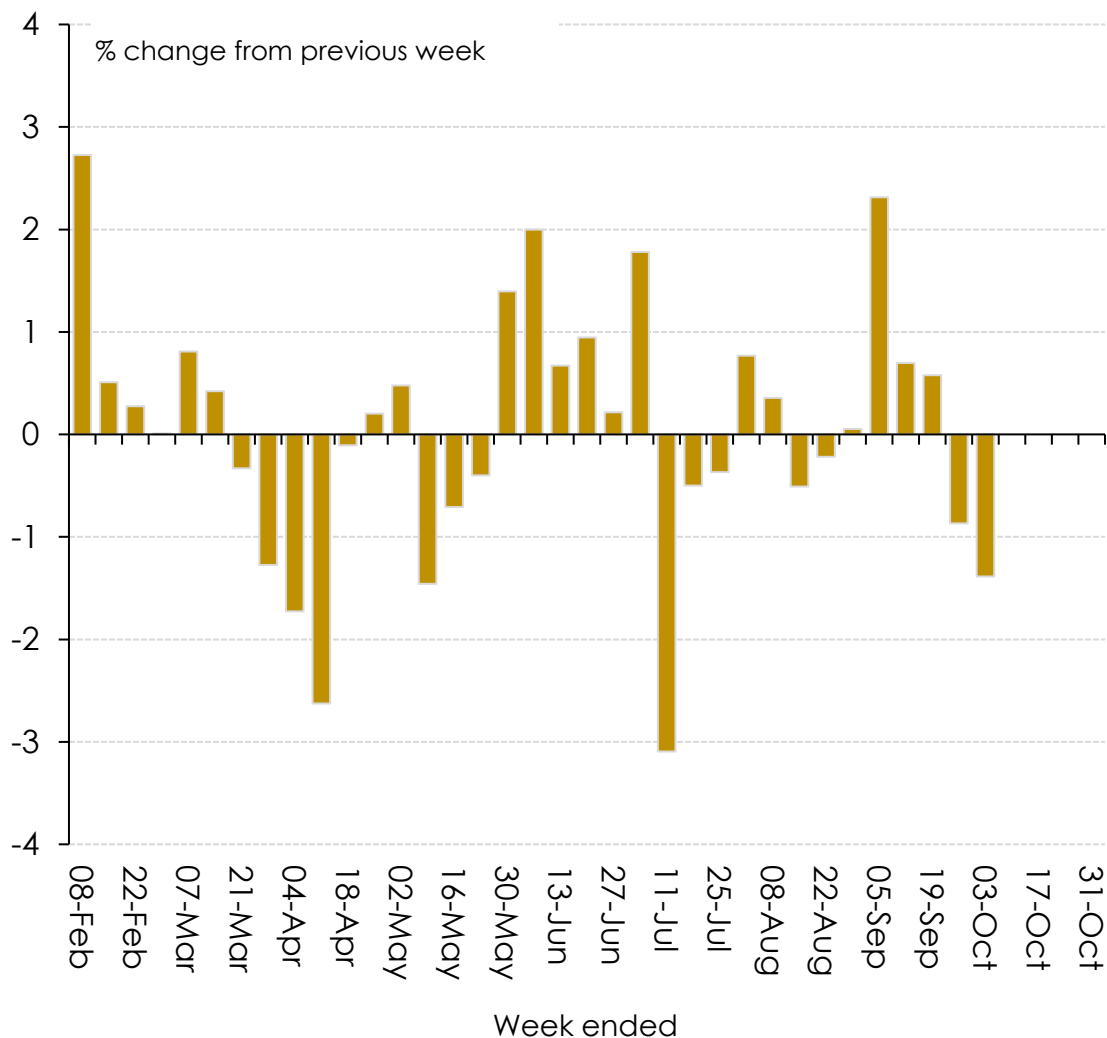
❑ Vic payroll jobs are still down 7¾% on net from pre-pandemic: other states between 1% and 4½%

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

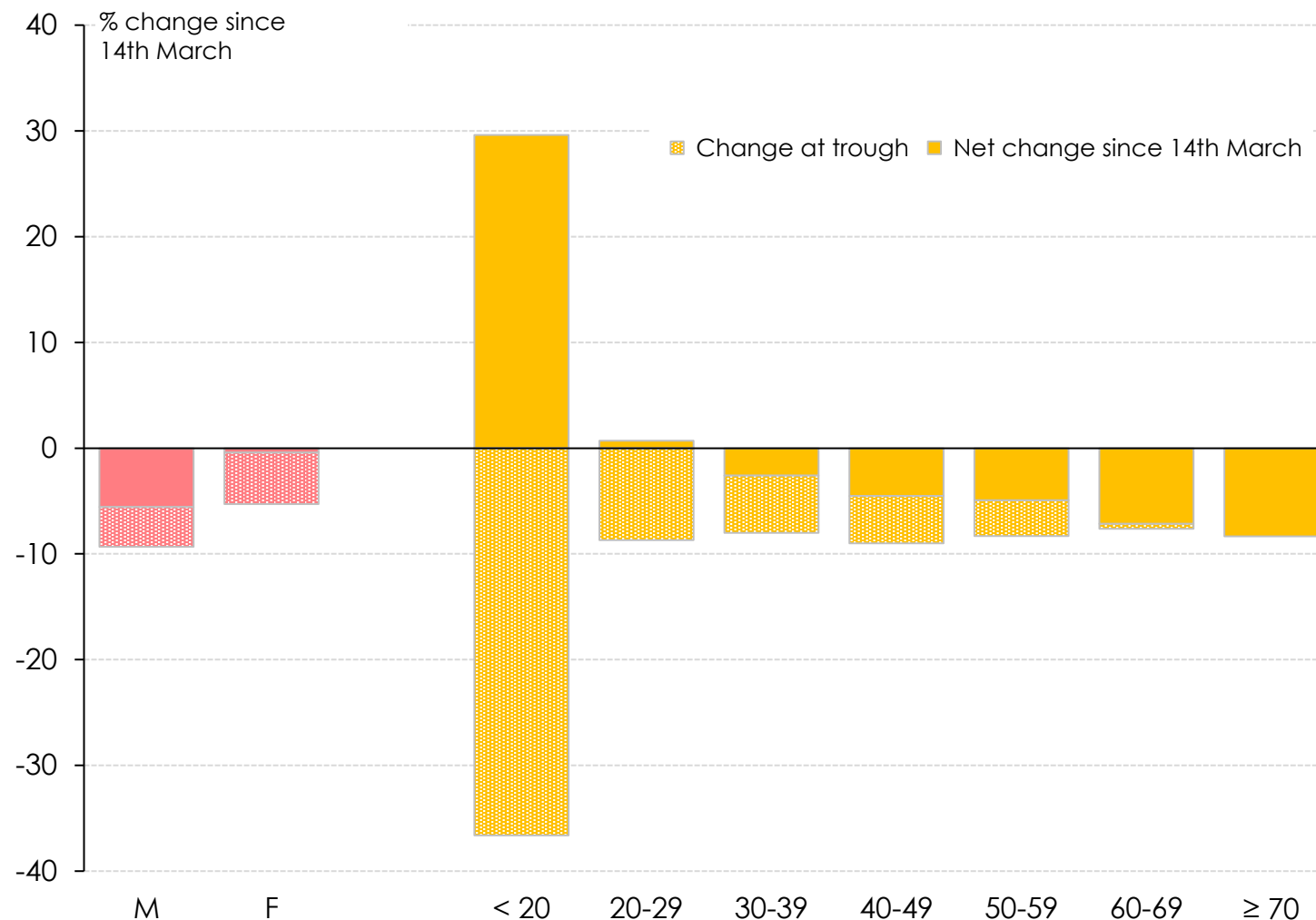
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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 17th October will be released on 21st October. [Return to "What's New"](#).

The large fall in wages paid in the first week of October also suggests the stepping down in the rate of JobKeeper payment was a large factor

Weekly change in total wages paid



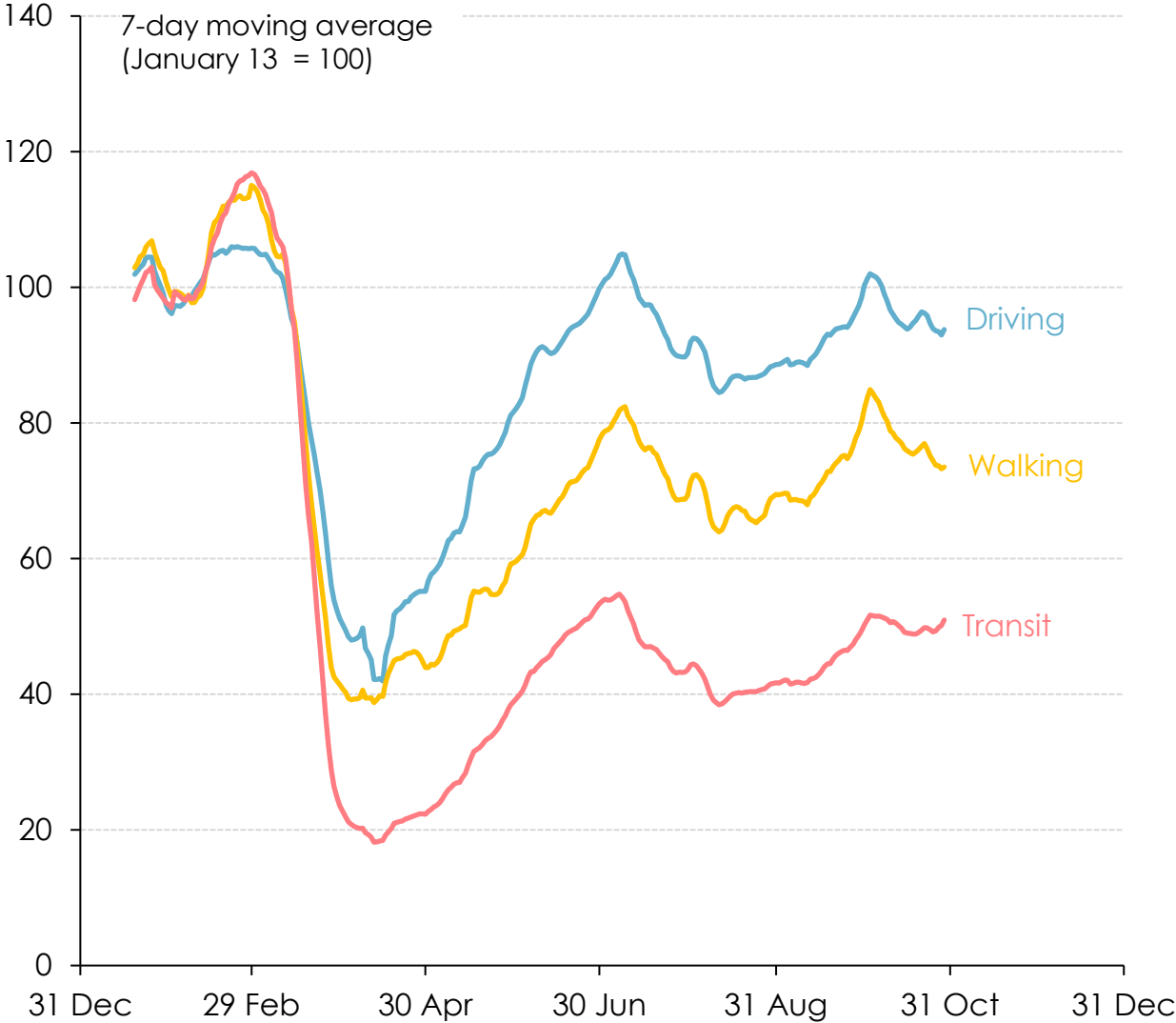
Change in total wages paid by gender and age group



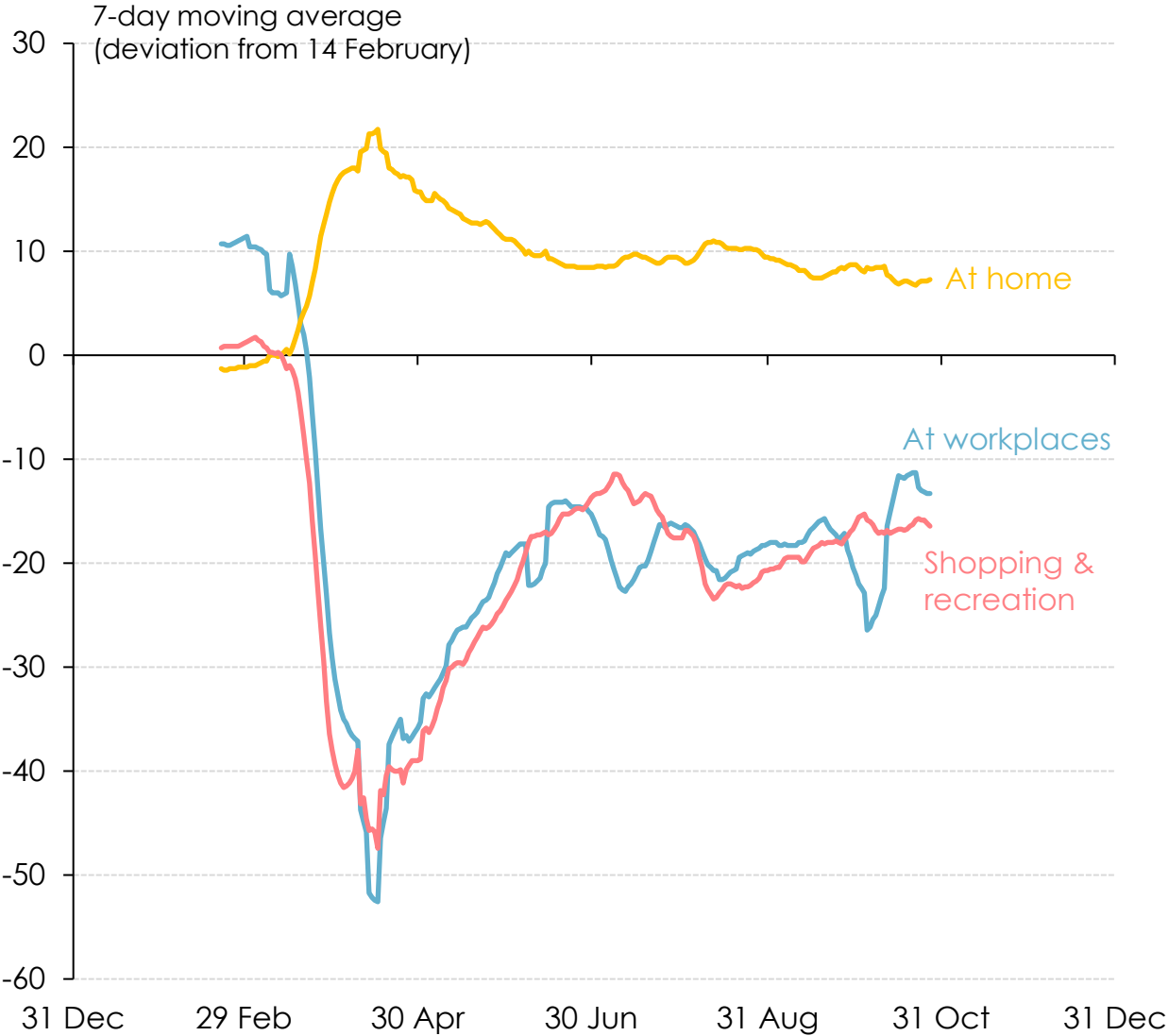
Note: The smaller fall in women's wages than men's likely reflects the fact that JobKeeper payments (at a flat rate of \$1500 per employee per fortnight until end-September, now \$1200 per fortnight) represent a higher proportion of women's (lower) average earnings than men's. Ditto for teenagers (most of whom work part-time). Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). 'Trough' refers to the week in which payroll employment for the state/territory, gender or age group was at its lowest level since mid-March. Data are not seasonally adjusted, so some of the week-to-week movements in wages could be due to 'normal' seasonal factors (for example end-of-financial year bonuses). [Return to "What's New"](#).

Mobility indicators seem to be 'moving sideways' in the past two weeks, although there are some offsetting trends among states ...

Time spent driving, walking and in transit



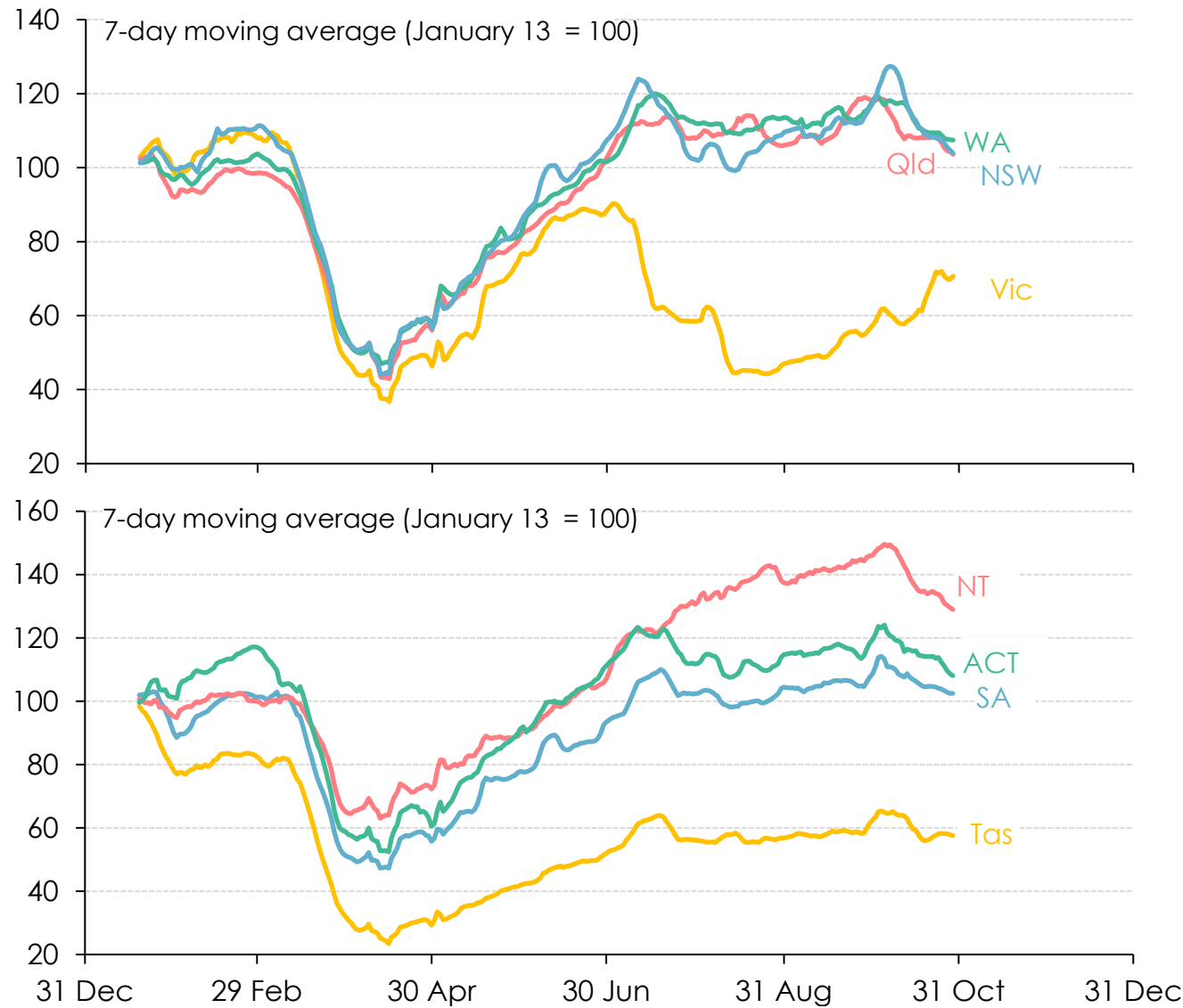
Time spent working, at home, shopping & playing



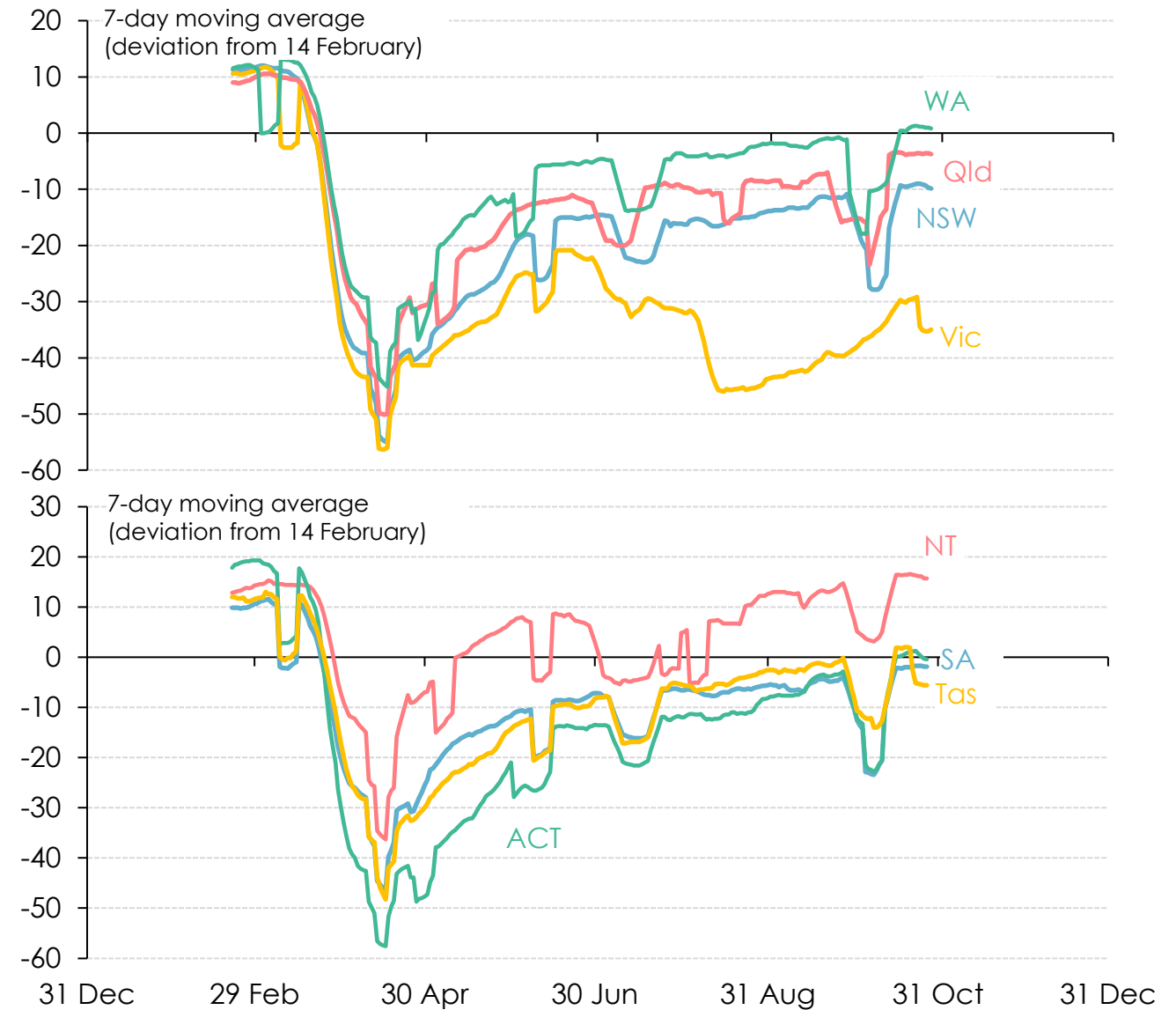
Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 29th October); [Google Community Mobility Reports](#) (data up to 27th October). For state-level data see [next slide](#). [Return to "What's New"](#).

... with a pick-up in Victoria (with the easing of restrictions in regional areas and then this week in Melbourne) offset by some slowing in other states

Time spent driving, by State and Territory



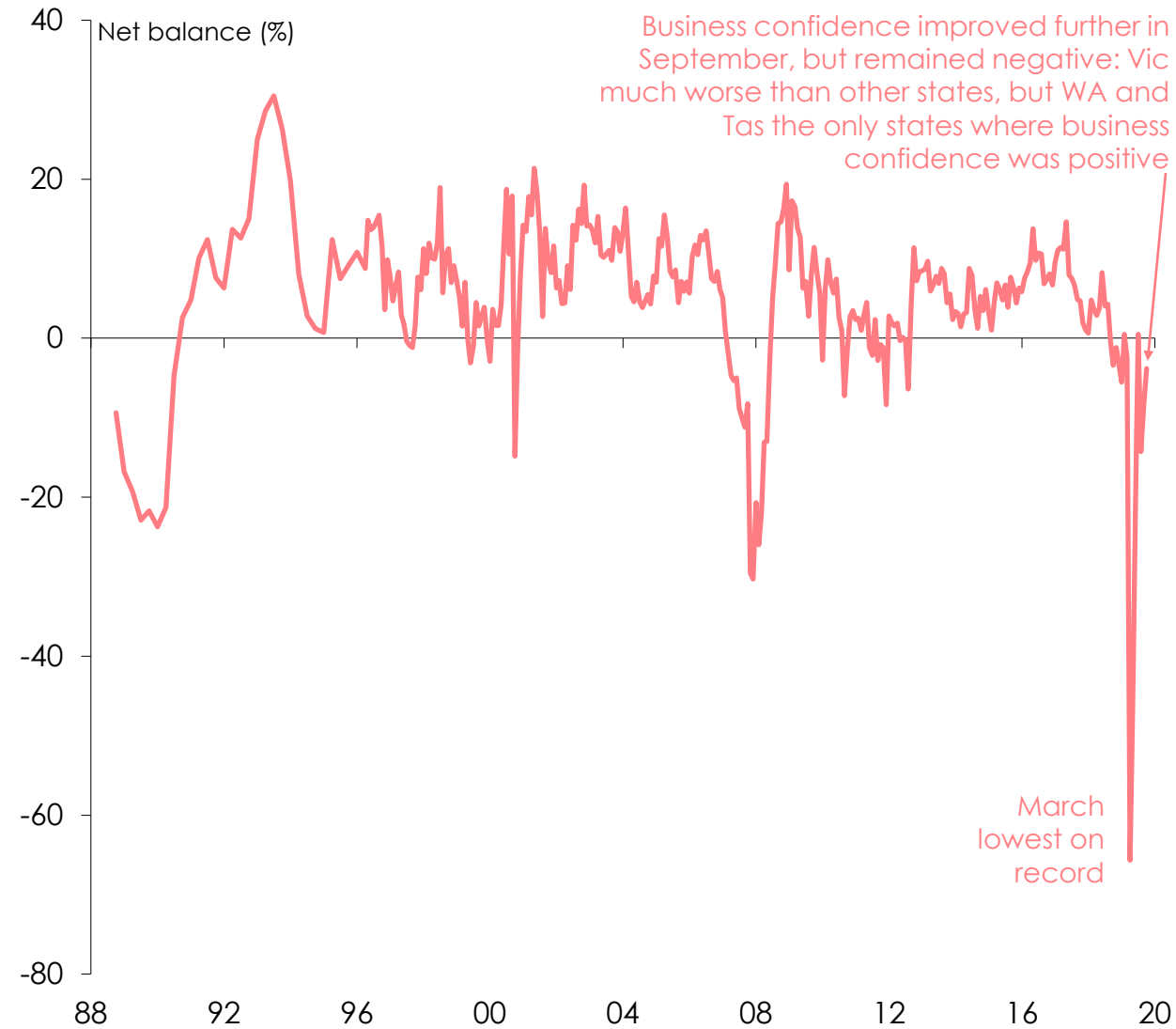
Time spent working, by State and Territory



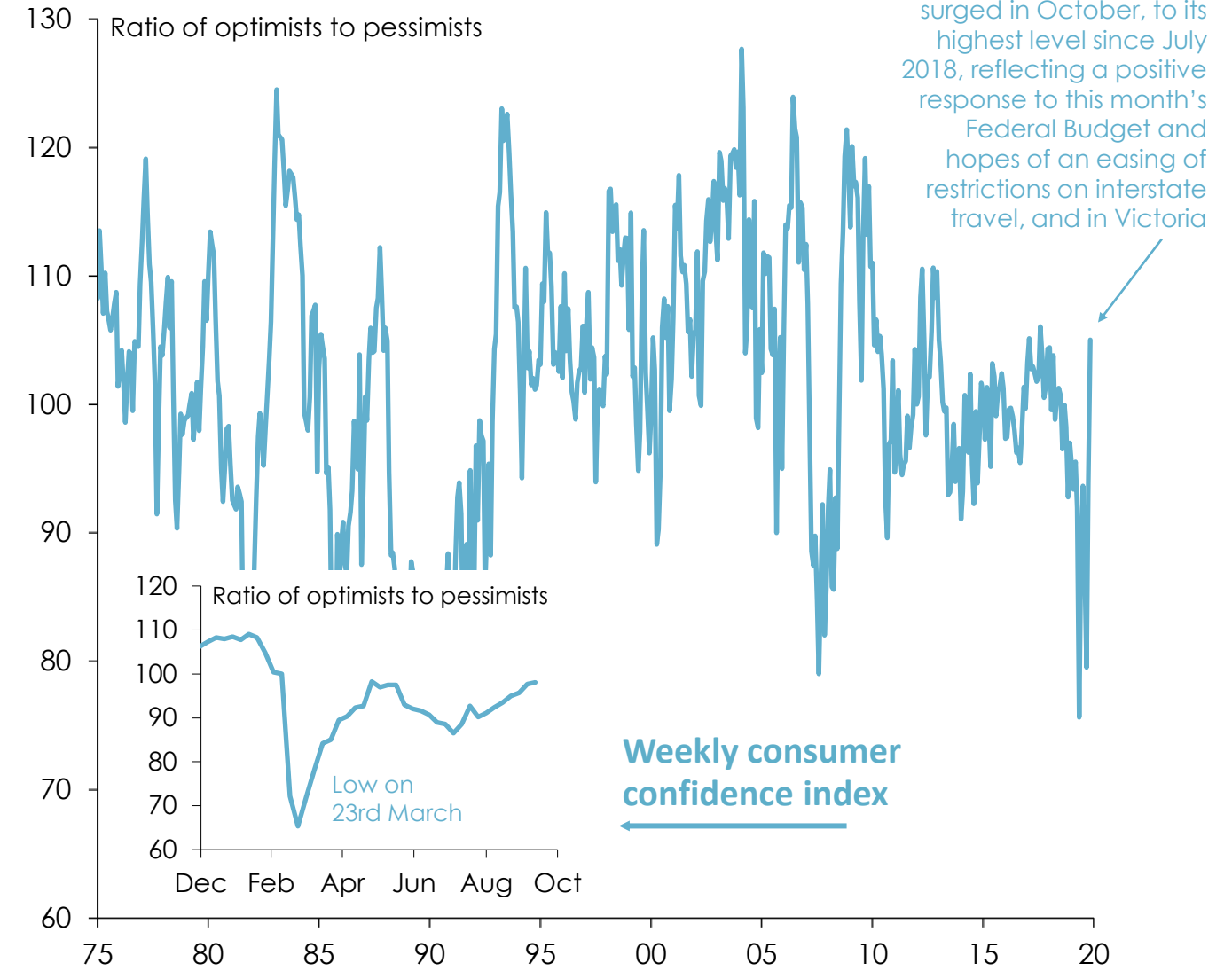
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 29th October); [Google Community Mobility Reports](#) (data up to 27th 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



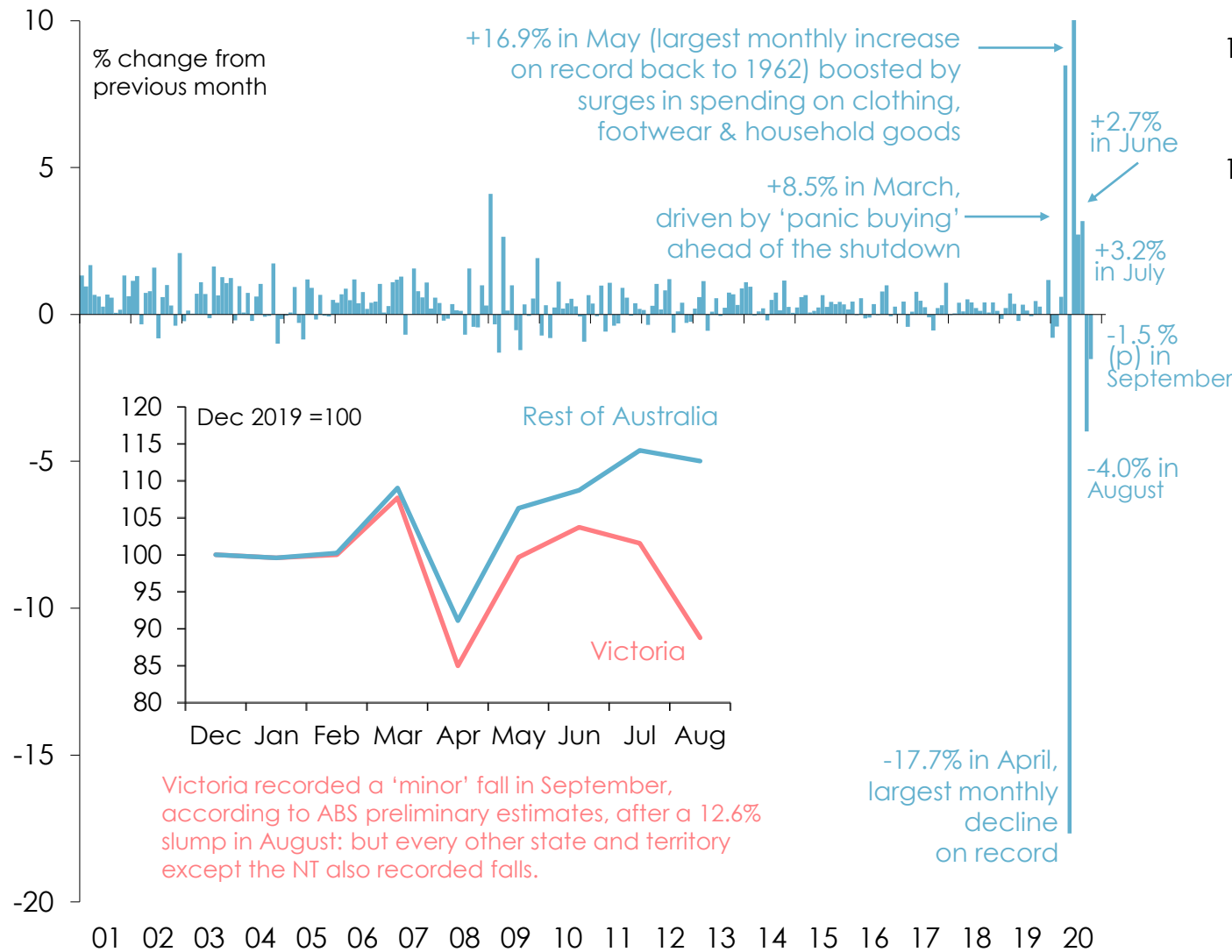
Consumer confidence



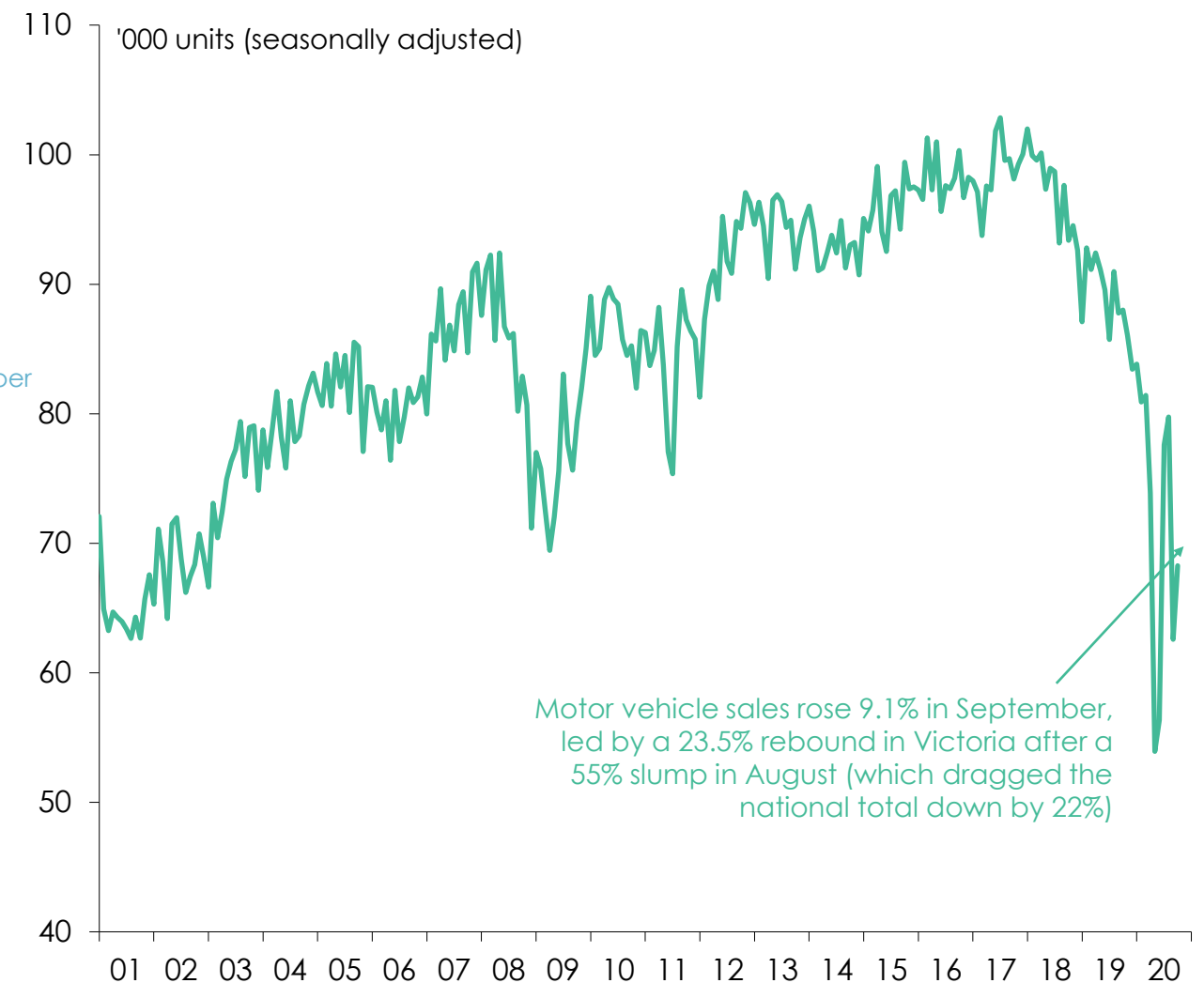
Sources: National Australia Bank; Westpac-Melbourne Institute; ANZ-Roy Morgan (weekly index). See [slide 74](#) for other components of the NAB monthly business survey from which the business confidence figure is derived. October business confidence data will be released on 10th November, and November consumer confidence on 11th November. [Return to "What's New"](#).

Retail sales fell 1.5% in September (according to ABS preliminary estimate) while motor vehicle rose 9.1%, partly reversing a 22% slump in August

Retail sales



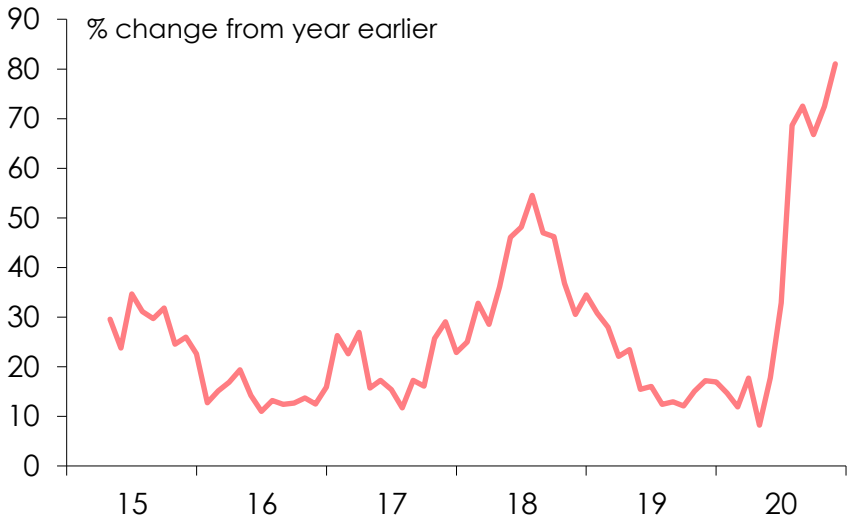
Motor vehicle sales



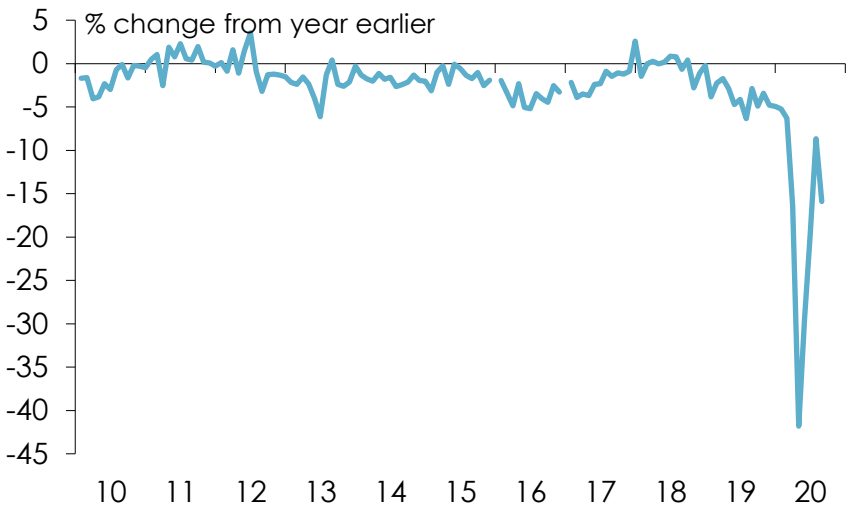
Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Retail sales data are up to July and motor vehicle sales to August. Final retail sales data for September will be on 4th November; September motor vehicle sales 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

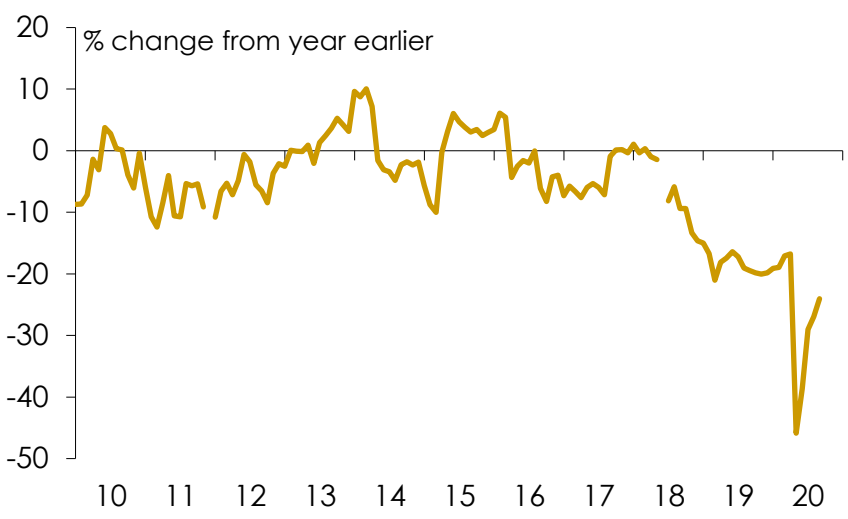
Growth in online retail sales



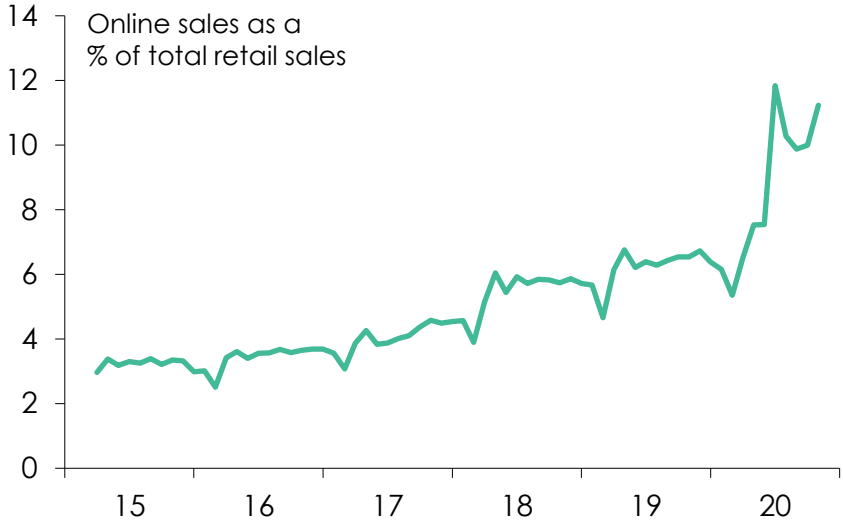
ATM cash withdrawals



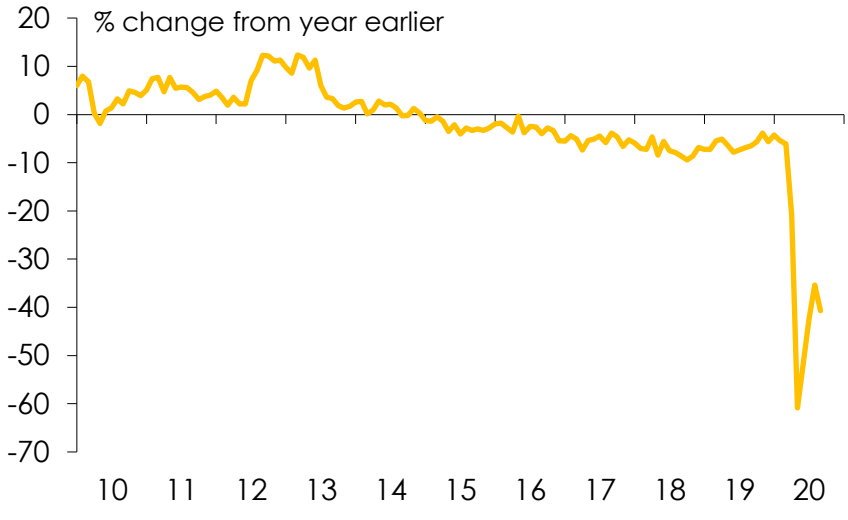
Credit card cash advances



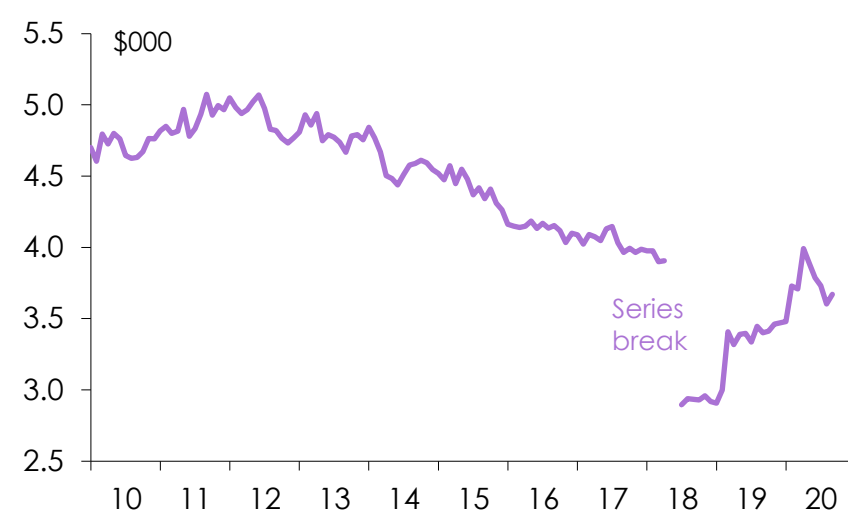
Online retail 'market share'



Debit card cash-outs



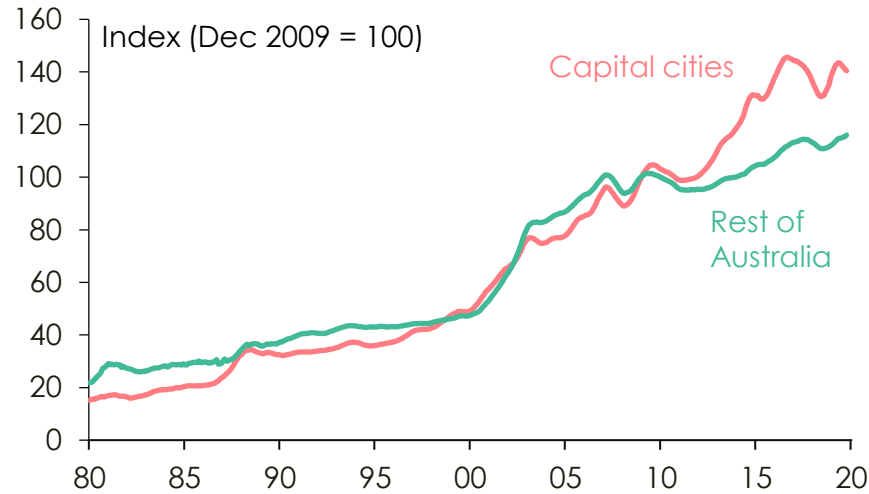
Direct entry payments



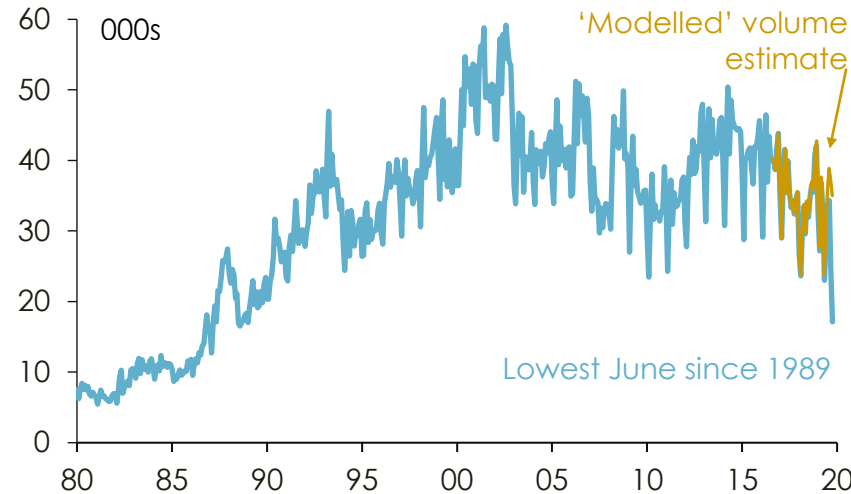
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data for August; online retail sales data for September will be released on 4th November, and payments system data for August on 9th November. [Return to "What's New"](#).

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

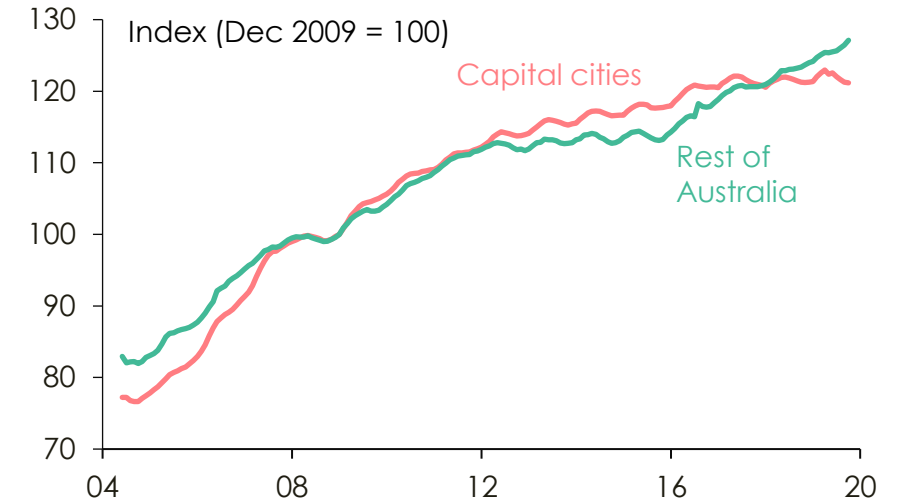
Residential property prices



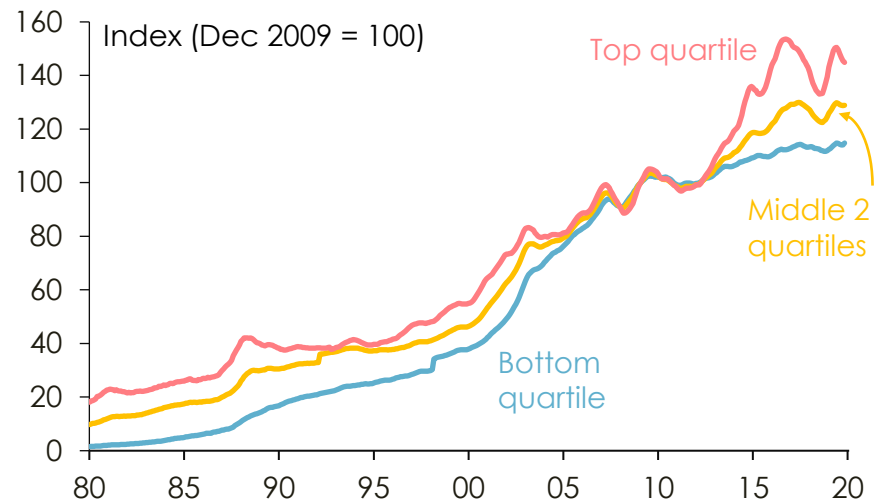
Residential property sales volumes



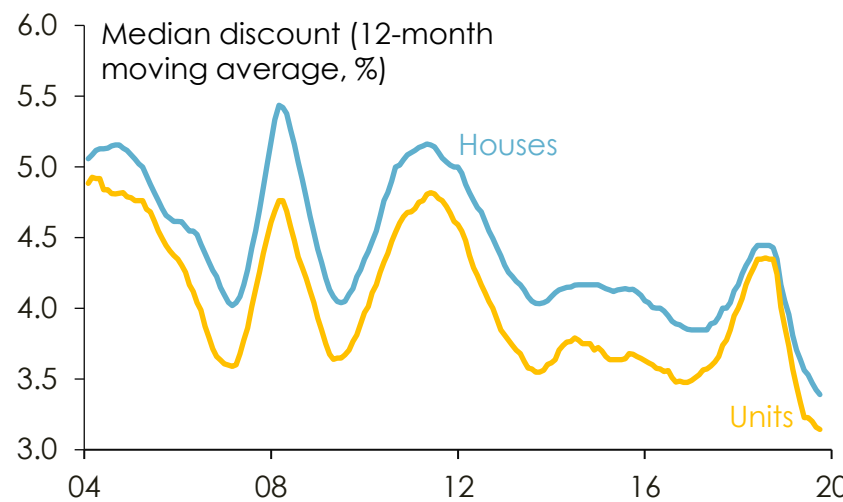
Residential rents



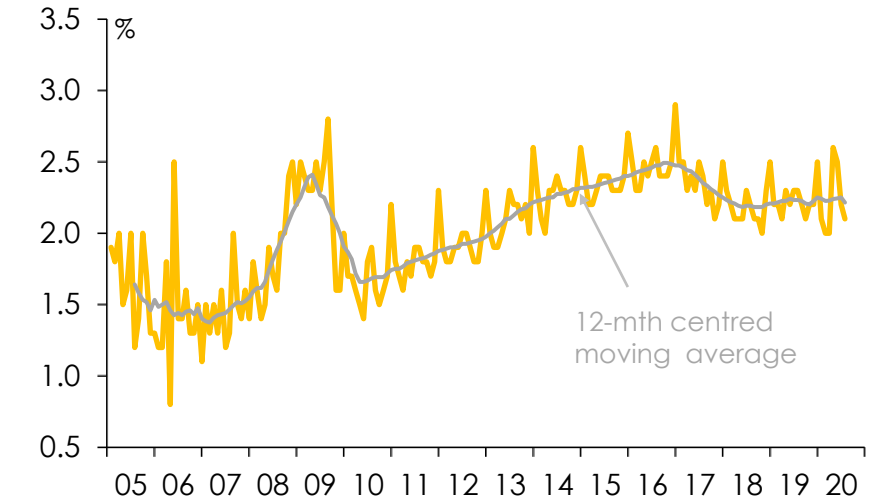
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

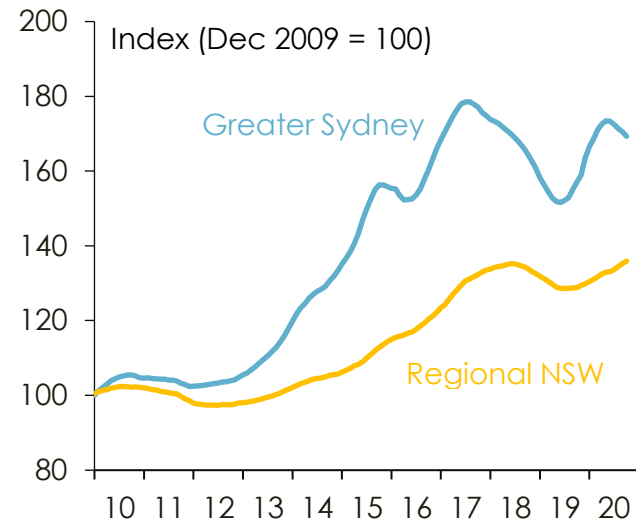


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential rents uses a similar methodology to measure the 'organic' change in underlying rents. The 'modelled' sales volume estimates seek to account for delays in receiving information on transactions that have yet to settle (which can be more than six weeks after the contract date). Latest data are for September 2020; October data will be released on 2nd November.

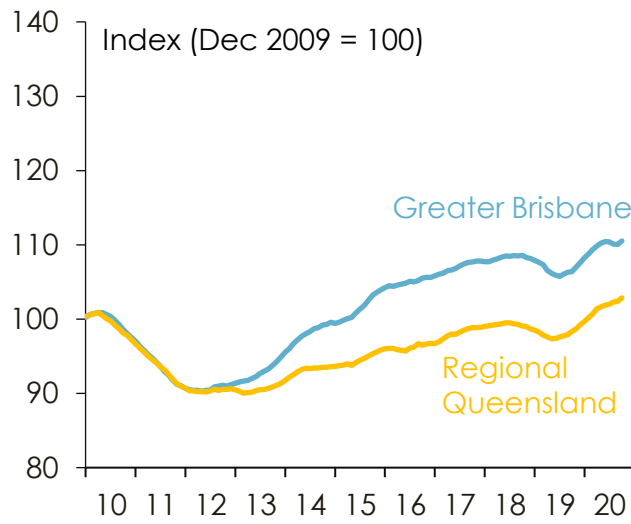
Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

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

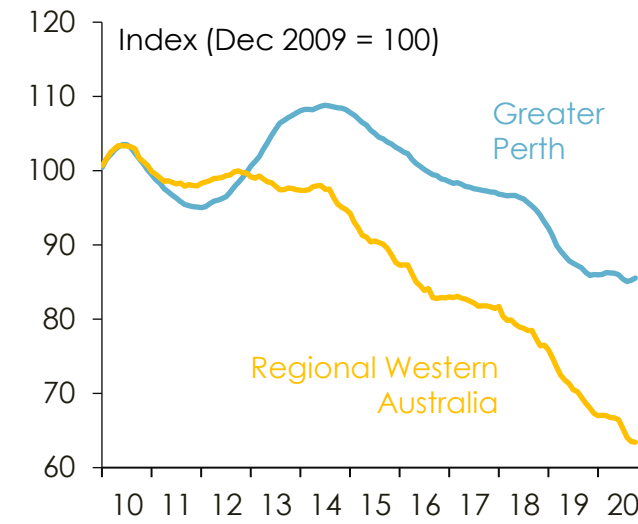
New South Wales



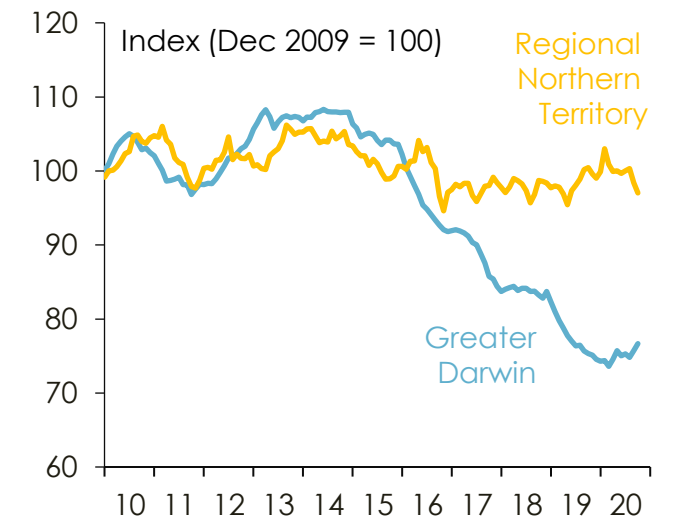
Queensland



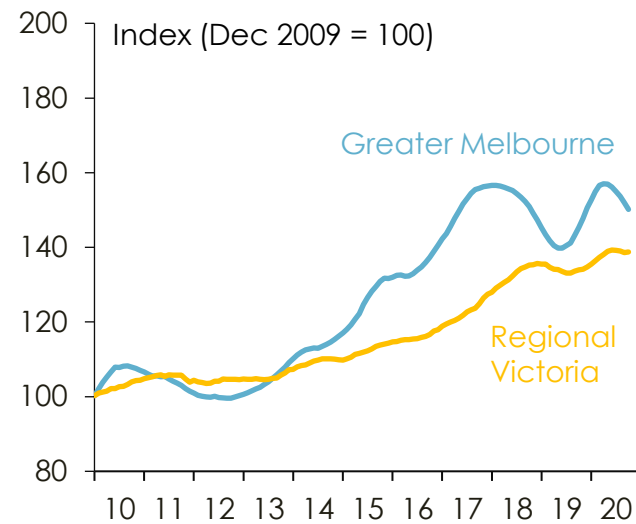
Western Australia



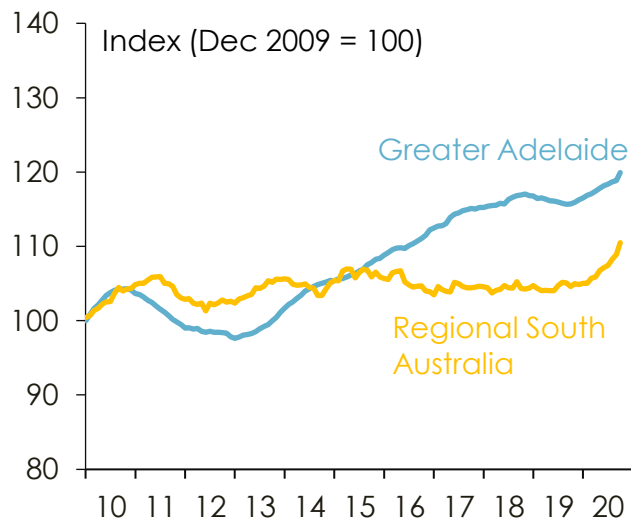
Northern Territory



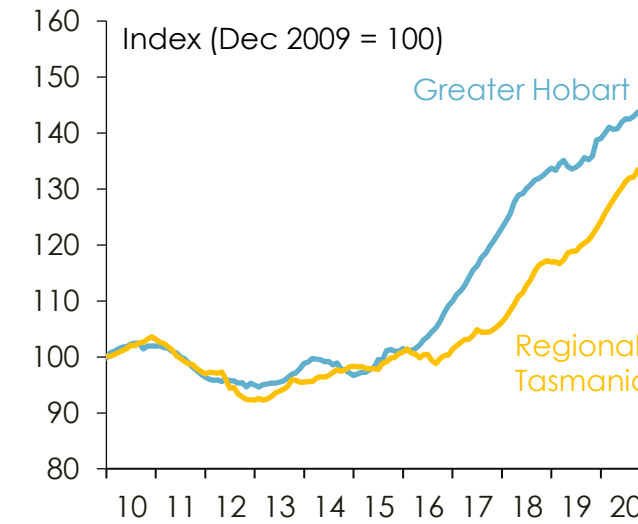
Victoria



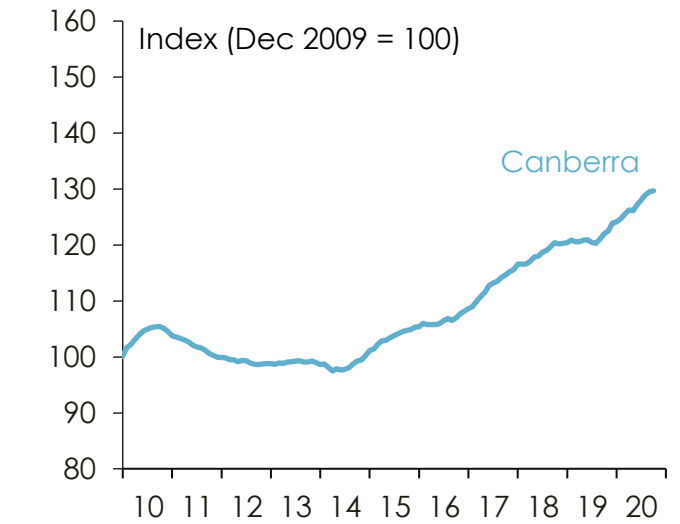
South Australia



Tasmania



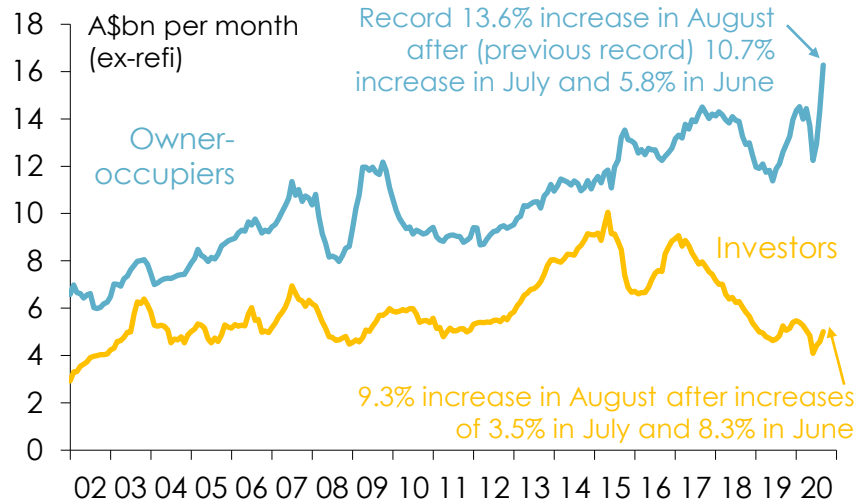
Australian Capital Territory



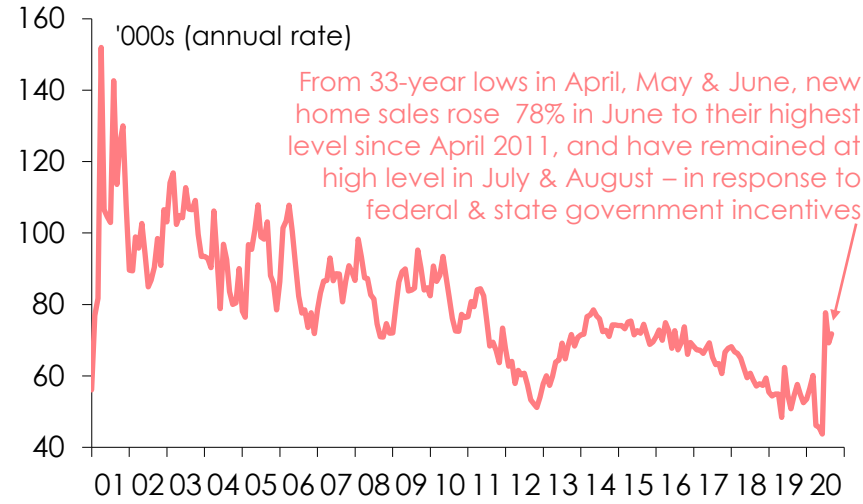
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

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

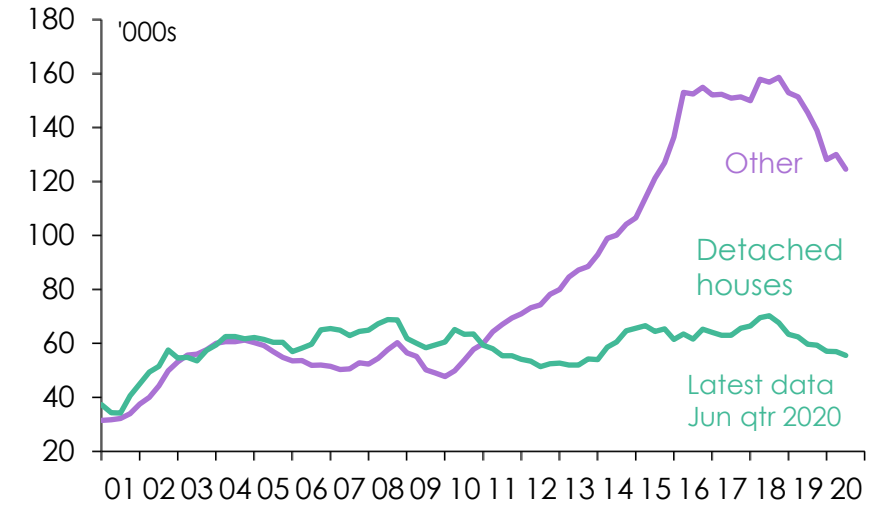
Housing finance commitments



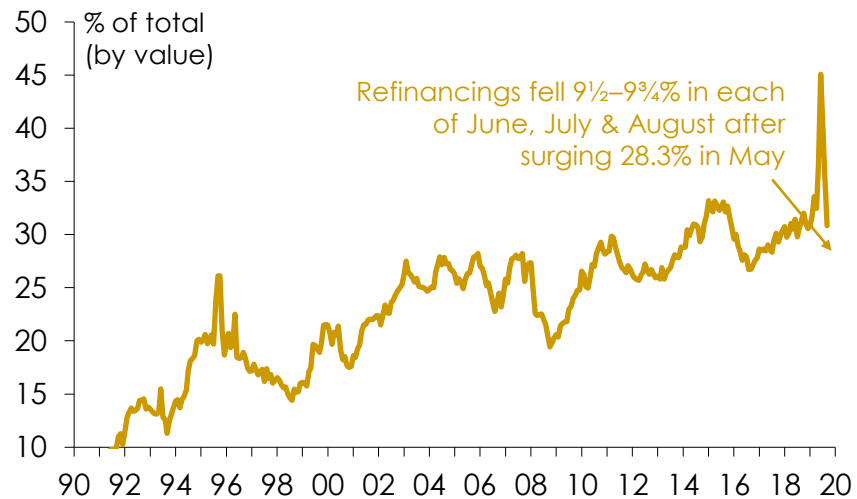
Large builders' new home sales



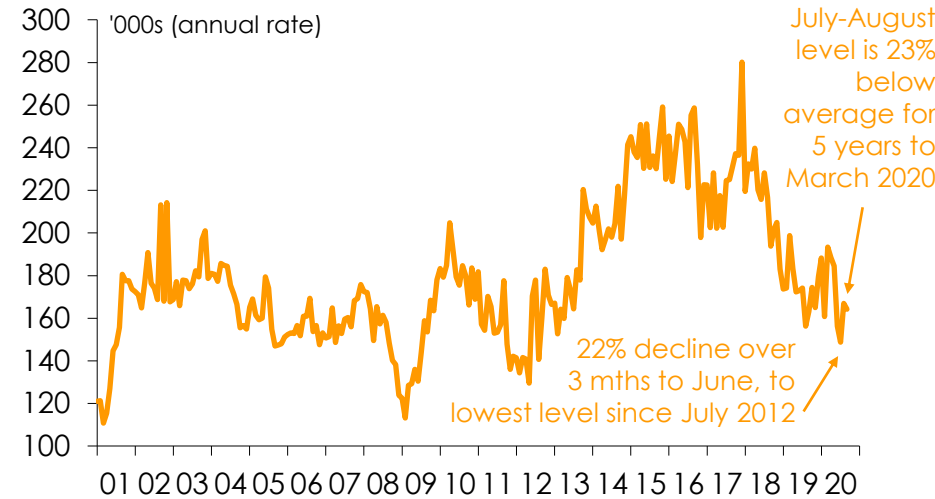
Dwellings under construction



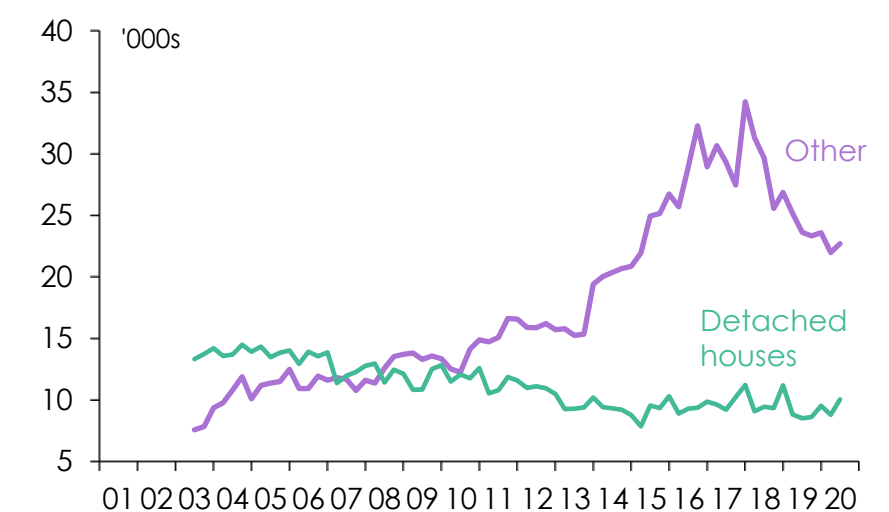
Refinancings as pc of total



Residential building approvals



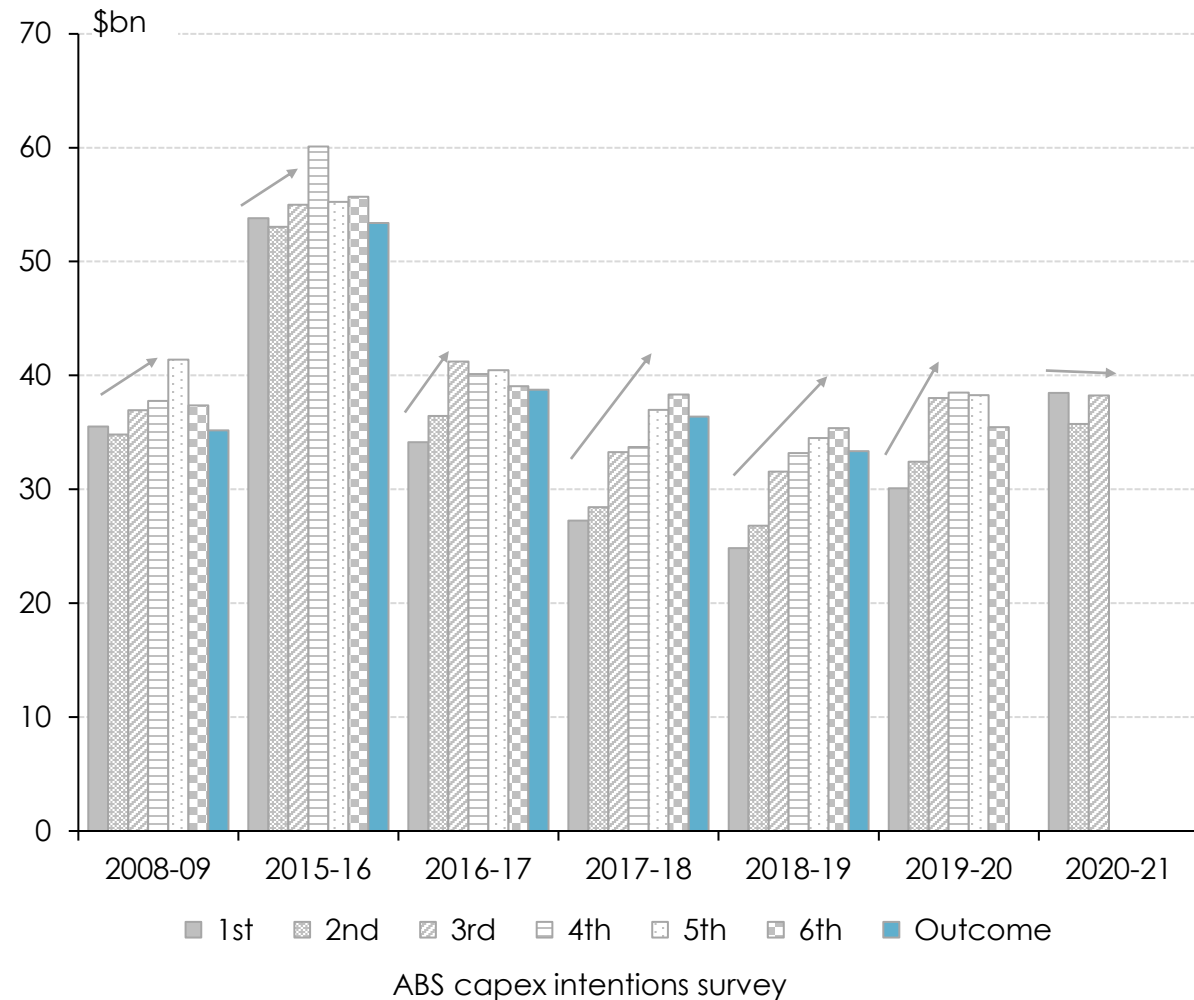
'Pipeline' of work yet to be done



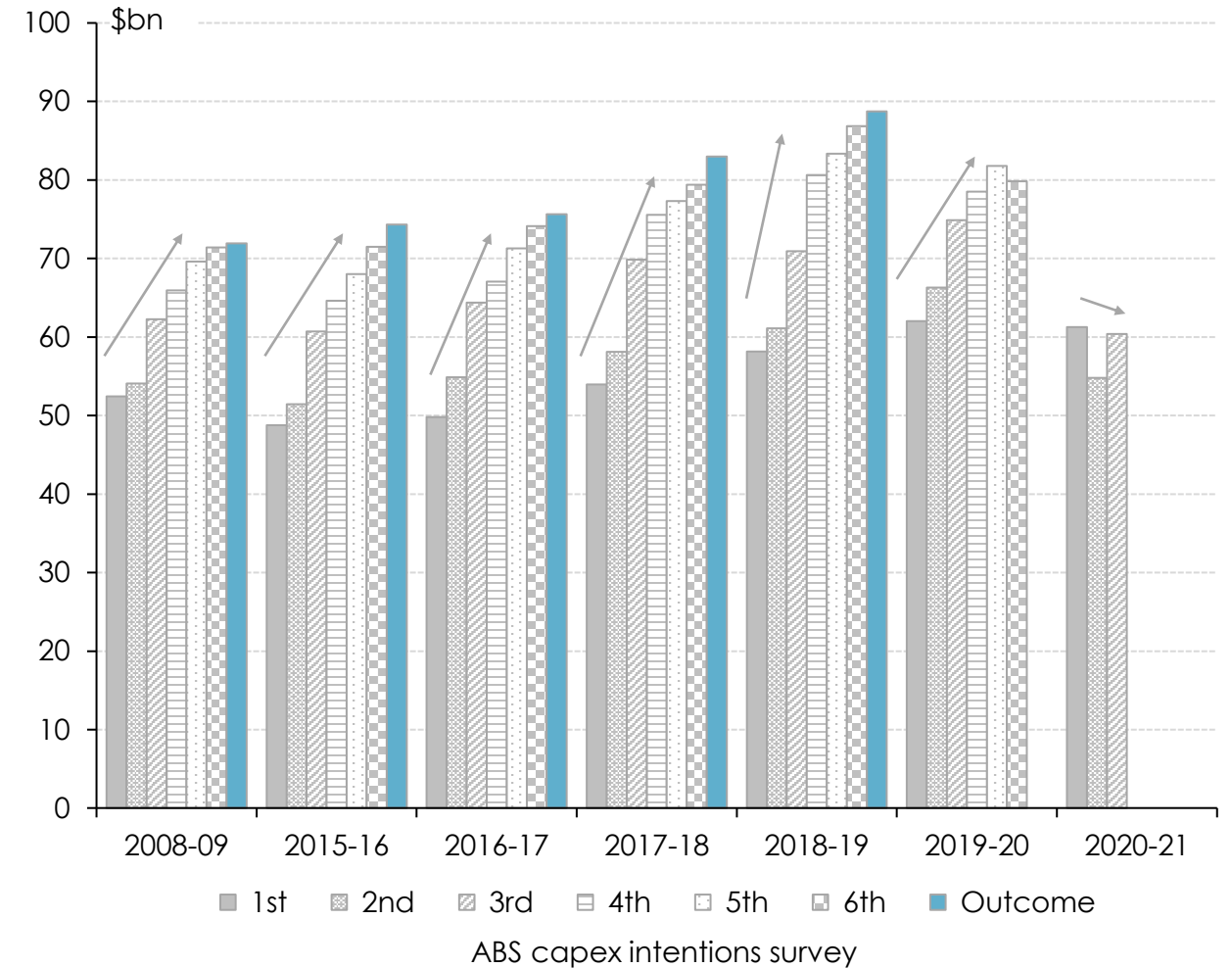
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. September building approvals data will be released on 2nd November; September housing finance also on 2nd November; and September quarter dwellings under construction and 'pipeline' data on 20th 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

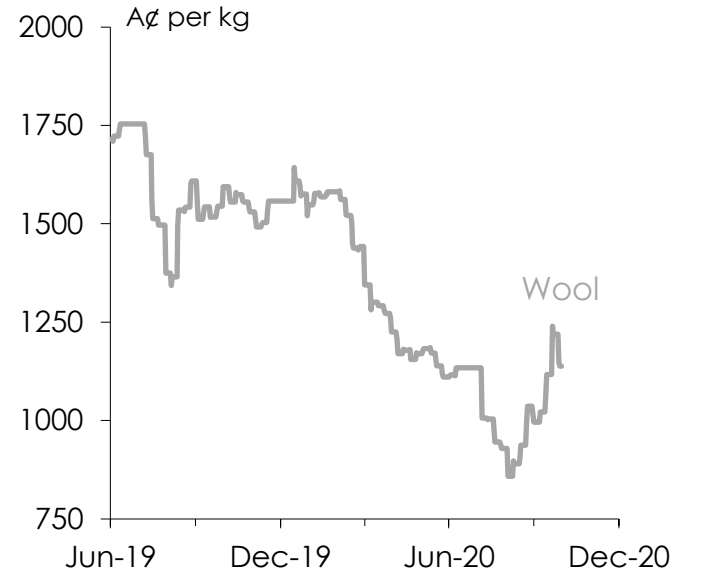
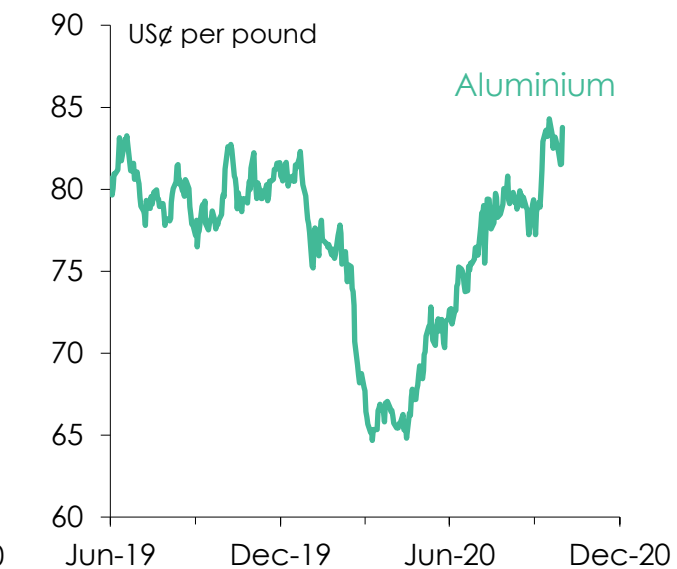
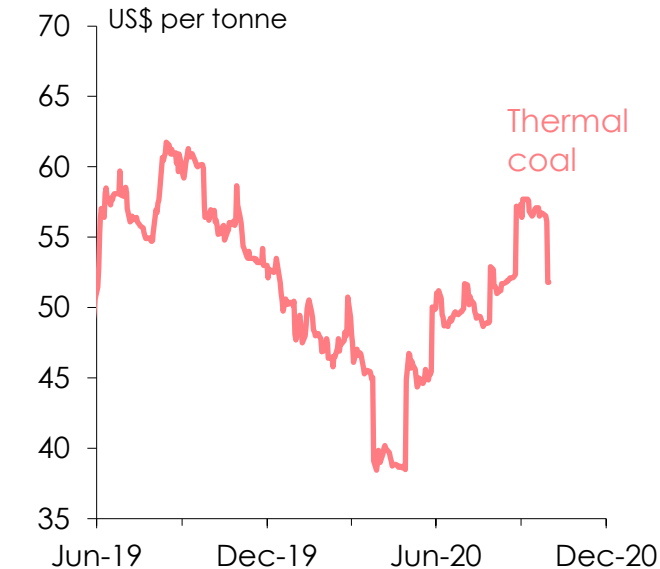
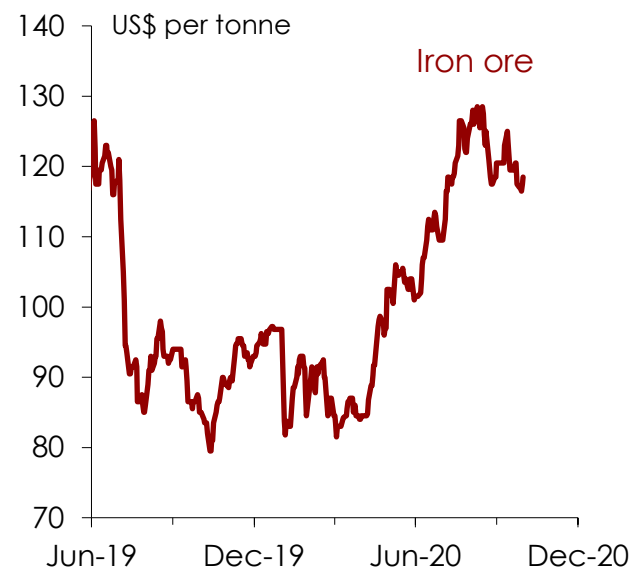
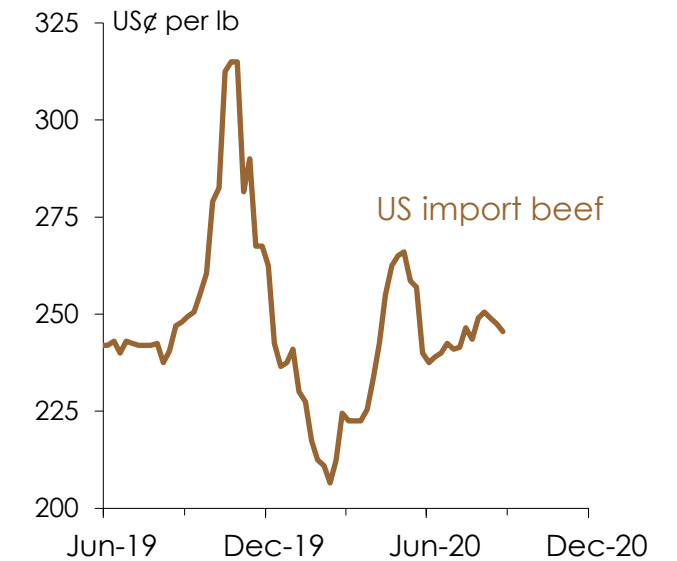
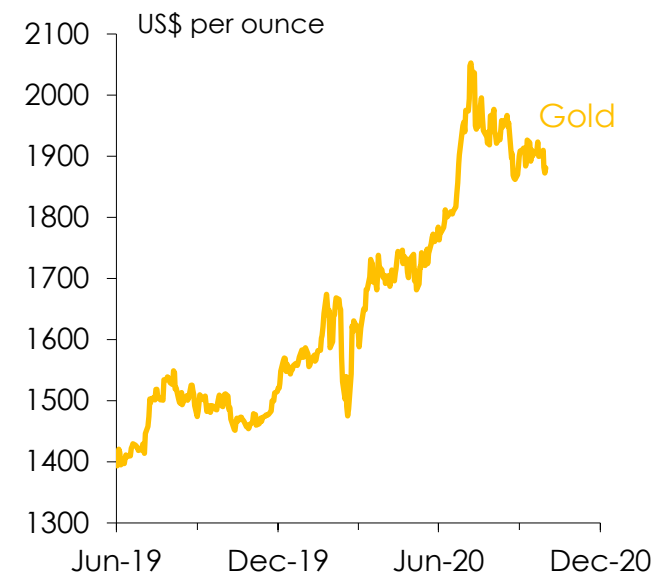
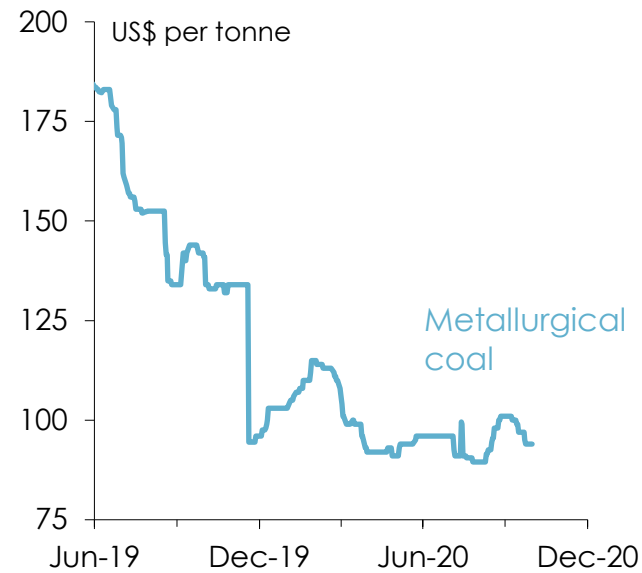
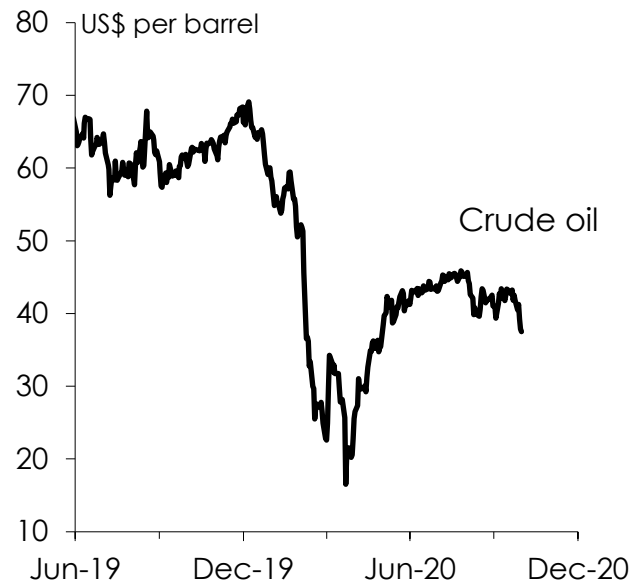


Capital expenditure intentions – non-mining



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 26th November).

Commodity prices fell this week, as part of the more general risk-averse mood, with thermal coal down 9% on Japan PM's zero emissions target

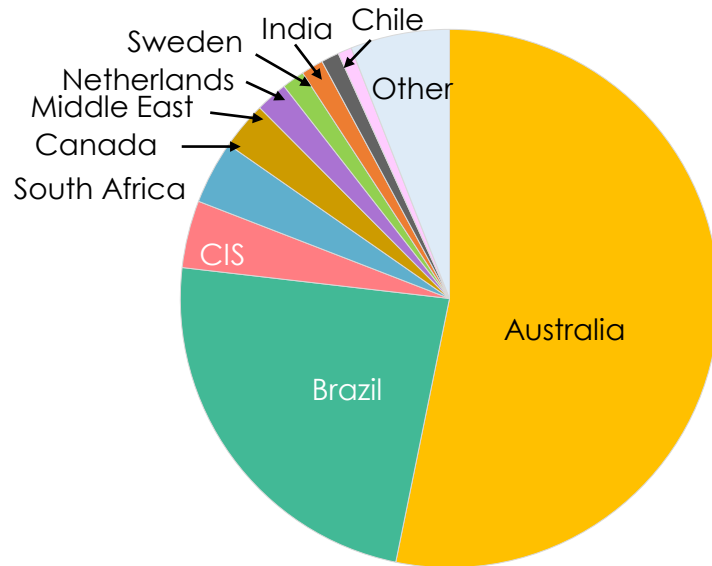


Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 30th October.

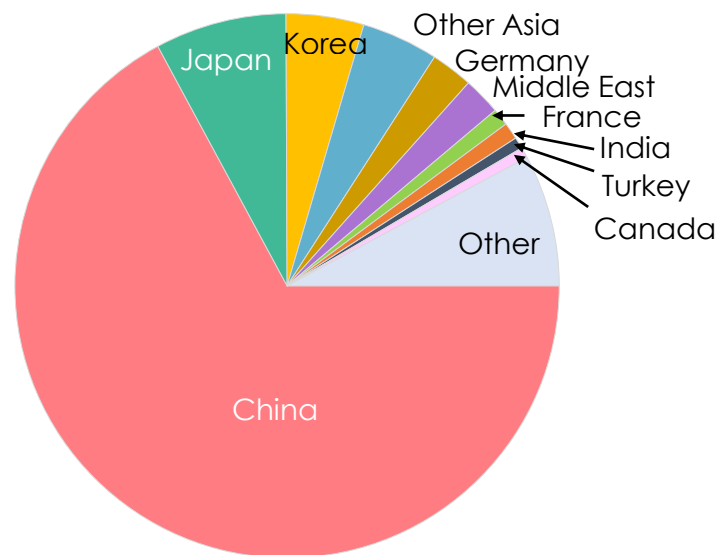
[Return to "What's New"](#).

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

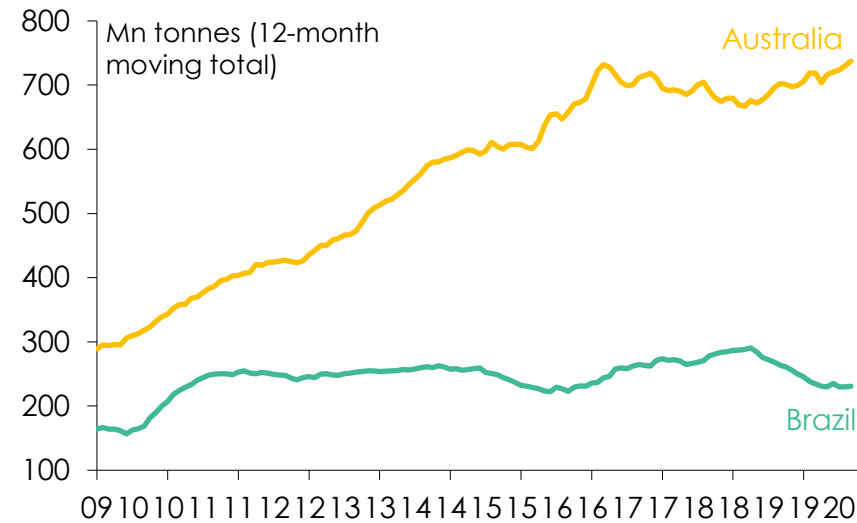
Iron ore exports, 2018



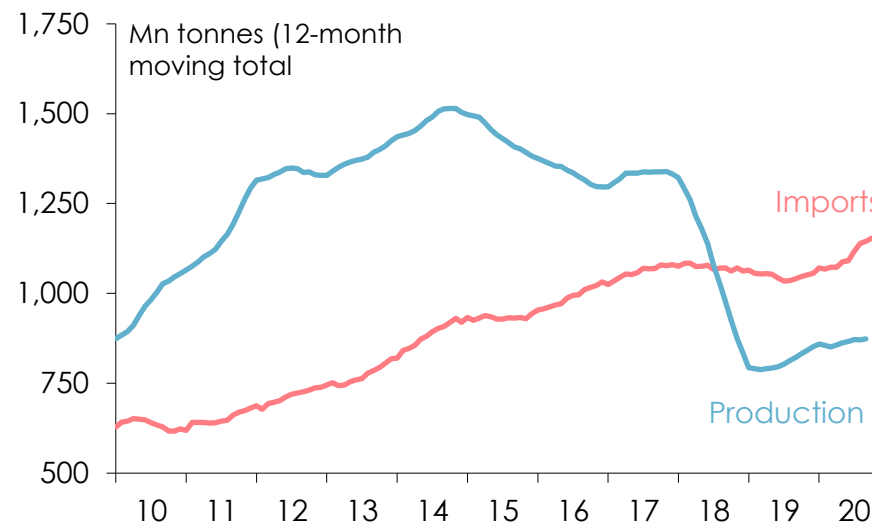
Iron ore imports, 2018



Australia & Brazil iron ore exports



China iron ore production & imports

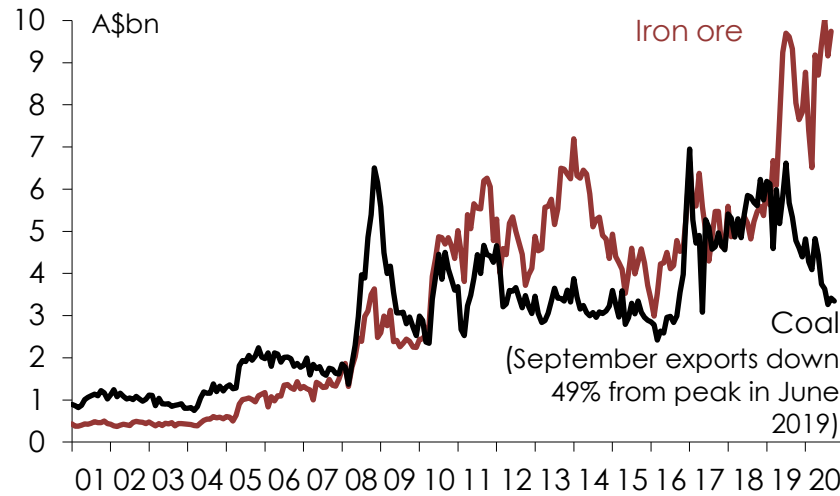


- ❑ The global seaborne iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use)
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese steel mills to become more dependent on imports
- ❑ Brazilian production and exports have been curtailed by a series of tailing dam collapses over the past five years, and more recently by Covid-19 outbreaks at four large mine sites
- ❑ China is seeking to develop other sources in West Africa although there are big logistical hurdles to be overcome there
- ❑ BHP said in September 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”

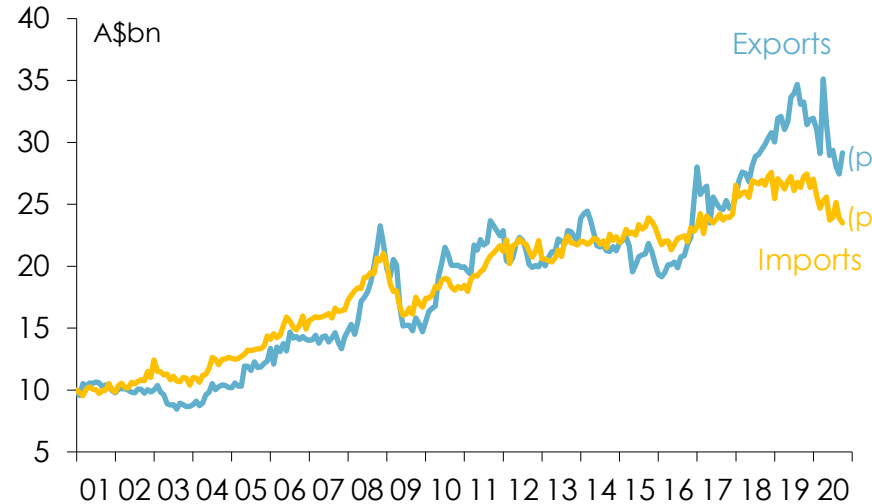
Note: Export volume data for Australia and Brazil derived by dividing export values (in US\$) from ABS and IGBE by the average US\$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream;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

Australia's merchandise trade surplus likely topped \$5½bn in September, the largest since April, thanks to a surge in gold exports

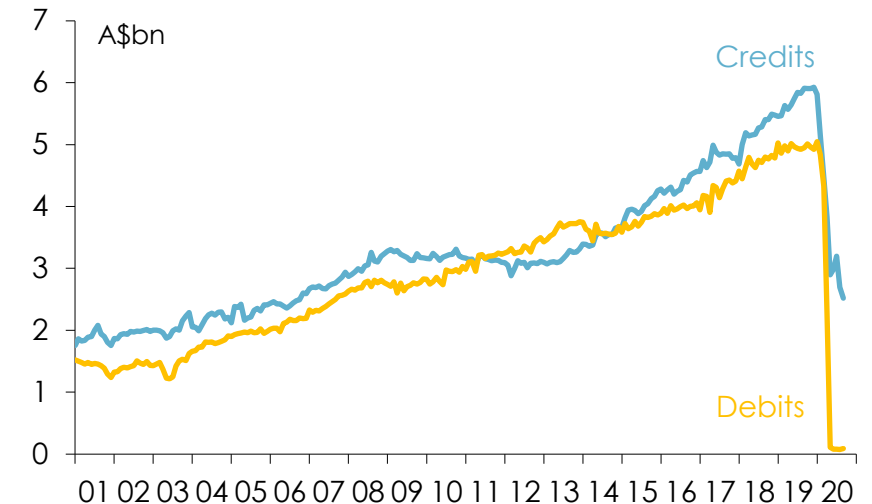
Iron ore and coal exports



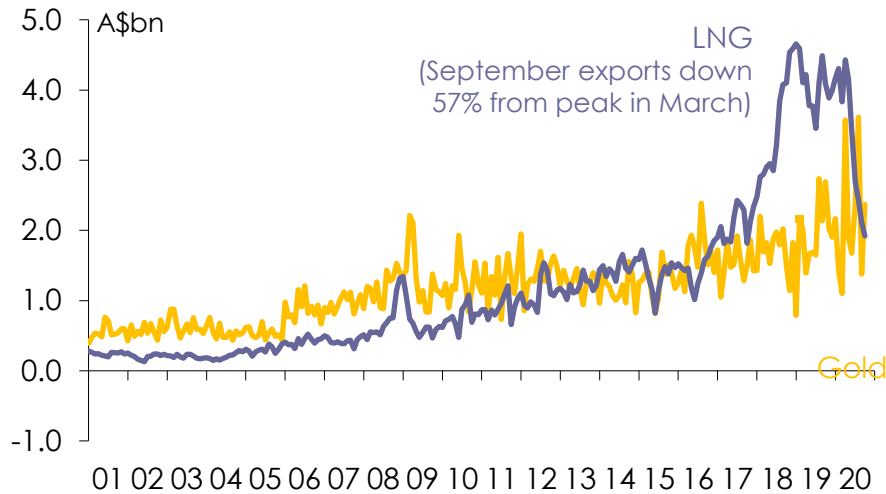
Merchandise exports and imports



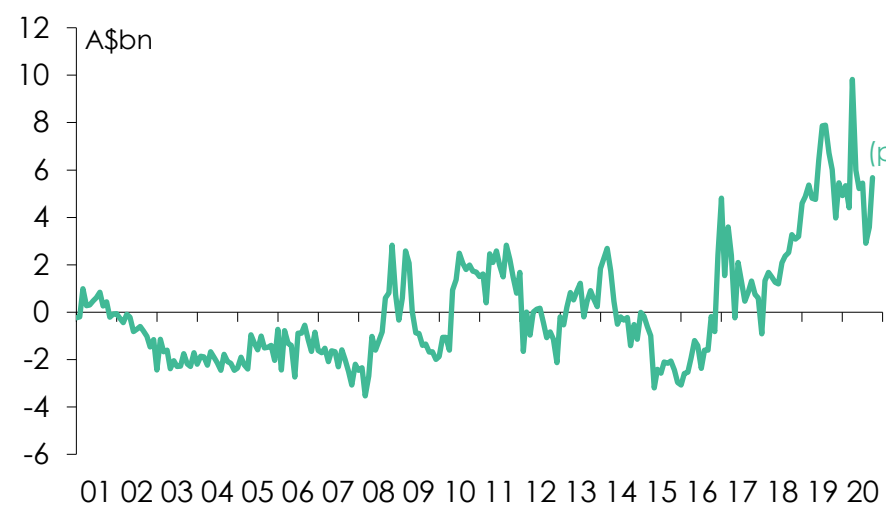
Tourism-related services trade



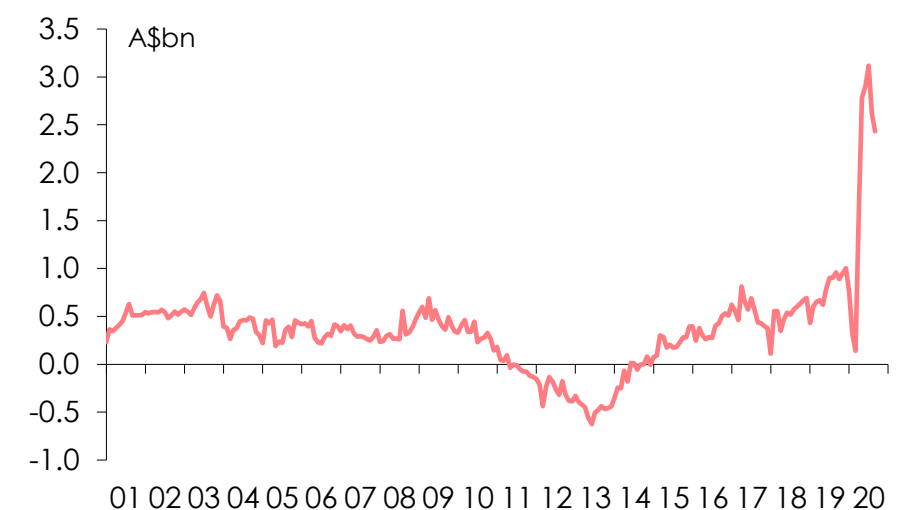
LNG and gold exports



Merchandise trade balance



Tourism services trade balance

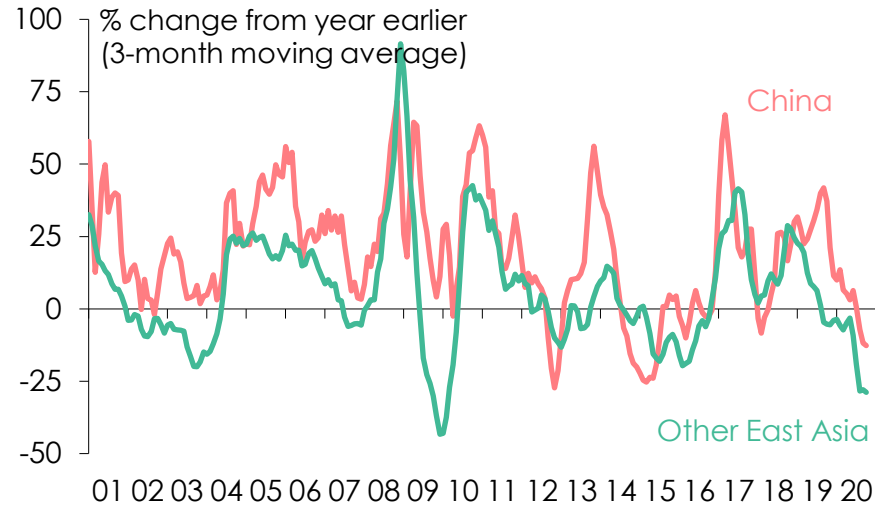


Note: Seasonally adjusted merchandise trade figures for September have been derived by Corinna from preliminary unadjusted data published by ABS, using the same seasonal adjustment factors as for September 2019. Source: ABS, [International Merchandise Trade, Preliminary](#). Full September data will be released on 5th November.

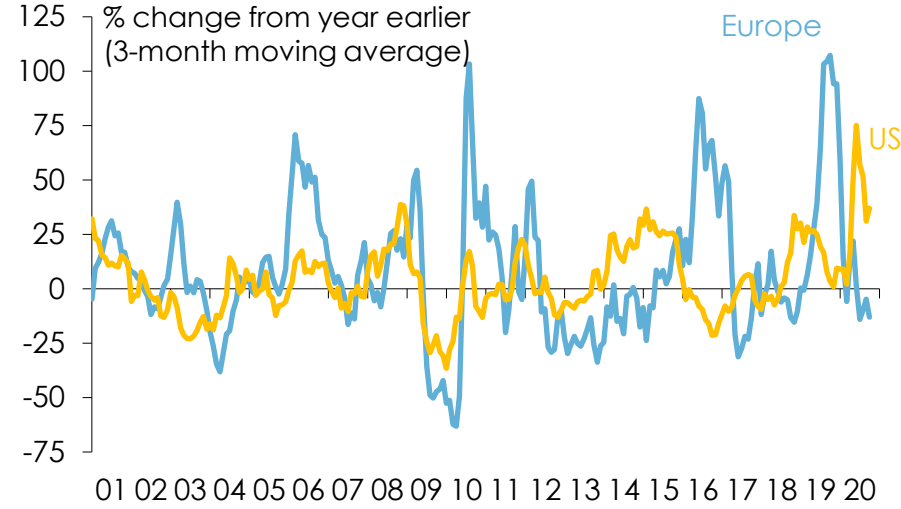
[Return to "What's New"](#).

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)

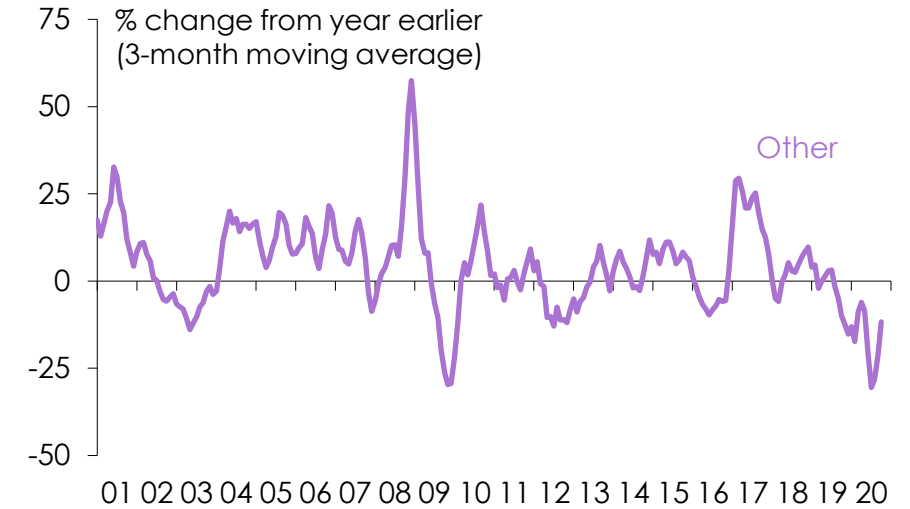
Merchandise exports – East Asia



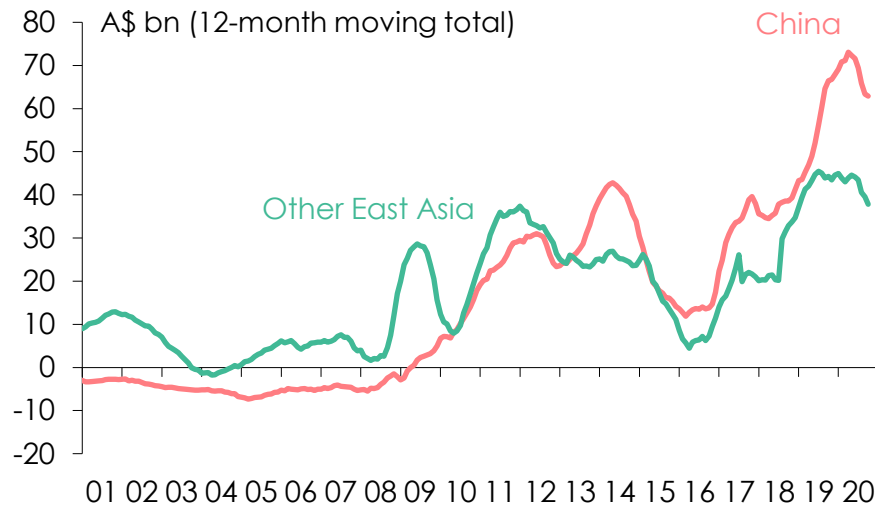
Merchandise exports – US & Europe



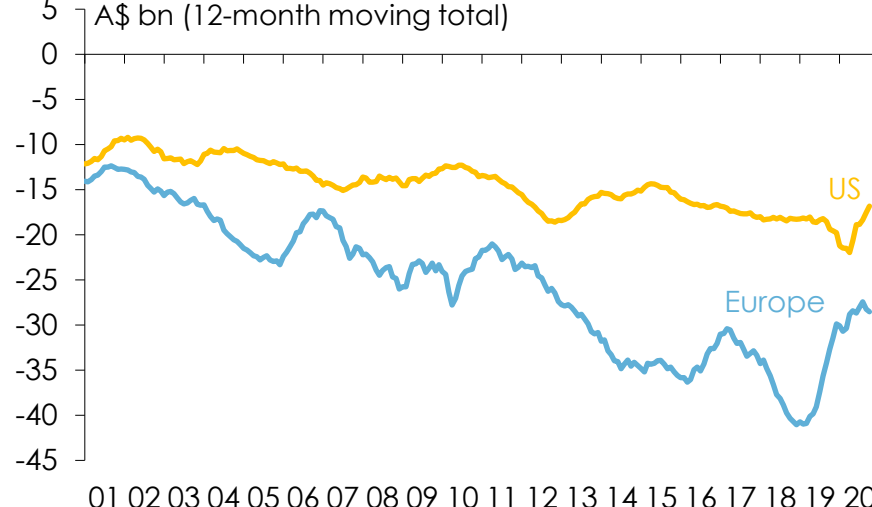
Merchandise exports – other



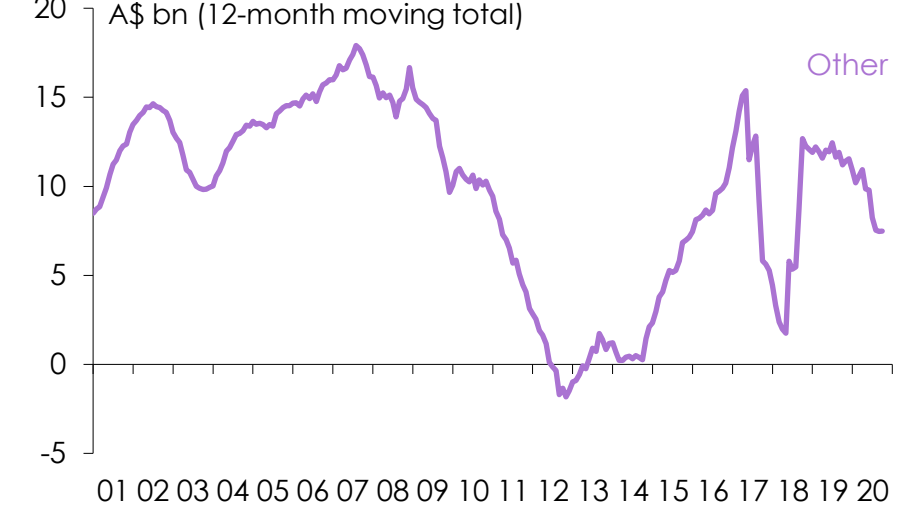
Goods trade balance – East Asia



Goods trade balance – US & Europe



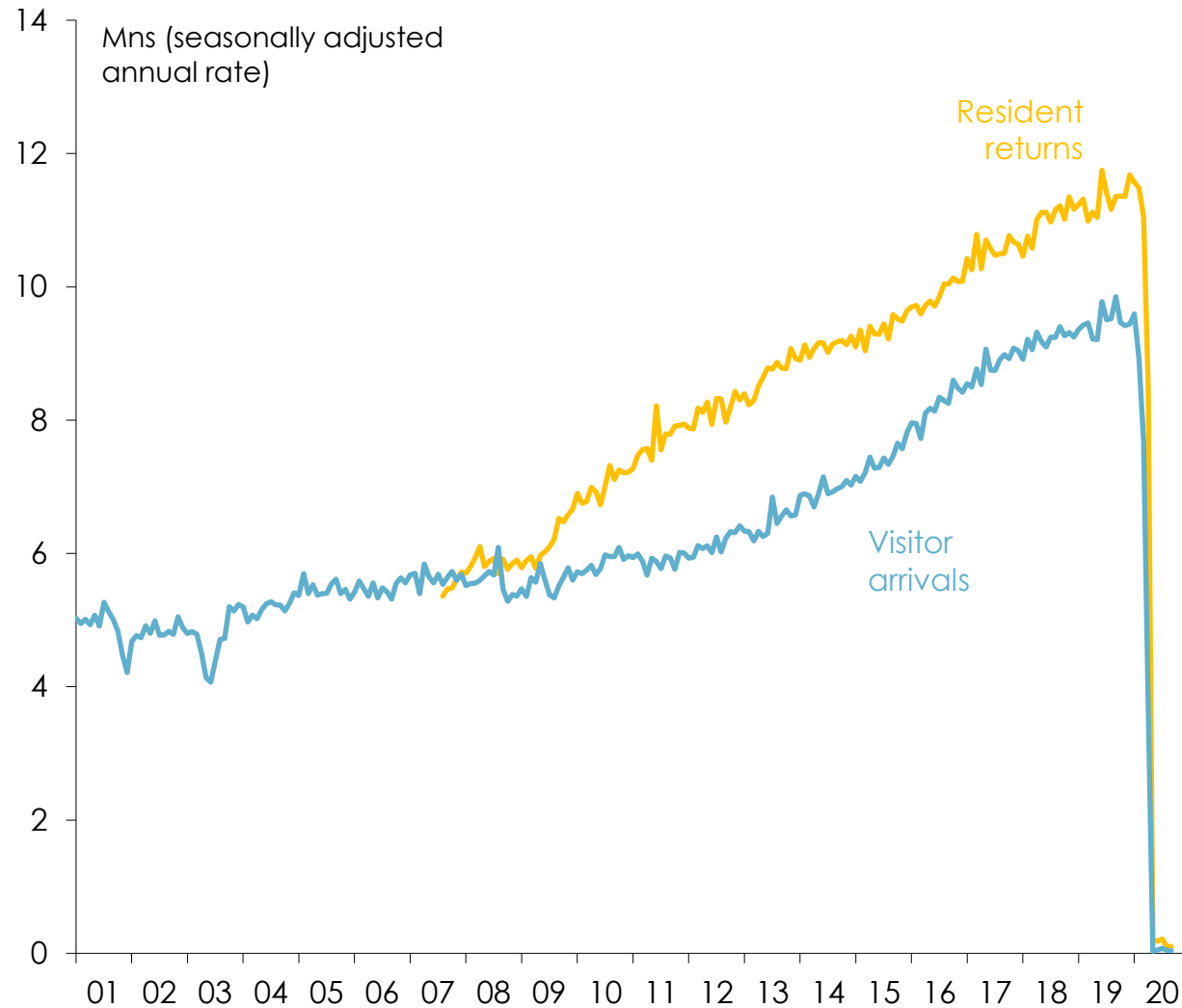
Goods trade balance – other



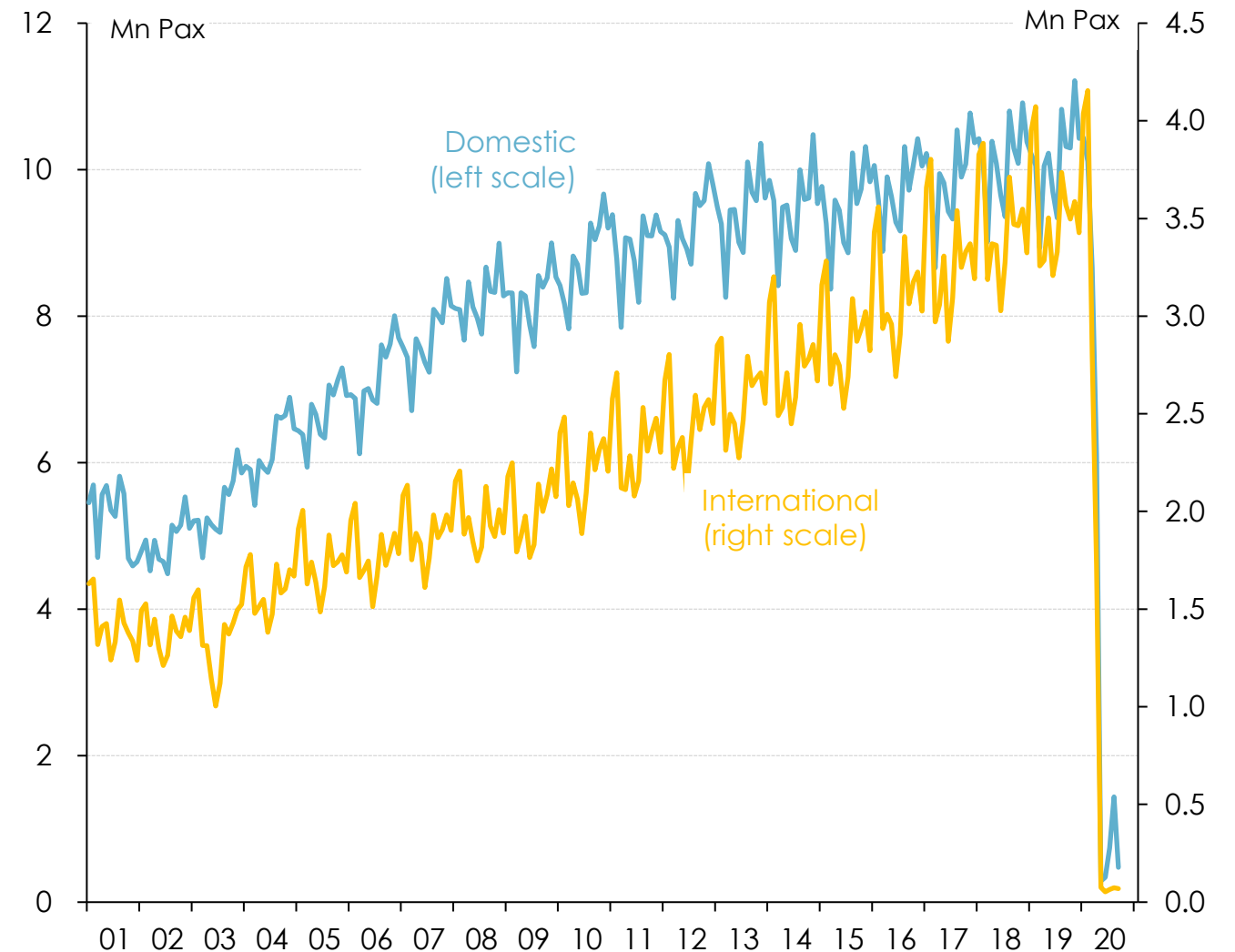
Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Source: ABS, [International Trade in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

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

Short-term visitor arrivals and resident returns



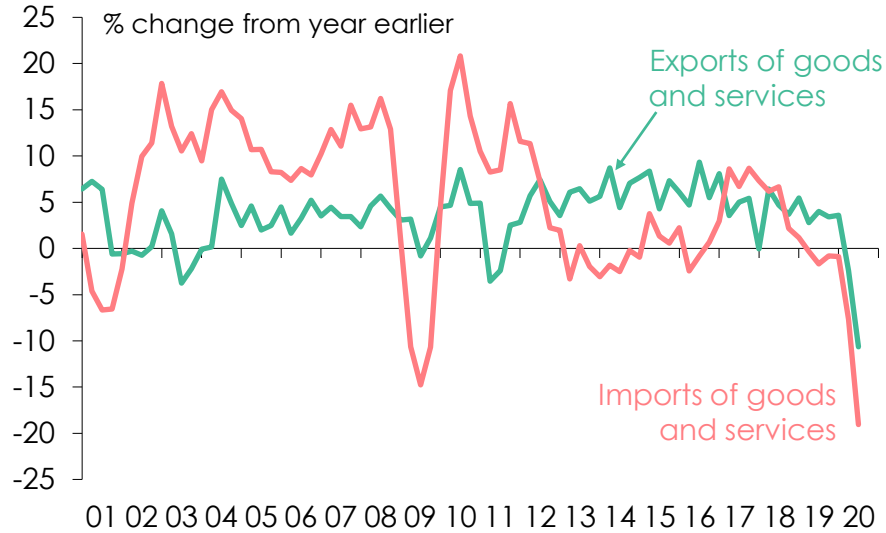
Airport passenger movements



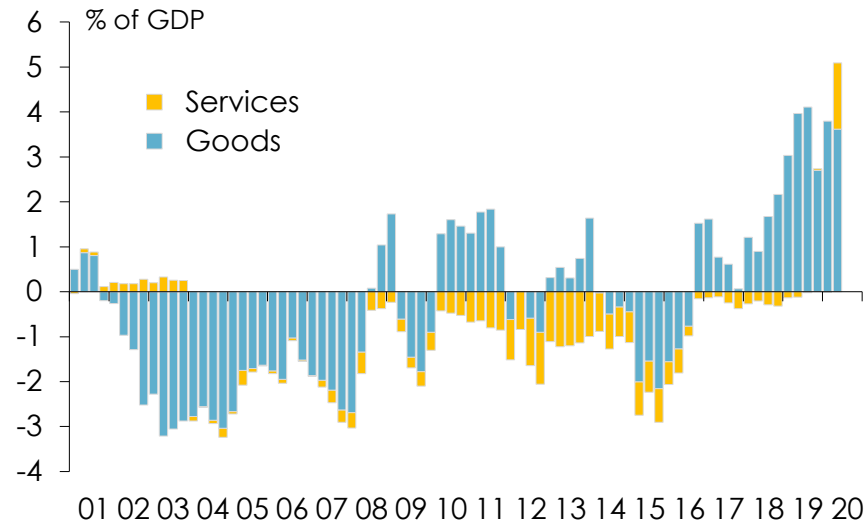
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

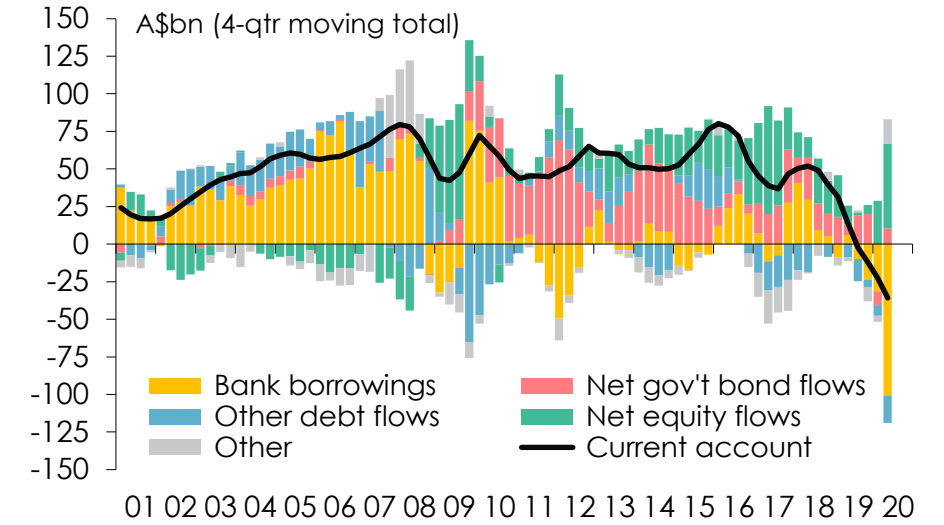
Export and import volumes



Goods & services trade balances



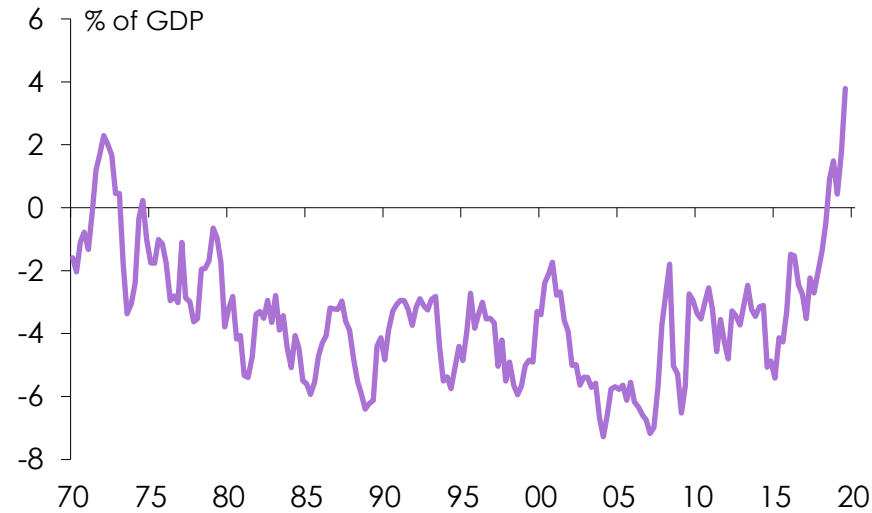
Capital flows



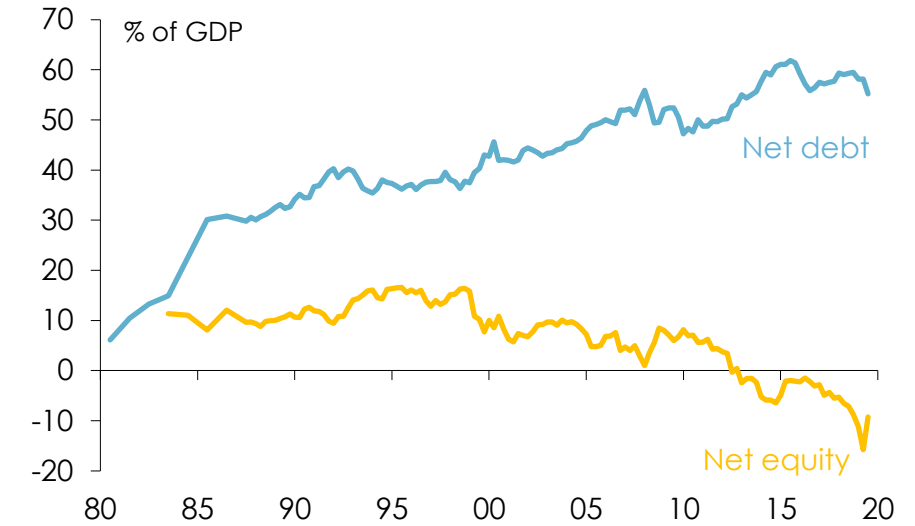
Export and import prices



Current account balance



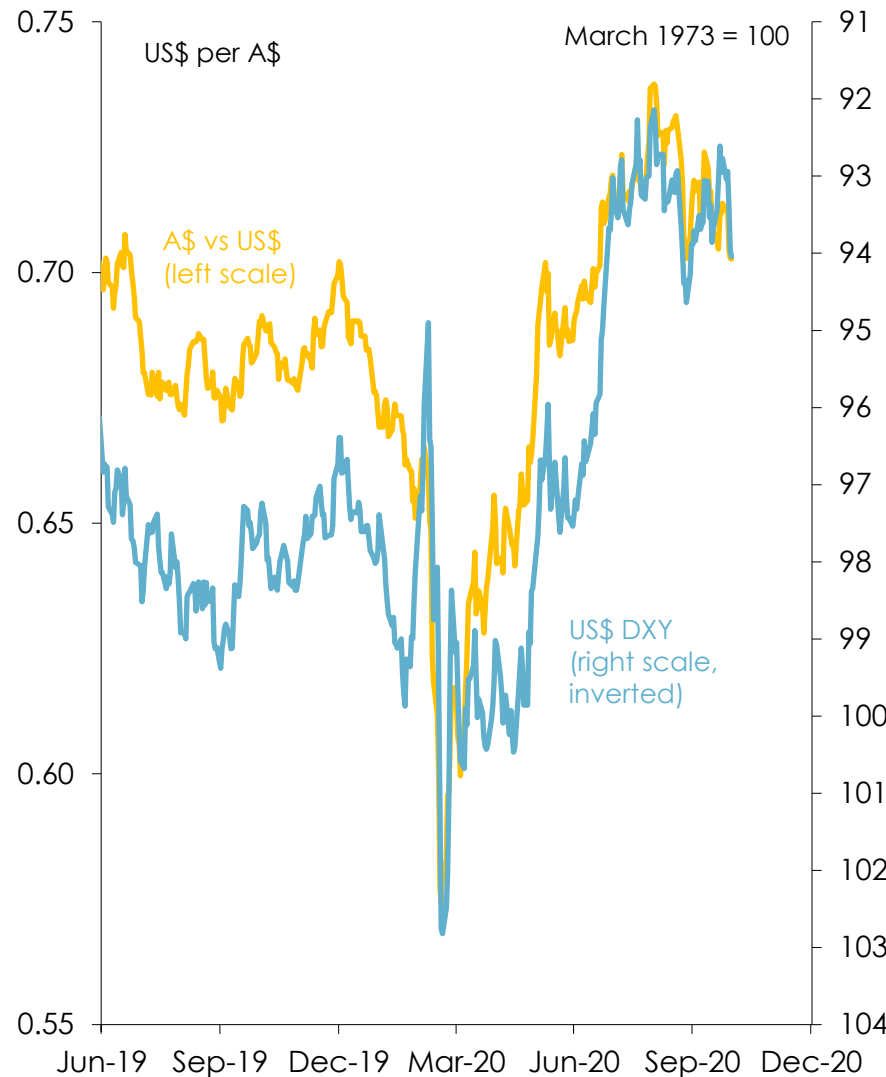
Net international investment position



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

The A\$ dropped 1½% to a 3-month low against a stronger US\$, reflecting diminished investor risk appetite and expectations of RBA easing

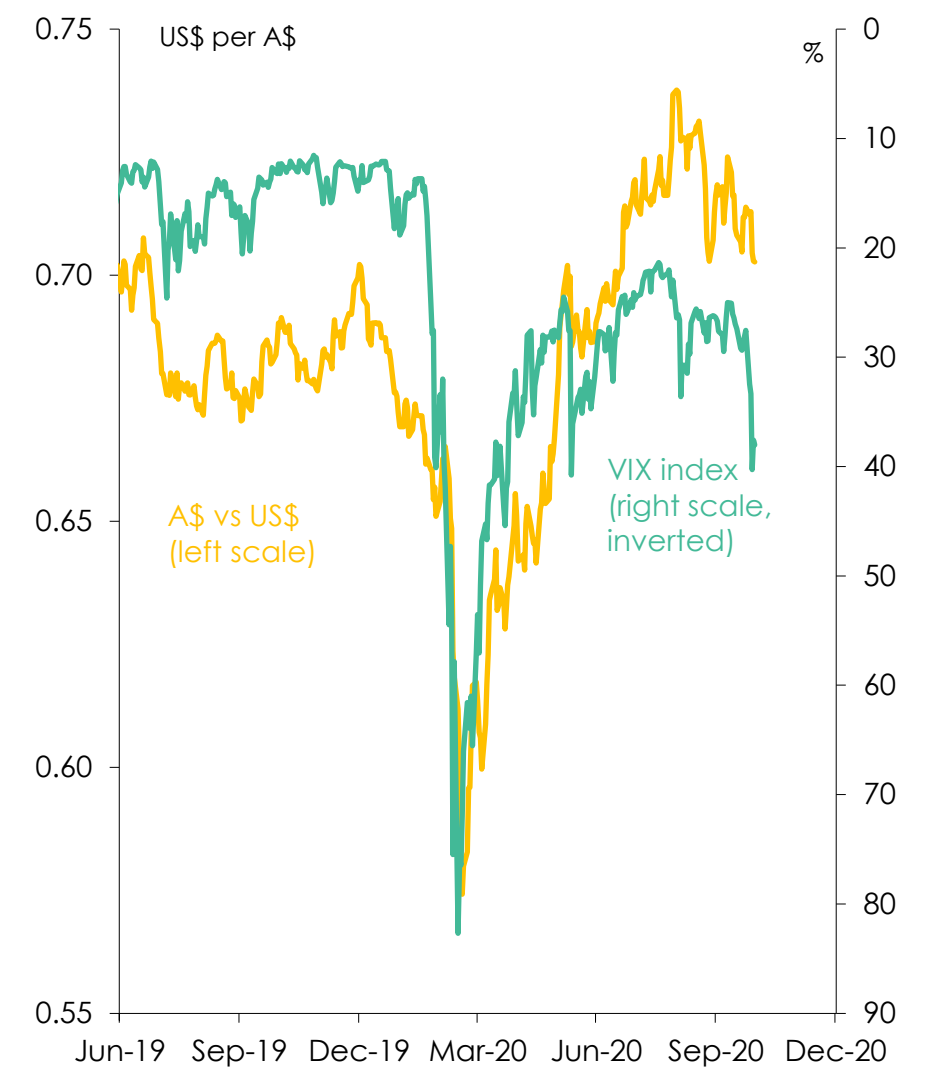
A\$-US\$ and US\$ trade-weighted index



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



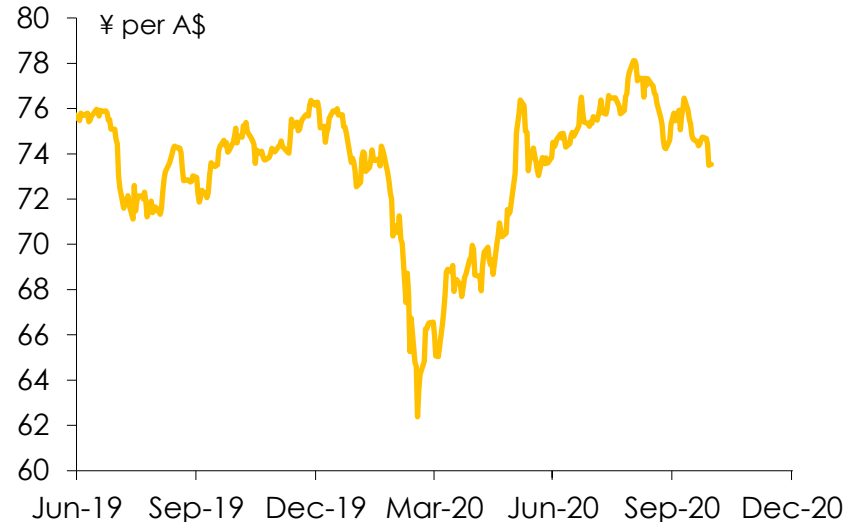
A\$-US\$ and US equity market volatility



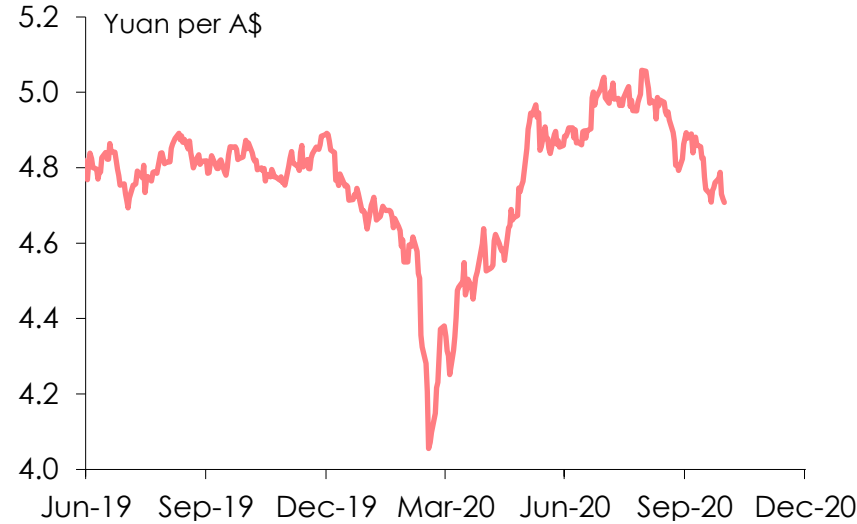
Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see [slide 96](#). Source: Refinitiv Datastream. Data up to 30th October. [Return to "What's New"](#).

The A\$ also fell by around 1-1½% against Asian currencies, by 0.8% against sterling and 0.4\$ against the NZ\$, but was steady against the euro

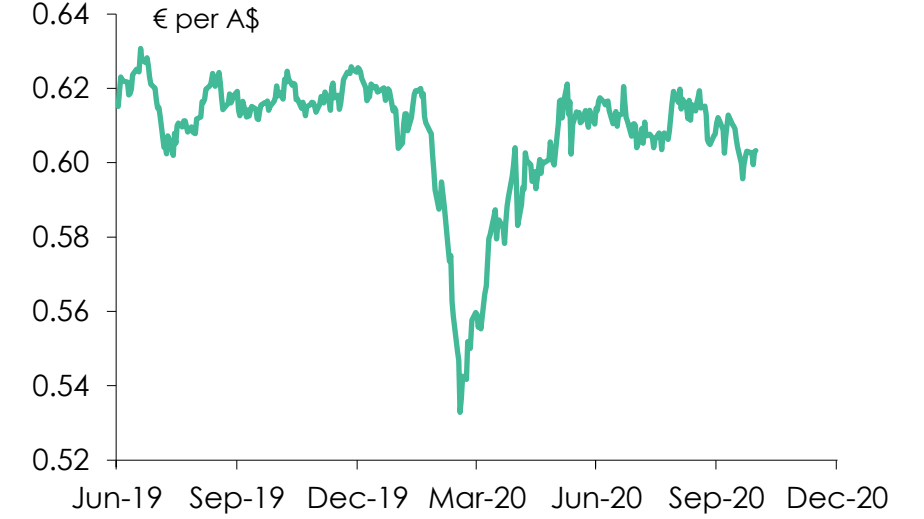
A\$ vs Japanese yen



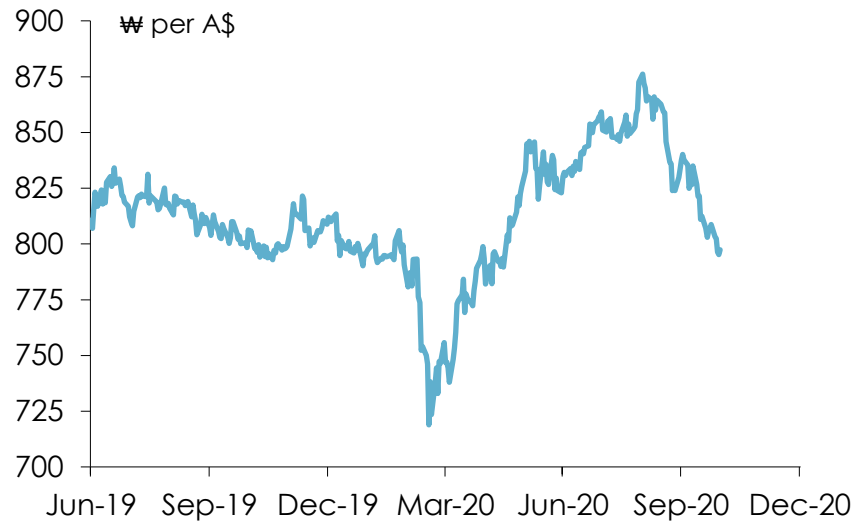
A\$ vs Chinese yuan



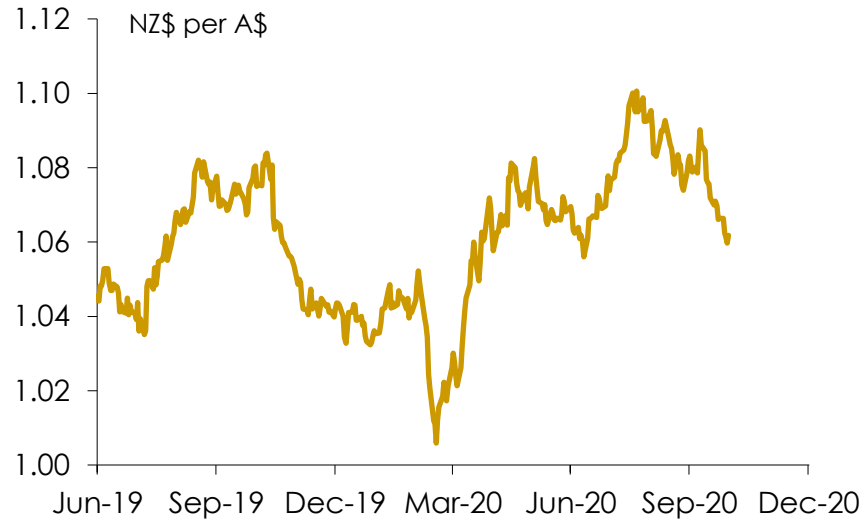
A\$ vs Euro



A\$ vs Korean won



A\$ vs NZ\$



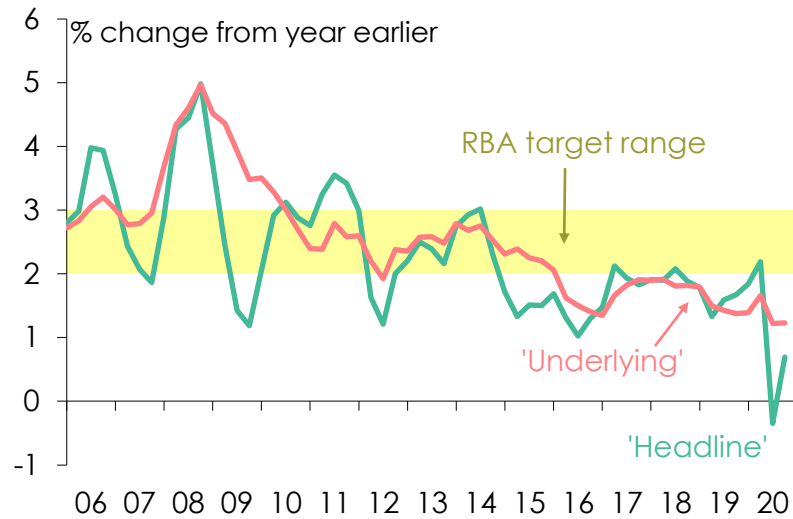
A\$ vs British pound



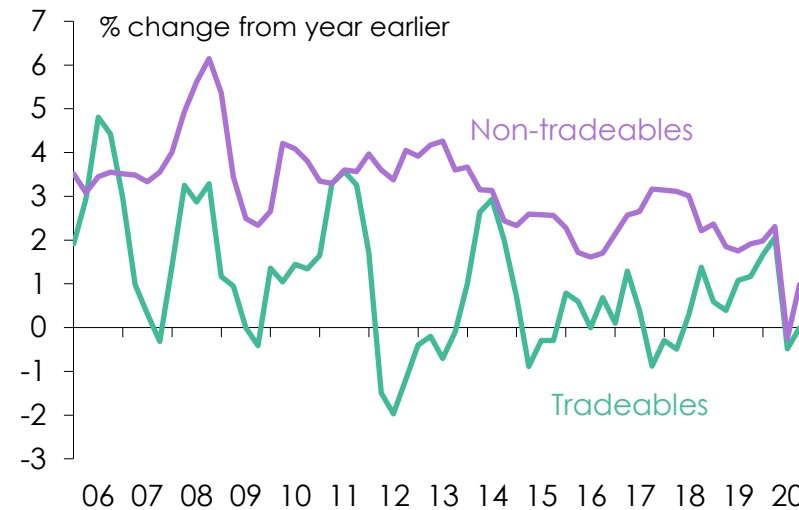
Source: Refinitiv Datastream. Data up to 30th October. [Return to "What's New"](#).

Inflation rebounded precisely as expected in Q3, but 'underlying' inflation has now been below the RBA's target for 4½ years

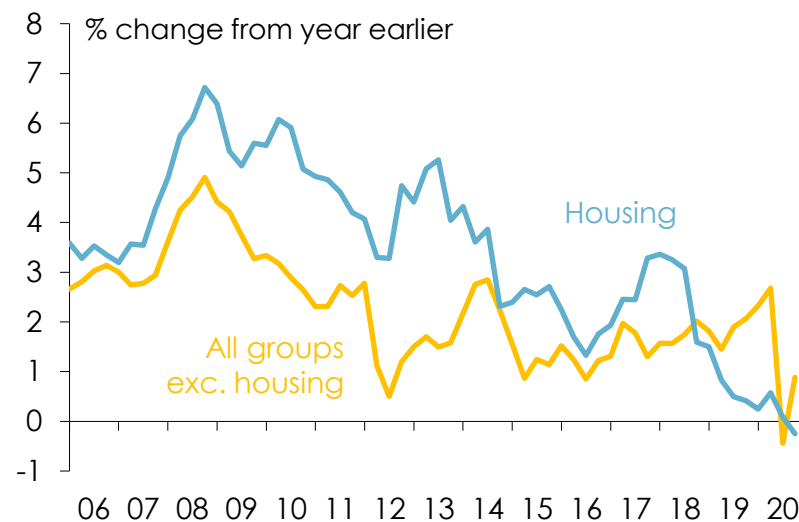
Consumer prices



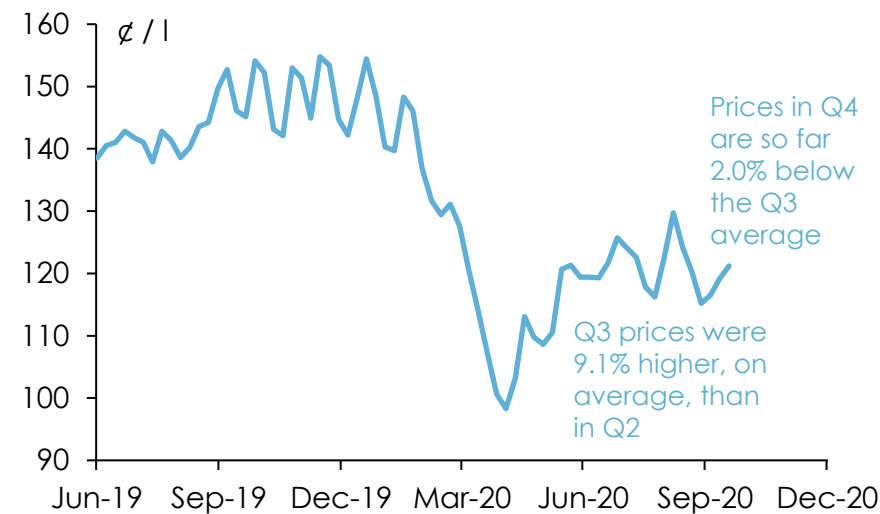
Tradeables vs non-tradeables



Housing costs in the CPI



Retail petrol prices

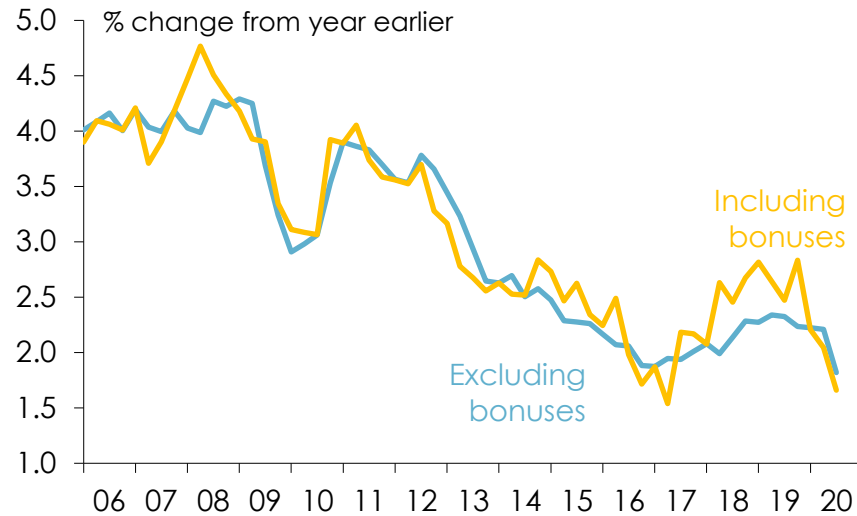


- ❑ Exactly as expected the CPI rose by 1.6% in Q3, reversing most of the 1.9% decline in Q2
- ❑ The rise in the CPI in Q3 was largely due to a 1,382% increase in child care costs (following the end of free child care, other than in Victoria, on 13th July), a 9.4% increase in petrol prices (after a 19.3% decline in Q2) and an 11.1% increase in preschool and primary education costs (due to the end of free before- and after-school care)
- ❑ The annual 'headline' inflation rate rose to 0.7% from -0.3% in Q2
- ❑ 'Underlying' inflation was 0.4% in Q3 and 1.2% from Q3 last year (the latter unchanged from Q2) – the lowest this measure has been since it commenced in 1977
- ❑ The annual 'underlying' inflation rate has been below the bottom end of the RBA's 2-3% target range since Q1 2016, and below the mid-point of the range since Q4 2014
- ❑ The RBA says it will now be giving greater weight to actual inflation than forecast inflation

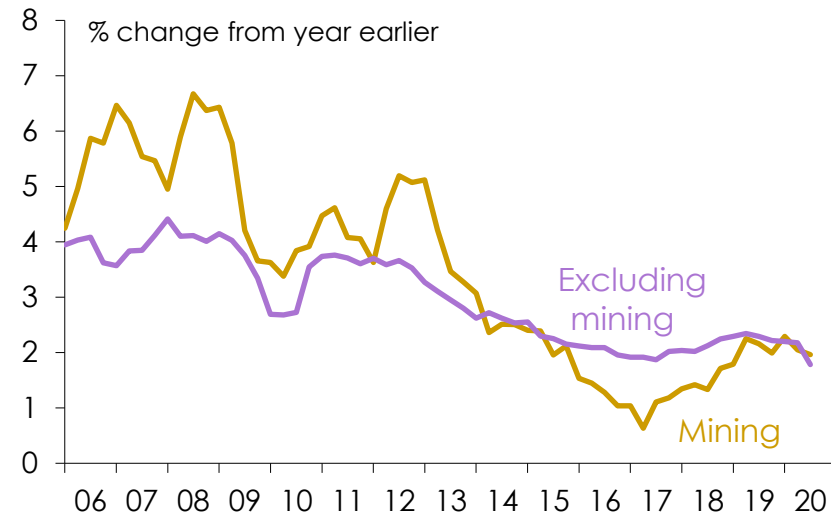
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The December quarter (Q4) CPI will be released on 27 January 2021. [Return to "What's New"](#).

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

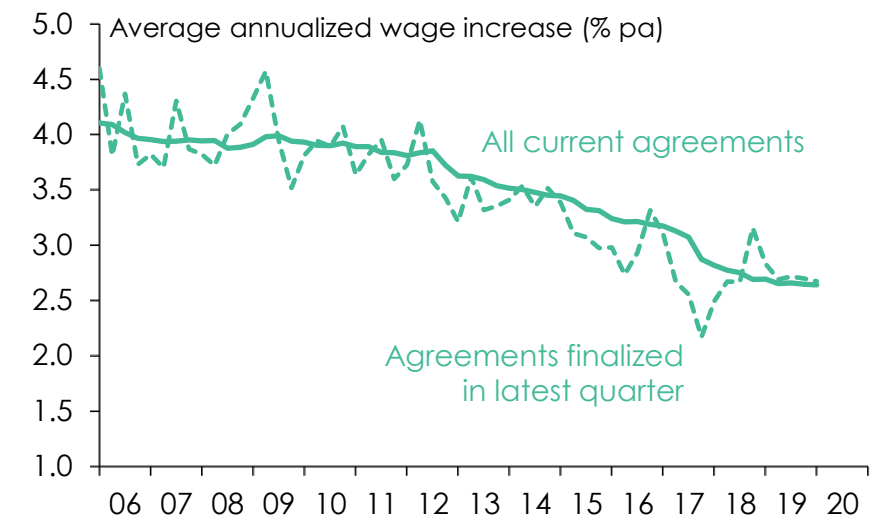
Wage price index – all sectors



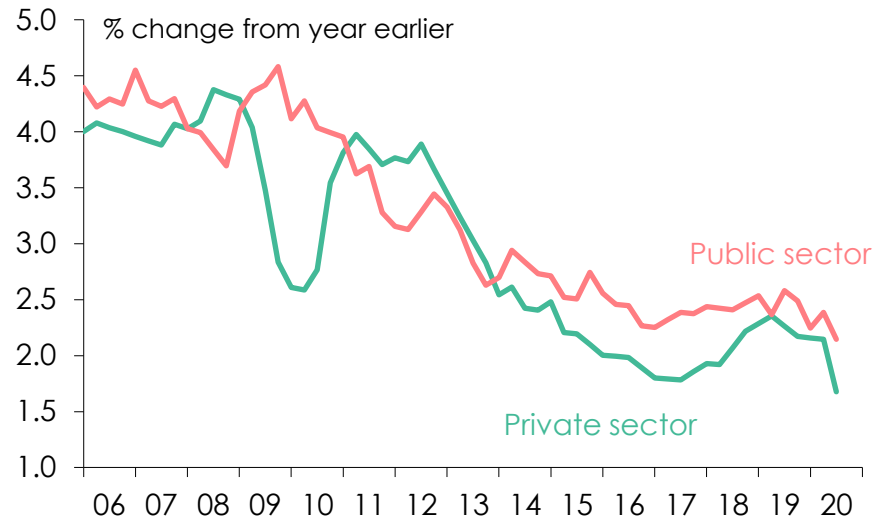
WPI by industry



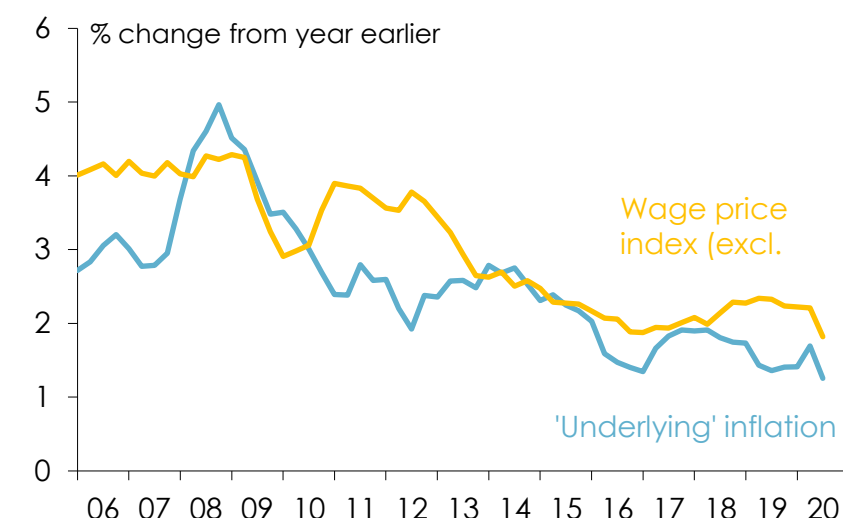
Enterprise bargaining agreements



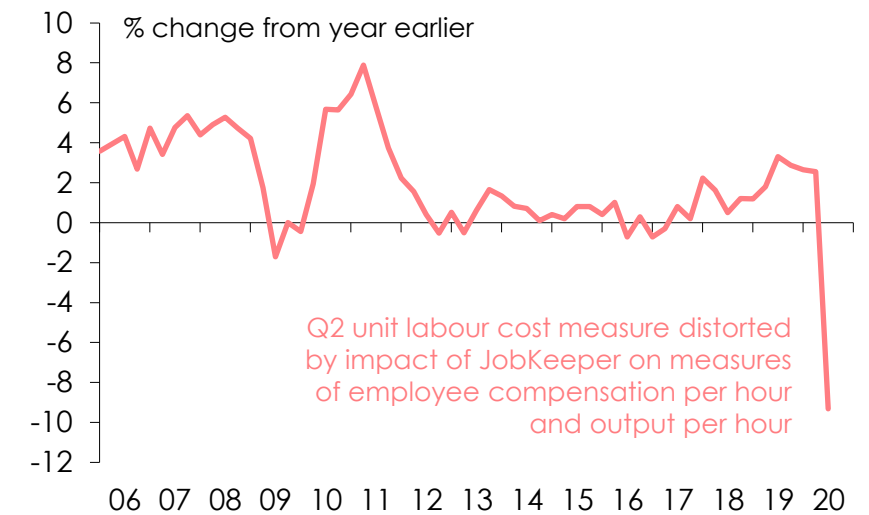
WPI – private vs public sectors



WPI and 'underlying' CPI inflation



Unit labour costs



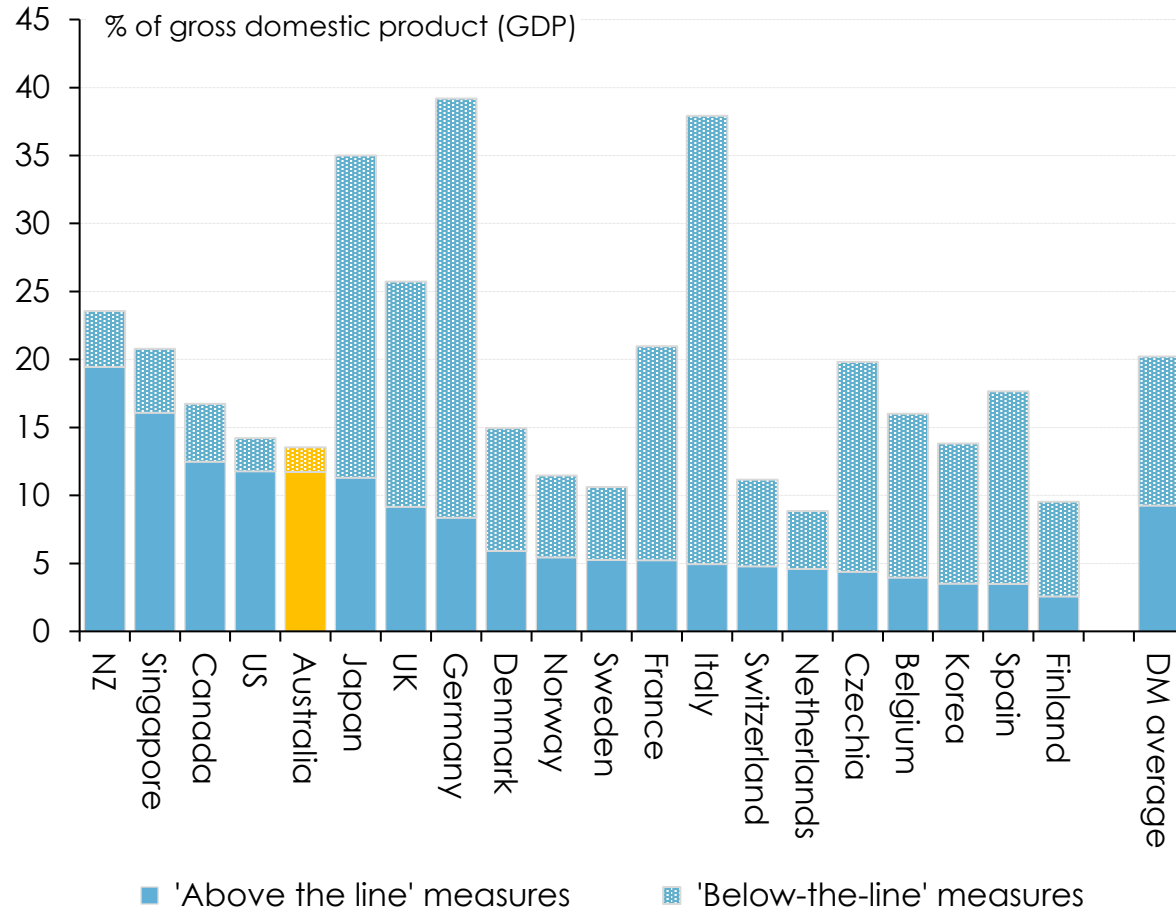
Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Source: ABS; Attorney-General's Department. September quarter WPI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

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

Australia's fiscal and monetary policy settings

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 20th September 2020.

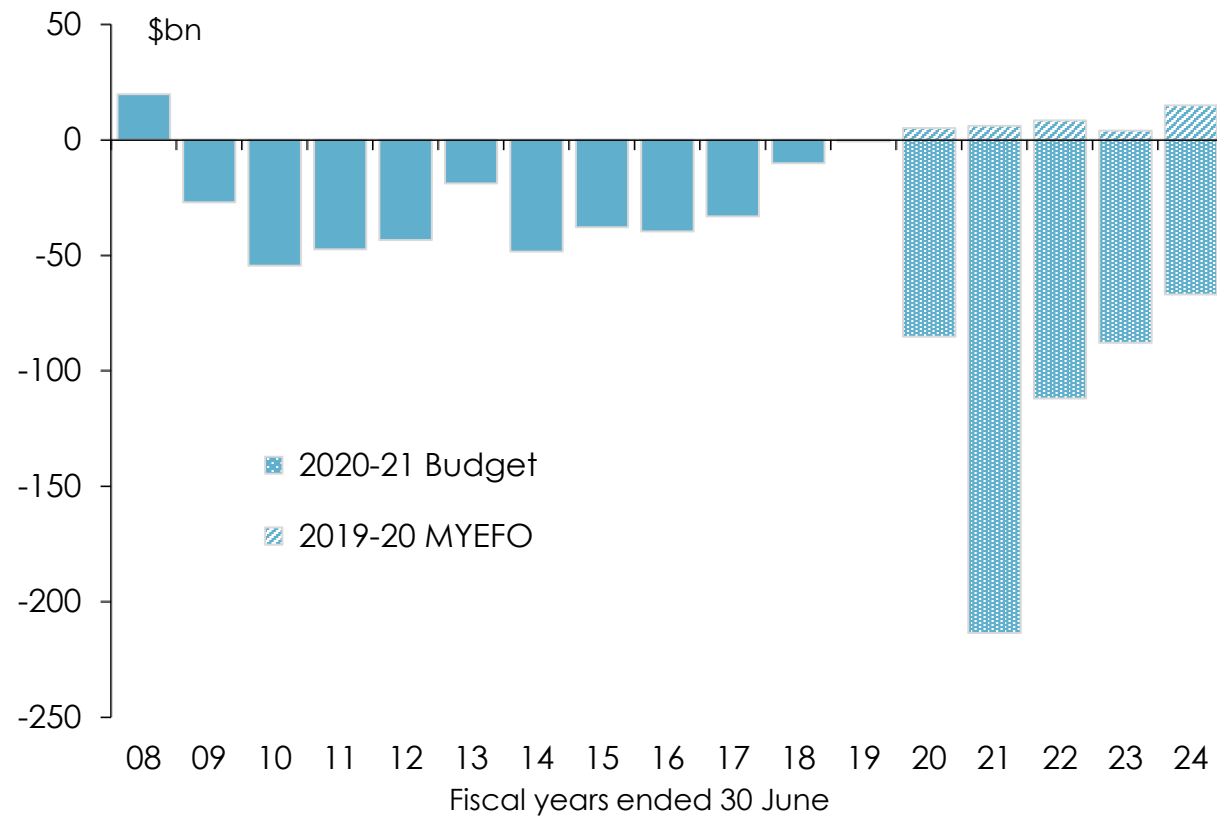
Source: IMF, [Fiscal Monitor](#), October 2020. [Return to "What's New"](#).

- ❑ Policy measures announced prior to October's federal Budget totalled A\$232bn over FYs 2019-20 and 2020-21 or about 11³/₄% 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

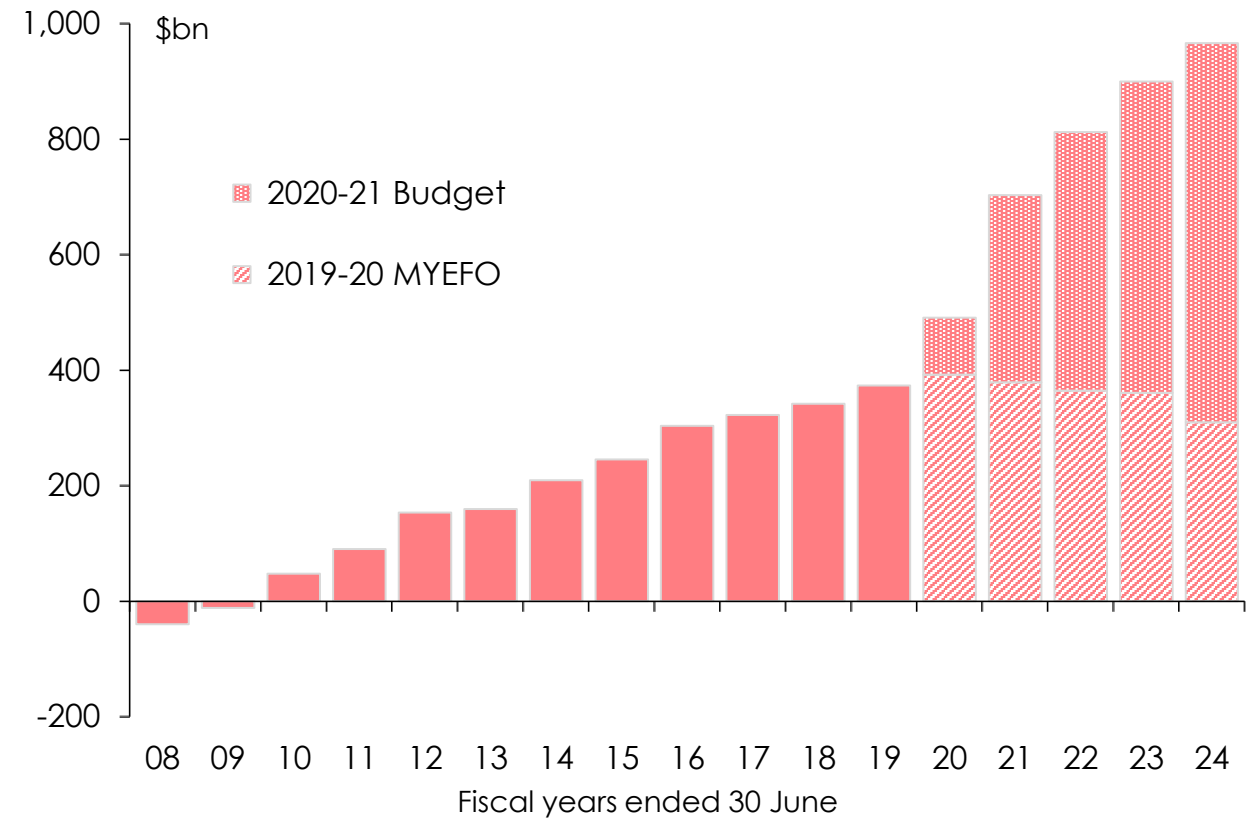
The FY 2020-21 Budget, unveiled this month, confirms a dramatic deterioration in the Government's fiscal position

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

'Underlying' cash balance



Net debt

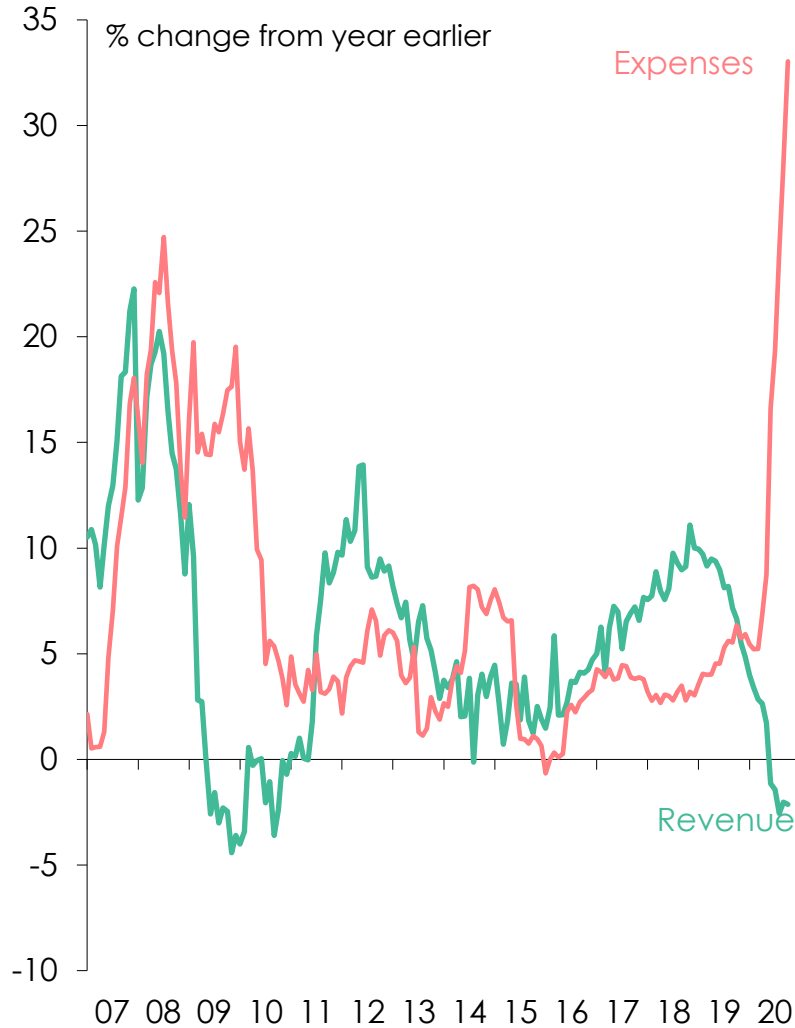


❑ Last December, the Government was confidently predicting a return to budget surpluses – now, it is forecasting deficits totalling \$566bn over the five years to 2023-24

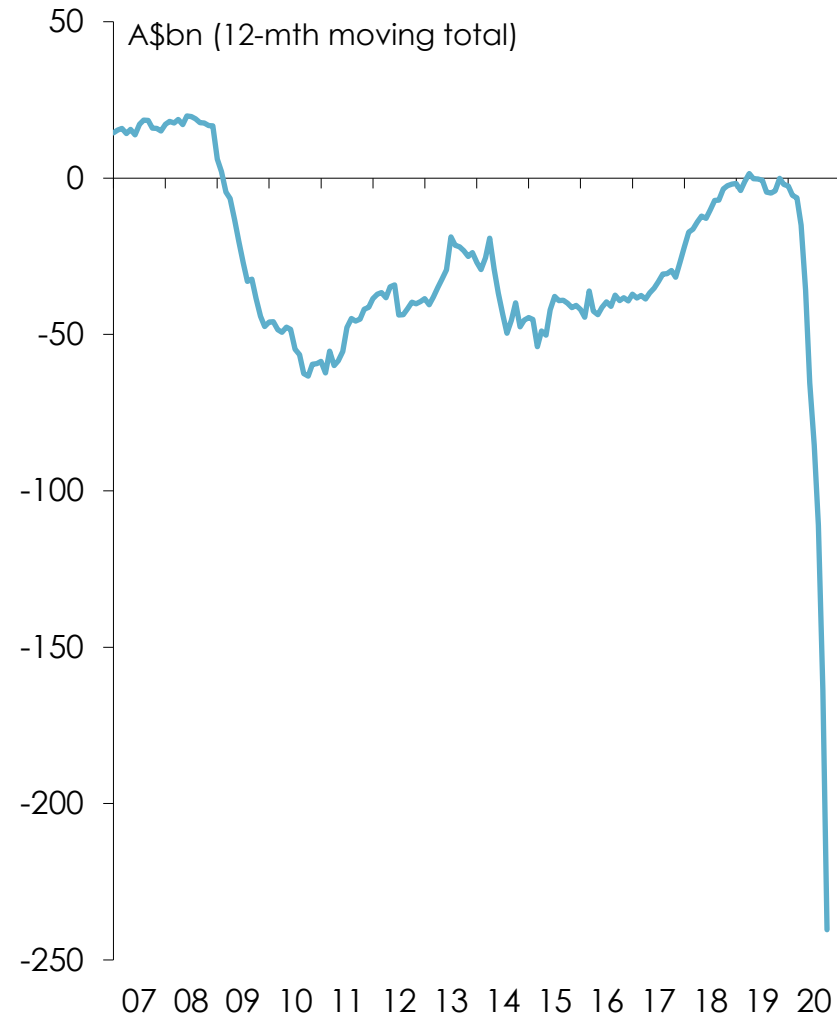
❑ Last December, net debt was expected to have peaked at \$392bn in June 2020, and fall to \$310bn by June 2024 – instead it rose to \$490bn at June 2020, and is now expected to reach \$966bn by June 2024

The deficit for the 12 months to September was \$240mn, more than the Budget forecast for 2020-21 as a whole, while net debt reached \$581bn

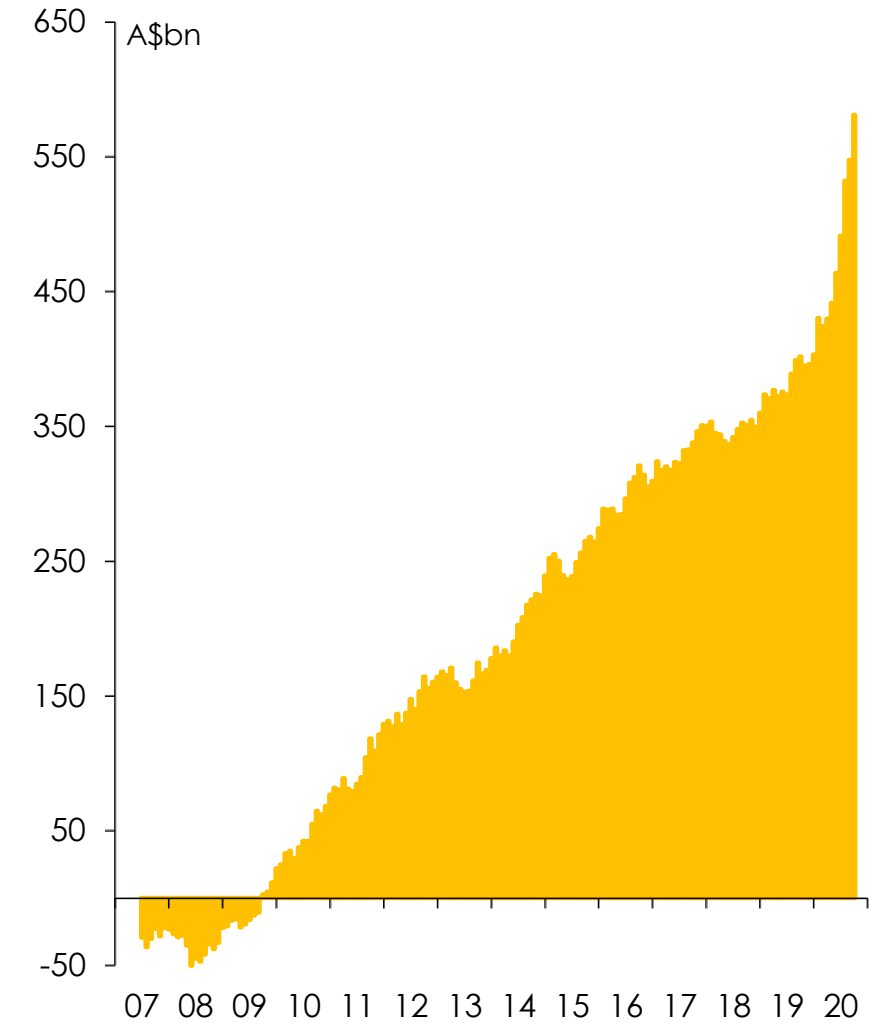
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



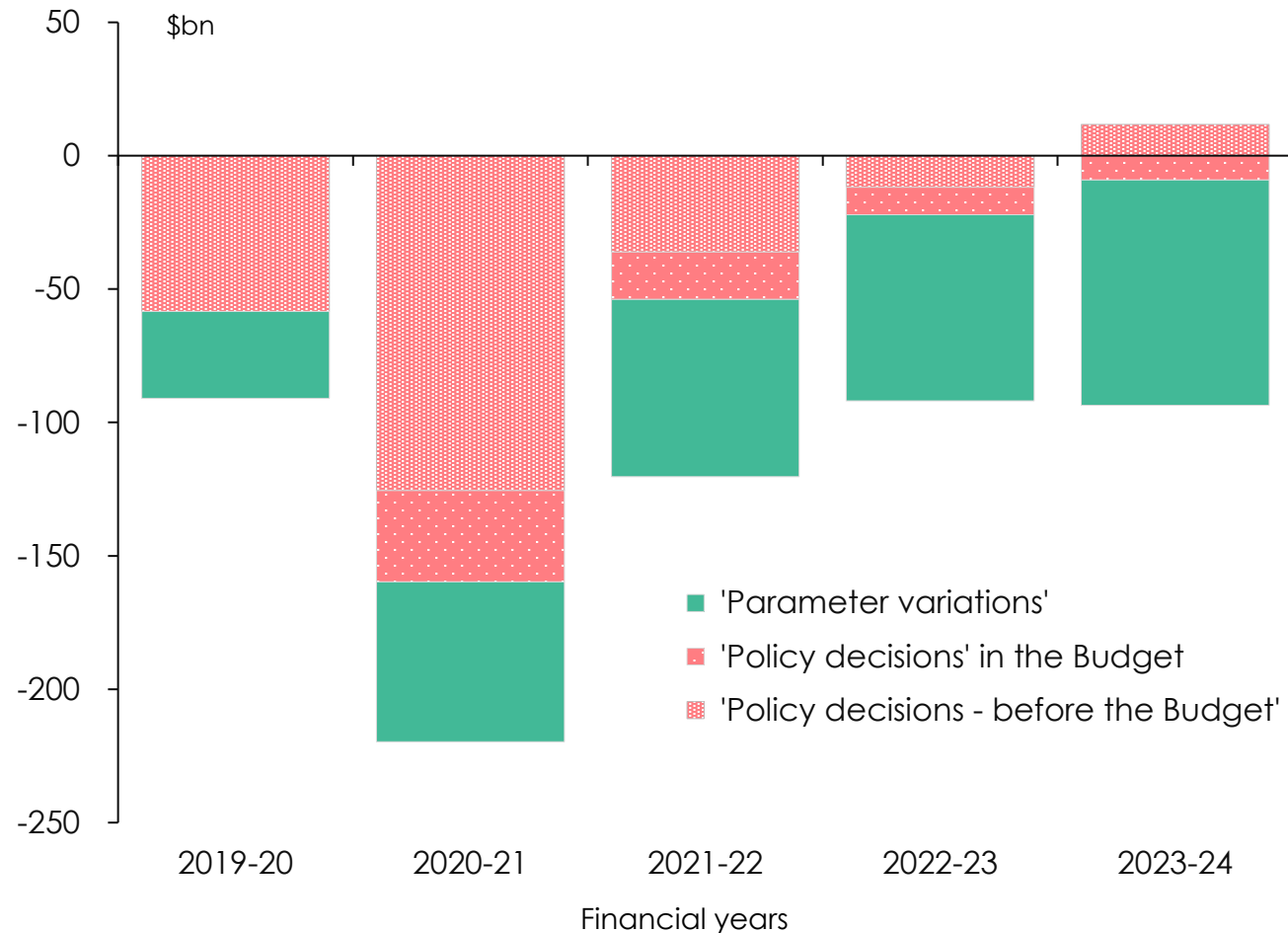
Australian Government net debt



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

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

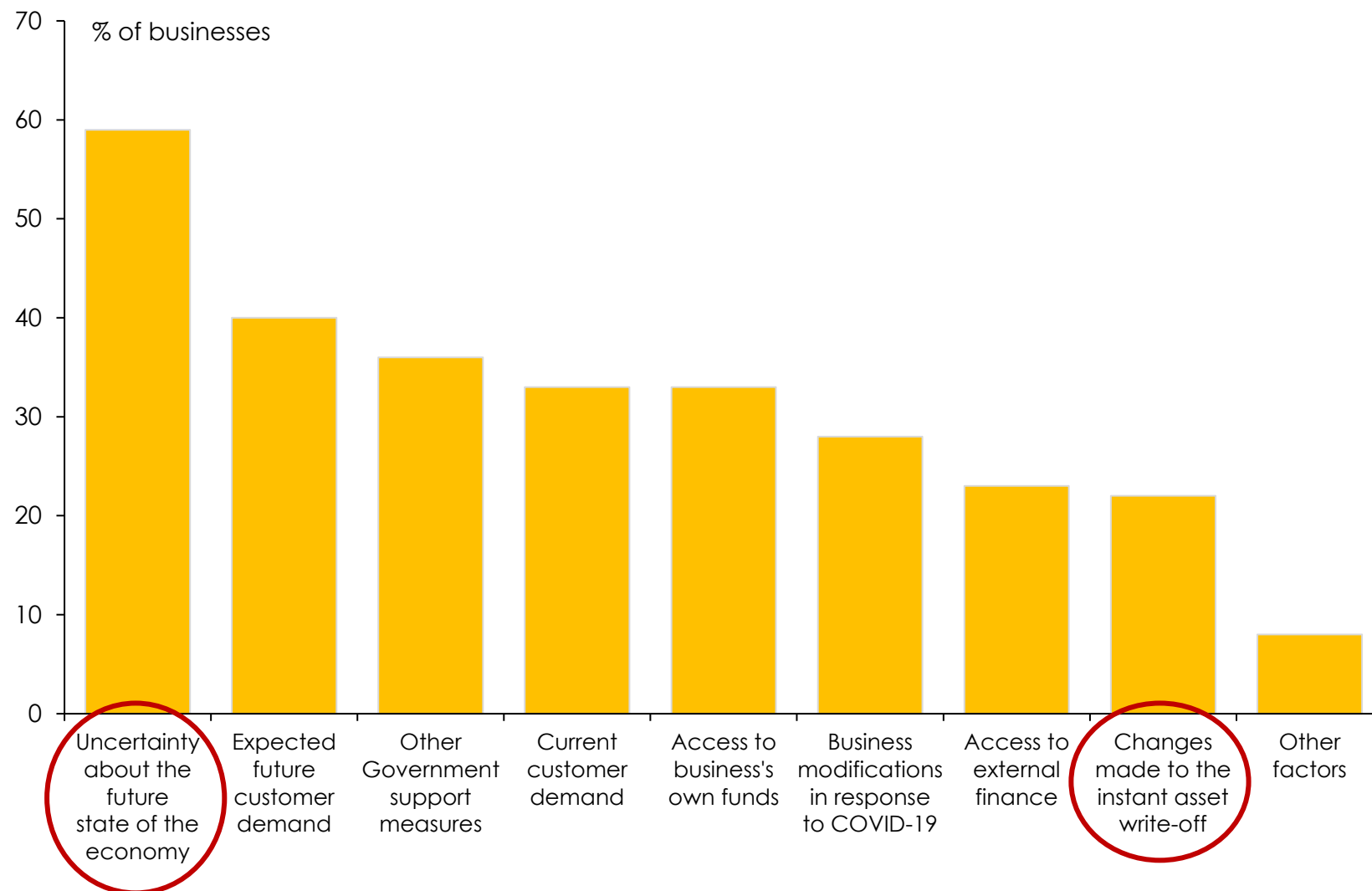
Source: Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#) and [Budget Paper No. 2, Budget Measures](#); Corinna. [Return to "What's New"](#).

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

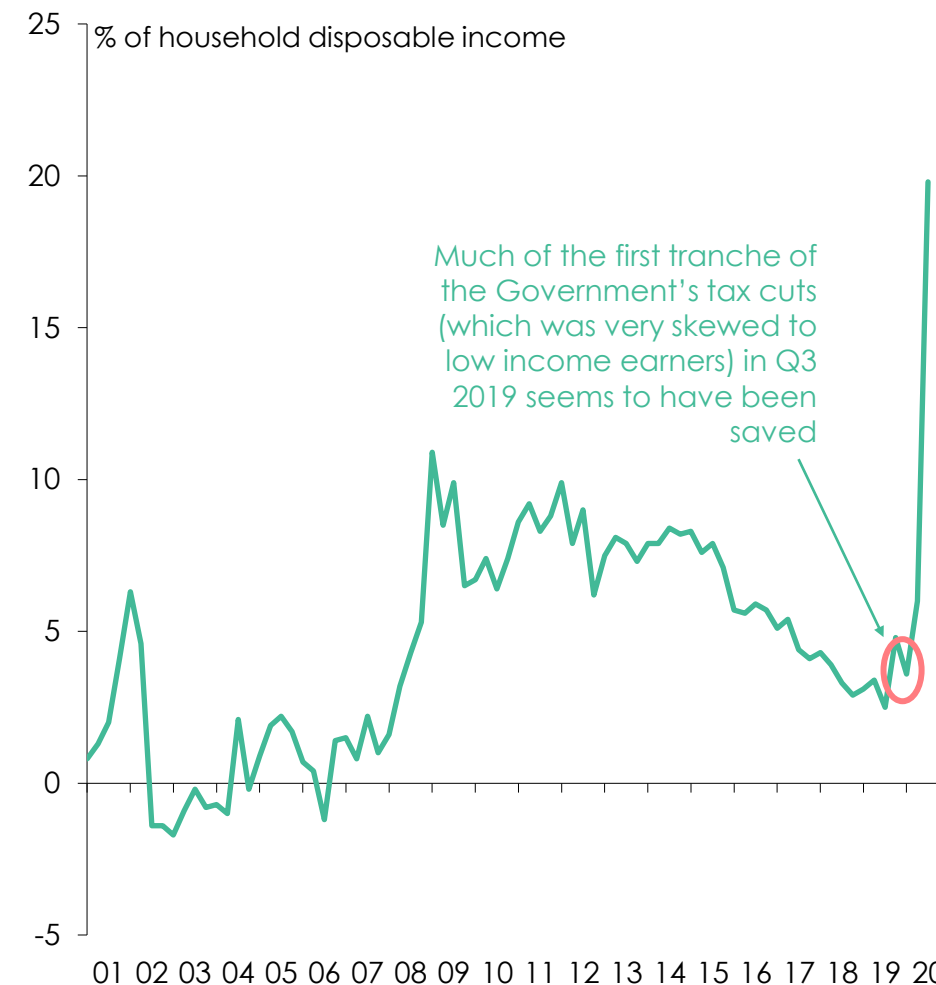
- ❑ The biggest single measure in the Budget was the ‘temporary full expensing’ of purchases of depreciable assets by businesses with turnover of less than \$5bn, available until 30th June 2022 (at a cost to revenue of \$26.7bn over four years)
 - this is in effect an extension of the ‘instant asset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



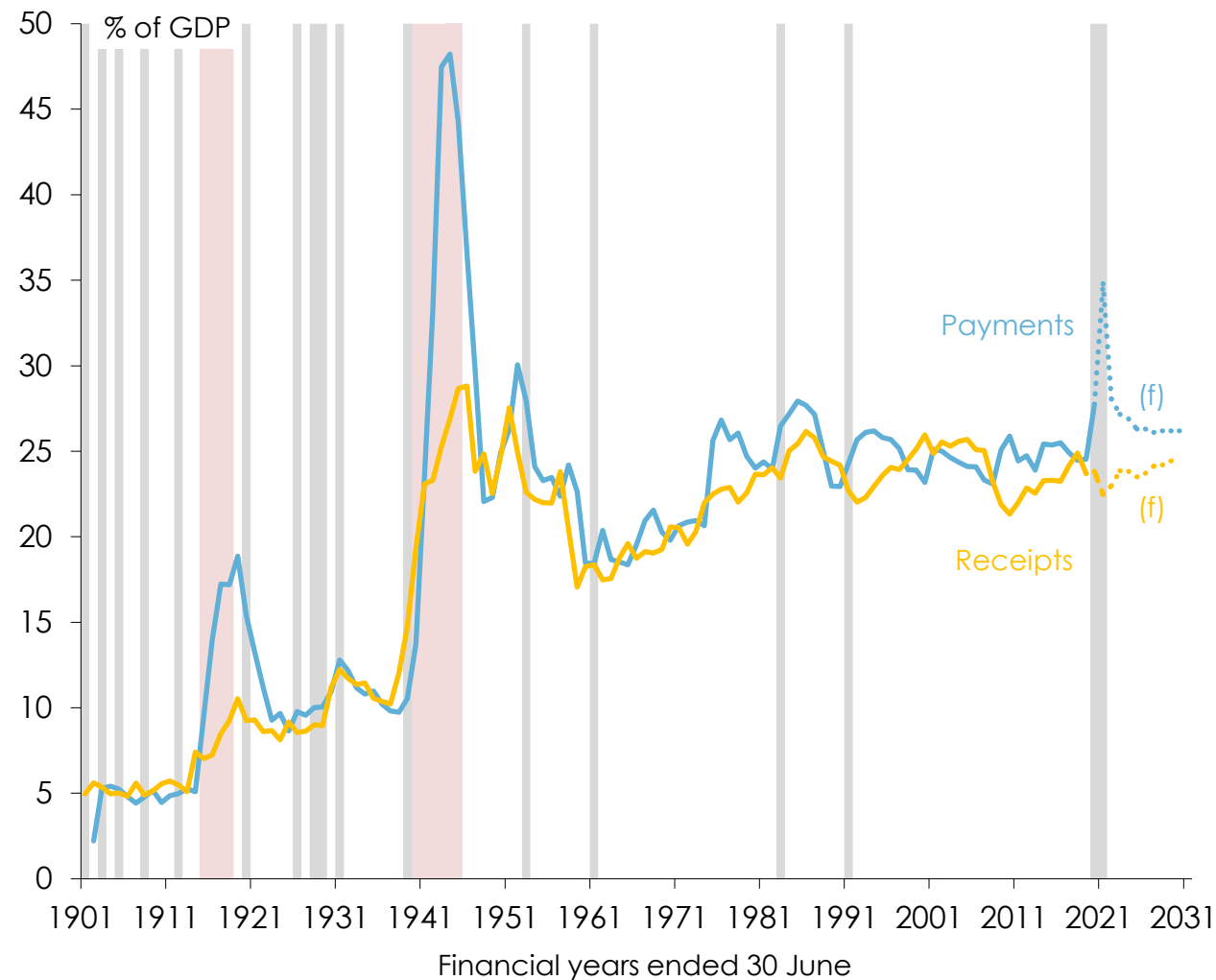
Household saving rate



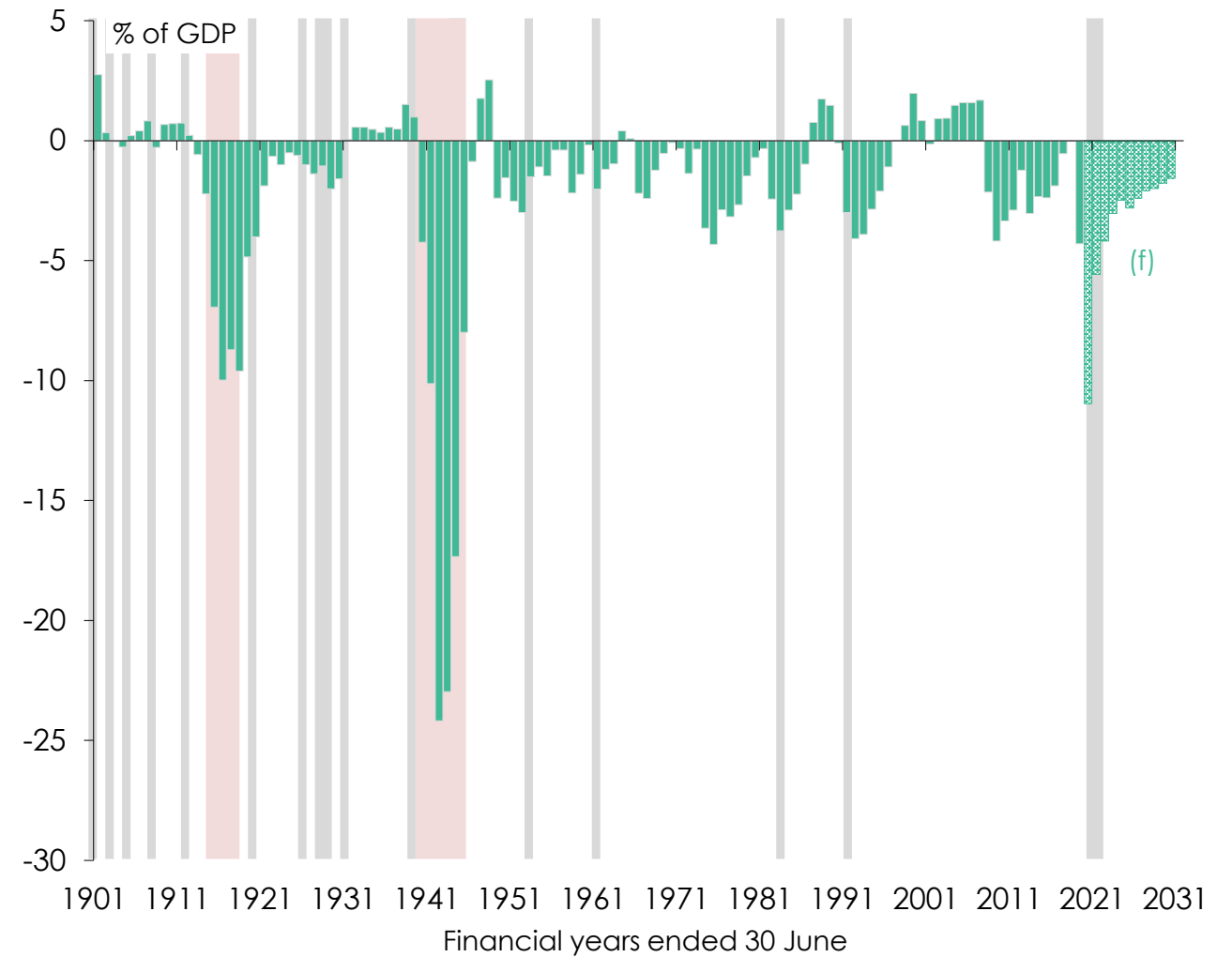
Sources: ABS, [Business Impacts of Covid-19](#), August 2020 (based on survey conducted between 12th and 19th August); [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020. [Return to "What's New"](#).

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

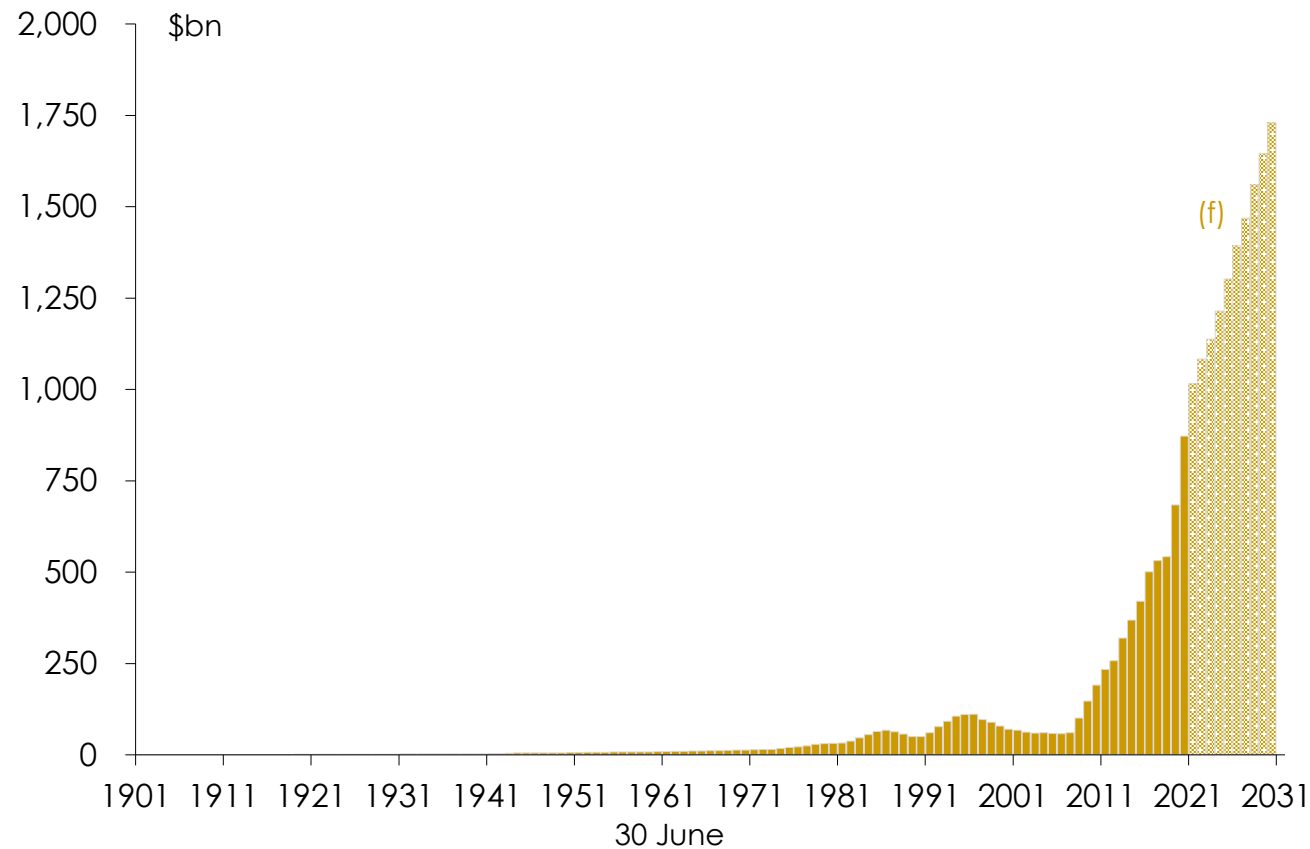


Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which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

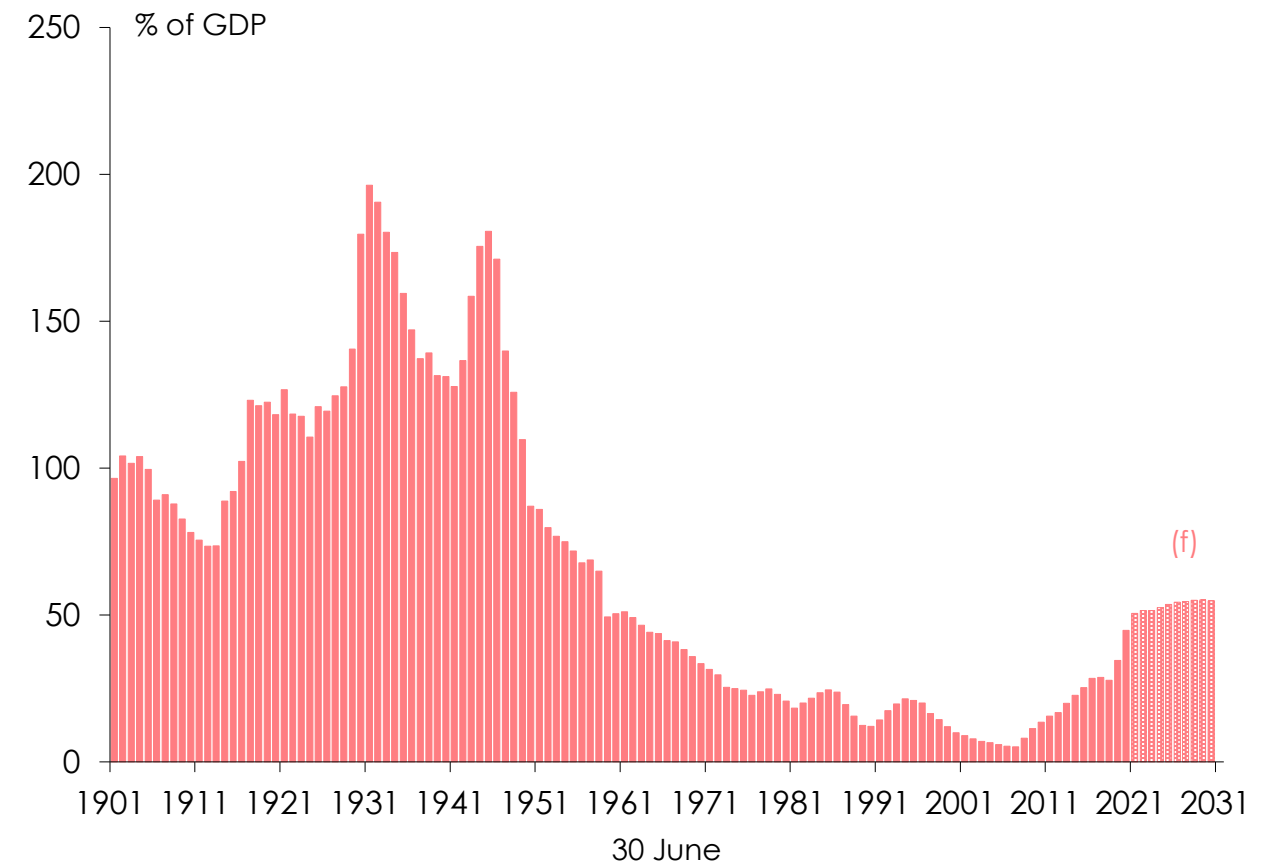
However there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

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

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

Australian government bond issuance since March 2020

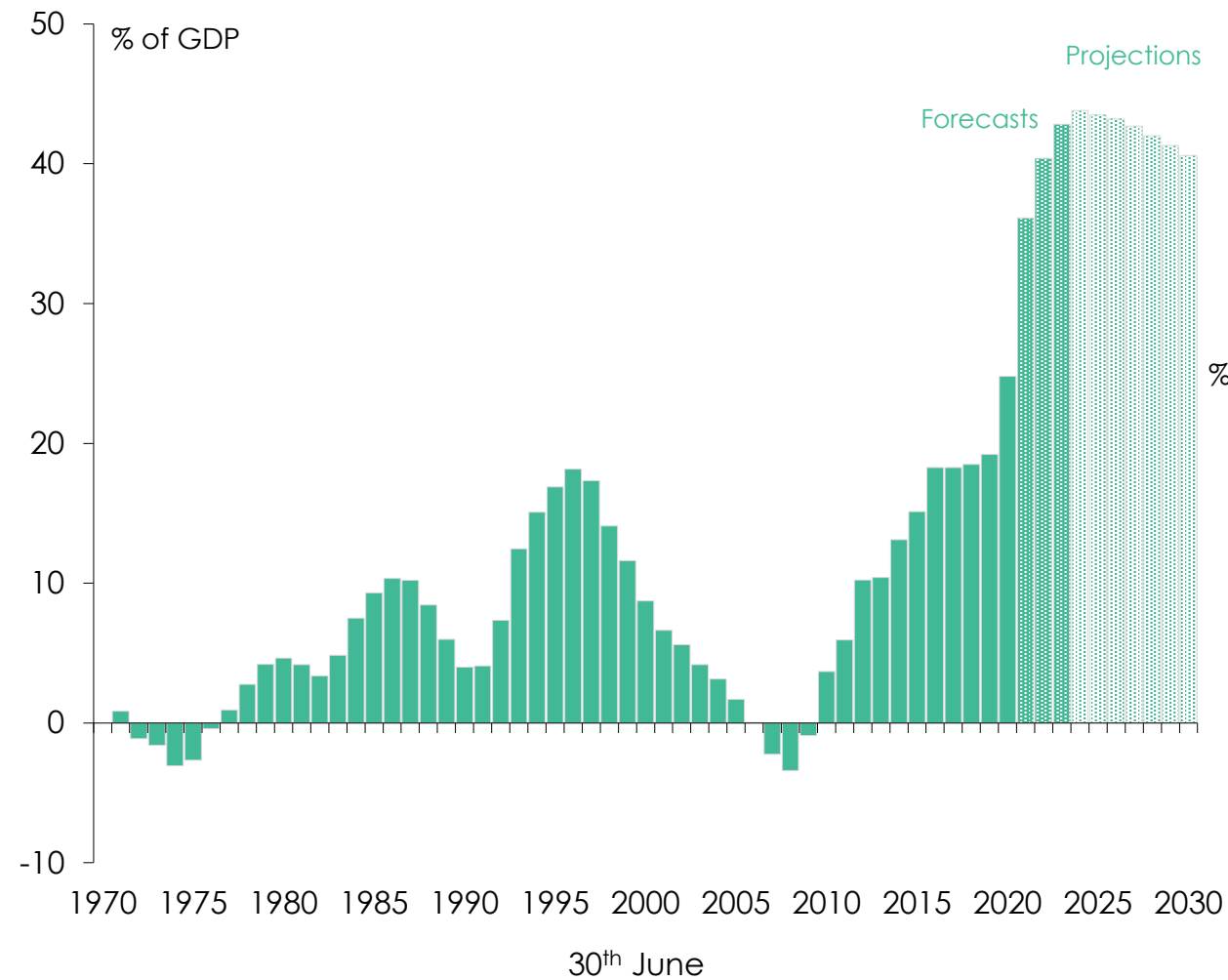


□ Since 30th March, the Australian Office of Financial Management (which conducts the Government’s borrowing programs) has issued \$219bn of Treasury bonds - based on the volume of bids received it could have borrowed \$792bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted

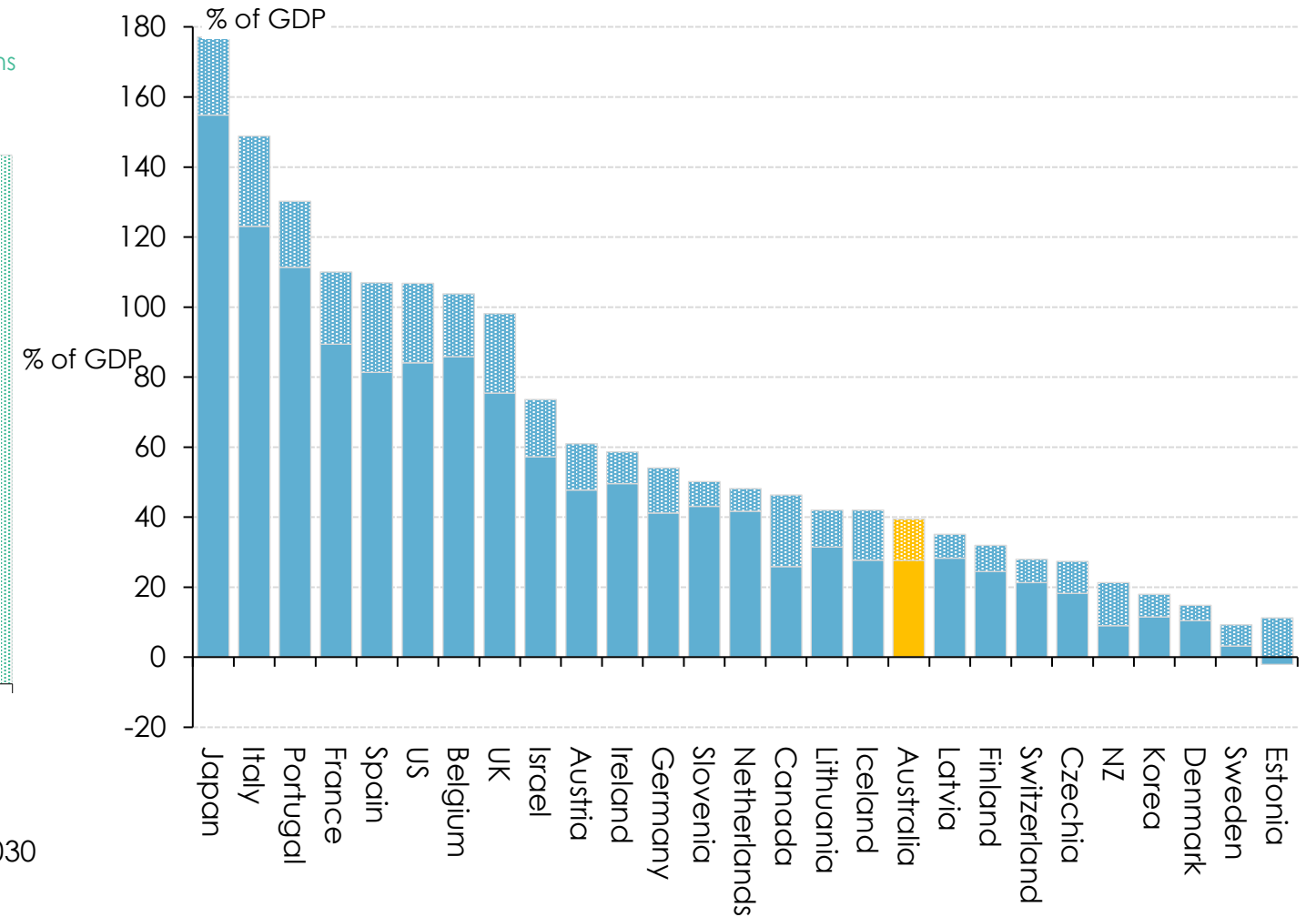
Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).

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



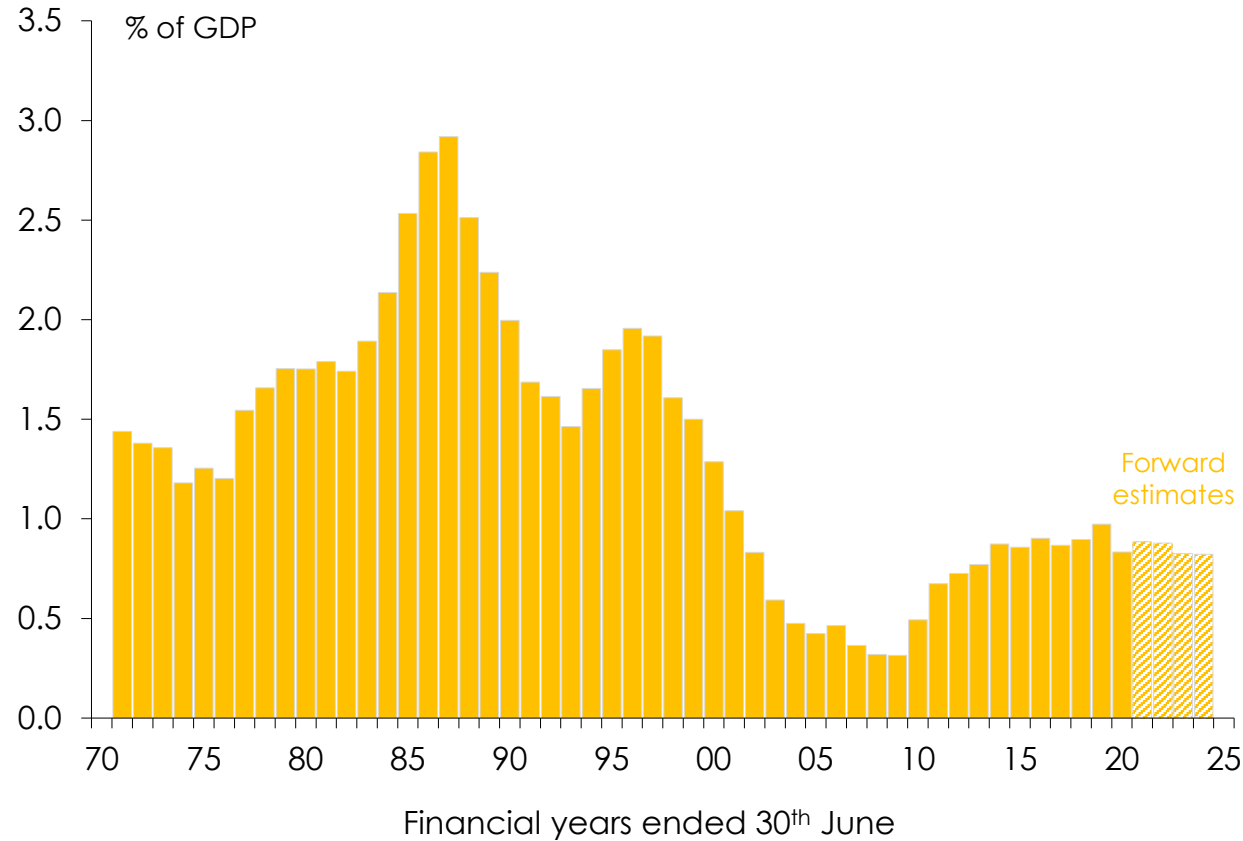
Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2019 and projected 2022



Sources: Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); New Zealand Treasury, [Pre-Election Economic and Fiscal Update](#), 16th September 2020; IMF, [Fiscal Monitor](#), October 2020. [Return to "What's New"](#).

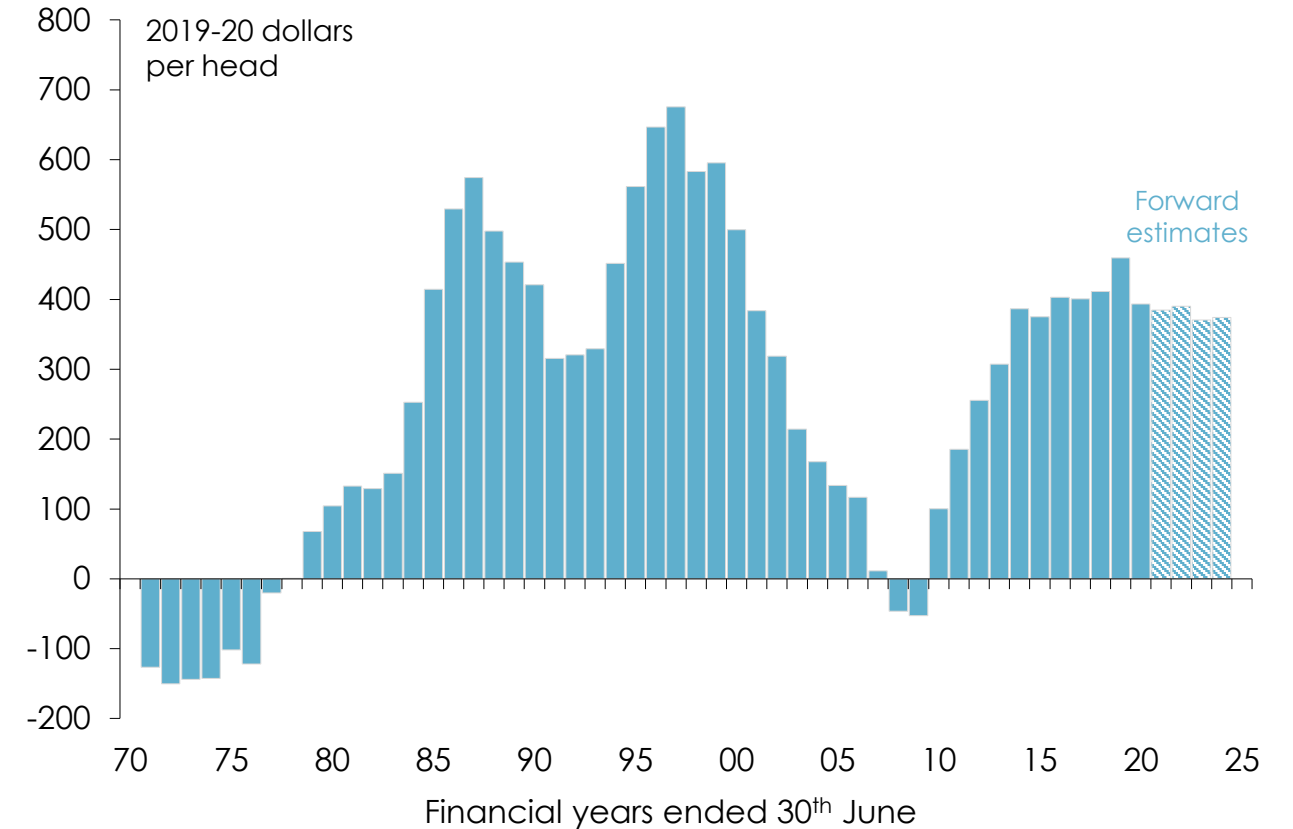
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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

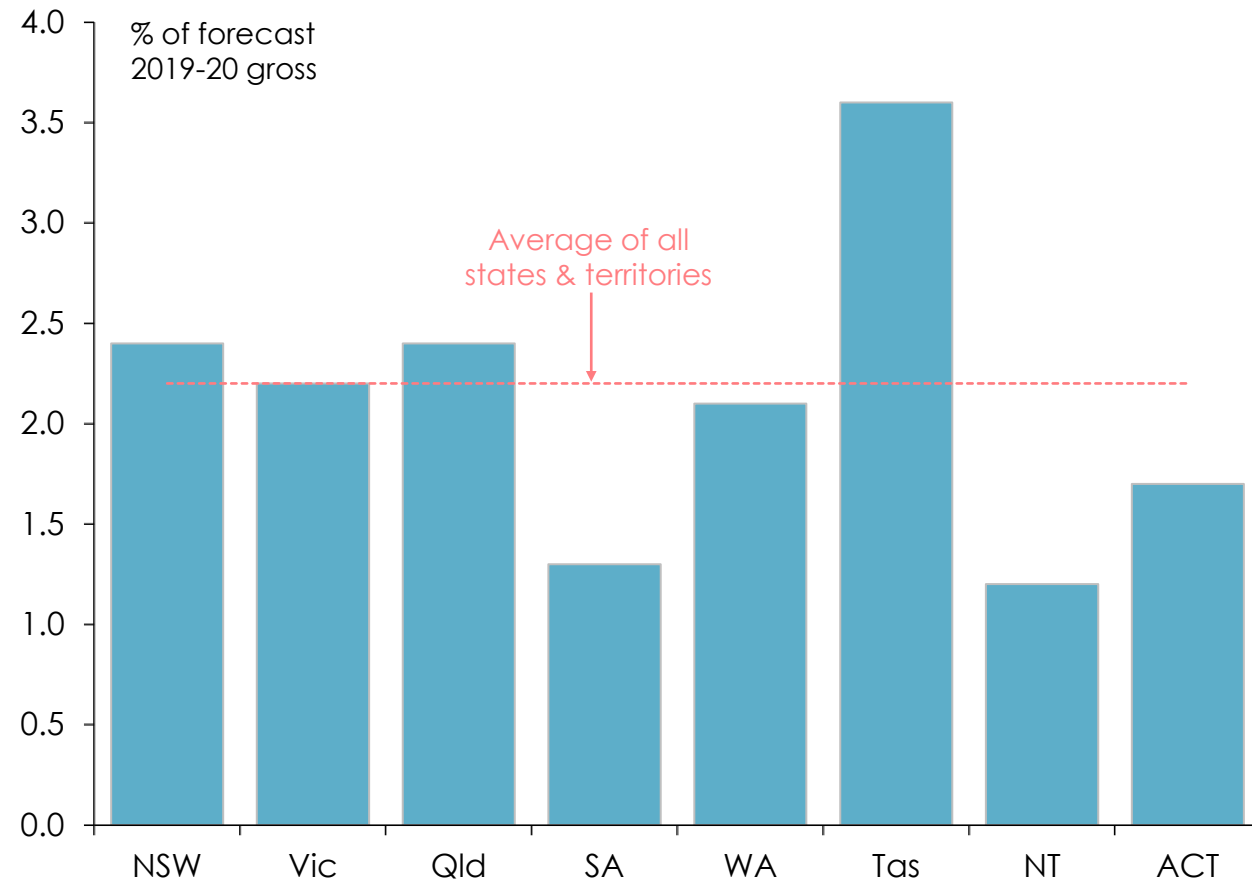


❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

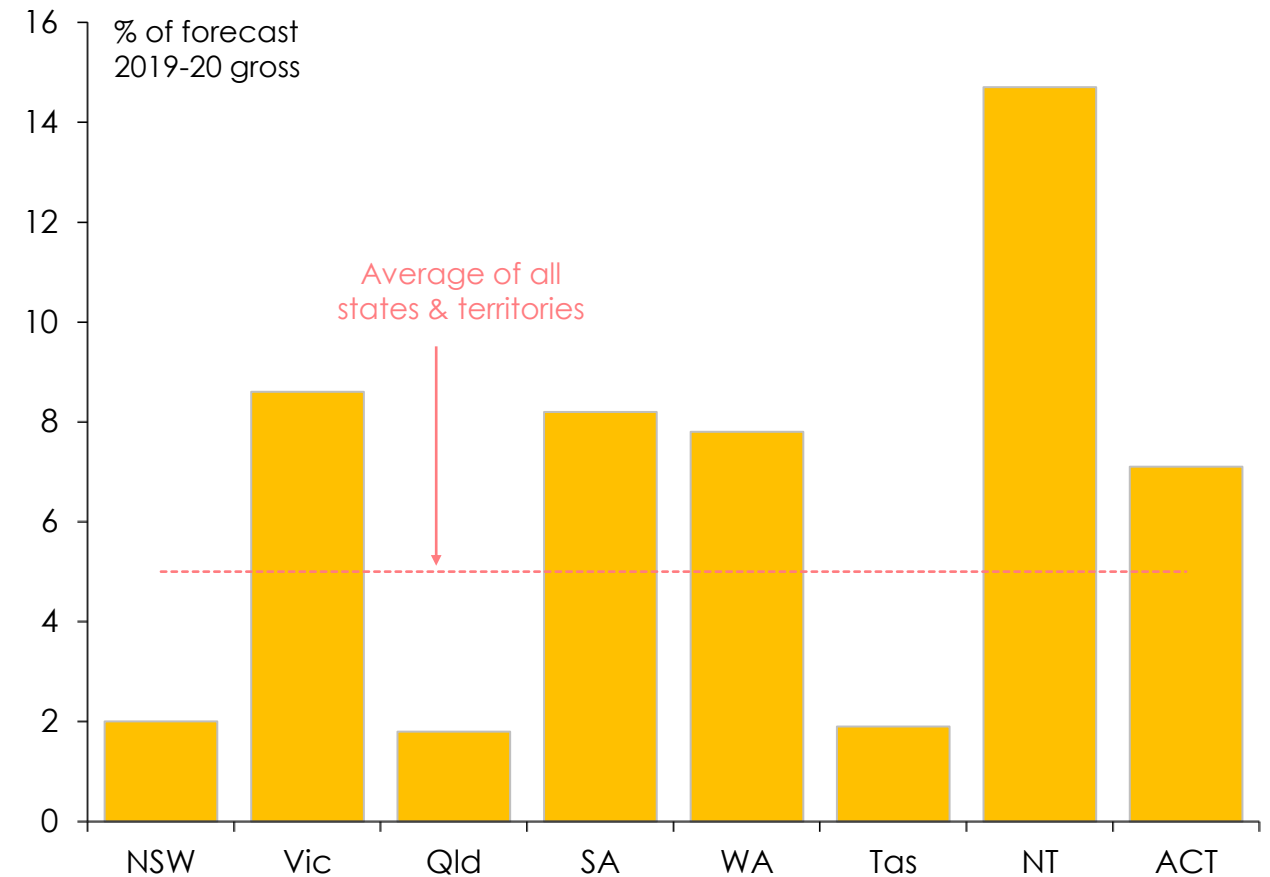
Note: (f) denotes forecasts. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); Corinna. [Return to "What's New"](#).

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

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



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

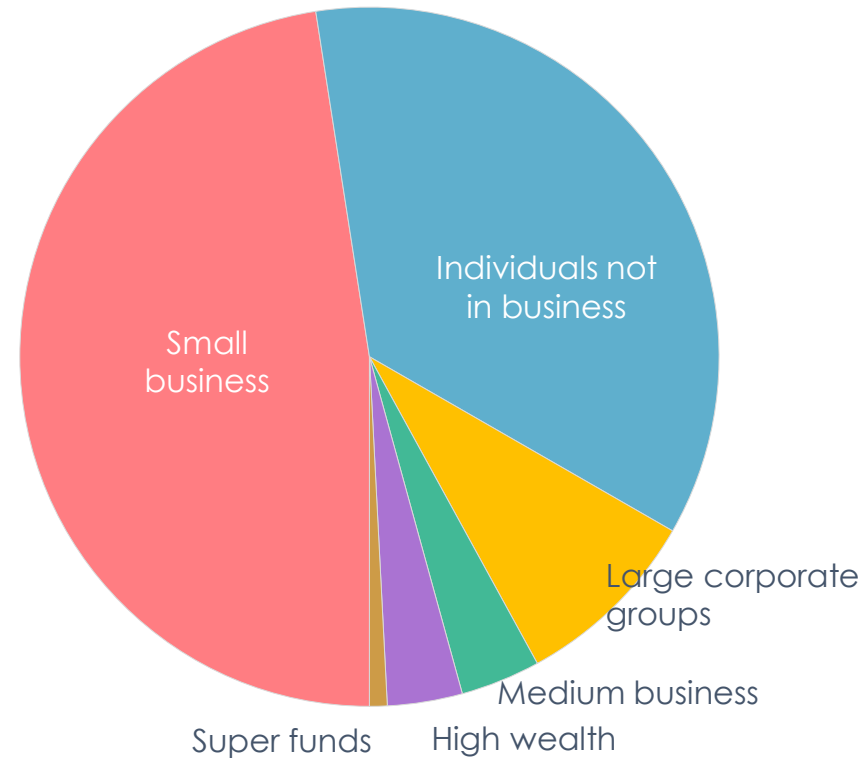


- ❑ In August RBA Governor Phillip Lowe advised state and territory governments to spend an additional \$40bn (2% of GDP) on infrastructure investment – an amount which S&P Global Ratings said state and territory balance sheets had “plenty of room to accommodate”

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

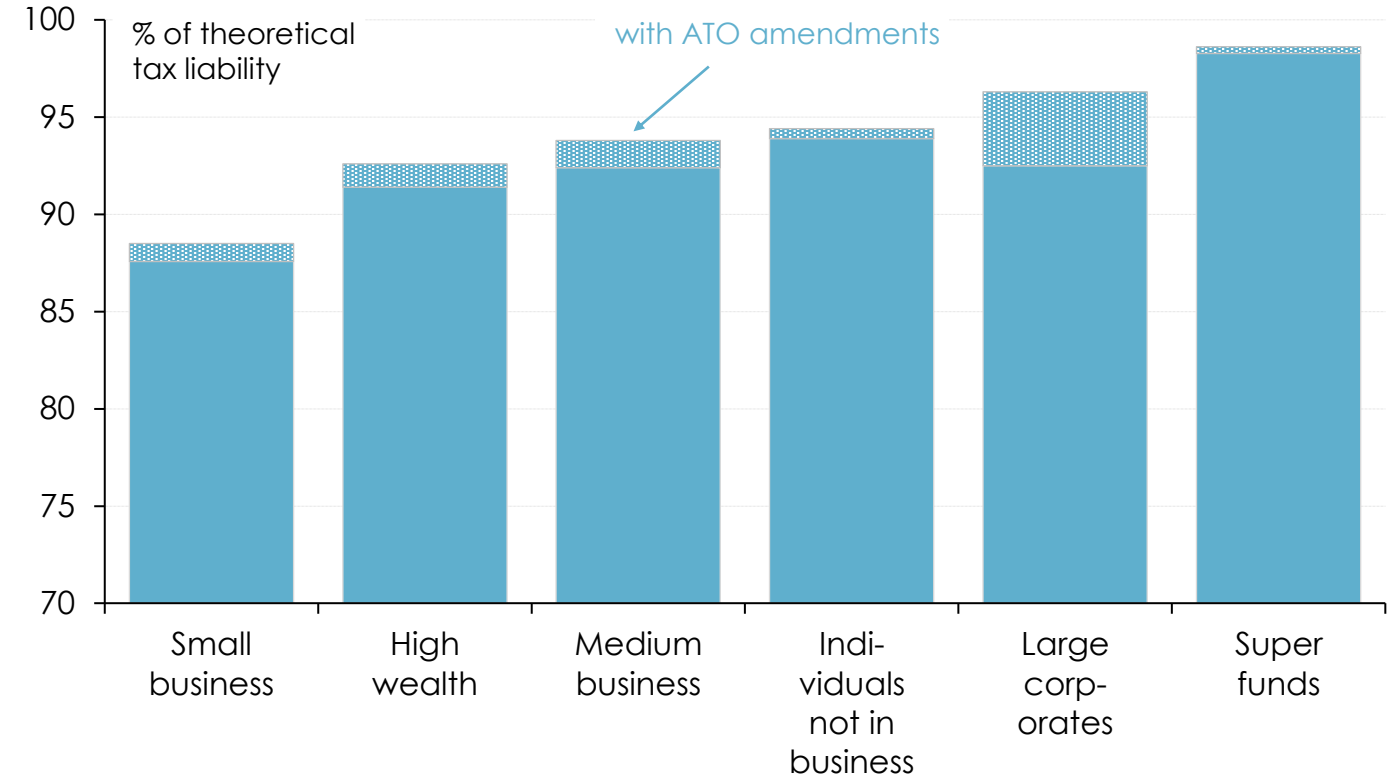
The Tax Office's 'Tax Gap' research shows it is small business, not large corporates or rich families, who are most adept at not paying tax

Income-based 'tax gaps' by class of taxpayer, 2017-18



- Small businesses account for 44% of the total 'gap' between what the ATO collected in 2017-18 from various income-based taxes and what it estimates it would have collected given 100% compliance with the tax law – cf. large corporates 15% and high wealth individuals 3½%

Share of theoretical tax liability paid voluntarily and after ATO amendments, 2017-18

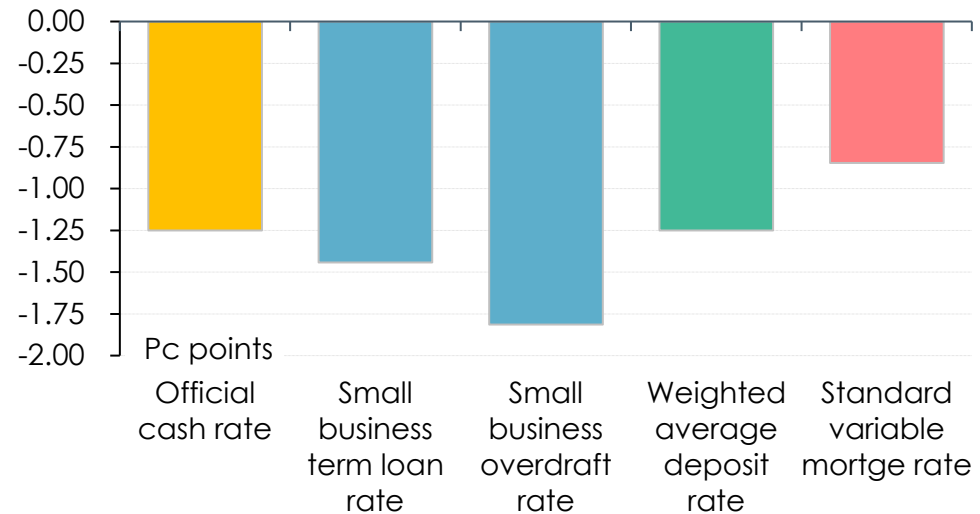


- Small businesses pay a smaller proportion of the tax which the ATO estimates they 'should' than either large corporates or high net worth individuals – contrary to the popular perception that the latter two are the groups least likely to be paying their 'fair share' of tax

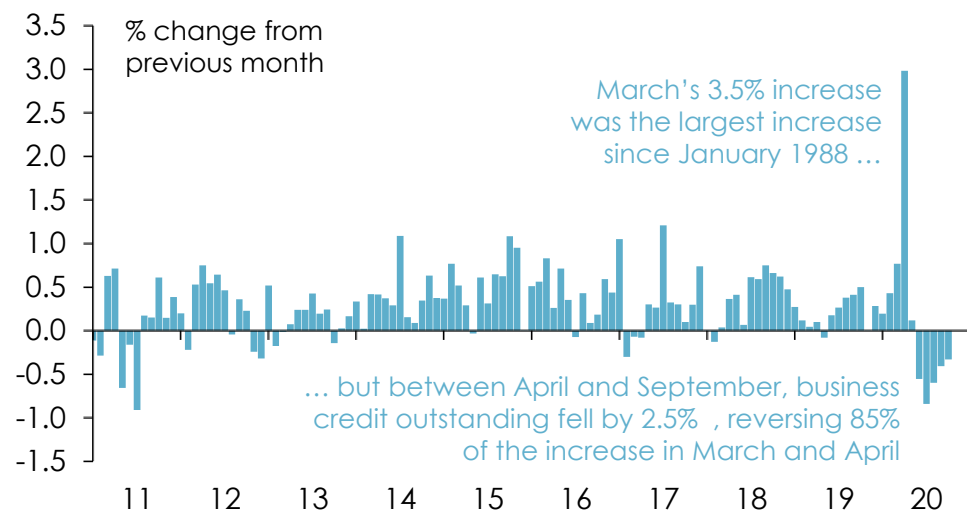
Note: 'small' businesses are those with income of up to \$10mn; medium businesses are those with income of up to \$250mn; and large corporates those with income of over \$250mn. 'High wealth' individuals are those who (with associates) control wealth of more than \$50mn. Source: [Australian Taxation Office](#). Disclosure: Saul Eslake is a member of the ATO's Tax Gap Independent Expert Panel which provides advice on the suitability of the ATO's gap estimates and methodologies. [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



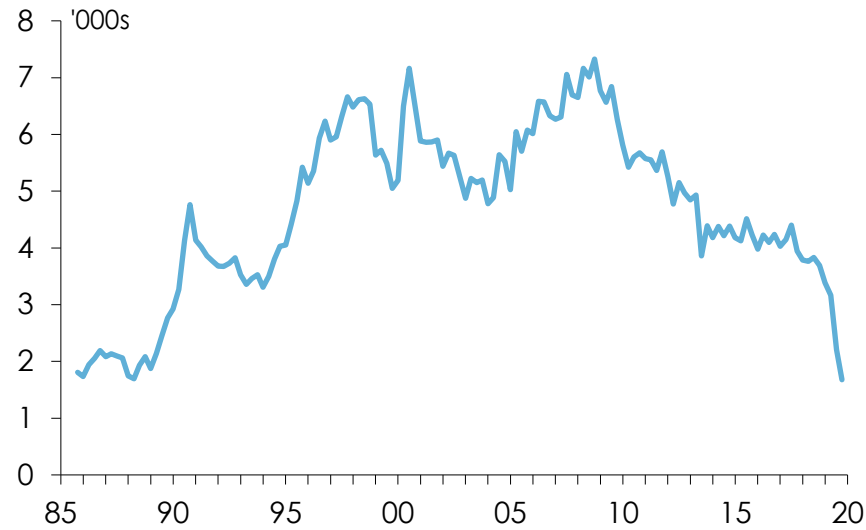
Business credit outstanding



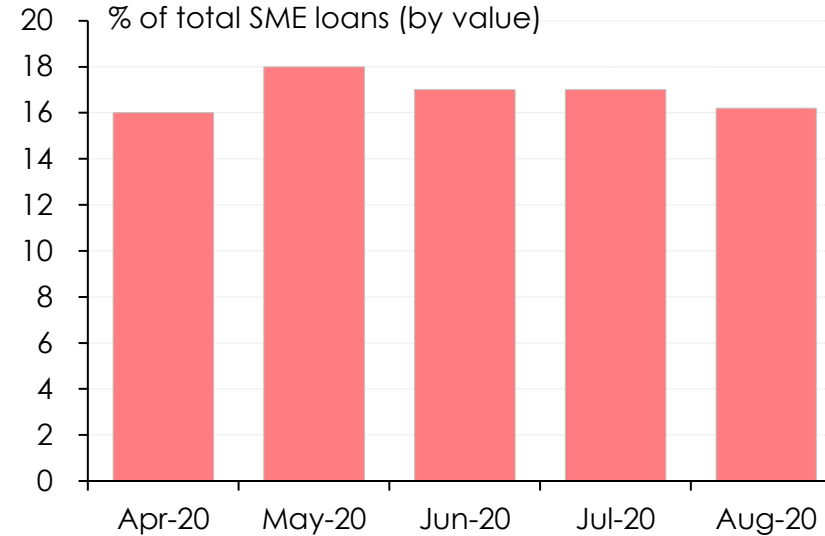
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- ❑ Banks have extended 'repayment holidays' to business and home mortgage borrowers who request it (see [next slide](#) for more details)
 - although 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

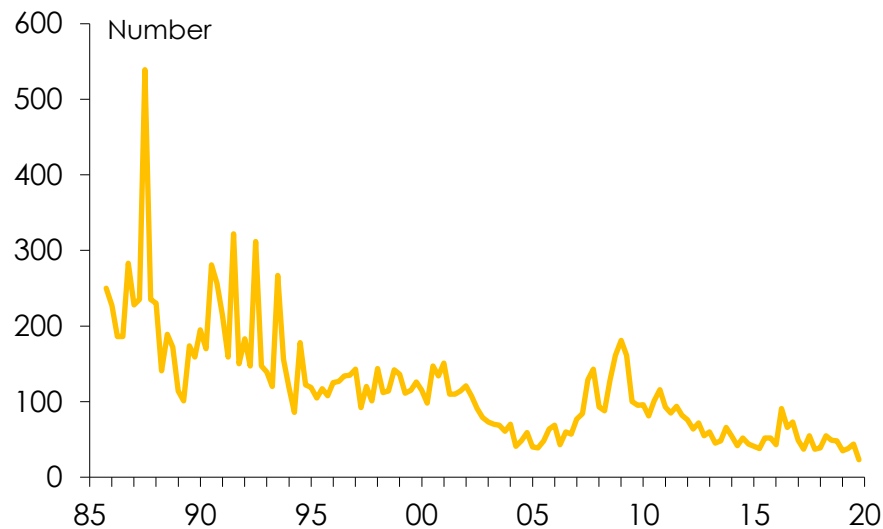
Bankruptcies



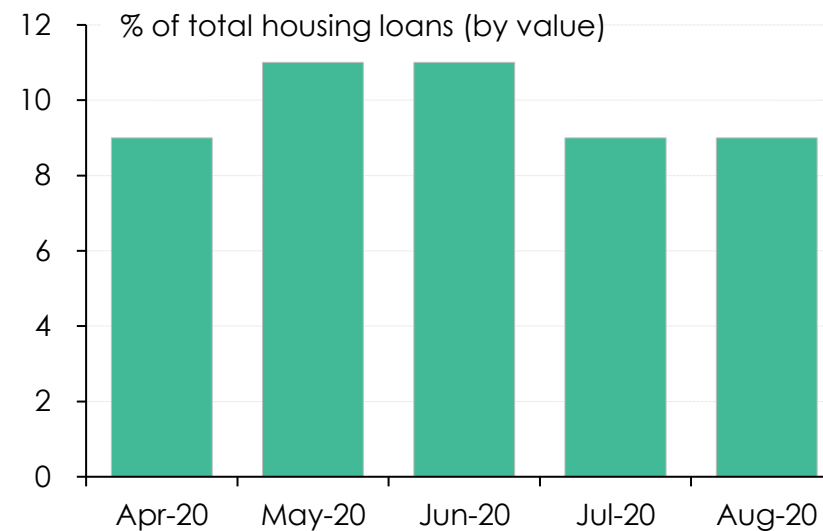
SME loan repayment deferrals



Personal insolvencies



Mortgage repayment deferrals



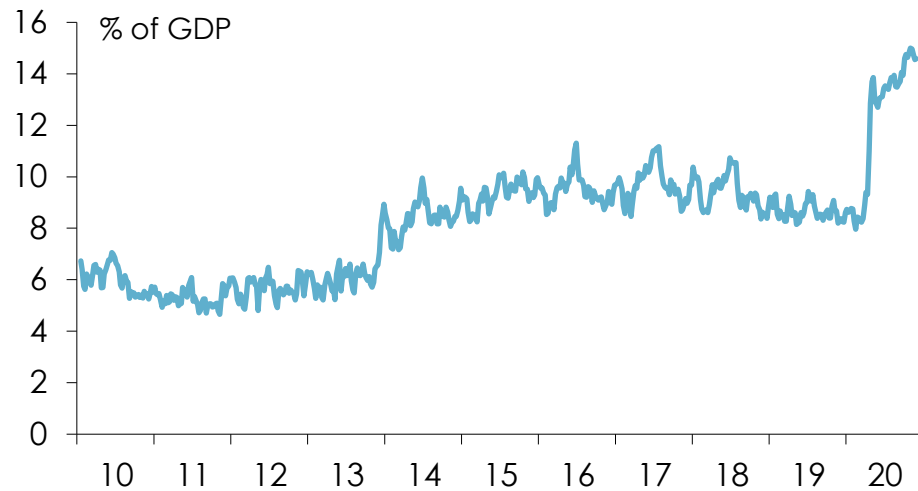
- ❑ Counter-intuitively, bankruptcies and personal insolvencies have fallen to record lows during the worst recession since the Great Depression
- ❑ This reflects the effect of
 - interest rates falling to record lows
 - support programs instituted by the federal and state governments, including JobKeeper,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

Note: latest data for bankruptcies and insolvencies is September quarter 2020.

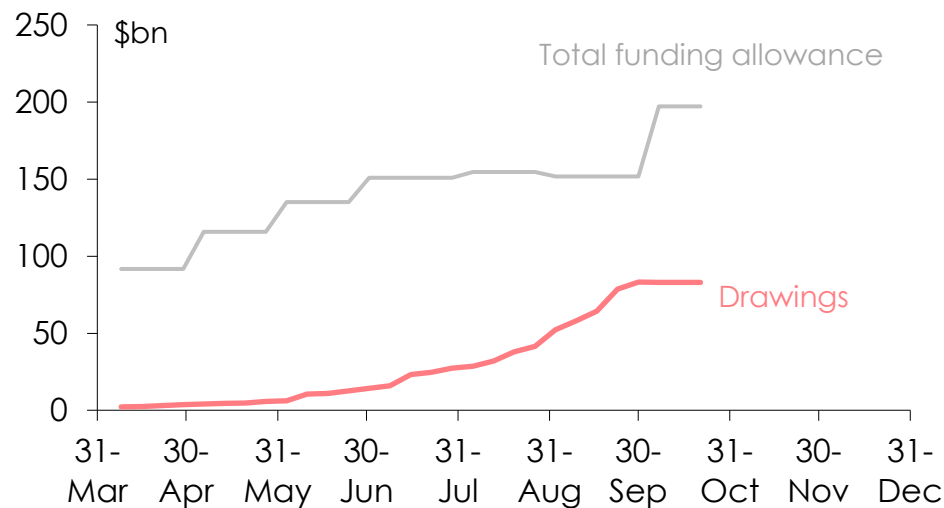
Sources: [Australian Financial Security Authority](#); [Australian Prudential Regulatory Authority](#). [Return to "What's New"](#).

The RBA has left its cash rate target unchanged at 0.25% pa since March, but appears set to lower it (and other rates) this coming Tuesday

Reserve Bank assets as a pc of GDP



RBA Term Funding Facility



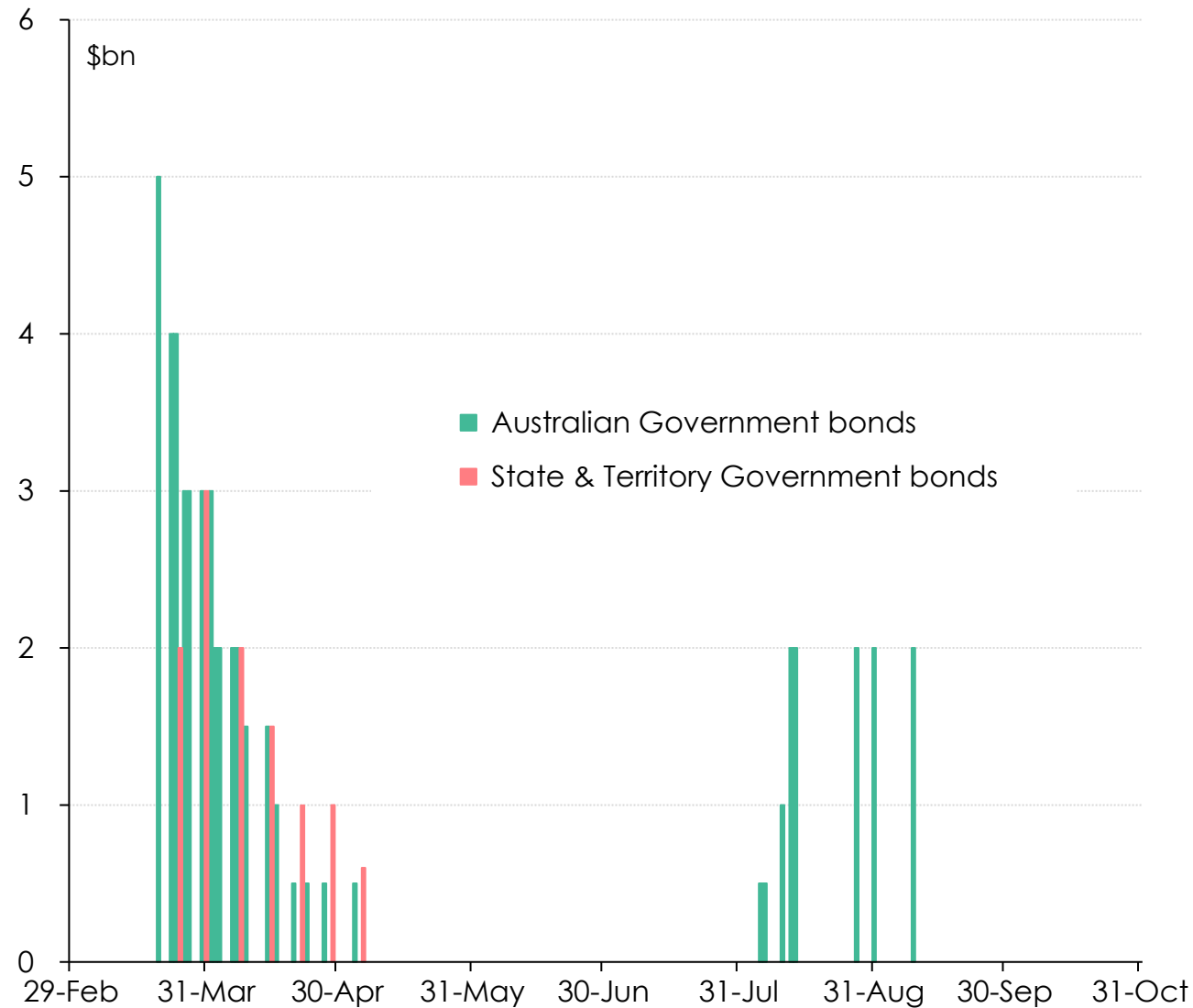
- ❑ The RBA cut its cash rate to a record low of 0.25% in March, and has since repeatedly pledged to not to raise it until ‘progress is being made towards full employment’ and it is confident “inflation will be sustainably within the 2-3% target band”
 - the cash rate has actually traded at around half 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 9th 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 three weeks
- ❑ This month Governor Lowe affirmed a significant change in the way the RBA will interpret its inflation target, and in the weight it attaches to its inflation and employment objectives (next slide)

RBA Governor Lowe this month 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) earlier this month, 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 9th September, but the market is now pricing another cut in the cash rate, and in the 3-year yield target

RBA open market bond purchases



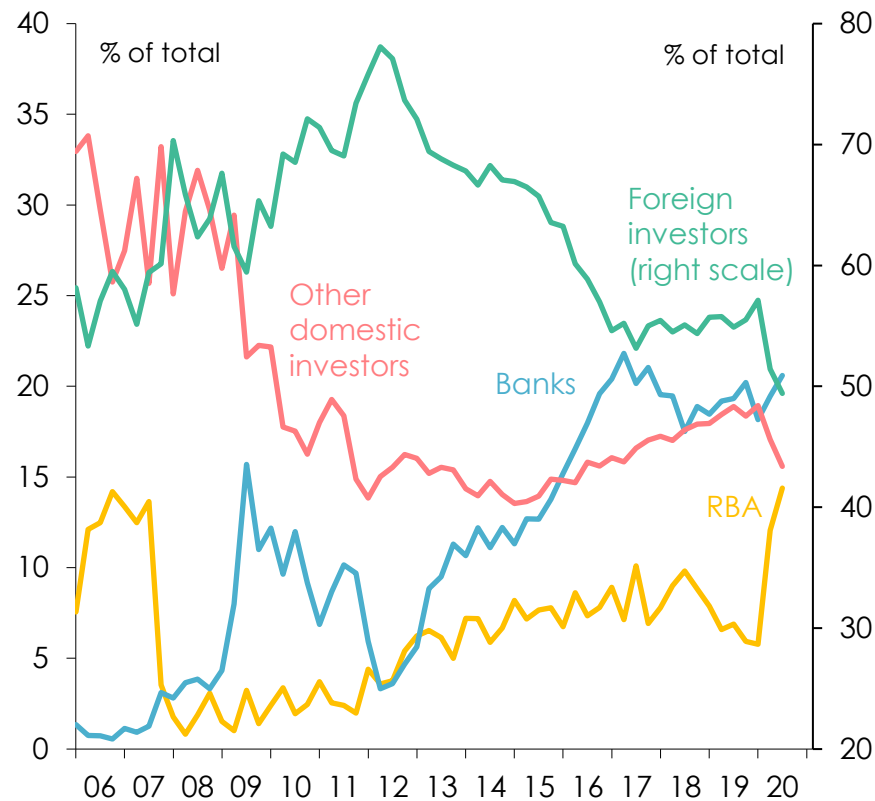
Interest rates



Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F2. Data up to 30th October. [Return to "What's New"](#).

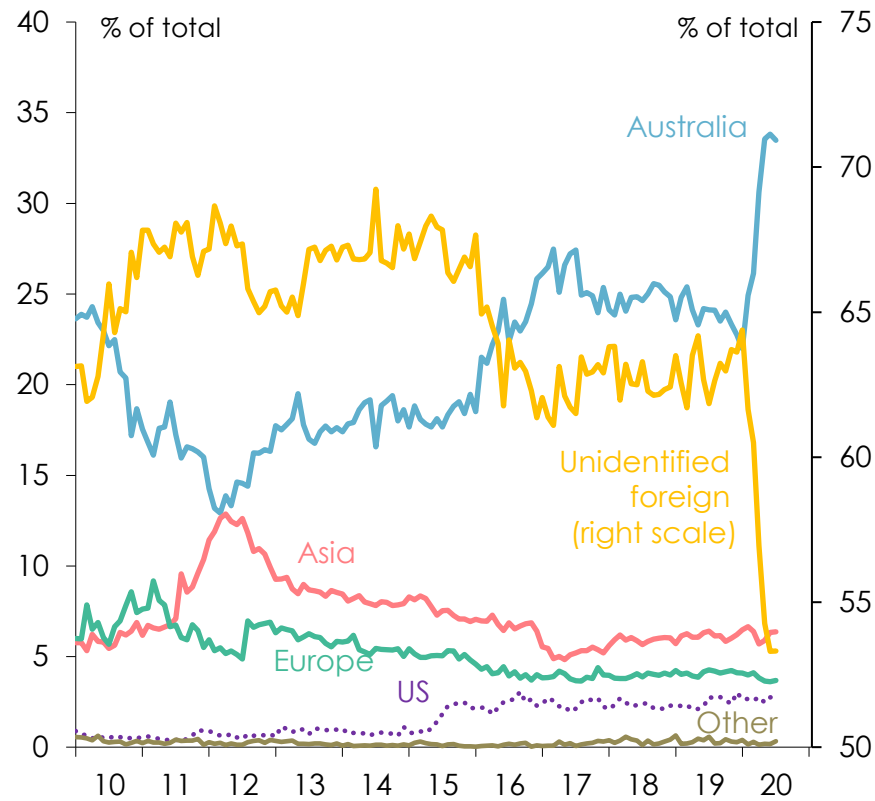
The RBA increased its holdings of federal & state bonds by \$92bn in the first half of 2020, absorbing 70% & 53% of the increase in the total stock

Holder of Australian Government bonds



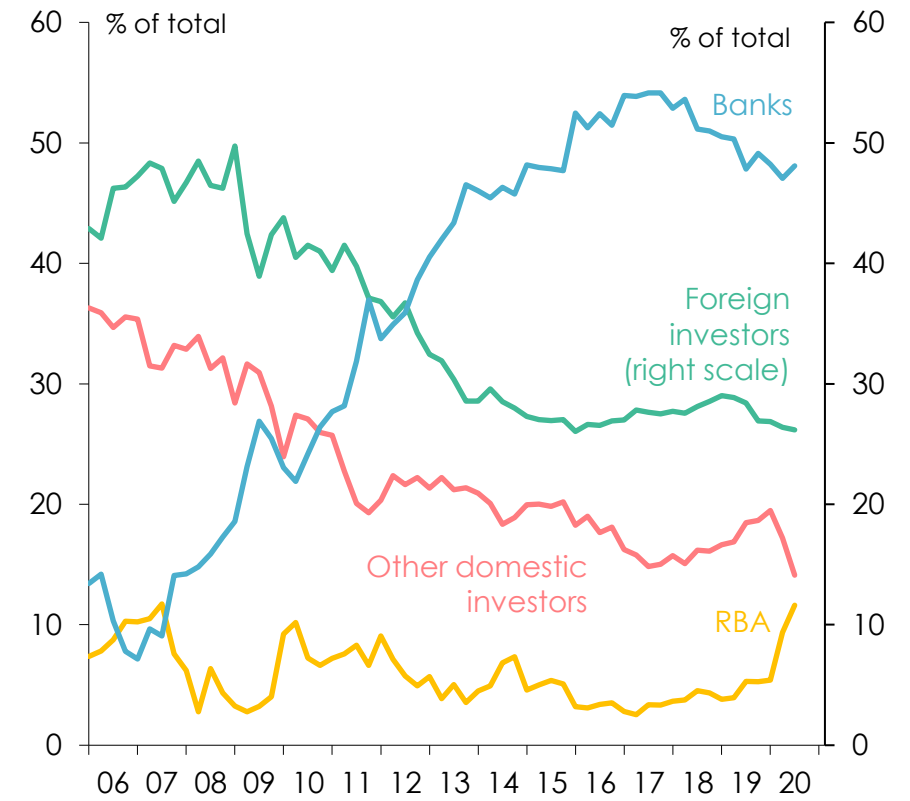
Australian Gov't bonds on issue rose by \$99bn over the first half of 2020 – the RBA's holdings rose by \$69bn (almost 70% of the total increase), while banks' holdings rose by \$36bn

Nationality of Australian Government bond holders



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

Holder of State and Territory Government bonds



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

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

Longer-term considerations for Australia

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

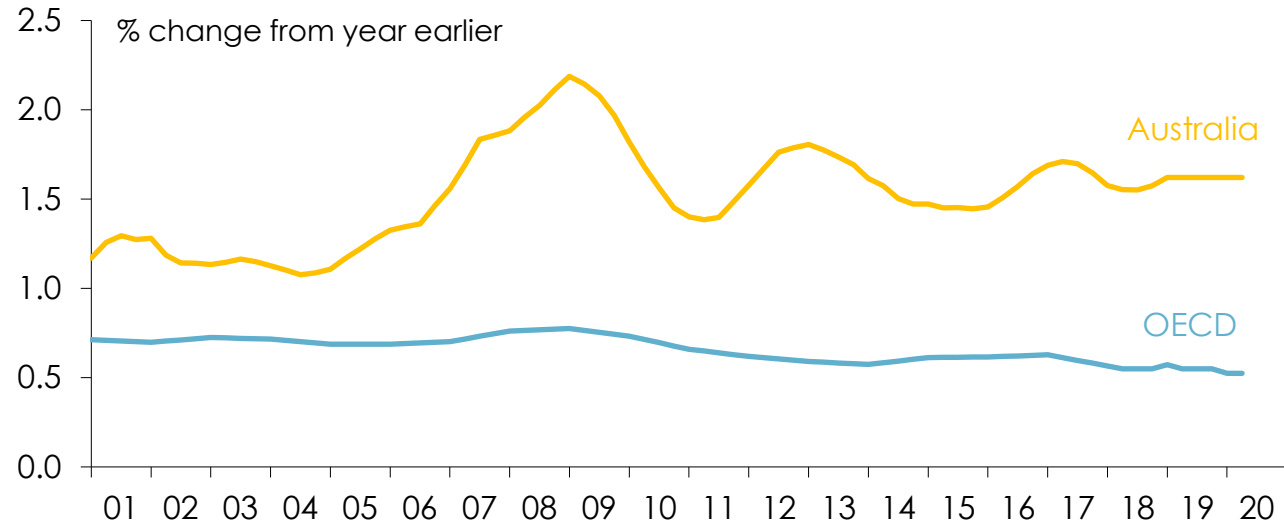
❑ **(Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies**

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

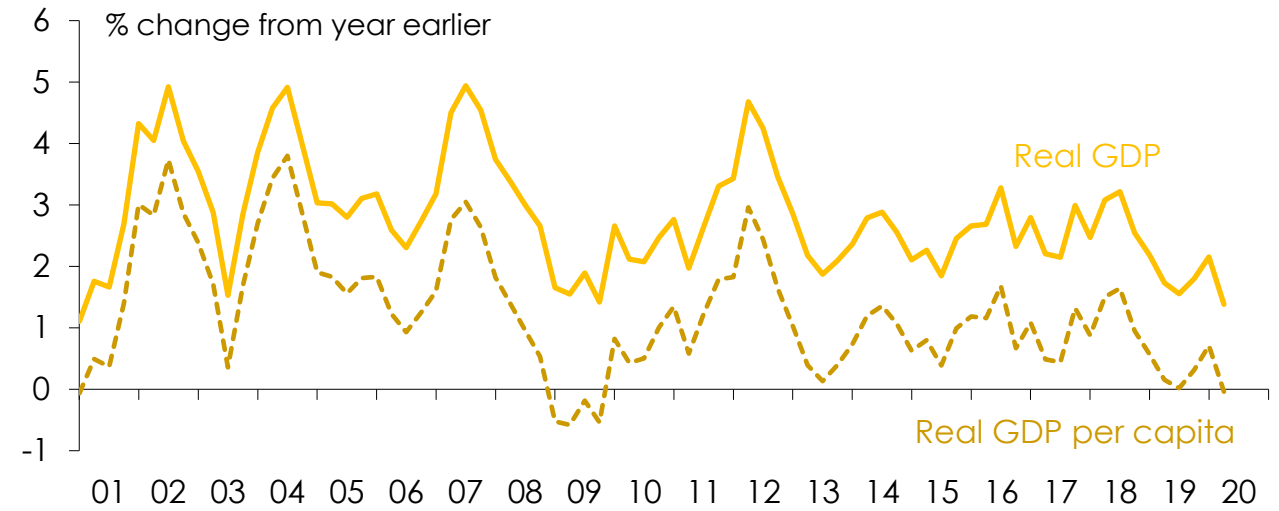
The first three of these are likely to be of less assistance from now on

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

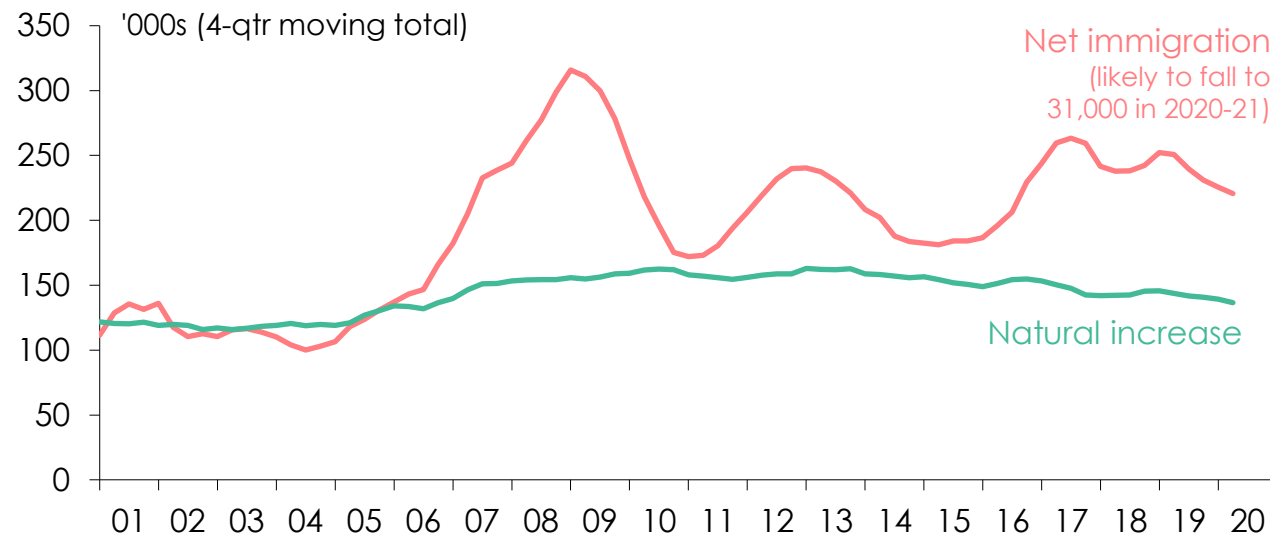
Australia and OECD population growth



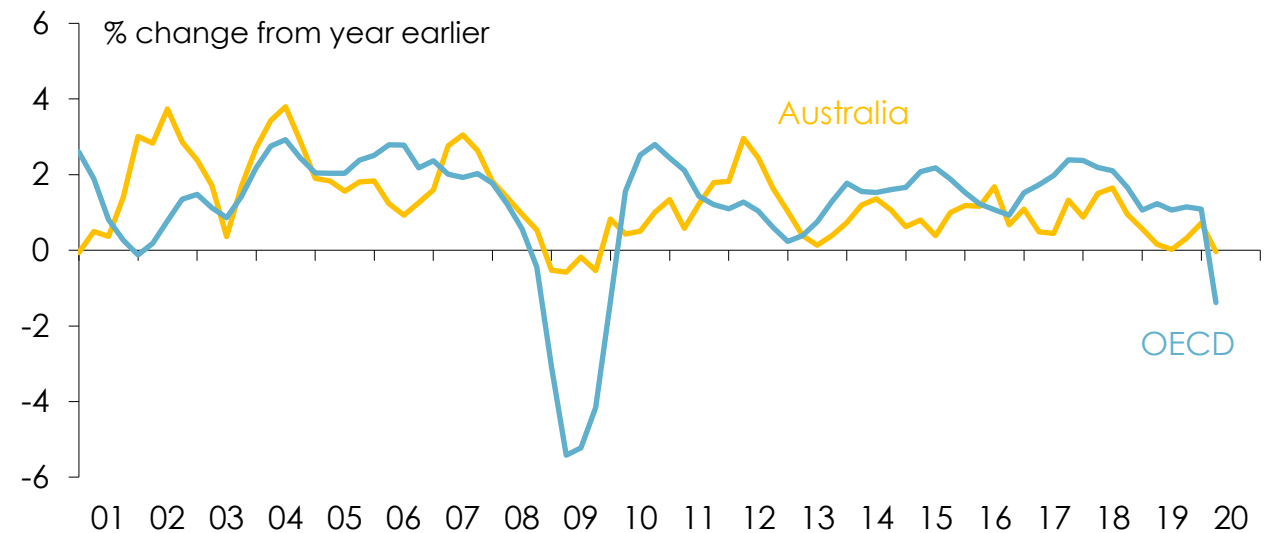
Australian GDP and per capita GDP growth



Sources of Australia's population growth



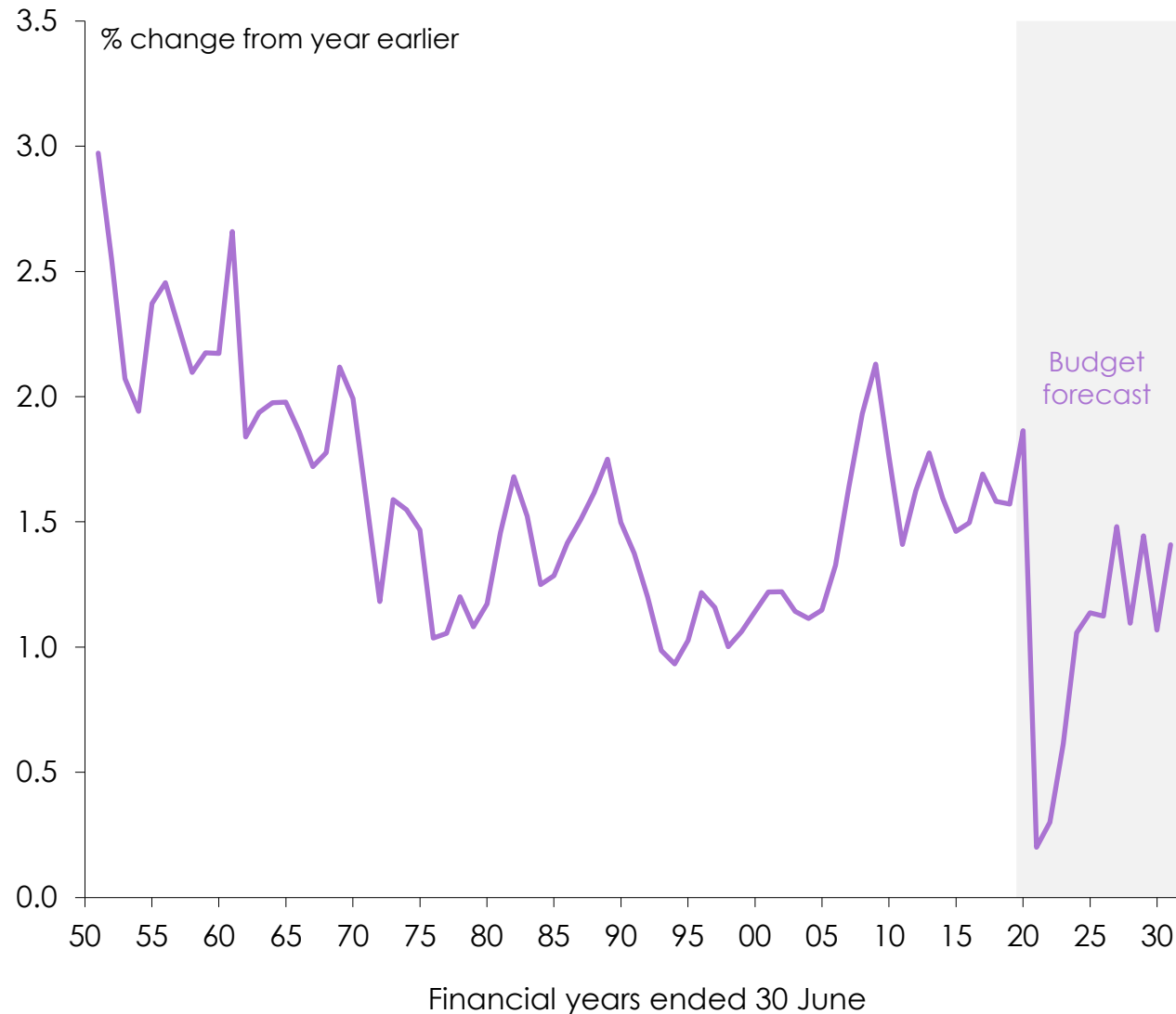
Australia and OECD per capita real GDP growth



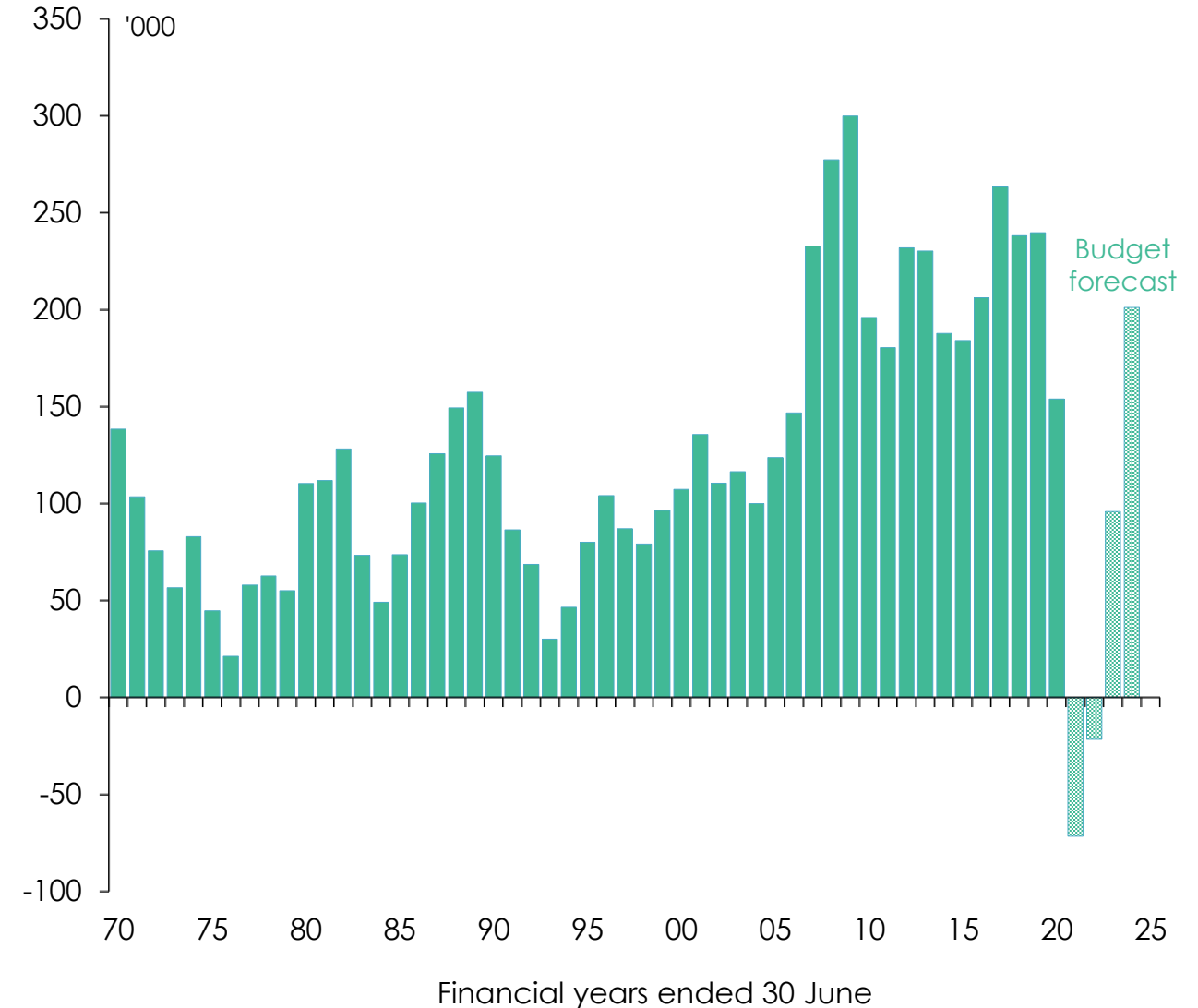
Note: Q2 2020 data not shown in the charts of GDP and per capita GDP growth. Sources: ABS; OECD. [Return to "What's New"](#).

October'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



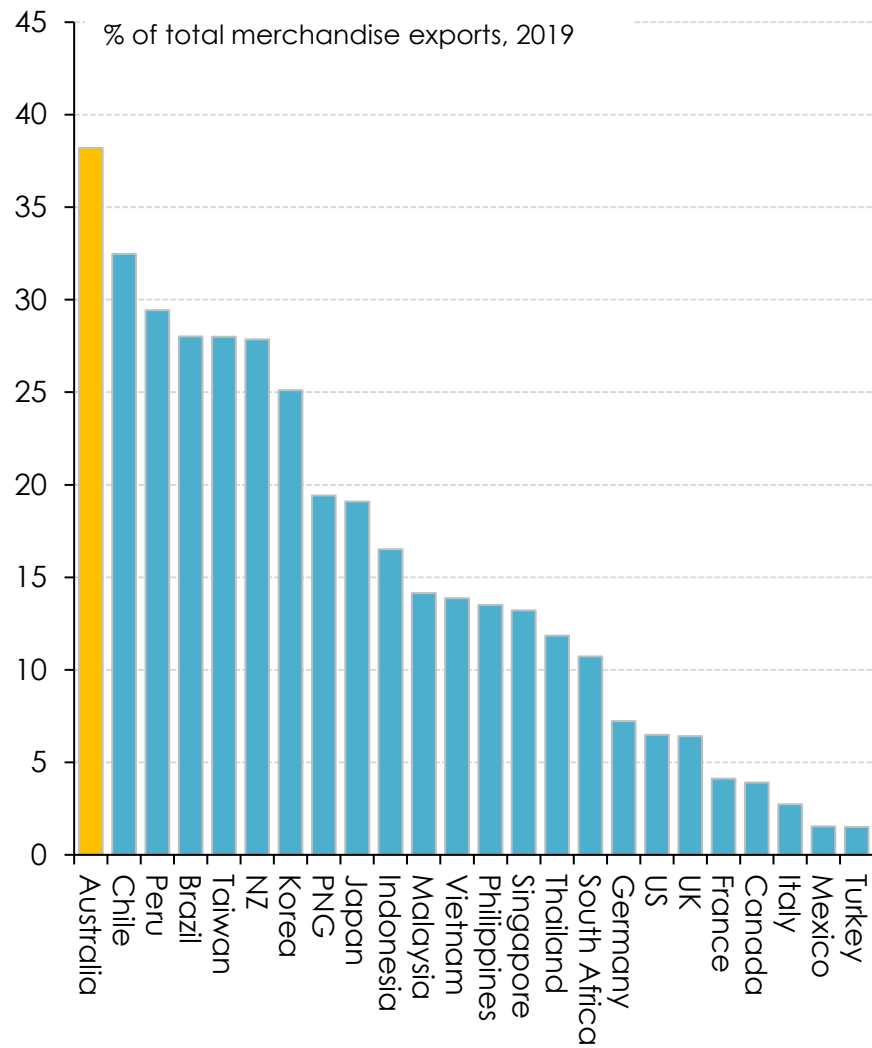
Net overseas migration



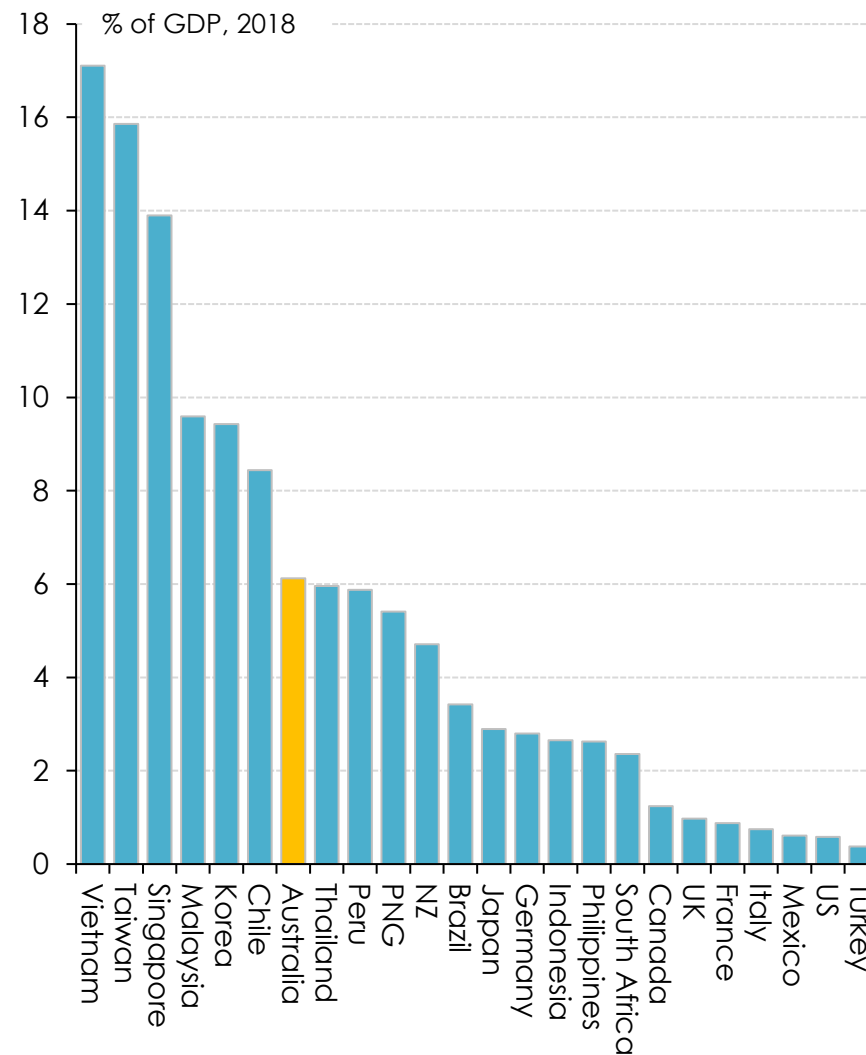
Sources: ABS, [National, state and territory population](#); Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 2](#) and [Budget Paper No. 3, Appendix A](#).
[Return to "What's New"](#).

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

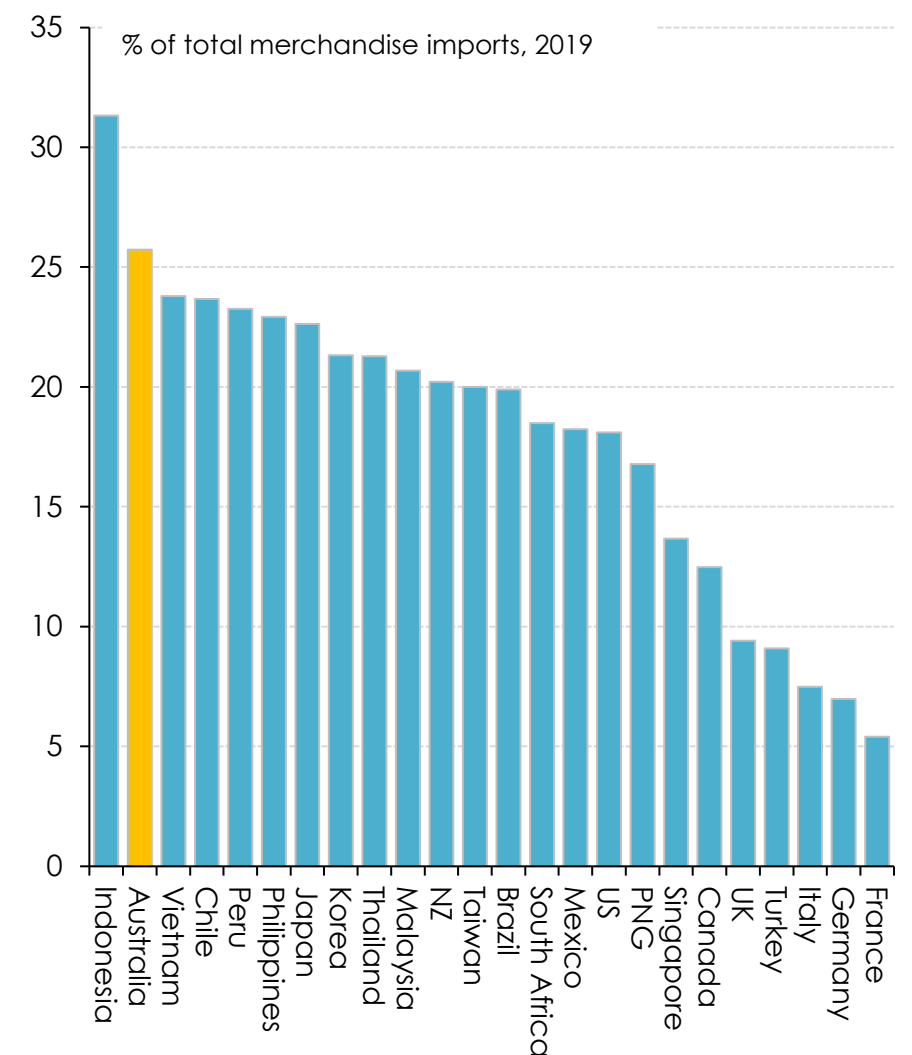
Merchandise exports to China as a pc of total



Merchandise exports to China as a pc of GDP



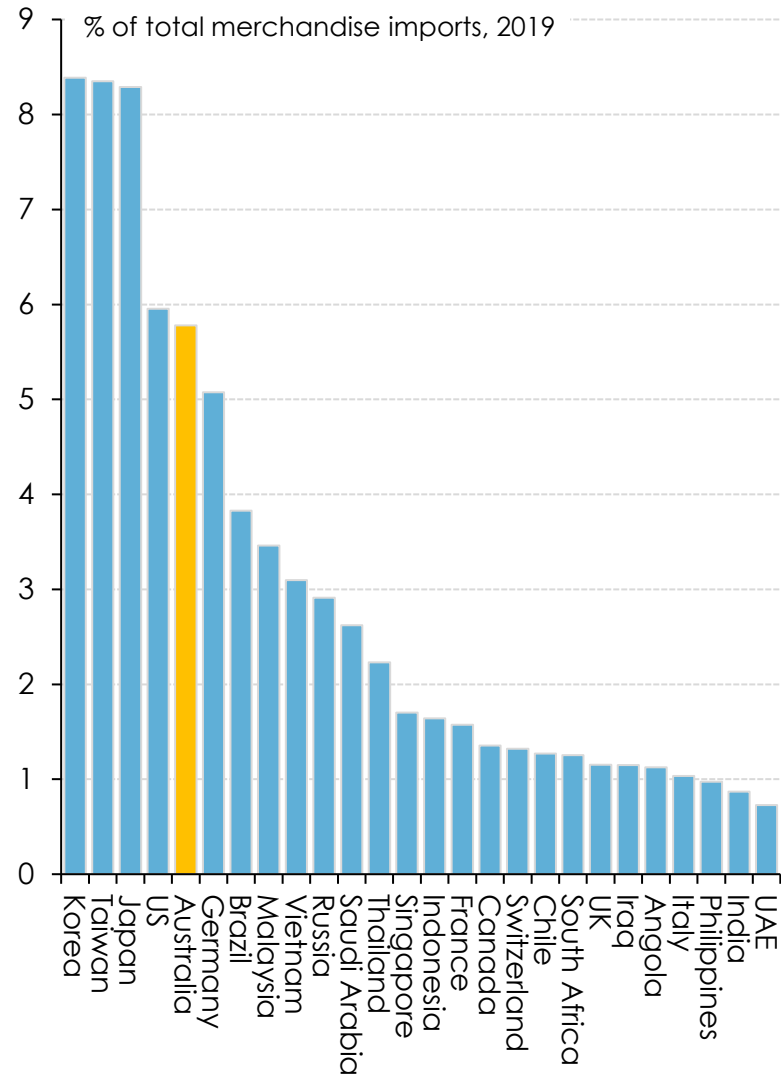
Merchandise imports from China as a pc of total



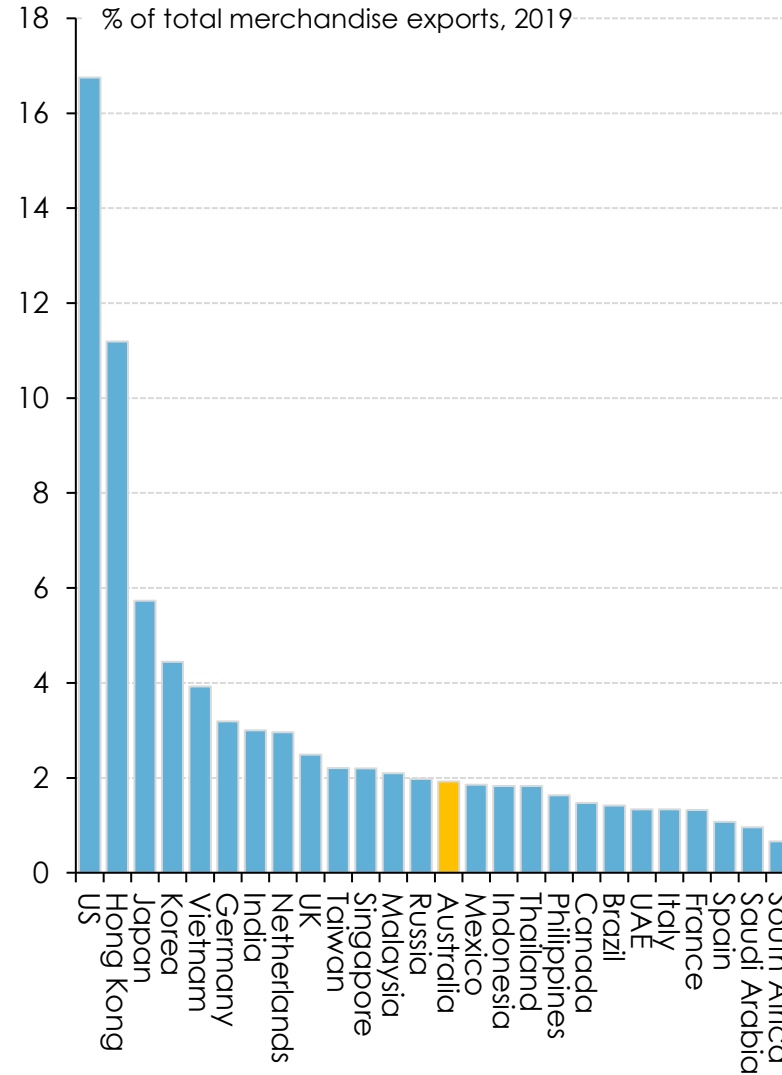
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

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

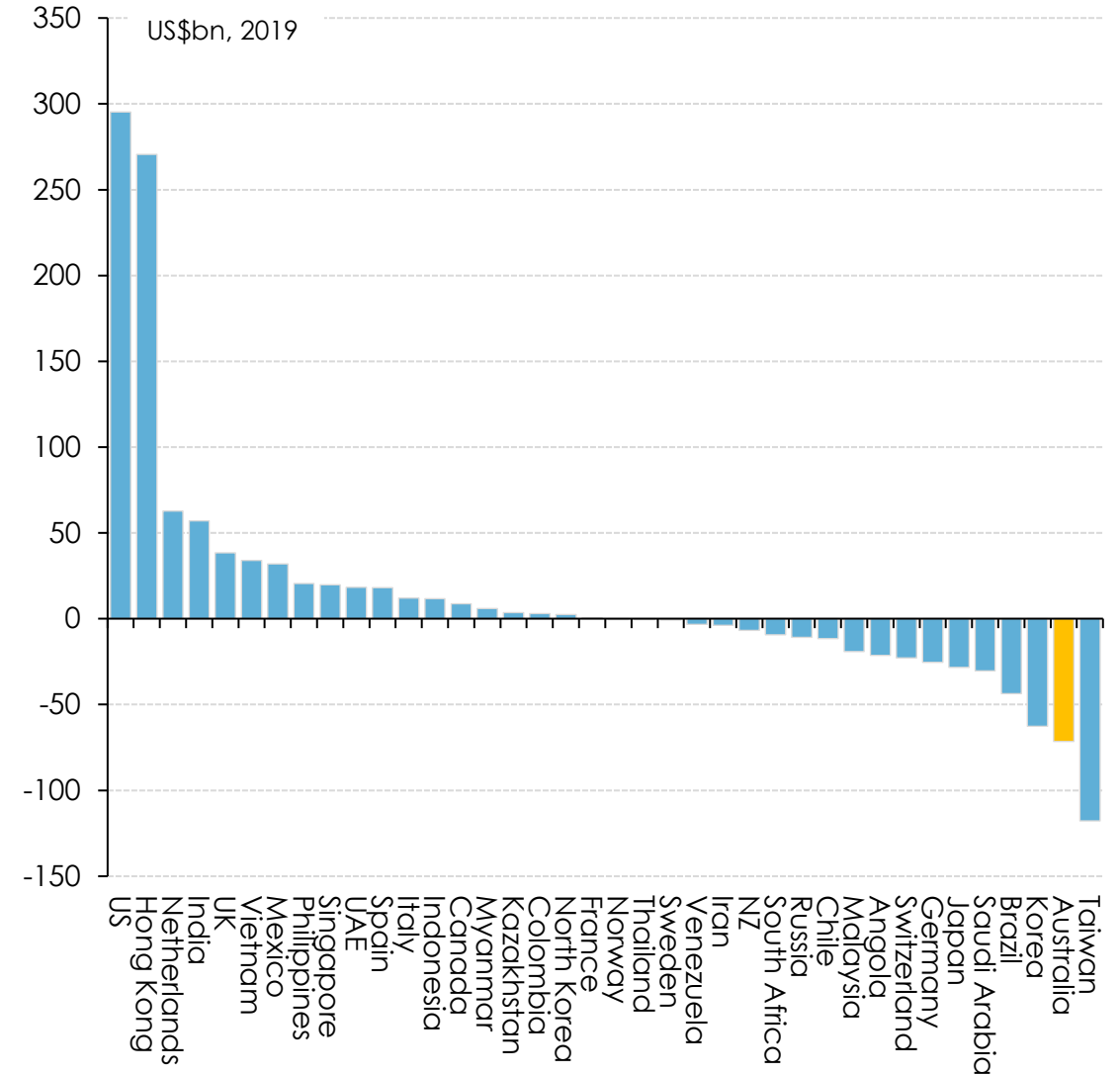
China's sources of imports



China's export destinations



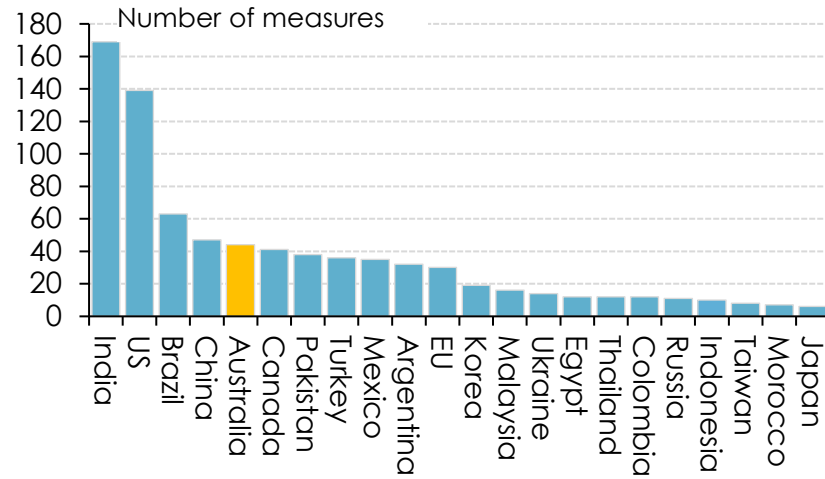
China's bilateral merchandise trade balances



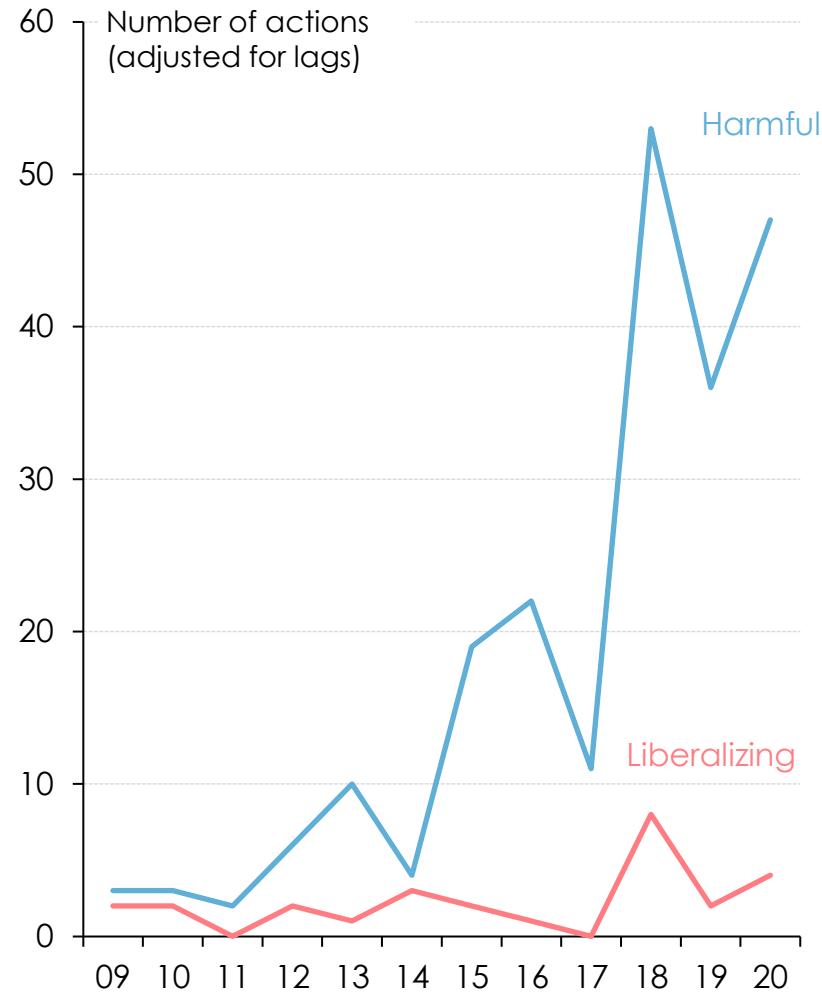
Source: International Monetary Fund, [Direction of Trade Statistics](#). [Return to "What's New"](#).

China 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

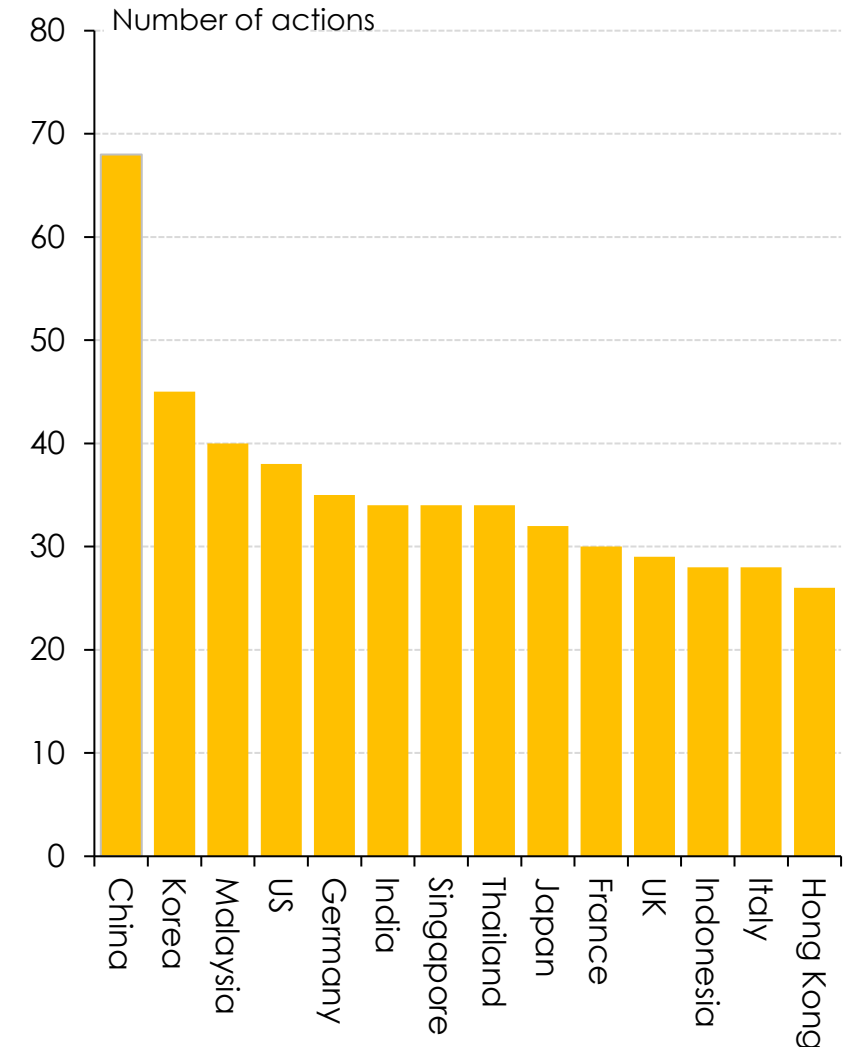
Number of anti-dumping measures imposed, 2015-19



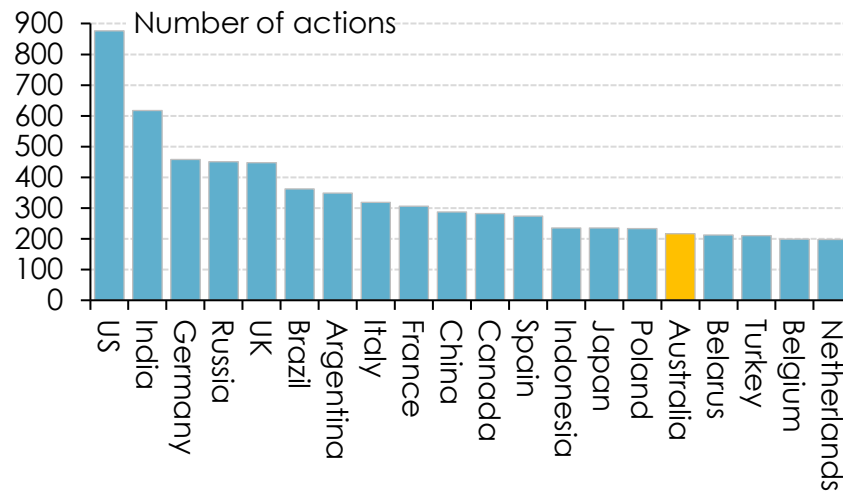
Australian trade policy measures since 2009



Countries adversely affected by 'harmful' Australian trade actions



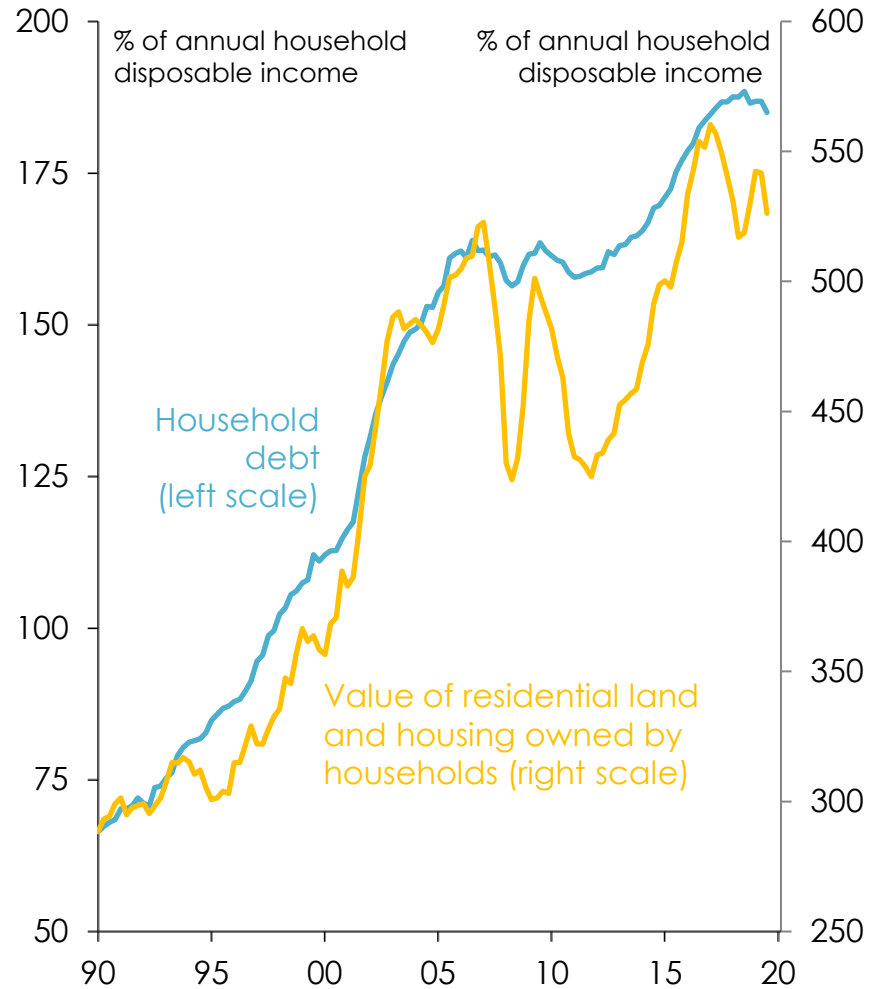
Number of harmful trade policy interventions, 2009-2020



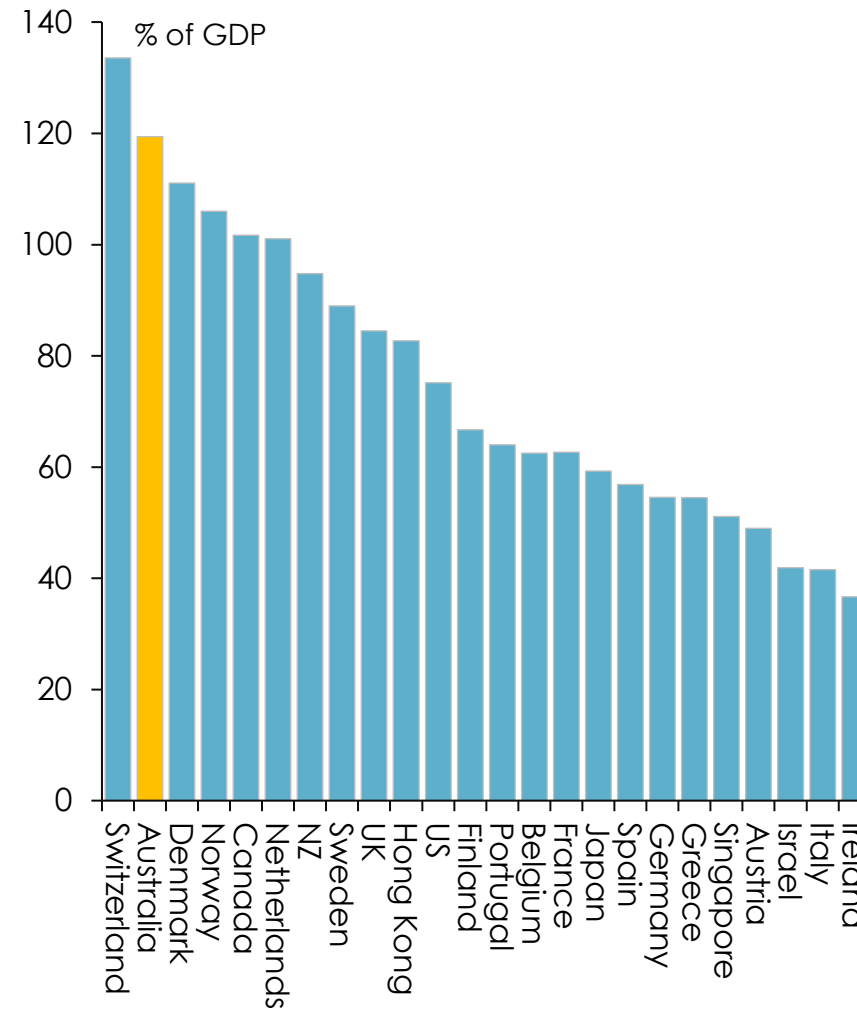
Sources: World Trade Organization; Centre for Economic Policy Research, [Global Trade Alert](#) (data up to 23rd October). [Return to "What's New"](#).

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

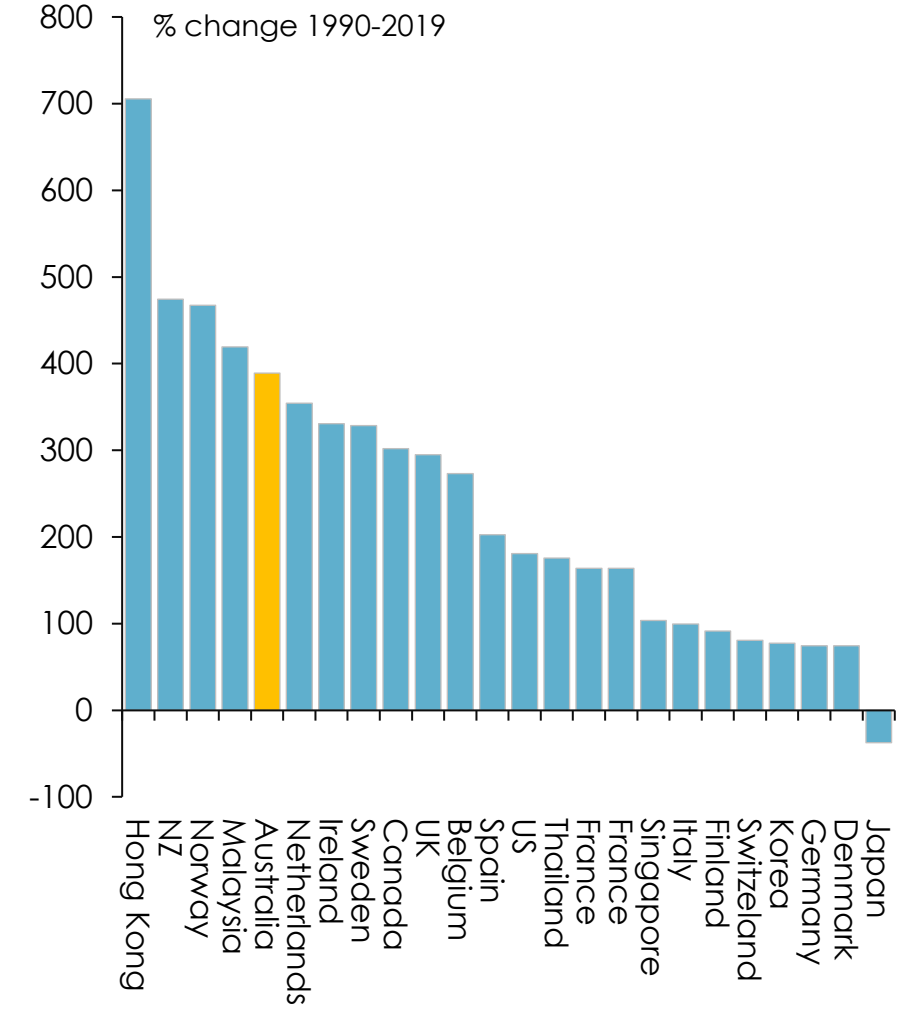
Australian housing wealth and household debt



Household debt as a pc of GDP, March 2020



Increase in residential property prices, 1990-2019



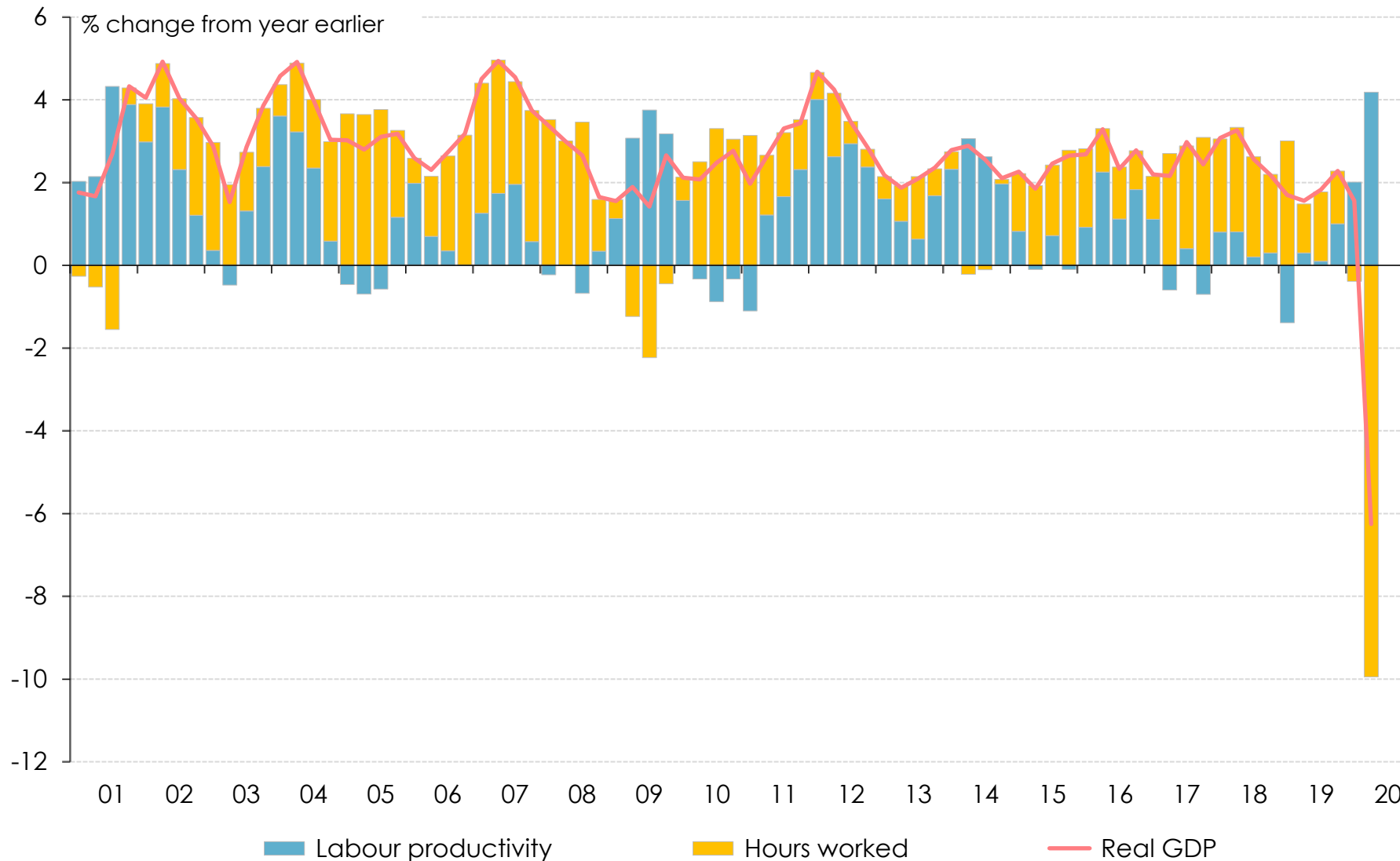
Note: Singapore property price increase is from March quarter 1999. Sources: ABS, [Australian National Accounts: Finance and Wealth](#); RBA, [Household Finances - Selected Ratios](#); Bank for International Settlements, [Credit to the non-financial sector](#) and [Property price statistics. Return to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

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 90](#))**
- ❑ **Re-think of relationships with China (see [slide 98](#) and [slides 129-131](#))**
 - 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 [slides 55-62](#)) and Biden as President can reverse the damage done to perceptions of US credibility, competence and commitment

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

Labour input and labour productivity contributions to Australian real GDP growth



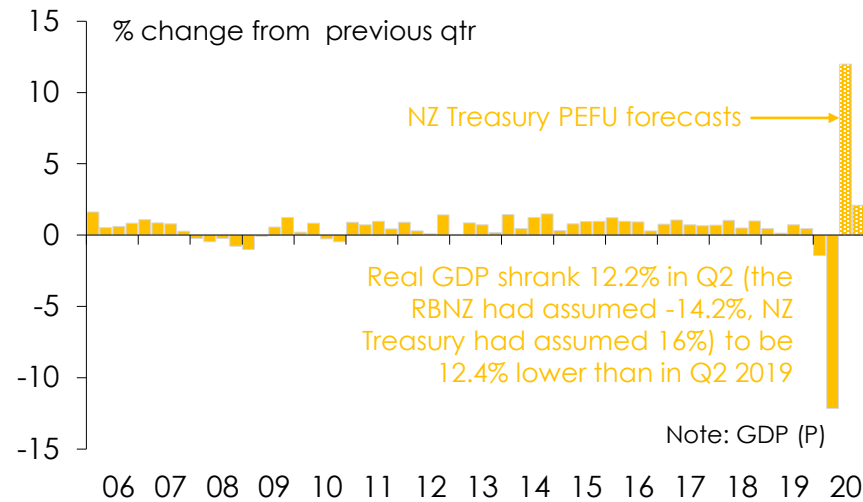
- ❑ Over the five years between the end of the 'mining boom' and the onset of the Covid-19 pandemic, 72% of Australia's real GDP growth came from increased labour input, and only 28% from labour productivity growth
- ❑ By contrast, between the end of the early 1990s recession and the onset of the global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

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

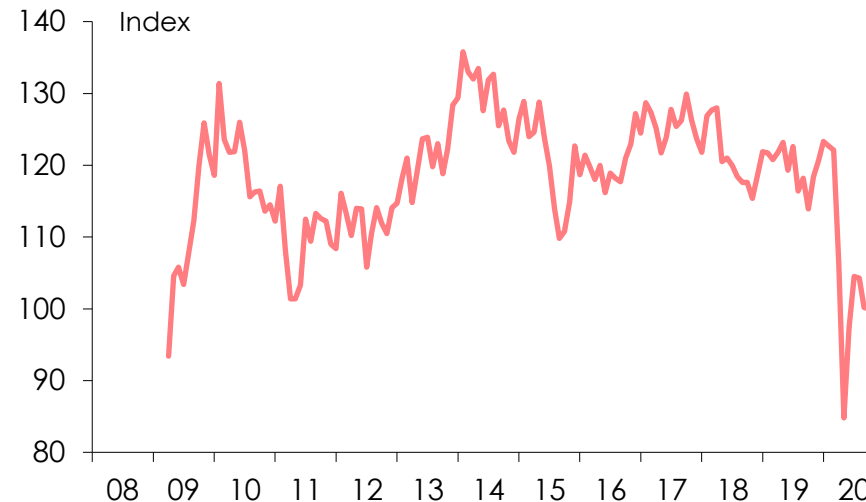
New Zealand

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

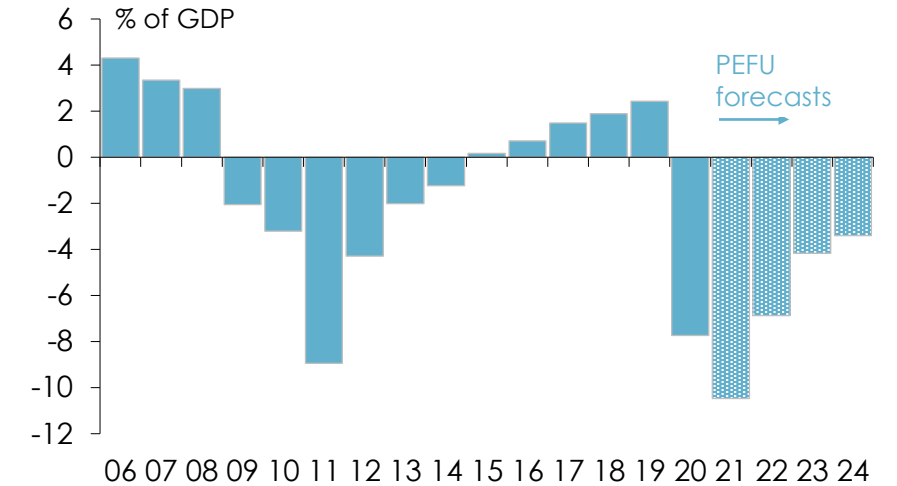
Real GDP



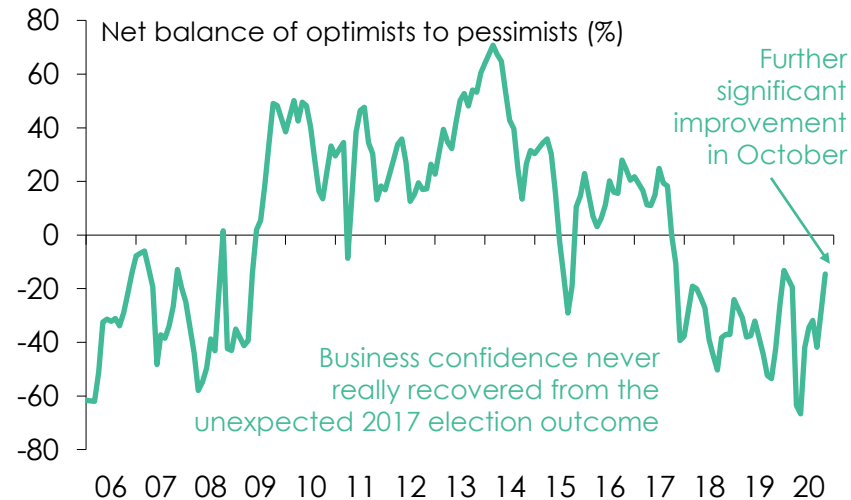
Consumer confidence



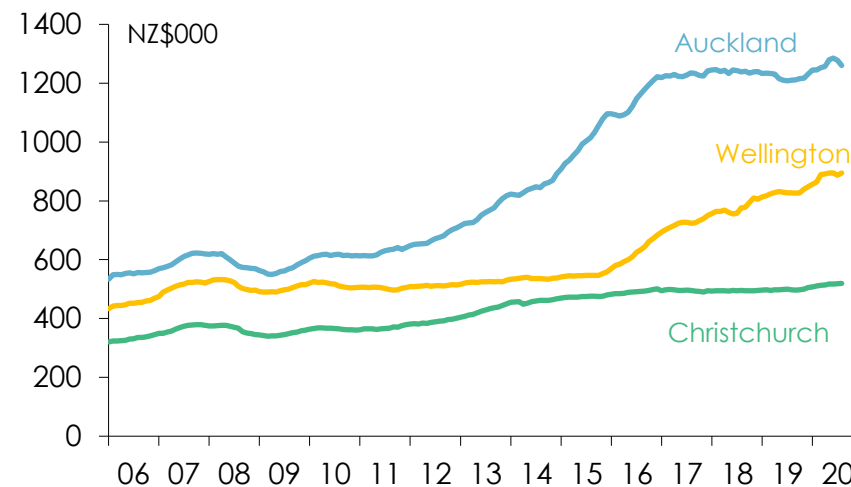
NZ government budget balance



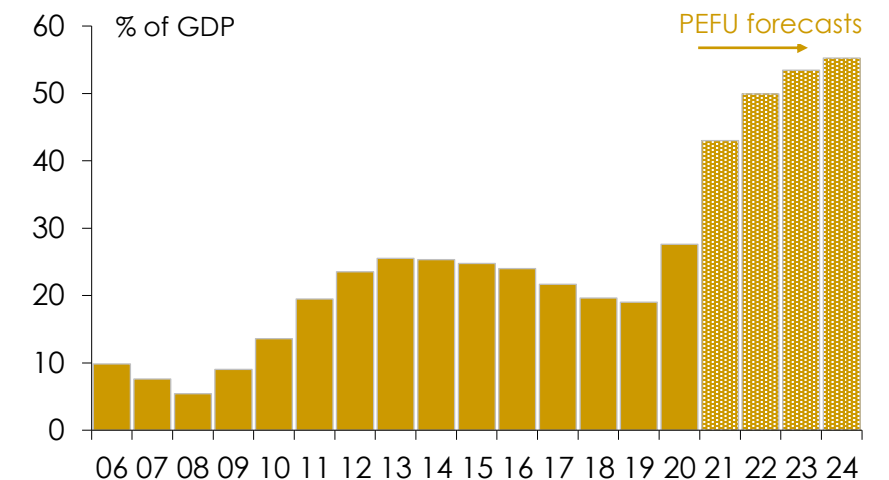
Business confidence



Residential property prices



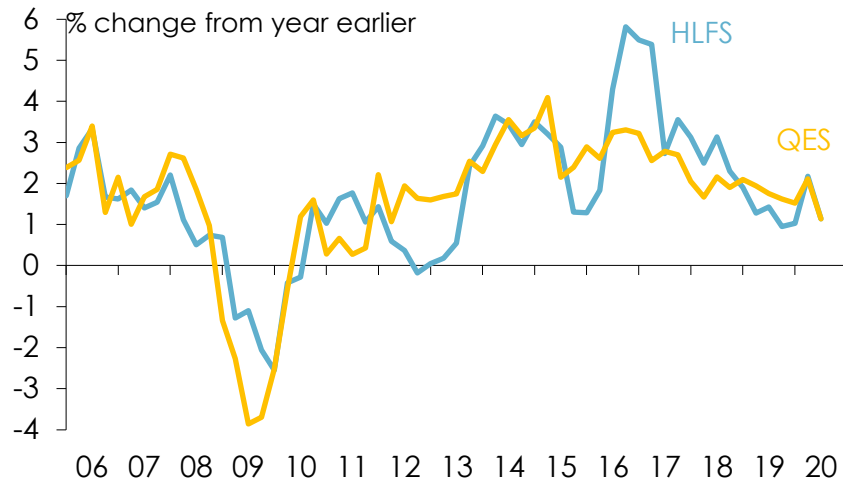
NZ 'core Crown debt'



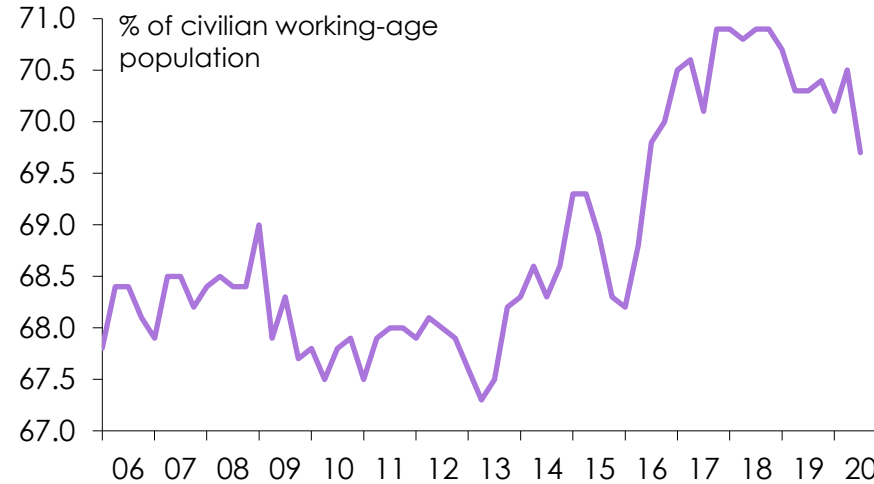
Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', operating balance excluding gains and losses (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student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

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

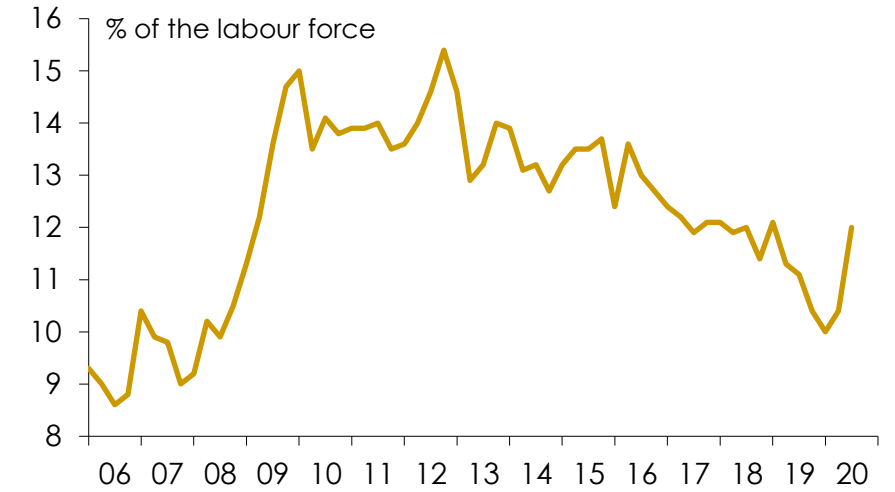
Employment



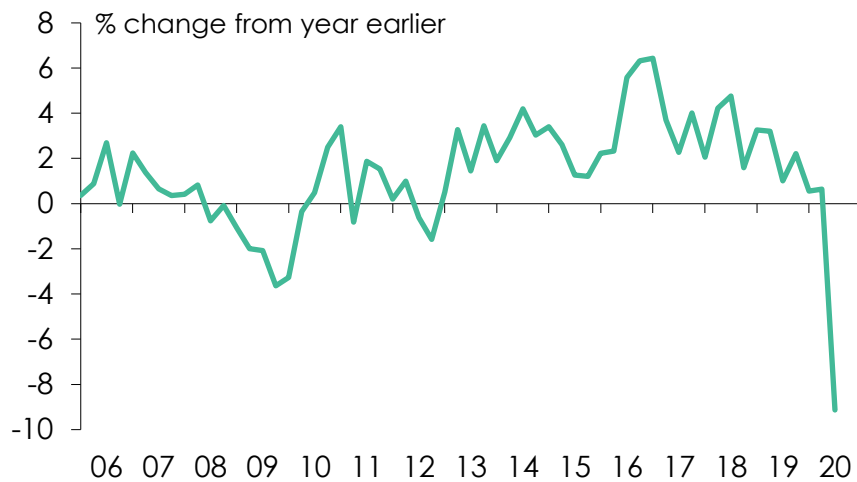
Labour force participation rate



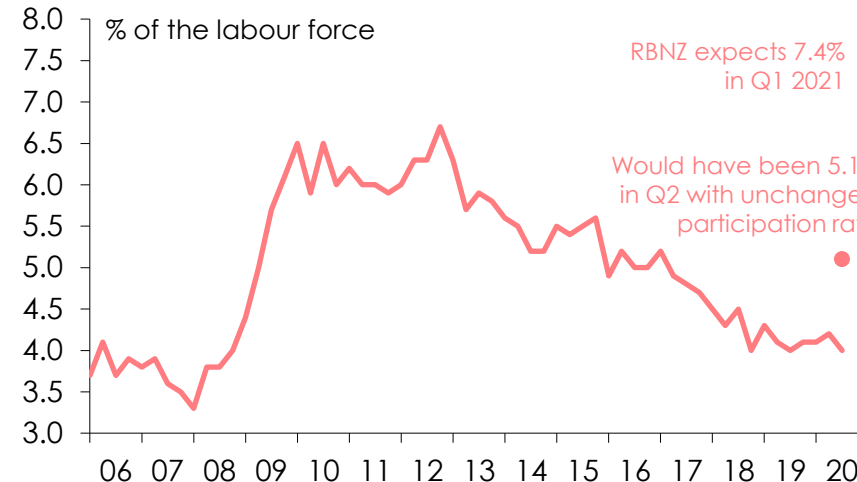
Labour force under-utilization rate



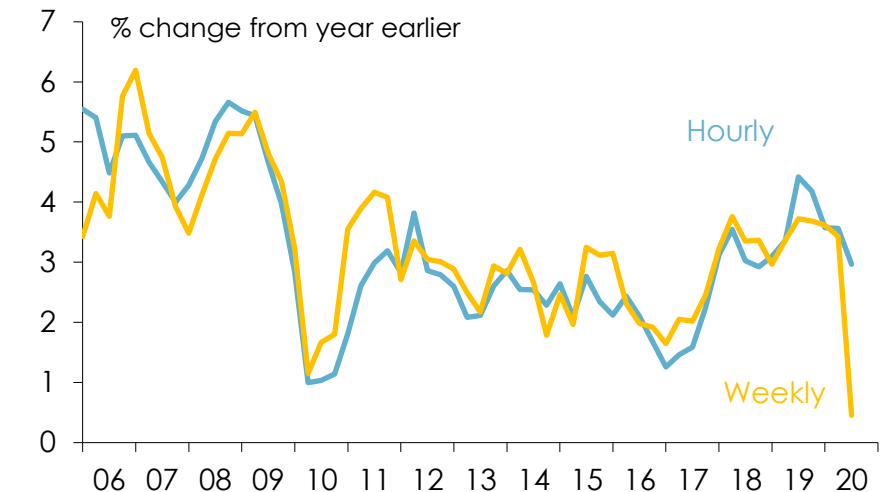
Hours worked



Unemployment rate



Average weekly earnings

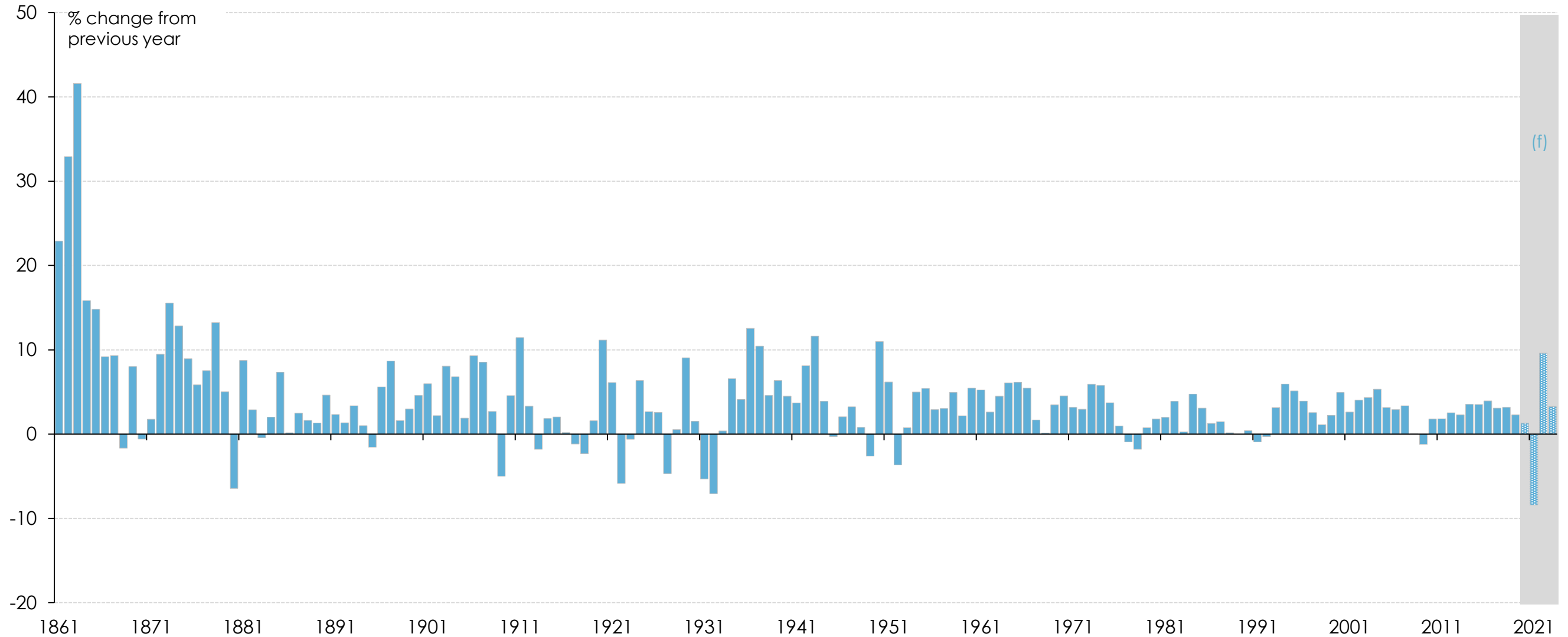


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

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

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

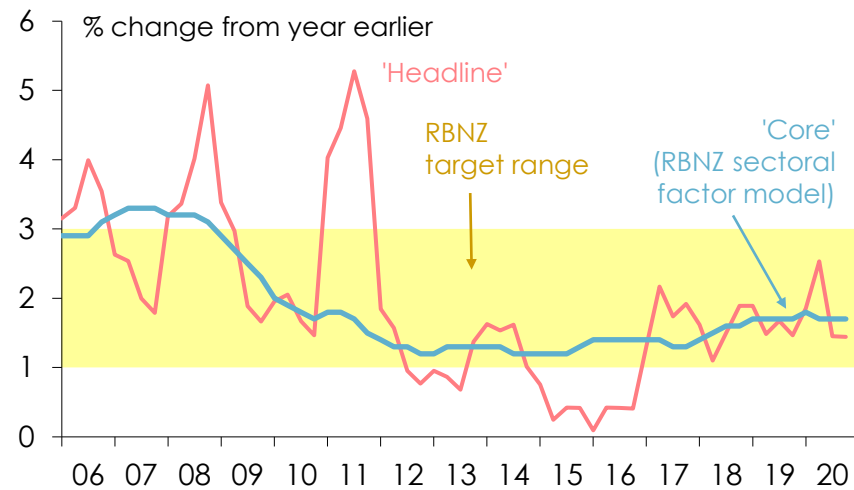
Annual growth in New Zealand real GDP, 1861-2023



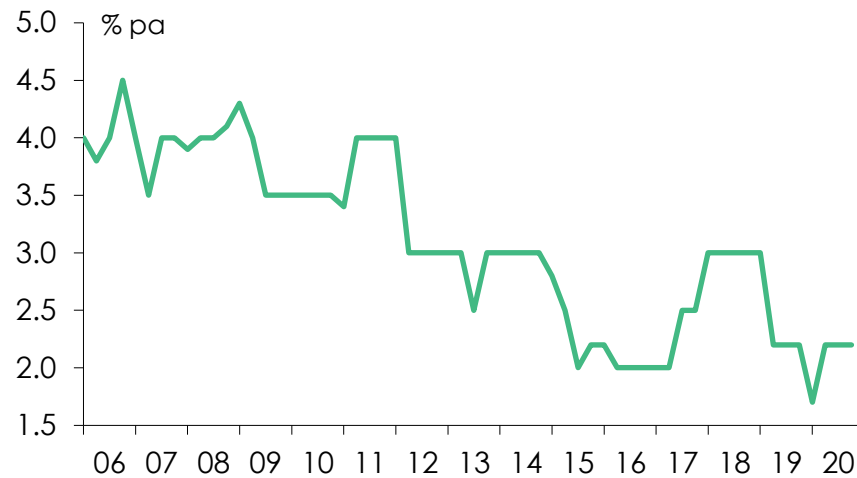
Note: Forecasts are for years ended 31 March. Source: RBNZ, [Monetary Policy Statement](#), May 2020. [Return to "What's New"](#).

Consumer prices rebounded less than expected in Q3 after falling in Q2, which is likely to strengthen the RBNZ's resolve to cut rates further

Consumer prices

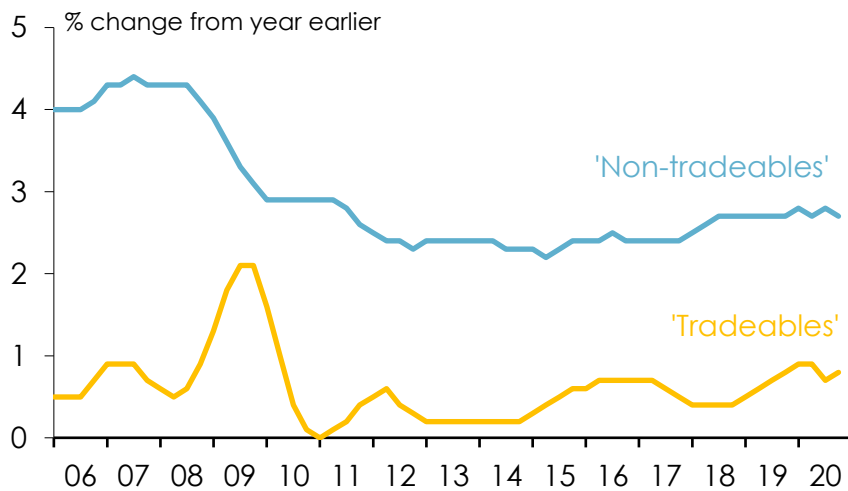


Household inflation expectations

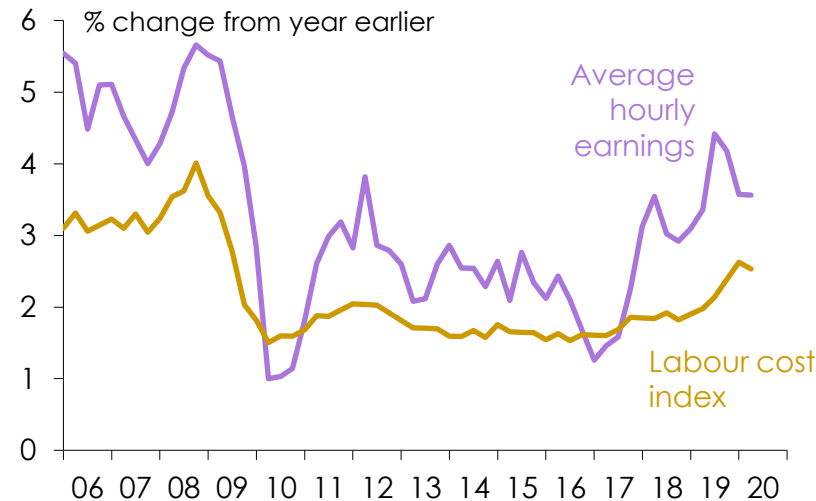


- ❑ The CPI rose 0.7% in Q3, more than reversing Q2's 0.5% fall, but less than market expectations for an increase of 0.9%
- ❑ Main factors driving the Q3 increase were a 1.2% rise in food prices (in turn the result of an 18% increase in vegetable prices and 3.1% rise in municipal rates)
- ❑ The June quarter result cut the annual 'headline' inflation rate to 1.4%, from 1.5% in Q2
- ❑ The RBNZ's preferred measure of 'core' annual inflation remained unchanged at 1.7% (having been within 0.1 pc pt of this figure since Q2 2018), with a slight increase in 'tradeables' inflation offsetting a slight decline in 'non-tradeables' inflation
- ❑ The RBNZ forecasts inflation to fall to 0.3% by end-2021 and will interpret the lower-than-expected Q3 result as underscoring its view that inflation risks are skewed to the downside

Components of 'core' inflation



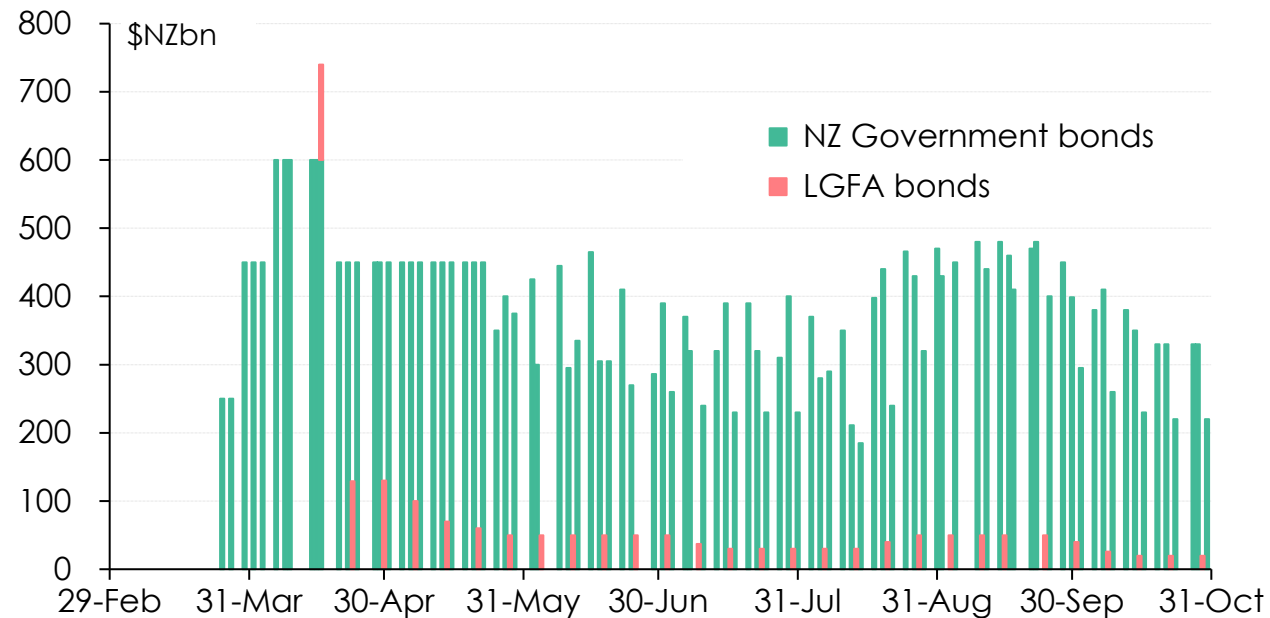
Labour costs



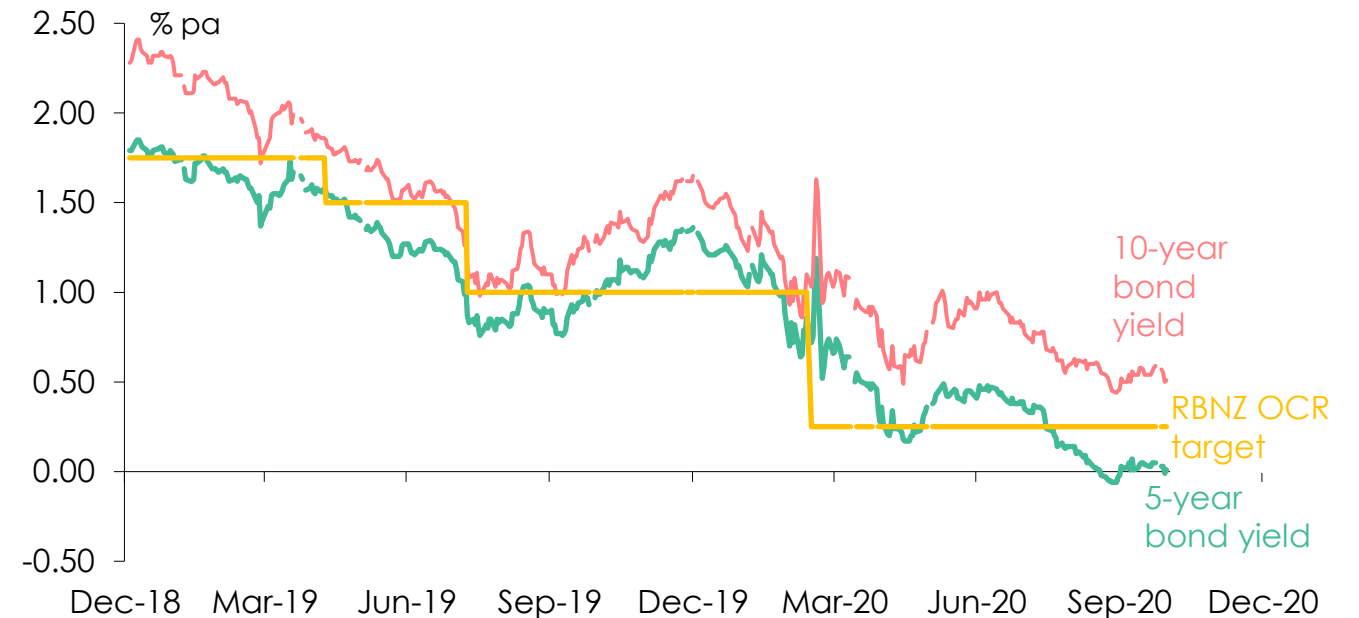
Sources: [Statistics NZ](#); Reserve Bank of New Zealand. September quarter CPI will be released on 23rd October. [Return to "What's New"](#).

The RBNZ has reduced the scale of its bond purchases over the past three weeks, ahead of the likely introduction of a 'Funding for Lending' program

RBNZ open market bond purchases



New Zealand interest rates



- ❑ RBNZ has adopted an ECB-style QE, establishing a Large Scale Asset Program initially set at \$NZ33bn (10½% of GDP), increased to \$60bn (19½% of GDP) in May, and last month to \$100bn (32½% of GDP) by June 2022
- ❑ This week the RBNZ again bought NZ\$900mn of bonds (as it did in the two previous weeks, but less than during August or September) bringing its total purchases since 25th March to \$NZ37.3bn (12.1% of GDP): the lower level of bond purchases over the past two weeks is probably ahead of the pending introduction of a Funding for Lending scheme as an alternative means of expanding the RBNZ's balance sheet
- ❑ Five year yields again briefly traded negative this week for the first time since the last week of September

Important information

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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