ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

7TH NOVEMBER 2020

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY PTY LTD

What's new?

The world

- 3579,079 new Covid-19 cases were confirmed this week, a new record high, taking the cumulative total to over 48¾ million; while 51,568 people died (exceeding the previous record of 50,717 in mid-April), bringing the cumulative death toll to 1,234,371 (slide 4)
- Europe (which has 7% of the world's population) accounted for 69% of the world's new cases last week, while the US (4% of the world's population) accounted for a further 19% (slide 5)
- Joe Biden appears likely to have won this week's US Presidential election with a higher share of the nation-wide vote than in 8 of the past 18 elections, and with what will probably be a 306-232 margin in the Electoral College (slide 49) – although President Trump seems likely to contest the result, possibly all the way to the Supreme Court
- However the Democrats appear to have failed to take control of the US Senate (the final outcome may depend on 'run-off elections' in Georgia on 5th January 2021), which means that a Biden Administration may be unable to implement many of its campaign commitments – an outcome which cheered markets (slide 31)
- US non-farm payrolls increased by 0.5% in October, the same as in September, but a slower pace than during May-August, and are still 6½% below their pre-pandemic level; while the unemployment rate dropped 1 pc pt to 6.9% (slide 52)
- The Fed left US monetary policy settings unchanged, but the Bank of England expanded its 'QE' program (slides 29 and 30)
- Q3 GDP data suggest tepid recoveries in Korea, Singapore and Indonesia, but a stronger upturn in Taiwan (slide 41)
- RBNZ to launch a 'funding for lending' program at this coming Wednesday's Monetary Policy Committee meeting (slide 135)

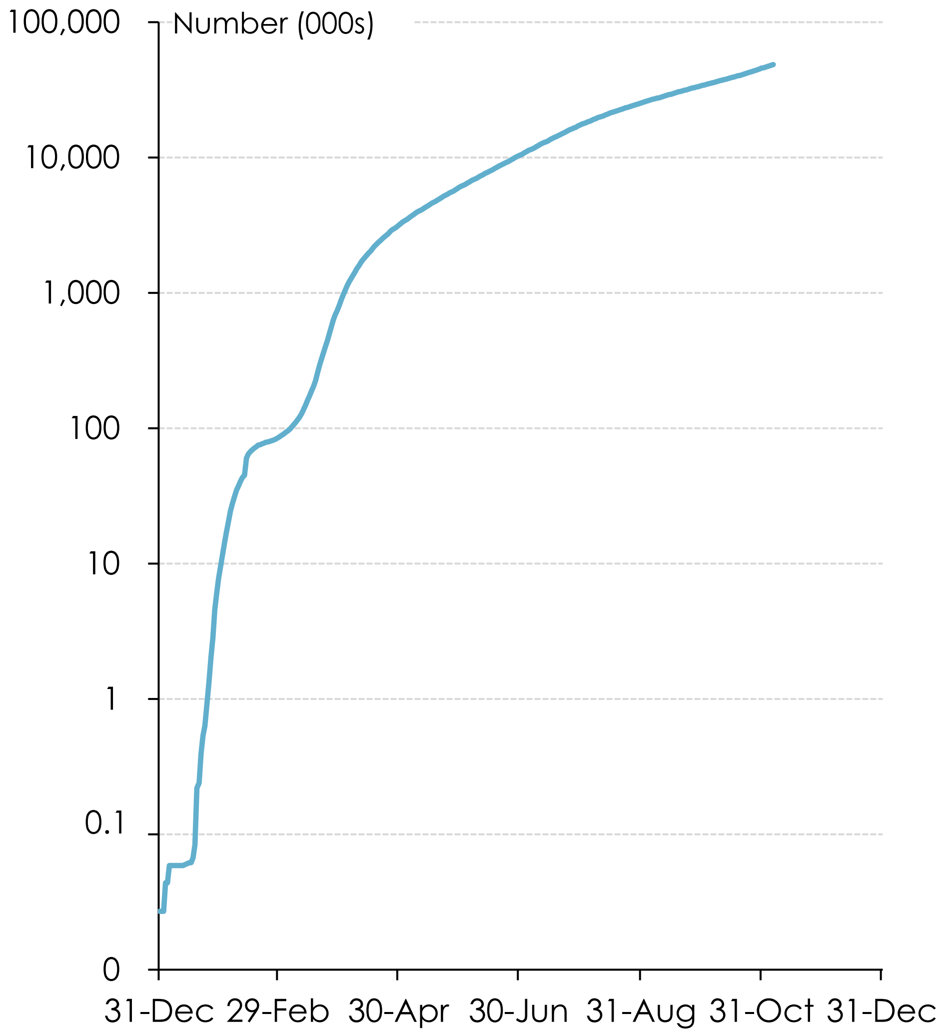
Australia

- Australia recorded only 63 new Covid-19 cases this week (the lowest number since mid-June), bringing the cumulative total to 27,652, and there were no deaths (for the first time since the week ended 4th July); there are only 94 active cases as of Saturday, the lowest number since early March (slide 8)
- Payroll employment fell in the first two weeks after the step-down in the level of JobKeeper payments at end-September, but then steadied (slide 77)
- Retail sales fell 1.1% in September (with Victoria recording a smaller decline than most other states), but motor vehicle sales jumped 23% in October to their highest level in 12 months (slide 83)
- Residential building approvals leaped 15.4% in September to their highest level since February, while lending for housing rose 5.9% in September to its highest level since March 2017, buoyed by the highest lending to first-time buyers since October 2009 (slide 87)
- Residential property prices rose 0.2% in October, the first increase in six months, led by gains in the smaller capitals and regional Australia (slides 85 and 86)
- Australia's trade surplus rebounded to $5.6bn in September, reflecting a 6% fall in imports and spurt in gold exports (slide 91)
- Australia's bilateral trade relations with China deteriorated significantly this week, with Chinese officials imposing bans on the import of a wide range of Australian products (slides 93-94)
- As expected the RBA cut its cash rate target, its 3-year bond yield target and the interest rate on its Term Funding Facility by 15 bp to 0.1%, and announced its intention to purchase $100bn of bonds over the next six months (slides 117-118)

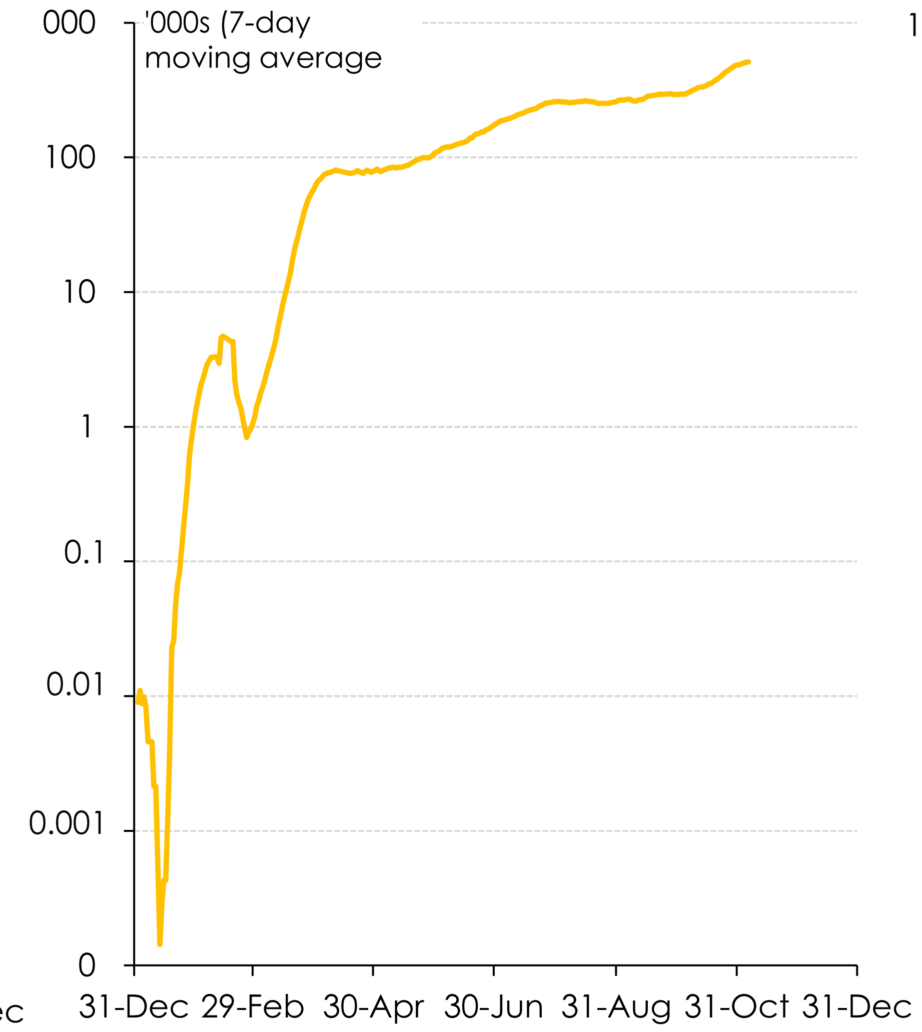
The virus

Over the past week there've been over 3½ mn new cases (a record), taking the cumulative total to over 48¾ mn – and a record 51,568 deaths

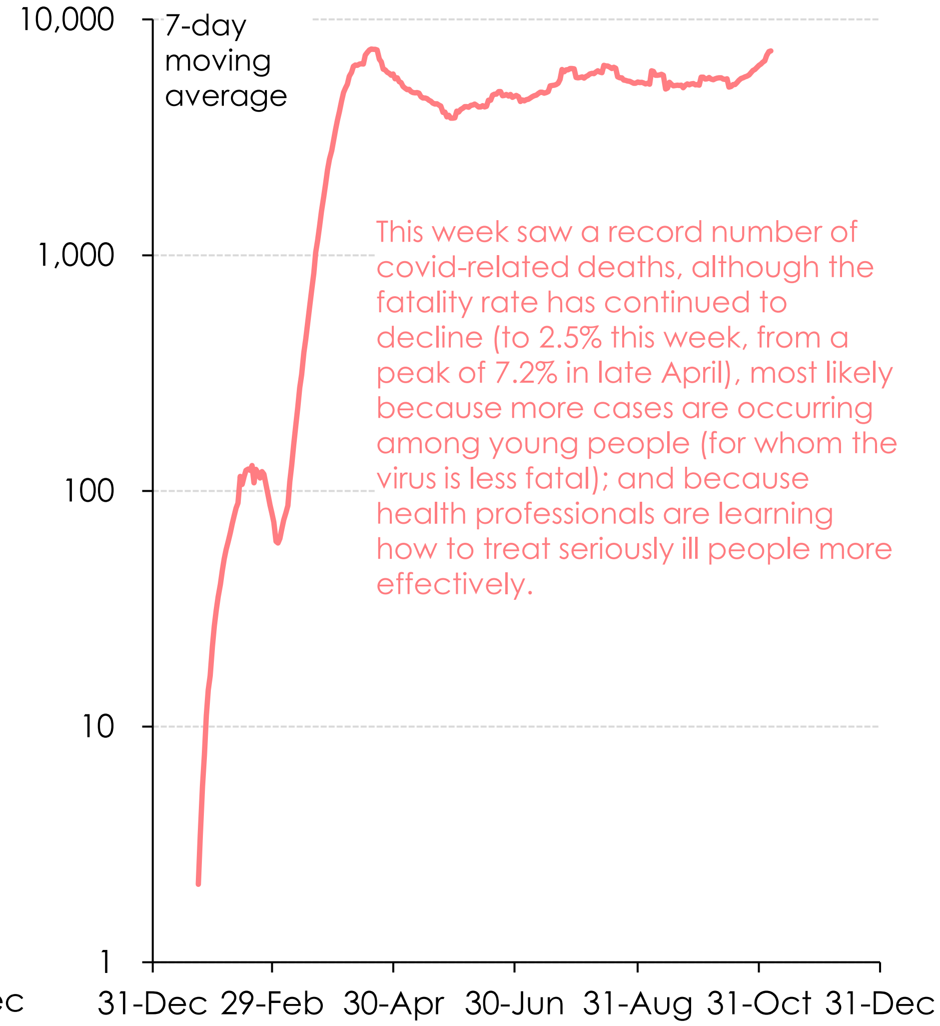
Cumulative confirmed cases – global total



New confirmed cases – global total



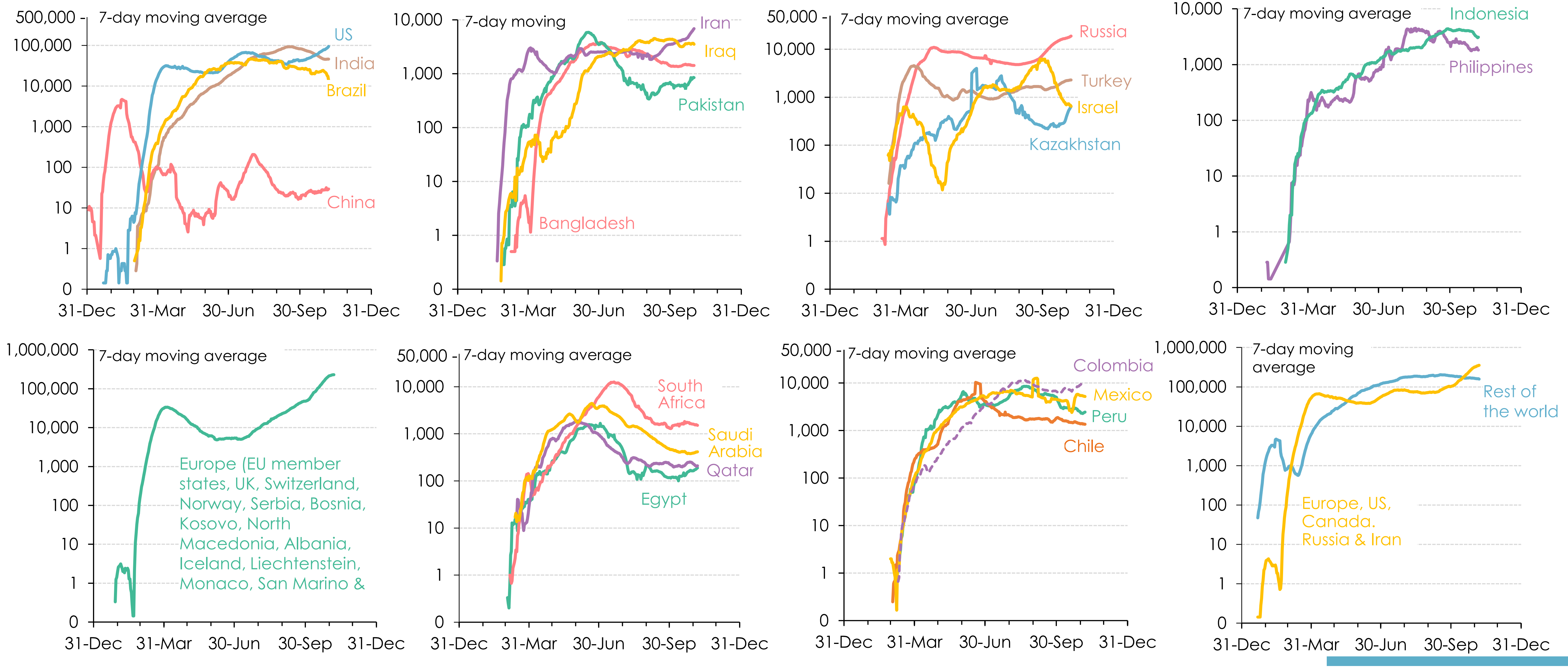
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 6th November. *Source:* University of Oxford, Our World in Data. Return to "What's New".

Europe accounted for 69% of the world's new cases last week, the US 19%, with India another 9% and Brazil 2¾% (but both of them falling)

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



Note: All charts are on logarithmic scales. Data up to 6th November. *Source*: University of Oxford, Our World in Data; Corinna. Return to "What's New".

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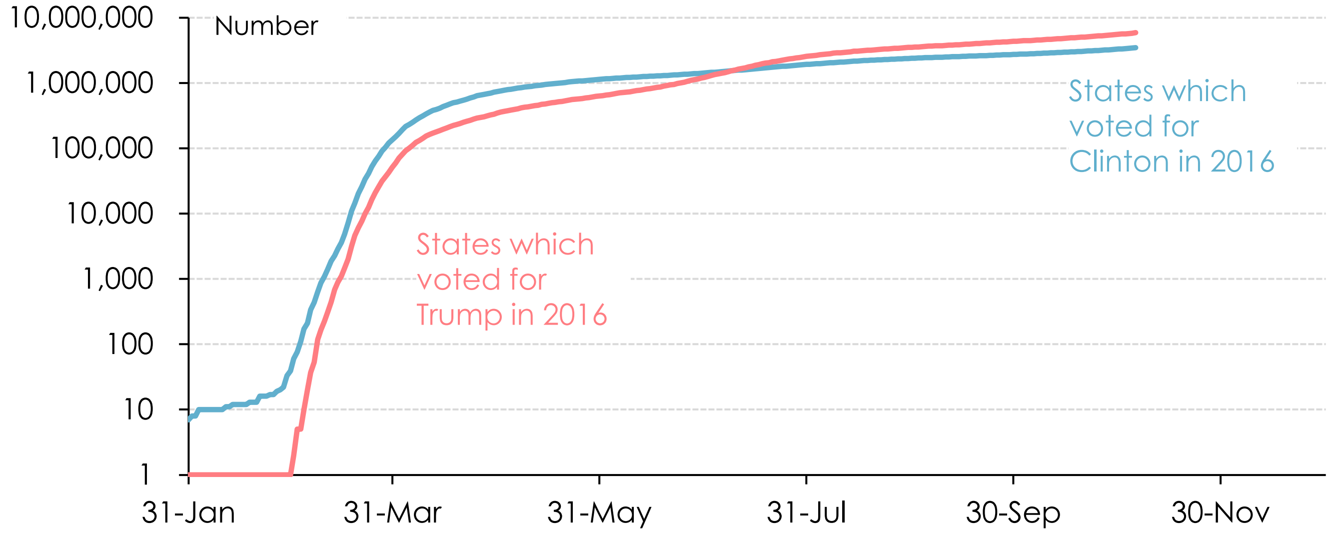
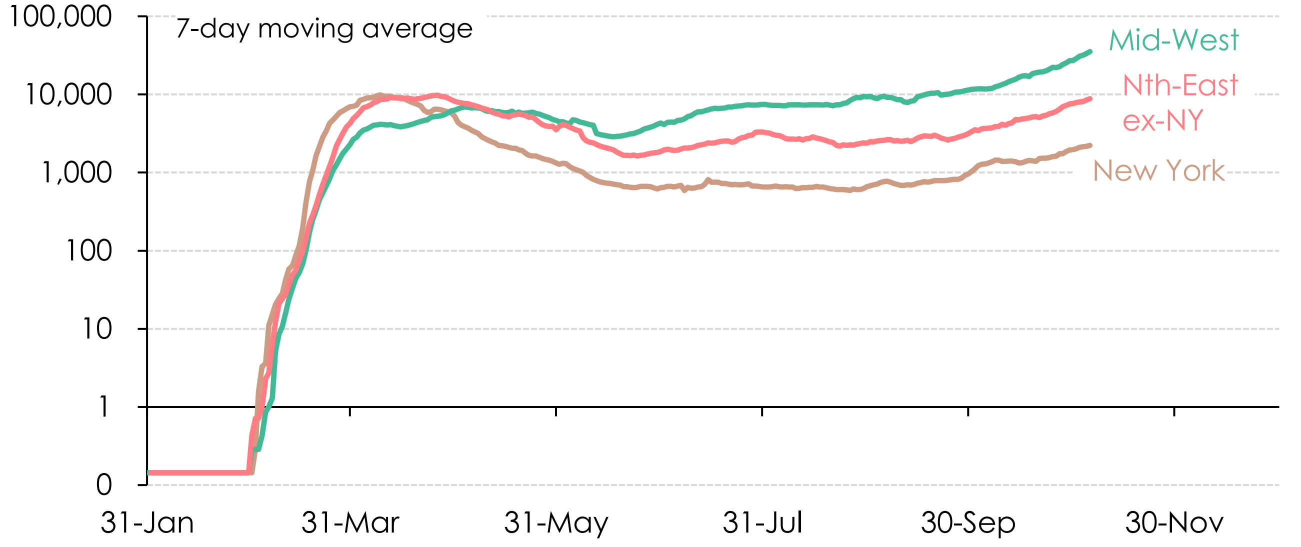
In the US, new Covid-19 cases in 'red states' continue to outnumber those in 'blue' states – case numbers are rising particularly in the Mid-West

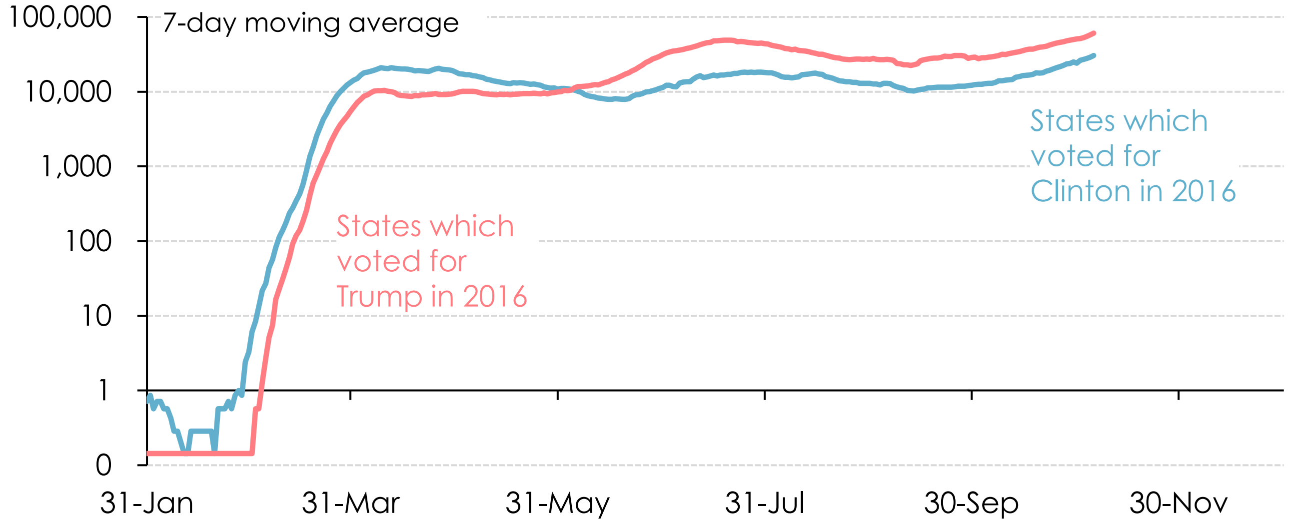
Cumulative cases, by 2016 Electoral College vote



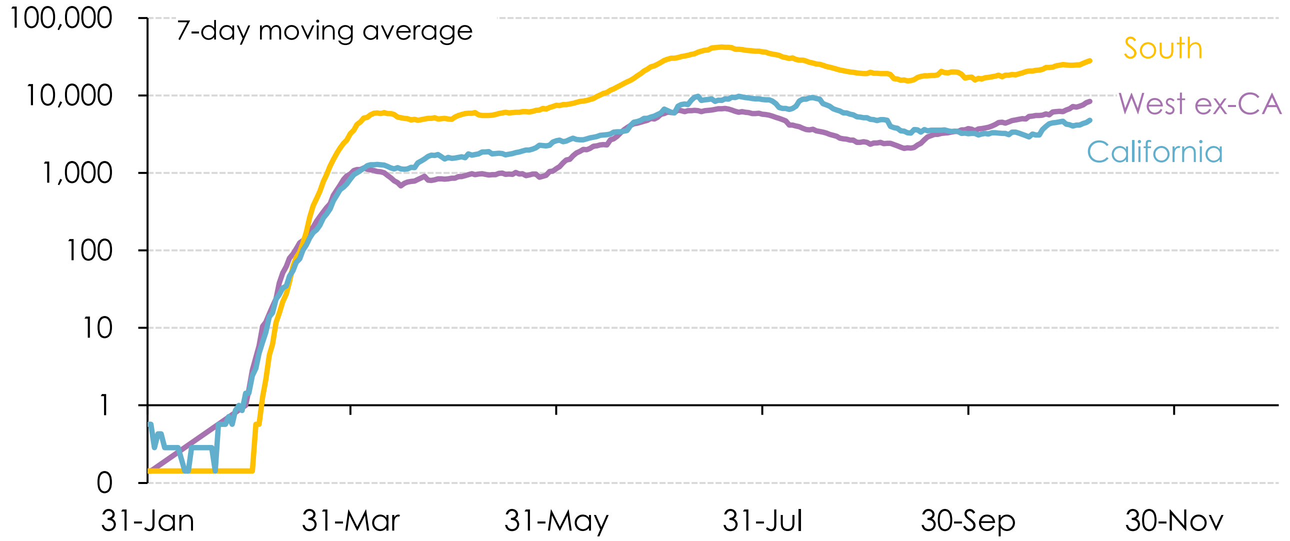
New cases – Mid-West and North-East



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 (the categorization of states will be updated for the 2020 election outcome when results for all states are finalized.
Sources: USAFacts; Centers for Disease Control and Prevention; Corinna. Latest data are for 5th November. Return to "What's New".

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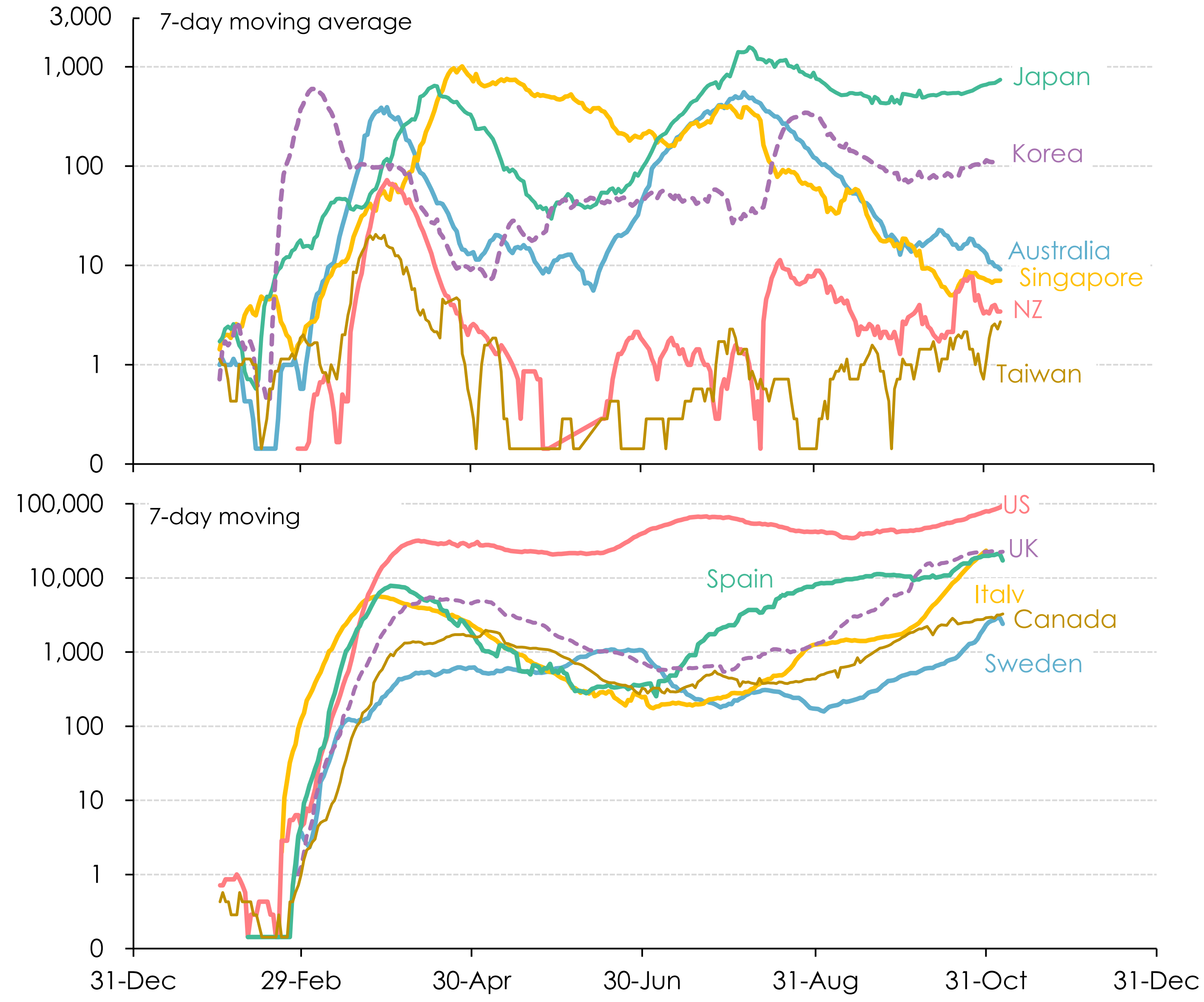
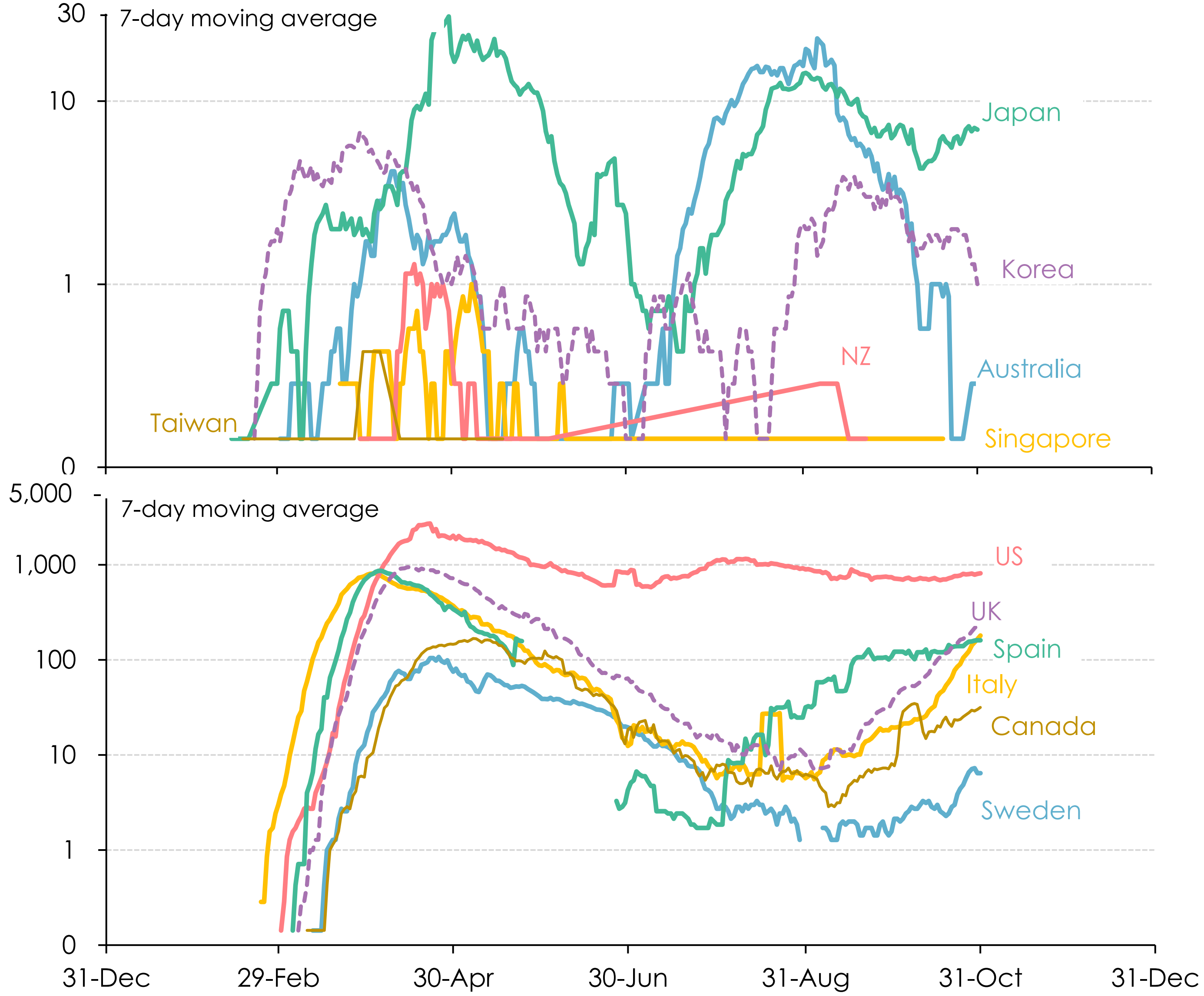
New case numbers are rising throughout Europe, in North America and in some Asian countries, but declining in Australia

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 6th November. *Source:* University of Oxford, [Our World in Data](); Corinna. [Return to "What's New"]().

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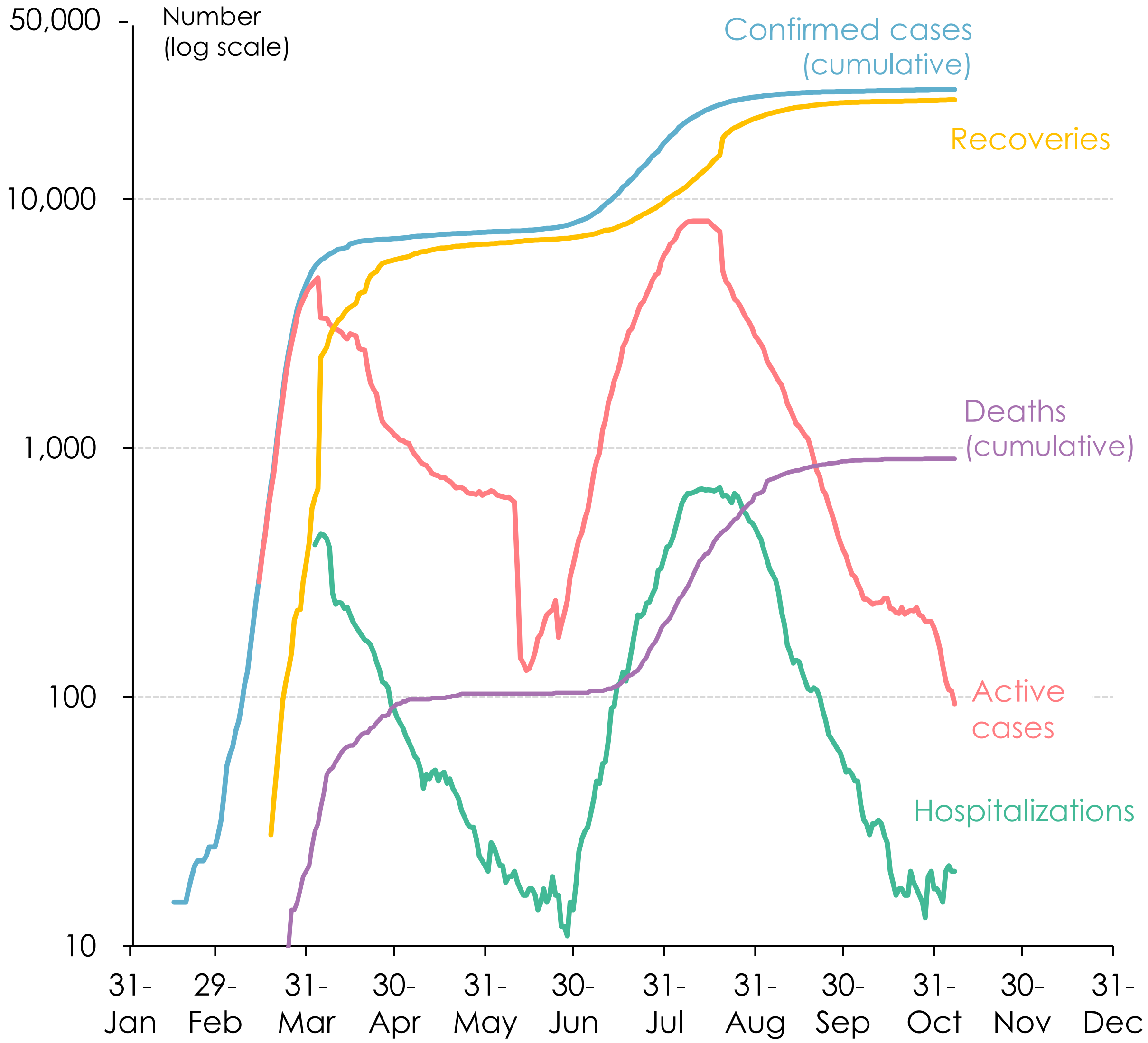
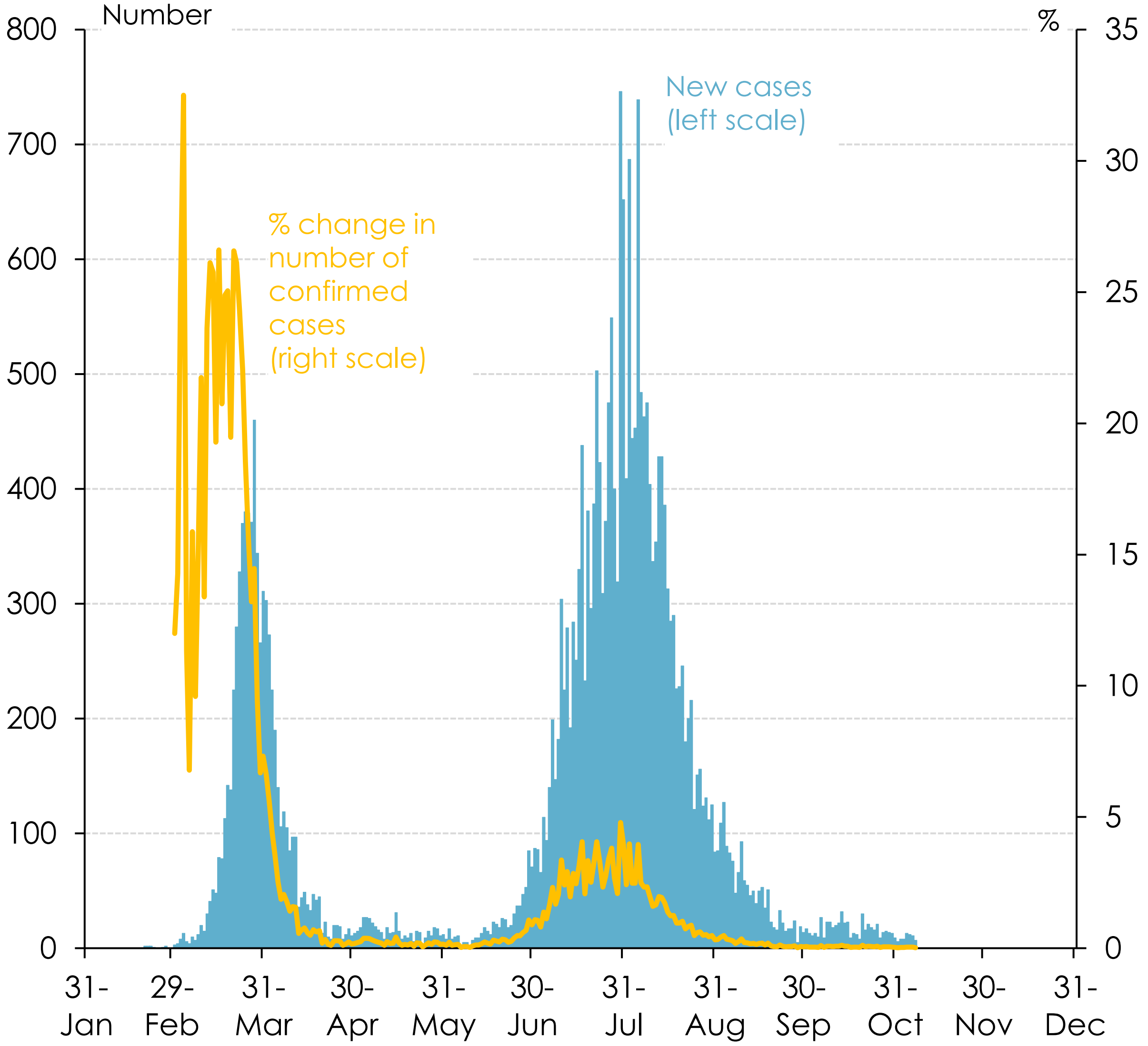
Australia's 'second wave' of infections is now over, with the lowest number of new cases since mid-June and only 94 active cases

Cases, recoveries, hospitalizations and deaths



New cases



Note: Data up to 7th November. *Source:* covid19data.com.au. Return to "What's New".

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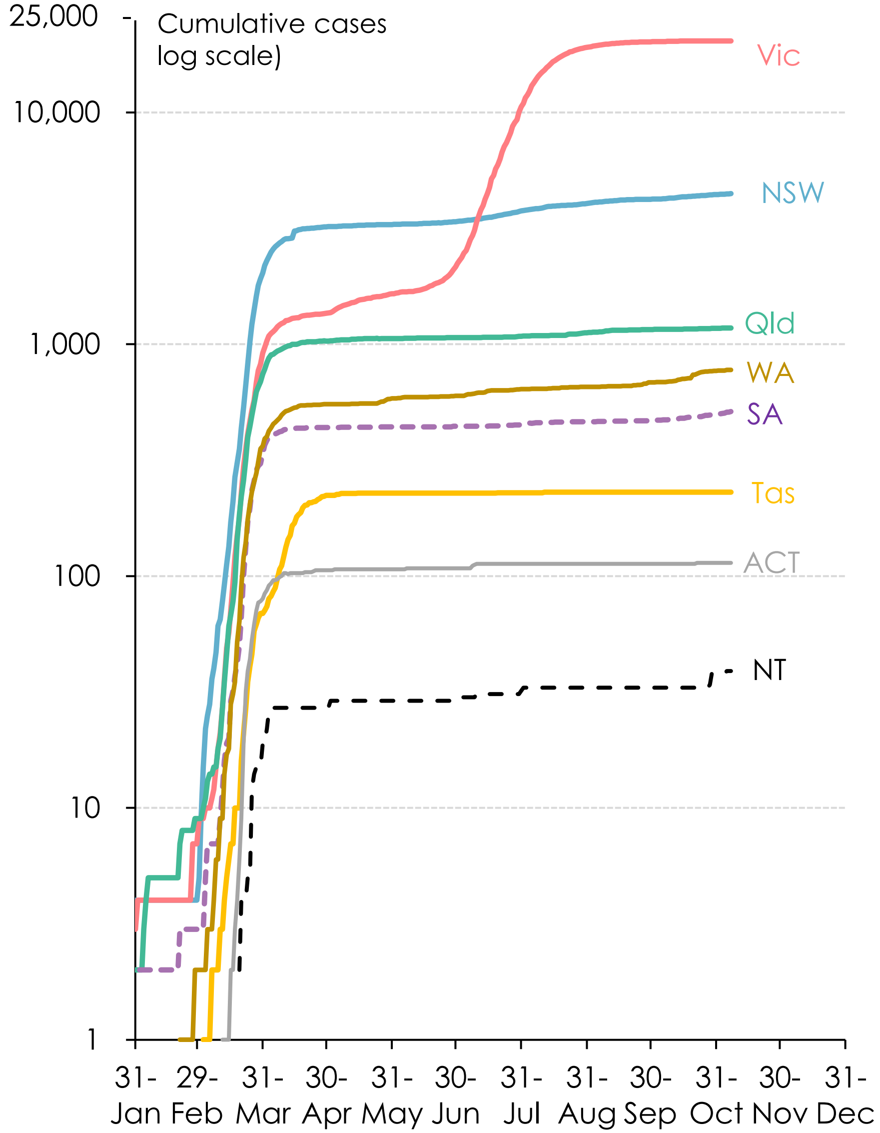
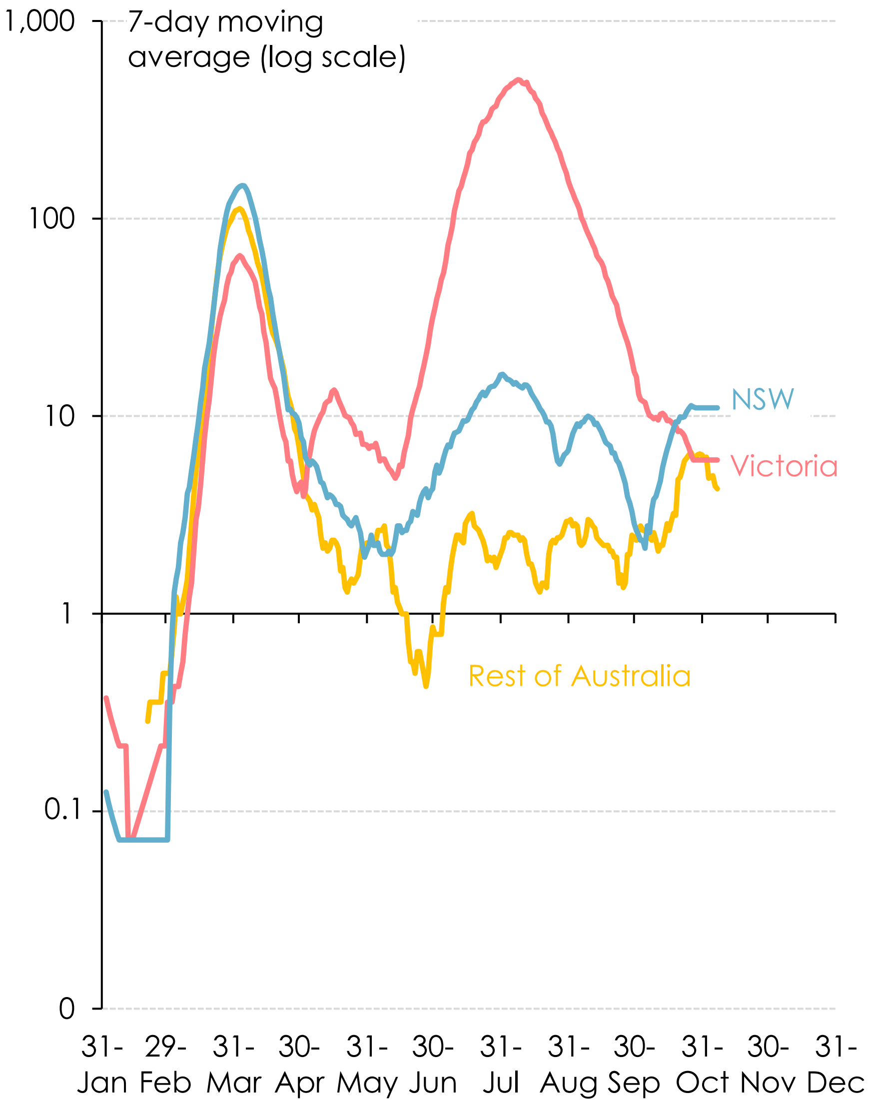
Victoria's new cases have declined to an average of 6 a day (from a peak of over 500 in early August) – that's now less than NSW's 11

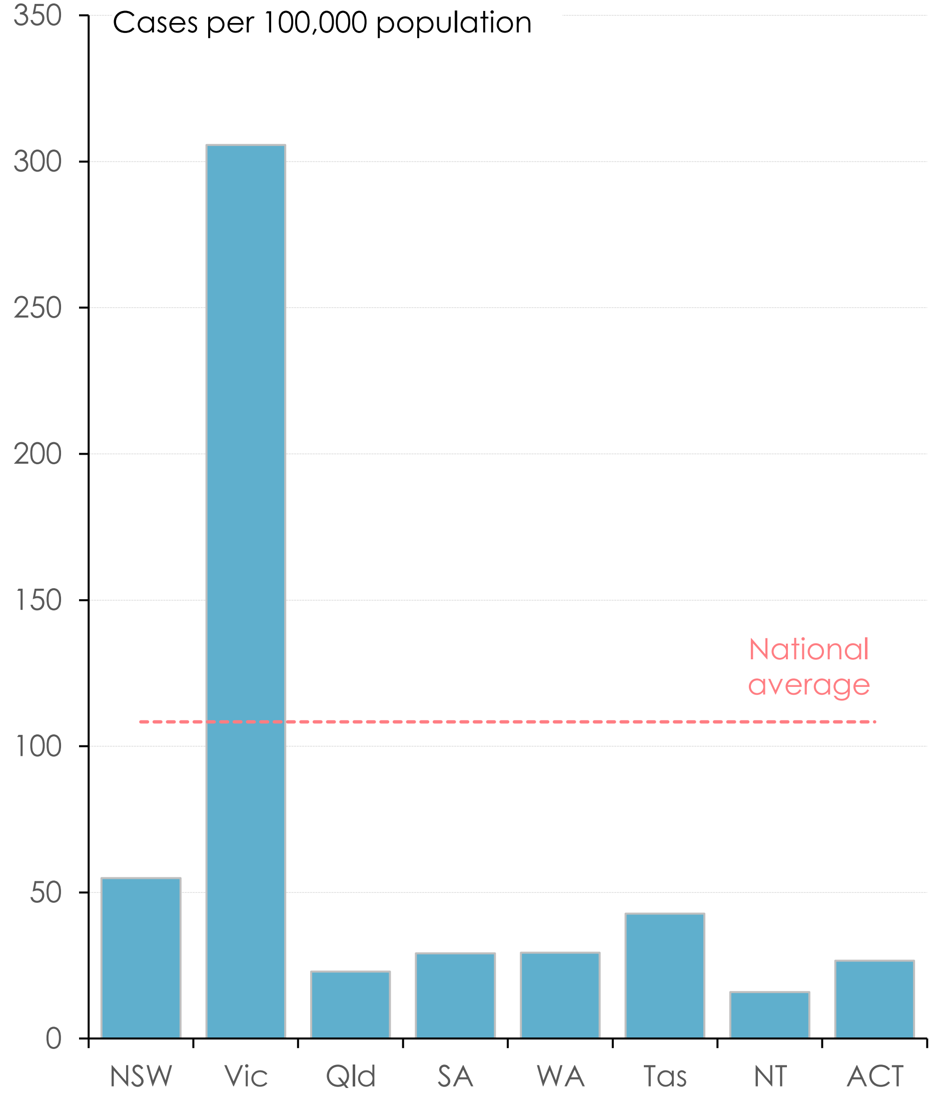
Cumulative cases, by State



New cases



Cases per 100,000 population



Note: Data up to 7th November. *Source :* covid19data.com.au. Return to "What's New".

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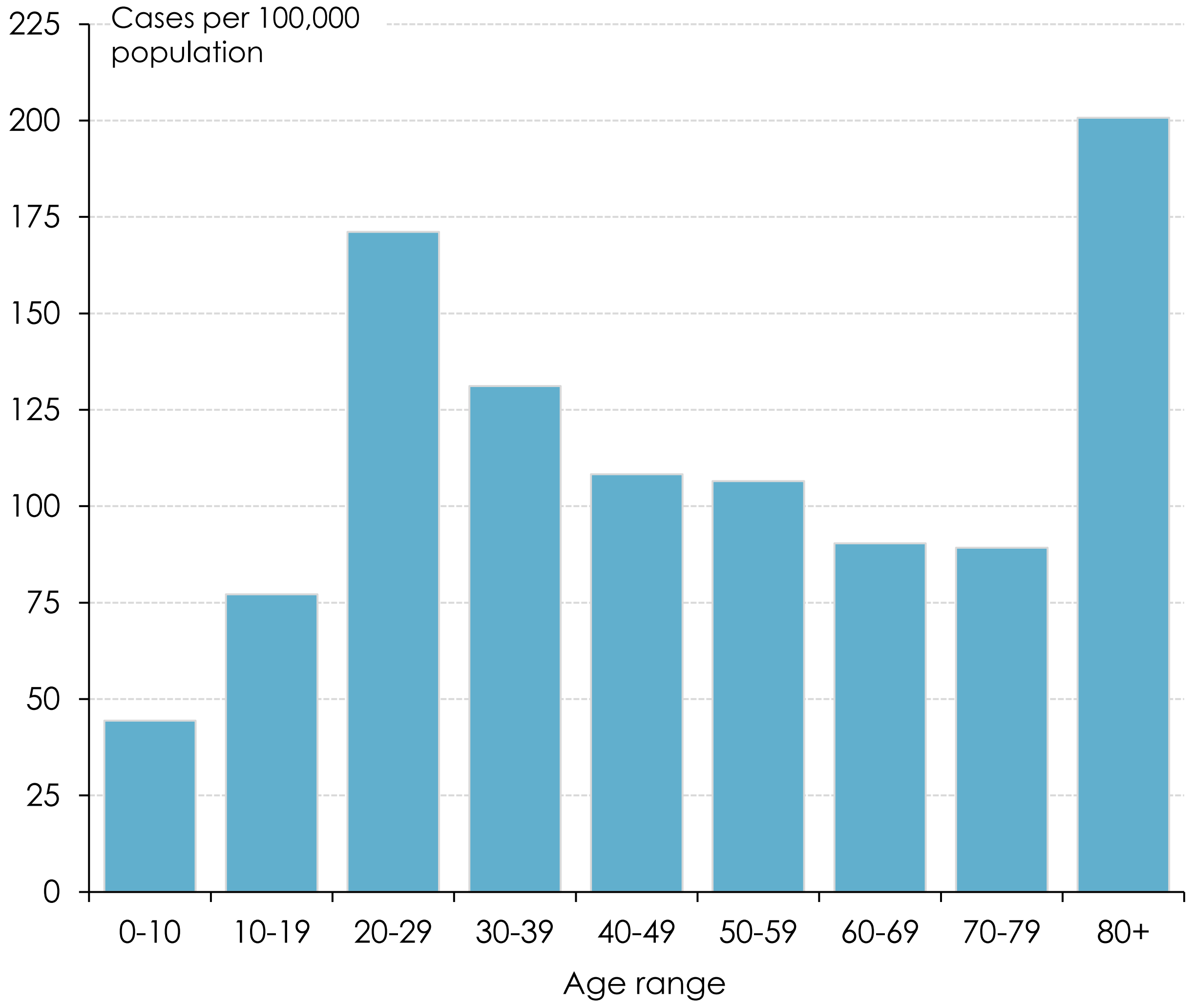
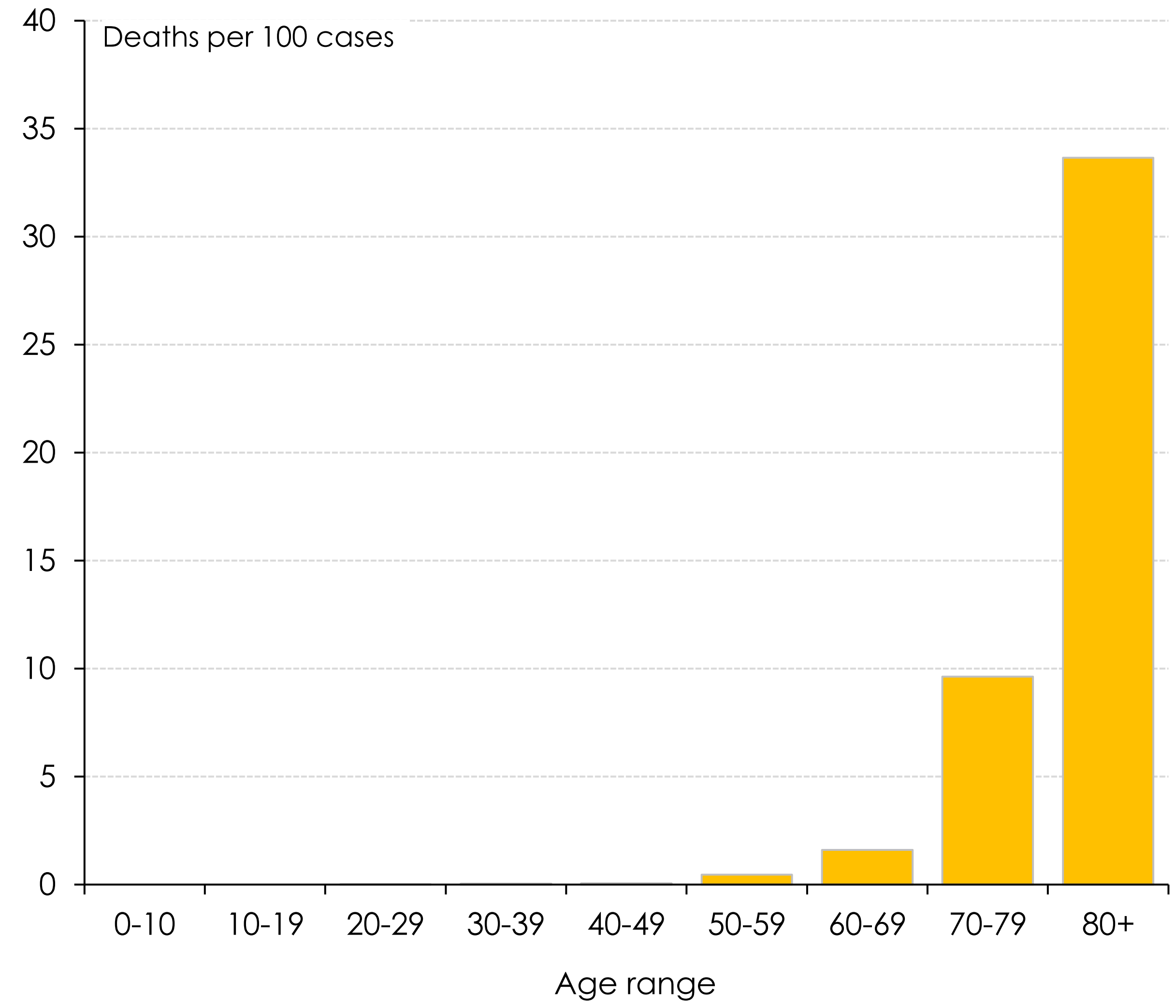
Infection rates now higher among people in their 20s & 30s than among those in their 40s though 70s, though fatality rates are higher for over-60s

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



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



Note: Data up to 6th November. *Source:* Australian Government Department of Health, National Notifiable Diseases Surveillance System; ABS; Corinna.
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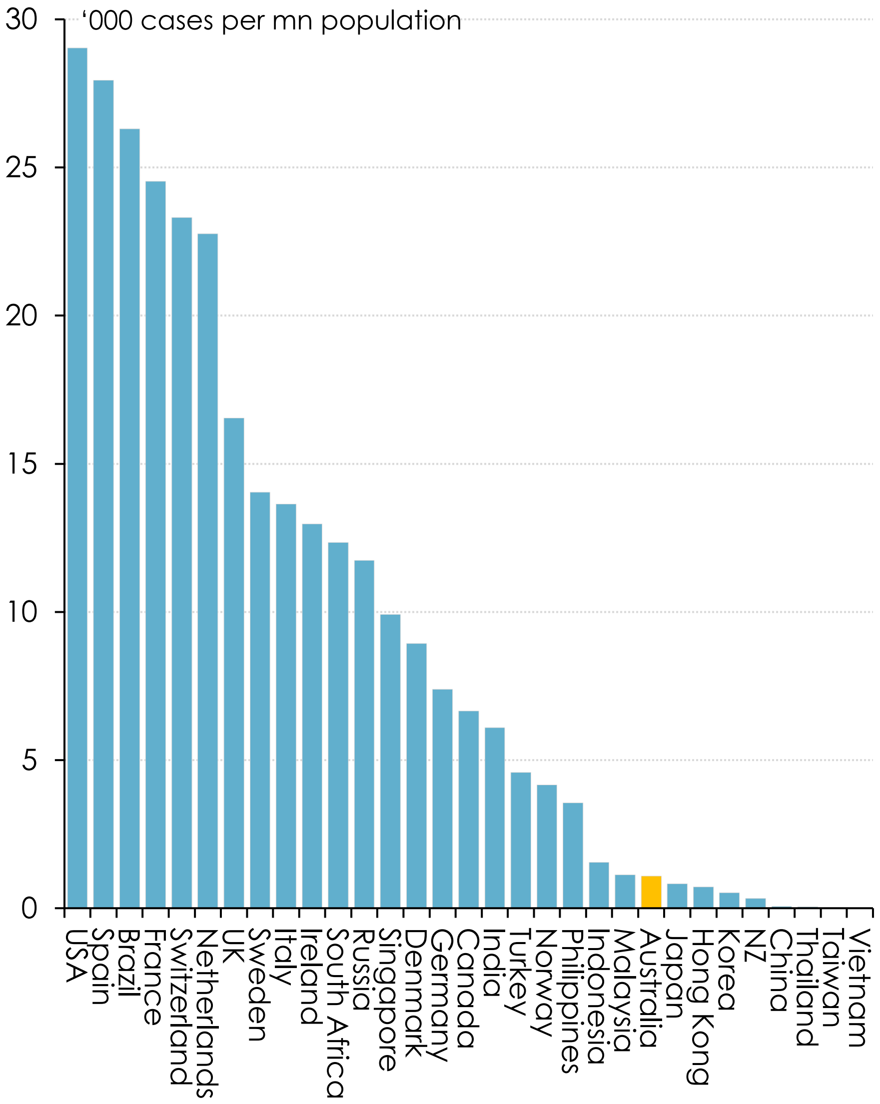
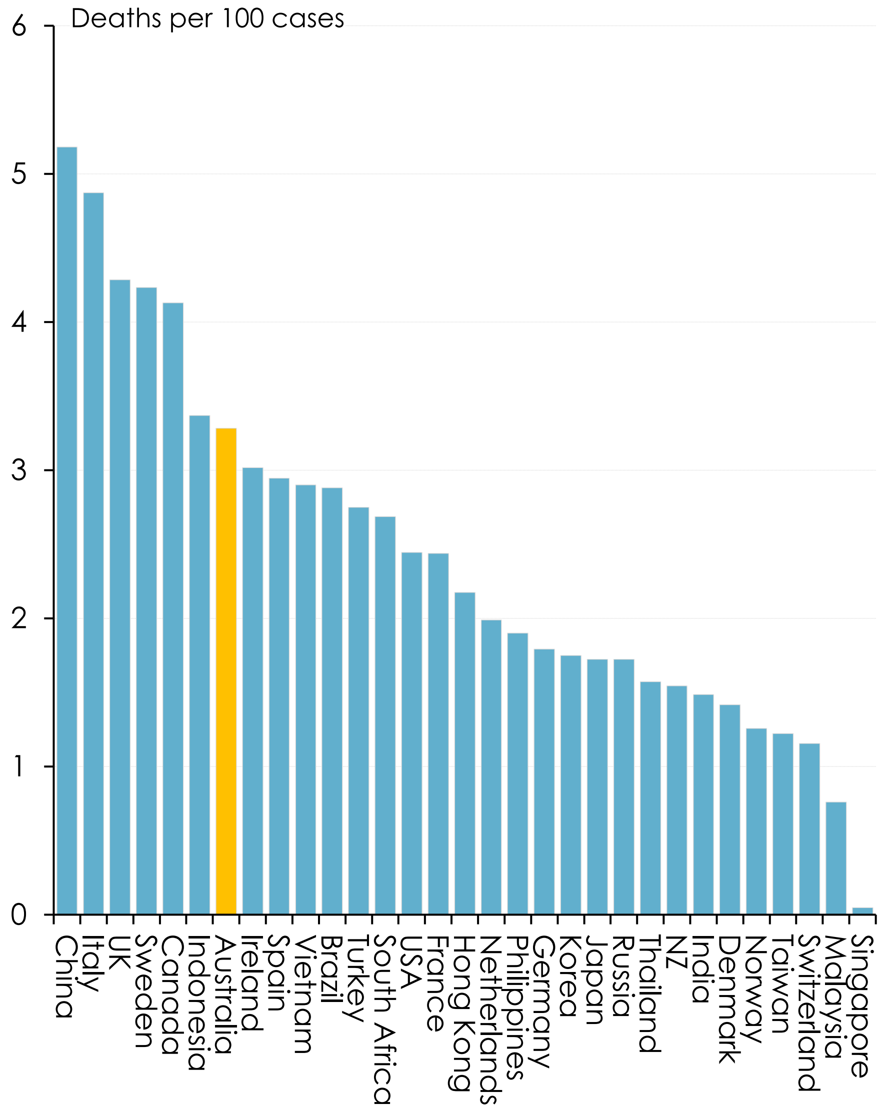
Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

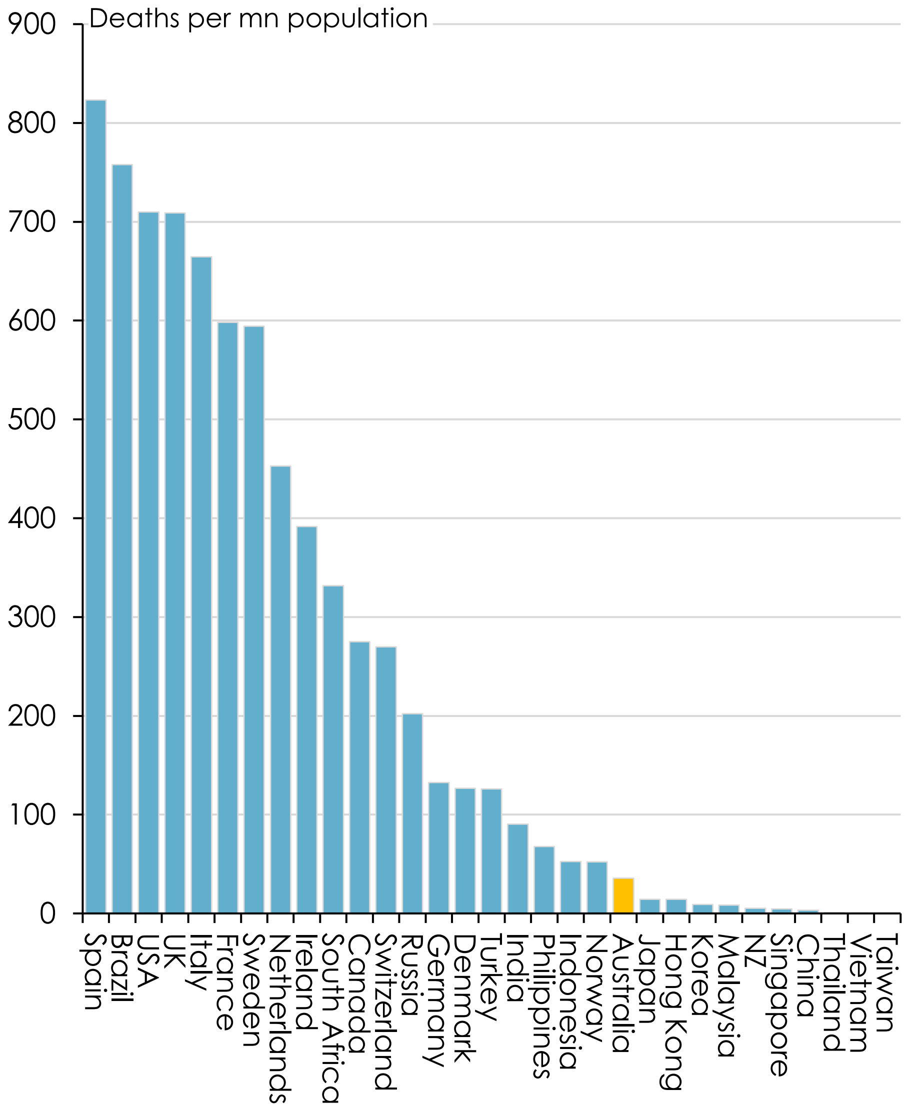
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up 6th November. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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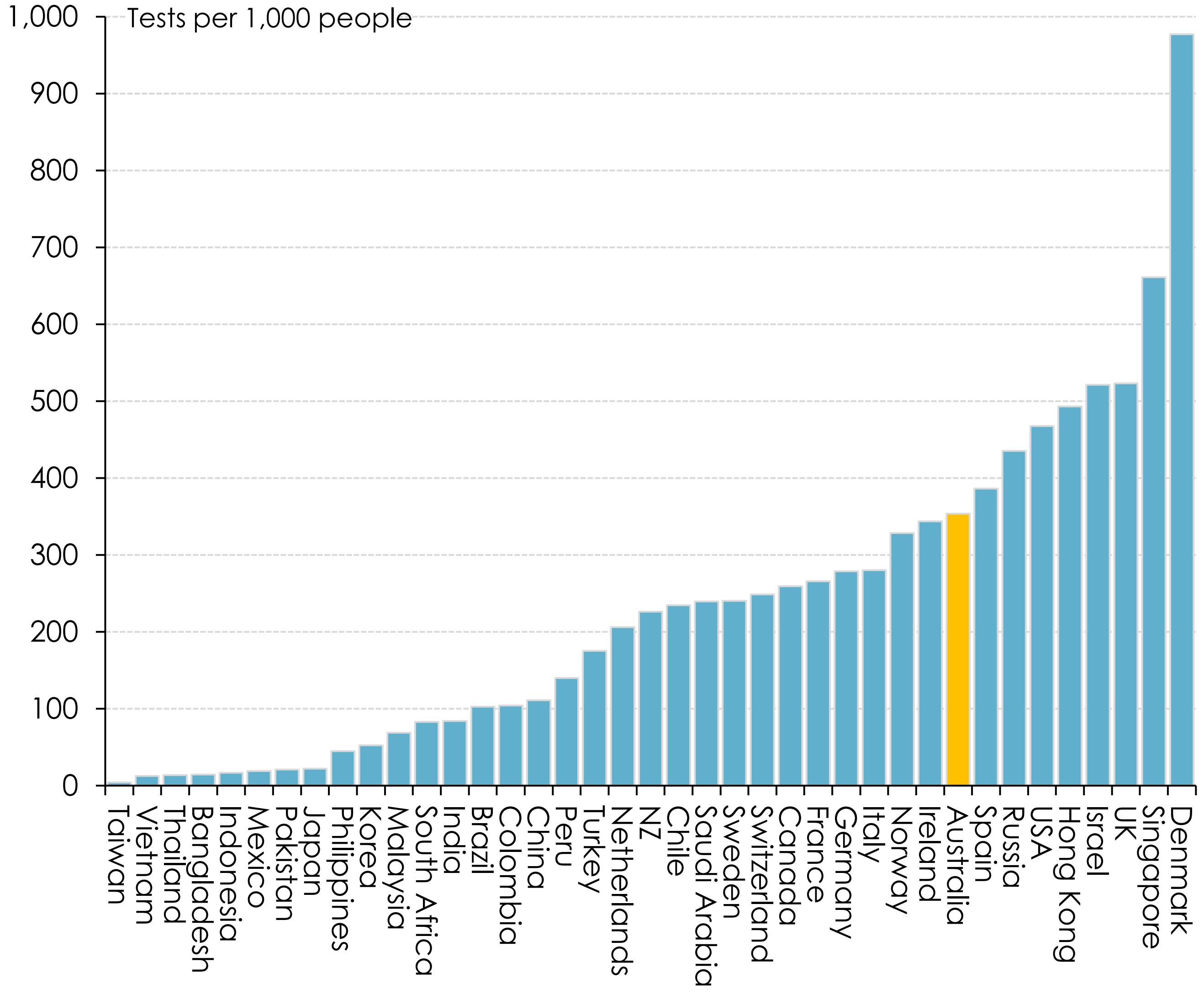
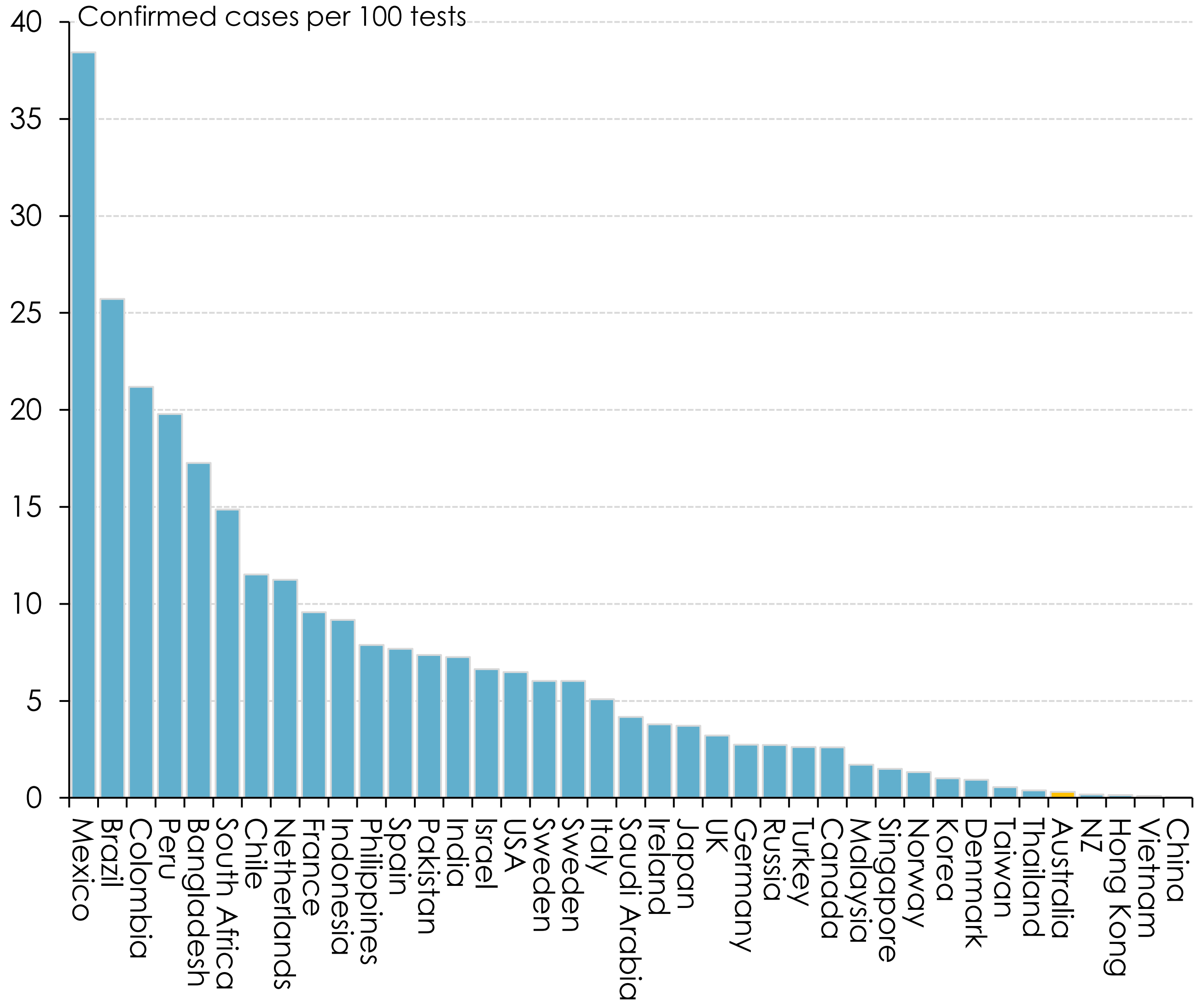
Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per thousand of population



Confirmed cases per 100 tests



Note: Data up to 6th November. 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".

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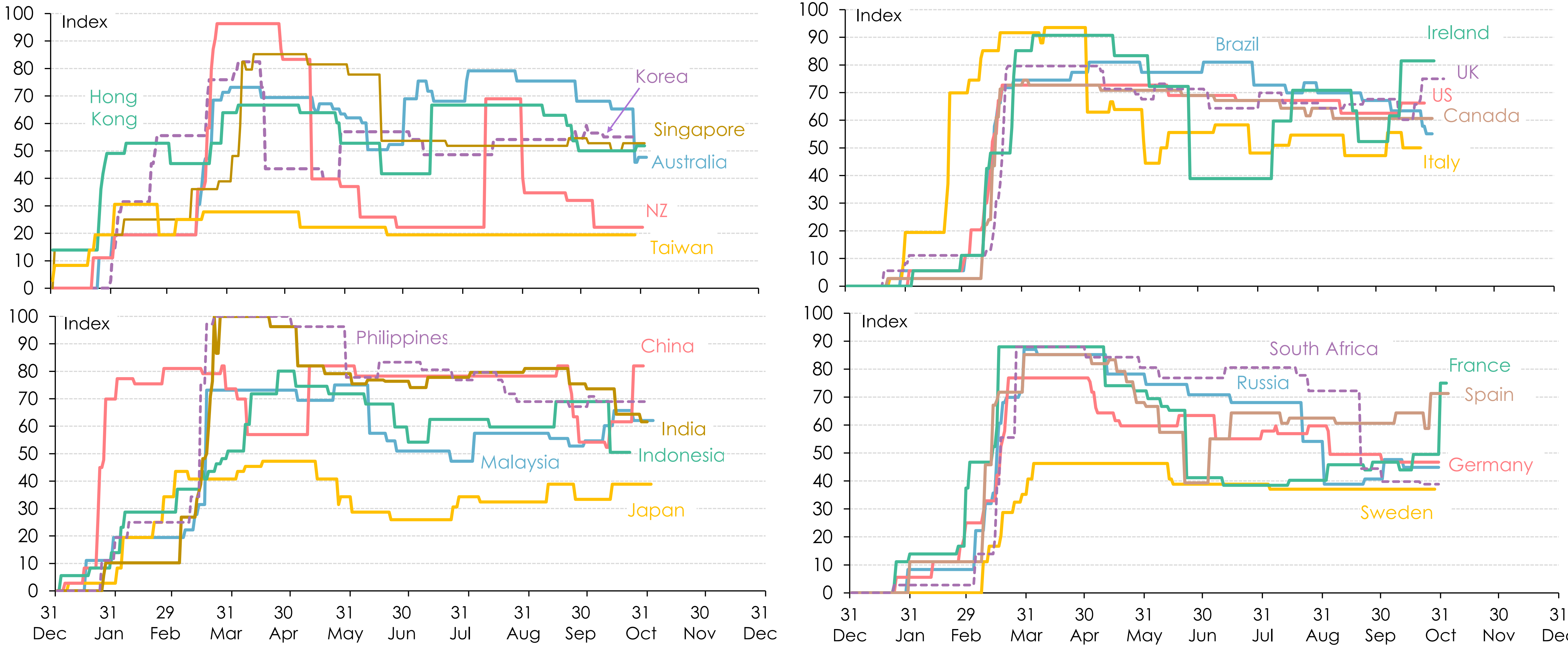
Restrictions are being re-imposed across Europe, though not (so far) in the US or Canada, and are being eased across most of Asia (except China)

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 22nd October – 3rd November.
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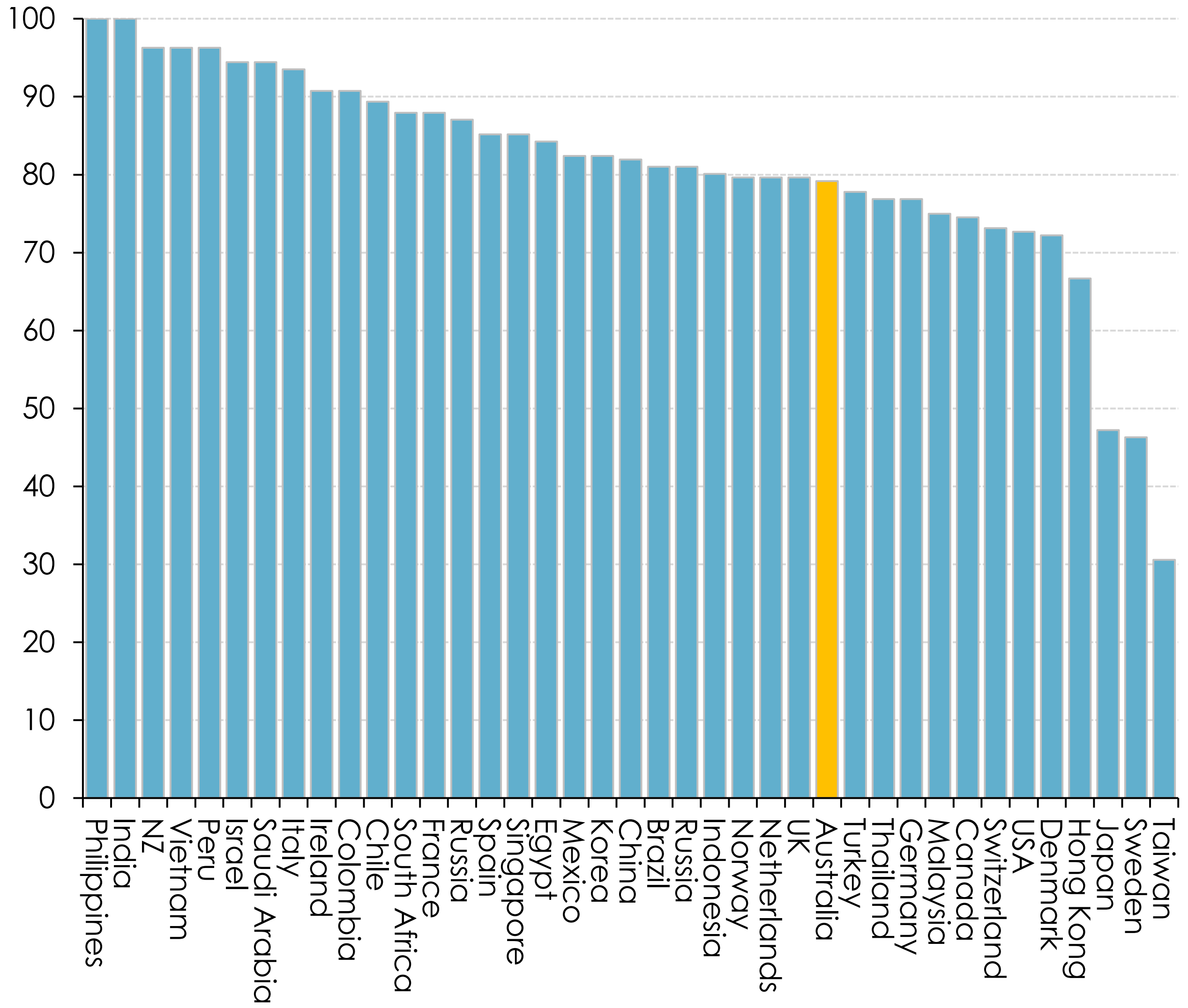
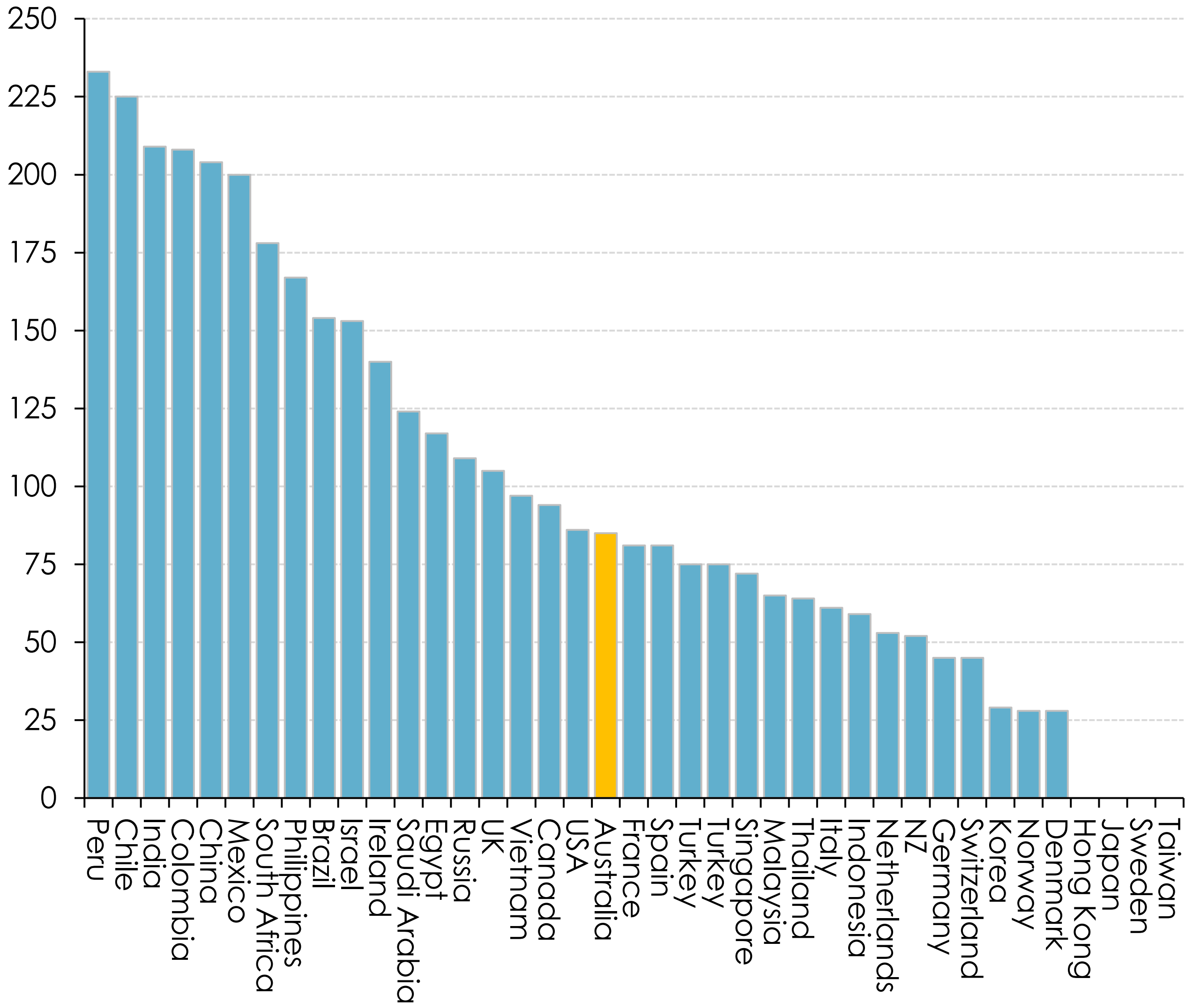
Australia's restrictions have been, on average, less stringent than in most other countries – though we have crept up the list in the past two months

Highest level of restrictions imposed



Number of days restrictions above 70 on Oxford index



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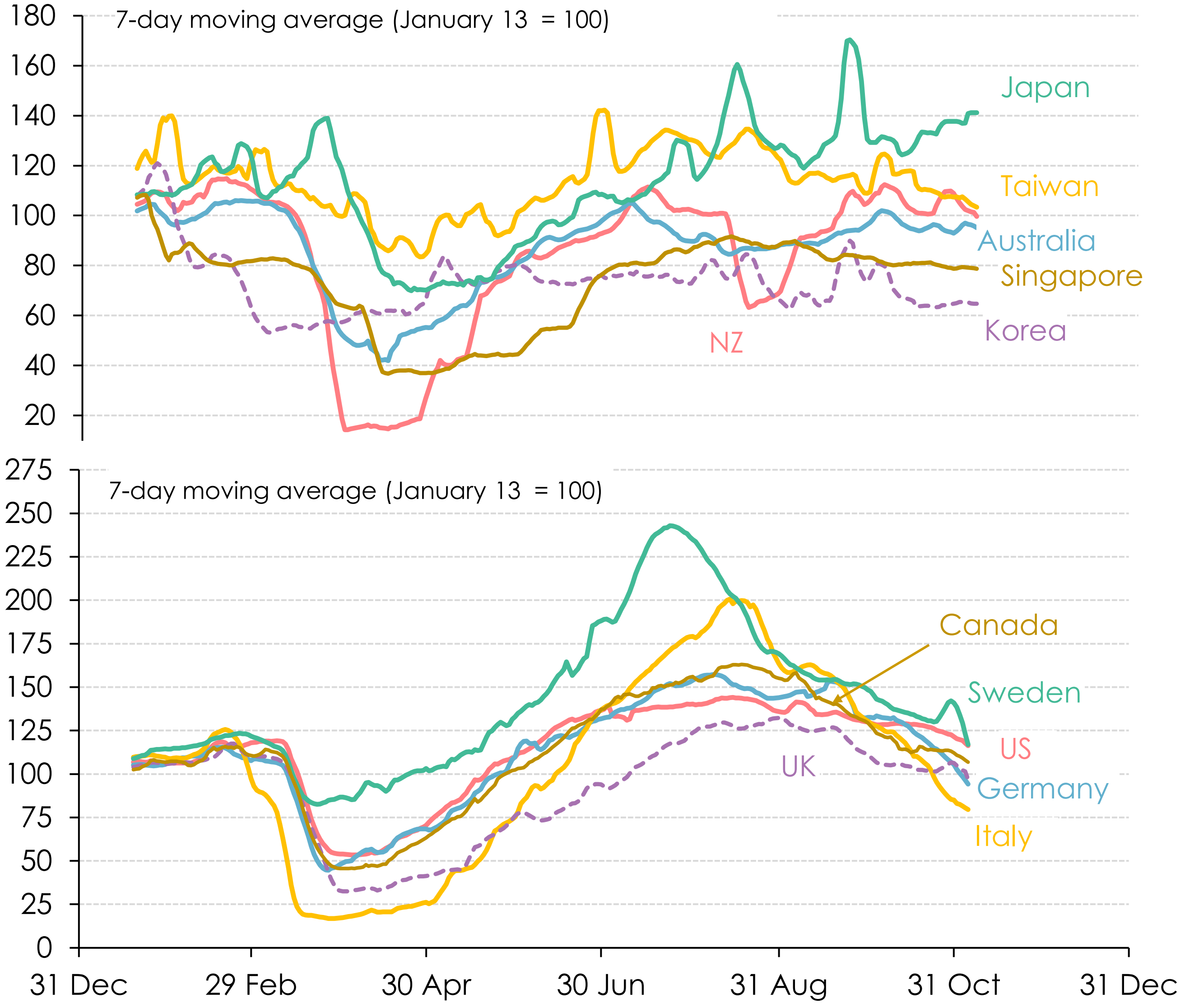
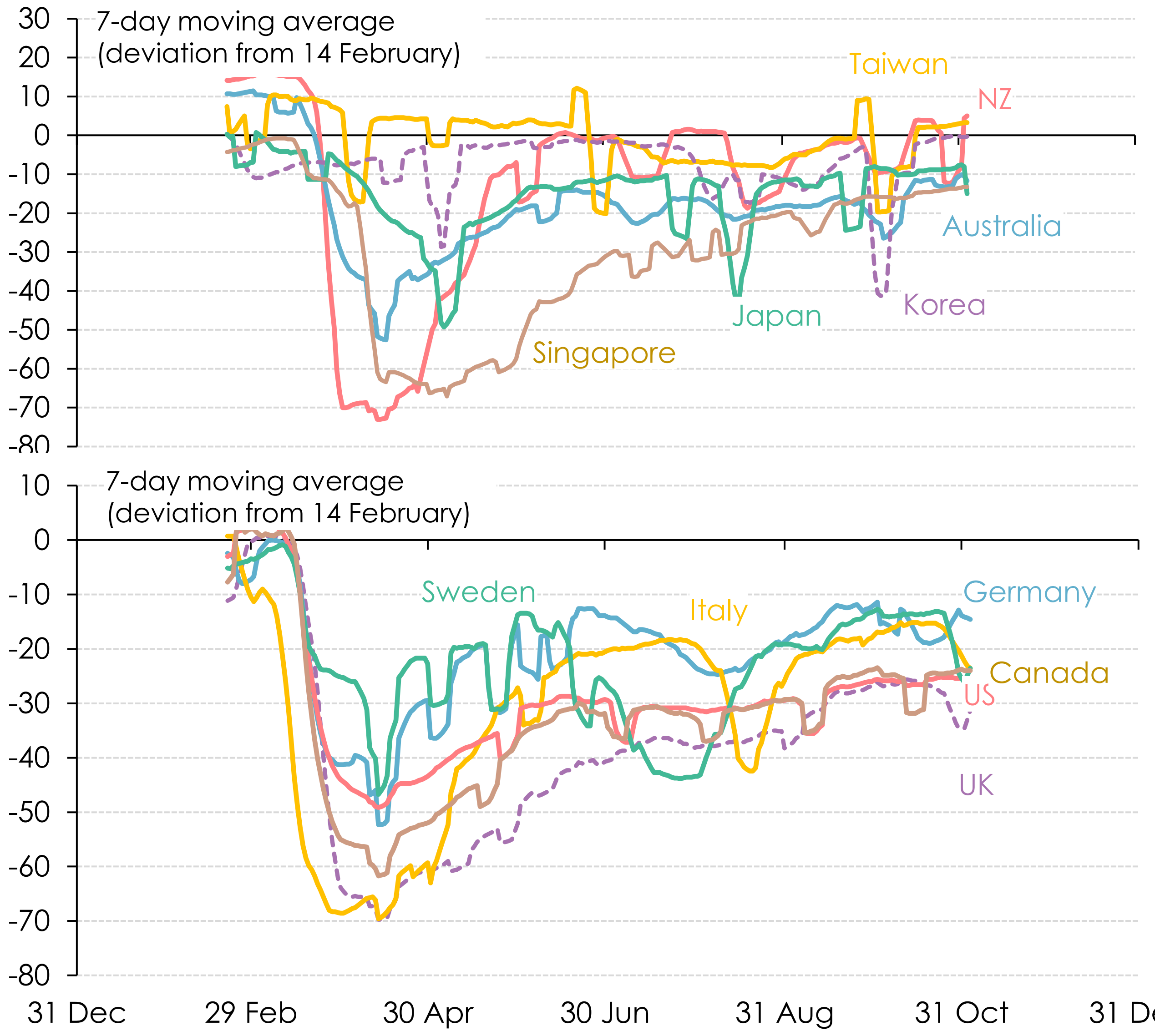
Mobility trends clearly show the slowdown in Europe, and to a lesser extent in the US & Canada, as the ‘second wave’ spreads

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 5th November); Google Community Mobility Reports (data up to 3rd November). Return to "What's New".

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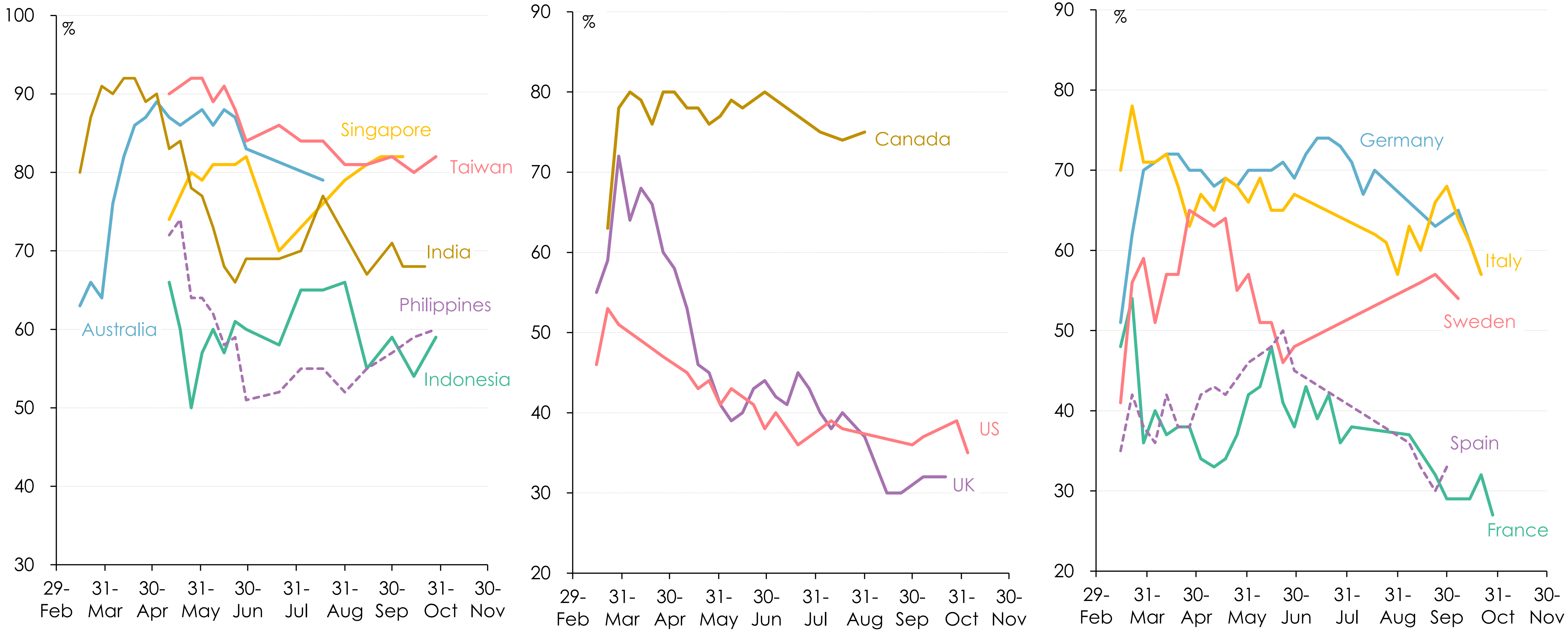
Voters in most Asian countries, Canada, Germany and Italy approve of their governments' handling of the pandemic – not so the US, UK or France

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



Source: YouGov, Covid-19 tracker: government handling. Return to "What's New".

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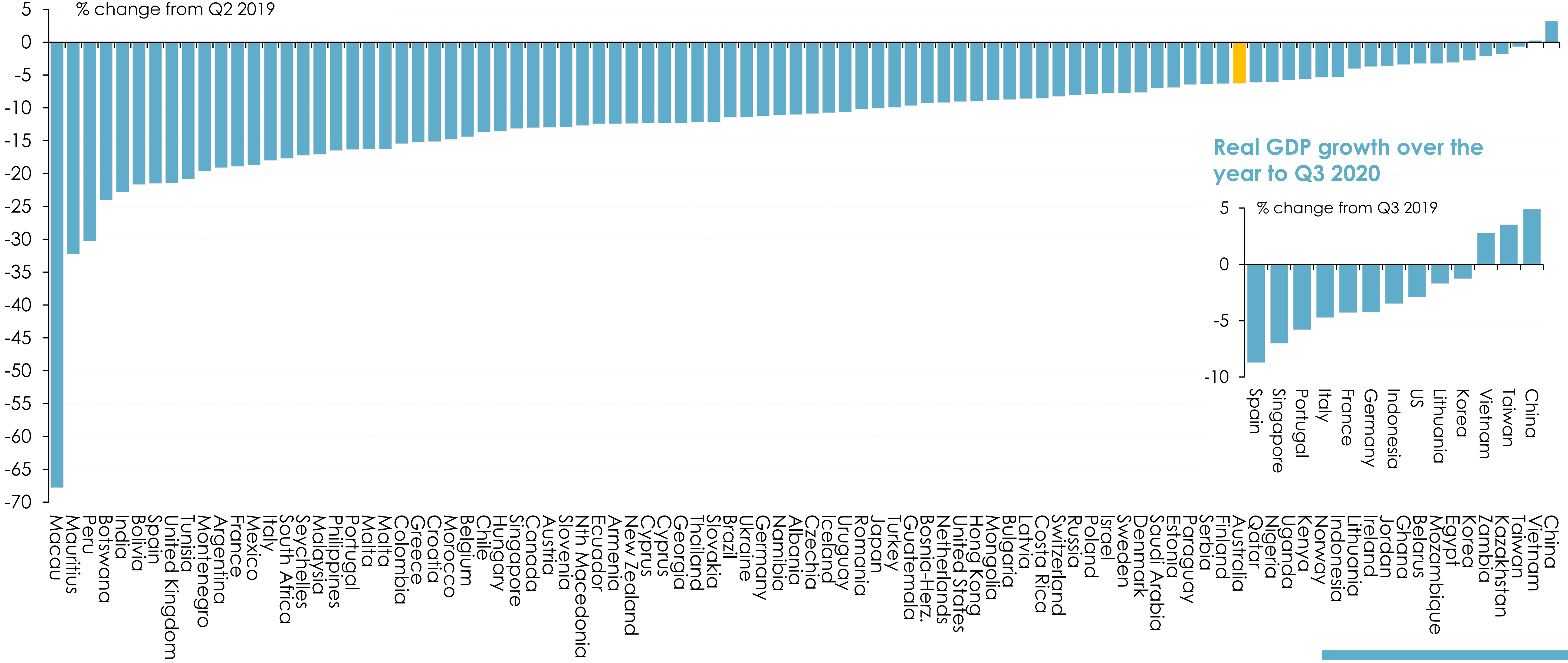
The world

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

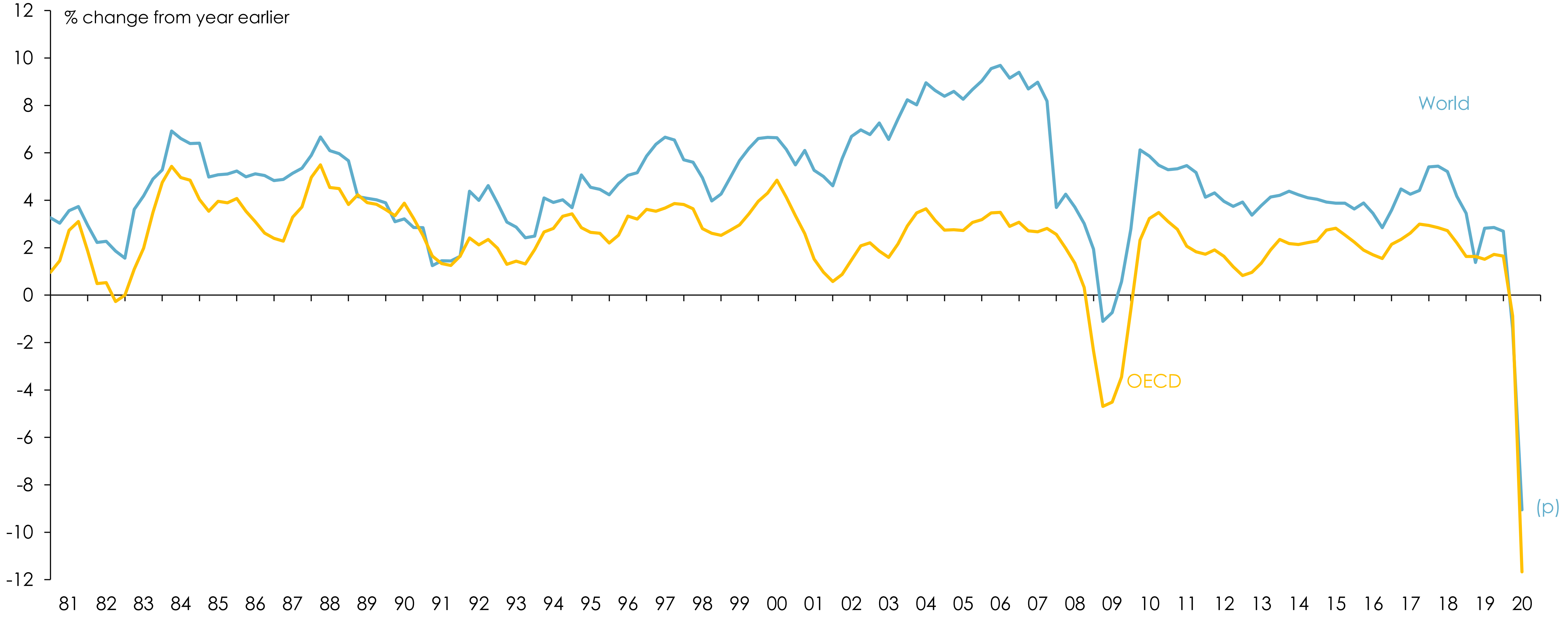
Real GDP growth over the year to Q2 2020



Note: Q3 estimates are preliminary (except for China). *Sources:* national statistical agencies and central banks; Refinitiv Datastream; Corinna. Return to "What's New".

The world economy experienced has contracted by 9%, and the OECD area economy by 11¾%, 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".

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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

	Actual	*IMF*		*World Bank*		*OECD**		*Australian Treasury*	
	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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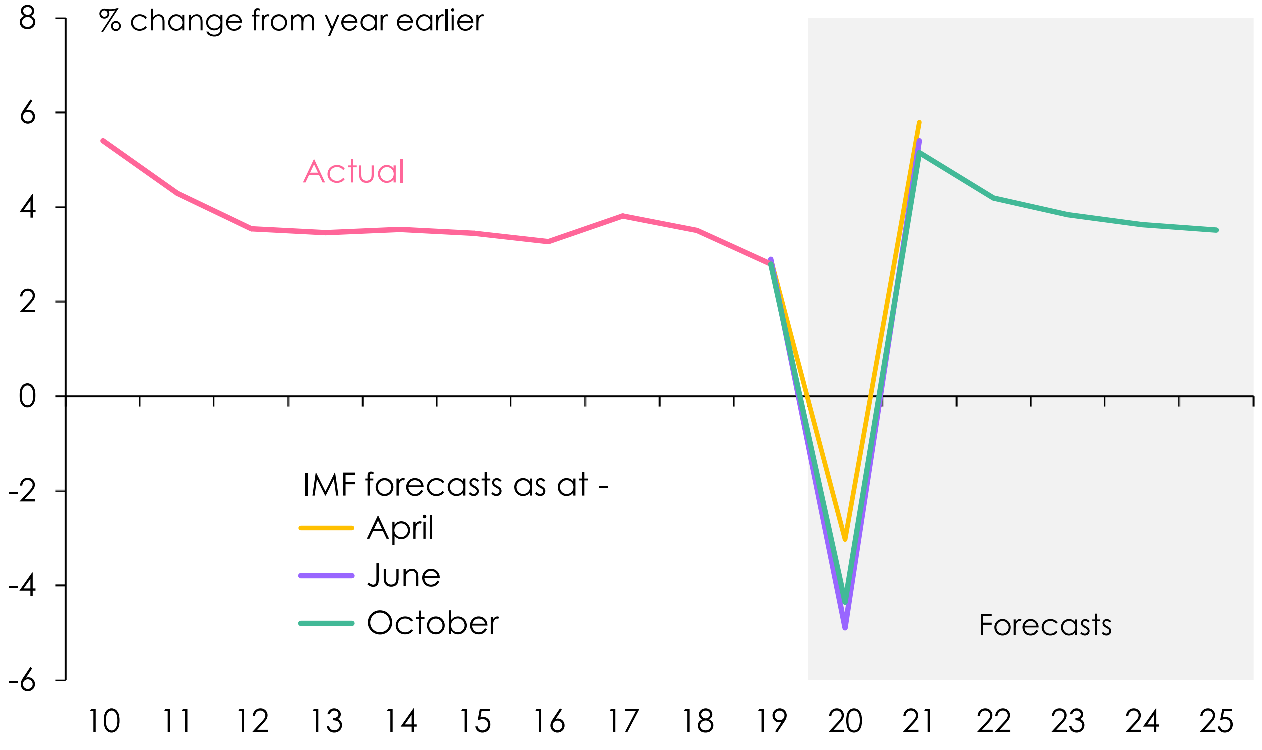
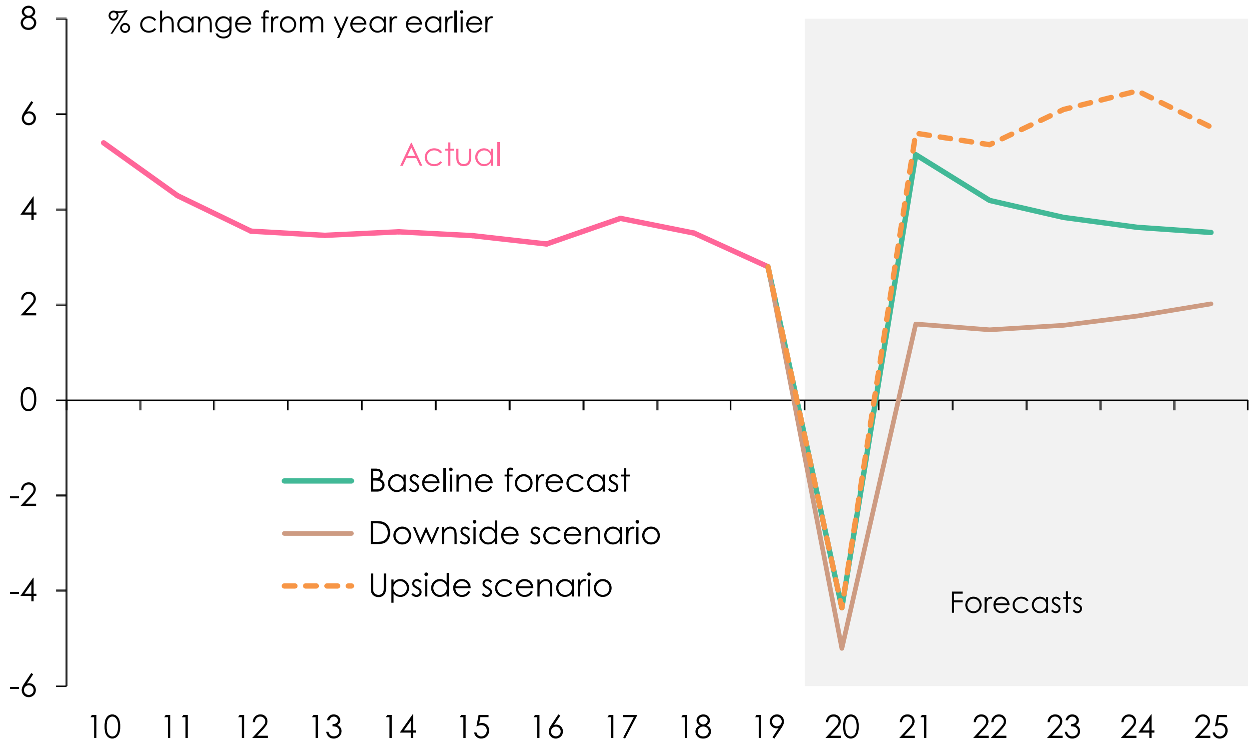
The IMF's latest forecasts envisage a 'long, uneven and uncertain ascent' from the 2020 recession, with 'lasting damage to supply potential'

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'

Source: International Monetary Fund (IMF), *World Economic Outlook*, 13th October 2020. Return to "What's New".

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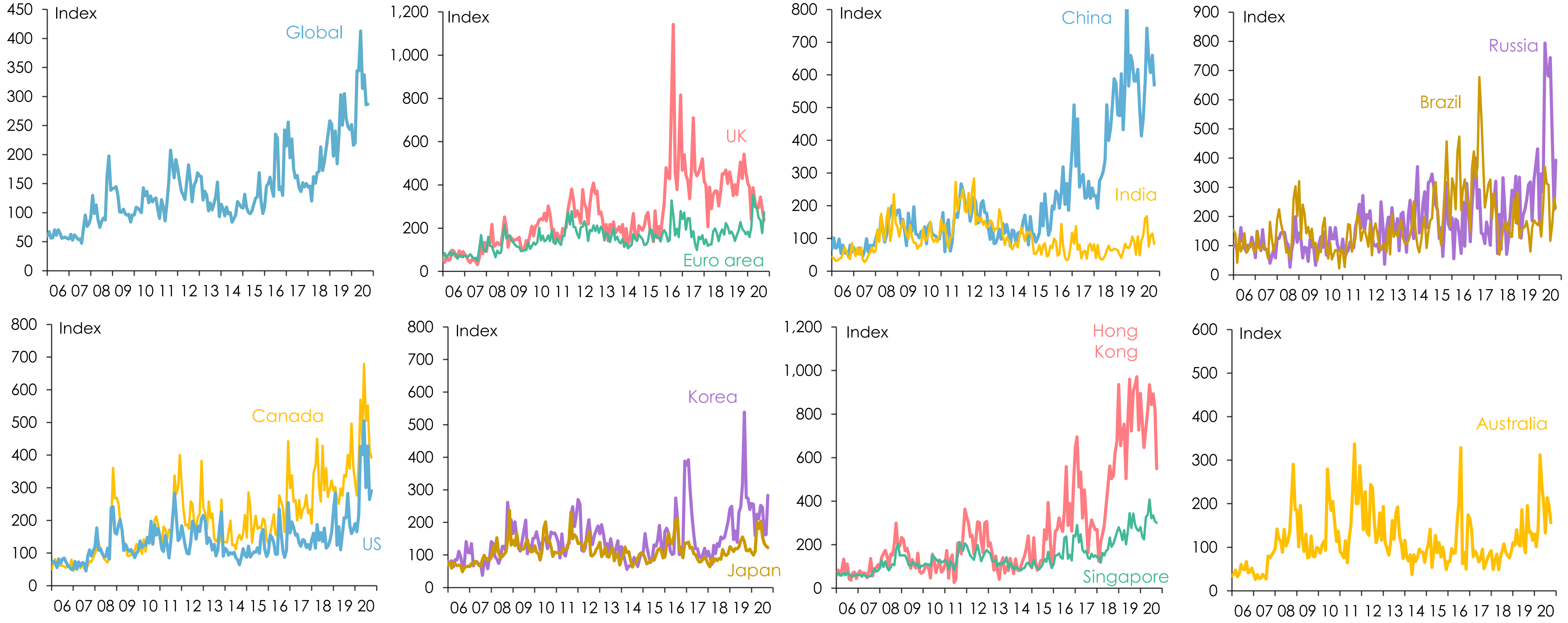
The IMF was unusually forthright about both the consequences of the pandemic, and what governments should do

- 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

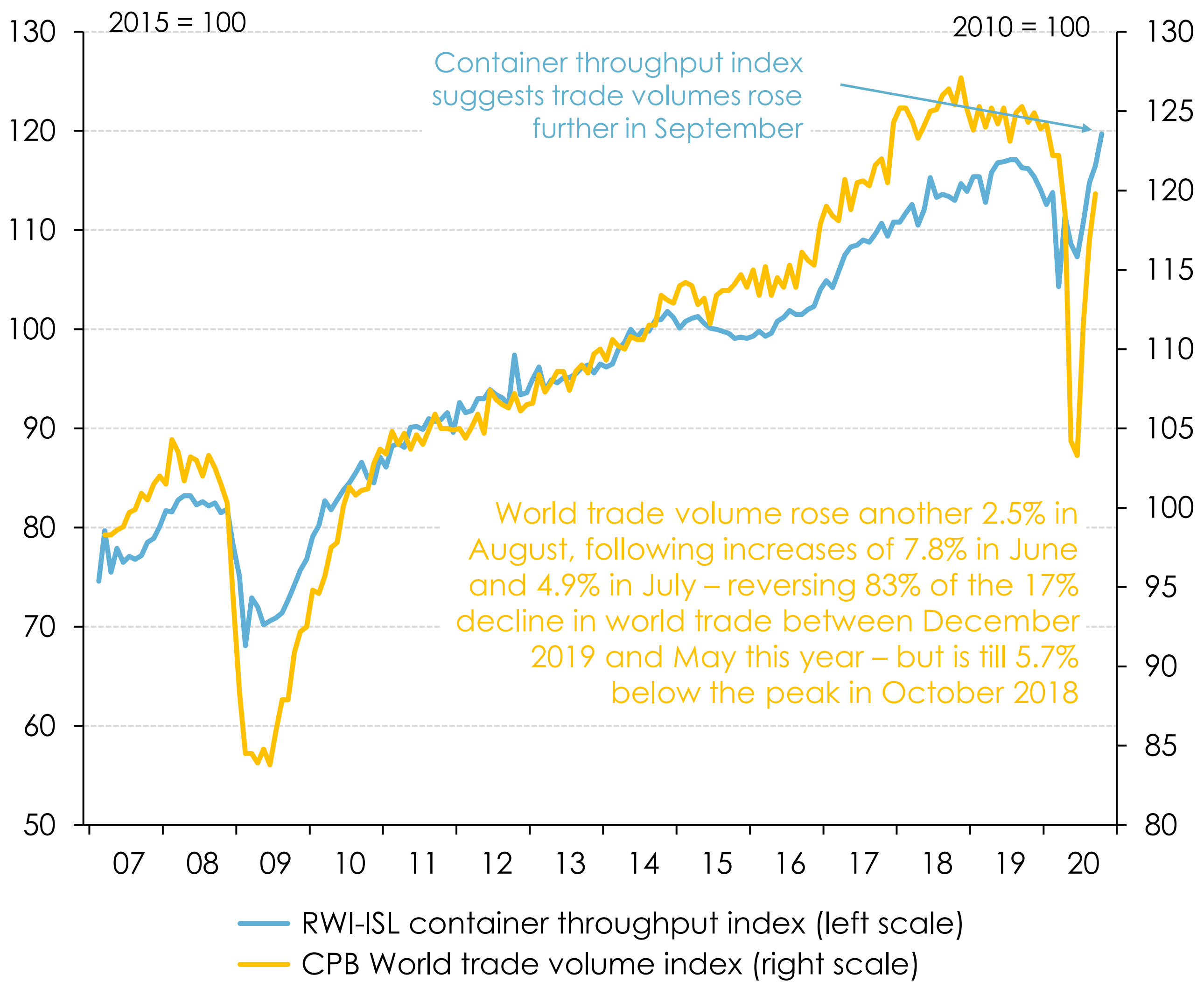
Economic policy uncertainty indices



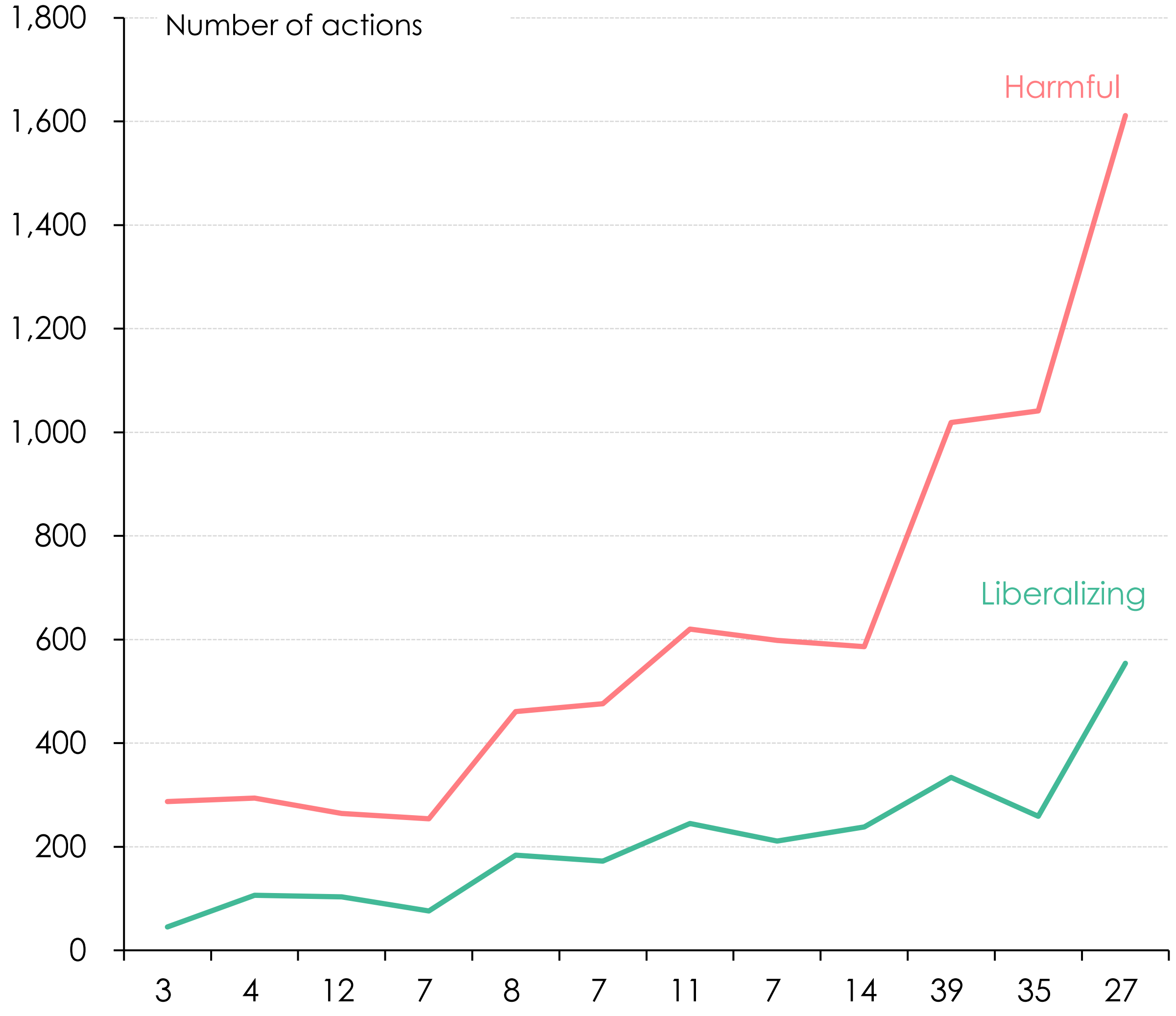
Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words "uncertain" or "uncertainty", "economy" or "economic", and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The 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 6th November). Return to "What's New".

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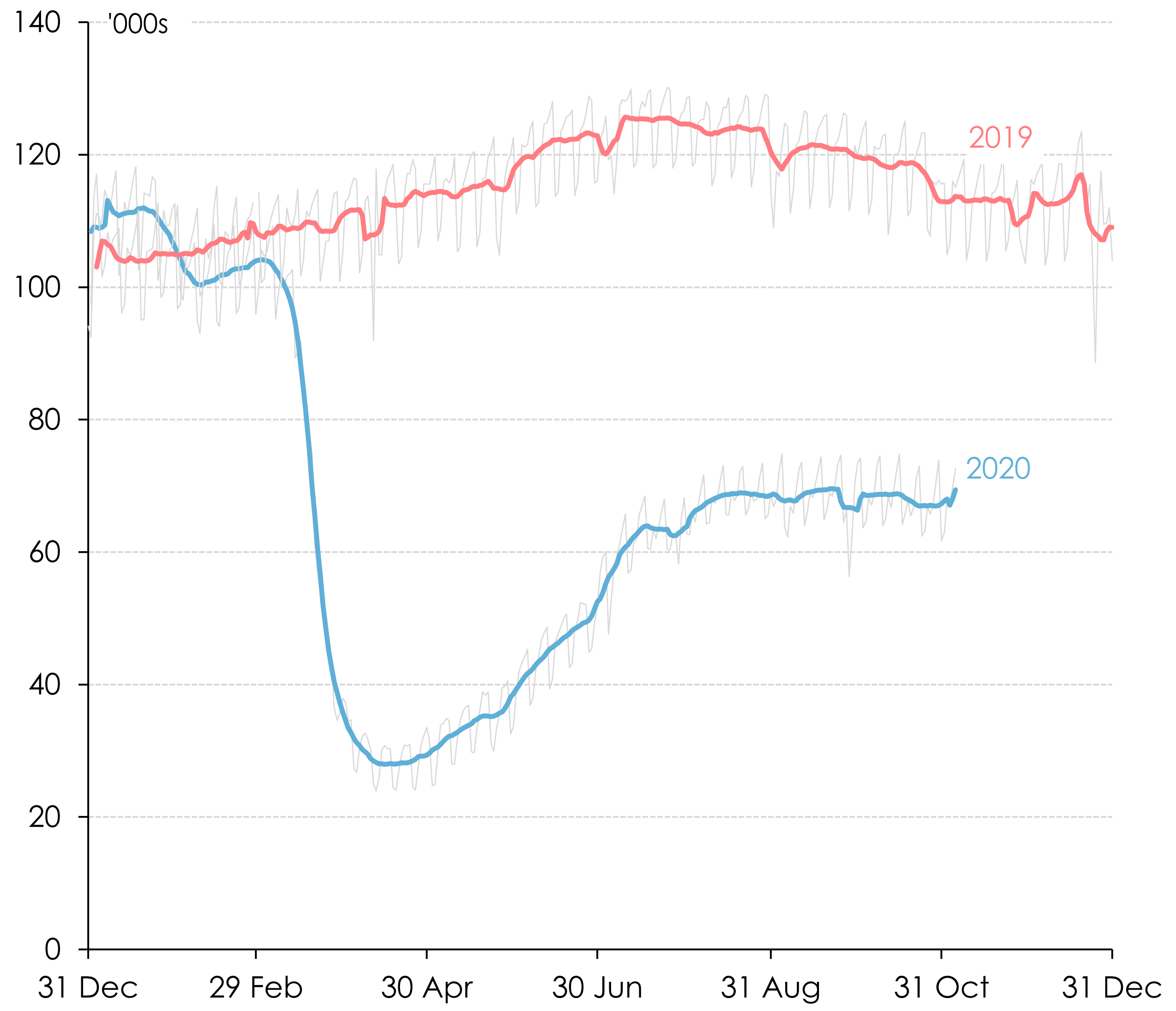
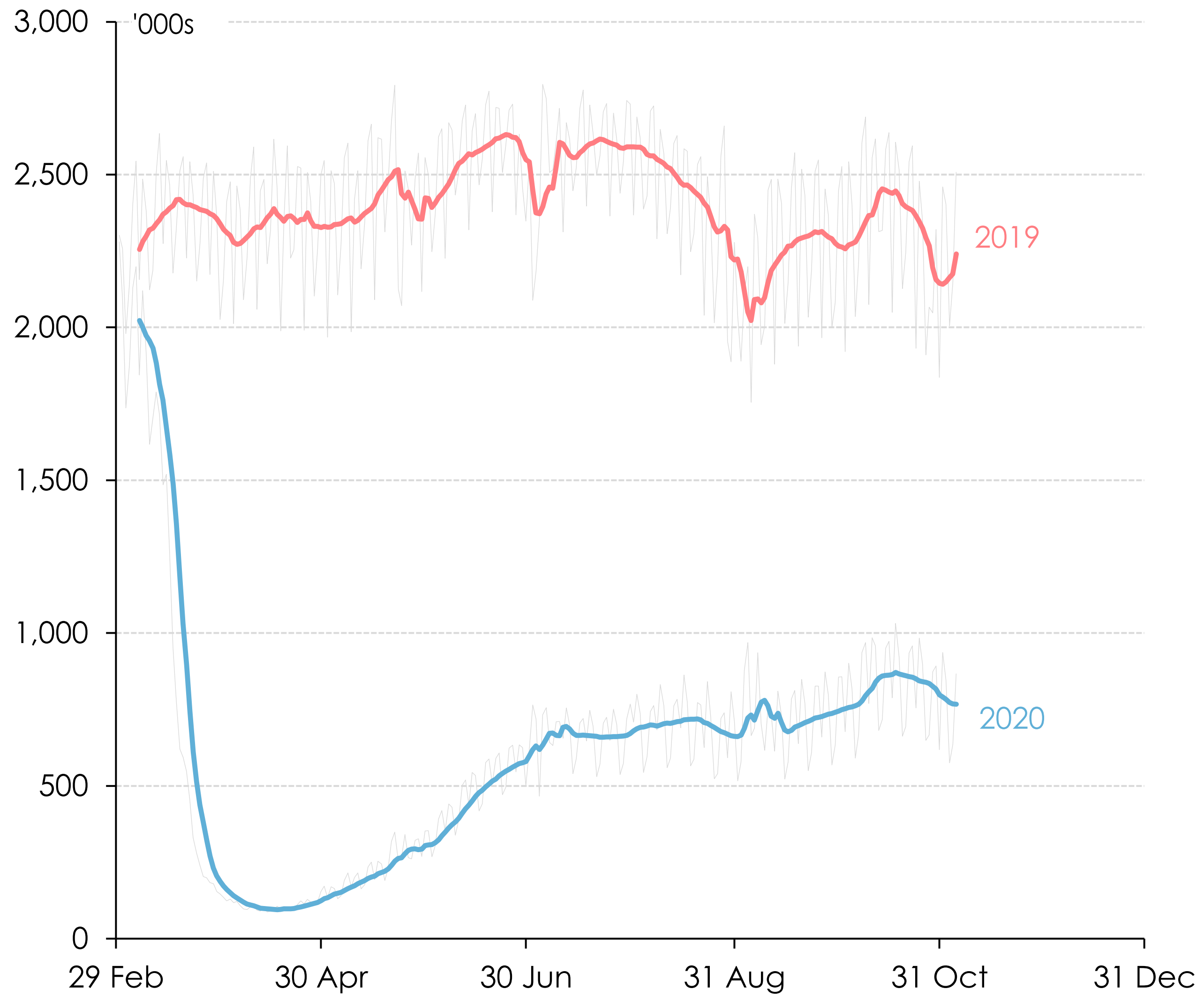
Civil aviation traffic picked up a little last week (surprisingly, perhaps), although not in the US

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 5th November. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines.

Sources: Flightradar24.com; US Transport Safety Administration (at last, something useful produced by aviation 'security'!!!). Return to "What's New".

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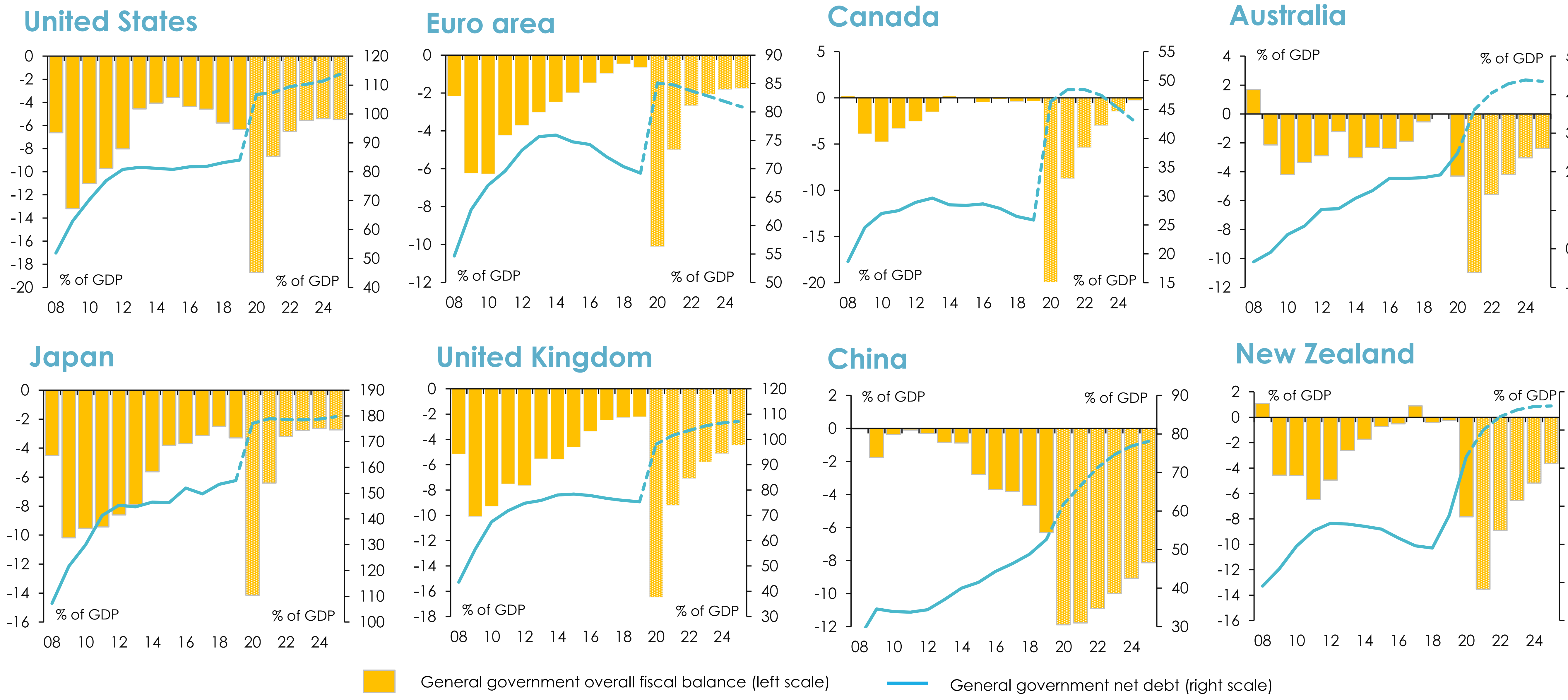
CORINNA ECONOMIC ADVISORY

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



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"

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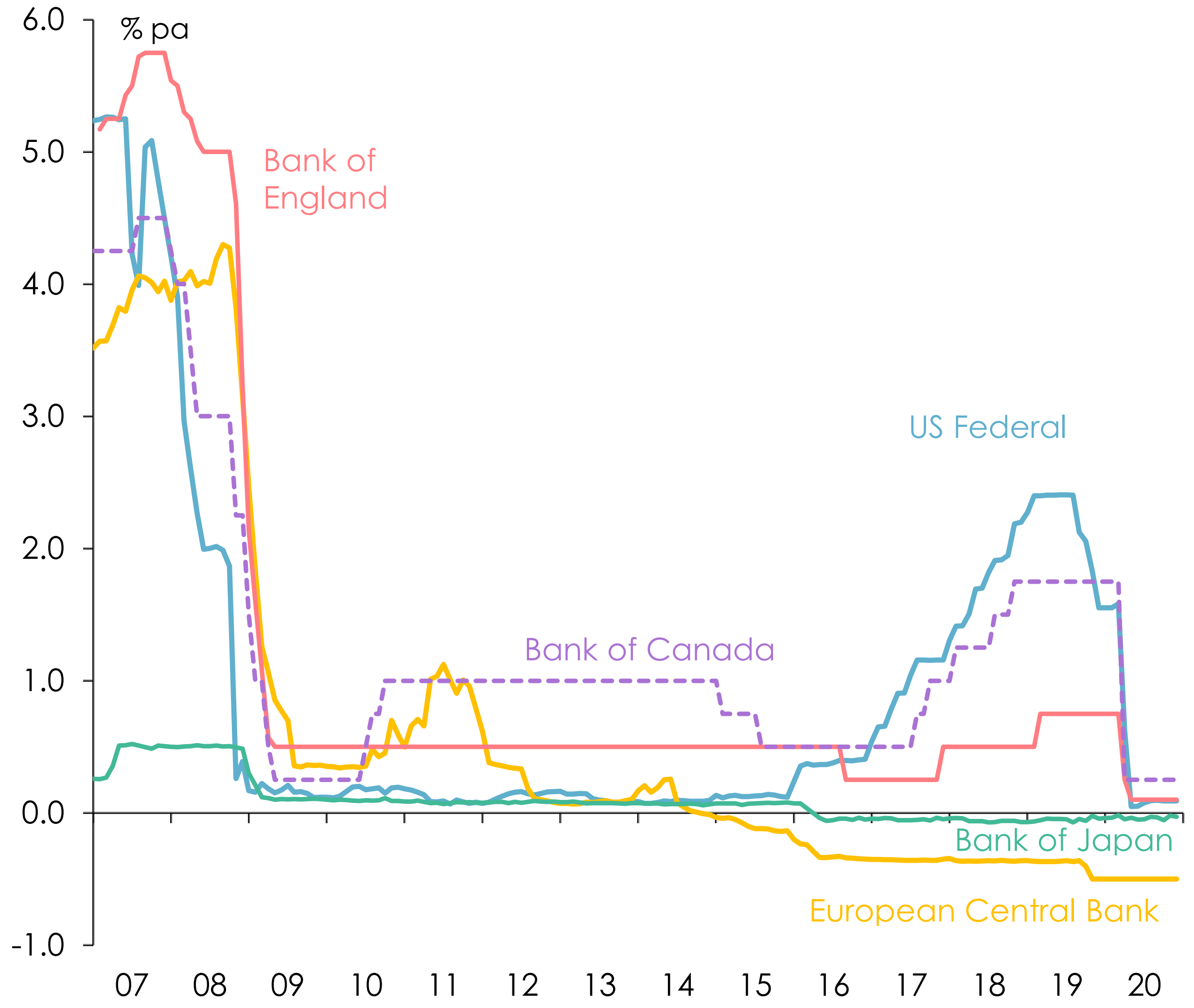
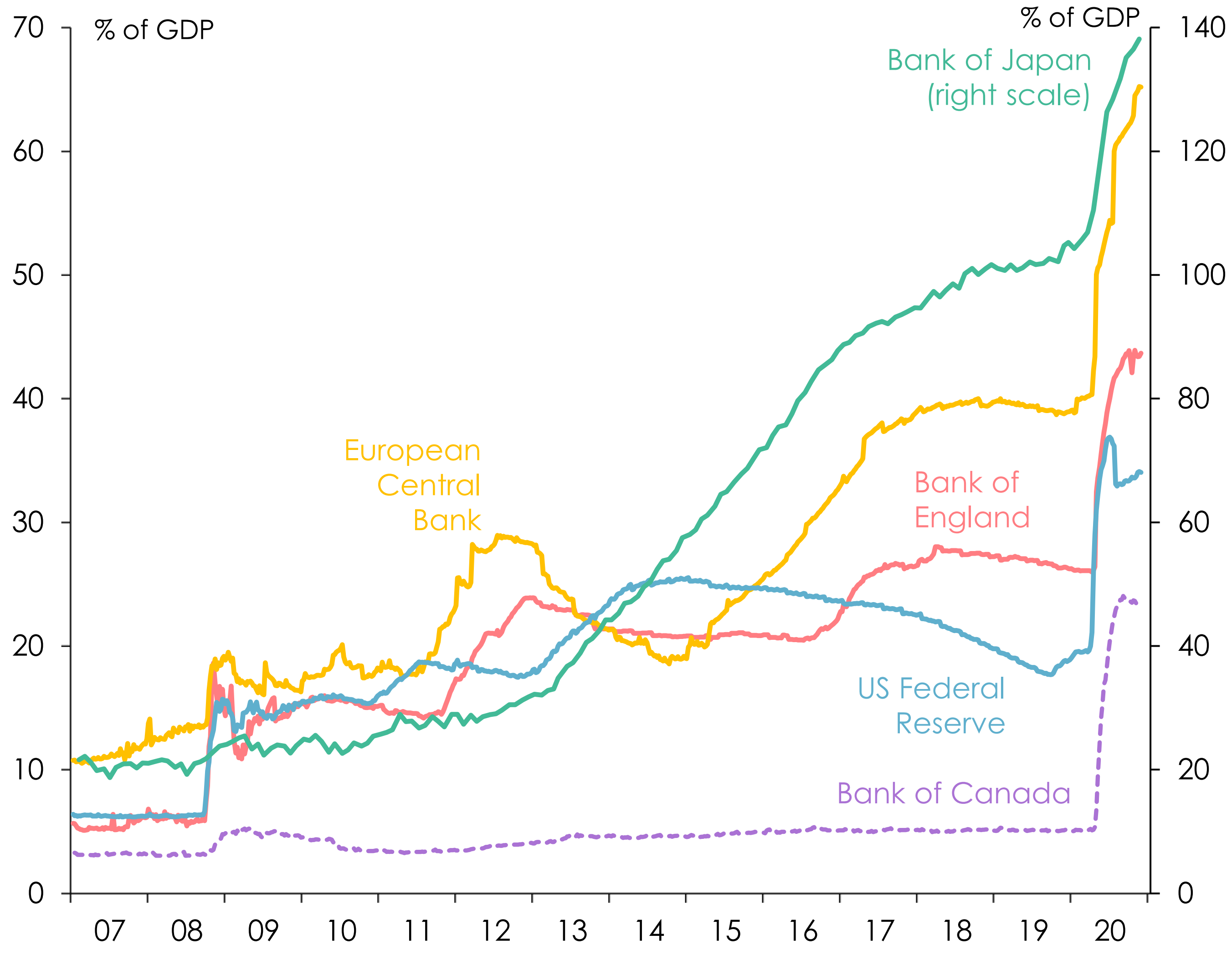
Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

Major central bank policy interest rates



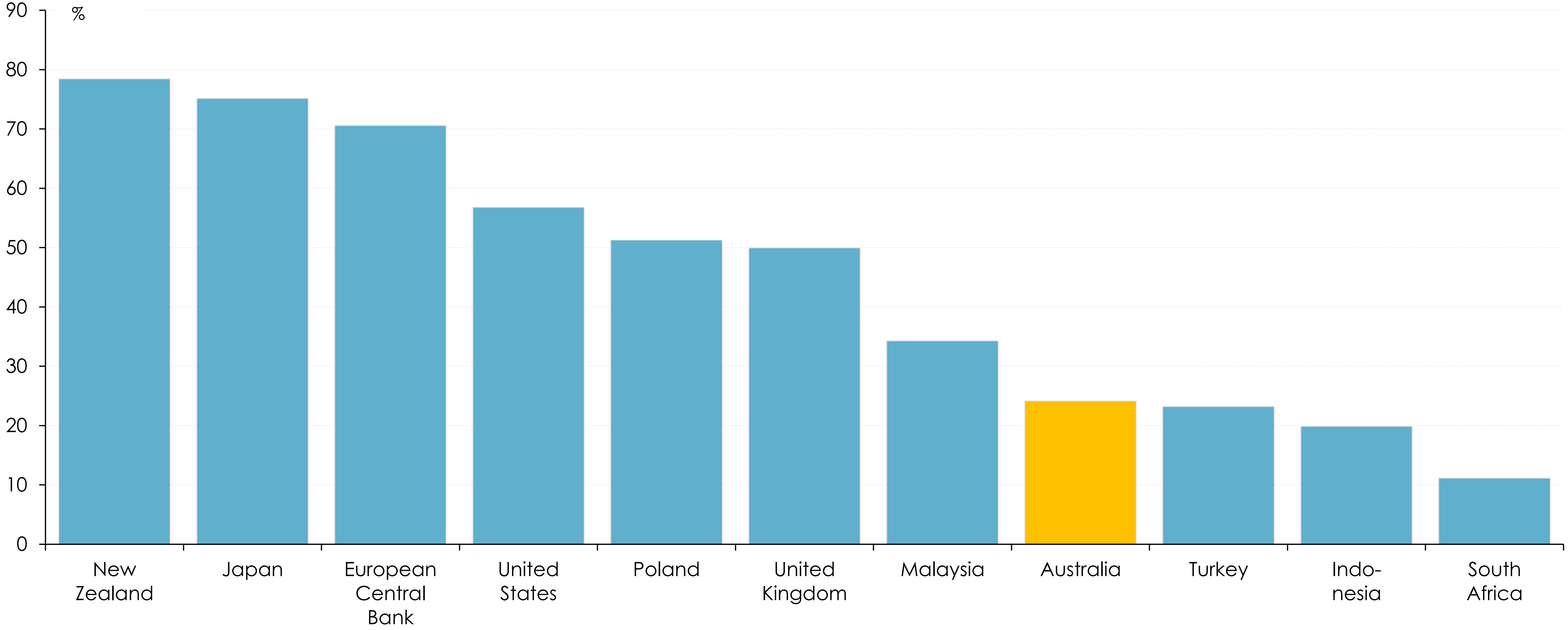
Major central bank balance sheets



Note: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: this effect will continue into Q3 until Q3 nominal GDP data become available, which to date is only the case for the US. The sharp drop in Federal Reserve assets at the beginning of Q3 shown above is largely the result of the rebound in nominal GDP in Q3: a similar decline will appear for the other central banks as their respective countries' estimates of Q3 nominal GDP become available, in late November or early December. *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".

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The Fed left monetary policy settings unchanged at this week's FOMC meeting, but appeared to leave the door ajar to doing more 'QE'

- **In September the Fed's policy-setting Open Market Committee approved changes to its *Statement on Longer-Run Goals and Monetary Policy Strategy*, in particular adjusting its inflation target from "2%" to "an average of 2% over time"**
  - 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)
- **The Fed left policy settings unchanged at its meeting this past Thursday,**
  - and again indicated that it will keep its target range for the Fed funds rate at 0-¼% "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"
  - but it noted that "the ongoing public health crisis … poses considerable risks to the economic outlook over the medium term"
  - and at the ensuing press conference Chairman Powell appeared to leave the door open to further asset purchases, especially if Congress proves unable to agree on a further fiscal stimulus package

Note: The FOMC's 5th November statement is here. Return to "What's New".

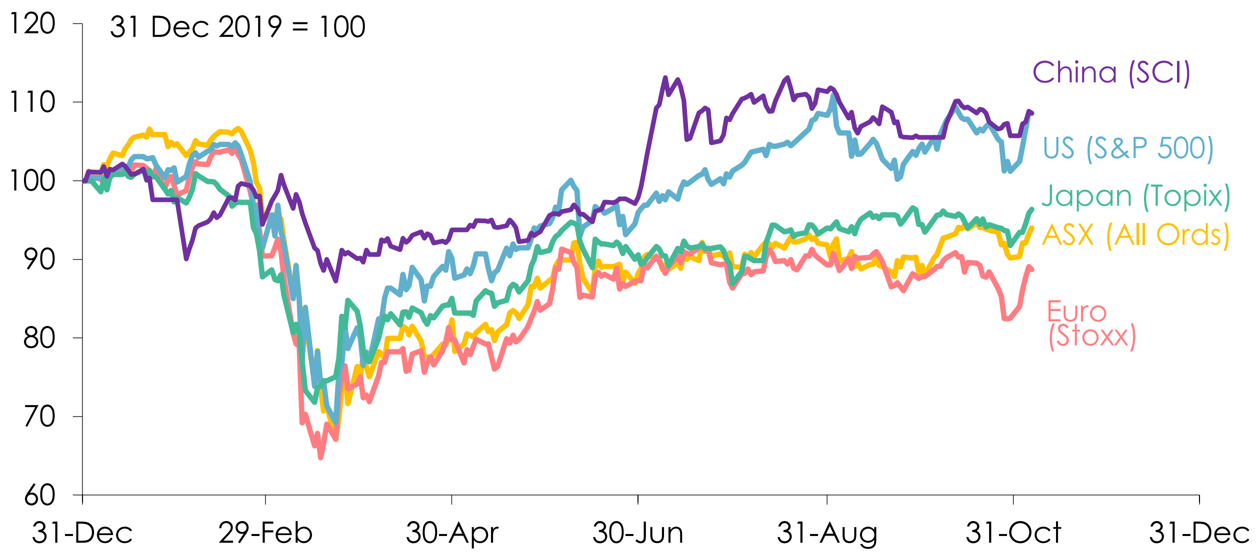
The Bank of England expanded the size of its 'QE' program this week, the BoJ Governor was cautiously optimistic and the RBNZ meets this week

- The Bank of England's Monetary Policy Committee this week decided to increase its bond purchase program by £150bn, taking the total stock of bond purchases to £875bn (46% of GDP) – which would in turn increase the size of the BoE's balance sheet to about 52% of GDP (still less than the ECB's 65%)
  - the MPC's Monetary Policy Report noted that UK GDP is expected to fall again in Q4 as a result of the re-introduction of restrictions
  - markets interpreted the decision to increase the size of bond purchases as reducing the prospect of the BoE adopting negative interest rates, as advocated by some MPC members recently
- Bank of Japan Governor Kuroda Haruhiko said Japan's economy has "picked up", was likely to have grown in Q3, and should "follow an improving trend", with growth of 3-3.8% and (positive) inflation of 0.2-0.6% in FY 2021 – although he also noted that risks were "skewed to the downside" and the BoJ would "not hesitate to take additional measures if necessary"
- Although the ECB left monetary policy settings unchanged at last month'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 Reserve Bank of New Zealand's Monetary Policy Committee meets this coming Wednesday (11th November) and is expected to initiate a 'Funding for Lending' Program similar to the BoE's and RBA's
  - Governor Adrian Orr and other senior RBNZ officials have also repeatedly signalled a clear disposition to move the Official Cash Rate target into negative territory, although that is considered more likely at the 24th February 2021 meeting)after the release of Q4 CPI, employment and GDP data) than at this week's meeting

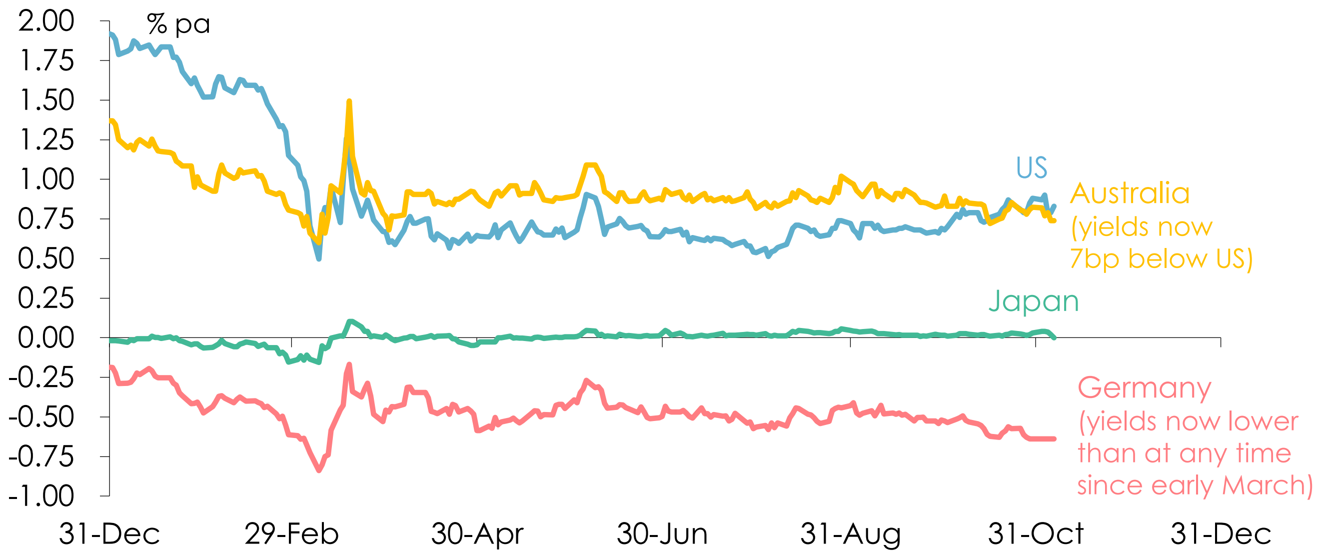
Return to "What's New".

The US election outcome prompted a 'risk-on' move (stocks up 5-10%, US$ down 2%) with investors seemingly buoyed by 'gridlock' in Washington

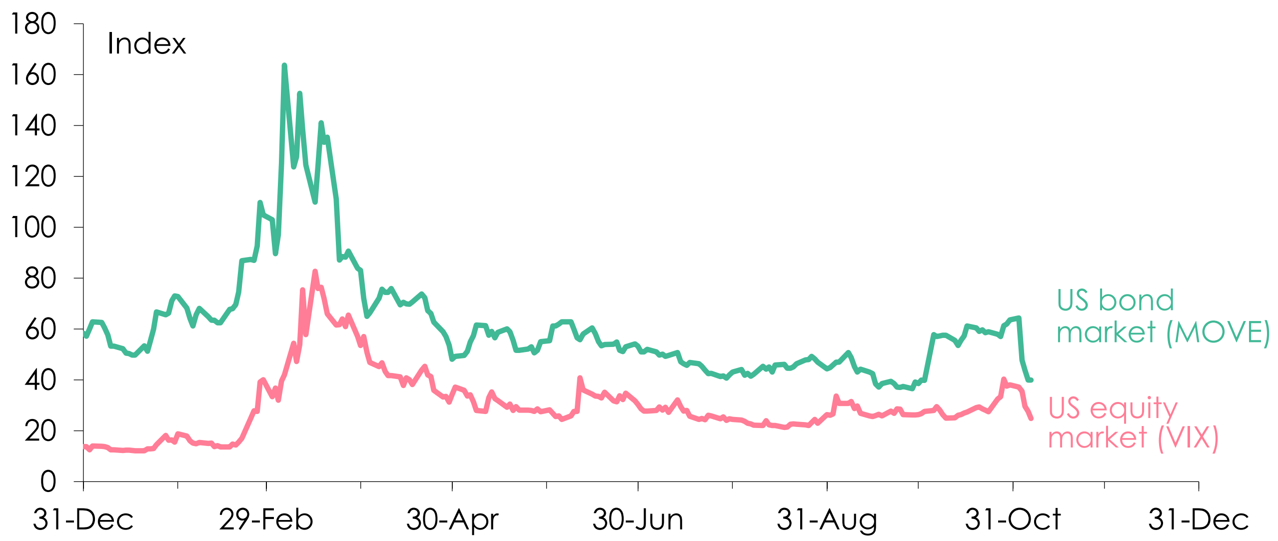
Stock markets



10-year bond yields



Measures of market volatility

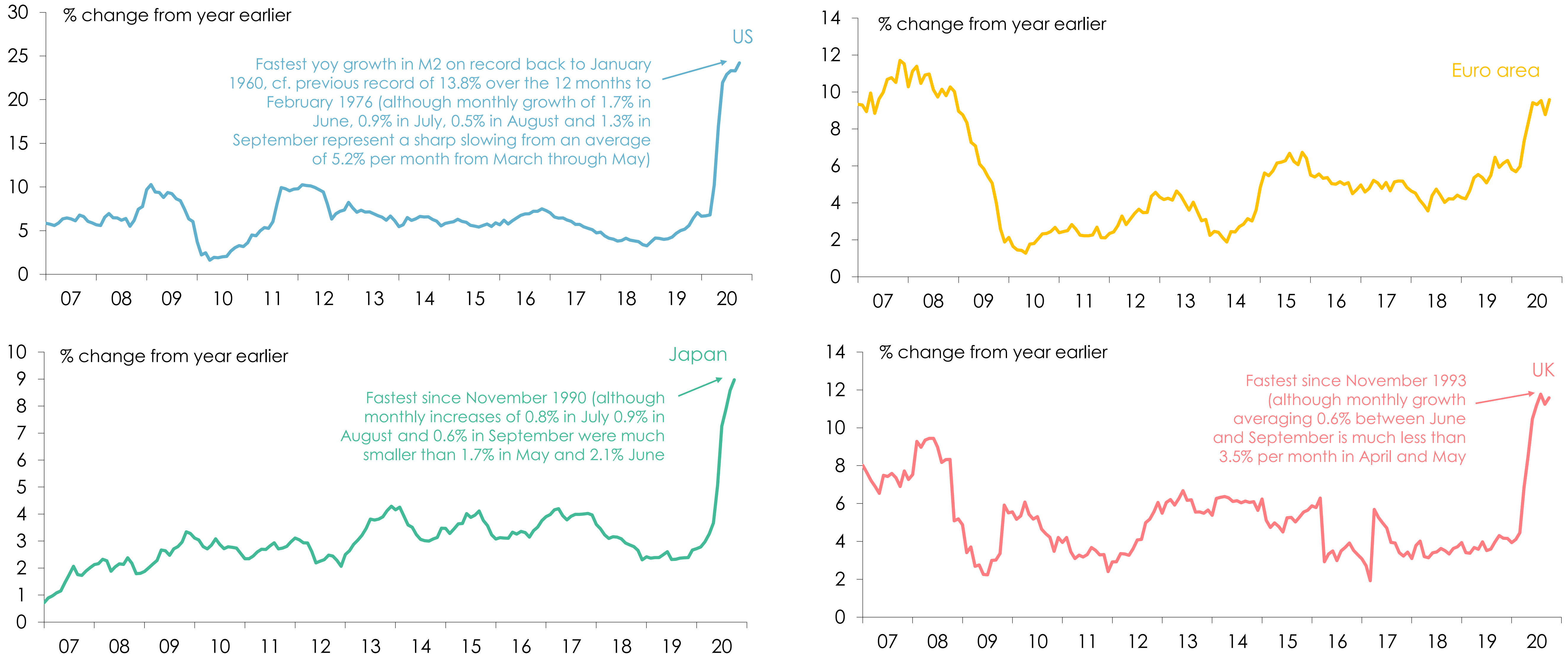


US dollar vs euro and yen

Source: Refinitiv Datastream. Data up to 6th November. 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

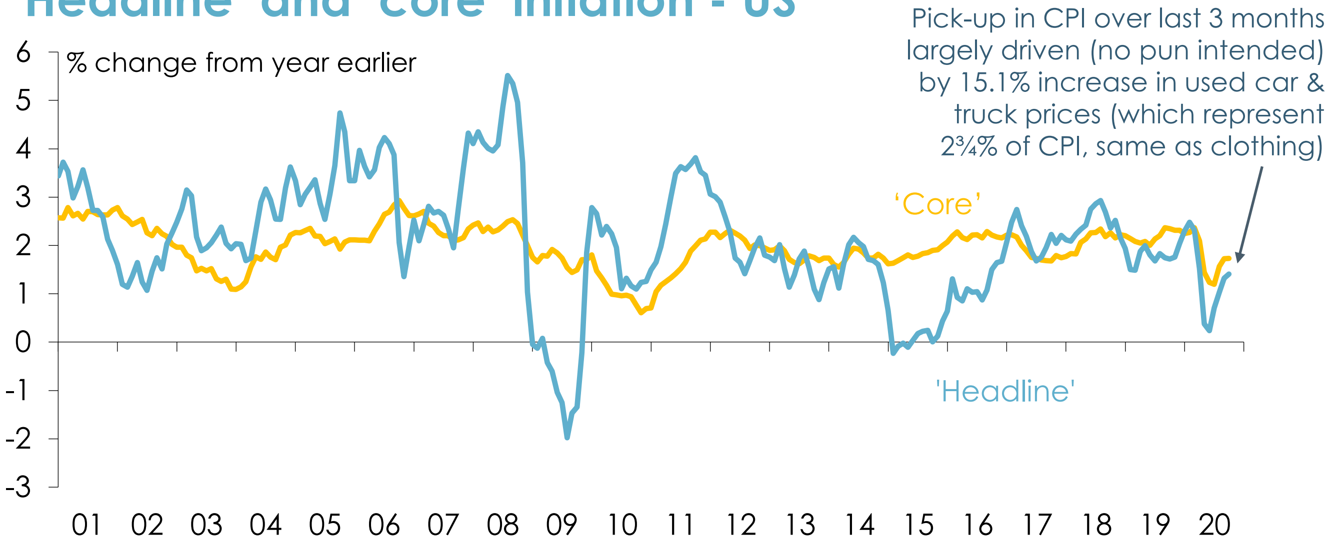


Note: Japan is M2+CDs. *Sources:* US Federal Reserve; European Central Bank; Bank of Japan; Bank of England. Return to "What's New“.

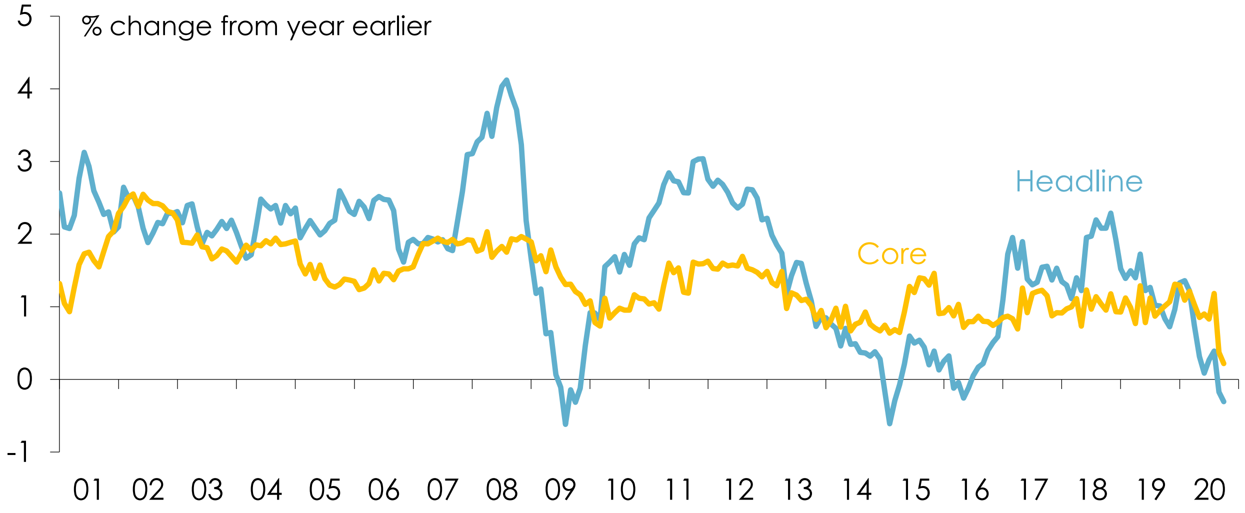
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

…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

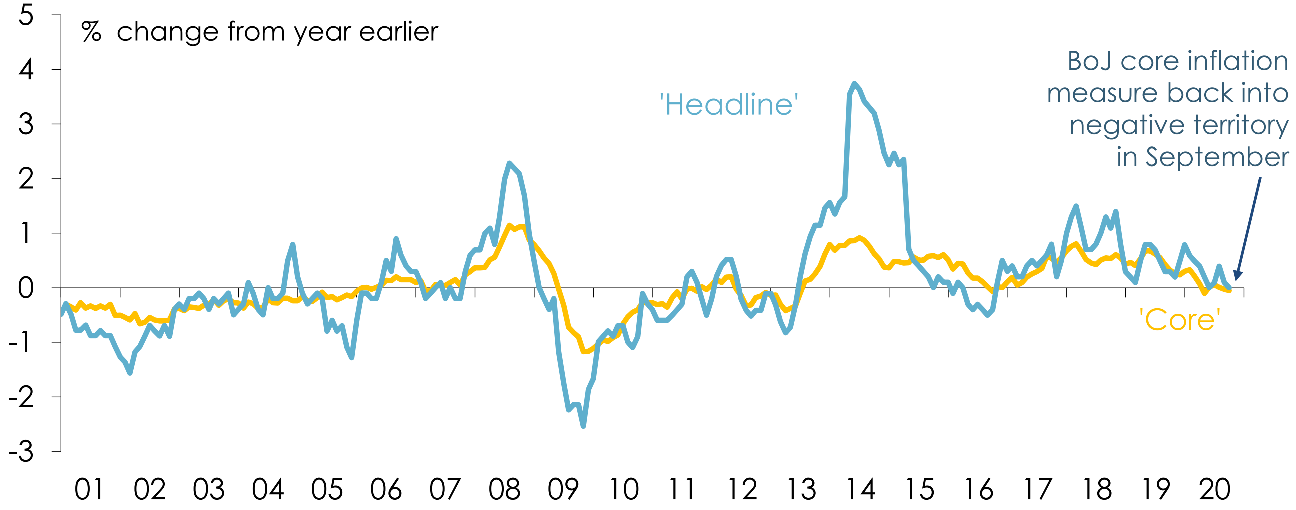
‘Headline’ and ‘core’ inflation - US



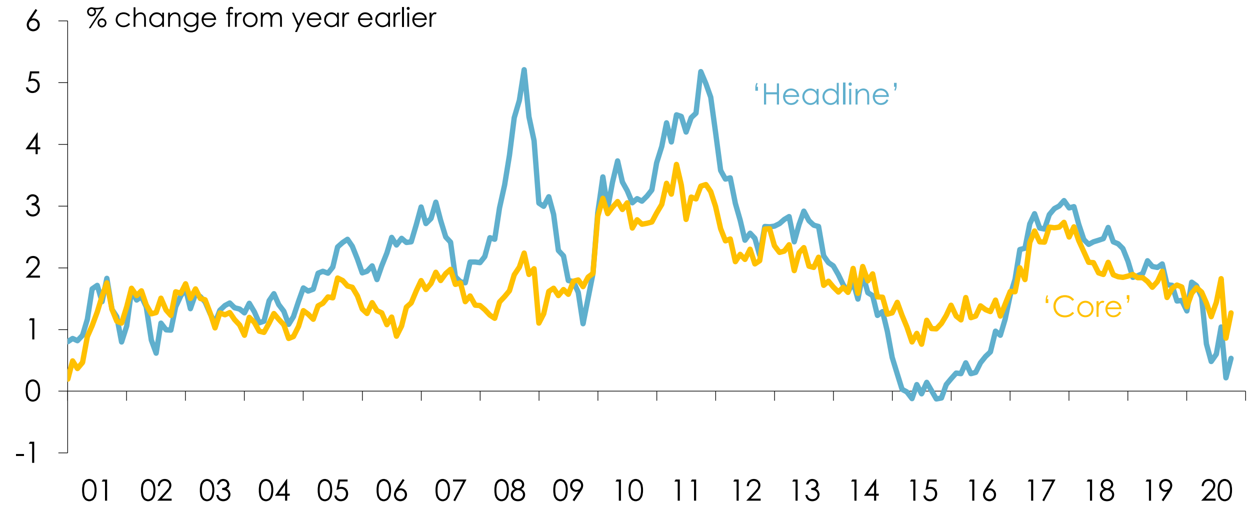
‘Headline’ and ‘core’ inflation – Euro area



‘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".

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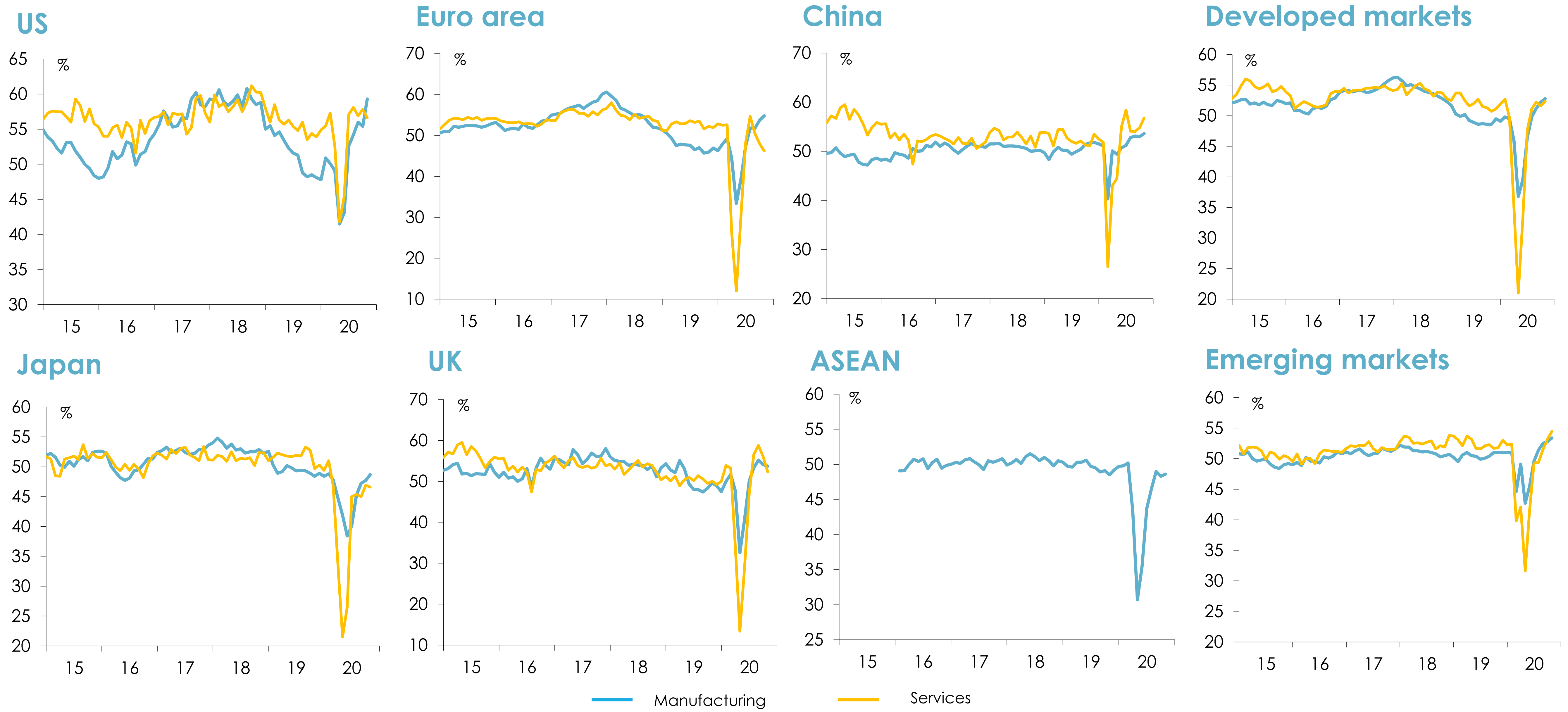
CORINNA ECONOMIC ADVISORY

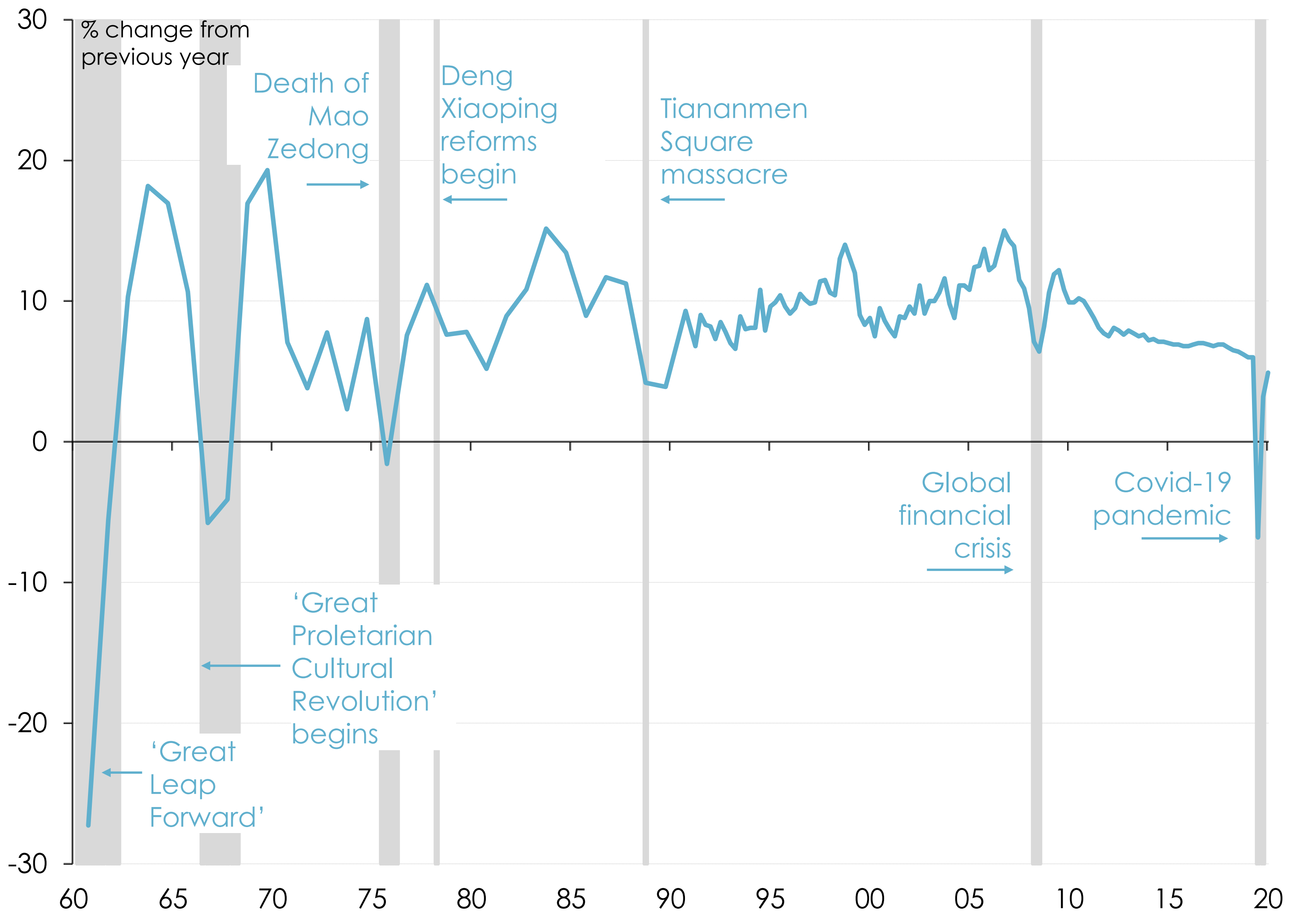
Manufacturing PMIs for October were strong in almost every major economy, services more mixed



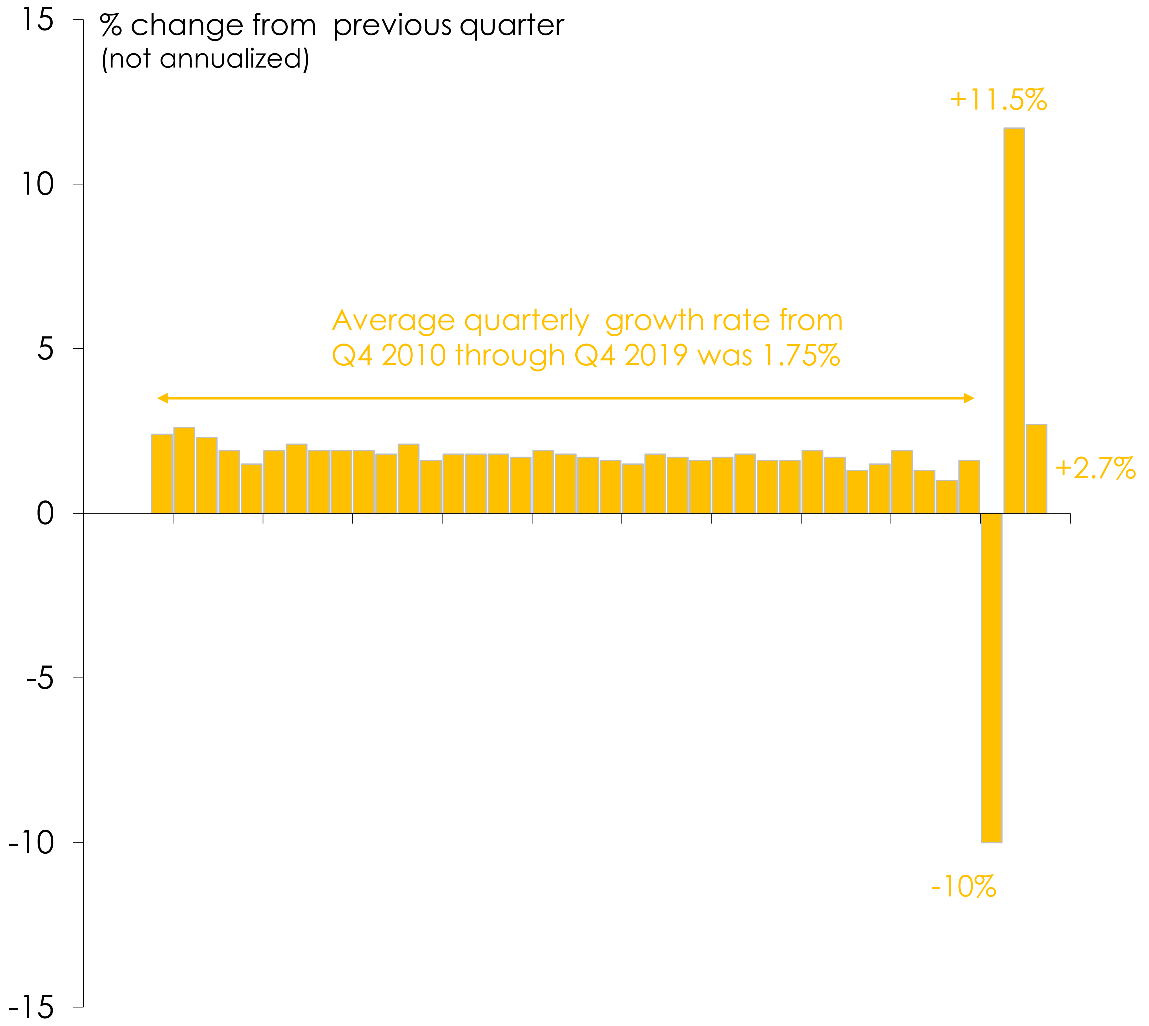
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

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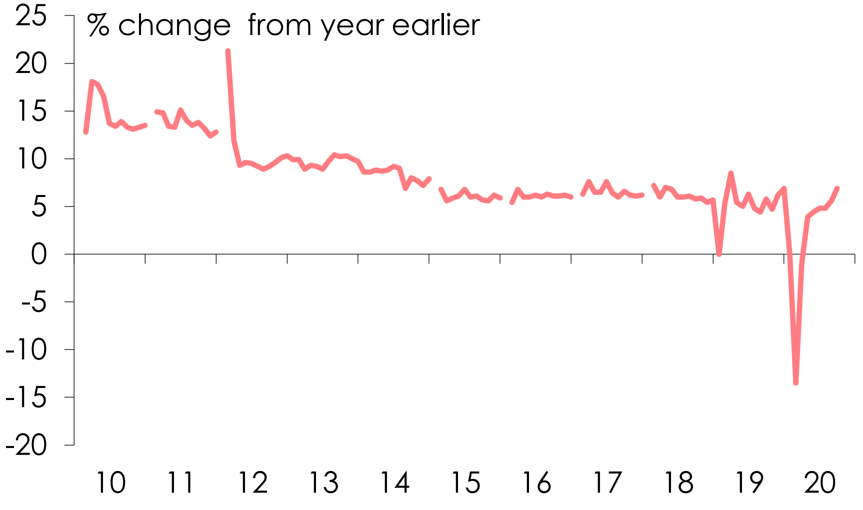
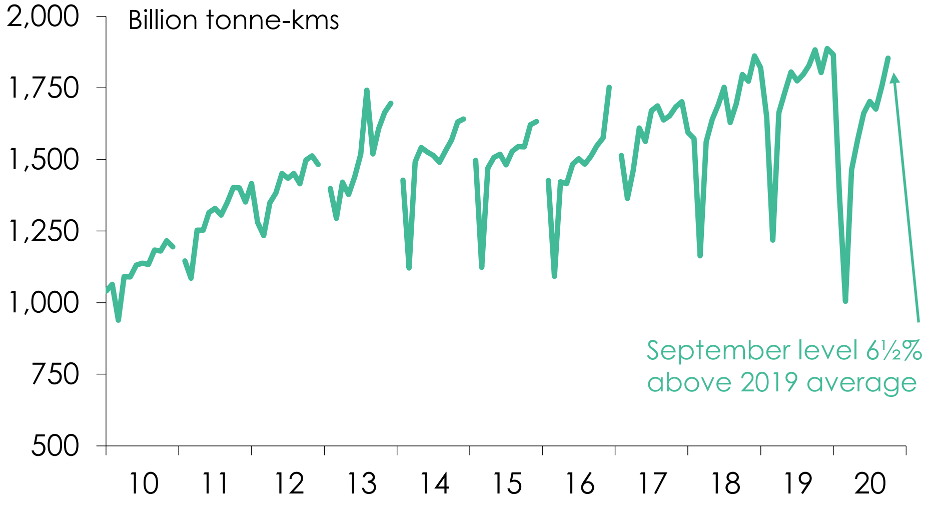
Most areas of the 'production side' of the Chinese economy are now back to, or above, pre-pandemic levels

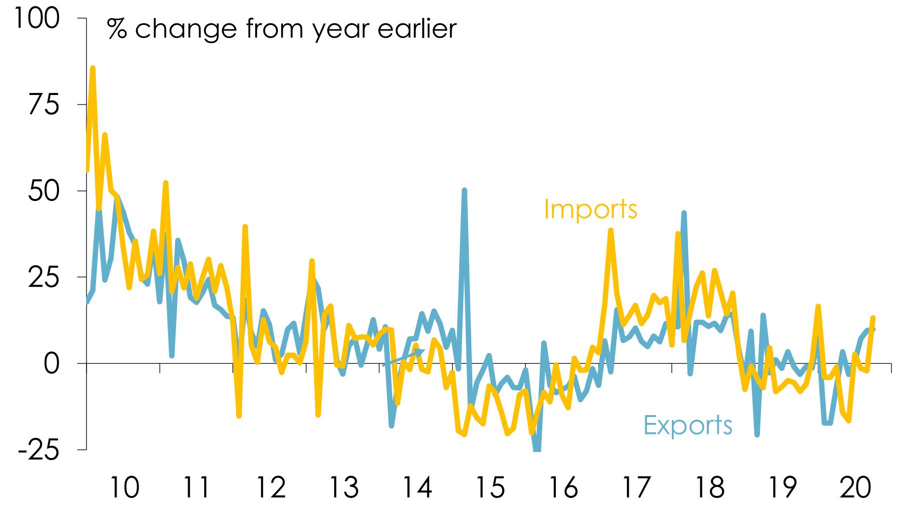
Industrial production



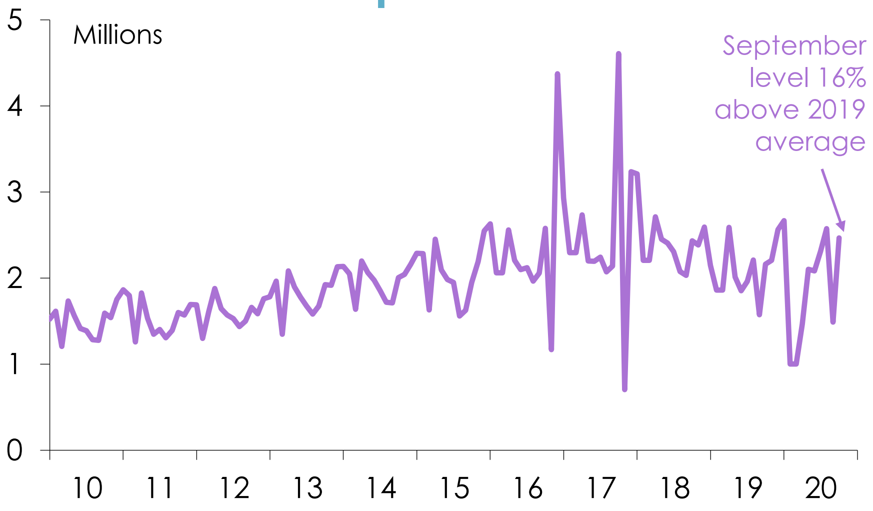
Freight traffic volumes



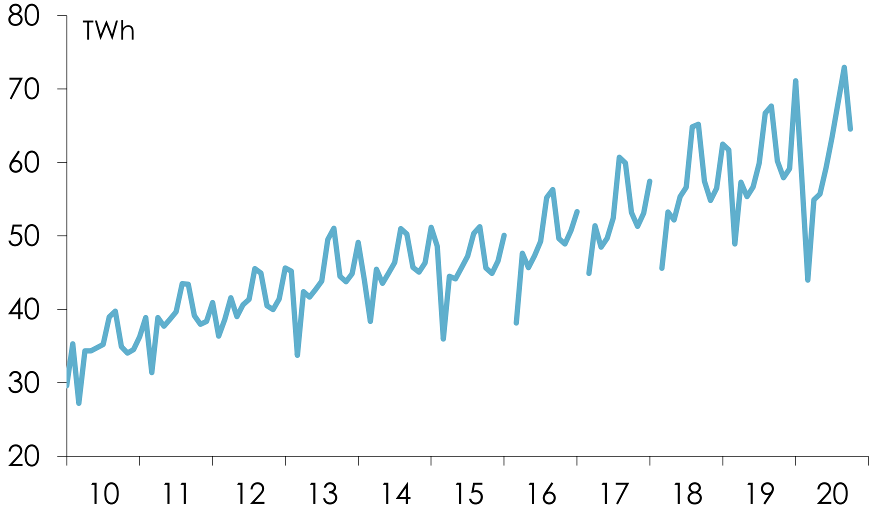
Merchandise trade



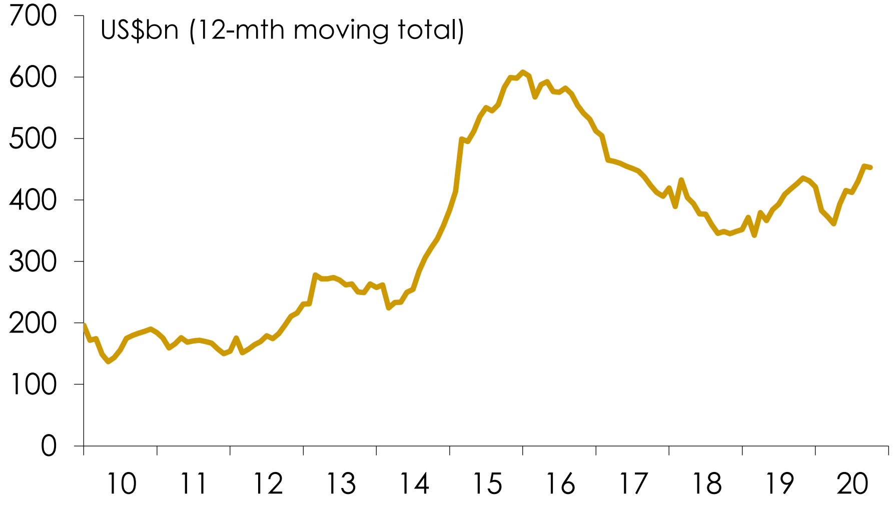
Motor vehicle production



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".

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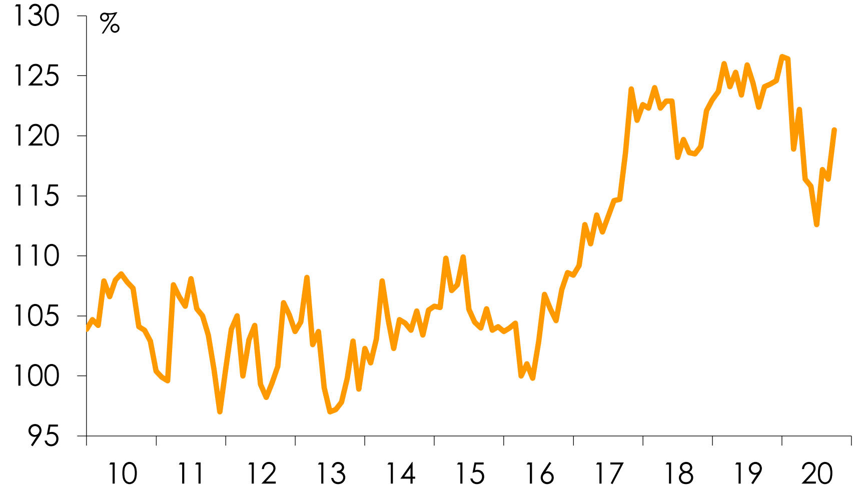
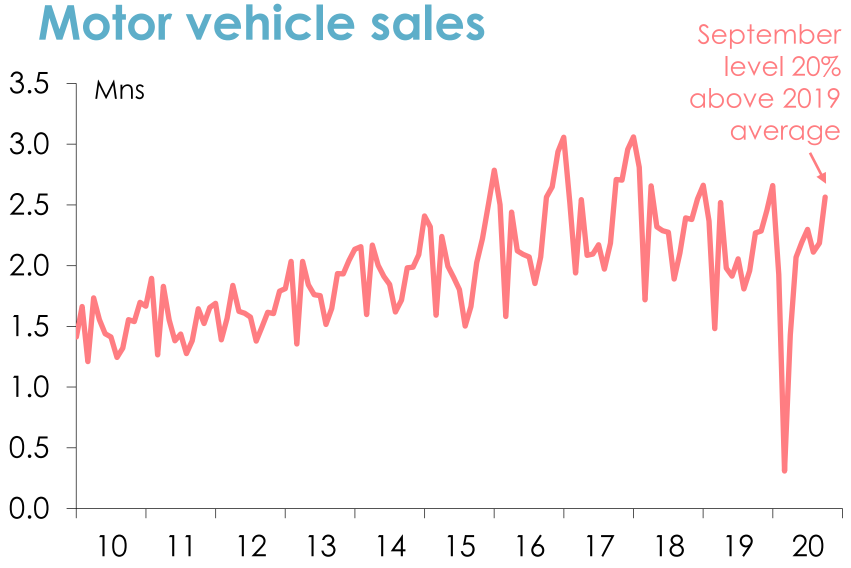
The ‘demand’ side of the Chinese economy – both household & business – is recovering rather more gradually, though September was stronger

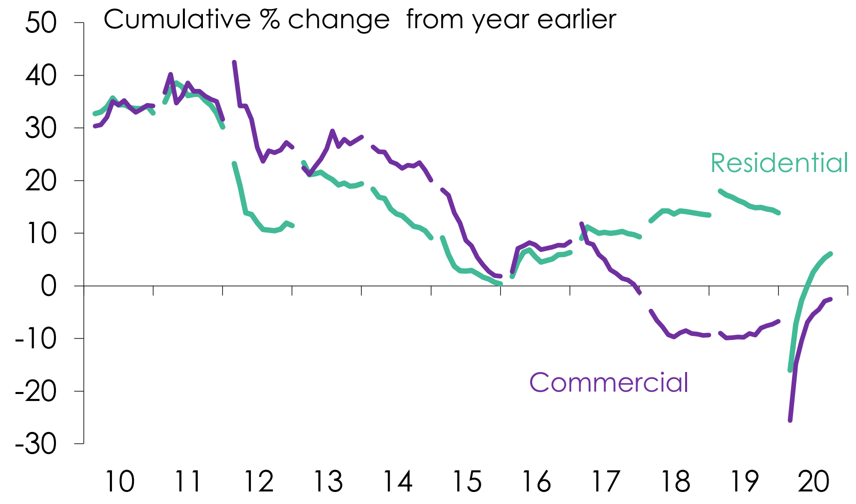
Consumer sentiment



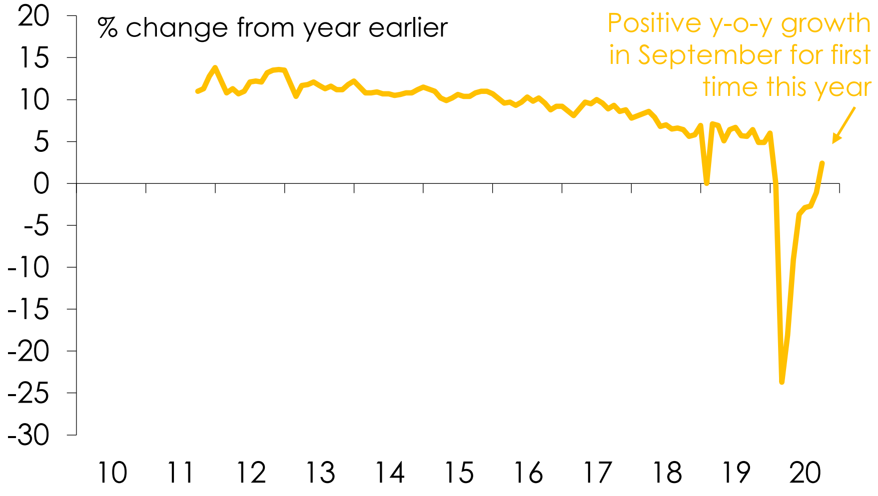
Motor vehicle sales



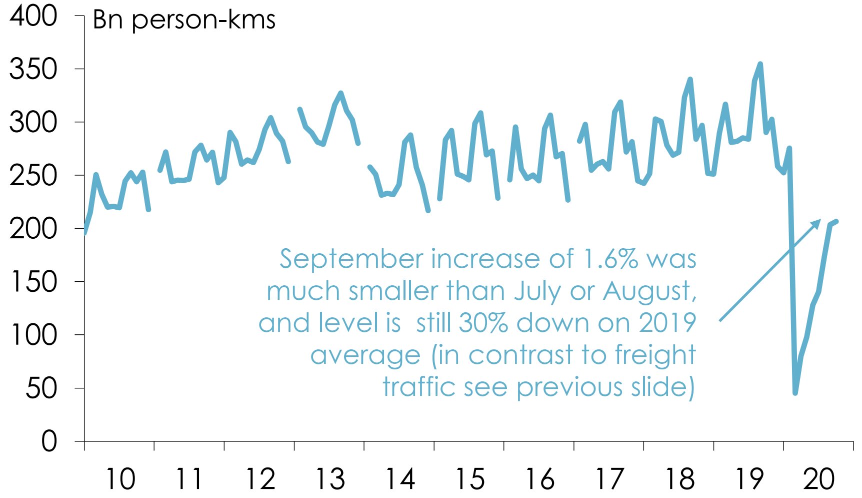
Real estate investment



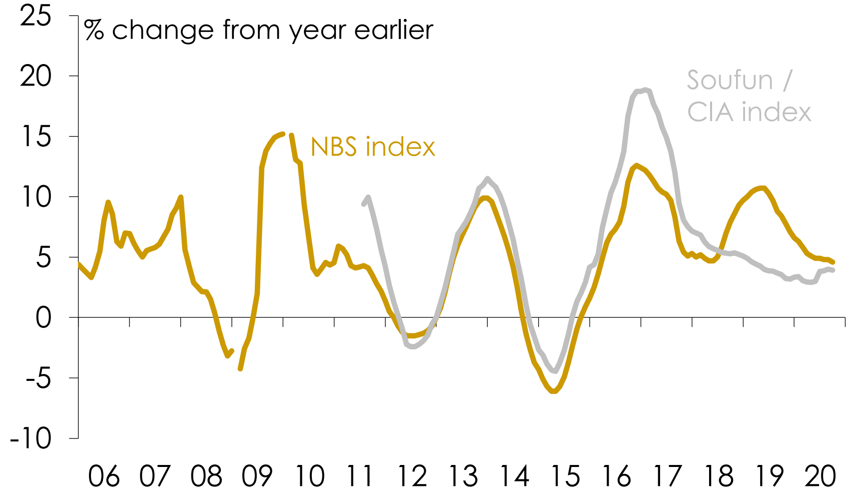
Retail sales volume



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".

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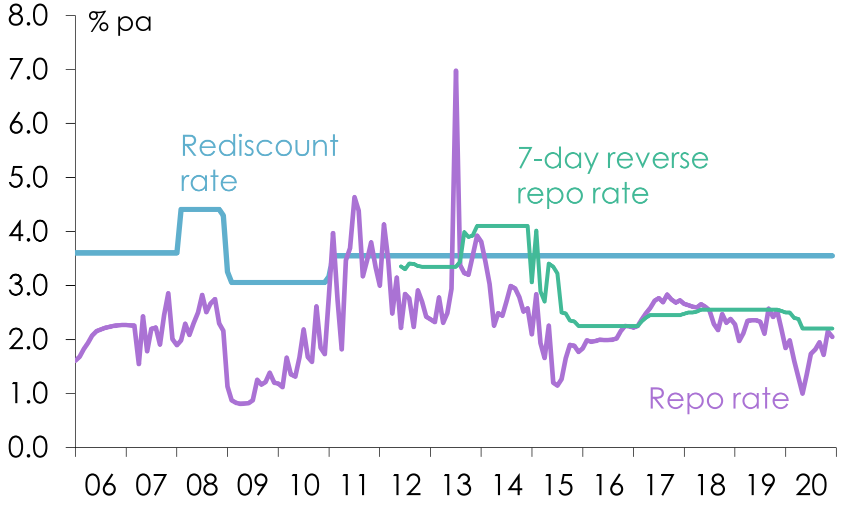
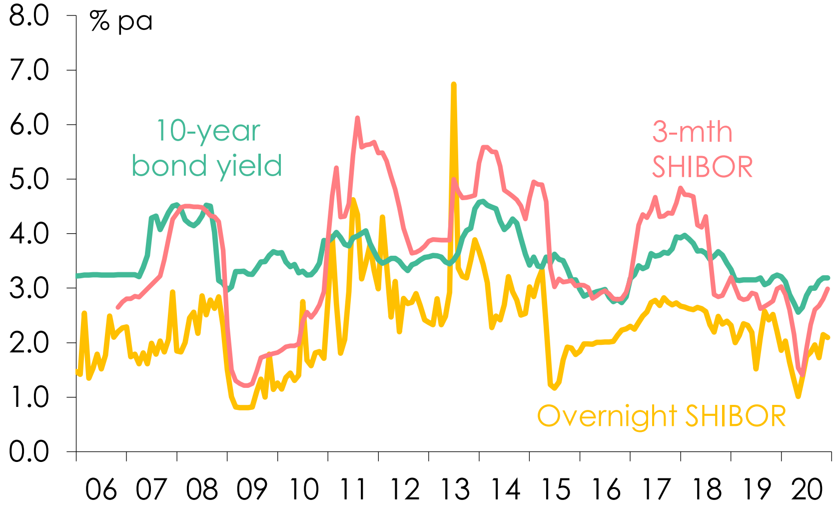
The PBoC has been more cautious about stimulus than it was in 2008-09 or 2015-16, perhaps because it's still concerned about financial stability

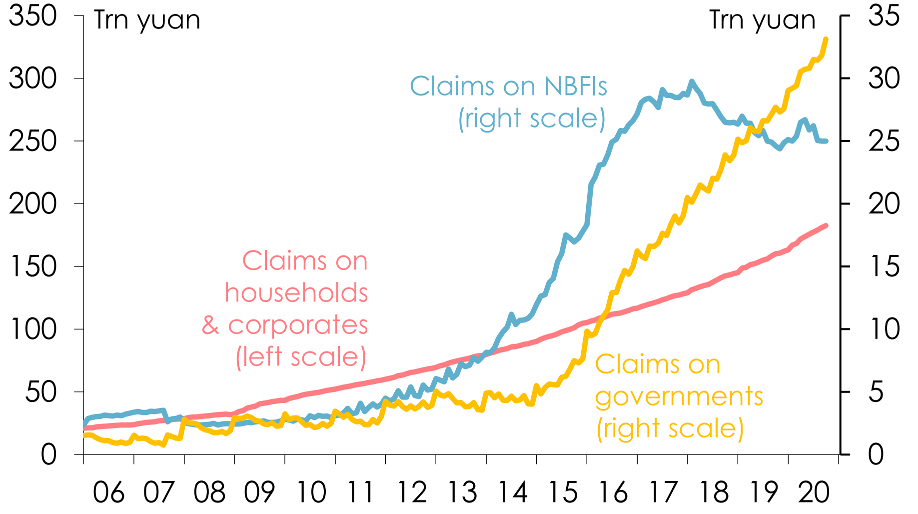
PBoC policy interest rates



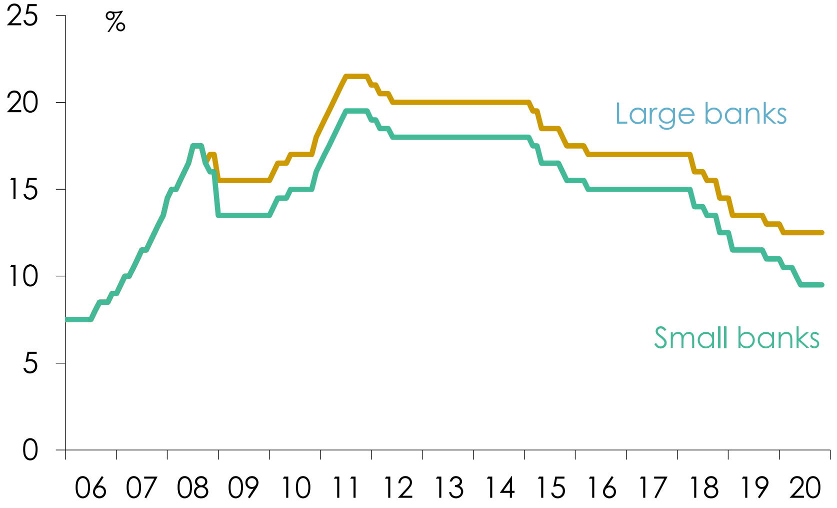
Market interest rates



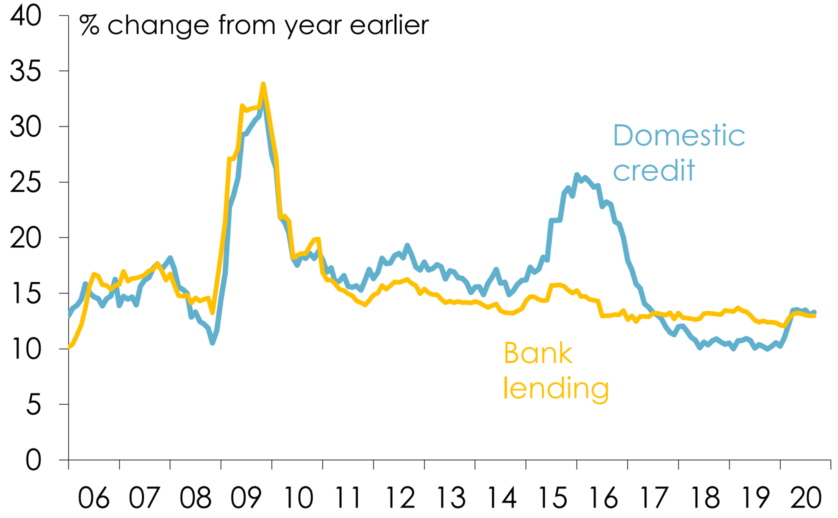
Depository corporation assets



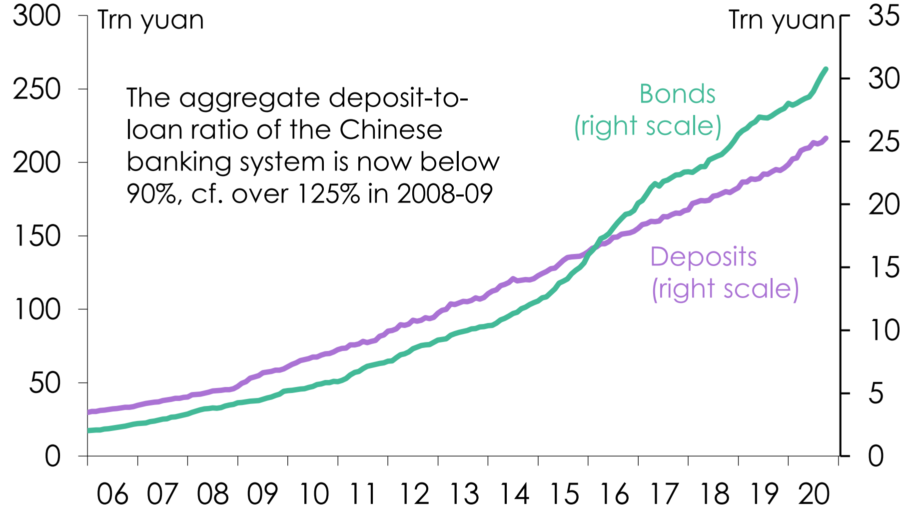
Bank reserve requirement ratios



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".

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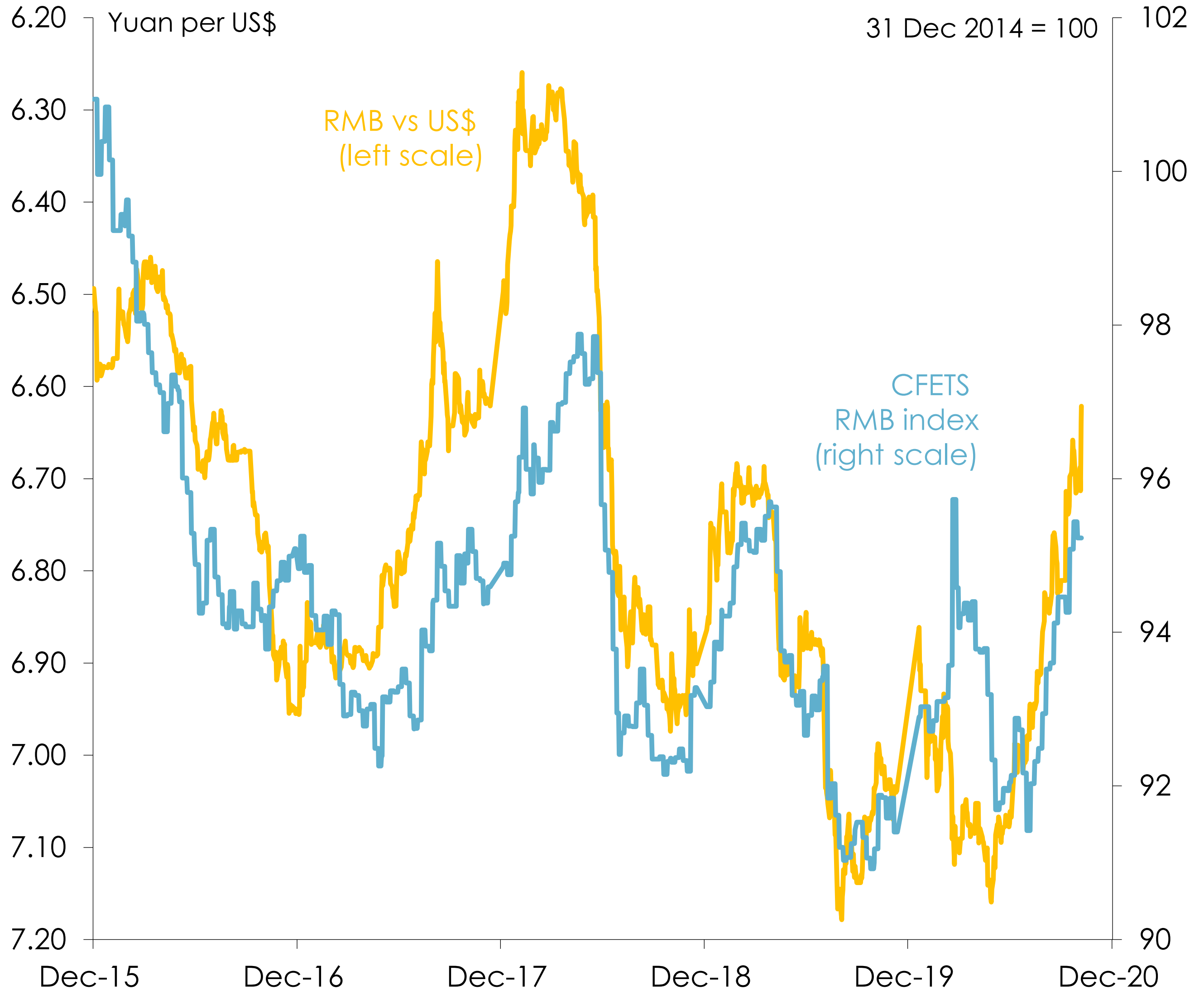
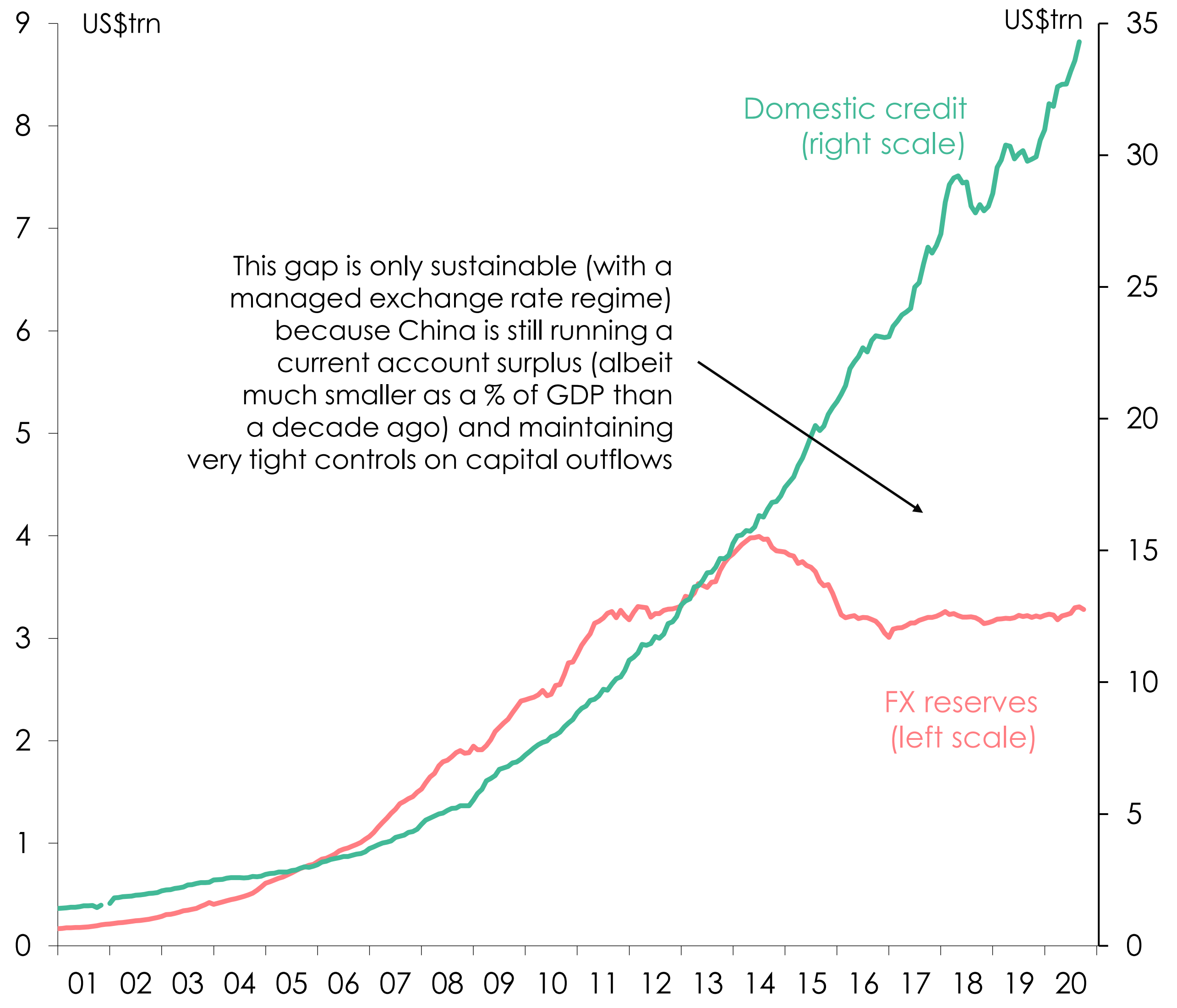
The Rmb rose another 1.2% against a weaker US$ this week (up more than 8% since late May) but was down 0.2% in trade-weighted terms

Chinese renminbi vs US$ and trade-weighted index



FX reserves and domestic credit



Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up 6th November; credit and FX reserves data up to September. Return to "What's New".

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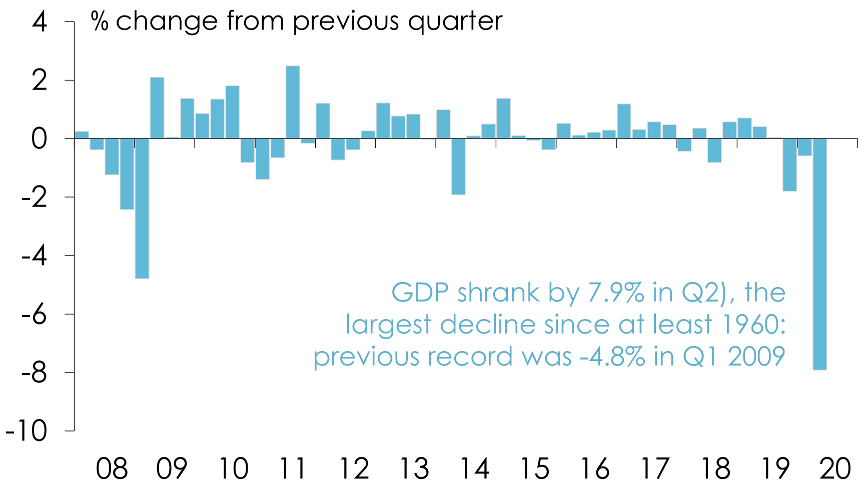
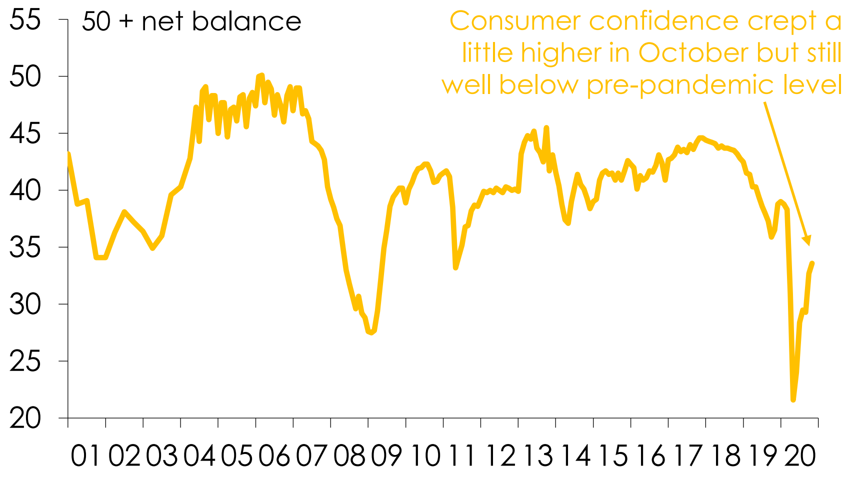
Japan entered its fourth recession since 2000 after hiking its GST rate last October – the pandemic has worsened it

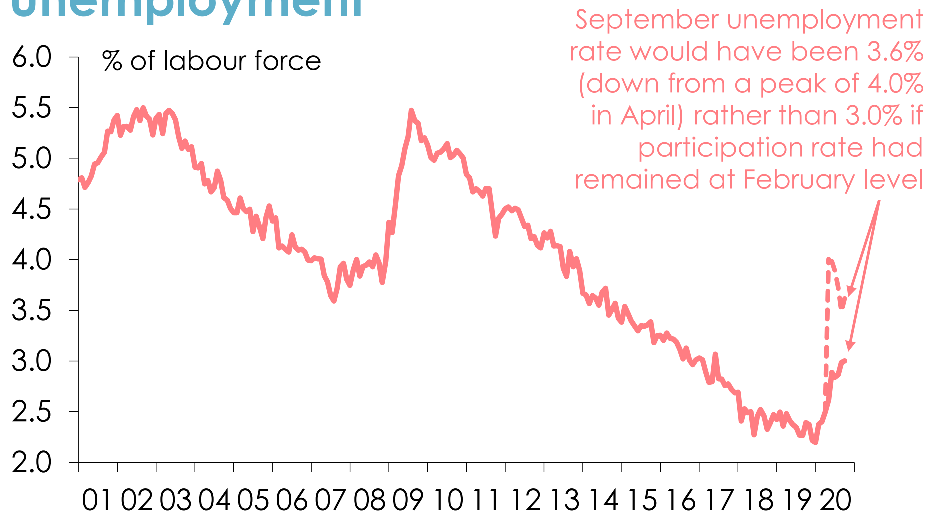
Real GDP



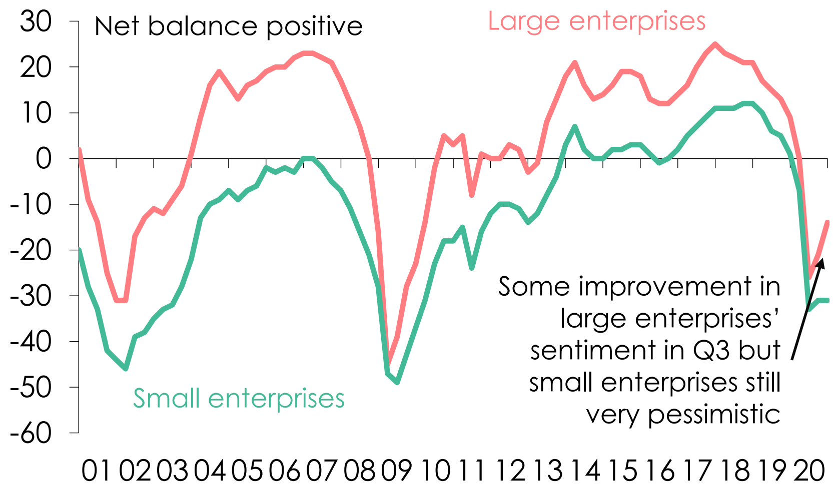
Consumer confidence



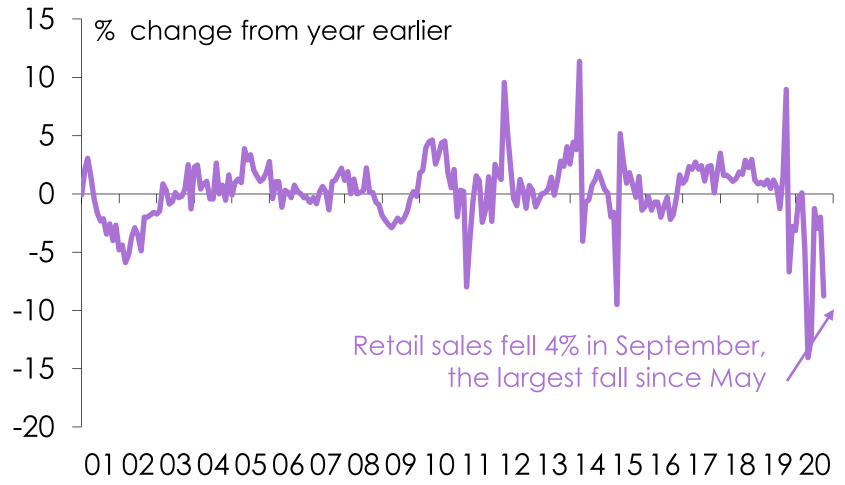
Unemployment



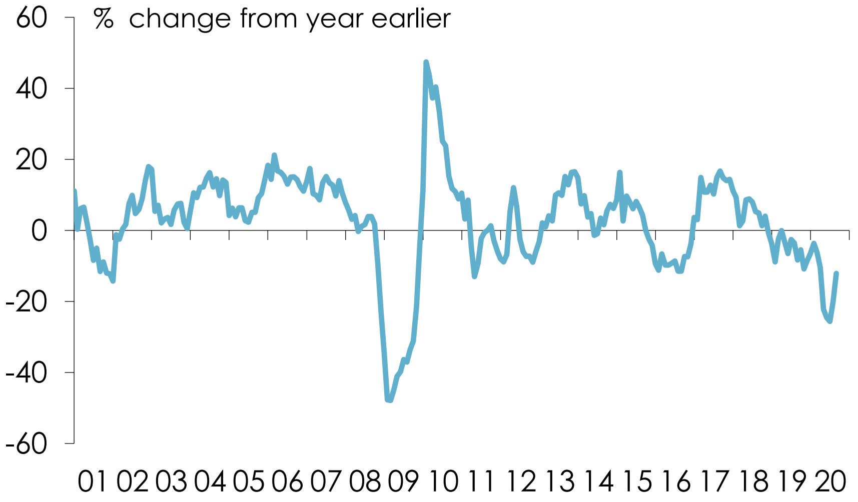
BoJ *Tankan* business conditions



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".

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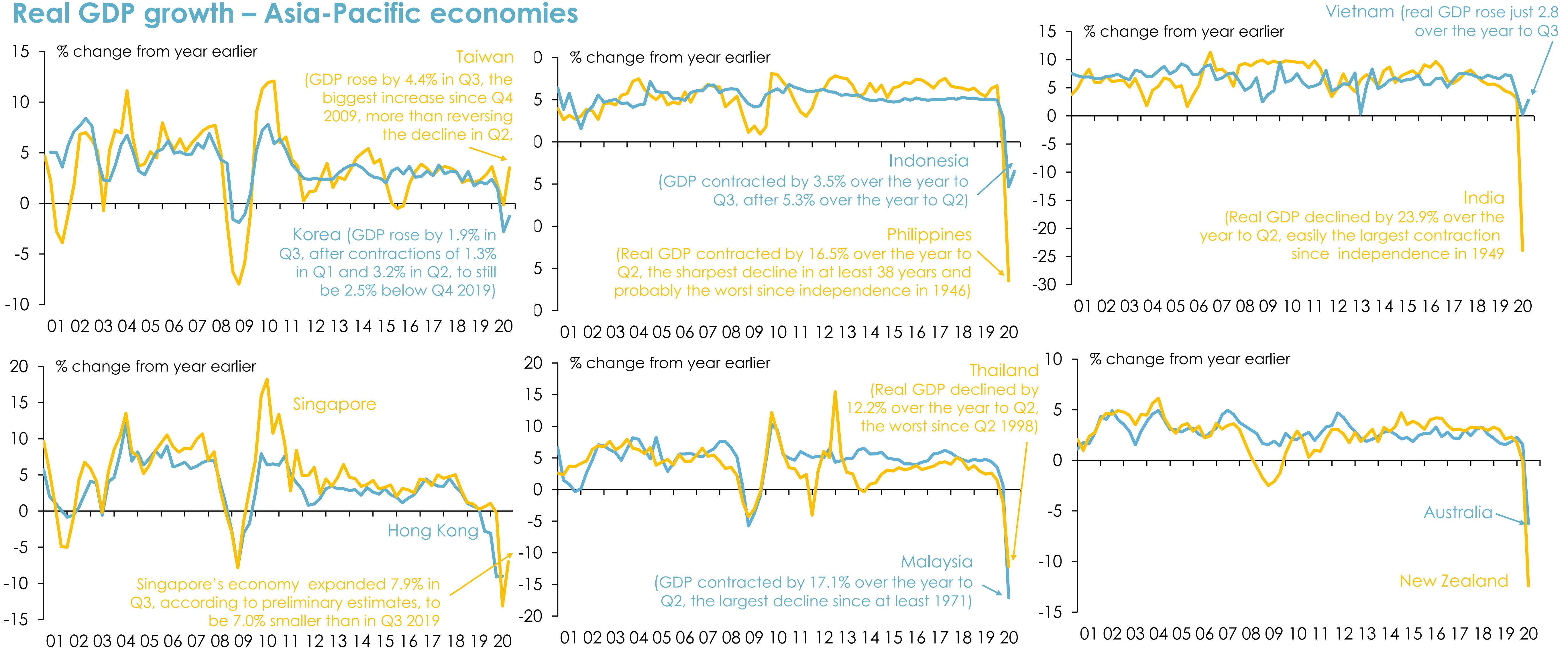
Preliminary Q3 national accounts data show tepid recoveries in Korea, Singapore, Indonesia and Vietnam, but a stronger upturn in Taiwan

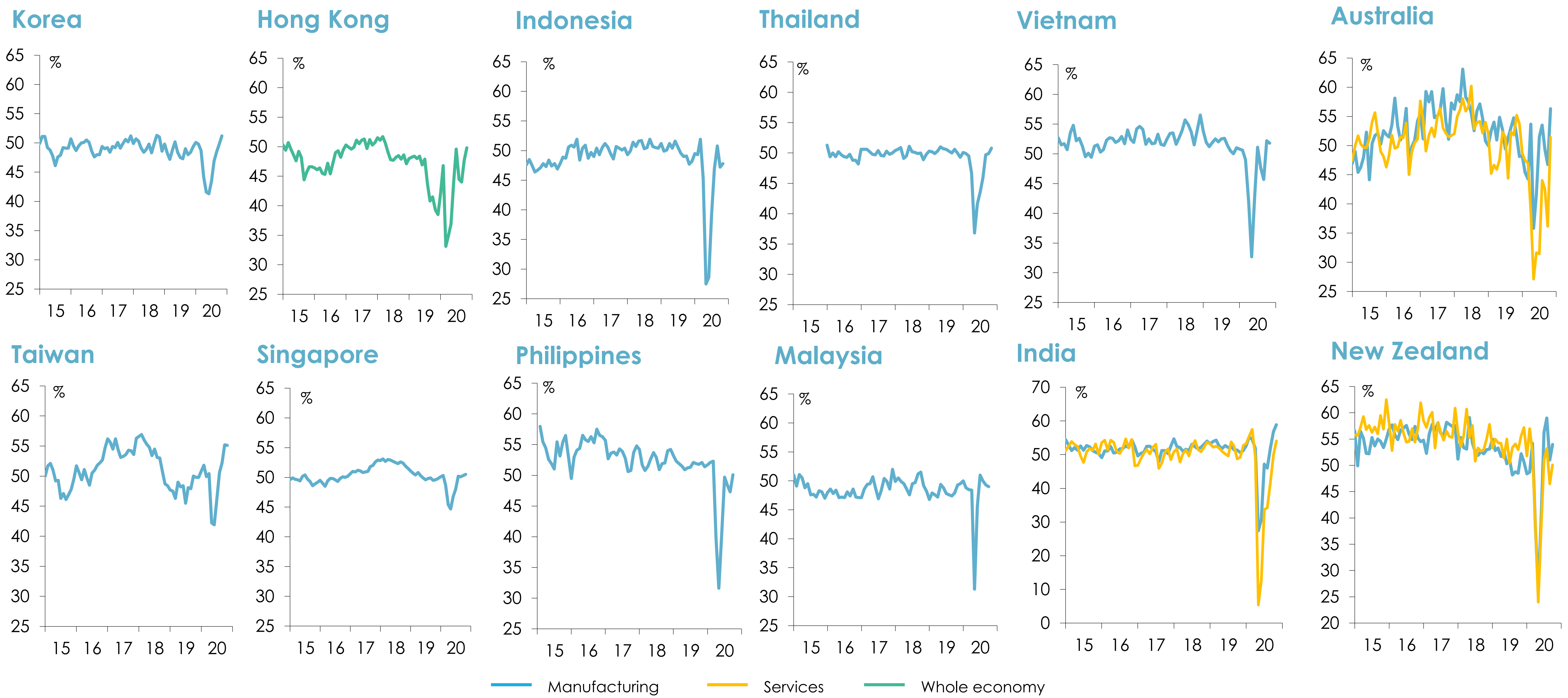
Real GDP growth – Asia-Pacific economies



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".

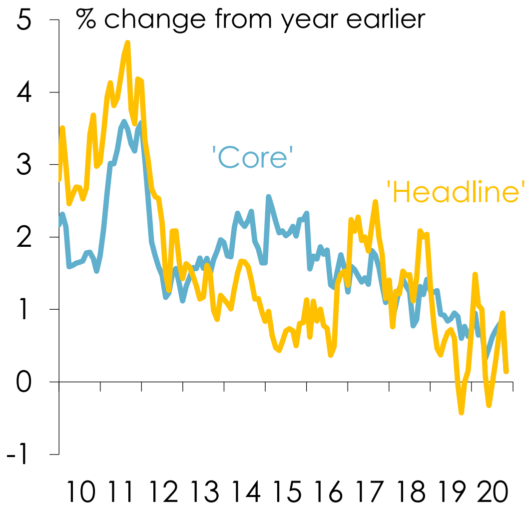
October manufacturing PMIs strengthened further in most Asia-Pacific economies except for Malaysia: India's services PMI also back above 50



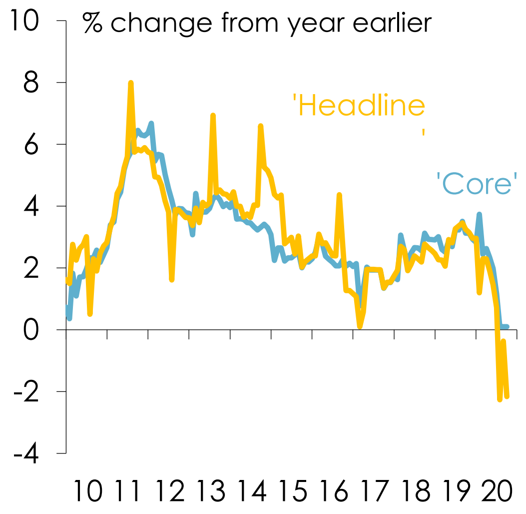
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

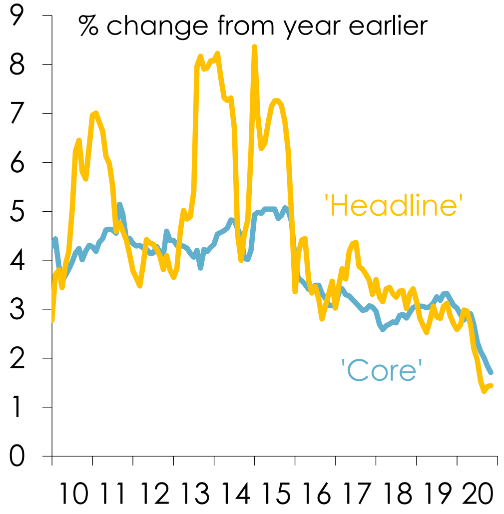
Korea



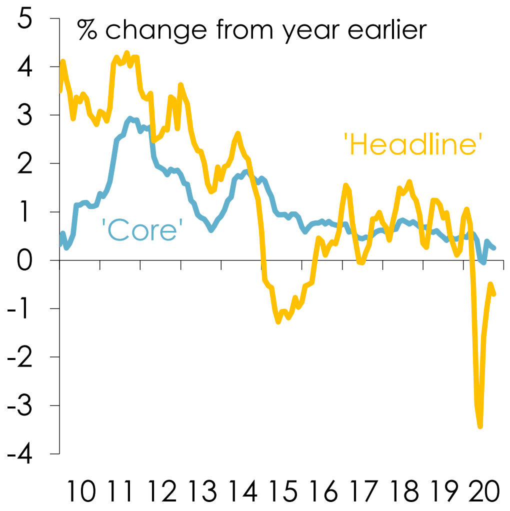
Hong Kong



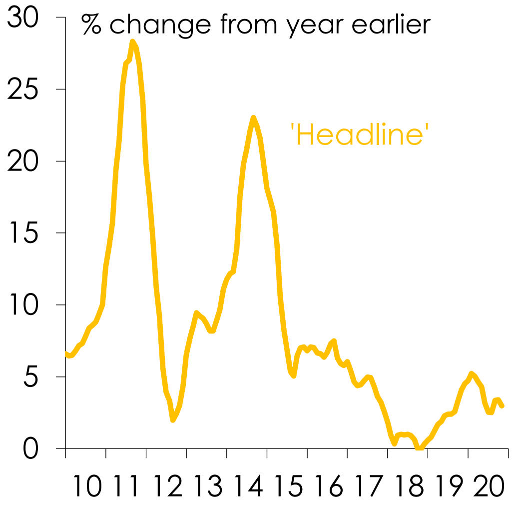
Indonesia



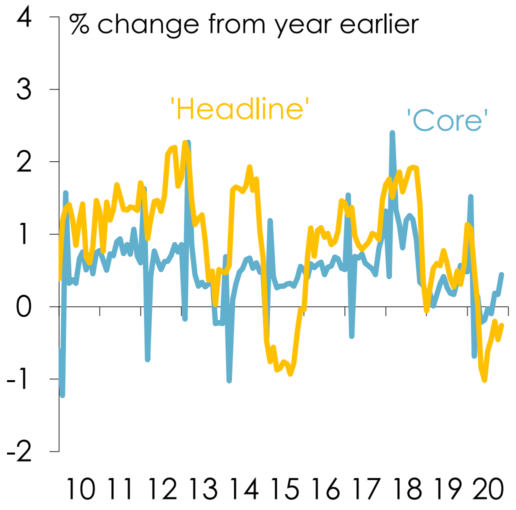
Thailand



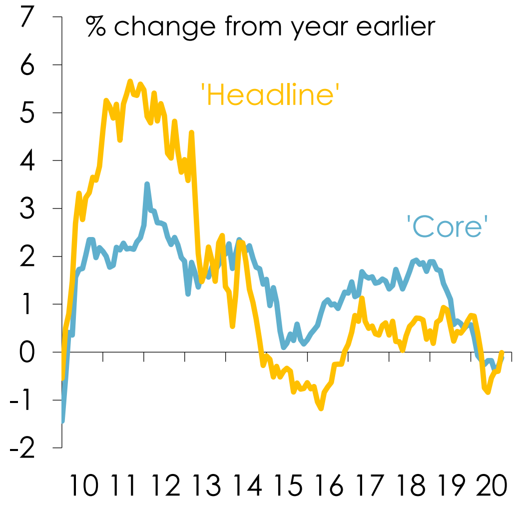
Vietnam



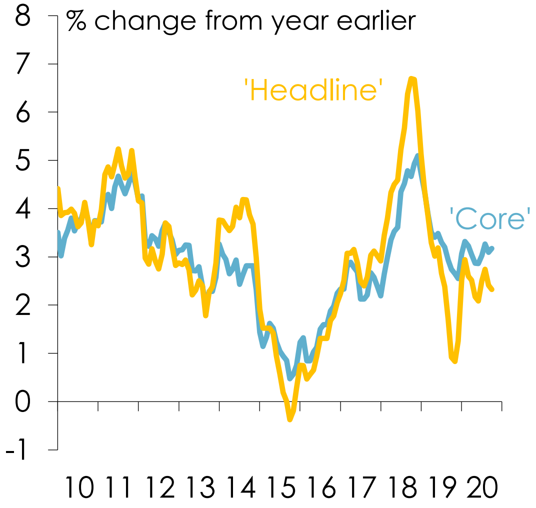
Taiwan



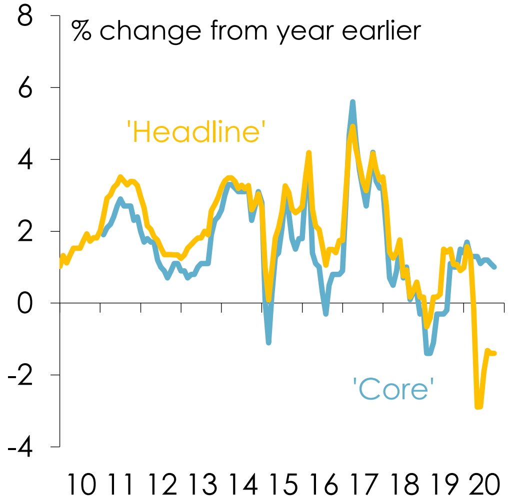
Singapore



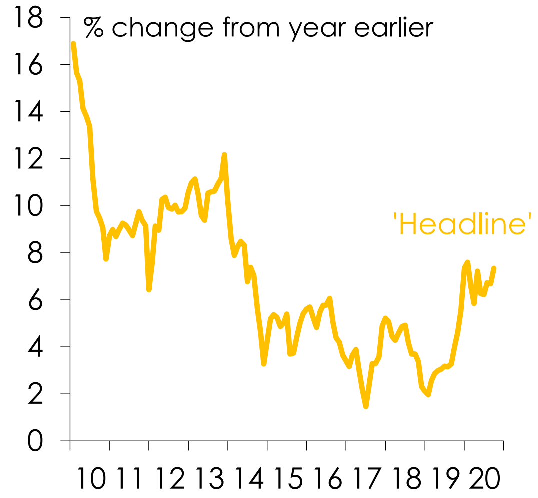
Philippines



Malaysia



India

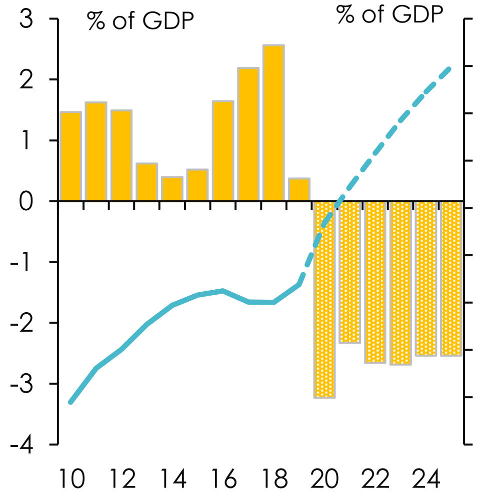


Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures. 'Core' inflation in Indonesia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

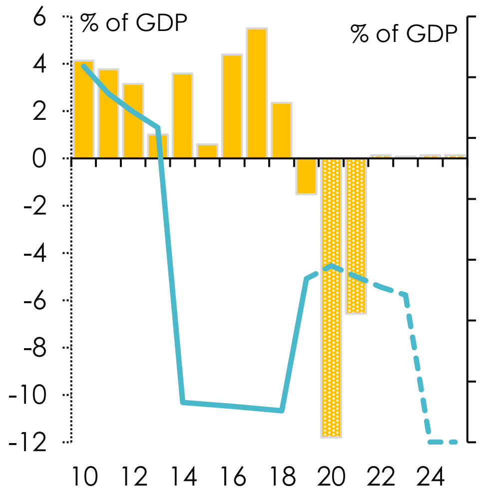
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

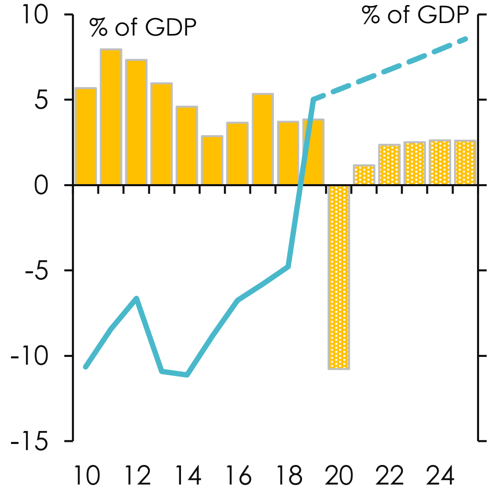
Korea



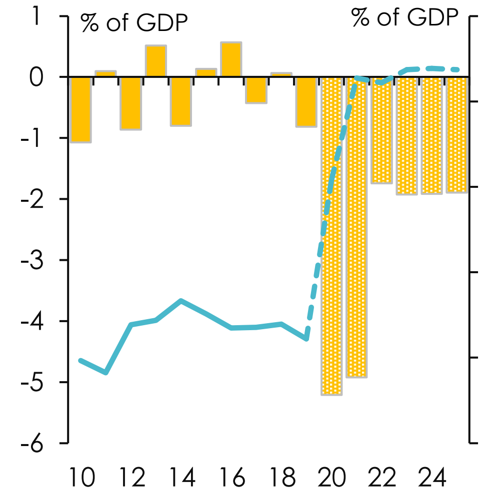
Hong Kong



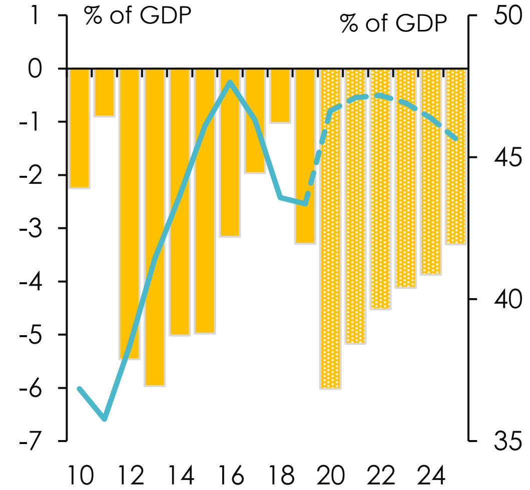
Indonesia



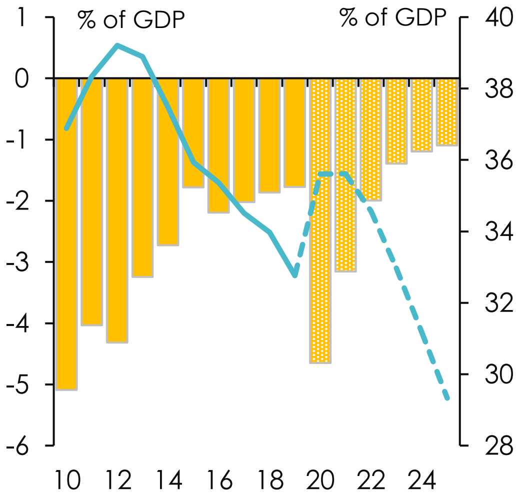
Thailand



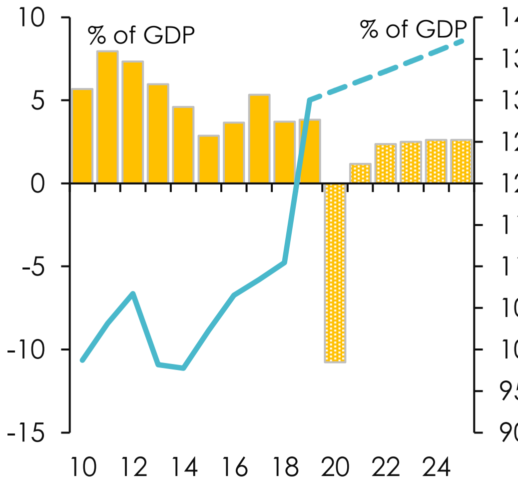
Vietnam



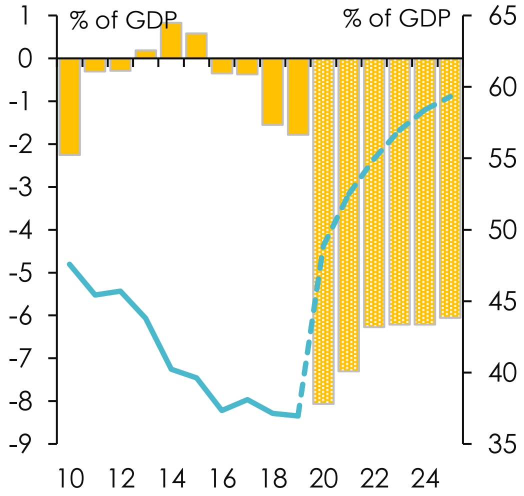
Taiwan



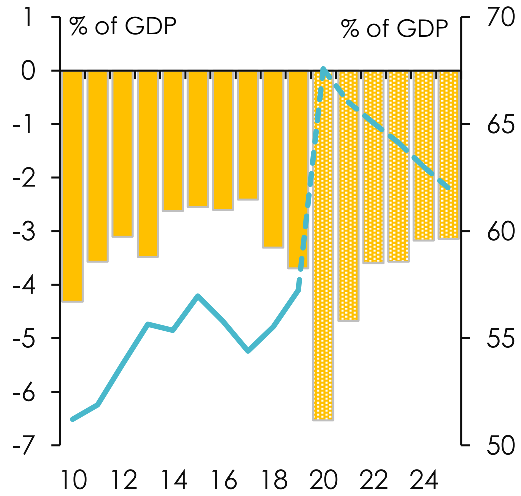
Singapore



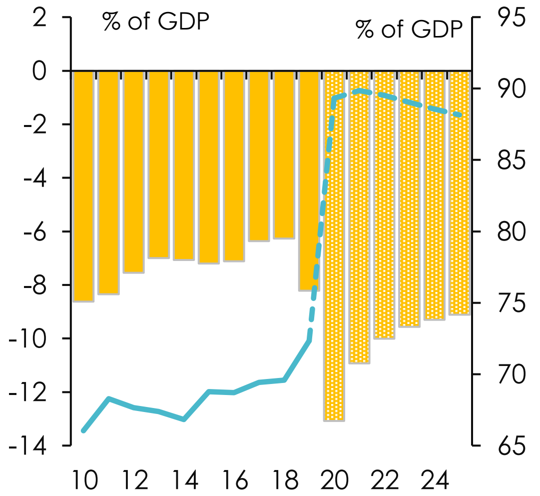
Philippines



Malaysia



India

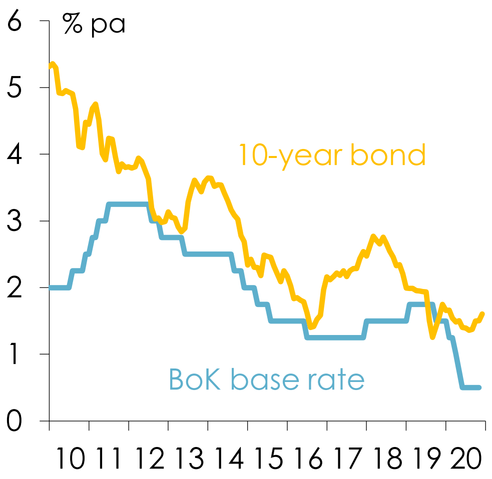


Note: Some governments, most conspicuously Hong Kong, are financing part of their deficits by transfers from reserve or sovereign wealth funds, so that there is not necessarily a direct correlation between the budget balance and the change in gross debt from year to year.
Source: IMF, *Fiscal Monitor*,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

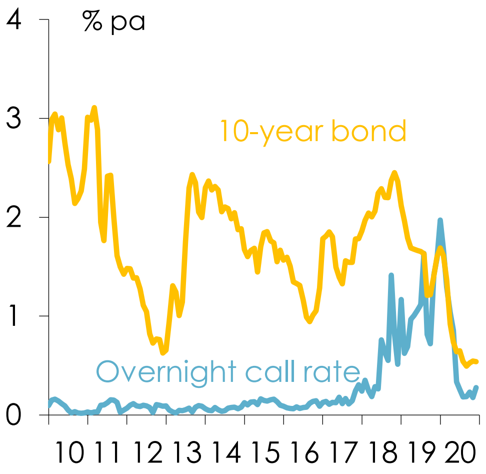
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

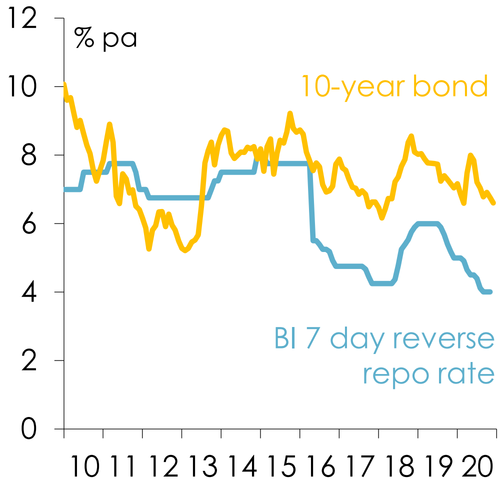
Korea



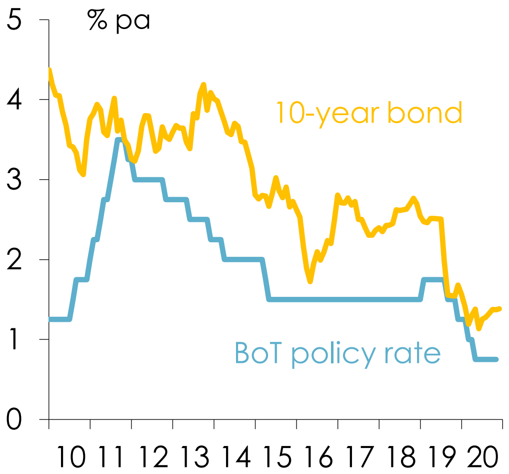
Hong Kong



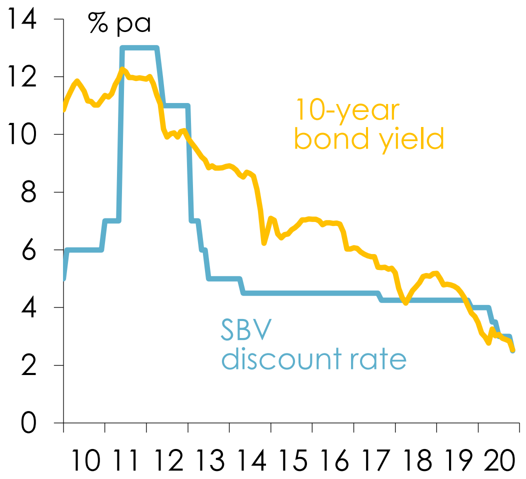
Indonesia



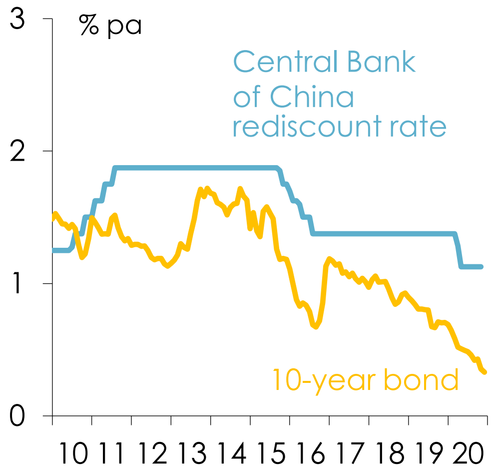
Thailand



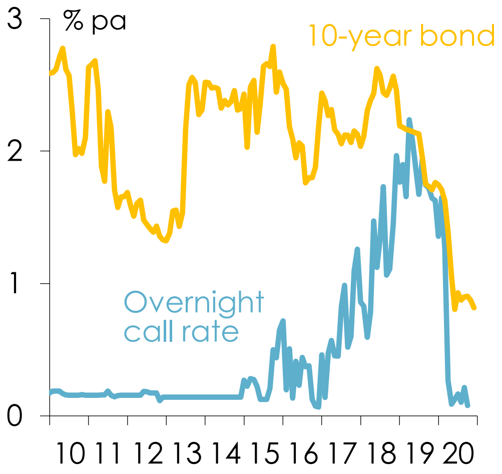
Vietnam



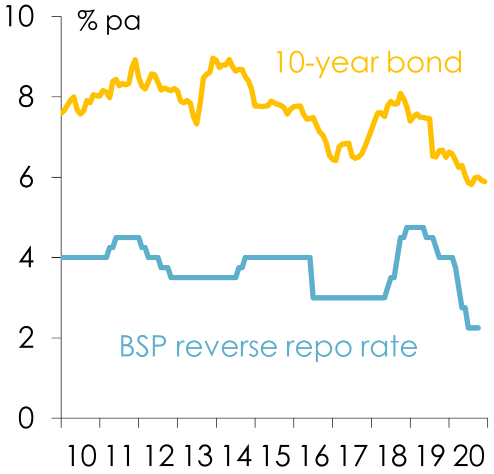
Taiwan



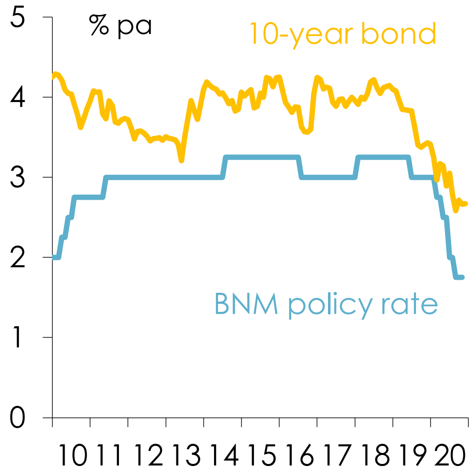
Singapore



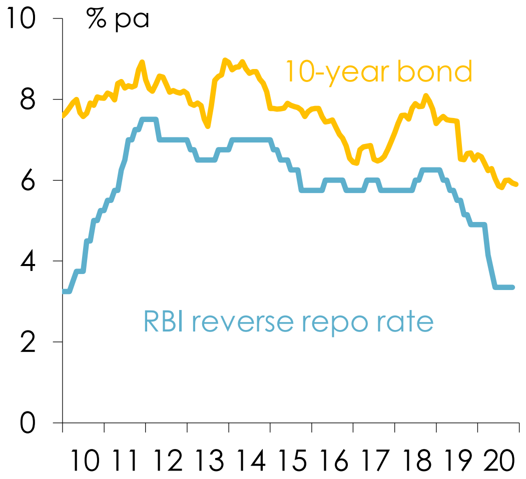
Philippines



Malaysia



India

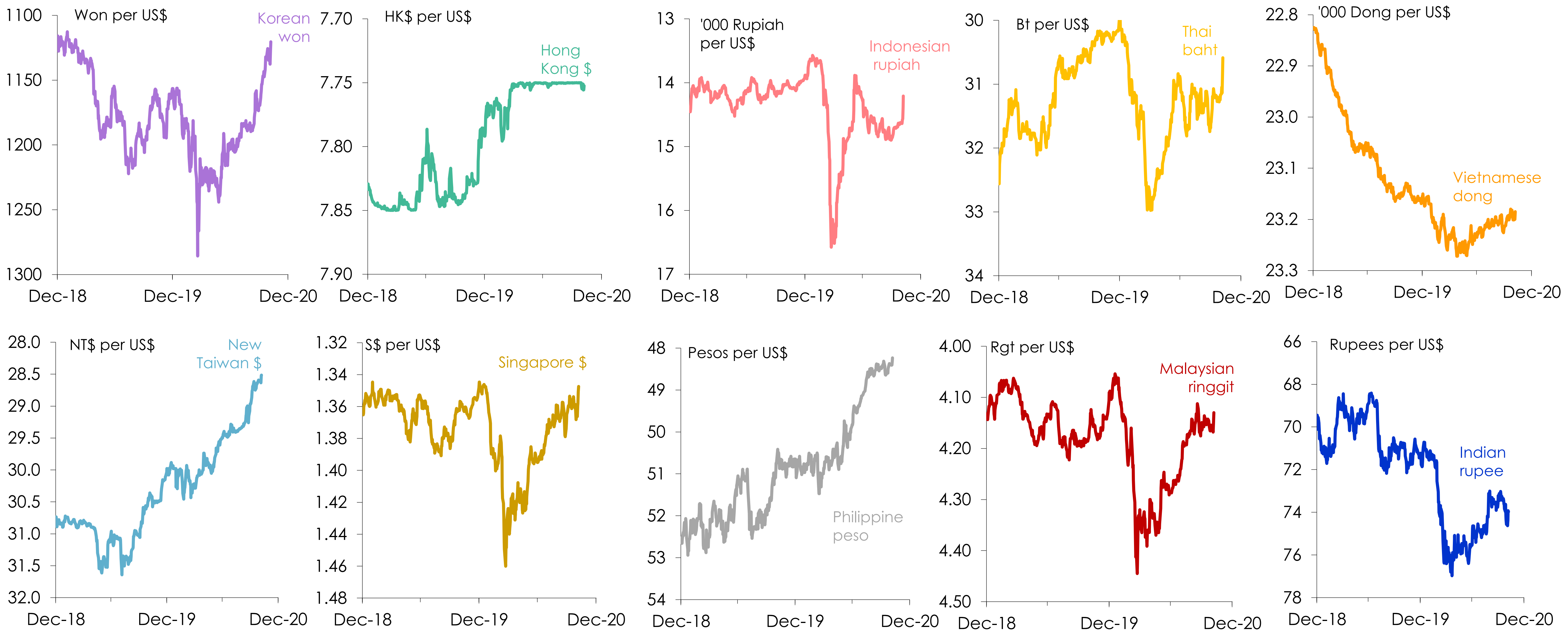


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy interest rate.
Sources: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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Most Asian currencies rose against the weaker US$ this week, with the rupiah up 2.9%, baht up 1.9%, and won & Sing$ up 1.2%

Asian currency exchange rates vs US dollar

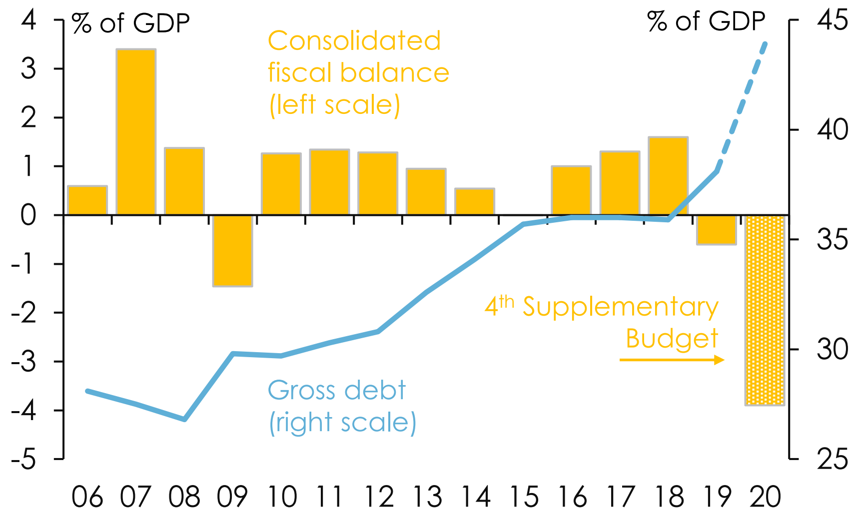


Note: Data up to 6th November. Source: Refinitiv Datastream. Return to "What's New".

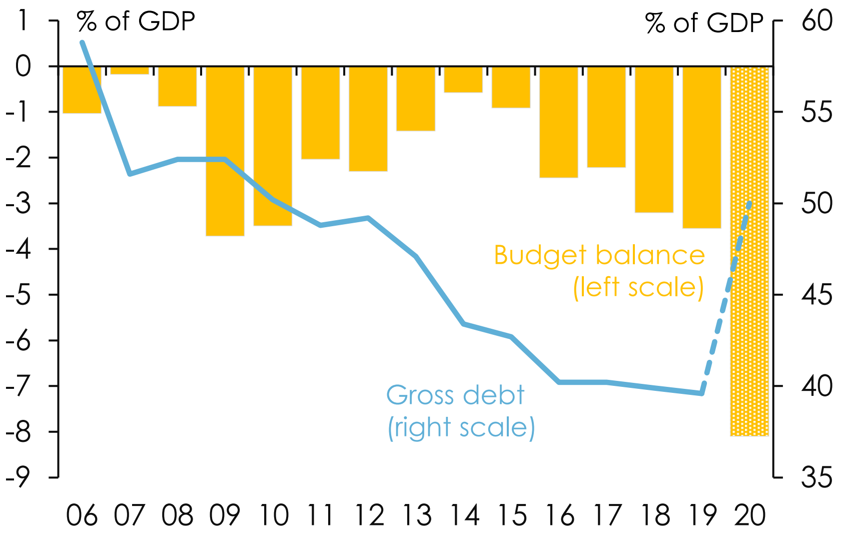
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

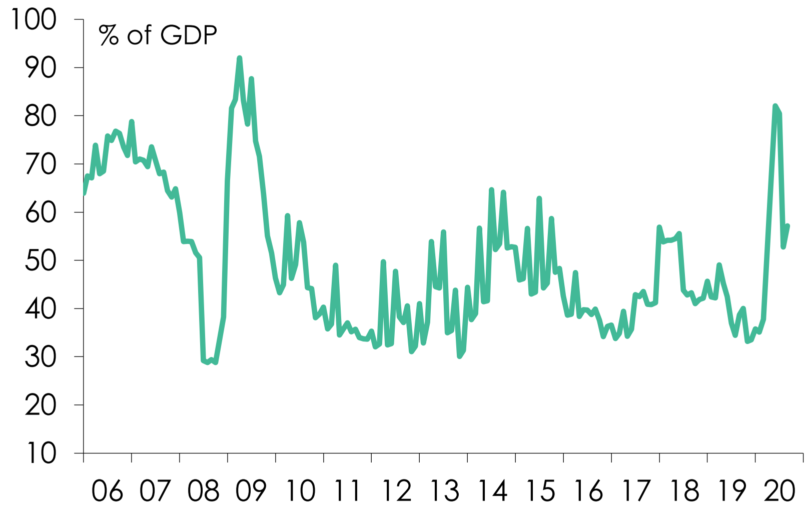
Korea central government budget



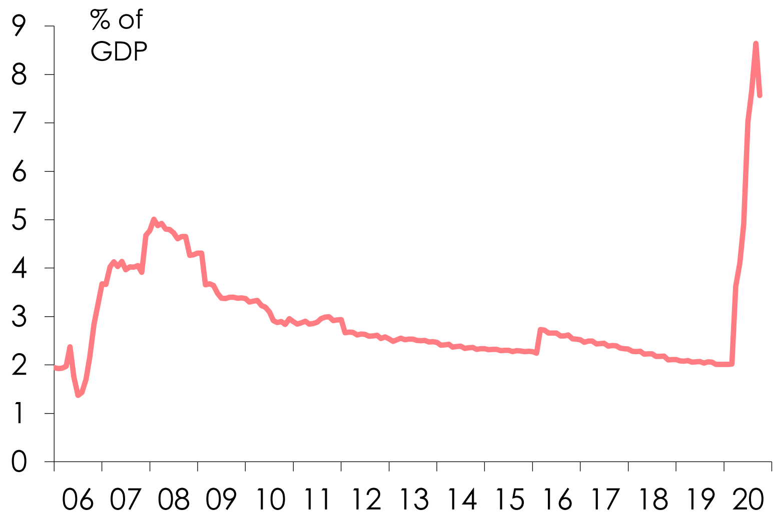
Philippines NG budget



BoK domestic assets



BSP claims on national gov't

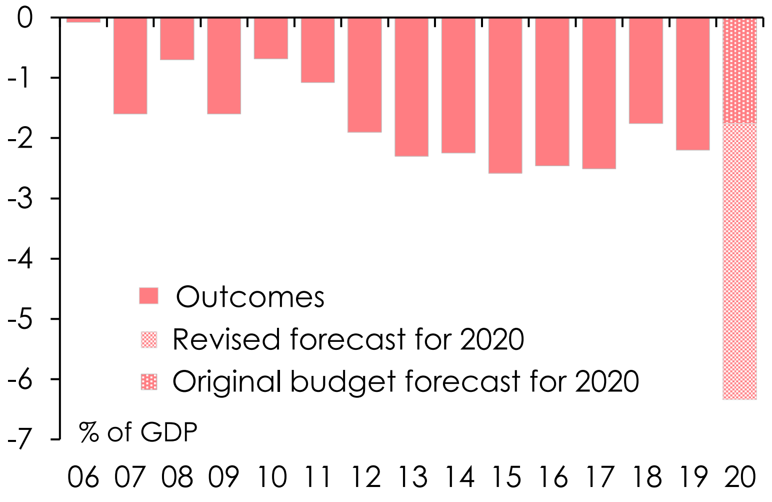


Sources: Korea Ministry of Economy and Finance; Bank of Korea; Philippines Development Budget Co-ordination Committee; Philippines Bureau of the Treasury; Bangko Sentral ng Pilipinas. Return to "What's New".

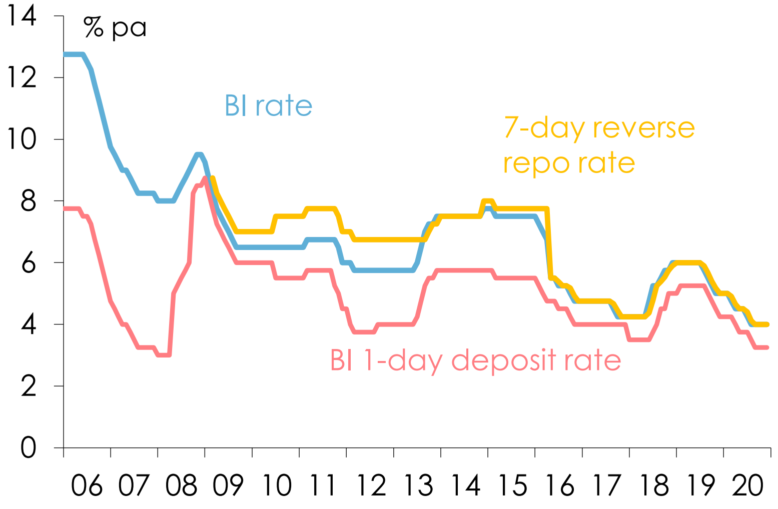
- The Bank of Korea has cut its policy rate by 100bp so far this year to a record low of 0.50%
- After its last rate cut in May, Governor Lee Ju-Yeol indicated the BoK was considering using 'unconventional monetary tools' to support growth
  - since March, the BoK has been willing to supply 'unlimited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

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

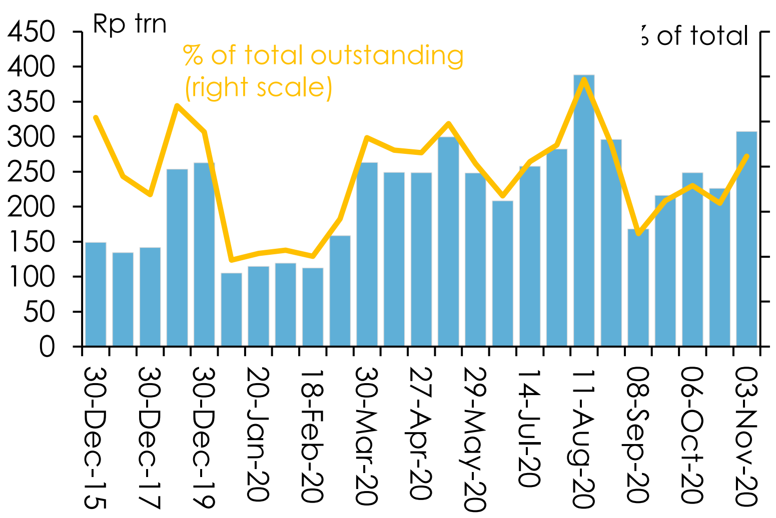
Indonesia budget deficit



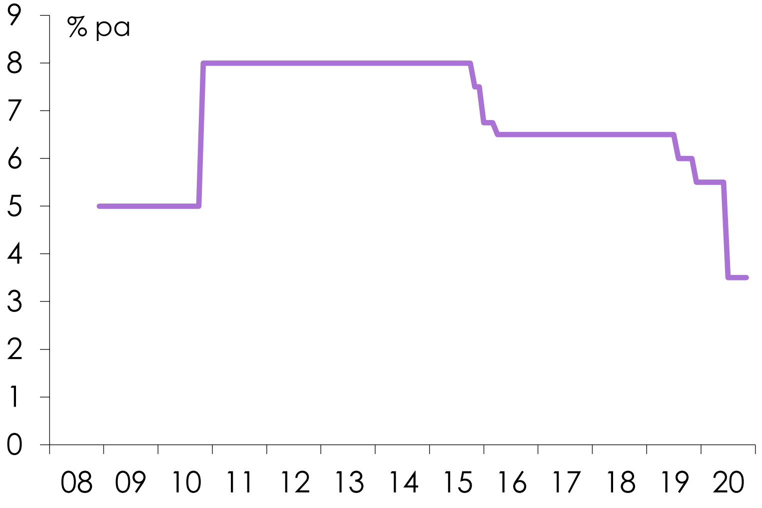
BI monetary policy rates



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 3rd November 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

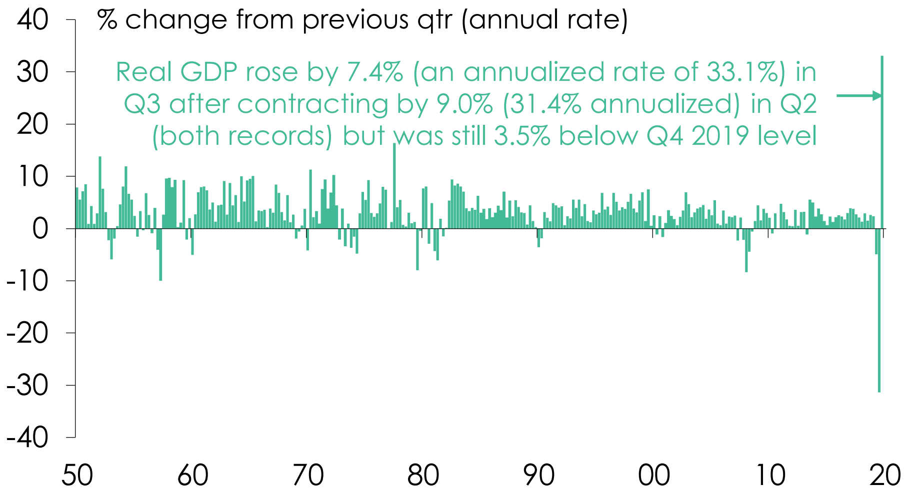
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

The American people said to Donald Trump: "You're fired" – but Trump may take his 'unfair dismissal' case all the way to the Supreme Court

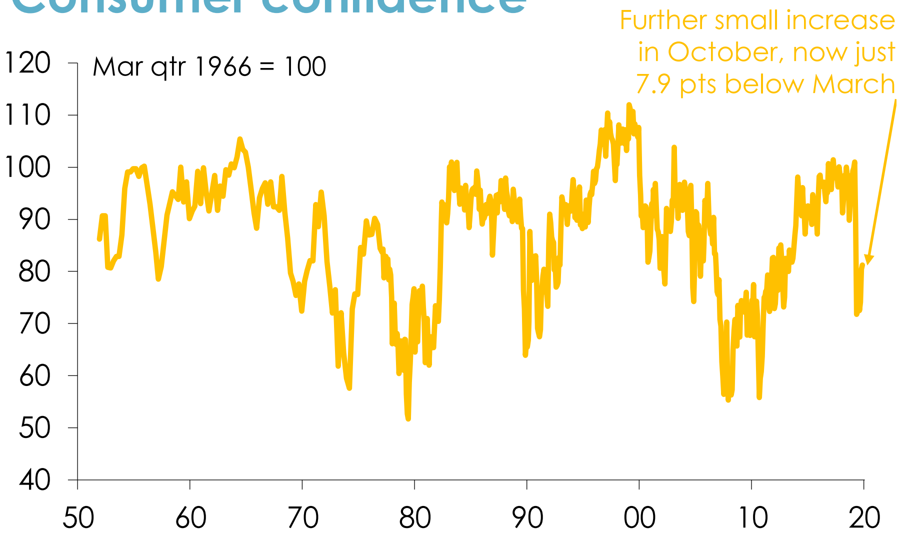
- **At the time of writing (6:30 pm 7th November AEDT, 7:30 am GMT), Joe Biden had 74.8 mn votes (50.6% of the total) to Donald Trump's 70.6 mn (47.7%), with 66.9% of registered voters casting a ballot, the highest turnout since 1900**
  - Biden's share of the popular vote is higher than obtained by Trump (2016), George W Bush (2000), Bill Clinton (1992 and 1996), Jimmy Carter (1976), Richard Nixon (1968), John F Kennedy (1960), or Harry S Truman (1948), and only marginally below the 50.8% won by Ronald Reagan in 1980
  - Donald Trump is the first President since Benjamin Harrison (1888 and 1892) to lose the popular vote twice
- **The Presidency isn't awarded to the winner of the nationwide popular vote, but rather to the winner of the most delegates in the Electoral College (where each state is represented according to the size of its Congressional representation, plus three for the District of Columbia, making 538 in total)**
  - at the time of writing Biden appeared to have won 253 Electoral College votes, and Trump 217, with five states (68 delegates) yet to be 'called'
  - if Biden wins the four states in which he is currently leading (AZ, GA, NV and PA), he will win 306 Electoral College votes (2 more than Trump did in 2016, more than GW Bush in 2000 or 2004, more than Carter in 1976 or Nixon in 1968) to Trump's 232
  - Trump needs to win NC (in which he is currently leading) and at least three of the four where he is currently behind
- **Donald Trump has indicated he may fight the outcome all the way to the Supreme Court**
  - although it's not guaranteed that the Supreme Court will 'take' the case (it isn't required to), and if it does, it's by no means certain that the Court will divide 6-3 in Trump's favour, as he would hope (Chief Justice Roberts and Justice Kavanaugh may not line up with the other conservative judges)
- **The Democrats appear to have failed to re-capture the Senate, 'flipping' only two states (AZ & CO) and losing one (AL) as expected, but failing to take ME or NC – and they lost ground in the House of Representatives**
  - the final make-up of the Senate may be determined by two 'run-off' elections in Georgia (where neither candidate in either race appears to have achieved more than 50% of the vote) to be held (if required) on 5th January 2021
  - Republicans picked up at least 6 seats in the House, narrowing the Democrats' majority to a likely 226-209

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

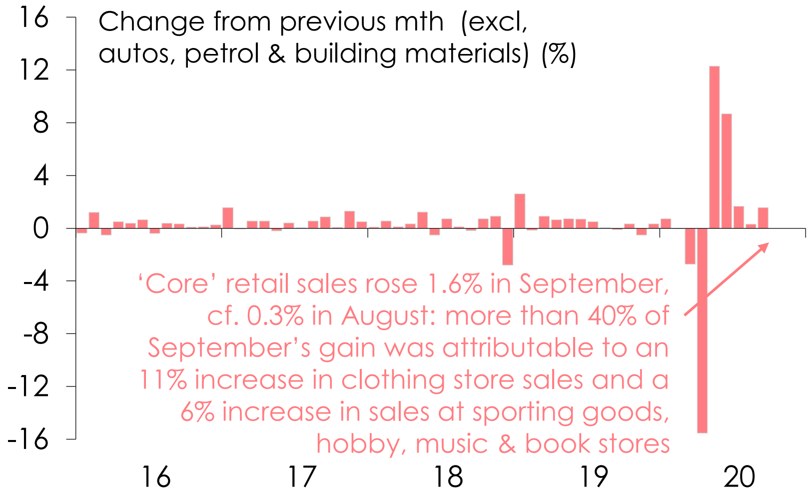
Real GDP



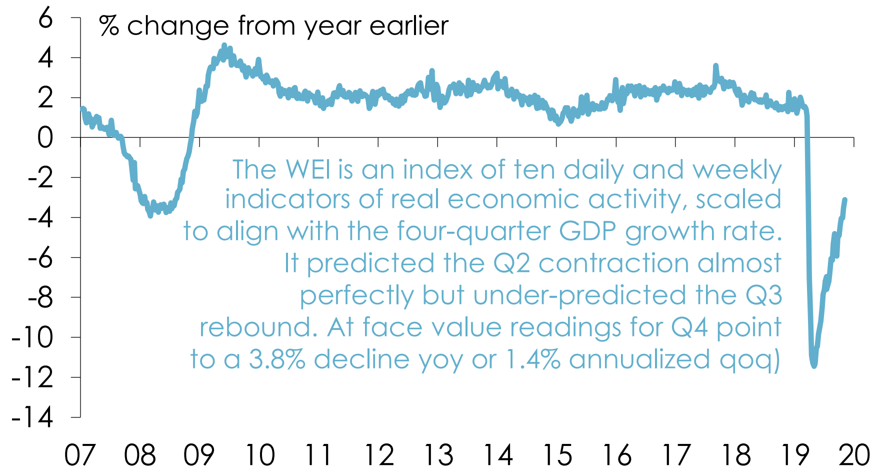
Consumer confidence



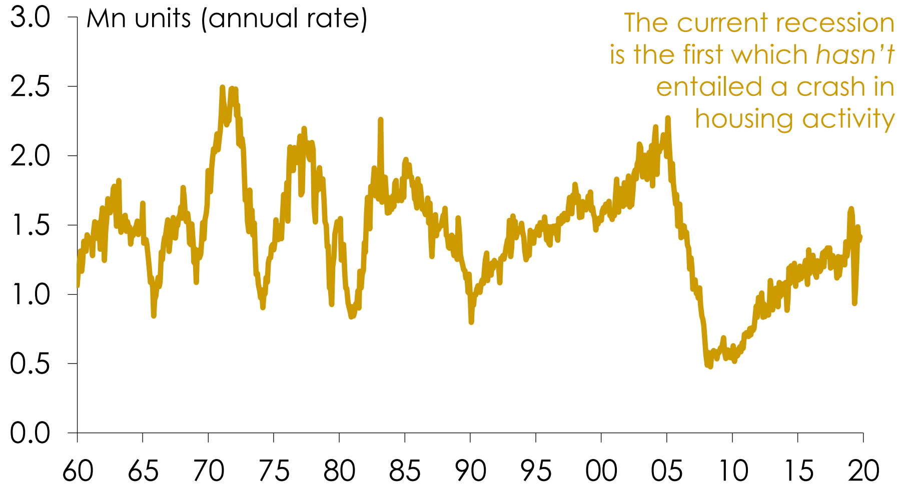
'Core' retail sales



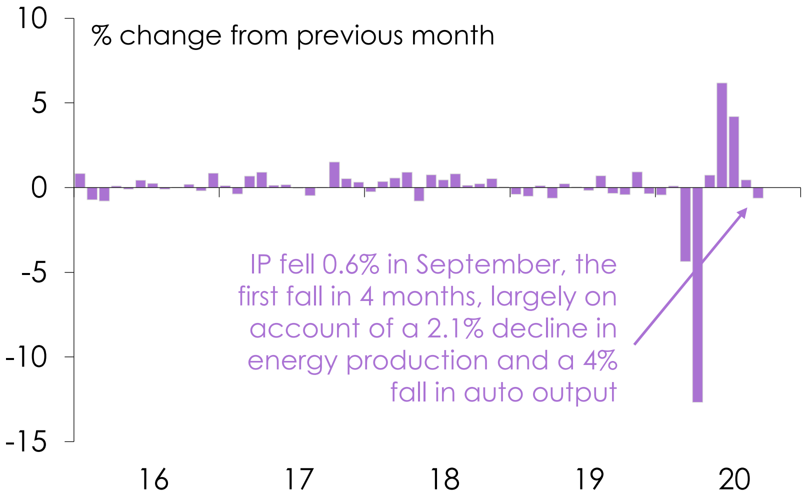
NY Fed weekly economic index



Housing starts



Industrial production

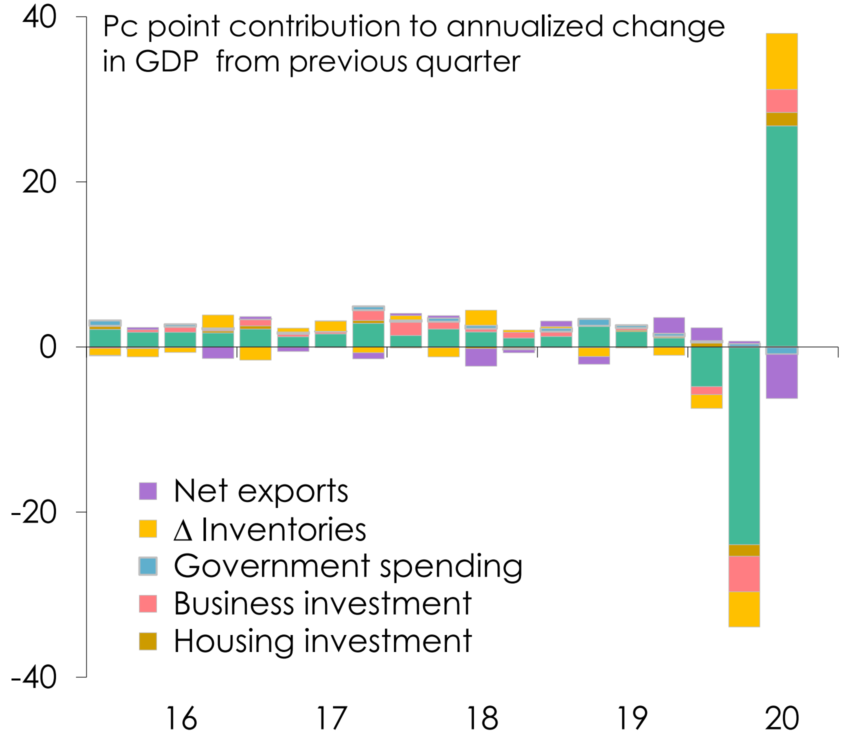


Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

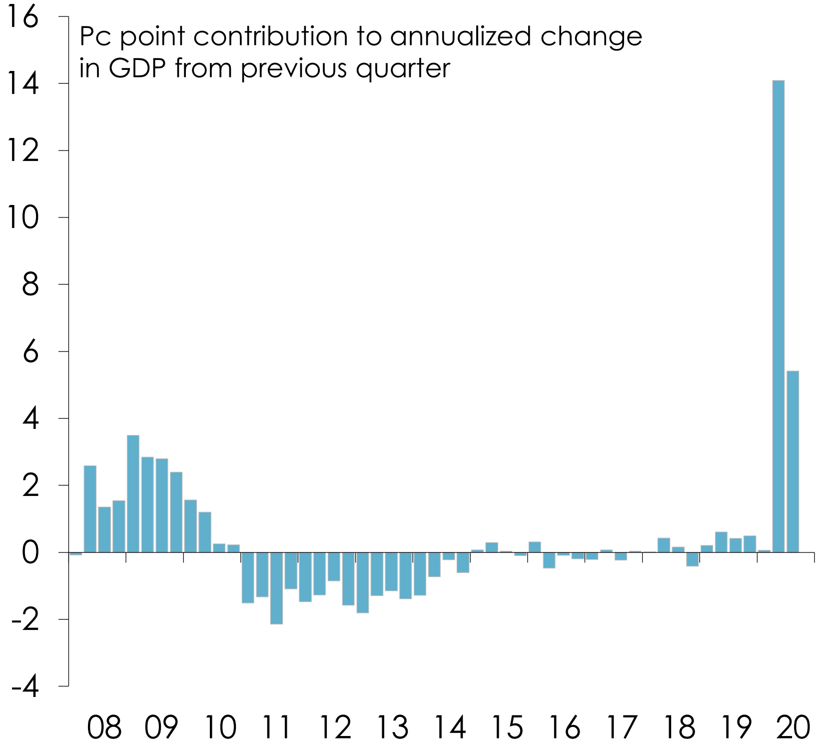
The huge gyrations in US real GDP in Q2 and Q3 reflect swings in personal consumption and inventories, fiscal policy and personal saving

Major expenditure aggregates contribution to quarterly changes in real GDP



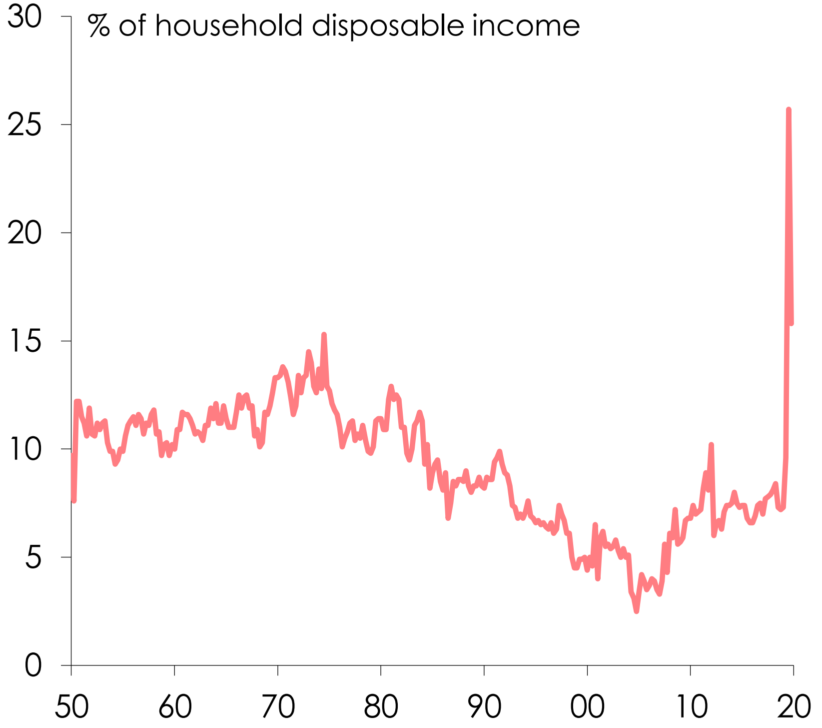
The unprecedented fall and rise in real GDP in the past two quarters were driving by huge swings in personal consumption spending and inventory depletion & re-building

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

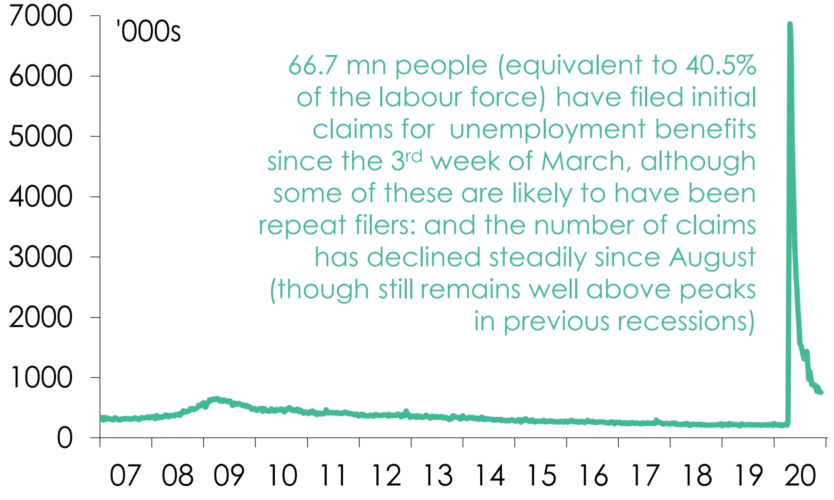


The swings in real GDP were magnified by an unprecedented rise and then fall in personal saving – reflecting the impact of government transfer payments, and of restrictions on spending in Q2

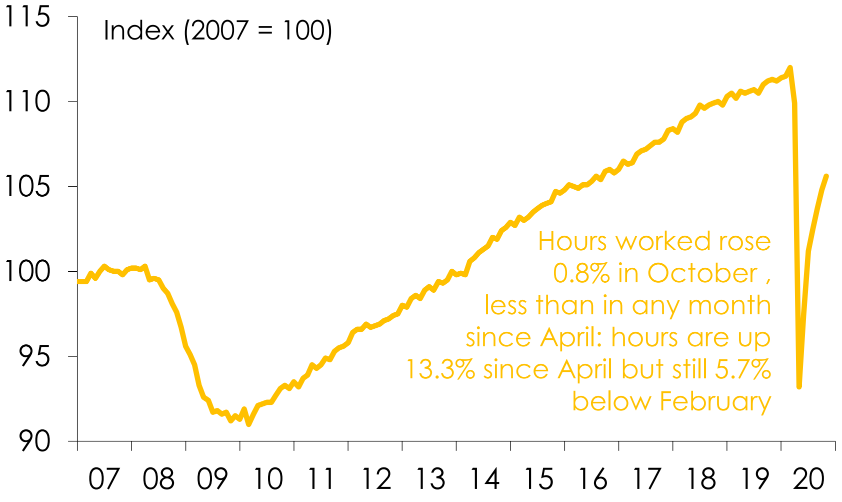
Source: US Bureau of Economic Analysis; Brookings, Hutchins Center Fiscal Impact Measure; Corinna. Return to "What's New".

Employment rose 0.5% in October, as it did in September, a slower pace than between May and August, but unemployment continues to fall

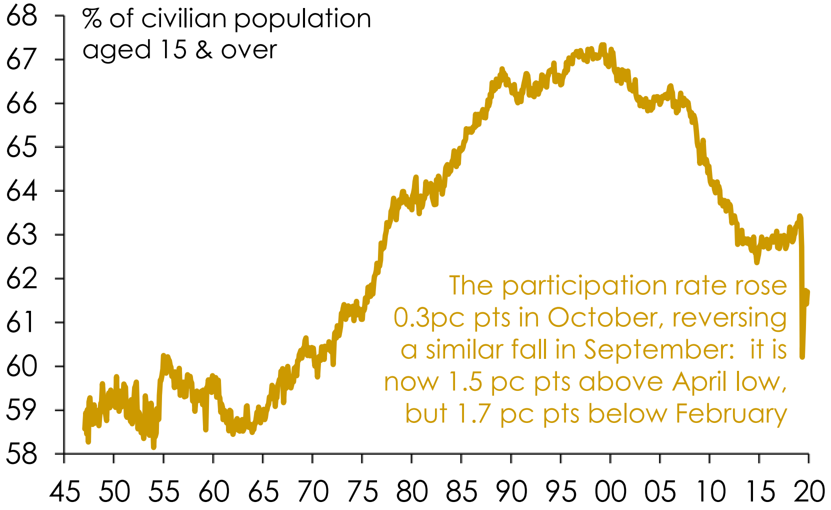
Unemployment benefit claims



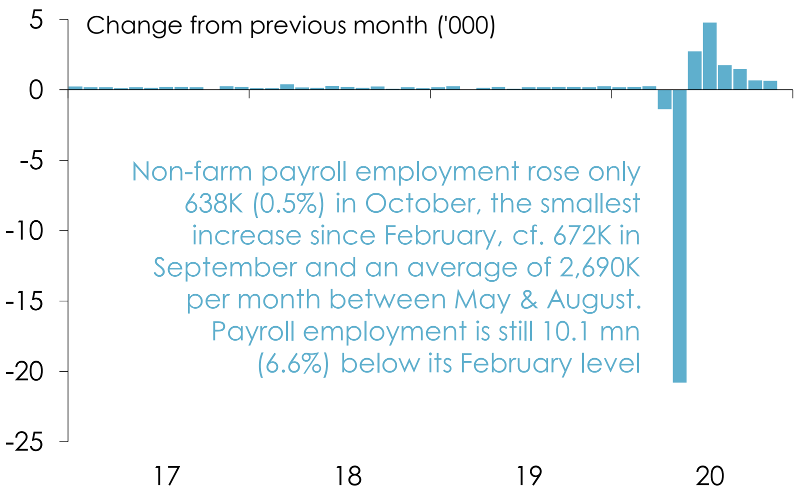
Hours worked (private sector)



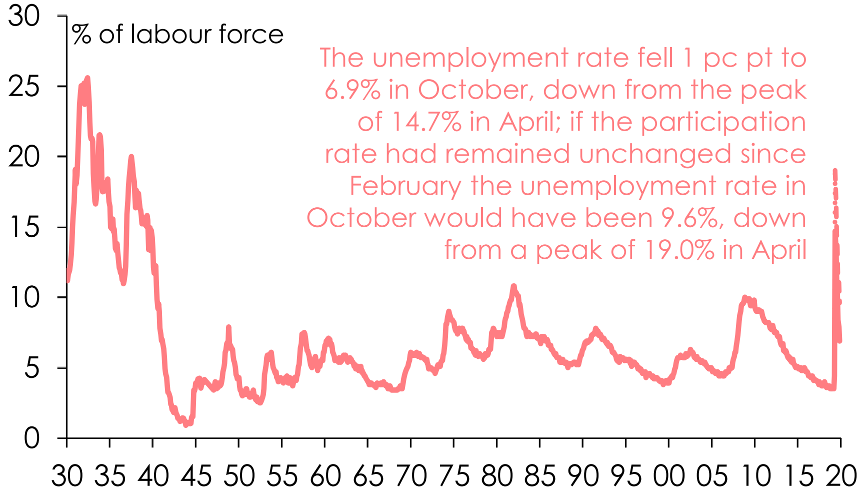
Labour force participation rate



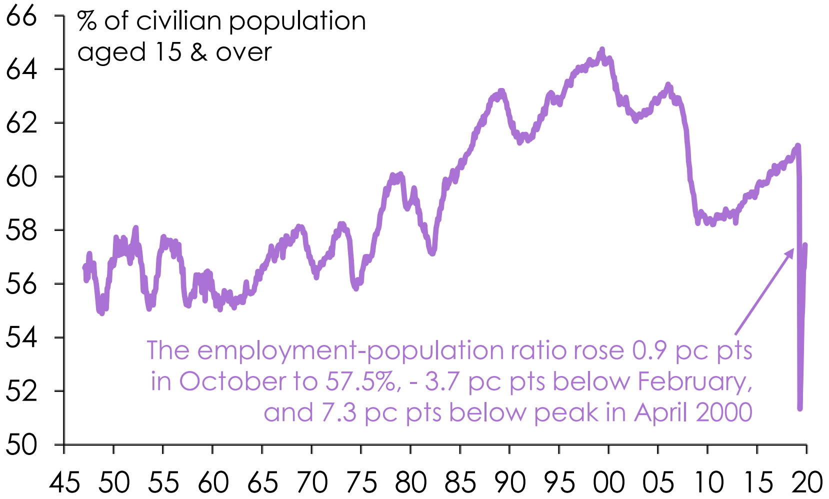
Non-farm payroll employment



Unemployment rate



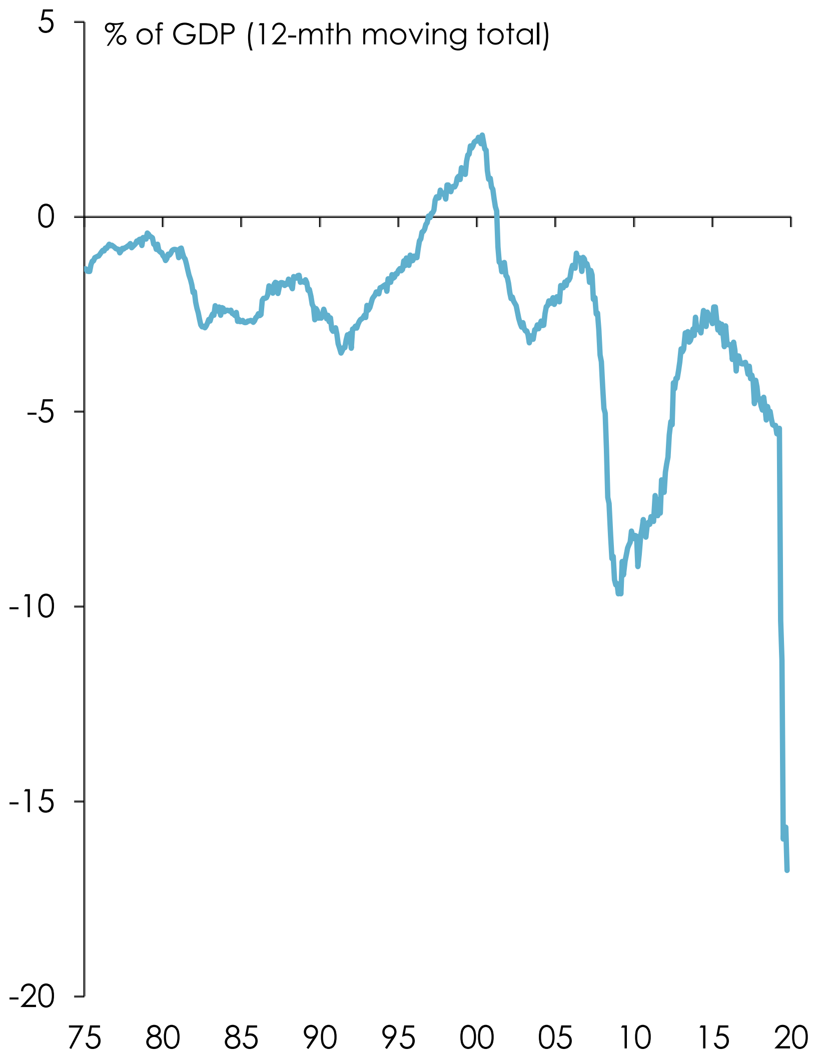
Employment to population ratio



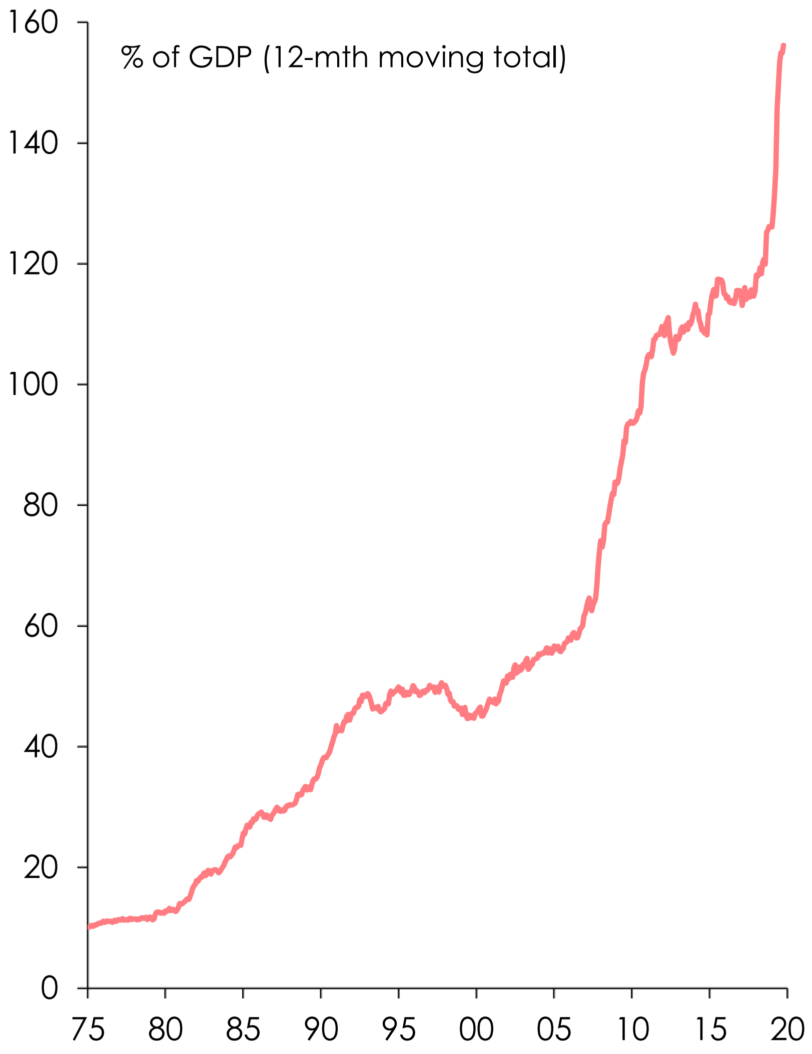
Sources: US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. November employment and other labour force data will be released on 4th December. Return to "What's New".

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

US Federal budget deficit



US gross Federal debt

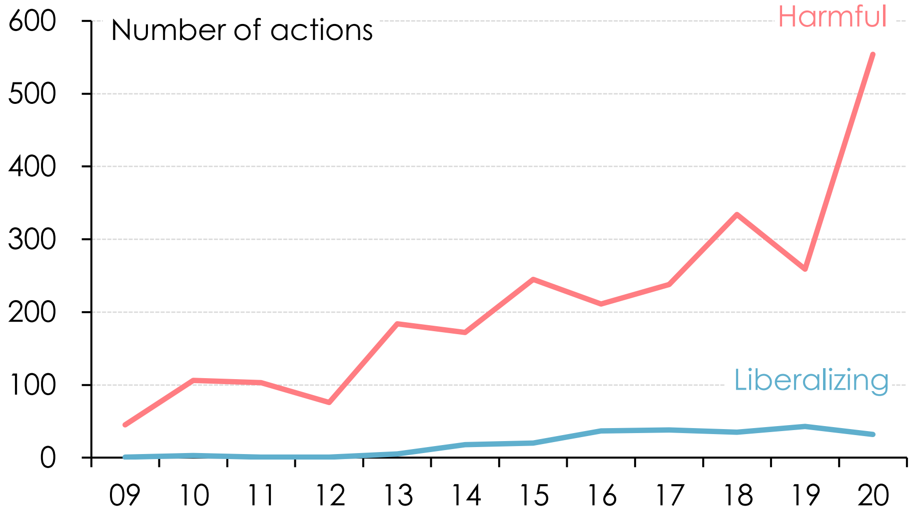


- The US budget deficit widened from US$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US$20.4 trn (115% of GDP) to $24.1trn (126% of GDP)
- The budget was in deficit by US$125bn in September, a month in which there's usually a surplus (the last September deficit was in 2011)
- Over the 12 months to September the deficit was US$3.1trillion, equivalent to 16.8% of GDP (cf. the previous peak of 9.0% of GDP in the 12 months ended December 2009, and the highest since 1945 when the deficit reached 20.8% of GDP)
- The market value of gross federal debt rose $237bn to $29.2 trn (156% of GDP)
- Last month the non-partisan Congressional Budget Office forecast that the deficit would blow out to US$3.3trn (16% of GDP) in FY 2020 (the largest since 1945) and remain above US$1trn pa until at least 2030, with gross debt reaching $38trn by 2030

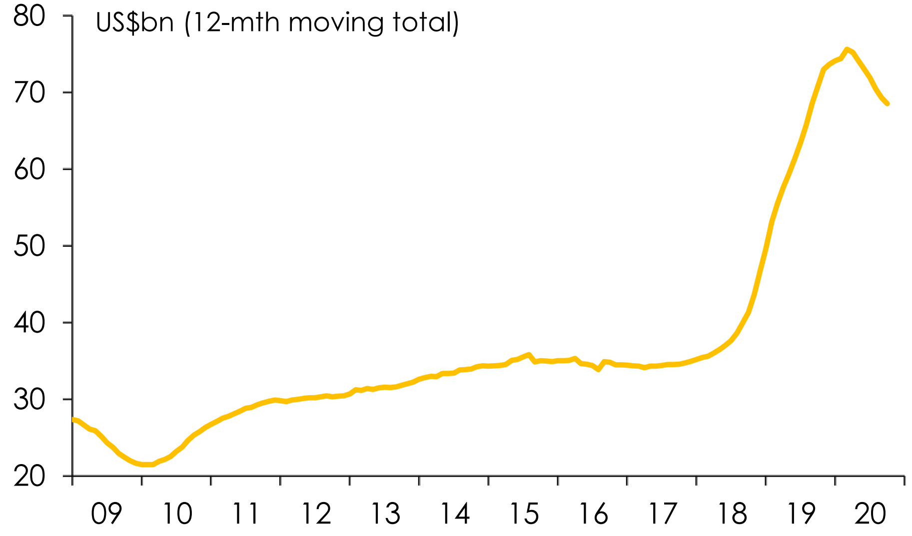
Note: The measure of US gross federal debt is at market value. *Sources:* US Treasury Department; Federal Reserve Bank of Dallas; US Bureau of Economic Analysis; US Congressional Budget Office; Corinna. The October budget data will be released on 11th November. Return to "What's New".

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

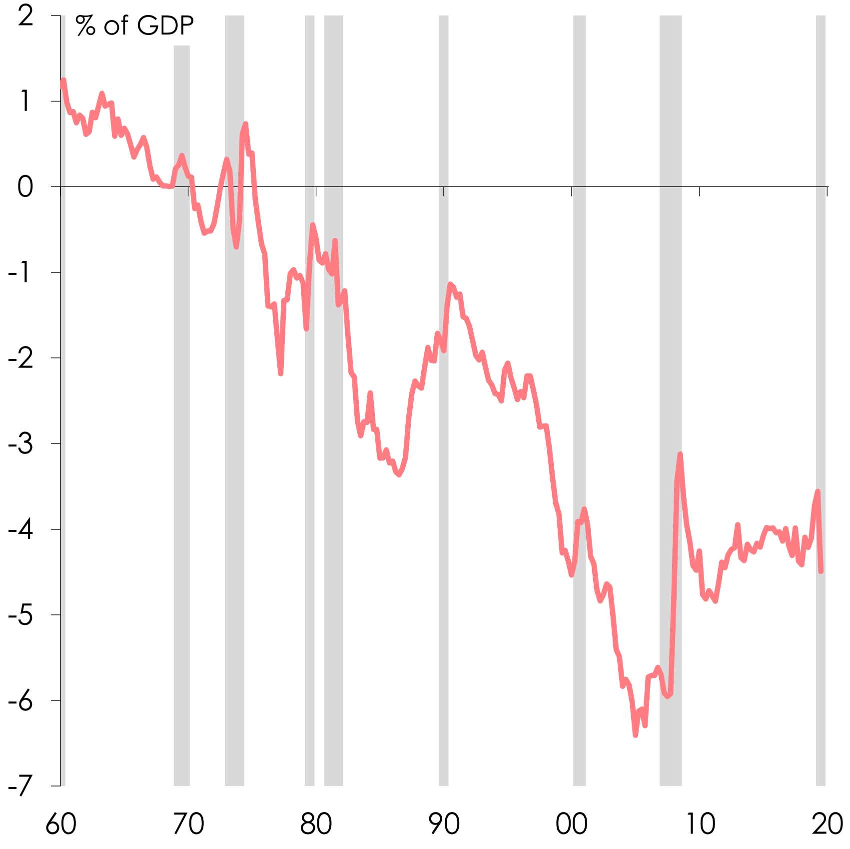


Sources: The Brookings Institution; Centre for Economic Policy Research, *Global Trade Alert Global Dynamics* (data up to 6th November); US Treasury Department. Return to "What's New".

- **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"**

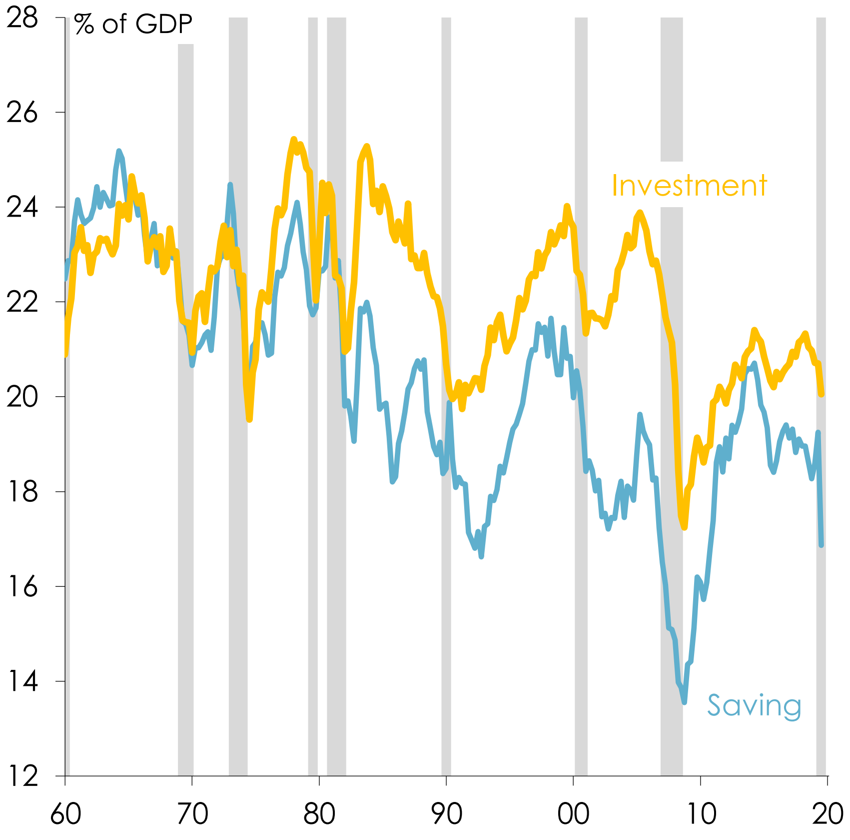
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



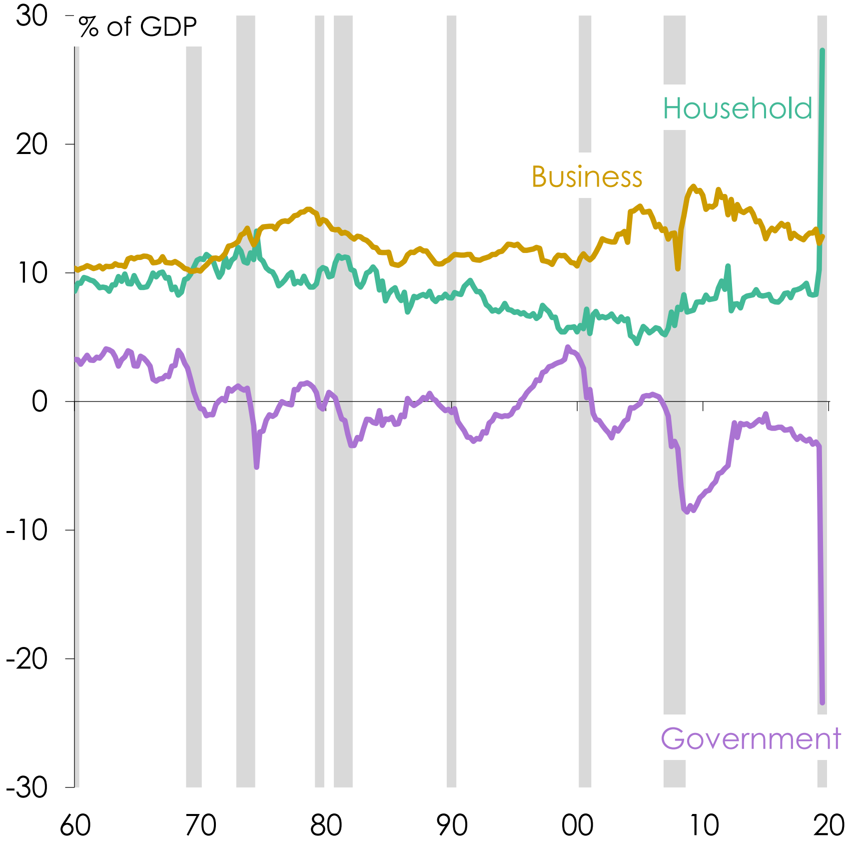
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

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



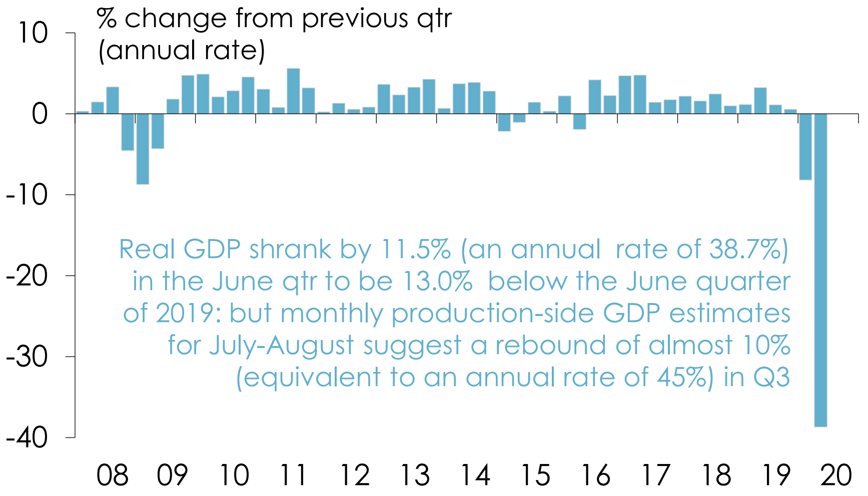
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in house-hold saving (though monthly data says household saving fell in Q3

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".

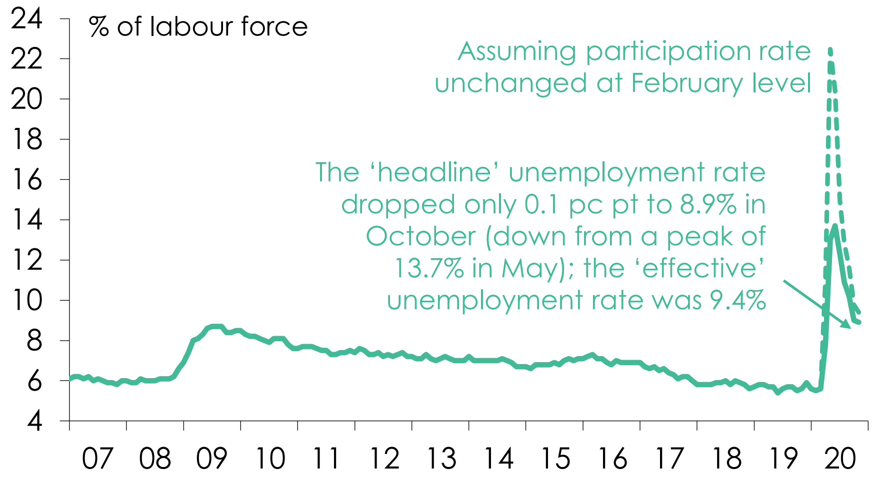
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

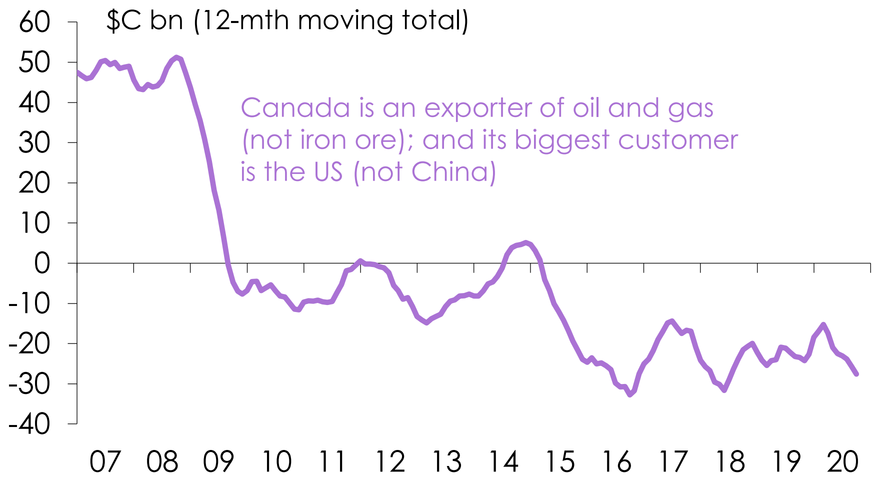
Real GDP



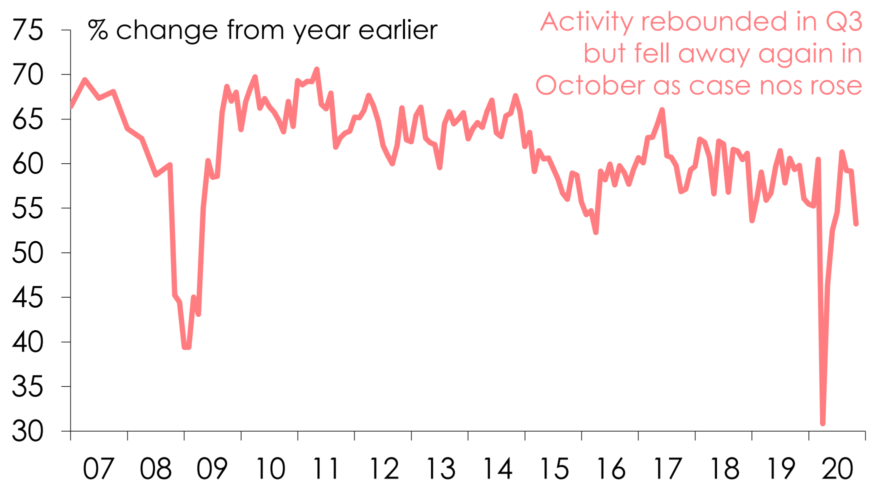
Unemployment rate



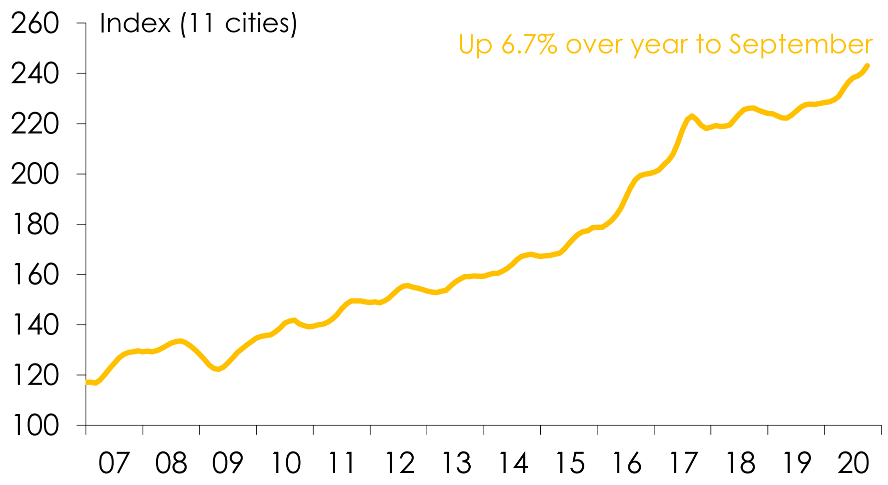
Merchandise trade balance



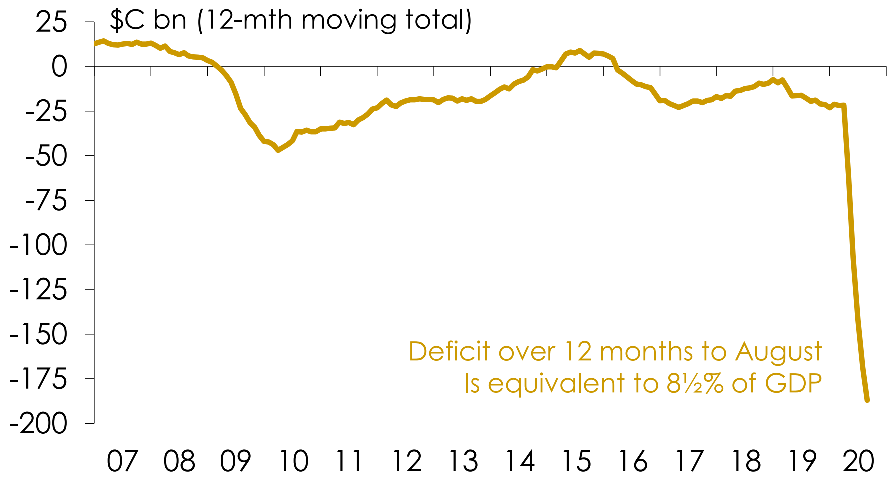
CFIB 'business barometer'



House prices



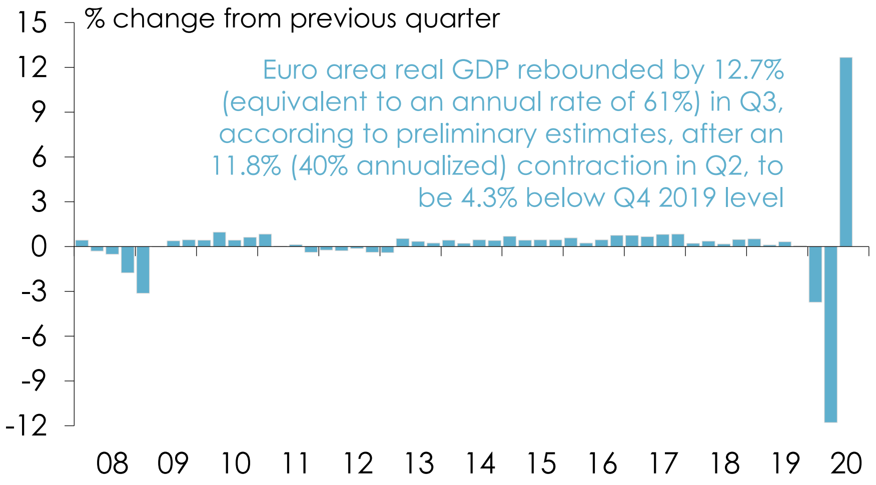
Federal budget balance



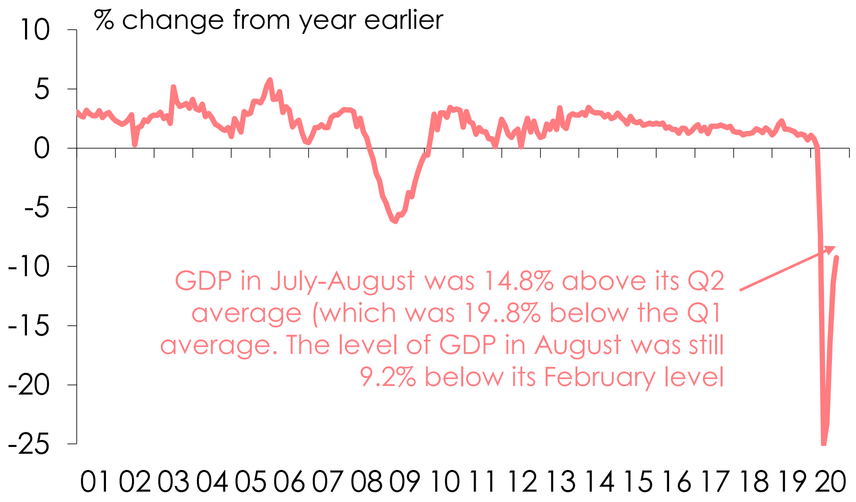
Sources: Statistics Canada; Canadian Federation of Independent Businesses; Teranet-National Bank of Canada; Department of Finance Canada. Return to "What's New".

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

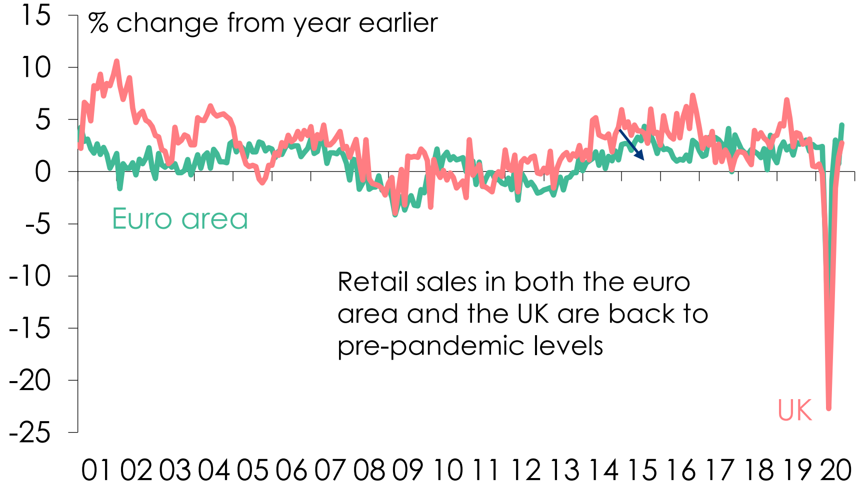
Euro area real GDP



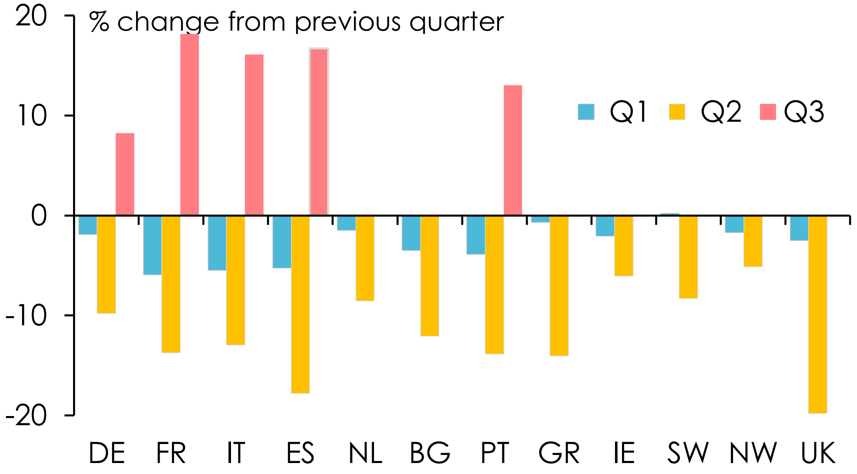
UK monthly GDP



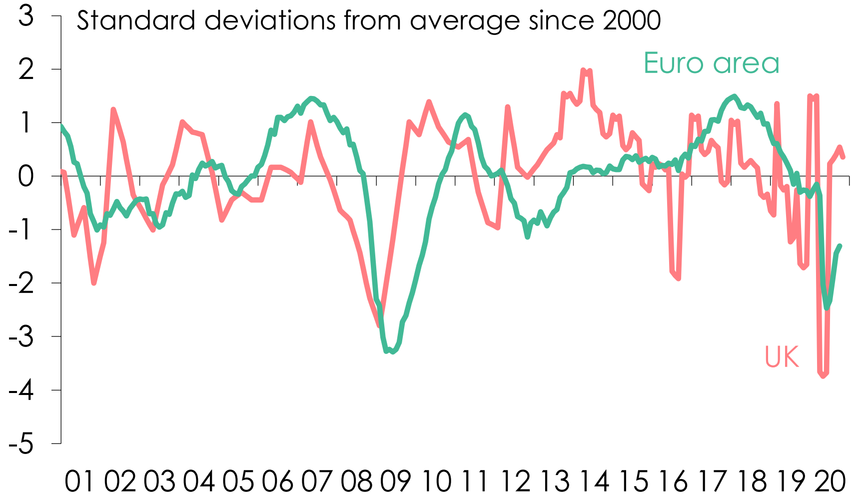
Retail sales volume



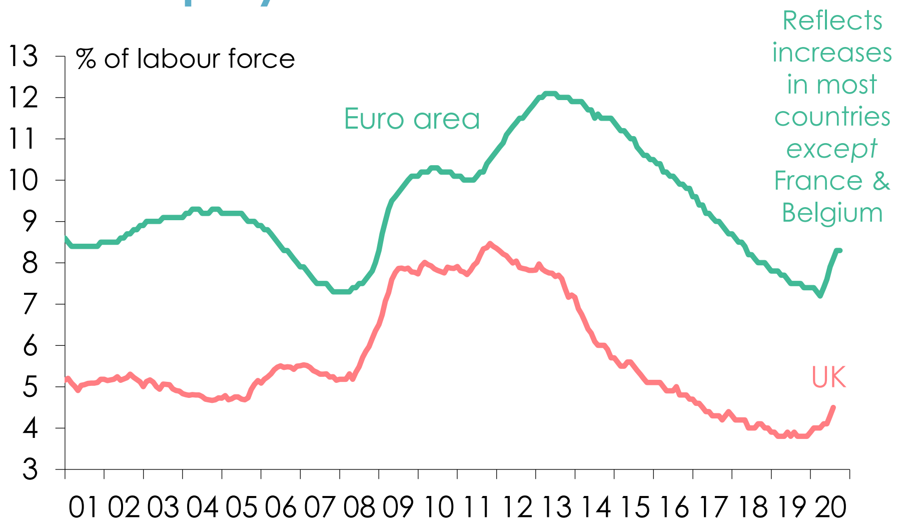
Quarterly GDP by country



Business confidence



Unemployment



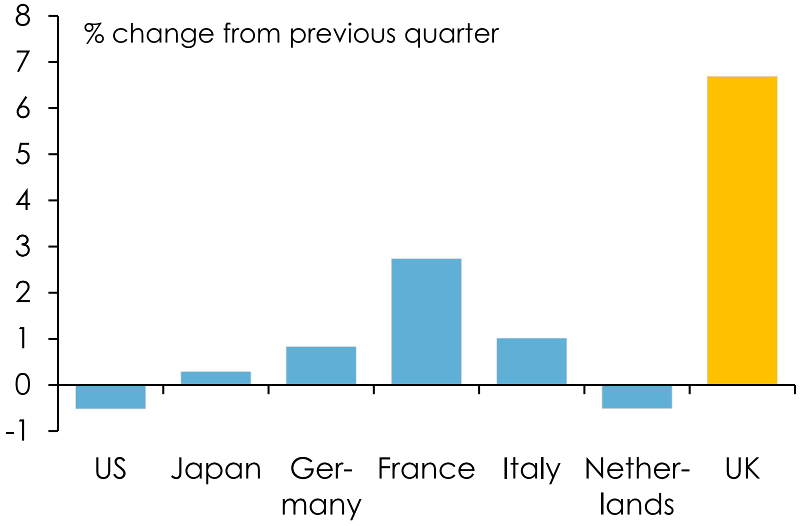
Sources: Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average.

Return to "What's New".

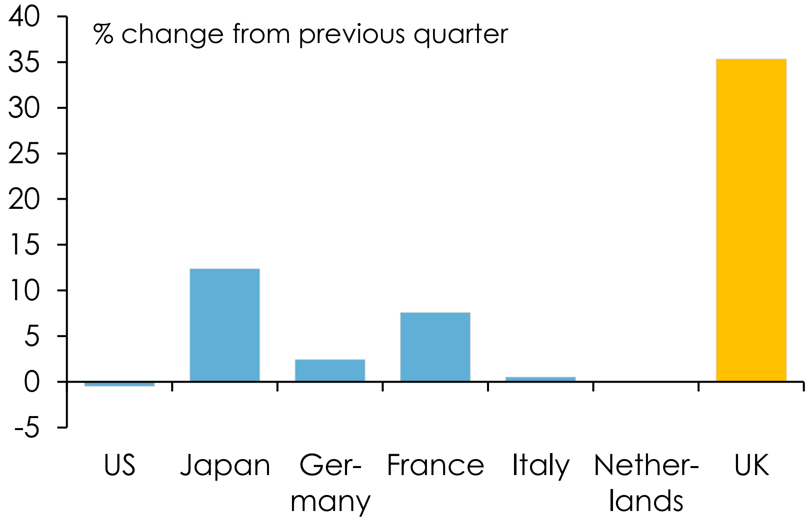
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

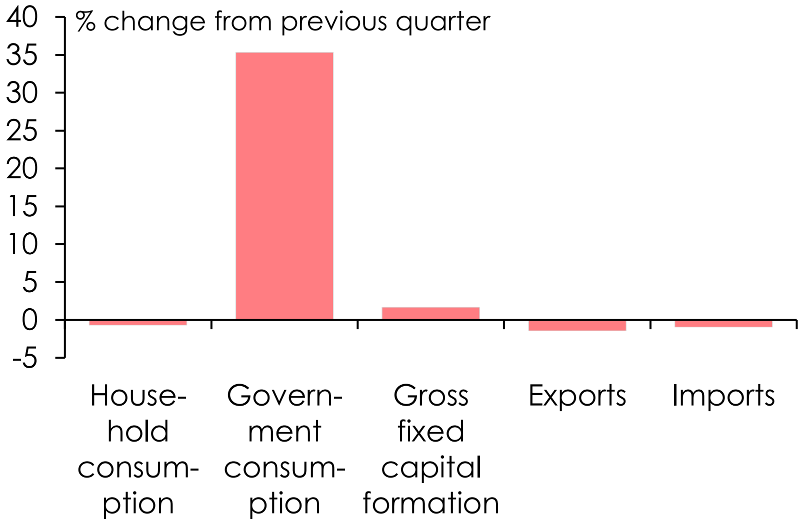
Q2 GDP deflators



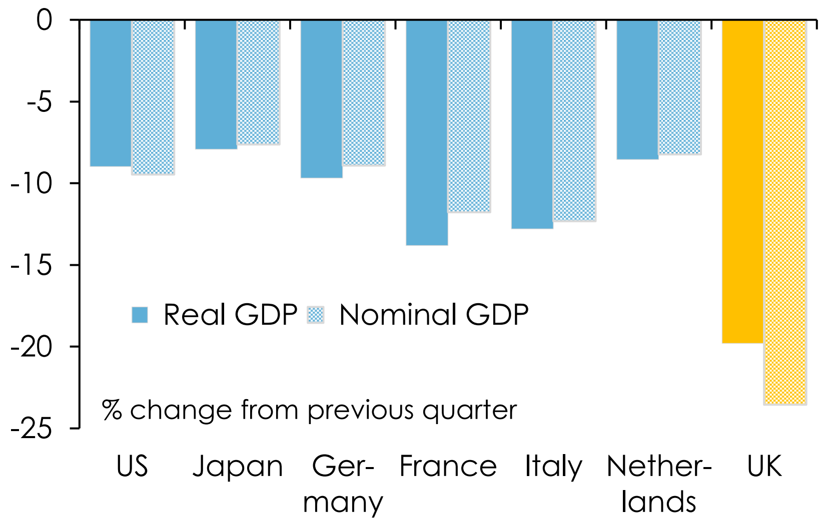
Q2 gov't consumption deflators



UK Q2 expenditure deflators



Q2 real and nominal GDP



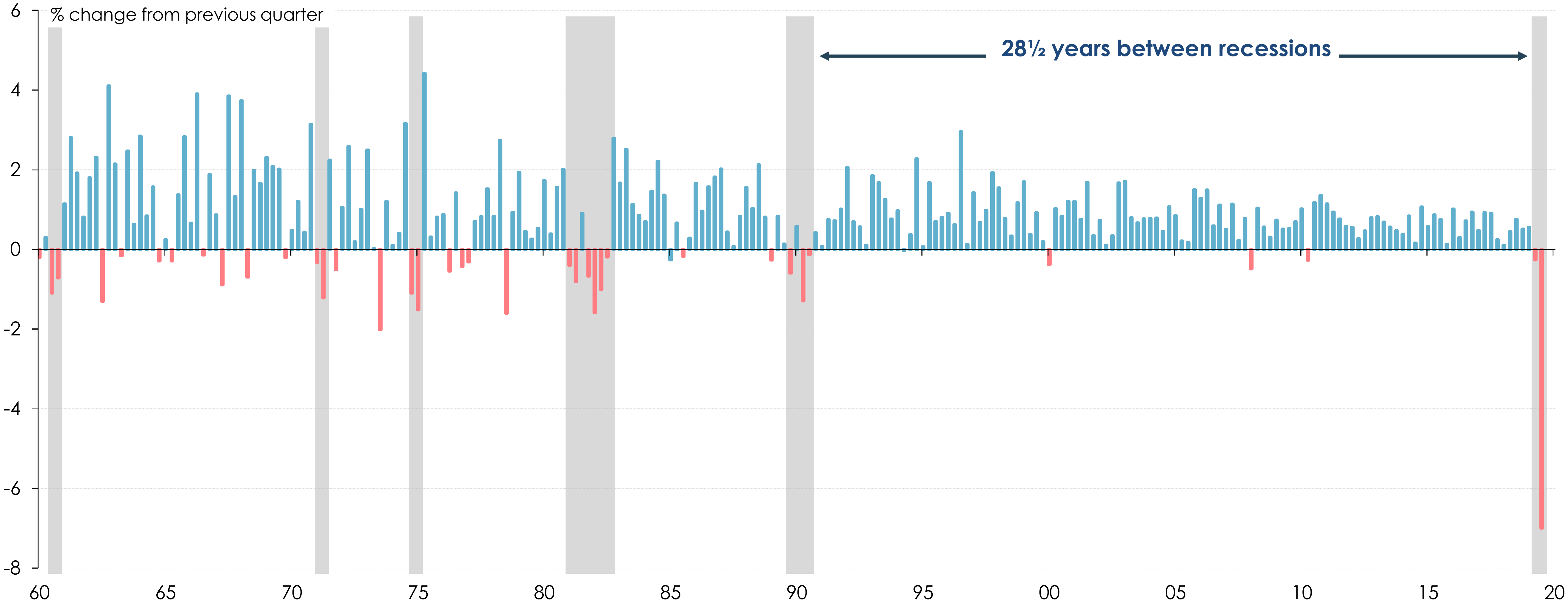
- According to the UK's Office for National Statistics, the UK's real GDP fell by 19.8% in Q2, but nominal GDP fell by 23.6% - implying that prices (as measured by the implicit price deflator of GDP) rose by 6.7% in Q2
- This is totally inconsistent with all other measures of UK inflation in Q2 – for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

Sources: US Bureau of Economic Analysis; Japan Cabinet Office; Statistiches Bundesamt; Institut national de la statistique et des études économiques; Istituto Nazionale di Statistica; Centraal Bureau voor de Statistiek; UK Office for National Statistics; Corinna. Return to "What's New".

Australia

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

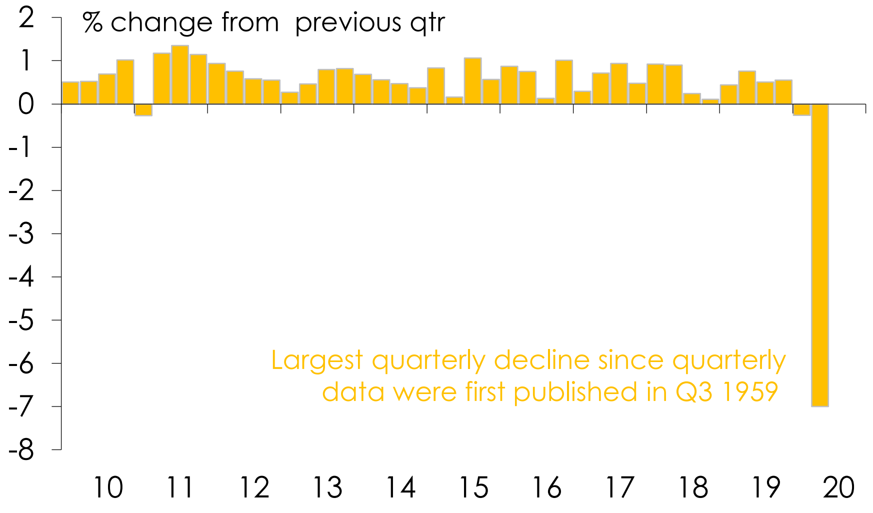
Quarterly growth in Australian real GDP, 1960-2020



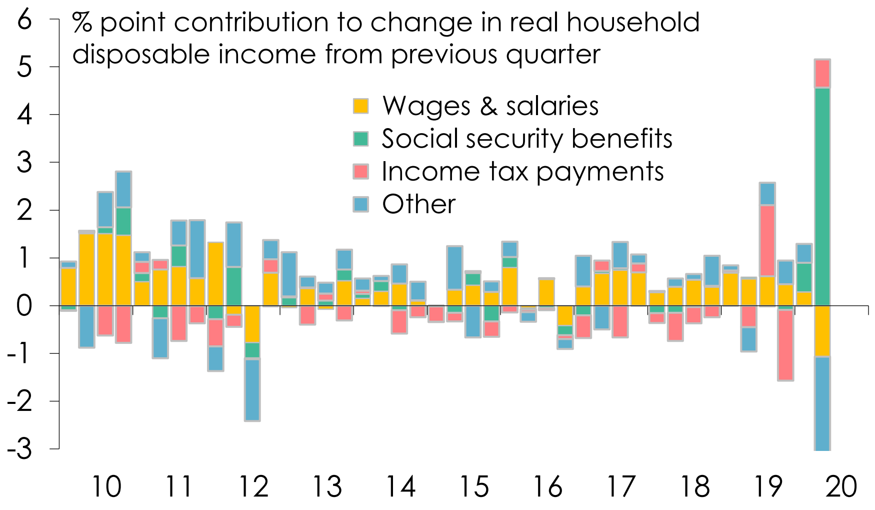
Note: Shaded areas denote recessions. *Source:* ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2020. September quarter (Q3) national accounts will be released on 2nd December. Return to "What's New".

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

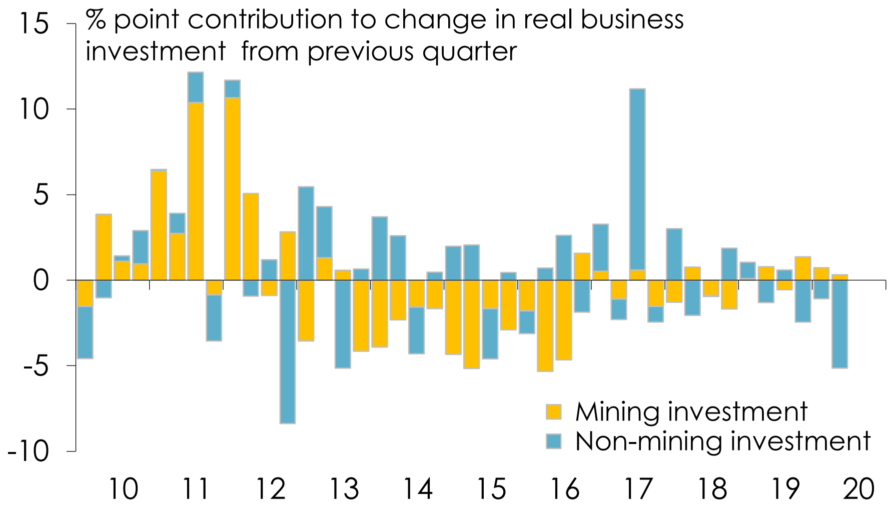
Quarterly change in real GDP



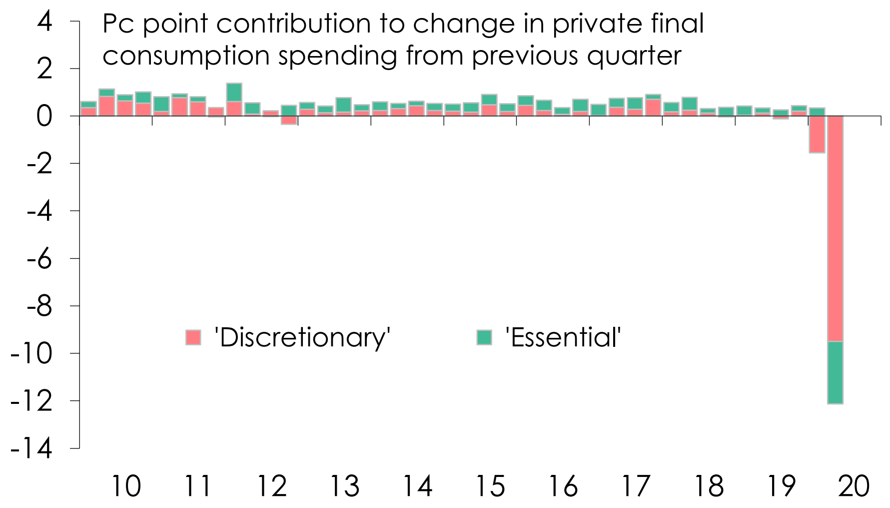
Household disposable income



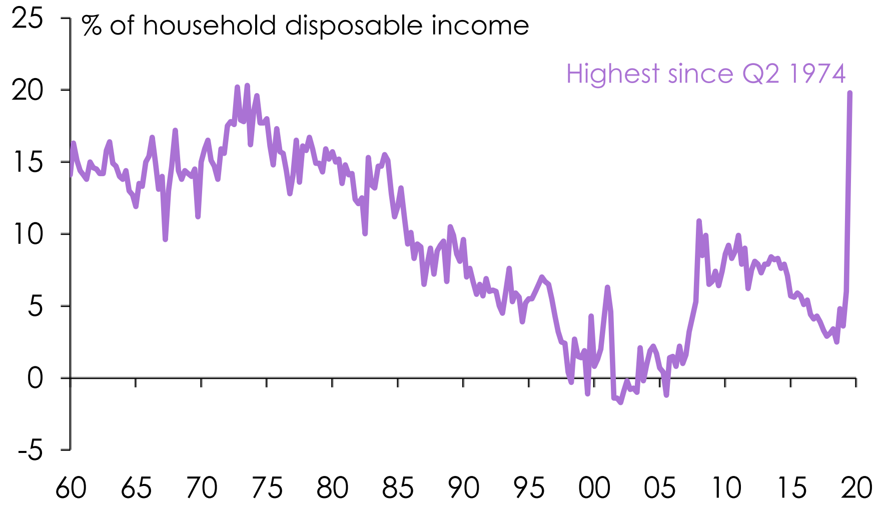
Business investment expenditure



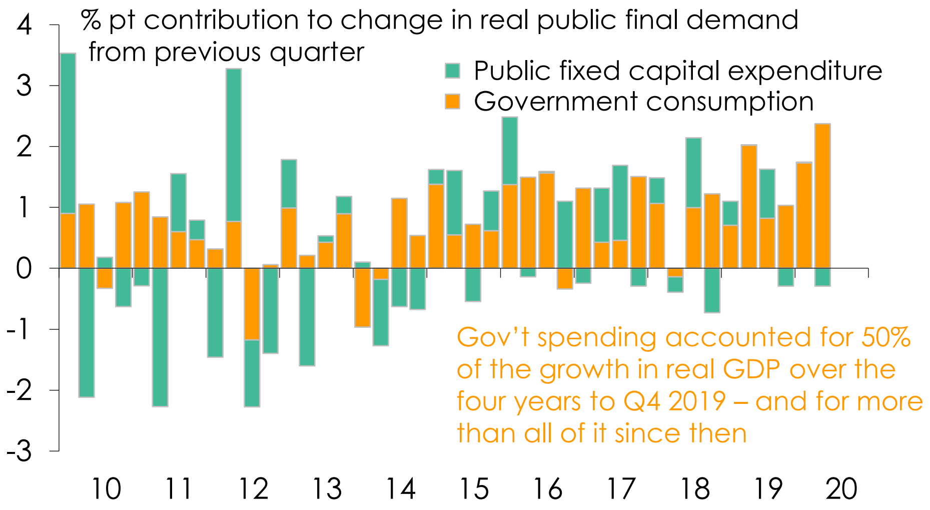
Household consumption expenditure



Household saving rate



Public expenditure



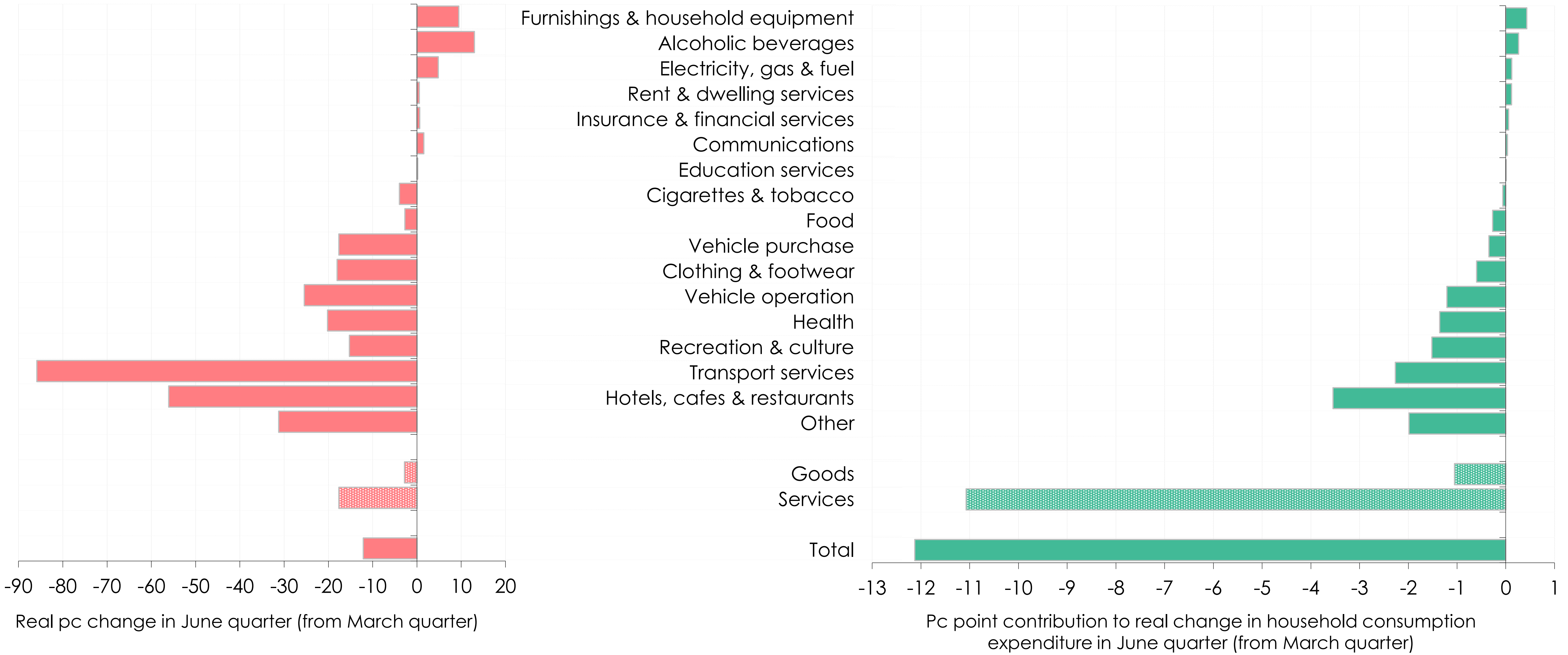
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are 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".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

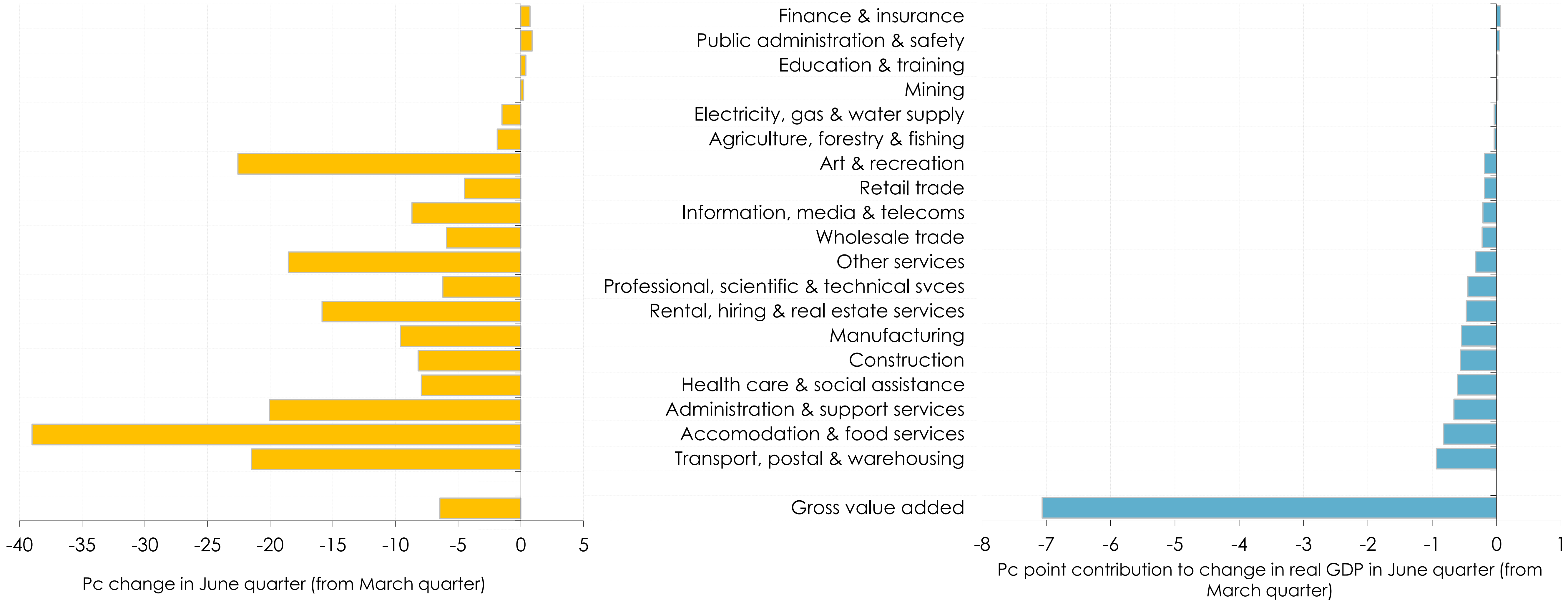


Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). *Source:* ABS. Return to "What's New".

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".

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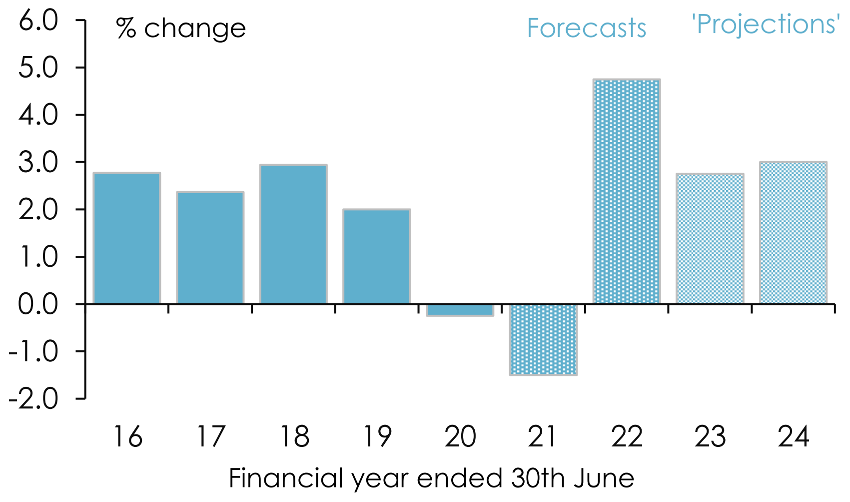
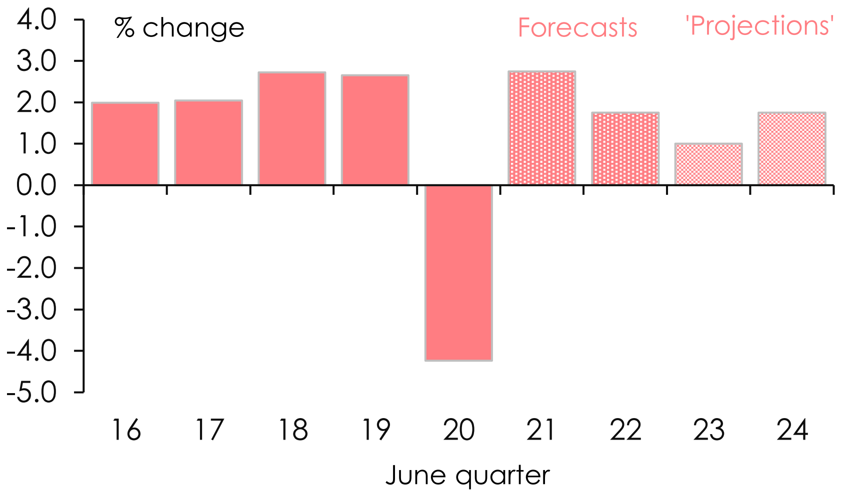
CORINNA ECONOMIC ADVISORY

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

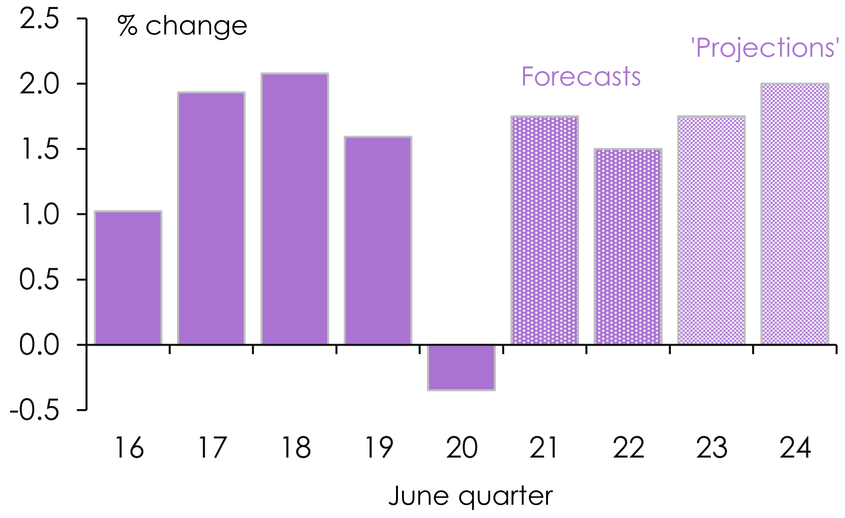
Real GDP



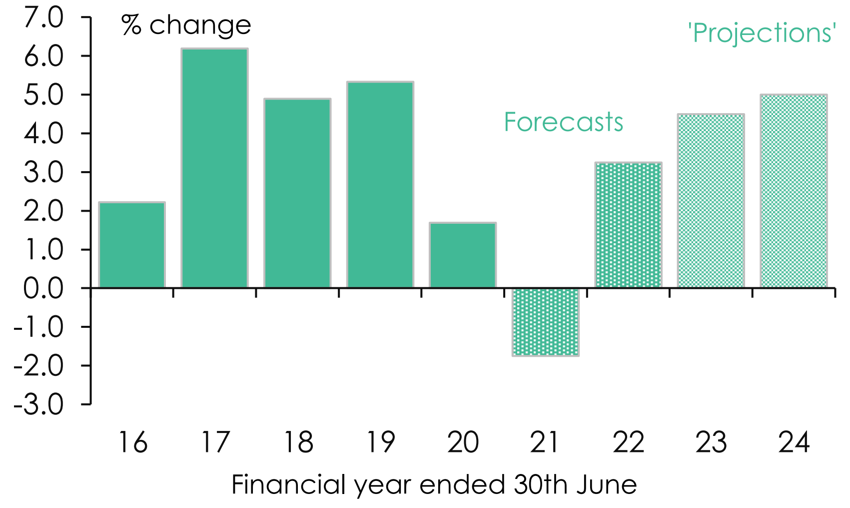
Employment



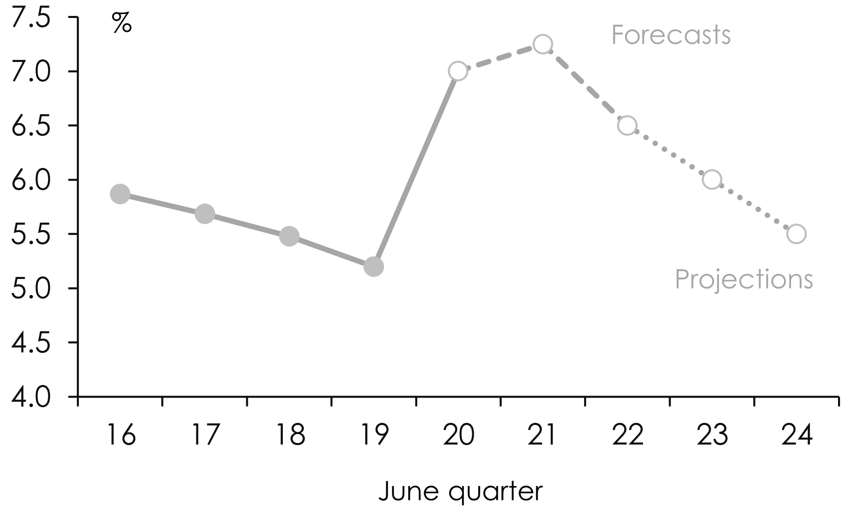
Consumer price index



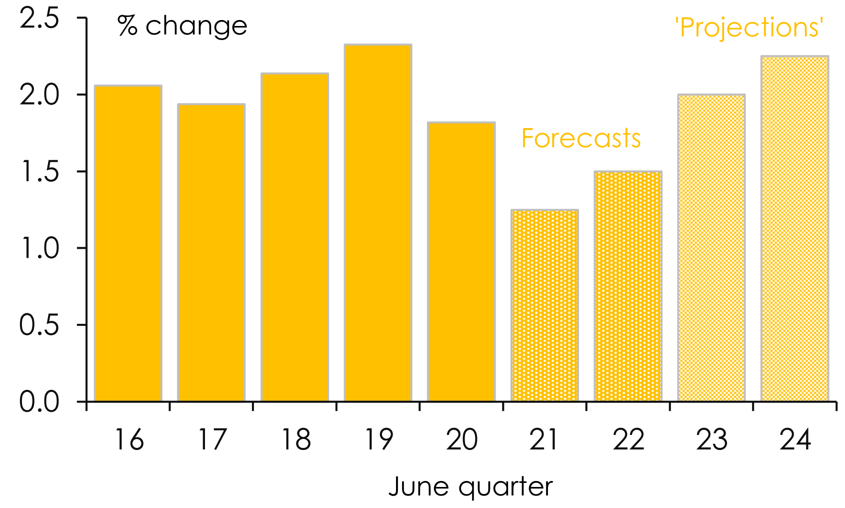
Nominal GDP



Unemployment rate



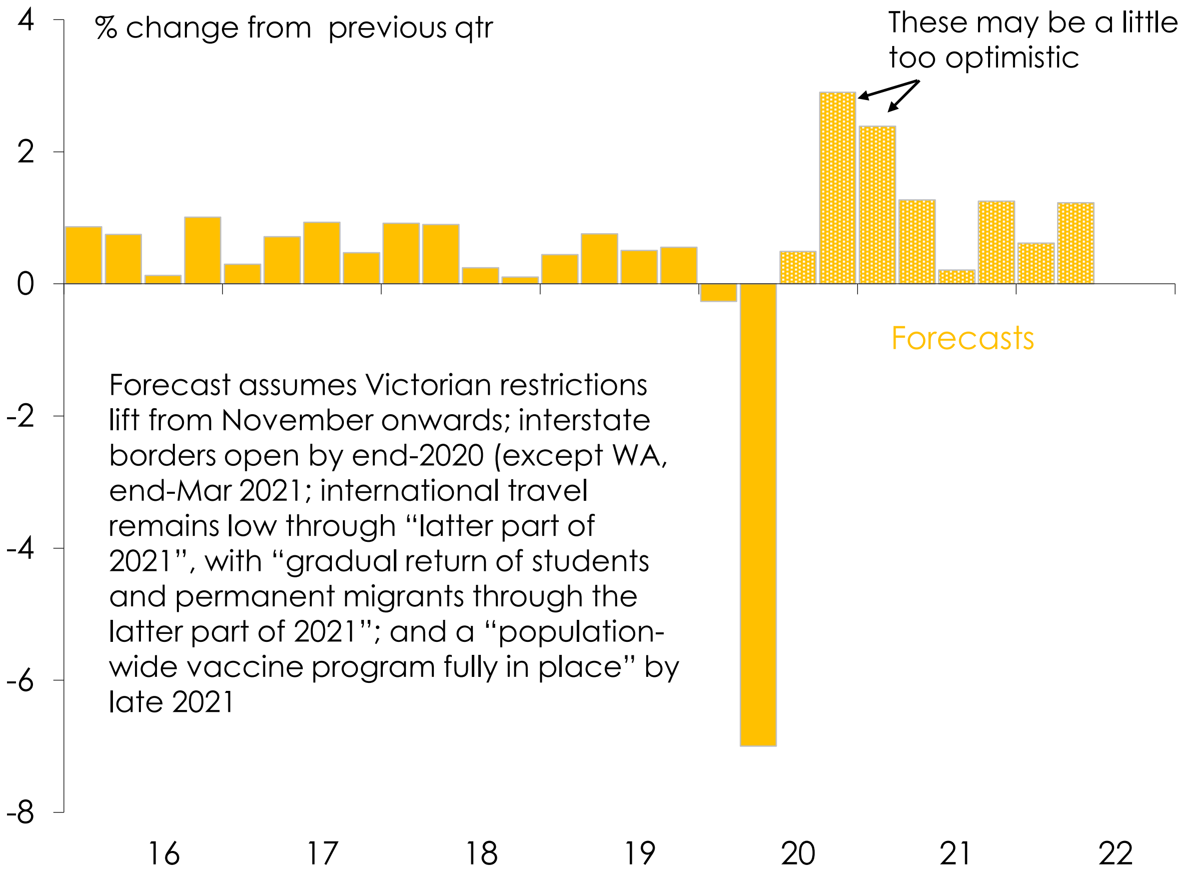
Wage price index



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.

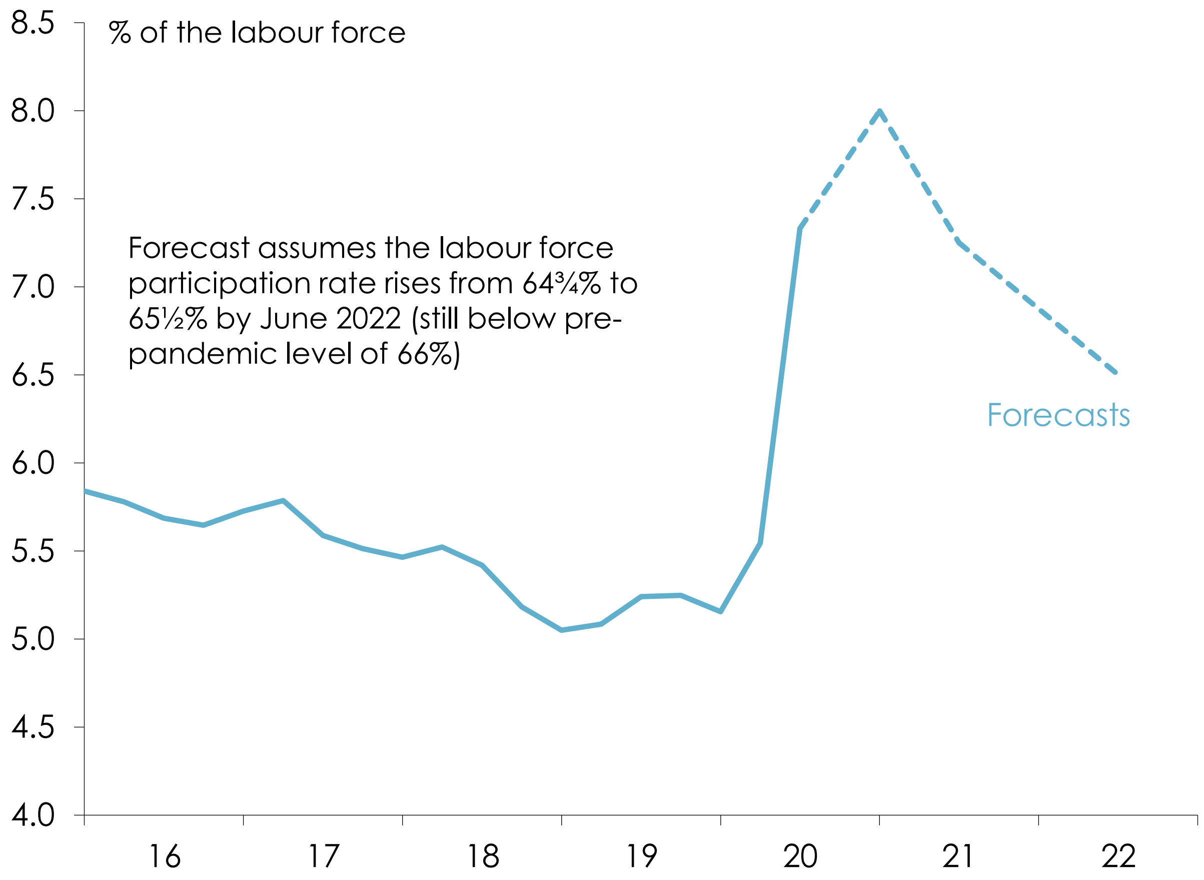
More detailed forecasts show the Government expects a 'growth surge' over summer followed by more modest growth in 2021-22

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



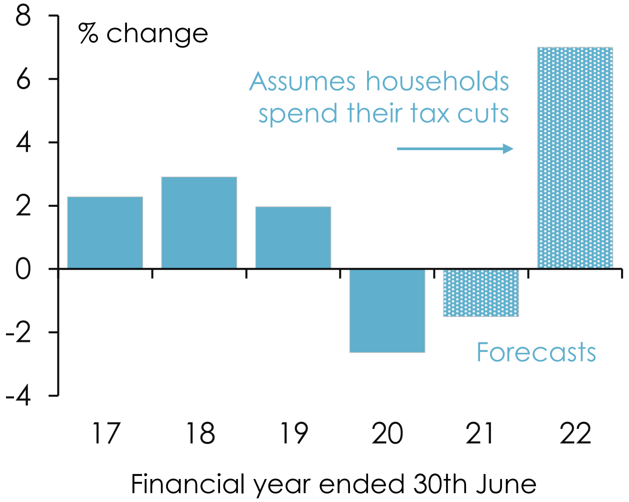
- Treasury expects the unemployment rate to peak at 8% in the December quarter, and then fall to 6½% by the June quarter 2022

Sources: ABS; Australian Government, 2020-21 Budget Paper No. 1, Statement No. 2.

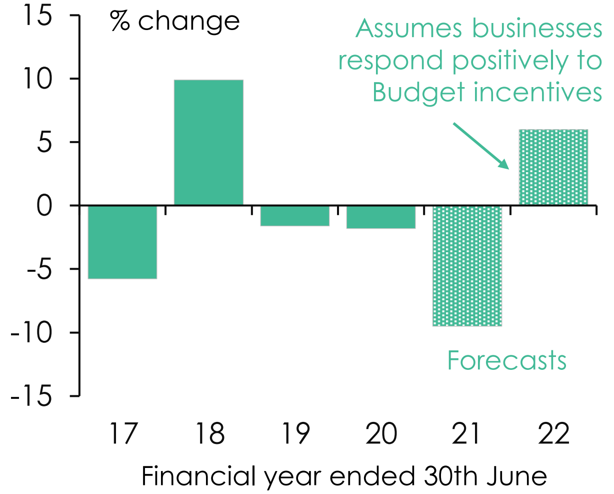
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

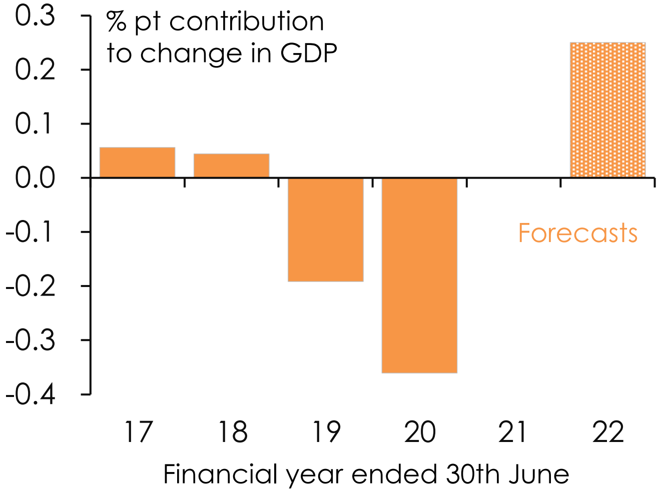
Household consumption



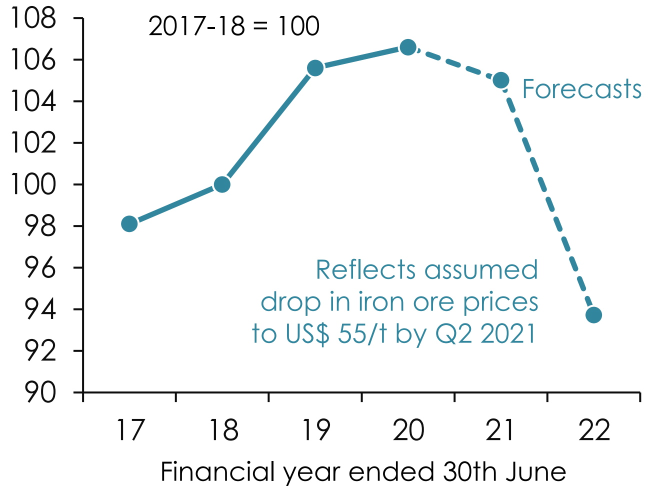
Business investment



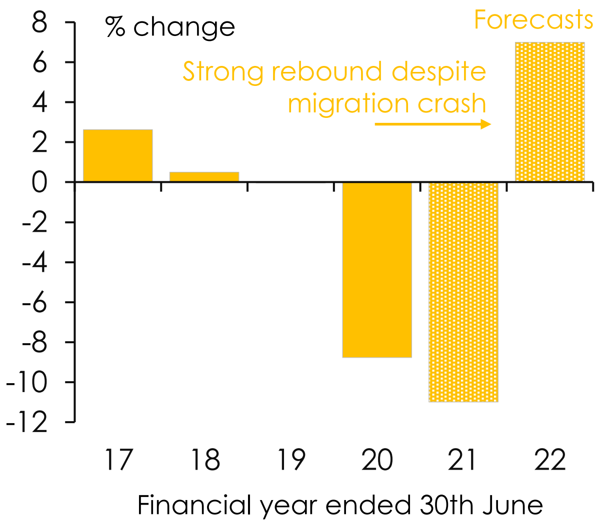
Change in inventories



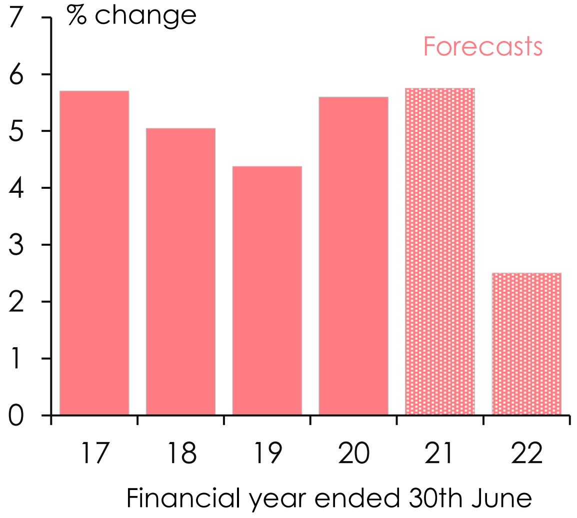
Terms of trade



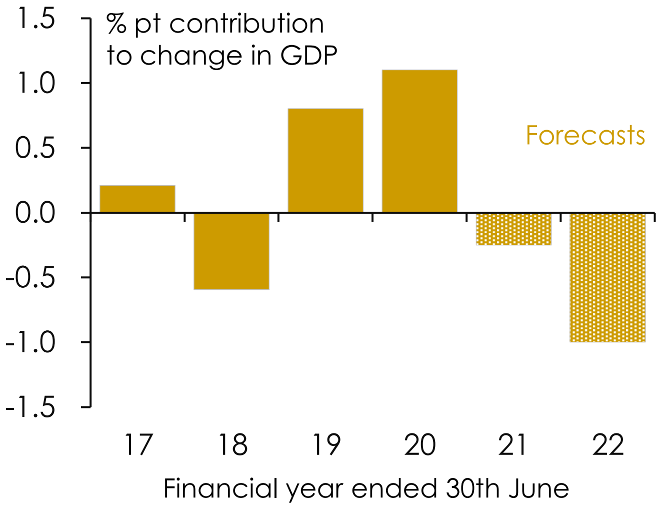
Dwelling investment



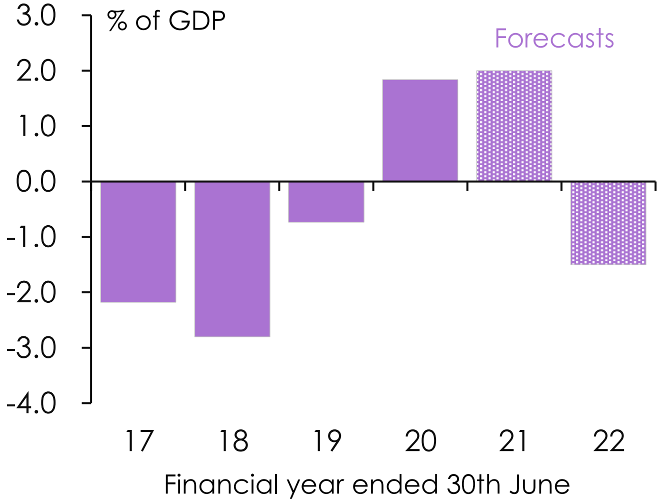
Public spending



Net exports



Current account balance

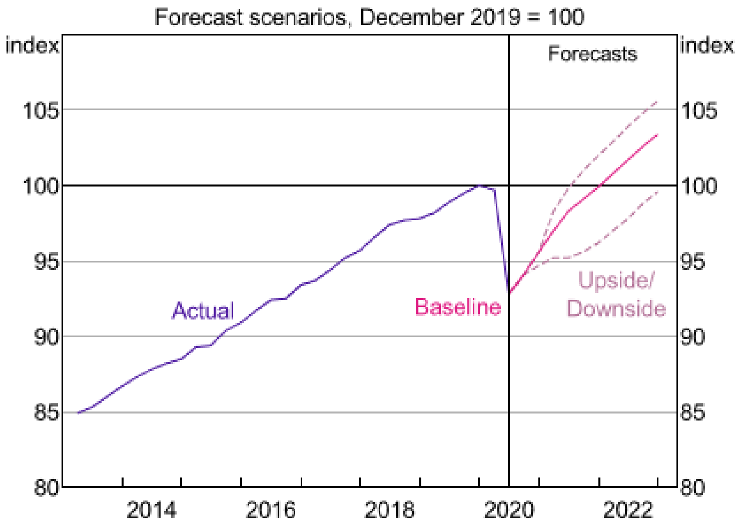


Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K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

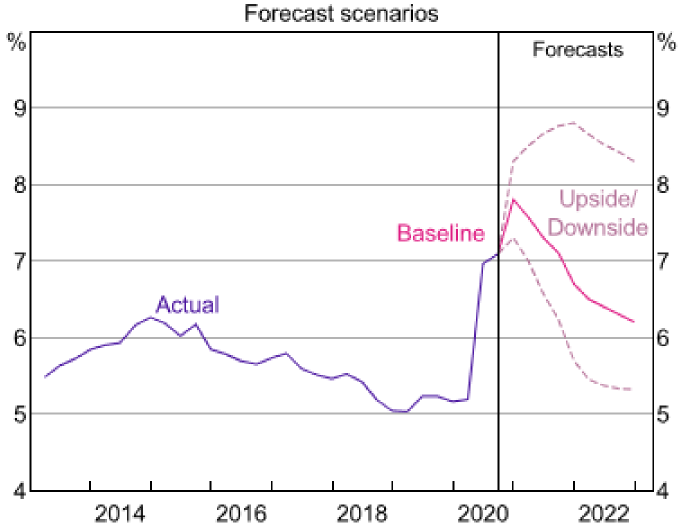
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The RBA's latest forecasts, released on Friday, again incorporate three scenarios – but inflation remains below target in all of them

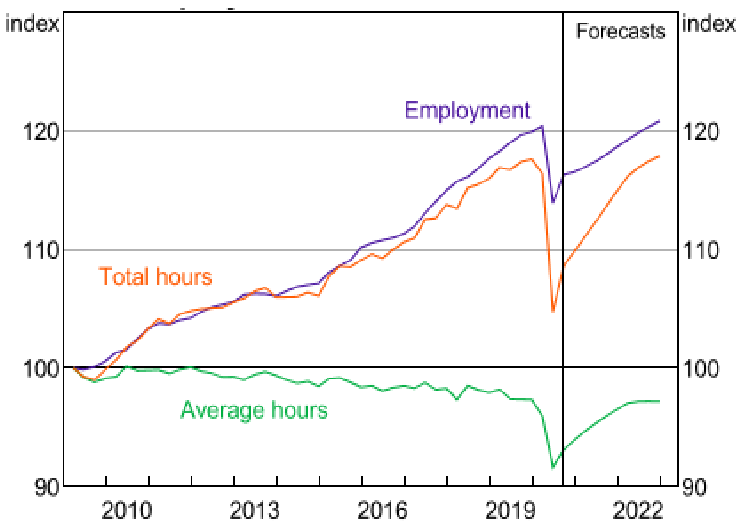
GDP



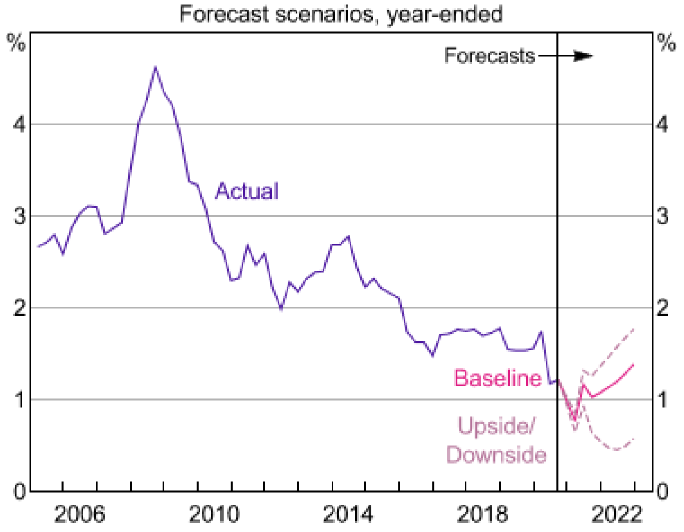
Unemployment



Employment



'Underlying' inflation



- The RBA's 'baseline' scenario assumes that there are no further virus outbreaks in Australia, and that current restrictions continue to be eased gradually (although restrictions on international travel remain until around the end of next year)
- In this scenario real GDP declines 4% over the course of 2020 (previously 6%) and then grows 5% over 2021 and 4% over 2022 (both unchanged), with unemployment peaking 'a little below 8%' this quarter and declining gradually to 6% by Q4 2022
- The RBA's 'downside' scenario assumes there are further outbreaks in Australia and abroad, resulting in renewed restrictions and later opening of borders – with unemployment peaking at 9% in late 2021
- The RBA's 'upside' scenario assumes 'enhanced control and management of the virus' (though not an earlier vaccine) allowing faster removal of restrictions and providing a boost to confidence
- Importantly 'underlying' inflation remains below the bottom end of the RBA's target in all scenarios

Source: Reserve Bank of Australia, *Statement on Monetary Policy* , 6th November 2020.

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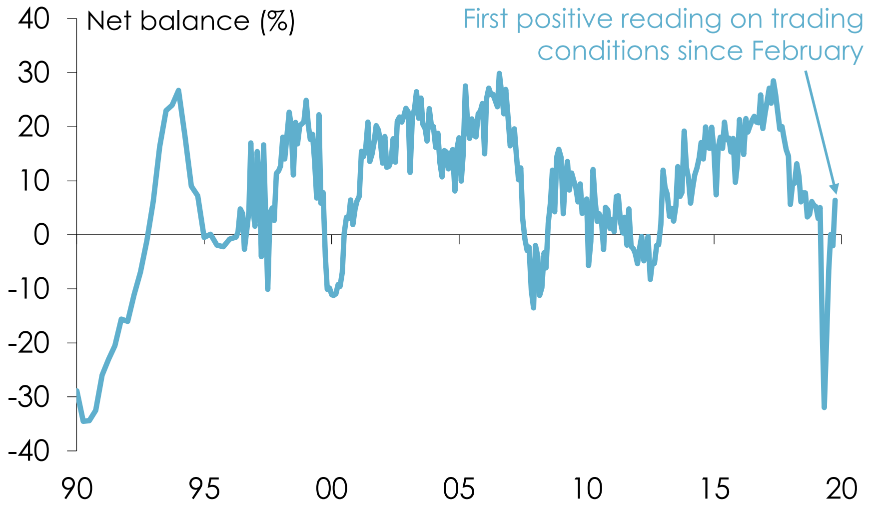
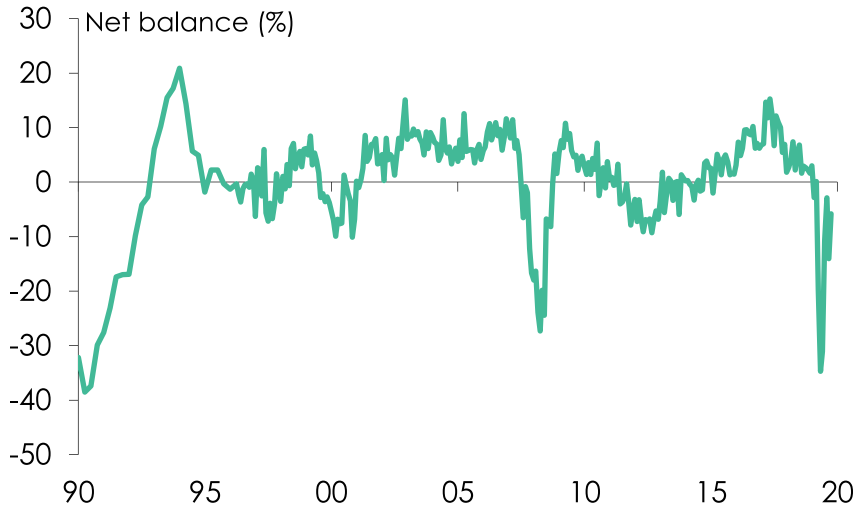
All of the components of the NAB business conditions index improved in September, although hiring intentions in particular remain soft

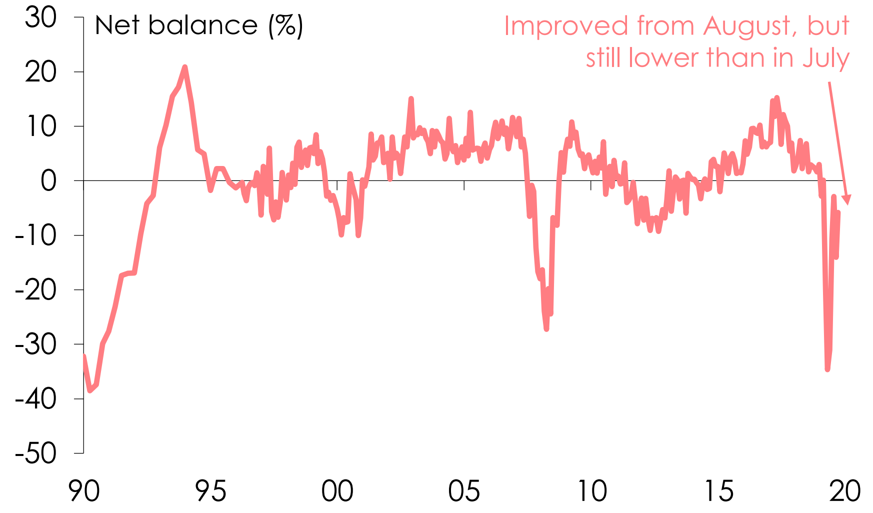
Trading conditions



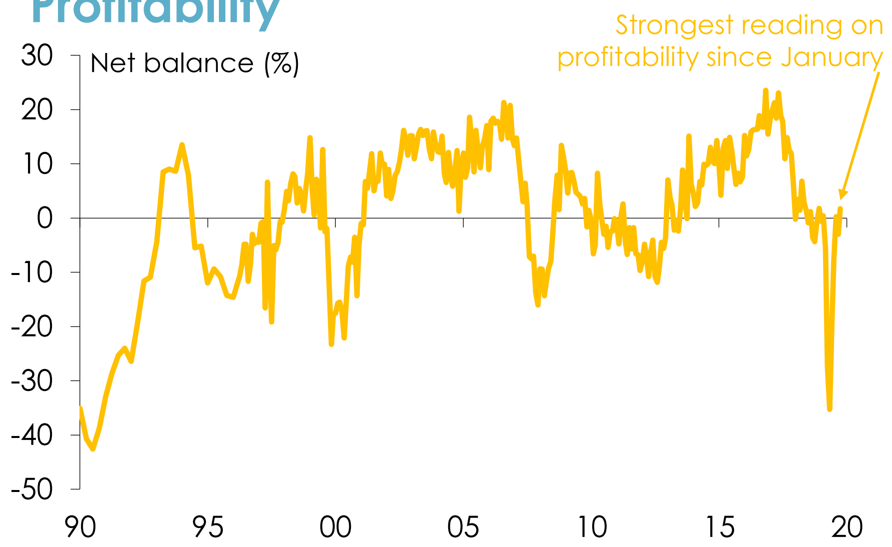
Forward orders



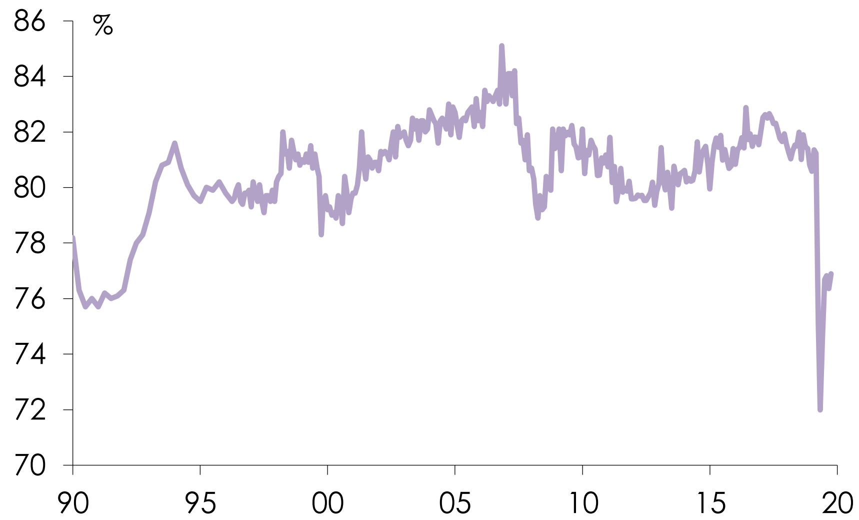
Employee hiring intentions



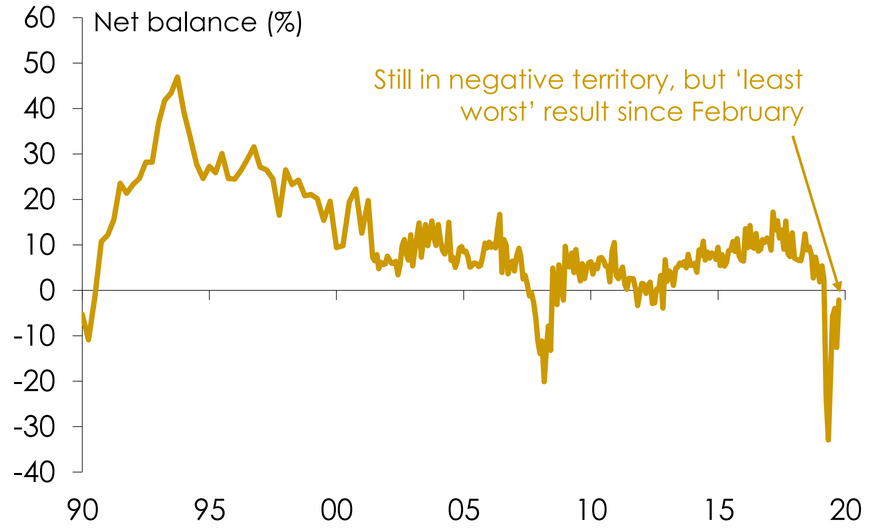
Profitability



Capacity utilization



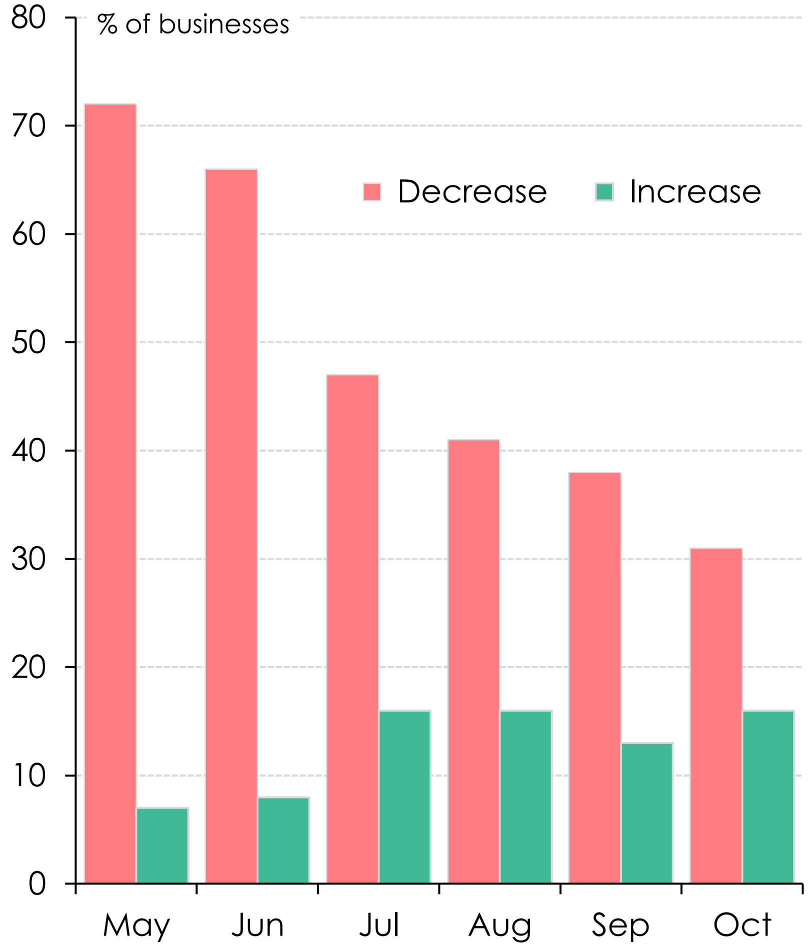
Capital expenditure intentions



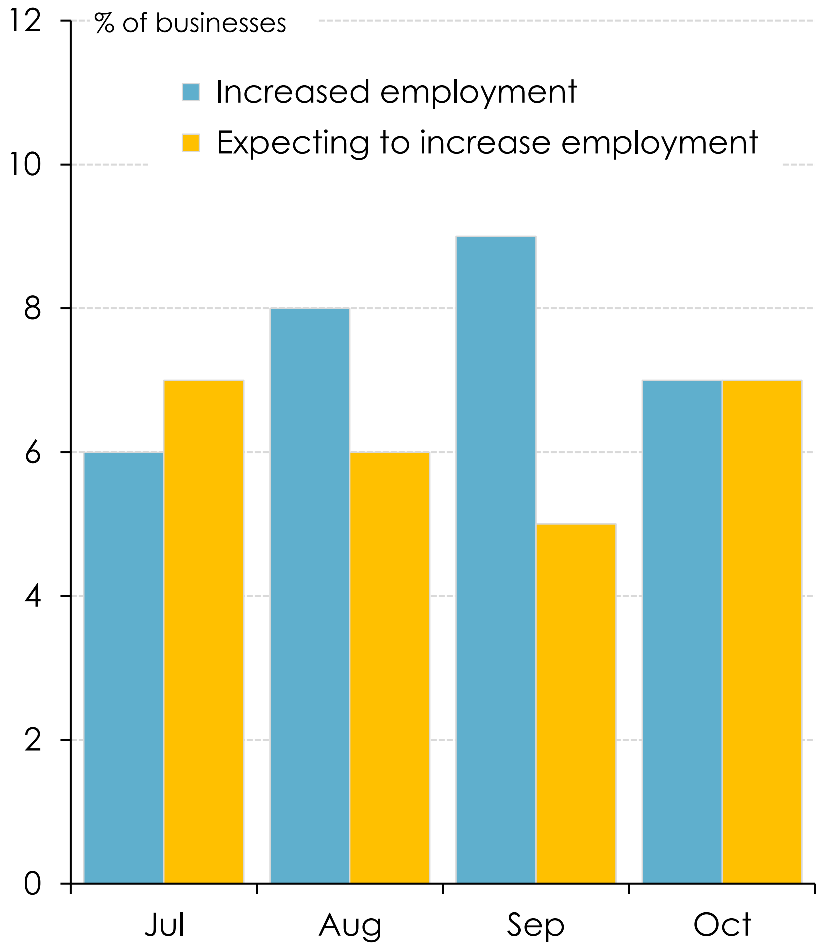
Note: Quarterly data up to March 1987 (May 2002 for capex intentions), monthly thereafter (latest data September 2020). See also chart of business confidence on slide 82. *Source:* National Australia Bank *Monthly Business Survey* September 2020; October survey results will be released on 10th November. 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

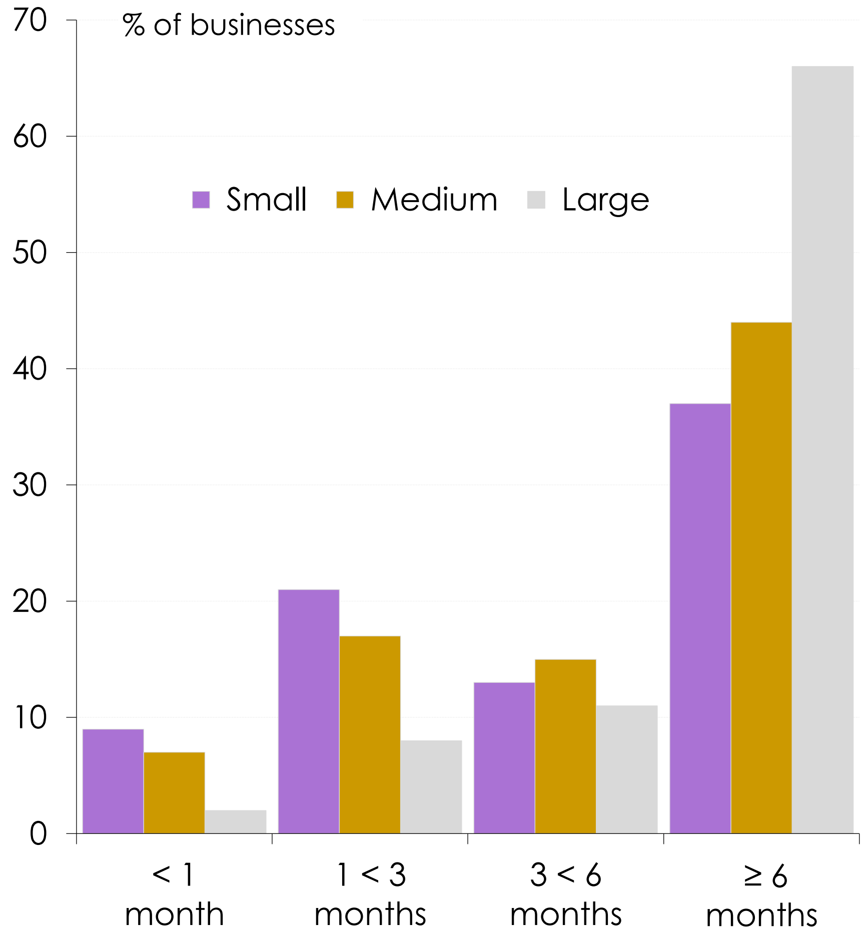
Proportion of businesses reporting decreases or increases in revenue



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".

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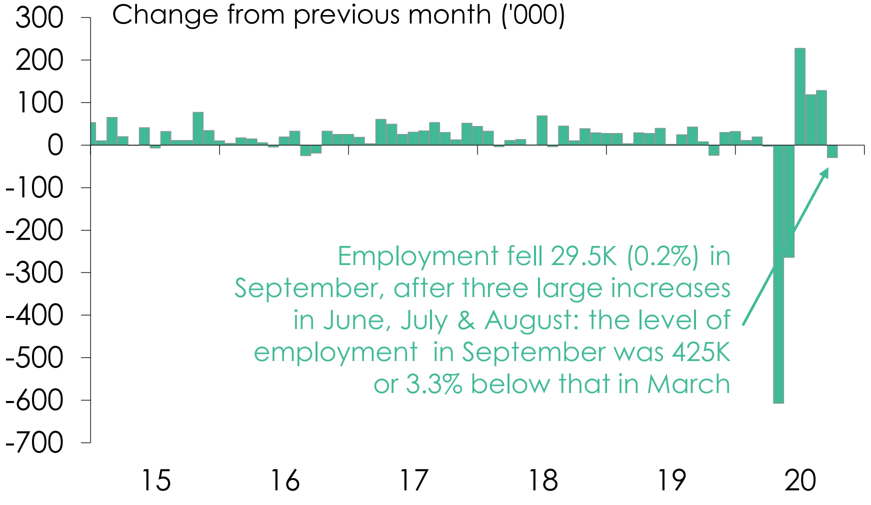
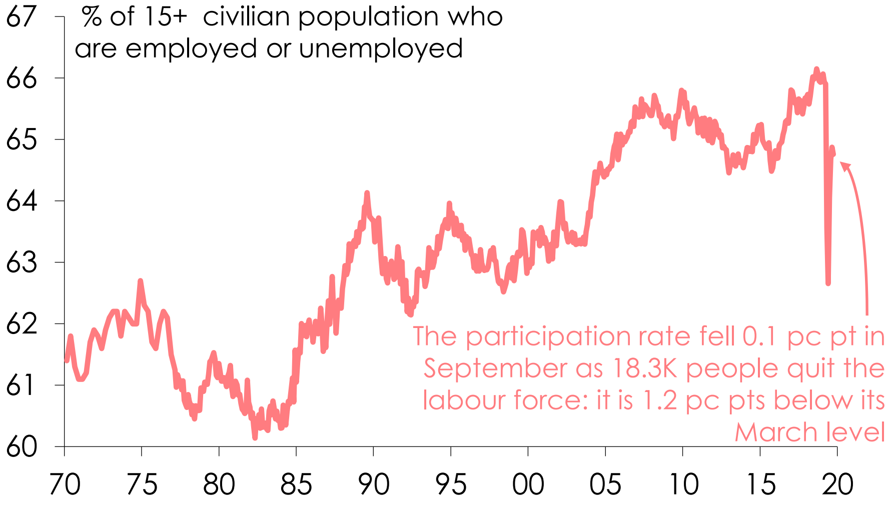
Employment fell in September, for the first time since May, and the measured unemployment rate ticked up 0.1 pc pt to 6.9%

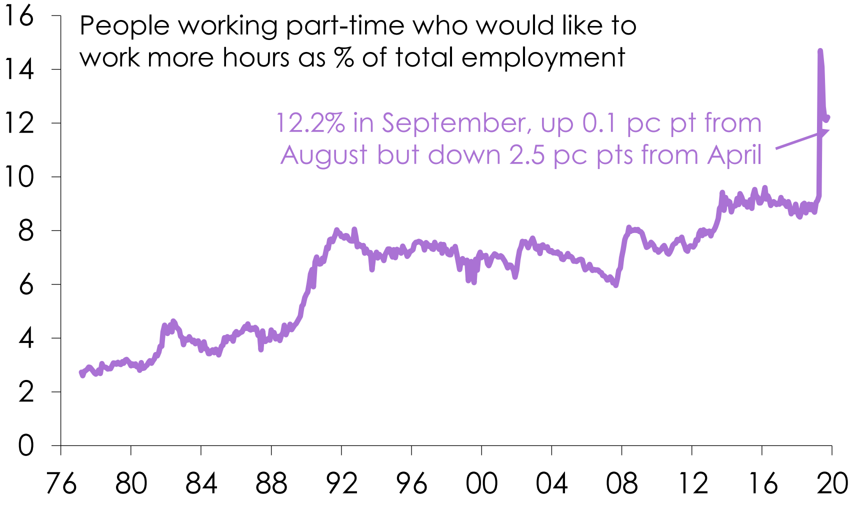
Employment



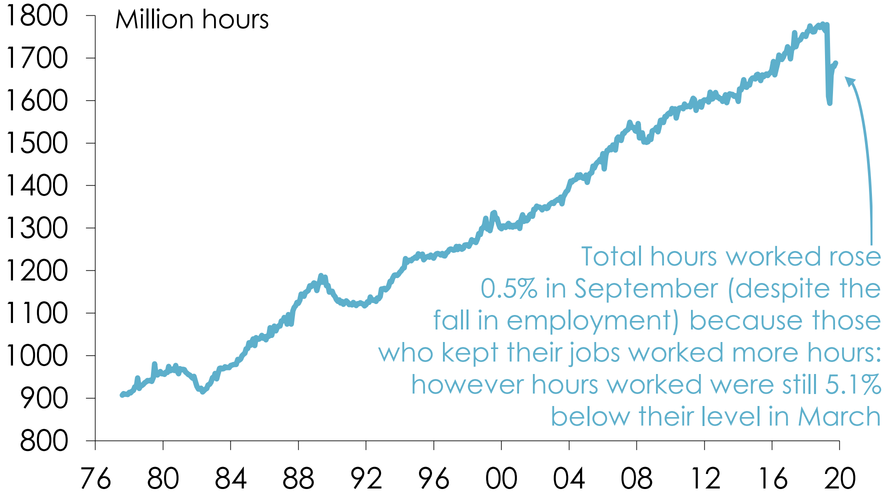
Labour force participation rate



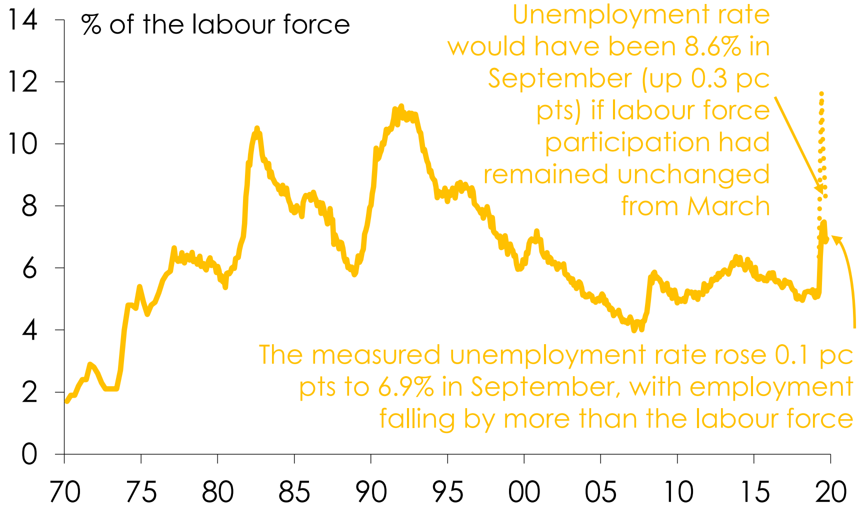
Under-employment ratio



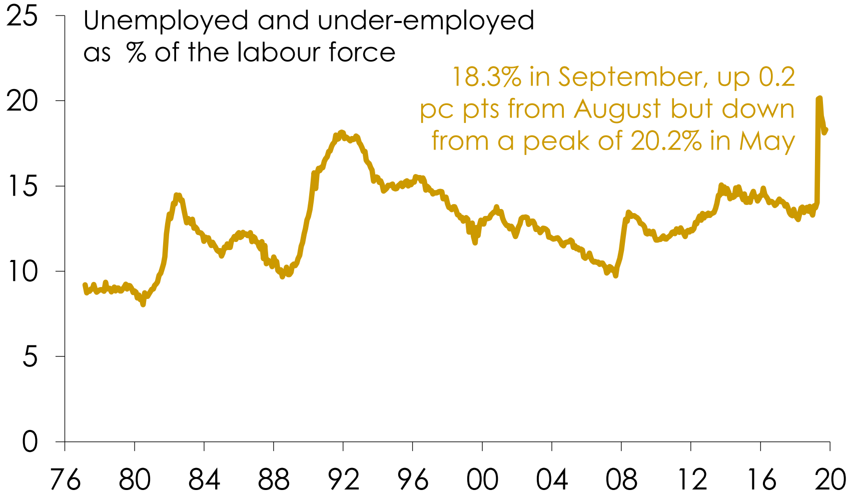
Total hours worked



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".

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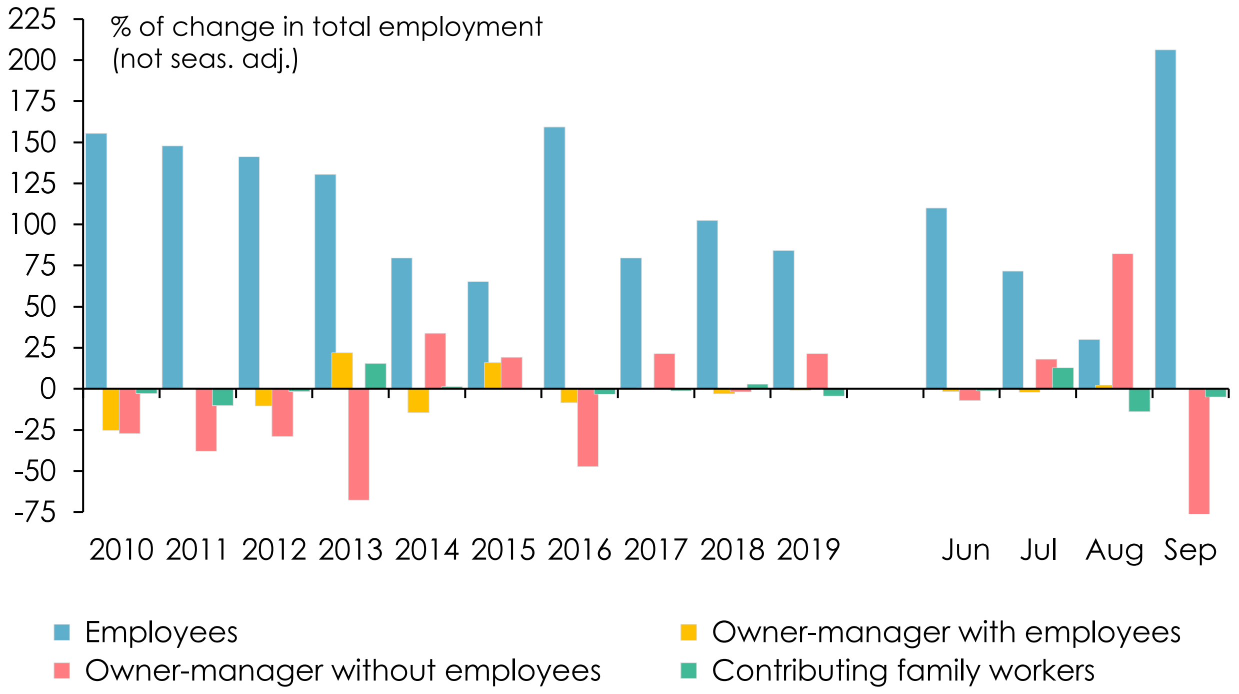
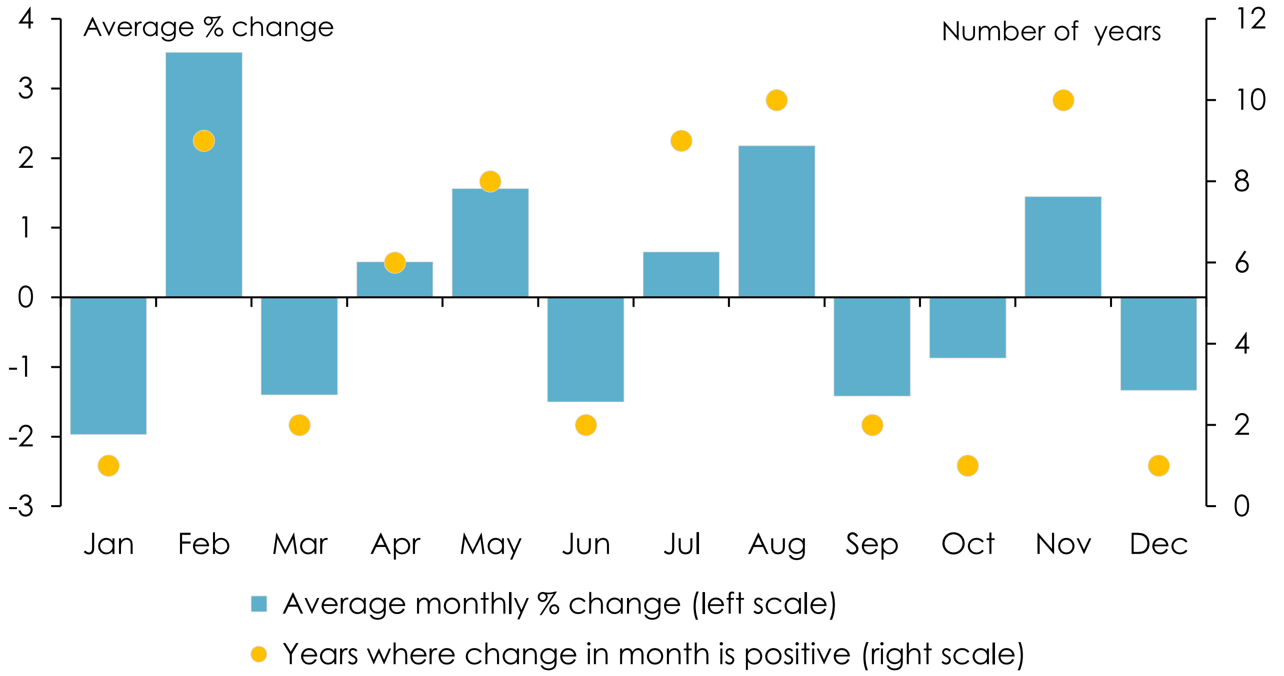
A substantial proportion of the apparent surge in 'gig economy' jobs in August was reversed in September (as per the usual seasonal pattern)

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".

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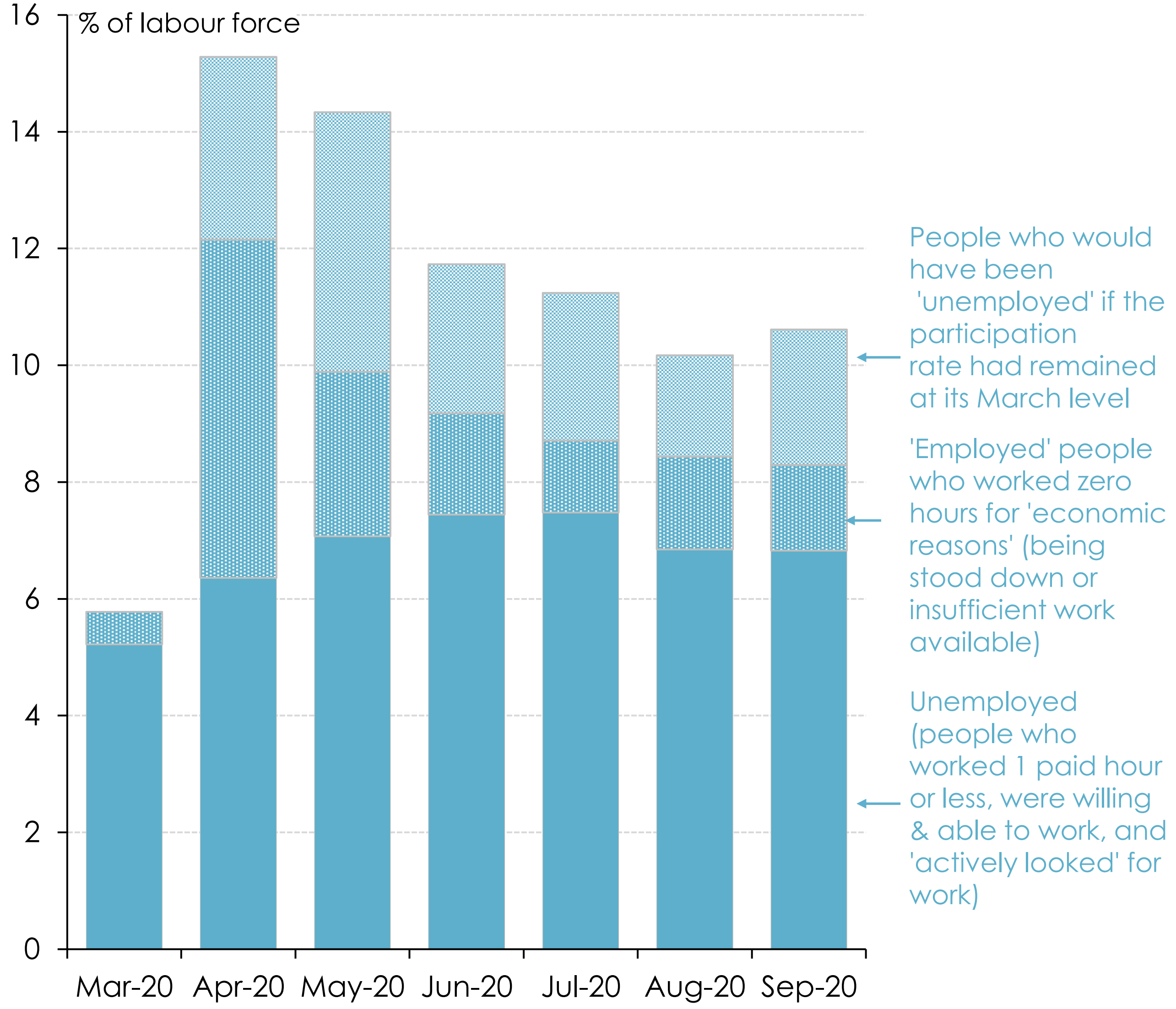
The unemployment rate would have been 10.6% in September including people who worked zero hours or had dropped out of the labour force

Alternative measures of unemployment



Source: ABS, Labour Force, Australia; Corinna. Return to "What's New".

- 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

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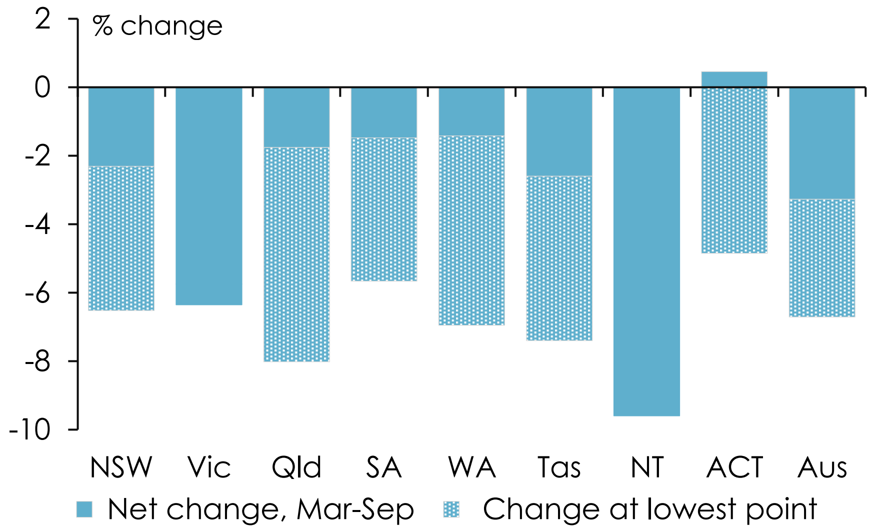
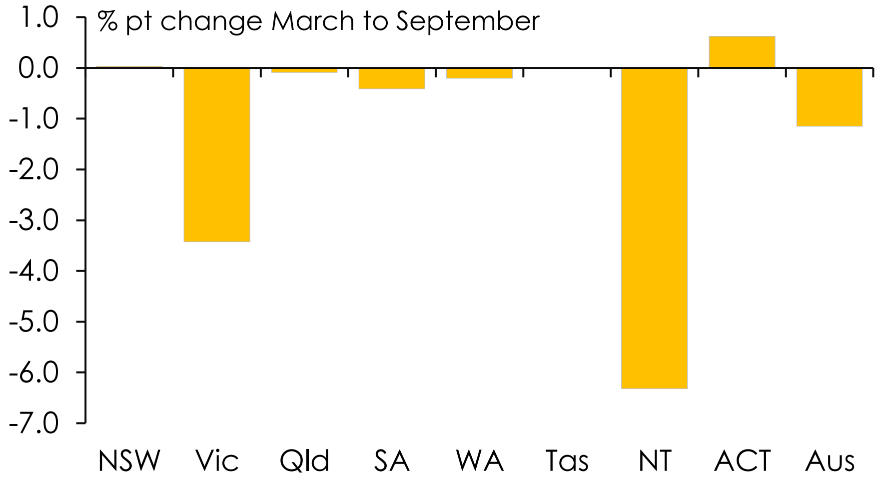
Victoria and the Northern Territory have had the weakest labour market experience while the ACT, WA and Queensland have had the strongest

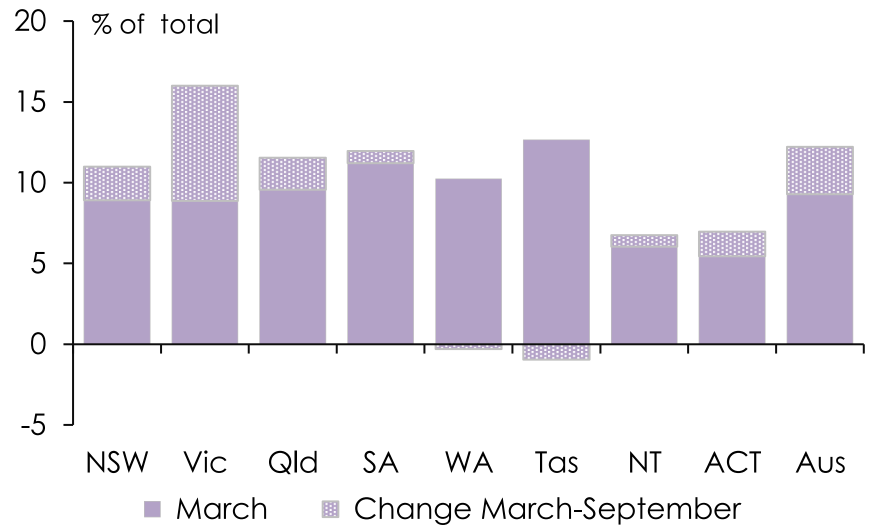
Employment



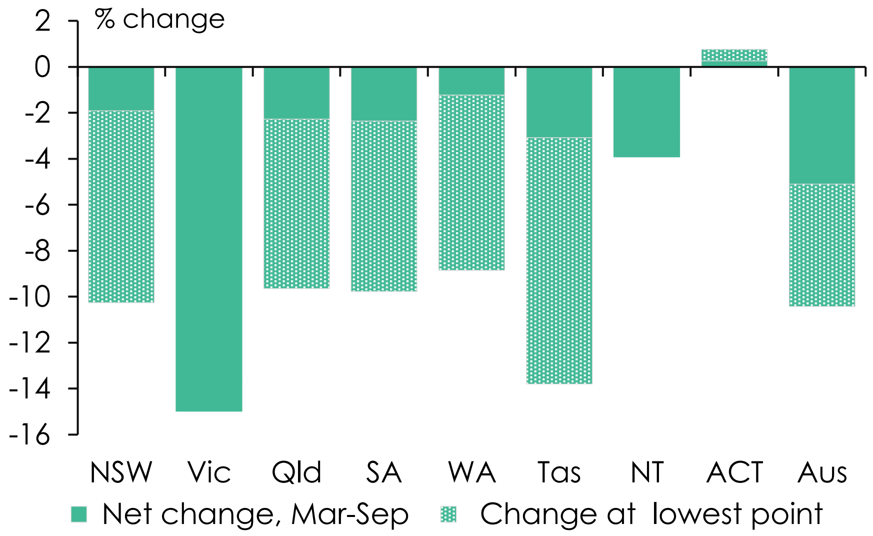
Labour force participation rate



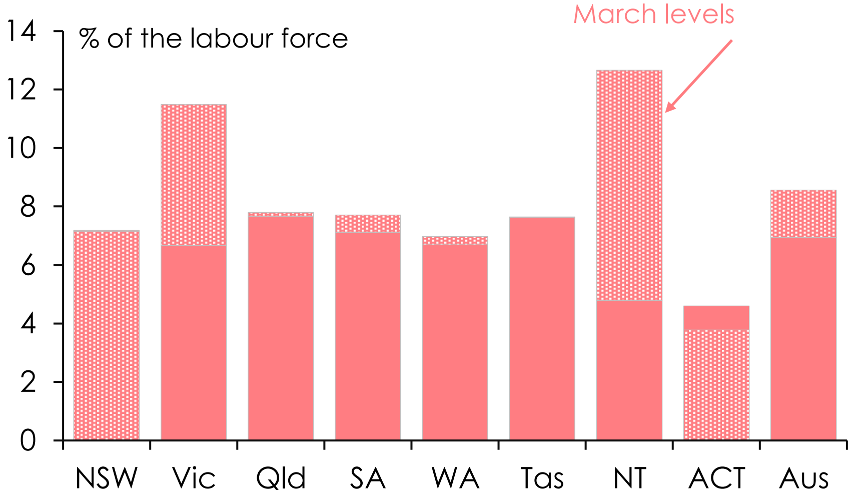
Under-employment ratio



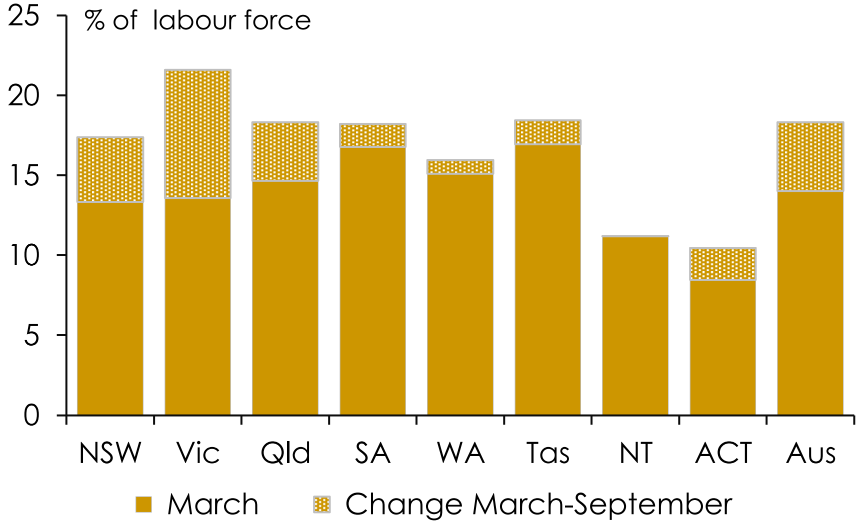
Total hours worked



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".

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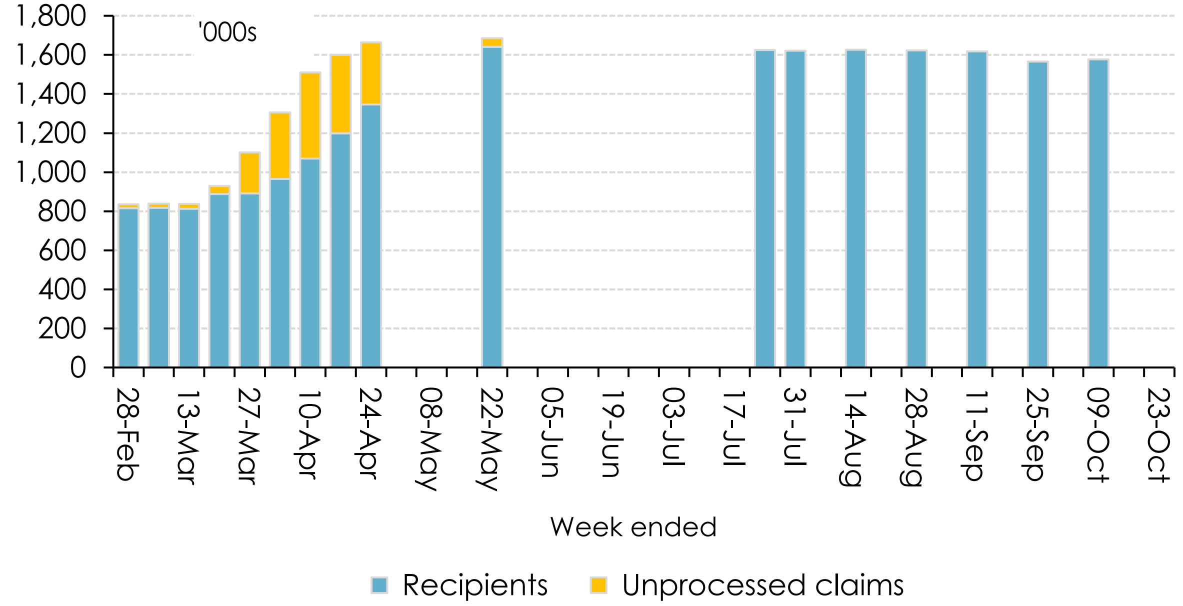
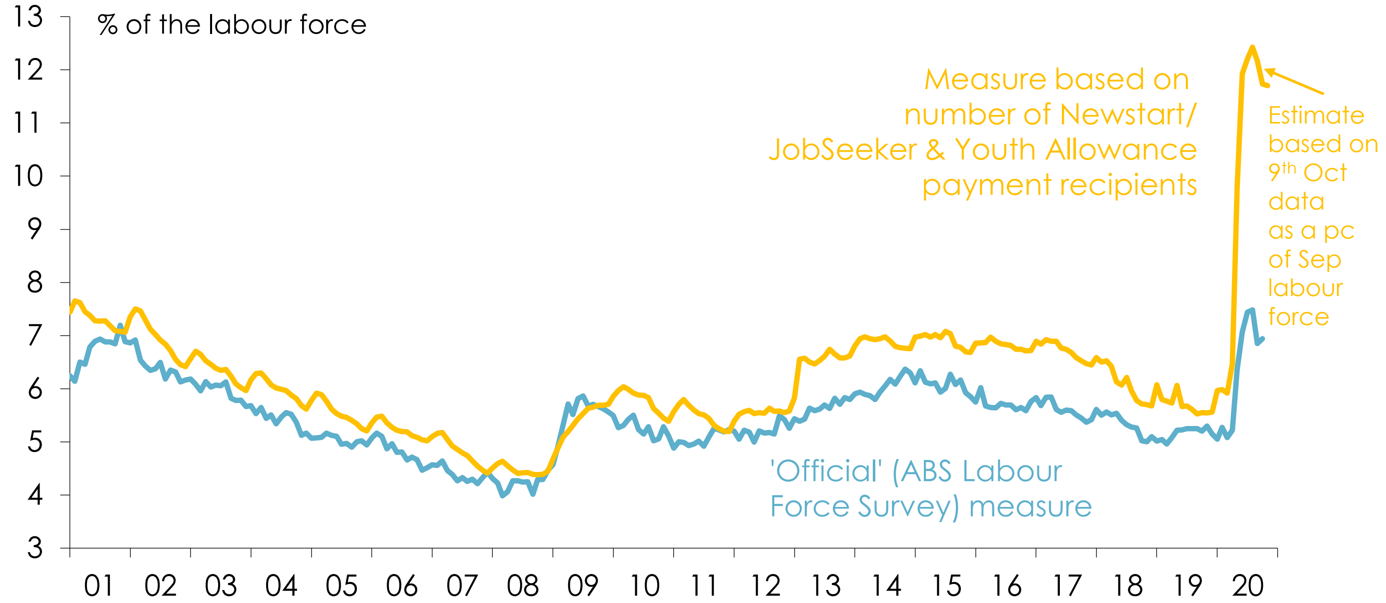
The Australian Government (unlike the US Government) seems to regard weekly data on the number of joblessness beneficiaries as a 'state secret'

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



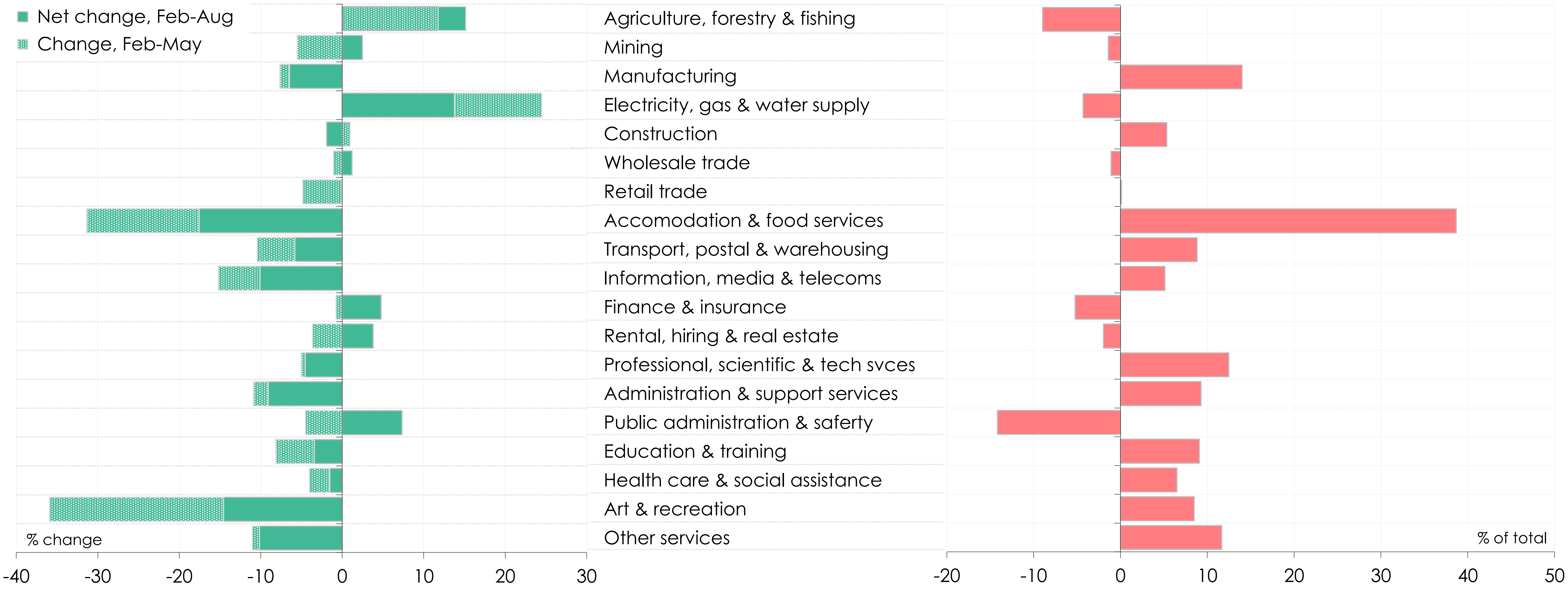
- The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available
- On two occasions earlier this year the Secretary of DSS 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".

Accommod^n & food services, arts & recrea^n, and educ^n & 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".

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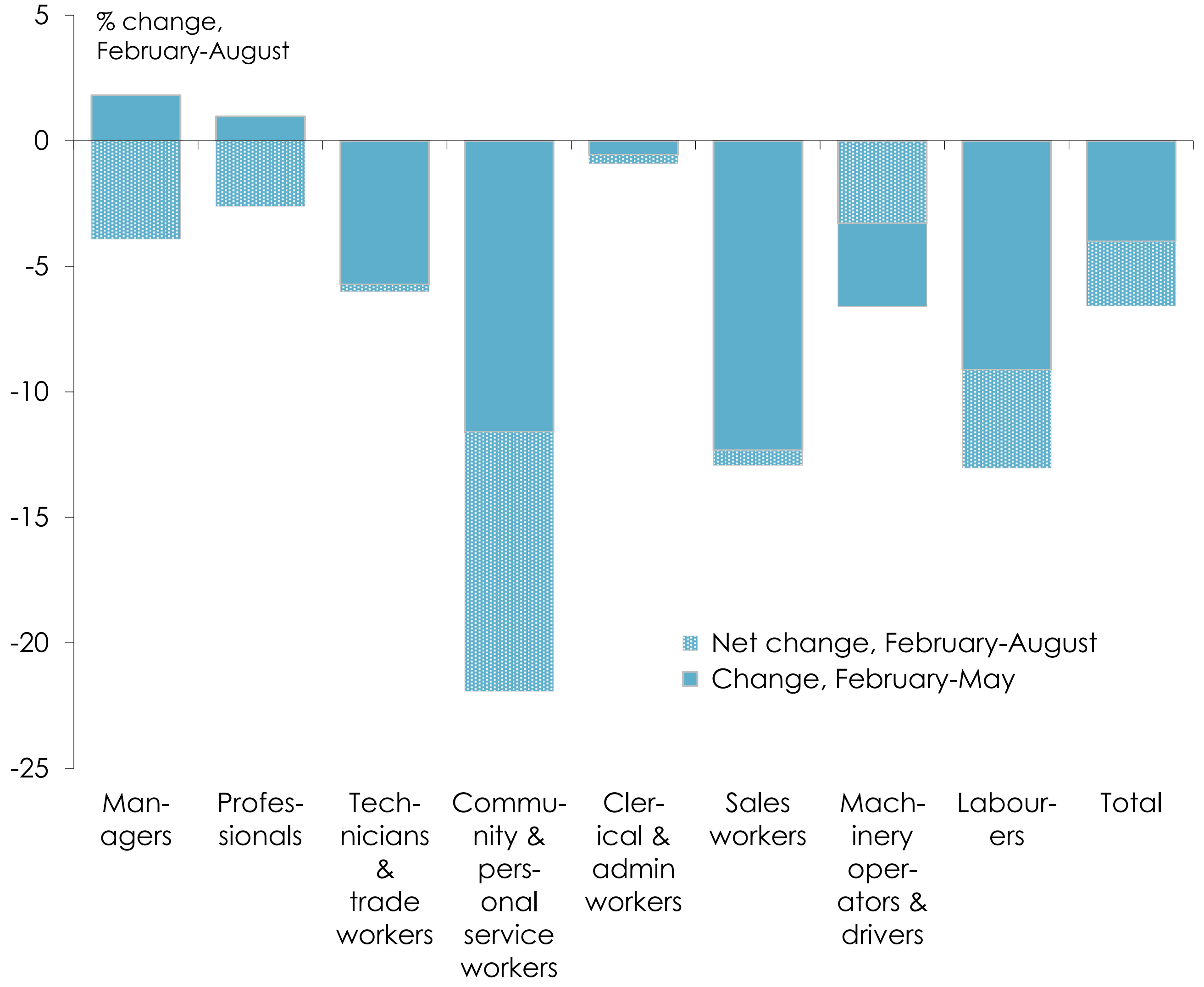
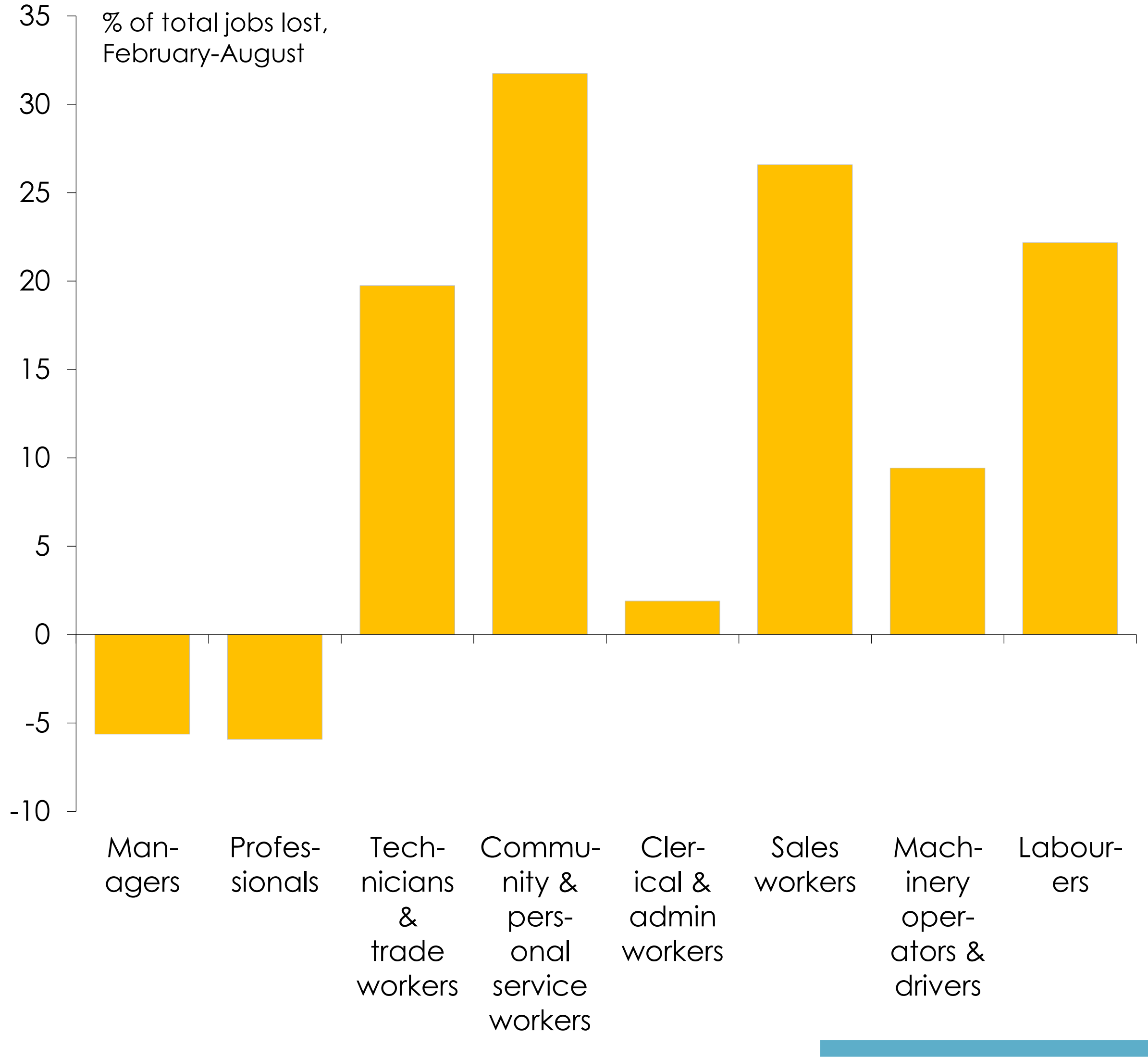
Community & personal service workers, sales workers and labourers have accounted for 81% of all net job losses since February

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".

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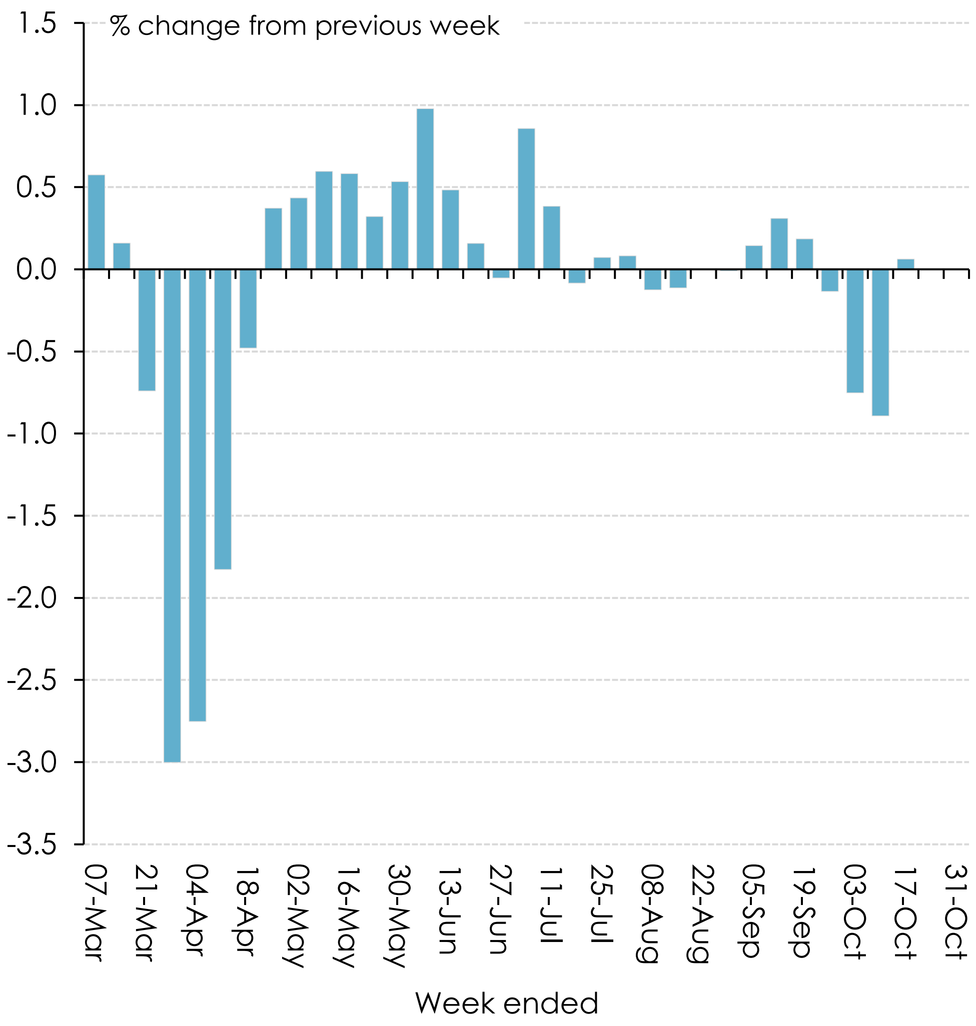
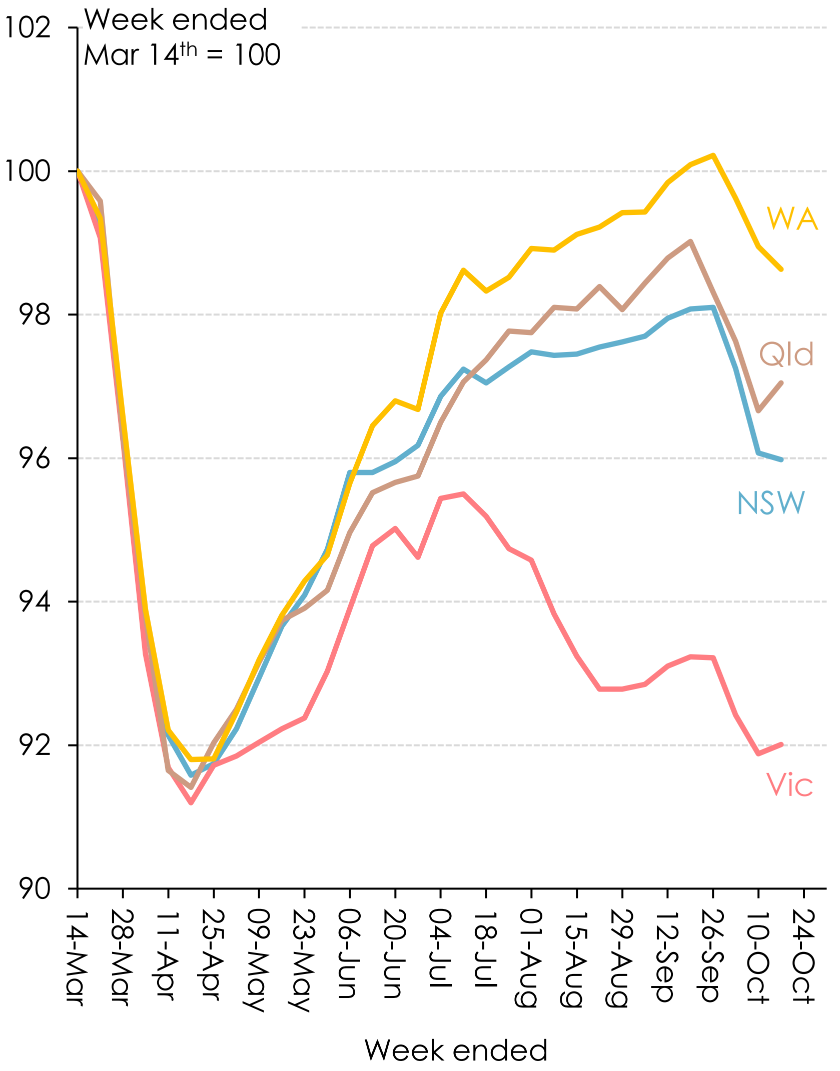
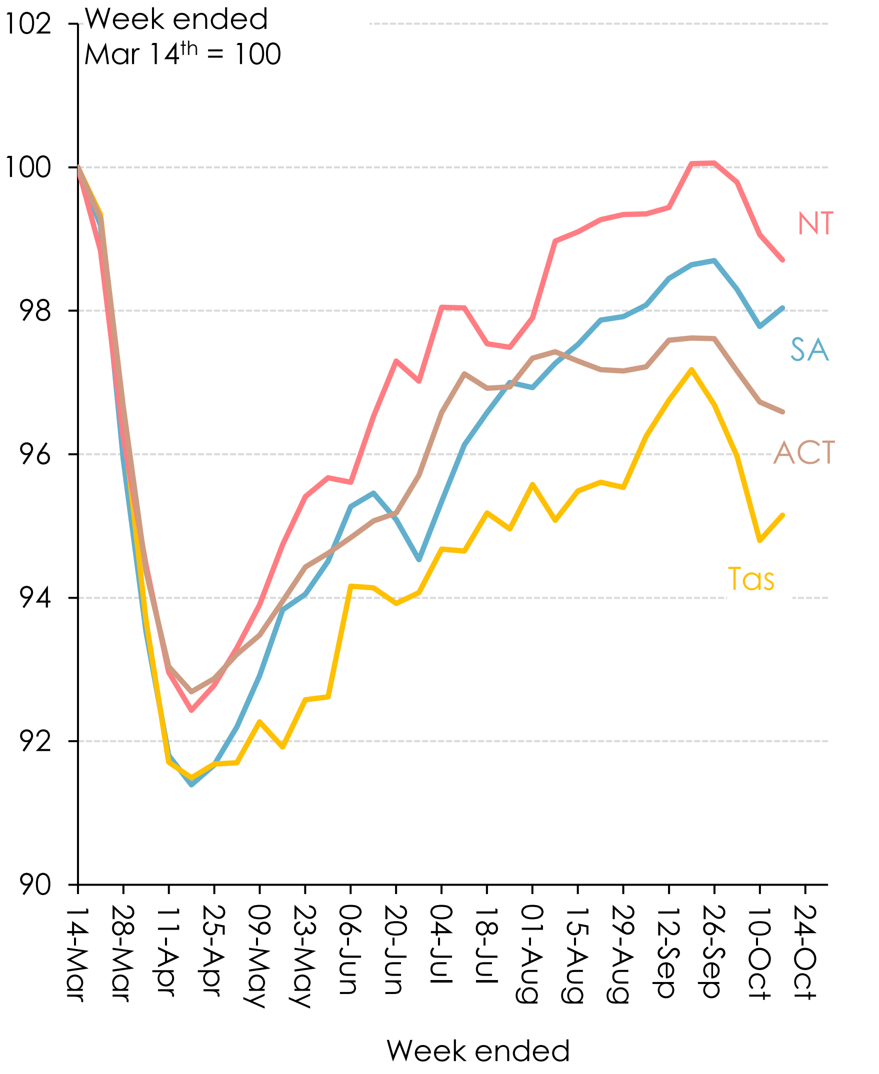
Payroll employment fell 1.6% in the first two weeks after the step-down in JobKeeper payments, but then rose 0.1% in the week ended 17th October

Weekly change in number of payroll jobs



Payroll jobs by State & Territory





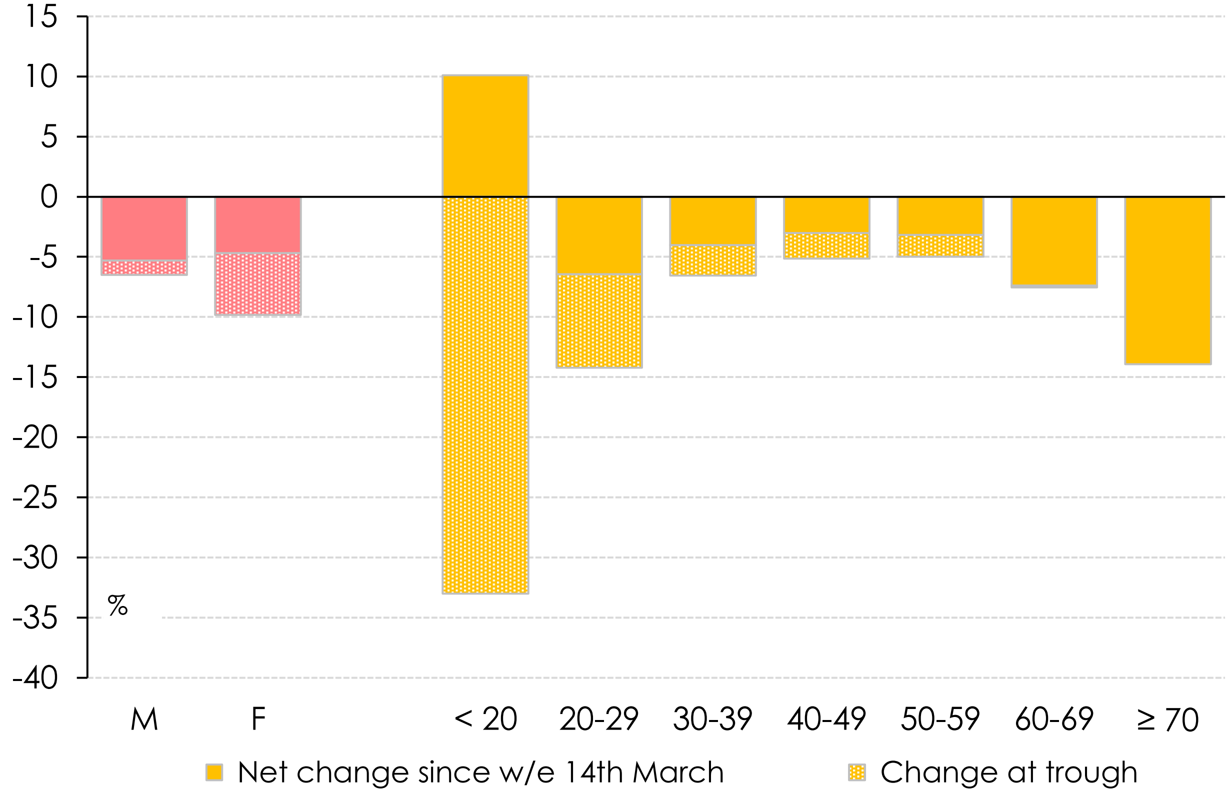
Source: ABS, Weekly Payroll Jobs and Wages in Australia. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Singe Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or 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 31st October will be released on 17th November. Return to "What's New".

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

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

- Vic payroll jobs are still down 8% on net from pre-pandemic: other states between 1¼% and 5%

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

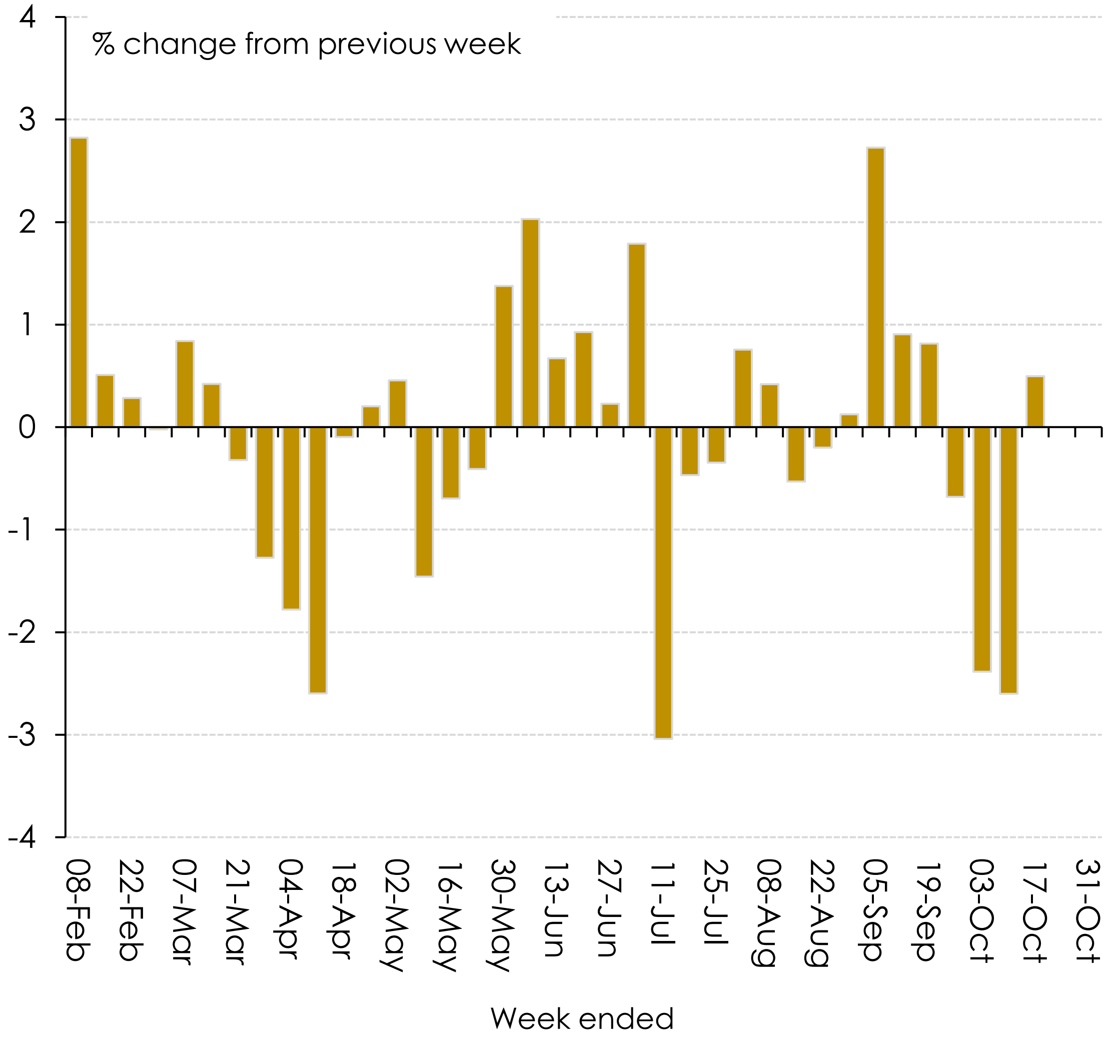


- It's no longer the case that women and teenagers have borne the brunt of job losses

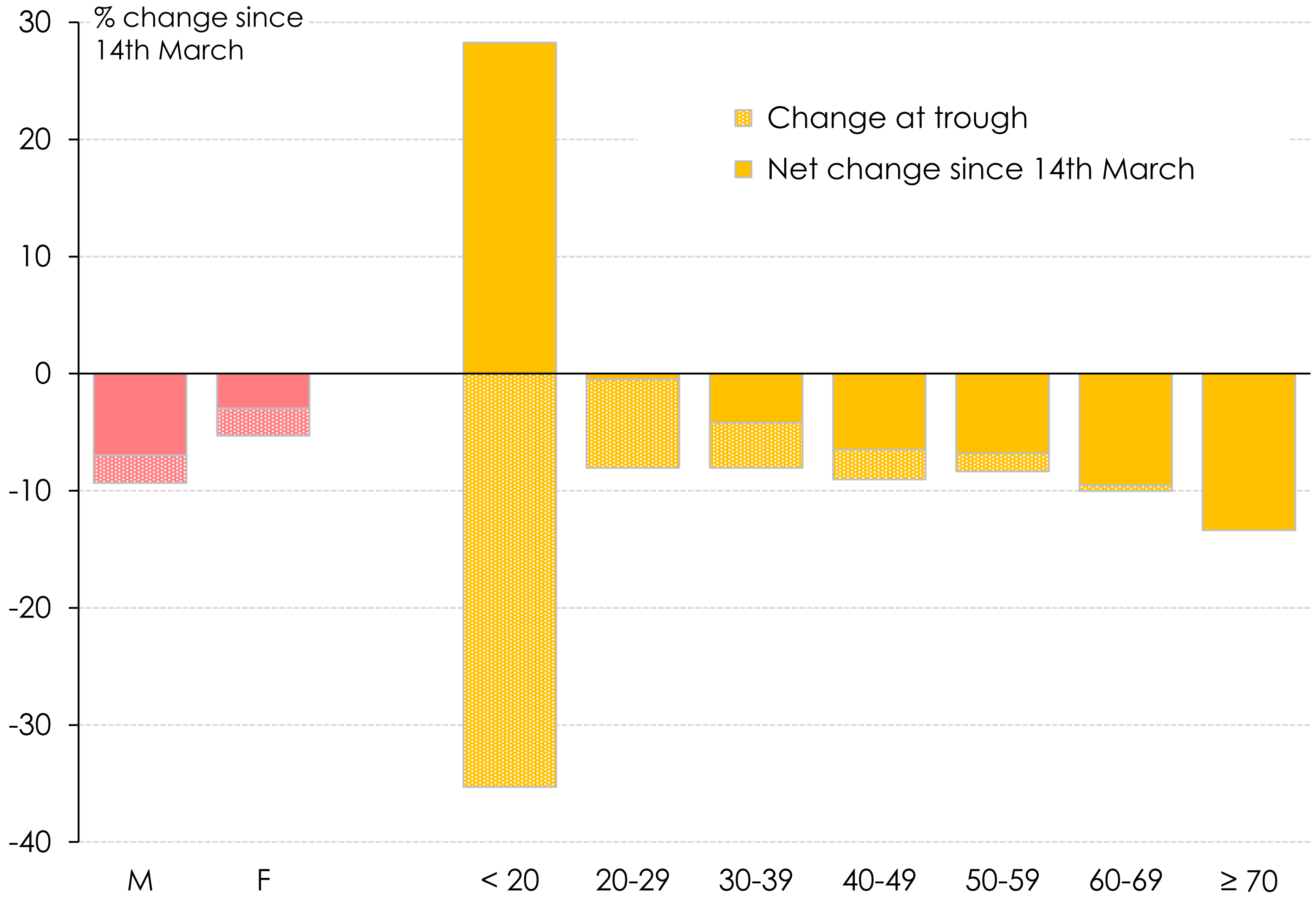
Source: ABS, *Weekly Payroll Jobs and Wages in Australia*. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Singe Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two 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 ended 24th and 31st October will be released on 17th November. Return to "What's New".

Wages paid fell by 5.6% between the 3rd week of September and the 2nd week of October, which may reflect the step-down in JobKeeper

Weekly change in total wages paid



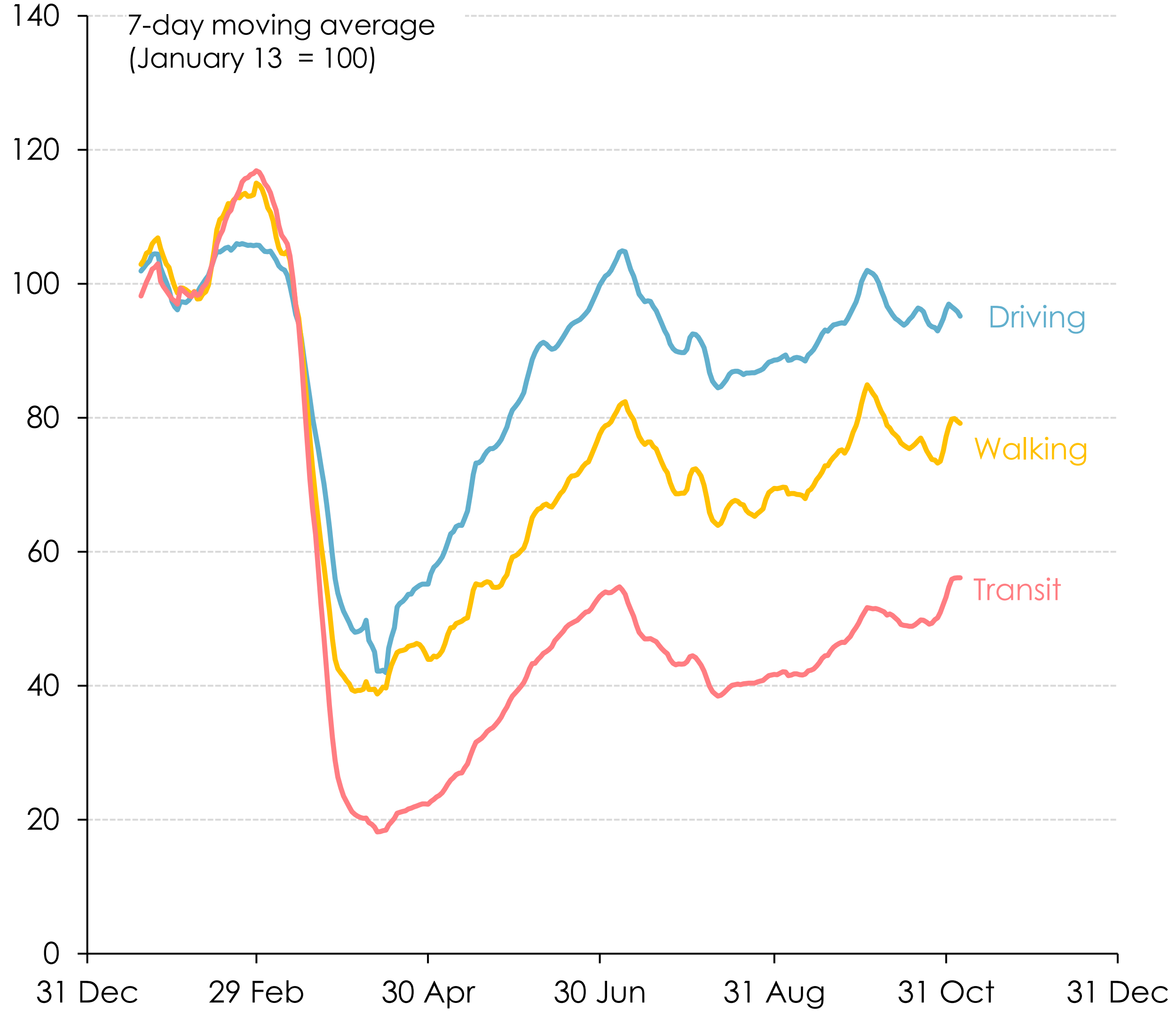
Change in total wages paid by gender and age group



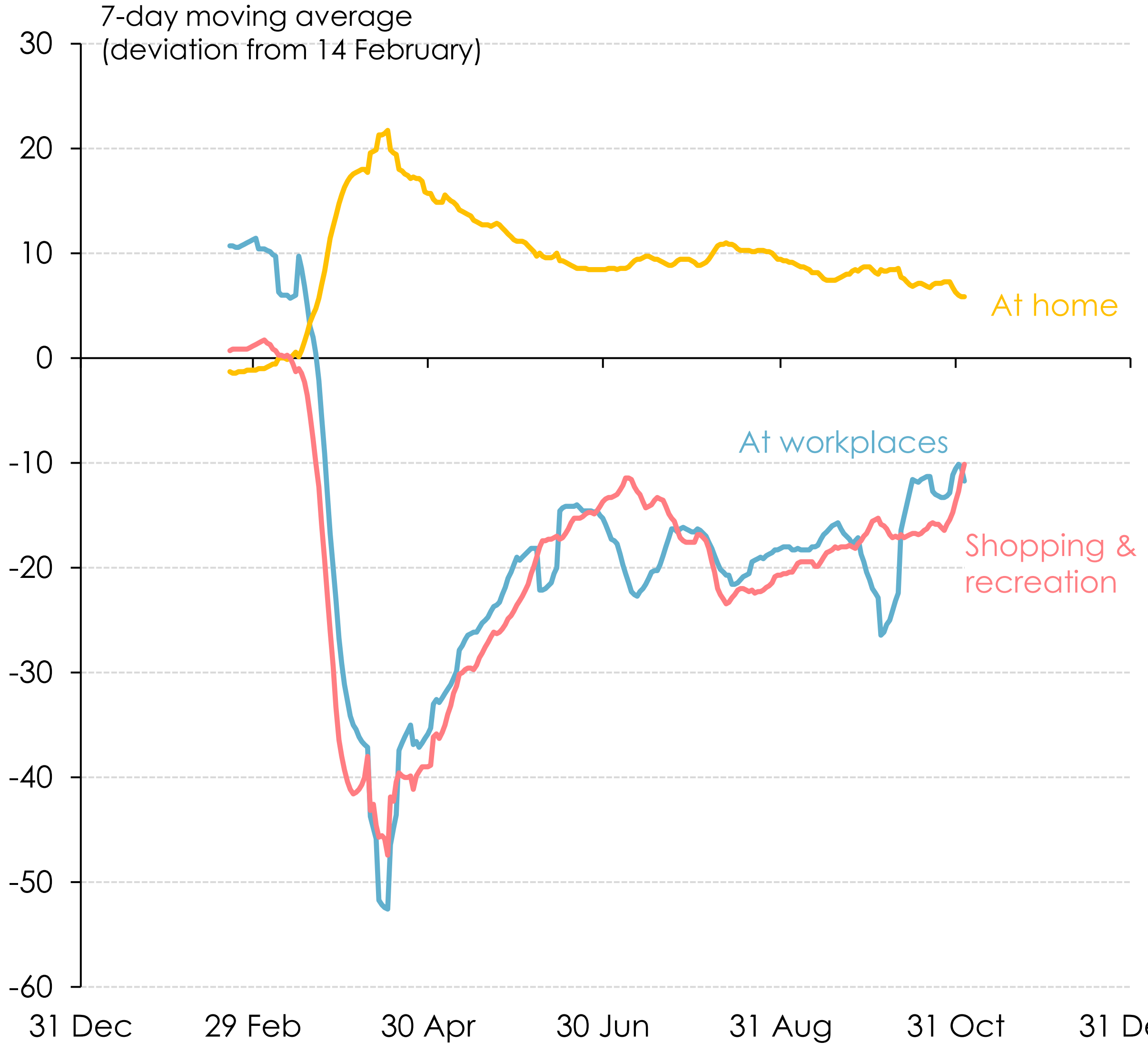
Note: The smaller fall in women's wages than men's likely reflects the fact that JobKeeper payments (at a flat rate of $1500 per employee per fortnight until end-September, now $1200 per fortnight) represent a higher proportion of women's (lower) average earnings than men's. Ditto for teenagers (most 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 suggest only a modest upturn in activity over the past couple of weeks …

Time spent driving, walking and in transit



Time spent working, at home, shopping & playing



Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. *Sources:* Apple Mobility Trends Reports(data up to 5th November); Google Community Mobility Reports (data up to 3rd November). For state-level data see next slide. Return to "What's New".

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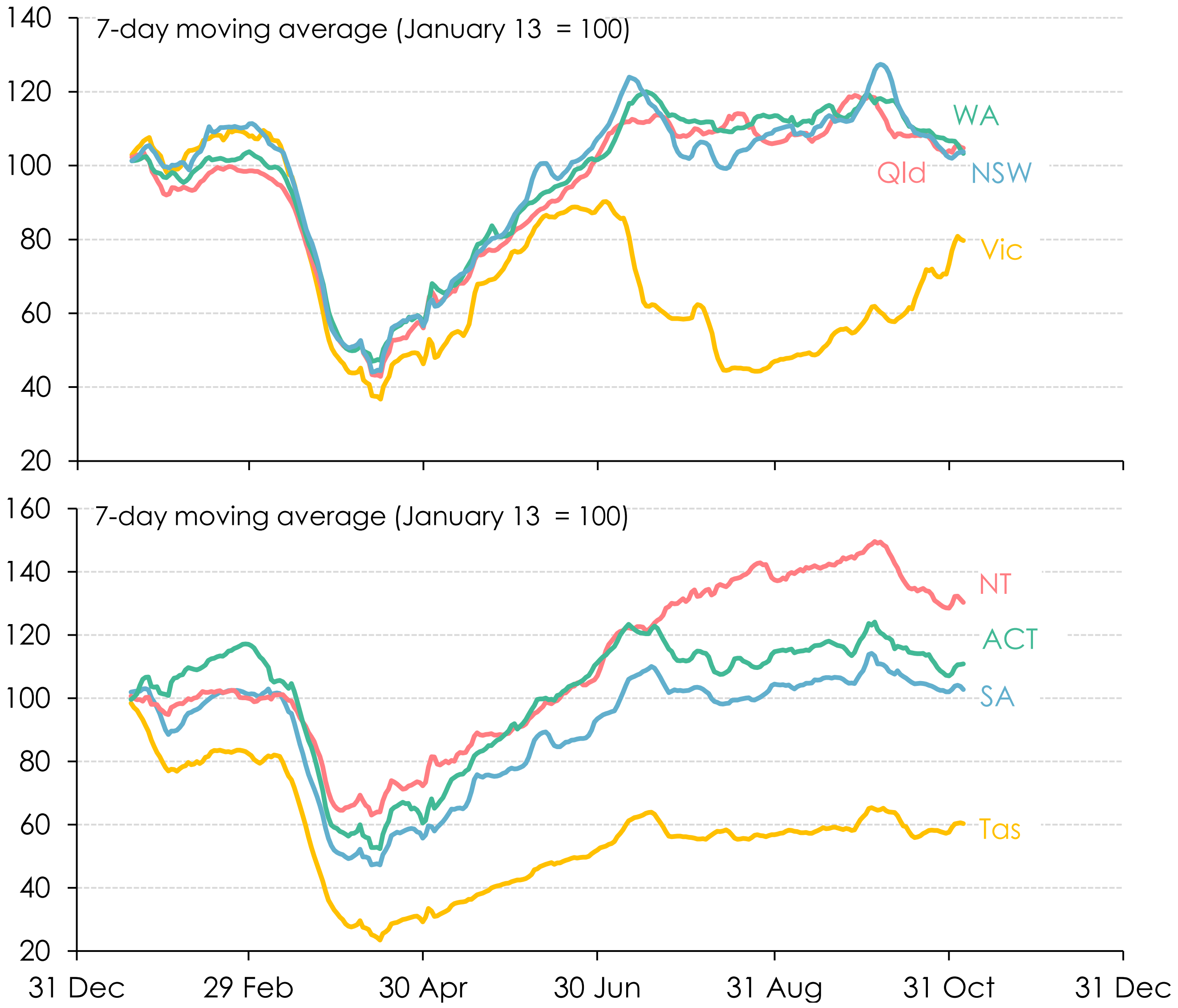
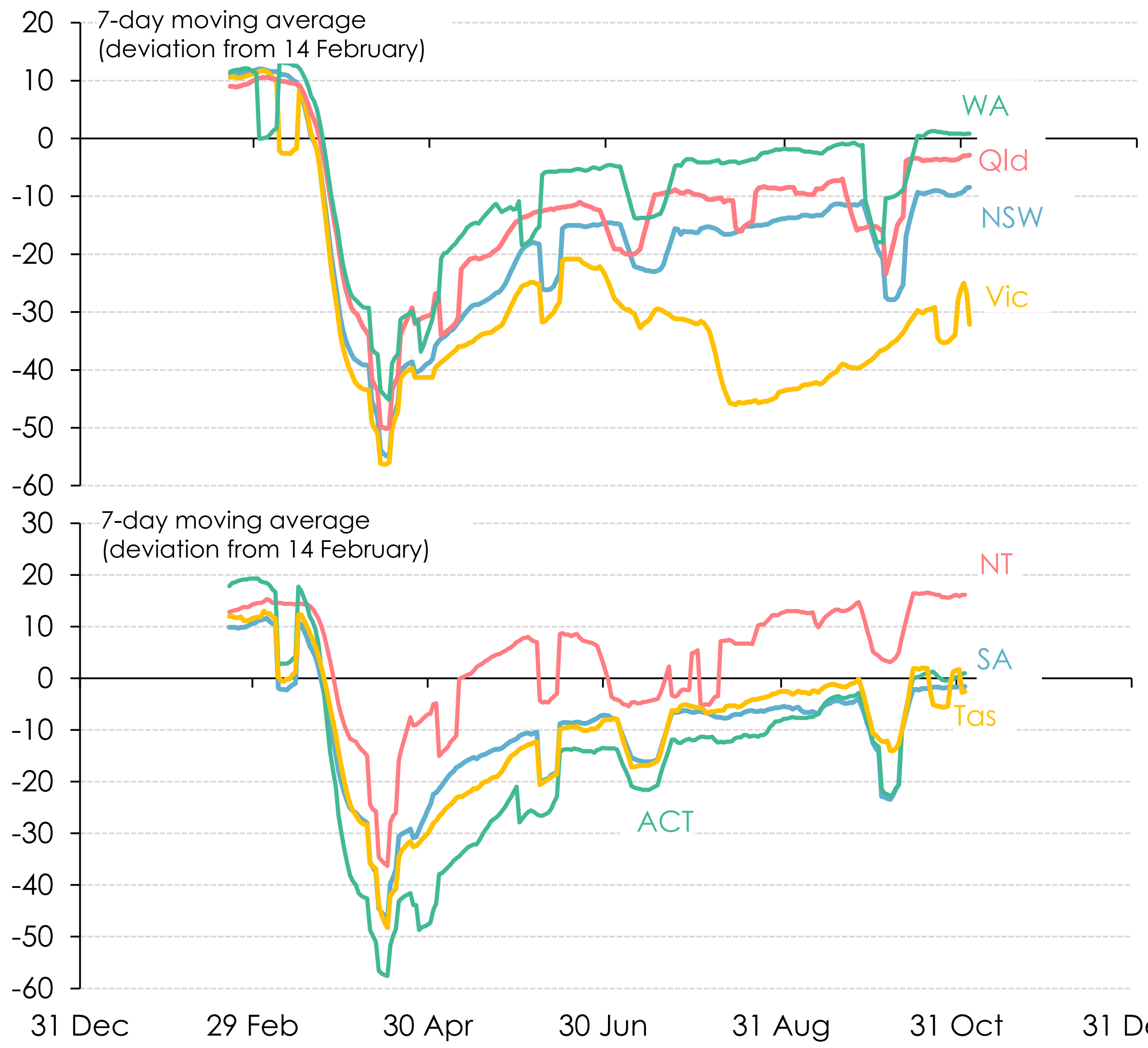
… with a pick-up in Victoria following the easing of restrictions there offset by an easing in some other states

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 5th November); Google Community Mobility Reports (data up to 3rd November). Return to "What's New".

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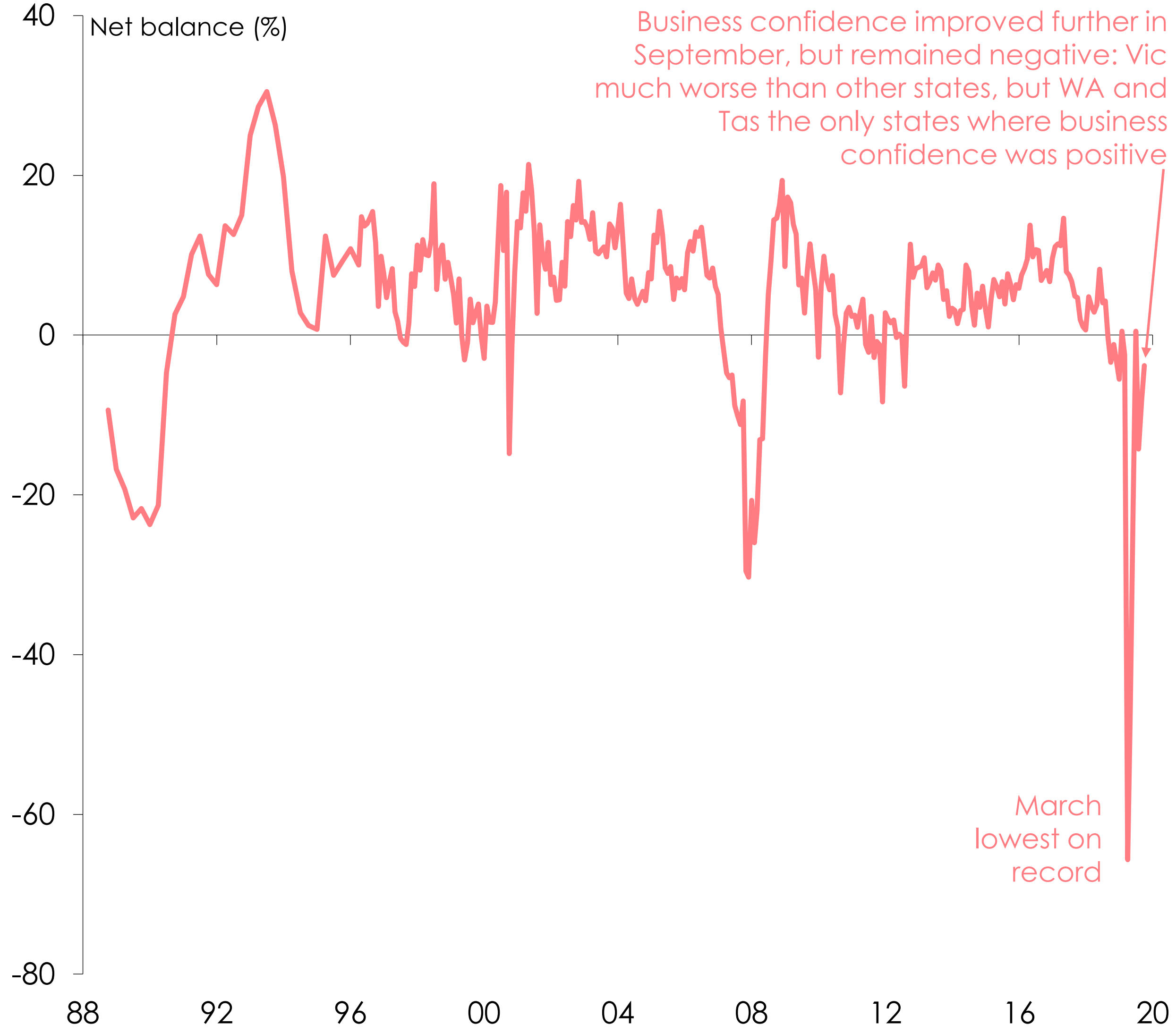
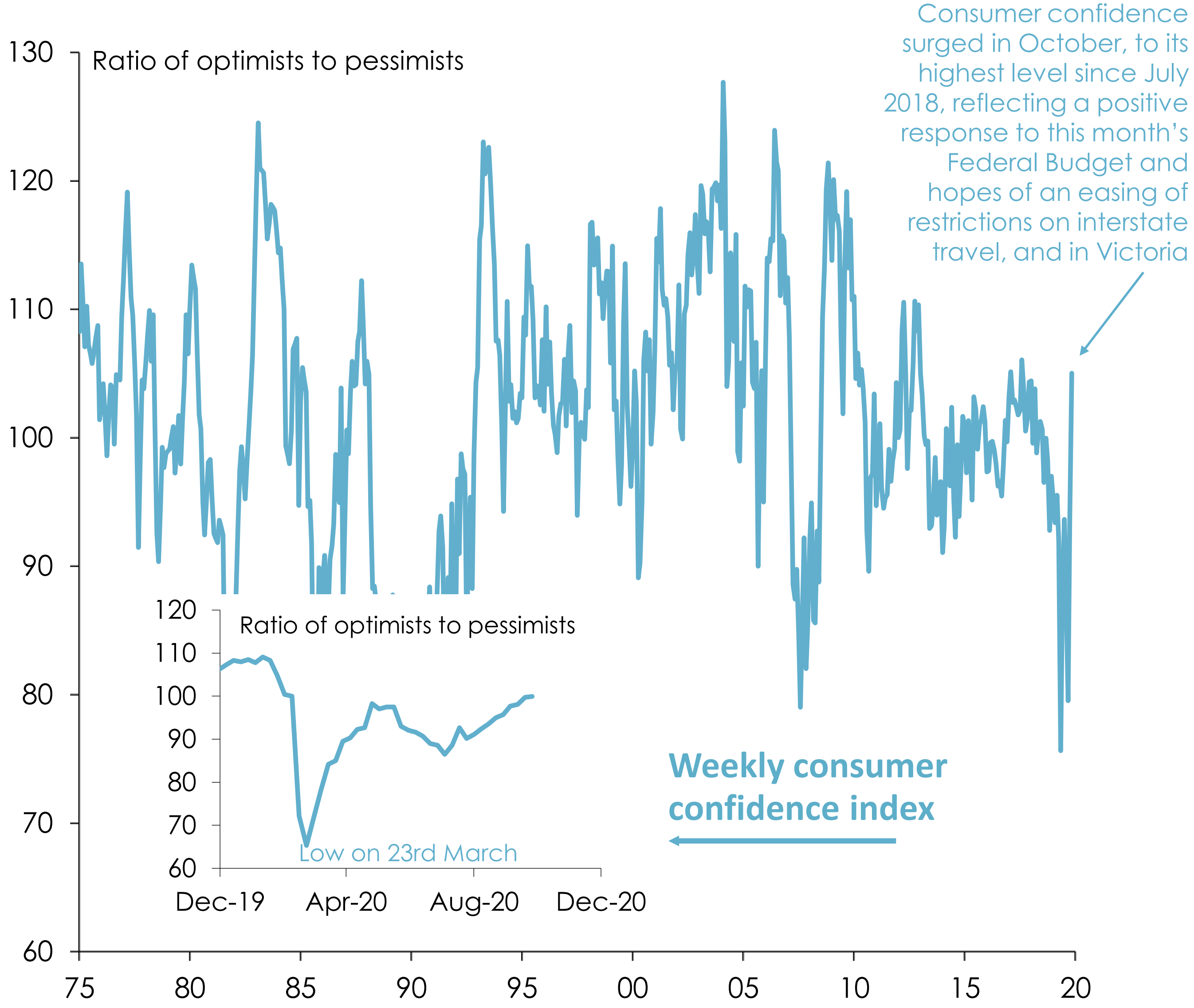
Consumer confidence surged in October, suggesting that this month's federal budget has been well-received by households

Business confidence



Consumer confidence



Sources: National Australia Bank; Westpac-Melbourne Institute; ANZ-Roy Morgan (weekly index). See slide 68 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".

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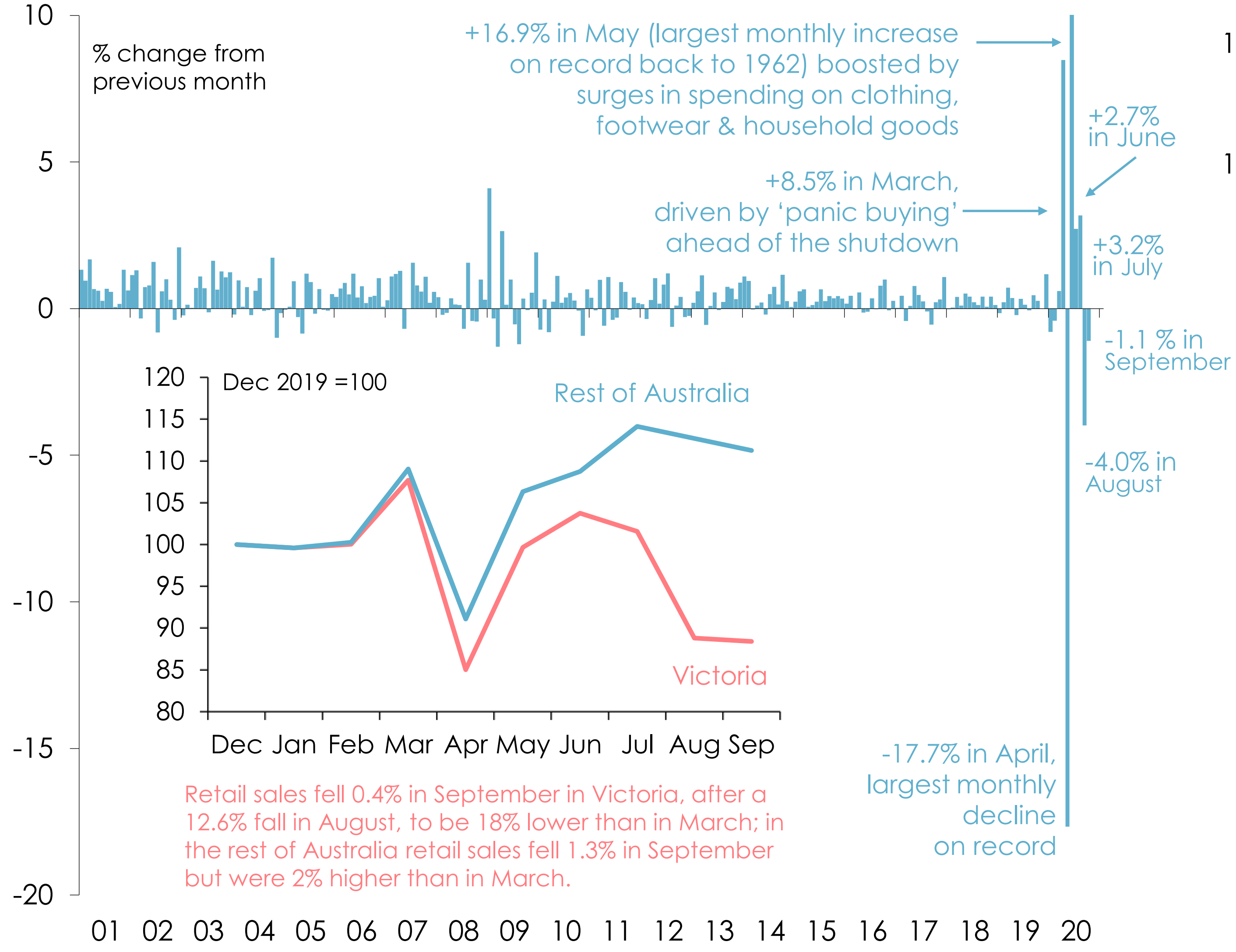
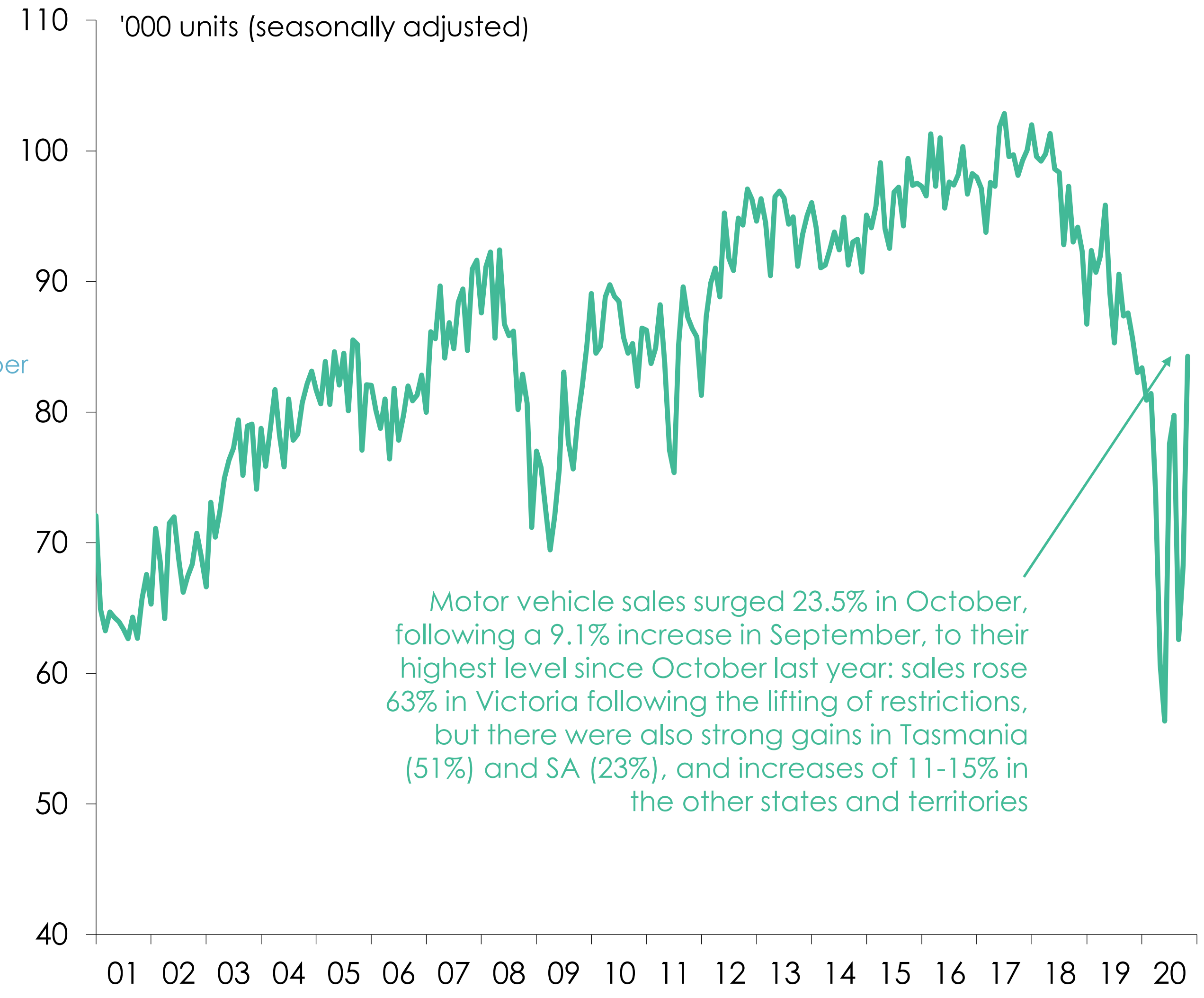
Retail sales fell 1.1% in September (with bigger falls outside Victoria), but motor vehicles sales jumped 23½% in October to their highest in 12 months

Retail sales



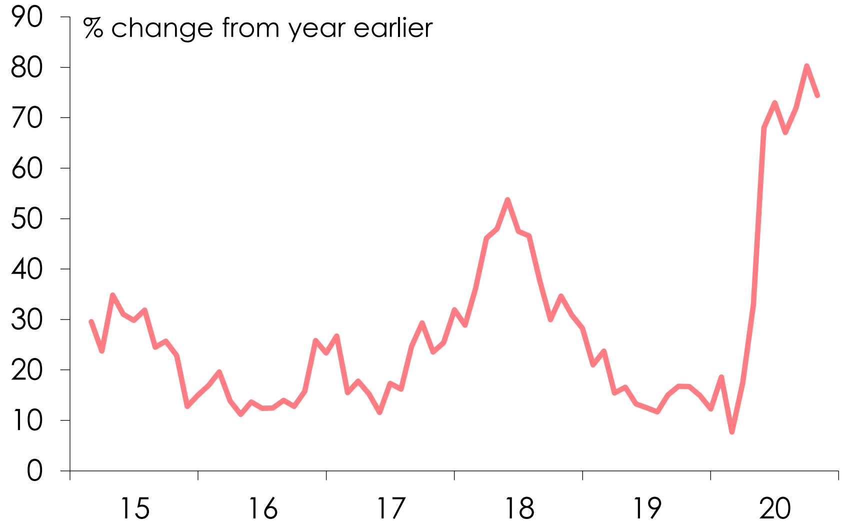
Motor vehicle sales



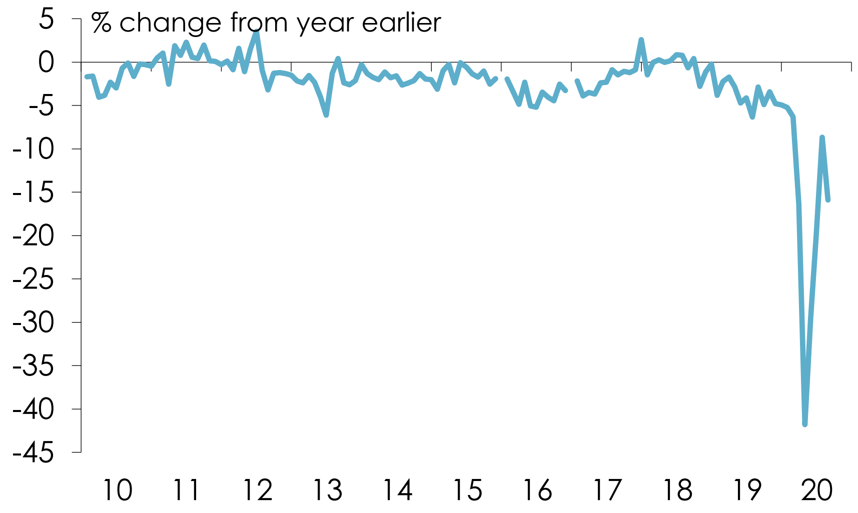
Sources: ABS, Retail Trade, Australia; Federal Chamber of Automotive Industries VFACTS (seasonal adjustment of FCAI data by Corinna). Retail sales data are up to September and motor vehicle sales to September. Retail sales data for October will be released on 4th December; November motor vehicle sales data will be released in early December. Return to "What's New".

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

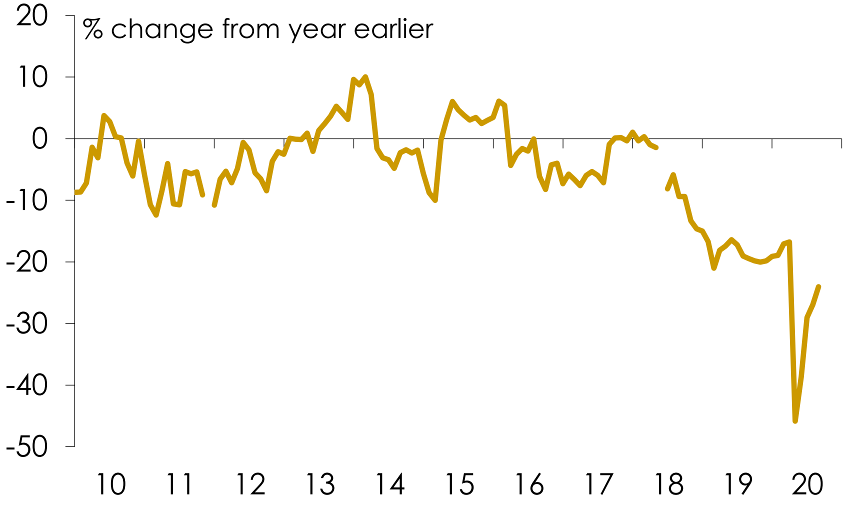
Growth in online retail sales



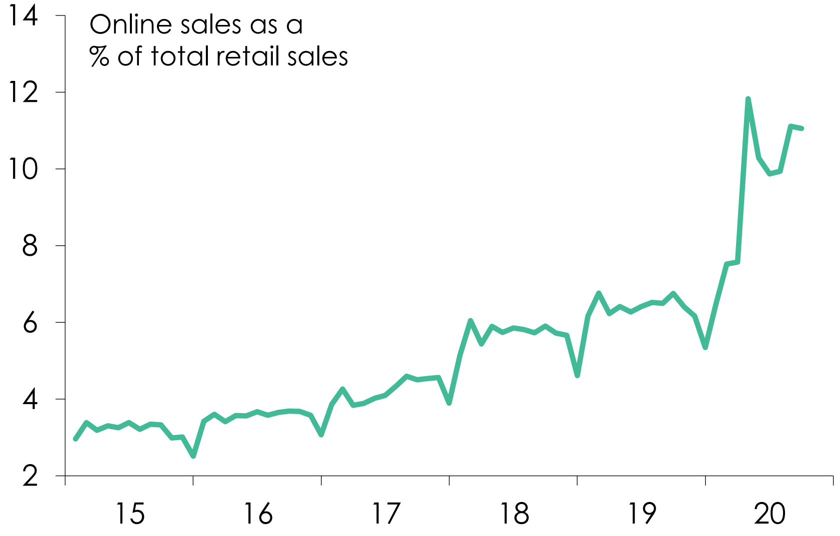
ATM cash withdrawals



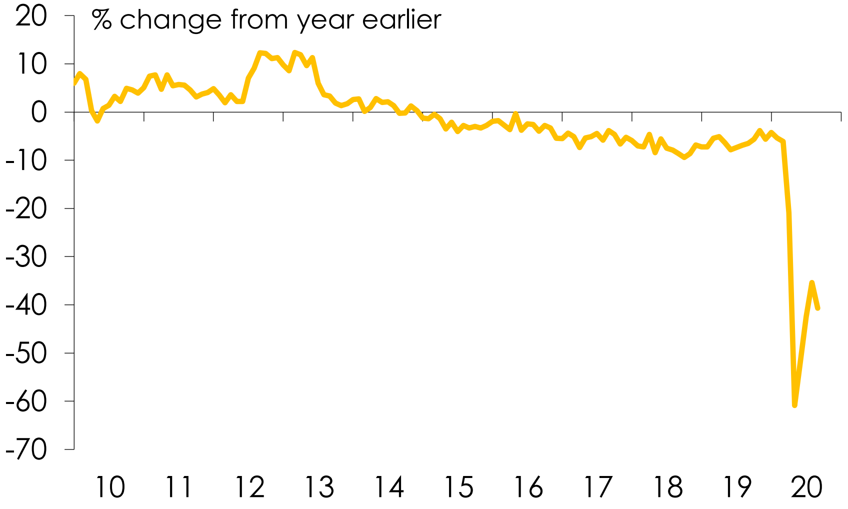
Credit card cash advances



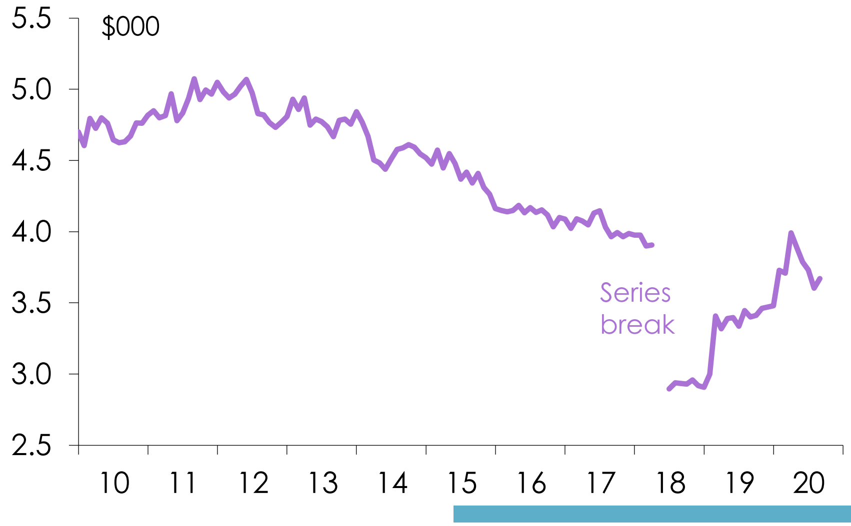
Online retail 'market share'



Debit card cash-outs



Direct entry payments

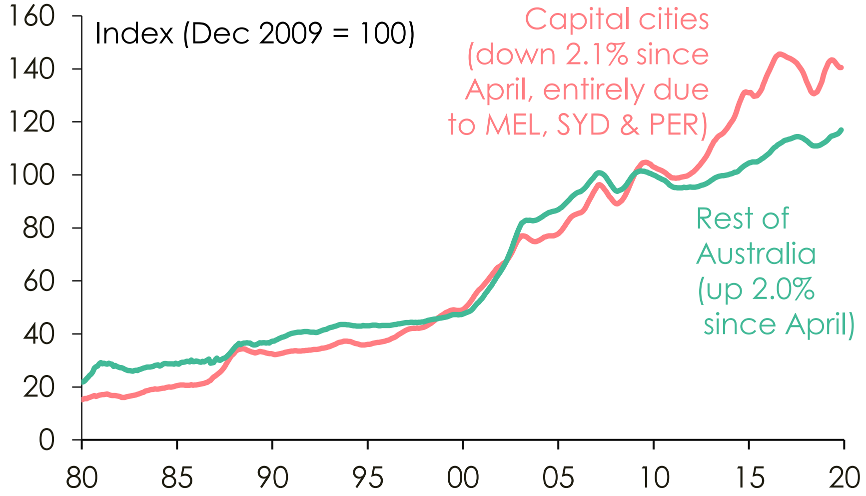


Sources: ABS, Retail Trade, Australia; RBA, Statistical Tables, C1, C2, C4 and C6. Latest online retail sales data are for September; payments system data for September will be released on 9th November. Return to "What's New".

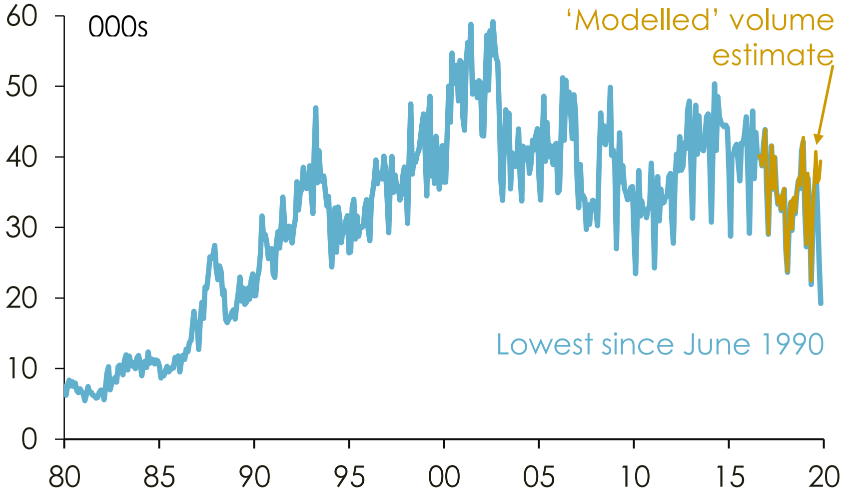
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Property prices rose 0.2% in October, the first increase in six months, led by the smaller capital cities and regional centres

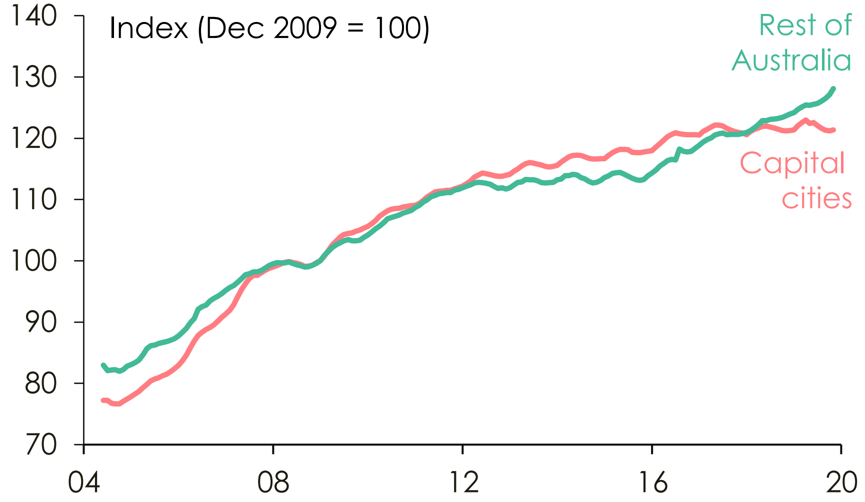
Residential property prices



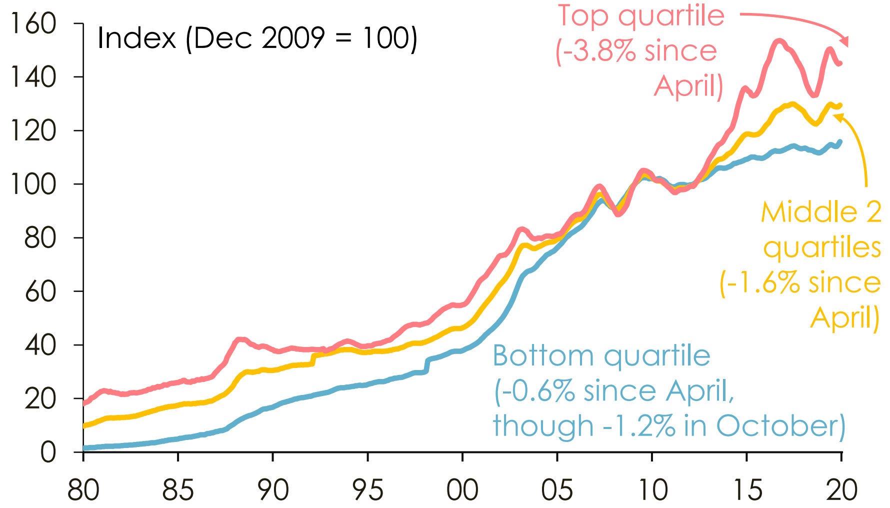
Residential property sales volumes



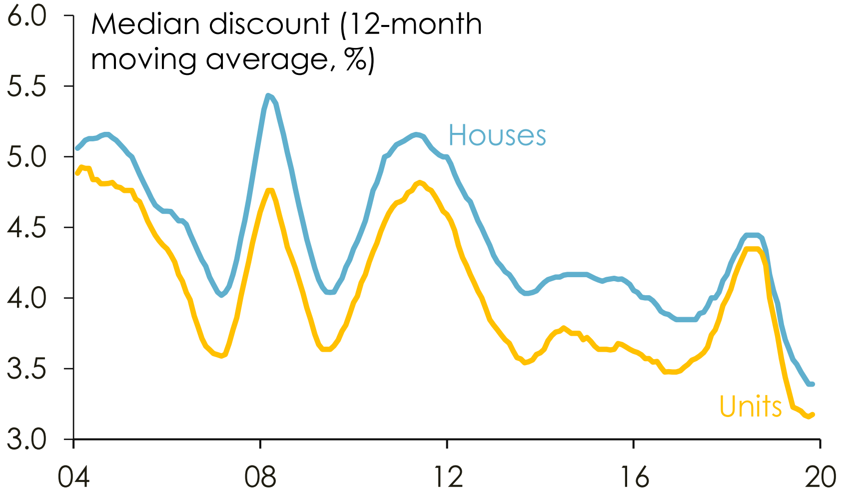
Residential rents



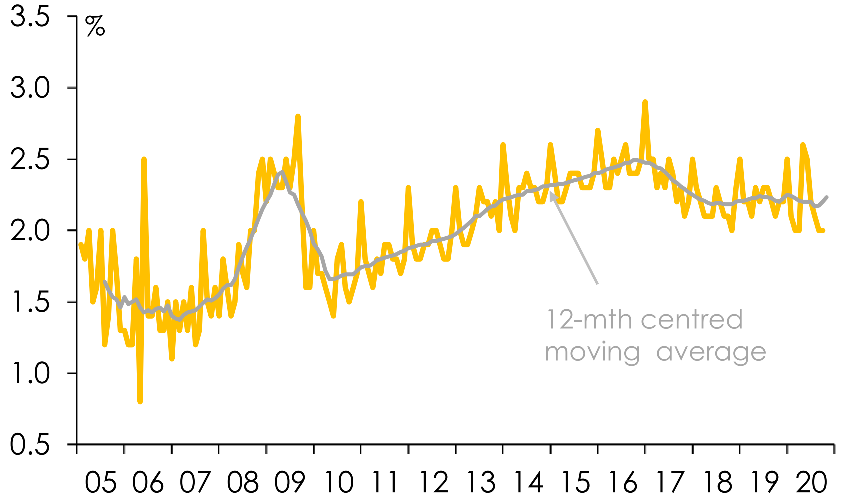
Property prices by tier



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 October 2020; November data will be released on 1st September.

Sources: CoreLogic; SQM Research. Return to "What's New".

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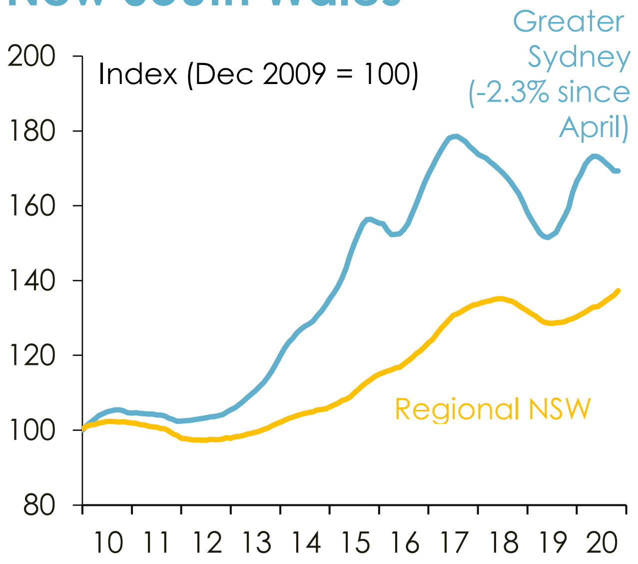
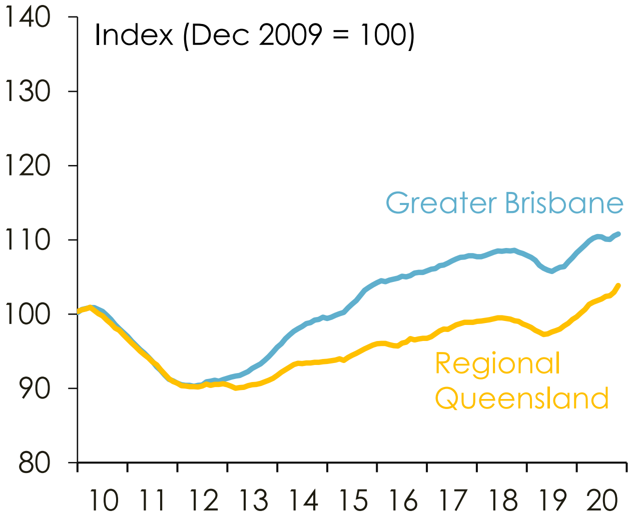
Property prices have fallen more in regional WA, Melbourne, Sydney and Perth since March than elsewhere, and have risen in Adelaide and Hobart

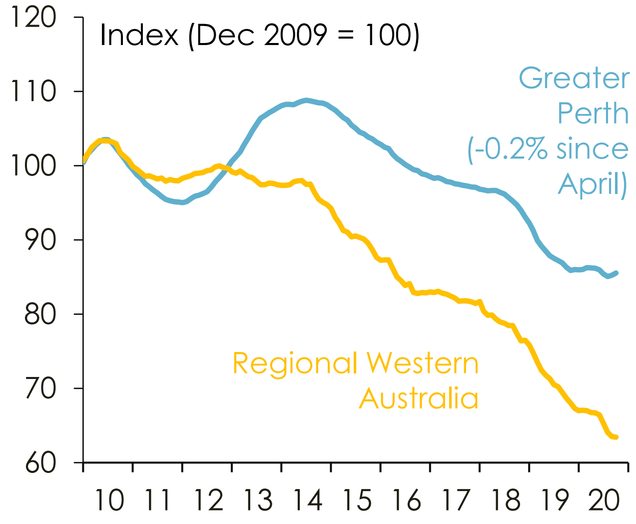
New South Wales



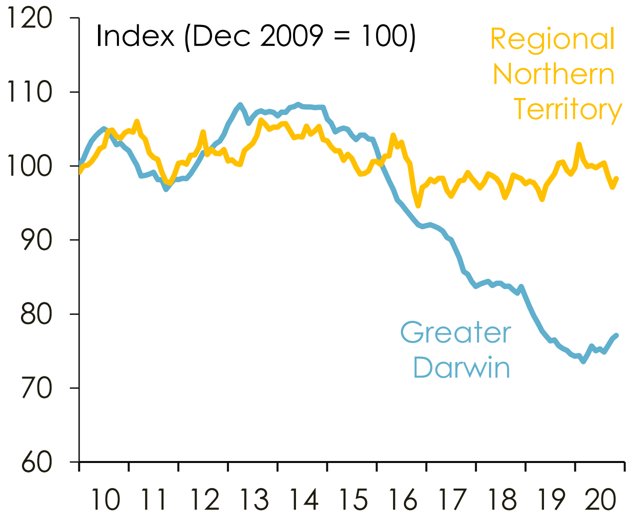
Queensland



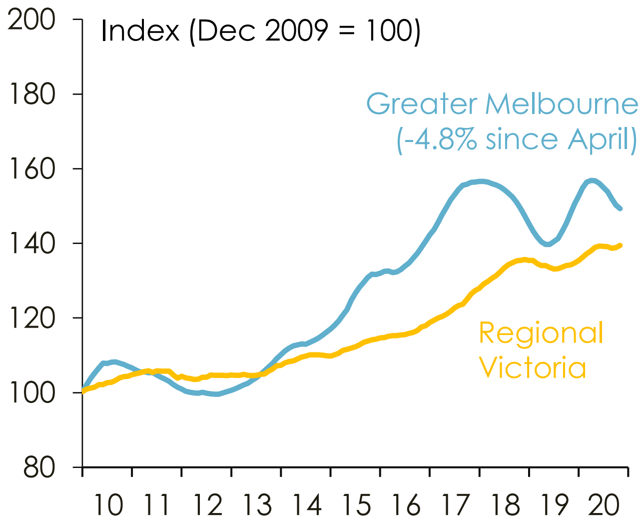
Western Australia



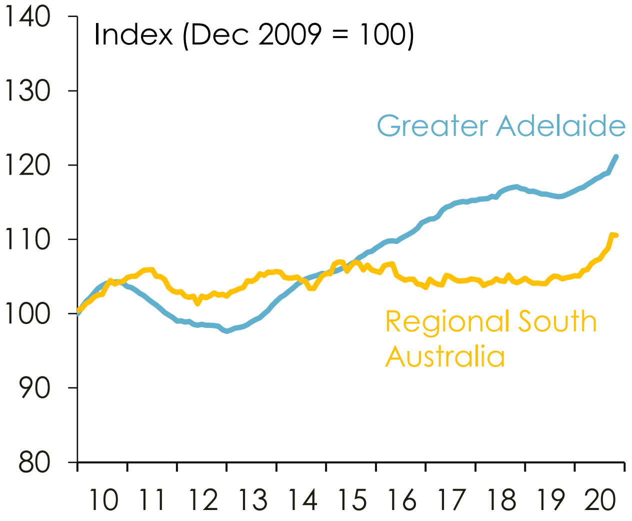
Northern Territory



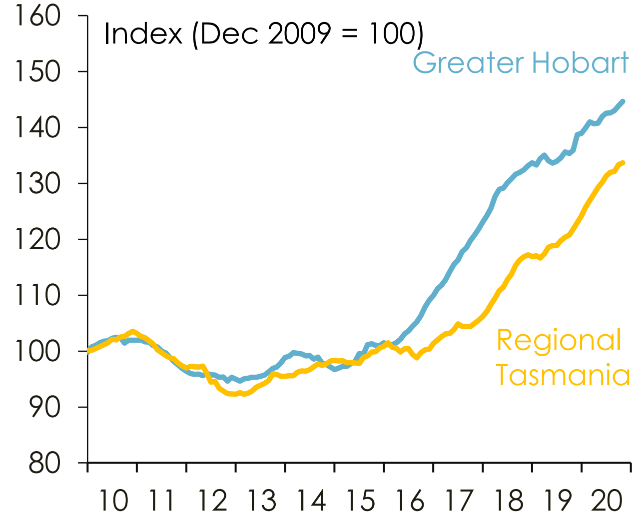
Victoria



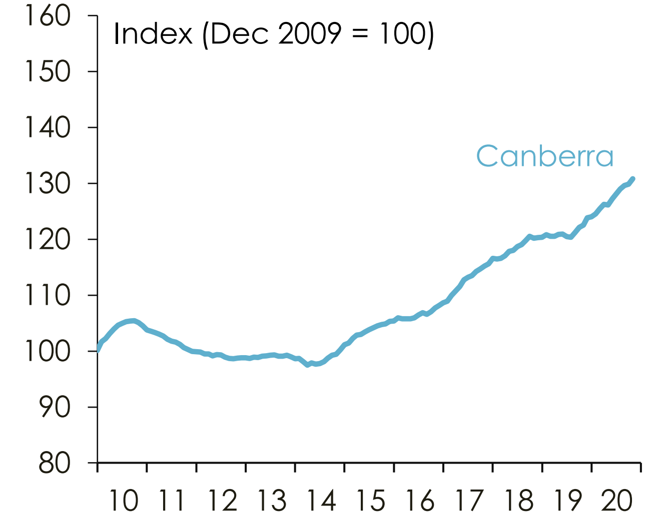
South Australia



Tasmania



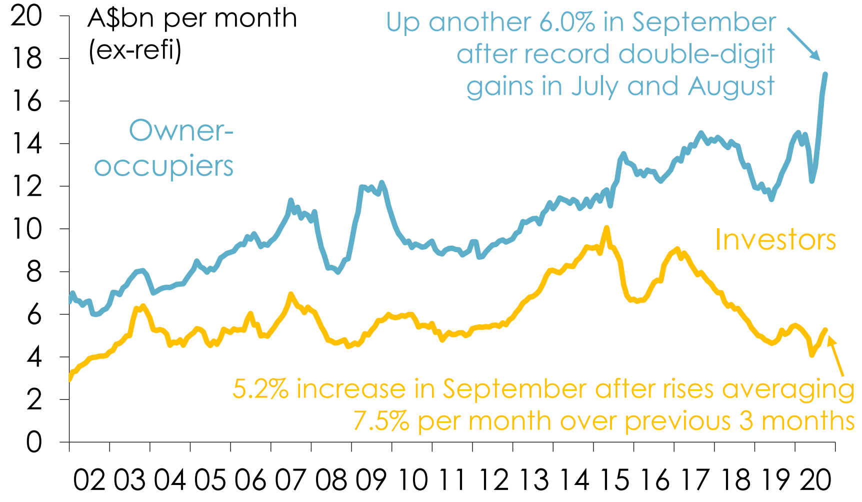
Australian Capital Territory



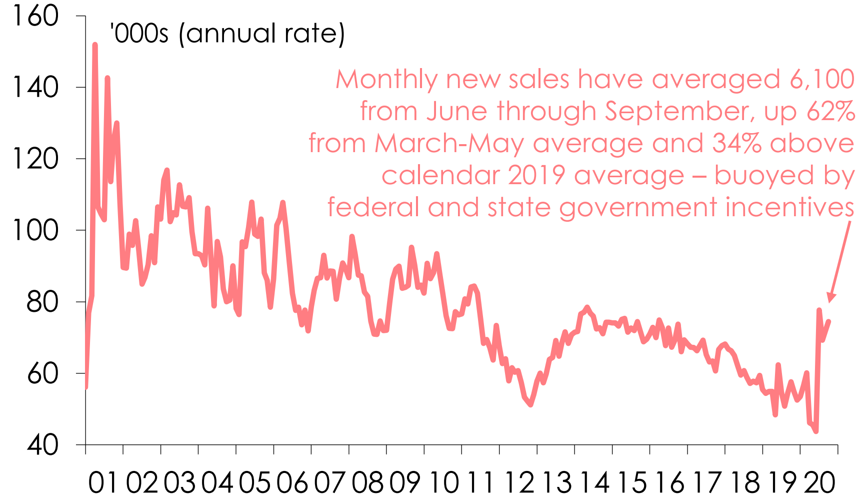
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for October 2020; November data will be released on 1st December. *Source:* CoreLogic. Return to "What's New".

Housing lending, home sales and building approvals have risen strongly over the past three months – despite the suspension of immigration

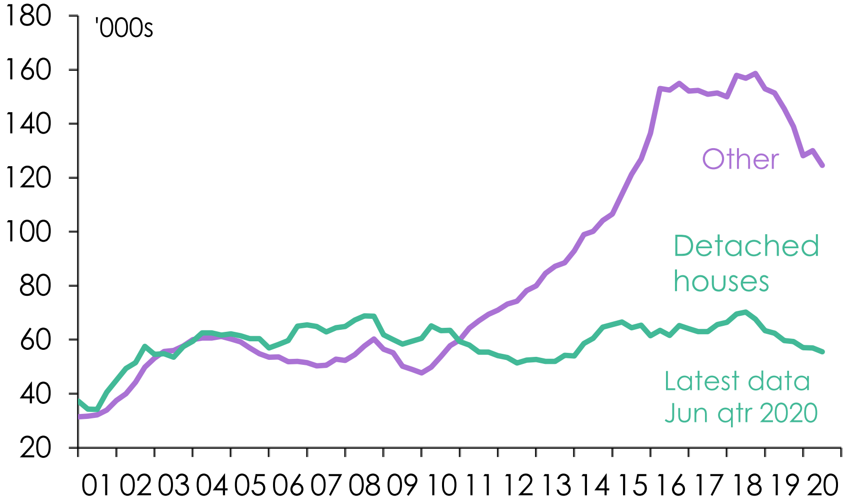
Housing finance commitments



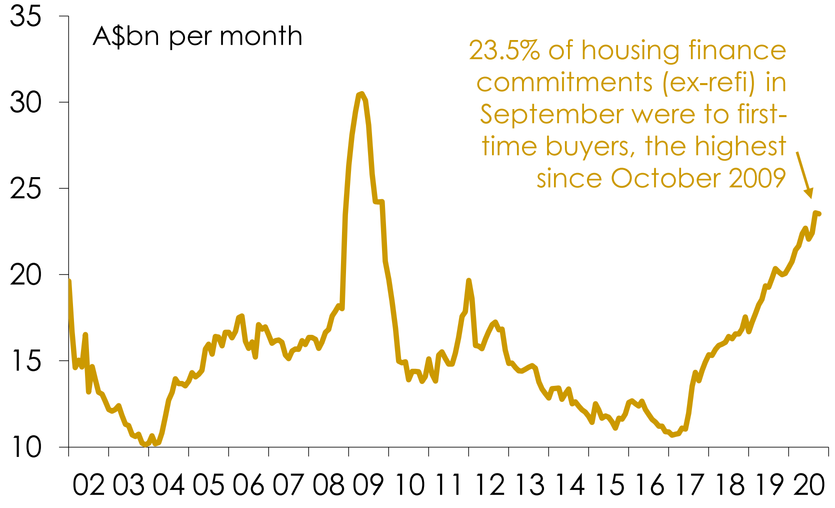
Large builders' new home sales



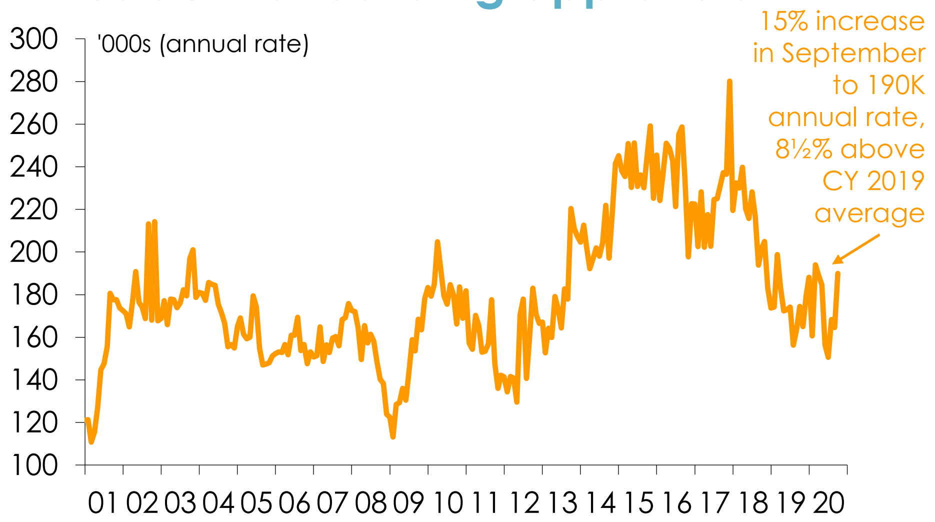
Dwellings under construction



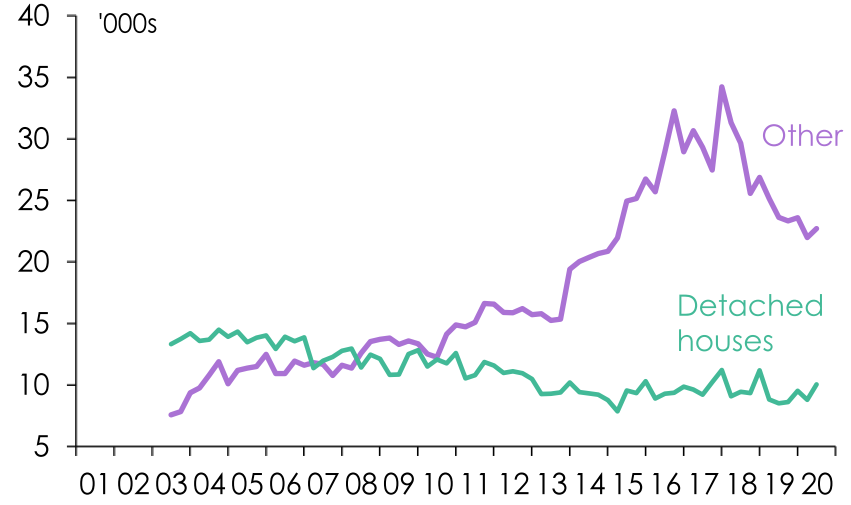
Lending to first home buyers



Residential building approvals



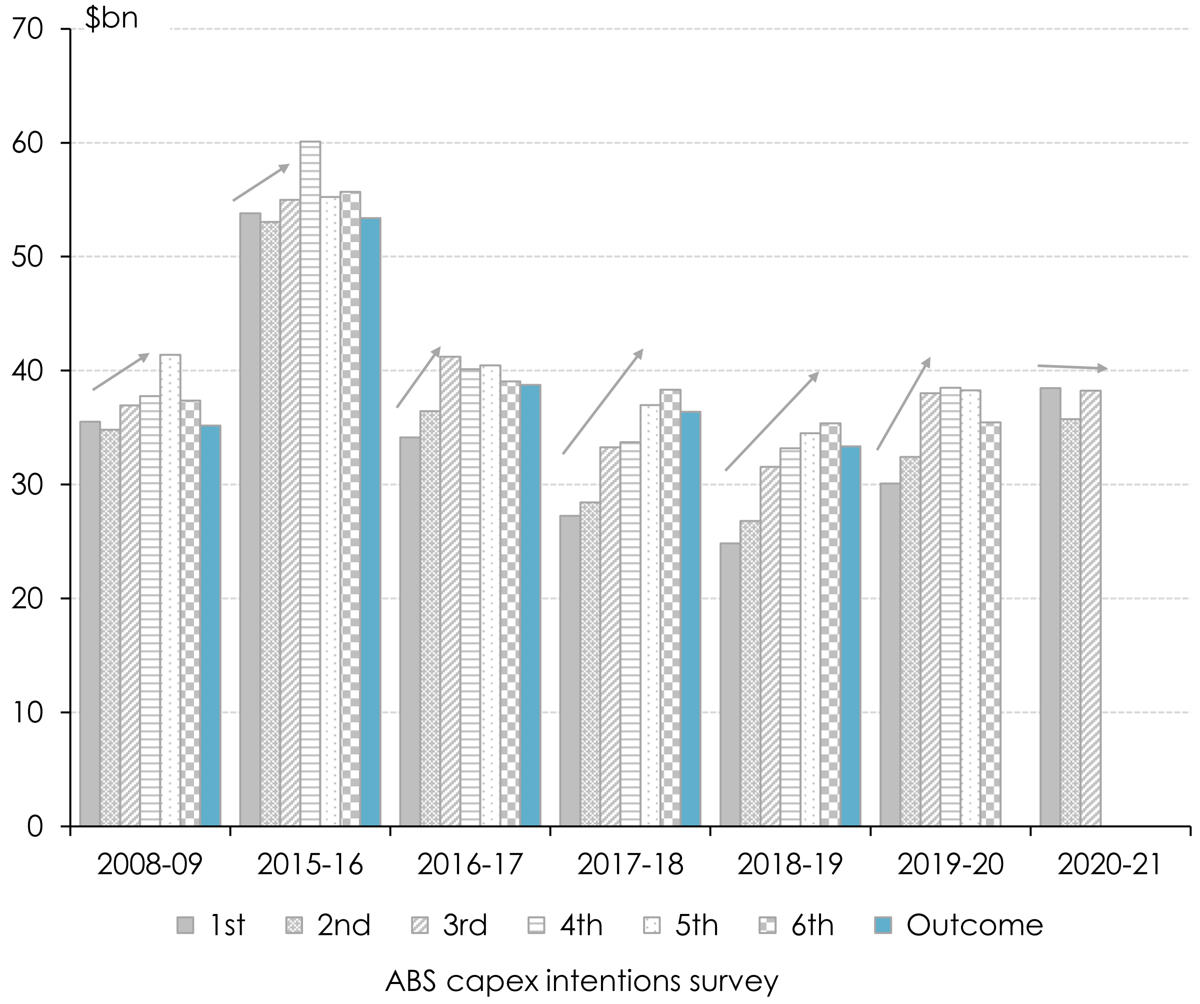
'Pipeline' of work yet to be done



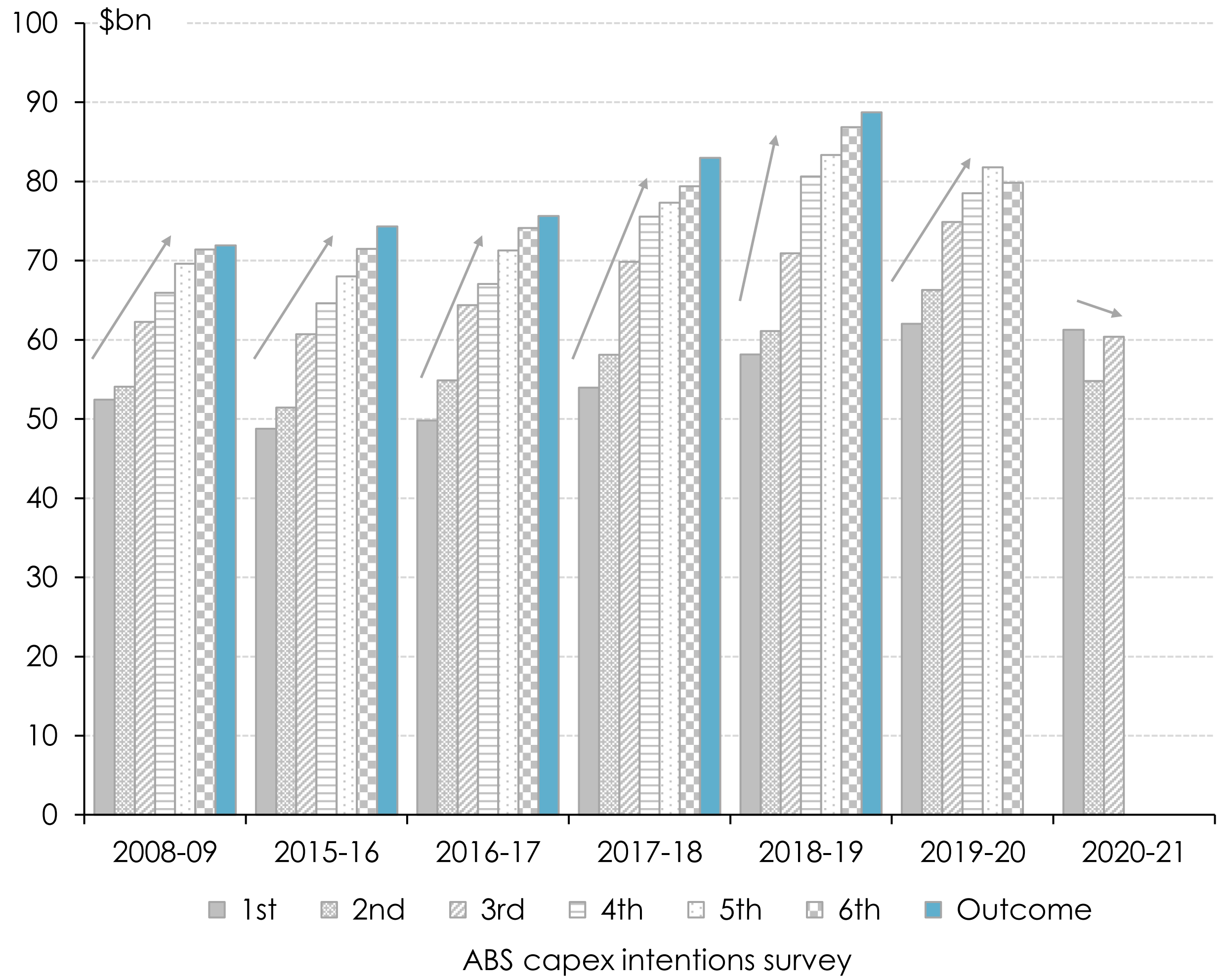
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. *Sources:* ABS; Housing Industry Association. October building approvals data will be released on 1st December; October housing finance on 2nd December; and September quarter dwellings under construction and 'pipeline' 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



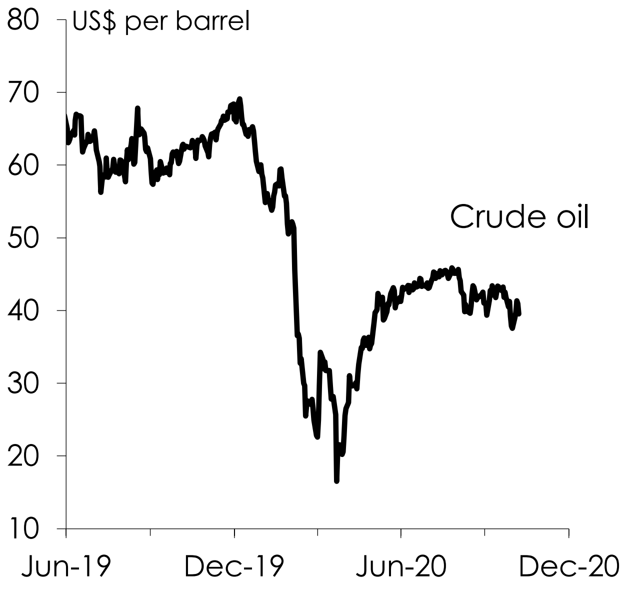
Capital expenditure intentions – non-mining

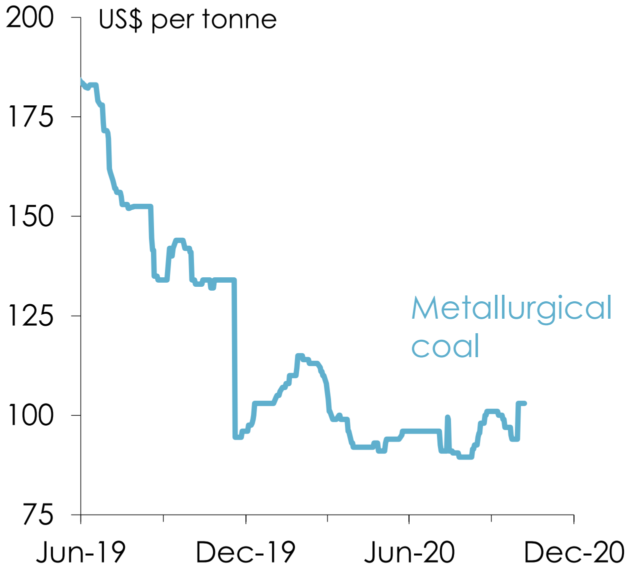


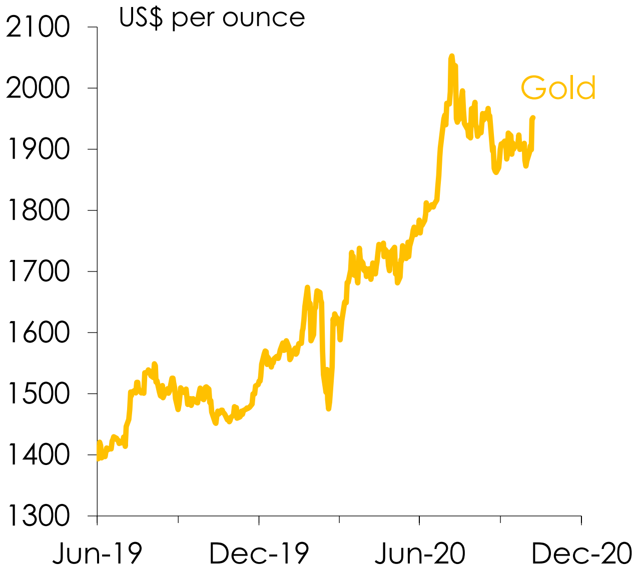
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & 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).

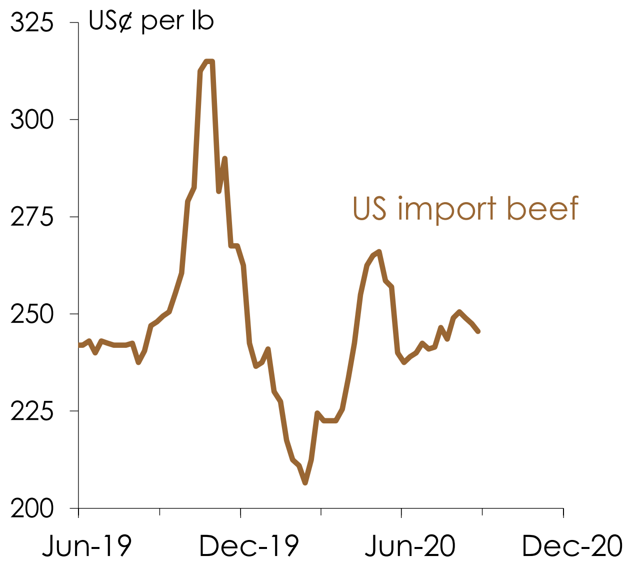
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

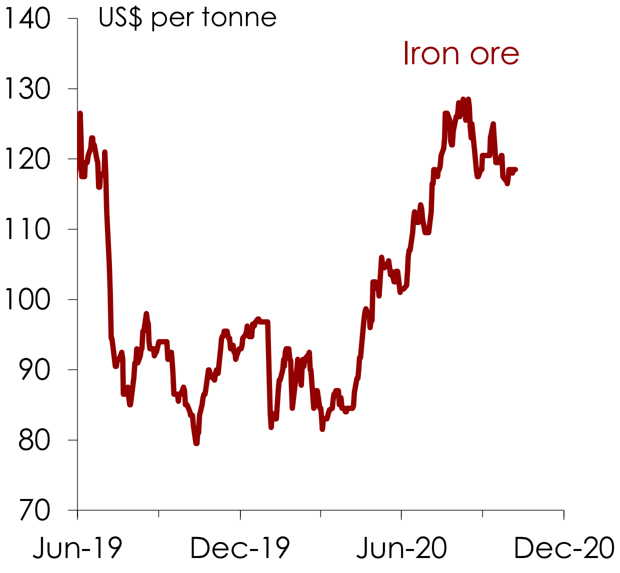
Gold and base metal prices benefited from US$ weakness this week, and met coal prices improved for North American (but not Aussie) exporters

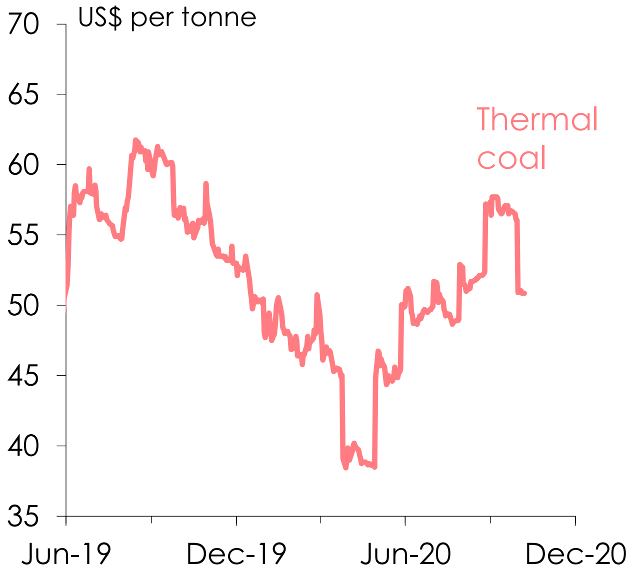


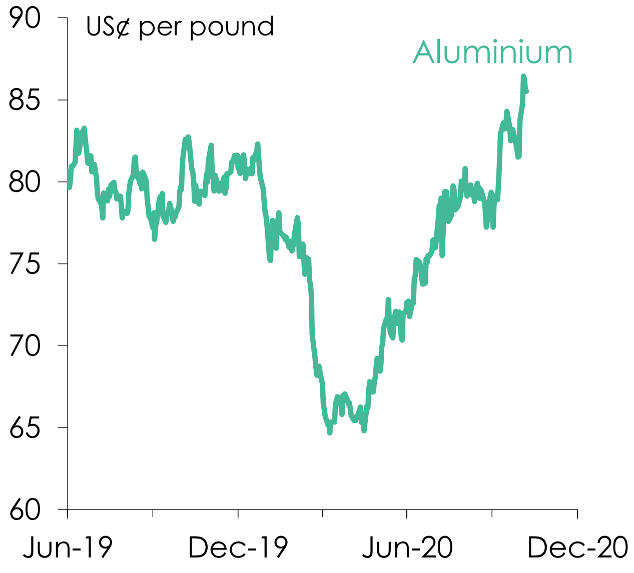


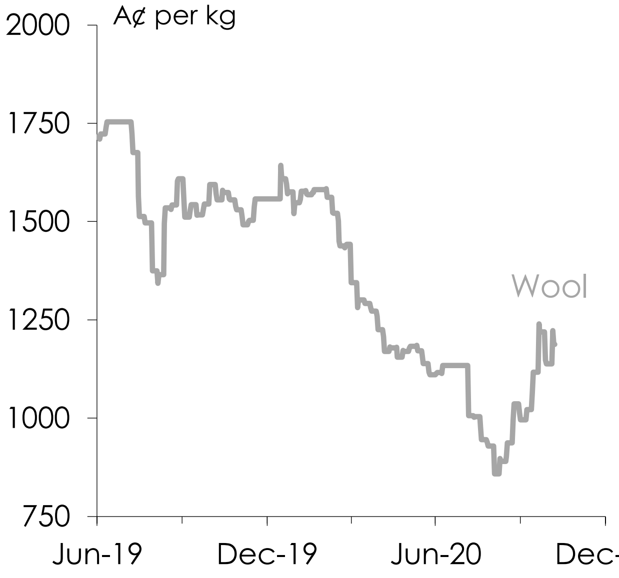










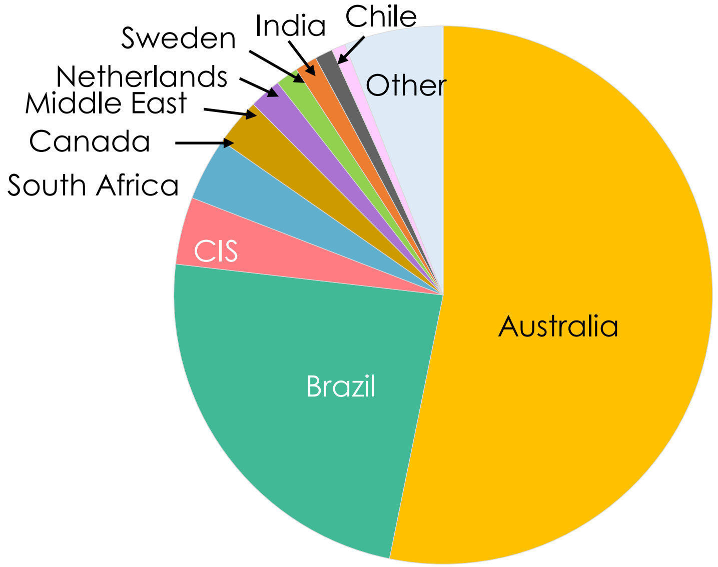


Sources: Refintiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 6th November.

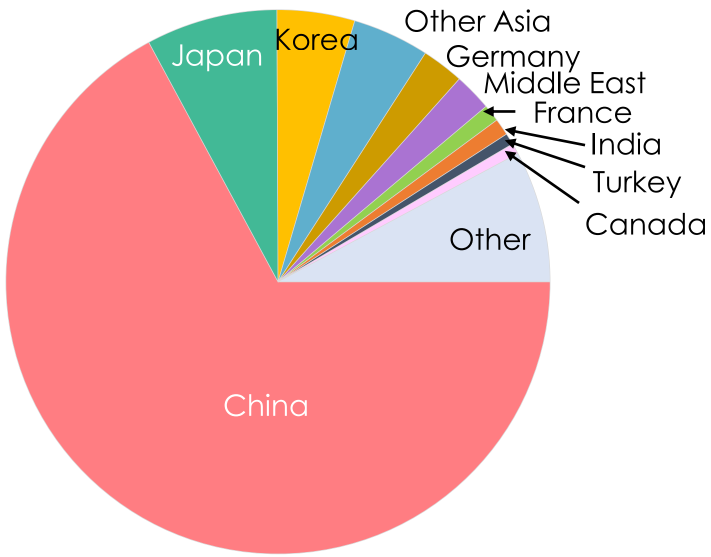
Return to "What's New".

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

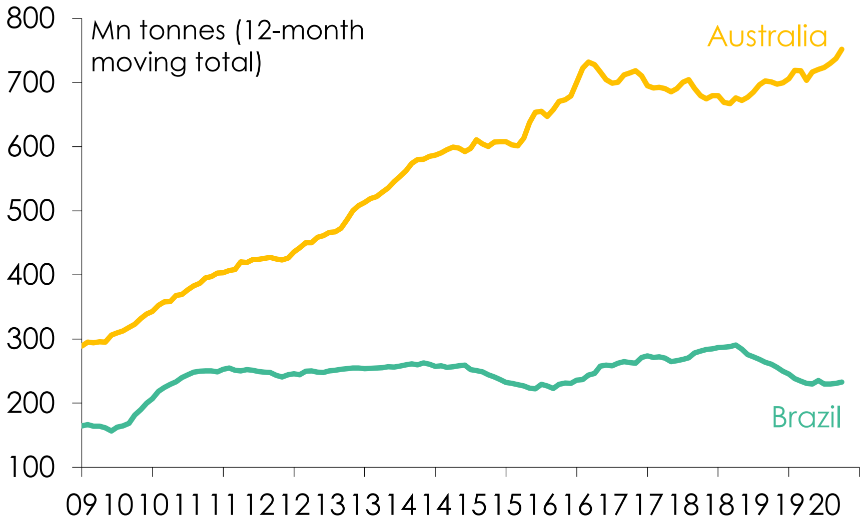
Iron ore exports, 2018



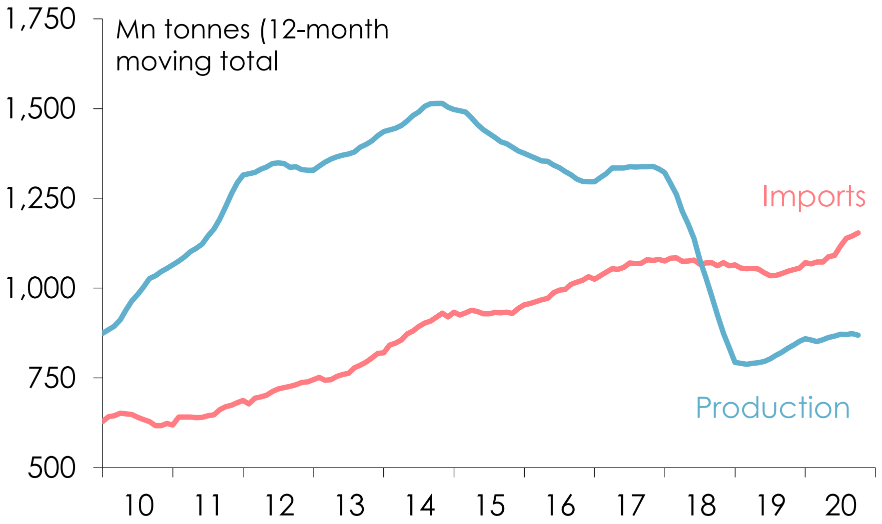
Iron ore imports, 2018



Australia & Brazil iron ore exports



China iron ore production & imports

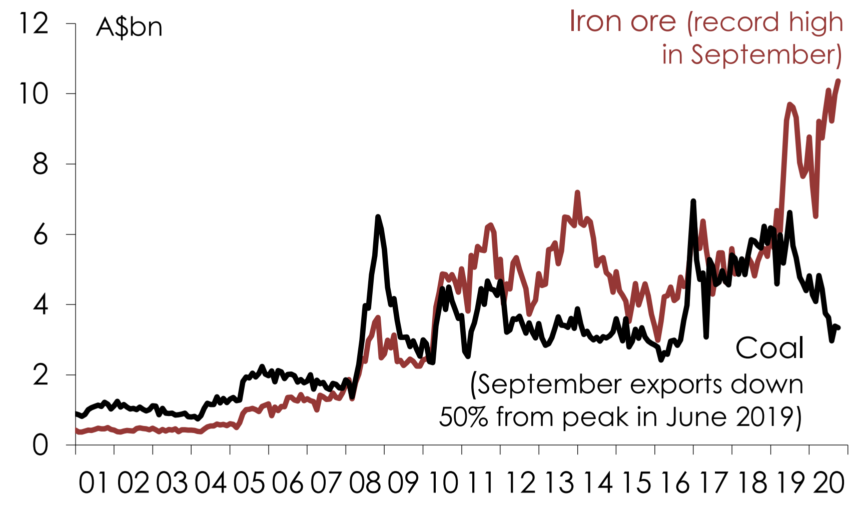


- The global seaborne iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use)
- Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese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

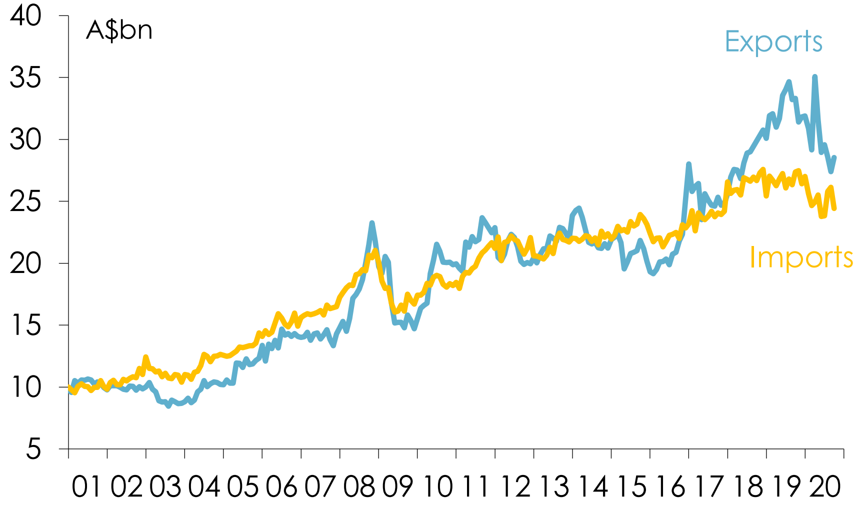
Note: Export volume data for Australia and Brazil derived by dividing export values (in US$) from ABS and IGBE by the average US$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS;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

Australia registered a trade surplus of $5.6bn in September, driven by a 6% fall in imports and a spurt in gold exports

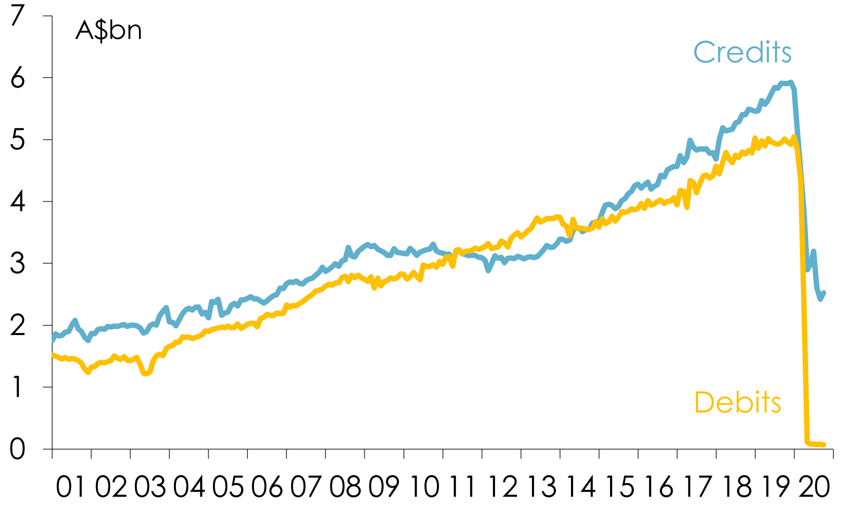
Iron ore and coal exports



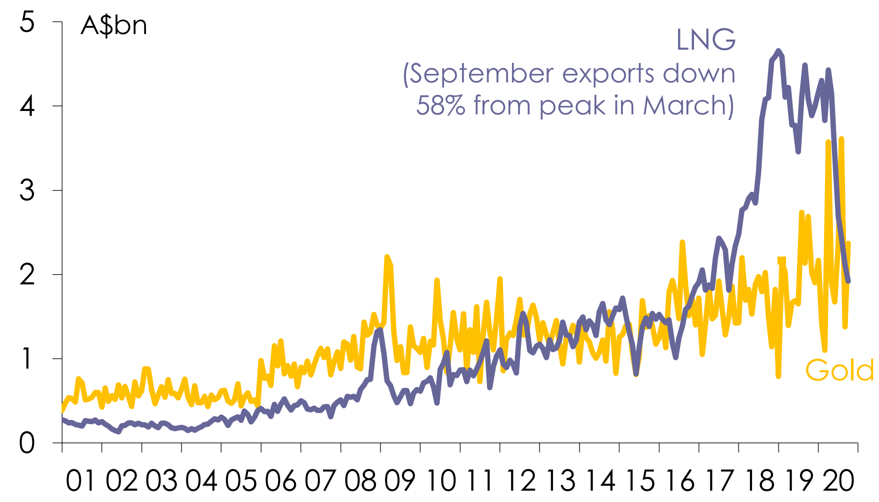
Merchandise exports and imports



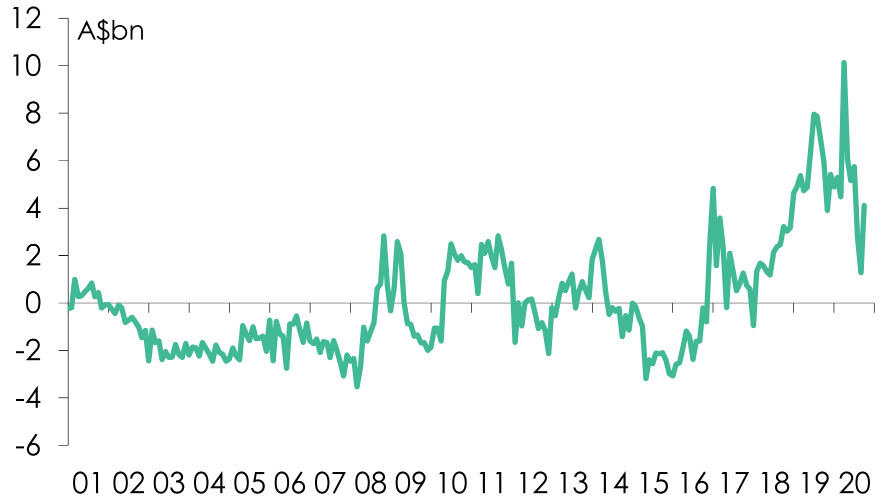
Tourism-related services trade



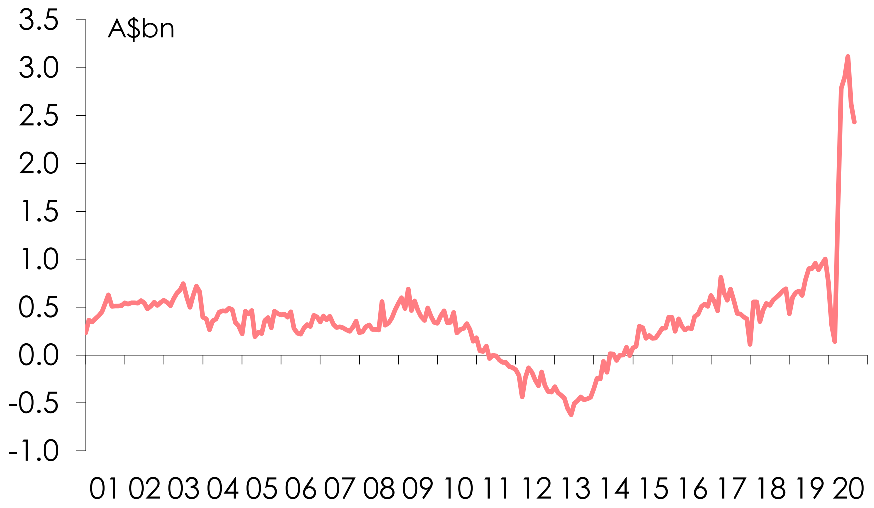
LNG and gold exports



Merchandise trade balance



Tourism services trade balance



Note: Latest data are for September: October data will be released on 3rd December, with preliminary merchandise trade data for October released on 24th November.
Source: ABS, International Trade in Goods and Services, Australia. Return to "What's New".

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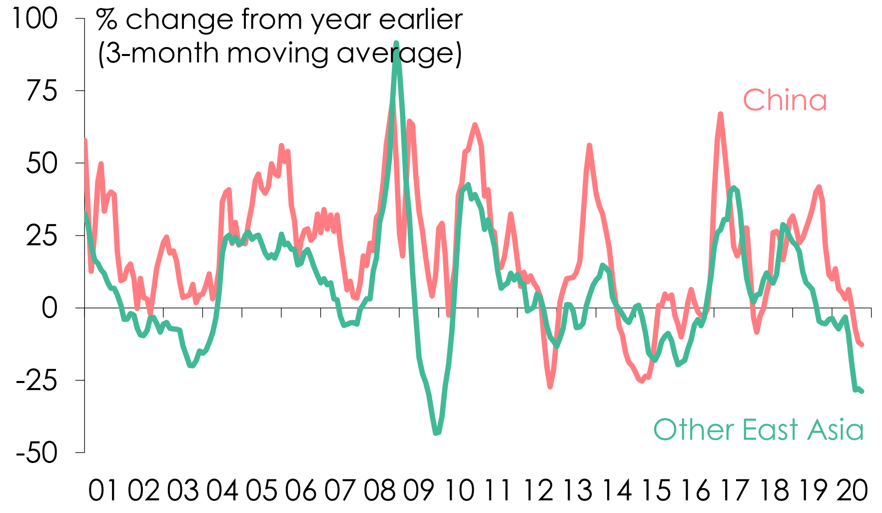
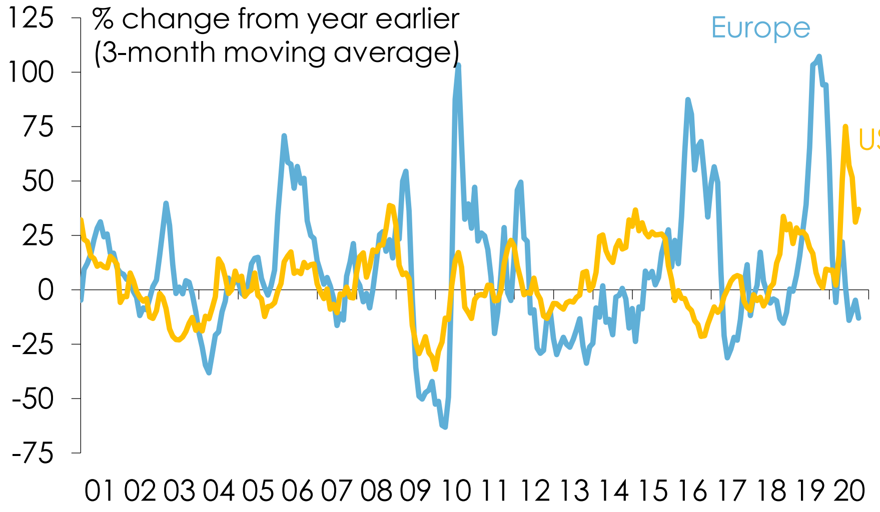
CORINNA ECONOMIC ADVISORY

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)

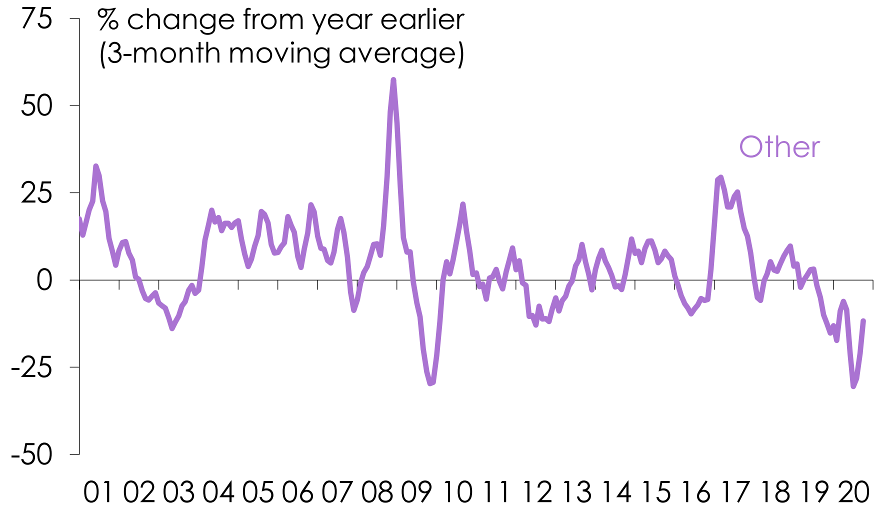
Merchandise exports – East Asia



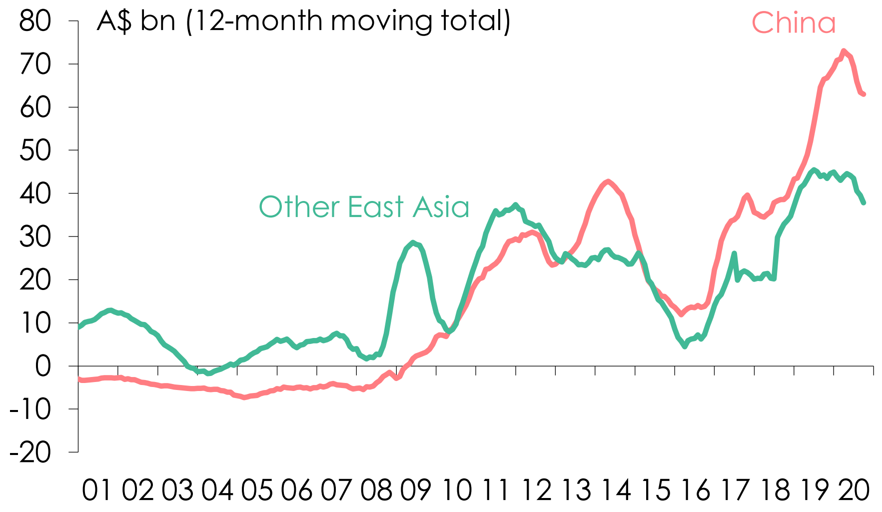
Merchandise exports – US & Europe



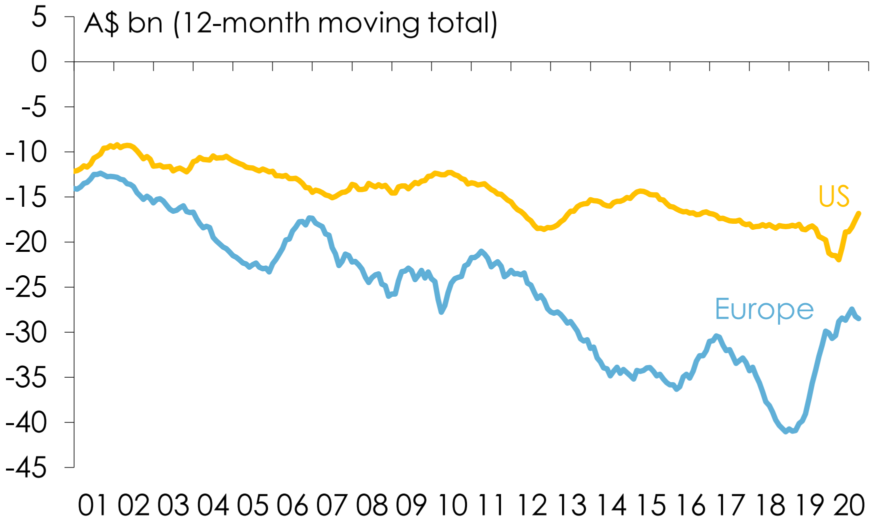
Merchandise exports – other



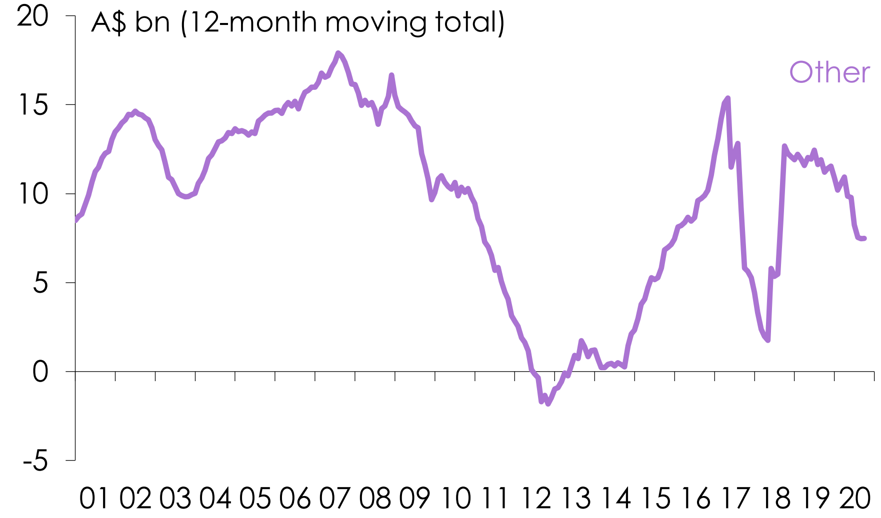
Goods trade balance – East Asia



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 October data will be released on 24th November. Return to "What's New".

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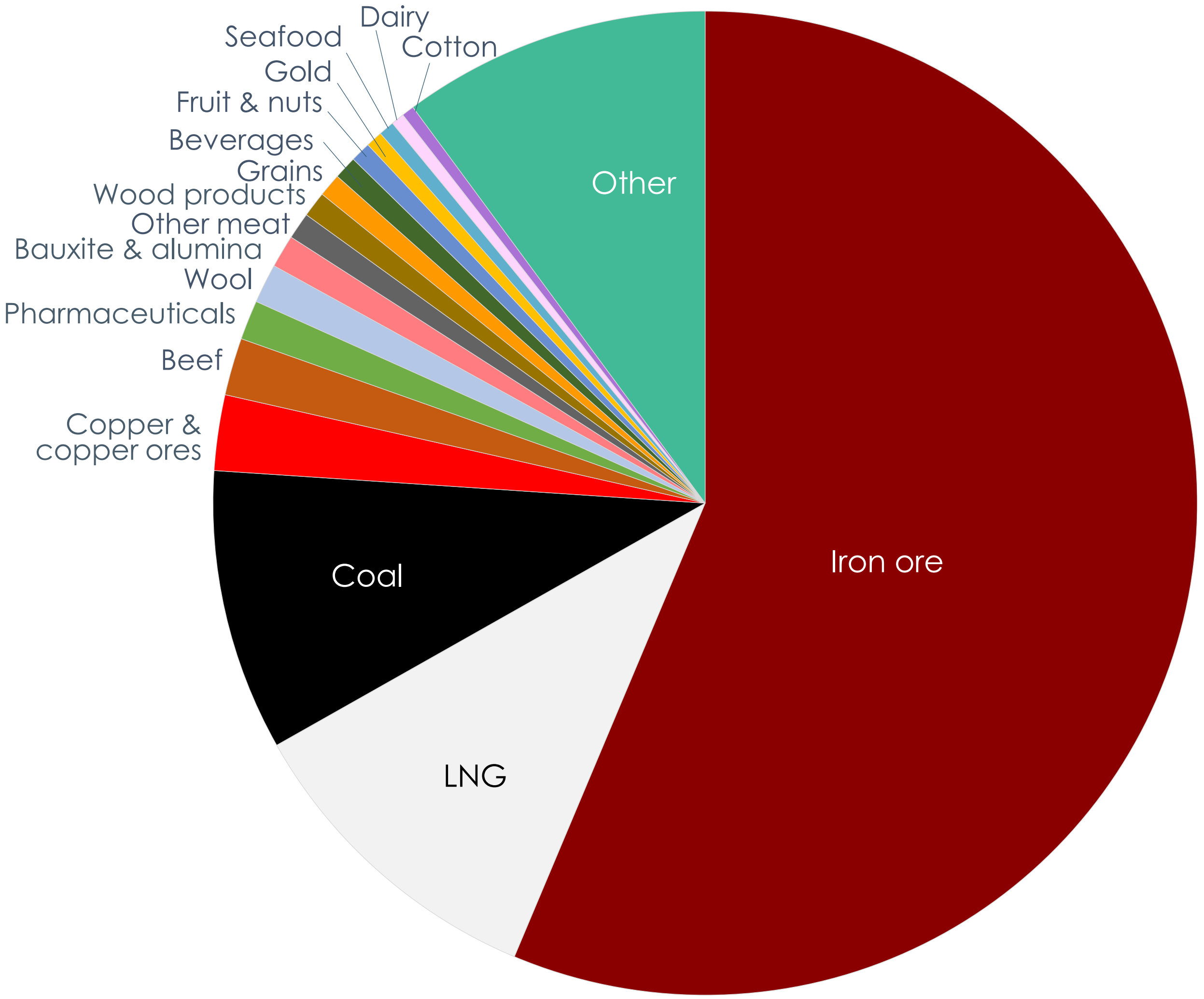
China this week imposed new bans on imports of a raft of Australian products as trade relations hit a new low

Australia's merchandise exports to China, 2019-20

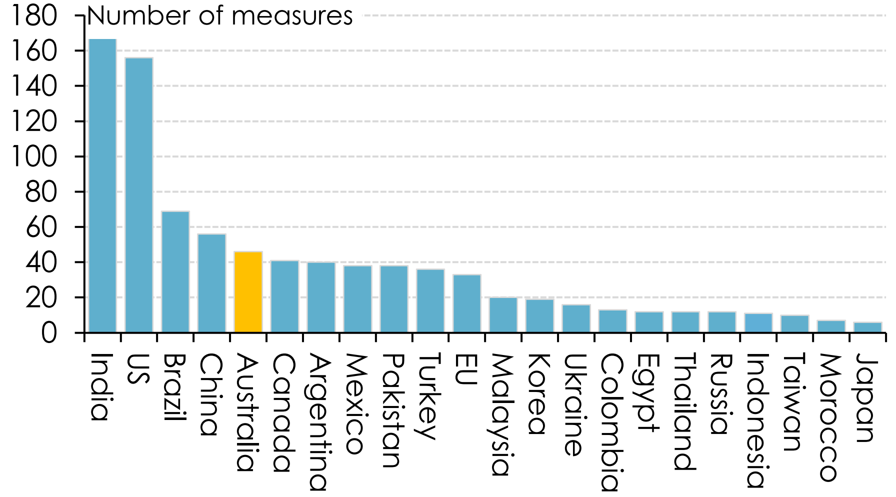


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](); Corinna.
[Return to "What's New"]().

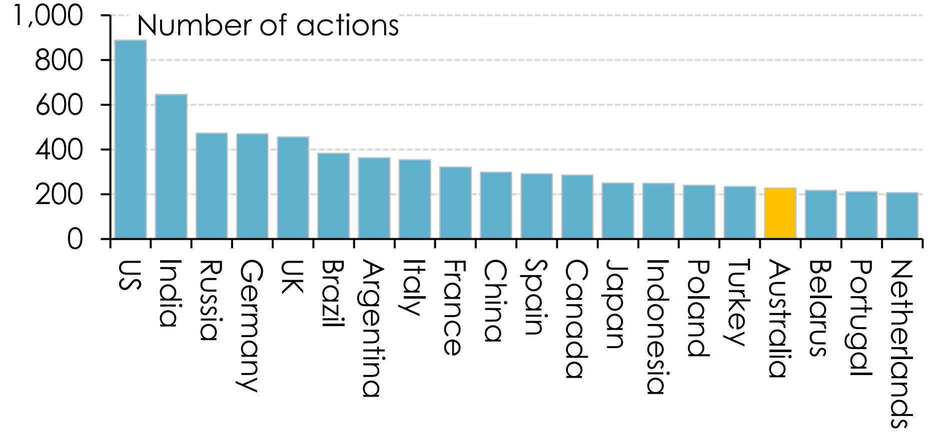
- China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (including tourism and education) accounted for over 90%)
- China has no real alternatives to Australian iron ore (slide 90)
- But China has been progressively expanding the range of other Australian products subject to discriminatory tariffs, "customs inspections", quarantine issues or outright bans
- This week $2mn worth of Australian lobsters were left on the tarmac at Shanghai Airport, timber imports from Queensland were blocked after a 'bark beetle' was found in a shipment, a grain exporter was suspended from exporting barley after officials found 'weed seeds' in a consignment, and eight wine importers were advised at an 'emergency meeting' that Australian wine imports were subject to a 'temporary ban'
- Wheat, wool, copper ores, sugar and lobsters have also reportedly subject to 'coronavirus restrictions'
- China appears to be 'making an example' of Australia in retaliation for perceived 'anti-China' statements and actions, and (as Voltaire would have put it) ['pour encourager les autres']()

China's 'trade war' on Australia is mainly in retaliation to perceived 'slights', but Australia hasn't been 'Snow White' when it comes to trade policy

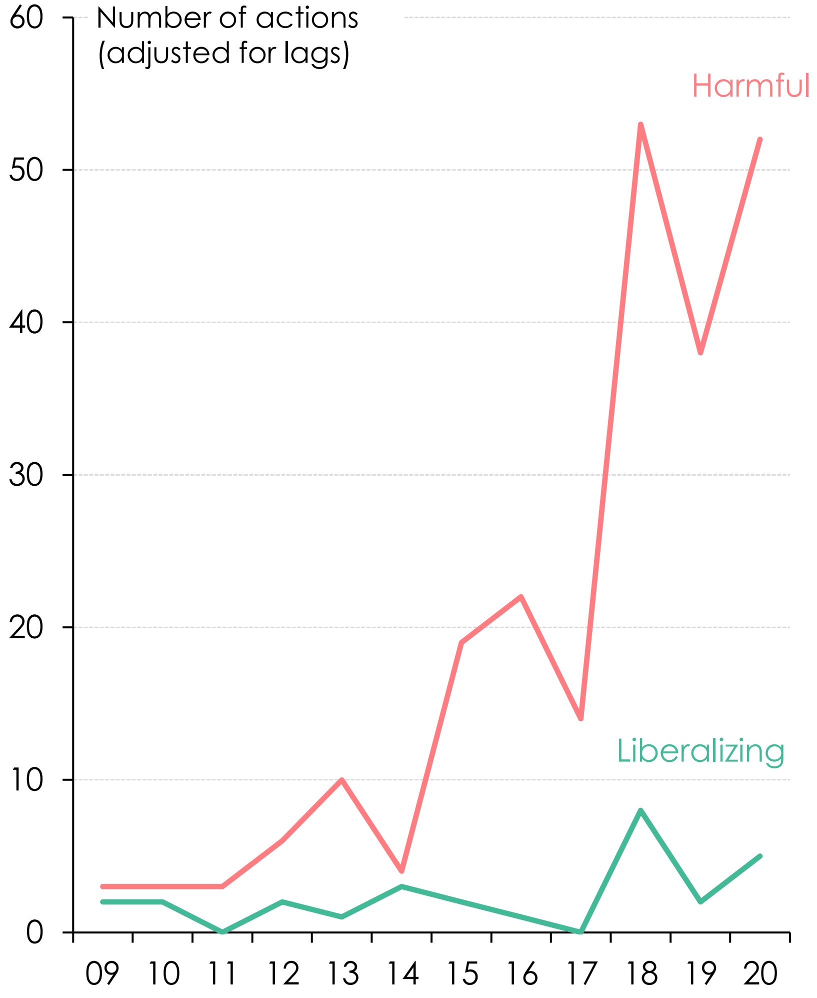
Number of anti-dumping measures imposed, 2015-19



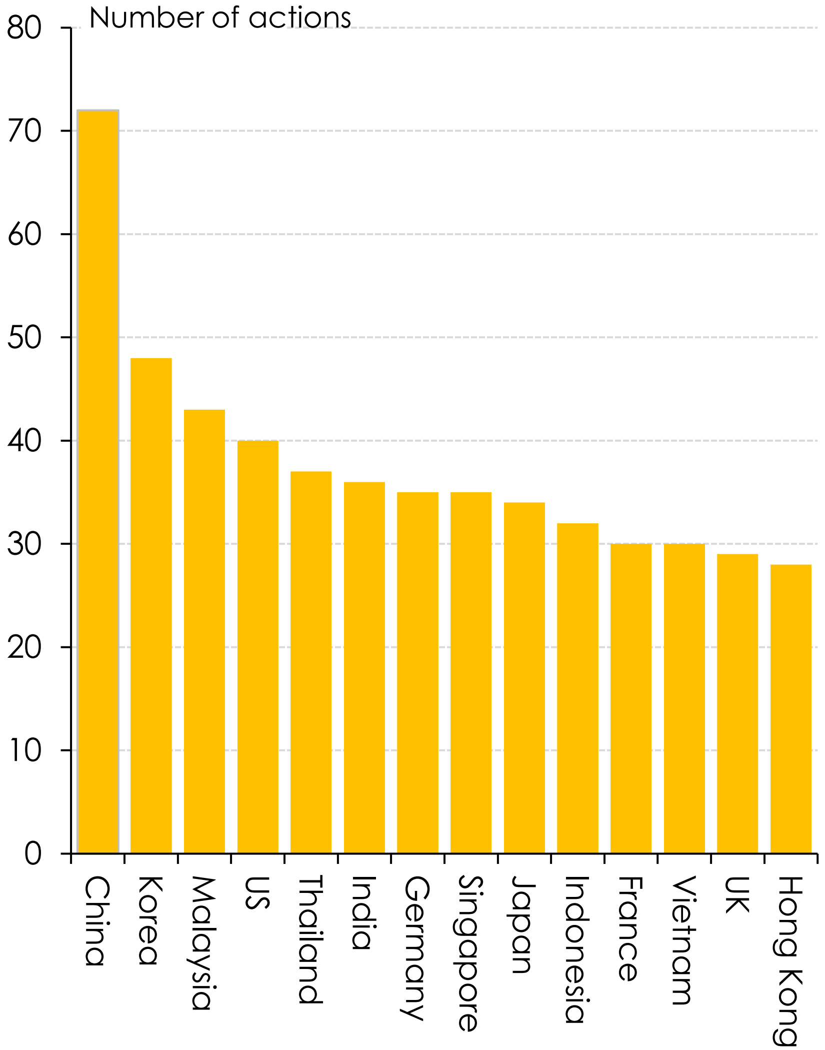
Number of harmful trade policy interventions, 2009-2020



Australian trade policy measures since 2009



Countries adversely affected by 'harmful' Australian trade actions



Sources: World Trade Organization; Centre for Economic Policy Research, *Global Trade Alert* (data up to 6th November). Return to "What's New".

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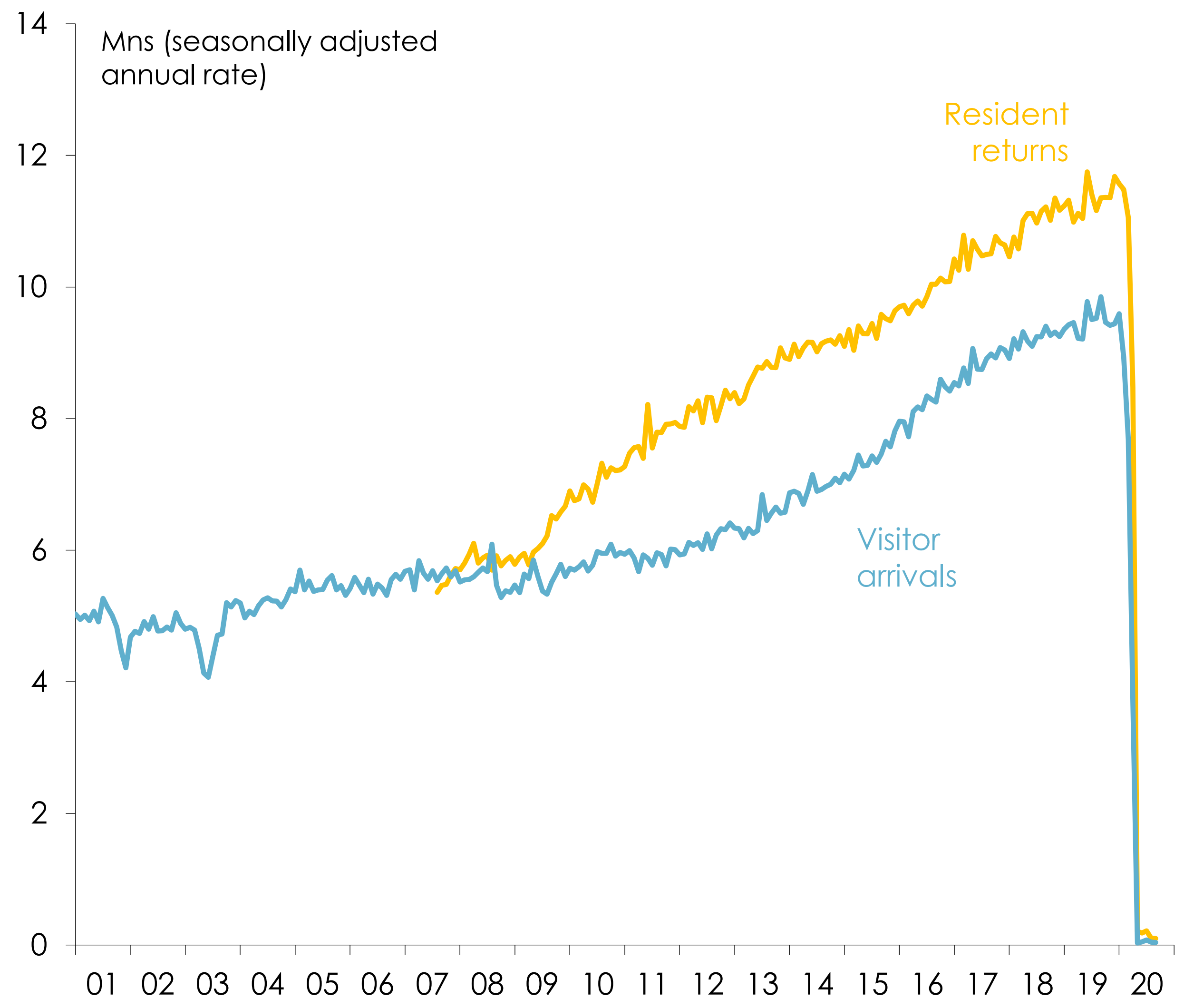
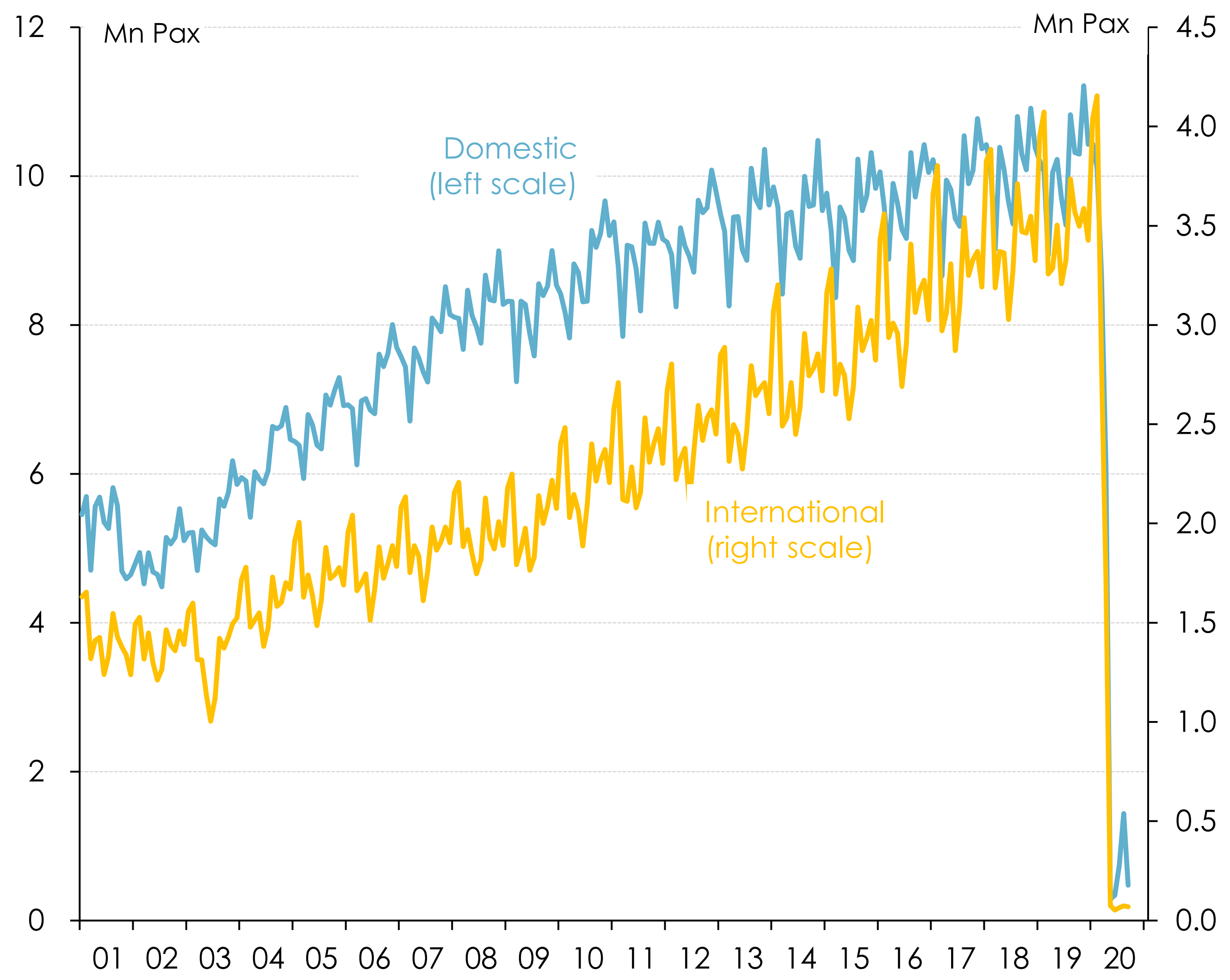
CORINNA ECONOMIC ADVISORY

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".

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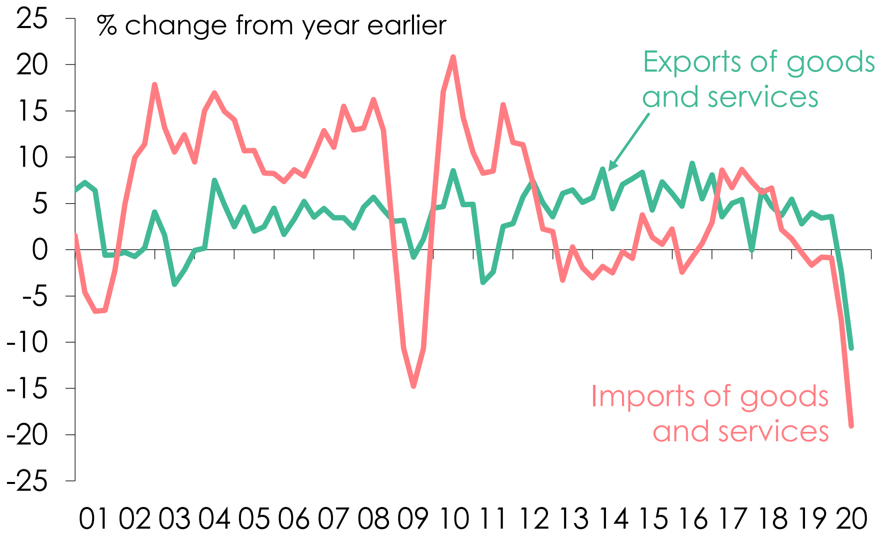
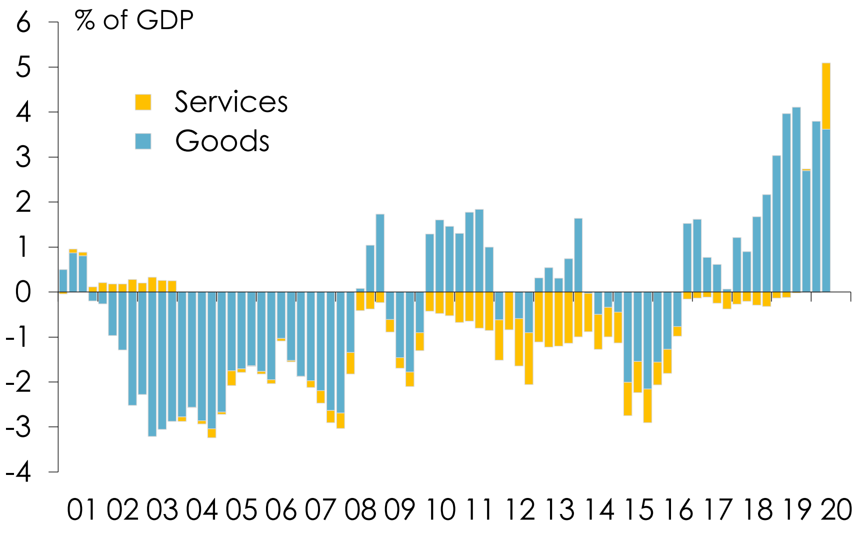
Australia recorded its largest-ever current account surplus in Q2, and is now a capital exporter, paying down debt and building up equity assets

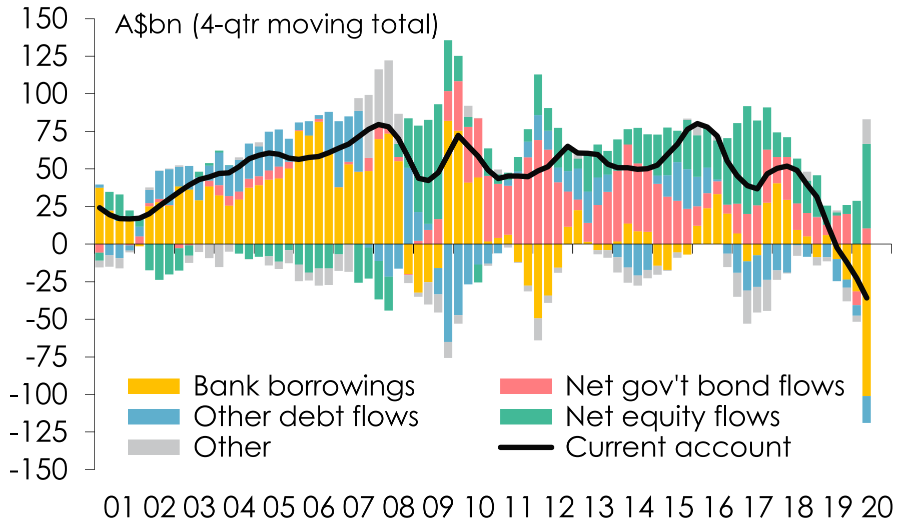
Export and import volumes



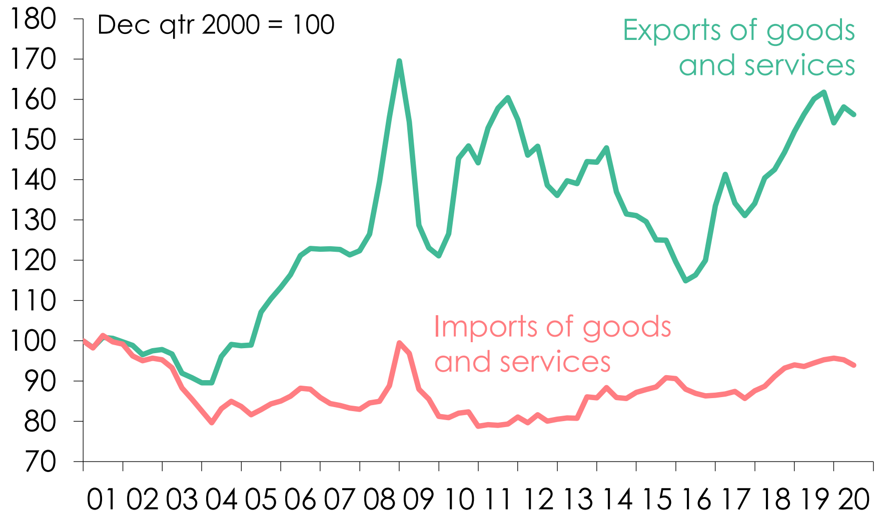
Goods & services trade balances



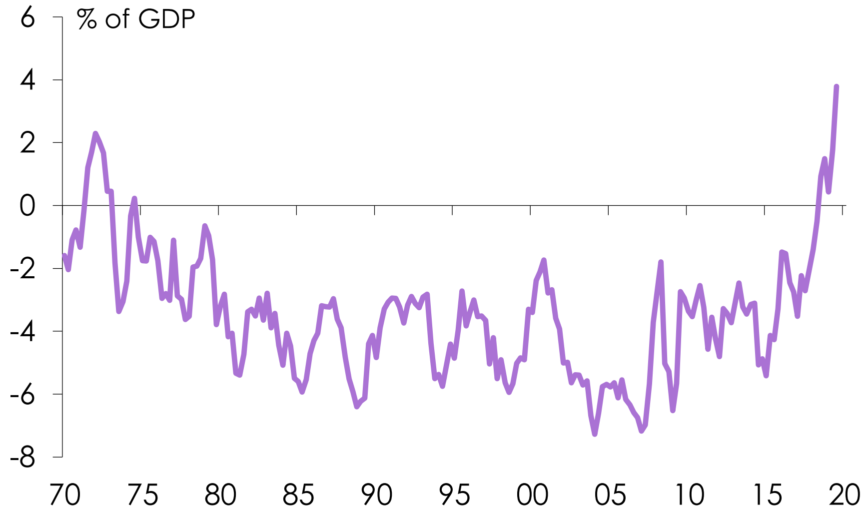
Capital flows



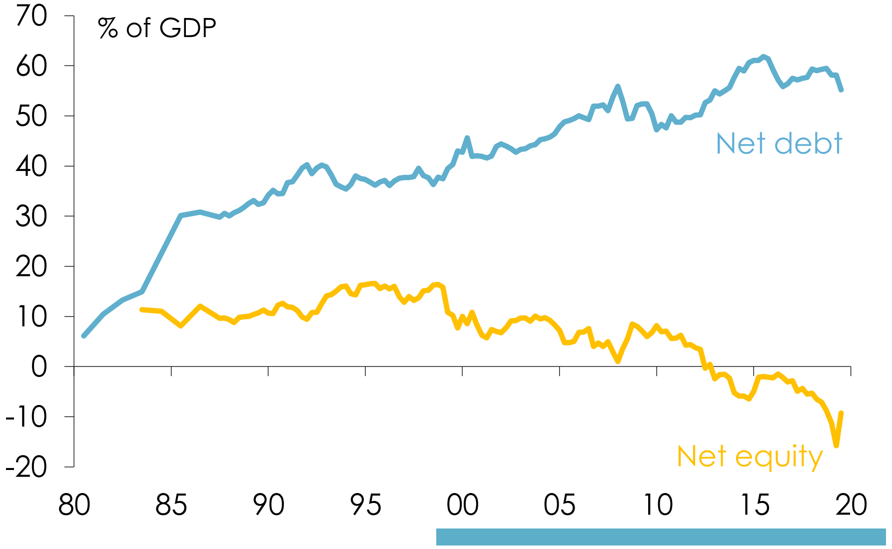
Export and import prices



Current account balance



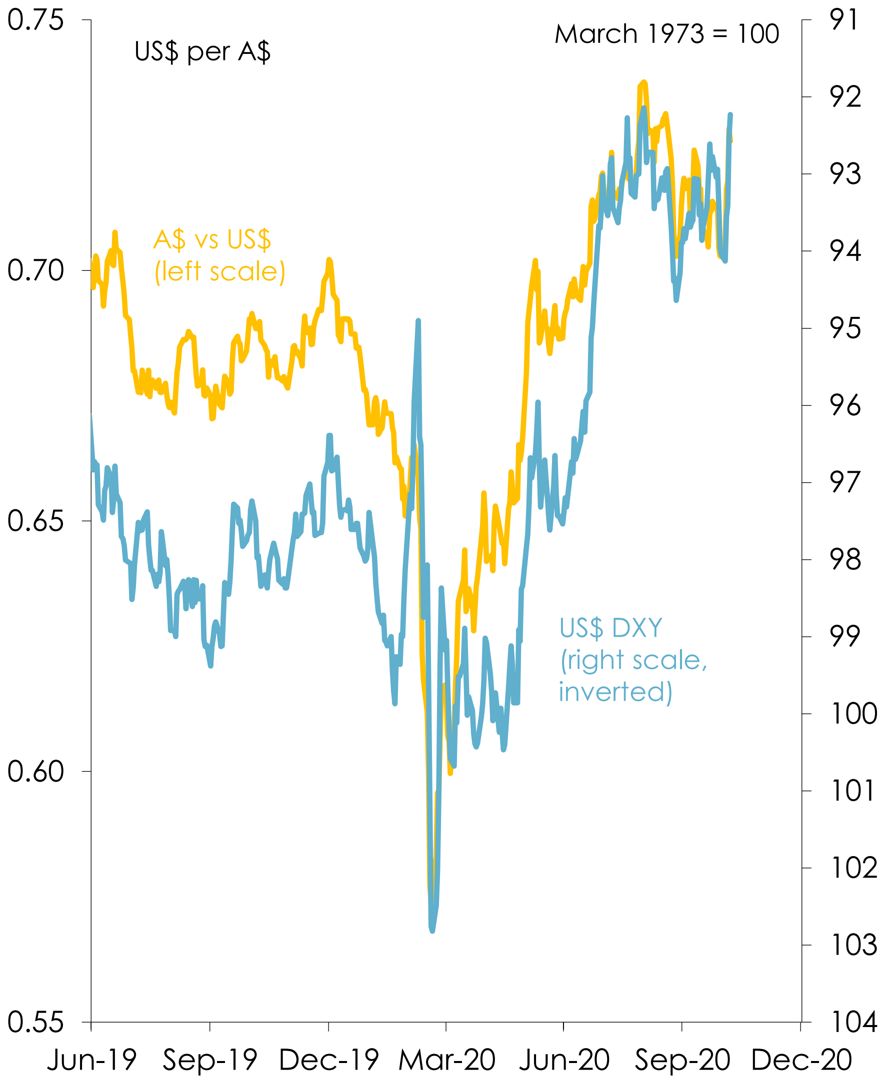
Net international investment position



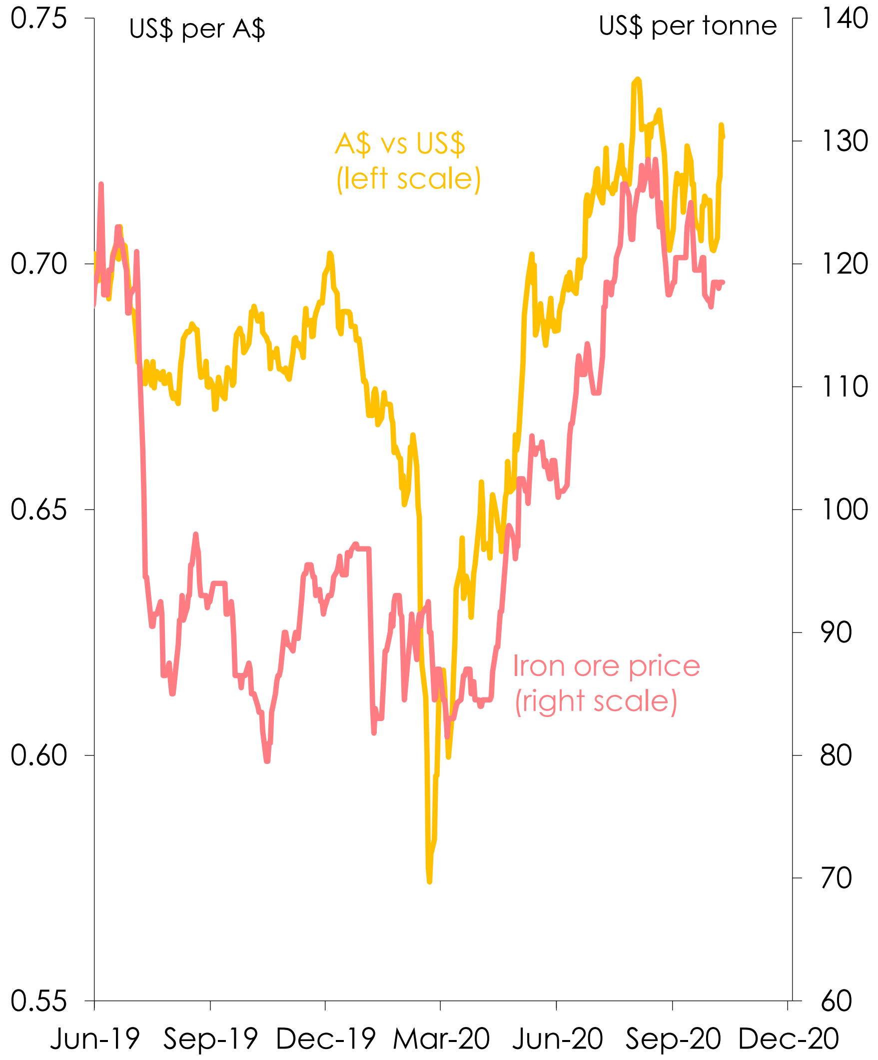
Source: ABS, *Balance of Payments and International Investment Position, Australia*. September quarter data will be released on 1st December. Return to "What's New".

RBA hopes for a lower A$ were (temporarily) thwarted by a weaker US$ and a 'risk-on' mood in global financial markets

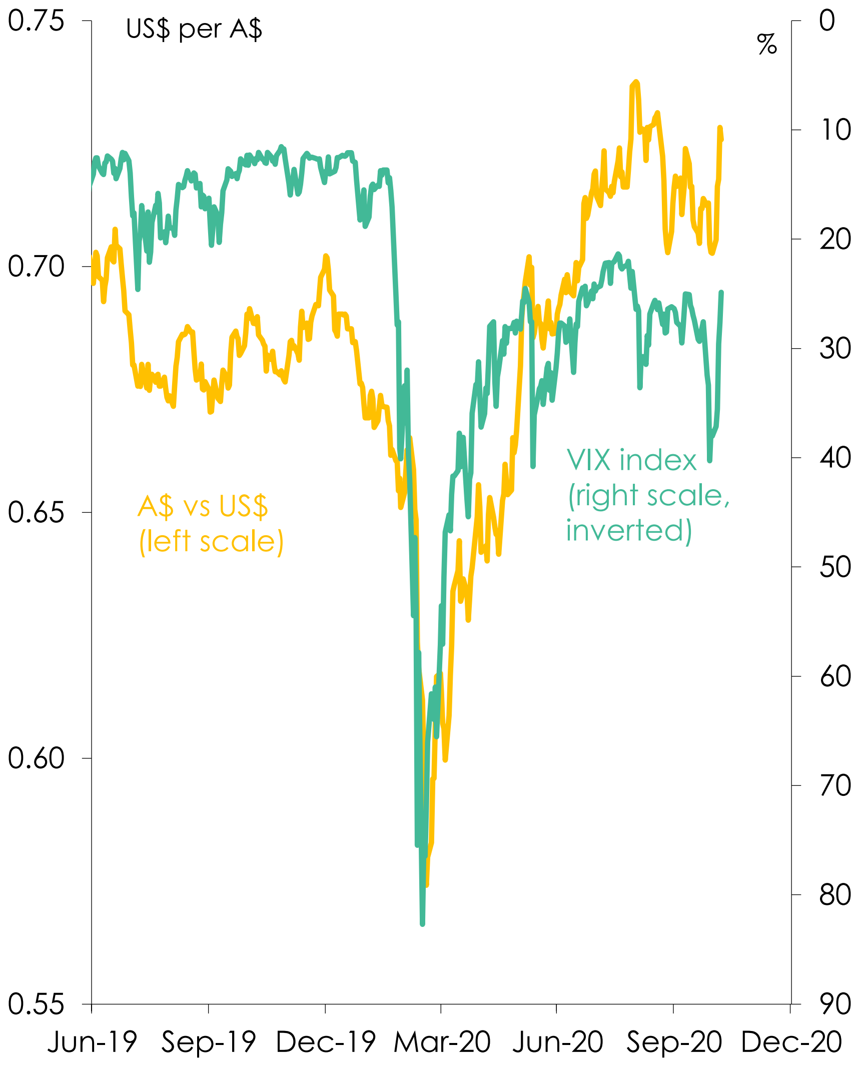
A$-US$ and US$ trade-weighted index



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 90. *Source:* Refinitiv Datastream. Data up to 6th November. Return to "What's New".

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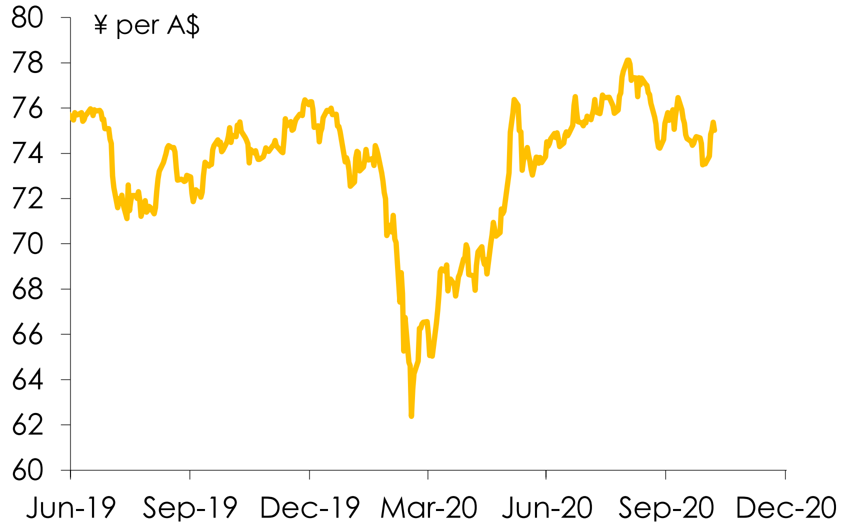
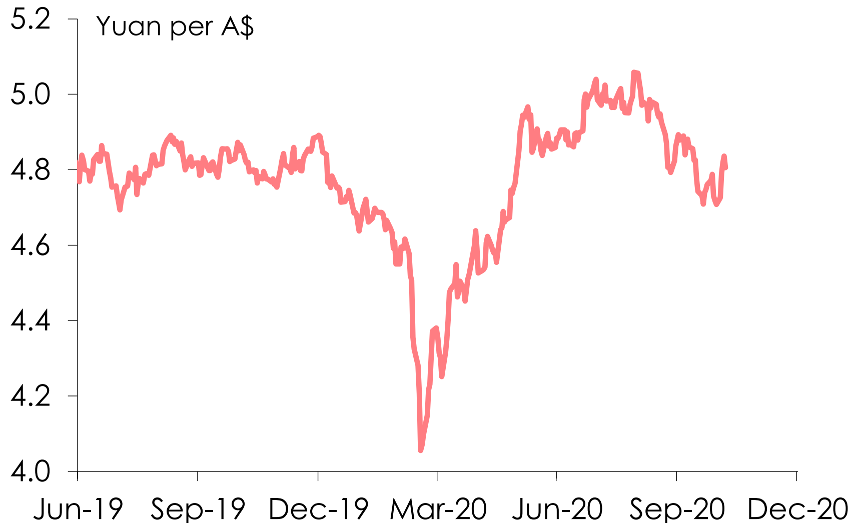
The 'risk-on' mood also prompted the A$ to rise against Asian and European currencies as well as the NZ$

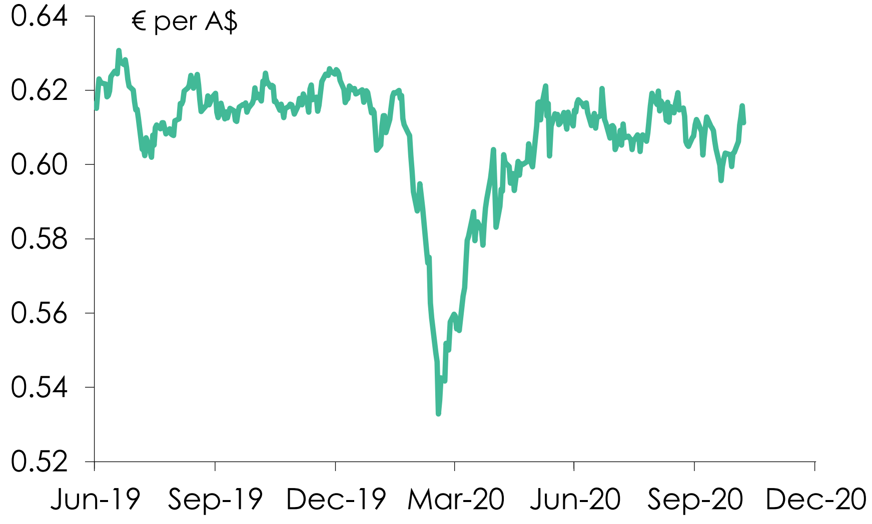
A$ vs Japanese yen



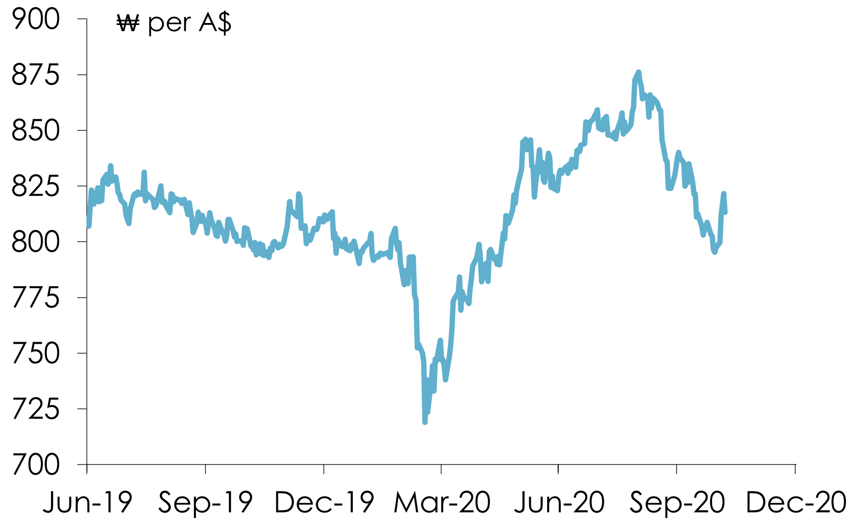
A$ vs Chinese yuan



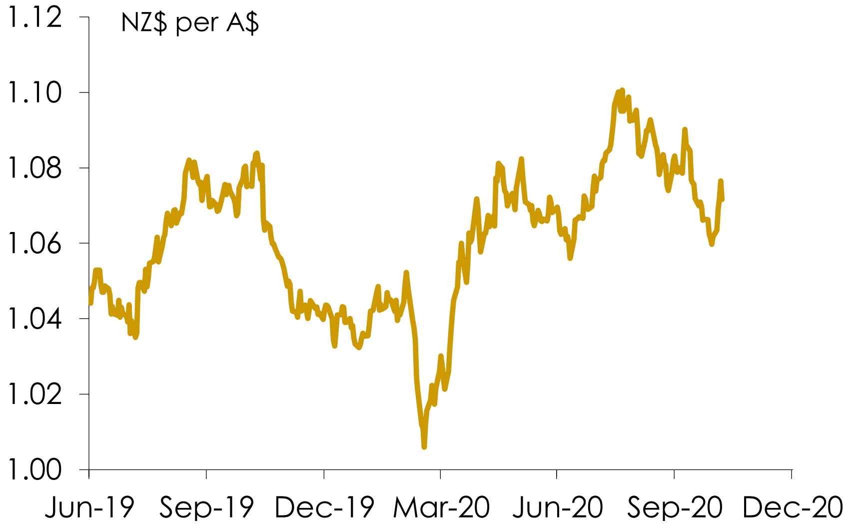
A$ vs Euro



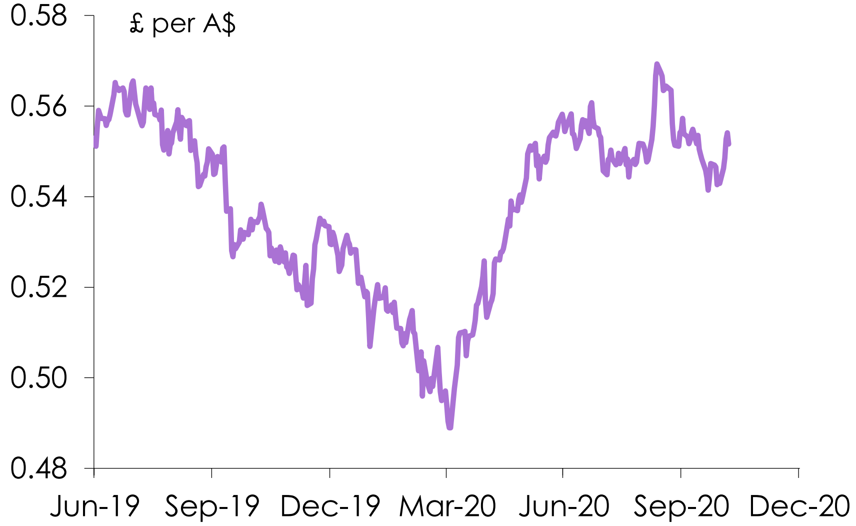
A$ vs Korean won



A$ vs NZ$



A$ vs British pound



Source: Refinitiv Datastream. Data up to 6th November. Return to "What's New".

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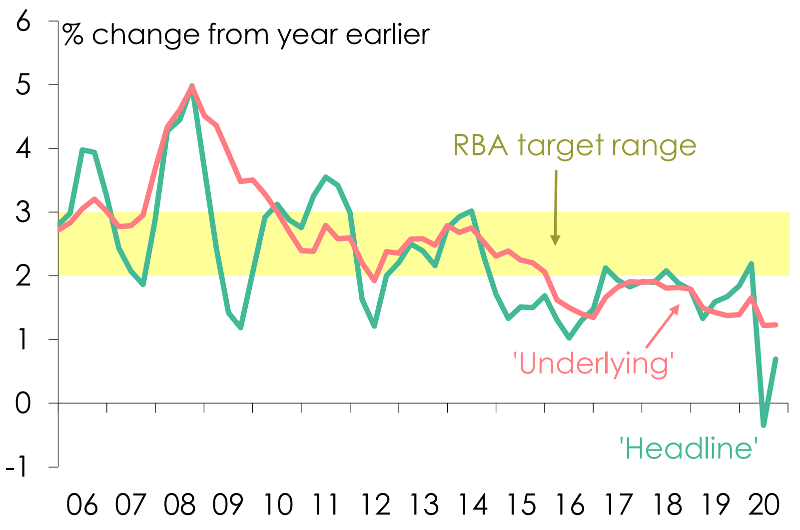
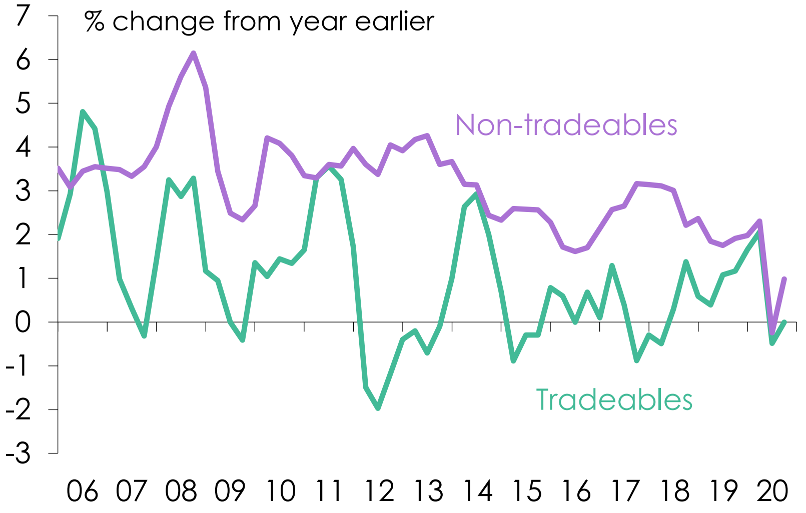
Inflation rebounded precisely as expected in Q3, but 'underlying' inflation has now been below the RBA's target for 4½ years

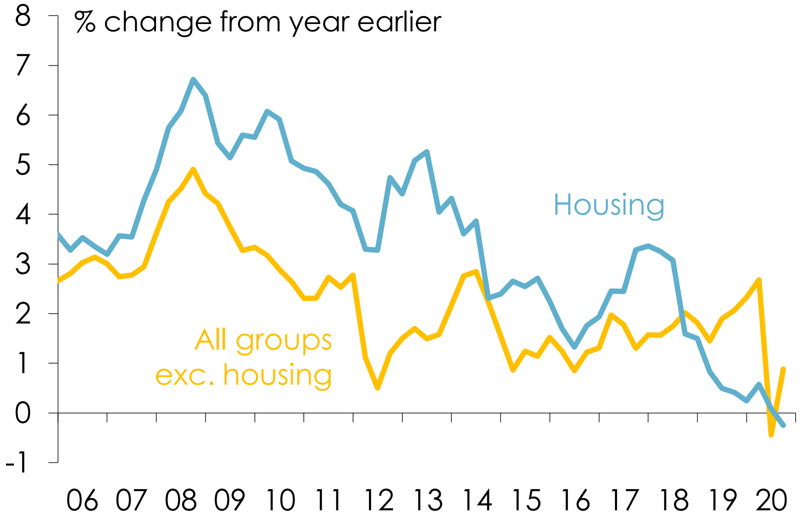
Consumer prices



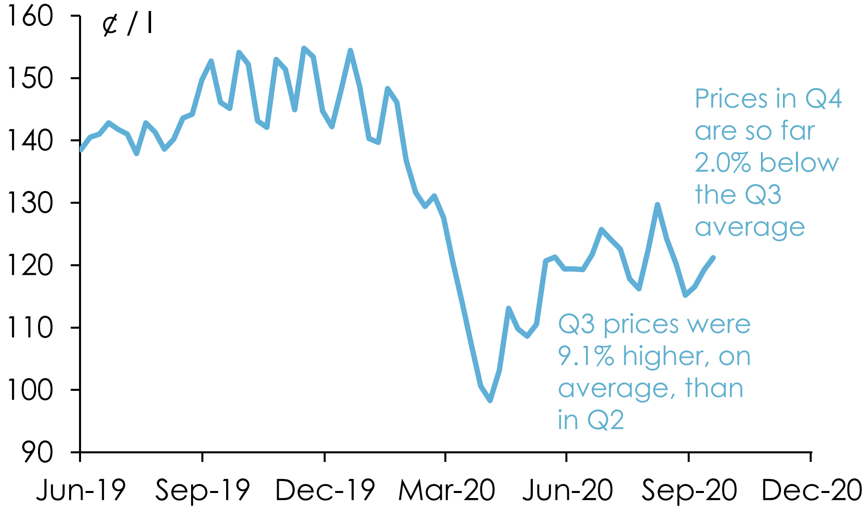
Tradeables vs non-tradeables



Housing costs in the CPI



Retail petrol prices

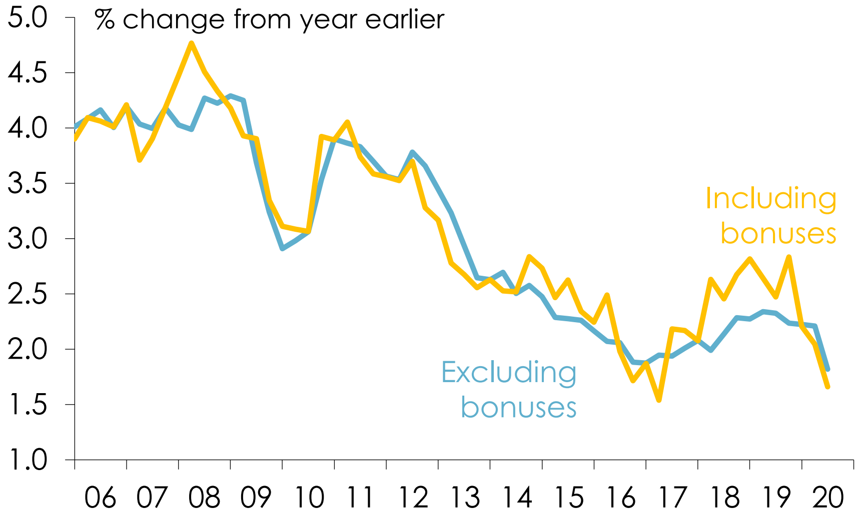


- **Exactly as expected the CPI rose by 1.6% in Q3, reversing most of the 1.9% decline in Q2**
- **The rise in the CPI in Q3 was largely due to a 1,382% increase in child care costs (following the end of free child care, other than in Victoria, on 13th July), a 9.4% increase in petrol prices (after a 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**

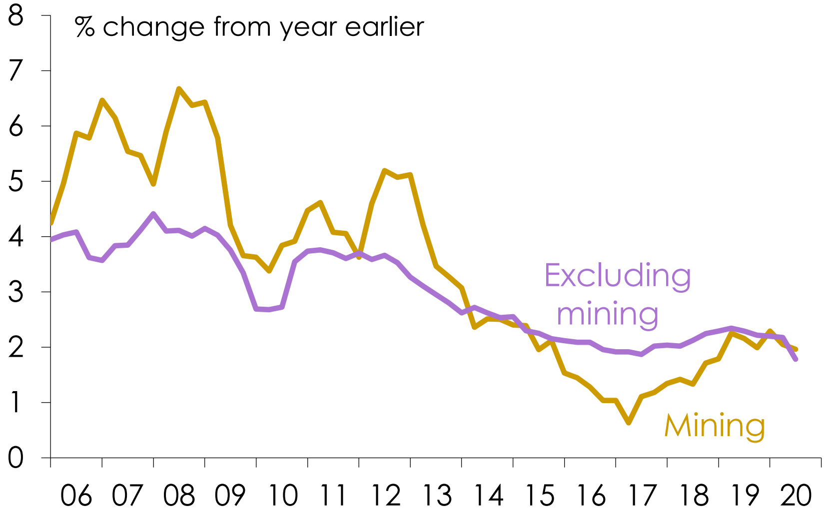
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, Consumer Price Index, Australia; Australian Institute of Petroleum. The December quarter (Q4) CPI will be released on 27 January 2021. Return to "What's New".

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

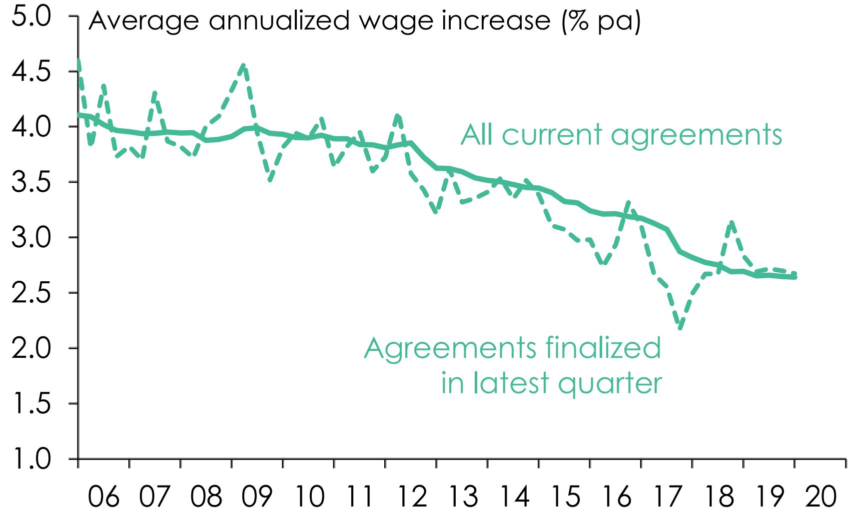
Wage price index – all sectors



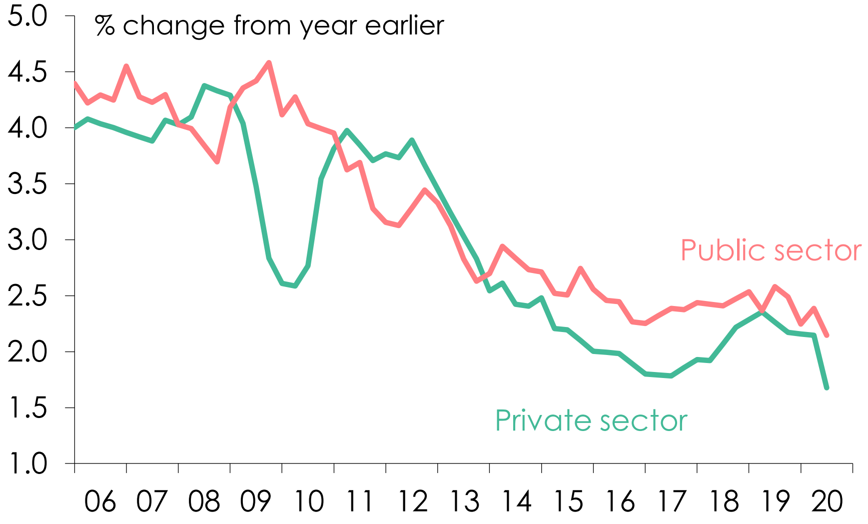
WPI by industry



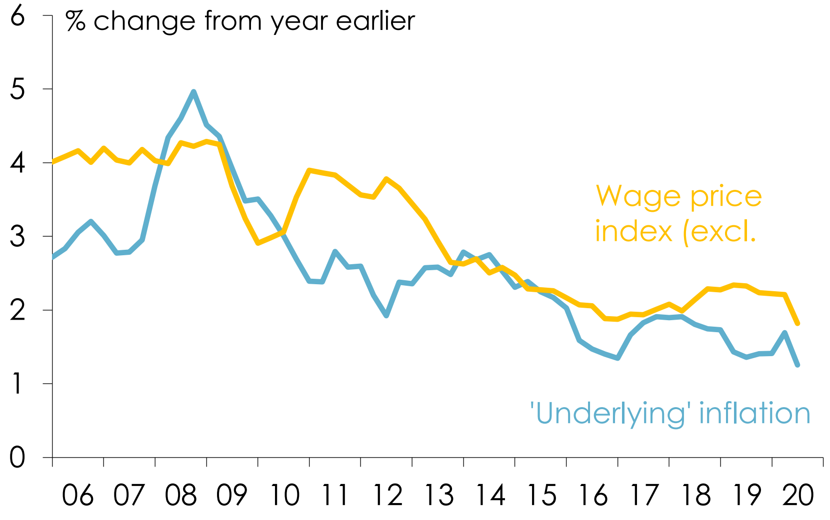
Enterprise bargaining agreements



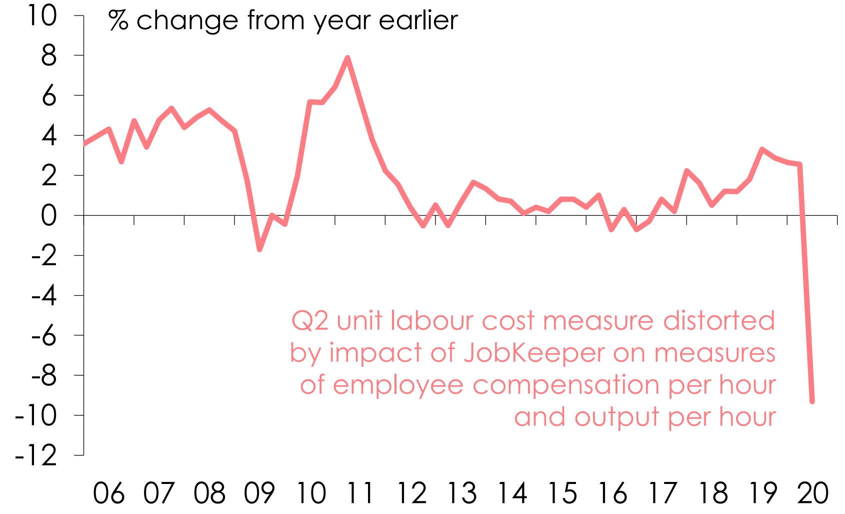
WPI – private vs public sectors



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 released on 18th November.

Return to "What's New".

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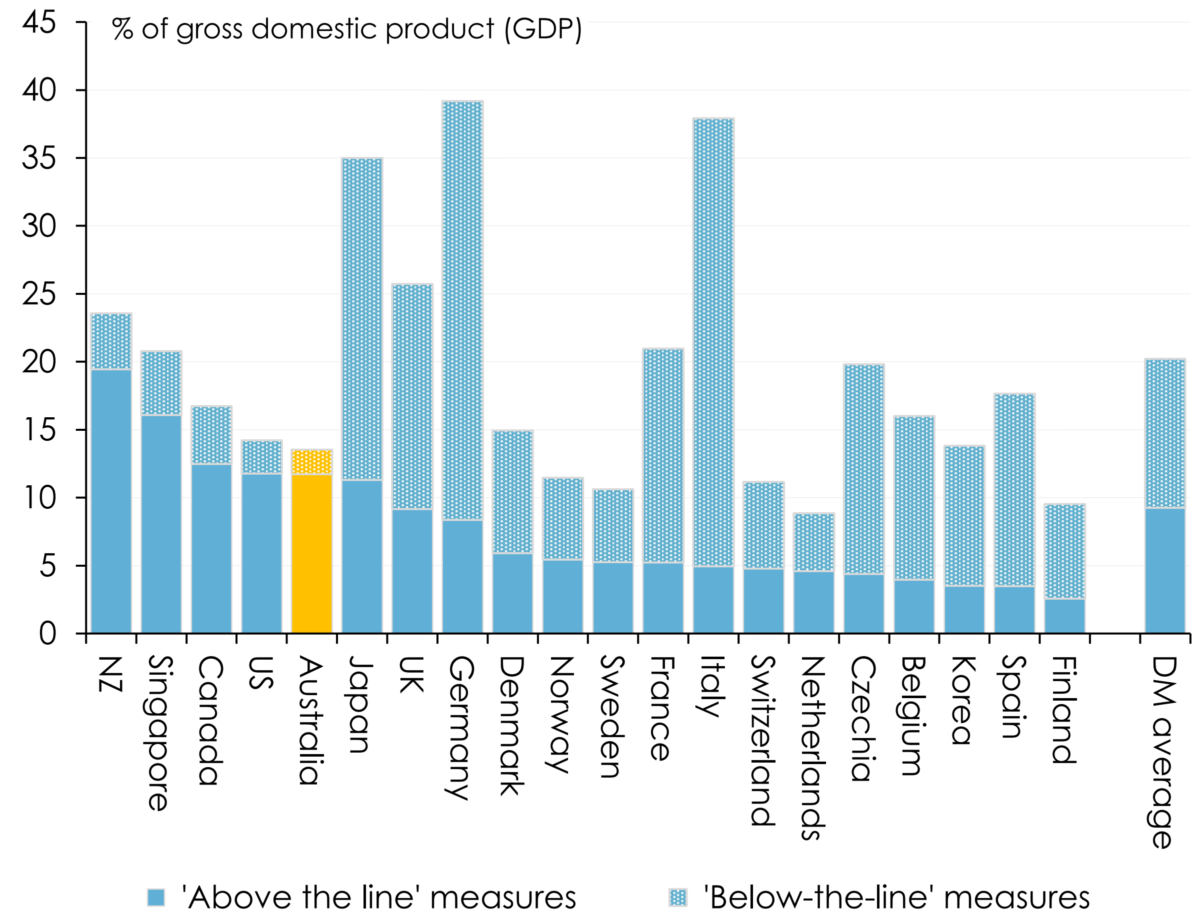
Australia’s fiscal and monetary policy settings

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



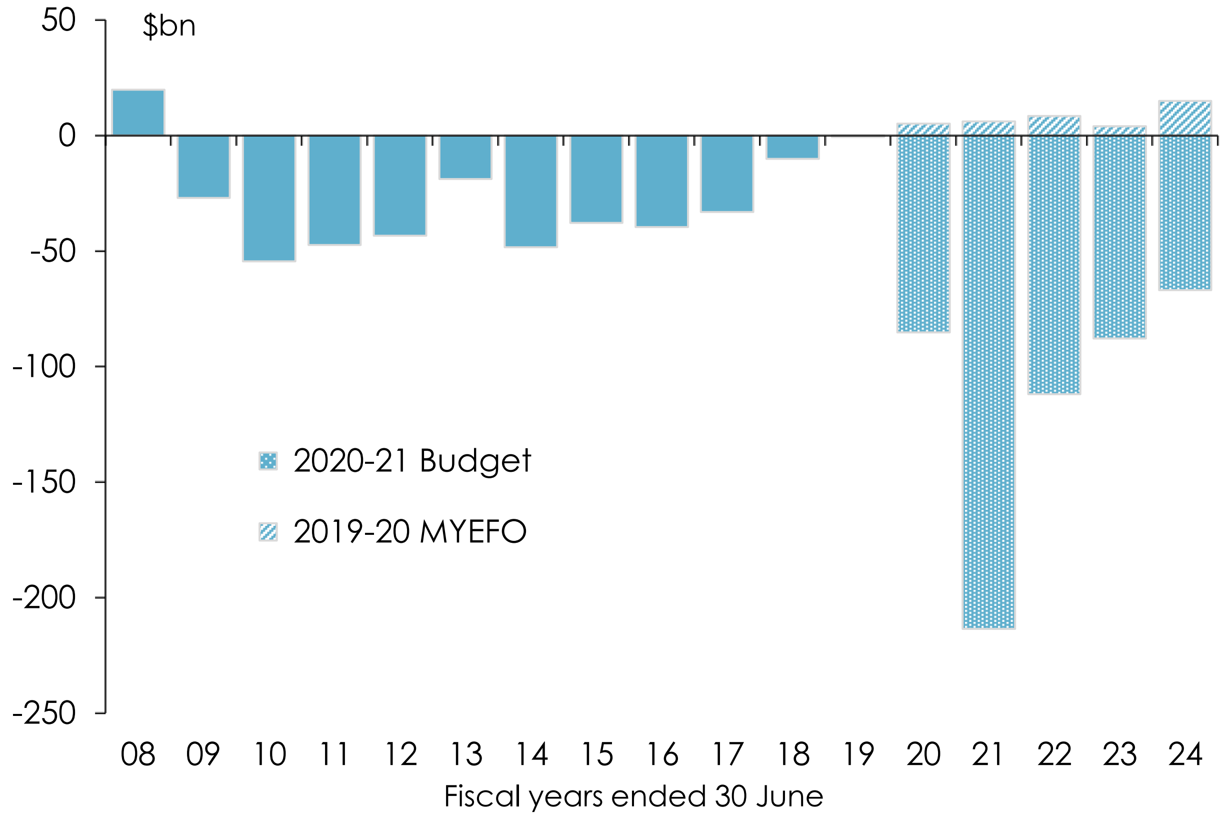
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (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 11¾% of one year's GDP – which is large by international standards (and double what was done during the GFC)**
- **Principal objectives of policy measures have been to –**
  - maximize the 'survival prospects' of businesses affected by shutdowns, across Australia during the first (national) shutdown and more recently in Victoria
  - minimize the impact of the shutdown on employment
  - provide additional income support to those who lose their jobs
  - strengthen the capacity of the health care system to cope with increased demand
- **Policy measures have been designed to be 'simple' to administer, and to make greatest use of existing systems rather than having to create new mechanisms**
  - which (inevitably) resulted in some anomalies that took time to correct
- **Policy measures also designed to be readily 'switched off' once the need for them has passed**

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

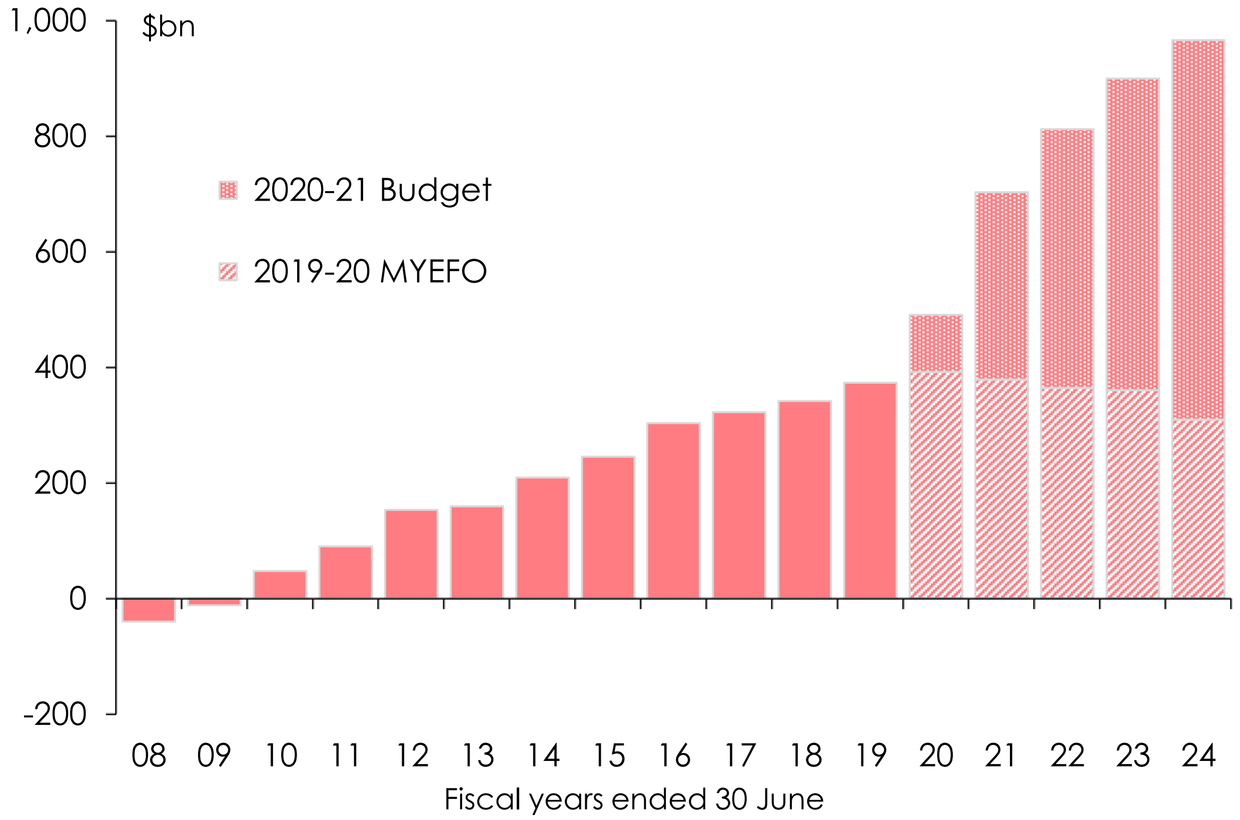
2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

'Underlying' cash balance



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

Net debt



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

Sources: Australian Government, 2019-20 *Mid-Year Economic and Fiscal Outlook*; 2020-21 *Budget Paper No. 1, Budget Statement No. 4*. Return to "What's New".

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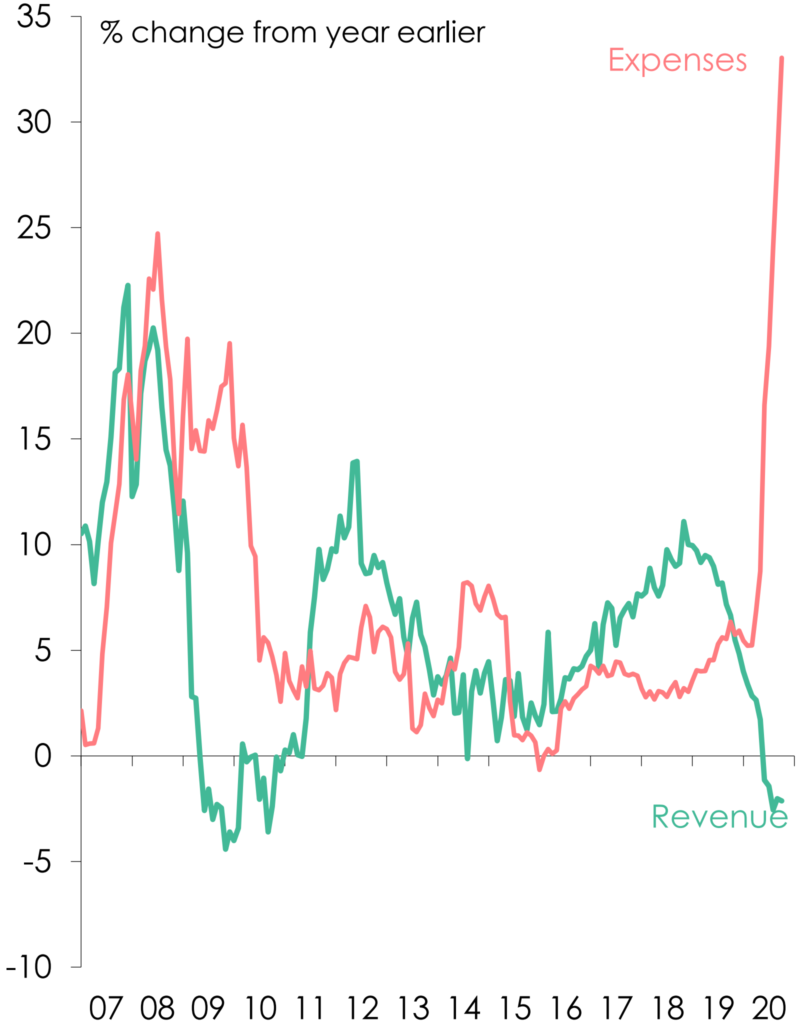
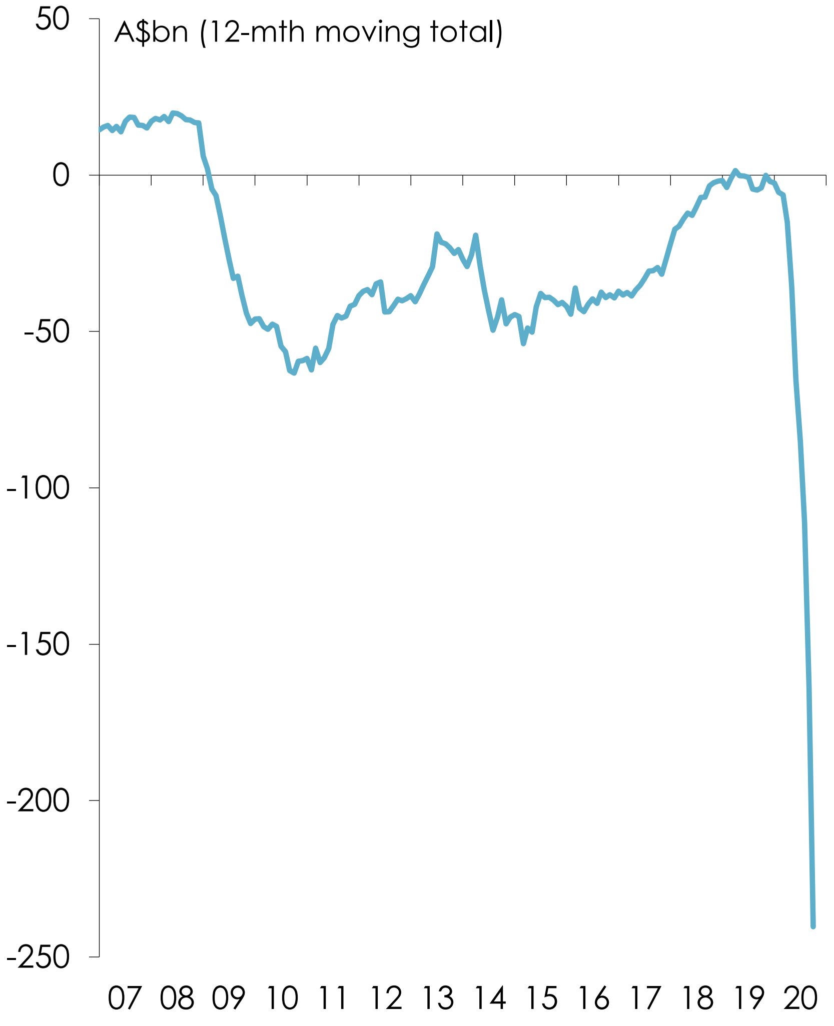
The deficit for the 12 months to September was $240mn, more than the Budget forecast for 2020-21 as a whole, while net debt reached $581bn

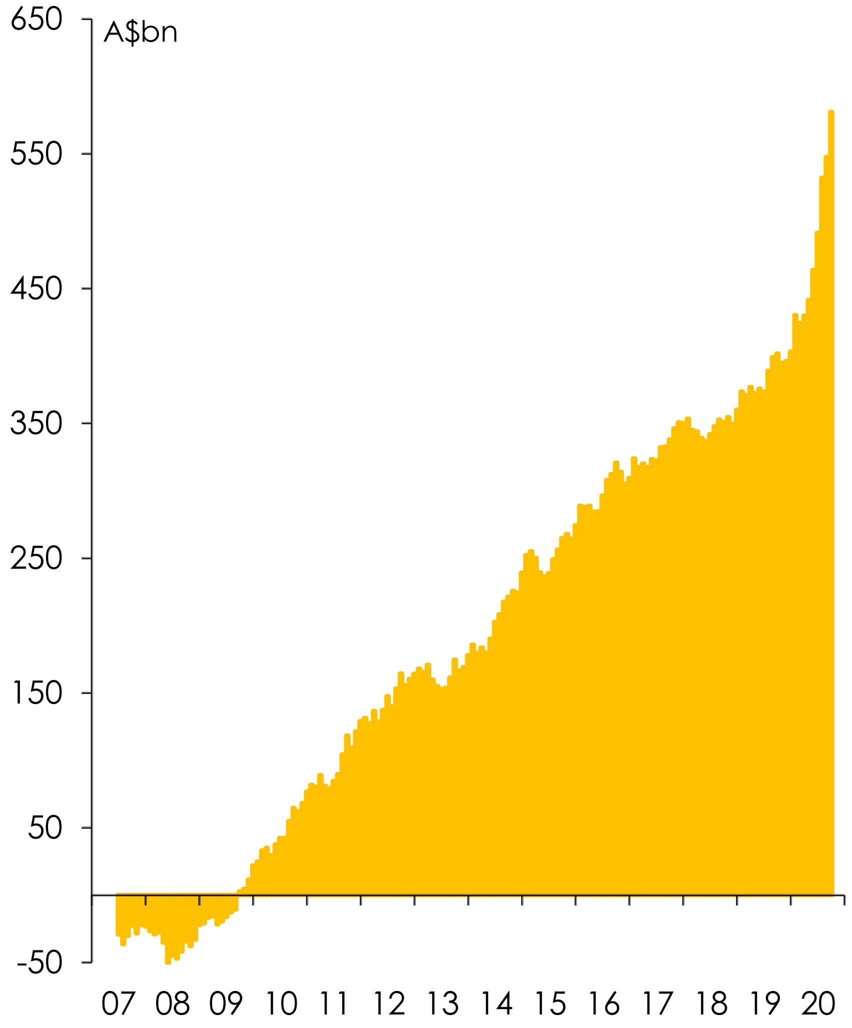
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



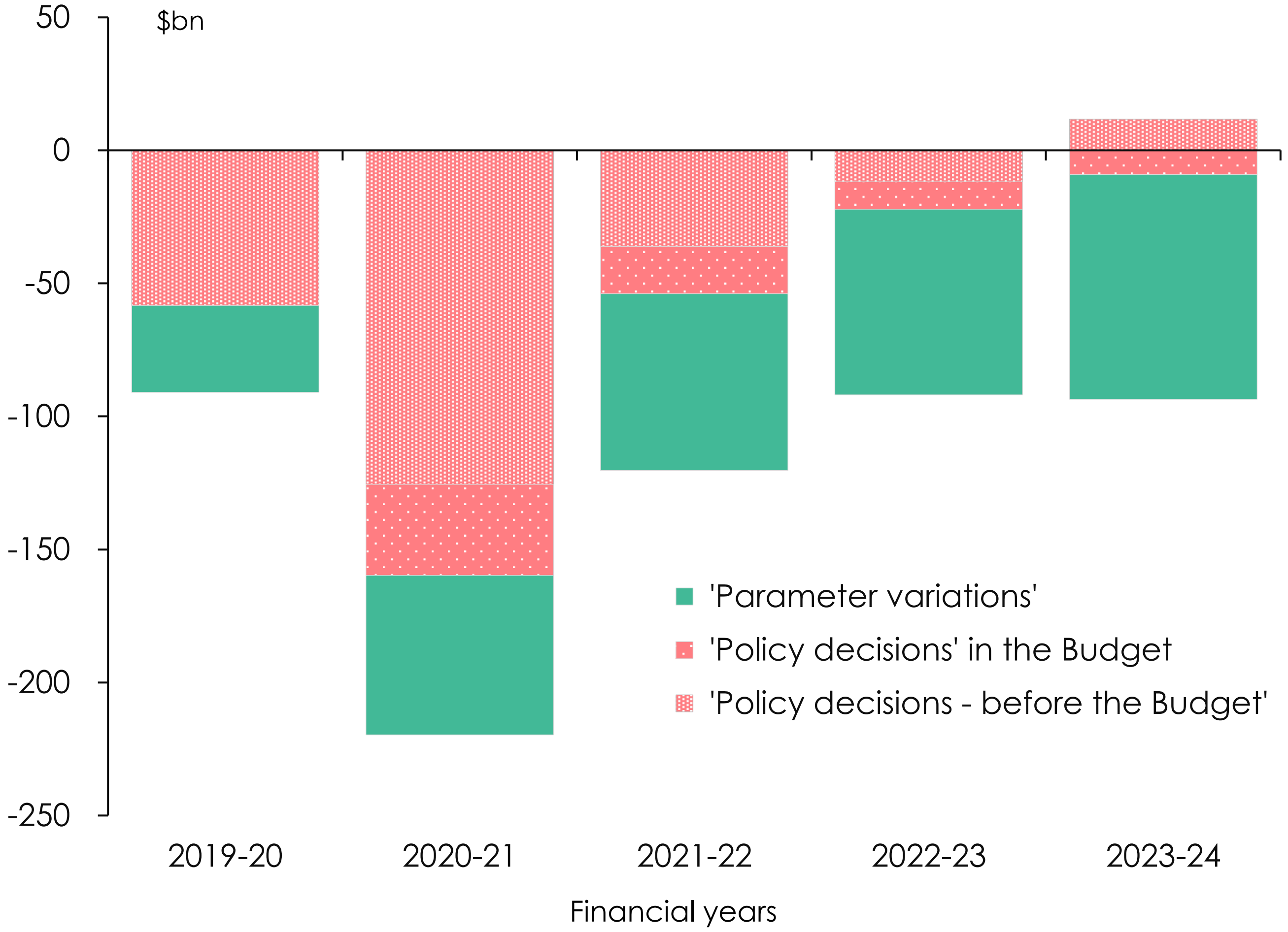
Australian Government net debt



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



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".

- **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**

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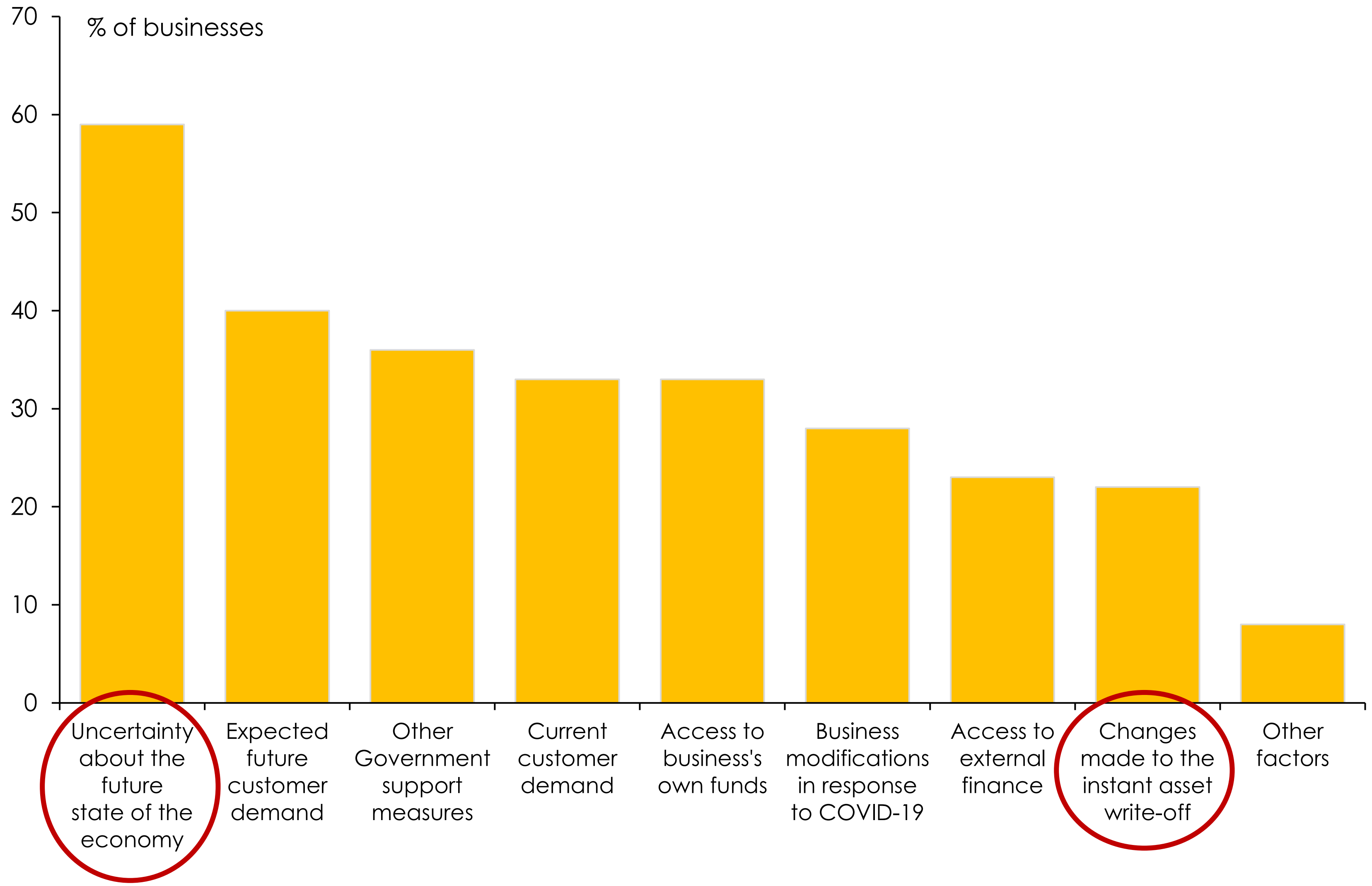
Budget announcements were mainly about incentives for business and earlier personal income tax cuts for households

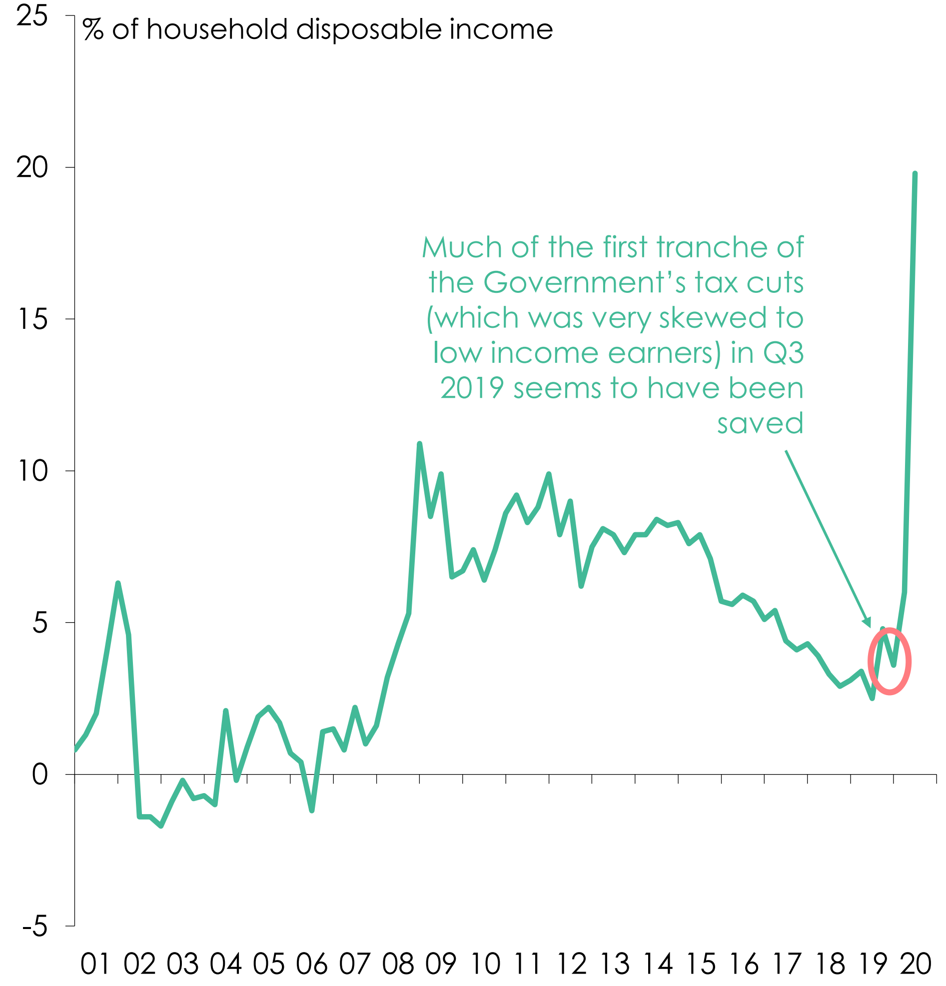
- The biggest single measure in the Budget was the 'temporary full expensing' of purchases of depreciable assets by businesses with turnover of less than $5bn, available until 30th June 2022 (at a cost to revenue of $26.7bn over four years)
  - this is in effect an extension of the 'instant asset write 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".

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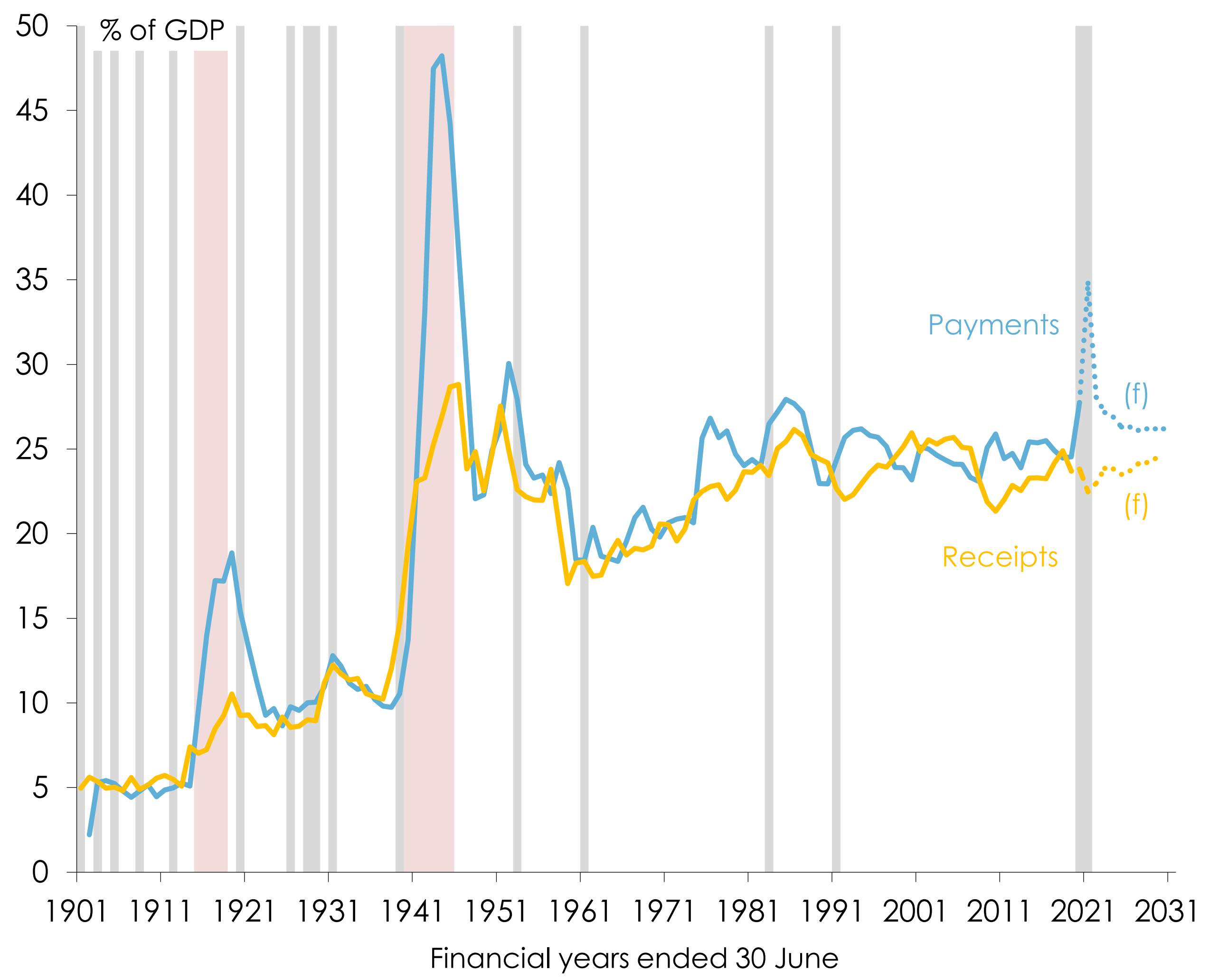
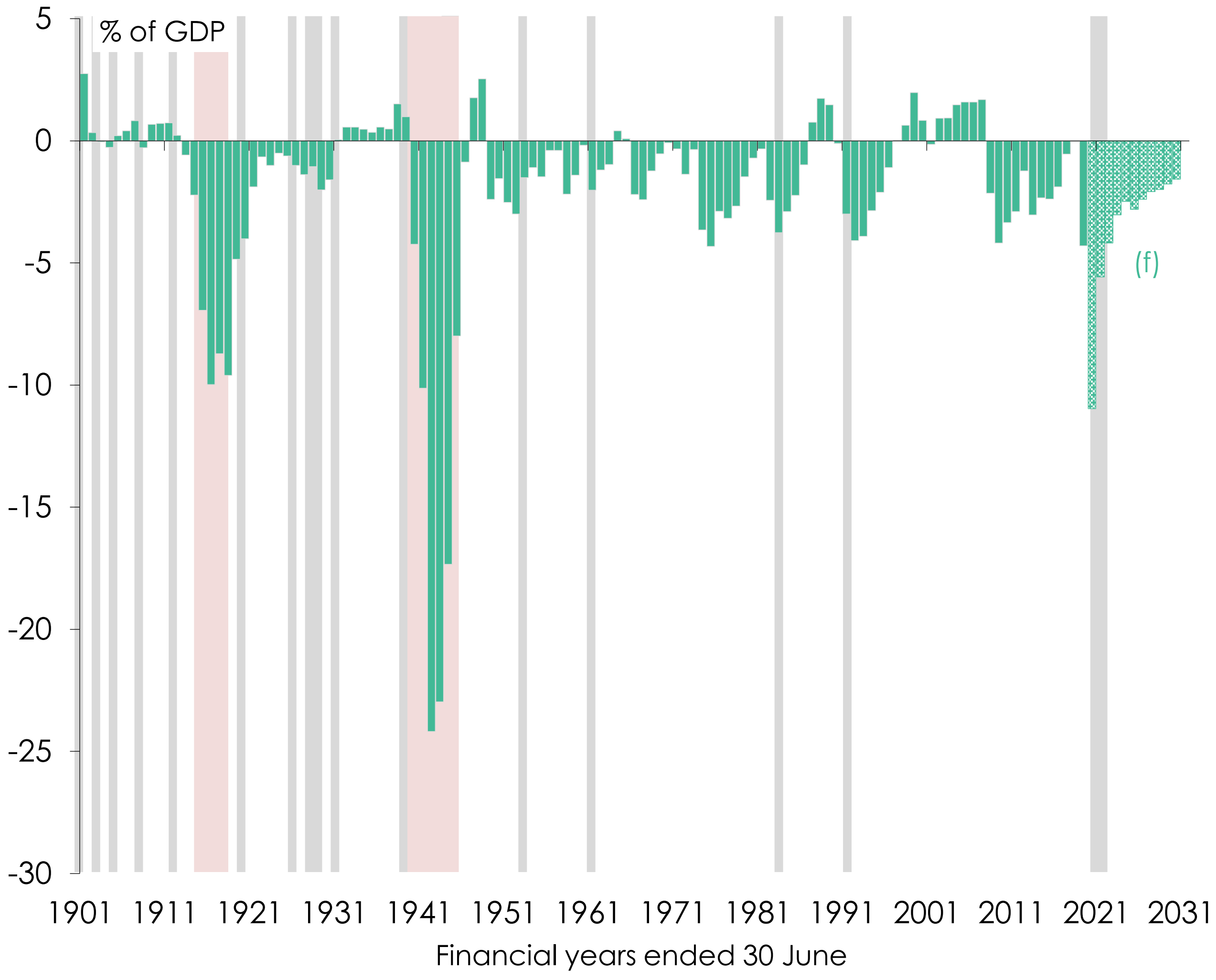
The 2020-21 deficit of $214bn (11% of GDP) will be the biggest since 1944-45 – and (on current policies) deficits will persist for the rest of the decade

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".

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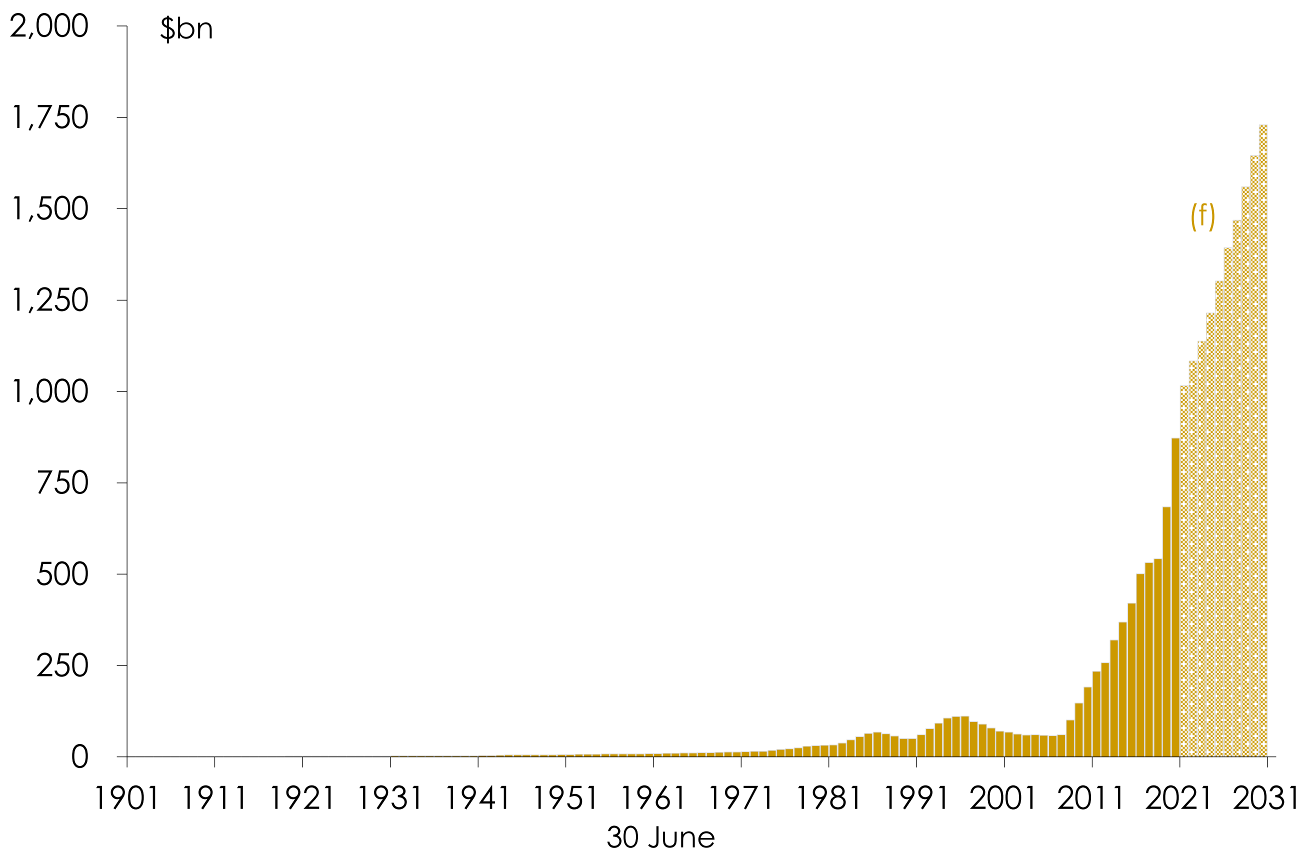
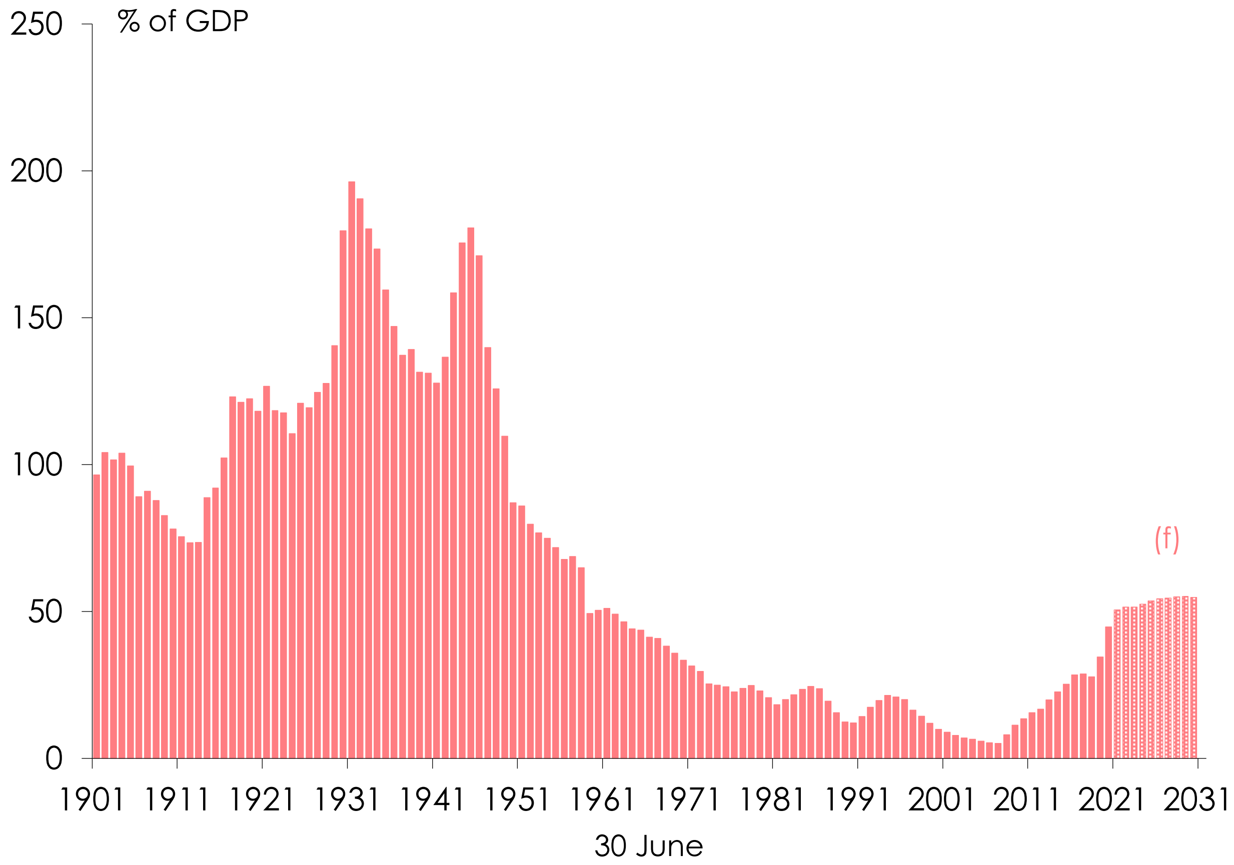
However there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

Australian Government gross public debt in $



Australian Government gross debt as a pc of GDP

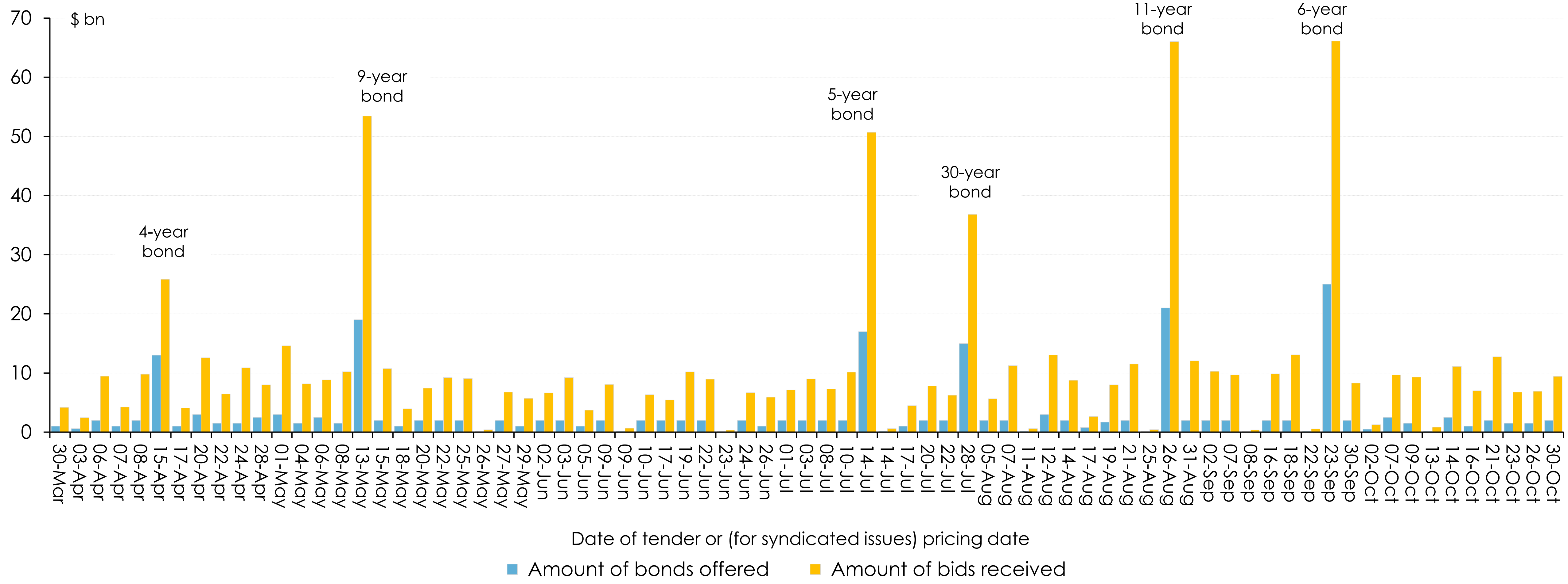


- **The Government's gross debt will top $1 trillion during the 2021-22 financial year, and reach almost $1¾ trillion by the end of the decade**
- **However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an 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

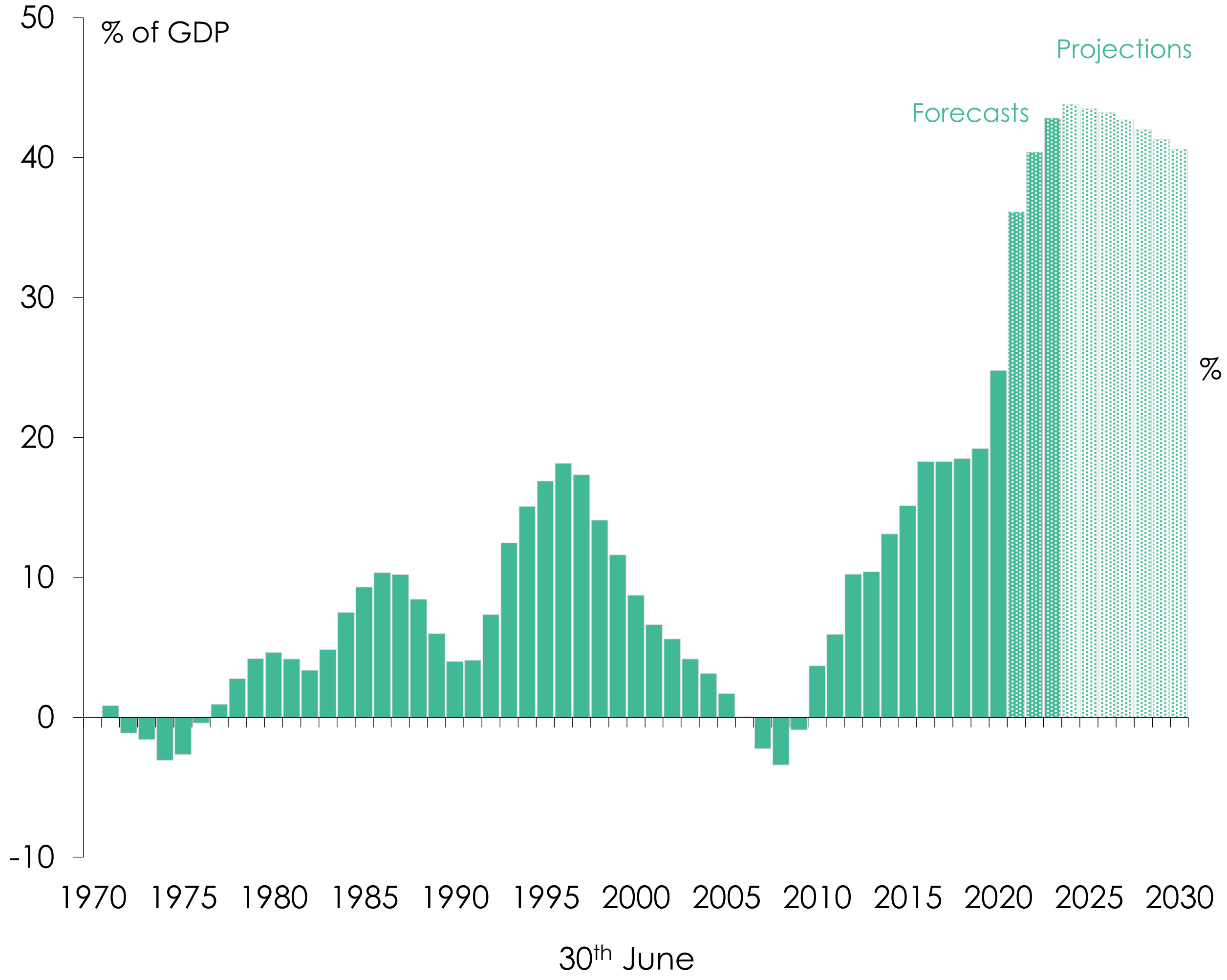


- **Since 30th March, the Australian Office of Financial Management (which conducts the Government's borrowing programs) has issued $219bn of Treasury bonds - based on the volume of bids received it could have borrowed $792bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields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

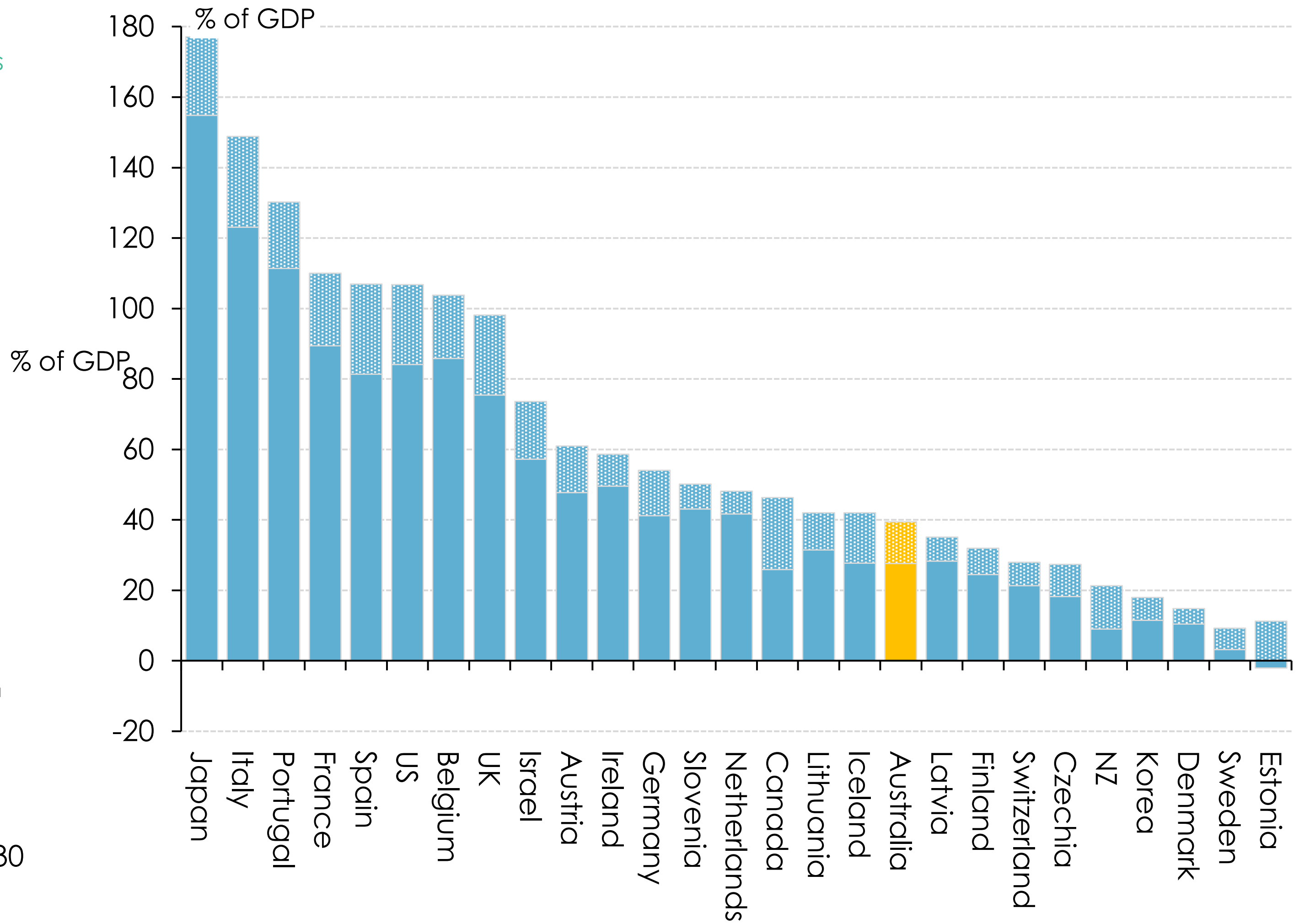
Source: Australian Office of Financial Management data hub; Corinna. Return to "What's New".

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".

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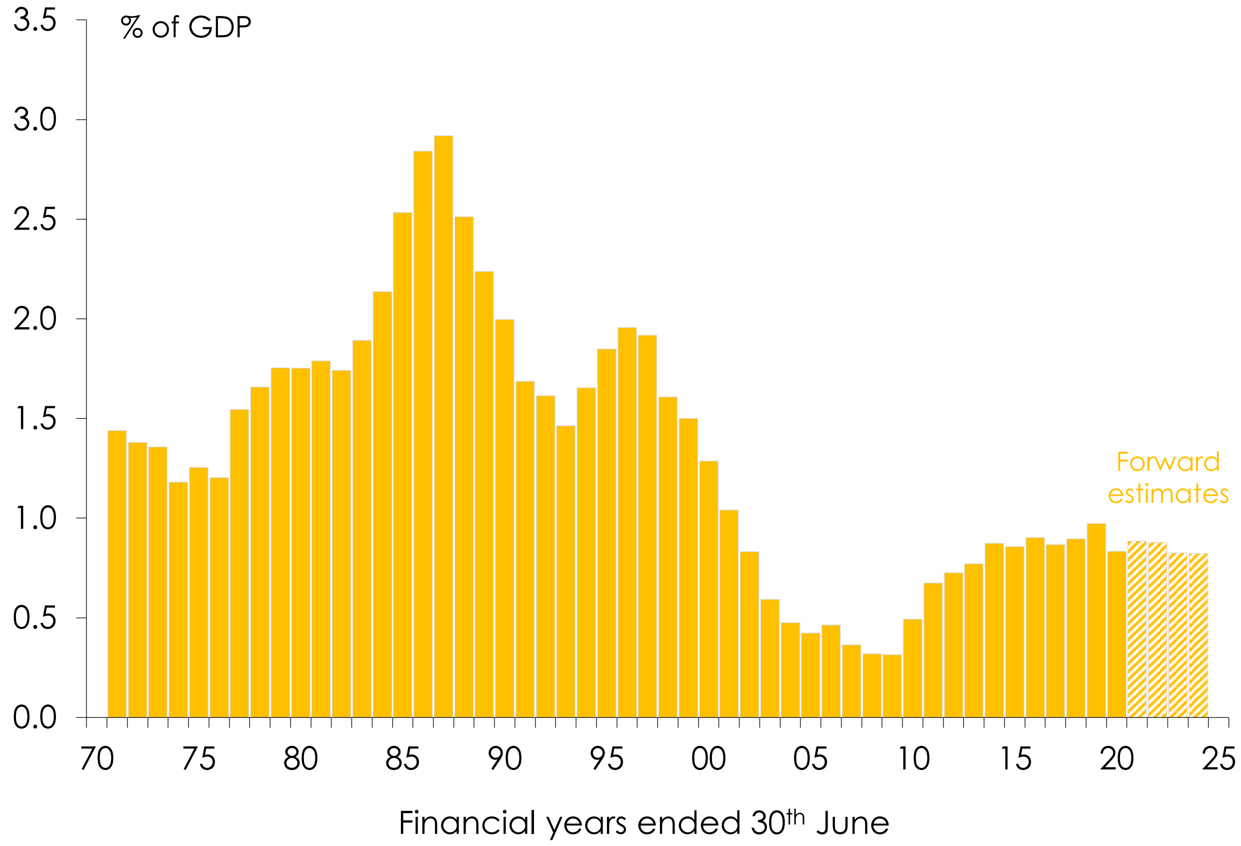
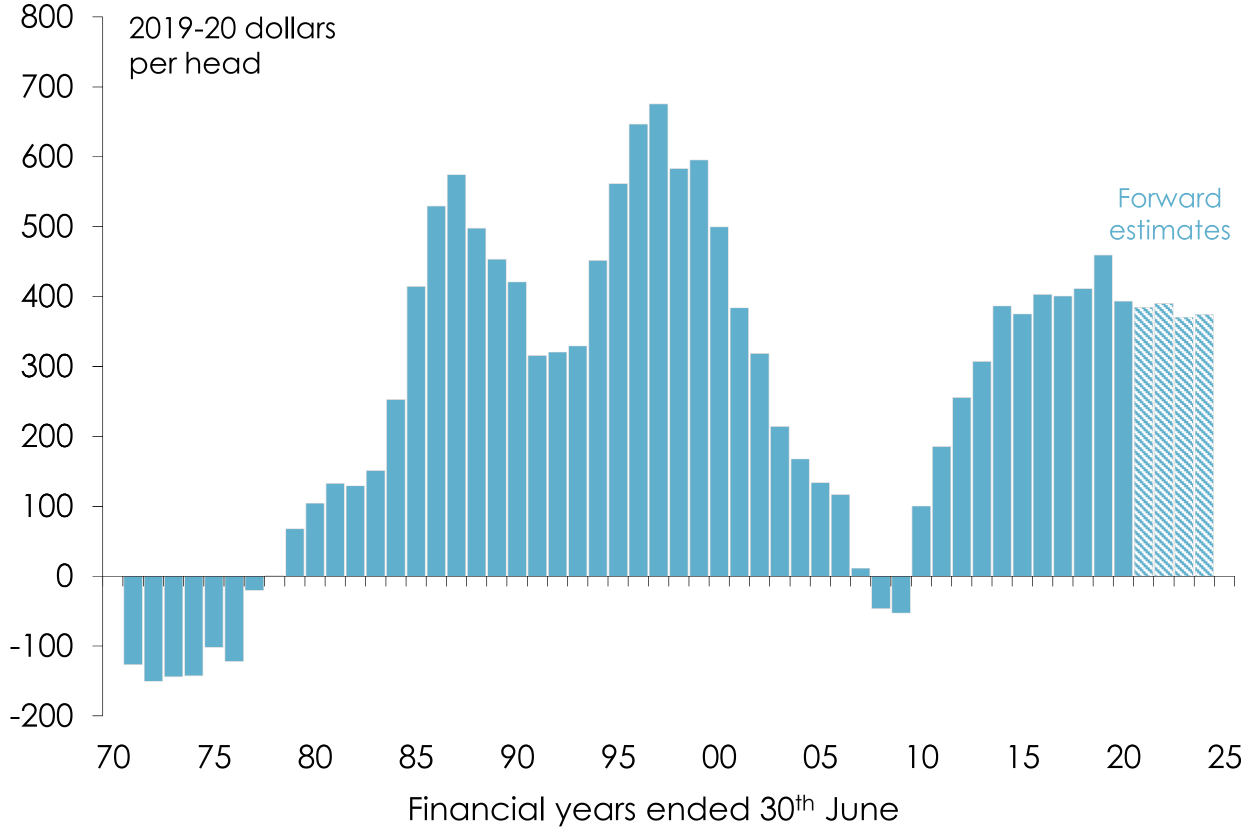
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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".

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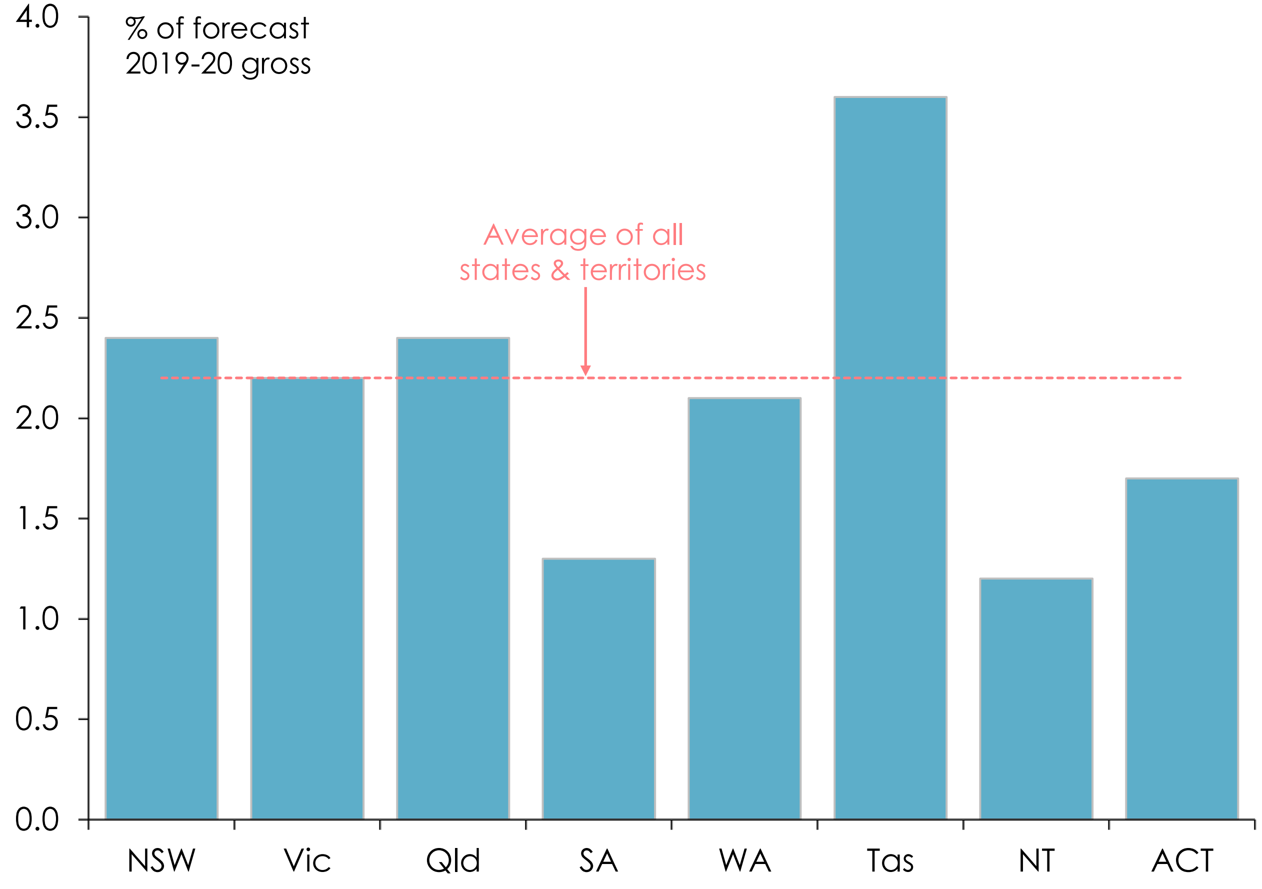
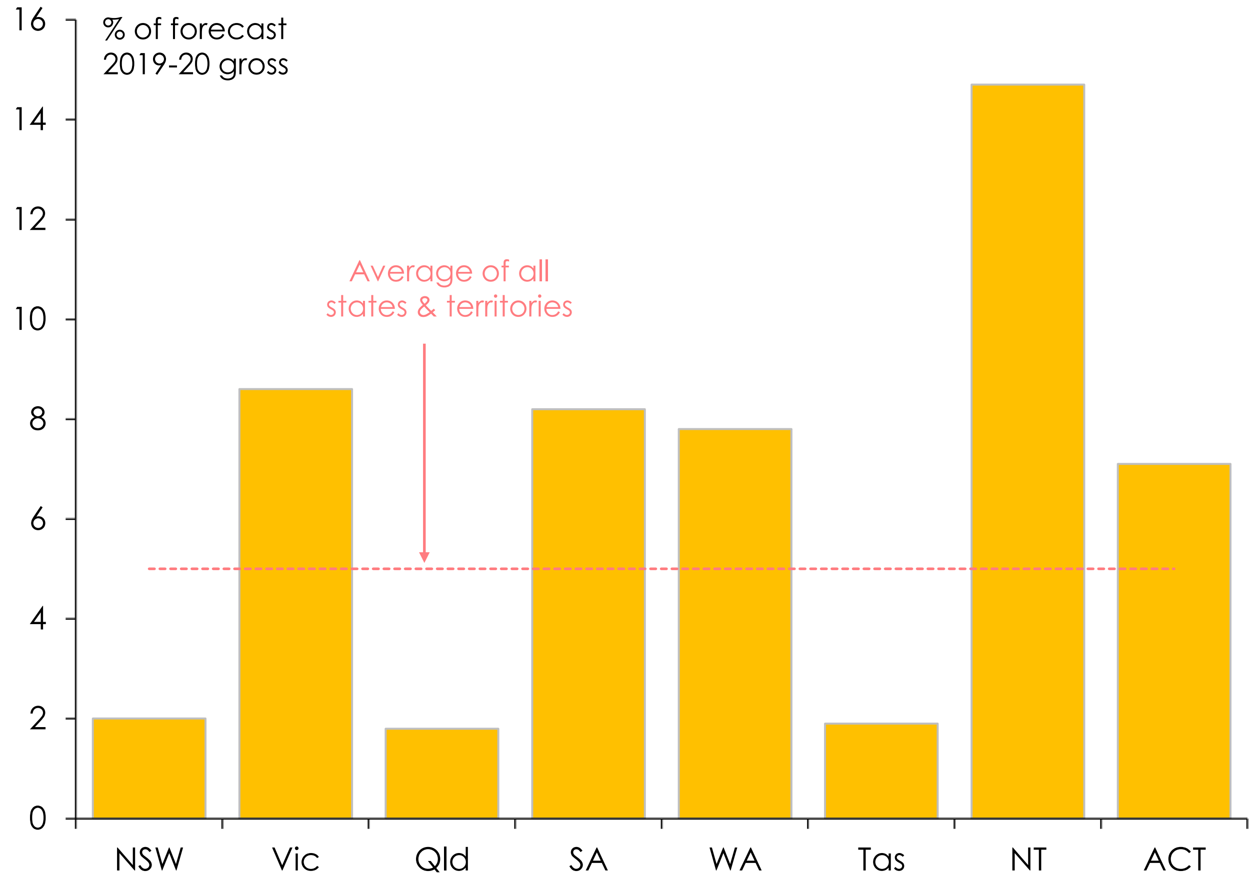
There's been considerable difference in the size of state and territory governments' fiscal responses to Covid-19

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

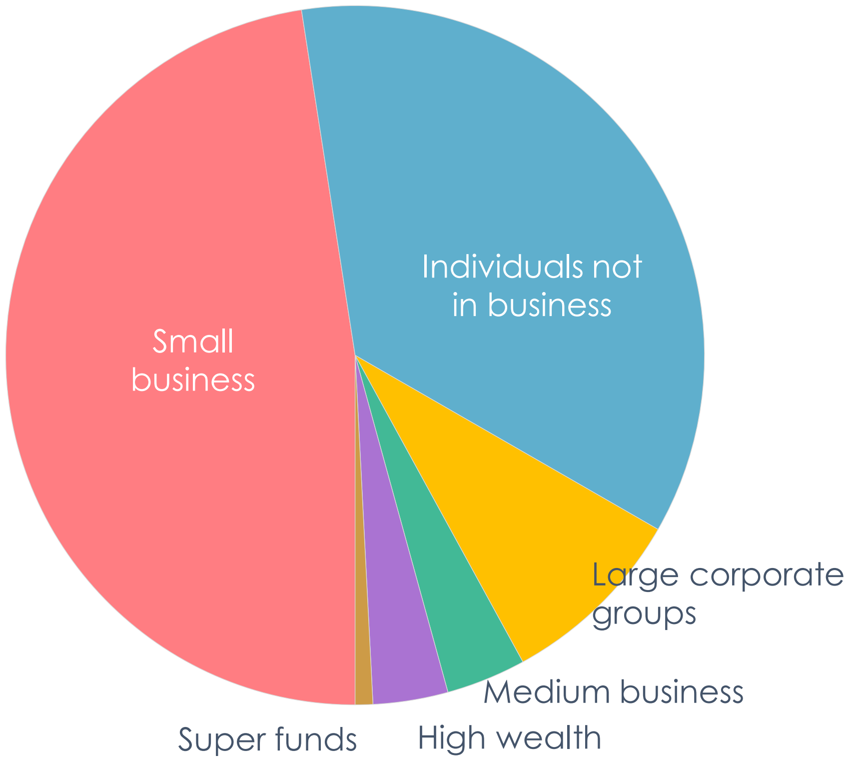


- **In August RBA Governor Phillip Lowe advised state and territory governments to spend an additional $40bn (2% of GDP) on infrastructure investment – an amount which S&P Global Ratings said state and territory balance sheets had "plenty of room to accommodate"**

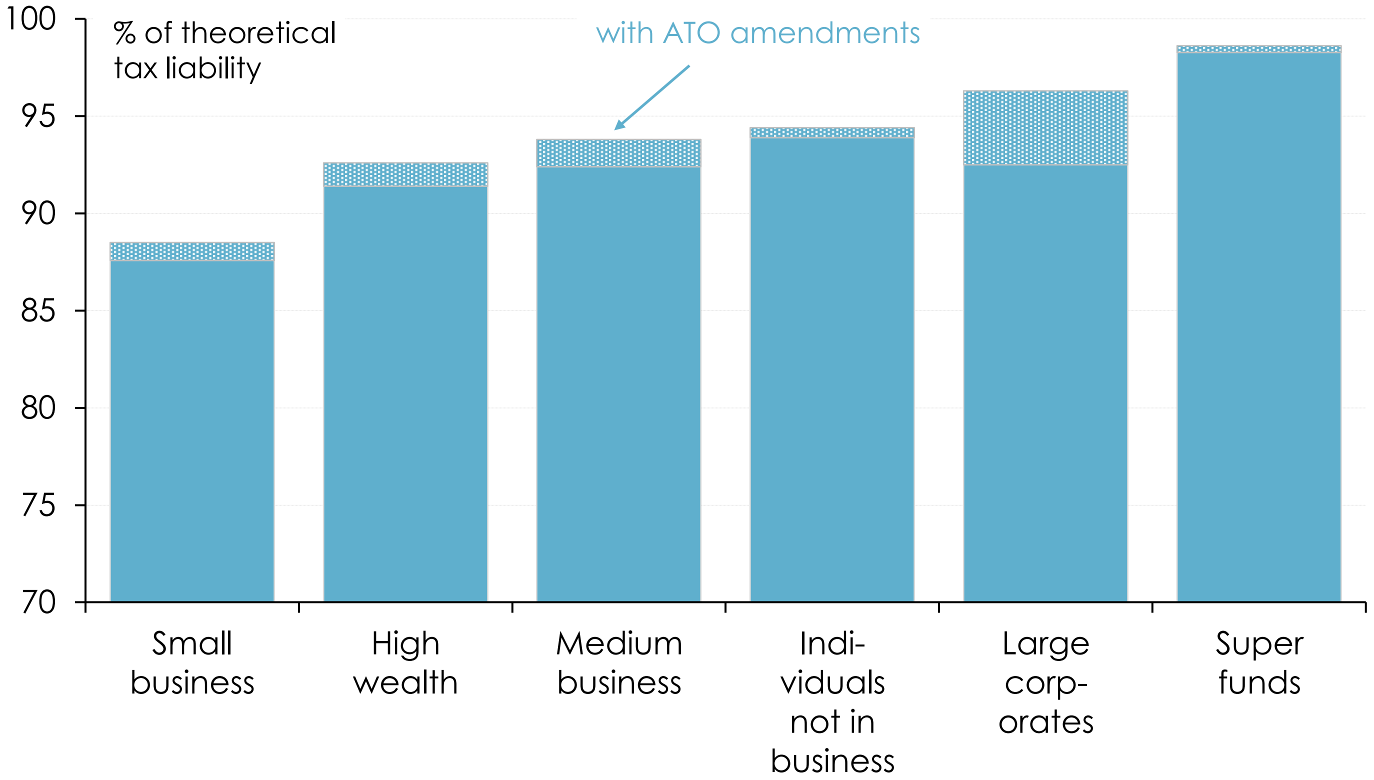
Sources: Commonwealth Treasury, 6th August 2020; *Australian Financial Review*, 14th August 2020; *The Australian*, 22nd August 2020. Return to "What's New".

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



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

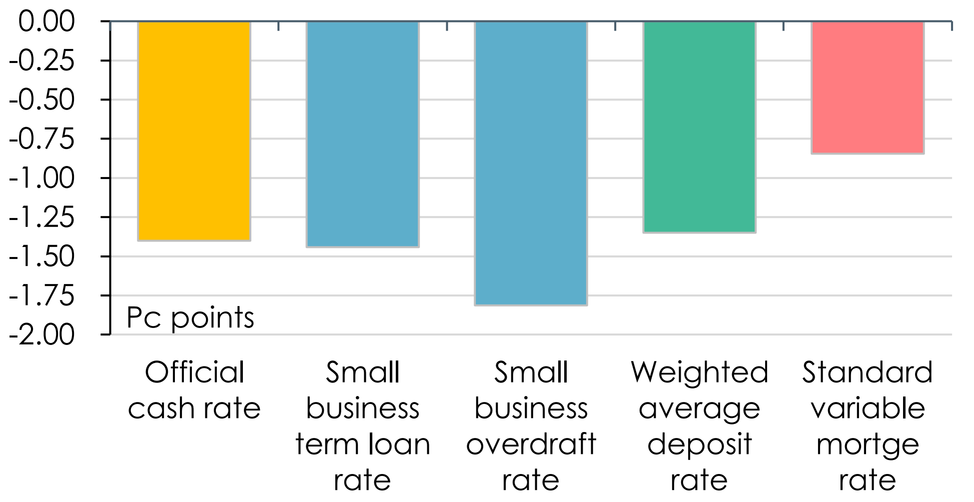


- **Small businesses account for 44% of the total 'gap' between what the ATO collected in 2017-18 from various income-based taxes and what it estimates it would have collected given 100% compliance with the tax law – cf. large corporates 15% and high wealth individuals 3½%**
- **Small businesses pay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

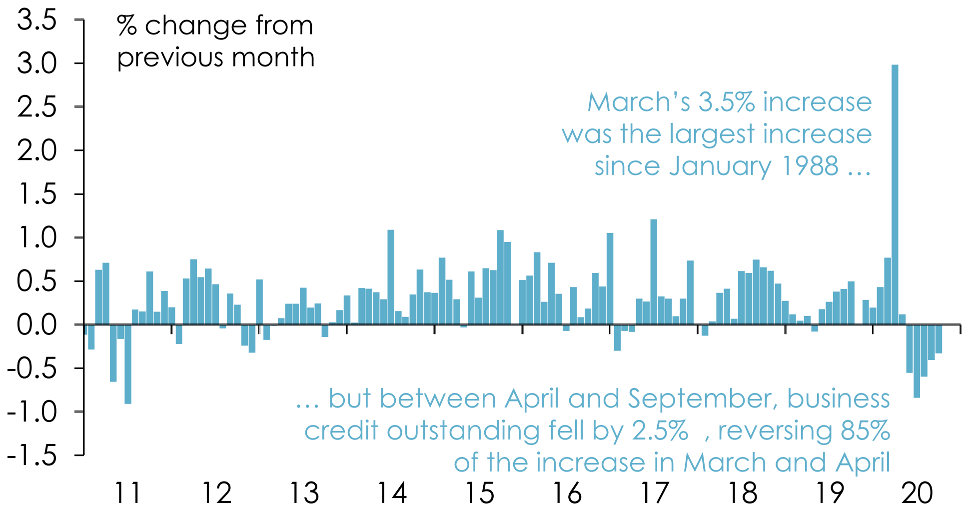
Note: 'small' businesses are those with income of up to $10mn; medium businesses are those with income of up to $250mn; and large corporates those with income of over $250mn. 'High wealth' individuals are those who (with associates) control wealth of more than $50mn. *Source:* Australian Taxation Office. *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

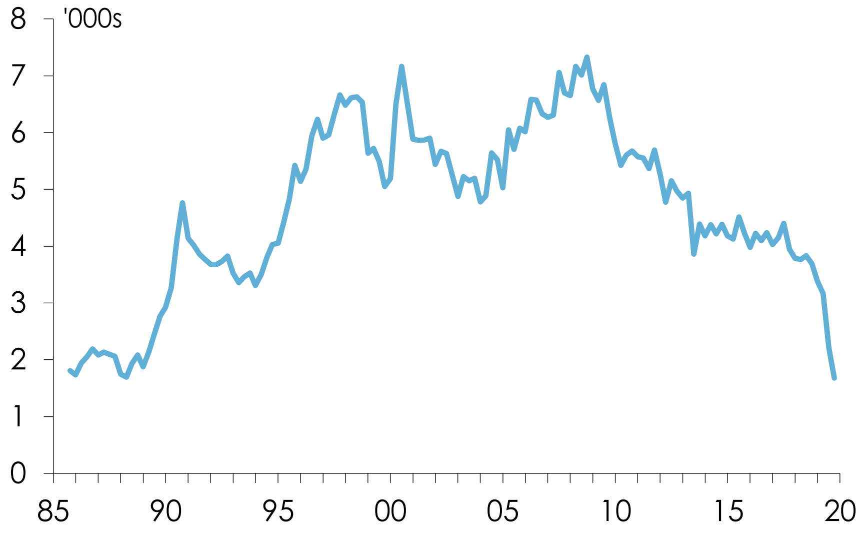


Note: Deposit and loan interest rates shown in first chart above are for October 2020, compared with June 2019; cash rate is for November 2020
Source: Reserve Bank of Australia. Return to "What's New".

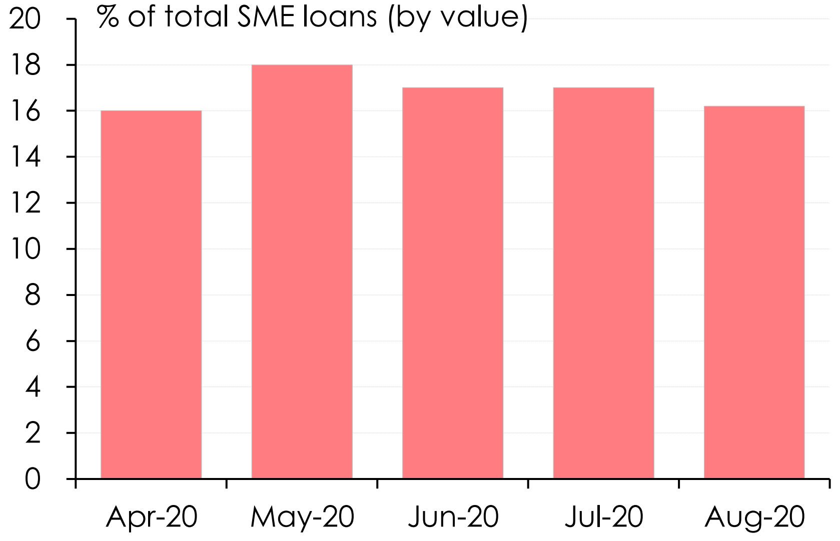
- Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- Banks have extended 'repayment holidays' to business and home mortgage borrowers who request it (see next slide for more details)
  - although it is important to note that under these arrangements interest payments are deferred and capitalized, not foregone
- These 'repayment holidays' were due to expire at end-September, but banks have announced that they would be extended for up to four months for those customers who were still experiencing difficulties but have good prospects of eventually repaying
- The Government has 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 has 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

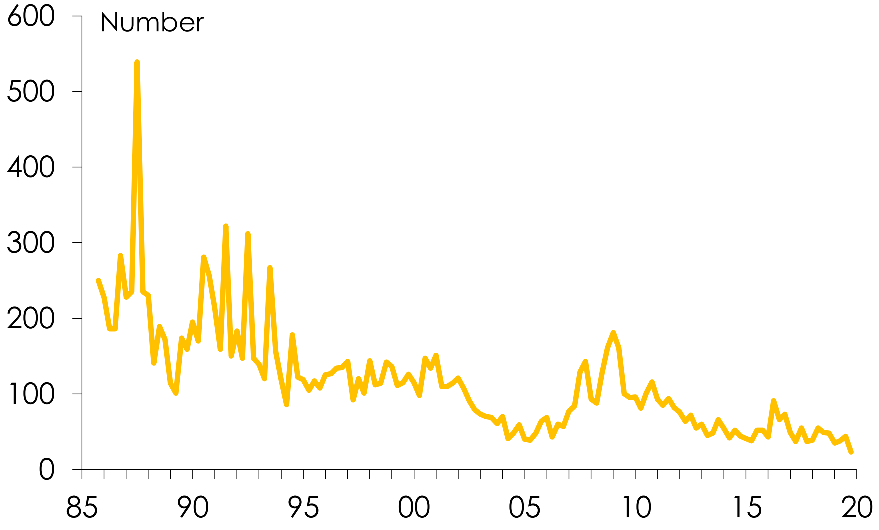
Bankruptcies



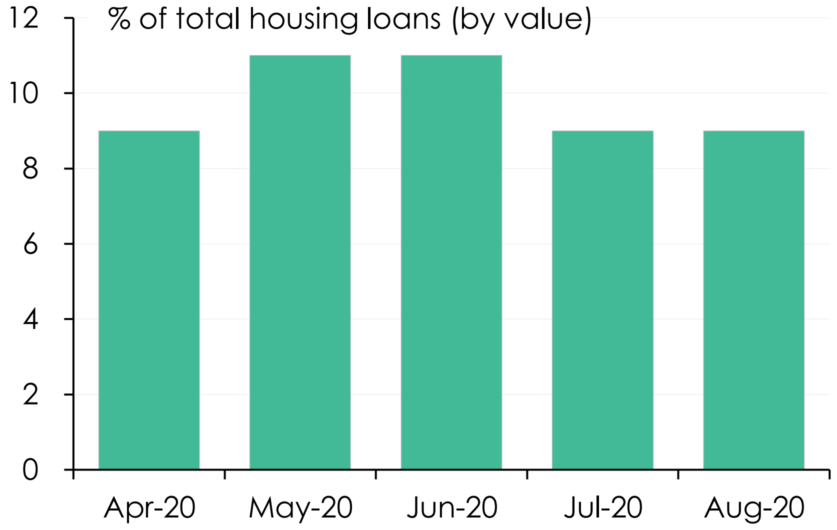
SME loan repayment deferrals



Personal insolvencies



Mortgage repayment deferrals

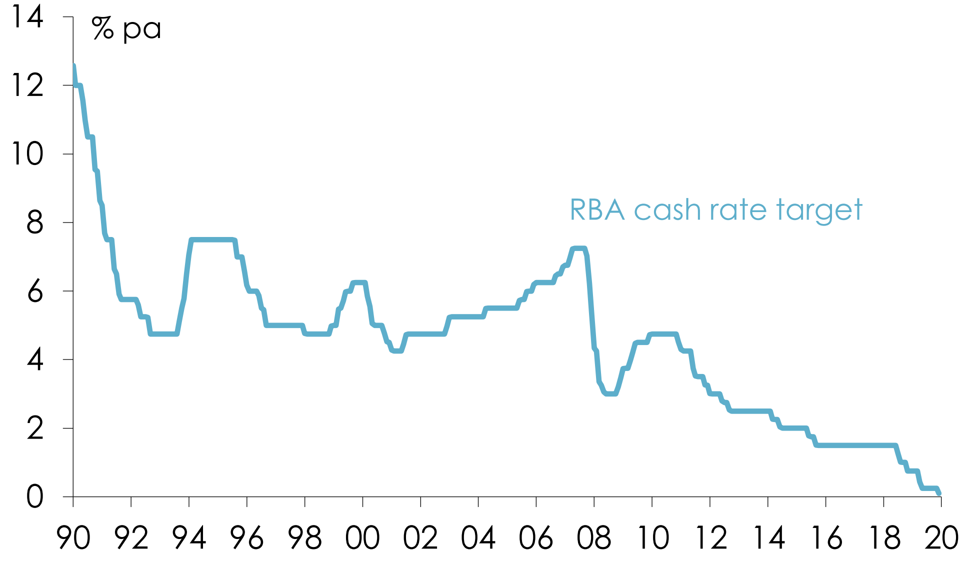


Note: latest data for bankruptcies and insolvencies is September quarter 2020.
Sources: Australian Financial Security Authority; Australian Prudential Regulatory Authority. Return to "What's New".

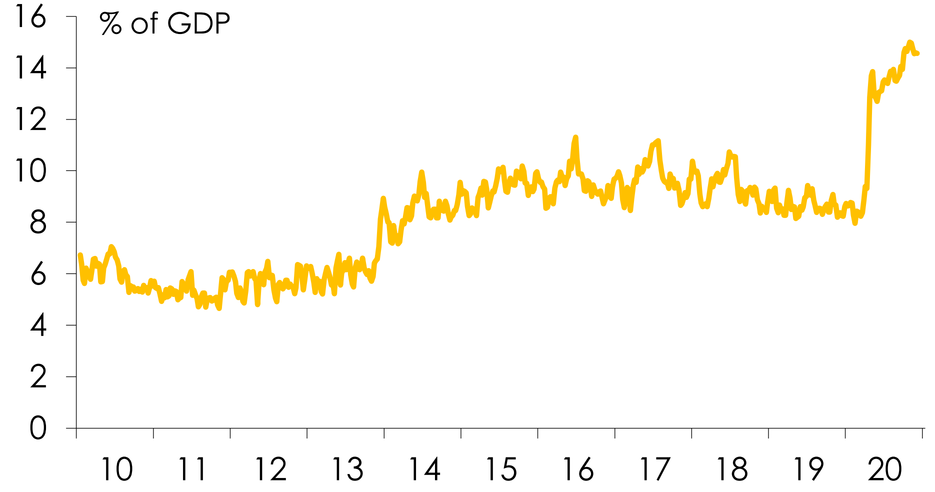
- **Counter-intuitively, bankruptcies and personal insolvencies have fallen to record lows during the worst recession since the Great Depression**
- **This reflects the effect of**
  - interest rates falling to record lows
  - support programs instituted by the federal and state governments, including 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**

The RBA this week cut its cash rate and 3-year yield target rates by 15 bp to 0.10%, and announced a new $100bn bond-buying program

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



Source: Reserve Bank of Australia, *Statistical Tables* A3 and F1.1.
Return to "What's New".

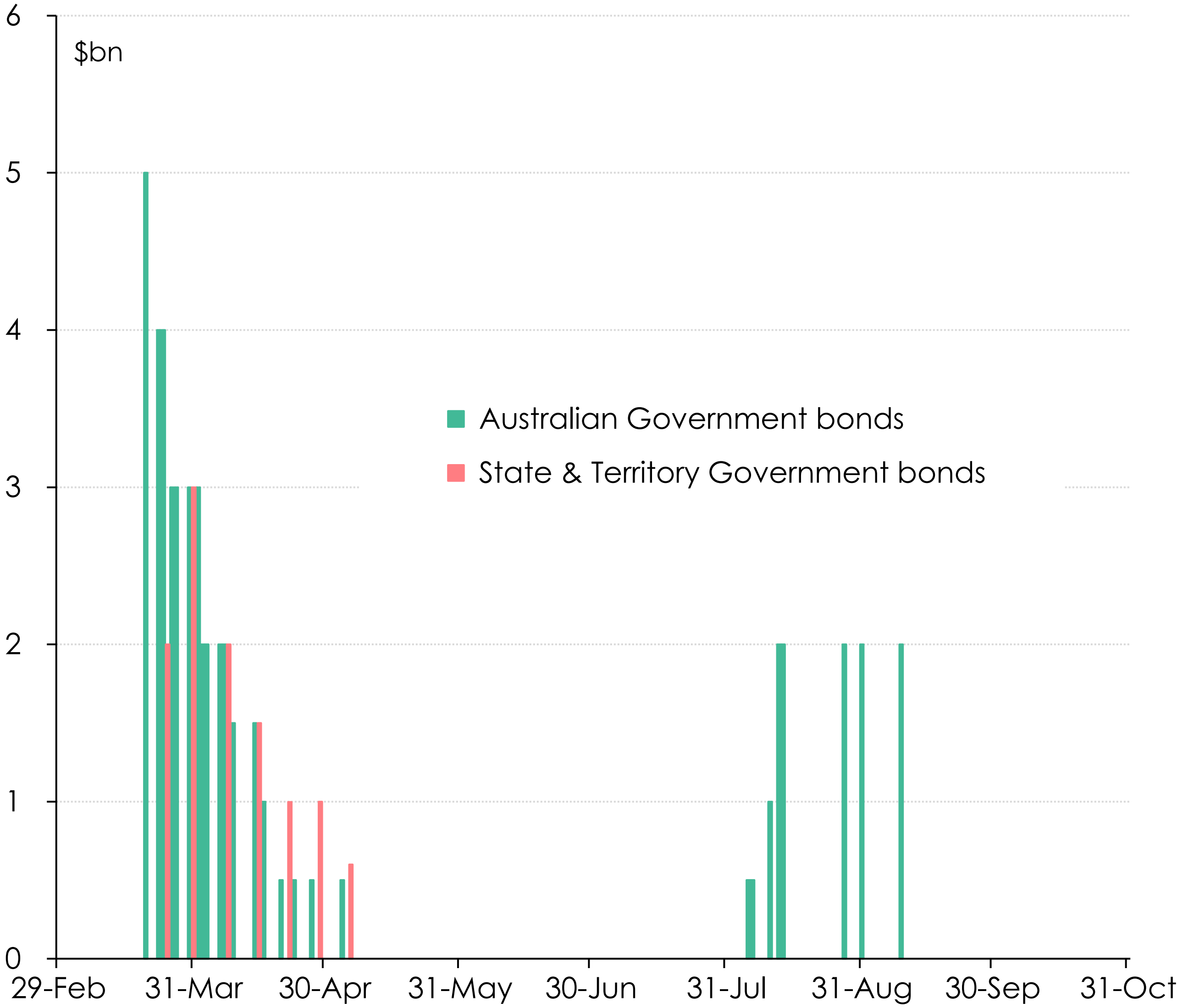
- **As widely flagged, the RBA announced a series of further easing measures after Tuesday's Board meeting**
  - the target for the official cash rate, the target for the 3-year bond yield, and the interest rate for new drawings from the RBA's Term Funding Facility were all lowered from 0.25% pa to 0.10%
  - the interest rate on banks' Exchange Settlement balances with the RBA was lowered to zero from 0.10%
  - the RBA will purchase $100bn of 5-10 year bonds (in the secondary market) over the next 6 months (in addition to whatever quantities of 3-year bonds are required to meet the 0.10% target)
- **The RBA is thus undertaking two different types of 'QE'**
  - BoJ-style 'yield curve control' (targeting the 3-year yield)
  - and ECB/BoE/RBNZ style 'asset purchases' (purchasing a nominated quantity of bonds over a specified time period)
- **The RBA's purchases of 5-10 year bonds will be split 80/20 between Commonwealth and State/Territory bonds, averaging about $5bn per week**
  - the RBA's objective in undertaking this QE program appears to be to offset the impact which it believes other central banks' QE programs have had on the exchange rate (expecting it to contribute to "a lower exchange rate than otherwise"
  - however, an additional $100bn of bond purchases would, all else being equal, increase the RBA's balance sheet to about 20% of GDP, which is well below that of other advanced economy central banks (see slide 27), and hence have less impact on the exchange rate than the RBA hopes

The changes to monetary policy reflect changes in the RBA's medium-term economic view and in the way it interprets its inflation target

- **RBA Governor Lowe gave a more detailed explanation for the changes announced on Tuesday in a webcast speech later that afternoon (after the Melbourne Cup had been run!)**
- **The Governor indicated that the RBA's priority was, now and for "the next couple of years", on reducing unemployment ("a major economic and social problem that damages the fabric of our society") rather than on inflation (where the risks "remain low")**
  - although the RBA has upgraded its near-term economic outlook, it is more concerned about "a number of factors weighing on the medium-term outlook"
  - in particular, that it will "take time" to repair the "significant damage" that the pandemic has "inflicted" on the economy, and that "we face the prospect of higher unemployment and underemployment than we have become used to"
- **As foreshadowed in an earlier speech, Governor Lowe affirmed that the RBA won't increase the cash rate until actual inflation is "sustainably" within the 2-3% target range**
  - emphasizing that "it is not enough for inflation to be forecast to be in the target range (as it has been in the past, to prompt monetary policy tightening)
  - and that for this criterion to be satisfied, "wage growth will have to be materially higher than it is currently", which will in turn require "a lower rate of unemployment and a tight labour market" – and that it will "take some years to get there"
- **The Governor again characterized a move to negative interest rates as "extraordinarily unlikely"**
  - saying that there is "little to be gained" from doing so, since it could "impair the supply of credit" and "lead some people to save more"
- **… but he indicated that "if circumstances require", the RBA could increase the volume of its bond purchases**
  - which he indicated were explicitly intended to reduce the spread between Australian and overseas long-term interest rates, and thereby reduce upward pressure on the A$, as well as encouraging those who sell bonds to the RBA to buy "different assets", pushing up their price, creating a "stimulatory effect beyond that resulting from lower bond yields"

The RBA hasn't bought any bonds since 9th September, but will resume purchases this coming week under its expanded QE program

RBA open market bond purchases



Interest rates

Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up to 6th November. Return to "What's New".

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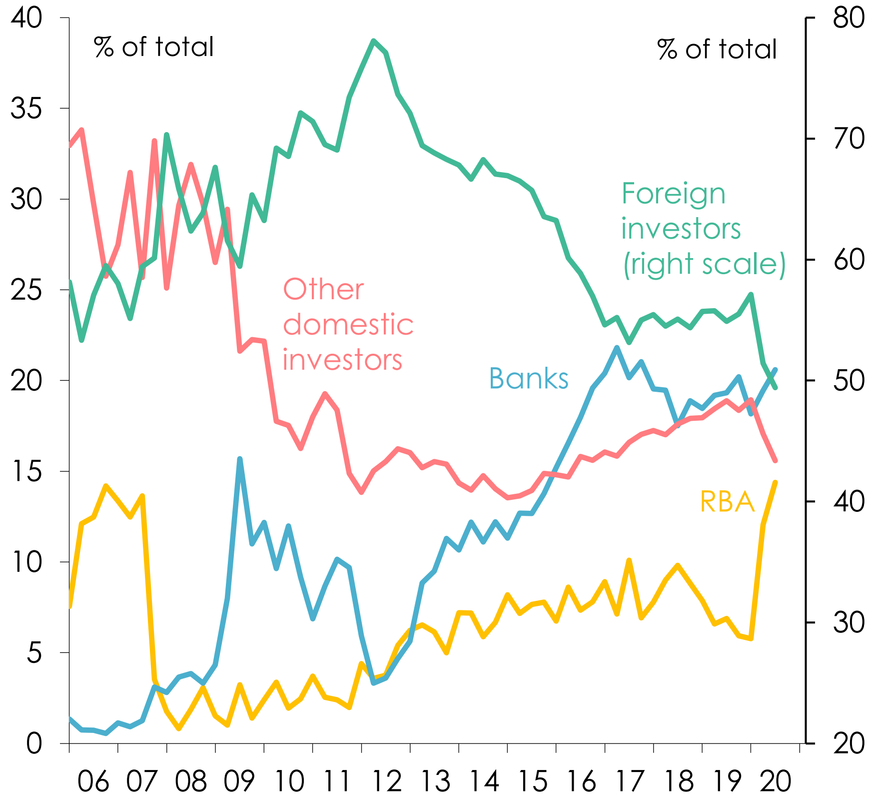
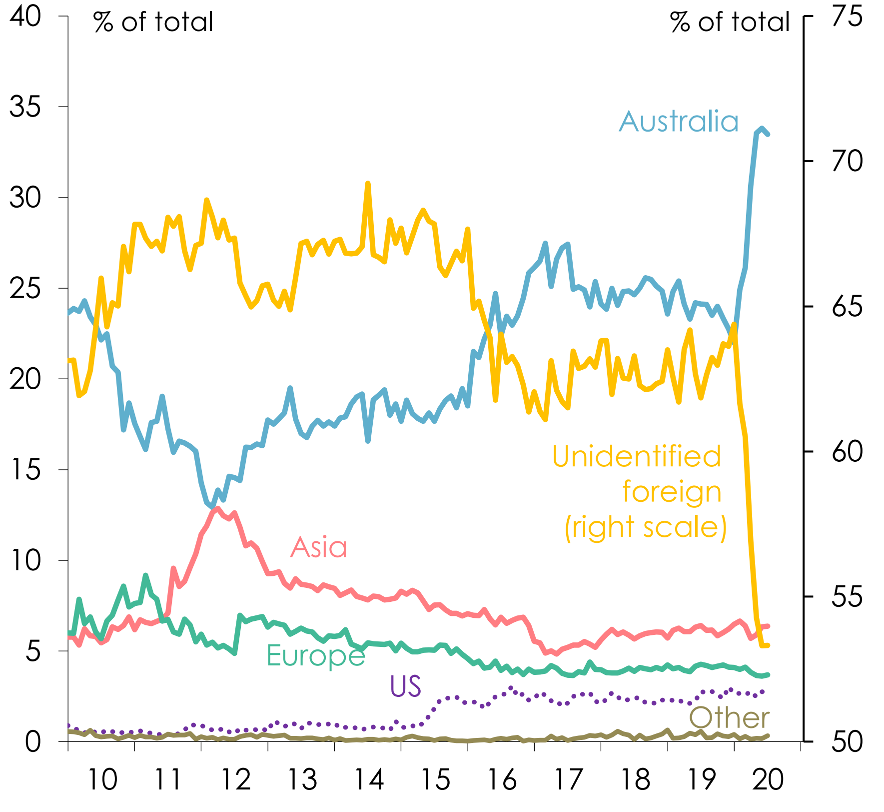
The RBA increased its holdings of federal & state bonds by $92bn in the first half of 2020, absorbing 70% & 53% of the increase in the total stock

Holders of Australian Government bonds



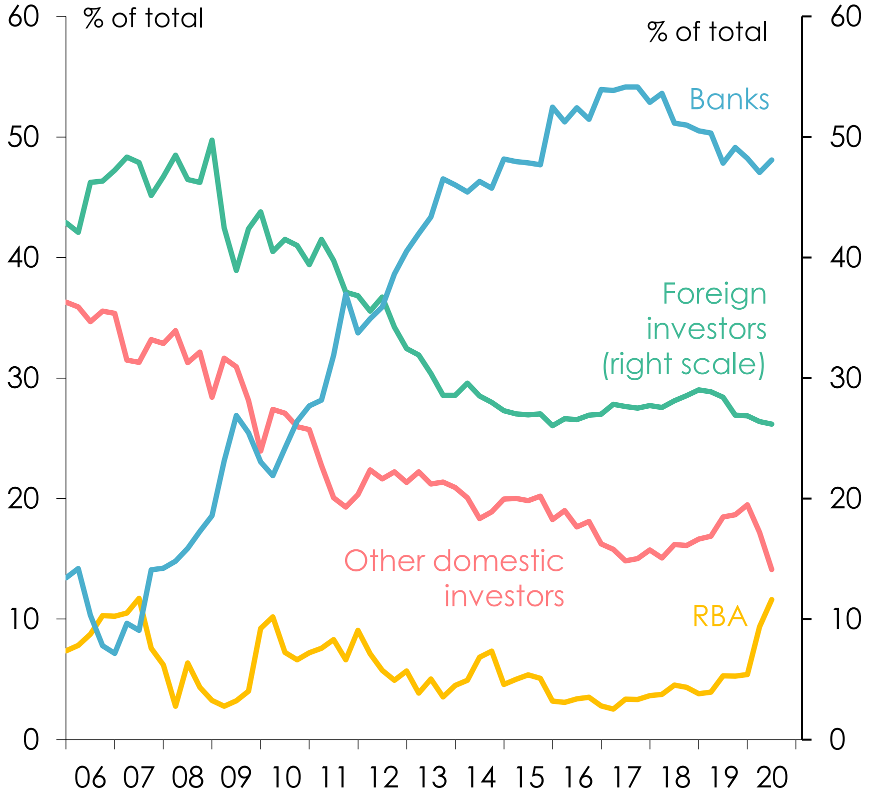
Australian Gov't bonds on issue rose by $99bn over the first half of 2020 – the RBA's holdings rose by $69bn (almost 70% of the total increase), while banks' holdings rose by $36bn

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

Holders 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".

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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 -

- <u>Population growth</u>
  - 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
- <u>Our unusual (for an 'advanced' economy) economic relationship with China</u>
  - 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
- <u>The 'housing boom'</u>
  - 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

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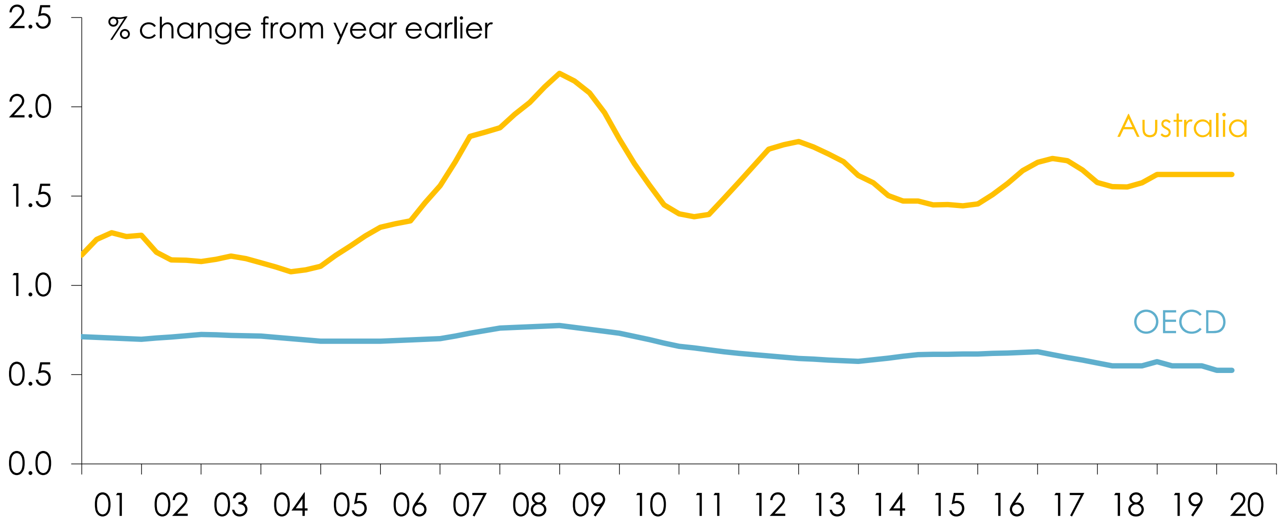
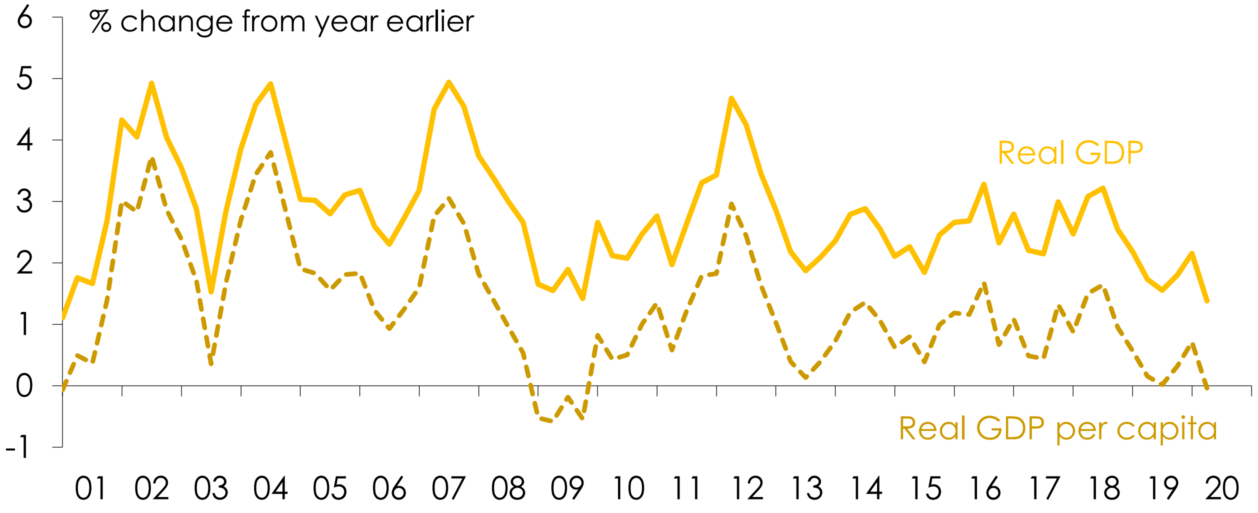
Australia's above-average economic growth over the past 20 years owes a lot to above-average population growth: that's about to change

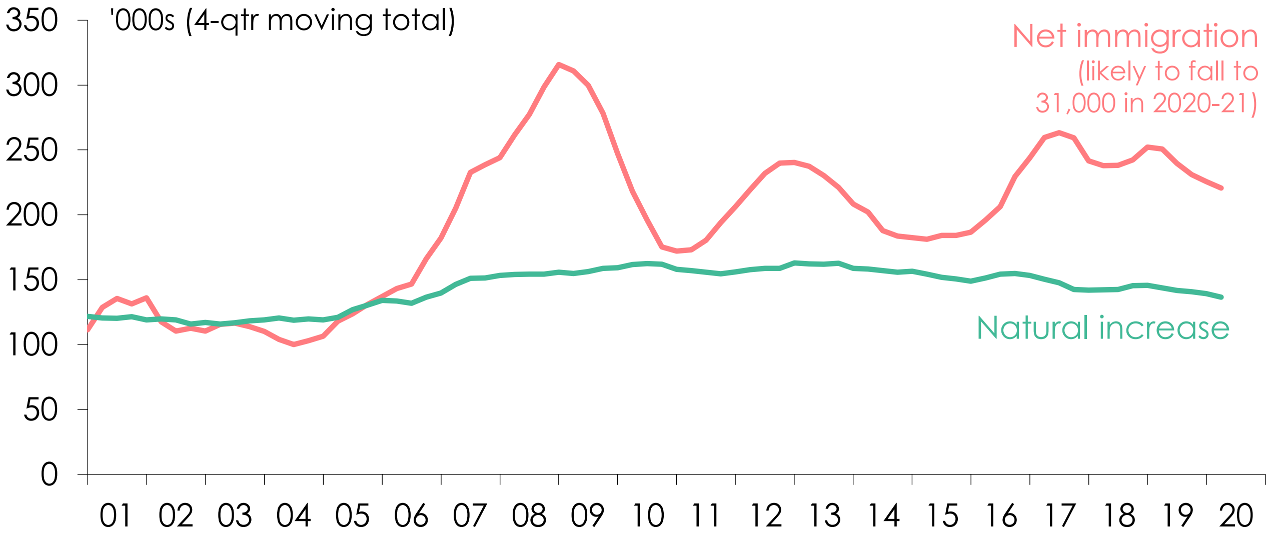
Australia and OECD population growth



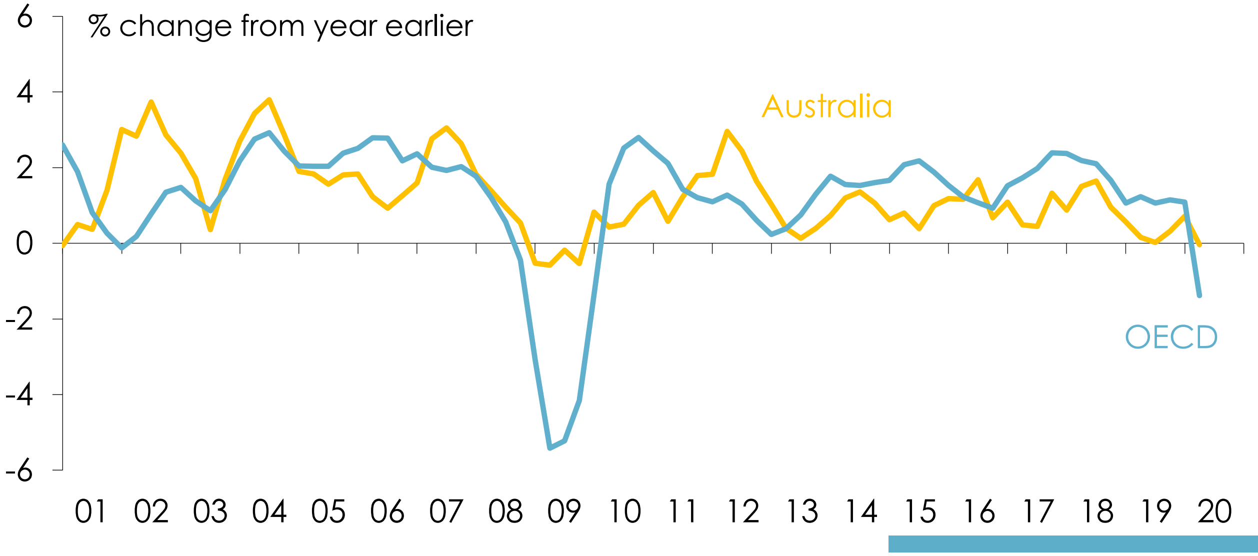
Australian GDP and per capita GDP growth



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".

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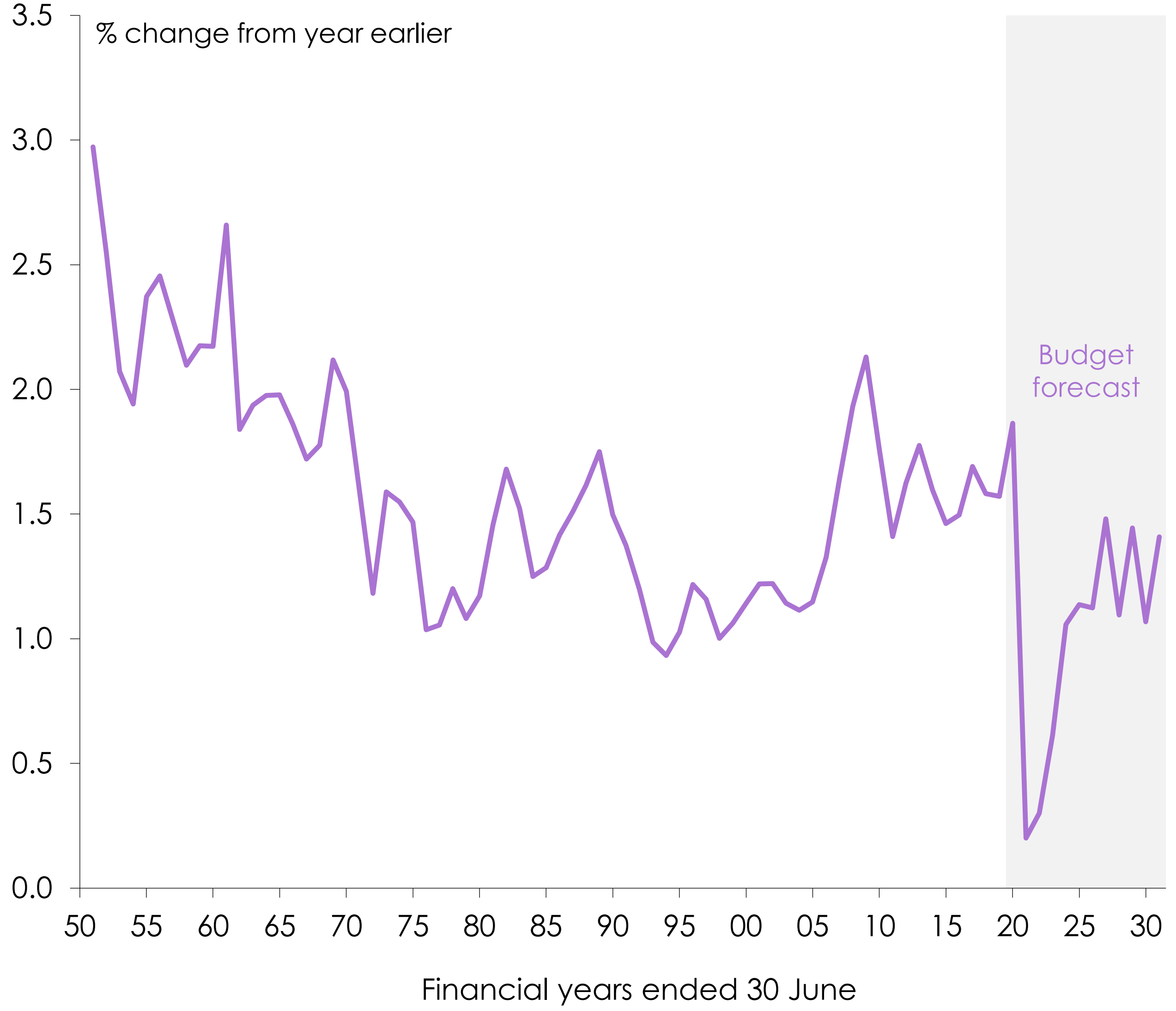
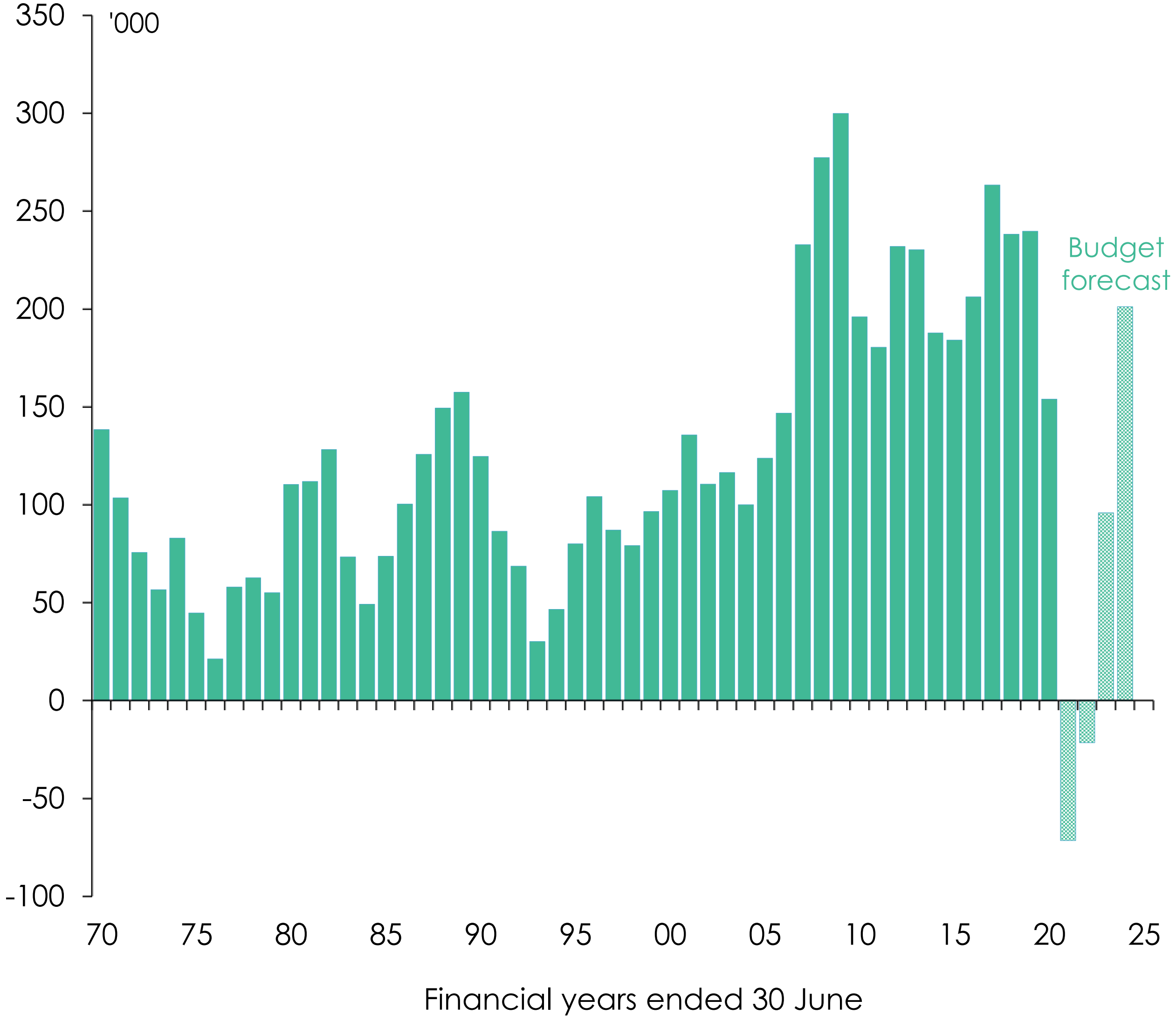
October's federal Budget incorporated a forecast of negative net migration in 2020-21 and 2021-22, and a 100-year low in population growth

Population growth



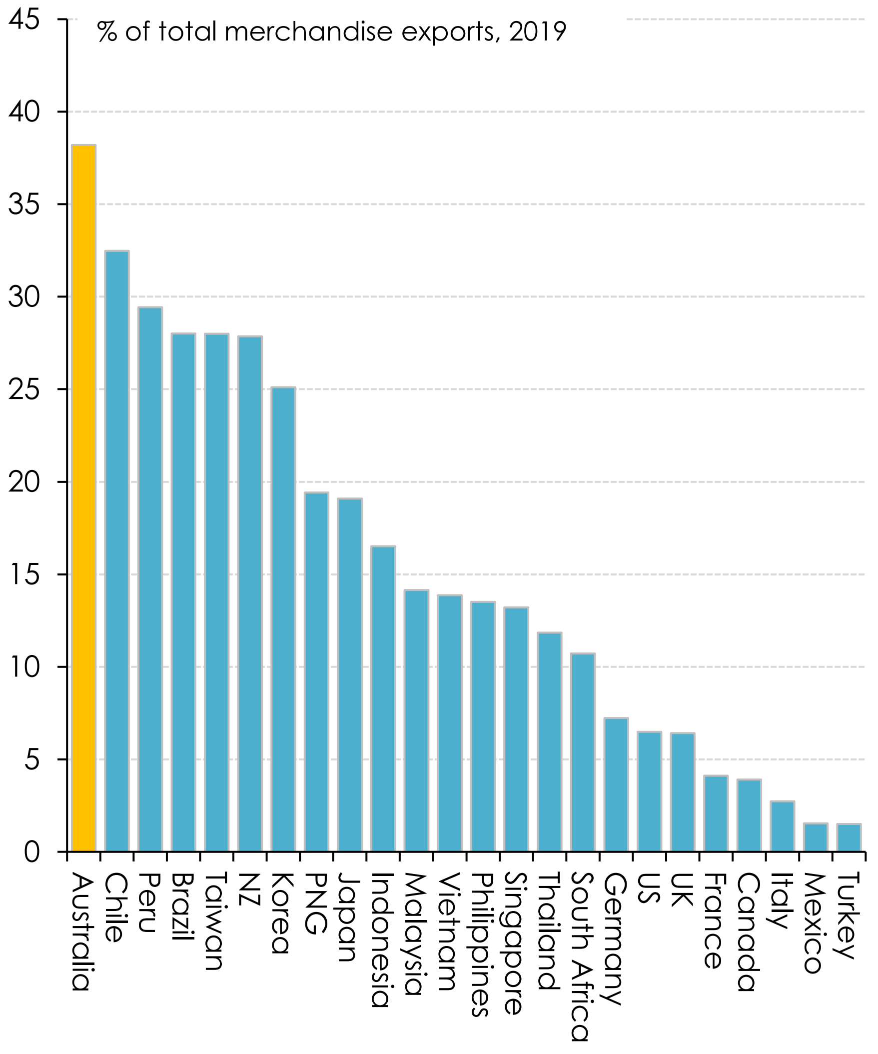
Net overseas migration



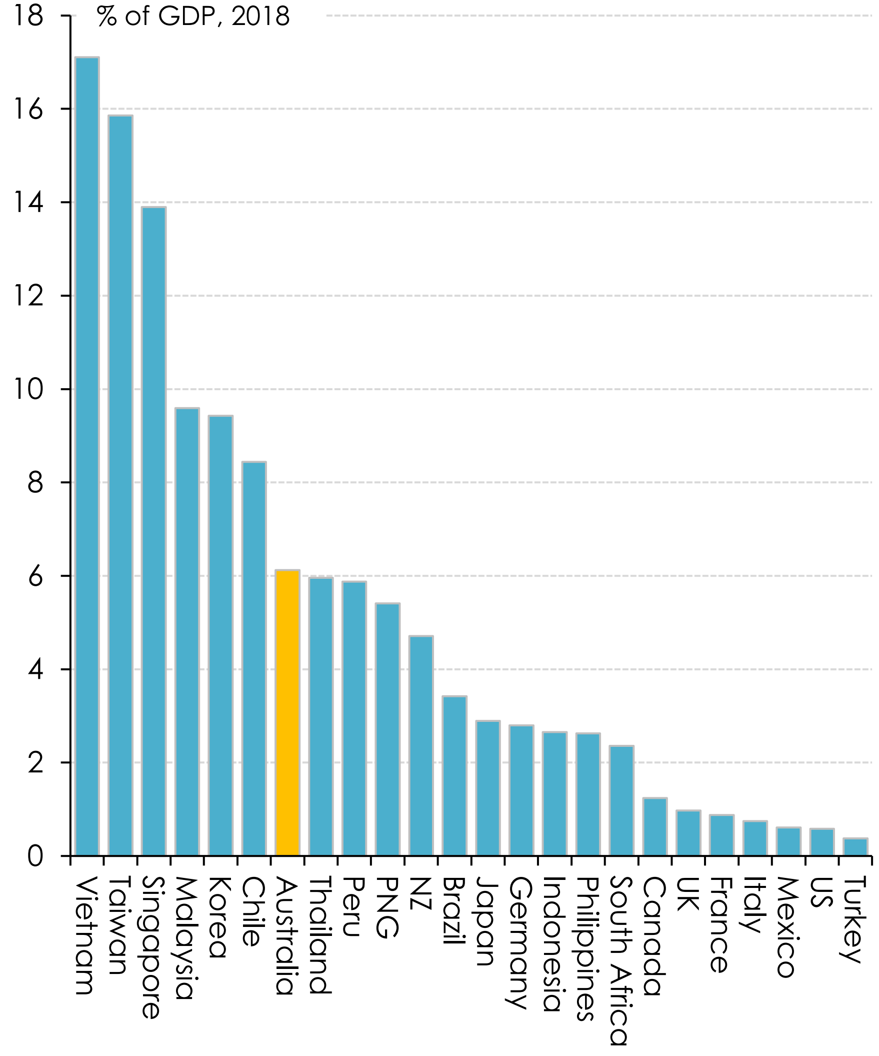
Sources: ABS, National, state and territory population; Australian Government, 2020-21 *Budget Paper No. 1, Statement No. 2* and *Budget Paper No. 3, Appendix A*.
Return to "What's New".

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

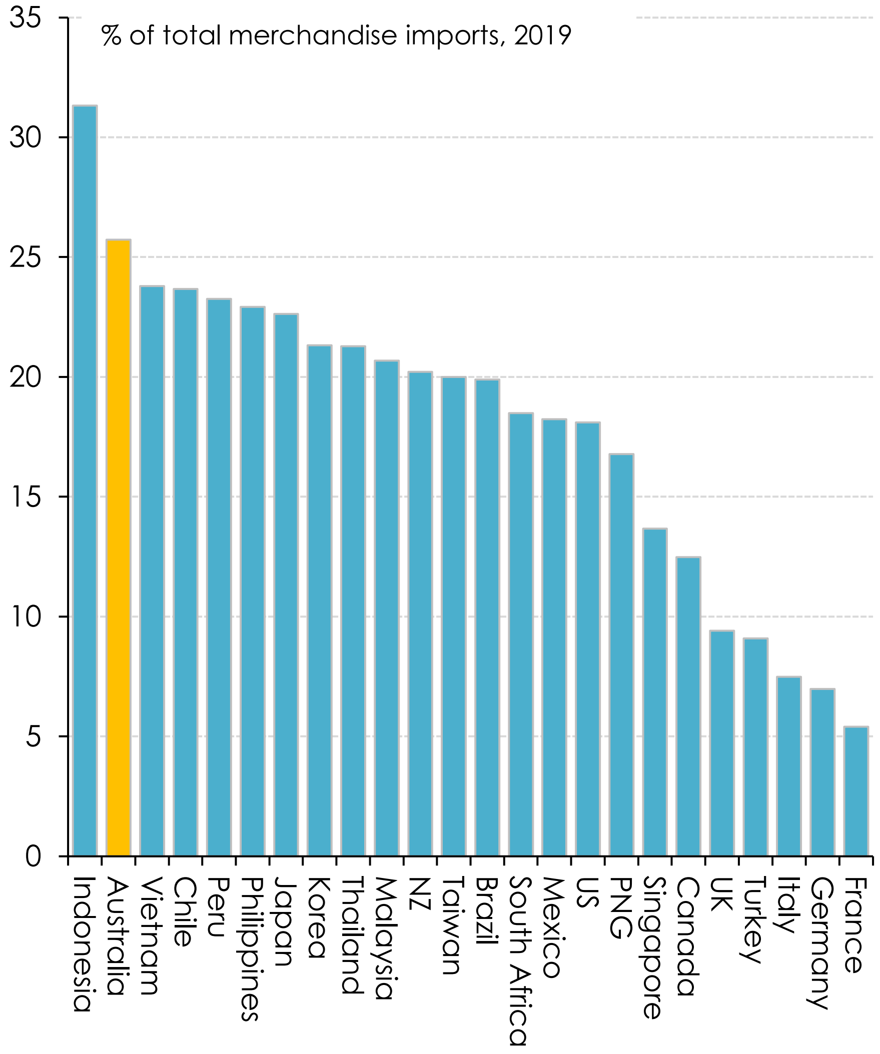
Merchandise exports to China as a pc of total



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".

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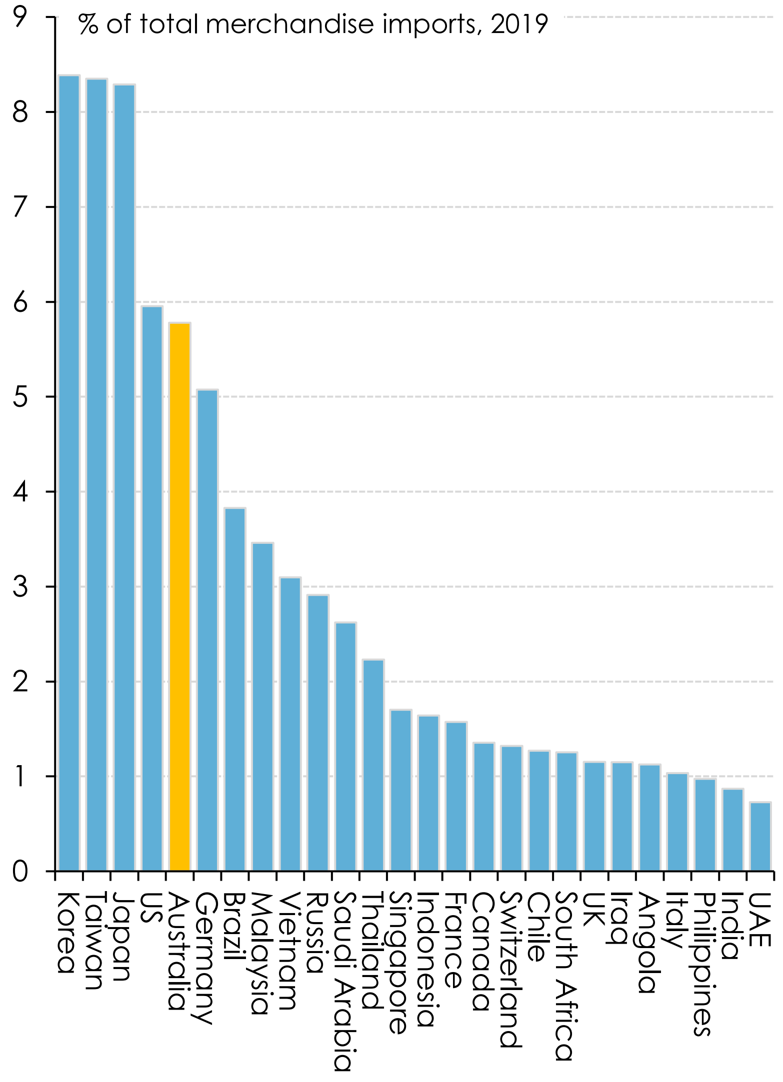
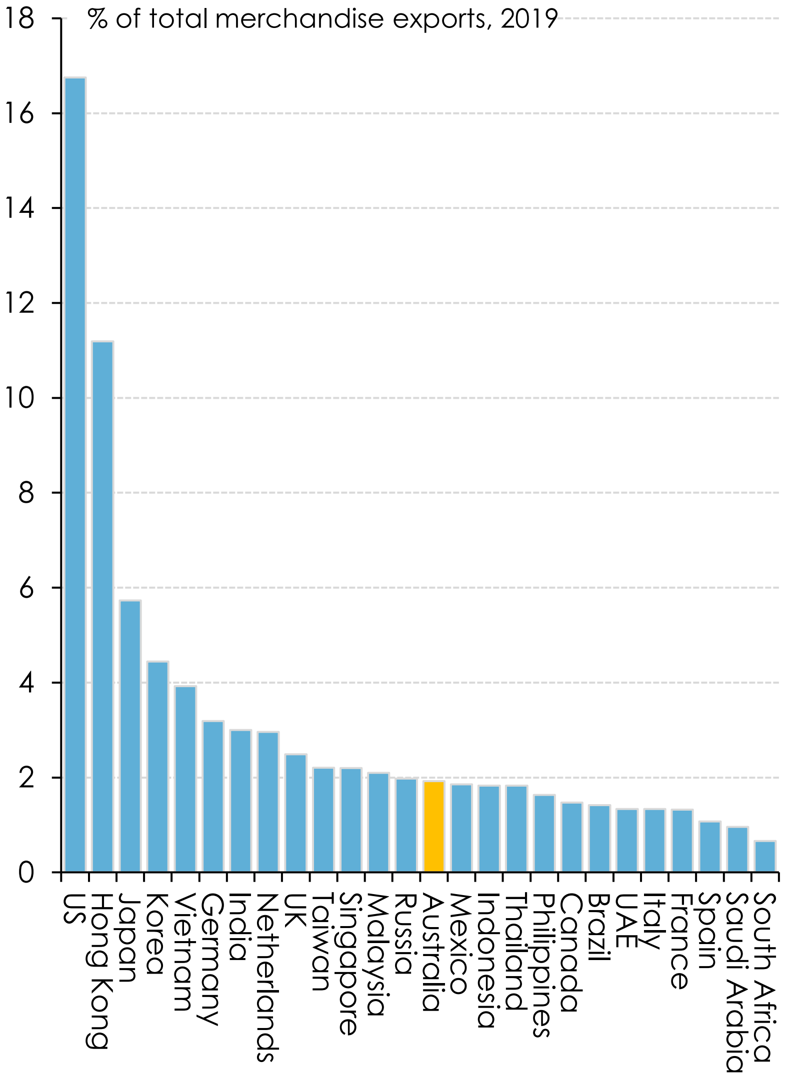
Australia is China's 5th biggest source of imports (of goods), 14th biggest export market, and has the 2nd-largest bilateral trade surplus with China

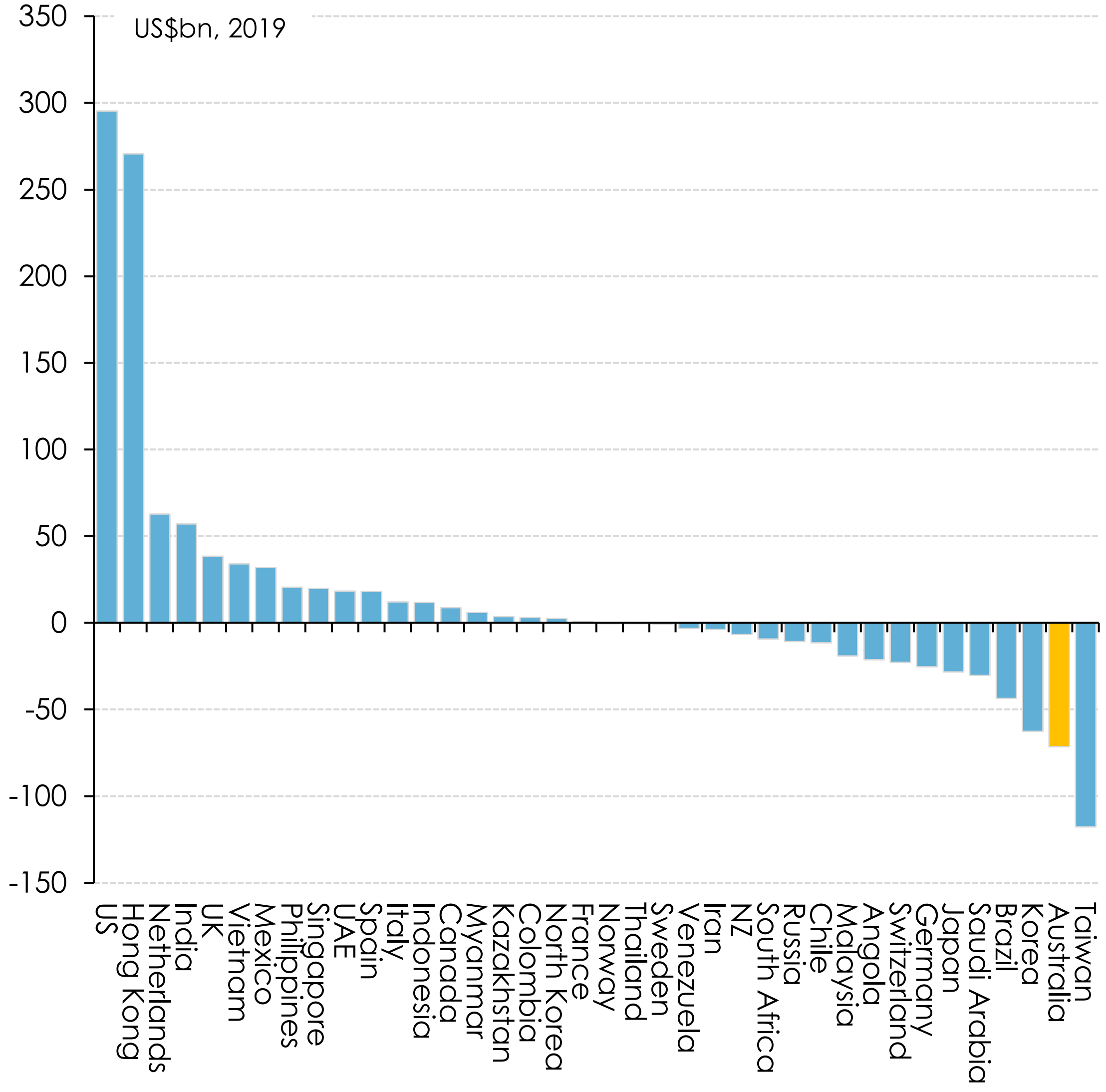
China's sources of imports



China's export destinations



China's bilateral merchandise trade balances



Source: International Monetary Fund, Direction of Trade Statistics. Return to "What's New".

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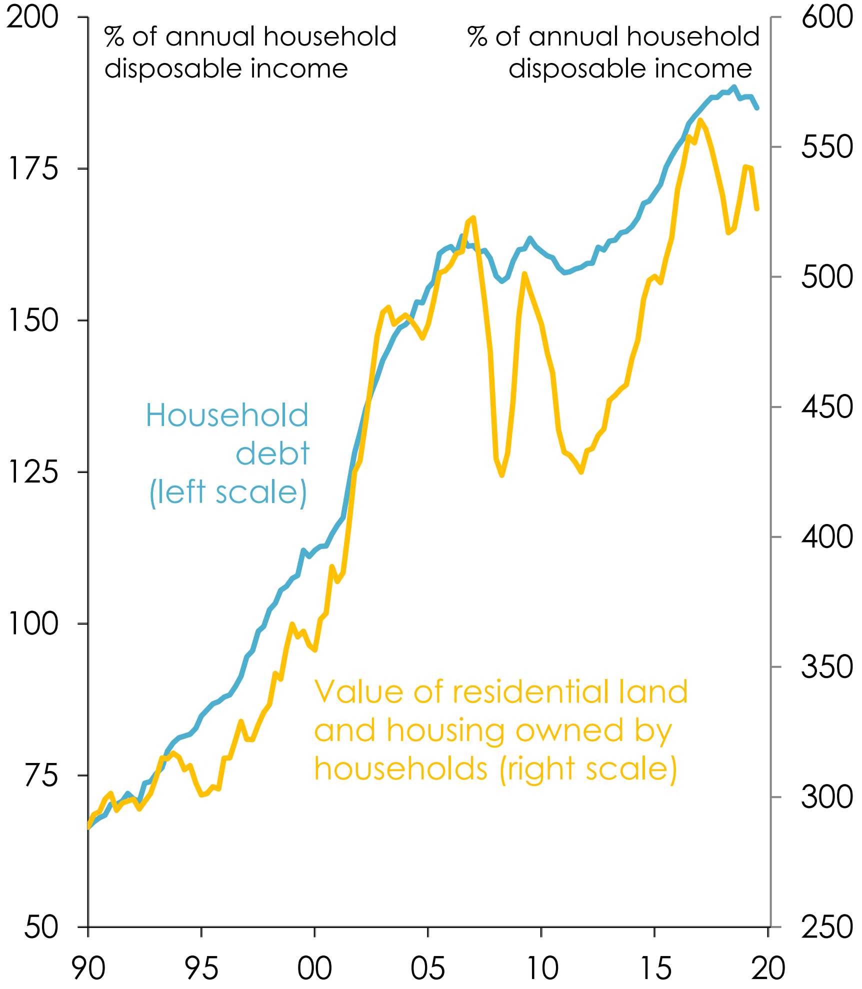
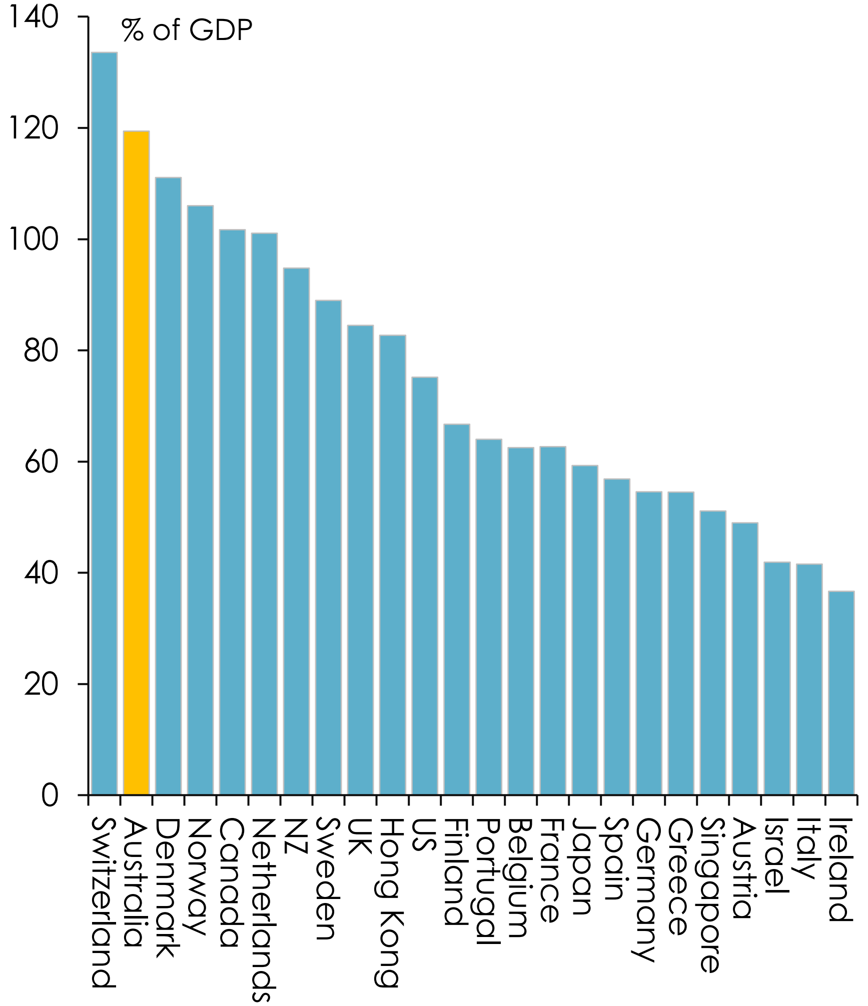
Rising property prices and household debt are unlikely to underpin Australian economic growth as they have done for most of the past 30 years

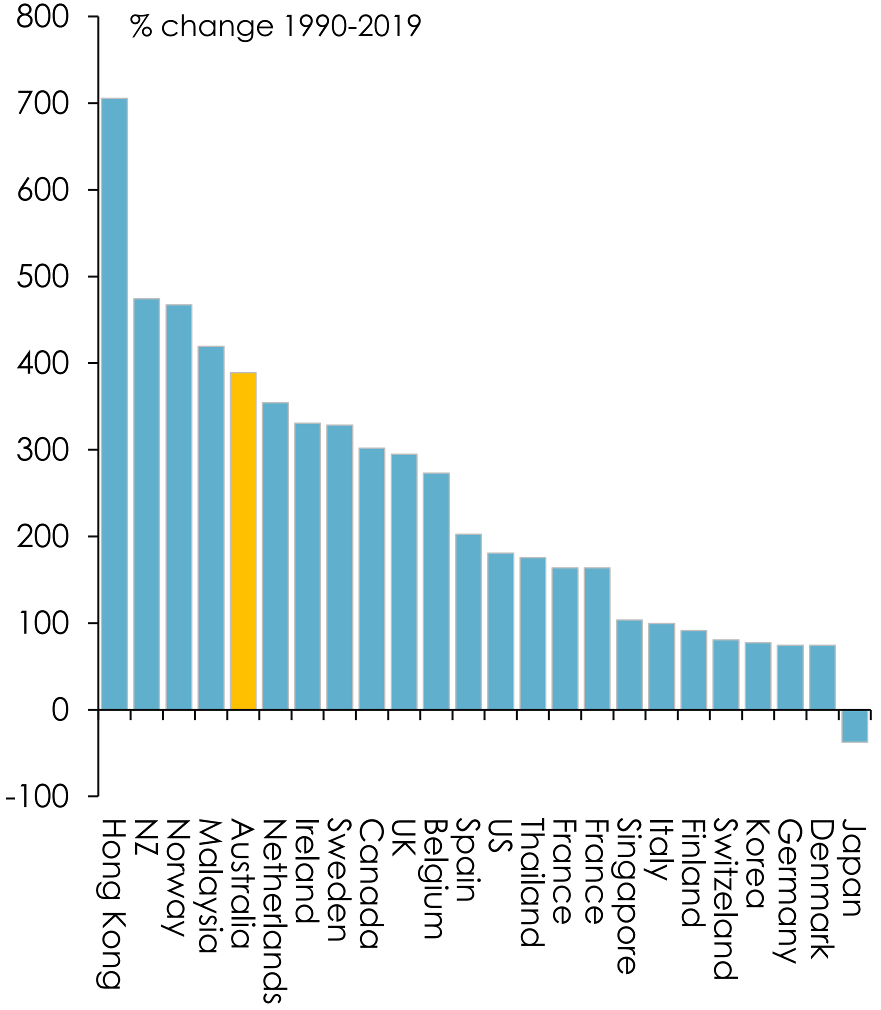
Australian housing wealth and household debt



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".

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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
- Possible reversal of the long-term drift of population to capital cities from regional centres, and within capital cities a decline in the importance of CBDs, as more people choose to work from home and employers let them
- Accelerated decline in the use of cash for transactions (see slide 84)
- Re-think of relationships with China (see slides 93-94 and slides 125-126)

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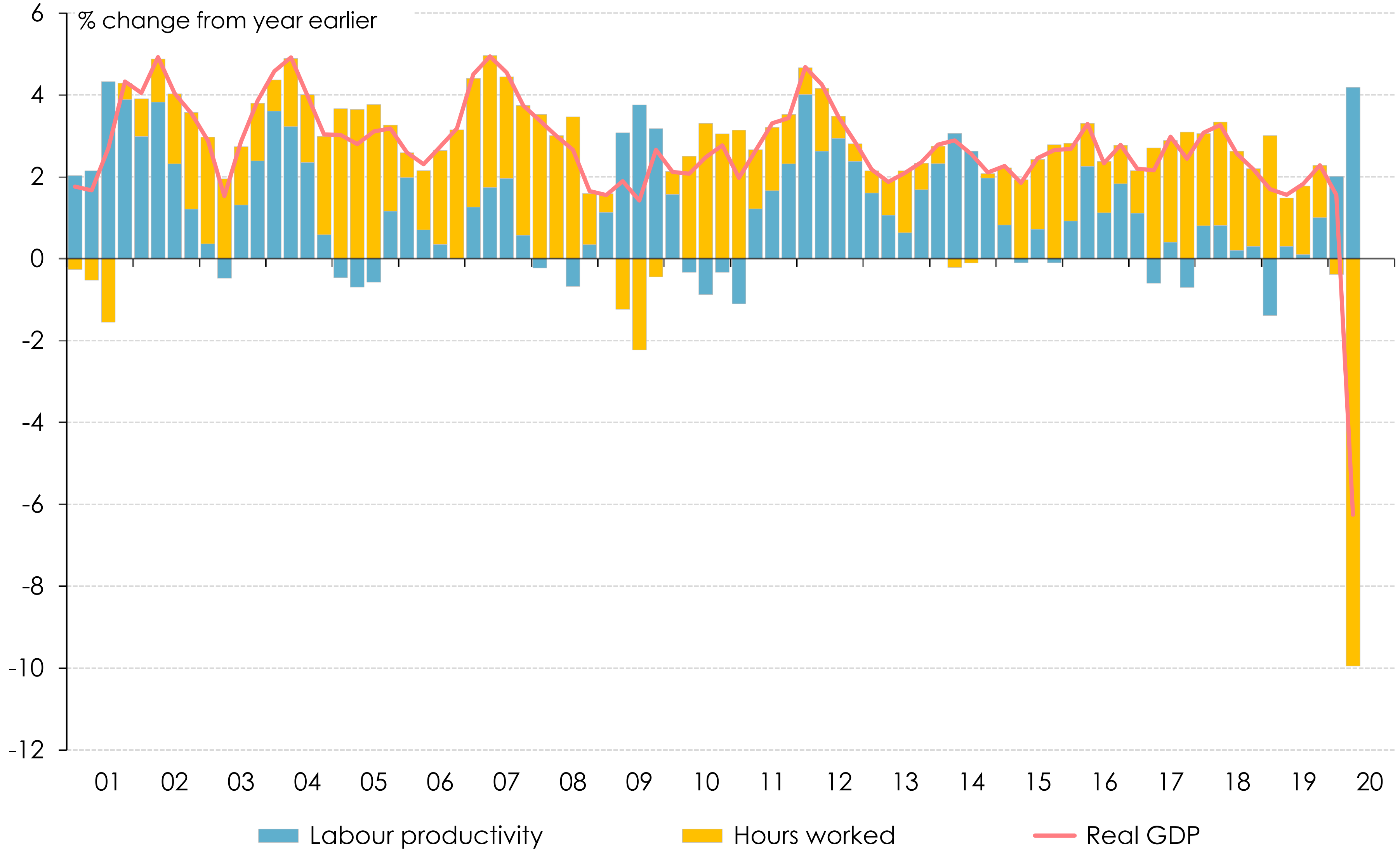
Australia has come to rely much more heavily on increased labour input to drive economic growth in recent years – we can't keep doing that

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".

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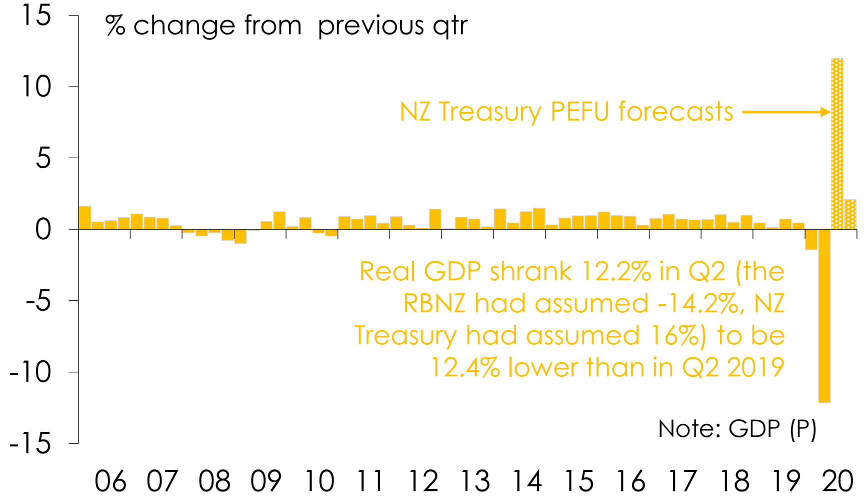
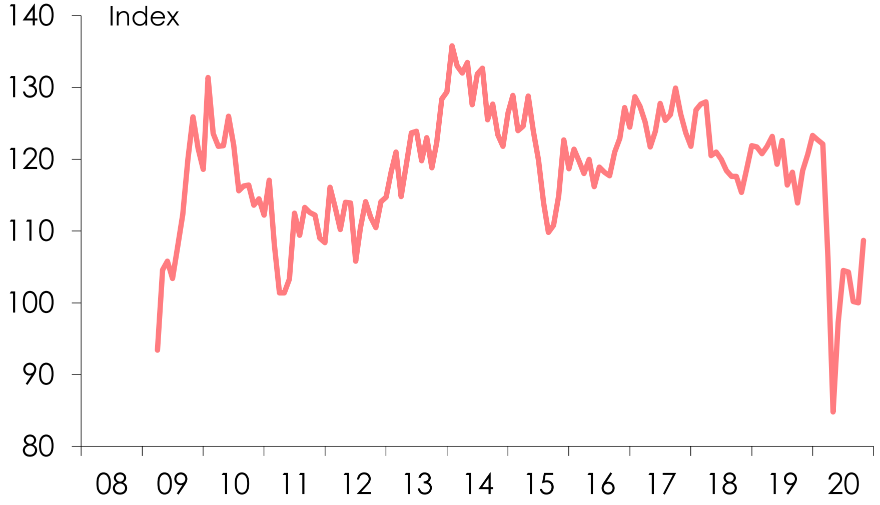
New Zealand

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

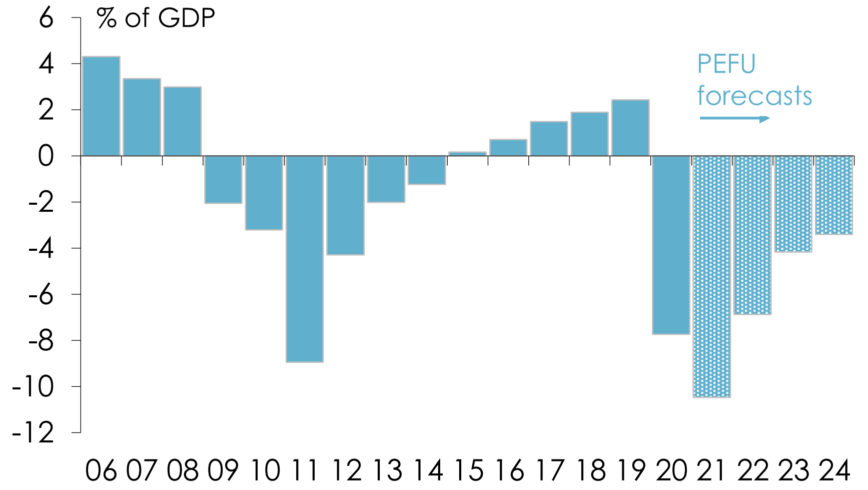
Real GDP



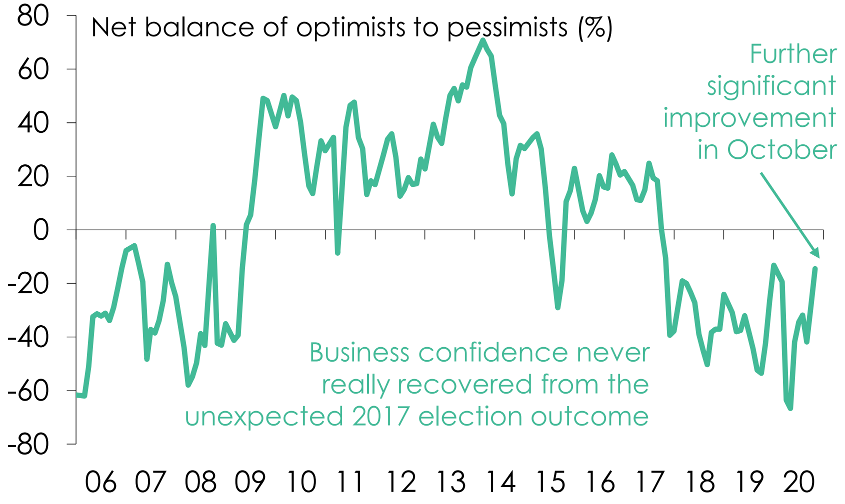
Consumer confidence



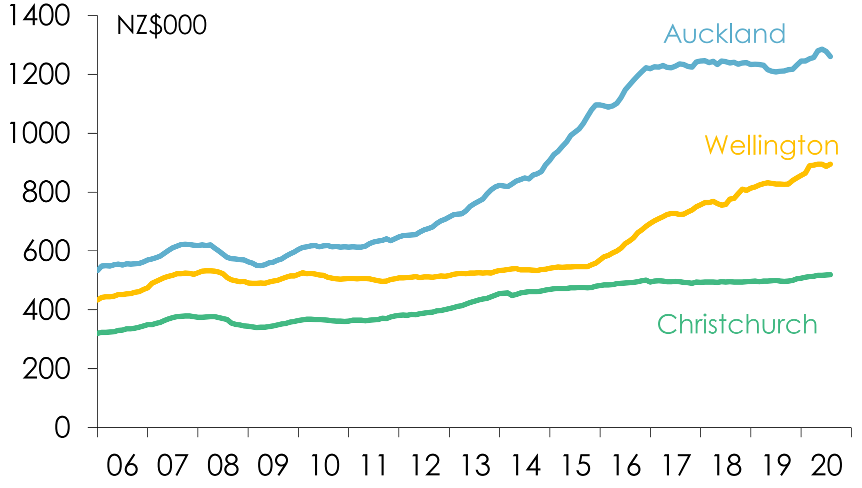
NZ government budget balance



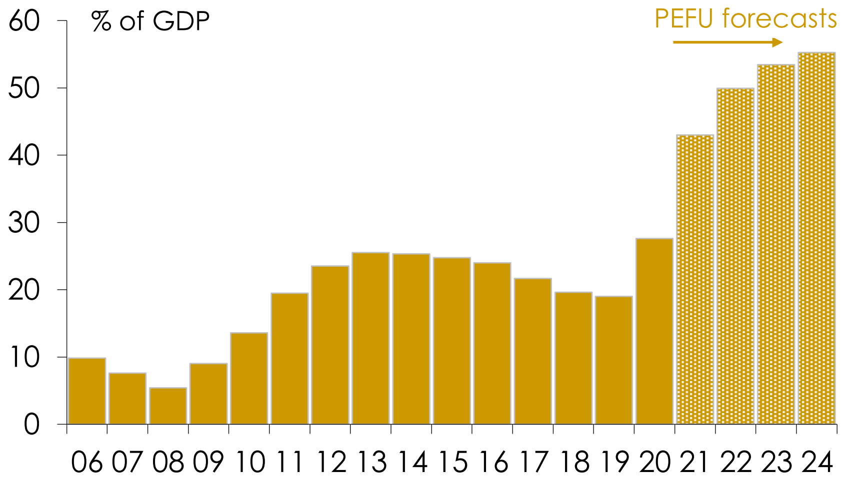
Business confidence



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".

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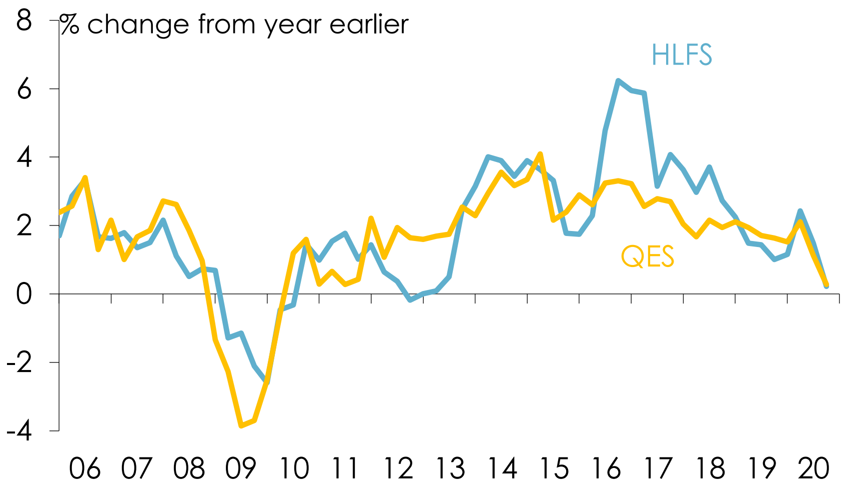
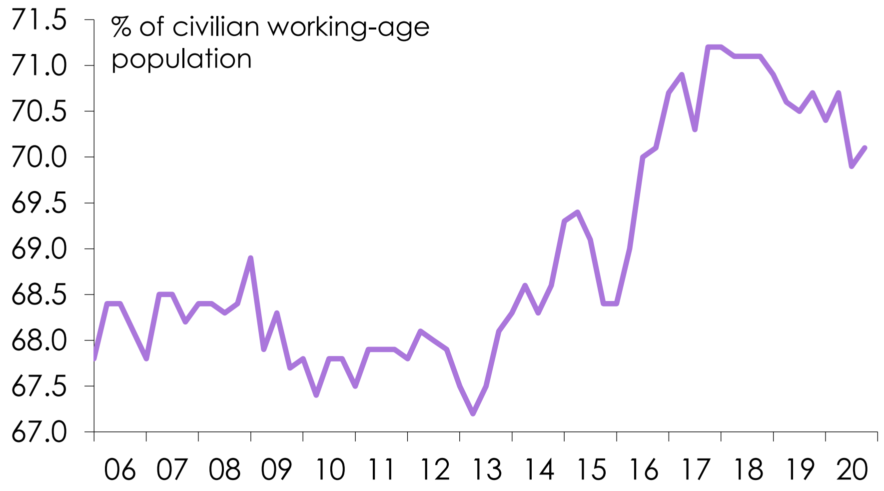
New Zealand’s unemployment rate jumped sharply in the June quarter, though remains low by international standards

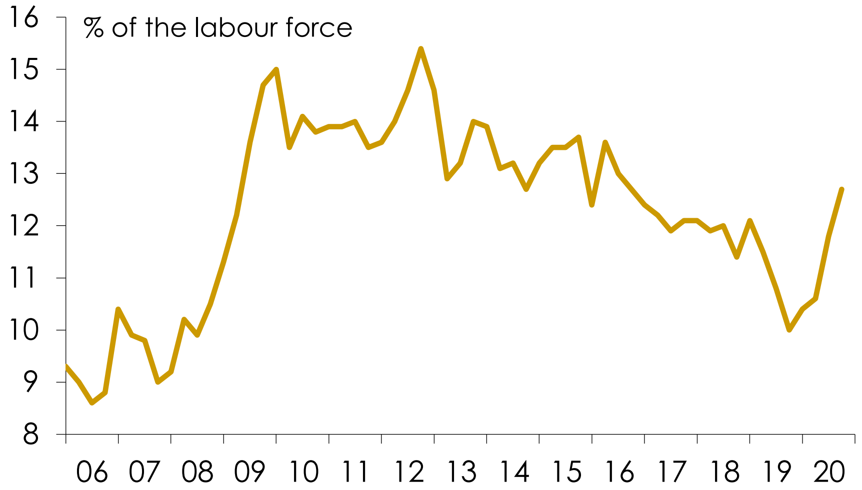
Employment



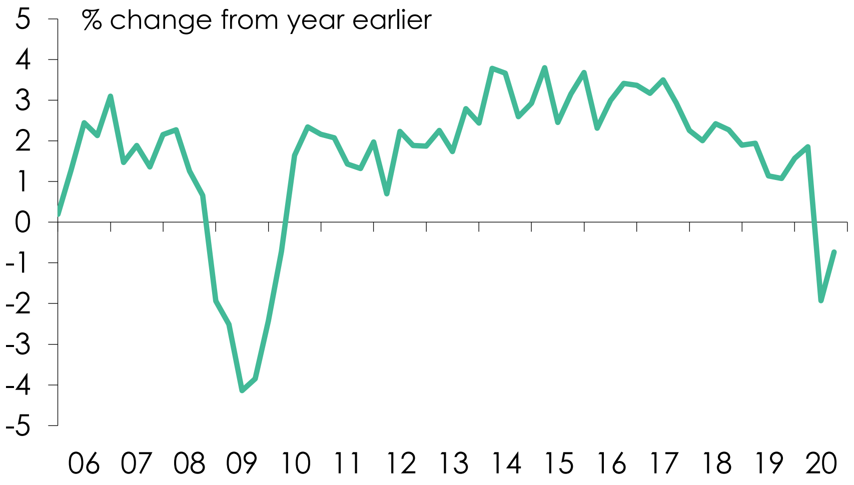
Labour force participation rate



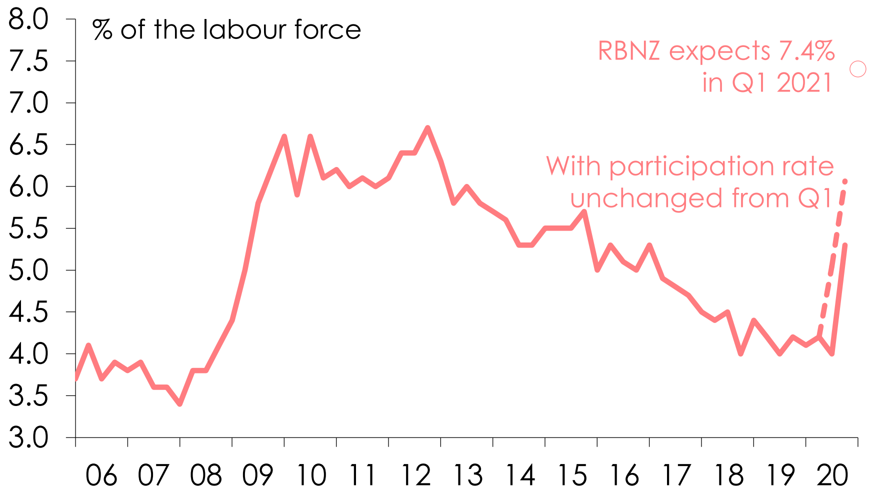
Labour force under-utilization rate



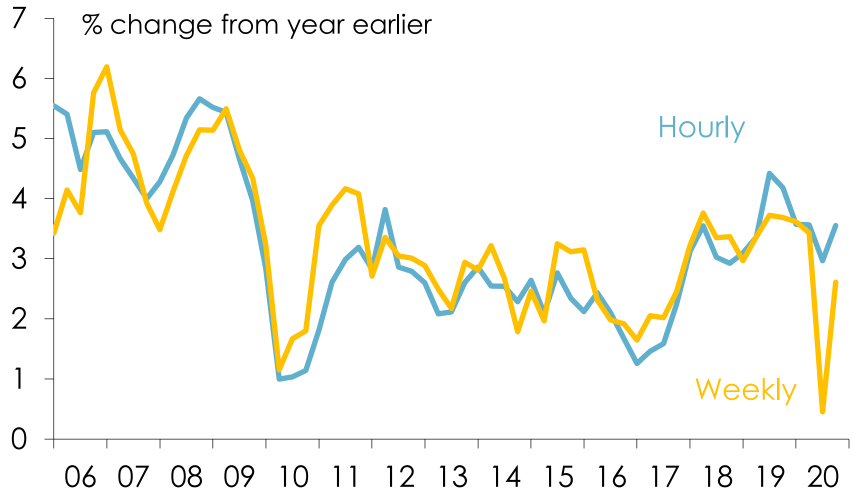
Hours worked



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. December quarter data will be released on 3rd February 2021. Return to "What's New".

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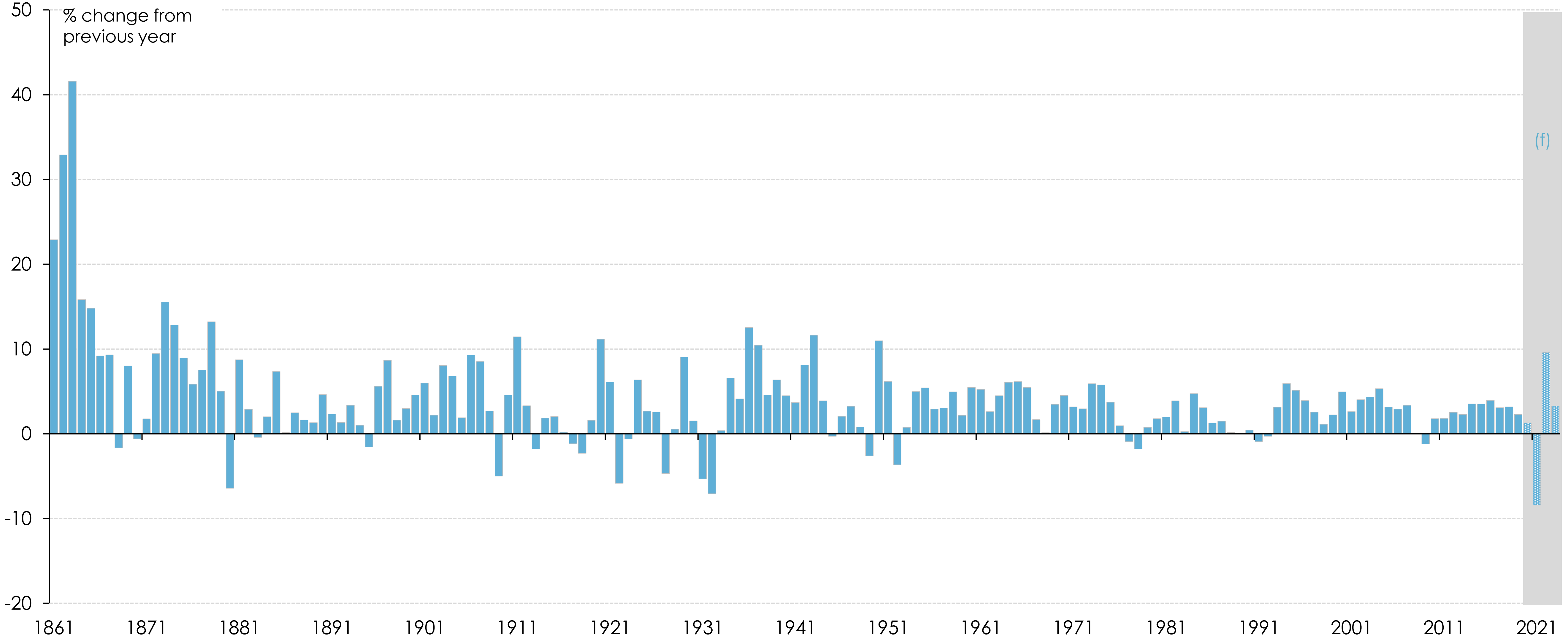
The Reserve Bank of New Zealand is expecting the fall in real GDP in the year ended March 2021 to be the biggest in recorded NZ history

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".

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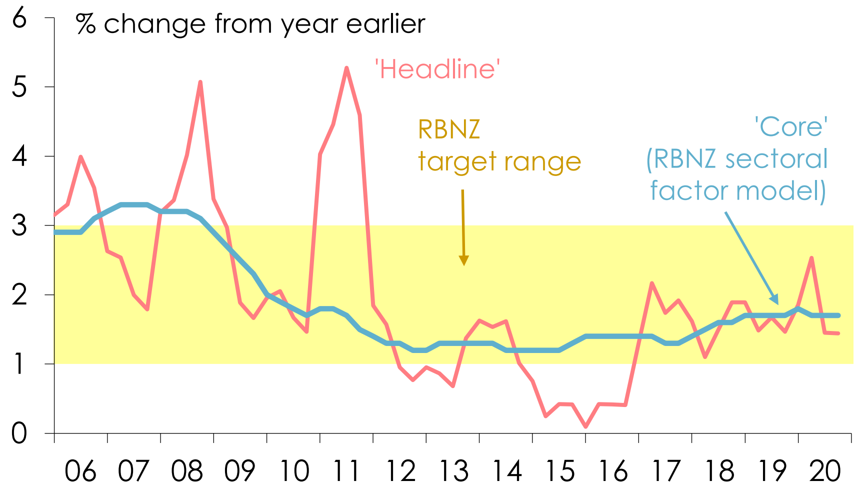
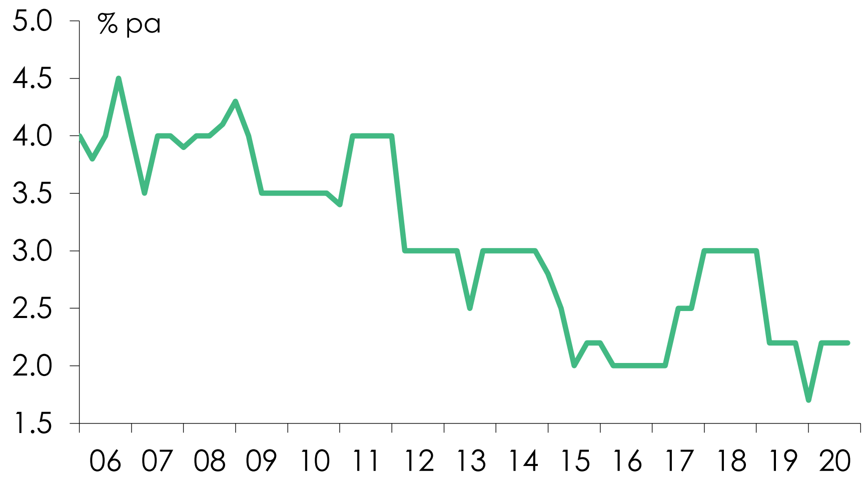
Consumer prices rebounded less than expected in Q3 after falling in Q2, which is likely to strengthen the RBNZ's resolve to cut rates further

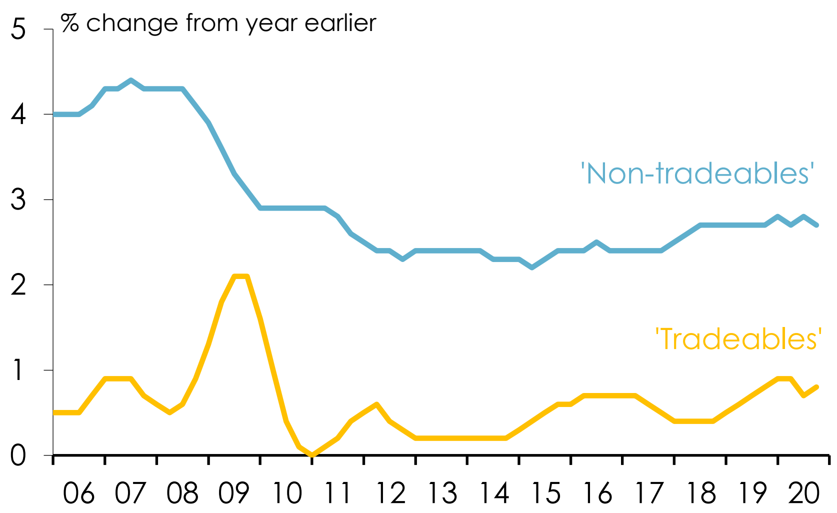
Consumer prices



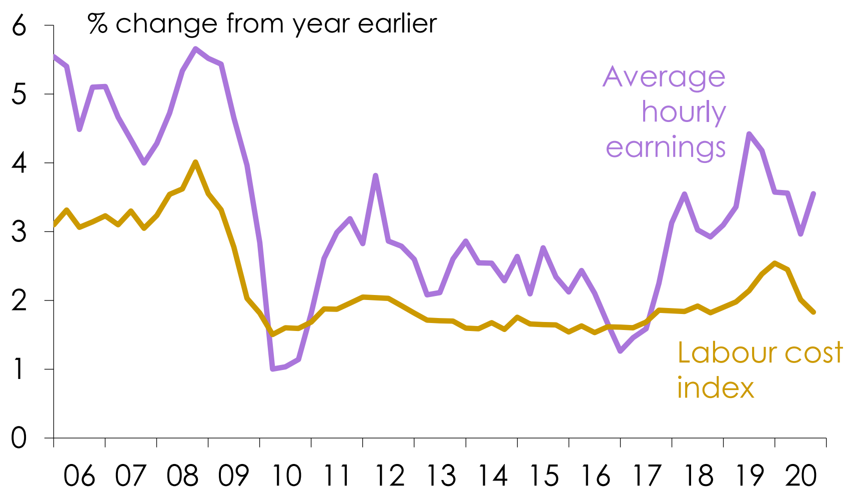
Household inflation expectations



Components of 'core' inflation



Labour costs



- 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

Sources: Statistics NZ ; Reserve Bank of New Zealand. December quarter CPI will be released on 22nd January 2021. Return to "What's New".

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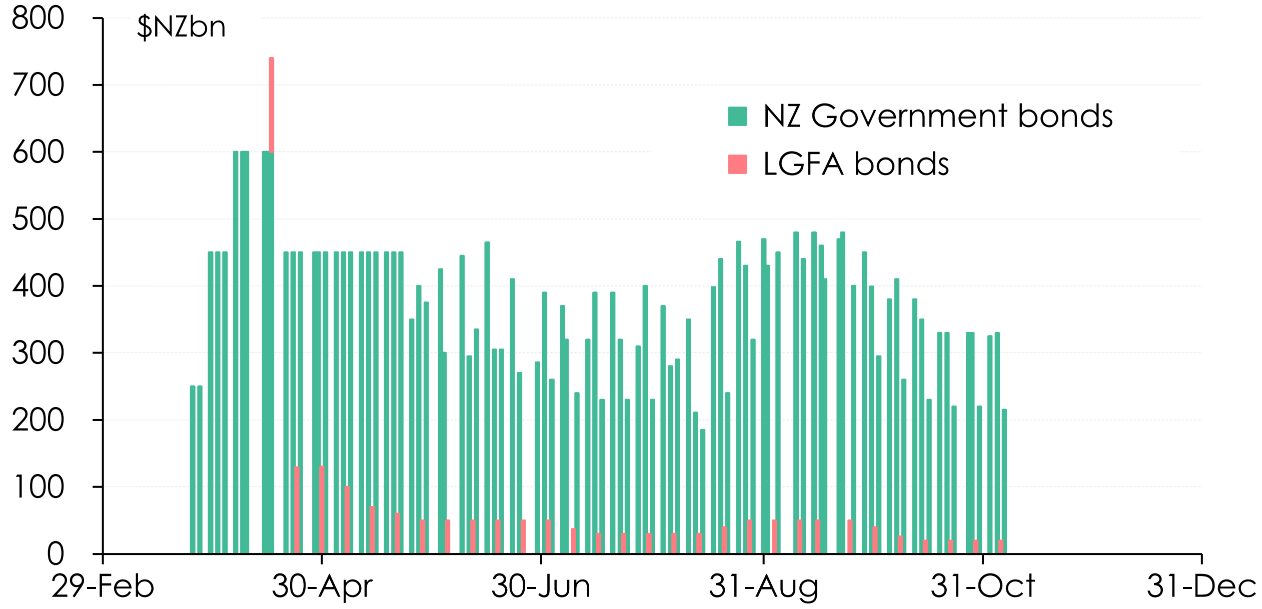
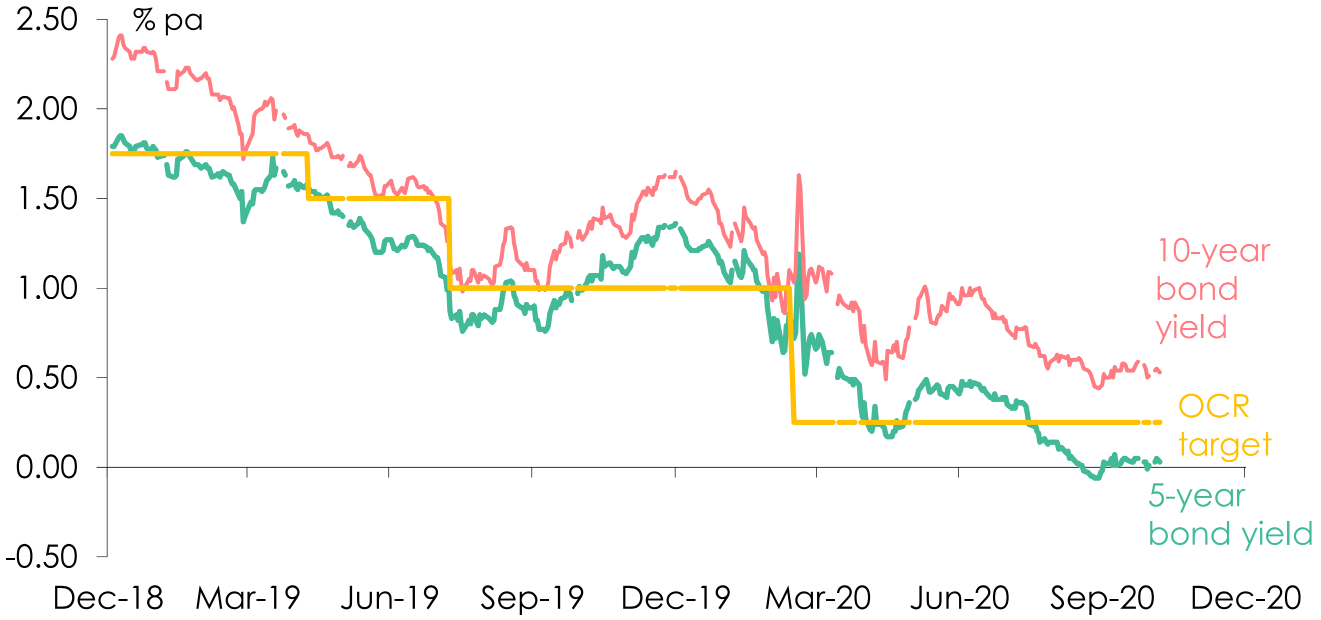
The RBNZ has reduced the scale of its bond purchases over the past four weeks, ahead of the likely introduction of a ‘Funding for Lending’ program

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 purchased NZ$890mn of bonds (its smallest weekly total since the week ended 14th August), bringing its total purchases since 25th March to $NZ38.2bn (12.4% of GDP): the lower level of bond purchases over the past four weeks is probably ahead of the pending introduction at Wednesday’s Monetary Policy Committee meeting of a Funding for Lending scheme as an alternative form of ‘QE’
- Five year yields were back in positive territory this week after briefly dipping below zero last week for the first time since late September

Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, *Statistics* Tables B2 and D3. Data up to 6th November.

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