ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

5TH DECEMBER 2020

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

What's new?

The world

- More than 4,200,000 new Covid-19 cases were confirmed this week, a new record, taking the cumulative total to over 65 million; while nearly 74,000 people died (another new record, the fifth in a row), bringing the cumulative death toll to over 1,500,000 (slide 4)
- Europe's share of the world's new cases fell to 25% last week (from a peak of 46% four weeks ago), while the US's share rose to 30% (the highest since mid-July); case numbers are also rising again in Brazil, and there has also been a sharp increase in Turkey (slide 5)
- The OECD's revised upwards its forecasts for global growth in 2020 (though they are still very negative), but lowered them for 2021 (slides 21 and 22)
- 53 countries have now reported GDP estimates for Q3, with five showing positive growth and only four contracting by more than 10% from Q3 2019 (slide 19)
- The two 'growth leaders' in Q3 are Ireland (slide 37) and Turkey (slide 38) – but neither are likely to keep their positions for very long
- Purchasing managers' indices for November show continued growth in manufacturing but some slowing in services, especially in Europe, as a result of renewed health restrictions (slides 36 and 46)
- Japan's official unemployment rate is continuing to drift up, but the 'effective' rate has been falling since April (slide 44)
- US non-farm payroll employment recorded its smallest increase since February last month, with the 'effective' unemployment rate stalling at just under 10% (slide 56)

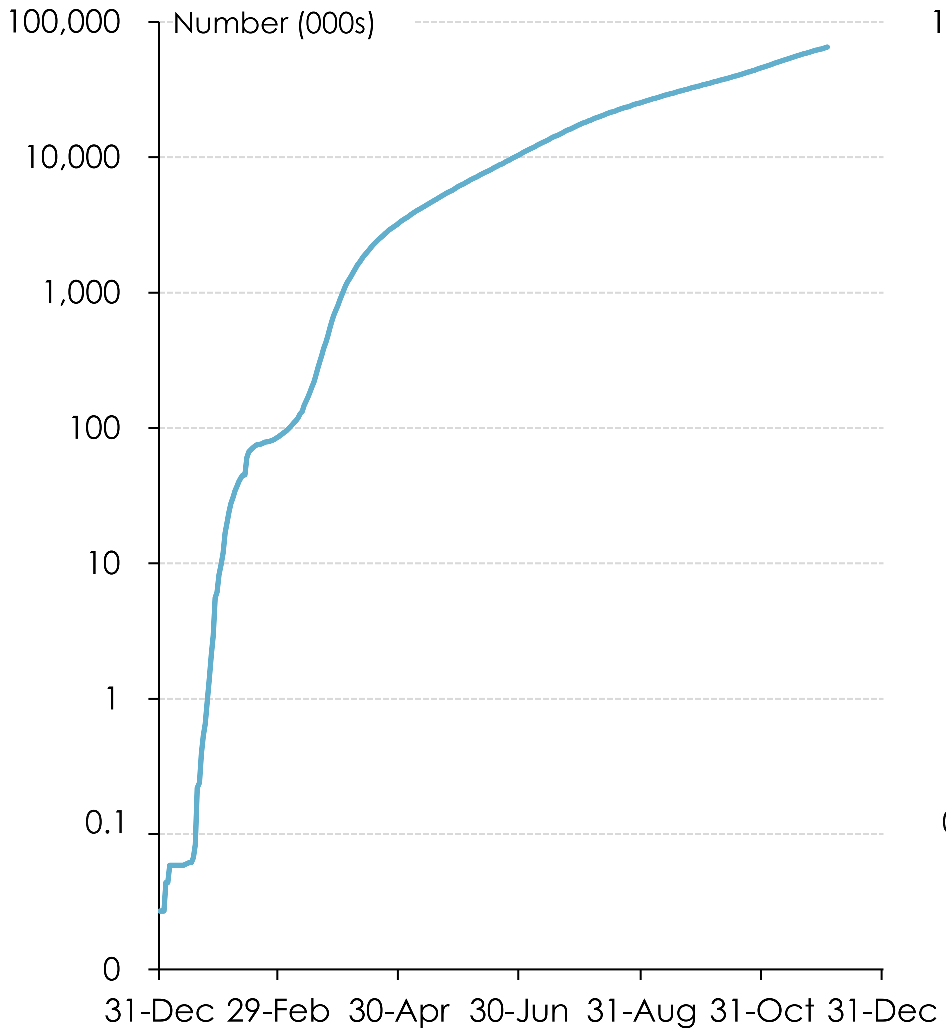
Australia

- Australia recorded only 75 new cases this week, the lowest in three weeks, bringing the cumulative total to 27,949, and one death, bringing that total to 908; there are now only 47 active cases, the lowest number since early March, and none in hospital (slide 8)
- Australia's first recession in almost 30 years is 'officially' over – for those who insist on the (rather silly) 'two-or-more-quarters-of-in-a-row' definition, with real GDP increasing a larger-than-expected 3.3% in the September quarter (slides 64 and 65)
- The rebound in GDP was due entirely to a turnaround in household consumption spending, particularly on 'discretionary' items (slide 66)
- Payroll employment, though volatile from week to week, has been 'tracking sideways' since mid-July, with recent gains in Victoria offset by losses in other states (slide 82)
- Retail sales rose 1.4% in October, while new motor vehicle sales surged 7% in November to an 18-month high (slide 90)
- Residential property prices rose 0.7% in November, the first increase in seven months (slide 92), while both mortgage lending and residential building approvals registered further gains in October (slide 94)
- Australia recorded its fifth-highest ever trade surplus in October, boosted by another record level of iron ore exports (slide 97) – but the bilateral relationship with China has worsened yet again (slide 100)
- Queensland's 2020-21 State Budget was less expansionary than NSW's or, in particular, Victoria's (slide 122)
- As expected the RBA left monetary policy settings unchanged at its last Board meeting for 2020 (slide 131), but Governor Lowe re-iterated the RBA's willingness to 'do more' if needed (slide 132)

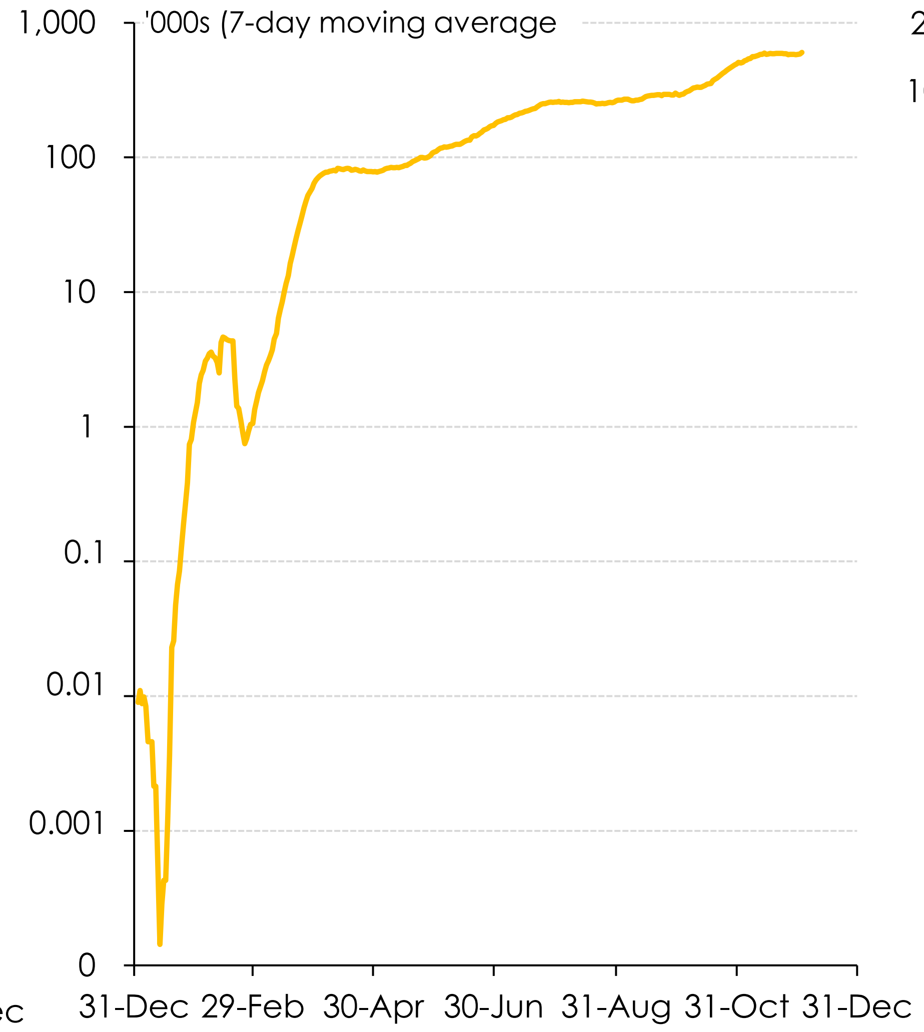
The virus

Over the past week there've been just over 4.2 mn new cases, another record, and almost 78,000 deaths, also a record

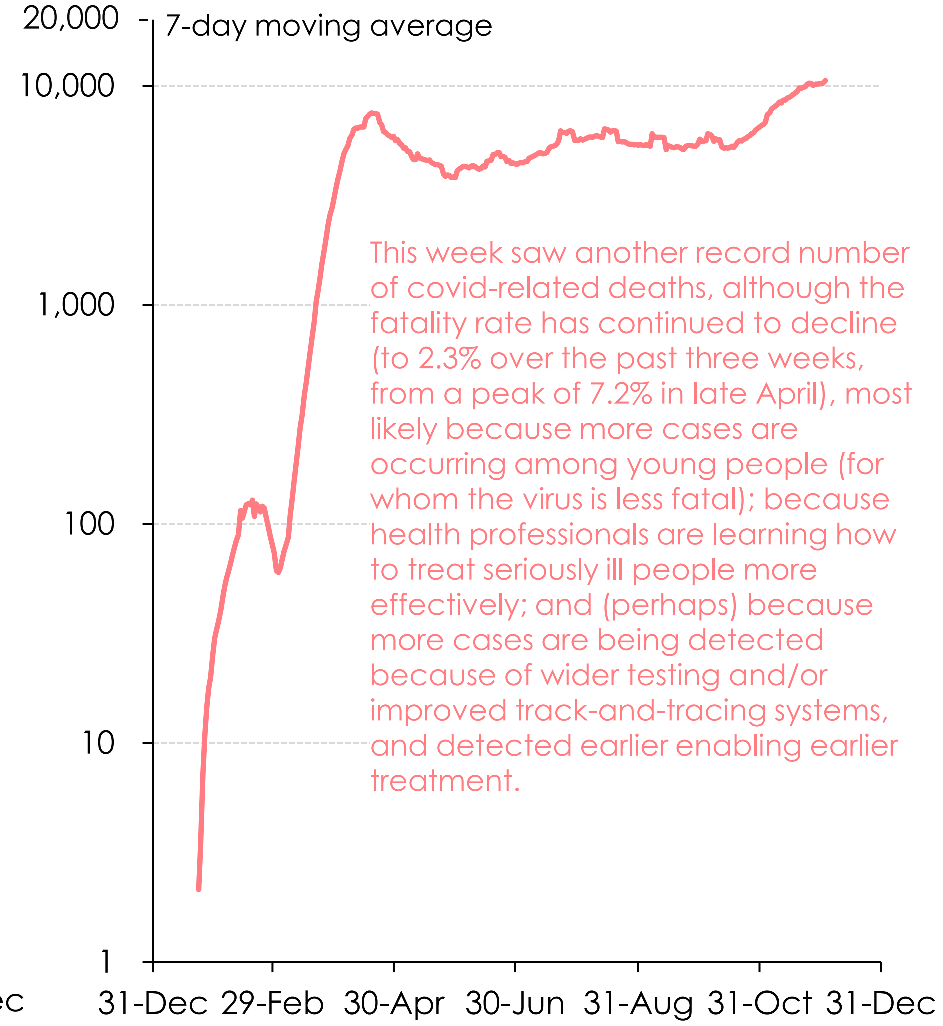
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



Note: All charts are on logarithmic scales. Data up to 3rd December (for the first time since this chart pack commenced, Friday's data was not available at the time of publication). *Source:* University of Oxford, Our World in Data. Return to "What's New".

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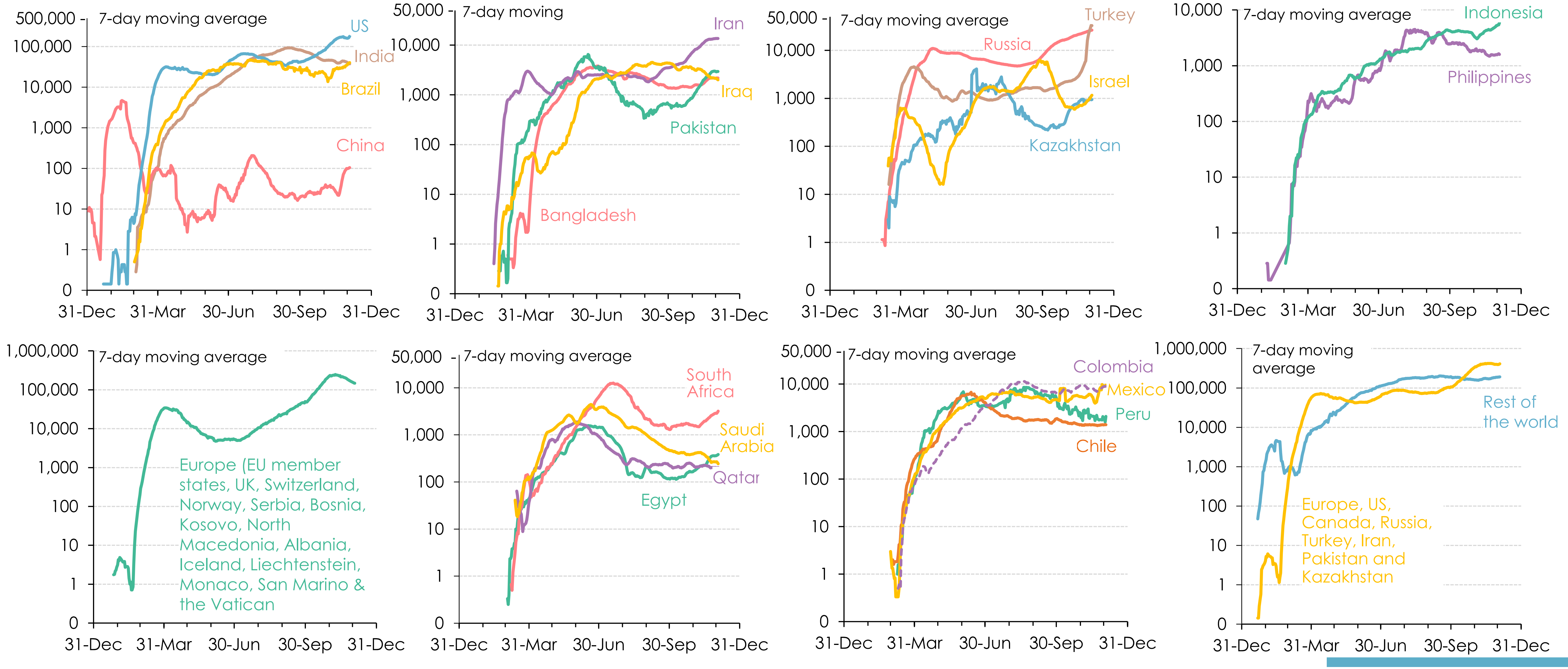
Europe's share of global new cases fell to 25% this week (from a peak of 45% a month ago), the US's rose to 30%, Brazil's to 6¾% and Turkey's to 5½%

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



Note: All charts are on logarithmic scales. Data up to 3rd December. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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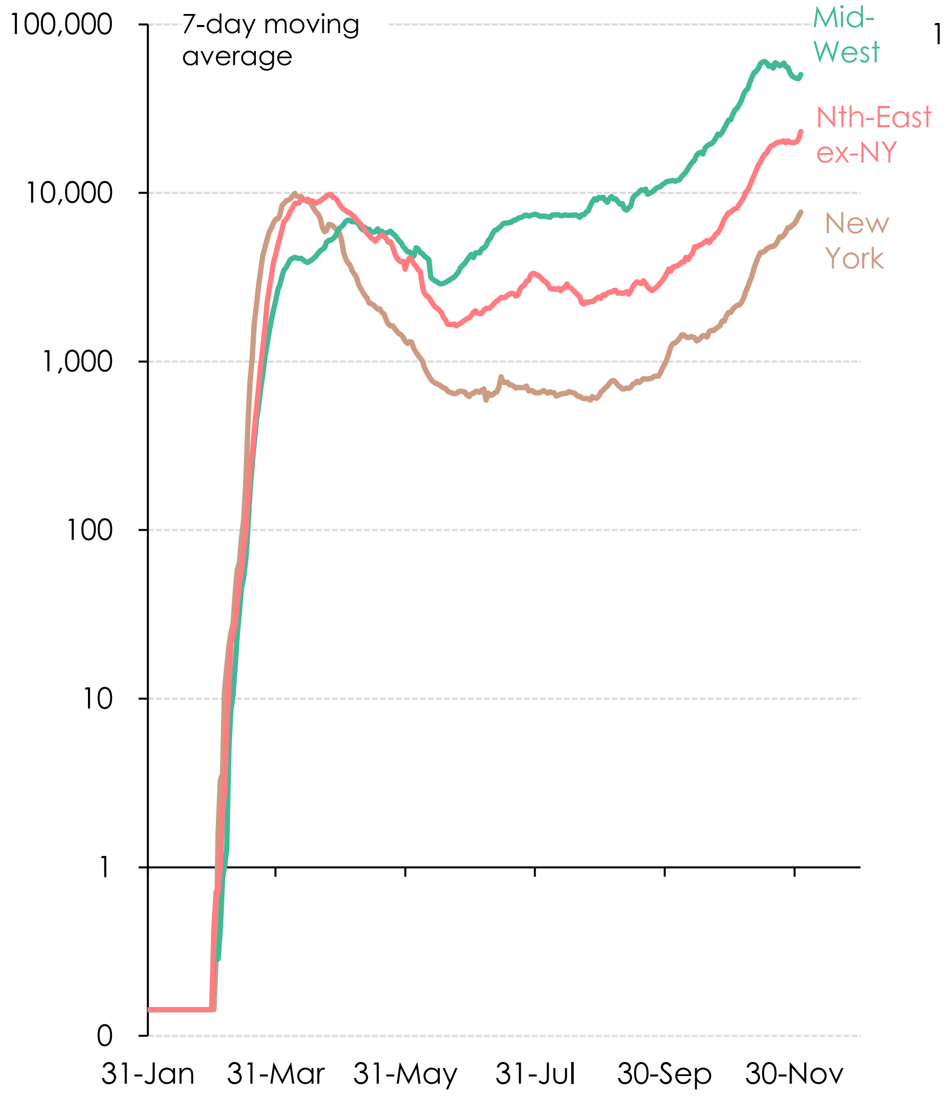
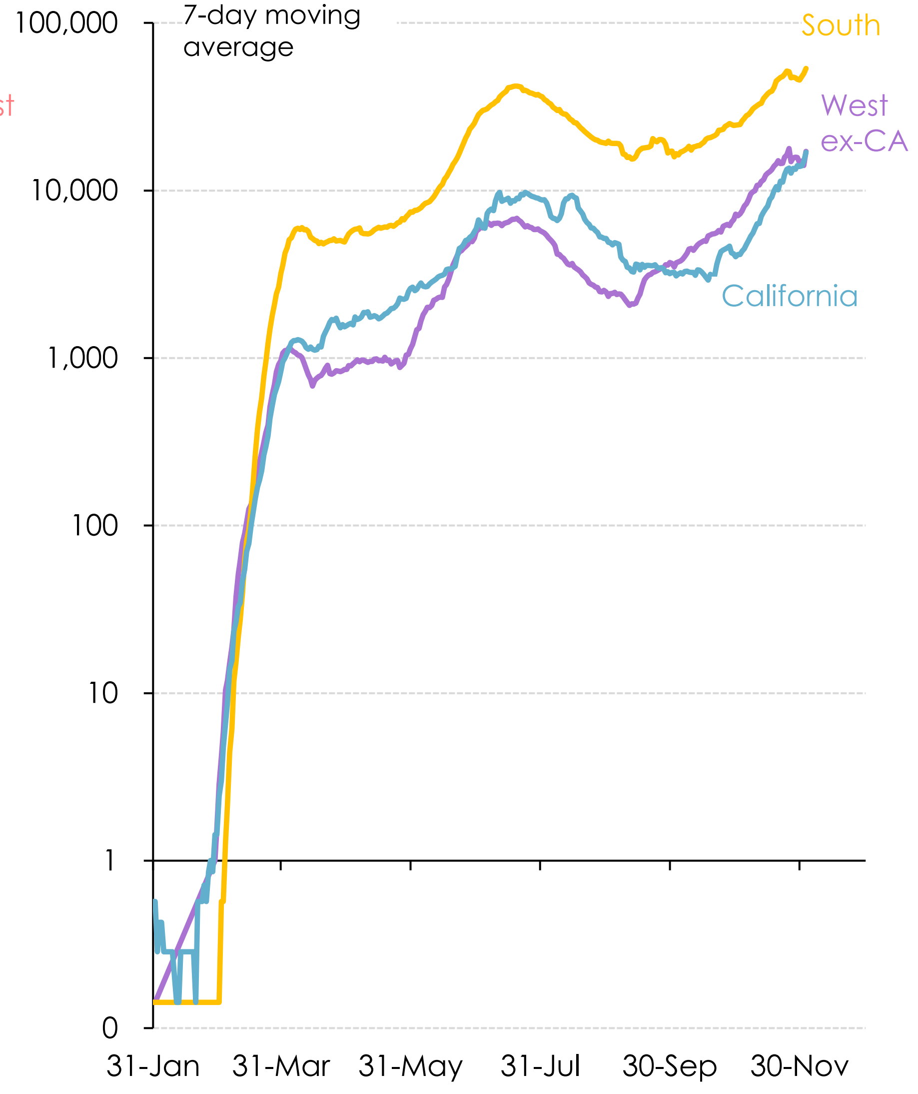
In the US, case numbers are rising most rapidly in the Rocky Mountains and Plains States, the upper Mid-West, and parts of New England

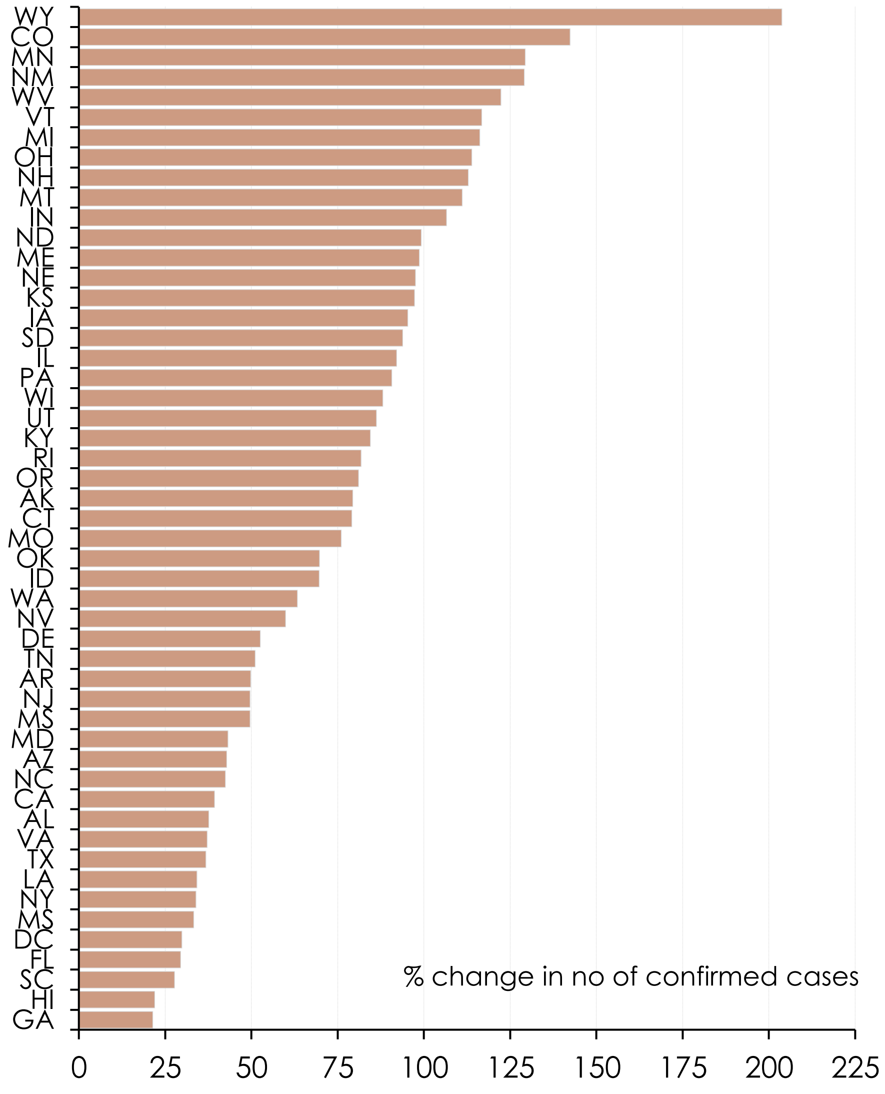
New cases – Mid-West and North-East



New cases – South and West



Increase in cases over past 5 weeks



Note: First two charts are on logarithmic scales. *Sources:* USAFacts; Centers for Disease Control and Prevention; Corinna. Latest data are for 3rd December.

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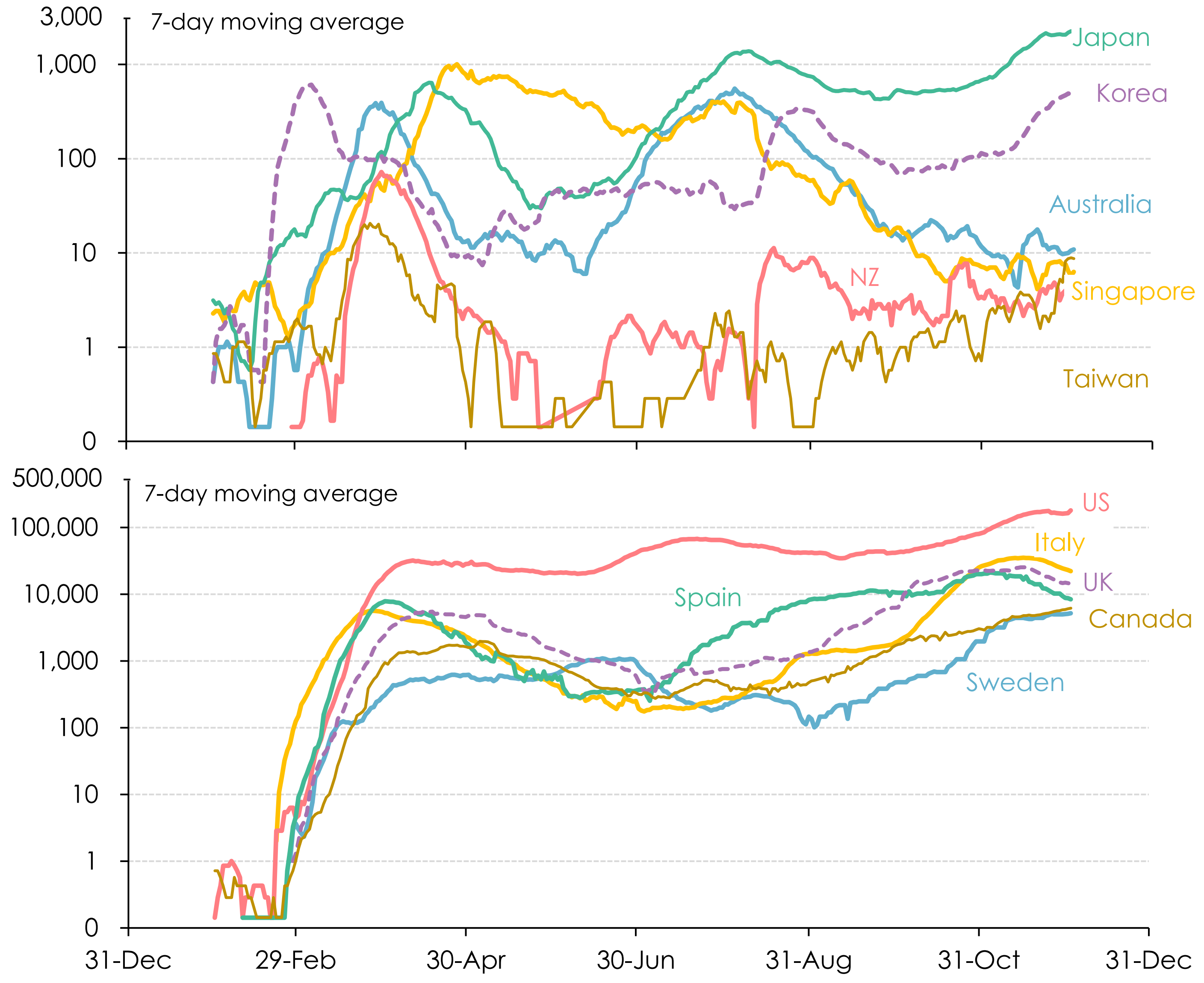
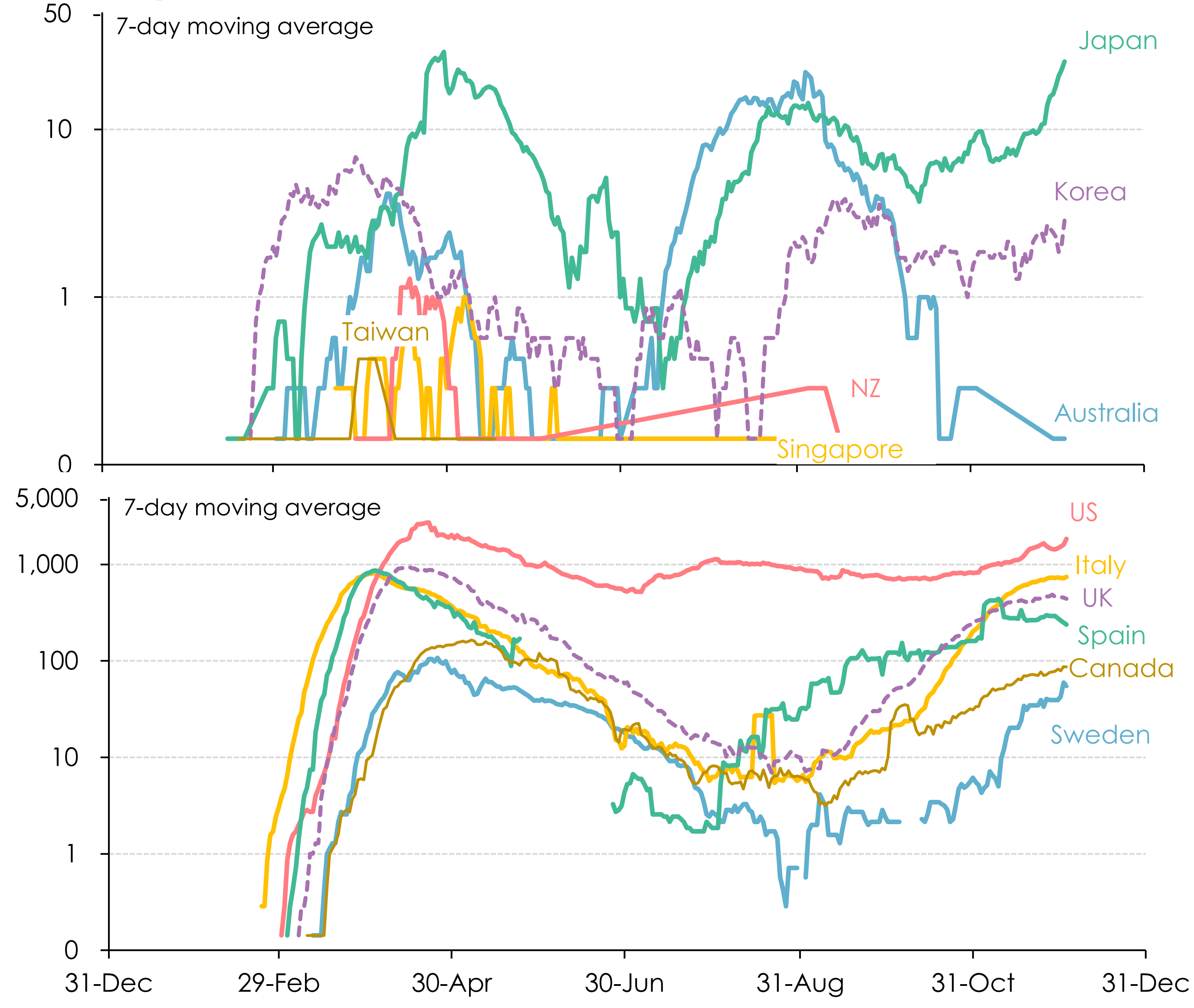
New case numbers and deaths are rising throughout Europe, in North America and in some Asian countries, but declining in Australia

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 3rd December. *Source:* University of Oxford, *Our World in Data*; Corinna. Return to "What's New".

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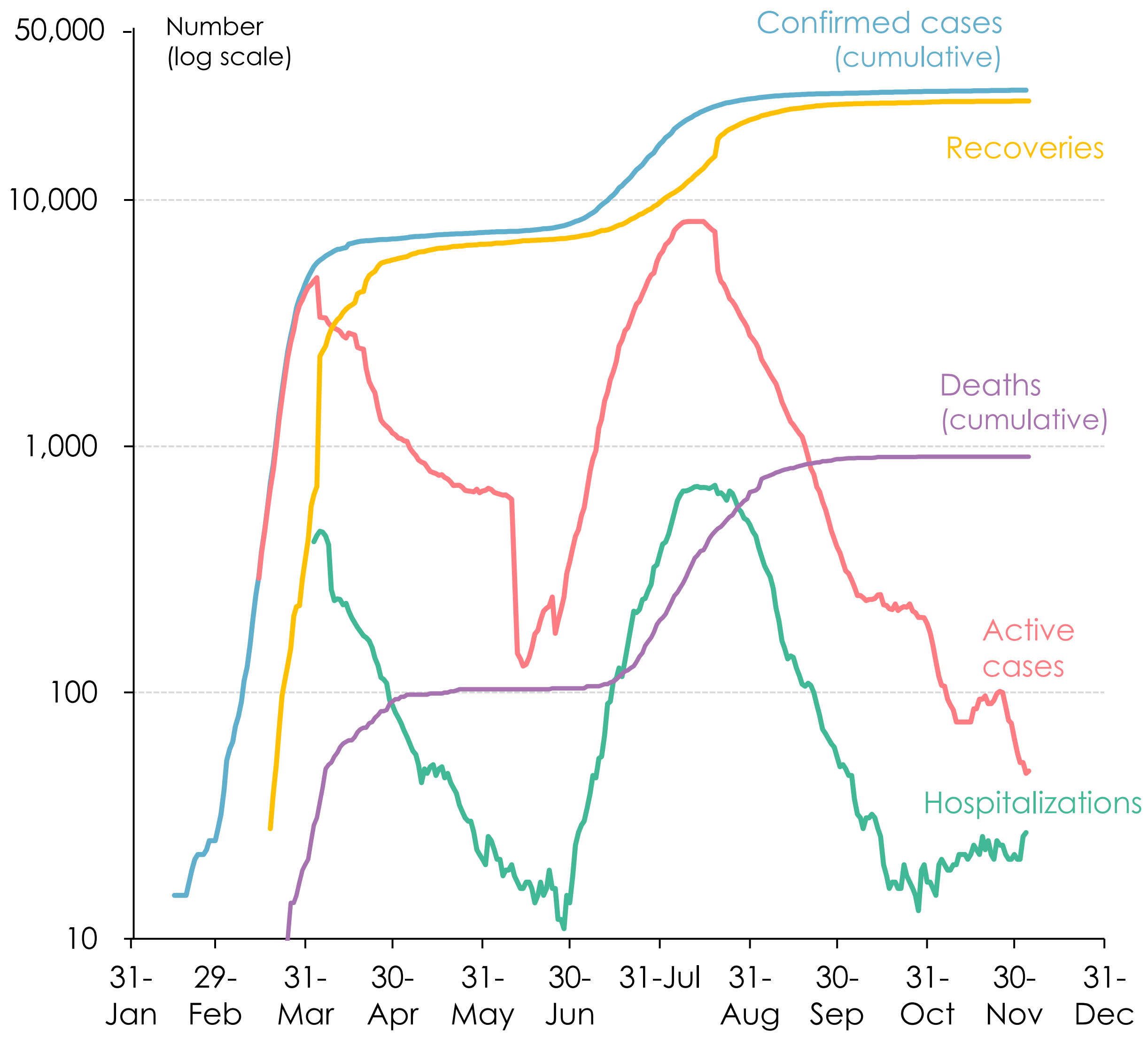
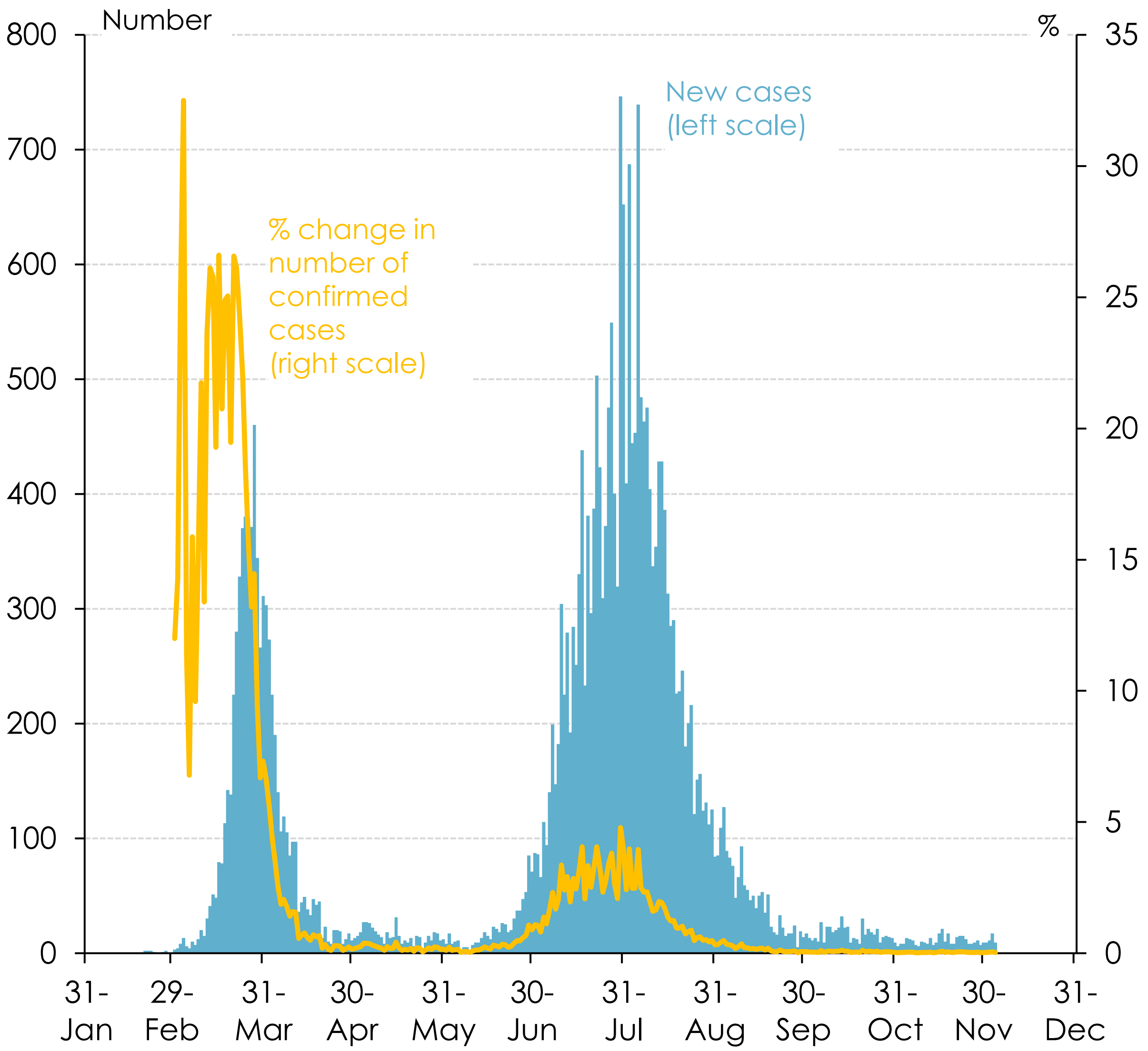
Australia's 'second wave' of infections is now over, despite a brief scare in South Australia this week

Cases, recoveries, hospitalizations and deaths



New cases



Note: Data up to 4th December. *Source:* covid19data.com.au. Return to "What's New".

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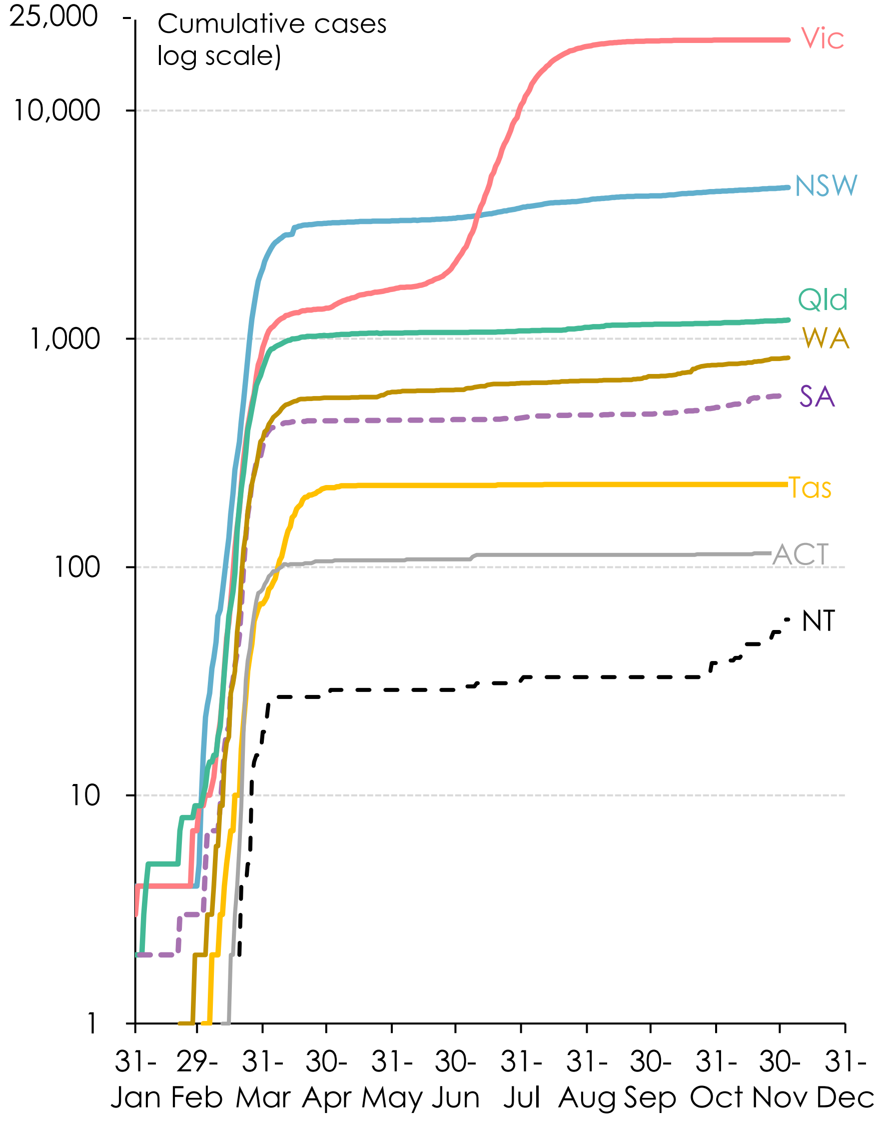
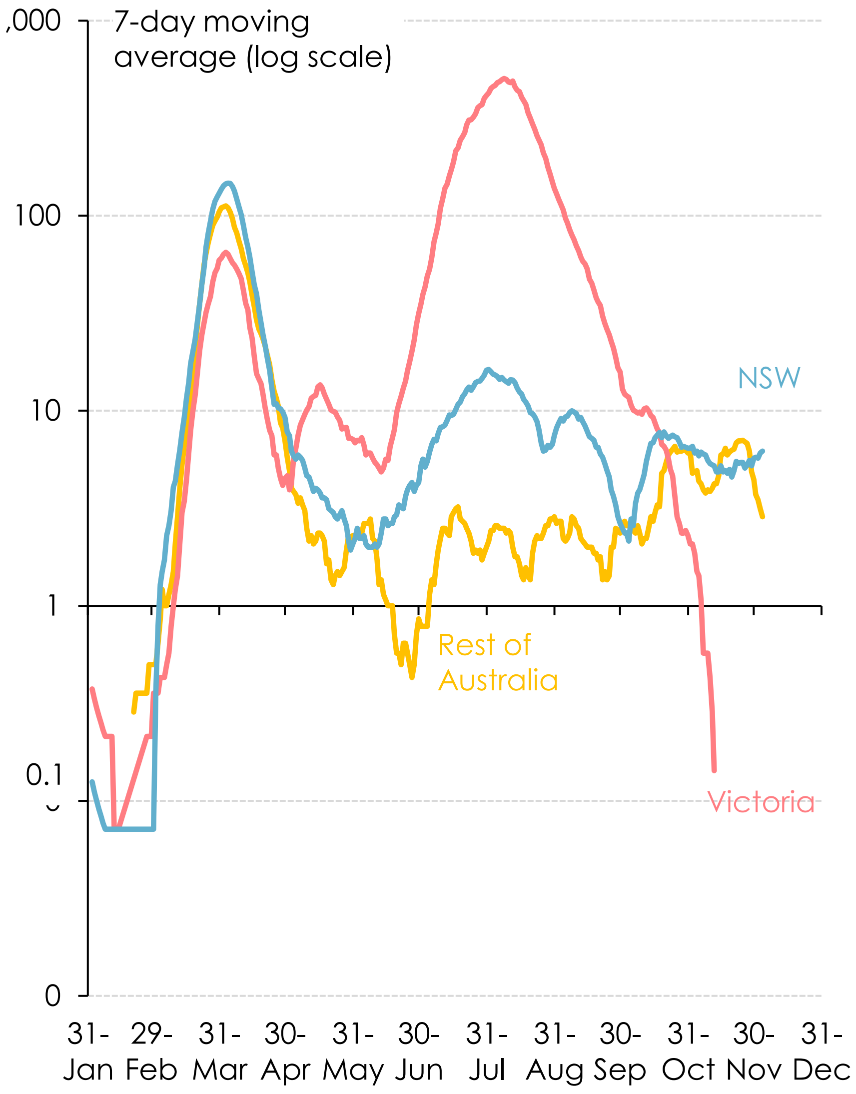
Victoria has had no new cases since 29th October, NSW has averaged 5-6 a day since early November, and the rest of Australia now down to 3 a day

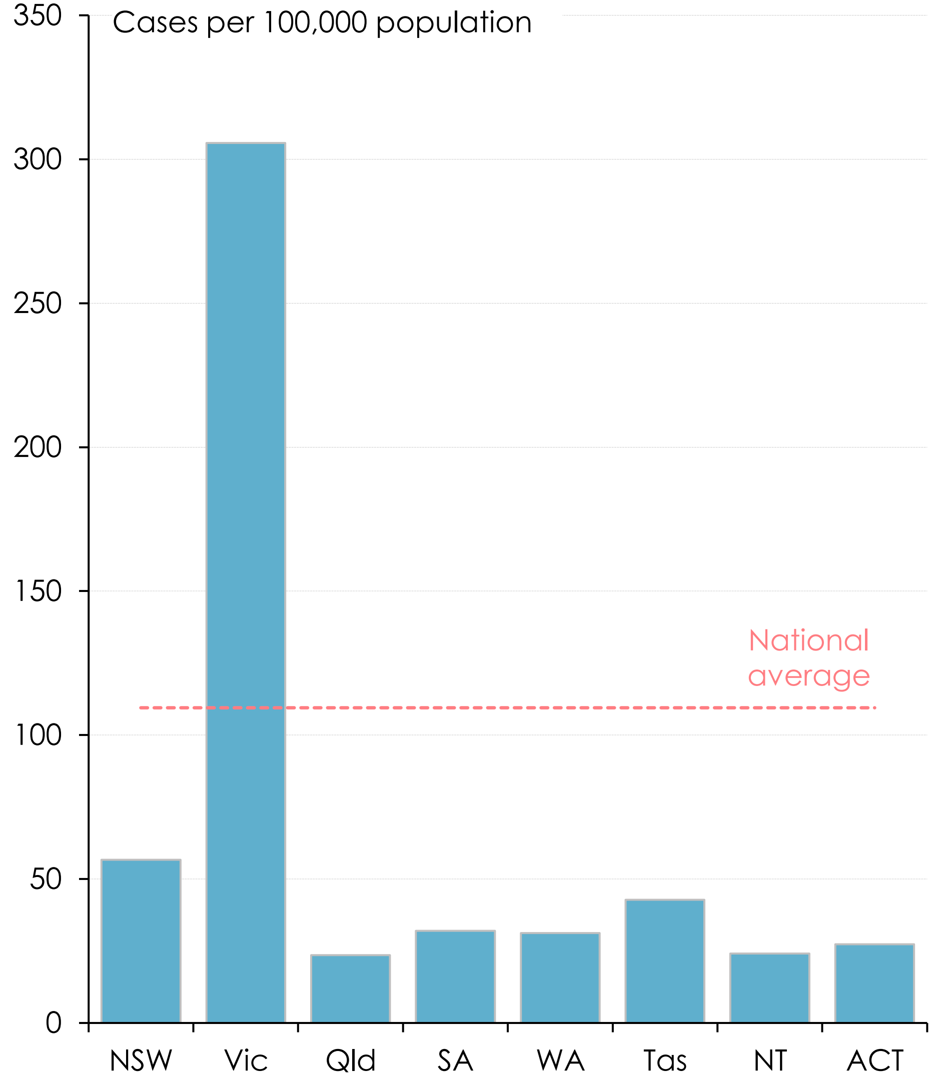
Cumulative cases, by State



New cases



Cases per 100,000 population



Note: Data up to 4th December. *Source* : covid19data.com.au. Return to "What's New".

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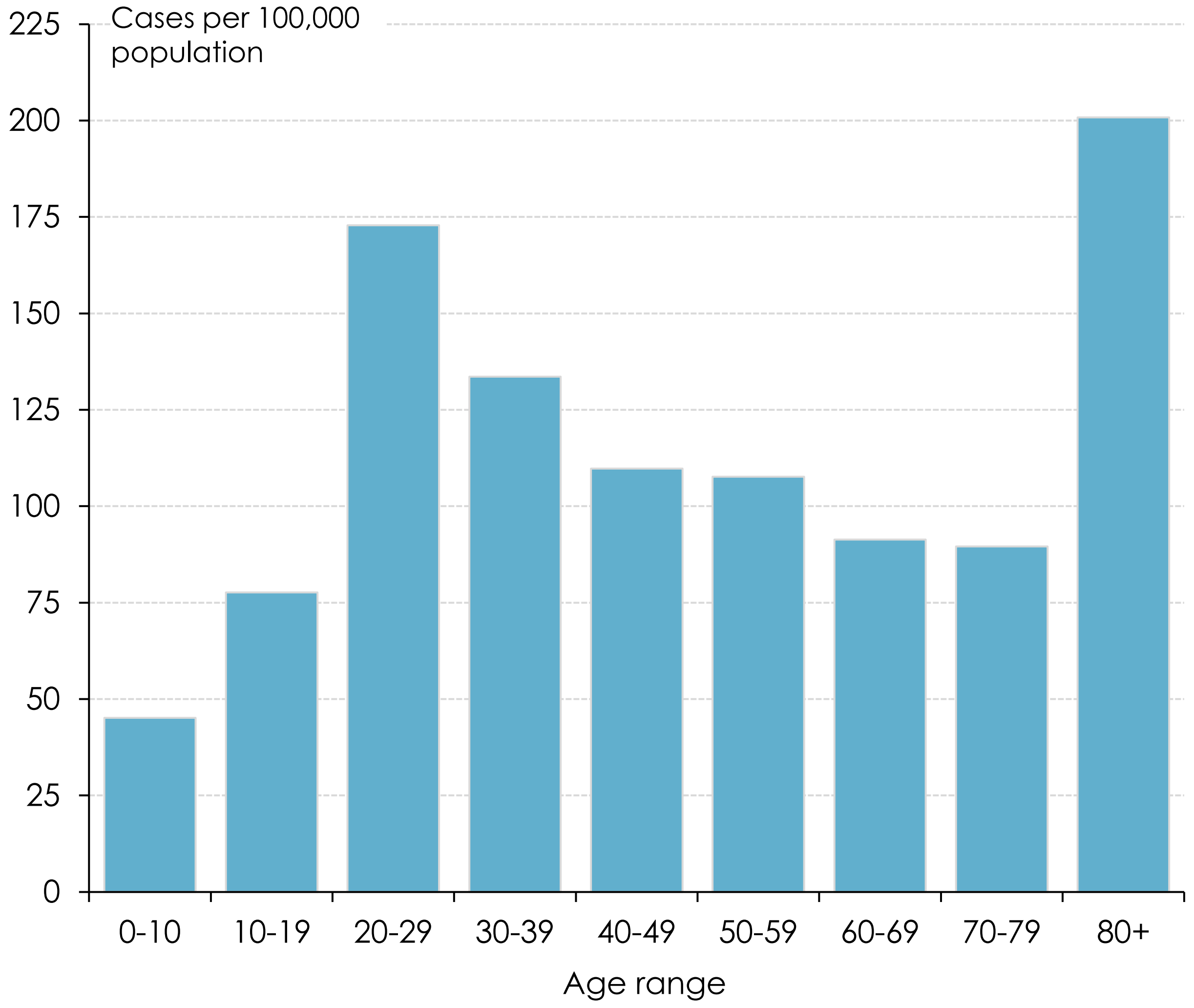
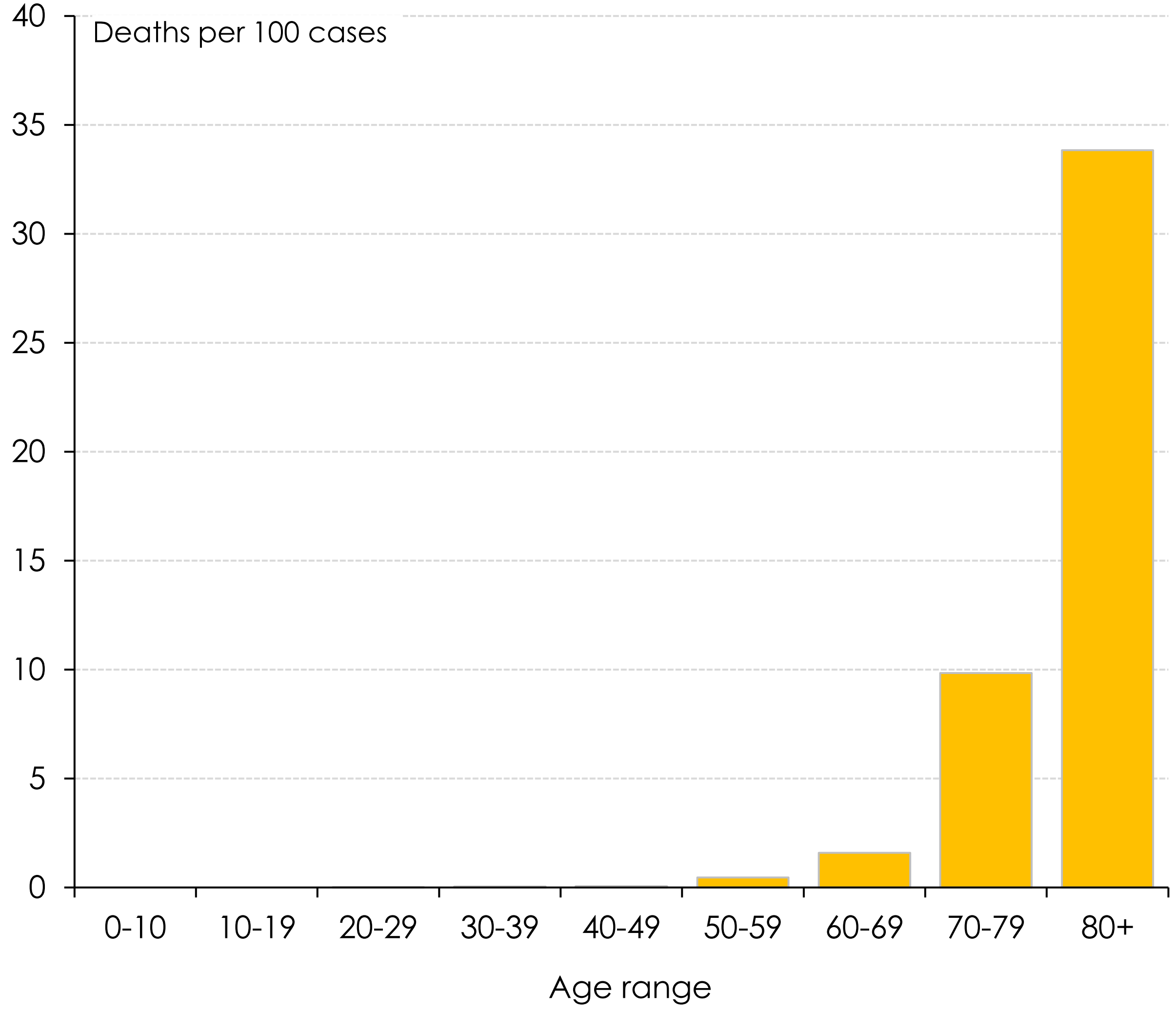
Infection rates now higher among people in their 20s & 30s than among those in their 40s though 70s, though fatality rates are higher for over-60s

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



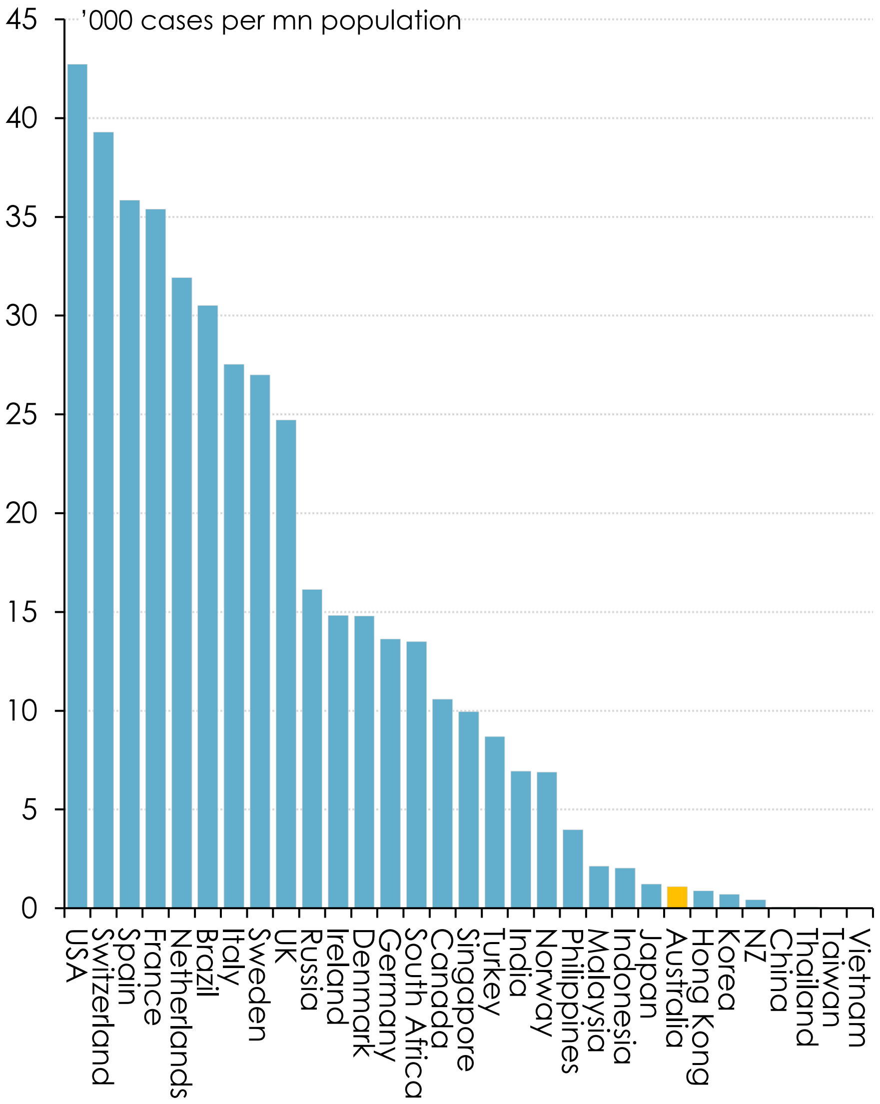
Deaths from Covid-19 per 100 cases, by age group



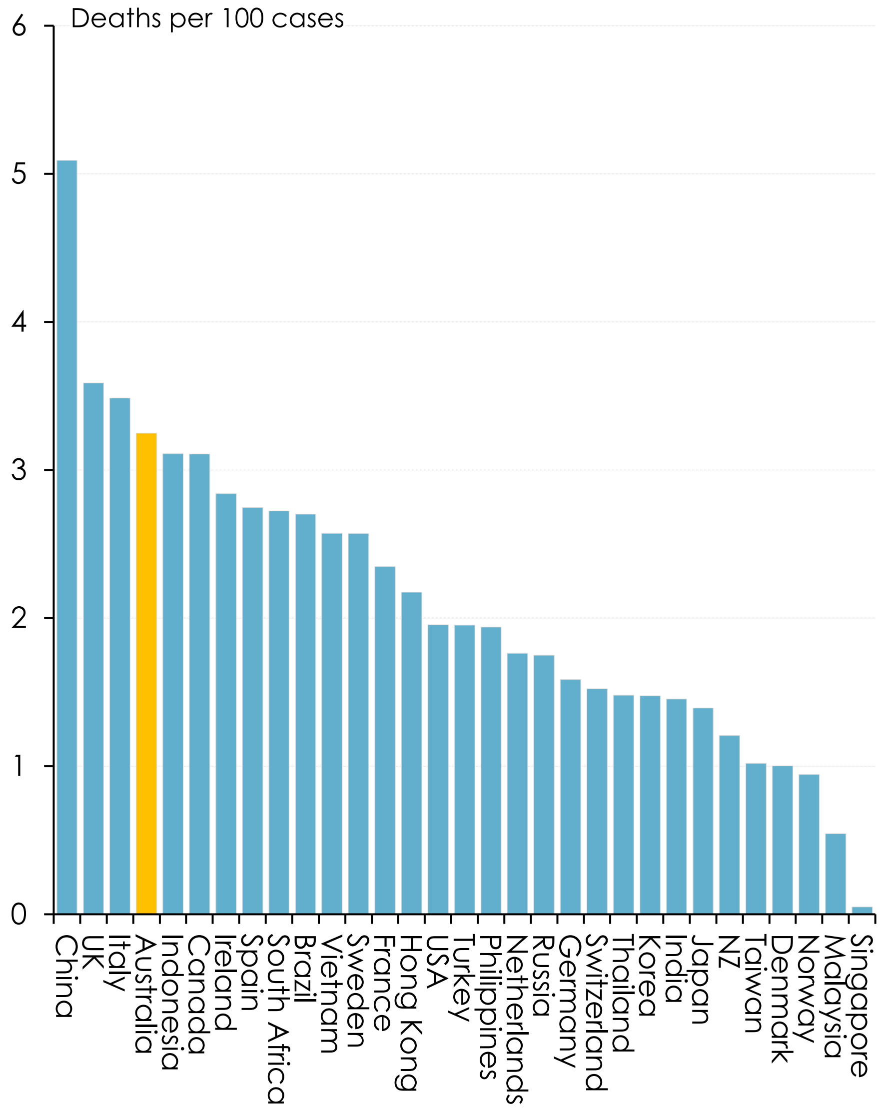
Note: Data up to 4th December. *Source:* Australian Government Department of Health, National Notifiable Diseases Surveillance System; ABS; Corinna.
Return to "What's New“.

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

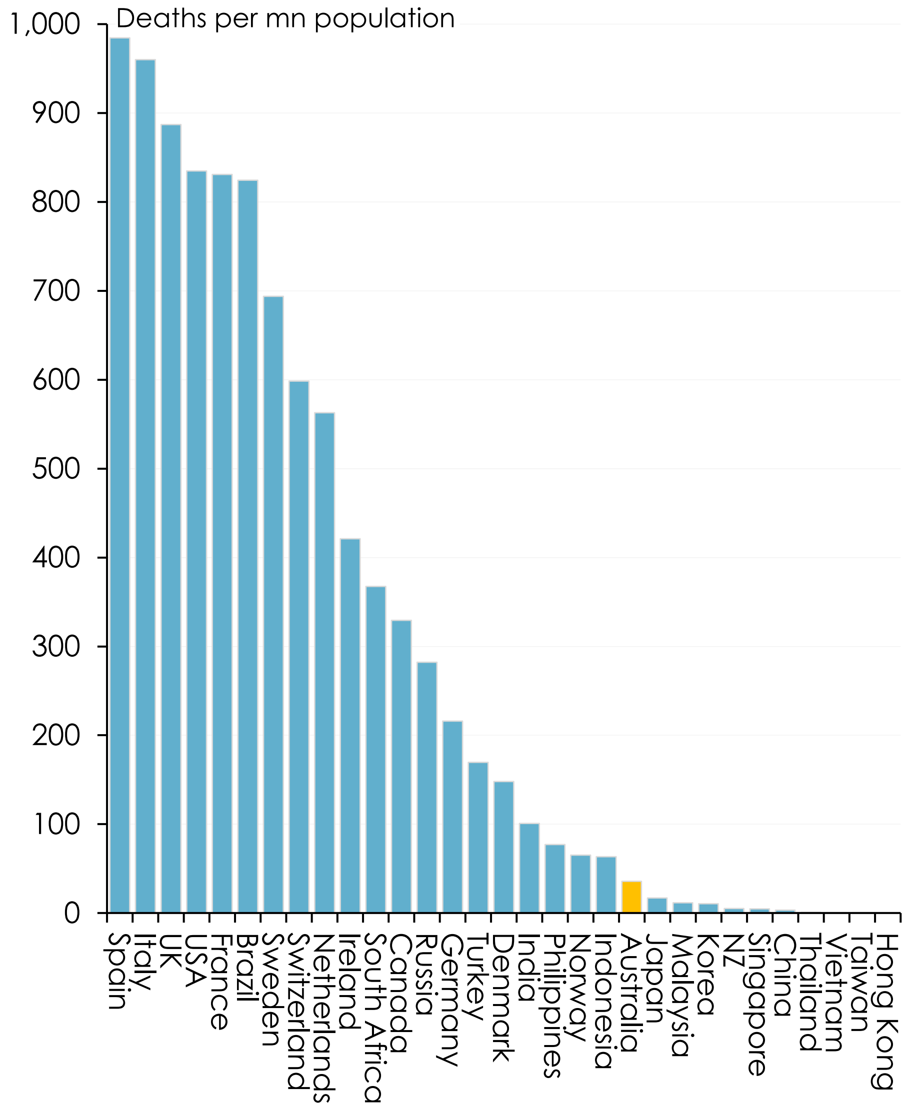
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up 3rd December. *Source:* University of Oxford, [Our World in Data]; Corinna. [Return to "What's New"].

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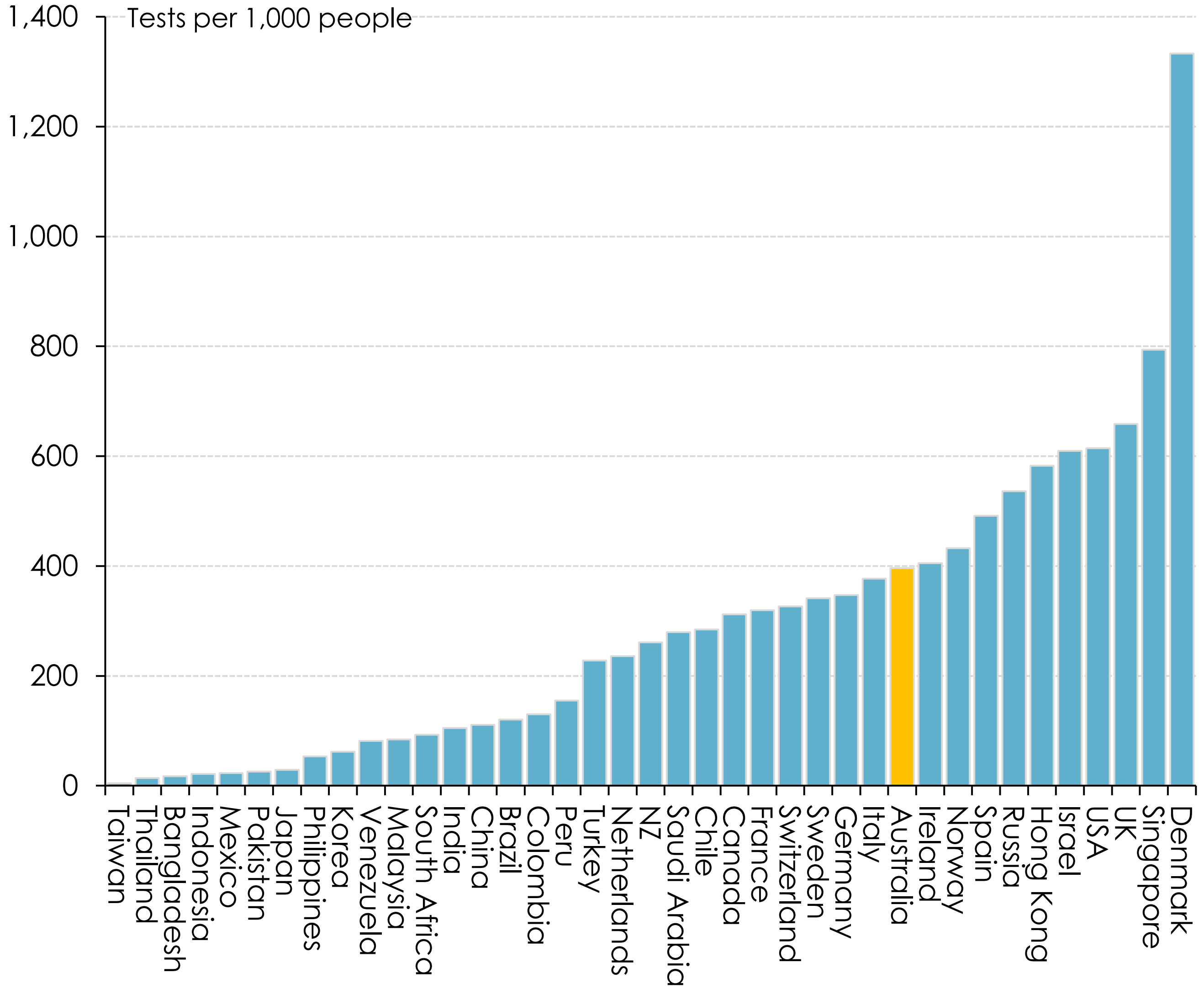
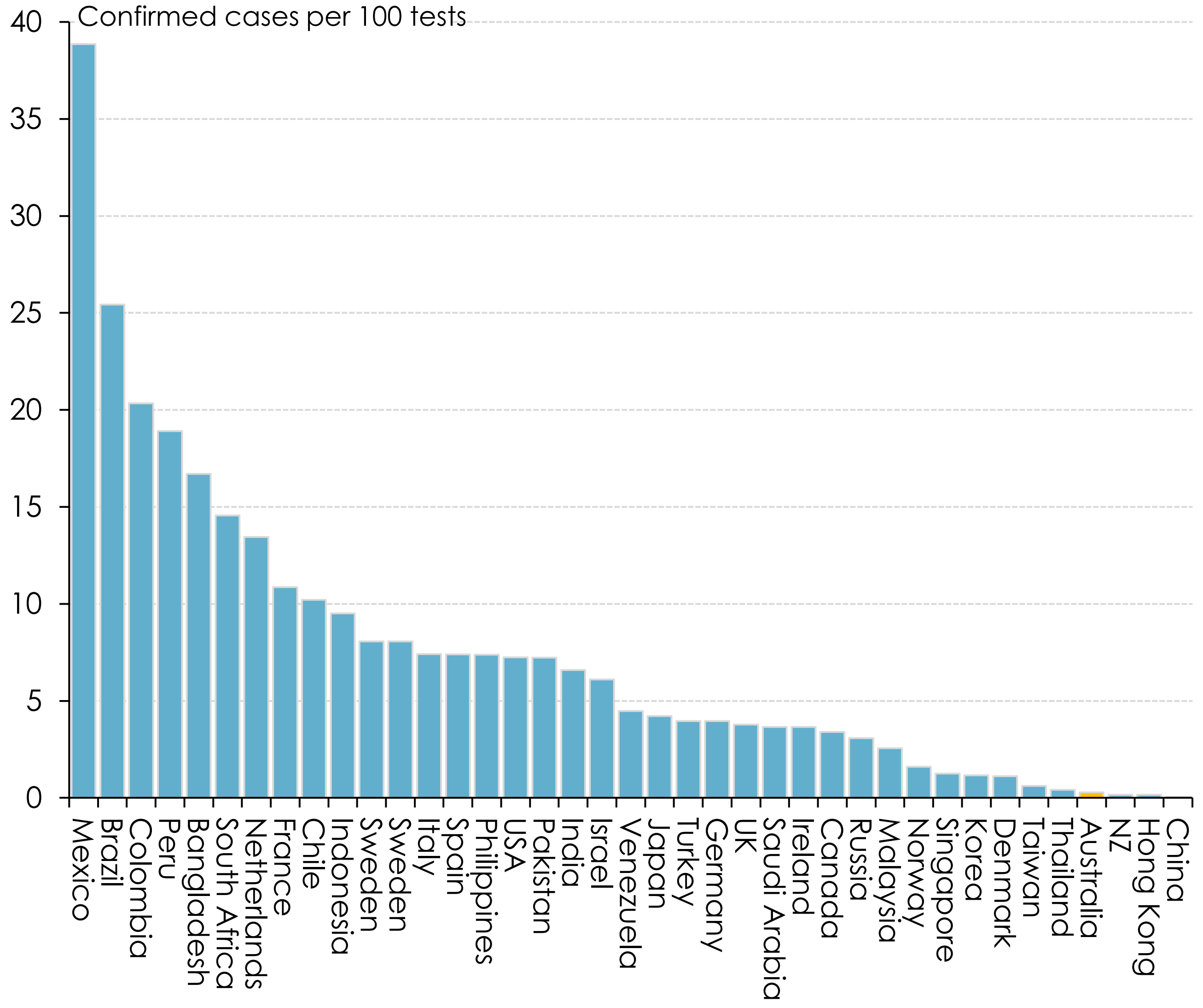
Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per thousand of population



Confirmed cases per 100 tests



Note: Data up to 3rd December (and yes it appears, at face value, that Denmark has tested its entire population at least once, and some of them more than once). 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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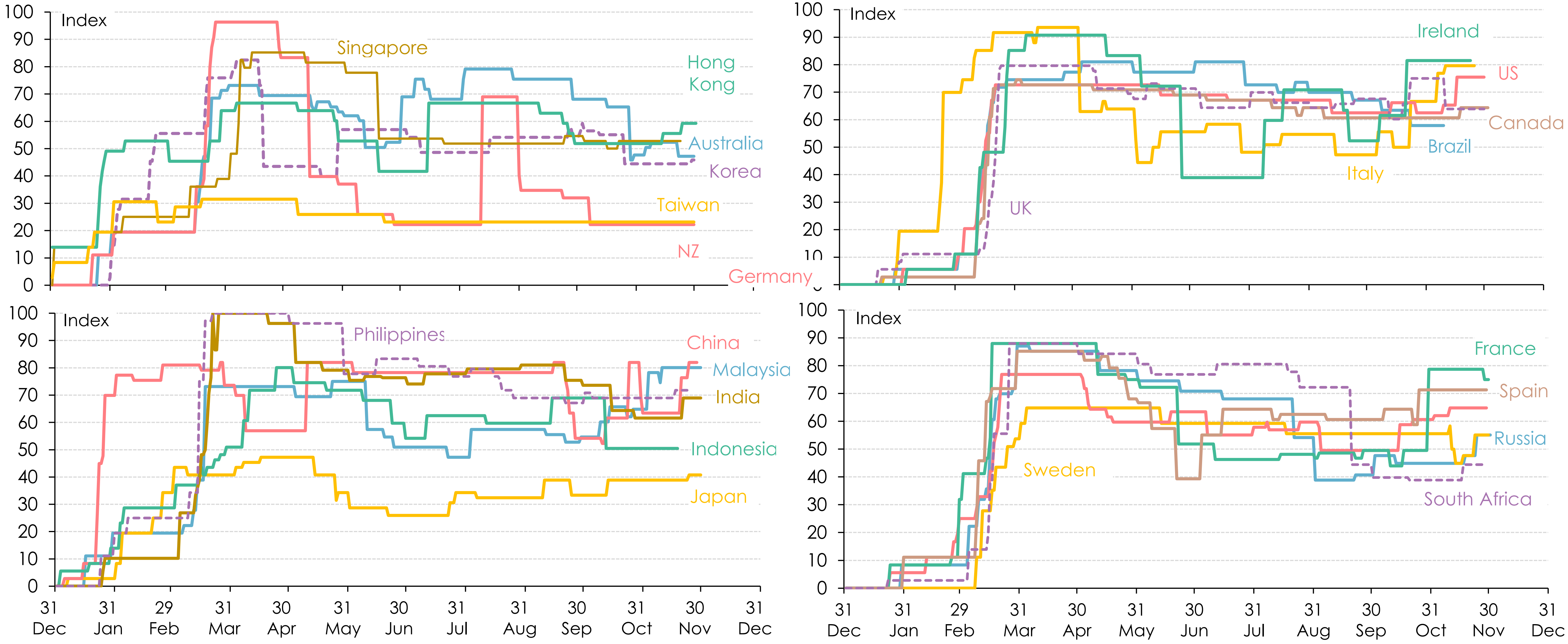
Restrictions have been tightened a little in North Asia this week, and remain tight in most of Europe and much of the United States

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 23rd November – 2nd December (except for Brazil and Indonesia, not updated since 9th and 18th November, respectively). Return to "What's New".

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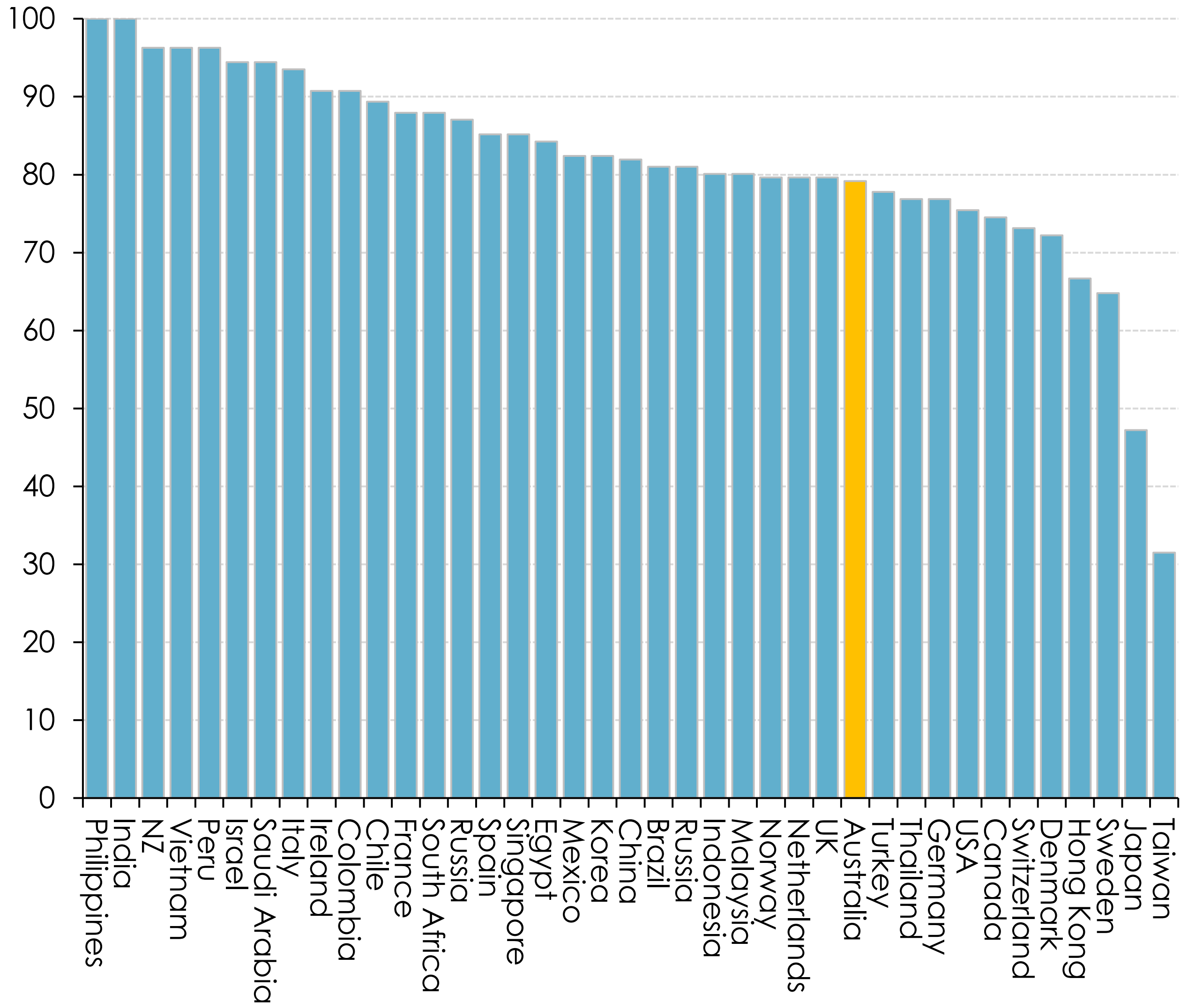
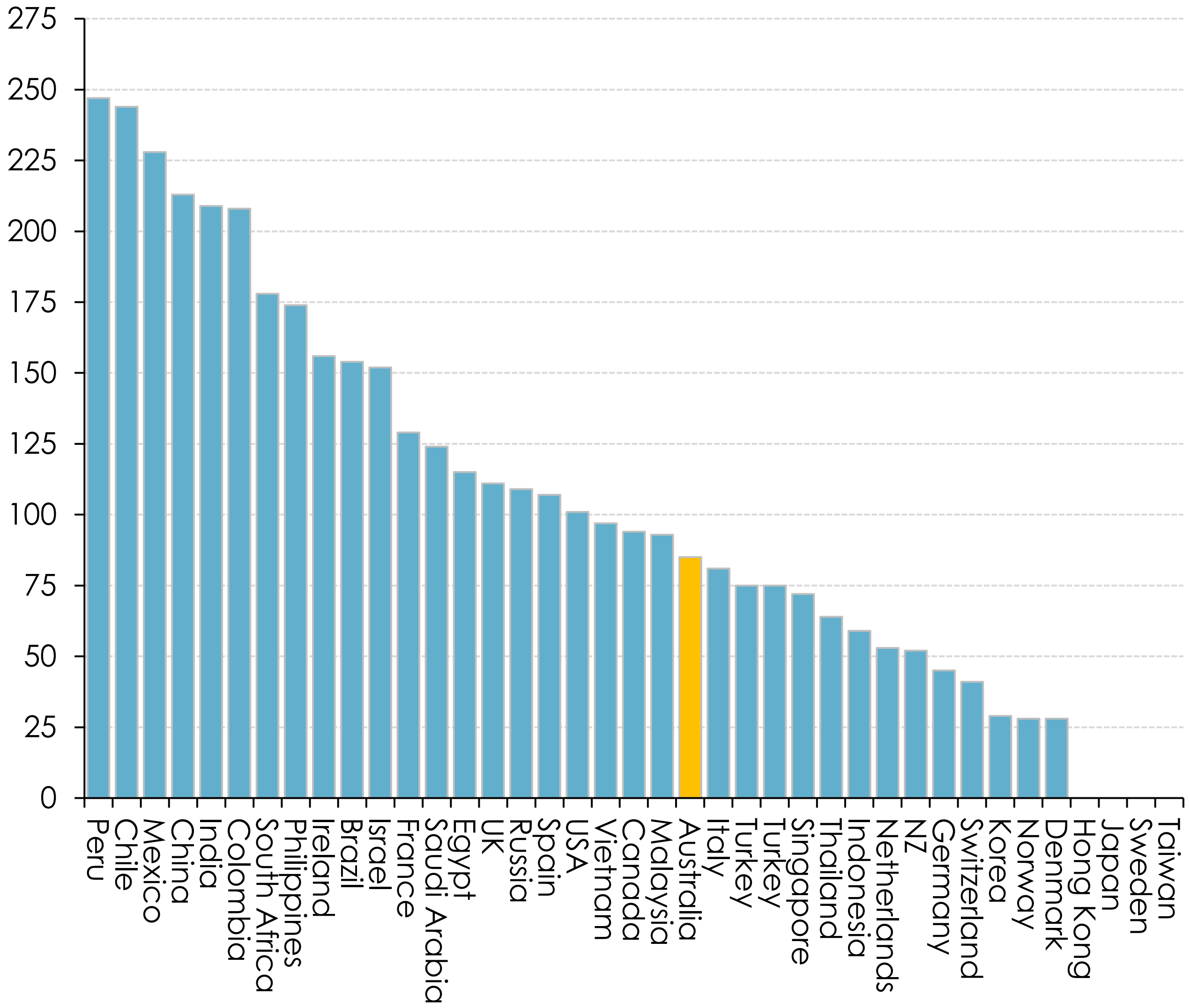
Australia's restrictions have been, on average, less stringent than in most other countries – though we did creep up the list during Victoria's lockdown

Highest level of restrictions imposed



Number of days restrictions above 70 on Oxford index



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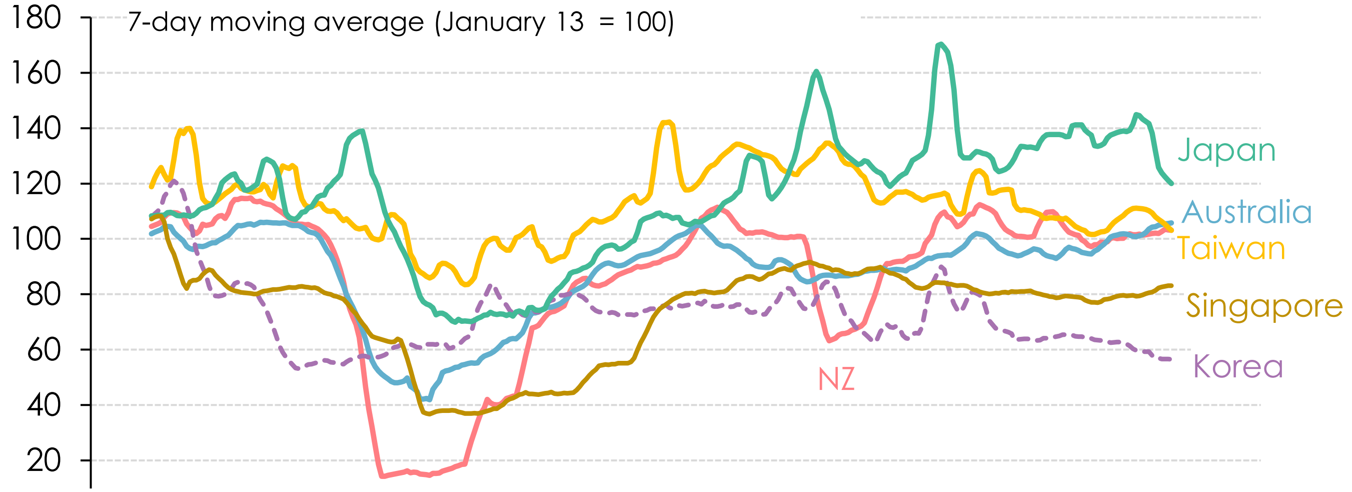
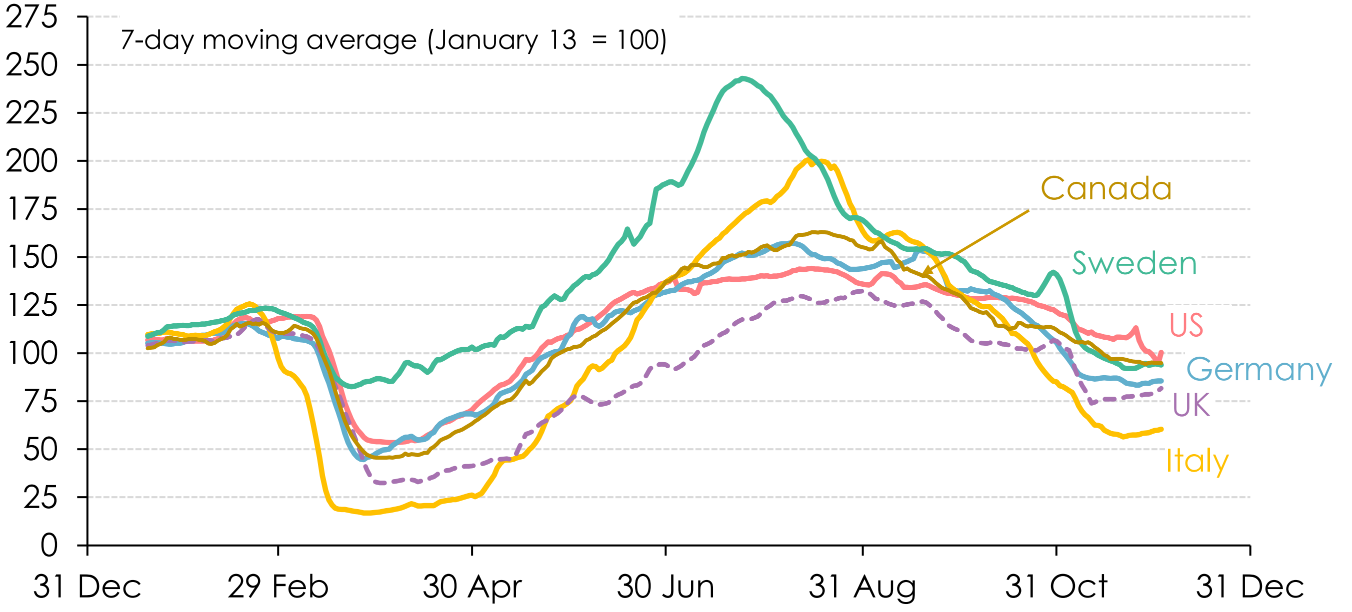
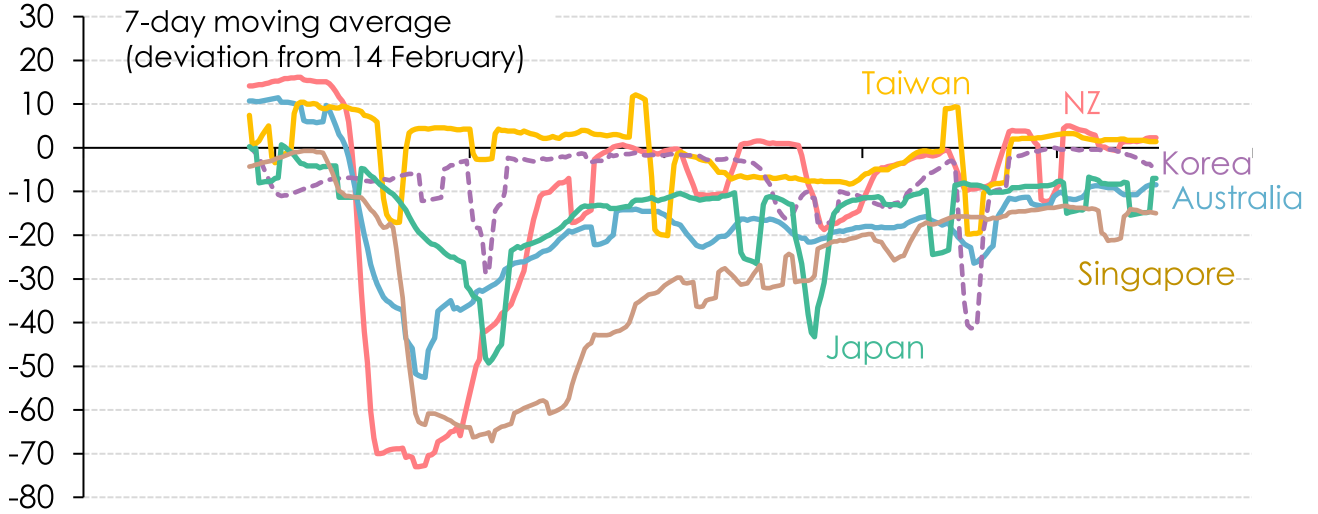
Mobility trends clearly show the slowdown in Europe, and to a lesser extent in the US & Canada, as the 'second wave' spreads

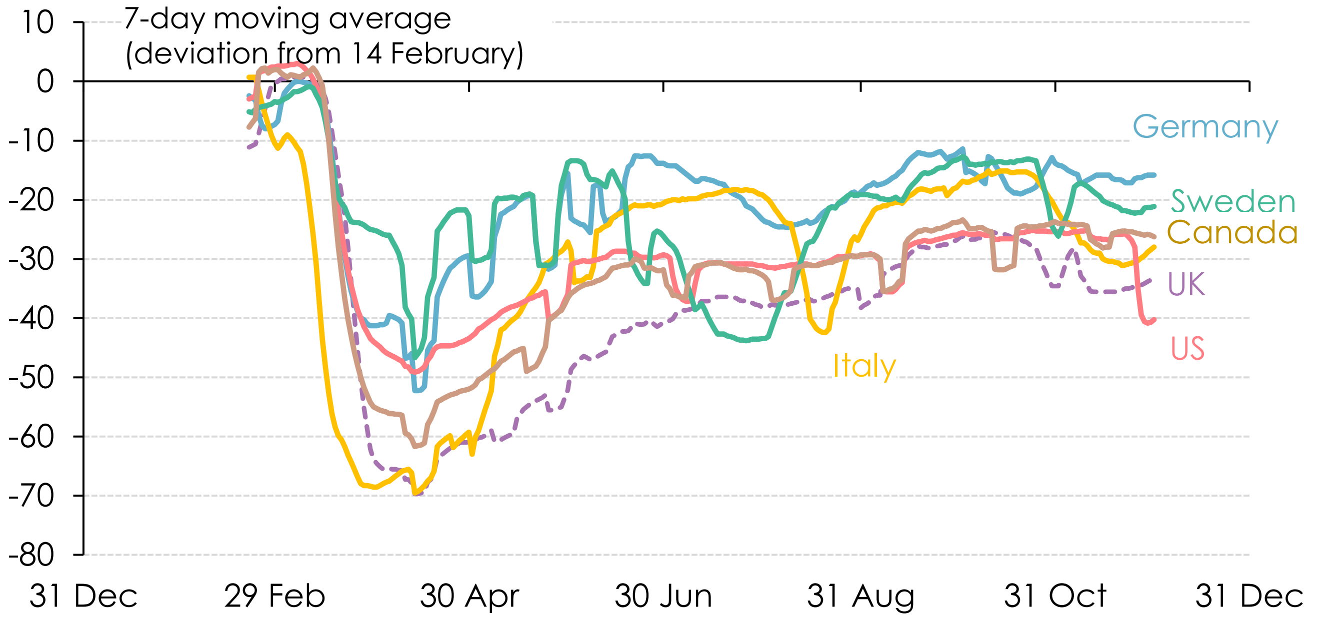
Time spent driving





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 3rd December); Google Community Mobility Reports (data up to 1st December). Return to "What's New".

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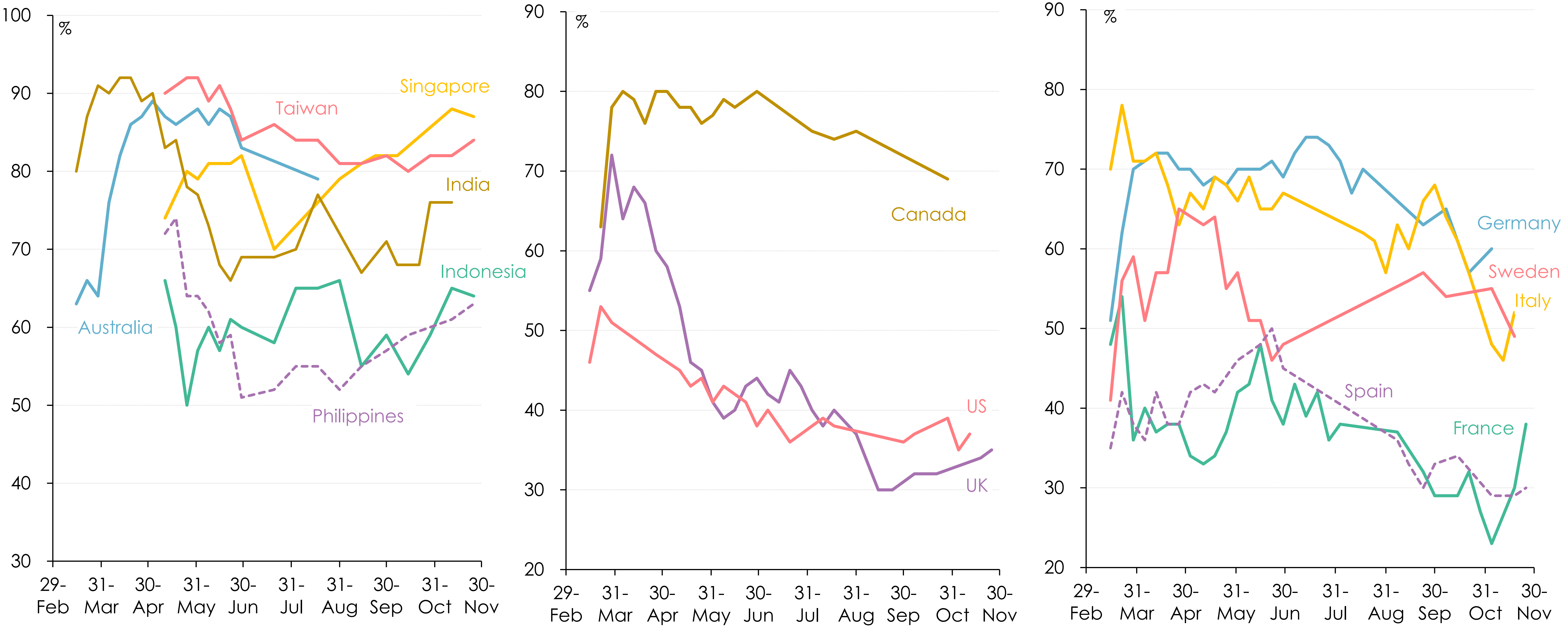
Voters in most Asian countries, Canada approve of their governments' handling of the pandemic, but not so in the US, UK, France or Spain

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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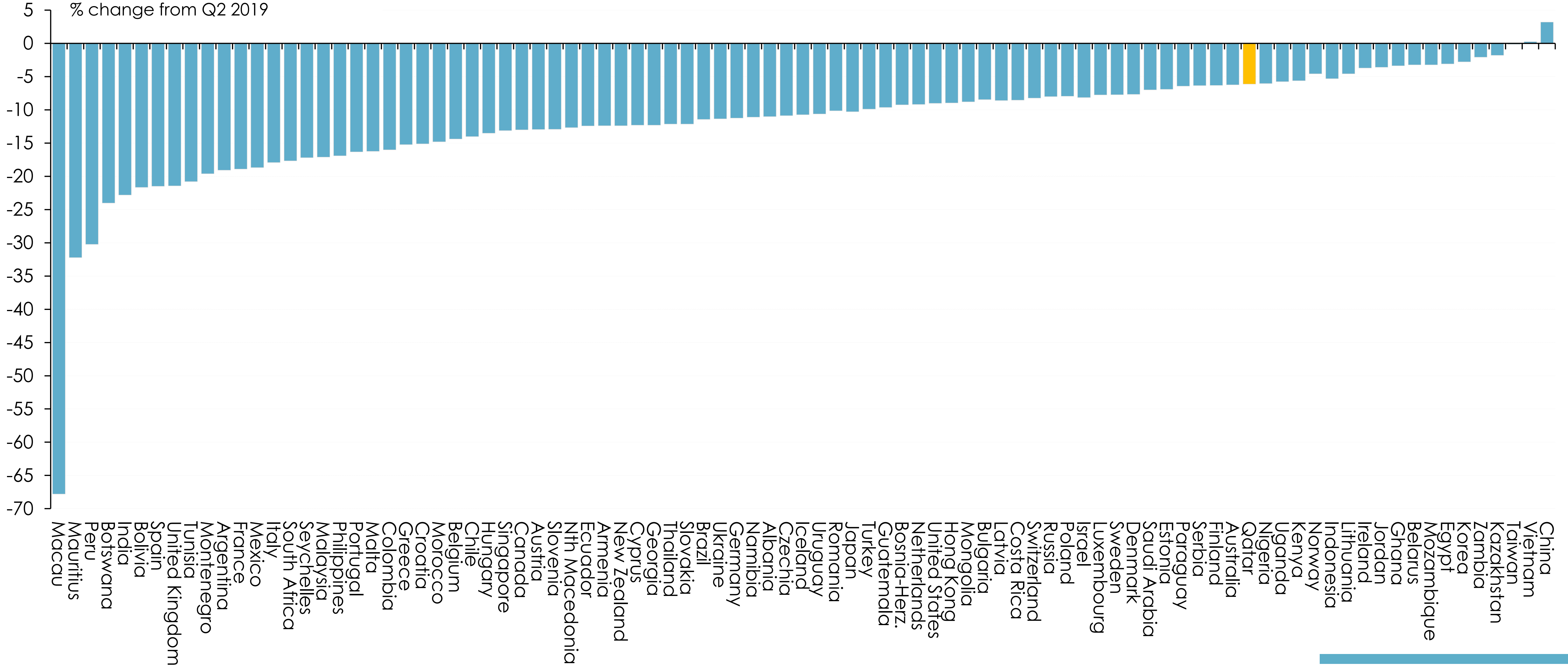
The world

Only 2 out of 91 countries reported positive GDP growth over the year to Q2, with 9 reporting contractions of more than 20% and 39 of more than 10% …

Real GDP growth over the year to Q2 2020



Sources: national statistical agencies and central banks; Refinitiv Datastream; Corinna. Return to "What's New".

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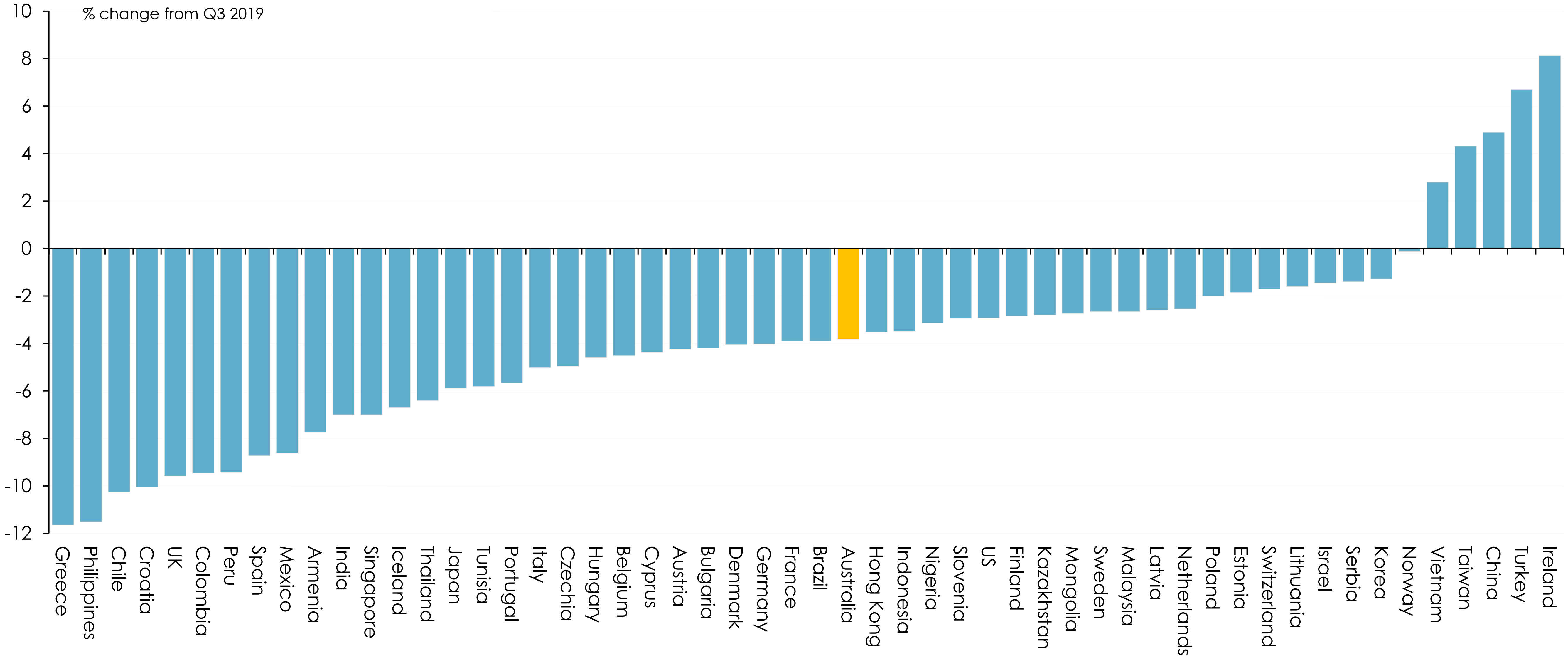
… but of 53 countries which have now reported Q3 numbers, 5 have shown positive growth, while only 4 have contracted by 10% or more from Q3 2019

Real GDP growth over the year to Q3 2020



Sources: national statistical agencies and central banks; Refinitiv Datastream; Corinna. Return to "What's New".

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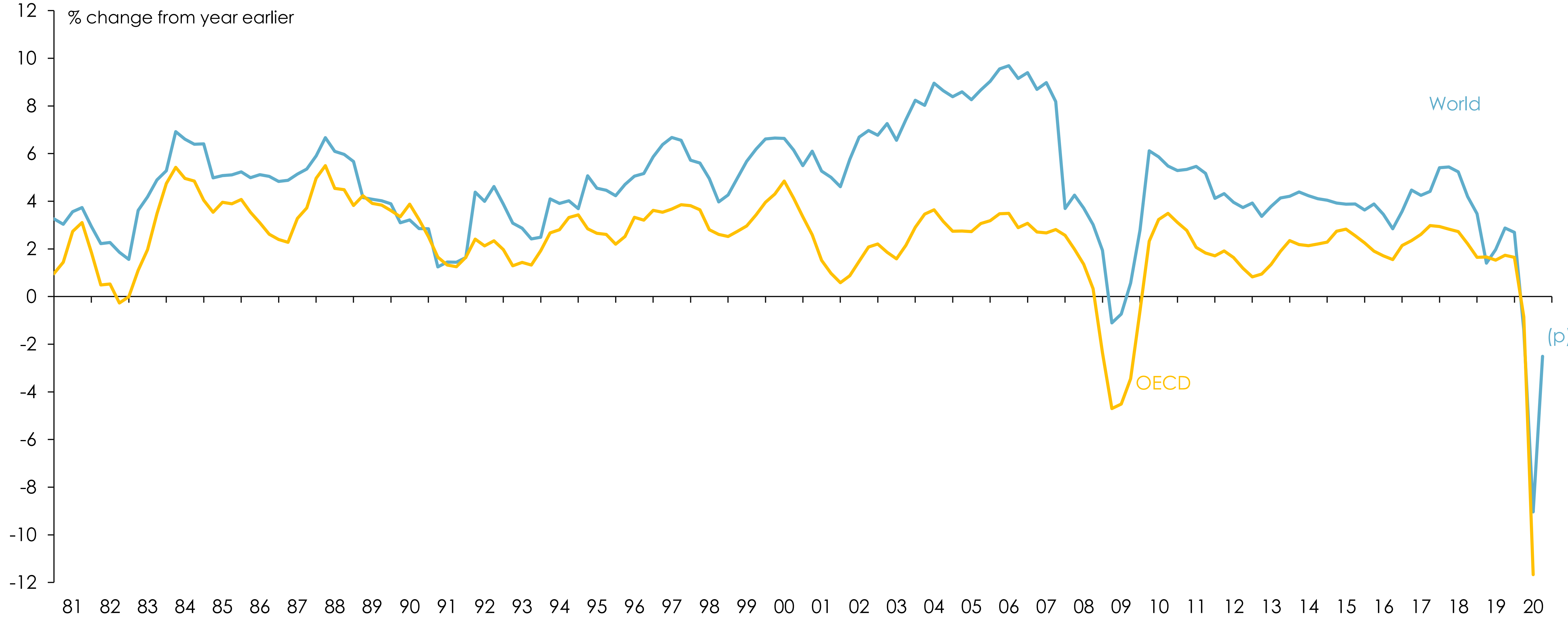
The world economy likely contracted by 2½% over the year to Q3, a sharp improvement from the 9% decline over the year to Q2

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 Q3 is a preliminary estimate based on published results for the 53 countries shown in the previous slide. *Sources:* national statistical agencies and central banks; Eurostat; OECD; IMF; Corinna. Return to "What's New".

The OECD this week revised up its (negative) forecasts for 2020 up a bit, but revised its 2021 forecasts for most countries down (quite a lot)

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	-3.7	3.2	-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	-7.5	3.6	-9.0	3.5
India	4.2	-10.3	8.8	-3.2	3.1	-9.9	7.9	-9.0	9.0
Japan	0.7	-5.3	2.3	-6.1	2.5	-5.3	2.3	-5.8	2.5
UK	1.5	-9.8	5.9	na	na	-11.2	4.2	na	na
Australia	1.8	-4.2	3.0	na	na	-3.8	3.2	-3.8	2.5
New Zealand	2.2	-6.1	4.4	na	na	-4.8	2.7	na	na
World	2.8	-4.4	5.2	-5.2	4.2	-4.2	4.2	-4.5	5.0
World trade	1.0	-10.4	8.3	-13.4	5.3	-10.3	3.9	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 - December 2020*, 1st December 2020; Australian Treasury, 2020-21 Budget Paper No. 1, Statement No. 2 6th October 2020.

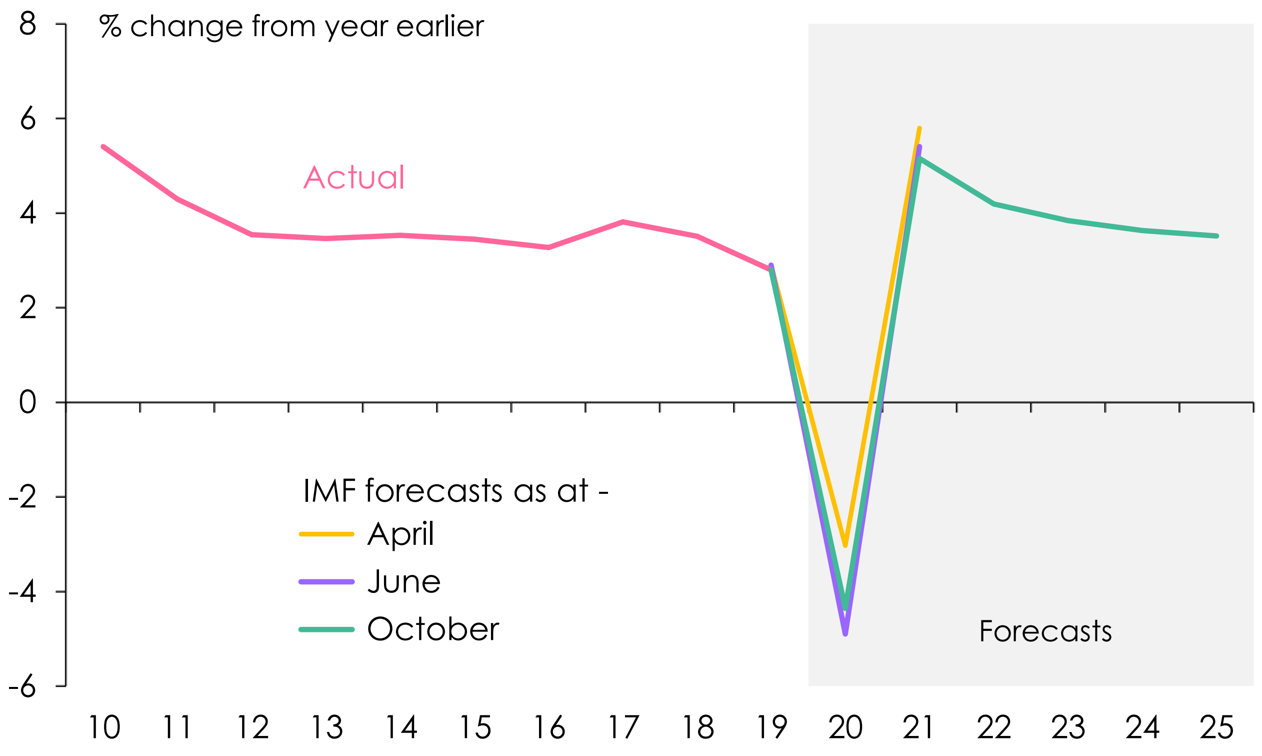
Return to "What's New".

The OECD is now less pessimistic about this year (although it's still pretty grim), but also less optimistic about next year

- The OECD's latest semi-annual *Economic Outlook* (published this week) revises up its previous forecast for global growth in 2020 (from -6% to -4¼%) but revises down its forecast for 2021 (from +5¼% to 4¼%), and projects (for the first time) a further slowing to 3¾% in 2022
  - it is less pessimistic about the outlook both the US and the euro area this year (revising its growth forecast for the former from -7¼% to -3¾% and the latter from -9% to -7½%), and also China (revising up from -2½% to +1¾%) – but much more pessimistic about India, revising its forecast down (from -3¾% to -10%)
  - however it has significantly downgraded its expectations for recovery next year in the US (from +4% to +3¼%) and even more so the euro area (from +6½% to +3½%), while revising up its forecast for China (from 6¾% to 8%, but then followed by a slowdown to 5% in 2022), leaving unchanged its forecast for India (at 8%)
  - for Australia the OECD revised its 2020 forecast up from -5% to -3¾%, but lowered its 2021 forecast from 4% to 3¼%, followed by 3% in 2021
  - while it also raised its 2020 forecast for New Zealand from -9% to -4¾%, and lowered its 2021 forecast from 6½% to 2¾%
- The OECD predicts that the recovery will be "uneven across countries, potentially leading to lasting changes in the world economy"
  - it notes that "the economic impact of the pandemic has been relatively well contained in many Asia-Pacific and Northern European economies" but "other parts of Europe and other emerging economies have [experienced] much deeper declines in output"
  - the median advanced and emerging-market economy "could have lost the equivalent of 4 to 5 years of per capita real income growth by 2022"
- Like the IMF, the OECD counsels that "fiscal support needs to be maintained over the next few years but its size and nature should adapt"
  - "opting for a full and early expiry of special programs in 2021 should be avoided, or offset with other more targeted measures"
  - but policy also needs to ensure that "unviable firms are not supported for an extended period" and that "targeted assistance helps to preserve incentives for work and job search"

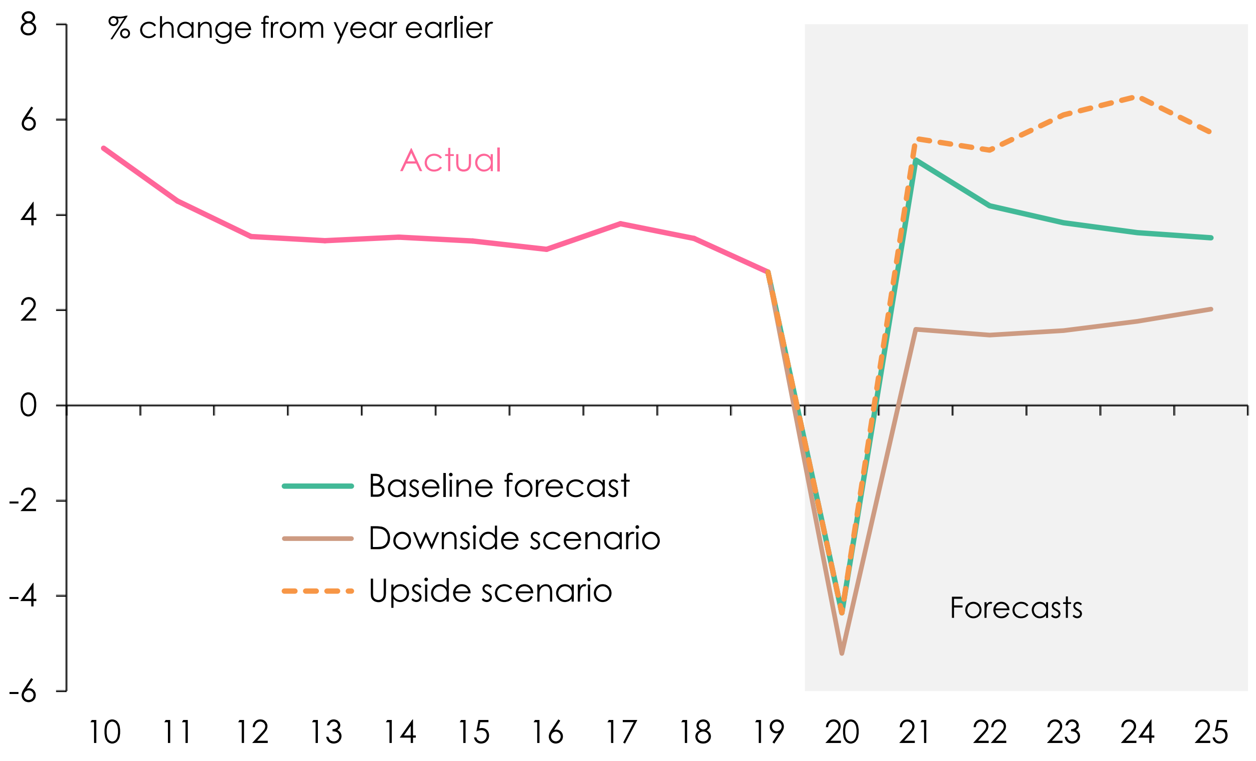
The IMF's latest forecasts envisage a 'long, uneven and uncertain ascent' from the 2020 recession, with 'lasting damage to supply potential'

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'

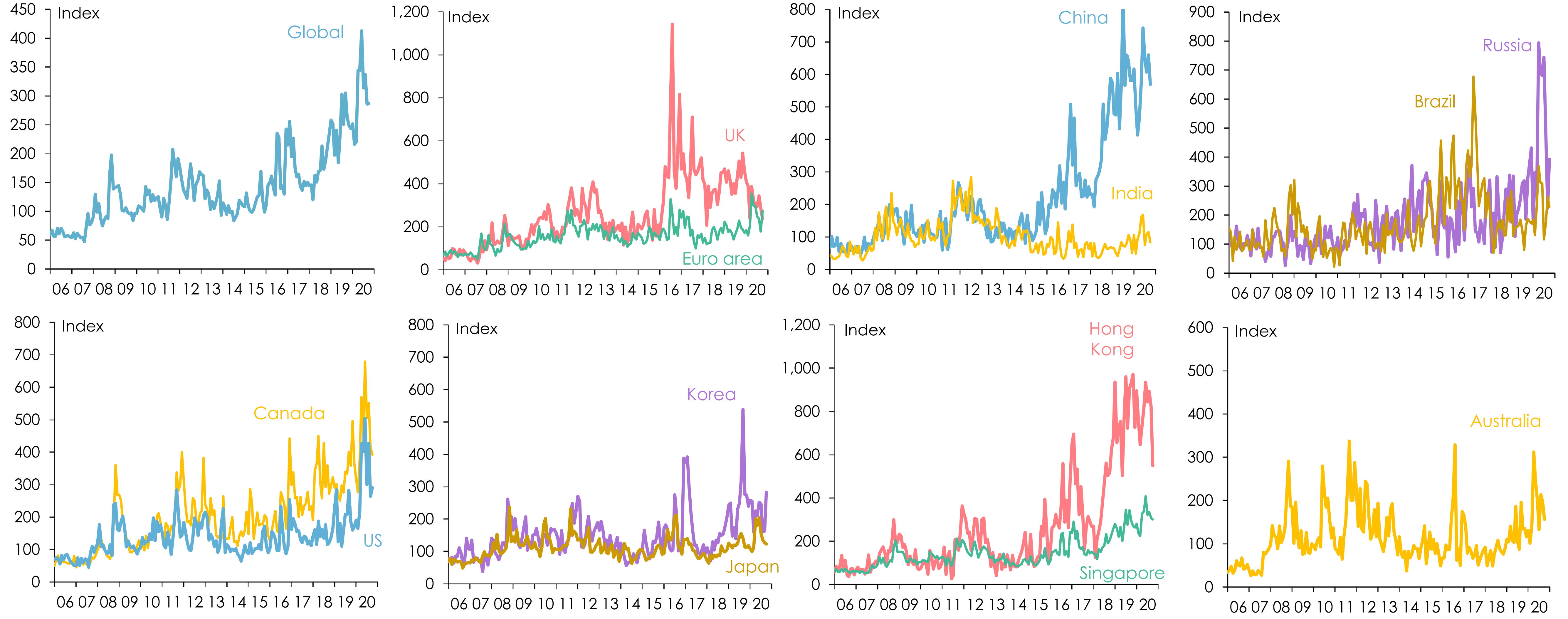
Source: International Monetary Fund (IMF), *World Economic Outlook*, 13th October 2020. Return to "What's New".

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

- The IMF's latest *World Economic Outlook* (published in October) 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

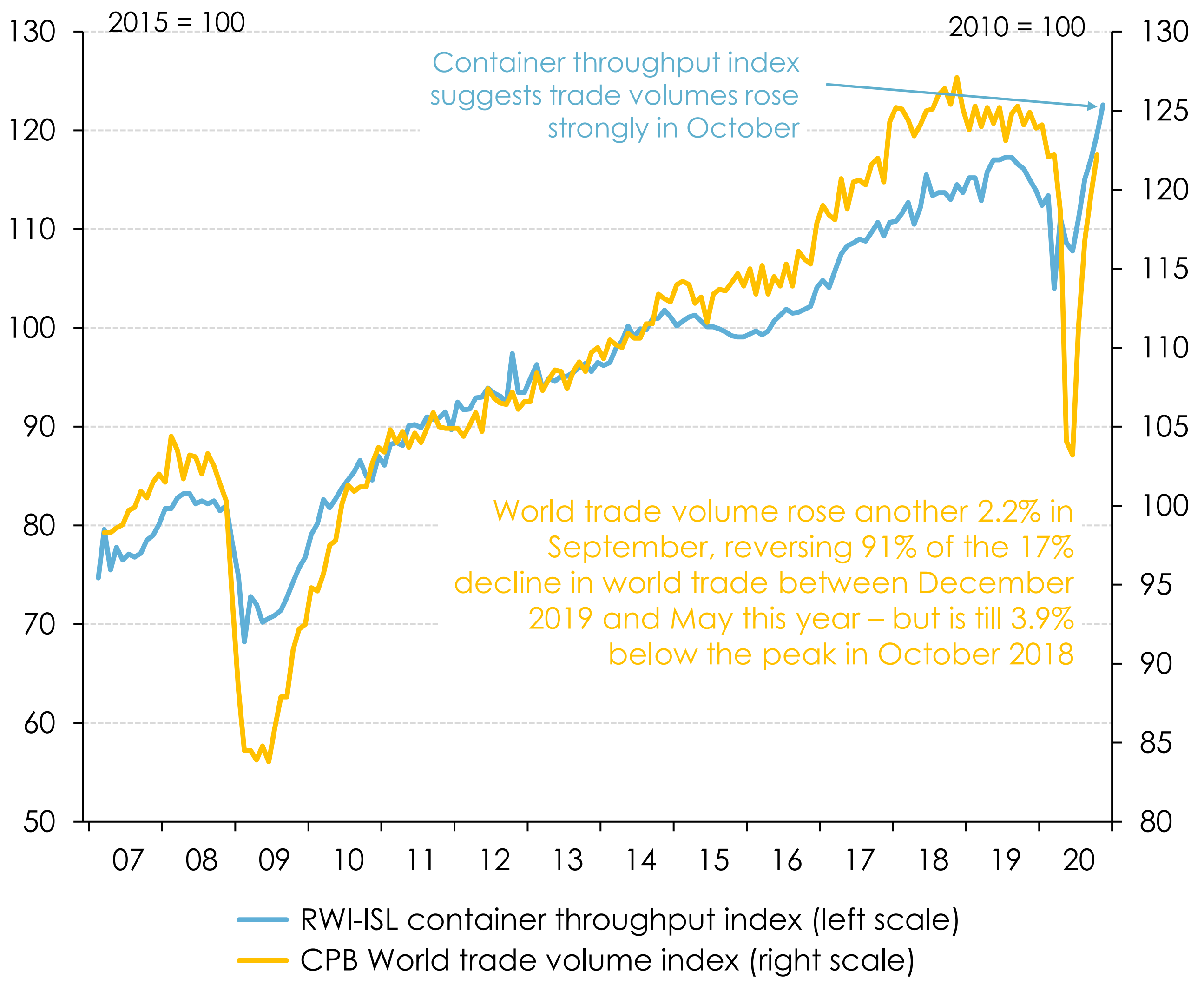
Economic policy uncertainty indices



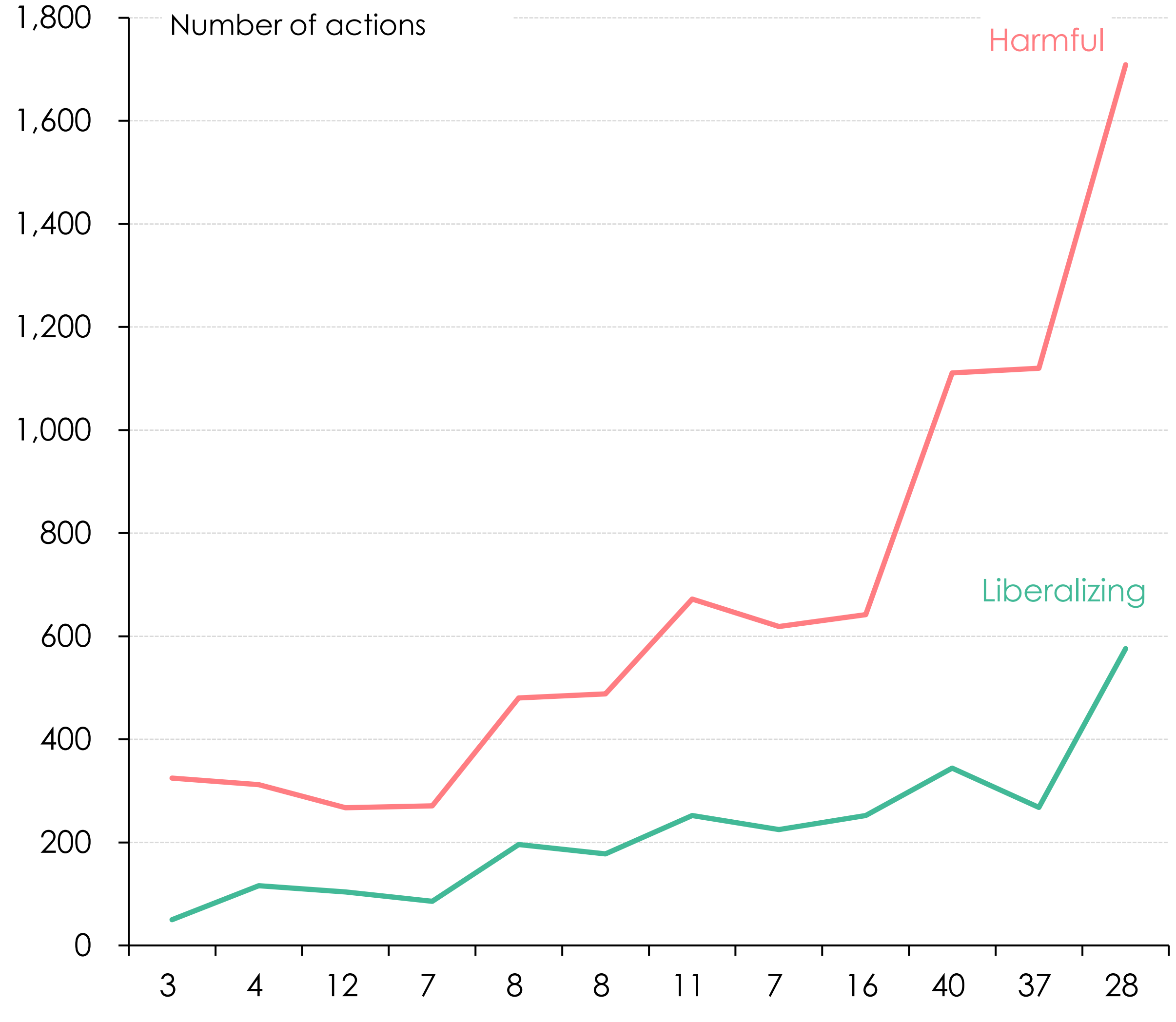
Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words "uncertain" or "uncertainty", "economy" or "economic", and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The 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 (still waiting for October update!). *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 September but are still 4% below their October 2018 peak, as anti-trade policies continue to spread

World trade volumes and container throughput



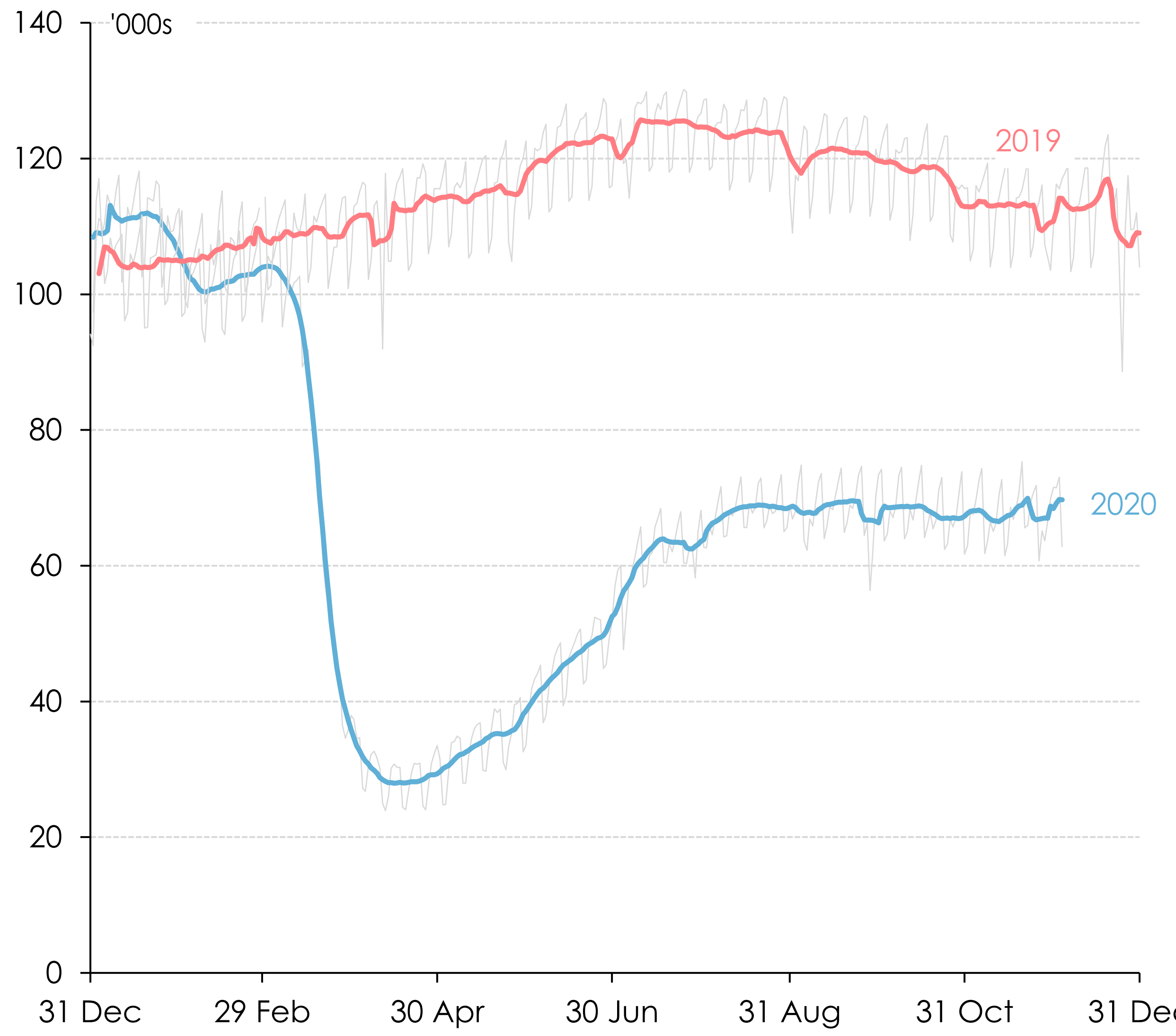
Pro- and anti-trade policy interventions



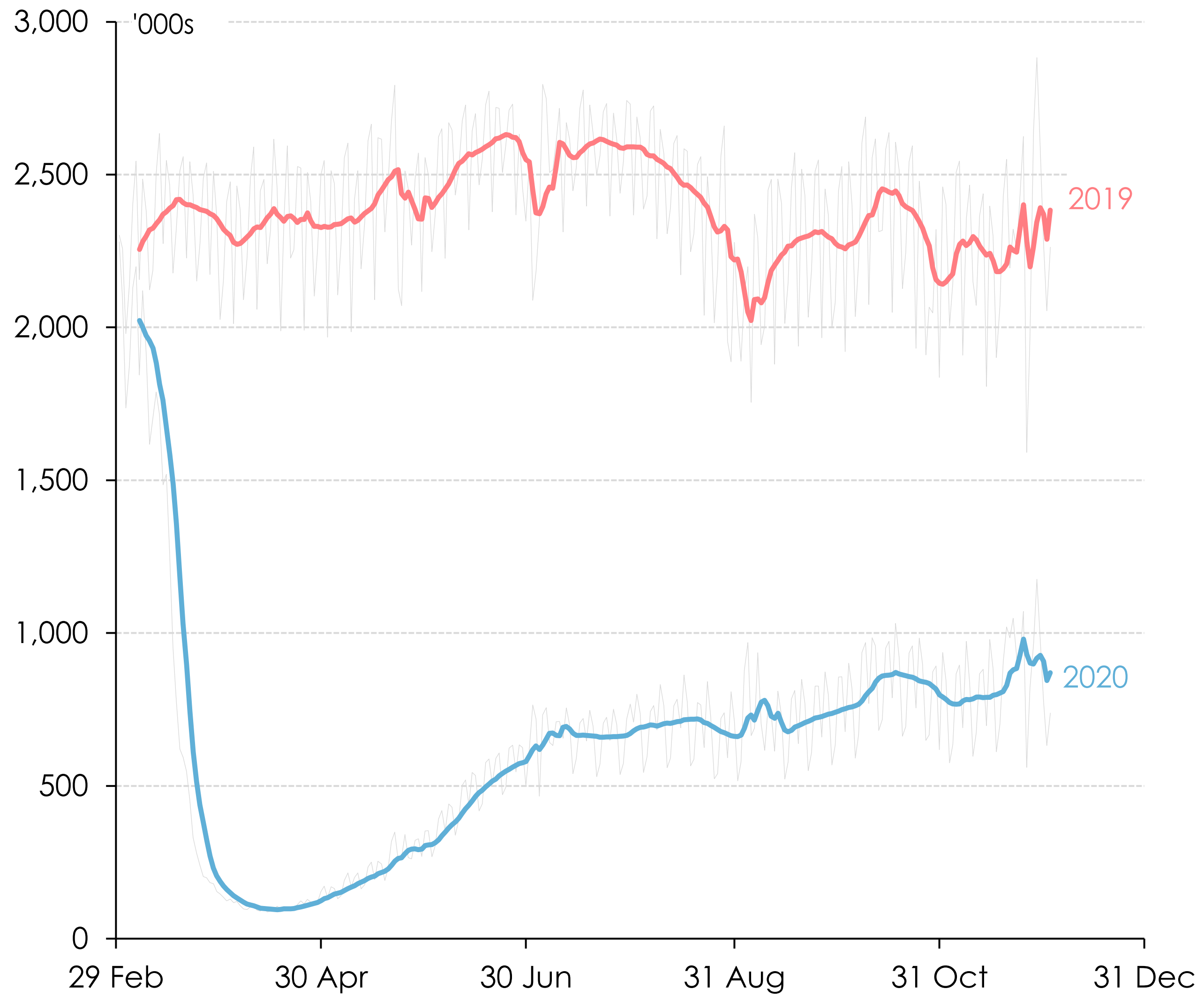
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, *World Trade Monitor* (October data to be released on 24th December); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) *Container Throughput Index*; Centre for Economic Policy Research, *Global Trade Alert Global Dynamics* (data up to 27th November). Return to "What's New".

Global civil aviation activity has continued 'tracking sideways' since August while in the US traffic eased back after a Thanksgiving spurt

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. Number of commercial flights up to 4th December, TSA checks up to 3rd December. 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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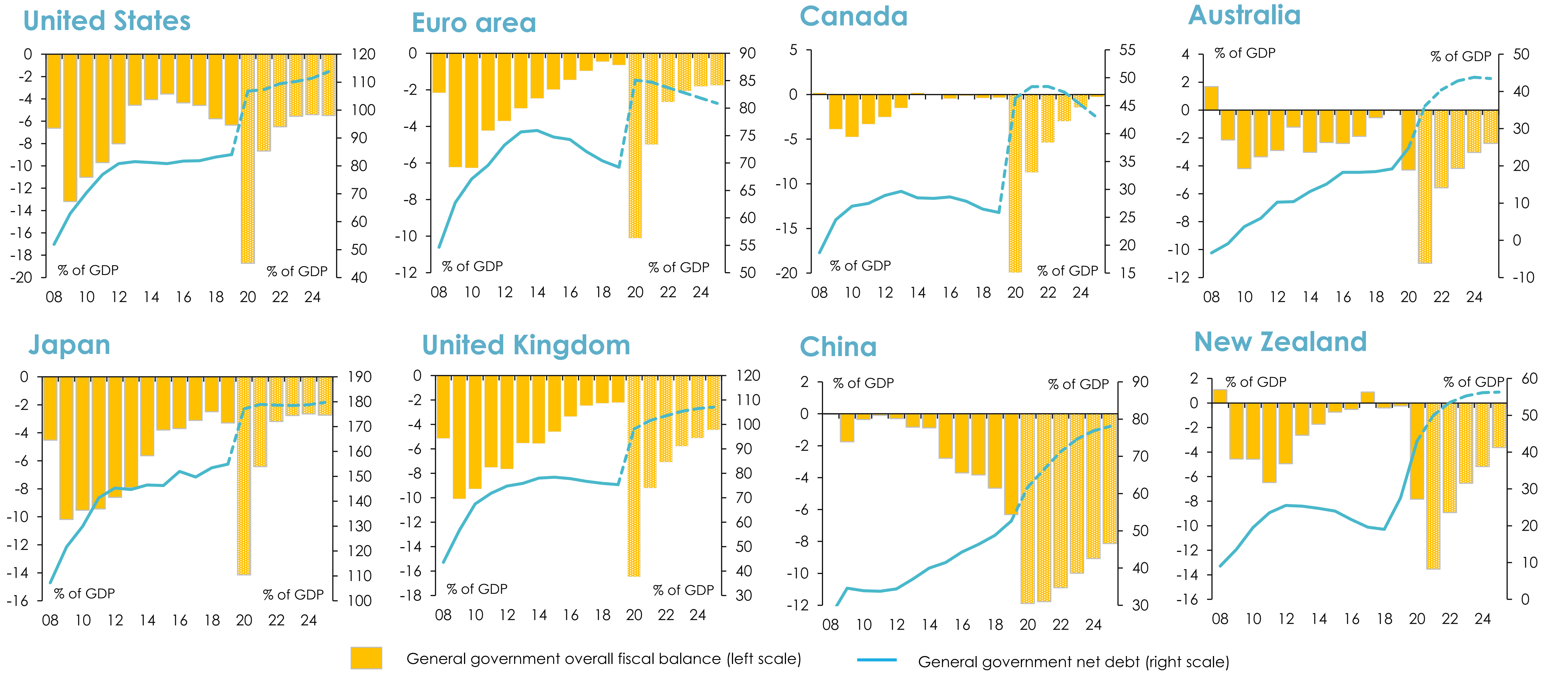
Every government is doing more by way of fiscal stimulus than during the financial crisis – and the US, Canada and the UK are doing more than most



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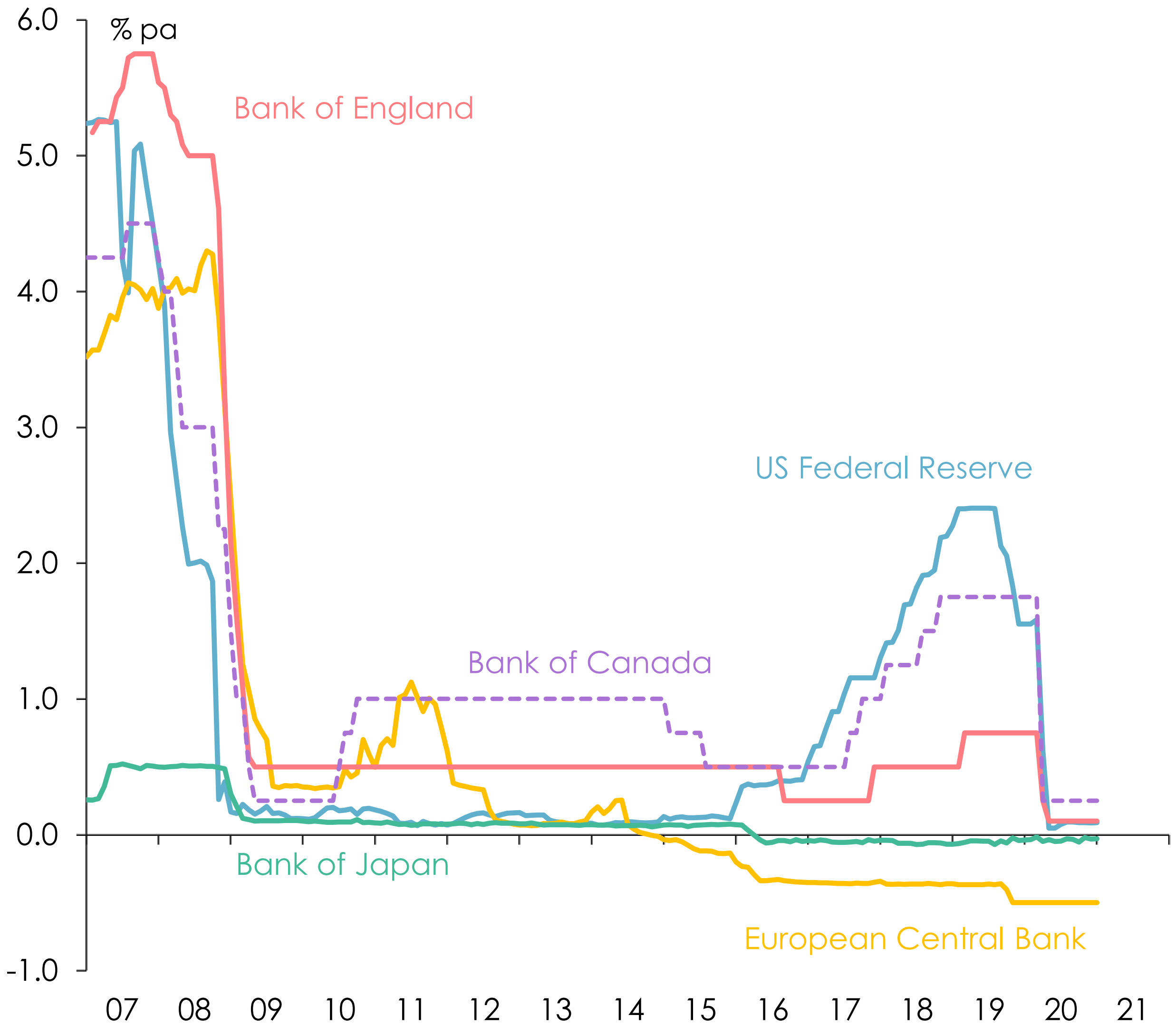
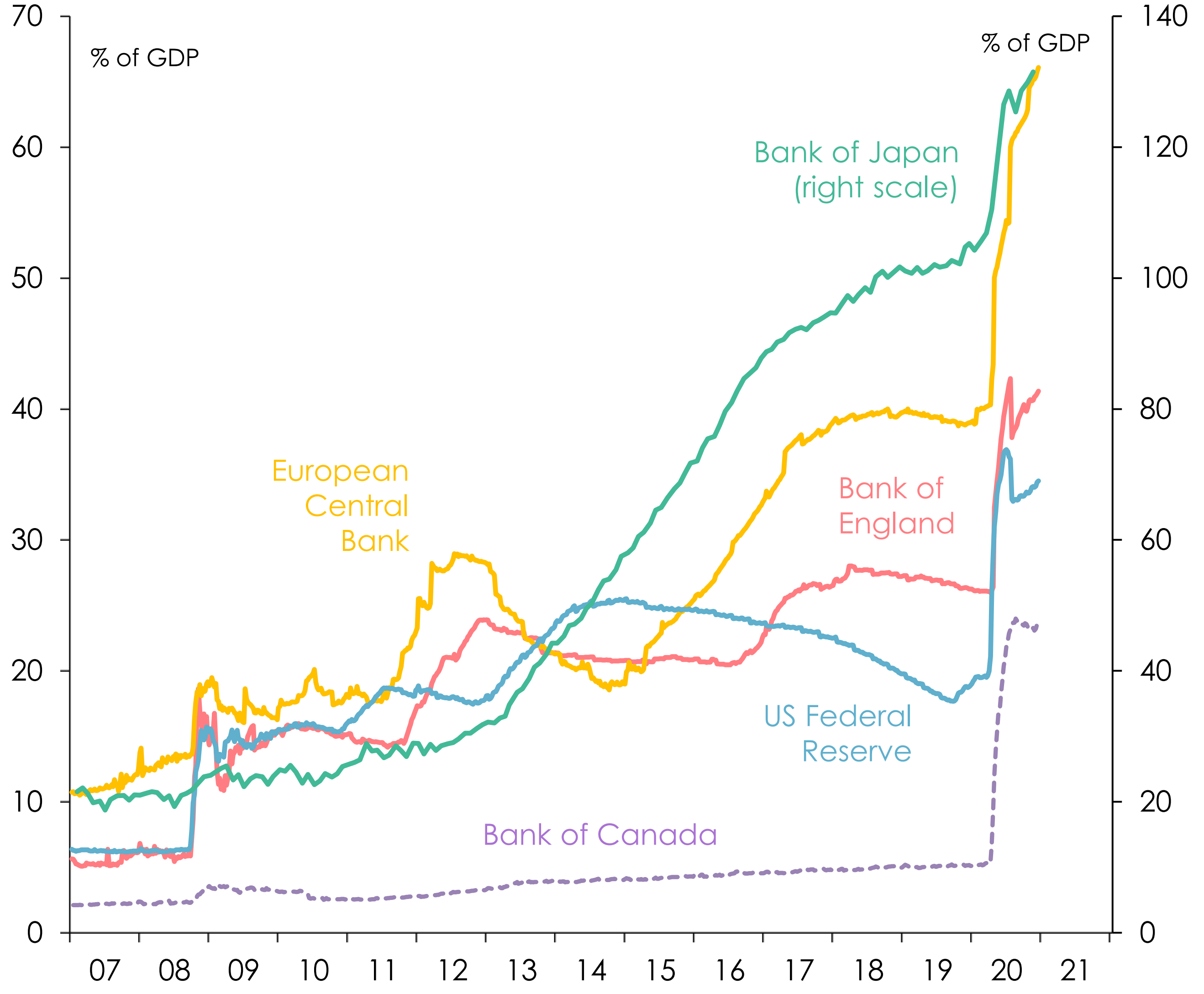
Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

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: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 are in large part due to rebounds in nominal GDP, in those countries where Q3 nominal GDP estimates are now available (ie, the US, Japan and the UK). *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".

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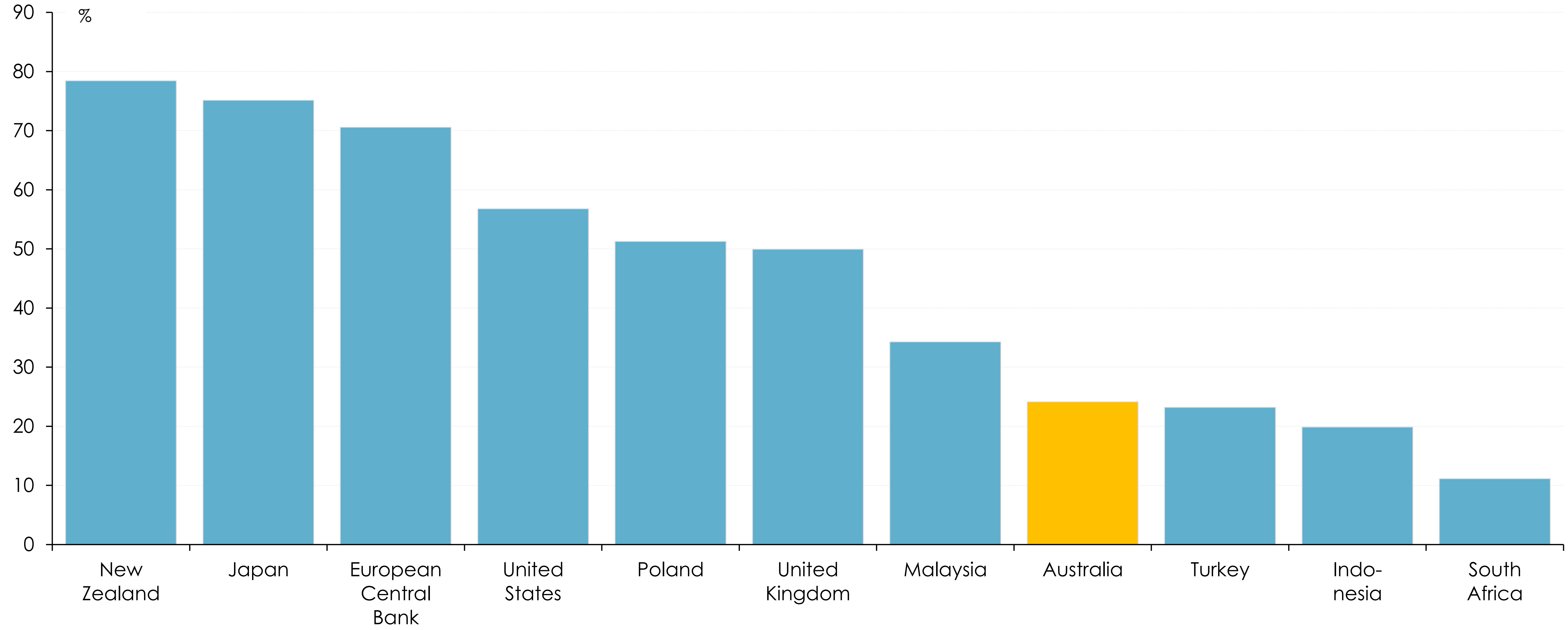
Central banks have (indirectly) absorbed a significant proportion of government debt issuance since the onset of the pandemic

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 has committed to keeping US interest rates at current levels until inflation is "on track to exceed 2%"

- 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 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)
- The Fed left policy settings unchanged at last month's FOMC meeting
  - 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"
  - 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
- Last month Treasury Secretary Steven Mnuchin ordered the termination at year-end of five of the Fed's lending and liquidity support programs, including the 'Main Street' lending program and the Municipal Liquidity Fund
- Meanwhile the Senate has refused to confirm one of Trump's nominees to the Fed Board, Judy Shelton (whilst allowing the other nomination, Chris Waller, to proceed)
  - Shelton was an advisor to the Trump campaign in 2016, has been a long-term proponent of returning the US$ to the gold standard, has called for a zero inflation target and described the Fed as "almost a rogue agency"

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

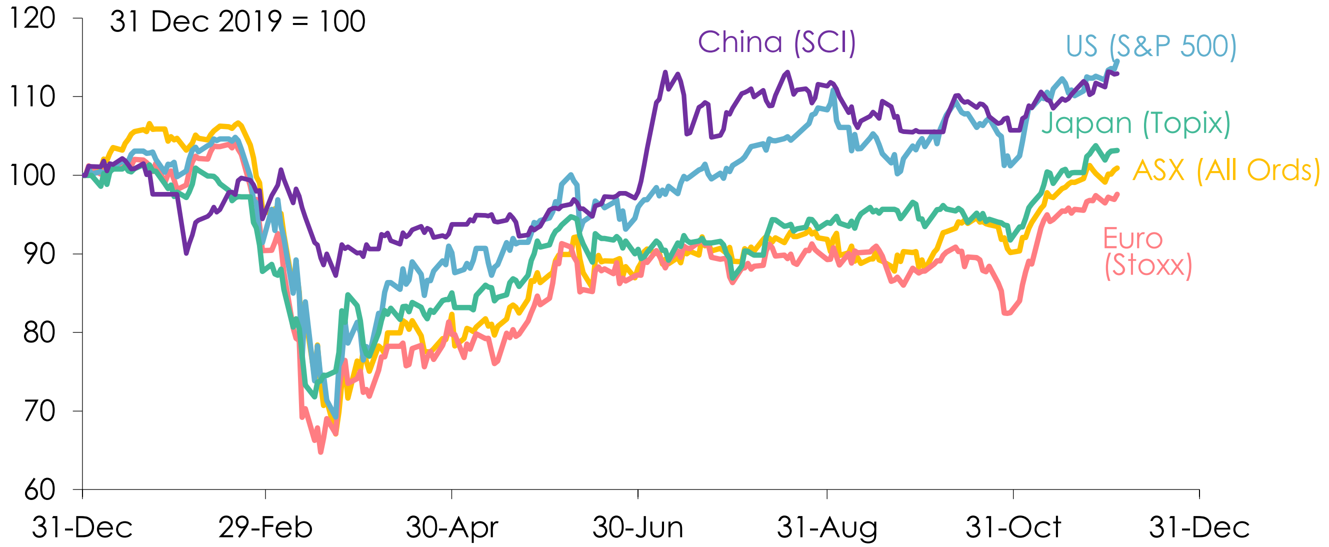
The BoE expanded the size of its 'QE' this month, the ECB will ease next month, and the RBNZ has been asked to pay more heed to house prices

- The Bank of England's Monetary Policy Committee last month 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 its forthcoming 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"
- Last week New Zealand Finance Minister Grant Robinson formally sought the RBNZ's advice on whether stability in house prices should be included in the central bank's remit (whilst also making it clear he wasn't proposing any changes to the RBNZ's mandate or independence)
  - for its part the RBNZ responded by noting that it already "gives consideration to the potential impact of monetary policy … on house prices" in making monetary policy decisions, but will consider how it "could further" take them into account"

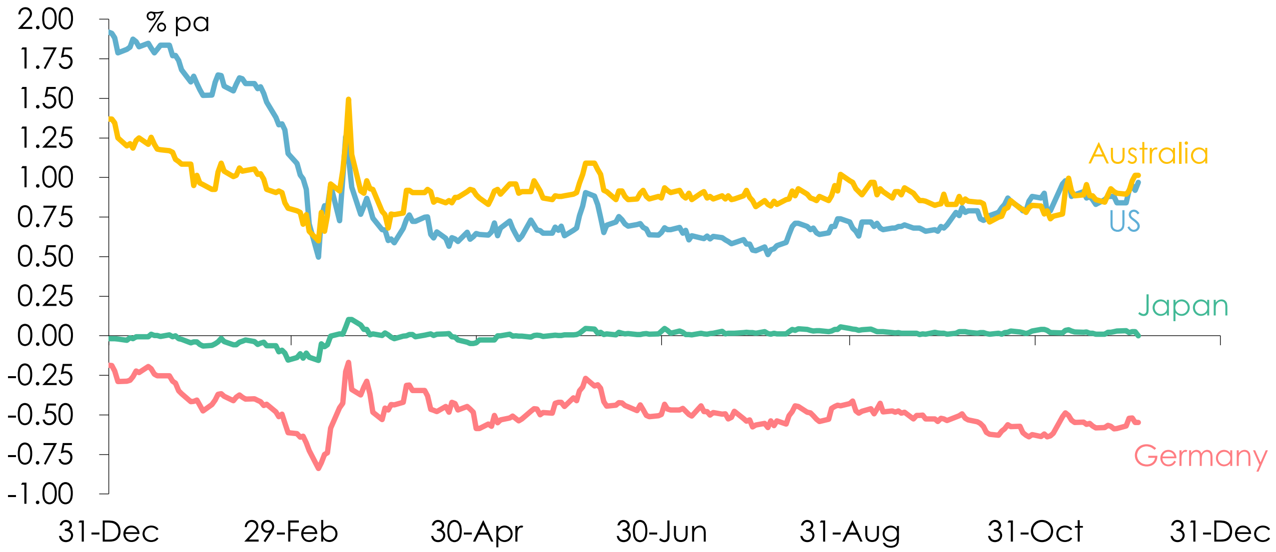
Return to "What's New".

Stocks continued last week's rises, and the US dollar extended last week's falls, on renewed hopes for US fiscal stimulus as well as vaccine optimism

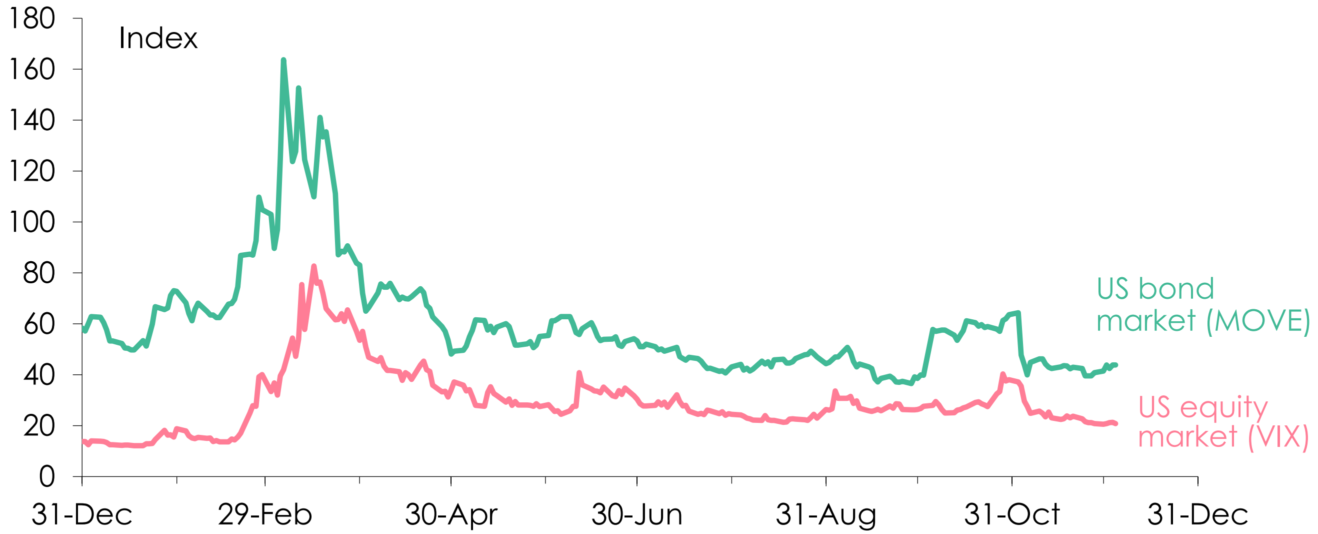
Stock markets



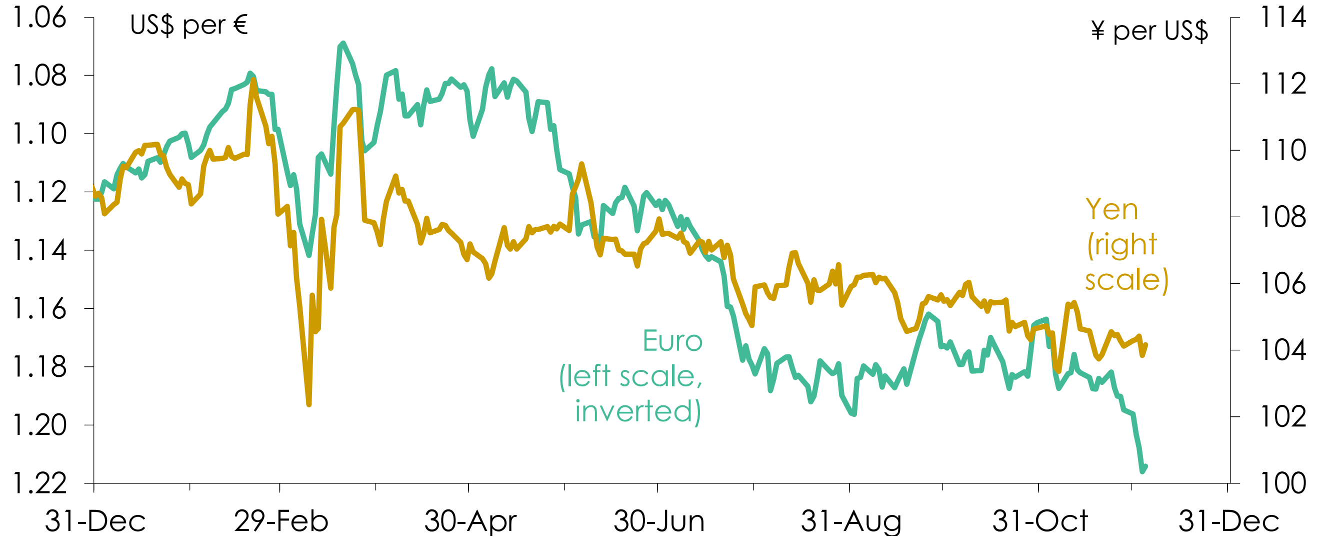
10-year bond yields



Measures of market volatility



US dollar vs euro and yen



Source: Refinitiv Datastream. Data up to 4th December. Return to "What's New".

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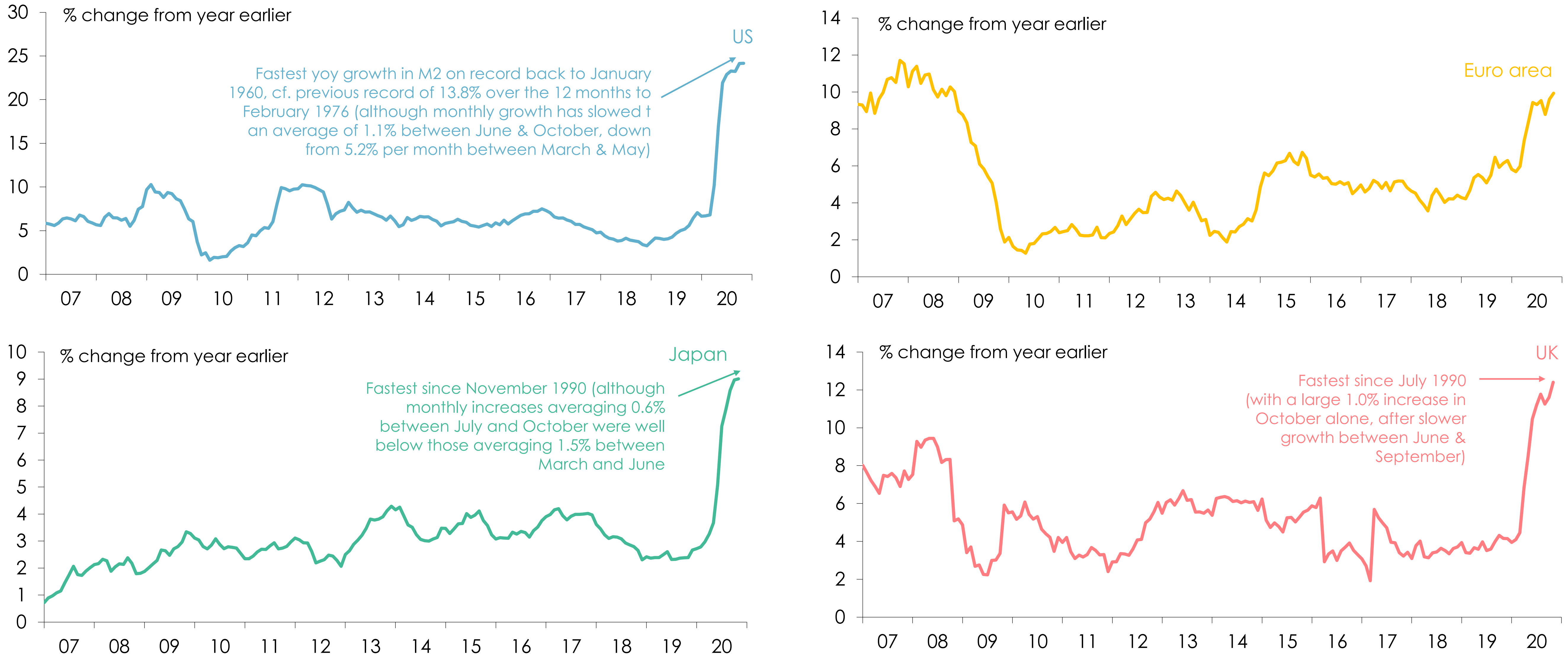
‘Quantitative easing’ has prompted a more rapid acceleration in money supply growth than it did during the global financial crisis …

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"](#).

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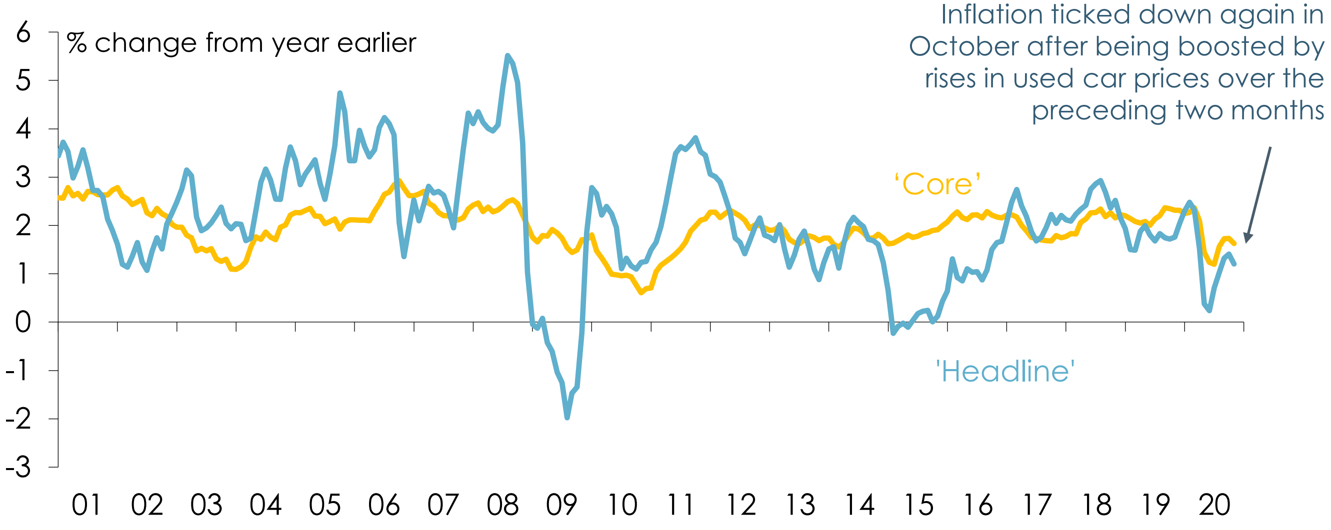
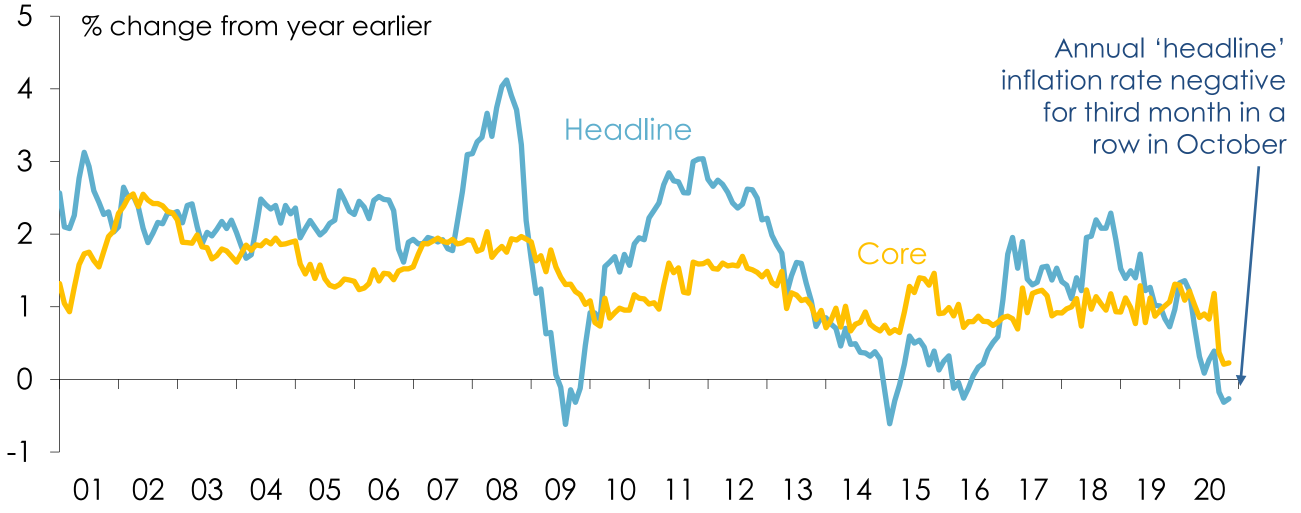
…but so far at least, inflation has remained well below central bank targets

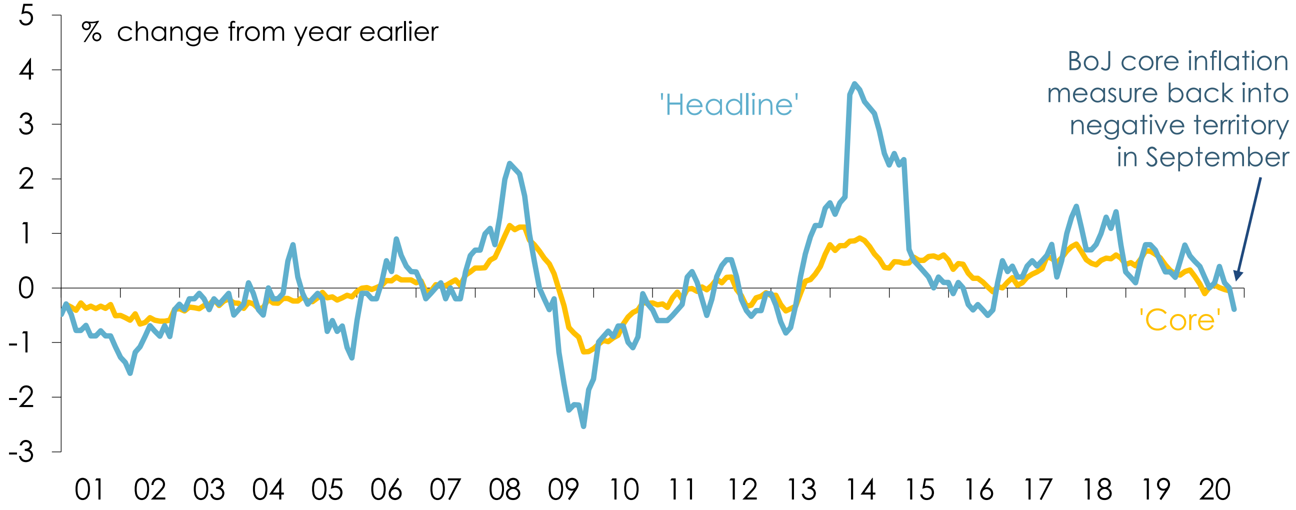
'Headline' and 'core' inflation - US



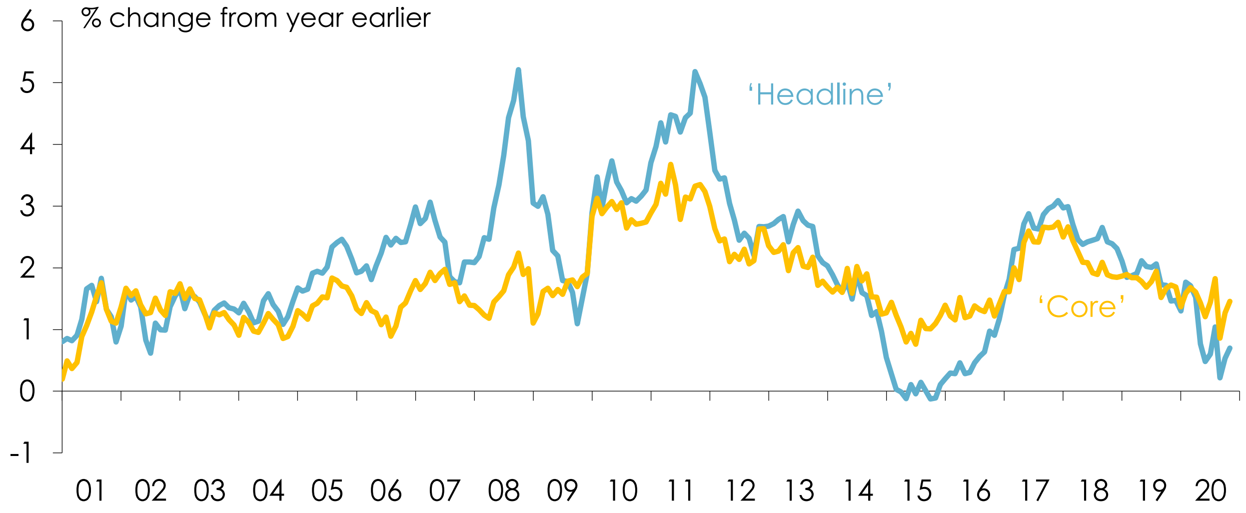
'Headline' and 'core' inflation – Euro area



'Headline' and 'core' inflation - Japan



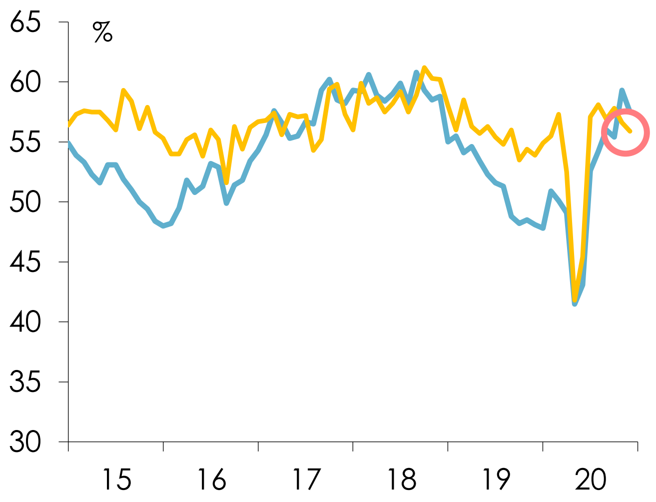
'Headline' and 'core' inflation – UK



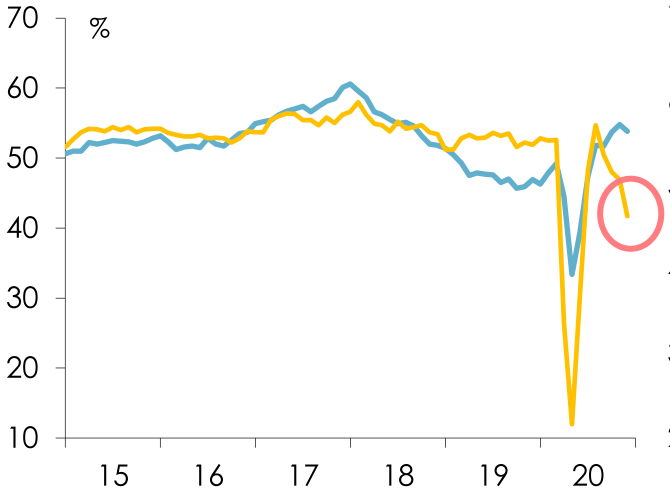
Note: 'Core' inflation is the CPI excluding food & energy in the US; excluding food, energy, alcohol & tobacco in the euro area; and excluding energy & seasonal foods in the UK. The 'core' inflation measure for Japan is the weighted median CPI calculated by the Bank of Japan.
Sources: US Bureau of Labor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

PMIs for November indicate the effects of the 'second wave' on services sector (but not manufacturing) activity in Europe and the US

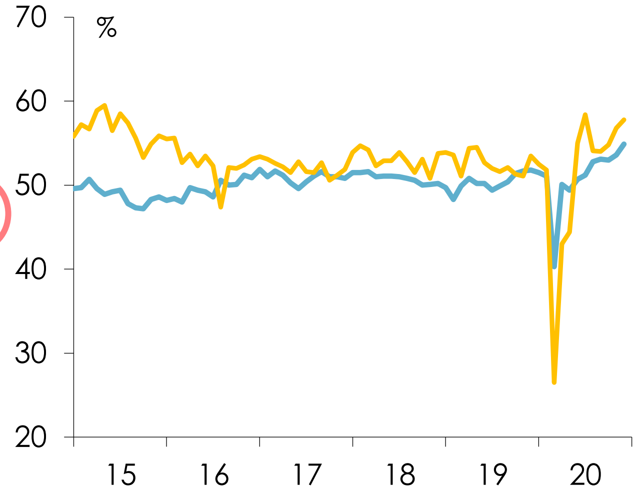
US



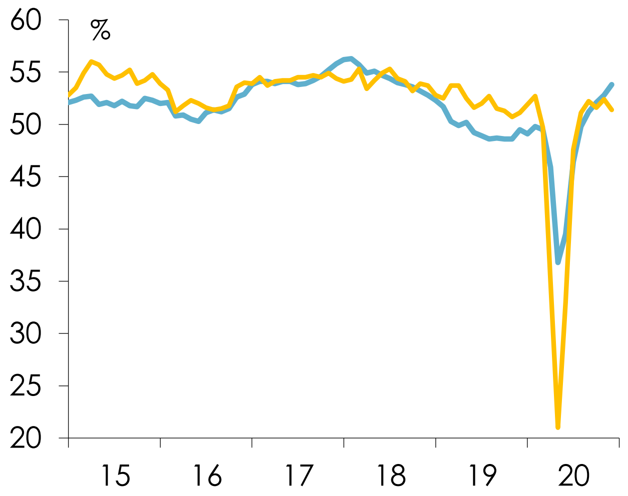
Euro area



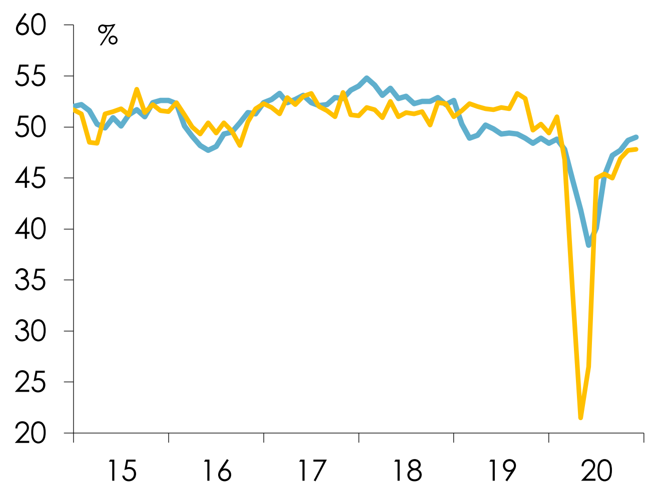
China



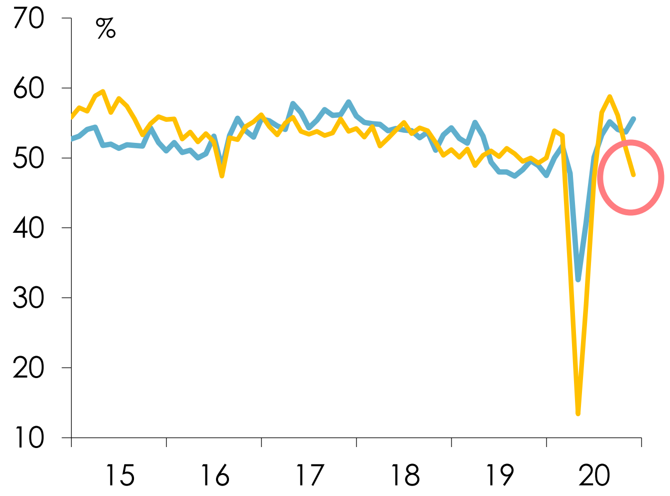
Developed markets



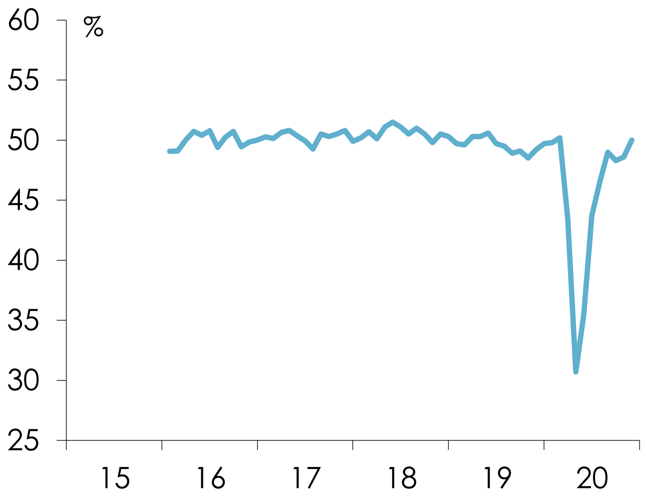
Japan



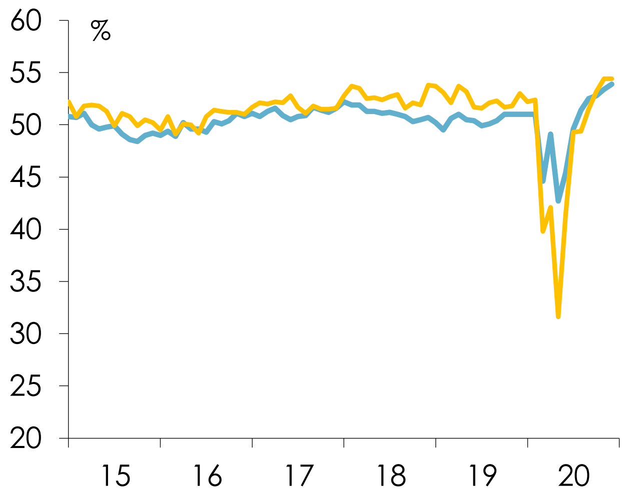
UK



ASEAN



Emerging markets



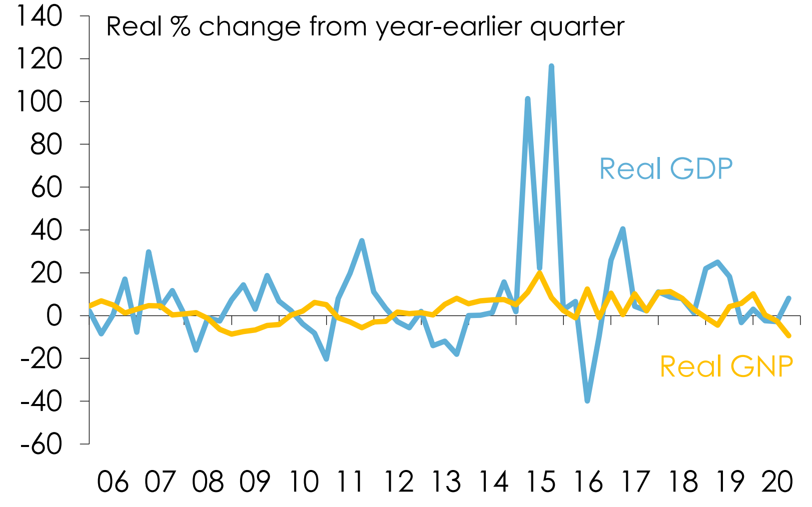
Manufacturing Services

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 November. See also PMIs for other Asia-Pacific economies on slide 46. Sources: US Institute for Supply Management; IHS Markit; JP Morgan; Caixin; Refinitiv Datastream. Return to "What's New".

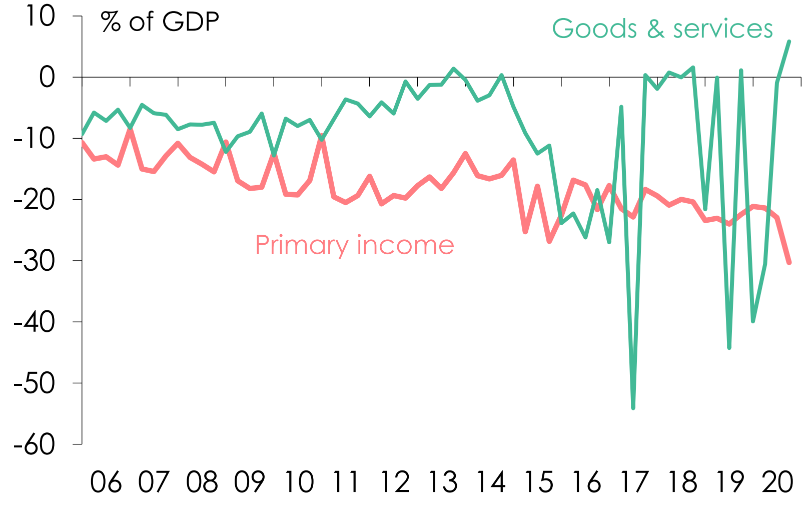
Ireland's world-leading 8% real GDP growth over the year to Q3 is a little deceptive

- **Ireland's real GDP grew by 21.3% in Q3 – to be 8.1% higher than a year earlier, the fastest growth rate in the world thus far reported – after a 19.1% decline in Q2**
- **However Irish GDP figures are highly volatile, and often a misleading indicator of 'underlying' economic growth**
  - As Ireland's CSO explains, they are distorted by large gross flows associated with the activities of multi-national enterprises and aircraft leasing companies located in Ireland
- **These activities are captured in very large (and volatile) trade transactions and foreign income payments**
  - real gross *national* product (GNP), which abstracts from net factor income payments abroad, is much more stable than real GDP – and it declined 9.3% over the year to Q3
- **The CSO publishes an alternative measure called 'modified domestic demand', which fell 16.3% in Q2 and rebounded 13.9% in Q3 to be 4.1% below the level of Q3 2019**
- **Irish unemployment stood at 7.5% in November – up from 4.6% in April, and the highest since October 2016**

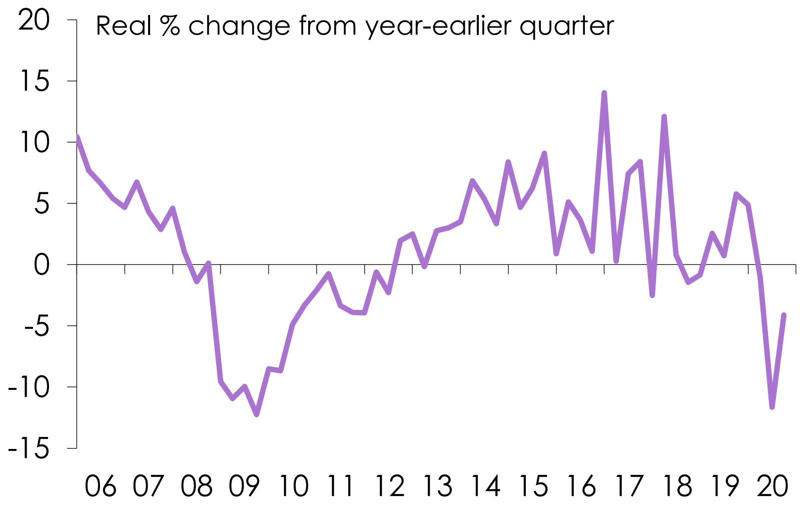
Real GDP and GNP



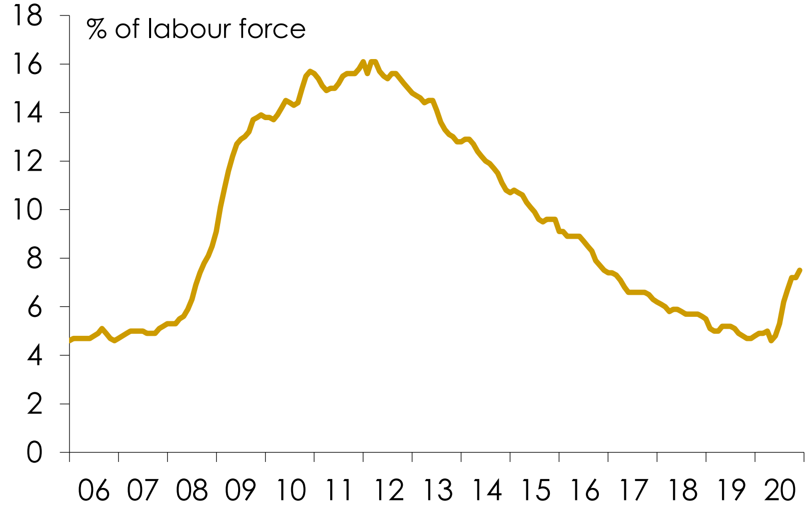
Balance of payments



'Modified domestic demand'



Unemployment



Sources: Ireland Central Statistics Office; Refintiv Datastream . Return to "What's New".

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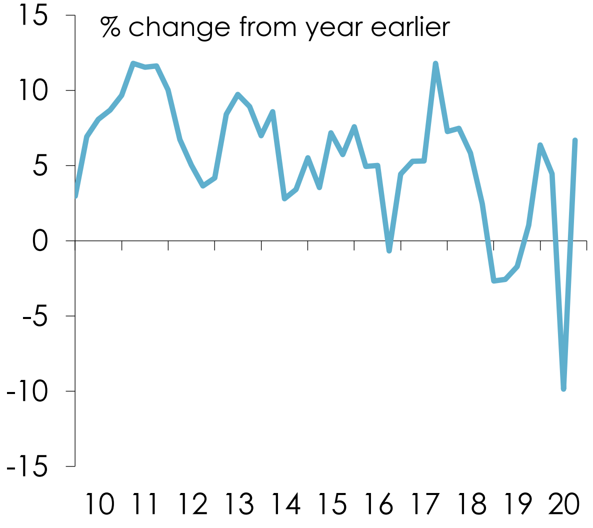
CORINNA ECONOMIC ADVISORY

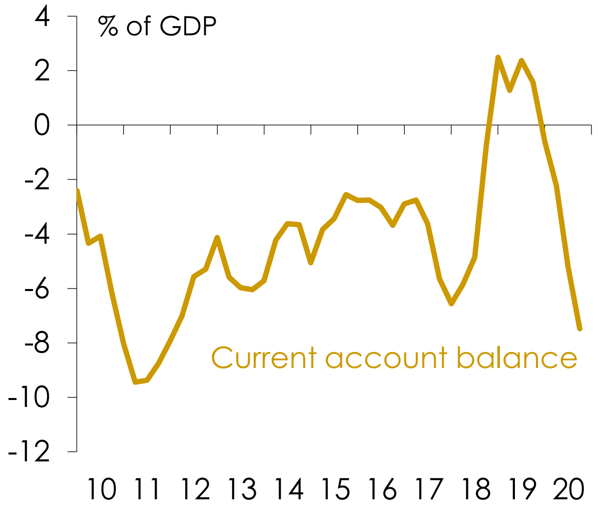
Turkey's #2 ranking for real GDP growth over the year to Q3 is unlikely to be sustained

- **The rapid rebound in the Turkish economy in Q3 was the result of a credit boom engineered by the Turkish central bank**
  - **policy interest rates dropped by almost 1600 basis points between July 2019 and June 2020, and the central bank made open-ended liquidity commitments to banks**
  - **credit growth exceeded 40% (30% in real terms) with growth in housing credit topping 100%**
- **As a result the current account deficit blew out to 7½% of GDP in Q3, putting renewed downward pressure on the Turkish lira (down 31% against the US$ this year) …**
- **.. which has in turn re-ignited inflation**
- **… and forced the central bank to raise interest rates sharply (contrary to the previous strong preferences of President Erdoğan)**
- **Meanwhile unemployment has remained above 12% despite the economic rebound**

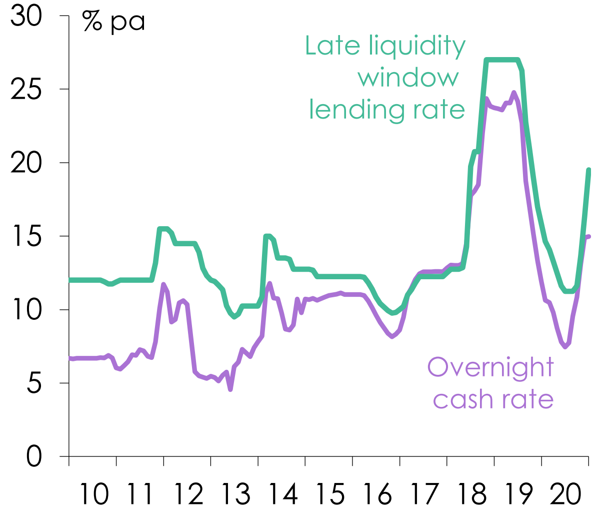
Real GDP growth



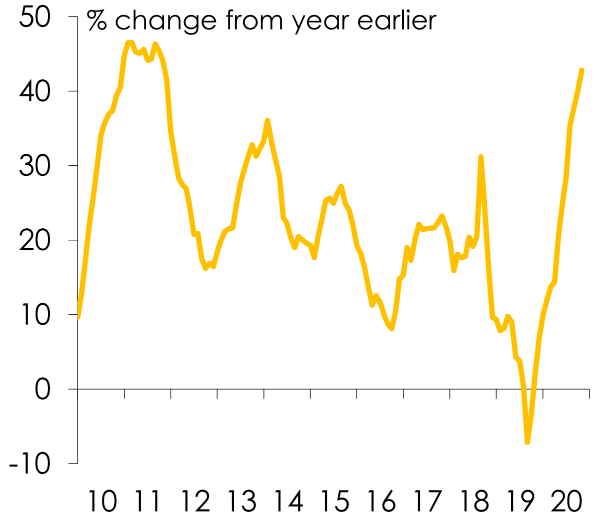
Current account balance



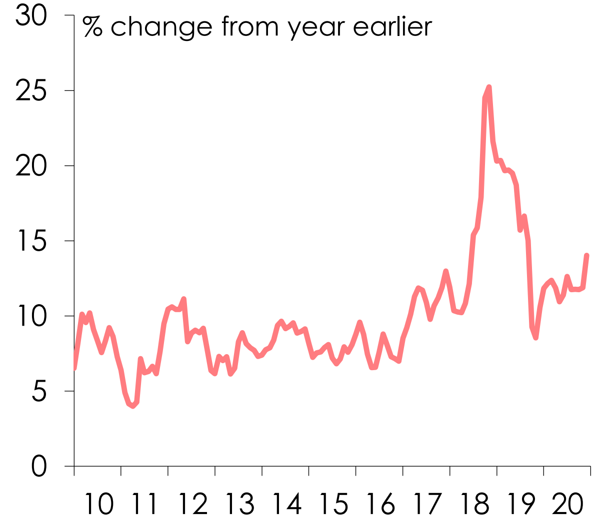
Interest rates



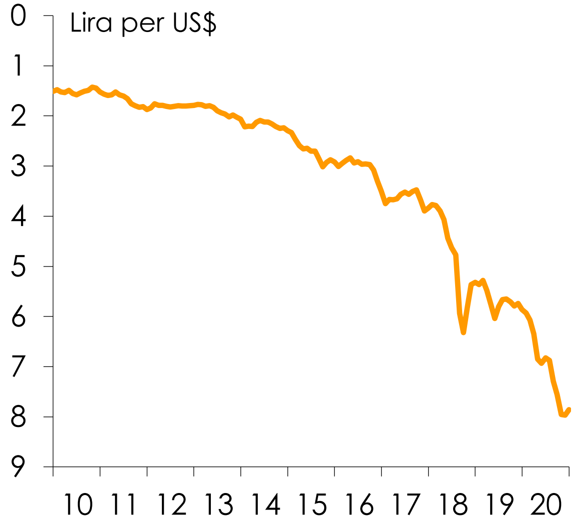
Bank lending



Inflation



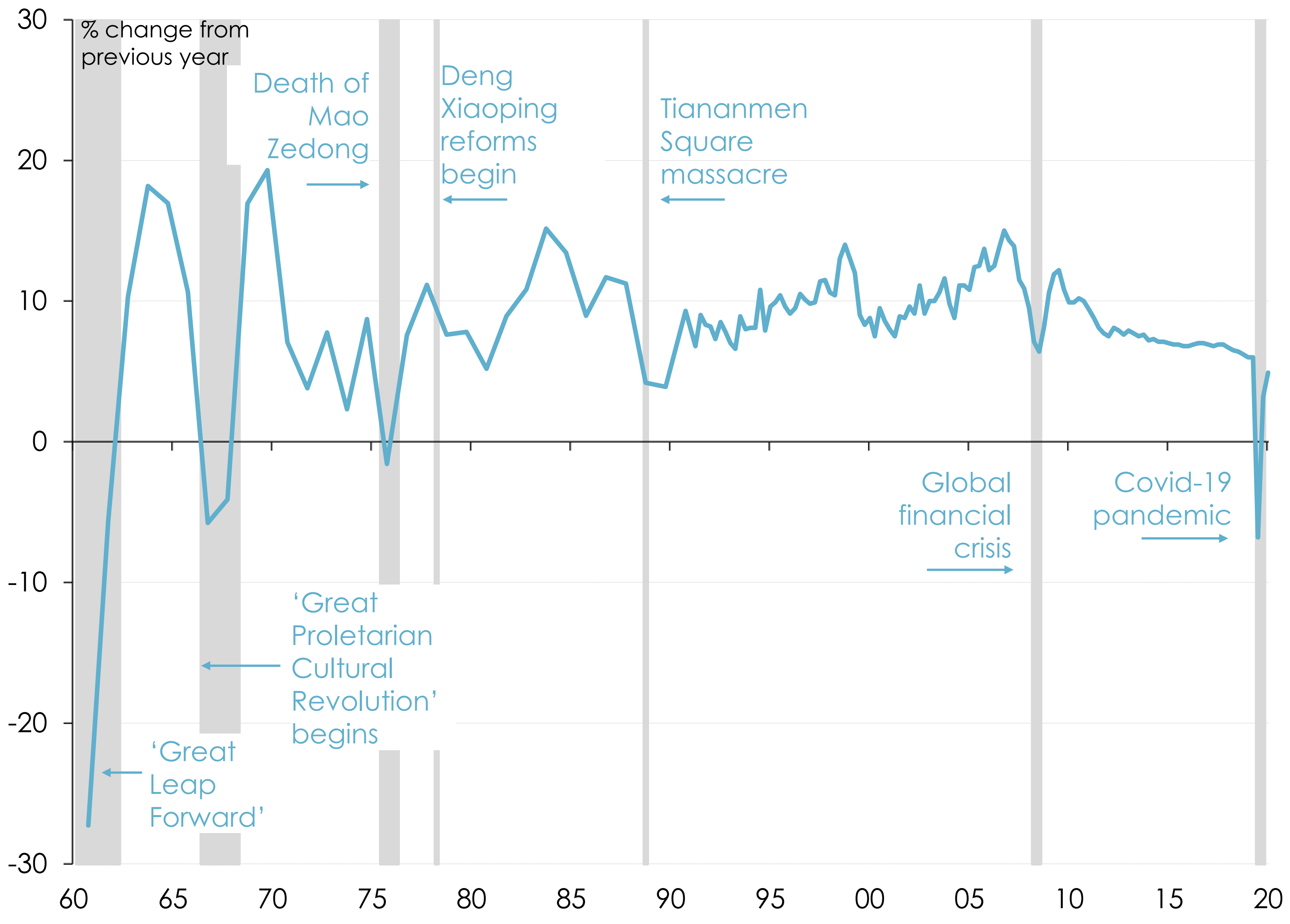
Turkish lira vs US$



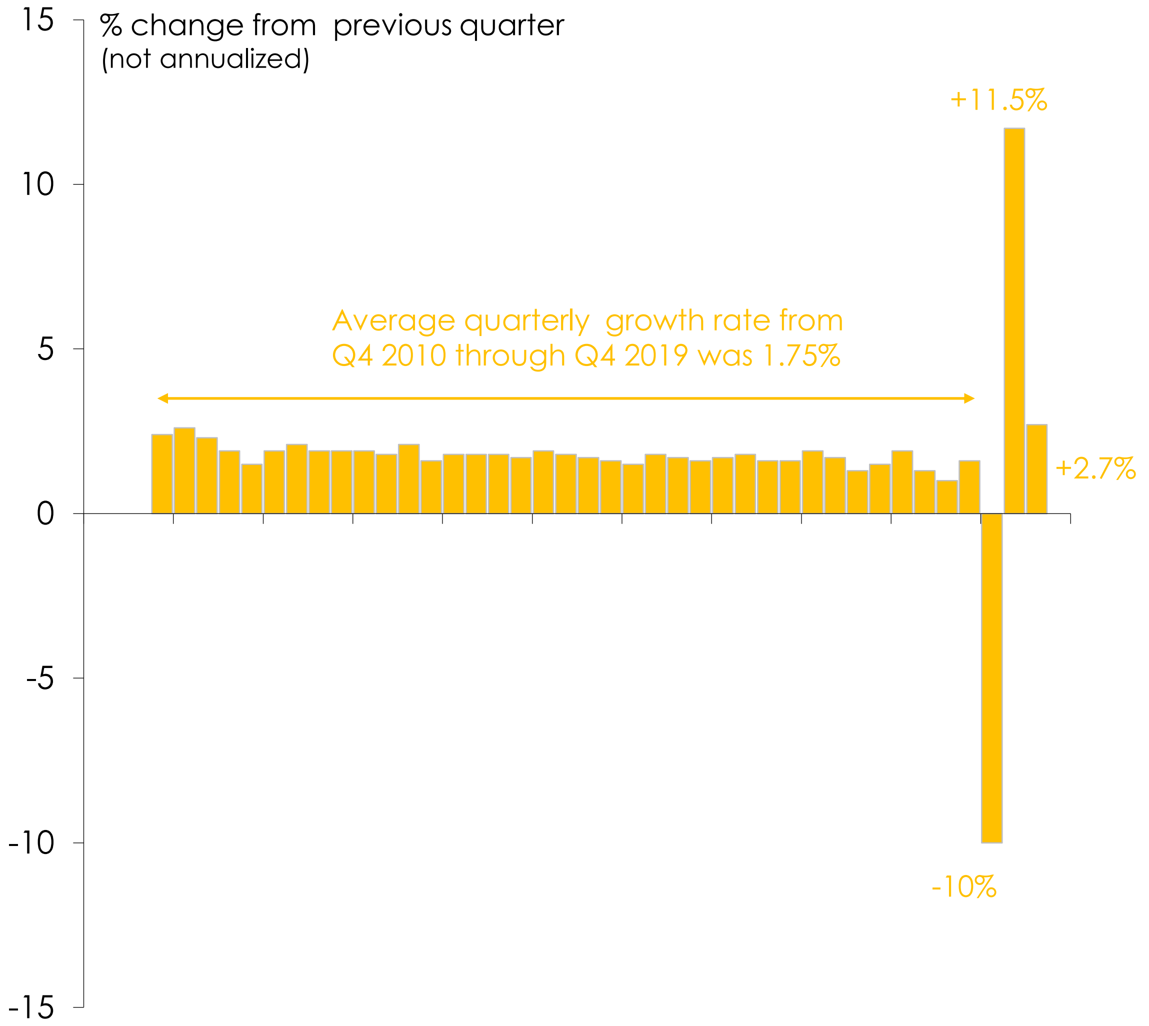
Note: My thanks to Dr Fatma Melek, Chief Economist at AK Bank in Istanbul, for her insightful explanation of the situation in the Turkish economy.
Sources: Turkey Statistical Institute (TÜİK); Central Bank of the Republic of Turkey (TCMB); Refinitiv Datastream. Return to "What's New"

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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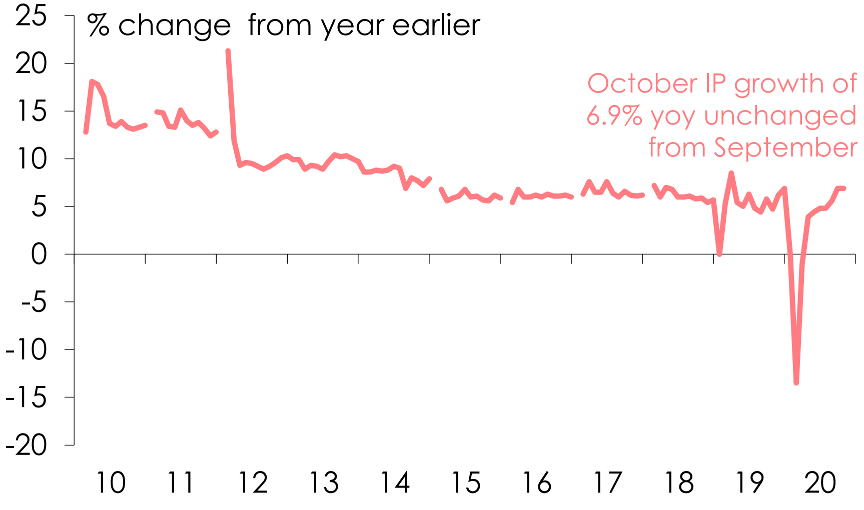
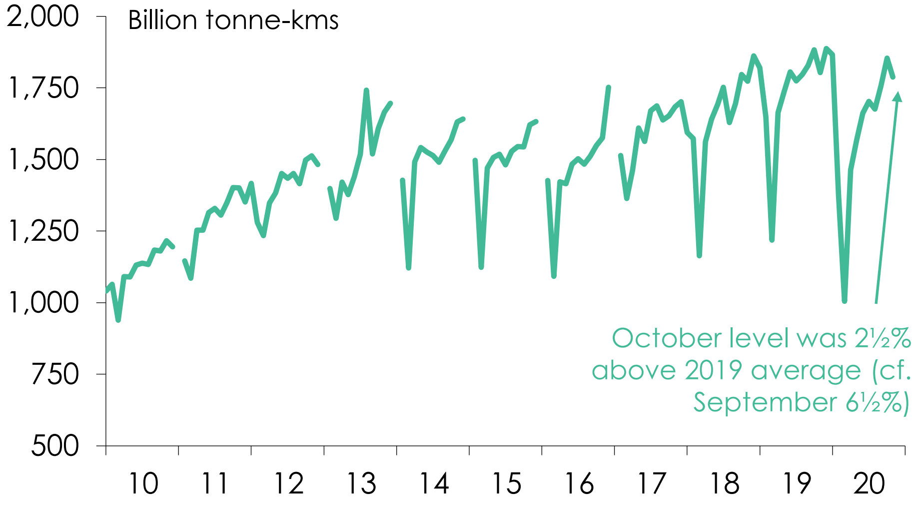
CORINNA ECONOMIC ADVISORY

The ‘production side’ of the Chinese economy is now largely back to or above pre-pandemic levels, though growth levelled out in October

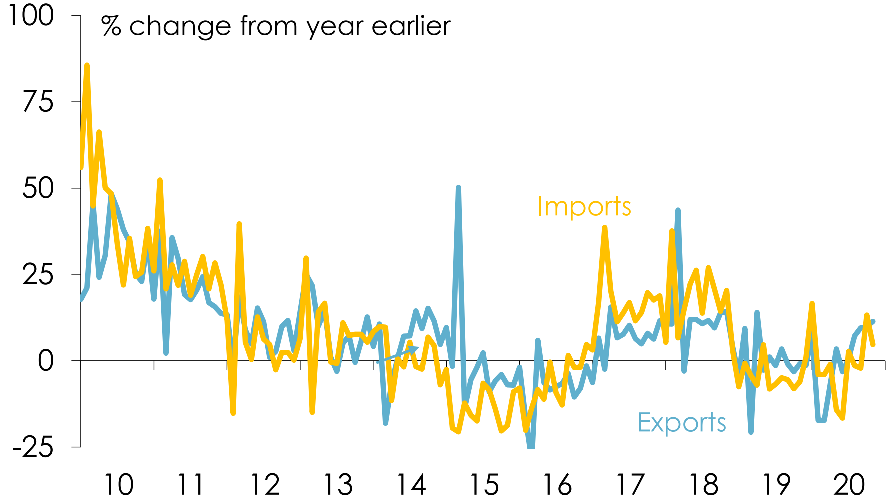
Industrial production



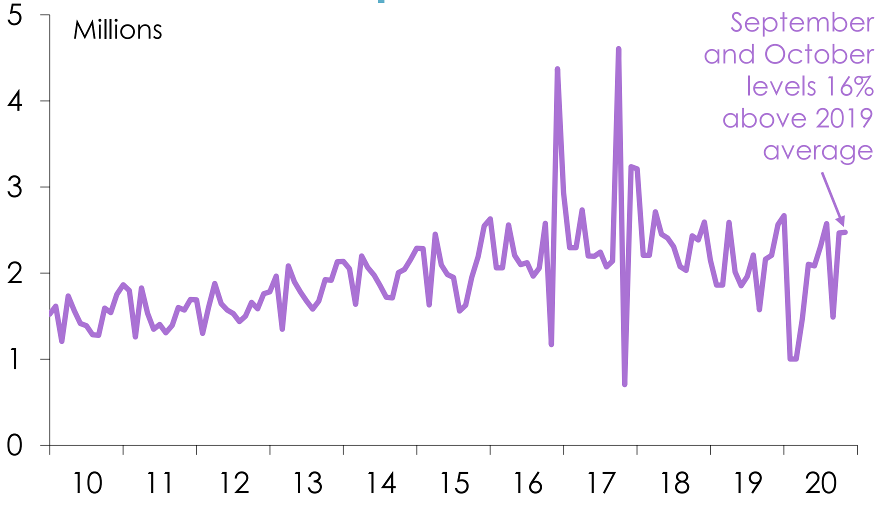
Freight traffic volumes



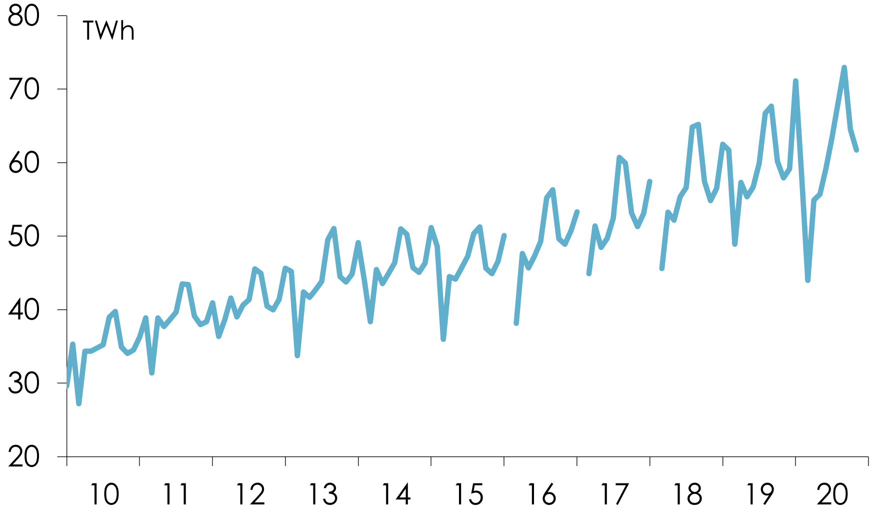
Merchandise trade



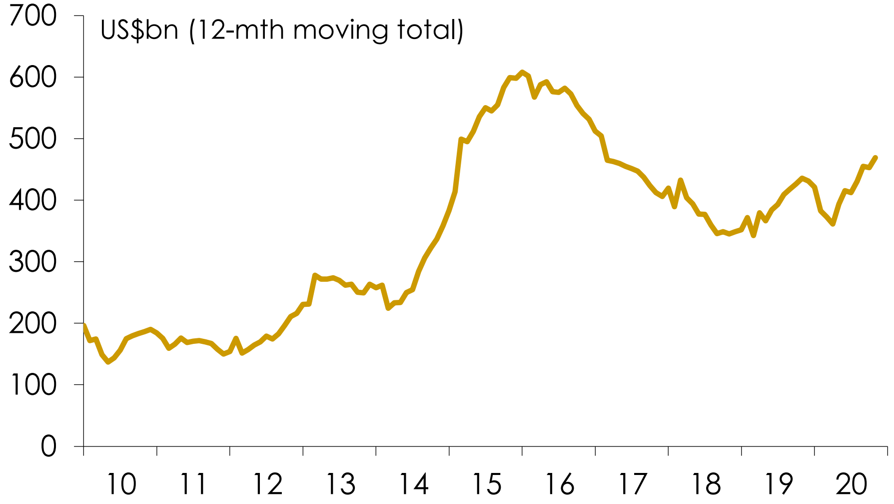
Motor vehicle production



Primary electricity production



Merchandise trade balance



Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest data are for October, except for electricity production which is September. Return to "What's New".

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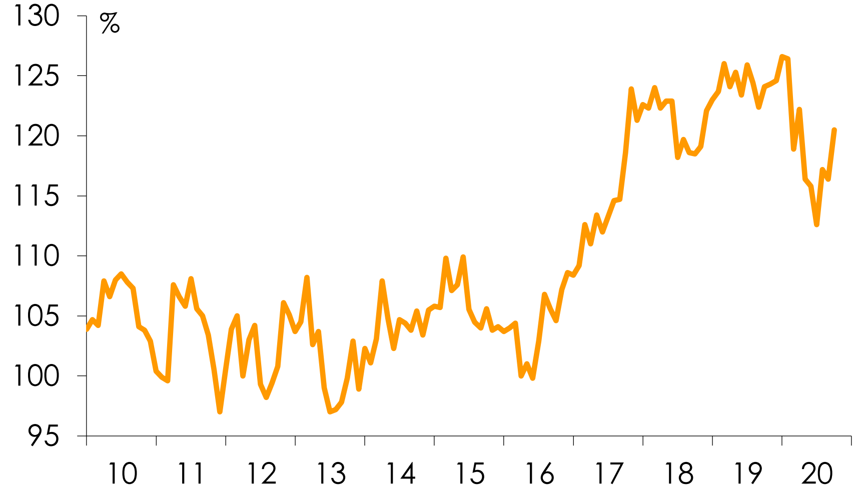
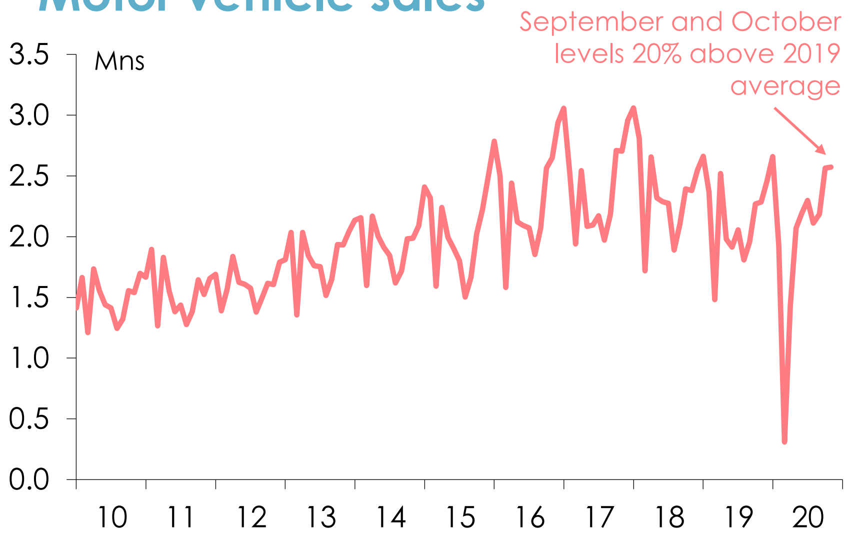
The 'demand' side of the Chinese economy – both household & business – is recovering rather more gradually and continued to do so in October

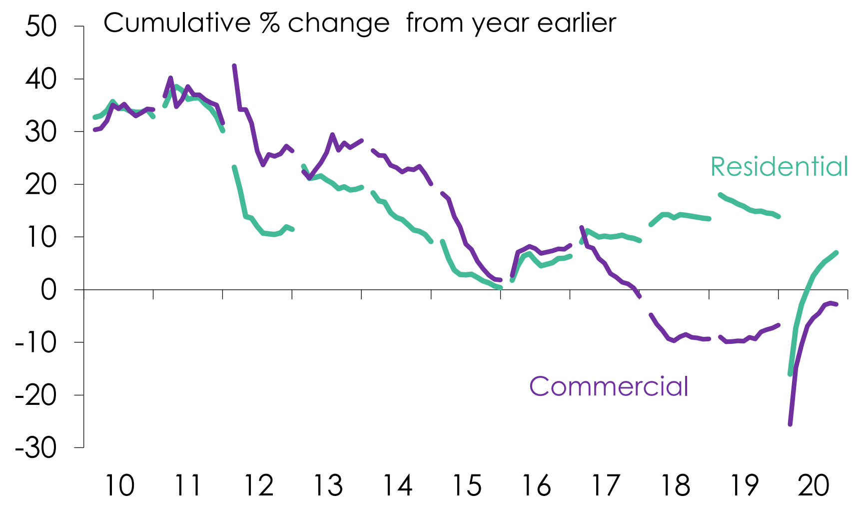
Consumer sentiment



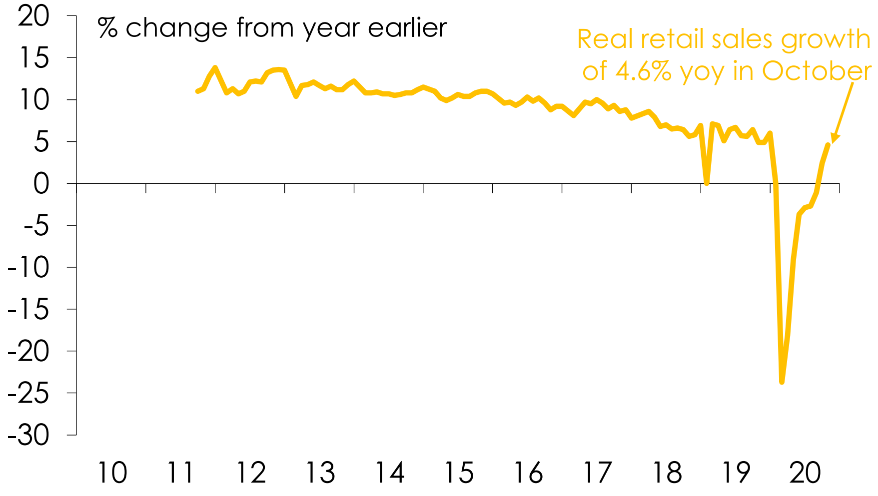
Motor vehicle sales



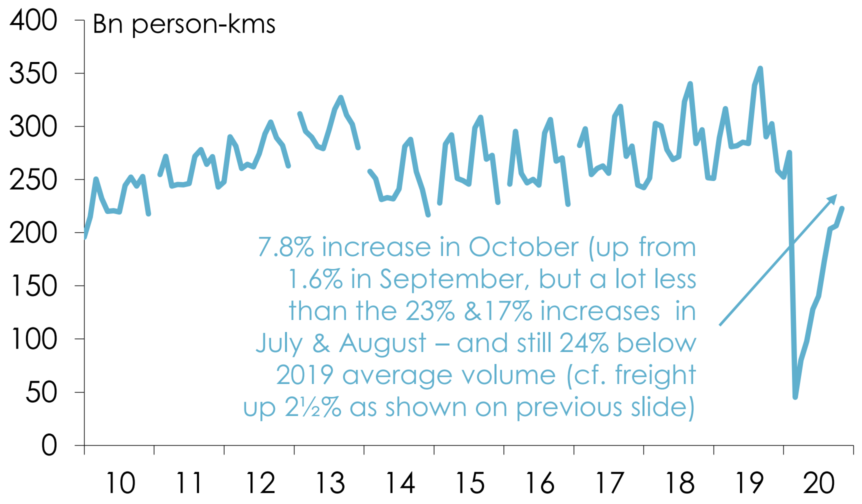
Real estate investment



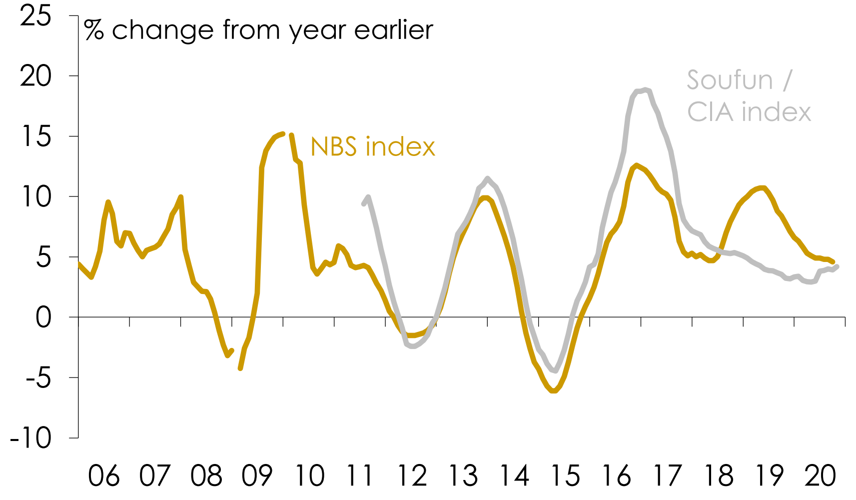
Retail sales volume



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 October.

Return to "What's New".

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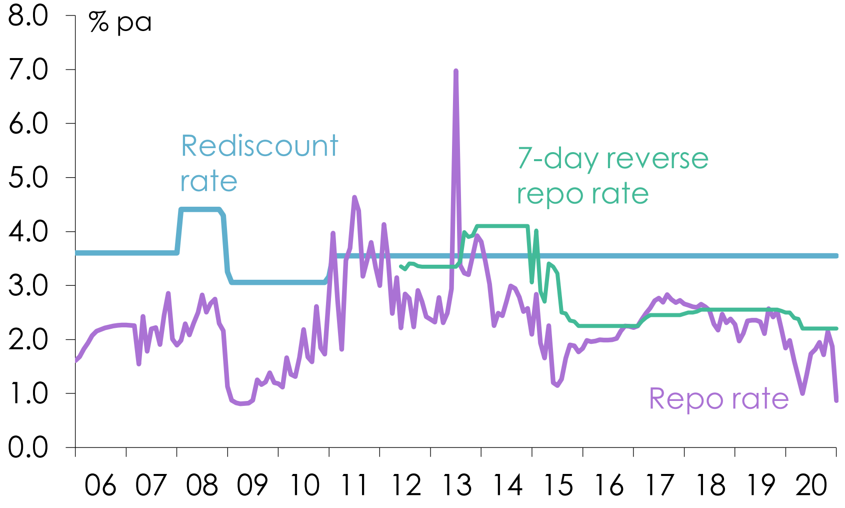
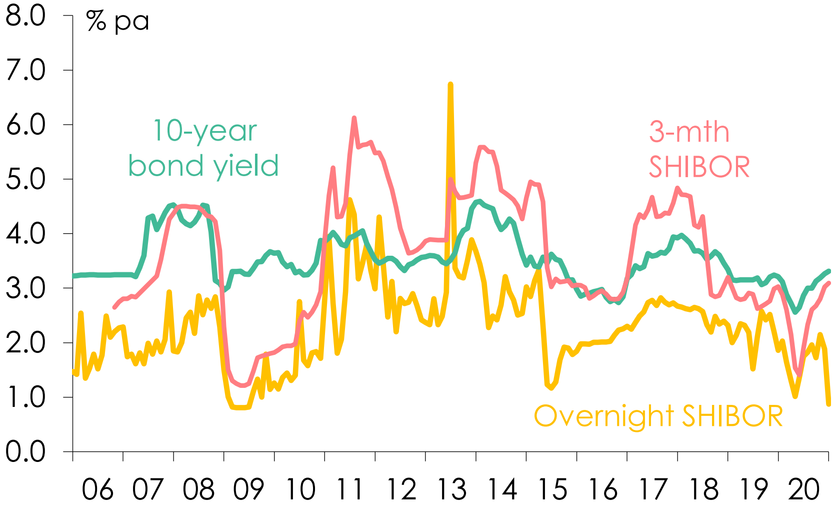
The PBoC remains concerned about financial stability and hence hasn't eased as aggressively as in 2008-09 or 2014-15, but short rates have fallen

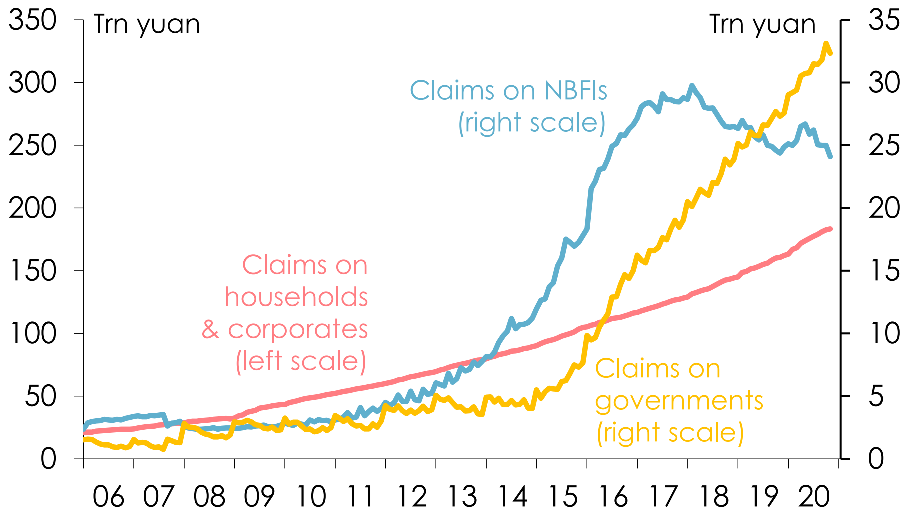
PBoC policy interest rates



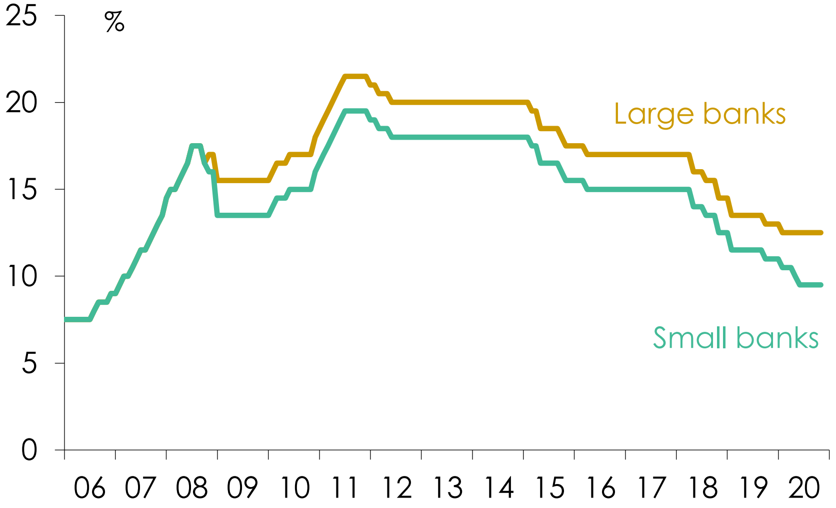
Market interest rates



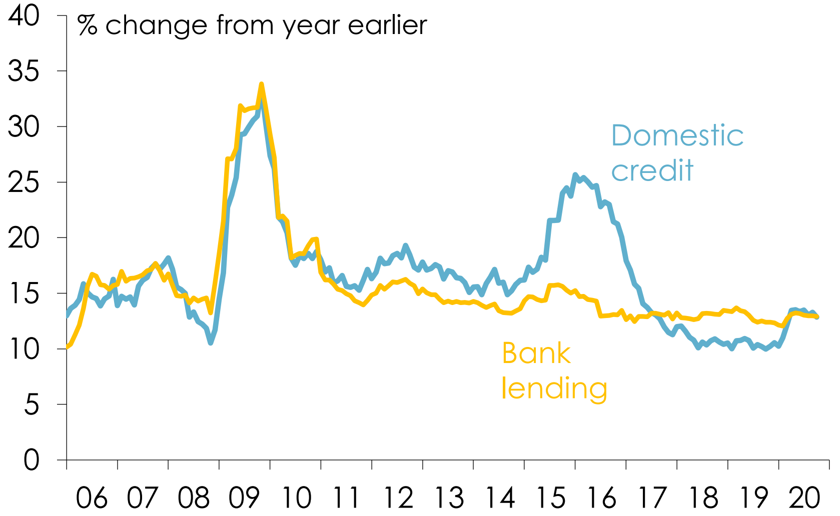
Depository corporation assets



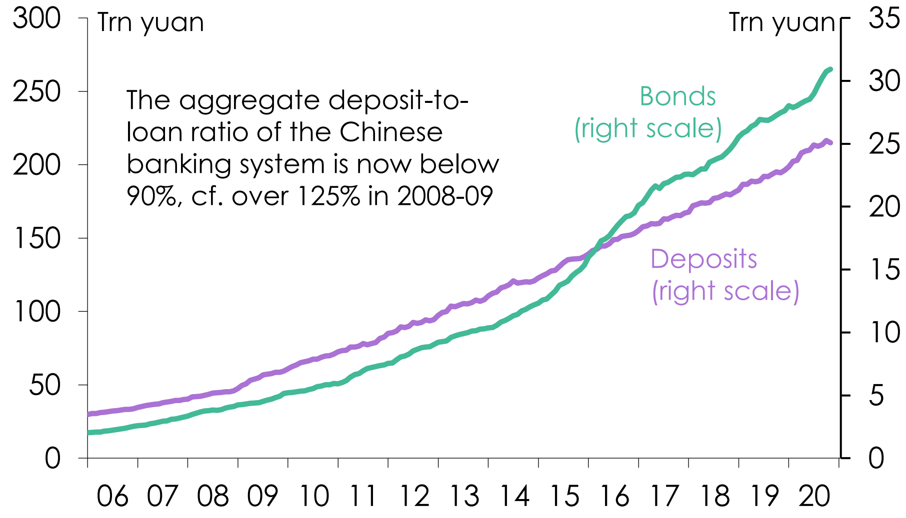
Bank reserve requirement ratios



Credit growth



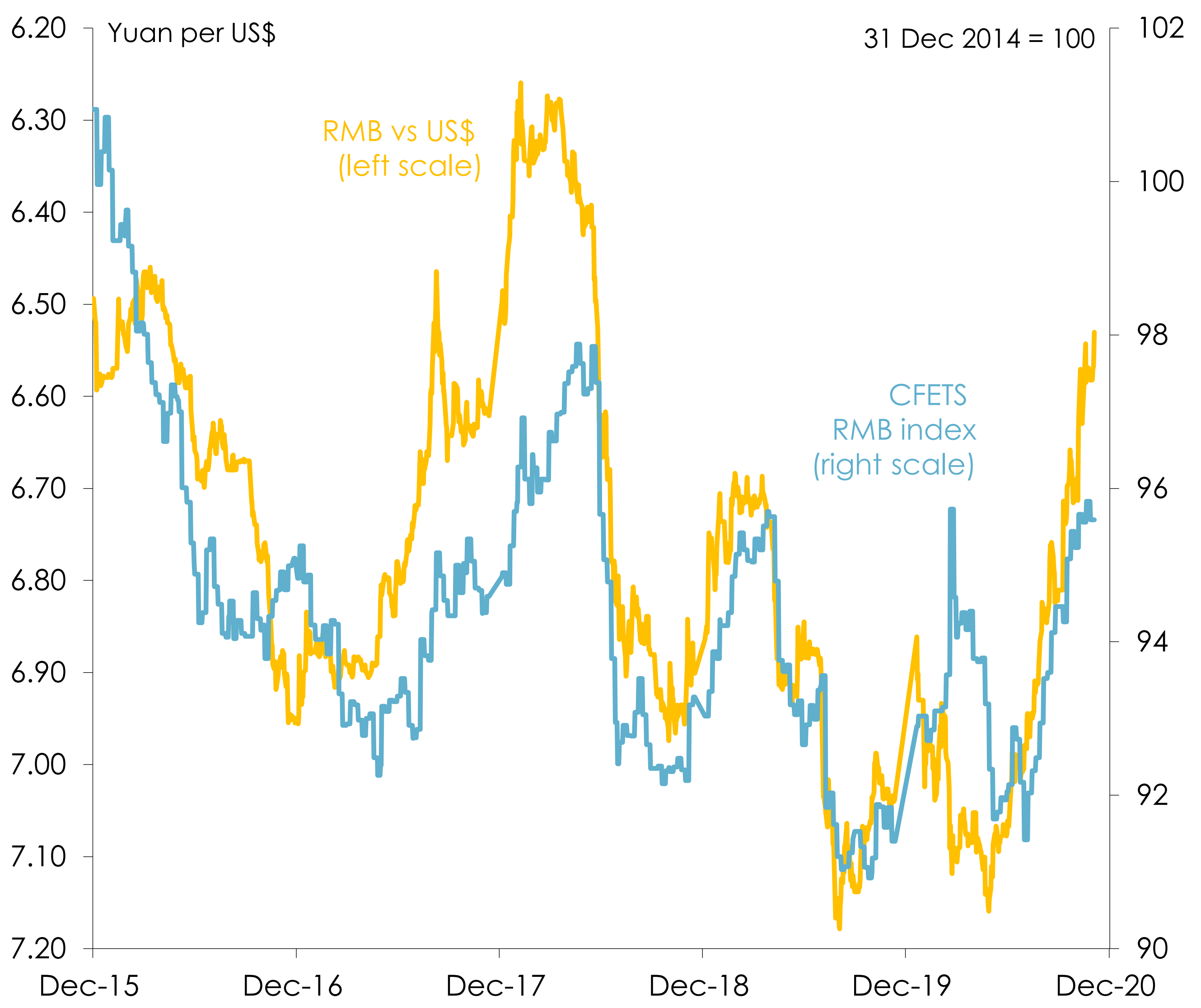
Depository corporation liabilities



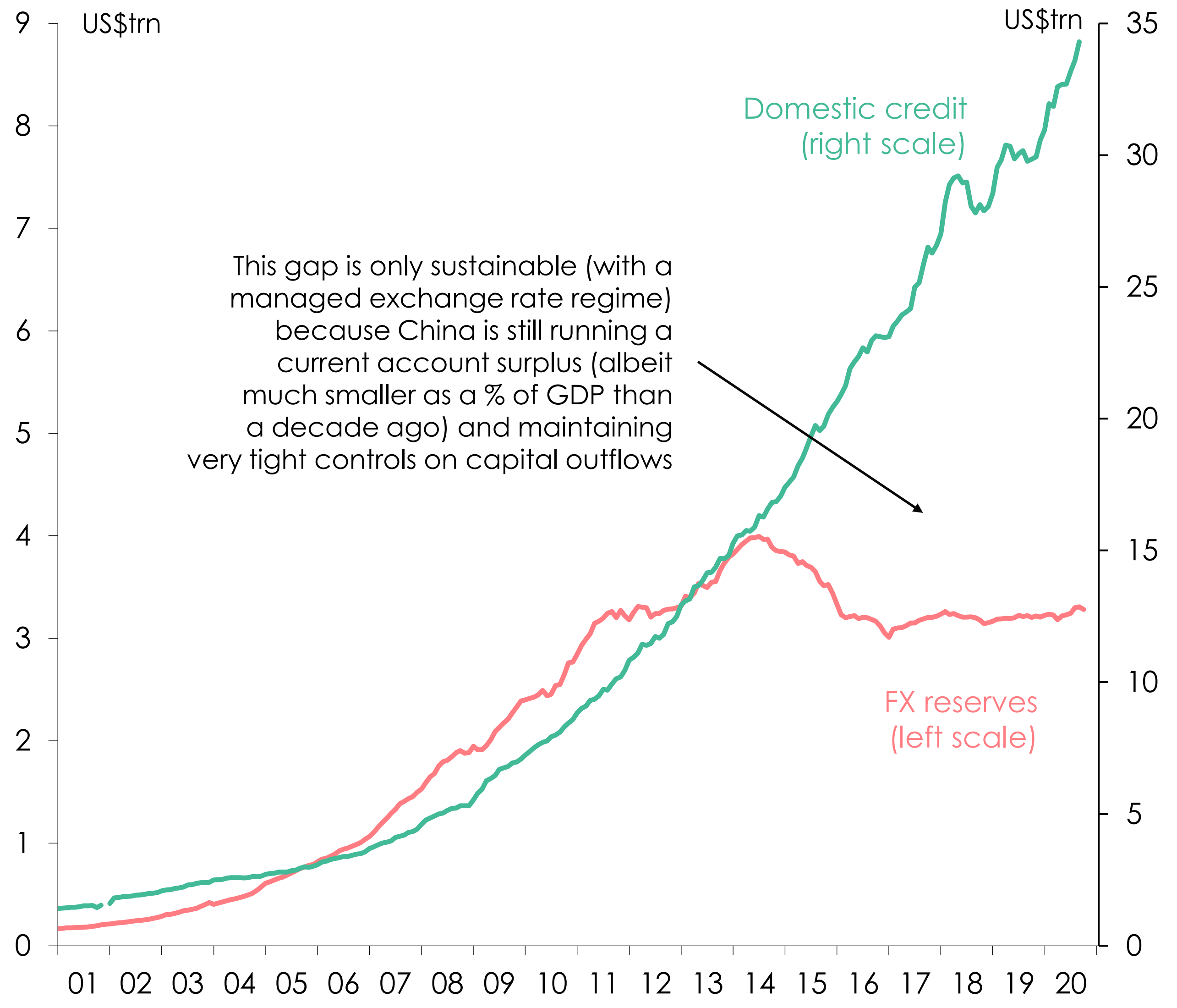
Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. *Sources:* Refinitiv Datastream; People's Bank of China. Return to "What's New".

The Rmb rose against the US$ to its highest level since June 2018 – largely because of US$ weakness

Chinese renminbi vs US$ and trade-weighted index



FX reserves and domestic credit



Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 4th December; credit and FX reserves data up to October. Return to "What's New".

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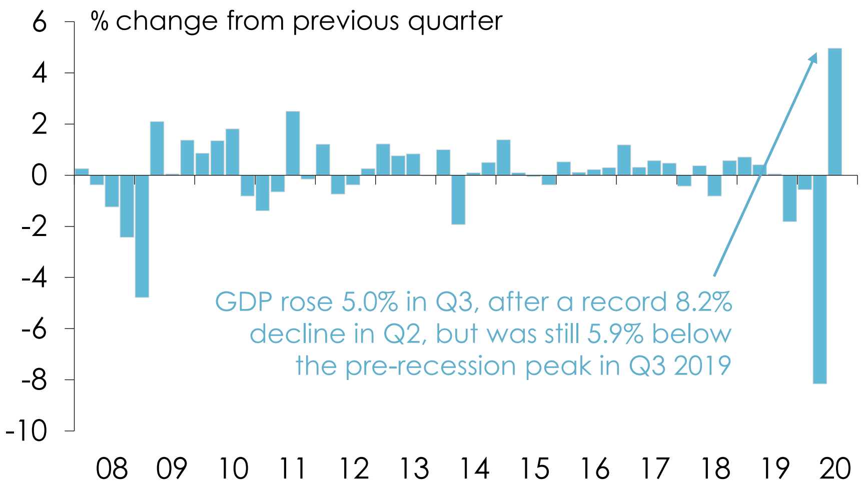
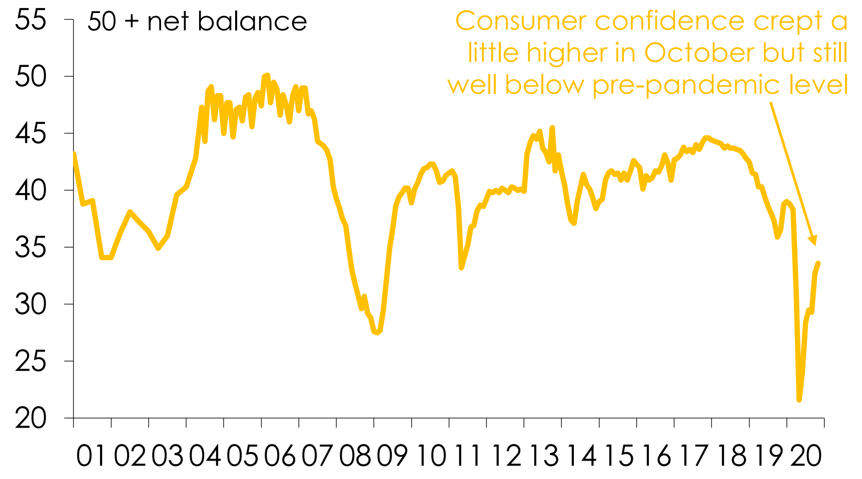
Japan recorded 5% real GDP growth in Q3 after shrinking 10.3% over the previous three quarters, and the 'effective' unemployment rate is falling

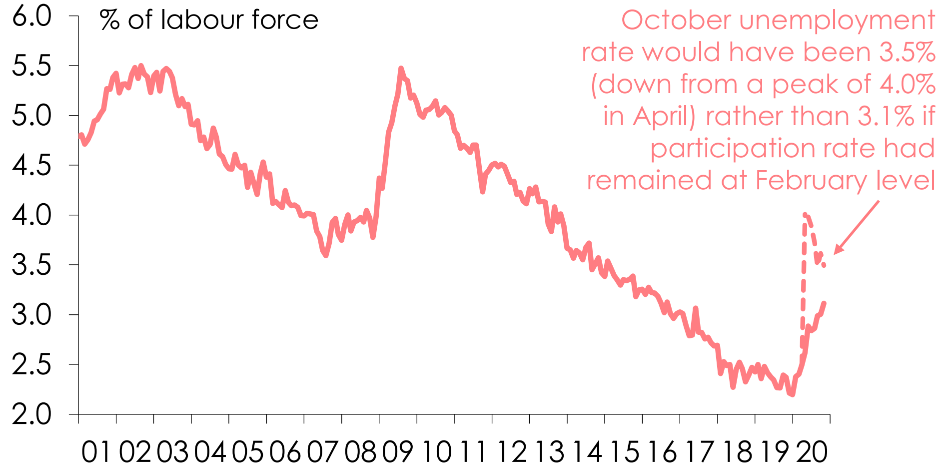
Real GDP



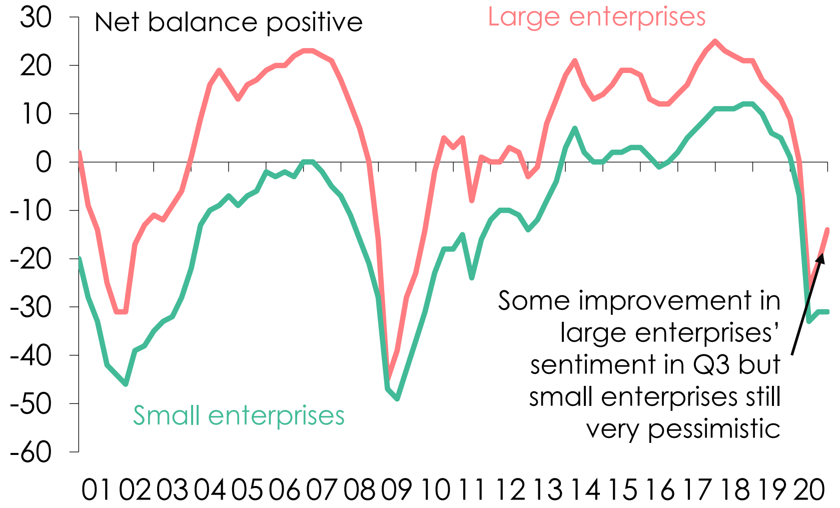
Consumer confidence



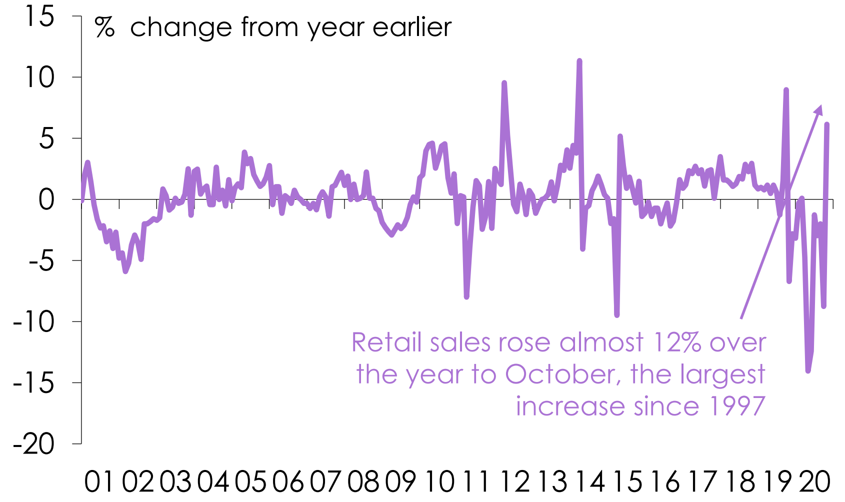
Unemployment



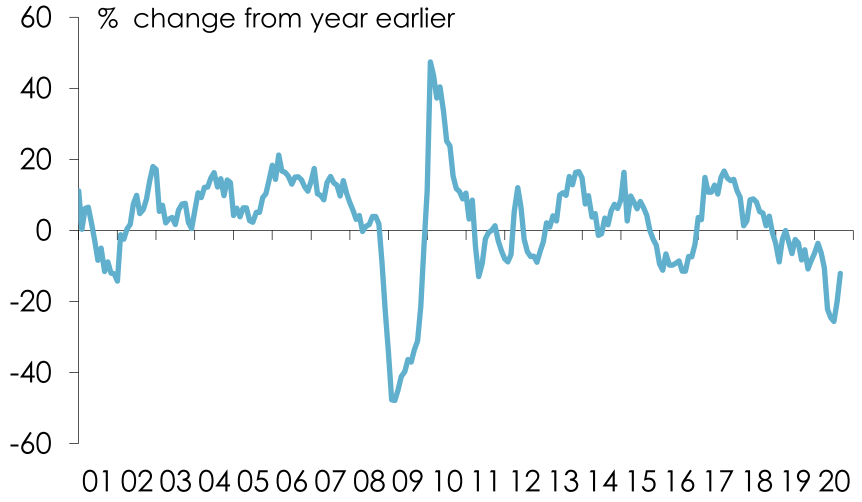
BoJ *Tankan* business conditions



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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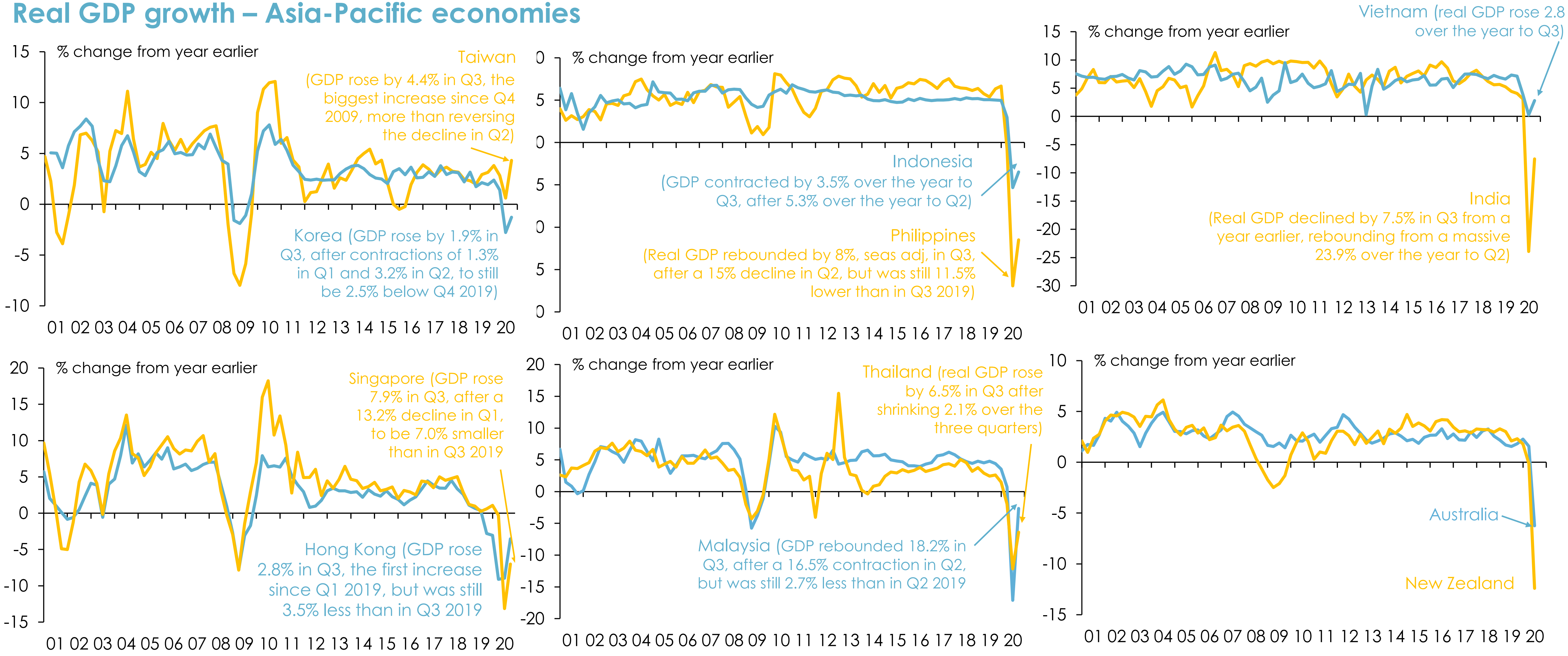
Malaysia, Thailand, Singapore, Philippines & Taiwan have had strong upturns in Q3 though except for Taiwan are yet to return to pre-pandemic levels

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. Australia's Q3 GDP is released on 2nd December; and NZ's on 17th December. Return to "What's New".

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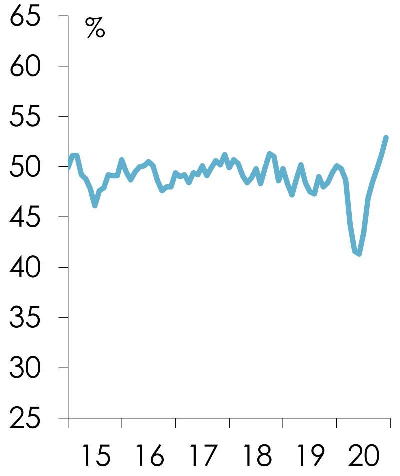
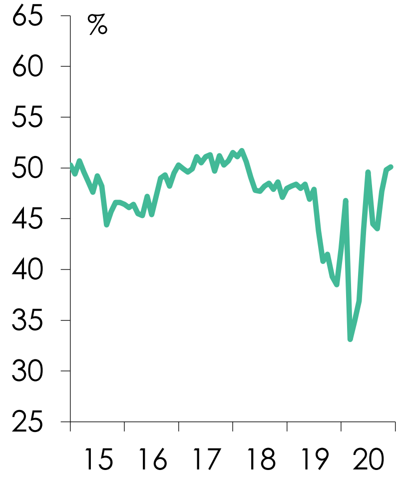
November Asia-Pacific PMIs show continued recovery in manufacturing in most countries especially Korea and Taiwan

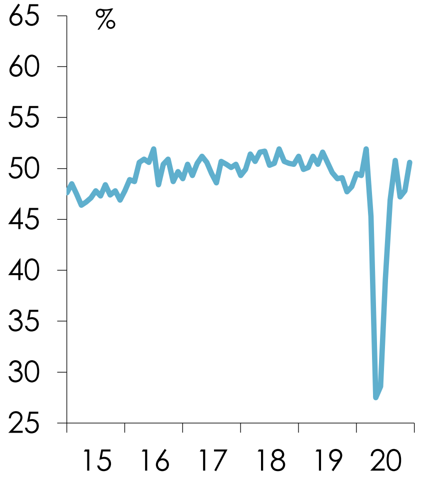
Korea



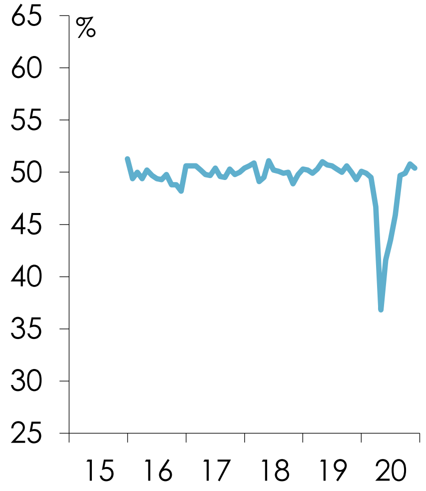
Hong Kong



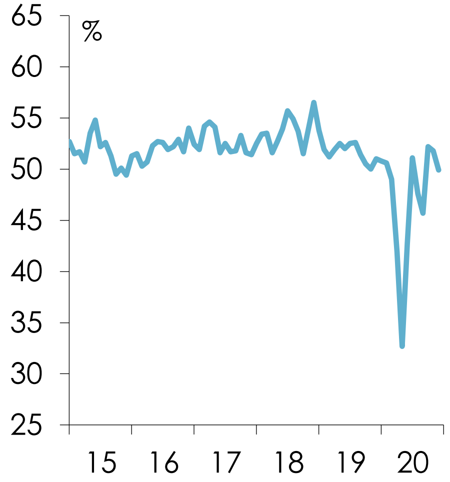
Indonesia



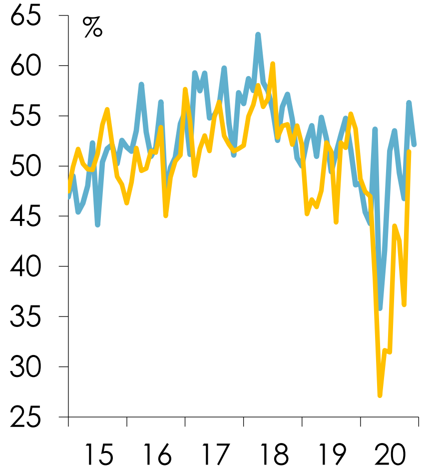
Thailand



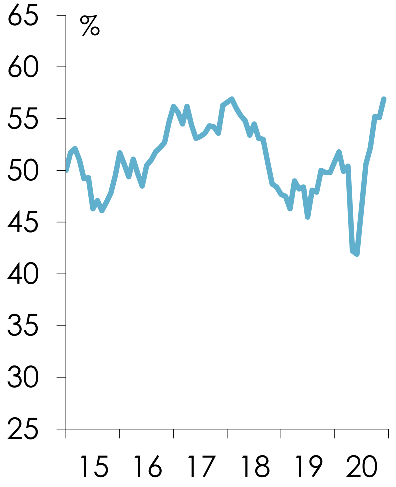
Vietnam



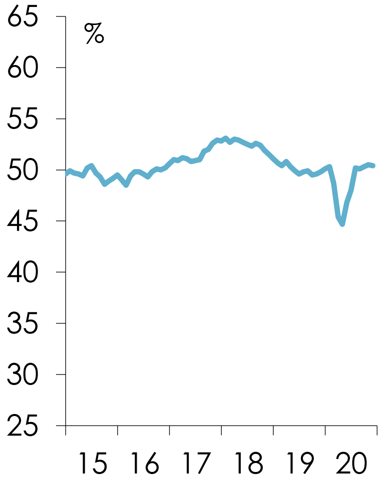
Australia



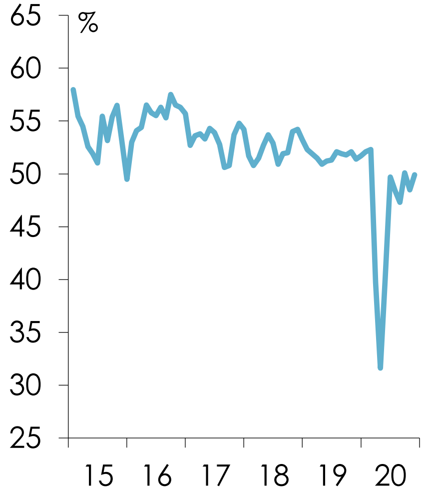
Taiwan



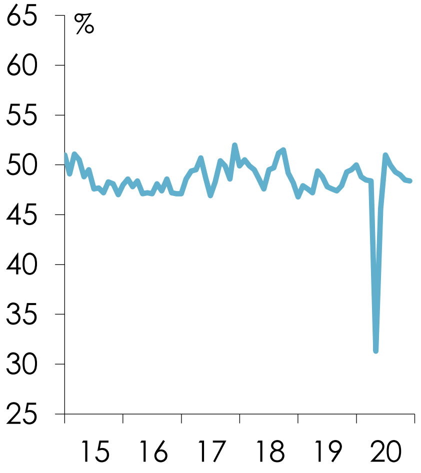
Singapore



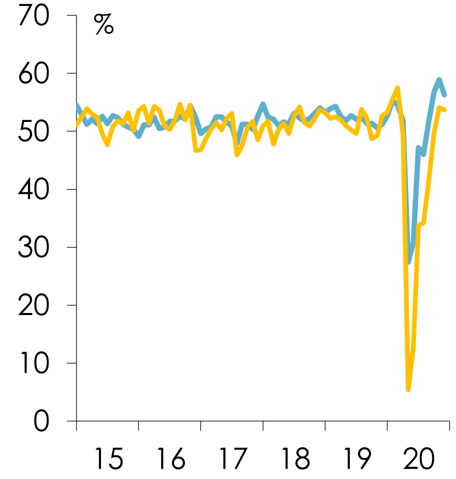
Philippines



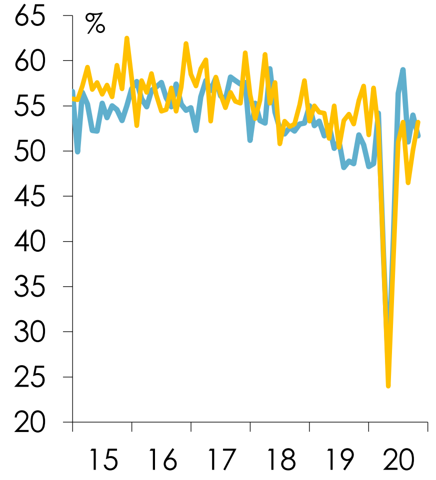
Malaysia



India



New Zealand



Manufacturing Services Whole economy

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 November, except for Australia services and New Zealand.

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

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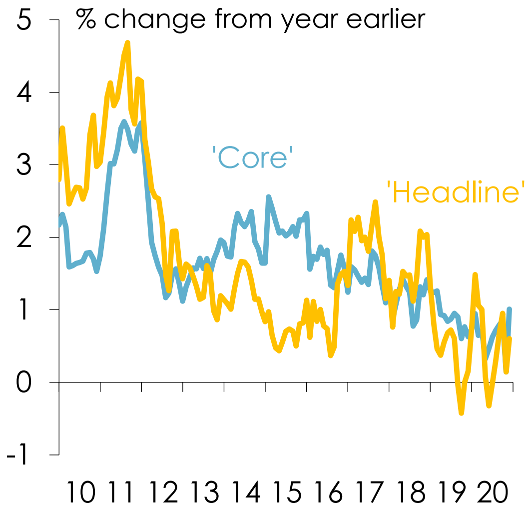
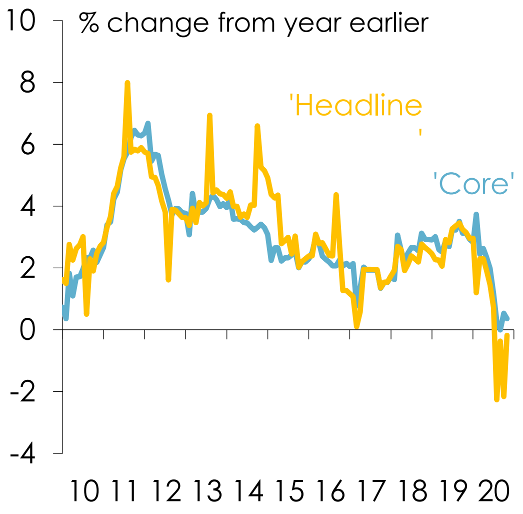
Inflation remains very low across Asian economies (including Indonesia & Philippines where it had been stubbornly high) – except for India

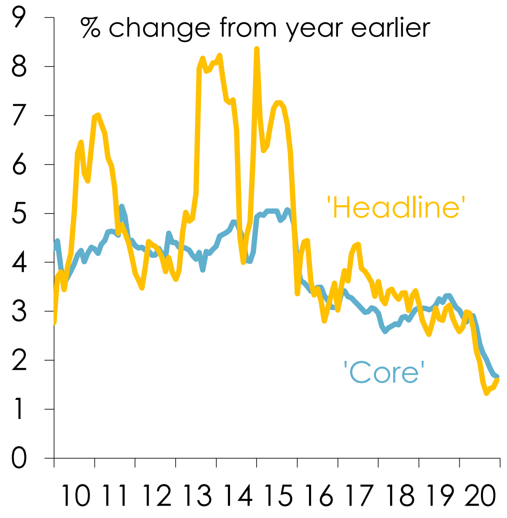
Korea



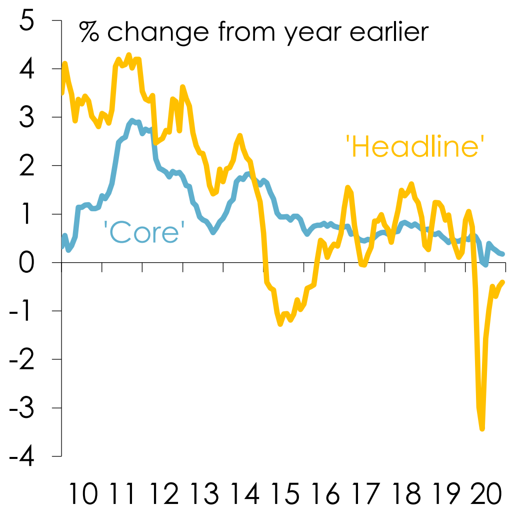
Hong Kong



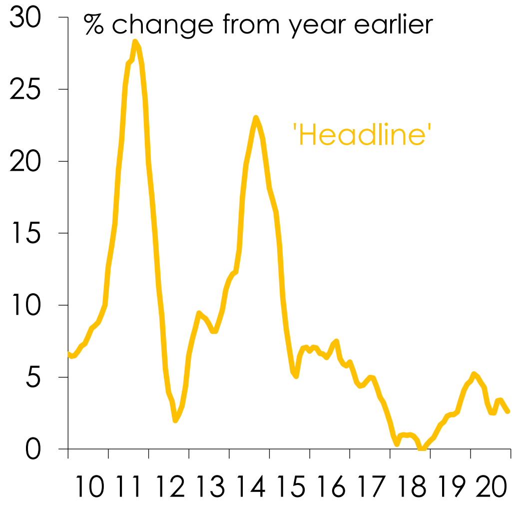
Indonesia



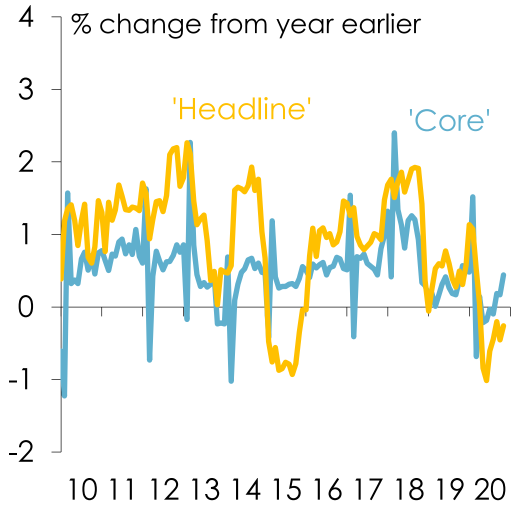
Thailand



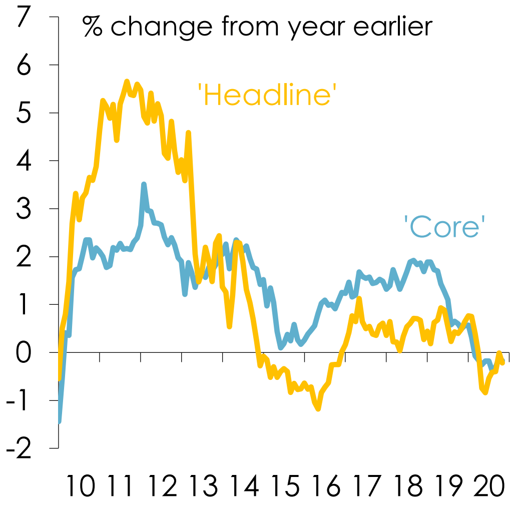
Vietnam



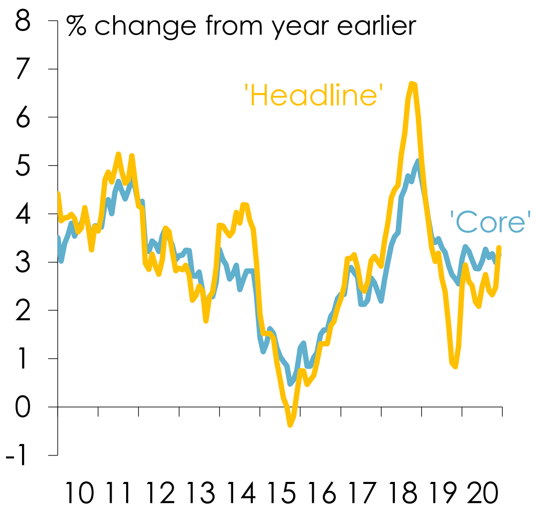
Taiwan



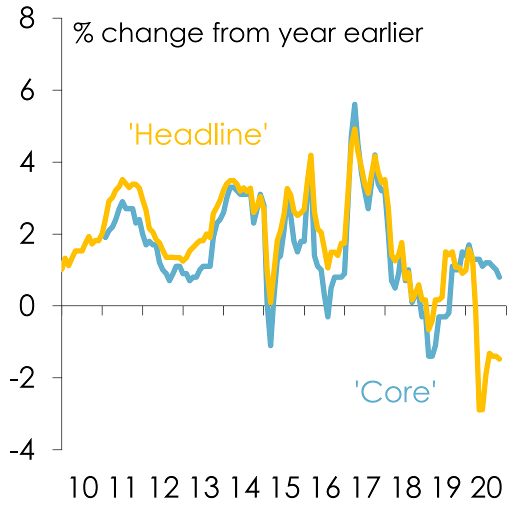
Singapore



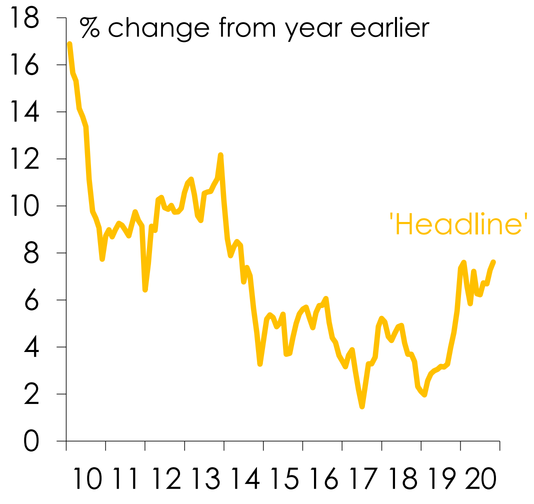
Philippines



Malaysia



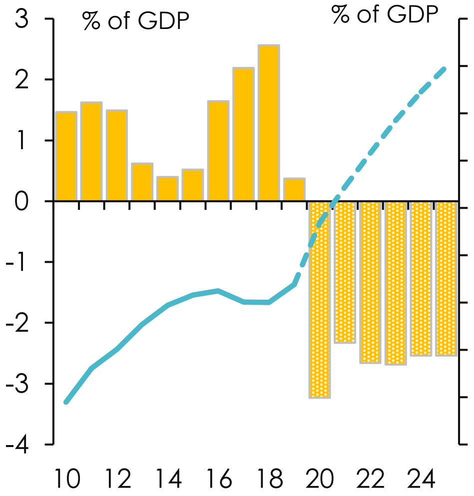
India



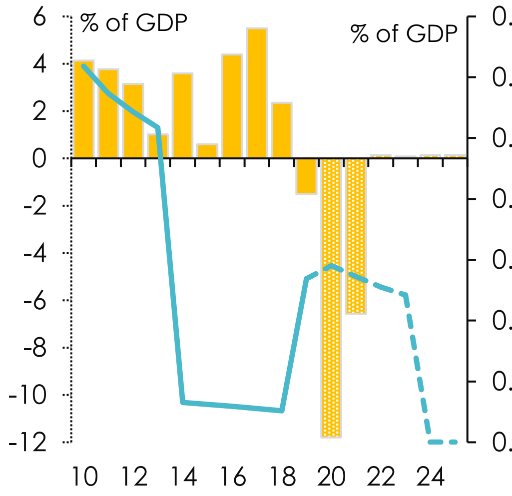
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures. 'Core' inflation in Indonesia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

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

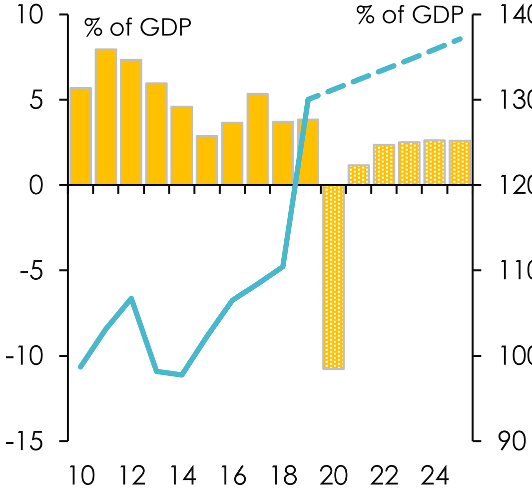
Korea



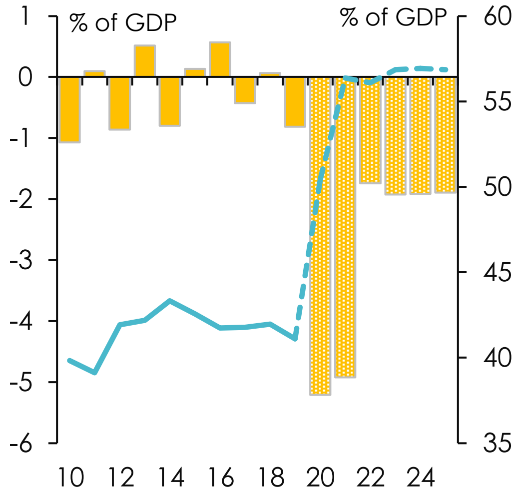
Hong Kong



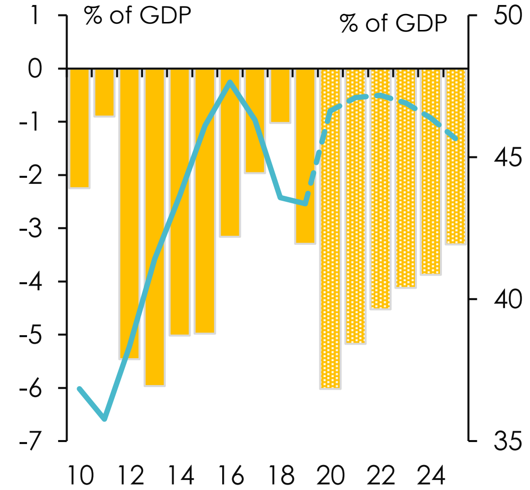
Indonesia



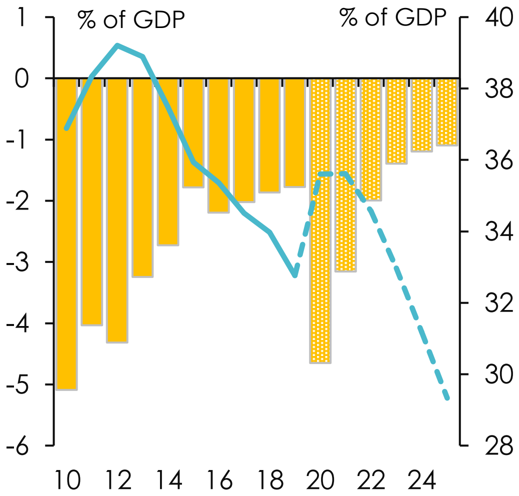
Thailand



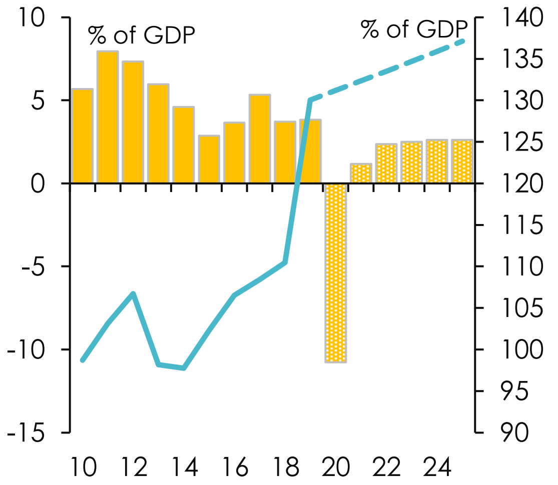
Vietnam



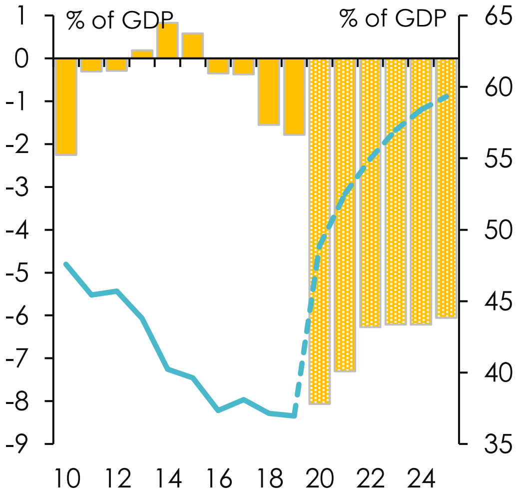
Taiwan



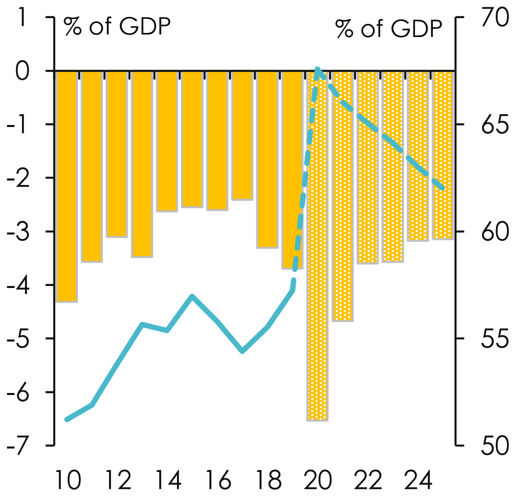
Singapore



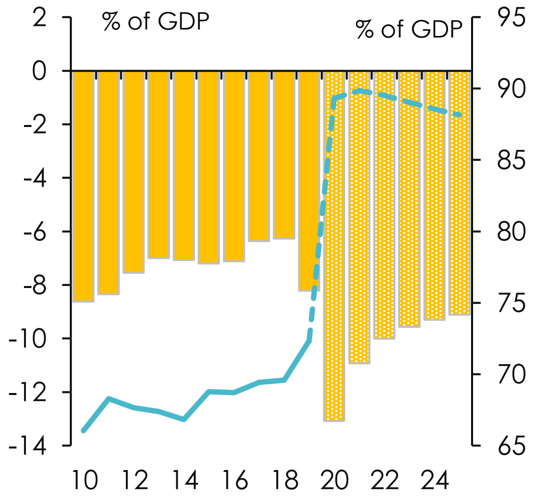
Philippines



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".

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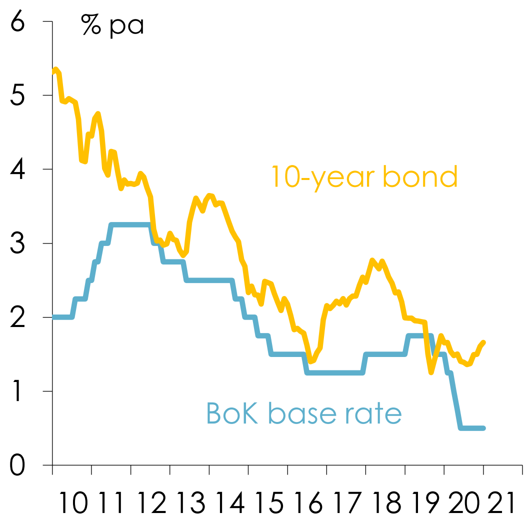
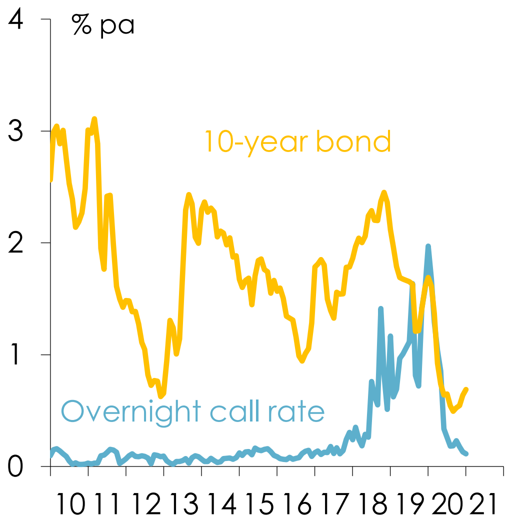
CORINNA ECONOMIC ADVISORY

Low inflation gives Asian central banks room to cut interest rates further, if needed – except (perhaps) in India

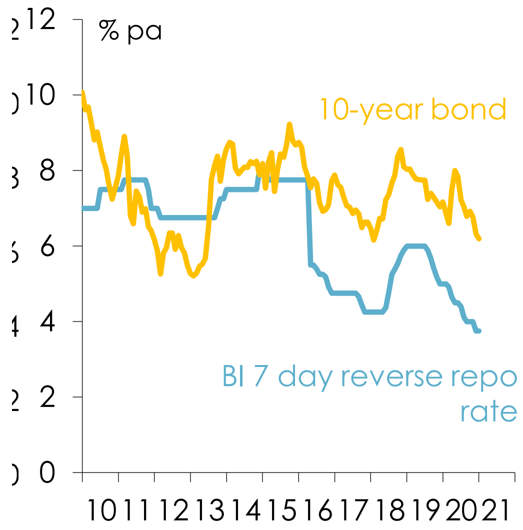
Korea



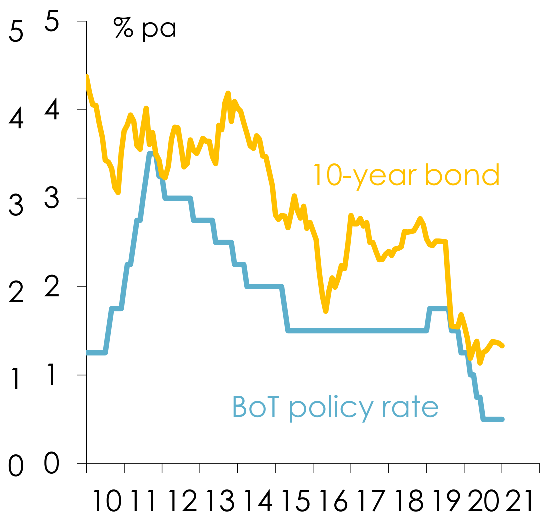
Hong Kong



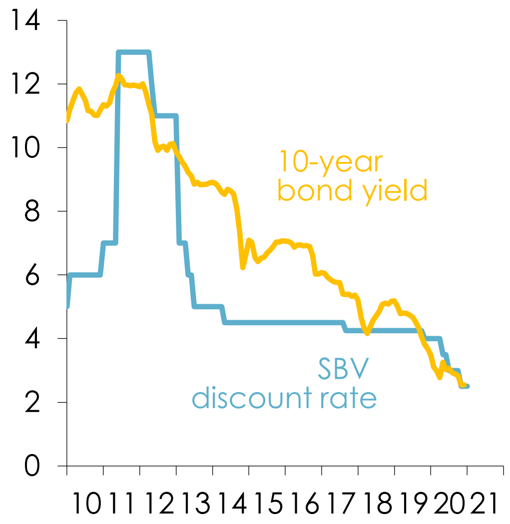
Indonesia



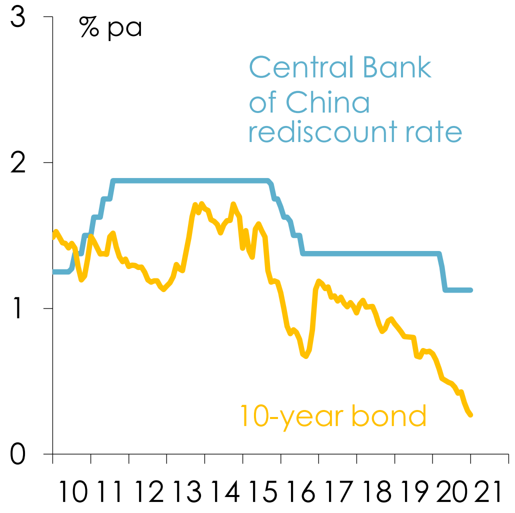
Thailand



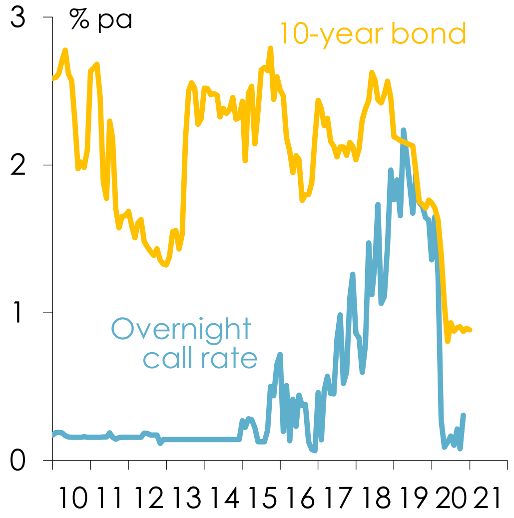
Vietnam



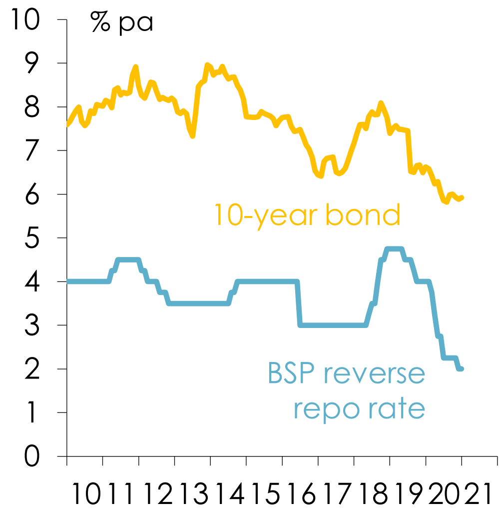
Taiwan



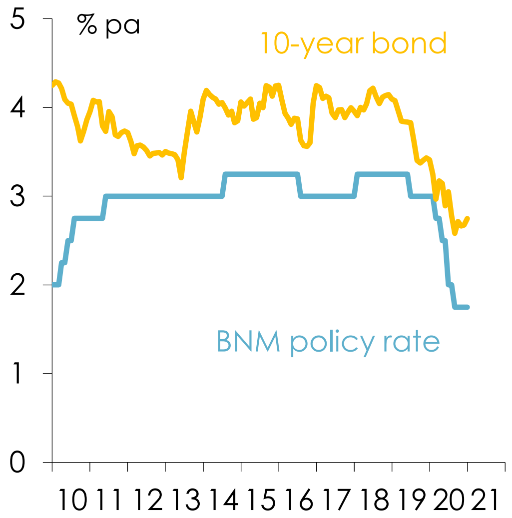
Singapore



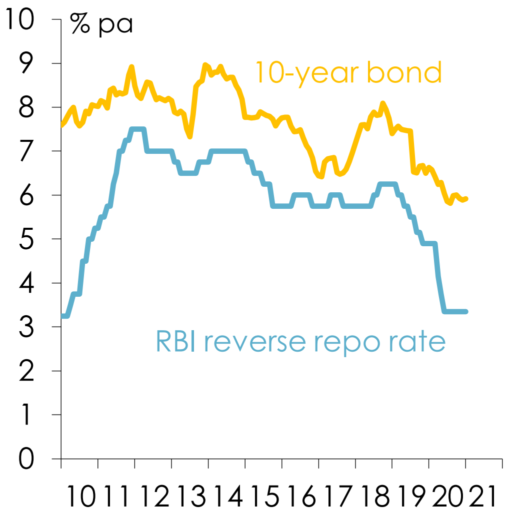
Philippines



Malaysia



India

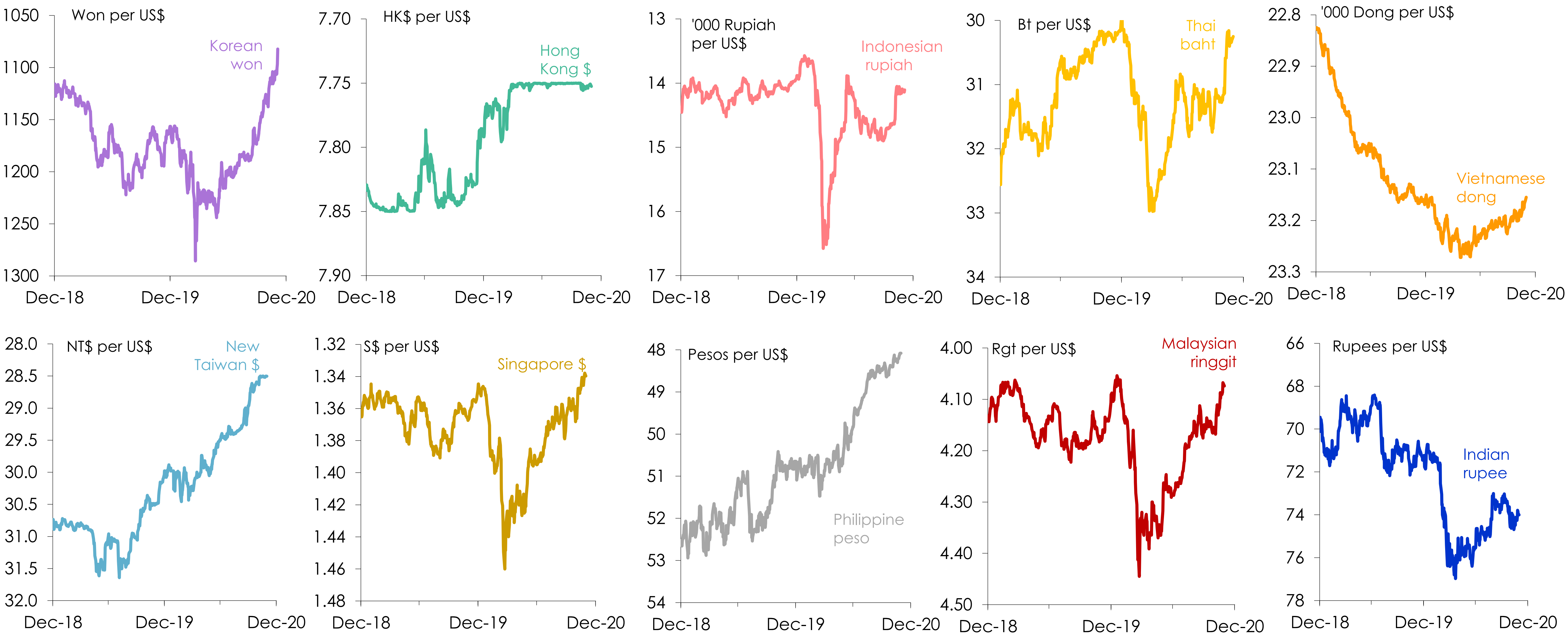


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy interest rate.
Sources: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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The Korean won rose almost 2% against the US$ this week to a 30-month high, NT$ and baht were also stronger while the rupiah was the only loser

Asian currency exchange rates vs US dollar



Note: Data up to 4th December. Source: Refinitiv Datastream. Return to "What's New".

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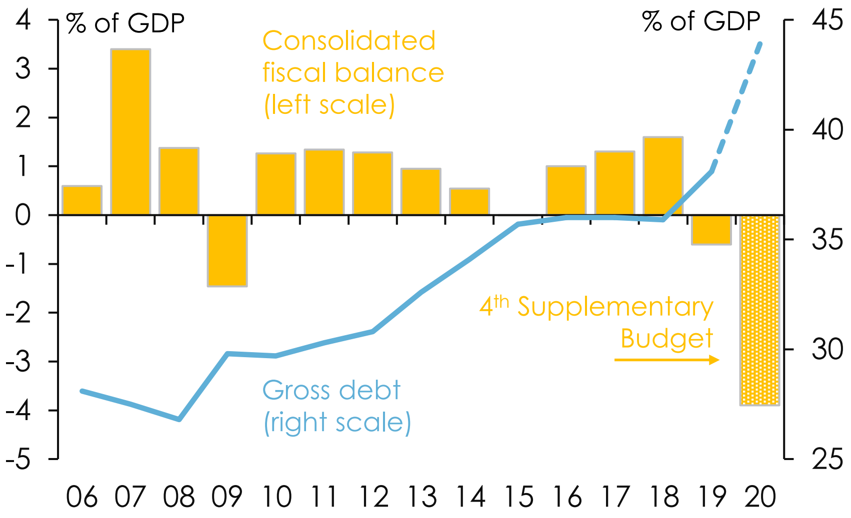
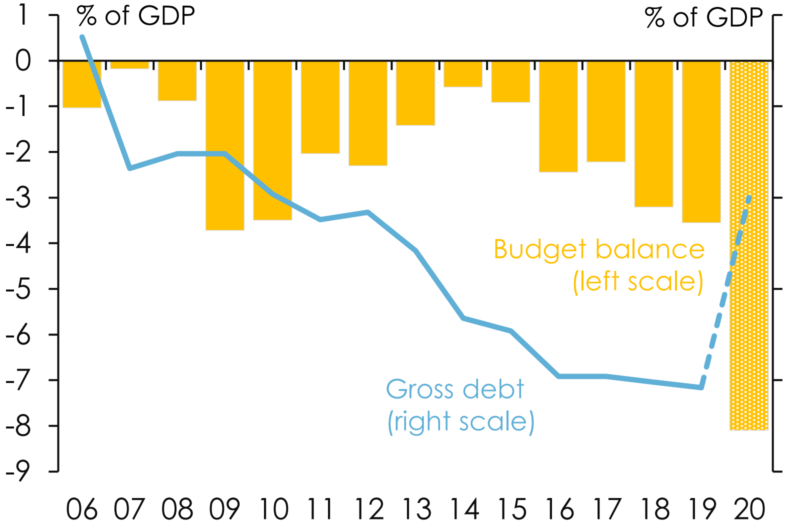
The Korean and Philippines central banks have engaged in different variants of ‘quantitative easing’

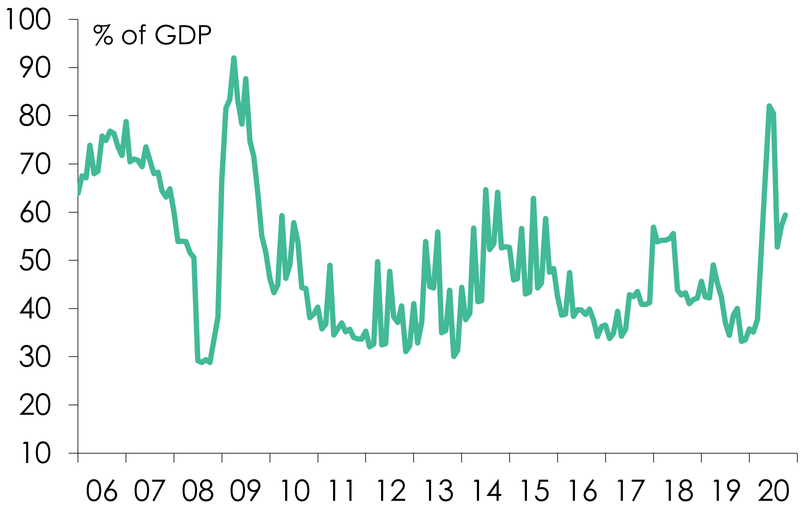
Korea central government budget



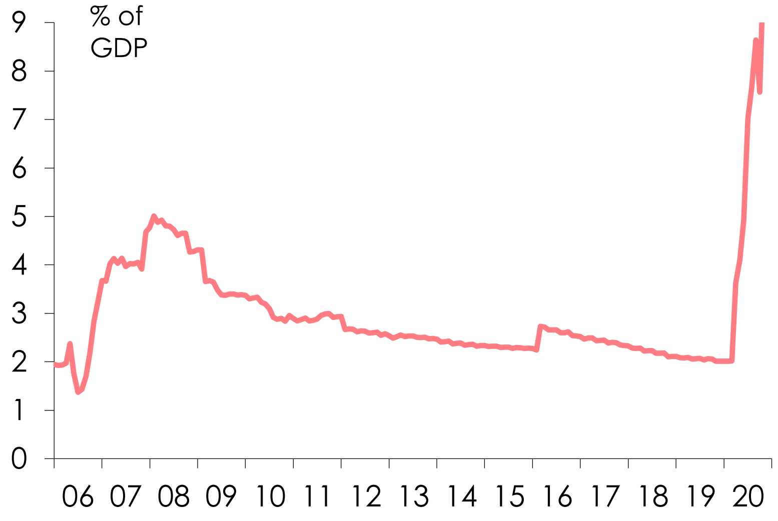
Philippines NG budget



BoK domestic assets



BSP claims on national gov’t

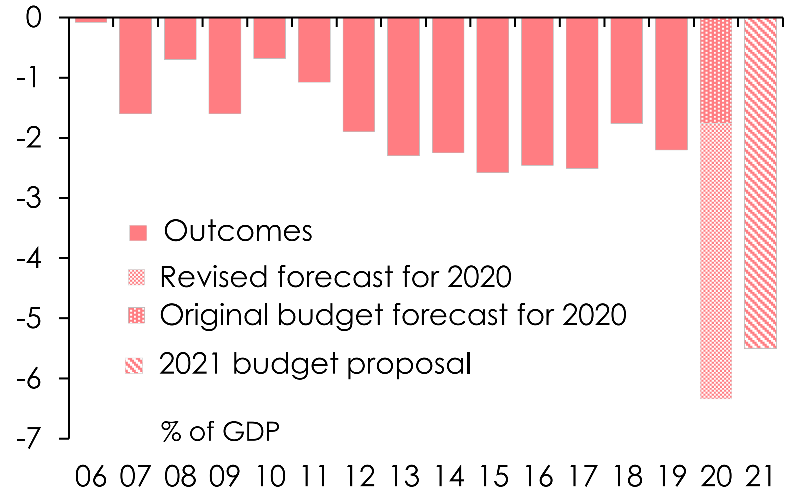


- The Bank of Korea has cut its policy rate by 100bp so far this year to a record low of 0.50%
- After its last rate cut in May, Governor Lee Ju-Yeol indicated the BoK was considering using ‘unconventional monetary tools’ to support growth
  - since March, the BoK has been willing to supply ‘unlimited liquidity’ to financial institutions, accepting a wider range of collateral in repos
  - In April the BoK lent ₩8 trn to a ₩10 trn SPV established to buy corporate bonds and CP
- BoK’s total domestic assets more than doubled between end-February and end-May – reflecting increased holdings of bonds, reverse repos and lending to both government & the private sector – but fell back to 57% in August as loans were repaid &repos reversed
- The Philippines National Government (NG) expects its 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 under a 6-mth repo arrangement, and has bought ₱500bn in the secondary market

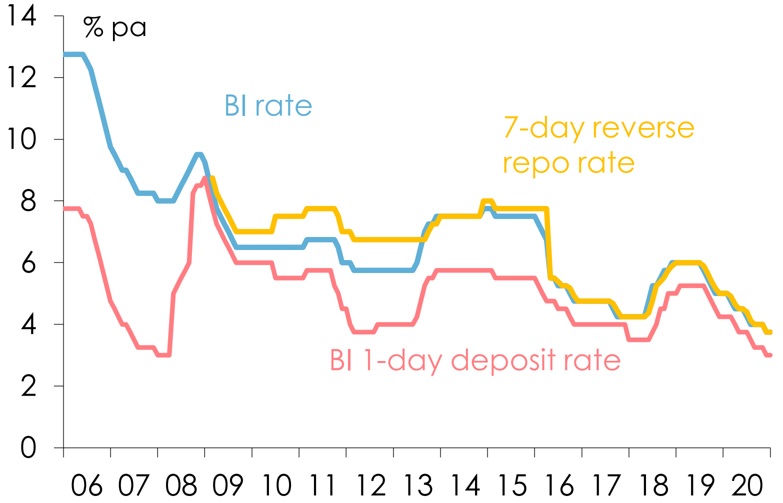
Sources: Korea Ministry of Economy and Finance; Bank of Korea; Philippines Development Budget Co-ordination Committee; Philippines Bureau of the Treasury; Bangko Sentral ng Pilipinas. Return to "What's New".

Indonesia's central bank has financed more than half the government's budget deficit since April, and this week also cut interest rates again

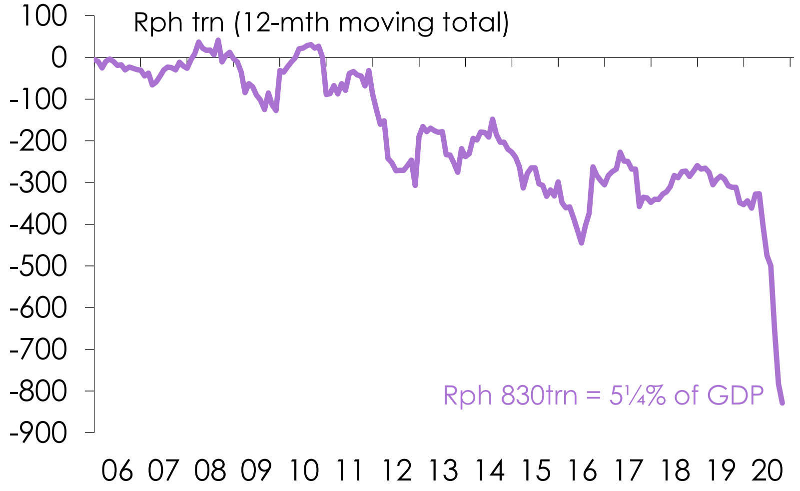
Indonesia budget deficit



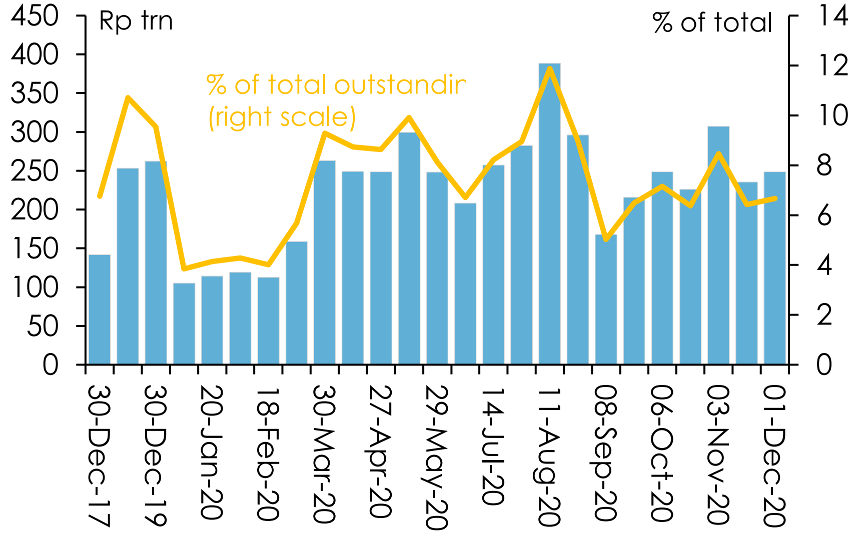
BI monetary policy rates



Central gov't budget balance



BI holdings of tradeable SBNs



- In April, the Indonesian Government and Bank Indonesia (BI) agreed to 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
  - BI calls this 'synergistic monetary expansion'
  - as of 17th November BI had purchased Rp72.5 trn of SBN in the primary market, and provided an additional Rp 270 trn through 'burden sharing' arrangements with the Government
  - these amounts are together equivalent to about 57% of the Government's deficit since April
  - BI has also funded Rp 115trn of lending to SMEs under a separate 'burden-sharing' agreement
- BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022
- This month BI lowered its key monetary policy interest rates by a further 25 bp (bringing the total reduction in rates this year to 125 bp)
  - citing "projected low inflation, maintained external stability and follow-up measures to expedite national economic recovery"
  - BI regards the rupiah as 'fundamentally undervalued'

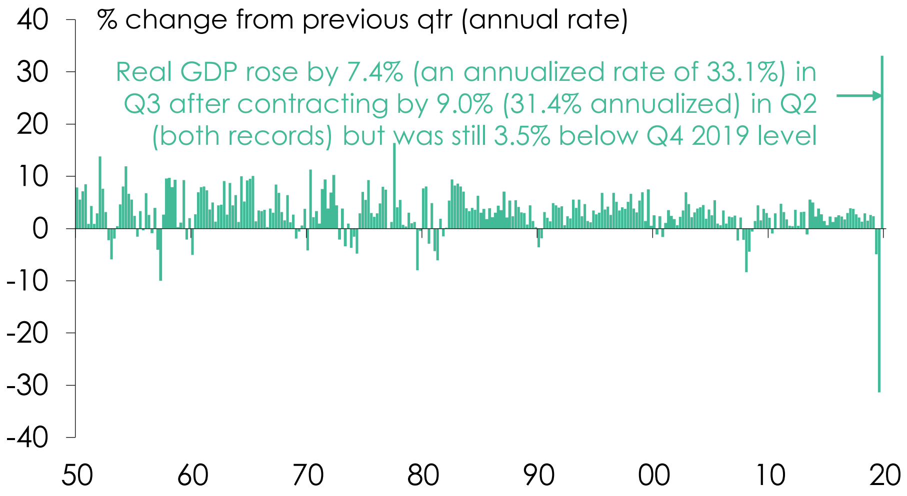
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

In the US, the transition to the incoming Biden Administration is gathering momentum even as Trump continues to refuse to concede formally

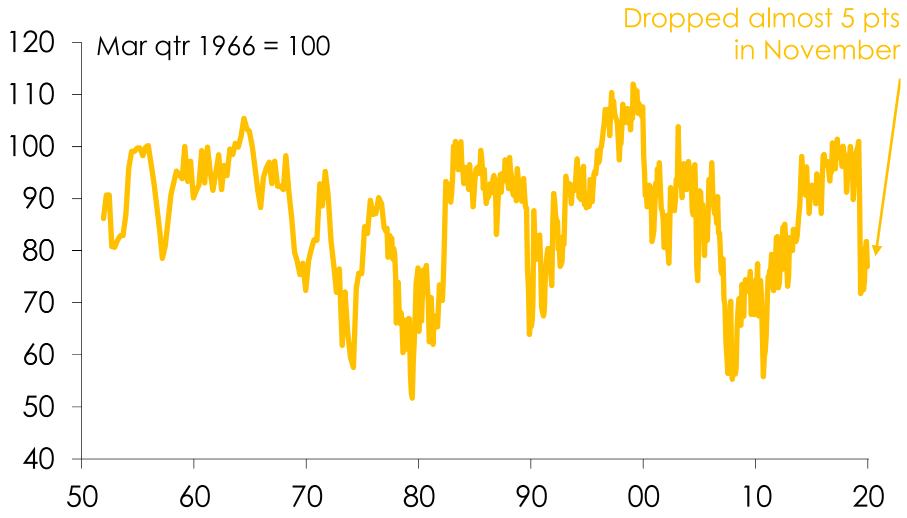
- The final count shows Joe Biden received 80.1 mn votes (51.1% of the total) to Donald Trump's 73.9 mn (47.2%), with 66.9% of registered voters casting a ballot, the highest turnout since 1900
- The Electoral College will formally meet (in state capitals) on 14th December, and will likely award the Presidency to Biden with a 306-232 vote (the same as Trump won over Hillary Clinton in 2016)
  - all of President Trump's legal challenges to the outcomes in crucial states have failed (including in cases which have been decided by Republican-appointed judges)
  - Trump has raised at least US$170mn since the 3rd November election, ostensibly to fund challenges to the outcome of the election, but (as the 'fine print' acknowledges) in practice to pay off his campaign debts, and to finance a campaign in 2024 – in which he would seek to be the first defeated President to make a successful 'comeback' since Grover Cleveland in 1892
- There has been increasing conjecture that Trump will pre-emptively pardon himself, and members of his family, before he leaves office on 20th January
  - it's possible that such a pardon could be challenged in the Supreme Court, on the grounds that "no-one can be a judge in his own case", according to an Office of Legal Counsel opinion issued just before the resignation of Richard Nixon in 1974
  - a pardon could remove Trump's Fifth Amendment immunity (or that of anyone else he pardons) against self-incrimination if called upon to testify – and it doesn't provide immunity from prosecution for state crimes (including avoiding state taxes)
- Meanwhile the transition to the incoming Biden Administration has been progressing
  - Biden has fleshed out his economic team, headed by former Fed Chair Janet Yellen as Treasury Secretary, with a Council of Economic Advisors described by The Economist as "the most progressive [ie, left-leaning] in recent memory" – although his choices for heads of the National Economic Council and of the Office of Management & Budget are less likely to be welcomed by the Democratic Party's 'progressive' wing
- At the same time hopes have risen of a ~US$1 trillion stimulus package being approved by the 'lame duck' Congress before it rises for the last time – in particular extending income supports that will otherwise lapse

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

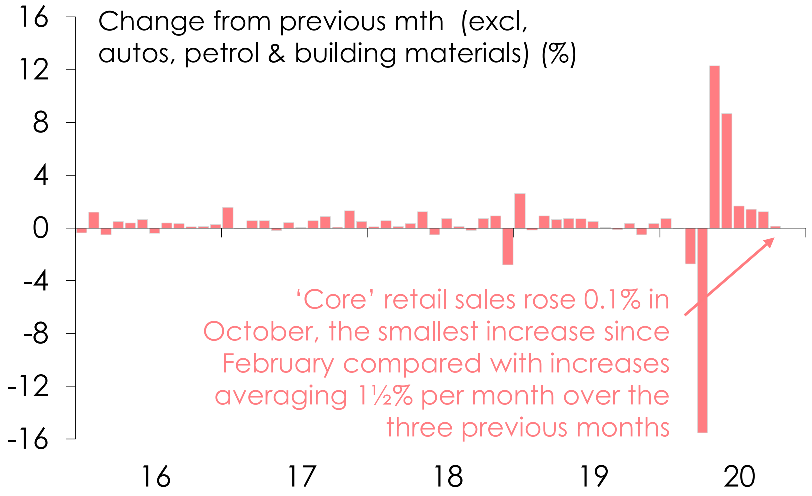
Real GDP



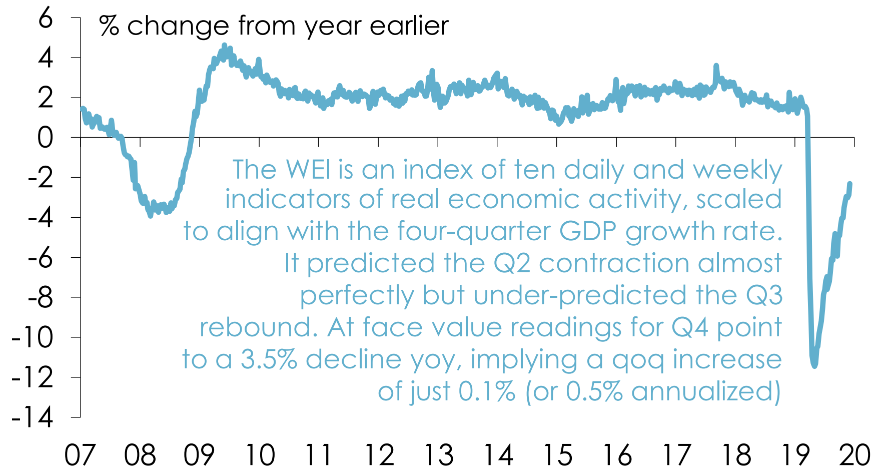
Consumer confidence



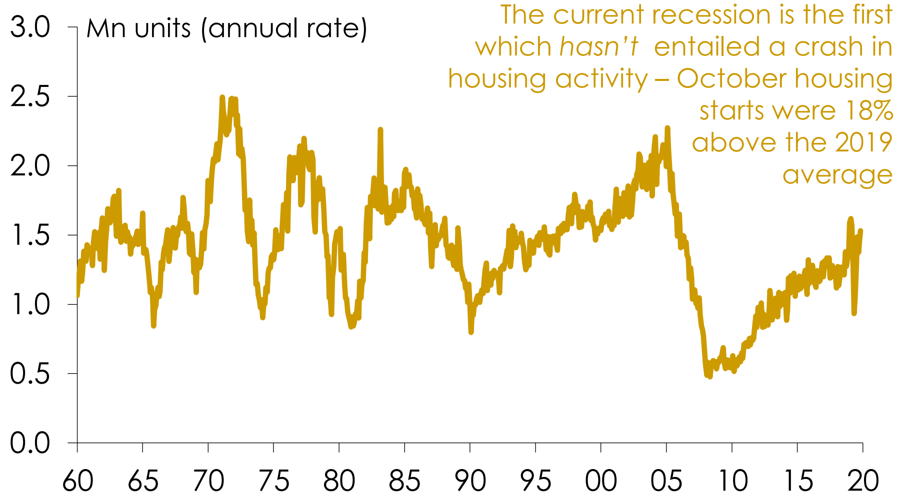
'Core' retail sales



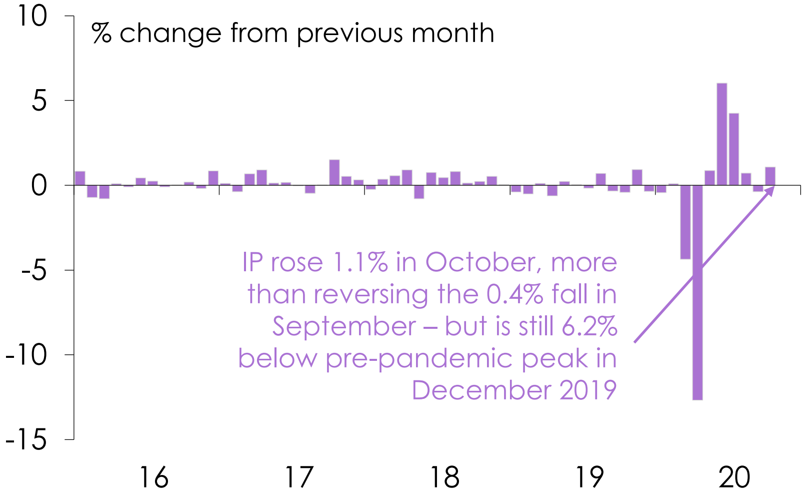
NY Fed weekly economic index



Housing starts



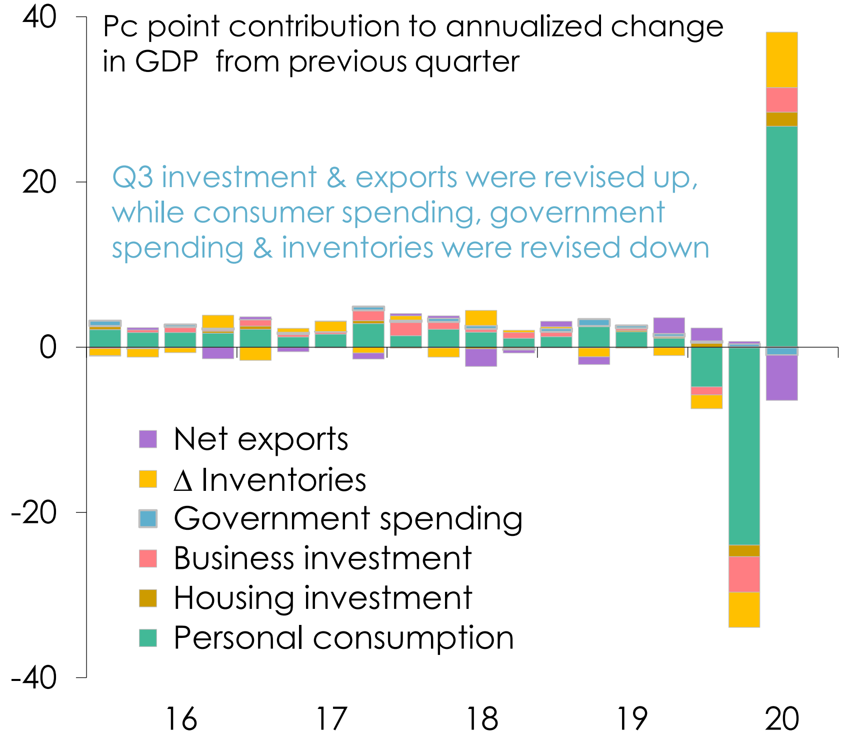
Industrial production



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".

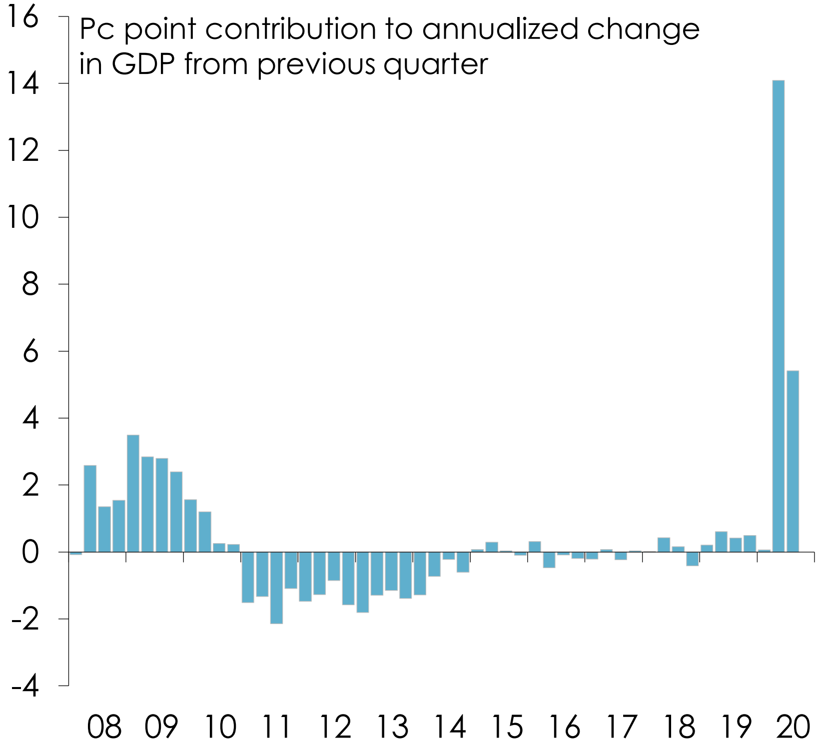
The huge gyrations in US real GDP in Q2 and Q3 reflect swings in personal consumption and inventories, fiscal policy and personal saving

Major expenditure aggregates contribution to quarterly changes in real GDP



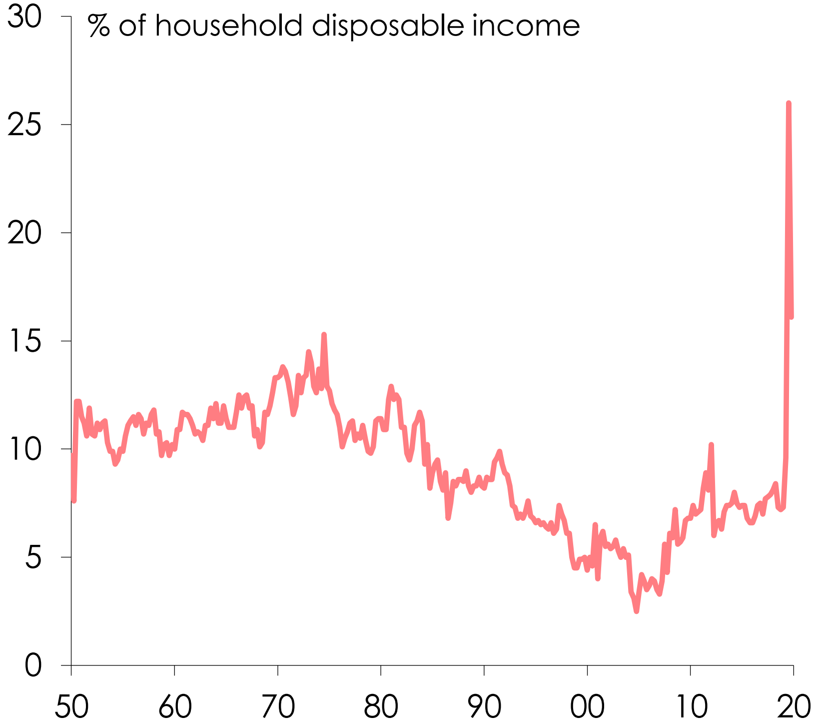
The unprecedented fall and rise in real GDP in the past two quarters were driving by huge swings in personal consumption spending and inventory depletion & re-building

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



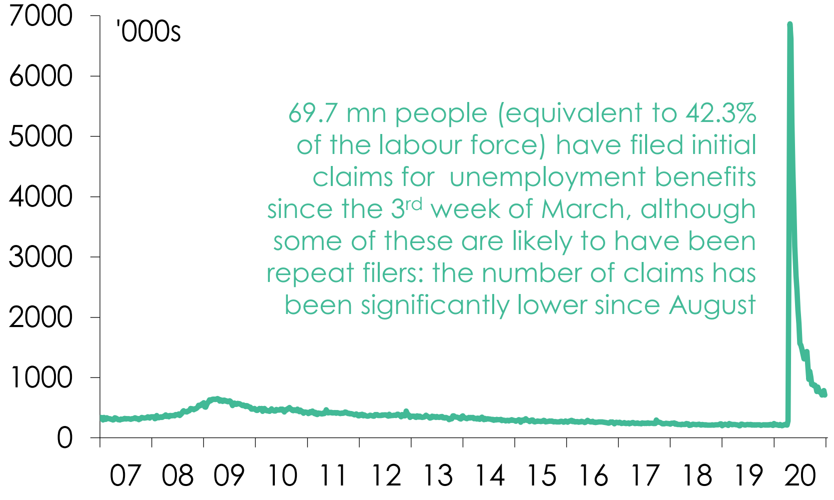
The swings in real GDP were magnified by an unprecedented rise and then fall in personal saving – reflecting the impact of government transfer payments, and of restrictions on spending in Q2

Source: US Bureau of Economic Analysis (updated for revisions to preliminary estimates published on 25th November); Brookings, Hutchins Center Fiscal Impact Measure; Corinna. Return to "What's New".

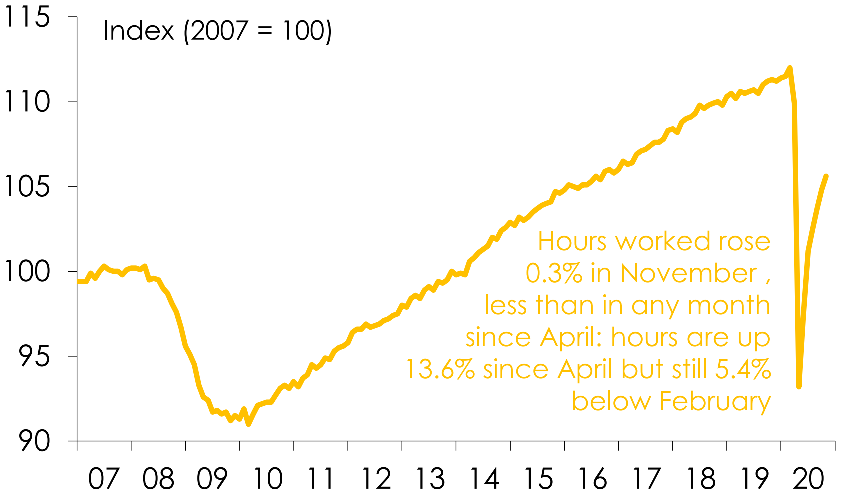
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Employment rose 0.2% in November, the smallest increase since February, while the 'effective' unemployment rate stalled

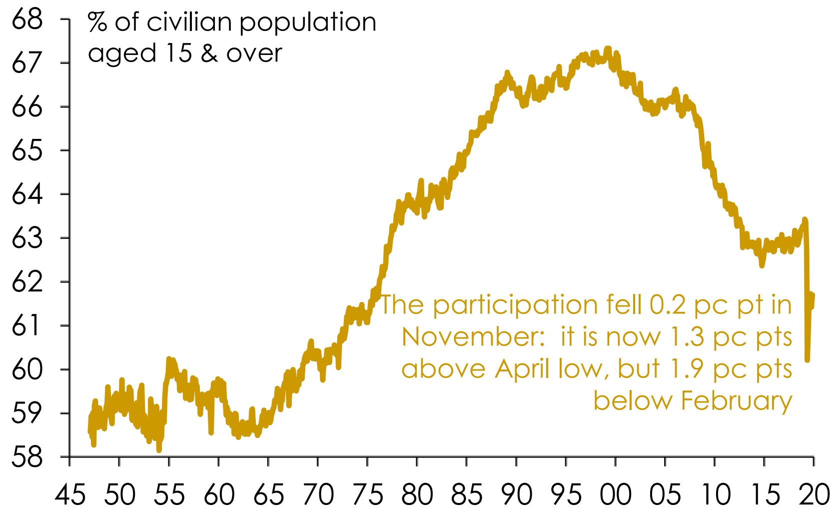
Unemployment benefit claims



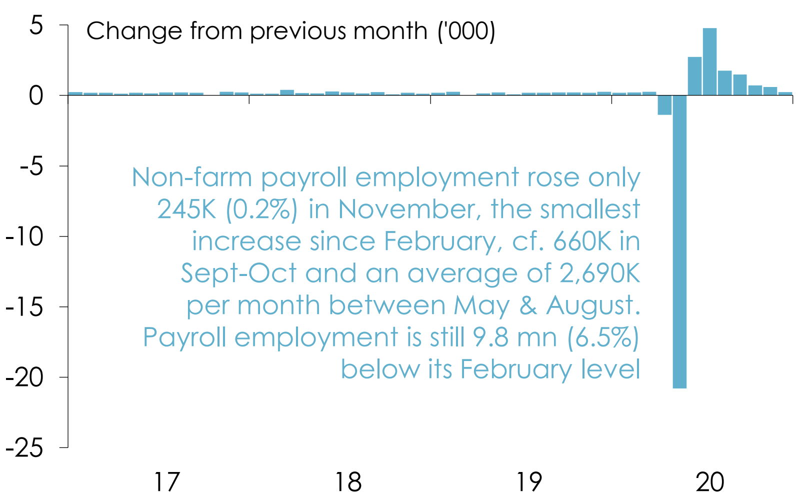
Hours worked (private sector)



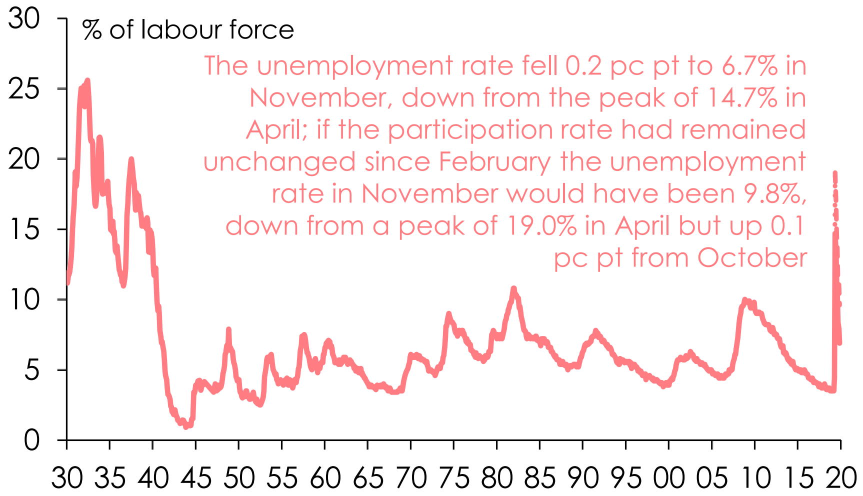
Labour force participation rate



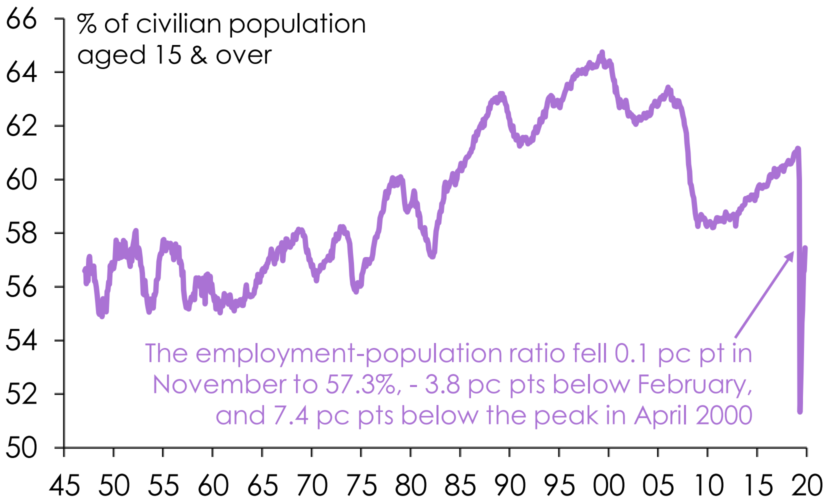
Non-farm payroll employment



Unemployment rate



Employment to population ratio

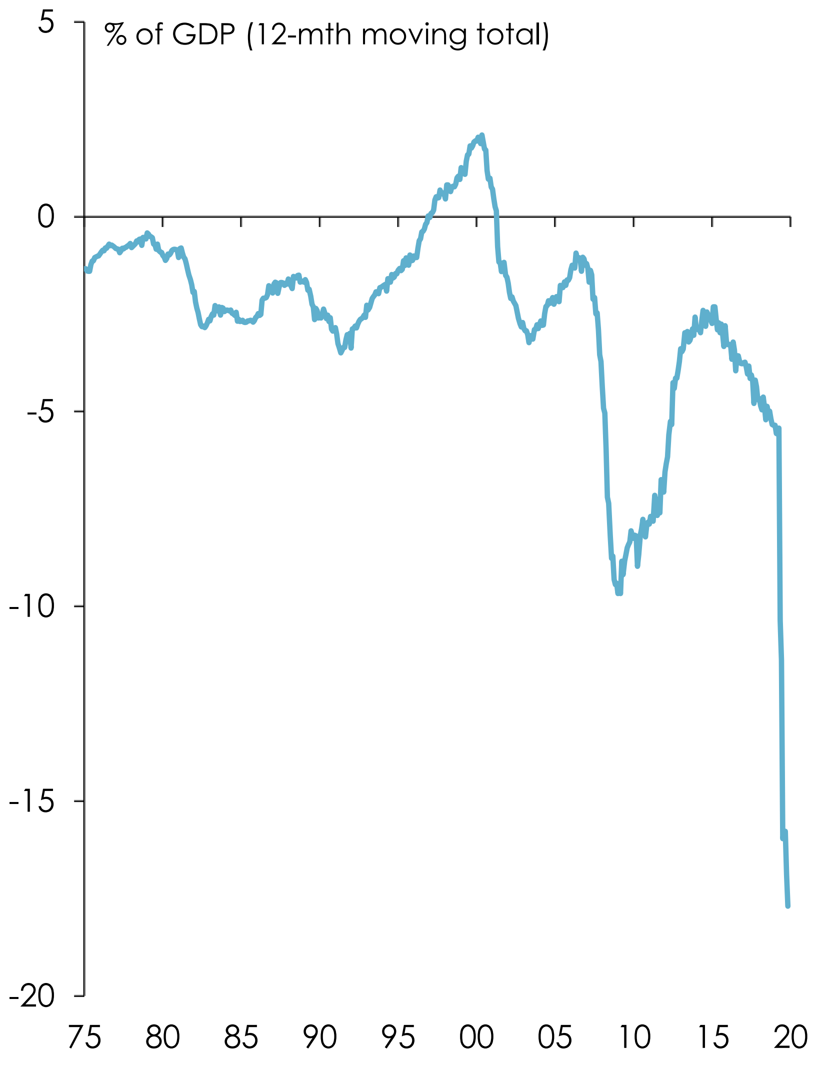


Sources: US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. December employment and other labour force data will be released on 8th January 2021. Return to "What's New".

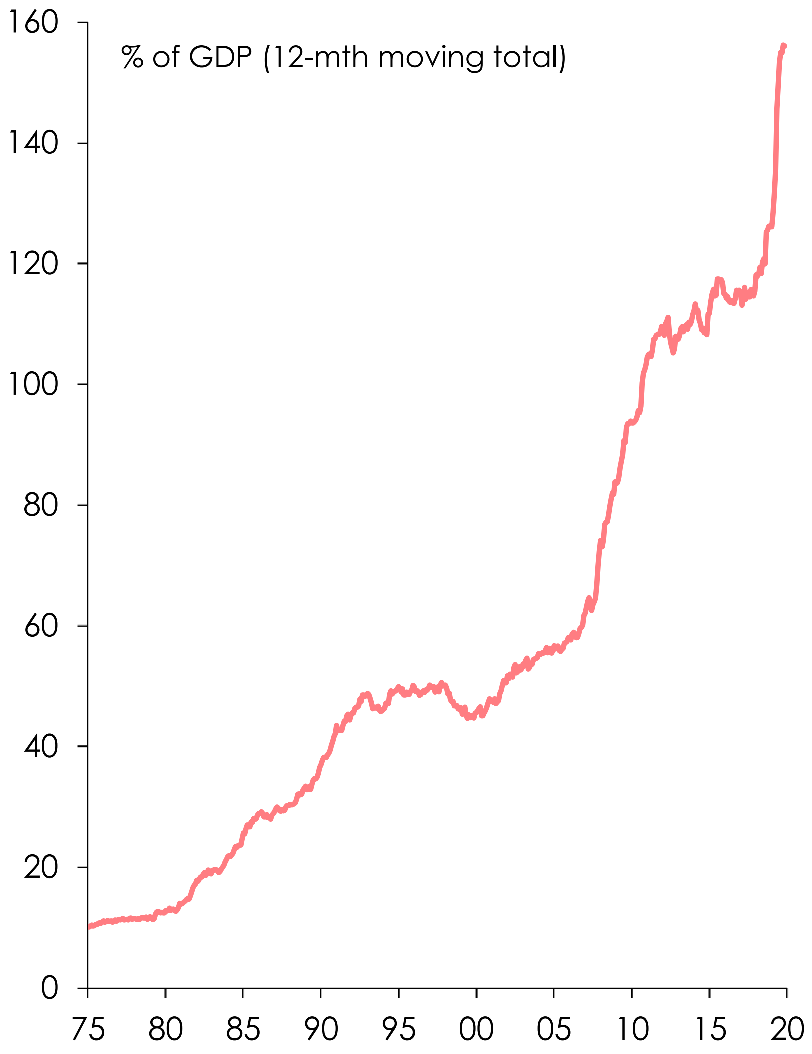
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The US budget deficit has blown out dramatically since the end of March, reaching US$3.3 trn (17¾% of GDP) in the 12 months ended October

US Federal budget deficit



US gross Federal debt



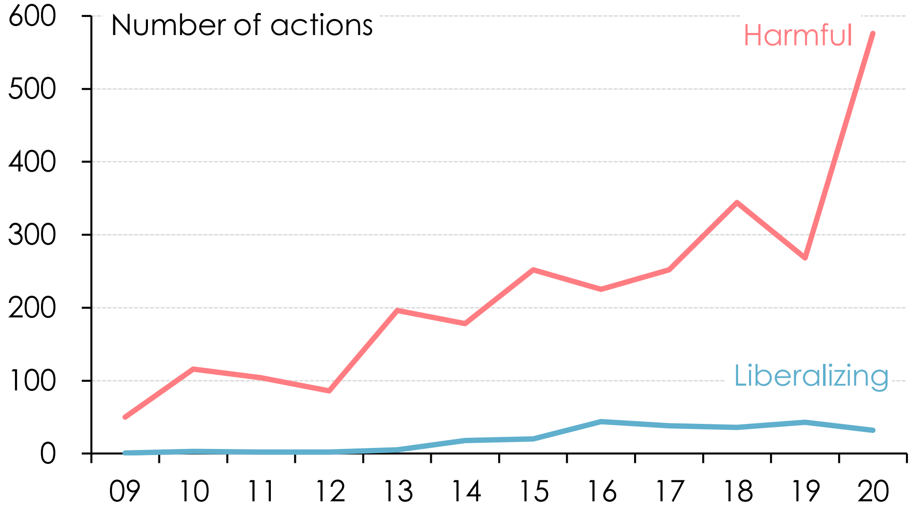
- **The US budget deficit widened from US$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US$20.4 trn (115% of GDP) to $24.1trn (126% of GDP)**
- **The budget recorded a US$284bn deficit in October, the fourth largest monthly deficit ever**
- **Over the 12 months to October the deficit was US$3.3trillion, equivalent to 17.7% 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 was steady at $29.1bn (156% of GDP), with a US$190bn increase in the face value of debt outstanding offset by the value effect of slightly firmer bond yields**
- **About US$11¼ trn of this debt is held by other US Government accounts (in particular the Social Security Trust Fund) while about US$4½ trn is held by the Fed**

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 10th December. Return to "What's New".

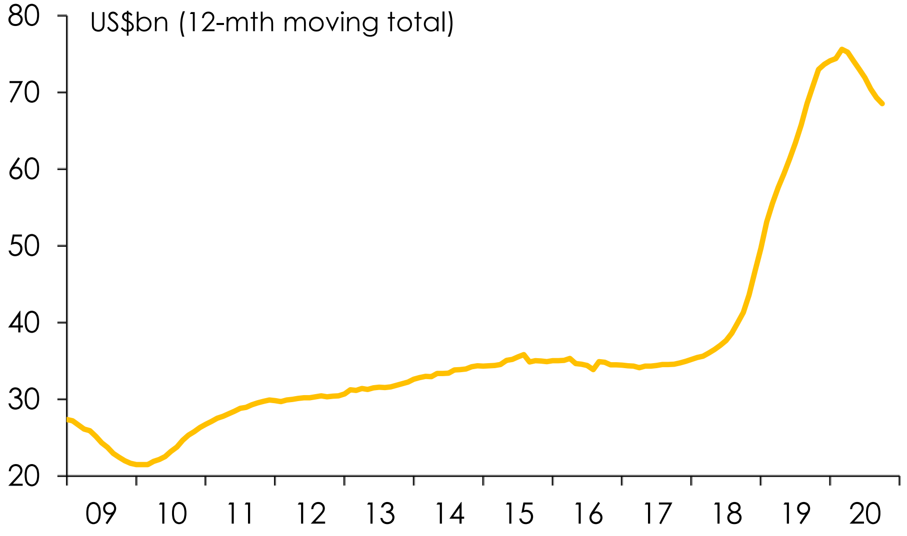
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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



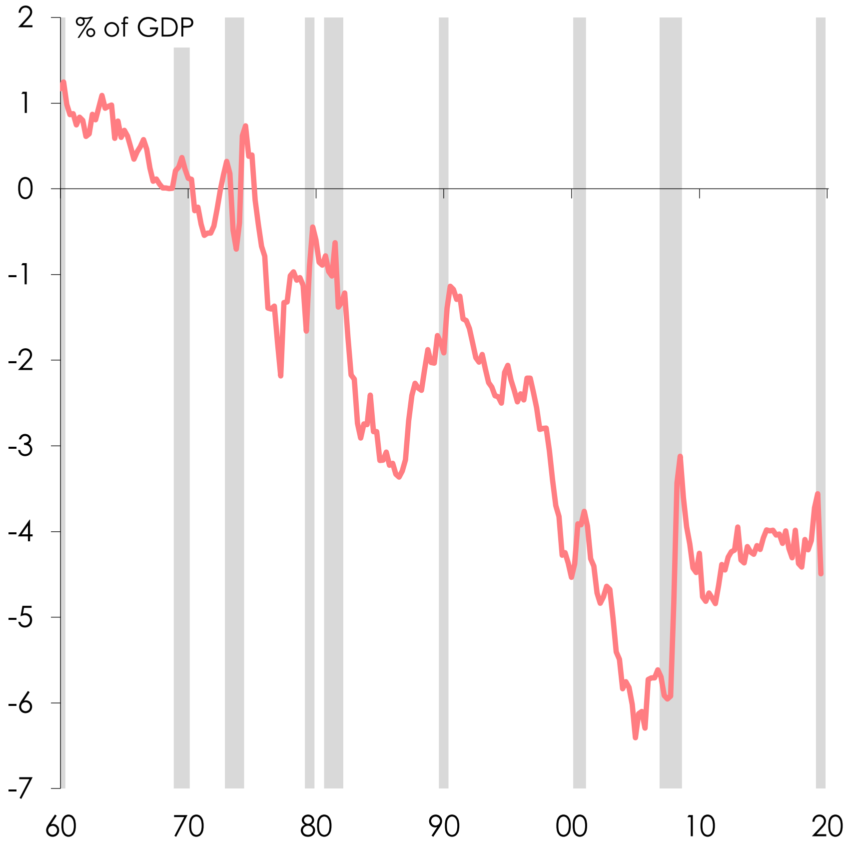
Sources: The Brookings Institution; Centre for Economic Policy Research, *Global Trade Alert Global Dynamics* (data up to 27th November); US Treasury Department. Return to "What's New".

- **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"**

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

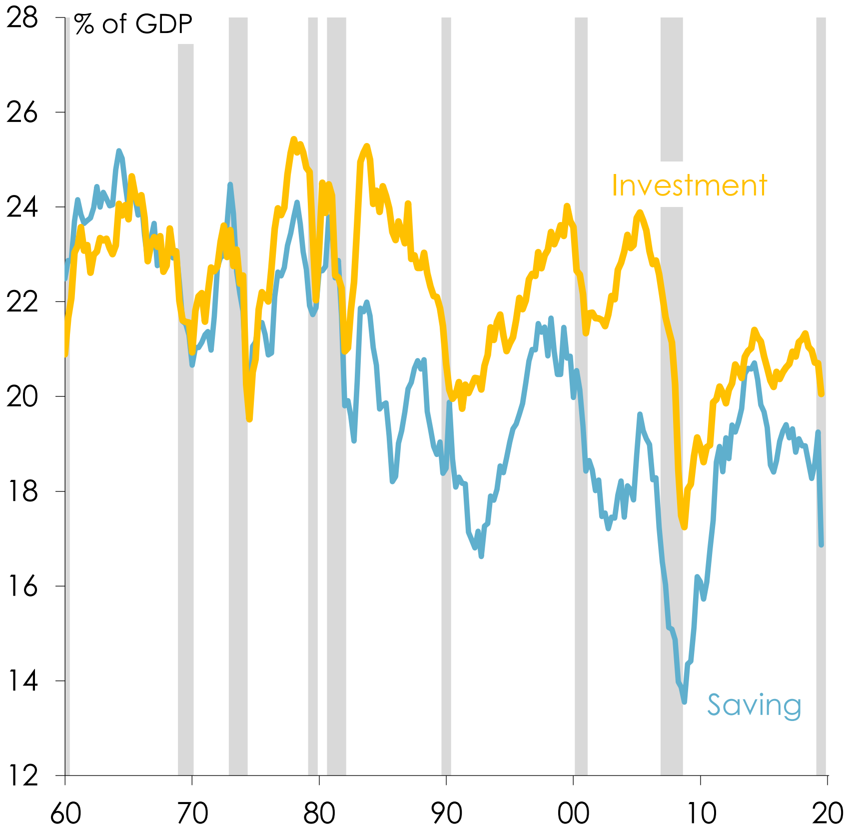
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



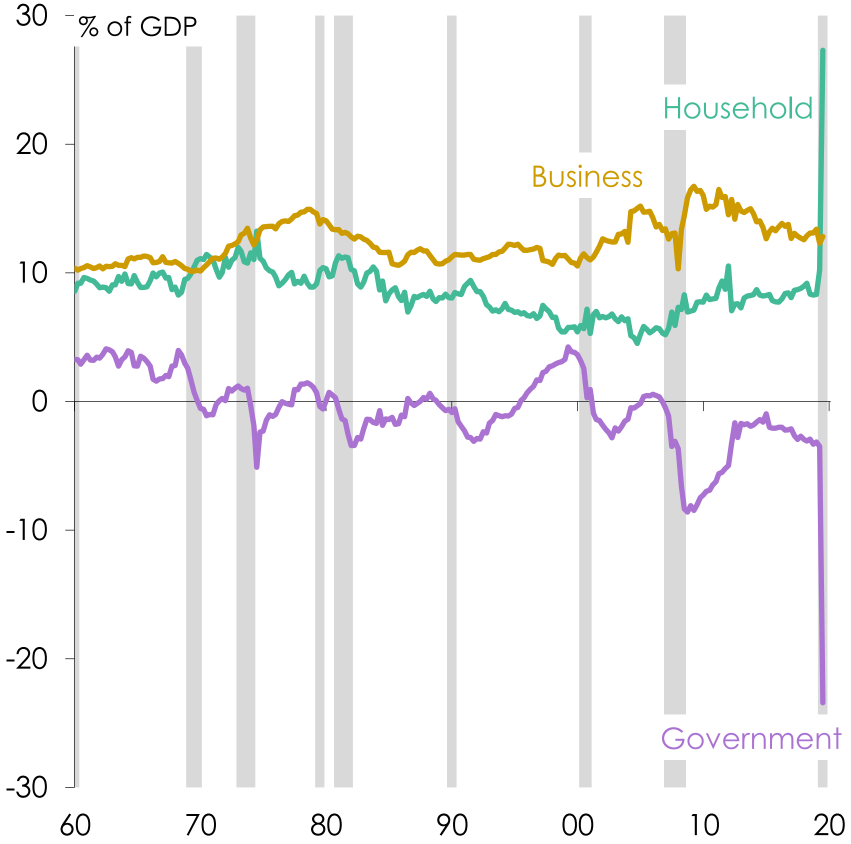
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

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



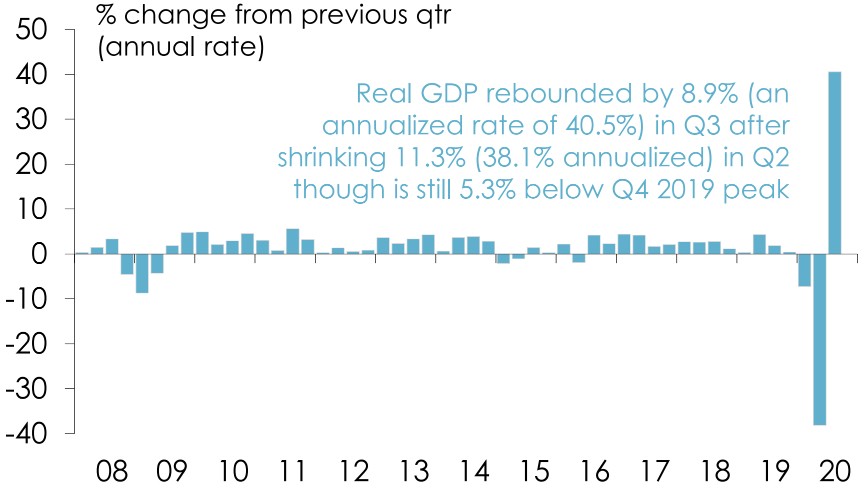
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in house-hold saving (though monthly data says household saving fell in Q3

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".

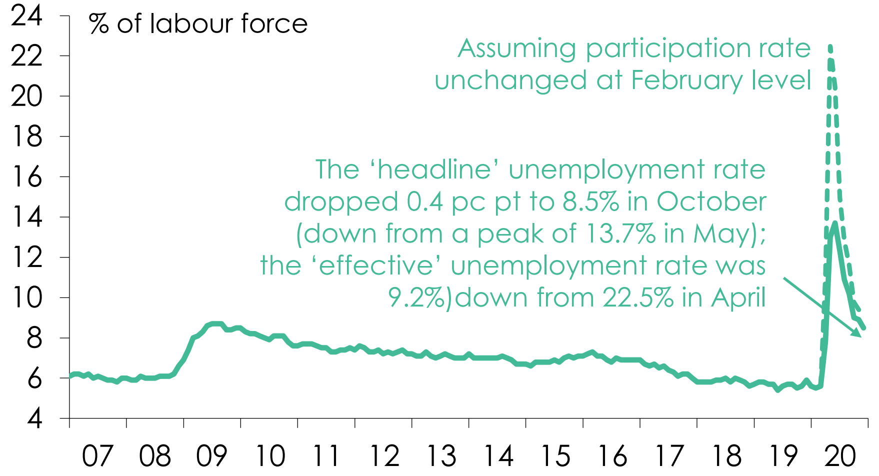
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Canada's economy rebounded more quickly than the US's in Q3 after a larger fall in Q2, but is still more than 5% smaller than pre-pandemic level

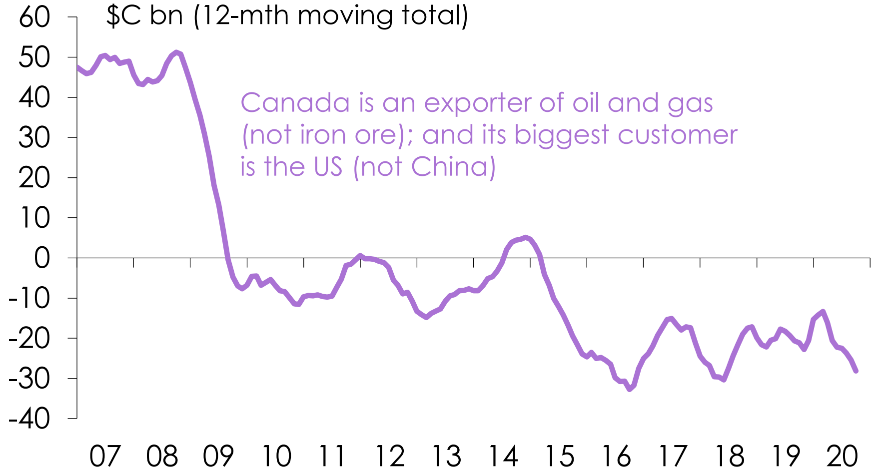
Real GDP



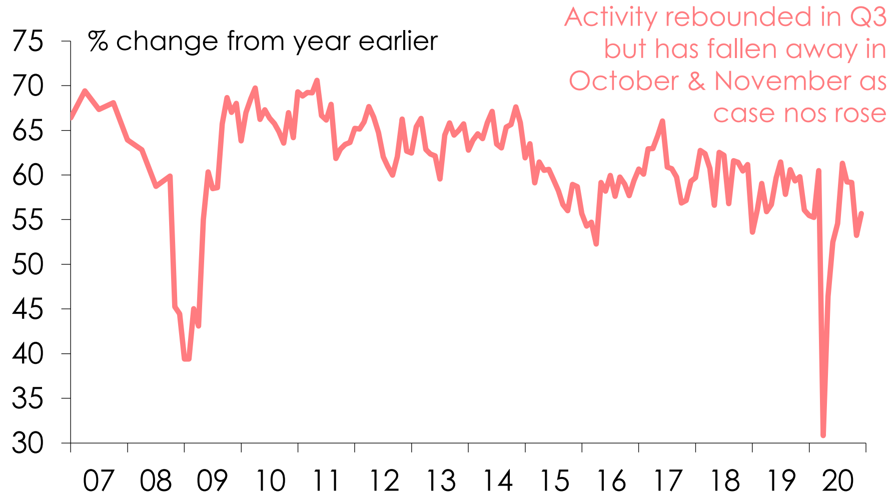
Unemployment rate



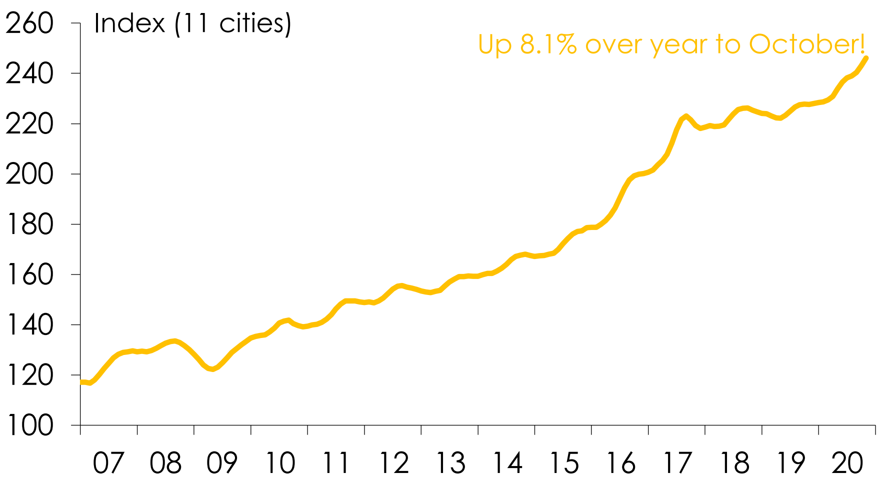
Merchandise trade balance



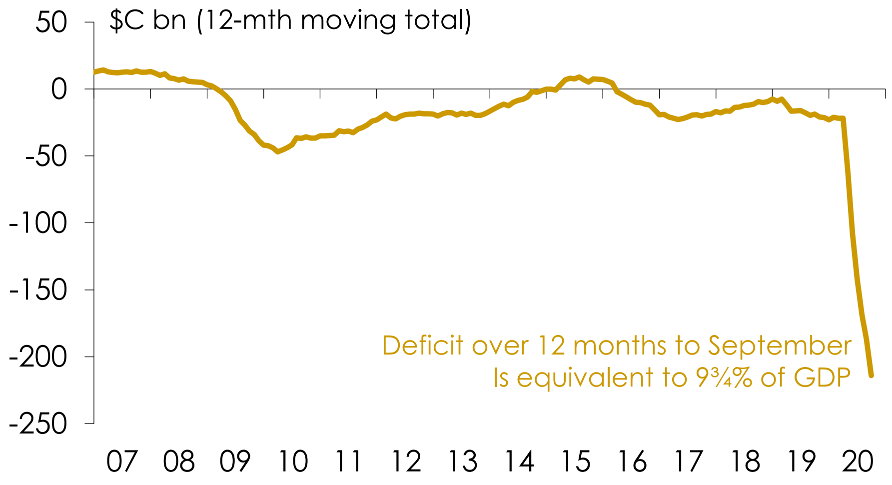
CFIB 'business barometer'



House prices



Federal budget balance

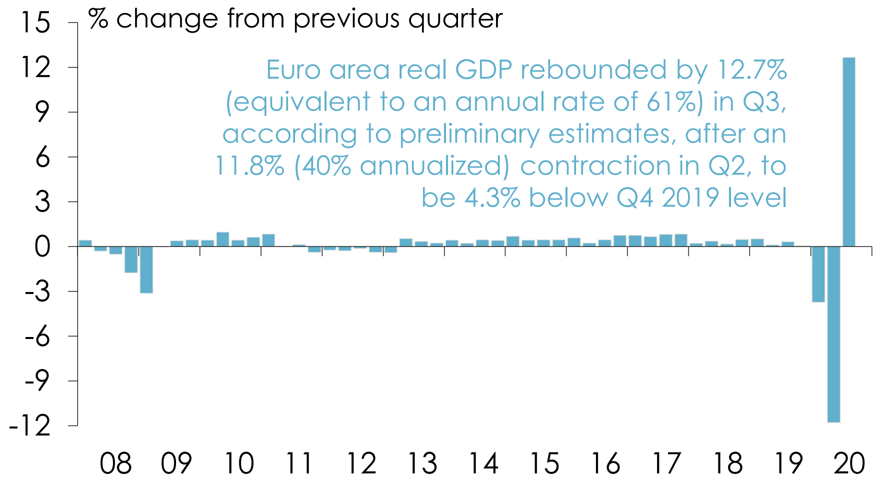


Sources: Statistics Canada; Canadian Federation of Independent Businesses; Teranet-National Bank of Canada; Department of Finance Canada. Return to "What's New".

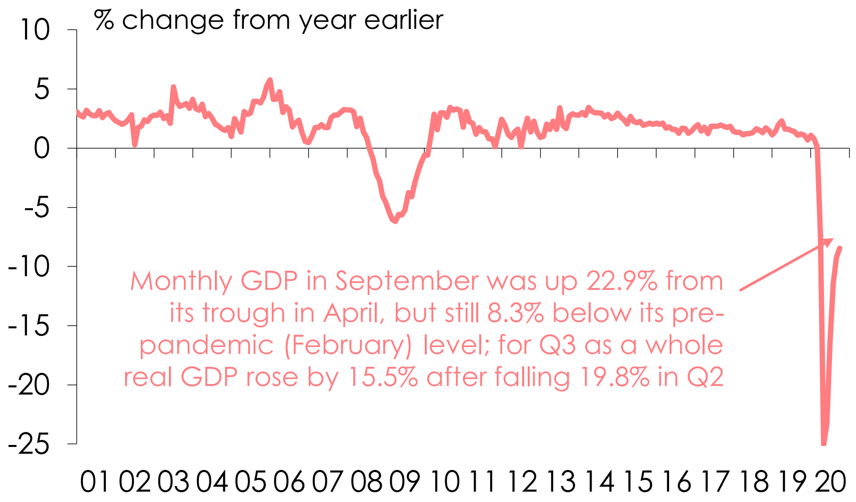
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

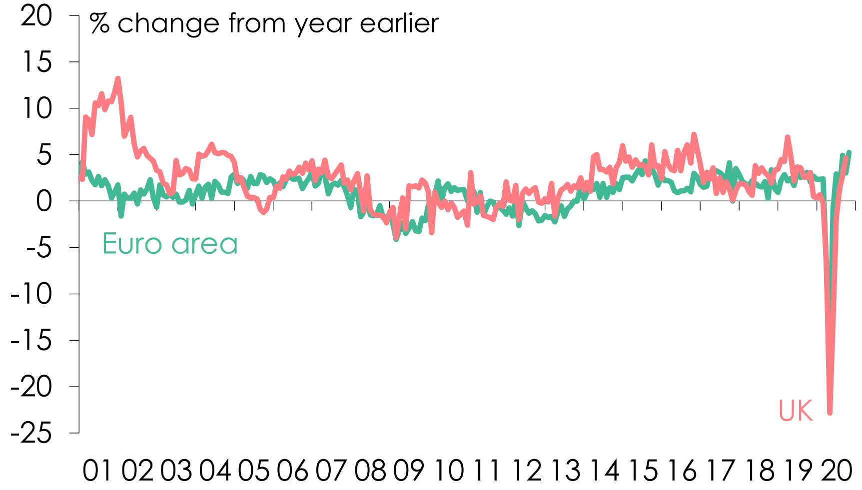
Euro area real GDP



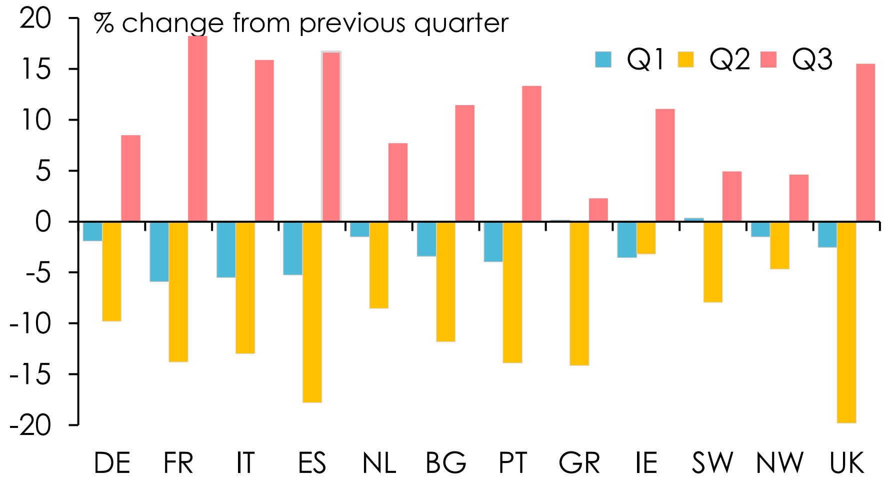
UK monthly GDP



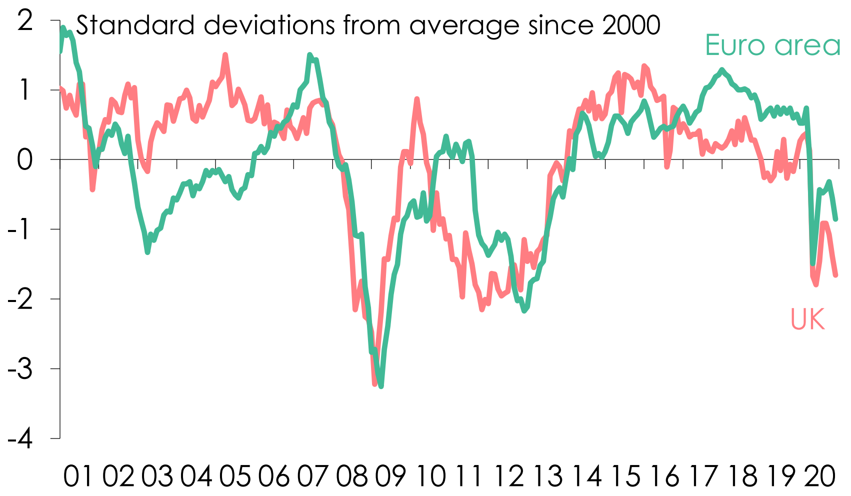
Retail sales volume



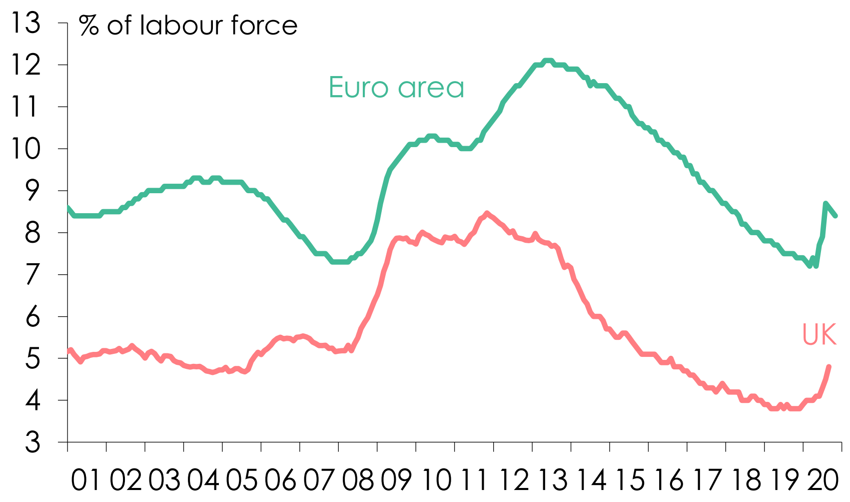
Quarterly GDP by country



Consumer confidence



Unemployment



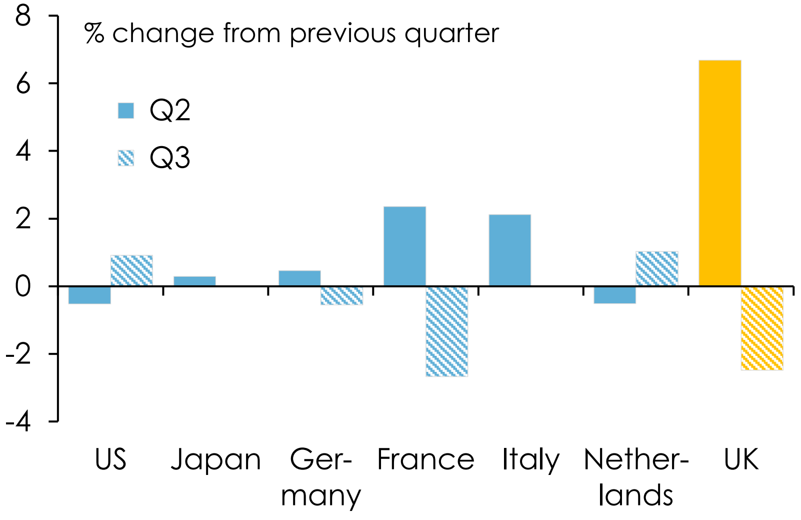
Sources: Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average.

Return to "What's New".

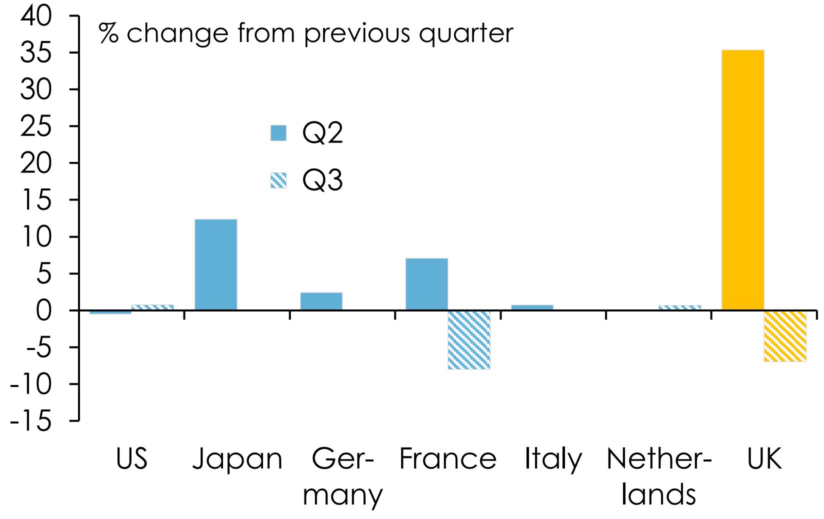
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

There's something fishy about the deflators used in compiling the UK's Q2 (and Q3) national accounts

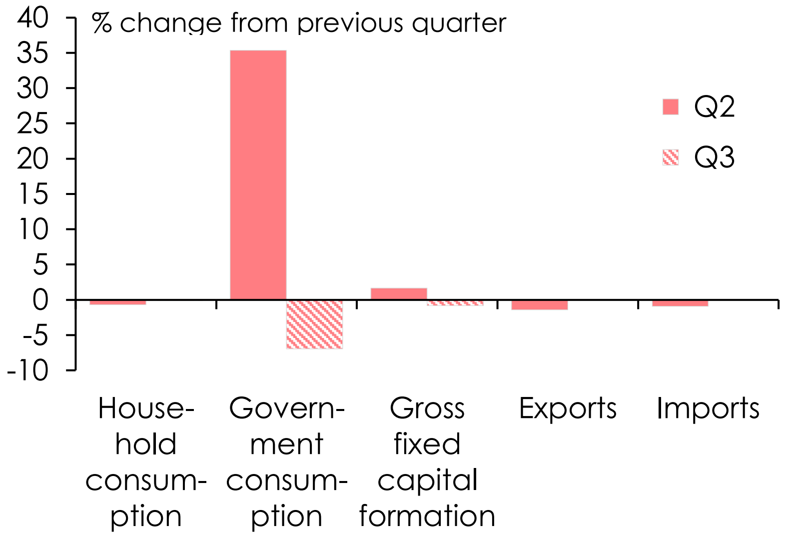
GDP deflators



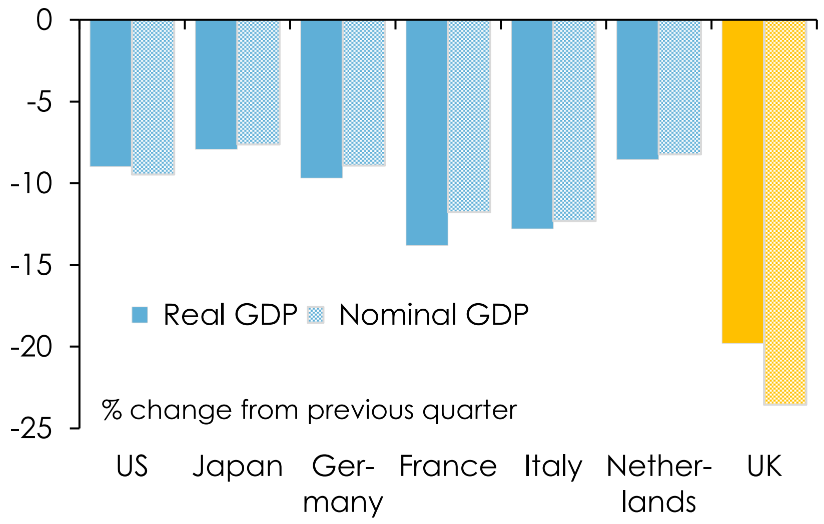
Gov't consumption deflators



UK expenditure deflators



Q2 real and nominal GDP



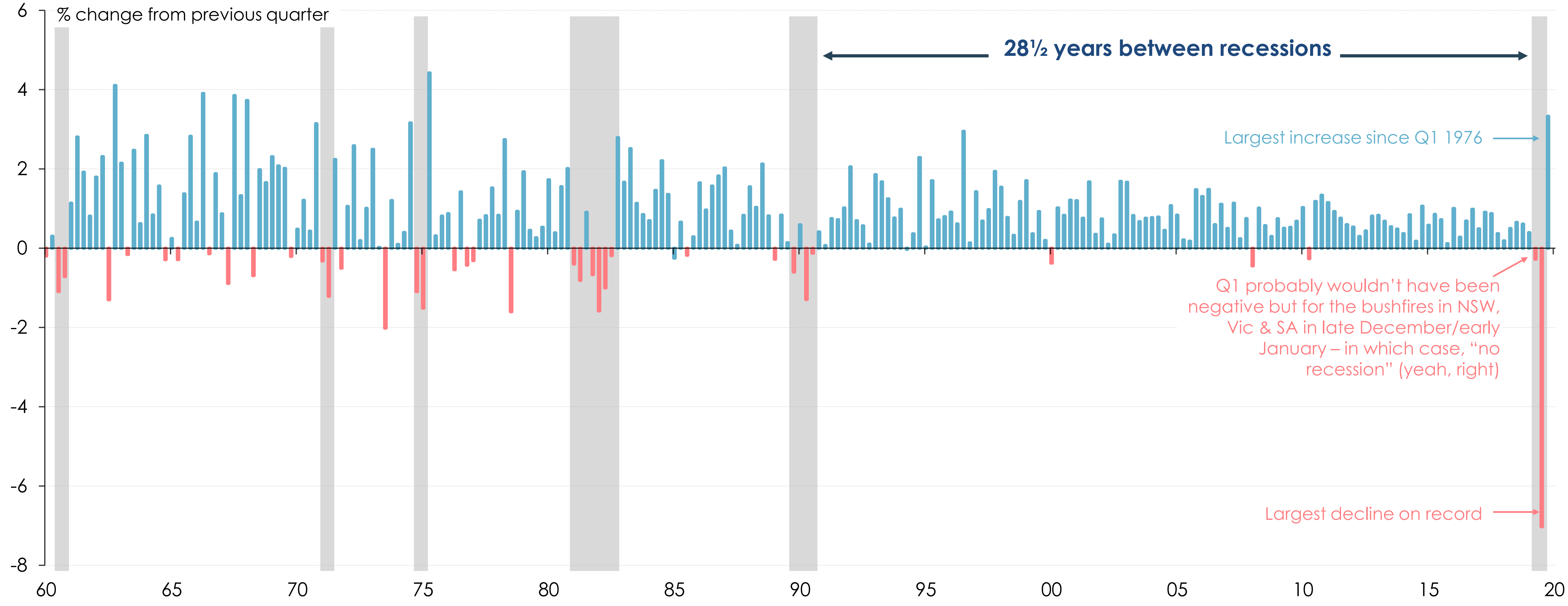
- According to the UK's Office for National Statistics, the UK's real GDP fell by 19.8% in Q2, but nominal GDP fell by 23.6% - implying that prices (as measured by the implicit price deflator of GDP) rose by 6.7% in Q2
- This is totally inconsistent with all other measures of UK inflation in Q2 – for example the CPI was flat, producer output prices fell 0.3% and producer input prices fell 7.3%
- The main contributor to the rise in the GDP deflator in Q2 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
- The huge increase in the Q2 government consumption deflator has only been partially reversed in Q3

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 is 'officially' out of its first recession in nearly three decades, with real GDP increasing by 3.3% in the September quarter

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. December quarter (Q3) national accounts will be released on 3rd March 2021. [Return to "What's New"]().

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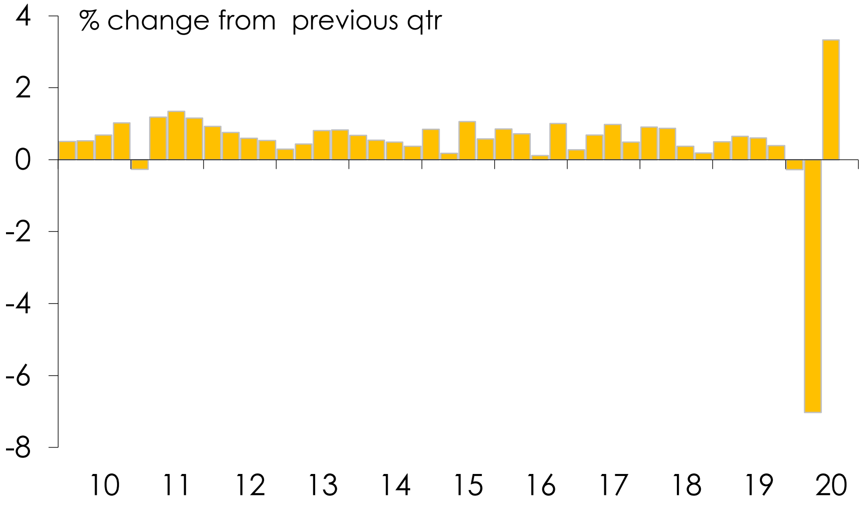
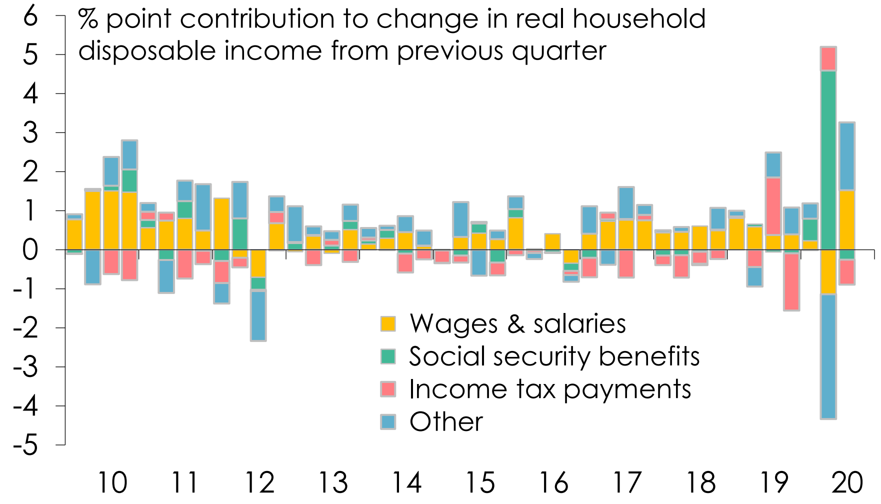
The 3.3% rebound in Q3, after a 7.0% plunge in Q2, was almost entirely driven by consumer spending on health and discretionary items

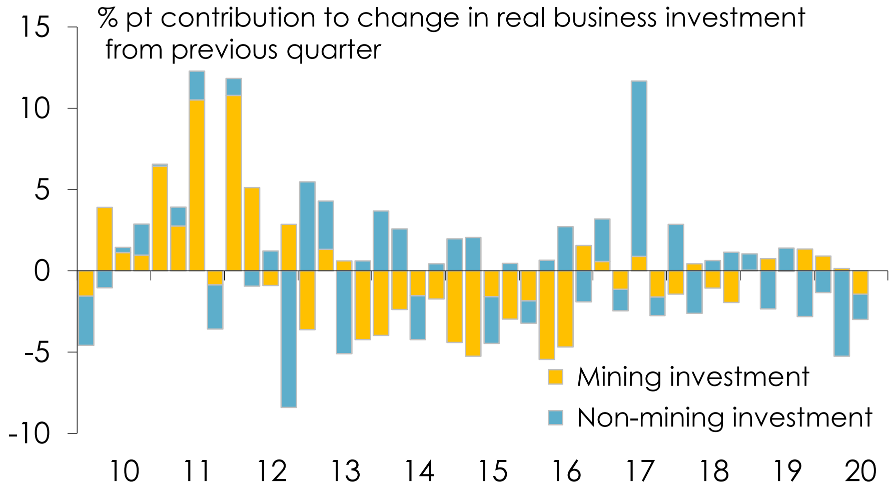
Quarterly change in real GDP



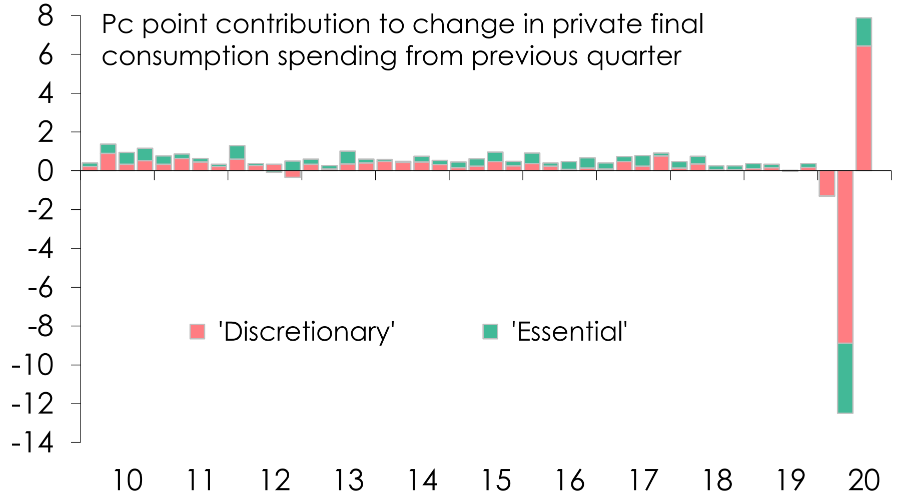
Household disposable income



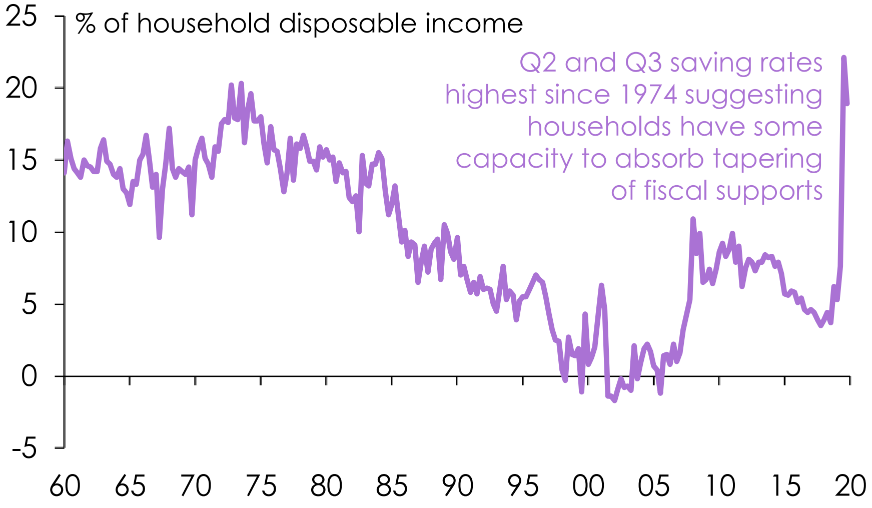
Business investment expenditure



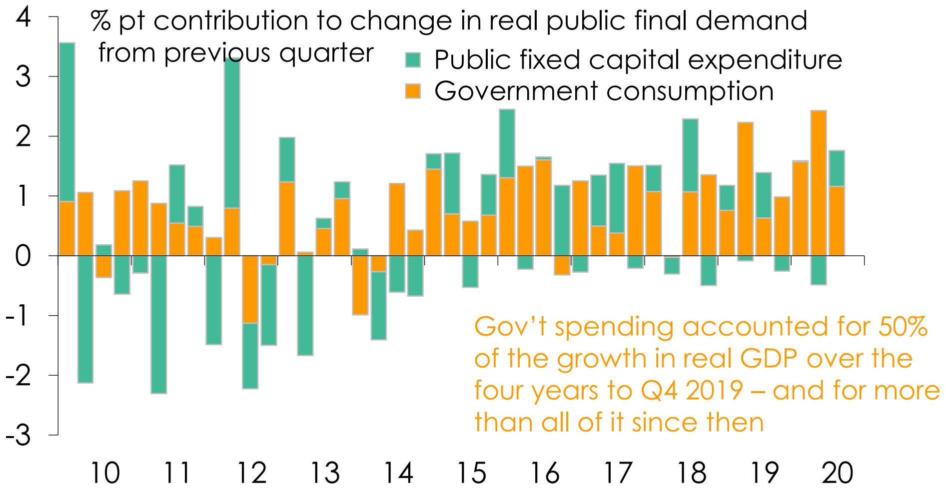
Household consumption expenditure



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. December quarter national accounts will be released on 3rd March 2021. Return to "What's New".

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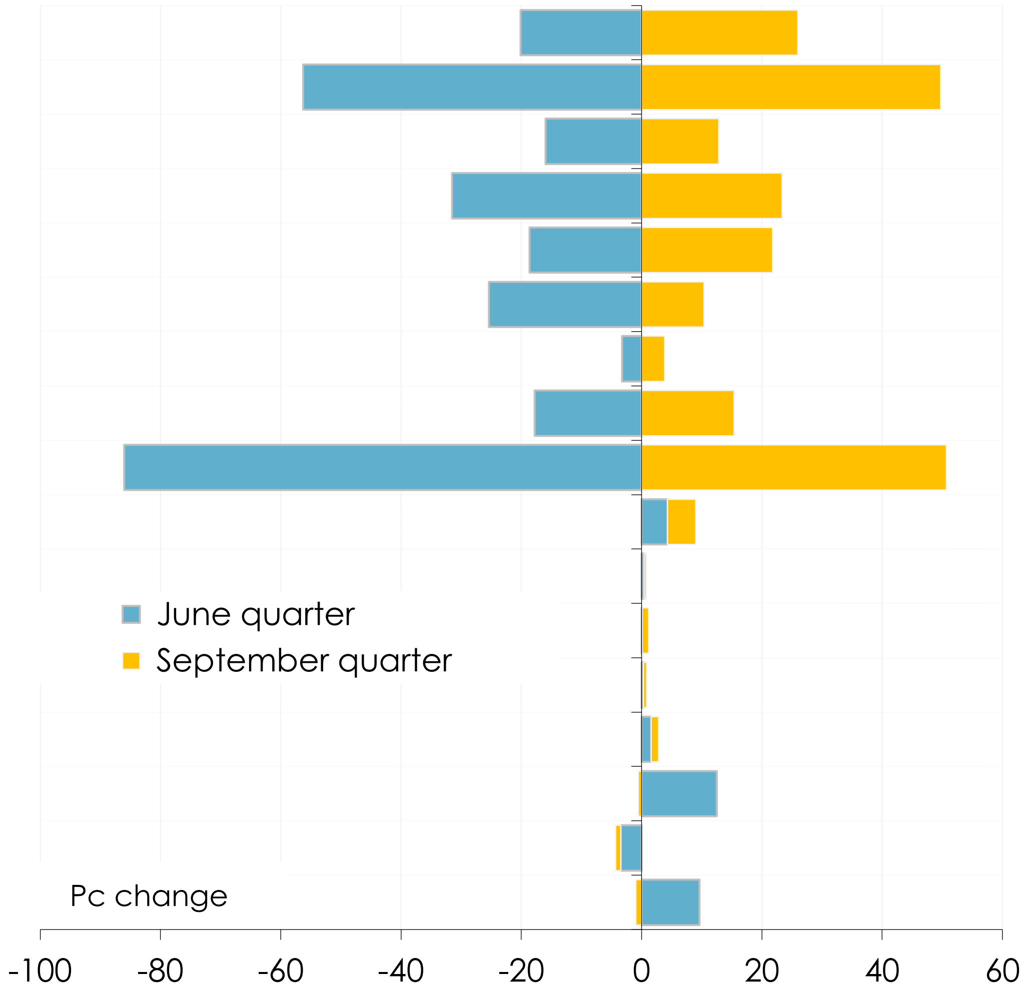
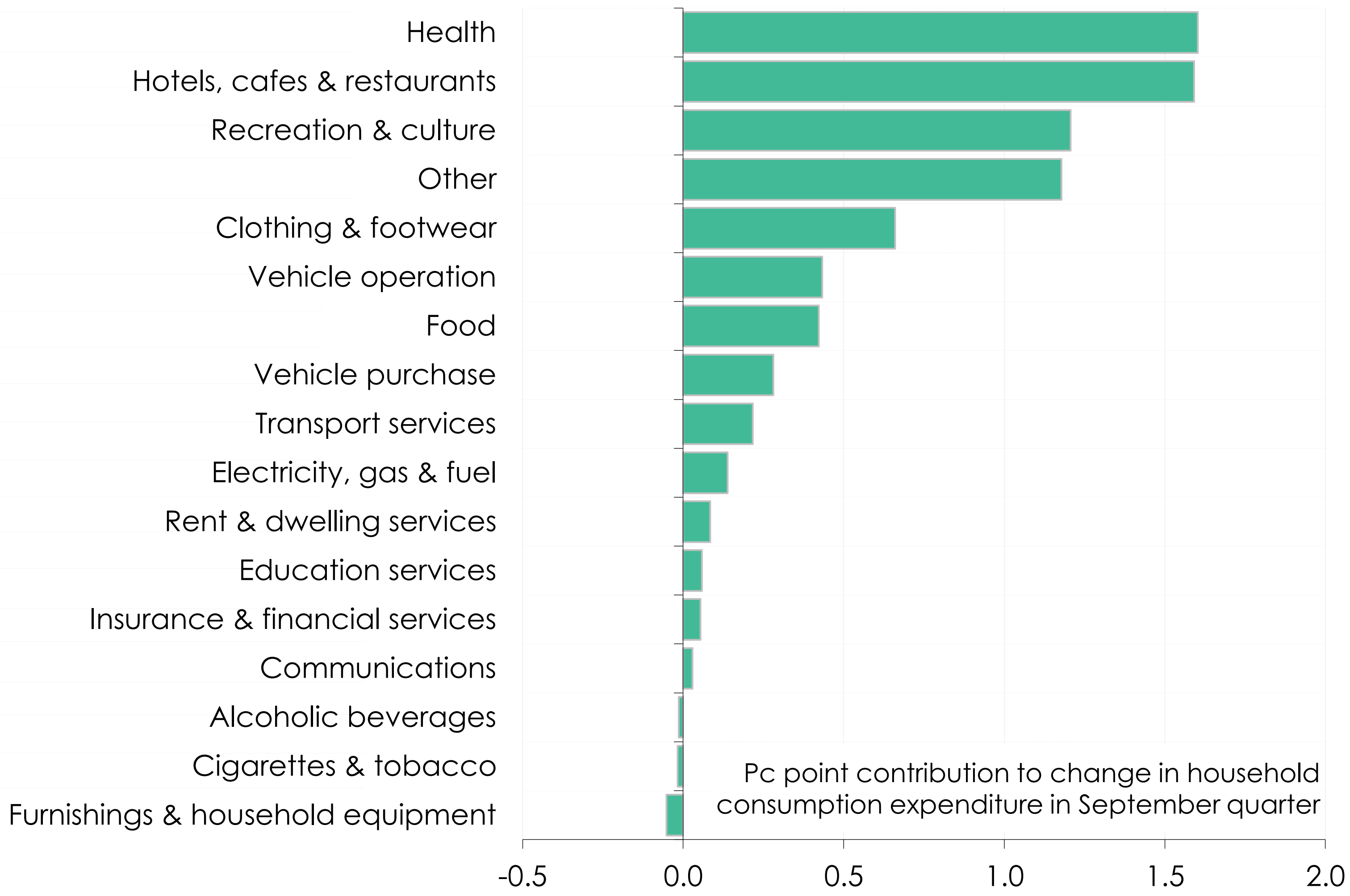
The rebound in consumer spending in the September quarter was focused on health and discretionary items especially clothing and going out

Change in household consumption spending, by category, June & September quarters



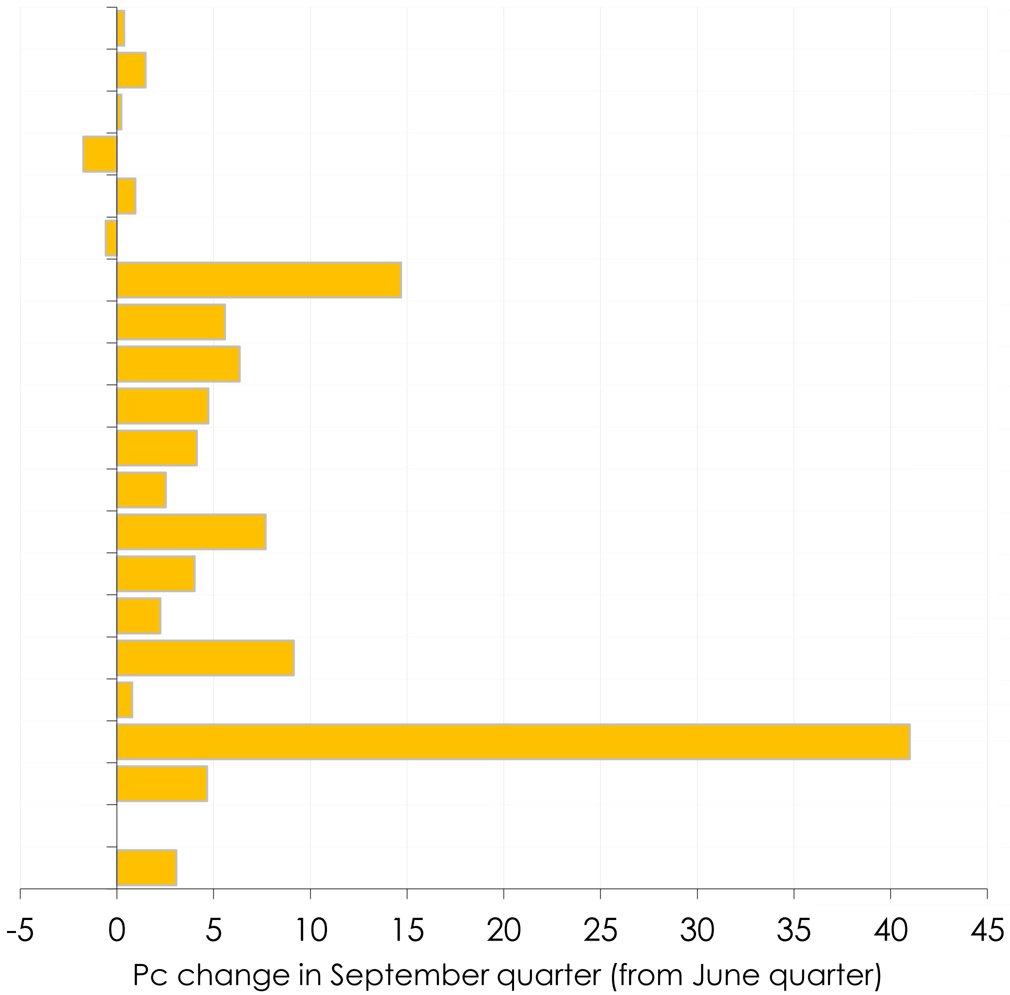
Contribution to change in household consumption spending, by category, September quarter



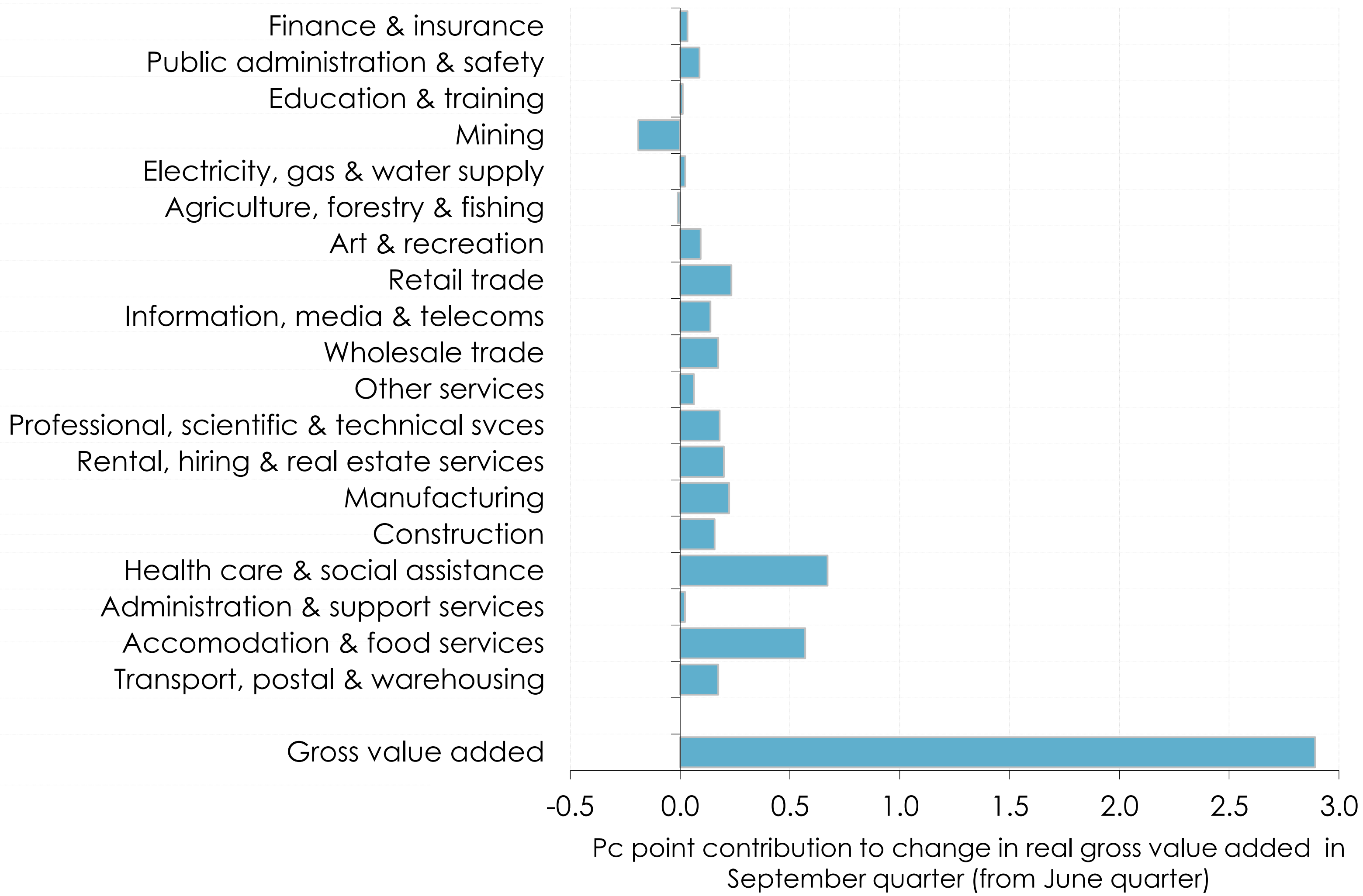
Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). *Source:* ABS, *Australian National Accounts: National Income, Expenditure and Product*, September quarter 2020. Return to "What's New".

From an industry standpoint the Q3 rebound in real GDP was driven by health care & social assistance, and accommodation & food services

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



Contribution to change in real GDP, by industry, September 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. ABS, *Australian National Accounts: National Income, Expenditure and Product*, September quarter 2020. Return to "What's New".

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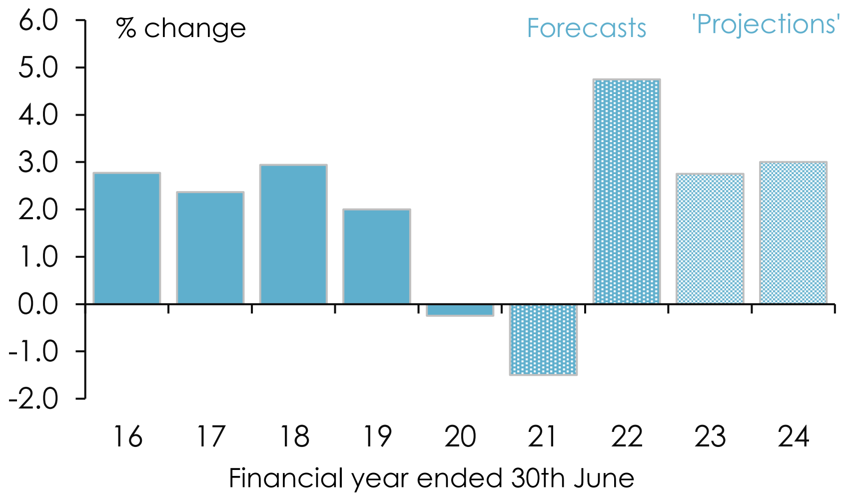
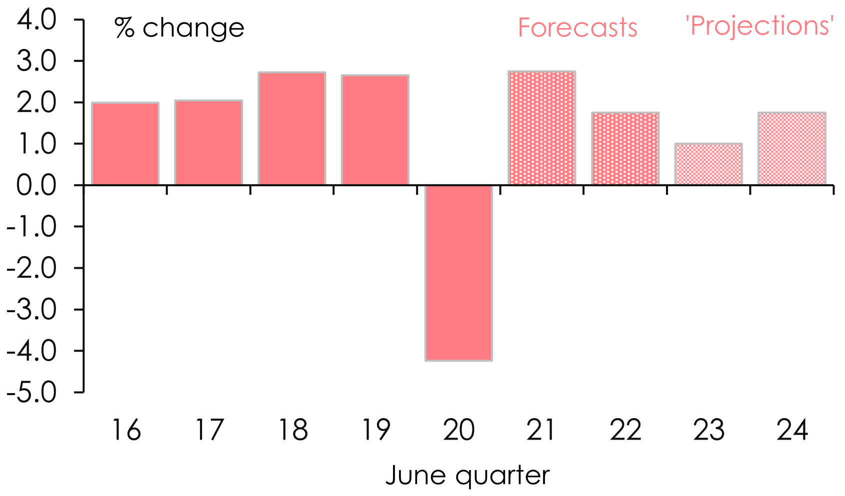
In October's Budget Treasury predicted a strong turnaround in economic activity with 4¼% real GDP growth in calendar 2021 after -3¾% in 2020

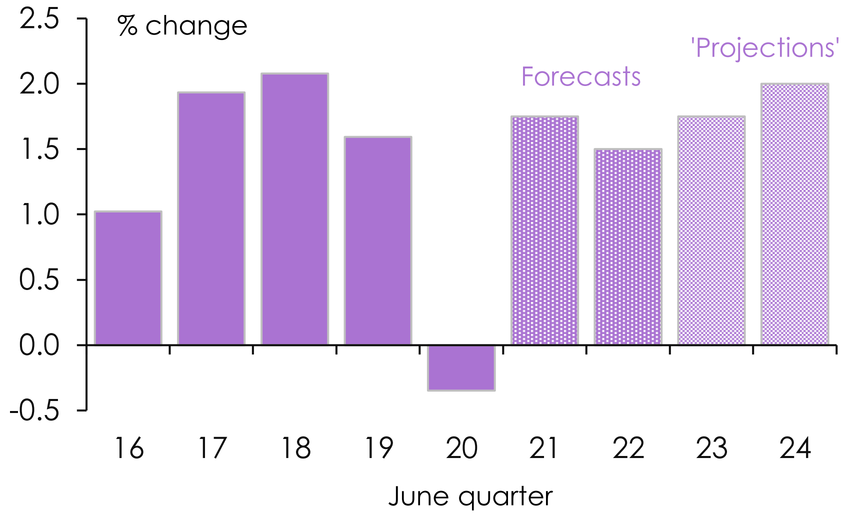
Real GDP



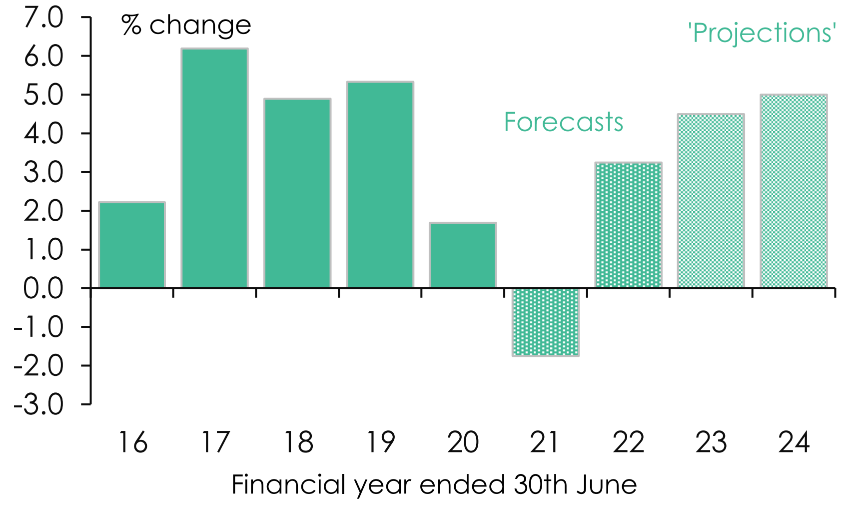
Employment



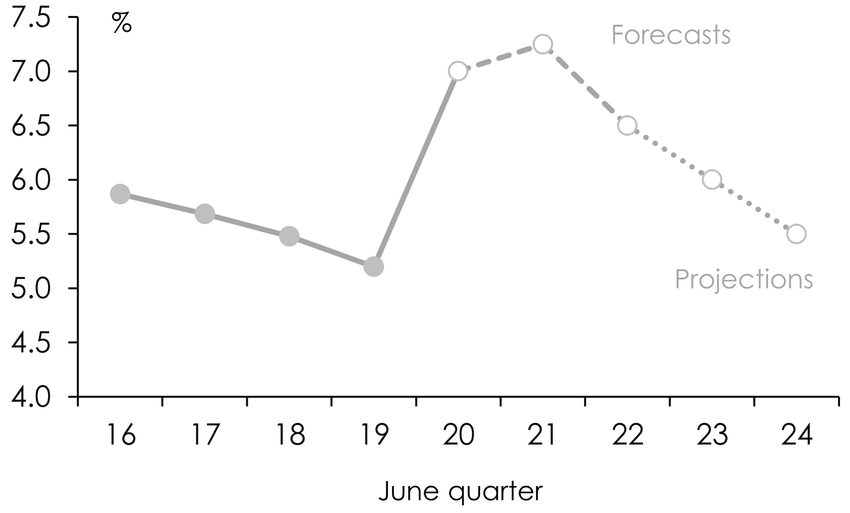
Consumer price index



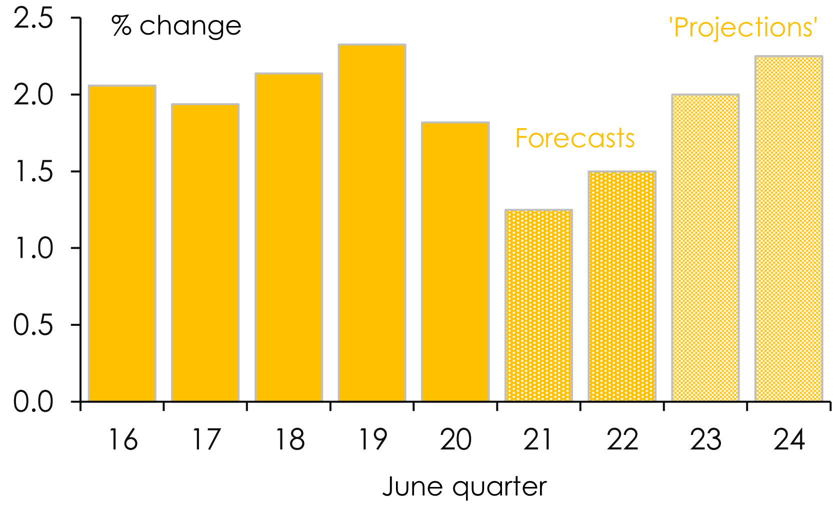
Nominal GDP



Unemployment rate



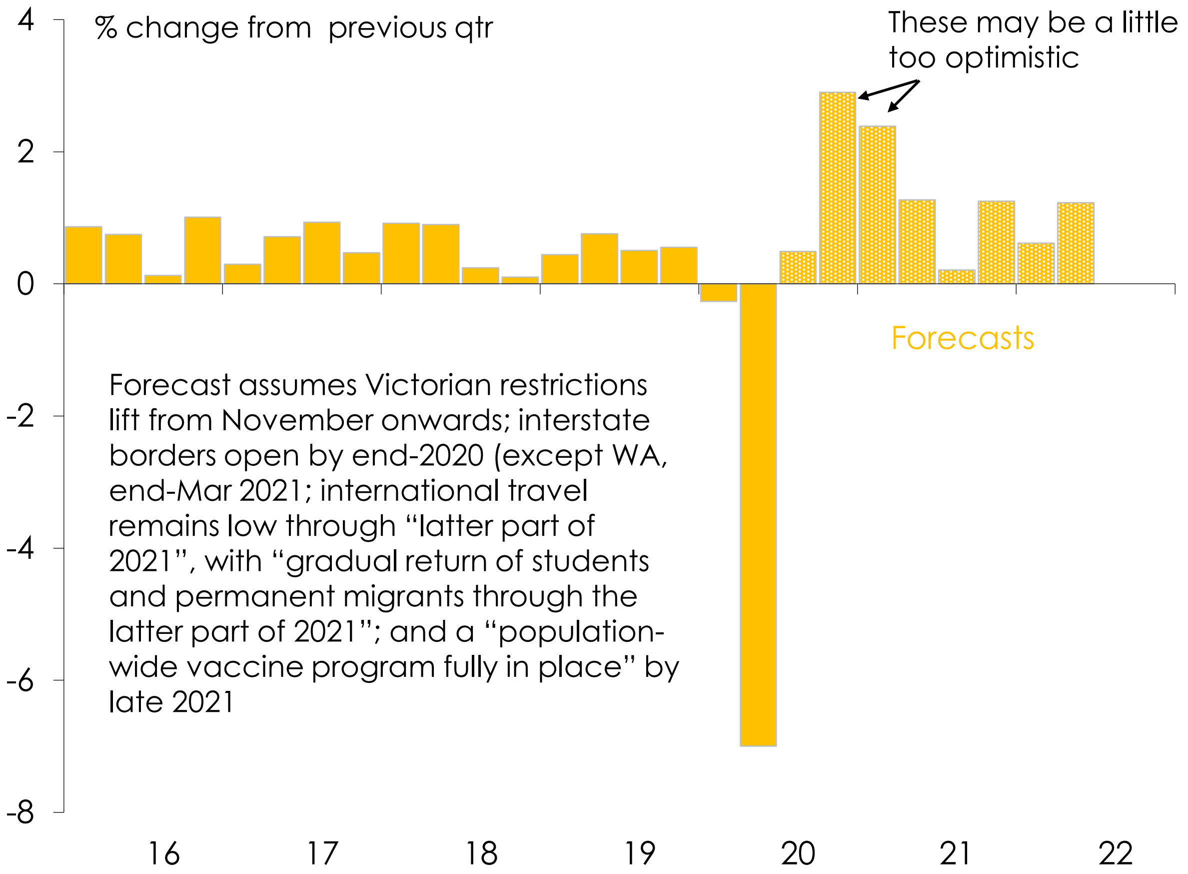
Wage price index



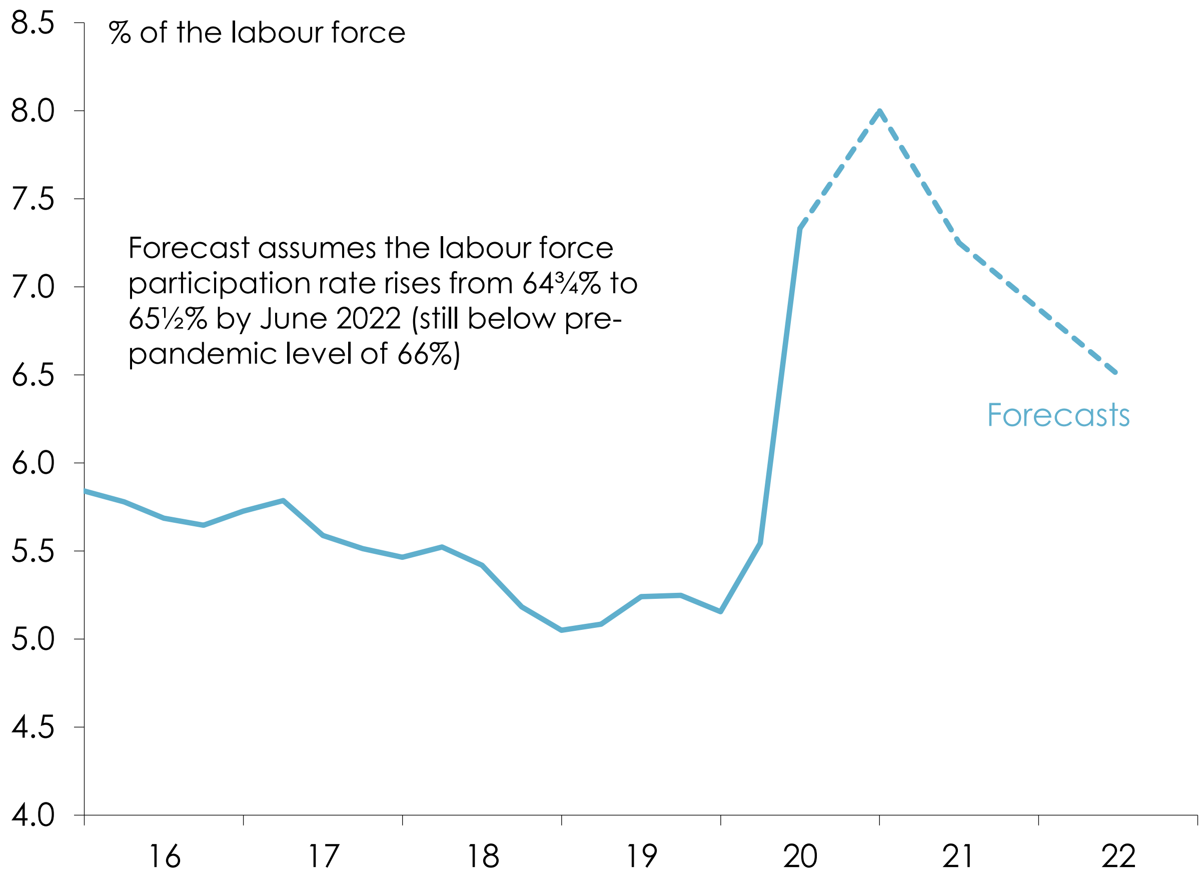
Note: 'Forecasts' are Treasury's 'best endeavours' estimates for the current and following financial years. By convention, 'projections' for the following two financial years are *not* forecasts, but rather result from a 'medium-term methodology and supply side assumptions' based on a premise that 'any 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



Unemployment



- **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**
- **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.

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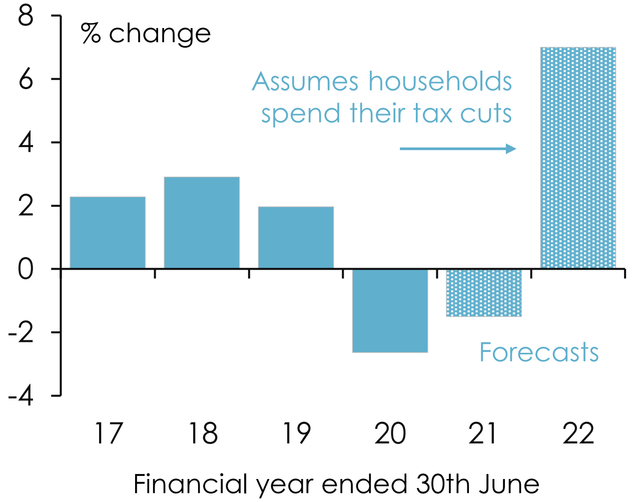
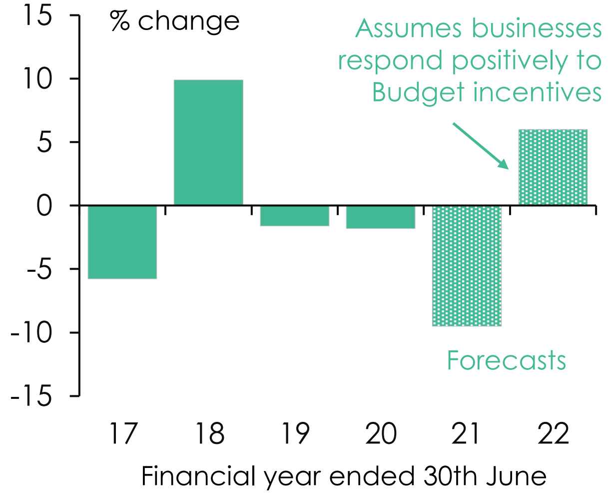
Household consumption and housing investment are expected to drive the recovery, while the current account balance is set to back into deficit

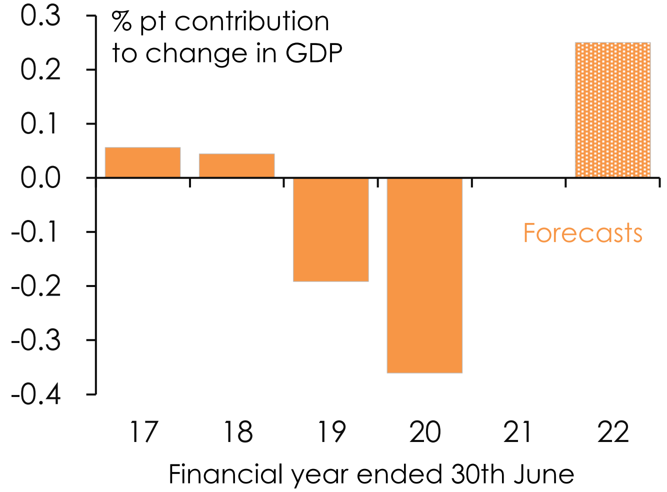
Household consumption



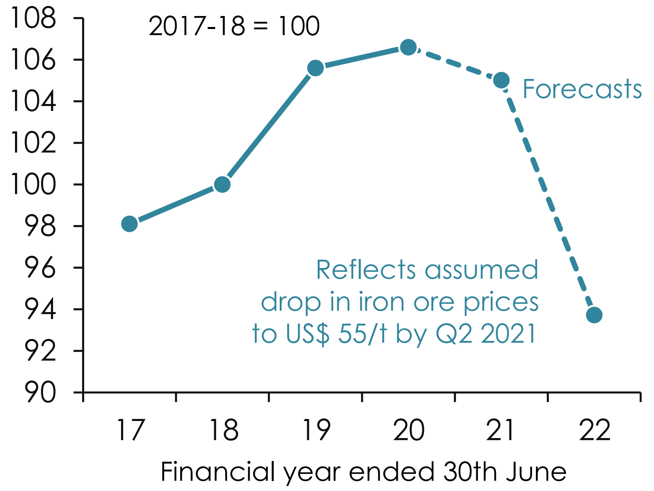
Business investment



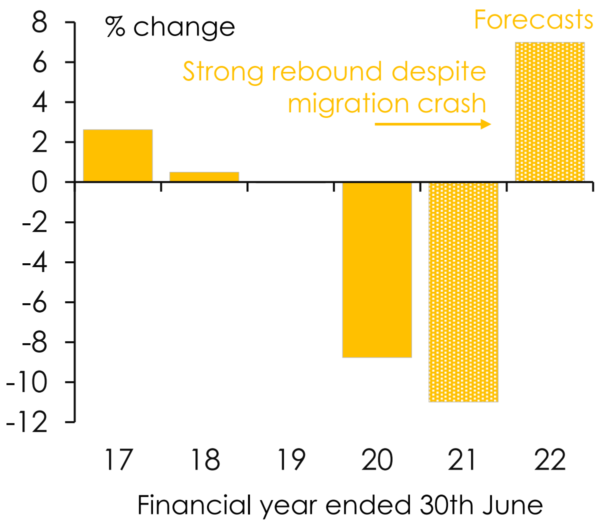
Change in inventories



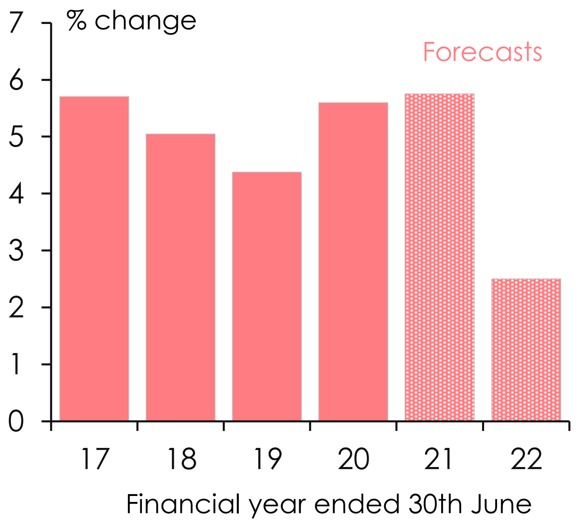
Terms of trade



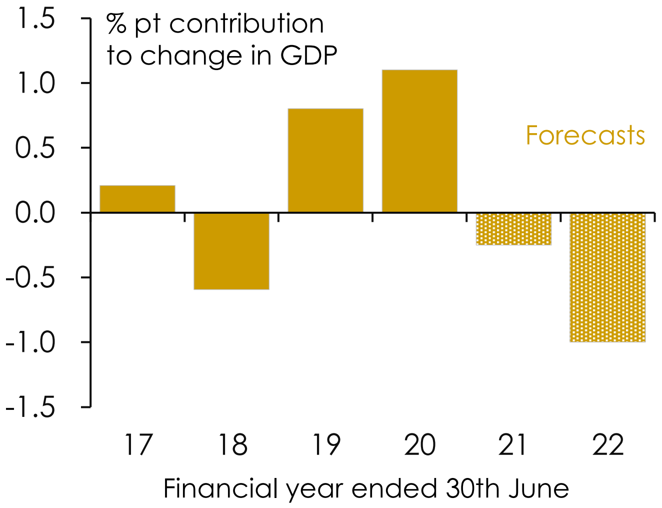
Dwelling investment



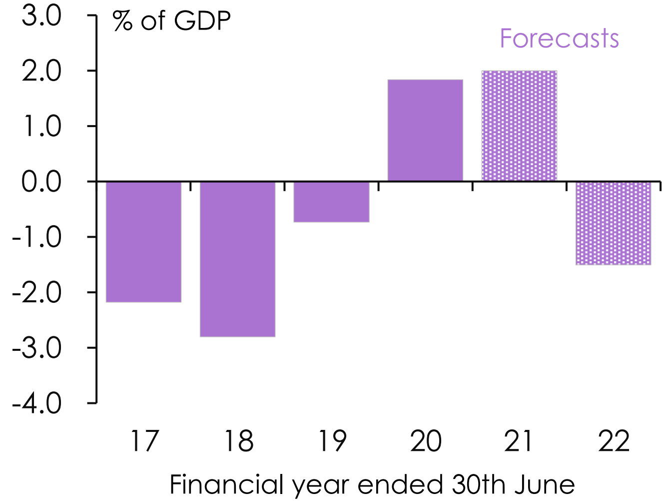
Public spending



Net exports



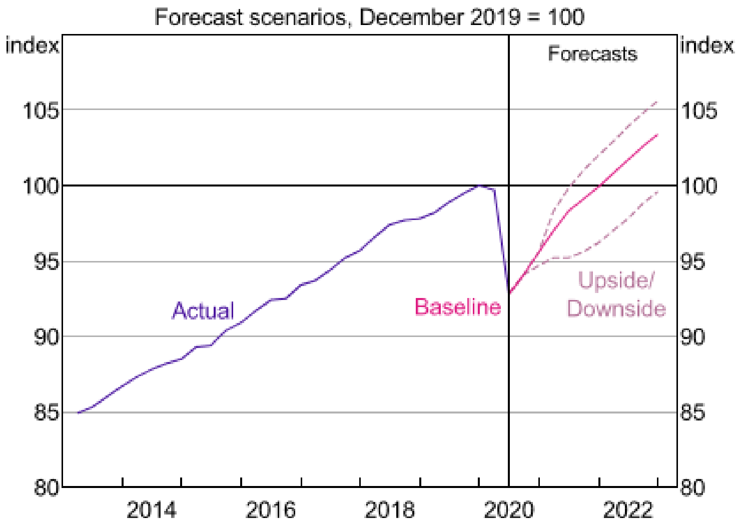
Current account balance



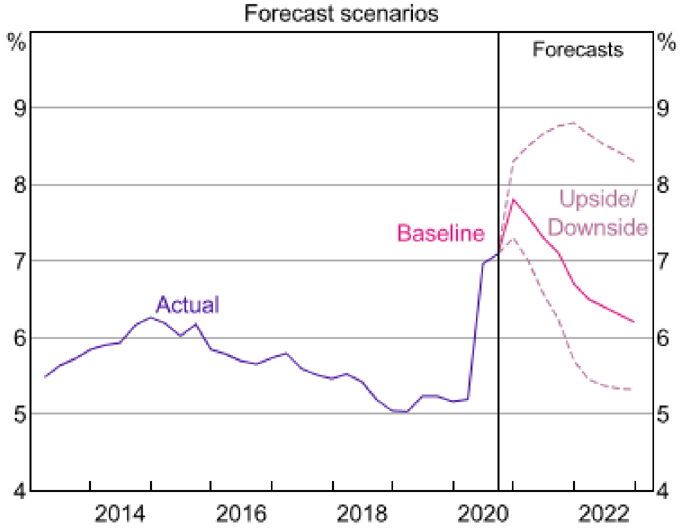
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K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

The RBA's latest forecasts, released on 6th November, again incorporate three scenarios – but inflation remains below target in all of them

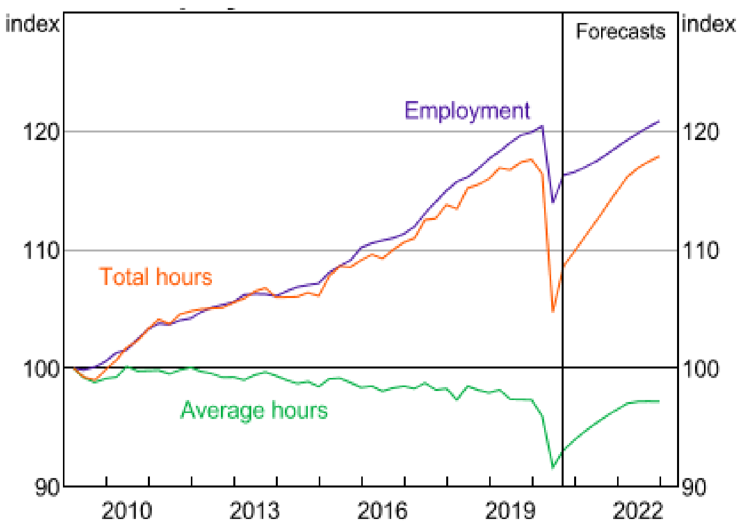
GDP



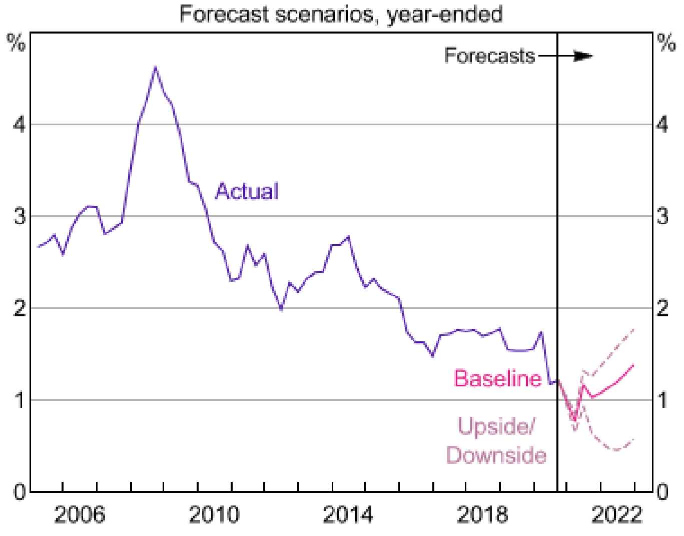
Unemployment



Employment



'Underlying' inflation

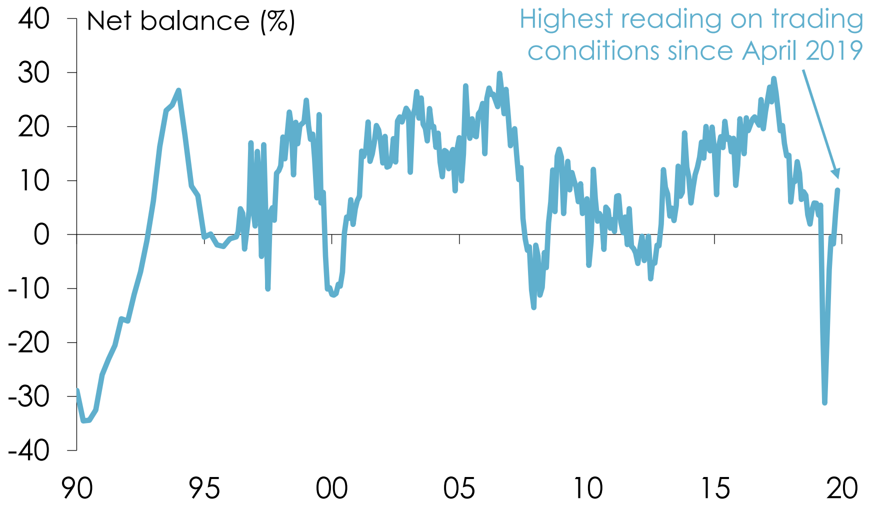


- The RBA's 'baseline' scenario assumes that there are no further virus outbreaks in Australia, and that current restrictions continue to be eased gradually (although restrictions on international travel remain until around the end of next year)
- In this scenario real GDP declines 4% over the course 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

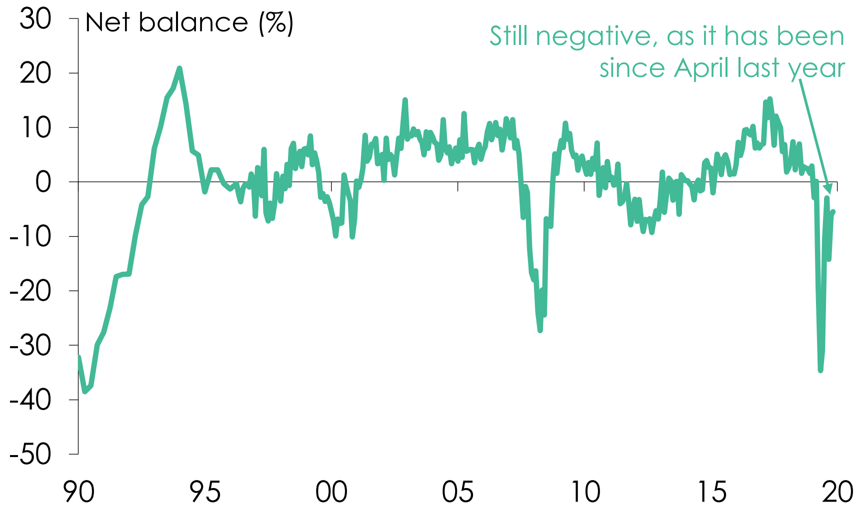
Source: Reserve Bank of Australia, *Statement on Monetary Policy* , 6th November 2020.

All of the components of the NAB business conditions index improved in October, although hiring and capex intentions are still negative

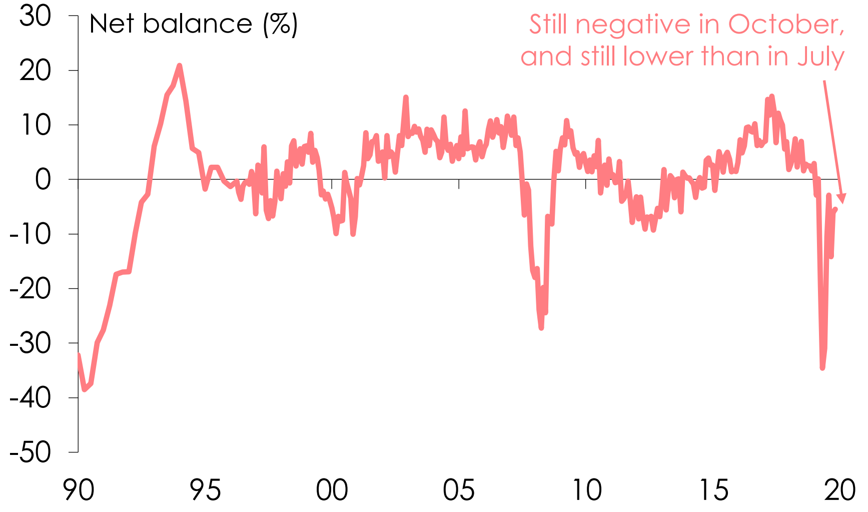
Trading conditions



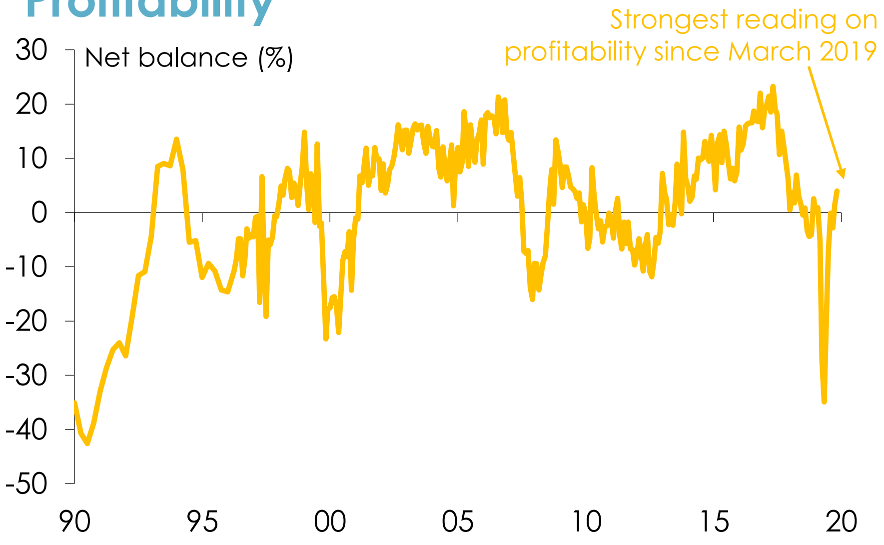
Forward orders



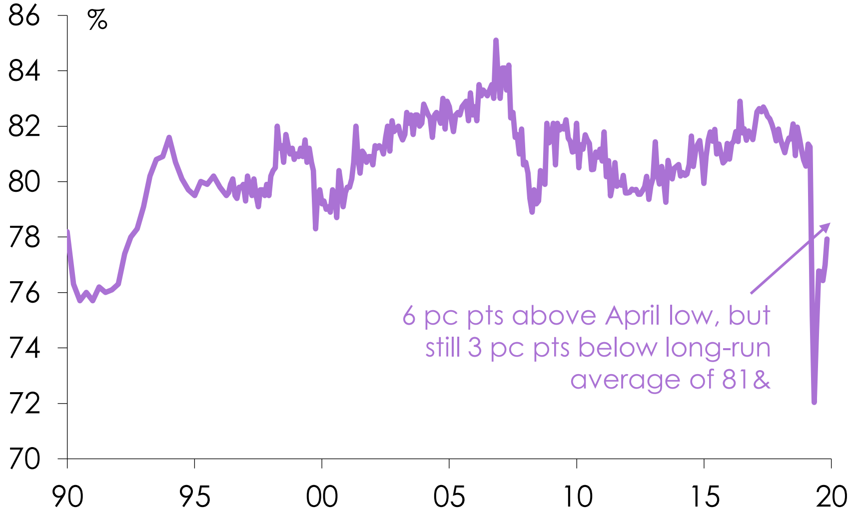
Employee hiring intentions



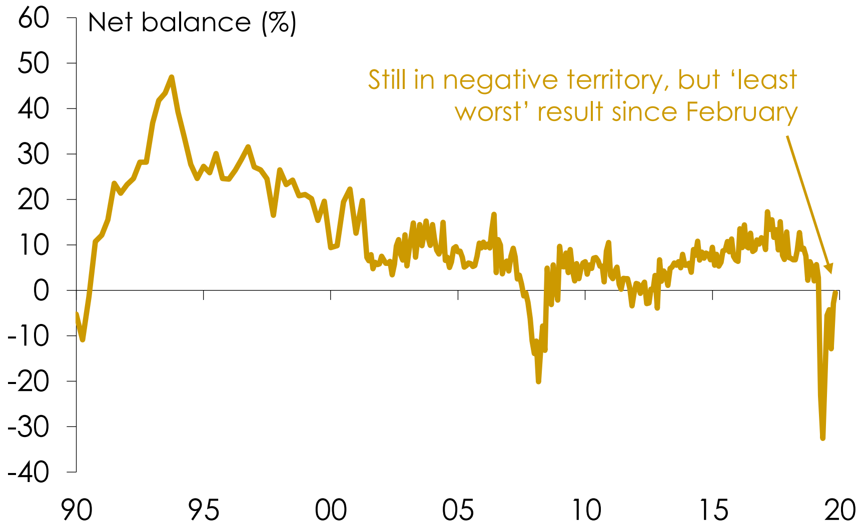
Profitability



Capacity utilization



Capital expenditure intentions



Note: Quarterly data up to March 1987 (May 2002 for capex intentions), monthly thereafter (latest data September 2020).
Source: National Australia Bank Monthly Business Survey October 2020; November survey results will be released on 8th December. Return to "What's New".

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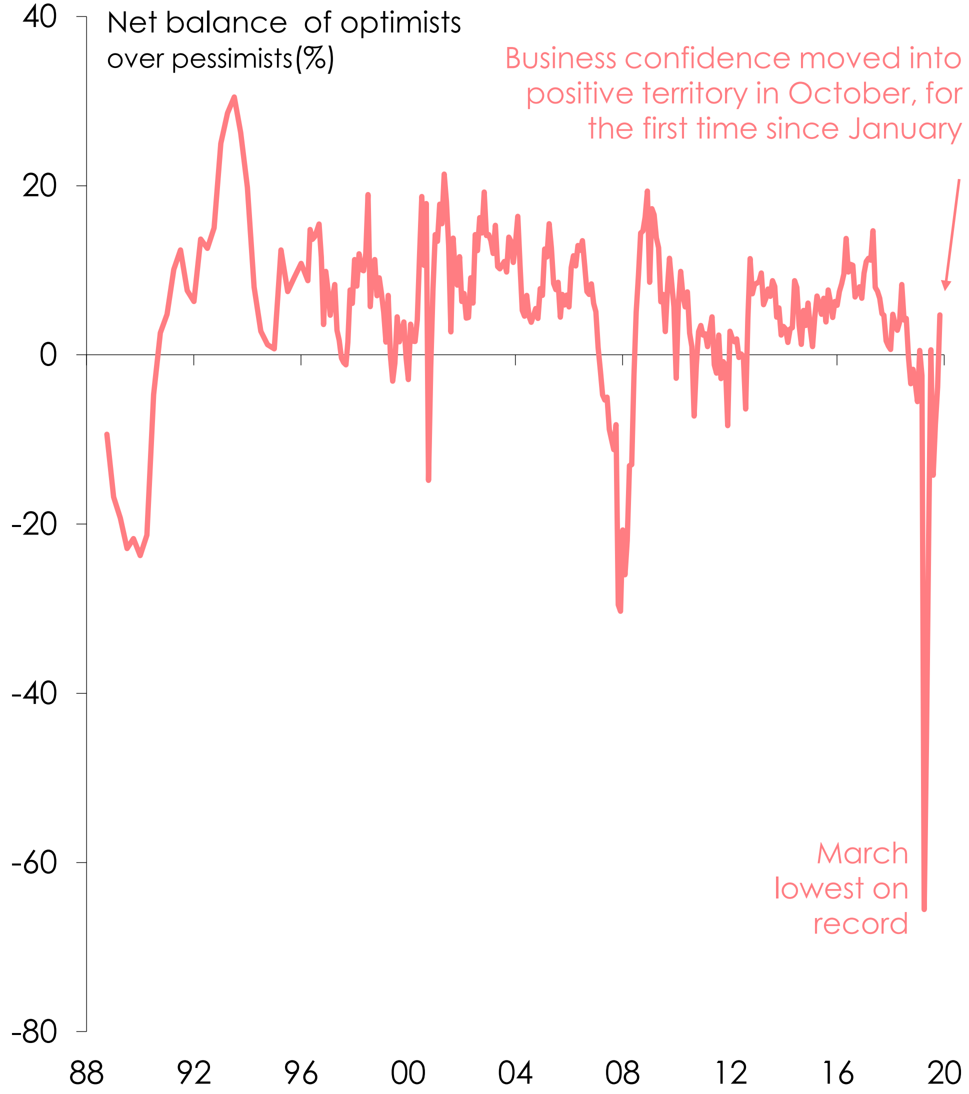
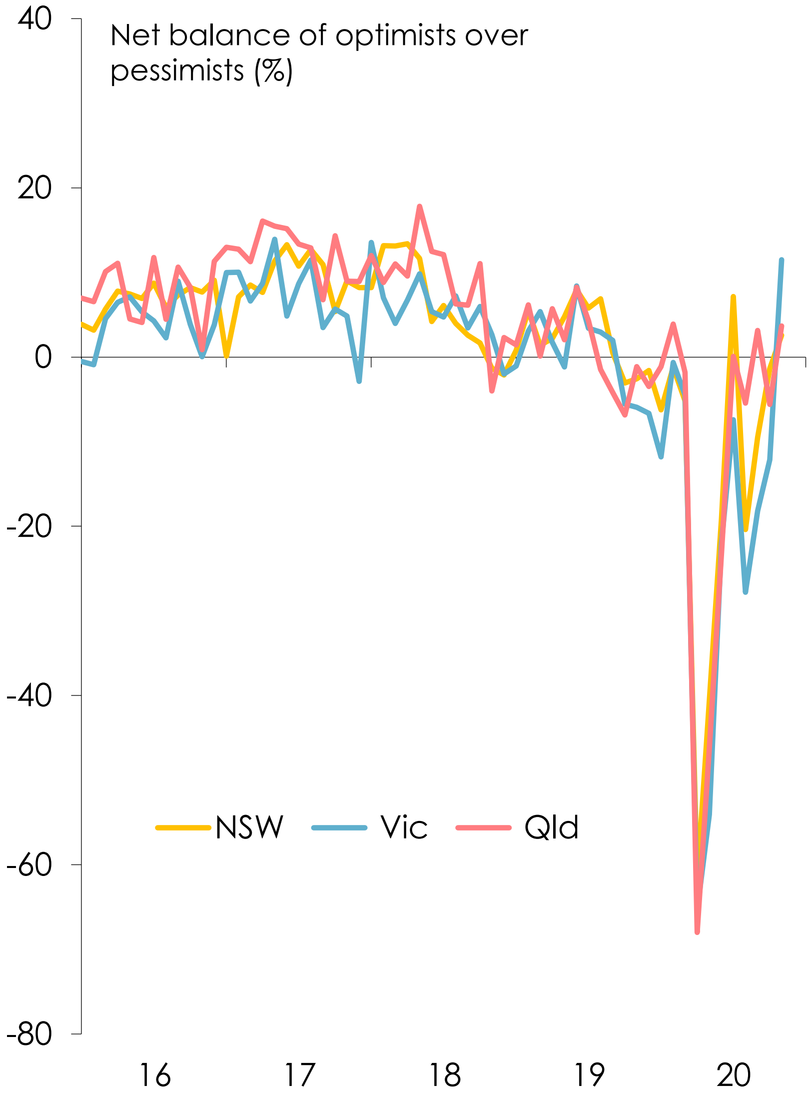
CORINNA ECONOMIC ADVISORY

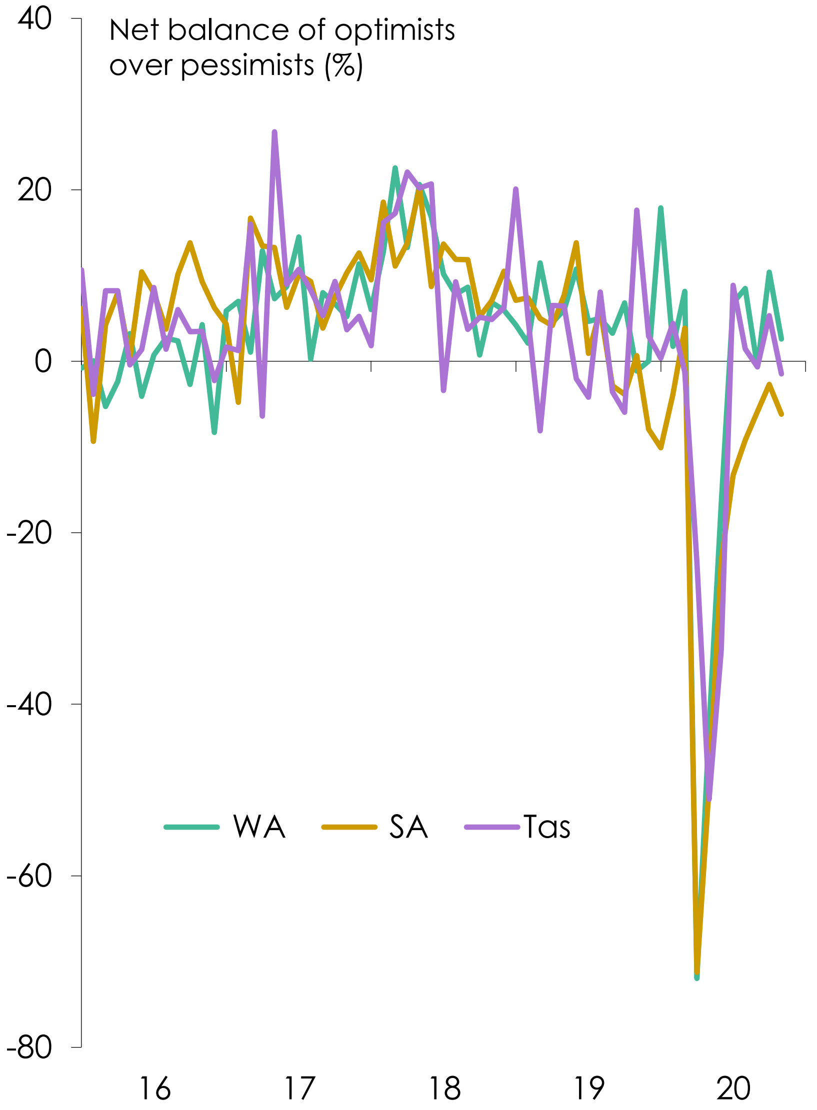
Business confidence rose further in October (after the federal Budget) with the largest improvement occurring in Victoria

Business confidence



Business confidence, states and territories





Sources: National Australia Bank. November survey results will be released on 8th December. Return to "What's New".

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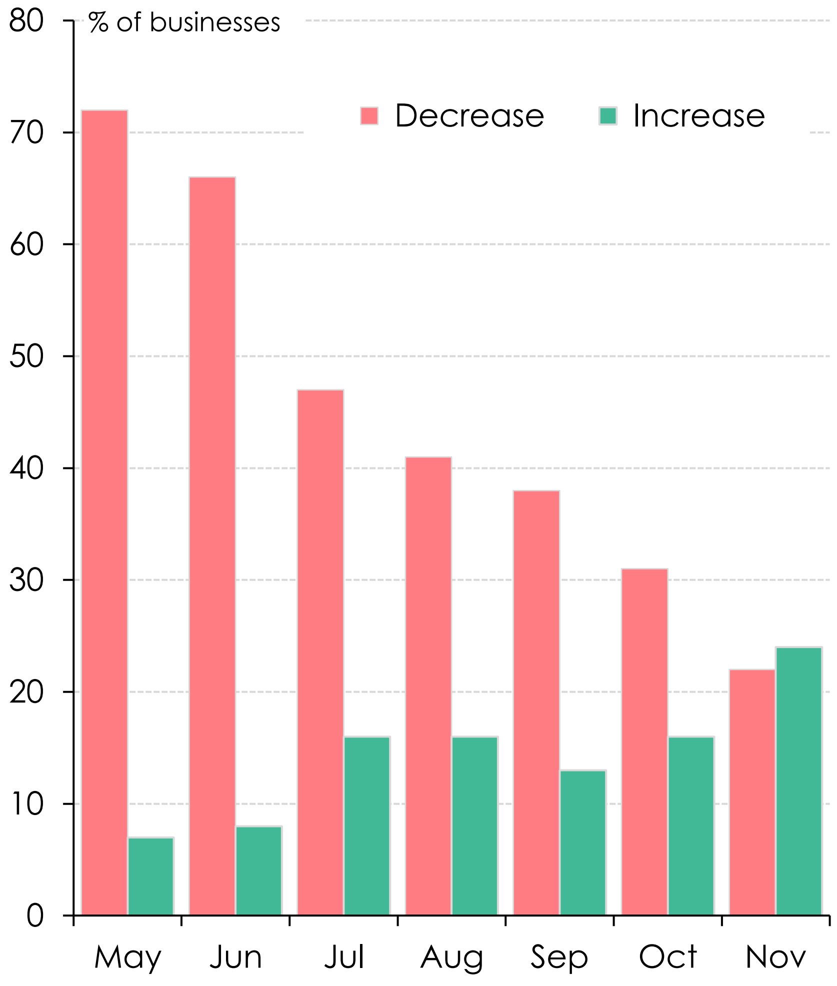
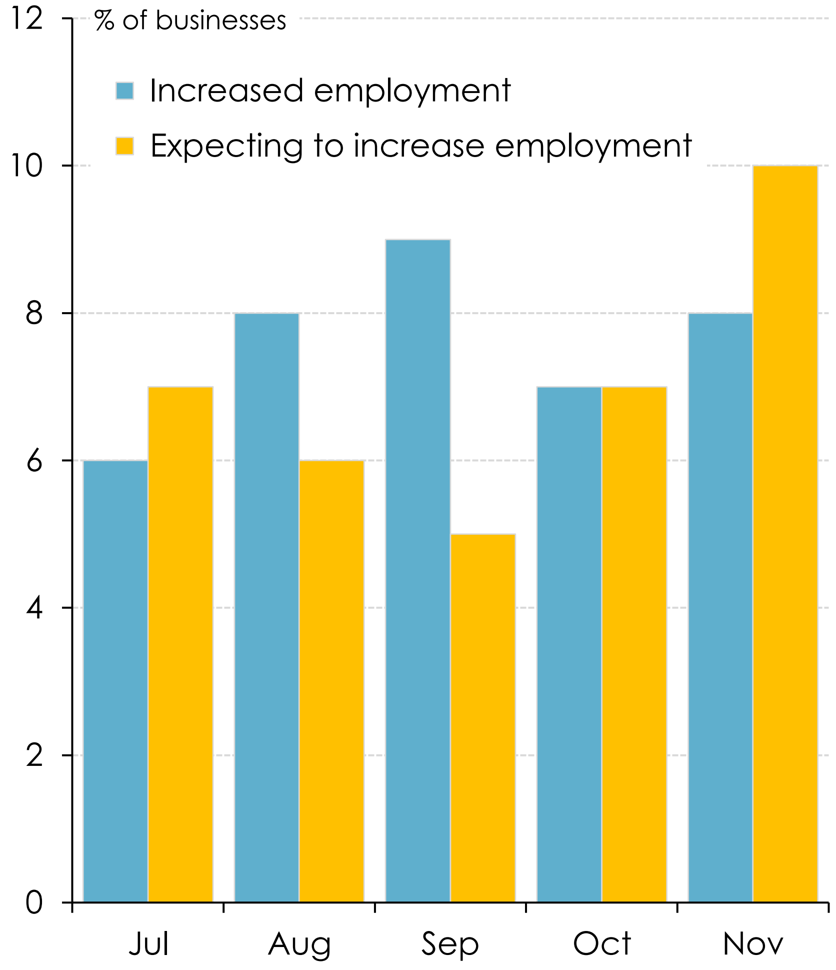
Fewer businesses are reporting falls in revenue, and more are reporting increases: more businesses are also expecting to increase headcount

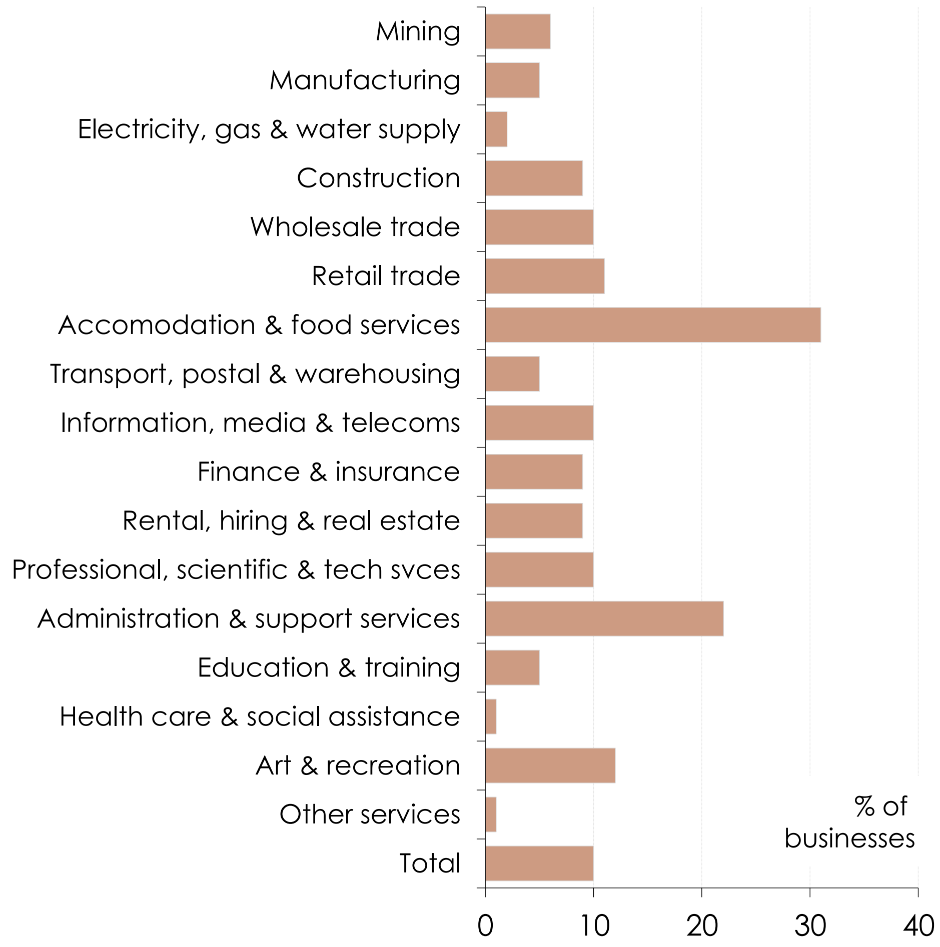
Proportion of businesses reporting decreases or increases in revenue



Proportion of businesses increasing and expecting to increase employee numbers



Proportion of businesses expecting to increase employee numbers, by industry, November 2020



Source: ABS, *Business Impacts of Covid-19*, November 2020. December survey to be released on 16th December. Return to "What's New".

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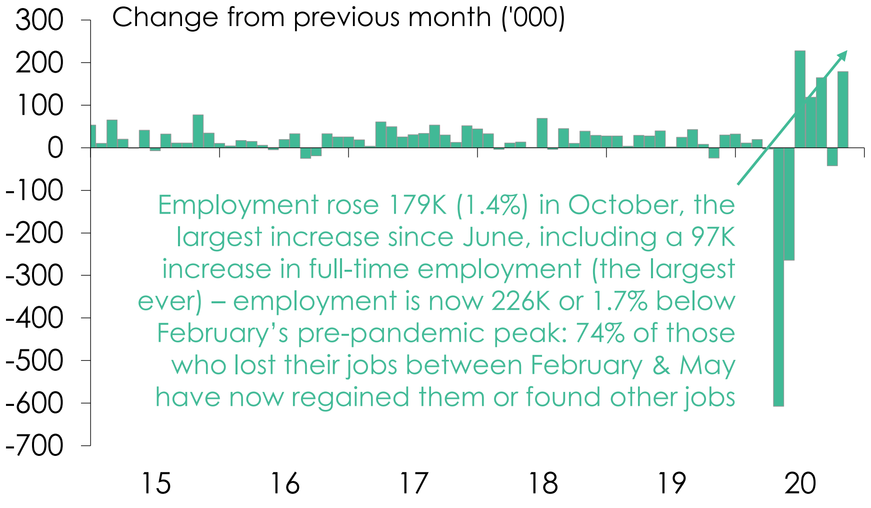
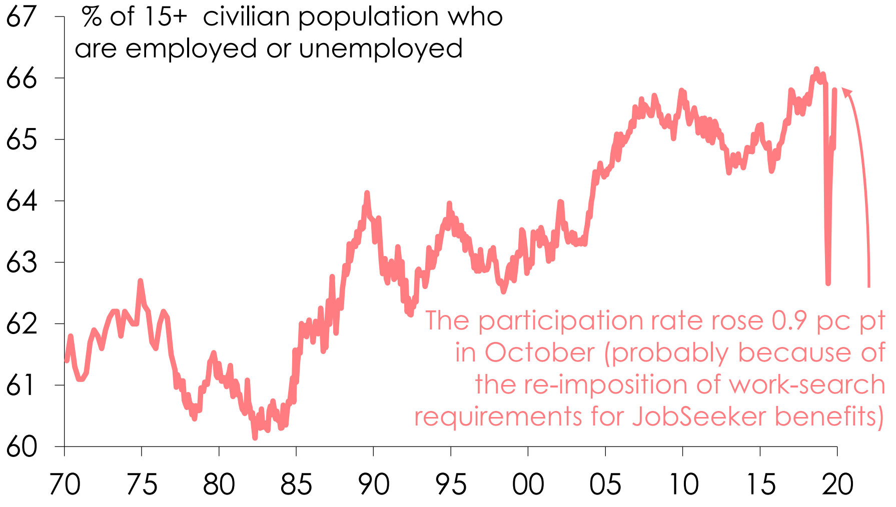
Employment rose 179K in October, including a record gain in full-time jobs, pulling 204K people back into the labour market

Employment

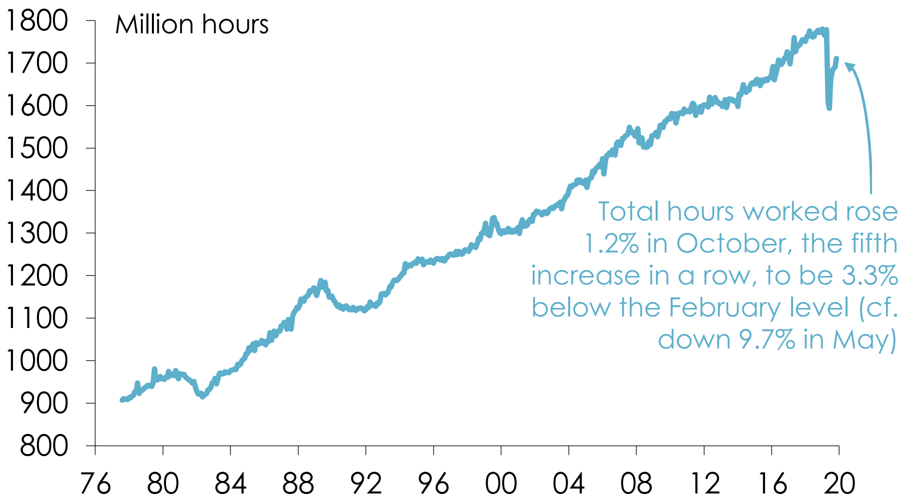


Labour force participation rate

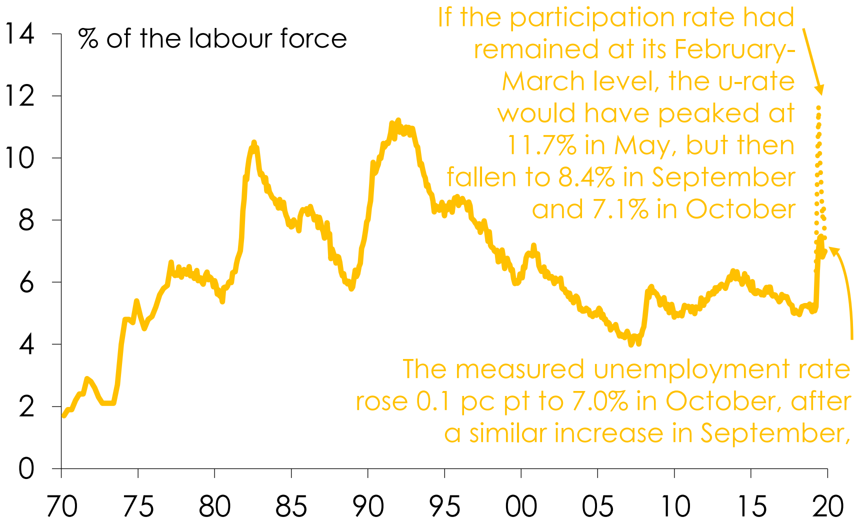


Under-employment ratio

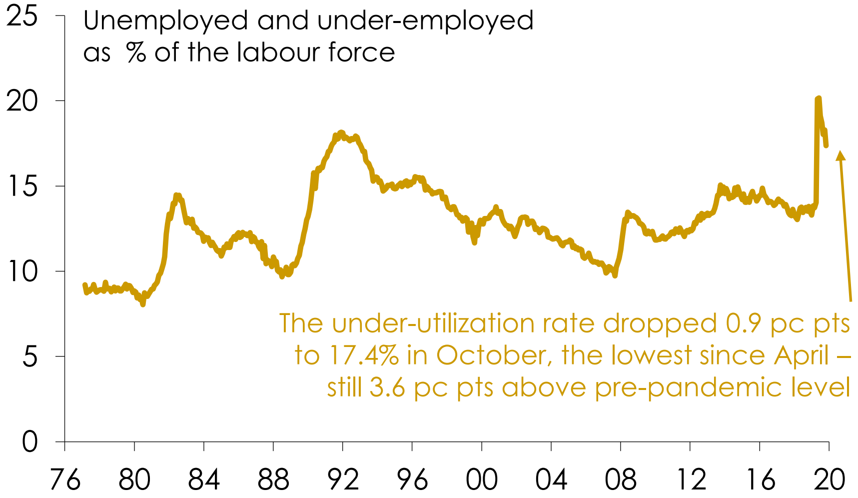
Total hours worked



Unemployment rate



'Under-utilization' rate

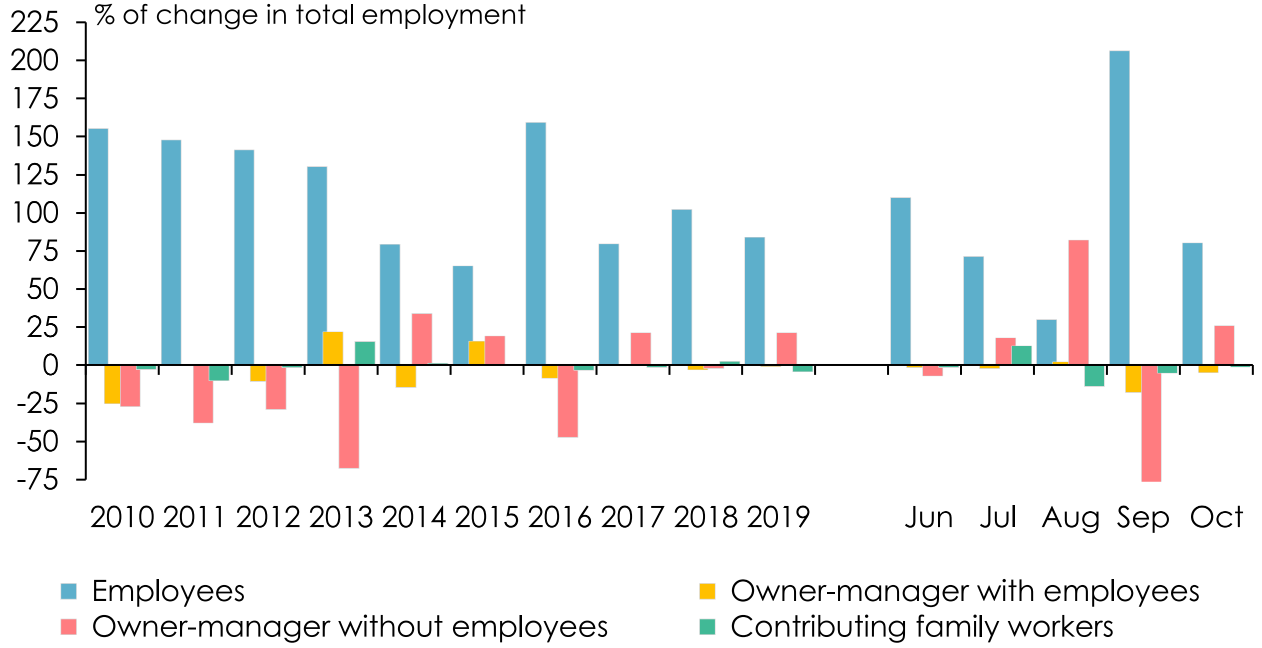


Note: The ABS classifies people on JobKeeper who worked zero hours in the survey week as 'employed'. Had it not done so, the unemployment rate in August would have been 7.9% *(down* from 11.8% in April) – see also next slide. The 'under-employment ratio' is the percentage of employed persons who are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

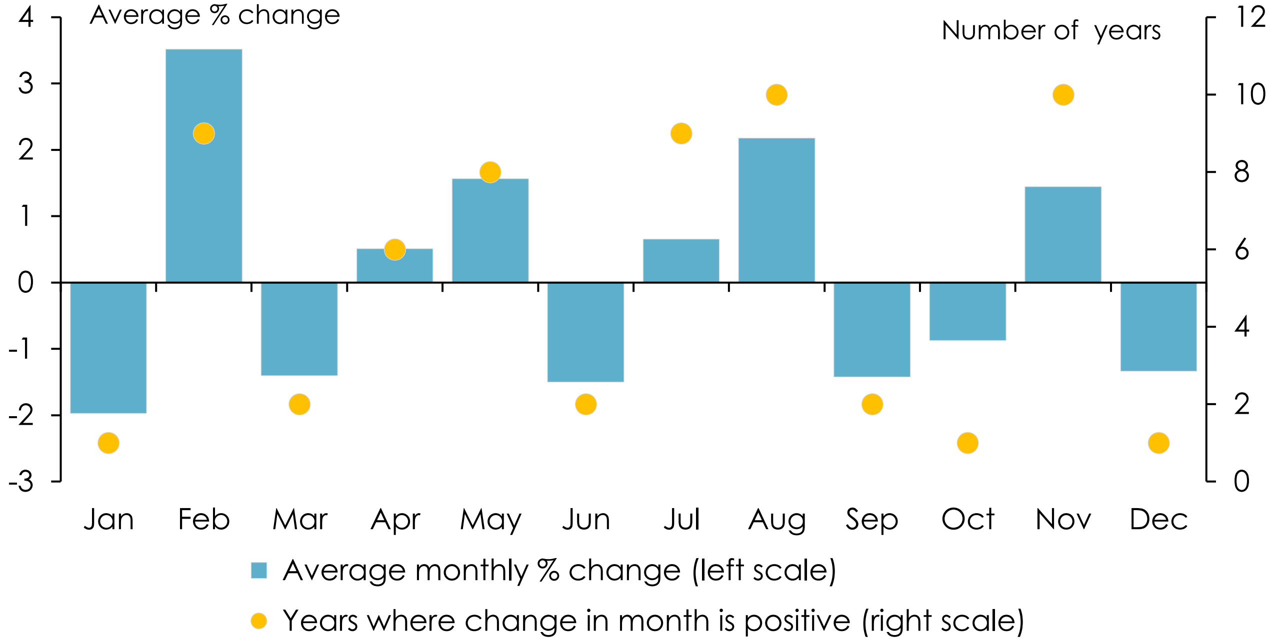
Source: ABS, Labour Force, Australia. November data will be released on 17th December. Return to "What's New".

It's not yet clear (as some have suggested) that a large proportion of jobs created in the post-pandemic world will be 'gig economy' jobs

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

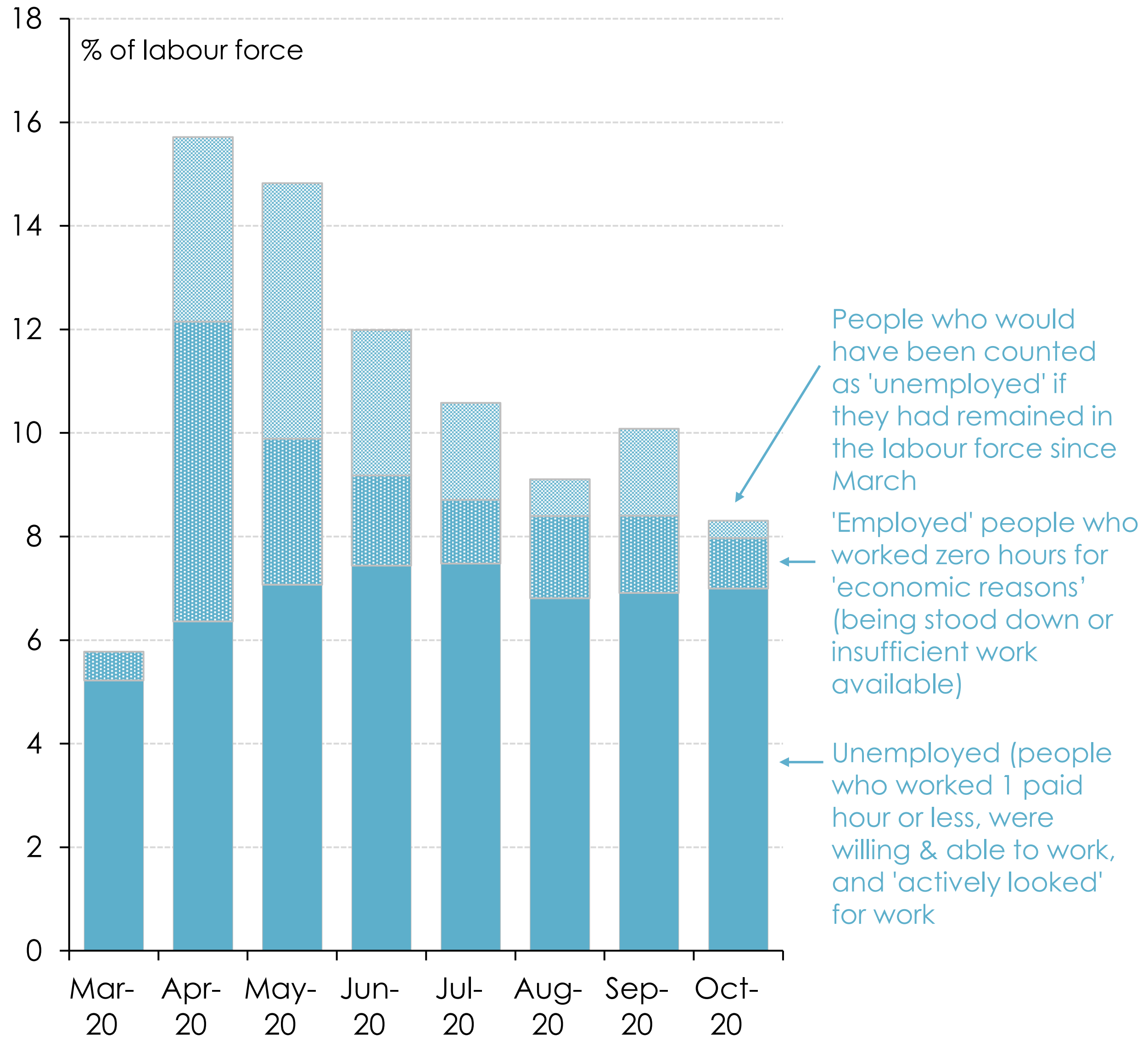


- **An outsized 4% increase in the number of owner-managers of businesses with no employees in August (accounting for 83% of the increase in total employment) prompted speculation that much of the post-pandemic growth in employment would be in the 'gig' economy. This category fell 1.6% in September and rose 3.9% in October – but because employee numbers rose much more it didn't attract nearly as much attention.**
- **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, October 2020. November data will be released on 23rd December. Return to "What's New".

The 'effective' unemployment rate has fallen from a peak of 15.3% in April to 8.3% in October

Alternative measures of unemployment



- The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30th March and 27th September (although payments didn't start until the beginning of May)
- 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 also needed to demonstrate that they still met the drop-in-turnover test in order to remain eligible for JobKeeper payments
- The number of people counted as 'employed' but working zero hours has fallen from 767K in April to 134K in October, while the number of 'hidden unemployed' has fallen from 676K in May to just 46K in October

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

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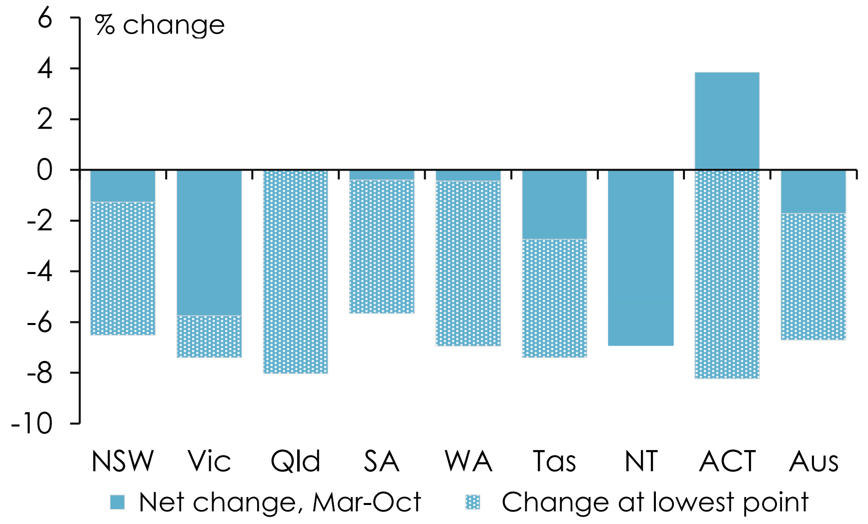
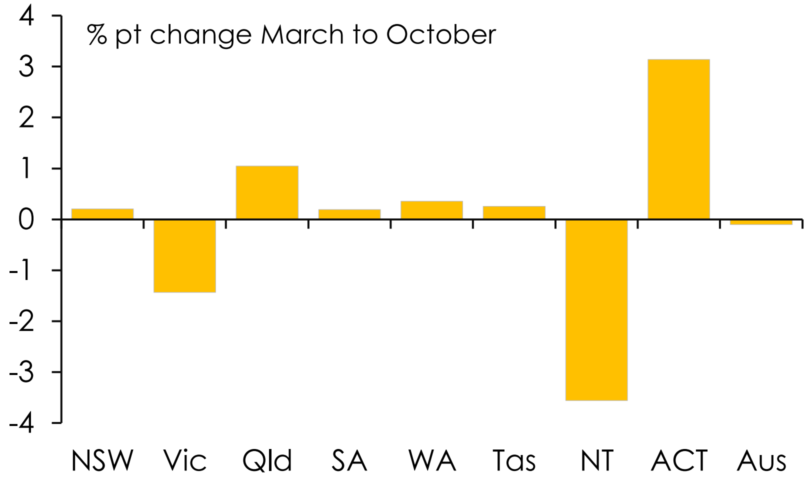
Employment has begun to recover in Victoria but it together with the NT still has the softest labour market: ACT, NSW and WA have the strongest

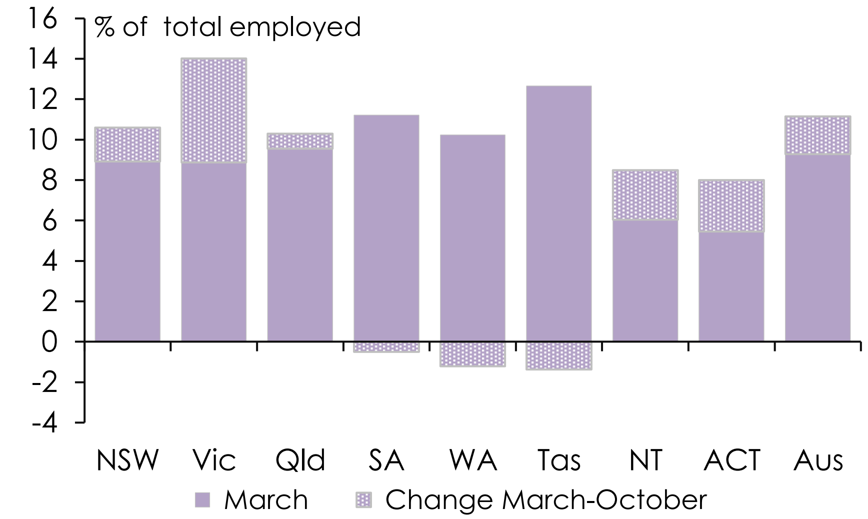
Employment



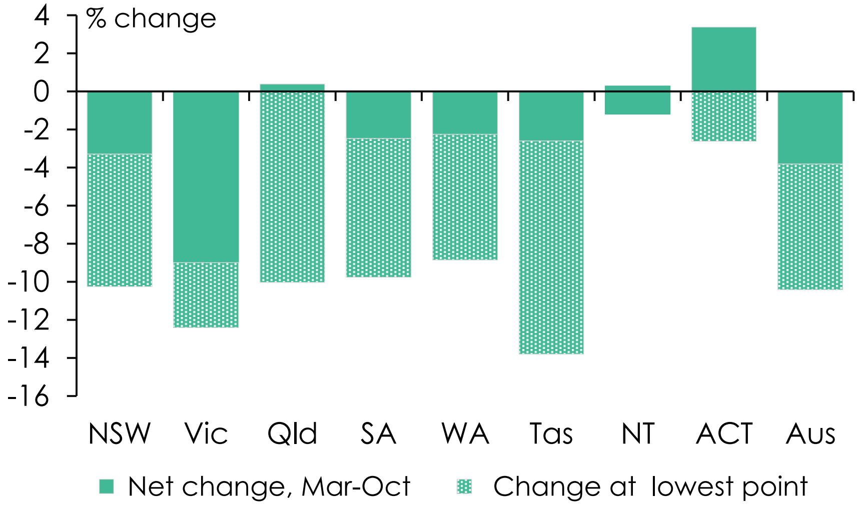
Labour force participation rate



Under-employment ratio

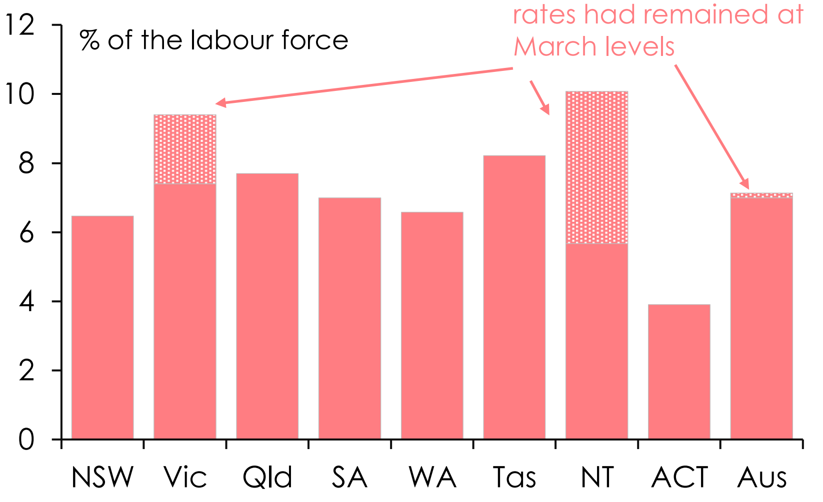


Total hours worked

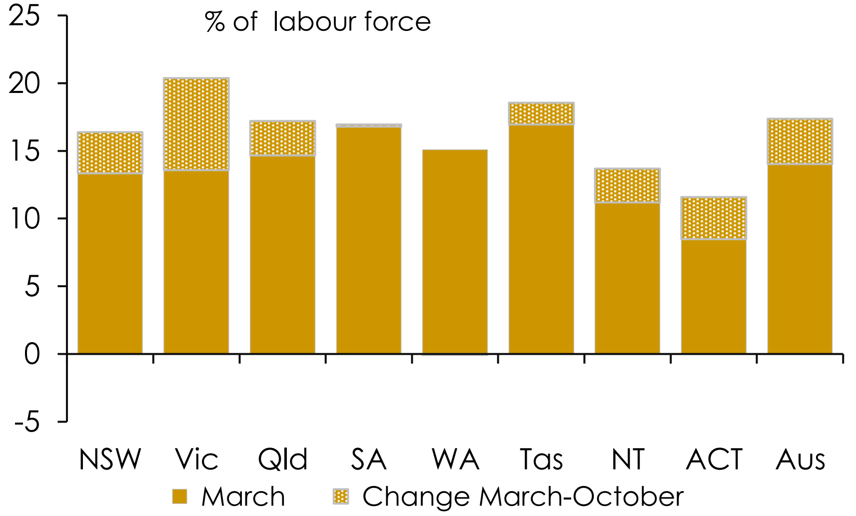


Unemployment rate

Unemployment rates in October if participation rates had remained at March levels



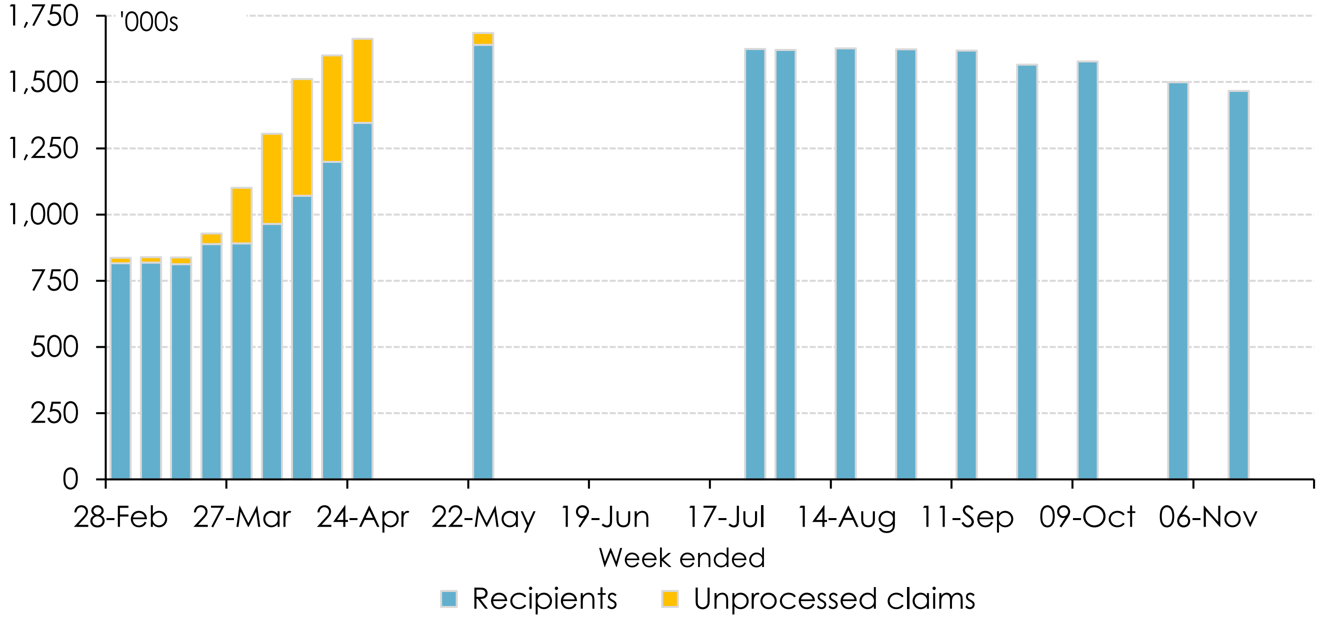
'Under-utilization' rate



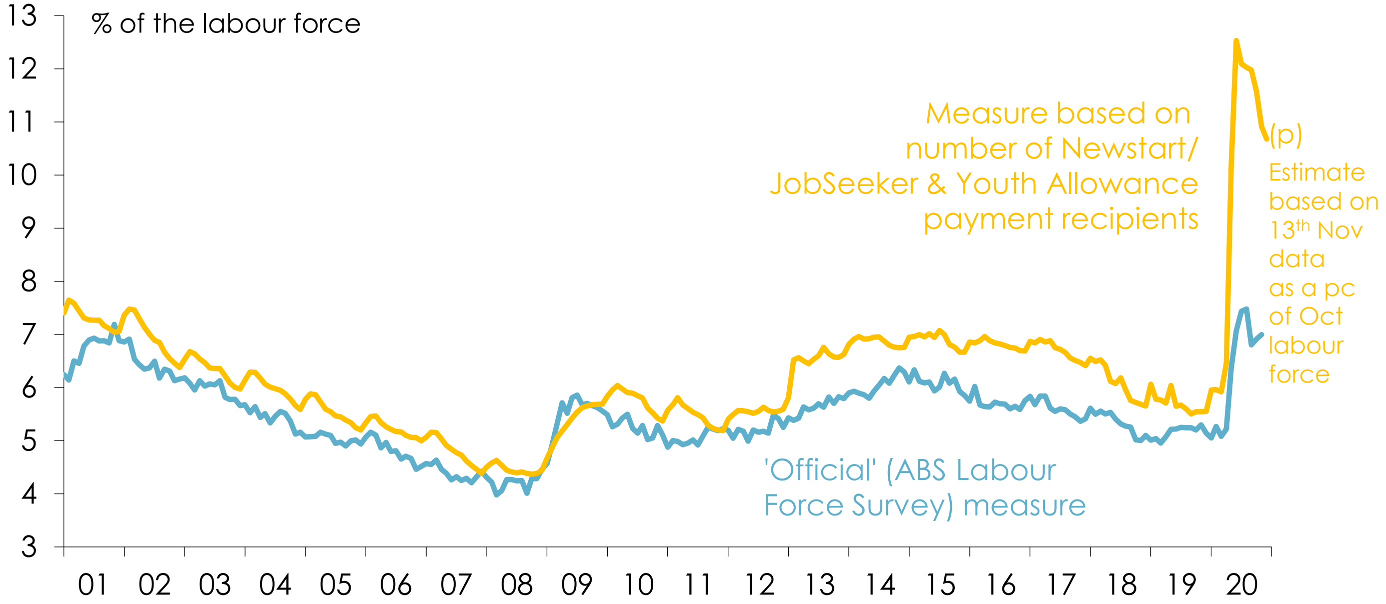
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. *Source:* ABS, Labour Force, Australia. November data will be released on 17th December.
Return to "What's New".

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

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



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



- **The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available**
- **On two occasions earlier this year the Secretary of DSS provided weekly data to the Senate Select Committee on Covid-19, and on 29th July promised to provide fortnightly and monthly data to this Committee; however so far only five sets of data have been provided, the latest being for 13th November, 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".

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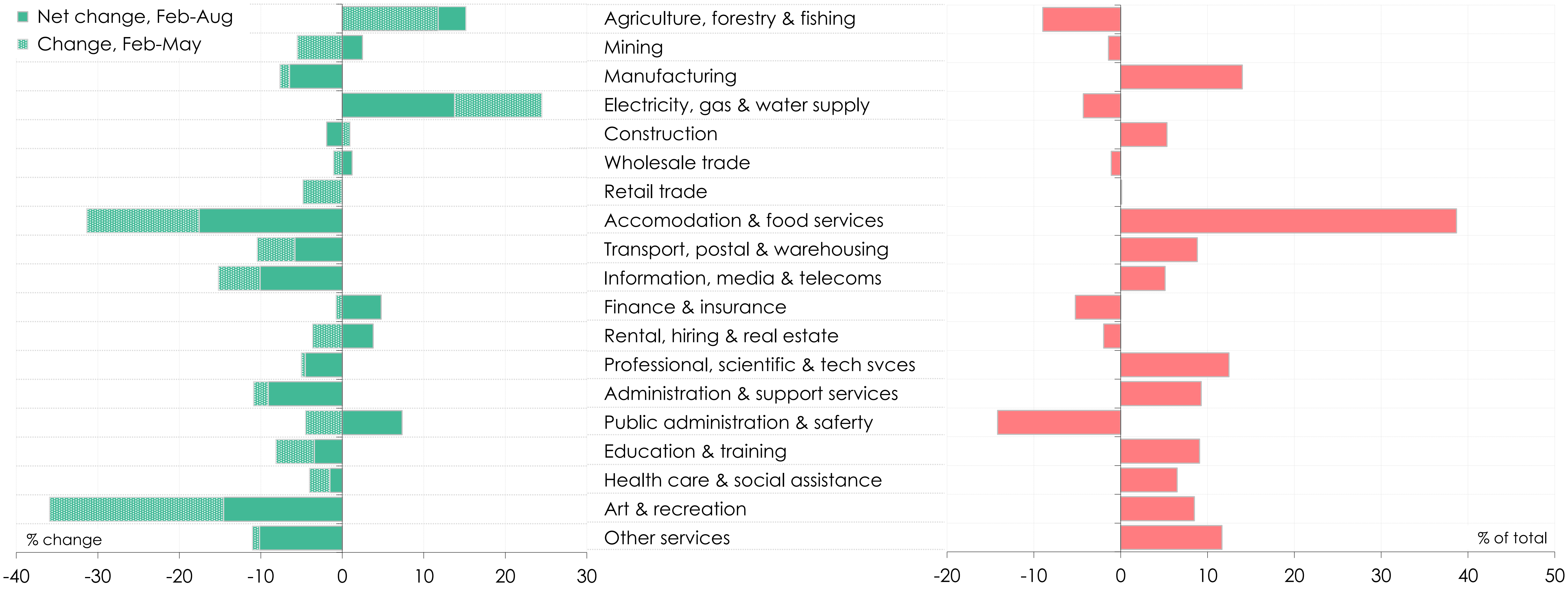
Accommod^{n} & food services, arts & recrea^{n}, and educ^{n} & training accounted for 56% of job losses from Feb to May, and 56% of job gains Feb-August

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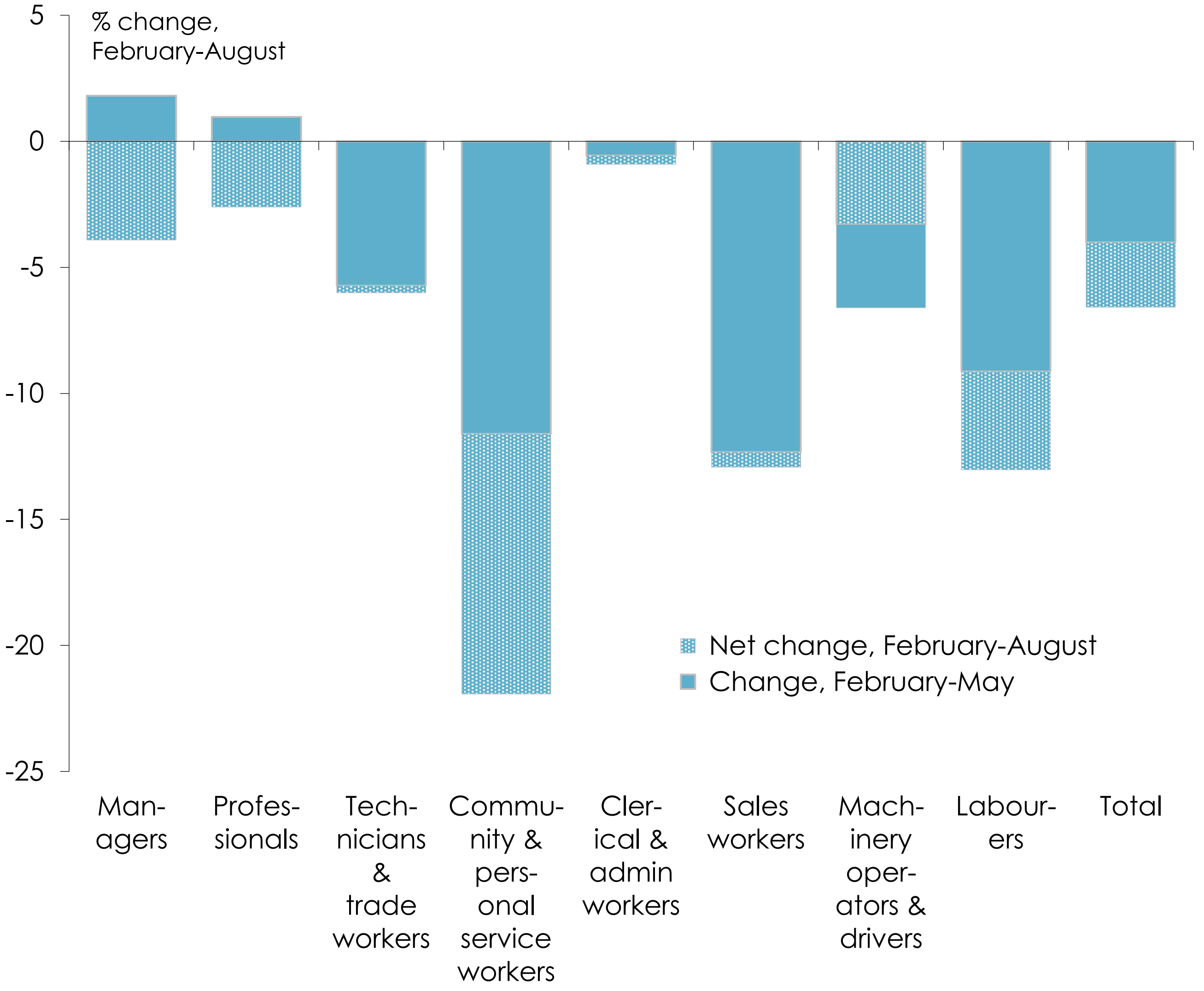
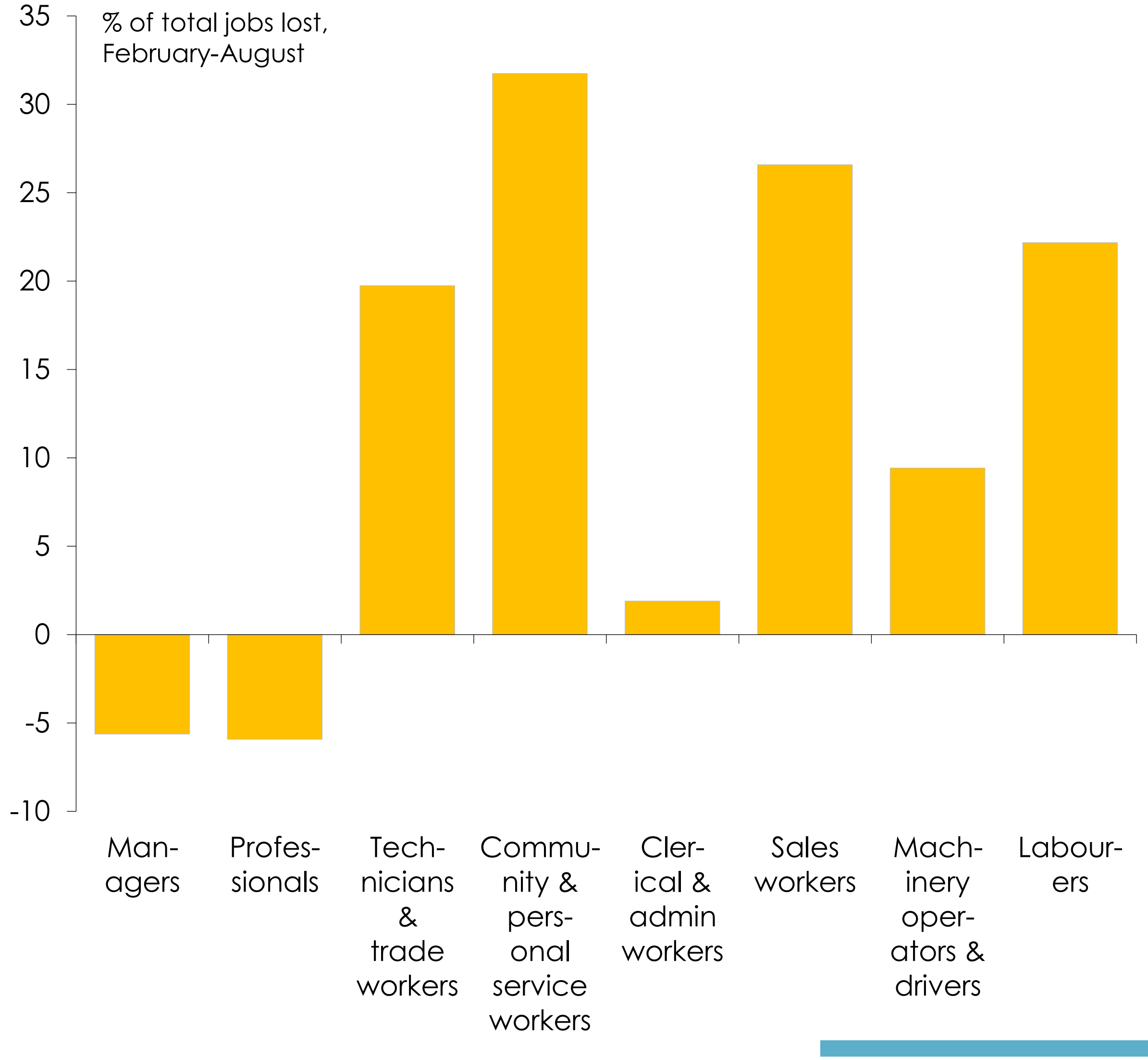
Community & personal service workers, sales workers and labourers have accounted for 81% of all net job losses since February

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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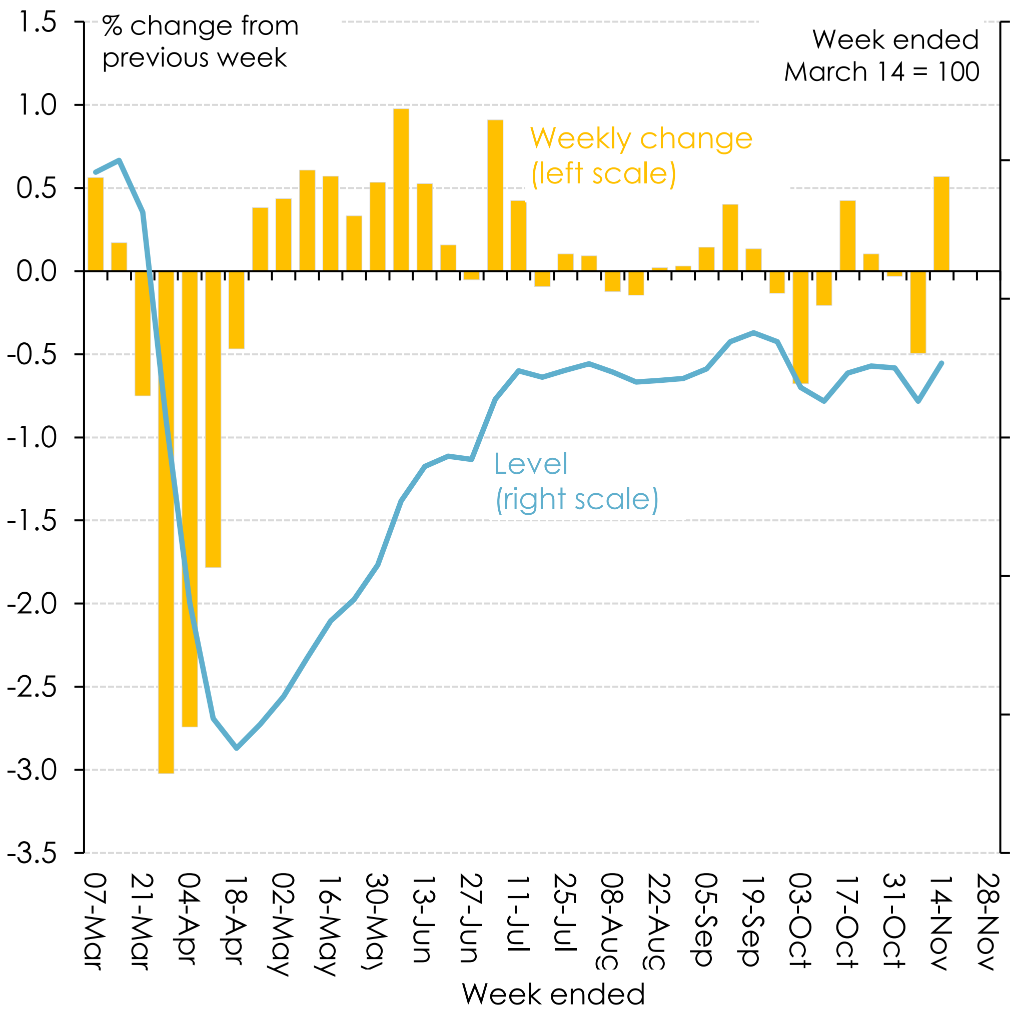
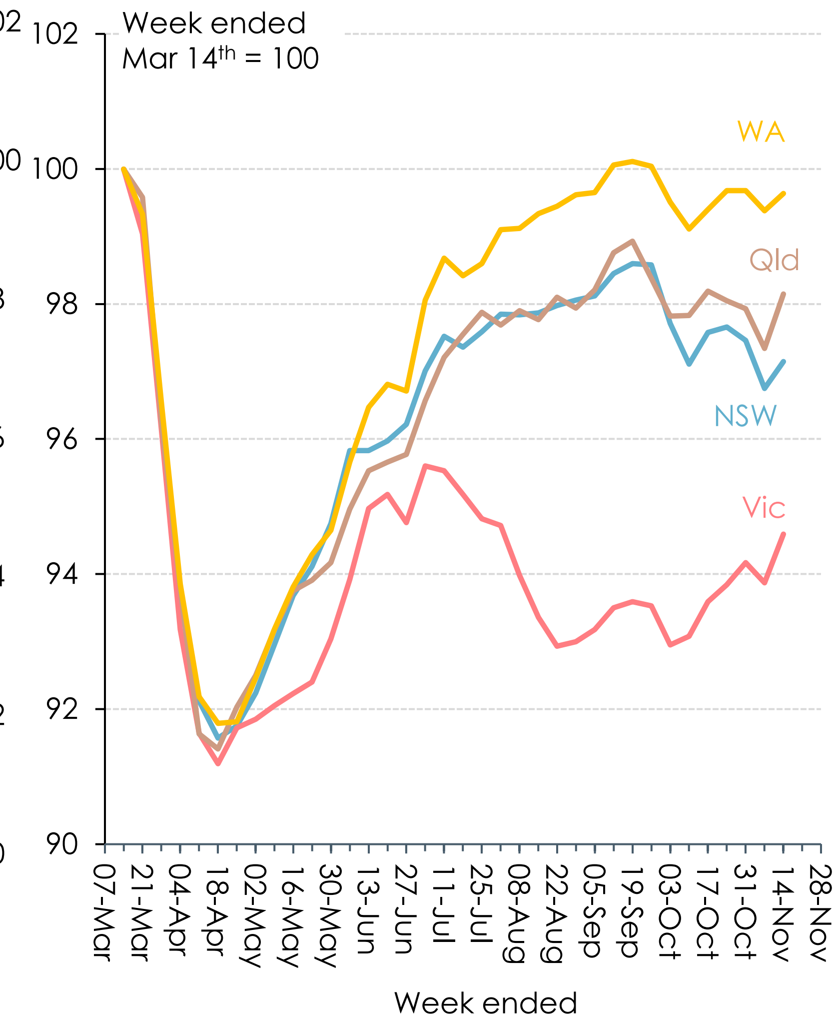
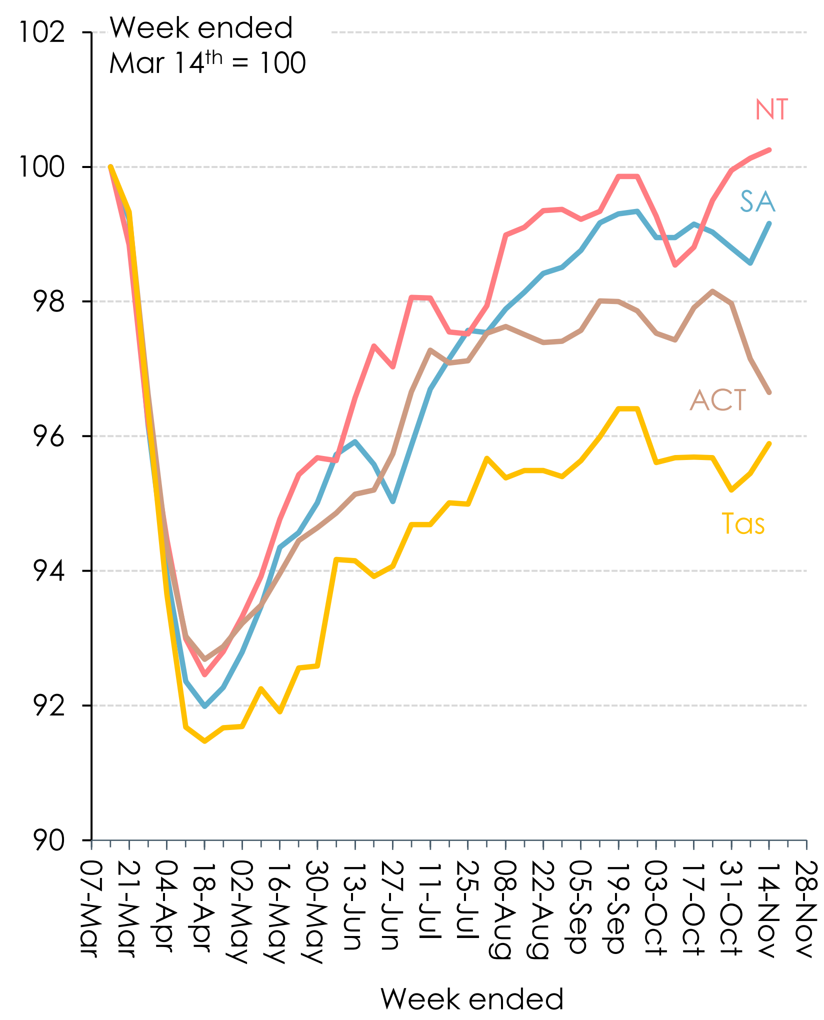
Payroll employment has been 'tracking sideways' since mid-July, with recent gains in Victoria offset by losses in NSW, Qld and the ACT

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory

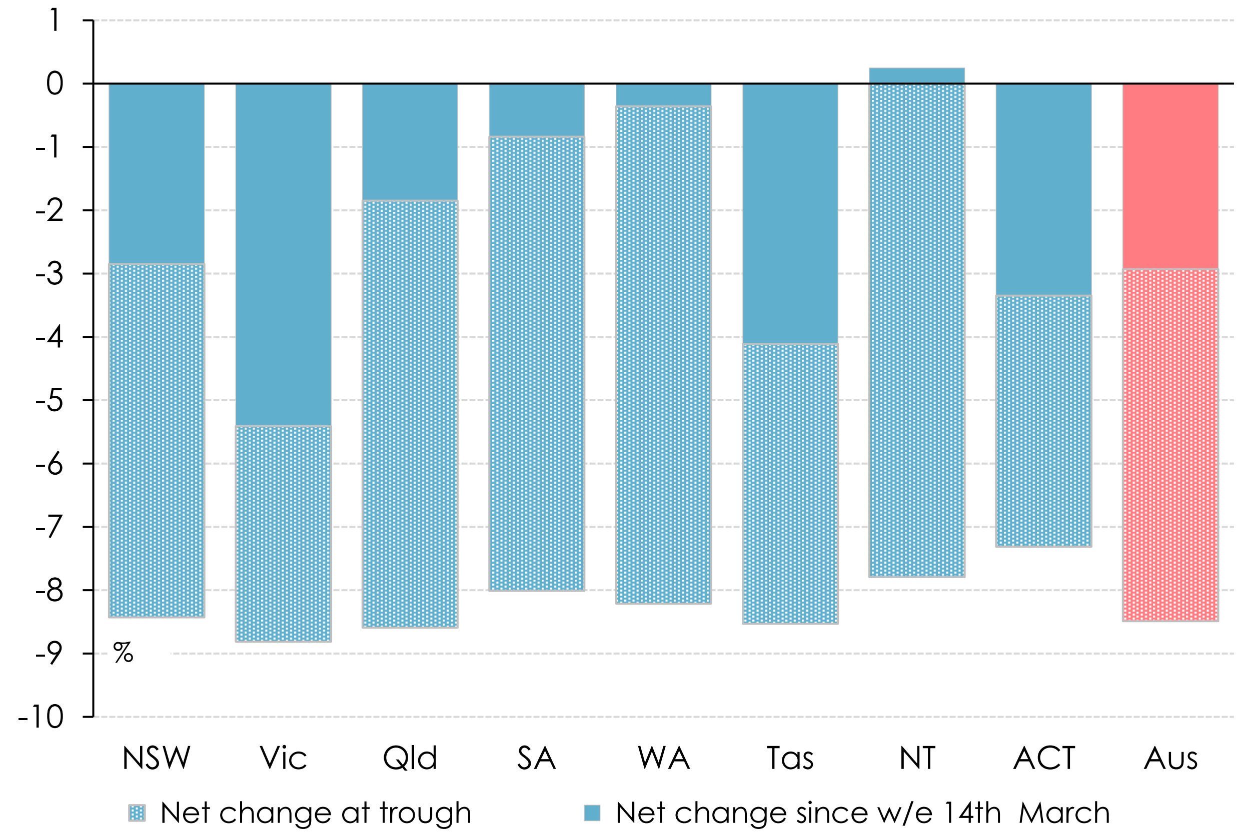




Source: ABS, Weekly Payroll Jobs and Wages in Australia. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Singe Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or 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 ended 21st and 28th November will be released on 15th December. Return to "What's New".

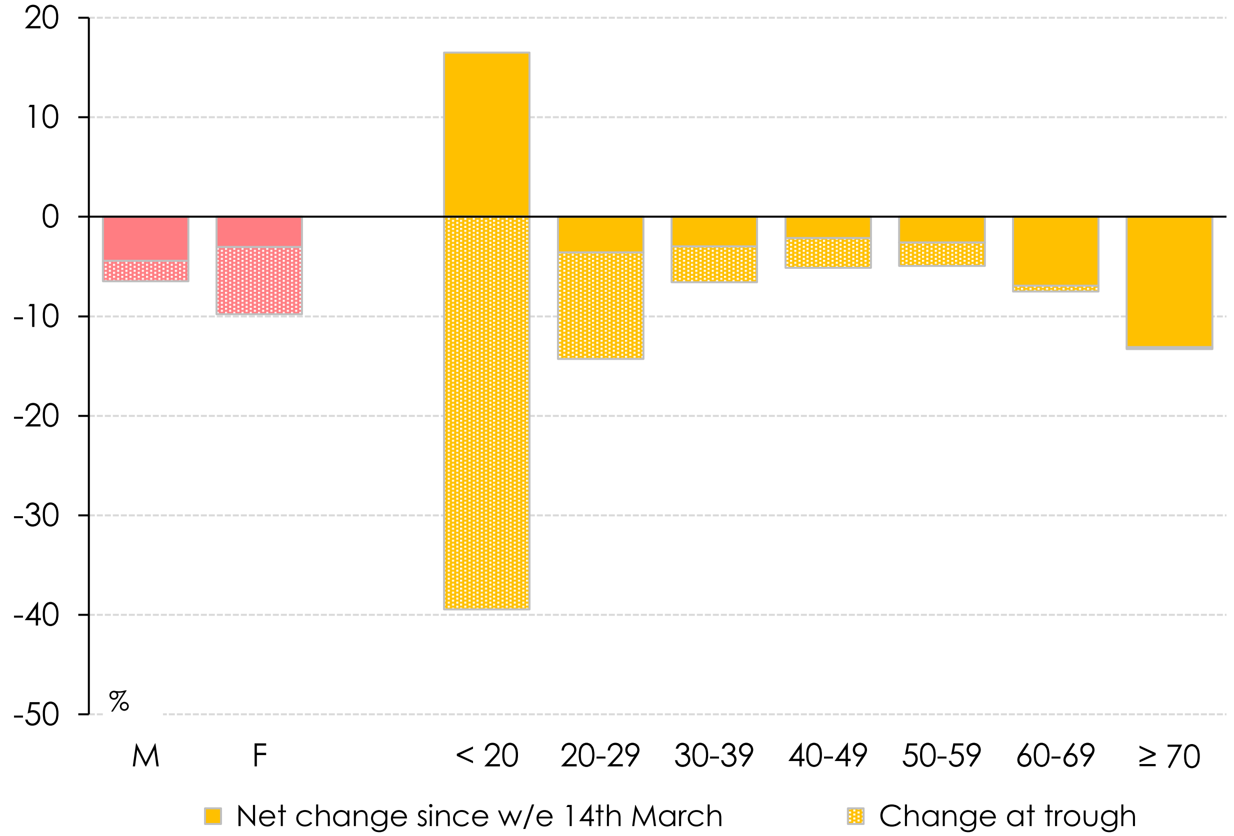
Despite a 1¾% rise over the past six weeks, Victorian payroll jobs are still down 6% since mid-March, while men have lost more jobs than women

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



- Vic payroll jobs are down 5½% on net from pre-pandemic: other states between ½% and 4%

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



- Payroll jobs held by men are now down 6% on net from mid-March, cf. 1¾% for women

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 21st and 28th November will be released on 15th December. Return to "What's New".

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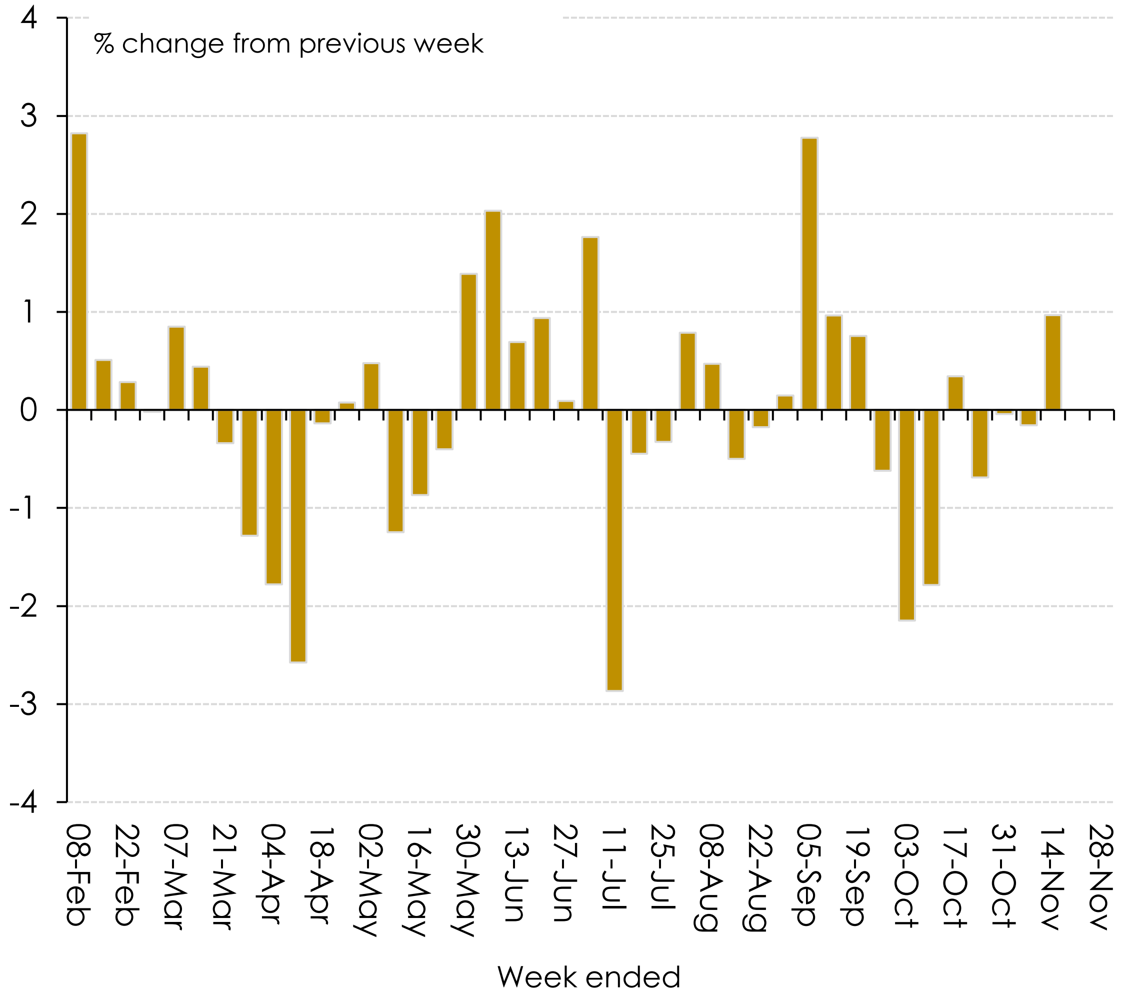
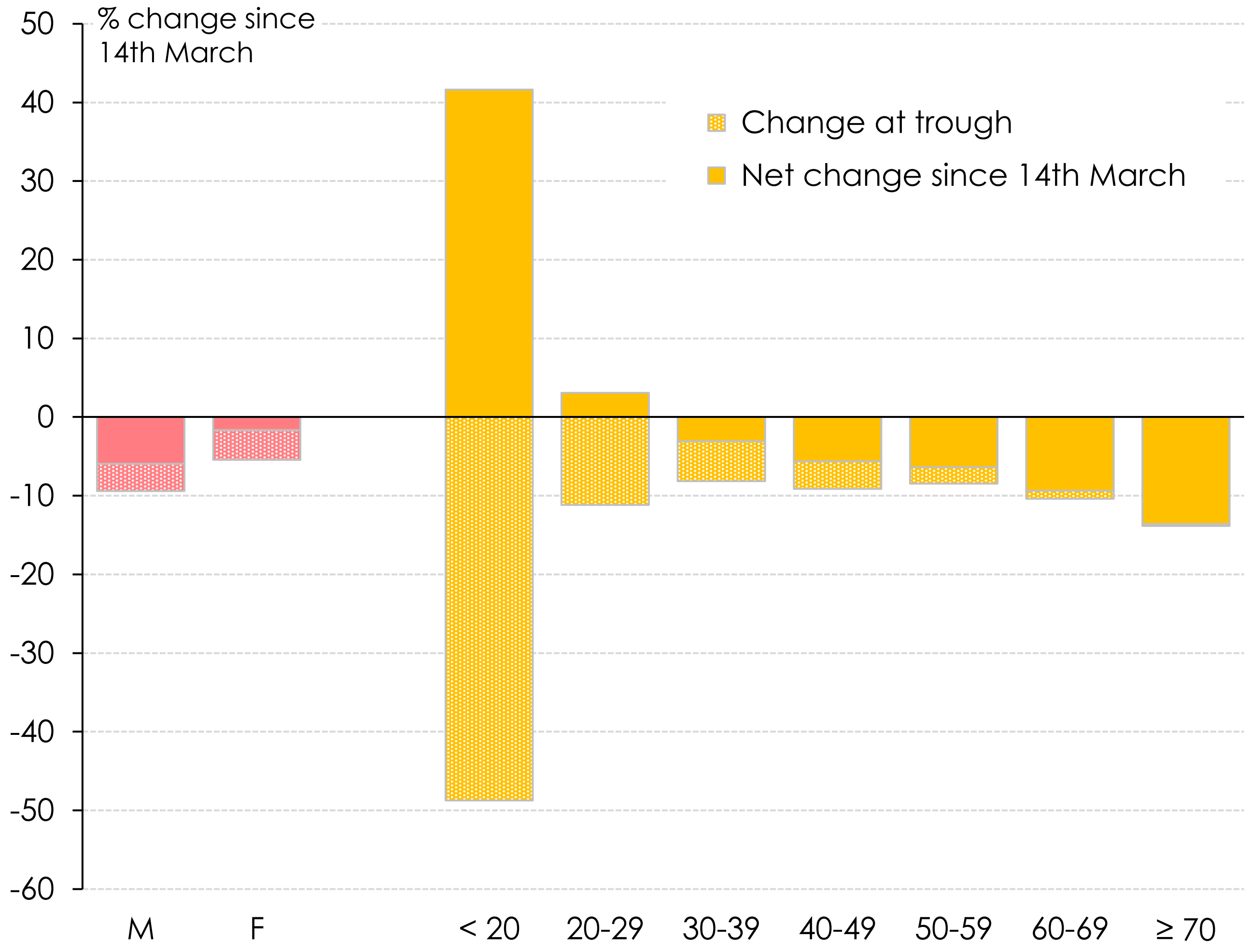
Wages paid rose 1% in the 2nd week of November, the largest rise in 9 weeks: women's wages have fallen less than men's, on net, since March

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".

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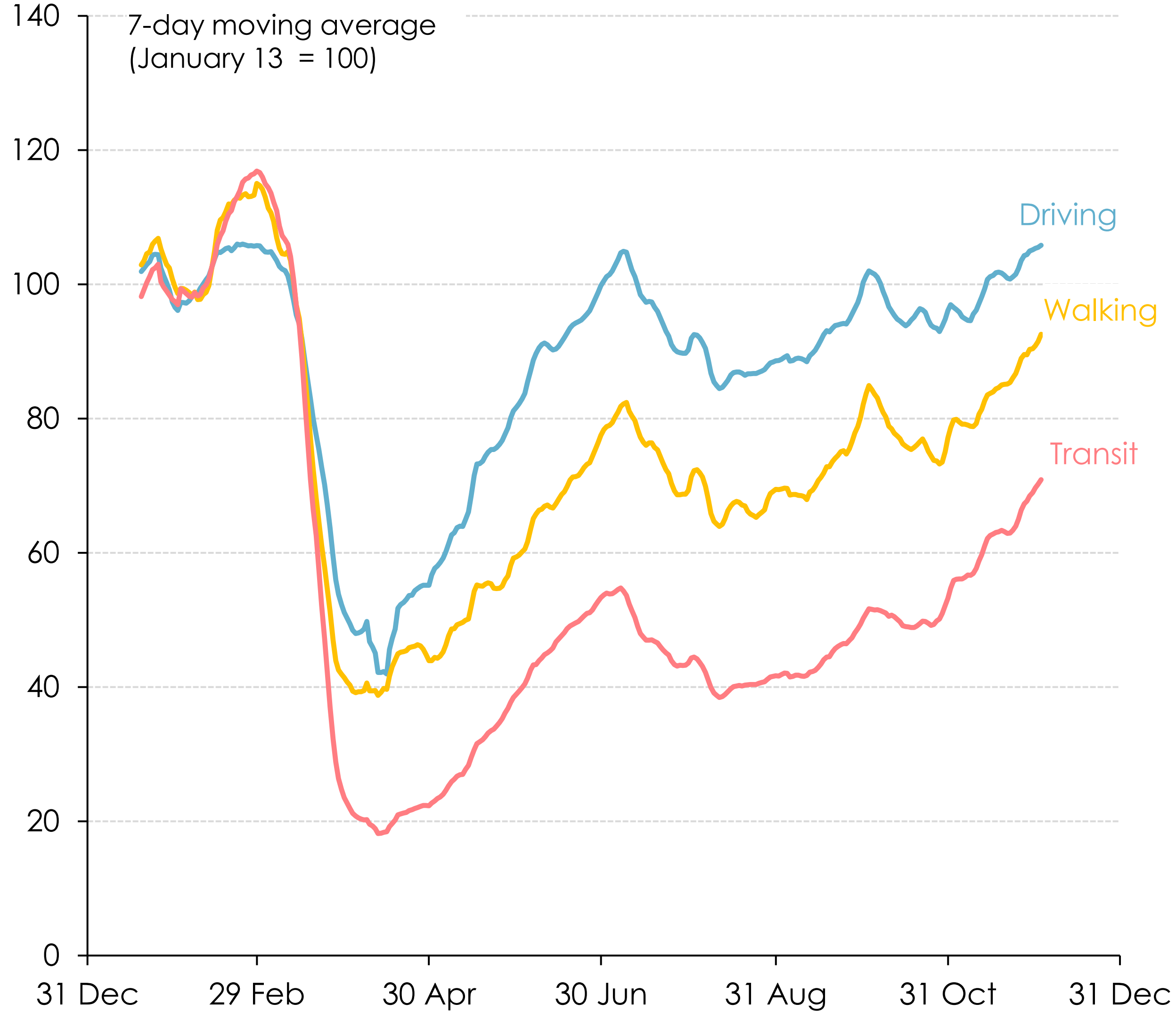
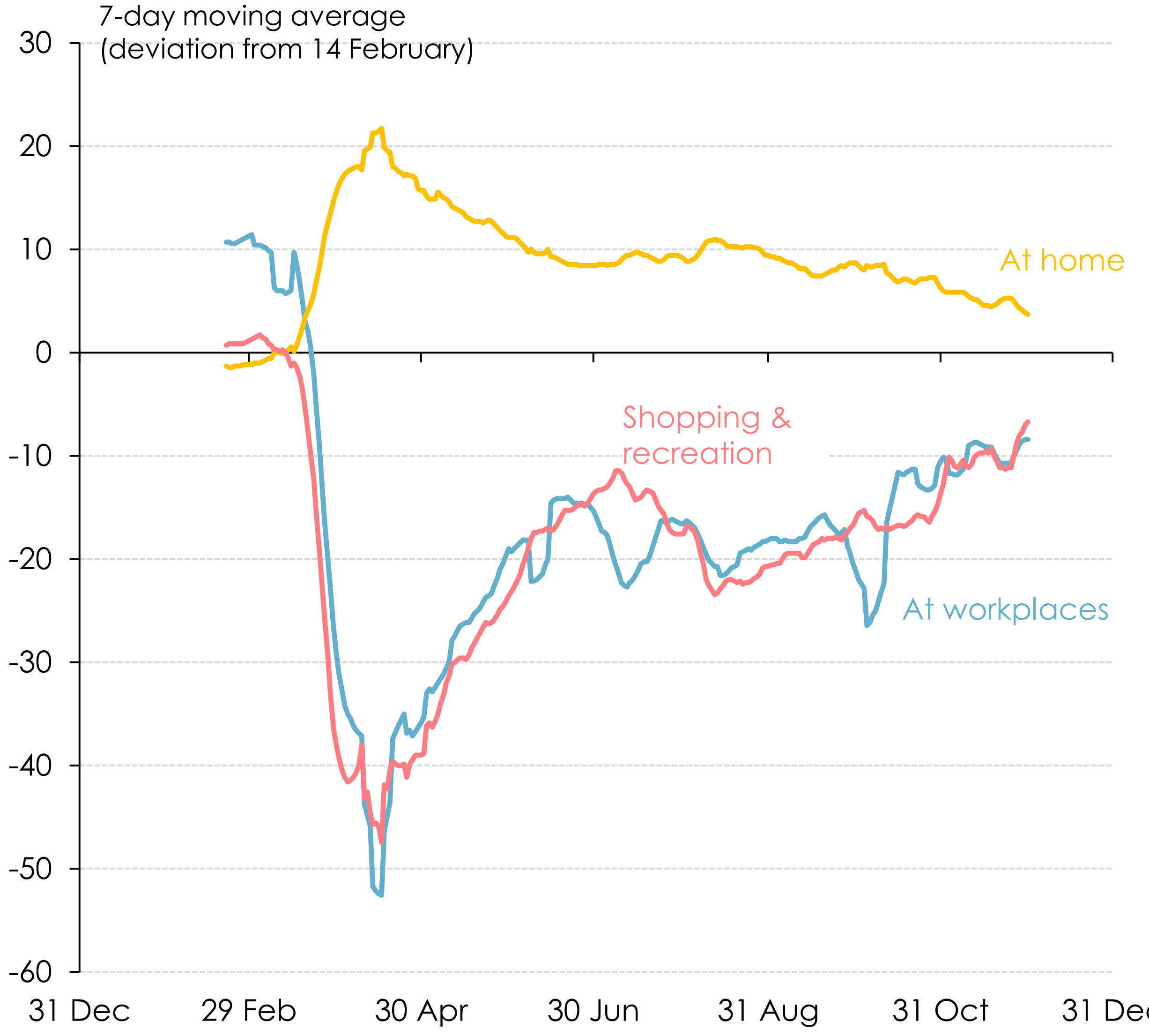
Mobility indicators have improved over the past four weeks – in particular transit use is the highest since the third week of March

Time spent driving, walking and in transit



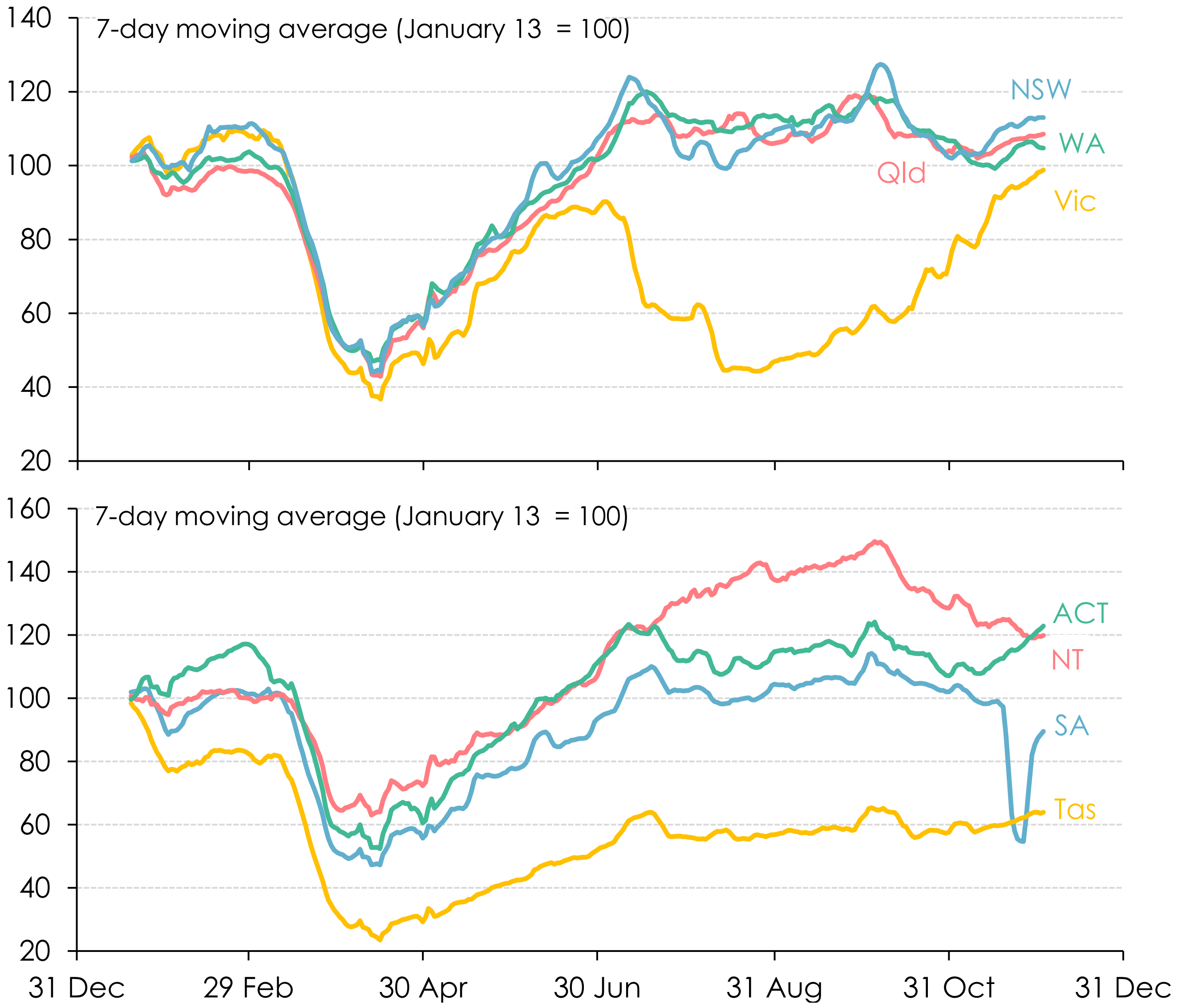
Time spent working, at home, shopping & playing



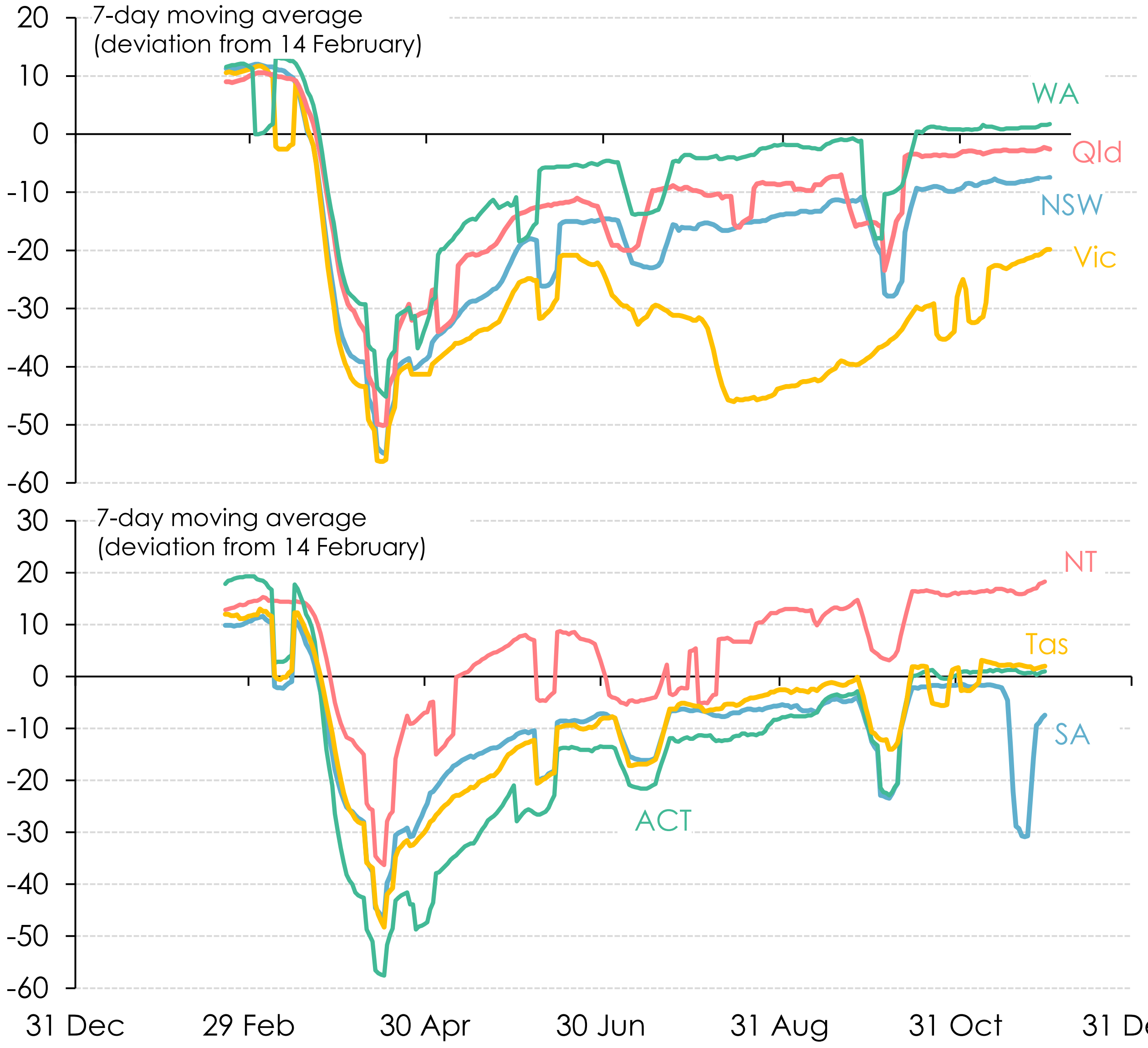
Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. *Sources:* Apple Mobility Trends Reports(data up to 3rd December); Google Community Mobility Reports (data up to 1st December). For state-level data see next slide. Return to "What's New".

The impact of the easing of restrictions in Victoria, and South Australia's short, sharp lockdown late last month, are apparent in mobility data

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 3rd December); Google Community Mobility Reports (data up to 1st December). Return to "What's New".

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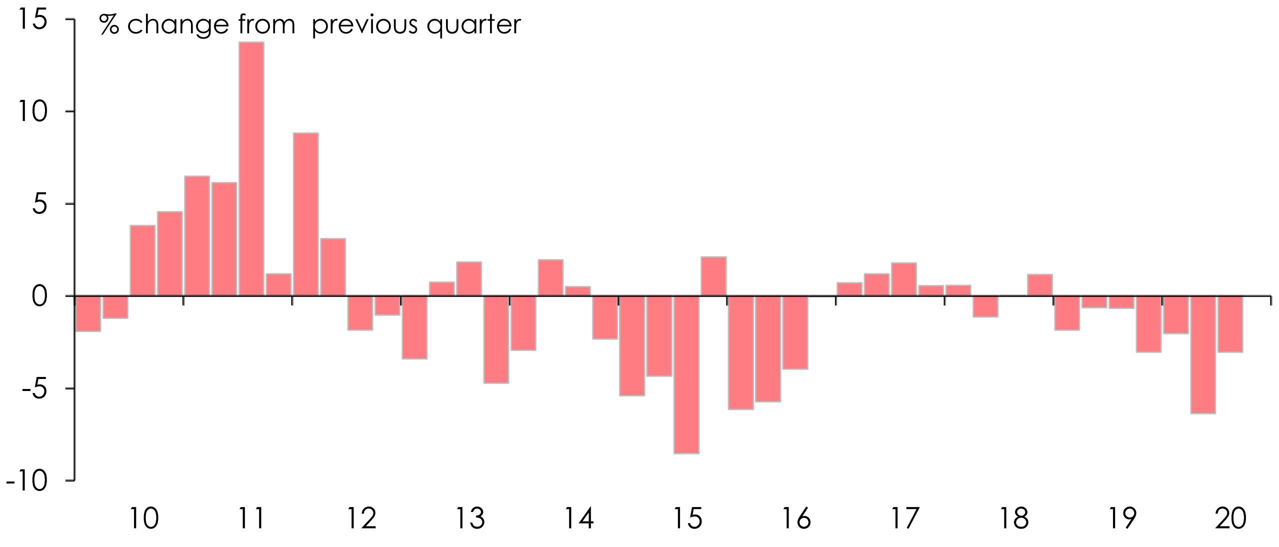
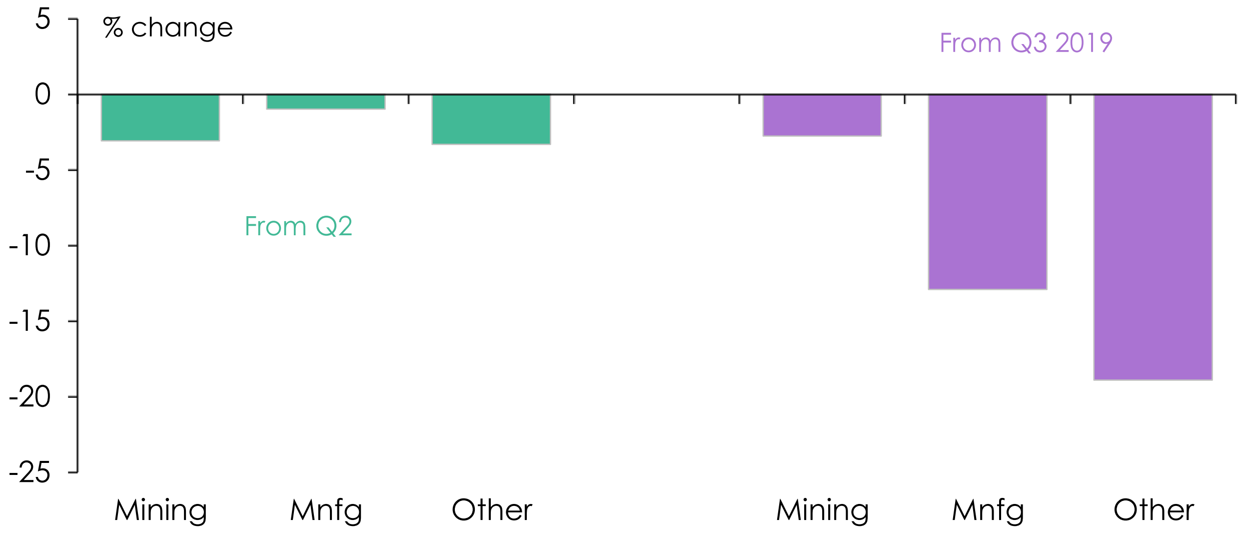
Business capex declined in Q3 for the seventh consecutive quarter, dragged down by Victoria, and by the construction & transport sectors

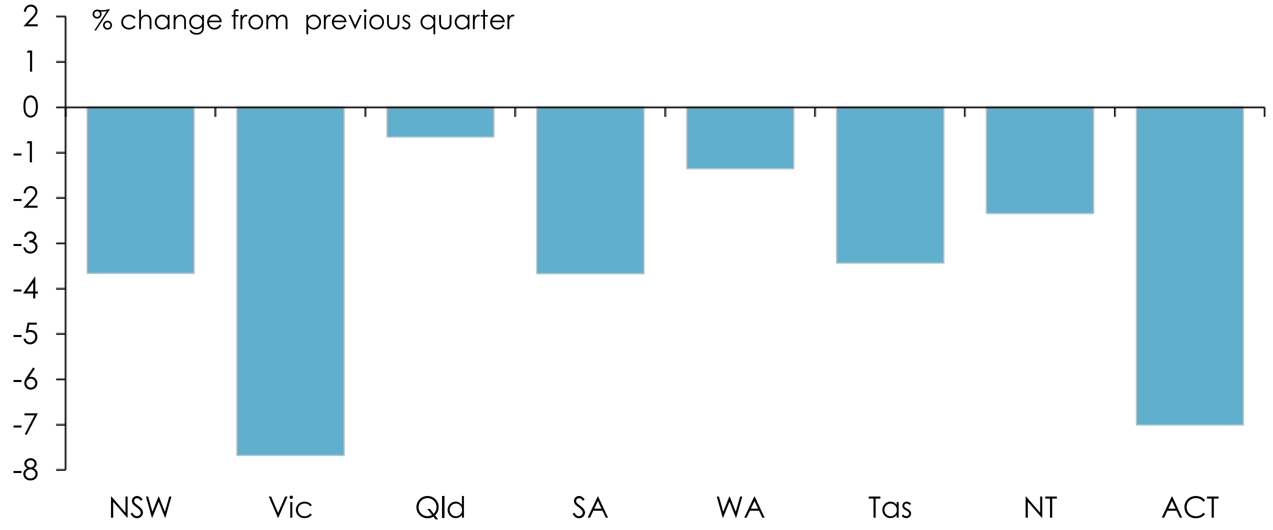
Real business new fixed capital expenditure

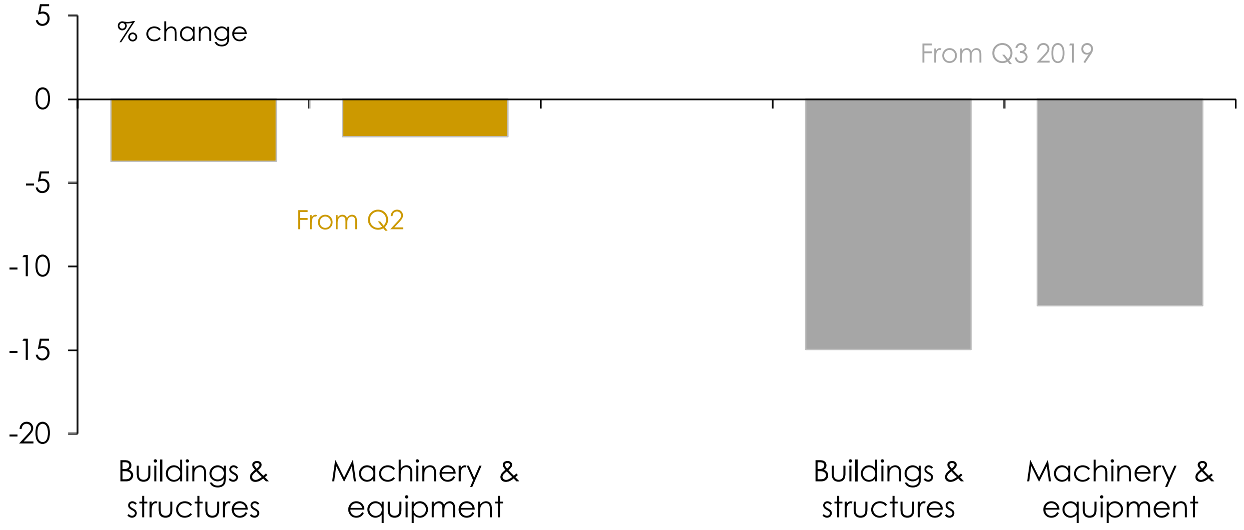


Real business new fixed capex, by industry, Q3



Real business new fixed capex, by state, Q3





Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
Source: ABS, Private New Capital Expenditure and Expected Expenditure, Australia; December quarter data will be released on 25th February 2021. Return to "What's New".

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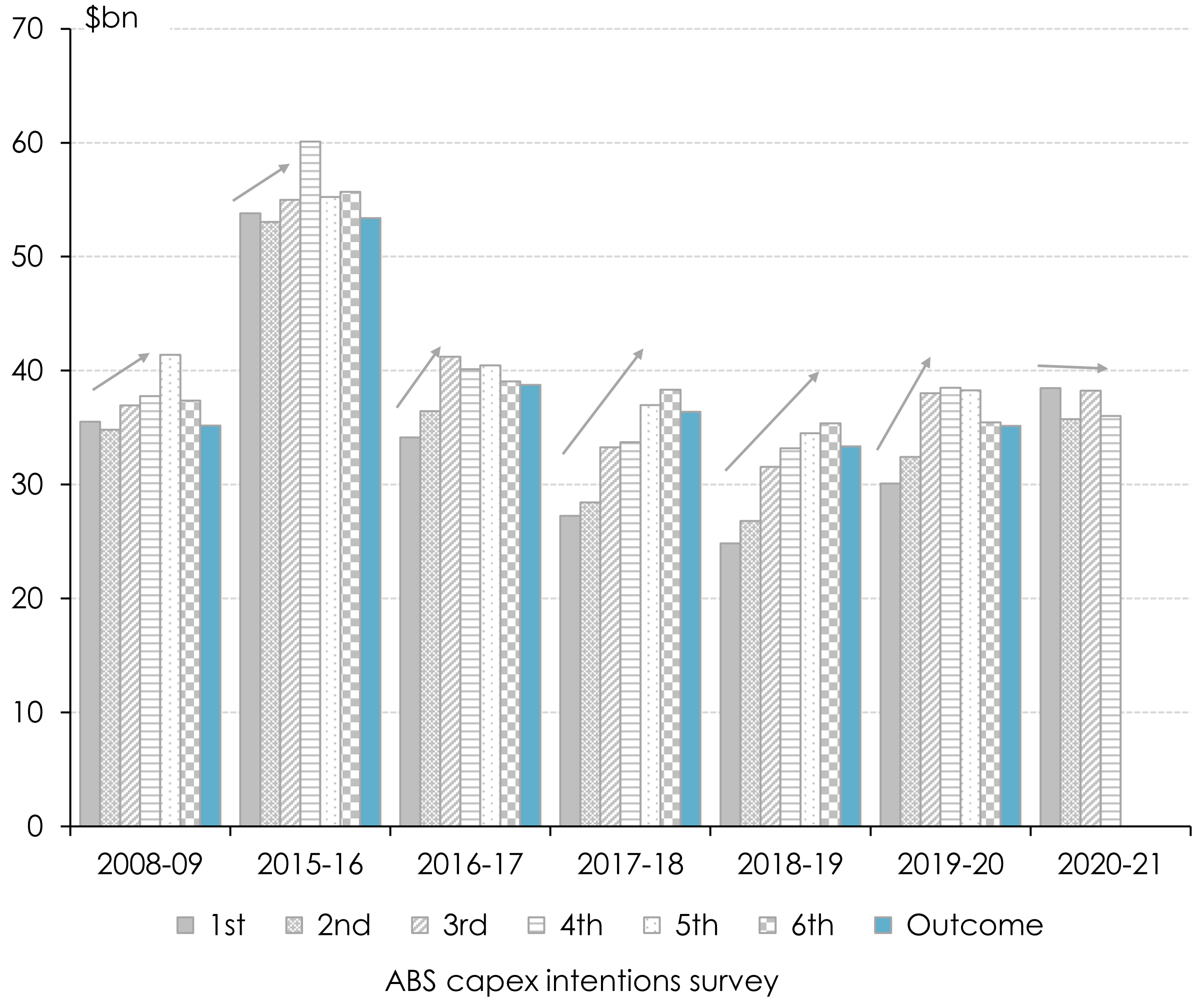
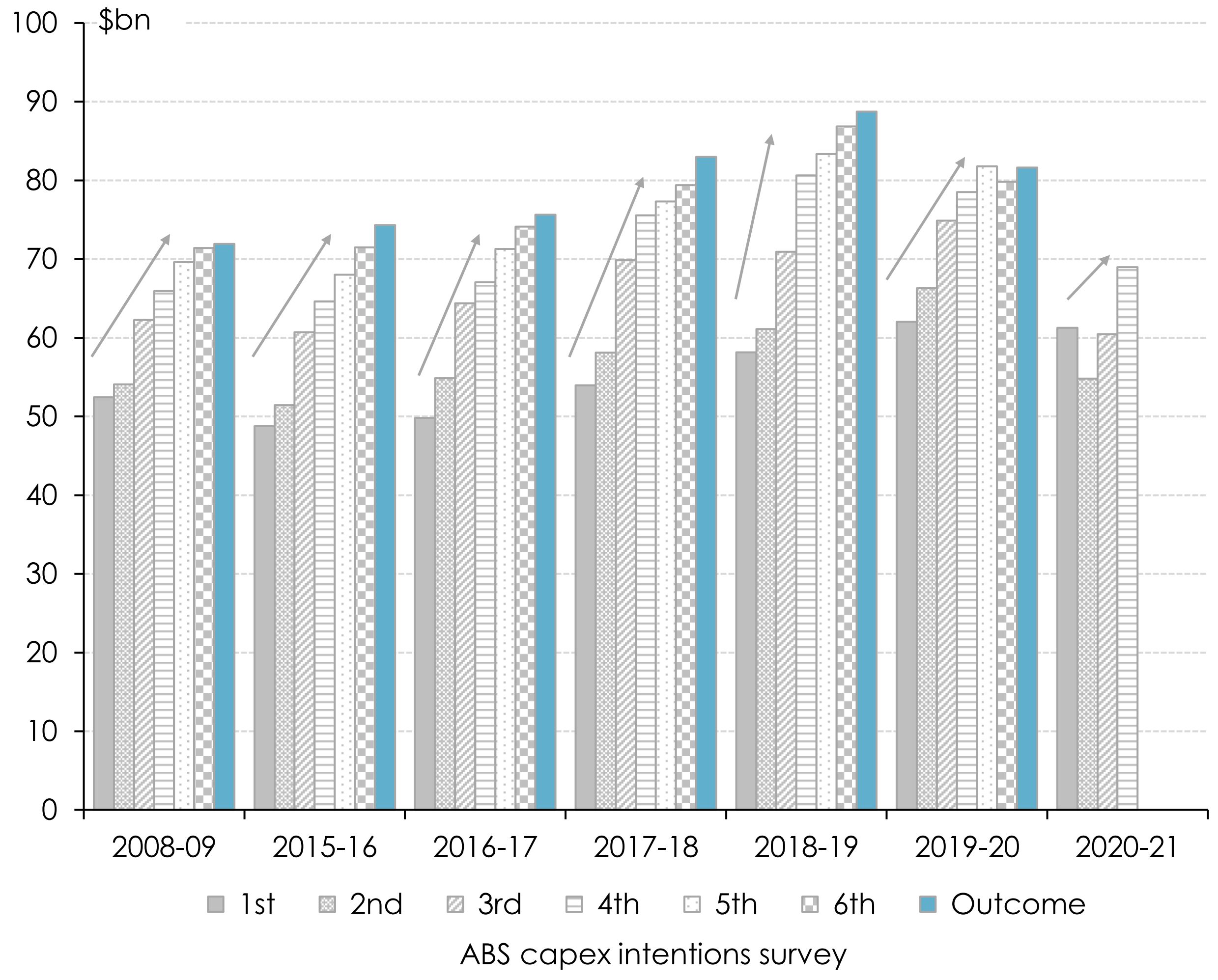
Non-mining business capex intentions have been revised up substantially over the past three months – but mining capex intentions haven't been

Capital expenditure intentions - mining



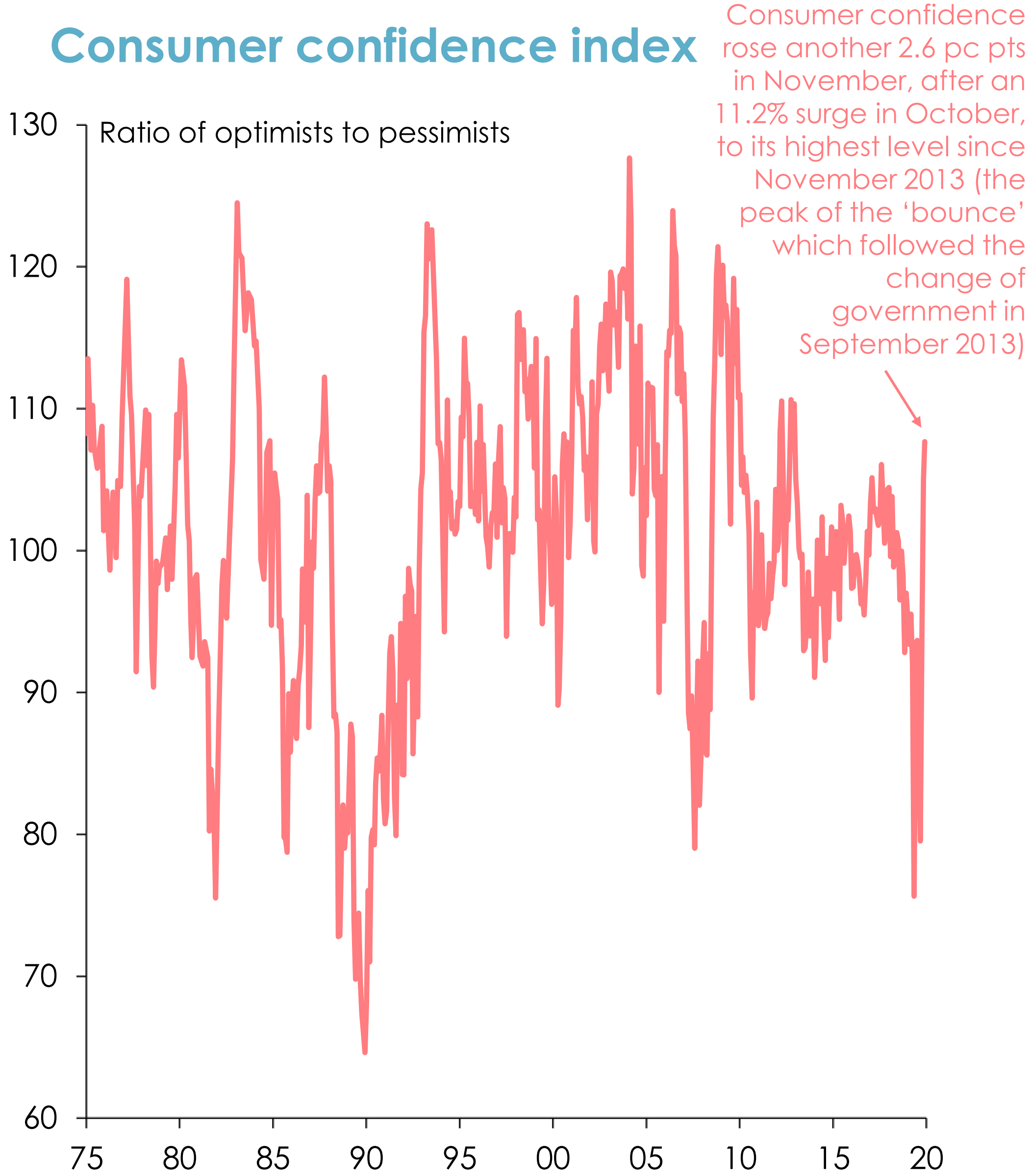
Capital expenditure intentions – non-mining



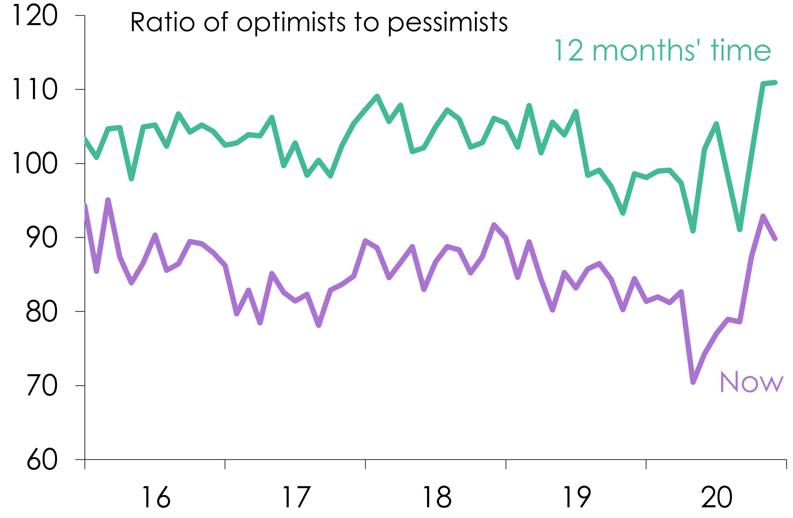
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & 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 25th February).

Consumer confidence reached a 7-year high this month, buoyed by the easing of restrictions in Victoria and last week's rate cuts

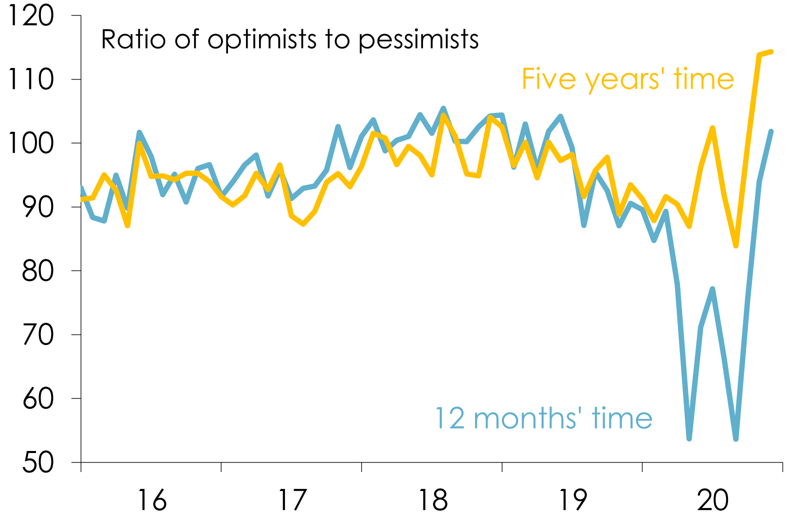
Consumer confidence index



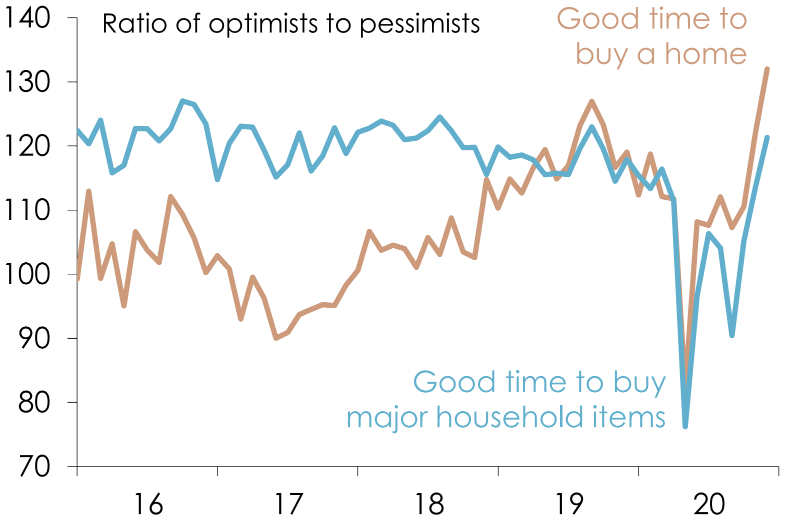
Household finances assessment



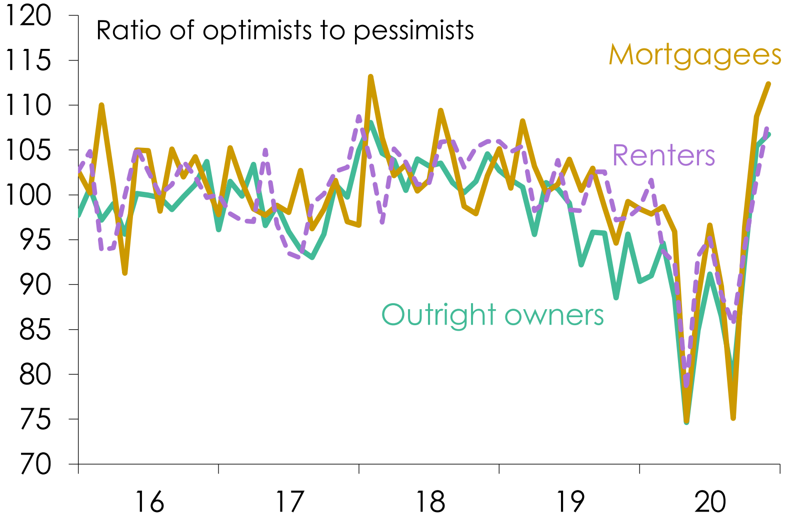
Economic conditions assessment



Buying conditions assessment



Confidence by housing tenure



Source: Westpac-Melbourne Institute. December consumer confidence will be released on 9th December. Return to "What's New".

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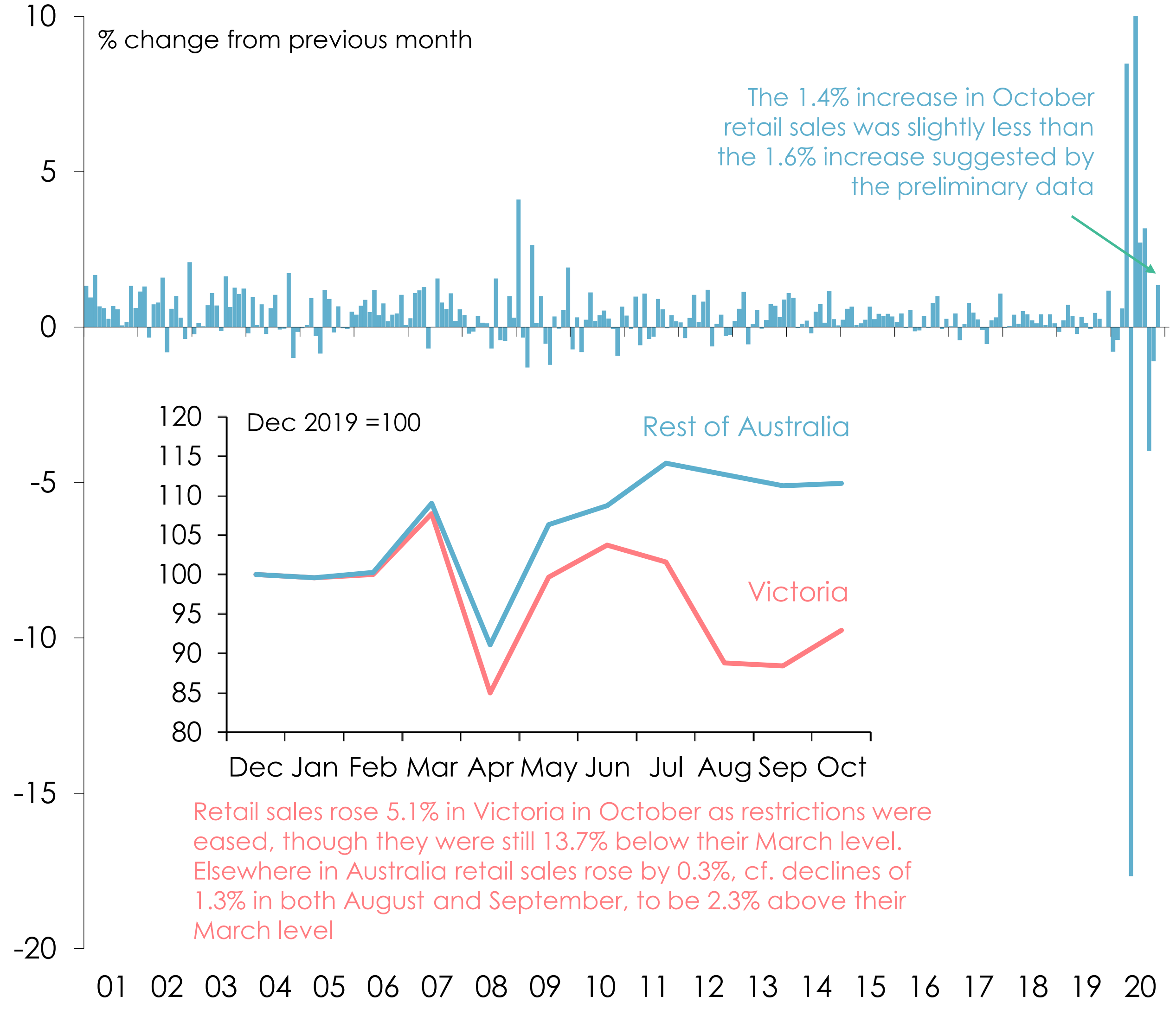
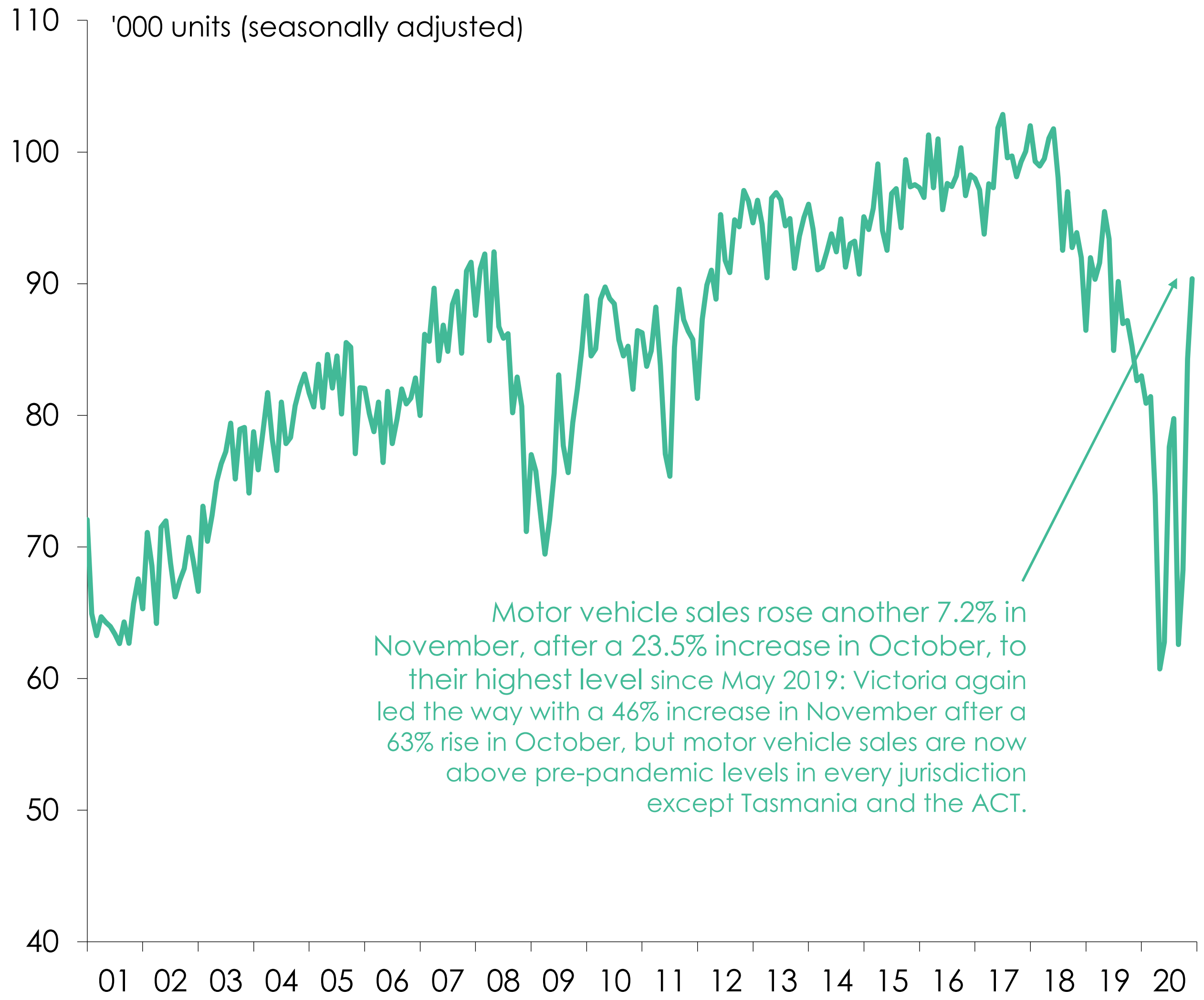
Retail sales rose 1.4% in October, driven by a 5.1% increase in Victoria; motor vehicles sales jumped another 7% in November to an 18-mth high

Retail sales



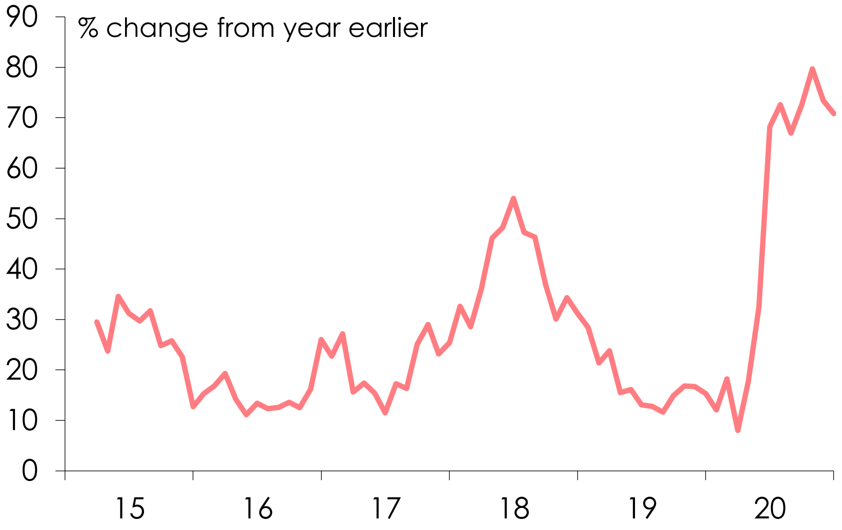
Motor vehicle sales



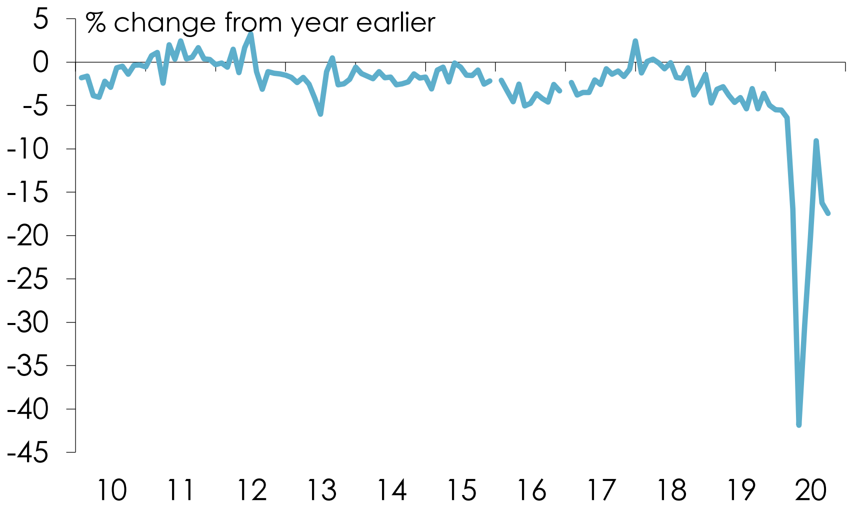
Sources: ABS, Retail Trade, Australia, preliminary ; Federal Chamber of Automotive Industries VFACTS (seasonal adjustment of FCAI data by Corinna). Retail sales data are up to September and motor vehicle sales to September. November retail sales data will be released on 11th January 2021; December motor vehicle sales data will be released in early January. Return to "What's New".

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

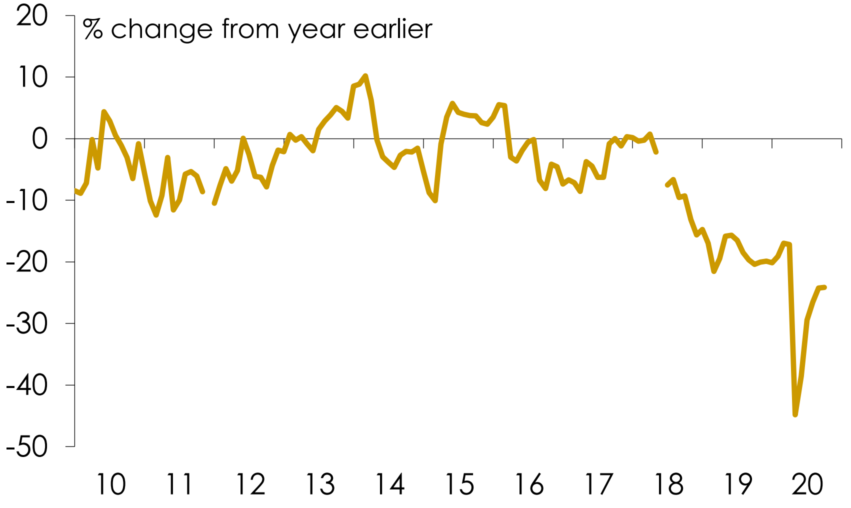
Growth in online retail sales



ATM cash withdrawals

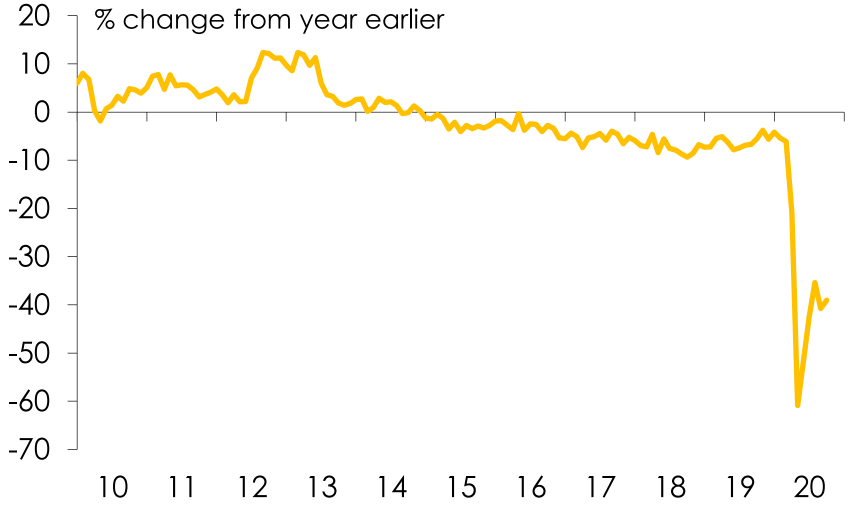


Credit card cash advances

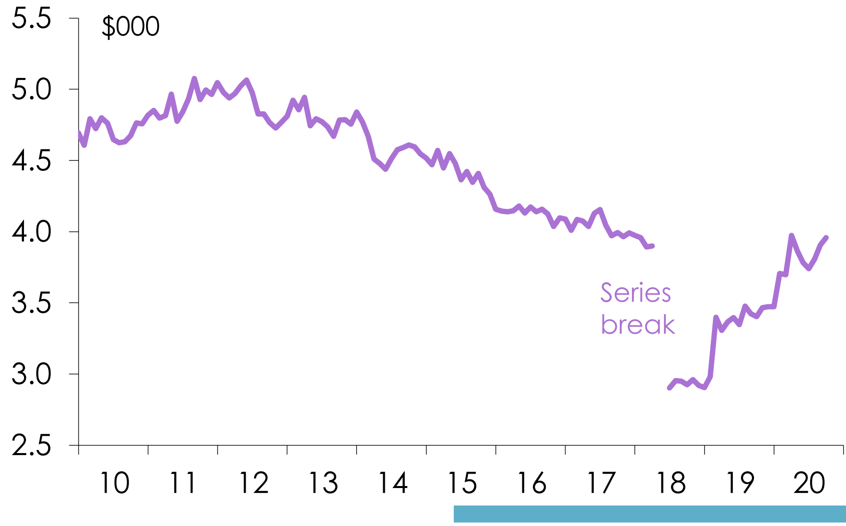


Online retail 'market share'

Debit card cash-outs



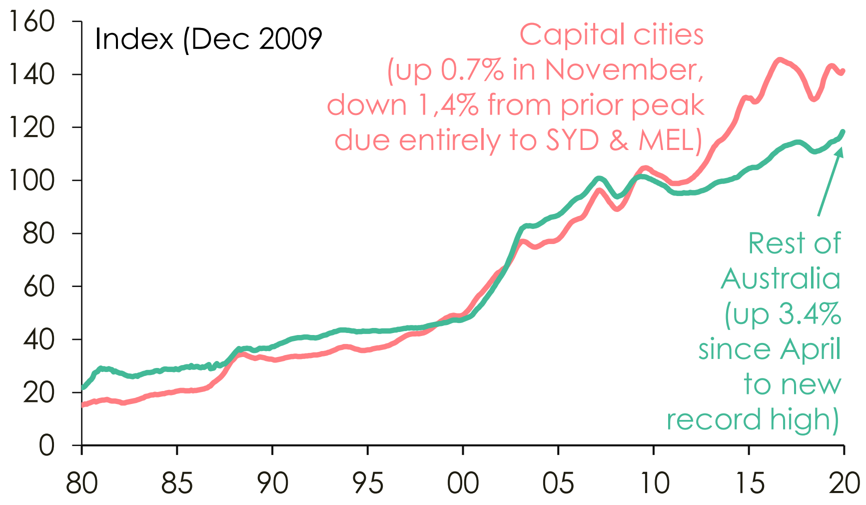
Direct entry payments



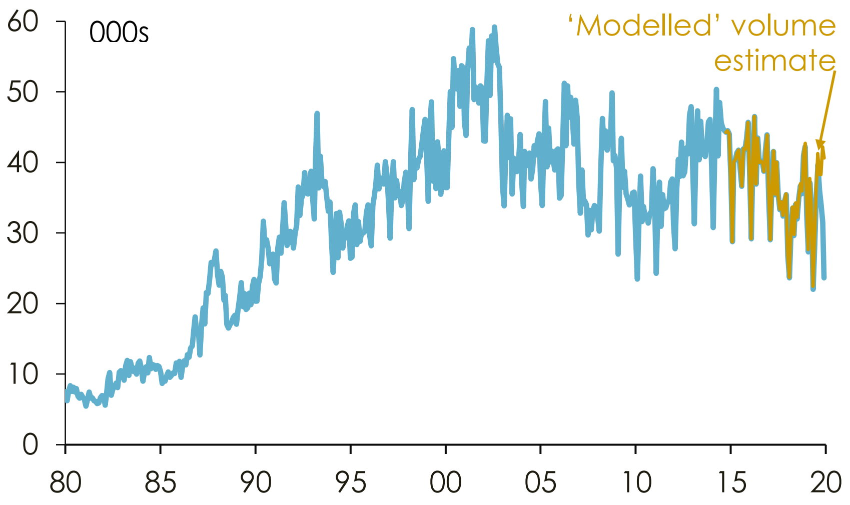
Sources: ABS, *Retail Trade, Australia*; RBA, *Statistical Tables*, C1, C2, C4 and C6. Latest data are for September: November data on online retail sales will be published on 11th January 2021, and October data on the payments system on 7th December.

Property prices rose 0.7% in November, the first increase in seven months, led by the smaller capital cities and regional centres

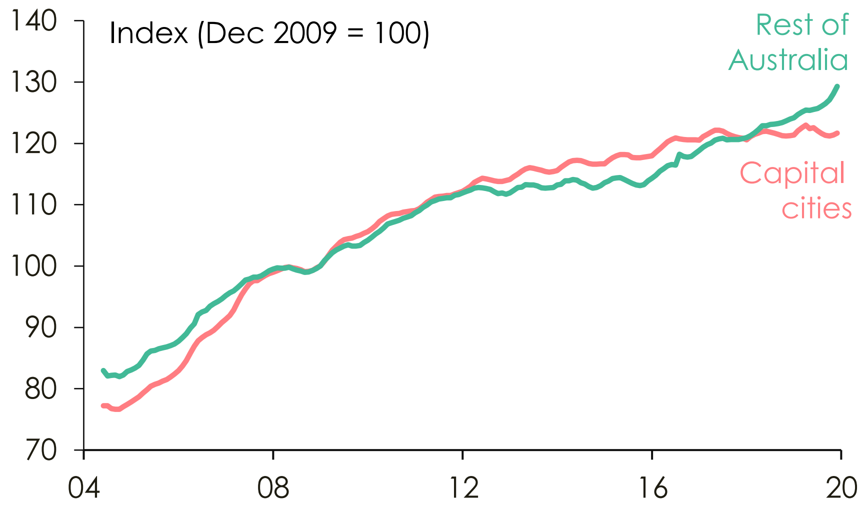
Residential property prices



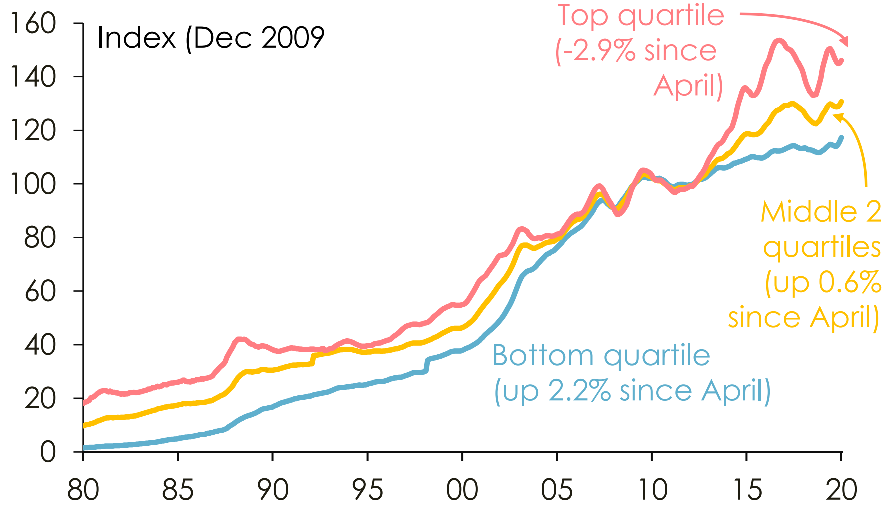
Residential property sales volumes



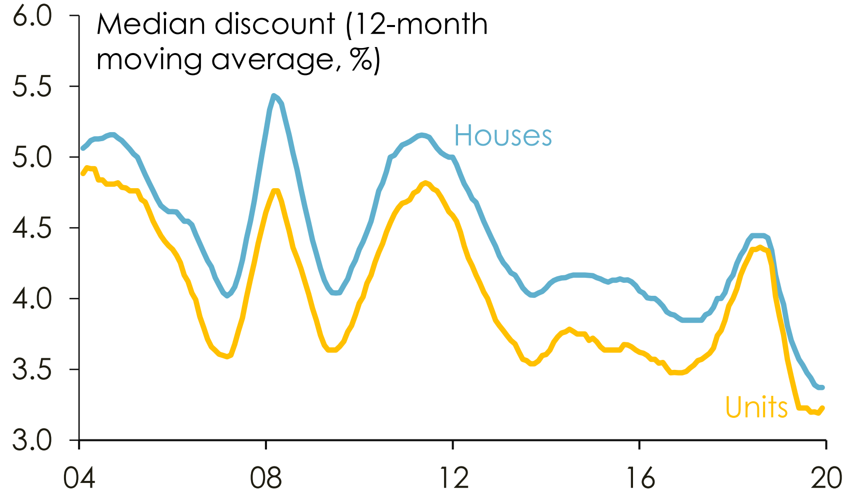
Residential rents



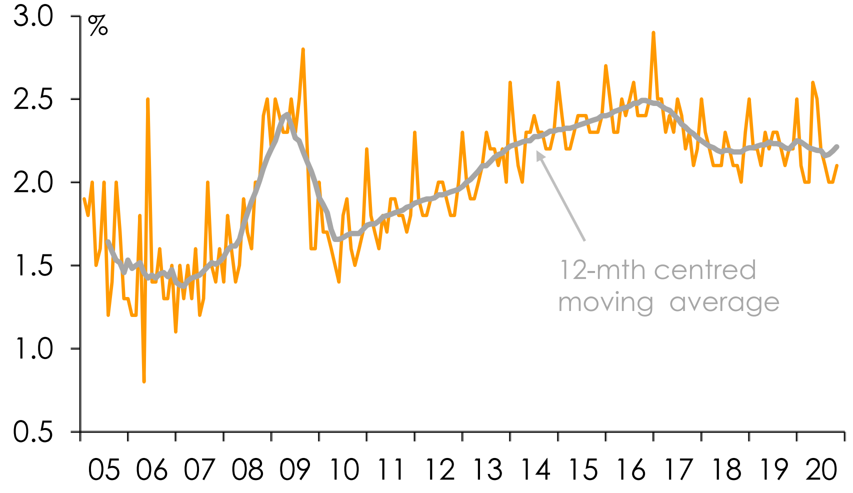
Property prices by tier



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 November 2020; December data will be released on 4th January 2021.
Sources: CoreLogic; SQM Research. Return to "What's New".

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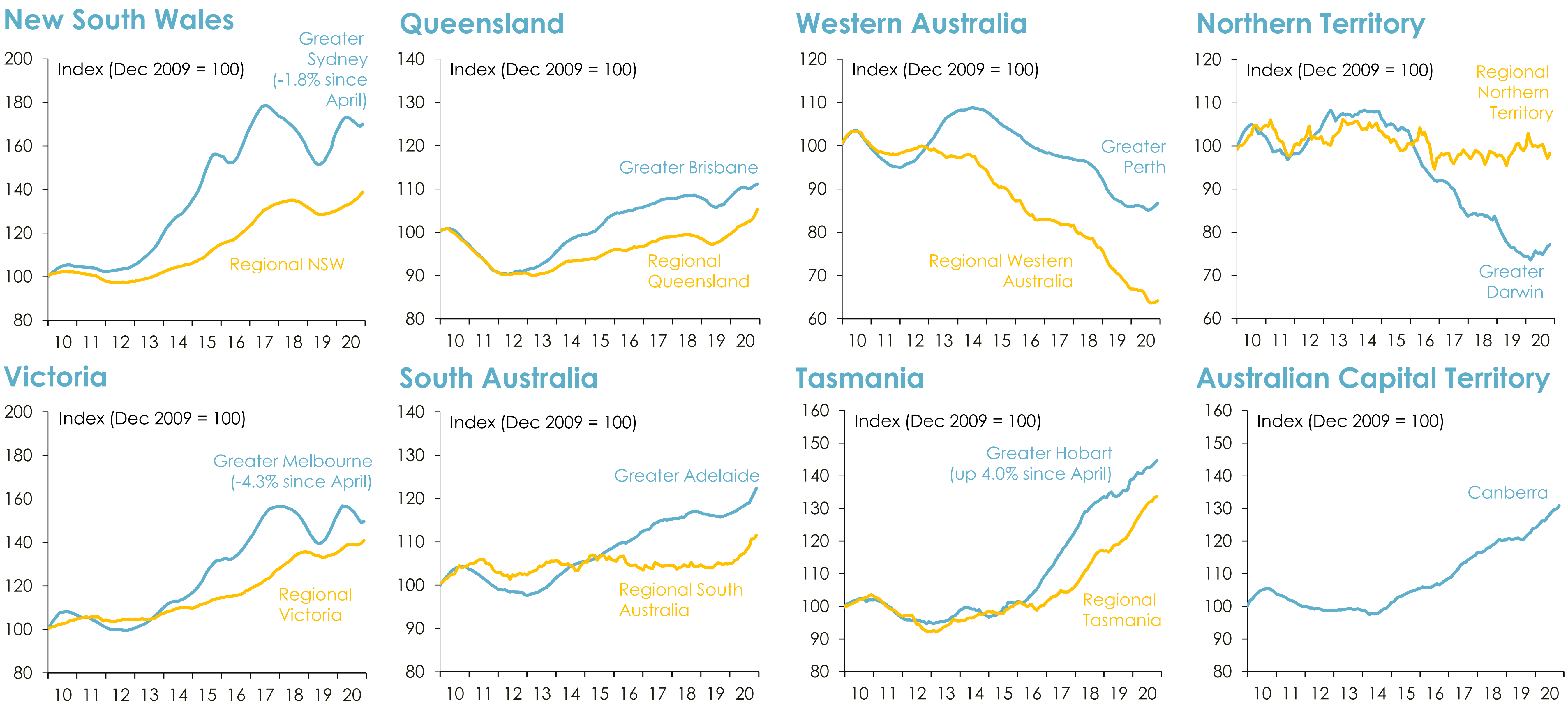
CORINNA ECONOMIC ADVISORY

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



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; December data will be released on 4th January 2021. *Source:* CoreLogic. Return to "What's New".

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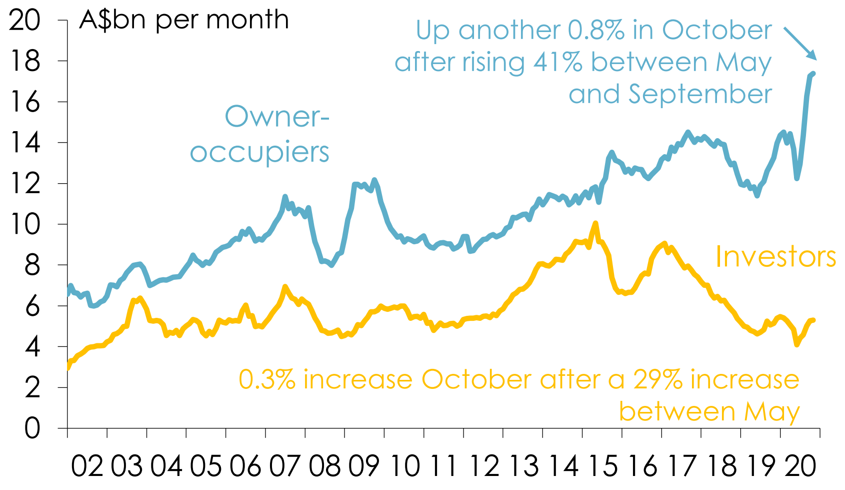
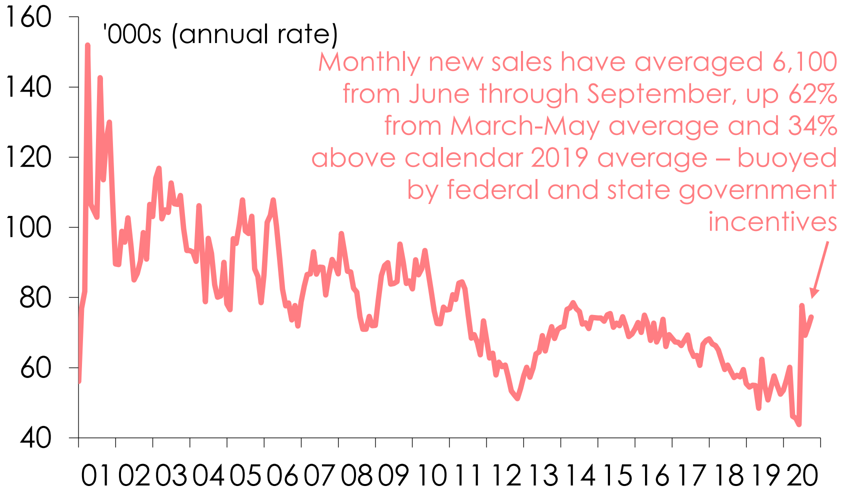
CORINNA ECONOMIC ADVISORY

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

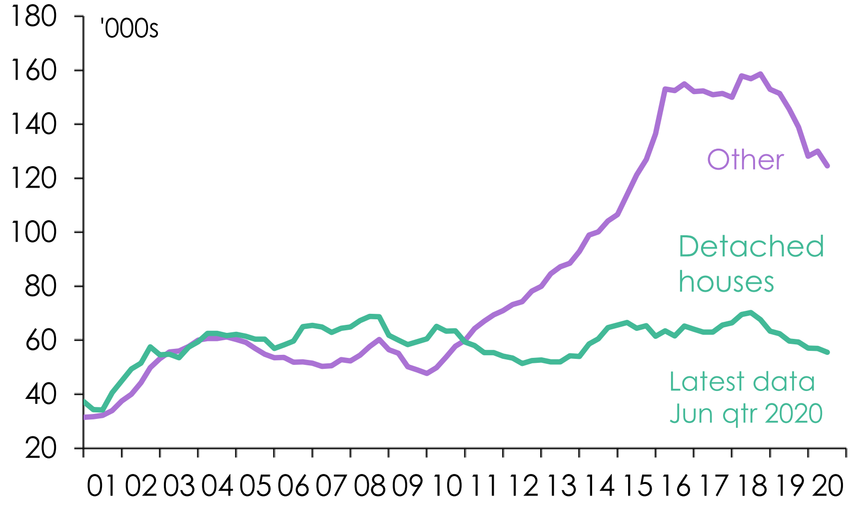
Housing finance commitments



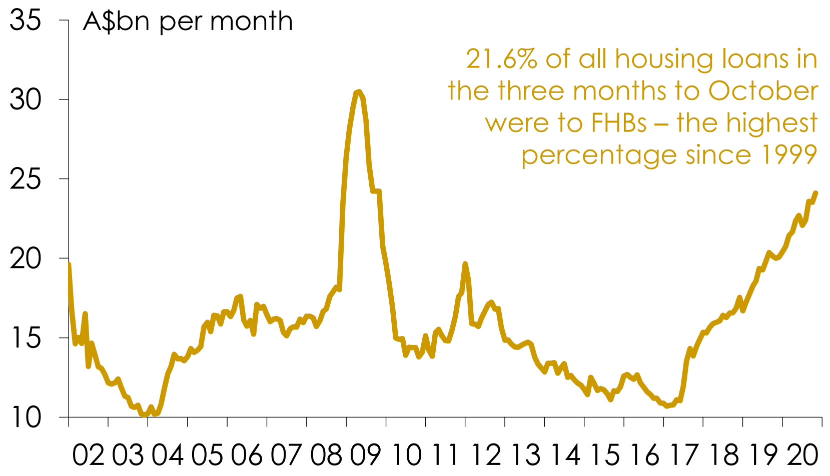
Large builders' new home sales



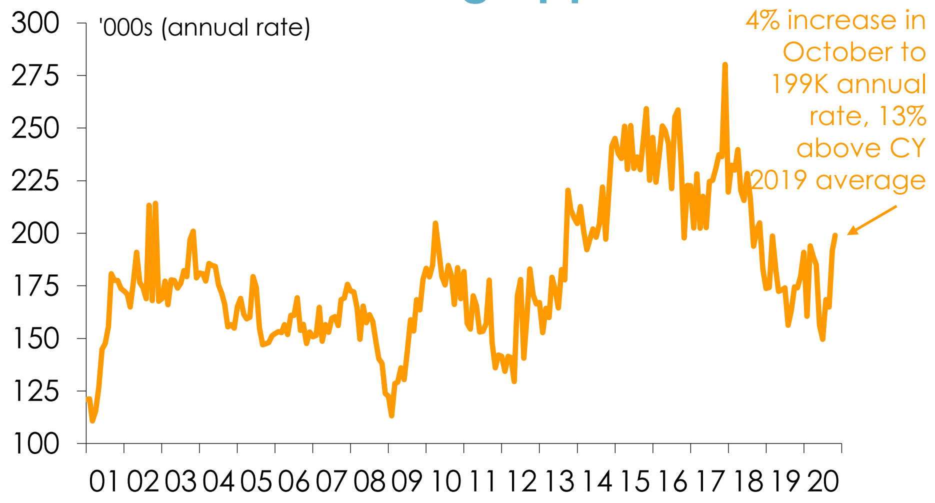
Dwellings under construction



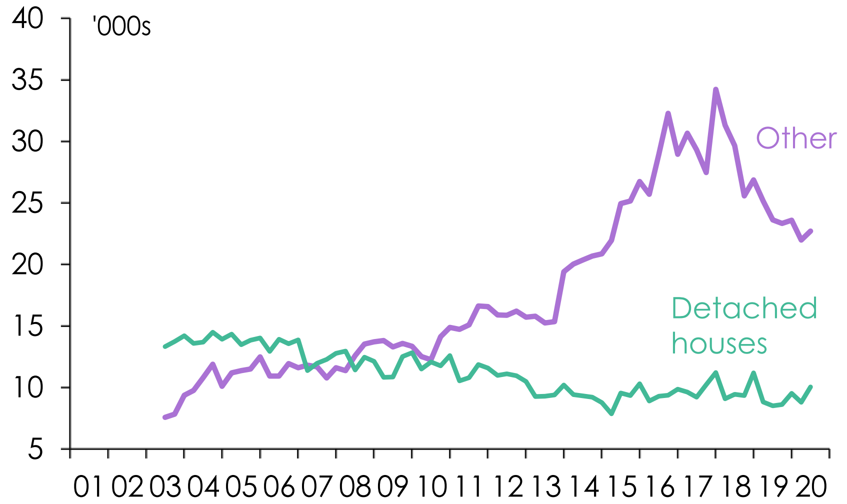
Lending to first home buyers



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. November building approvals data will be released on 7th January 2021; November housing finance on 15th January 2021; and September quarter dwellings under construction and 'pipeline' data on 20th January 2021. Return to "What's New".

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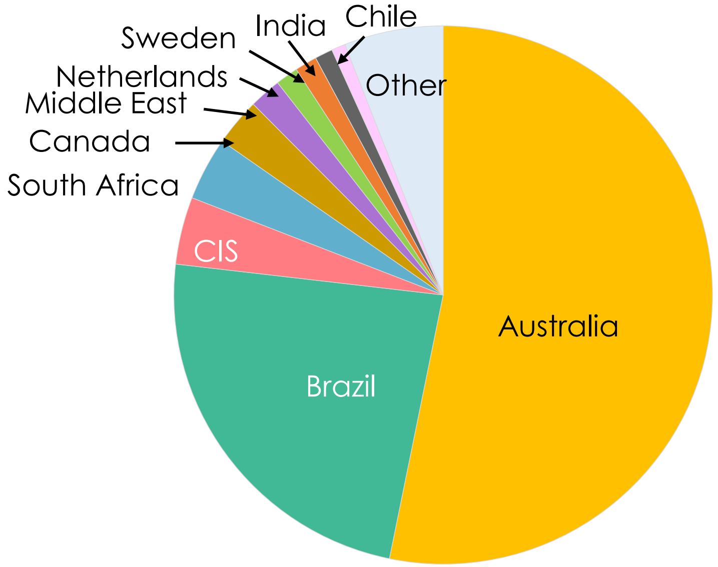
Iron ore prices jumped another 6% this week on a Brazil supply downgrade while thermal coal prices rose more than 14%

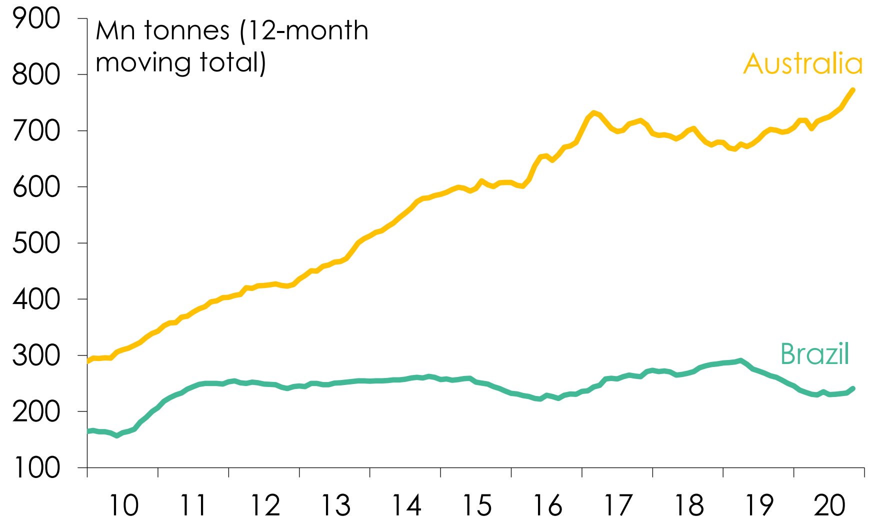
Sources: Refintiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 4th December.
Return to "What's New".

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

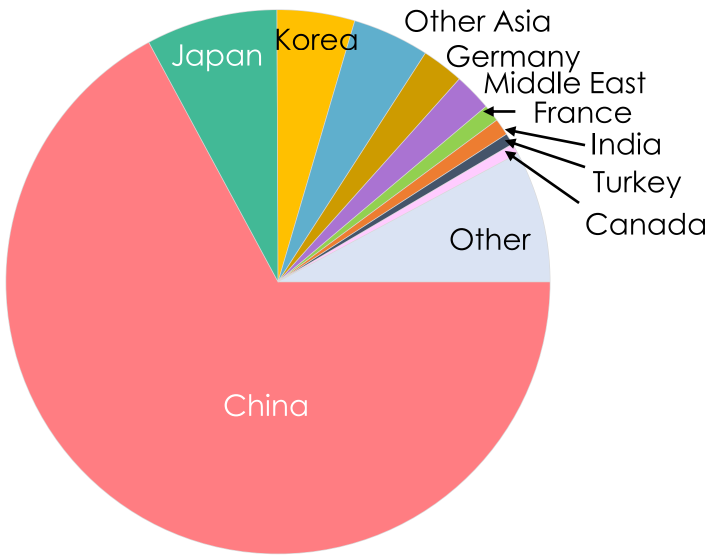
Iron ore exports, 2018



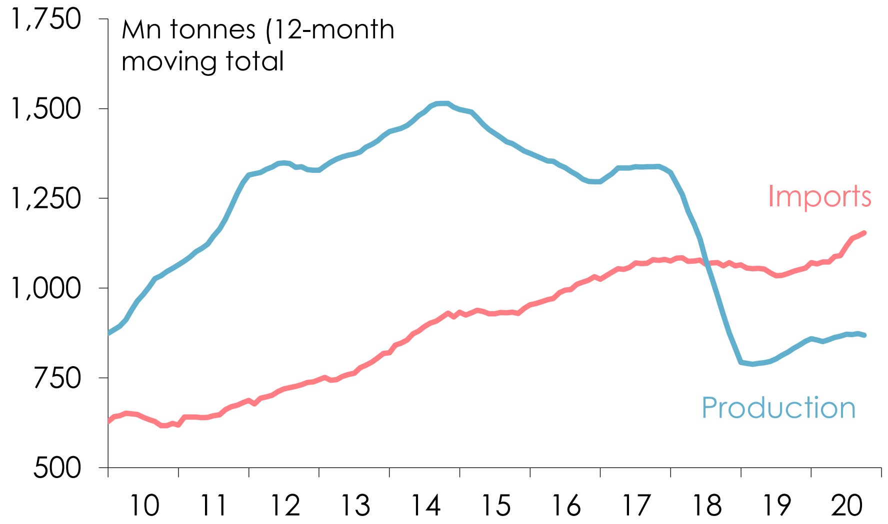
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports

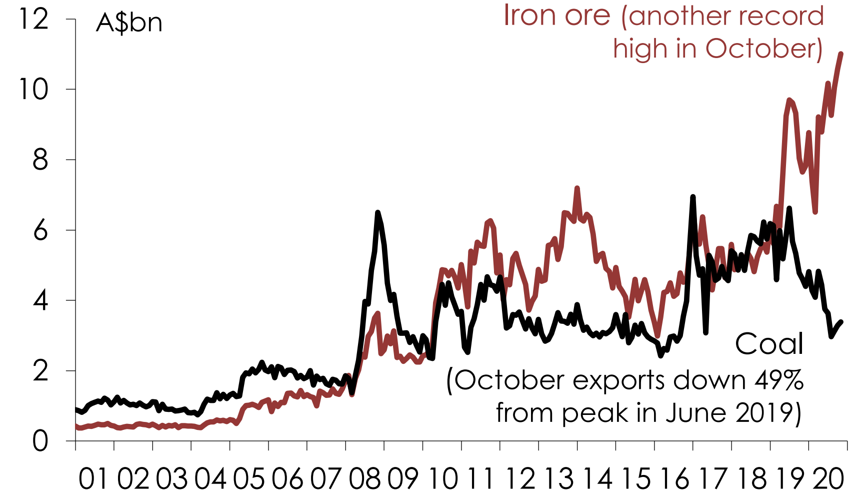


- **The global seaborne iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use)**
- **Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese steel mills to become more dependent on imports**
- **Brazilian production and exports have been curtailed by a series of tailing dam collapses over the past five years, and more recently by Covid-19 outbreaks at four large mine sites**
- **China is seeking to develop other sources in West Africa although there are big logistical hurdles to be overcome there**
- **BHP said in September that iron ore prices "can be expected to ease as Brazilian supply recovers" and that "in the second half of the 2020s, China's demand for iron ore is expected to be lower than today as crude steel production plateaus and the scrap-to-steel ratio rises"**

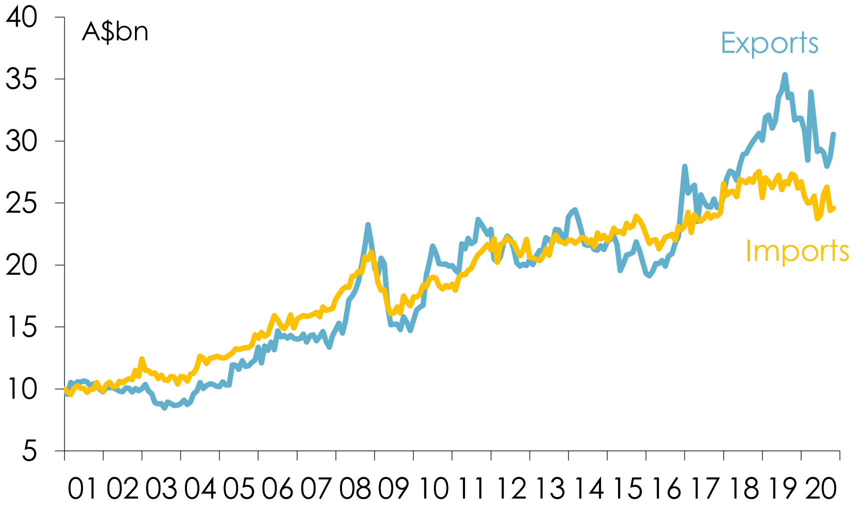
Note: Export volume data for Australia and Brazil derived by dividing export values (in US$) from ABS and IGBE by the average US$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS;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

Australia's registered its 5th highest trade surplus on record in October thanks to another surge in iron ore exports and jumps in meat and wool

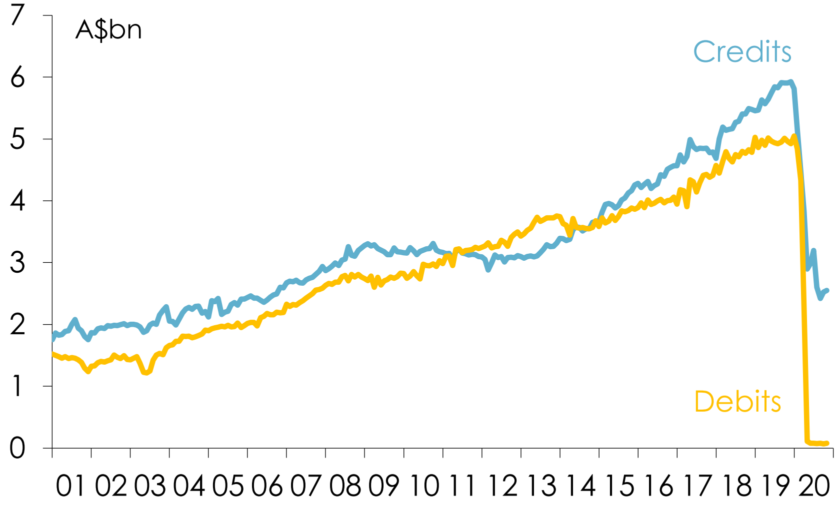
Iron ore and coal exports



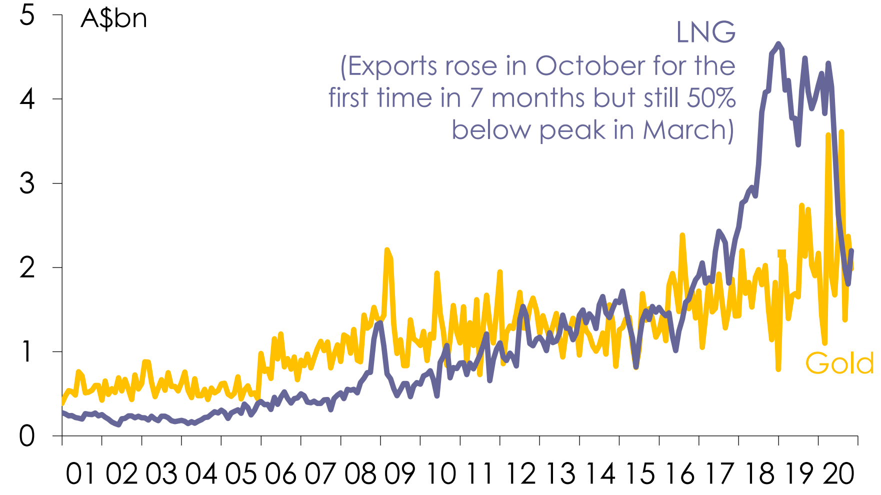
Merchandise exports and imports



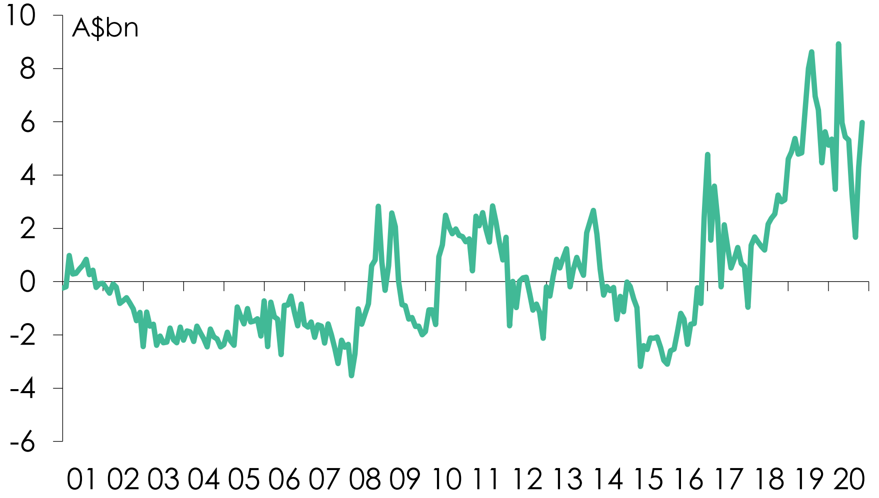
Tourism-related services trade



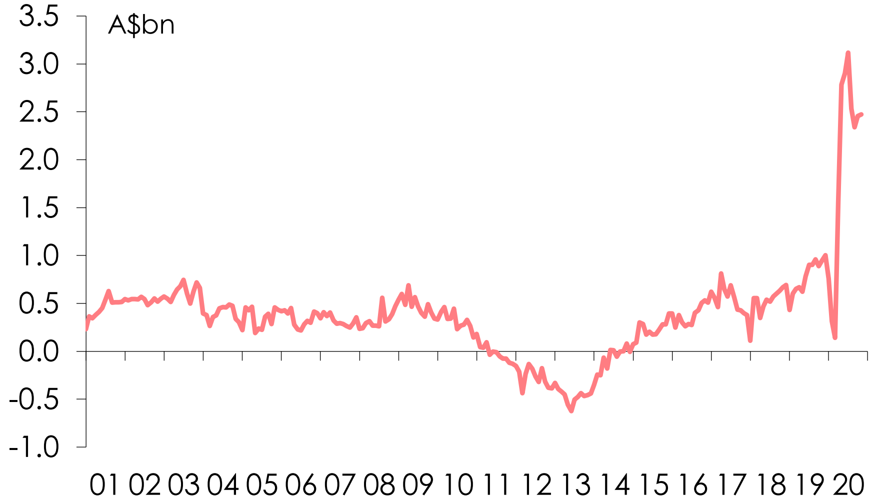
LNG and gold exports



Merchandise trade balance



Tourism services trade balance



Note: Latest data are for October: November data will be released on 7th January 2021. *Source:* ABS, *International Trade in Goods and Services, Australia*. Return to "What's New".

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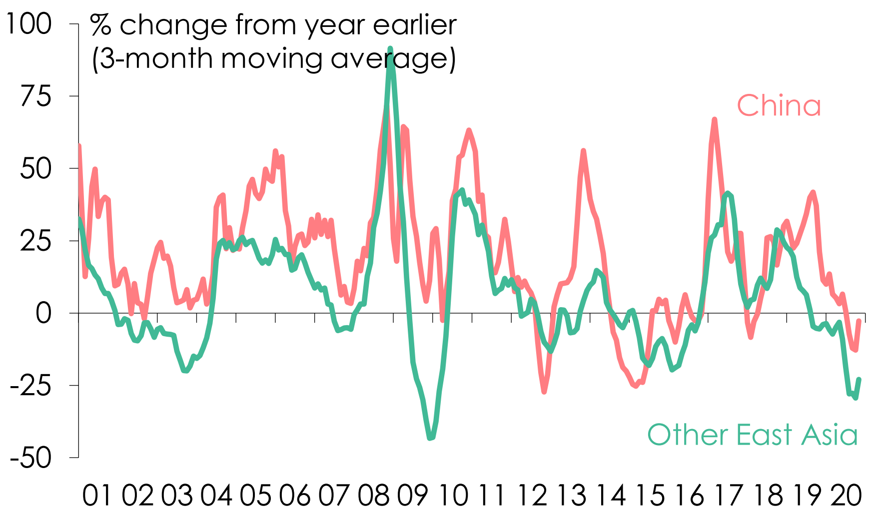
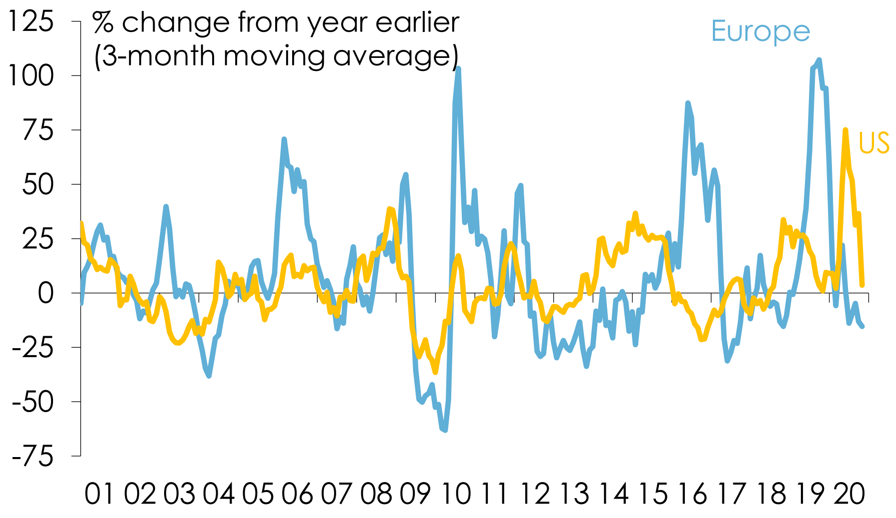
Despite strong iron ore exports, Australia's exports to China are now below year-earlier levels, as are exports to other markets (apart from the US)

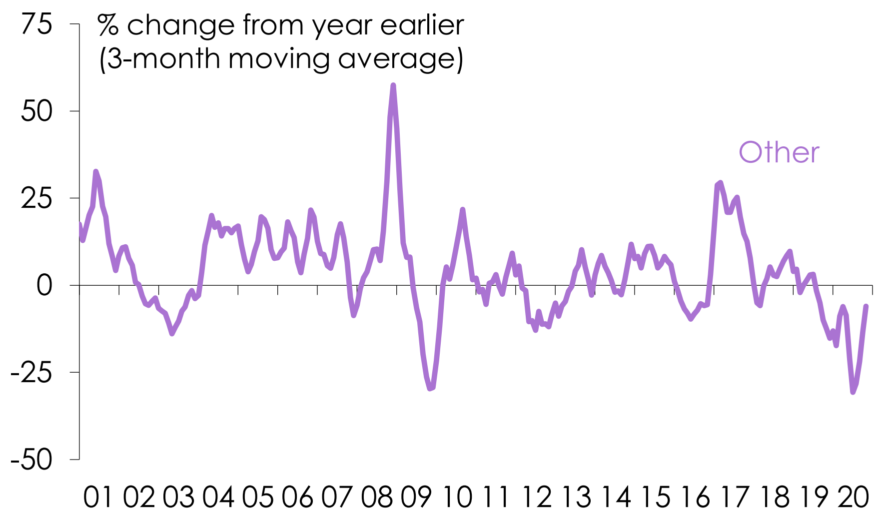
Merchandise exports – East Asia



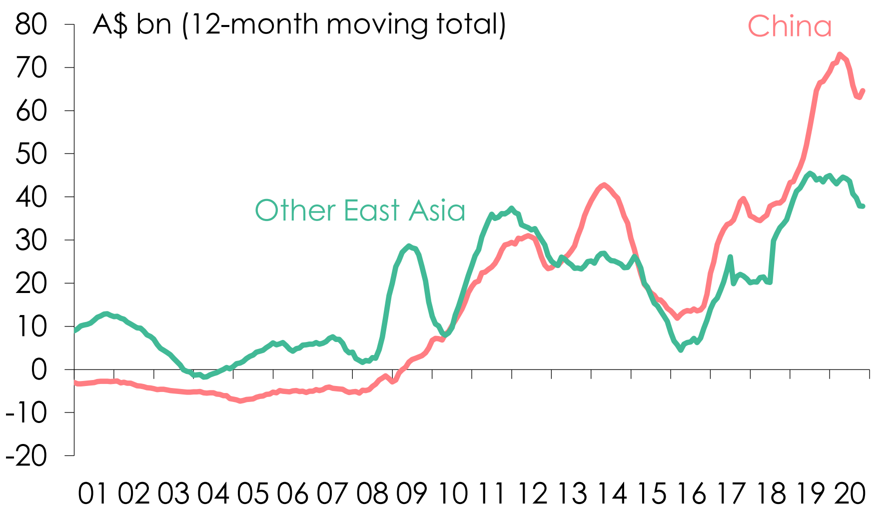
Merchandise exports – US & Europe



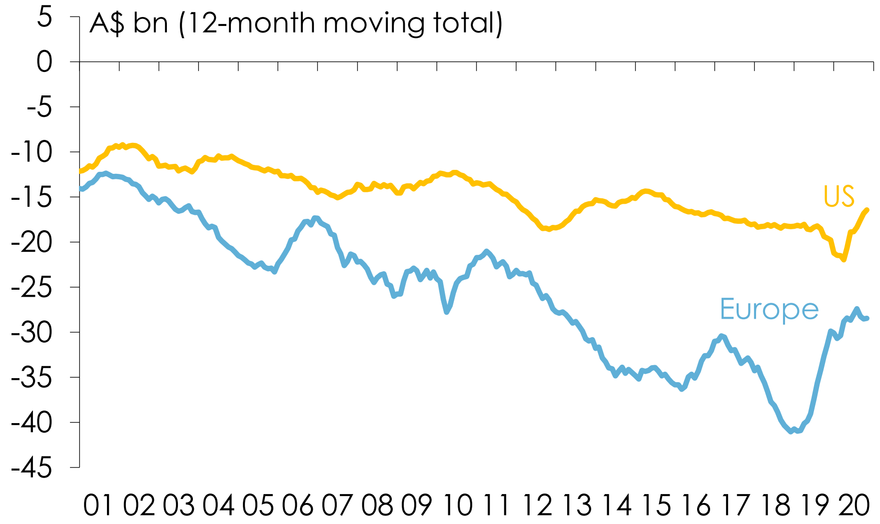
Merchandise exports – other



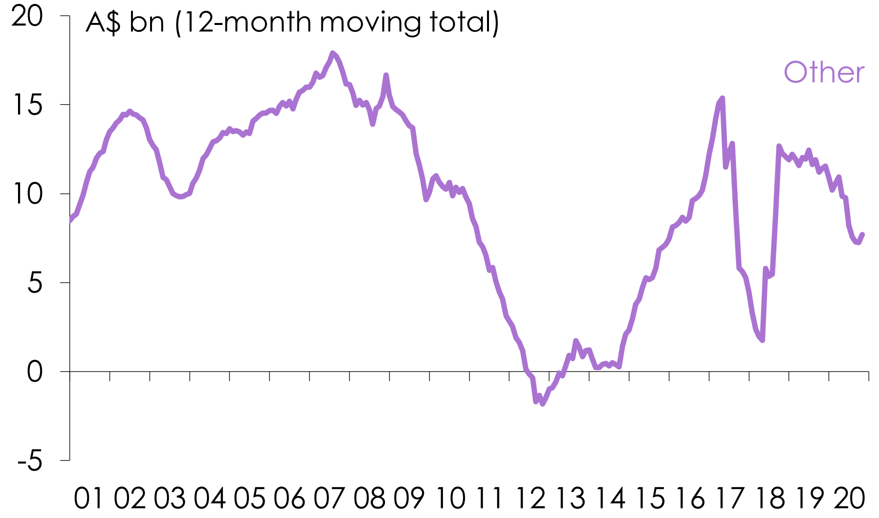
Goods trade balance – East Asia



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*. November data will be released on 7th January 2021. Return to "What's New".

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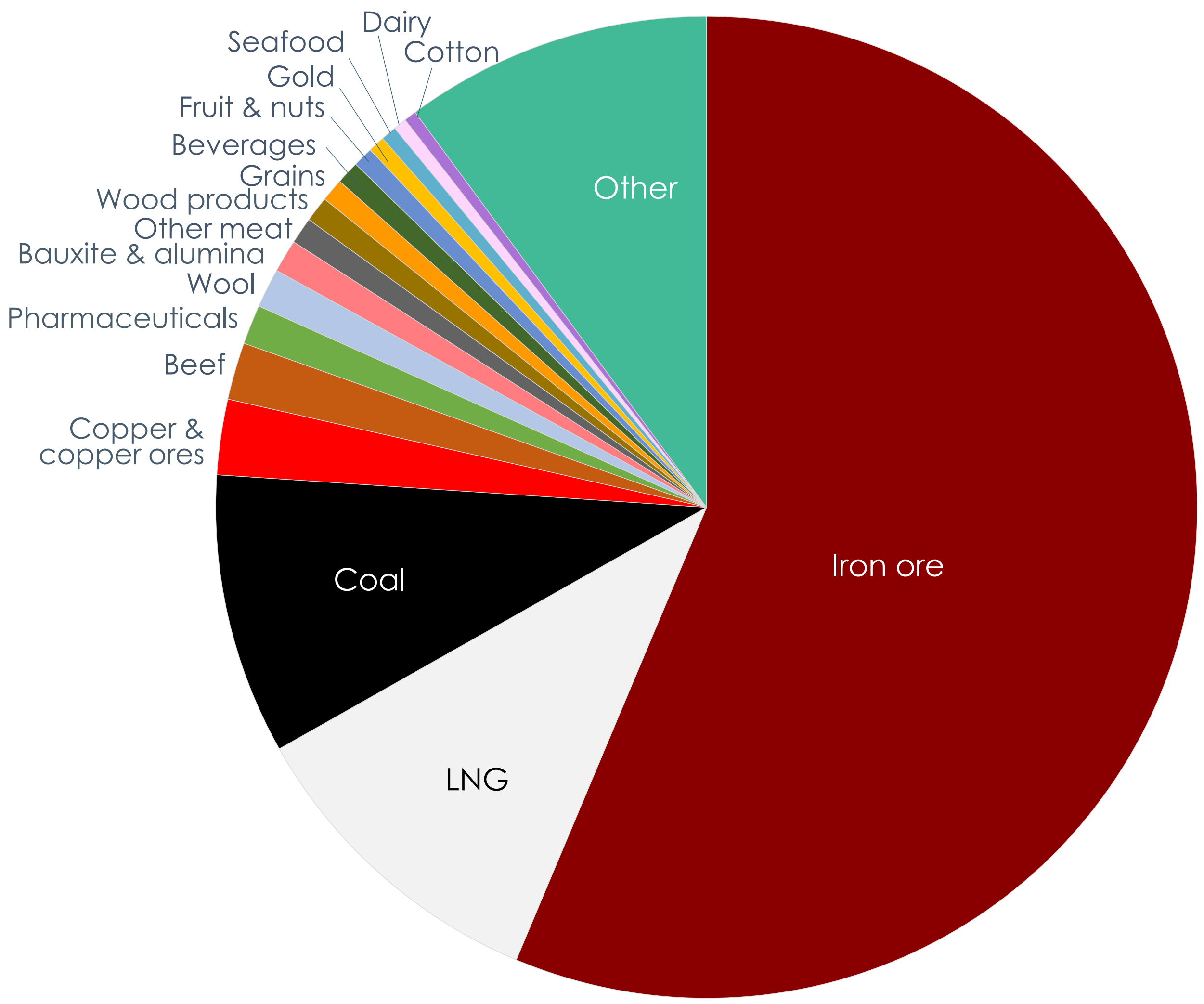
Australia's bilateral relations with China have deteriorated sharply over the past two weeks and there are likely to be material economic effects

Australia's merchandise exports to China, 2019-20

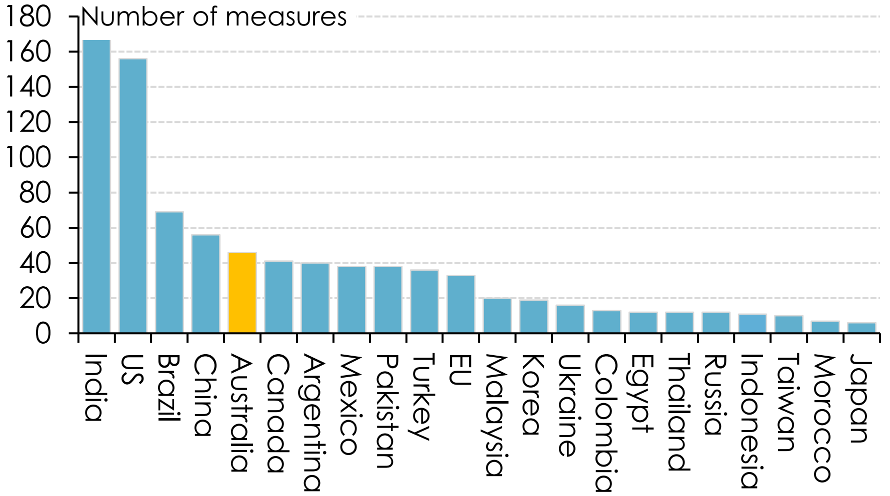


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna.
Return to "What's New".

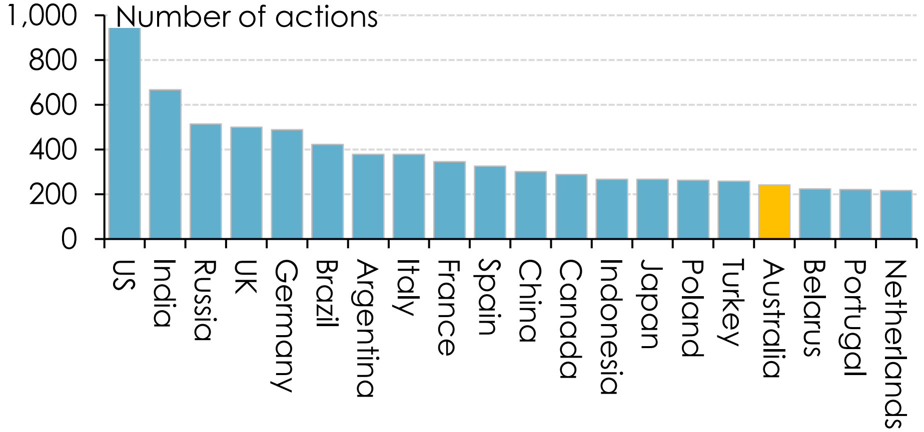
- China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (tourism & education) accounted for over 90%)
- China has no real alternatives to Australian iron ore (slide 96)
- But China has been progressively expanding the range of other Australian products subject to discriminatory tariffs, "customs inspections", quarantine issues or outright bans – including wheat, wool, copper ores, sugar, lobsters, timber, wine and coal
- Last month, officials from China's embassy in Canberra handed to journalists a list of '14 grievances' China claims to have against Australia – of which only two (Australia being the first to call for an inquiry into the origins of Covid-19, and offensive questioning of Chinese-Australian citizens in Parliament by a senior Government backbencher) have any merit
- Last week China imposed tariffs of between 107% and over 200% tariffs on imports of Australian wine ...
- ... and this week a mid-ranking Chinese official posted a highly provocative tweet parodying the serious allegations about crimes allegedly committed by Australian soldiers in Afghanistan
- China appears to be seeking to 'make an example' of Australia as a warning to other countries in the region

China's 'trade war' on Australia seems to be prompted more by politics than by more legitimate concerns about Australian trade policy actions

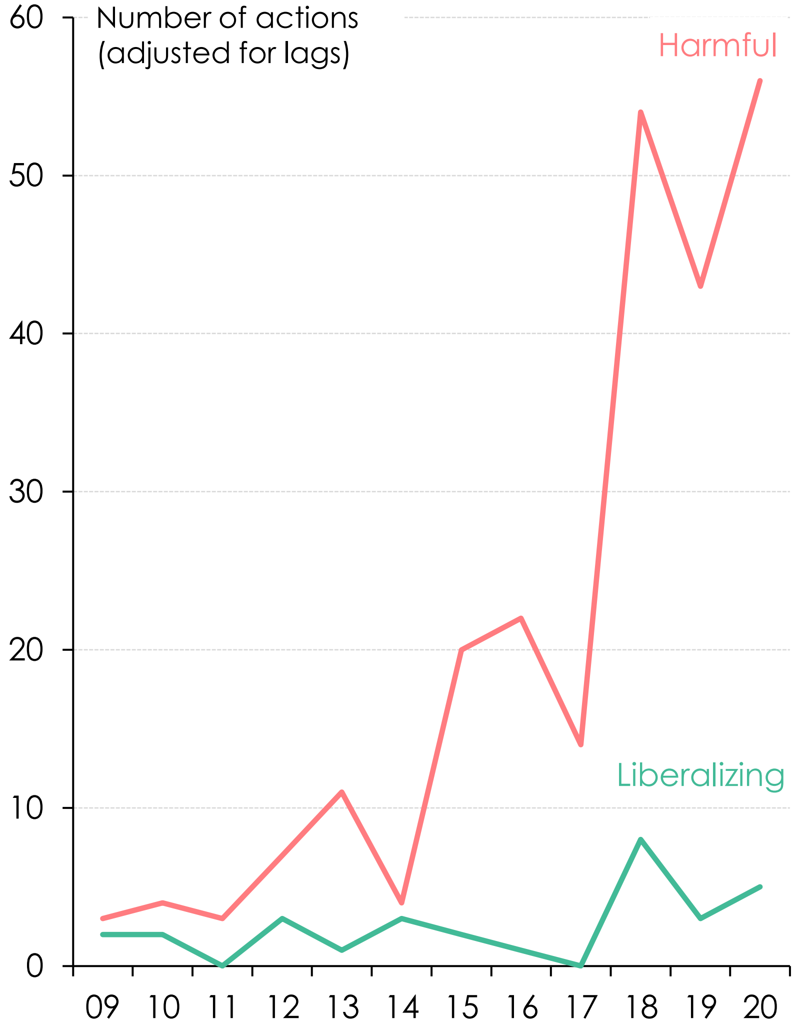
Number of anti-dumping measures imposed, 2015-19



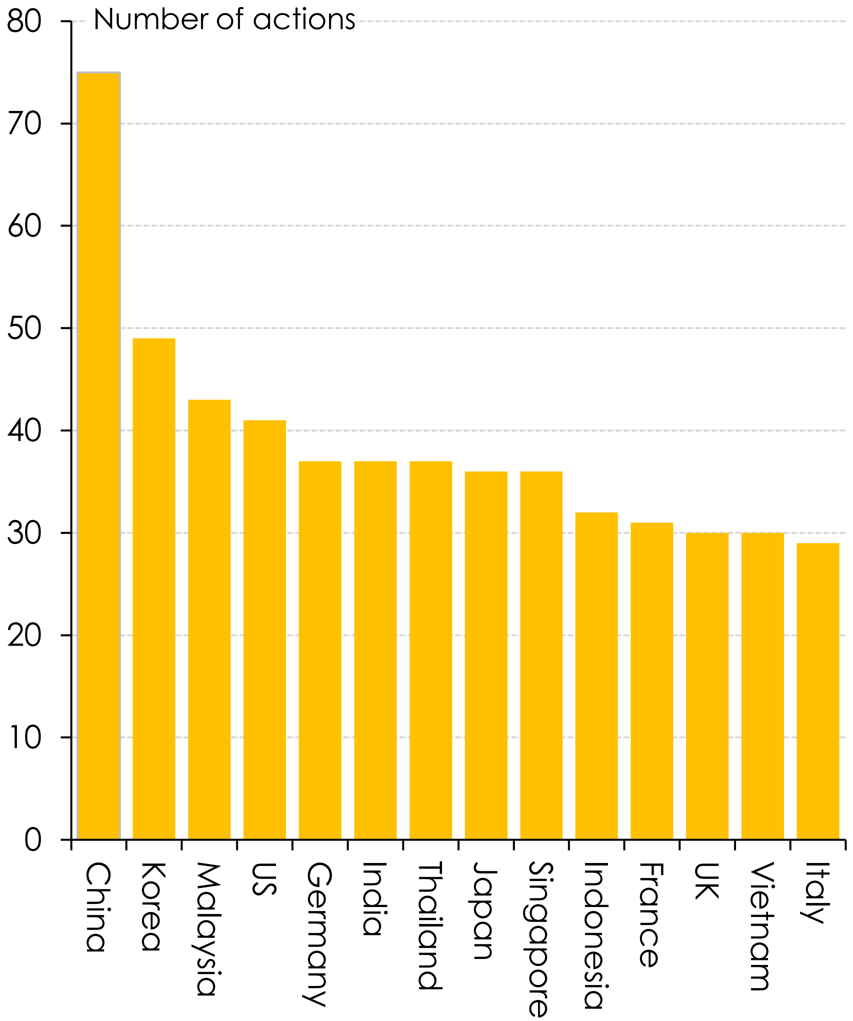
Number of harmful trade policy interventions, 2009-2020



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 27th November). Return to "What's New".

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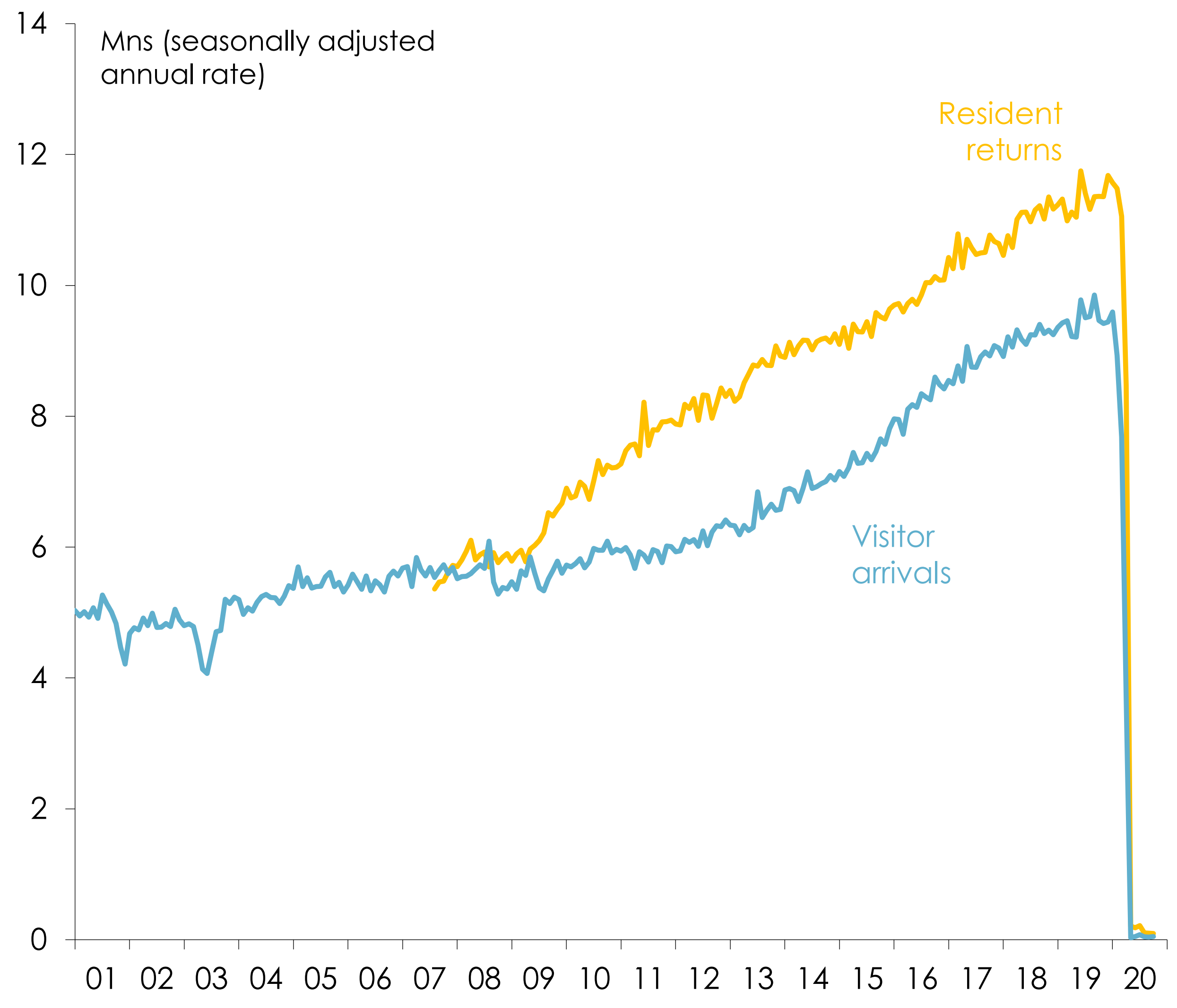
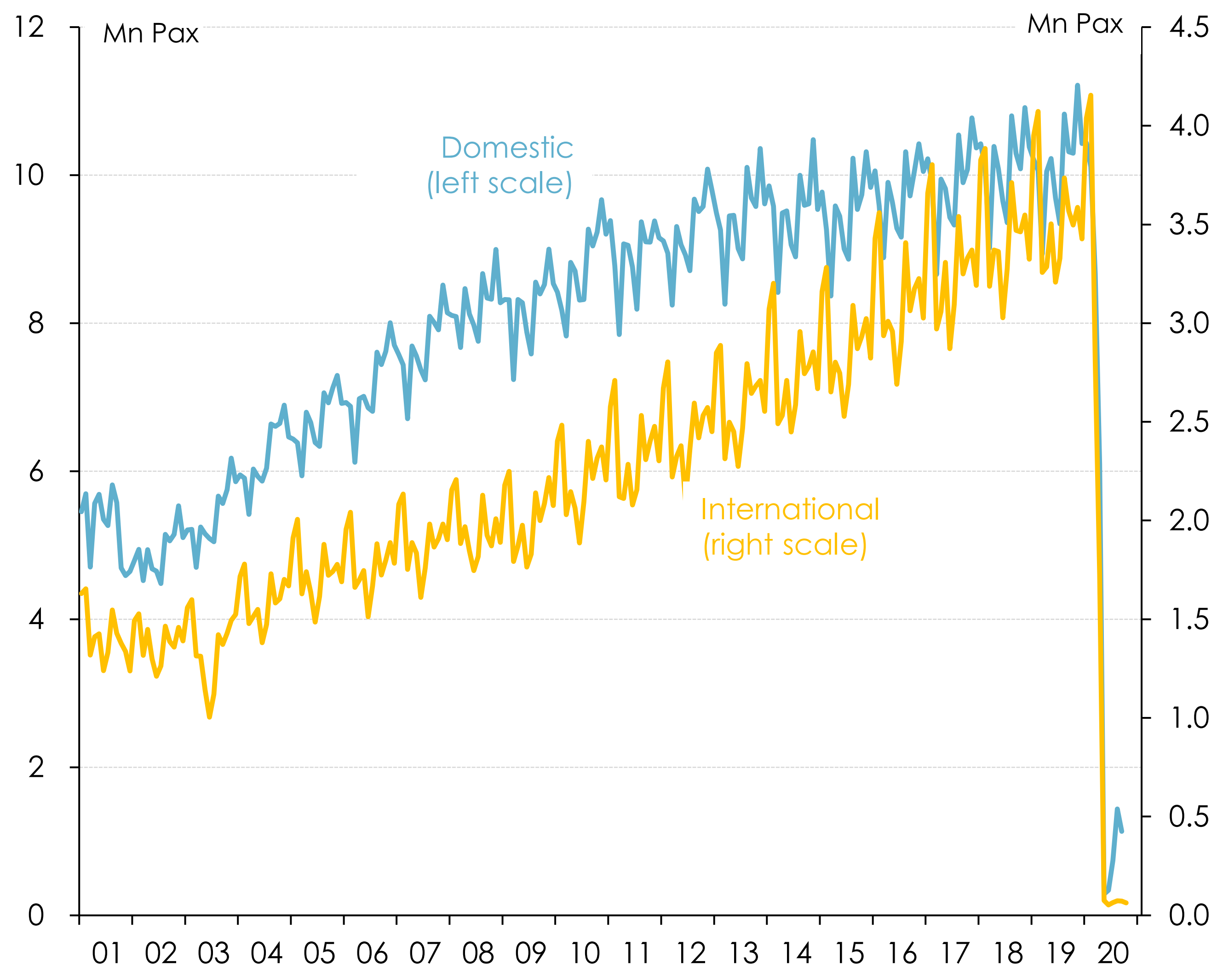
Tourism and aviation have been severely impacted by the closure of international and most state borders

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 September; BITRE data on airport passenger movements are for August; September 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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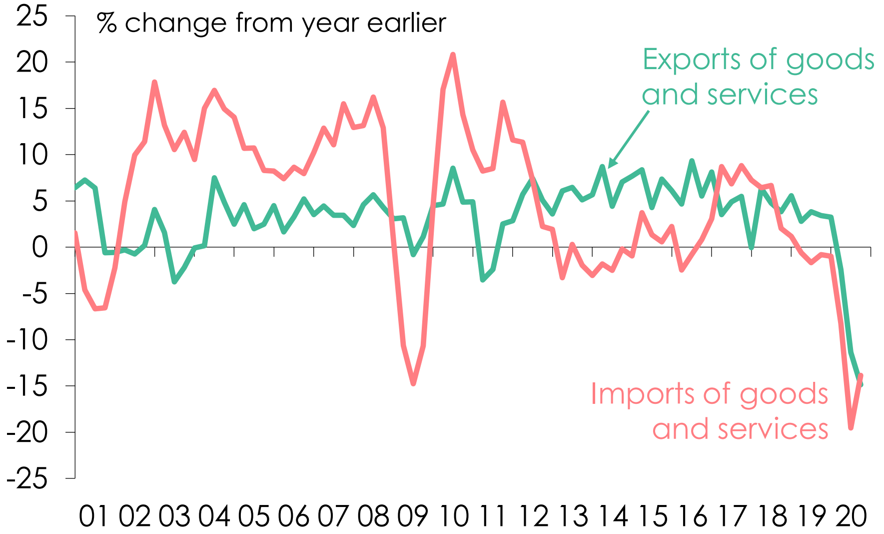
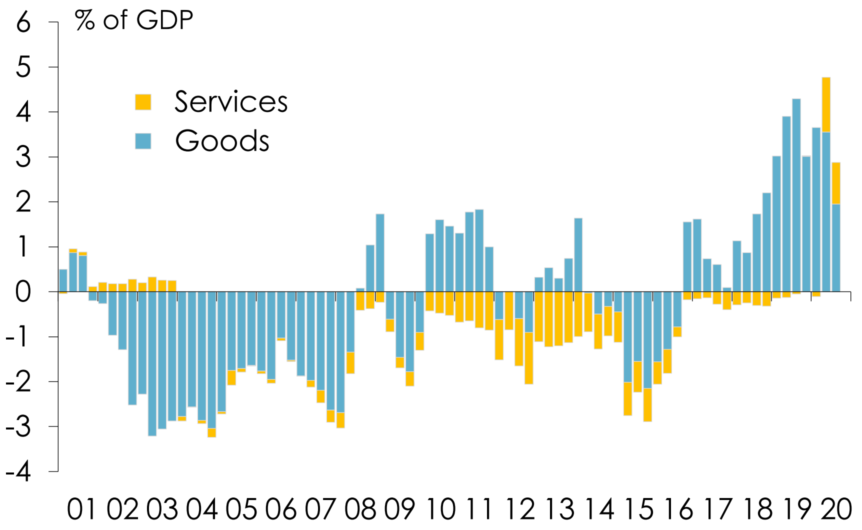
CORINNA ECONOMIC ADVISORY

Australia recorded another large current account surplus in Q3, and continues to accumulate equity assets and pay down bank debt

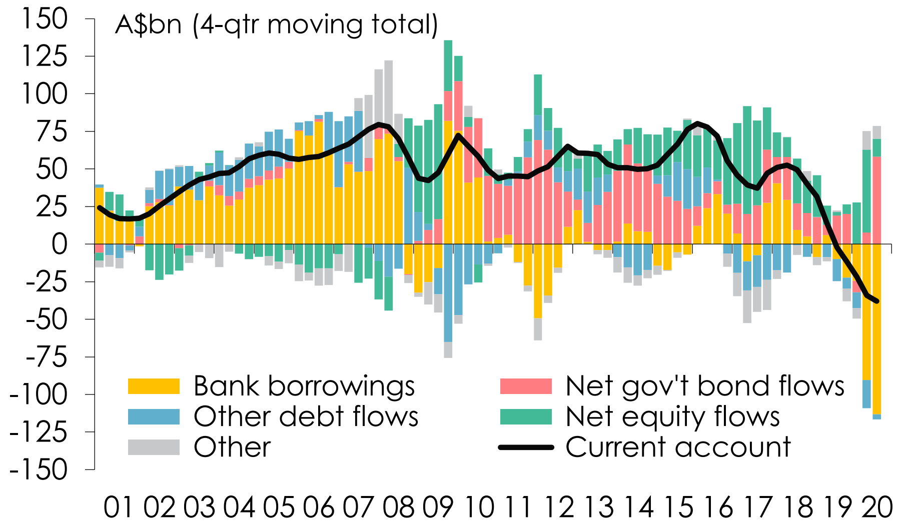
Export and import volumes



Goods & services trade balances

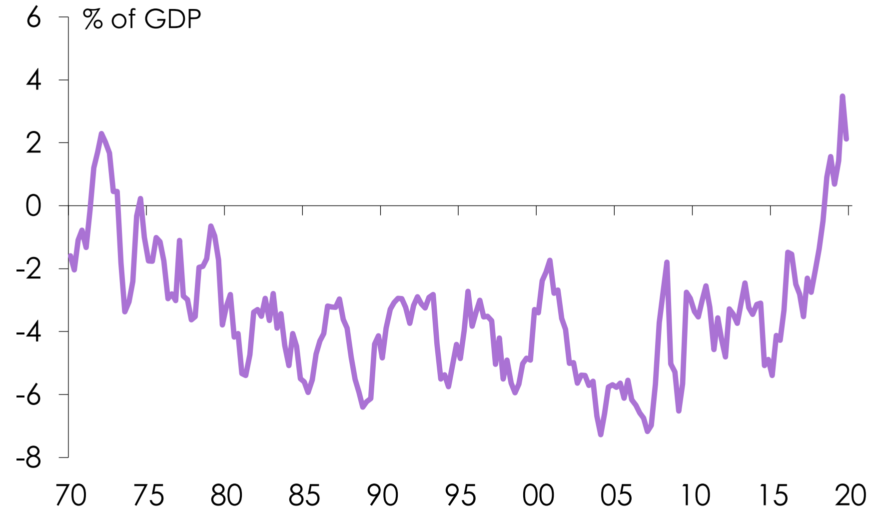


Capital flows

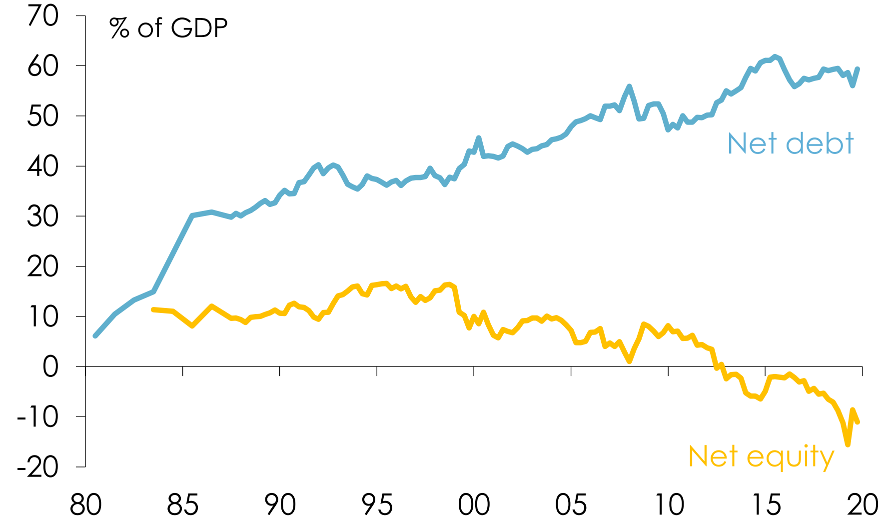


Export and import prices

Current account balance



Net international investment position



Note: Latest data are for September quarter (Q3); December quarter data will be released on 3rd March 2021. *Source:* ABS, Balance of Payments and International Investment Position, Australia. Return to "What's New".

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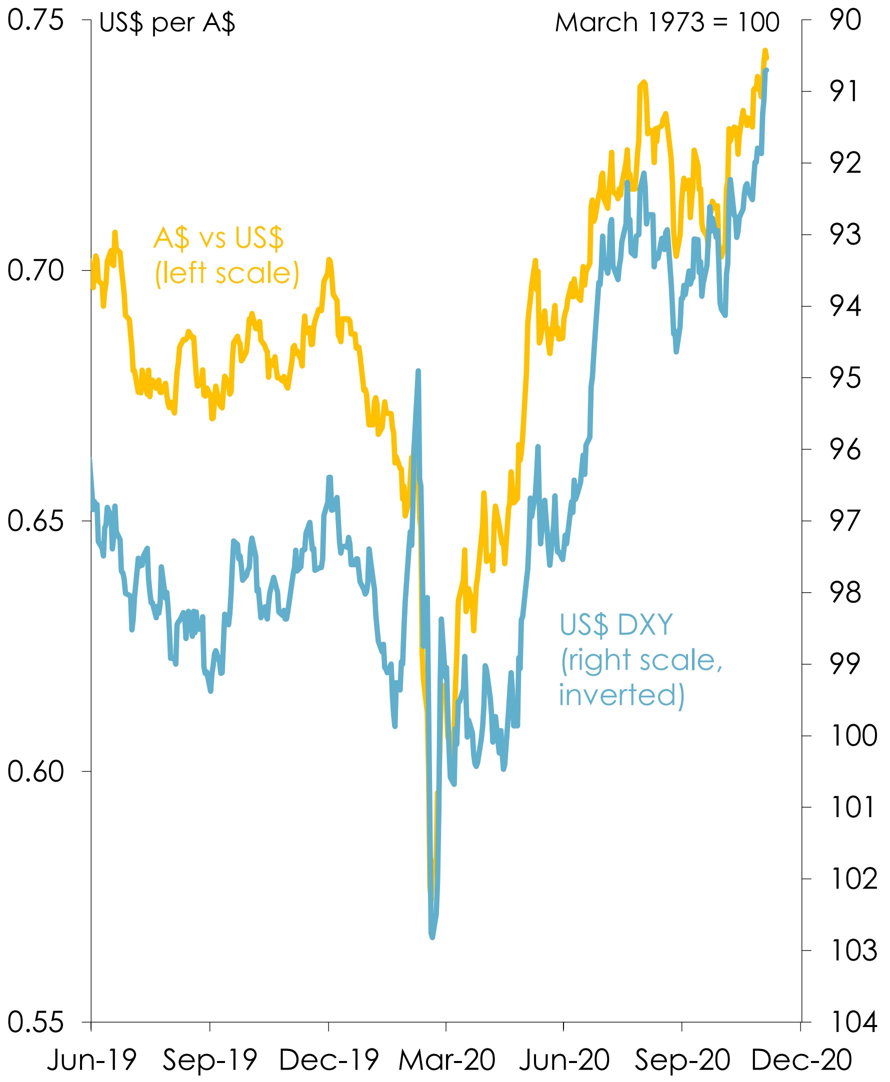
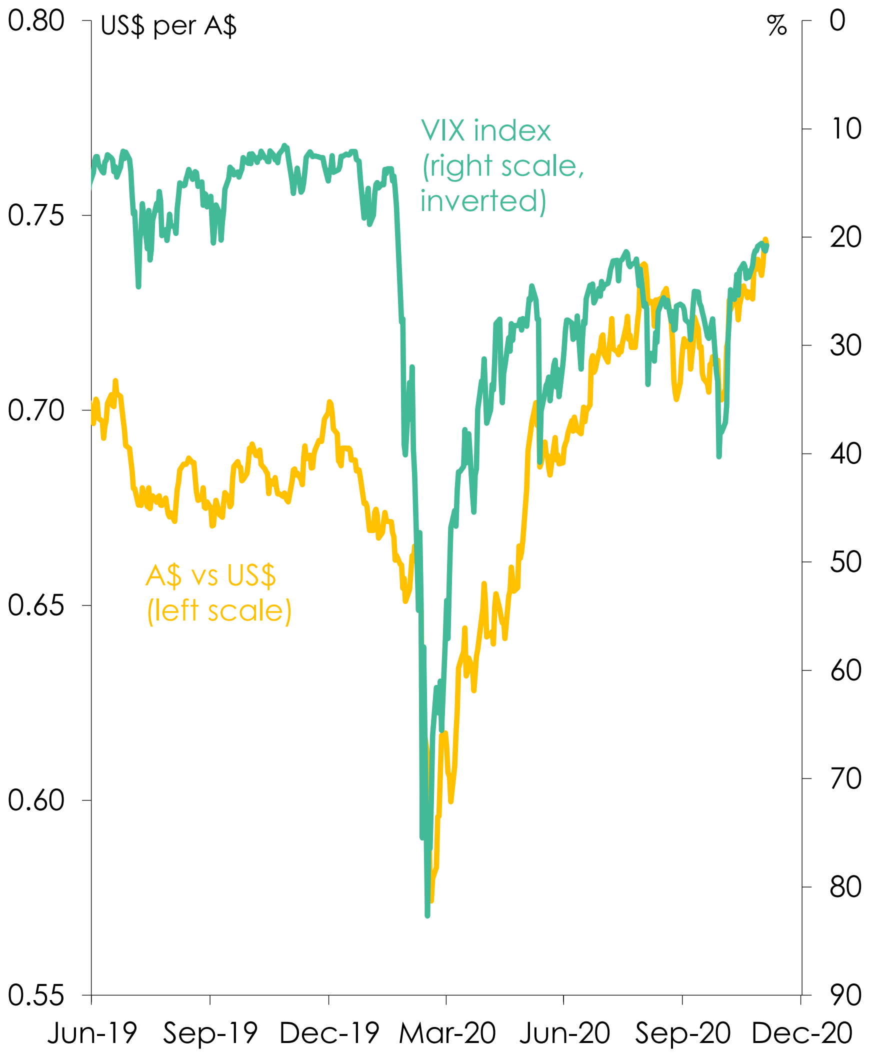
The A$ traded up to a 29-month high of US74.5¢ this week buoyed by US$ weakness, soaring iron ore prices and stronger investor risk appetites

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



A$-US$ and spot iron ore prices

A$-US$ and US equity market volatility



Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see slide 96. *Source:* Refinitiv Datastream. Data up to 4th December. Return to "What's New".

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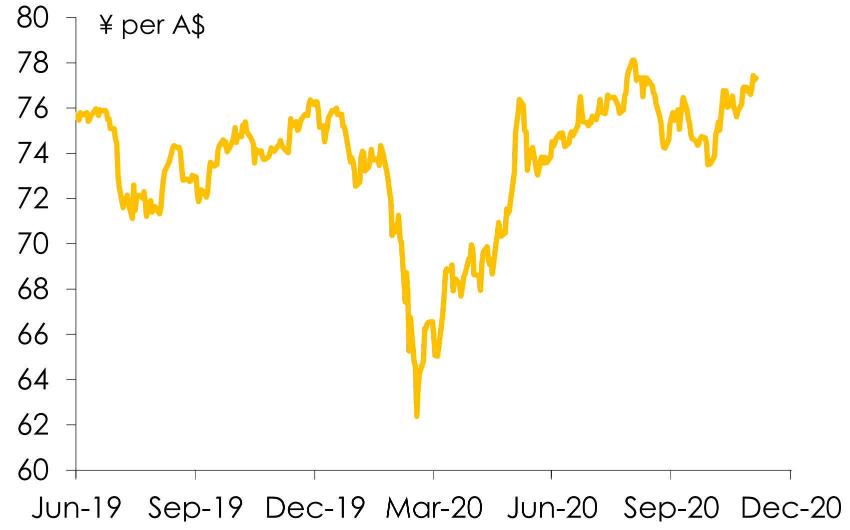
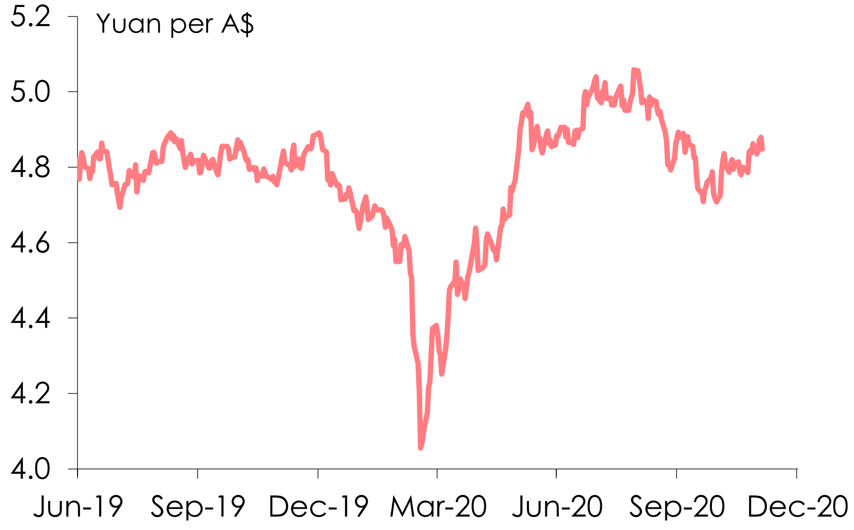
Despite its gains vs the US$, the A$ actually lost ground against most other currencies, except for the Japanese yen and NZ$

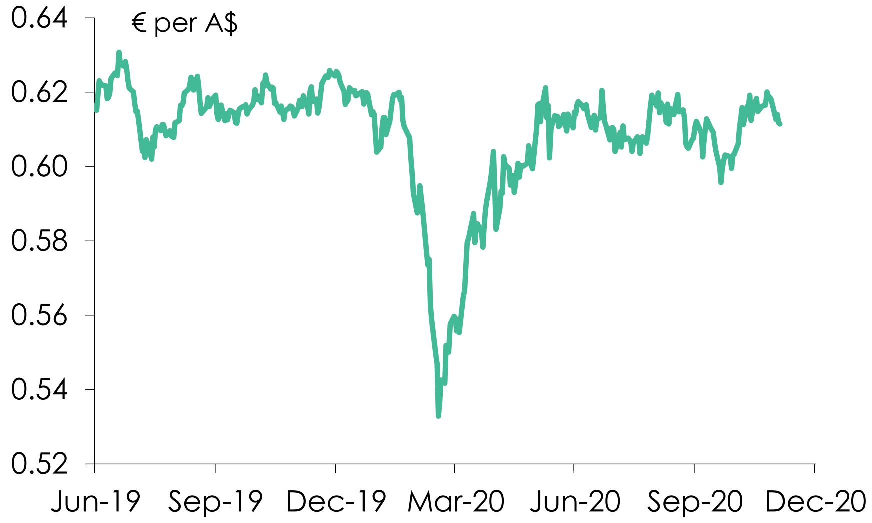
A$ vs Japanese yen



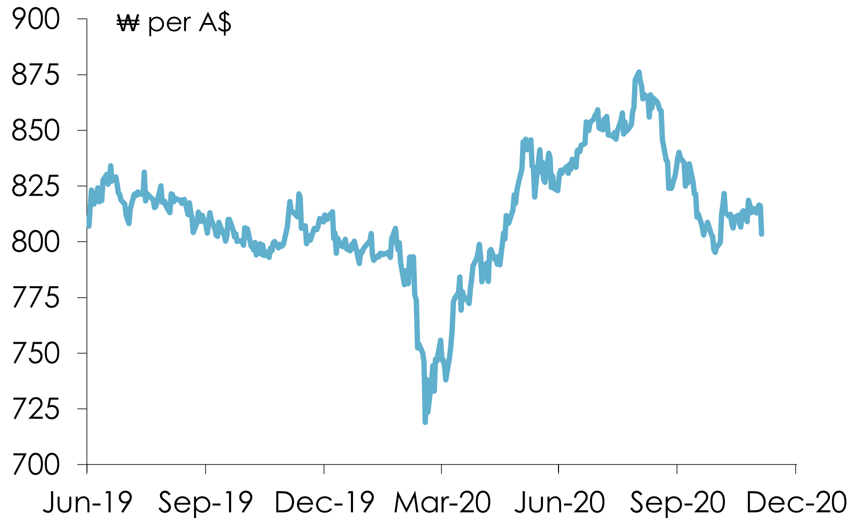
A$ vs Chinese yuan



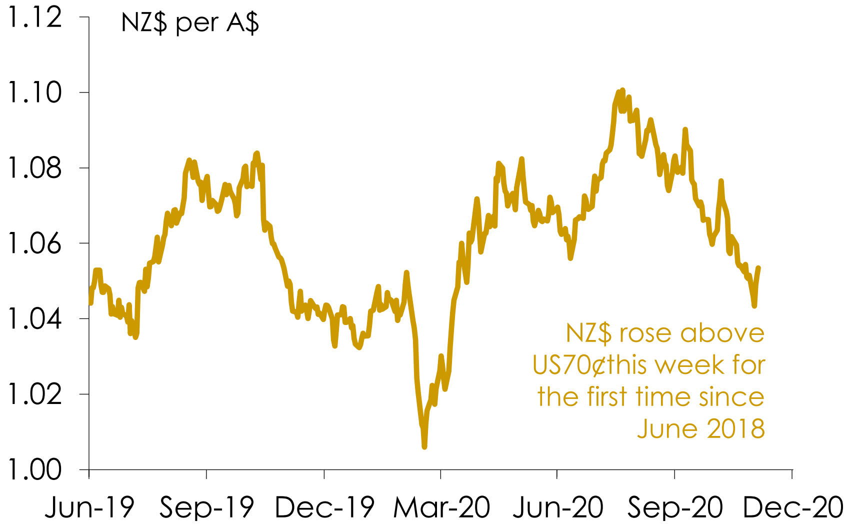
A$ vs Euro



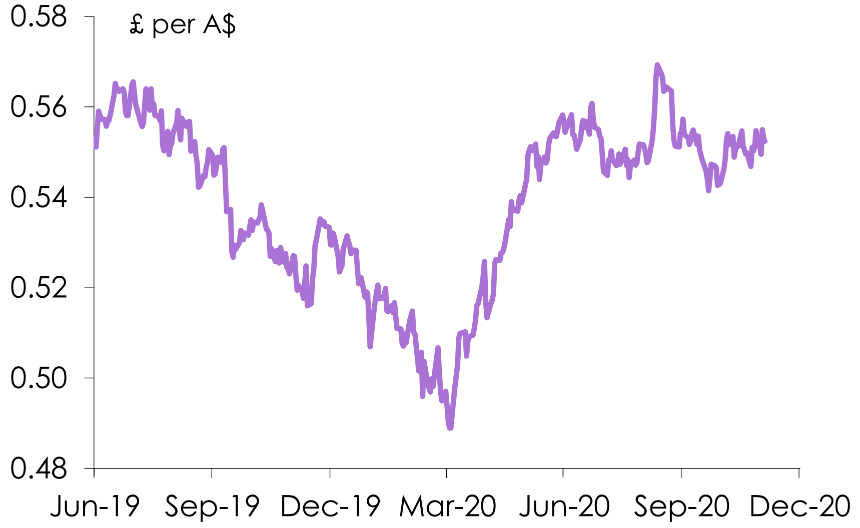
A$ vs Korean won



A$ vs NZ$



A$ vs British pound



Source: Refinitiv Datastream. Data up to 4th December. Return to "What's New".

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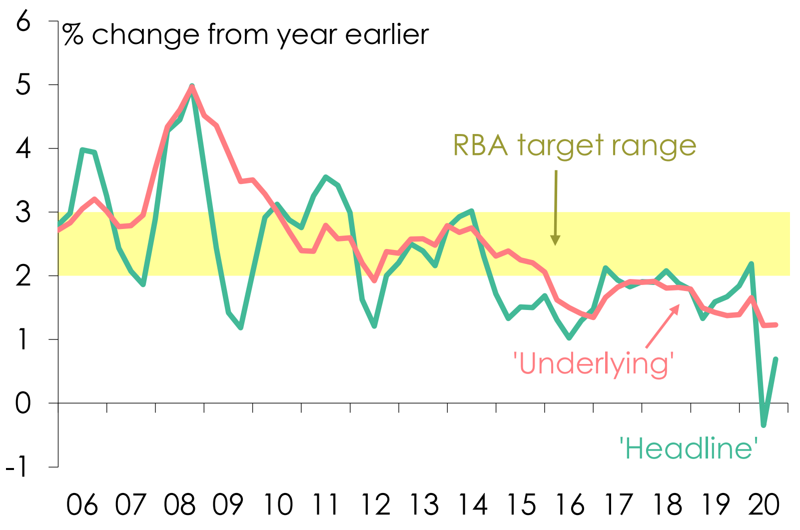
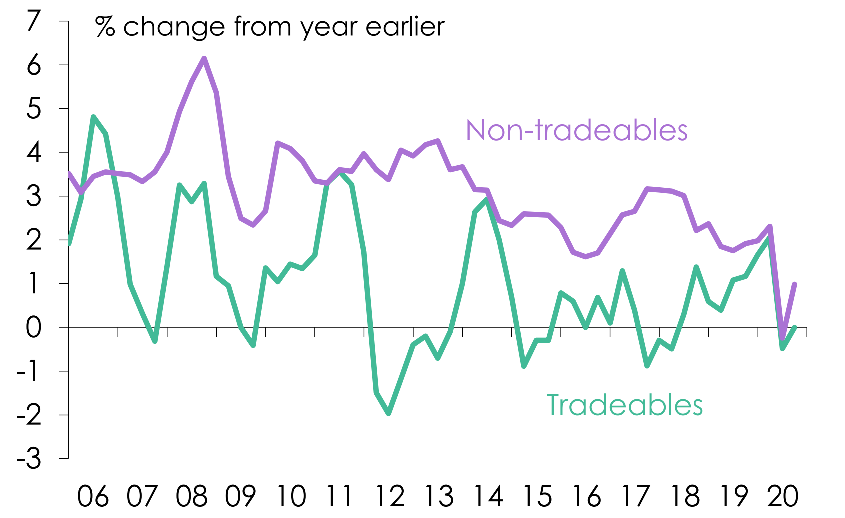
Inflation rebounded precisely as expected in Q3, but 'underlying' inflation has now been below the RBA's target for 4½ years

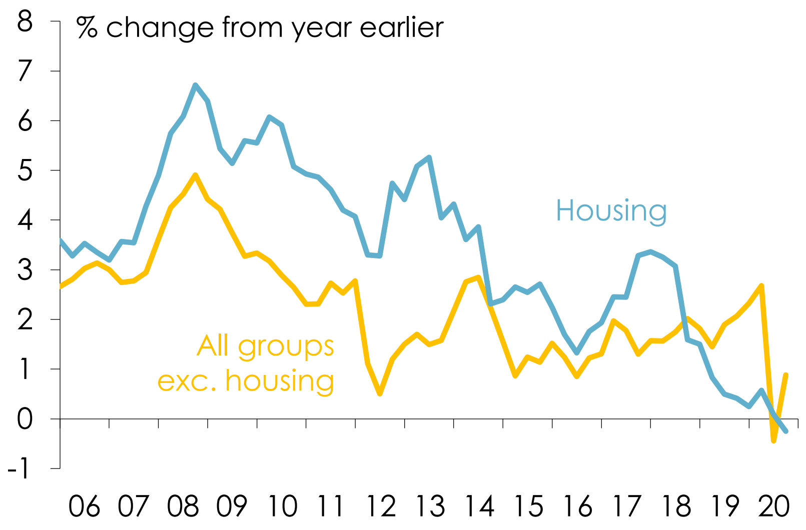
Consumer prices



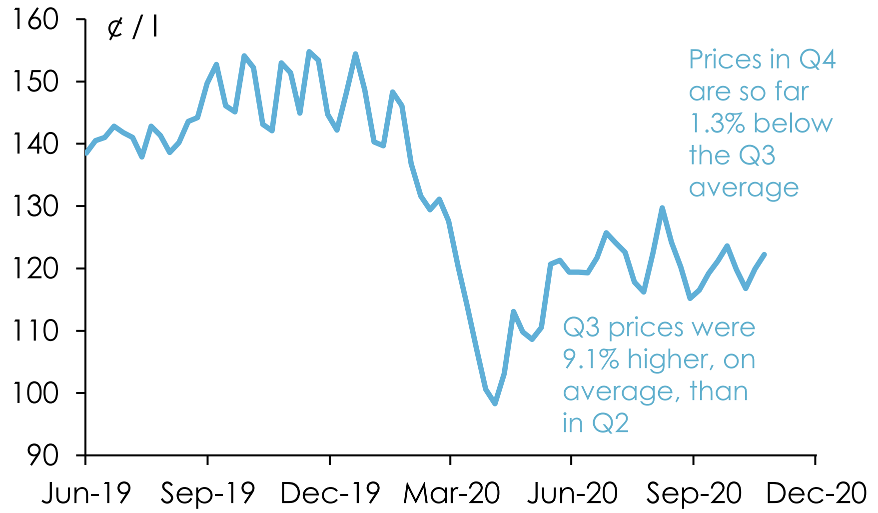
Tradeables vs non-tradeables



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".

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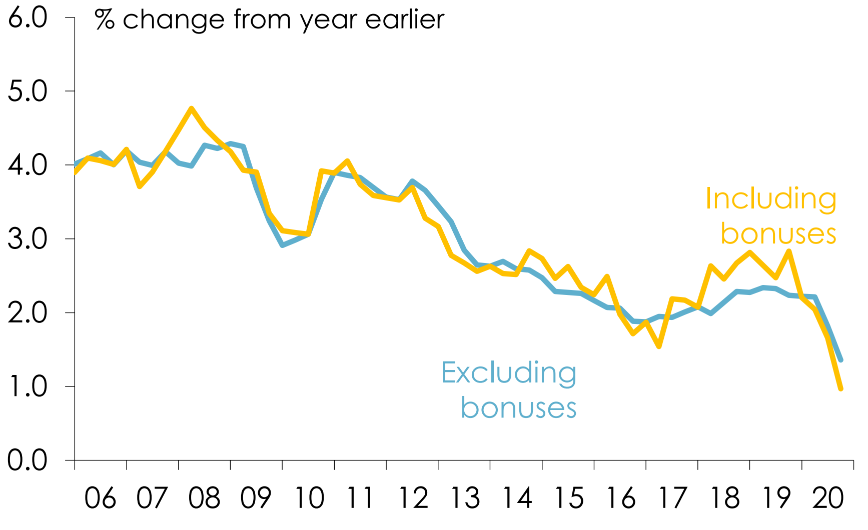
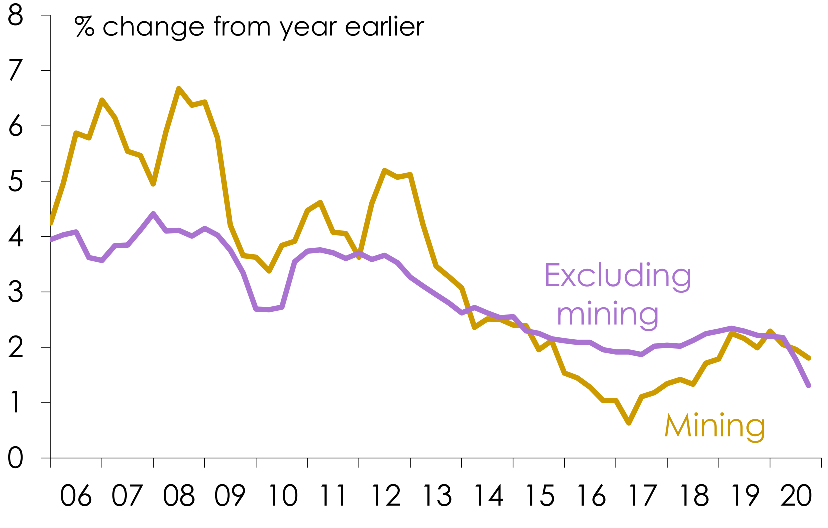
Wages rose by just 1.2% over the year to the September quarter (or just 0.7% including bonuses) – the lowest for at least 23 years

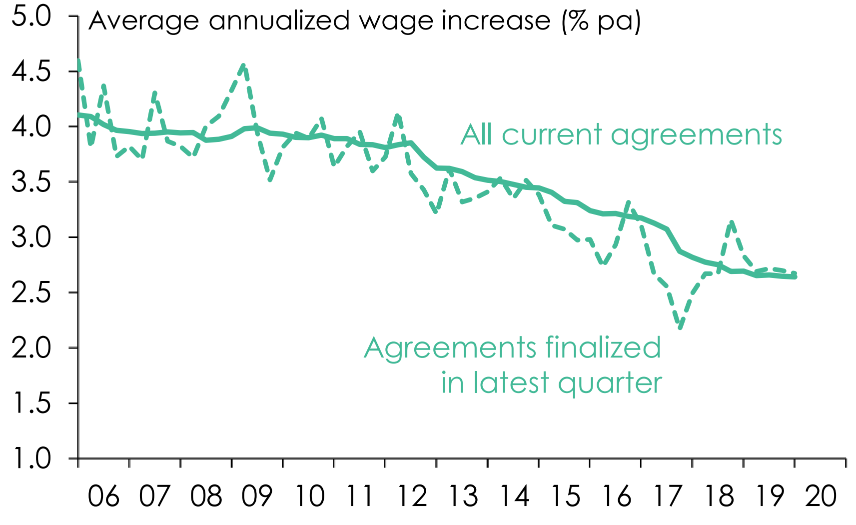
Wage price index – all sectors



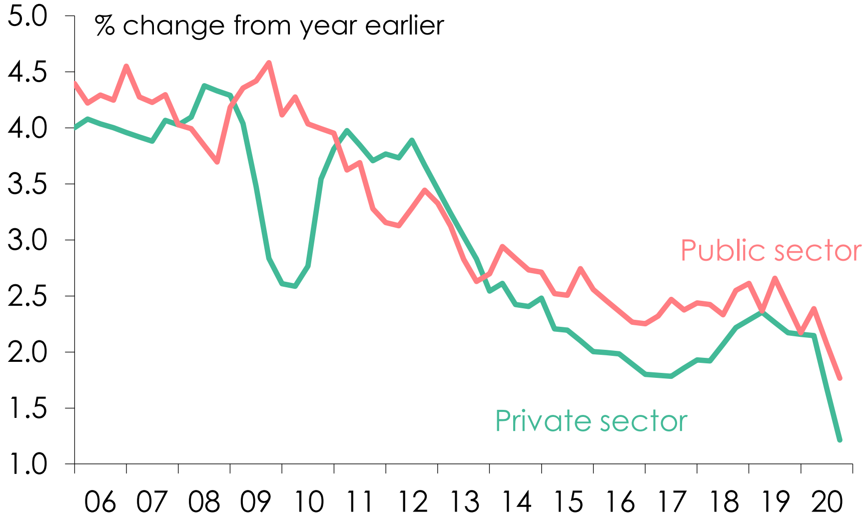
WPI by industry



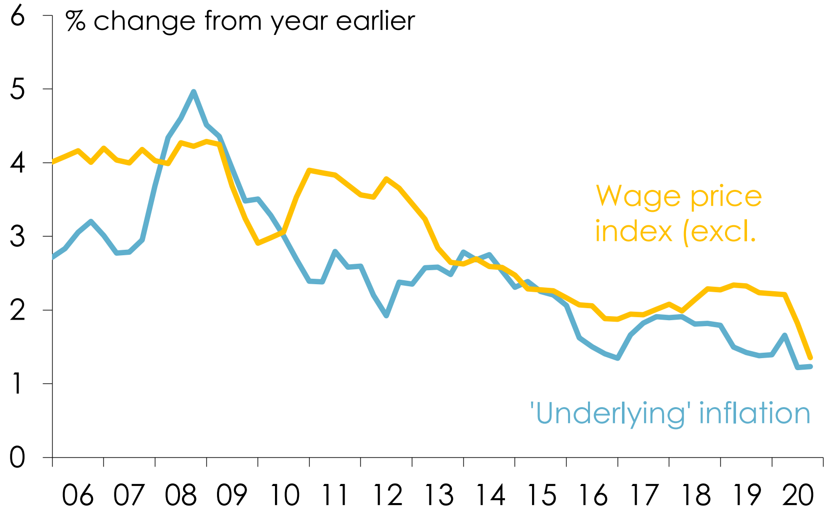
Enterprise bargaining agreements



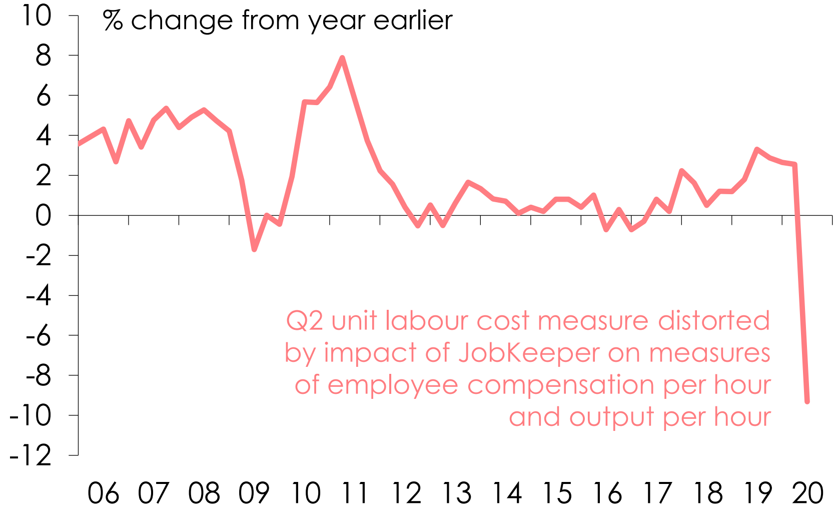
WPI – private vs public sectors



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. December quarter WPI data will released on 24th February 2021.

Return to "What's New".

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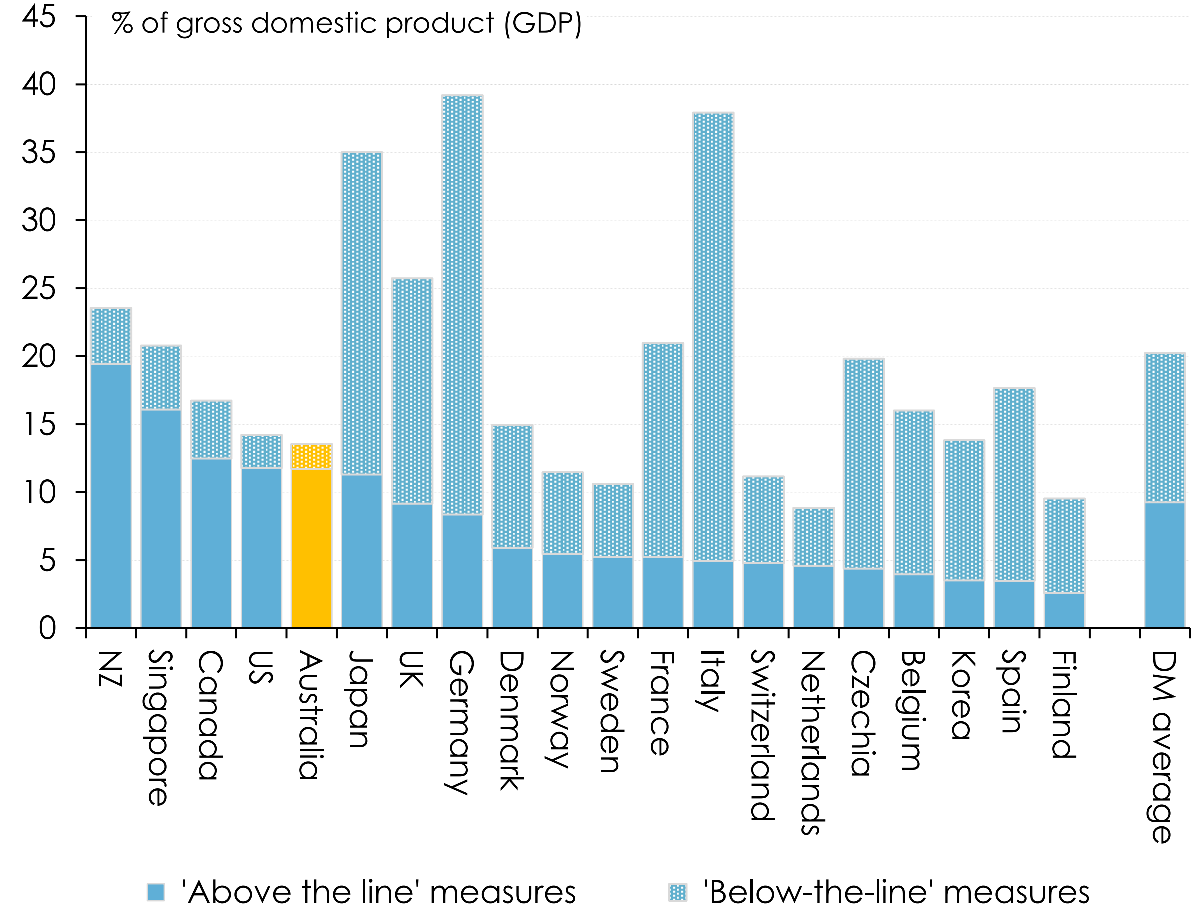
Australia’s fiscal and monetary policy settings

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



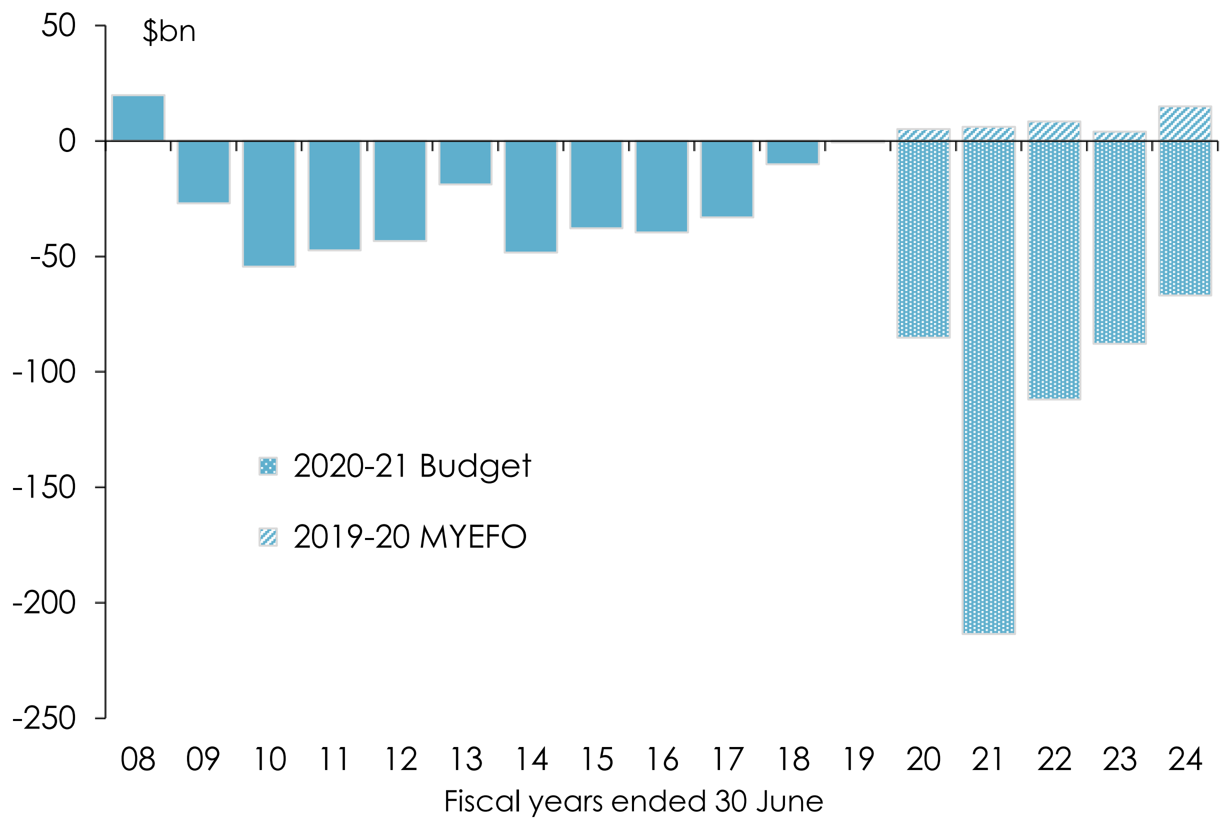
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (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

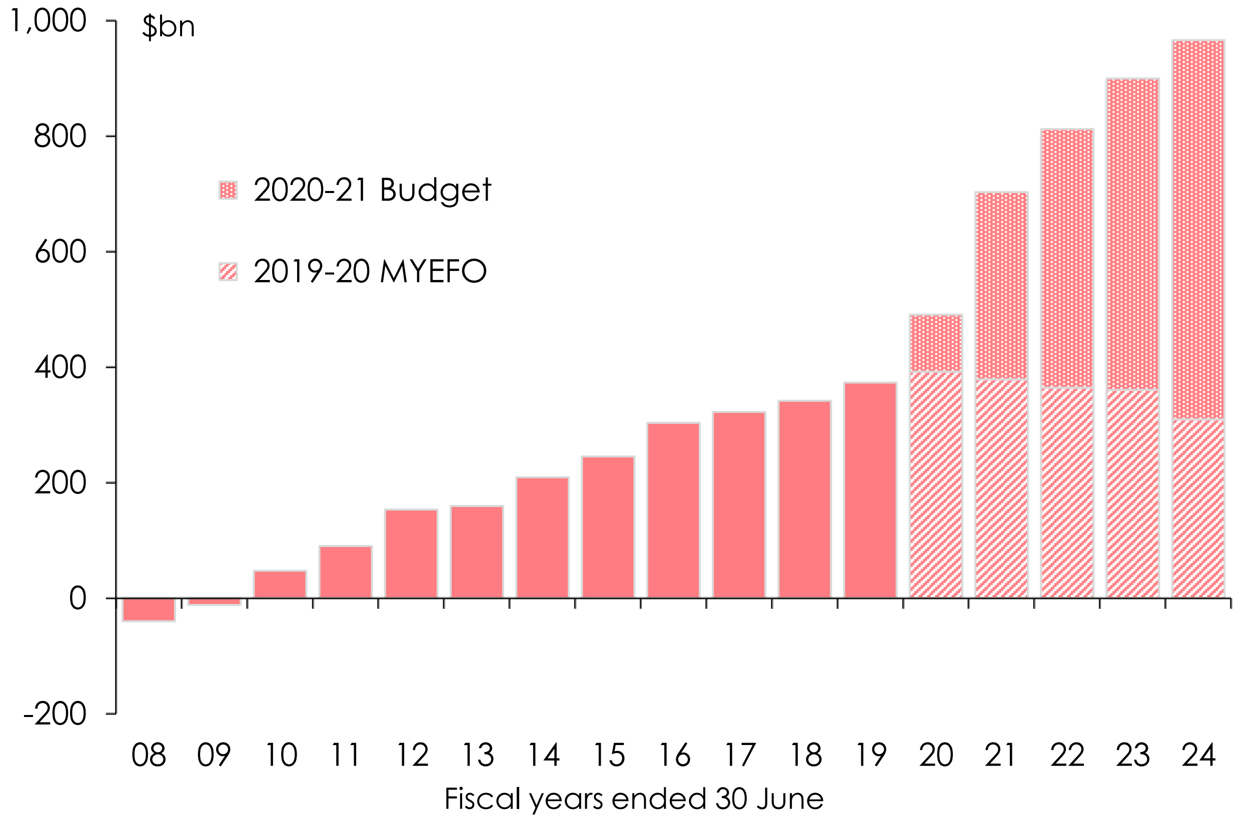
2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

'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

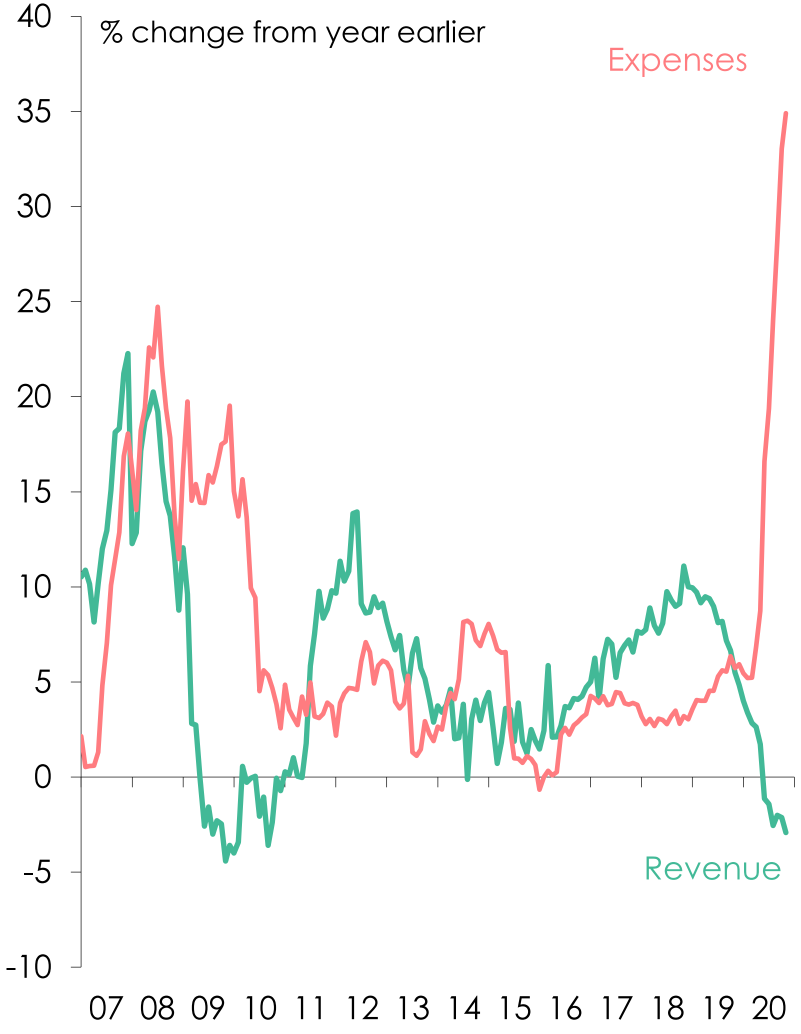


- **Last December, net debt was expected to have peaked at $392bn in June 2020, and fall to $310bn by June 2024 – instead it rose to $490bn at June 2020, and is now expected to reach $966bn by June 2024**

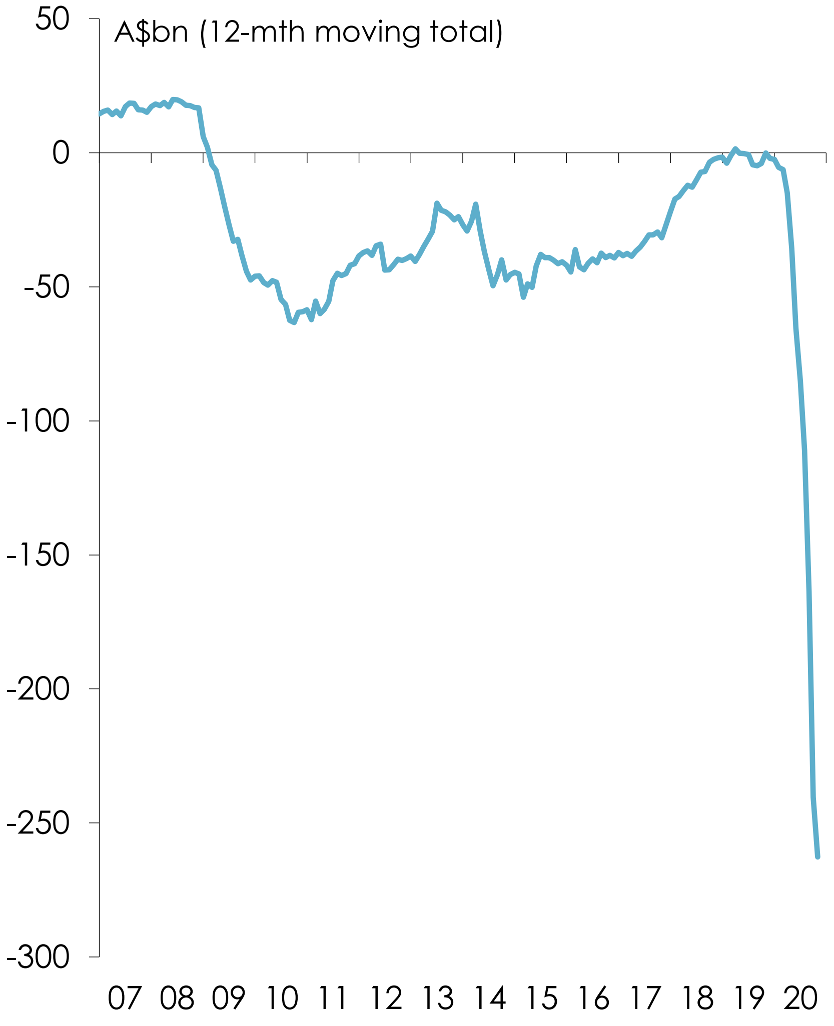
Sources: Australian Government, 2019-20 *Mid-Year Economic and Fiscal Outlook*; 2020-21 *Budget Paper No. 1, Budget Statement No. 4*. Return to "What's New".

The deficit for the 12 months to October was $263mn, more than the Budget forecast for 2020-21 as a whole, while net debt reached $602bn

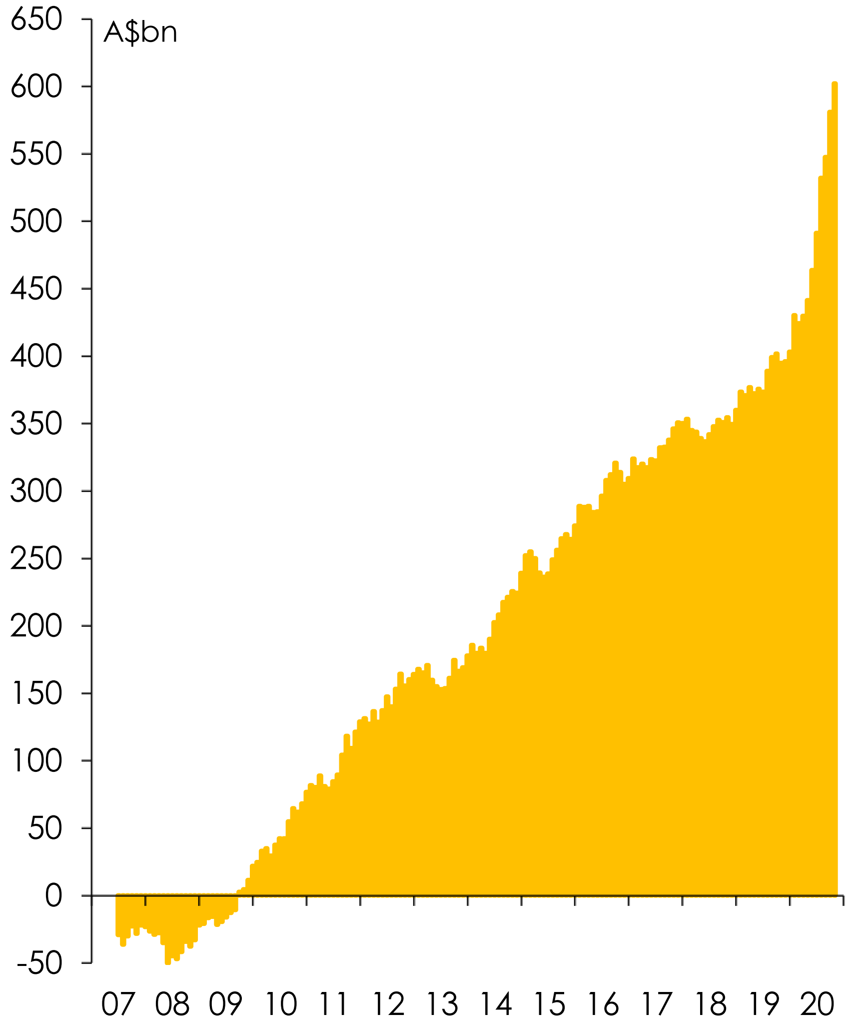
Australian Government revenue and expenses



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.

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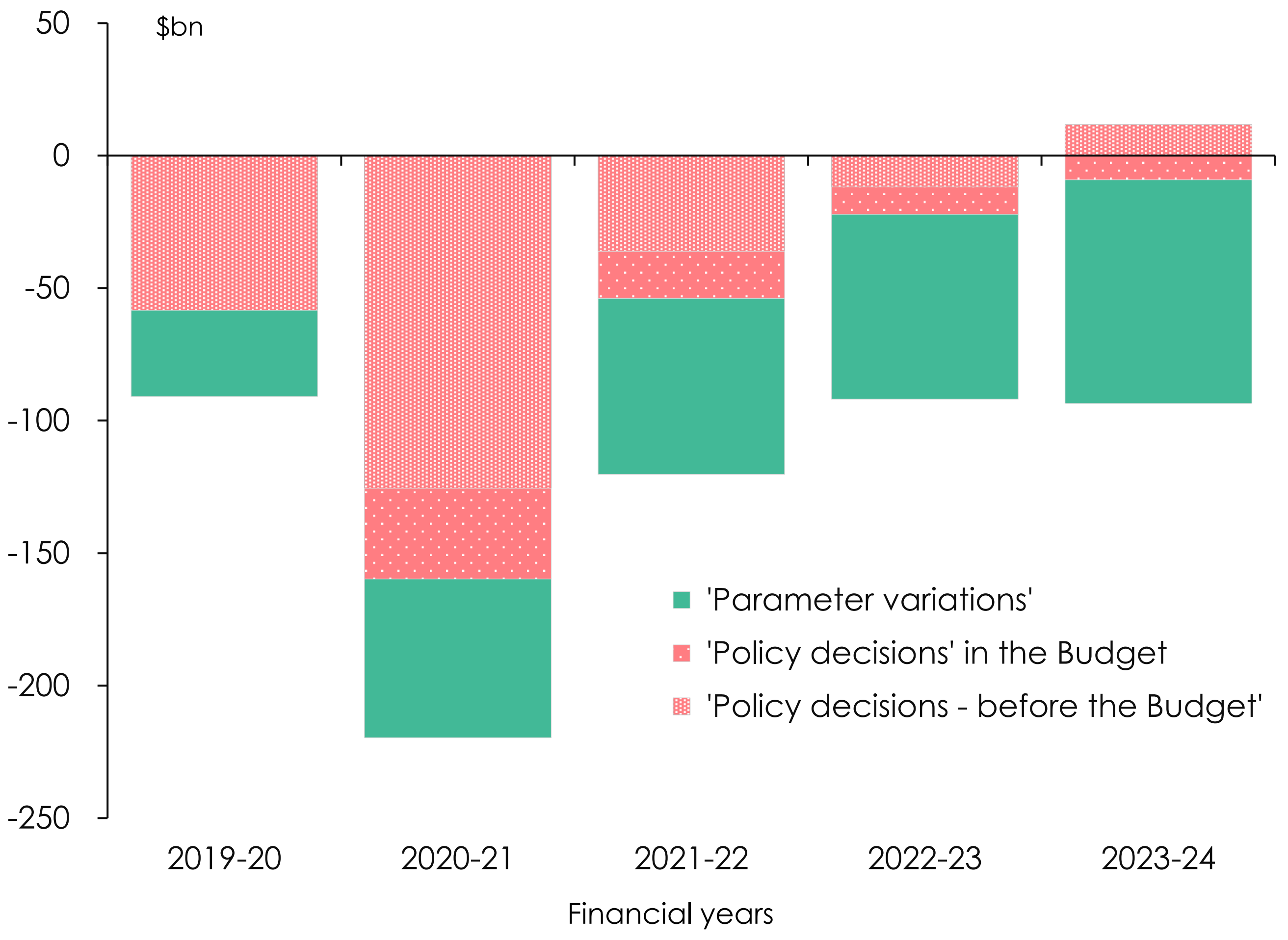
The deterioration in the budget 'bottom line' is roughly equally attributable to 'policy decisions' and changes in the economic outlook

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



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

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

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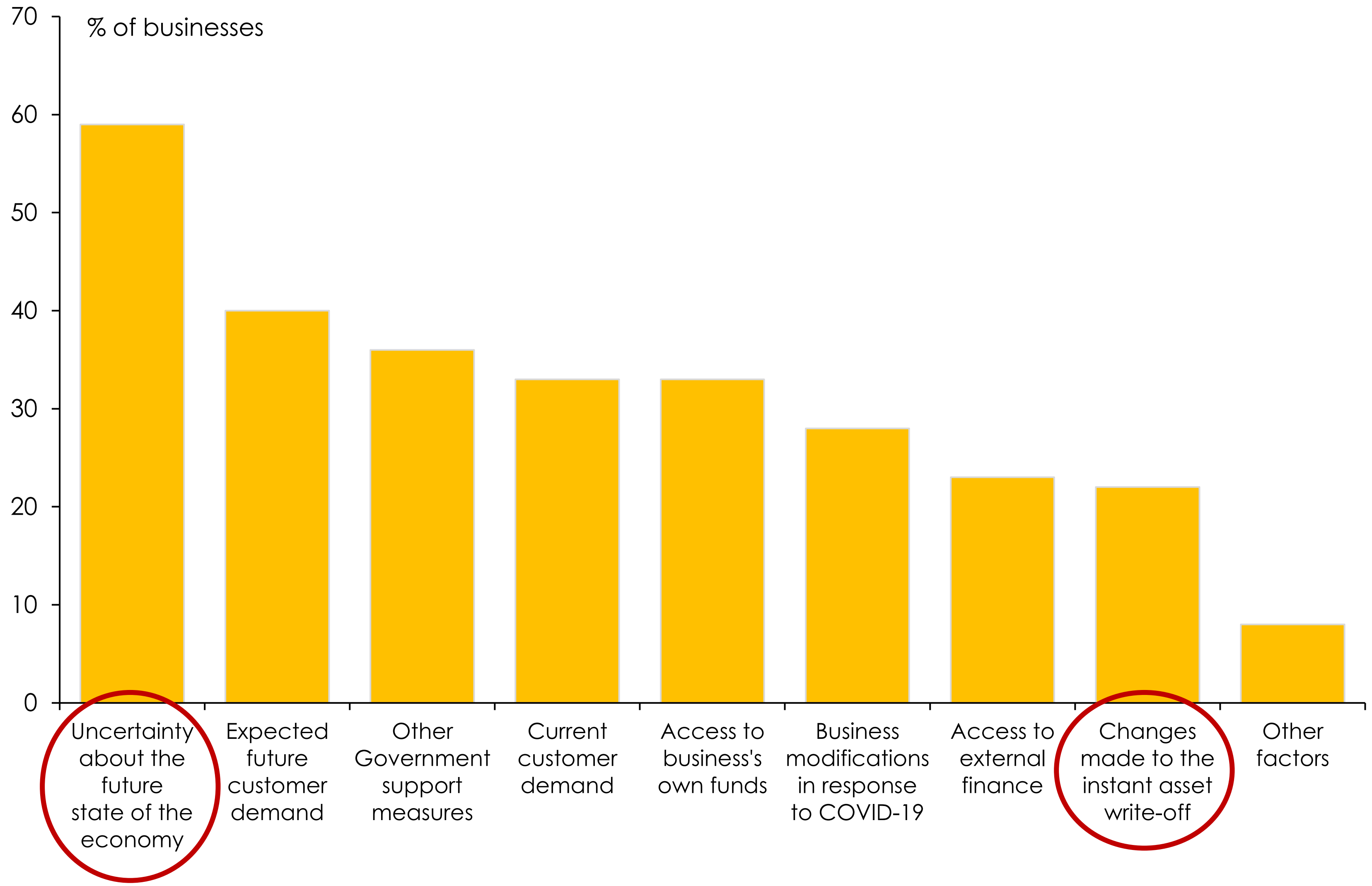
Budget announcements were mainly about incentives for business and earlier personal income tax cuts for households

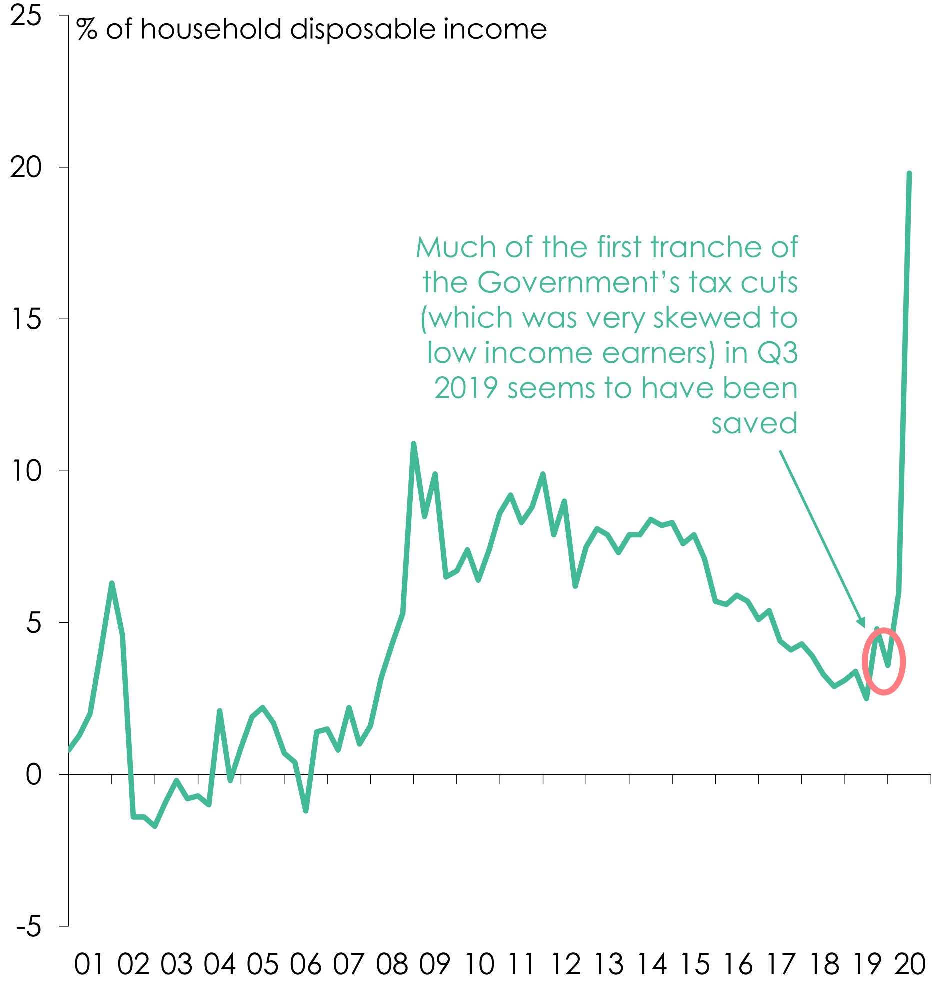
- The biggest single measure in the Budget was the 'temporary full expensing' of purchases of depreciable assets by businesses with turnover of less than \$5bn, available until 30th June 2022 (at a cost to revenue of \$26.7bn over four years)
  - this is in effect an extension of the 'instant asset write 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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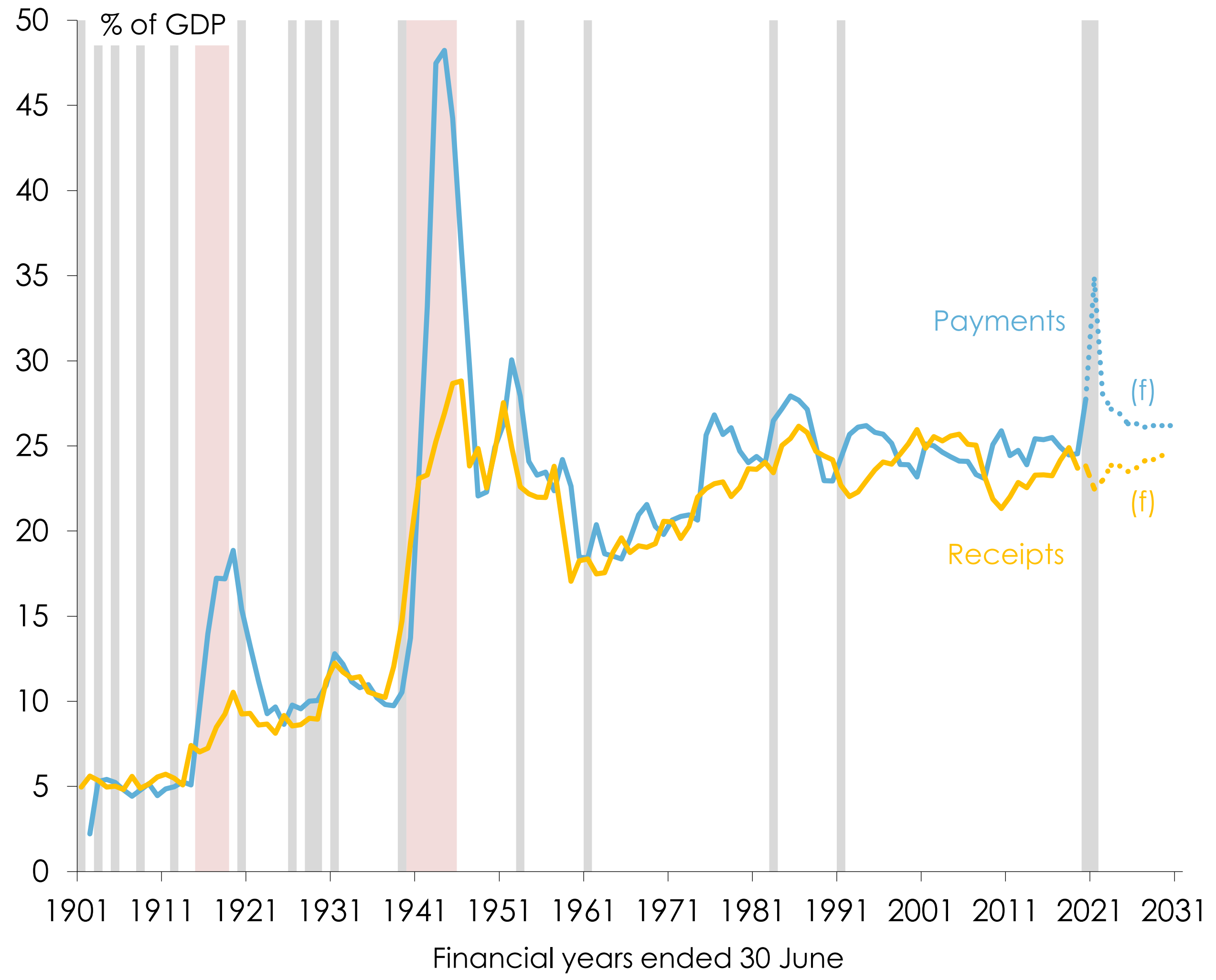
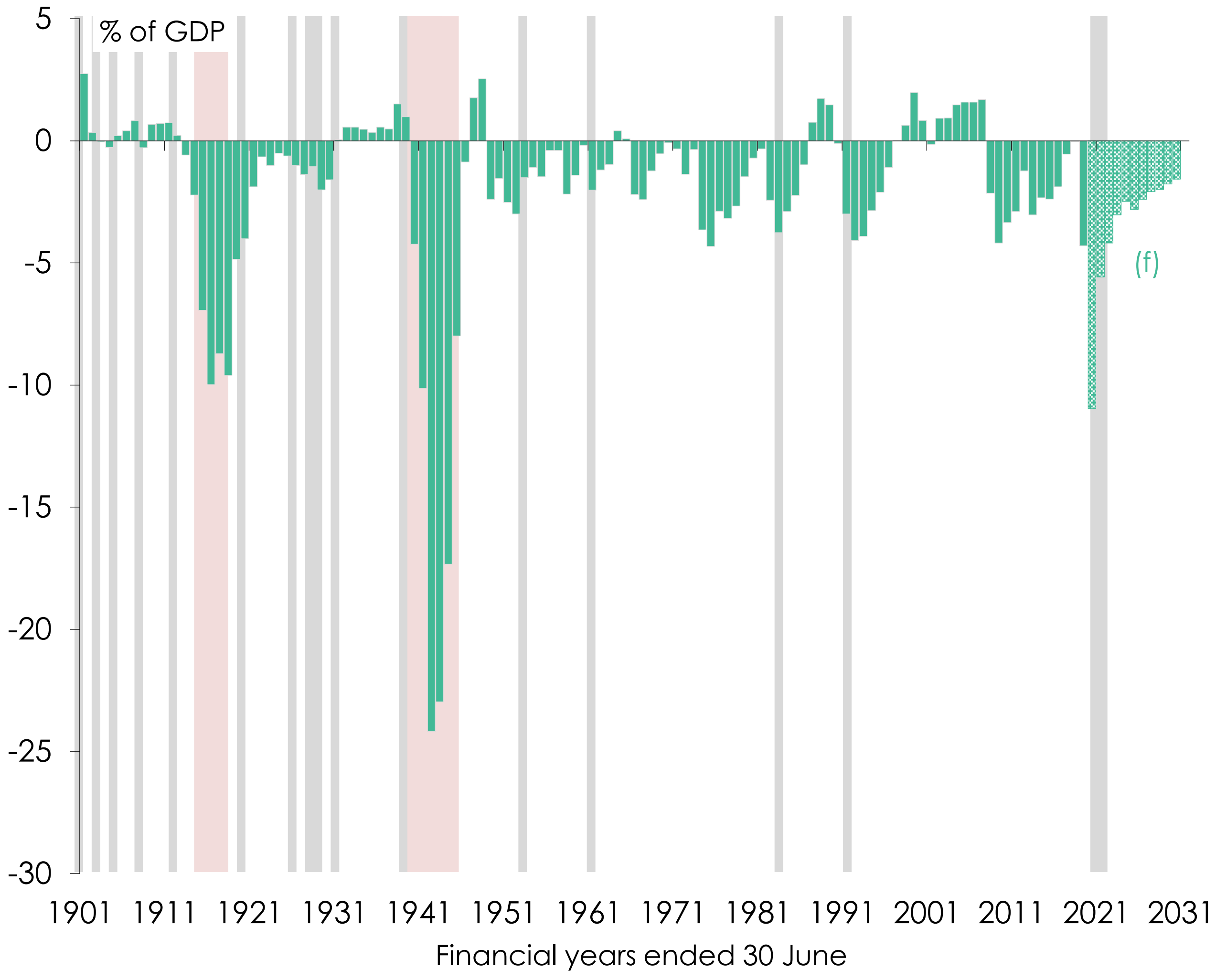
The 2020-21 deficit of $214bn (11% of GDP) will be the biggest since 1944-45 – and (on current policies) deficits will persist for the rest of the decade

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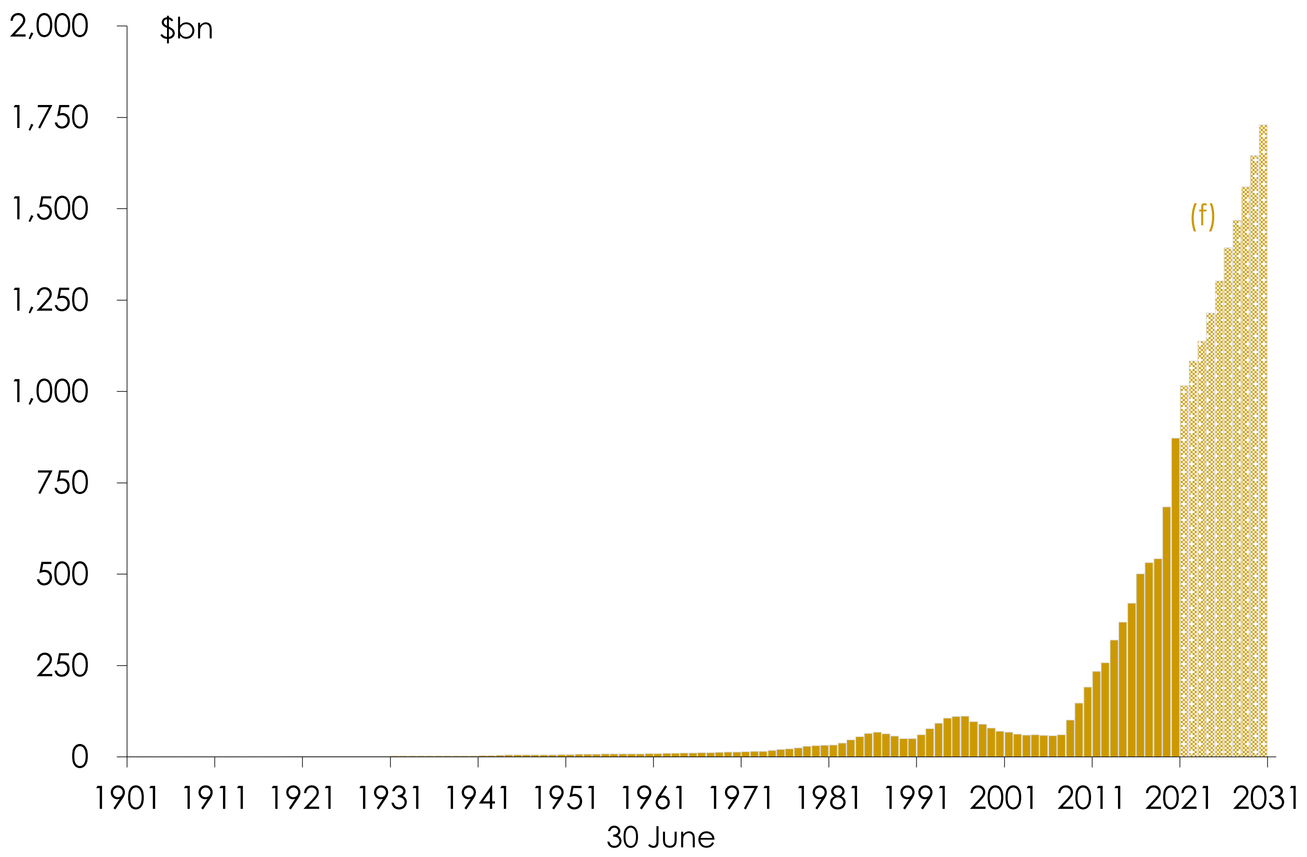
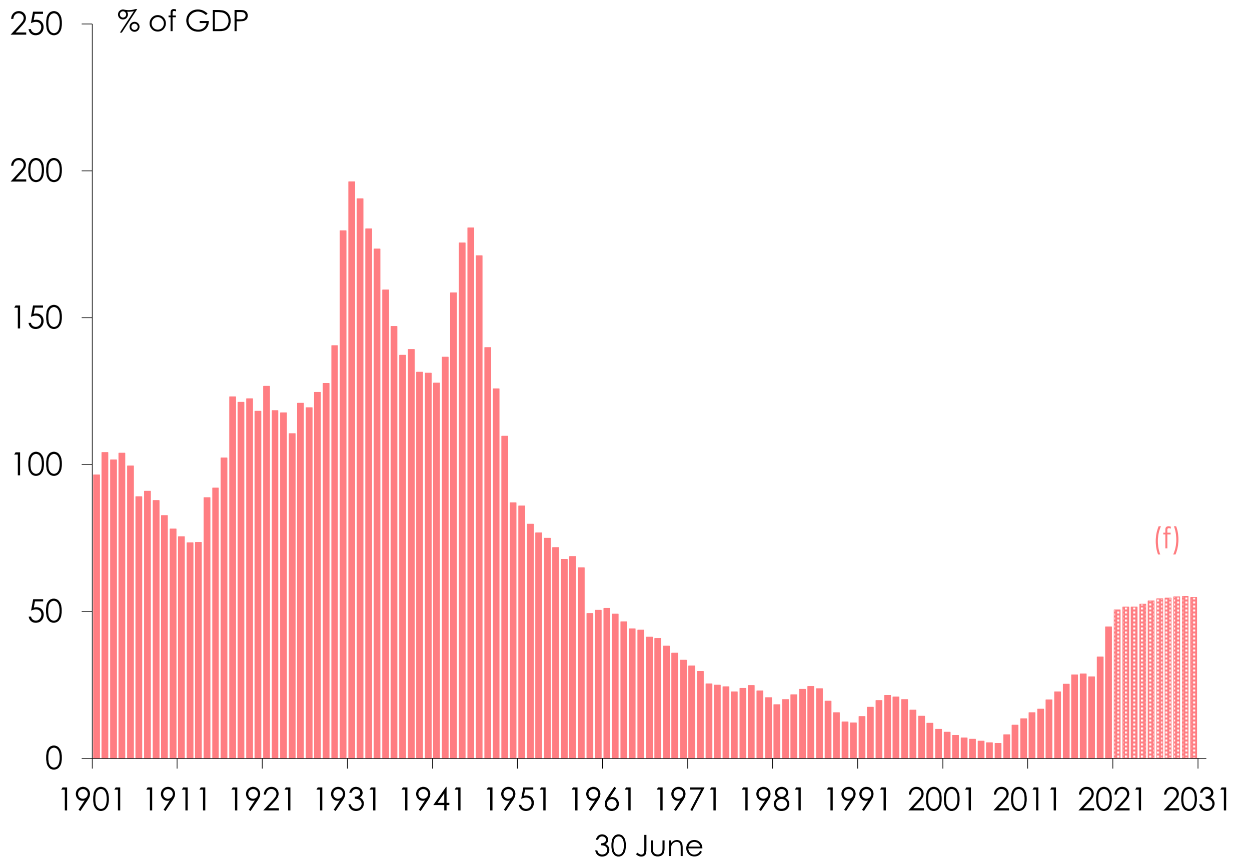
However there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

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*.

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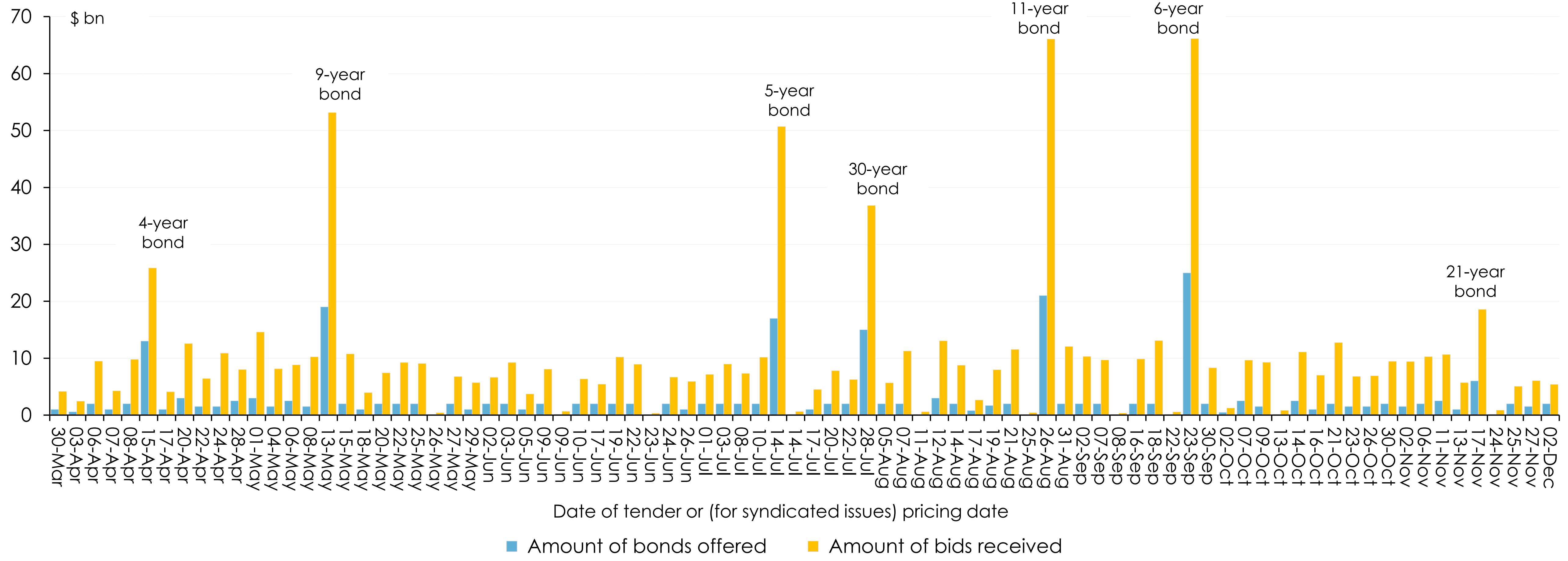
The Australian Government continues to have absolutely no difficulty financing its significantly higher deficits

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 $238bn of Treasury bonds - based on the volume of bids received it could have borrowed $864bn 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".

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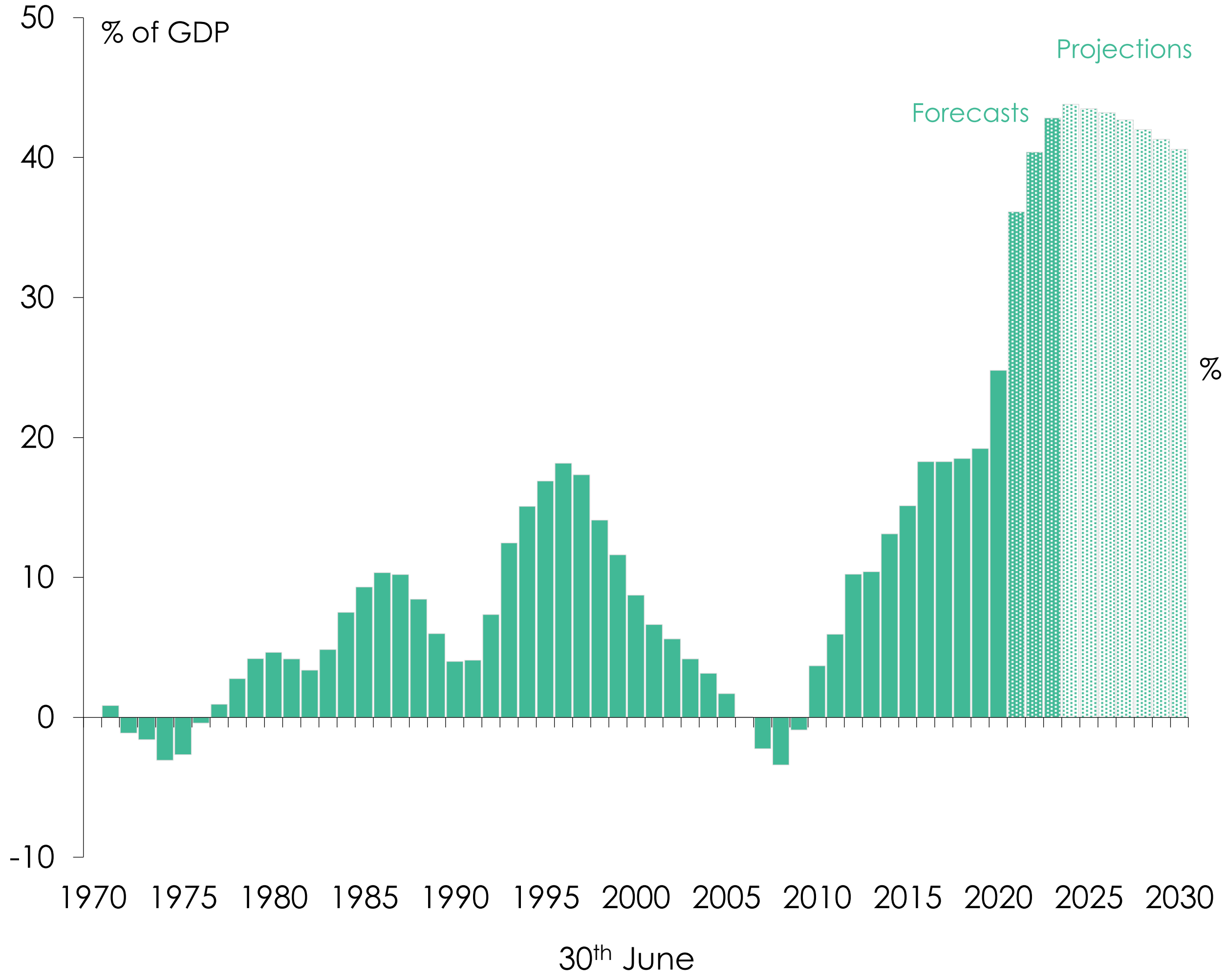
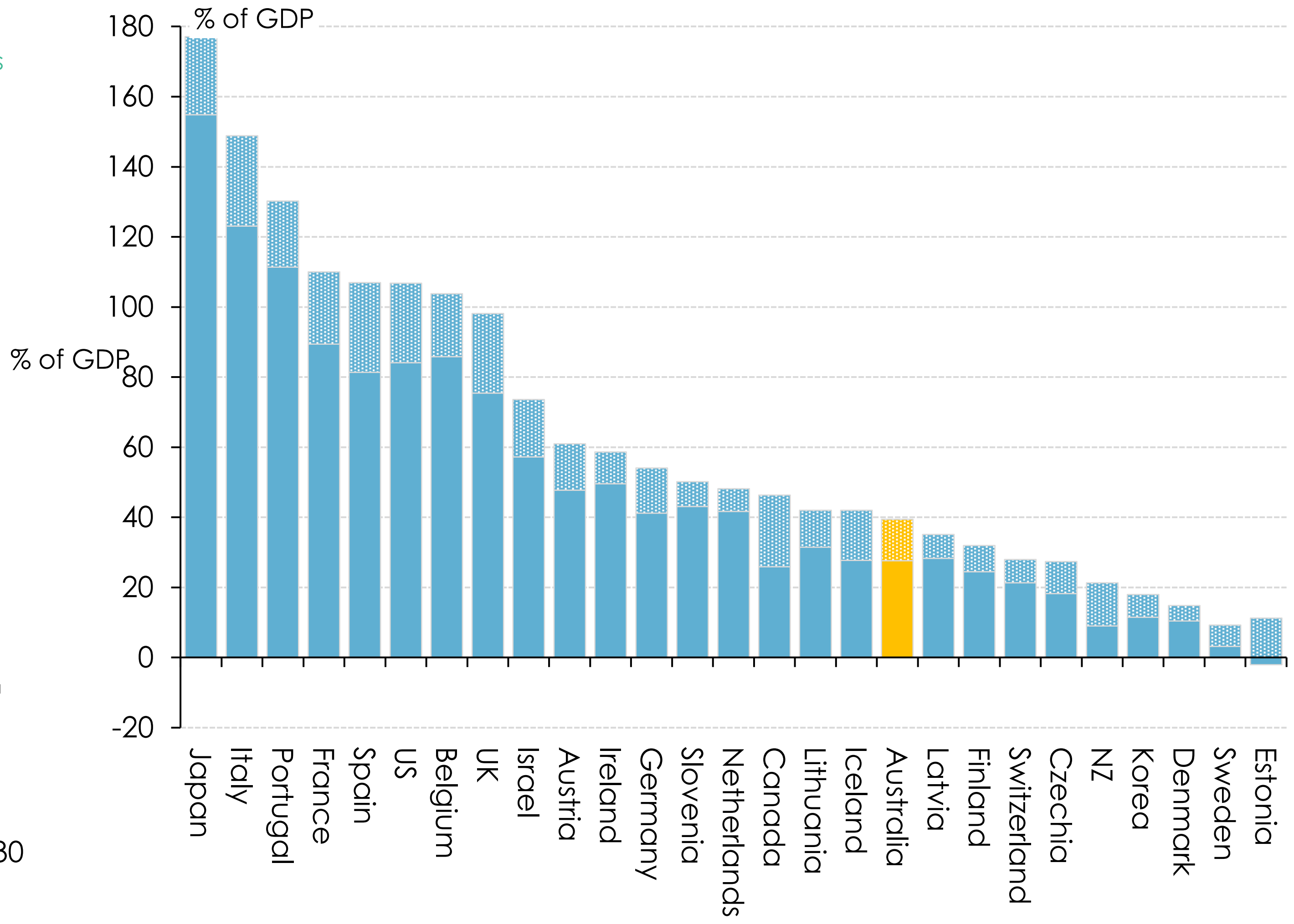
Although Australia's government net debt will reach new record highs, it will still be relatively low by comparison with most 'advanced' economies

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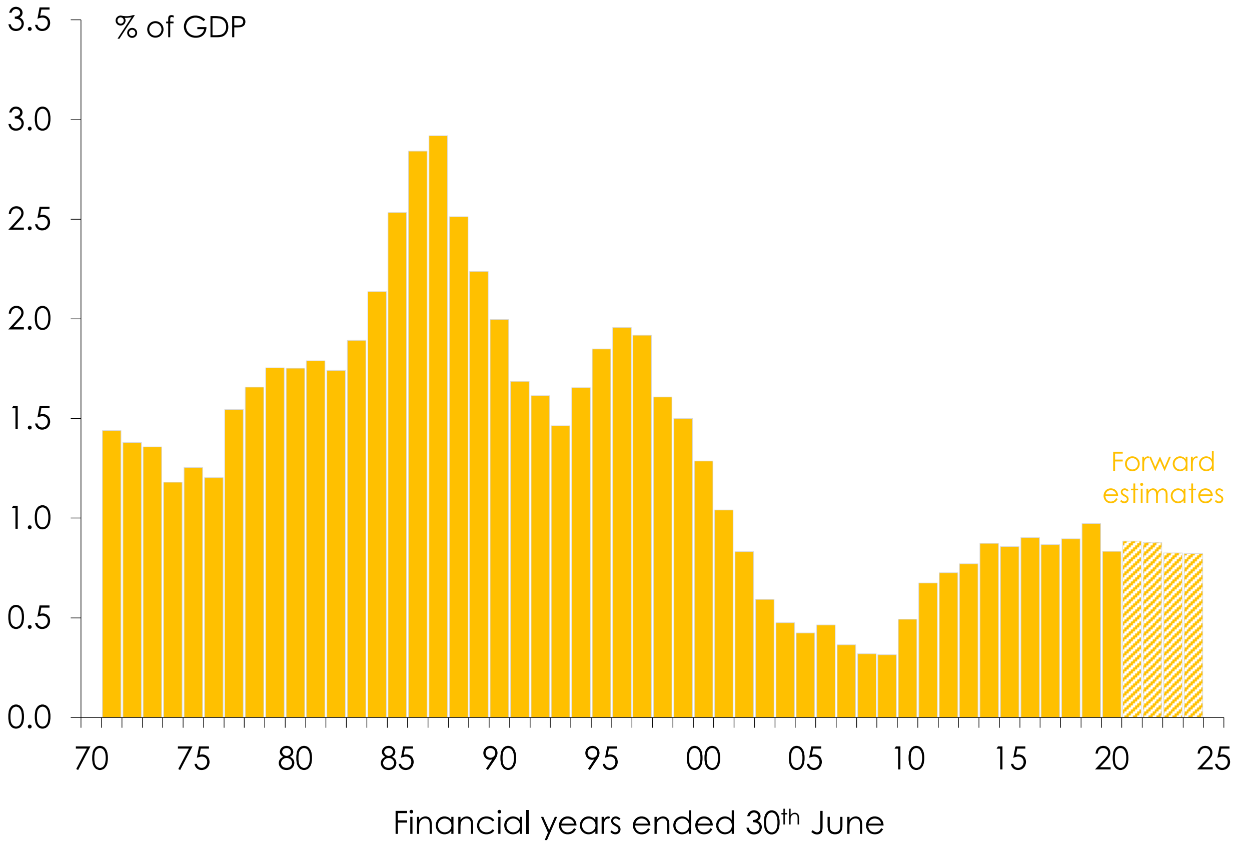
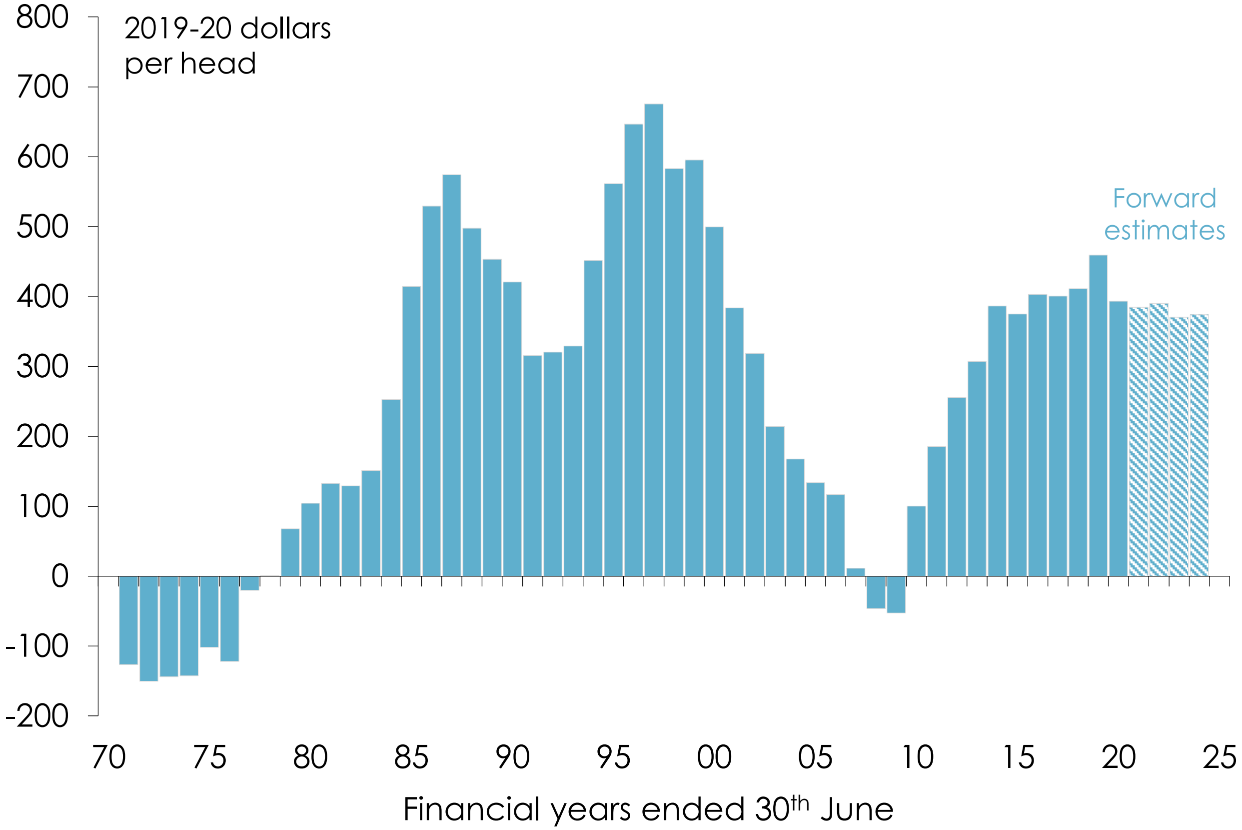
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



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

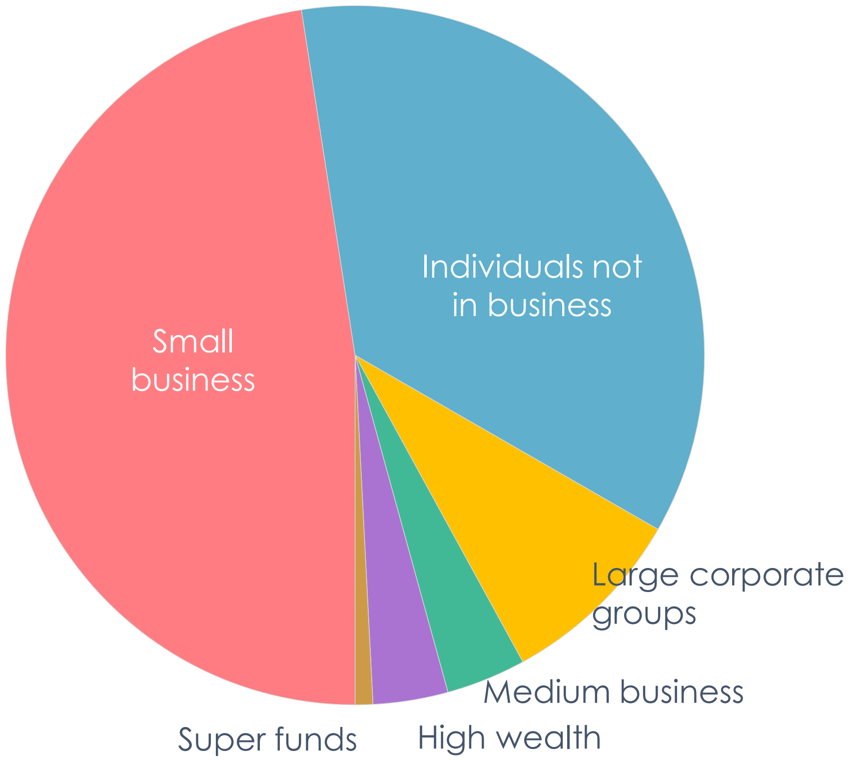


- **As a percentage of GDP, the Government's gross interest payments will be less than they were in the 1970s, 1980s and 1990s, and less than they were in 2017-18 or 2018-19**
- **Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20**

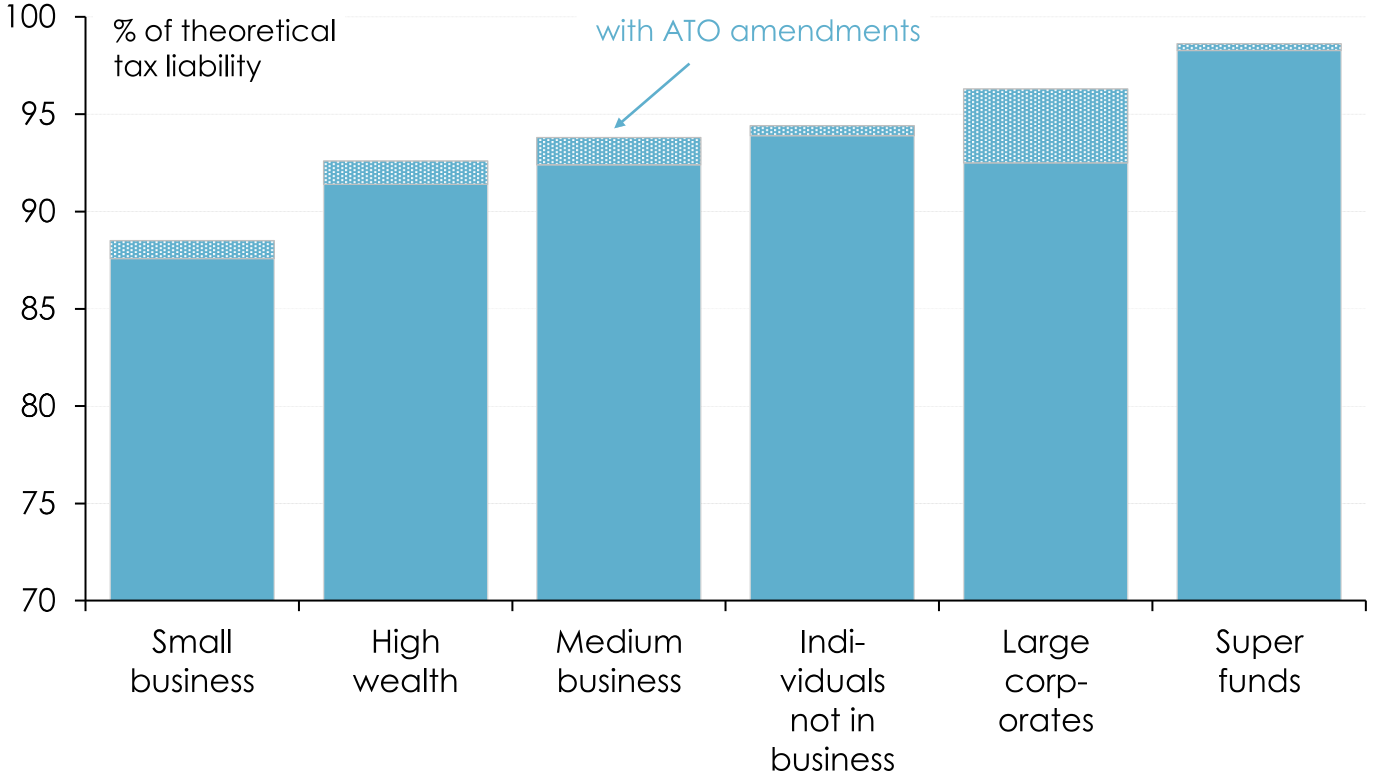
Note: (f) denotes forecasts. *Sources:* Global Financial Data; Australian Government, 2020-21 *Budget Paper No. 1, Statement No. 11*; Corinna. Return to "What's New".

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

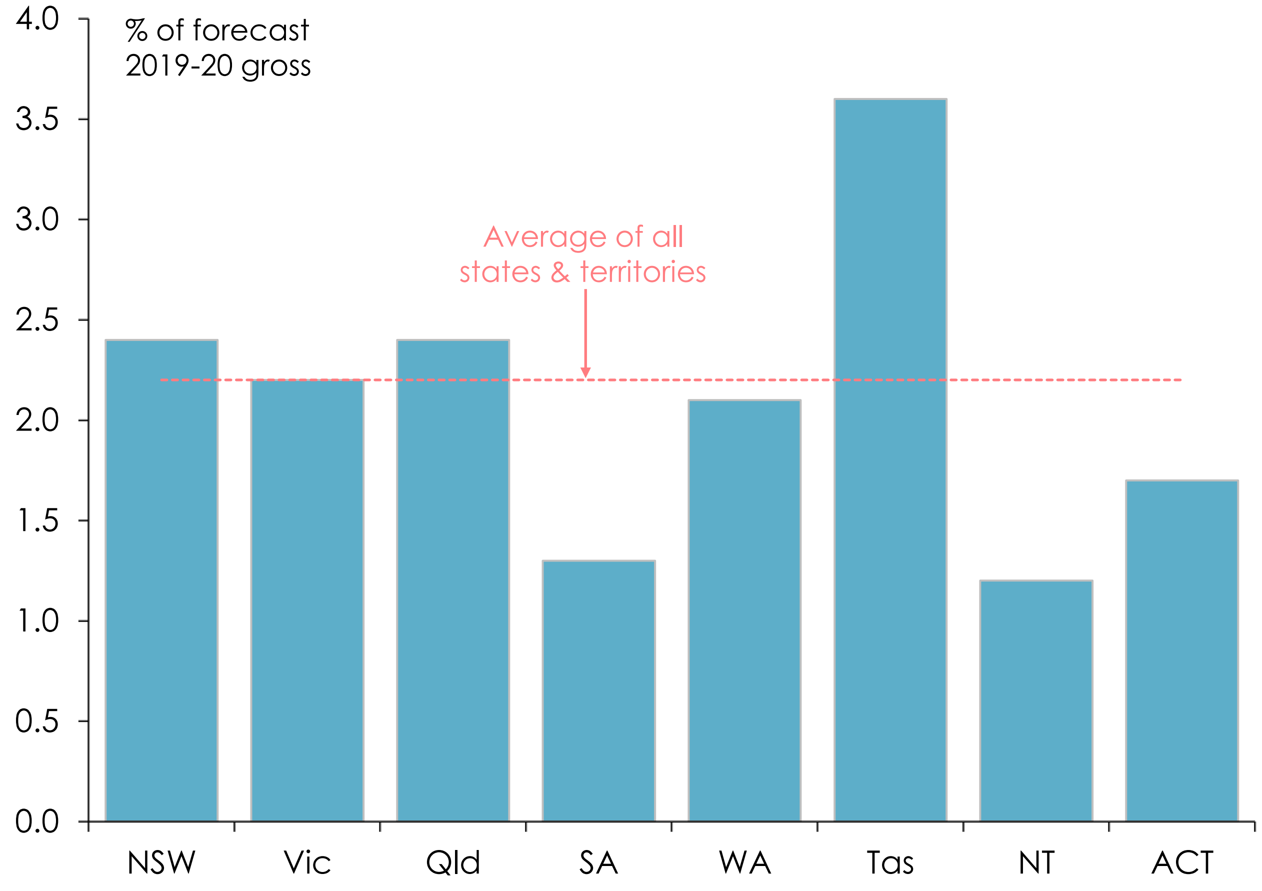


- **Small businesses account for 44% of the total 'gap' between what the ATO collected in 2017-18 from various income-based taxes and what it estimates it would have collected given 100% compliance with the tax law – cf. large corporates 15% and high wealth individuals 3½%**
- **Small businesses pay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

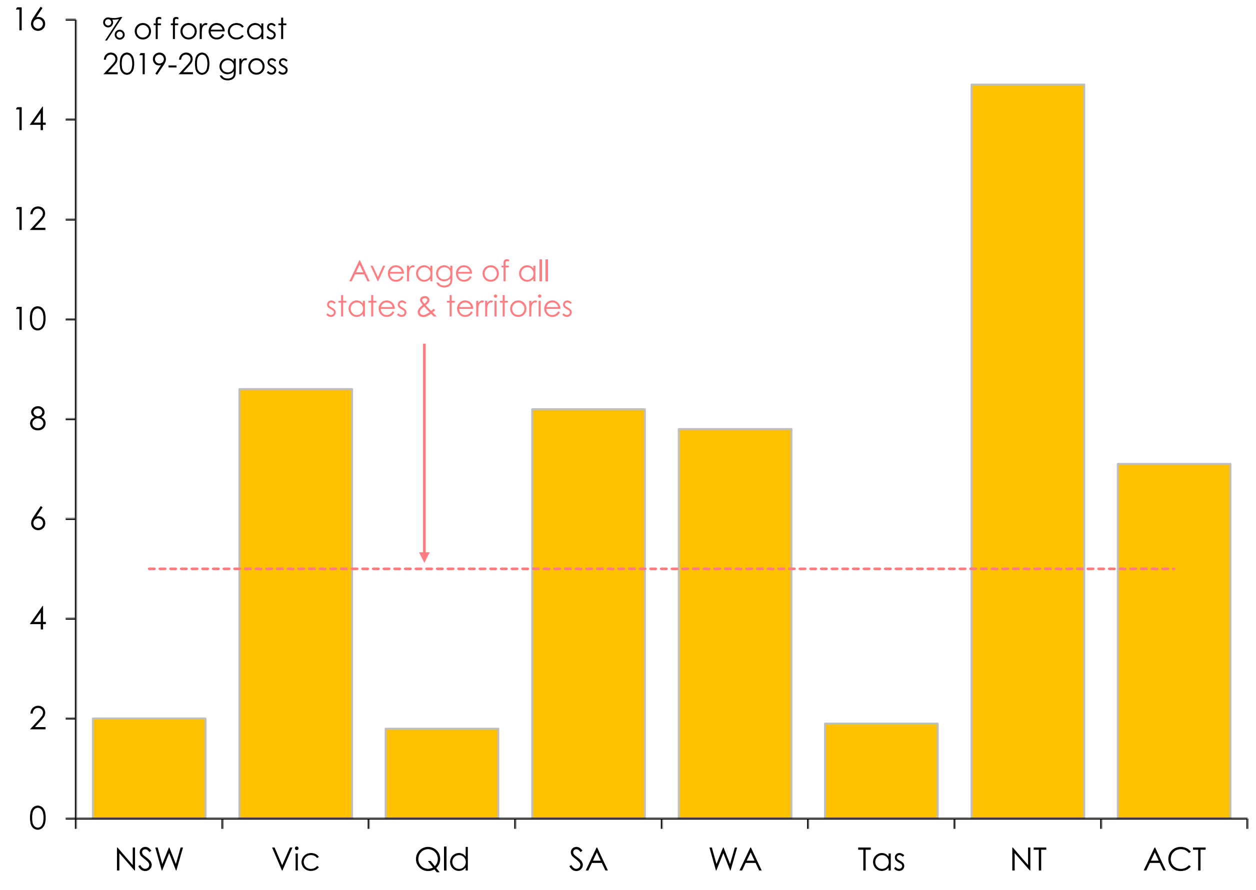
Note: 'small' businesses are those with income of up to \$10mn; medium businesses are those with income of up to \$250mn; and large corporates those with income of over \$250mn. 'High wealth' individuals are those who (with associates) control wealth of more than \$50mn. *Source*: Australian Taxation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

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".

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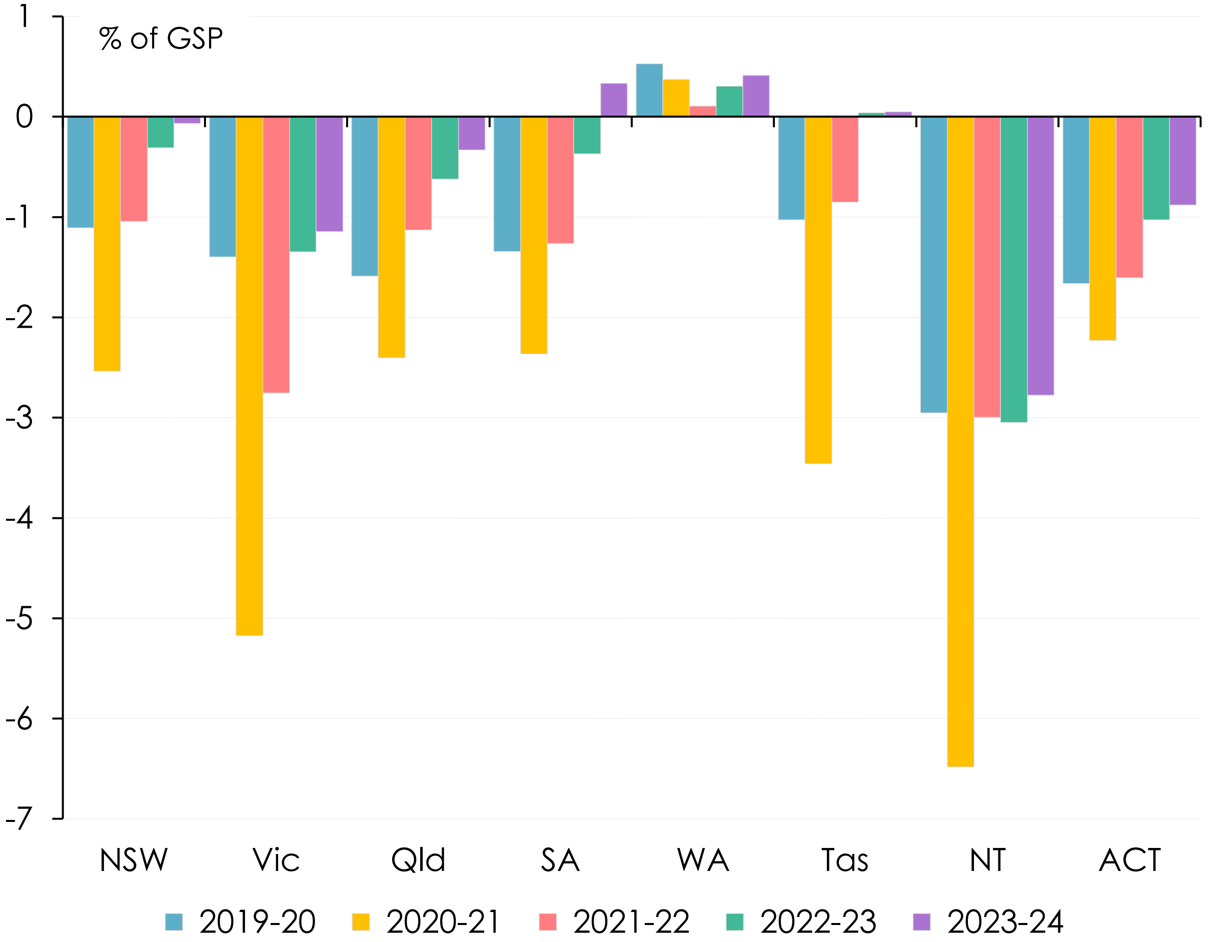
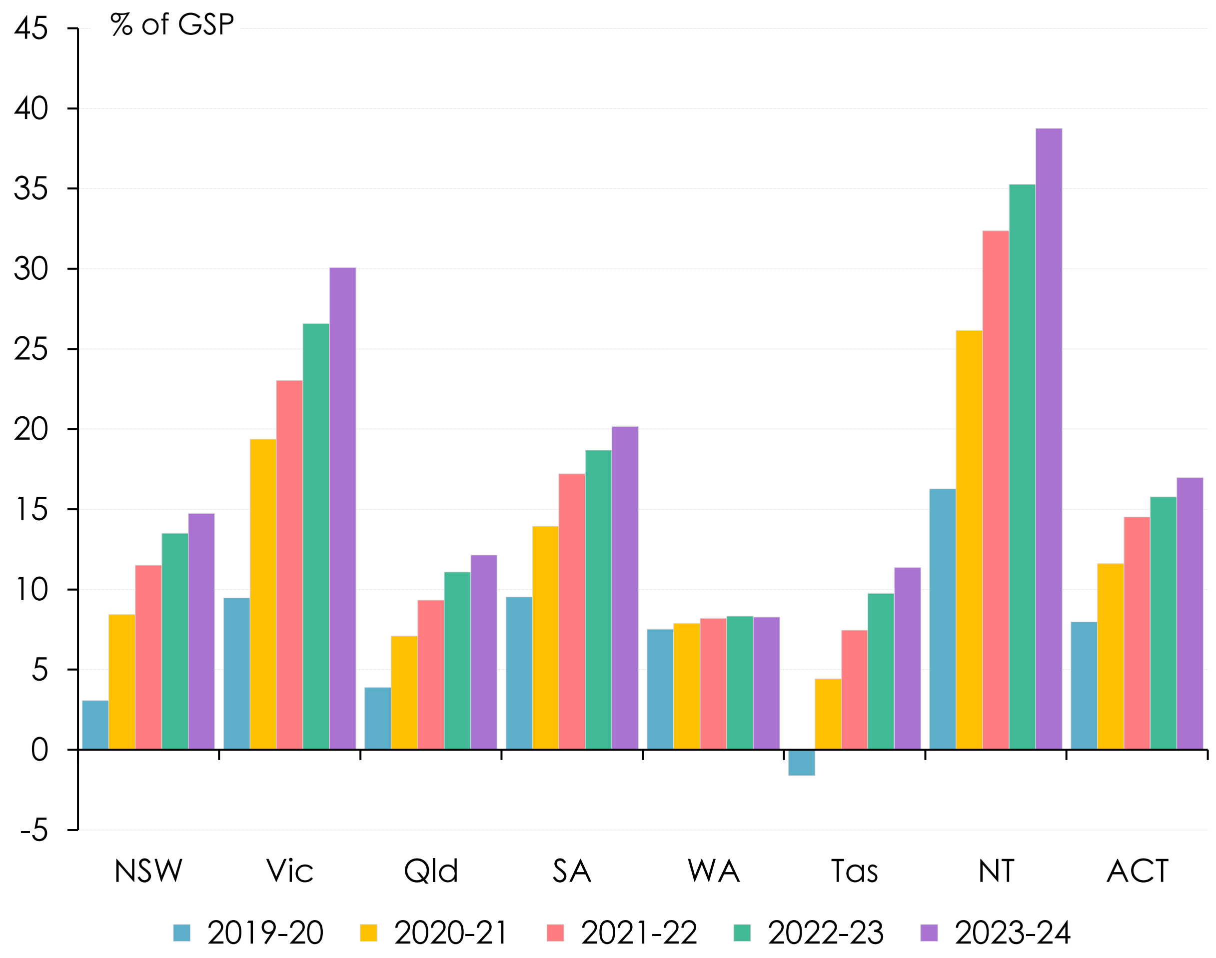
Victoria will be running the largest deficits, and incurring the highest levels of debt, of any jurisdiction except the Northern Territory

State & territory general government 'net operating balances' as a pc of gross state product



State & territory general government net debt as a pc of gross state product



Note: No date has yet been set for ACT Budget. Estimates of gross state product (GSP) used to derive percentages shown in above charts are derived from state or territory Treasury forecasts of real GSP growth and Commonwealth Treasury forecasts of the GDP deflator for Australia as a whole; Tasmania's Treasury did not publish GSP growth forecasts for 2022-23 and 2023-24 and so it has been assumed Tasmania's GSP grows at the same rate as forecast for Australia as a whole in those years.
Sources: NSW, Vic Qld, SA, WA, Tas, and NT 2020-21 Budget Papers (see next seven slides), ACT Pre-Election Budget Update (September 2020). Return to "What's New".

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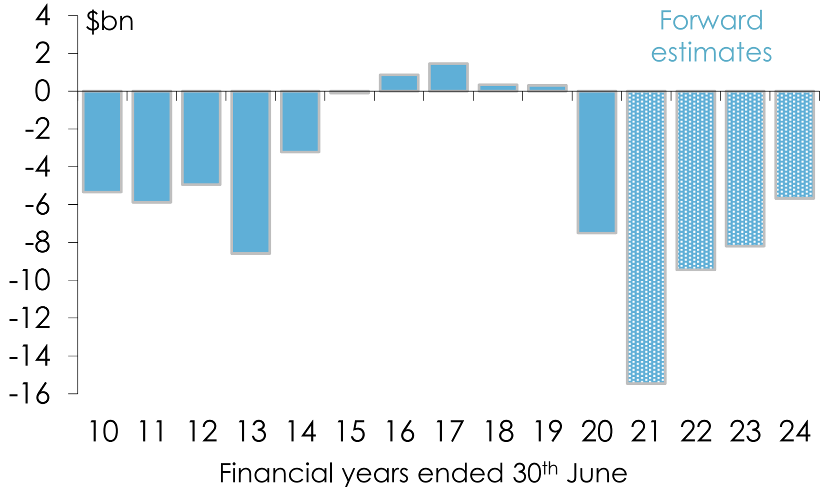
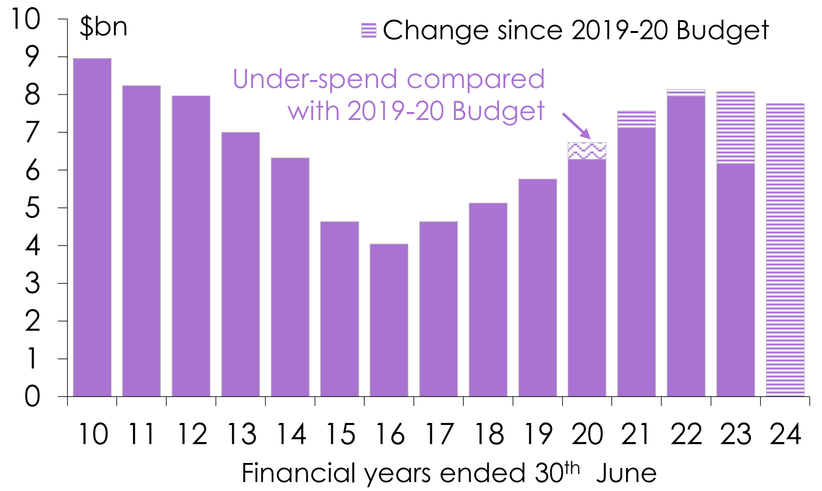
Queensland's 2020-21 Budget contains less fiscal stimulus than NSW's or Victoria's, in part due to the impact of lower mineral royalty revenues

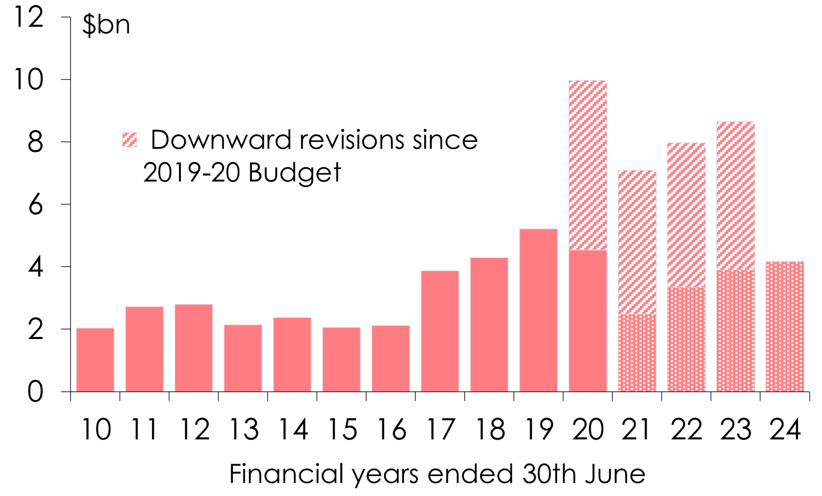
Cash balance



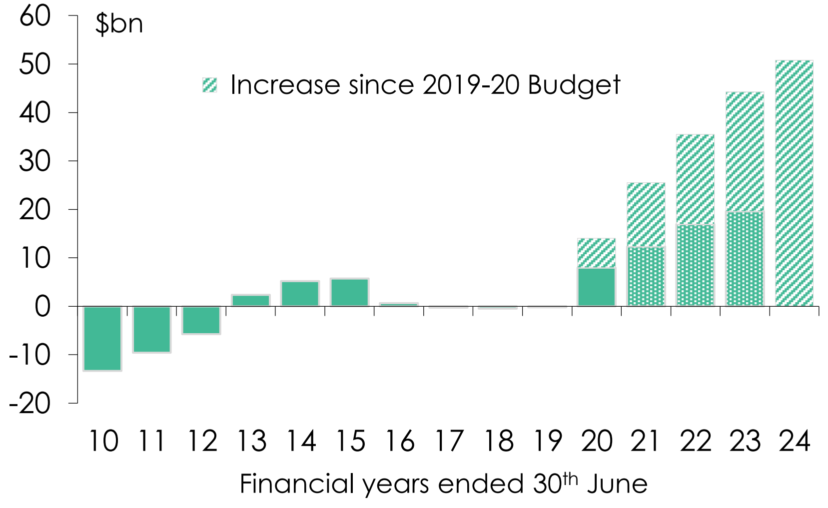
Infrastructure spending



Mineral royalty revenues



Net debt



- Queensland's 2020-21 Budget is less expansionary than NSW's or (especially) Victoria's – with cash deficits averaging 2.6% of GSP over the four years to 2023-24, half of what is projected for Victoria
- Although the Budget Papers make repeated reference to the Government's $56bn capital works program, the projected increase in investment spending from that envisaged in last year's Budget is quite small, and the level will remain below that of a decade ago (in nominal terms)
  - even including GBEs, Queensland's proposed capital spending of just under 3% of GSP is the smallest of any state or territory except WA
- Queensland has been relatively less affected by downward revisions to GST revenues than other states (because its share went up after the most recent Grants Commission review) ...
- ... but Queensland has been adversely affected by sharp downward revisions to projected revenue from coal royalties, as a result of lower prices and volumes, only partly offset by the introduction of a new LNG royalty regime

Note: Budgetary aggregates shown in the above charts refer to Queensland's 'general government' sector (ie, excluding public corporations). *Source:* Queensland Government, *2020-21 Budget Paper 2: Strategy and Outlook*. Return to "What's New".

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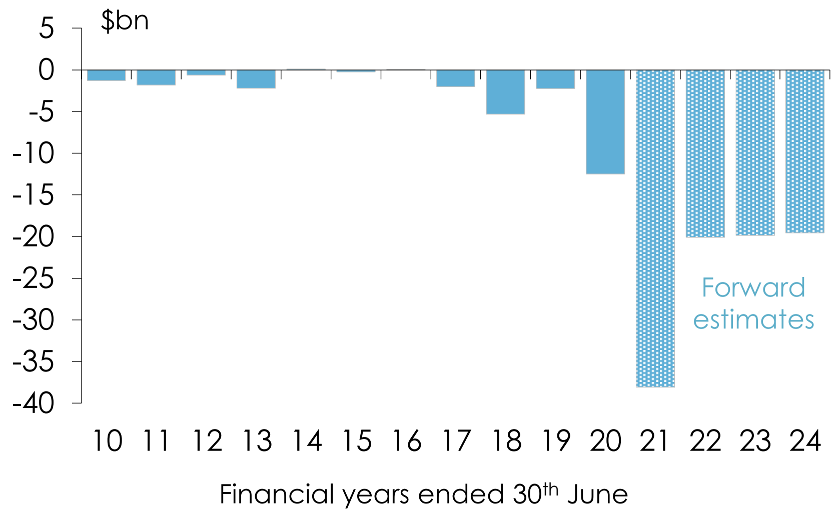
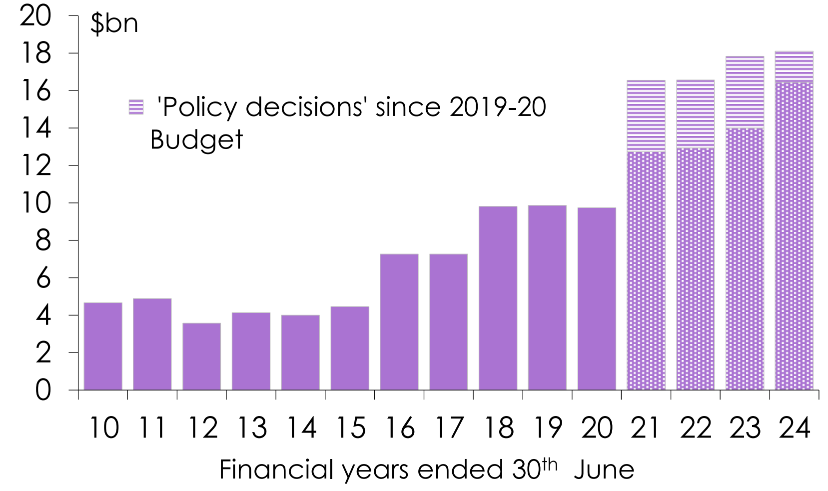
Victoria's 2020-21 Budget is the 'biggest-spending' of all the states and territories, with the largest increase in net debt

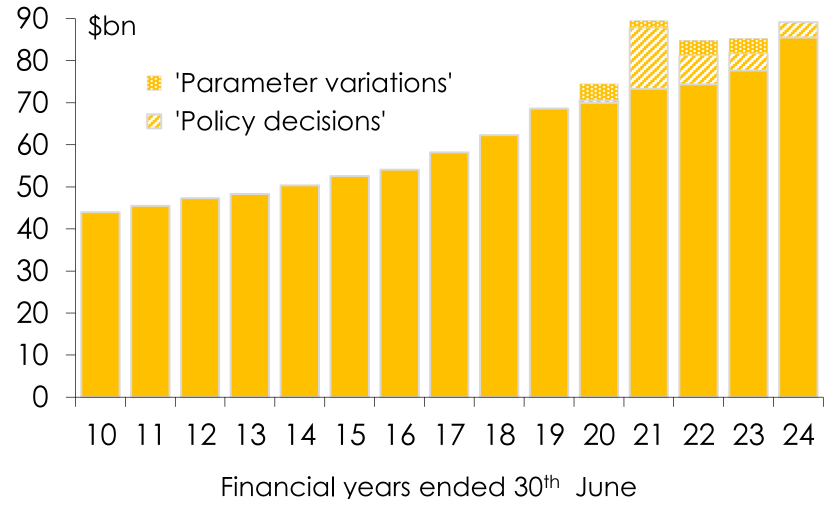
Cash balance



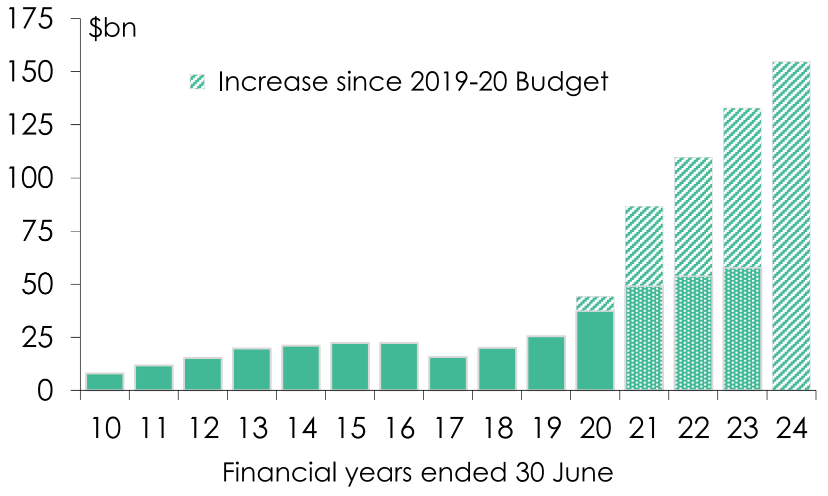
Infrastructure spending



Operating expenses



Net debt



- Victoria's 2020-21 Budget incorporates $29bn of new 'operating expense' (or 'output initiatives' as they're called) over the four years to 2023-24 – including $14½bn (equivalent to 3¼% of GSP) in 2020-21
- The Budget also includes almost $13bn of new capex expenditure commitments ('asset initiatives') over the four years to 2023-24 (with another $7bn spilling over into subsequent years)
- Forecast revenues have been revised down by an average of about $6½bn (8½%) per annum since last year's Budget – partly reflecting sharp declines in stamp duty, payroll tax and gambling tax revenues, together with a large drop in Victoria's 'slice' of a smaller-than-expected GST revenue 'pie'
- The result of this is that Victoria will be running larger cash deficits (averaging 5% of GSP) over the next four years than any other state or territory except the NT (and cf. NSW 2¾% of GSP)
- … and will increase the biggest increase in net debt of any jurisdiction – from 9½% of GSP at June 2020 to 30% at June 2024 (double the NSW forecast of 14¾%)

Note: Budgetary aggregates shown in the above charts refer to Victoria's 'general government' sector (ie, excluding public corporations). *Source:* Victorian Government, *2020-21 Budget Paper No. 2: Strategy and Outlook*.

Return to "What's New".

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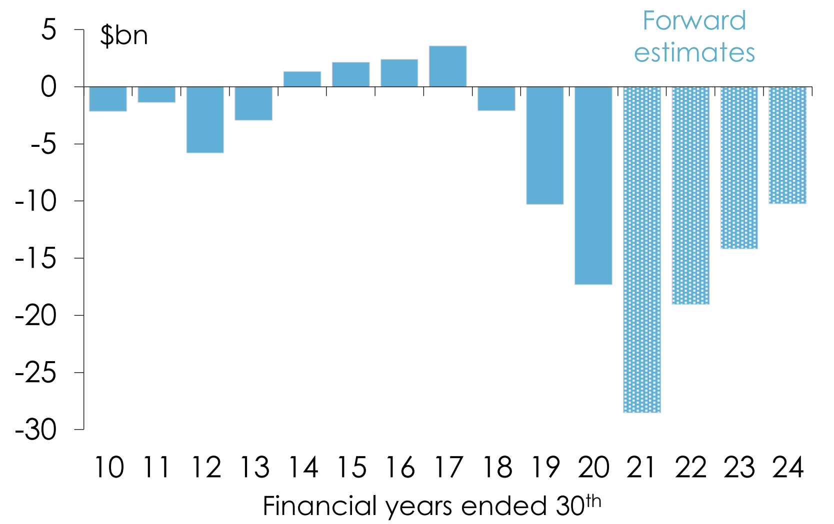
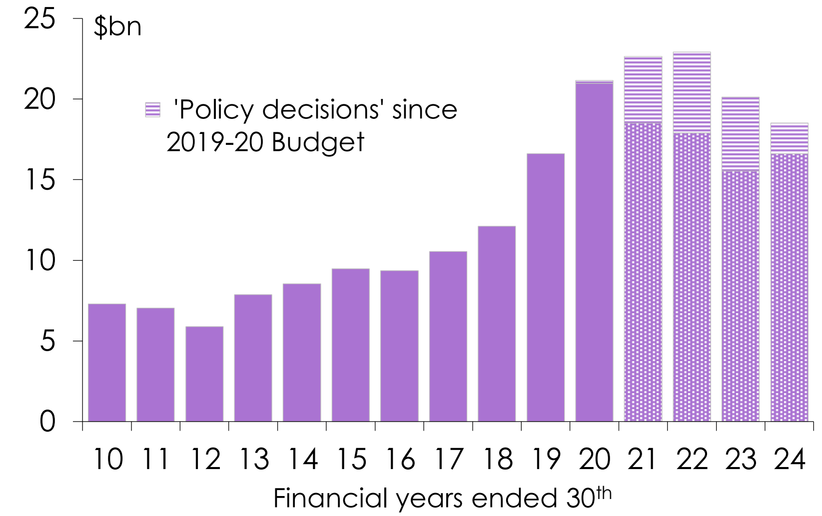
New South Wales' 2020-21 Budget provides additional infrastructure spending, payroll tax cuts and (most importantly) property tax reform

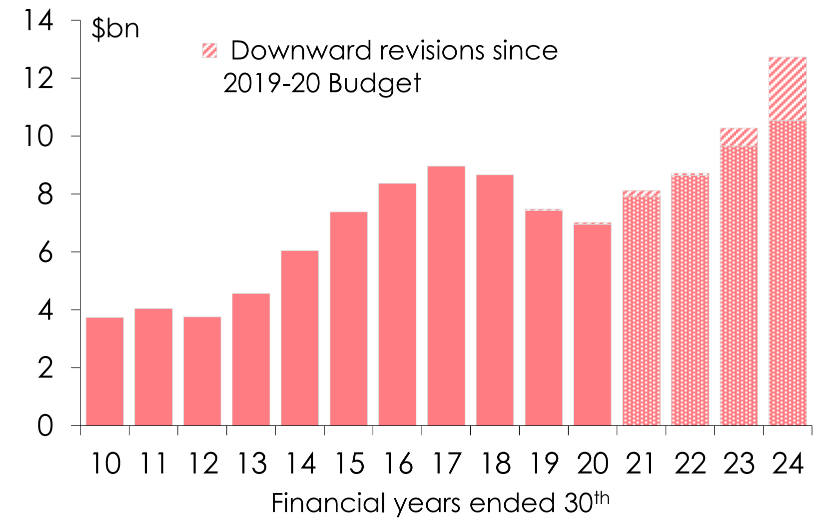
Cash balance



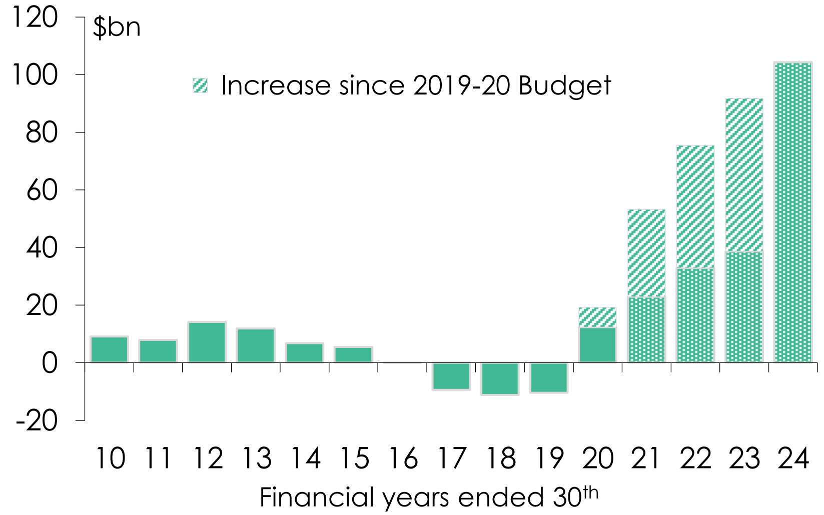
Infrastructure spending



Stamp duty revenues



Net debt

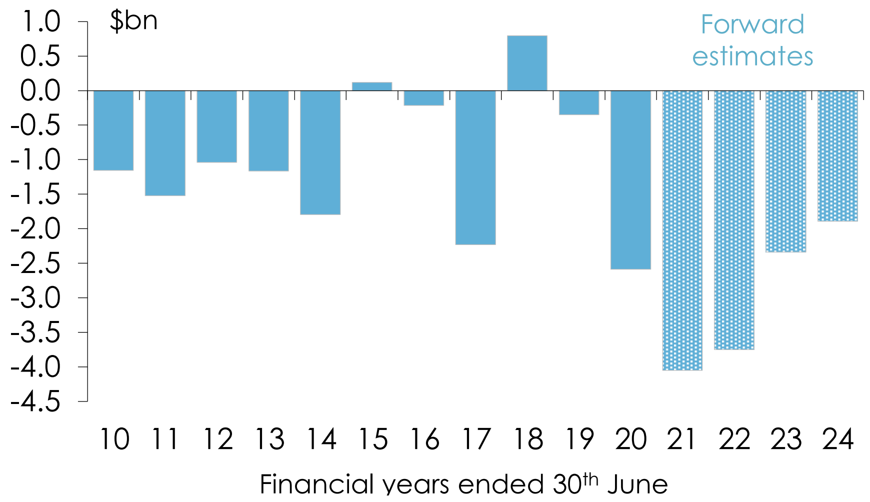


- **The 2020-21 NSW Budget includes tax cuts totalling $3bn over the four years to 2023-24 ($2bn of which is for a 0.6 pc pt reduction in the payroll tax rate for 2020-21 and 2021-22, and $744mn for an increase in the payroll tax threshold from $900K to $1.2mn) and $2.6bn of additional 'operating' expenses (much of it for bushfire recovery and health expenses)**
- **The Budget also provides an additional $15.7bn of capital expenditures over the four years to 2023-24 – equivalent to about 0.6% of GSP pa**
- **Like other states and territories NSW's budget has been adversely affected by shrinkage of the GST 'pie' – NSW's share now expected to be $8.6bn lower (over the four years to 2023-24) than forecast in last year's Budget**
- **The other highlight of the NSW Budget was the stated intention to abolish stamp duty on land transfers and replace it with a broader land tax including owner-occupied residences - a bold efficiency- and equity-enhancing reform – although the proposal to allow property purchasers to 'opt out' of the new system will detract from reform and add to its cost**

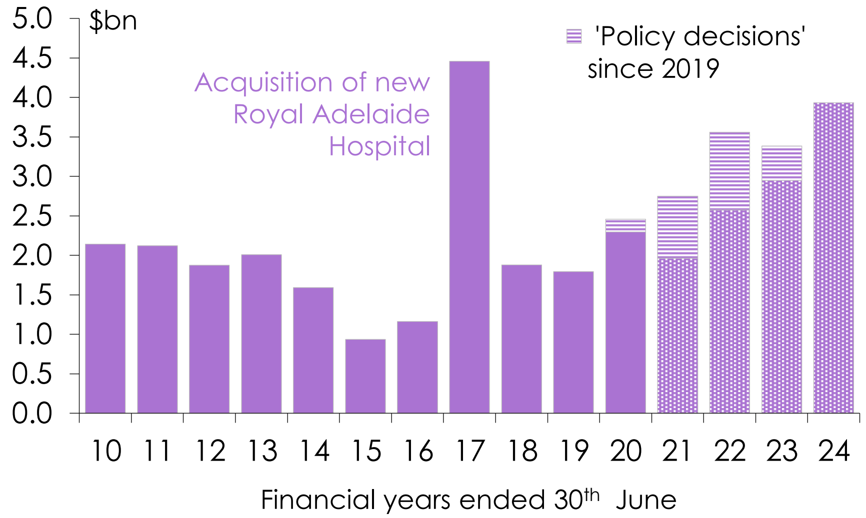
Note: Budgetary aggregates shown in the above charts refer to NSW's 'general government' sector (ie, excluding public corporations). *Source:* New South Wales Government, *2020-21 Budget Paper No. 1: Budget Statement*.
Return to "What's New".

South Australia's 2020-21 Budget was hit by GST revenue shortfalls but still provided a significant fiscal stimulus

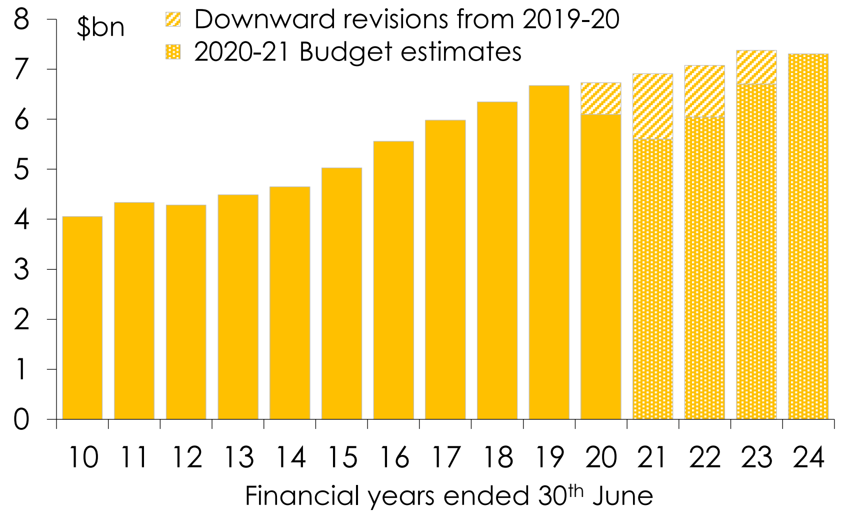
Cash balance



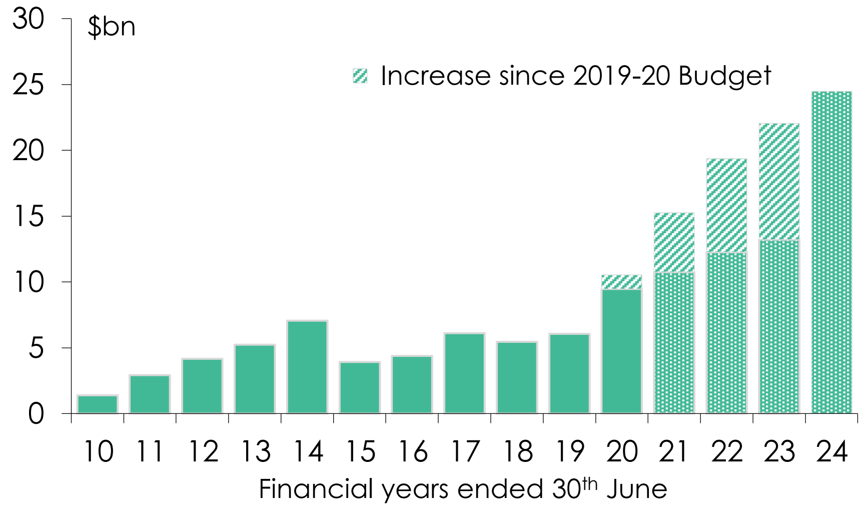
Infrastructure spending



GST revenue



Net debt

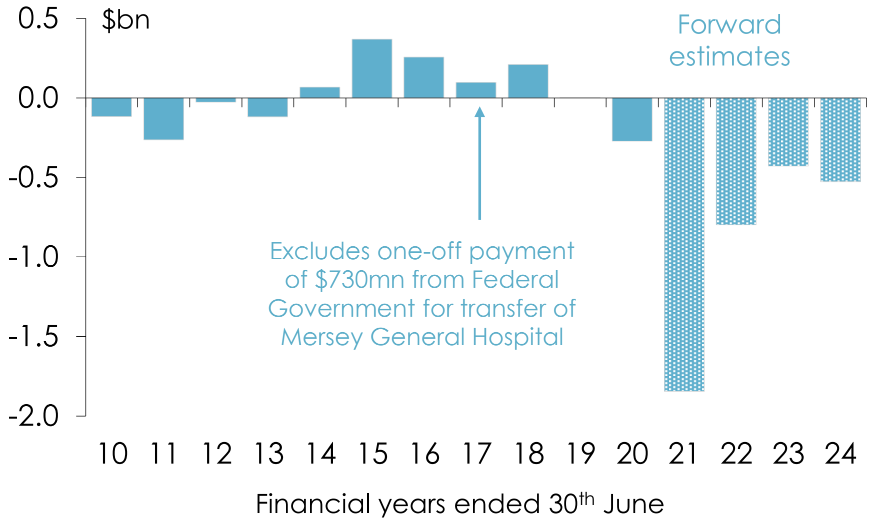


- South Australia has been harder hit by GST revenue shortfalls than other states & territories because not only has the total GST 'pie' been shrunk by the fall in consumer spending, but SA's 'slice' was also cut (in contrast to Tasmania's and the NT's)
- Nonetheless, SA's 2020-21 Budget incorporates what it calls a "$4bn stimulus package" (equivalent to just under 1% of GSP pa)
- New policy initiatives in the Budget actually sum to $3.4bn over the four years to 2023-24, of which increased recurrent spending or revenue measures account for $2.3bn (almost half of that in 2020-21) and increased infrastructure spending $1.1bn (of which about half is in 2021-22)
- The Budget includes a 15-month waiver of payroll tax for small businesses (payrolls of less than $4mn) and a 9-month deferral of payroll tax for larger businesses, at a total cost of $165mn
- Controversially (for the trivial amount of revenue involved) the Budget provides for a 'road user charge' on electric vehicles based on distance travelled

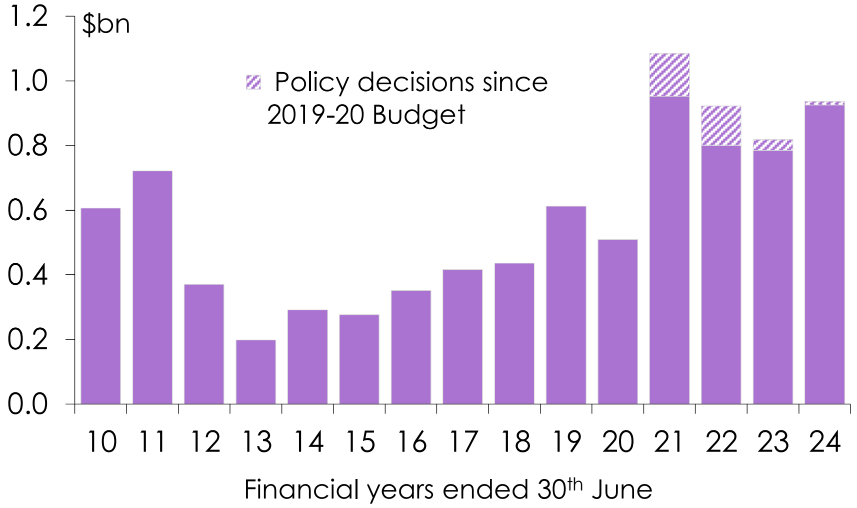
Note: Budgetary aggregates shown in the above charts refer to SA's 'general government' sector (ie, excluding public corporations). *Source:* Government of South Australia, *2020-21 Budget Paper No. 3: Budget Statement*.
Return to "What's New".

Tasmania's 2020-21 Budget shaped by generous support to households and businesses through the pandemic

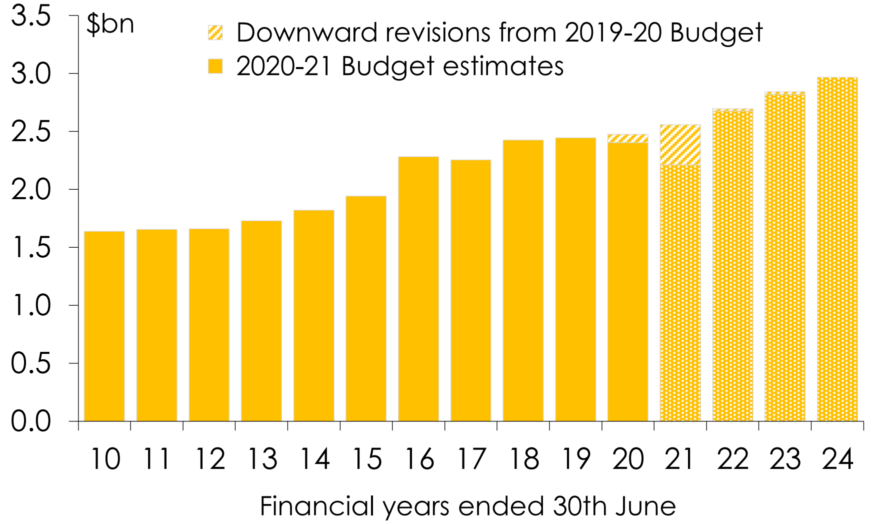
Cash balance



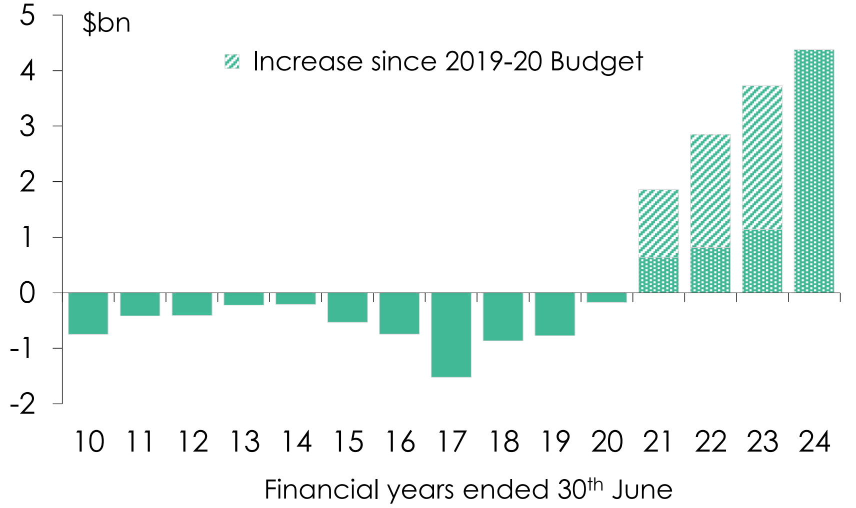
Infrastructure spending



GST revenue



Net debt

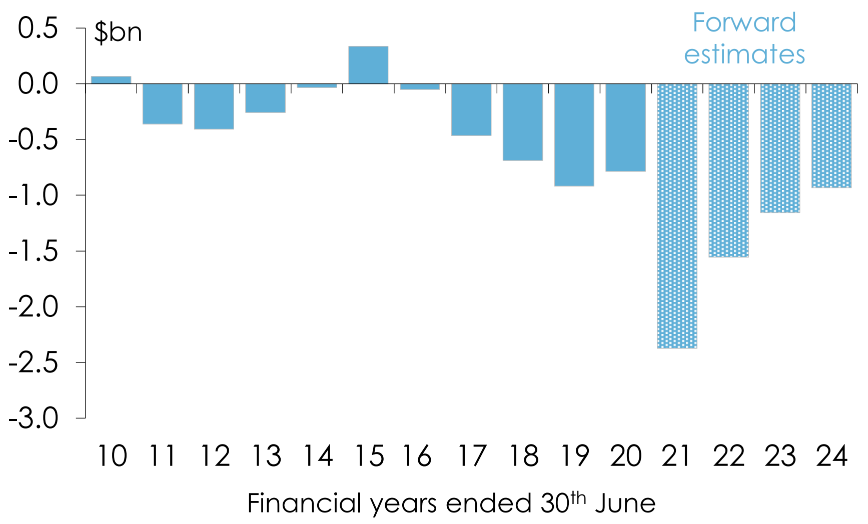


- Although Tasmania is more dependent on GST revenue than SA, it wasn't as hard hit by the shortfall in the total GST 'pie' because its 'slice' has increased since last year – and moreover the decline in GST revenues has been largely offset by increases in other Federal grants
- Tasmania has been relatively more generous in the support it has provided to households and businesses through the pandemic than any other state or territory – resulting in 7% increase in operating expenses in 2019-20 and a projected 12% increase in 2020-21
- Unlike SA, Tasmania's 2020-21 Budget doesn't include any tax cuts, other than a (small) extension of targeted payroll tax exemptions for apprentices, trainees and young people
- New infrastructure spending announced in the Budget was relatively small – just $300mn over four years (about 8¾%), less than the 'carry-over' from delays in spending in 2019-20
- Tasmania remains in a relatively strong financial position compared to other jurisdictions with the lowest ratio of total non-financial public sector debt to GSP – although it also has by far the largest unfunded superannuation liability

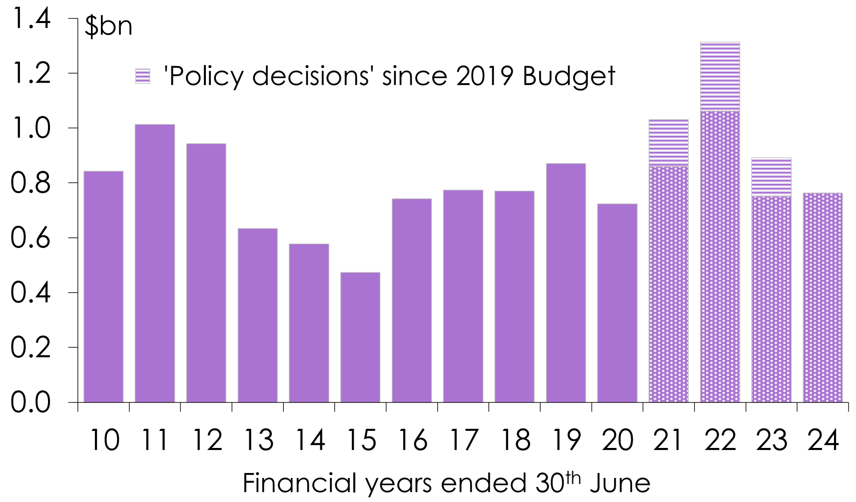
Note: Budgetary aggregates shown in the above charts refer to Tasmania's 'general government' sector (ie, excluding public corporations). *Source:* Government of Tasmania, 2020-21 *The Budget - Budget Paper No. 1*. A more detailed analysis of this year's Tasmanian state budget is available here. Return to "What's New".

The Northern Territory is in a poor financial position and has a reasonable case for further Federal assistance

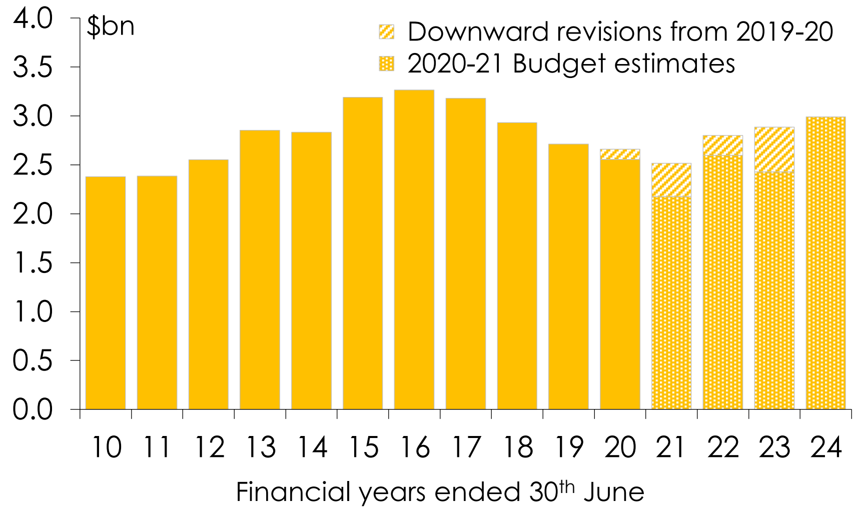
Cash balance



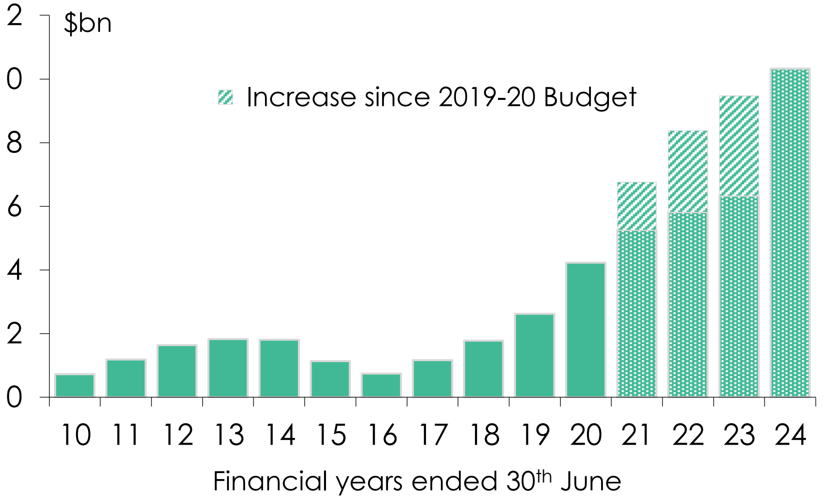
Infrastructure spending



GST revenue



Net debt

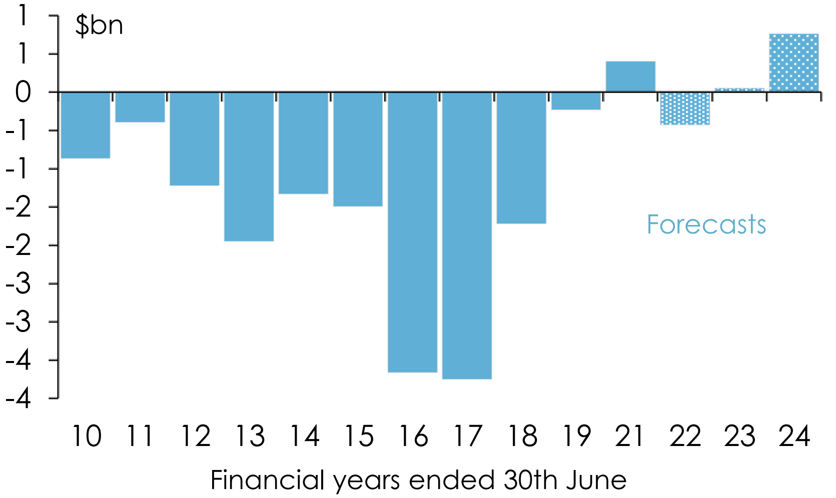


- **The Northern Territory has been in a fairly dire fiscal position in the past five years, largely stemming from mis-management by the previous CLP Government (in office 2012-16) and economic stagnation since the completion of the Ichthys LNG plant in 2018**
- **Although the NT has handled the Covid-19 outbreak exceptionally well (lowest number of cases per capita in Australia and zero deaths), it simply hasn't been able to afford to provide as much support to households and businesses through the pandemic as the southern states**
- **The NT Government is more dependent on GST revenues (42% of total revenue in 2019-20) than other states & the ACT (21%) so shortfall in GST 'pie' has hurt even though NT's 'slice' is slightly 0.5 pc pt higher this year than in 2019-20**
- **Indeed because NT's 'slice' of GST will be more than 4.66% this year, it won't get the $255mn 'top-up' payment from Canberra that it got last year – the Territory has reasonable case for renegotiating the 'bail-out deal ' struck in 2018 – especially when compared with the amounts the Federal Government has given to WA (which doesn't need it) in recent years**

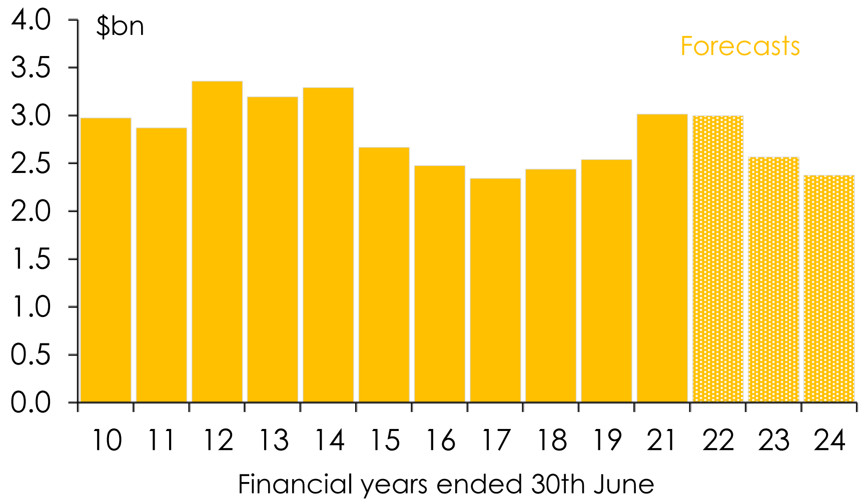
Note: Budgetary aggregates shown in the above charts refer to the Territory's 'general government' sector (ie, excluding public corporations). *Source:* Northern Territory Government, 2020-21 *Budget Strategy and Outlook*. For a more detailed look at the Northern Territory economy refer to pp 108-120 of this Chartpack for Week ended 8th August 2020. Return to "What's New".

Western Australia's budget (presented seven weeks ago) is the only one in Australia projecting budget surpluses

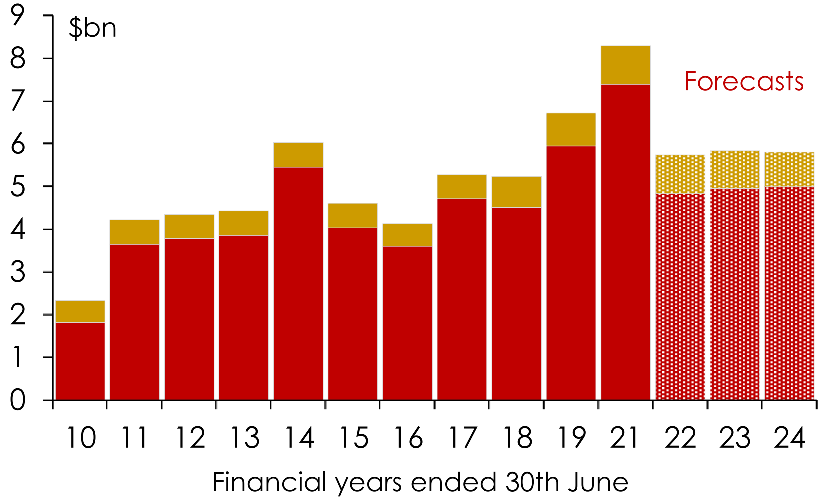
Cash balance



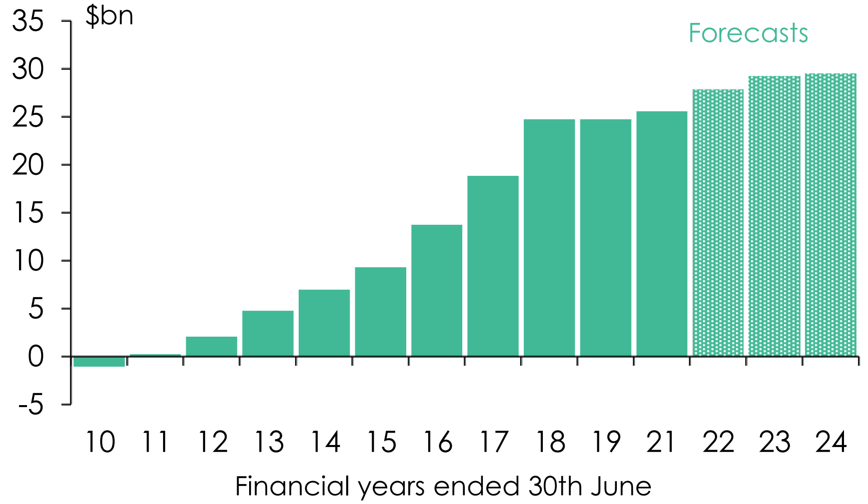
Infrastructure spending



Royalties revenue



Net debt

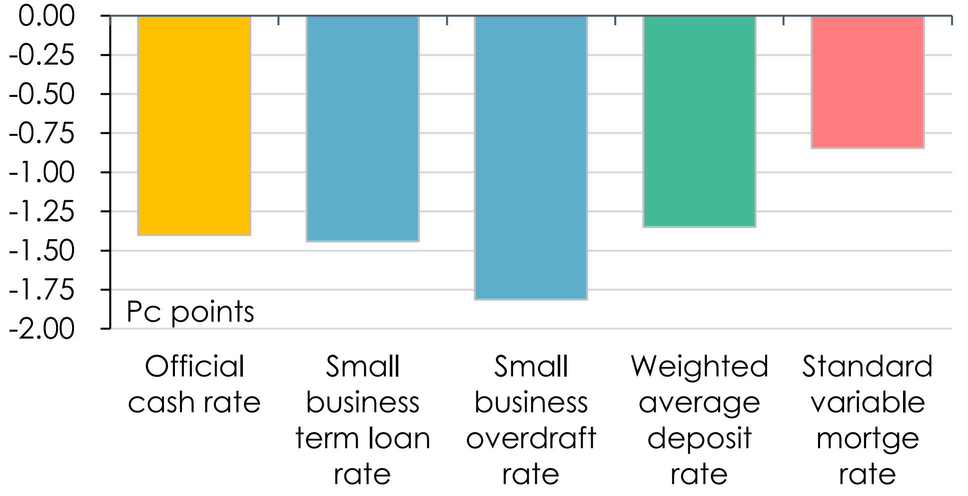


Note: Budgetary aggregates shown in the above charts refer to WA's 'general government' sector (ie, excluding public corporations). *Source:* Government of Western Australia, 2020-21 *Budget Paper No. 3: Economic and Fiscal Outlook*.
Return to "What's New".

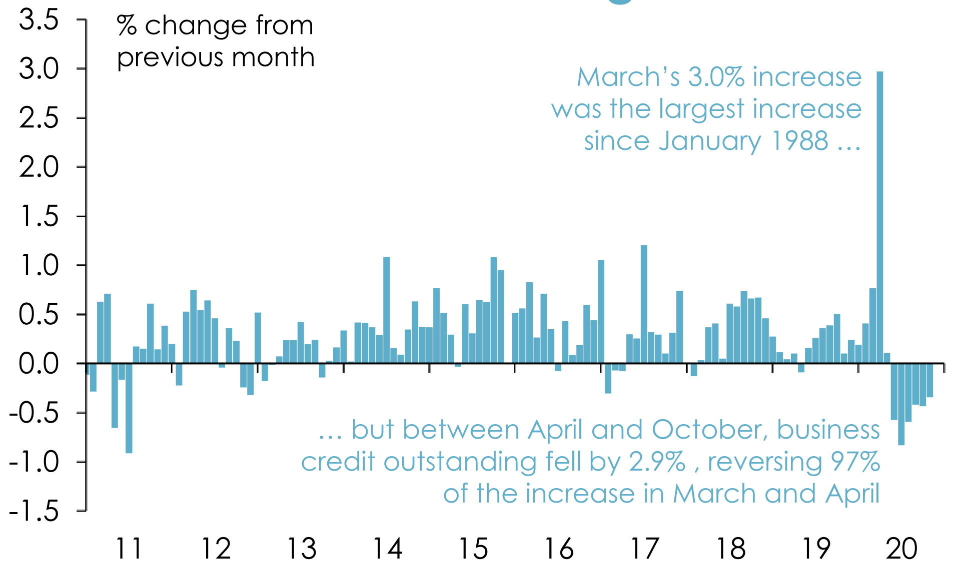
- **Western Australia's state budget (presented on 8th October) projected modest cash surpluses in three of the next four years, following the largest surplus in 14 years in 2019-20**
- **WA's budget has benefited from buoyant iron ore prices (32% higher in 2019-20 than assumed in last year's budget) and strong export volumes**
  - this year's budget assumes a 34% drop in the iron ore price from an average of US$96.60/t CFR (ie including freight of ~ $10/t) in 2019-20 to US$64/t in 2020-21 through 2023-24
  - each US$1 per tonne change in iron ore prices adds/subtracts A$83mn pa from royalty revenues
- **This revenue windfall has allowed the WA Government (which faces an election on 13th March next year) to fund its $5½bn 'WA Recovery Plan' with only modest increases in net debt**
  - WA's infrastructure spending program is quite modest
- **One wonders what the justification was for WA receiving $814bn in 'transitional GST top up payments' from the Federal Government in 2019-20 (on top of $434mn which was 'pre-paid' in 2018-19), in light of the iron ore bonanza**

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

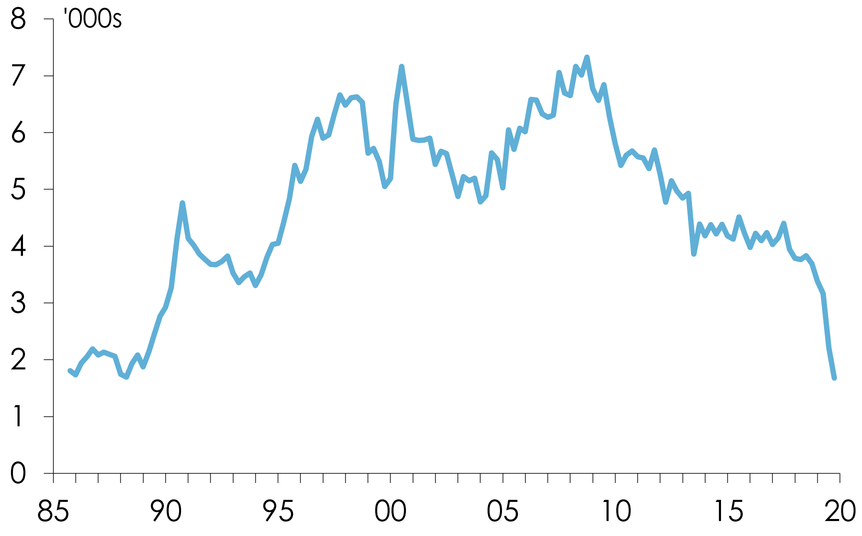


Note: Deposit and loan interest rates shown in first chart above are for October 2020, compared with June 2019; cash rate is for November 2020
Source: Reserve Bank of Australia. Return to "What's New".

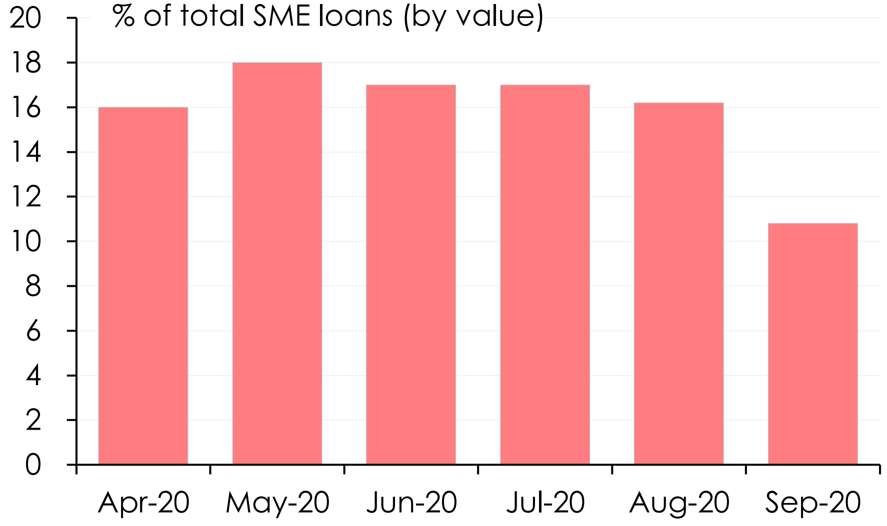
- Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- Banks have extended 'repayment holidays' to business and home mortgage borrowers who request it (see next slide for more details)
  - although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

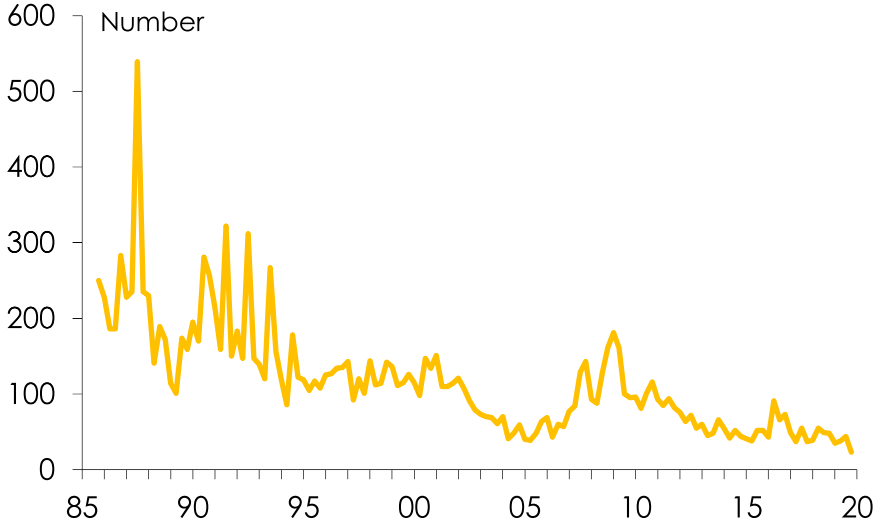
Bankruptcies



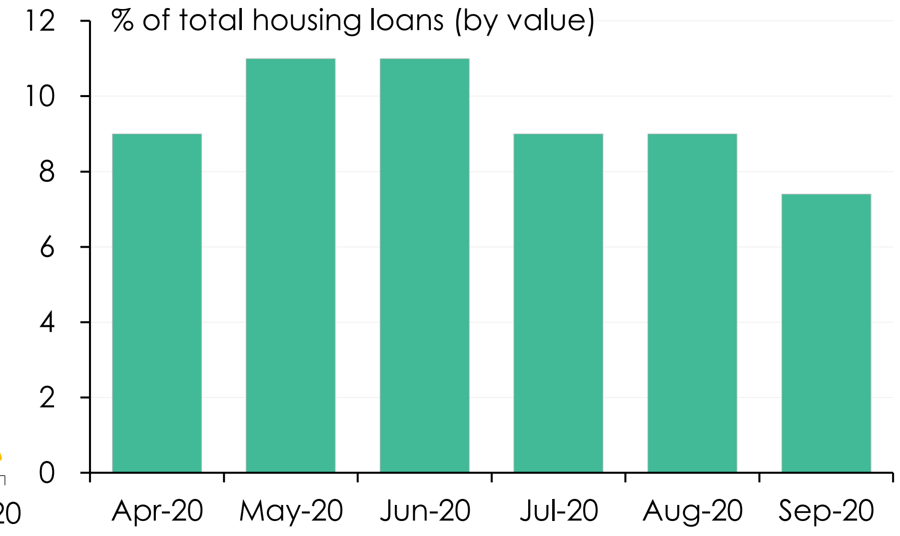
SME loan repayment deferrals



Personal insolvencies



Mortgage repayment deferrals

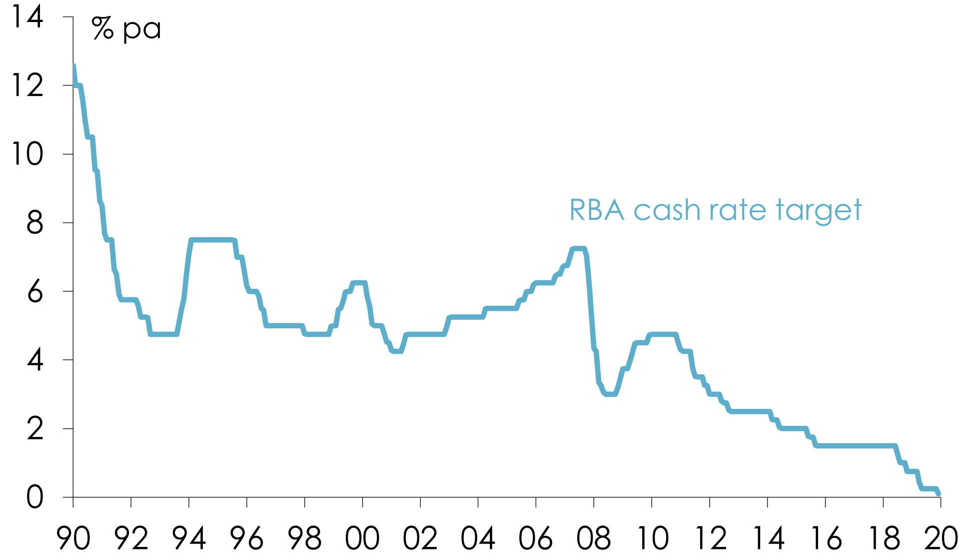


- **Counter-intuitively, bankruptcies and personal insolvencies have fallen to record lows during the worst recession since the Great Depression**
- **This reflects the effect of**
  - interest rates falling to record lows
  - support programs instituted by the federal and state governments, including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

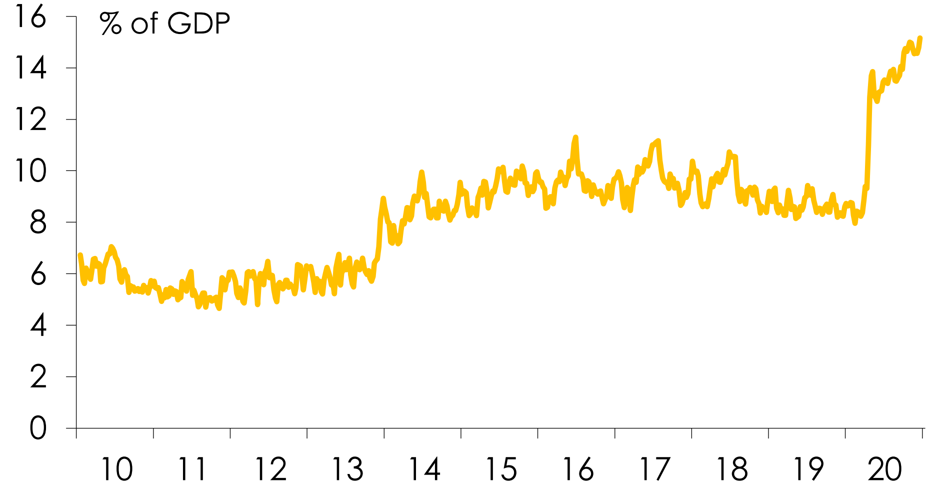
Note: latest data for bankruptcies and insolvencies is September quarter 2020.
Sources: Australian Financial Security Authority; Australian Prudential Regulatory Authority. Return to "What's New".

As expected the RBA left monetary policy settings unchanged this week but re-iterated its preparedness to do more ‘if needed’

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“.

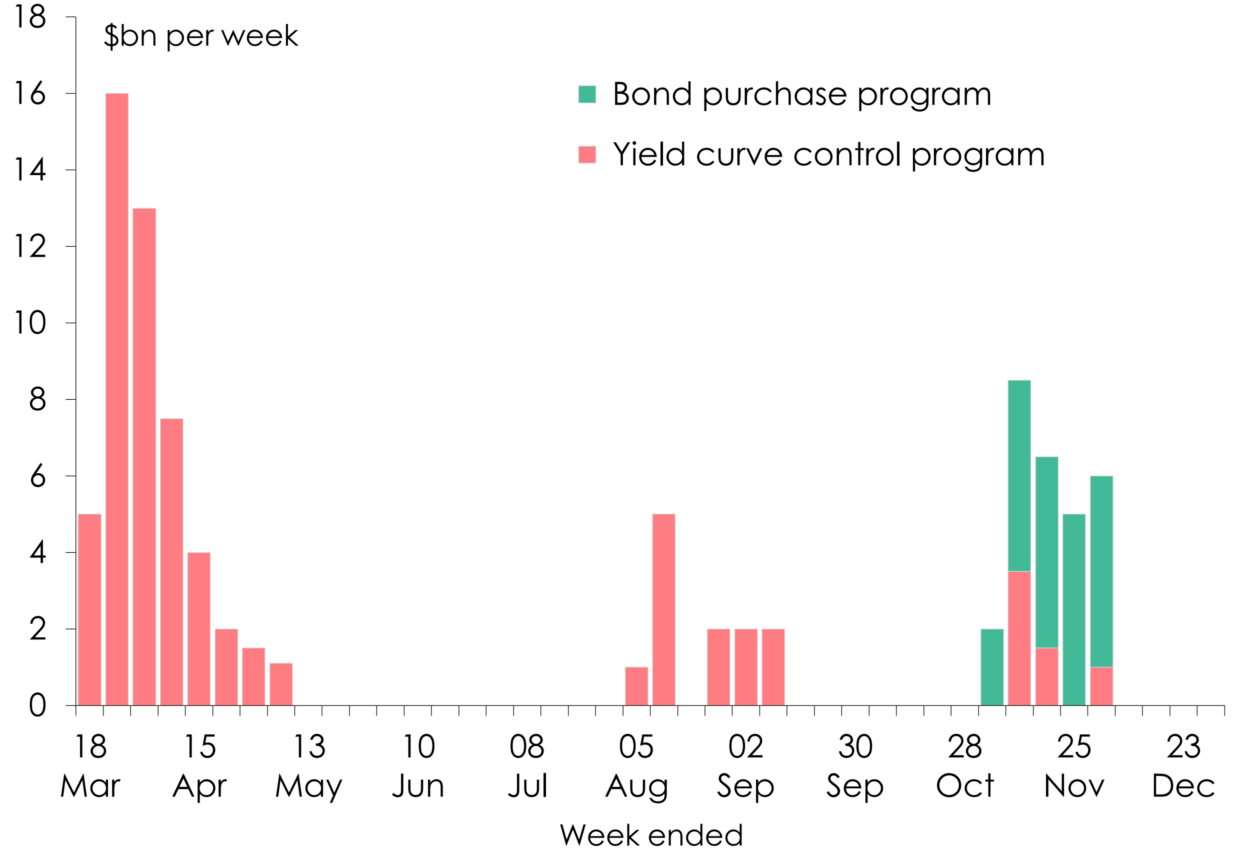
- **As expected the RBA left its cash and 3-year yield targets unchanged at this week’s Board meeting, and made no changes to its newly-introduced $100bn bond purchase program**
  - in his post-Board meeting statement on Tuesday Governor Phillip Lowe re-iterated that the RBA “is not expecting to increase the cash rate for at least three years” and that “is prepared to do more if necessary”
- **Appearing before Parliament this week, Governor Lowe re-affirmed that although “the economic news has, on balance been better than we were expecting”, and that “recent medical breakthroughs give us some hope that things will work out better” than the RBA’s ‘central scenario’ of 5% growth in 2021 and 4% in 2022, nonetheless “the recovery will be uneven and … drawn out”**
  - the pre-recession level of output (in Q4 2019) won’t be regained until end-2021
  - unemployment is still expected to be above 6% in two years’ time
  - wage and price pressures are likely to remain subdued
- **He also indicated that the unemployment rate would likely need to fall to less than 5% before a sustained pick-up in wages growth could occur**
- **Governor Lowe spelled out the thinking behind the RBA’s new bond purchase program**
  - although he continues to believe a ‘yield target’ is preferable to a ‘quantity target’, “it doesn’t need to be an either/or choice” and “we can’t ignore what is happening overseas” (ie what other central banks are doing)

The RBA has changed the way it interprets its inflation target, and is now giving greater weight to unemployment (and to putting a lid on the A$)

- Speaking after November's Board meeting, Governor Phillip Lowe 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"
- Speaking to the House of Representatives Economics Committee this week the Governor again characterized a move to negative interest rates as "extraordinarily unlikely", with "any benefits being outweighed by the costs"
- He also re-iterated that the RBA's implementation last month of a Bond Purchase Program targeting longer-term yields was a reaction to similar measures by overseas central banks which had (indirectly) put upward pressure on the exchange rate
  - "a price-based target (ie a yield target) was preferable to a quantity-based target ... but it doesn't need to be an either/or choice and we can't ignore what is happening overseas"
  - "relatively high bond yields compared with other countries were putting unhelpful upward pressure on the value of our own currency" ... and "we are prepared to do more [by way of bond purchases] if required

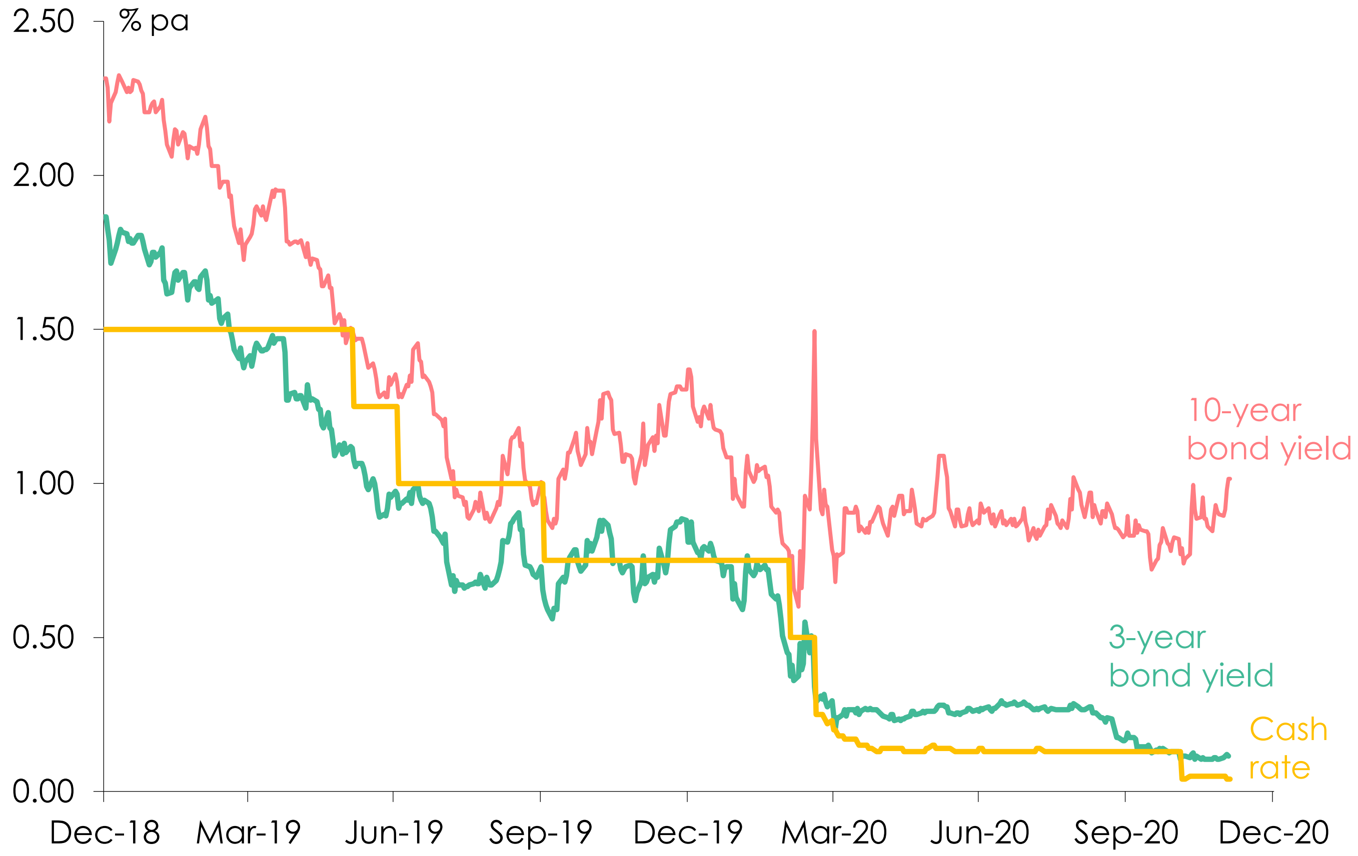
The RBA this week bought another $5bn of longer-term bonds under its new Bond Purchase Program, and $1bn for its yield curve target program

RBA open market bond purchases



- The RBA bought another $5bn of bonds this week under its new Bond Purchase Program, and $1bn under its 3-year yield target program, bringing its total bond purchases since March to $90bn (or 4.8% of GDP)

Interest rates



- Australian bond yields continued edging lower this week, largely in line with global trends, with the 10 year yield finishing above 1% for the first time since June, against a background of rising global yields but with the 10-year spread vs US yields also rising to 9bp

Source: Reserve Bank of Australia, Statistical Tables A3 and F2. Data up to 4th December. Return to "What's New".

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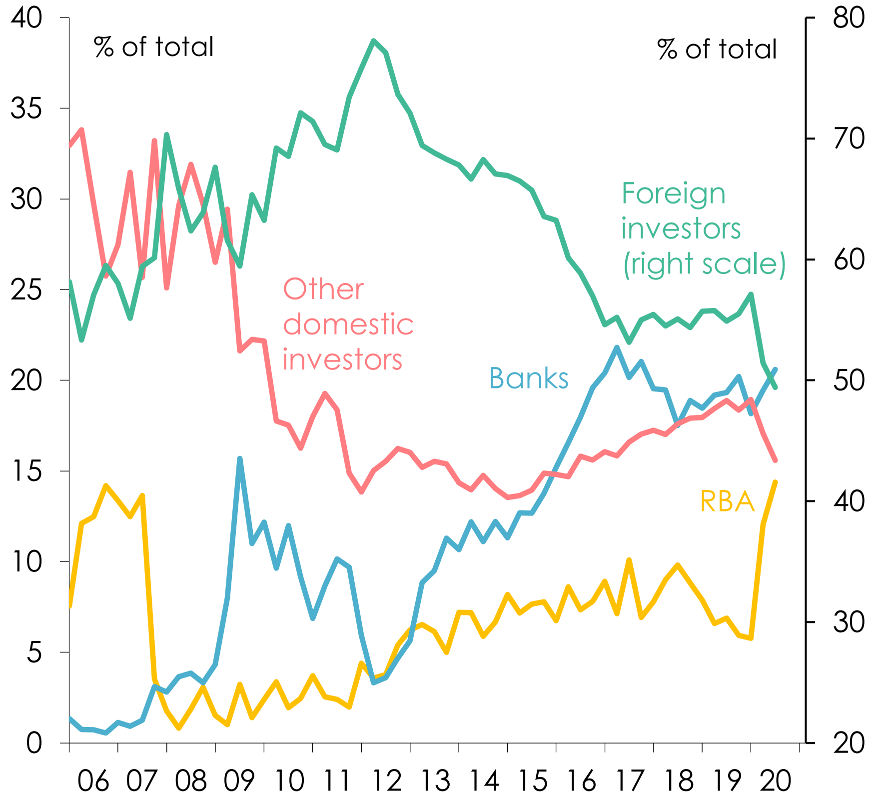
CORINNA ECONOMIC ADVISORY

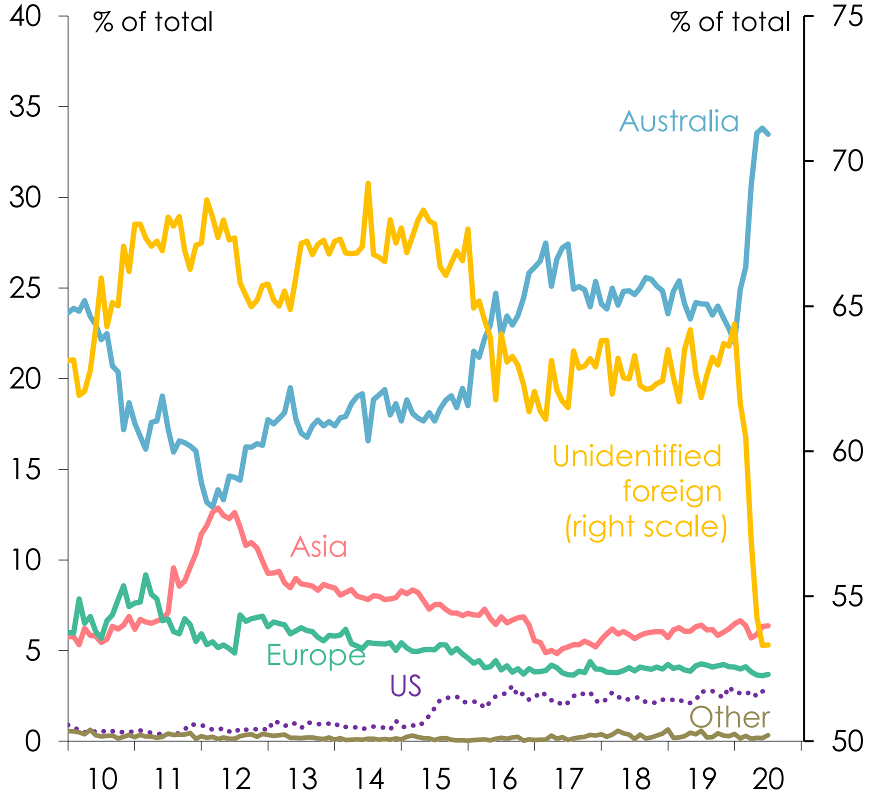
The RBA increased its holdings of federal & state bonds by $92bn in the first half of 2020, absorbing 70% & 53% of the increase in the total stock

Holders of Australian Government bonds



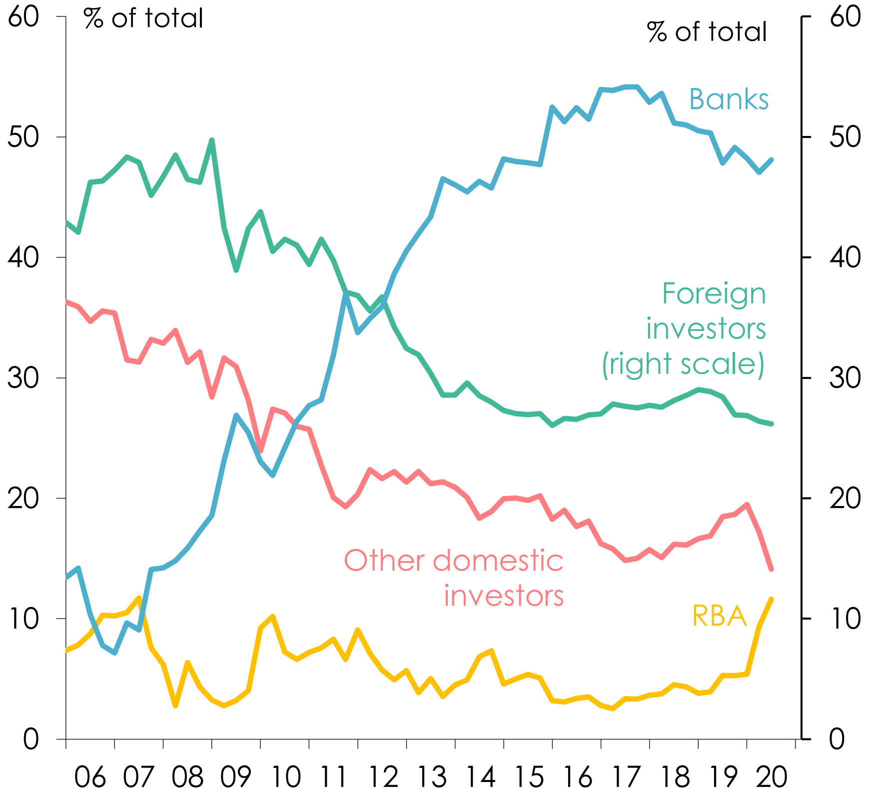
Australian Gov't bonds on issue rose by $99bn over the first half of 2020 – the RBA's holdings rose by $69bn (almost 70% of the total increase), while banks' holdings rose by $36bn

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 out-standing 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

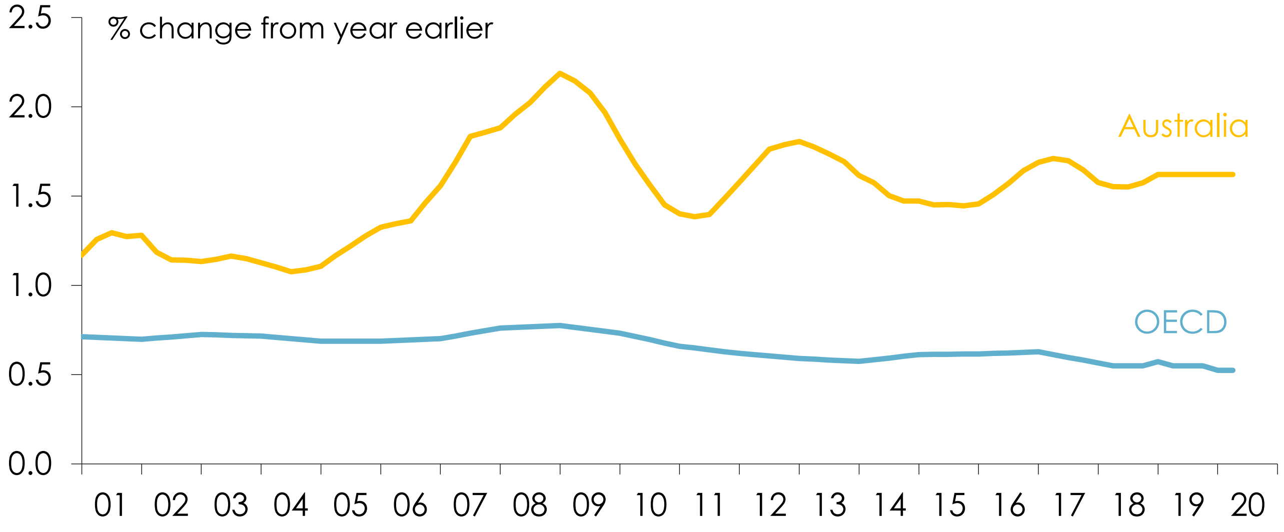
Australia's record-breaking run of almost 30 years without two or more consecutive quarters of negative real GDP growth owed a lot to four factors -

- Population growth
  - Australia's population grew at an average annual rate of 1.5% pa over the 19 years to 2019, compared with 0.6% pa for all 'advanced' economies
  - net immigration accounted for 58% of this growth – ie, in the absence of immigration Australia's population would have grown by only 0.7% per annum, on average, and would have aged more rapidly
- Our unusual (for an 'advanced' economy) economic relationship with China
  - China's rapid economic growth, industrialization and urbanization significantly boosted both the volumes and prices of many of our commodity exports, under-wrote the post-GFC mining investment boom, pushed down the prices of many of the things which we import, and contributed significantly to the growth of our tourism and education sectors
  - By contrast, China's rapid economic growth undermined the competitiveness of manufacturing industries which account for a much larger share of most other 'advanced' economies, put downward pressure on the prices of their exports and put upward pressure on the prices of commodities which they import
- The 'housing boom'
  - Australia's 'housing boom' started earlier (mid-1990s) and ended later (2017, rather than 2007-08) than in most other 'advanced' economies (some – such as Japan, Italy and France – didn't have a housing boom at all)
  - the two-way interaction between rising house prices and rising household debt underwrote stronger growth in household consumption spending, for longer, than would have occurred otherwise
- (Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies
  - although we haven't done nearly as well as we once did on the micro-economic front (especially with regard to productivity)

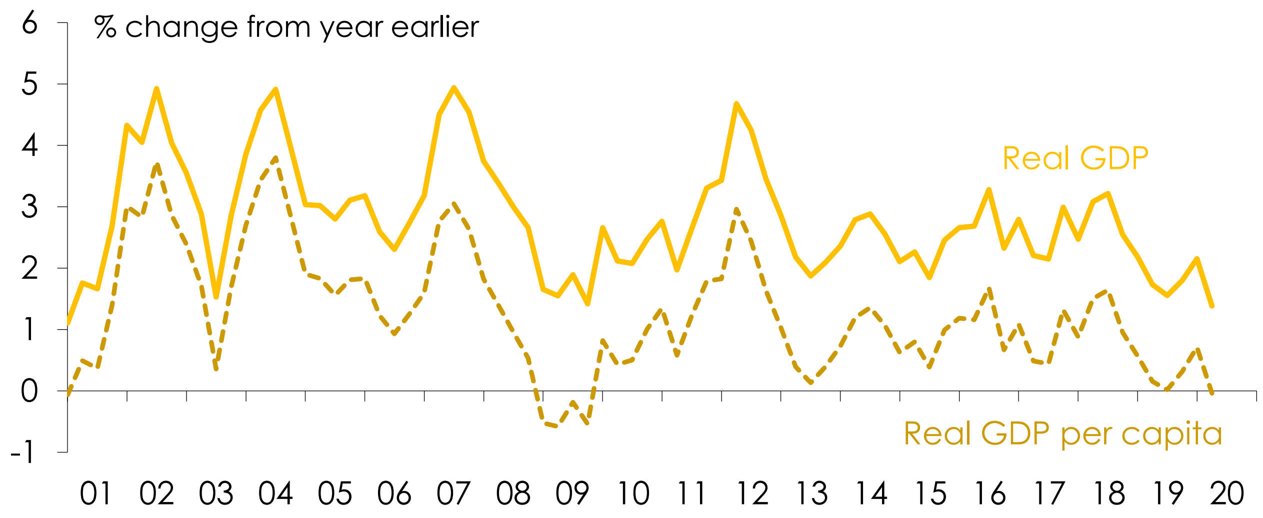
The first three of these are likely to be of less assistance from now on

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

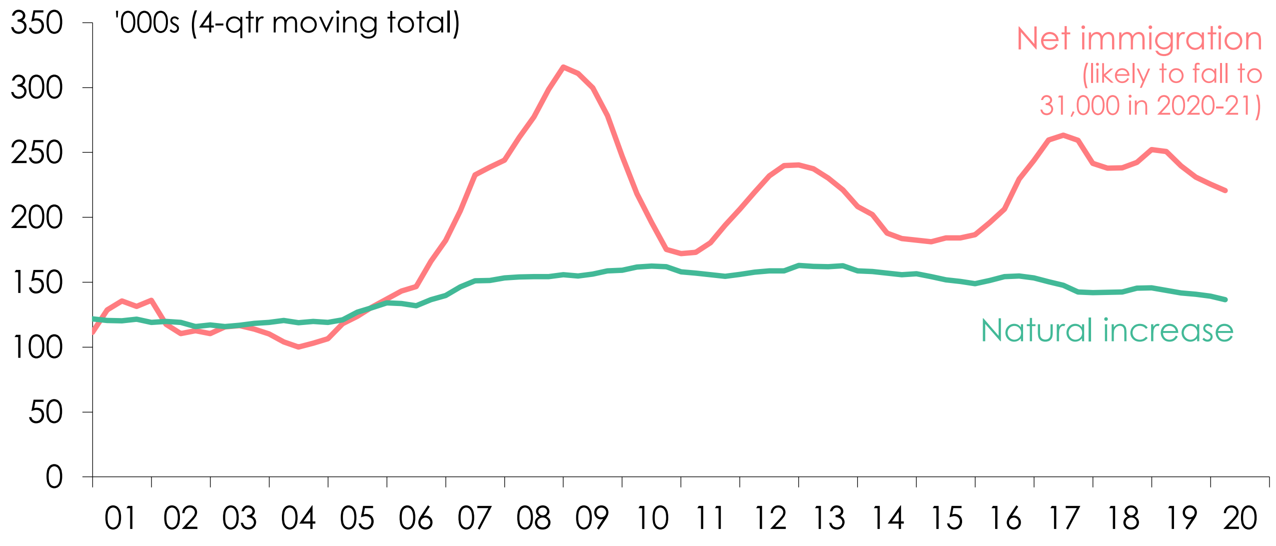
Australia and OECD population growth



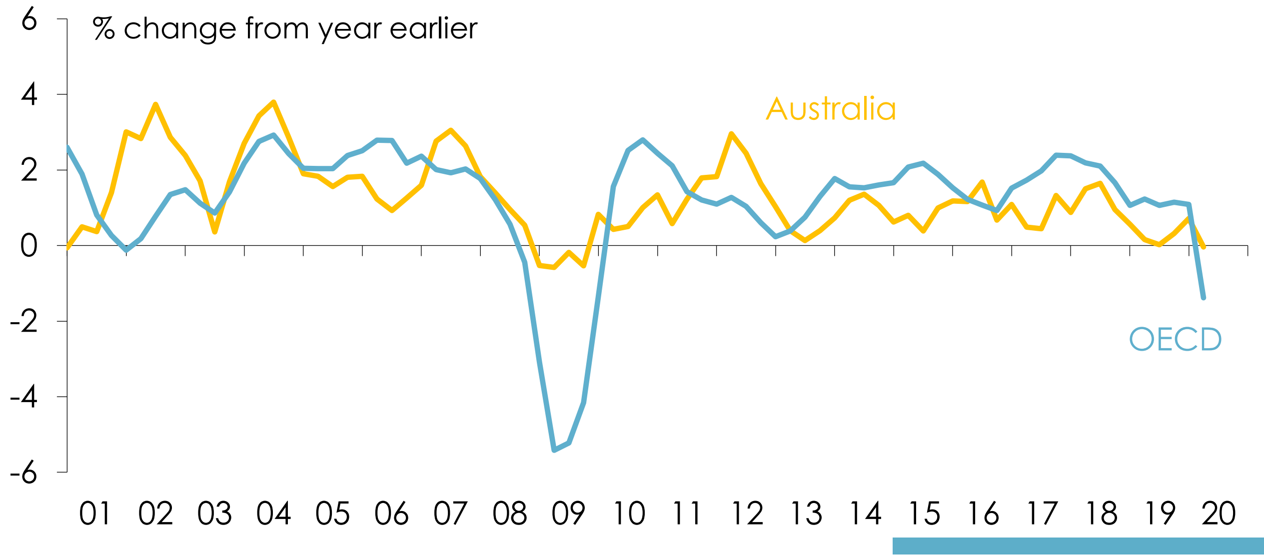
Australian GDP and per capita GDP growth



Sources of Australia's population growth



Australia and OECD per capita real GDP growth

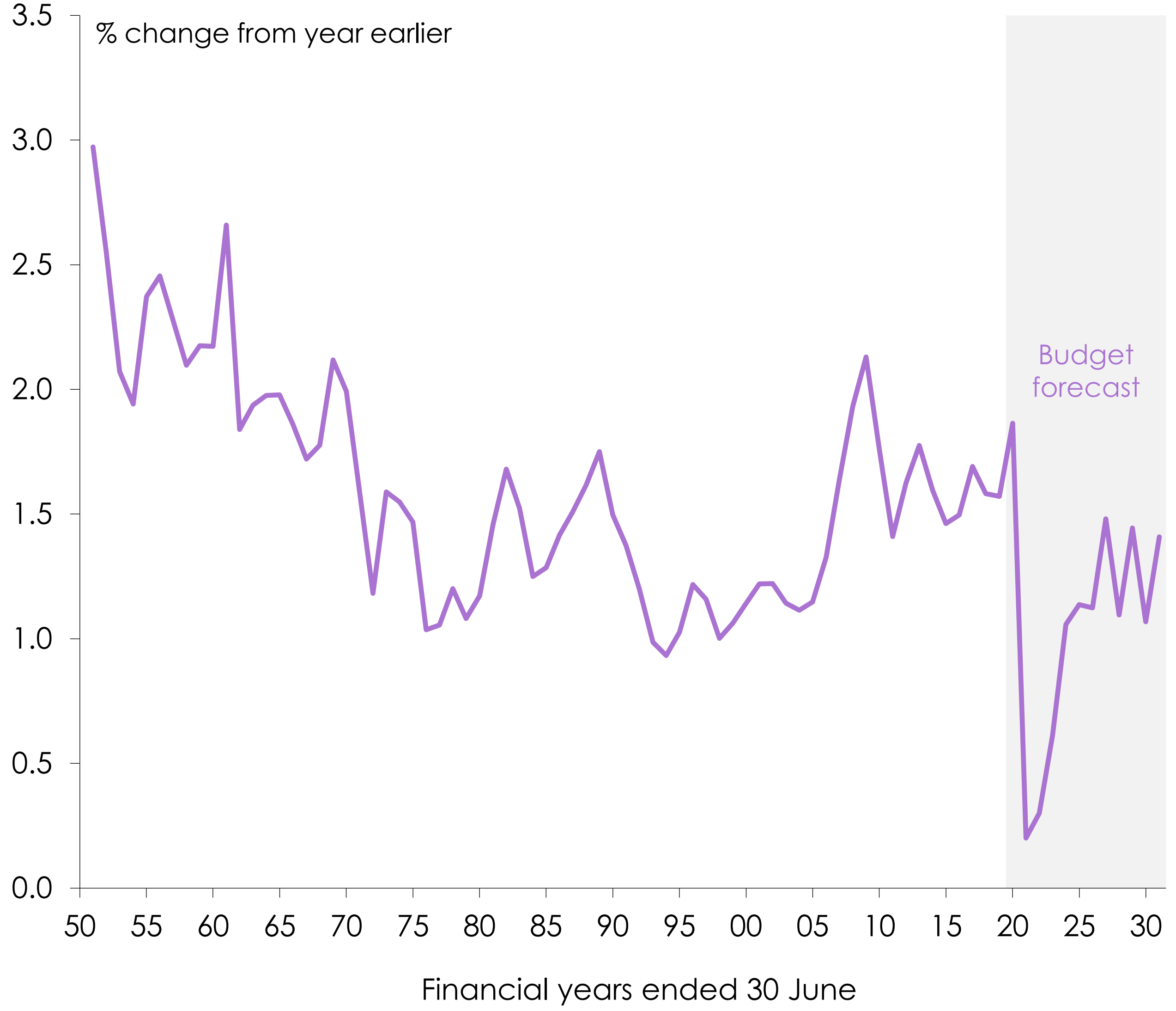


Note: Q2 2020 data not shown in the charts of GDP and per capita GDP growth. *Sources:* ABS; OECD. Return to "What's New".

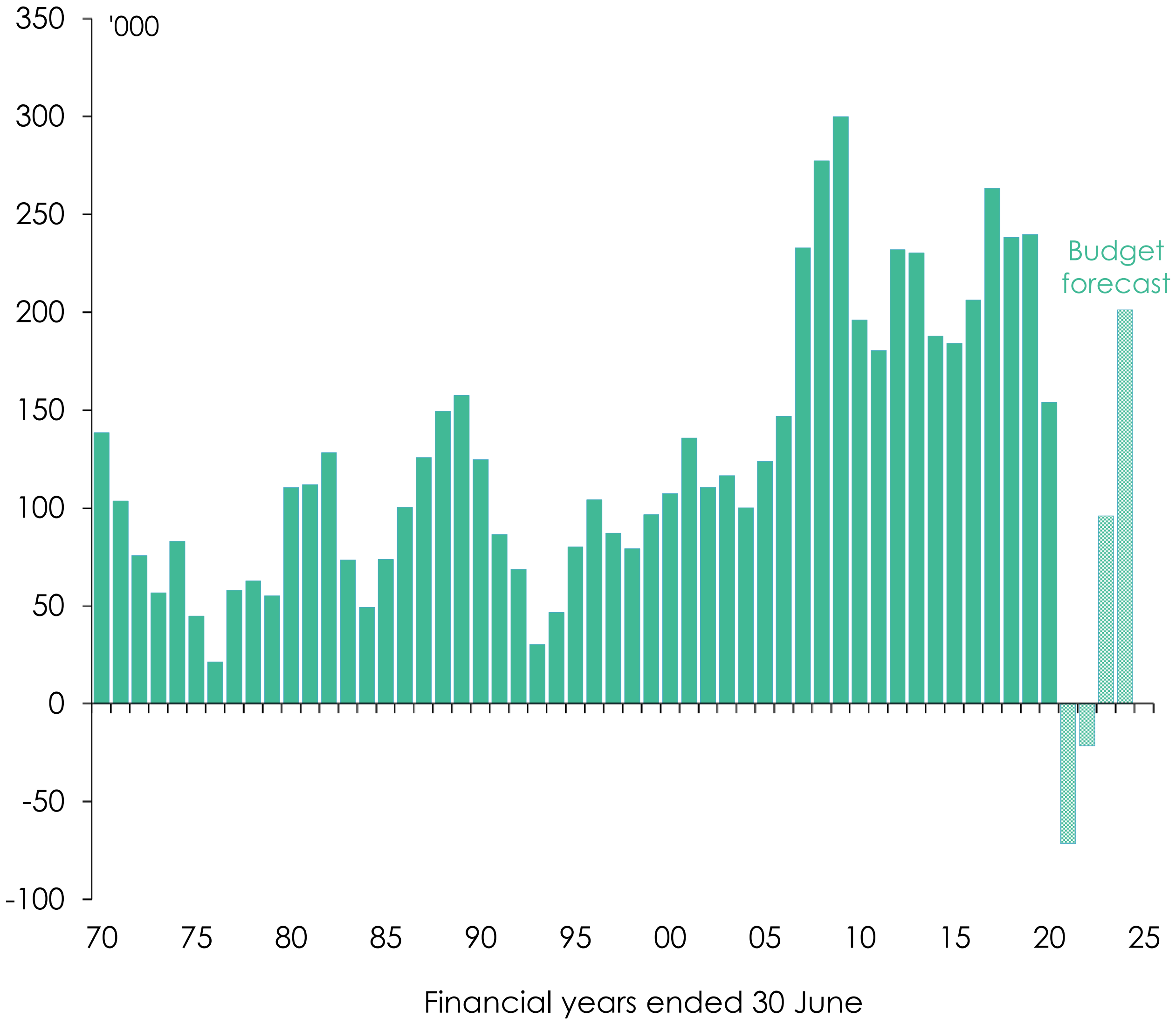
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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".

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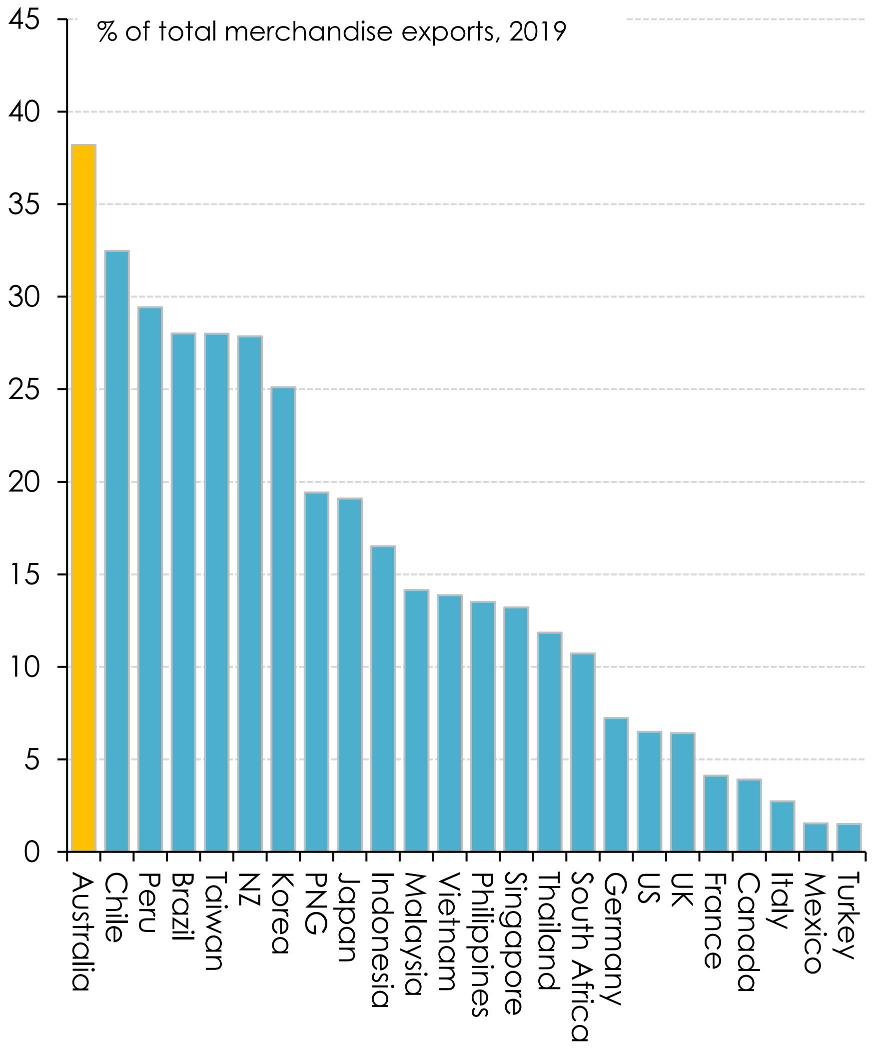
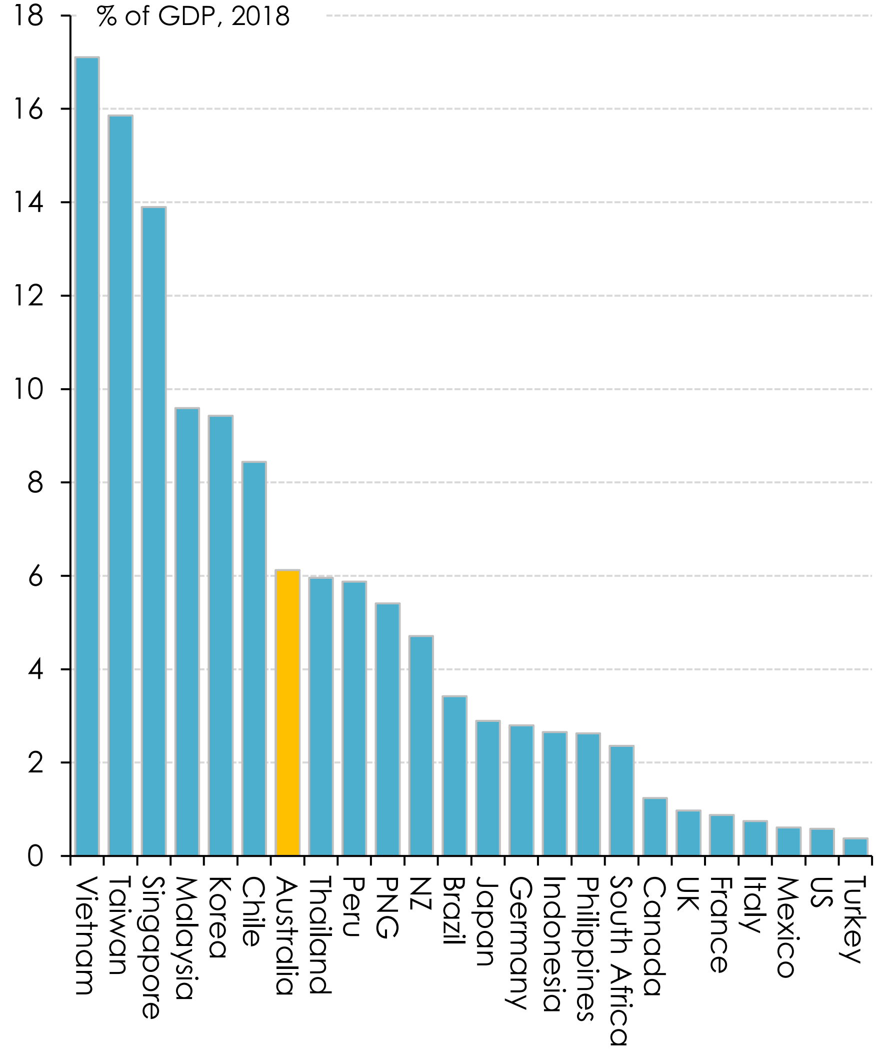
Australia has benefited enormously from its economic relationship with China over the past 25 years, but will that continue to be the case?

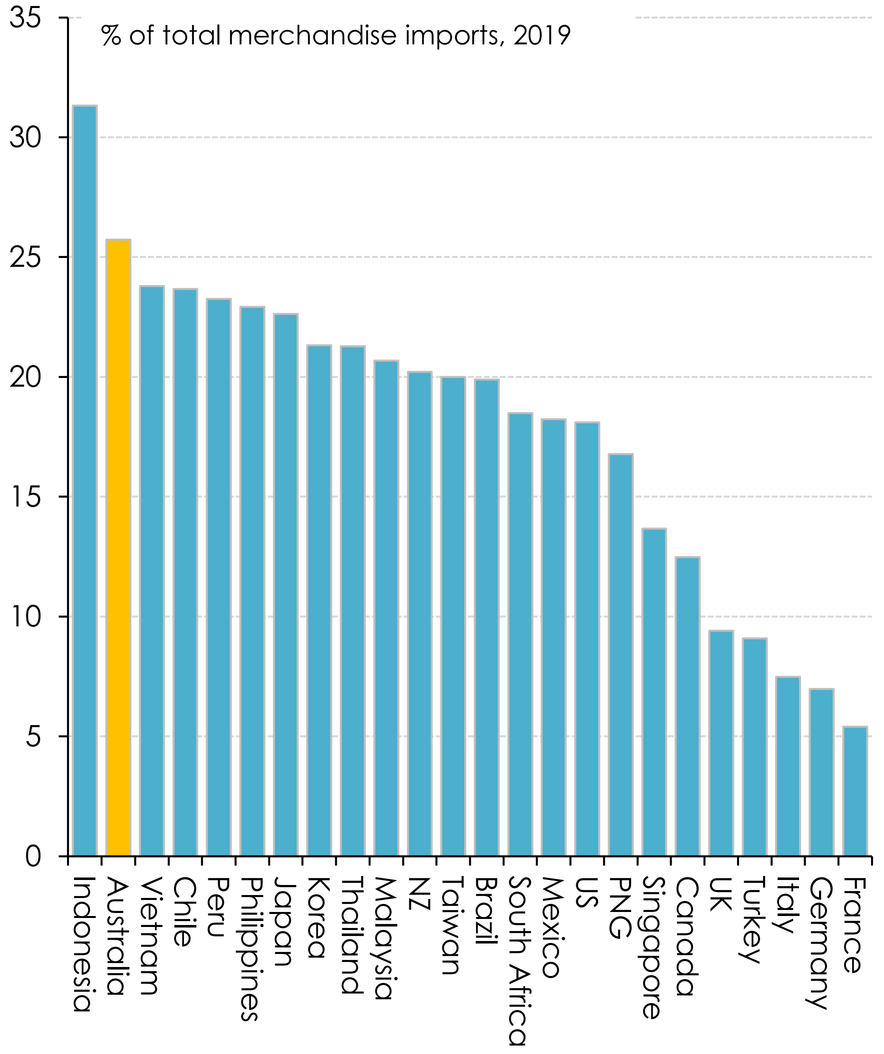
Merchandise exports to China as a pc of total



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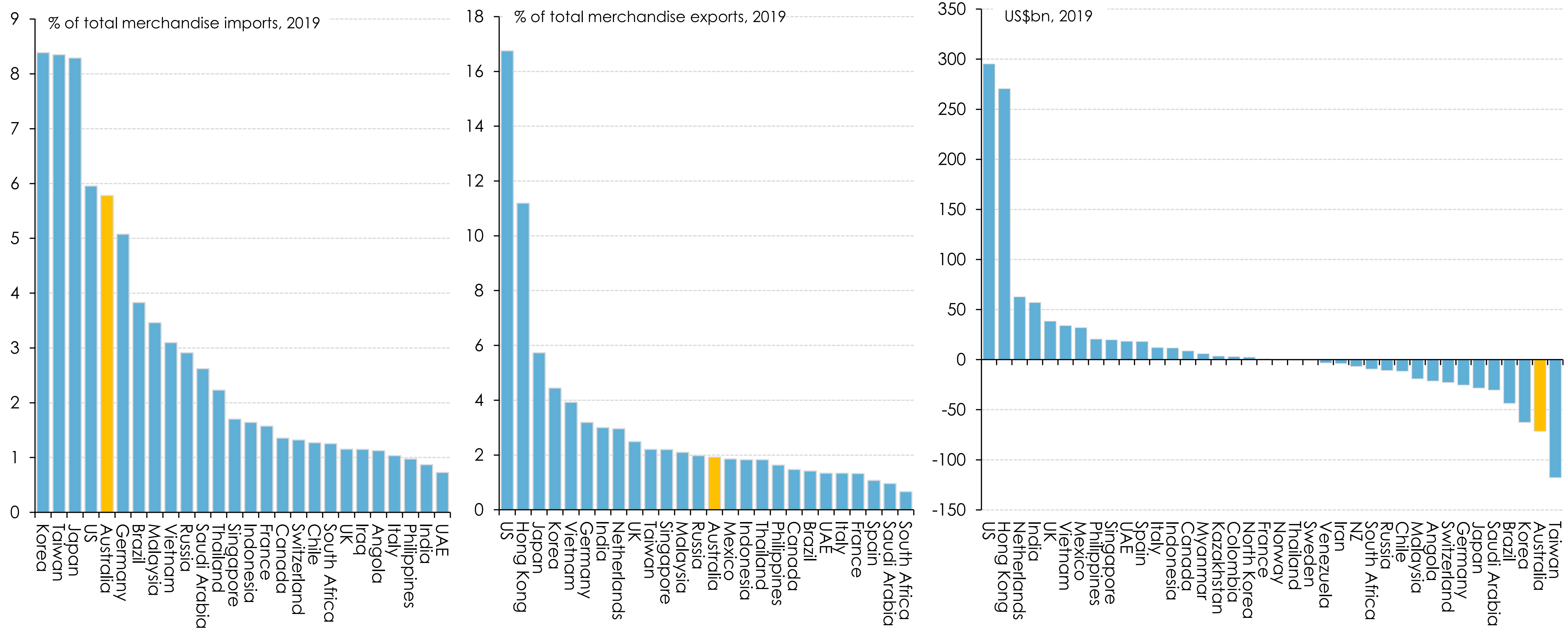
Australia is China's 5th biggest source of imports (of goods), 14th biggest export market, and has the 2nd-largest bilateral trade surplus with China

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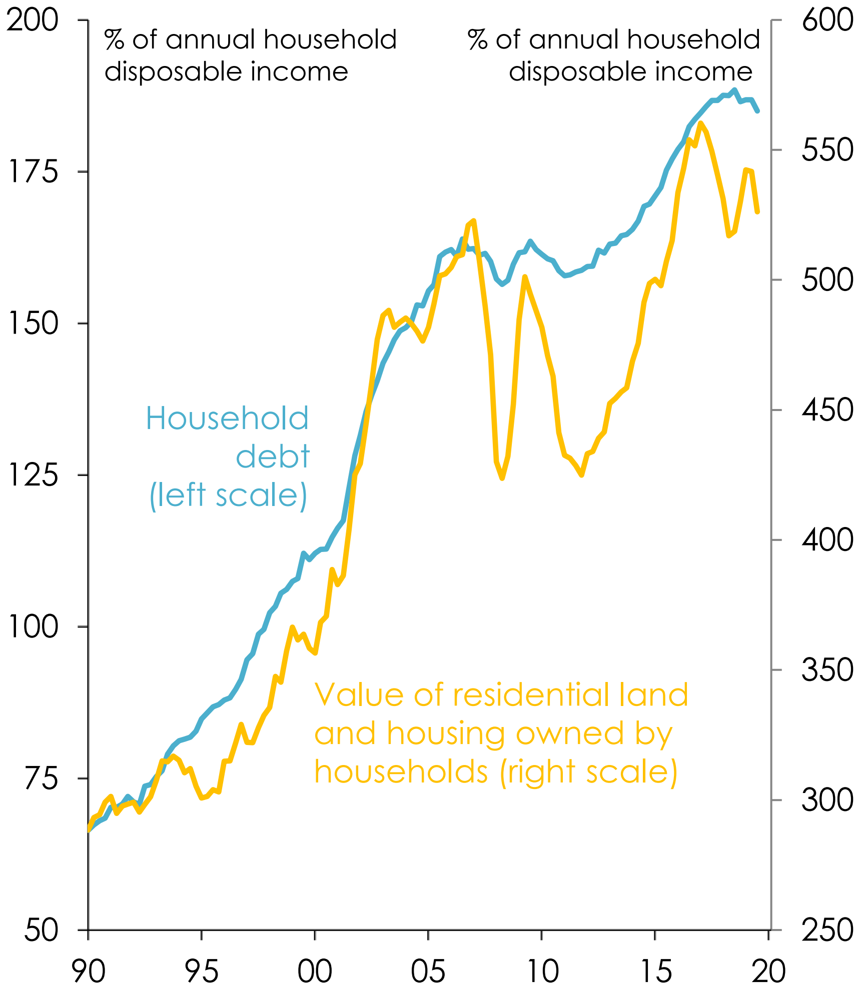
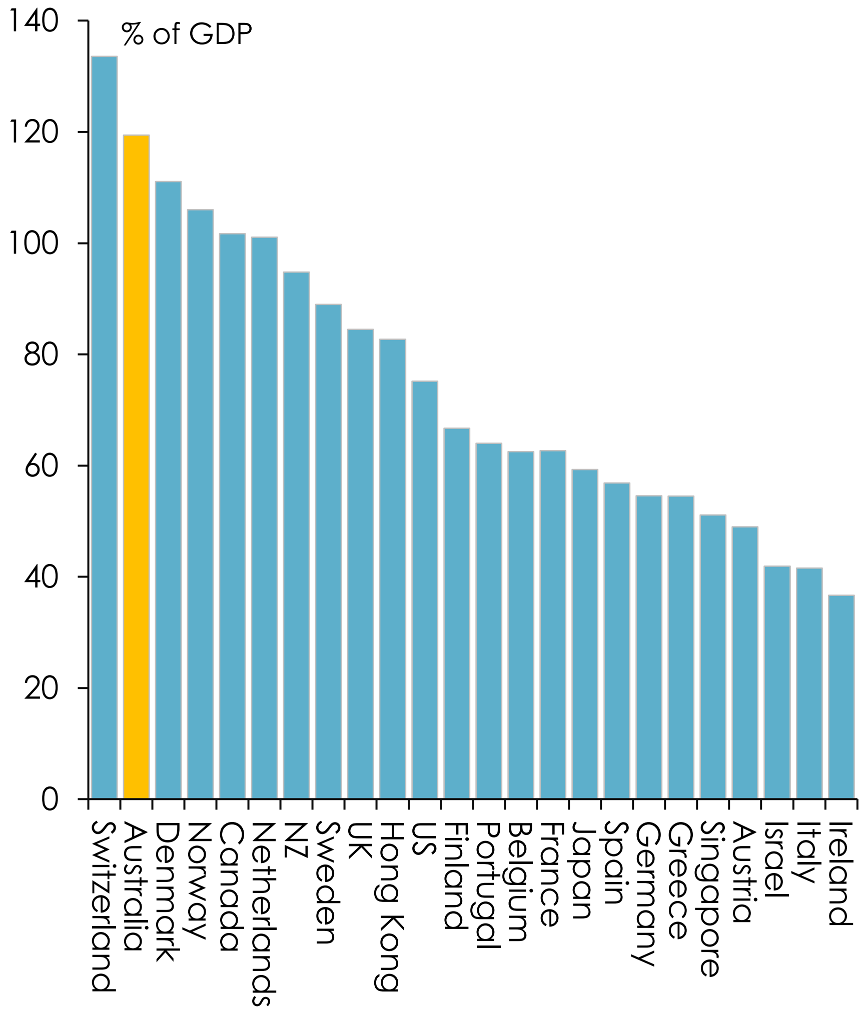
Rising property prices and household debt are unlikely to underpin Australian economic growth as they have done for most of the past 30 years

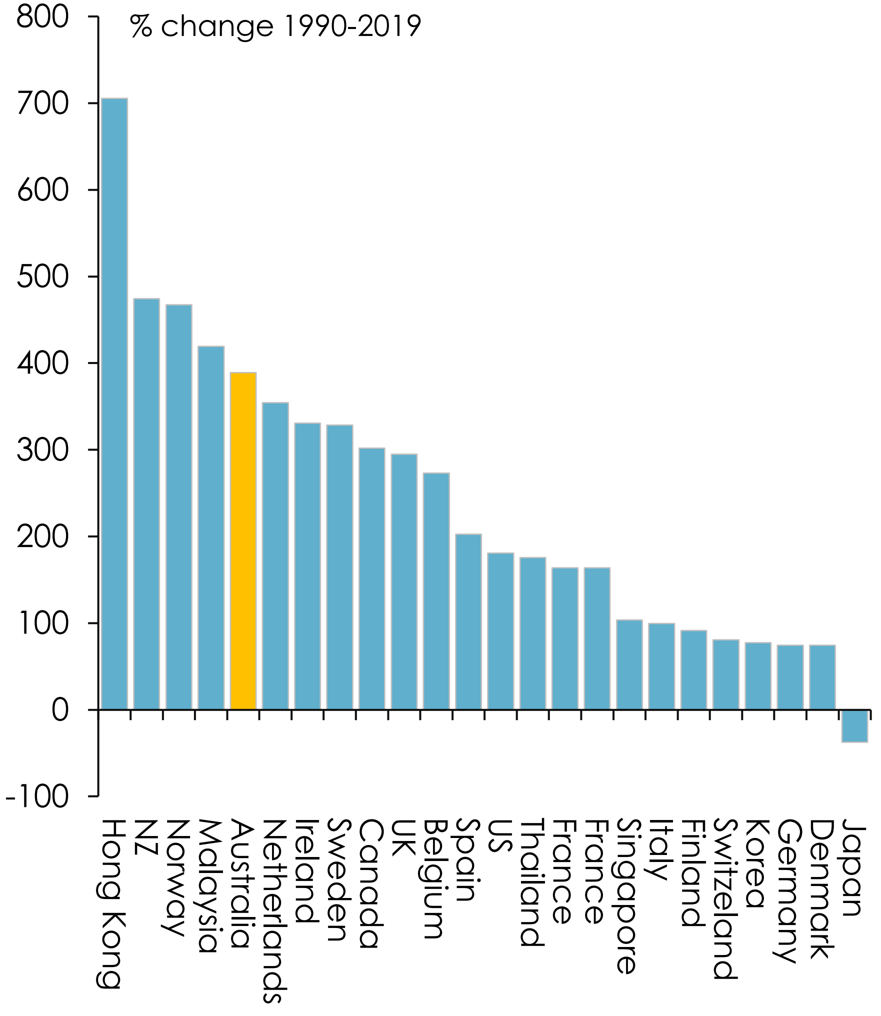
Australian housing wealth and household debt



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 91)**
- **Re-think of relationships with China (see slides 98-100 and slides 139-140)**

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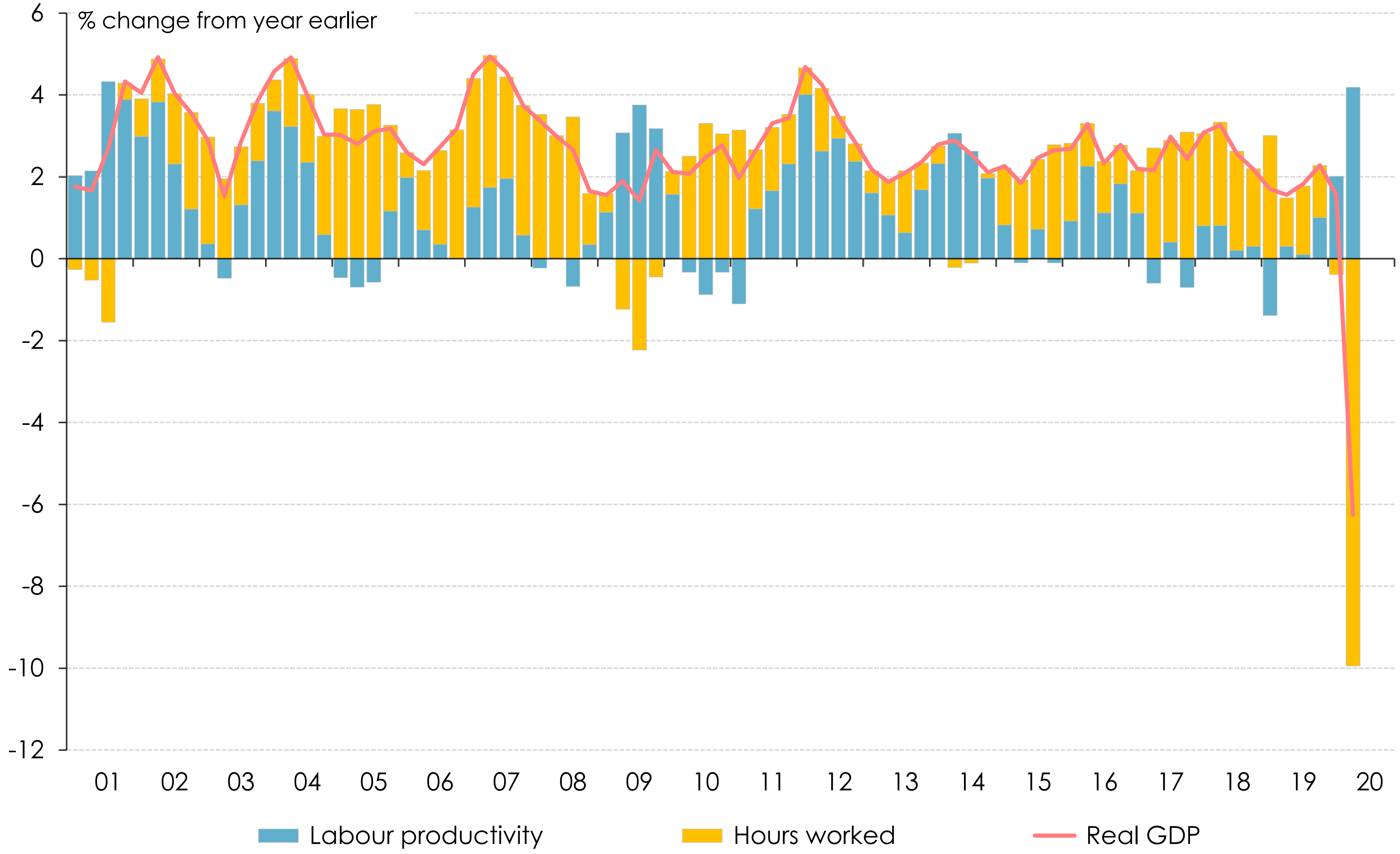
Australia has come to rely much more heavily on increased labour input to drive economic growth in recent years – we can't keep doing that

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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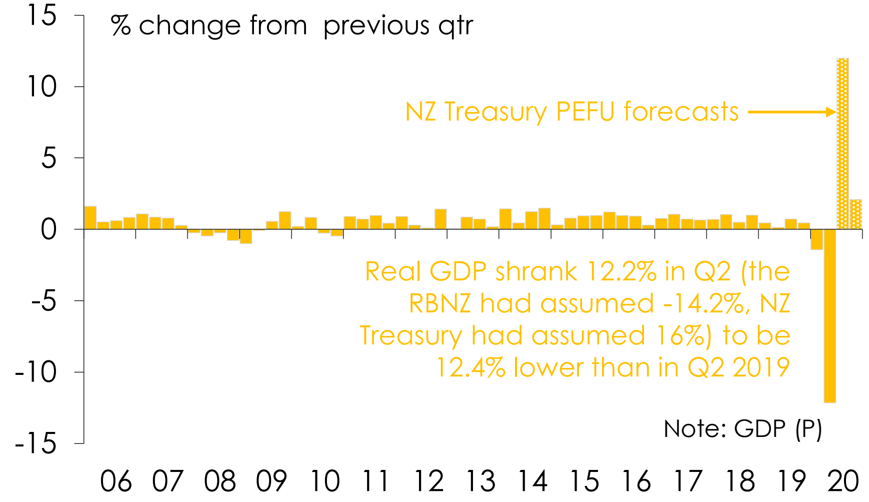
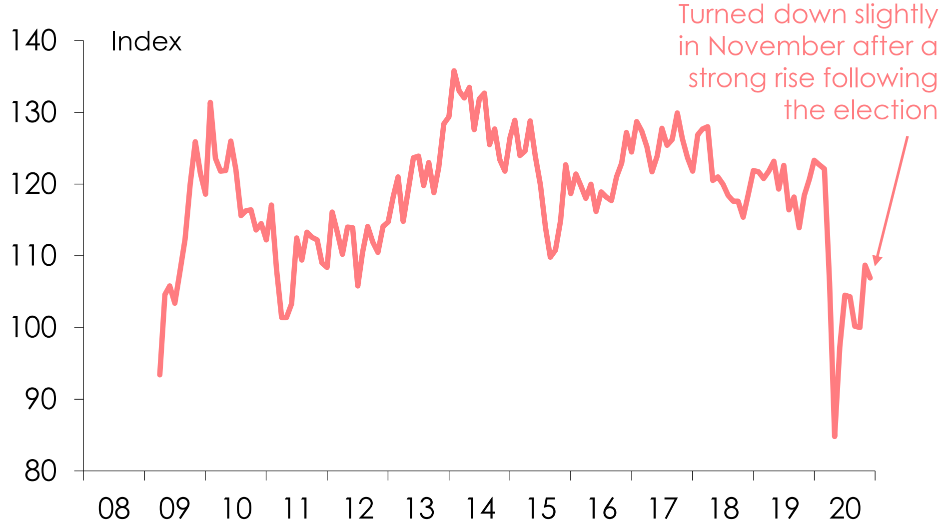
New Zealand

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

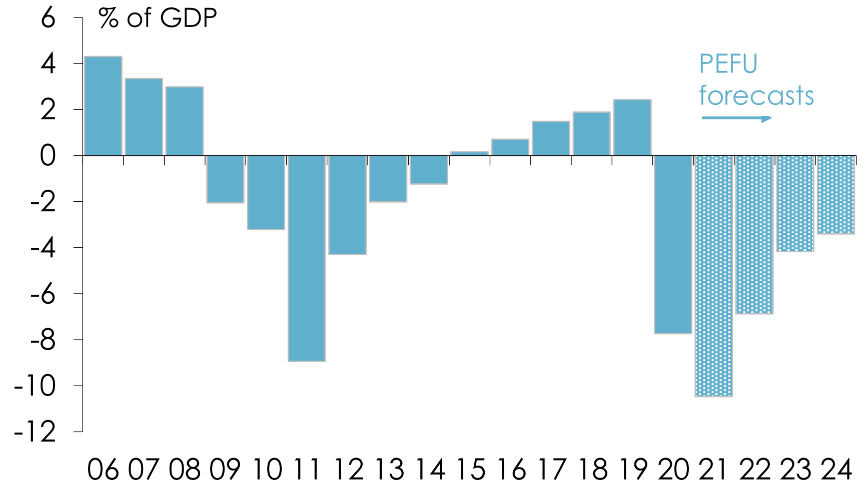
Real GDP



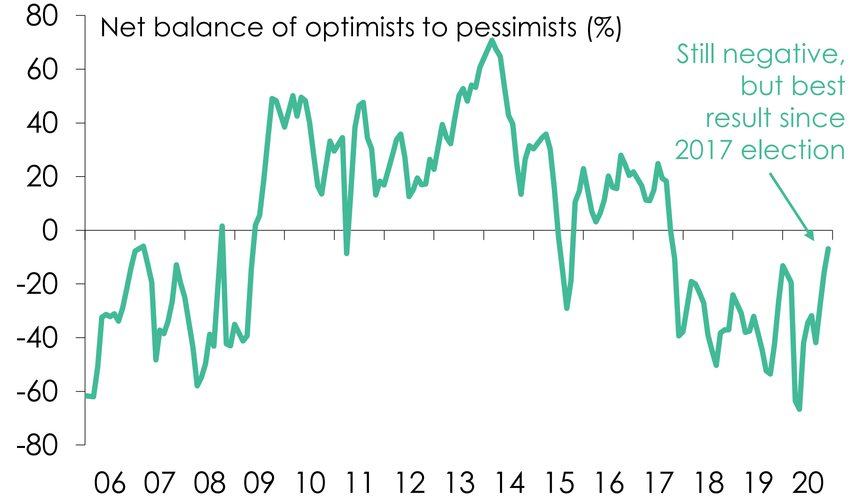
Consumer confidence



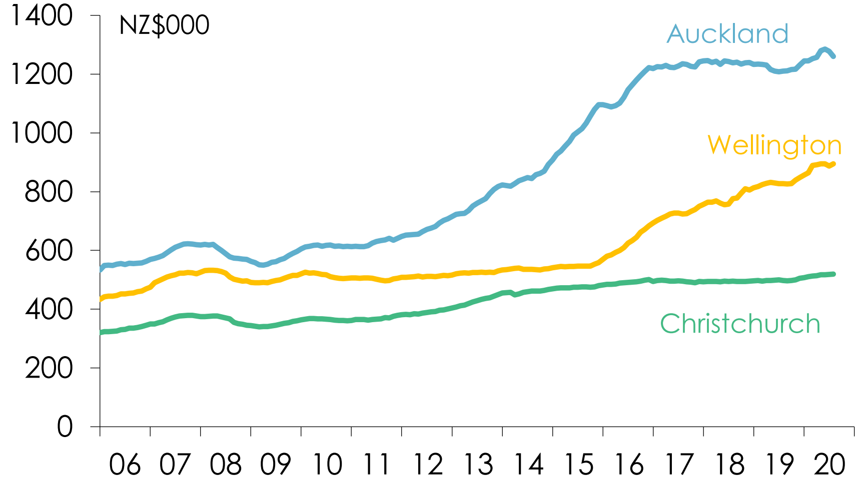
NZ government budget balance



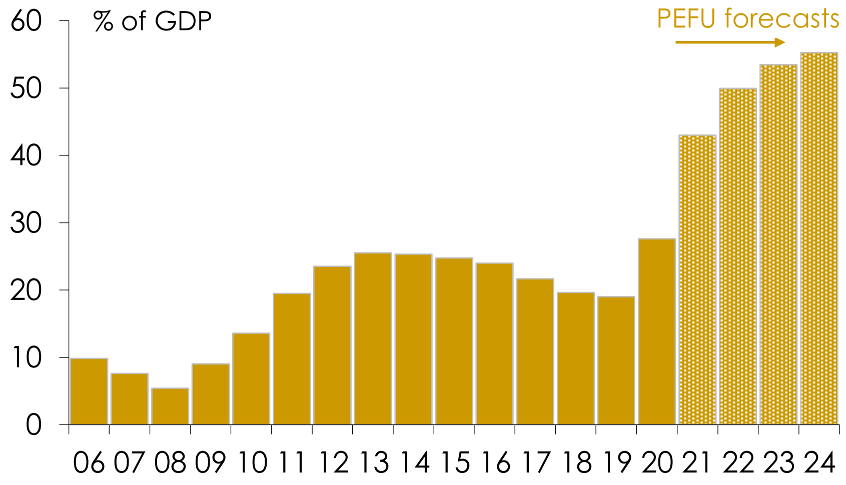
Business confidence



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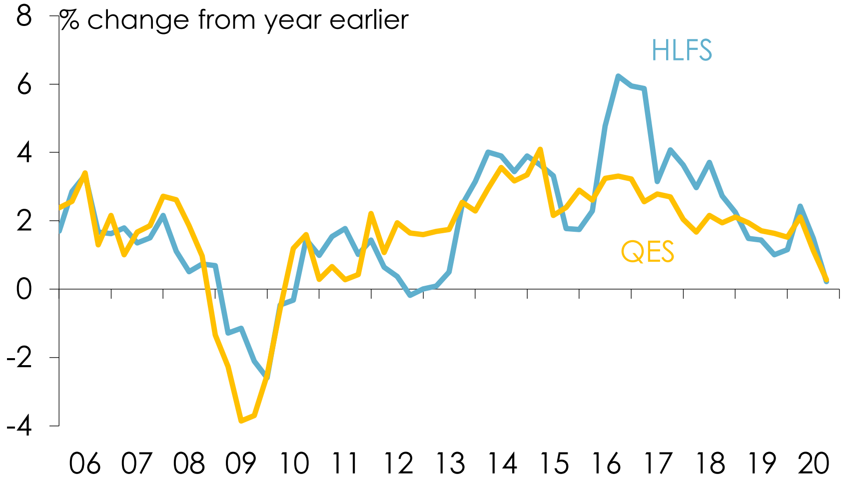
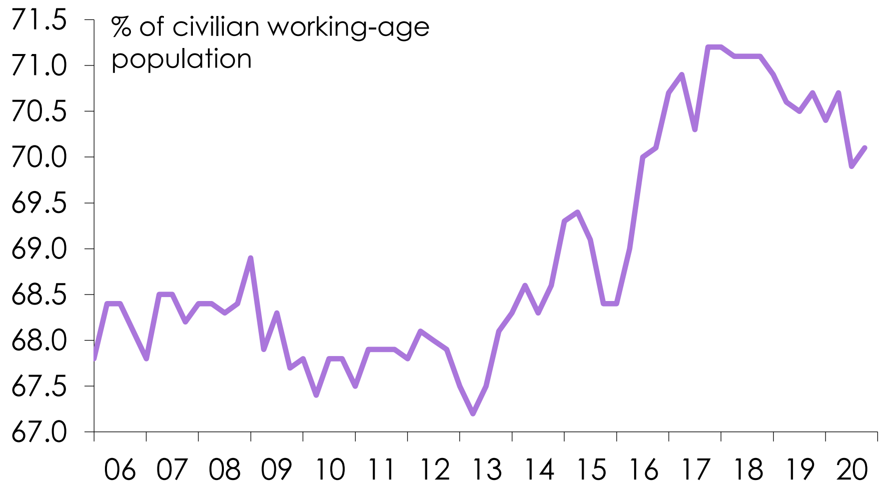
New Zealand's unemployment rate jumped sharply in the June quarter, though remains low by international standards

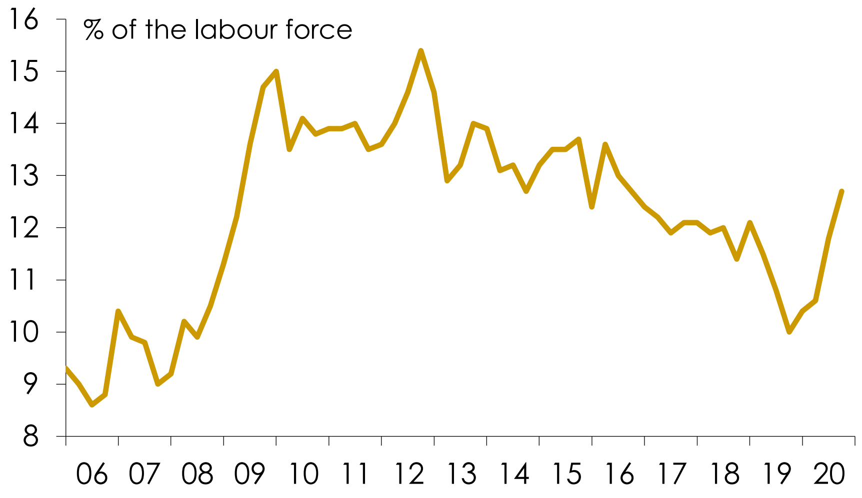
Employment



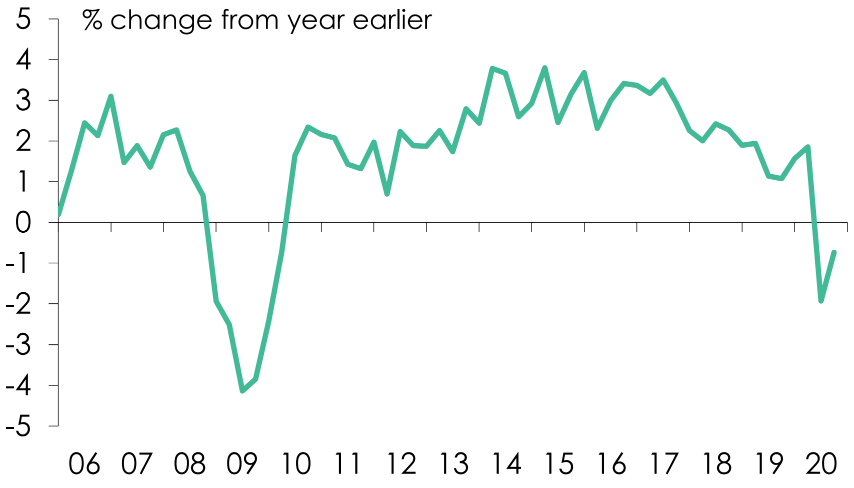
Labour force participation rate



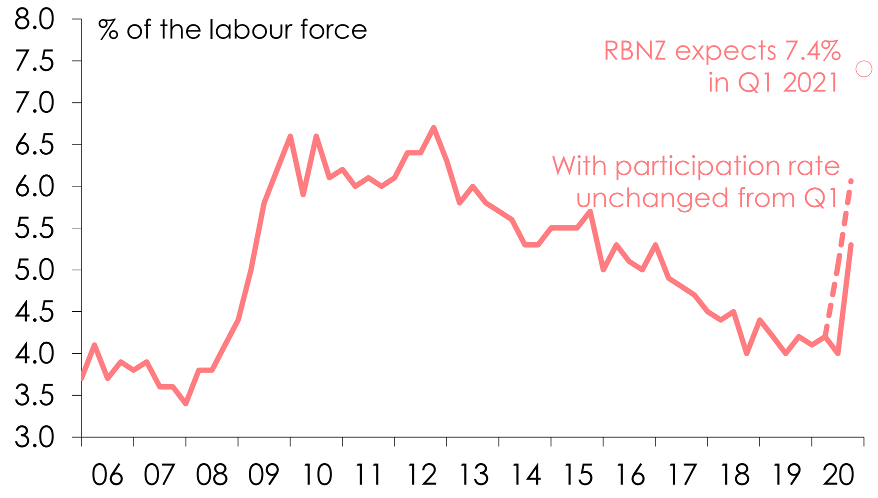
Labour force under-utilization rate



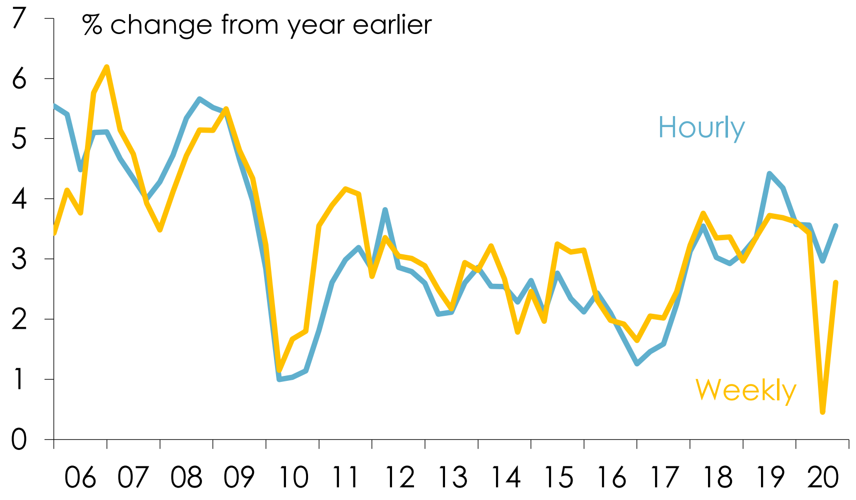
Hours worked



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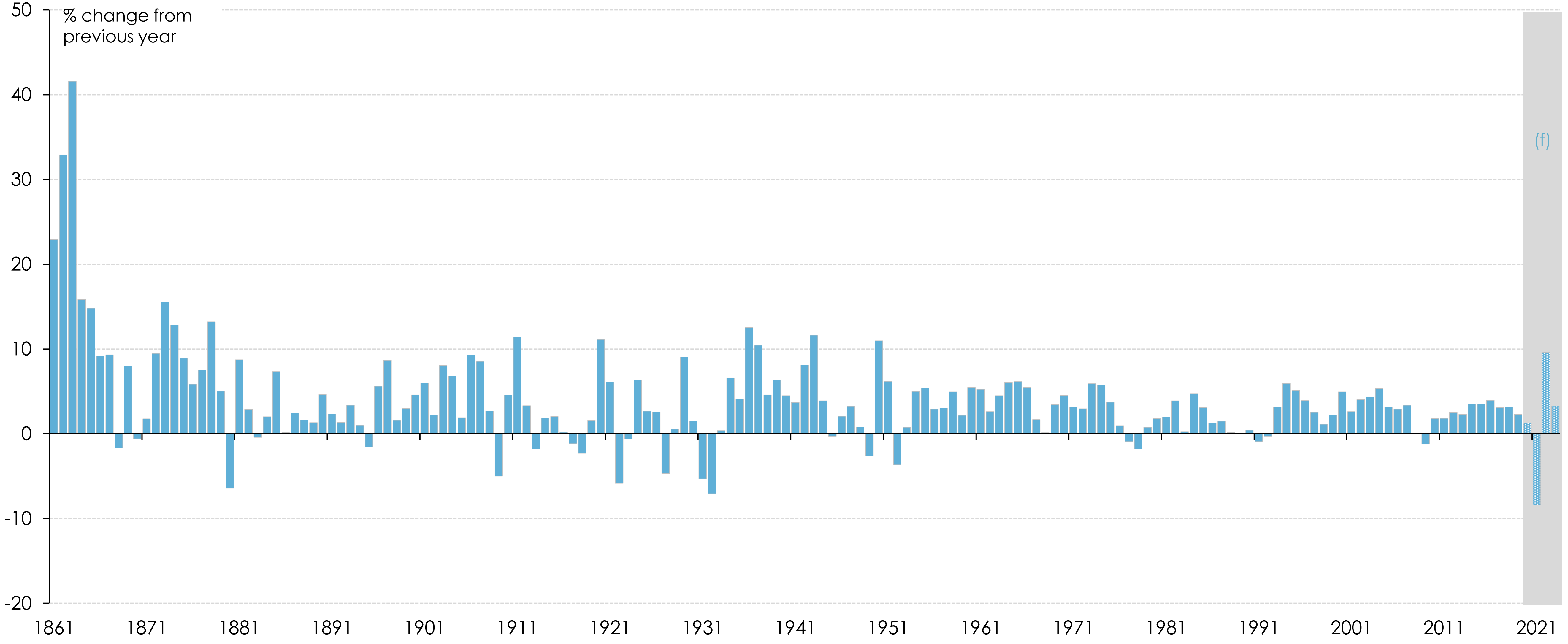
The Reserve Bank of New Zealand is expecting the fall in real GDP in the year ended March 2021 to be the biggest in recorded NZ history

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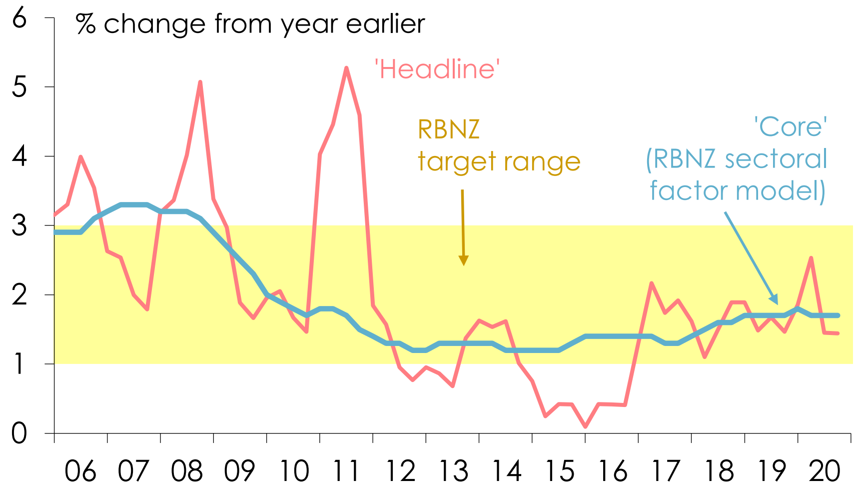
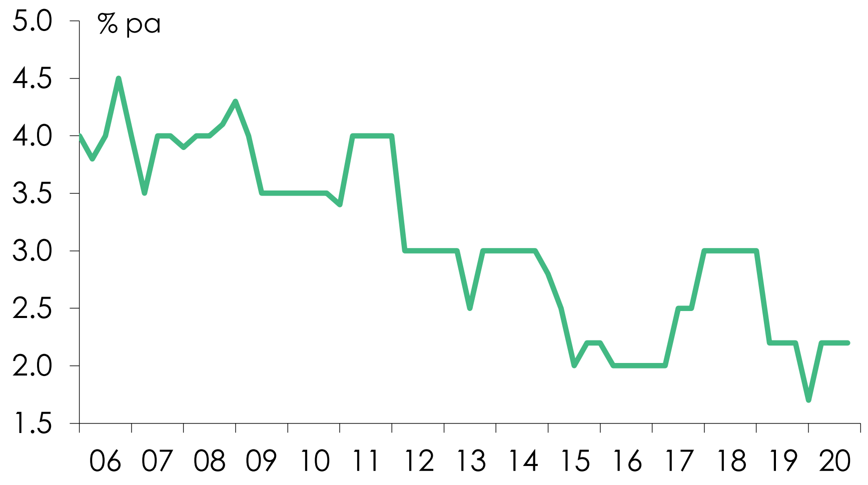
Consumer prices rebounded less than expected in Q3 after falling in Q2, which is likely to strengthen the RBNZ's resolve to cut rates further

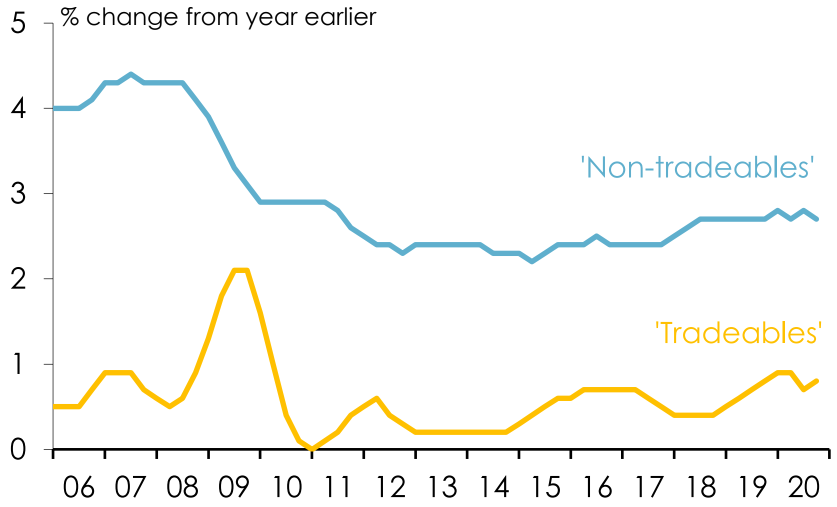
Consumer prices



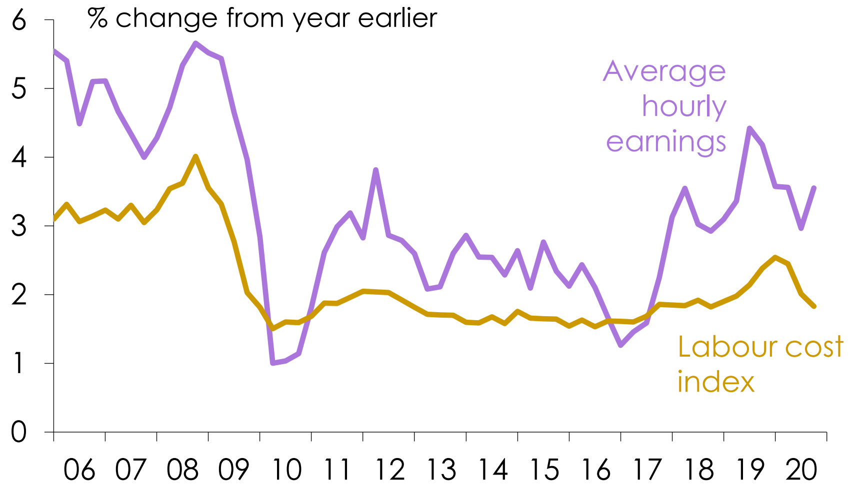
Household inflation expectations



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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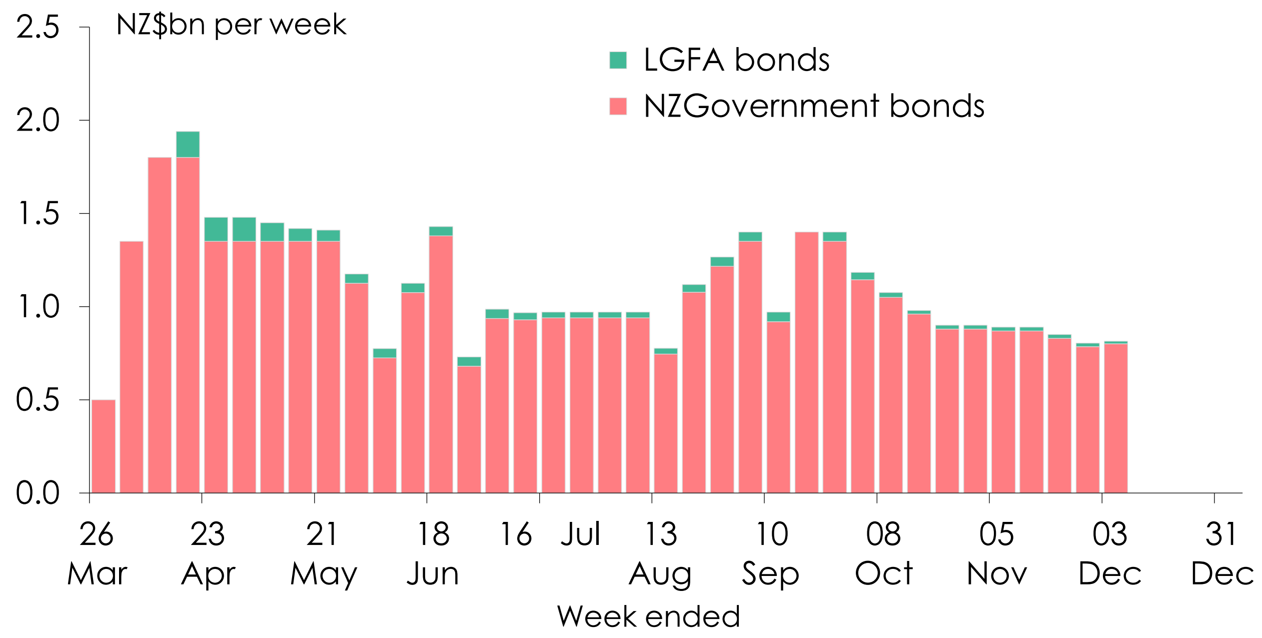
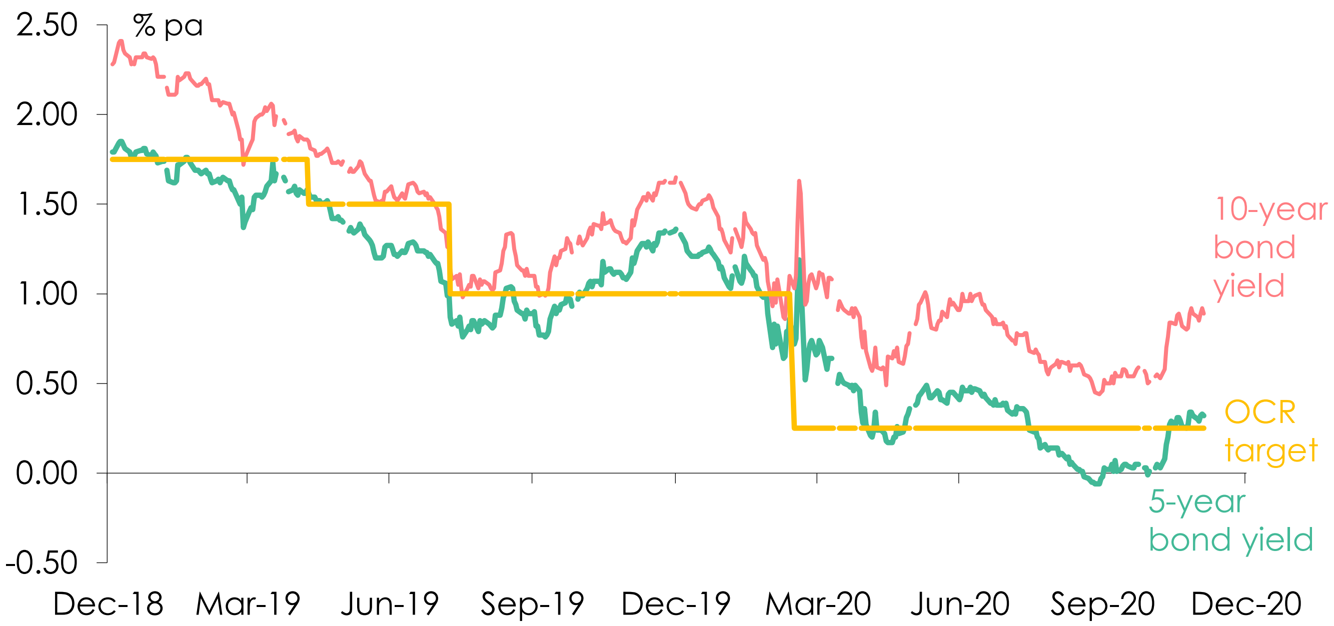
The RBNZ is continuing with a lower volume of bond purchases ahead of the commencement of a 'funding for lending' program this month

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 in October to $100bn (32½% of GDP) by June 2022**
- **This week the RBNZ purchased NZ$815mn of bonds – $ NZ$10mn more than last week – bringing its total purchases since 25th March to $NZ41.5bn (13.5% of GDP)**
- **Governor Adrian Orr cited internal estimates that in the absence of recent actions unemployment would have been higher (around 6%), inflation expectations lower and the NZ$ some 7% higher in trade-weighted terms**
- **He also cited internal research suggesting that it is unclear whether "looser monetary conditions … increase or decrease income and wealth inequality, on net"**

Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, *Statistics* Tables B2 and D3. Data up to 4th December.

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Important information

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