

# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

23<sup>RD</sup> JANUARY 2021

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# What's new?

## The world

- ❑ Just under 4.3mn new Covid-19 cases were recorded this week, down from over 4.9mn in each of the past two weeks, and bringing the cumulative total to just over 98mn; however there were 98,189 deaths this week, the highest thus far, bringing the total death toll to 2.1 million ([slide 4](#))
- ❑ The number of new infections may have peaked in both the US and Europe, although with together just over 11% of the world's population they still accounted for over 58% of all new cases this week; new infections are still rising in Brazil and Indonesia ([slide 5](#))
- ❑ Apart from Israel, the UAE and (to a lesser extent) the UK, the proportion of populations who have been vaccinated remains very low ([slide 17](#))
- ❑ The ECB, BoJ and BoC held their first meetings for 2021 this week and all left policy settings unchanged ([slide 31](#))
- ❑ House prices have been remarkably resilient around the world since the onset of the pandemic ([slide 33](#))
- ❑ China's economy grew by 2.6% in Q4 last year, down from 3% in Q3, but taking annual growth up to 6.5% ([slide 35](#)) – but the recovery on the 'supply' side ([slide 36](#)) to be much stronger than that on the 'demand' side ([slide 37](#))
- ❑ Bank Indonesia also left its monetary policy settings unchanged this week but is continuing to purchase government bonds in both the primary and secondary markets ([slide 52](#))
- ❑ Joe Biden took office as the 47<sup>th</sup> President of the United States on Wednesday, with a notional majority in both Houses of Congress, issuing a near-record number of Executive Orders ([slide 53](#))

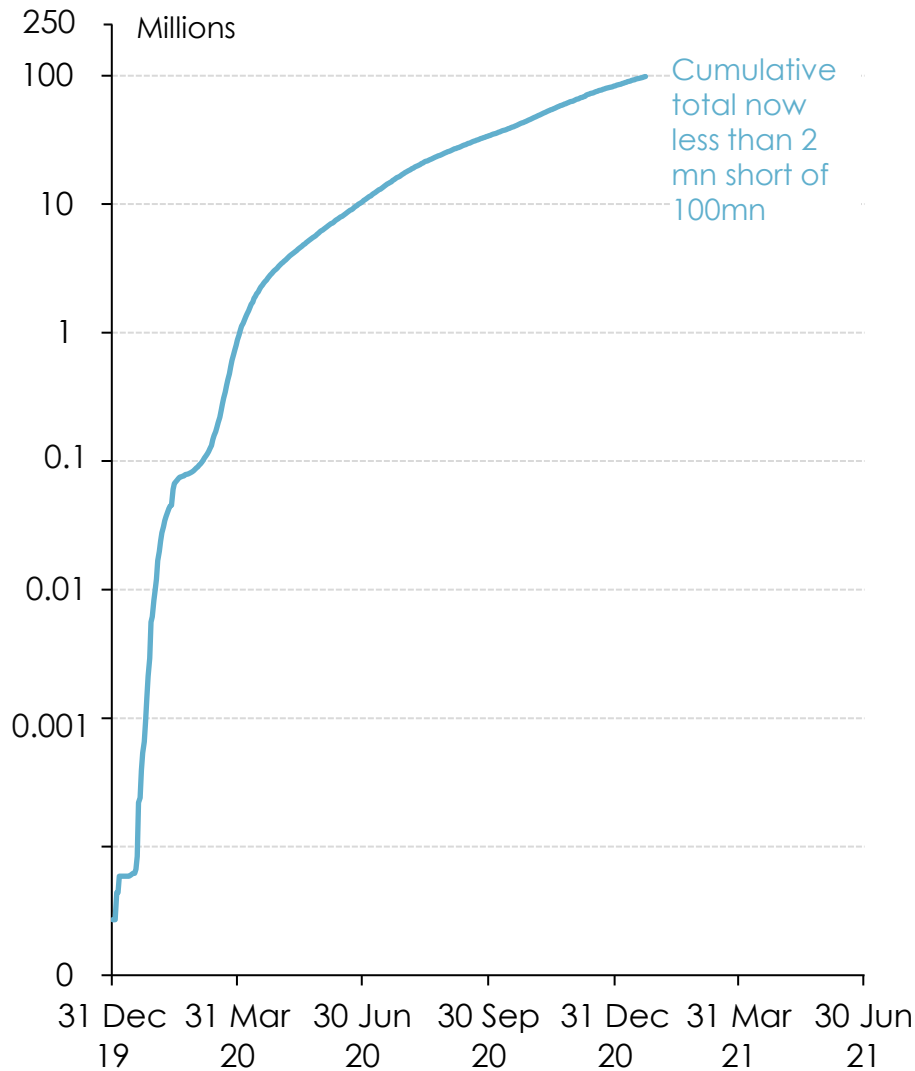
## Australia and New Zealand

- ❑ Australia recorded only 86 new Covid-19 cases this week, the lowest number for five weeks, with all but four of these being arrivals into Australia ([slide 8](#)); the less populous states and territories have had no local transmissions for 50-294 days ([slide 10](#))
- ❑ Employment rose another 50K (0.4%) in December, the third month in a row of strong job gains, so that 87% of those who lost jobs in April and May last year are now back in work ([slide 75](#)); the workforce participation rate is at a record high, the official unemployment rate is now 6.6% and the 'effective' unemployment rate has fallen to 7.1% from a peak of 15.3% last April ([slide 76](#))
- ❑ Retail sales fell 4¼% in December, with declines in both Victoria (after a surge in November) and NSW (due to partial lockdowns in Sydney) but were still more than 9% higher than in December 2019 ([slide 91](#))
- ❑ Consumer confidence dropped 5 pc pts in January, largely because of a fall in NSW (probably due to Sydney lockdowns), reversing the rise in December, but is otherwise higher than at any time since 2013, with consumers seeing it as a 'good time' to buy both major household items and homes ([slide 90](#))
- ❑ Most commodity prices – and in particular metallurgical coal – rose this week, but iron ore was an exception ([slide 96](#)) which in turn muted the rise in the A\$ against a weaker US\$ though it remains close to US78¢ ([slide 105](#))
- ❑ Q4 CPI will be released this Wednesday and is expected to show the annual 'underlying' inflation barely above 1% ([slide 107](#))
- ❑ New Zealand's CPI rose 0.5% in Q4 2020, leaving annual 'headline' inflation unchanged at 1.4% while the RBNZ's preferred measure of 'underlying' inflation ticked up 0.1 pc pt to 1.8% ([slide 137](#))

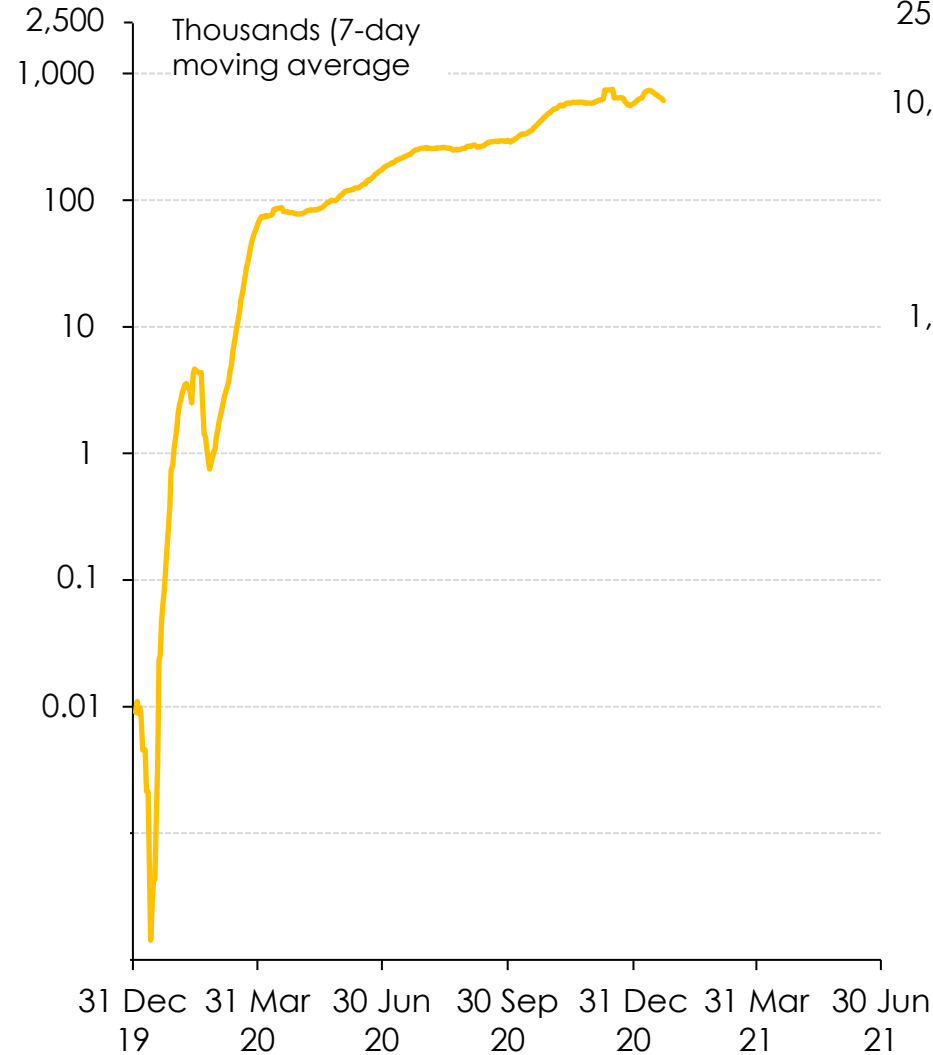
**The virus**

# The global number of new cases may have peaked this week, although the number of new deaths hasn't

Cumulative confirmed cases – global total



New confirmed cases – global total



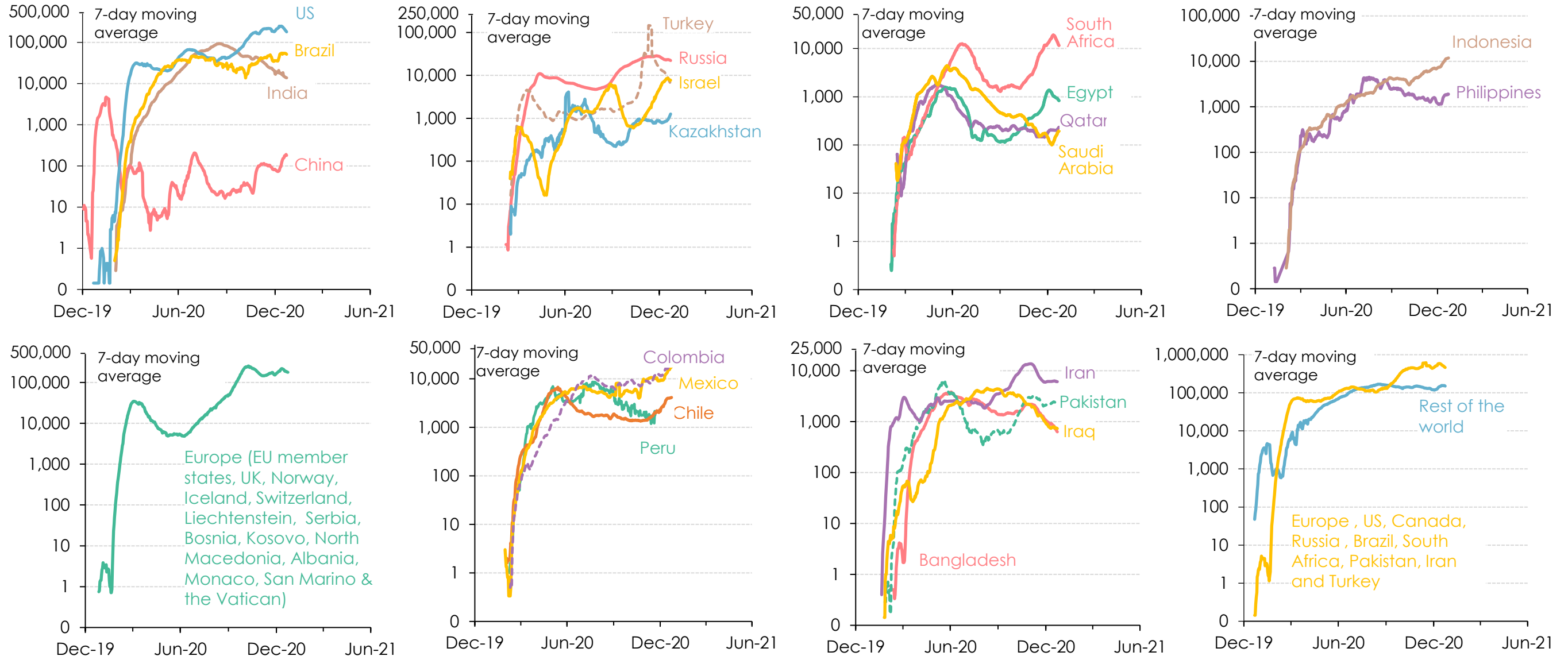
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 22<sup>nd</sup> January. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

# The US accounted for 30% of this week's total of new cases and Europe 27½% (both well down on two weeks ago) – but Brazil had 8½% of the total

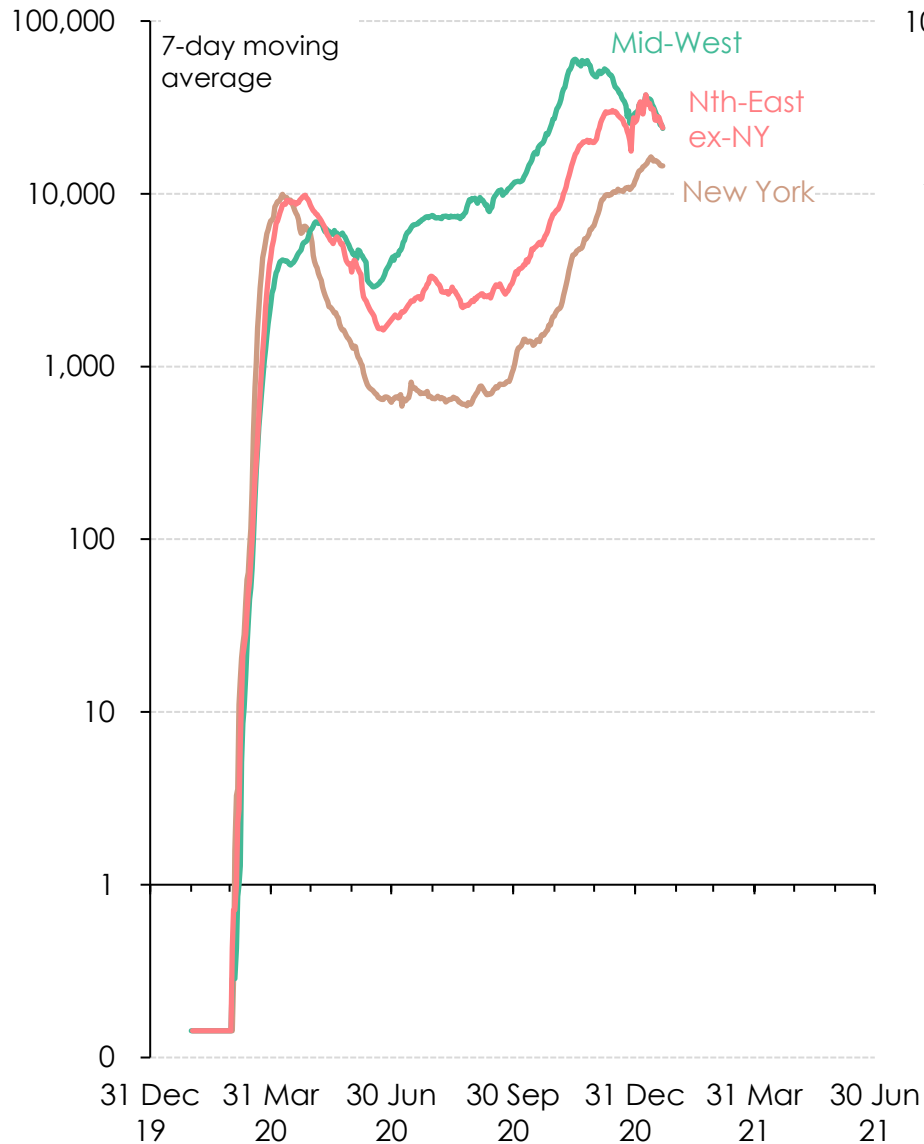
## Daily new cases – selected countries with large populations and/or rapid growth in cases



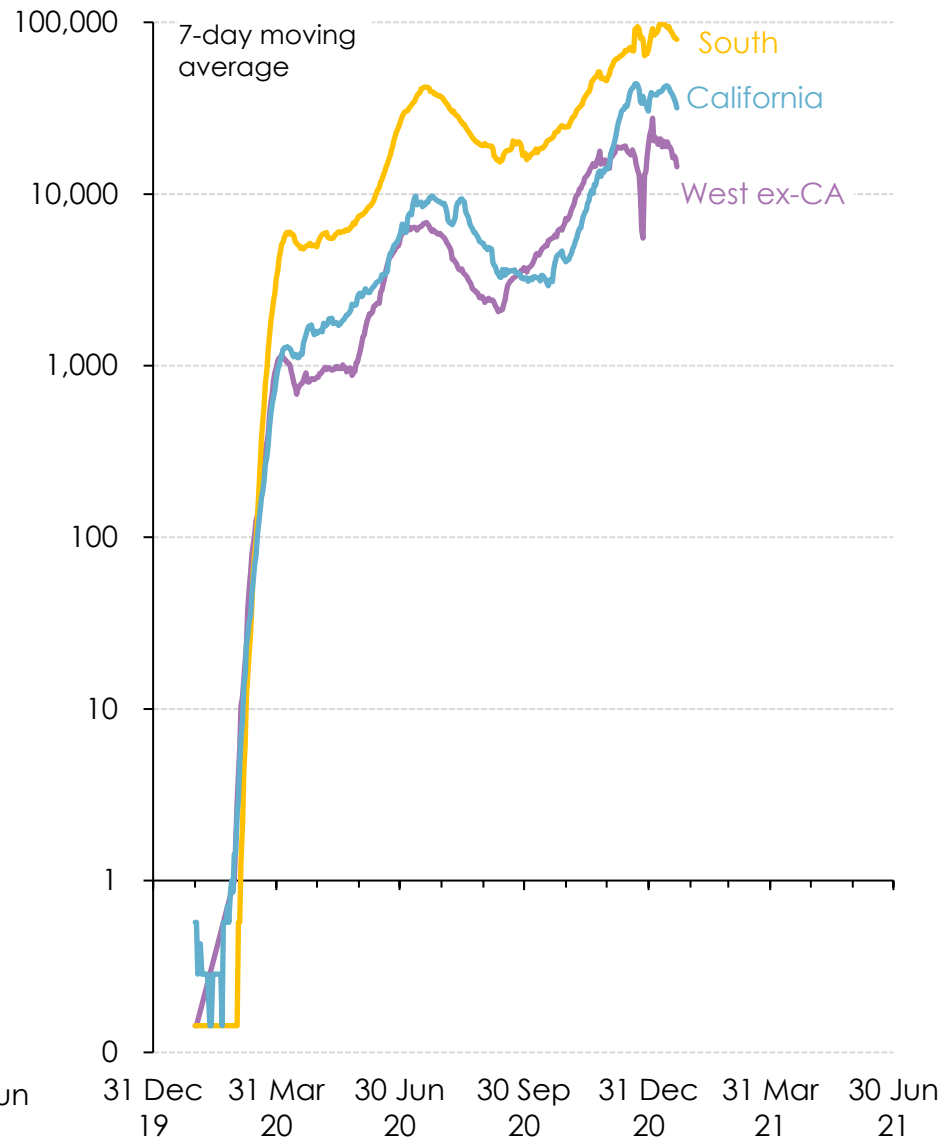
Note: All charts are on logarithmic scales. Data up to 22<sup>nd</sup> January. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# Case numbers now appear to have peaked in most regions of the US – in particular the Mid-West

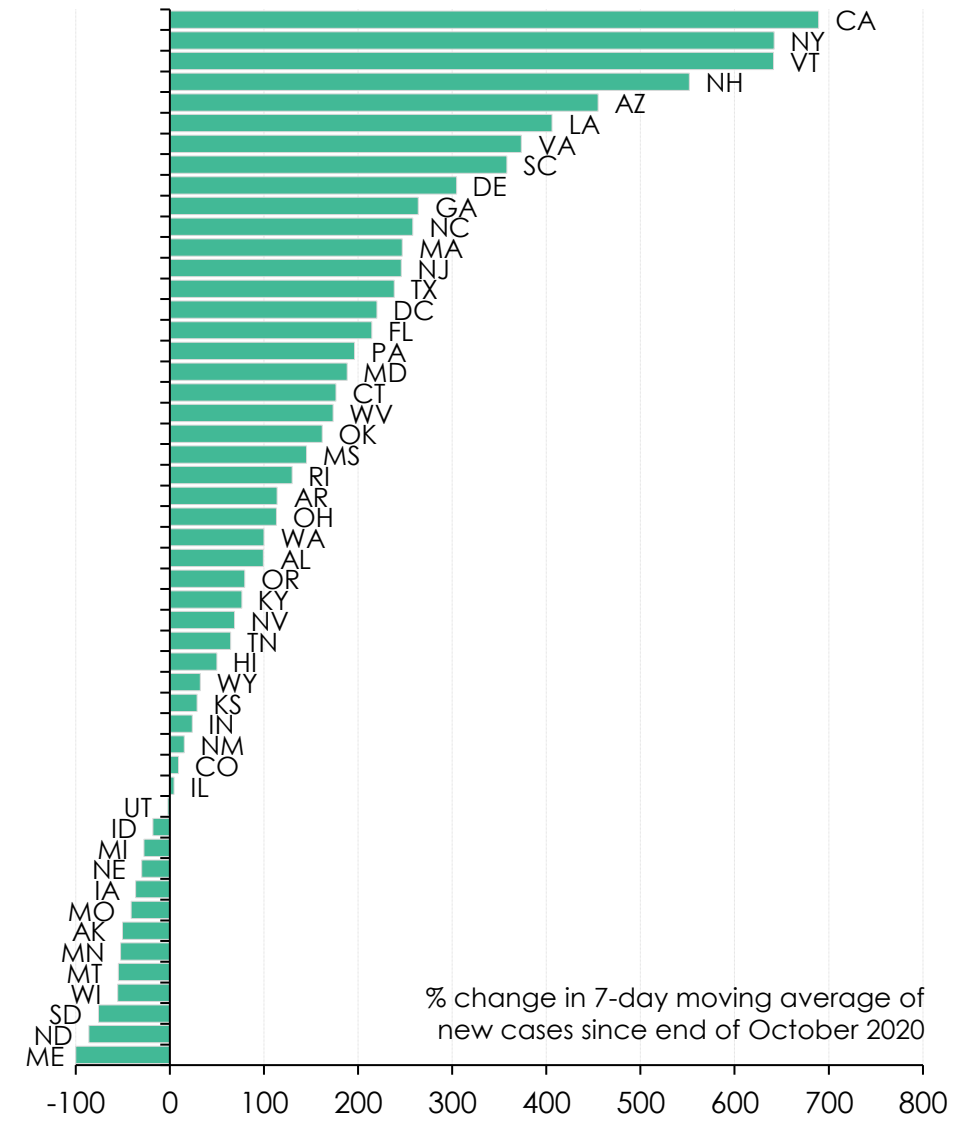
New cases – Mid-West and North-East



New cases – South and West



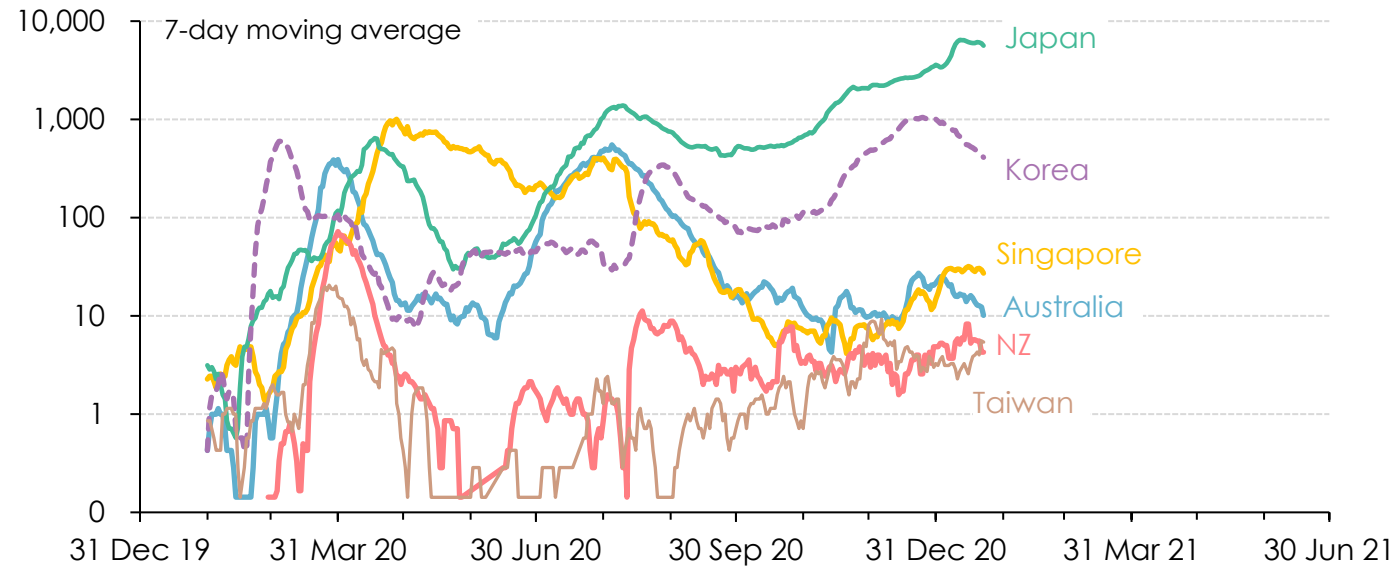
Increase in cases since end-October



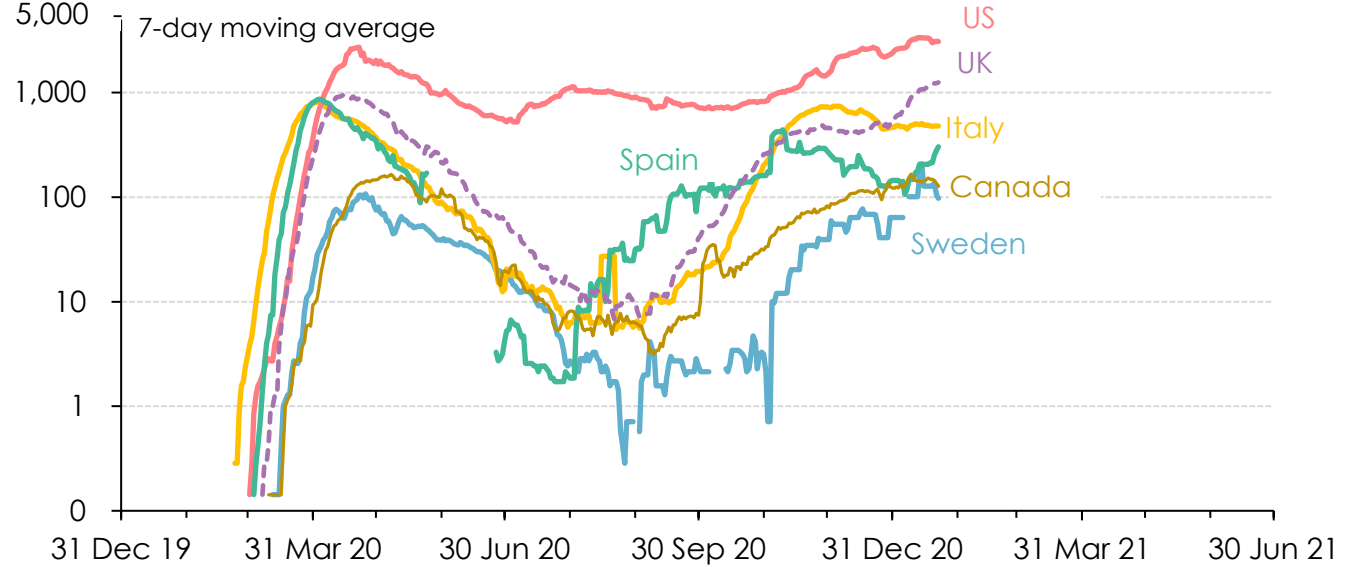
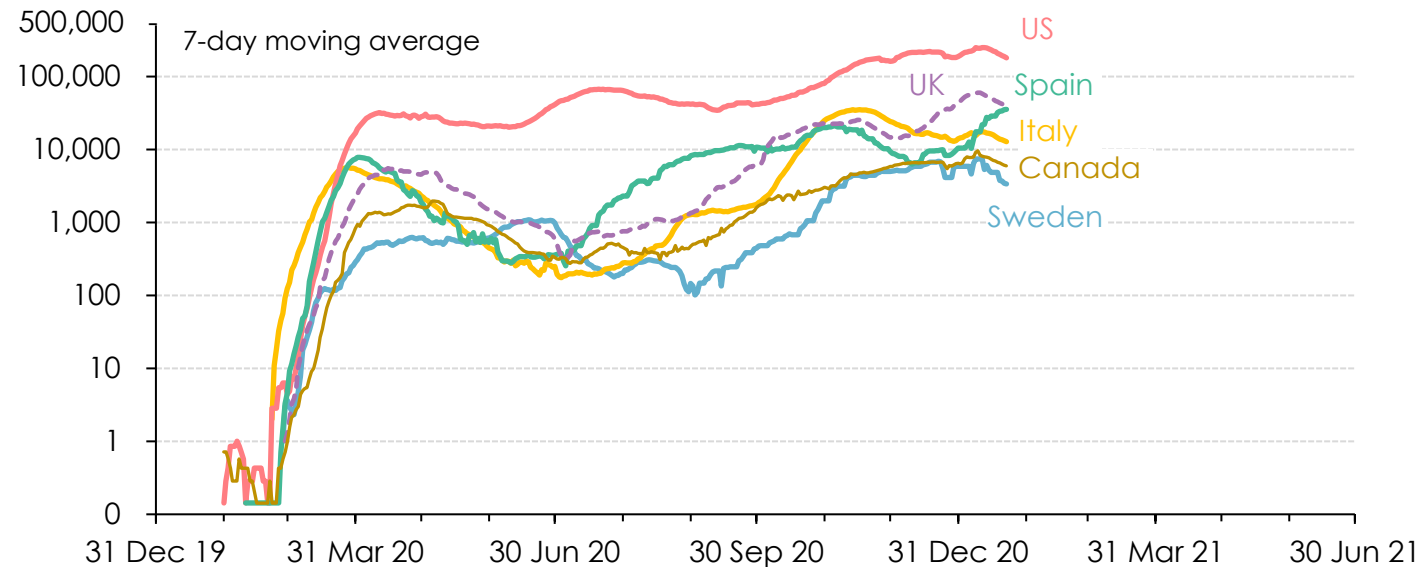
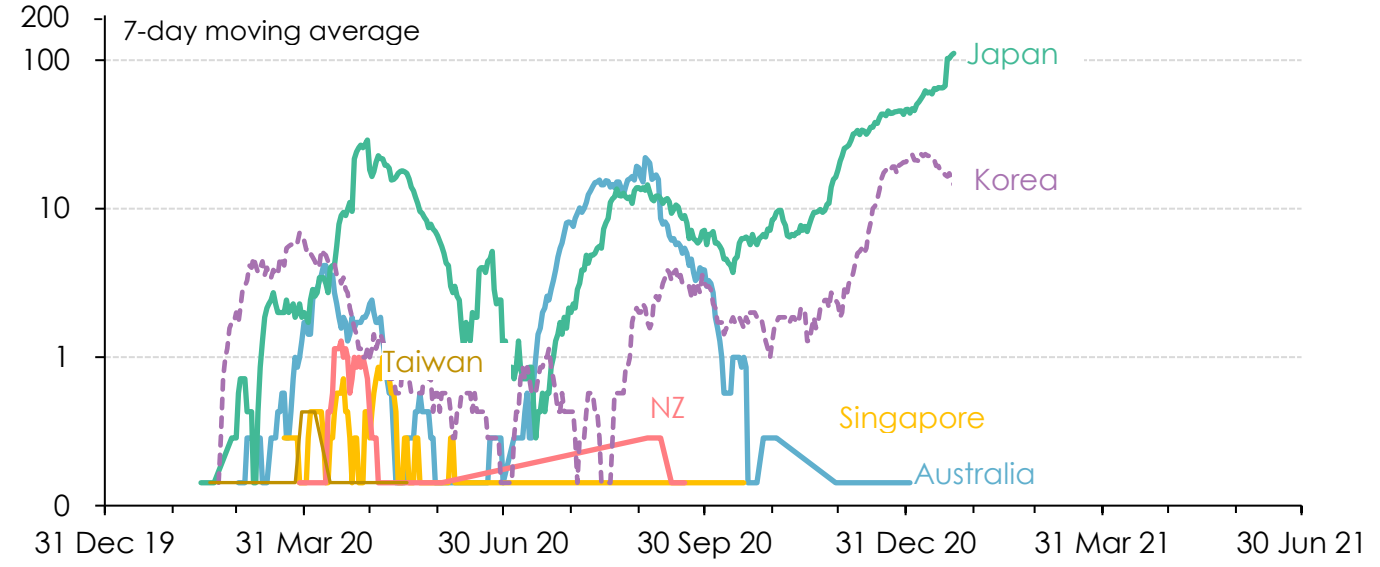
Note: First two charts are on logarithmic scales. Sources: [USAFACTS](#); [Centers for Disease Control and Prevention](#); Corinna. Latest data are for 21st January. [Return to "What's New"](#).

# New case numbers and deaths have risen significantly in Japan and Korea – and remained at much higher levels in Europe and North America

## Daily new cases



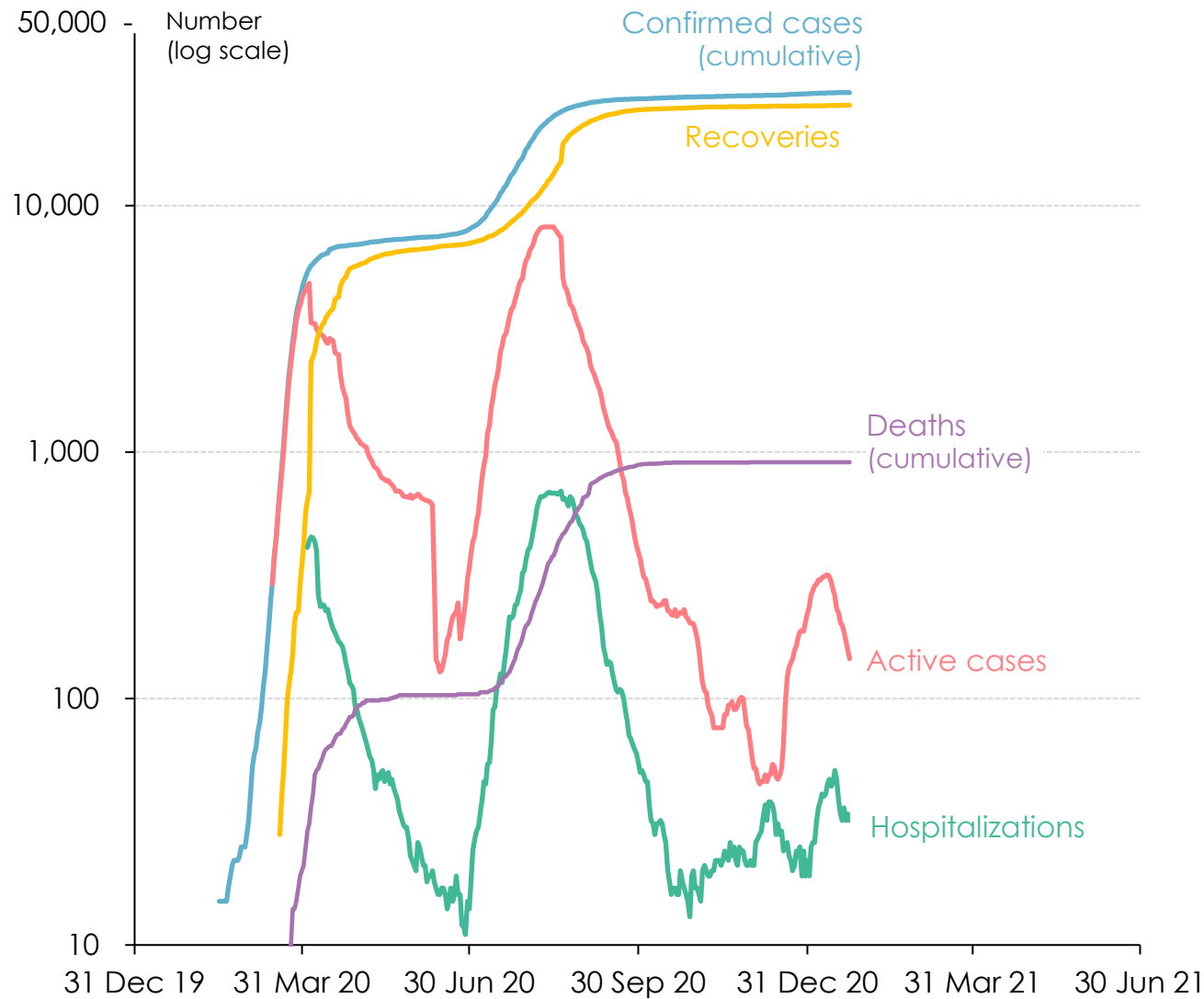
## Daily new deaths



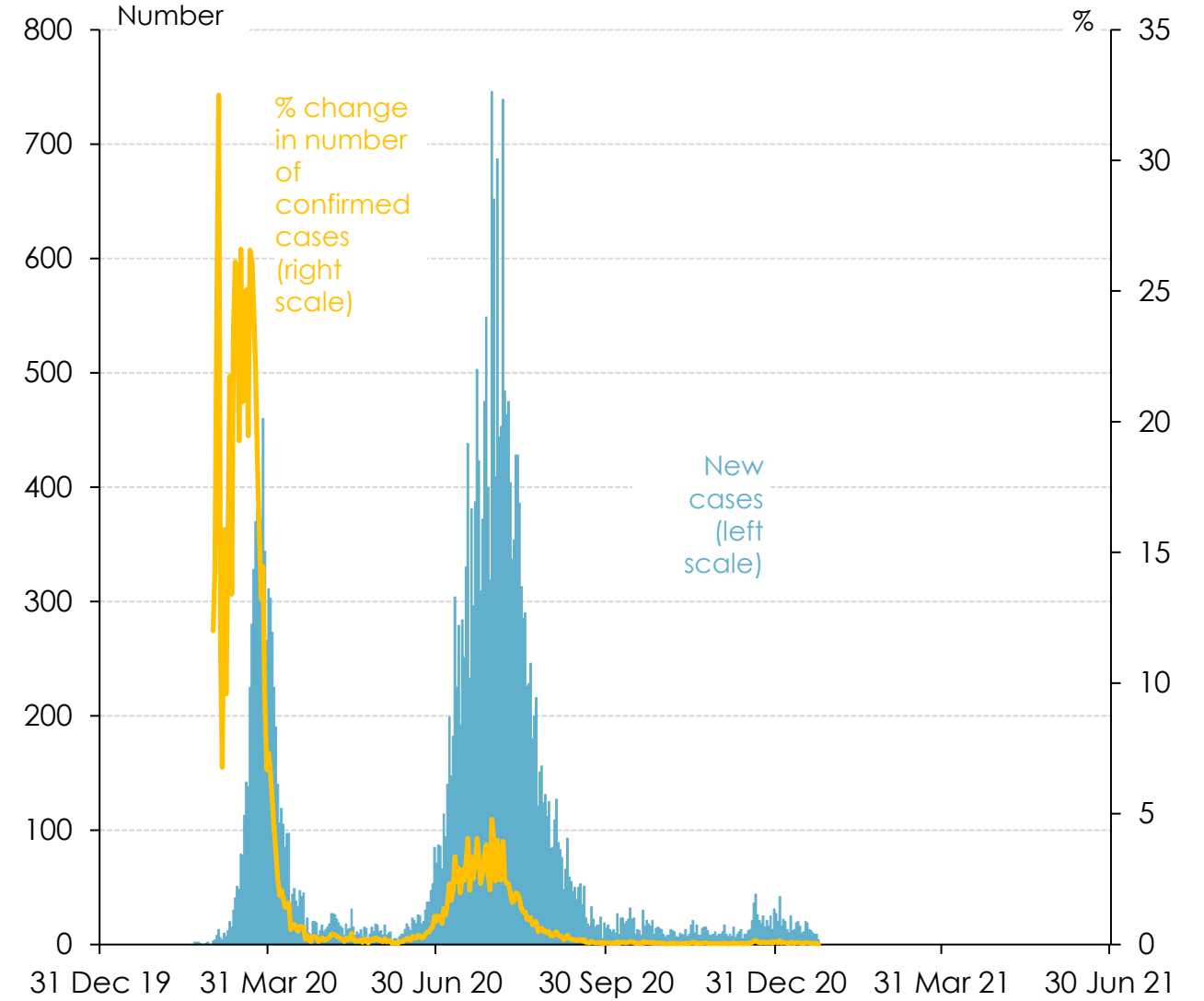
Note: All charts are on logarithmic scales. Data for new deaths in Spain between 25<sup>th</sup> May and 19<sup>th</sup> June 2020 not shown because of distortions caused by reclassifications on those dates. Data up to 22<sup>nd</sup> January. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# Only 86 new cases were recorded in Australia this week – the lowest since the week ended 18<sup>th</sup> December – and 82 of those were acquired overseas

## Cases, recoveries, hospitalizations and deaths



## New cases

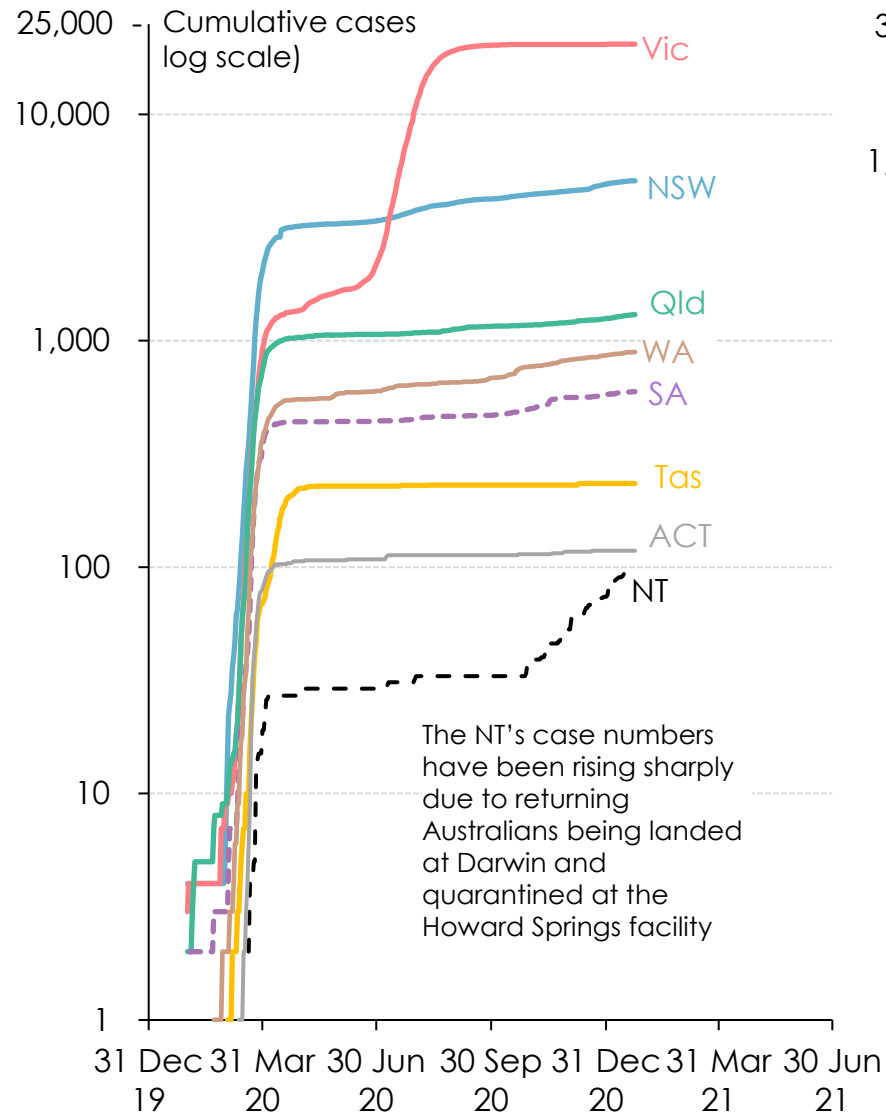


Note: Data up to 22nd January. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

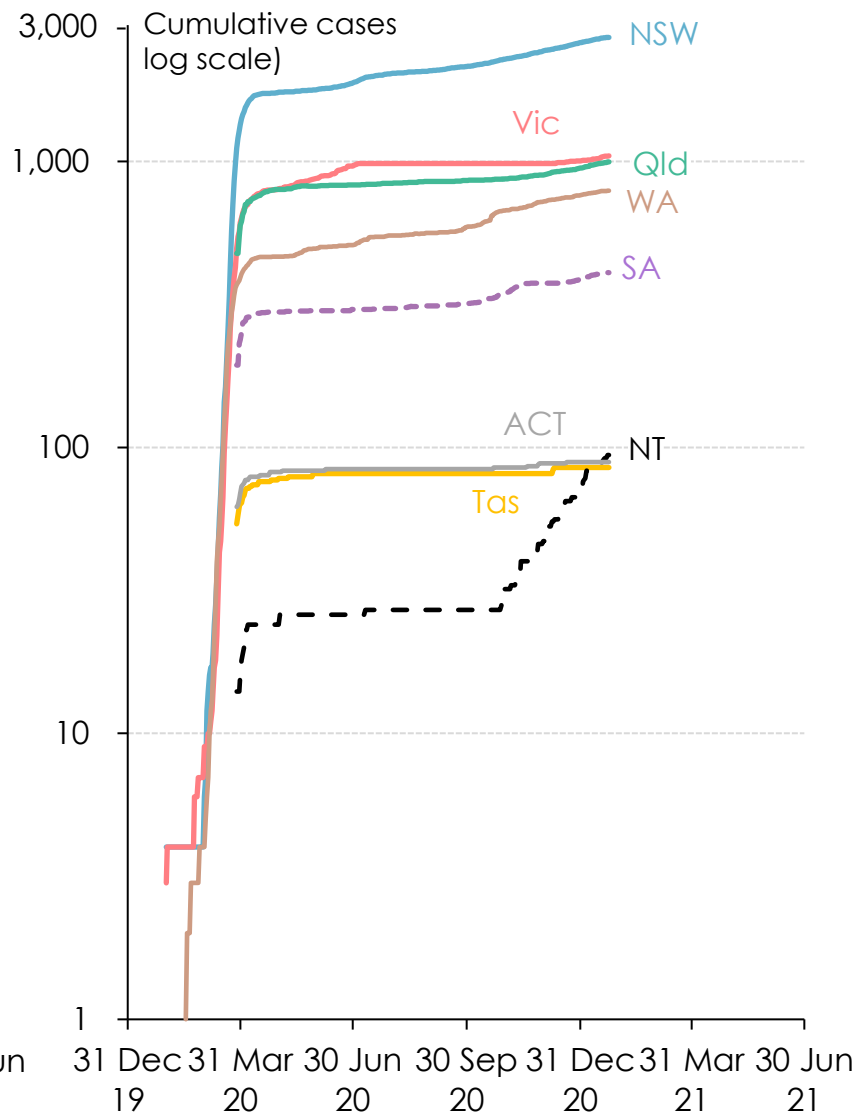


# 79% of new cases this year have been acquired overseas – and there were only 10 locally-acquired transmissions over the past week

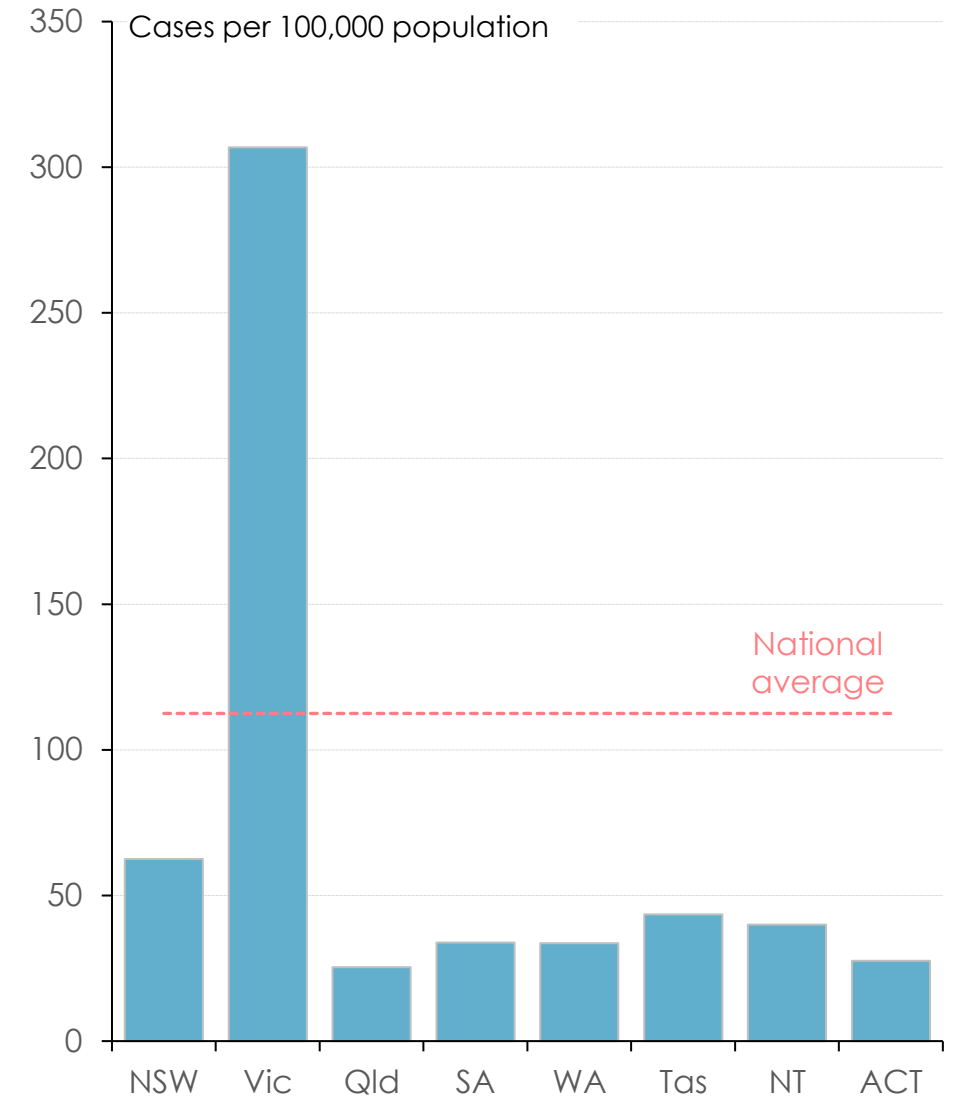
## Cumulative cases, by State



## Overseas transmissions

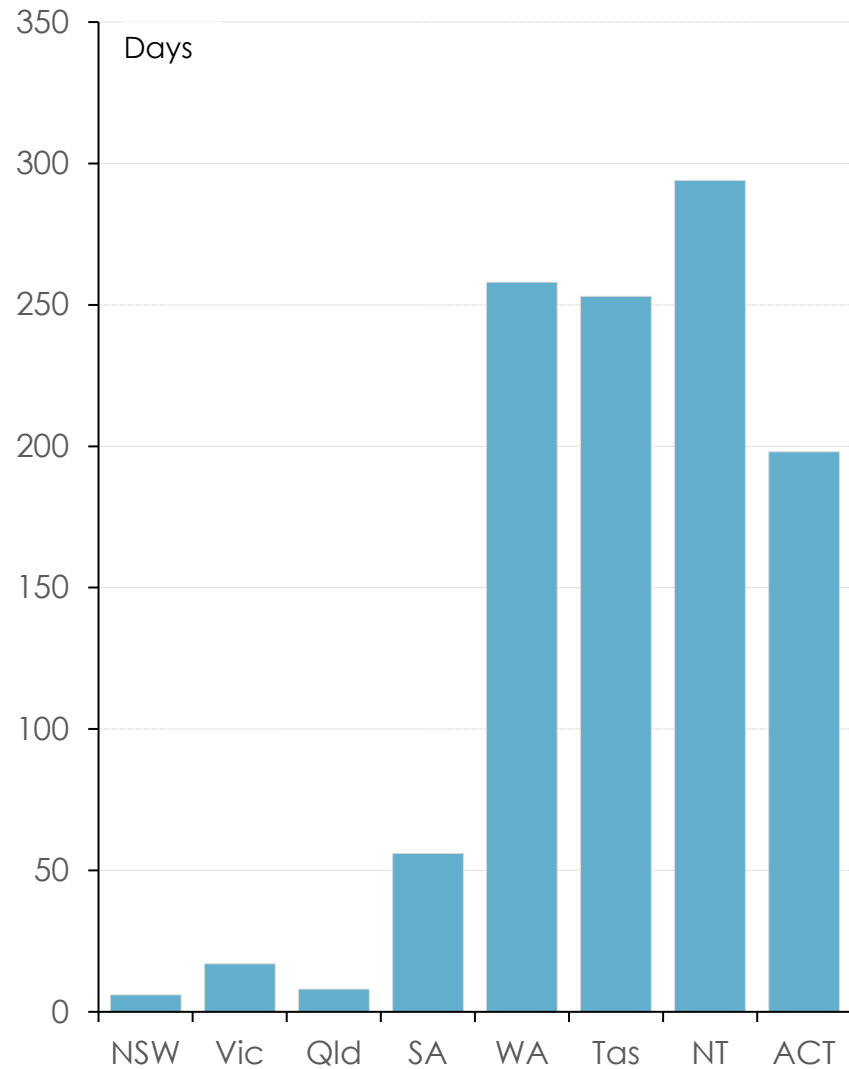


## Cases per 100,000 population

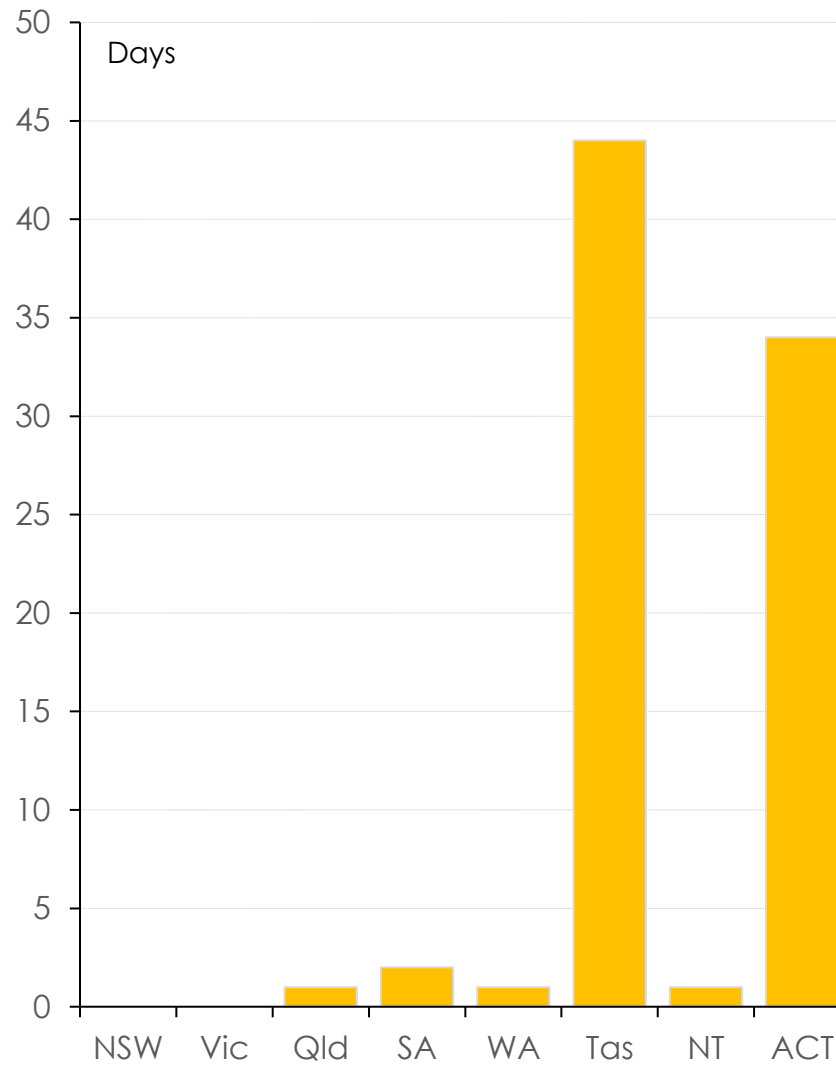


# Locally-acquired transmissions have been completely eliminated in Australia's less populous states and territories

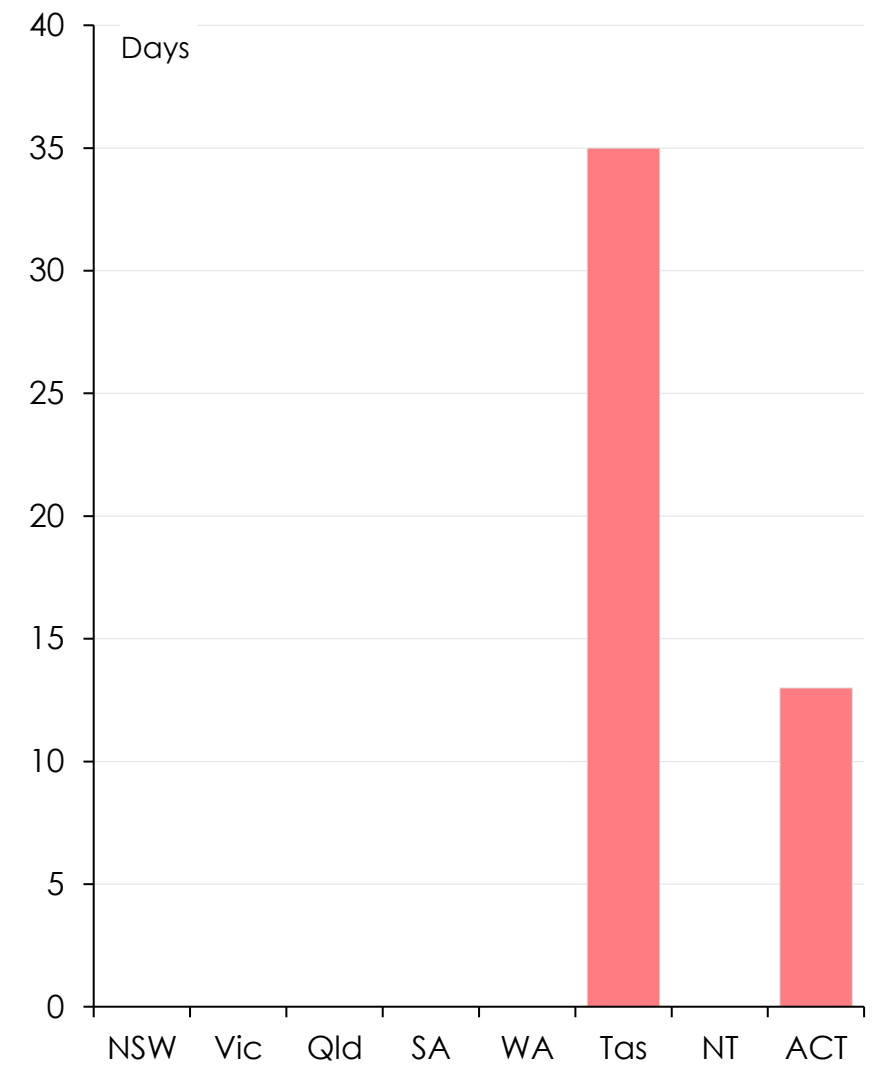
## Days since last new locally-acquired case



## Days since last new overseas-acquired case

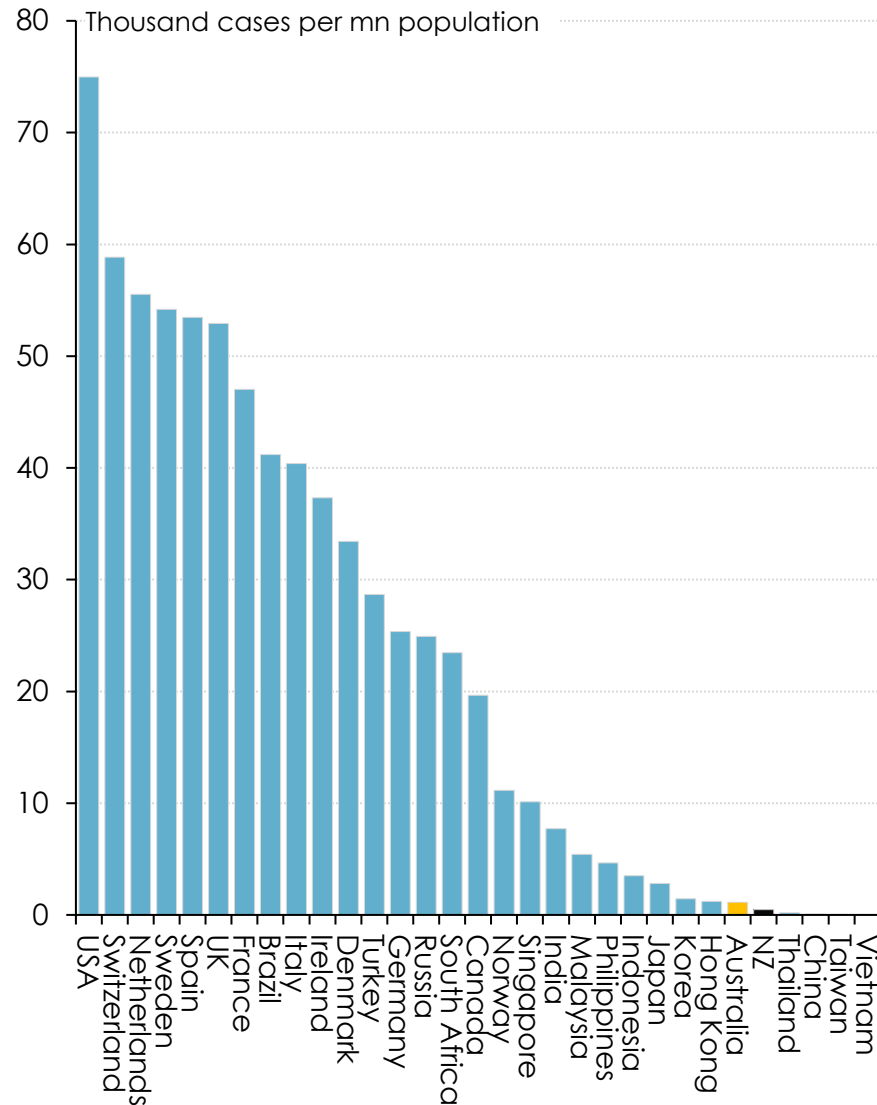


## Days since there were any active cases

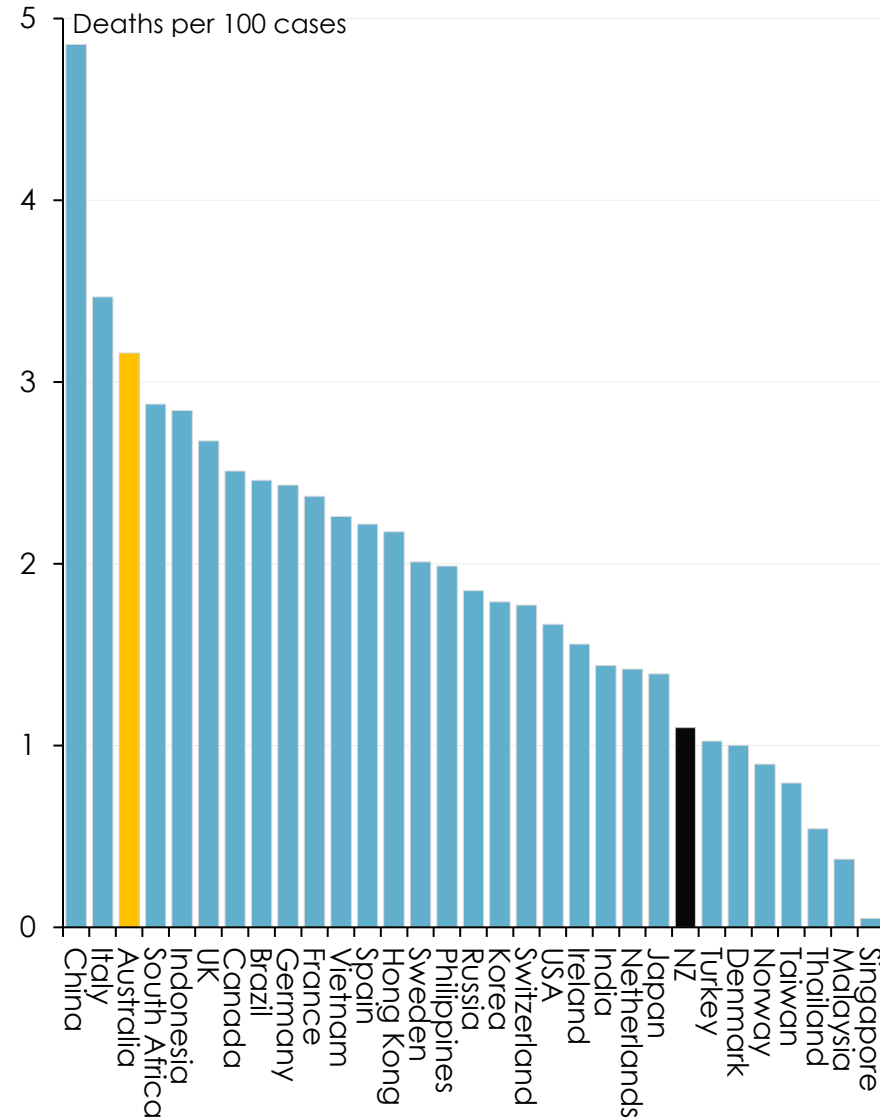


# Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

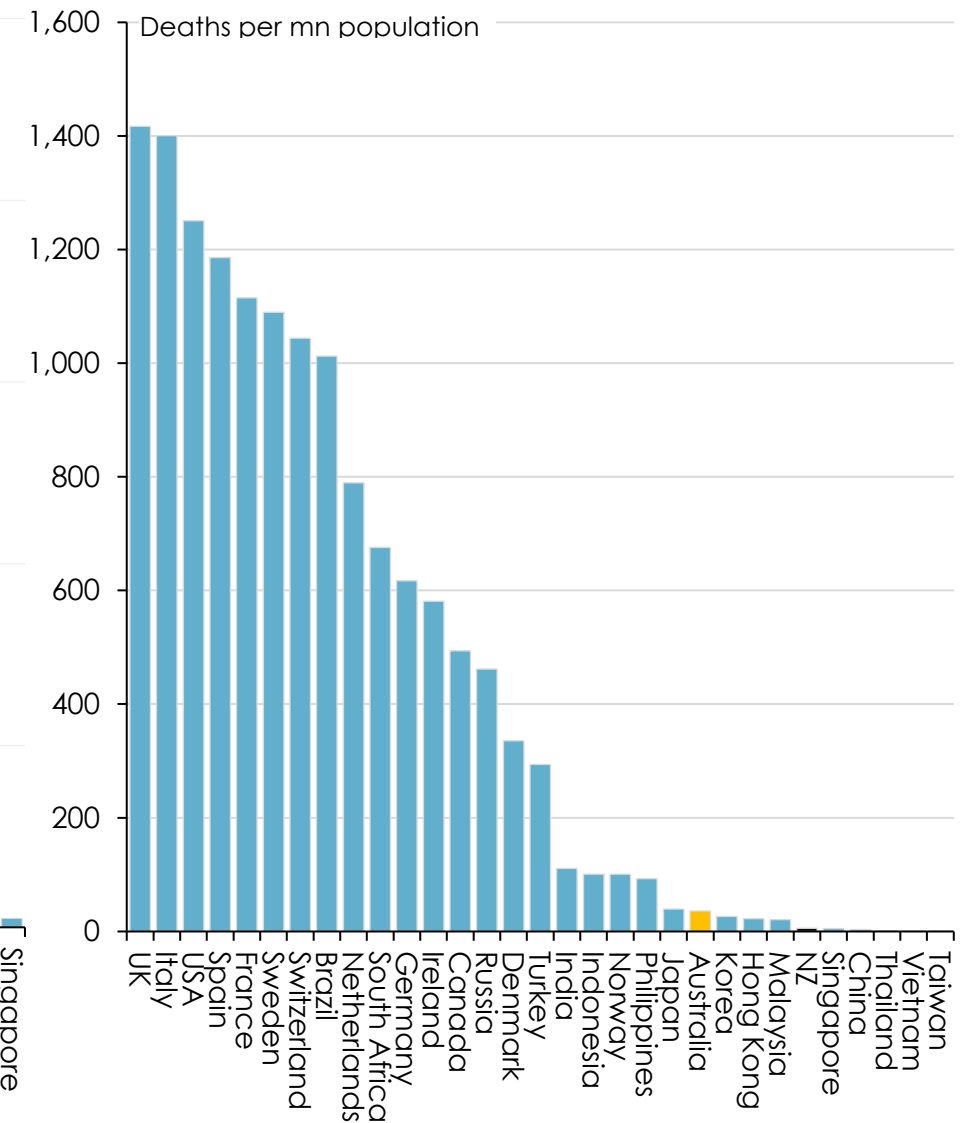
## Apparent infection rate



## Apparent fatality rate



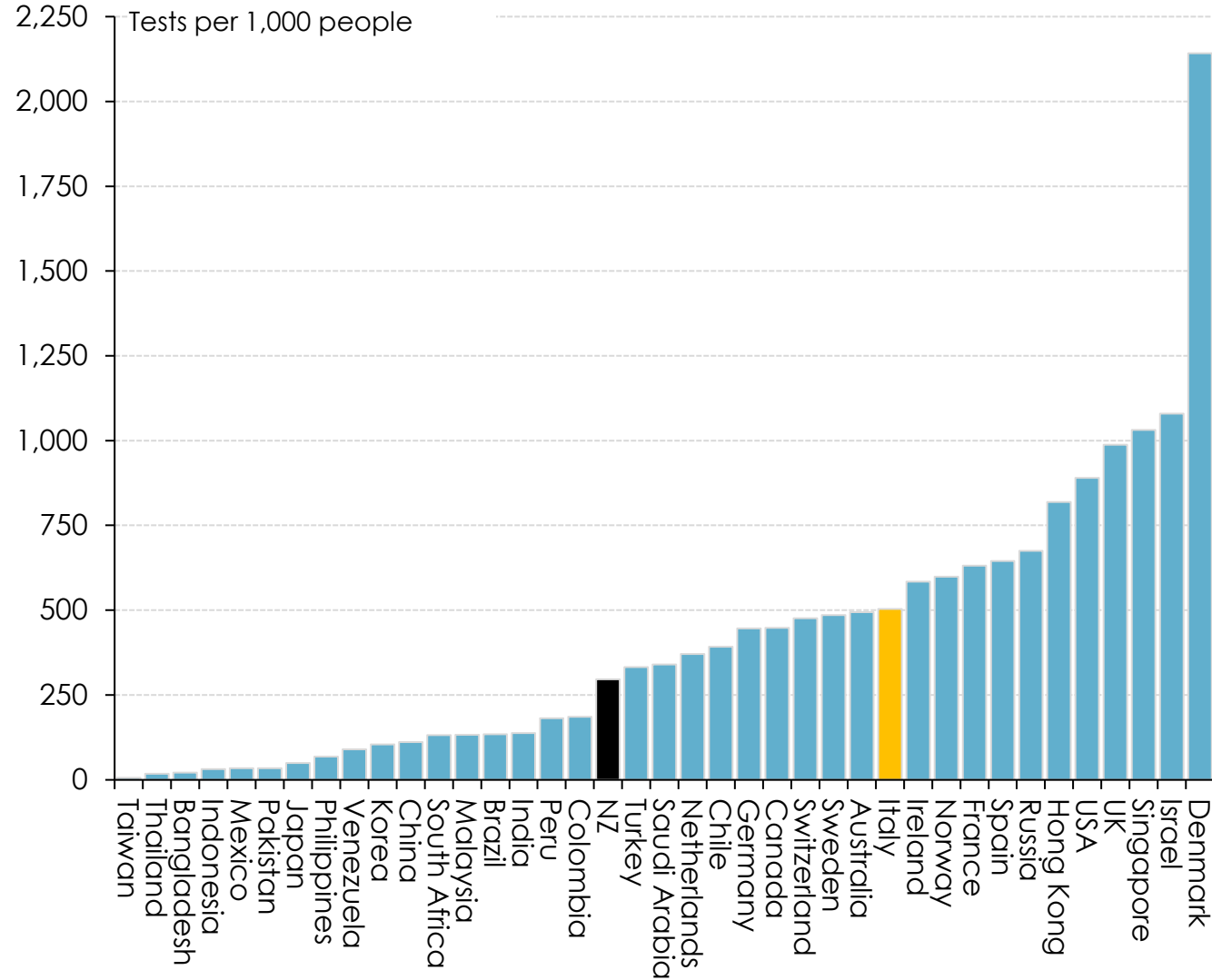
## Death rate



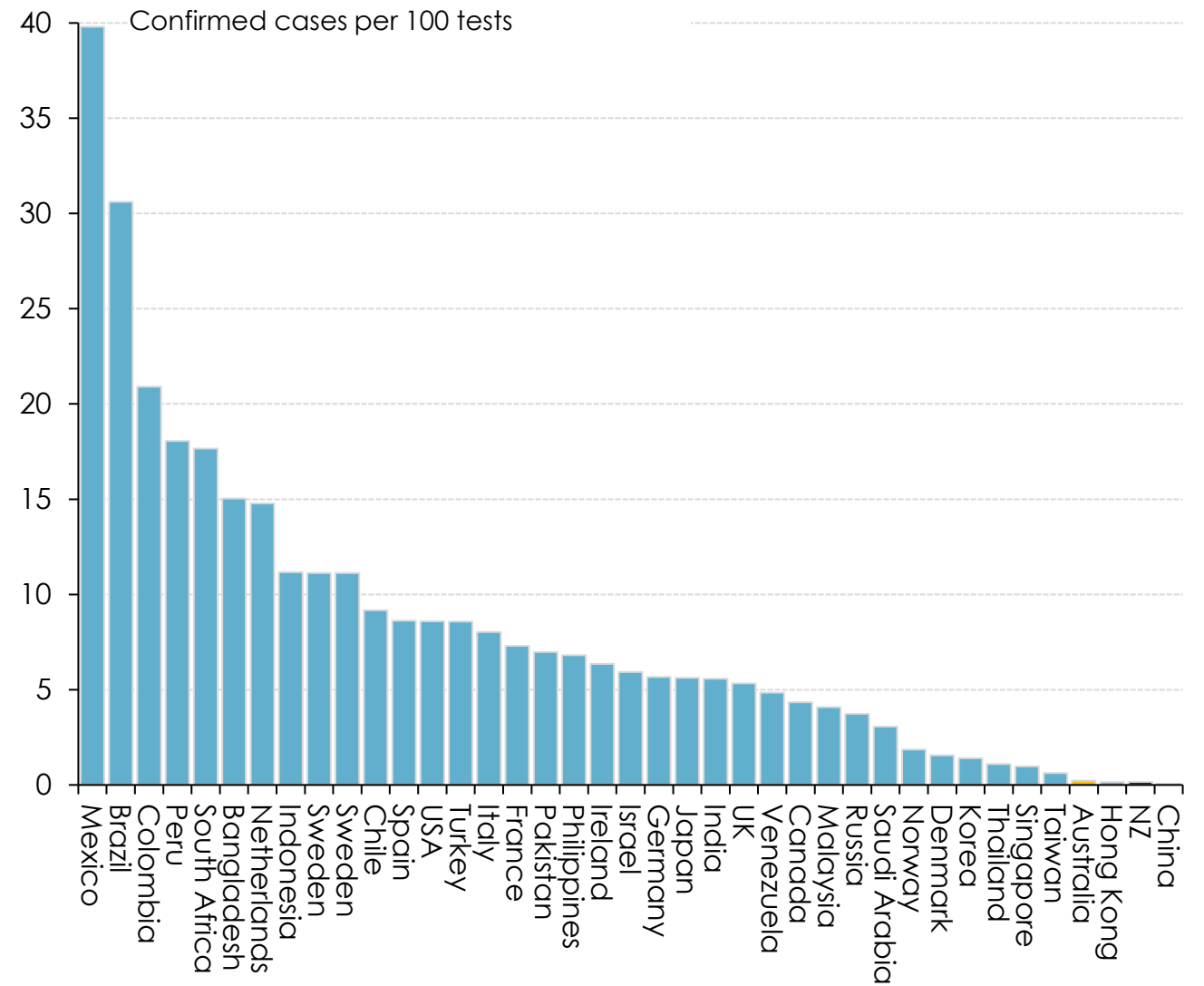
Note: Data up 22<sup>nd</sup> January . Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

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

## Tests per thousand of population



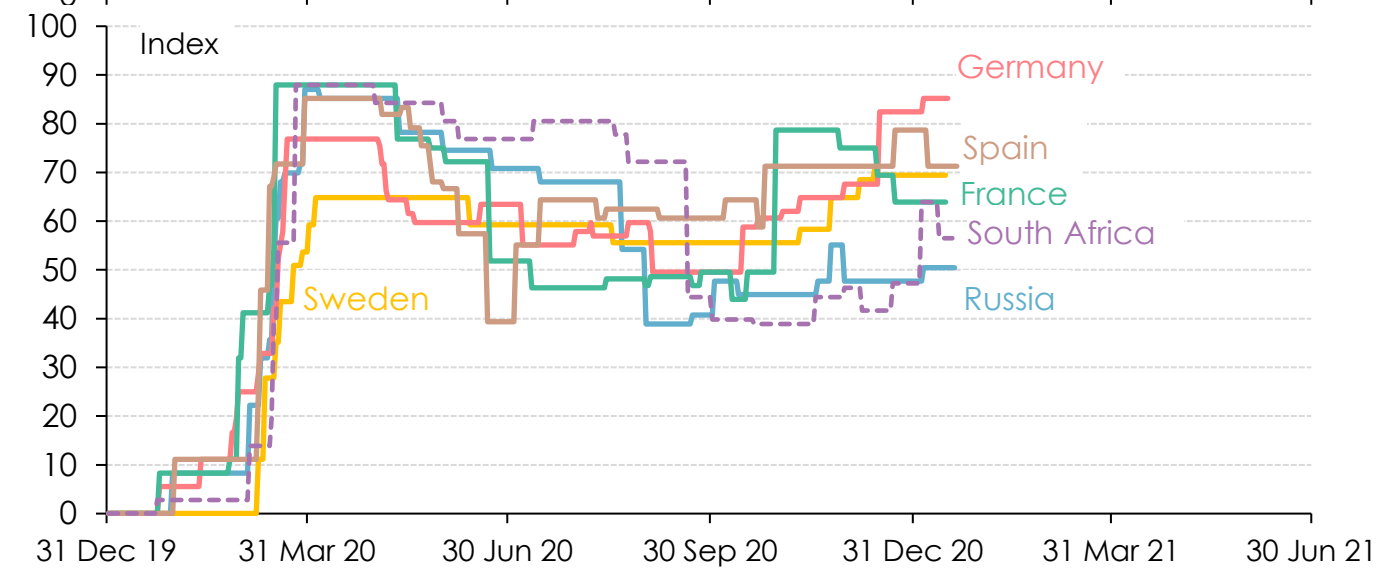
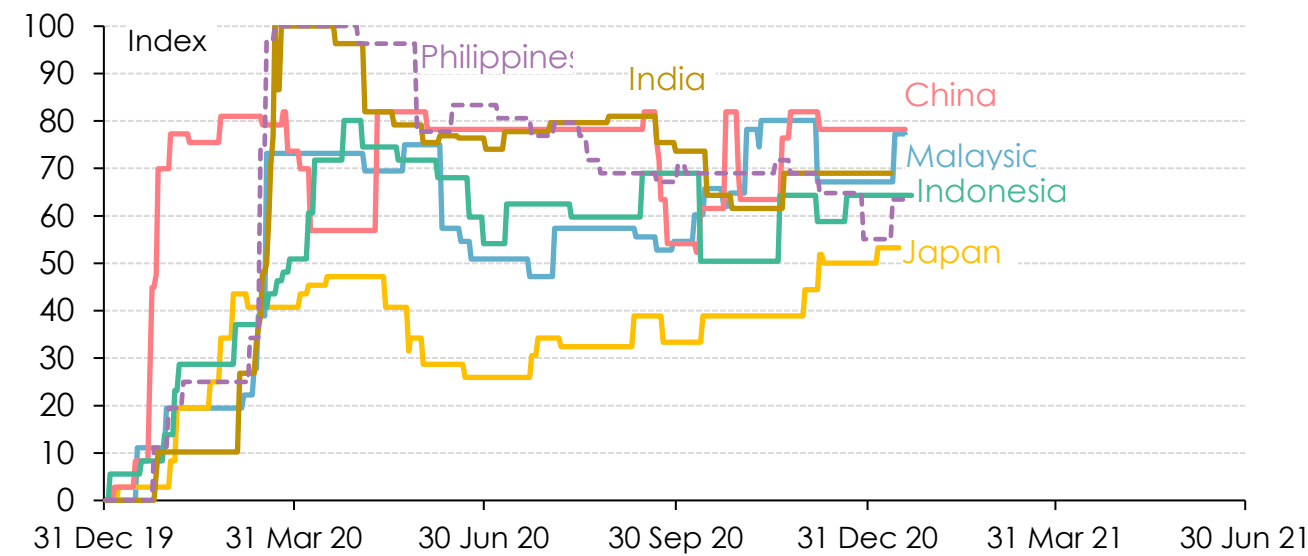
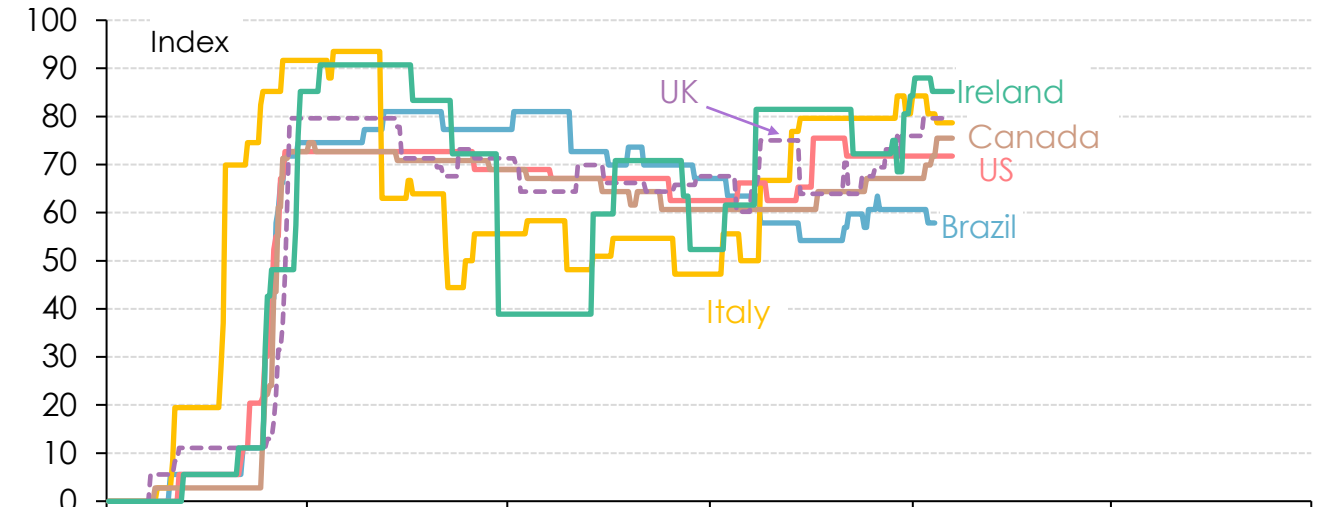
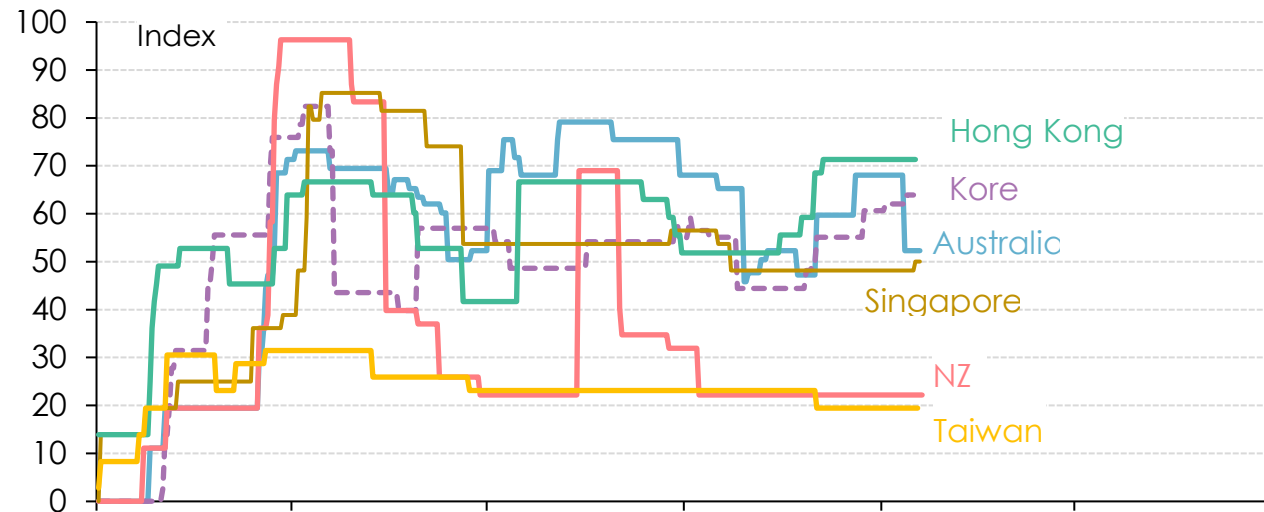
## Confirmed cases per 100 tests



Note: Data up to 22<sup>nd</sup> January (and yes it appears, at face value, that Denmark has tested its entire population twice, and Israel and Singapore at least 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"](#).

# Much of the world (with conspicuous exceptions of Taiwan and NZ) have been under tight restrictions since mid-December

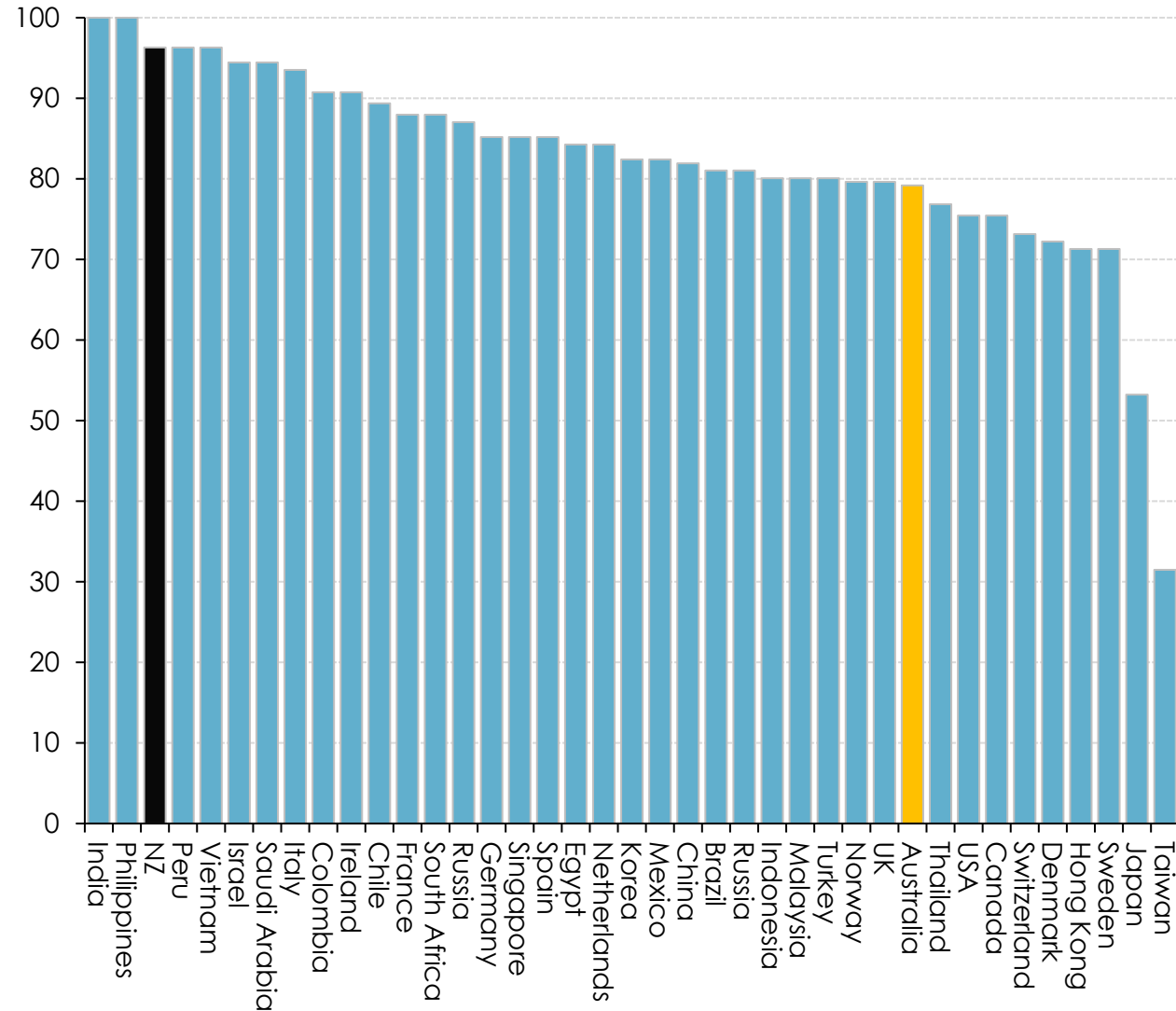
## Timing and severity of government restrictions on movement and gathering of people



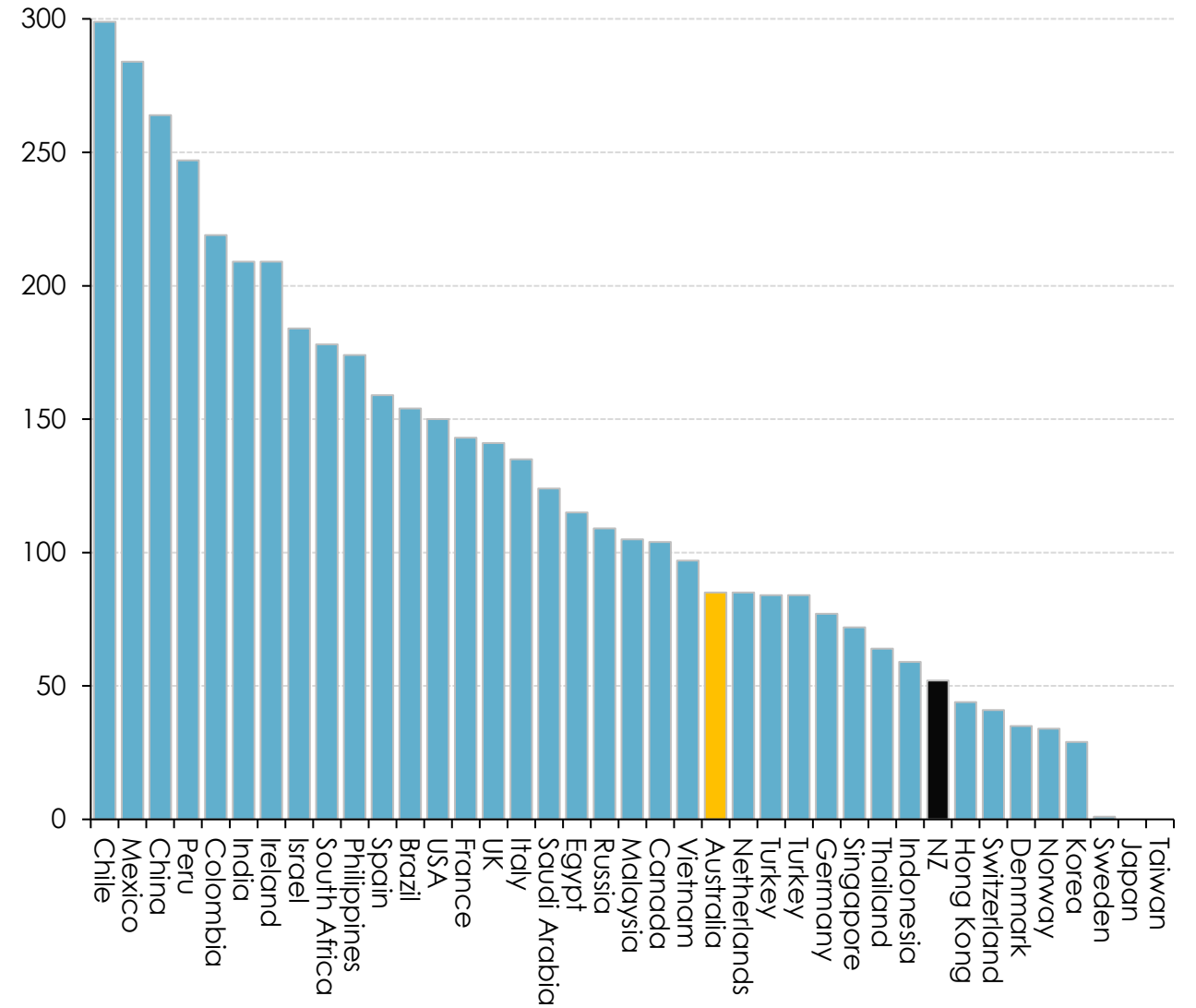
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 11<sup>th</sup> -20<sup>th</sup> January. [Return to "What's New"](#).

# 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

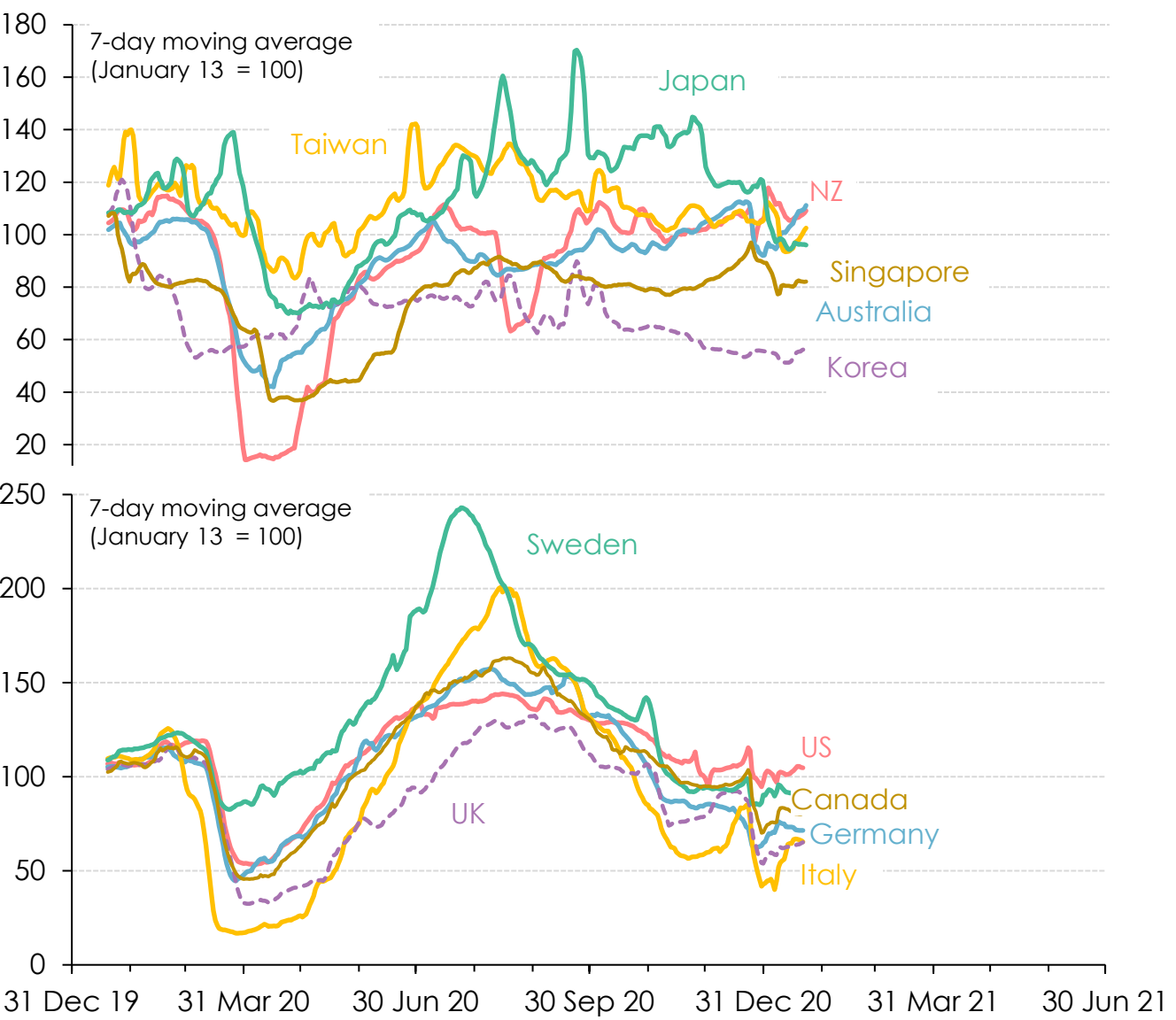


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 4<sup>th</sup> -20<sup>th</sup> January.

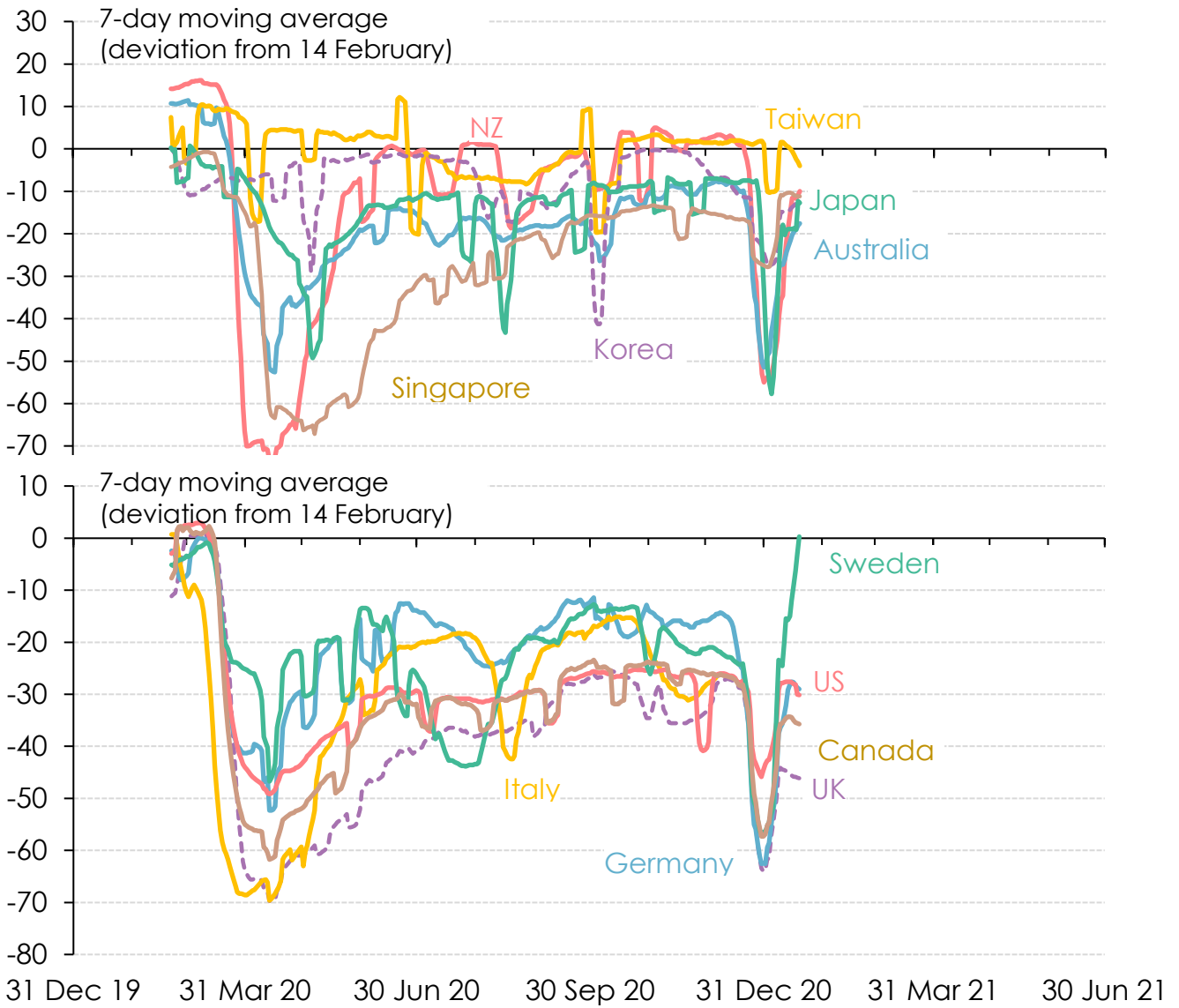
[Return to "What's New"](#).

# Mobility trends show declining trends in most countries towards the end of 2020, exaggerated by Christmas-New Year shutdowns

## Time spent driving



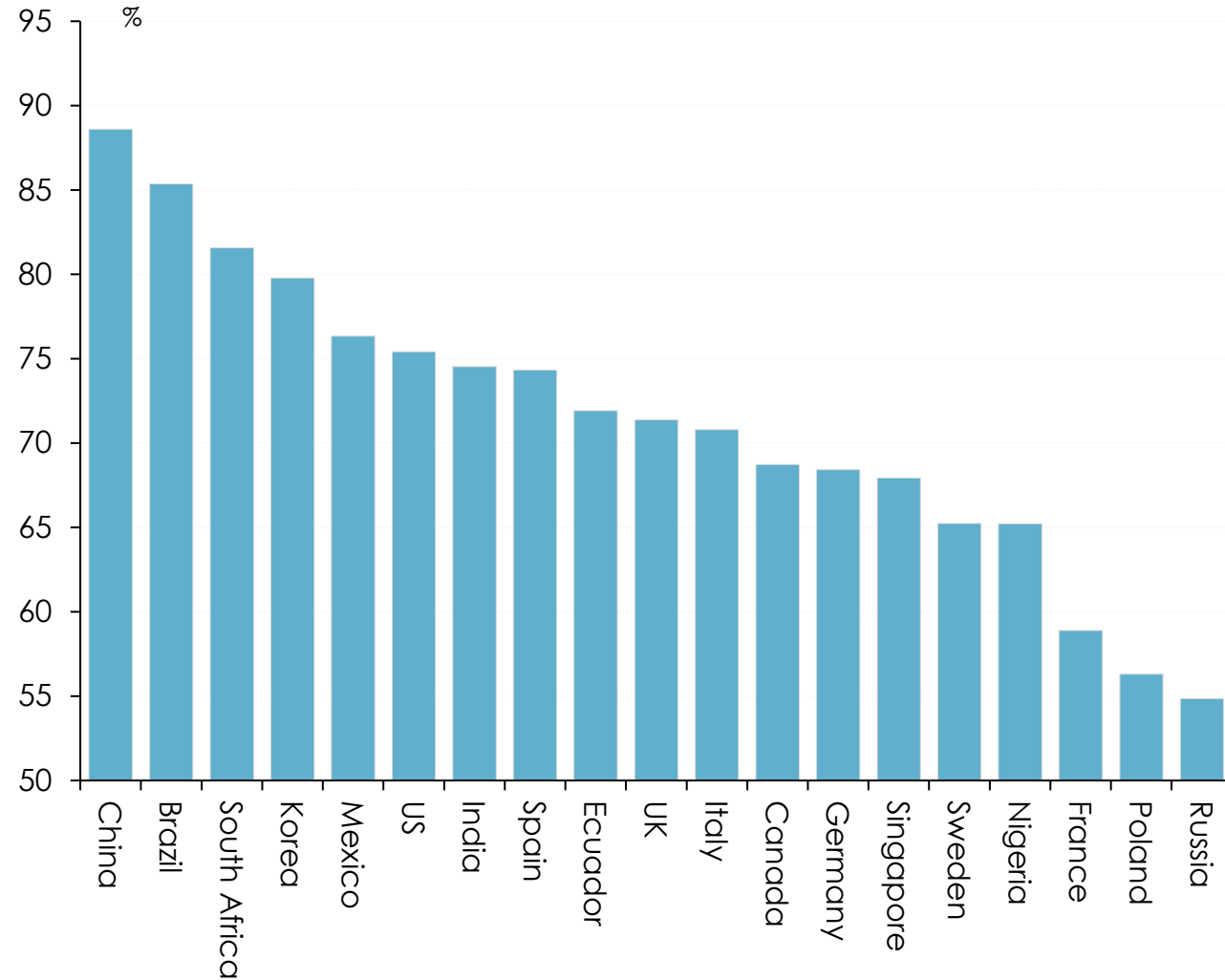
## Time spent in workplaces



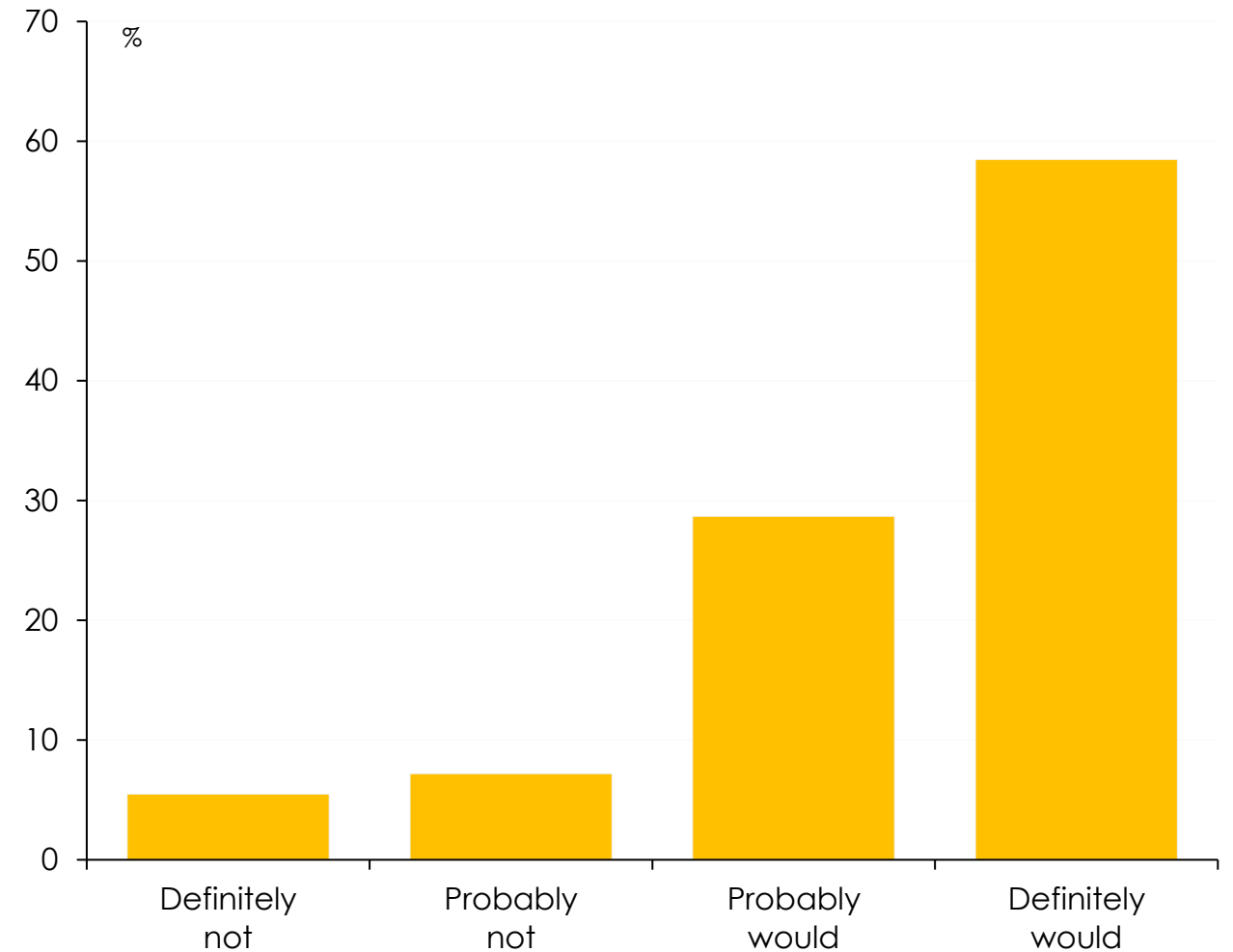
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 21st January); [Google Community Mobility Reports](#) (data up to 19th January). [Return to "What's New"](#).

# Effective vaccines will be crucial in allowing people and economies to return to 'normal' – if people are willing to take them

## People's willingness to accept a Covid-19 vaccine, by country



## Australians' willingness to accept a Covid-19 vaccine

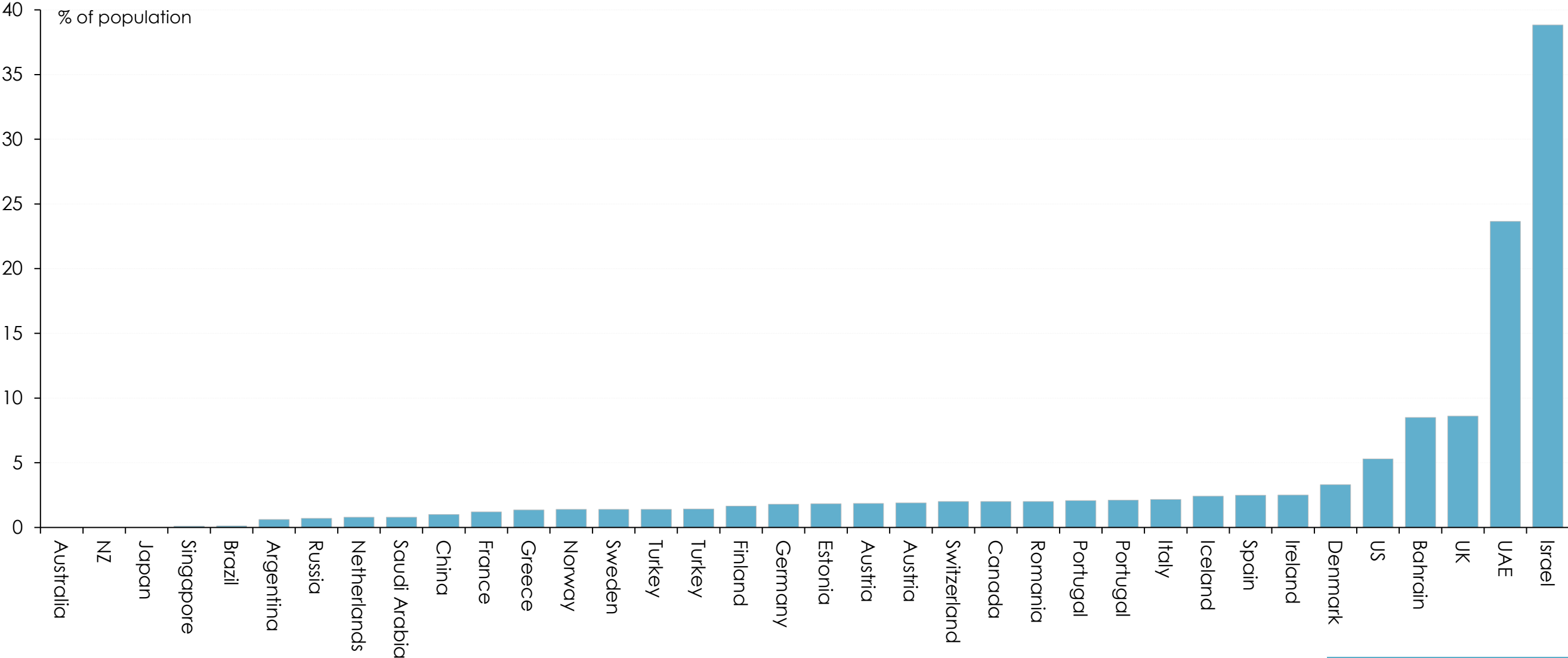


Sources: Jeffrey V. Lazarus, Scott Ratzan et al, [A global survey of potential acceptance of a COVID-19 vaccine](#), *Nature Medicine*, 20<sup>th</sup> October 2020; Ben Edwards, Nicholas Biddle, Matthew Gray & Kate Solis, [COVID-19 vaccine hesitancy and resistance: Correlates in a nationally representative longitudinal survey of the Australian population](#), ANU Centre for Social Research and Methods, 16<sup>th</sup> November 2020. [Return to "What's New"](#).



# Apart from Israel and the United Arab Emirates, only a small proportion of populations have thus far been vaccinated – especially in Asia

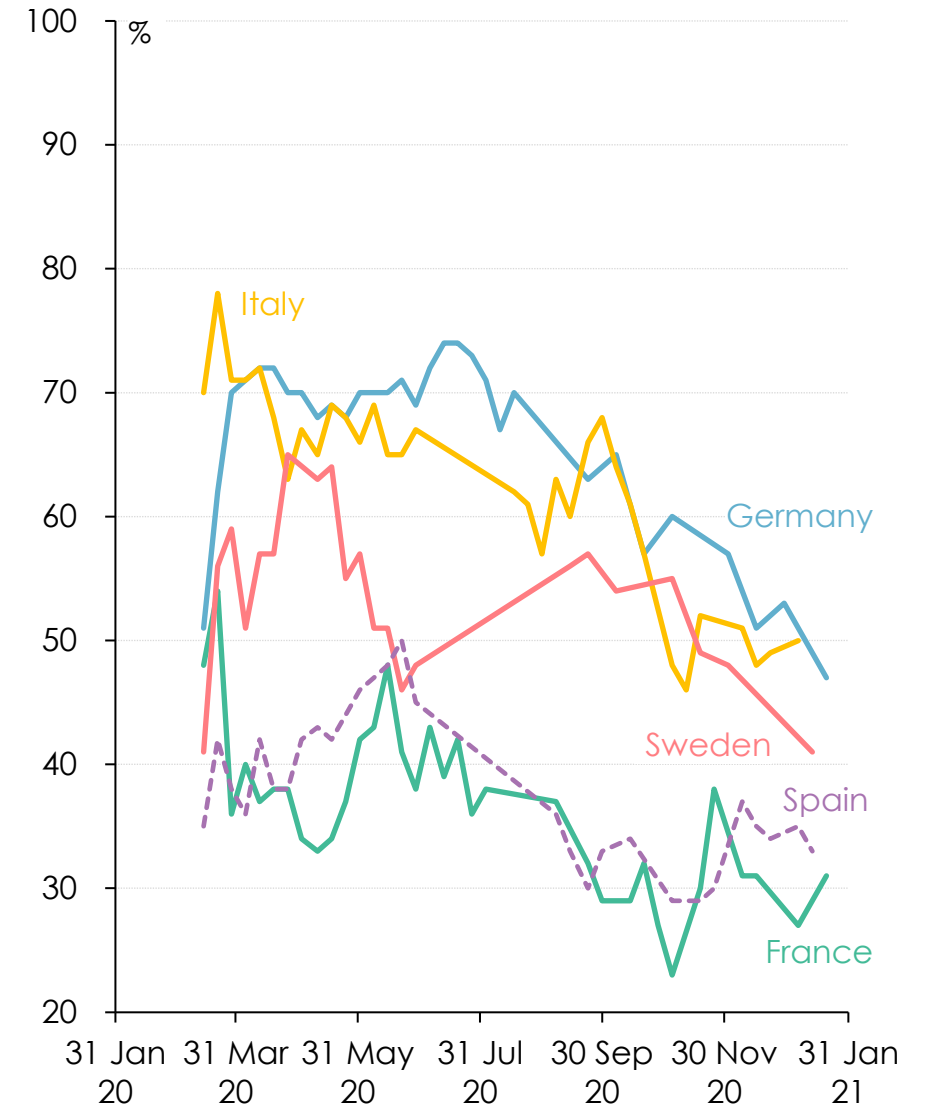
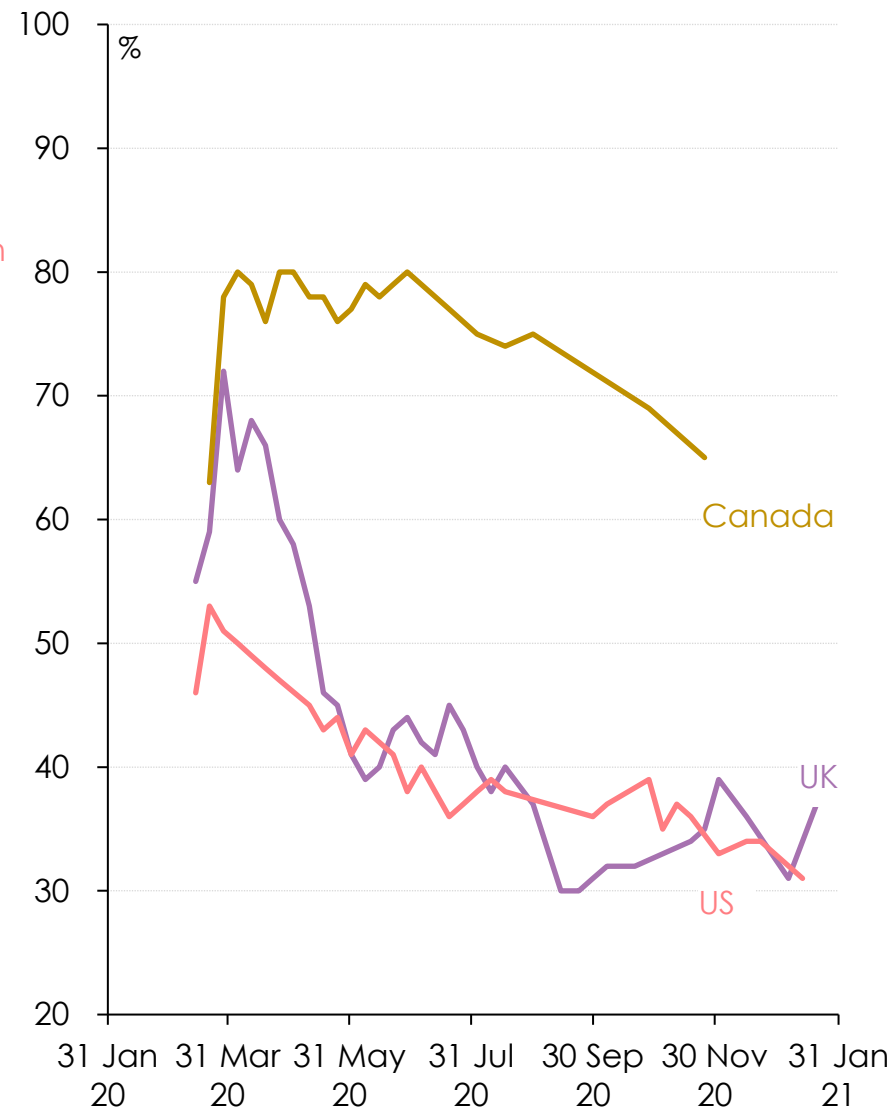
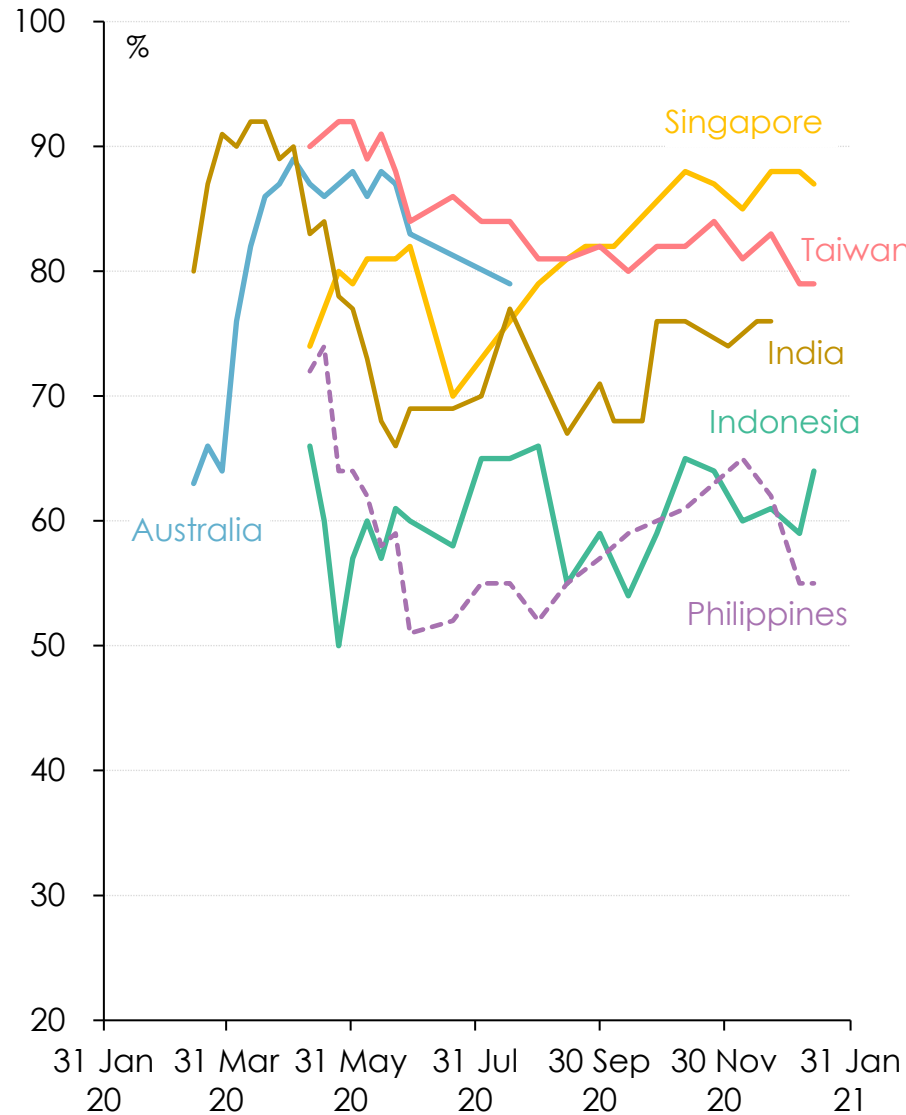
Percentage of population vaccinated as at 21<sup>st</sup> January



Sources: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

# Voters in Asian countries and Canada approve of their governments' handling of the pandemic but not so in the US or most of Europe

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

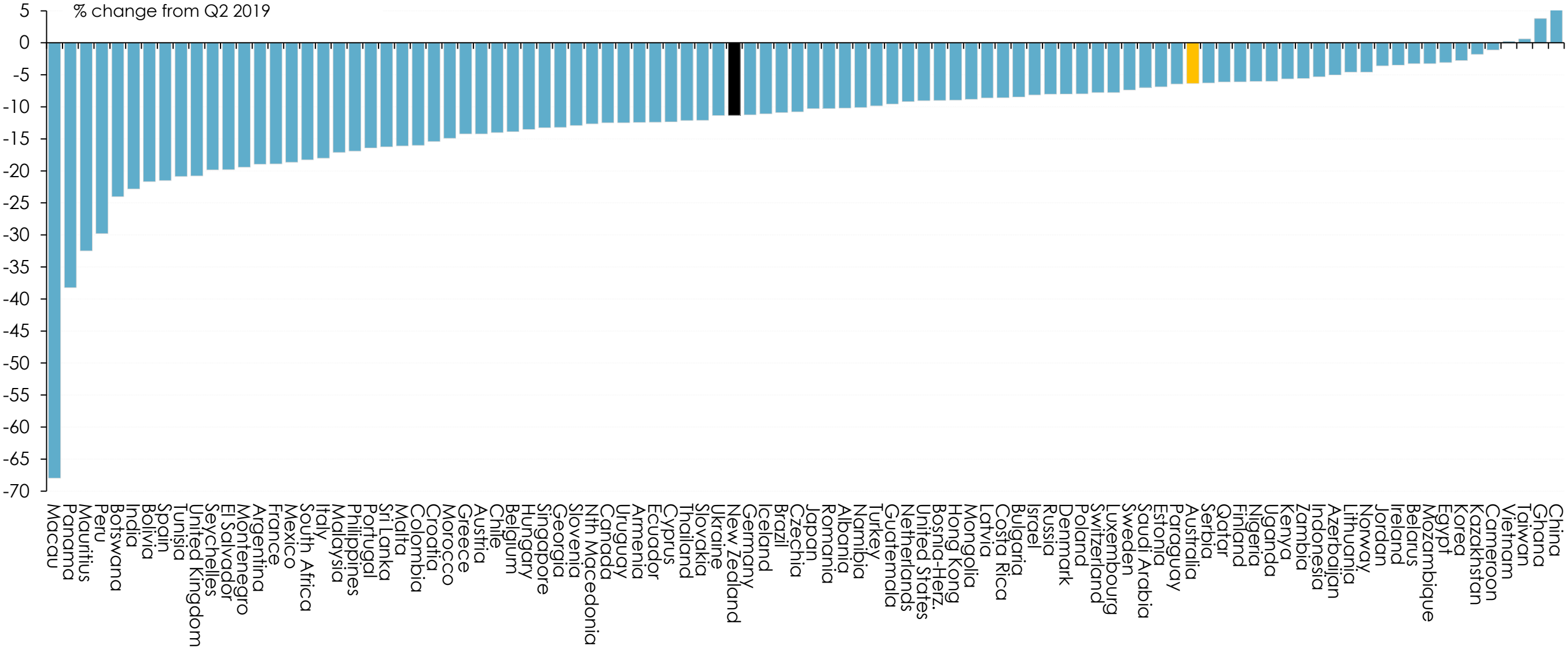


Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

**The world**

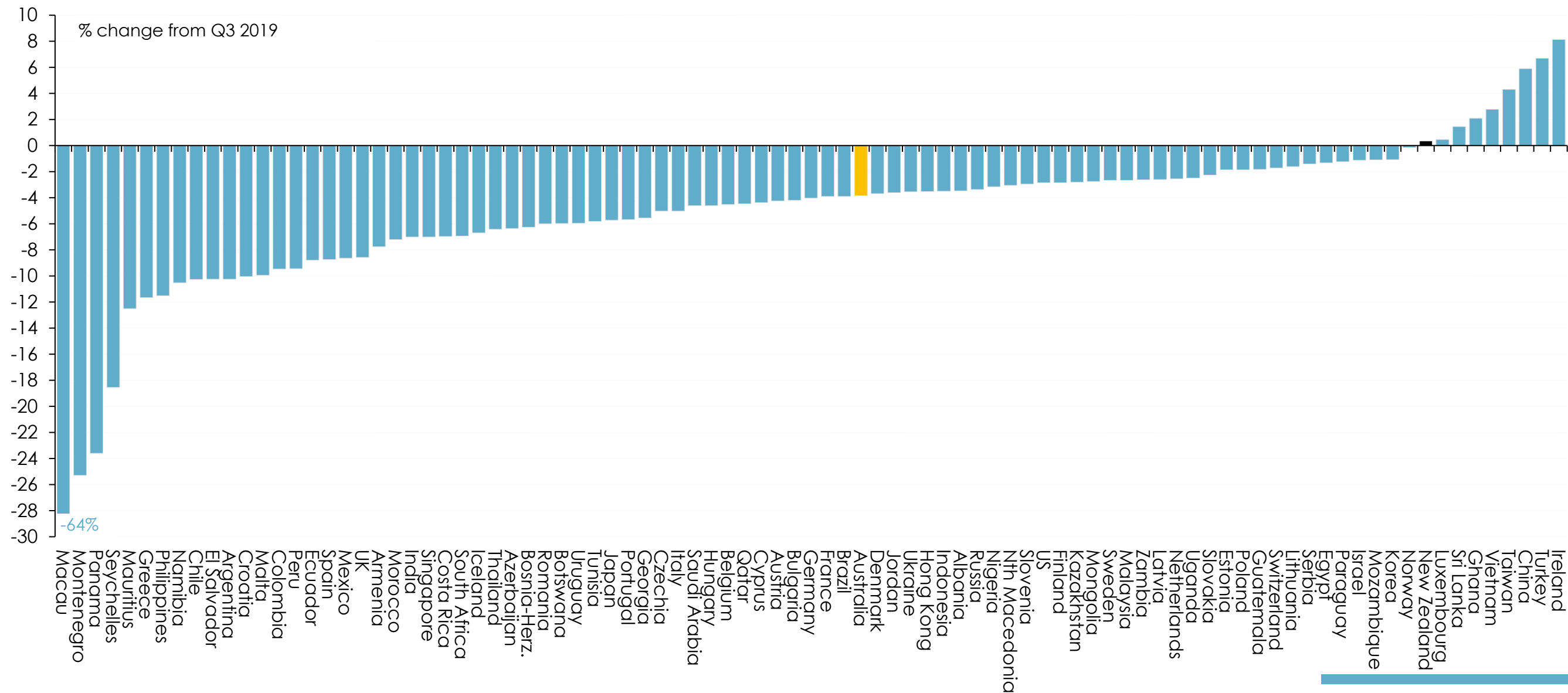
# Only 4 out of 96 countries reported positive GDP growth over the year to Q2, with 10 reporting contractions of more than 20% and 42 of 10-20%

## Real GDP growth over the year to Q2 2020



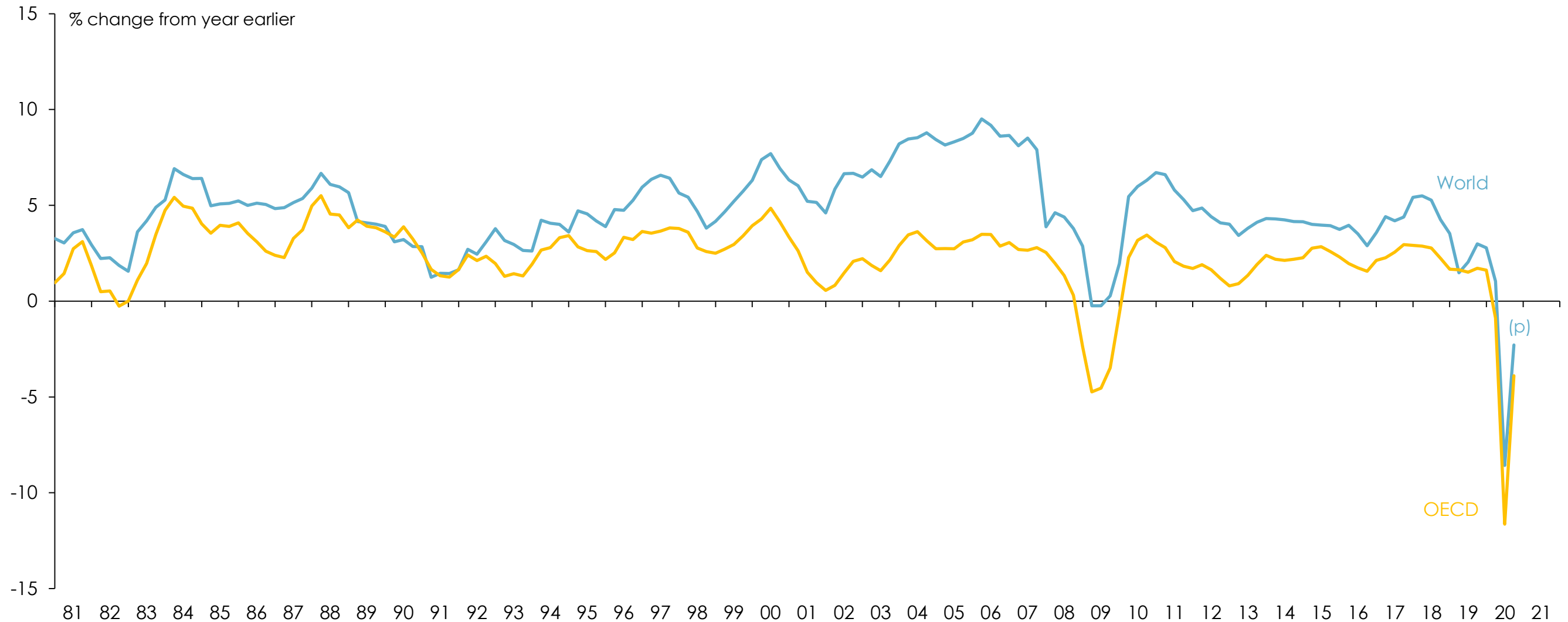
# ... but of 91 countries which have now reported Q3 numbers, 9 have shown positive growth, while only 12 have contracted by 10% or more from Q3 2019

## Real GDP growth over the year to Q3 2020



# The world economy likely contracted by 2¼% over the year to Q3, a sharp improvement from the 8½% 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 91 countries shown in the [previous slide](#). Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

# The World Bank this week revised up its estimates for growth in the advanced economies in 2020, but cut its forecasts for 2021

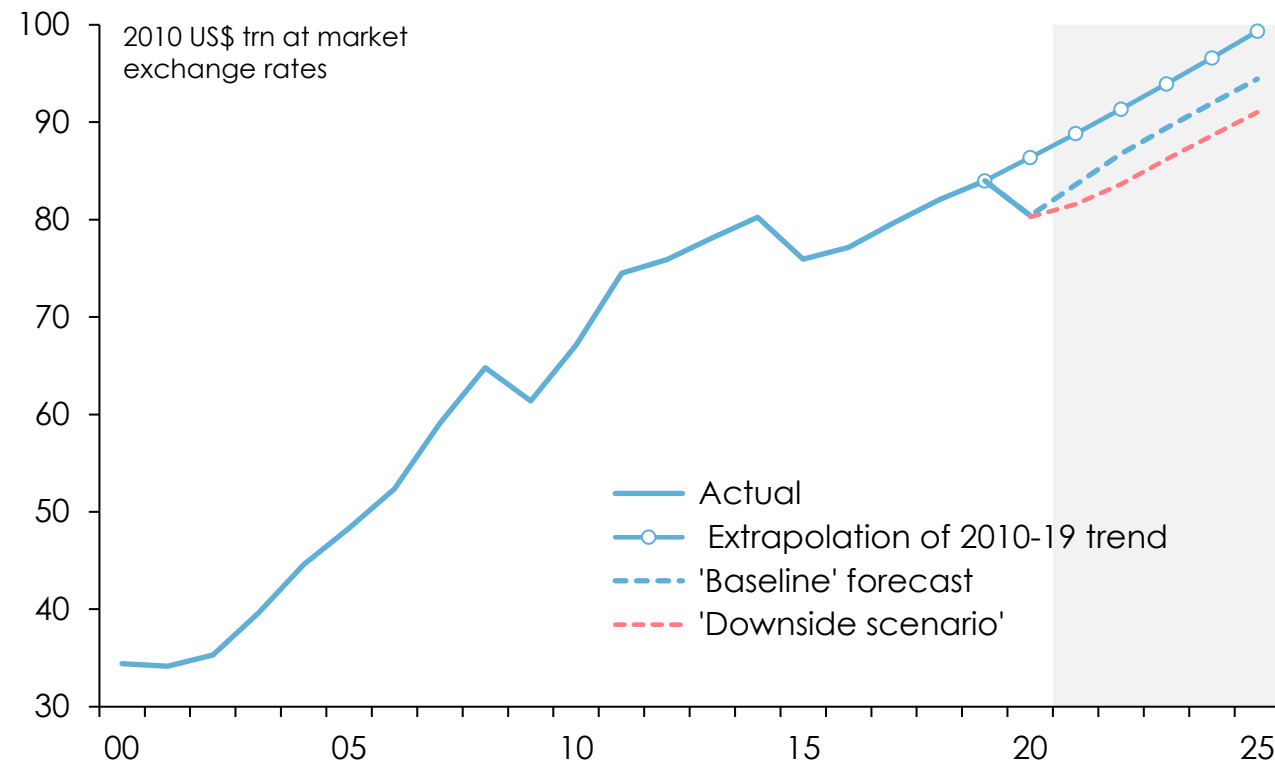
## Major global institutions' growth forecasts for 2020 and 2021 compared

	Actual 2019	IMF		World Bank		OECD		Australian Treasury	
		2020	2021	2020	2021	2020	2021	2020	2021
US	2.2	-4.3	3.1	-3.6	3.5	-3.7	3.2	-3.8	3.3
China	6.1	1.9	8.2	2.0	7.9	1.8	8.0	1.8	8.0
Euro area	1.3	-8.3	5.2	-7.4	4.5	-7.5	3.6	-7.5	3.5
India	4.2	-10.3	8.8	-9.6	5.4	-9.9	7.9	-7.5	9.0
Japan	0.7	-5.3	2.3	-5.3	2.5	-5.3	2.3	-5.3	8
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	-2.5	4.5
New Zealand	2.2	-6.1	4.4	na	na	-4.8	2.7	na	na
World	2.8	-4.4	5.2	-4.3	4.0	-4.2	4.2	-4.0	4.8
World trade	1.0	-10.4	8.3	-9.5	5.0	-10.3	3.9	na	na

Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 13<sup>th</sup> October 2020; The World Bank, [Global Economic Prospects](#), 6<sup>th</sup> January 2021; Organization for Economic Co-operation & Development (OECD), [Economic Outlook - December 2020](#), 1<sup>st</sup> December 2020; Australian Treasury, [2020-21 Mid-Year Economic and Fiscal Outlook](#), 17<sup>th</sup> December 2020.  
[Return to "What's New"](#).

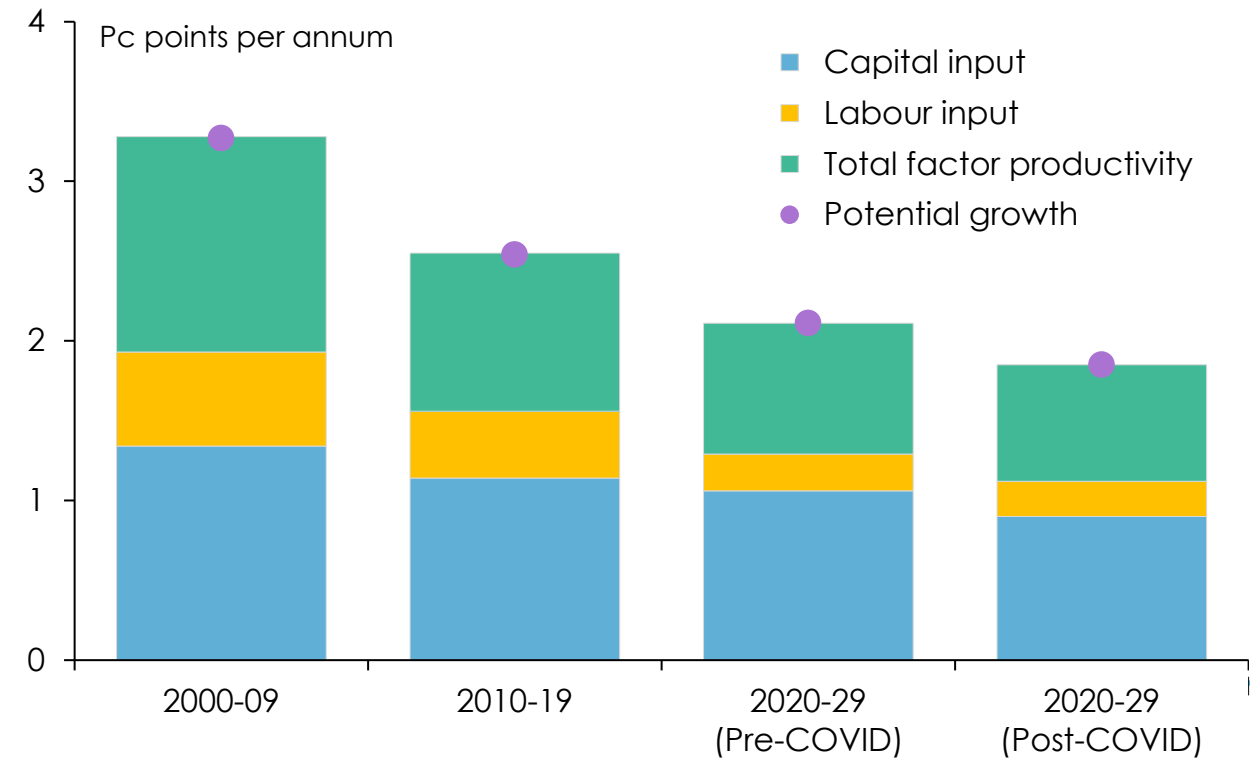
# The World Bank's latest forecasts foreshadow a substantial long-term shortfall in economic activity in the aftermath of Covid-19

## Global output and World Bank forecasts



The World Bank's 'baseline' scenario projects that the world economy will lose US\$30 trillion of output over the five years to 2025 compared with an extrapolation of the 2010-19 trend – with 2025 global GDP 5% below what it would otherwise be – or almost 8½% below in its 'downside' scenario

## The slowdown in global potential output growth

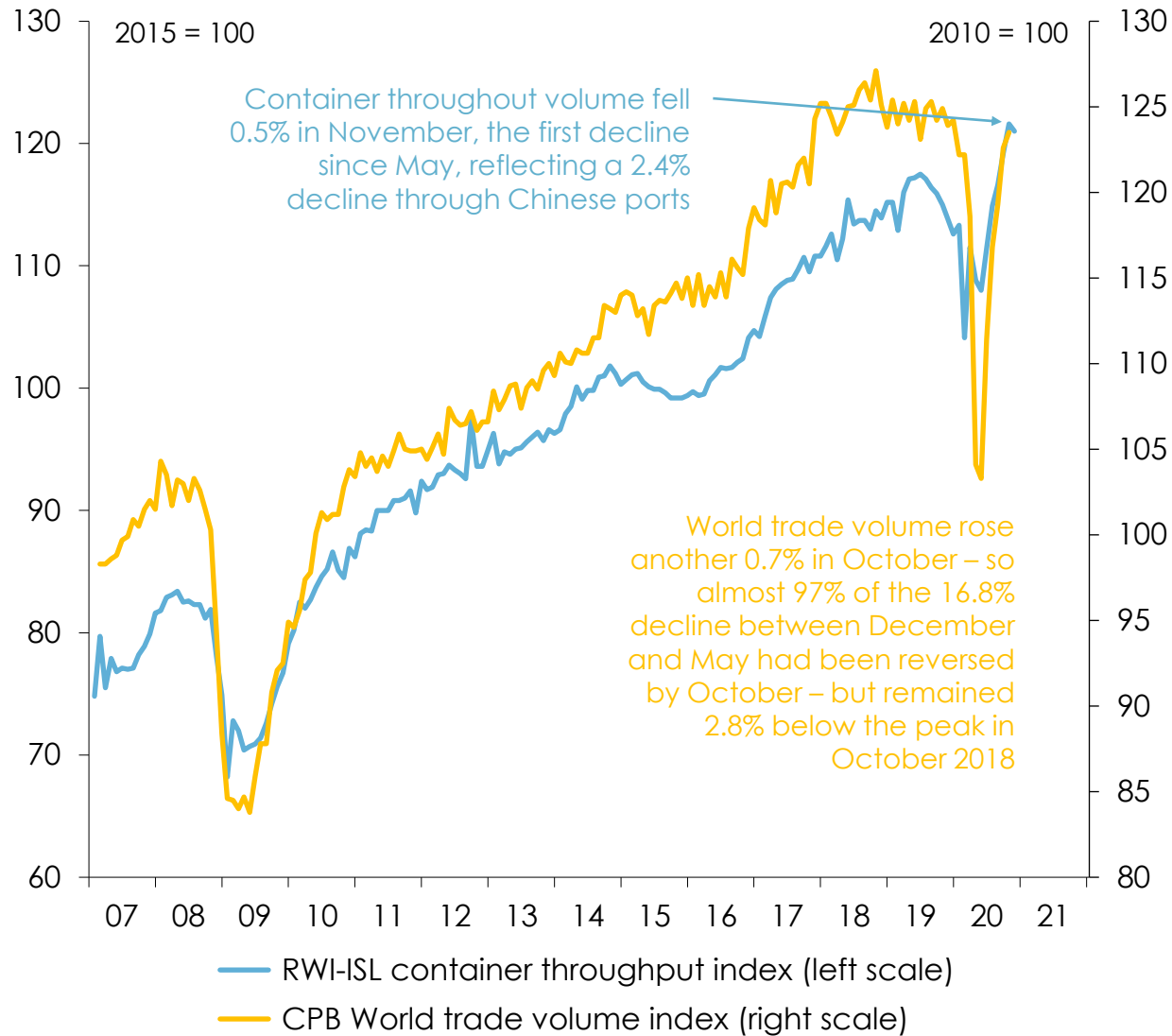


The growth rate of global 'potential output' slowed by 0.7 pc pts pa during the decade following the financial crisis, with all three 'drivers' contributing to the decline – the World Bank estimates that potential GDP growth will slow another 0.7 pc pts pa post-Covid with larger contributions from lower investment and slower productivity growth

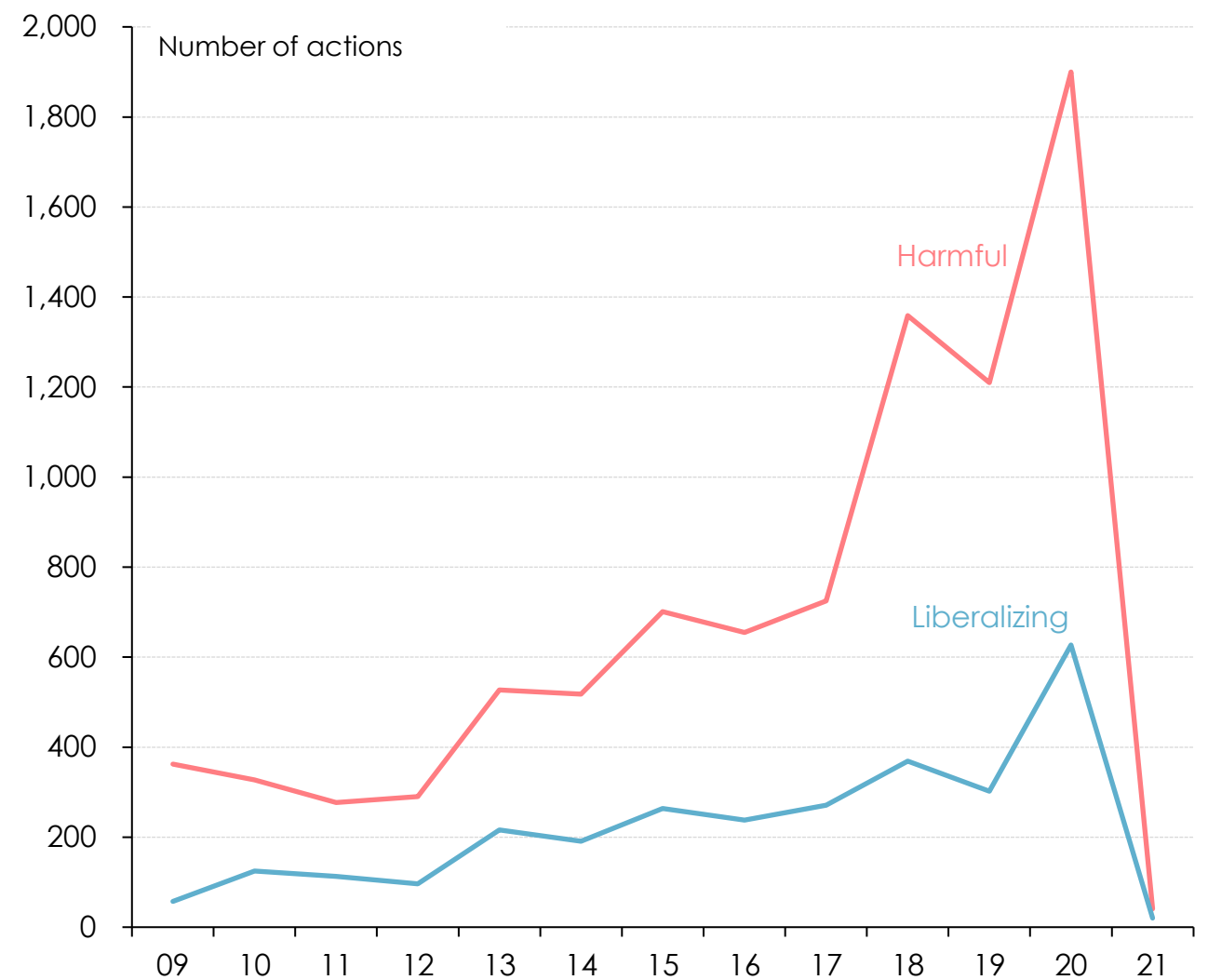


# World merchandise trade volumes rose further in October but are still 3% below their October 2018 peak, as anti-trade policies continue to spread

## World trade volumes and container throughput



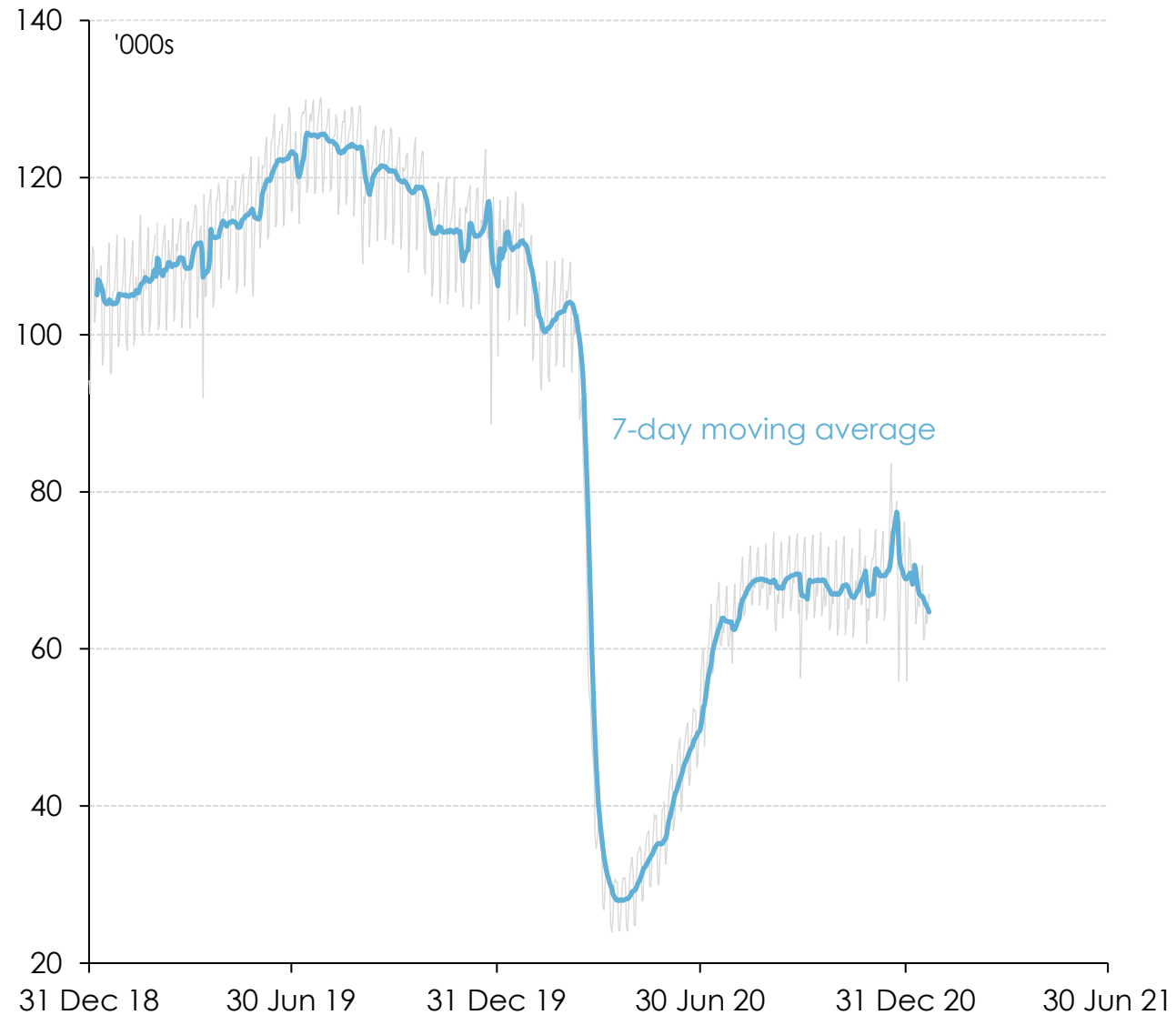
## Pro- and anti-trade policy interventions



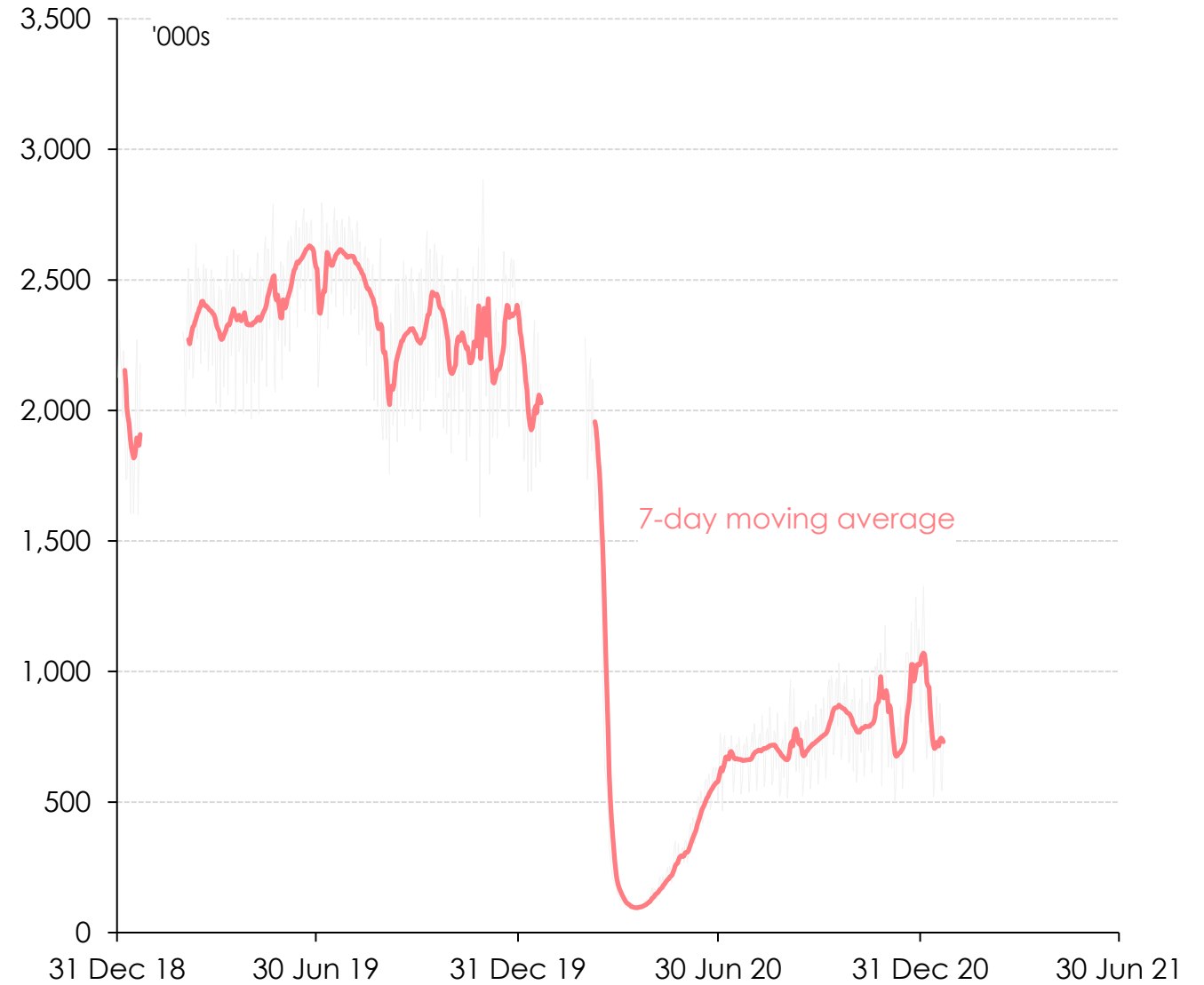
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.  
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (November data to be released this Monday, 25<sup>th</sup> January); Institute 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 22<sup>nd</sup> January). [Return to "What's New"](#).

# Commercial aviation traffic has declined thus far during January although much of that appears to be seasonal

## Daily commercial flights worldwide



## Daily US TSA security checks

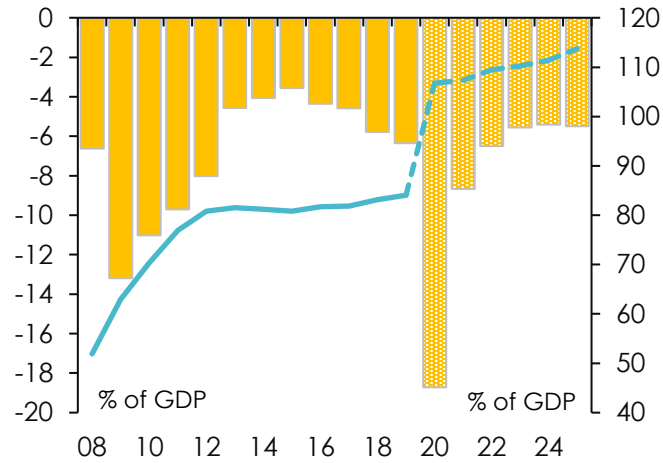


Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 21<sup>st</sup> January. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines.

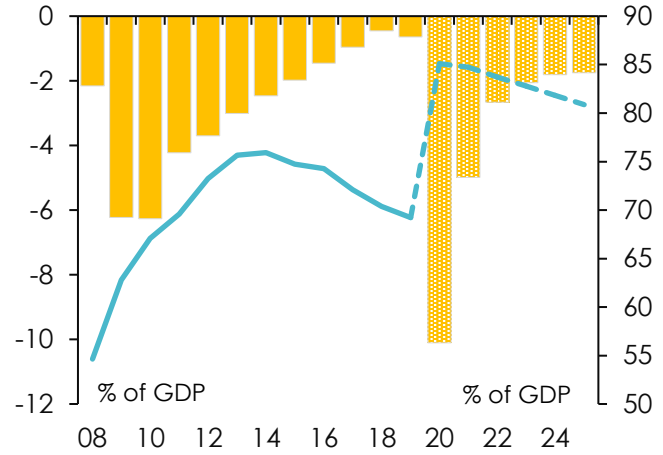
Sources: [Flightradar24.com](https://www.flightradar24.com); [US Transport Safety Administration](https://www.transportation.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

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

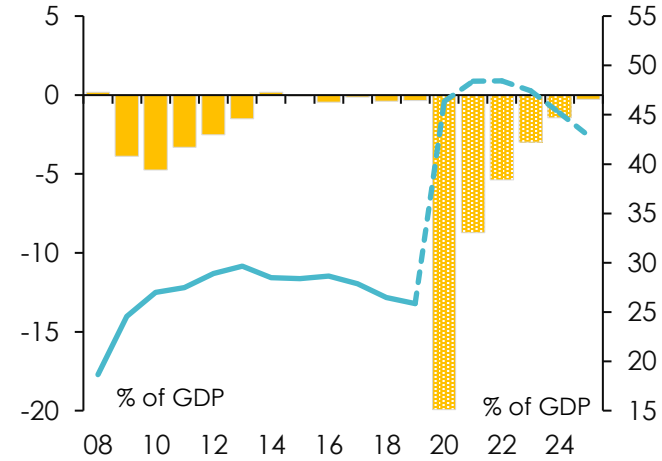
## United States



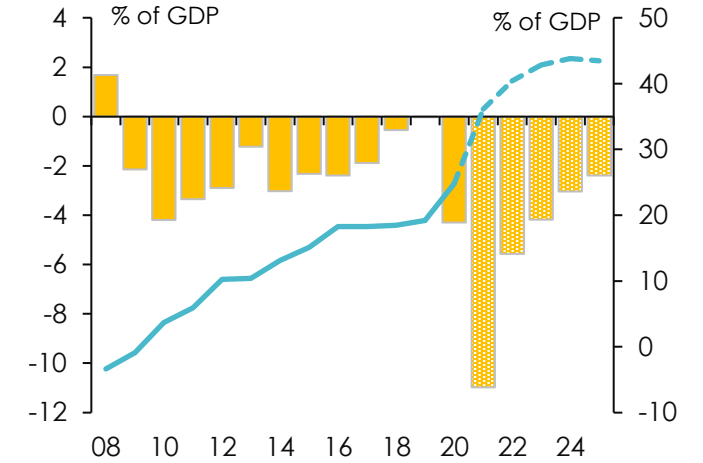
## Euro area



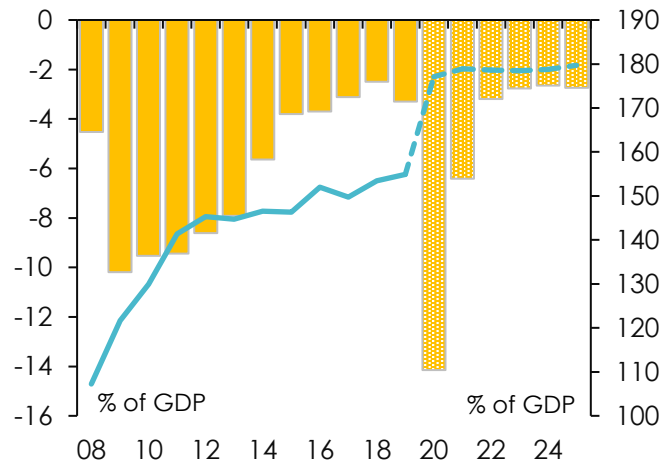
## Canada



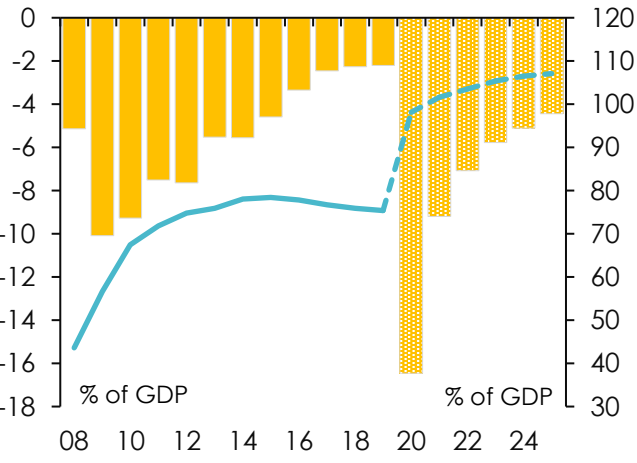
## Australia



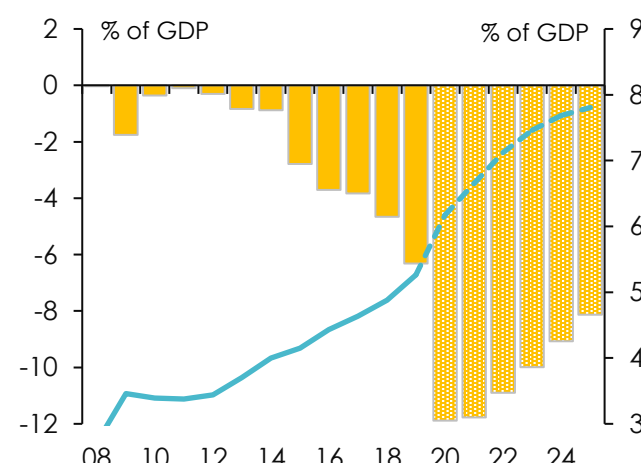
## Japan



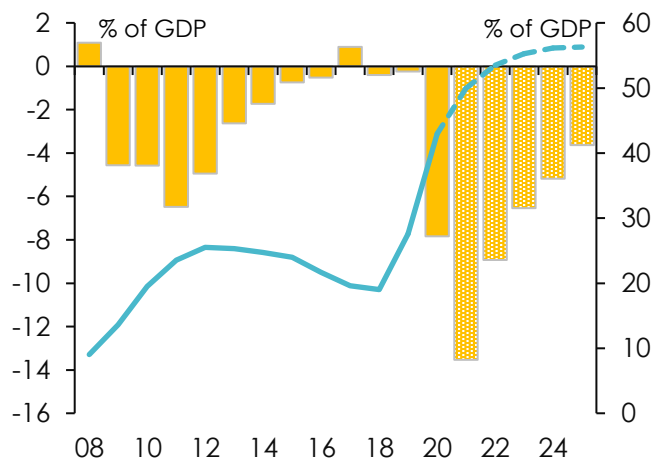
## United Kingdom



## China



## New Zealand



General government overall fiscal balance (left scale)

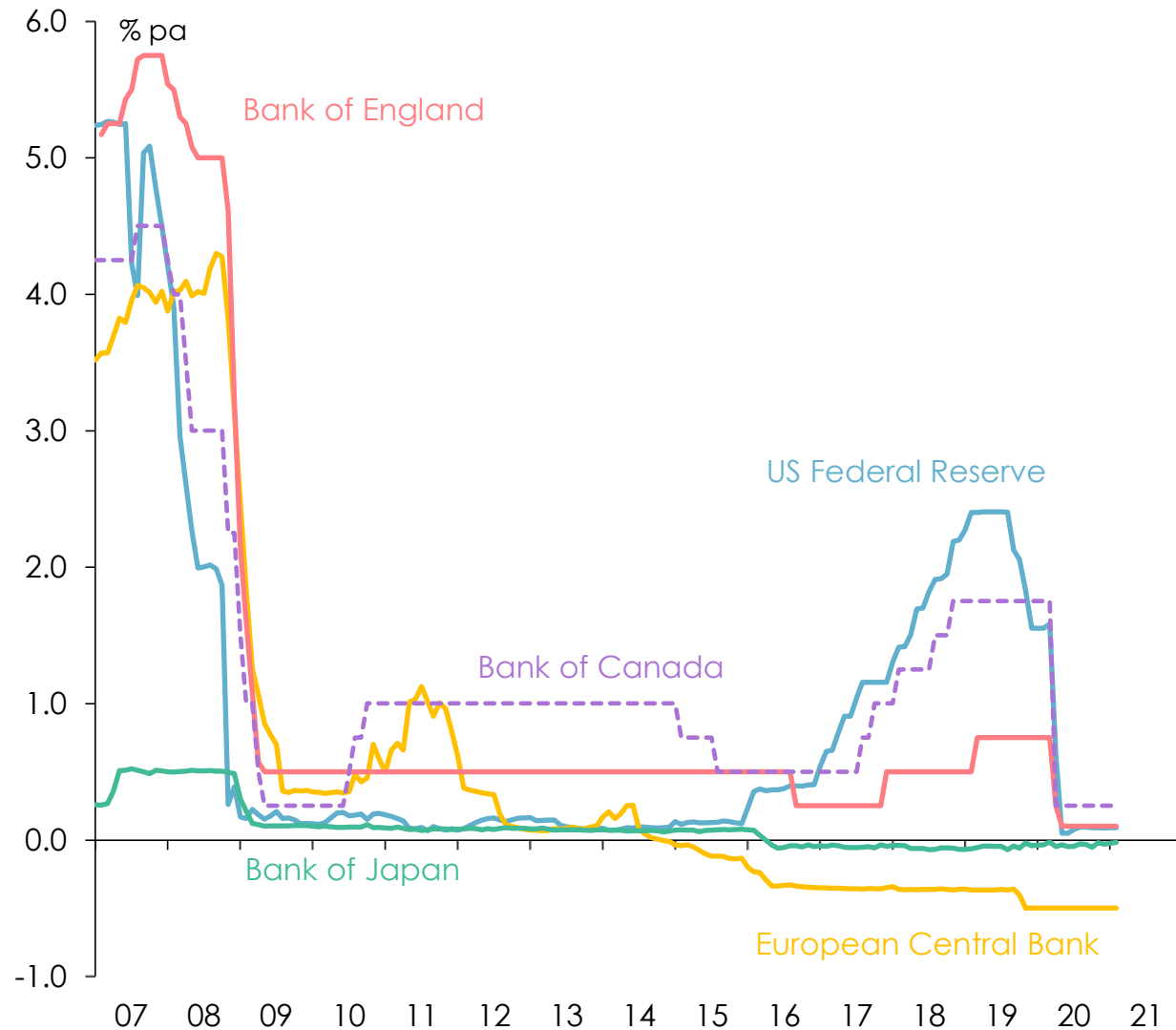


General government net debt (right scale)

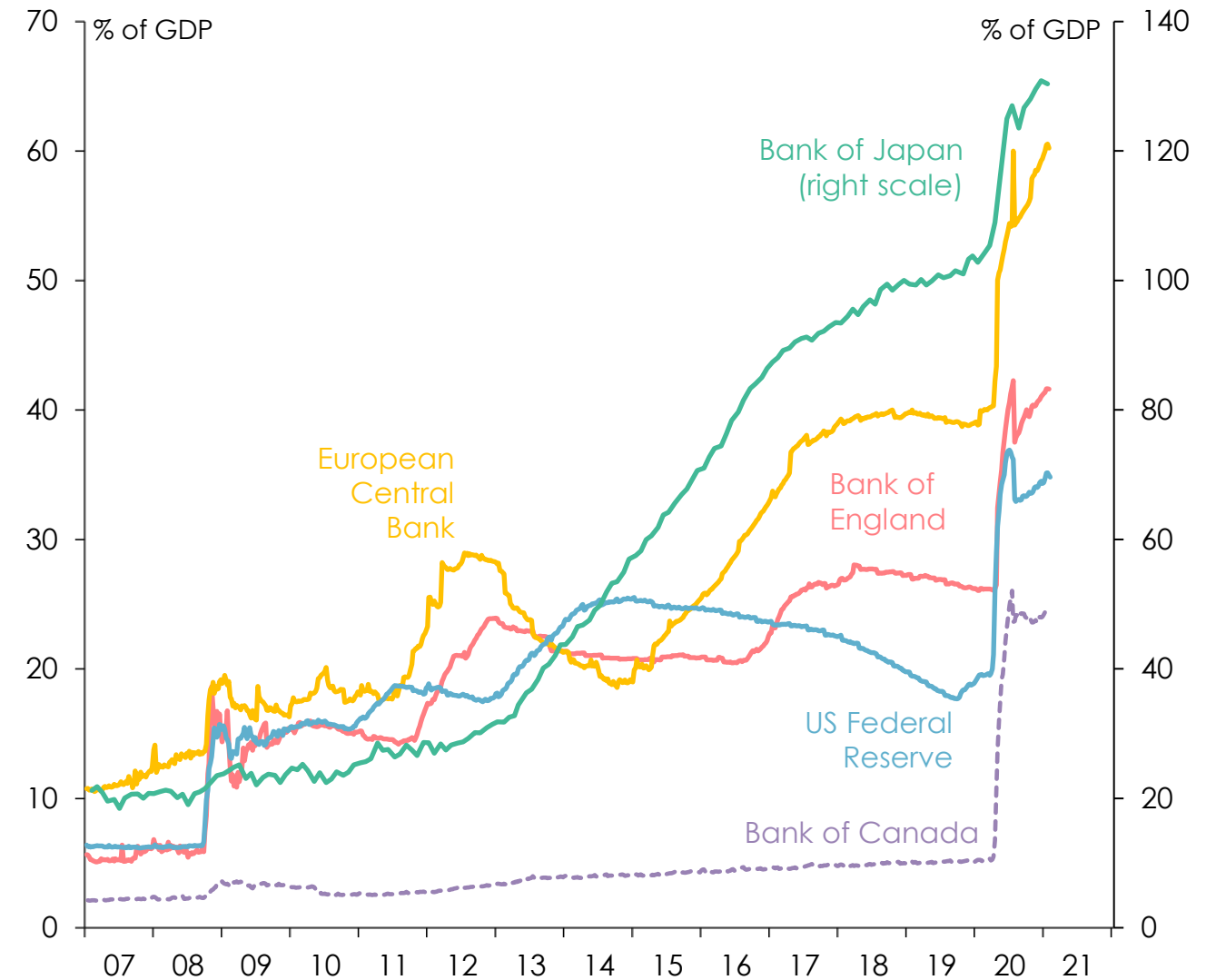
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30<sup>th</sup> June; NZ data are for fiscal years ended 31<sup>st</sup> March. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2020 (both publications to be updated this coming week); Australian Government, 2020-21 [2020-21 Mid-Year Economic and Fiscal Outlook](#), December 2020; New Zealand Treasury, [Half-Year Economic and Fiscal Update](#), December 2020. [Return to "What's New"](#)

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

## Major central bank policy interest rates



## Major central bank balance sheets

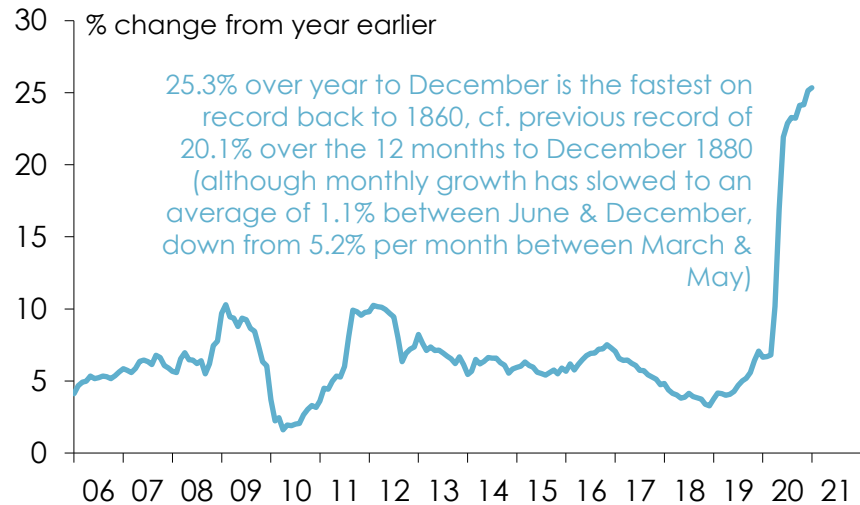


Note: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 are in large part due to rebounds in nominal GDP.

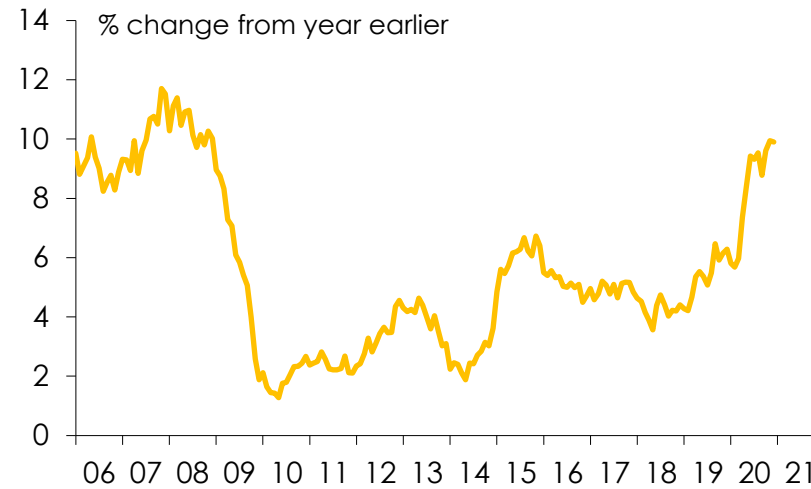
Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); national statistical agencies; Corinna. Bank of Canada data for January not released until February. [Return to "What's New"](#).

# 'QE' has prompted a faster acceleration in money supply growth than it did during the GFC – except in Australia & NZ which didn't do QE in the GFC

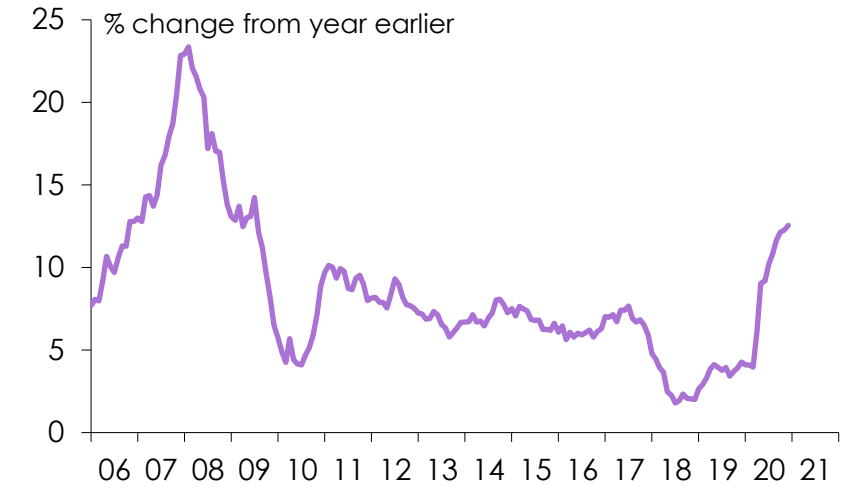
## US M2



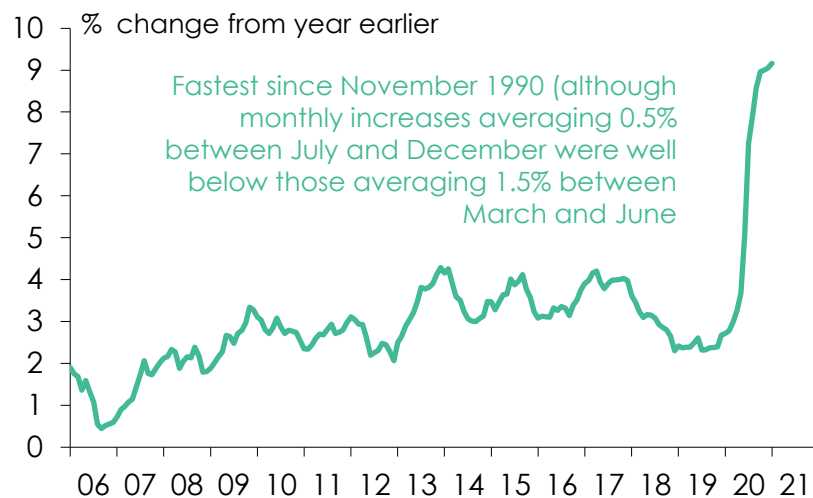
## Euro area M2



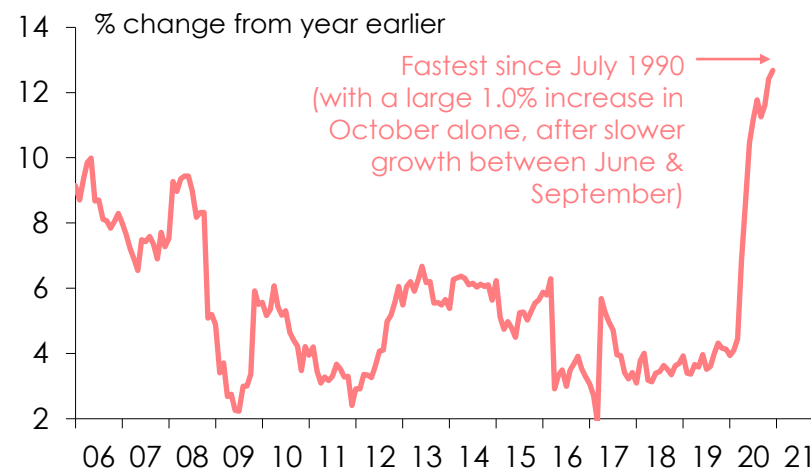
## Australia M3



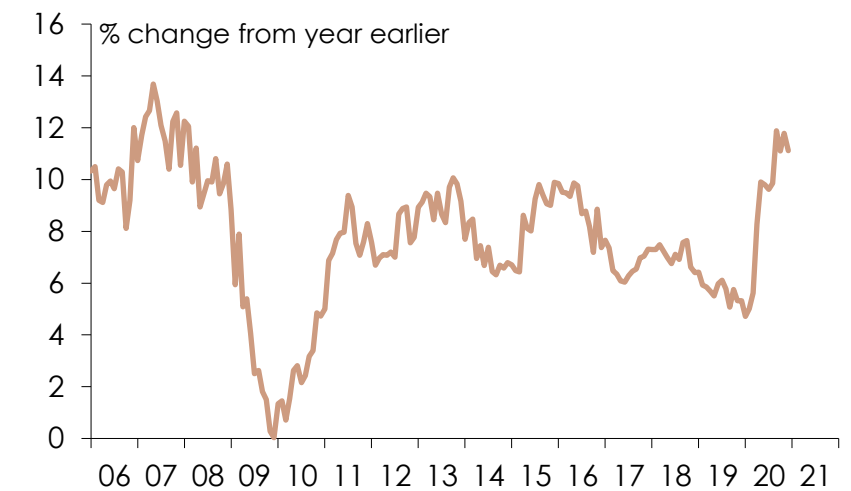
## Japan M2 + CDs



## UK M2

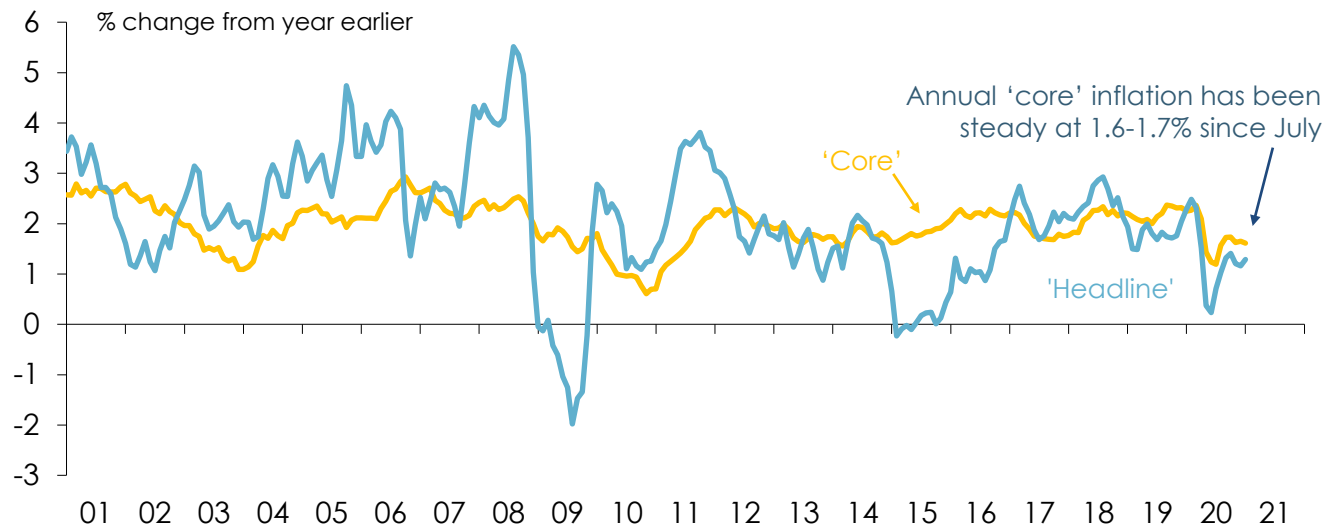


## New Zealand M3

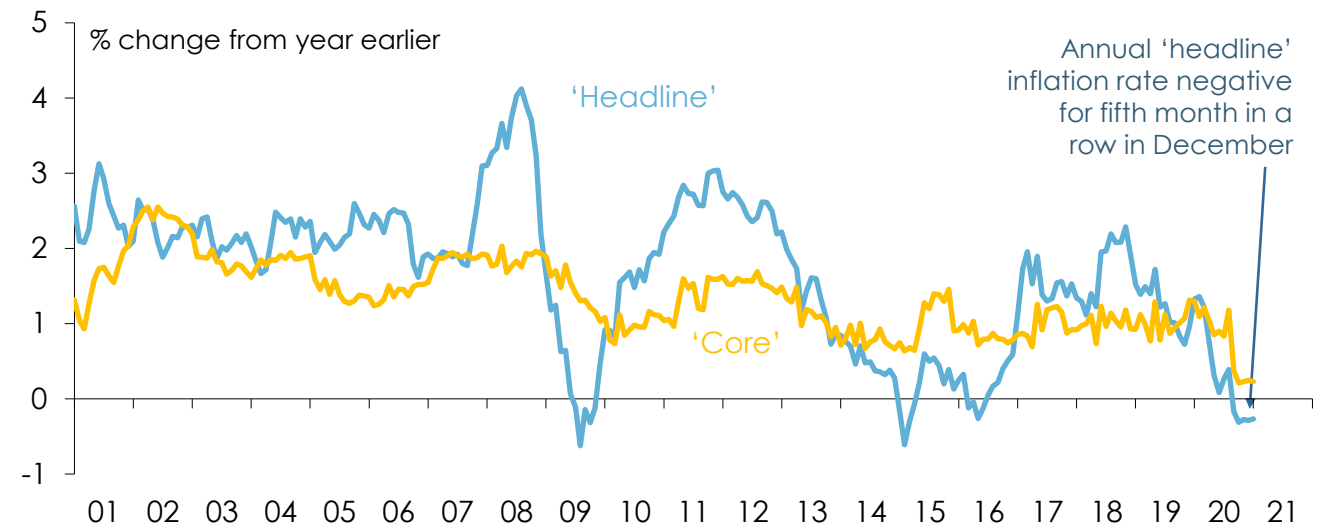


# So far at least, inflation has remained well below central bank targets

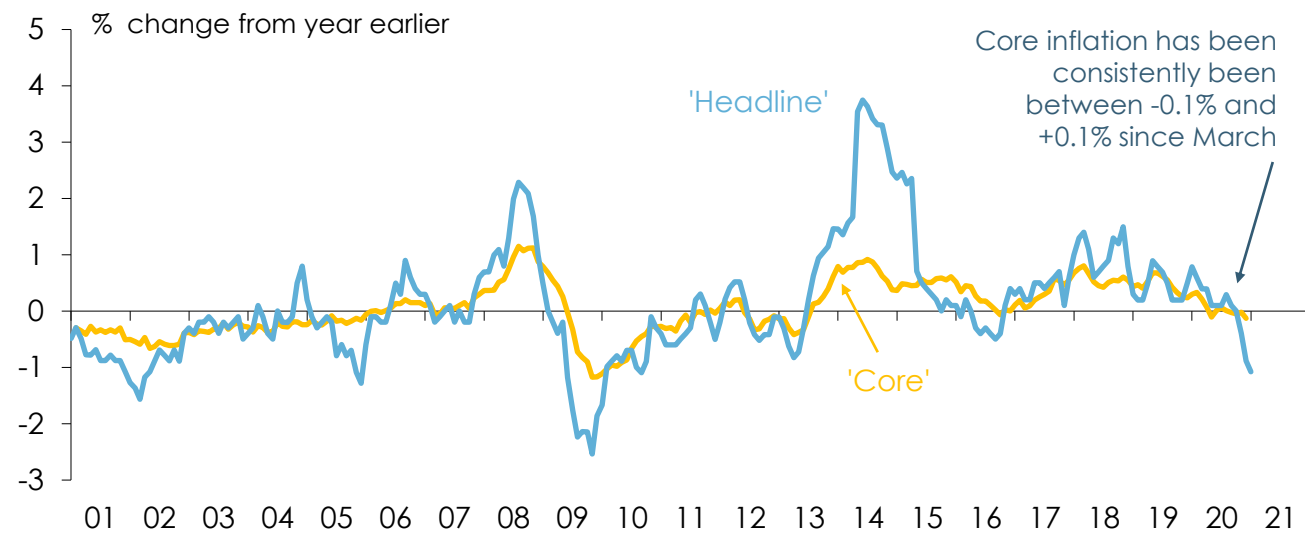
## 'Headline' and 'core' inflation - US



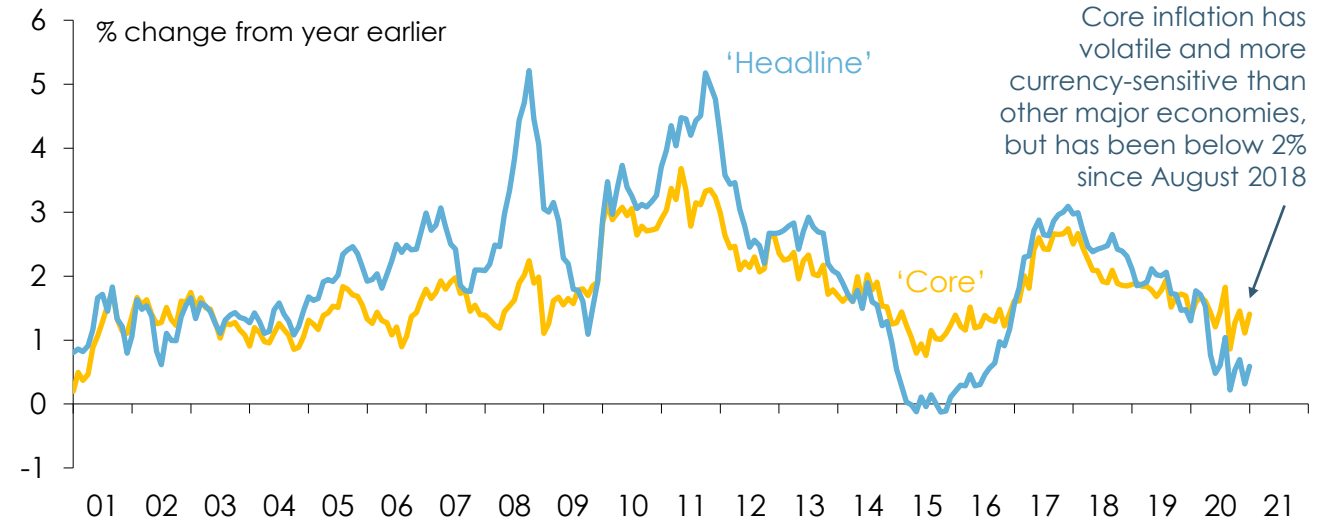
## 'Headline' and 'core' inflation – Euro area



## '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"](#).

# The ECB, BoJ and BoC all left monetary policy settings unchanged at their first 2021 meetings this week

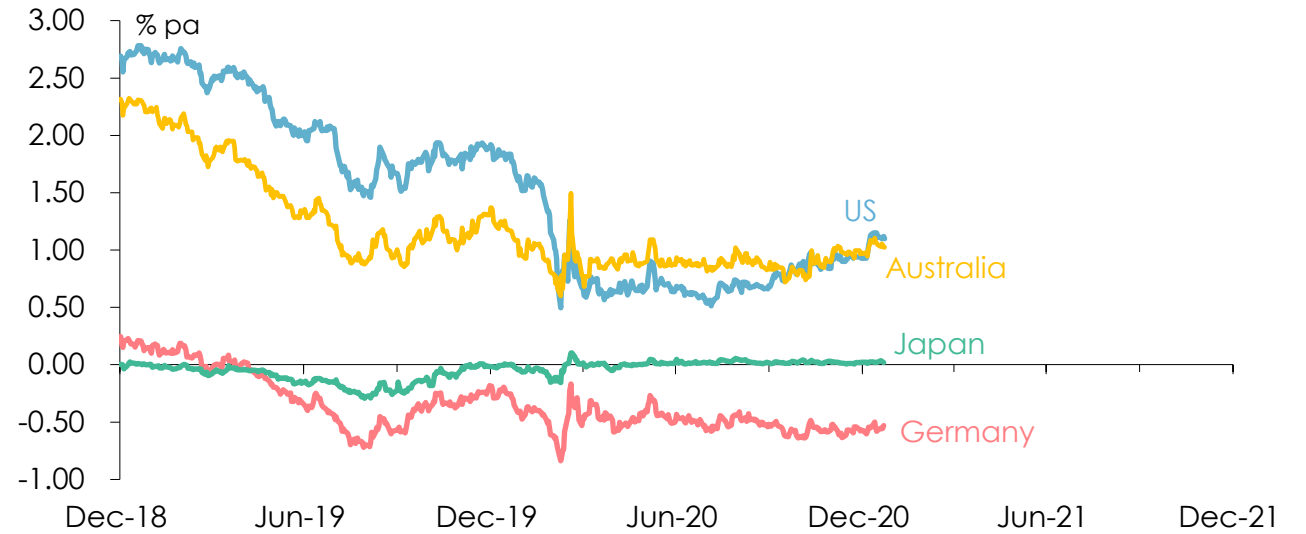
- ❑ **The European Central Bank left all its monetary policy settings unchanged at its first meeting for 2021 on Thursday**
  - it noted that “output is likely to have contracted in the fourth quarter of 2020” and that “the intensification of the pandemic poses some downside risks to the short-term economic outlook”
  - although because of other offsetting factors (in particular, the ECB had previously assumed a ‘no deal Brexit’, and hadn’t factored in approval of the Next Generation recovery fund), the ECB characterized the outlook as still being “broadly in line with the latest baseline of the December 2020 macroeconomic projections”
  - the ECB recommitted to keeping interest rates “at present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2%”, and to continuing asset purchases until “at least the end of March 2022 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over”
- ❑ **The Bank of Japan also held its first monetary policy meeting for 2021 on Thursday and it also left all its monetary policy settings unchanged**
  - the BoJ’s [Outlook Report](#) projected marginally higher growth rates for FY 21 and 22 with medians of 3.9% and 1.8% respectively (up from 3.6% and 1.6% in October and cf. -5.6% for FY 20) but made no material change to the inflation outlook
  - The BoJ committed to continuing with “Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control” until the annual ‘core’ inflation rate (CPI less fresh food) exceeds 2% and “stays above the target in a stable manner”
- ❑ **The Bank of Canada’s Governing Council also left monetary policy settings on hold at its first meeting for 2021 held on Wednesday**
  - in its [Monetary Policy Report](#) the BoC expects negative growth in Q1, but with a “less severe pattern of decline and rebound” than during last year’s initial outbreak because “consumers and firms have been learning how to conduct business while complying with restrictions”
  - as a result, activity is “expected to rebound strongly” in Q2, so that, together with “an earlier-than-anticipated start to vaccination programs”, “the recuperation in the Canadian economy is now more secure, and medium-term growth is forecast to be stronger – with the 2022 growth forecast revised up to 4.8% (from 3.7%) even though 2021 was revised down to 4% from 4.2%

# Stock markets (particularly tech stocks) rose further this week, bond yields were little changed, and the US\$ fell just over 1/2%

## Stock markets



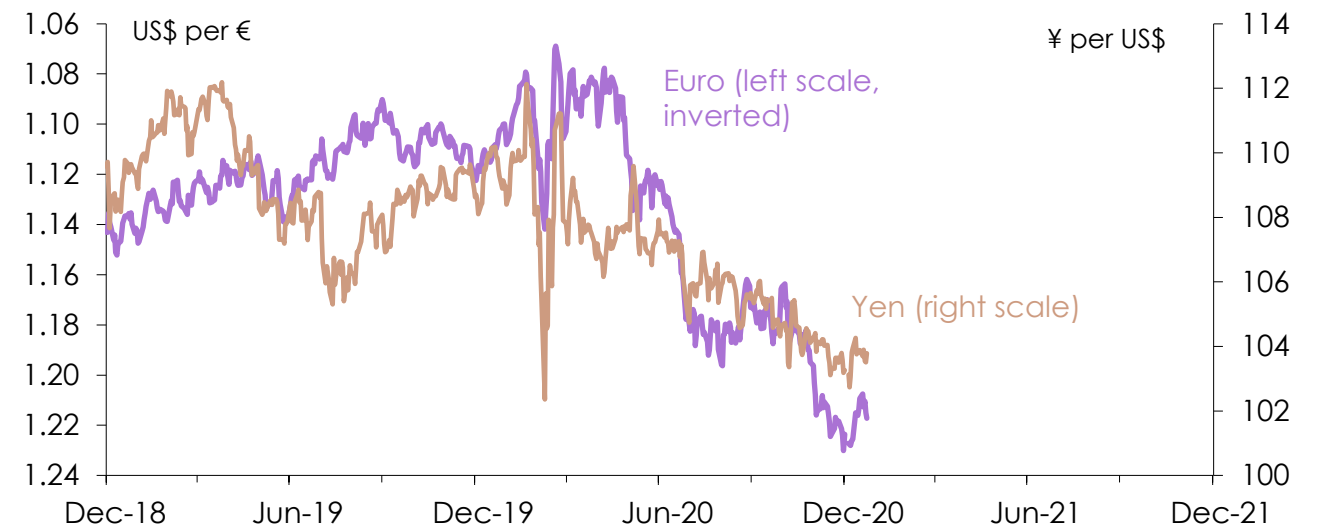
## 10-year bond yields



## Measures of market volatility



## US dollar vs euro and yen

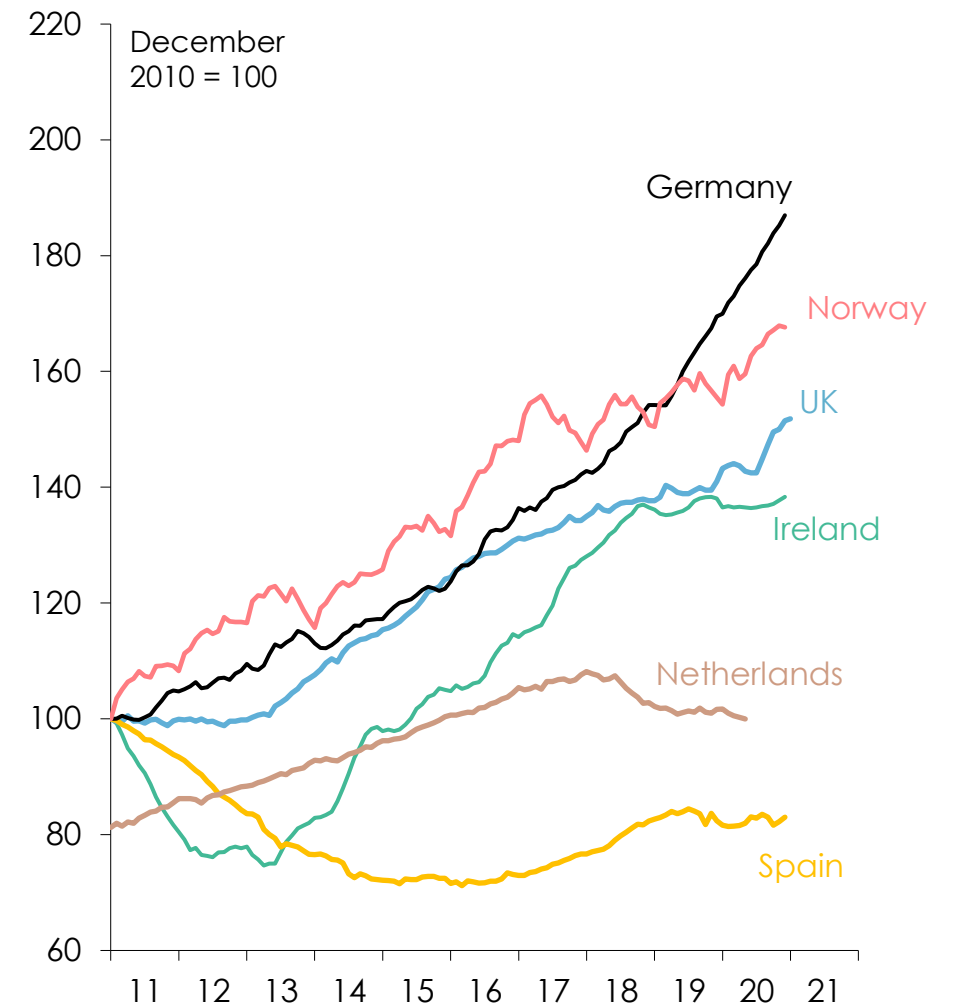
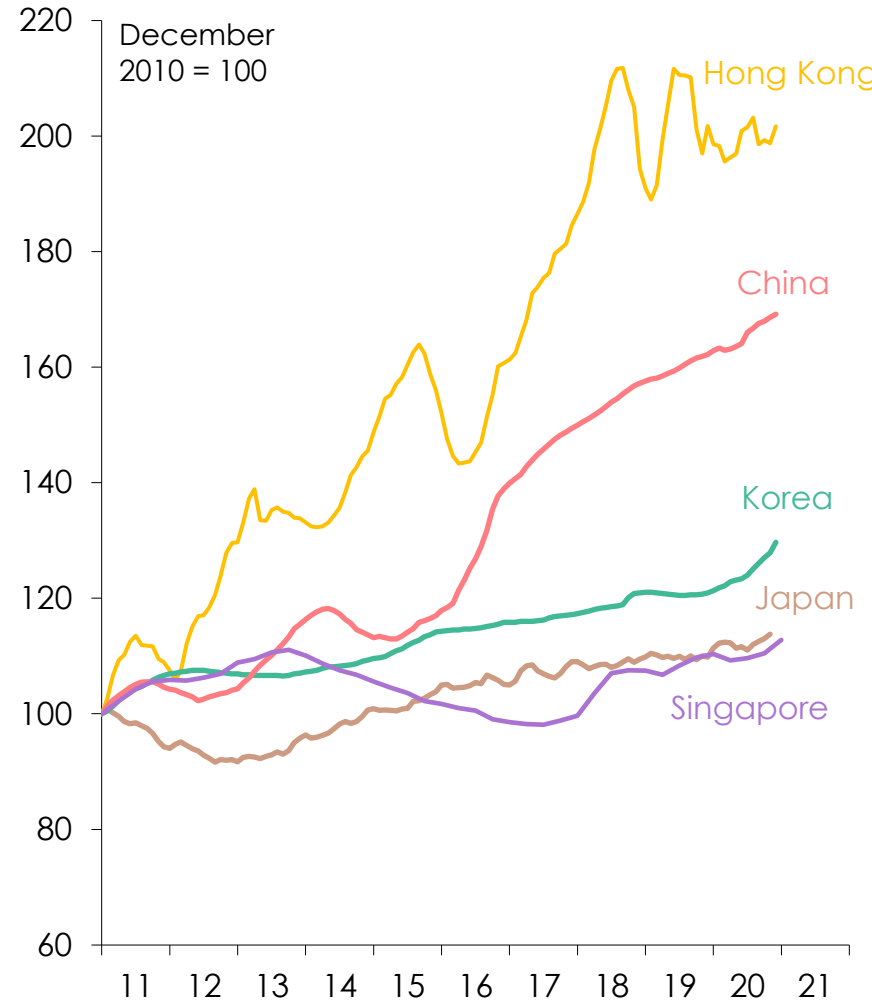
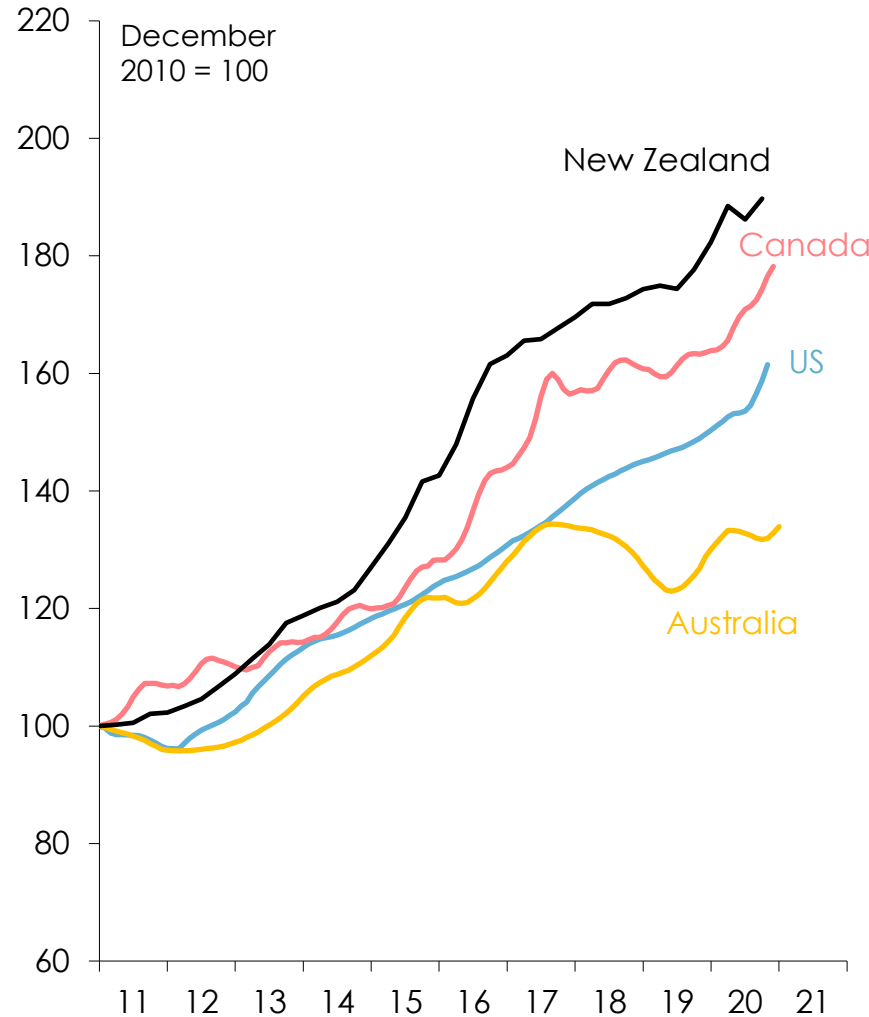


Source: Refintiv Datastream. Data up to 22nd January. [Return to "What's New"](#).



# Residential property prices have been remarkably resilient in most countries thanks to record-low interest rates and ample supply of credit

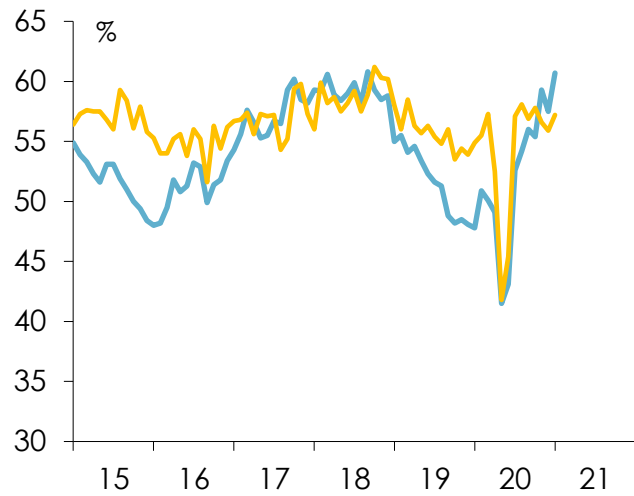
## House price indices



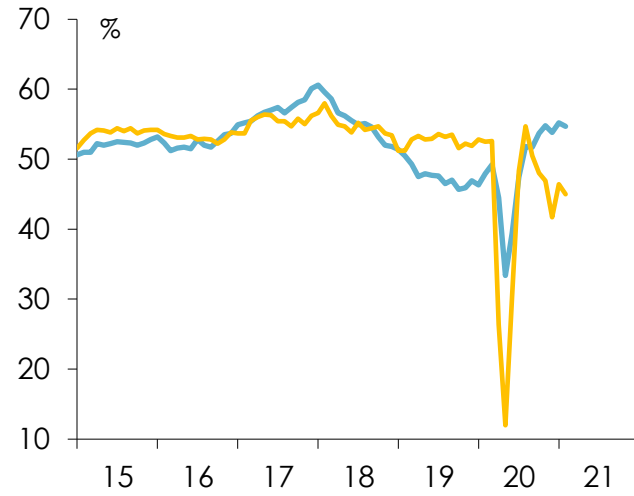
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [CoreLogic Property Value](#) (New Zealand); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo condominiums); [Kookmin Bank house price index](#) (Korea); [Centaline Centa-City Index](#) (Hong Kong); [Urban Redevelopment Authority](#) (Singapore); [Europace hauspreisindex](#) (Germany); [Halifax house price index](#) (UK); [Central Statistics Office RPPi](#) (Ireland); [Fotocasa real estate index](#) (Spain); [Statistics Netherlands](#); [Eiendom Norge](#) (Norway). These indices have been chosen for their timeliness and widespread recognition: they do not necessarily all measure the same thing in the same way. For more comprehensive residential property price data see the quarterly database maintained by the [Bank for International Settlements](#). [Return to "What's New"](#).

# Preliminary January PMIs for Japan, euro area and especially UK show impact of renewed lockdowns on services activity, but manufacturing OK

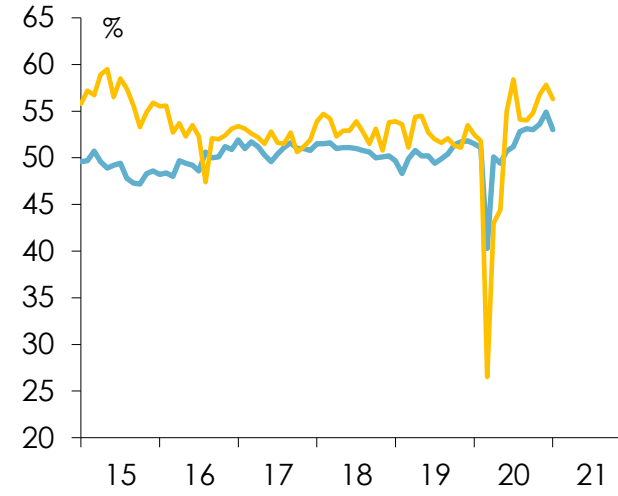
## US



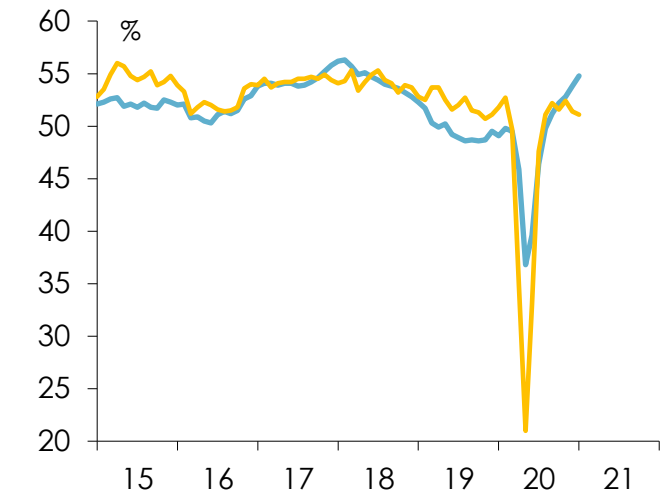
## Euro area



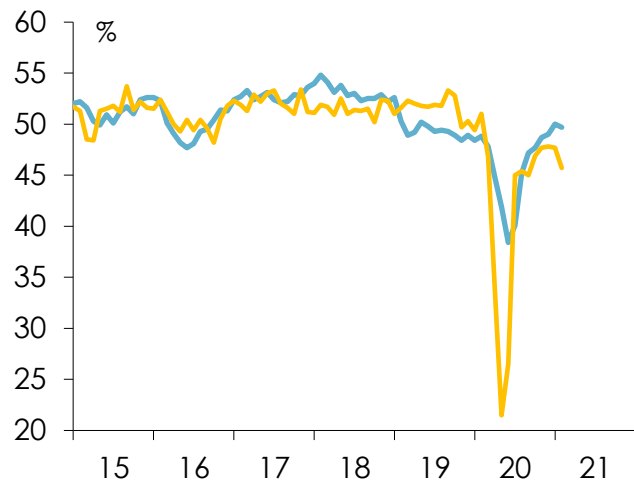
## China



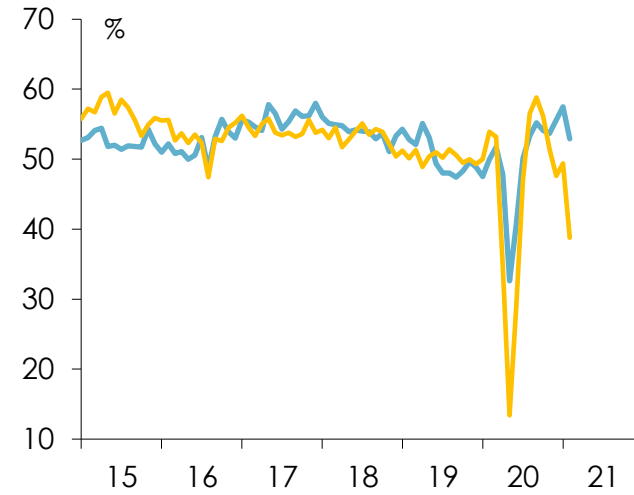
## Developed markets



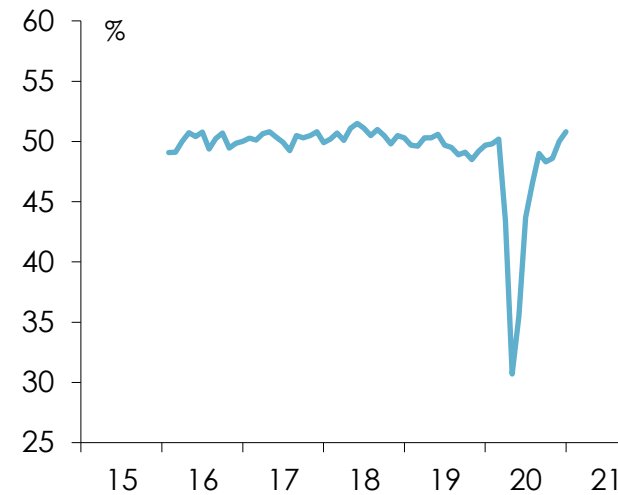
## Japan



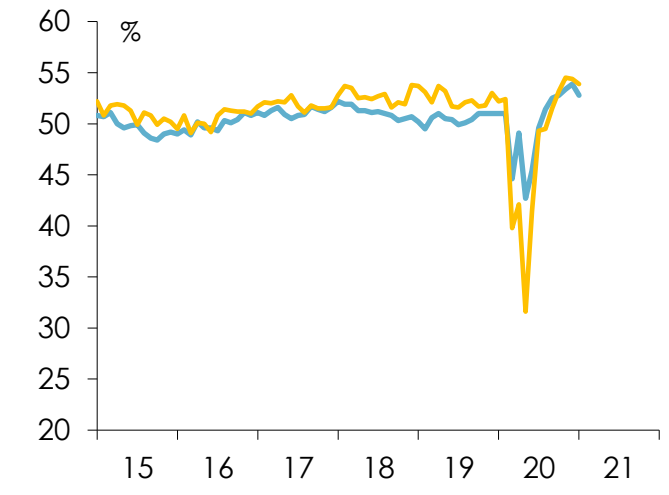
## UK



## ASEAN



## Emerging markets



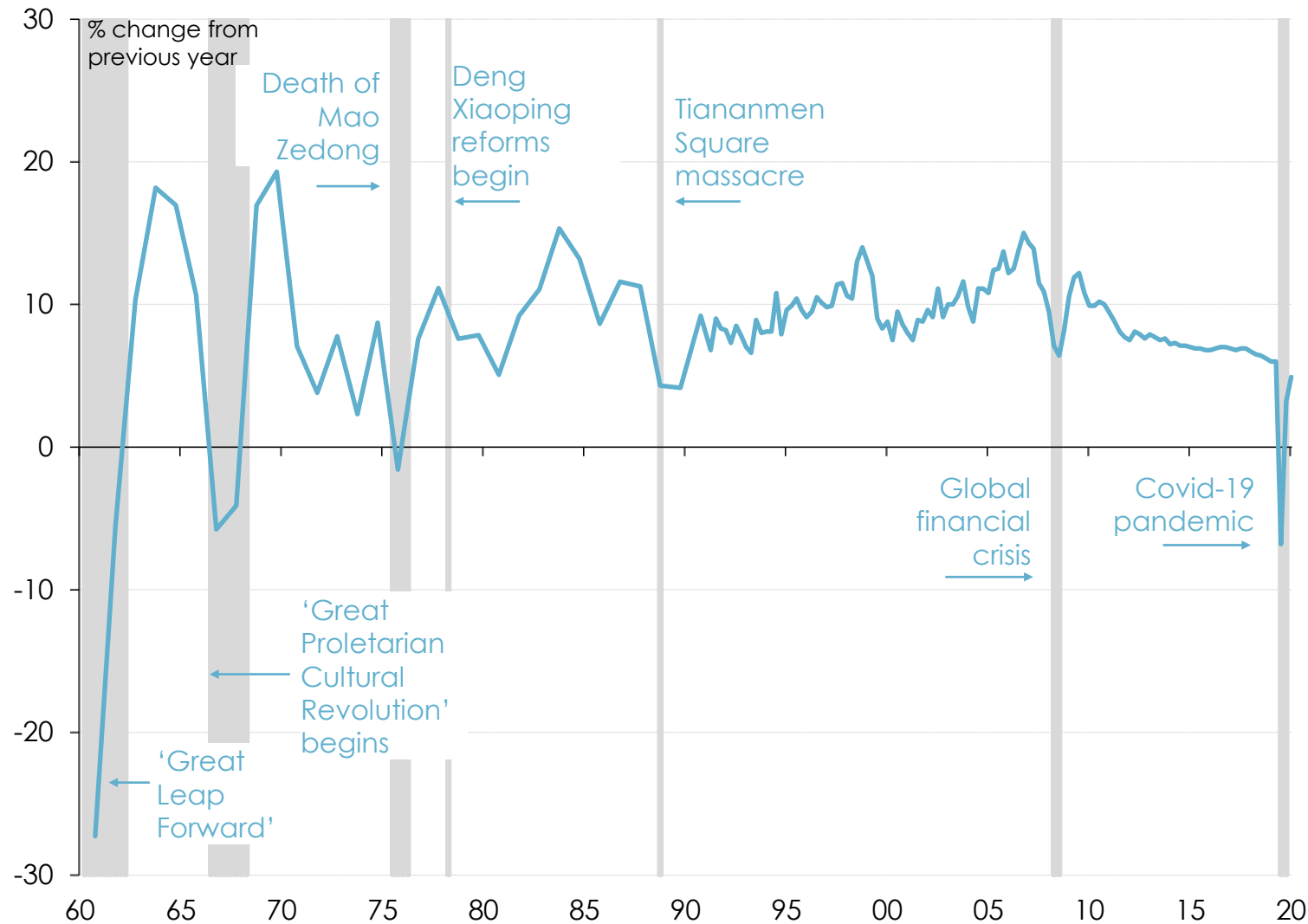
— Manufacturing

— Services

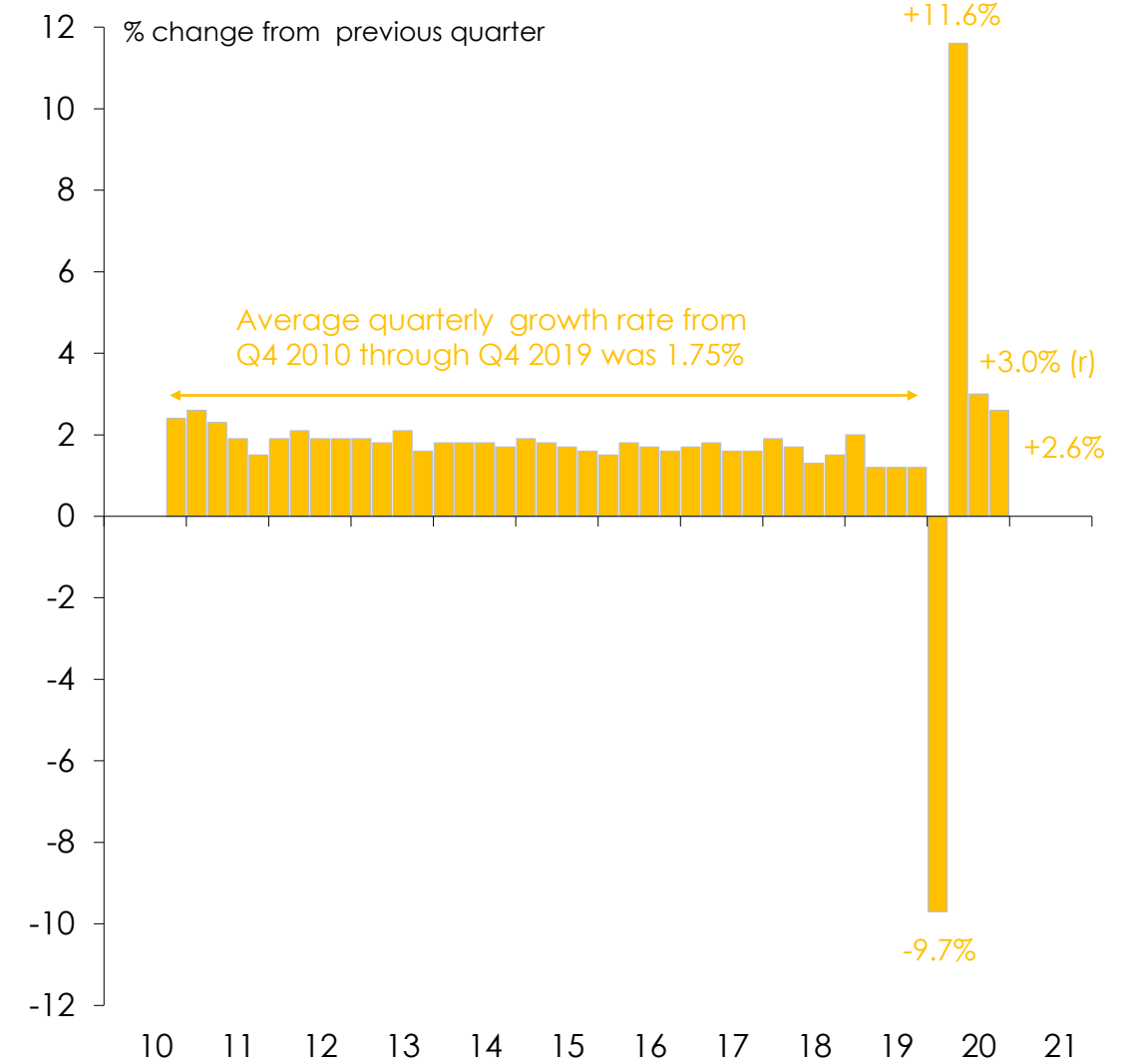
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data for Japan, euro area and UK are January (p); others are December. See also PMIs for other Asia-Pacific economies on [slide 44](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

# China's economy grew 2.7% in Q3, after an 11.7% rebound in Q2, implying that the 10% drop in output in Q1 has been fully recouped

Real GDP growth, from year earlier, 1961-2020



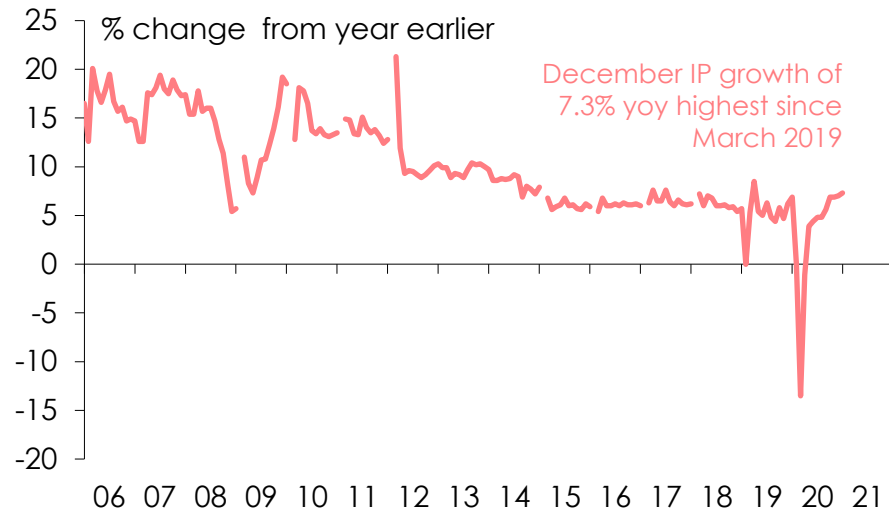
Quarterly real GDP growth, 2010-2020



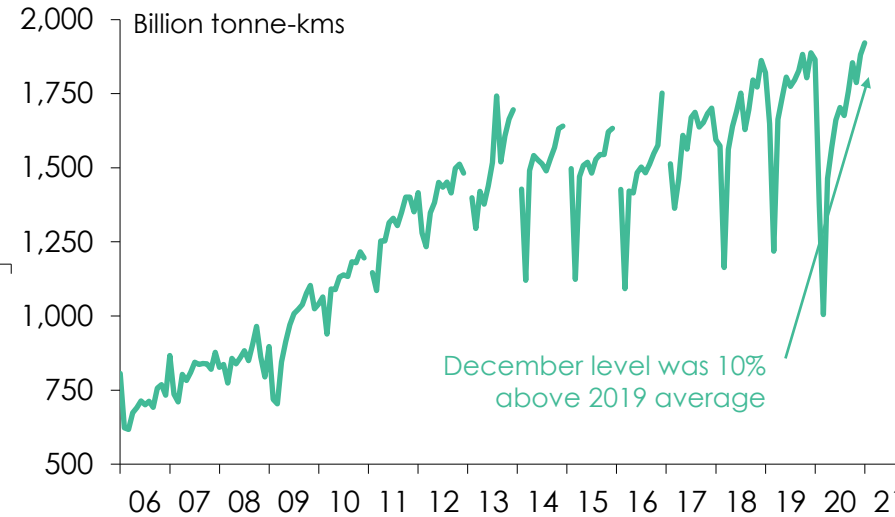
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. [Return to "What's New"](#).

# The 'production side' of the Chinese economy is now largely back to or above pre-pandemic levels, though levelling out in Q4

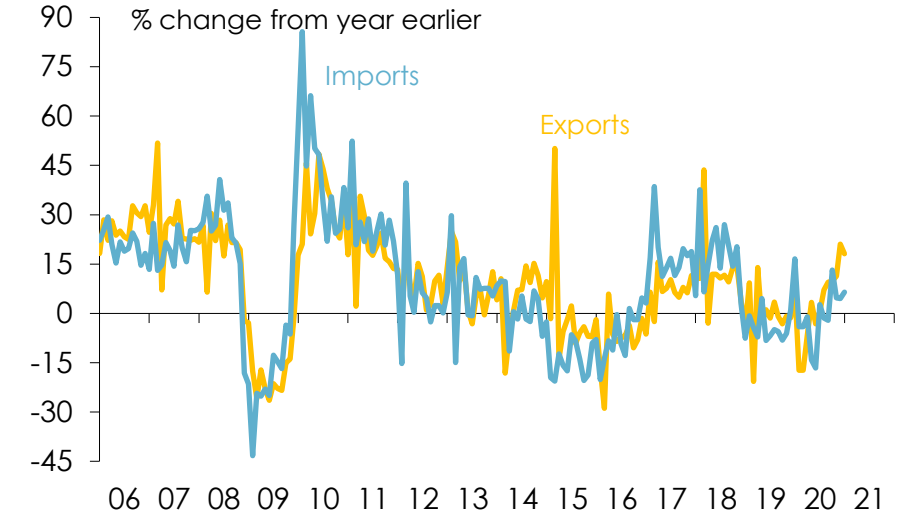
## Industrial production



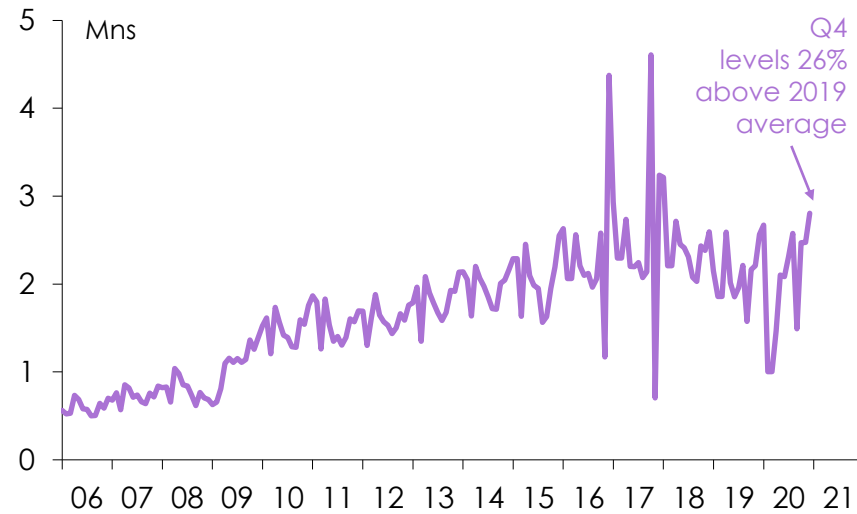
## Freight traffic volumes



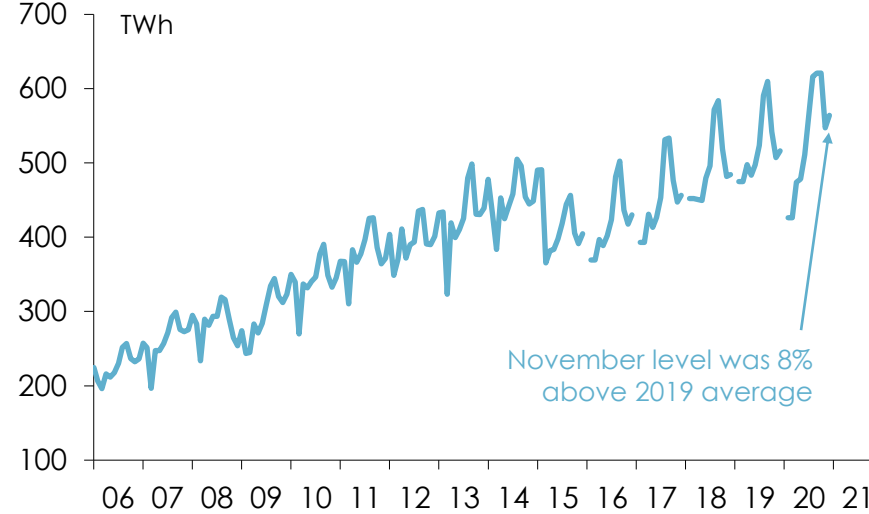
## Merchandise trade



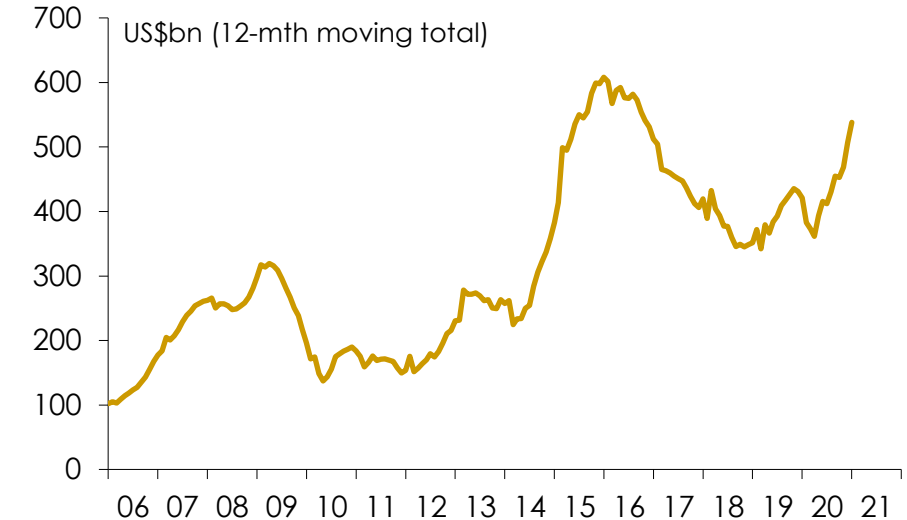
## Motor vehicle production



## Primary electricity production



## Merchandise trade balance



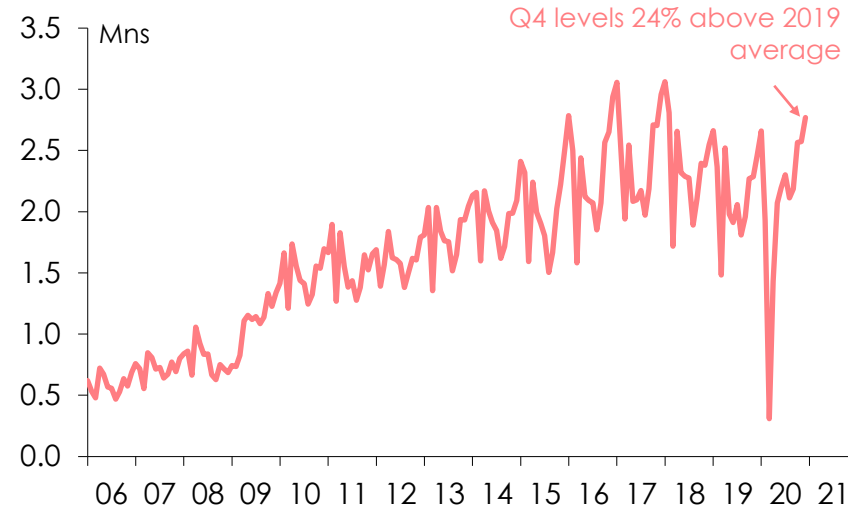
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest data are for December: note that most monthly data for January and February are combined and will be released in the third week of March. [Return to "What's New"](#).

# The 'demand' side of the Chinese economy – both household & business – is recovering more gradually

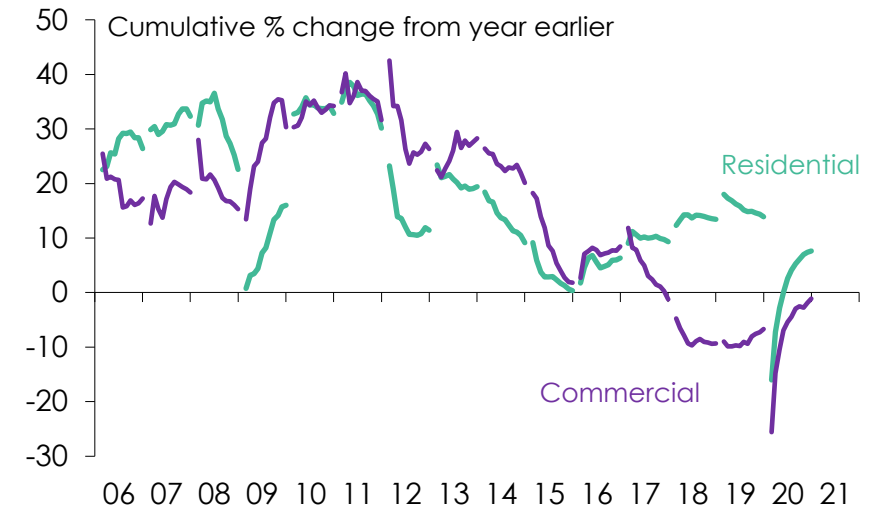
## Consumer sentiment



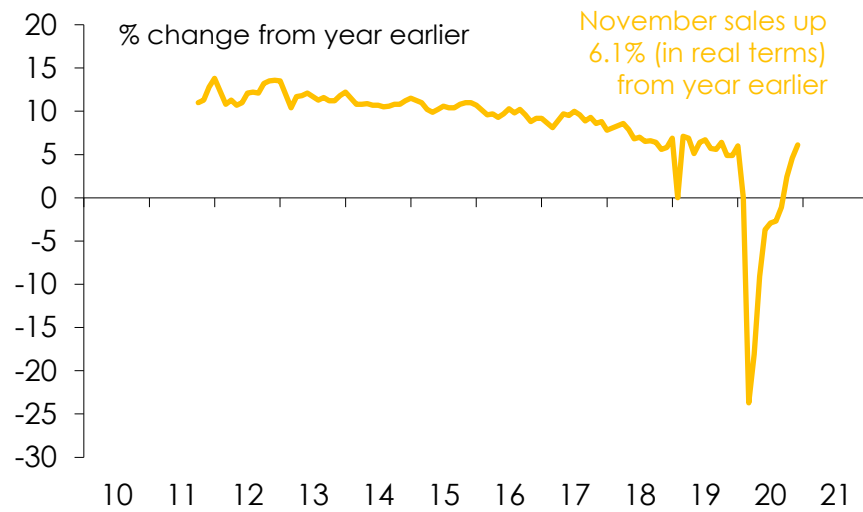
## Motor vehicle sales



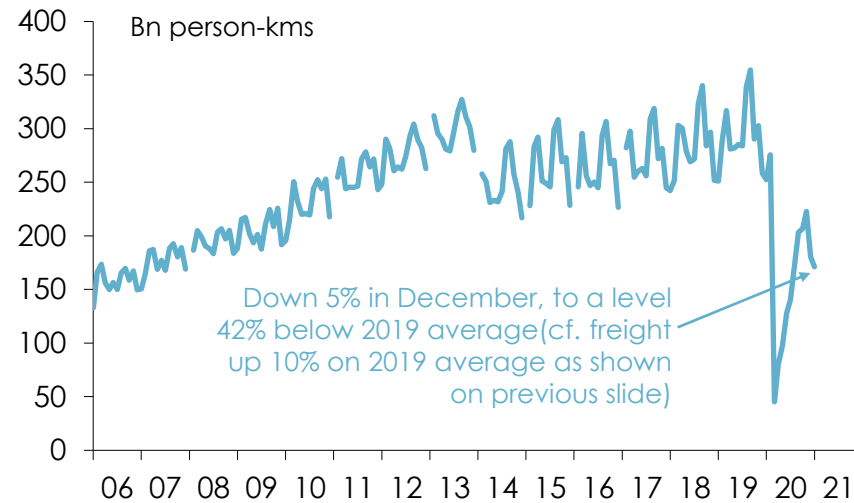
## Real estate investment



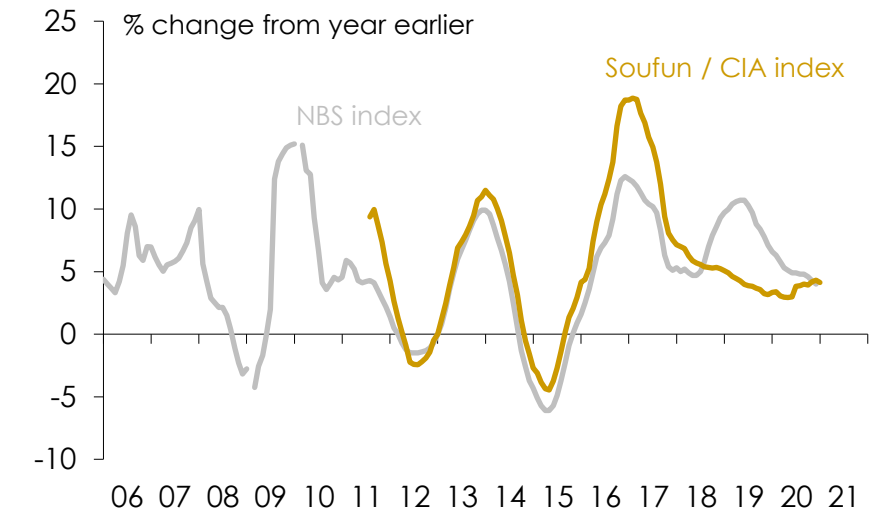
## Volume of retail sales



## Passenger traffic volumes



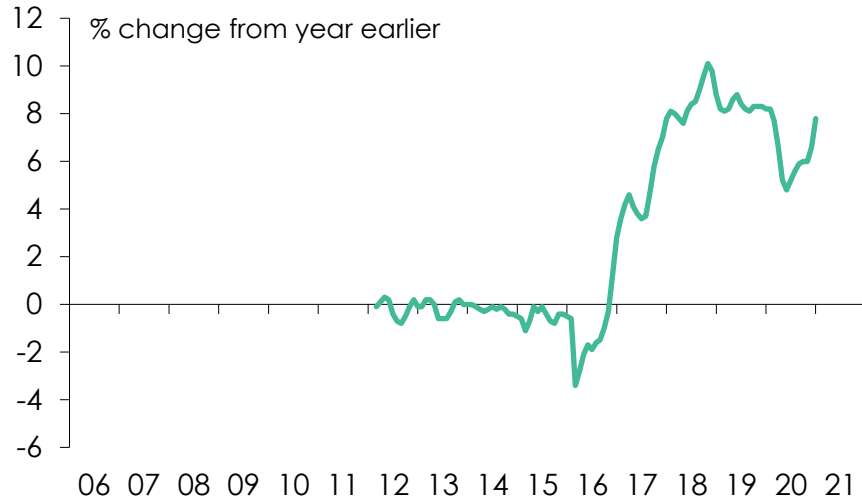
## Residential real estate prices



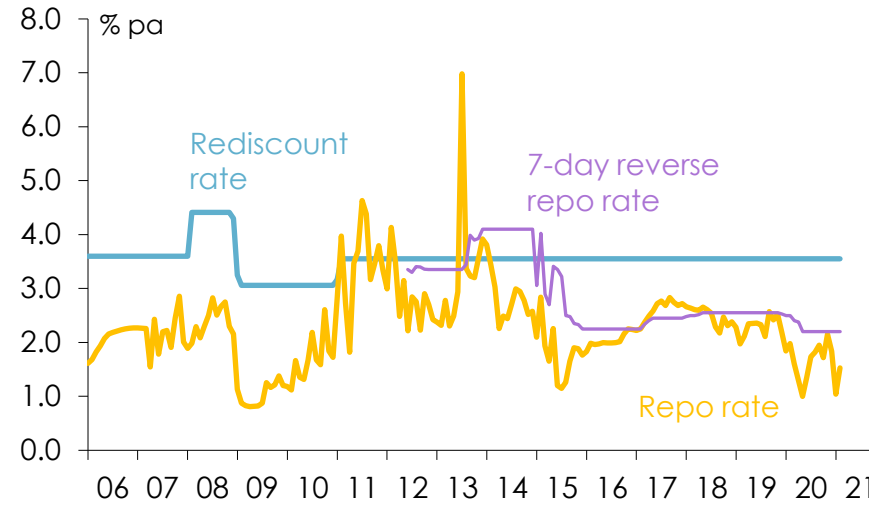
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for December: note that most monthly data for January and February are combined and will be released in the third week of March. [Return to "What's New"](#).

# Fading of food-driven spike in inflation gives PBoC more scope to ease monetary policy, but it remains focused primarily on financial stability

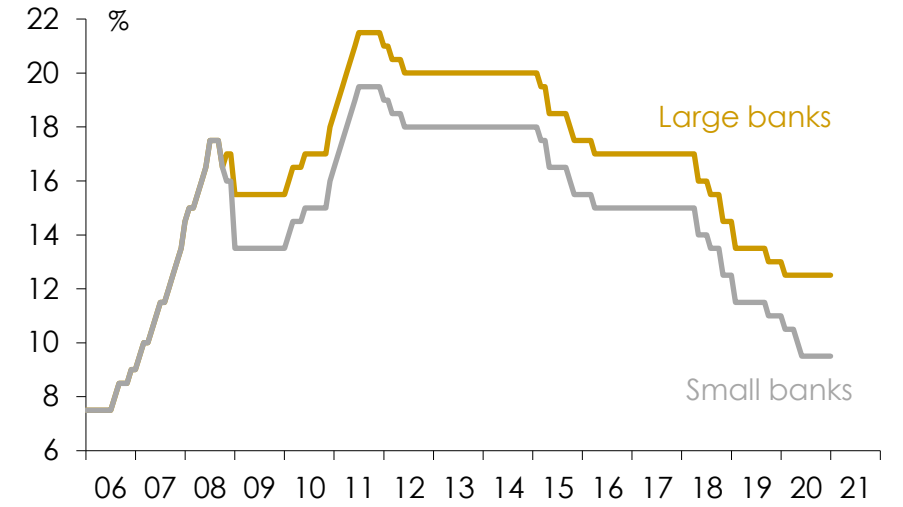
## Producer prices



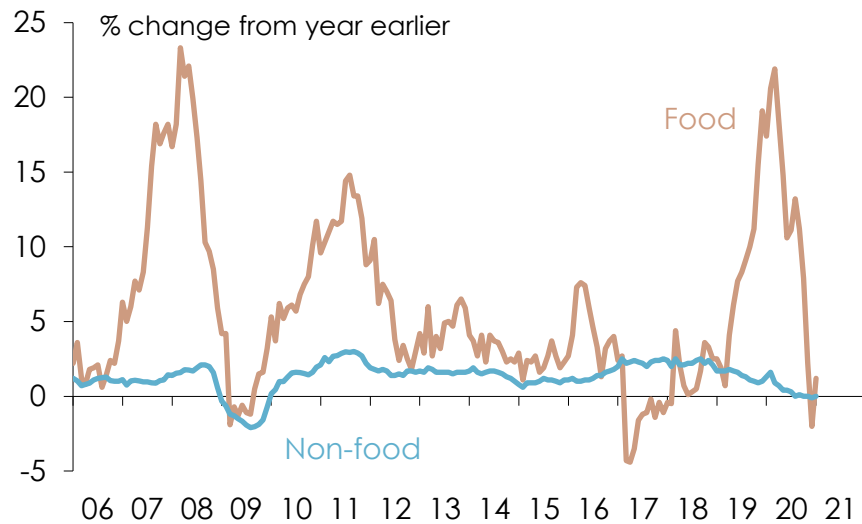
## PBoC policy interest rates



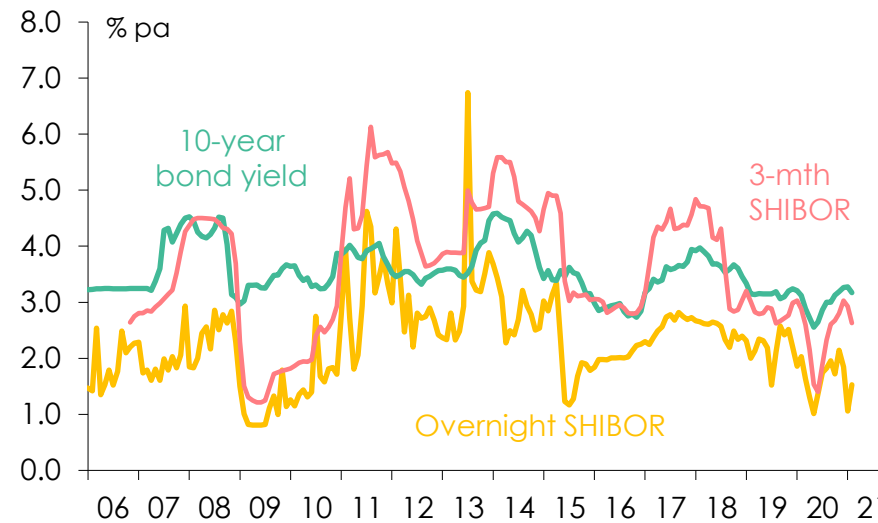
## Bank reserve requirement ratios



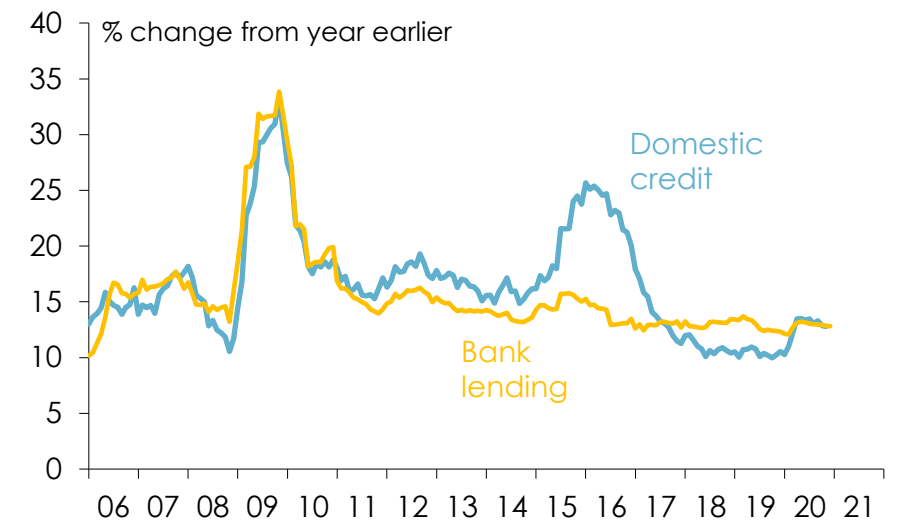
## Consumer prices



## Market interest rates



## Credit growth

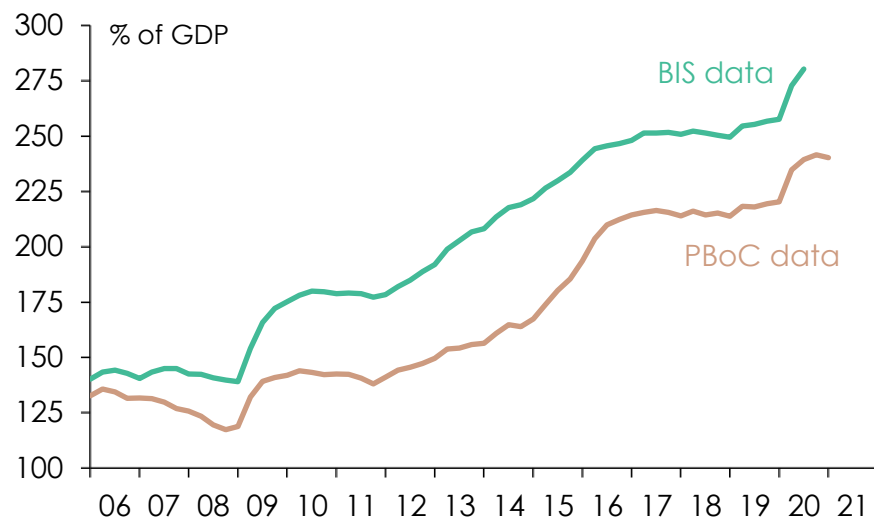


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.

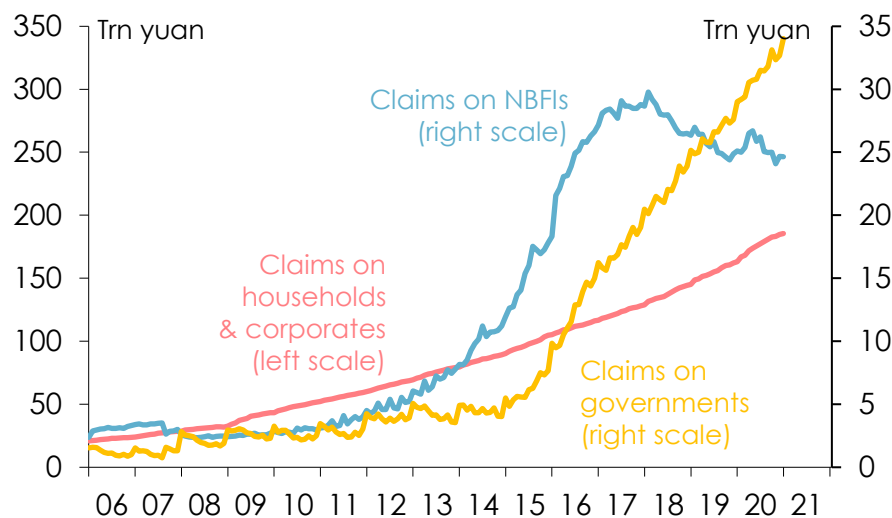
Sources: China National Bureau of Statistics; Refinitiv Datastream; People's Bank of China. [Return to "What's New"](#).

# The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

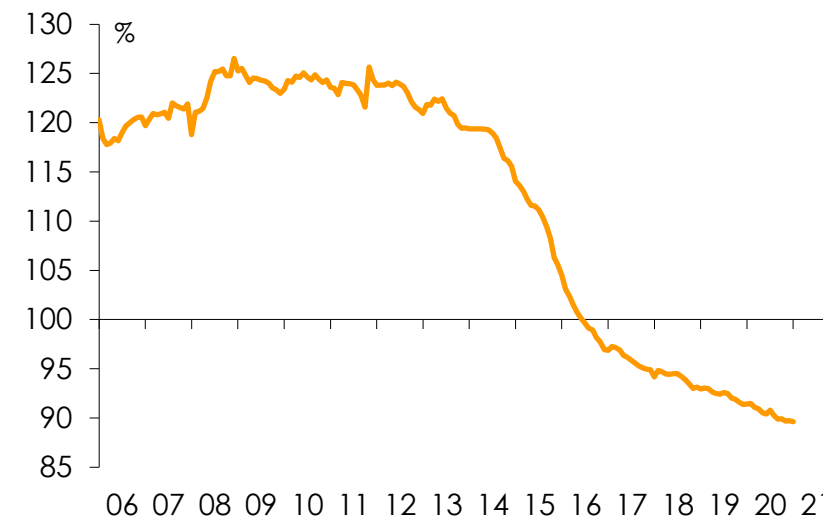
## Credit outstanding as a pc of GDP



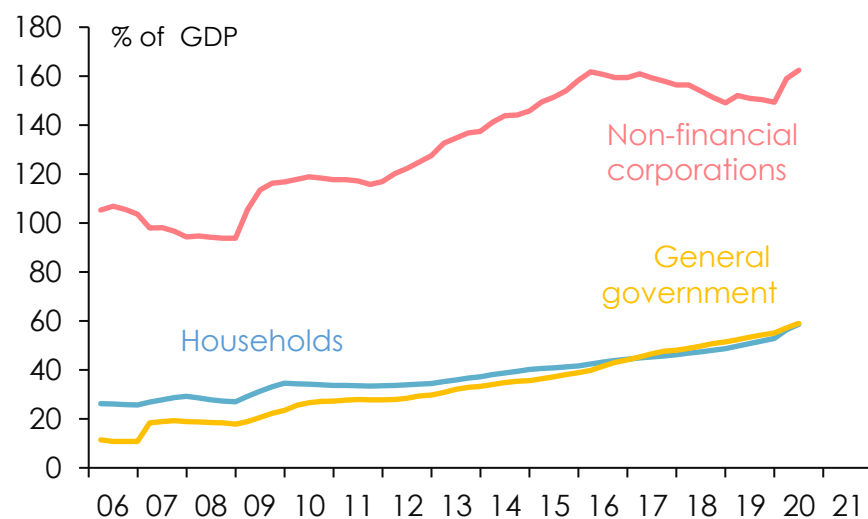
## Banks' assets



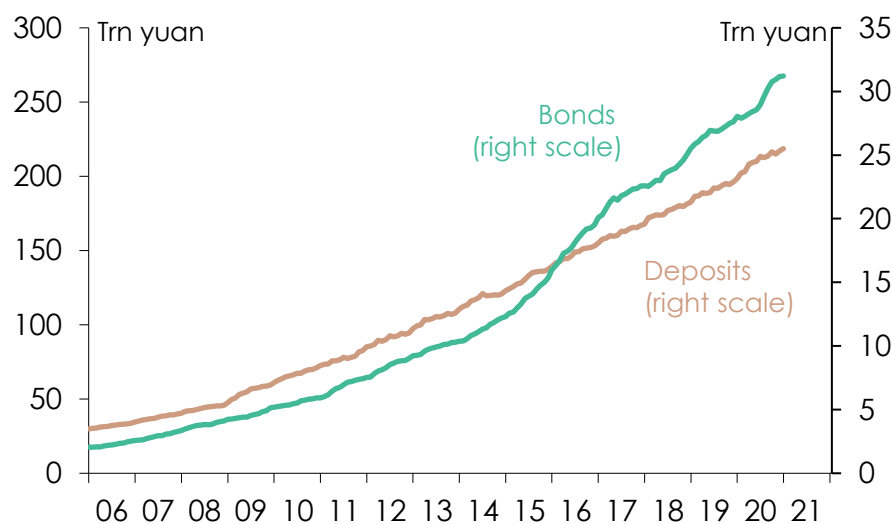
## Banks' deposits-to-loans ratio



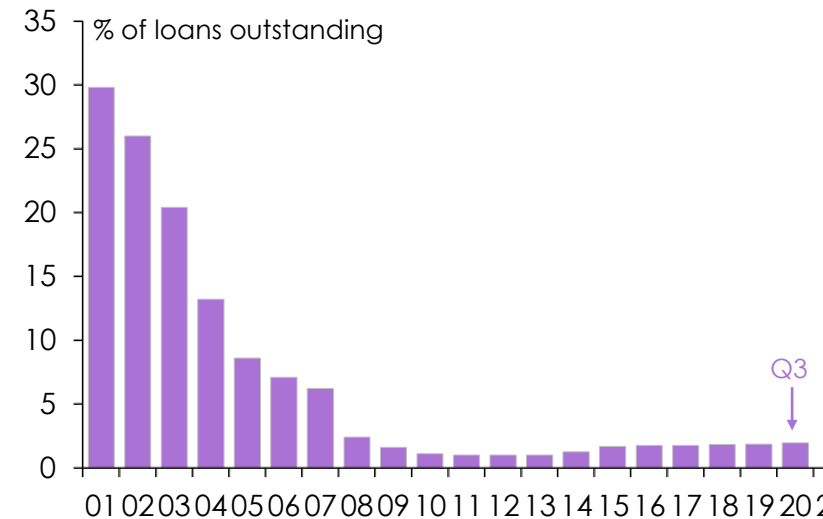
## Credit outstanding by sector



## Banks' liabilities

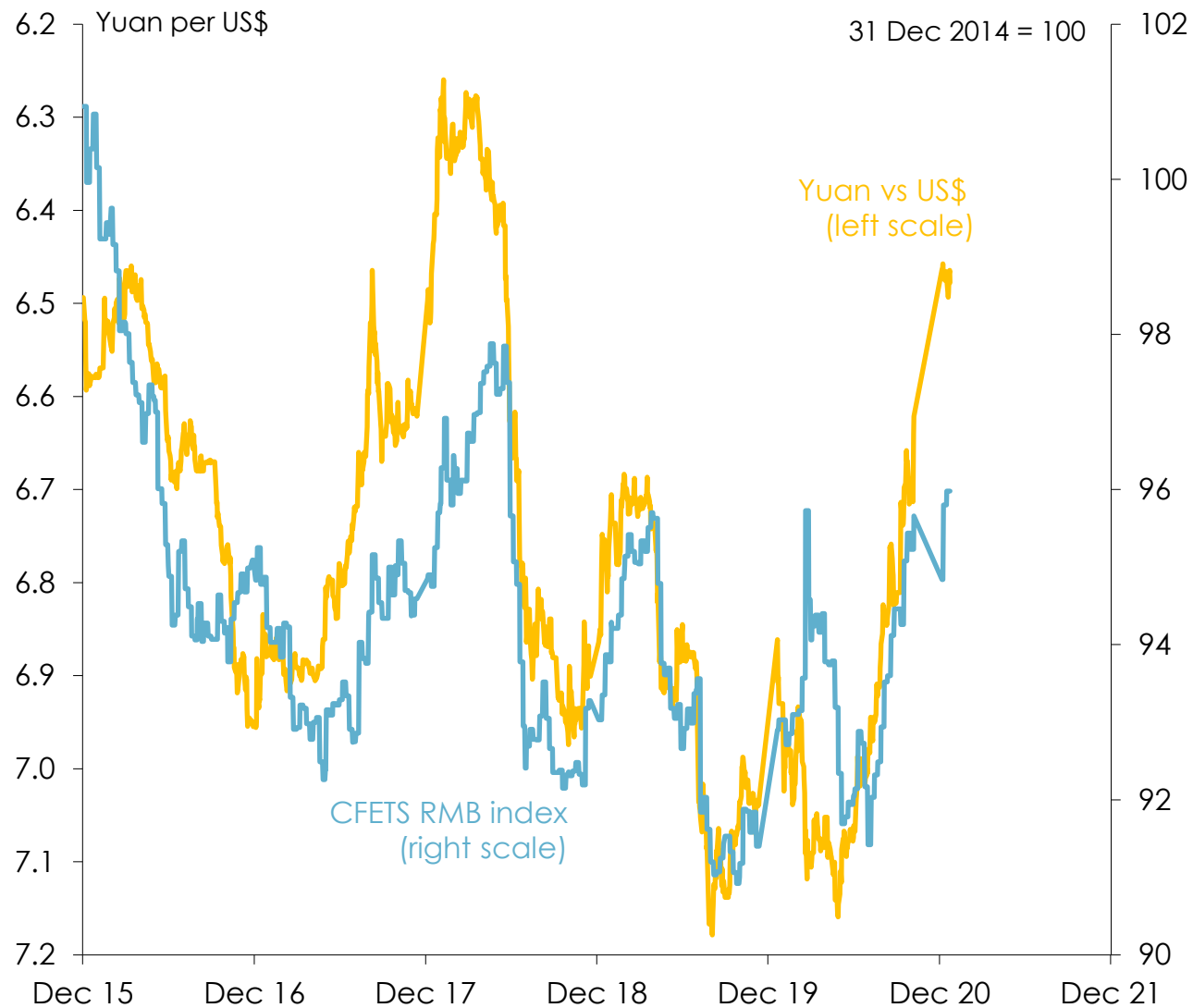


## Banks NPLs – official estimates

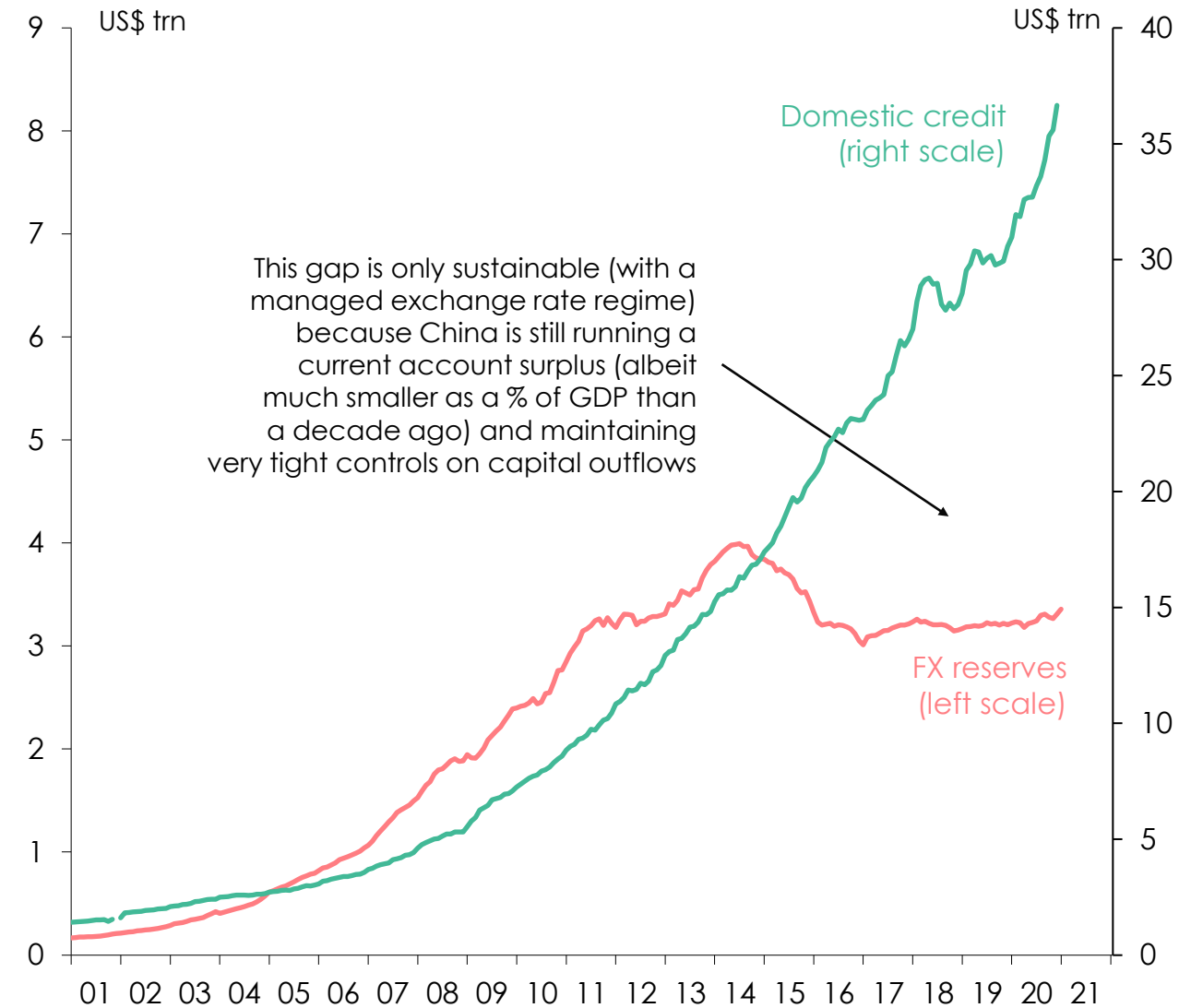


# The yuan rose 6½% vs the US\$ and 3¾% in trade-weighted terms in 2020: so far in 2021 it's risen 1% vs the US\$ and 1¼% against the PBoC index

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



## FX reserves and domestic credit

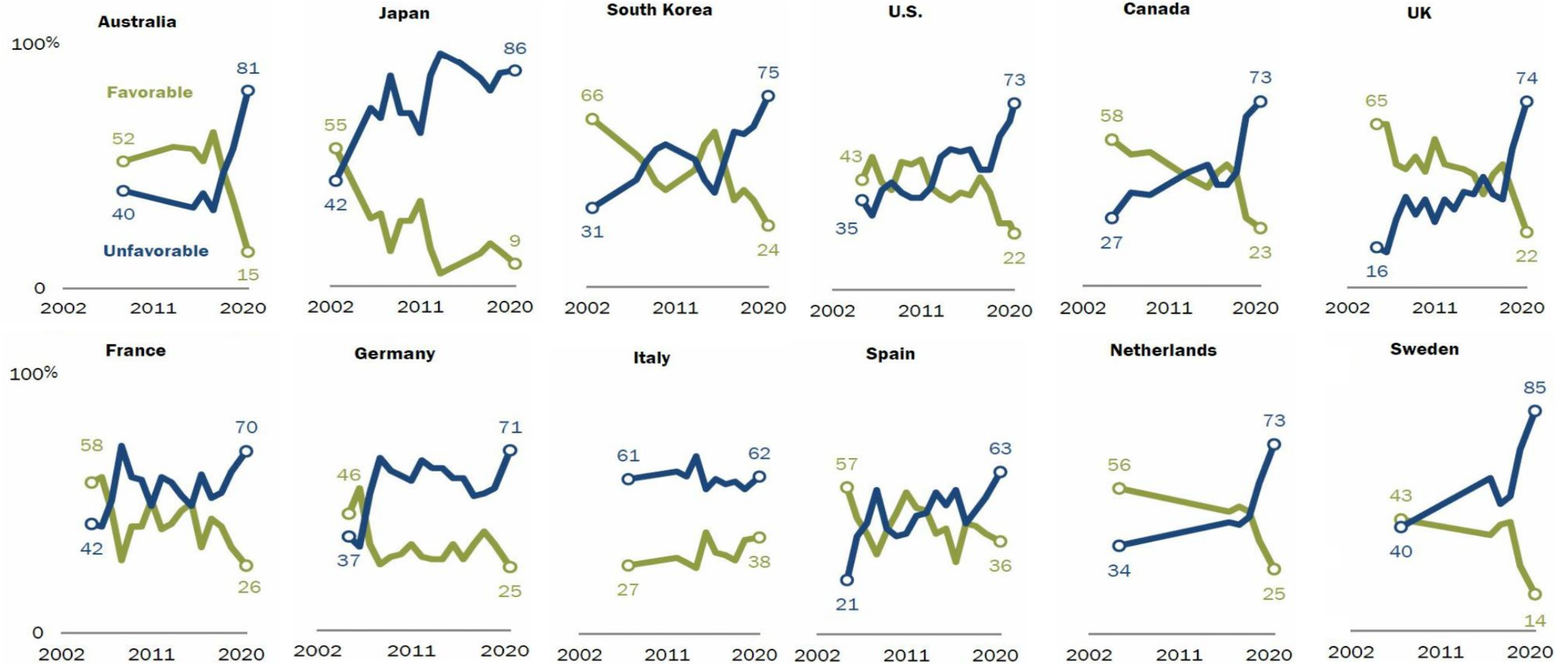


Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 22nd January; credit and FX reserves data up to December. [Return to "What's New"](#).



# China has an 'image problem' – particularly in other Asia-Pacific countries, but also increasingly in Europe

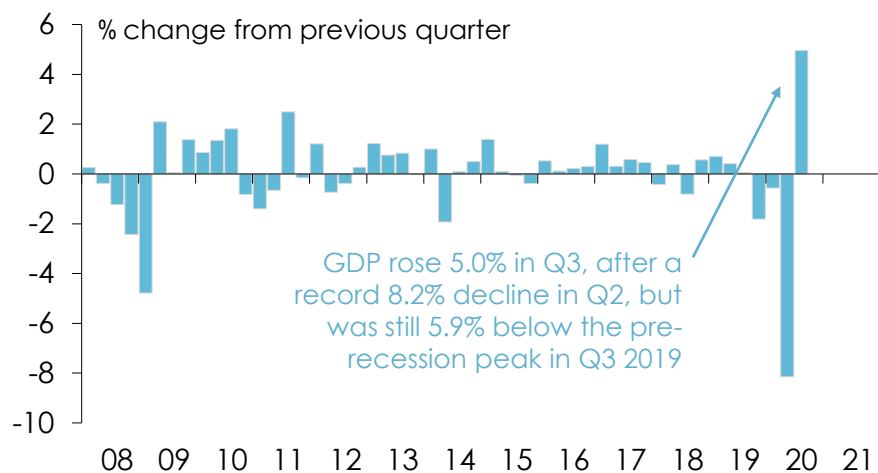
## Positive or negative views about China as a percentage of population



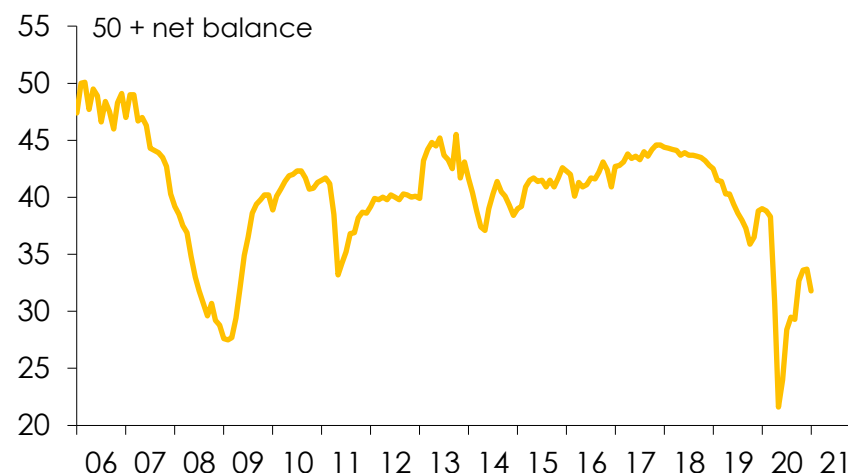
Source: Pew Research, [Unfavorable Views of China Reach Historic Highs in Many Countries](#), 6th October 2020. [Return to "What's New"](#).

# In Japan, unemployment – both measured and ‘effective’ – is now down to less than 3%, where it was before the onset of the pandemic

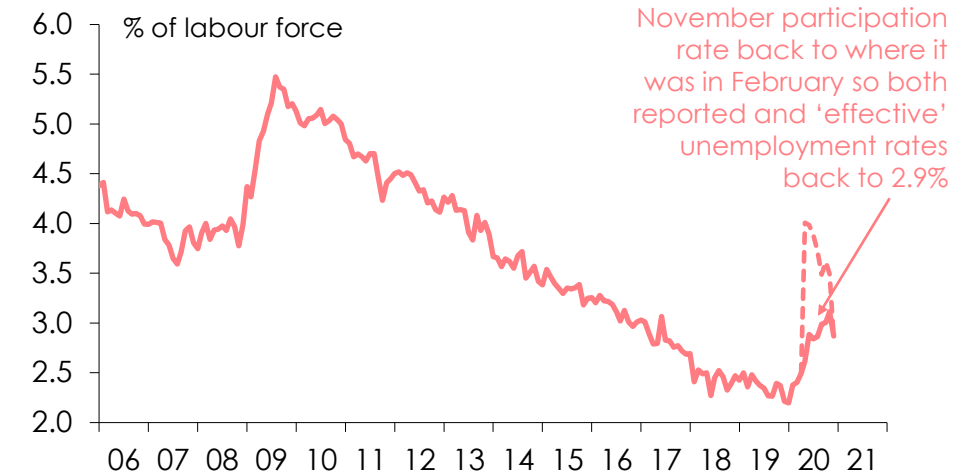
## Real GDP



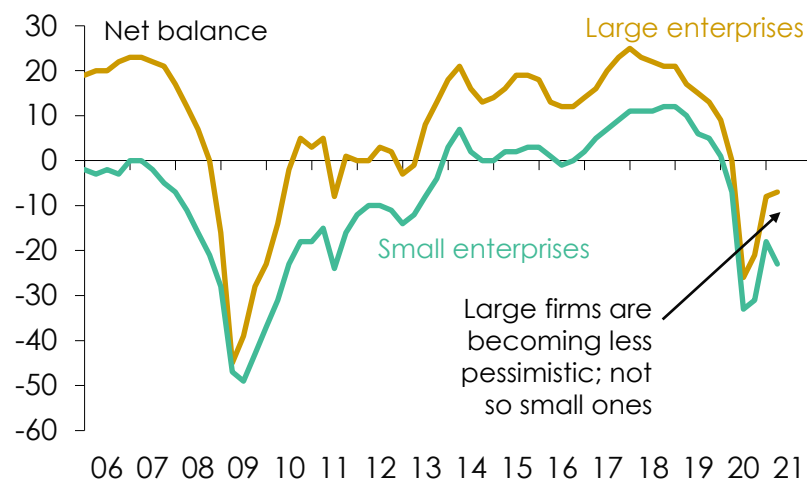
## Consumer confidence



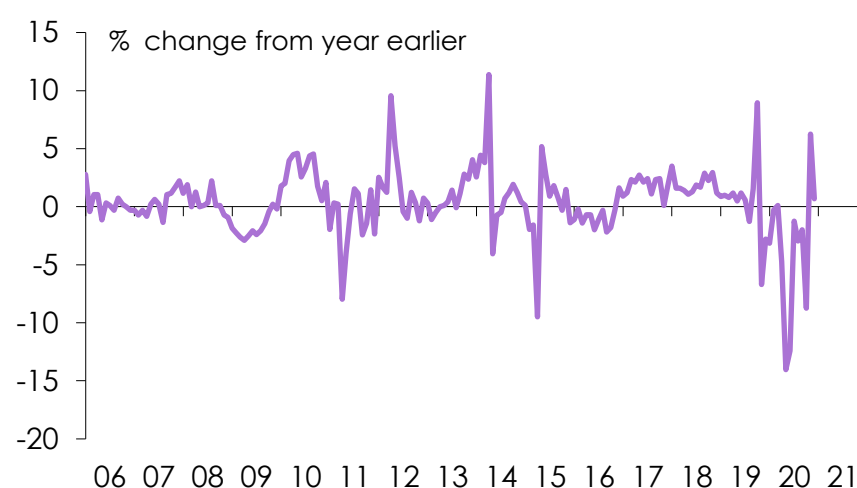
## Unemployment



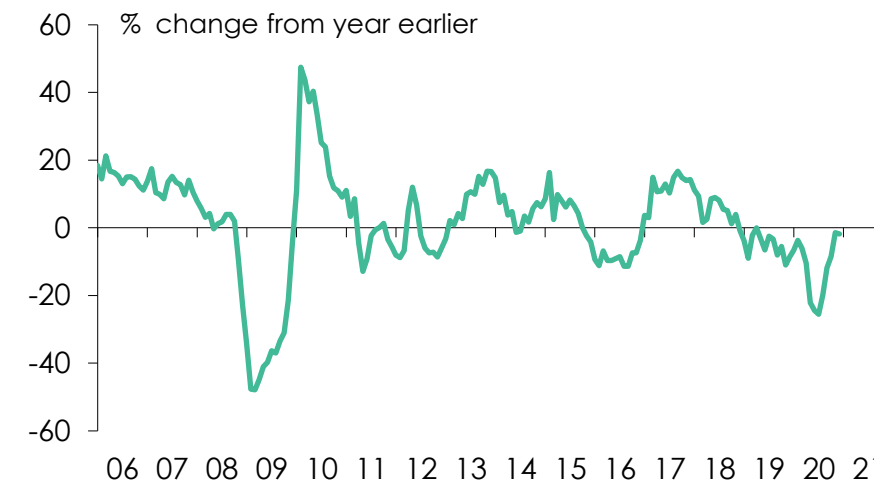
## BoJ Tankan business conditions



## Value of retail sales



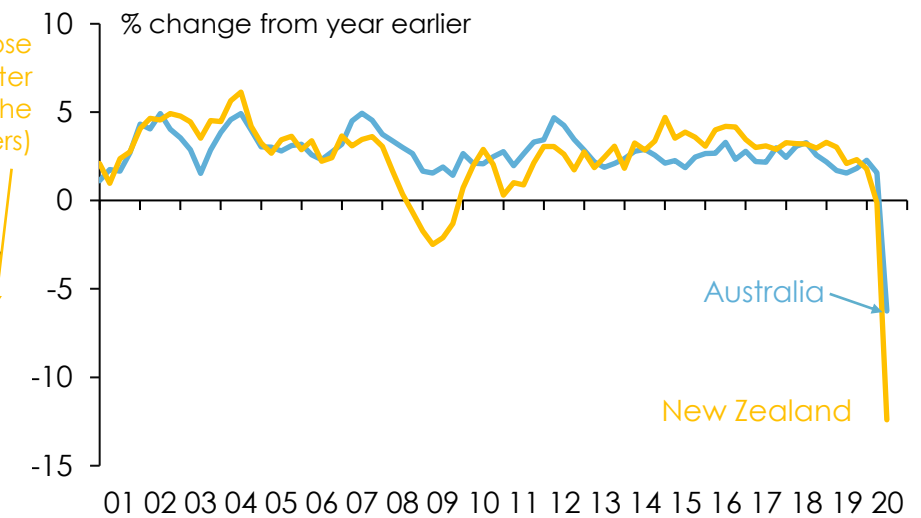
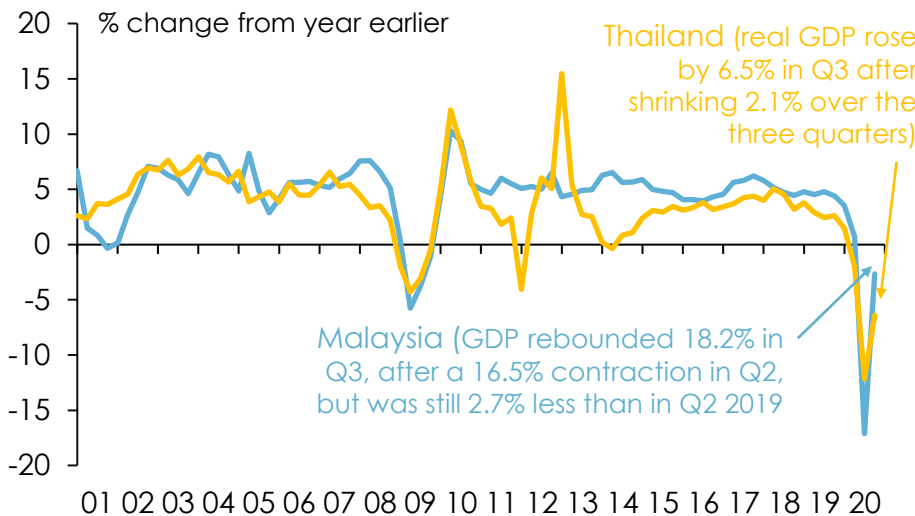
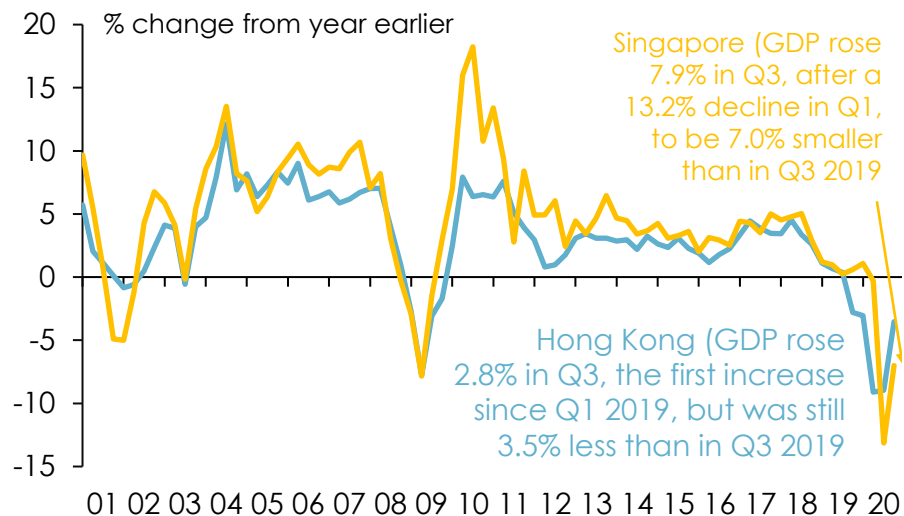
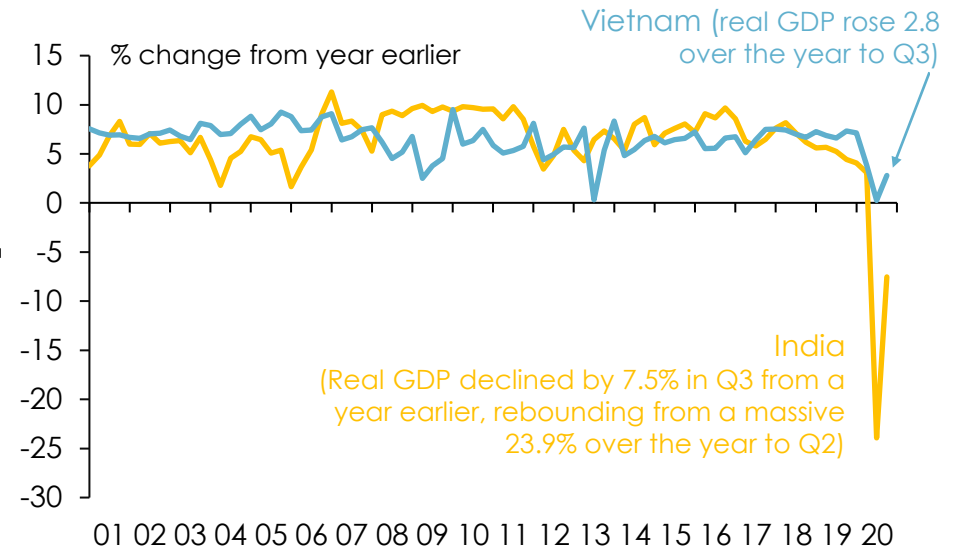
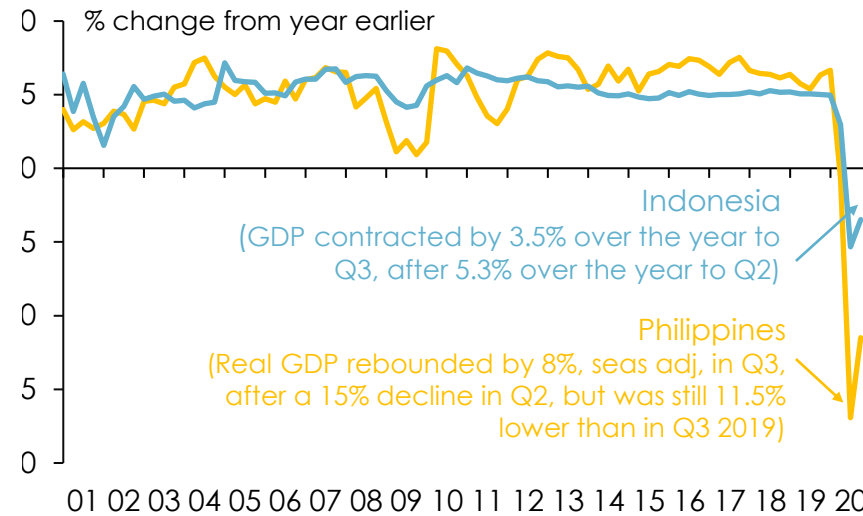
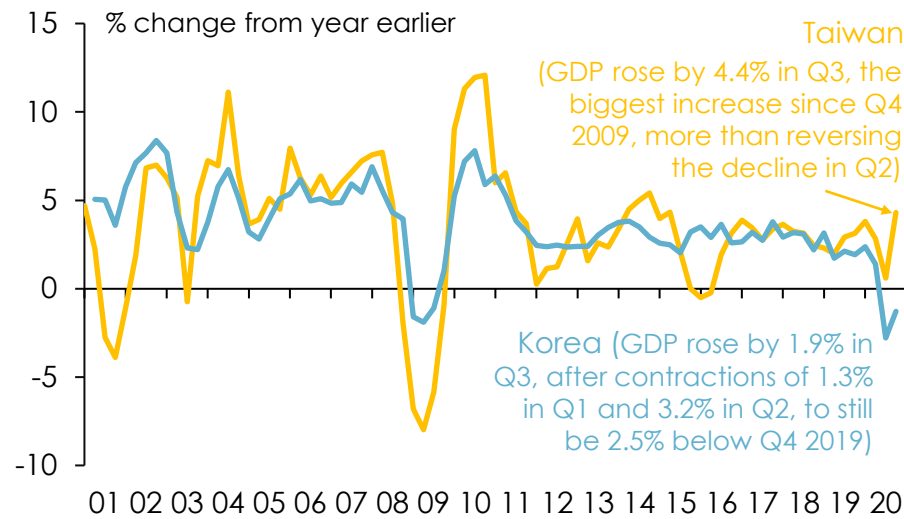
## Merchandise export volumes



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"](#).

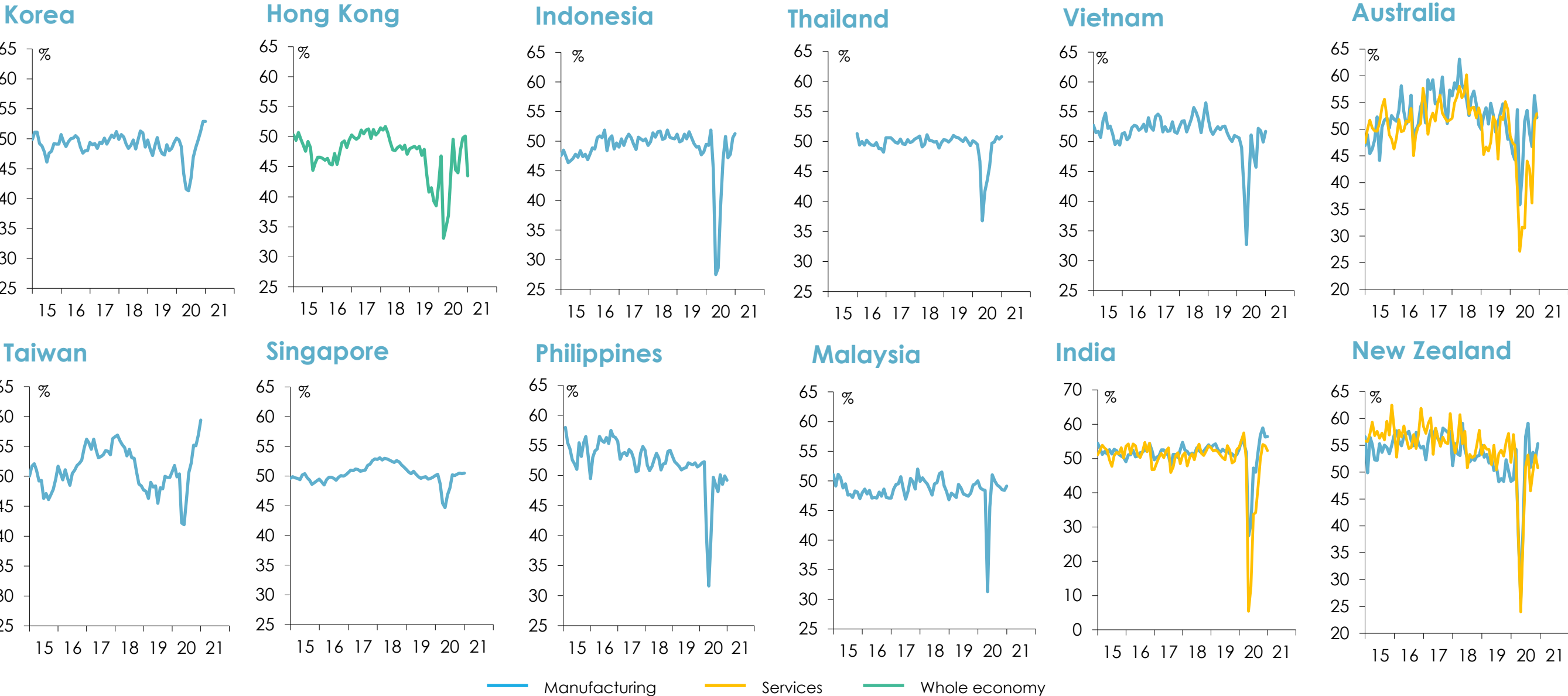
# Malaysia, Thailand, Singapore, Philippines & Taiwan have had strong upturns in Q3 though except for Taiwan are yet to return to pre-pandemic levels

## 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 2<sup>nd</sup> December; and NZ's on 17<sup>th</sup> December. [Return to "What's New"](#).

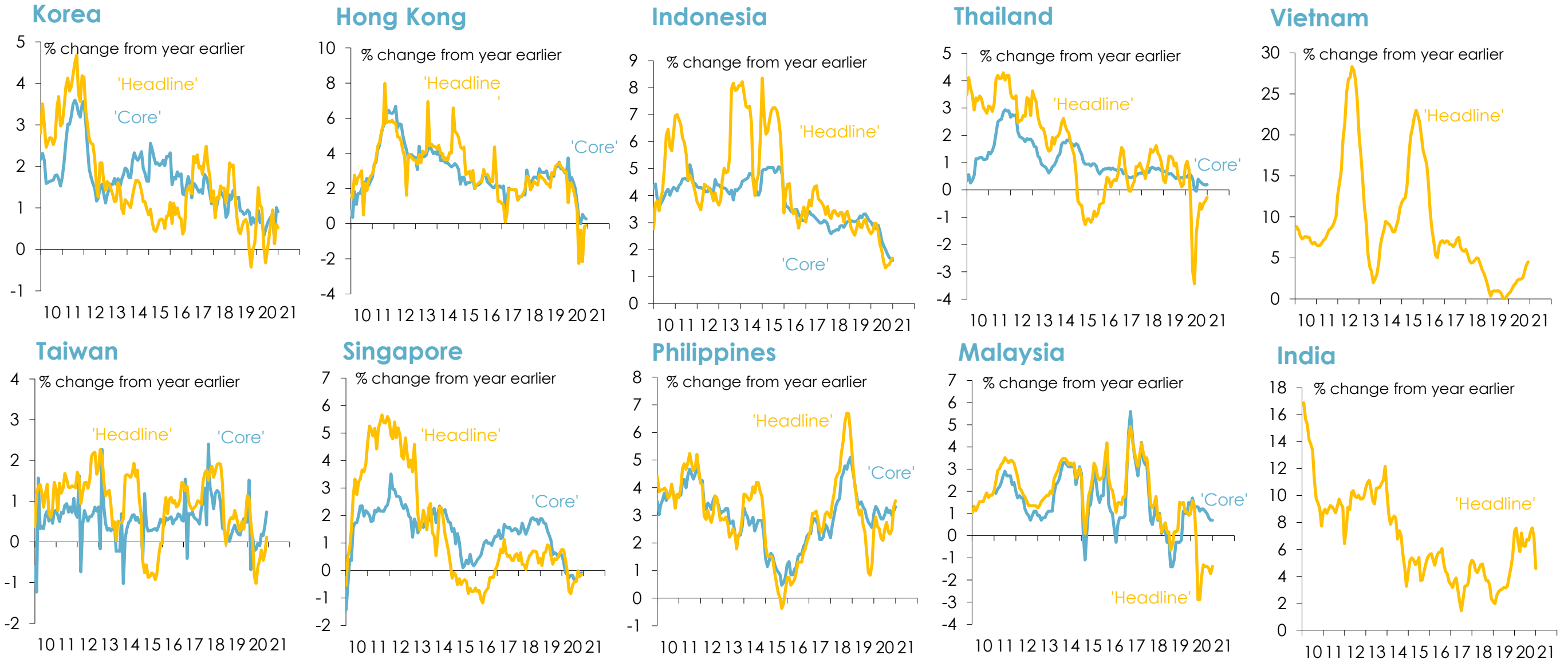
# December Asia-Pacific PMIs show ongoing recovery in manufacturing in most countries especially Taiwan, but HK, Philippines and Malaysia lagging



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 December 2020 – except for Australia and New Zealand which are November.

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

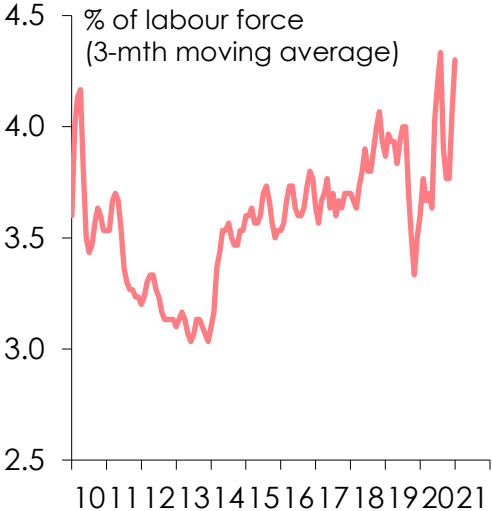
# Inflation remains very low across Asian economies (including Indonesia & Philippines where it had been stubbornly high) – except for India



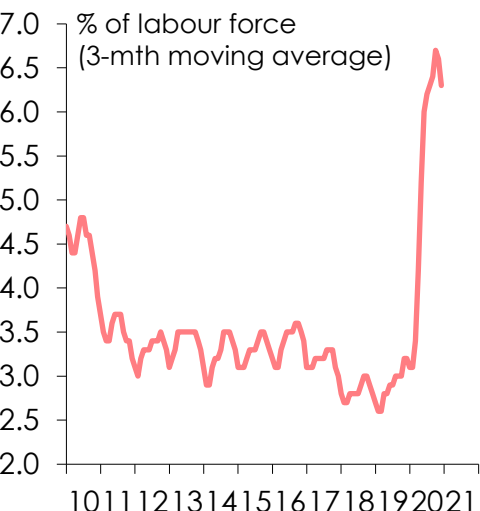
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

# Unemployment rose sharply in most Asian economies last year (except for Taiwan and Thailand) but appears now to have peaked

## Korea



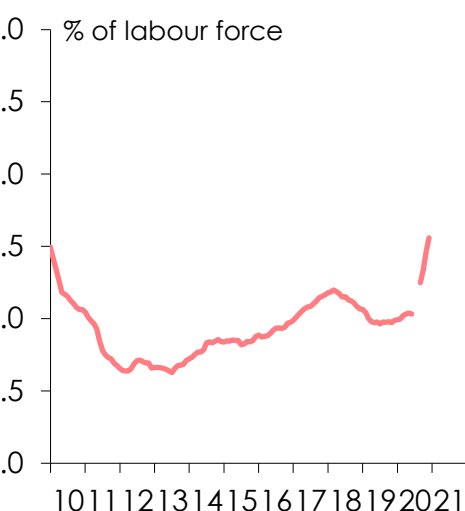
## Hong Kong



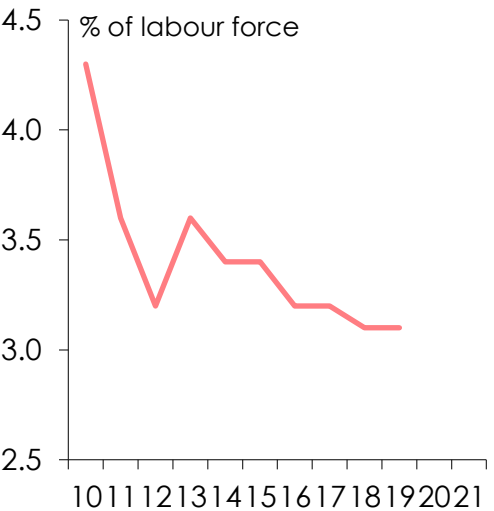
## Indonesia



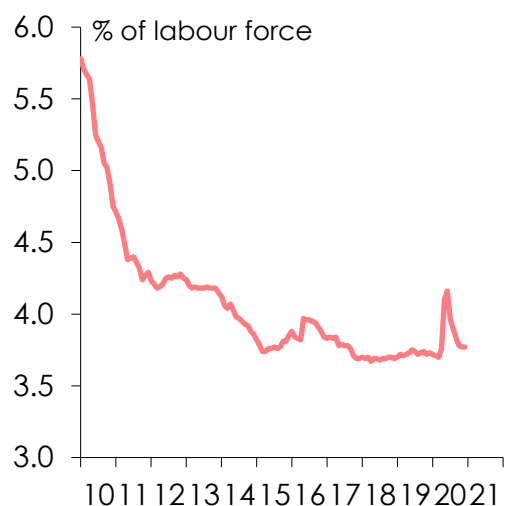
## Thailand



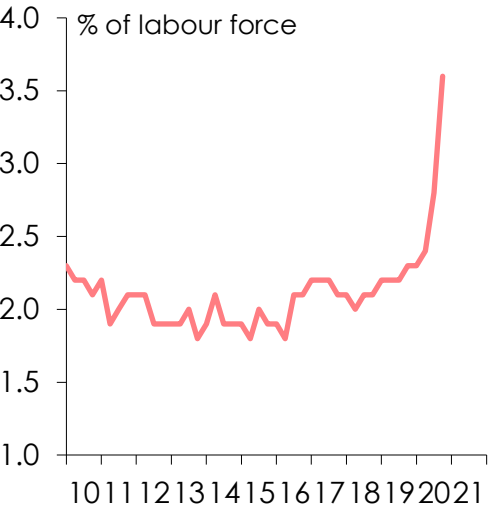
## Vietnam



## Taiwan



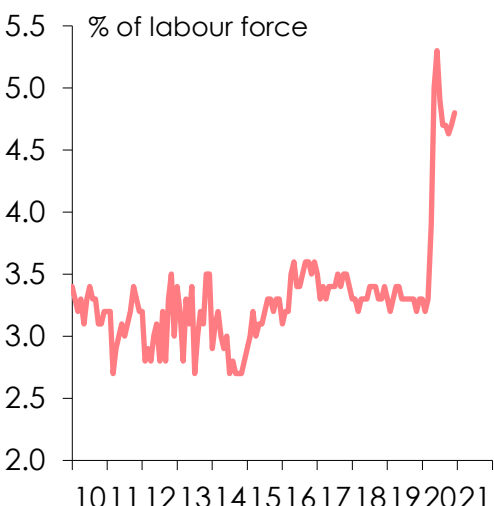
## Singapore



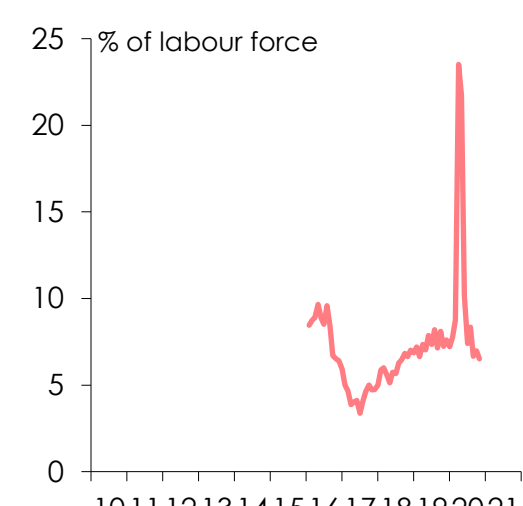
## Philippines



## Malaysia



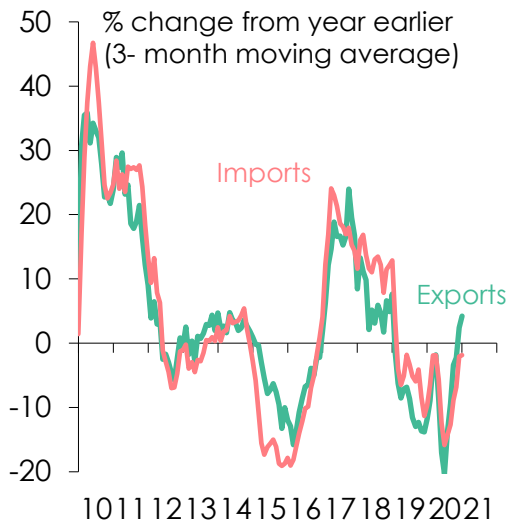
## India



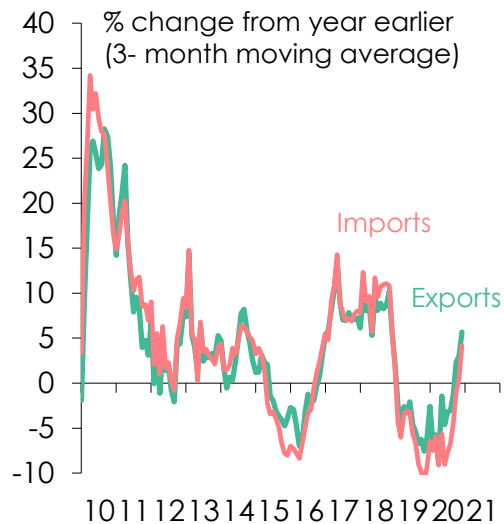
Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in India: the estimates shown on this page are compiled by a private sector 'think tank'. Sources: national statistical agencies; Centre for Monitoring the Indian Economy. [Return to "What's New"](#).

# Asian exports are recovering from the Covid-induced slump – particularly Malaysia, Vietnam, Taiwan and Korea, with Thailand and India lagging

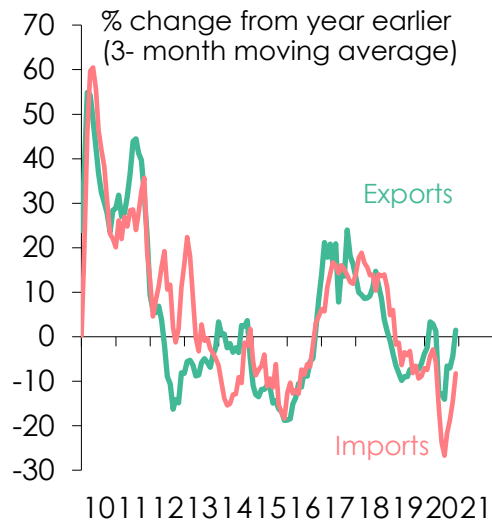
## Korea



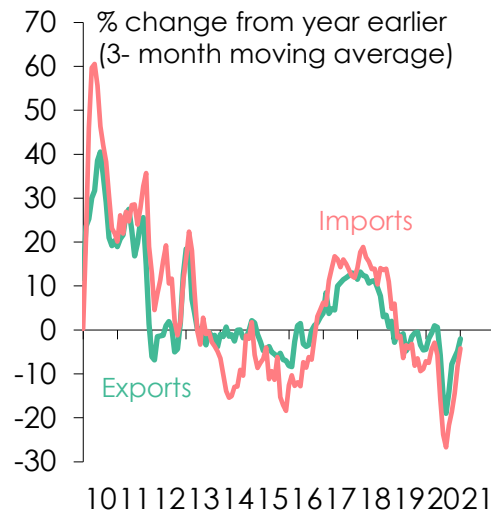
## Hong Kong



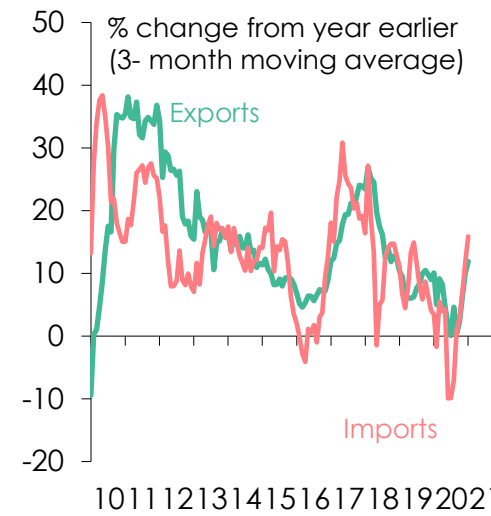
## Indonesia



## Thailand



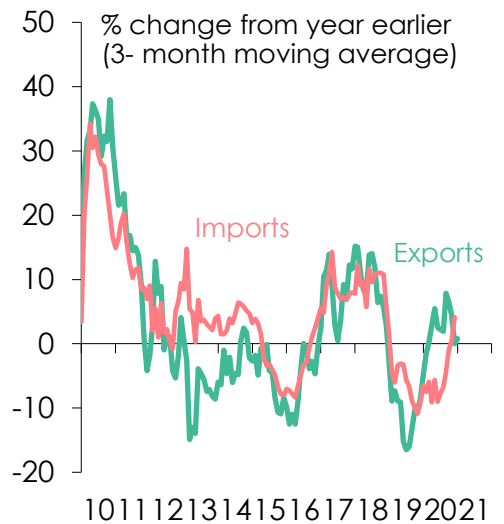
## Vietnam



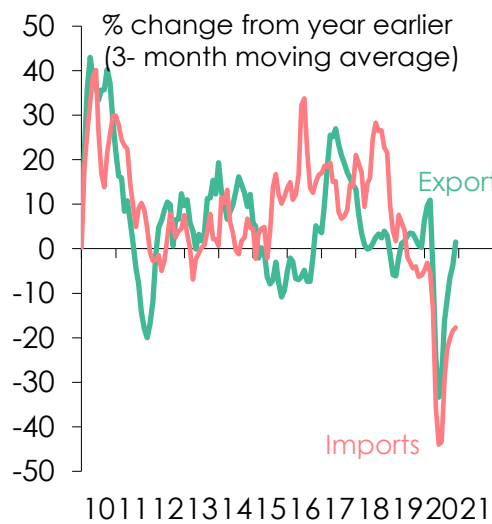
## Taiwan



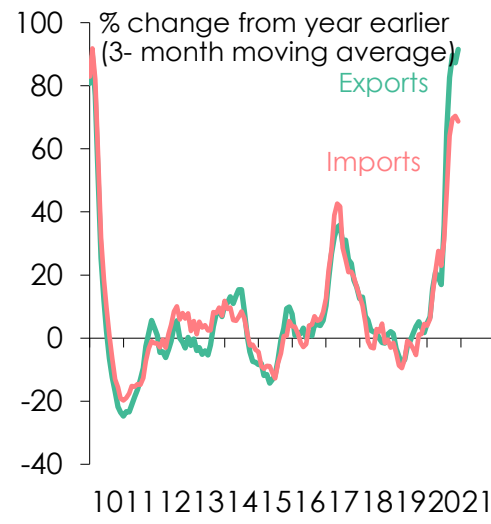
## Singapore



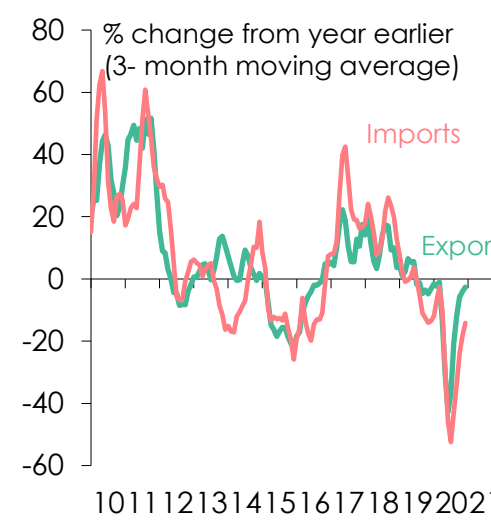
## Philippines



## Malaysia



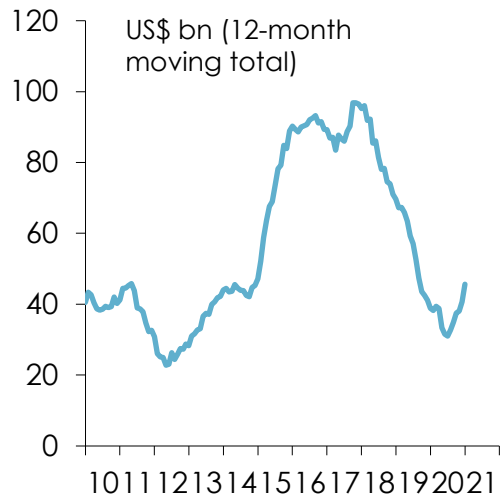
## India



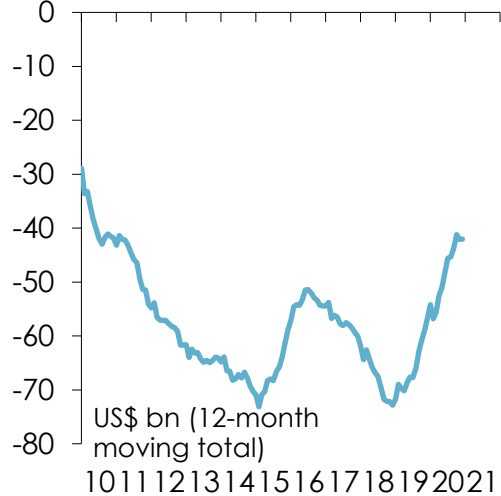
Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

# Most Asian economies have experienced improvements in their trade balances since the onset of Covid-19

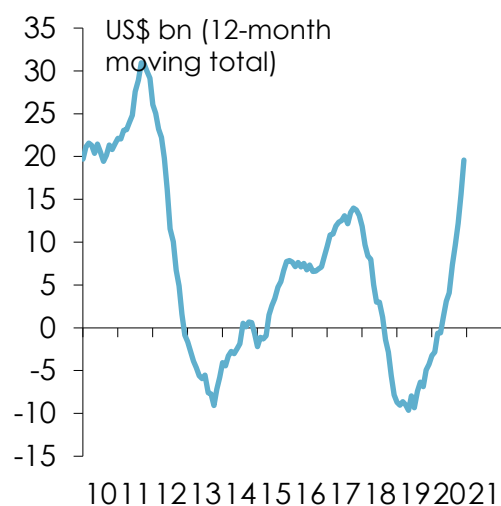
**Korea**



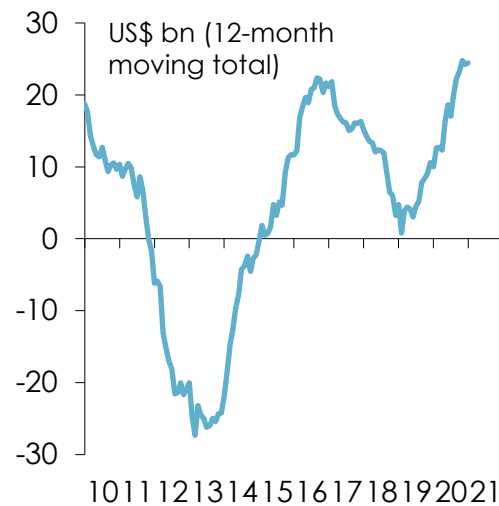
**Hong Kong**



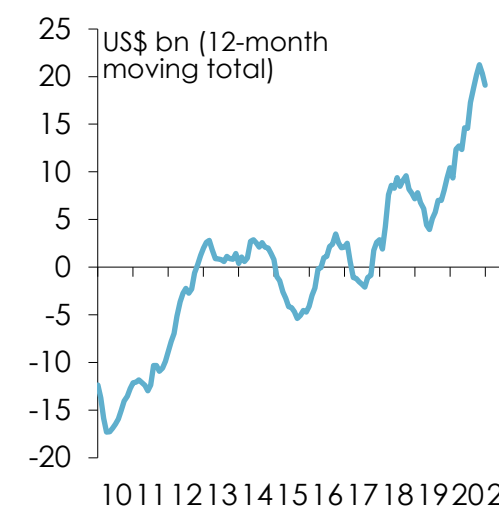
**Indonesia**



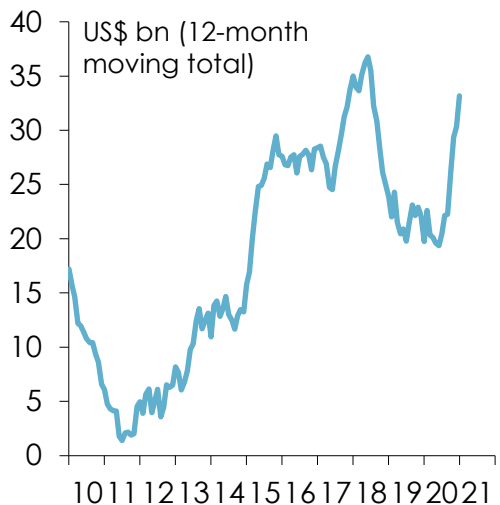
**Thailand**



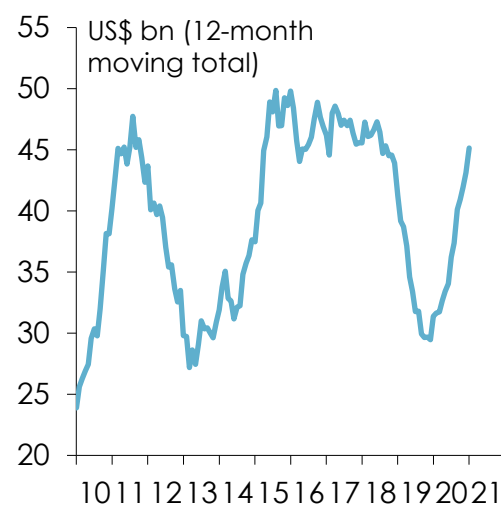
**Vietnam**



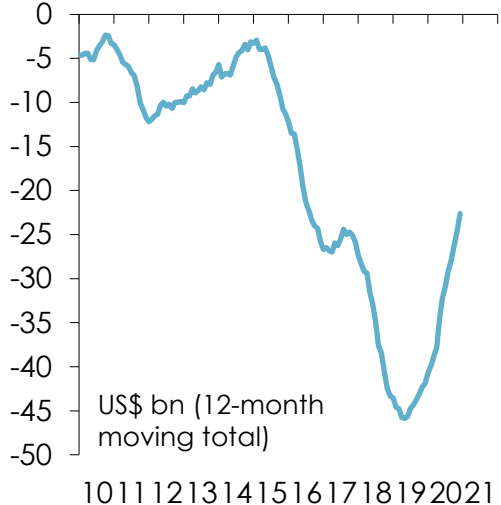
**Taiwan**



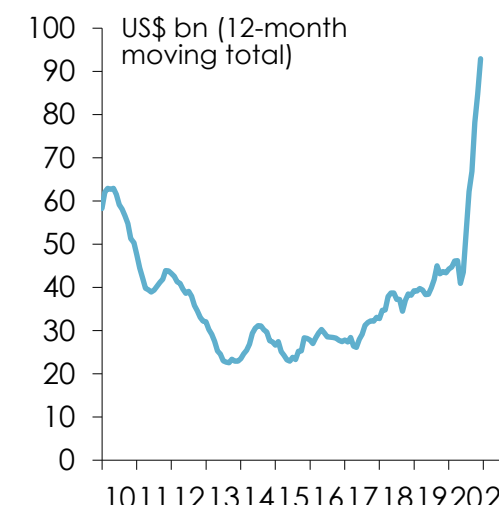
**Singapore**



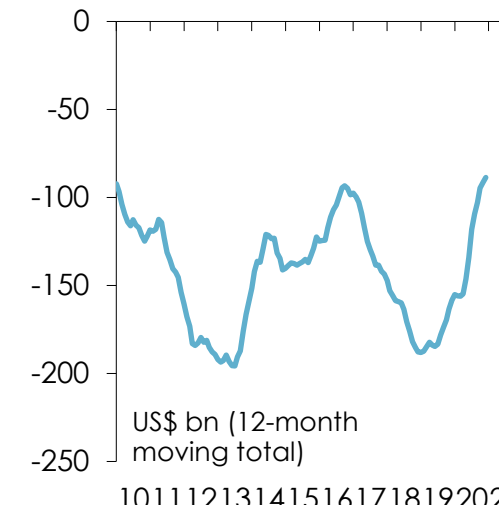
**Philippines**



**Malaysia**



**India**

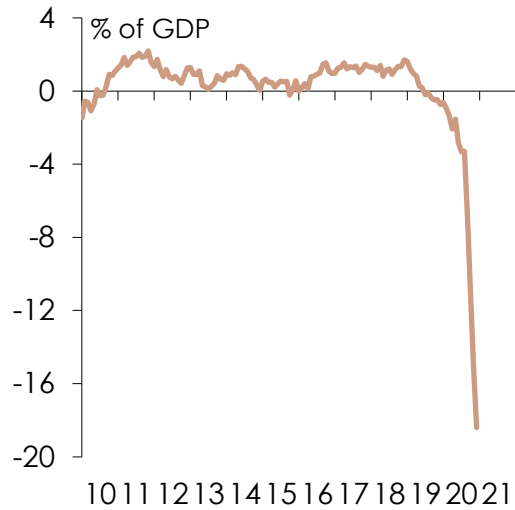


Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

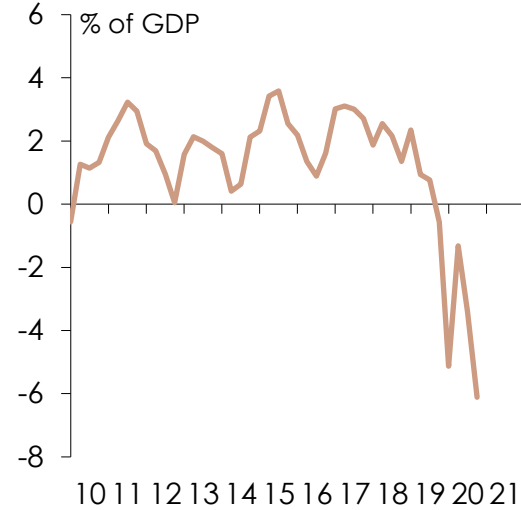


# National government budgetary positions have deteriorated sharply across Asia

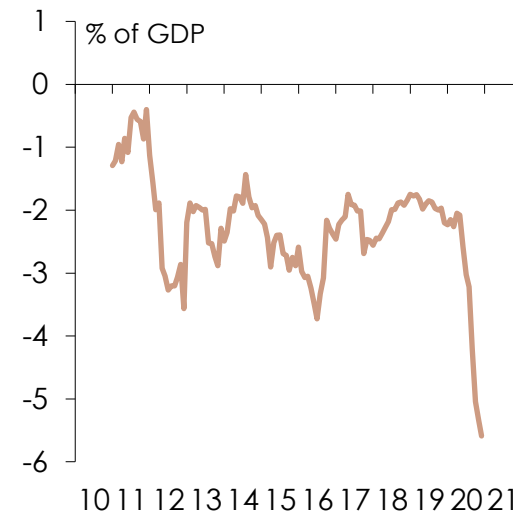
## Korea



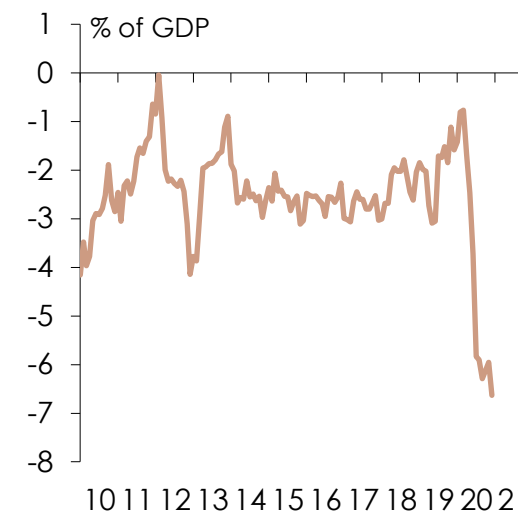
## Hong Kong



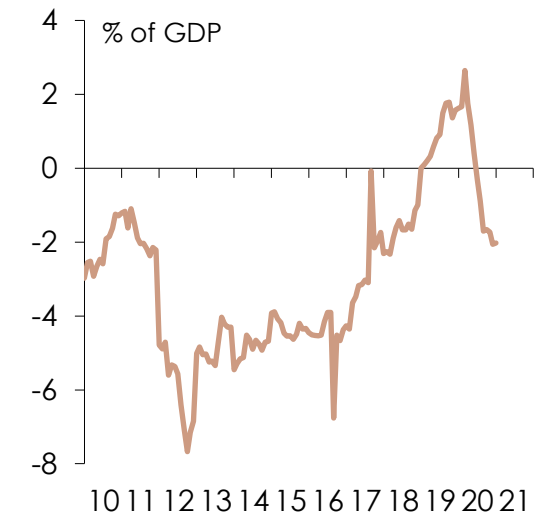
## Indonesia



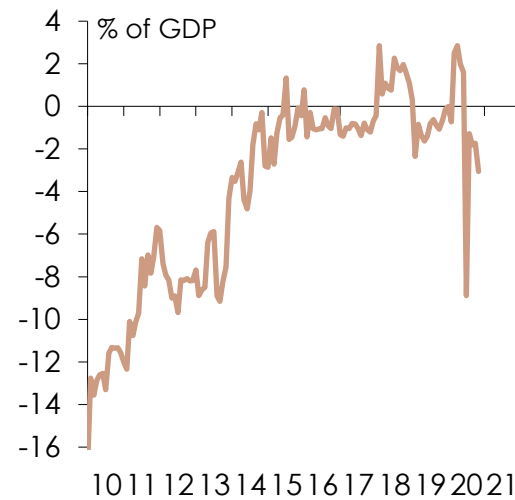
## Thailand



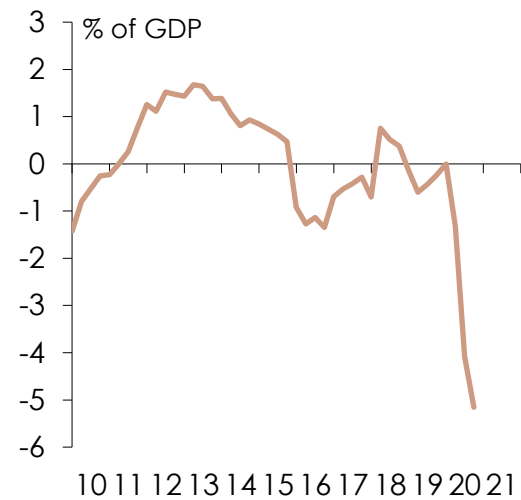
## Vietnam



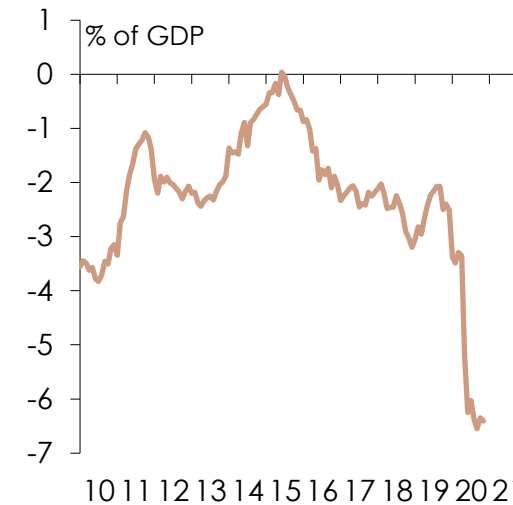
## Taiwan



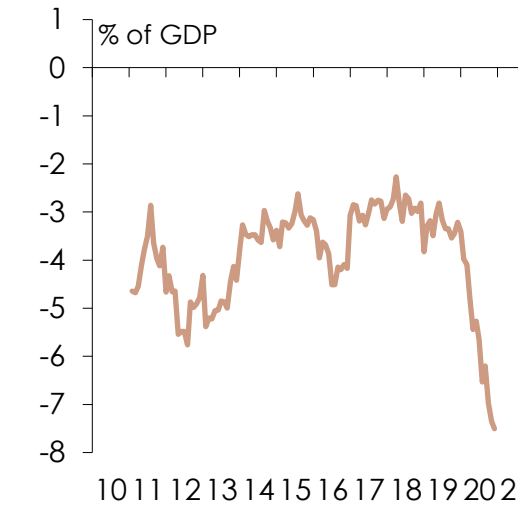
## Singapore



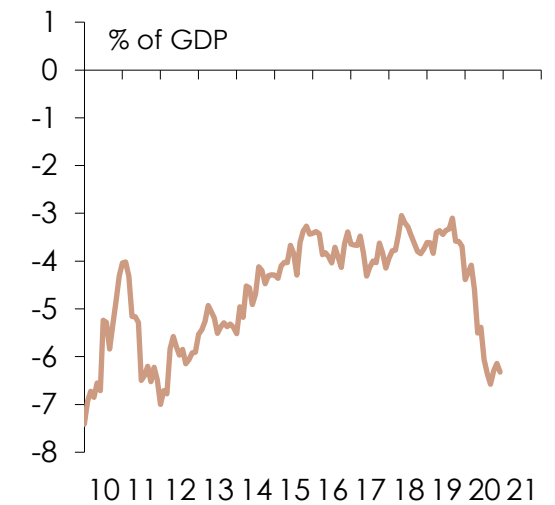
## Philippines



## Malaysia



## India

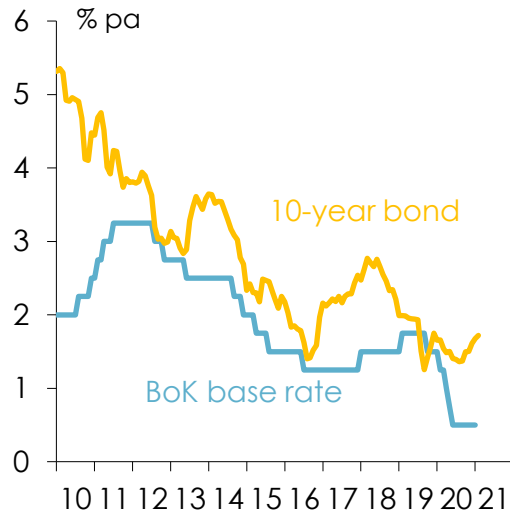


Note: Charts show central government budget balances over rolling 12-month (or in the cases of Hong Kong and Singapore, 4-quarter) periods, expressed as a pc of nominal GDP over the latest available 4-quarter period. Sources: National Finance Ministries or Treasuries, central banks and statistical agencies; Corinna.

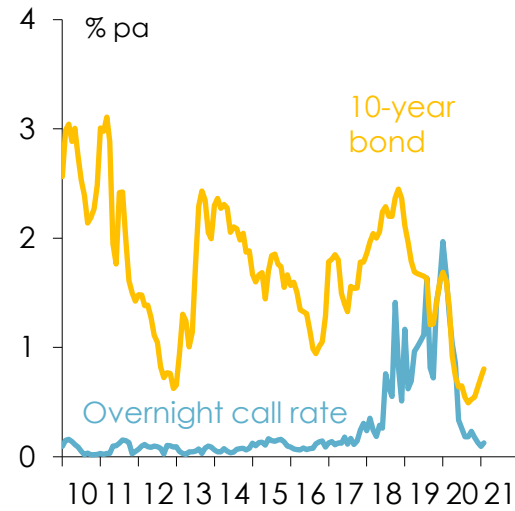
[Return to "What's New".](#)

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

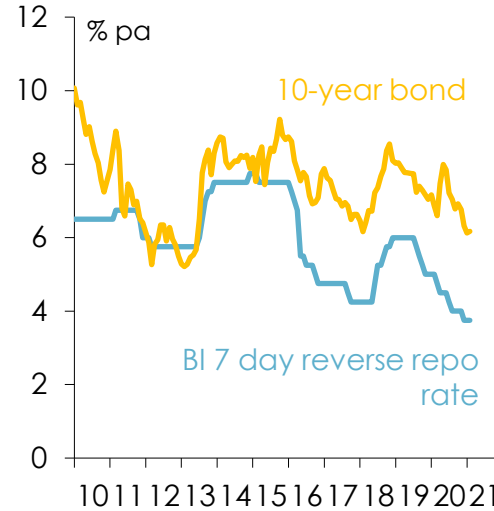
**Korea**



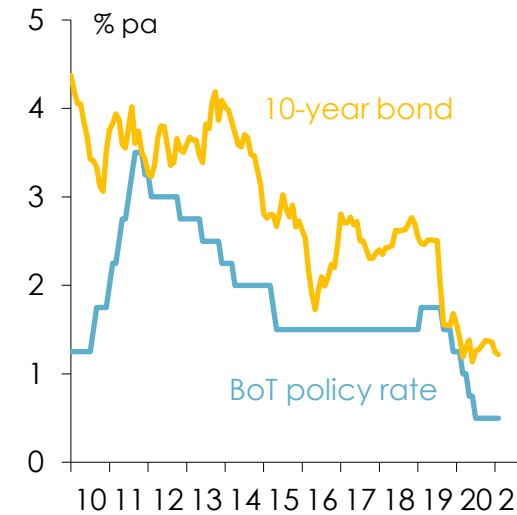
**Hong Kong**



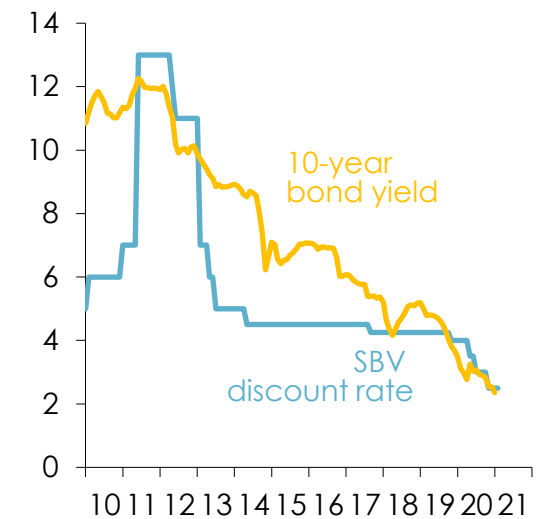
**Indonesia**



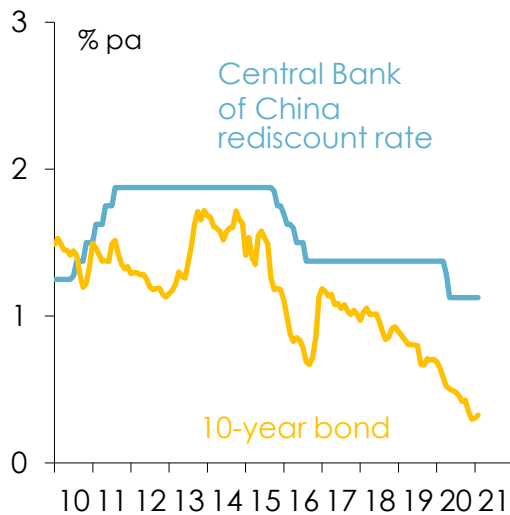
**Thailand**



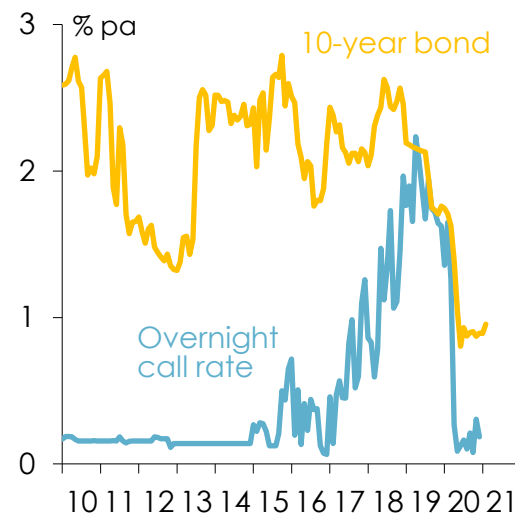
**Vietnam**



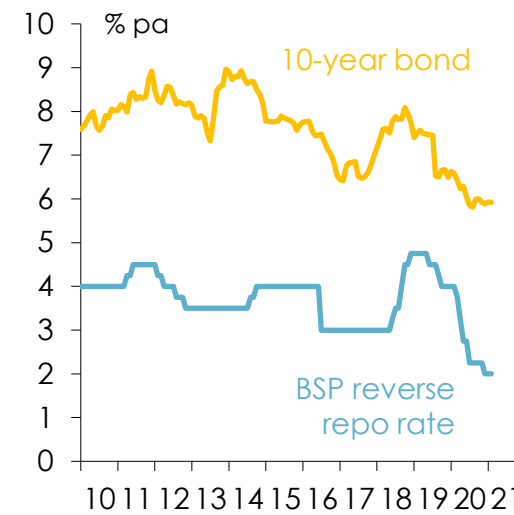
**Taiwan**



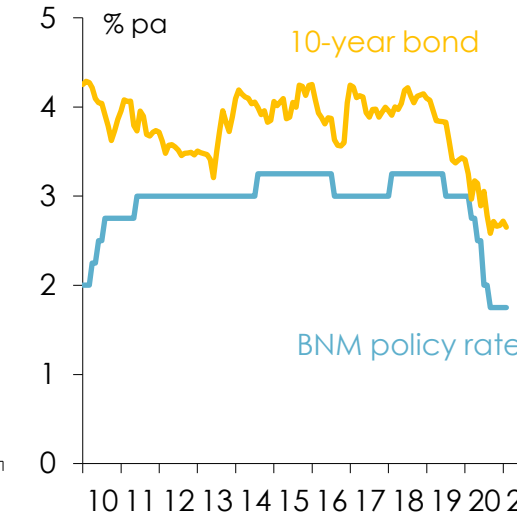
**Singapore**



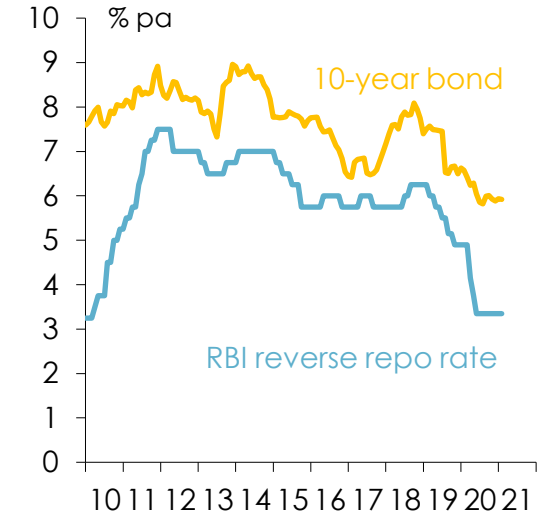
**Philippines**



**Malaysia**



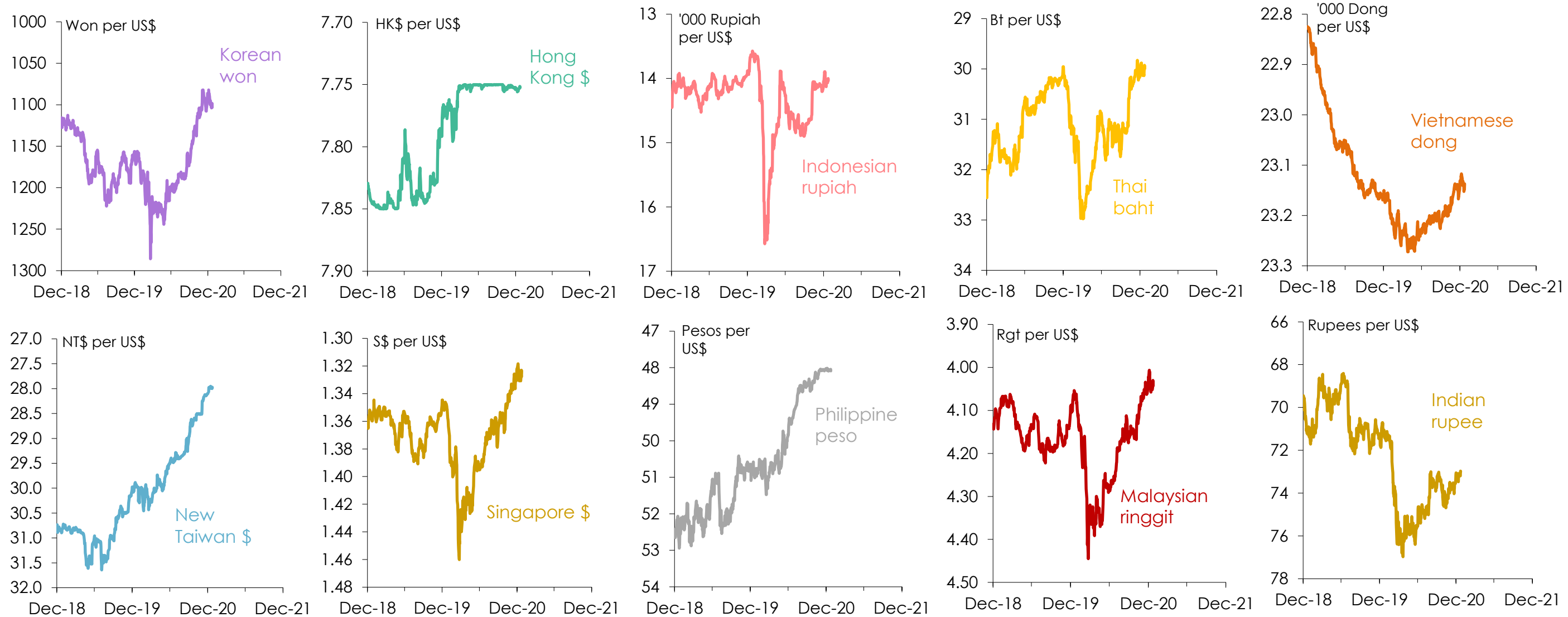
**India**



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"](#).

# Asian currencies were generally softer against the US\$ this week, except for the NT\$ and the rupiah, with the won down 1.2%

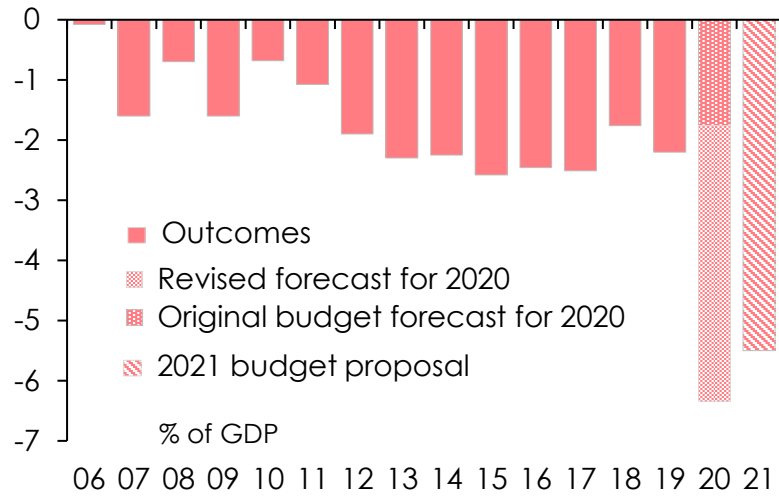
## Asian currency exchange rates vs US dollar



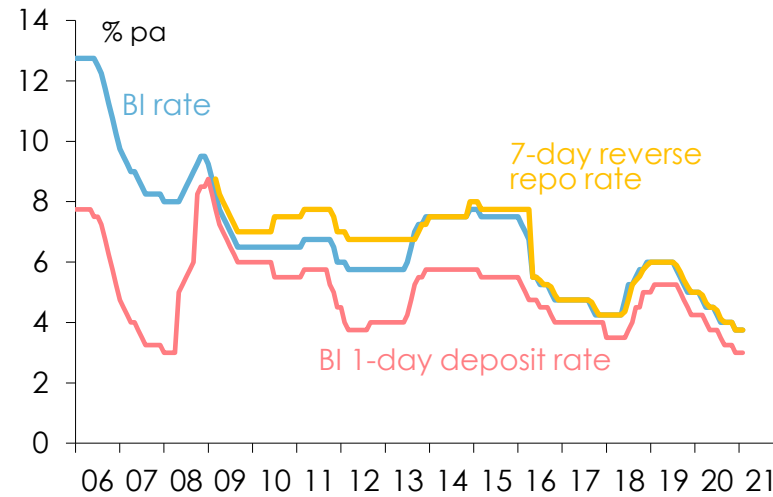
Note: Data up to 22nd January. Source: Refinitiv Datastream. [Return to "What's New"](#).

# Indonesia's central bank this week re-affirmed its monetary policy stance, including ongoing support for 'synergistic monetary expansion'

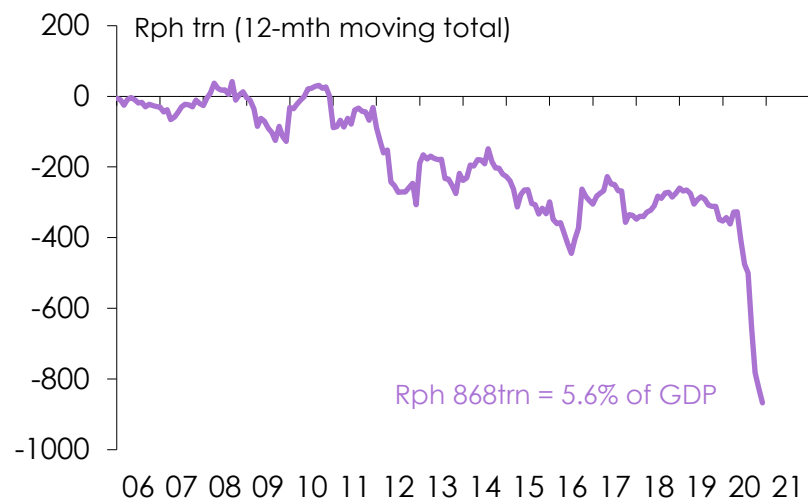
## Indonesia budget deficit



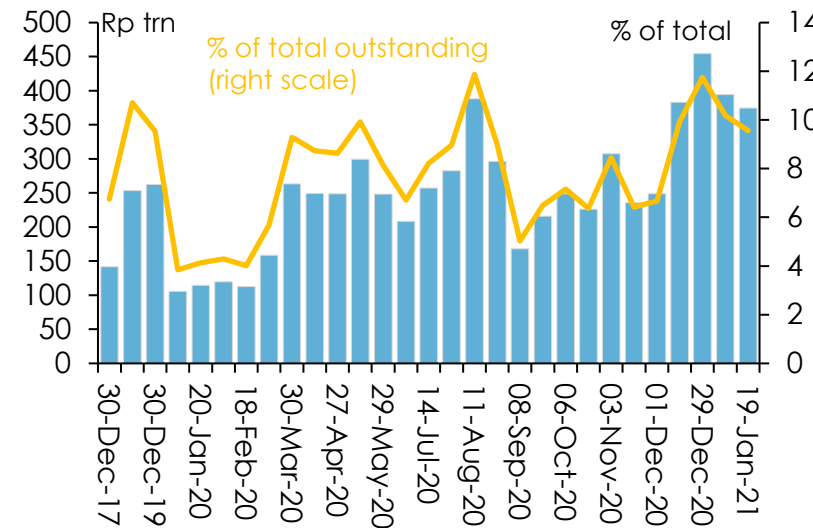
## BI monetary policy rates



## Central gov't budget balance



## BI holdings of tradeable SBNs



- In April 2020, 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 19th BI had purchased Rp72.5 trn of SBN in the primary market, and provided an additional Rp62 trn through 'burden sharing' arrangements with the Government
  - 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 week at its first Board of Governors meeting for 2021 BI left monetary policy settings on hold
  - BI expects economic growth to "gradually gain momentum" through 2021
  - inflation is expected to remain "under control and within the 3% ± 1% corridor"
  - Indonesia's current account deficit is expected to remain at 1-2% of GDP "thereby supporting external resilience"
  - and "financial system stability remains solid"

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

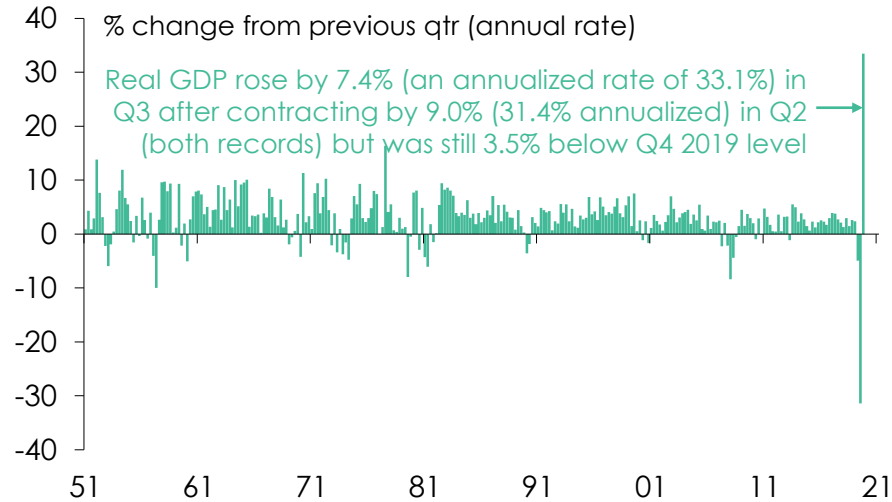
# Joe Biden was sworn as the 46<sup>th</sup> President of the United States this week and began with a flurry of ‘Executive Orders’

- ❑ **Joe Biden was sworn in as the 46<sup>th</sup> President of the United States on Wednesday**
  - and issued 17 Executive Orders in his first two days, more than any other President in that time frame and more than most post-war presidents in their first 100 days
  - nearly all of these were to reverse orders issued by his predecessor
- ❑ **Meanwhile the Democrats formally took (notional) control of the Senate with the swearing-in of the two winners of the January 5<sup>th</sup> ‘run-off’ elections in Georgia**
  - although in practice Republicans will still be able to ‘filibuster’ most bills, and not every Democrat Senator will support every Administration initiative (although some Republicans may)
- ❑ **Not all of Biden’s proposed US\$1.9 trillion fiscal stimulus package will get through Congress**
  - Republicans (possibly joined by conservative Democrat Senator Joe Manchin) – who if precedent is any guide will be much more concerned about budget deficits incurred by Democrat Administrations than Republican ones – may seek to block the \$400bn of assistance to state and local governments, and any increase in the federal minimum wage
- ❑ **Tax increases (corporate and top personal rates) will be on the agenda for later this year**
  - the Democrats’ policy platform called for an increase in the corporate tax rate from 21% to 28%, and in the top personal rate from 37% to 39.6%, as well as increases in taxes on capital gains, estate tax and an additional social security (employee payroll) tax on high-income earners – although the last two seem unlikely to pass the Senate
- ❑ **From an Australian perspective the Biden Administration’s climate change measures will also be important**
  - the Democrats’ platform calls for ‘carbon tariffs’ on imports from countries perceived to be taking insufficient action to reduce emissions (of which Australia is highly likely to be seen as one) – something which the EU has long advocated

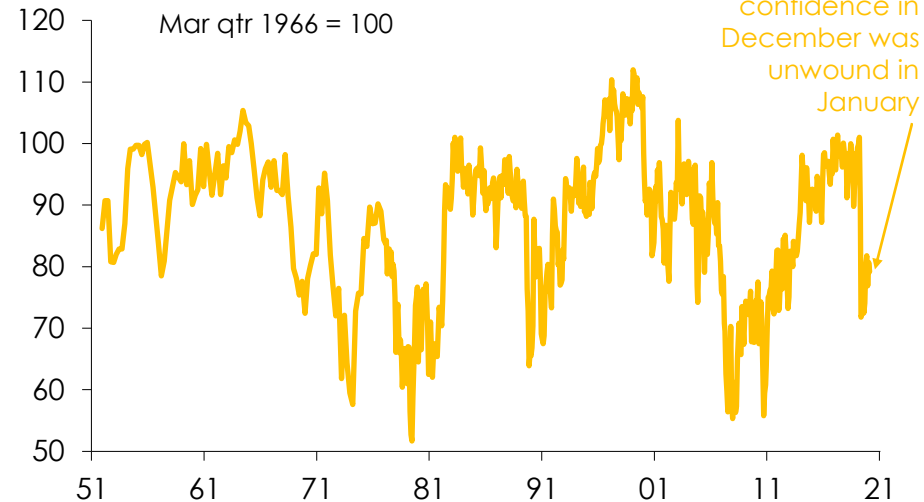


# The US economy looks to have slowed sharply in Q4 2020 after a strong 'bounced' in Q3, and has started Q1 2021 on a weak footing

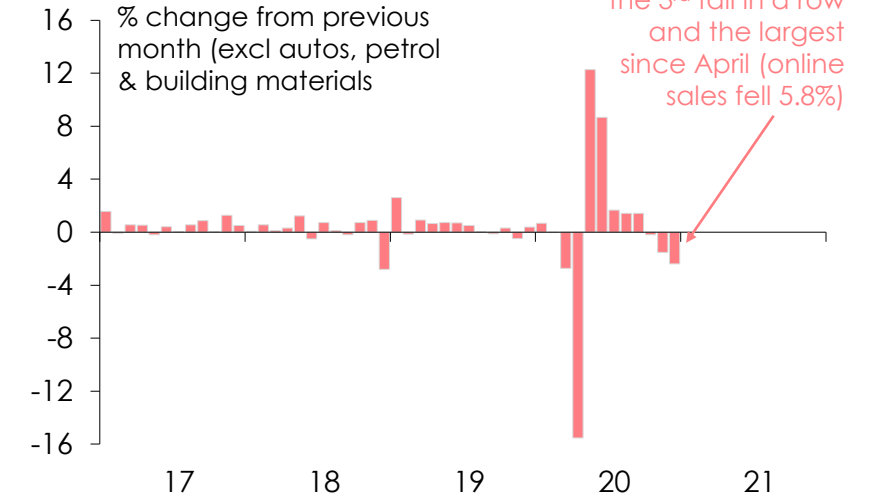
## Real GDP



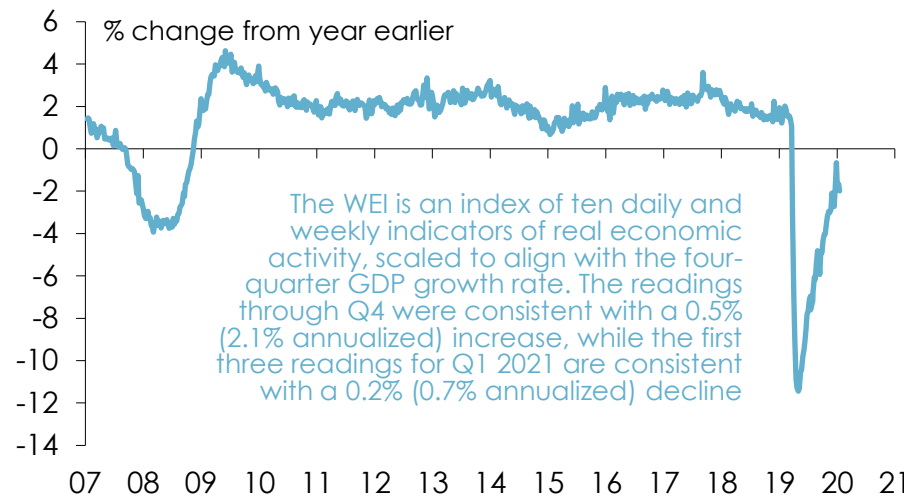
## Consumer confidence



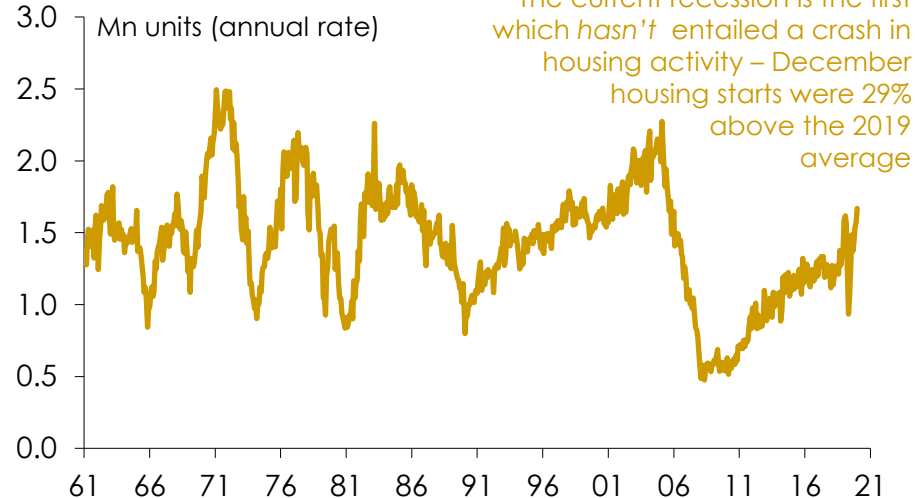
## 'Core' retail sales



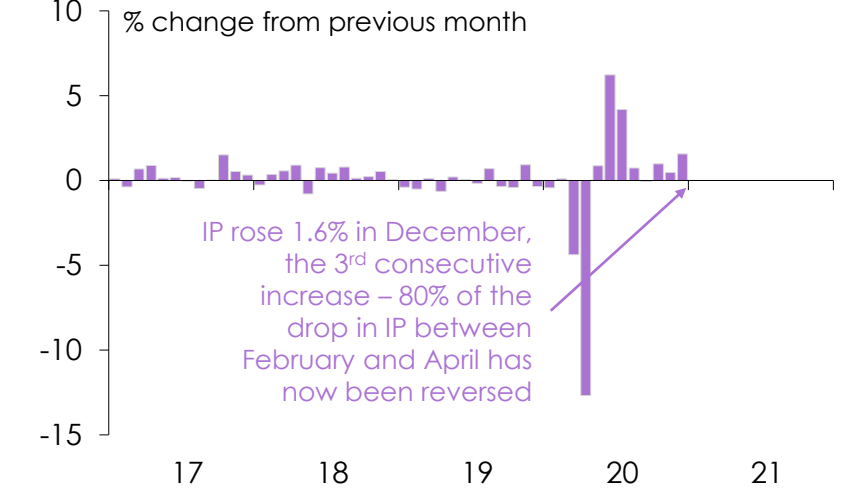
## NY Fed weekly economic index



## Housing starts

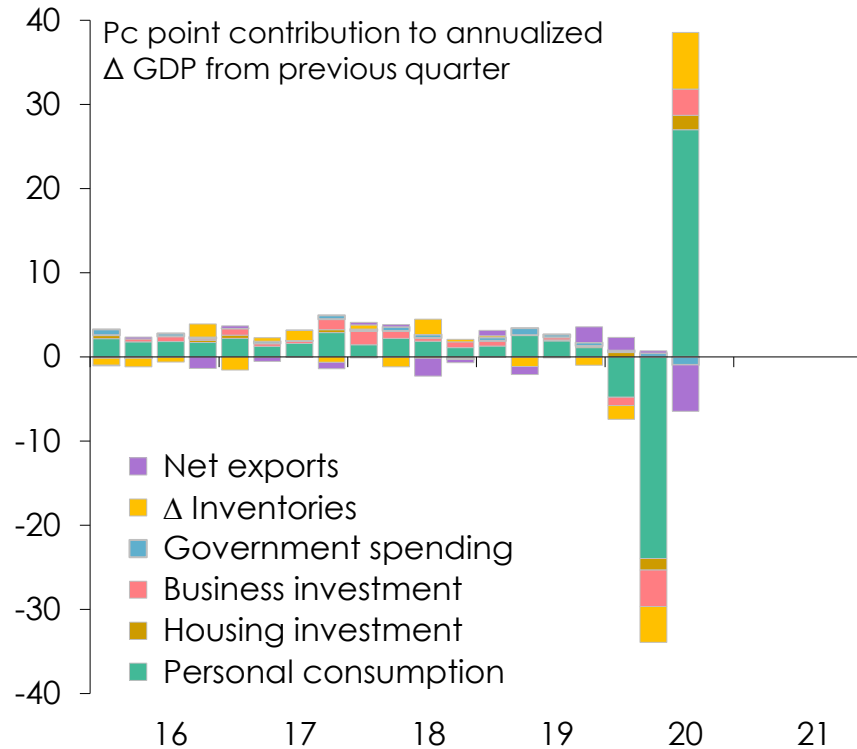


## Industrial production



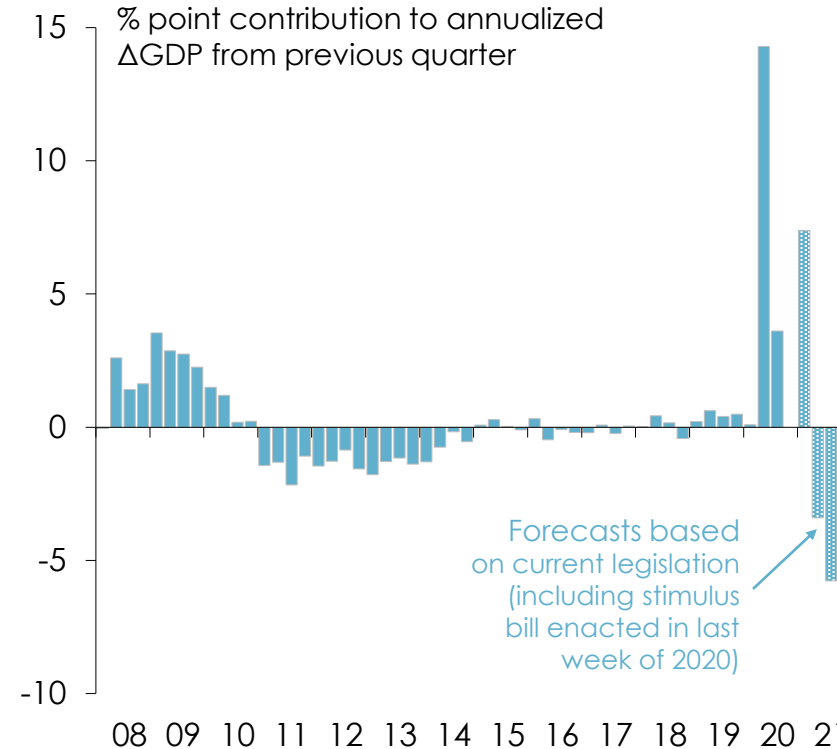
# The huge gyrations in US real GDP in Q2 and Q3 reflect swings in personal consumption and inventories, fiscal policy and personal saving

## Major expenditure aggregates contribution to quarterly changes in real GDP



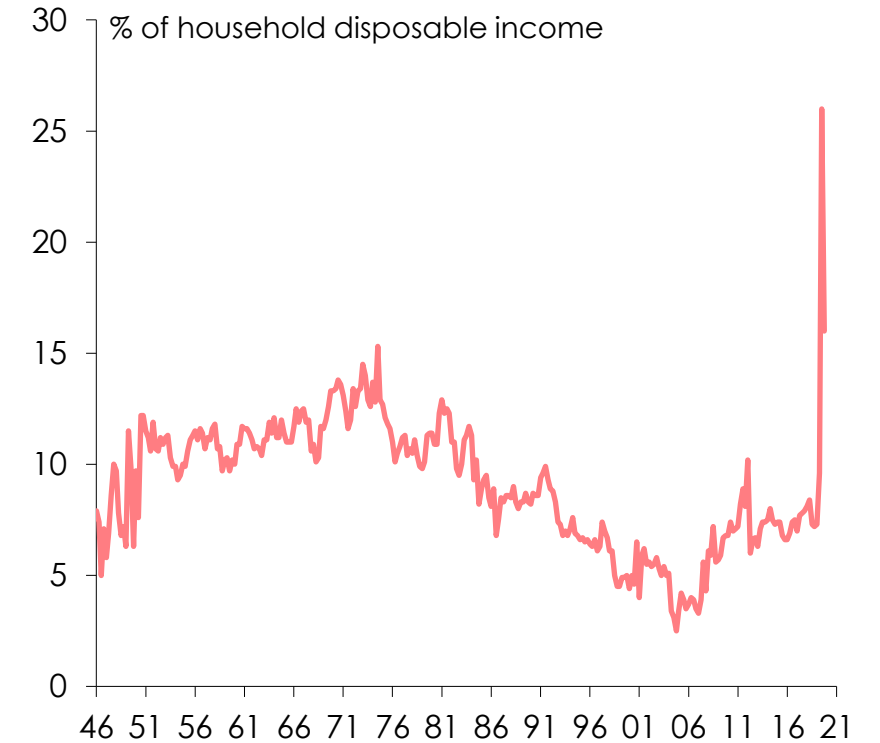
The unprecedented fall and rise in real GDP in the past two quarters were driven by huge swings in personal consumption spending and inventory depletion & re-building

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



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

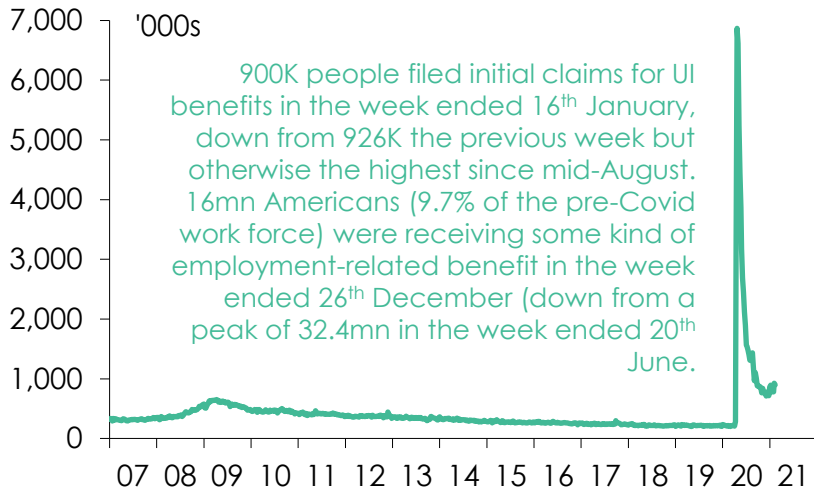
## Personal saving rate



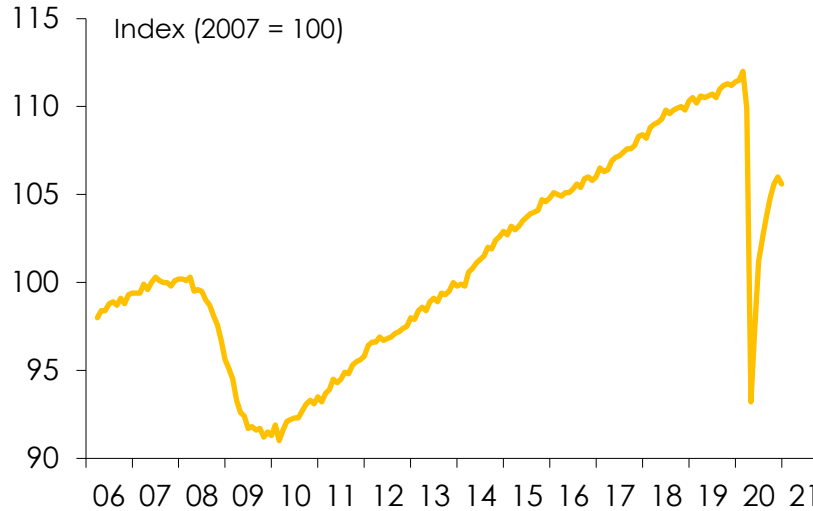
The swings in real GDP were magnified by an unprecedented rise and then fall in personal saving – reflecting the impact of government transfer payments, and of restrictions on spending in Q2

# Employment fell in December for the first time since April, while the unemployment rate stalled at 6.7%

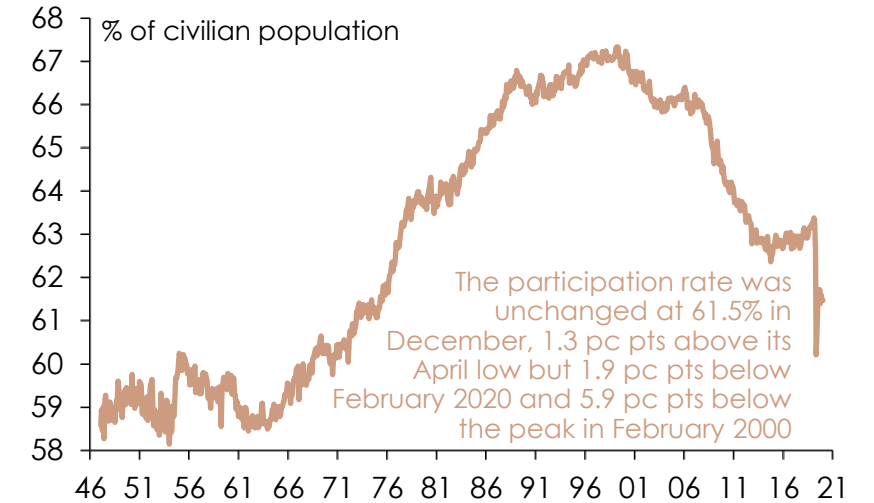
## Unemployment benefit claims



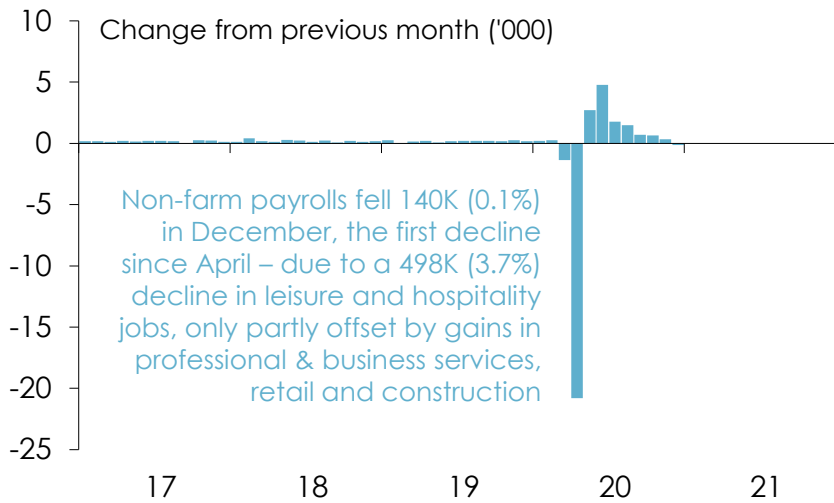
## Hours worked (private sector)



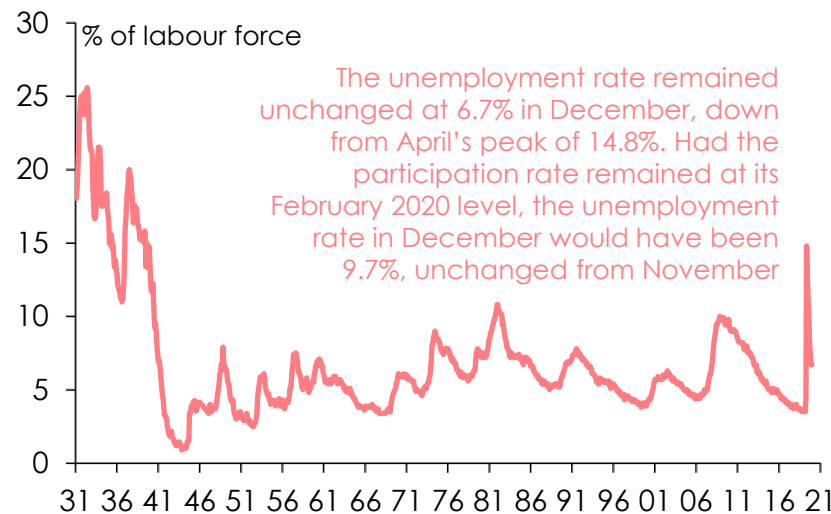
## Labour force participation rate



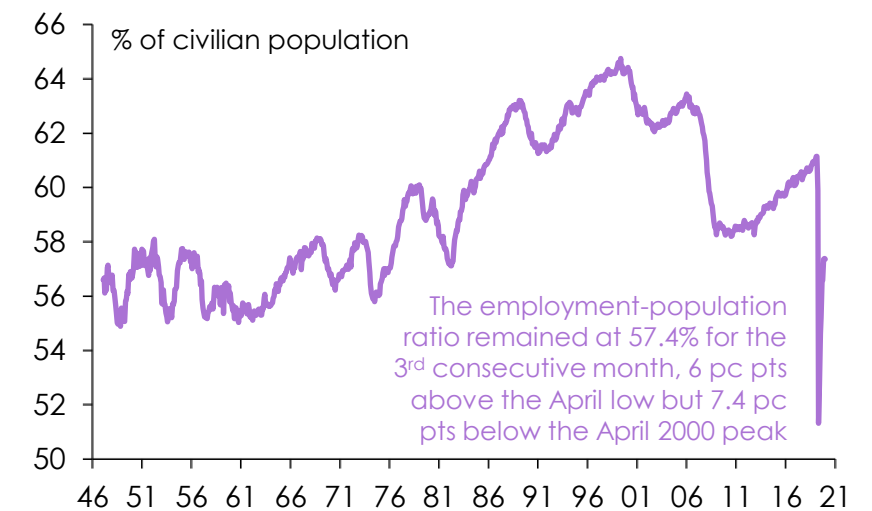
## Non-farm payroll employment



## Unemployment rate



## Employment to population ratio

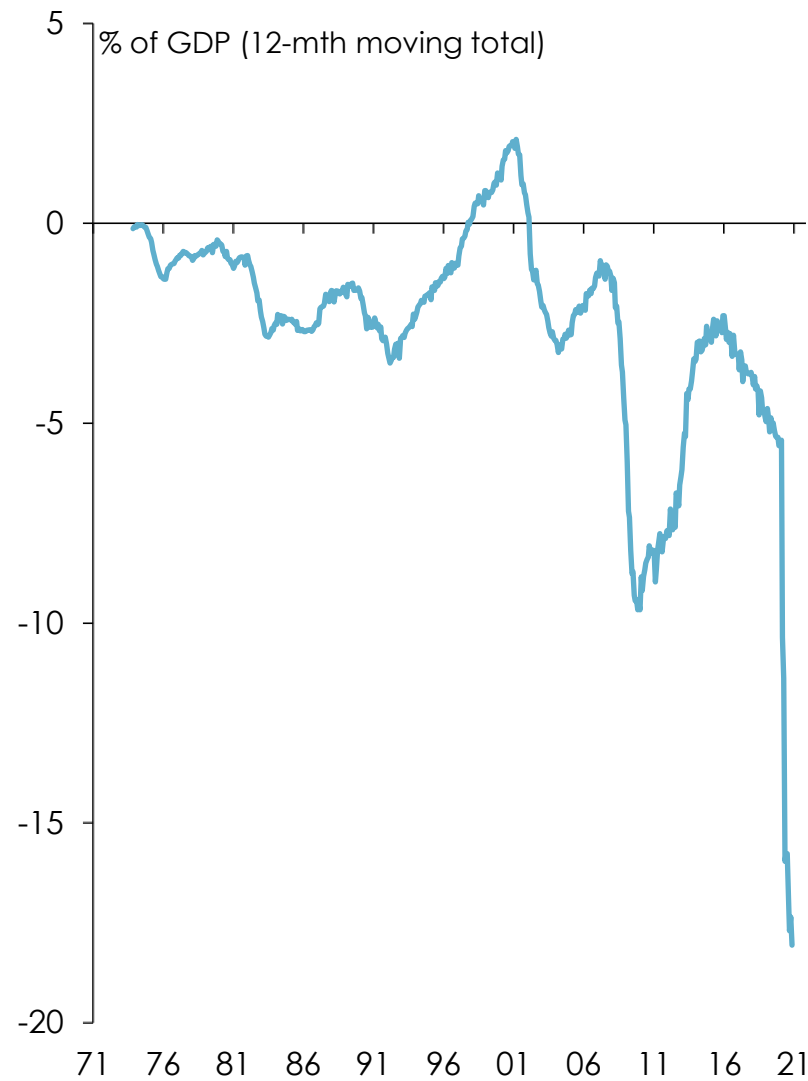


Sources: US [Department of Labor](#); US [Bureau of Labor Statistics](#); National Bureau of Economic Research [Macro History database](#). January employment and other labour force data will be released on 5<sup>th</sup> February. [Return to "What's New"](#).

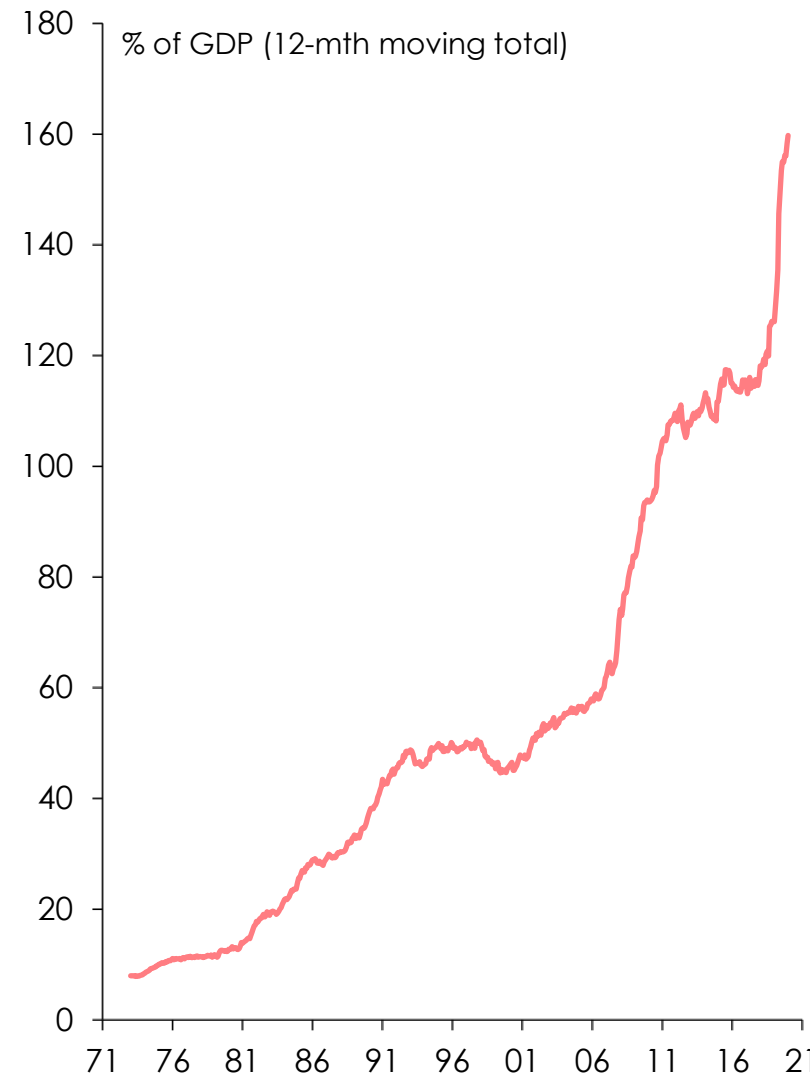


# The US budget deficit has blown out dramatically since the end of March, reaching US\$3.3 trn (18% of GDP) in the twelve months to December 2020

## US Federal budget deficit



## US gross Federal debt

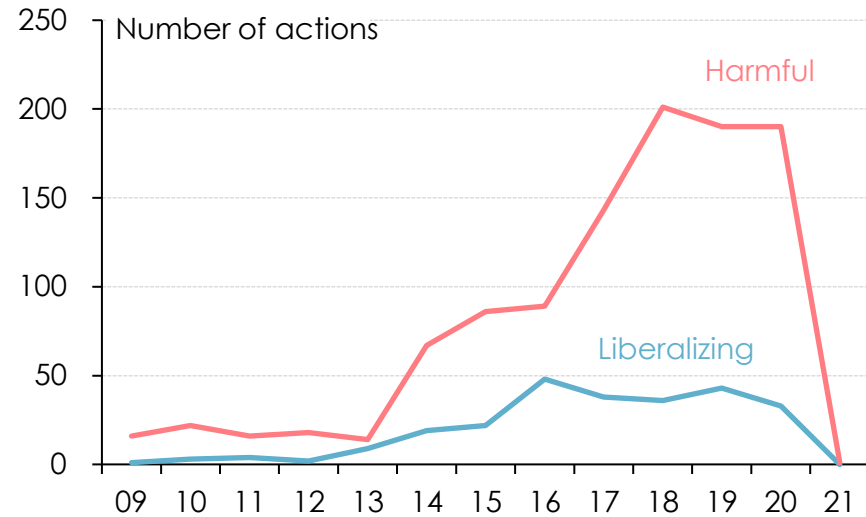


- ❑ The US budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to \$24.1trn (126% of GDP)
- ❑ The budget recorded a US\$144bn deficit in December, \$1bn less than in November, bringing the deficit for 2020 to US\$3.3 trn – equivalent to 18.1% 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)
- ❑ For CY 2020 as a whole, Federal government spending rose by 49.7% (!) while revenues fell by 2.3%
- ❑ The market value of gross federal debt rose to \$29.8bn (158% of GDP) in December – up from \$20.4bn (115% of GDP) at the end of 2016
- ❑ About US\$11½ trn of this debt is held by other US Government accounts (in particular the Social Security Trust Fund) while US\$4.7 trn is held by the Fed

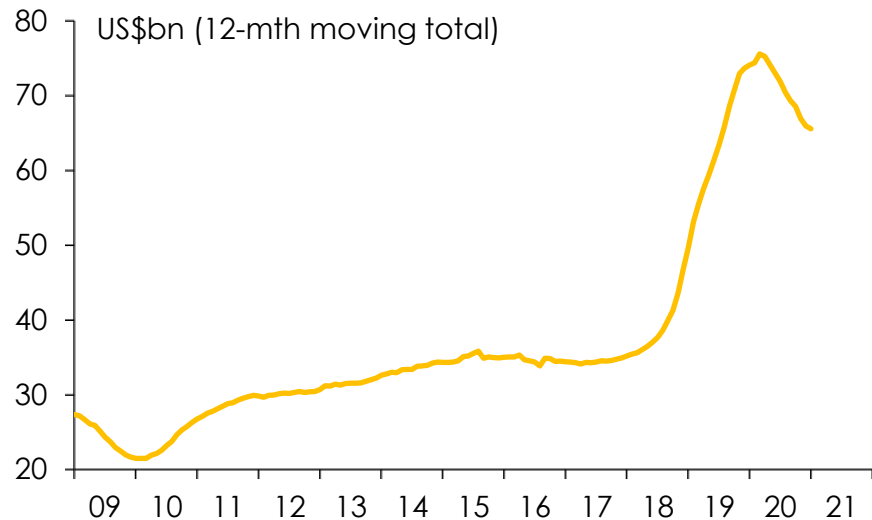
Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna. January budget data will be released on 10<sup>th</sup> February. [Return to "What's New"](#).

# The Trump Administration's trade policies did nothing to improve the US trade balance, but hurt American consumers, businesses and allies

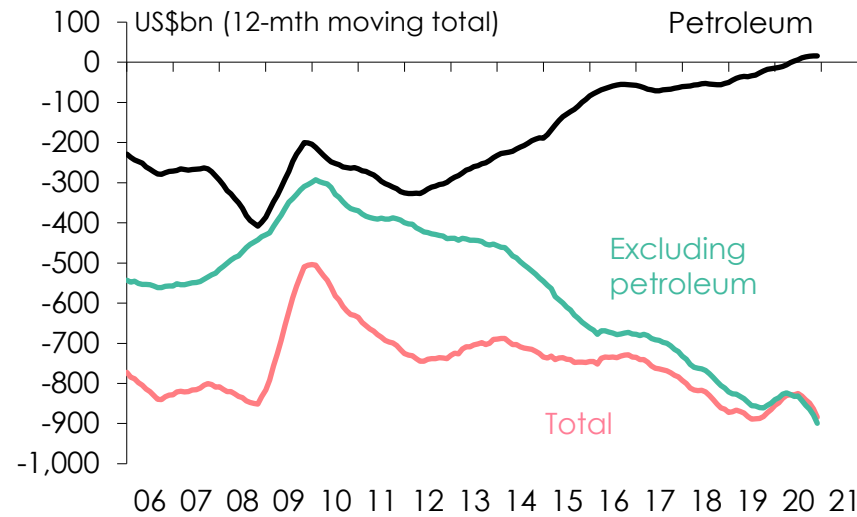
## US trade policy actions



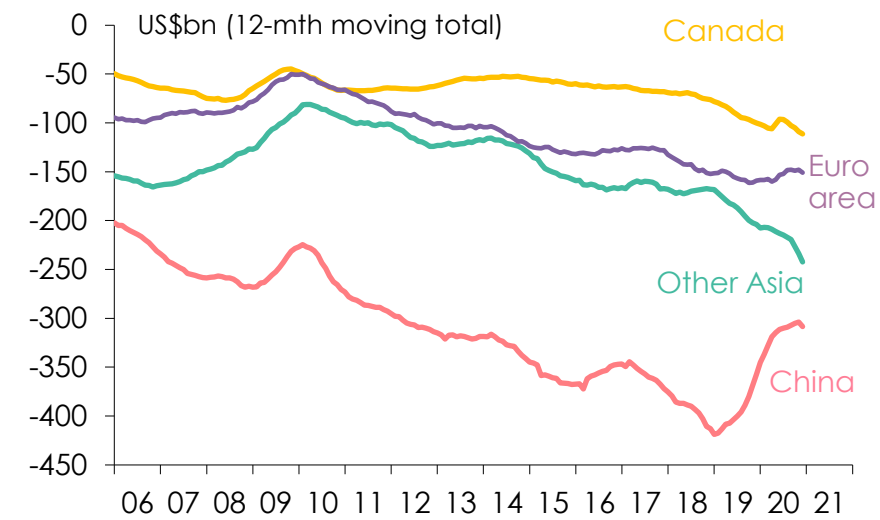
## US customs duty revenue



## US merchandise trade balance



## US bilateral trade balances

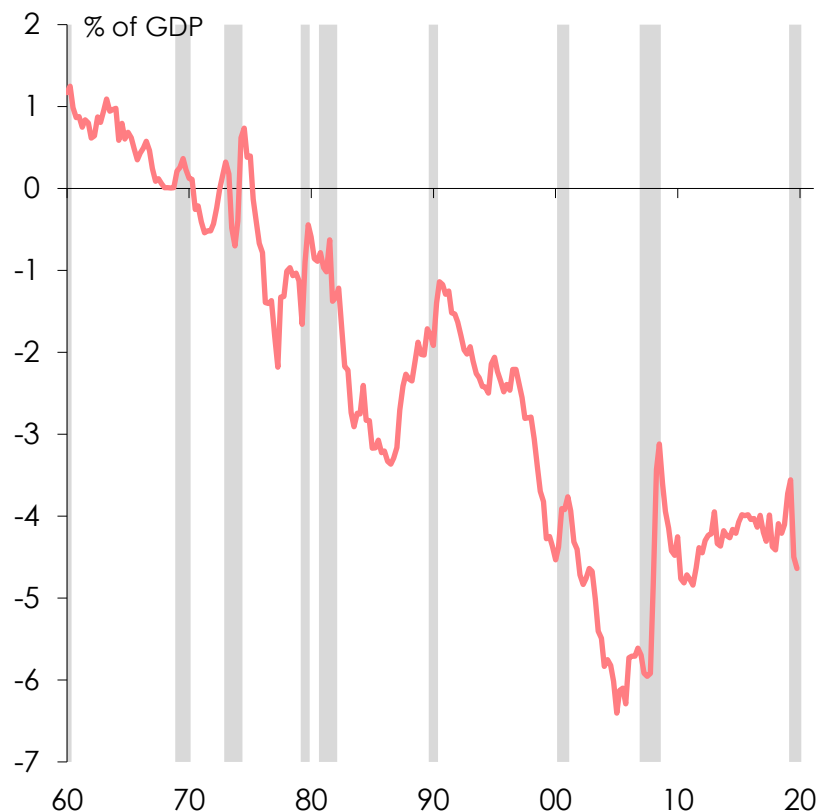


- A [Brookings Institution analysis](#) of the impact of the Trump Administration's trade policies suggests that the average American household paid anywhere between "several hundred" and "a thousand dollars or more" per annum in higher prices due to tariffs
  - consistent with what is widely understood 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
- The overall US trade deficit continued to widen under the Trump Administration – despite the balance on petroleum products trade moving into surplus
- A US\$110bn decline in the bilateral deficit with China was more than offset by wider deficits with the rest of Asia, Canada and Europe

Sources: The Brookings Institution; Centre for Economic Policy Research, [Global Trade Alert](#) Global Dynamics (data up to 22<sup>nd</sup> January); [US Treasury Department](#); US Commerce Department. [Return to "What's New"](#).

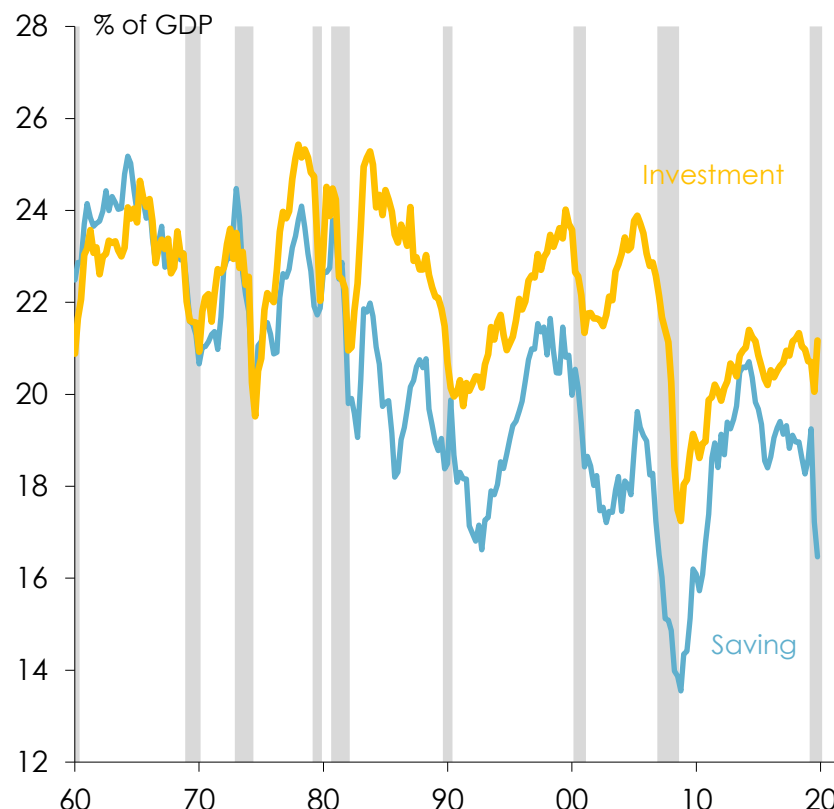
# Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

## US current account balance



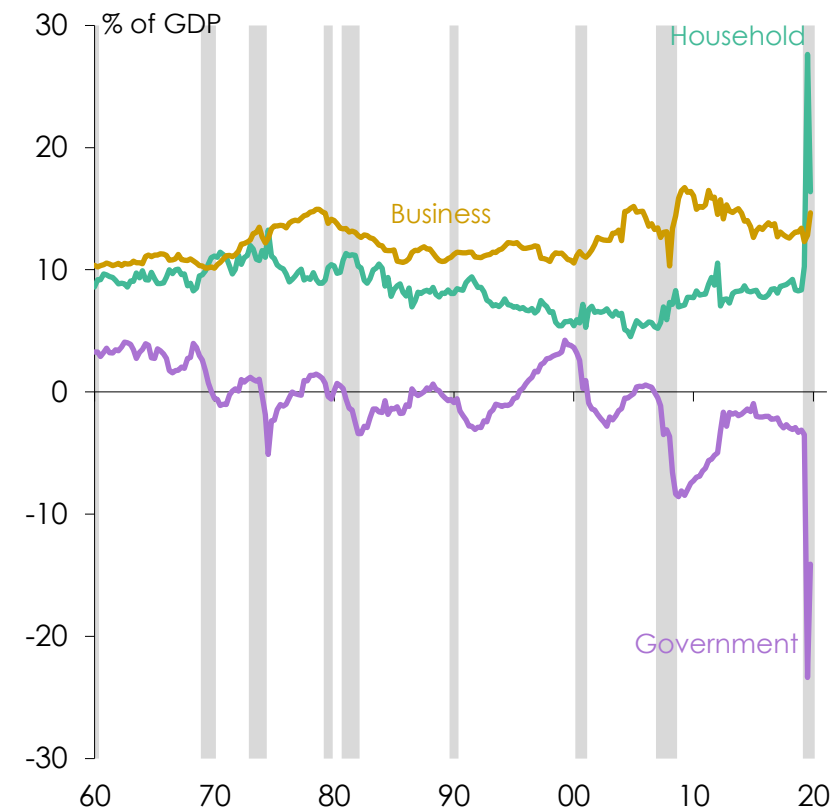
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

## Gross saving and investment



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

## Gross saving by sector

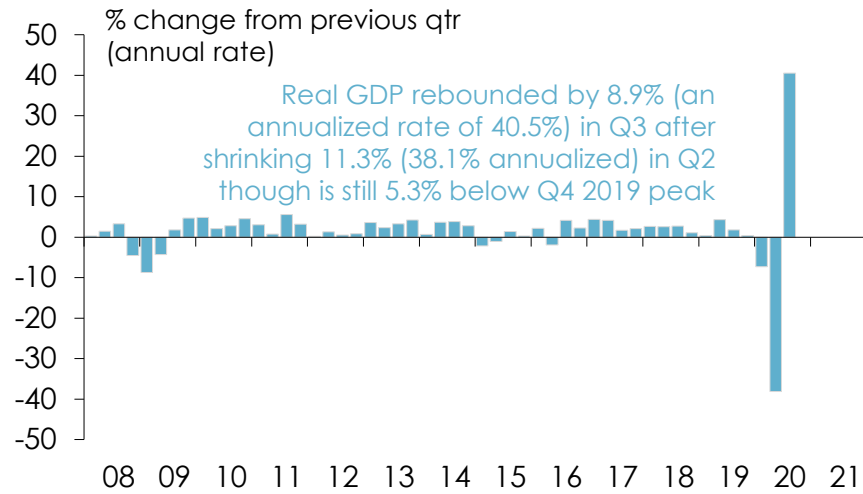


The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving (though monthly data says household saving fell in Q3)

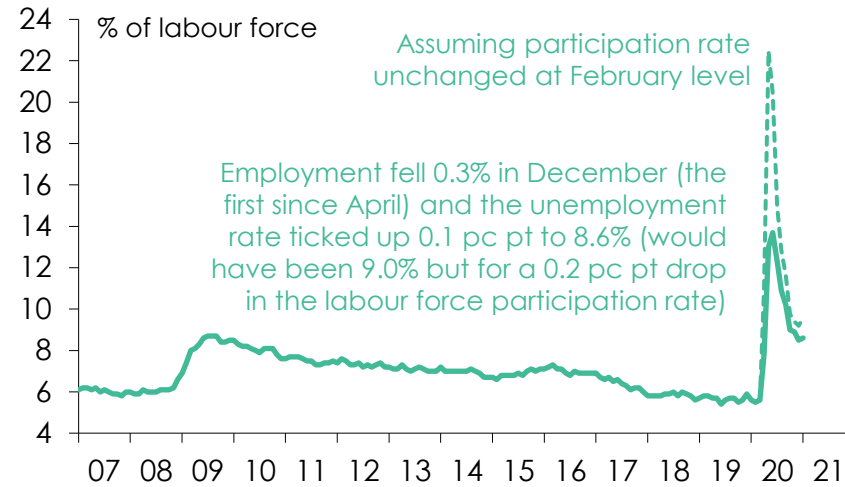
Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#).  
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

# Canada's economy rebounded more quickly than the US's in Q3 after a larger fall in Q2, but looks to have slowed again in Q4

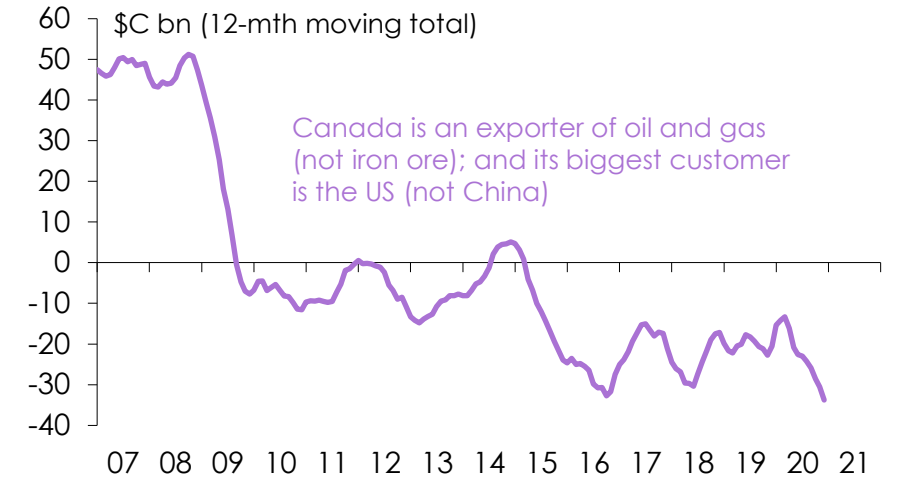
## Real GDP



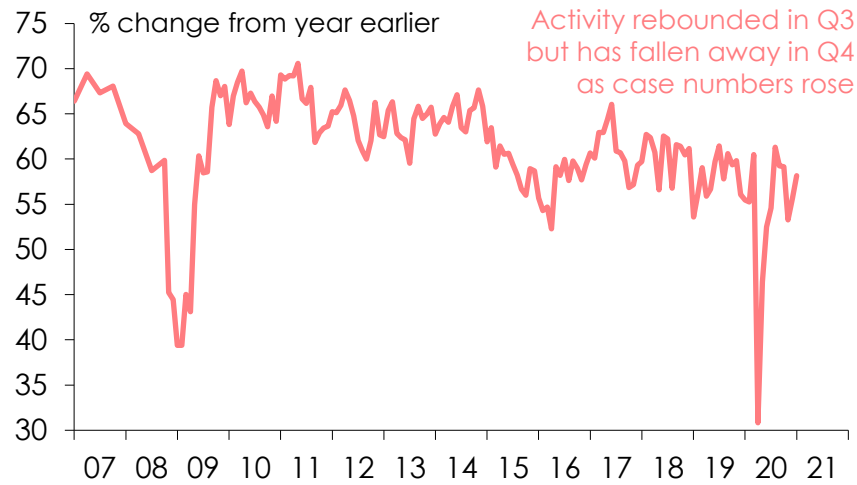
## Unemployment rate



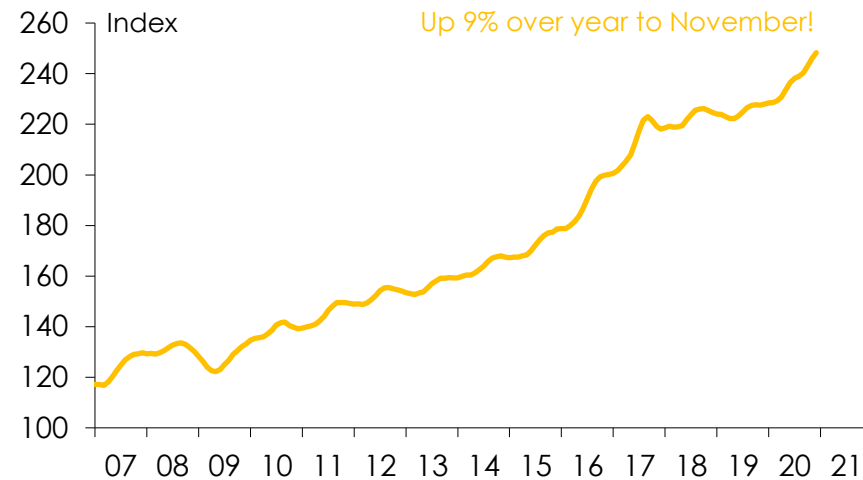
## Merchandise trade balance



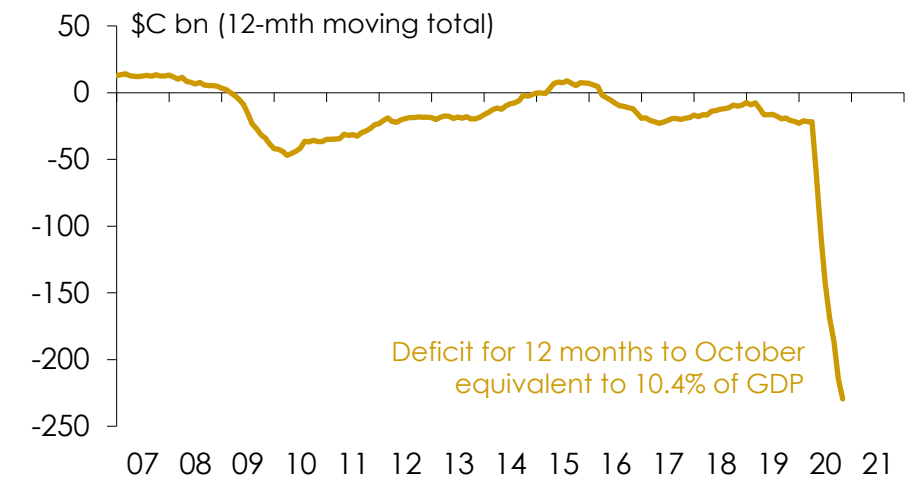
## CFIB 'business barometer'



## House prices

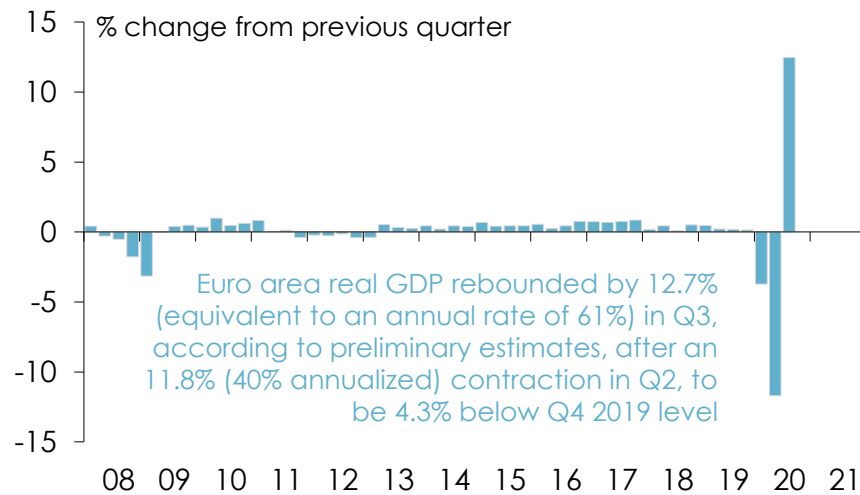


## Federal budget balance

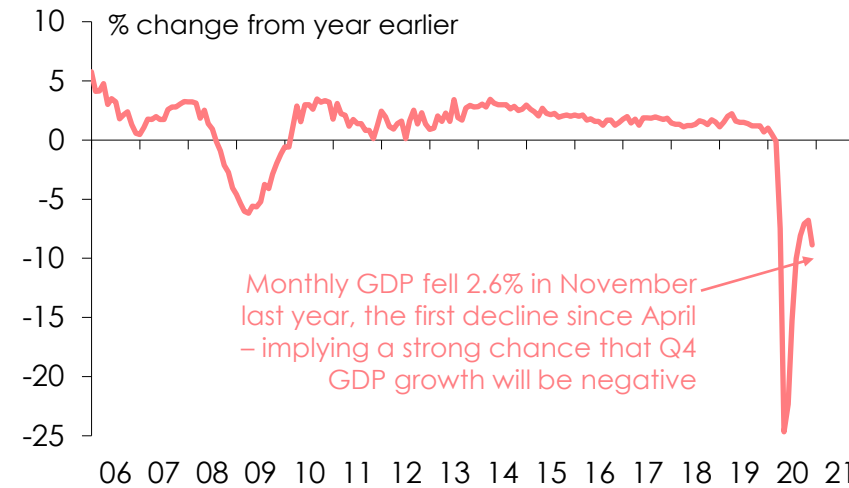


# After strong rebounds in Q3, euro area and UK growth likely slowed in Q4 last year and may turn negative in Q1 2021

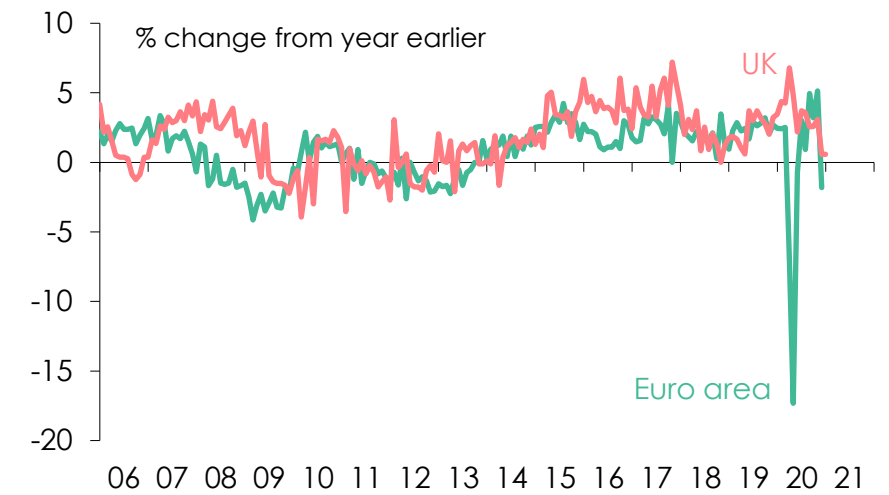
## Euro area real GDP



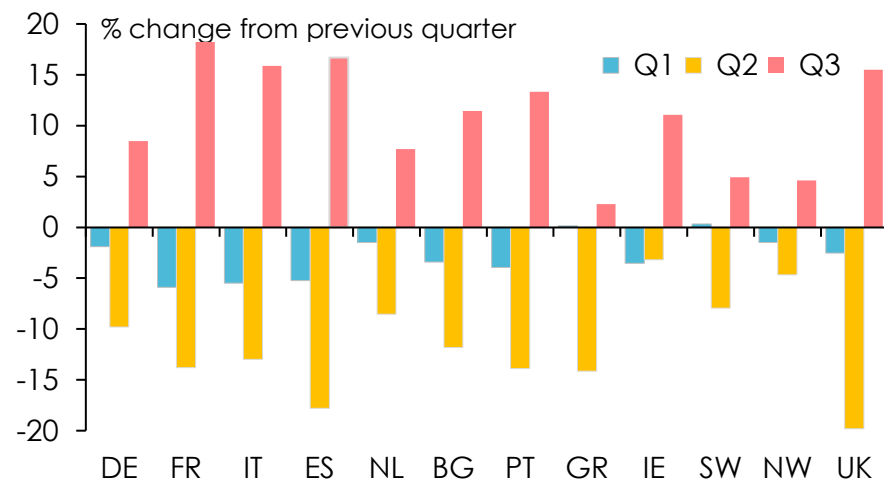
## UK monthly GDP



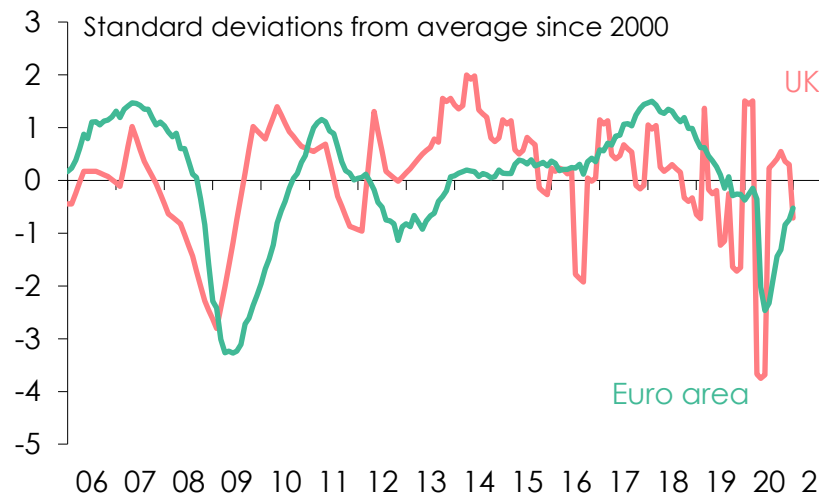
## Retail sales volume



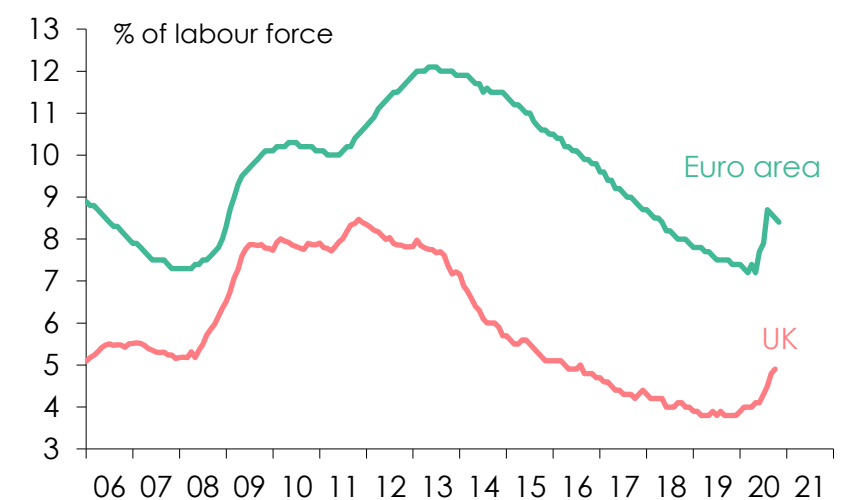
## Quarterly GDP by country



## Business confidence



## Unemployment



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

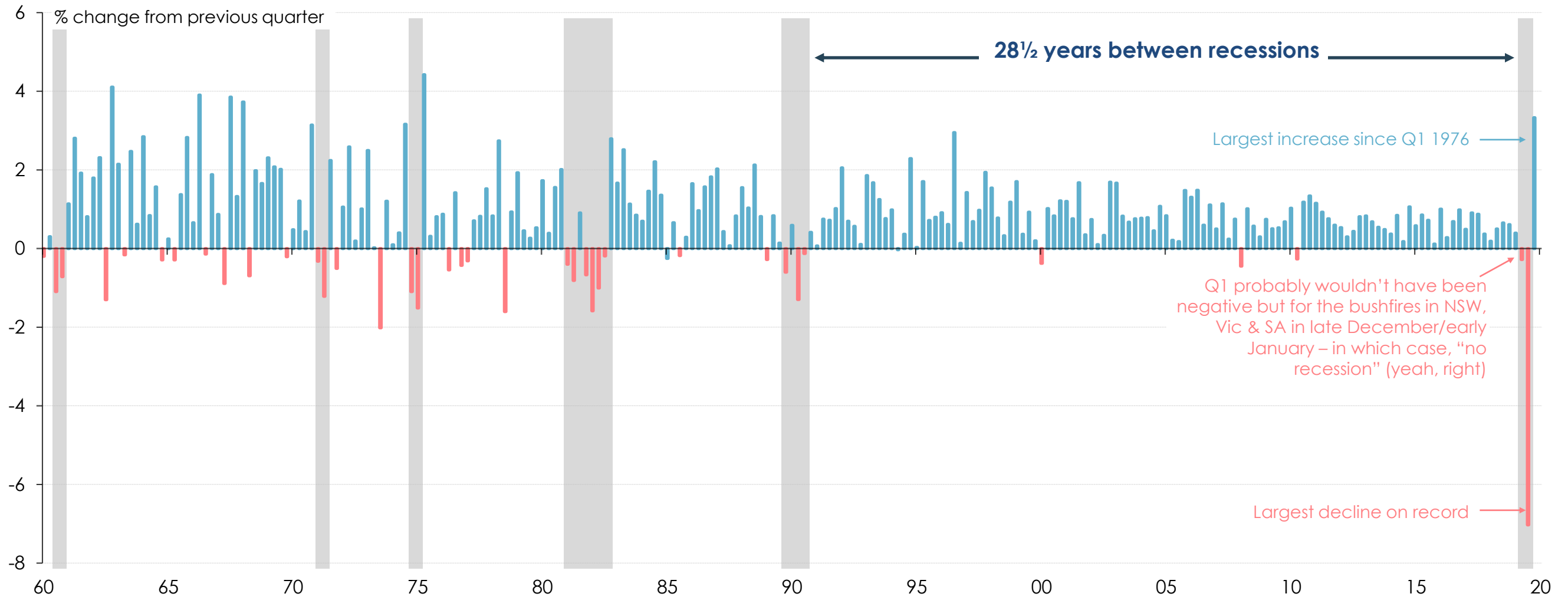
**Australia**

# Reasons for optimism about the short-term outlook for the Australian economy

- ❑ **Australia has done very well in containing the virus (even allowing for Victoria's 'second wave')**
  - and the evidence from other countries is that unless the virus is contained, there can't be any sustainable economic recovery – either because governments will re-impose restrictions, or even if they don't, people will impose restrictions on themselves voluntarily (for fear of catching it)
- ❑ **Australia is now in mid-summer – in which our own experience and that of other 'advanced' economies tells us that the virus is likely to be less contagious during the colder parts of the year**
  - note this generalization doesn't apply in 'emerging economies' because people tend to stay inside during the hotter periods in poorer countries whereas in richer countries people tend to stay outside in warmer periods and inside during cooler ones
- ❑ **And the prospects for a vaccine seem to be improving**
  - Vaccines are now likely to become widely available in Australia ahead of the Government's Budget assumption of 'second half of 2021'
- ❑ **So if the virus can be kept at bay until a substantial proportion of the population has been vaccinated, the health risks to the economic outlook will have reduced substantially by mid-year**
- ❑ **In the meantime, the Australian economy has been doing better than expected**
  - the downturn was less severe, and didn't last as long, as initially anticipated
  - and the recovery has so far been stronger than expected (even allowing for the drag created by Victoria)
- ❑ **However continued support from fiscal and monetary policy will be required for some time to come**
  - the Government's fiscal policy strategy is heavily contingent on households responding positively to tax cuts, and businesses responding positively to incentives and subsidies – rather than direct, own-account spending (as per IMF/OECD advice)
- ❑ **There is also the challenge of transitioning from measures which support existing jobs and businesses, to measures which nurture new jobs and businesses which will be sustainable in the post-Covid world**

# 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

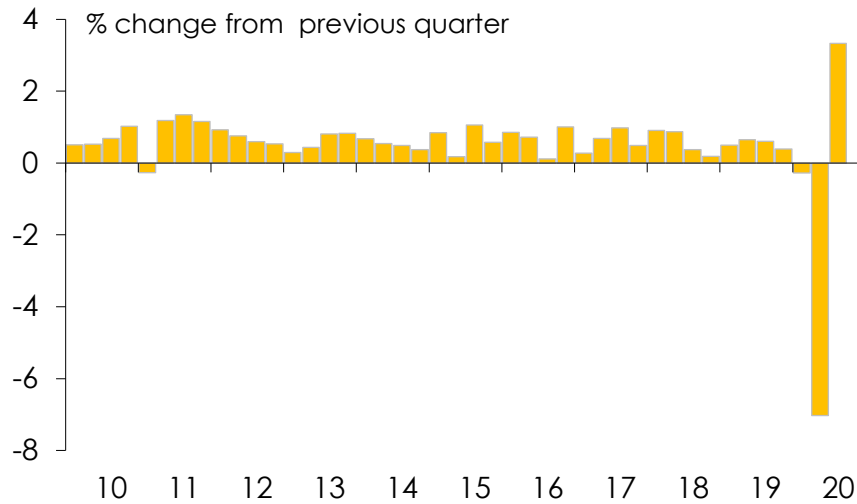


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020. December quarter (Q4) national accounts will be released on 3<sup>rd</sup> March. [Return to "What's New"](#).

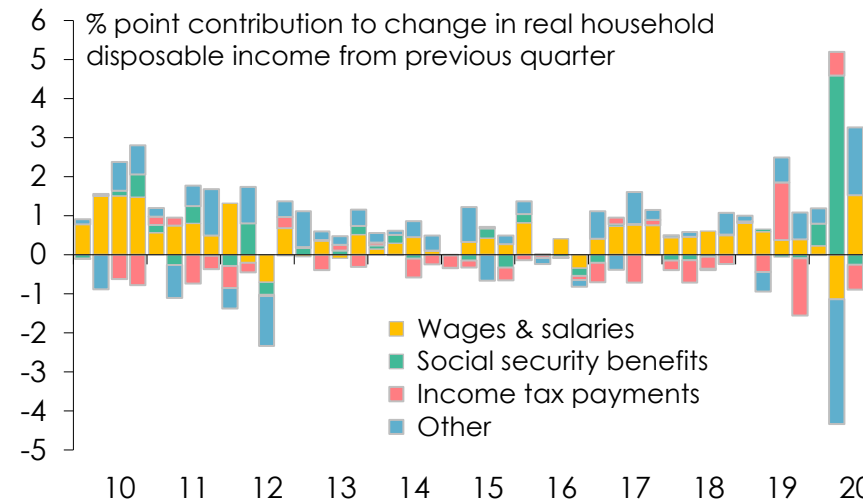


# The 3.3% rebound in Q3, after a 7.0% plunge in Q2, was almost entirely driven by consumer spending on health and discretionary items

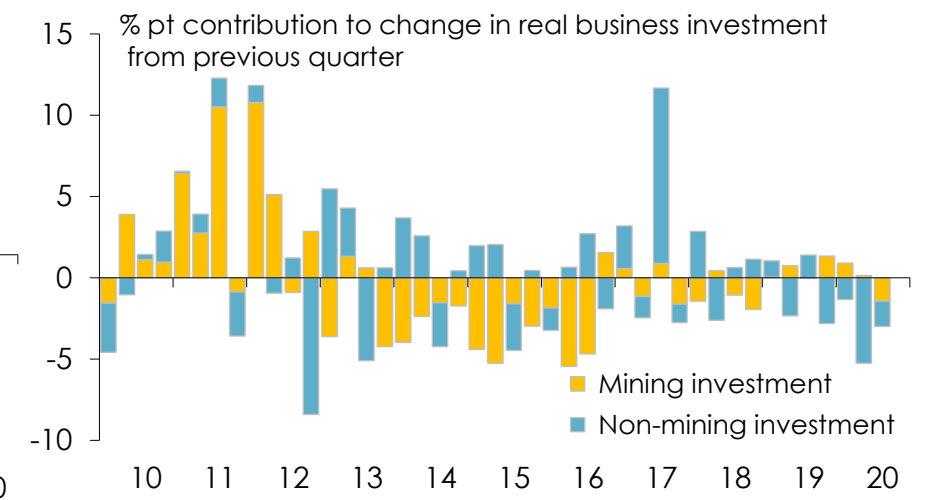
## Quarterly change in real GDP



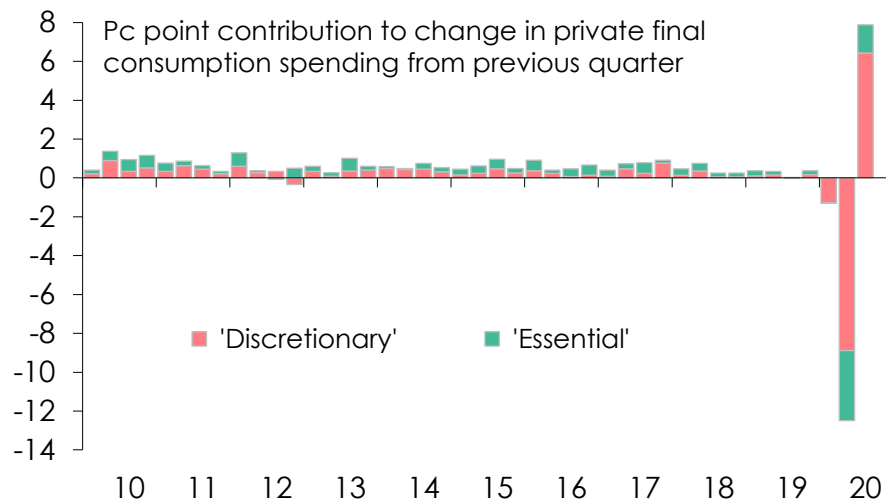
## Household disposable income



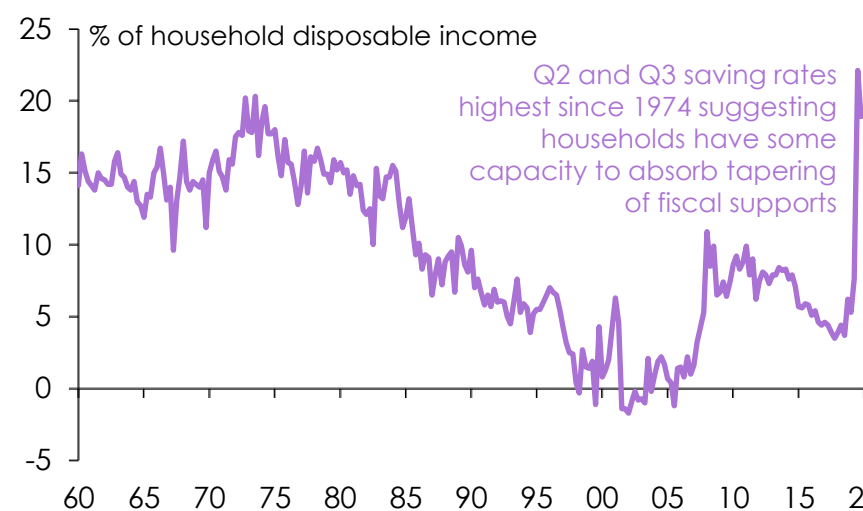
## Business investment expenditure



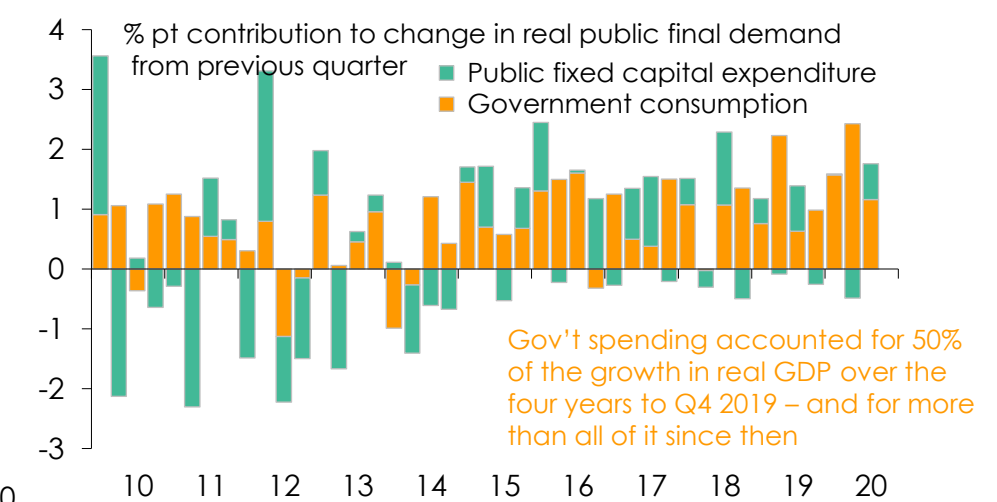
## Household consumption expenditure



## Household saving rate



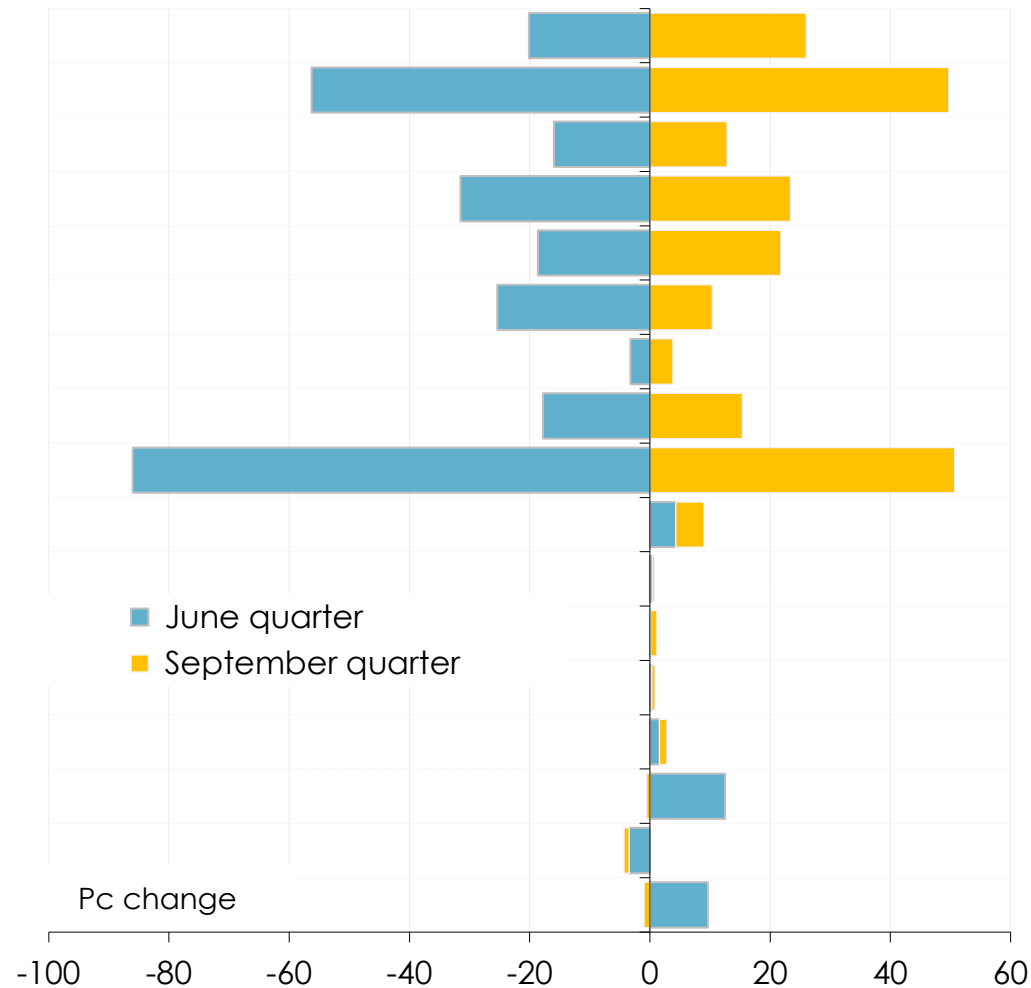
## Public expenditure



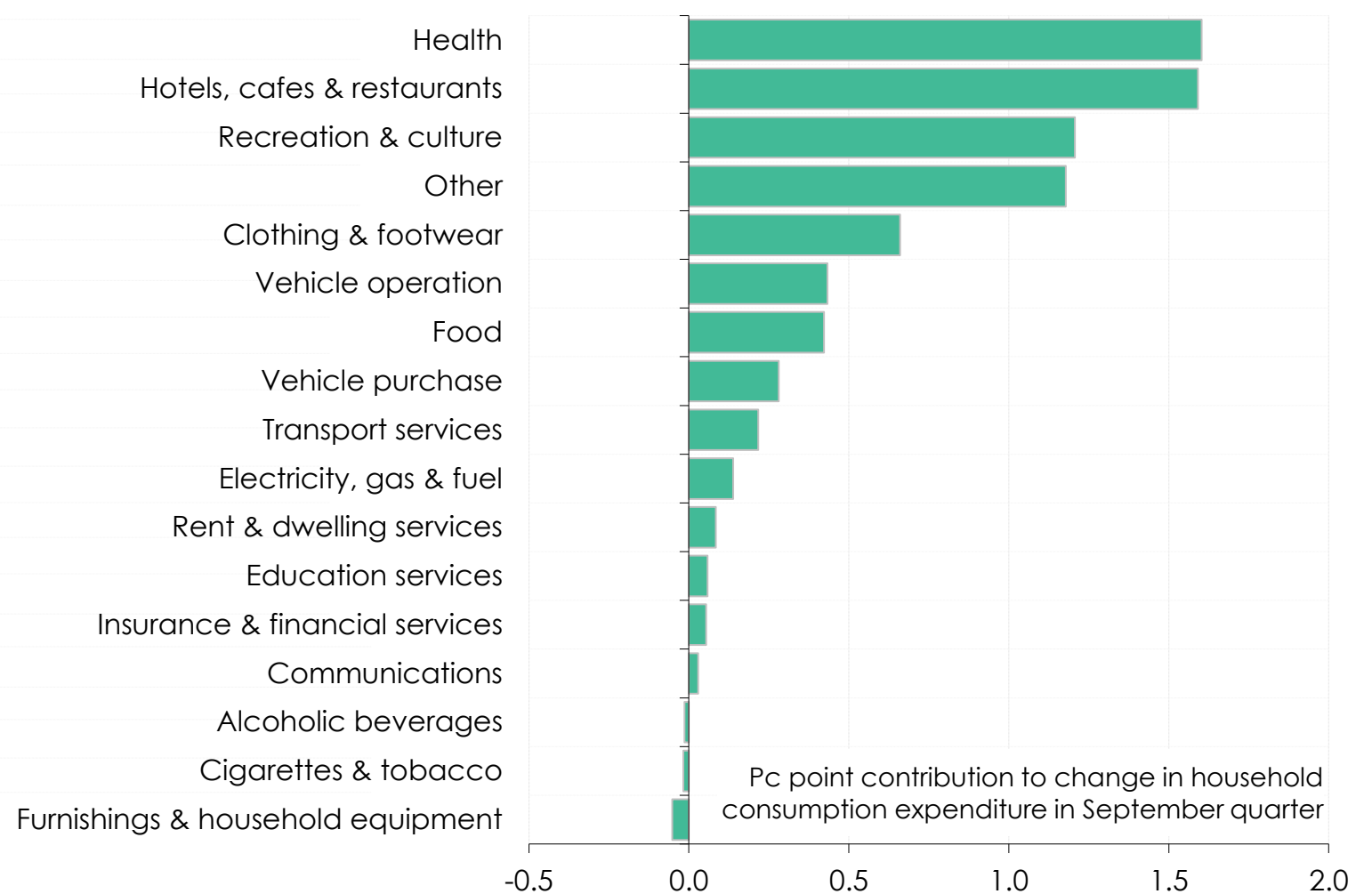
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure. Source: [ABS](#). December quarter national accounts will be released on 3<sup>rd</sup> March. [Return to "What's New"](#).

# 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



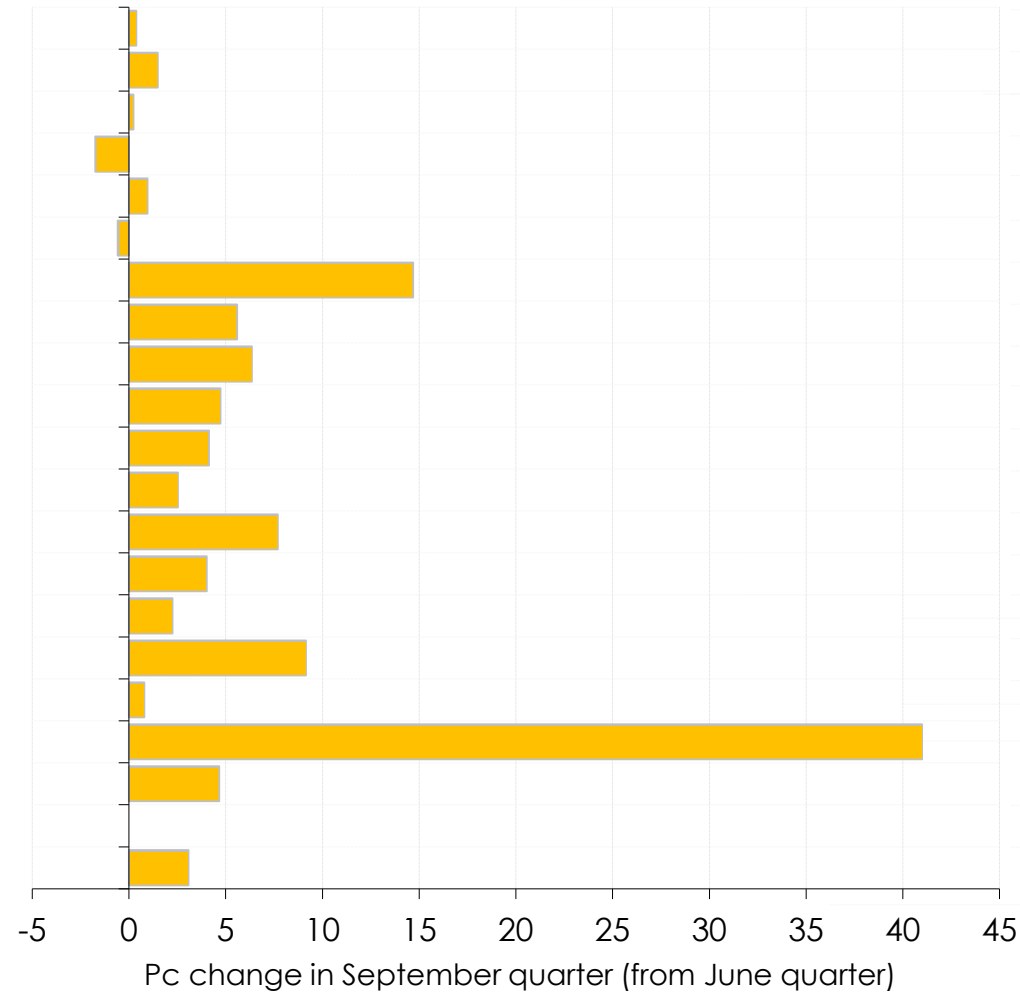
Contribution to change in household consumption spending, by category, September quarter



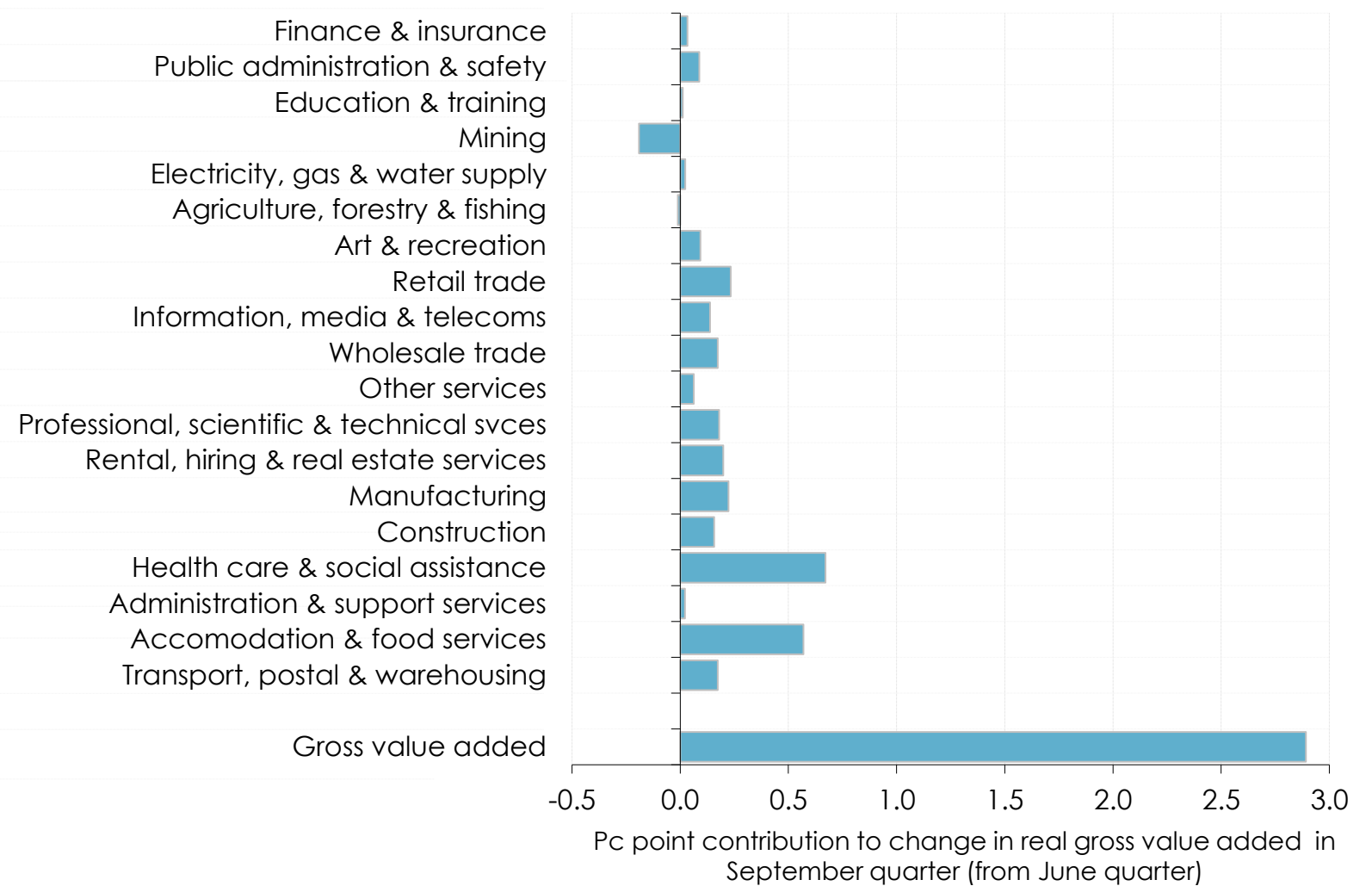
Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2020. December quarter national accounts will be released on 3<sup>rd</sup> March. [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

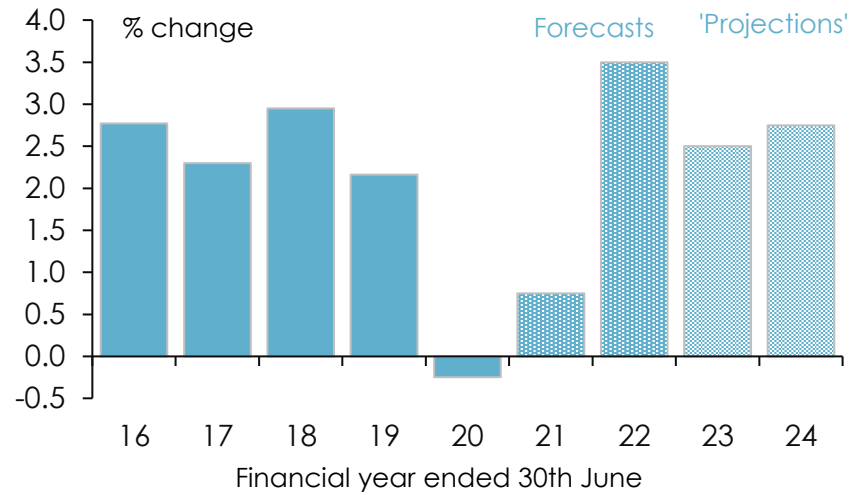


Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts.

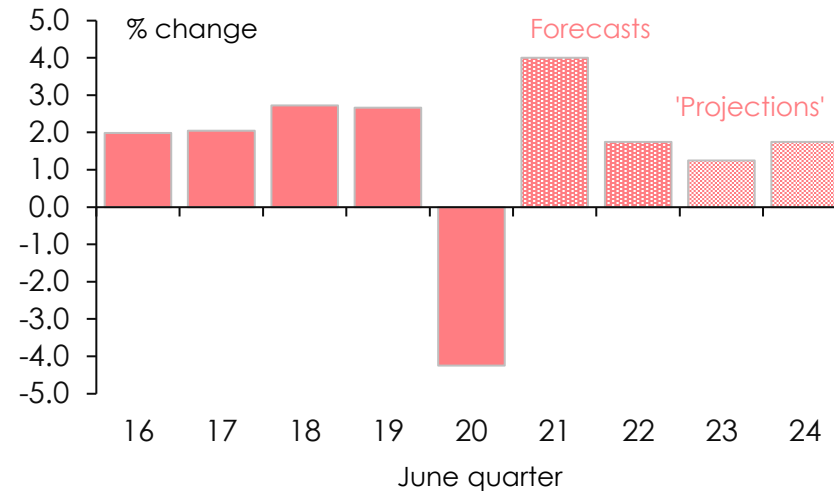
Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2020. December quarter national accounts will be released on 3<sup>rd</sup> March. [Return to "What's New"](#).

# Treasury has raised its growth forecast for FY 2020-21 (from $-1\frac{1}{2}\%$ to $+3\frac{3}{4}\%$ ) but lowered it for 2021-22 (from $4\frac{3}{4}\%$ to $3\frac{1}{2}\%$ )

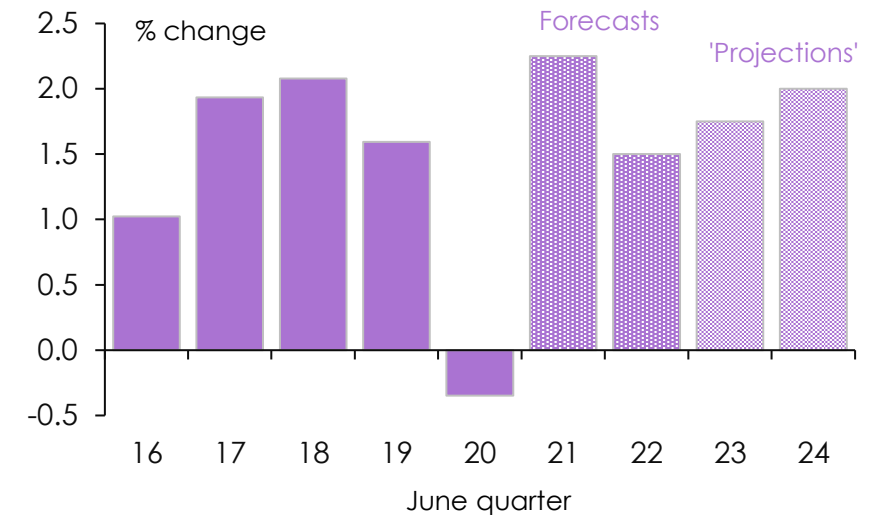
## Real GDP



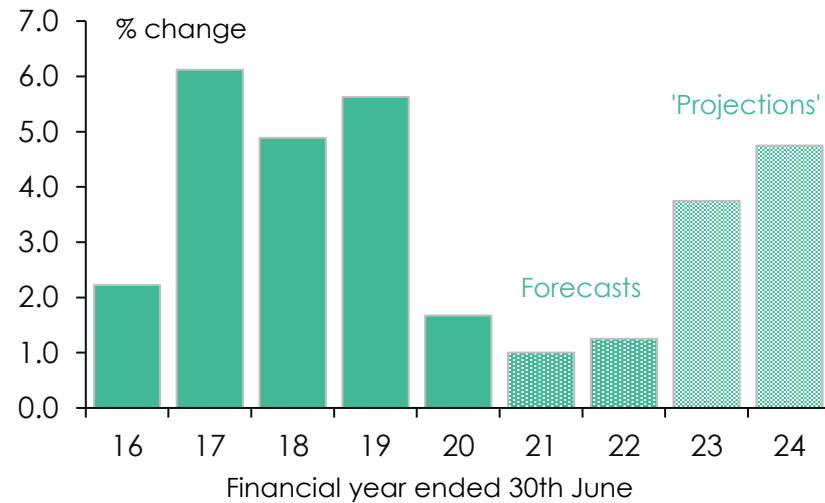
## Employment



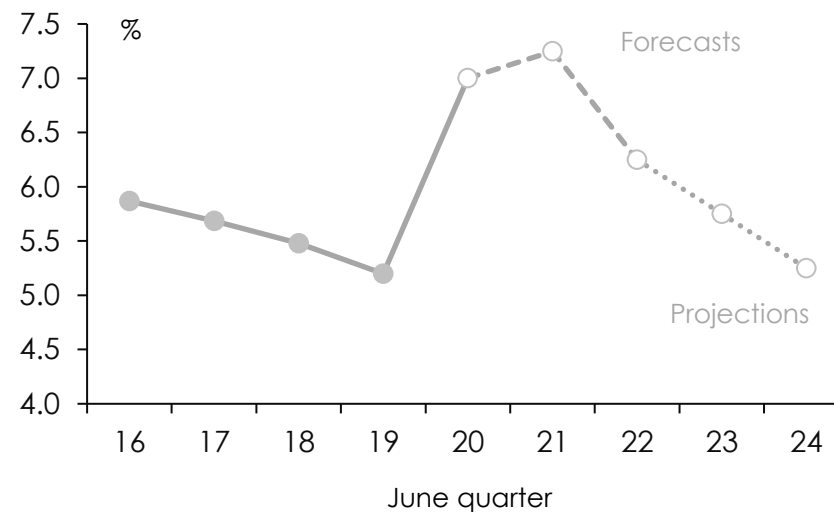
## Consumer price index



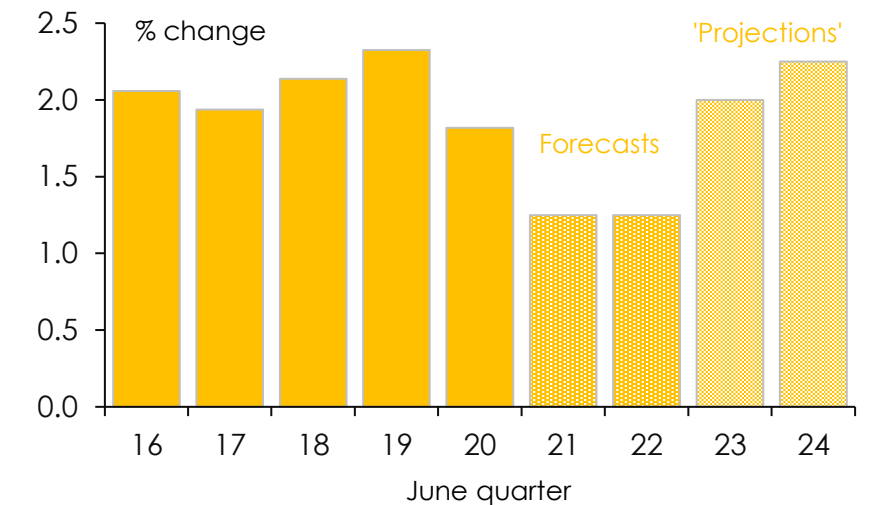
## Nominal GDP



## Unemployment rate



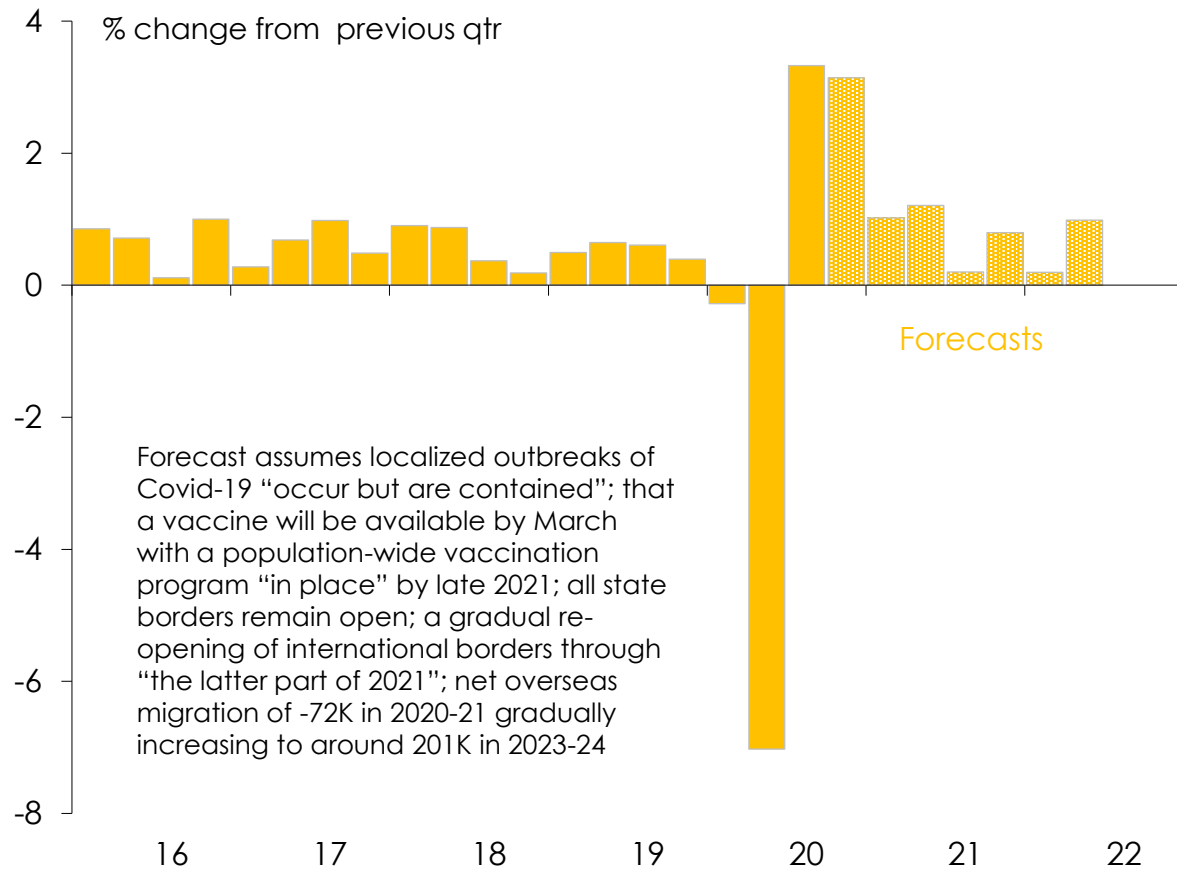
## Wage price index



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 MYEFO](#), 17<sup>th</sup> December 2020.

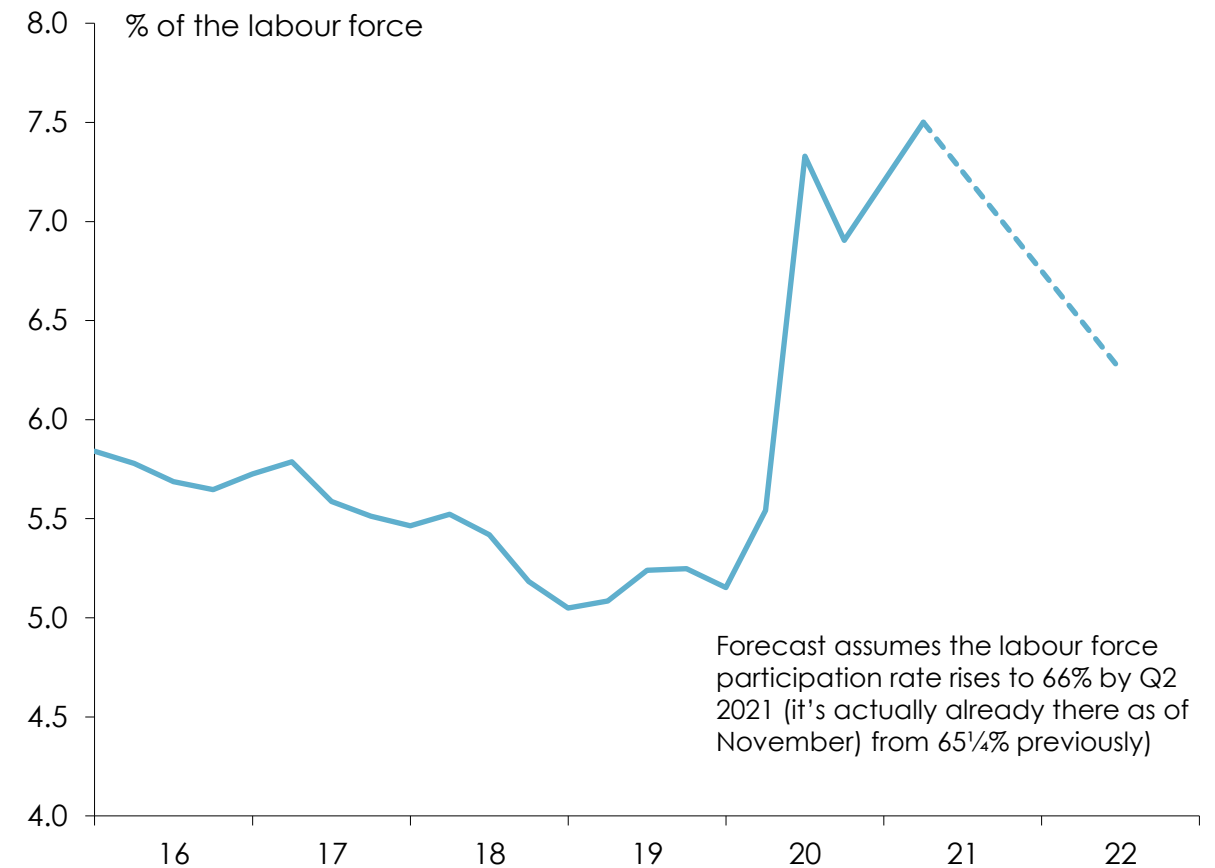
# Treasury has revised up its near-term GDP growth forecast (but lowered it a bit for 2021-22) and lowered its unemployment rate forecasts

## Real GDP growth



- ❑ Treasury expects that another quarter of strong (3%) growth in Q4, 1-1¼% in Q1 and Q2 next year followed by ½% per quarter in 2021-22

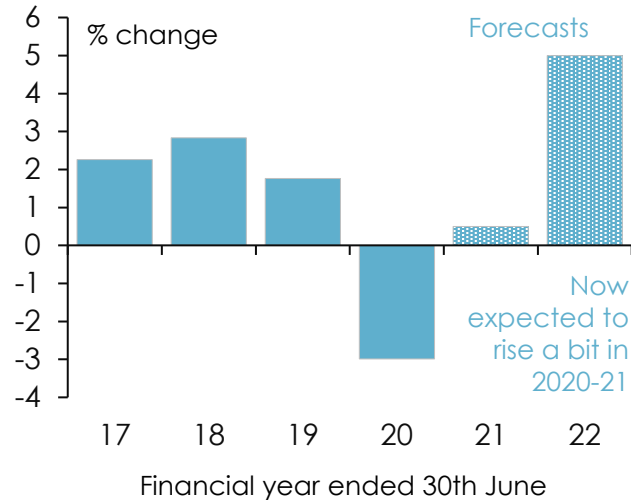
## Unemployment



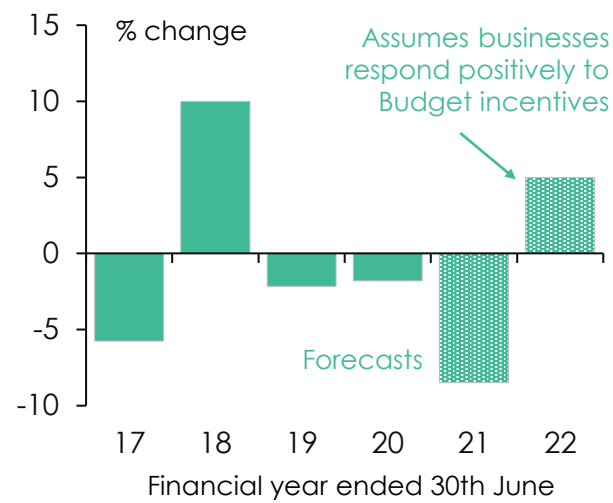
- ❑ Treasury expects the unemployment rate to peak at 7½% in Q1 2021 (cf. 8% in Q4 2020 previously), declining to 6¼% (previously 6½%) by Q2 2022, and 5¼% by Q2 2024

# Household consumption and government spending the main forecast recovery drivers in 2020-21, with business investment picking up in 2021-22

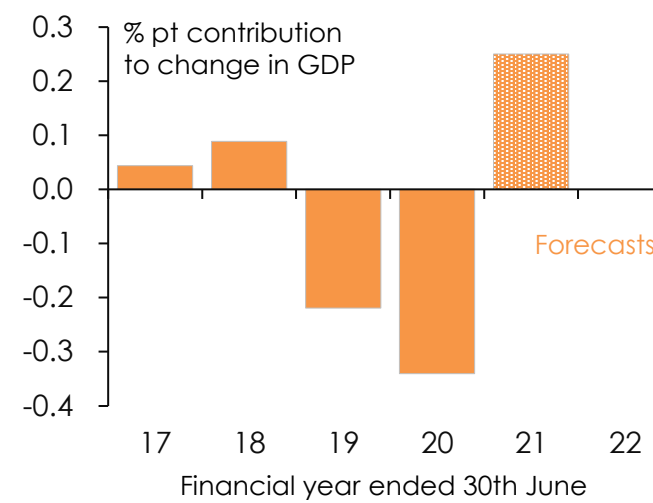
## Household consumption



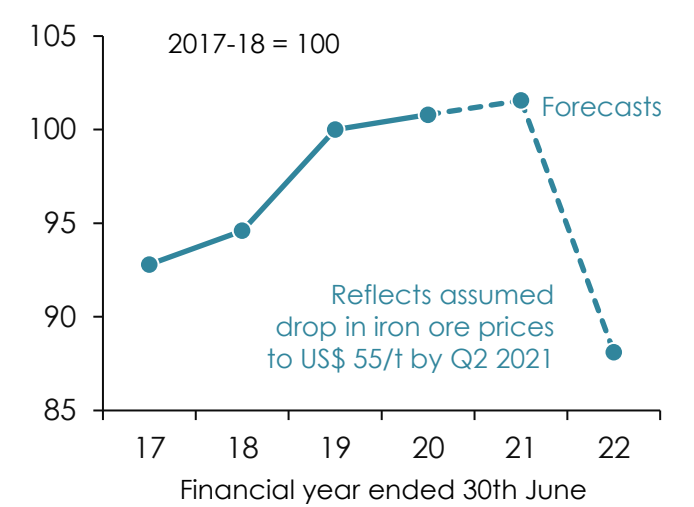
## Business investment



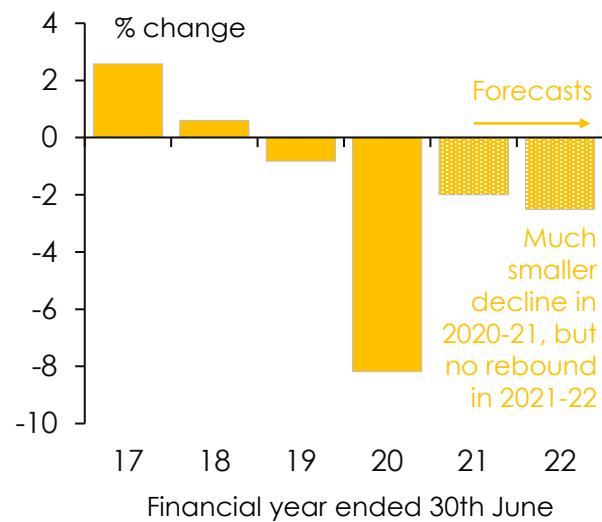
## Change in inventories



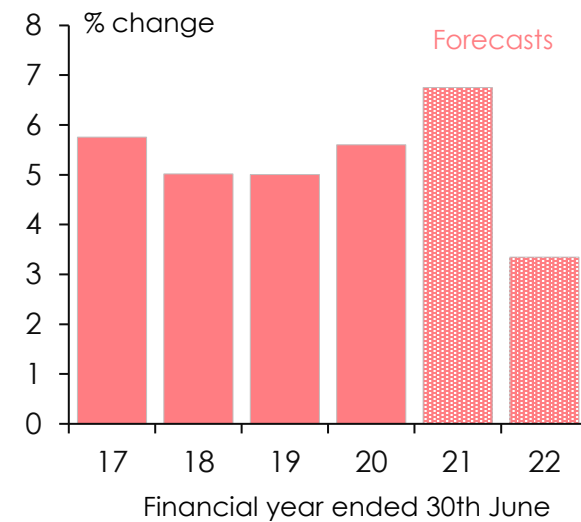
## Terms of trade



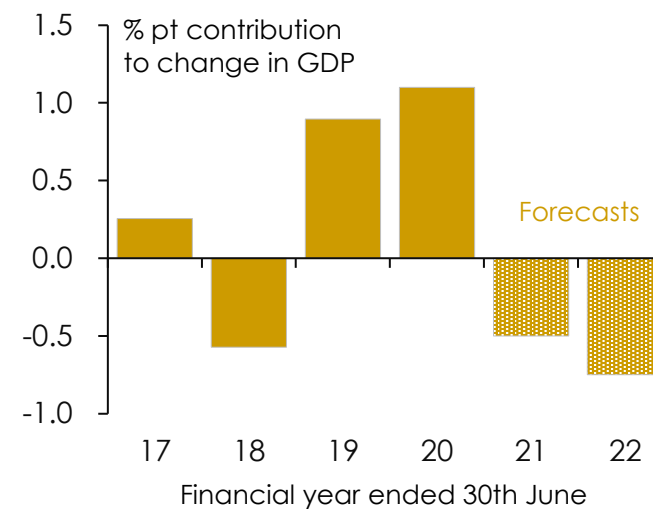
## Dwelling investment



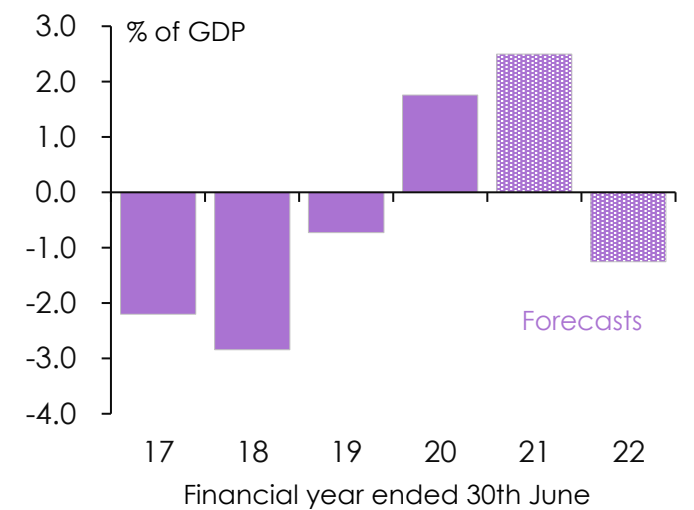
## Public spending



## Net exports



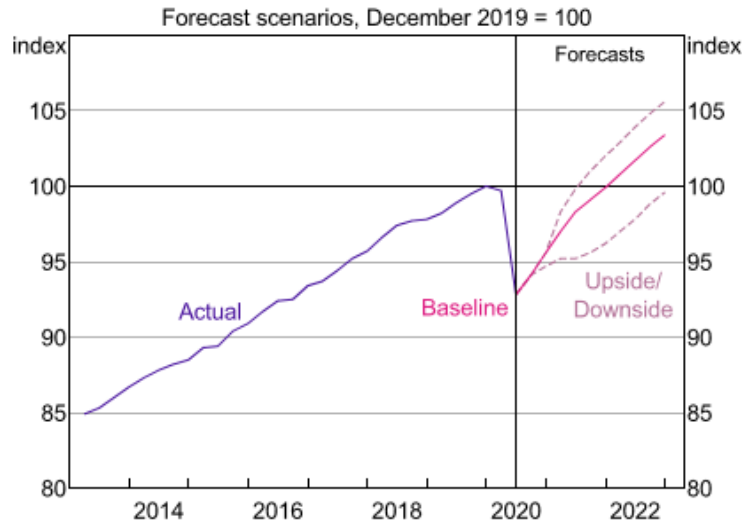
## Current account balance



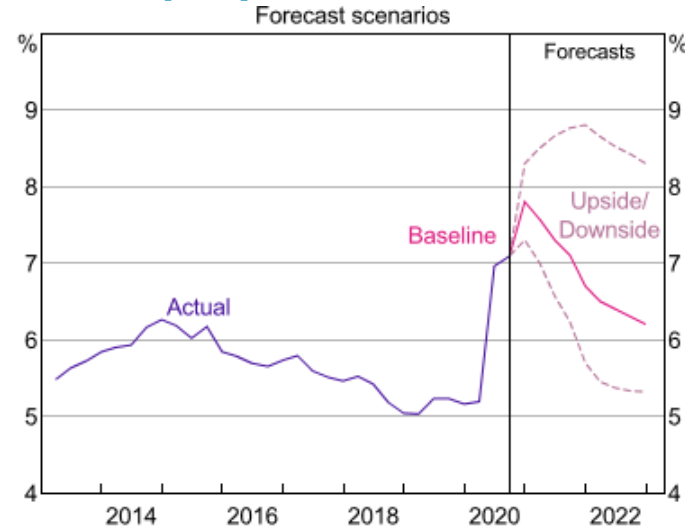
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K 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 MYEFO](#), 17<sup>th</sup> December 2020.

# The economy seems to be tracking closer to the RBA's "upside scenario" – although even in that unemployment remains high and inflation low

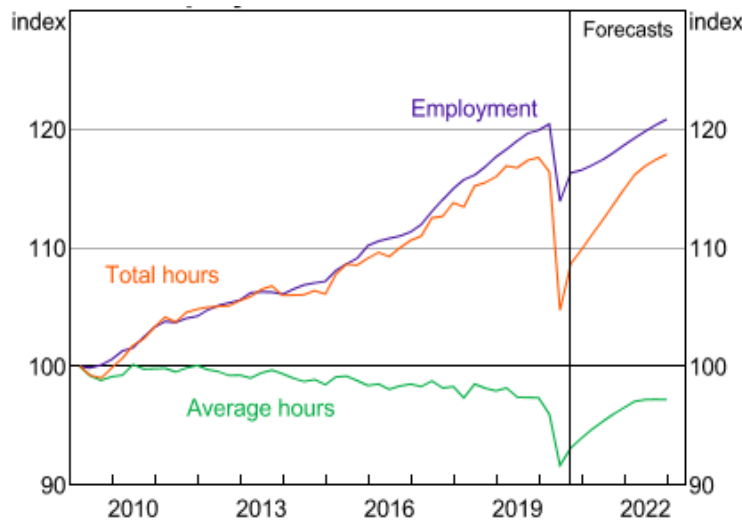
## GDP



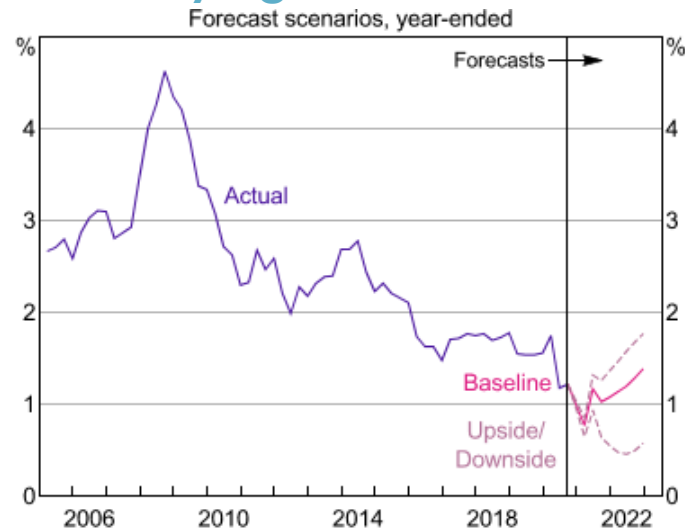
## Unemployment



## Employment



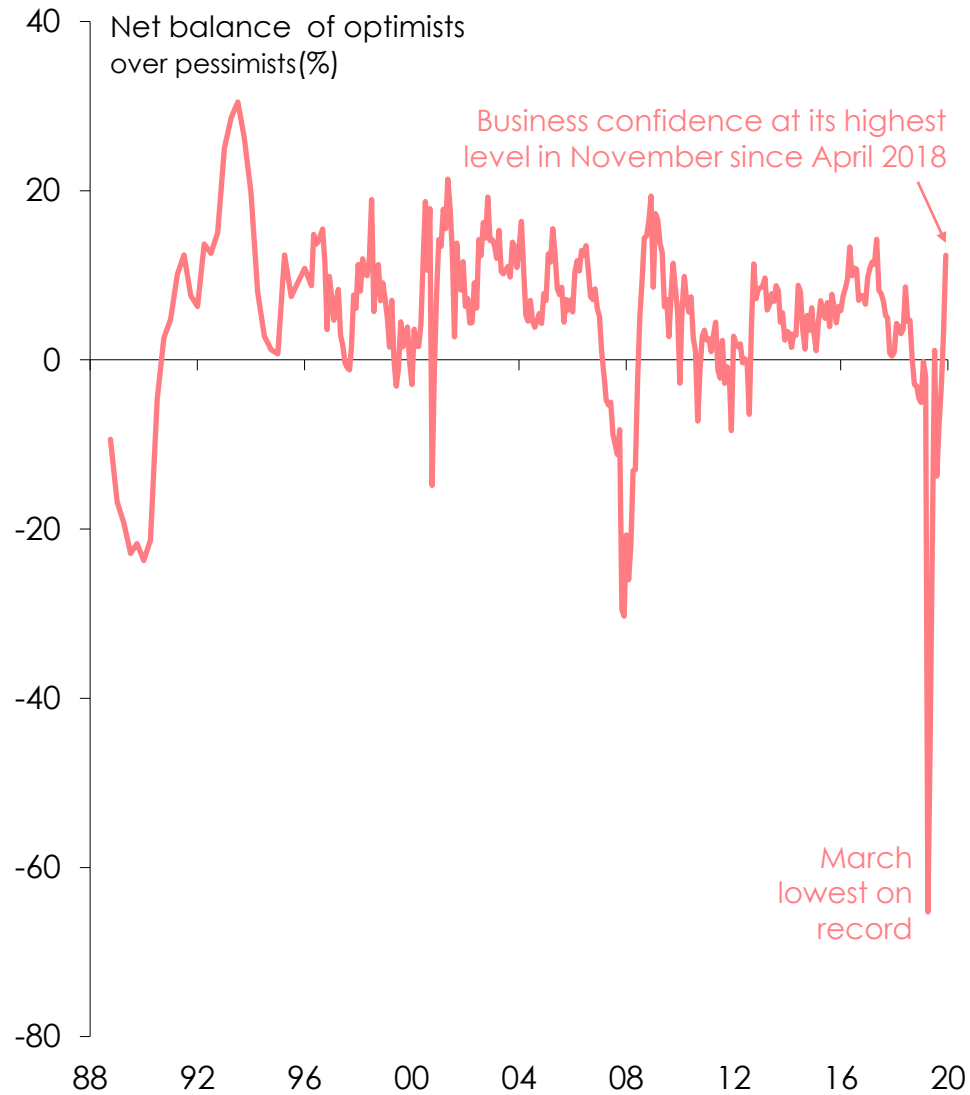
## 'Underlying' inflation



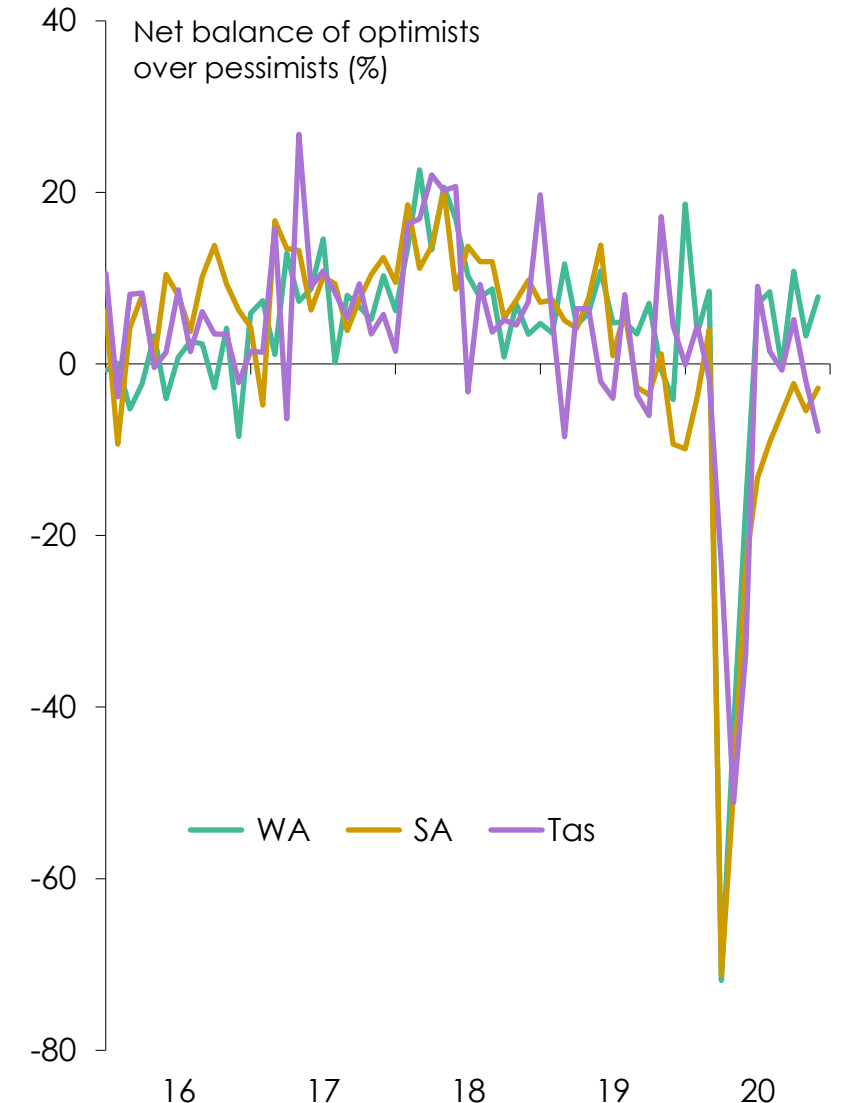
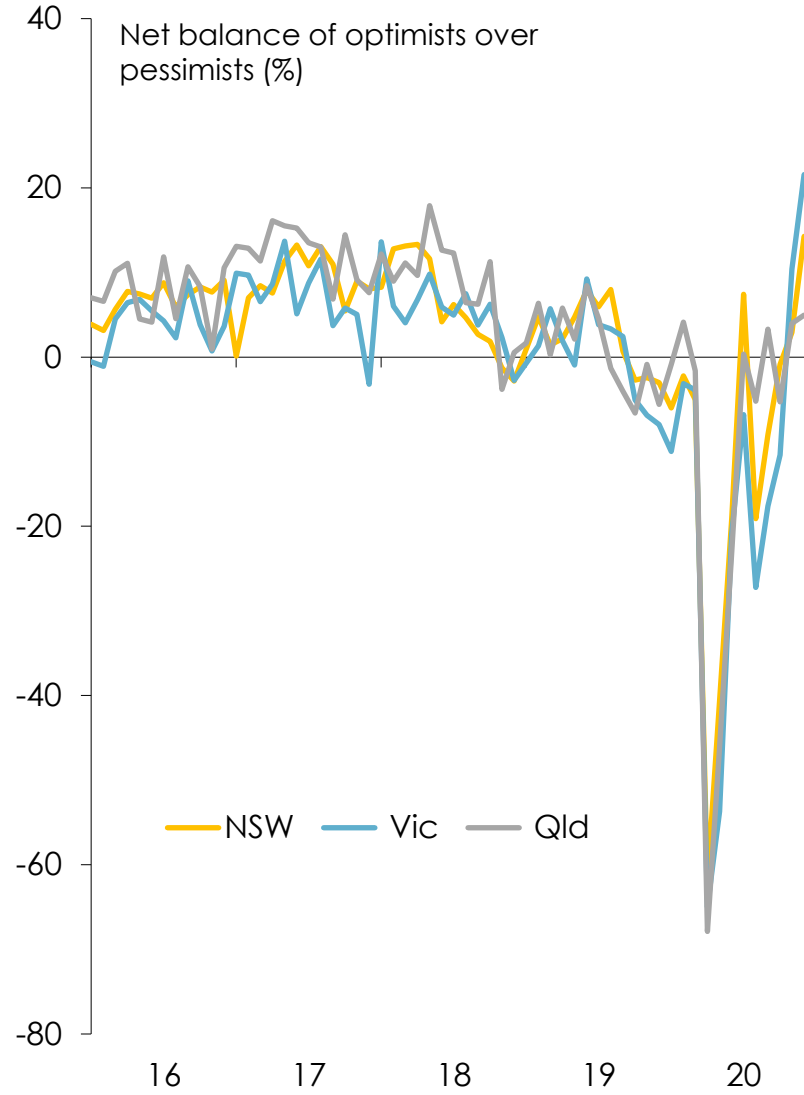
- ❑ The RBA's 'baseline' scenario assumes that there are no further virus outbreaks in Australia, and that current restrictions continue to be eased gradually (although restrictions on international travel remain until around the end of next year)
- ❑ In this scenario real GDP declines 4% over the course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

# Business confidence rose further in November, with the largest improvement occurring in Victoria (as it did in October)

## Business confidence



## Business confidence, states and territories

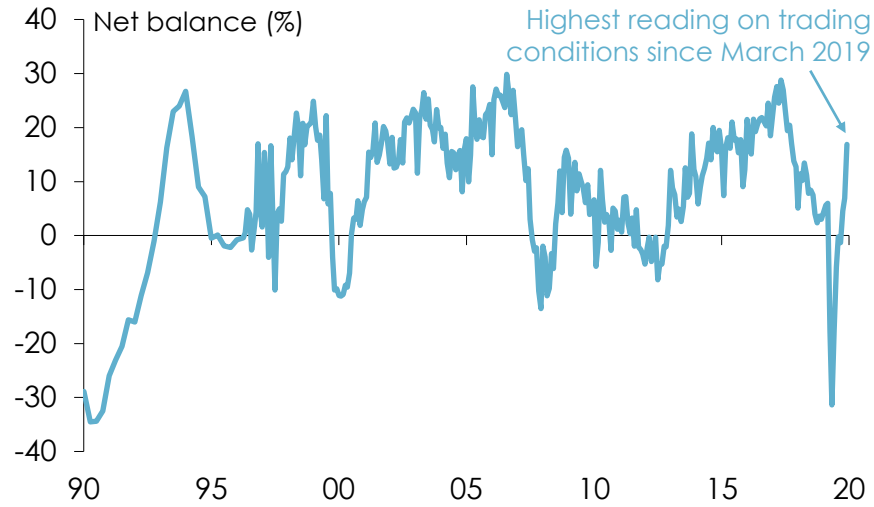


Sources: National Australia Bank. December 2020 survey results will be released this Monday, 25<sup>th</sup> January. [Return to "What's New"](#).

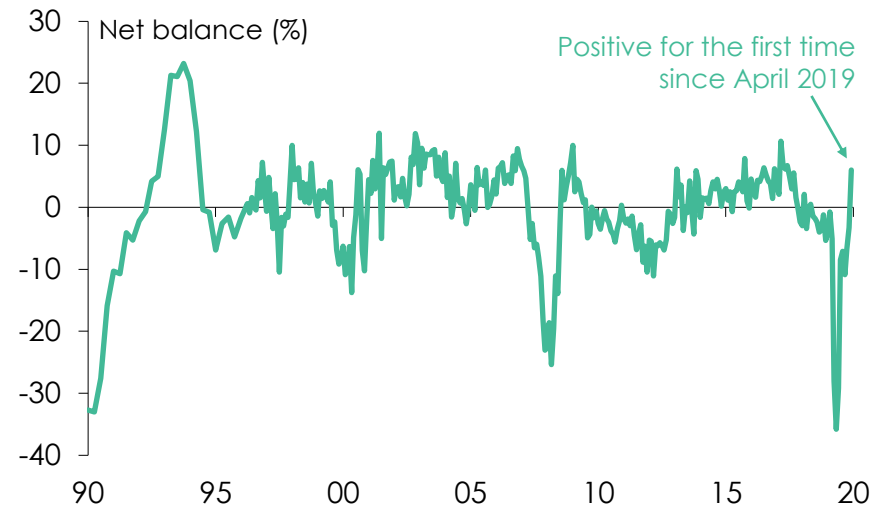


# All but one of the components of the NAB business conditions index improved in November, though hiring and capex intentions are still negative

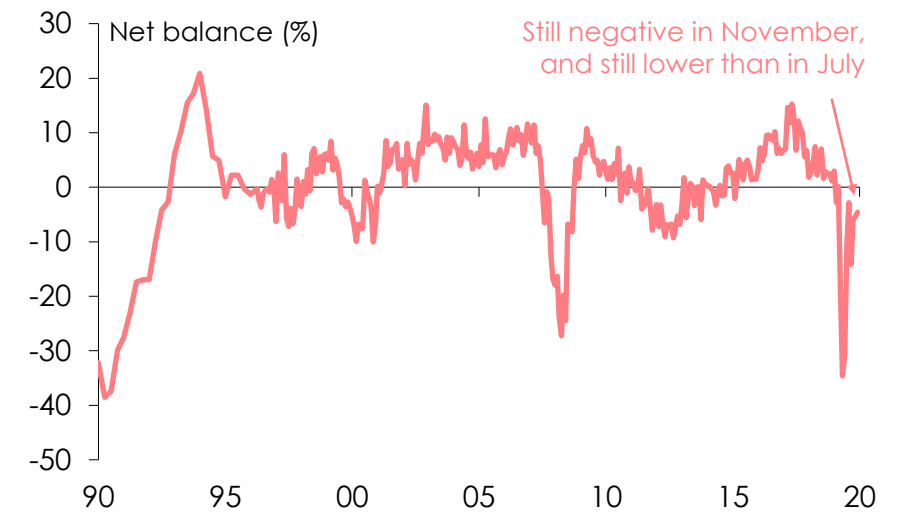
## Trading conditions



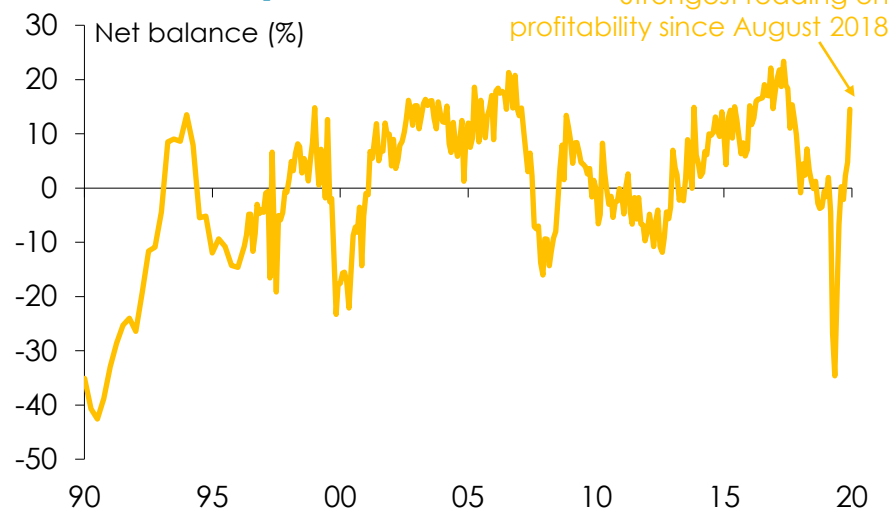
## Forward orders



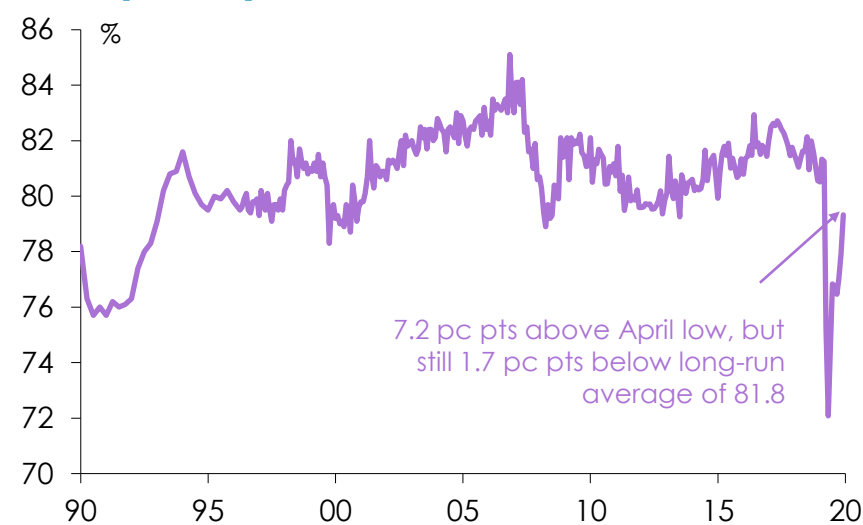
## Employee hiring intentions



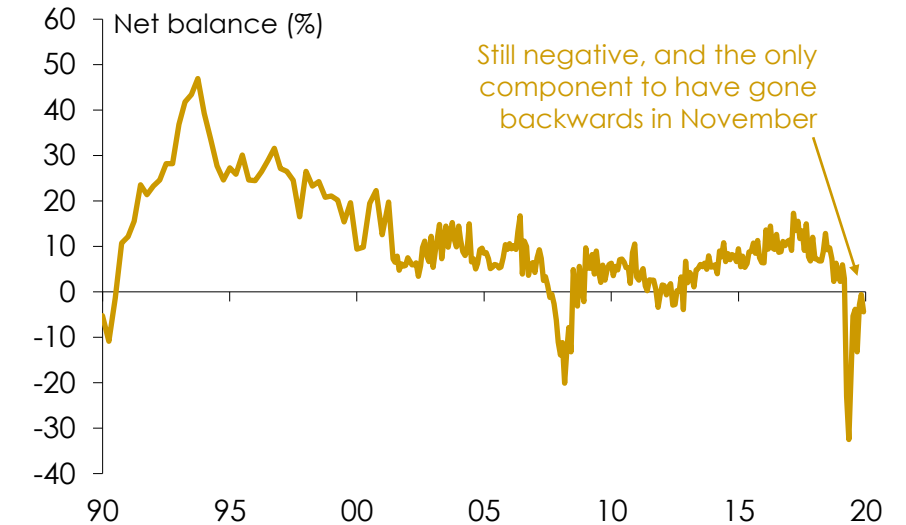
## Profitability



## Capacity utilization



## Capital expenditure intentions

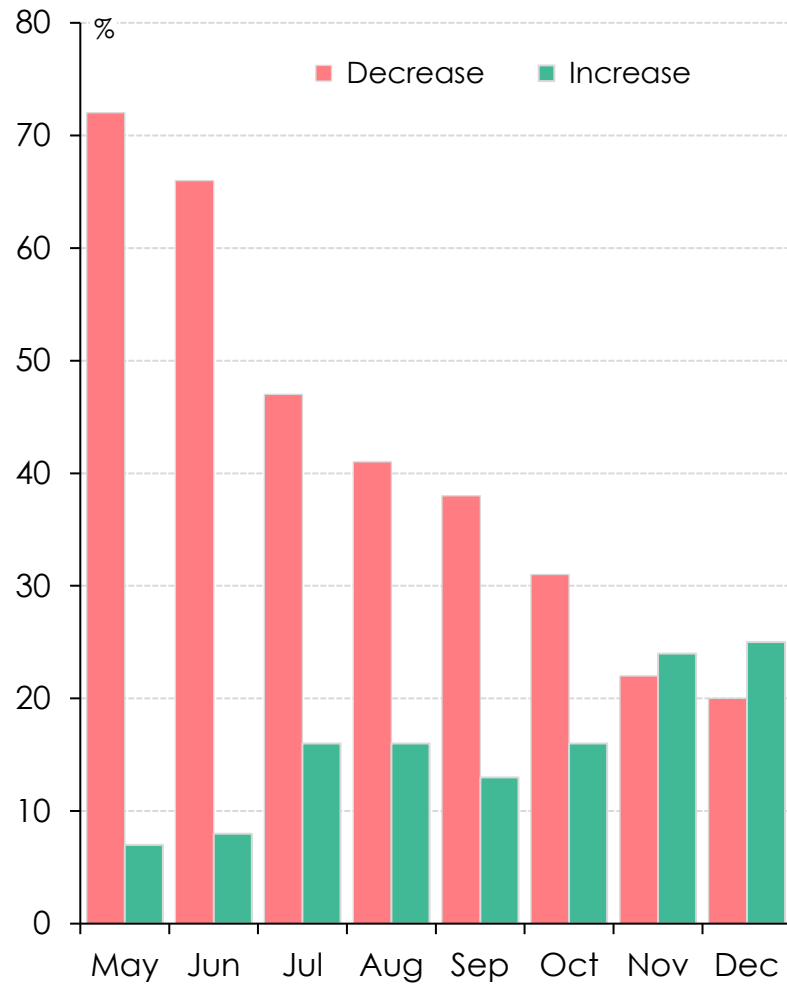


Note: Quarterly data up to March 1987 (May 2002 for capex intentions), monthly thereafter.

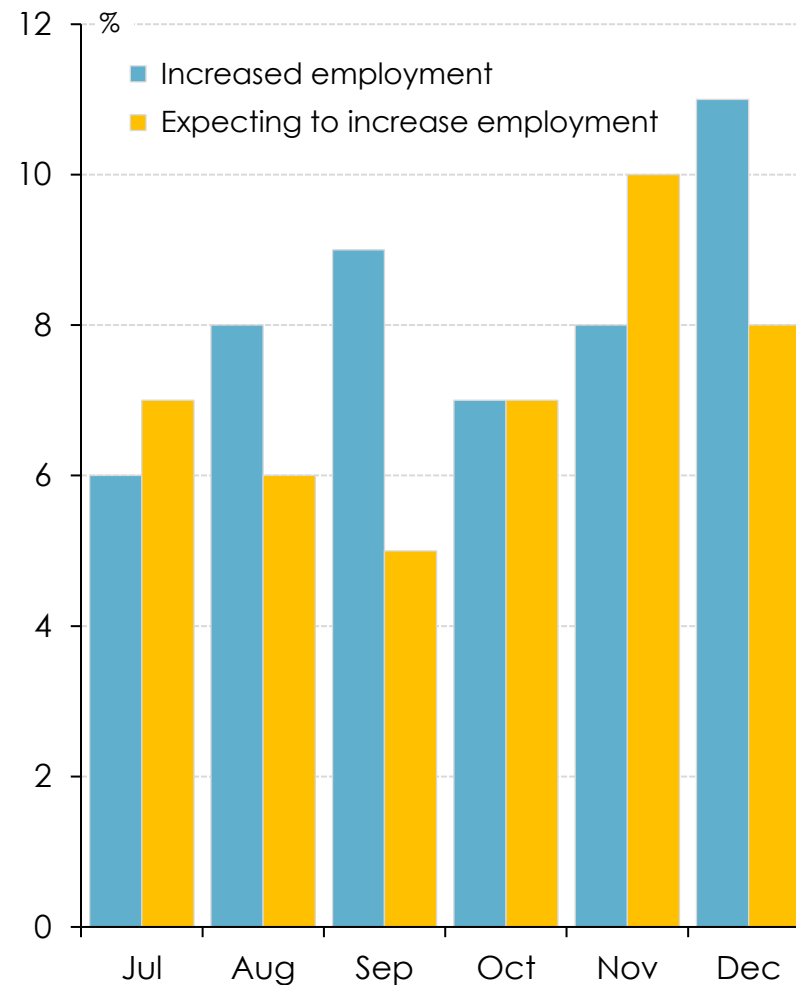
Source: National Australia Bank [Monthly Business Survey](#), November 2020; December survey results will be released on 25<sup>th</sup> January 2021. [Return to "What's New"](#).

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

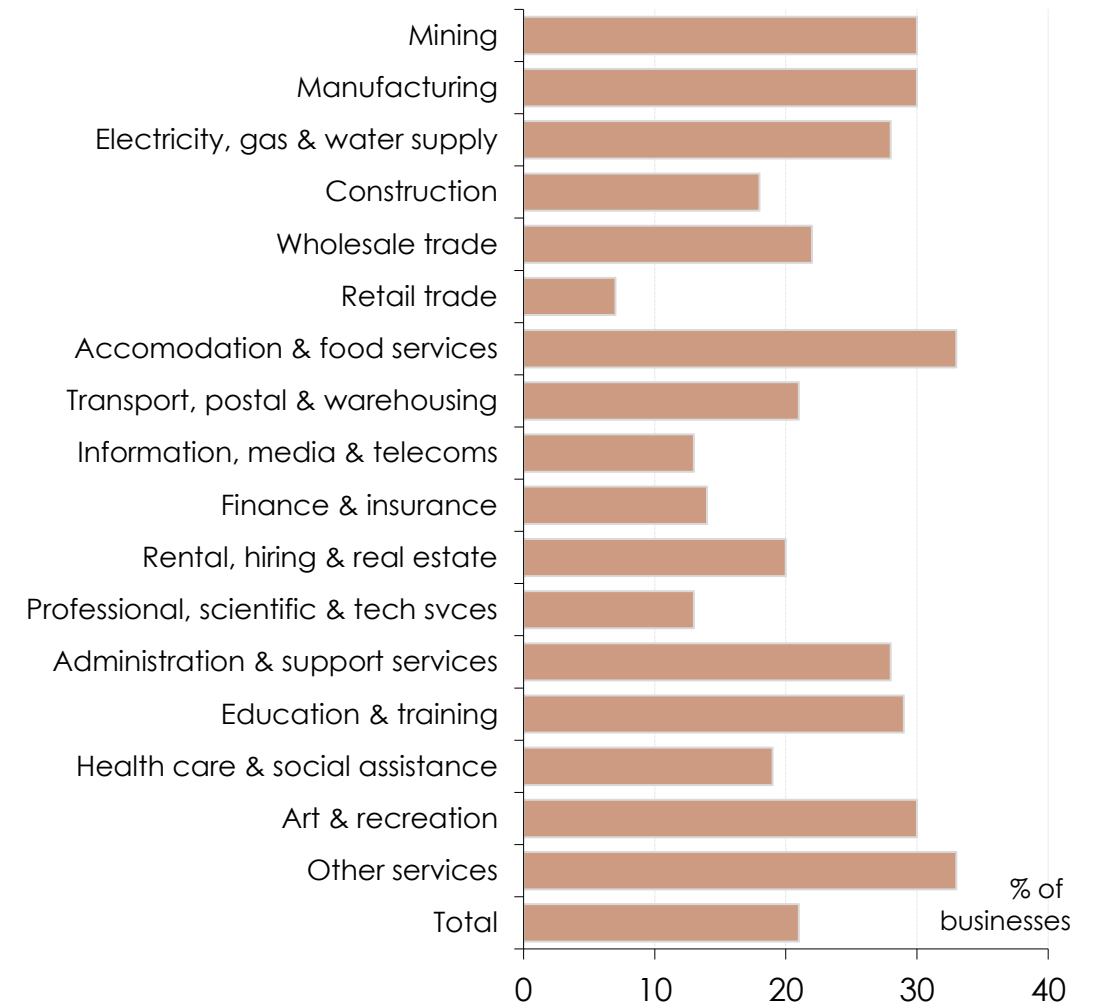
Proportion of businesses reporting decreases or increases in revenue



Proportion of businesses increasing and expecting to increase employee numbers



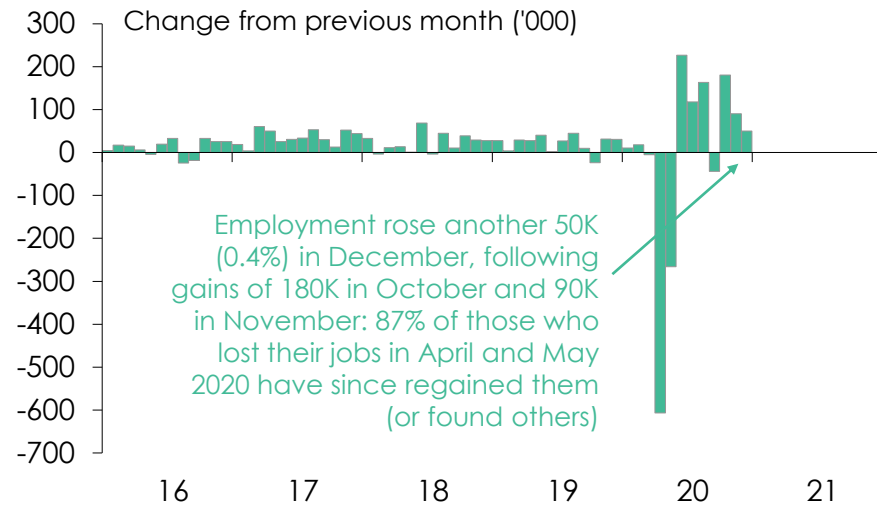
Proportion of businesses expecting to increase employee numbers, by industry, December 2020



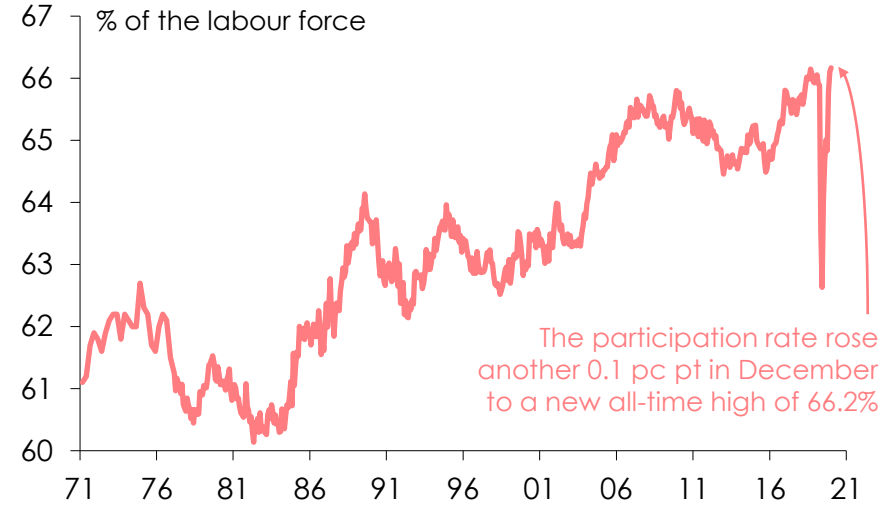
Source: ABS, [Business Impacts of Covid-19](#), December 2020.

# 87% of those who lost their jobs in April or May last year have since regained employment, while the unemployment rate is now down to 6.6%

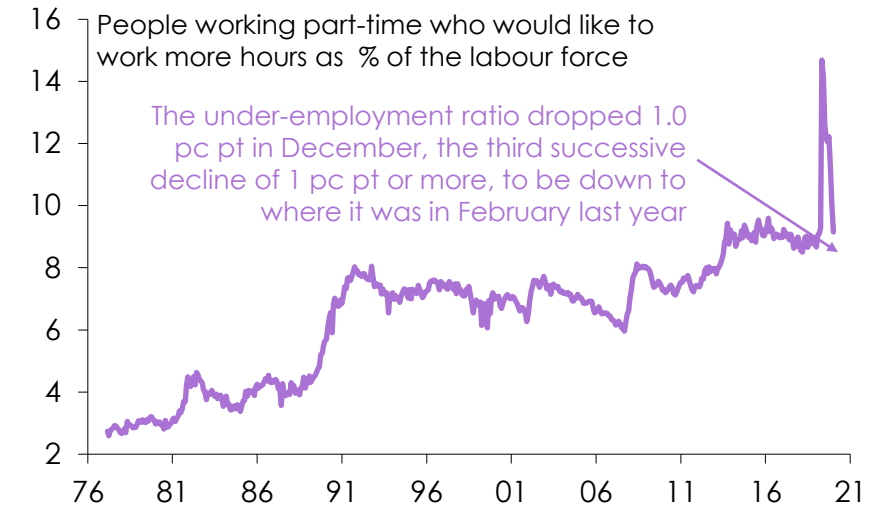
## Employment



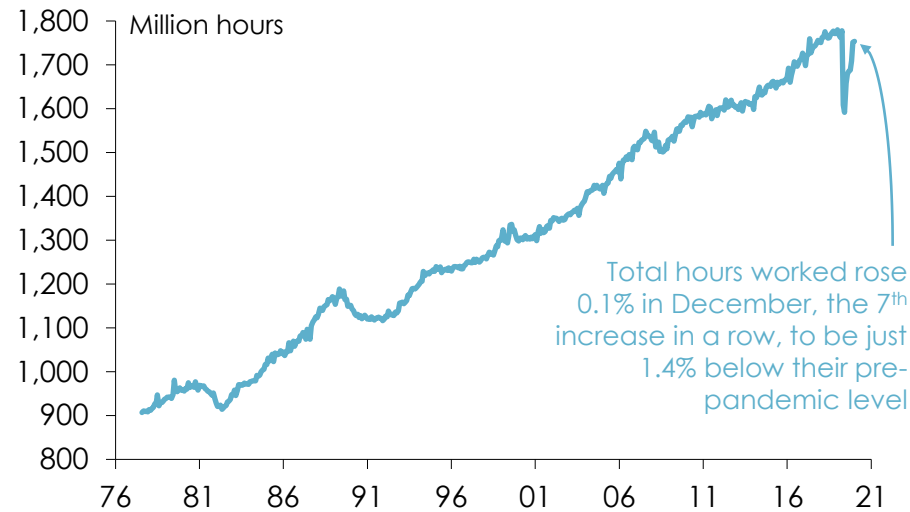
## Labour force participation rate



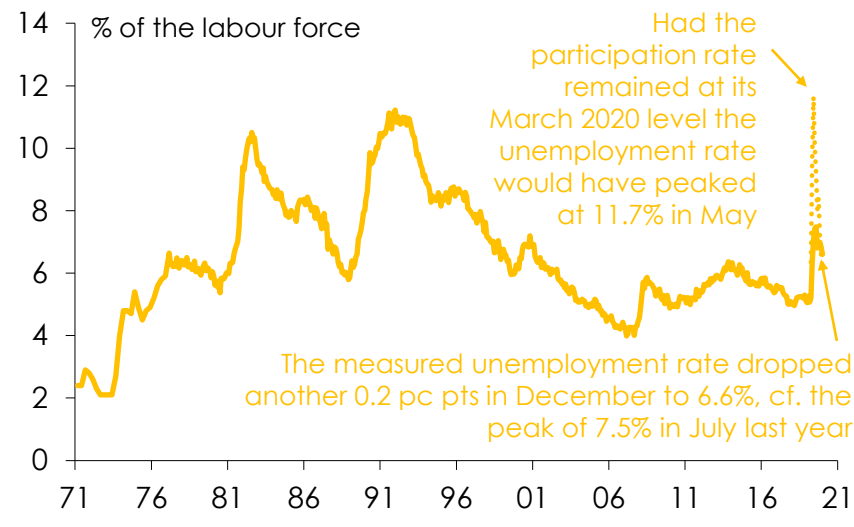
## Under-employment ratio



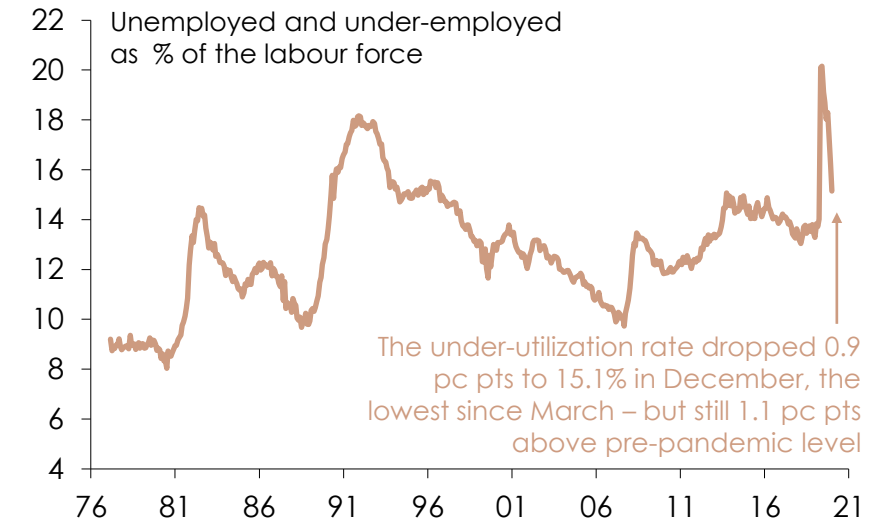
## Total hours worked



## Unemployment rate



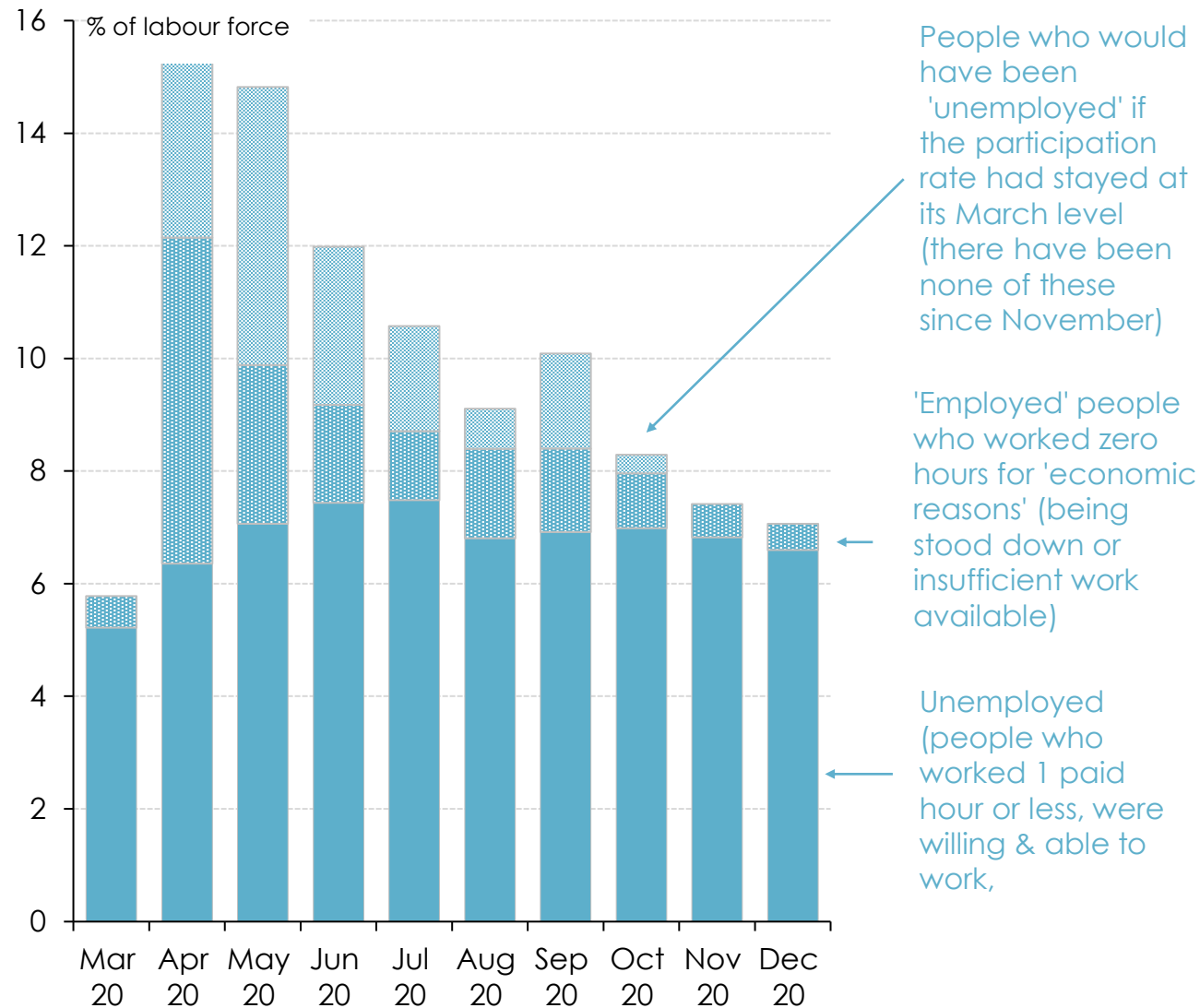
## 'Under-utilization' rate



Source: ABS, [Labour Force, Australia](#). January data will be released on 18<sup>th</sup> February. [Return to "What's New"](#).

# The 'effective' unemployment rate has fallen from a peak of 15.3% in April to 7.1% in December

## Alternative measures of unemployment

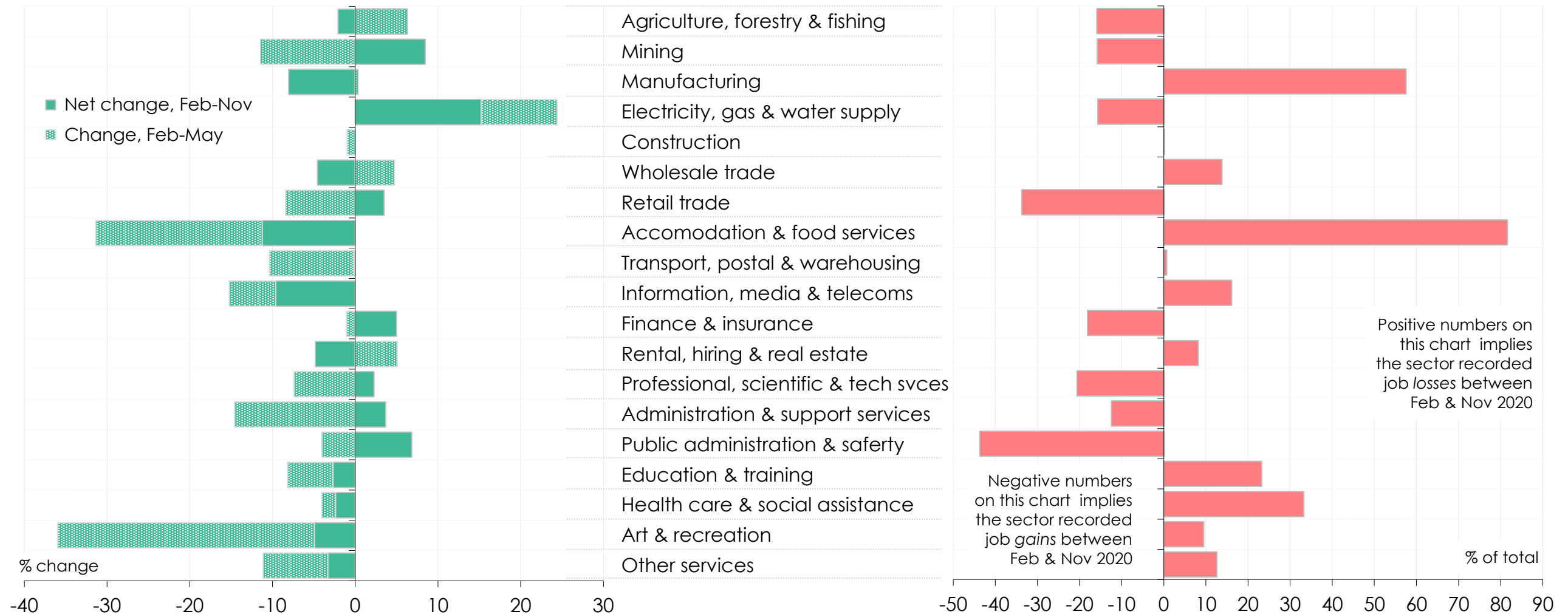


- ❑ The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30<sup>th</sup> March and 27<sup>th</sup> September (although payments didn't start until the beginning of May)
- ❑ From 28<sup>th</sup> September the JobKeeper payment reduced to \$1200 per fortnight, with a lower rate of \$750 per fortnight for employees who were working fewer than 20 hours per week in the four weeks prior to 1<sup>st</sup> March – without any apparent adverse effects on employment
- ❑ The level of JobKeeper payments was further reduced to \$1000 per fortnight (and \$650 per fortnight for those who had been working fewer than 20 hours per week) from 4<sup>th</sup> January – until 28<sup>th</sup> March, when JobKeeper is currently scheduled to end
- ❑ The number of people counted as 'employed' but working zero hours has fallen from 767K in April to 65K in December, while the number of additional 'hidden unemployed' has fallen from 676K in May to zero

# Accommodation & food services and manufacturing have been by far the largest net job losers since the onset of the pandemic

Change in employment between February and November 2020, by industry

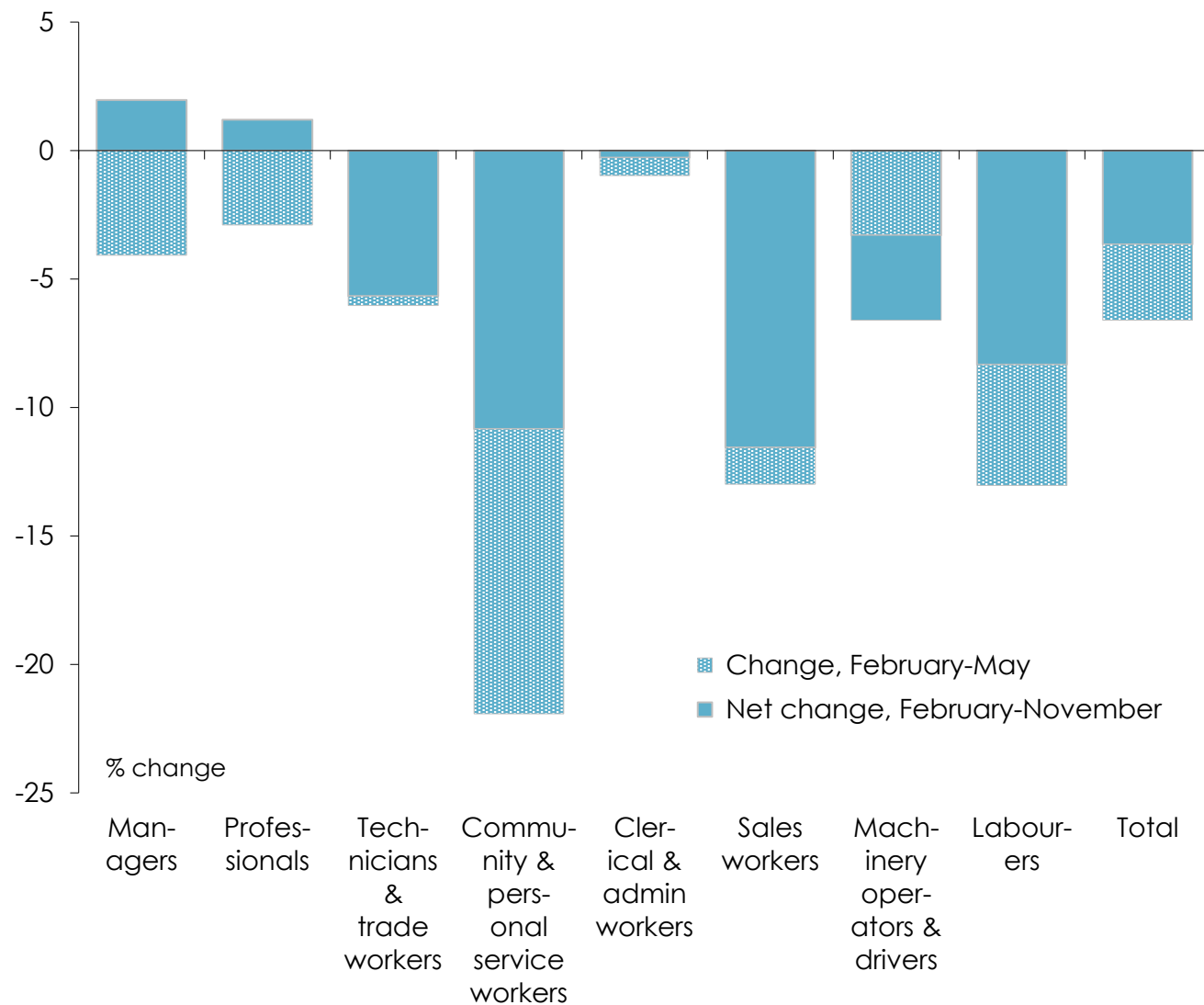
Proportion of change in total employment between February and November 2020, by industry



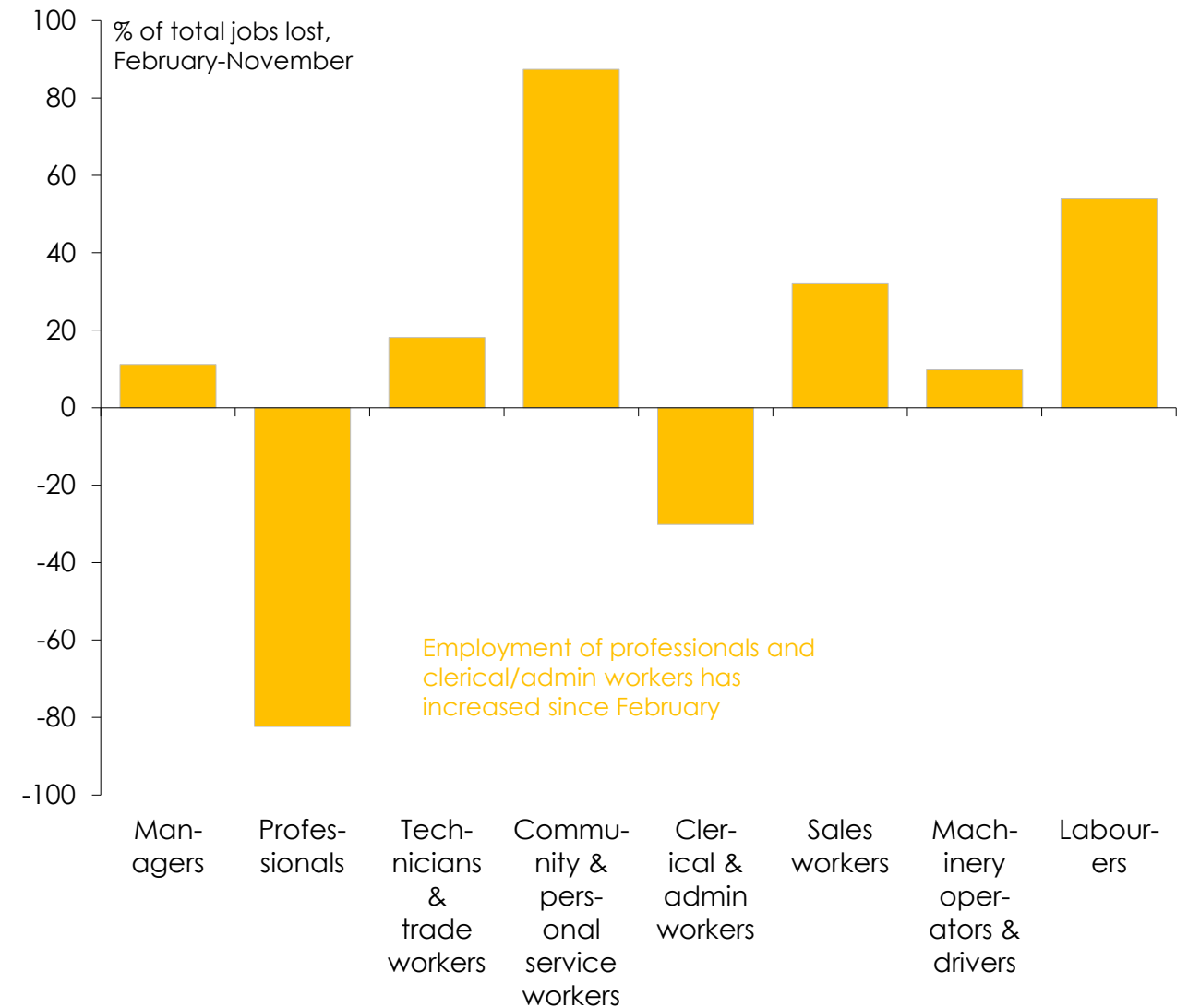
Source: ABS, [Labour Force, Australia, Detailed](#), November 2020. Labour force survey data on employment by industry are available only for the middle month of each quarter: February 2021 data will be released on 25<sup>th</sup> March. [Return to "What's New"](#).

# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

## Change in employment between February and November 2020, by occupation



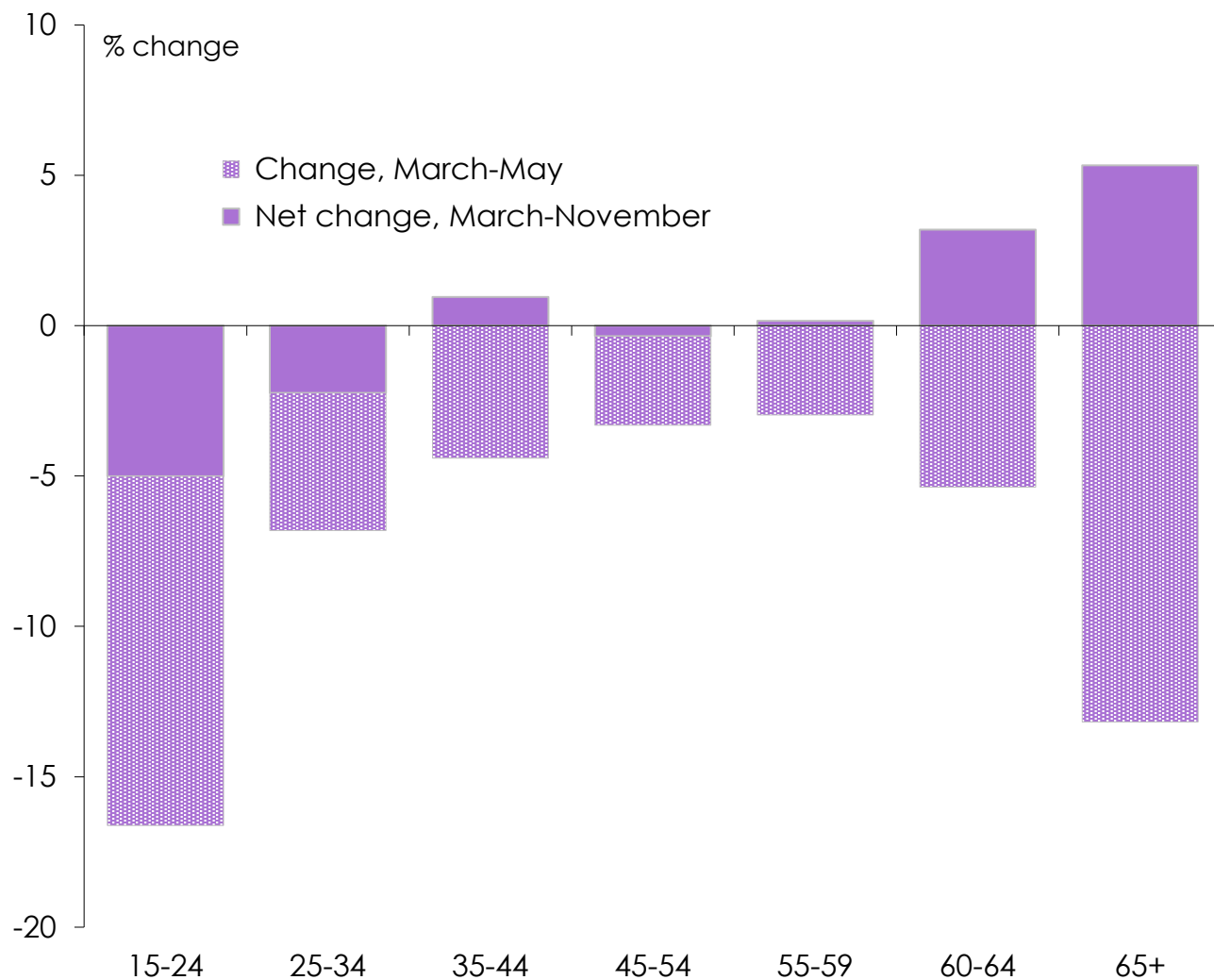
## Proportion of change in total employment between February and March 2020, by occupation



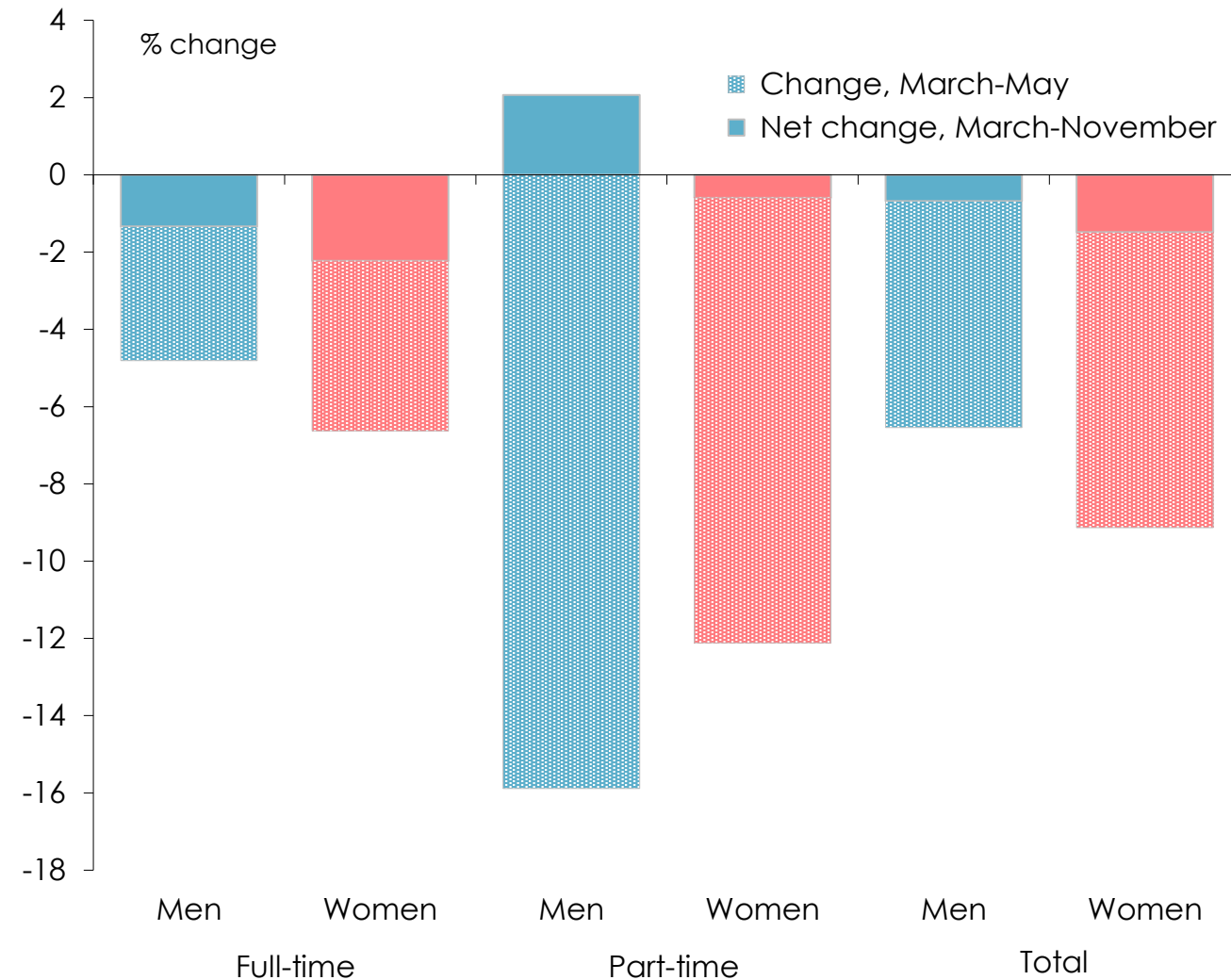
Source: ABS, [Labour Force, Australia, Detailed](#), November 2020. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2021 data will be released on 25<sup>th</sup> March. [Return to "What's New"](#).

# 15-25 year-olds and women accounted for 37% and 54% of initial job losses – and for 71% and 47% of net job losses between February and November

## Change in employment between March and November 2020, by age group



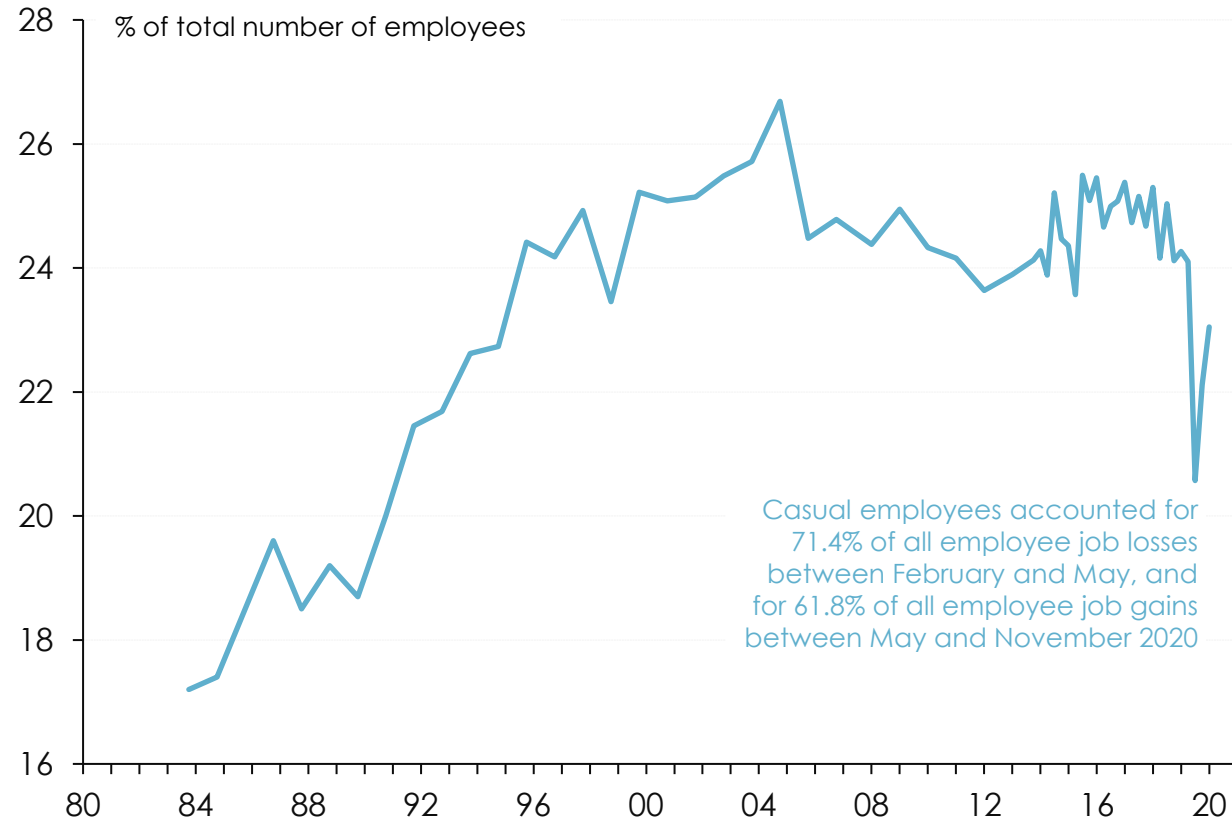
## Change in employment between March and November 2020, by gender and full/part-time status



Source: ABS, [Labour Force, Australia, Detailed](#), November 2020. December data will be released on 28<sup>th</sup> January 2021. [Return to "What's New"](#).

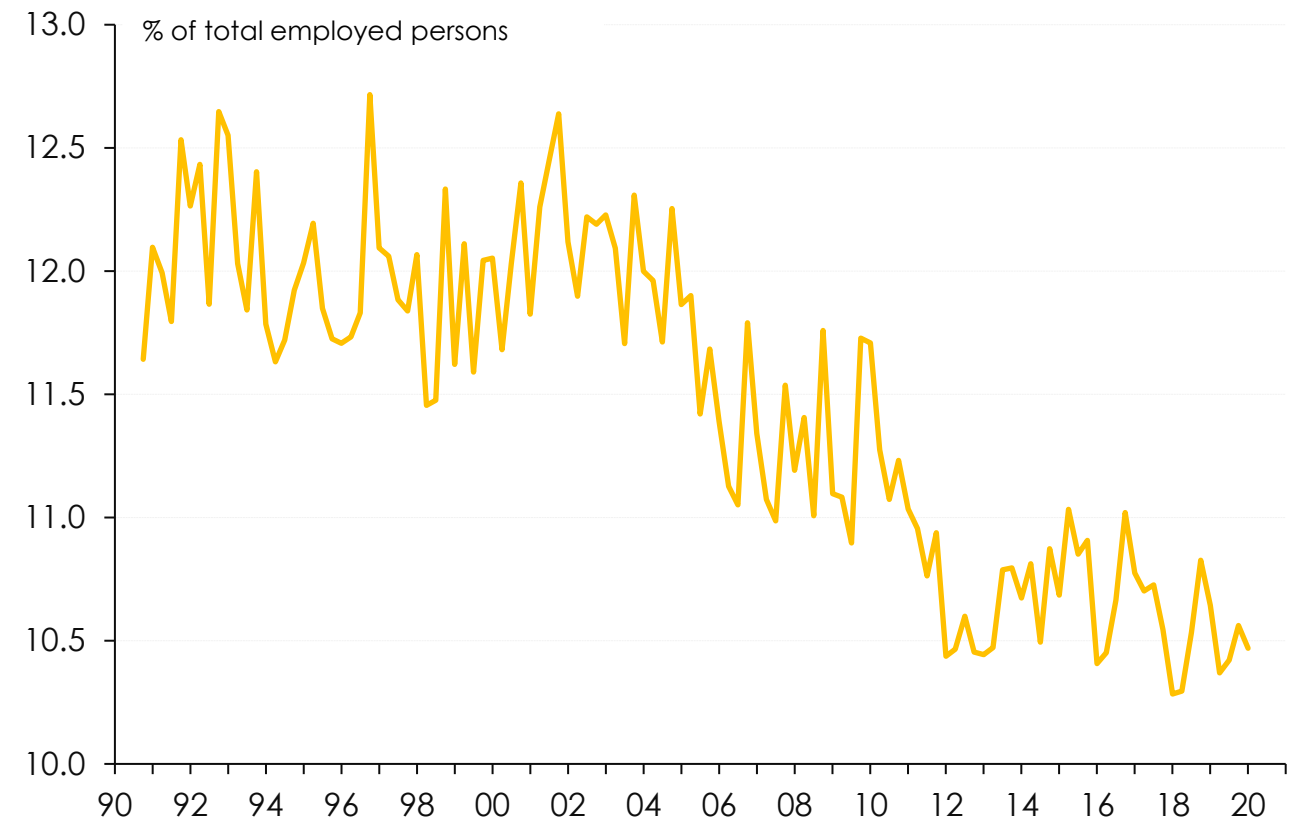
# Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

## 'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



- ❑ Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the current recession

## Owner-managers of unincorporated enterprises with no employees as a pc of total employment

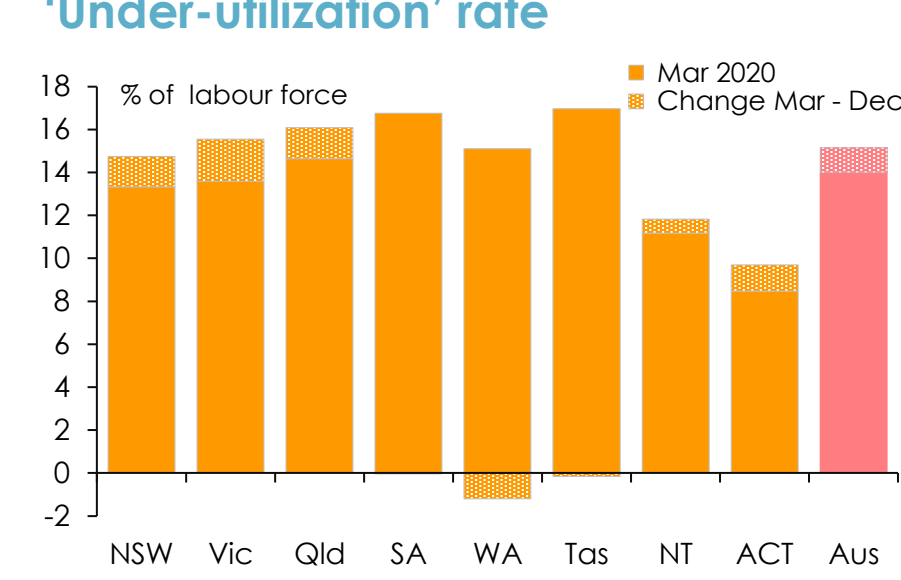
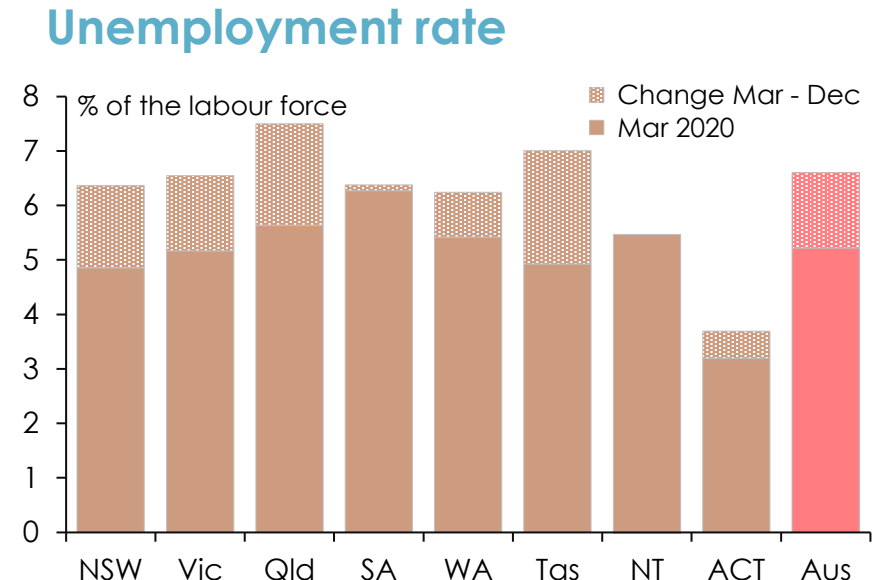
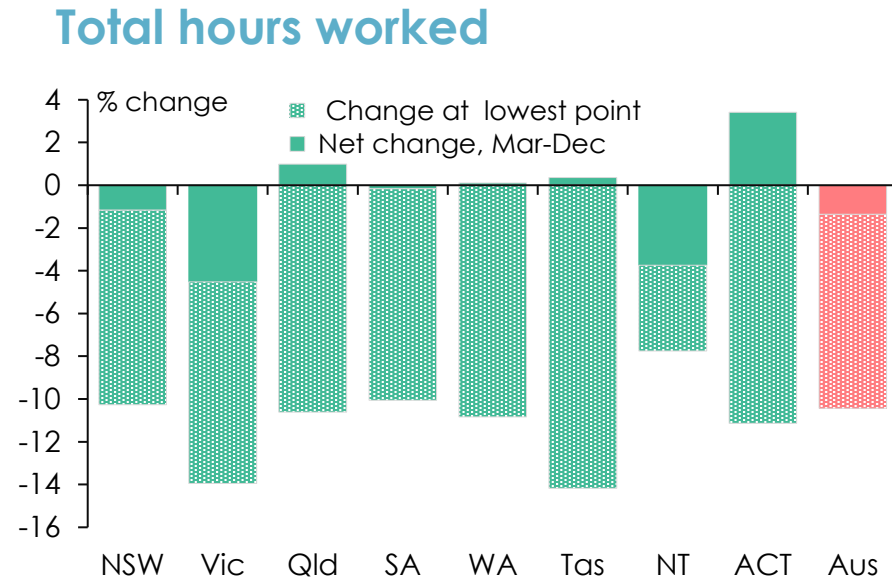
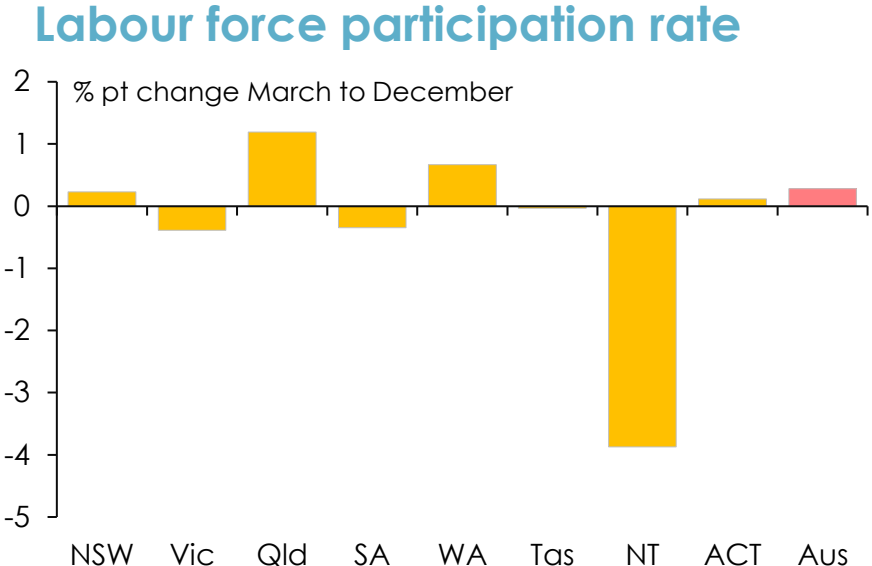
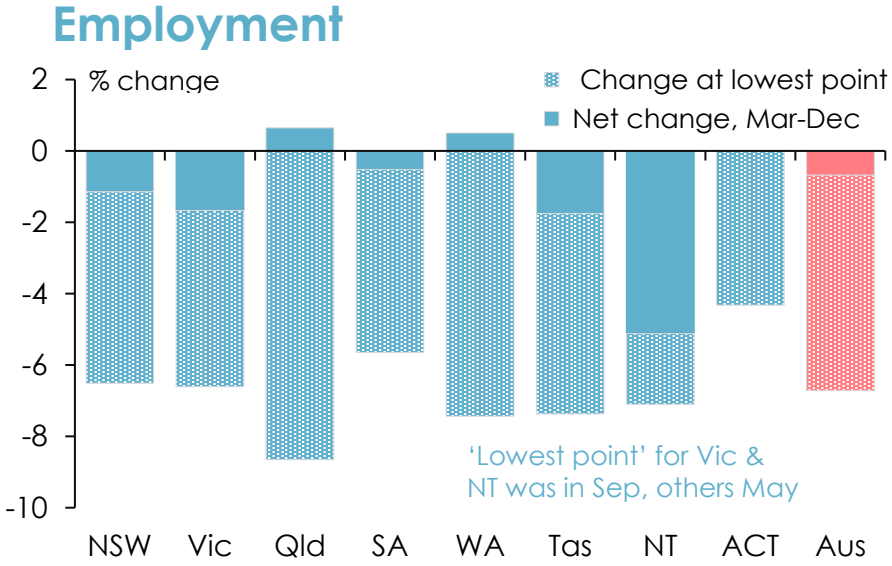


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents; [Labour Force, Australia, Detailed](#); and [Employee Earnings, Benefits and Trade Union Membership, Australia](#).



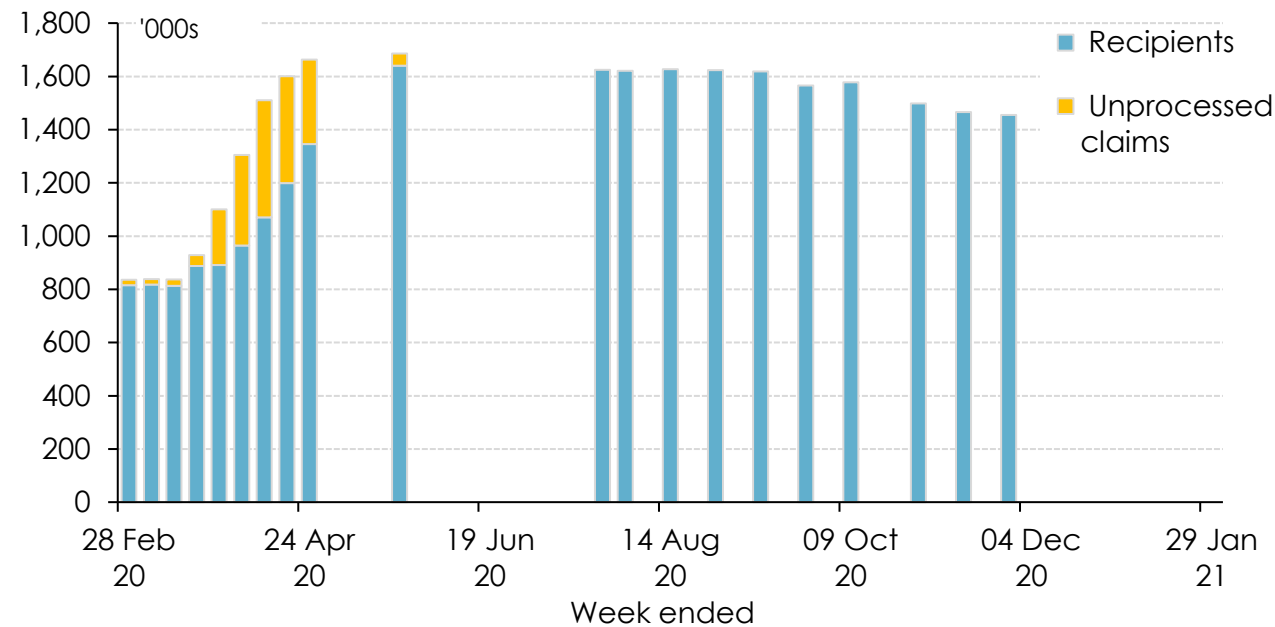
# Strongest recoveries in employment have been in WA and Qld although in those states rising participation has slowed the fall in unemployment



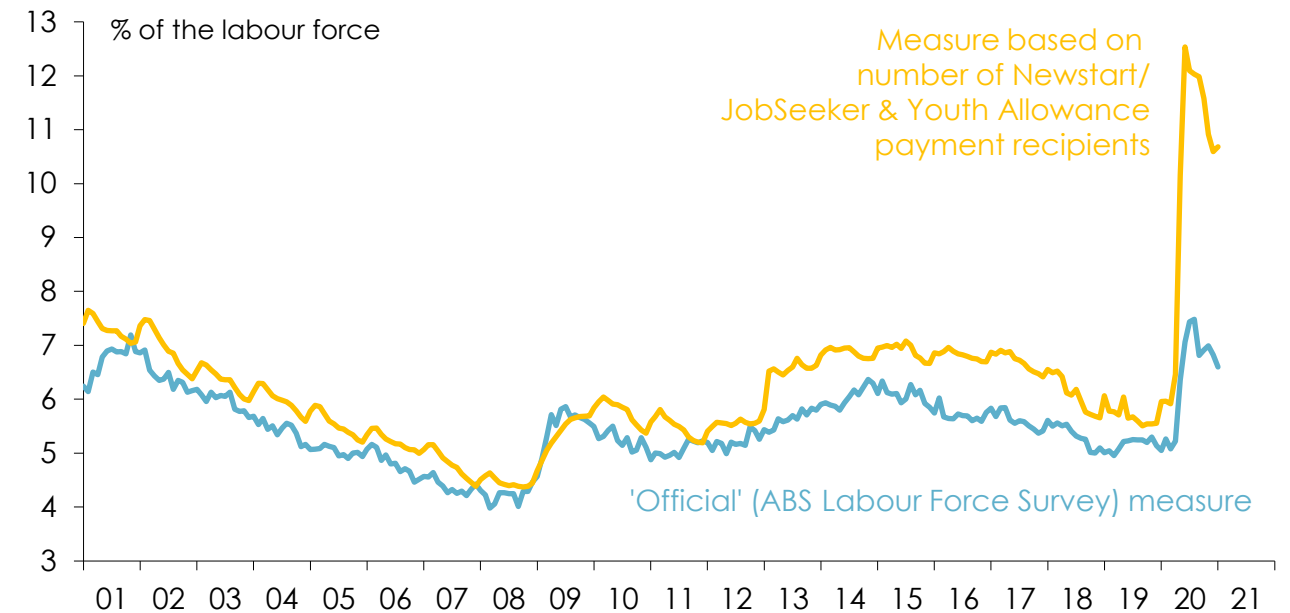
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS, [Labour Force, Australia](#). January data will be released on 18<sup>th</sup> February. [Return to "What's New"](#).

# The Australian Government (unlike the US Government) is still keeping weekly data on benefit recipient numbers as a 'state secret'

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



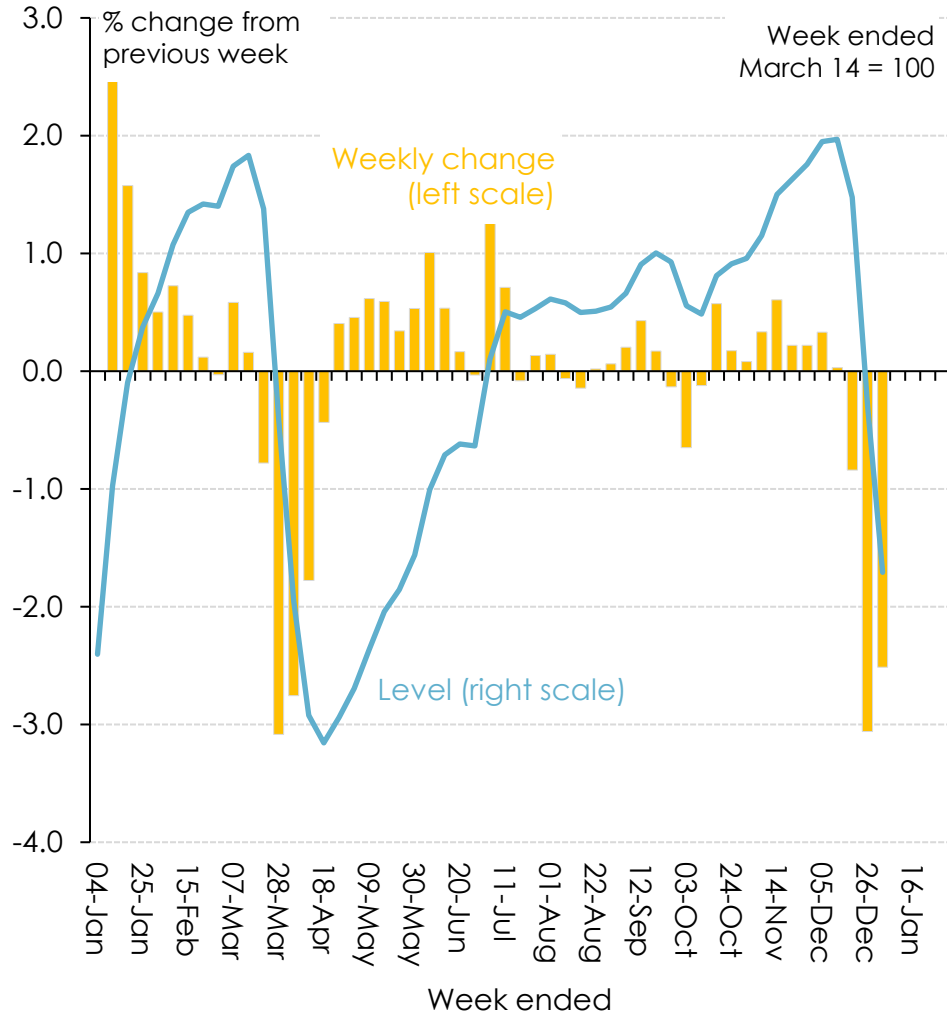
## Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force



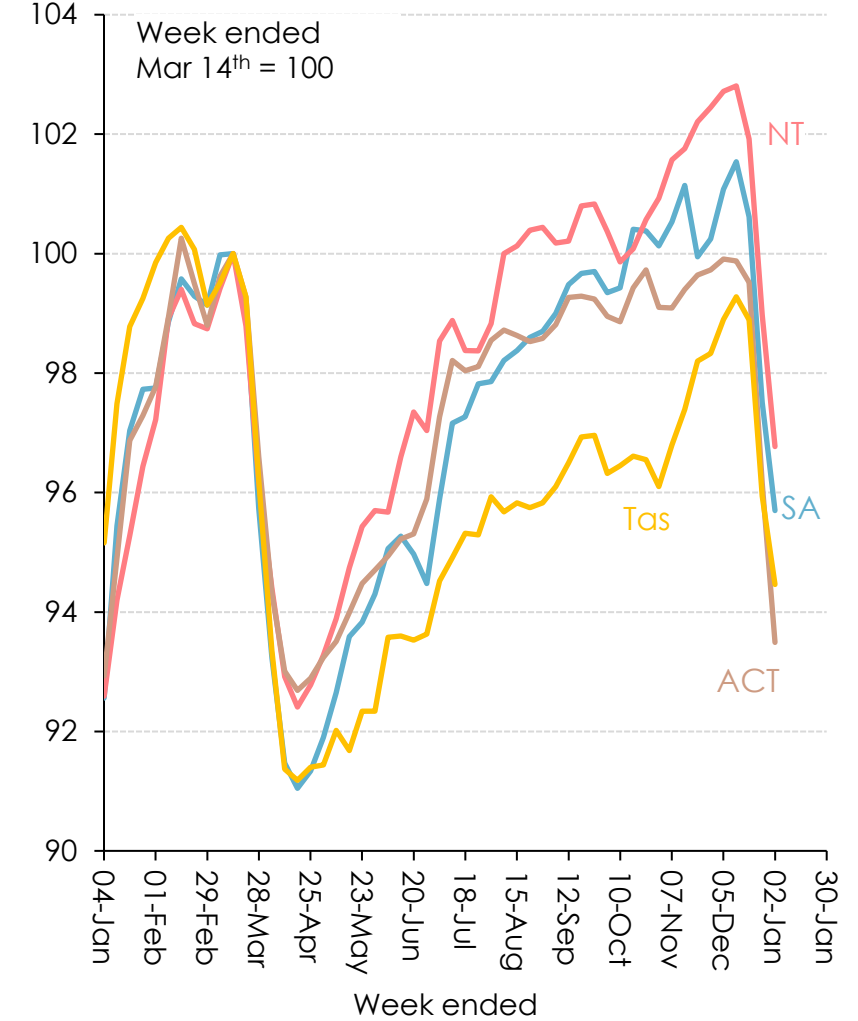
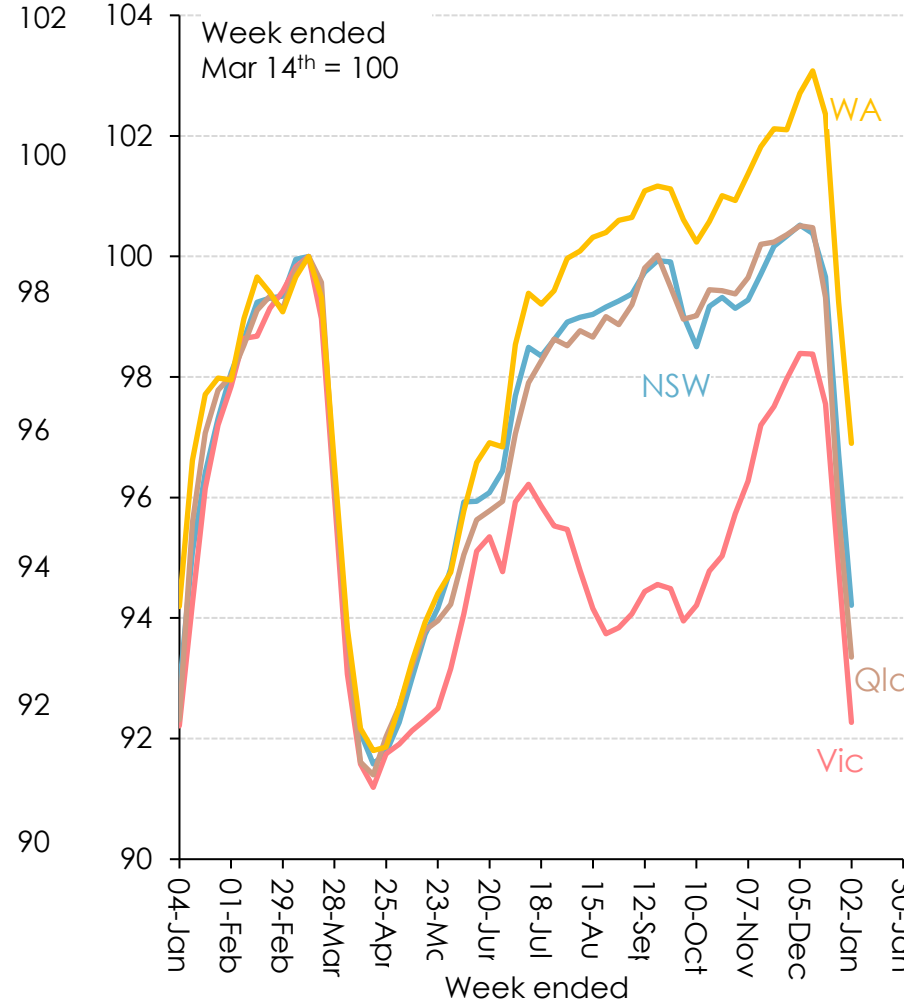
- ❑ The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available
- ❑ On two occasions last year the Secretary of DSS provided weekly data to the Senate Select Committee on Covid-19, and in July promised to provide fortnightly and monthly data to this Committee; however so far only nine sets of data have been provided, the latest being for 27<sup>th</sup> 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

# After returning to pre-Covid levels in early December, payroll jobs have since fallen by 6¼% – but this is entirely in line with normal seasonal patterns

## Level and weekly change in the number of payroll jobs



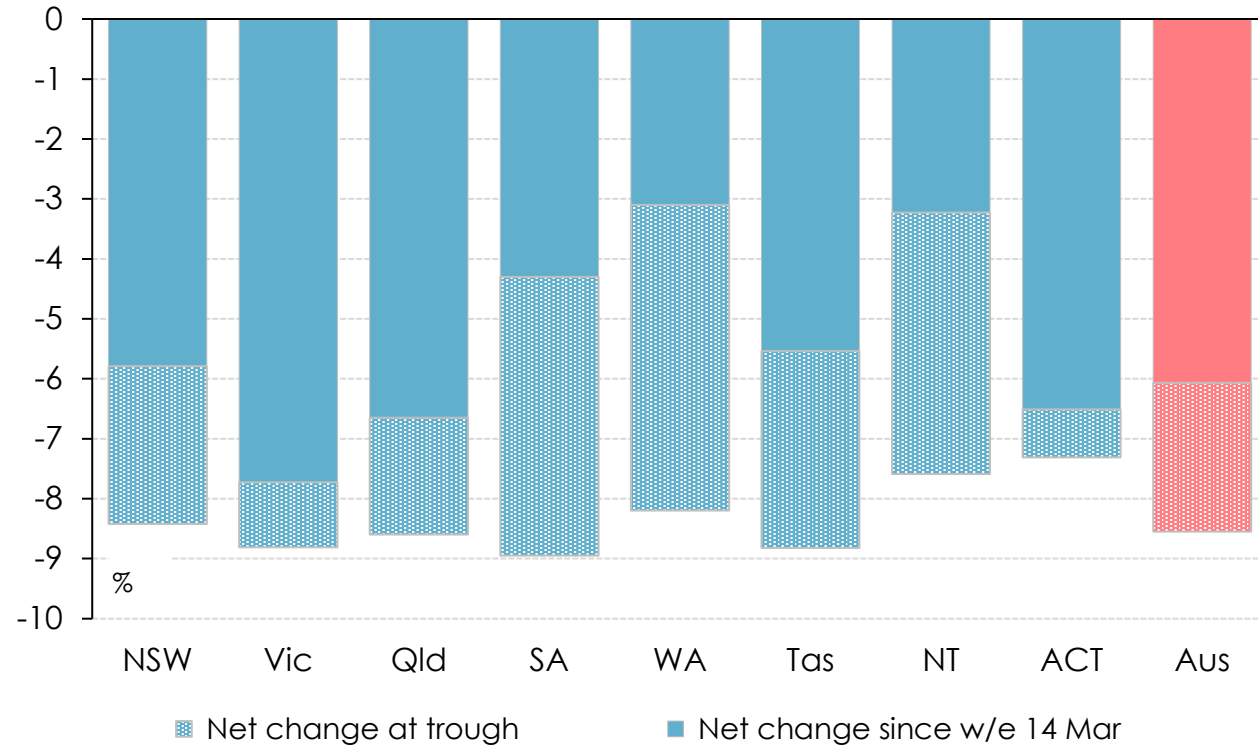
## Payroll jobs by State & Territory



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 Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are double-counted; employers and the self-employed are not included. Data are not seasonally adjusted (so at least some of the week-to-week variations could be due to 'normal' seasonal factors). Data for two weeks ended 16<sup>th</sup> January will be released on 2<sup>nd</sup> February. [Return to "What's New"](#).

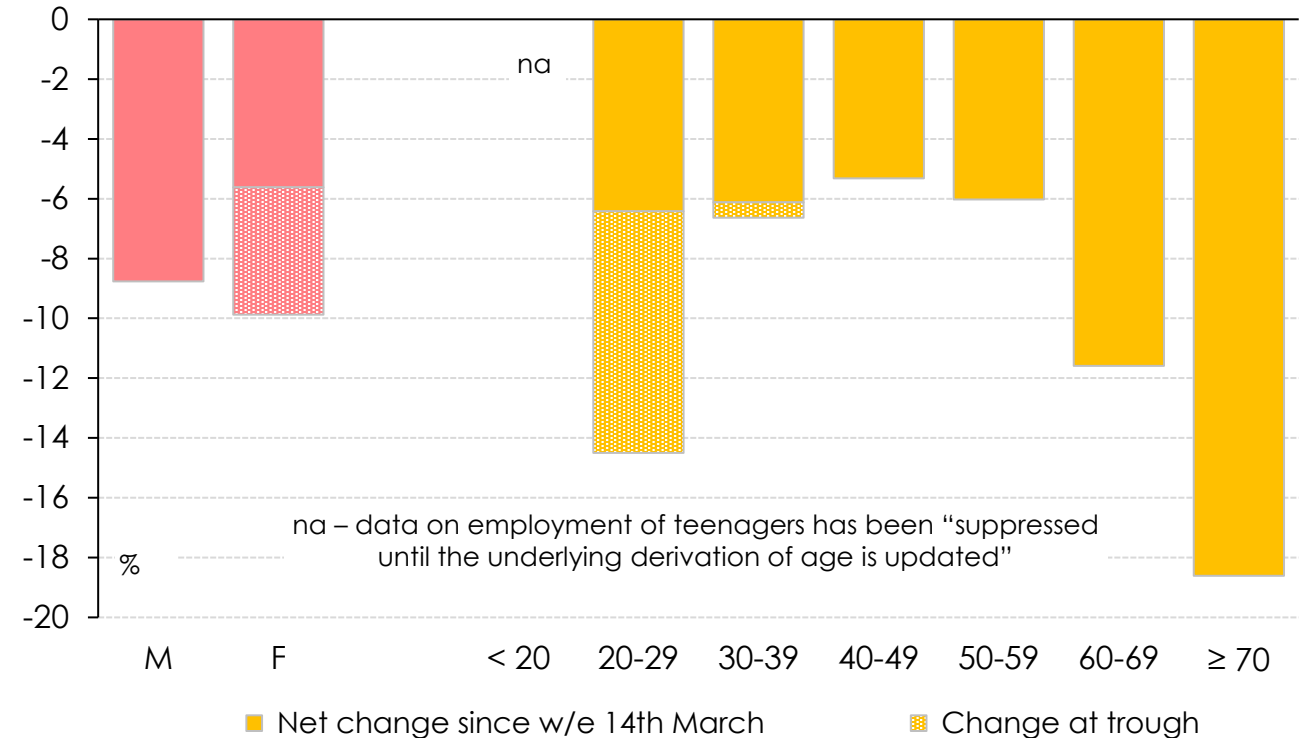
# Payroll jobs had returned to pre-pandemic peak in all states except Vic & Tas by 5<sup>th</sup> December, though not for either males or females (?)

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



**Payroll jobs has returned to pre-pandemic level by 5<sup>th</sup> December in all states except Vic and Tas – but as a result of normal seasonal factors all states are now down 7¼ - 9% from mid-March**

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

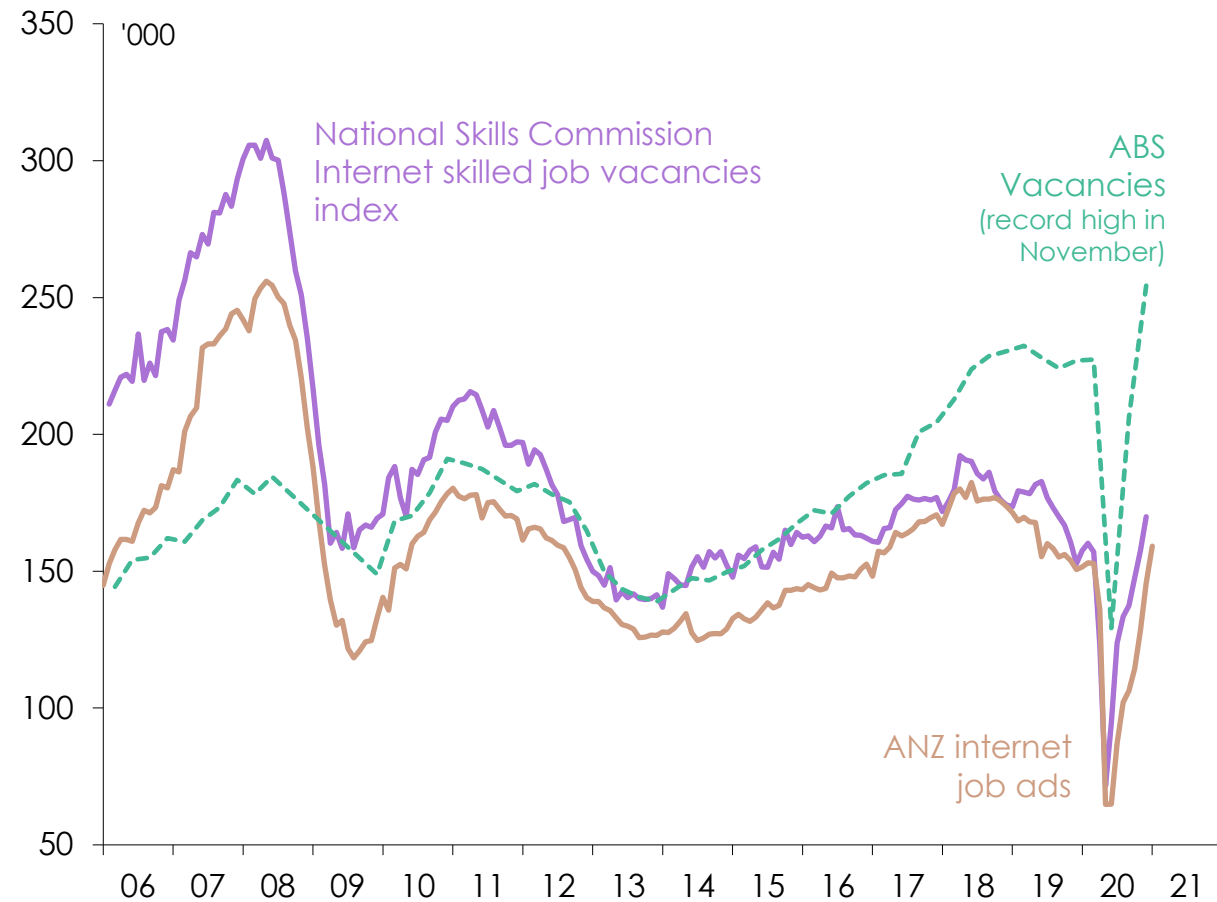


**Not clear why although total payroll jobs returned to pre-pandemic levels by 5<sup>th</sup> December, neither males nor females did – nor any age group except people in their 20s – but now all have experienced seasonal falls**

Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are double-counted; employers and the self-employed are not included. Data are not seasonally adjusted (so at least some of the week-to-week variations could be due to 'normal' seasonal factors). Data for two weeks ended 16<sup>th</sup> January will be released on 2<sup>nd</sup> February. [Return to "What's New"](#).

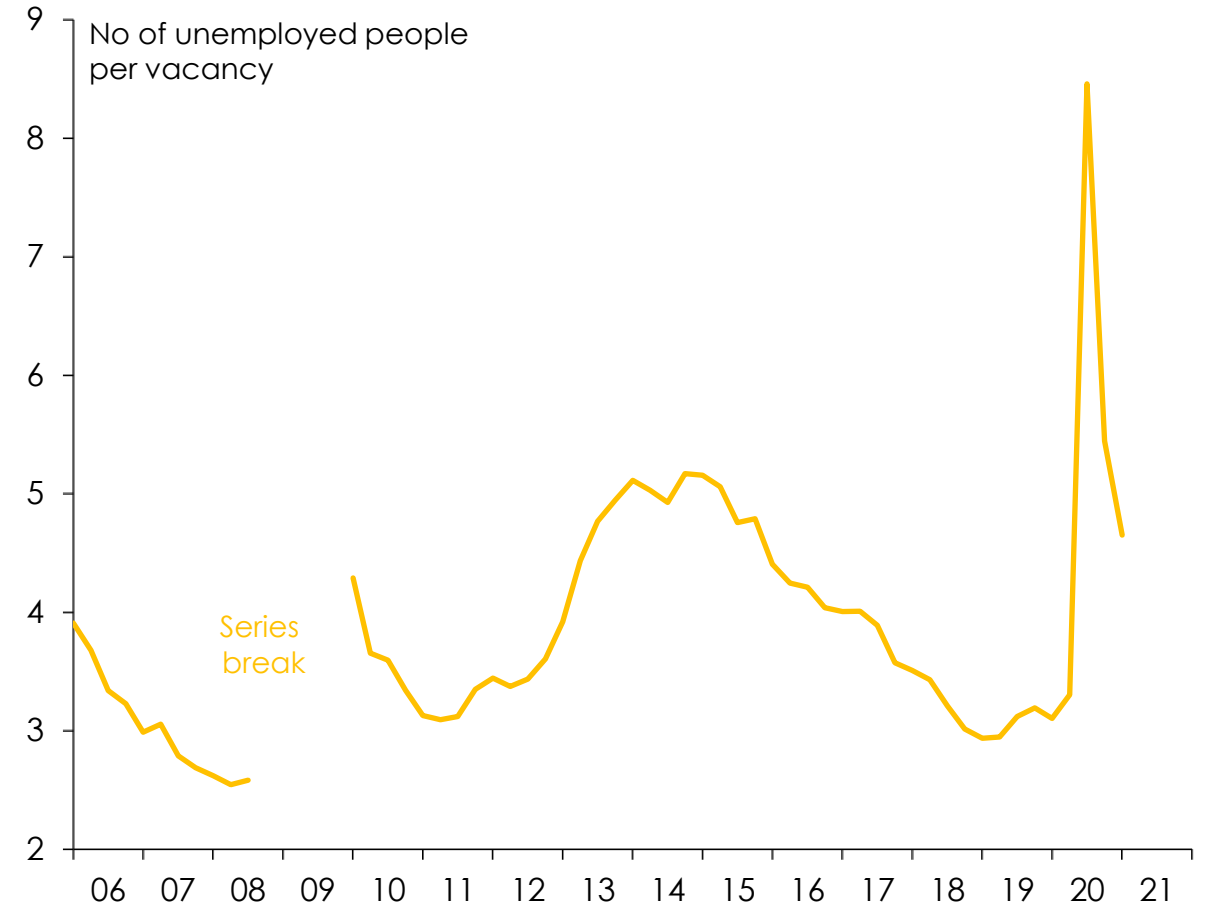
# Job vacancies have rebounded swiftly from their recession lows, although there are still almost 5 unemployed people for every job on offer

## Measures of job vacancies



- Both the ANZ and NSC job advertisements measures have recouped their pandemic-induced losses, while the ABS vacancies measure is at an all-time high

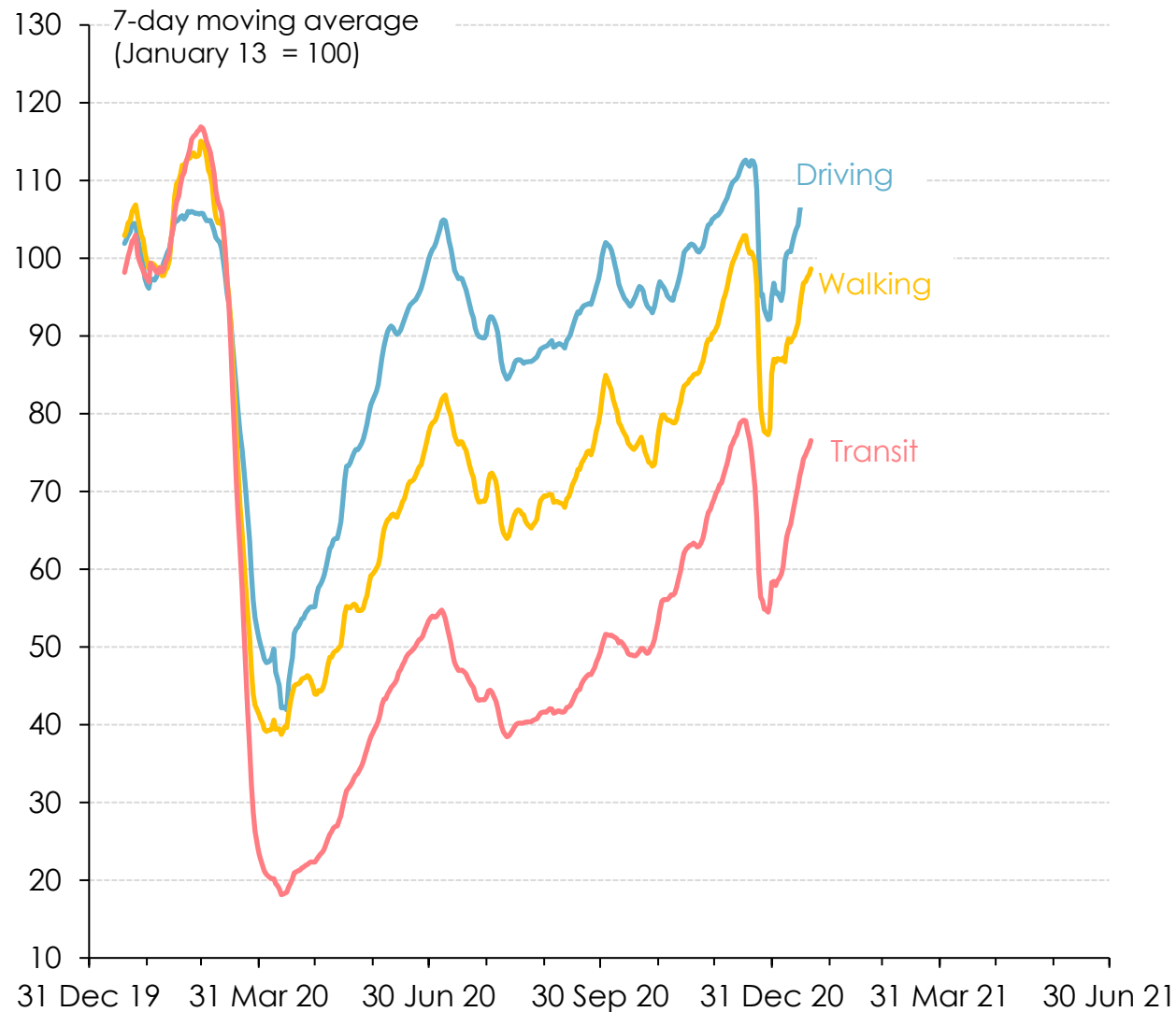
## Ratio of unemployed people to job vacancies



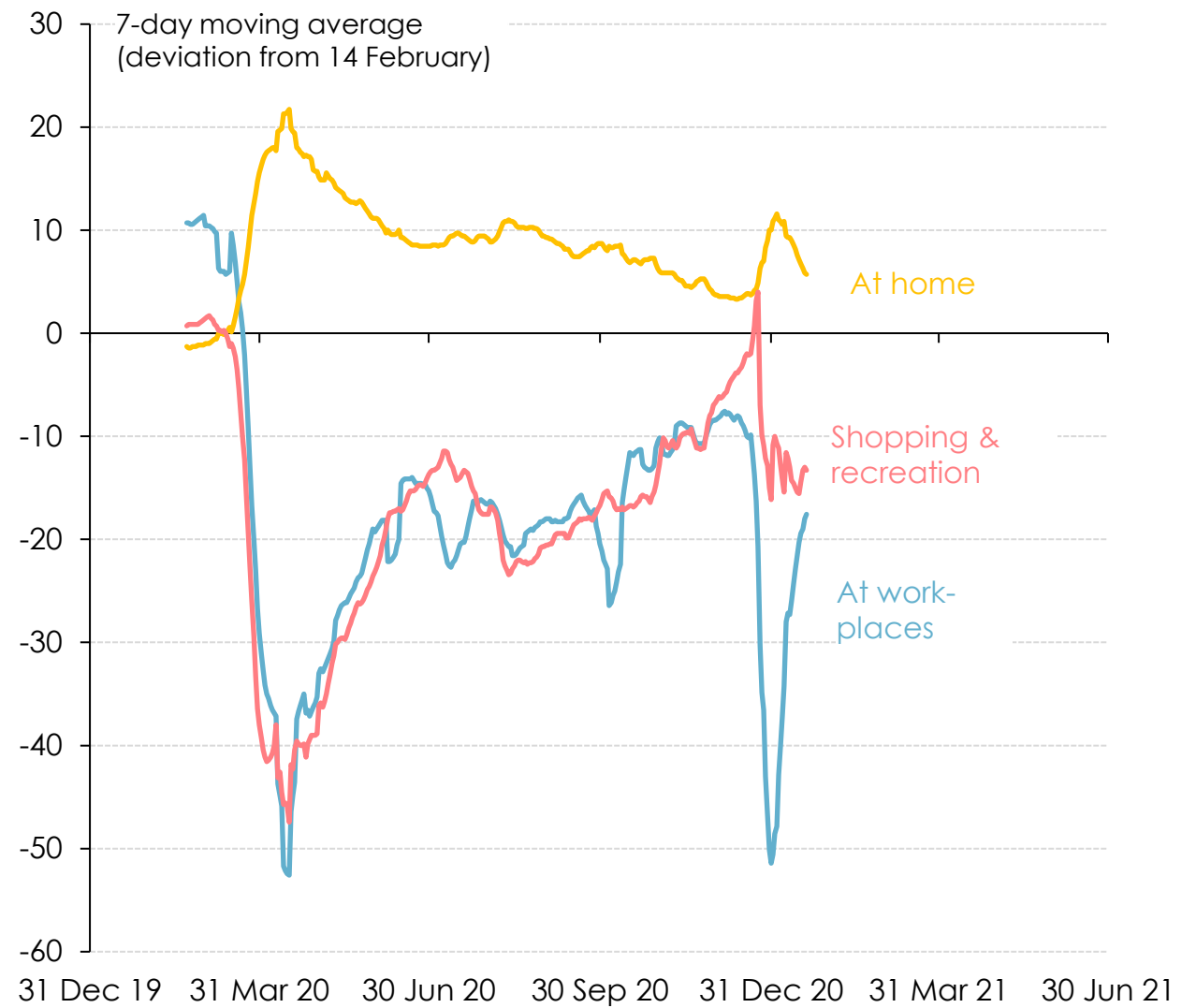
- In November there were roughly  $4\frac{3}{4}$  unemployed people for every vacancy reported to ABS – down from a peak of  $8\frac{1}{2}$  in May but above the decade average of 3.9

# Mobility indicators were impacted by normal Christmas-New Year shutdown but have resumed upward trend in the first half of January

## Time spent driving, walking and in transit



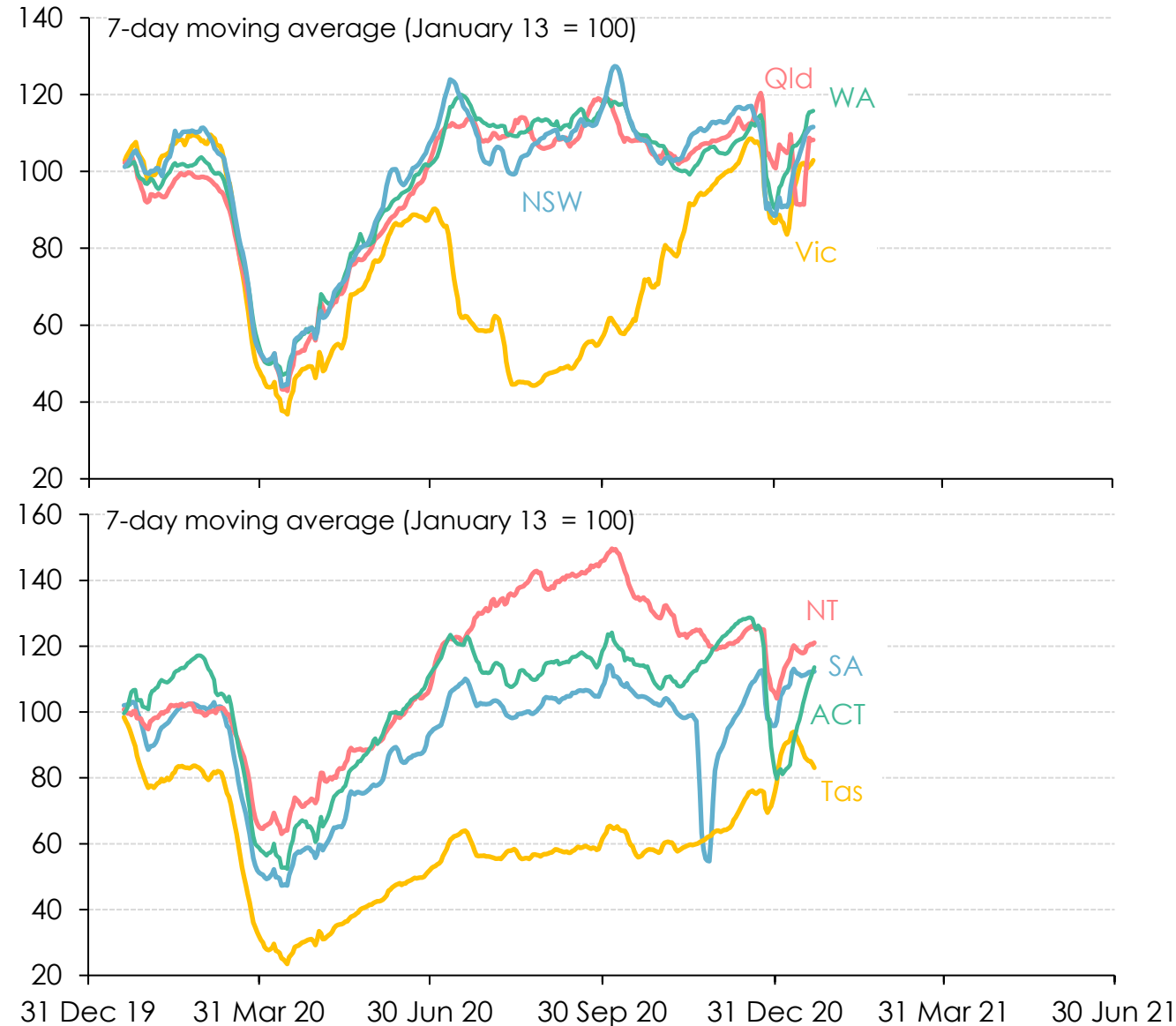
## Time spent working, at home, shopping & playing



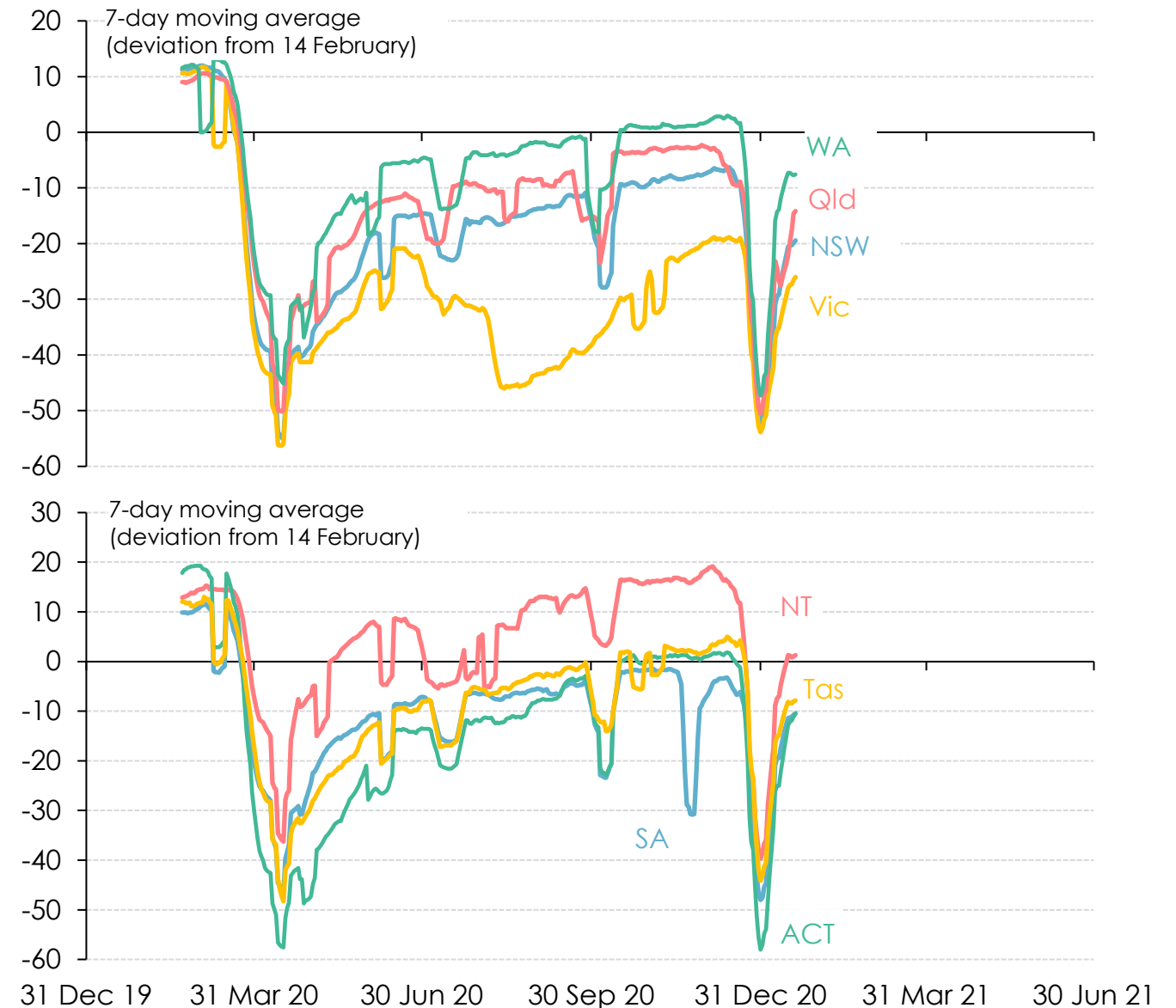
Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 21st January); [Google Community Mobility Reports](#) (data up to 19th January). For state-level data see [next slide](#). [Return to "What's New"](#).

# The effects of the partial lock-downs in Sydney and Brisbane in late December and early January are also evident in mobility data

## Time spent driving, by State and Territory



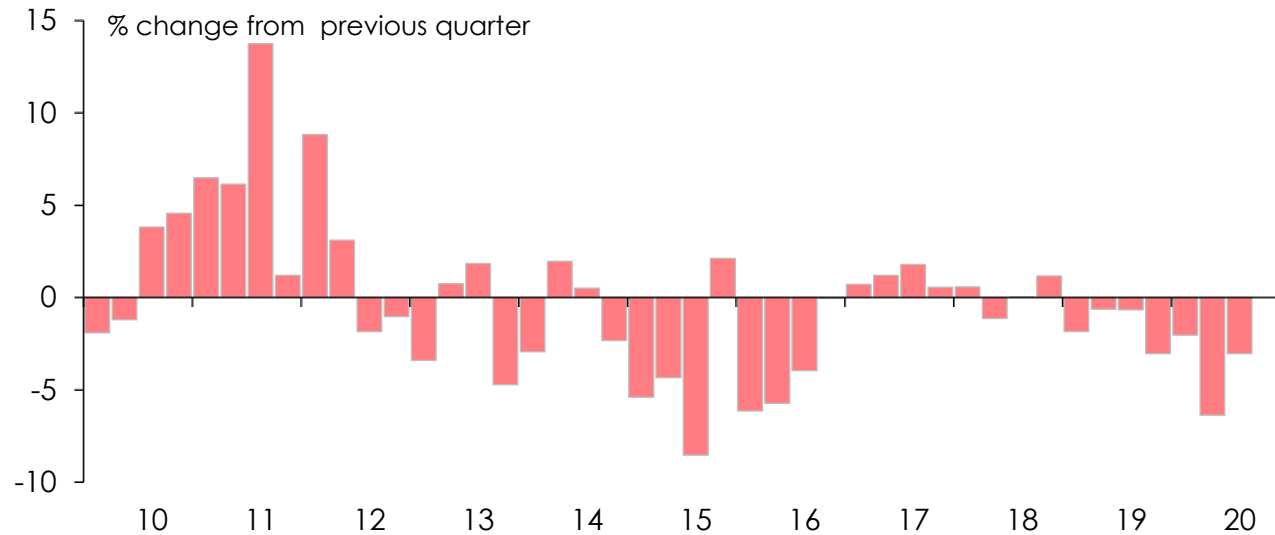
## Time spent in workplaces, by State and Territory



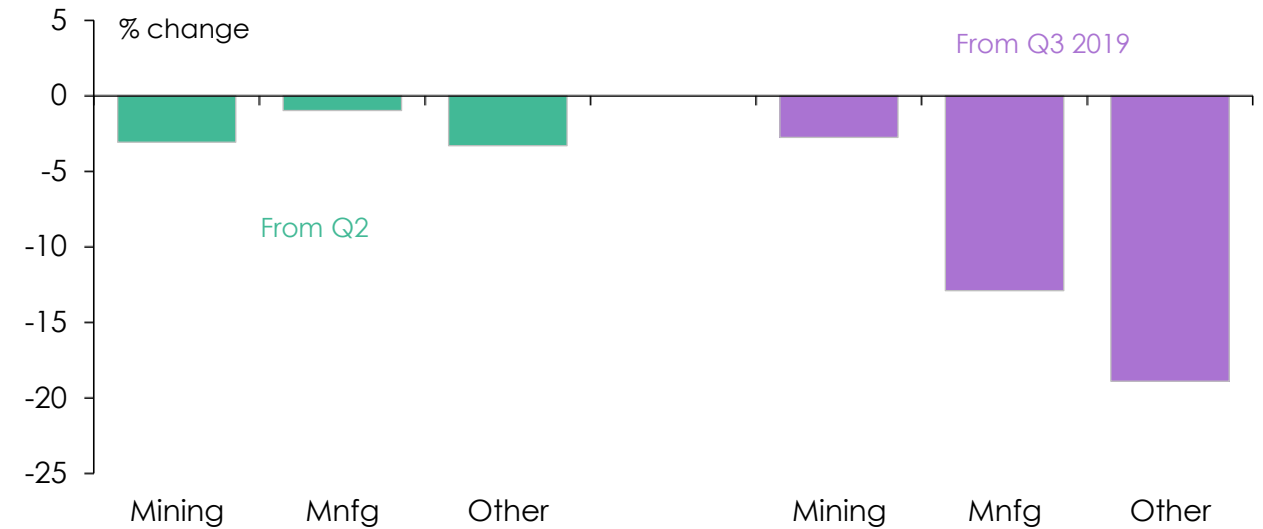
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 21st January); [Google Community Mobility Reports](#) (data up to 19th January). [Return to "What's New"](#).

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

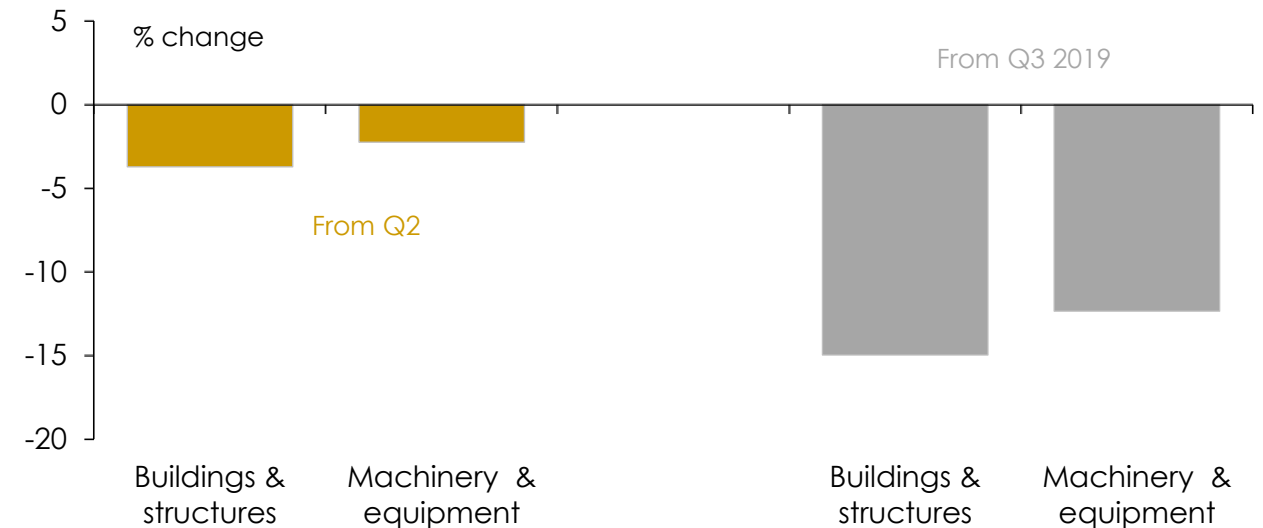
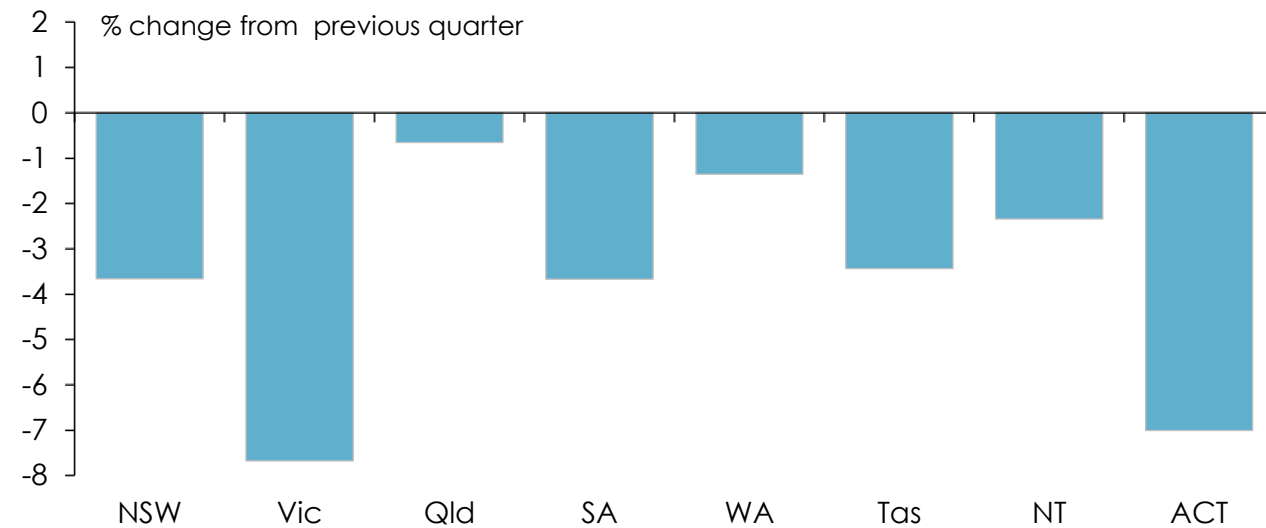
## Real business new fixed capital expenditure



## Real business new fixed capex, by industry, Q3



## Real business new fixed capex, by state, Q3

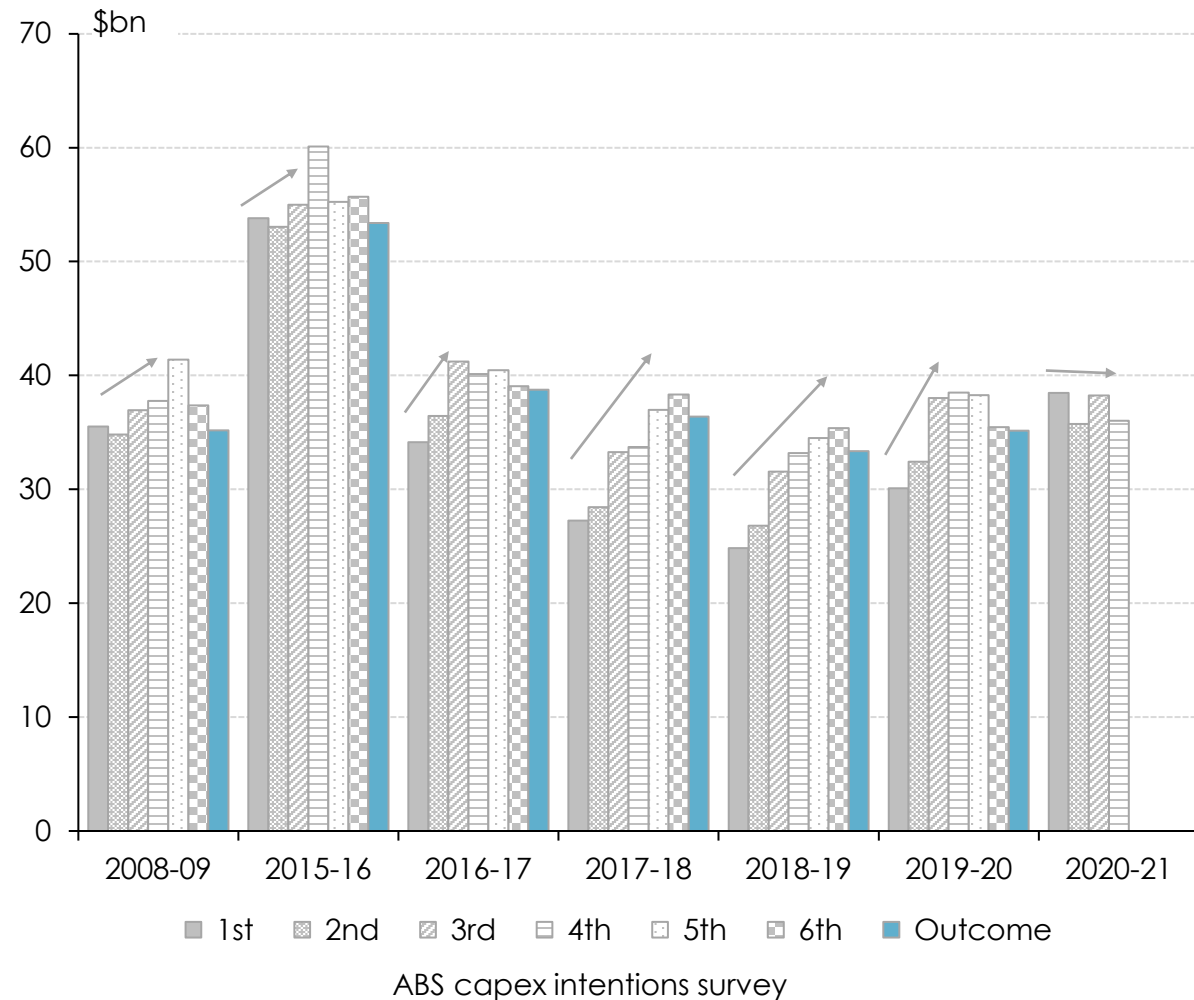


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.  
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); December quarter 2020 data will be released on 25<sup>th</sup> February. [Return to "What's New"](#).

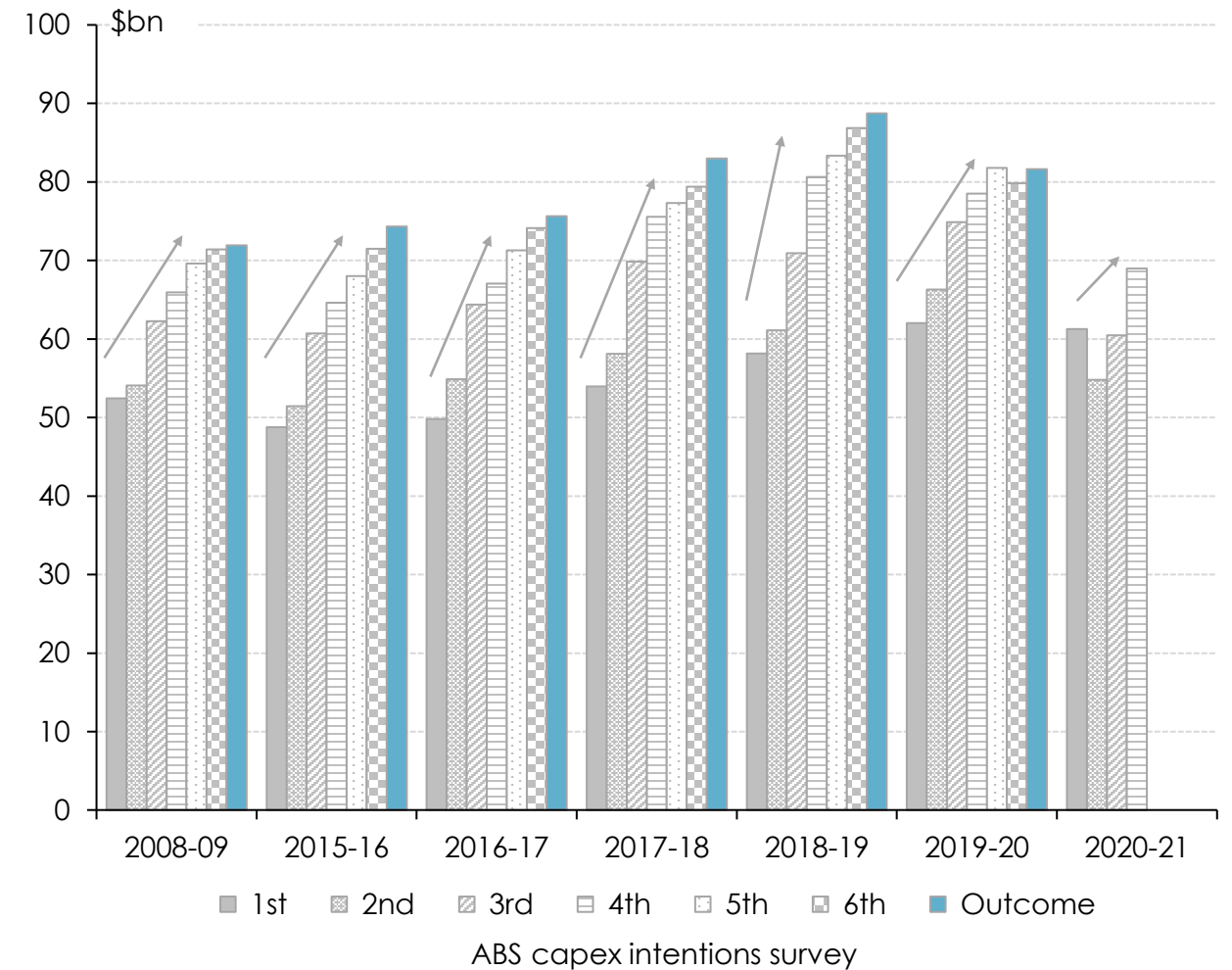


# Non-mining business capex intentions have been revised up substantially over the past three months – but mining capex intentions haven't been

## Capital expenditure intentions - mining



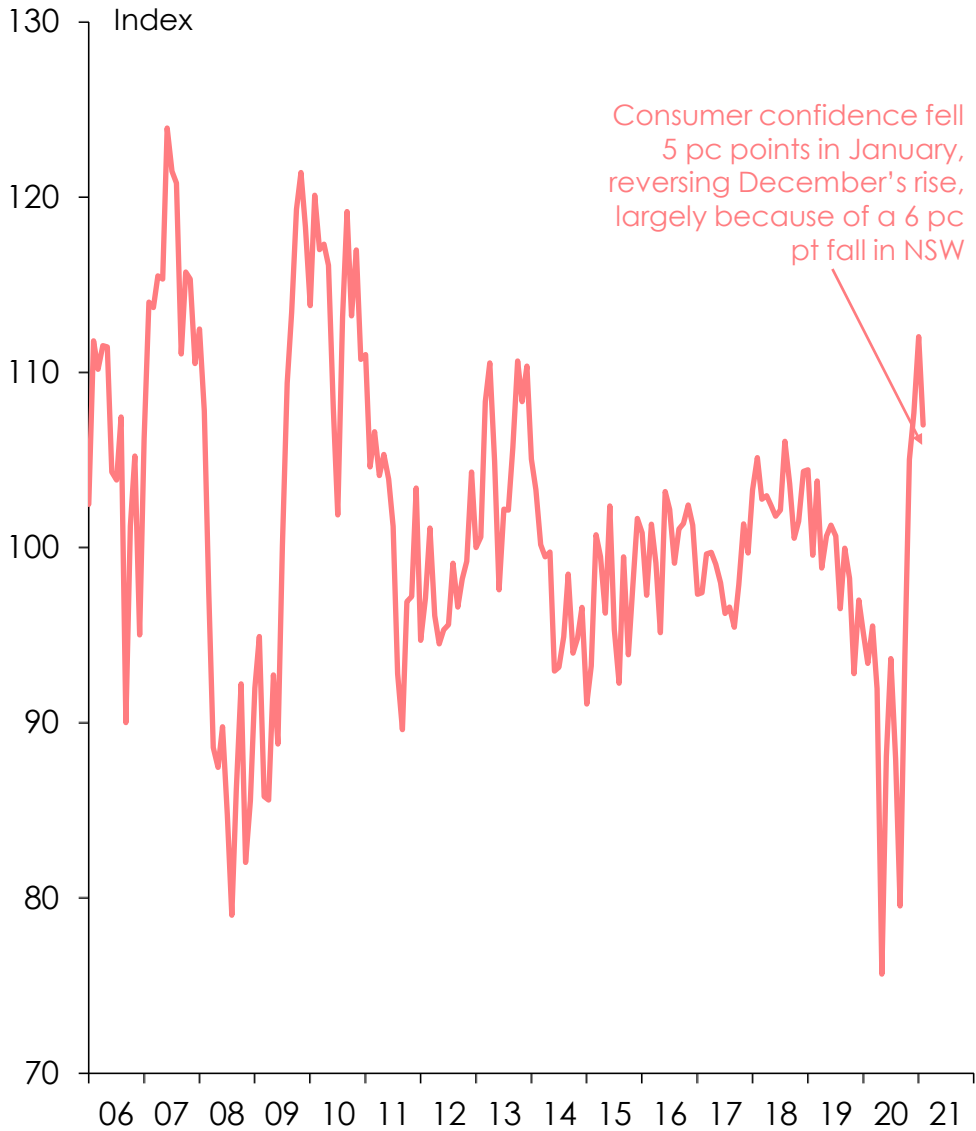
## Capital expenditure intentions – non-mining



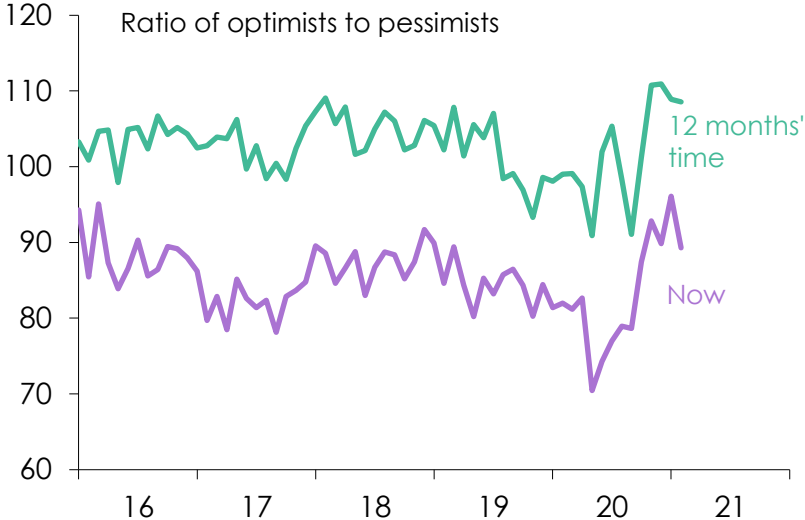
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

# Consumer confidence fell back in January, probably in response to the outbreaks since mid-December in Sydney

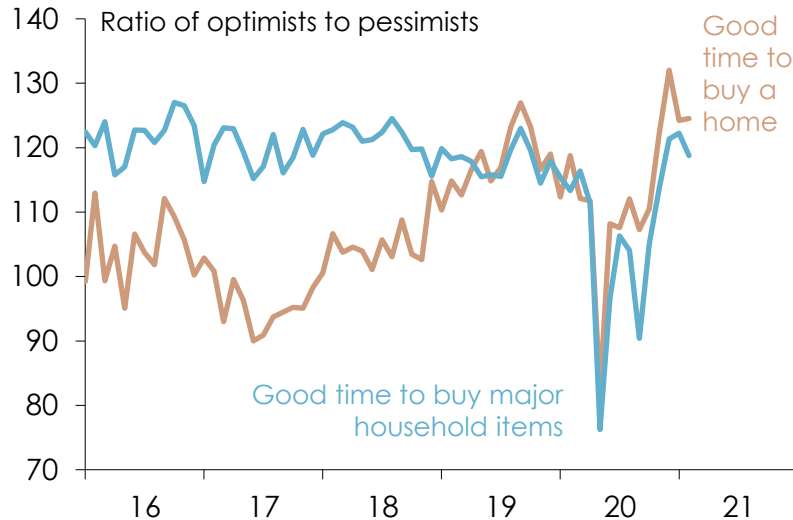
Consumer confidence index



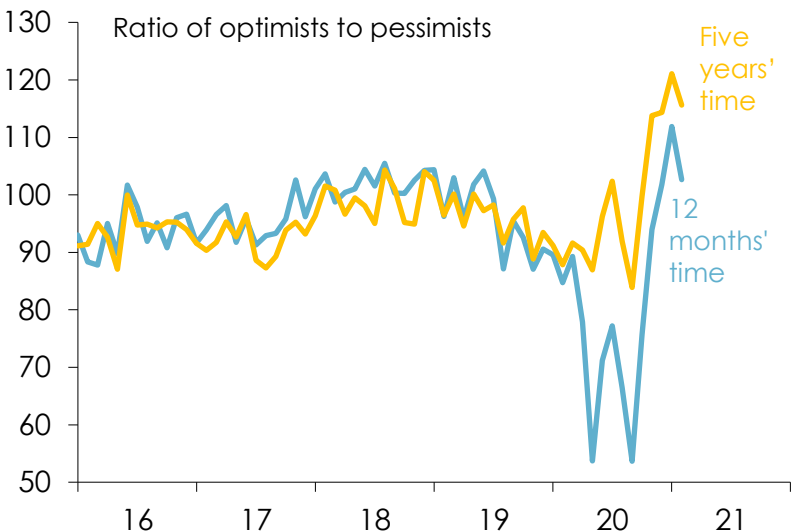
Household finances assessment



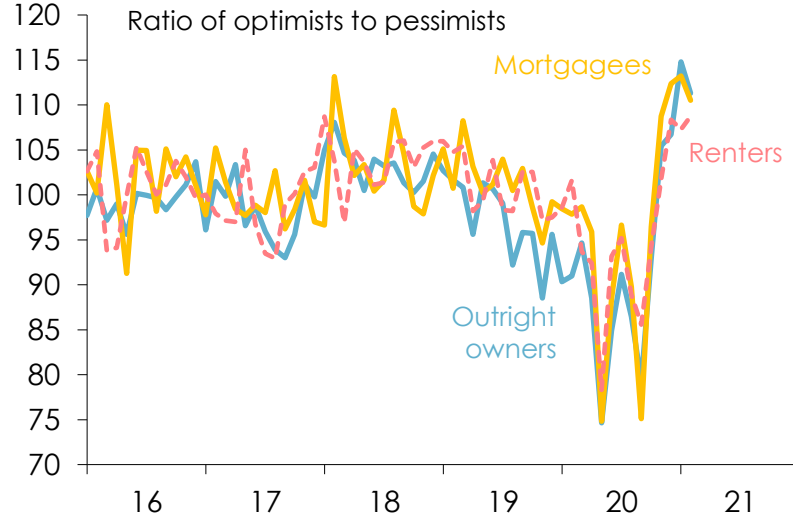
Buying conditions assessment



Economic conditions assessment



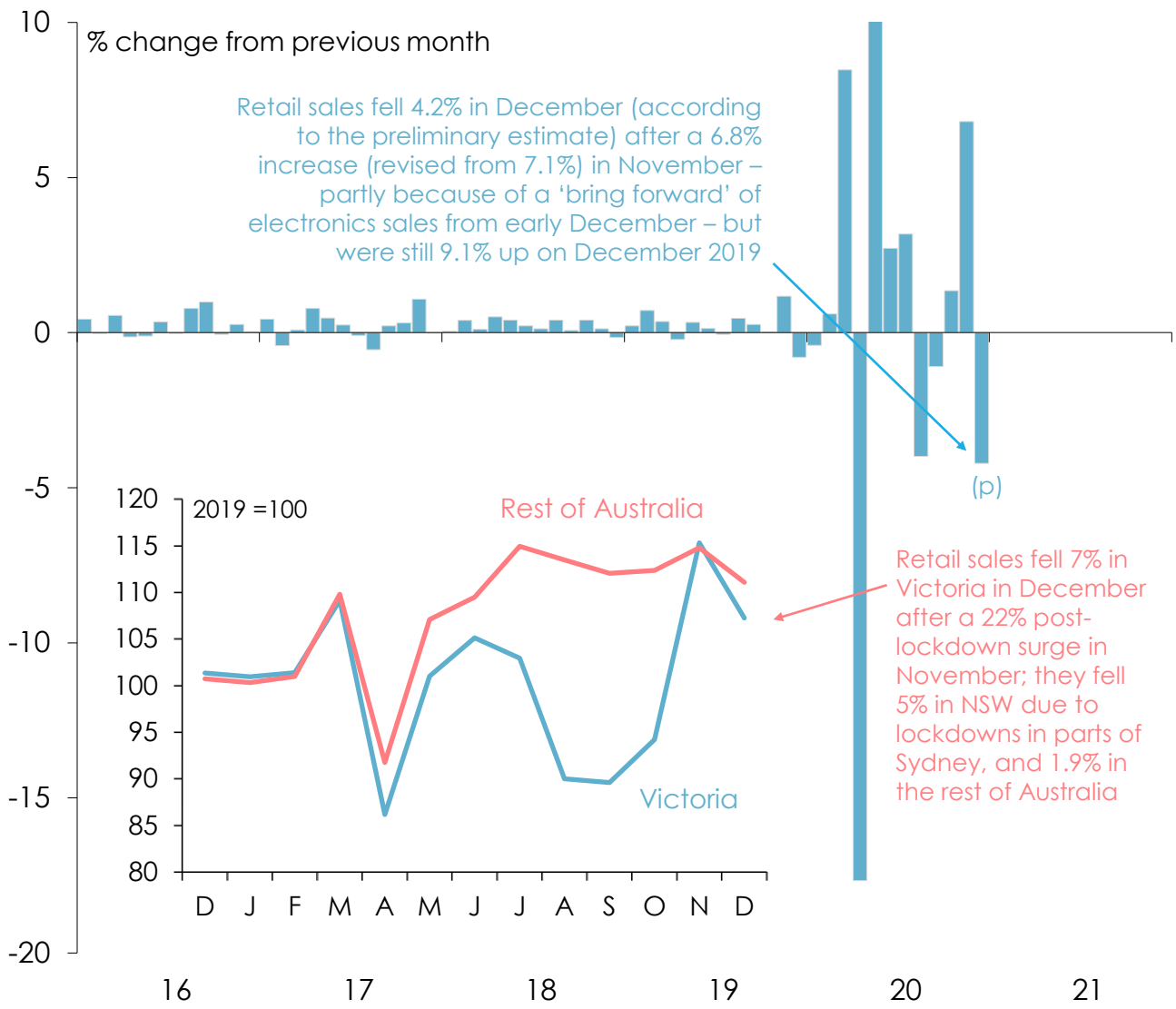
Confidence by housing tenure



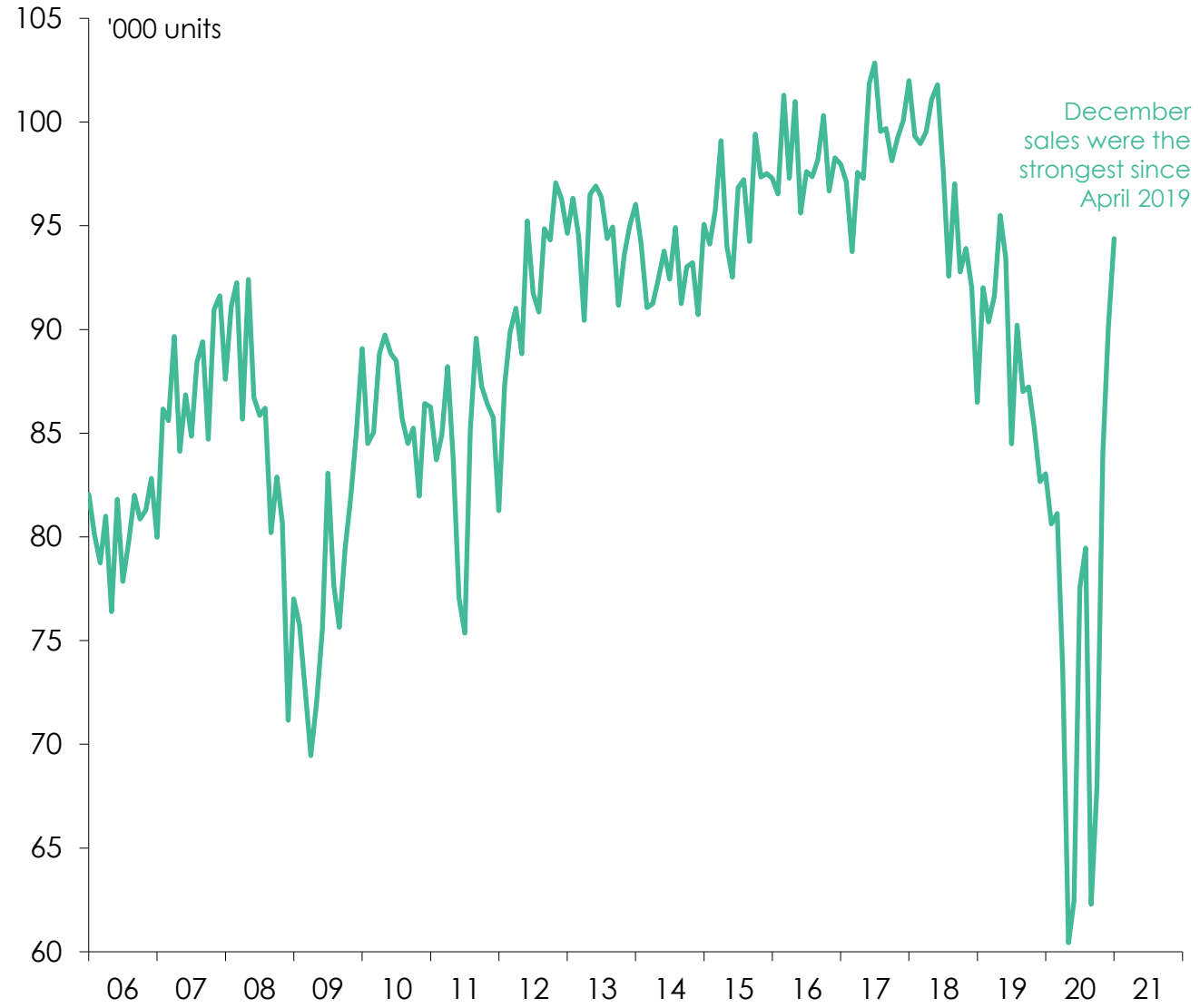
Source: [Westpac Banking Corporation](#). February consumer confidence will be released on 10<sup>th</sup> February. [Return to "What's New"](#).

# Retail sales fell 4¼% in December, but were still up 9% from a year earlier ; motor vehicles sales jumped another 5% in December to an 18-mth high

## Retail sales



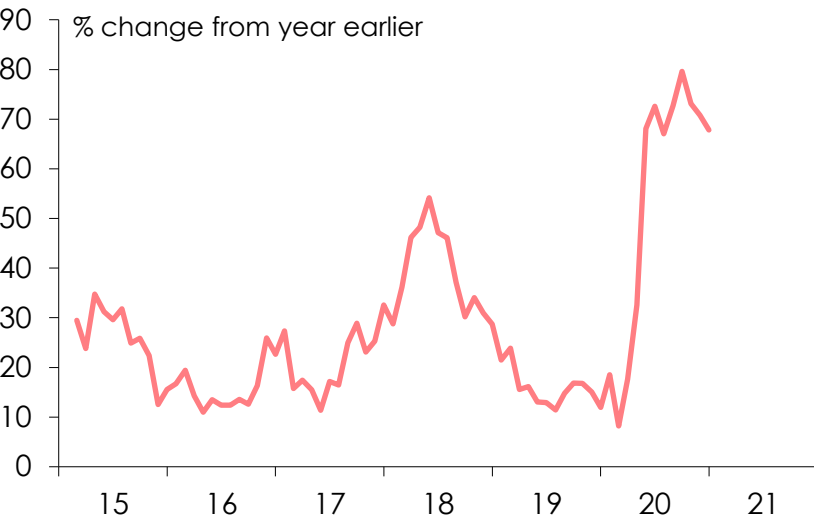
## Motor vehicle sales



Sources: ABS, [Retail Trade, Australia, Preliminary](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Final December retail sales data will be released on 5<sup>th</sup> February; January motor vehicle sales data will be released in early February. [Return to "What's New"](#).

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

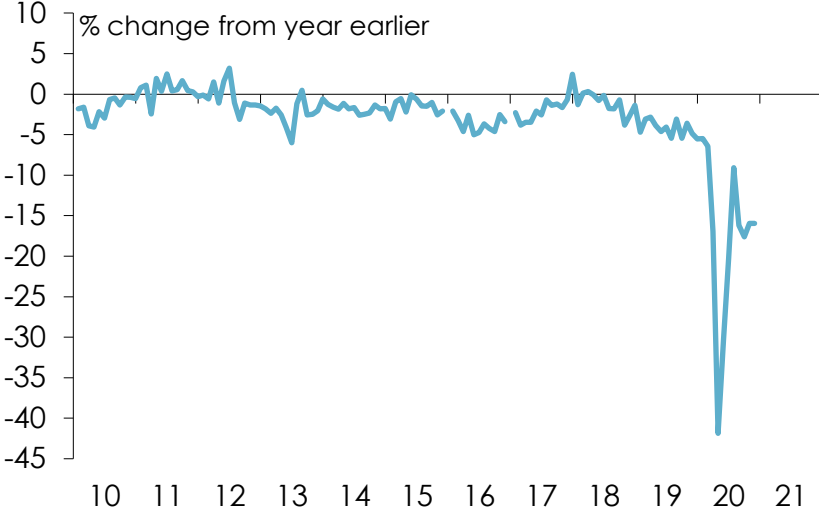
## Growth in online retail sales



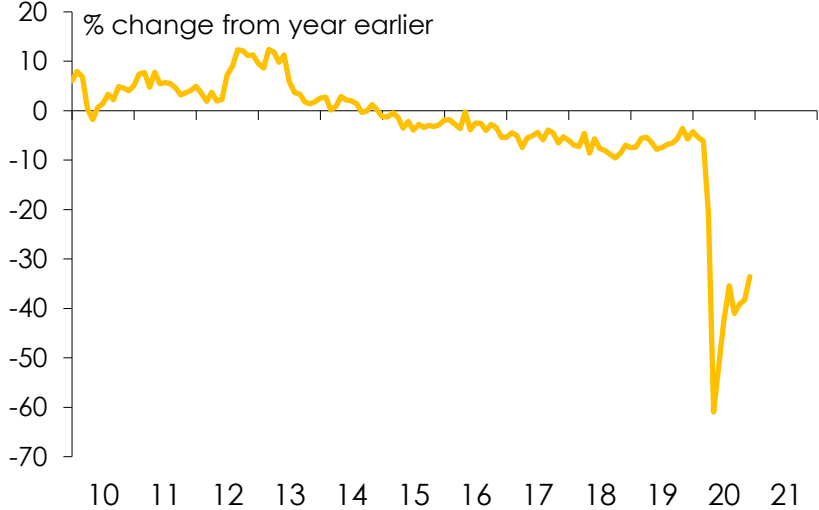
## Online retail 'market share'



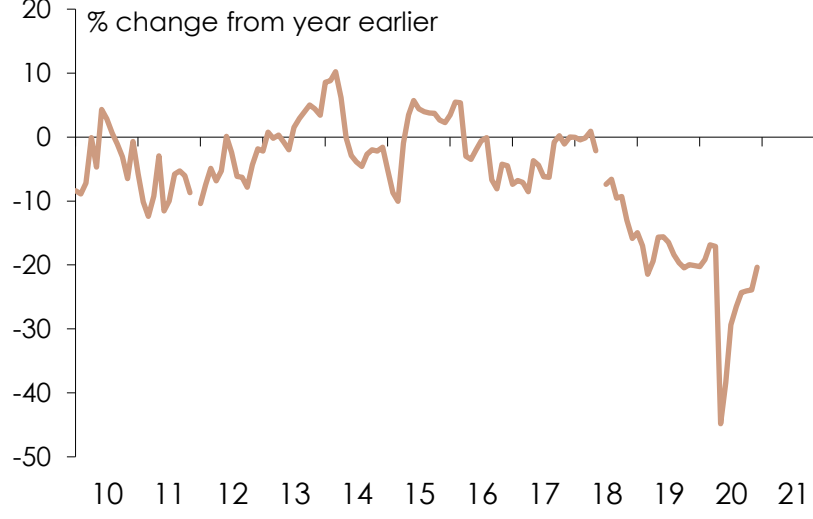
## ATM cash withdrawals



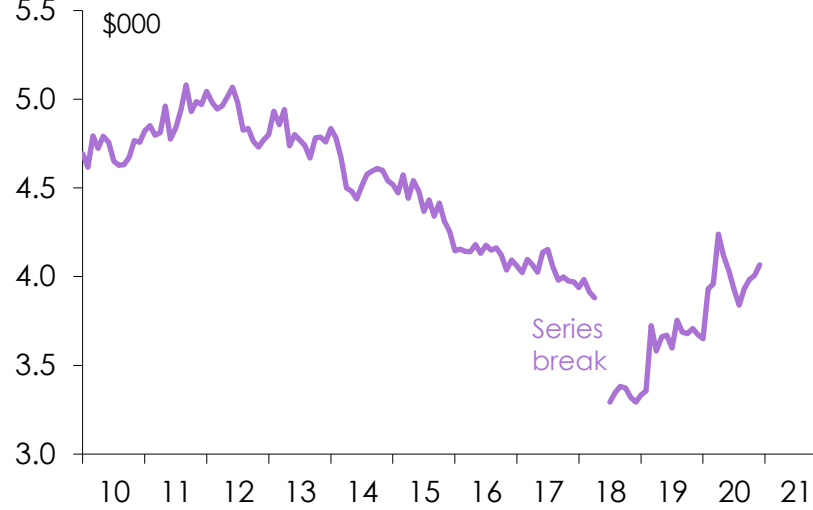
## Debit card cash-outs



## Credit card cash advances



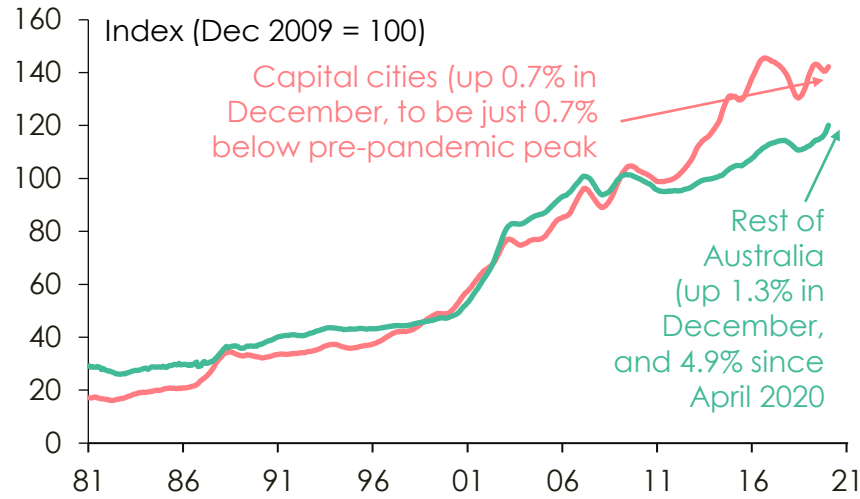
## Direct entry payments



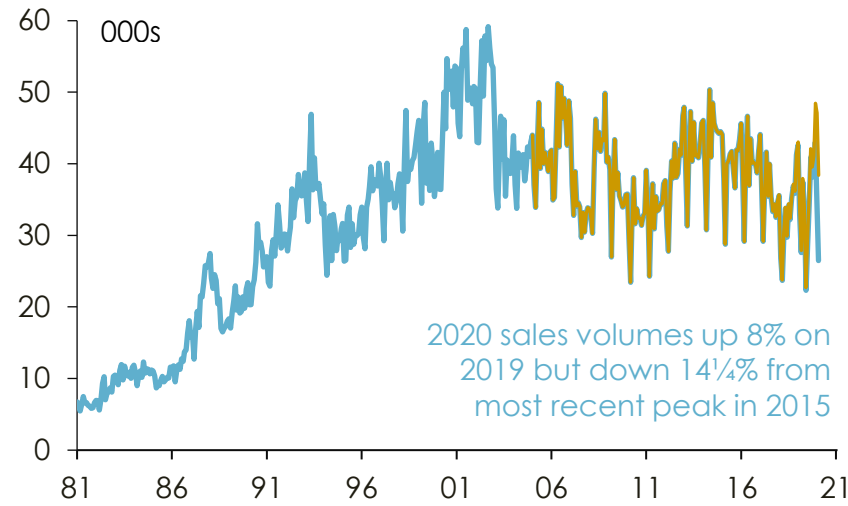
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for October: December data on online retail sales will be published on 5<sup>th</sup> February, and on the payments system on 8<sup>th</sup> February.

# Property prices rose 0.8% in December, to be 3% higher than in December 2019, with regional areas up 7% and capital cities 2% over the year

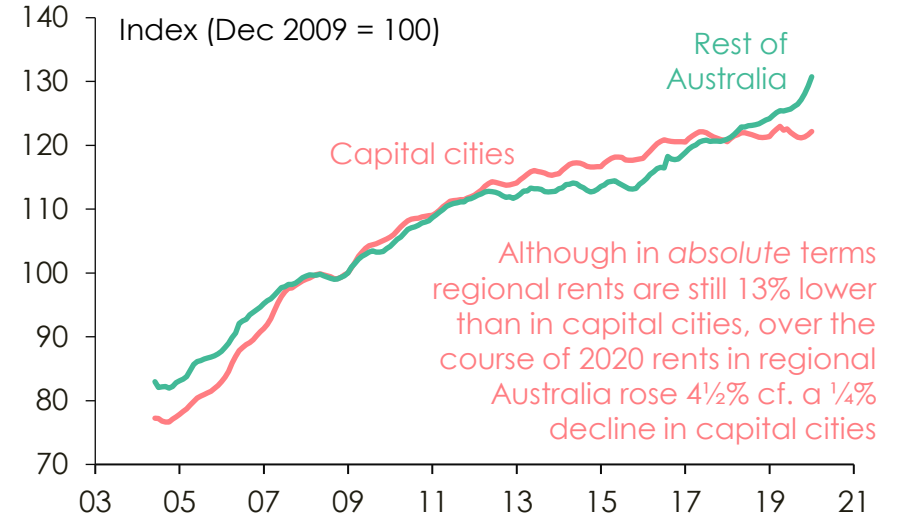
## Residential property prices



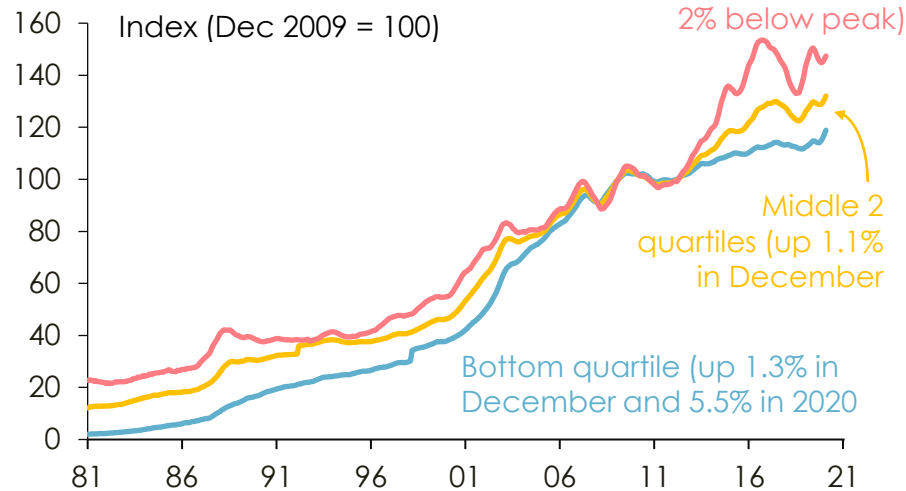
## Residential property sales volumes



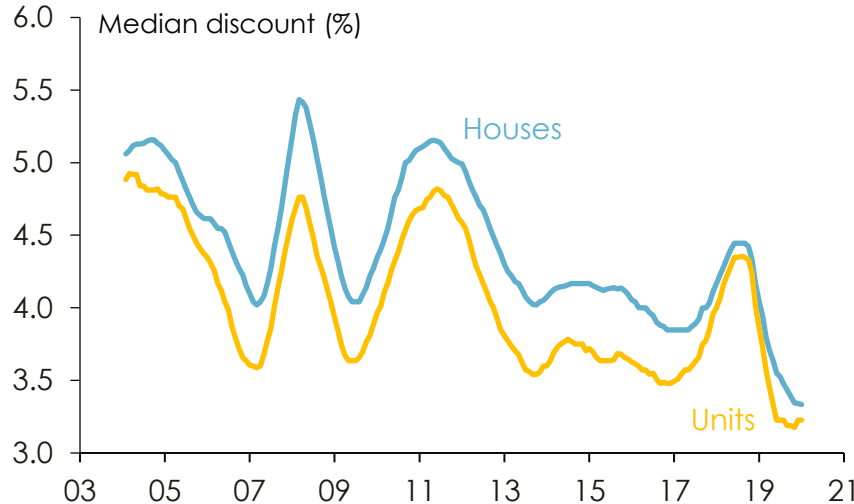
## Residential rents



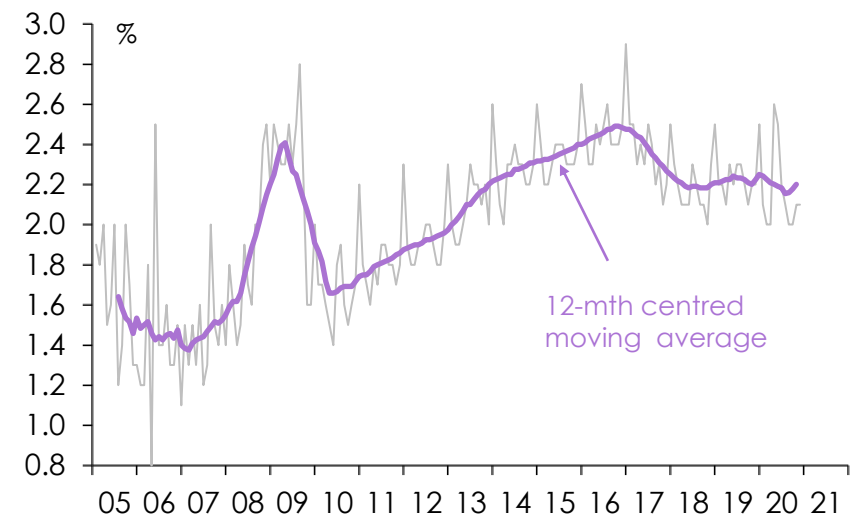
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

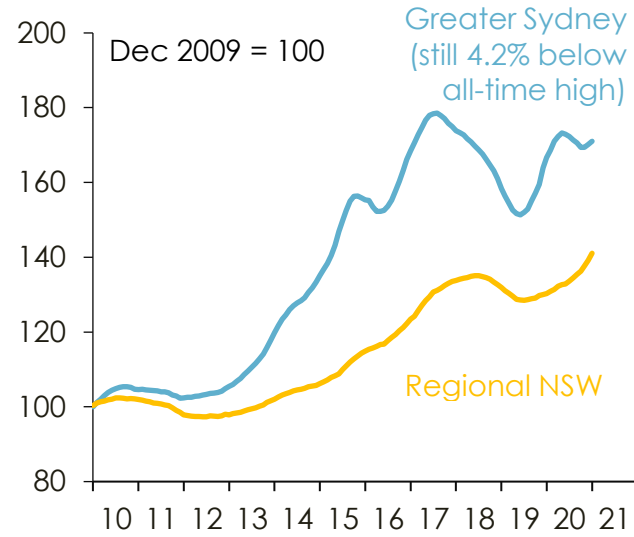


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential 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 December 2020; January data will be released on 1<sup>st</sup> February 2021.

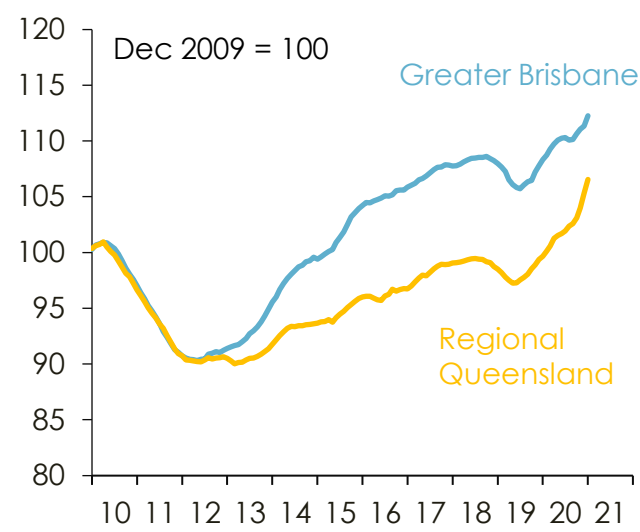
Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

# SYD, MEL, PER and DRW prices are still below prior peaks, but BNE, ADL, CBR and especially HBA (and many regional cities) are at record highs

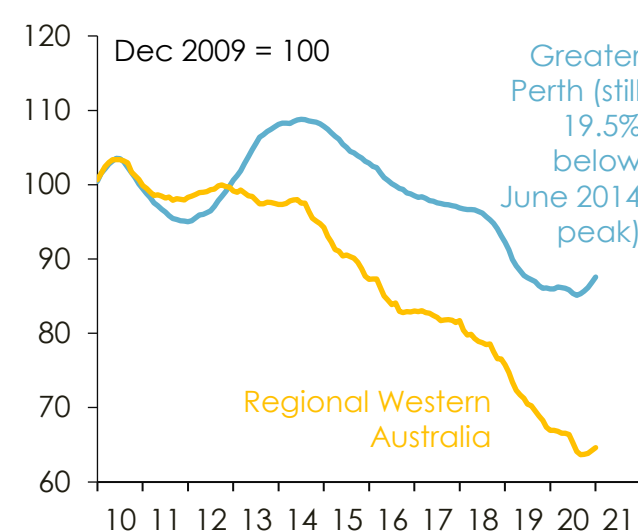
## New South Wales



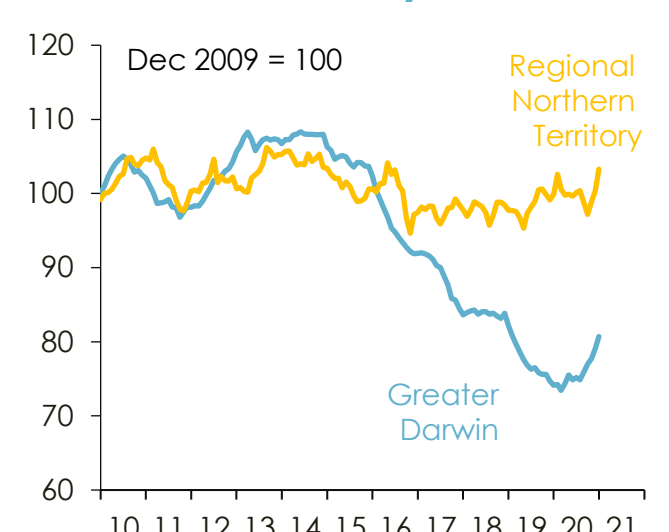
## Queensland



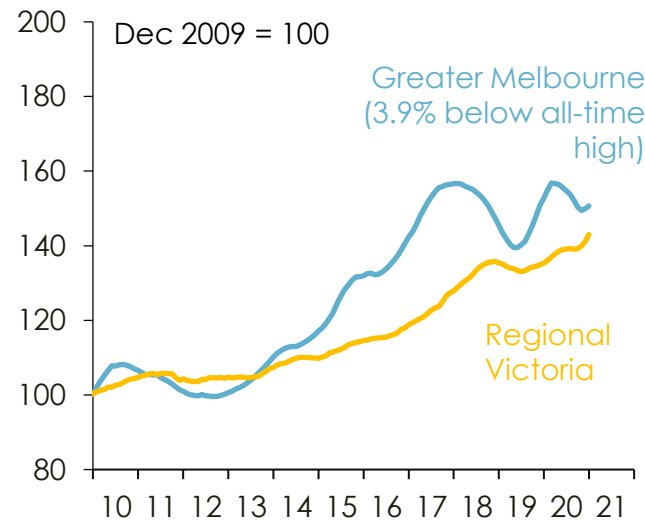
## Western Australia



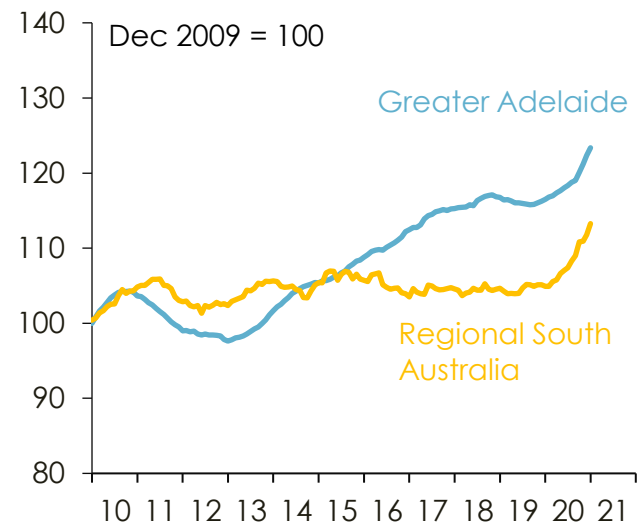
## Northern Territory



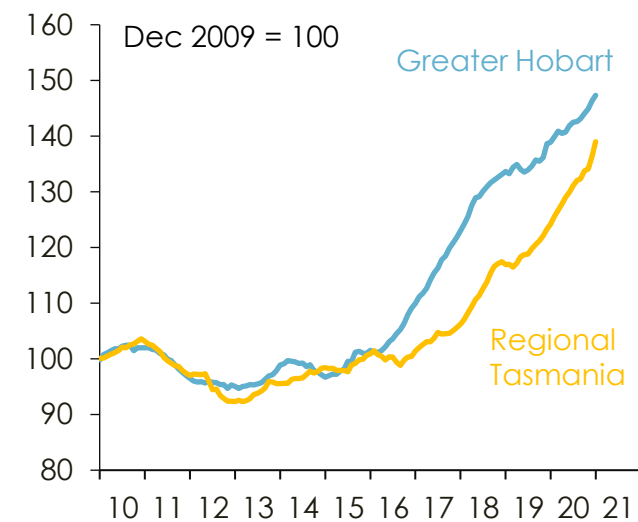
## Victoria



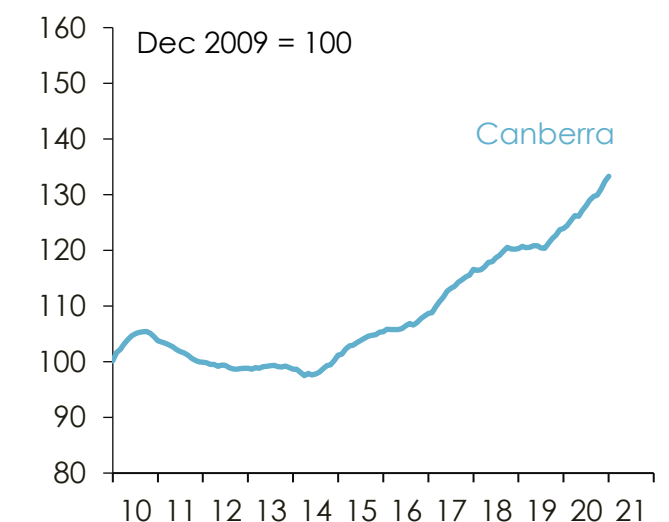
## South Australia



## Tasmania



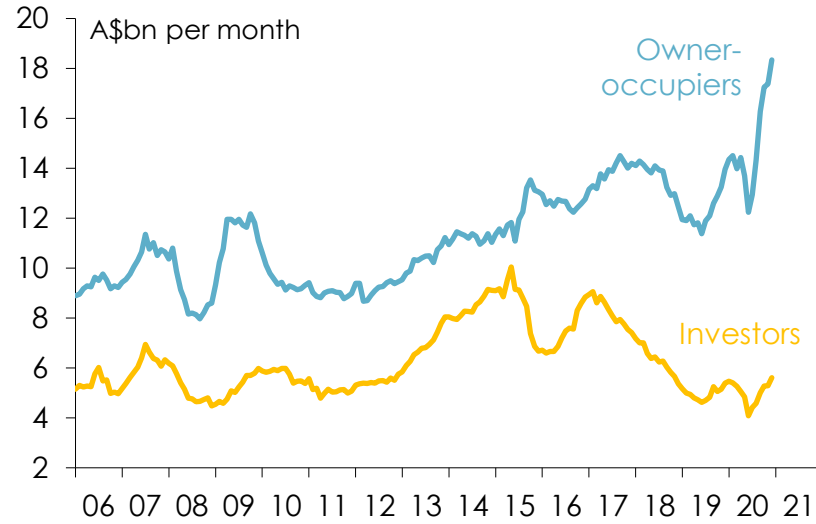
## Australian Capital Territory



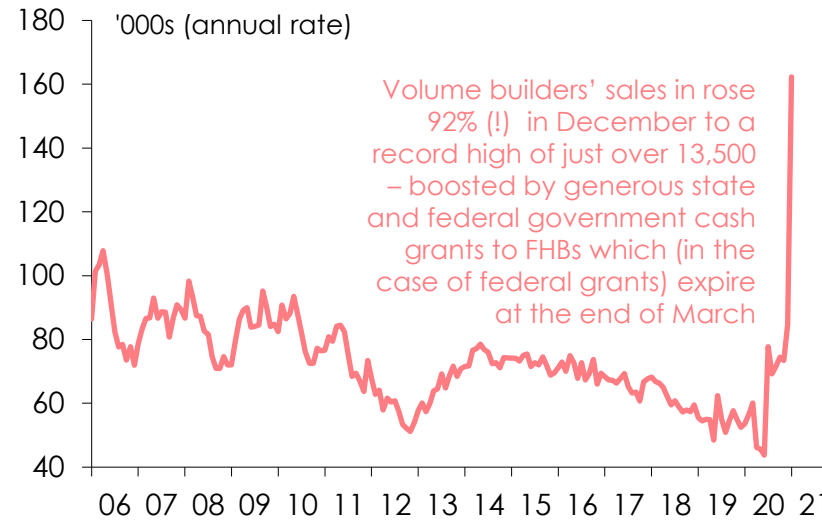
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

# Leading indicators of housing activity surged over the last few months of 2020, led by first-time buyers and despite the absence of immigrants

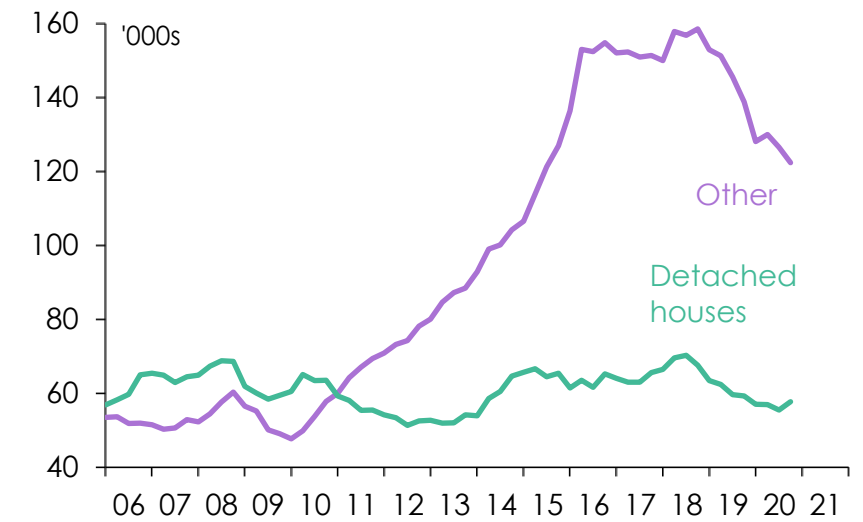
## Housing finance commitments



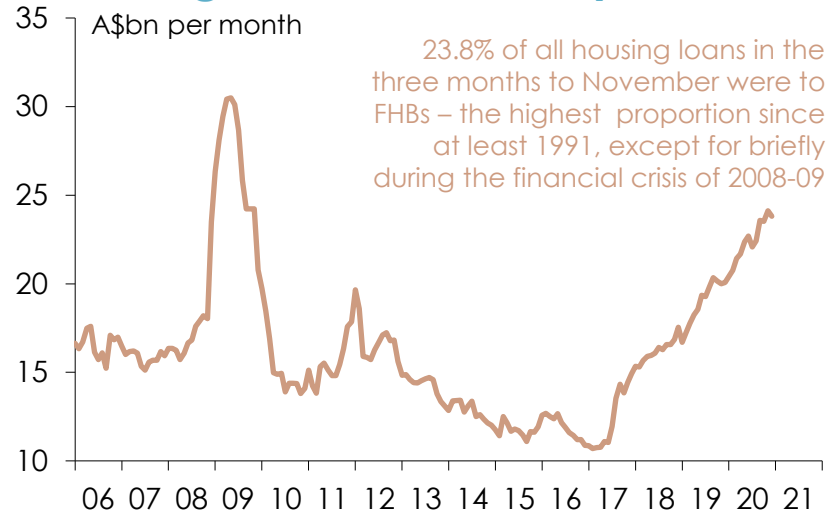
## Large builders' new home sales



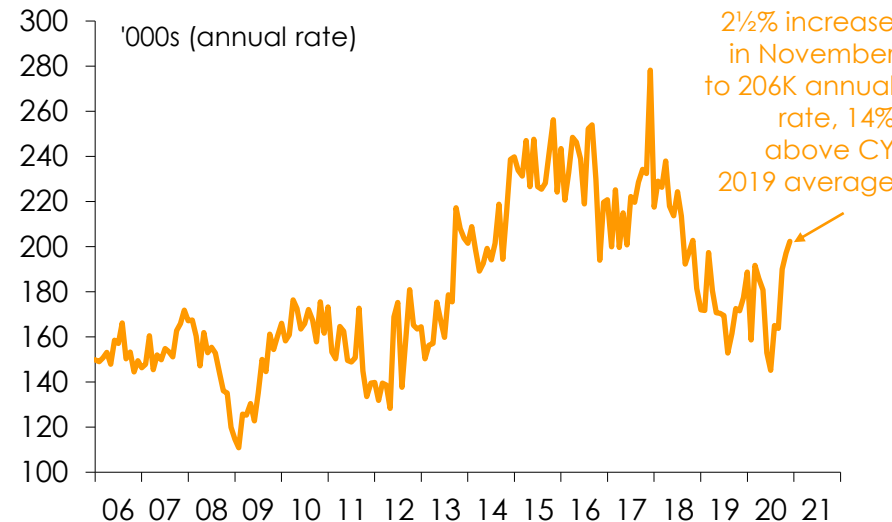
## Dwellings under construction



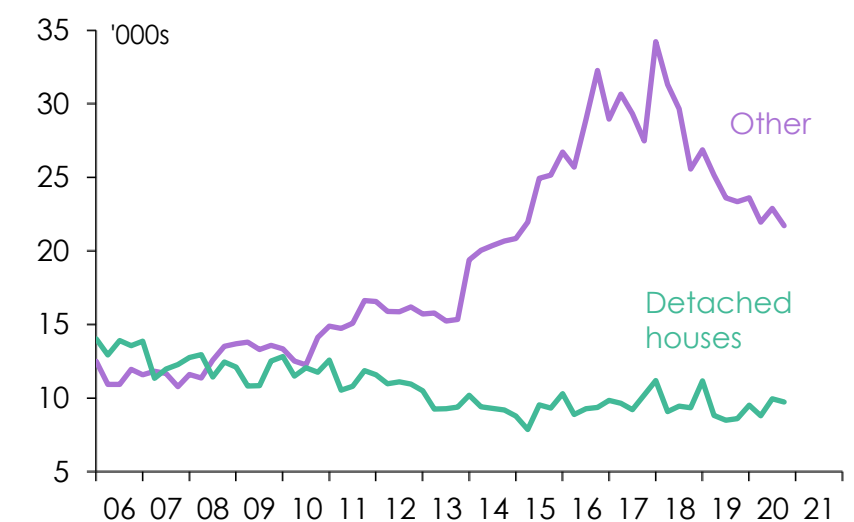
## Lending to first home buyers



## Residential building approvals



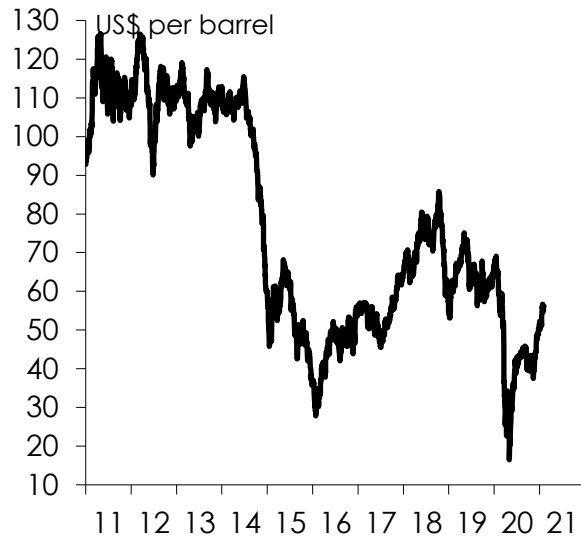
## 'Pipeline' of work yet to be started



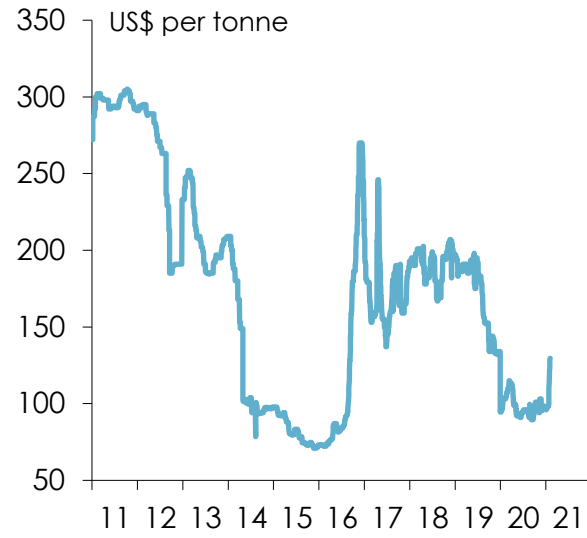
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. December housing finance data will be released on 1<sup>st</sup> February; building approvals data on 3<sup>rd</sup> February; December; and December quarter dwellings under construction and 'pipeline' data on 14<sup>th</sup> April. [Return to "What's New"](#).

# Most commodity prices – and in particular met coal – rose this week, the only exception being iron ore down 1.2% (from a nine-year high)

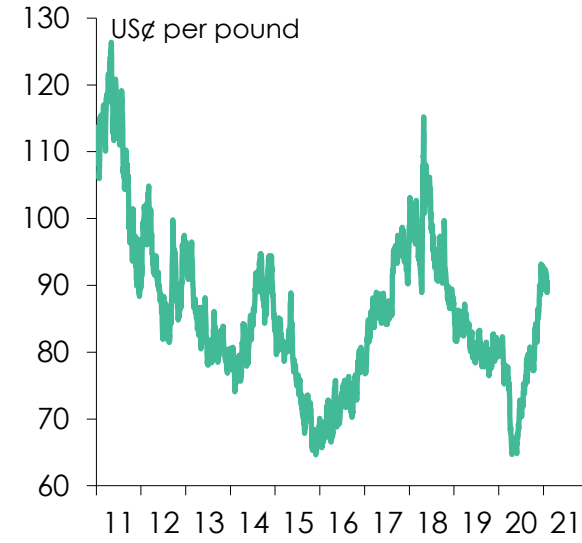
## Crude oil



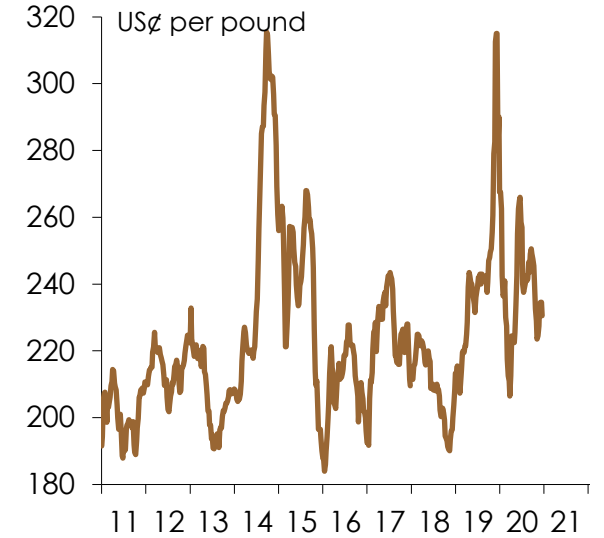
## Metallurgical coal



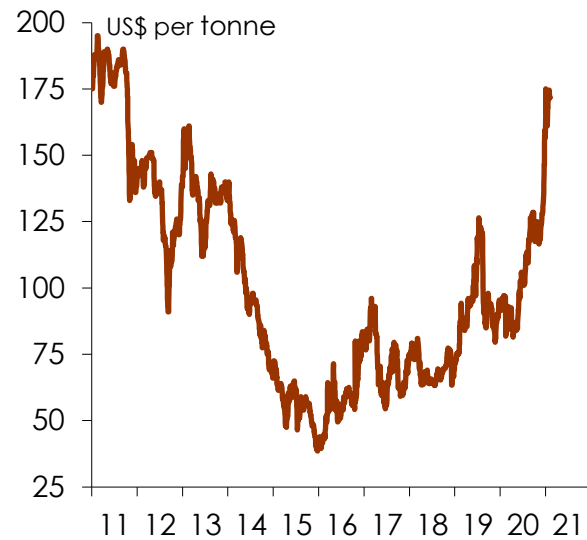
## Aluminium



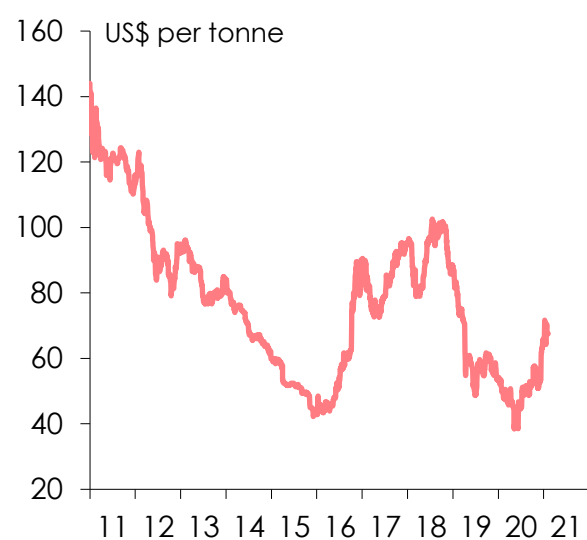
## Beef



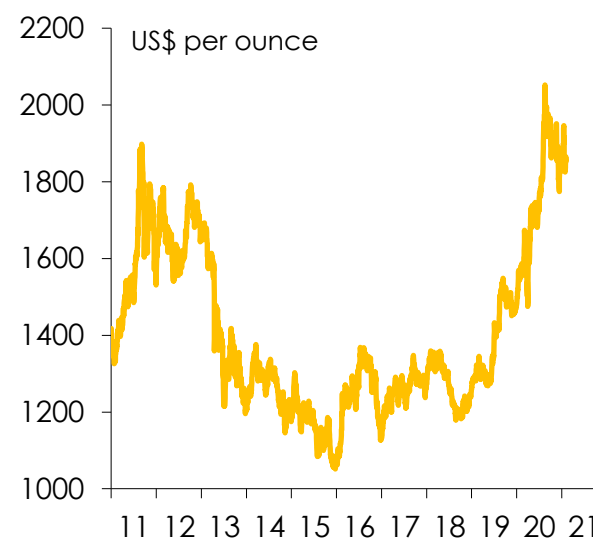
## Iron ore



## Thermal coal



## Gold



## Wool

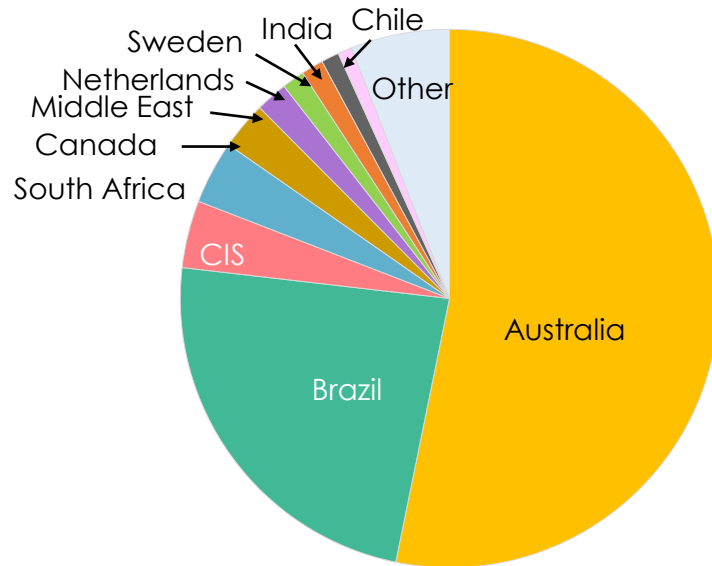


Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 22nd January (except for beef prices which are only available up to 4th December 2020). [Return to "What's New"](#).

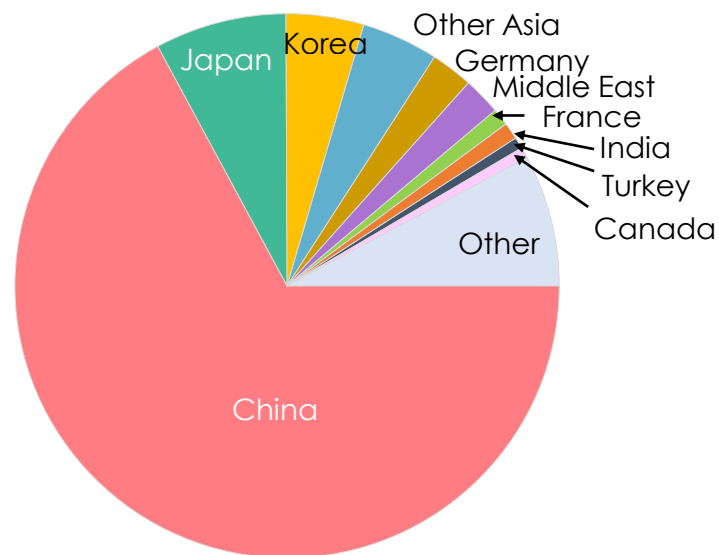


# The resilience of iron ore prices stems from strong Chinese demand, declining Chinese production and constraints on Brazilian exports

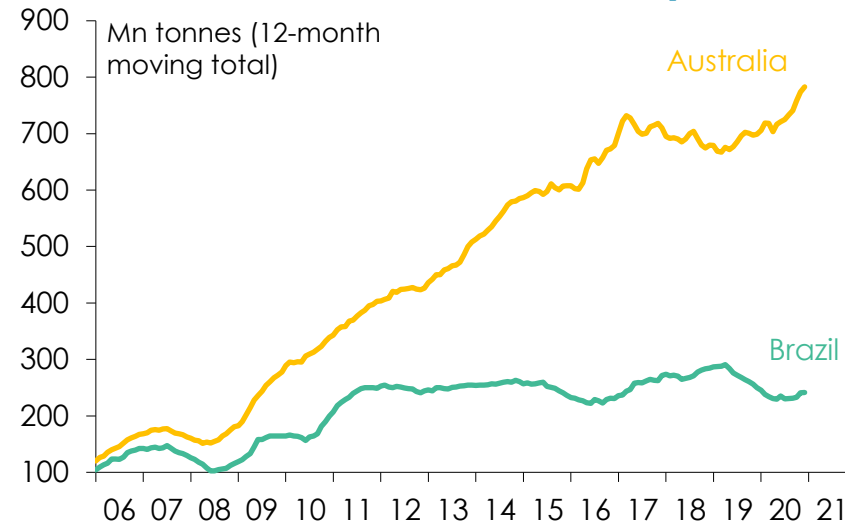
## Iron ore exports, 2018



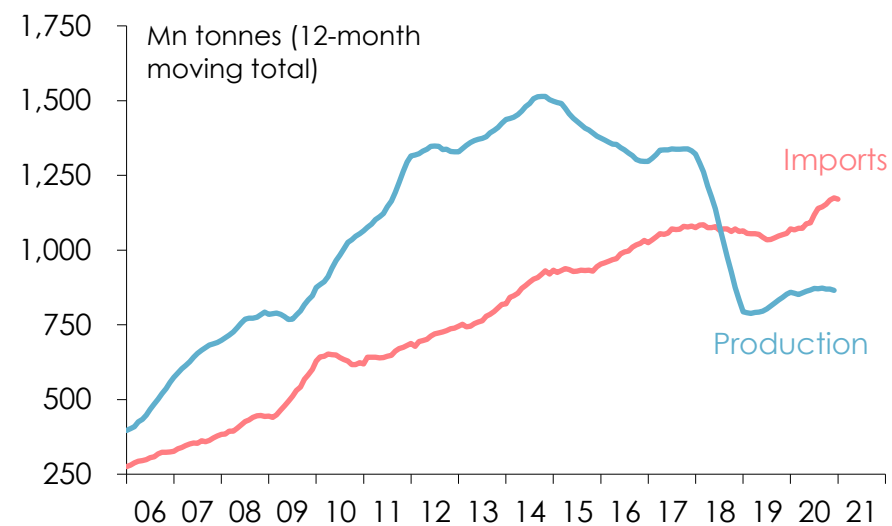
## Iron ore imports, 2018



## Australia & Brazil iron ore exports



## China iron ore production & imports

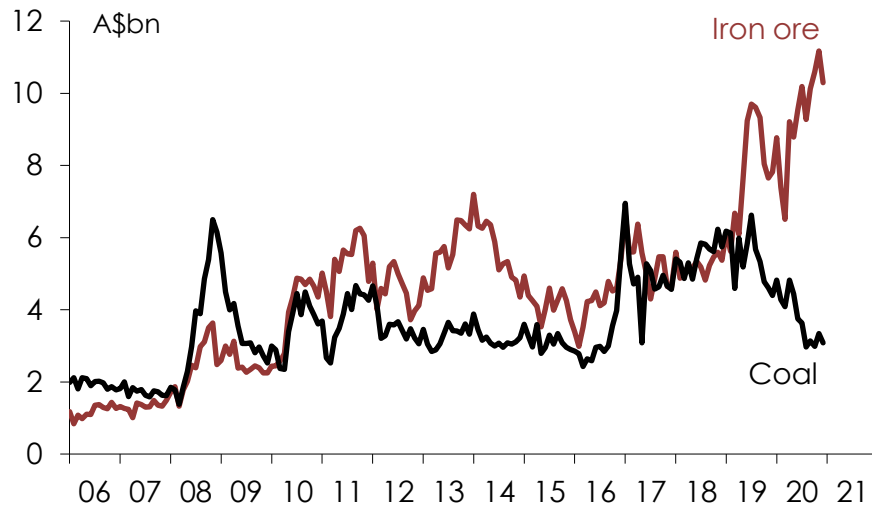


- ❑ The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese steel mills to become more dependent on imports
- ❑ Brazilian 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 mines
- ❑ China is seeking to develop other sources in West Africa – in particular the [Simandou project](#) in Guinea – although there are big logistical hurdles to be overcome there
- ❑ By 2030, 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

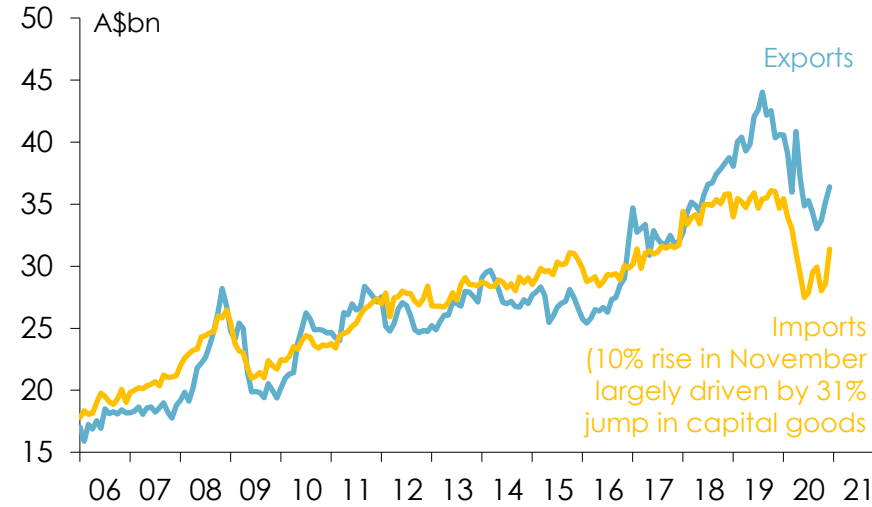
Note: Export volume data for Australia and Brazil derived by dividing export values (in US\$) from ABS and IGBE by the average US\$ price of Chinese iron ore imports.  
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream;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

# Australia's registered its 35<sup>th</sup> consecutive monthly trade surplus in November despite a 10% rise in imports

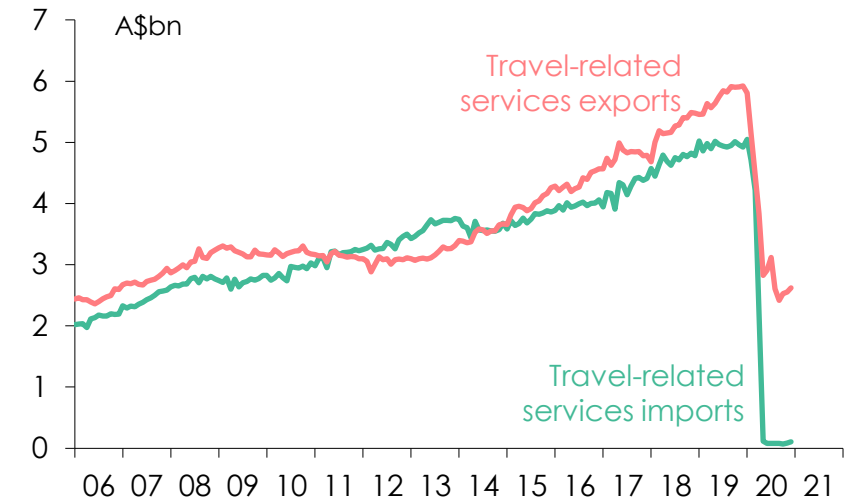
## Iron ore and coal exports



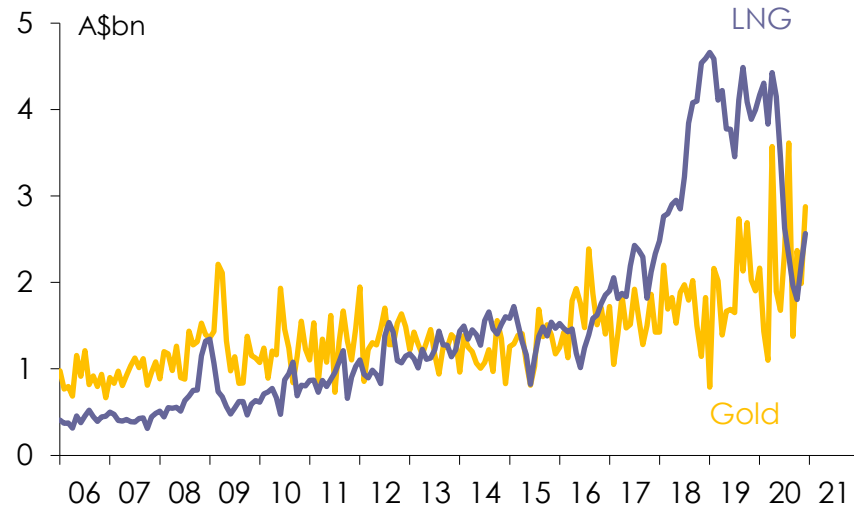
## Merchandise exports and imports



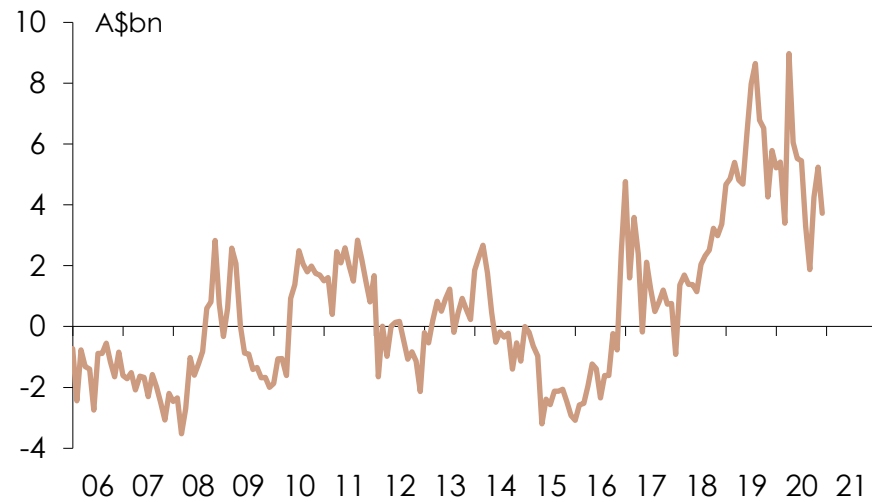
## Tourism-related services trade



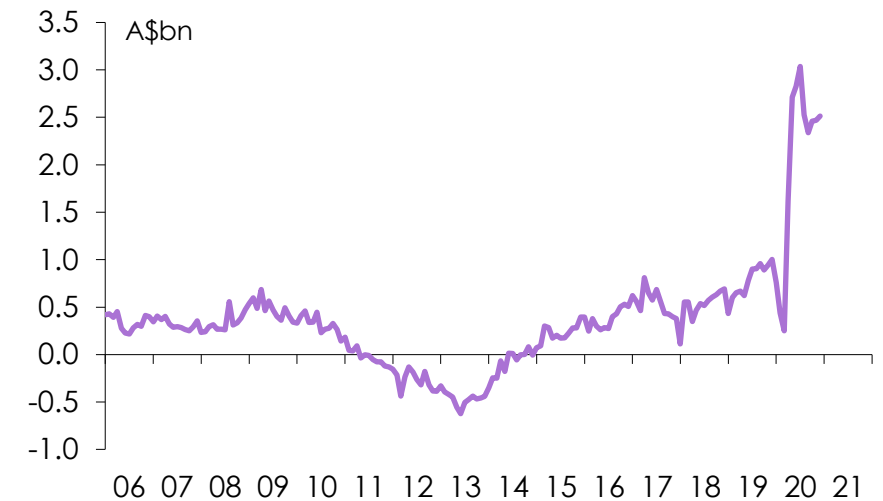
## LNG and gold exports



## Merchandise trade balance



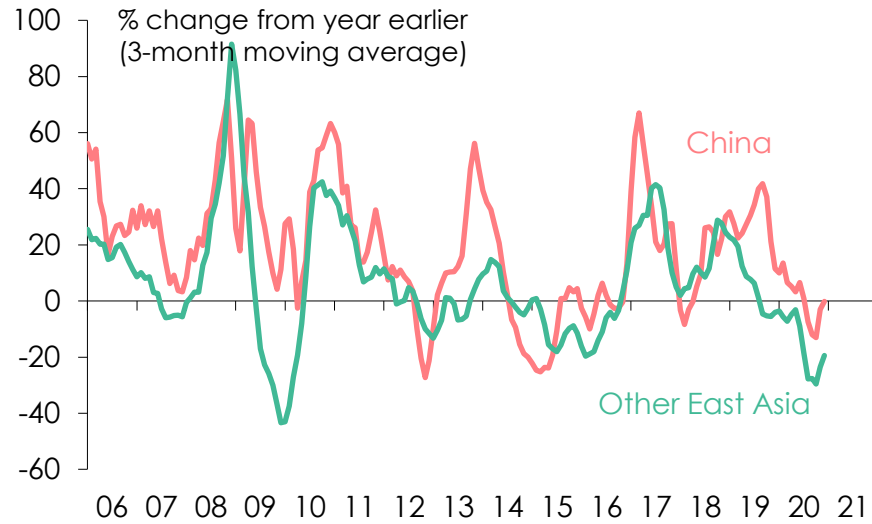
## Tourism services trade balance



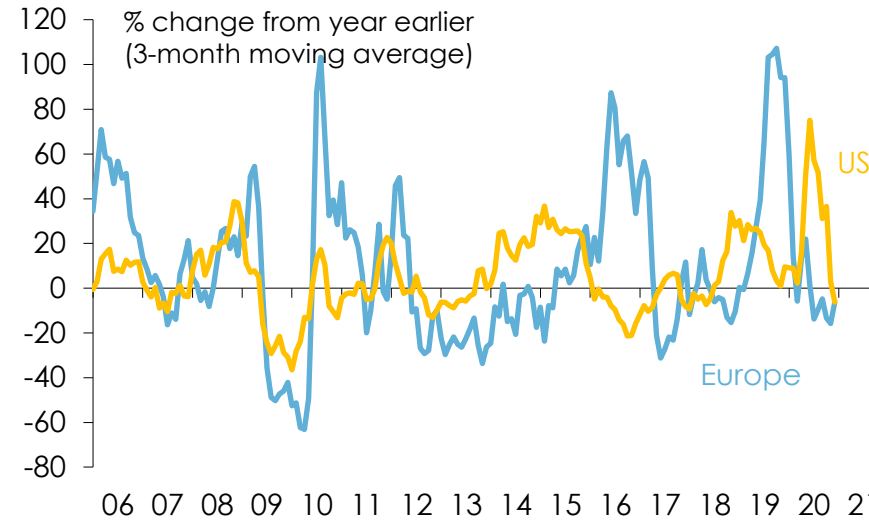
Note: Latest data are for November 2020; December data will be released on 4<sup>th</sup> February. Source: ABS, [International Trade in Goods and Services, Australia](#). [Return to "What's New"](#).

# Australia's November surplus with China was the smallest since January 2019, though that owed more to a rise in imports than to lower exports

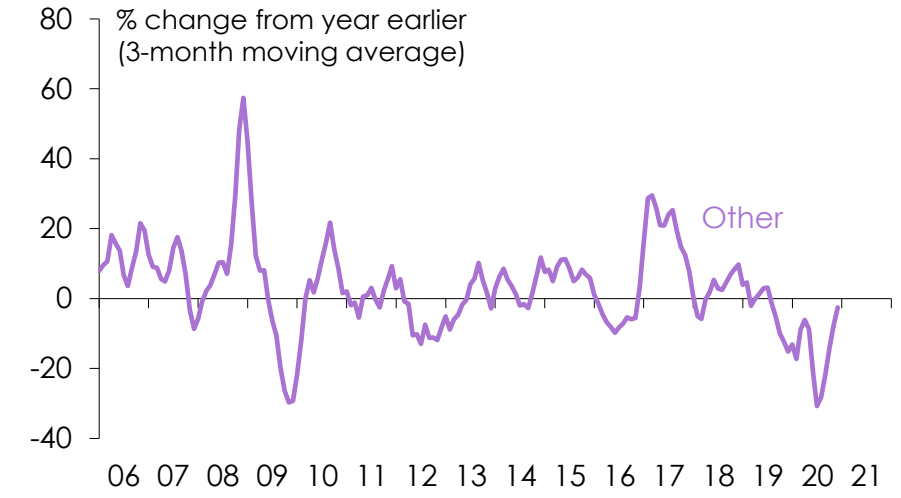
## Merchandise exports – East Asia



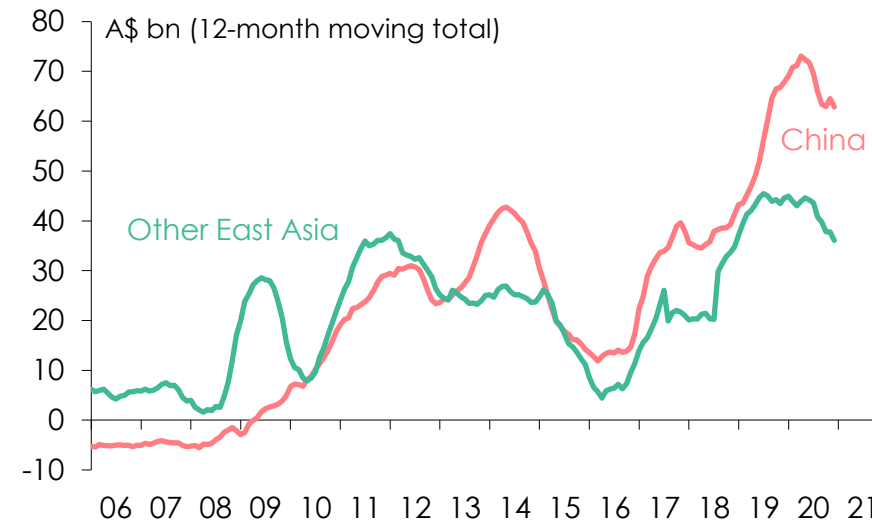
## Merchandise exports – US & Europe



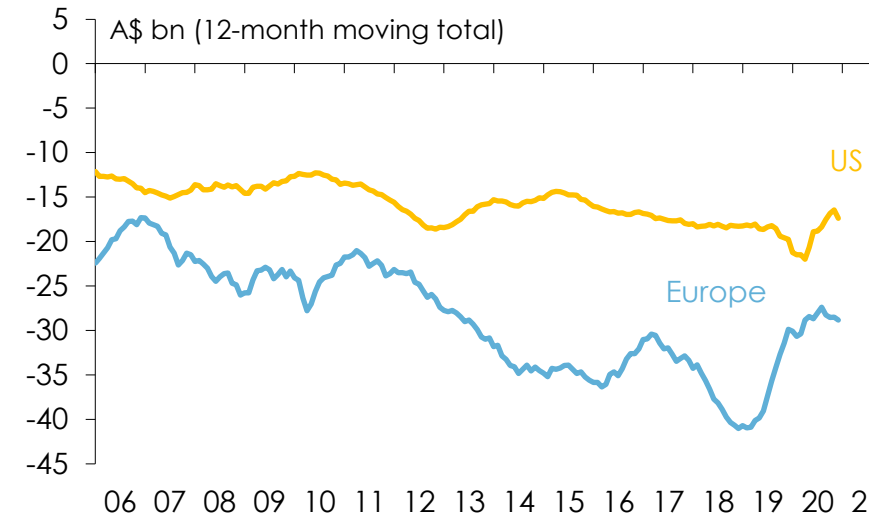
## Merchandise exports – other



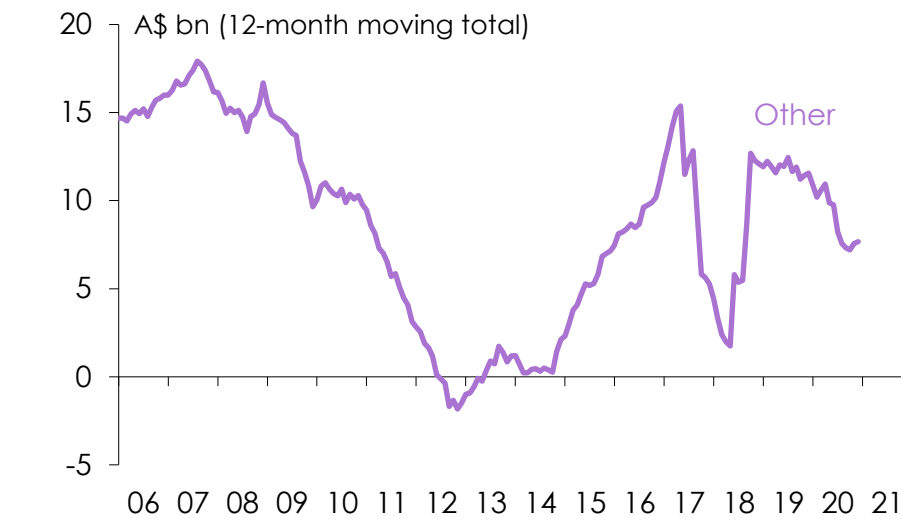
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



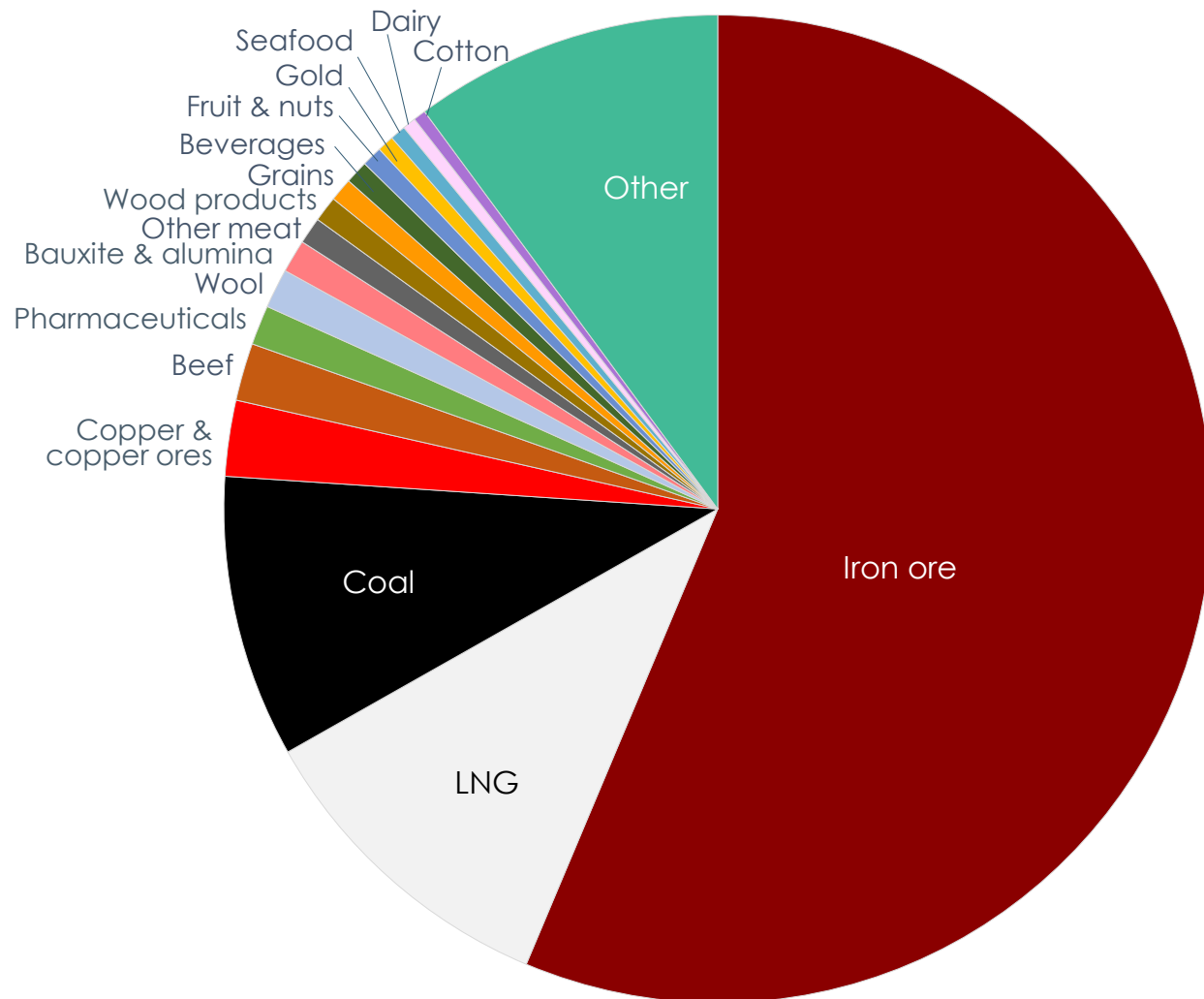
## Goods trade balance – other



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](#). December data will be released on 4<sup>th</sup> February. [Return to "What's New"](#).

# Australia's bilateral relations with China deteriorated sharply in the latter part of 2020 and there are likely to be material economic effects

## Australia's merchandise exports to China, 2019-20



- ❑ 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 97](#))
- ❑ 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
- ❑ In November 2020, 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
- ❑ China has imposed tariffs of between 107% and over 200% tariffs on imports of Australian wine ...
- ❑ ... and in December officially directed Chinese electricity generators and steel mills not to use Australian coal
- ❑ China appears to be seeking to 'make an example' of Australia as a warning to other countries in the region

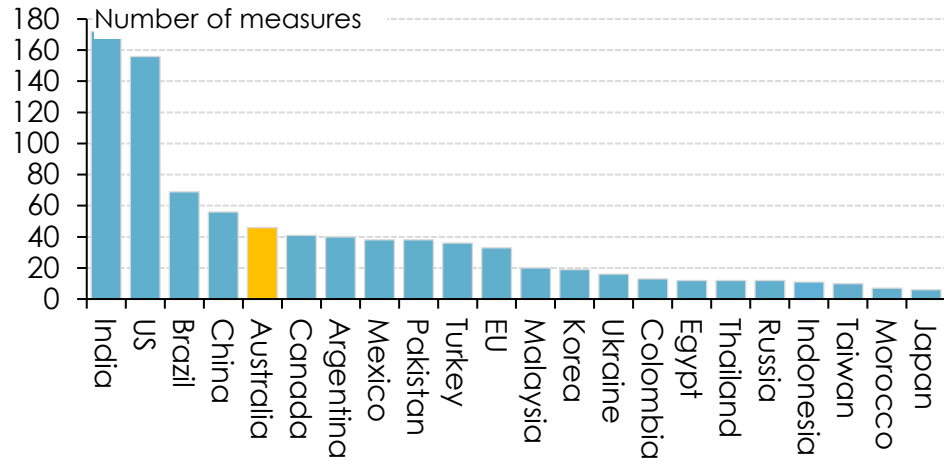
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

Sources: Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna.

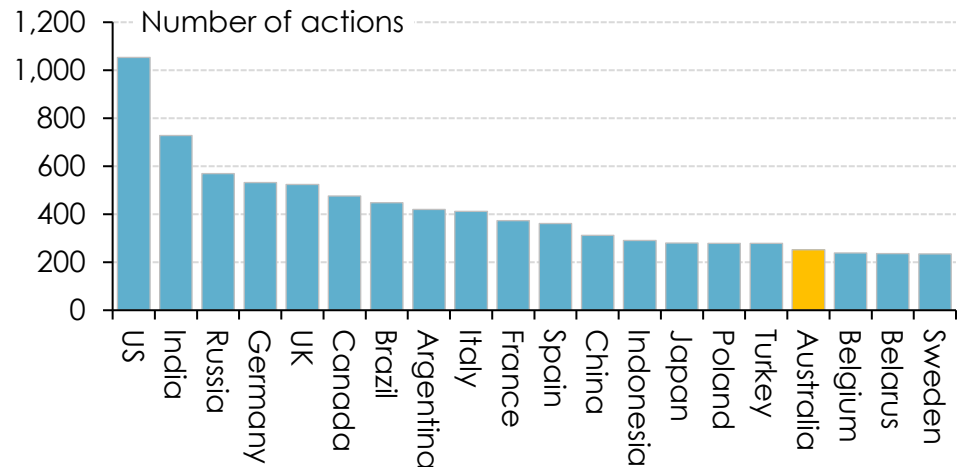
[Return to "What's New"](#).

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

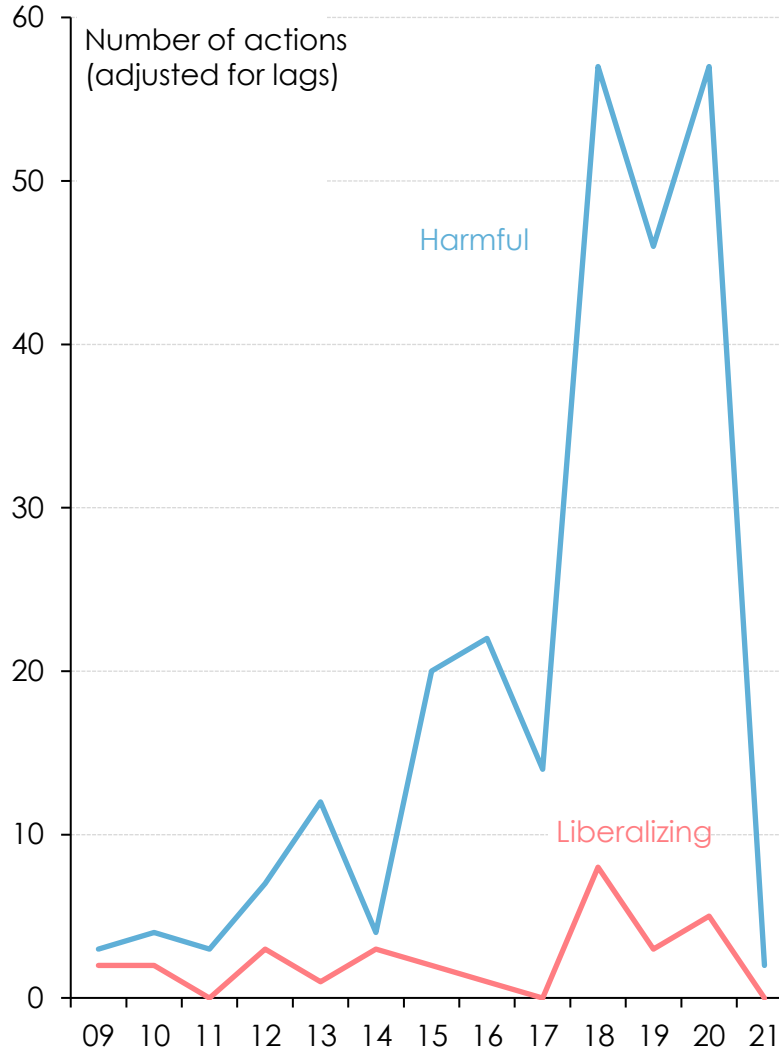
## Number of anti-dumping measures imposed, 2015-19



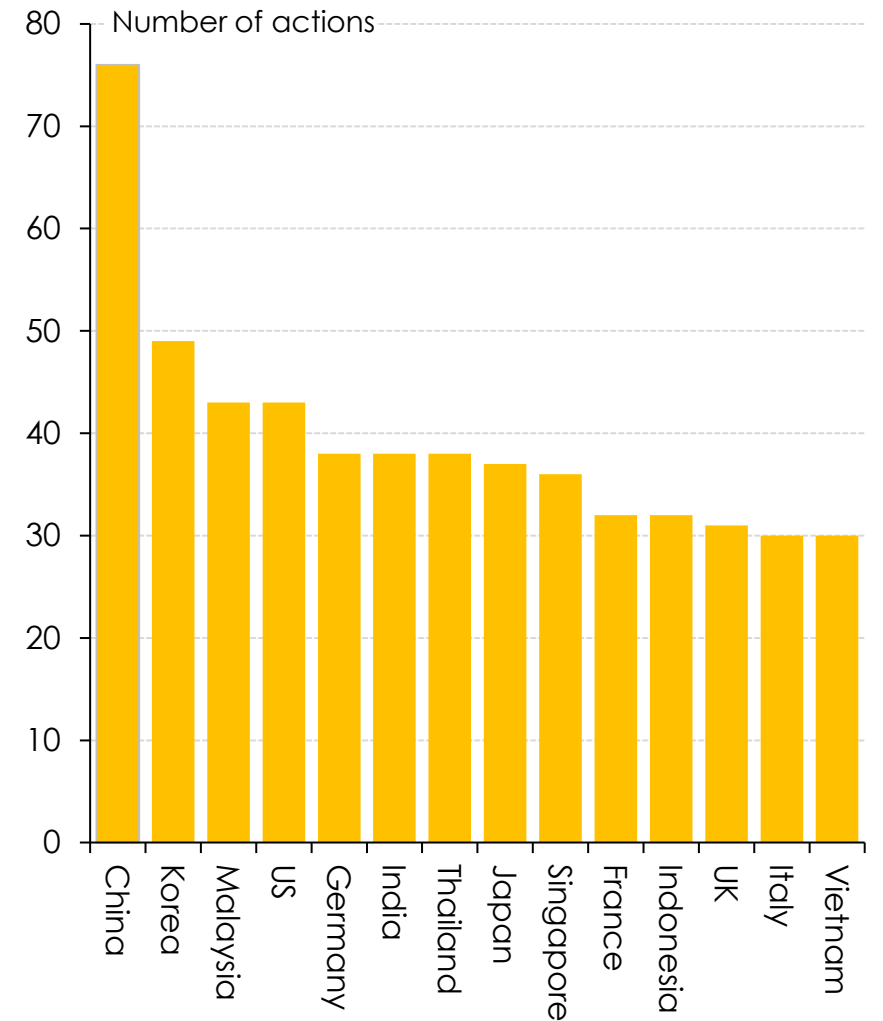
## Number of harmful trade policy interventions, 2009-2021



## Australian trade policy measures since 2009



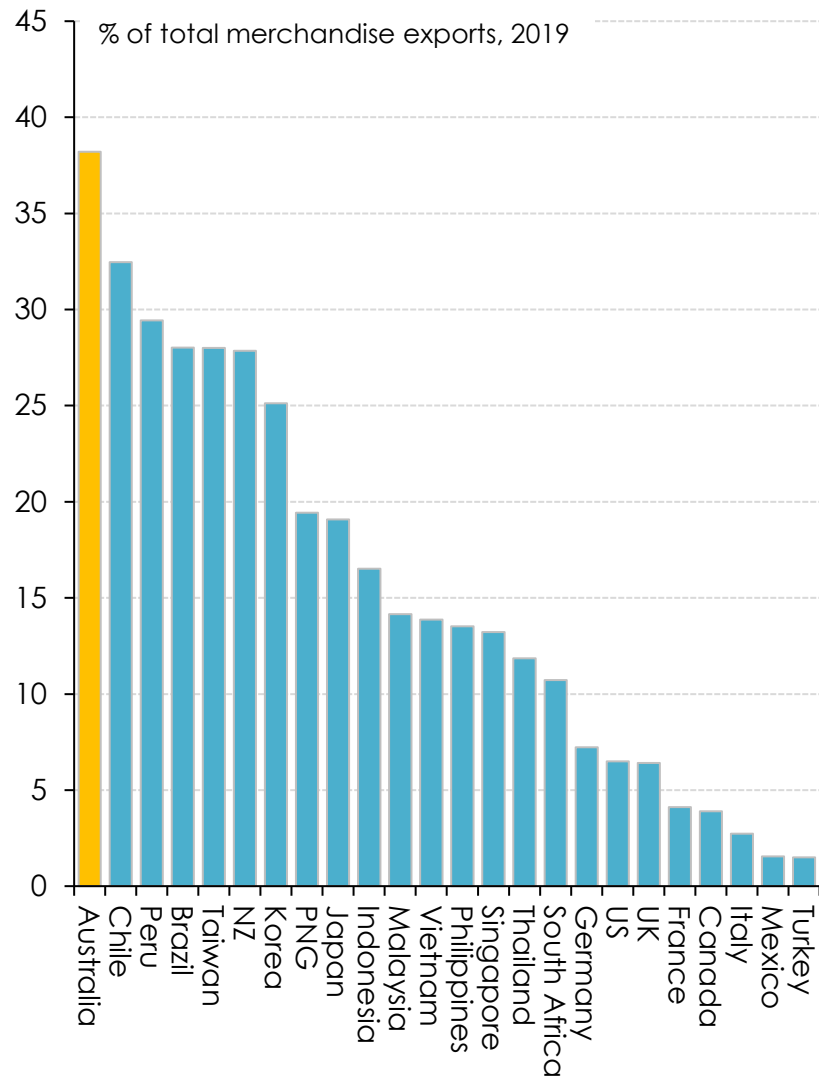
## Countries adversely affected by 'harmful' Australian trade actions



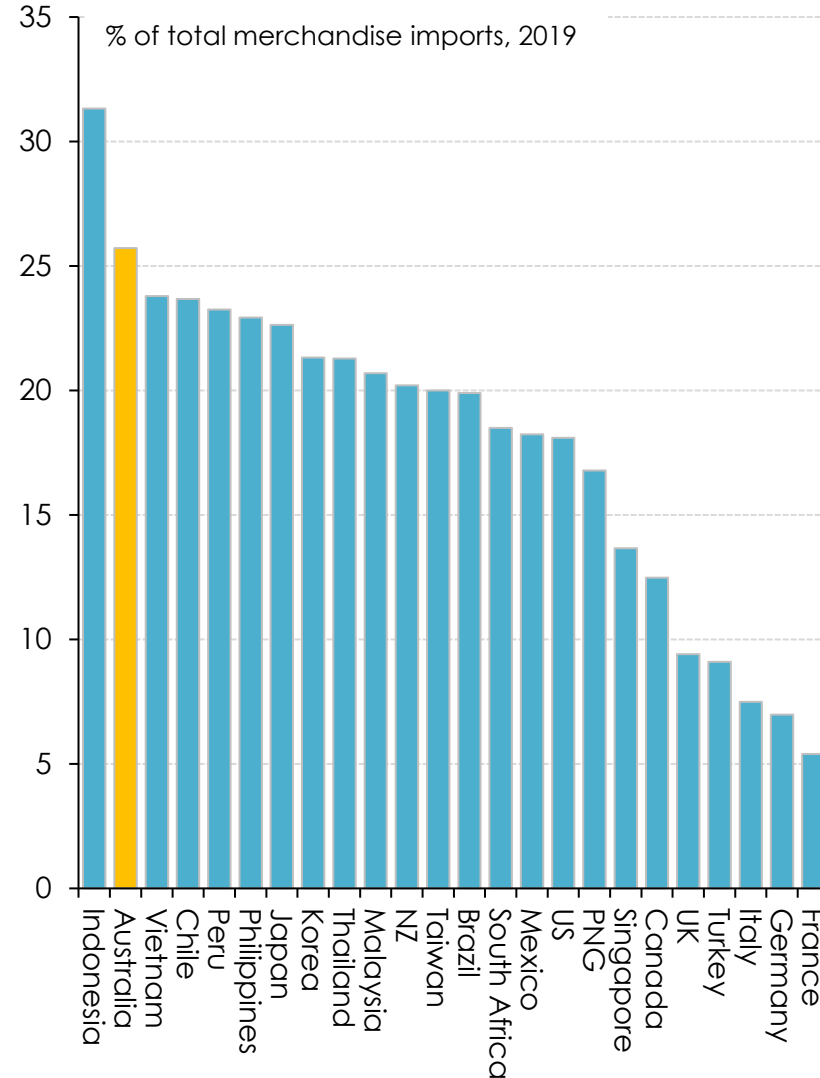
Sources: [World Trade Organization](#); Centre for Economic Policy Research, [Global Trade Alert](#) (data up to 22<sup>nd</sup> January). [Return to "What's New"](#).

# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

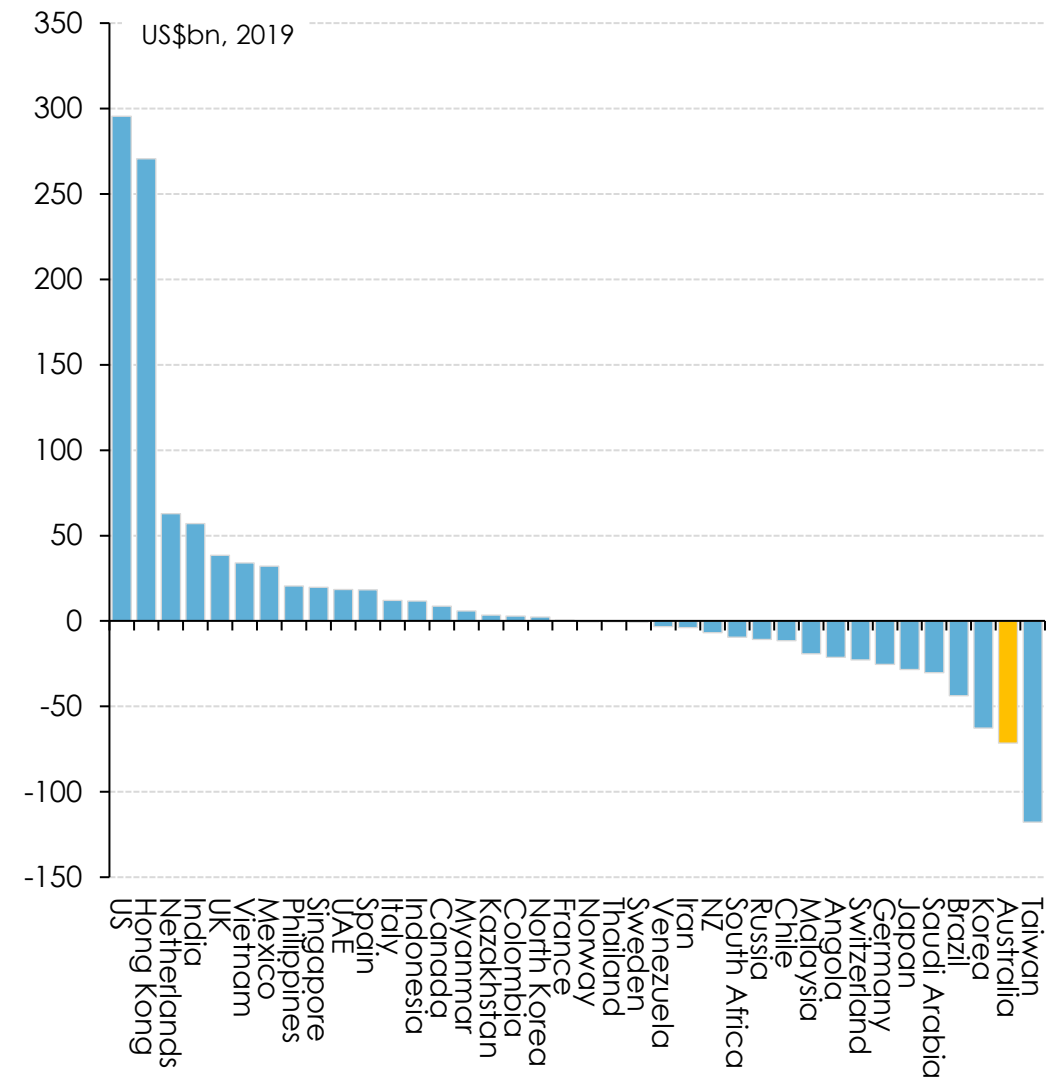
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



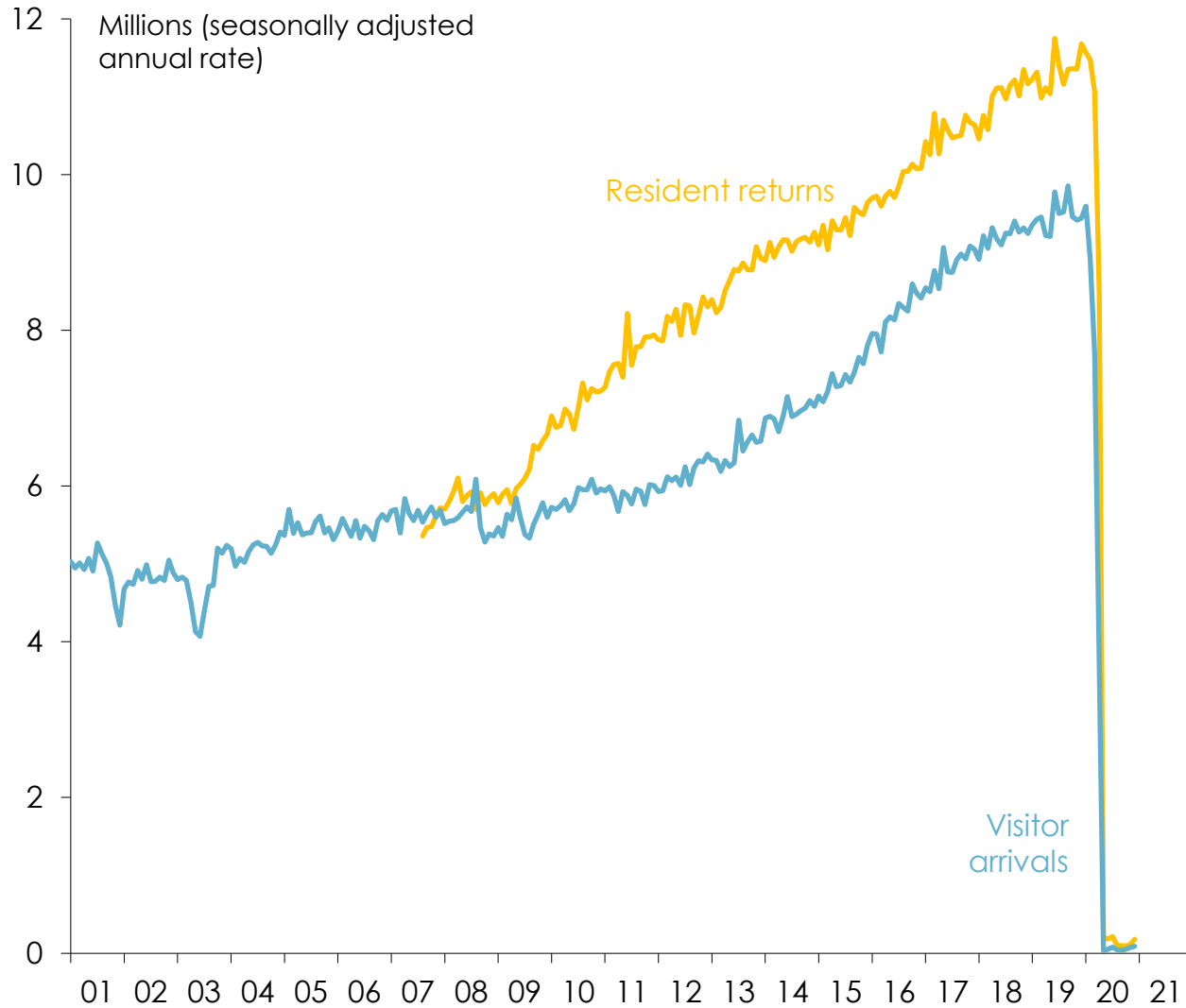
## China's bilateral merchandise trade balances



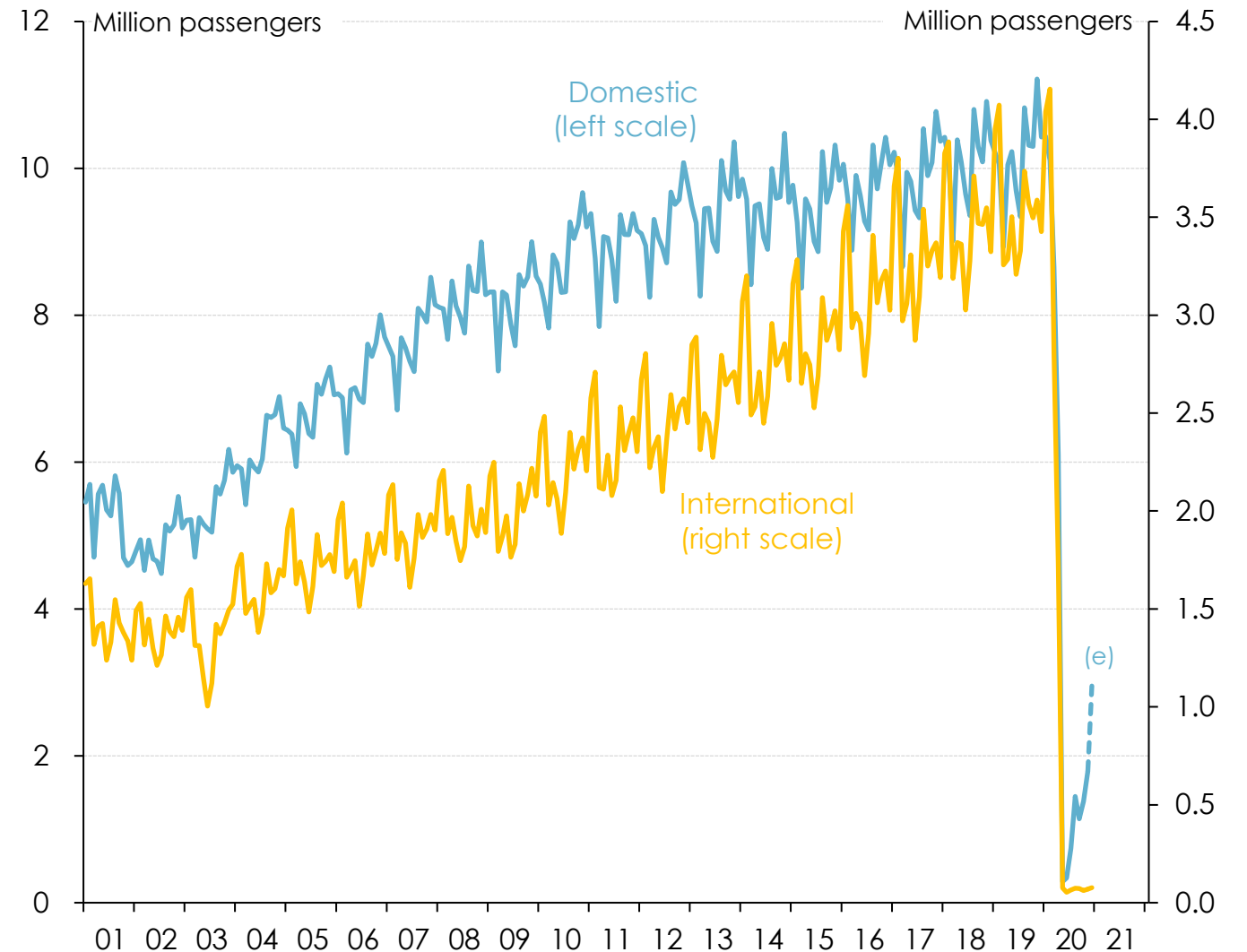
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

# Domestic aviation traffic has picked up since September, but international movements remain close to zero

## Short-term visitor arrivals and resident returns



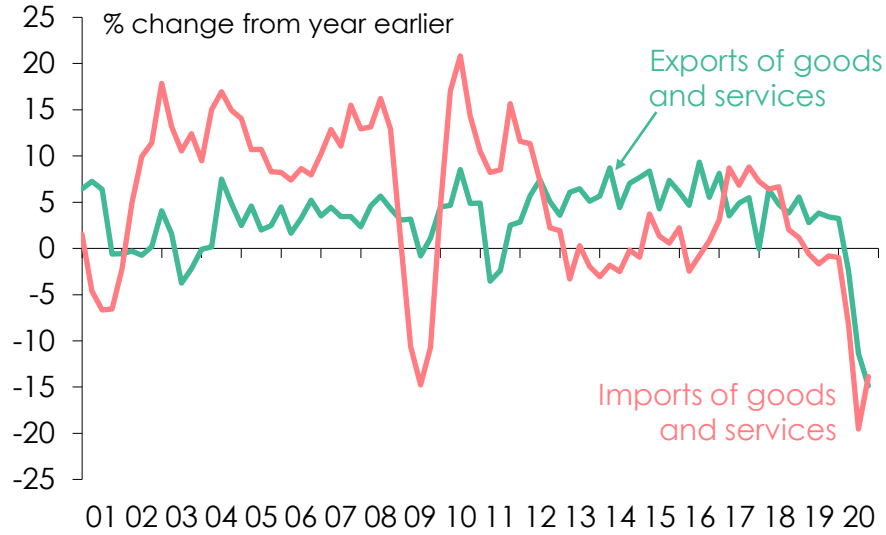
## Airport passenger movements



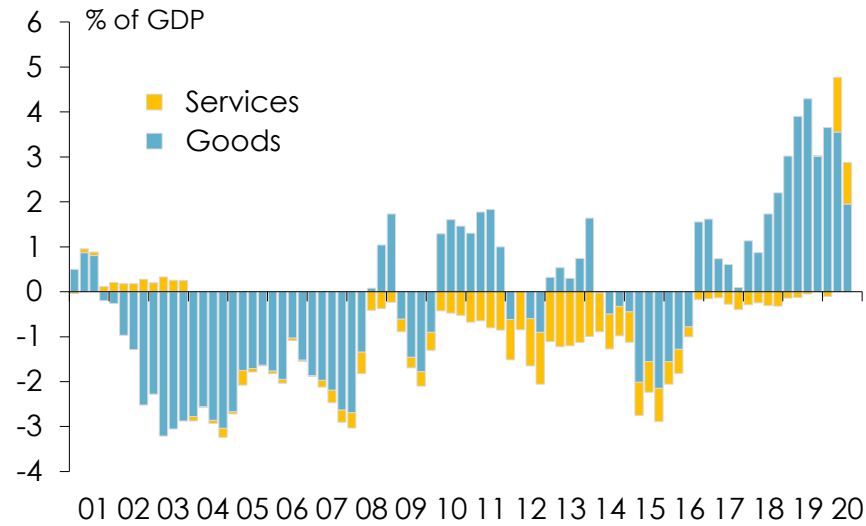
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

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

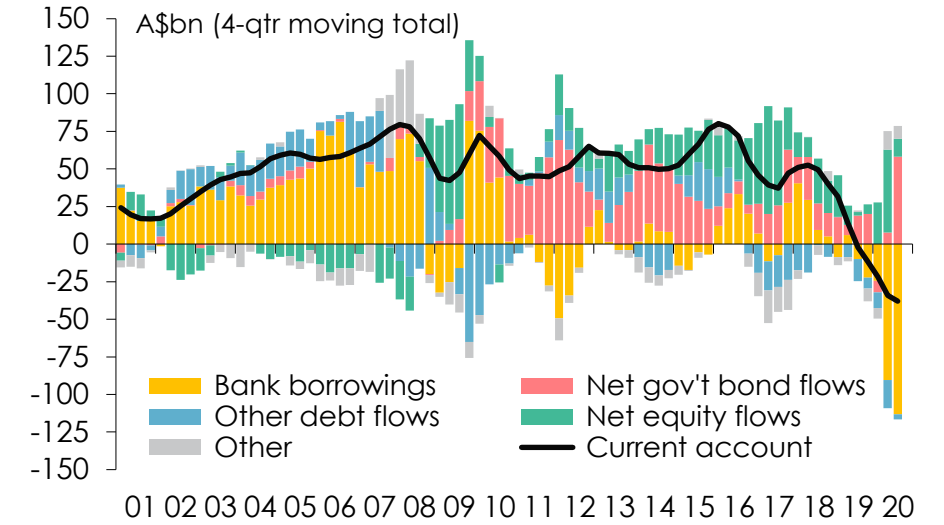
## Export and import volumes



## Goods & services trade balances



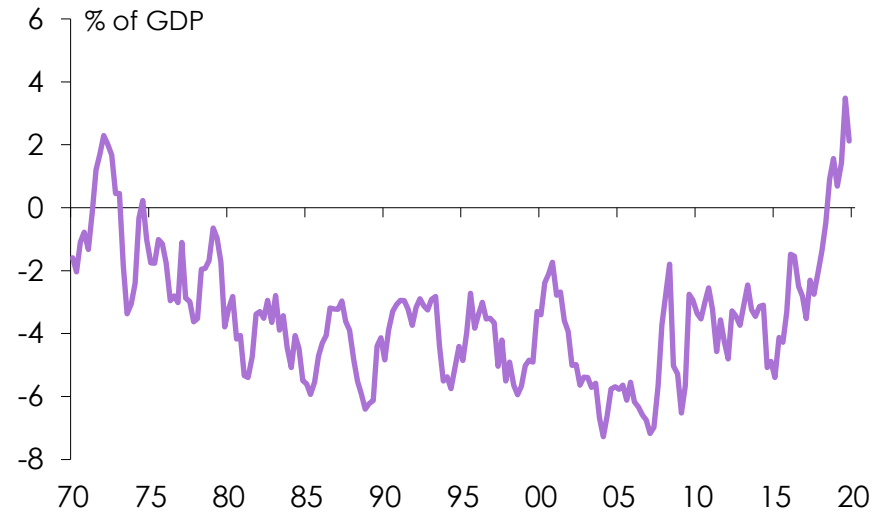
## Capital flows



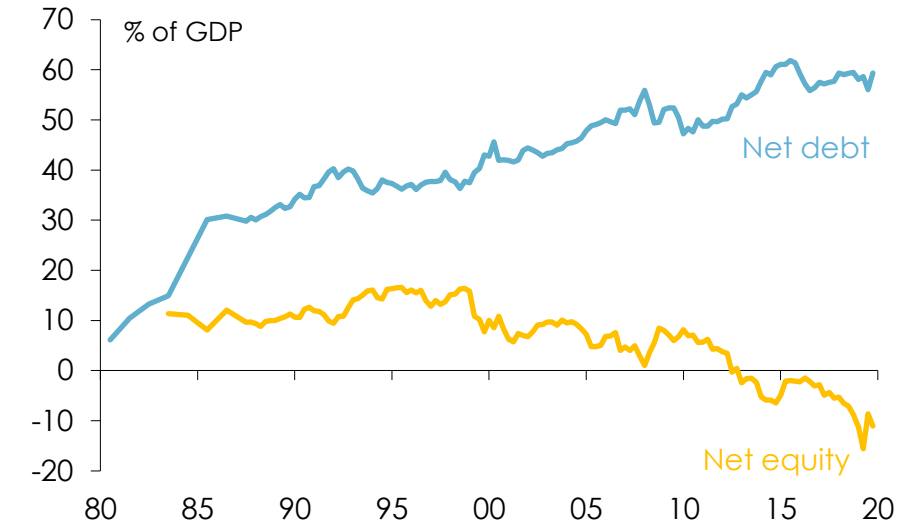
## Export and import prices



## Current account balance



## Net international investment position

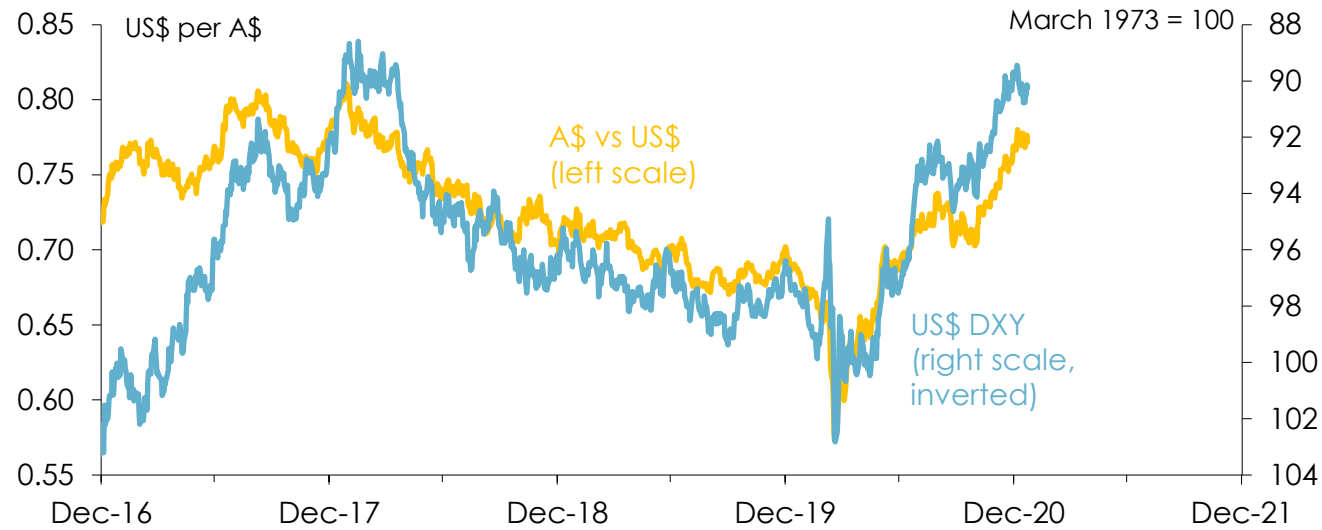


Note: Latest data are for September quarter (Q3); December quarter data will be released on 3<sup>rd</sup> March 2021. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

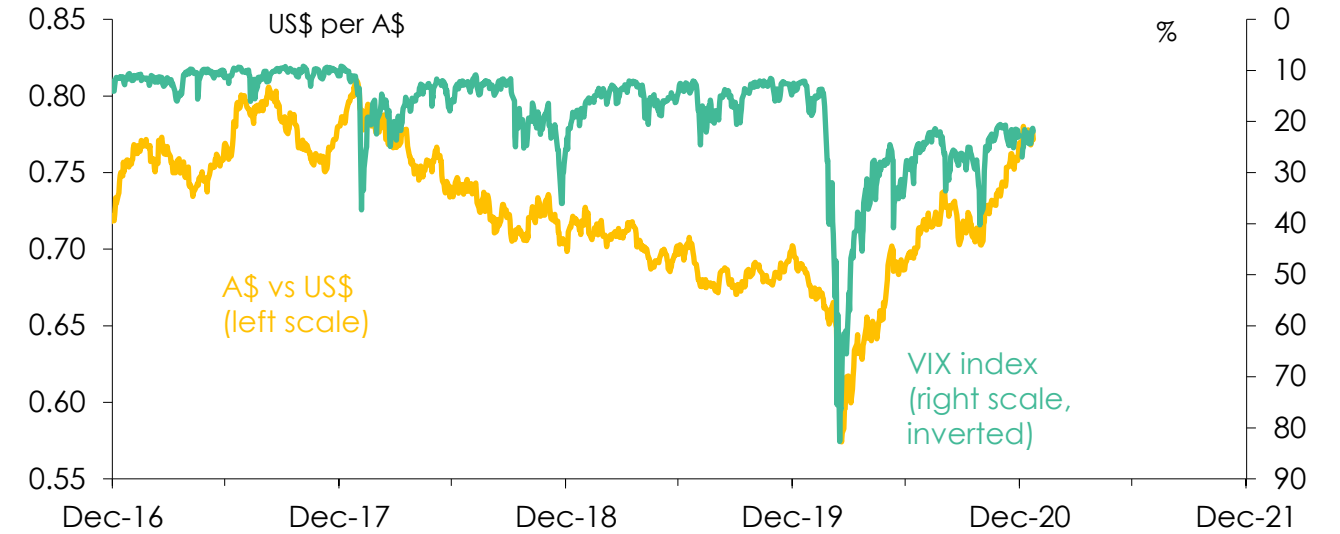


# The A\$ rose 0.2% this week against a weaker US\$, but was weighed down by a lower iron ore price and a more negative yield spread vs the US ...

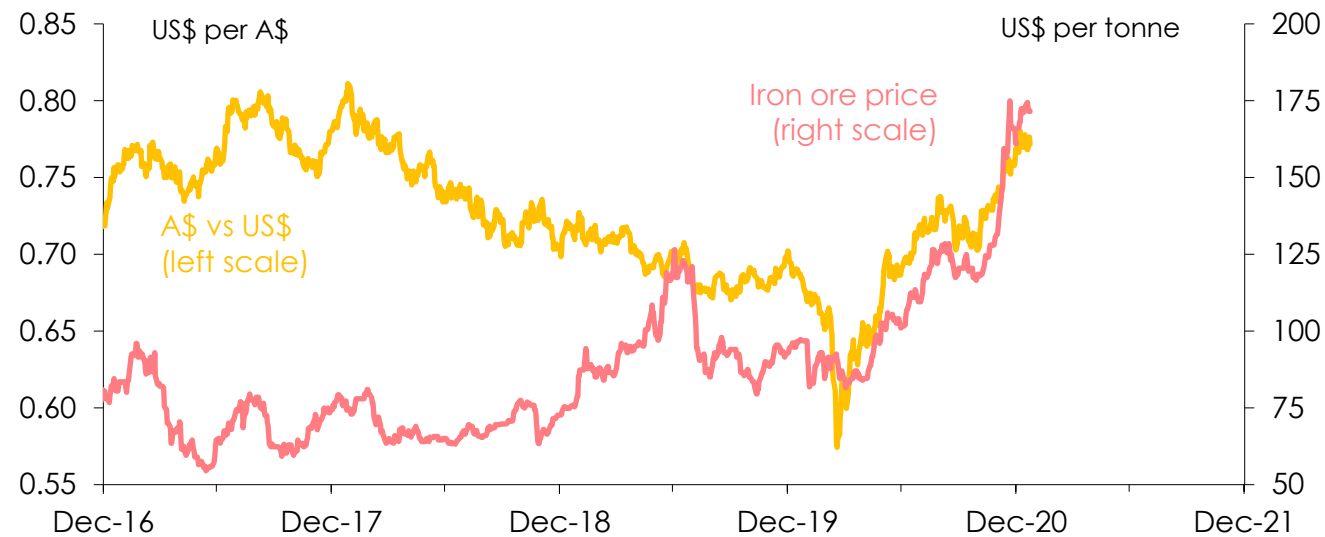
## A\$-US\$ and US\$ trade-weighted index



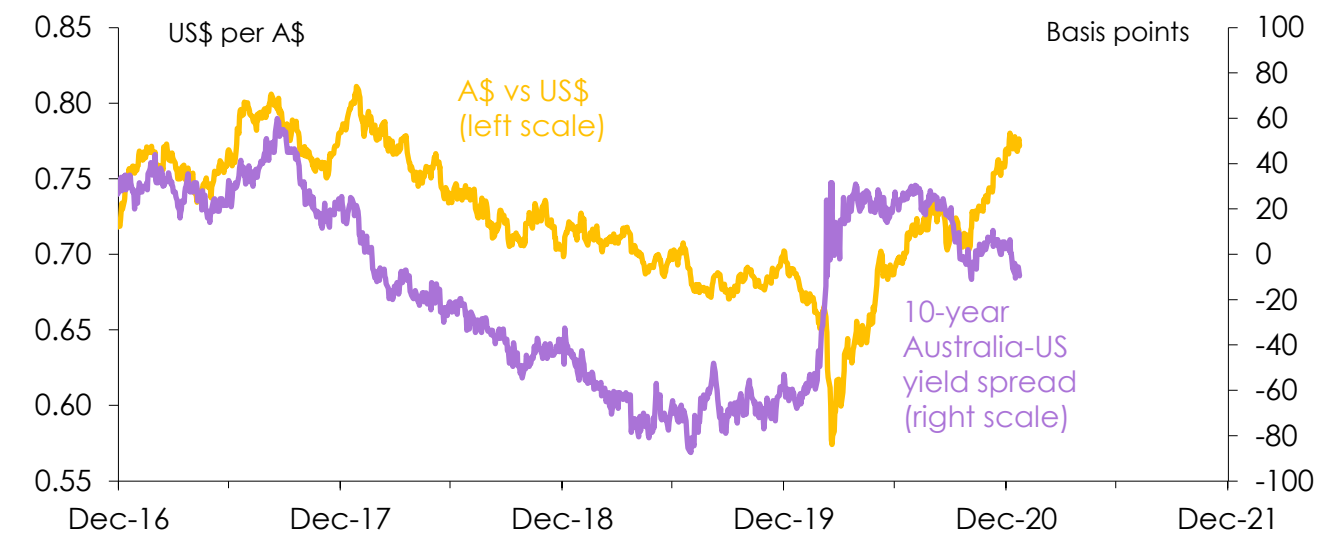
## A\$-US\$ and US equity market volatility



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



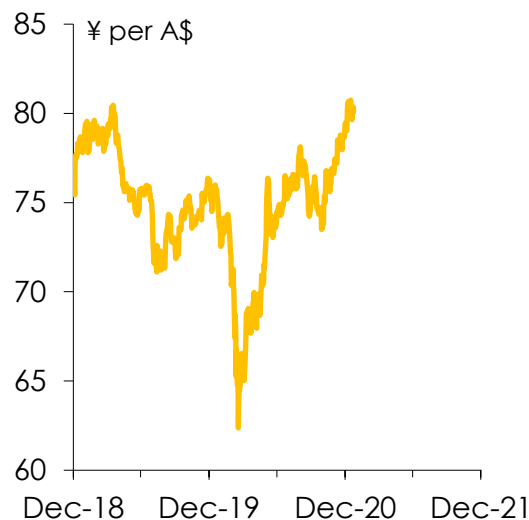
## A\$-US\$ and Australia-US 10-year bond yield spread



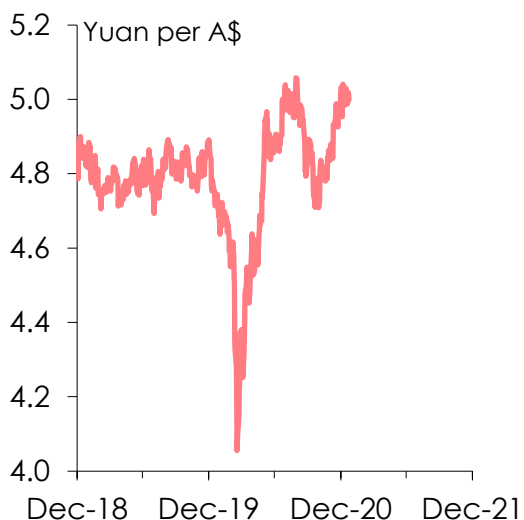
Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see [slide 97](#). Source: Refinitiv Datastream. Data up to 22nd January. [Return to "What's New"](#).

# ... as a result of which, the A\$ fell a bit this week against most other currencies except for the won, yuan & C\$, and dropped 0.2% vs the TWI

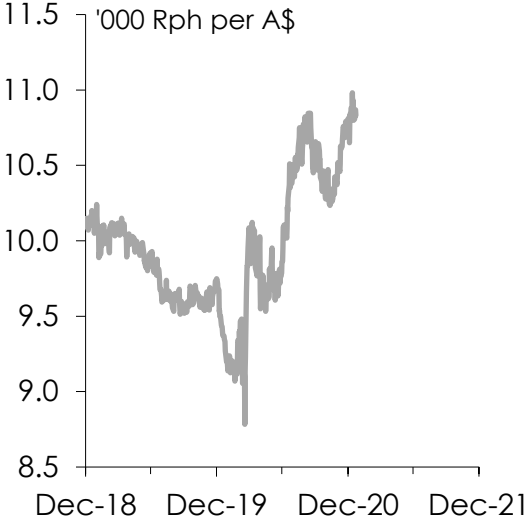
### A\$ vs Japanese yen



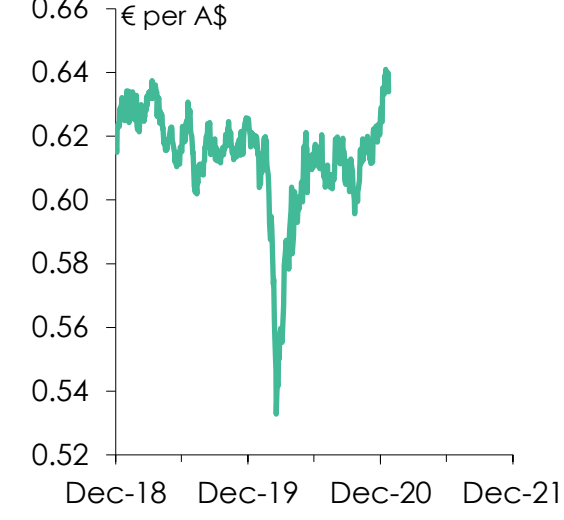
### A\$ vs Chinese yuan



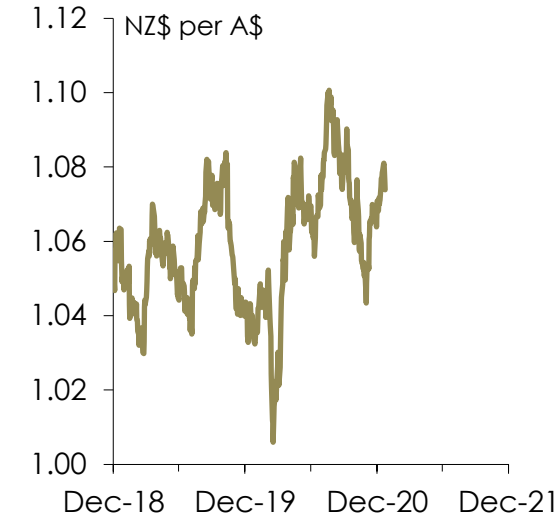
### A\$ vs Indo rupiah



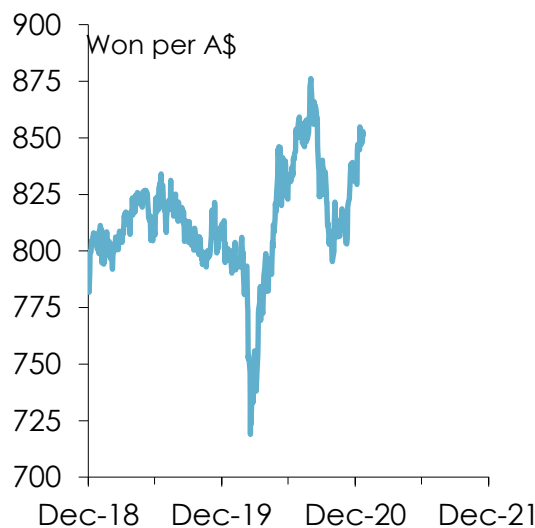
### A\$ vs Euro



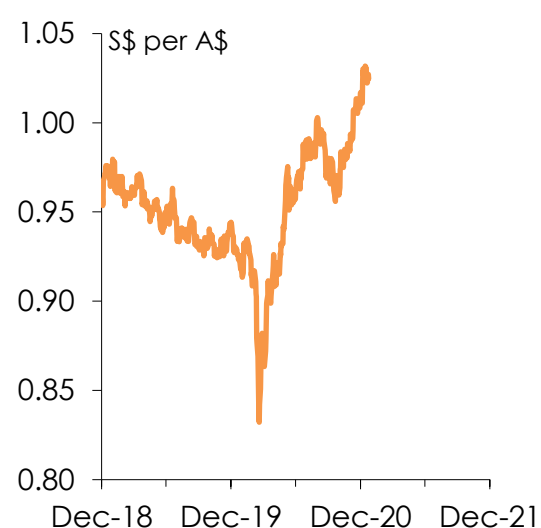
### A\$ vs NZ\$



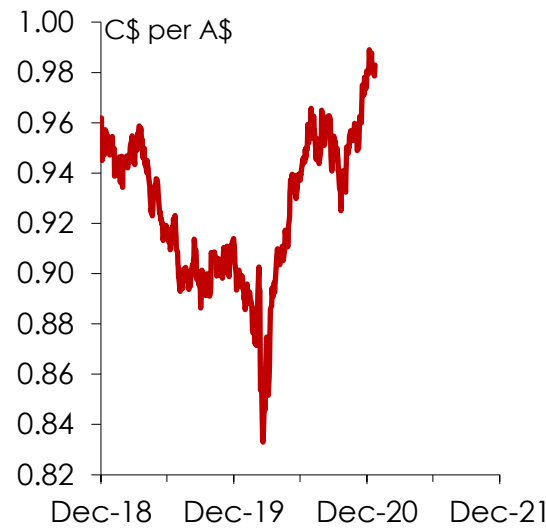
### A\$ vs Korean won



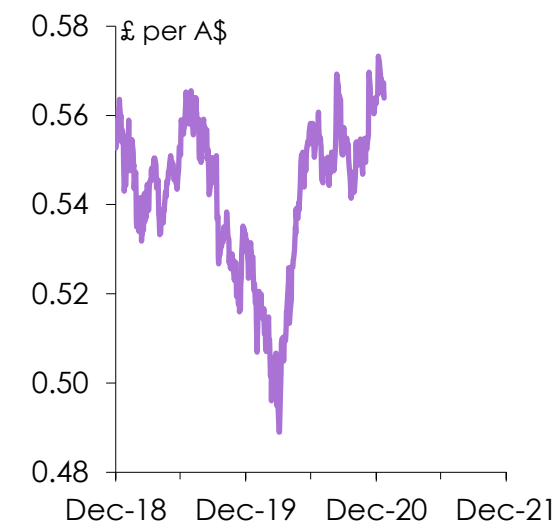
### A\$ vs Singapore \$



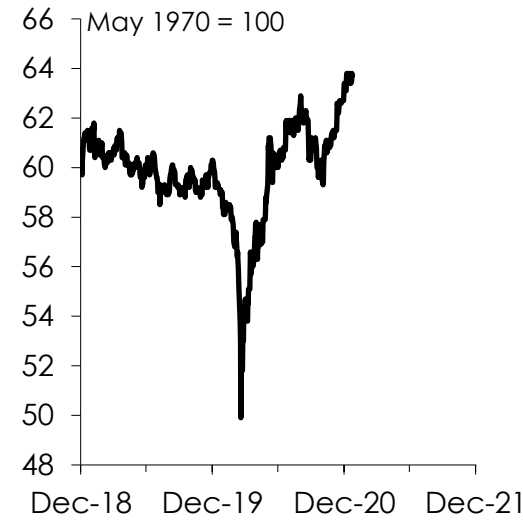
### A\$ vs Canadian \$



### A\$ vs British pound



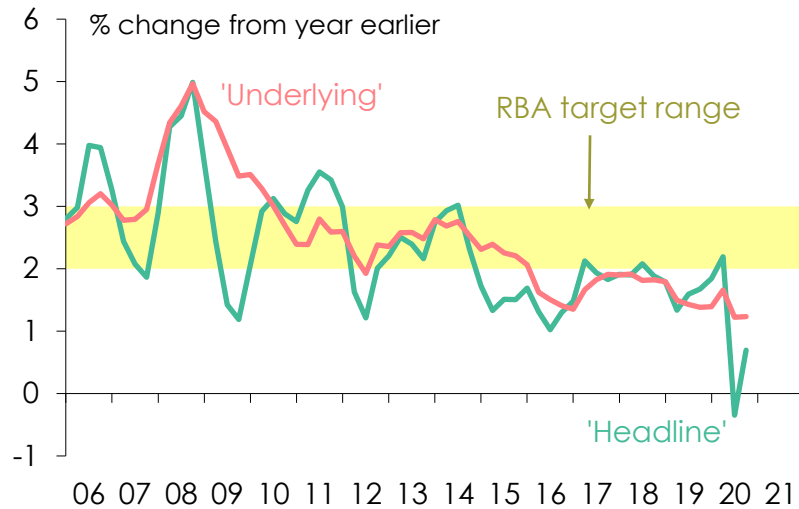
### A\$ TWI



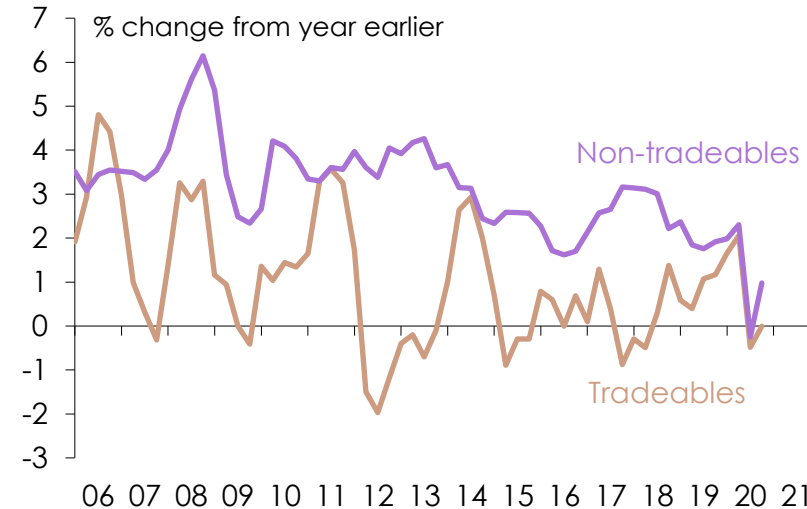
Note: 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 22nd January. [Return to "What's New"](#).

# 'Underlying' inflation has now been below the RBA's target for 4½ years – and is likely to remain so when Q4 2020 data are released on Wednesday

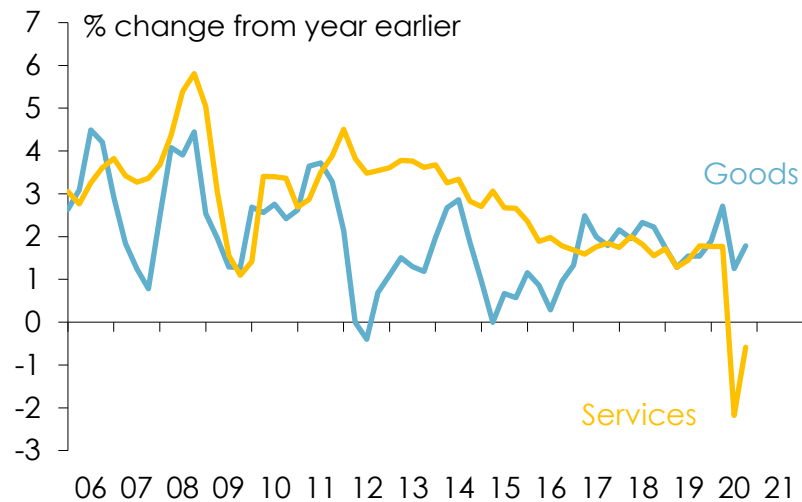
## Consumer prices



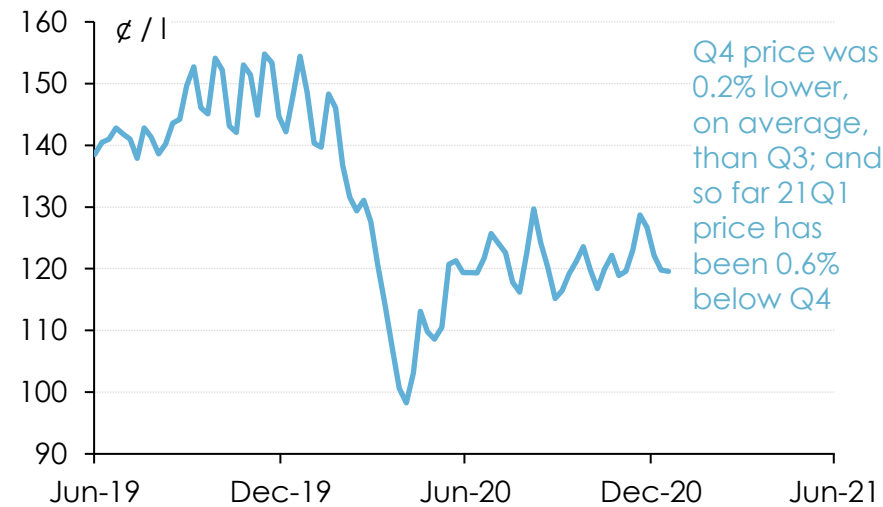
## Tradeables vs non-tradeables



## Goods vs services prices



## Retail petrol prices

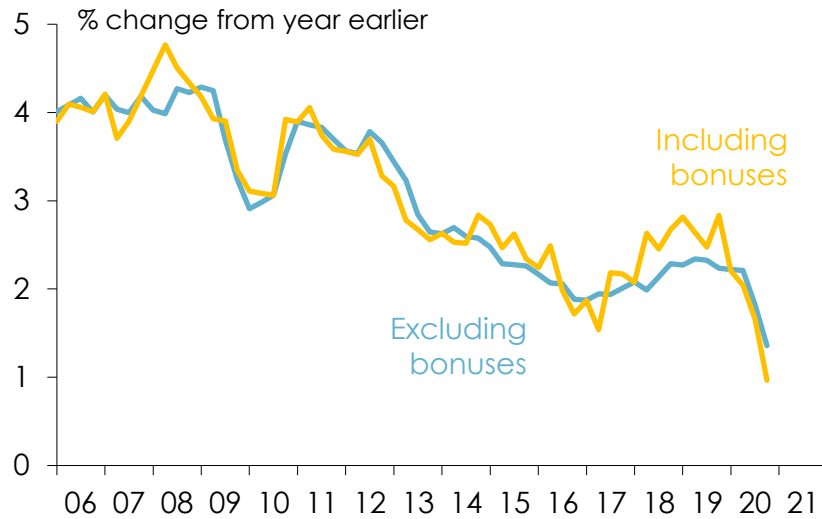


- ❑ Exactly as expected the CPI rose by 1.6% in Q3, reversing most of the 1.9% decline in Q2
- ❑ The rise in the CPI in Q3 was largely due to a 1,382% increase in child care costs (following the end of free child care), a 9.4% increase in petrol prices and an 11.1% increase in preschool and primary education 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
- ❑ Q4 data will be released this Wednesday and with 'underlying' inflation expected to remain just above 1%

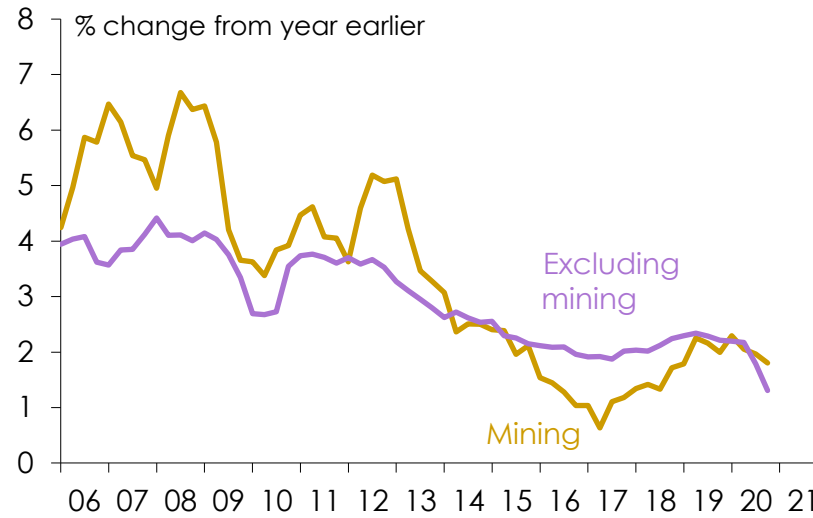
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.  
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The December quarter (Q4) CPI will be released this coming Wednesday, 27<sup>th</sup>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

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

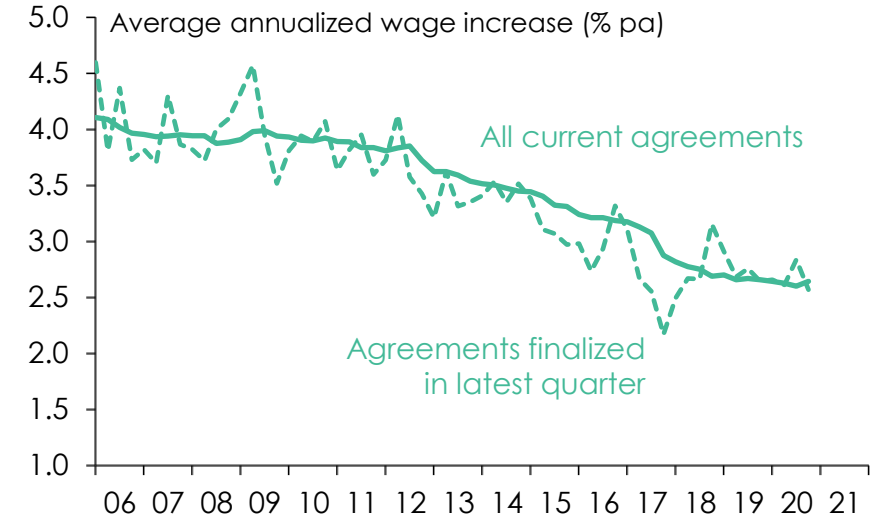
## Wage price index – all sectors



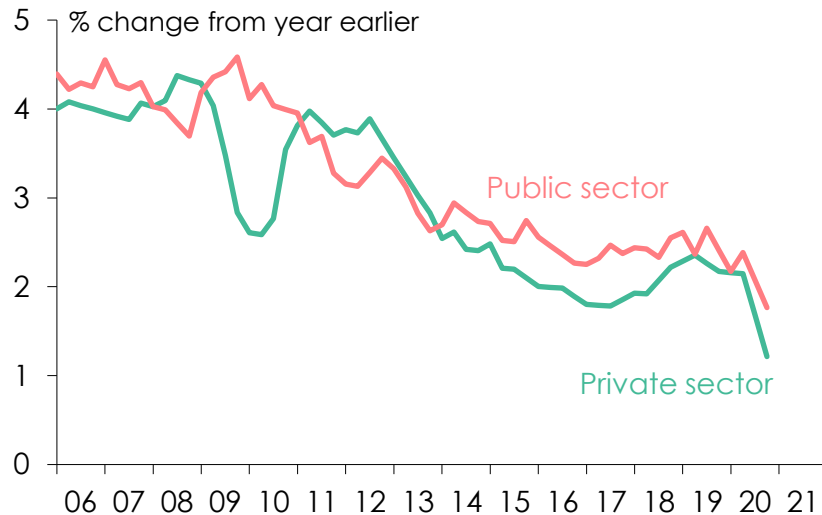
## WPI by industry



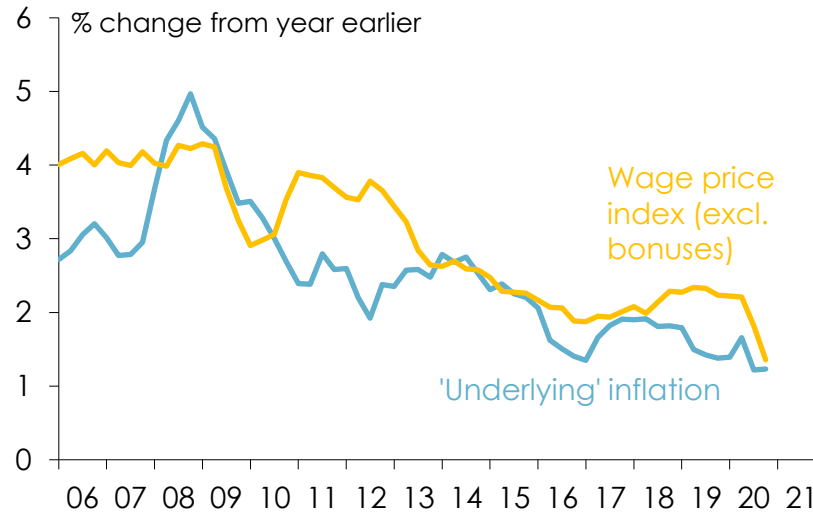
## Enterprise bargaining agreements



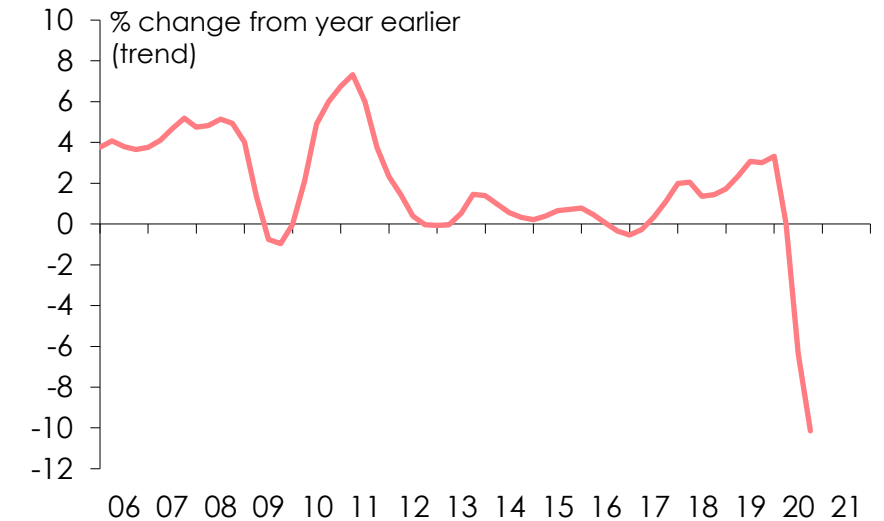
## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation



## Unit labour costs



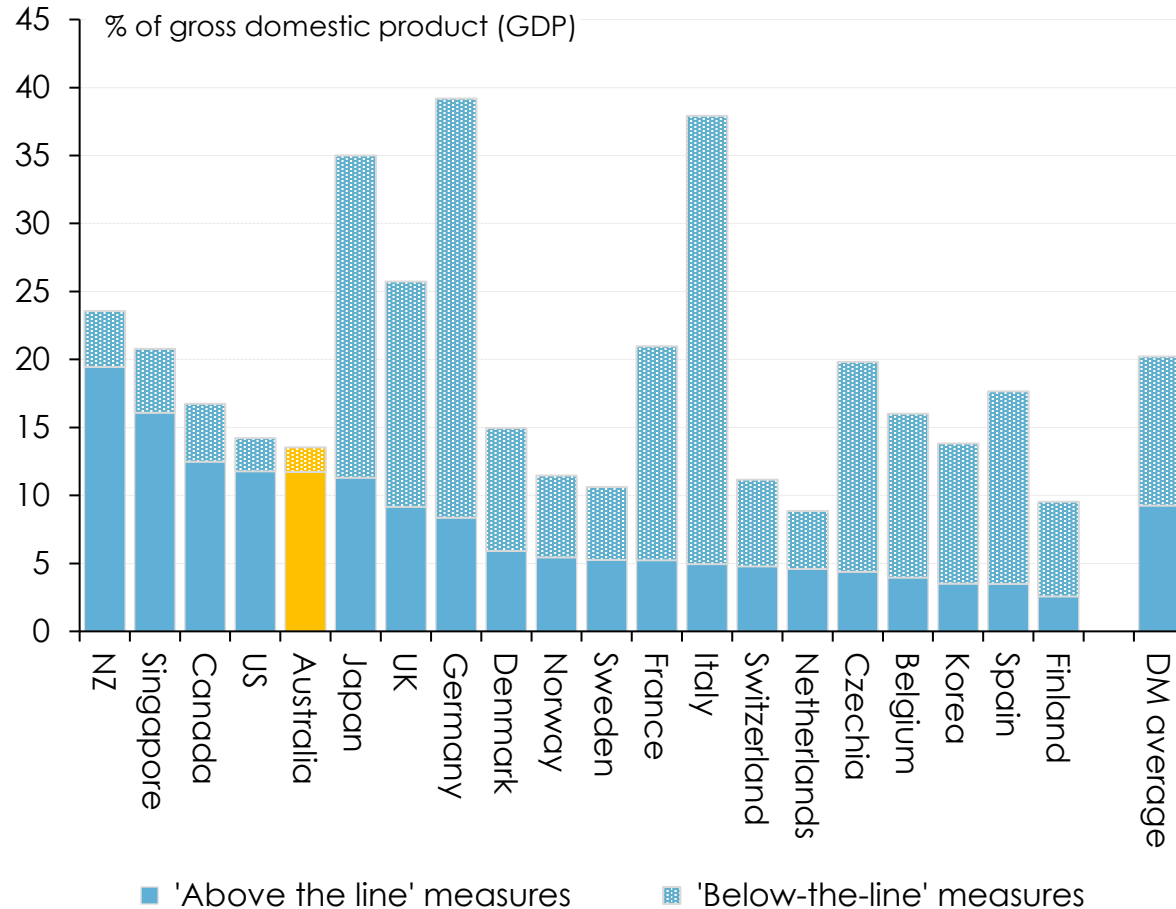
Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Source: ABS; Attorney-General's Department. December quarter WPI data will be released on 24<sup>th</sup> February.

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

# Australia's fiscal and monetary policy settings

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

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



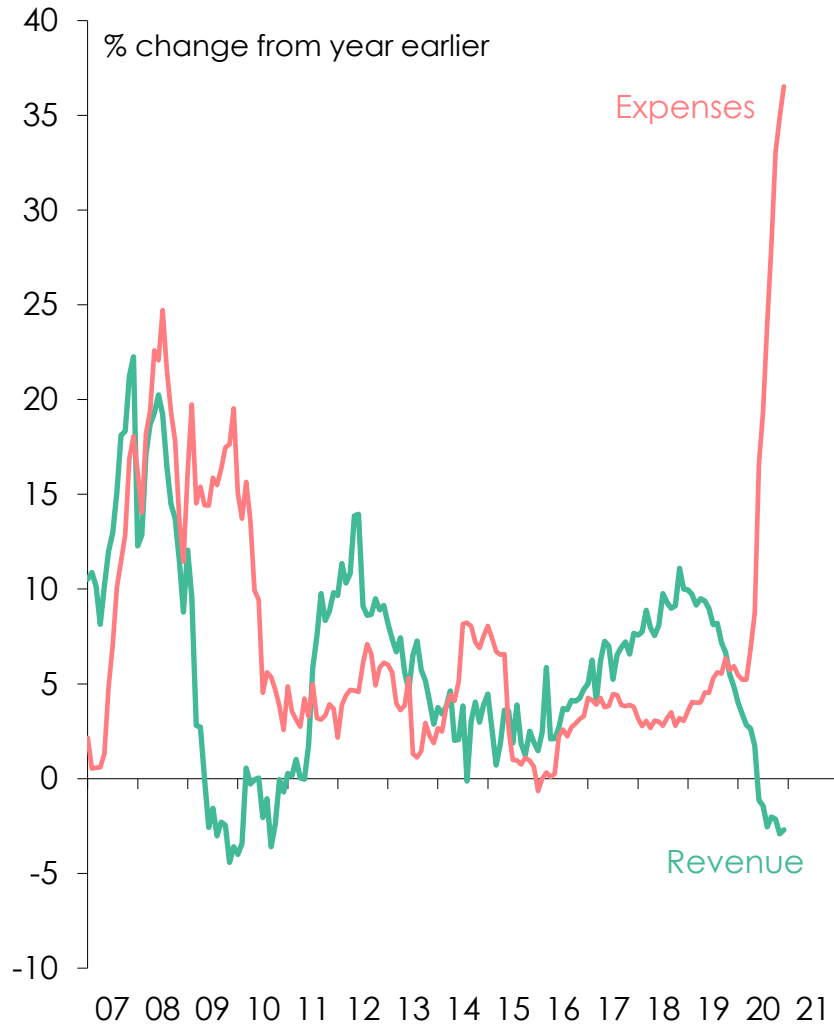
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets'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

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

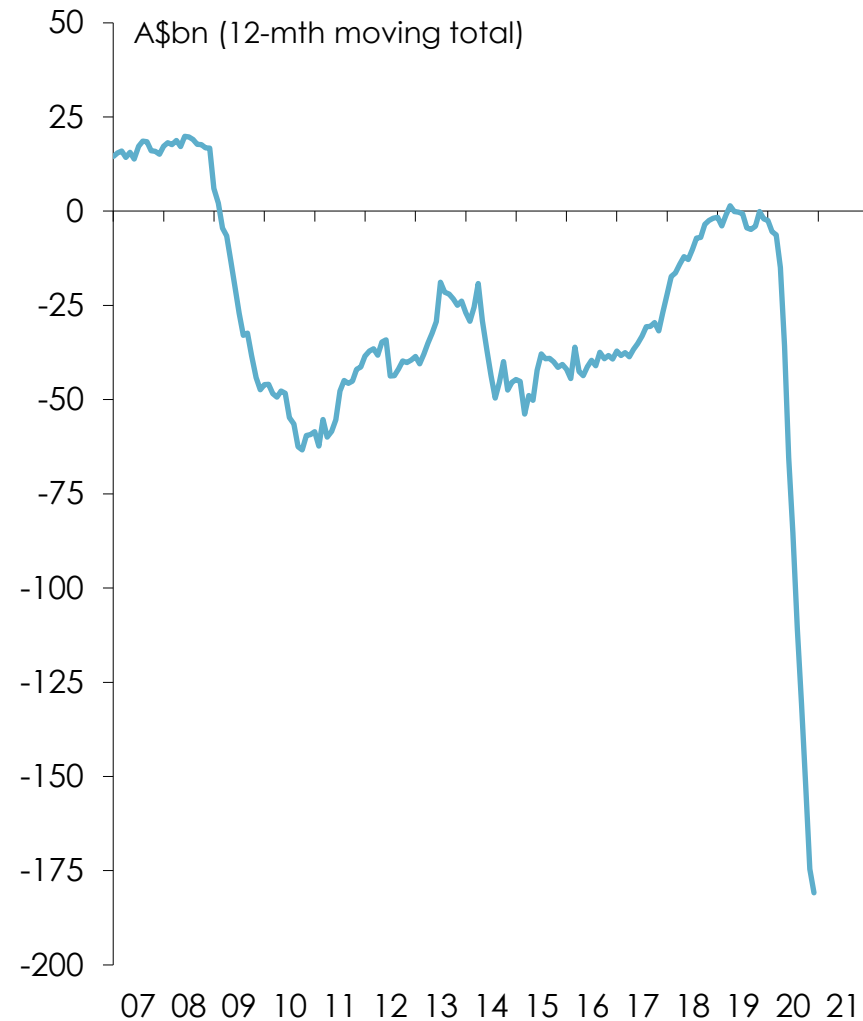
- ❑ Policy measures announced prior to October's federal Budget totalled A\$232bn over FYs 2019-20 and 2020-21 or about 11<sup>3</sup>/<sub>4</sub>% of one year's GDP – which is large by international standards (and double what was done during the GFC)
- ❑ Principal objectives of policy measures have 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

# November's budget deficit of \$5.4bn was the smallest since February, although the 12-month total was \$181bn, and net debt reached \$605bn

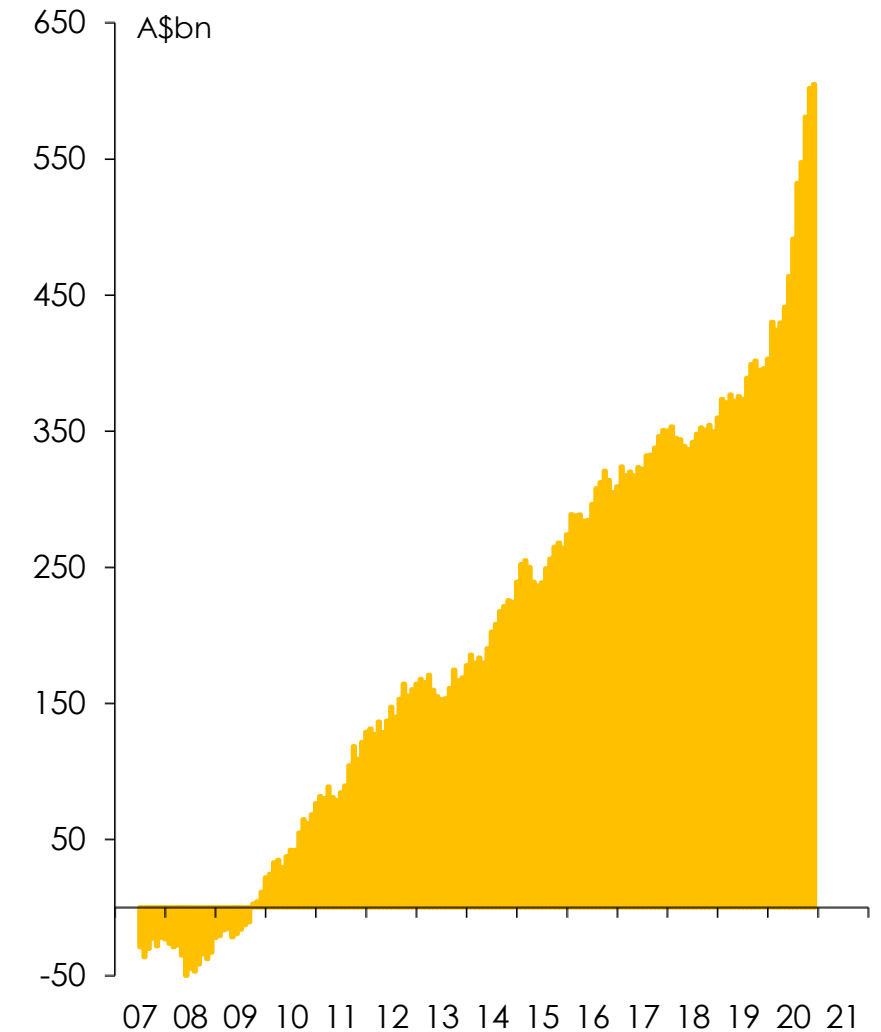
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt

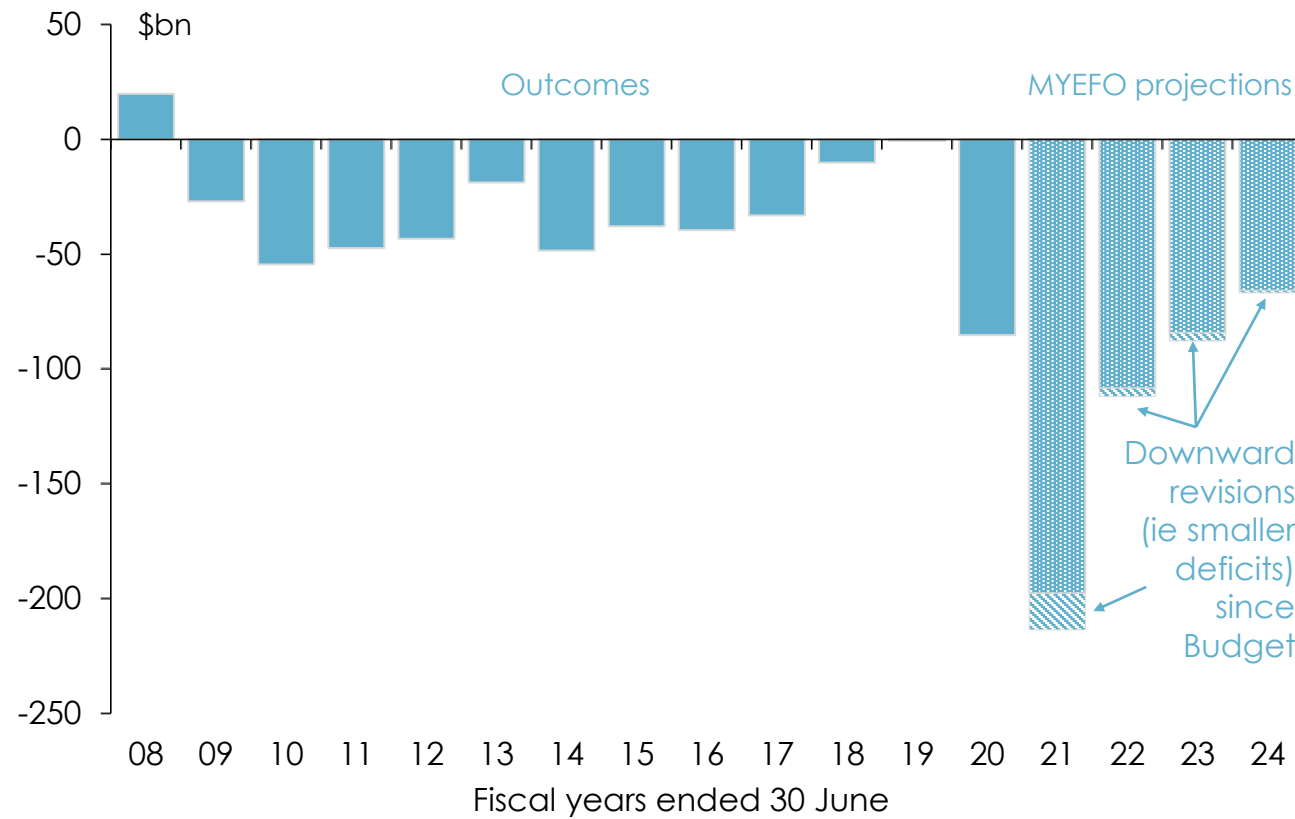


Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

# The budget deficits forecast in the 2020-21 Budget presented in October have been revised down by about 5¼%, and debt projections by 1½%

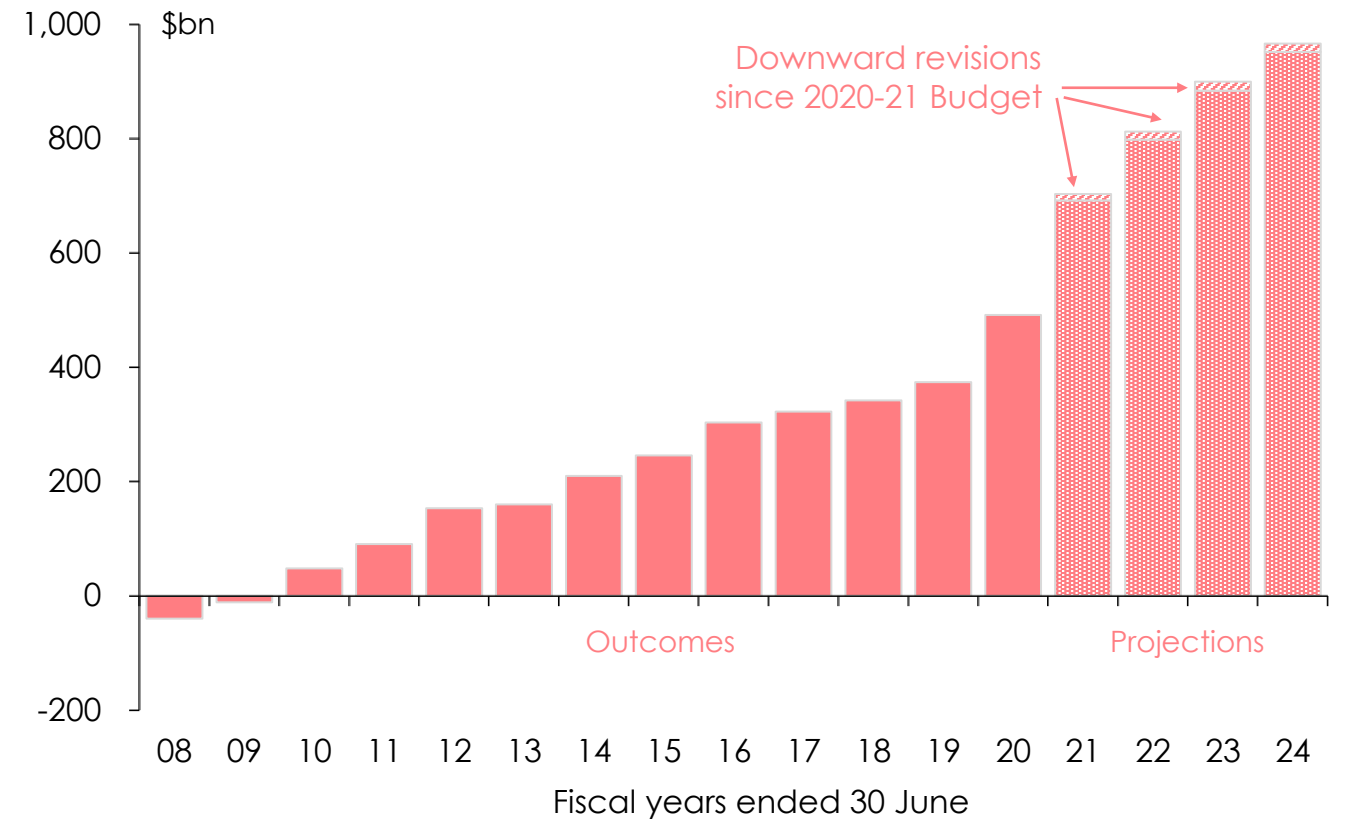
2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

## 'Underlying' cash balance



□ Forecast budget deficits over the four years to 2023-24 have been revised downwards by a total of \$24bn (5¼%) since the 2020-21 Budget was presented in October

## Net debt

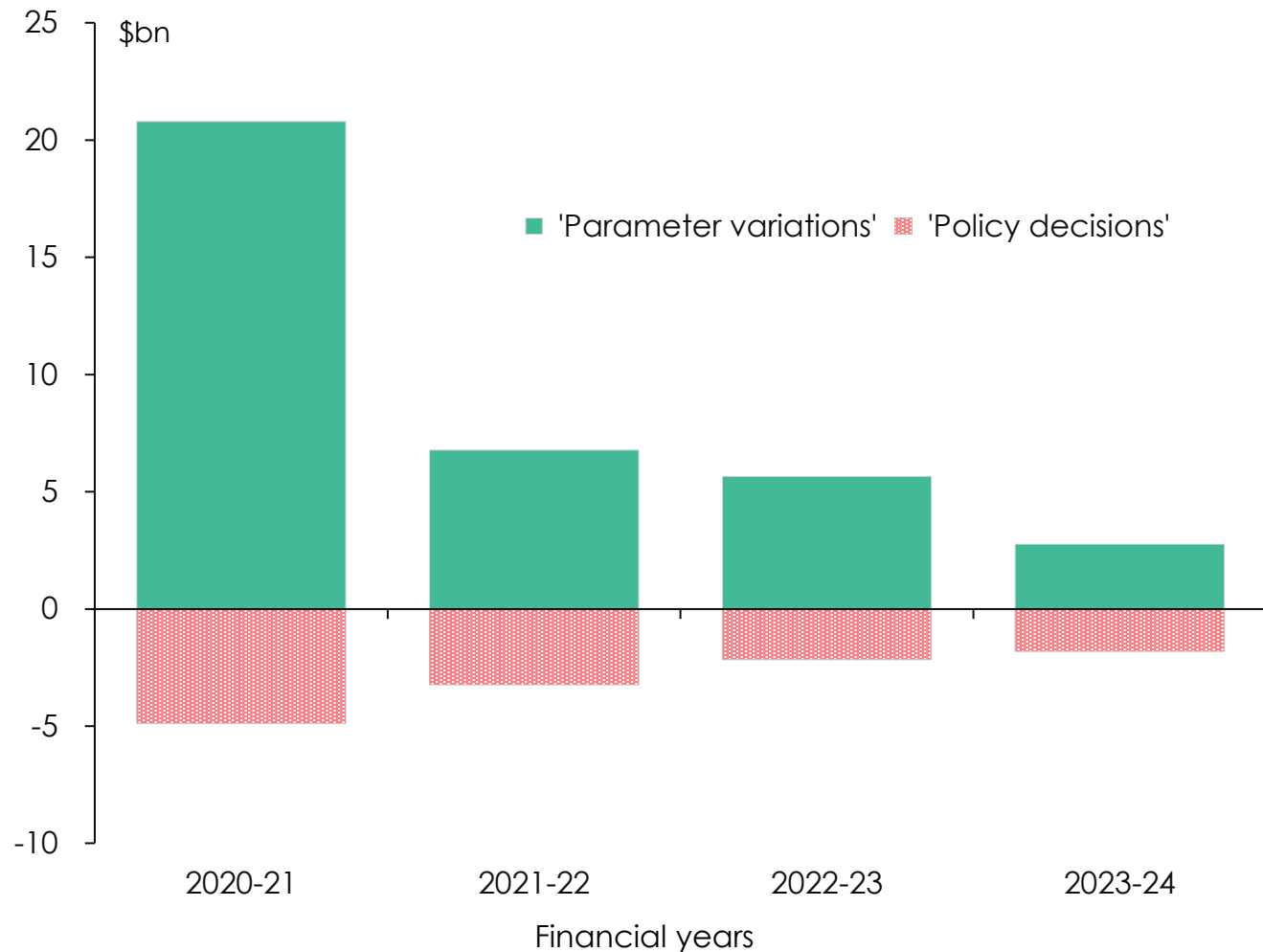


□ Projected net debt has been revised downwards by an average of just over 1½% over each of the next four years, or by a total of \$14bn by 30<sup>th</sup> June 2024



# The improvement in the budget outlook is largely due to changes in 'economic parameters', partly offset by 'as yet unannounced' tax cuts (?)

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

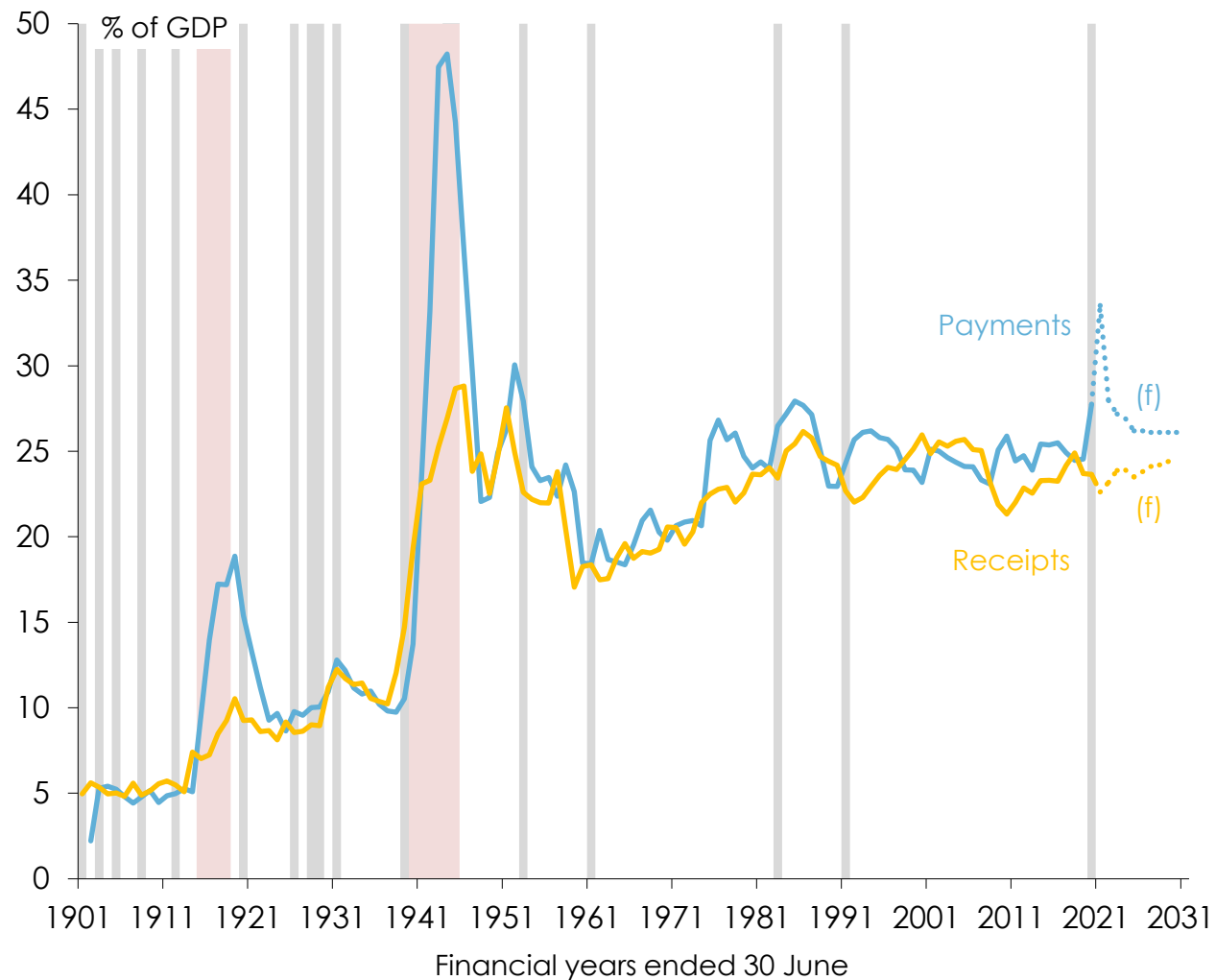


Source: Australian Government, [2020-21 Mid-Year Economic and Fiscal Outlook](#); Corinna. [Return to "What's New"](#).

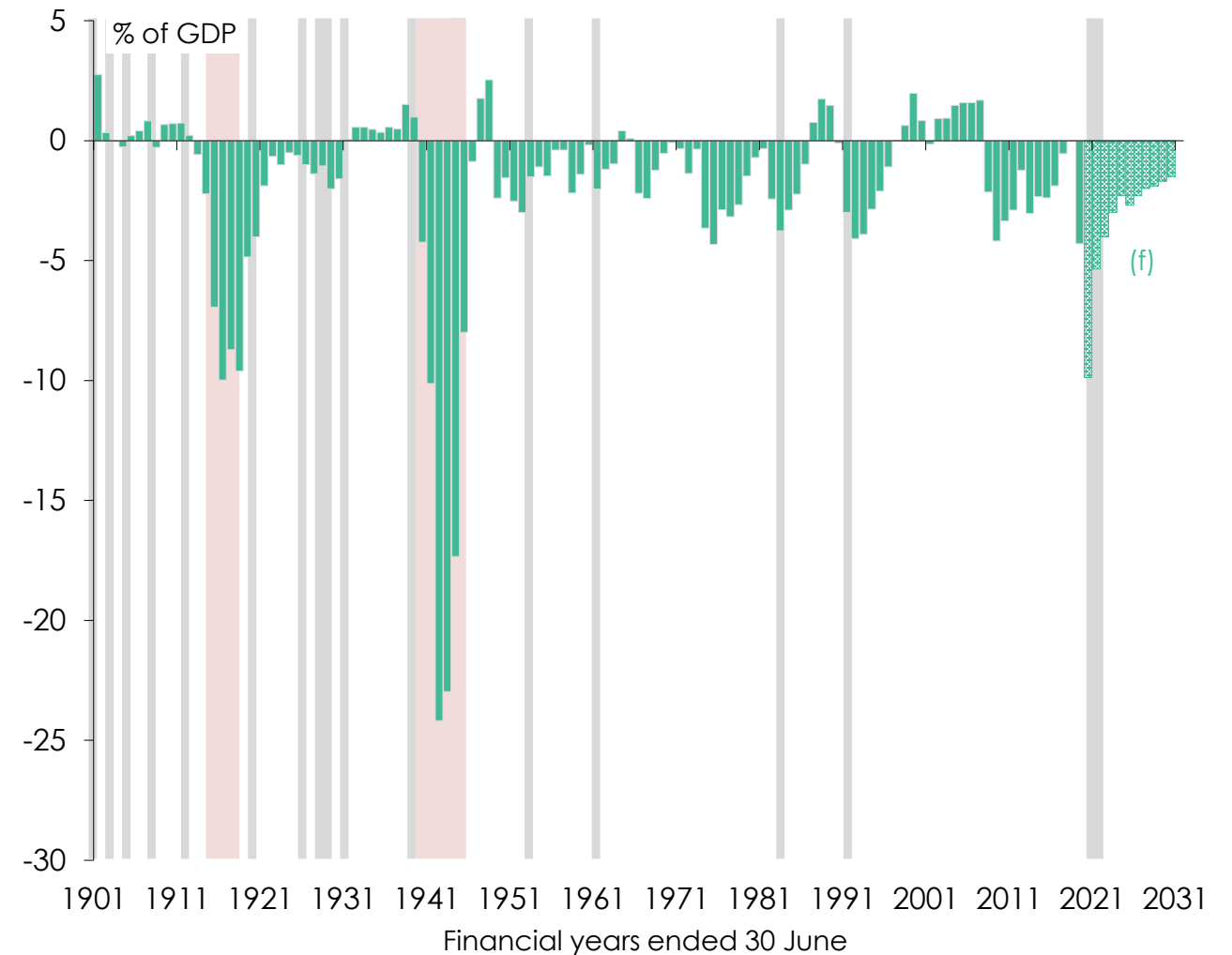
- Since the 2020-21 Budget was presented in the first week of October, 'parameter variations' (changes in economic forecasts and other assumptions) have improved the 'bottom line' by a total of \$36bn over the four years to 2023-24 (including \$21bn in 2020-21)
  - \$22bn of that amount is on the revenue side, largely through upward revisions to forecasts of revenue from company tax (thanks to higher iron ore prices) and GST (due to stronger forecasts for consumer spending)
  - while \$14bn is on the spending side, of which \$11bn is the result of lower spending on JobKeeper in 2020-21
- 'Policy decisions' have worsened the 'bottom line' by \$12bn over the four years to 2023-24 (including \$5bn in the current financial year)
  - of which \$10bn (including \$4¾bn in 2020-21) is due to extra spending (of which \$3bn is for the extension of the 'Coronavirus Supplement' and relaxation of income tests)
  - and \$1¾bn is on the revenue side – entirely accounted for by "decisions taken but not yet announced" (hmmm – wonder what that could be?)

# The budget deficits projected for 2020-21 (9.9% of GDP) and 2021-22 (5.4% of GDP) will still be the largest since the end of World War II

## Australian Government receipts and payments



## Australian Government budget deficit or surplus

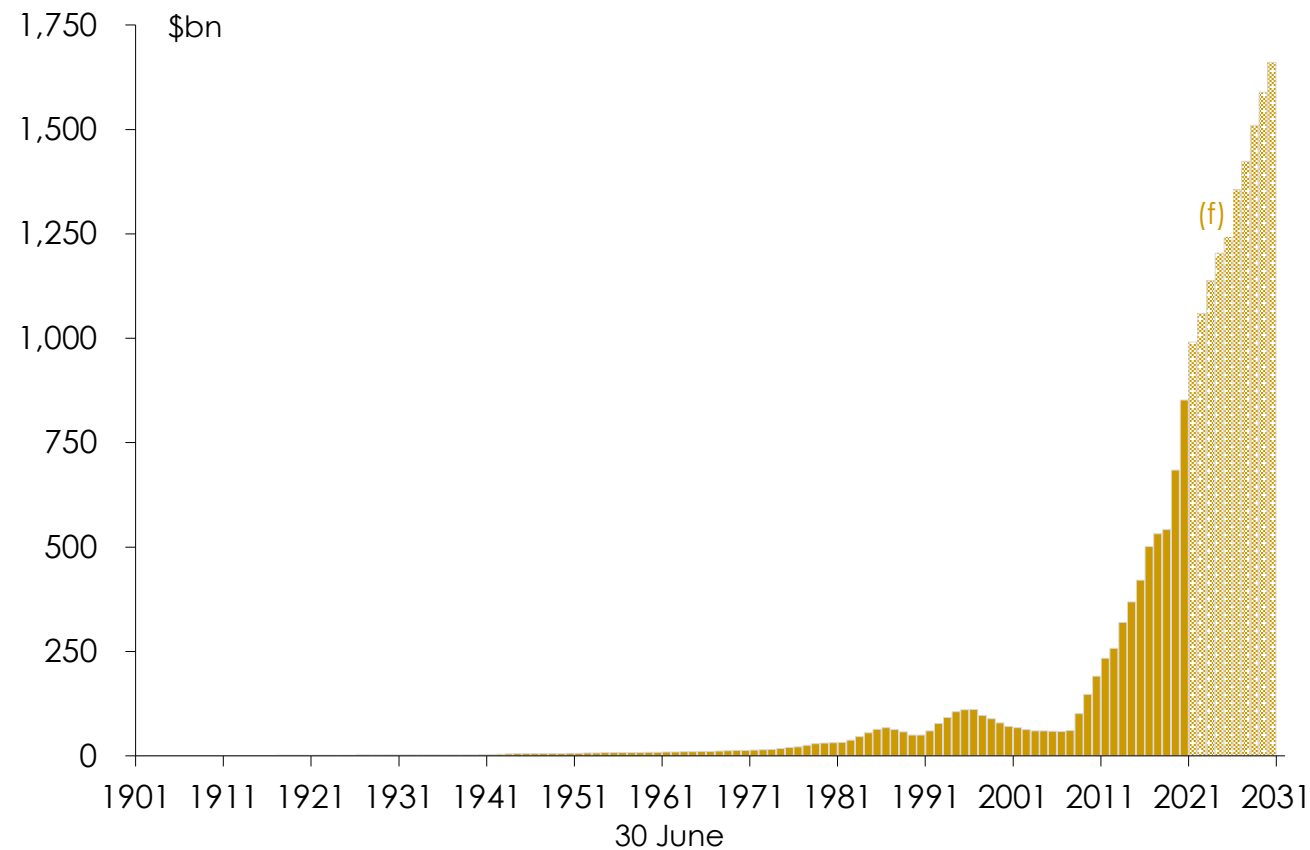


Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which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

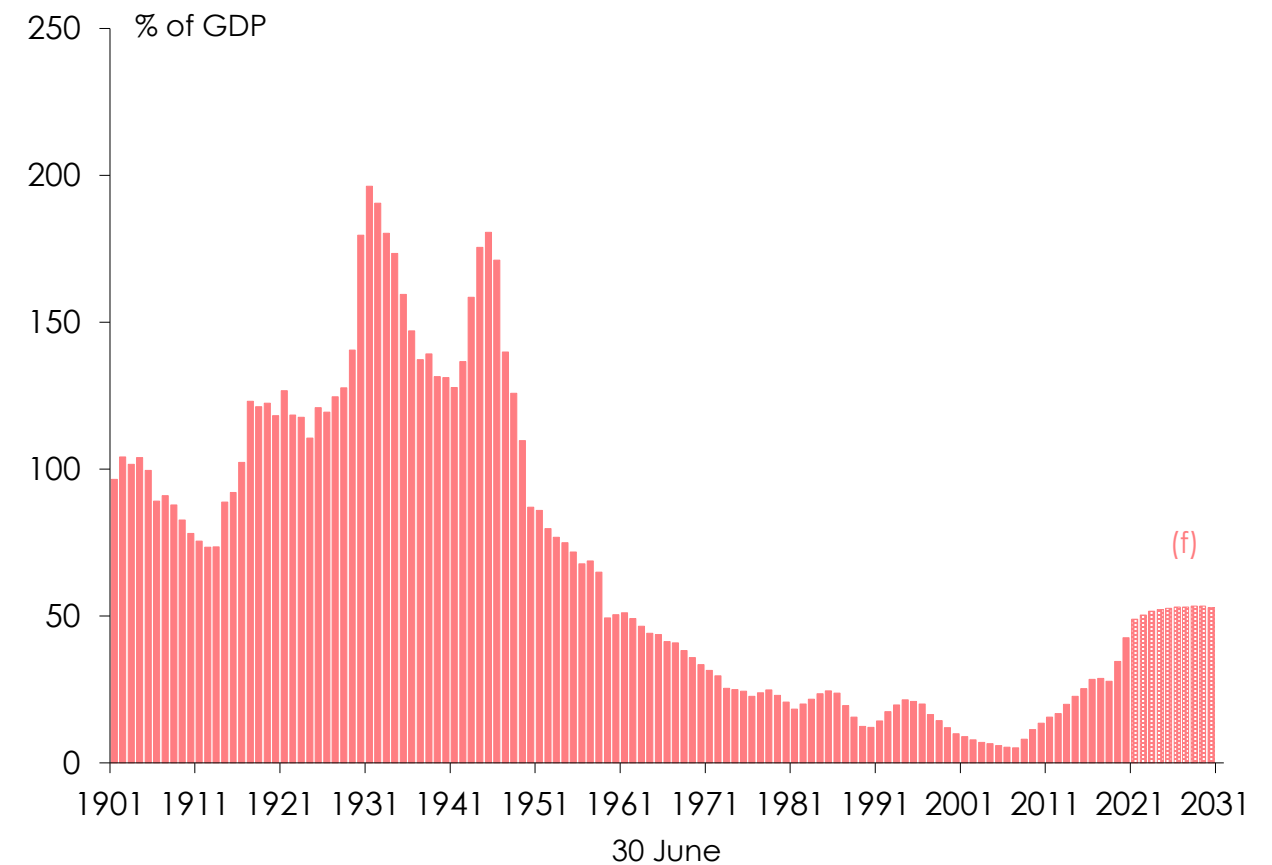
# However, there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

## Australian Government gross public debt in \$



- ❑ The Government's gross debt will top \$1 trillion during the 2022-23 financial year (a year later than forecast in October's budget) and exceed \$1.6 trillion in 2030-31

## Australian Government gross debt as a pc of GDP

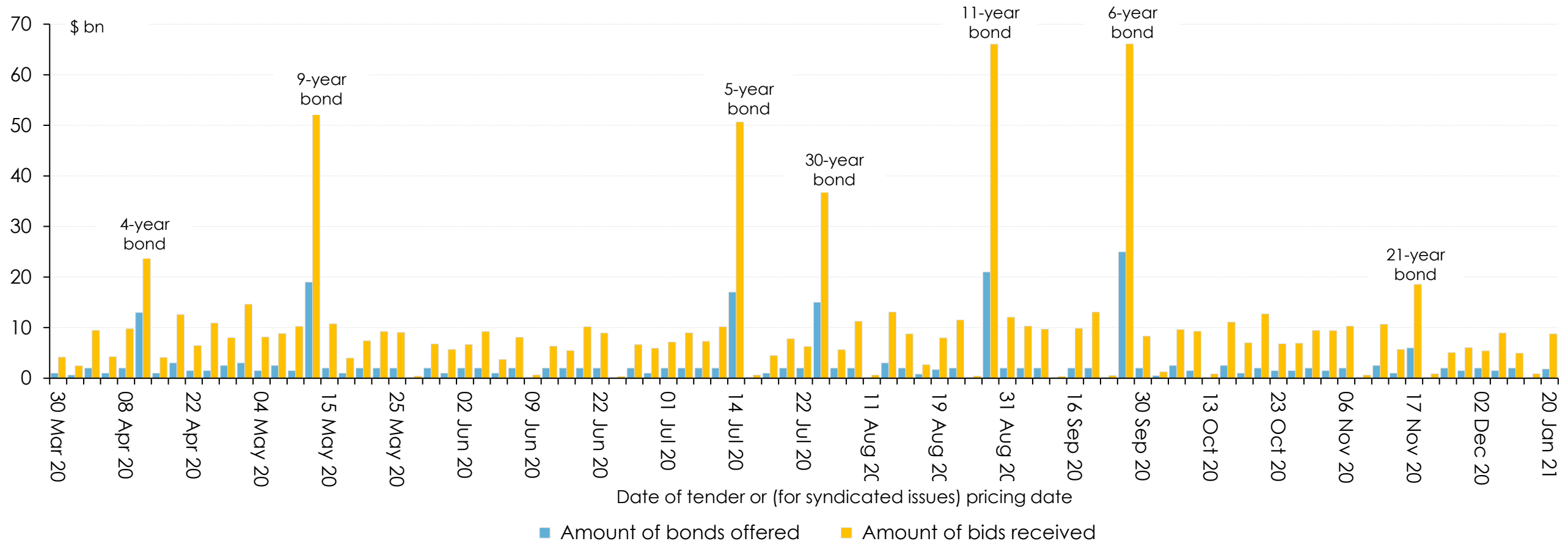


- ❑ However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an independent nation

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

# The Government has had no difficulty financing its deficit – and has cut its foreshadowed debt issuance by \$1bn a week for the first half of 2021

## Australian government bond issuance since March 2020

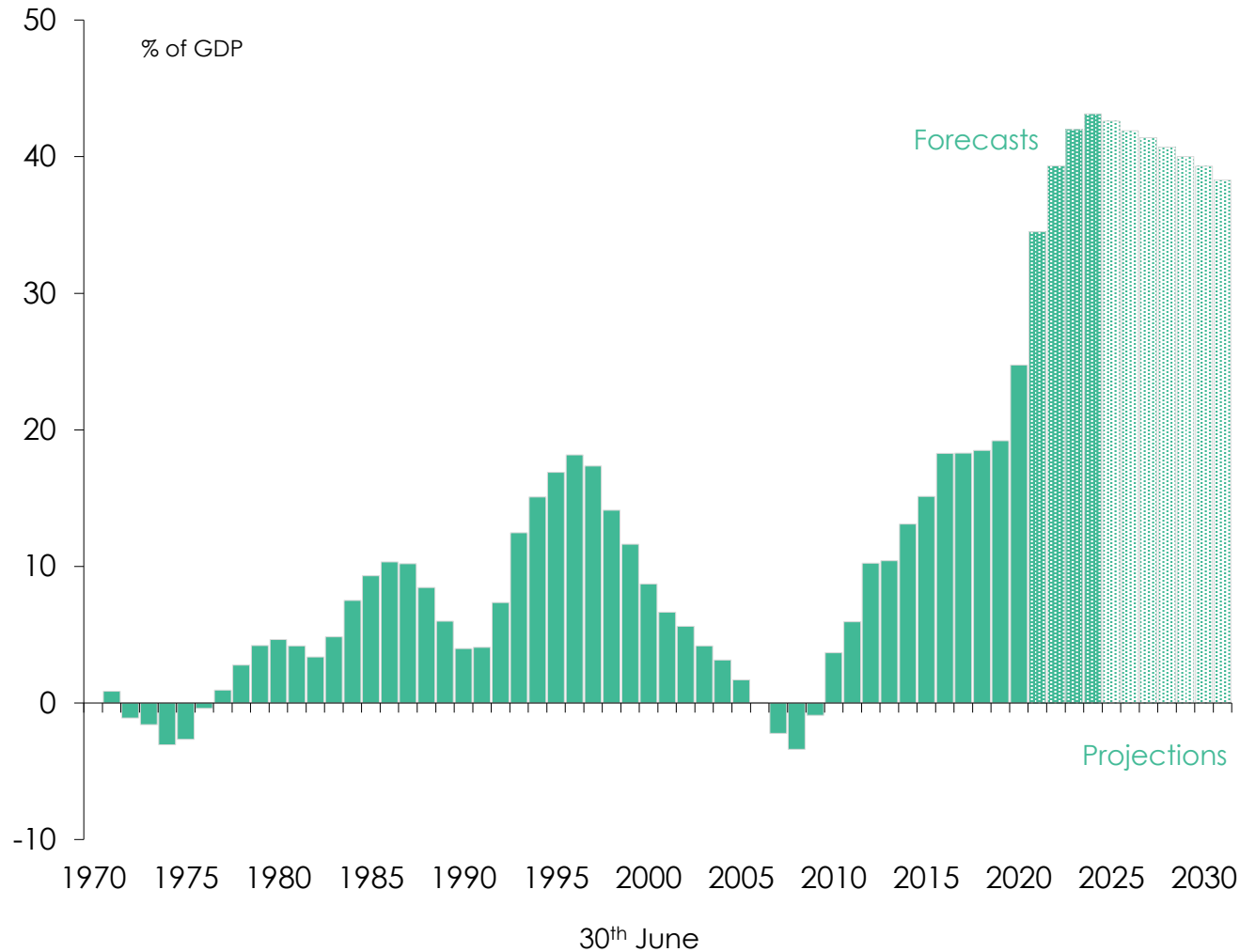


- ❑ Since 30<sup>th</sup> March 2020, the Australian Office of Financial Management has issued \$243.5bn of Treasury bonds – based on the volume of bids received it could have borrowed \$888bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted
- ❑ As of this week AOFM had issued \$156.6bn (68%) of this financial year's expected total gross issuance of \$230bn, with weekly issuance now expected to be \$2-3bn over the rest of the financial year

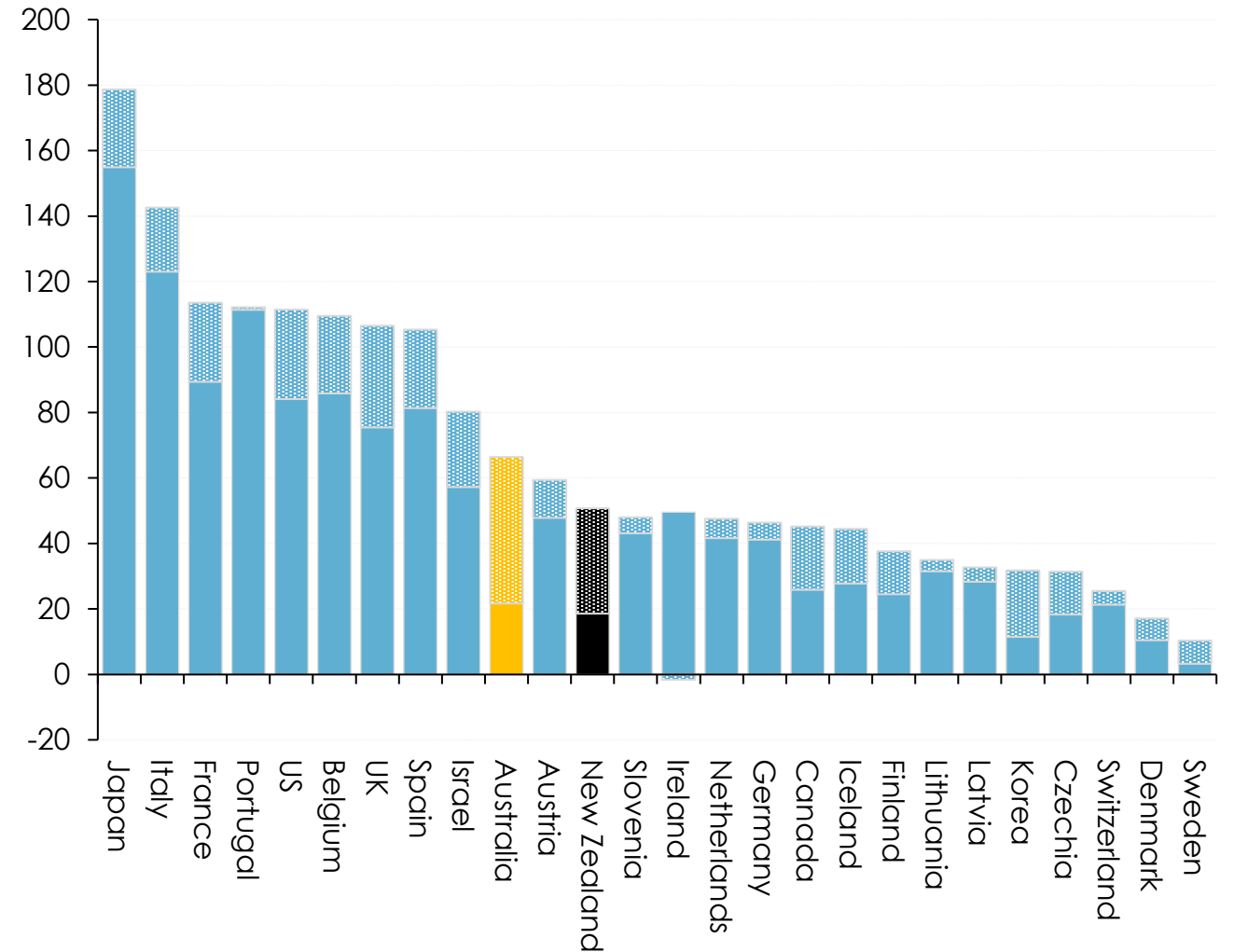
Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).

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

## Australian Government net debt as a percentage of GDP



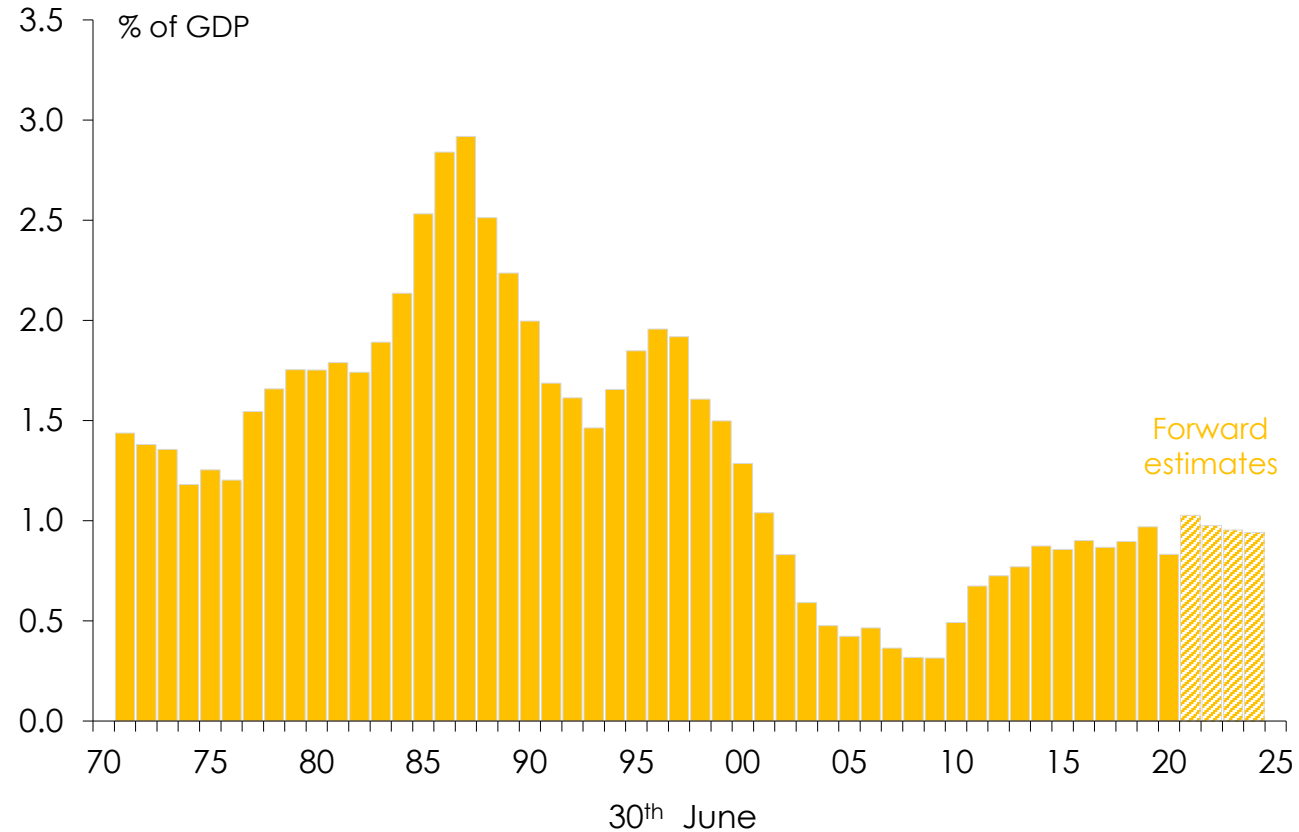
## Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2019 and projected 2024



Note: Estimates for Australia in right hand chart include actual and projected net debt of state and territory governments. Sources: Australian Government, 2020-21 [2020-21 Mid-Year Economic and Fiscal Outlook](#), 17<sup>th</sup> December 2020; 2020-21 state and territory Budget Papers; New Zealand Treasury, [Half-Year Economic and Fiscal Update](#) 2020, 16<sup>th</sup> December 2020; IMF, [Fiscal Monitor](#), October 2020. [Return to "What's New"](#).

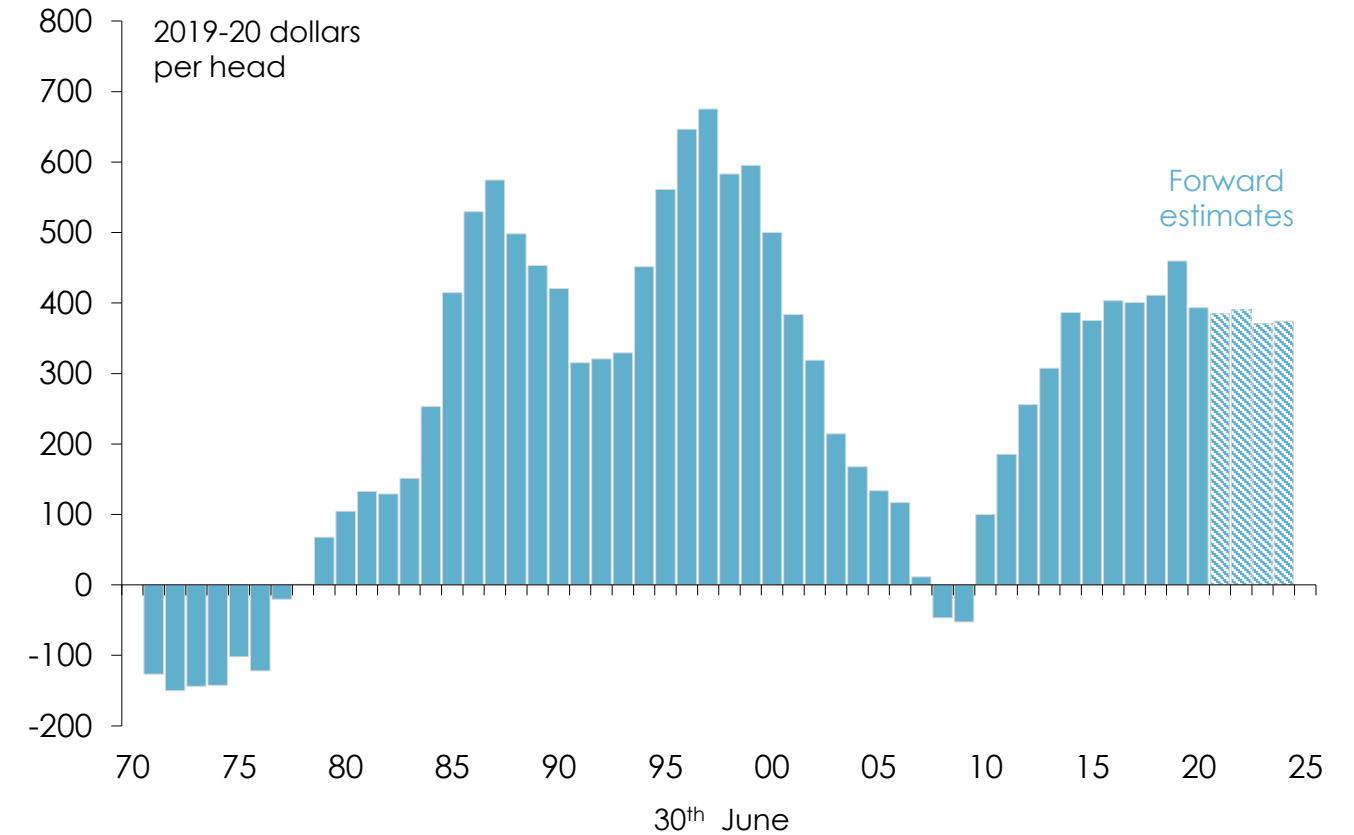
# Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



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

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

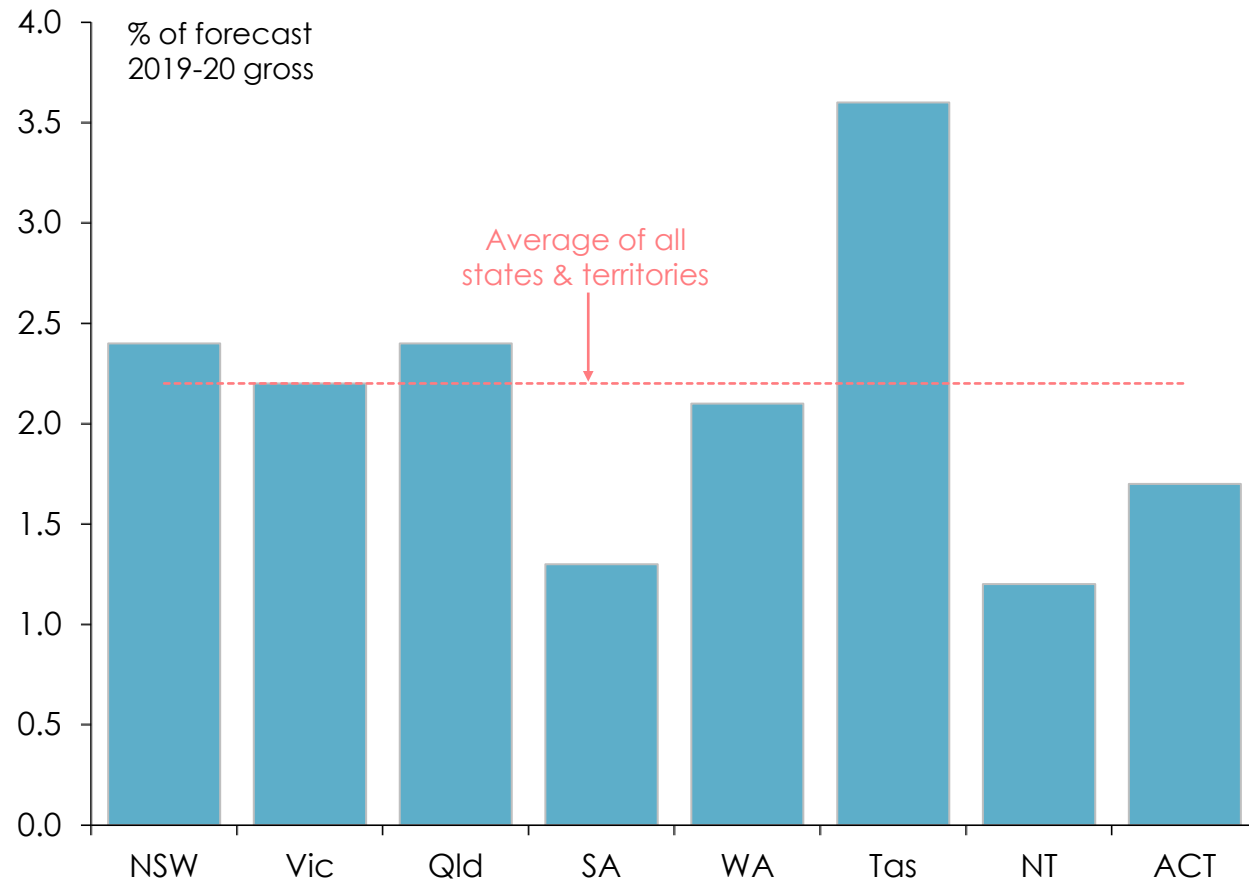


❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

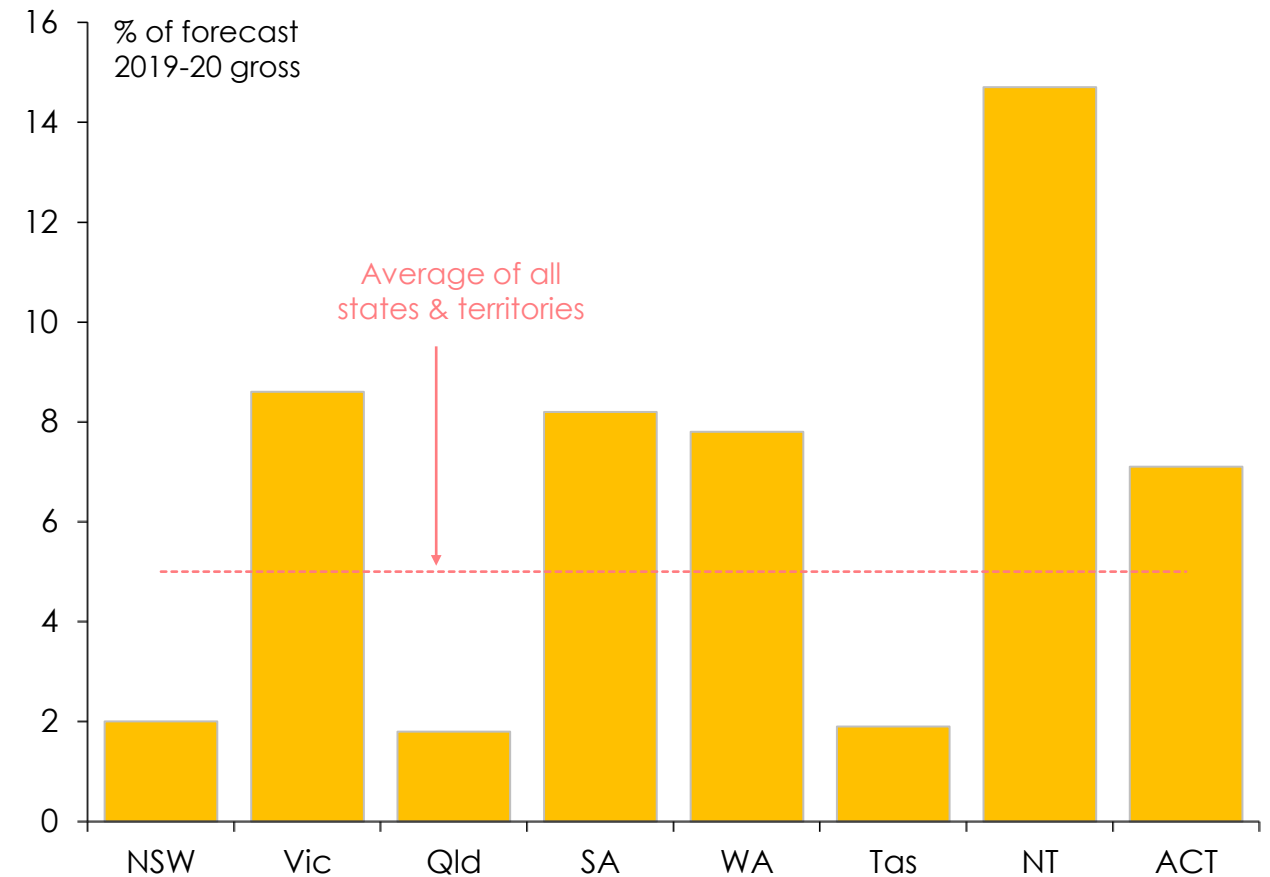
Sources: Global Financial Data; [2020-21 Mid-Year Economic and Fiscal Outlook](#); Corinna. [Return to "What's New"](#).

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

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



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

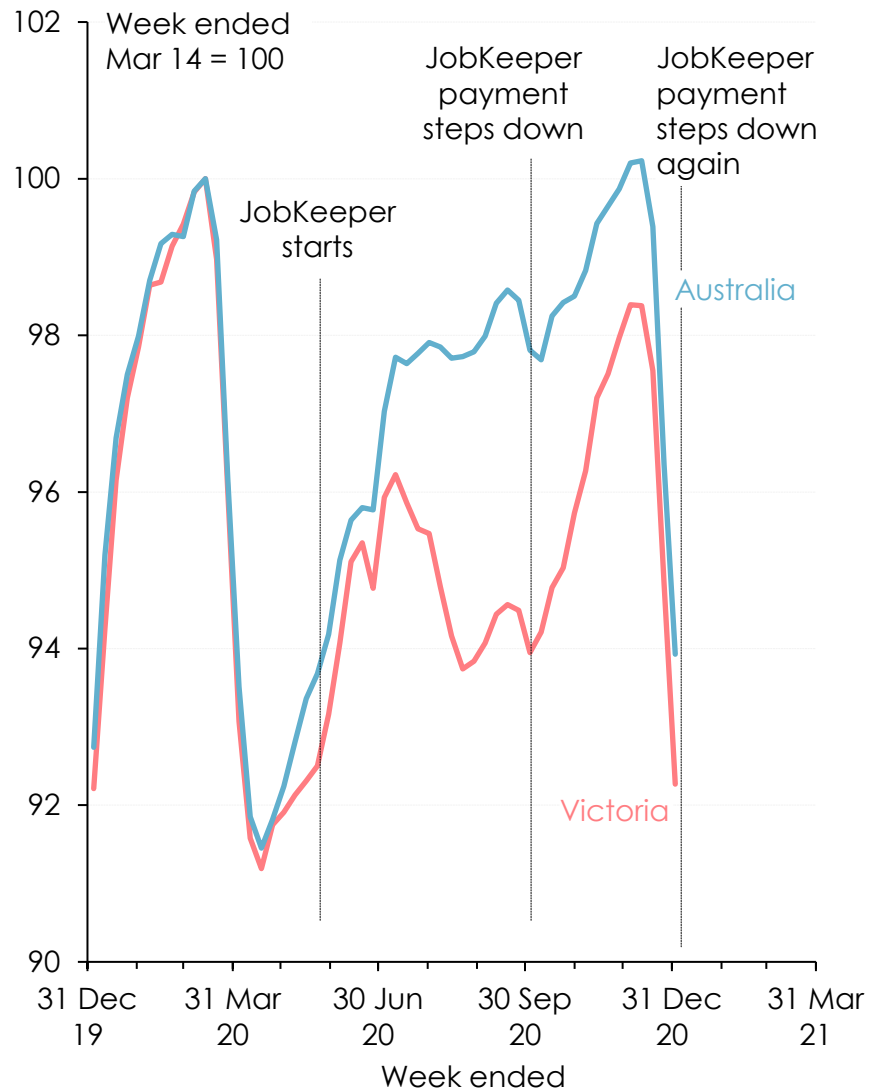


- ❑ In August RBA Governor Phillip Lowe advised state and territory governments to spend an additional \$40bn (2% of GDP) on infrastructure investment – an amount which S&P Global Ratings said state and territory balance sheets had “plenty of room to accommodate”

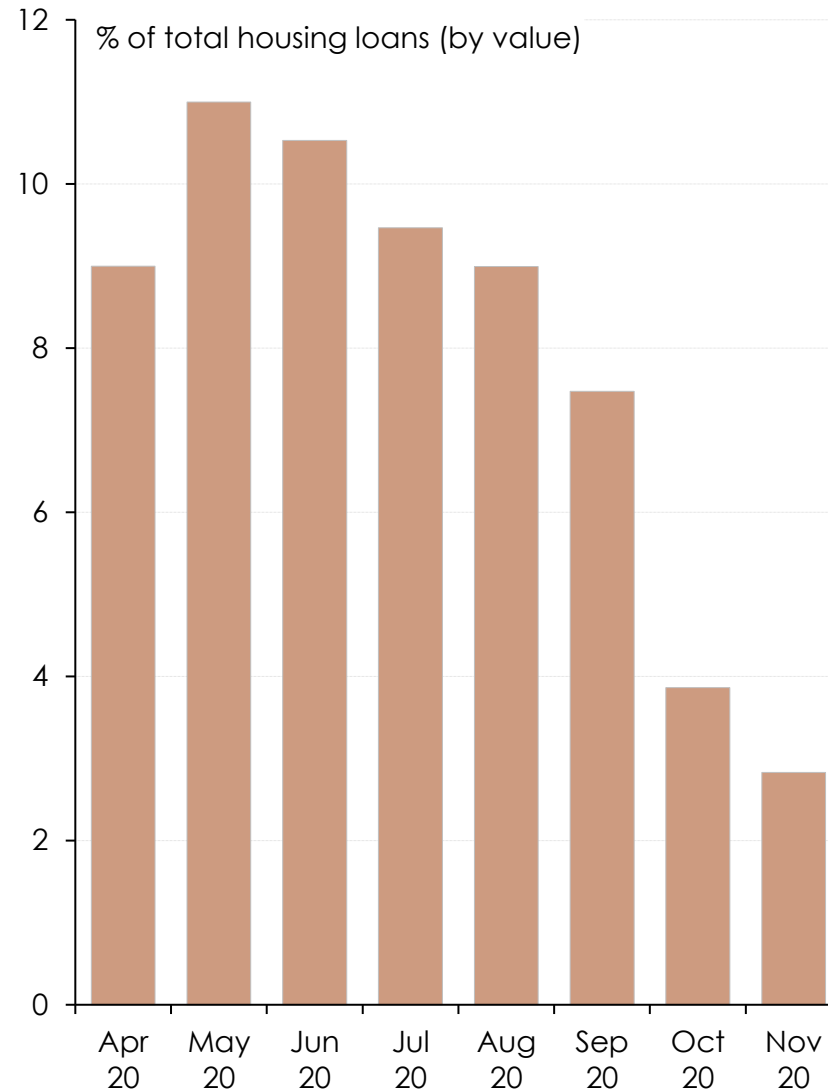
Sources: Commonwealth Treasury, 6<sup>th</sup> August 2020; Australian Financial Review, 14<sup>th</sup> August 2020; The Australian, 22<sup>nd</sup> August 2020. [Return to "What's New"](#).

# The transitions away from 'emergency assistance' are so far being accomplished very smoothly

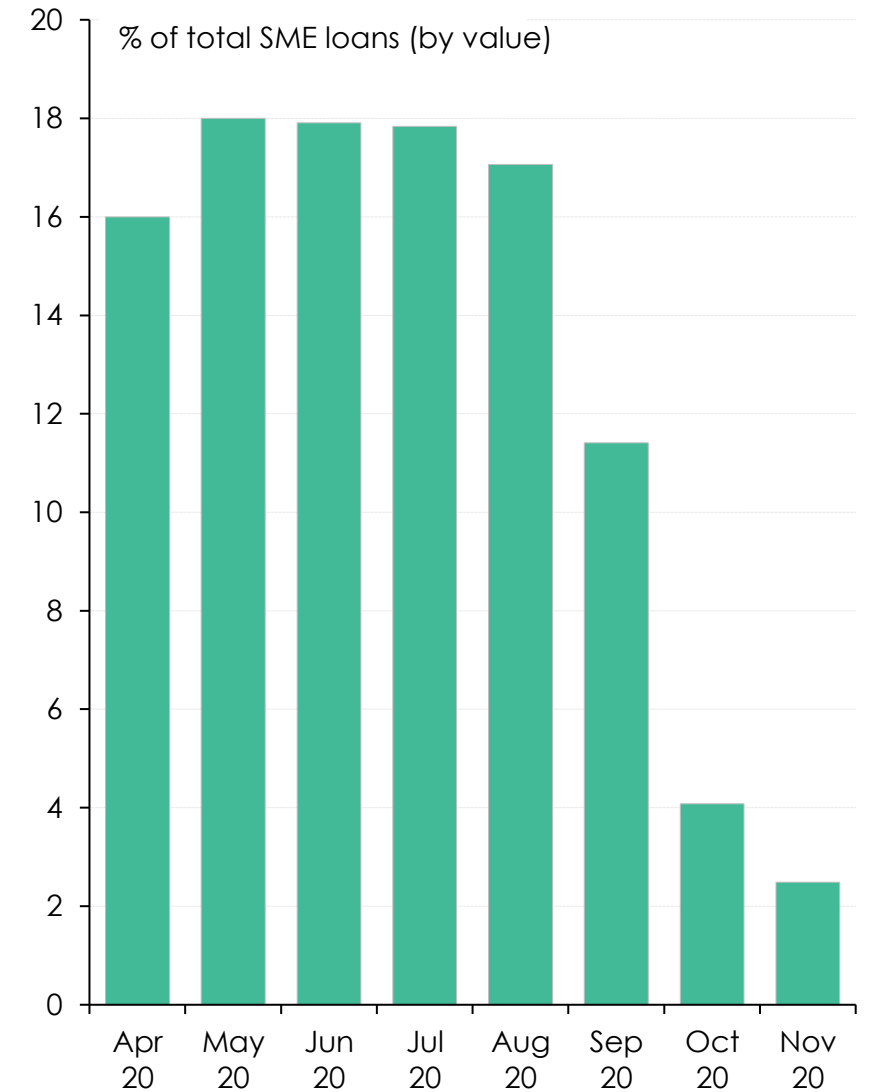
## Payroll employment & JobKeeper



## Mortgage repayment deferrals



## SME loan repayment deferrals

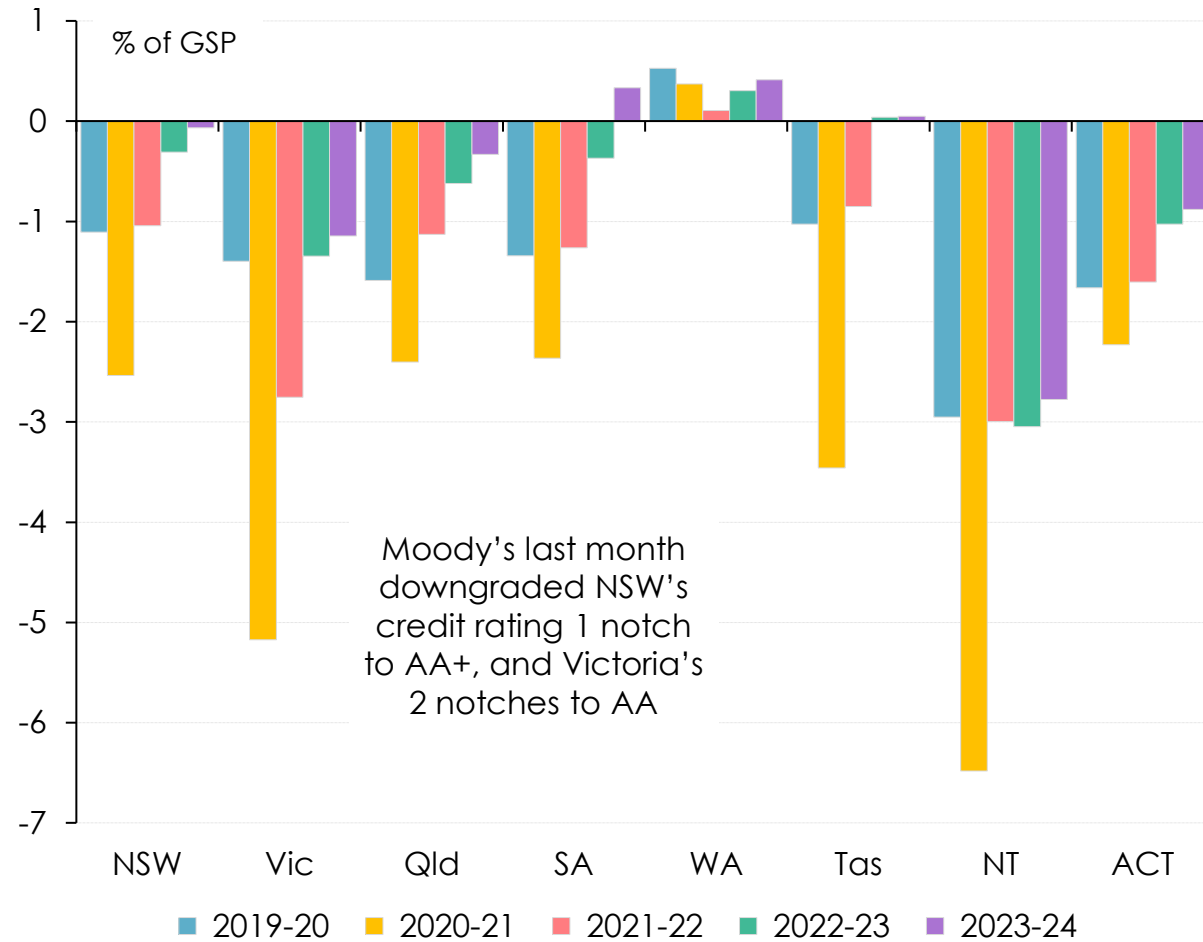


Note: Weekly payroll jobs data are not seasonally adjusted: as noted in [slide 83](#) the decline in the last two weeks of December and first week of January is consistent with normal seasonal patterns. Sources: [ABS](#); [Australian Financial Security Authority](#); [Australian Prudential Regulatory Authority](#).

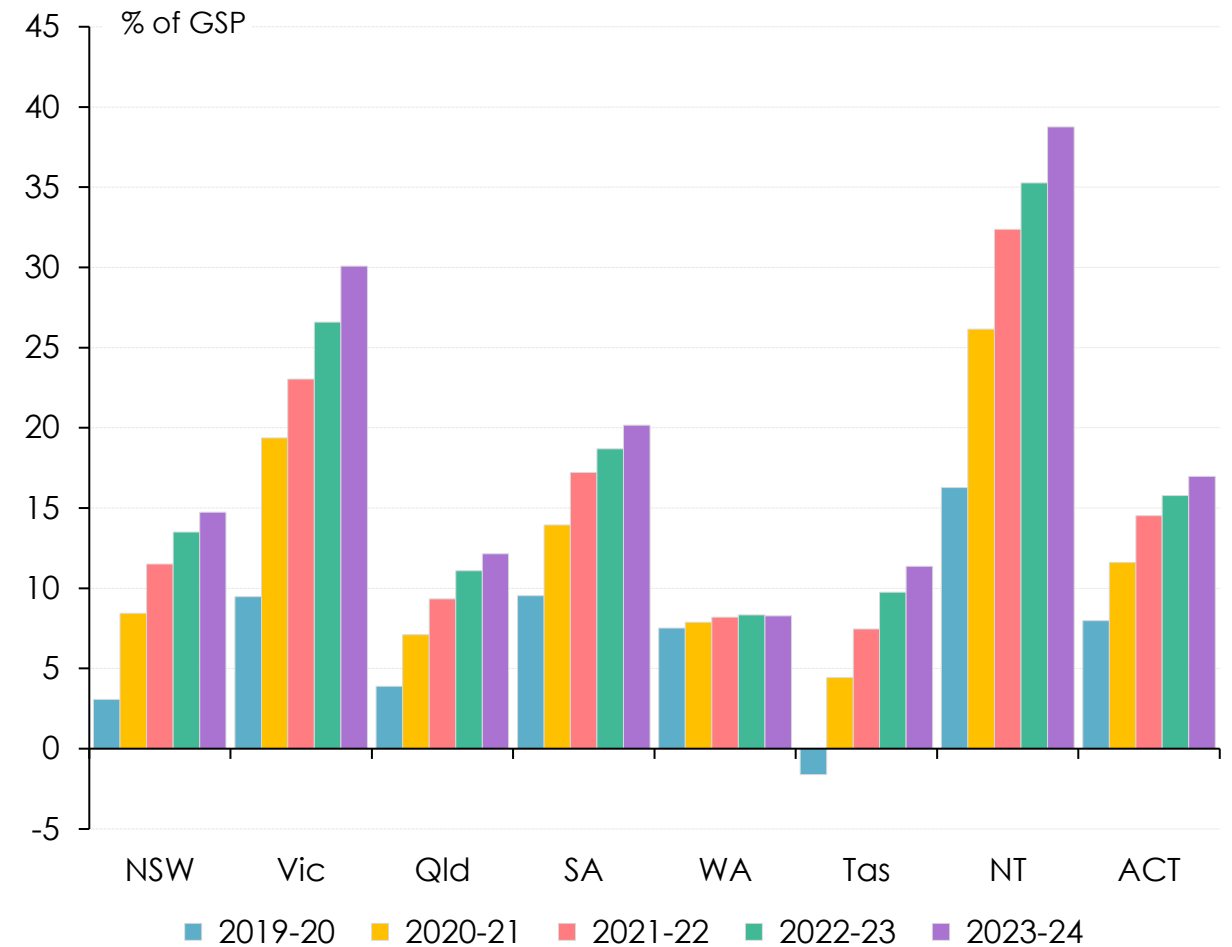


# Among Australia's states and territories, Victoria's and the Northern Territory's finances have deteriorated the most

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



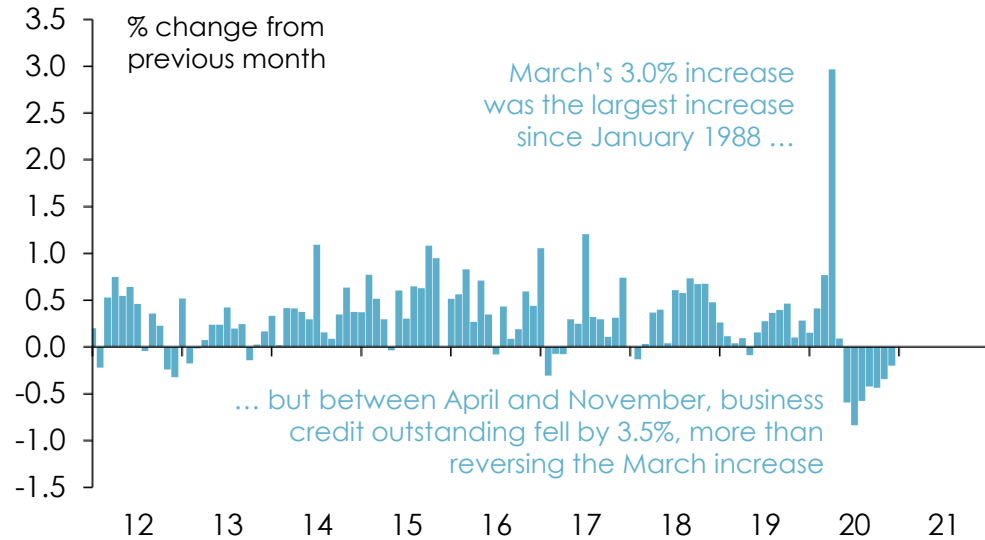
## State & territory general government net debt as a pc of gross state product



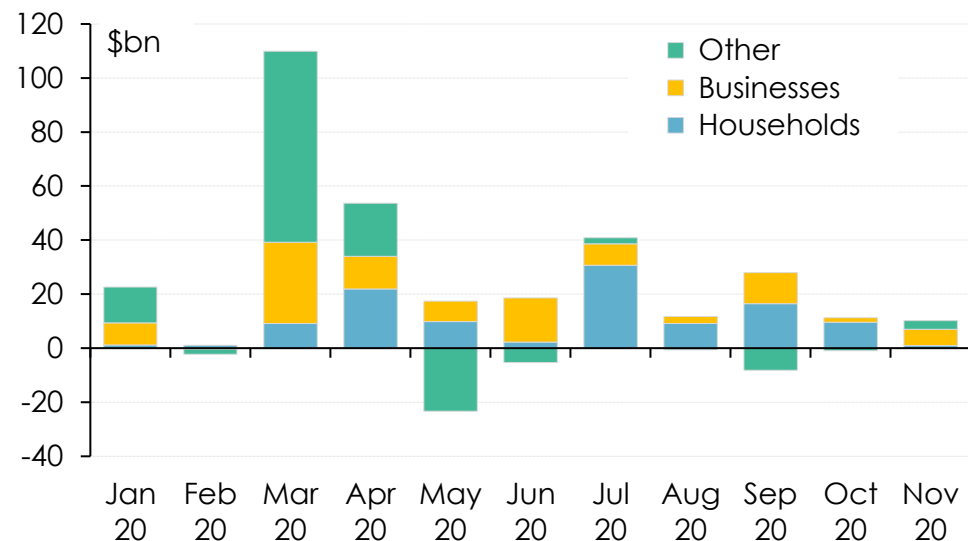
Note: No date has yet been set for ACT Budget. Estimates of gross state product (GSP) used to derive percentages shown in above charts are derived from state or territory Treasury forecasts of real GSP growth and Commonwealth Treasury forecasts of the GDP deflator for Australia as a whole; Tasmania's 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. For details of each state budget see the Weekly Chart pack for 5<sup>th</sup> December 2020. Sources: NSW, Vic Qld, SA, WA, Tas, and NT 2020-21 Budget Papers; ACT [Pre-Election Budget Update](#) (September 2020). [Return to "What's New"](#).

# Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

## Business credit outstanding



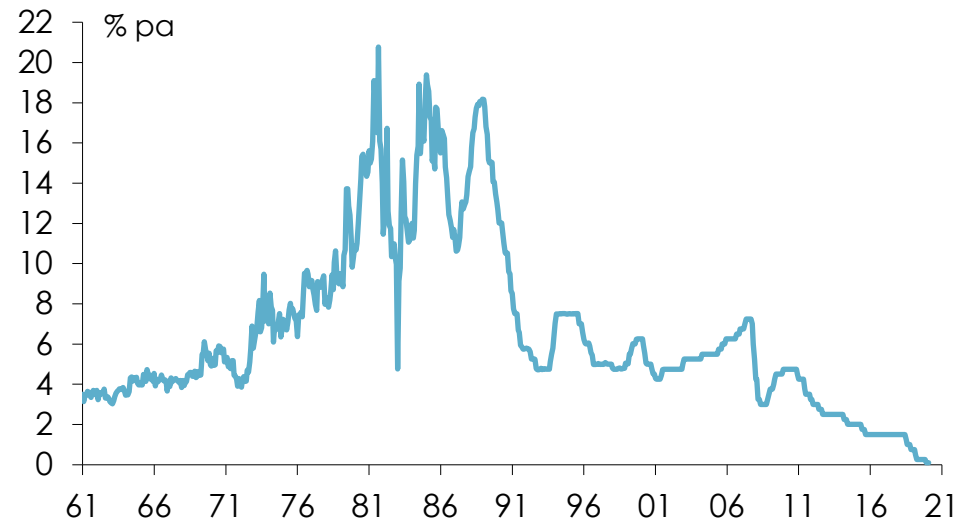
## Monthly change in bank deposits



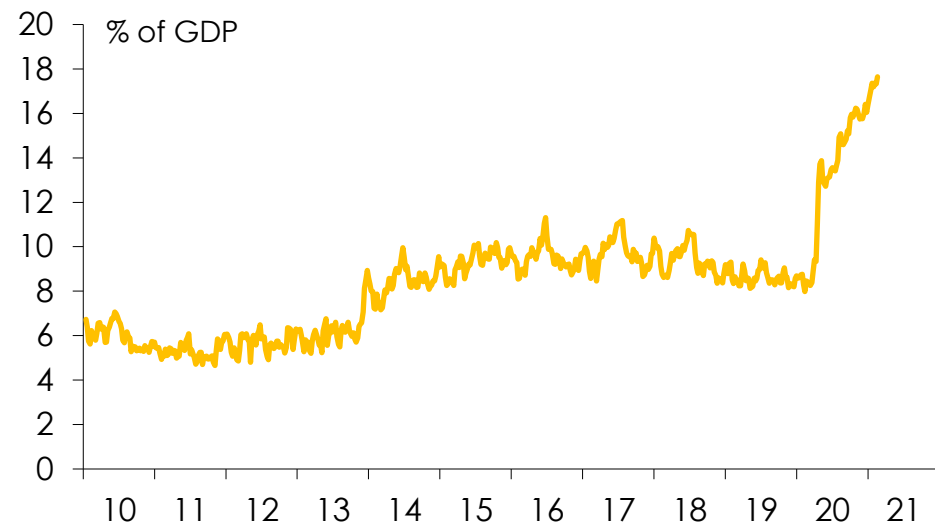
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – particularly in the early stages of the pandemic
- ❑ Banks extended ‘repayment holidays’ to business and home mortgage borrowers who request it
  - in May, 11% of mortgage borrowers and 18% of SME borrowers were deferring debt service payments, but those proportions have fallen to just 2.8% and 2.5% respectively as of November (see [slide 120](#))
- ❑ Bank deposits have swelled by \$264bn (12¼%) since February last year as customers have ‘parked’ precautionary loan drawings, additional savings and withdrawals from superannuation funds
  - almost all of this has gone into transaction deposits which don’t pay interest – so banks have made almost no drawings from the RBA’s Term Funding Facility since the beginning of October
- ❑ Household deposits have risen by \$110bn (11%) since February – of which \$36bn has been sourced from early release of superannuation savings – while business deposits have risen by \$96bn (16%)

# The RBA has cut its cash rate as low as it can go (without going negative) and has launched a range of 'QE' programs

## 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"](#).

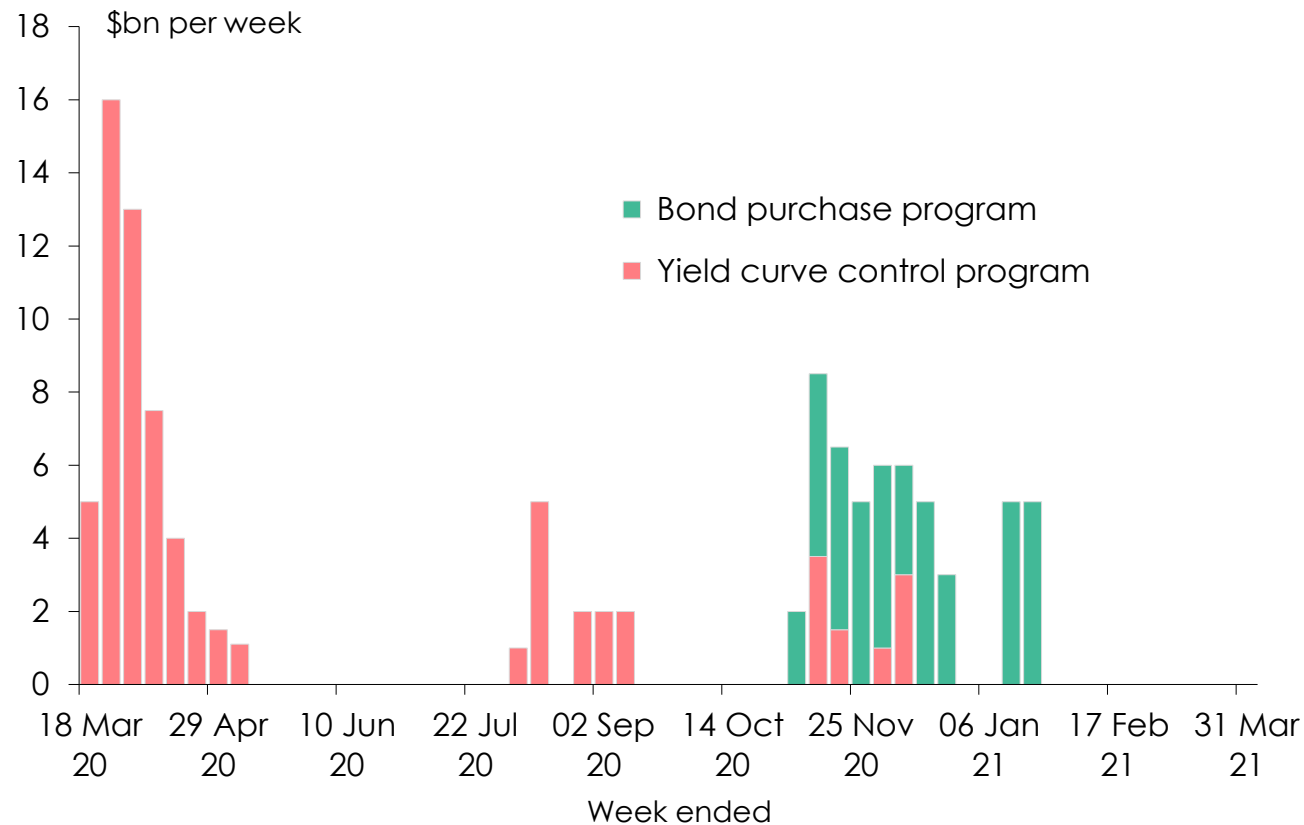
- ❑ Last year the RBA cut its cash rate target from 0.75% to 0.10% (and in practice allowed the cash rate to fall to 0.03%)
  - the Board and the Governor have repeatedly indicated that a negative cash rate is “extremely unlikely” in Australia, with “benefits outweighed by the costs”
  - but they have also repeatedly re-iterated that the RBA “is not expecting to increase the cash rate for at least three years” and “is prepared to do more [by way of QE or other measures] if necessary”
- ❑ The RBA also implemented a range of other measures
  - a BoJ-style ‘yield curve control’ program targeting the 3-year yield at 0.25% initially and (since November) 0.10%, under which it has so far bought \$71bn
  - a Fed or ECB-style ‘Bond Purchase Program’ targeting 5-10 year yields, under which it has since November purchased \$43bn (out of a total of \$100bn over 6 months)
  - a BoE-style ‘Term Funding Facility’ under which it stands ready to lend to banks and other lenders at (initially) 0.25%, since November 0.10%, for on-lending to businesses (with built-in incentives for additional lending to SMEs) – under which it has so far provided \$85bn out of a potential \$186bn
  - and the RBA has repeatedly indicated that it “is prepared to do more if necessary”
- ❑ The ongoing strength in the A\$ has been ‘unhelpful’ to the attainment of the RBA’s inflation and employment objectives
  - the introduction of the ‘Bond Purchase Program’ was explicitly in response to the impact of other central banks’ bond-buying programs on overseas bond yields and hence on the ‘spread’ between Australian and overseas bond yields – which has narrowed by around 30 basis points since the program started
  - the RBA sees little point in direct FX market intervention when the A\$’s strength is in line with ‘fundamentals’ (including commodity prices)

# 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\$)

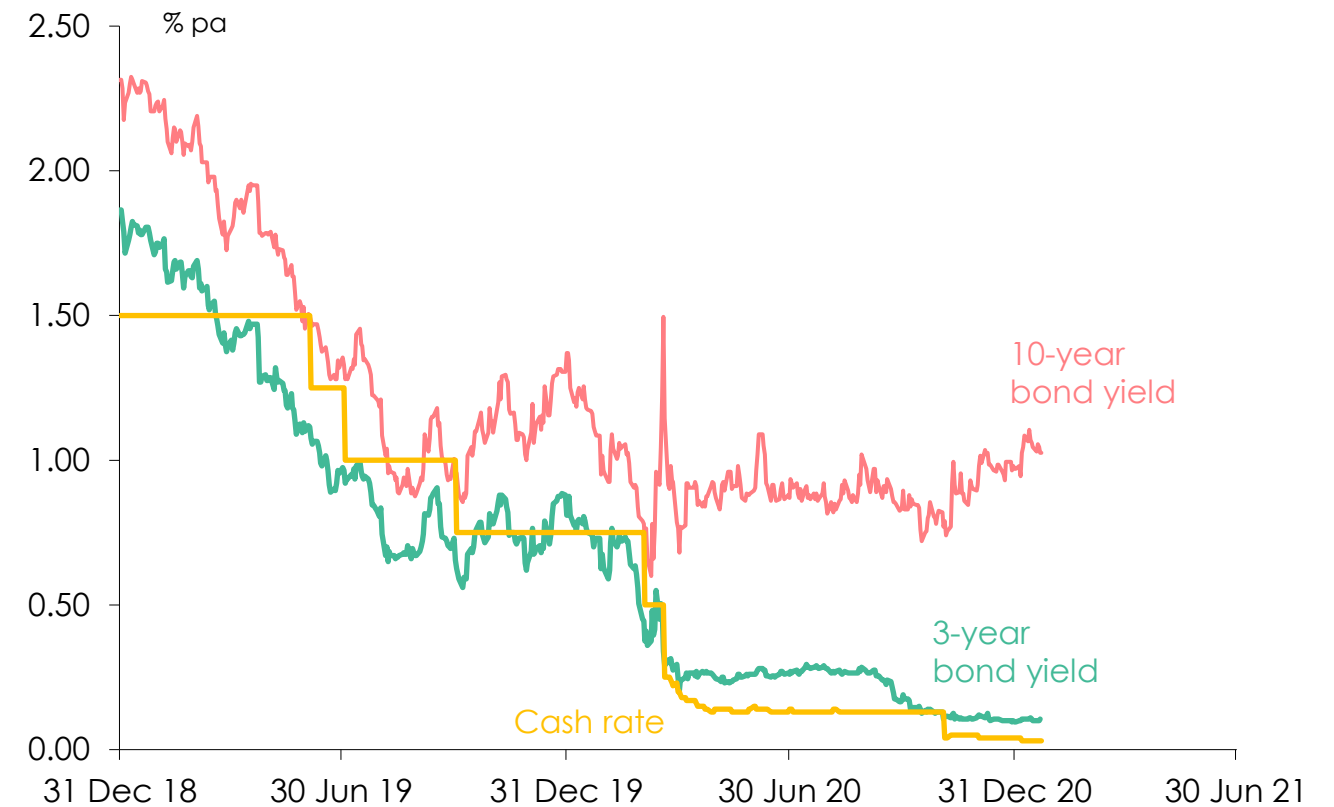
- ❑ **Speaking** after the RBA's Board meeting in November last year, Governor Phillip Lowe indicated that the RBA's priority was, now and for "the next couple of years", on reducing unemployment ("a major economic and social problem that damages the fabric of our society") rather than on inflation (where 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"
- ❑ **In December last year, 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, and wage & 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**

# The RBA bought another \$5bn of bonds this week under its Bond Purchase Program, while 10-year yields remained just above 1%

## RBA open market bond purchases



## Interest rates

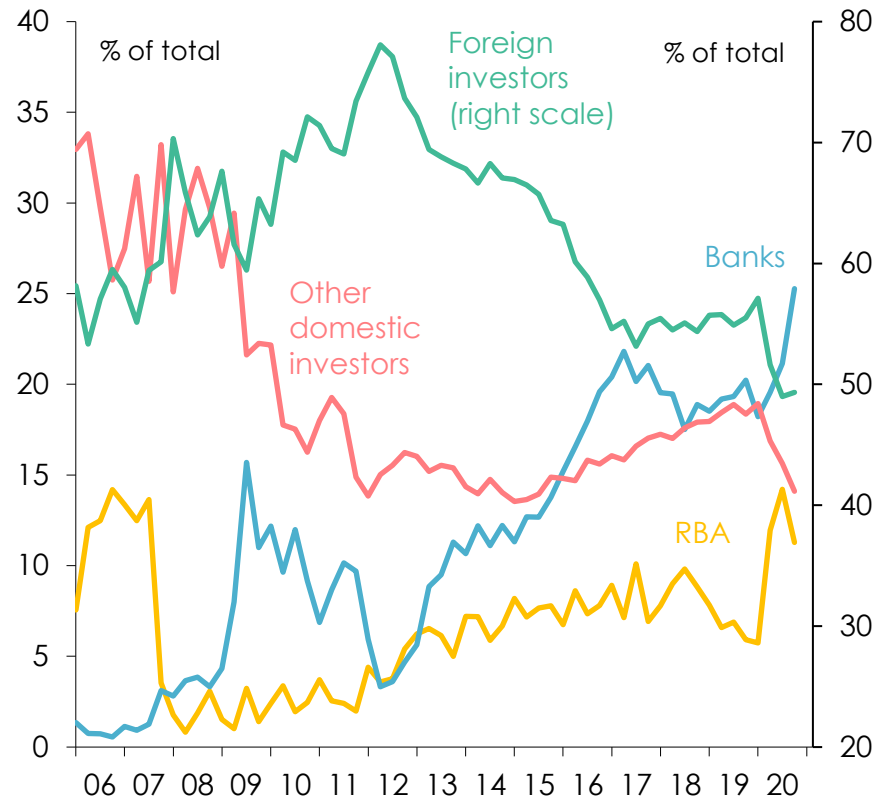


❑ The RBA bought \$5bn of bonds this week under its Bond Purchase Program, the same as the previous week – but nothing under its 3-year yield target program – bringing its total bond purchases since March to \$114bn (or 5¾% of GDP) of which \$71bn has been for YCC and \$43bn for BPP

❑ 10-year yields traded in a narrow range a few bp either side of 1.05% this week, below the previous week's high of 1.11%, while 3-year yields remained in line with the RBA's YCC target

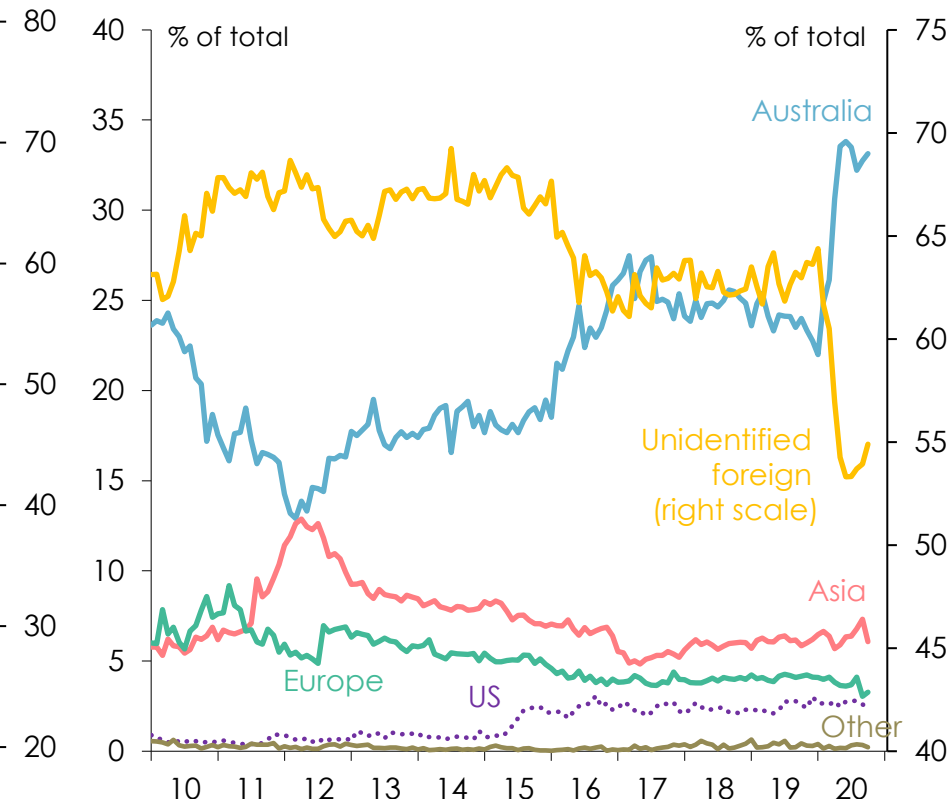
# Domestic banks increased their holdings of federal, state and territory government bonds by \$160bn over the first three quarters of 2020

## Holder of Australian Government bonds



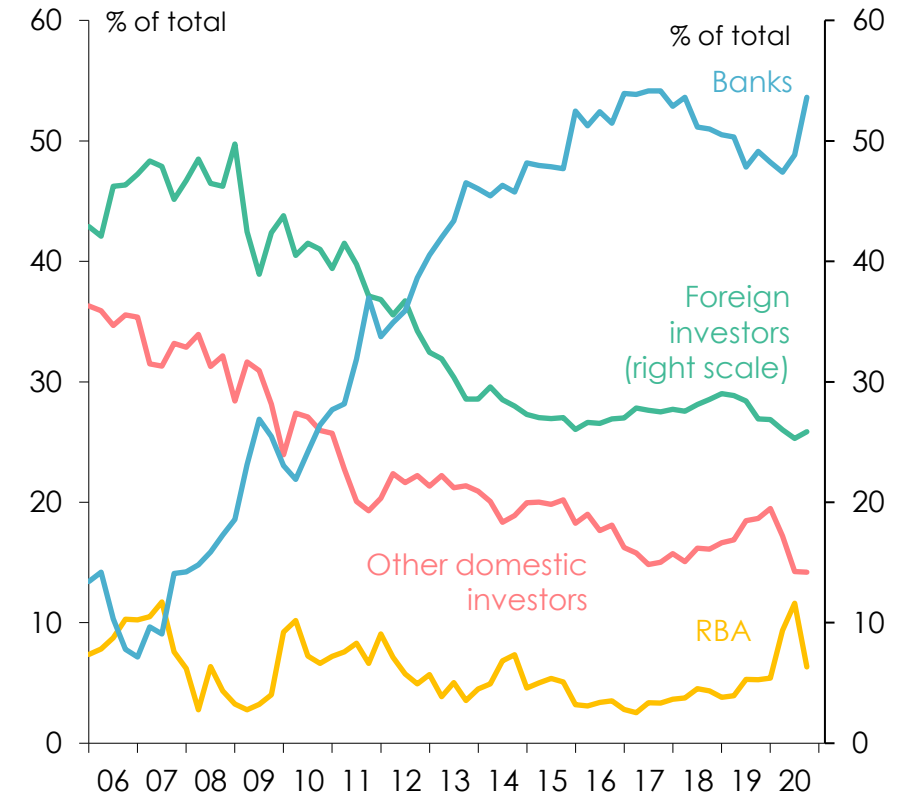
**Australian Gov't bonds on issue rose by \$221bn over the first three quarters of 2020 – of which domestic banks absorbed \$101bn, and the RBA and foreign investors \$60bn each**

## Nationality of Australian Government bond holders



**Foreigners increased their holdings of Australian Gov't bonds by \$100bn over the first nine months of 2020 – but their share has gone down because domestic investors have bought more**

## Holder of State and Territory Government bonds



**State & Territory Gov't bonds on issue increased by \$78bn over the first three quarters of 2020, of which domestic banks absorbed \$58bn, foreign investors \$17bn and the RBA \$7½bn**

# 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**

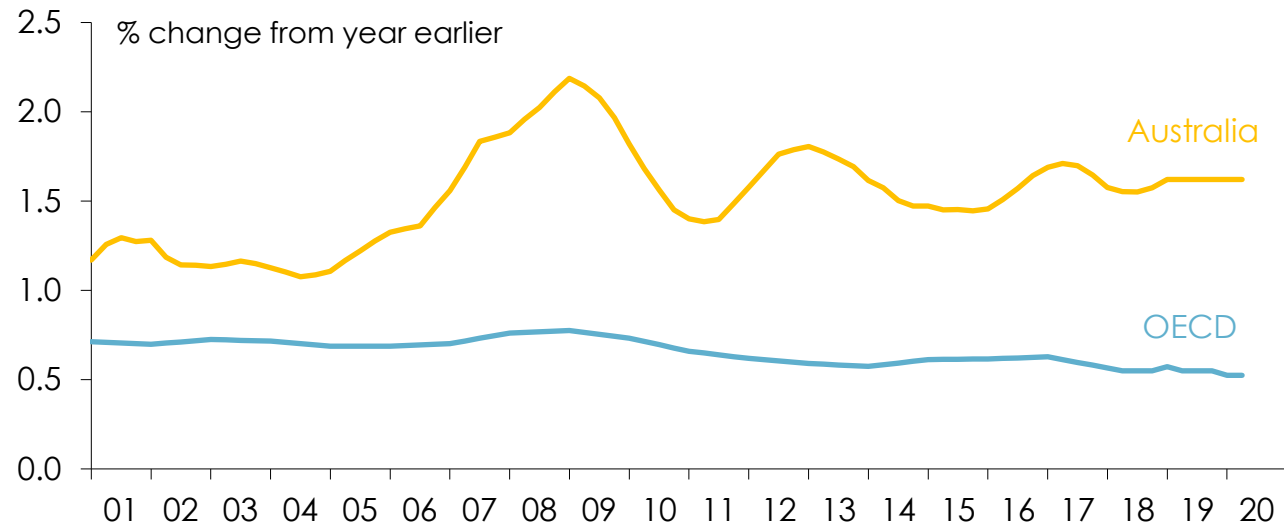
- although we haven't done nearly as well as we once did on the micro-economic front (especially with regard to productivity)

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

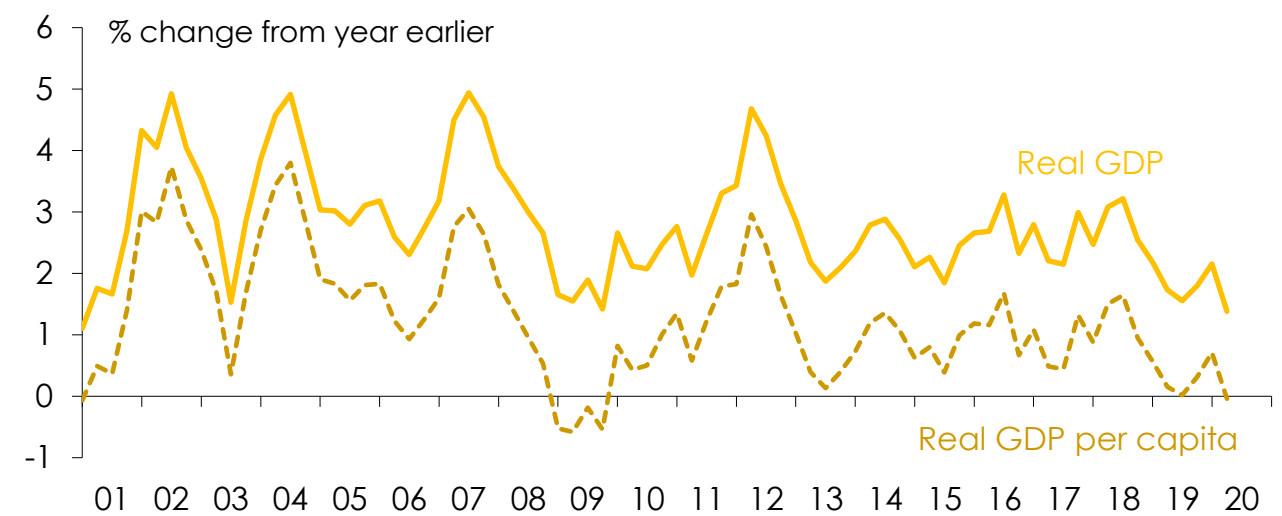


# Australia's above-average economic growth over the past 20 years owes a lot to above-average population growth: that's about to change

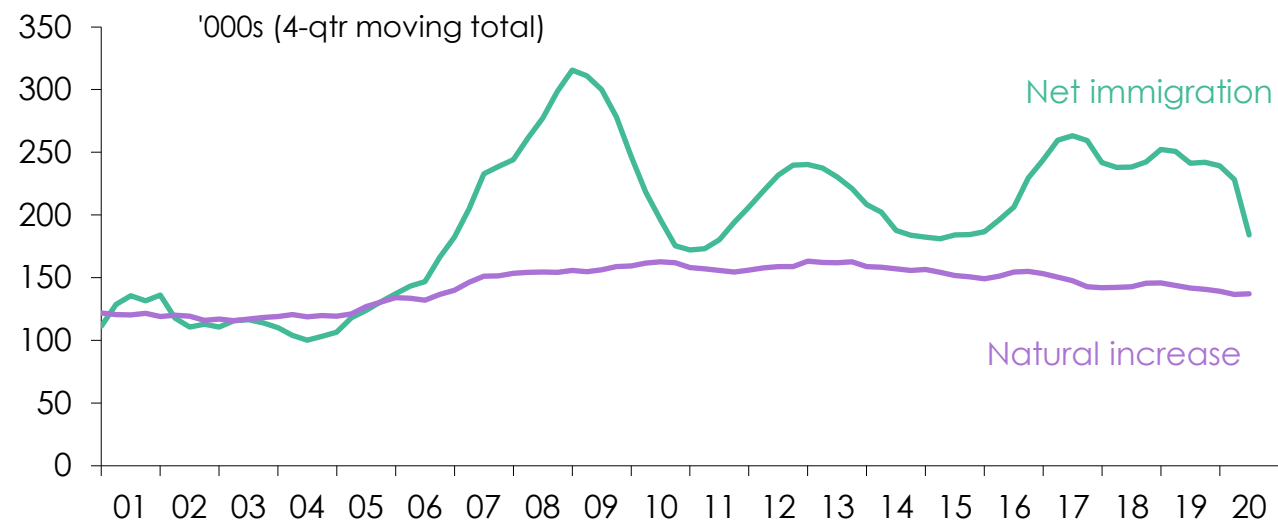
## Australia and OECD population growth



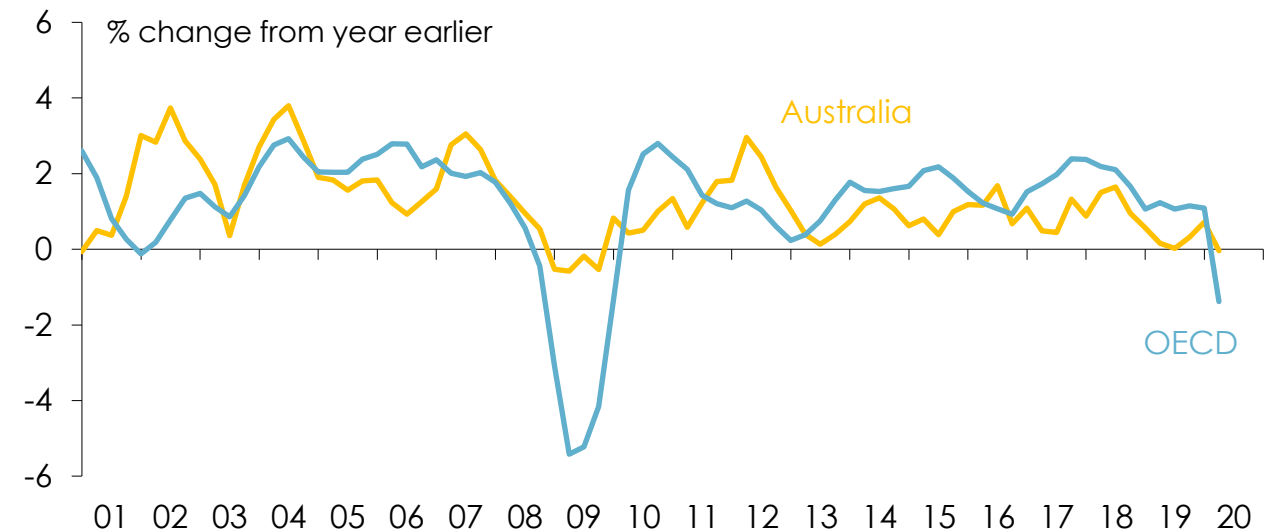
## Australian GDP and per capita GDP growth



## Sources of Australia's population growth



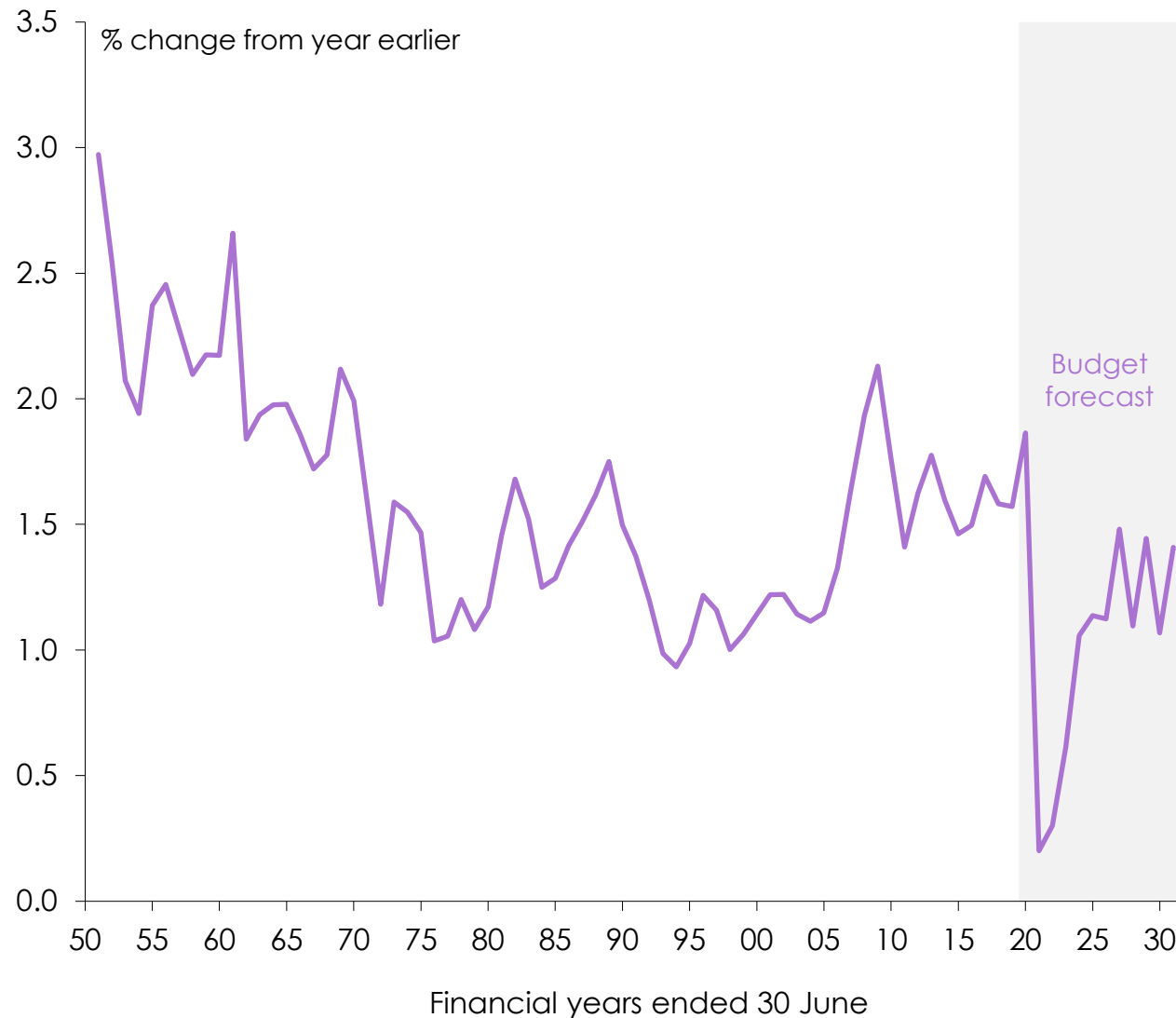
## Australia and OECD per capita real GDP growth



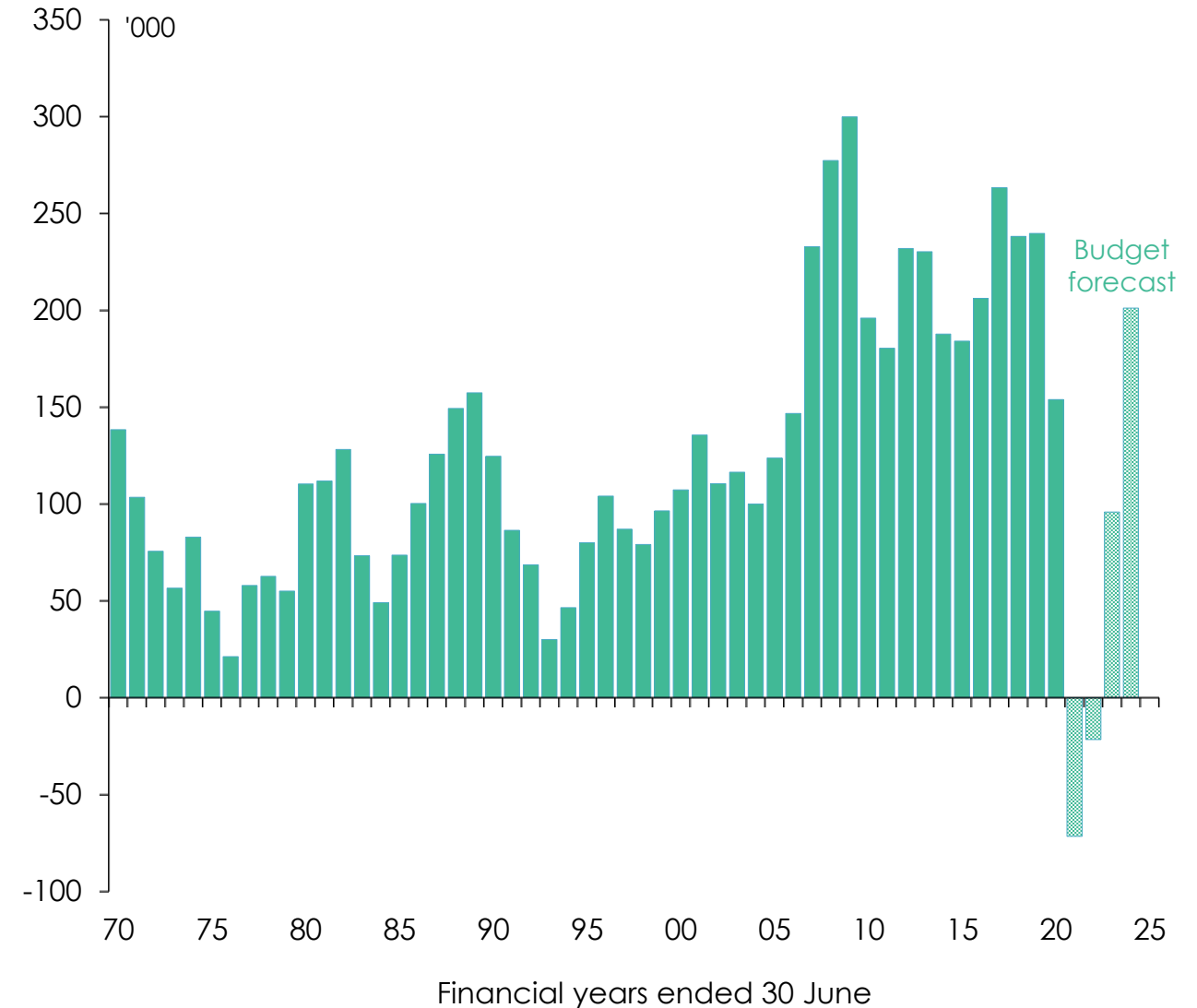
Note: Q2 and Q3 2020 data not shown in the charts of GDP and per capita GDP growth. Sources: ABS; OECD. [Return to "What's New"](#).

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

## Population growth



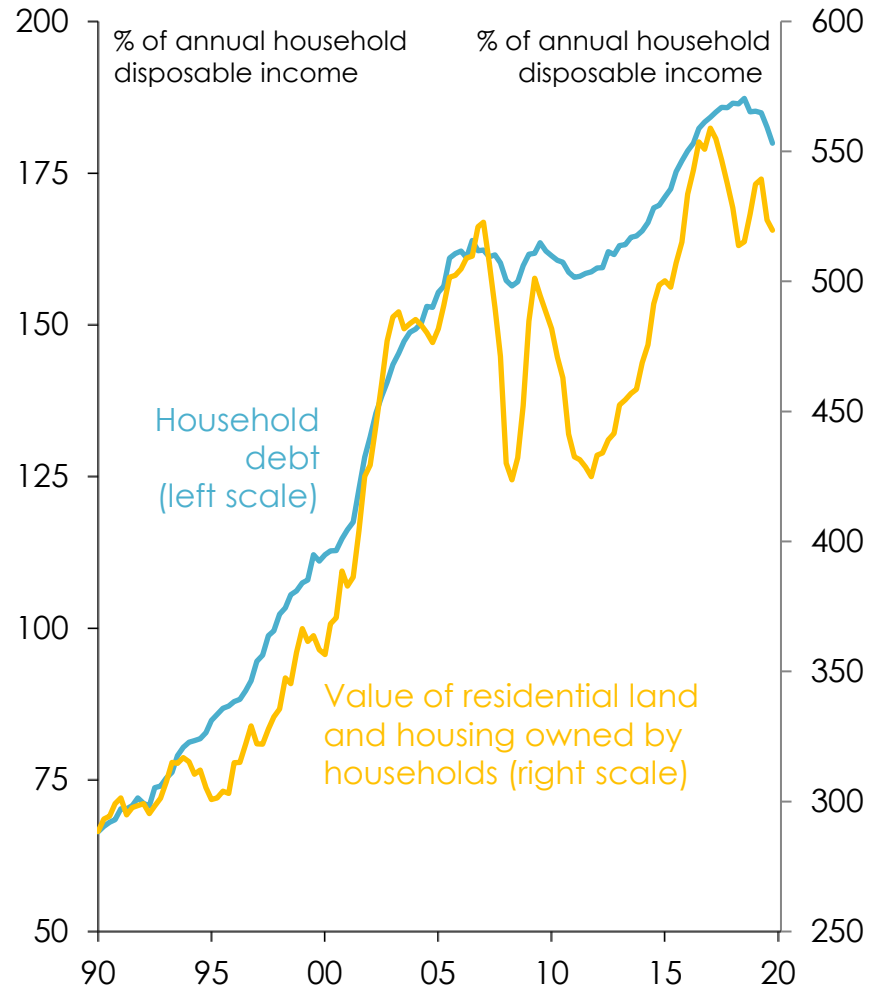
## Net overseas migration



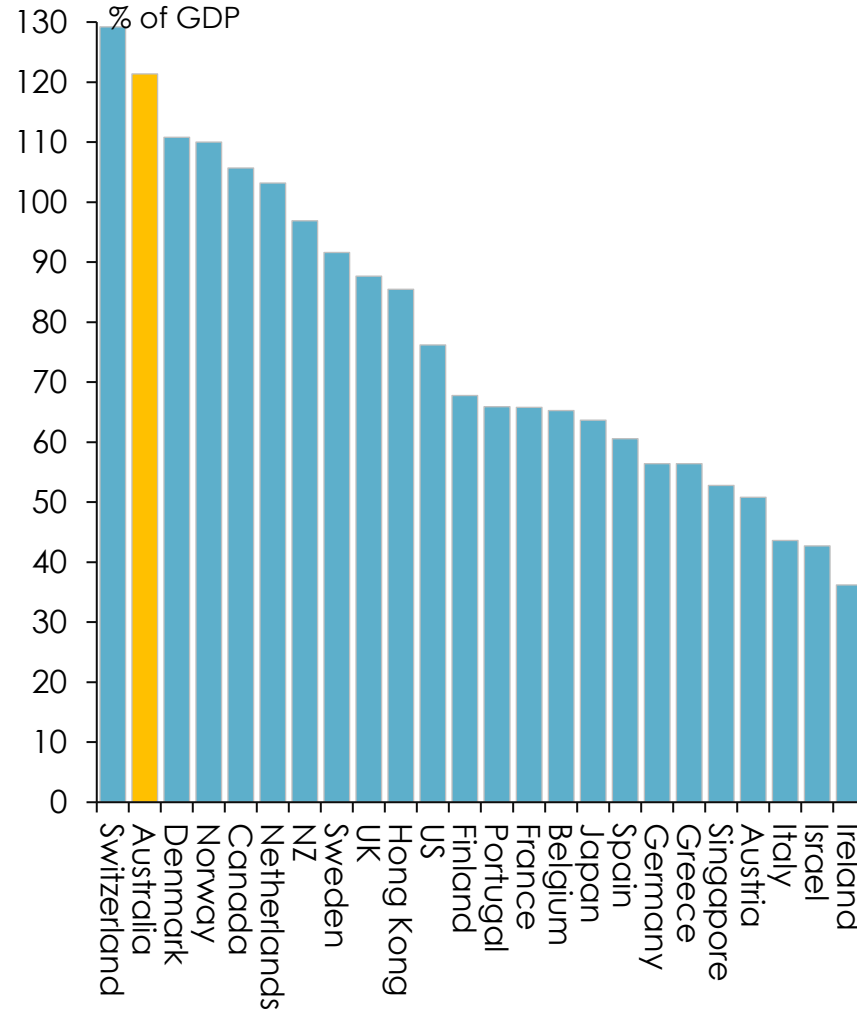
Sources: ABS, [National, state and territory population](#); Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 2](#) and [Budget Paper No. 3, Appendix A](#).  
[Return to "What's New"](#).

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

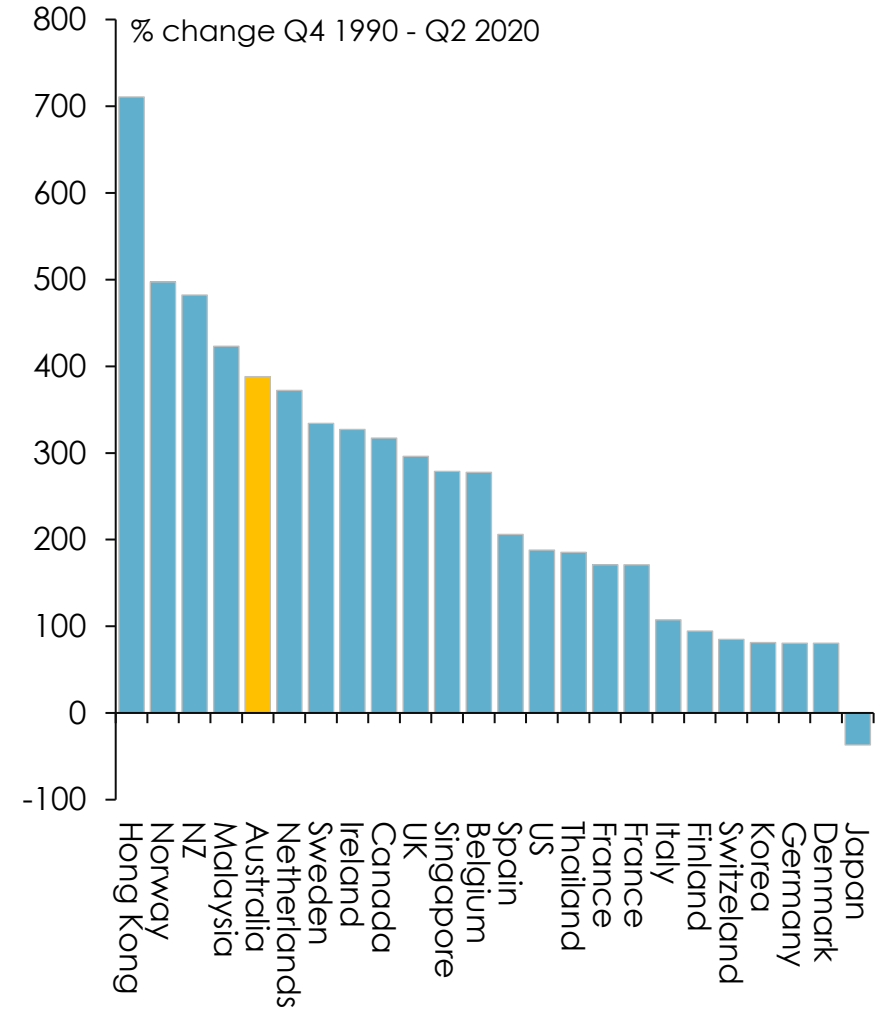
## Australian housing wealth and household debt



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



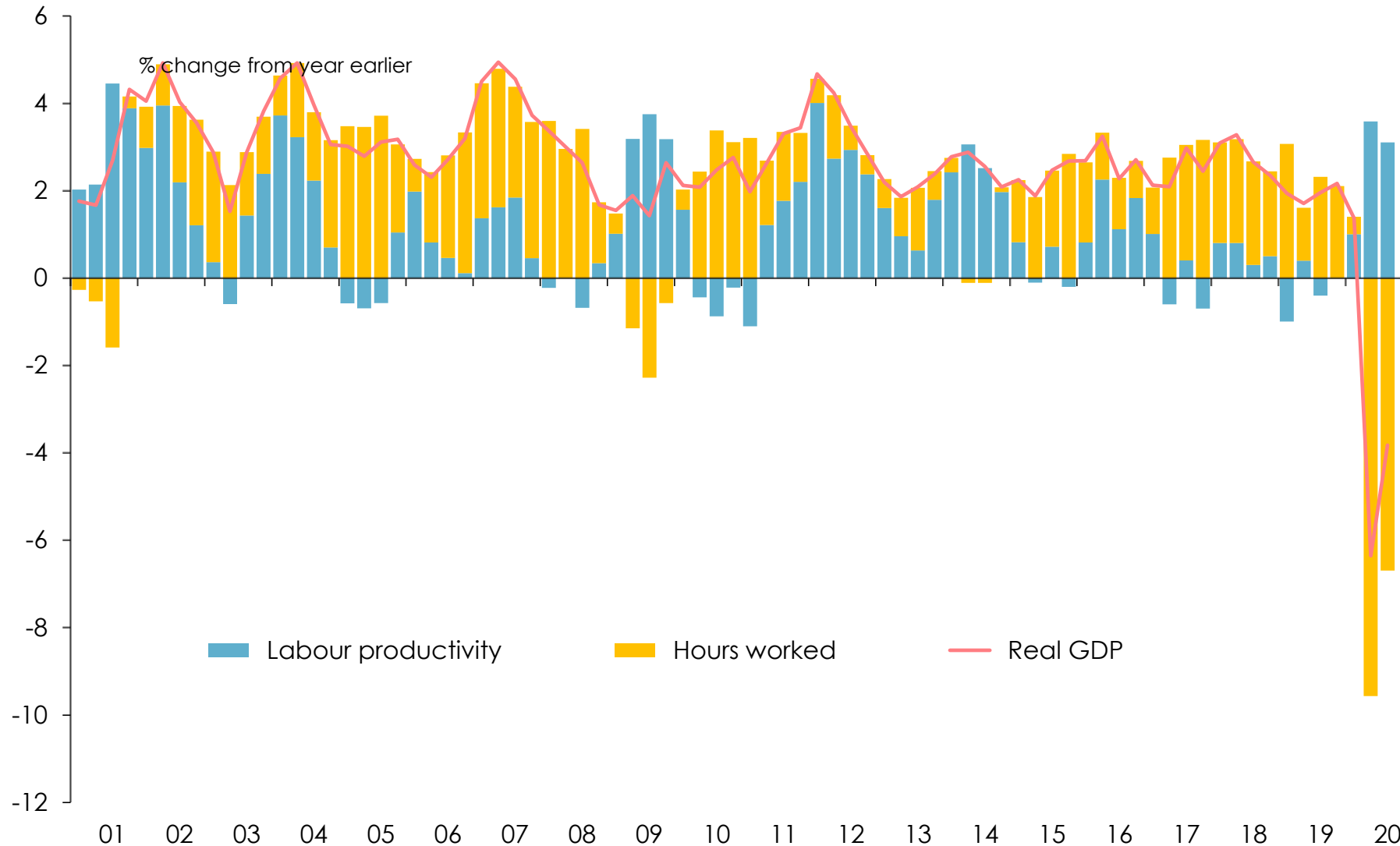
## Increase in residential property prices, 1990-2020



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

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

## Labour input and labour productivity contributions to Australian real GDP growth



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

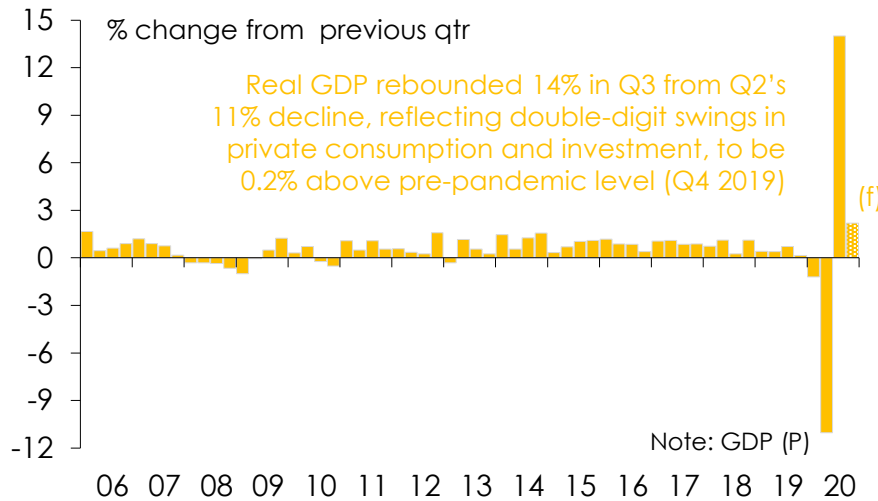
# Some other likely / possible longer-term consequences of the pandemic

- ❑ **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
- ❑ **Accelerated digitization**
  - more rapid take-up of digital ways of searching for and collecting information, conducting transactions, accessing services (including public services), and organizing work
  - but also raising important equity issues for people who lack access to or confidence in dealing with the digital world
- ❑ **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 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**
- ❑ **Diminished use of mass transit**
  - obviously urban public transport, but also civil aviation
- ❑ **Accelerated decline in the use of cash for transactions**
  - but (as we are seeing) not necessarily as a store of value (the ‘opportunity cost’ of holding cash is much diminished in an environment of zero or near-zero interest rates)
- ❑ **Greater expectations of government**
  - having done things previously considered ‘unthinkable’ during this downturn, governments may be expected to do more during future downturns – or to respond to other issues (eg 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)

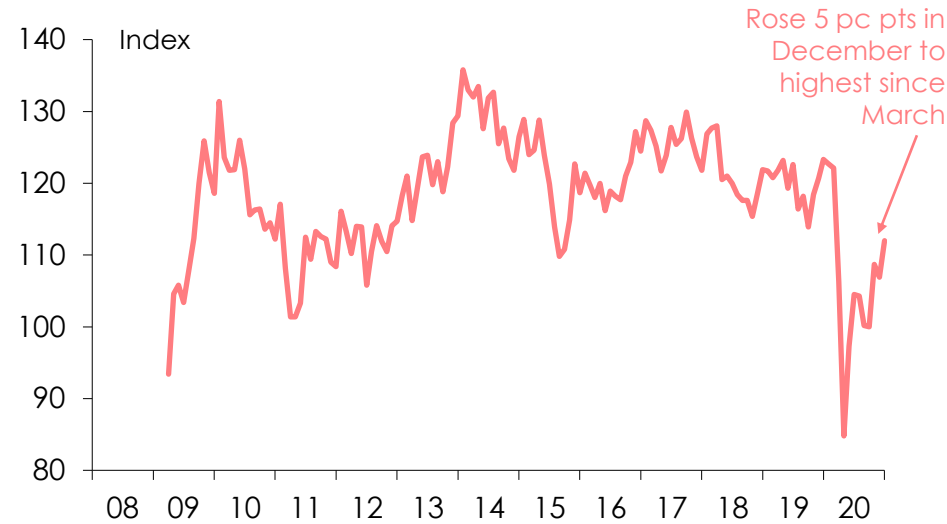
**New Zealand**

# New Zealand's economy rebounded 14% in Q3 to exceed pre-pandemic level – while the budget position looks much improved

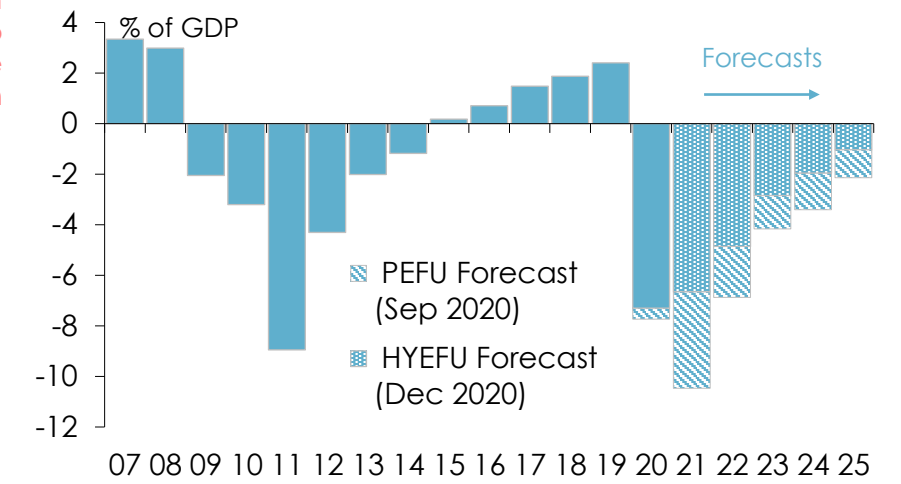
## Real GDP



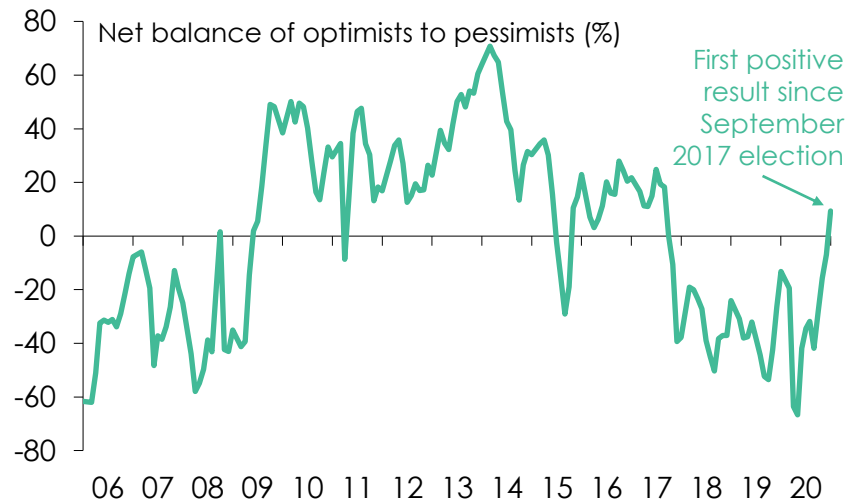
## Consumer confidence



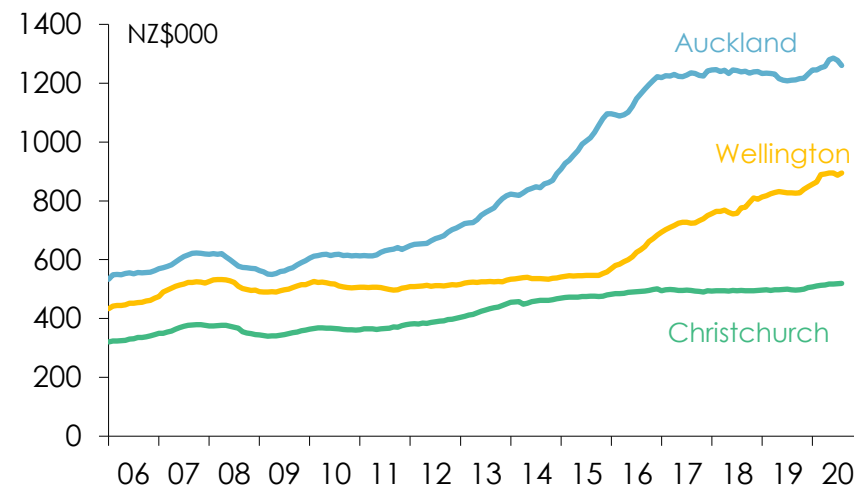
## NZ government budget balance



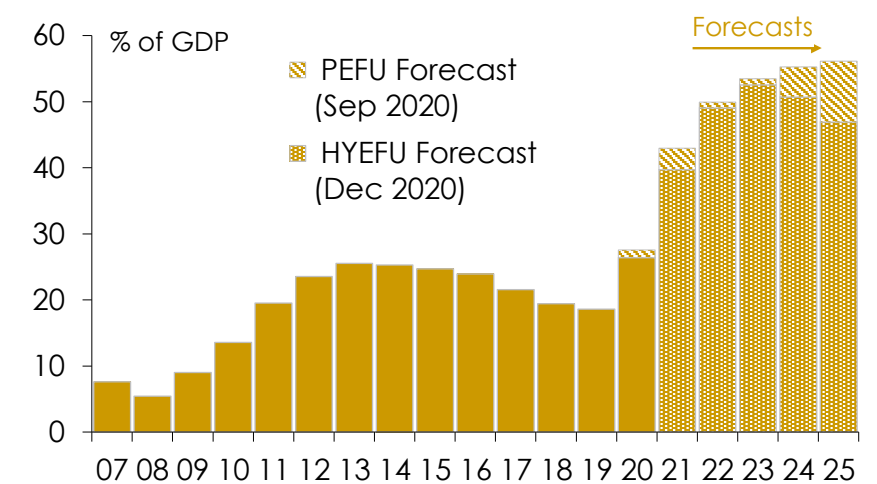
## Business confidence



## Residential property prices



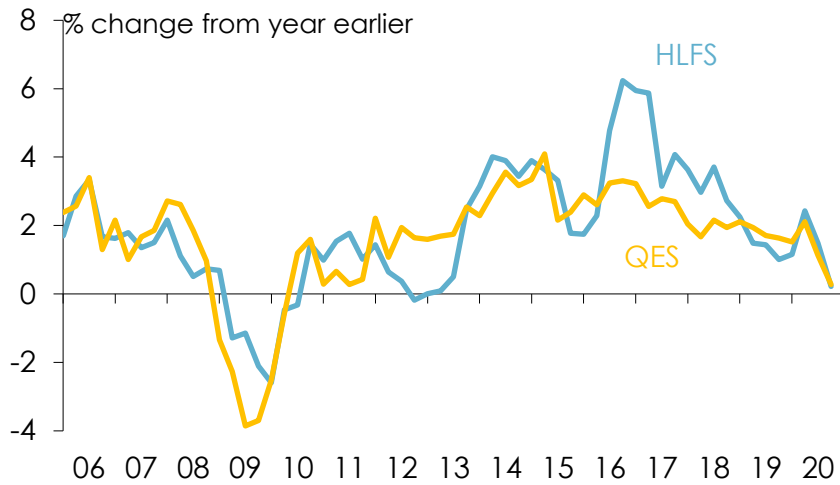
## NZ 'core Crown debt'



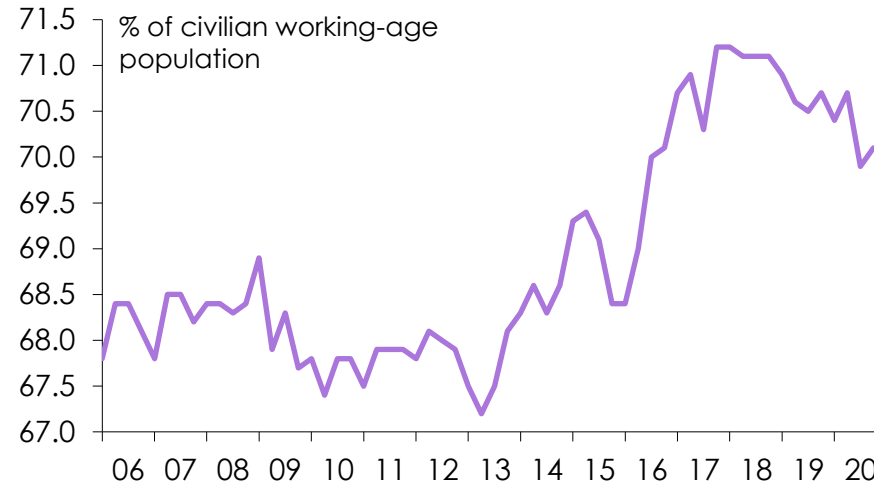
Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ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

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

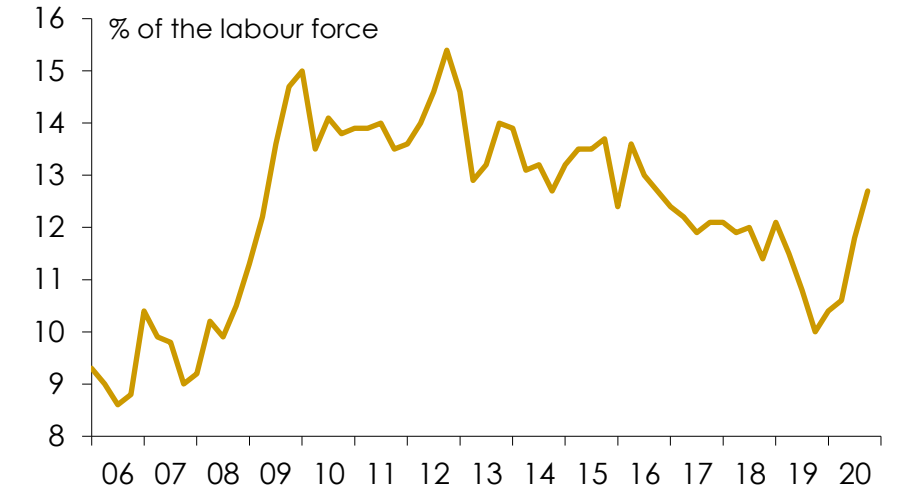
## Employment



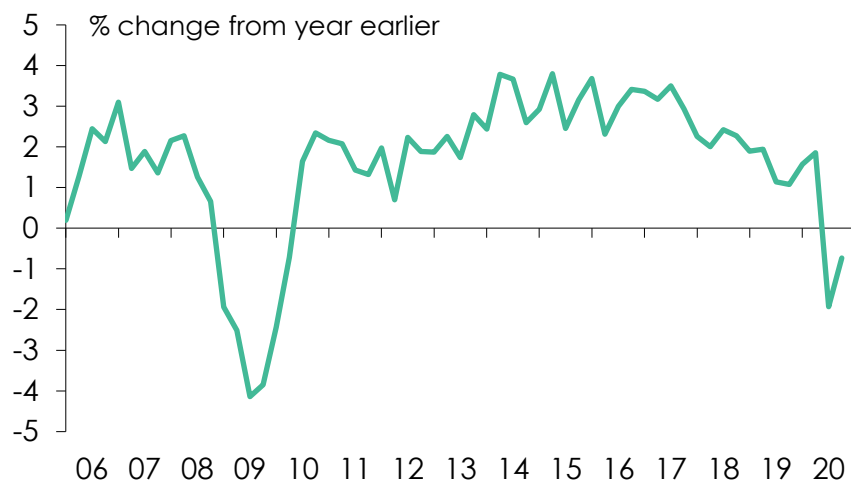
## Labour force participation rate



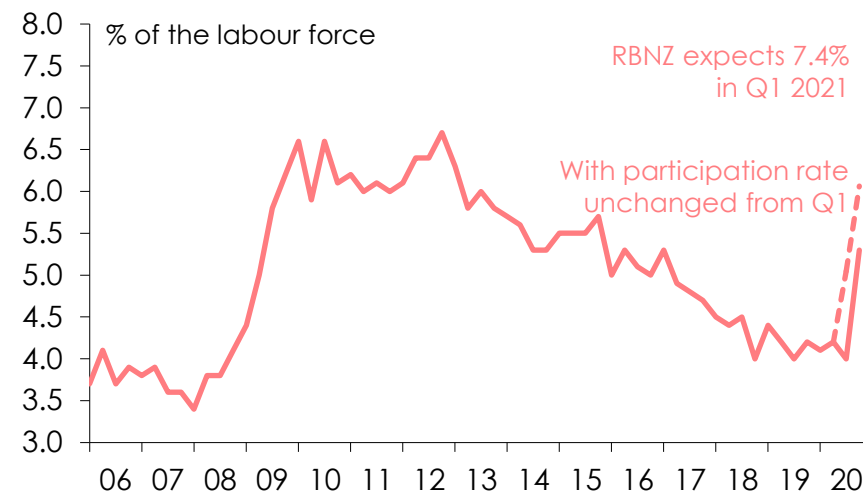
## Labour force under-utilization rate



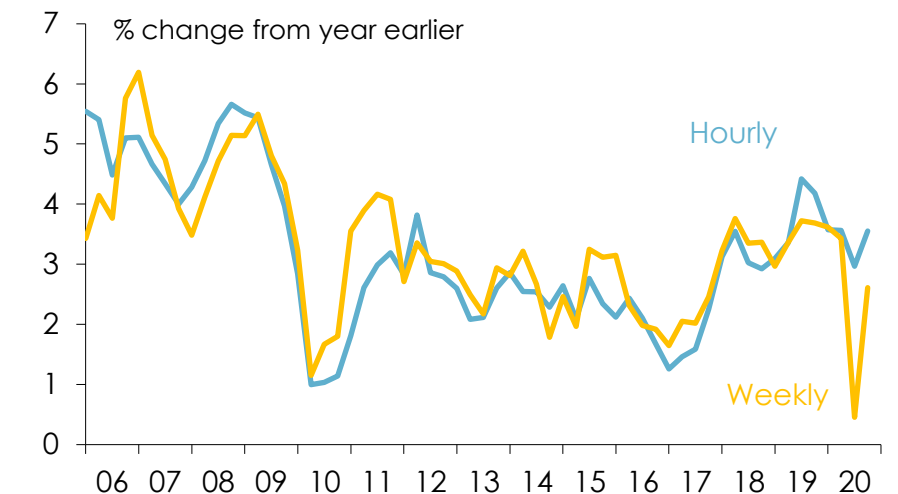
## Hours worked



## Unemployment rate



## Average weekly earnings



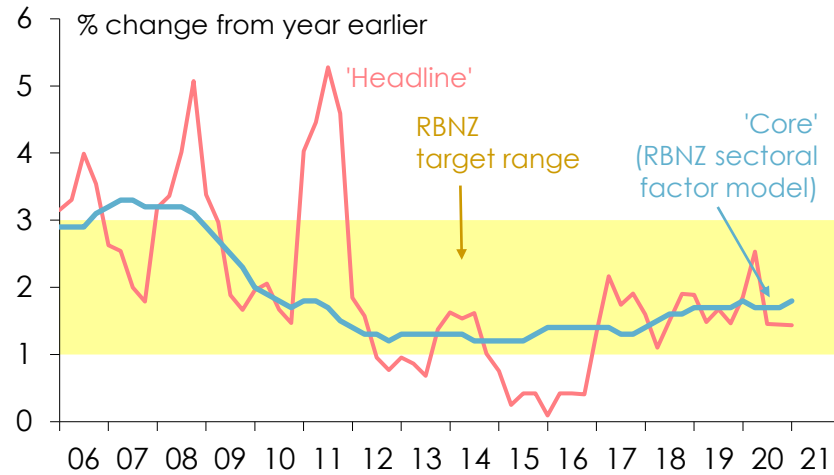
Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled 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](https://www.stats.govt.nz/). December quarter data will be released on 3<sup>rd</sup> February 2021. [Return to "What's New"](#).

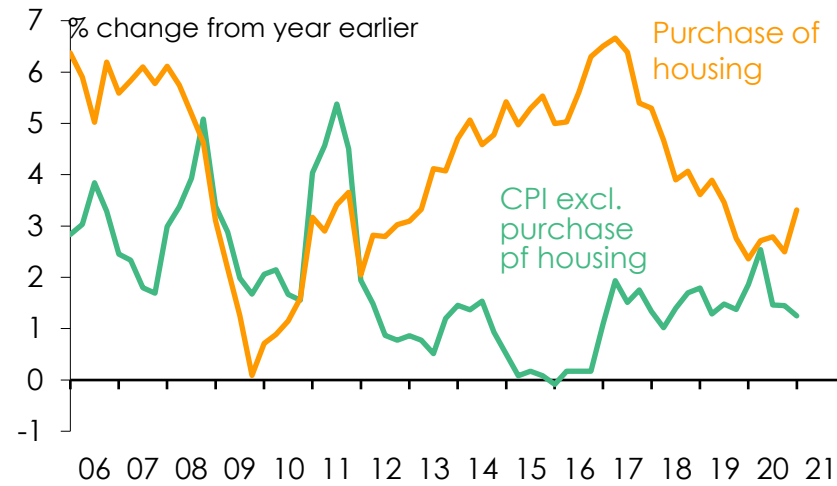


# Consumer prices rose 0.5% in Q4 2020 leaving the annual 'headline' inflation rate unchanged at 1.4%

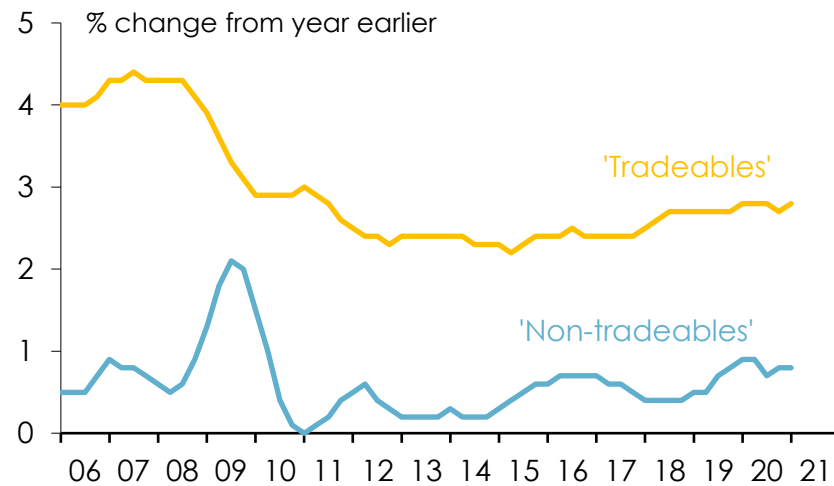
## Consumer prices



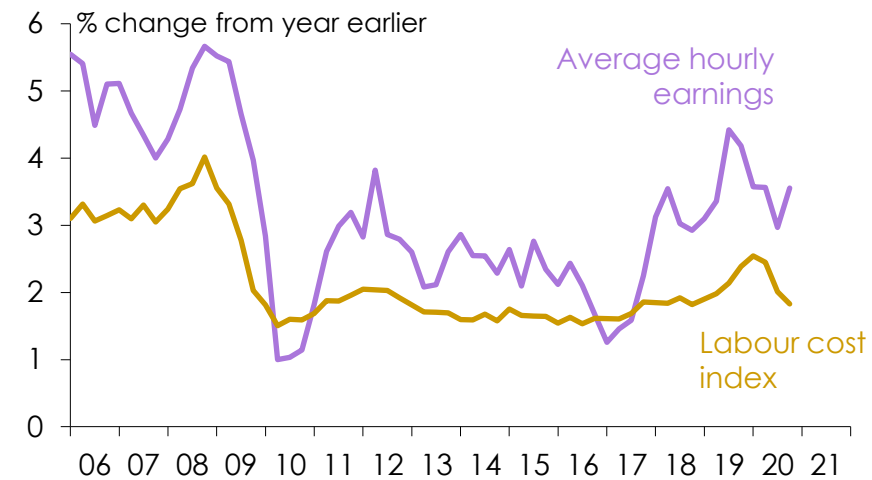
## Housing costs in the CPI



## Components of 'core' inflation



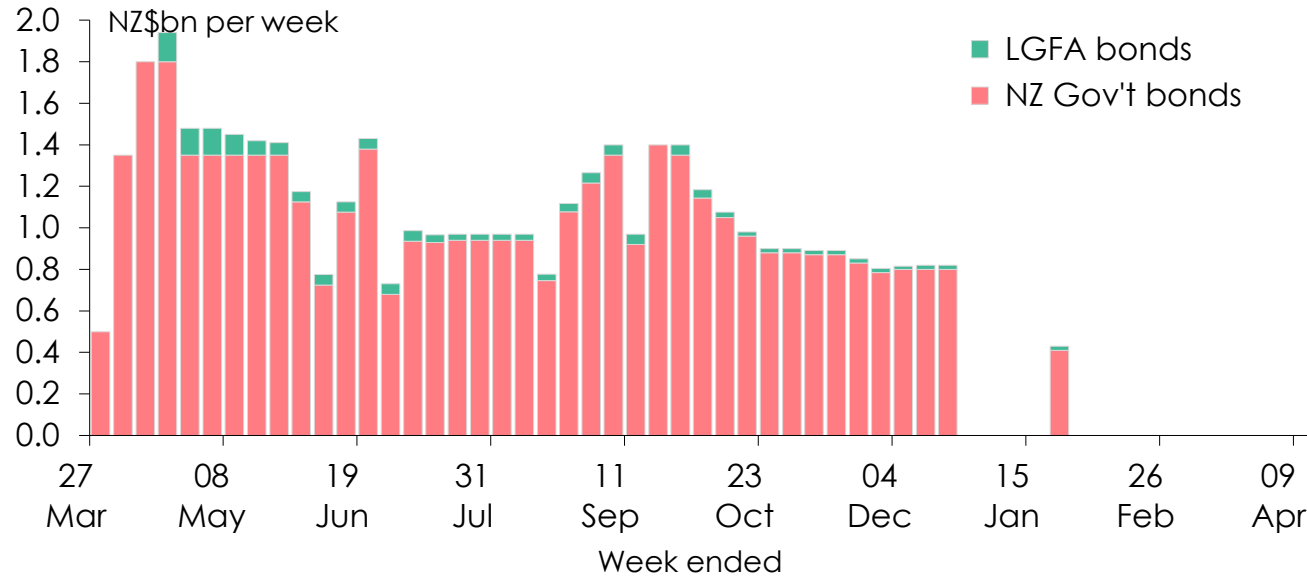
## Labour costs



- ❑ The CPI rose 0.5% in Q4 2020, after a 0.7% rise in Q3, leaving the annual 'headline' inflation rate unchanged at 1.4%
- ❑ Main factors driving the Q4 increase were a 20% increase in 'domestic accommodation' prices (hotels, etc) reversing falls over the two previous quarters, a 4.6% increase in used car prices, steep price rises for household furniture and appliances, and international airfares, partly offset by an 1.7% fall in food prices
- ❑ The RBNZ's preferred measure of 'core' annual inflation ticked up 0.1 pc pt to 1.8%, reflecting a marginal increase in core 'tradeables' inflation – but has now been 1.7% or 1.8% for nine consecutive quarters
- ❑ The RBNZ most recently (November) forecast 'headline' inflation to drop to 0.6% yoy in Q1 2021, then to fluctuate in a 0.8-1.2% range until Q3 2022 before finally topping 2% in Q3 2023 – these forecasts will be updated on 21<sup>st</sup> February

# The RBNZ has instituted a larger bond purchase program than the RBA, a BoE-style 'Funding for Lending' scheme, and is considering negative rates

## 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
- ❑ The RBNZ bought NZ\$430mn of bonds this week – its first purchases since mid-December and the smallest weekly total since it began its QE program last March – bringing its total purchases to NZ\$43.5bn (13½% of GDP) – while 10-year yields remained just above 1% for the second week in a row
- ❑ Starting 7<sup>th</sup> December 2020 the RBNZ has also implemented a BoE-style 'Funding for Lending' Program from which banks can borrow up to a total of NZ\$28bn at the OCR – \$40mn was drawn in the first week, and a further \$1bn on 21<sup>st</sup> December, but nothing since – the scheme will run for two years
- ❑ Unlike the RBA, the RBNZ is actively contemplating a negative OCR 'if needed' – but that seems increasingly unlikely

## Important information

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

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