

ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

30TH JANUARY 2021

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What's new?

The world

- ❑ Just over 3.9mn new Covid-19 cases were recorded this week, the smallest number in 12 weeks, although it was enough to push the cumulative global total above 100mn: however, there were almost 99,000 new deaths, a record, bringing the total to 2.19mn ([slide 4](#))
- ❑ The number of new cases appears to have peaked in the US, in most of the Middle East, South Asia, Russia and South Africa – but has at best levelled out in Europe and (perhaps) Brazil, and is still rising in Indonesia and much of Latin America ([slide 5](#))
- ❑ Israel, the UAE and the Seychelles (!) have vaccinated large proportions of their populations, and the UK 12½%, but elsewhere (and especially in Asia) the proportion of populations who have been vaccinated remains very low ([slide 18](#))
- ❑ The IMF this week revised up its estimate of global GDP growth in 2020 and, by a smaller amount, its forecast for 2021 ([slide 24](#)) – but its forecasts also show how large and prolonged the loss of output has been and will be other than for China ([slide 26](#))
- ❑ The Fed left monetary policy settings unchanged at this week's FOMC meeting but Chairman Powell emphasized how far the economy is from the Fed's targets ([slide 34](#))
- ❑ 11 countries have reported Q4 GDP estimates, but only three – all in Asia – show positive annual growth ([slide 22](#)); Taiwan's 2020 growth of 3% exceeded China's for the first time since 1990 ([slide 47](#))
- ❑ US real GDP grew by just 1% (4% annualized) in Q4, with fiscal policy and net exports both acting as large drags on growth ([slides 58-59](#))
- ❑ Germany and Spain reported very weak Q4 growth while France's GDP declined, and the UK's may have done also ([slide 65](#))

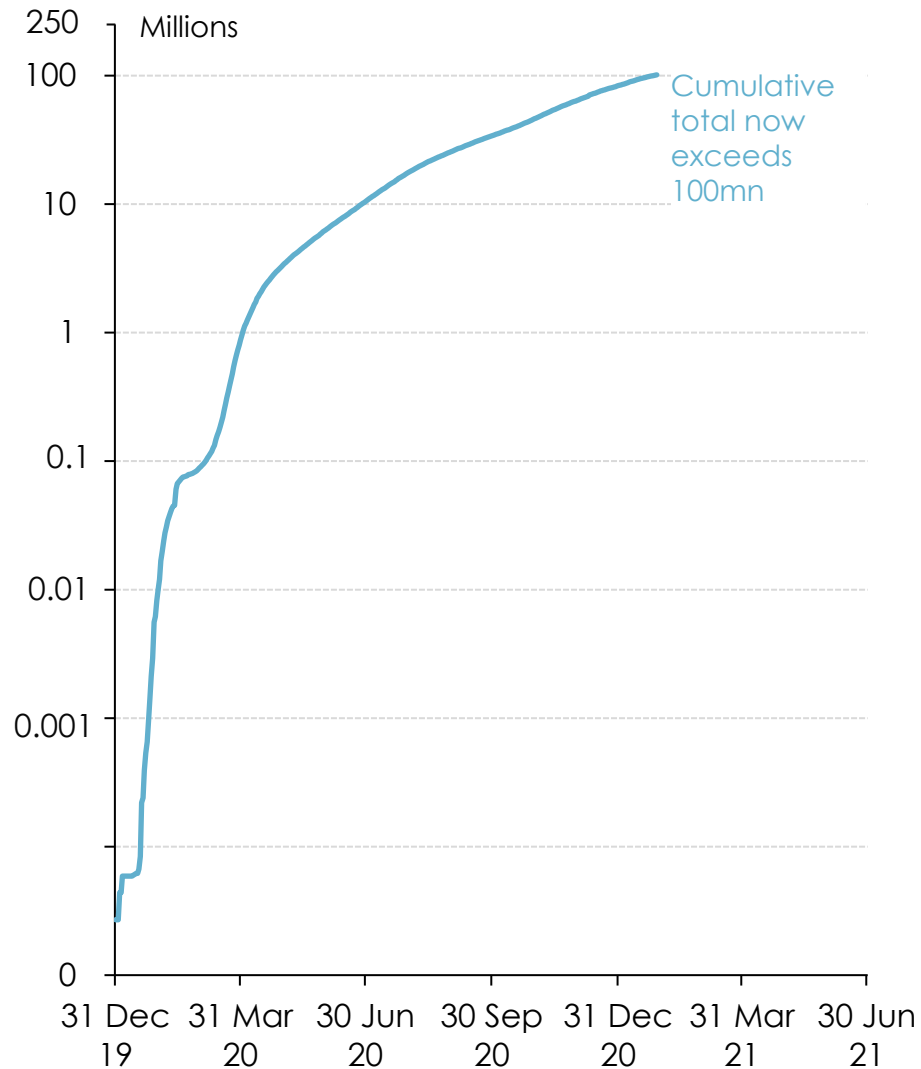
Australia and New Zealand

- ❑ Australia recorded only 45 new Covid-19 cases this week, the lowest number since the first week of last March, with all of them being arrivals into Australia ([slide 8](#)); it's been 13 days since the last 'local' infection, and for the less populous states and territories, 60-300 days ([slide 10](#))
- ❑ Consumer prices rose 0.9% in the December quarter, taking the annual inflation rate up 0.2 pc points to 0.9%: the RBA's preferred measure of 'underlying' inflation rose 0.4% in Q4 and by 1.2% from a year earlier – marking five years that 'underlying' inflation has been below the lower bound of the RBA's 2-3% target range ([slide 111](#))
- ❑ Business confidence fell back in December, reversing November's rise, largely because of lockdowns in Sydney and Brisbane late in the month ([slide 76](#)) – and despite the best 'trading conditions' since August 2018, and the strongest hiring intentions since September 2018 ([slide 77](#))
- ❑ Australia likely recorded a \$6½bn merchandise trade surplus in December, based on preliminary data, with exports up 4½% (largely thanks to iron ore) and imports down 5½% ([slide 102](#)) – surging iron ore exports are thus far offsetting the impact of China's 'sanctions' against other imports from Australia ([slide 103](#))
- ❑ Met coal prices surged this week but iron ore prices fell ([slide 100](#)) which together with a stronger US\$ and a 'risk-off' mood in markets after the day-trader frenzy in the US saw the A\$ drop below US77¢ ([slide 109](#))
- ❑ Updated IMF estimates put Australia's total fiscal response to Covid-19 at 16¼% of GDP, the fifth largest among 'advanced' economies – with NZ the largest at 19% of GDP ([slide 114](#))
- ❑ Meanwhile the budget deficit for the first half of FY 2020-21 was \$9½bn below the Mid-Year Outlook forecast profile ([slide 115](#))
- ❑ Banks continue to be swamped with deposits ([slide 125](#))

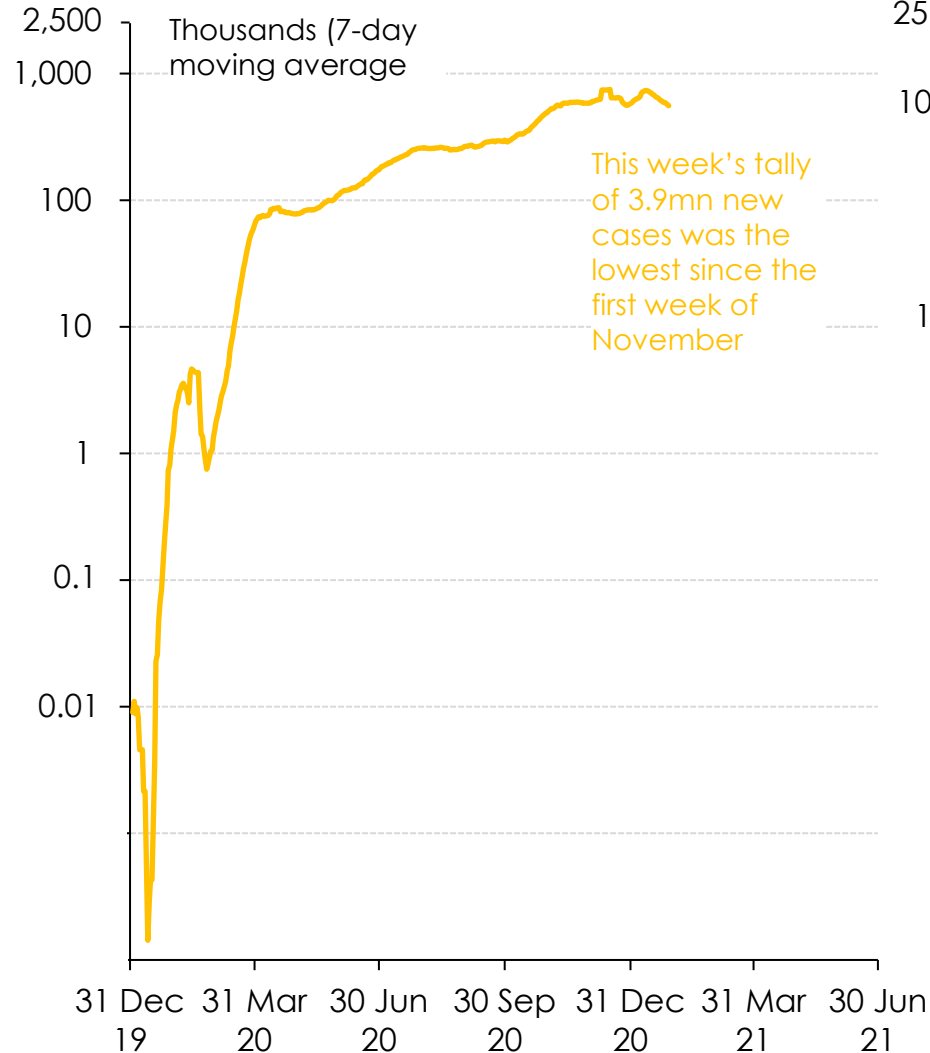
The virus

The total number of cases world-wide topped 100mn this week, but the number of new cases at last seems to be slowing – though deaths haven't

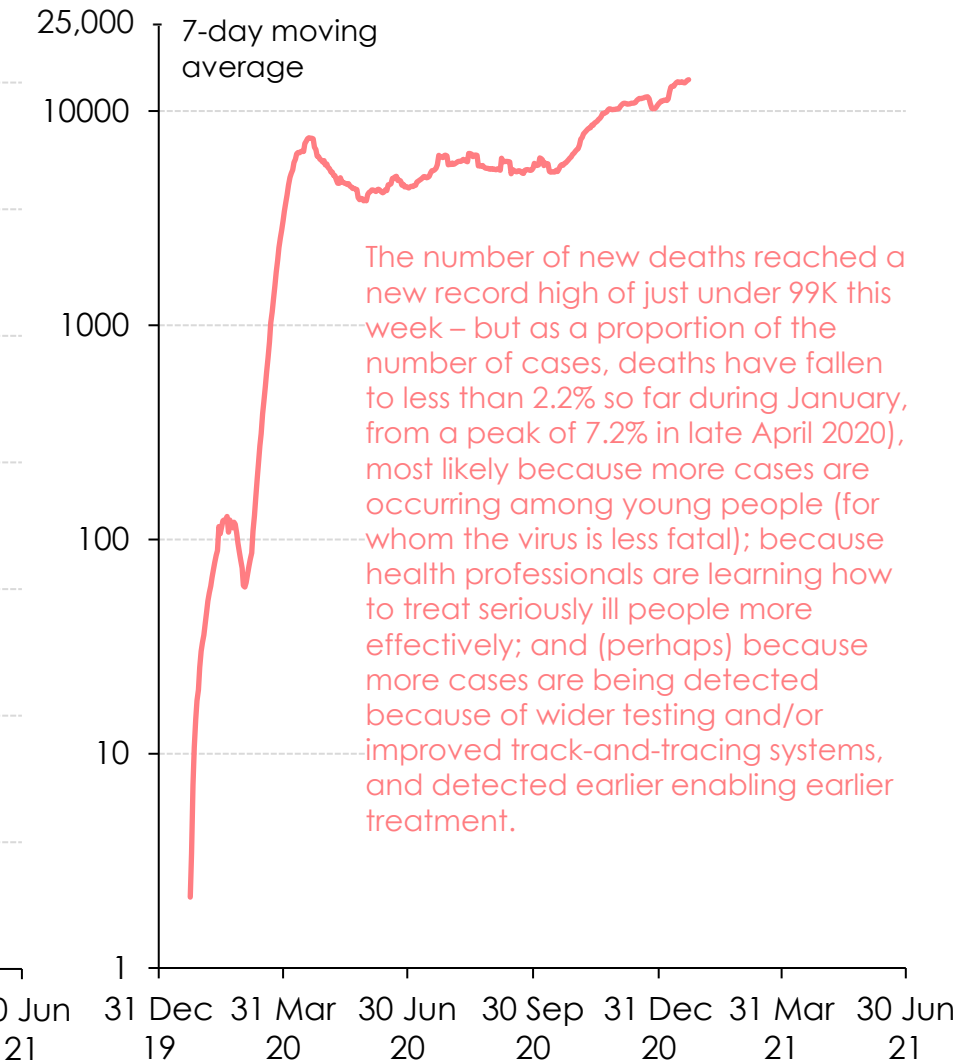
Cumulative confirmed cases – global total



New confirmed cases – global total



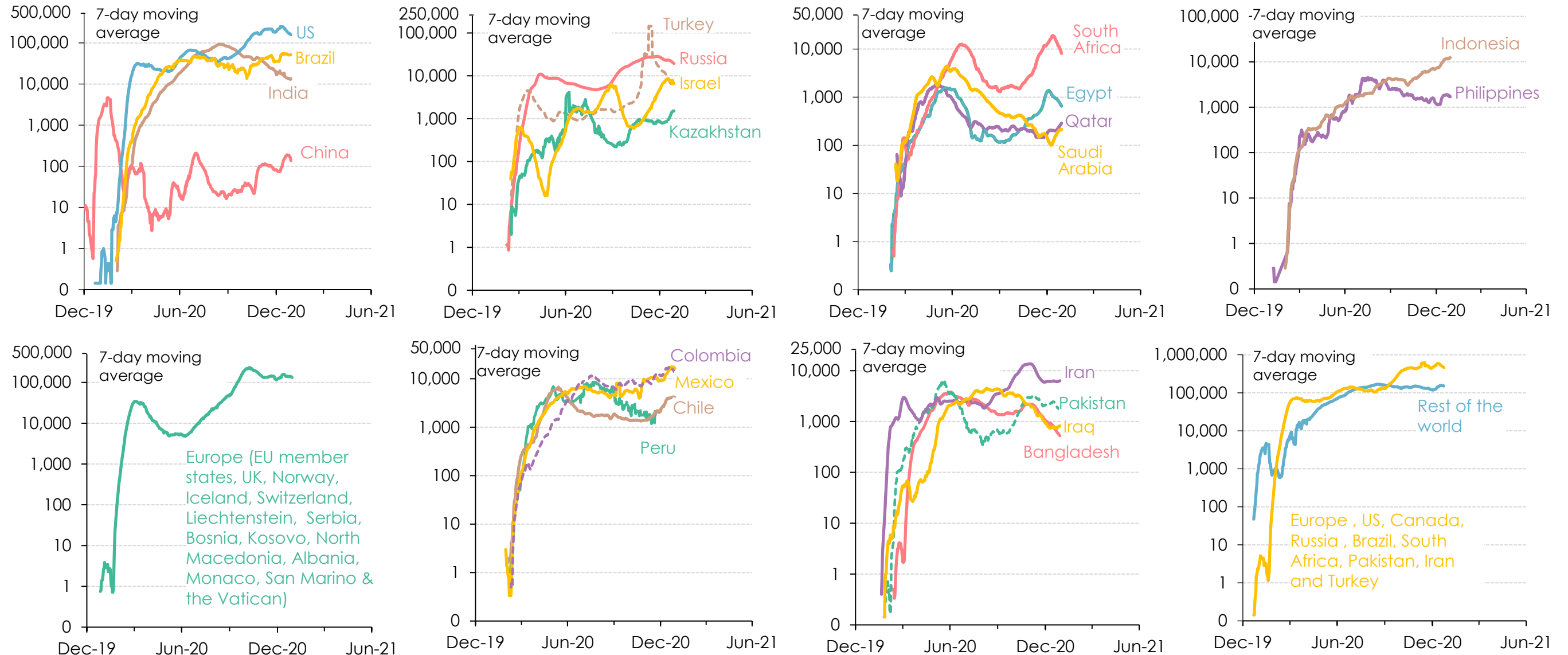
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 28th January. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

New case numbers now appear to have peaked in the US, the Middle East, South Africa & Russia, and levelled out in Europe and (perhaps) Brazil

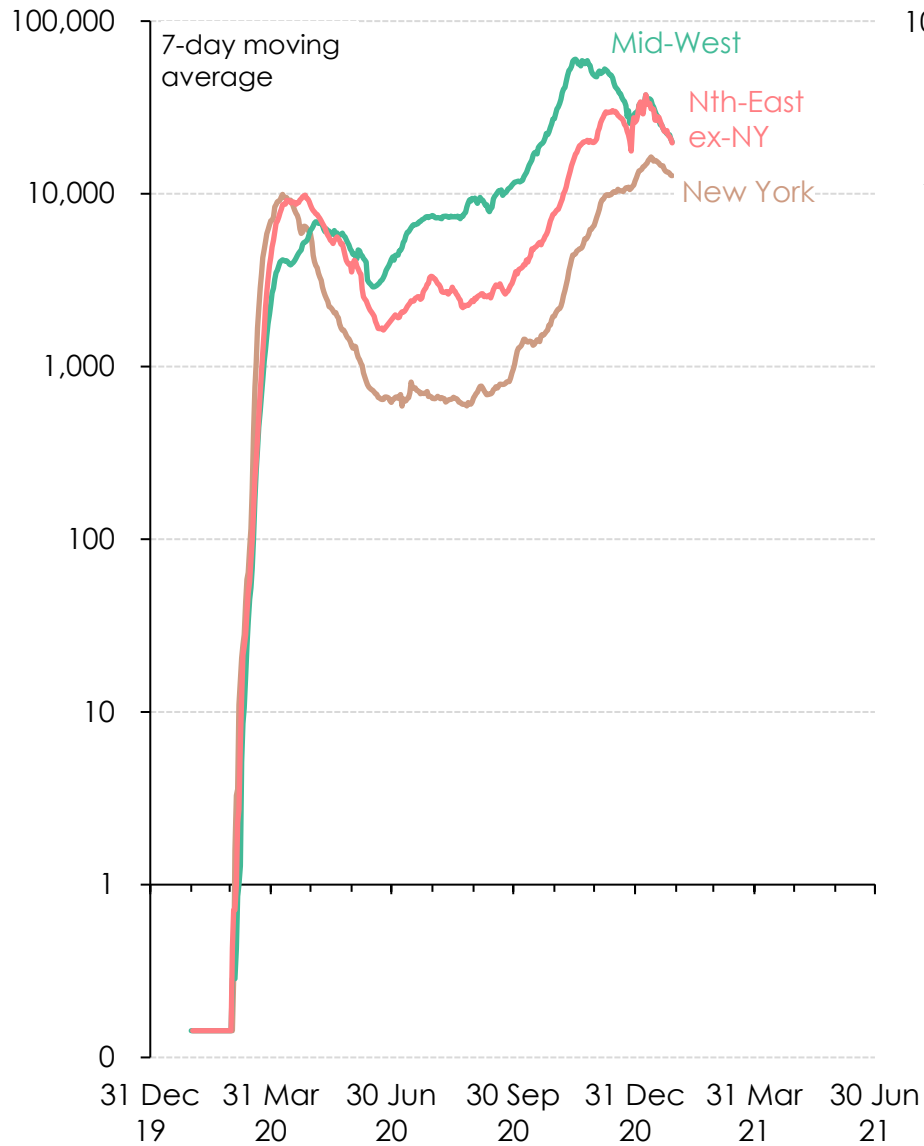
Daily new cases – selected countries with large populations and/or rapid growth in cases



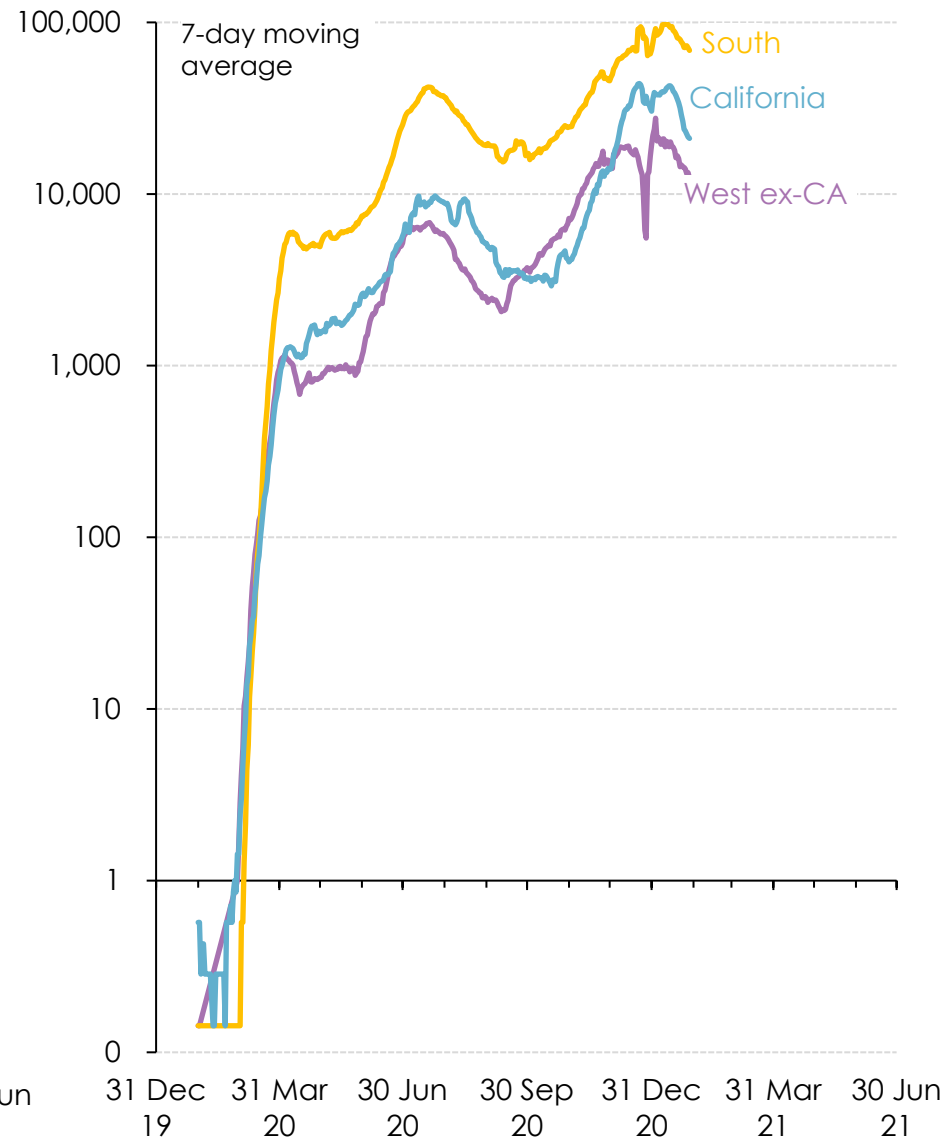
Note: All charts are on logarithmic scales. Data up to 28th January. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

Case numbers now appear to have peaked in all major regions of the US – although in New York, California and the South they are falling only slowly

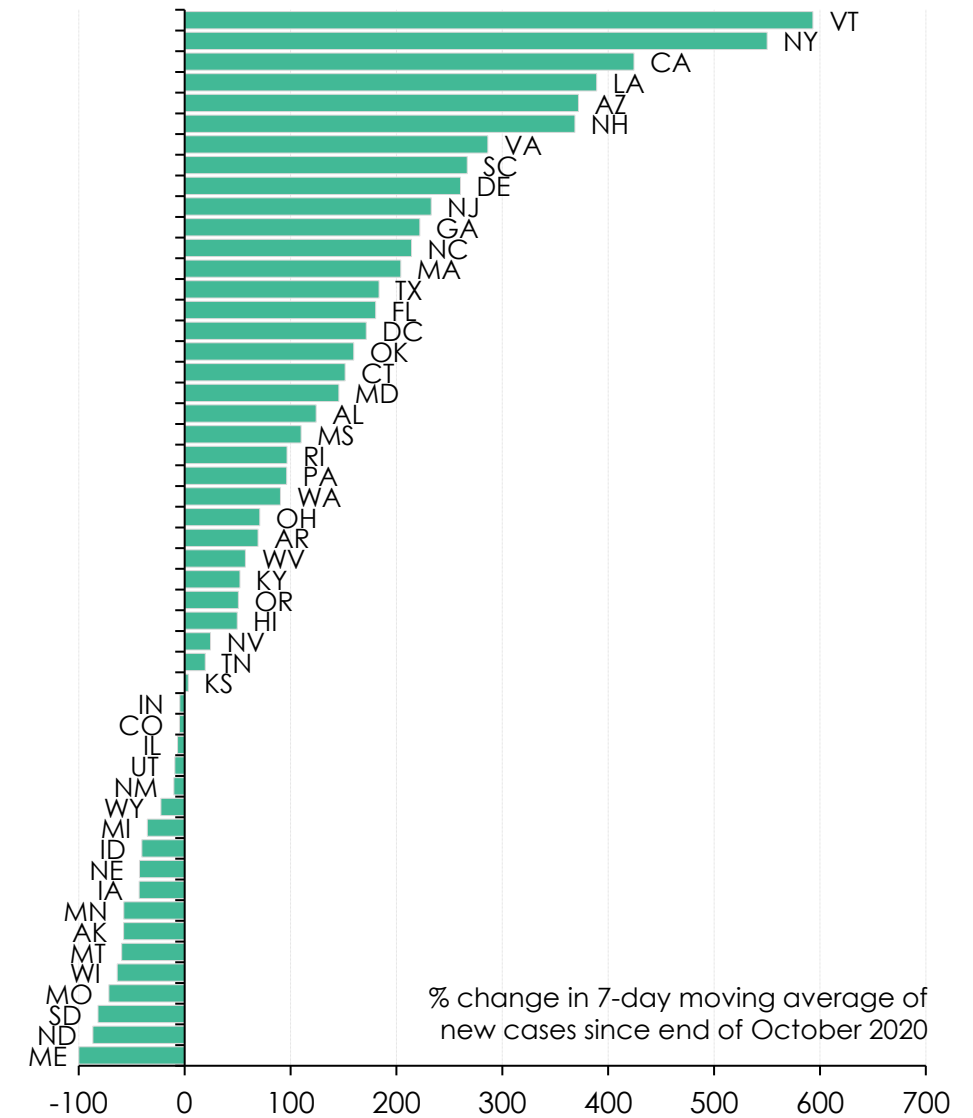
New cases – Mid-West and North-East



New cases – South and West



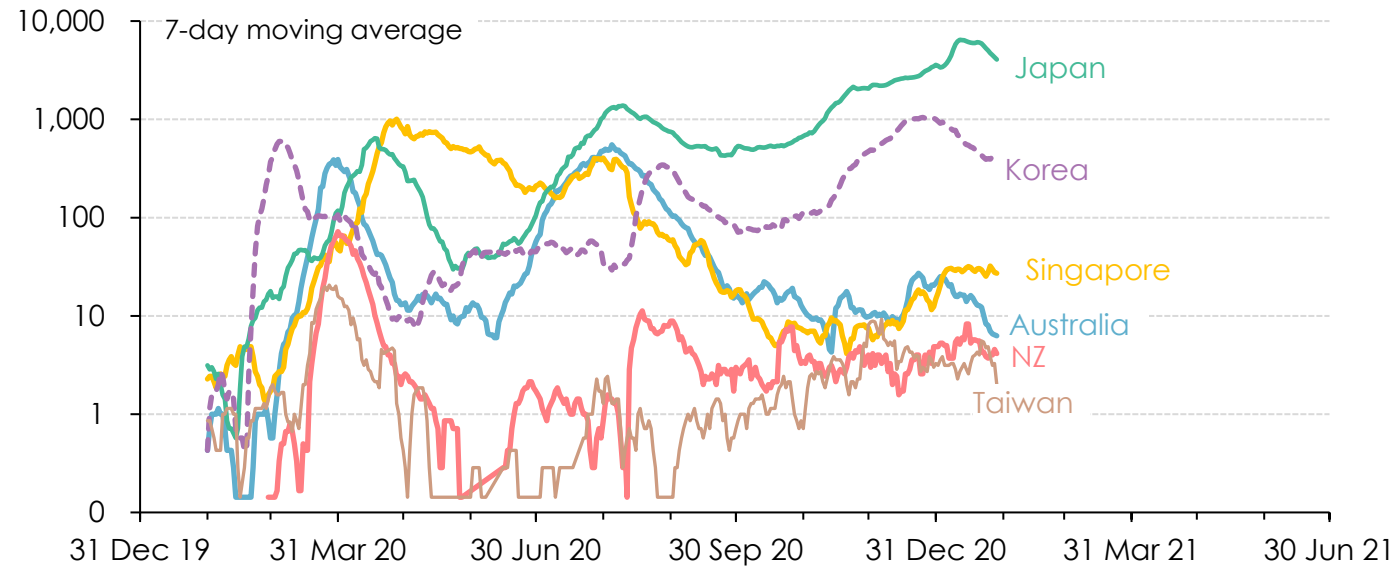
Increase in cases since end-October



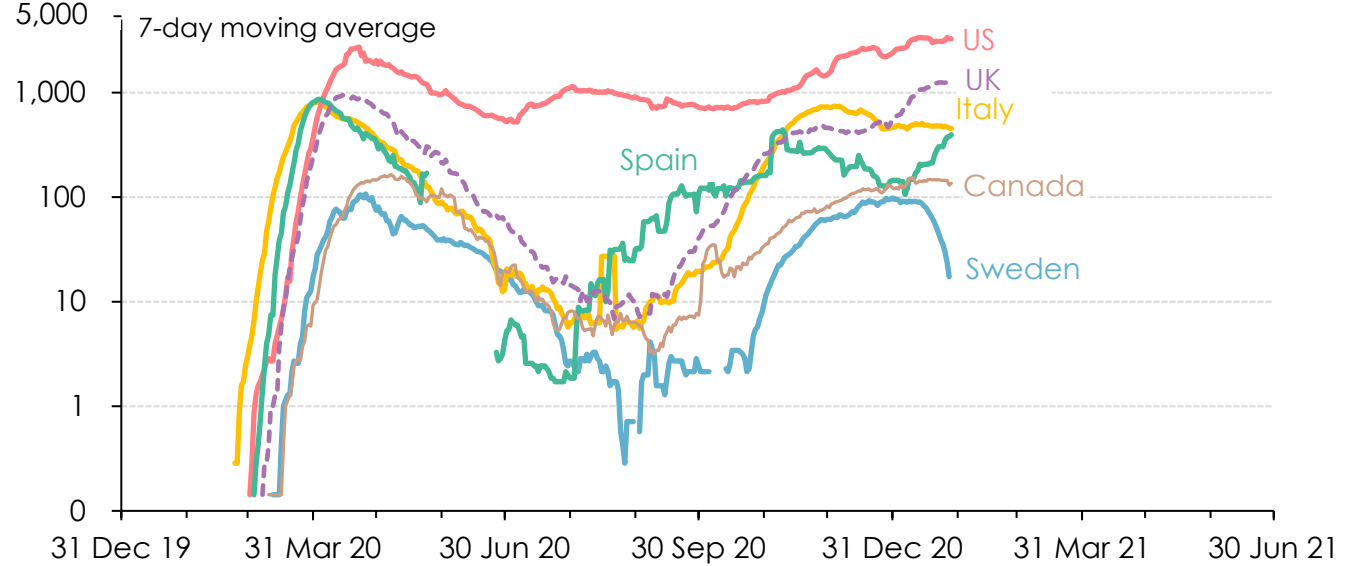
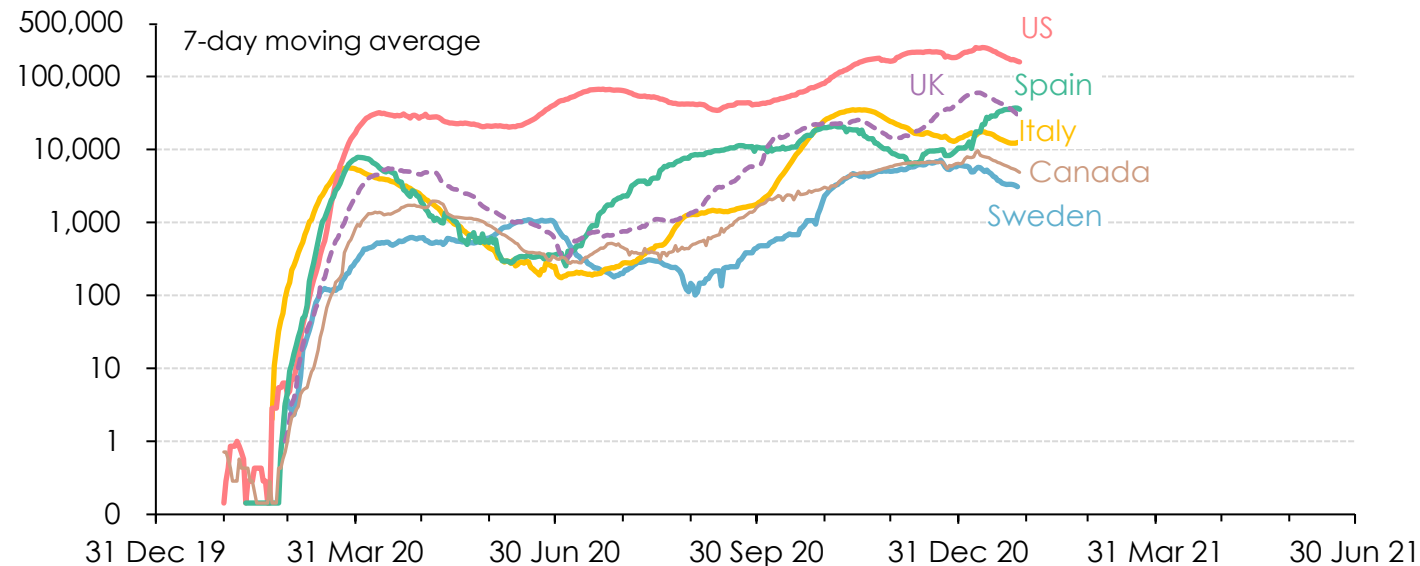
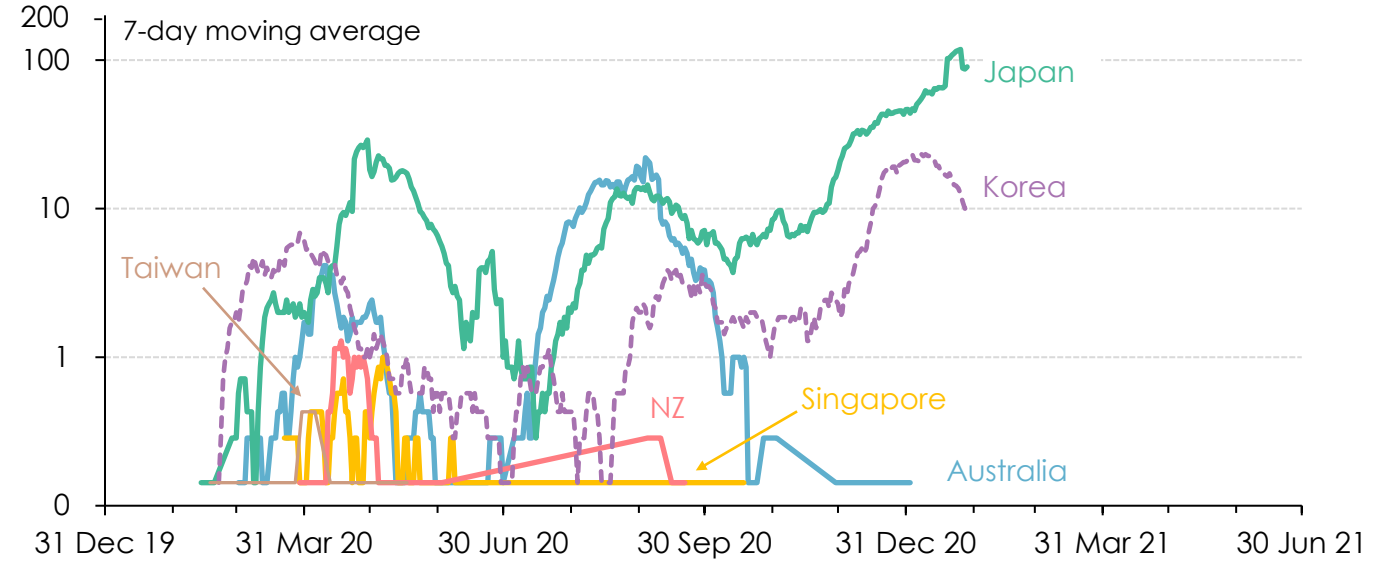
Note: First two charts are on logarithmic scales. Sources: [USA Facts](#); [Centers for Disease Control and Prevention](#); Corinna. Latest data are for 28th January. [Return to "What's New"](#).

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



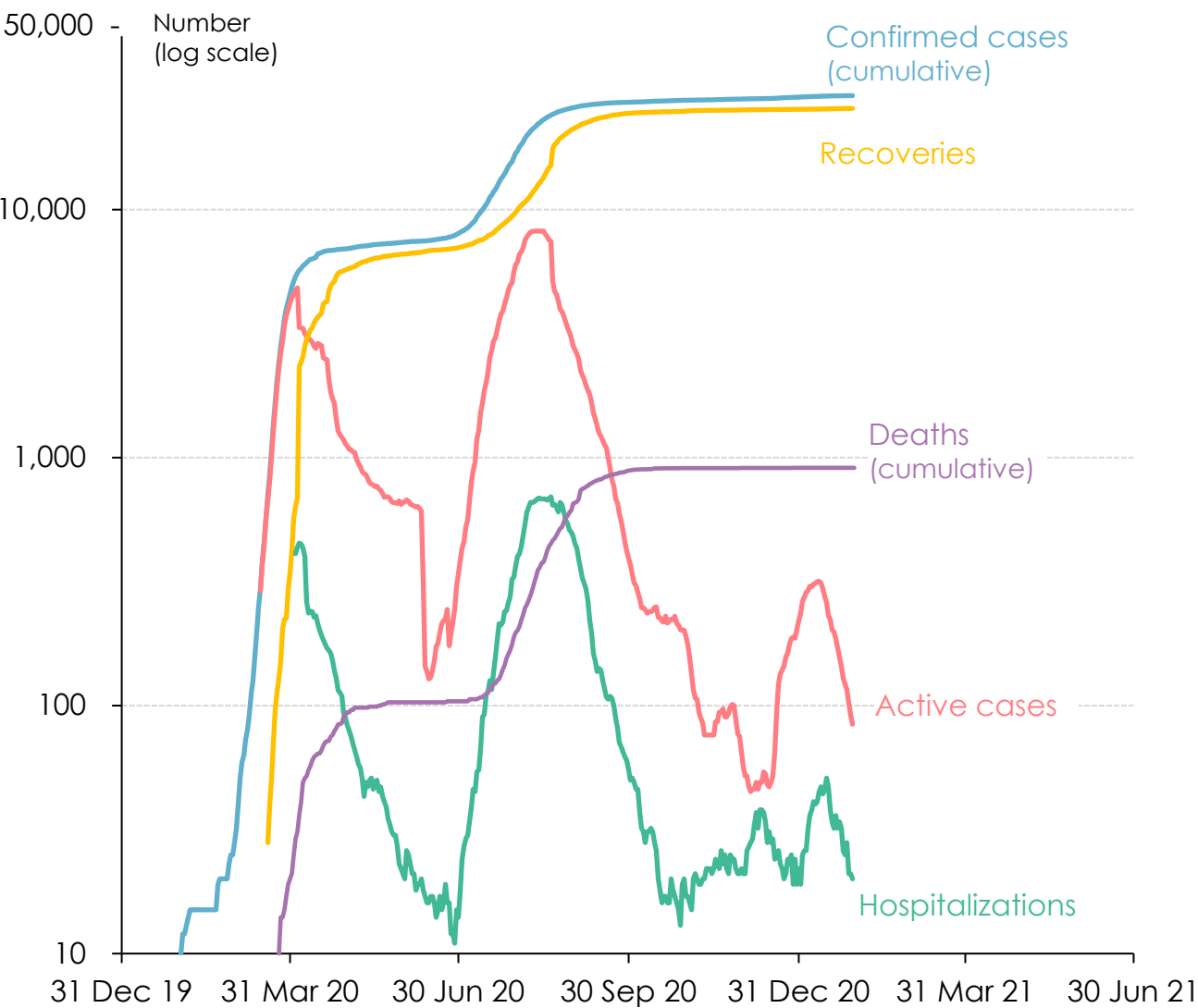
Daily new deaths



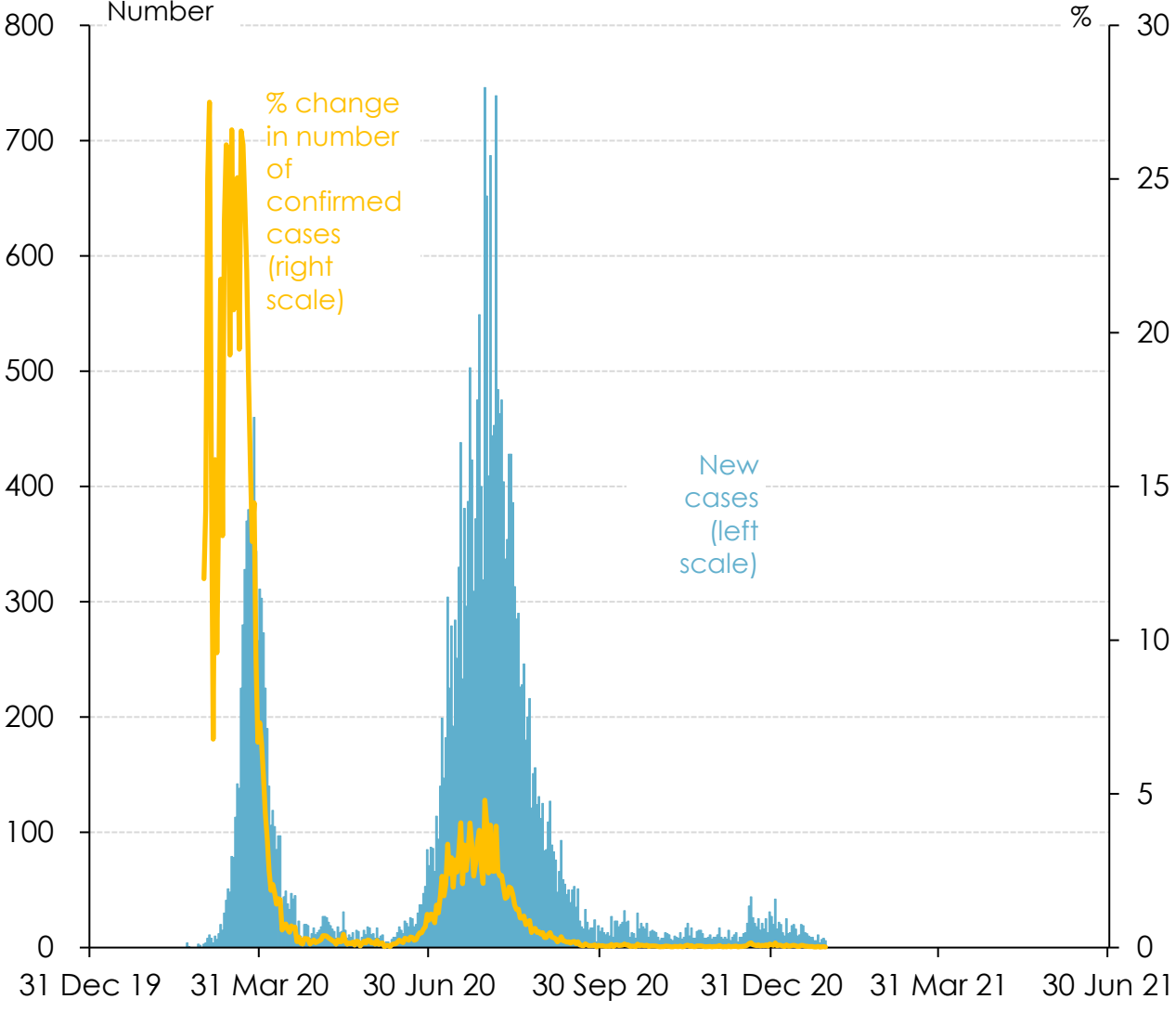
Note: All charts are on logarithmic scales. Data for new deaths in Spain between 25th May and 19th June 2020 not shown because of distortions caused by reclassifications on those dates. Data up to 28th January. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

Only 45 new cases were recorded in Australia this week – the lowest since the week ended 6^h March 2020 – and all of those were acquired overseas

Cases, recoveries, hospitalizations and deaths

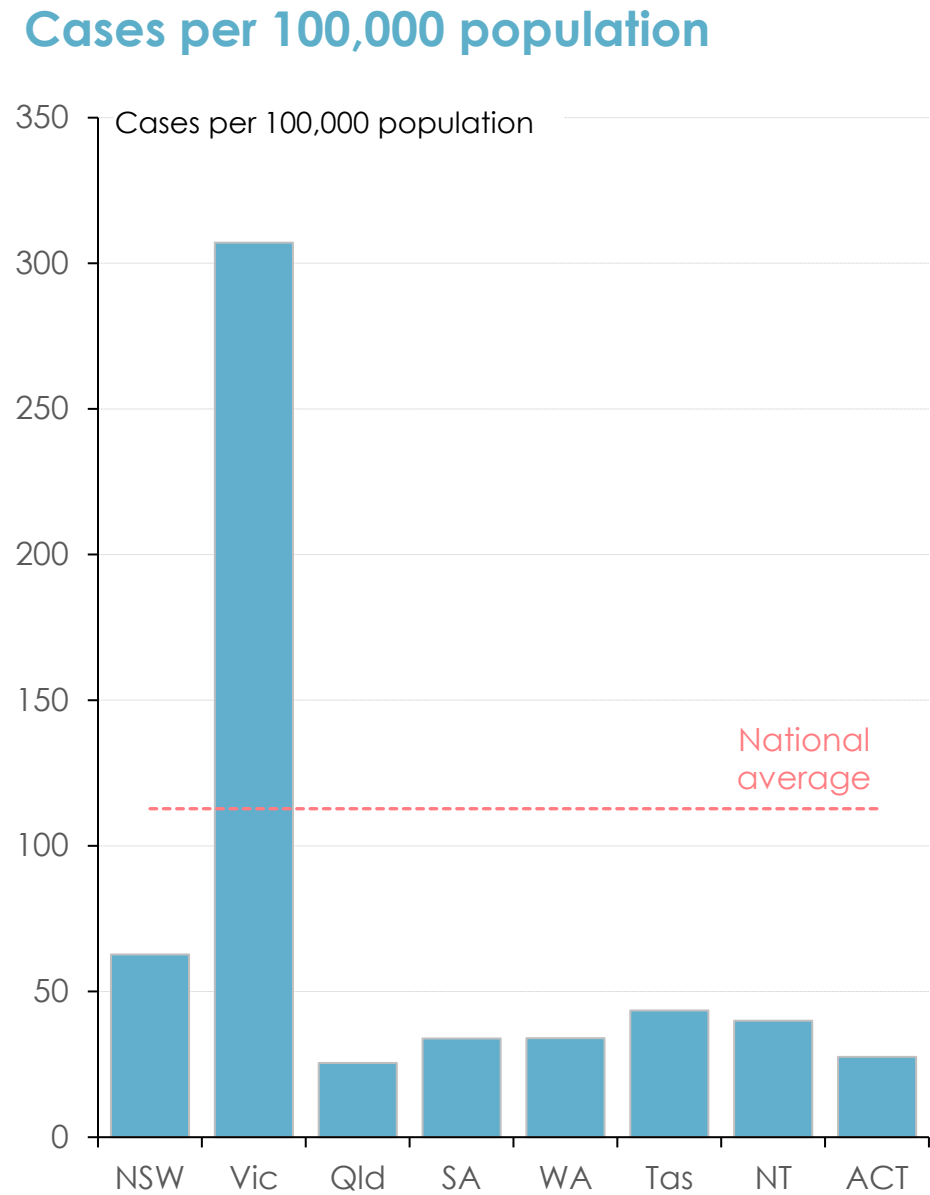
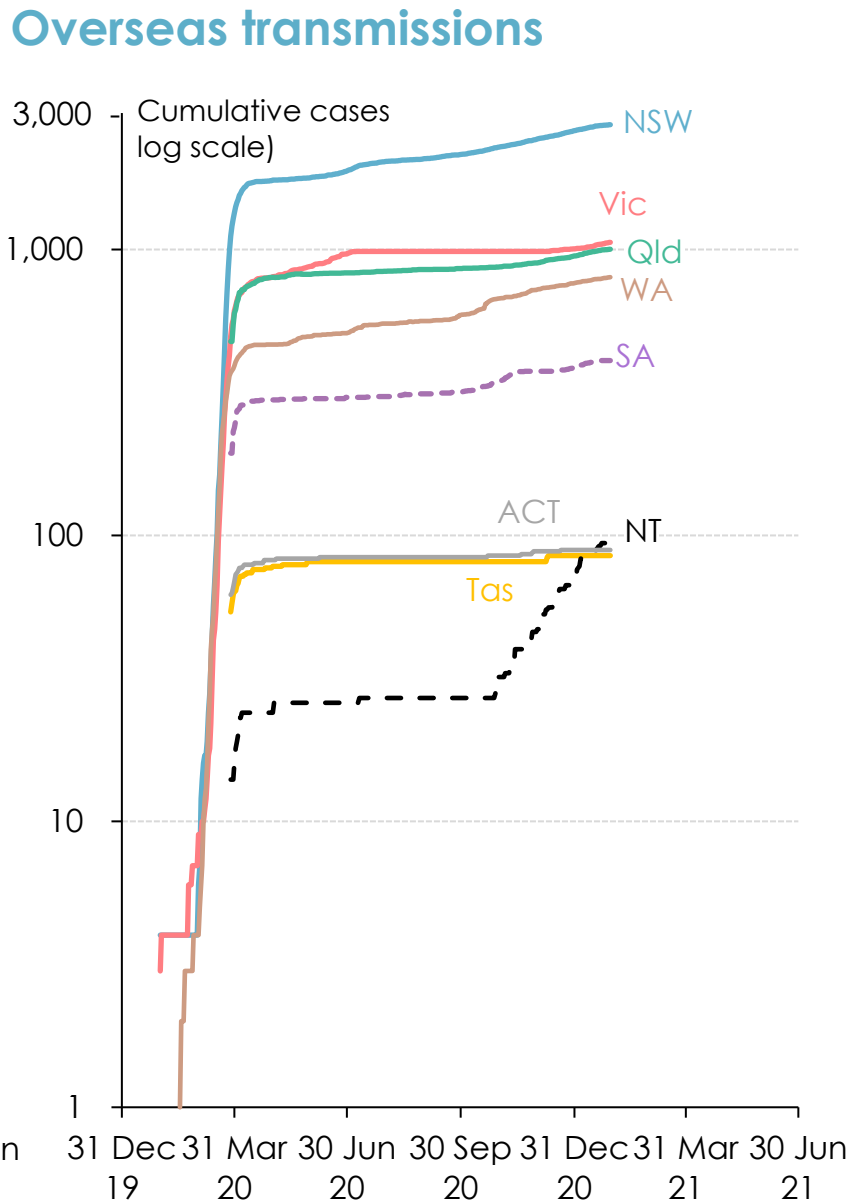
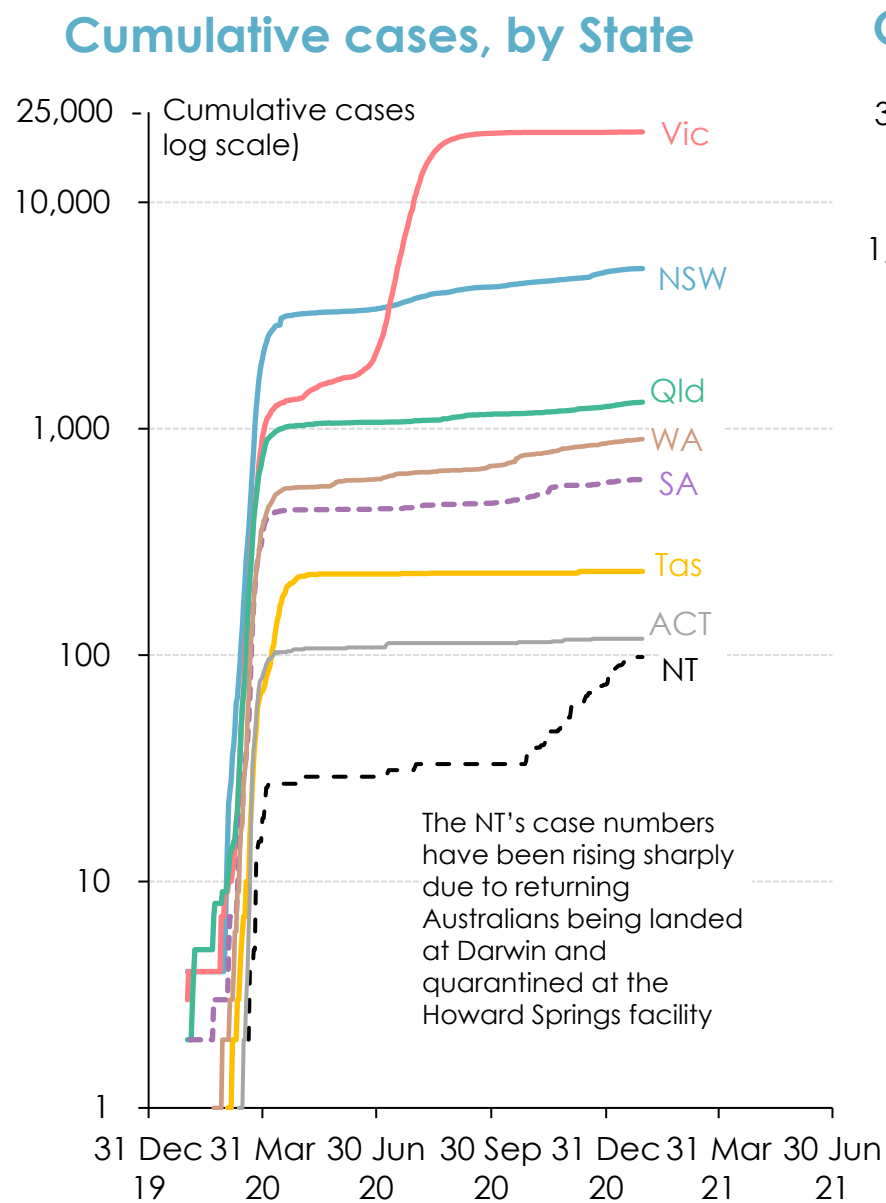


New cases



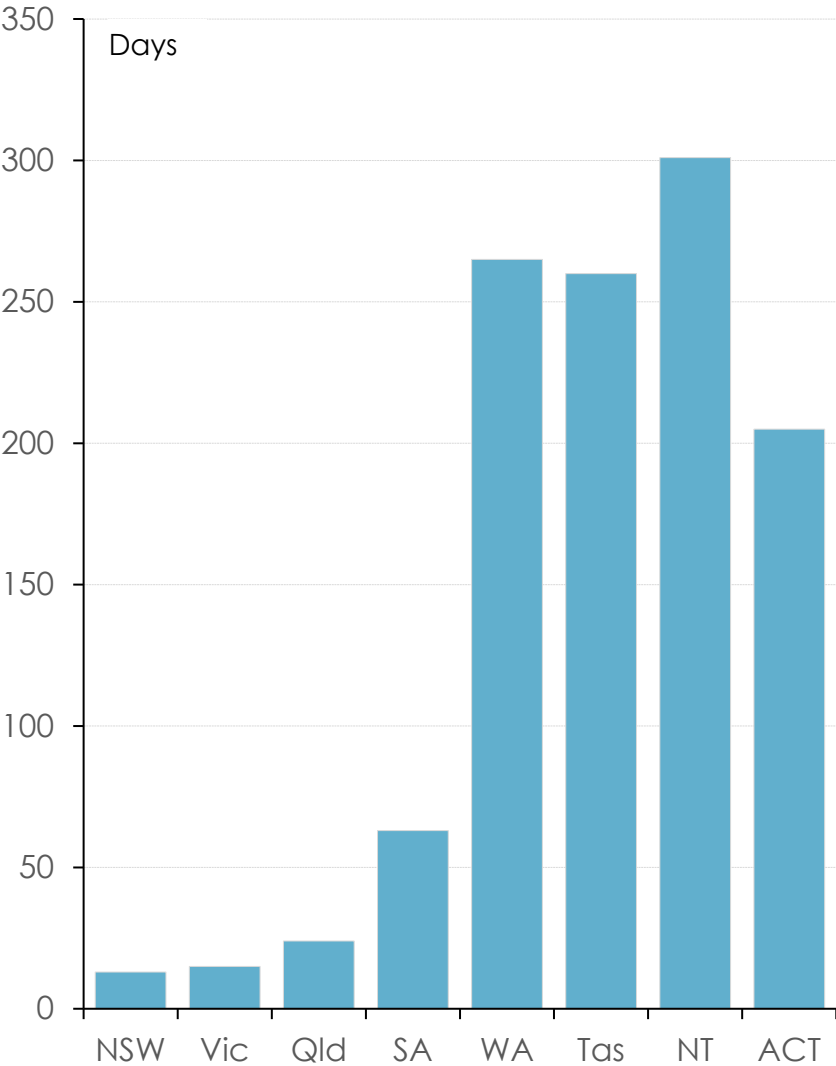
Note: Data up to 29th January. Source: covid19data.com.au. [Return to "What's New"](#).

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

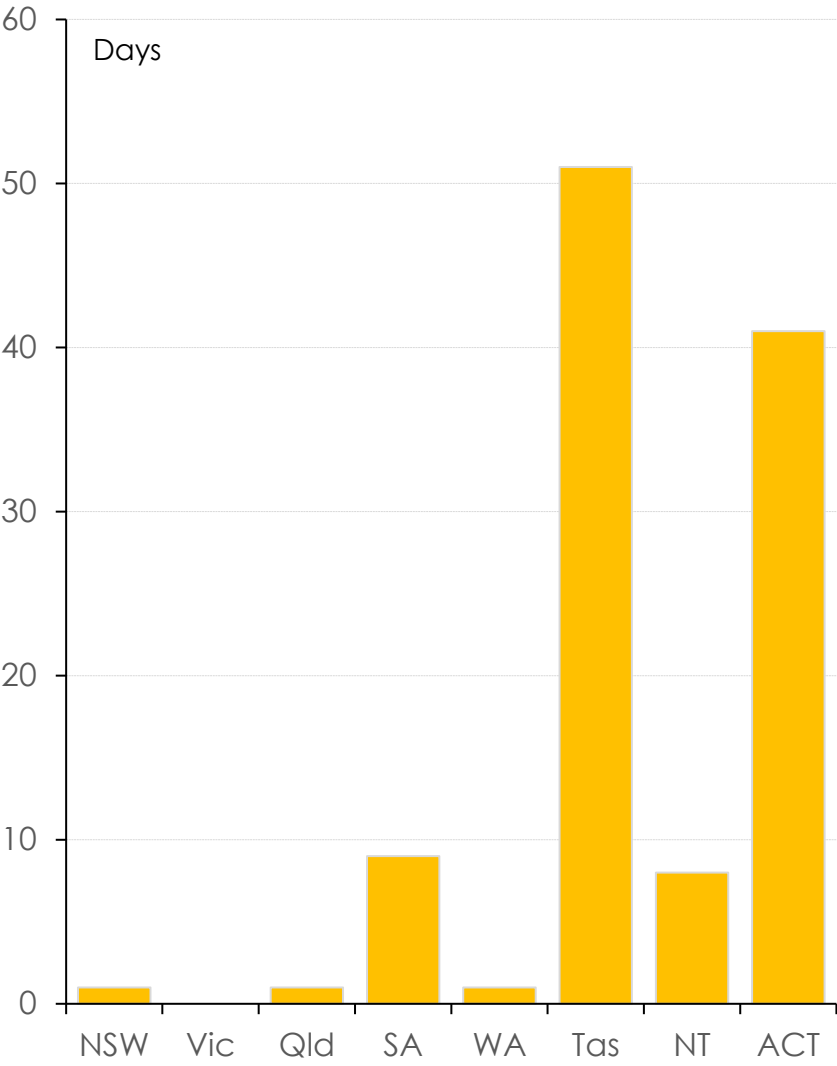


Locally-acquired transmissions have been completely eliminated in Australia's less populous states and territories

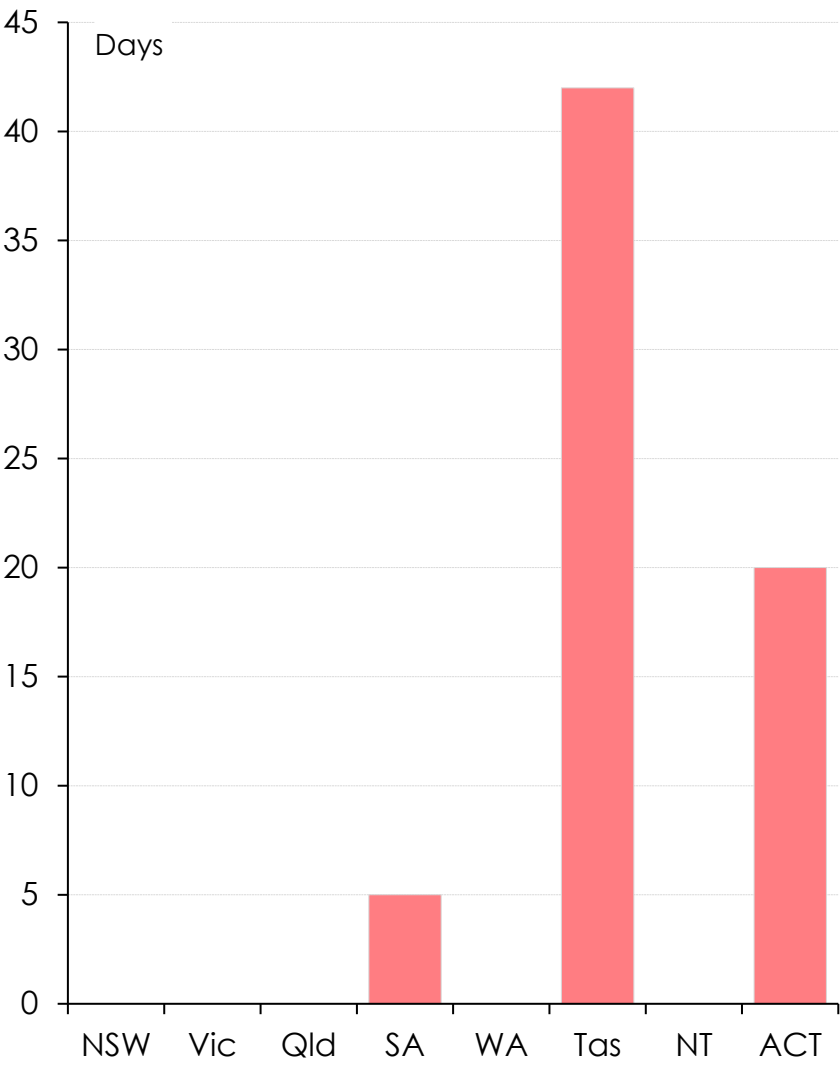
Days since last new locally-acquired case



Days since last new overseas-acquired case

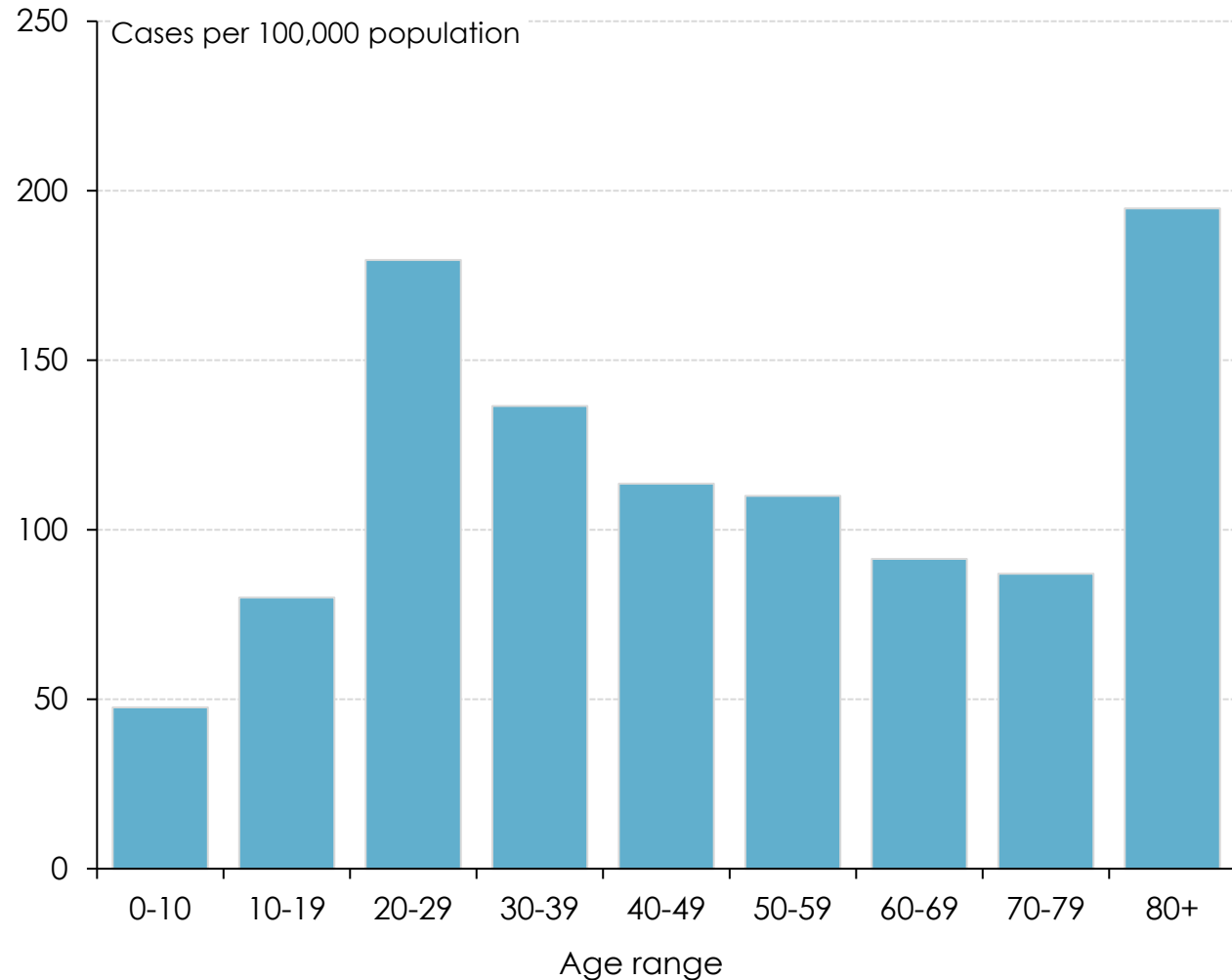


Days since there were any active cases

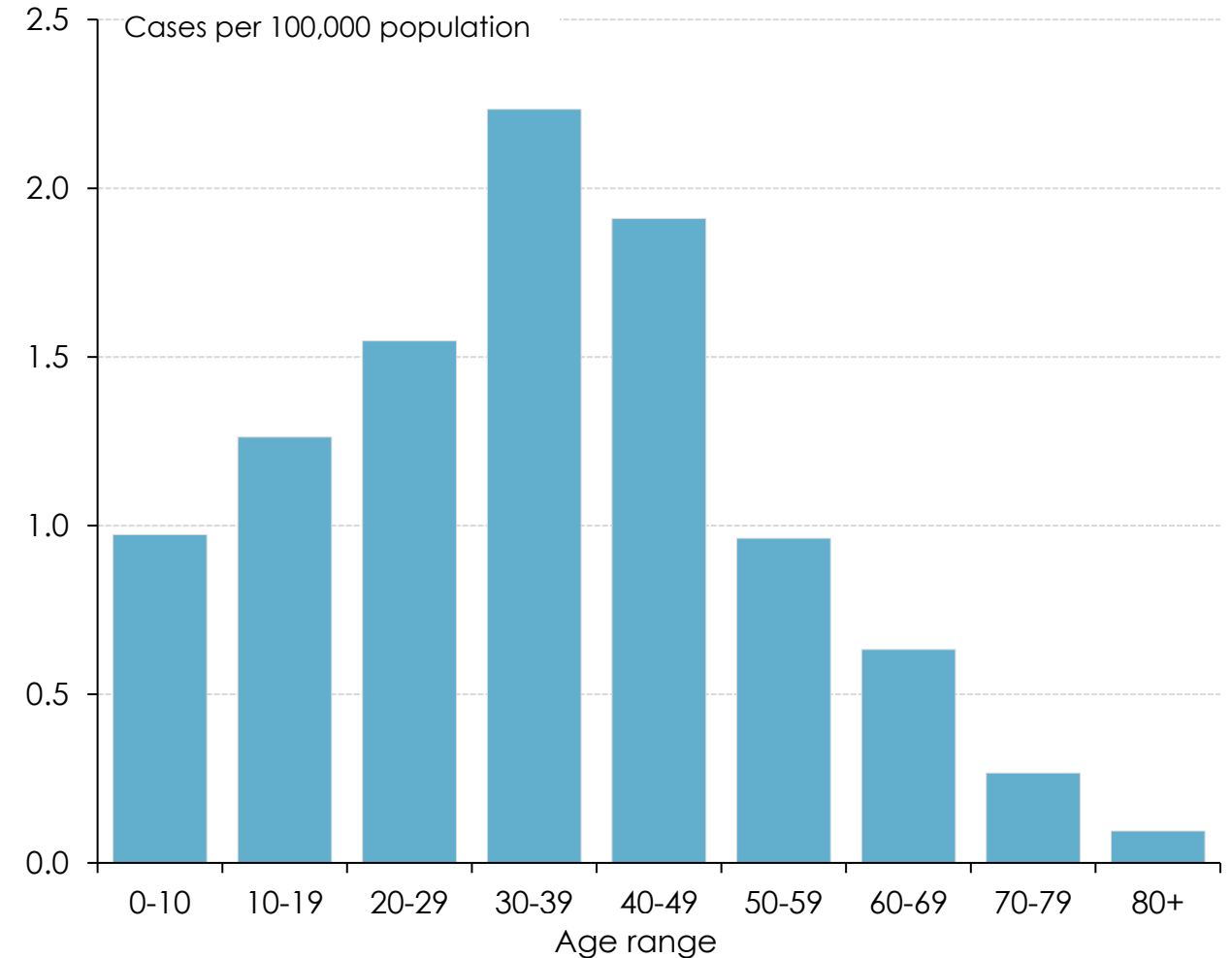


In contrast to last year, Australian infections have been highest among people in their 30s and 40s – because most have been acquired overseas

Cumulative confirmed cases per 100,000 population, by age group - 2020



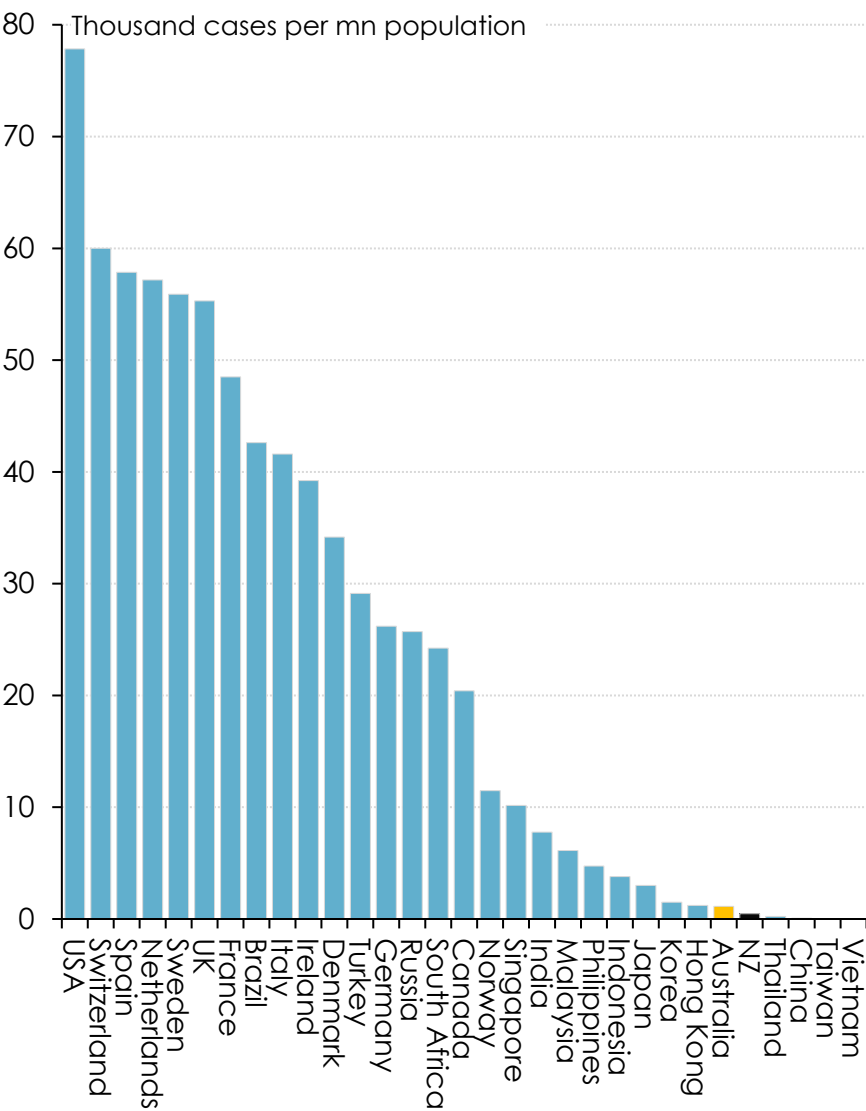
Cumulative confirmed cases per 100,000 population, by age group – 2021 to date



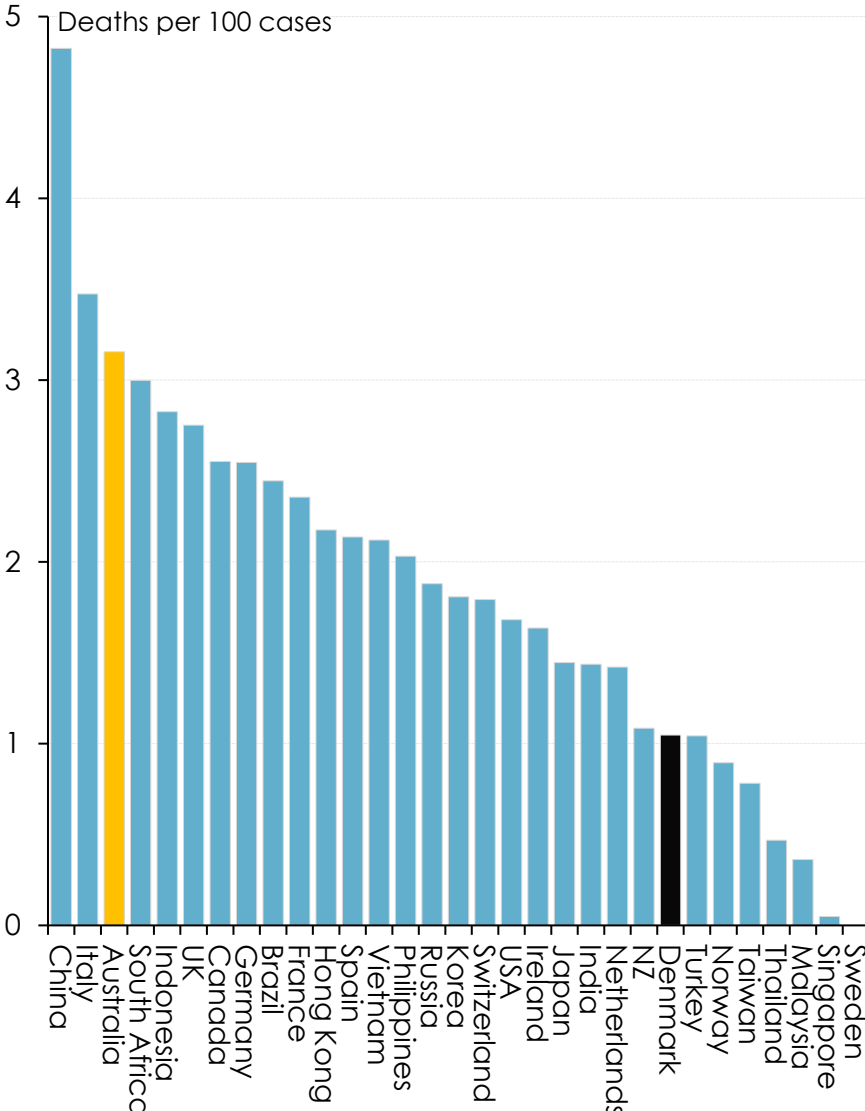
Note: Data up to 29th January. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna.
[Return to "What's New"](#).

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

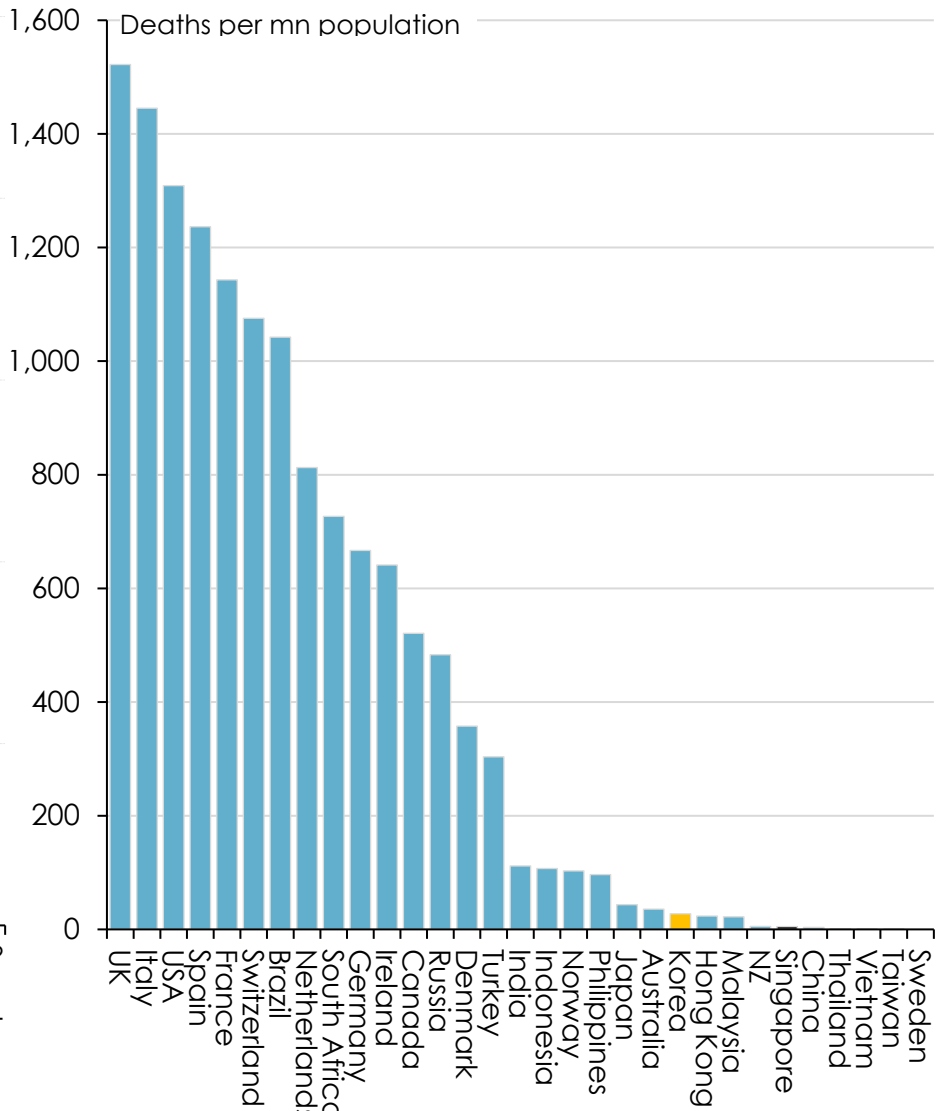
Apparent infection rate



Apparent fatality rate



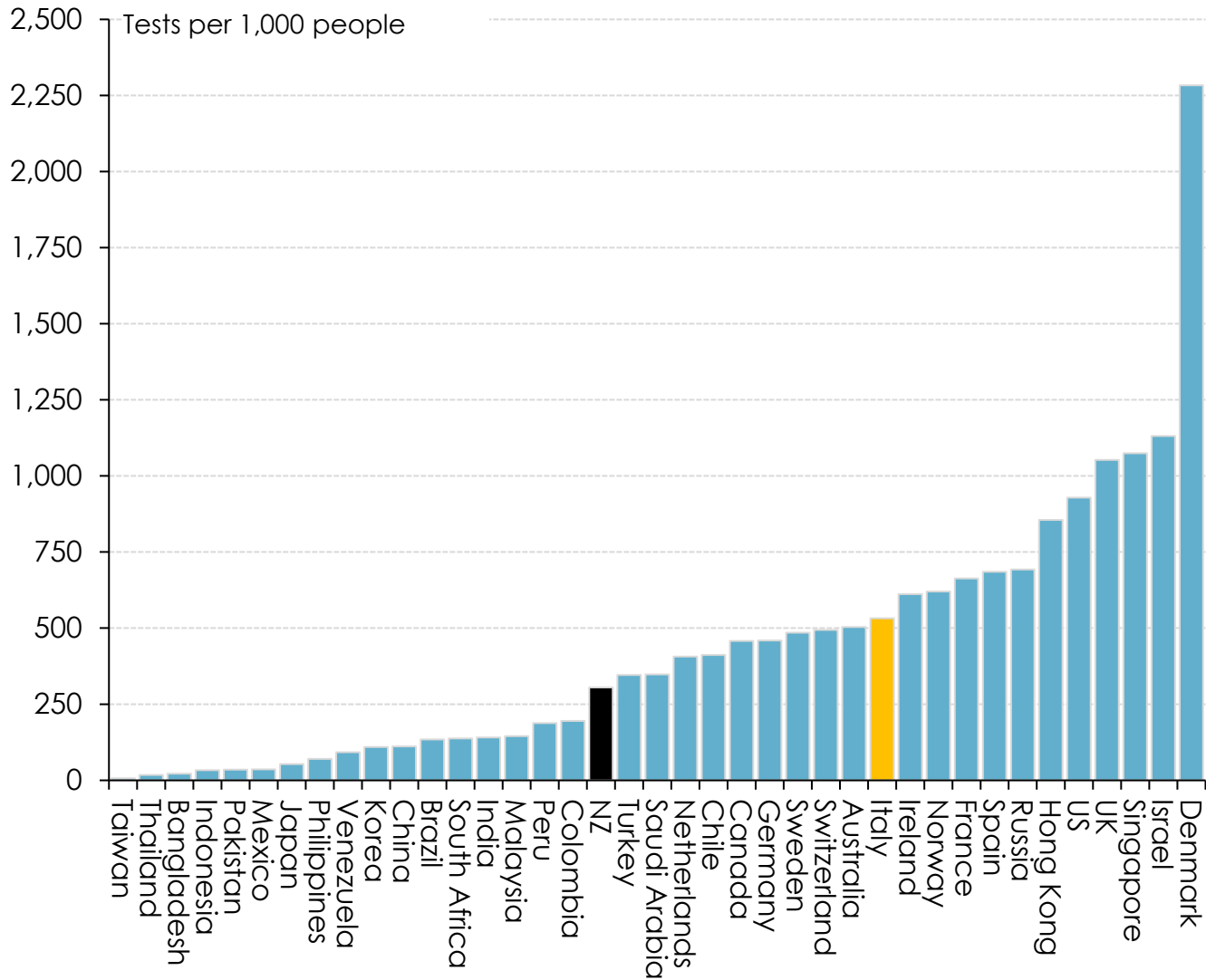
Death rate



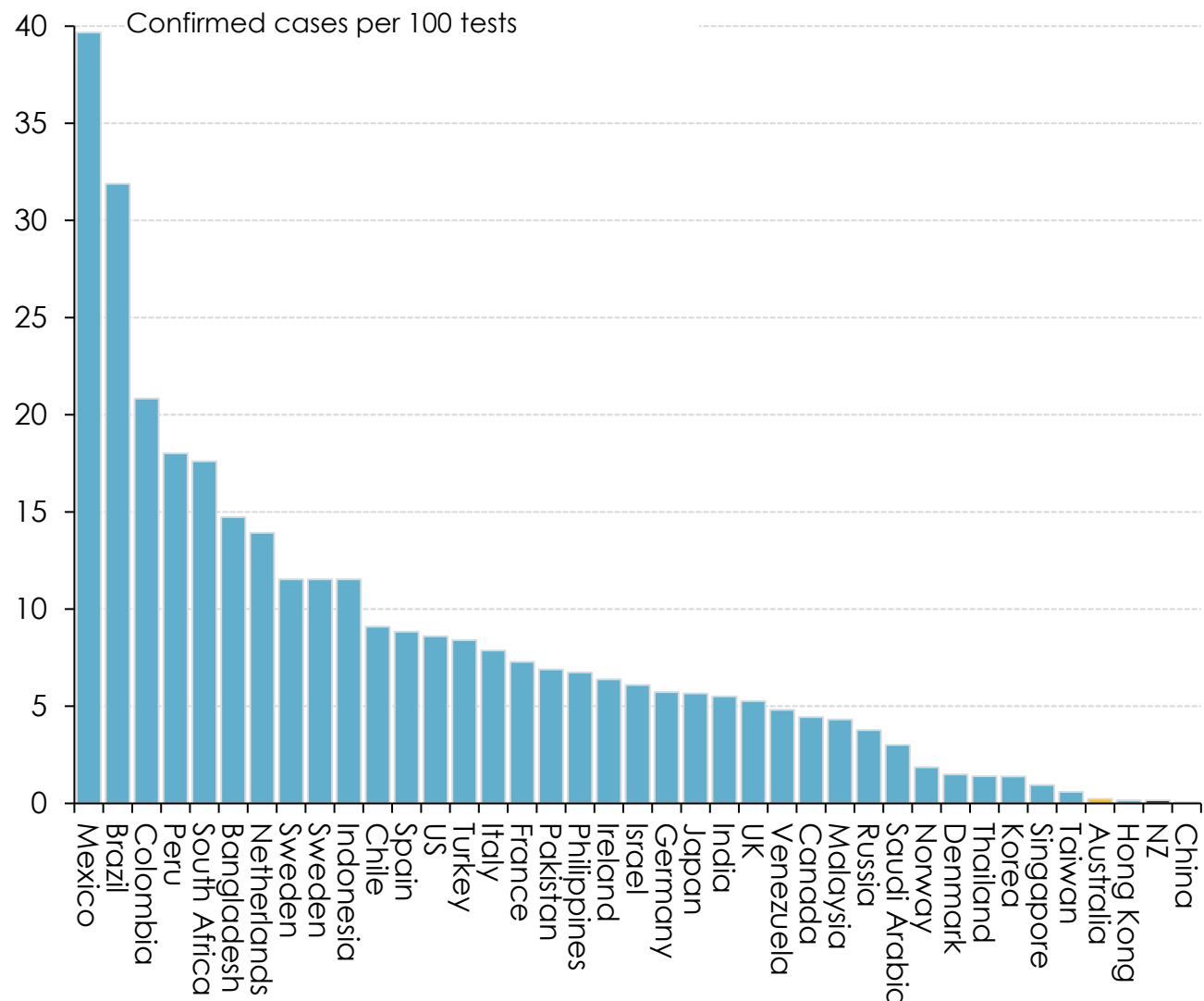
Note: Data up 29th January . Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

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



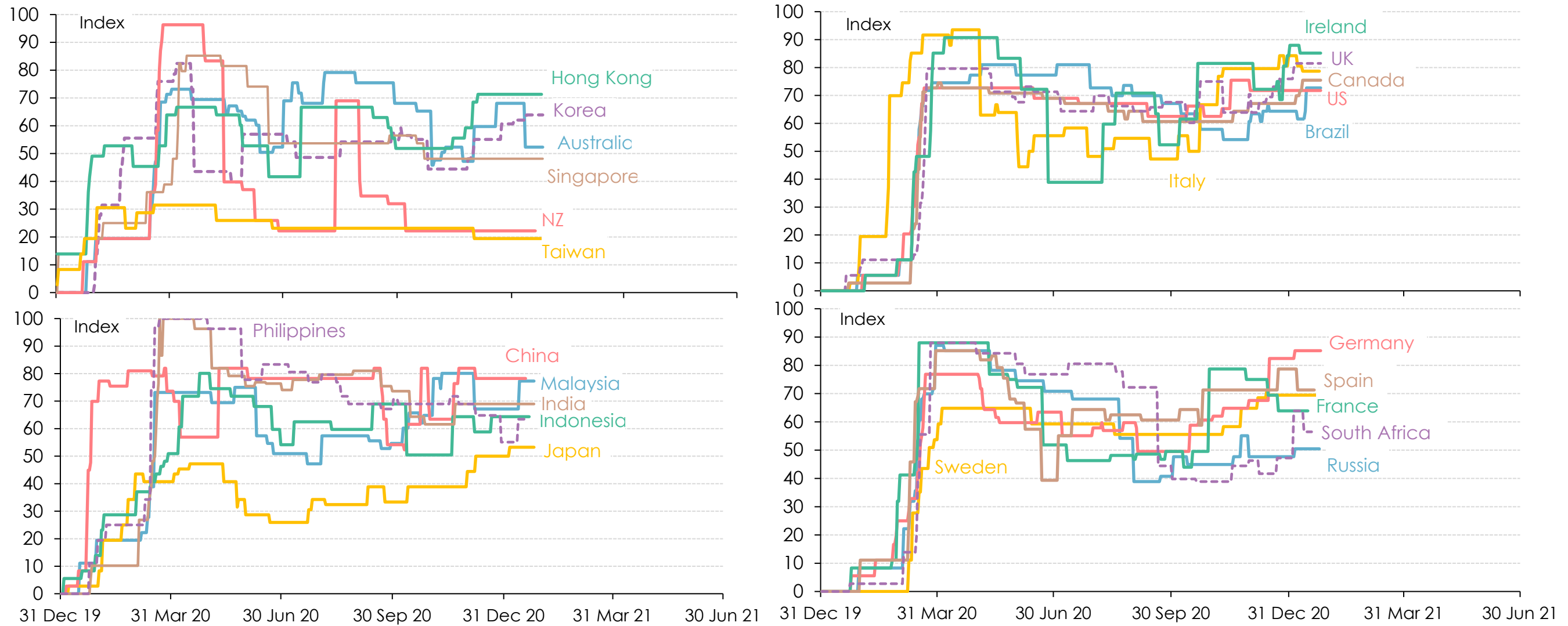
Confirmed cases per 100 tests



Note: Data up to 29th 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"](#).

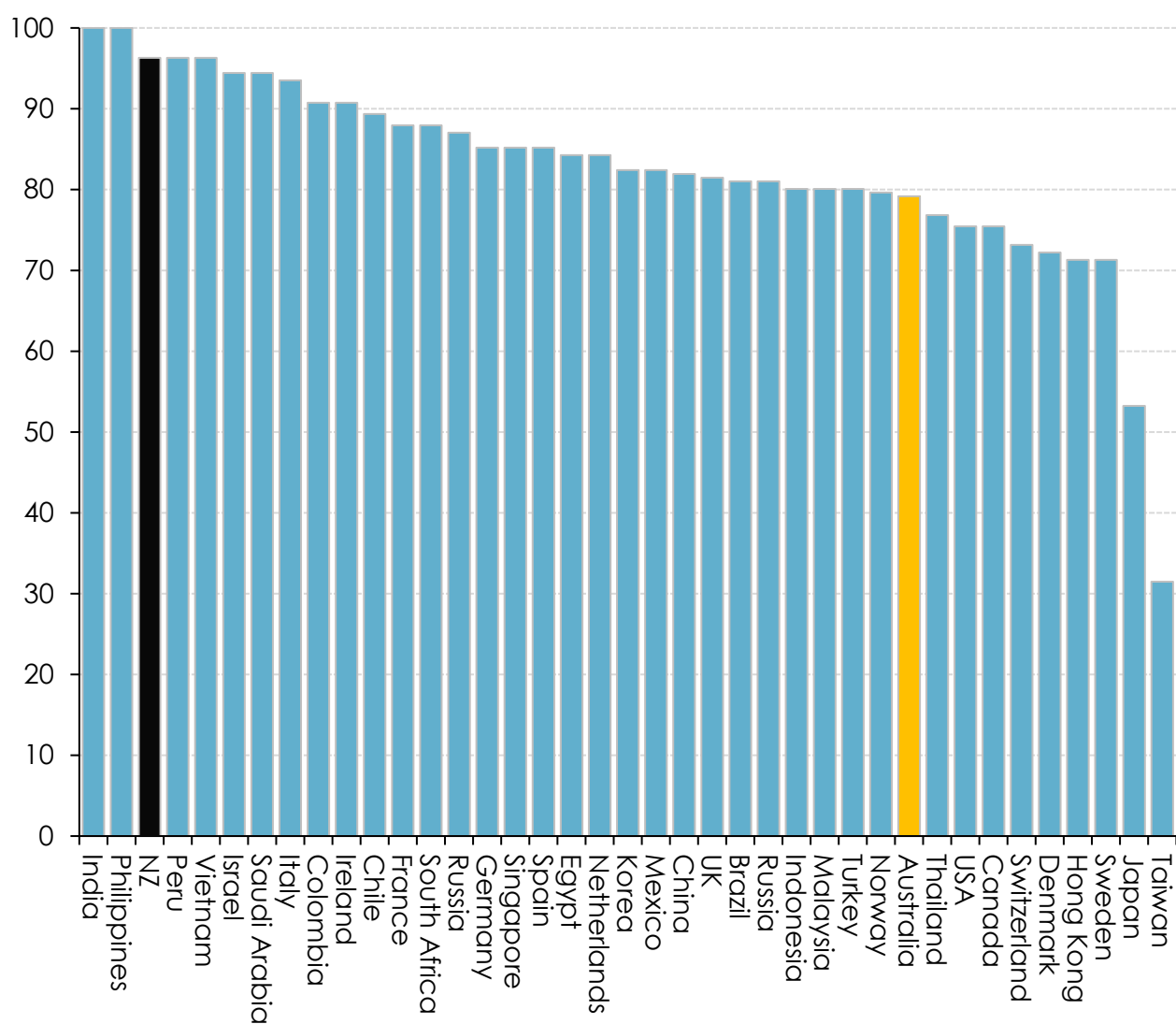
Much of the world (with conspicuous exceptions of Taiwan and NZ) have been under tight restrictions since mid-December

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

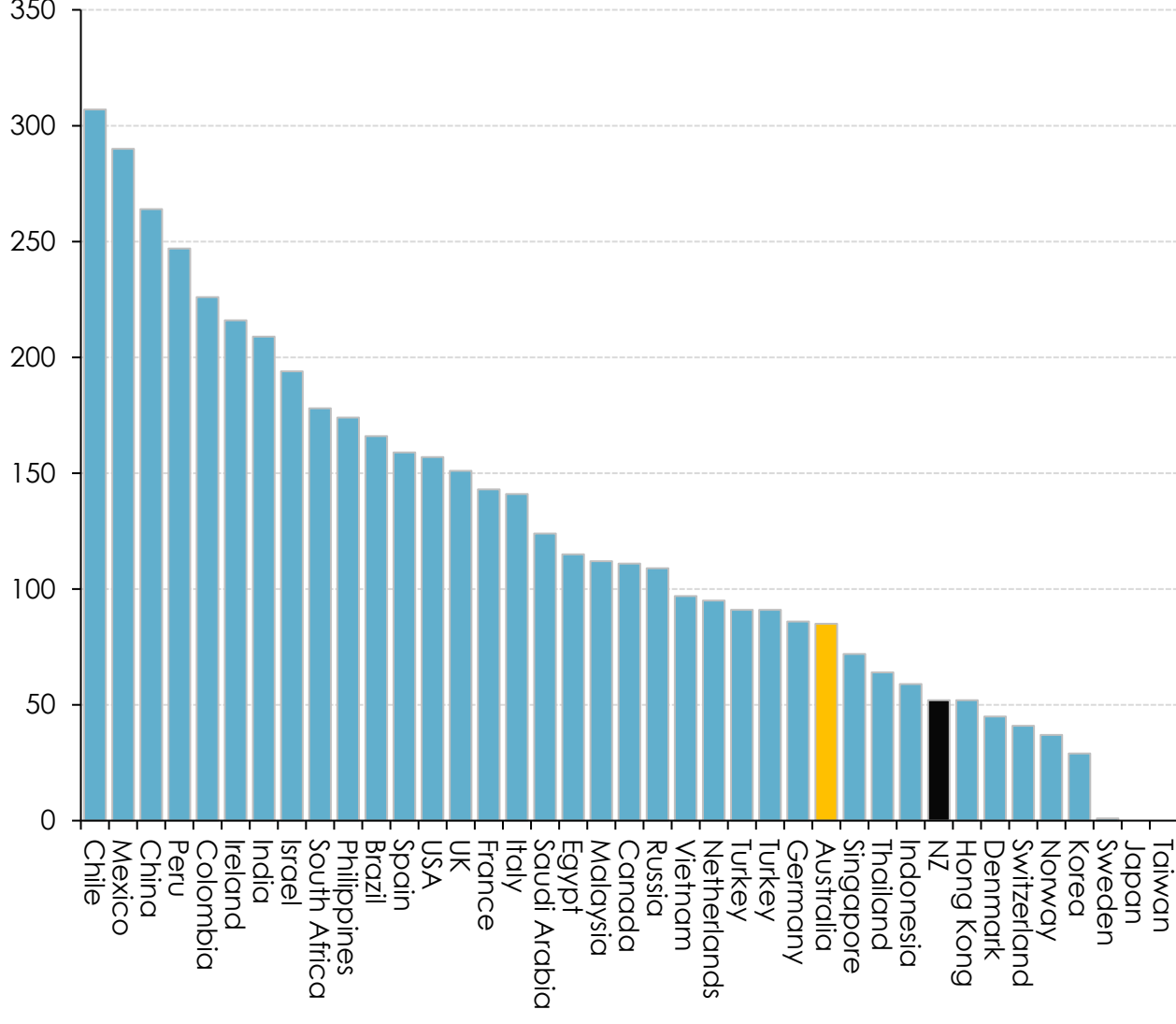


Australia's restrictions have been, on average, less stringent than in most other countries – though we did creep up the list during Victoria's lockdown

Highest level of restrictions imposed

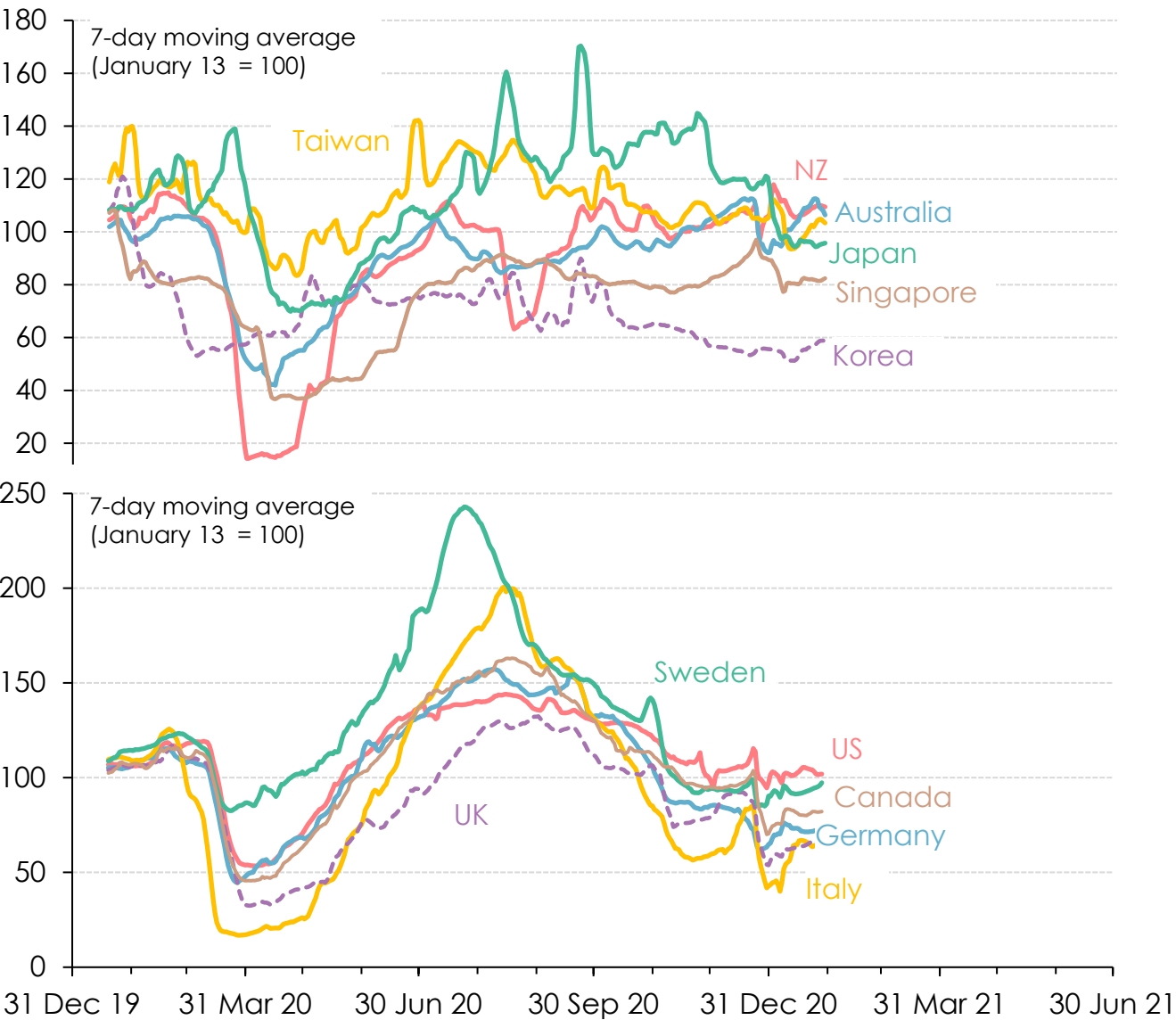


Number of days restrictions above 70 on Oxford index

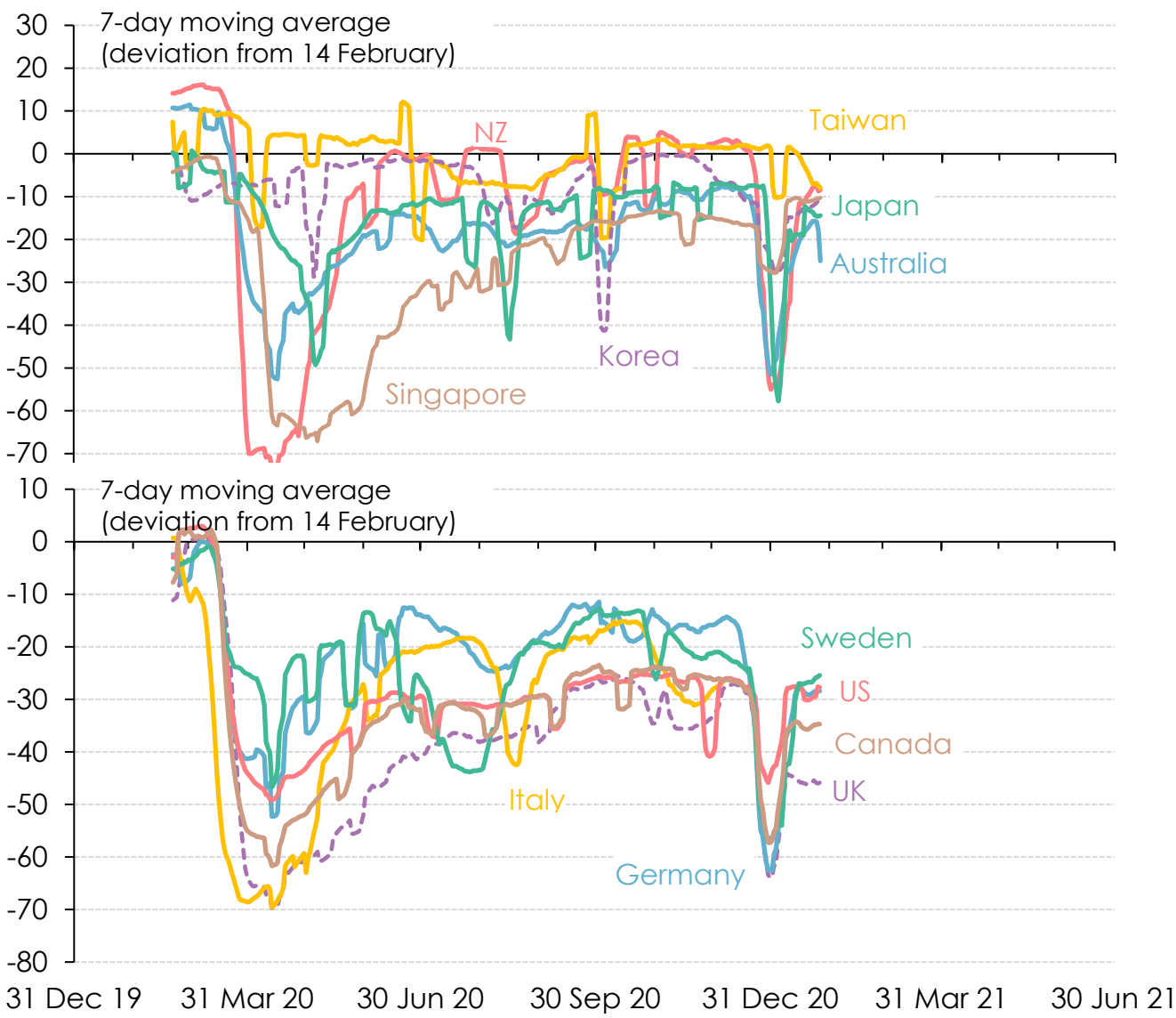


Mobility trends show declining trends in most countries towards the end of 2020, exaggerated by Christmas-New Year shutdowns

Time spent driving



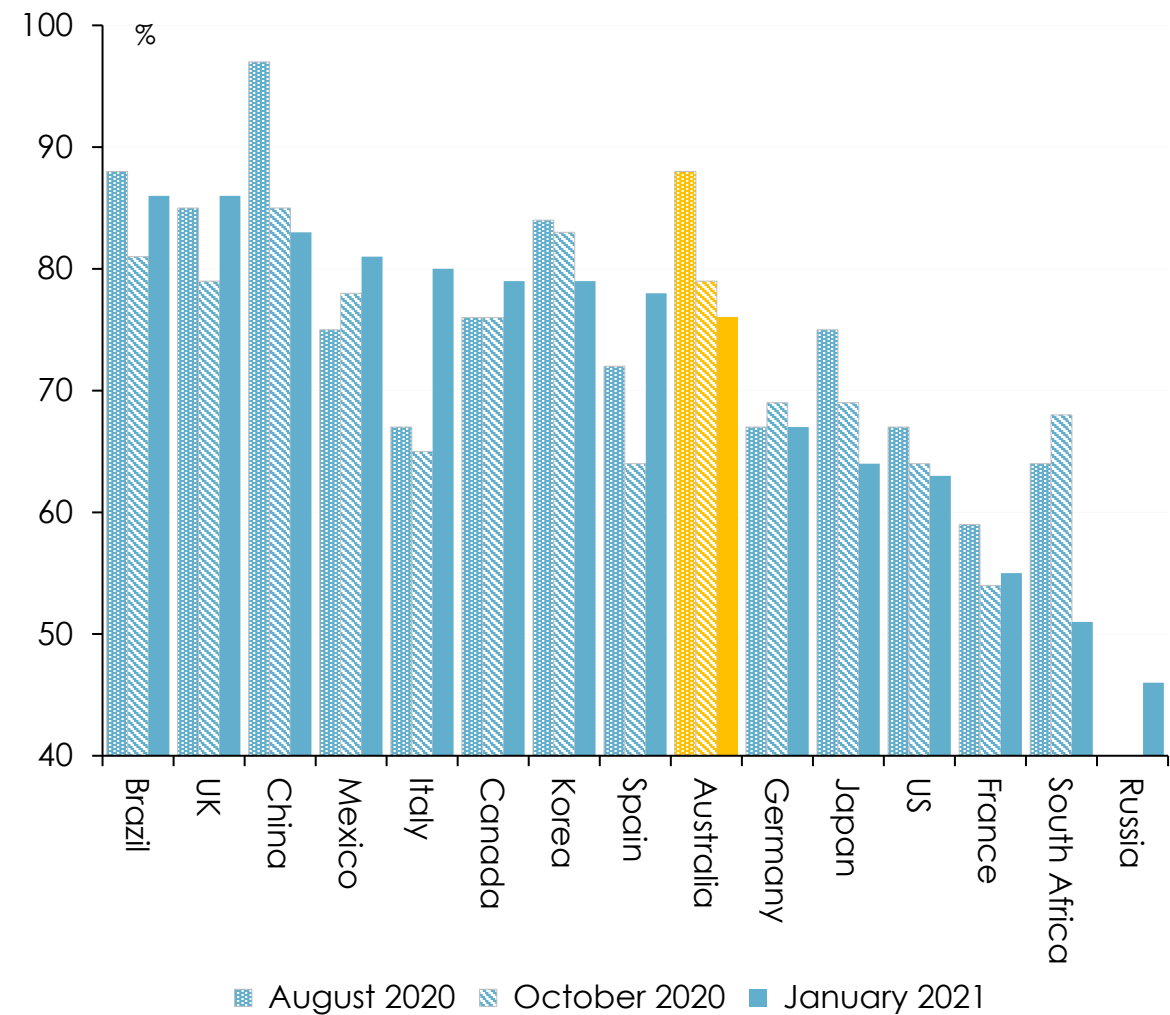
Time spent in workplaces



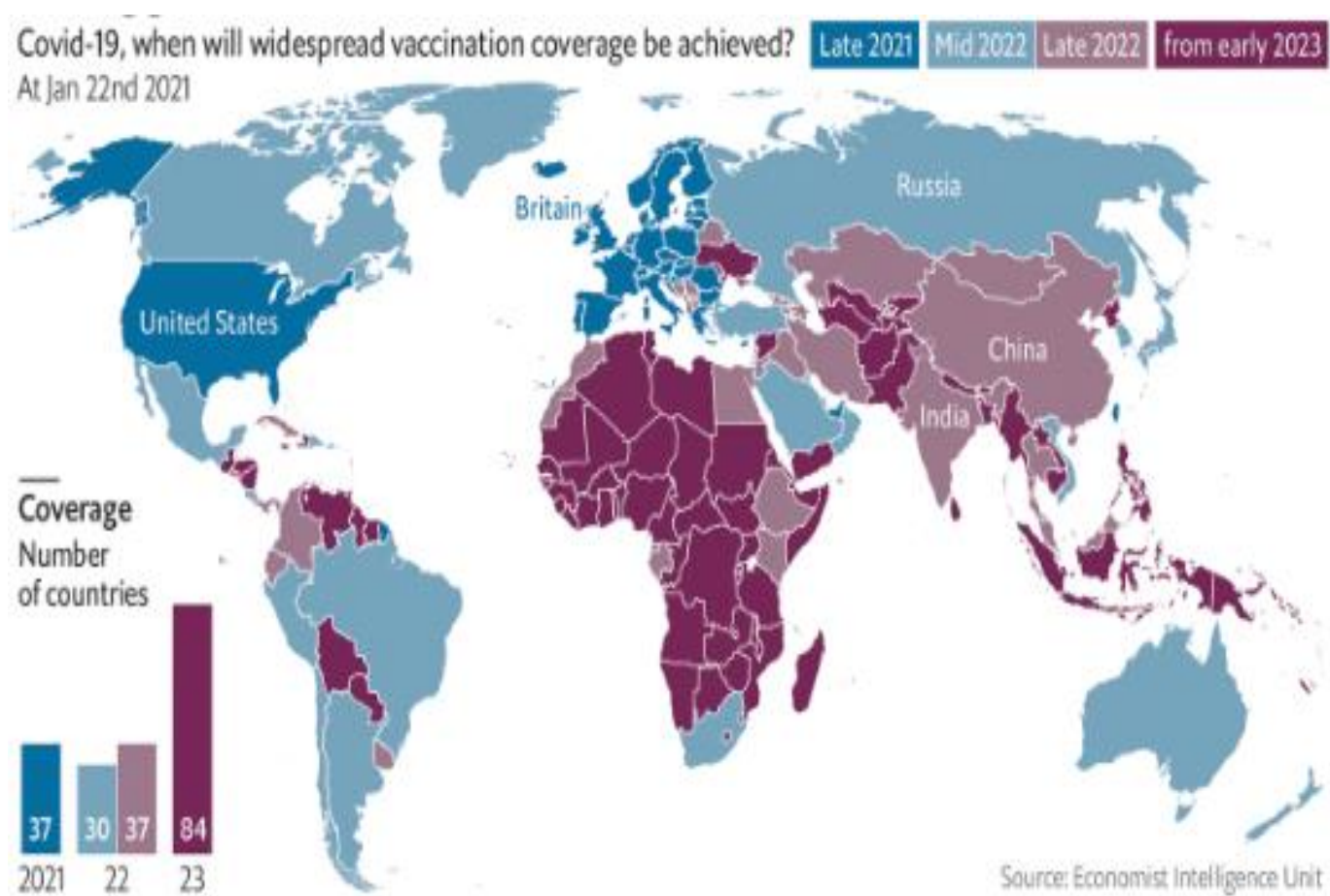
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 28th January); [Google Community Mobility Reports](#) (data up to 26th 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, and can get them

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



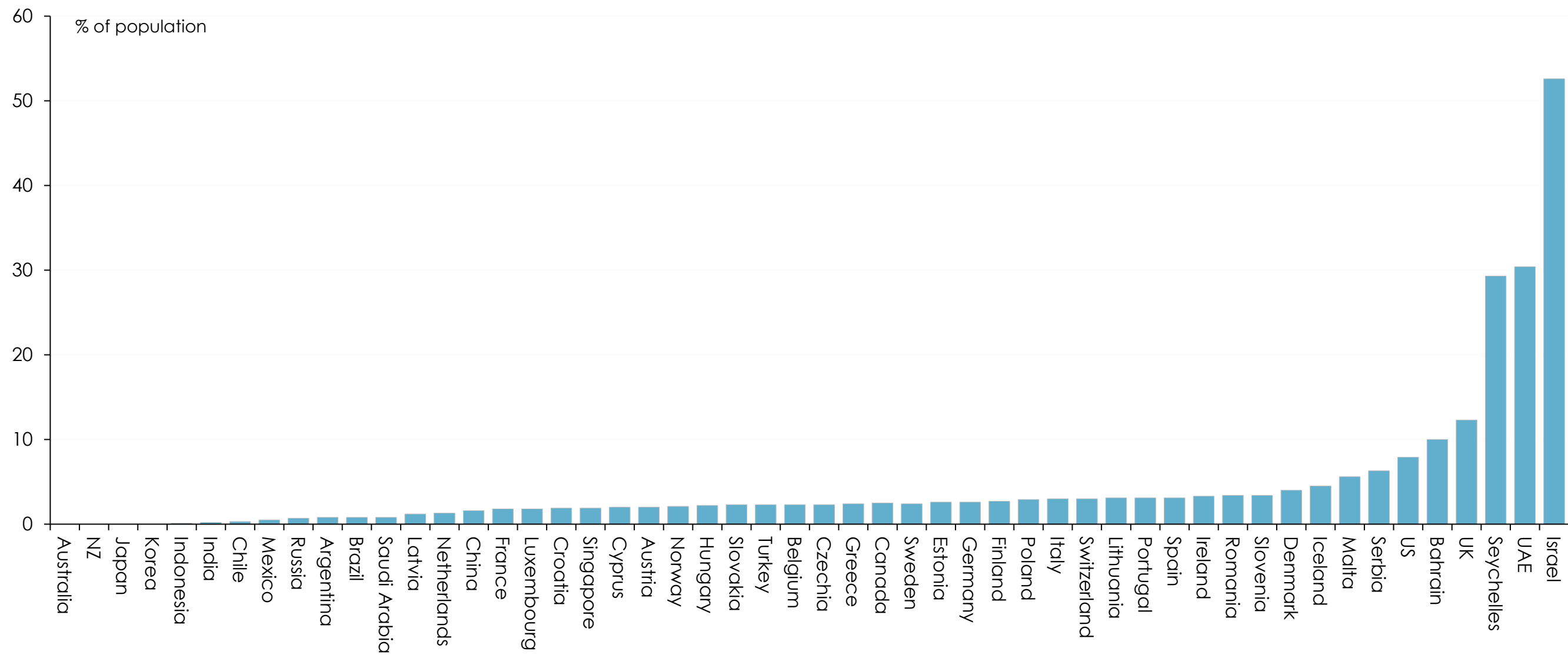
Projected timeline for widespread vaccine coverage, by country



Sources: Ipsos Mori, [Attitudes to Covid-19 vaccines](#), 25th January 2021; [The Economist](#), 28th January 2021. [Return to "What's New"](#).

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

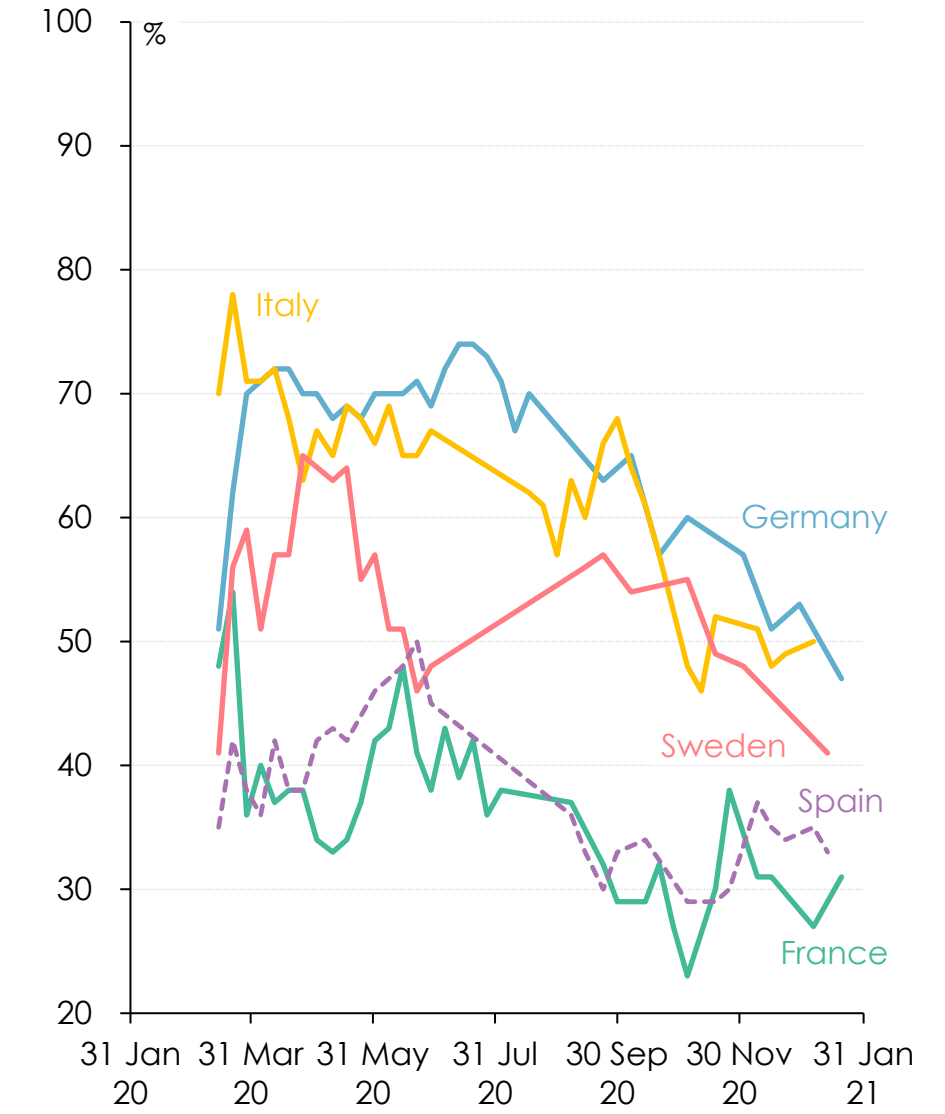
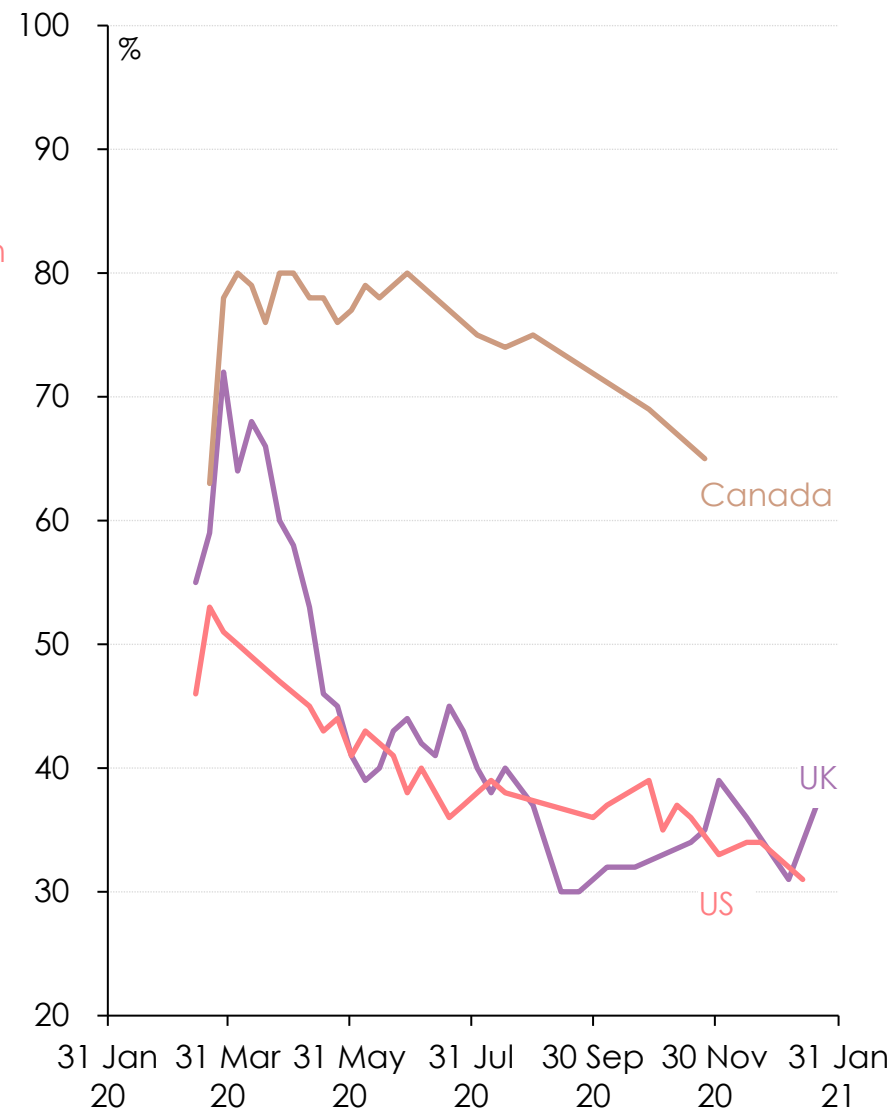
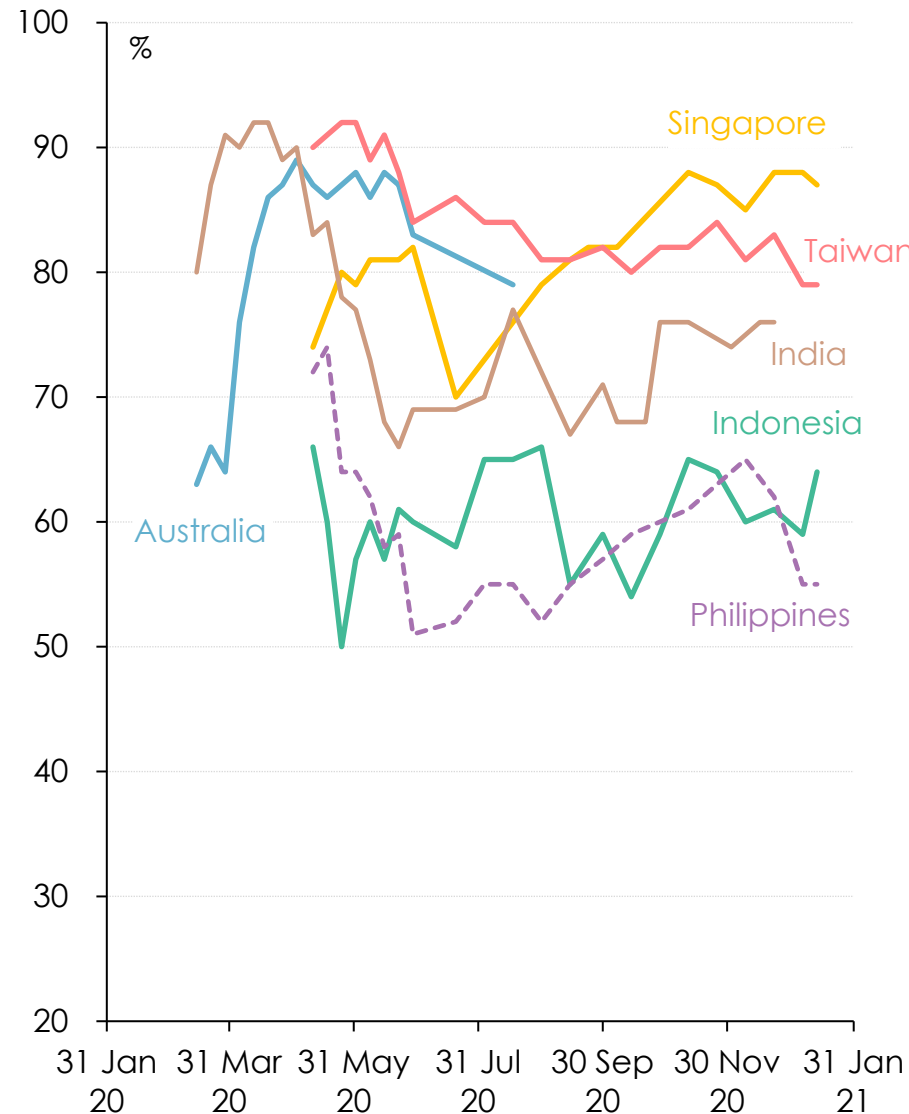
Percentage of population vaccinated as at 29th January



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

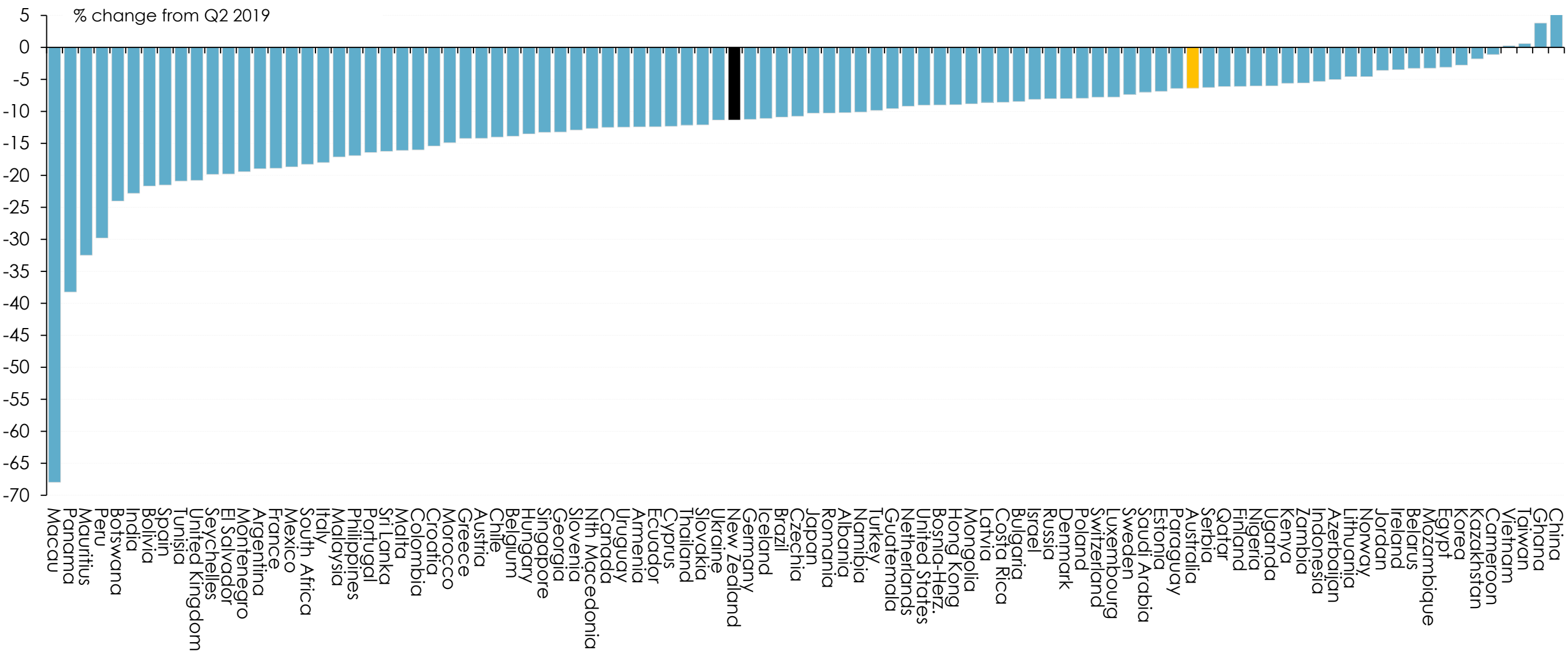


Source: YouGov, [Covid-19 tracker: government handling](#) (there were no new polls published this week). [Return to "What's New"](#).

The world

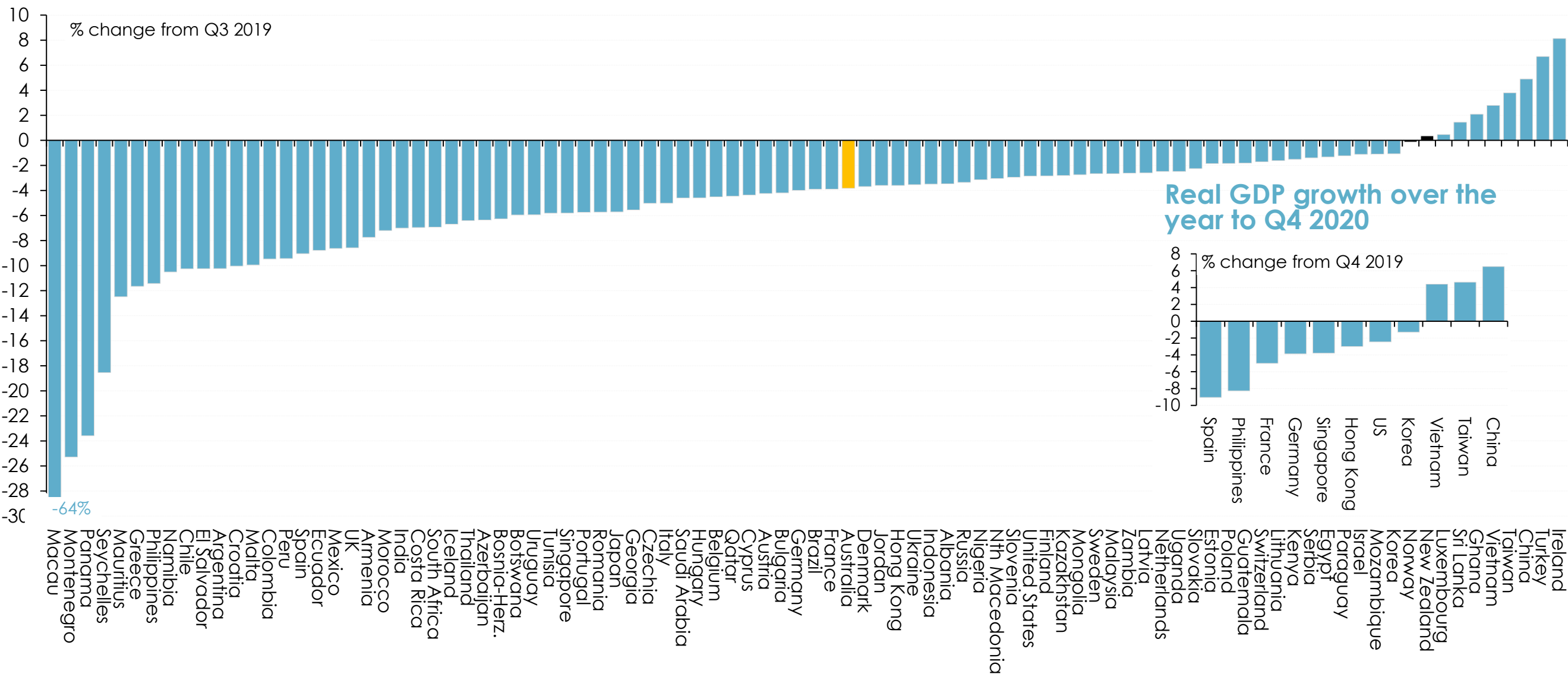
Only 4 out of 96 countries reported positive GDP growth over the year to Q2, with 10 reporting contractions of more than 20% and 42 of 10-20%

Real GDP growth over the year to Q2 2020

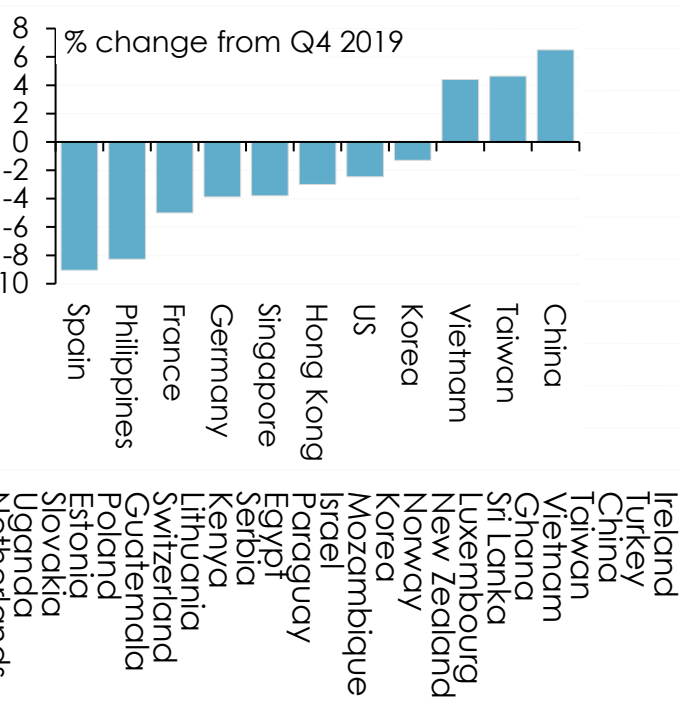


... but of 92 countries which have now reported Q3 numbers, 9 have shown positive growth, while 3 of 11 have reported positive yoy growth in Q4

Real GDP growth over the year to Q3 2020

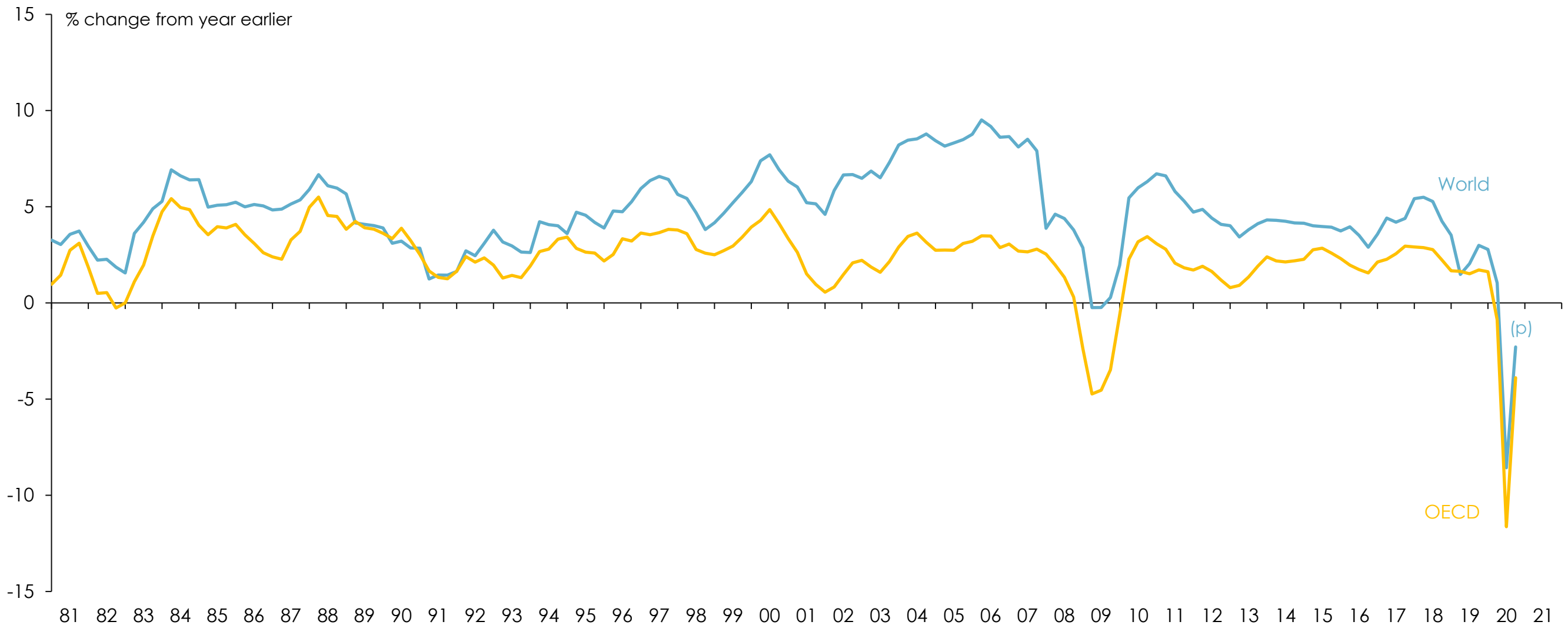


Real GDP growth over the year to Q4 2020



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 92 countries shown in the [previous slide](#). Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

The IMF this week revised up its estimates for growth in the advanced economies in 2020 and most of its 2021 forecasts (except for Europe)

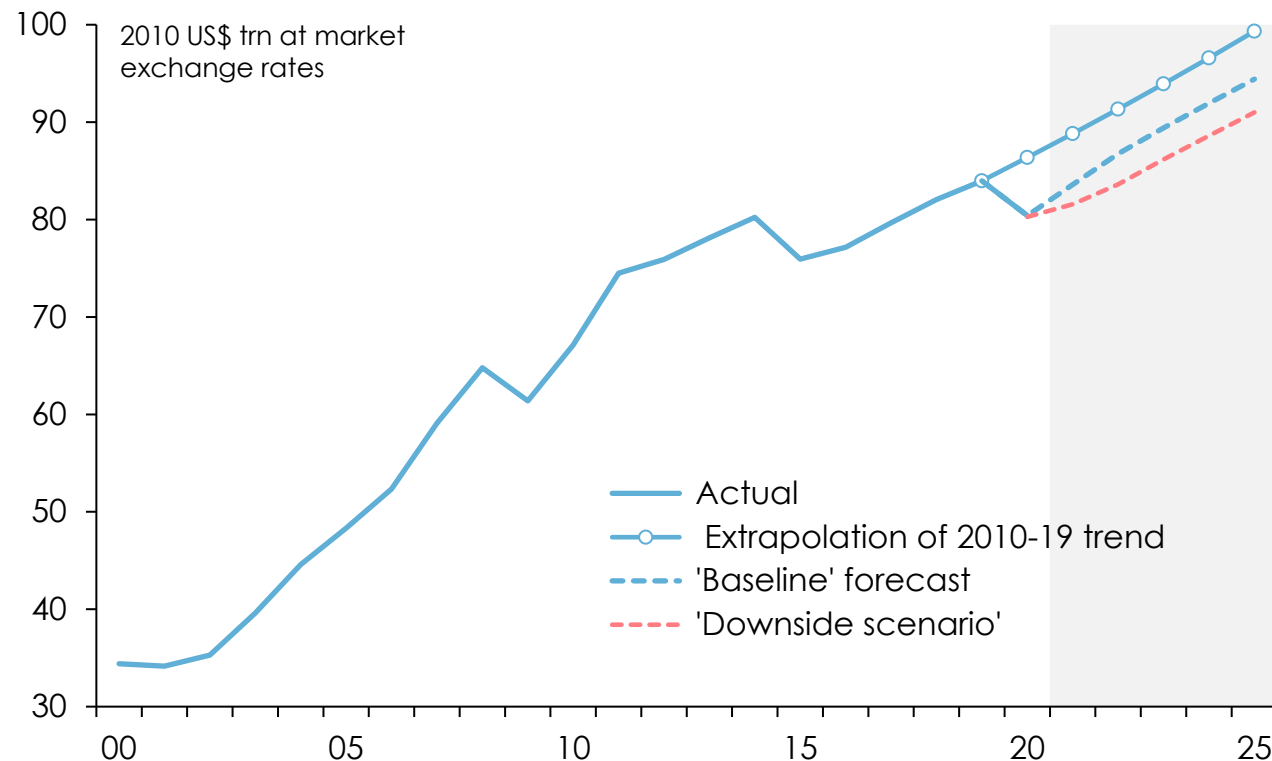
Major global institutions' growth forecasts for 2020, 2021 and 2022 compared

	<i>Actual</i>	<i>IMF</i>			<i>World Bank</i>			<i>OECD</i>			<i>Australian Treasury</i>		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
US	2.2	-3.4	5.1	2.5	-3.6	3.5	3.5	-3.7	3.2	3.5	-3.8	3.3	3.0
China	6.0	2.3	8.1	5.6	2.0	7.9	5.2	1.8	8.0	5.0	1.8	8.0	5.3
Euro area	1.3	-7.2	4.2	3.6	-7.4	4.5	3.3	-7.5	3.6	3.3	-7.5	3.5	3.3
India	4.2	-8.0	11.5	6.8	-9.6	5.4	5.2	-9.9	7.9	4.8	-7.5	9.0	5.5
Japan	0.3	-5.1	3.1	2.4	-5.3	2.5	2.3	-5.3	2.3	1.5	-5.3	2.8	1.8
UK	1.4	-10.0	4.5	5.0	na	na	na	-11.2	4.2	4.1	na	na	na
Australia	1.9	-2.9	3.5	2.9	na	na	na	-3.8	3.2	3.1	0.8*	3.5*	2.5*
New Zealand	2.2	-6.1	4.4		na	na	na	-4.8	2.7	2.6	1.5 [†]	2.6 [†]	3.7 [†]
World	2.8	-3.5	5.5	4.2	-4.3	4.0	3.8	-4.2	4.2	3.7	-4.0	4.8	3.8
World trade	1.0	-9.6	8.1	6.3	-9.5	5.0	5.1	-10.3	3.9	4.4	na	na	na

Note: * Forecasts for fiscal years beginning 1st July (and finishing 30th June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1st July
Sources : International Monetary Fund (IMF), [World Economic Outlook Update](#), 26th January 2021; The World Bank, [Global Economic Prospects](#), 6th January 2021; Organization for Economic Co-operation & Development (OECD), [Economic Outlook - December 2020](#), 1st December 2020; Australian Treasury, [2020-21 Mid-Year Economic and Fiscal Outlook](#), 17th December 2020; New Zealand Treasury, [Half Year Economic and Fiscal Update](#), 16th December 2020.
[Return to "What's New"](#).

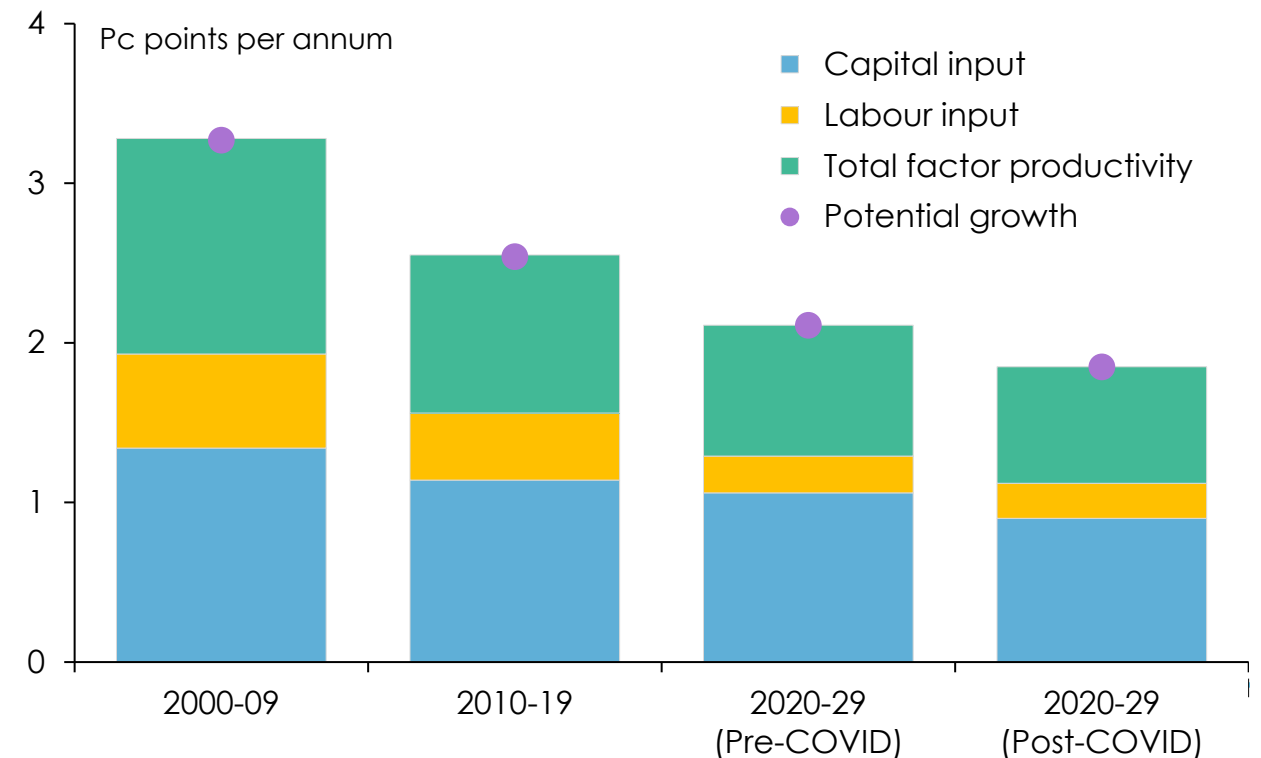
The World Bank's latest forecasts foreshadow a substantial long-term shortfall in economic activity in the aftermath of Covid-19

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 been – or almost 8½% below in its 'downside' scenario

The slowdown in global potential output growth

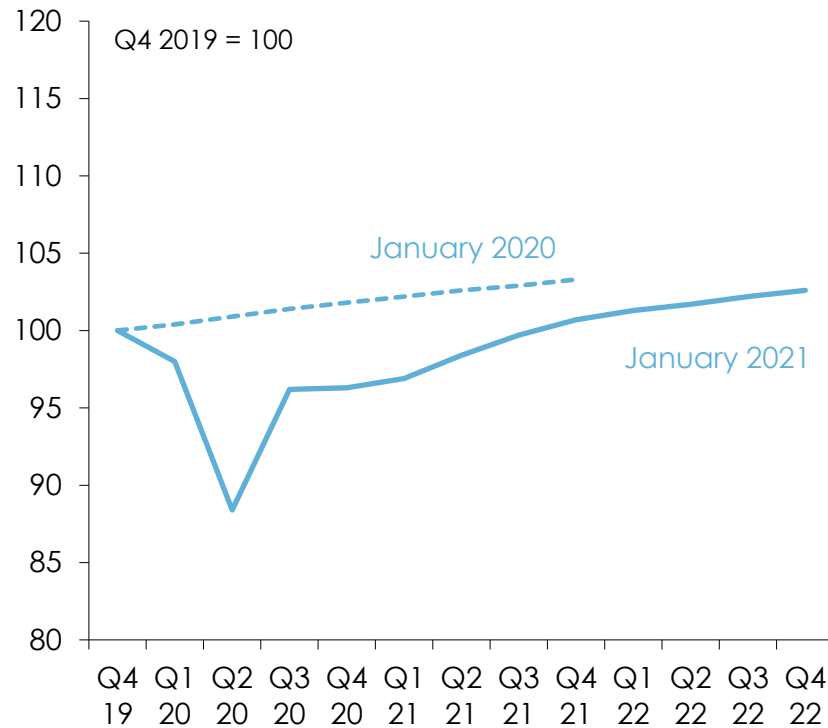


The growth rate of global 'potential output' slowed by 0.7 pc pts pa during the decade following the financial crisis, with all three 'drivers' contributing to the decline – the World Bank estimates that potential GDP growth will slow another 0.7 pc pts pa post-Covid with larger contributions from lower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

Latest IMF forecasts show China has already regained its pre-Covid level of GDP, which other economies won't until the second half of this year

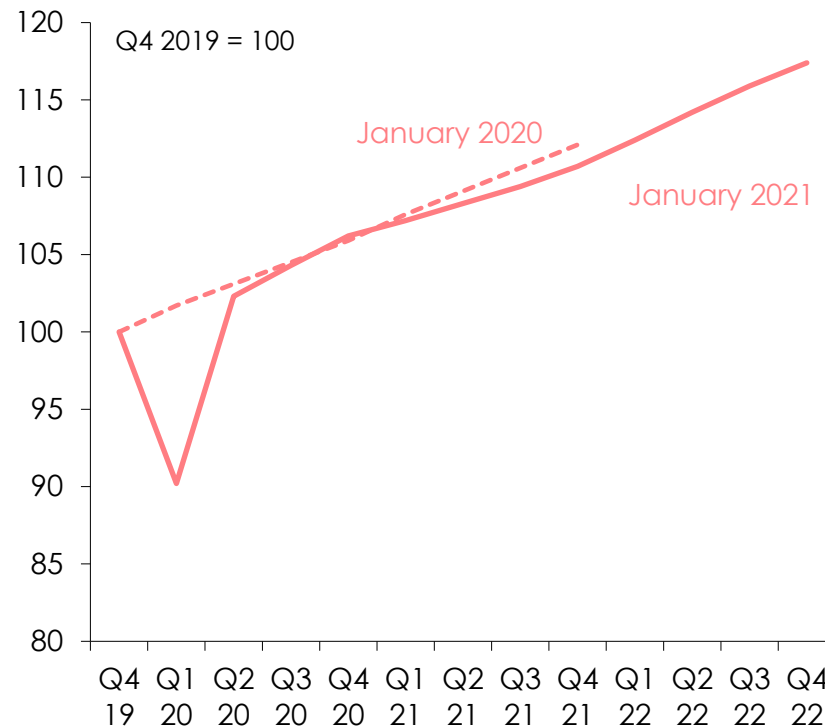
IMF World Economic Update real GDP forecasts – January 2020 and January 2021

'Advanced' economies



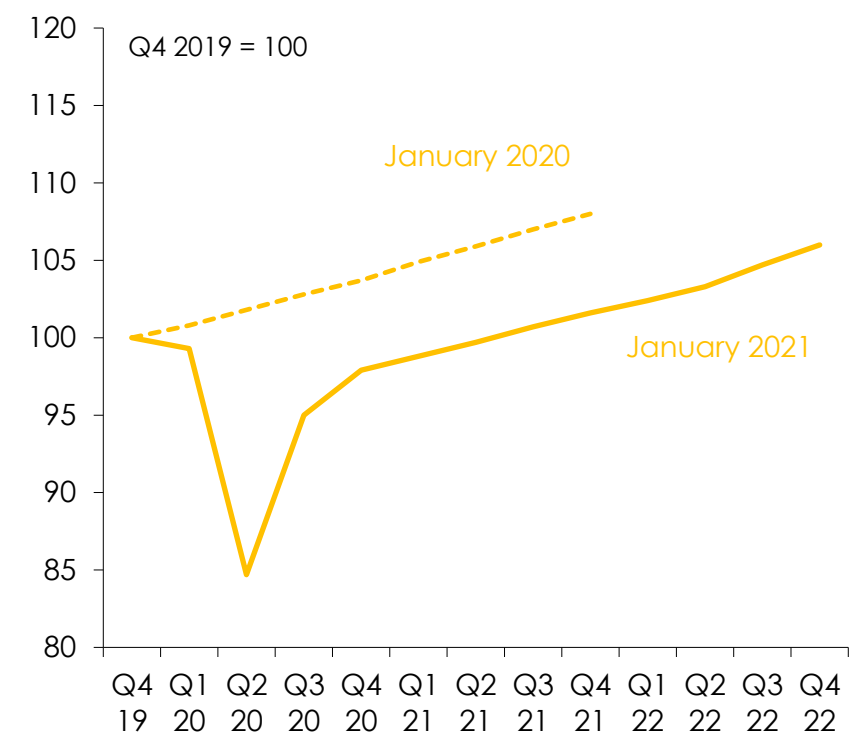
- ❑ GDP fell 11½% during the recession, won't regain its pre-recession level until Q4 21, and by Q4 22 will still be ¾% below where last January it had been expected to be in Q4 21

China



- ❑ GDP fell 9¾% during the recession, regained its pre-recession in Q2 20, and by Q4 22 will still be 4¾% above where last January it had been expected to be in Q4 21

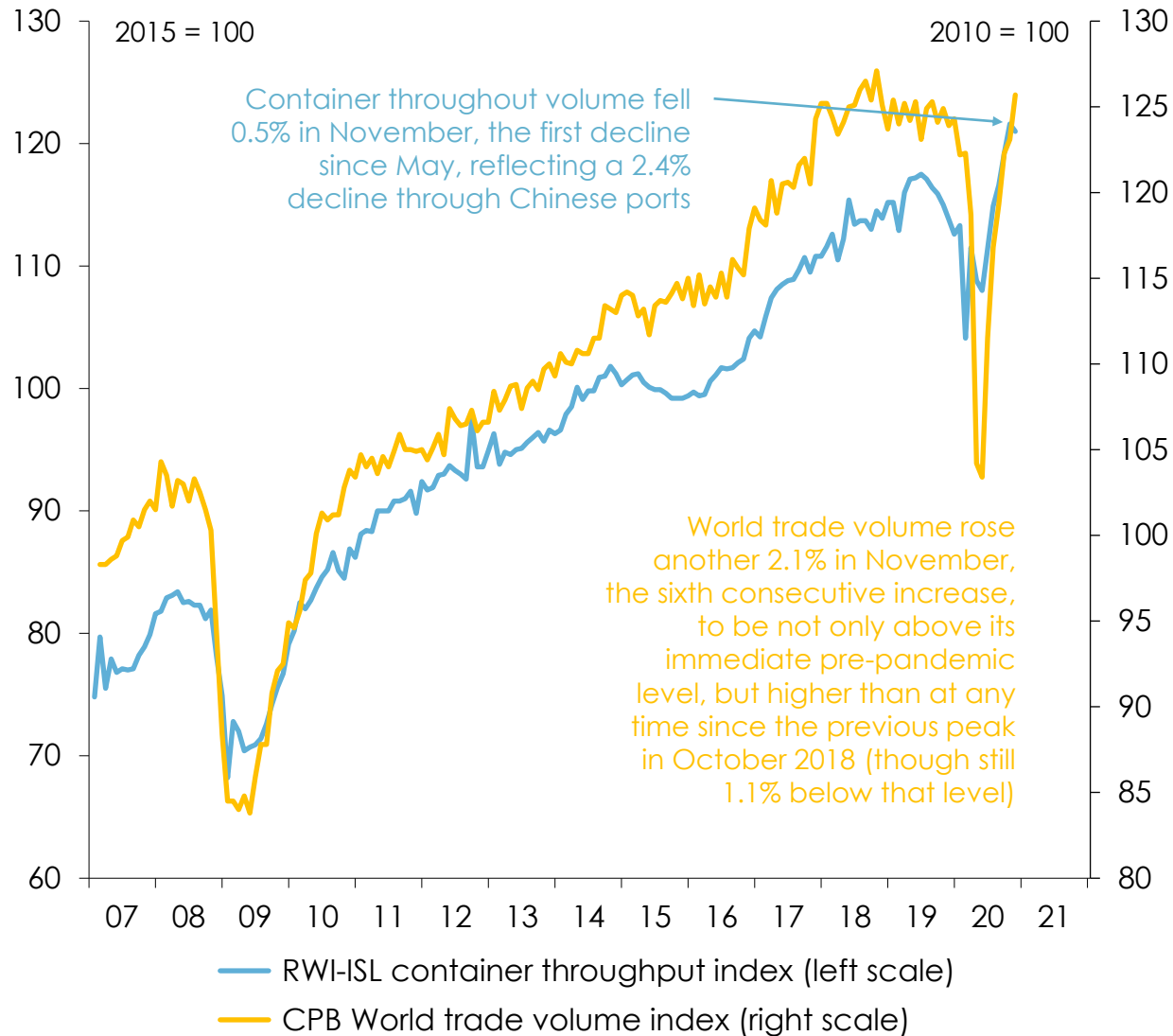
Other 'developing' economies



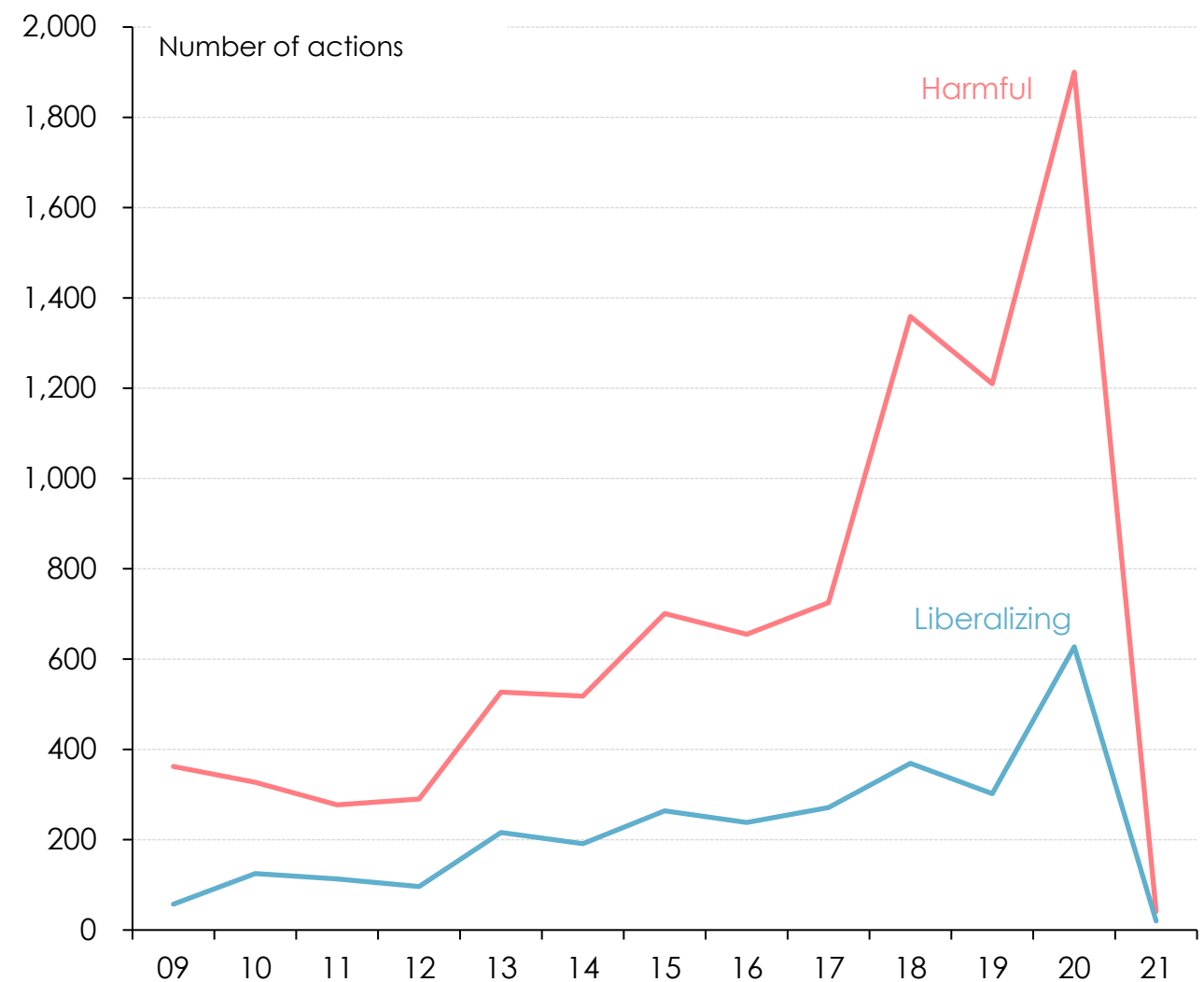
- ❑ GDP fell 15¼% during the recession, won't regain its pre-recession level until Q3 21, and by Q4 22 will still be 2% below where last January it had been expected to be in Q4 21

World merchandise trade volumes rose 2.1% in November to their highest level since the previous peak in October 2018

World trade volumes and container throughput



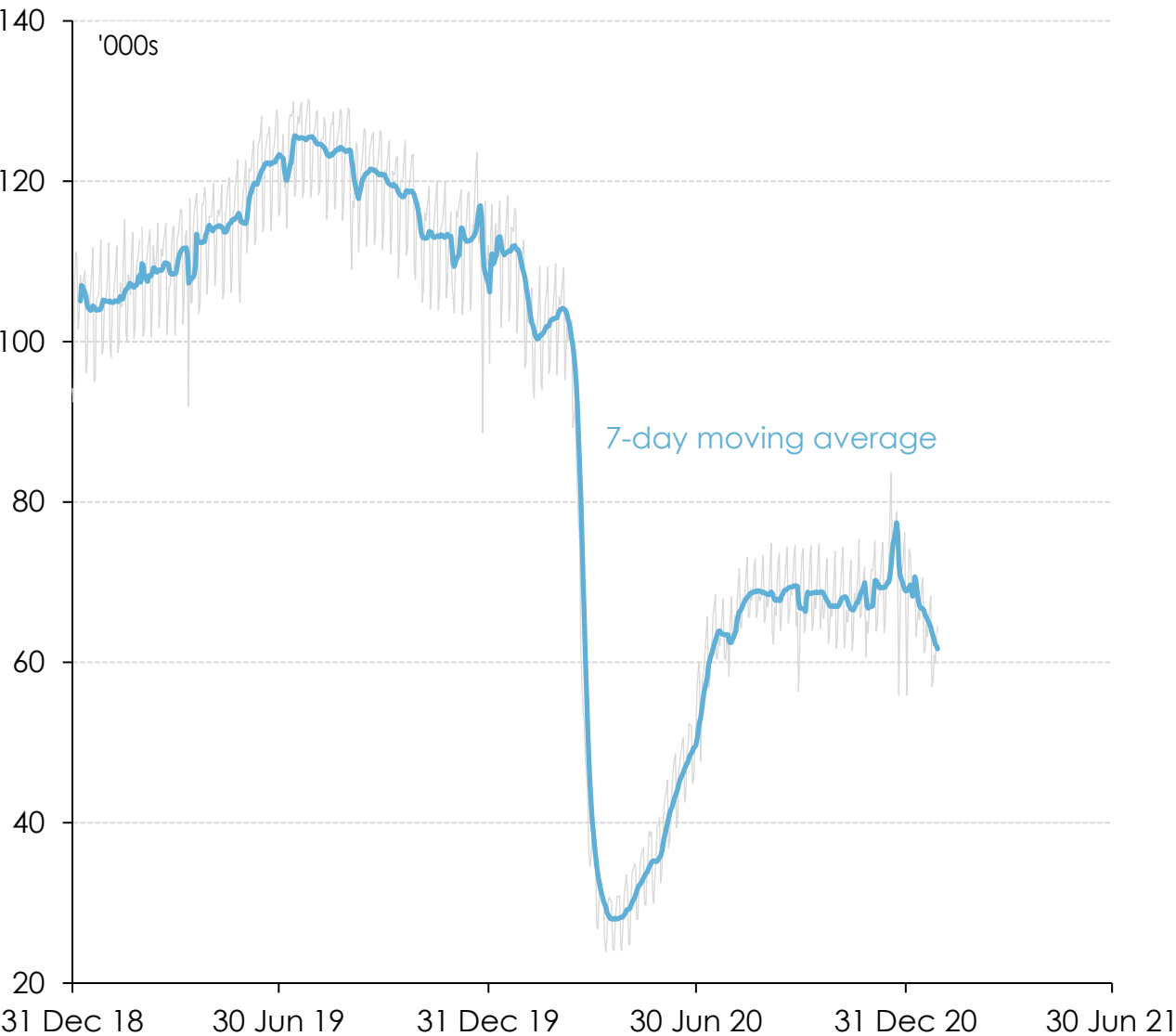
Pro- and anti-trade government policy actions



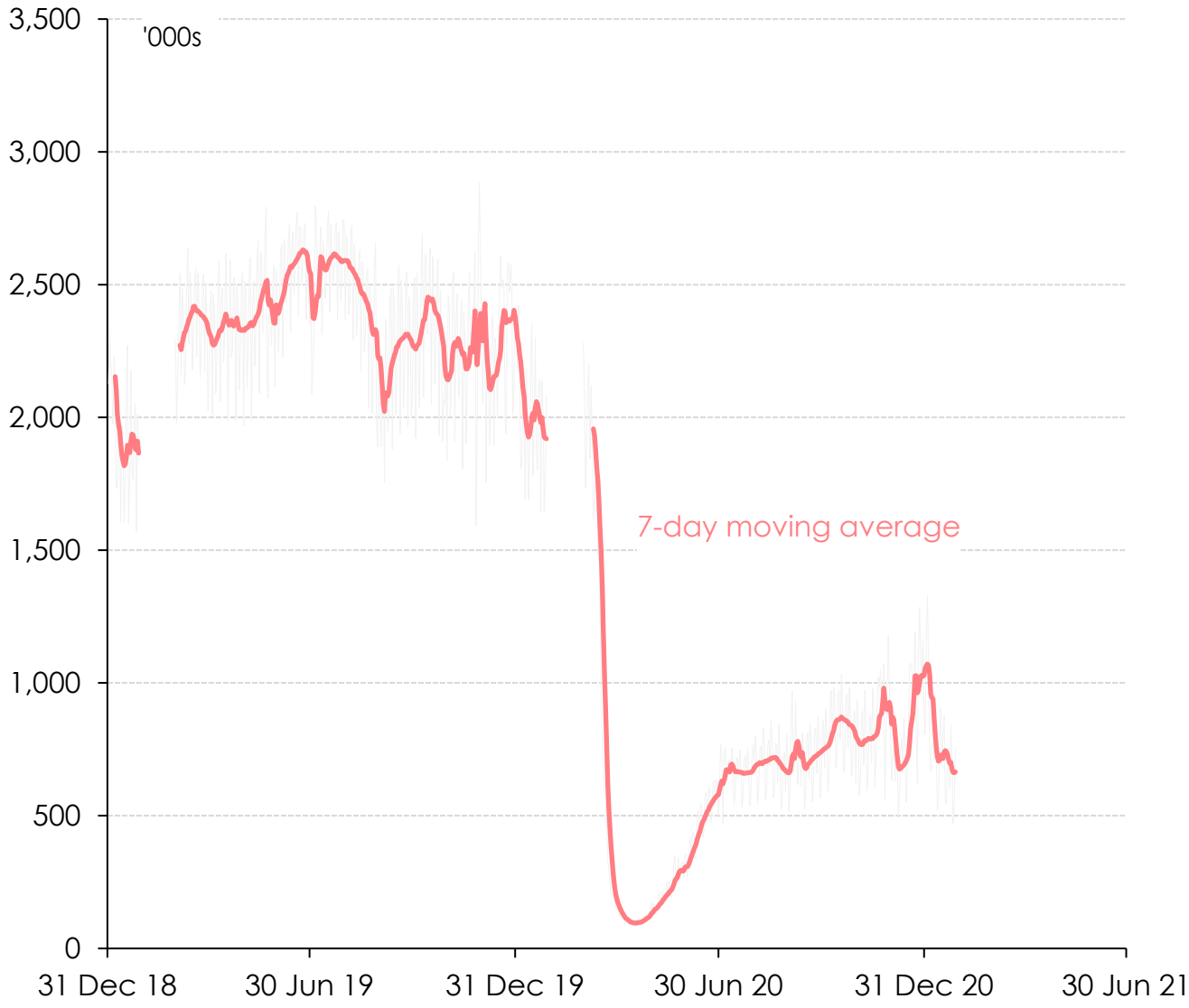
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (December data to be released on 25th February); Institute of Shipping Economics & 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 29th January). [Return to "What's New"](#).

Commercial aviation traffic has steadily declined during January – and it would seem by more than normal seasonal variations

Daily commercial flights worldwide



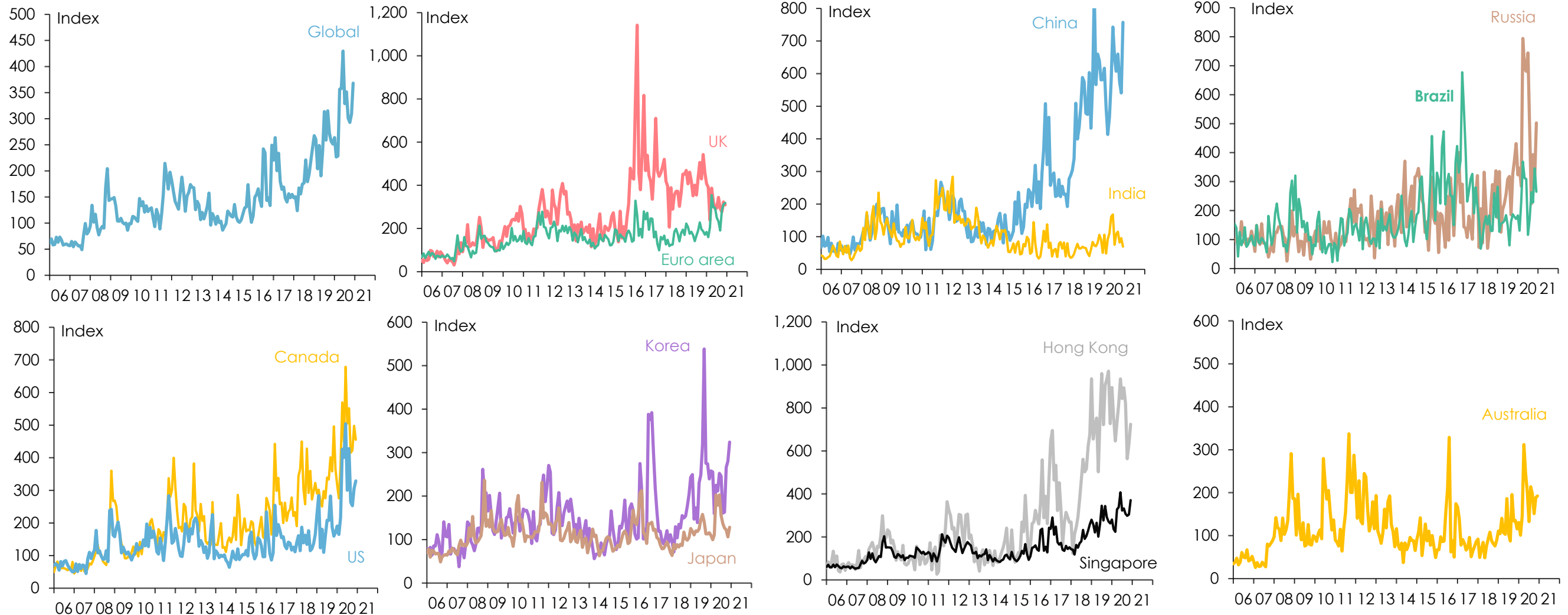
Daily US TSA security checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 28th 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/dot) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

Uncertainty about economic policies remained at elevated levels around the world as 2020 drew to a close

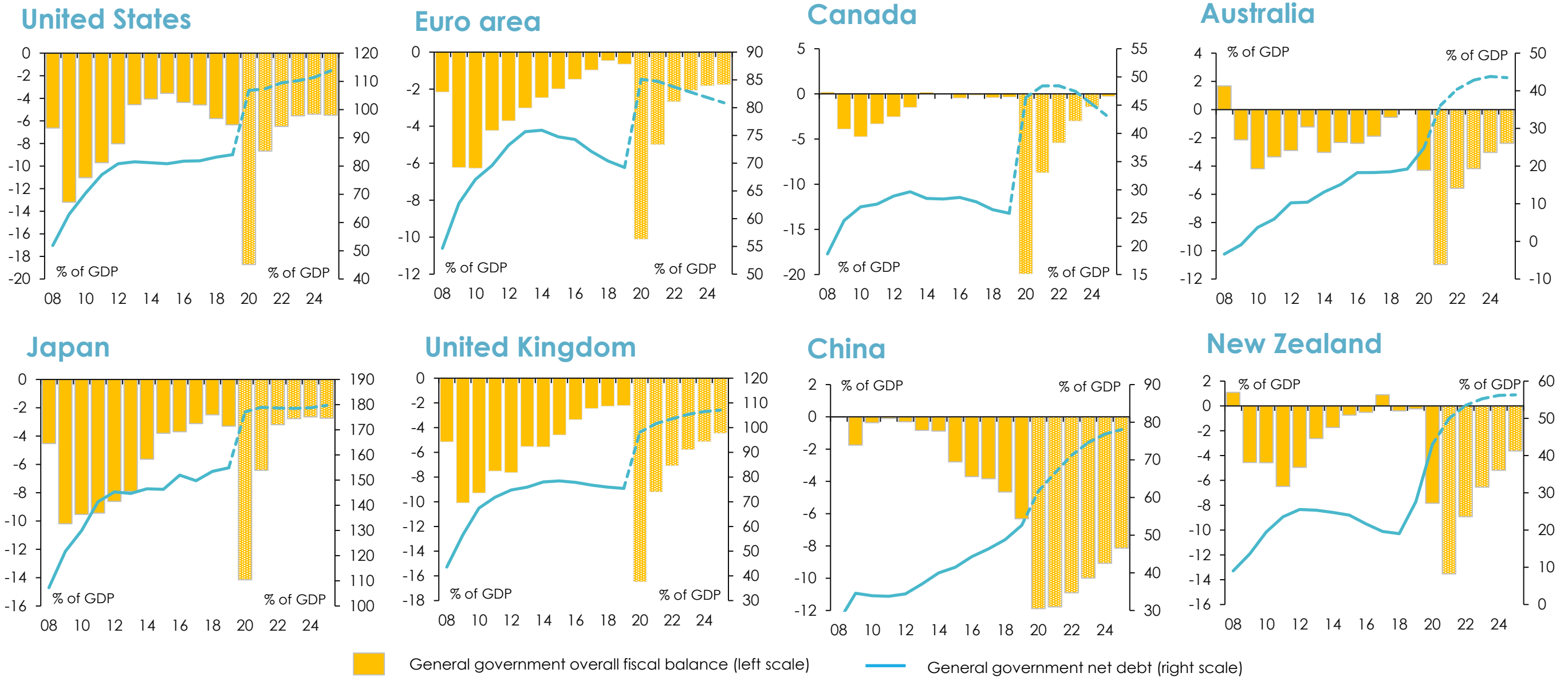
Economic policy uncertainty indices



Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words “uncertain” or “uncertainty”, “economy” or “economic”, and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The index for the euro area is a GDP-weighted average of indices for Germany, France, Italy, Spain, the Netherlands and Ireland constructed by Corinna. Latest data are for November 2020.

Source: [Global Policy Uncertainty](#); Scott Banker, Nick Bloom & Steven Davis, ‘Measuring Economic Policy Uncertainty’, *Quarterly Journal of Economics*, 131, no. 4 (November 2016), pp. 1593-1636. [Return to "What's New"](#).

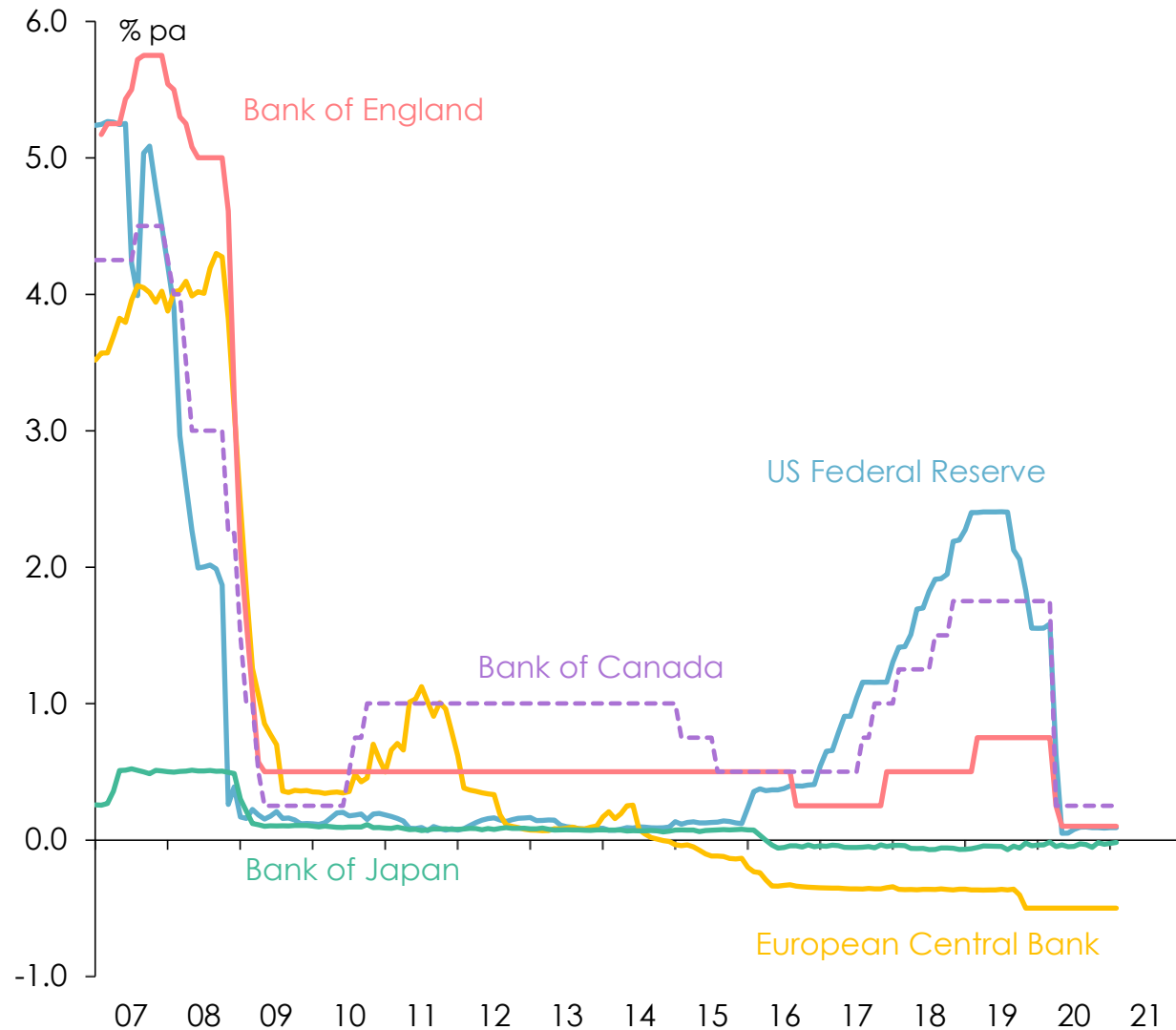
Every government is doing more by way of fiscal stimulus than during the financial crisis – and the US, Canada and the UK are doing more than most



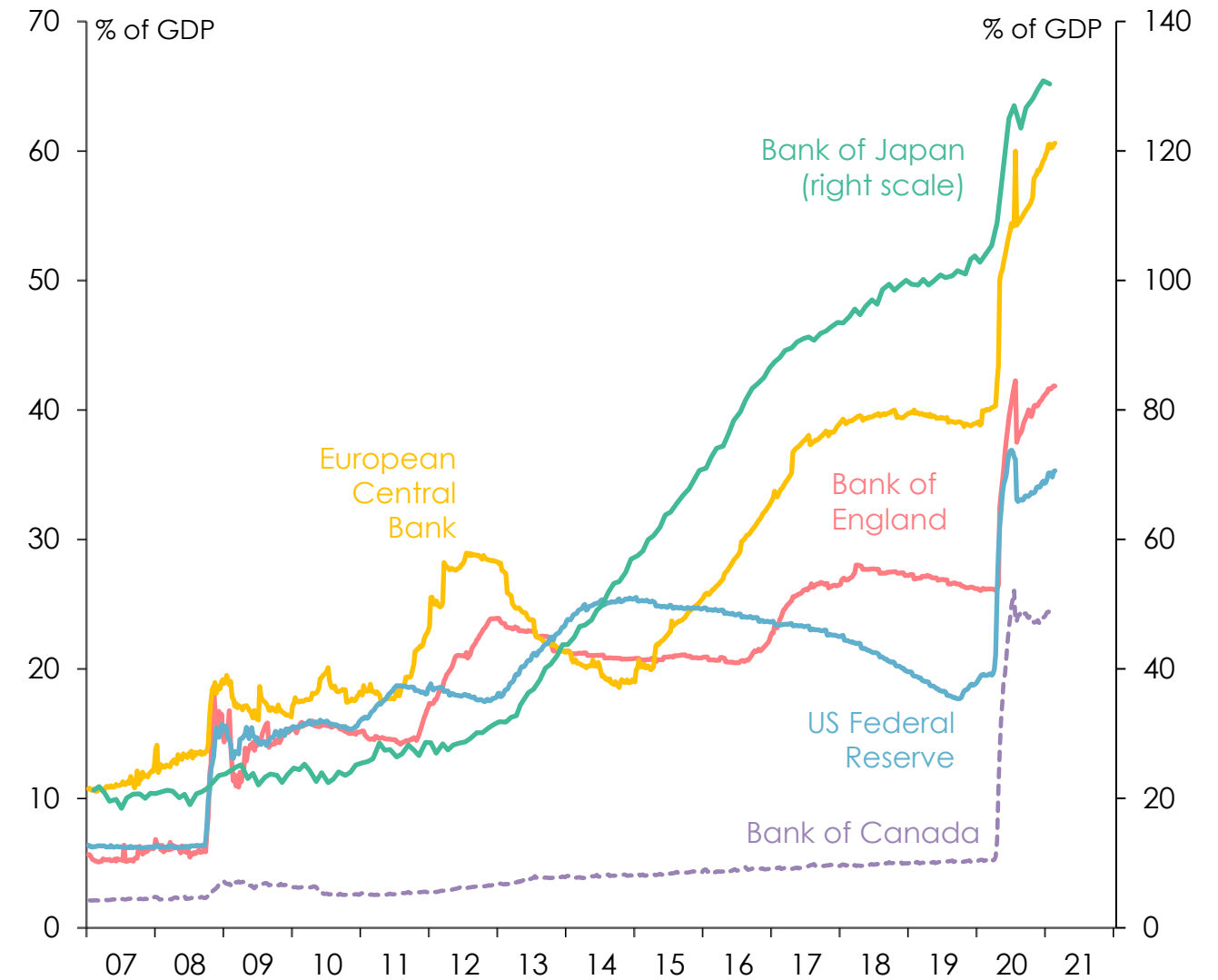
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30th June; NZ data are for fiscal years ended 31st March. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2020 (both publications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

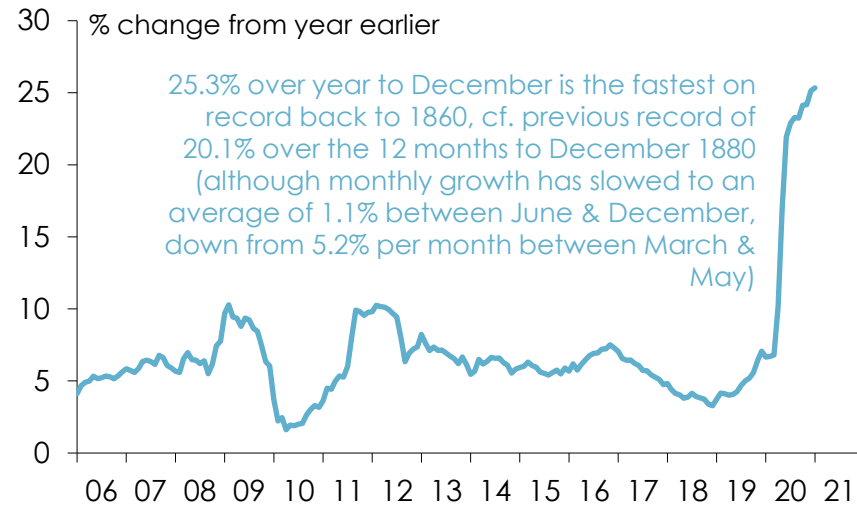


Note: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 are in large part due to rebounds in nominal GDP.

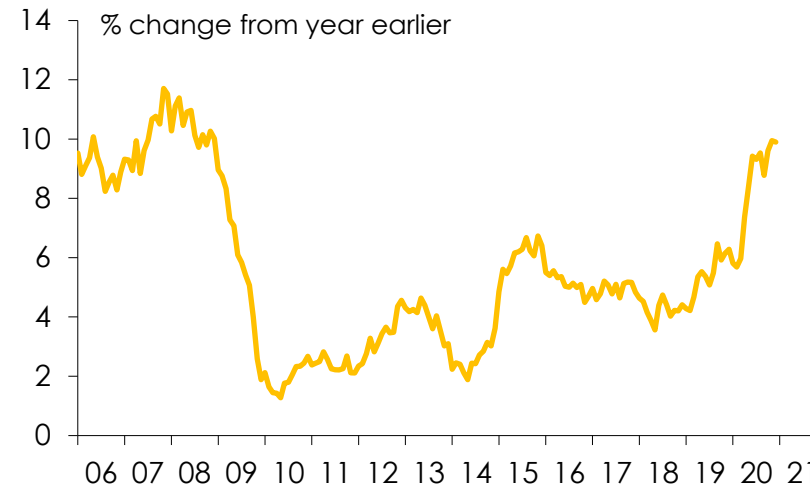
Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); national statistical agencies; Corinna. Bank of Canada data for January not released until February. [Return to "What's New"](#).

'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

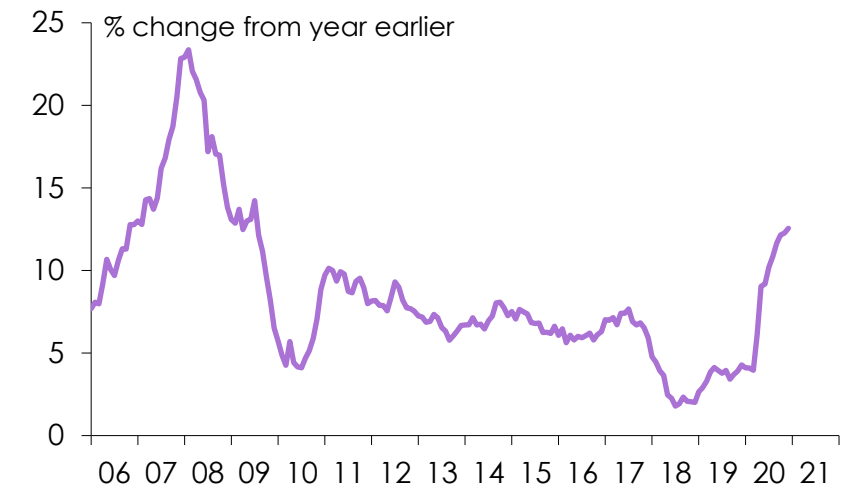
US M2



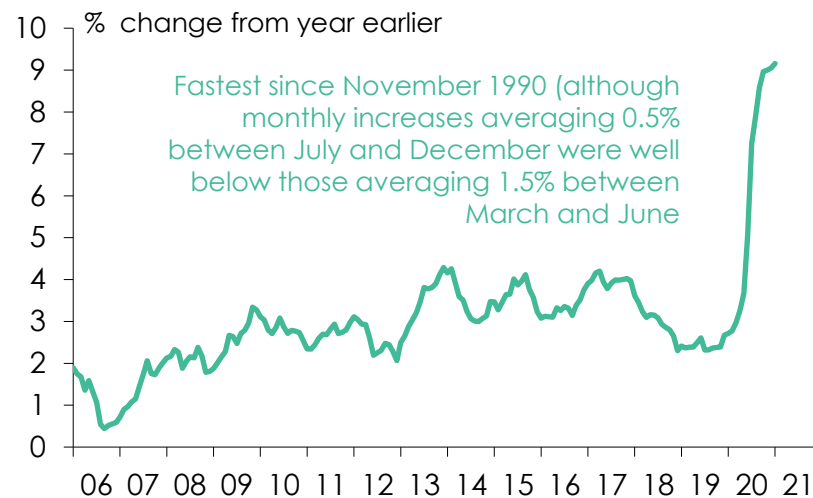
Euro area M2



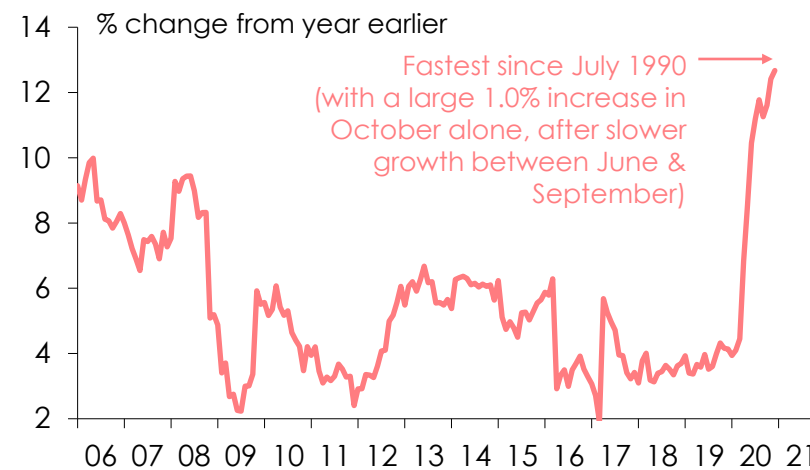
Australia M3



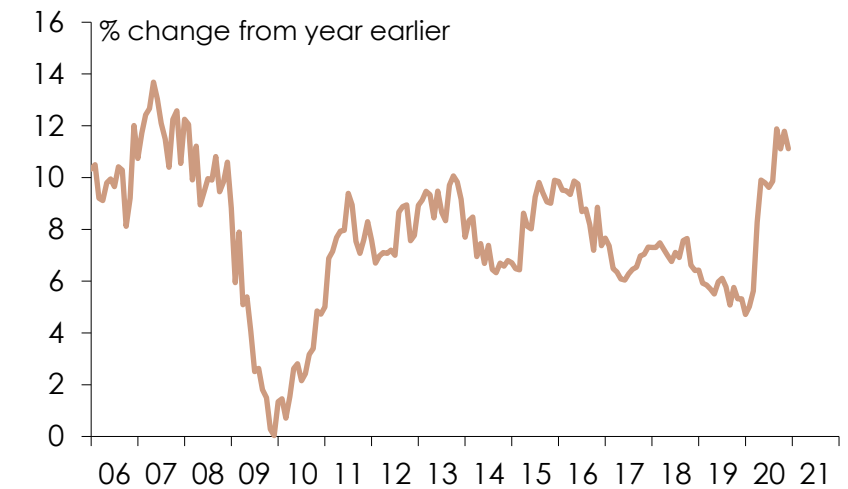
Japan M2 + CDs



UK M2

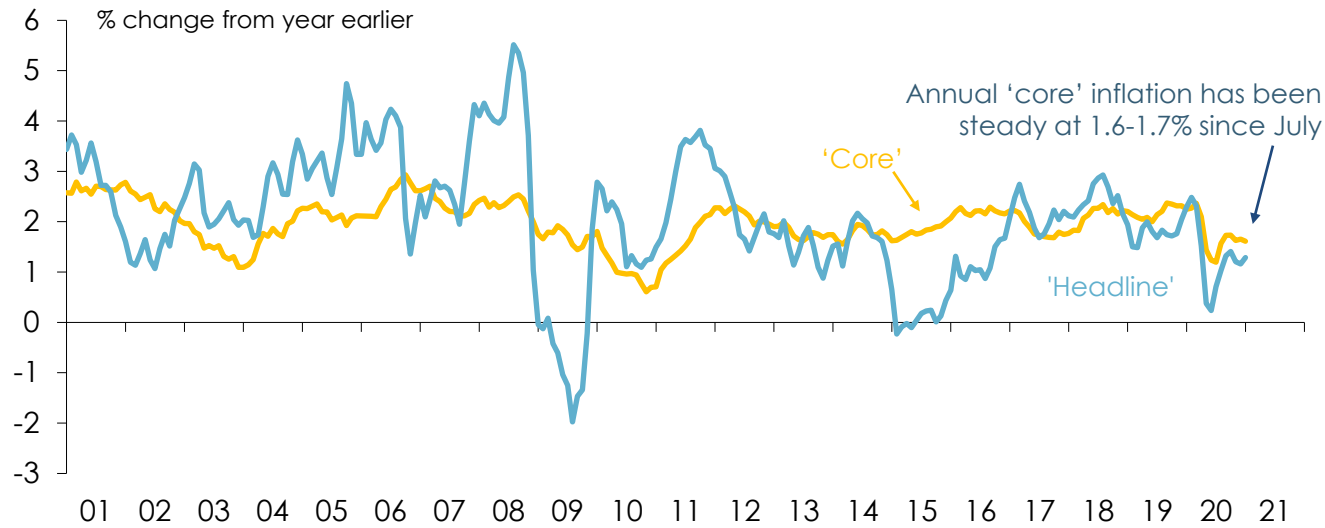


New Zealand M3

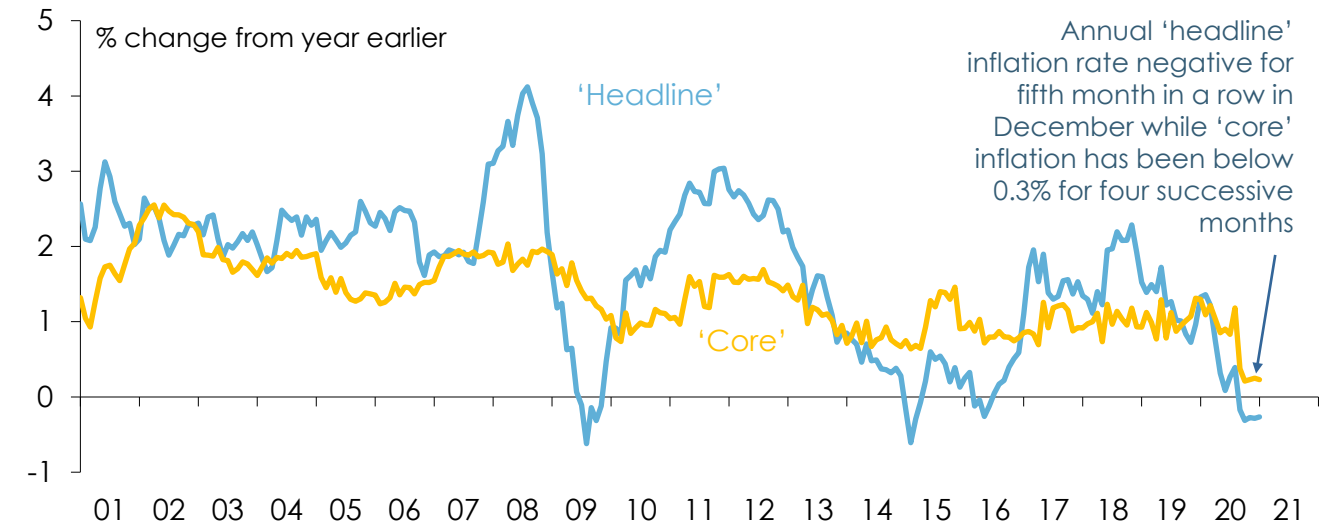


So far at least, inflation has remained well below central bank targets – and by especially large margins in the euro area and Japan

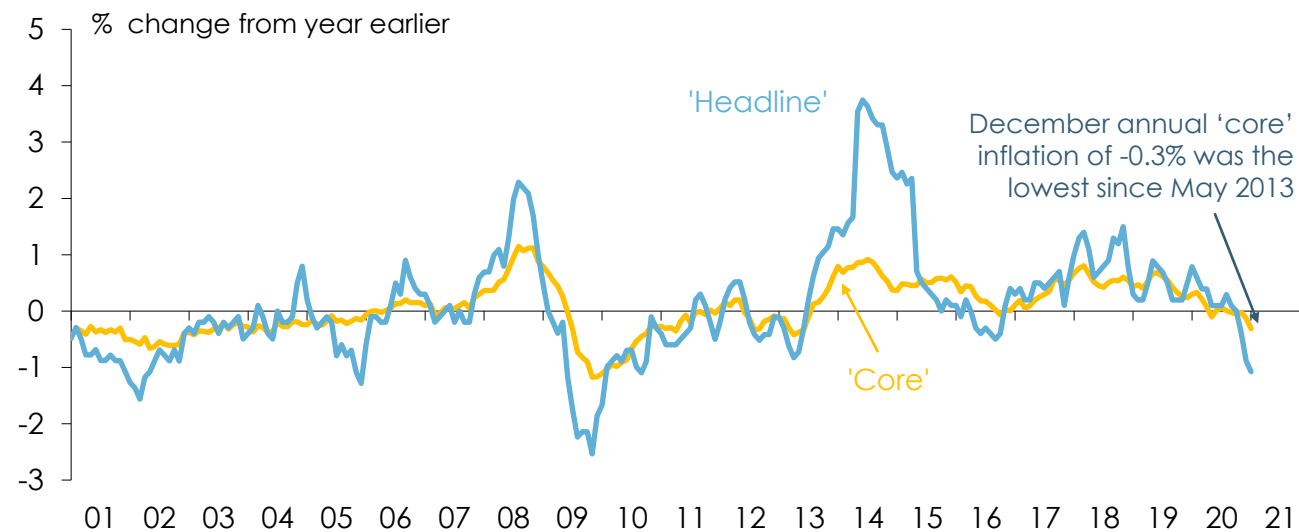
'Headline' and 'core' inflation - US



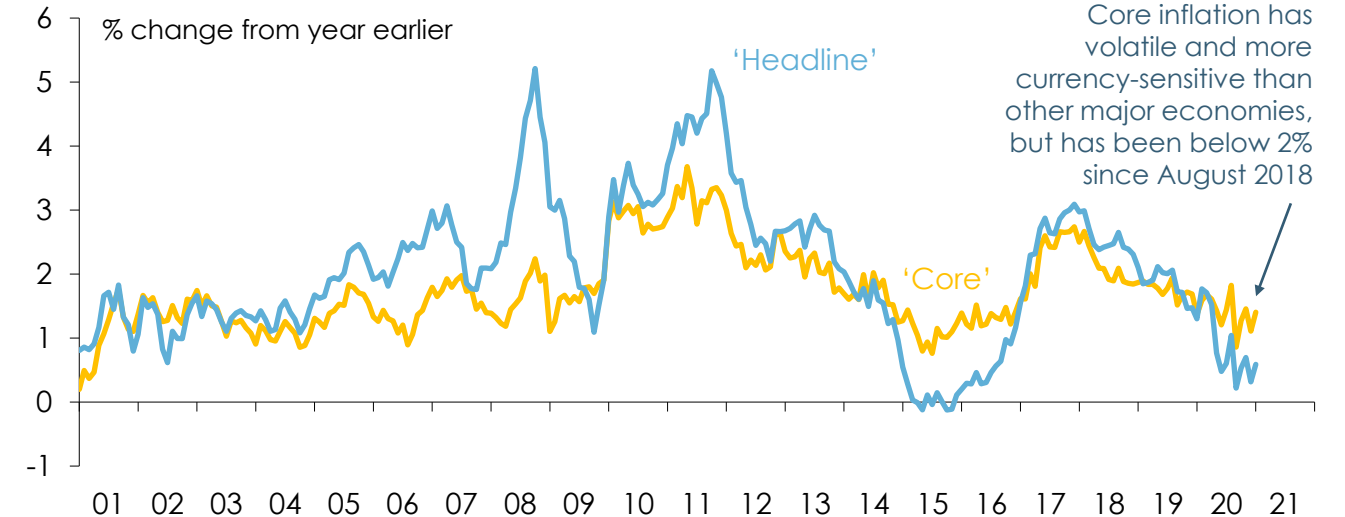
'Headline' and 'core' inflation – Euro area



'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 US Federal Reserve's Open Market Committee left monetary policy settings unchanged at its first meeting for 2021

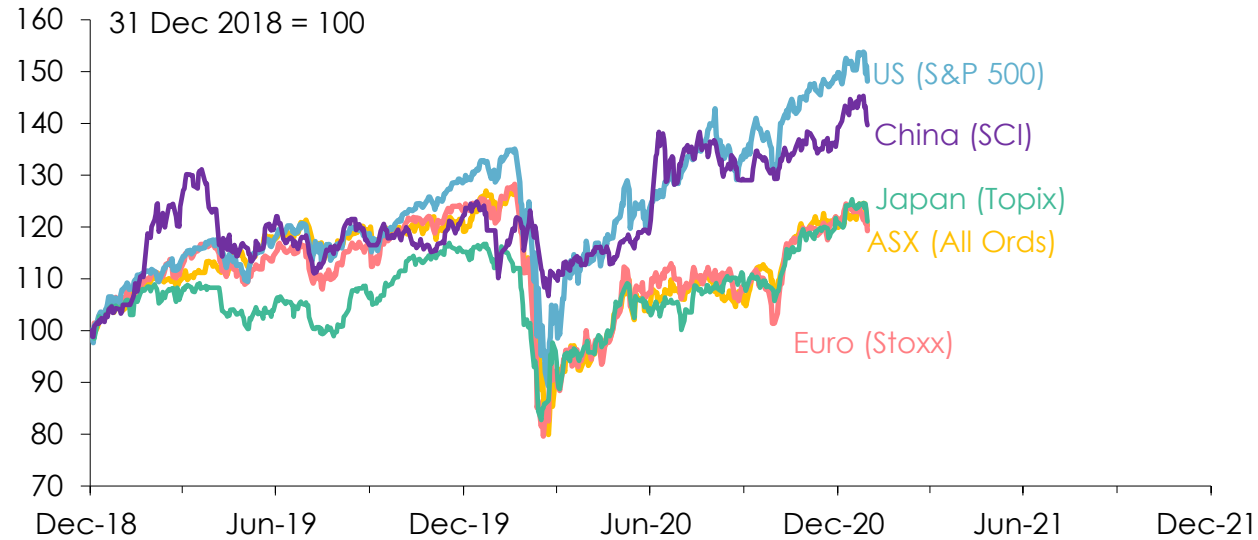
- ❑ **The FOMC left all monetary policy settings unchanged at its first meeting for 2021 on Wednesday**
 - it “decided to keep the target range for the federal funds rate at 0 -1/4% and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with [its] assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time”
 - and that it will “continue to increase its holdings of Treasury securities by at least \$80bn per month and of agency mortgage-backed securities by at least \$40bn per month until substantial further progress has been made toward [its] maximum employment and price stability goals”
 - the FOMC statement noted that “the path of the economy will depend significantly on ... progress on vaccinations”, the first time the Fed has mentioned this
- ❑ **At the post-meeting Press Conference Fed Chair Jay Powell noted that “the pace of the recovery [in economic activity] has moderated in recent months” and that “the pace of improvement in the labour market has slowed”**
 - perhaps unusually for a central banker, Powell emphasized that “the downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been the hardest hit ... lower-wage workers in the service sector and African Americans and Hispanics”
 - he also emphasized that “the economy is a long way from our employment and inflation goals” – referring specifically to unemployment being higher than the ‘official’ rate of 6.7% - and “it is likely to take some time for substantial further progress to be achieved”
- ❑ **The specific language of the FOMC statement suggests that the Fed will pause ‘QE’ before it begins raising rates**
 - based on the indication that the Fed will continue asset purchases until “substantial progress has been made toward” its employment and inflation objectives, whereas the funds rate won’t rise until those objectives have been reached or exceeded
 - however, Powell emphasized that this “guidance” is “outcome-based” and that “if progress toward our goals were to slow, the guidance would convey our intention to increase policy accommodation through a lower expected path of the federal funds rate and a higher expected path of the balance sheet”

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

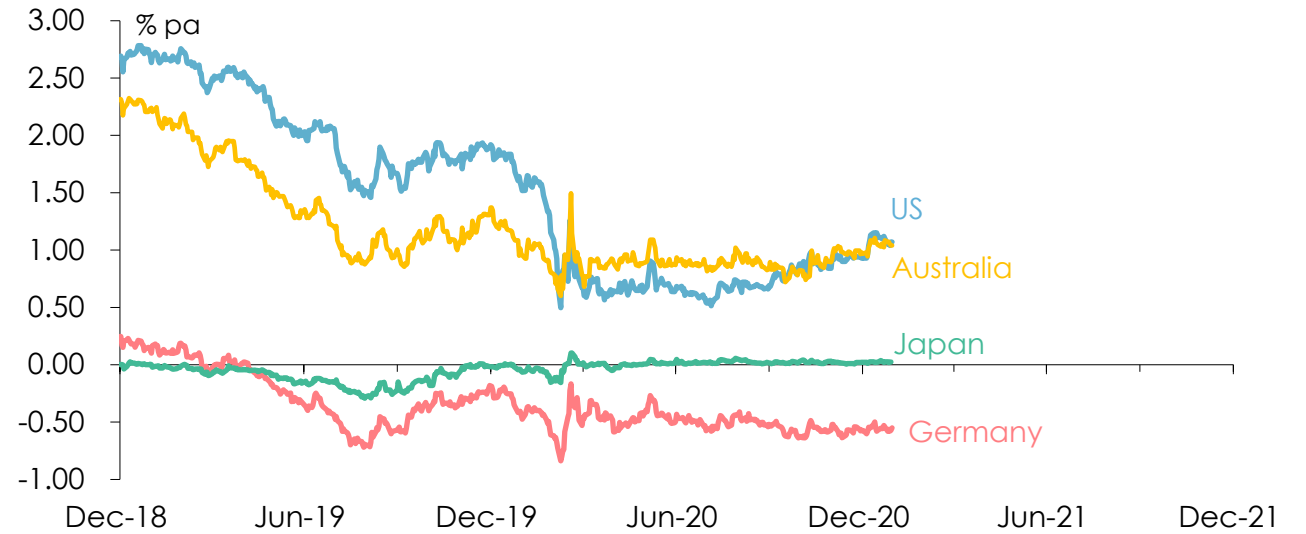
- ❑ **The European Central Bank left all its monetary policy settings unchanged at its first meeting for 2021 last Thursday**
 - it noted that “output is likely to have contracted in the fourth quarter of 2020” and that “the intensification of the pandemic poses some downside risks to the short-term 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 last 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 last week**
 - 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%

Stocks fell sharply over the second half of this week, and the US\$ rose, largely flowing from the frenzy in stocks favoured by 'day traders'

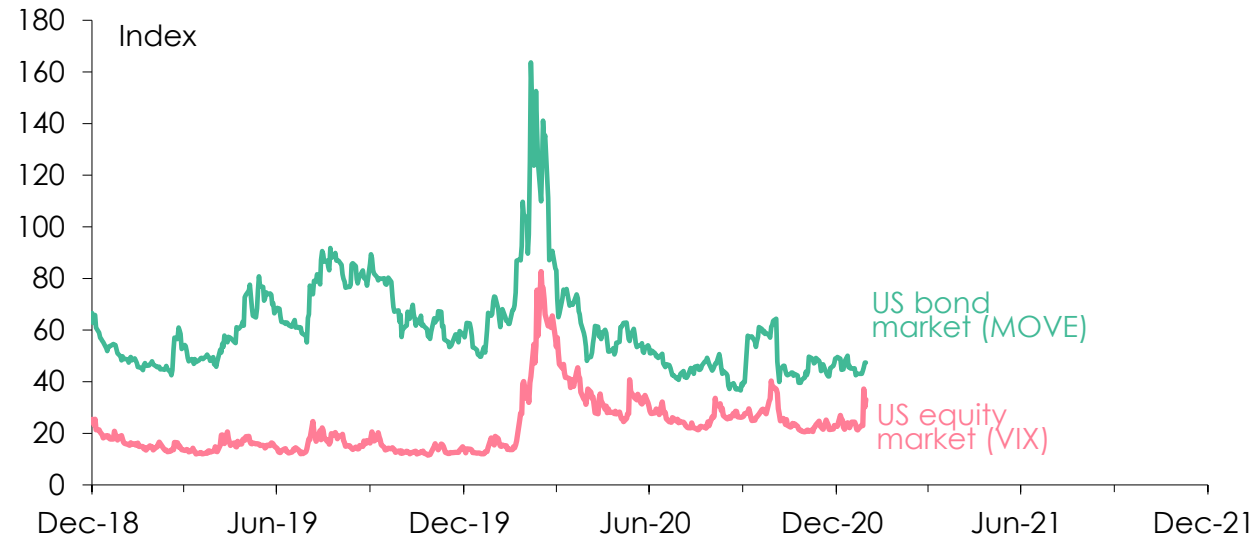
Stock markets



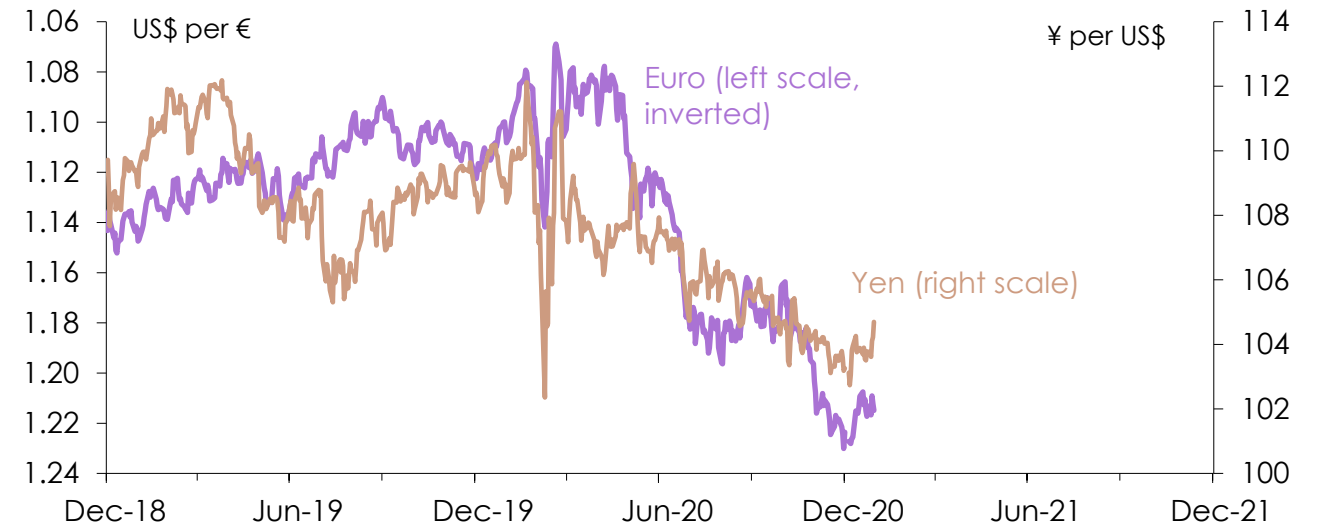
10-year bond yields



Measures of market volatility

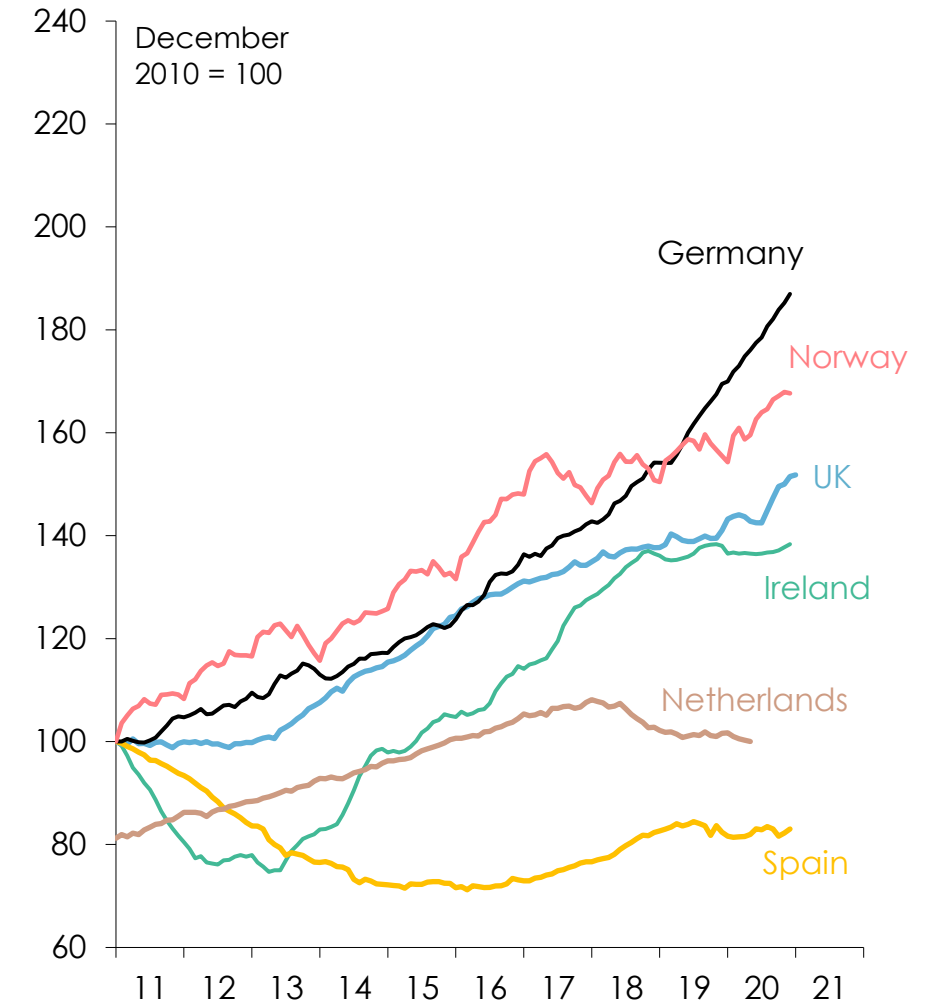
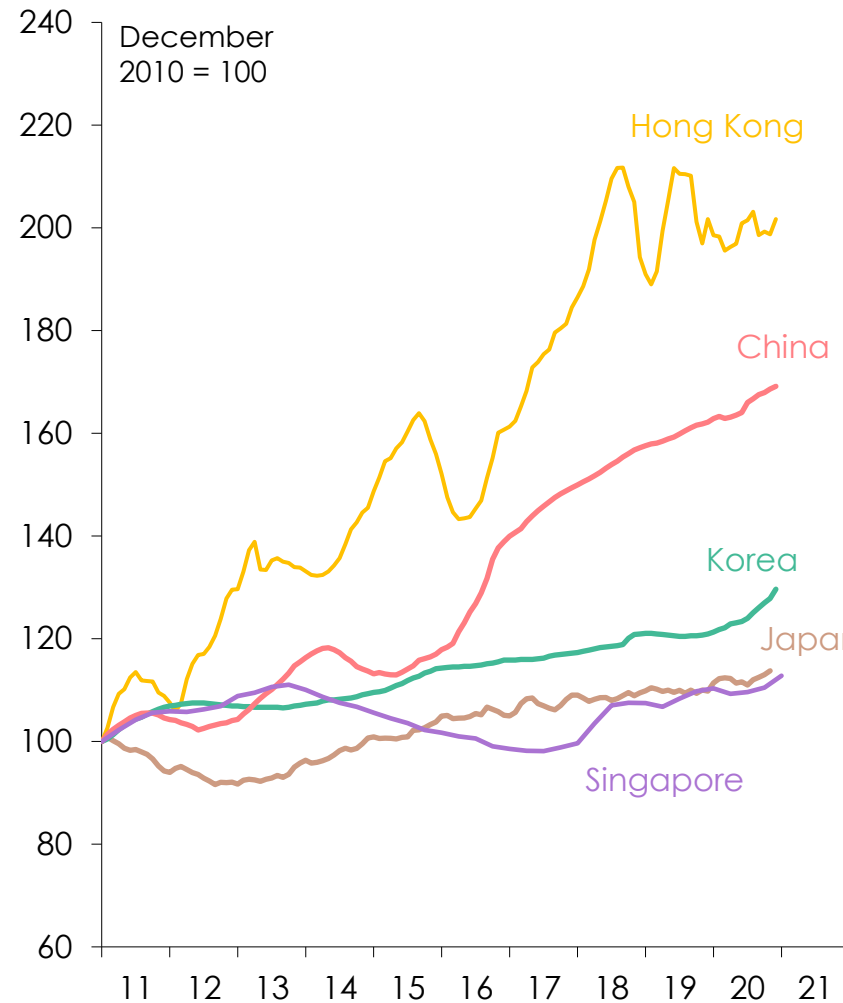
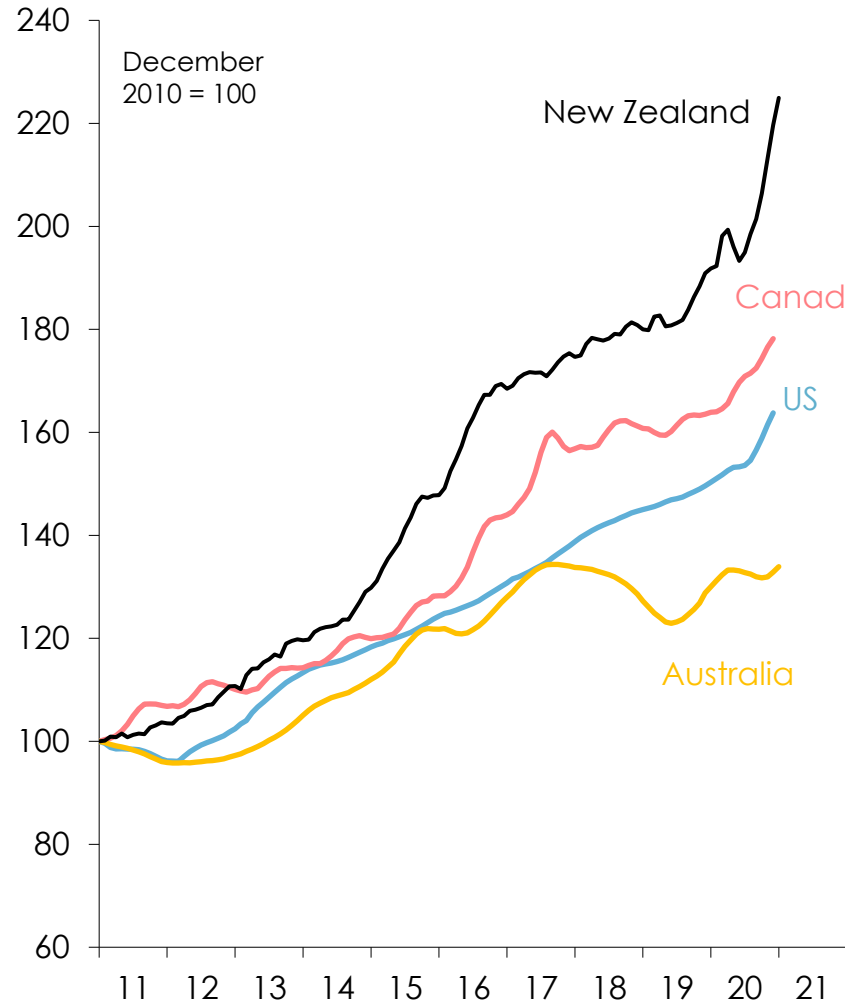


US dollar vs euro and yen



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

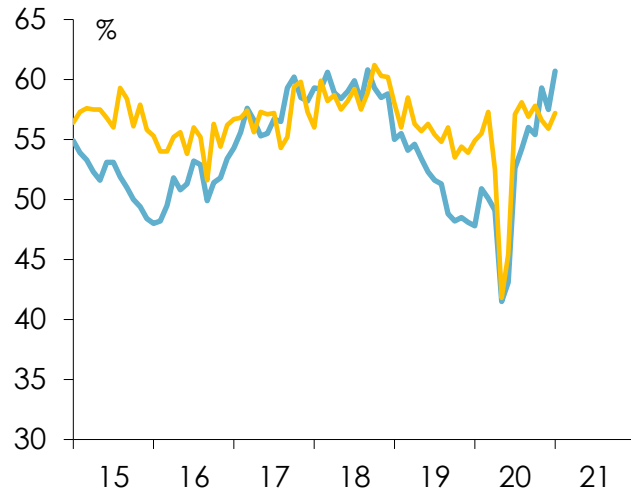
House price indices



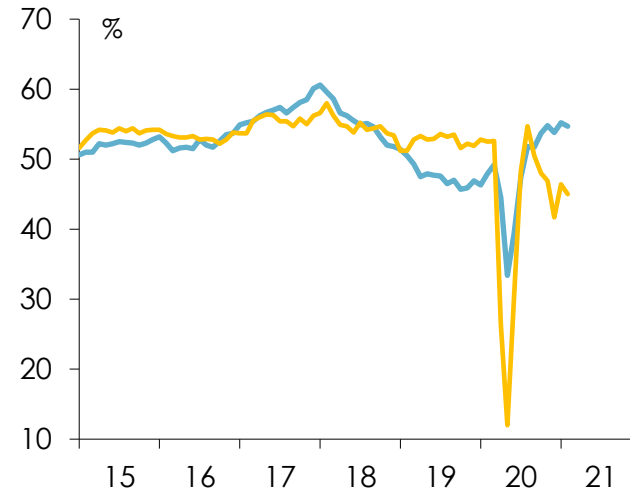
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo 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

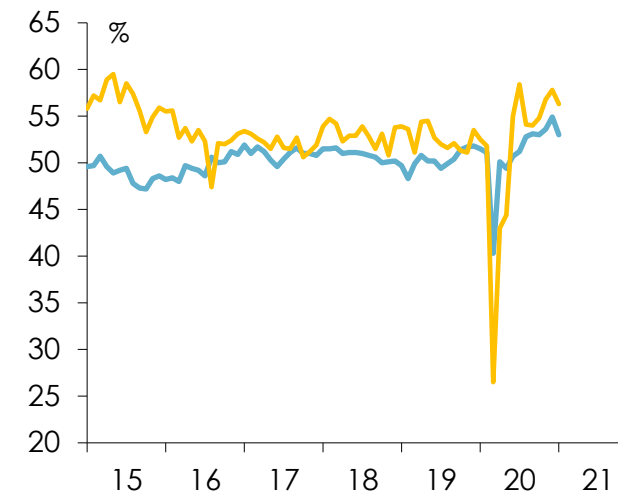
US



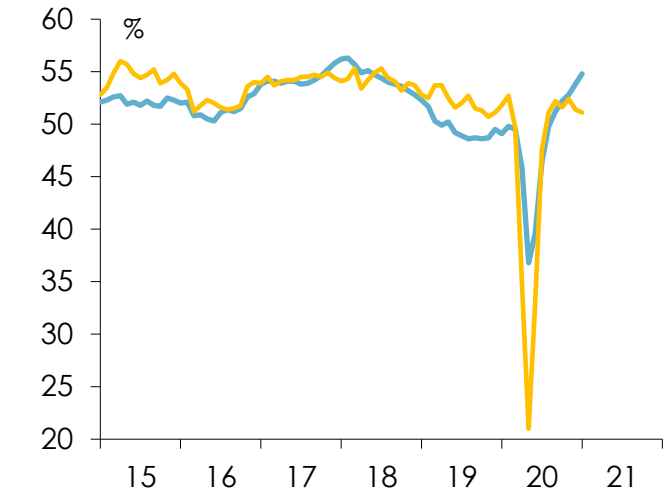
Euro area



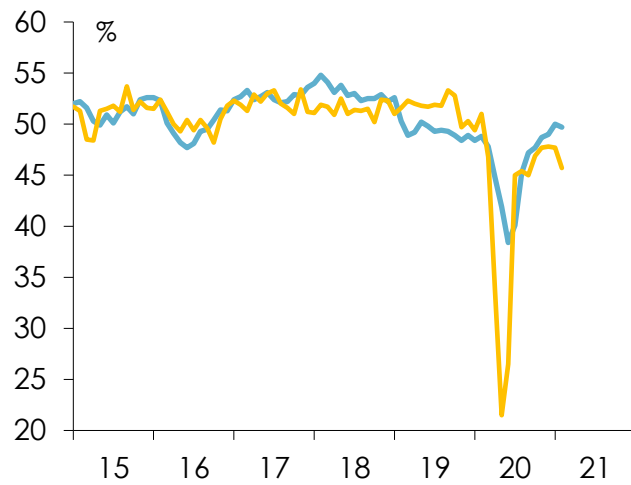
China



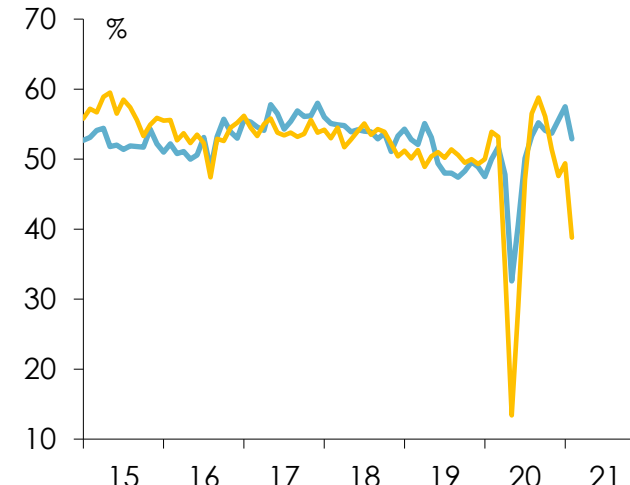
Developed markets



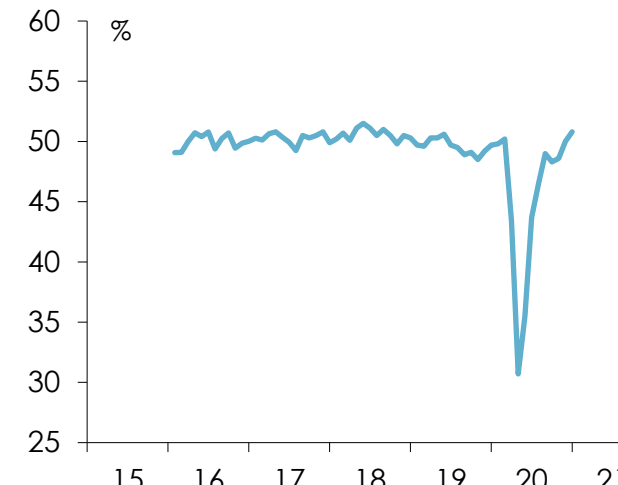
Japan



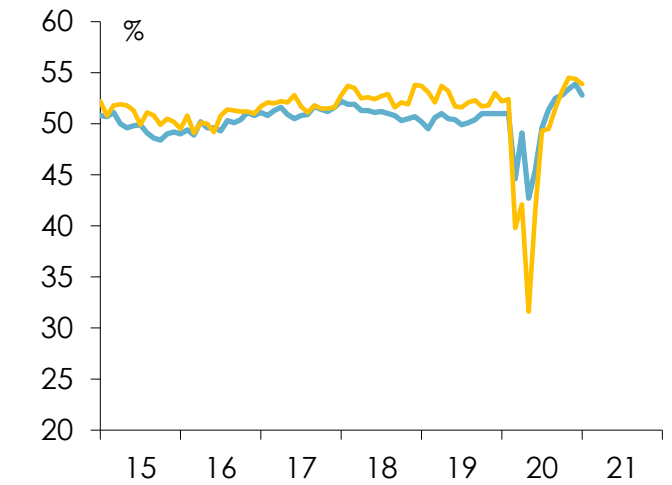
UK



ASEAN



Emerging markets



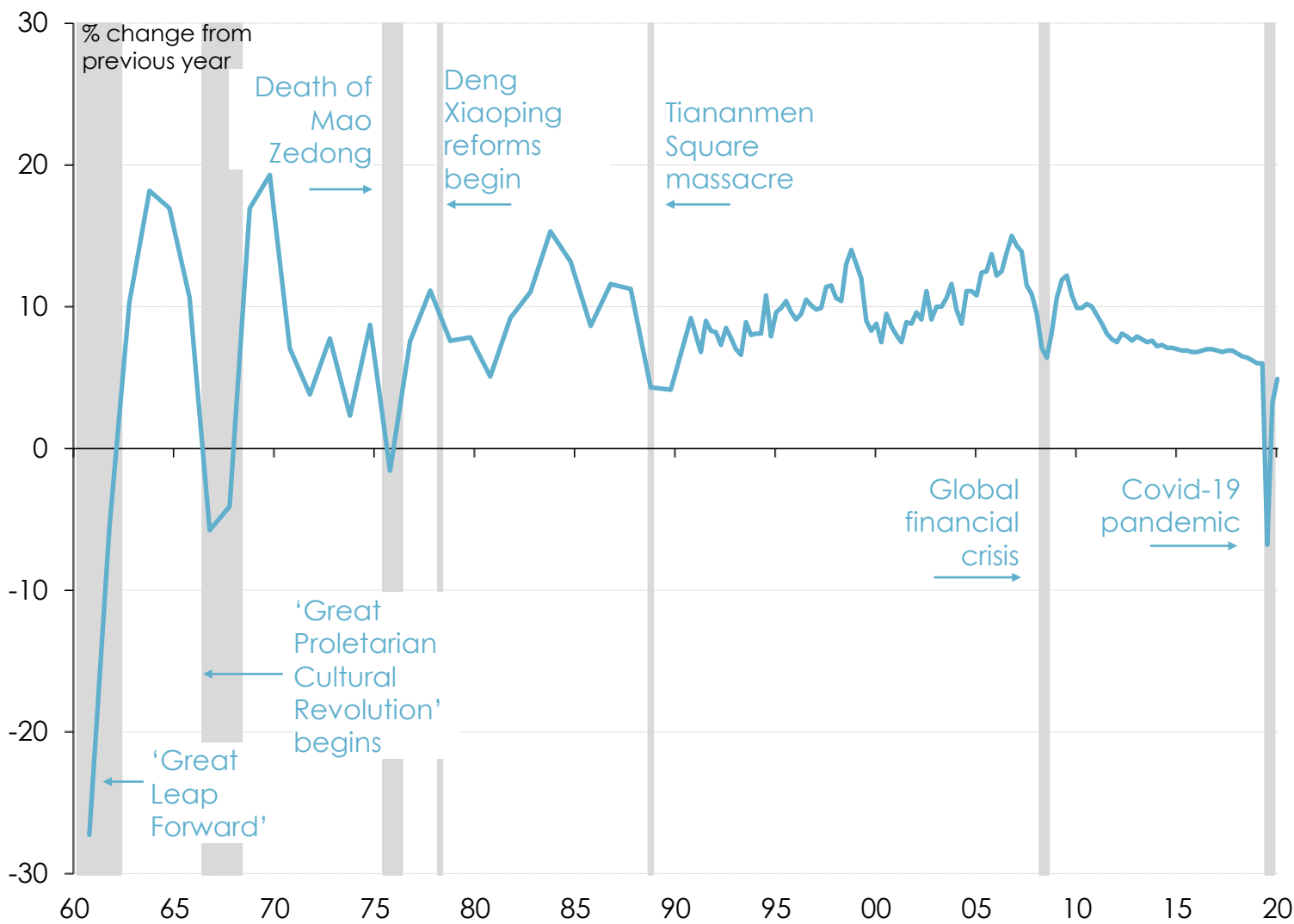
— Manufacturing

— Services

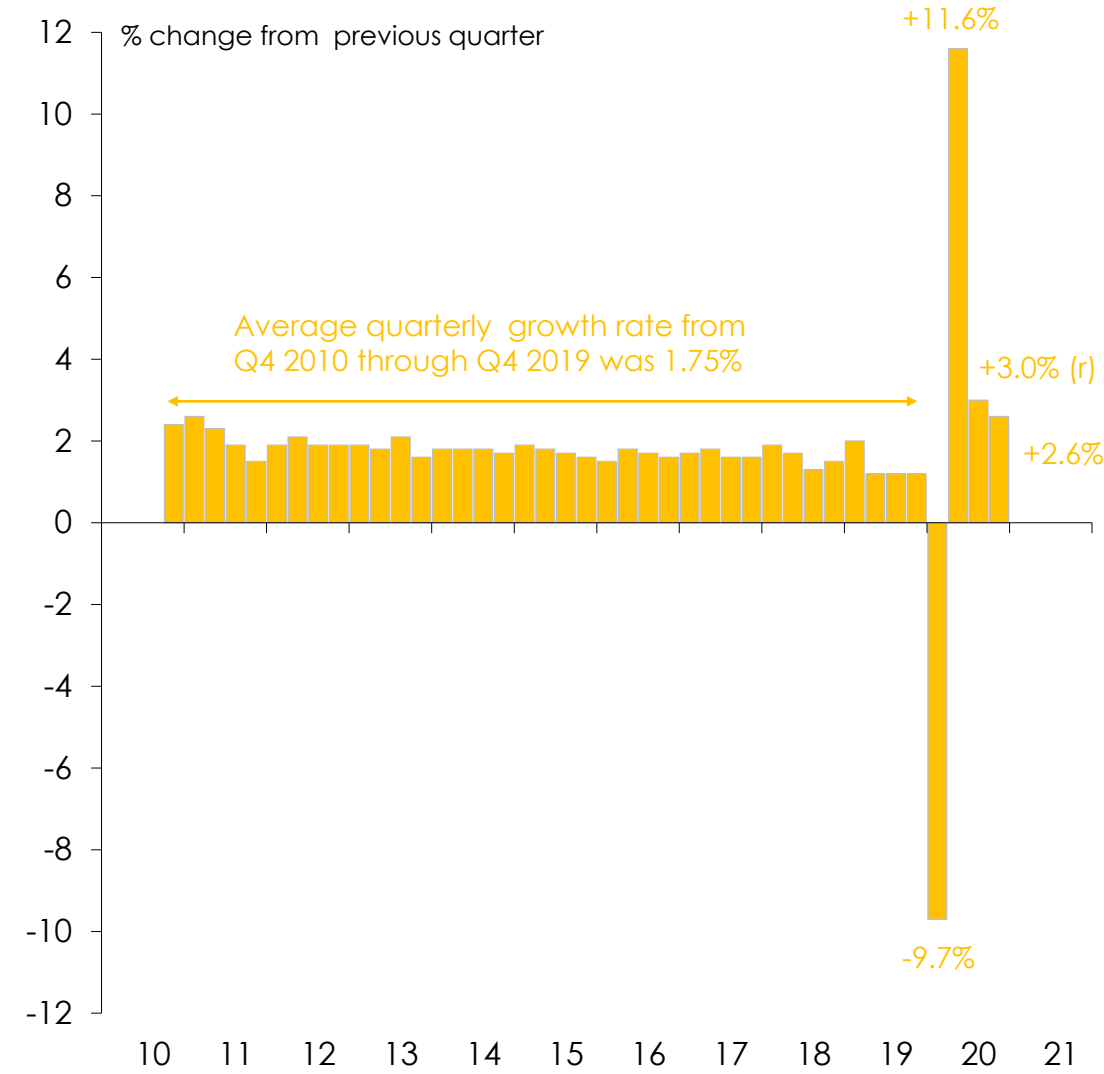
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous 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 48](#). 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



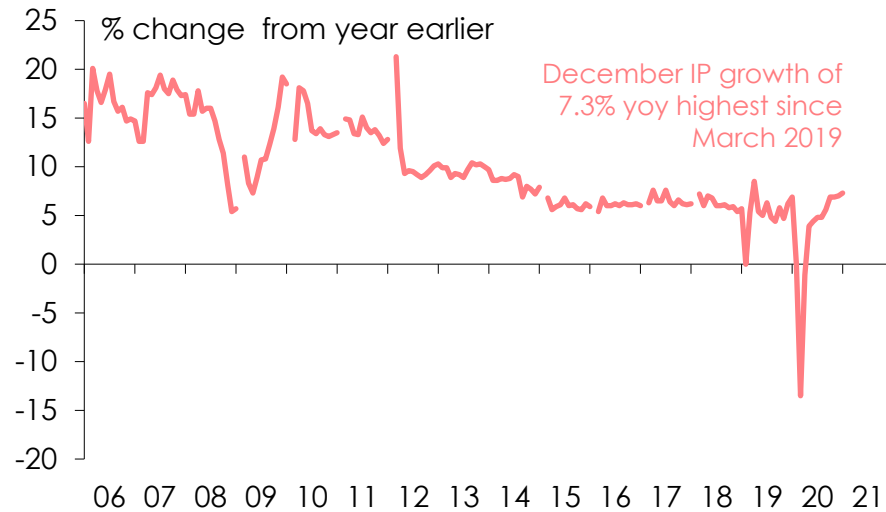
Quarterly real GDP growth, 2010-2020



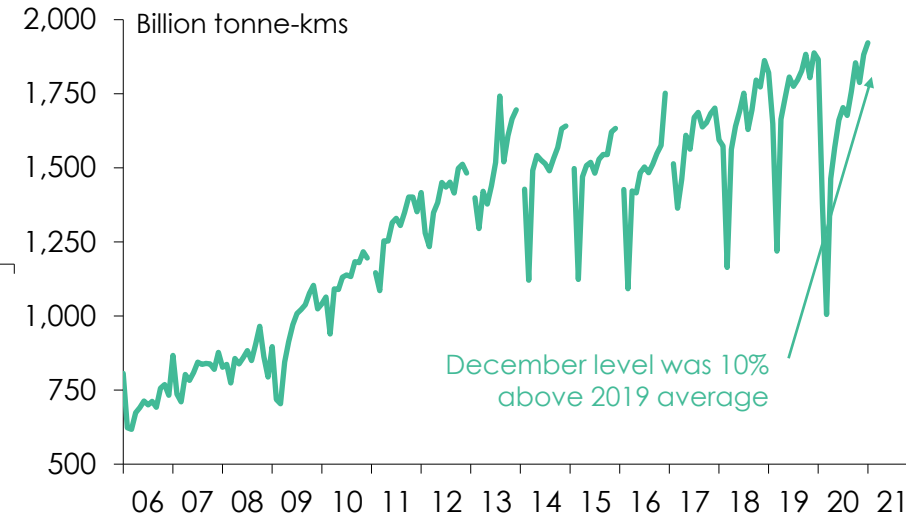
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. [Return to "What's New"](#).

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

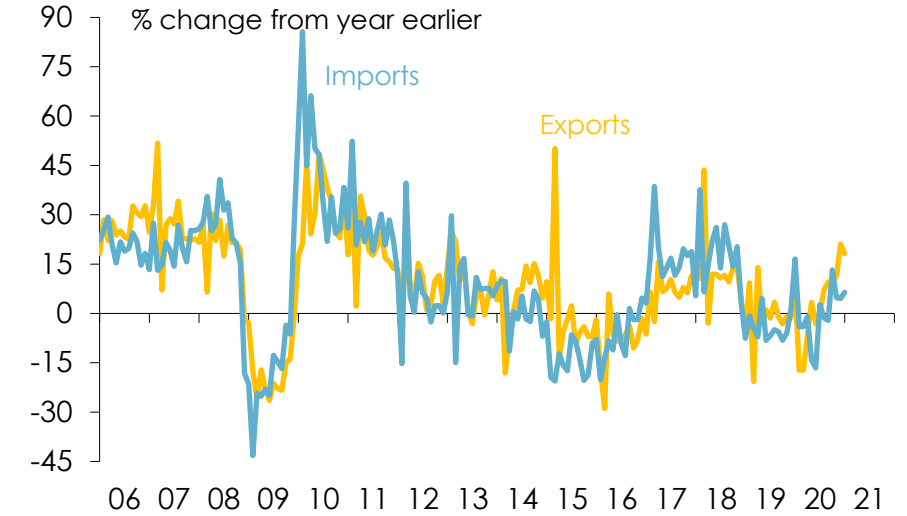
Industrial production



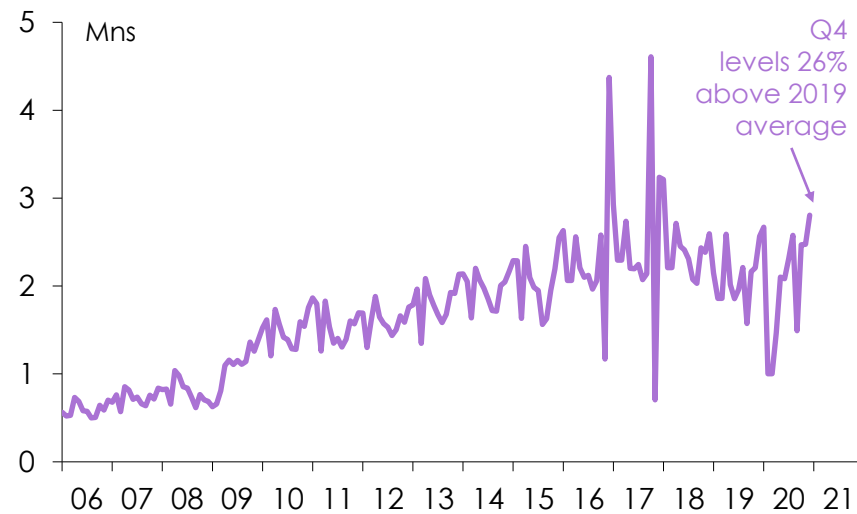
Freight traffic volumes



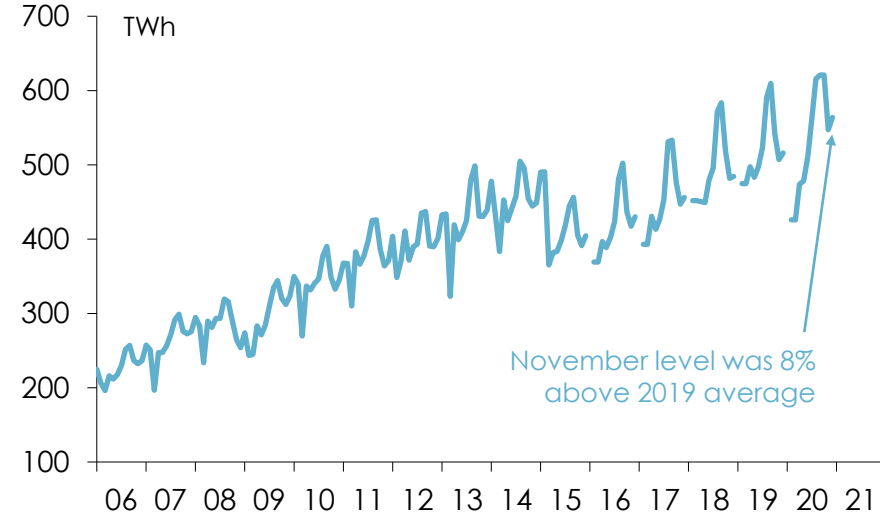
Merchandise trade



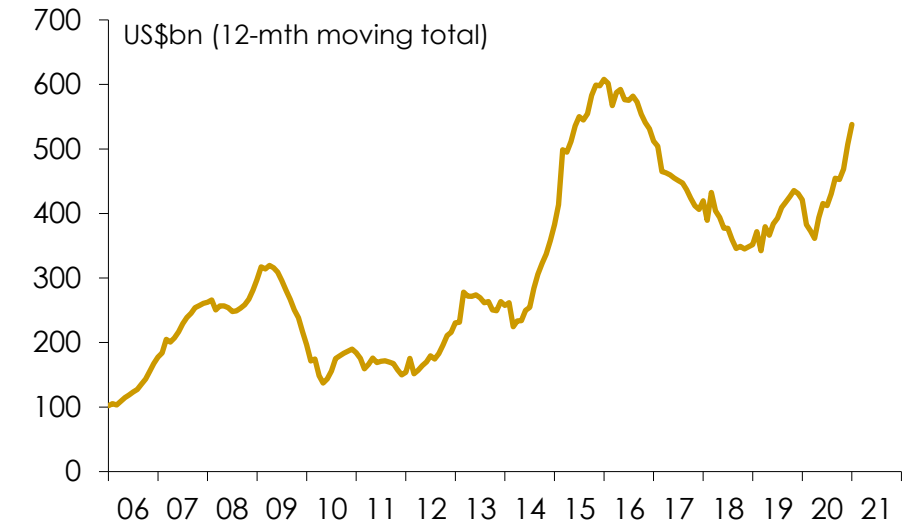
Motor vehicle production



Primary electricity production



Merchandise trade balance



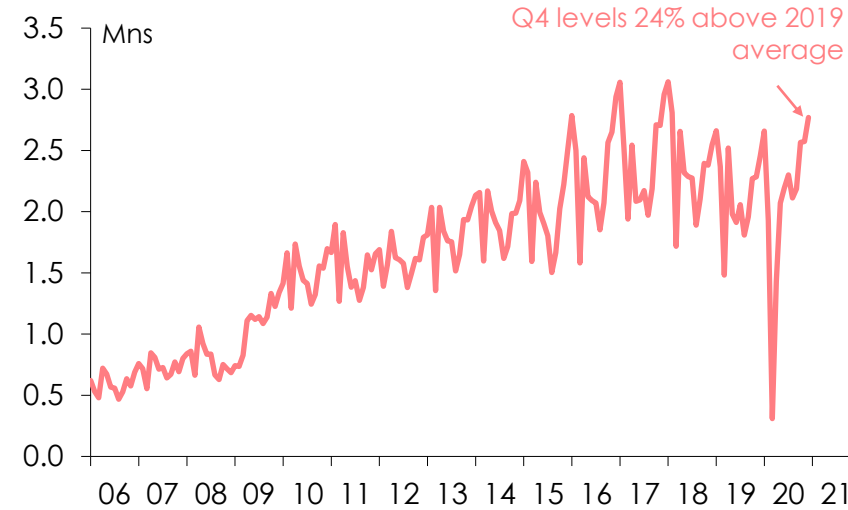
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest data are for December: note that most monthly data for January and February are combined and will be released in the third week of March. [Return to "What's New"](#).

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

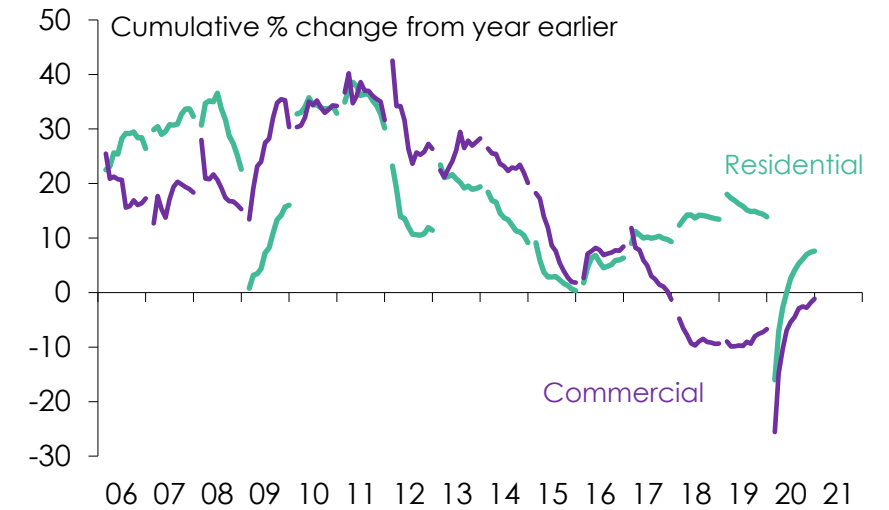
Consumer sentiment



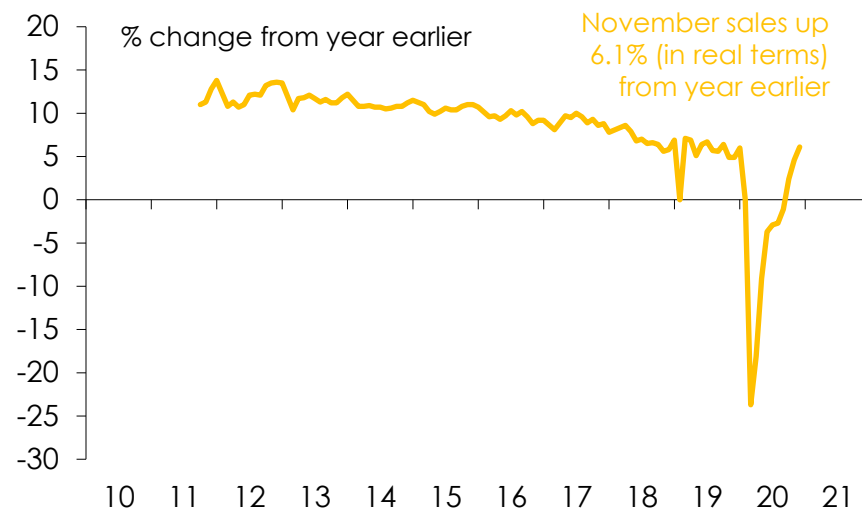
Motor vehicle sales



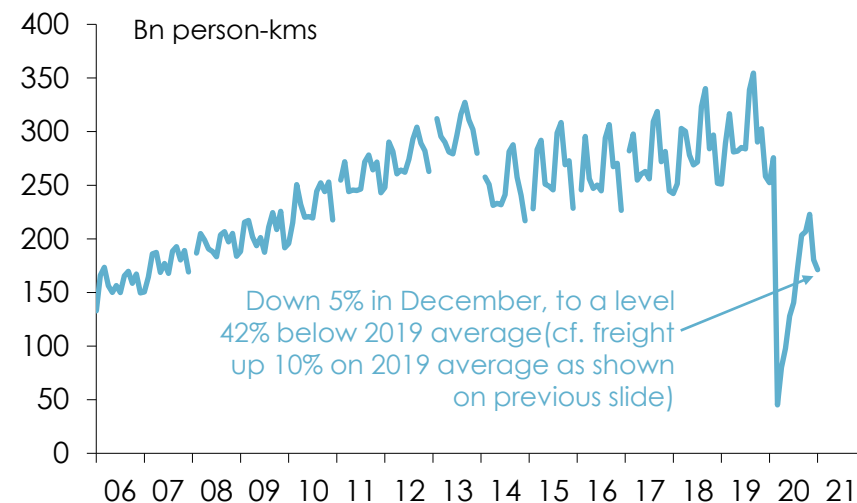
Real estate investment



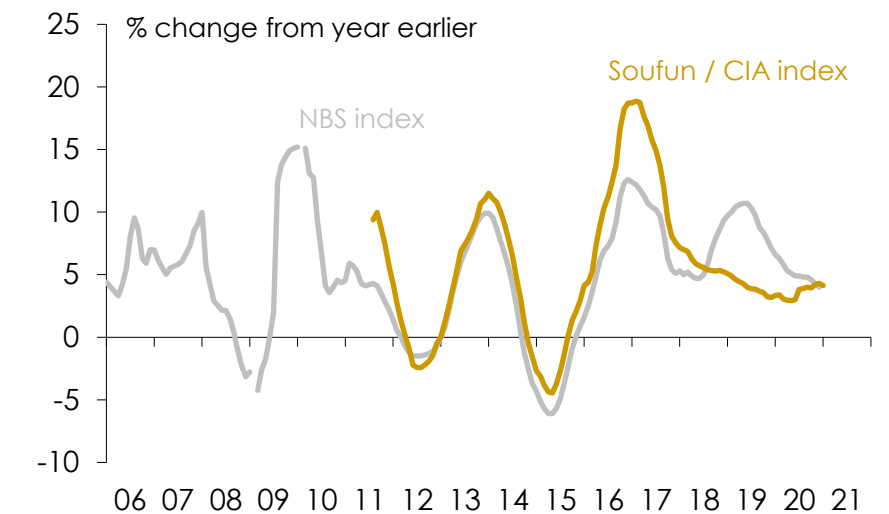
Volume of retail sales



Passenger traffic volumes



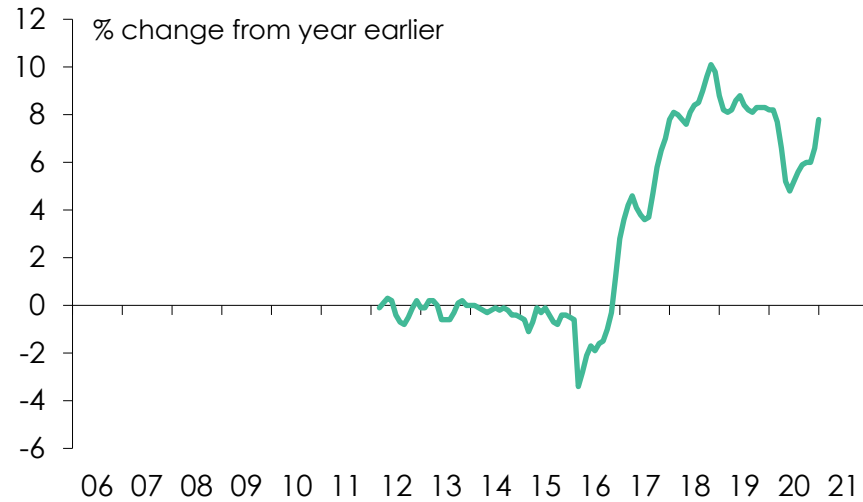
Residential real estate prices



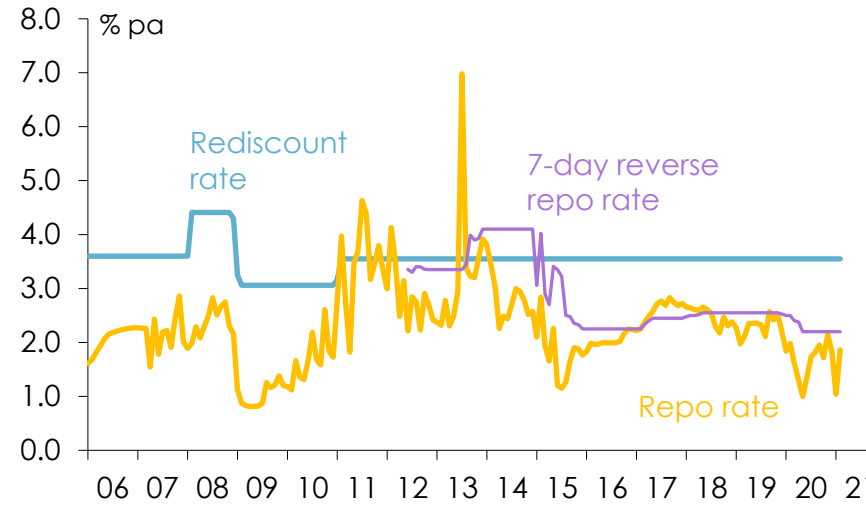
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for December: note that most monthly data for January and February are combined and will be released in the third week of March. [Return to "What's New"](#).

Lower inflation gives PBoC scope to ease monetary policy, but liquidity conditions tightened this week and short-term interest rates rose

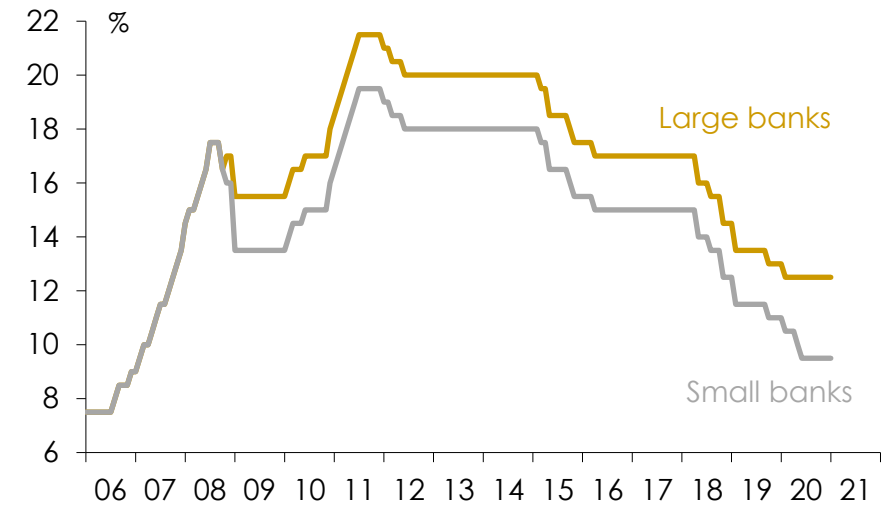
Producer prices



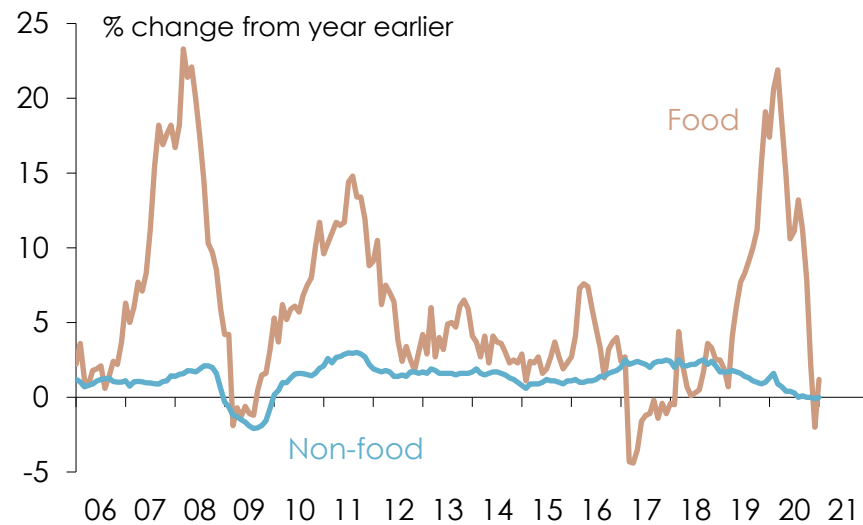
PBoC policy interest rates



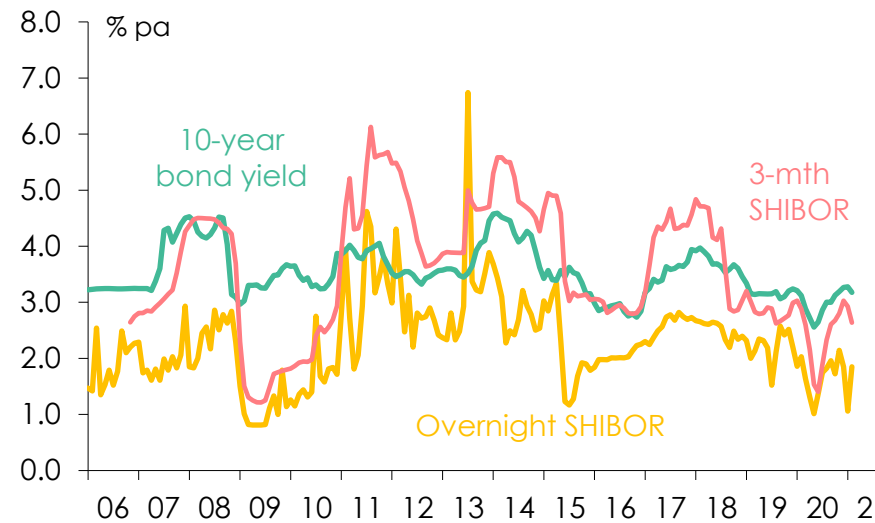
Bank reserve requirement ratios



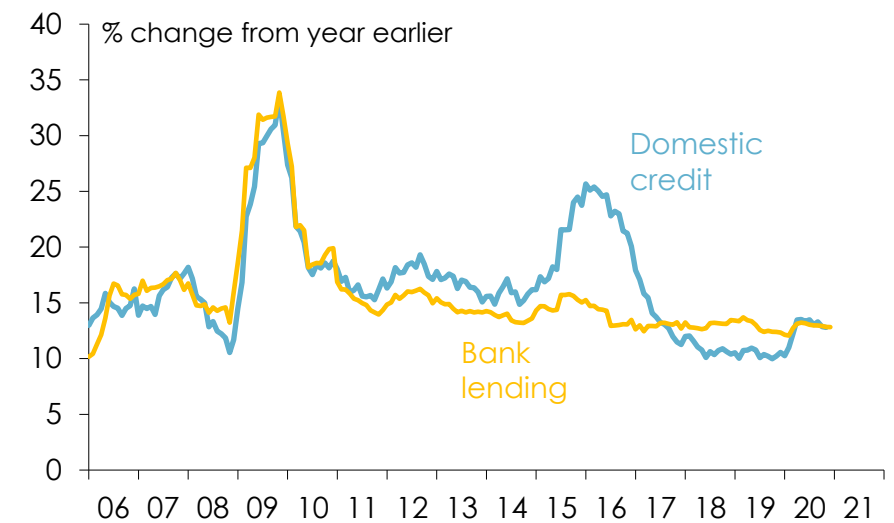
Consumer prices



Market interest rates



Credit growth

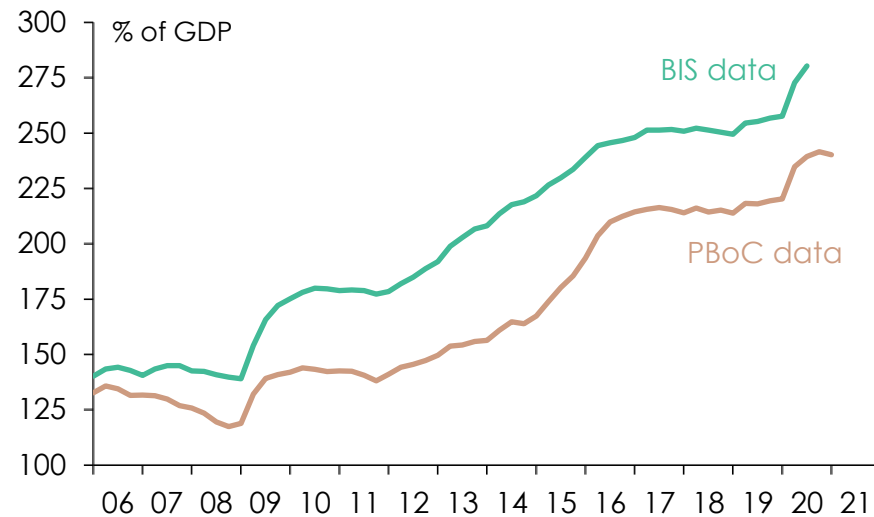


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.

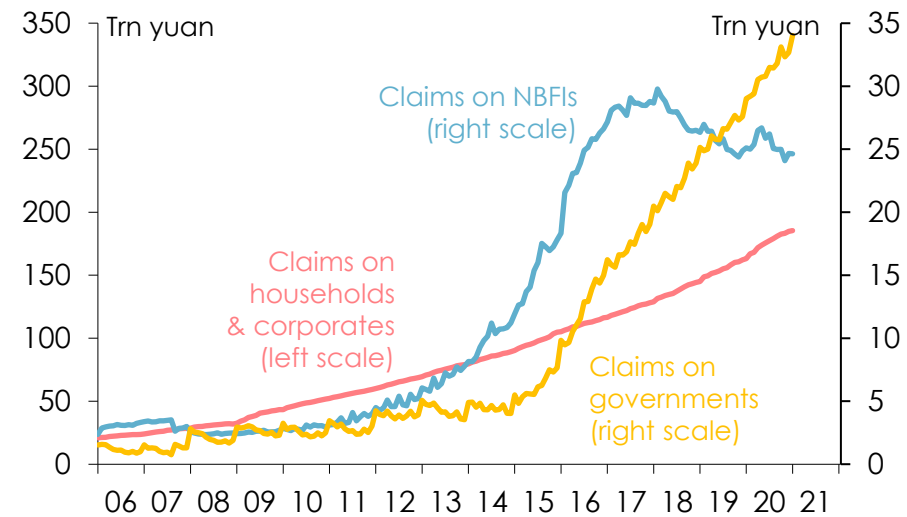
Sources: China National Bureau of Statistics; Refinitiv Datastream; People's Bank of China. [Return to "What's New"](#).

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

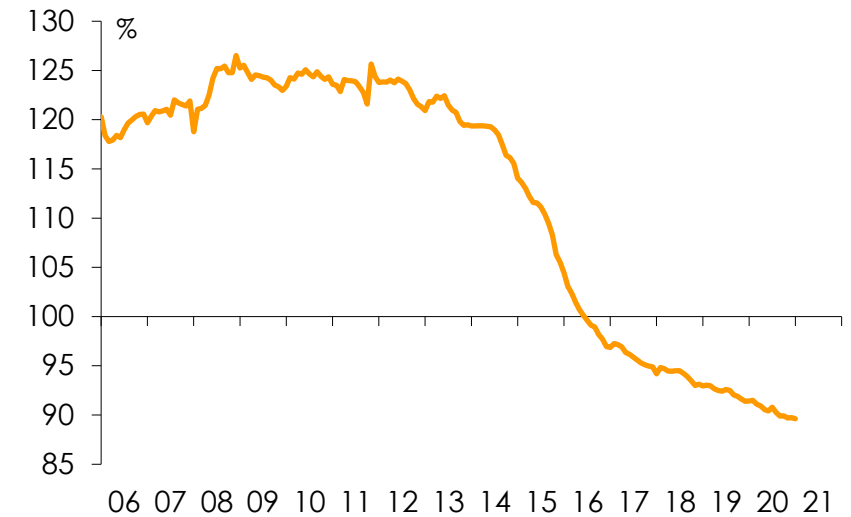
Credit outstanding as a pc of GDP



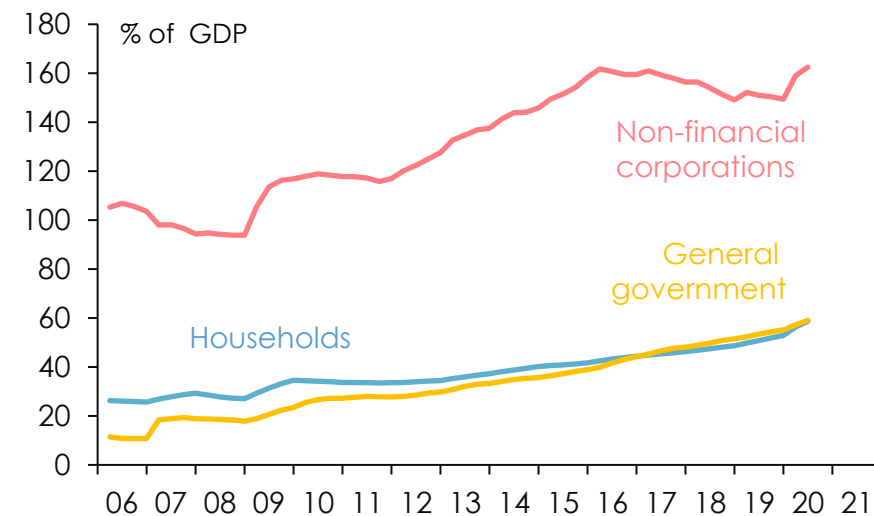
Banks' assets



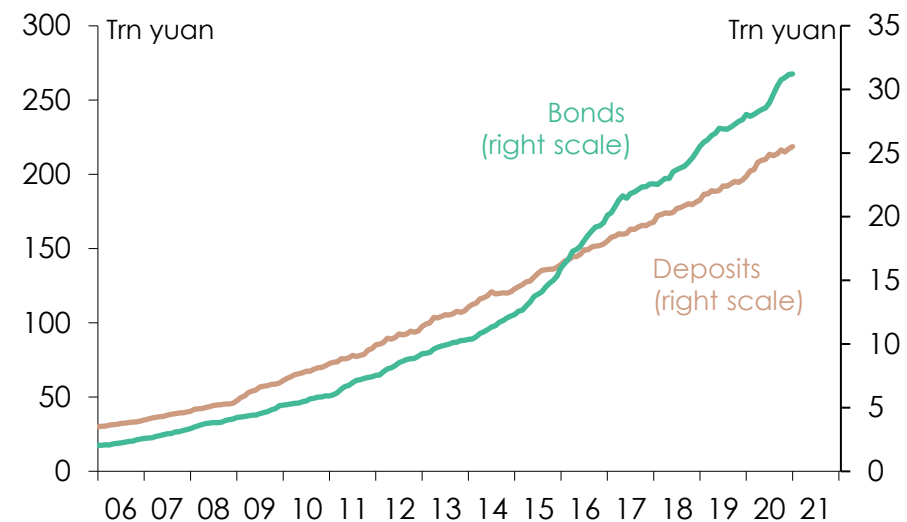
Banks' deposits-to-loans ratio



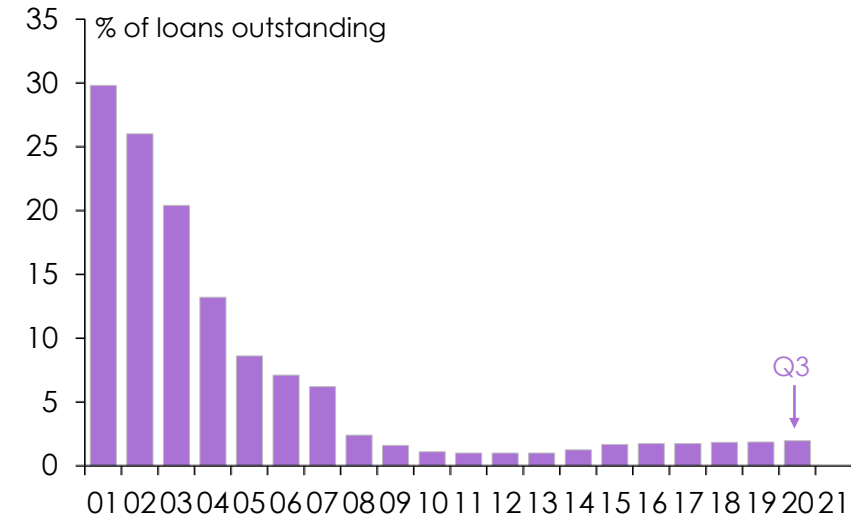
Credit outstanding by sector



Banks' liabilities

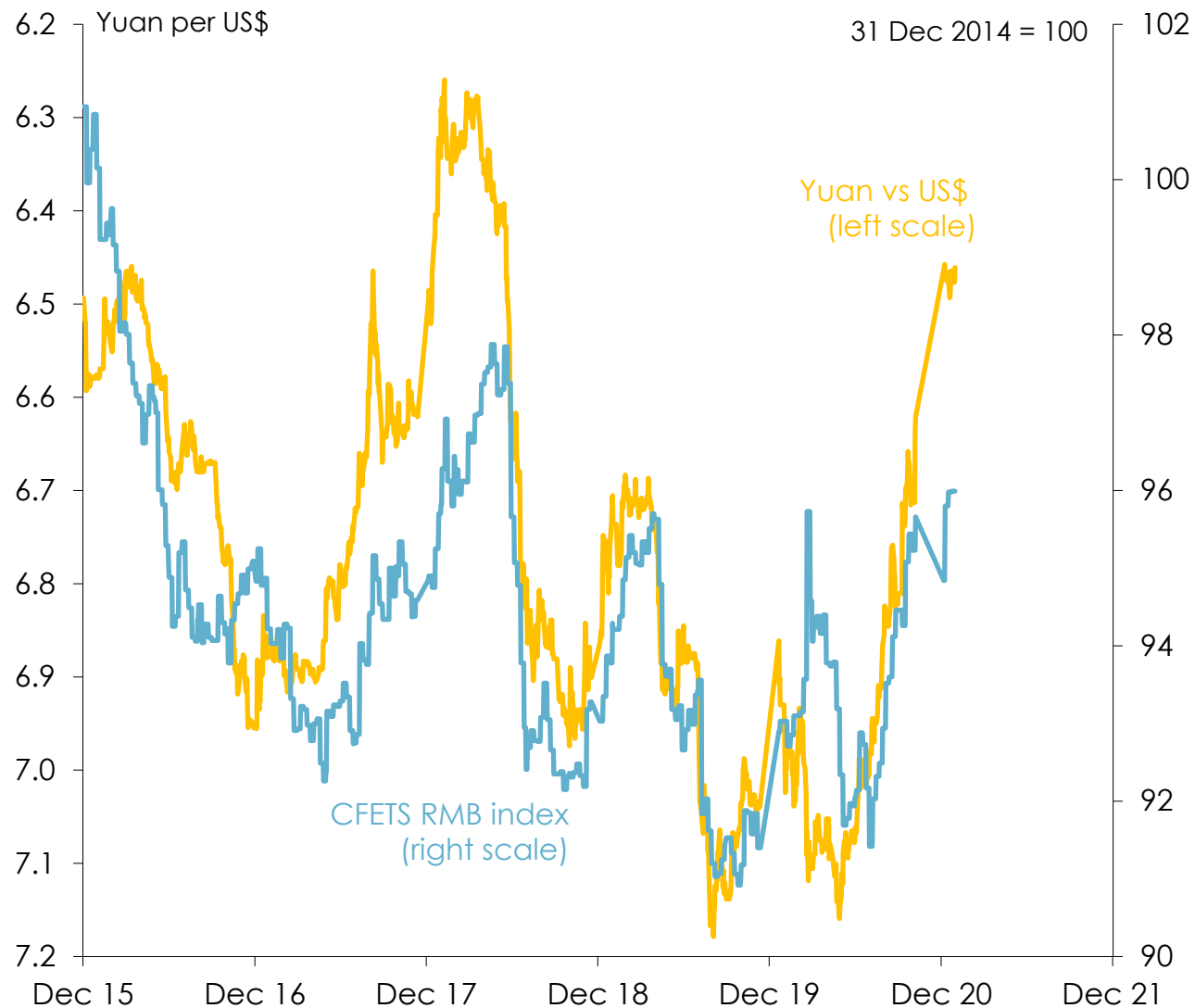


Banks NPLs – official estimates

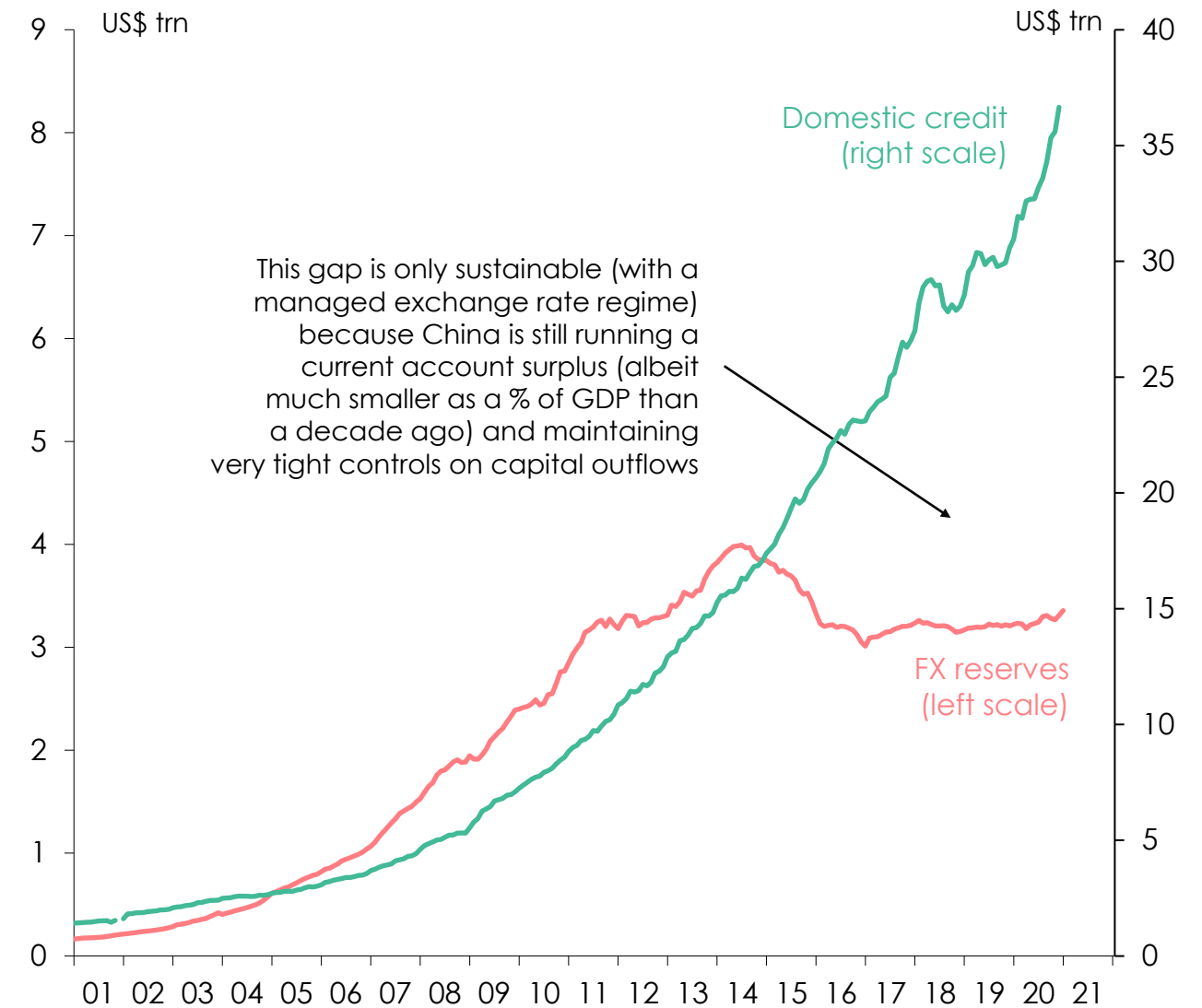


The yuan rose ¼% against a stronger US\$ this week in another sign of tightening domestic liquidity conditions

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 29th 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

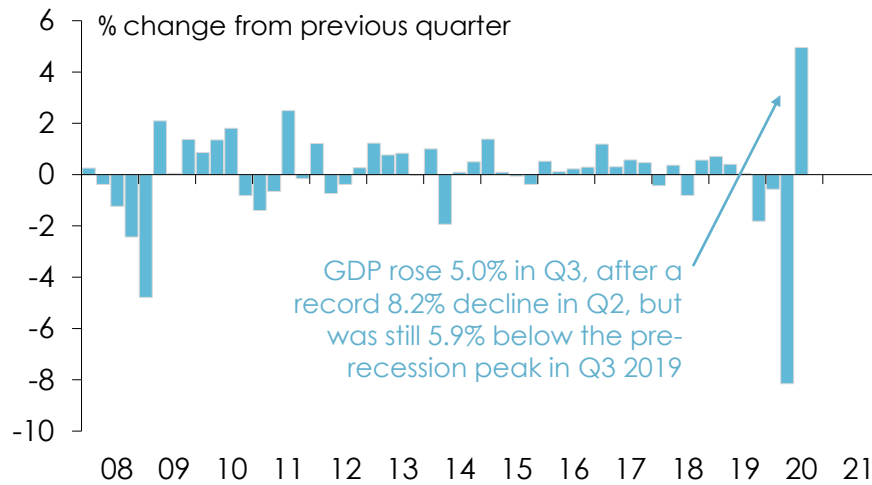
Positive or negative views about China as a percentage of population



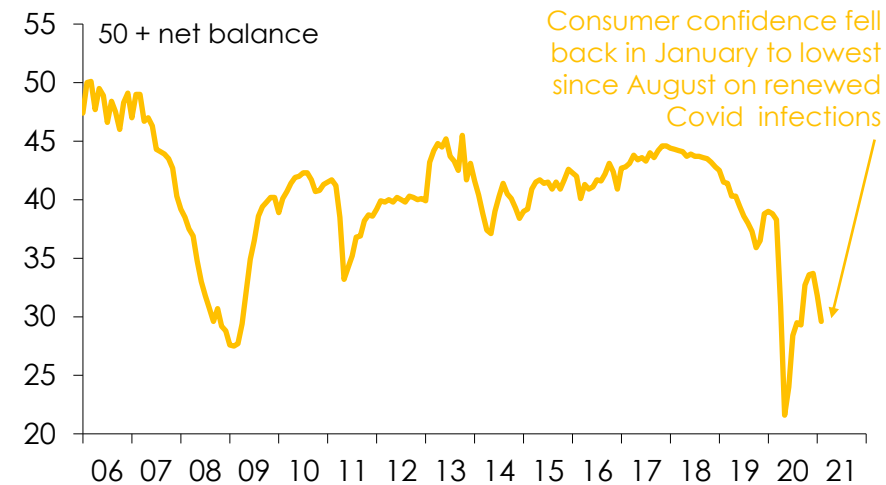
Source: Pew Research, [Unfavorable Views of China Reach Historic Highs in Many Countries](#), 6th October 2020. [Return to "What's New"](#).

The recovery in Japan has so far been moderate, with unemployment 'officially' at 3% though down from an 'effective' peak of 4% in April

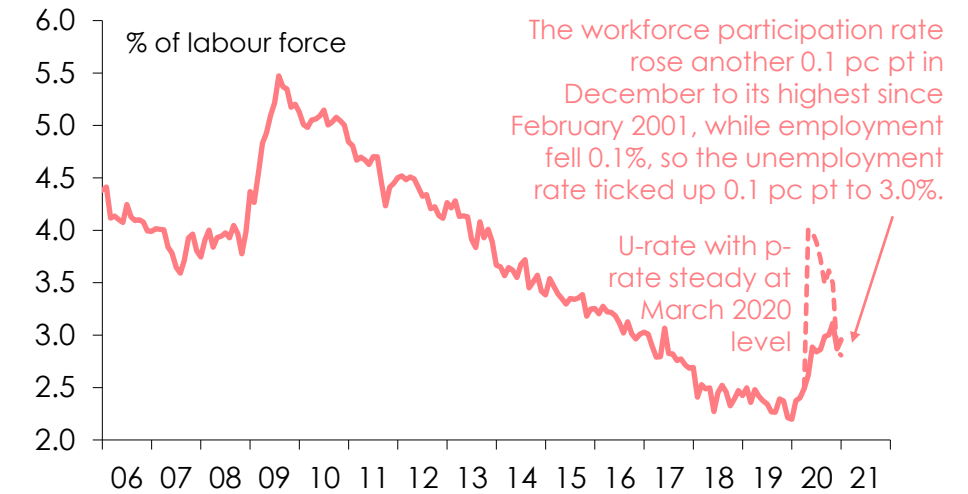
Real GDP



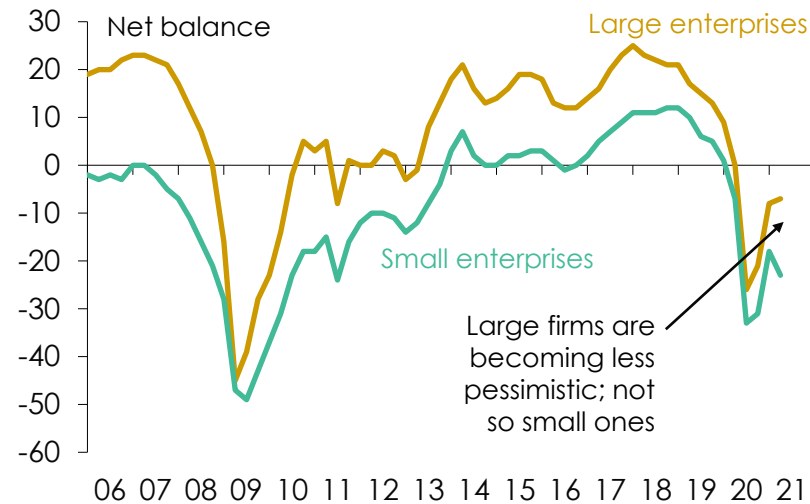
Consumer confidence



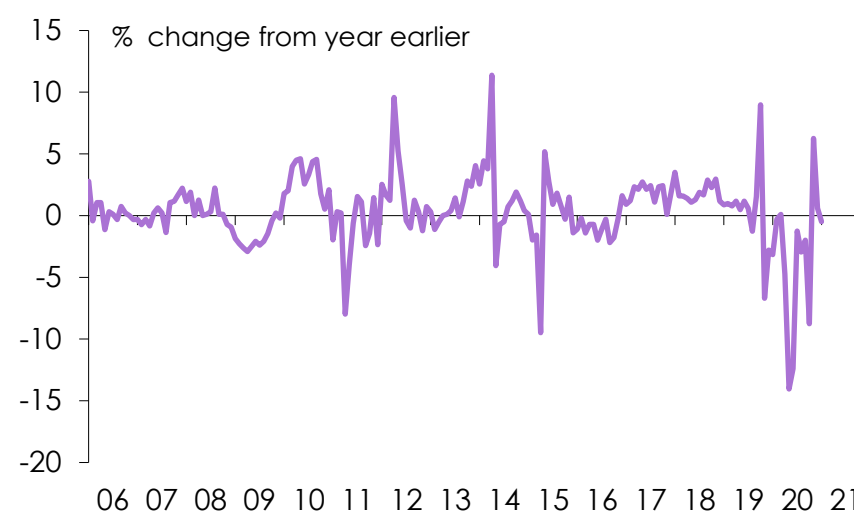
Unemployment



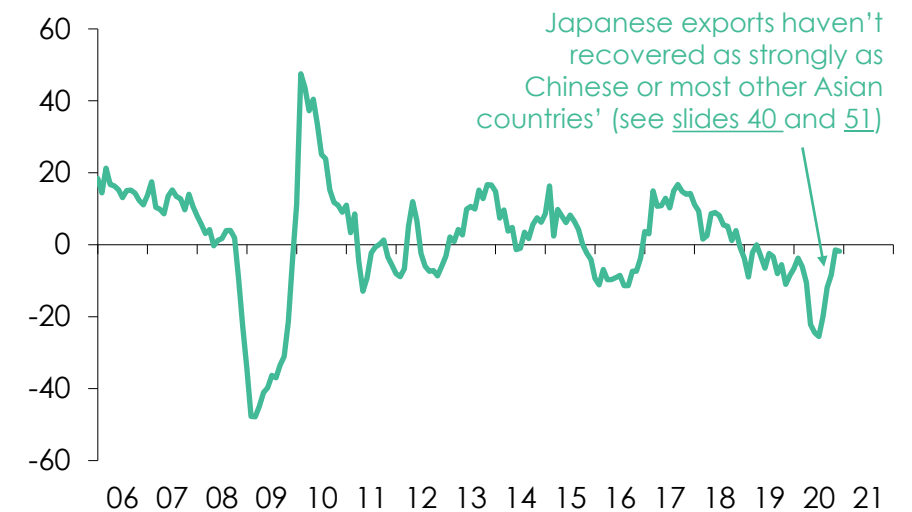
BoJ Tankan business conditions



Value of retail sales

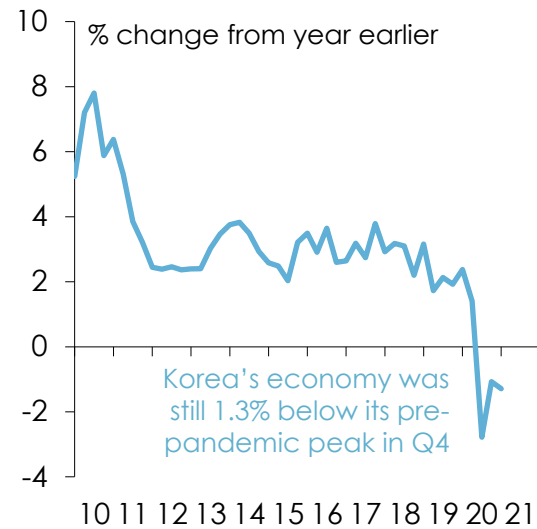


Merchandise export volumes

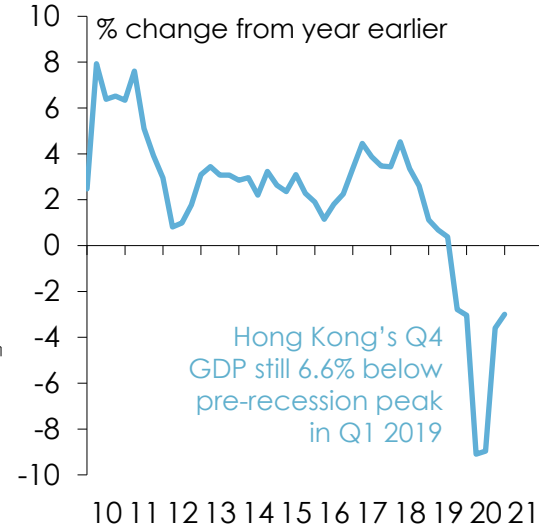


Taiwan's 2020 growth rate of 3% was faster than China's (for the first time in 30 years), while Korea's and Hong Kong's Q4 numbers were weak

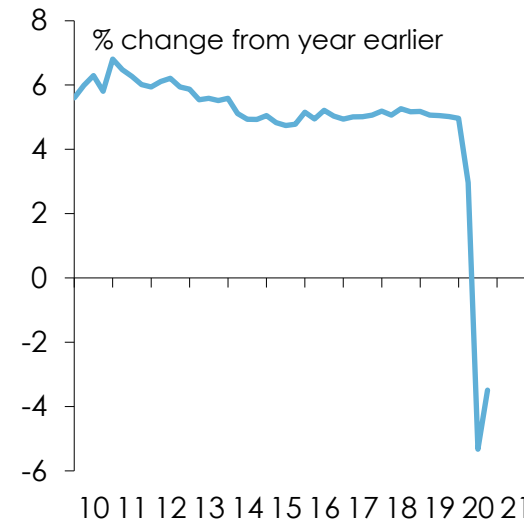
Korea



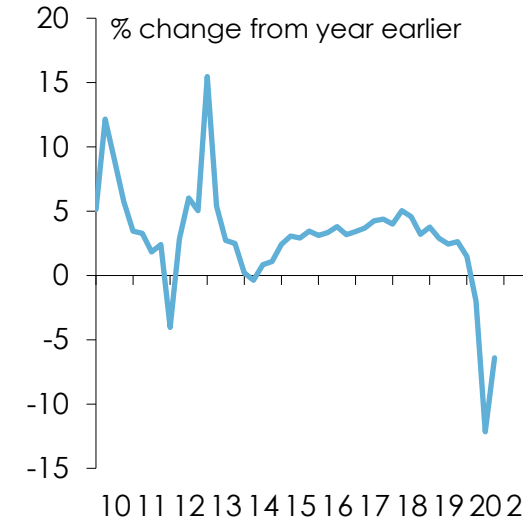
Hong Kong



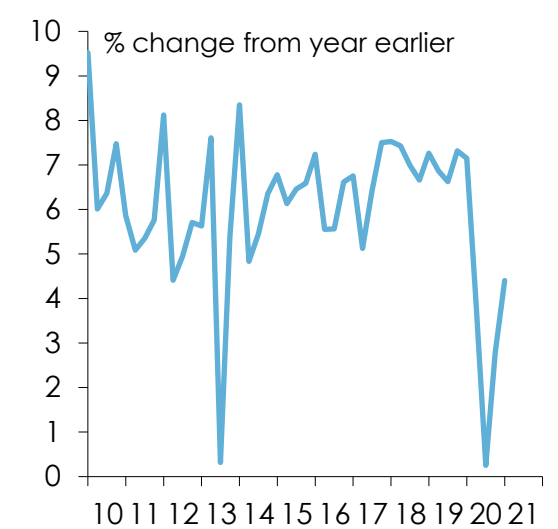
Indonesia



Thailand



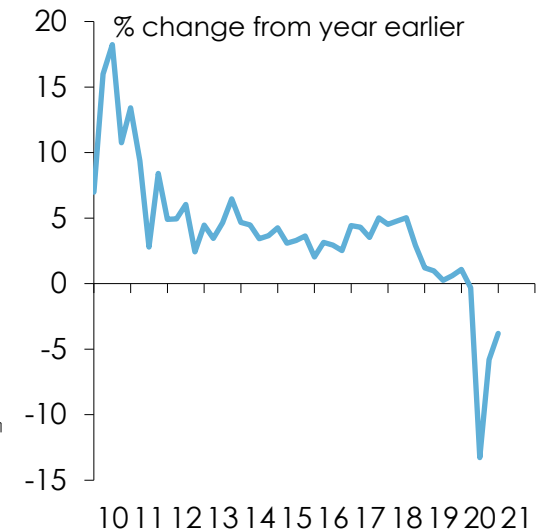
Vietnam



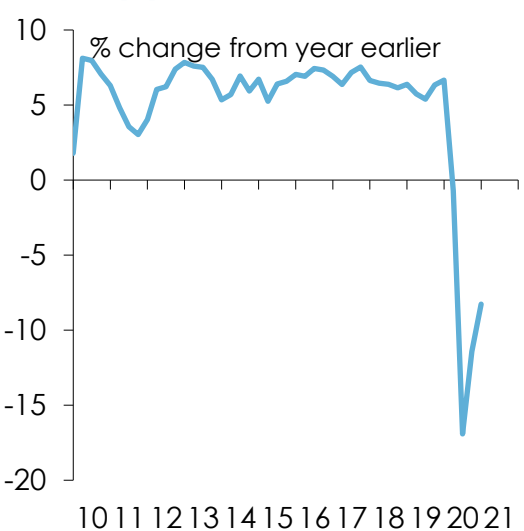
Taiwan



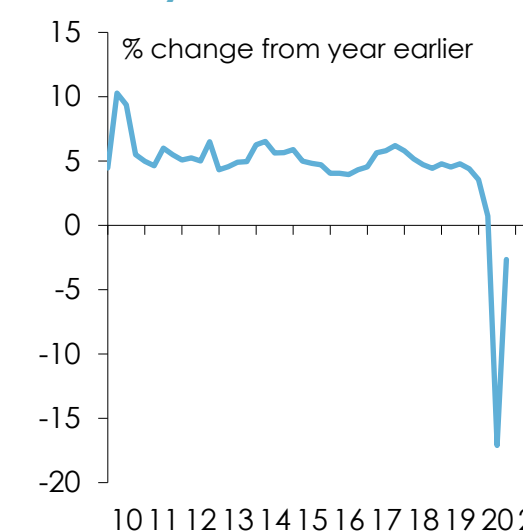
Singapore



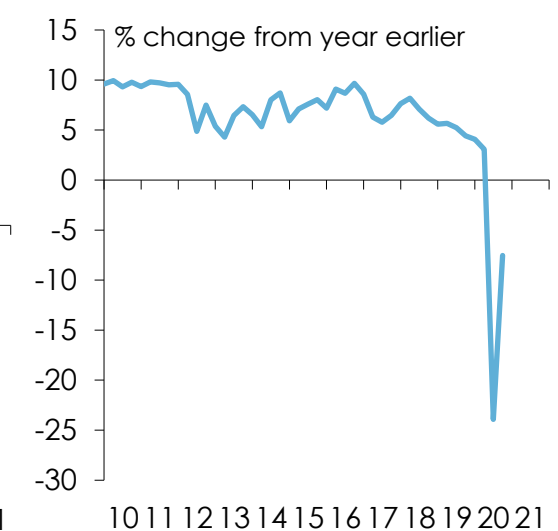
Philippines



Malaysia



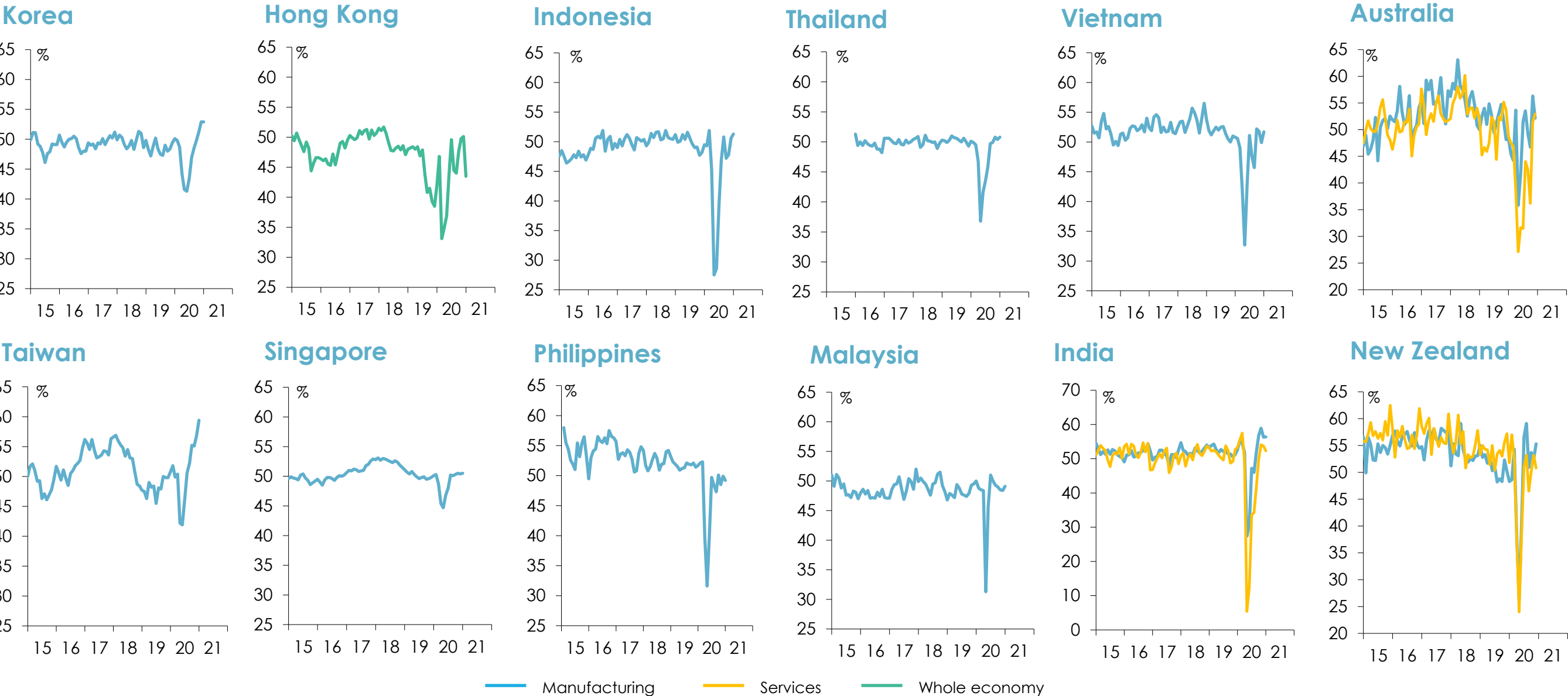
India



Note: Latest data are Q4 for Korea, Taiwan, Singapore, Hong Kong, the Philippines and Vietnam, Q3 all others (Indonesia's Q4 GDP is released this coming Friday).

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

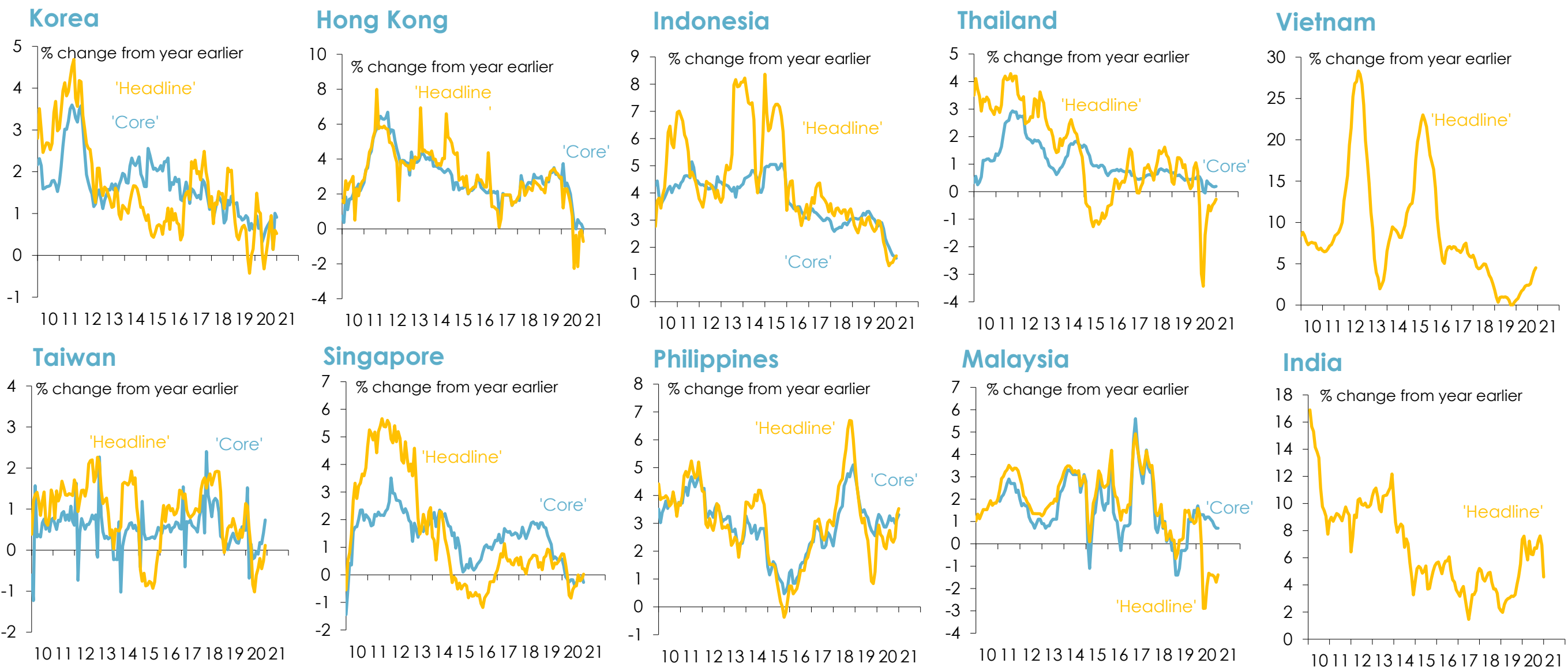
December Asia-Pacific PMIs show ongoing recovery in manufacturing in most countries especially Taiwan, but HK, Philippines and Malaysia lagging



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"](#).

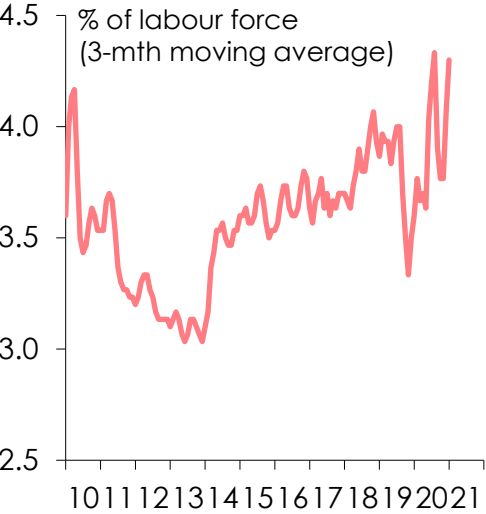
Inflation remains very low across Asian economies (including Indonesia & Philippines where it had been stubbornly high) – except for India



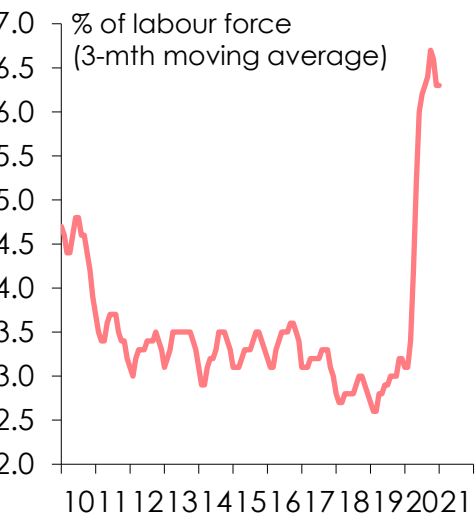
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

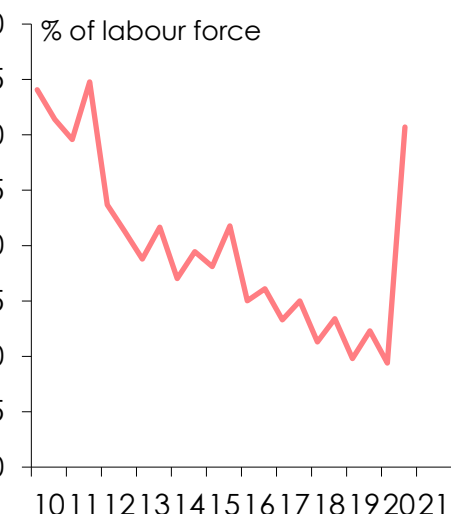
Korea



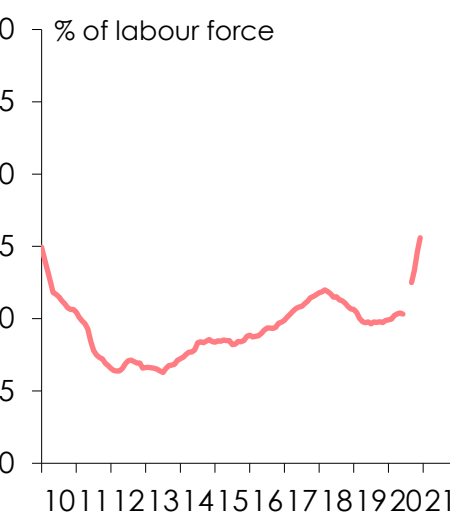
Hong Kong



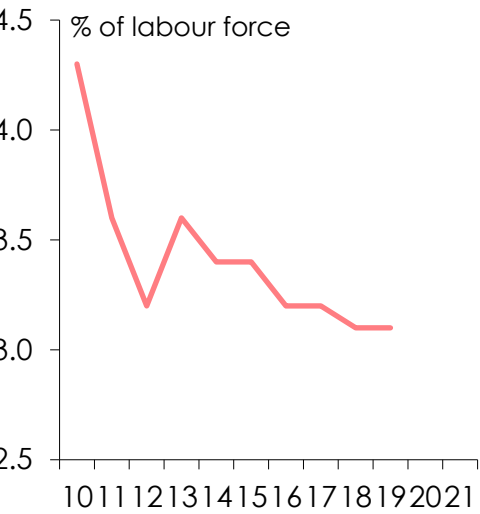
Indonesia



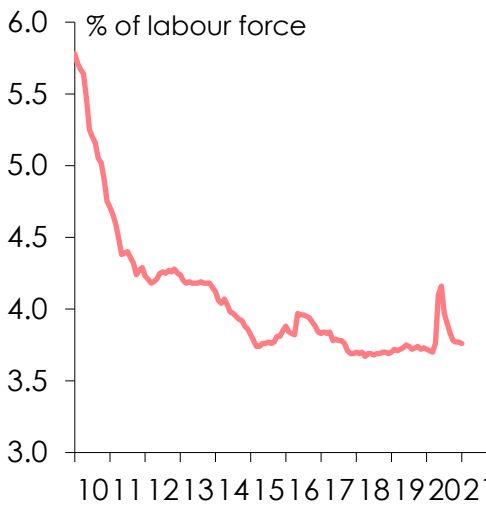
Thailand



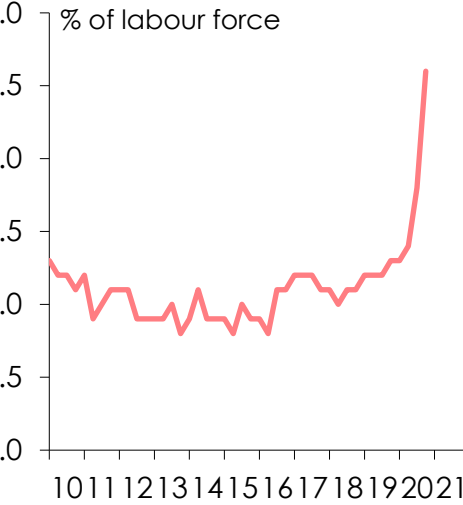
Vietnam



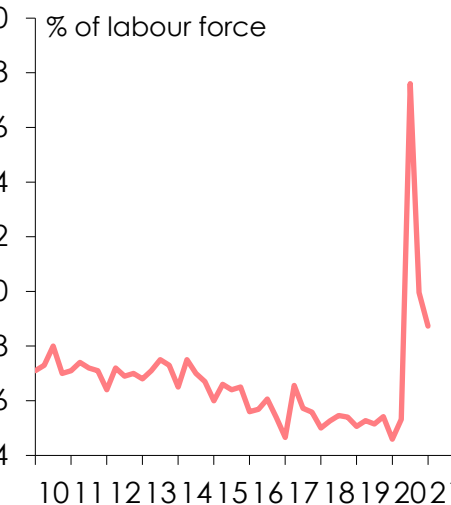
Taiwan



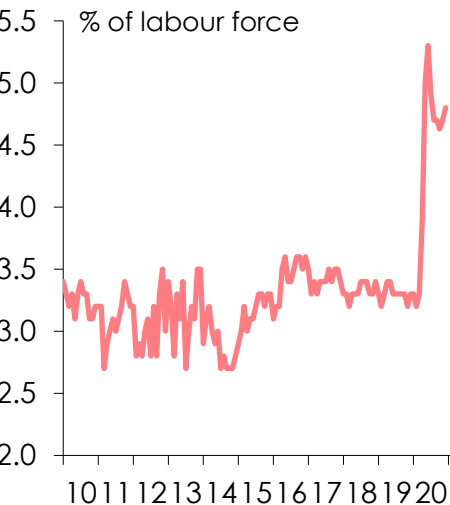
Singapore



Philippines



Malaysia



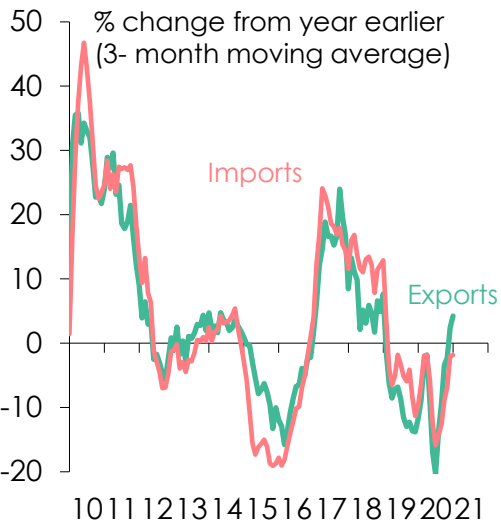
India



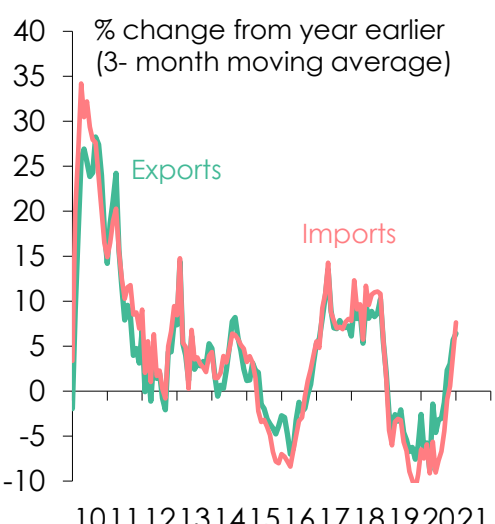
Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in India: 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

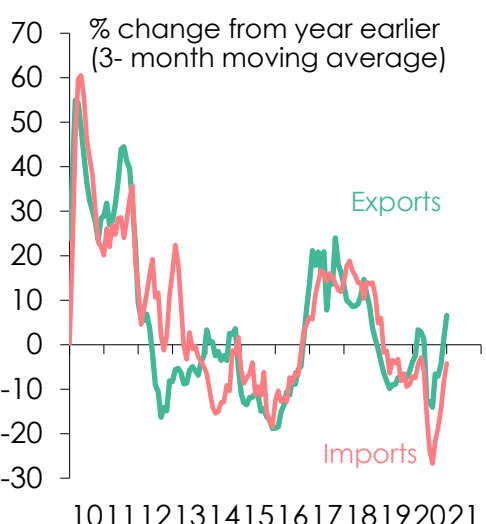
Korea



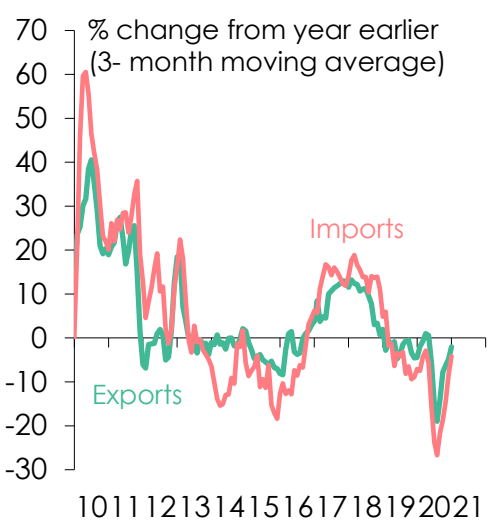
Hong Kong



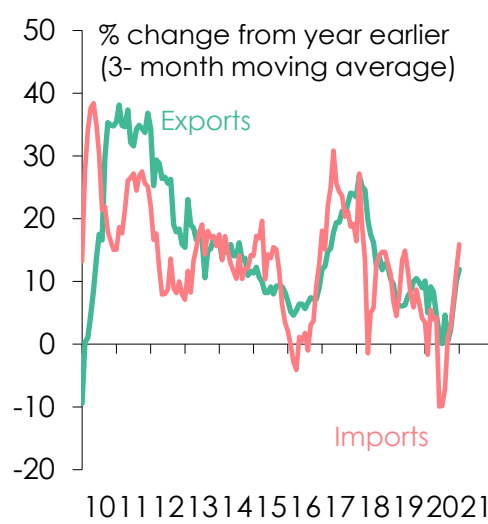
Indonesia



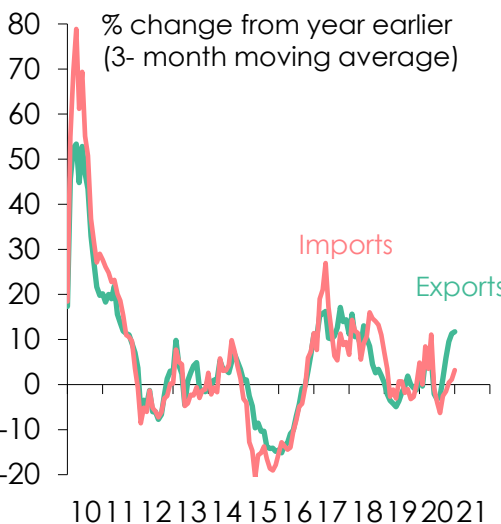
Thailand



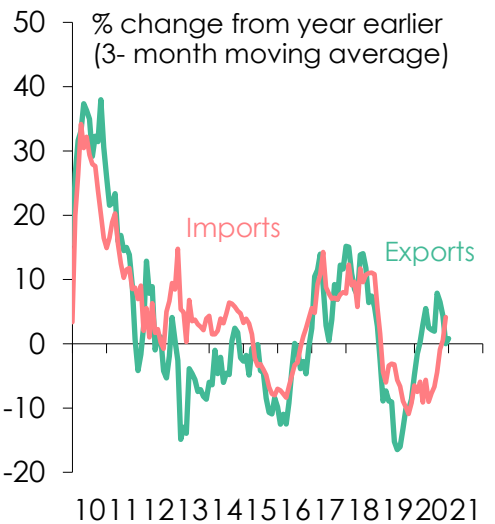
Vietnam



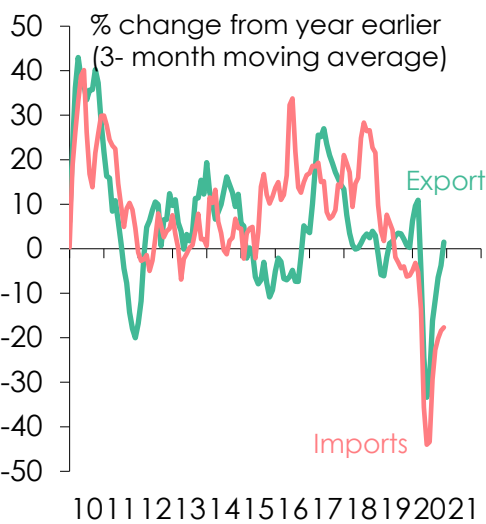
Taiwan



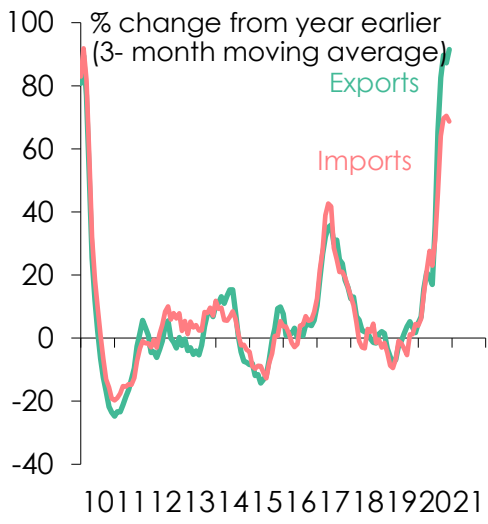
Singapore



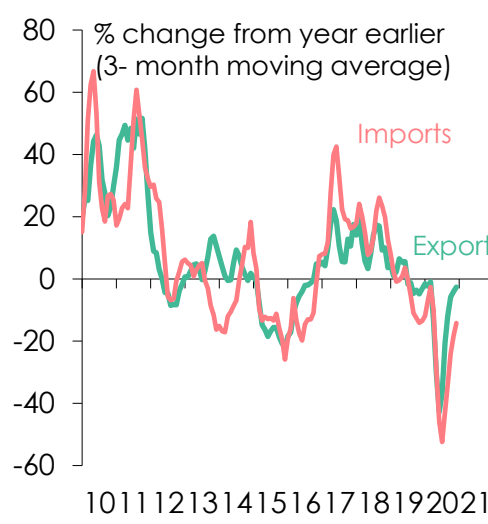
Philippines



Malaysia



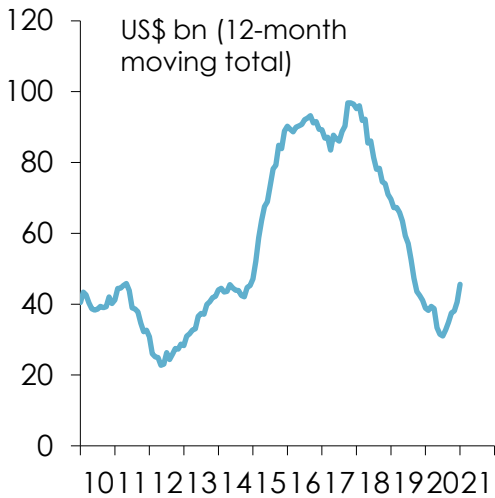
India



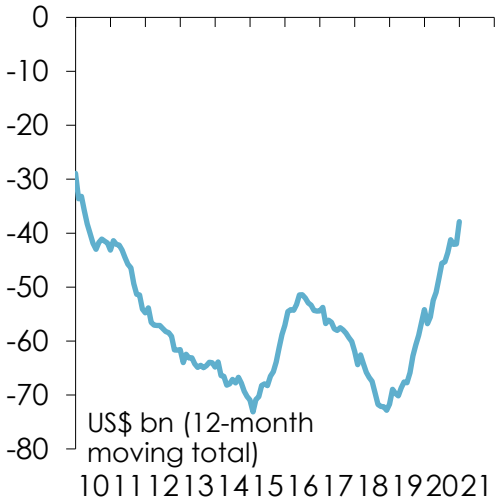
Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

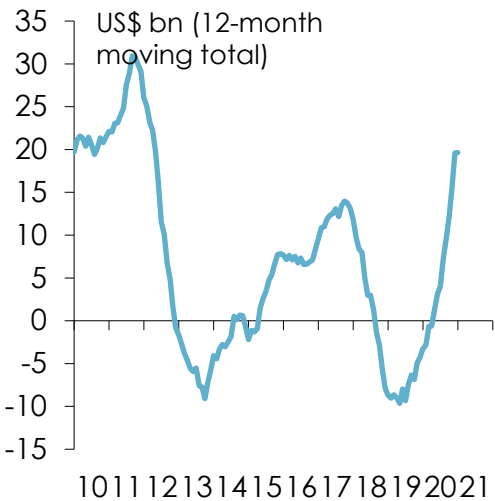
Korea



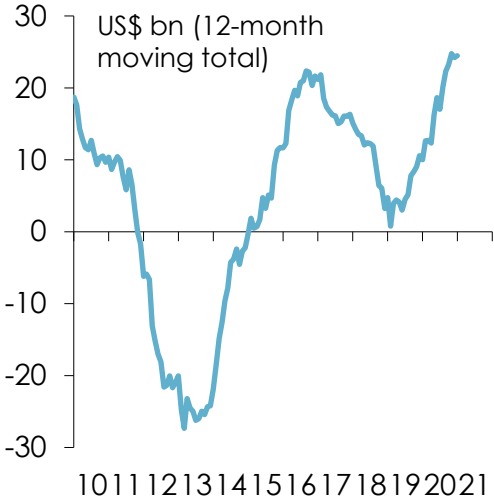
Hong Kong



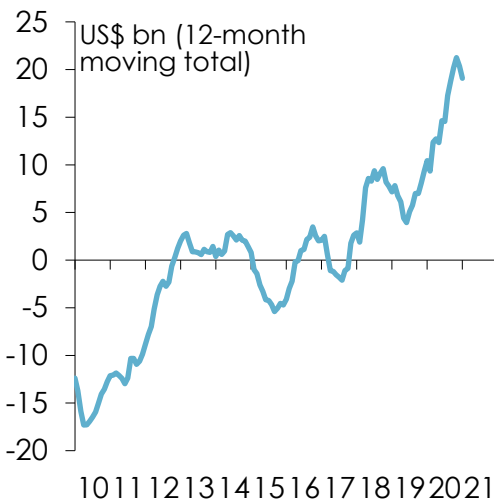
Indonesia



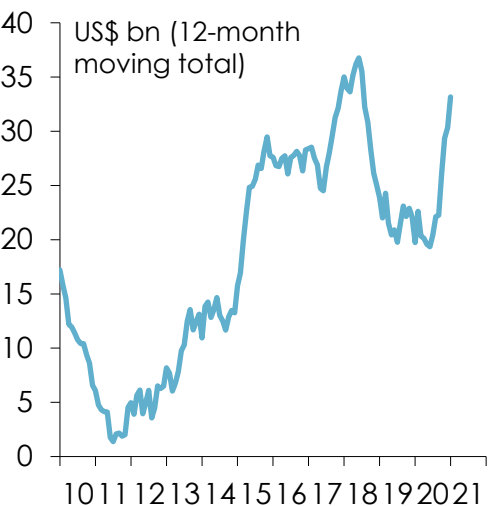
Thailand



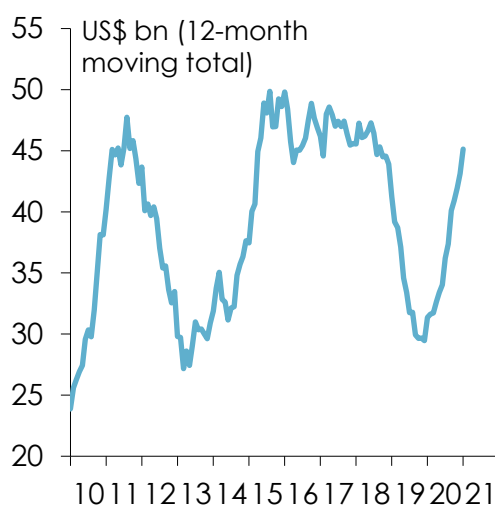
Vietnam



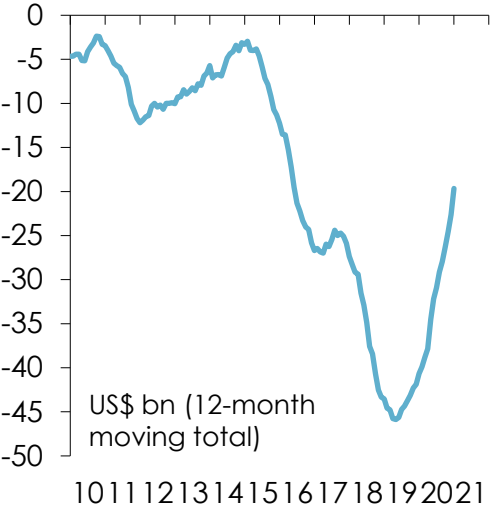
Taiwan



Singapore



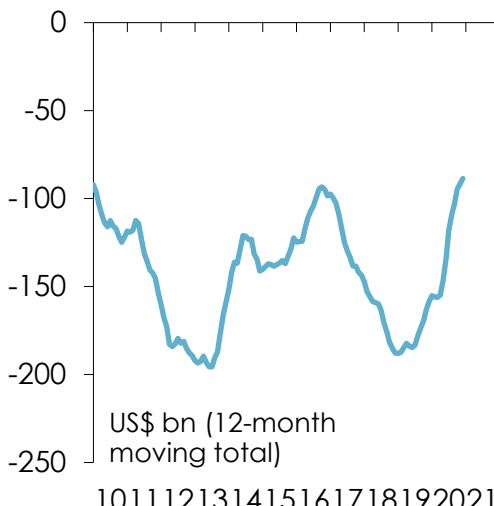
Philippines



Malaysia



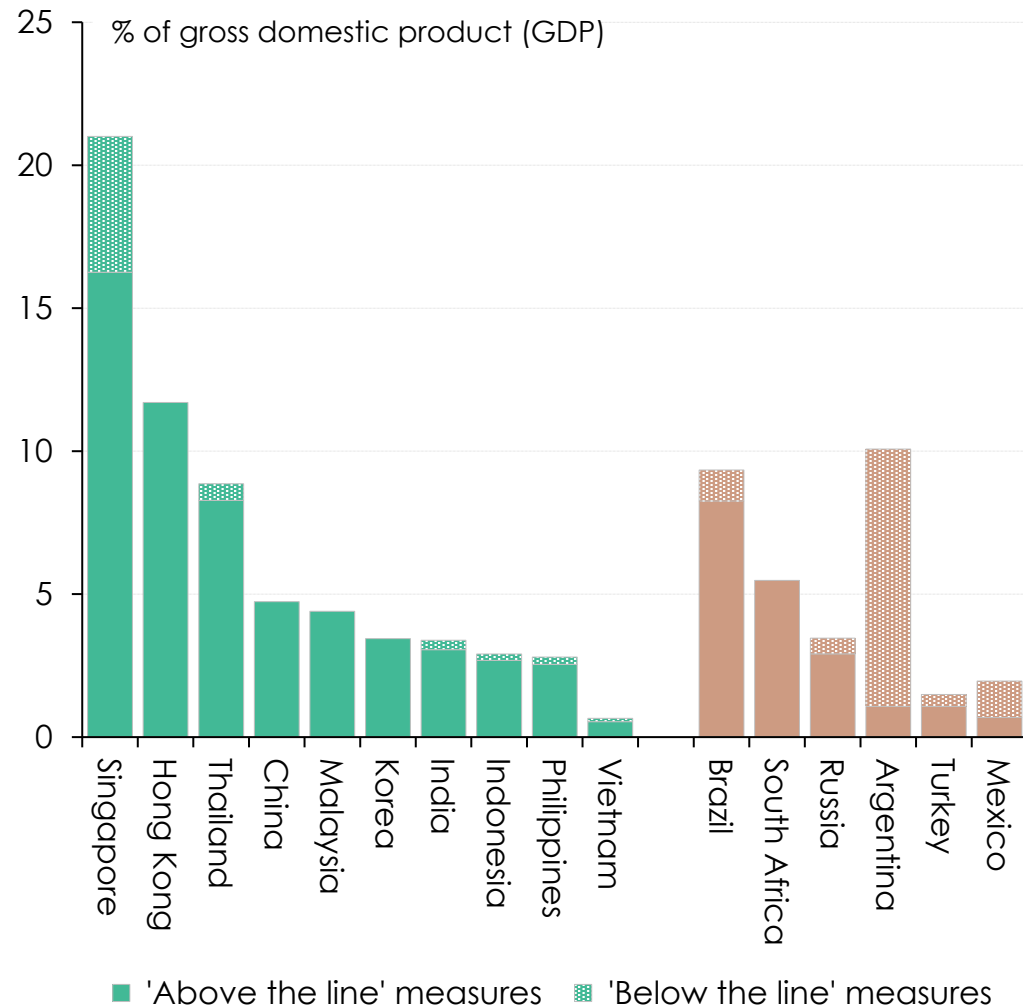
India



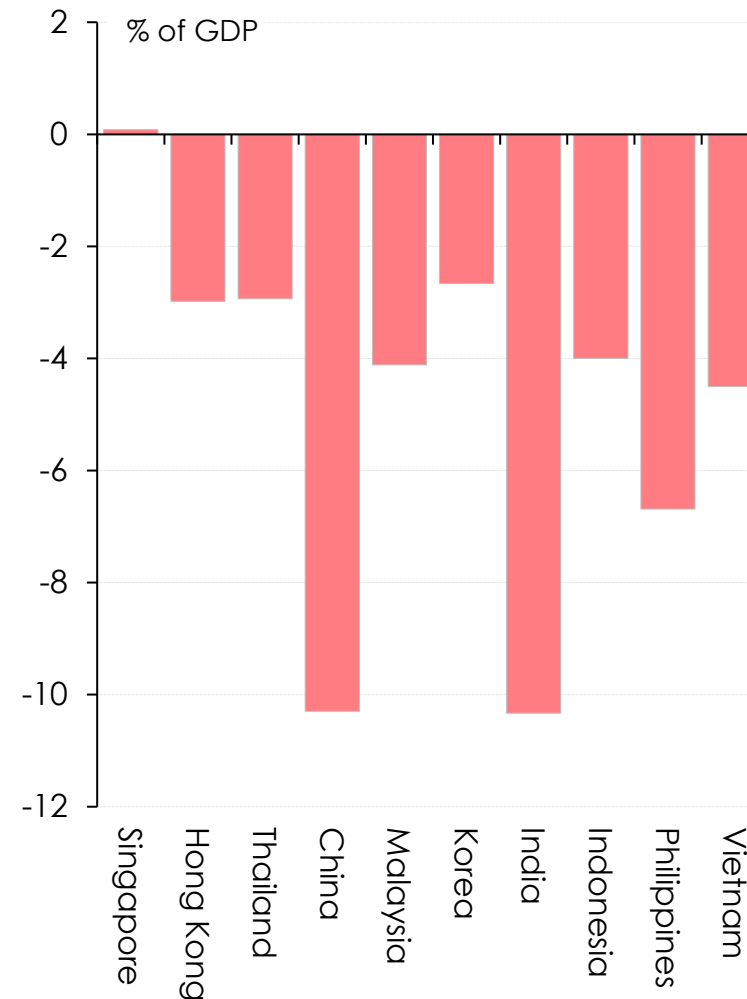
Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

Apart from Singapore, Hong Kong and Thailand, Asian governments' discretionary fiscal responses to Covid-19 have been relatively modest

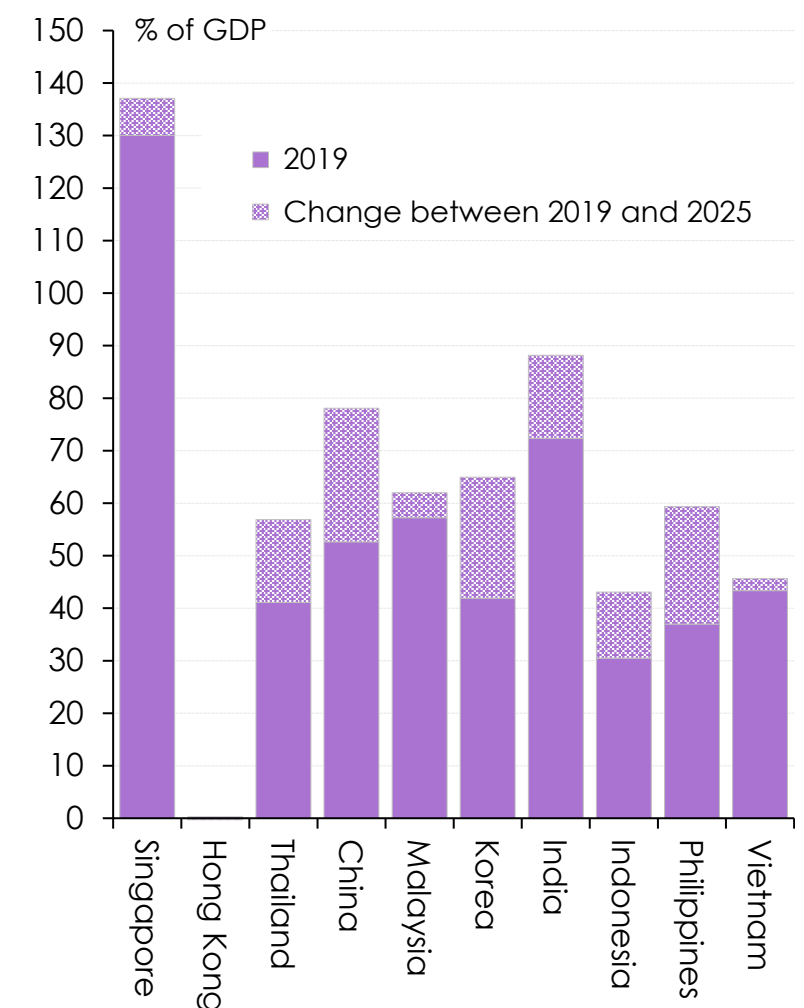
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2025

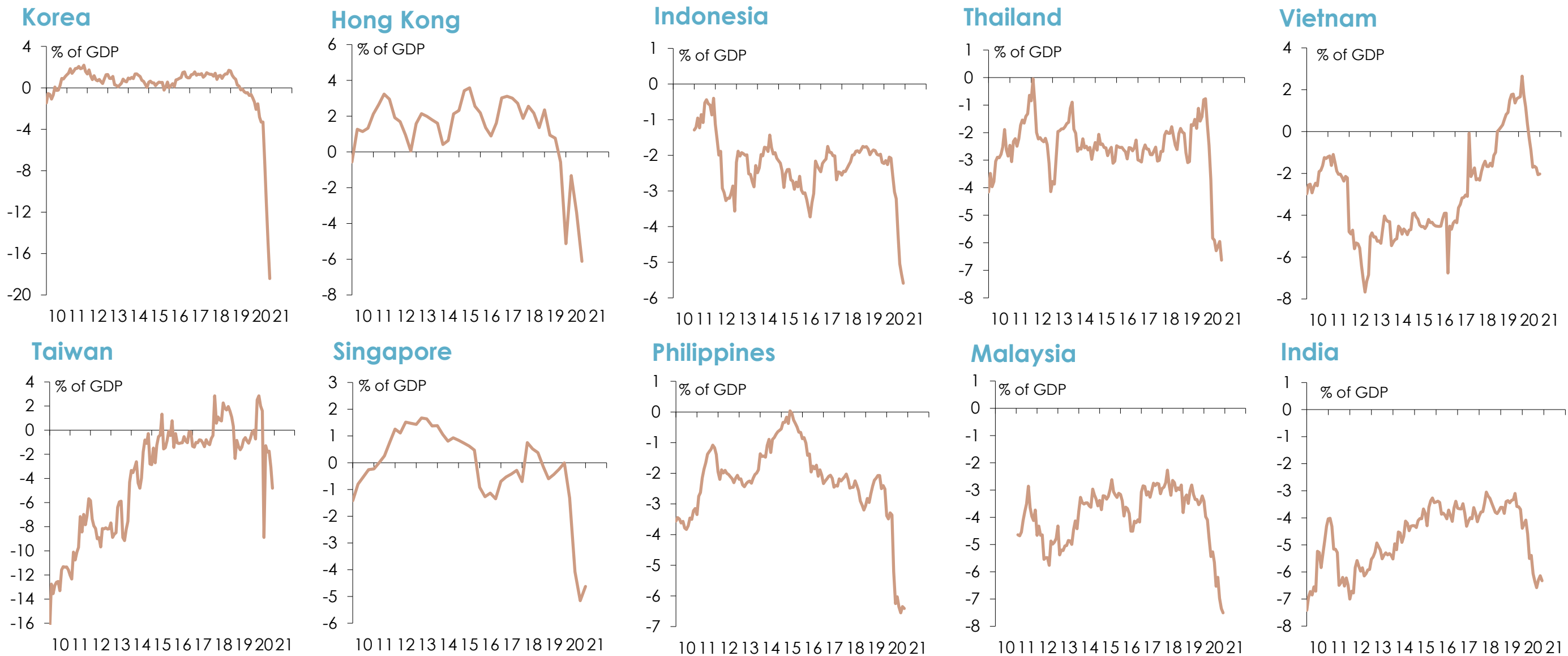


Gross government debt – Asian economies 2019-25



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 31st December 2020. Forecasts of budget deficits and gross debt are from October 2020. Singapore's apparently very large gross debt is offset by substantial financial asset holdings. Source: IMF, [Fiscal Monitor Update](#), 28th January 2021; [Fiscal Monitor](#), October 2020. [Return to "What's New"](#).

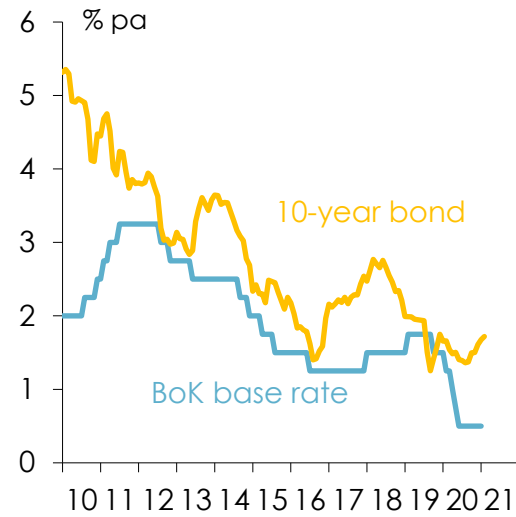
National government budgetary positions have deteriorated sharply across Asia



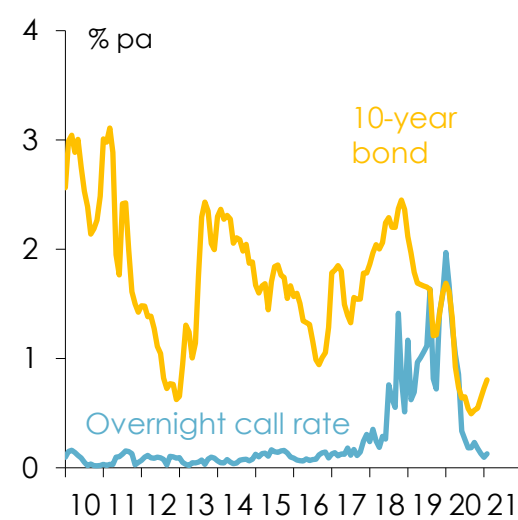
Note: Charts show central government budget balances over rolling 12-month (or in the cases of Hong Kong and Singapore, 4-quarter) periods, expressed as a pc of nominal GDP over the latest available 4-quarter period. Sources: National Finance Ministries or Treasuries, central banks and statistical agencies;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

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

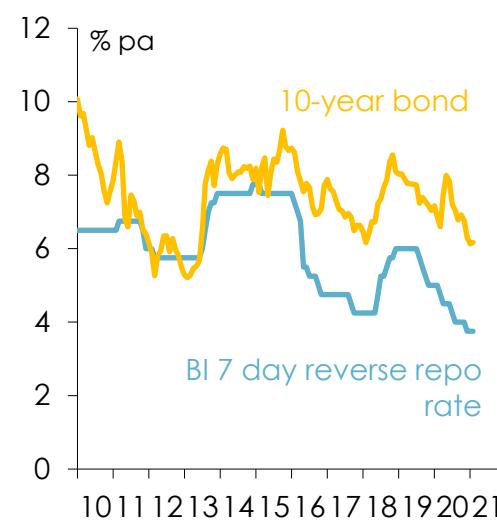
Korea



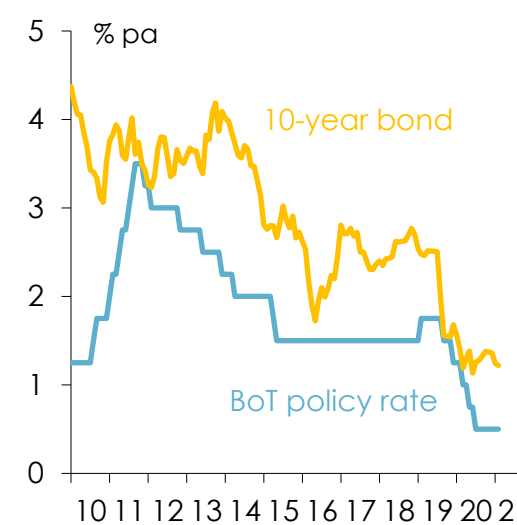
Hong Kong



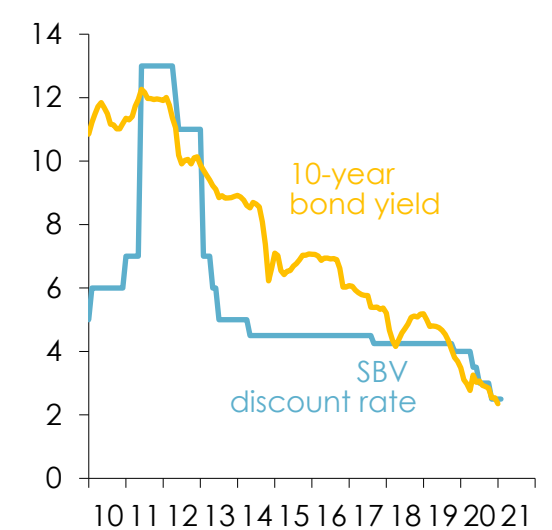
Indonesia



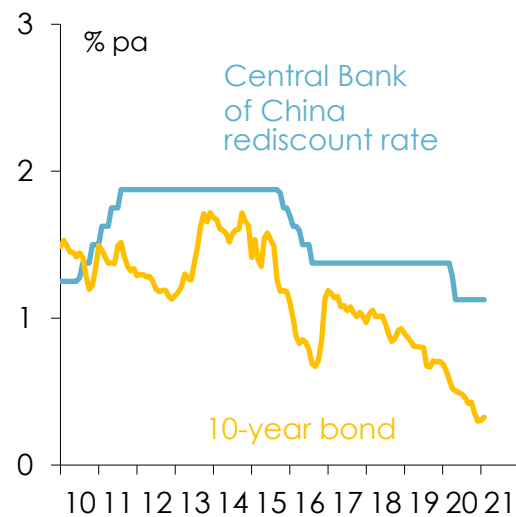
Thailand



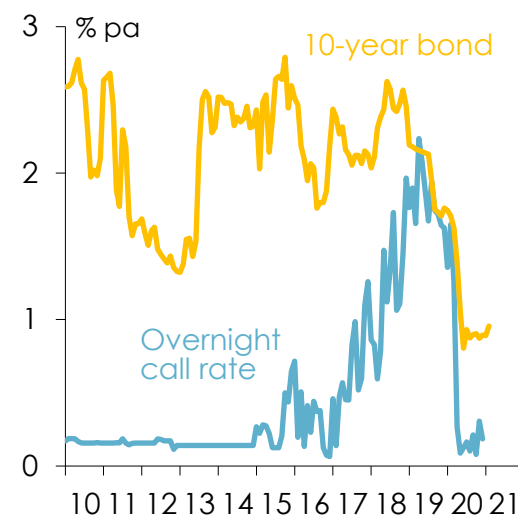
Vietnam



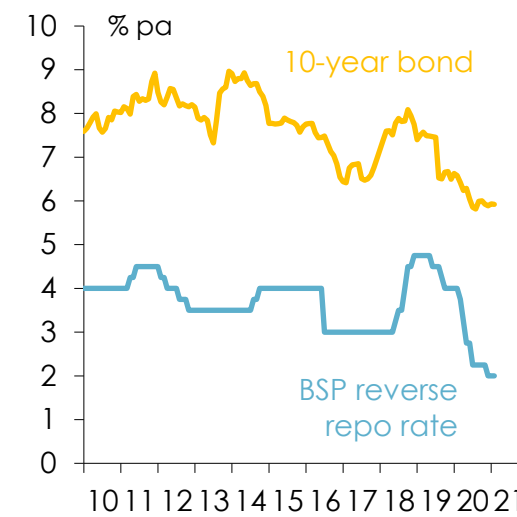
Taiwan



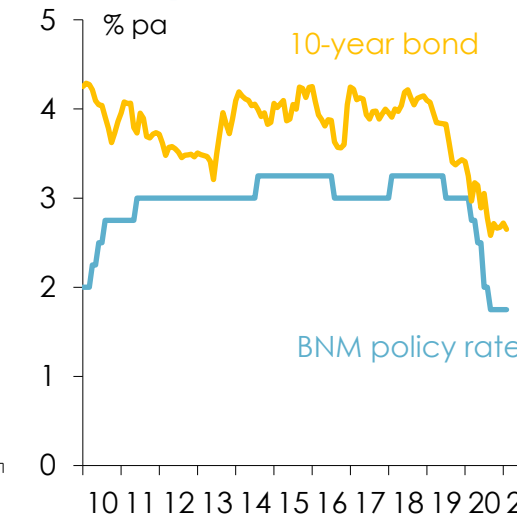
Singapore



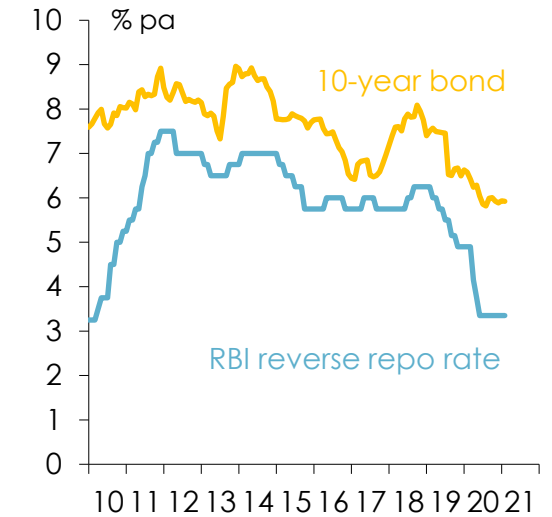
Philippines



Malaysia



India

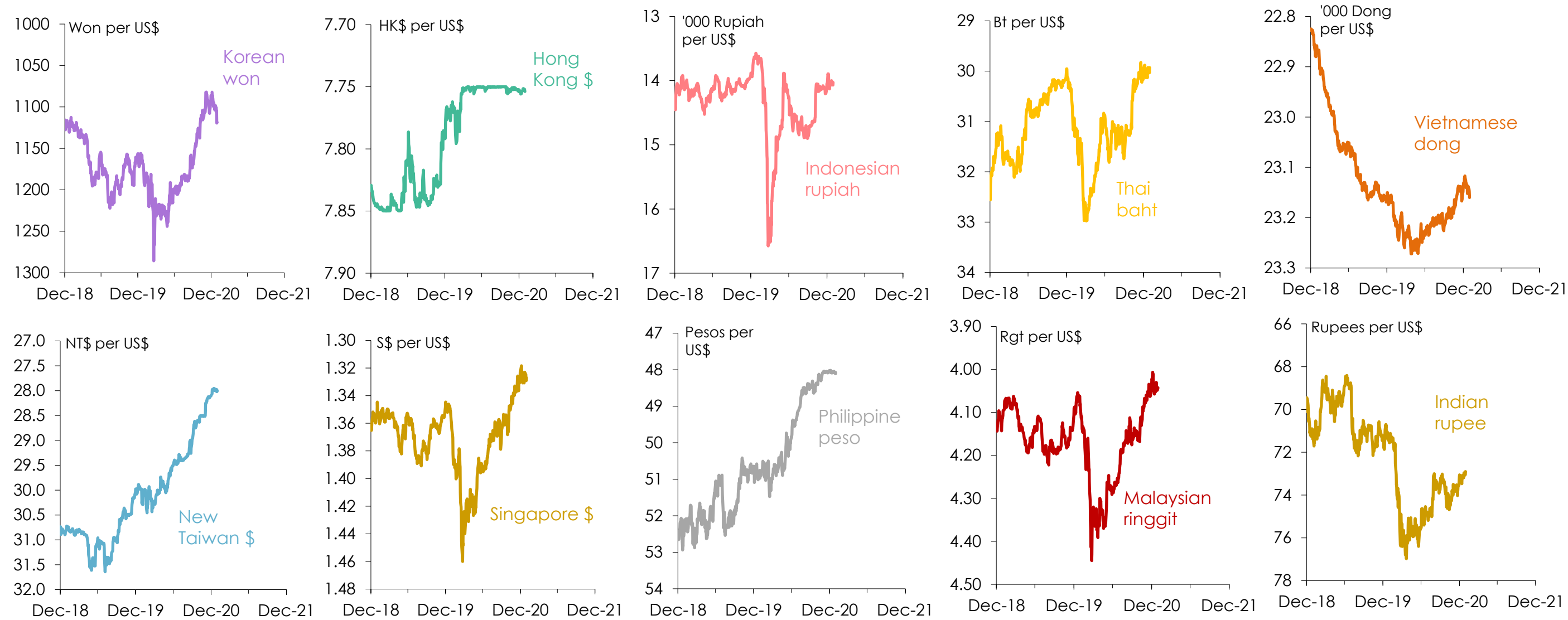


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy interest rate.

Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

Most Asian currencies were little changed this week against a firmer US\$, except for the Korean won which lost 1.4% this week and 2.9% this month

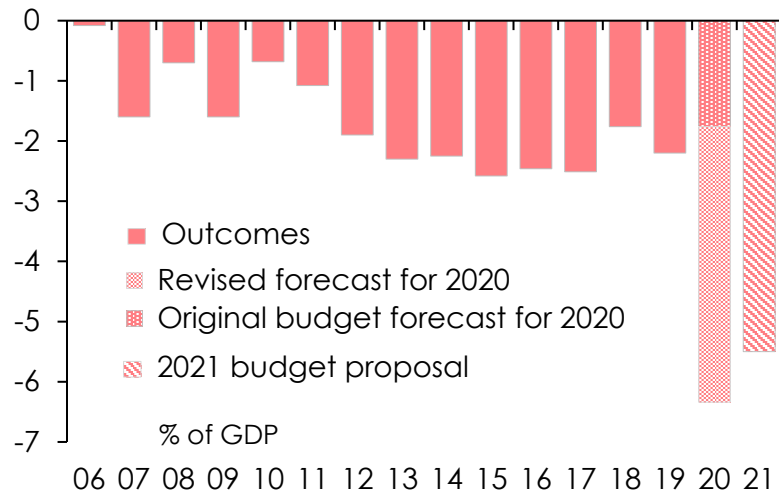
Asian currency exchange rates vs US dollar



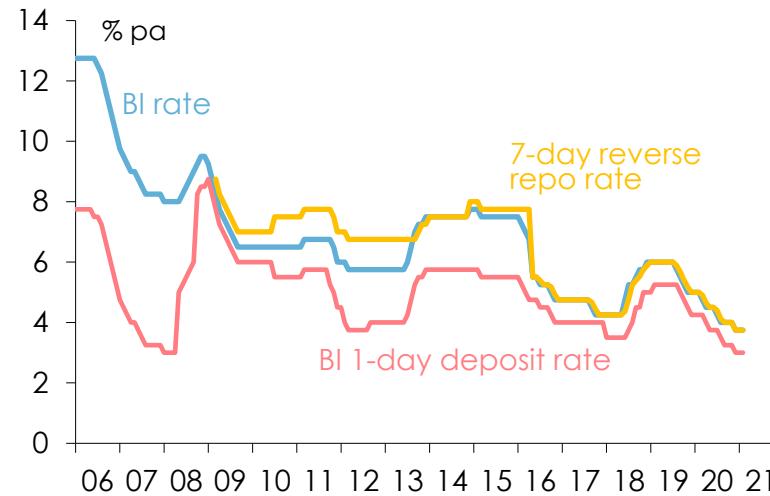
Note: Data up to 29th January. Source: Refinitiv Datastream. [Return to "What's New"](#).

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

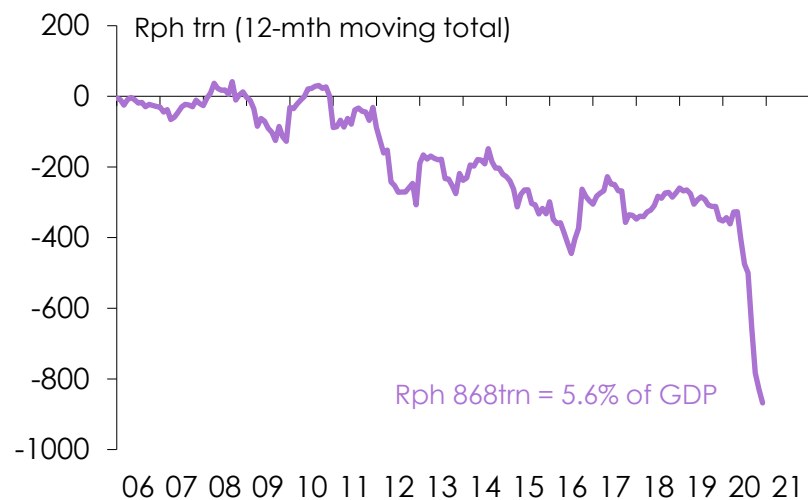
Indonesia budget deficit



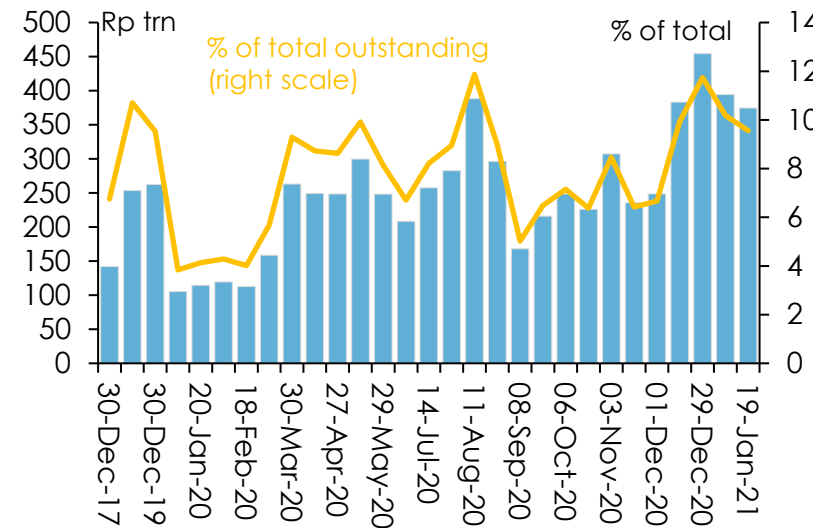
BI monetary policy rates



Central gov't budget balance



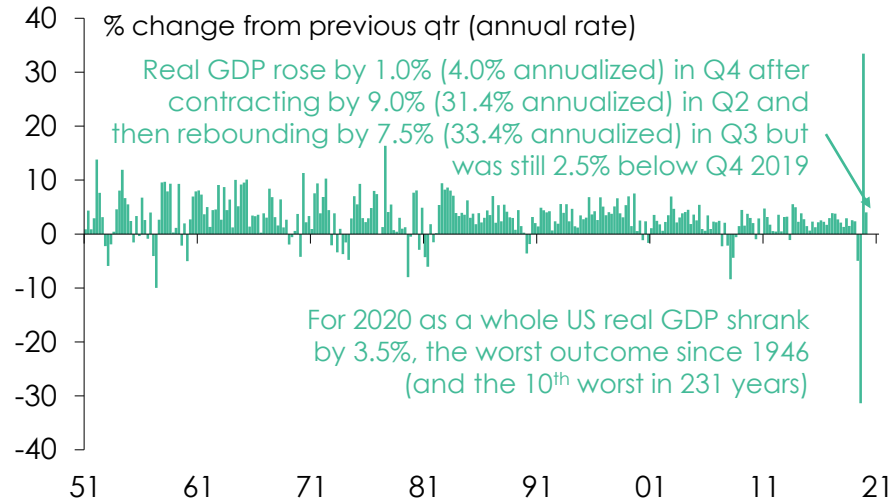
BI holdings of tradeable SBNs



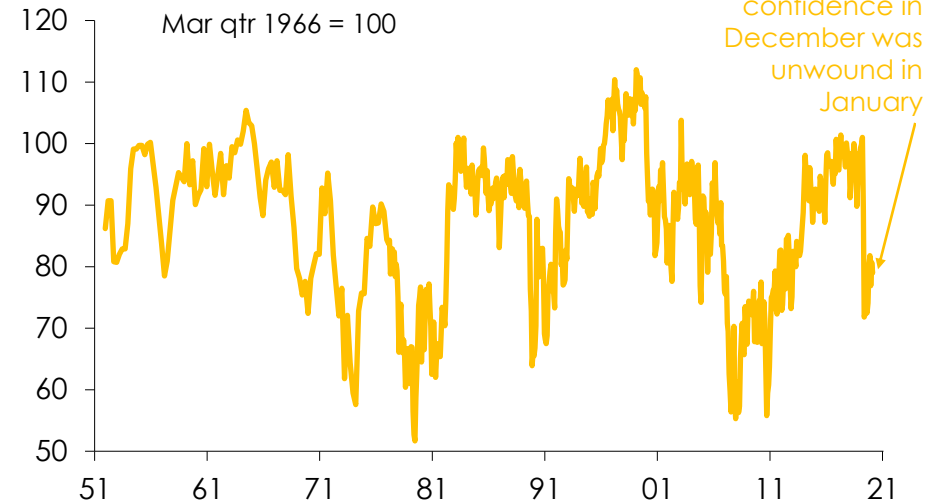
- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments 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
- Last 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"

US economic growth slowed sharply in Q4 after Q3's strong rebound with Q4 GDP still 2.5% below Q42019 and 2020 the worst year since 1946

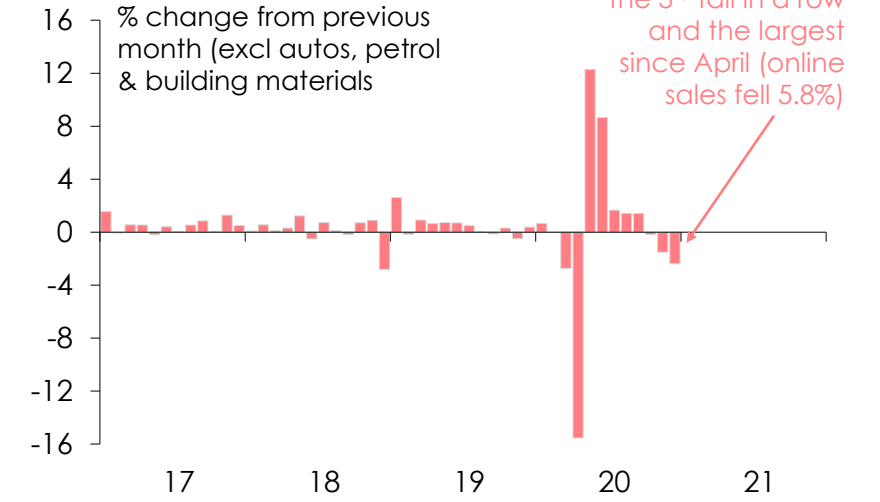
Real GDP



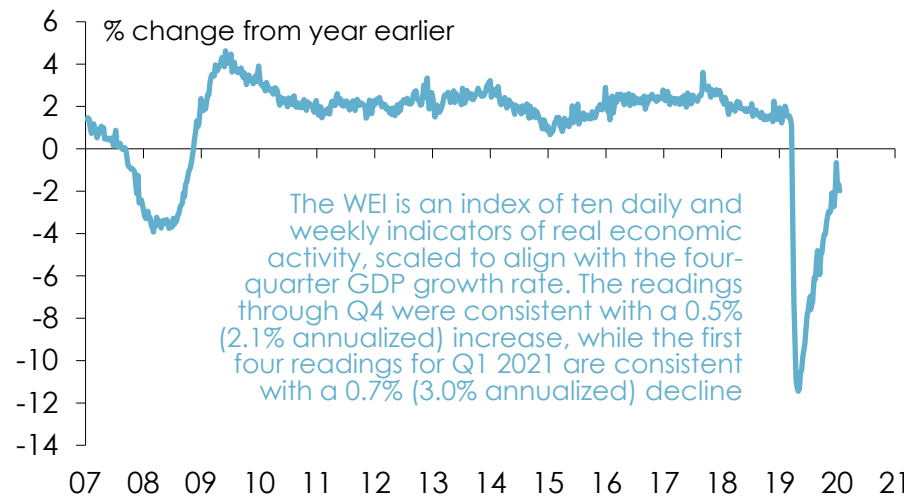
Consumer confidence



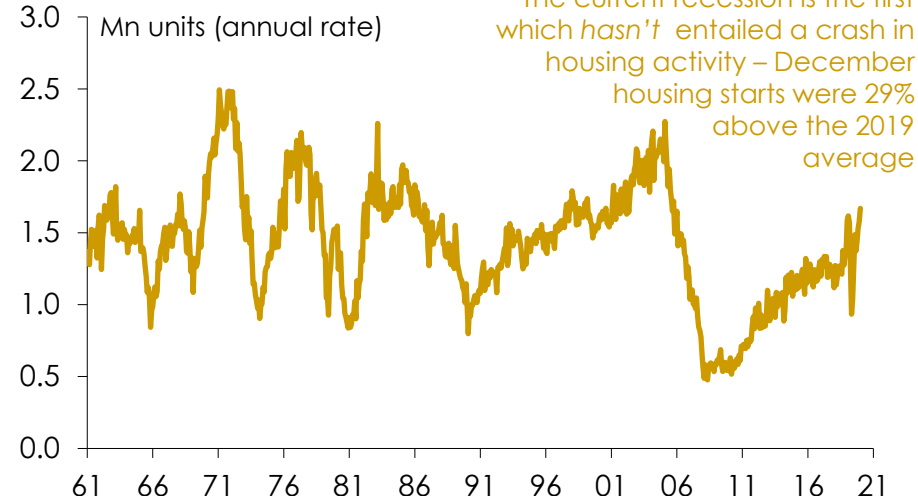
'Core' retail sales



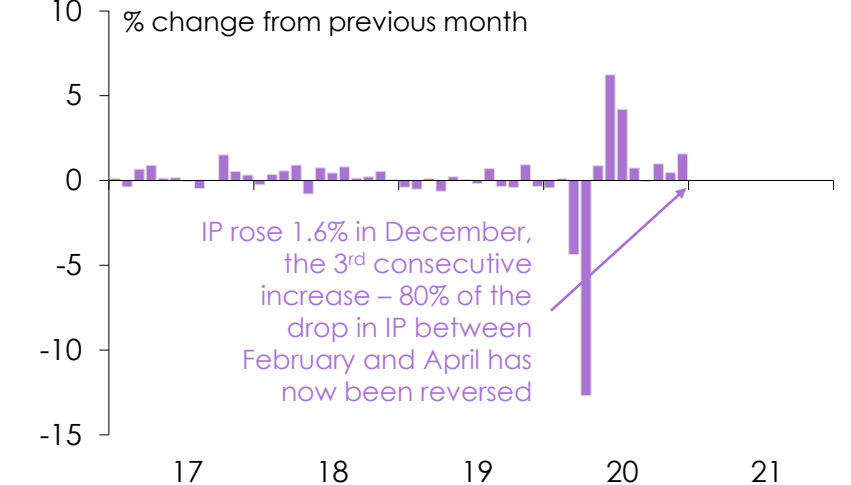
NY Fed weekly economic index



Housing starts

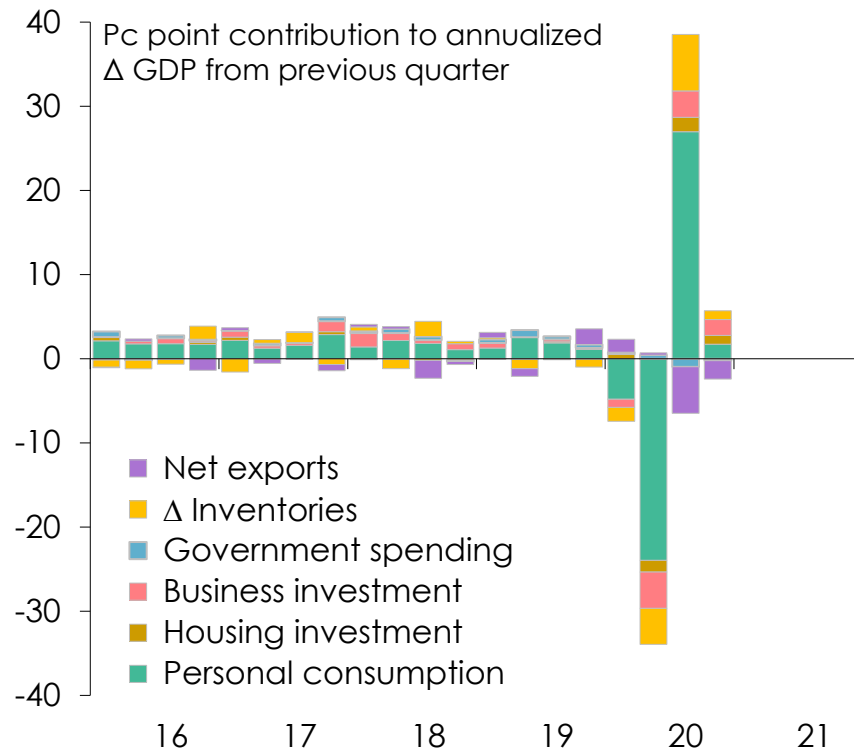


Industrial production



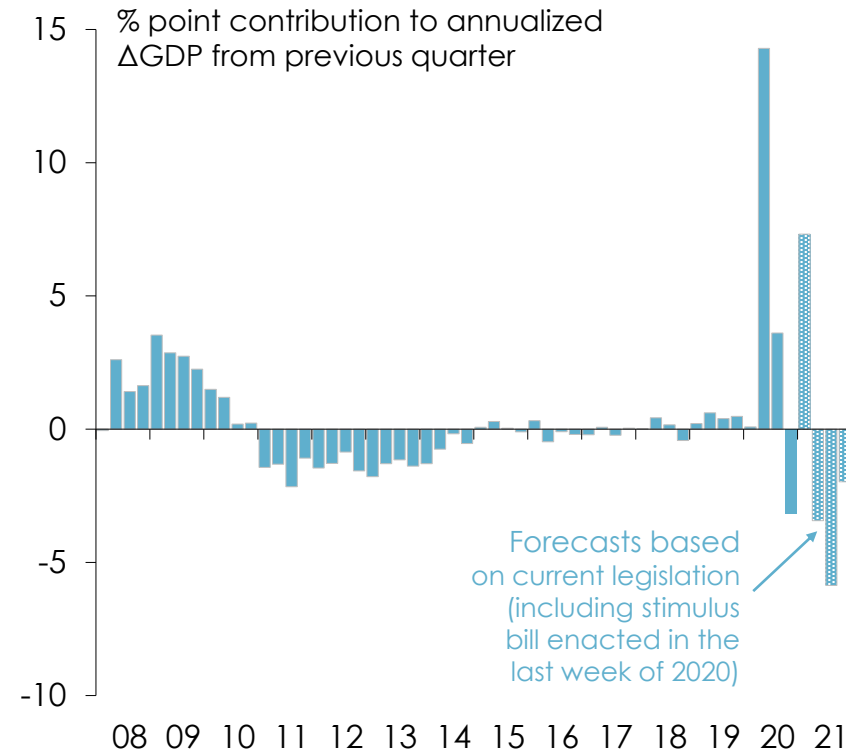
The huge gyrations in US real GDP during 2020 reflect the effects of restrictions, swings in fiscal policy and in personal saving

Major expenditure aggregates contribution to quarterly changes in real GDP



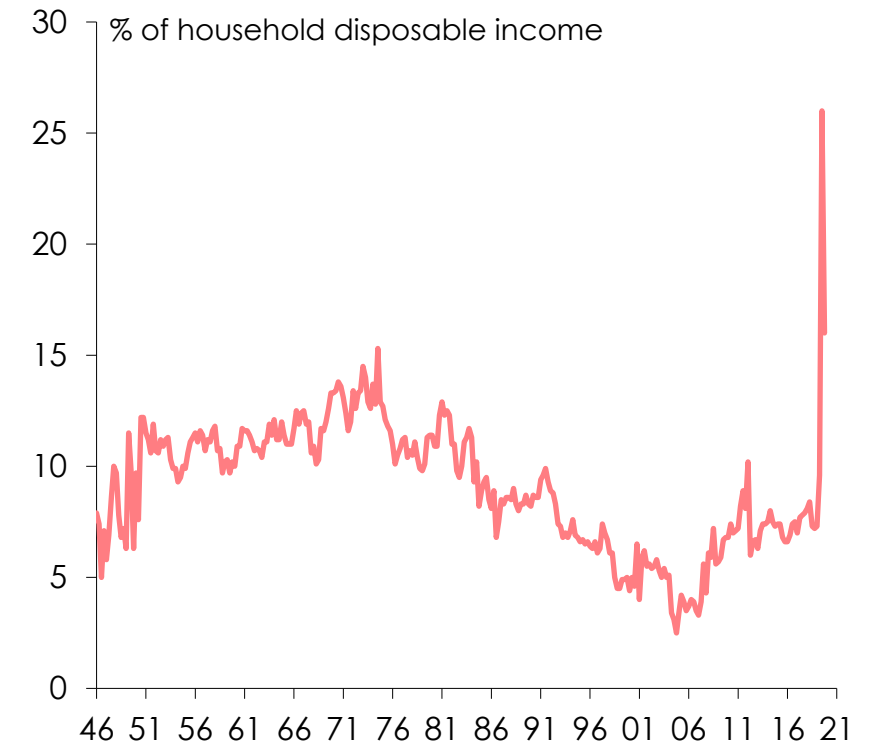
The slowdown in Q4 reflects a stalling in household spending on goods, a second consecutive fall in government spending, and a further drag from net exports

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



Fiscal policy subtracted 3.2 pc pts from growth in Q4 with the expiry of pandemic measures – but will add 7.3 pc pts to Q1 growth before (on current legislation) subtracting again in Q2-4

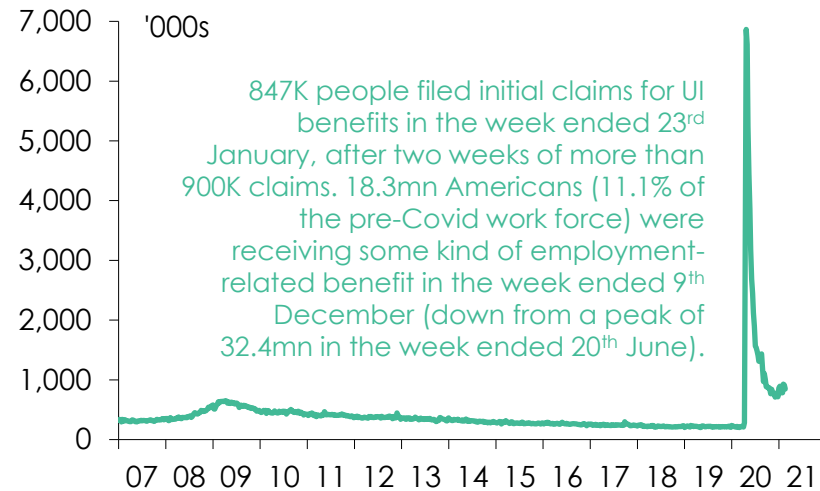
Personal saving rate



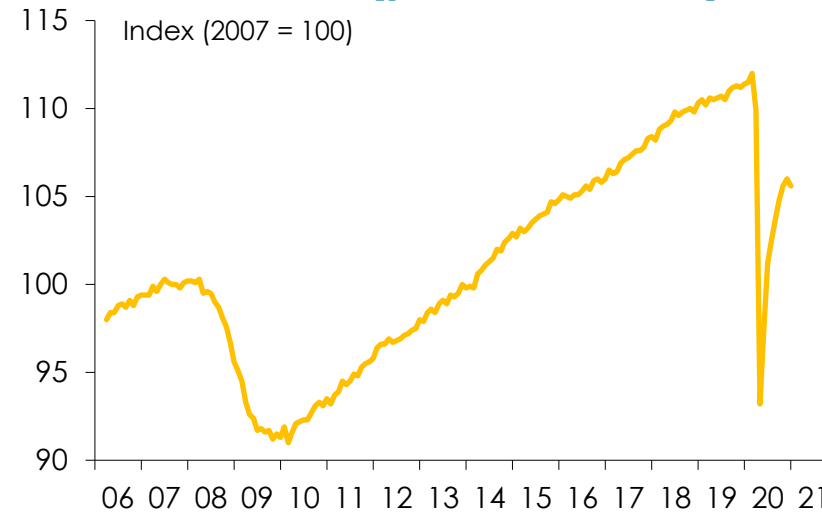
The personal saving rate declined again in Q4 to 13½% from 26% in Q2 and 16% in Q1 but is otherwise still higher than at any time since the end of WWII

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

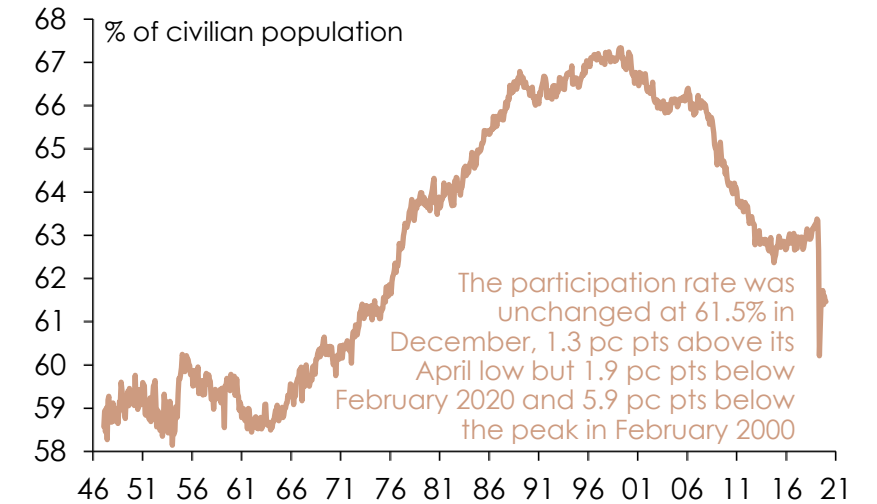
Unemployment benefit claims



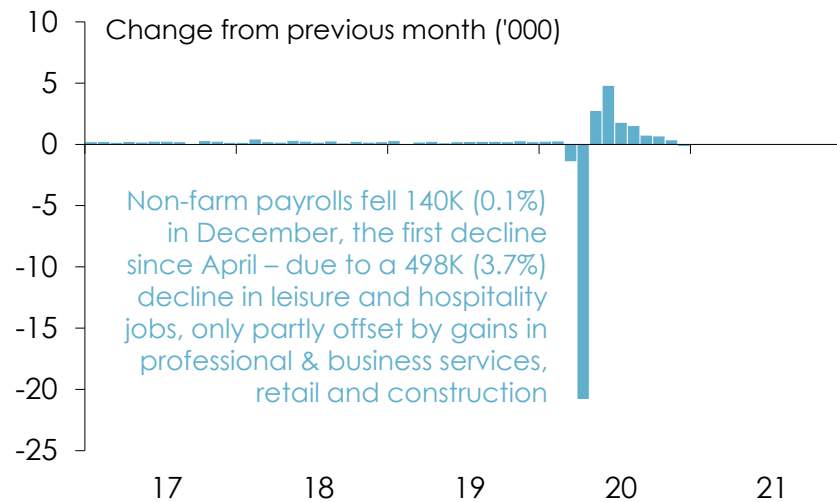
Hours worked (private sector)



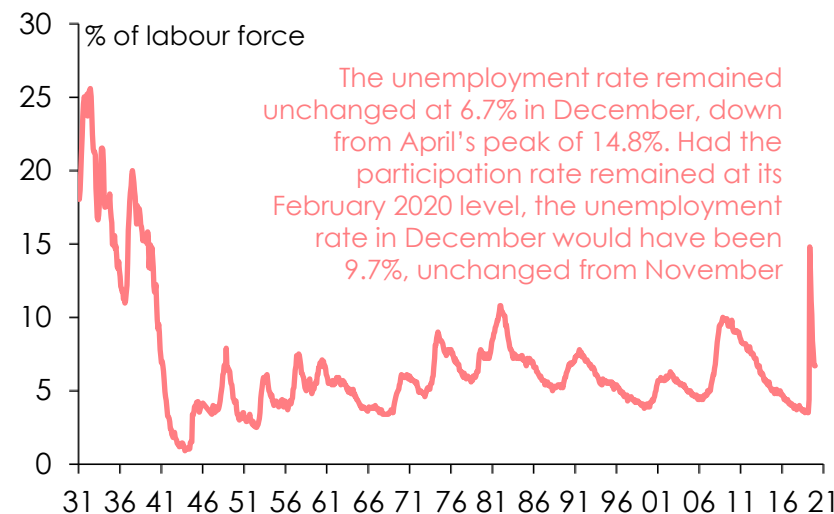
Labour force participation rate



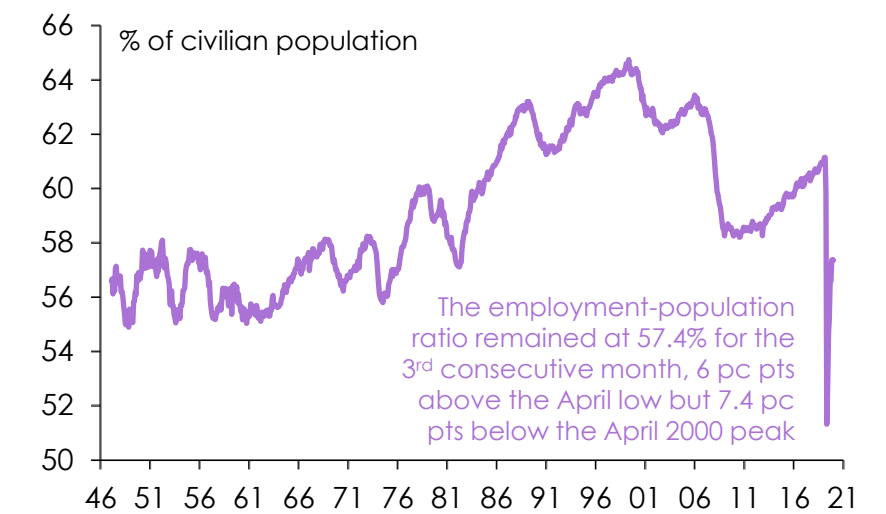
Non-farm payroll employment



Unemployment rate

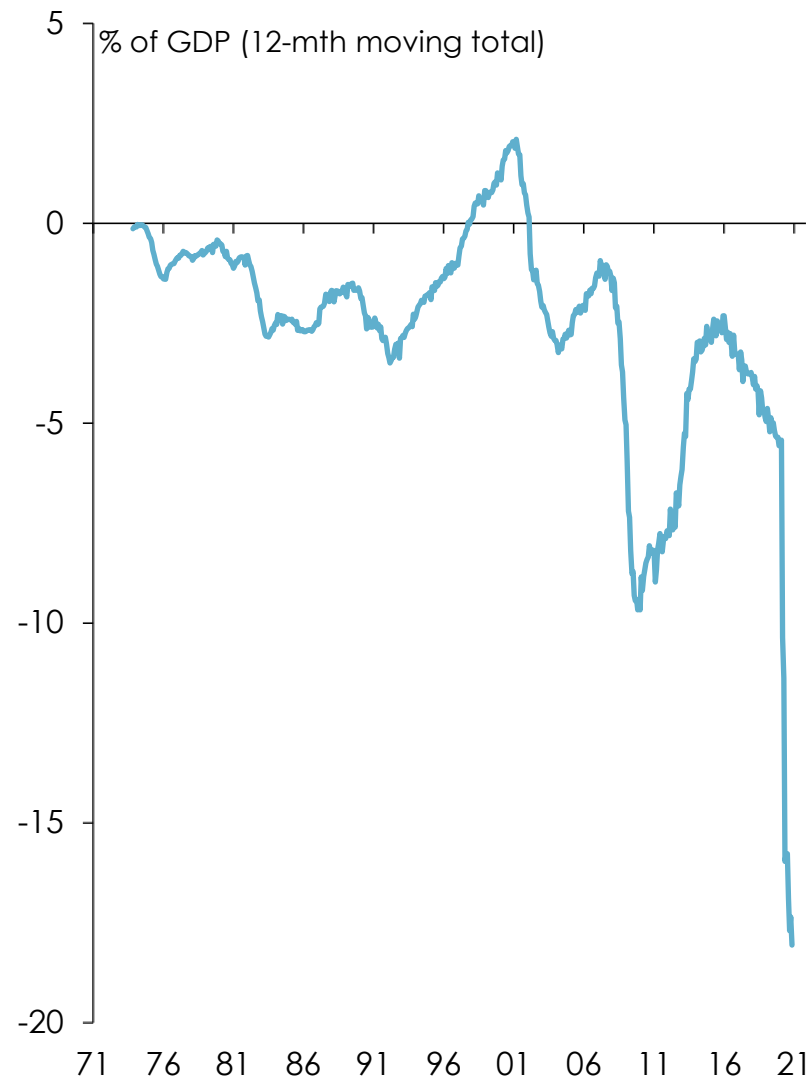


Employment to population ratio

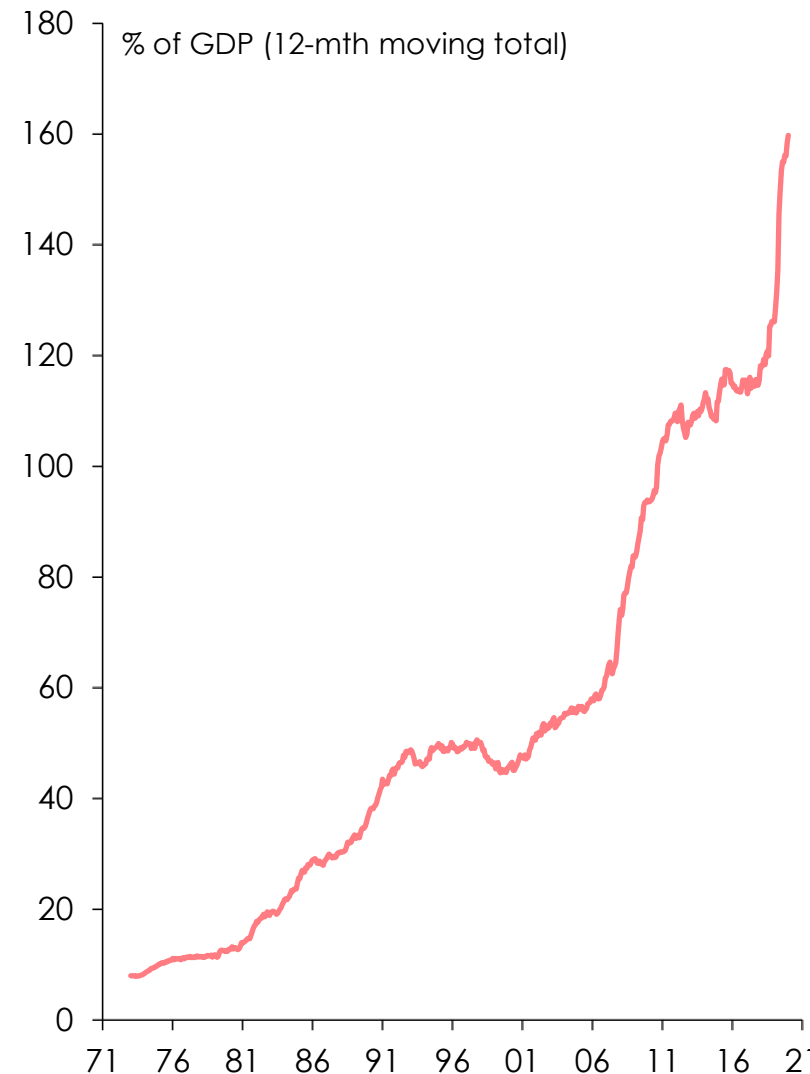


The US budget deficit has blown out dramatically since the end of March, reaching US\$3.3 trn (18% of GDP) in the twelve months to December 2020

US Federal budget deficit



US gross Federal debt

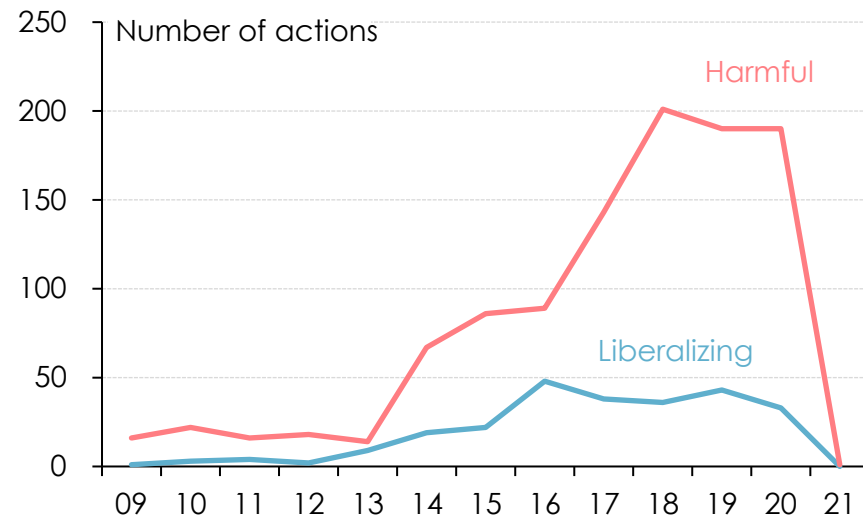


- ❑ The US budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to \$24.1trn (126% of GDP)
- ❑ The budget recorded a US\$144bn deficit in December, \$1bn less than in 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

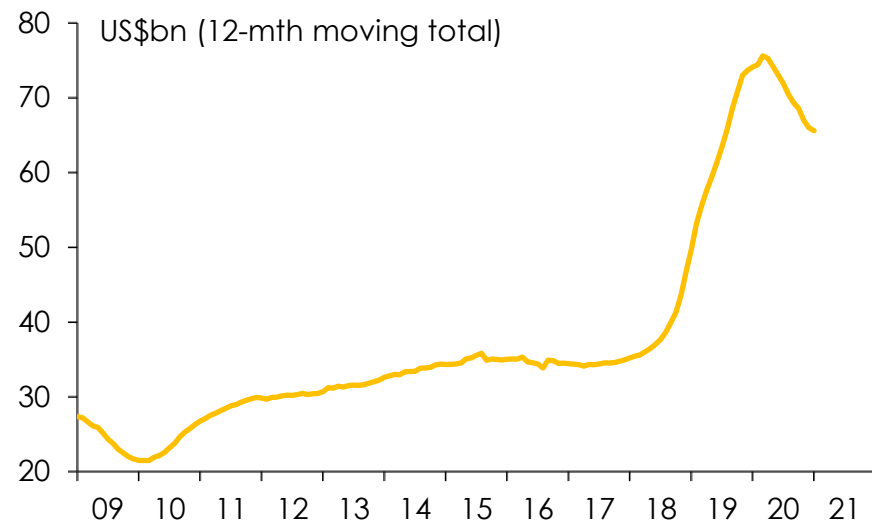
Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna. January budget data will be released on 10th February. [Return to "What's New"](#).

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

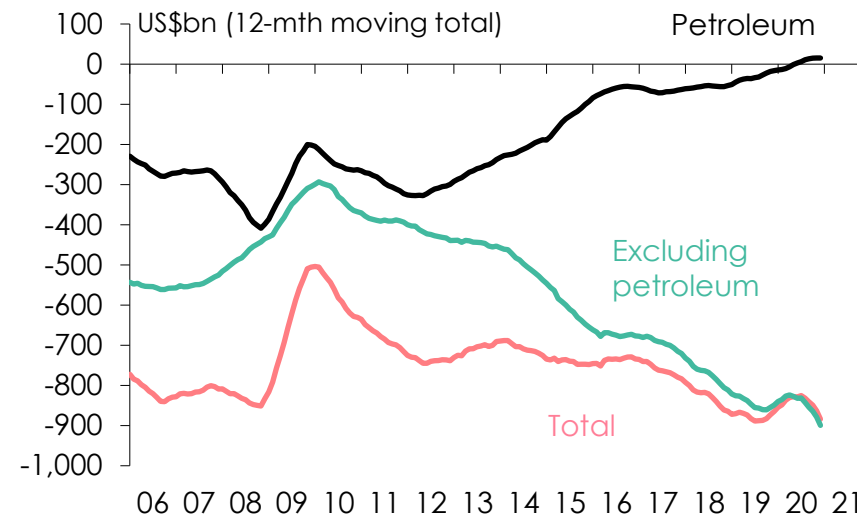
US trade policy actions



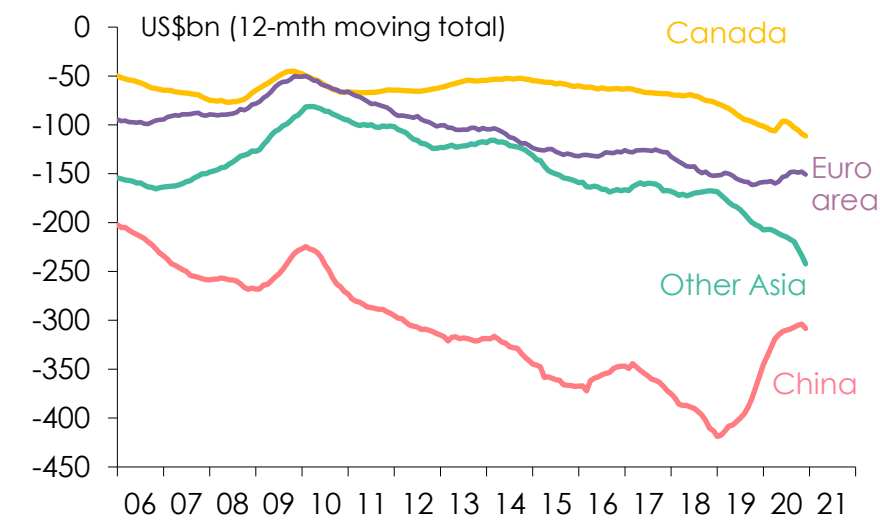
US customs duty revenue



US merchandise trade balance



US bilateral trade balances

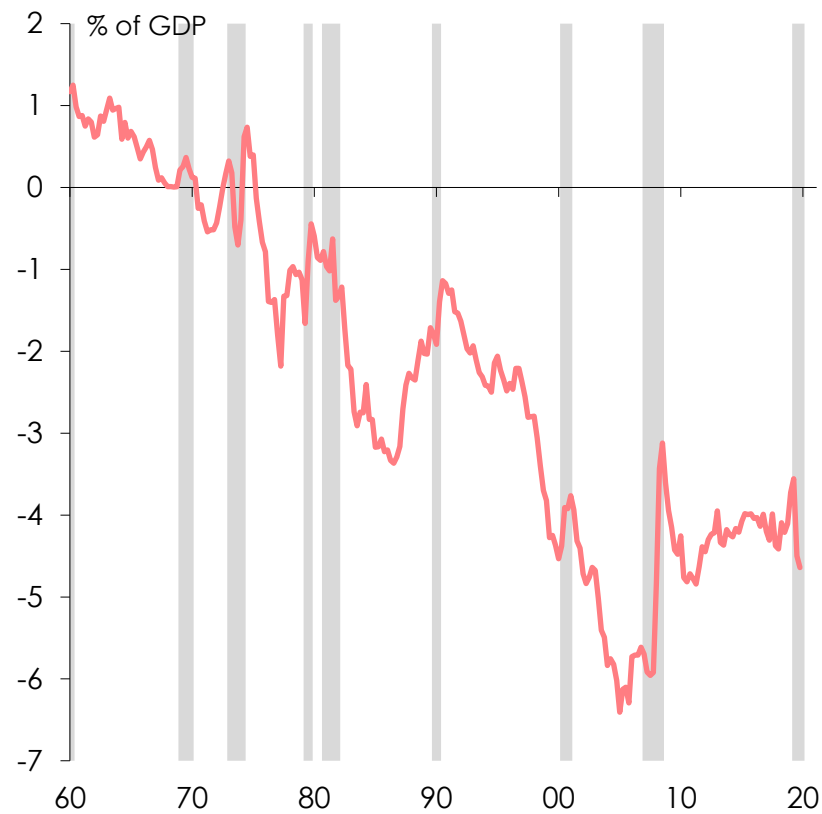


- ❑ A [Brookings Institution analysis](#) of the impact of the Trump Administration's trade policies suggests that the average American household paid anywhere between "several hundred" and "a thousand dollars or more" per annum in higher prices due to tariffs
 - consistent with what is widely understood 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 29th January); [US Treasury Department](#); US Commerce Department. [Return to "What's New"](#).

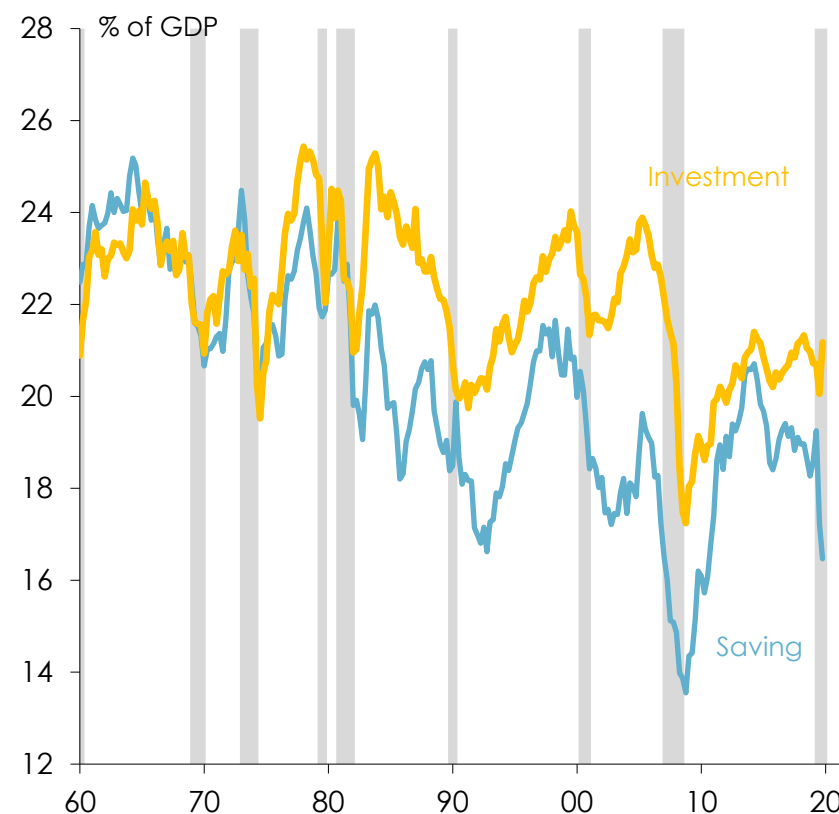
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



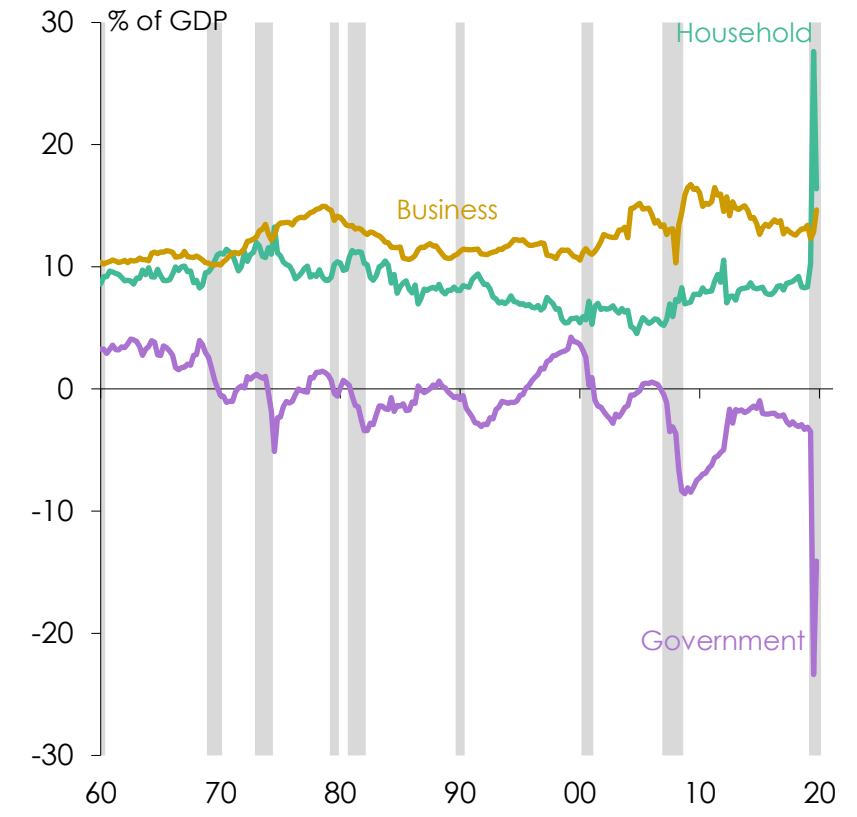
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

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

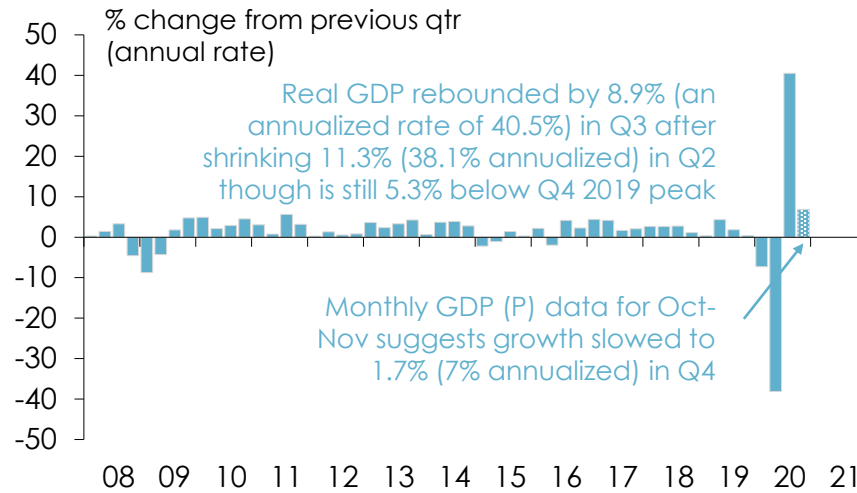


The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving (though monthly data says household saving fell in Q3)

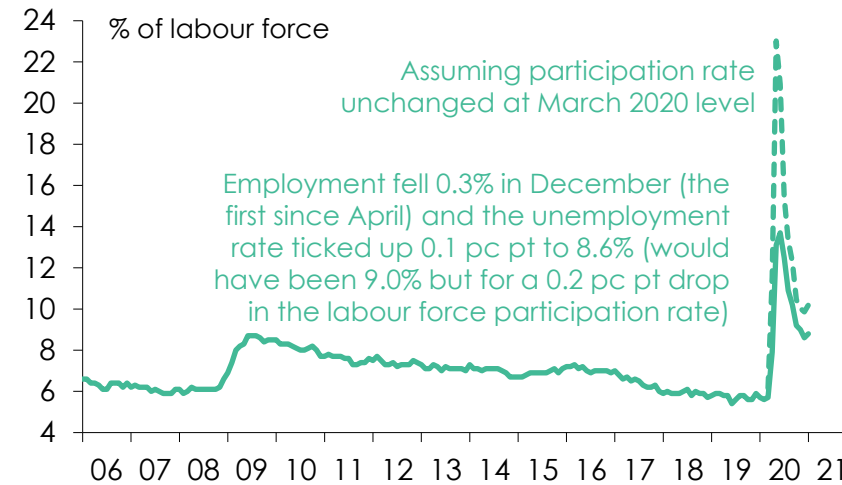
Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#). 2020 Q4 data will be included in these charts with the release of the second estimates of Q4 GDP on 25th February. Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

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

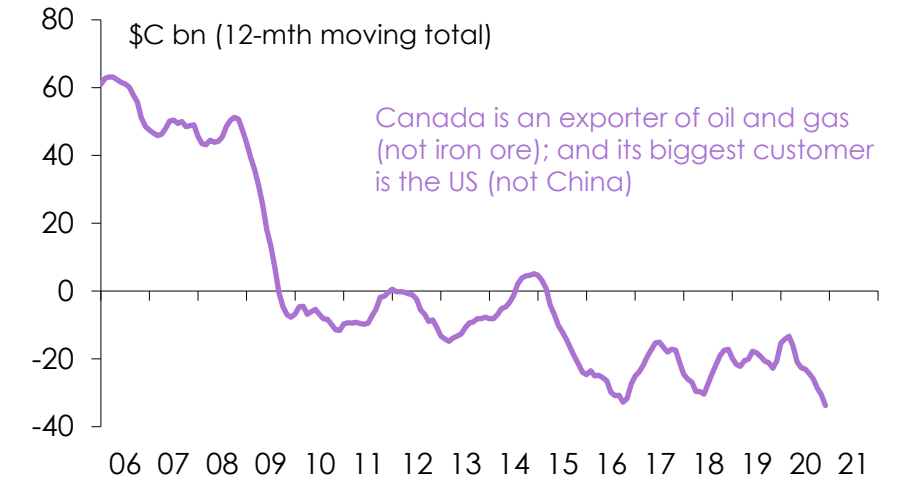
Real GDP



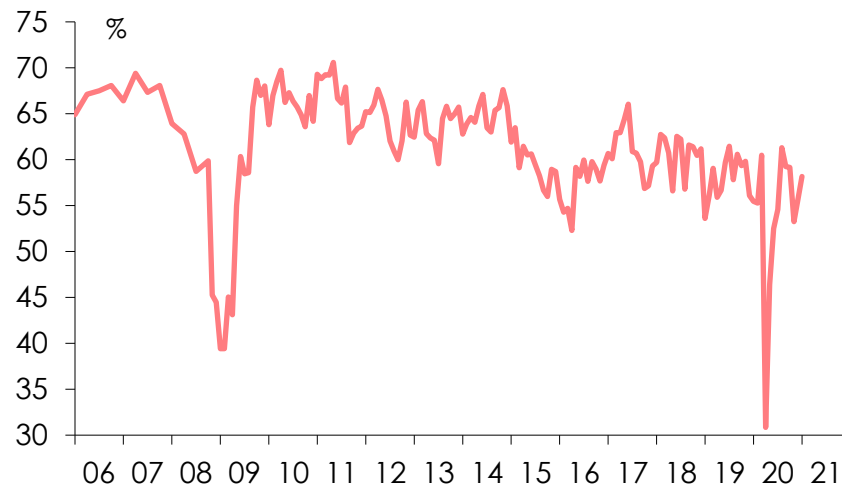
Unemployment rate



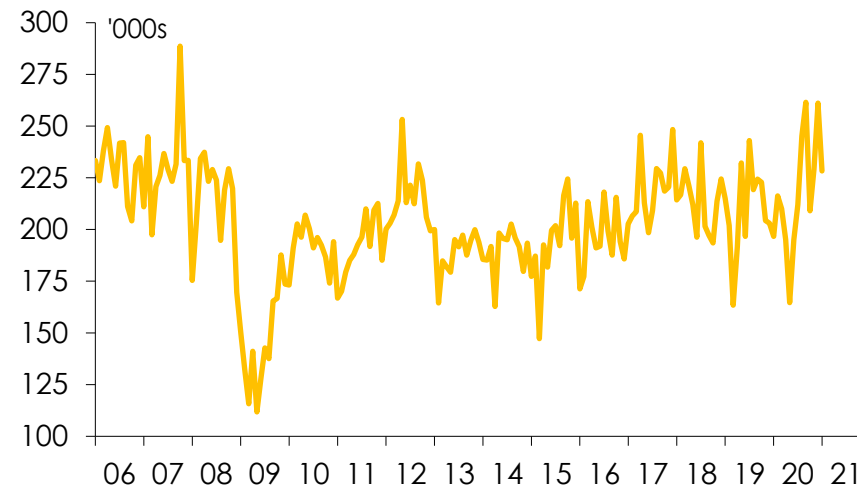
Merchandise trade balance



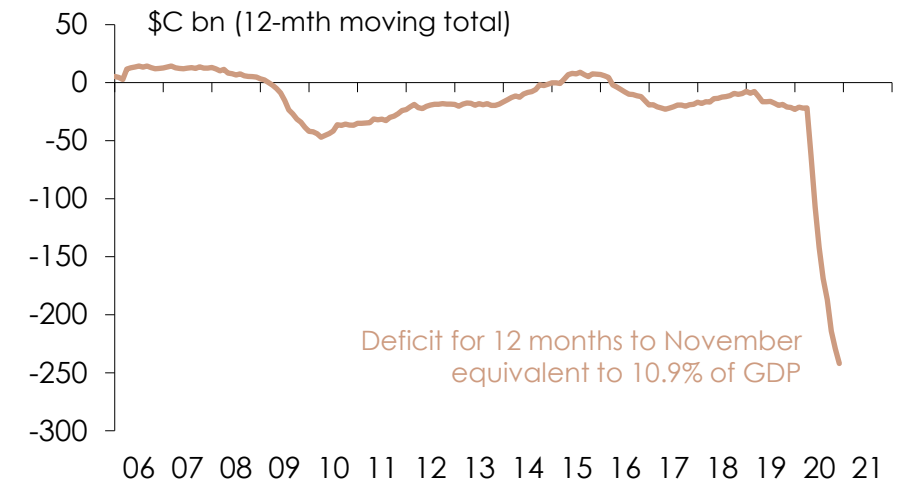
CFIB 'business barometer'



Housing permits

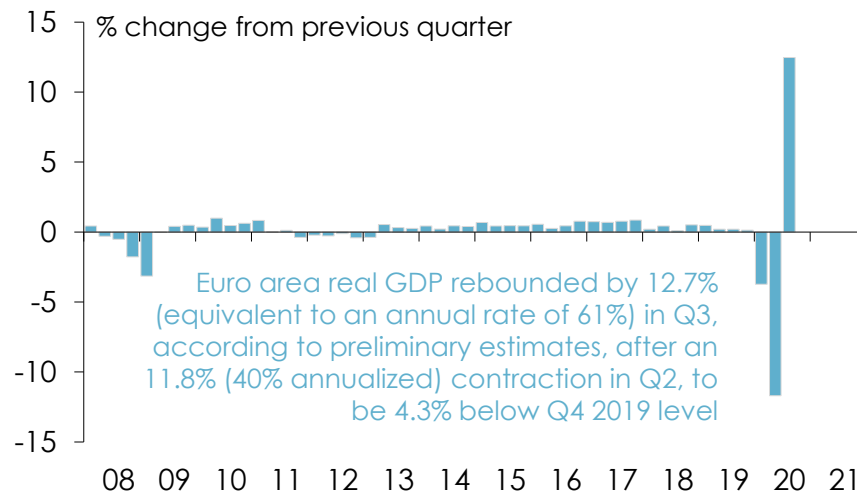


Federal budget balance

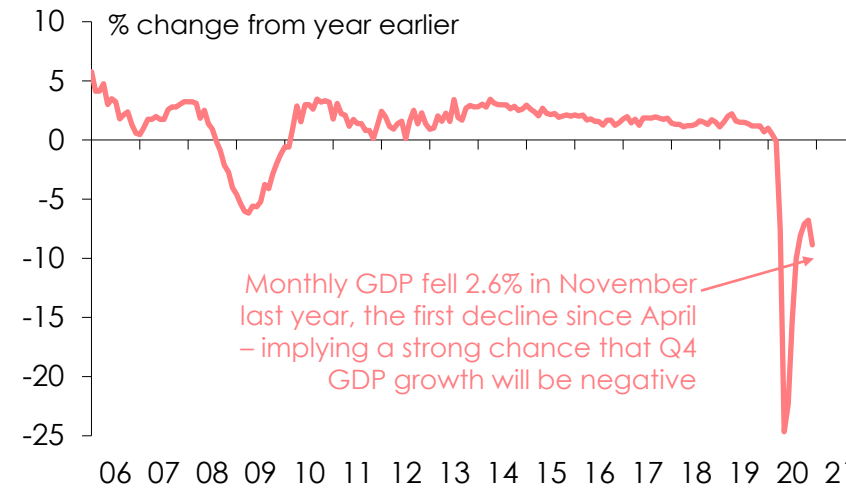


Germany and Spain reported very weak Q4 GDP growth, while France's GDP declined, and the UK's may have also

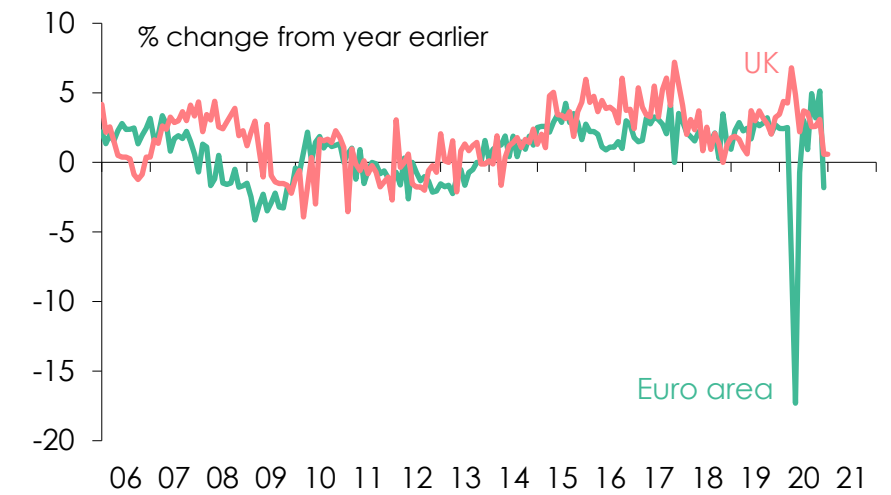
Euro area real GDP



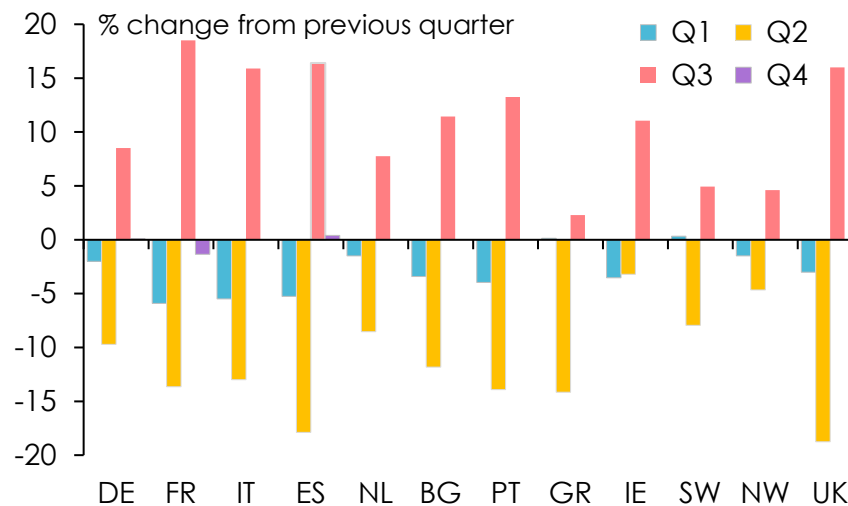
UK monthly GDP



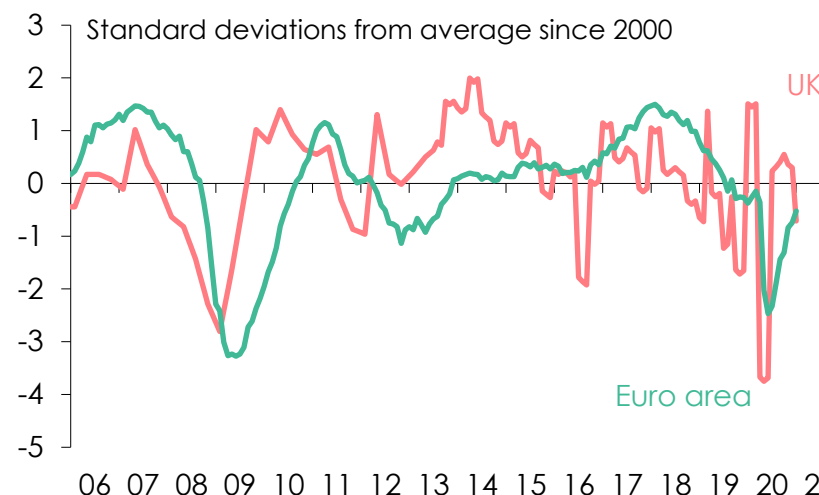
Retail sales volume



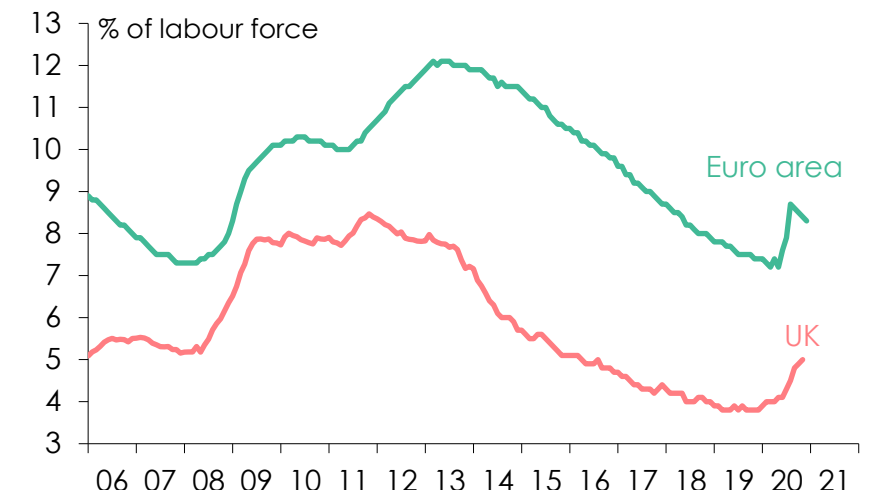
Quarterly GDP by country



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"](#).

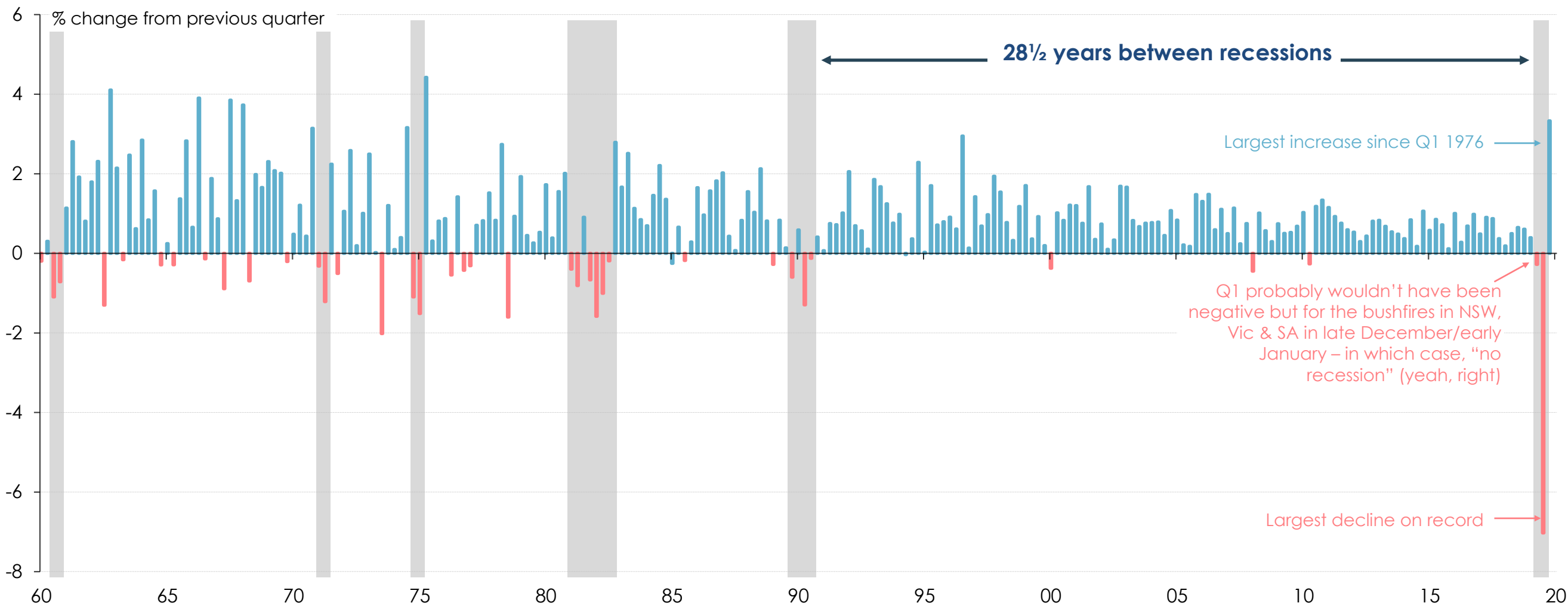
Australia

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

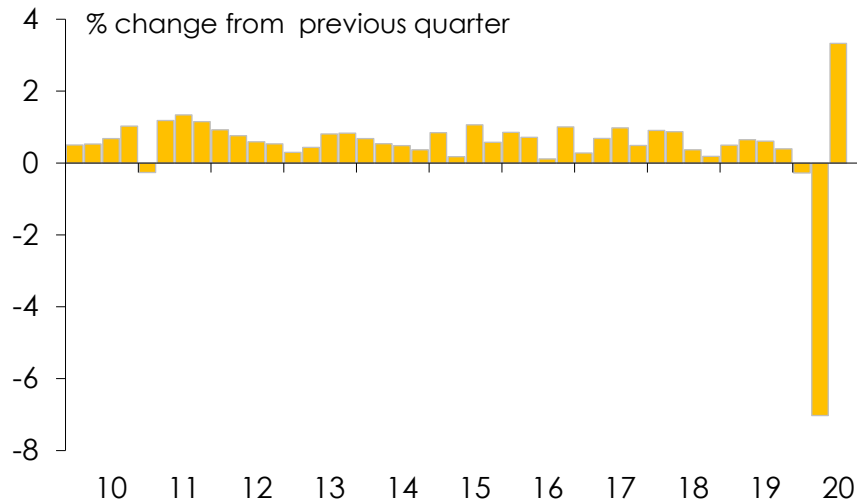
Quarterly growth in Australian real GDP, 1960-2020



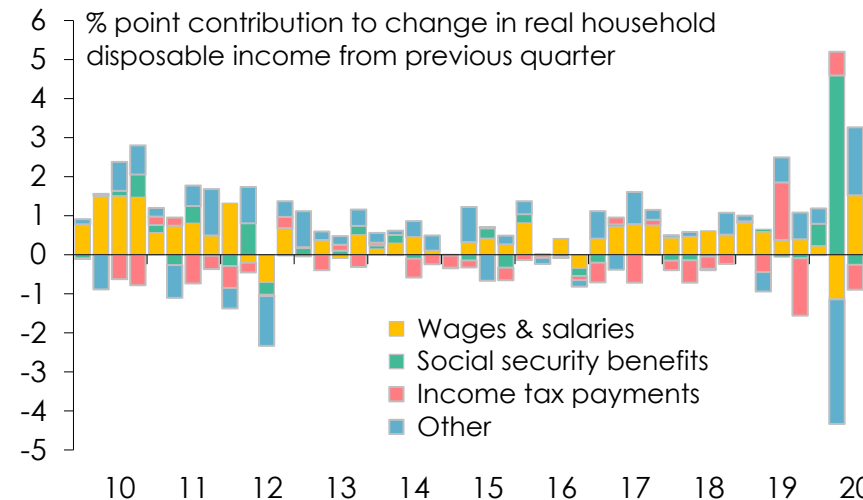
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020. December quarter (Q4) national accounts will be released on 3rd March. [Return to "What's New"](#).

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

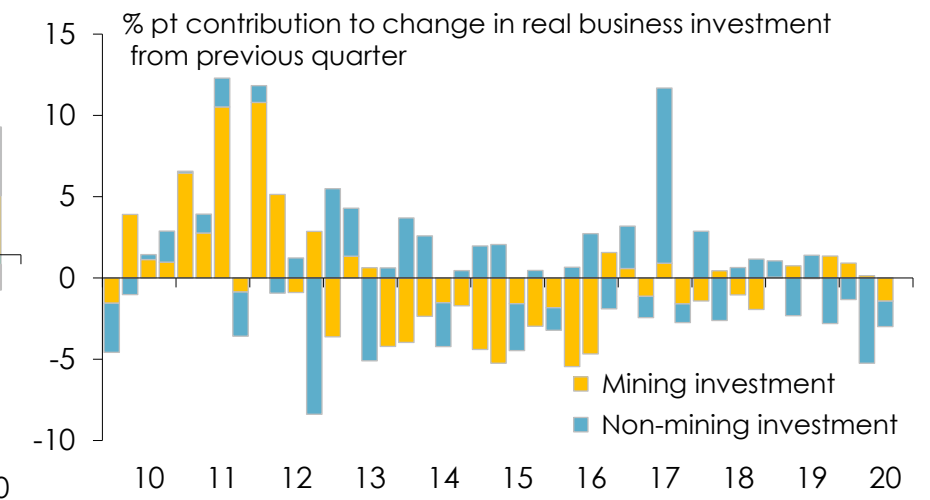
Quarterly change in real GDP



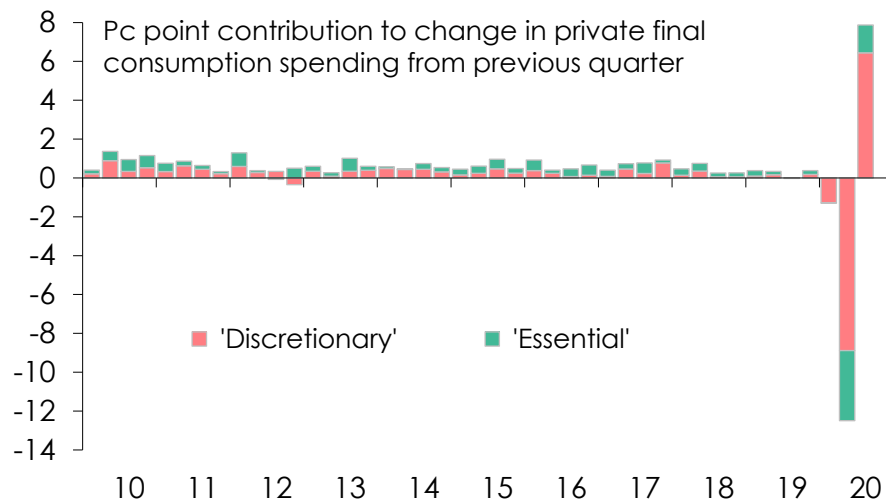
Household disposable income



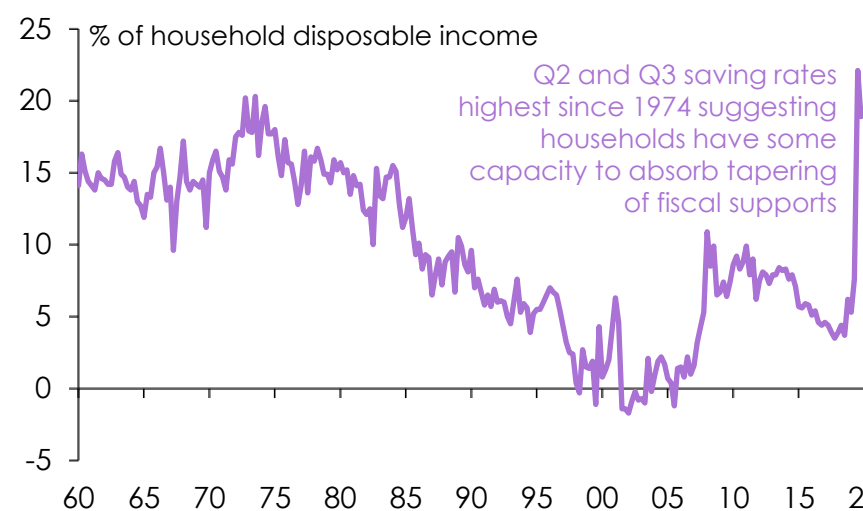
Business investment expenditure



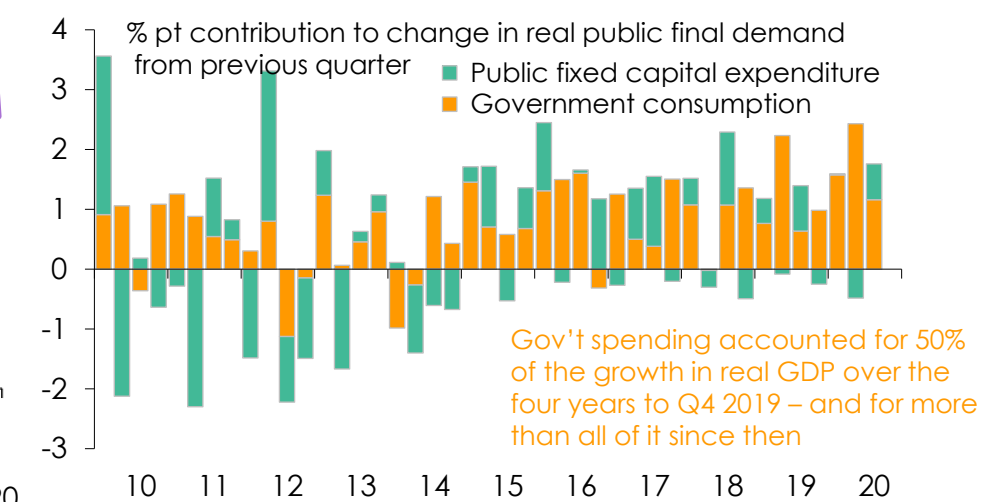
Household consumption expenditure



Household saving rate



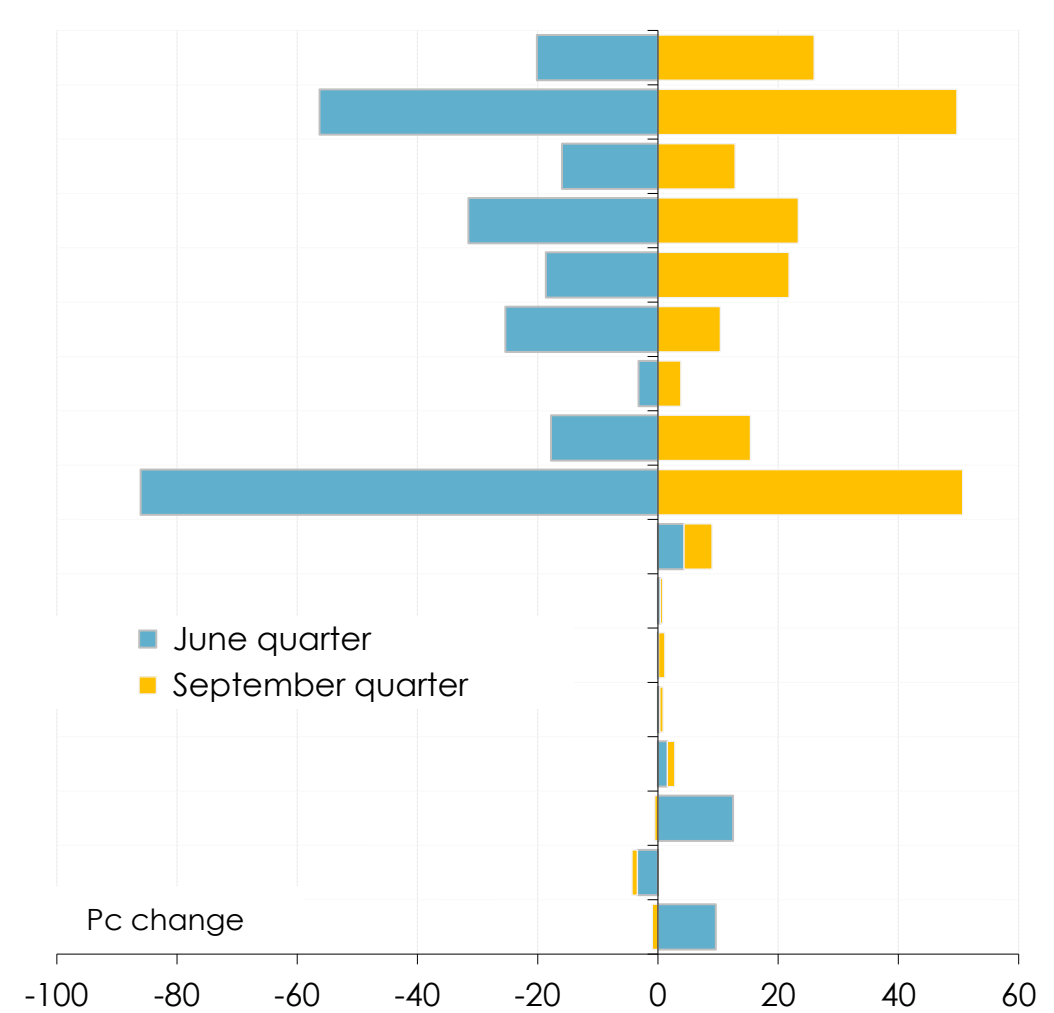
Public expenditure



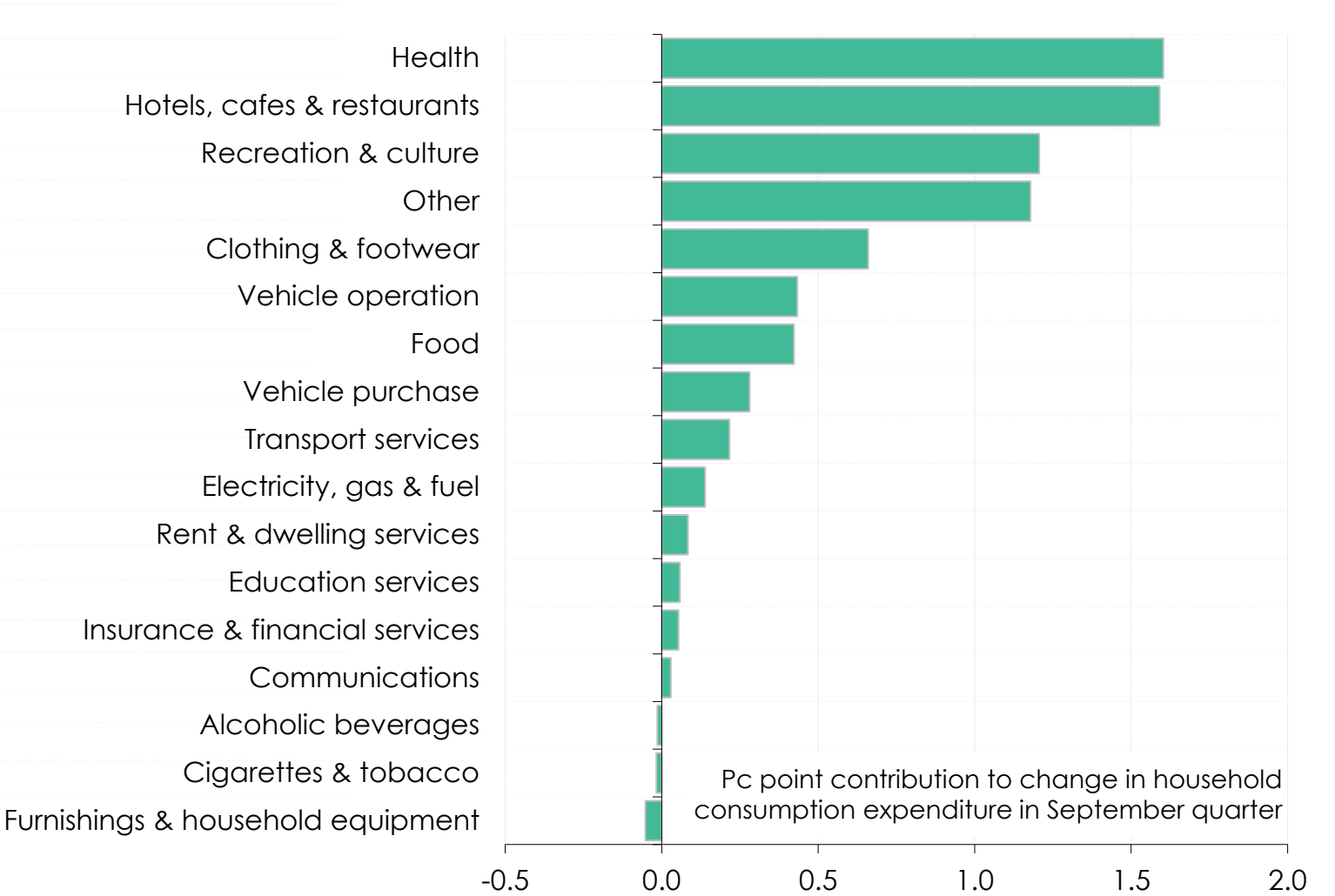
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are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



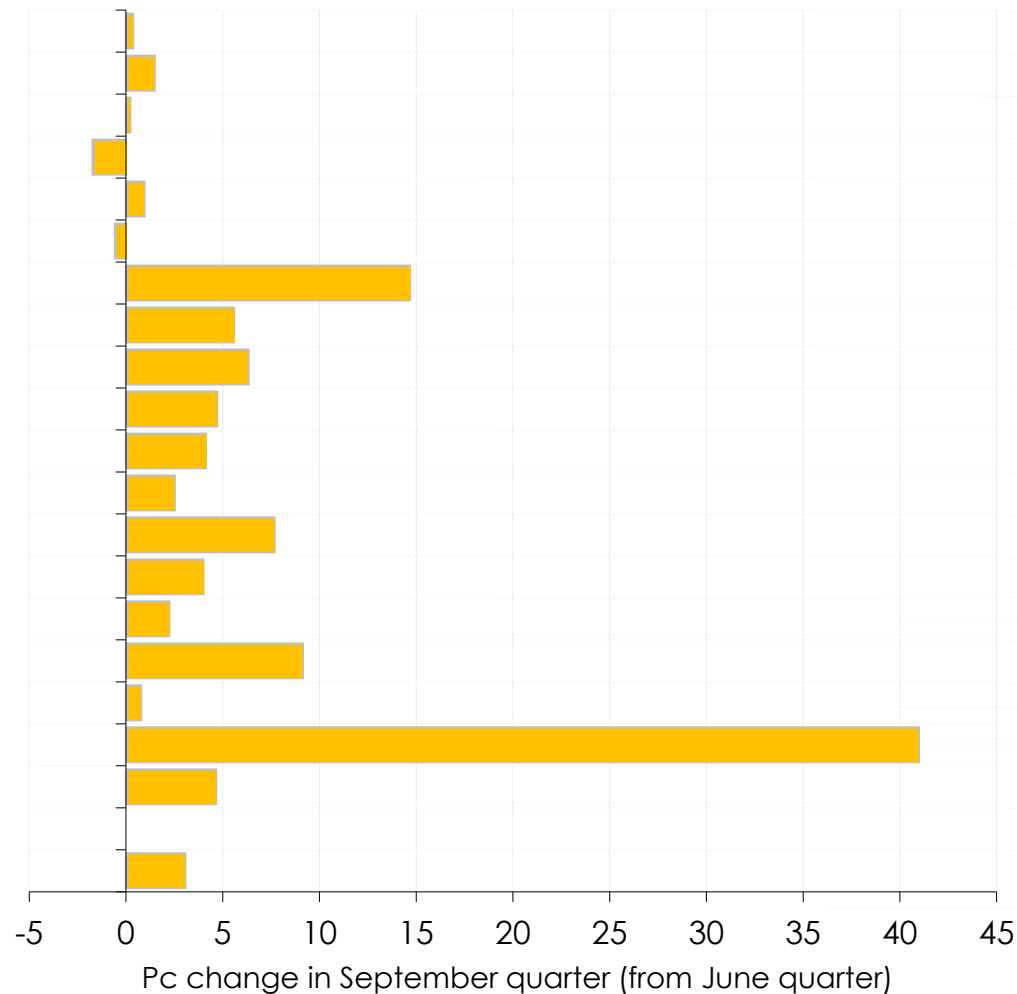
Contribution to change in household consumption spending, by category, September quarter



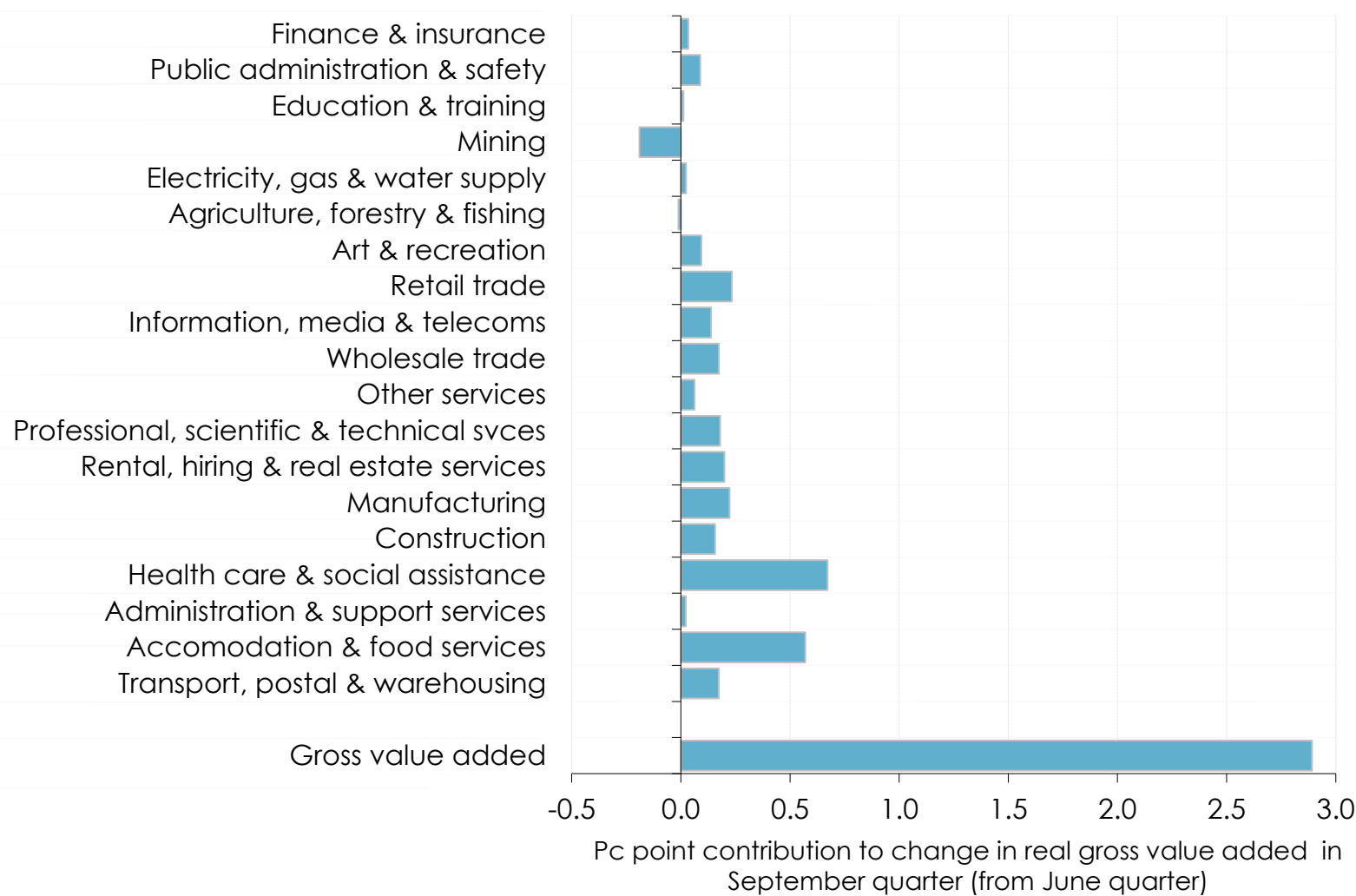
Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). Source: ABS, [Australian National Accounts: National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



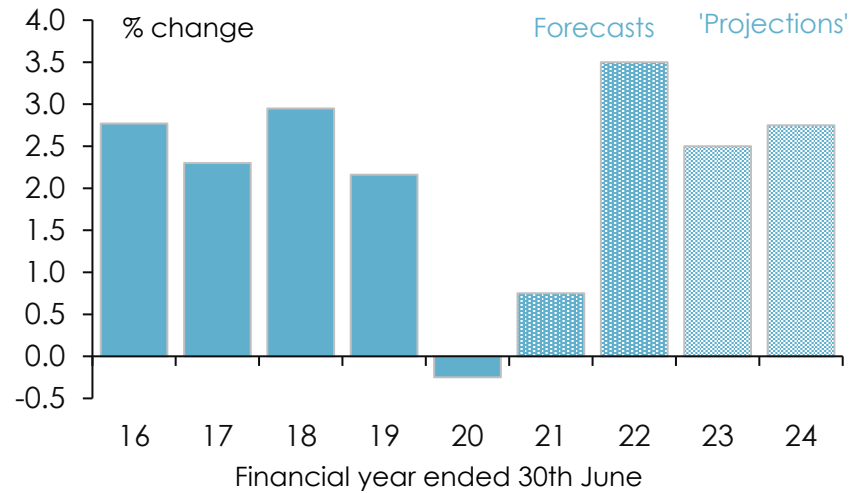
Contribution to change in real GDP, by industry, September quarter



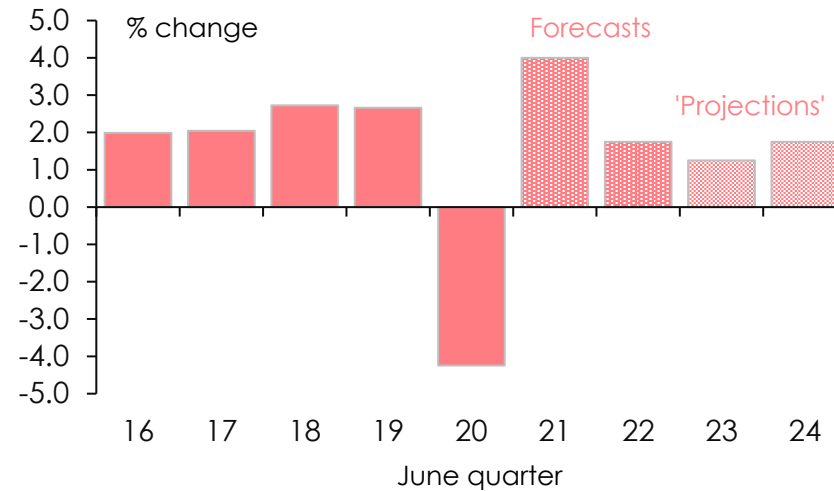
Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts.
Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2020. December quarter national accounts will be released on 3rd 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 $3\frac{1}{2}\%$)

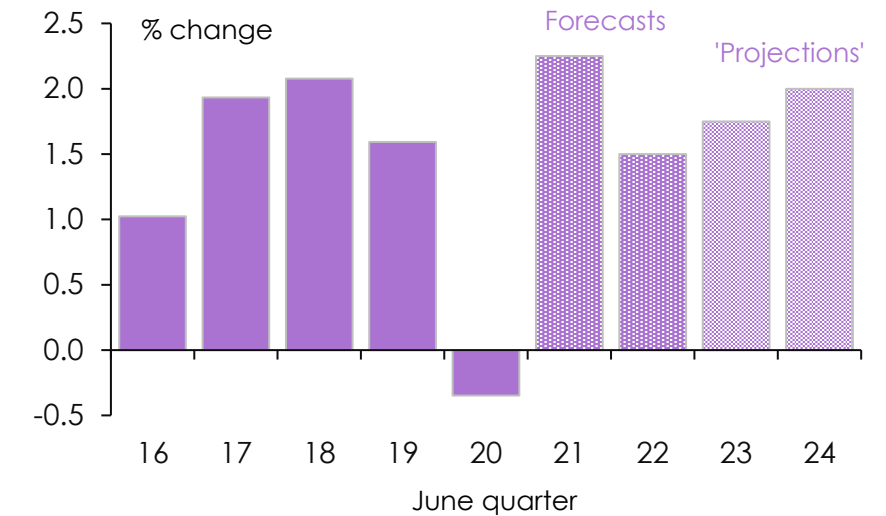
Real GDP



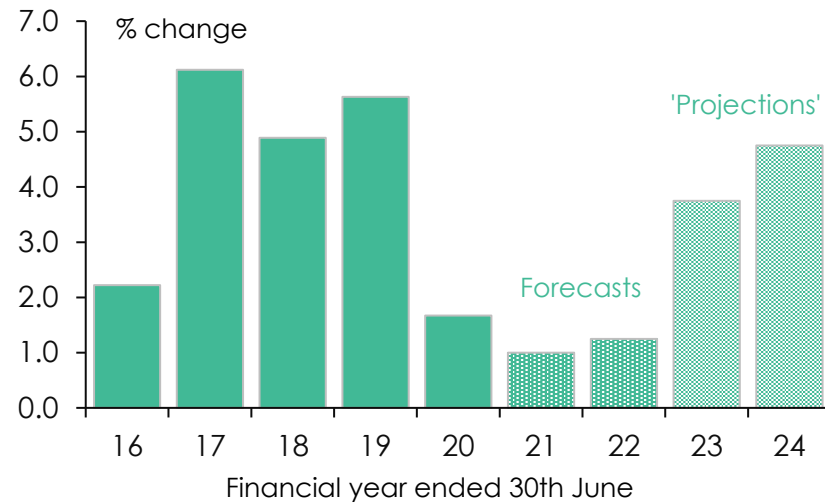
Employment



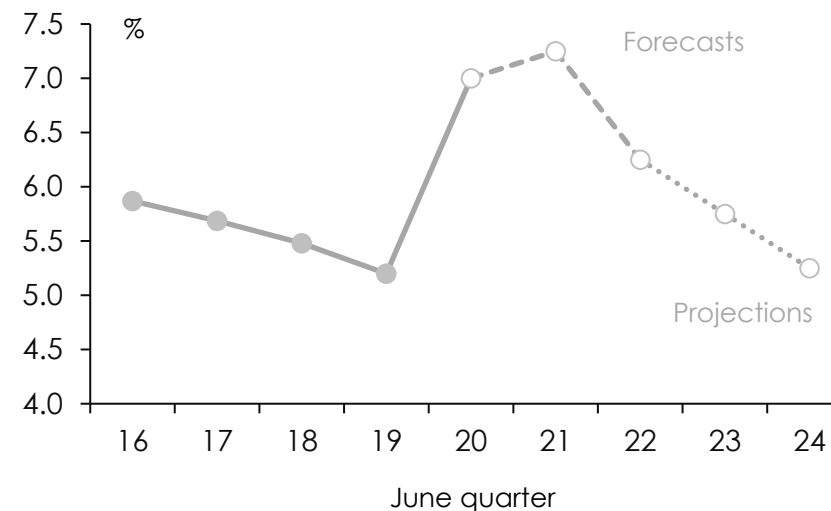
Consumer price index



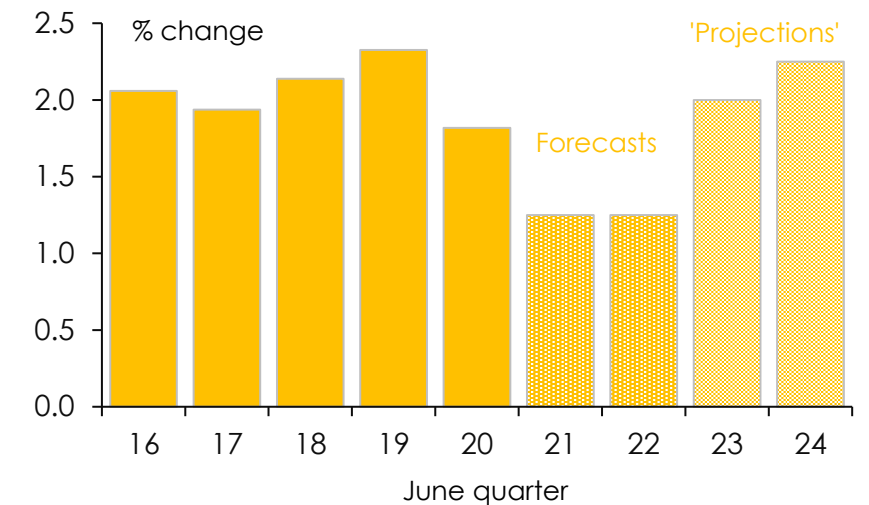
Nominal GDP



Unemployment rate



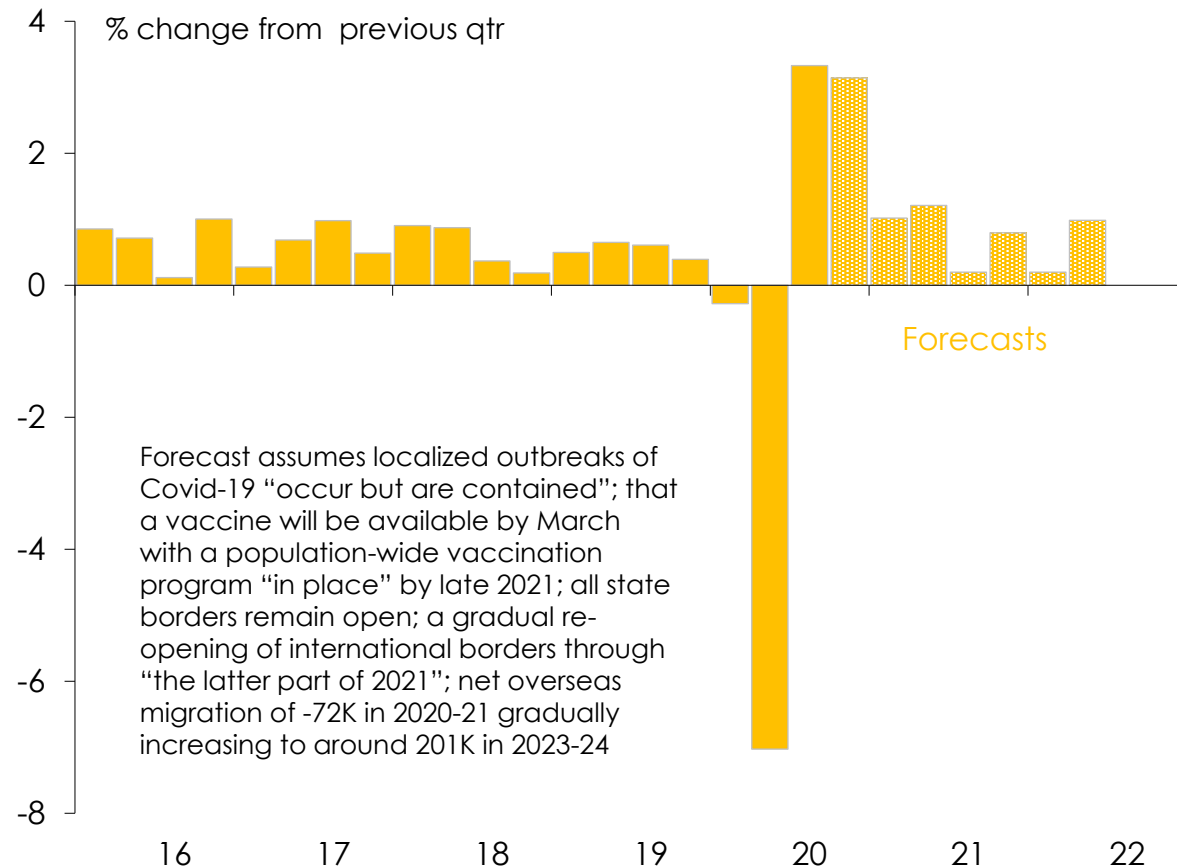
Wage price index



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](#), 17th December 2020.

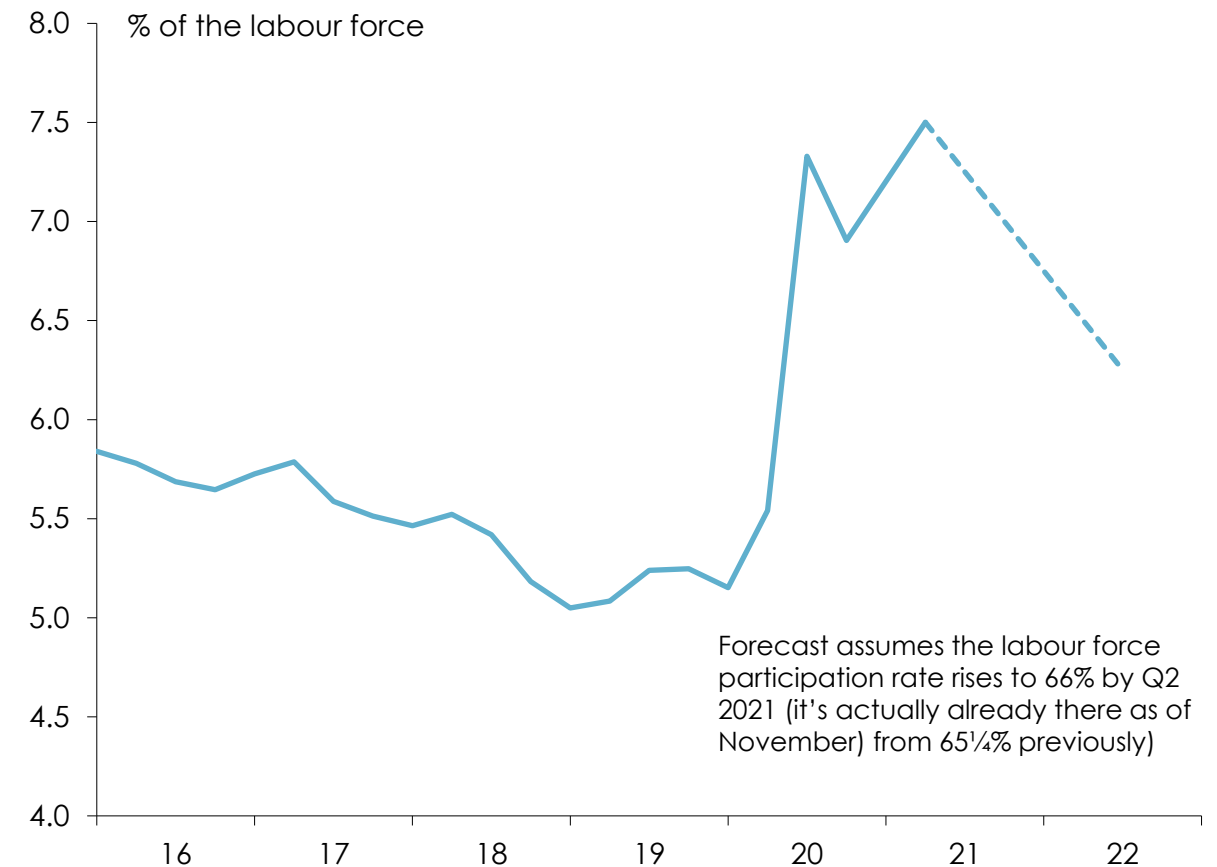
Treasury has revised up its near-term GDP growth forecast (but lowered it a bit for 2021-22) and lowered its unemployment rate forecasts

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

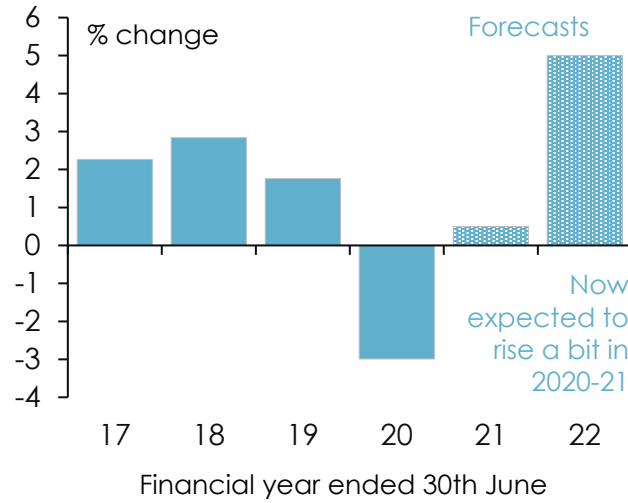
Unemployment



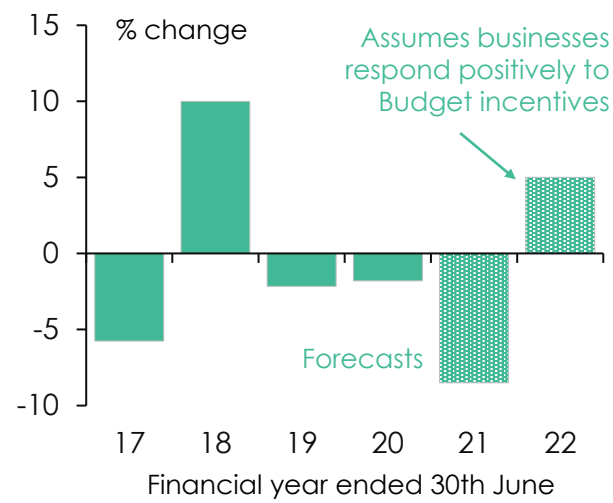
- ❑ Treasury expects the unemployment rate to peak at 7½% in Q1 2021 (cf. 8% in Q4 2020 previously), declining to 6¼% (previously 6½%) by Q2 2022, and 5¼% by Q2 2024

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

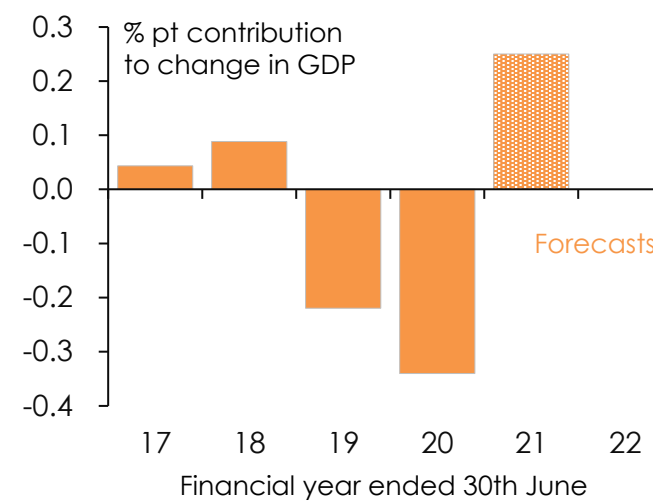
Household consumption



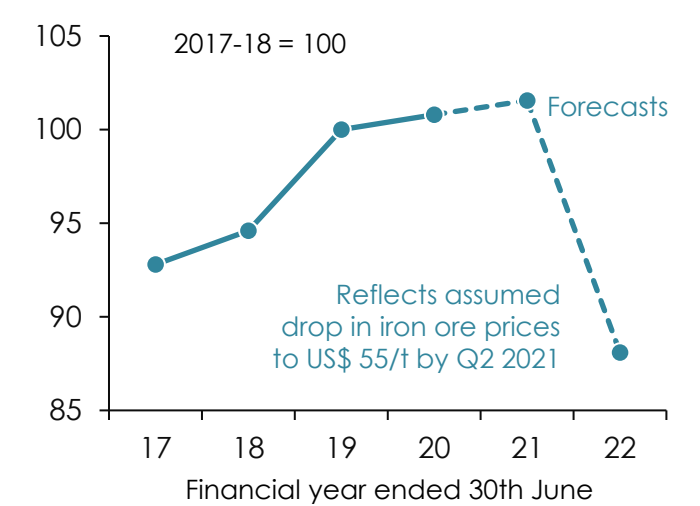
Business investment



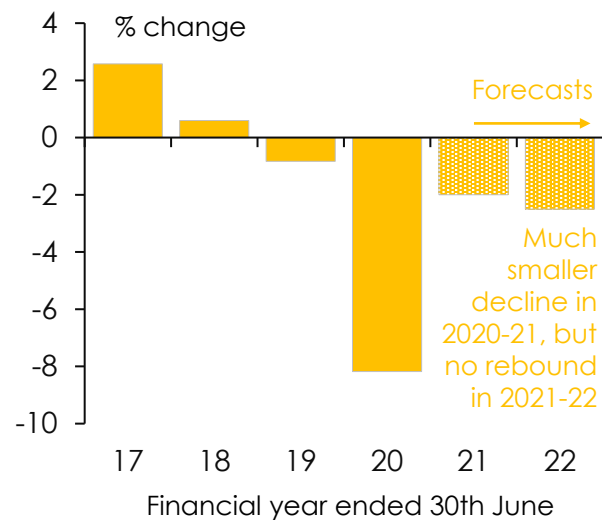
Change in inventories



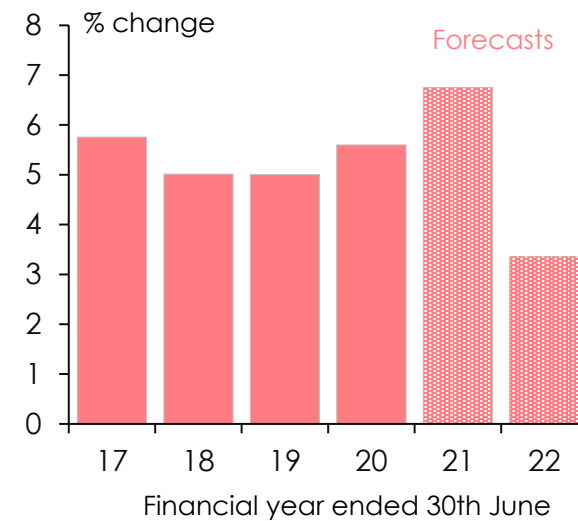
Terms of trade



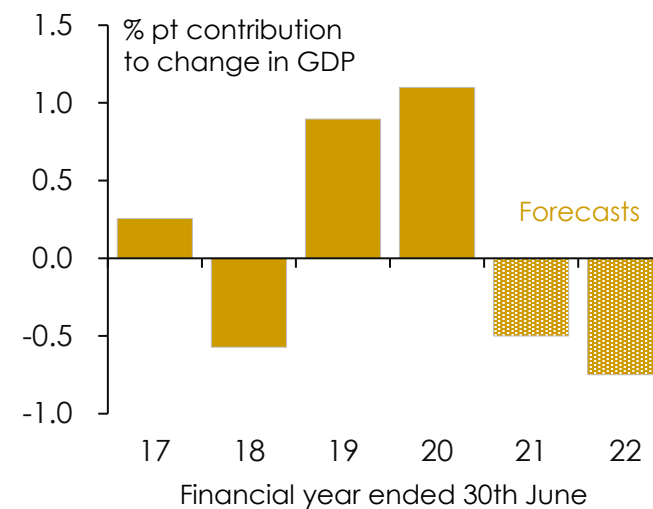
Dwelling investment



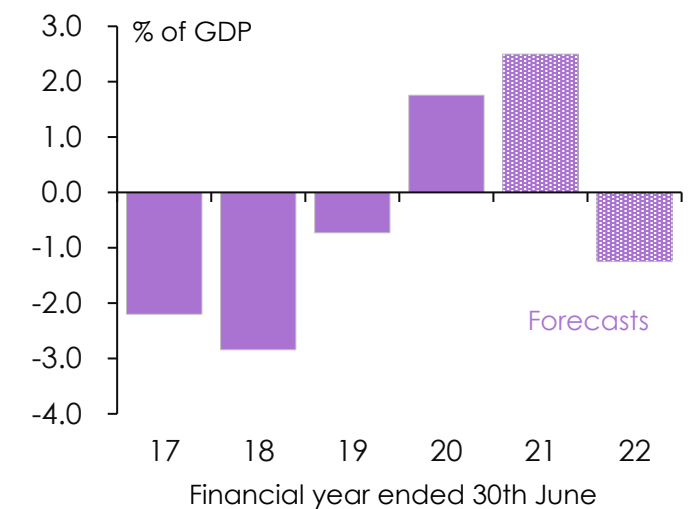
Public spending



Net exports



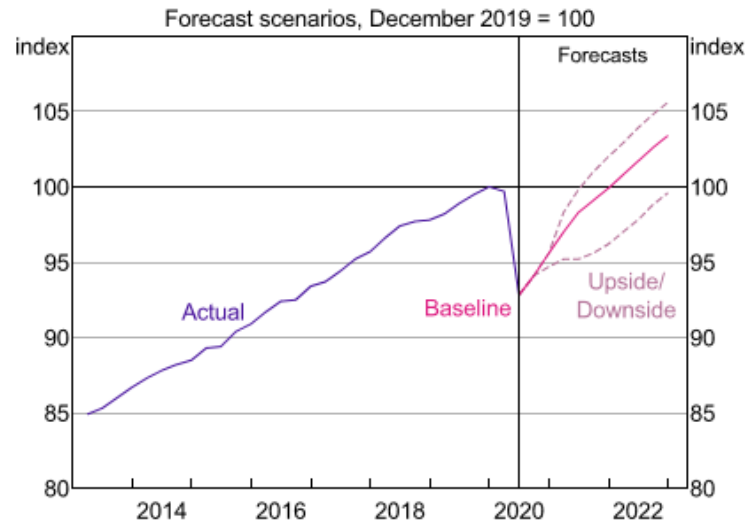
Current account balance



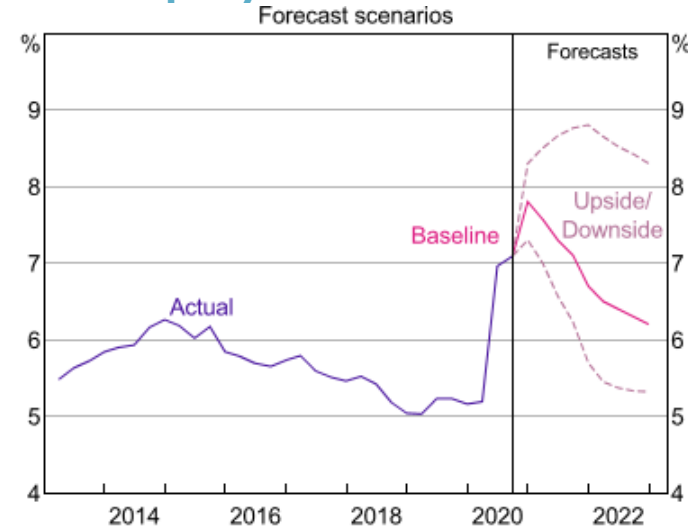
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K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

The economy seems to be tracking closer to the RBA's "upside scenario" – new forecasts will be previewed on Tuesday and published on Friday

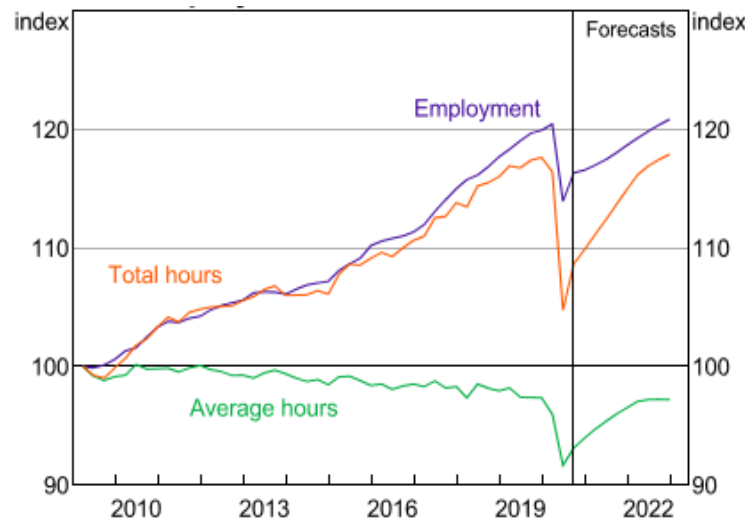
GDP



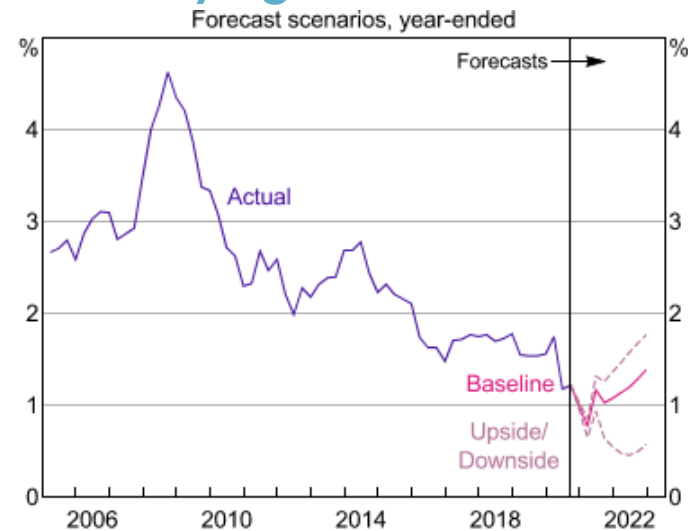
Unemployment



Employment



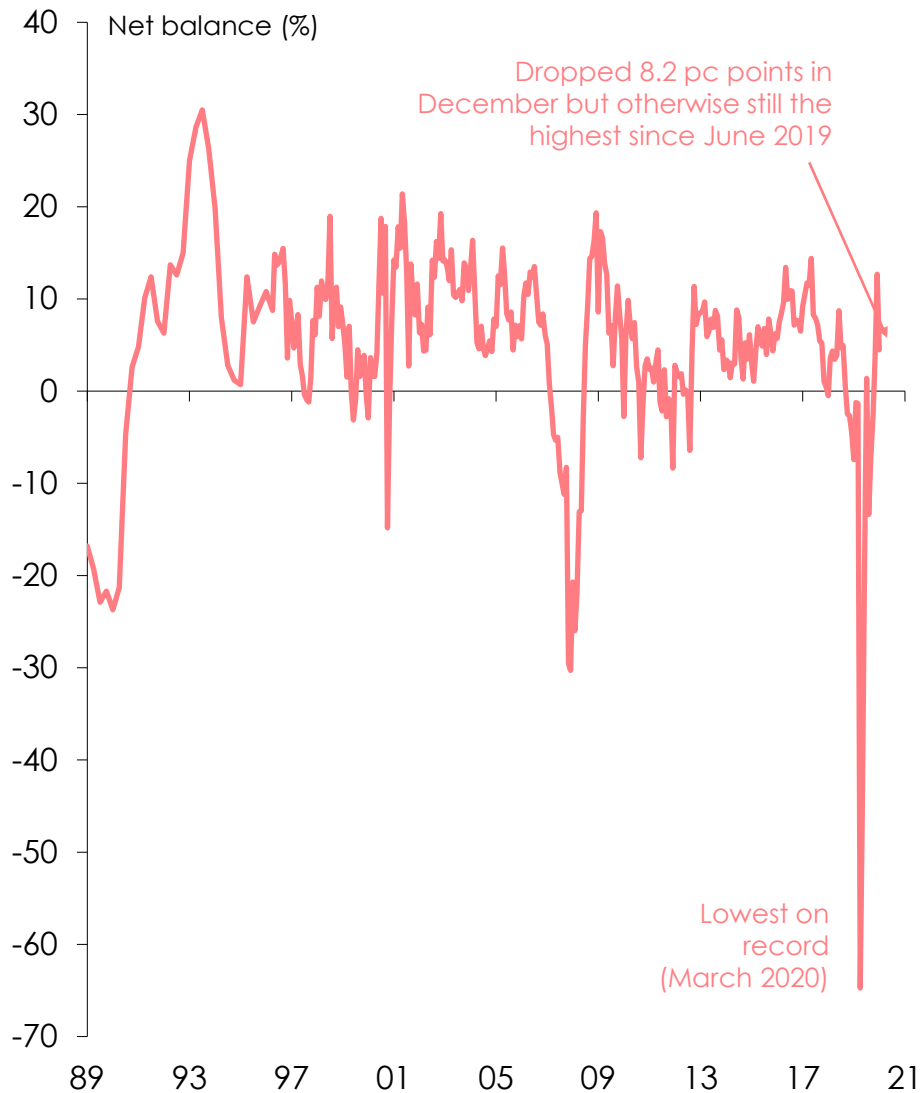
'Underlying' inflation



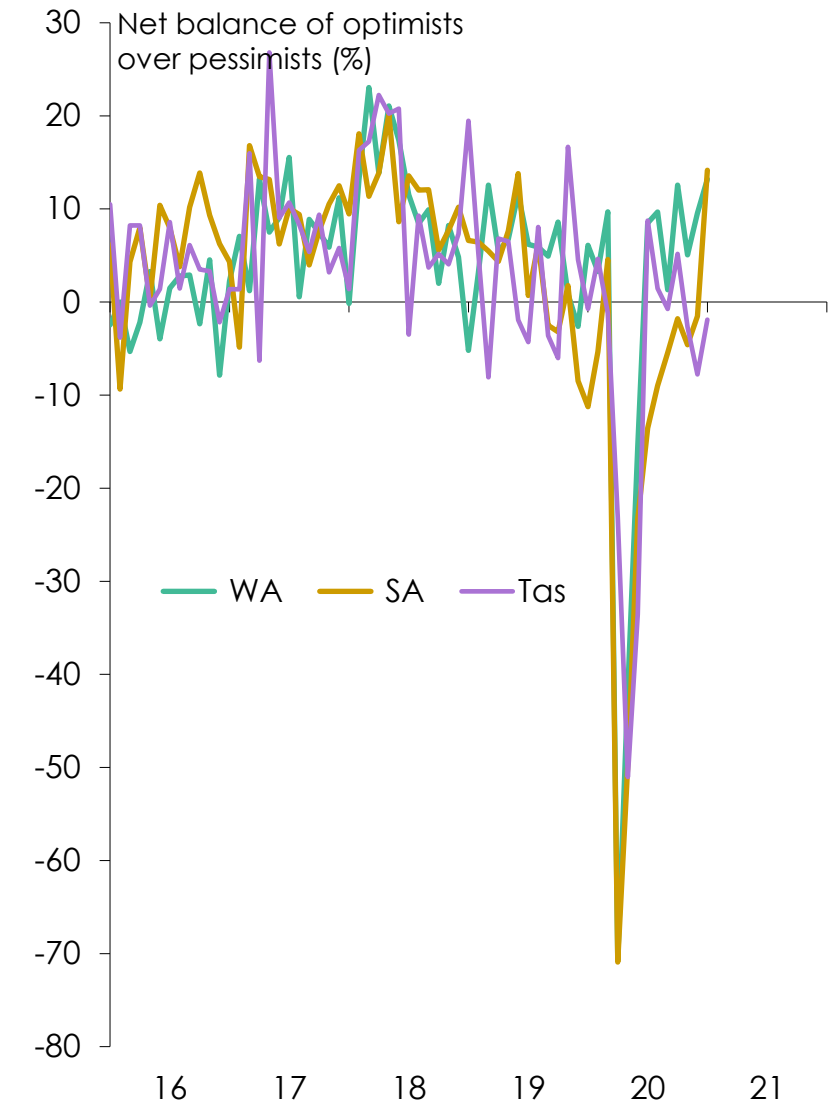
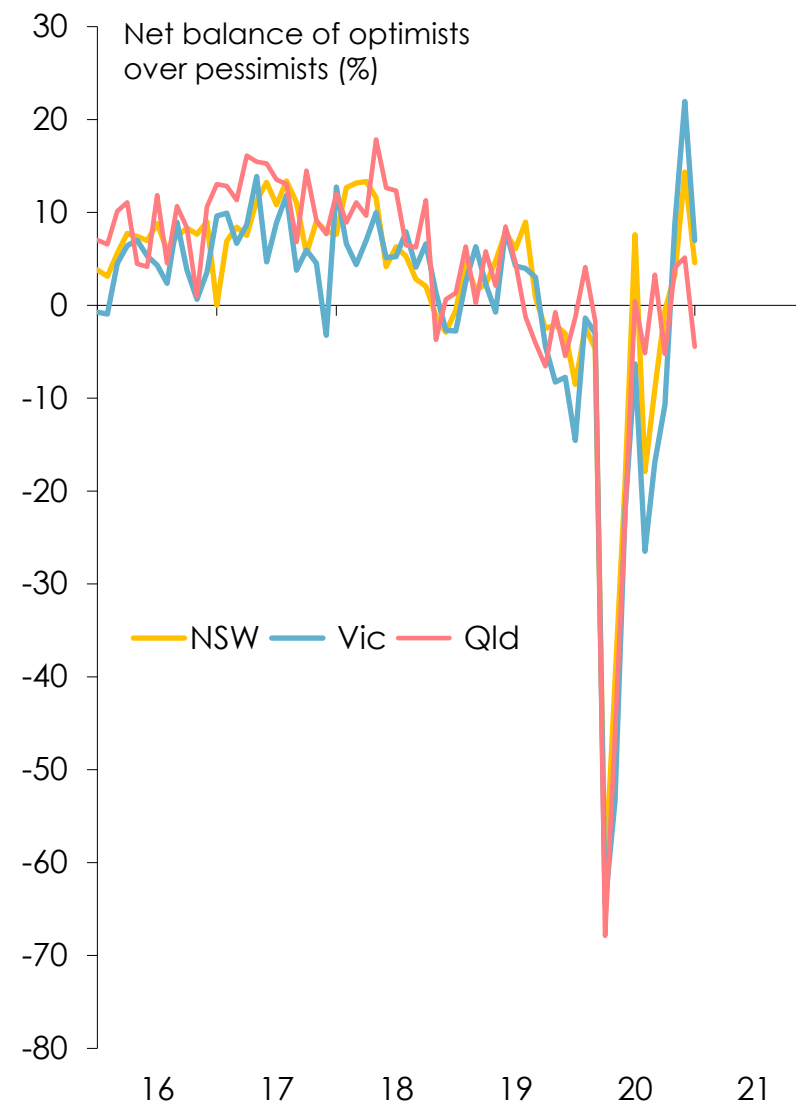
- ❑ The RBA's current 'baseline' scenario (published in November) assumed no further virus outbreaks in Australia, and then-current restrictions being eased gradually (although restrictions on international travel remain until around the end of this year)
- ❑ In this scenario real GDP declines 4% over 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 assumed 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
- ❑ Since November the economy has been tracking closer to the 'upside' scenario

Business confidence fell back in December, in response to virus outbreaks and lock-downs in Sydney & Brisbane, but still strong by recent standards

Business confidence

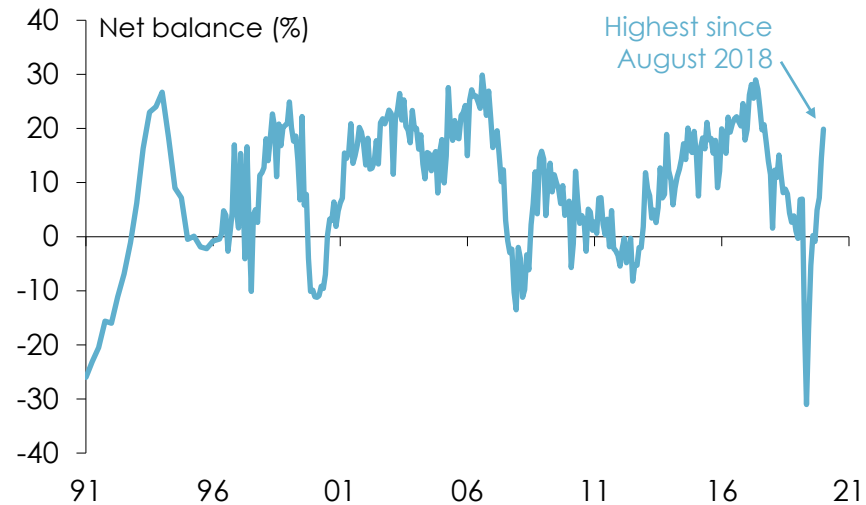


Business confidence, states and territories

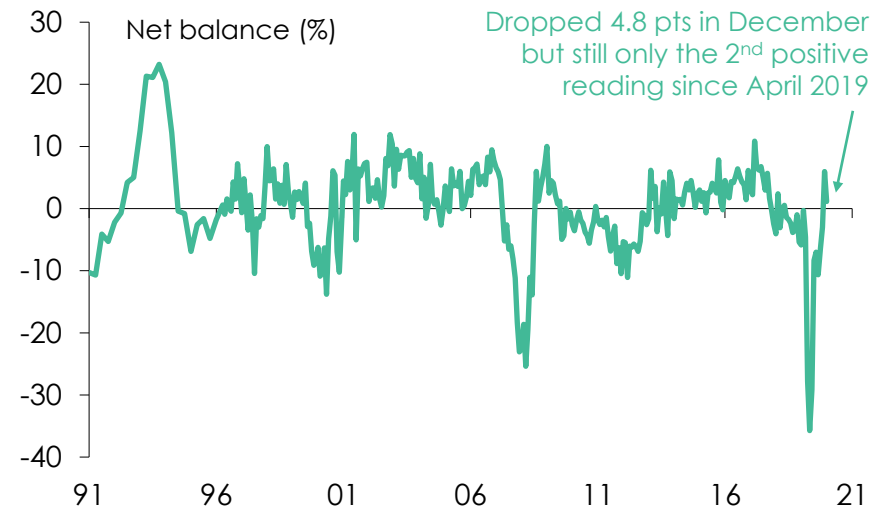


December 'business conditions' according to NAB's survey were the best since August 2018 though capex intentions are still soft

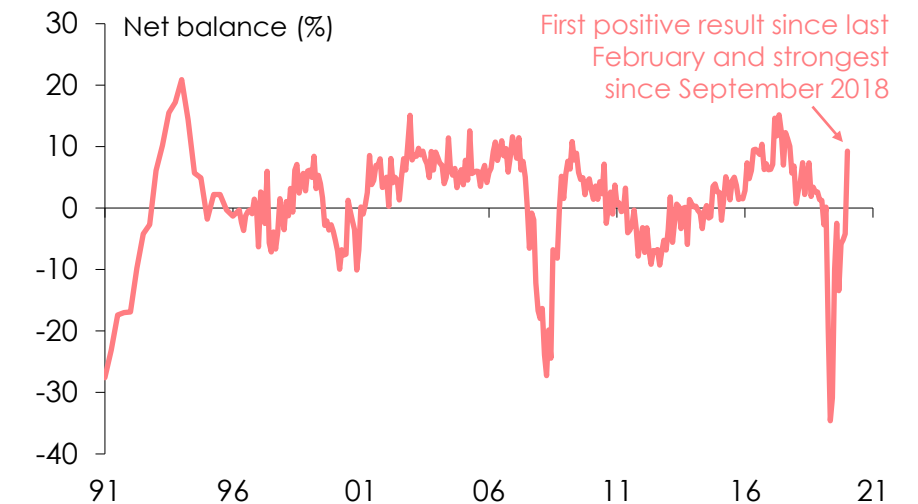
Trading conditions



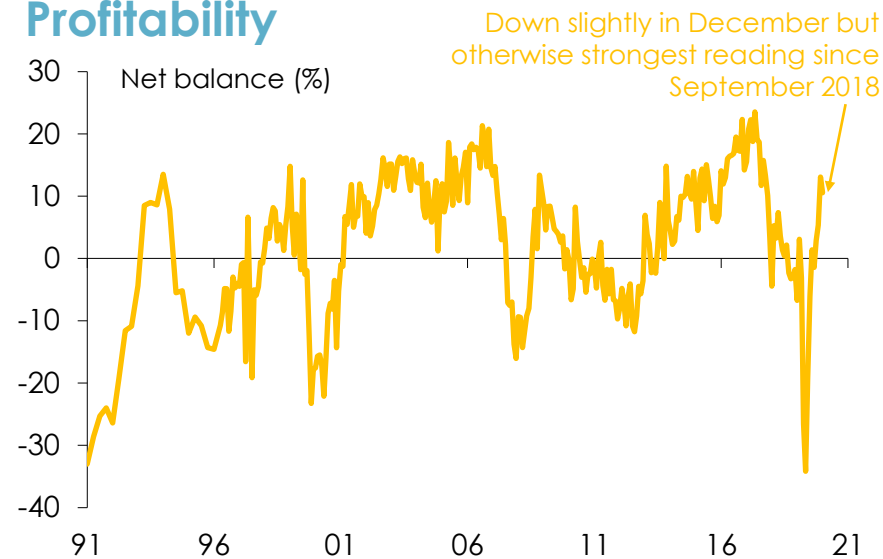
Forward orders



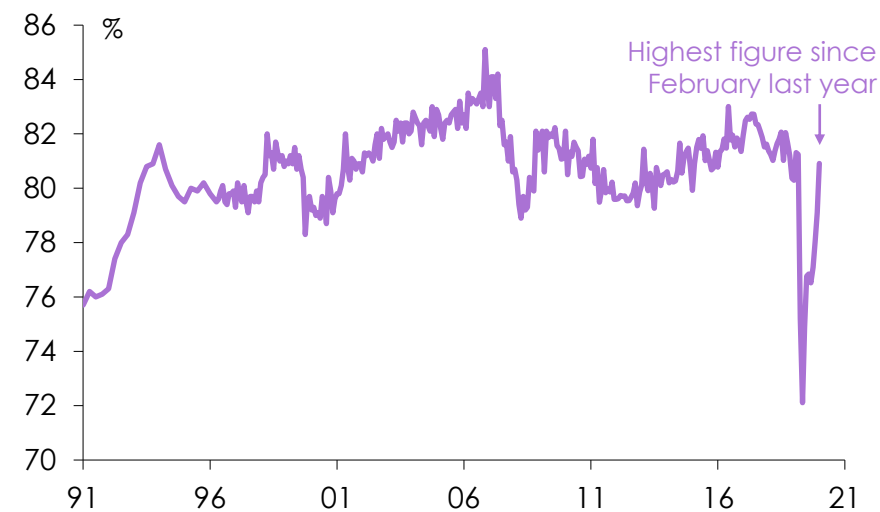
Employee hiring intentions



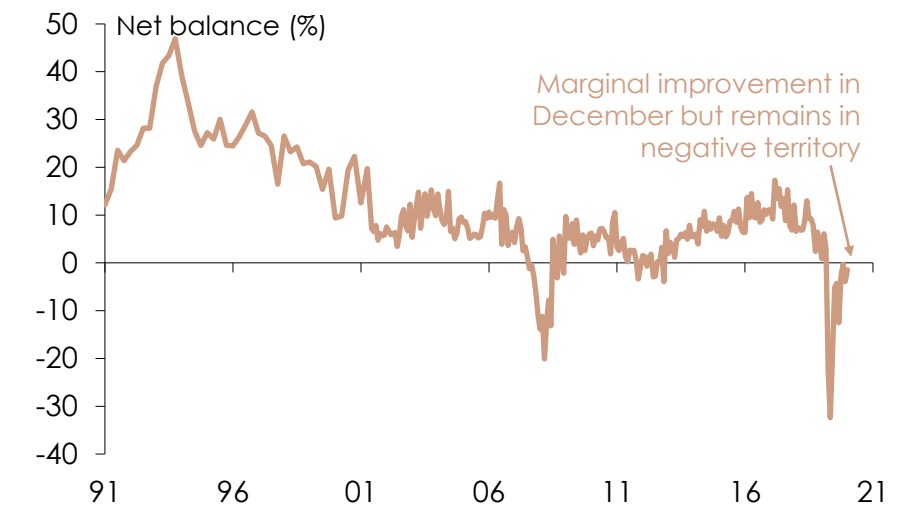
Profitability



Capacity utilization



Capital expenditure intentions

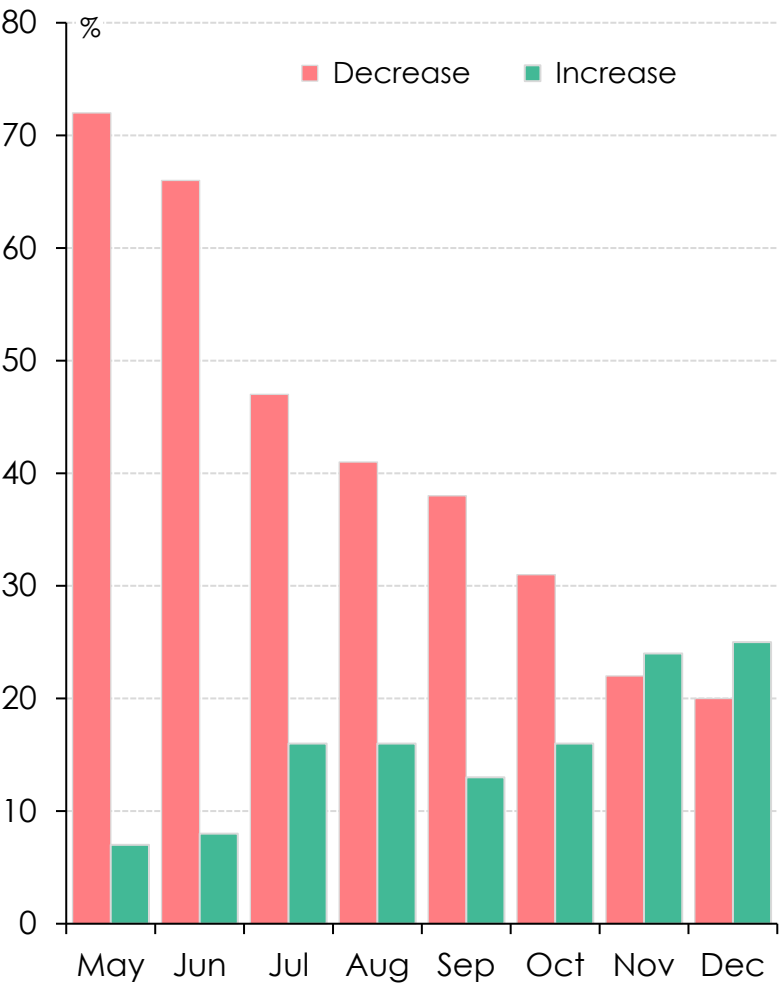


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

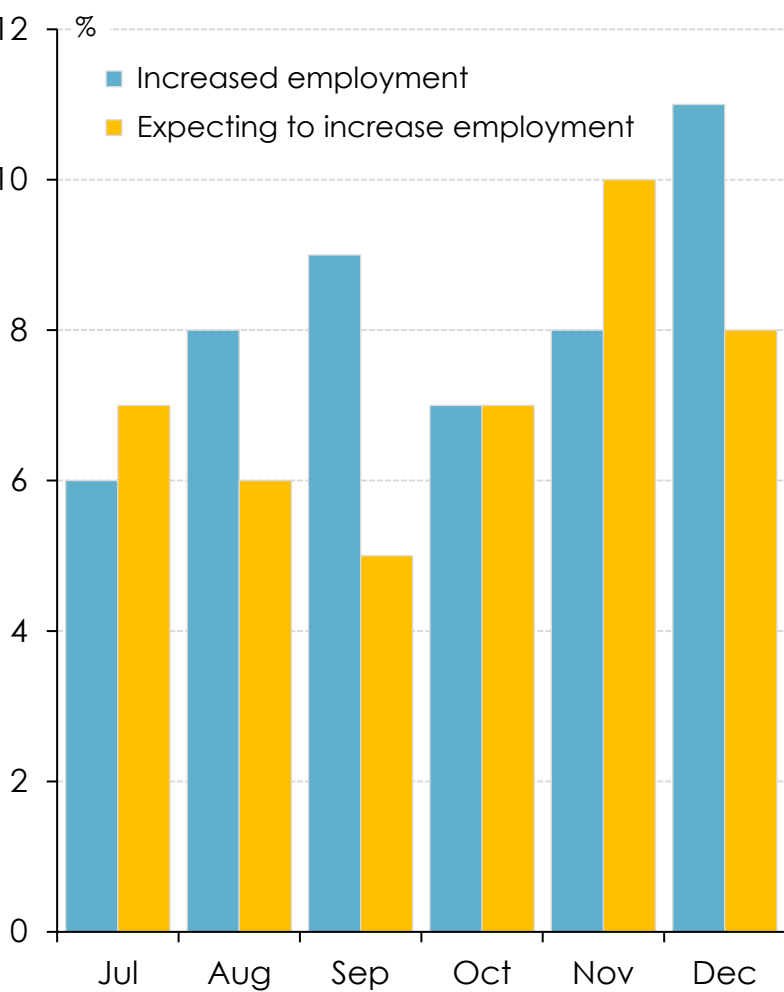
Source: National Australia Bank [Monthly Business Survey](#), December 2020; January survey results will be released on 9th February. [Return to "What's New"](#).

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

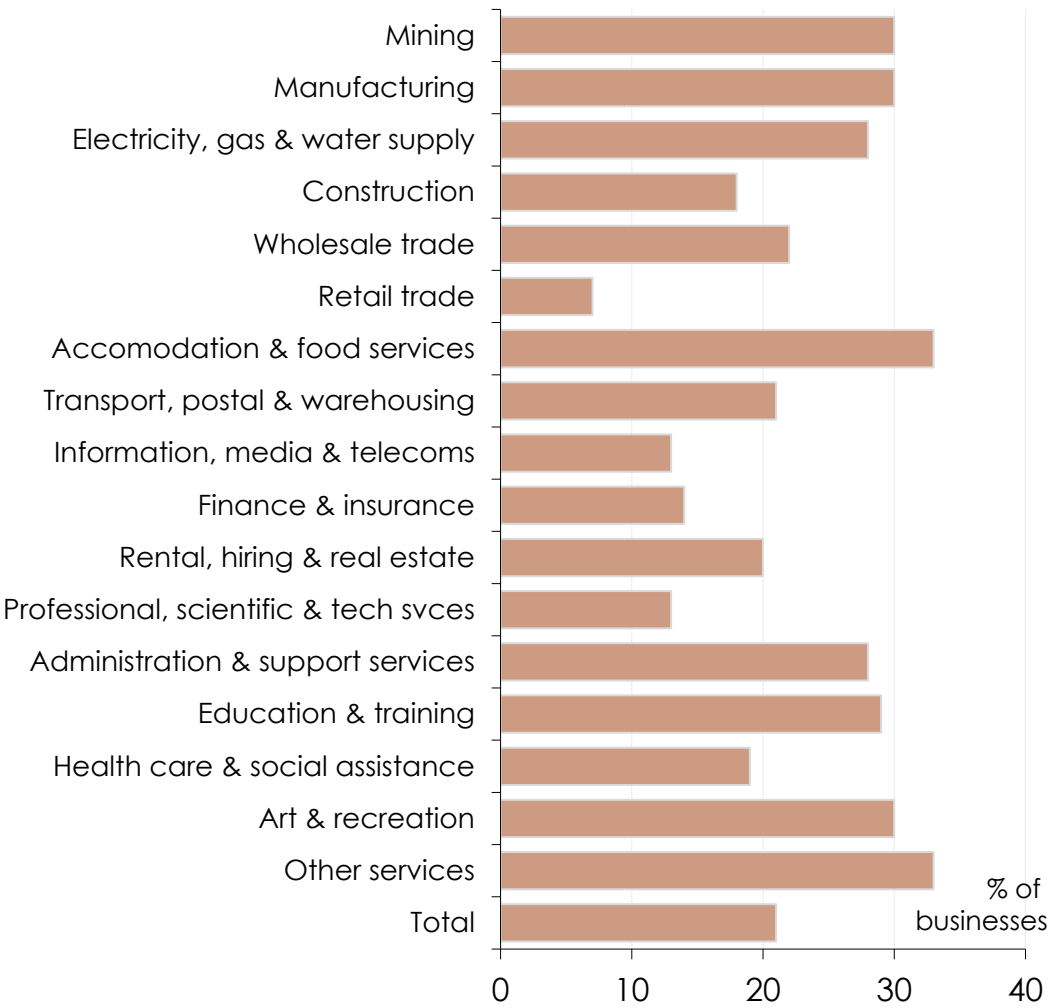
Proportion of businesses reporting decreases or increases in revenue



Proportion of businesses increasing and expecting to increase employee numbers



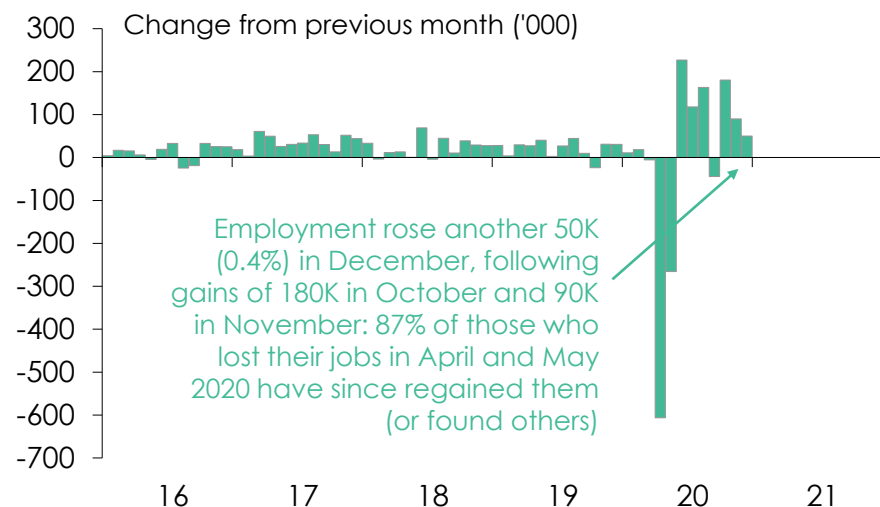
Proportion of businesses expecting to increase employee numbers, by industry, December 2020



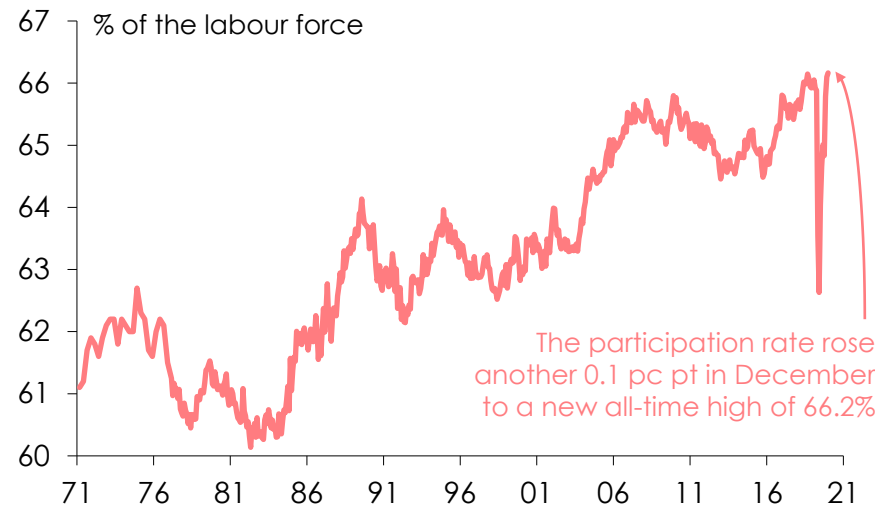
Source: ABS, [Business Impacts of Covid-19](#), December 2020.

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%

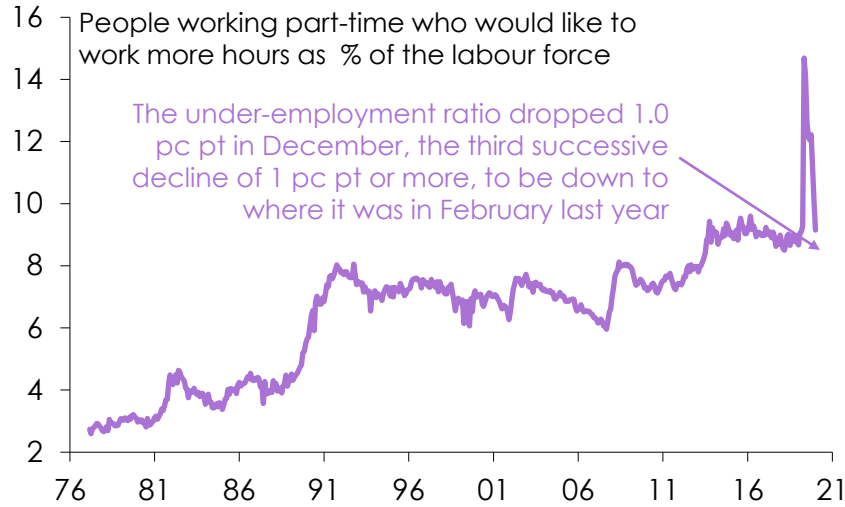
Employment



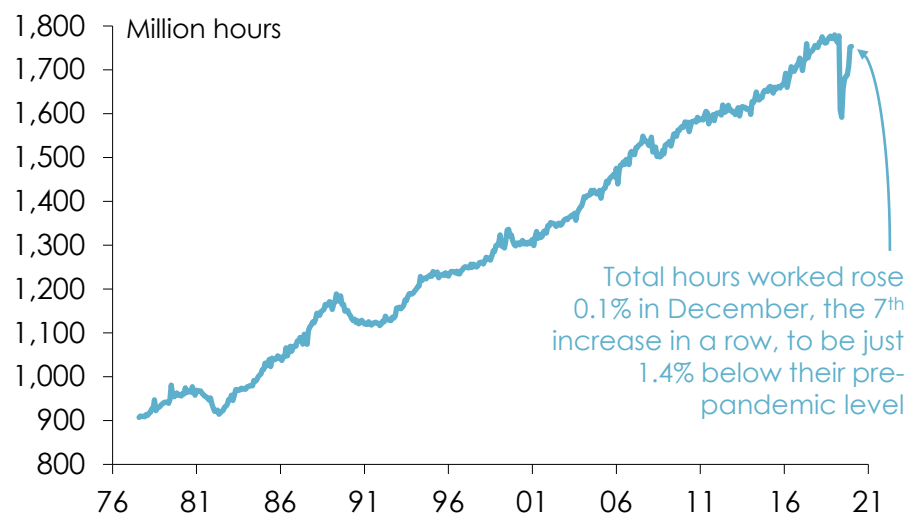
Labour force participation rate



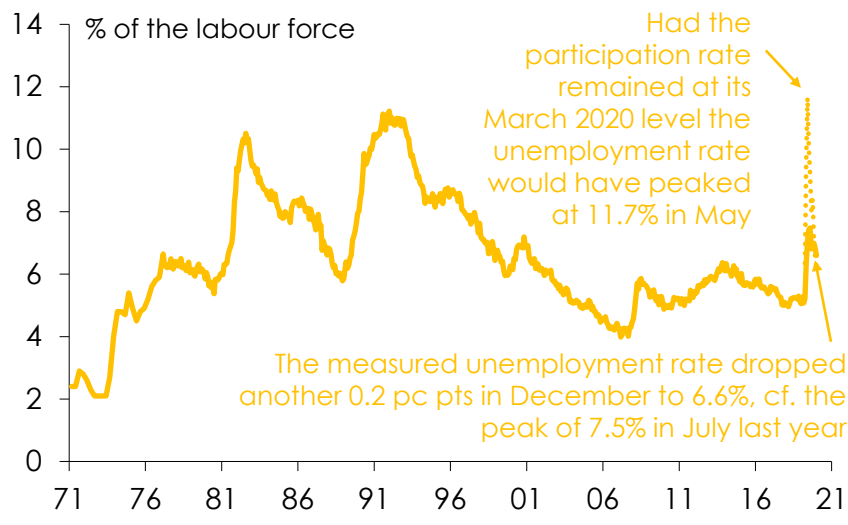
Under-employment ratio



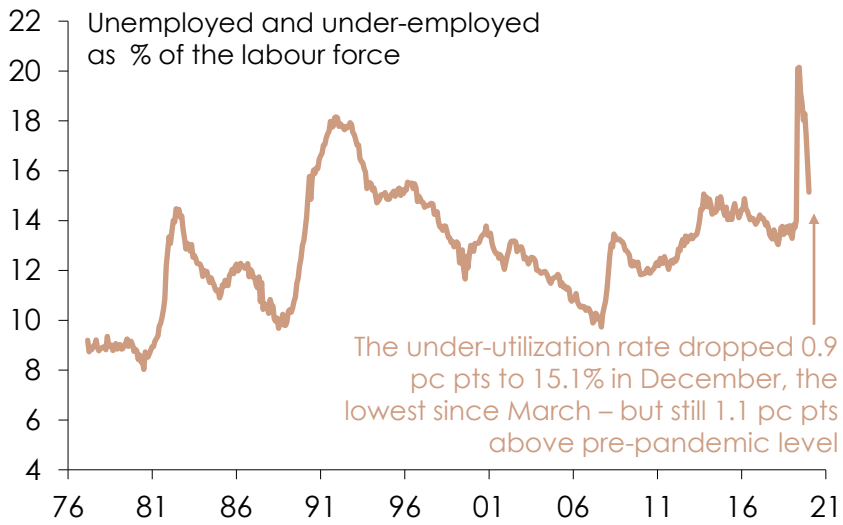
Total hours worked



Unemployment rate



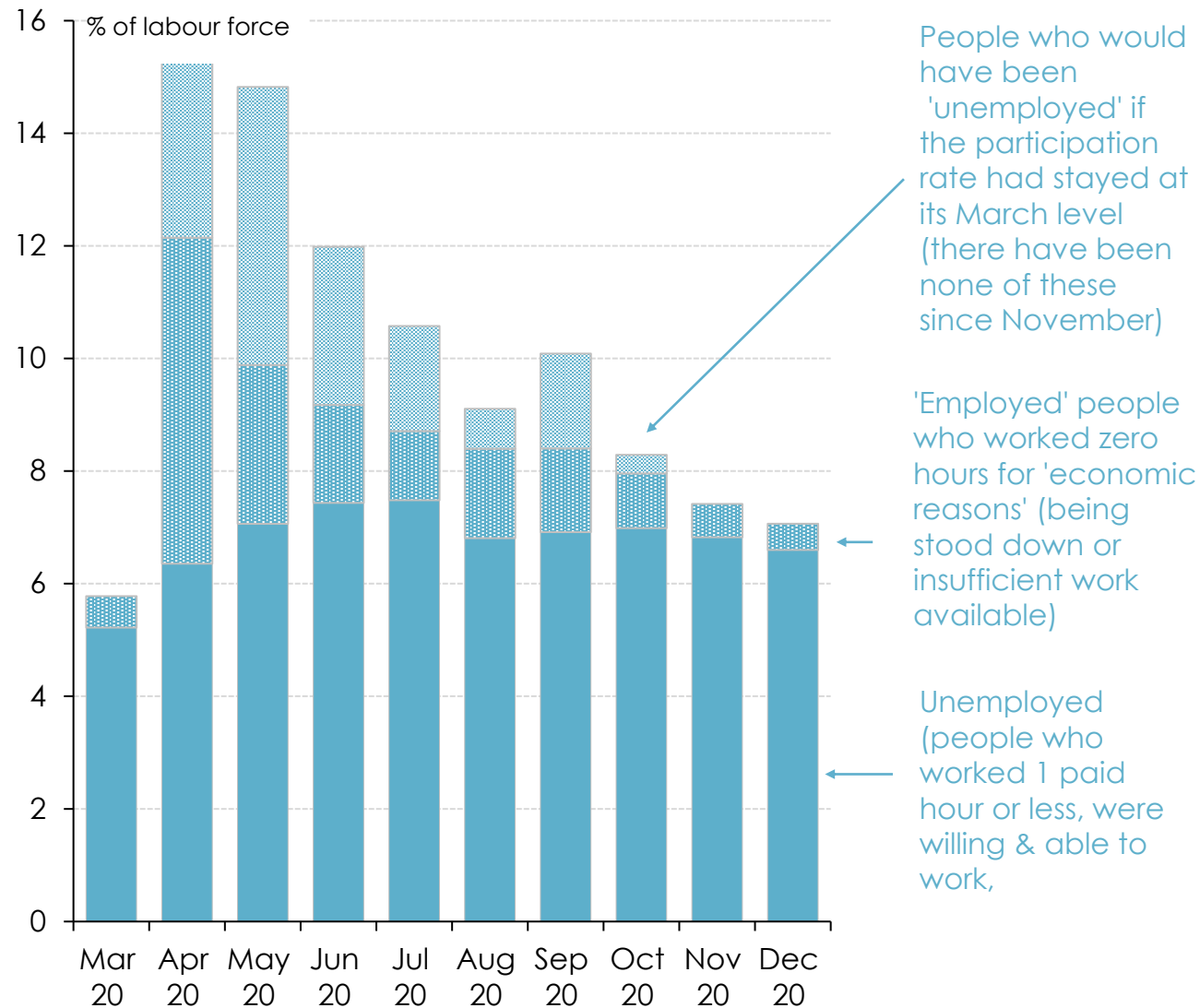
'Under-utilization' rate



Source: ABS, [Labour Force, Australia](#). January data will be released on 18th 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

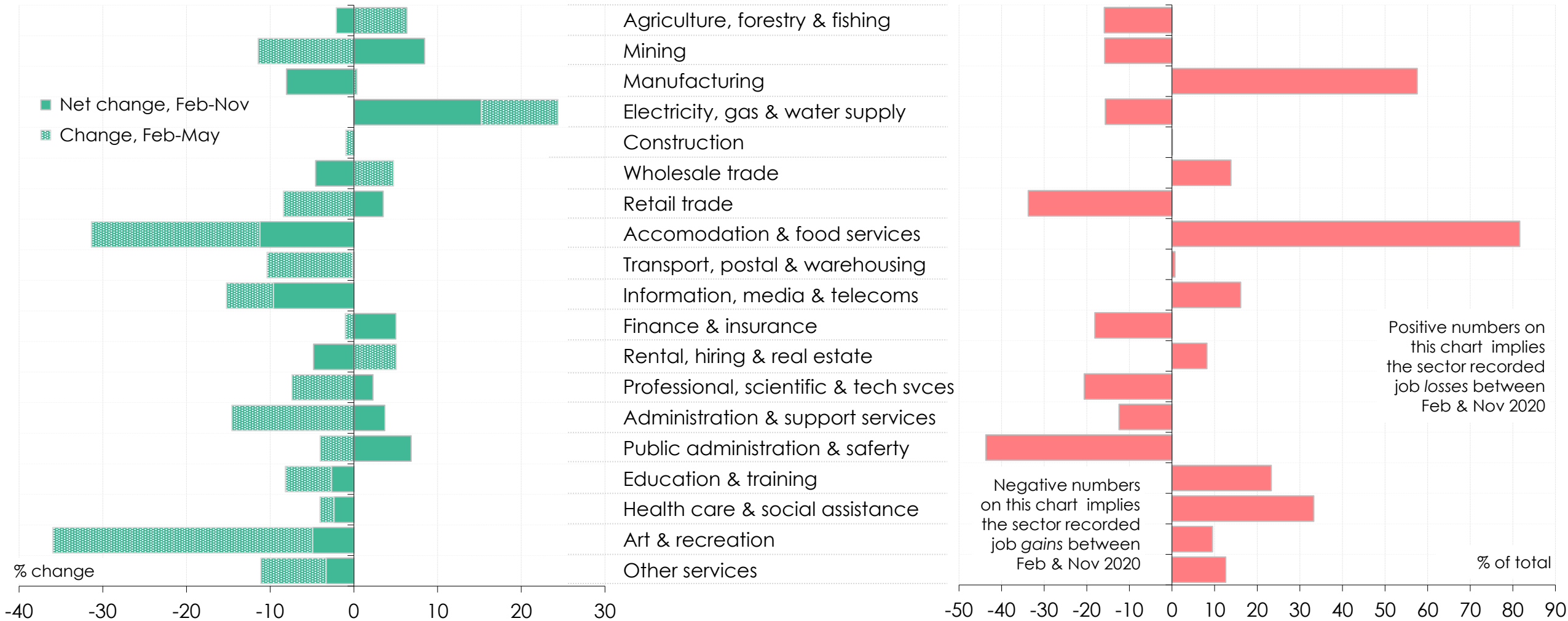


- ❑ The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30th March and 27th September (although payments didn't start until the beginning of May)
- ❑ From 28th September the JobKeeper payment reduced to \$1200 per fortnight, with a lower rate of \$750 per fortnight for employees who were working fewer than 20 hours per week in the four weeks prior to 1st March – 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 4th January – until 28th 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

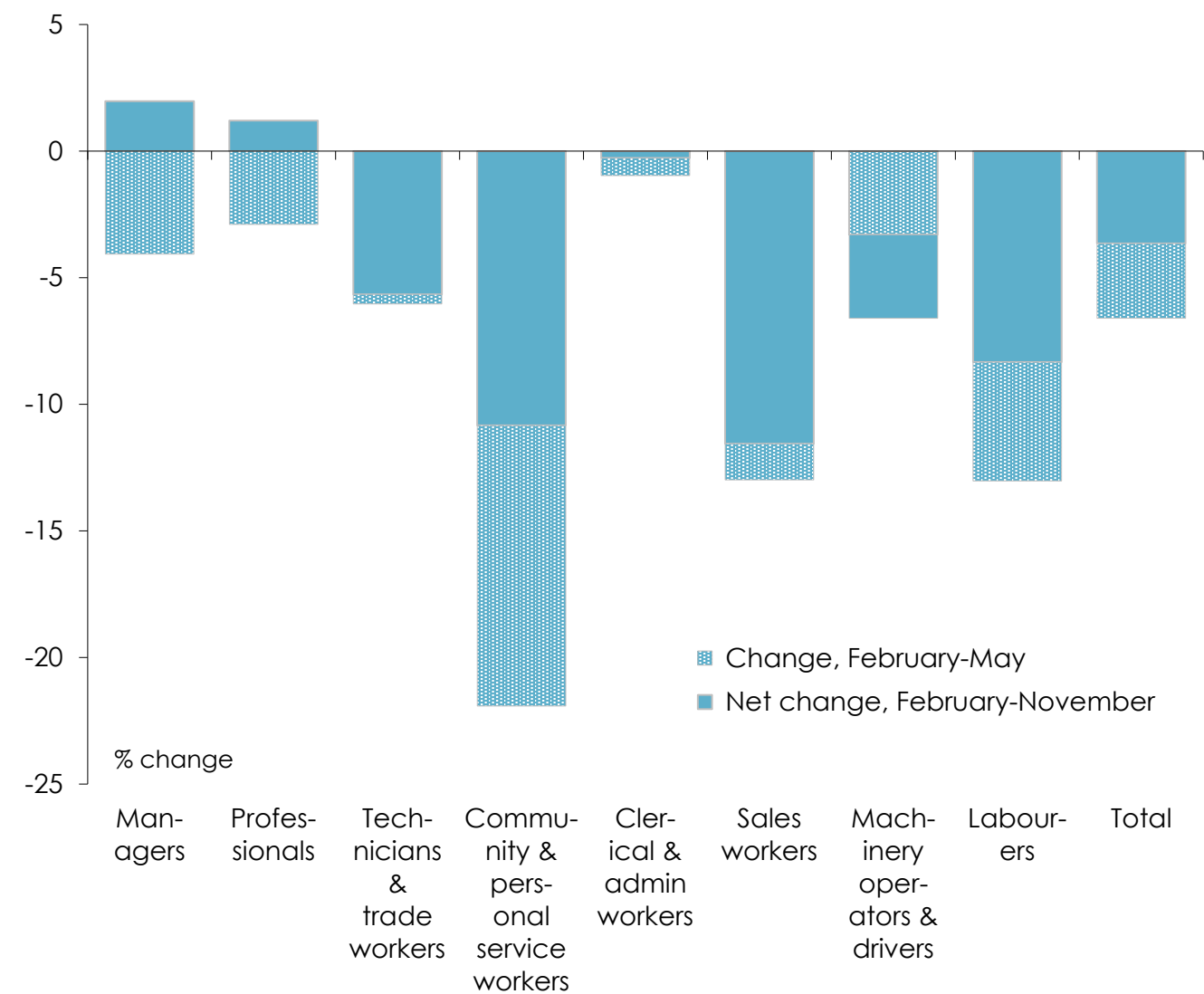
Proportion of change in total employment between February and November 2020, by industry



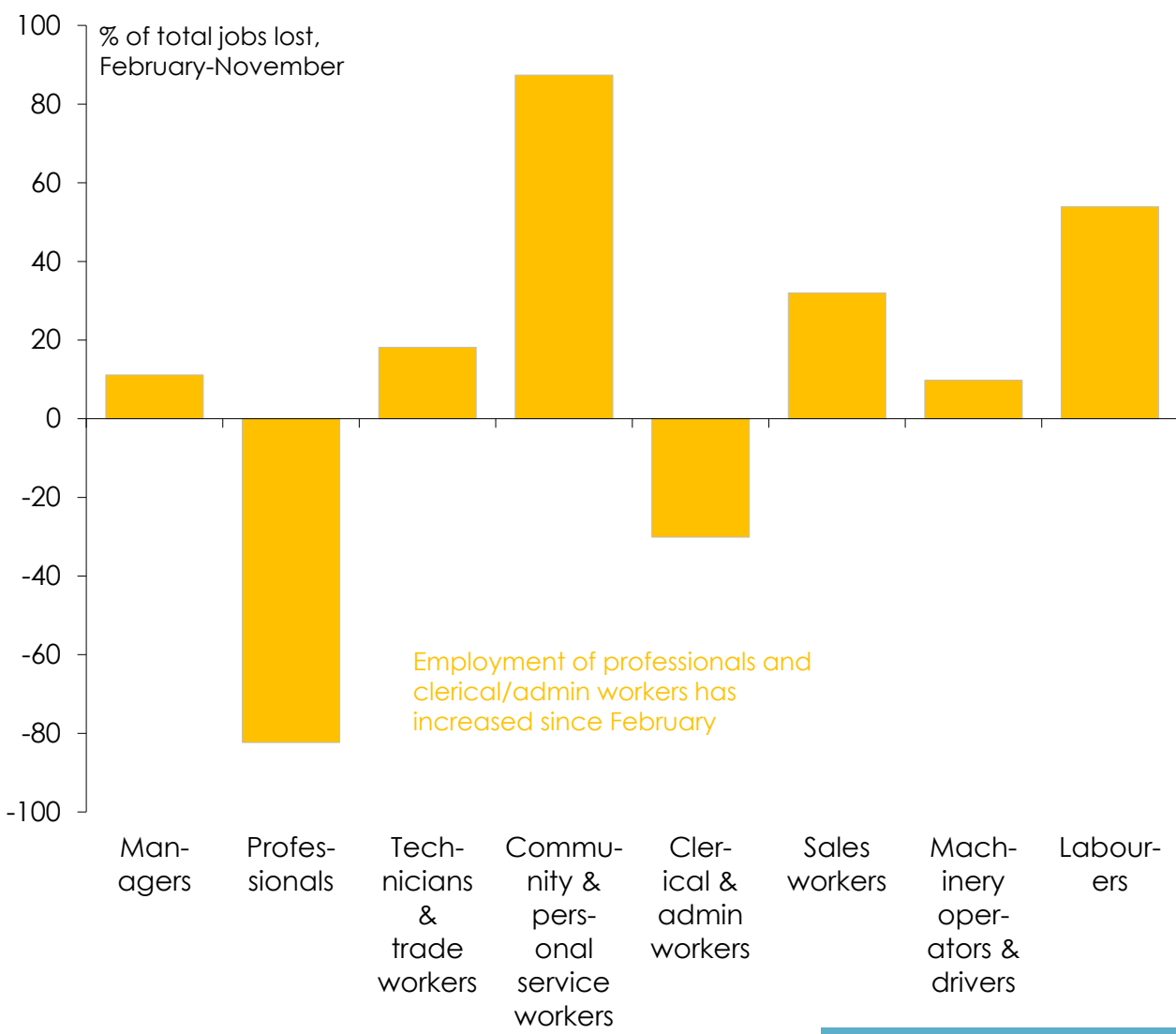
Source: ABS, [Labour Force, Australia, Detailed](#), November 2020. Labour force survey data on employment by industry are available only for the middle month of each quarter: February 2021 data will be released on 25th March. [Return to "What's New"](#).

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



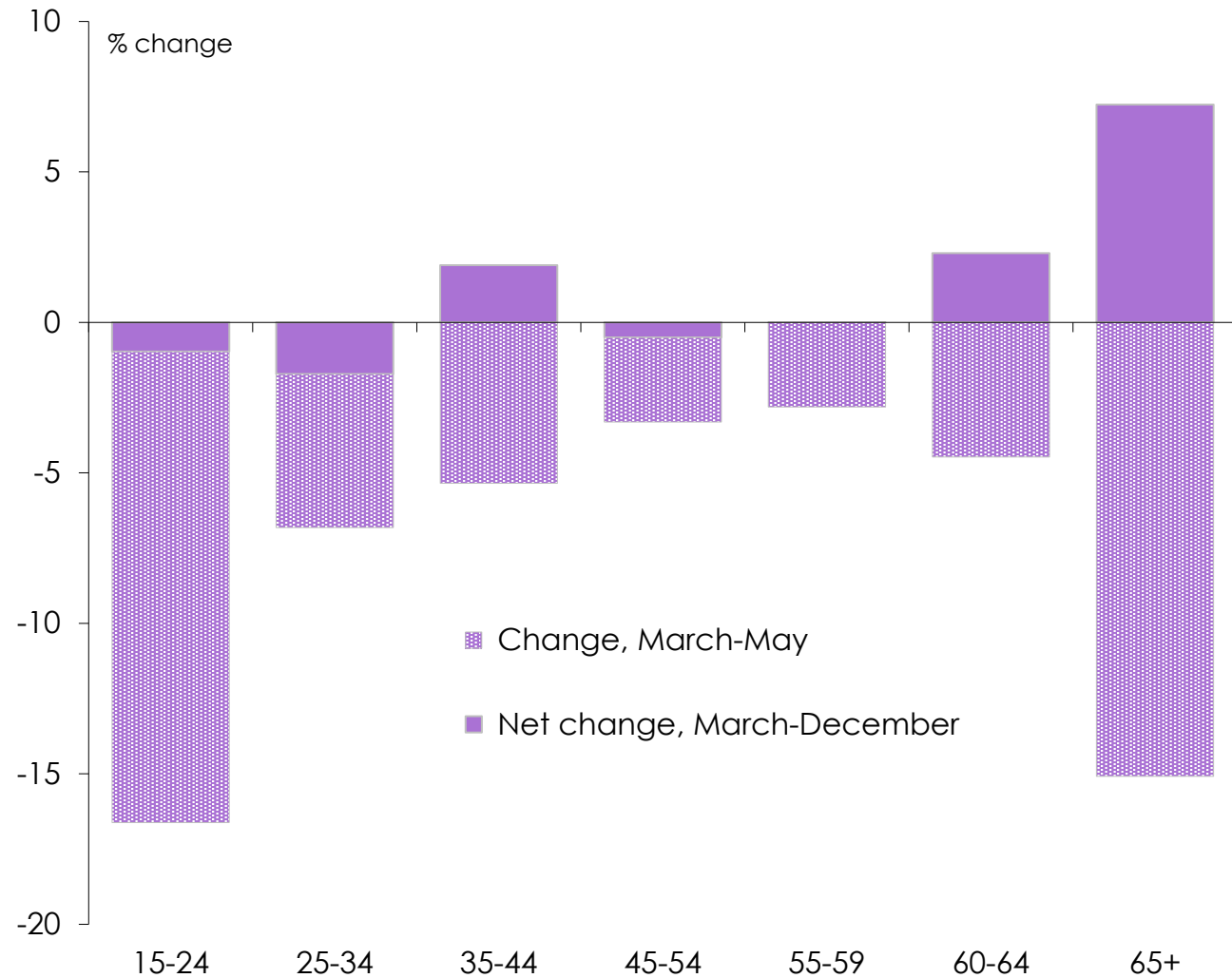
Proportion of change in total employment between February and March 2020, by occupation



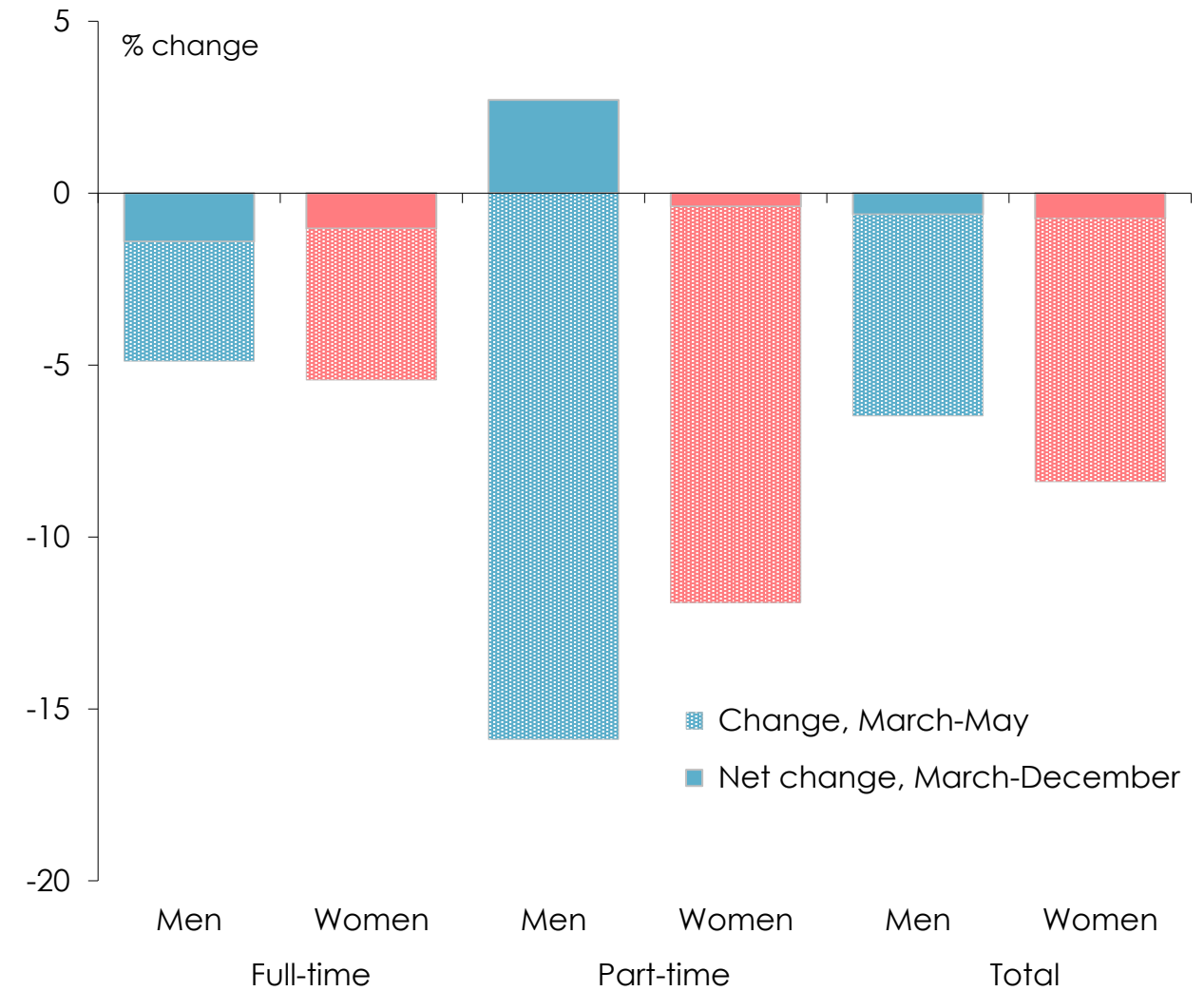
Source: ABS, [Labour Force, Australia, Detailed](#), November 2020. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2021 data will be released on 25th March. [Return to "What's New"](#).

15-25 year-olds and women accounted for 37% and 54% of initial job losses – and for 21% and 52% of net job losses between March and December

Change in employment between March and December 2020, by age group



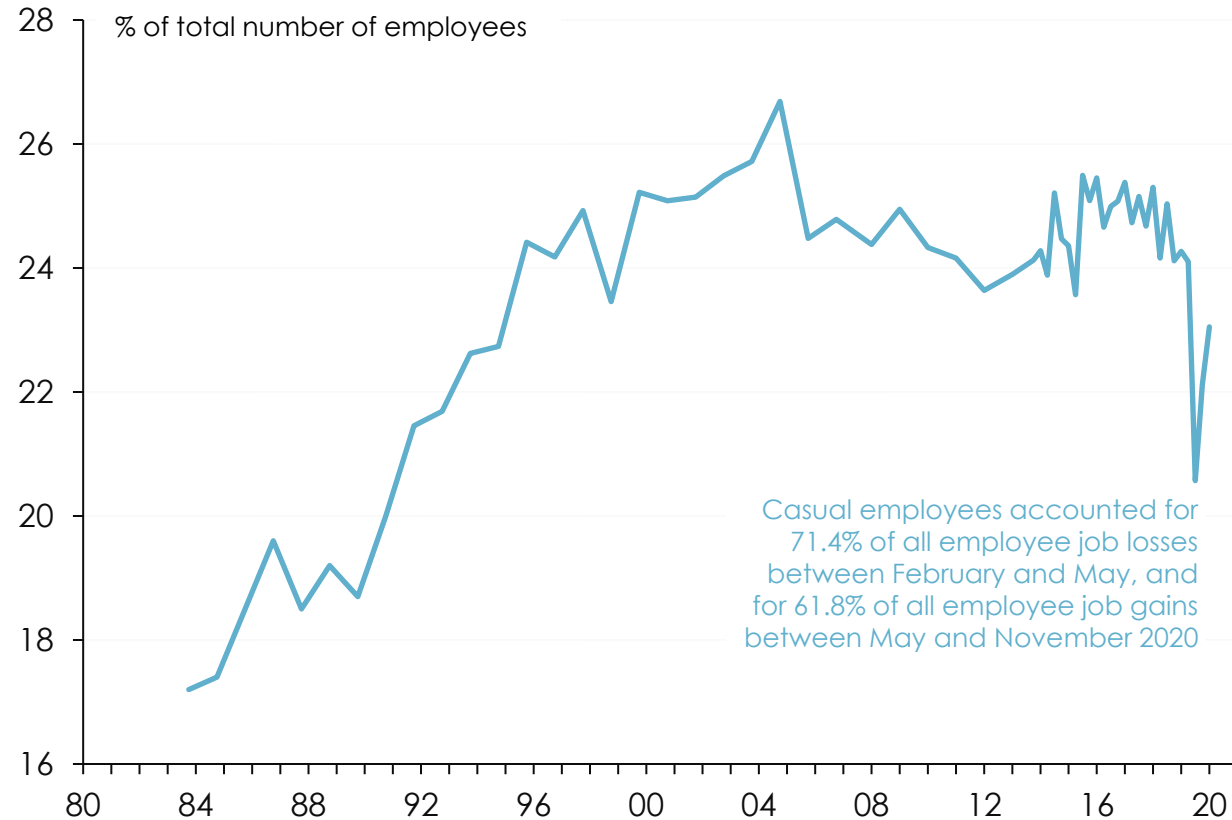
Change in employment between March and December 2020, by gender and full/part-time status



Source: ABS, [Labour Force, Australia, Detailed](#), December 2020. January data will be released on 25th February. [Return to "What's New"](#).

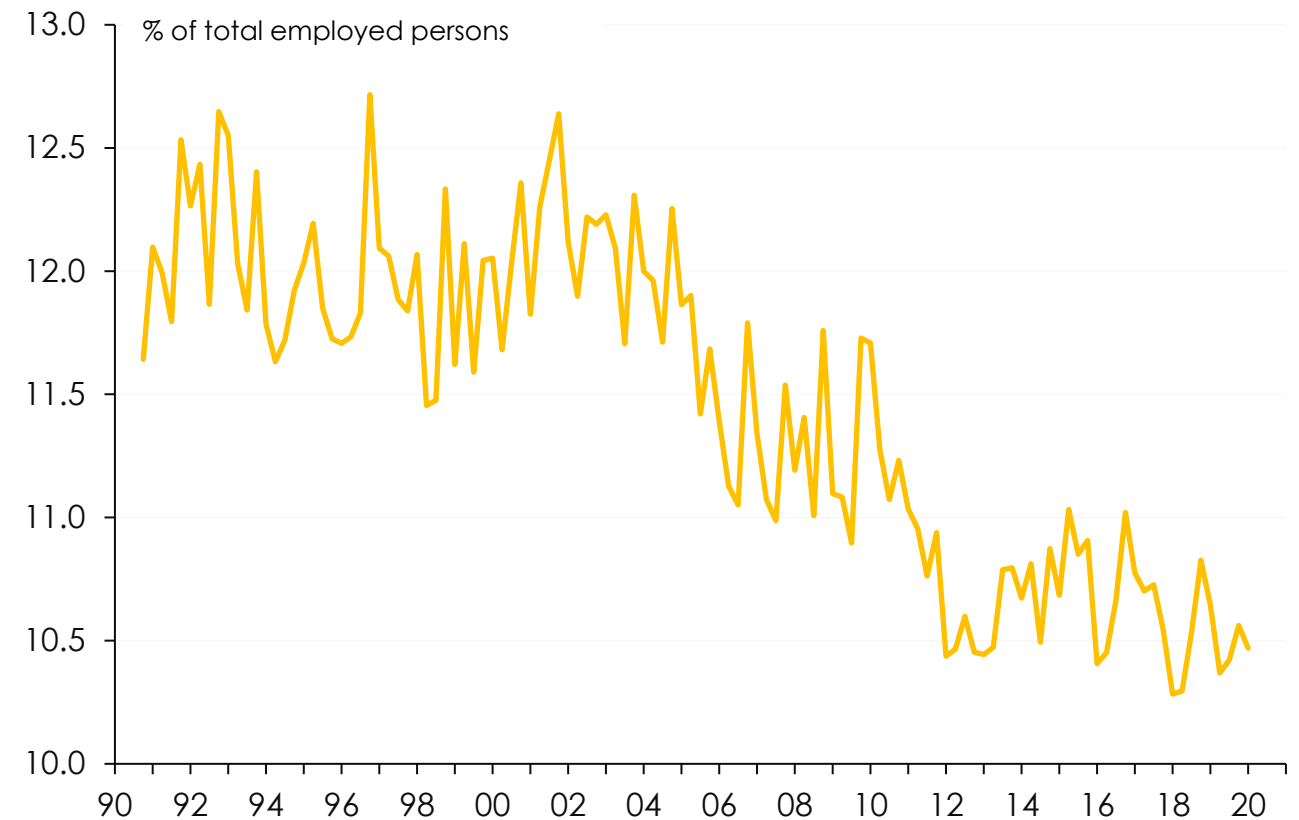
Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

'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

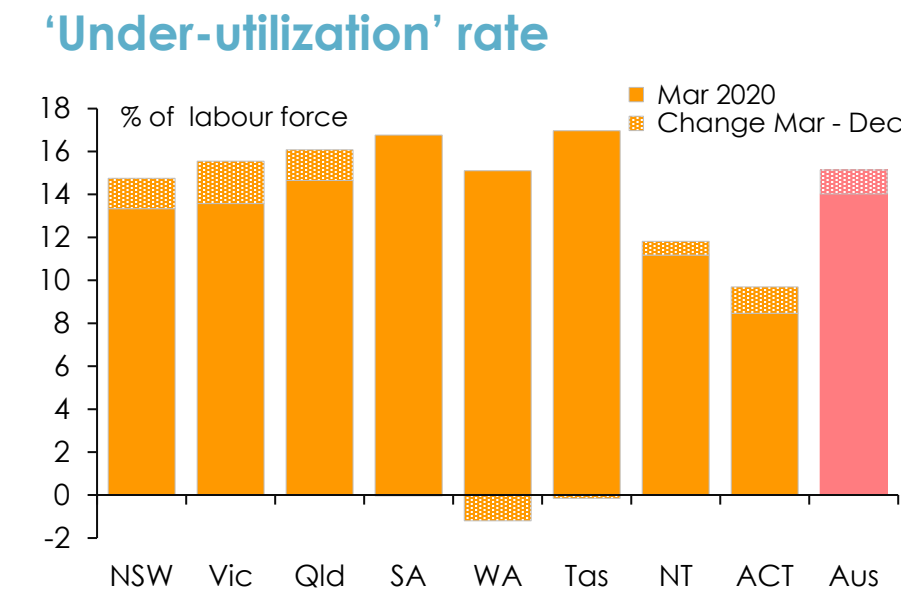
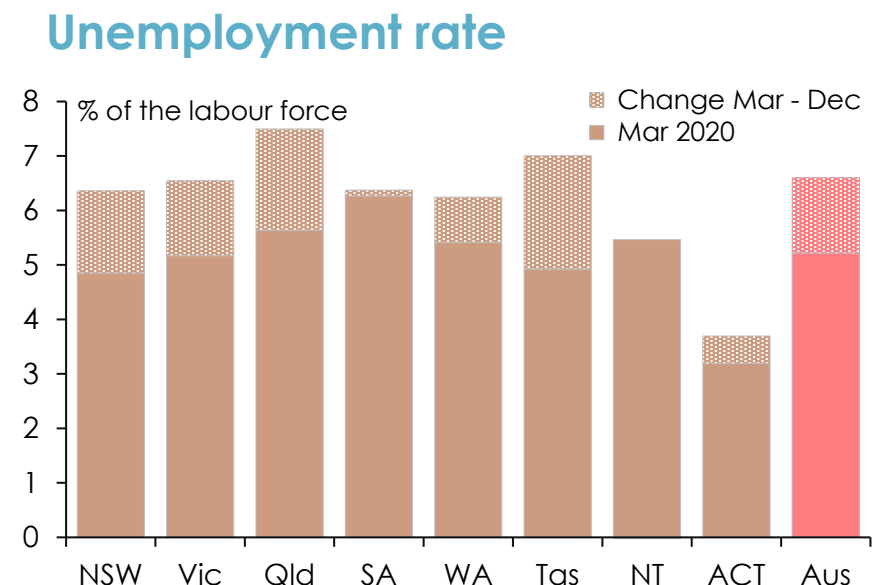
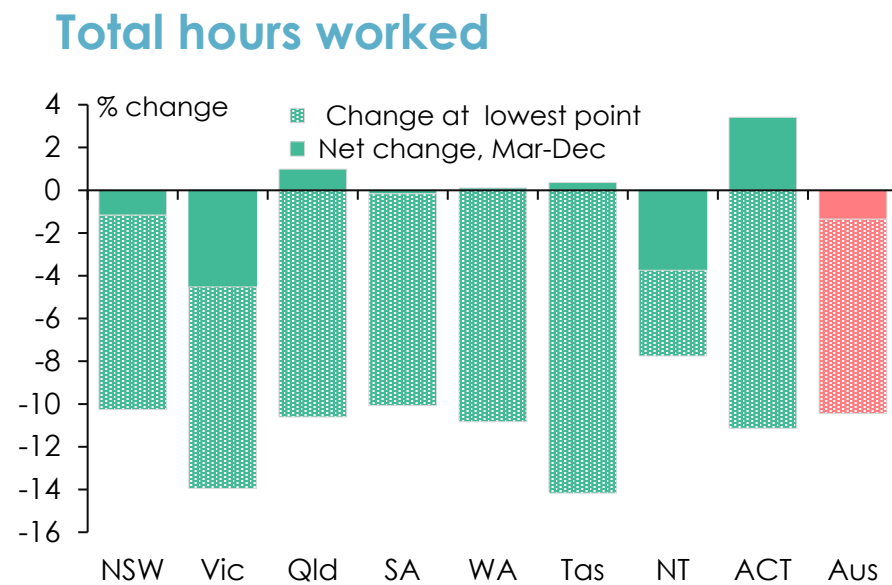
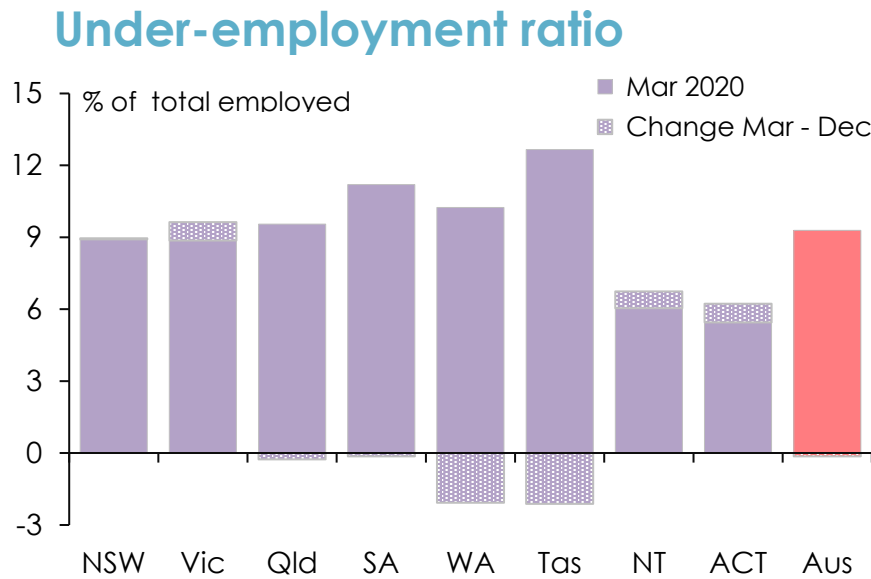
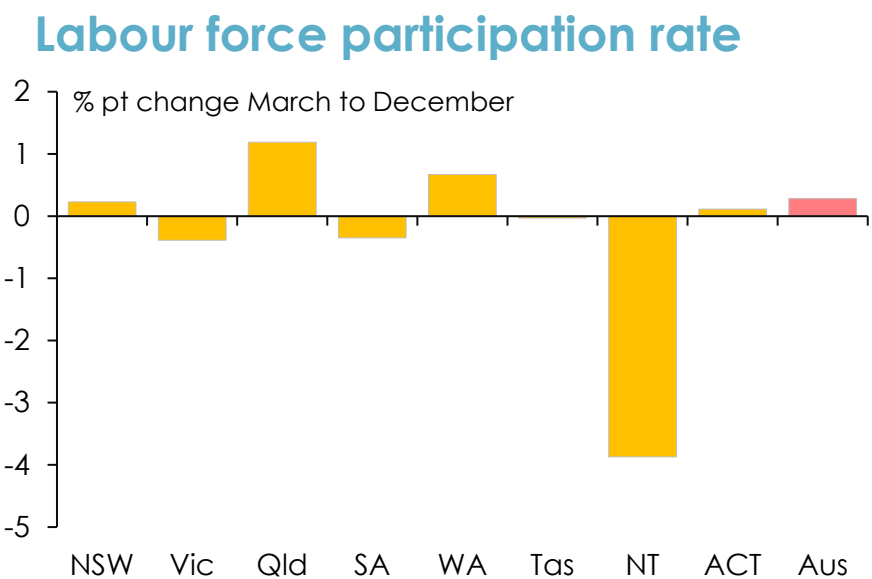
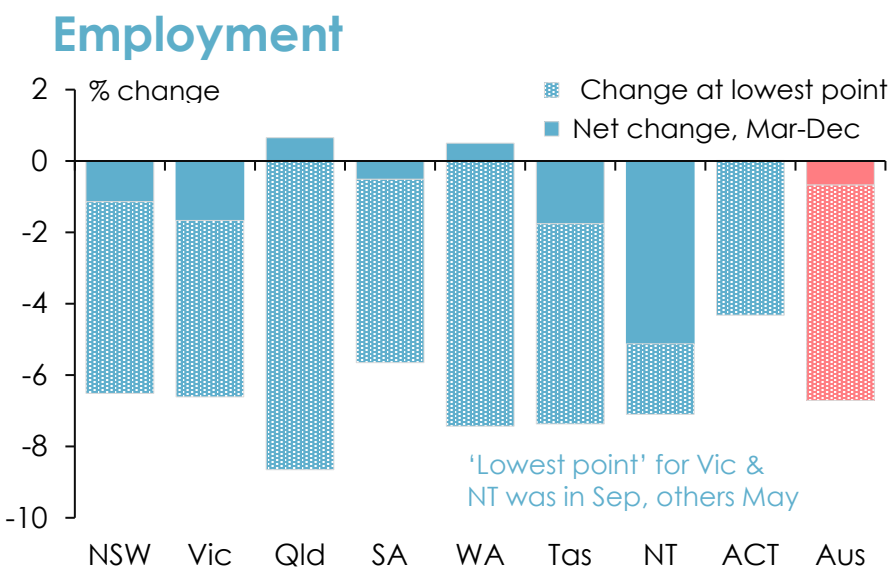
Owner-managers of unincorporated enterprises with no employees as a pc of total employment



- ❑ '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](#).

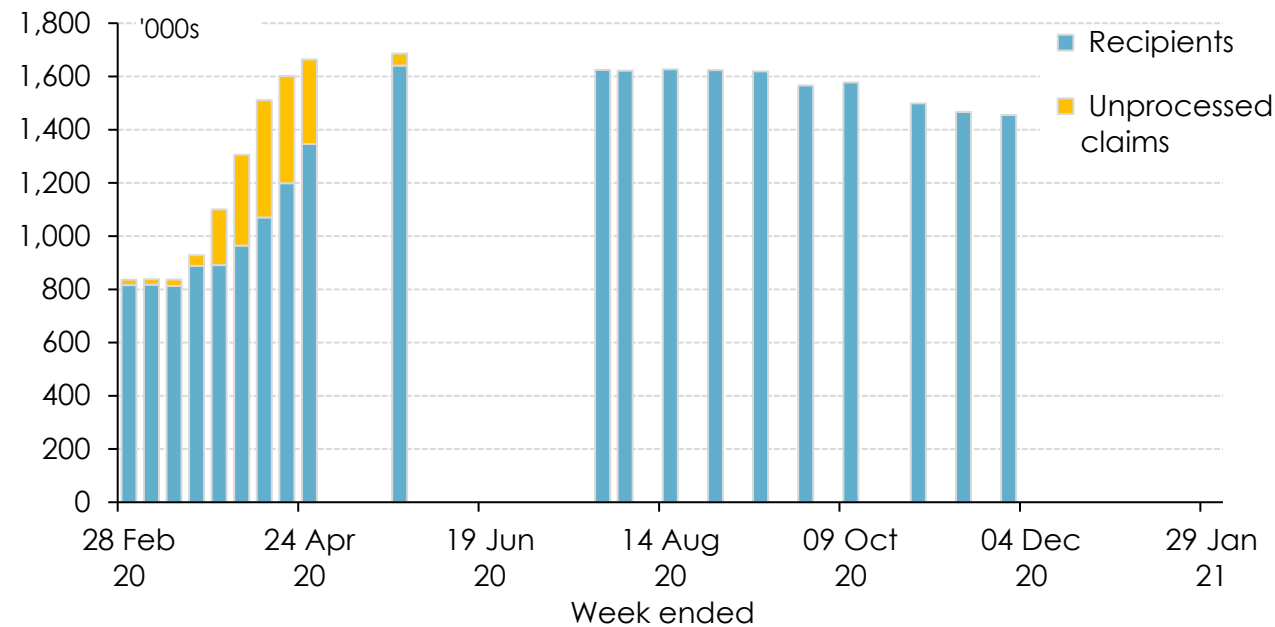
Strongest recoveries in employment have been in WA and Qld although in those states rising participation has slowed the fall in unemployment



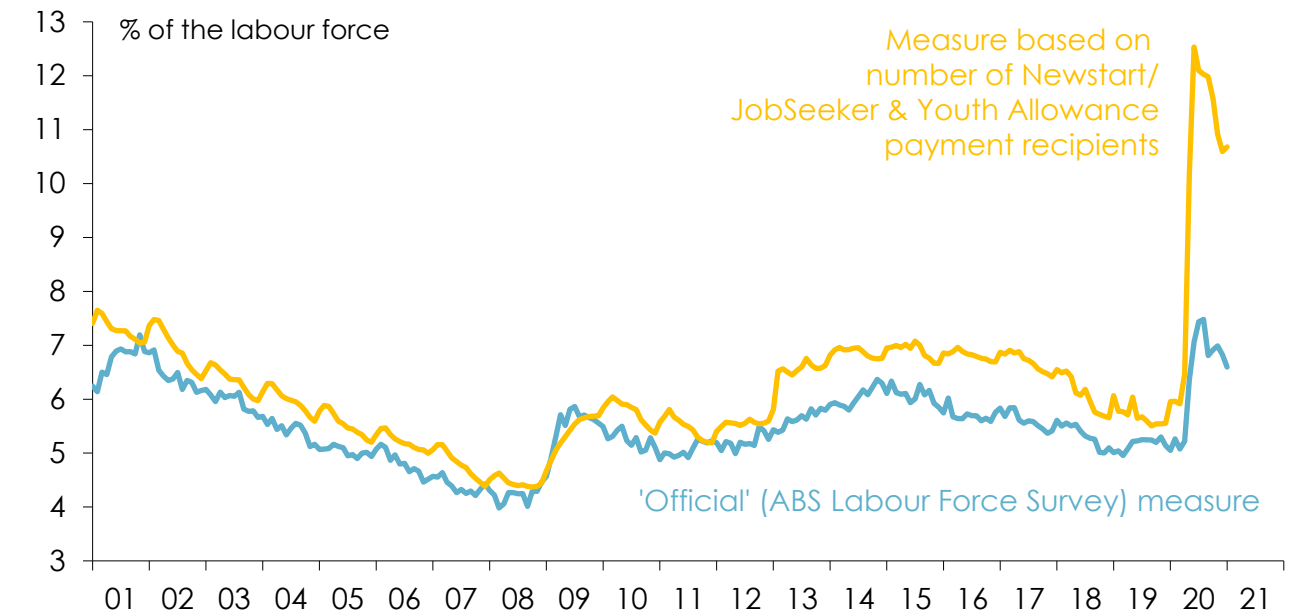
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS, [Labour Force, Australia](#). January data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



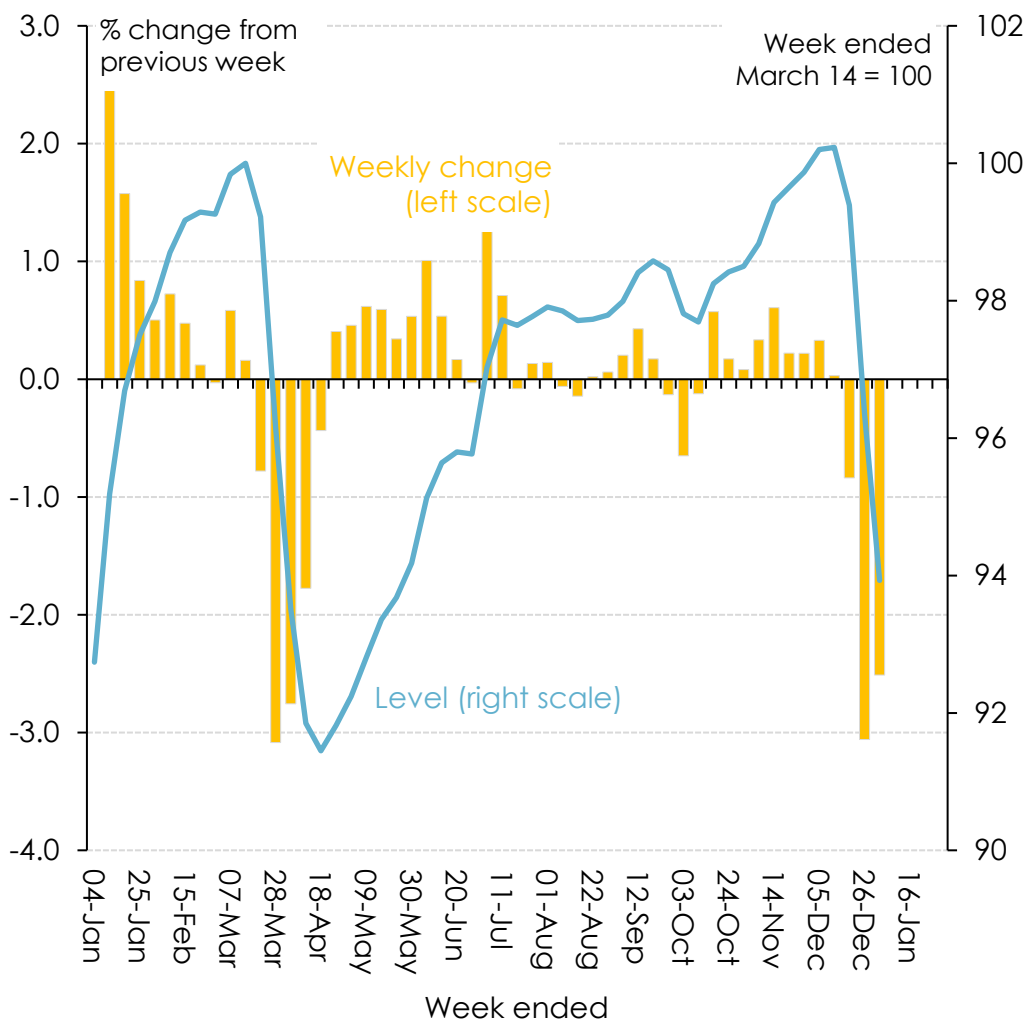
Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force



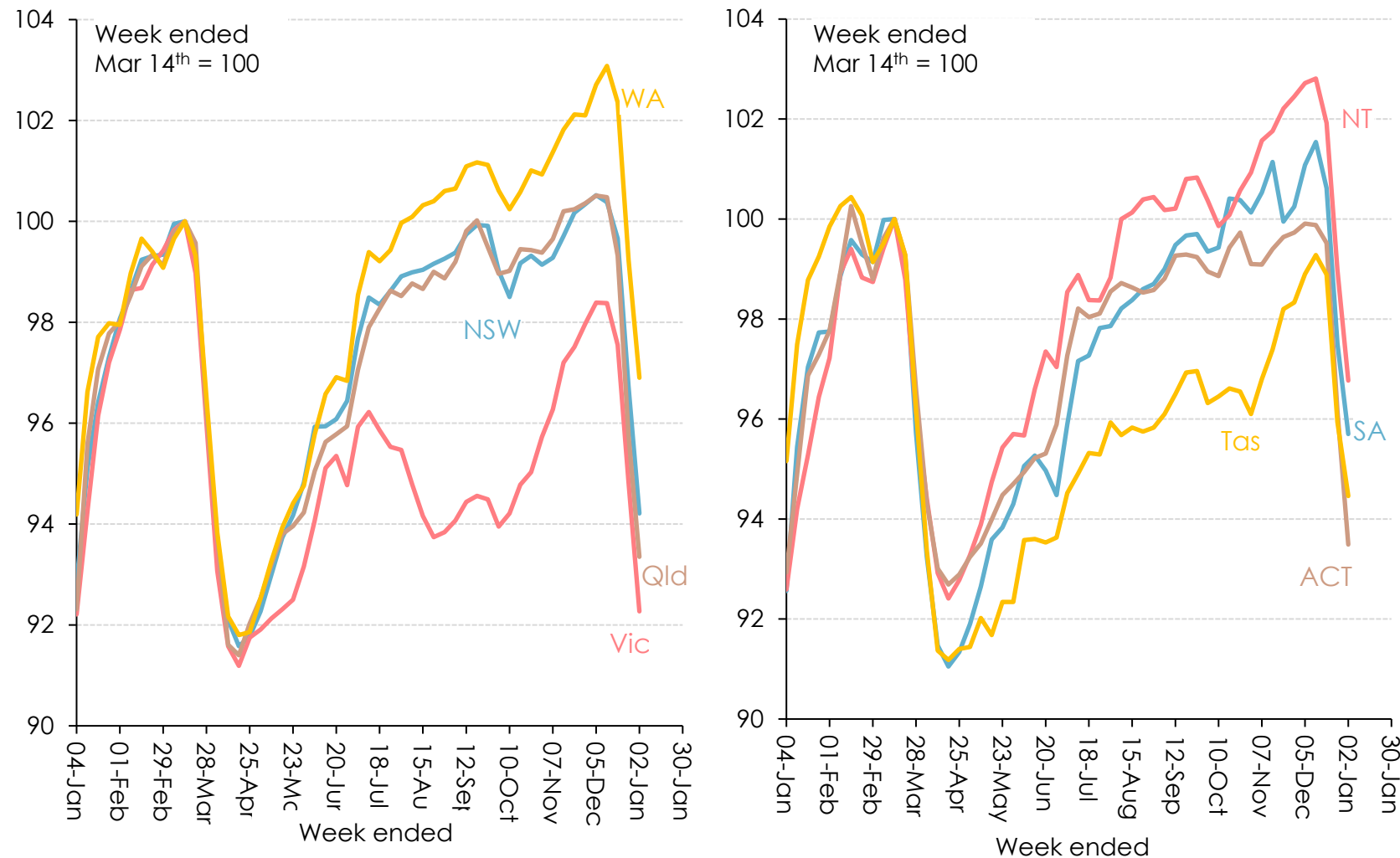
- ❑ The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available
- ❑ On two occasions last year the Secretary of DSS provided 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 27th 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



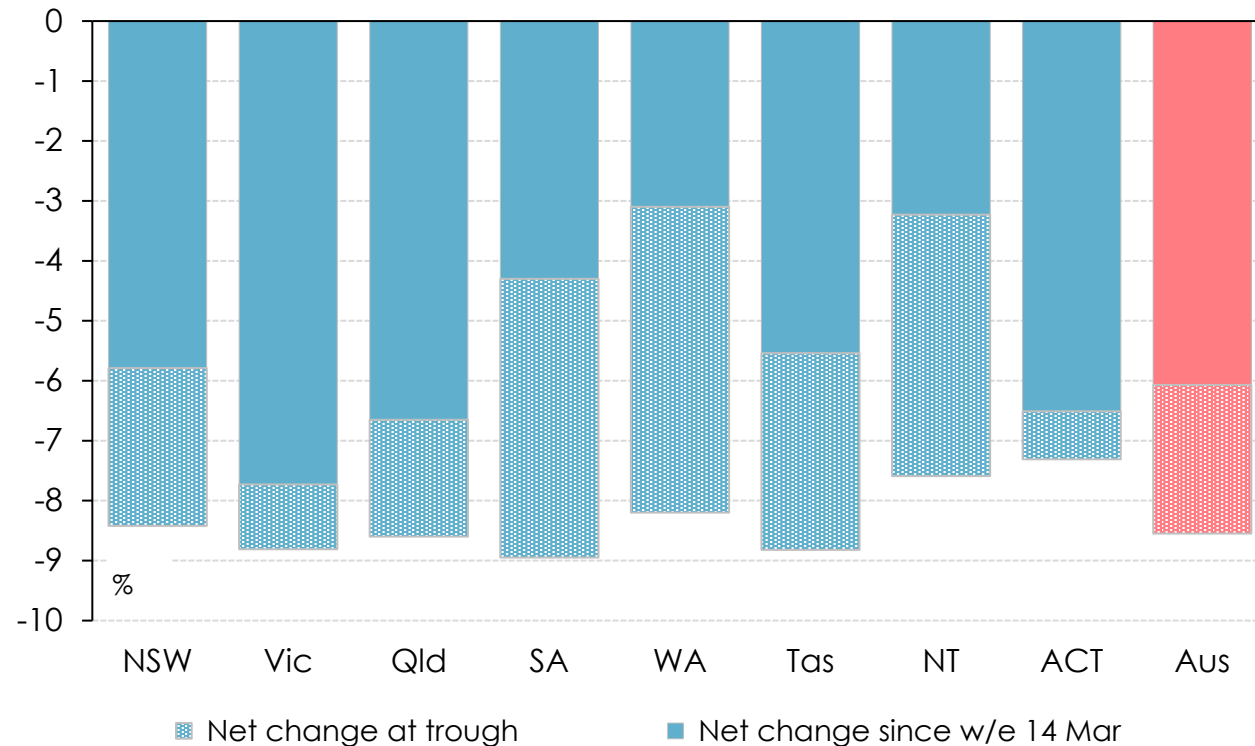
Payroll jobs by State & Territory



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 16th January will be released on 2nd February. [Return to "What's New"](#).

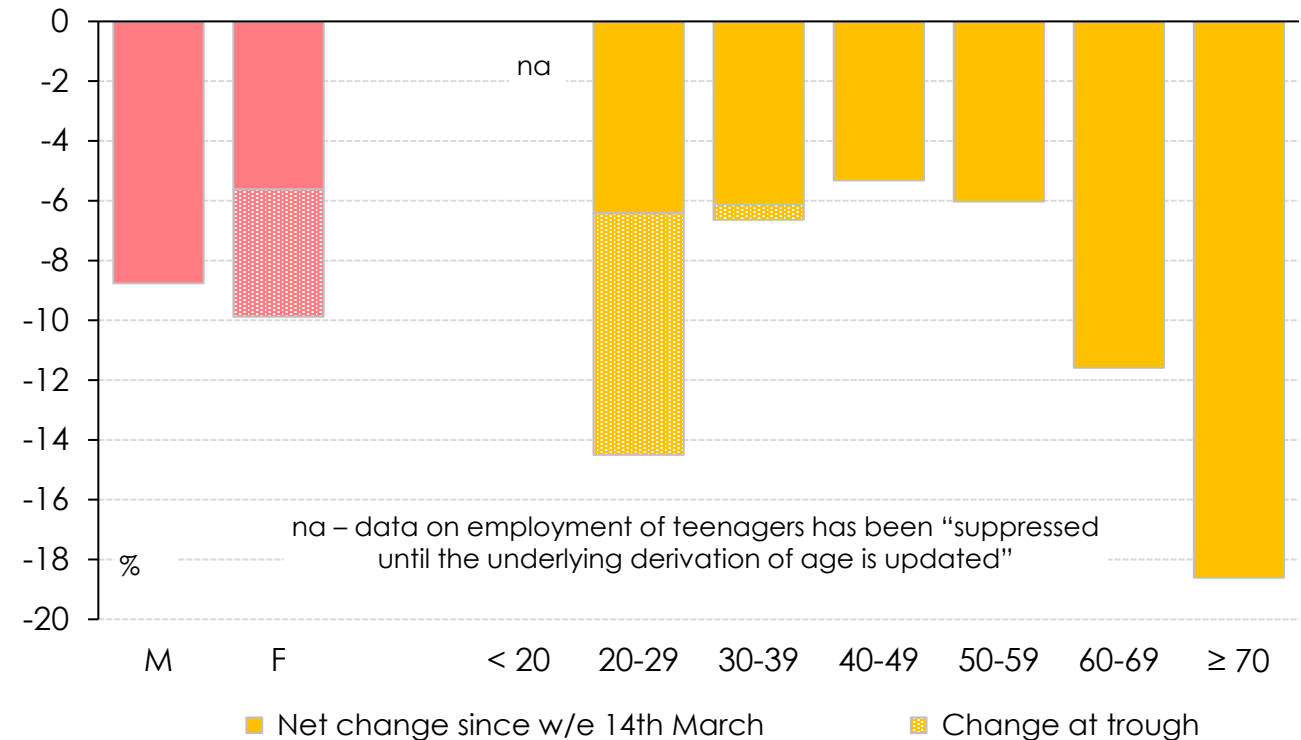
Payroll jobs had returned to pre-pandemic peak in all states except Vic & Tas by 5th December, though not for either males or females (?)

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



Payroll jobs has returned to pre-pandemic level by 5th 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 14th March, by gender and age group

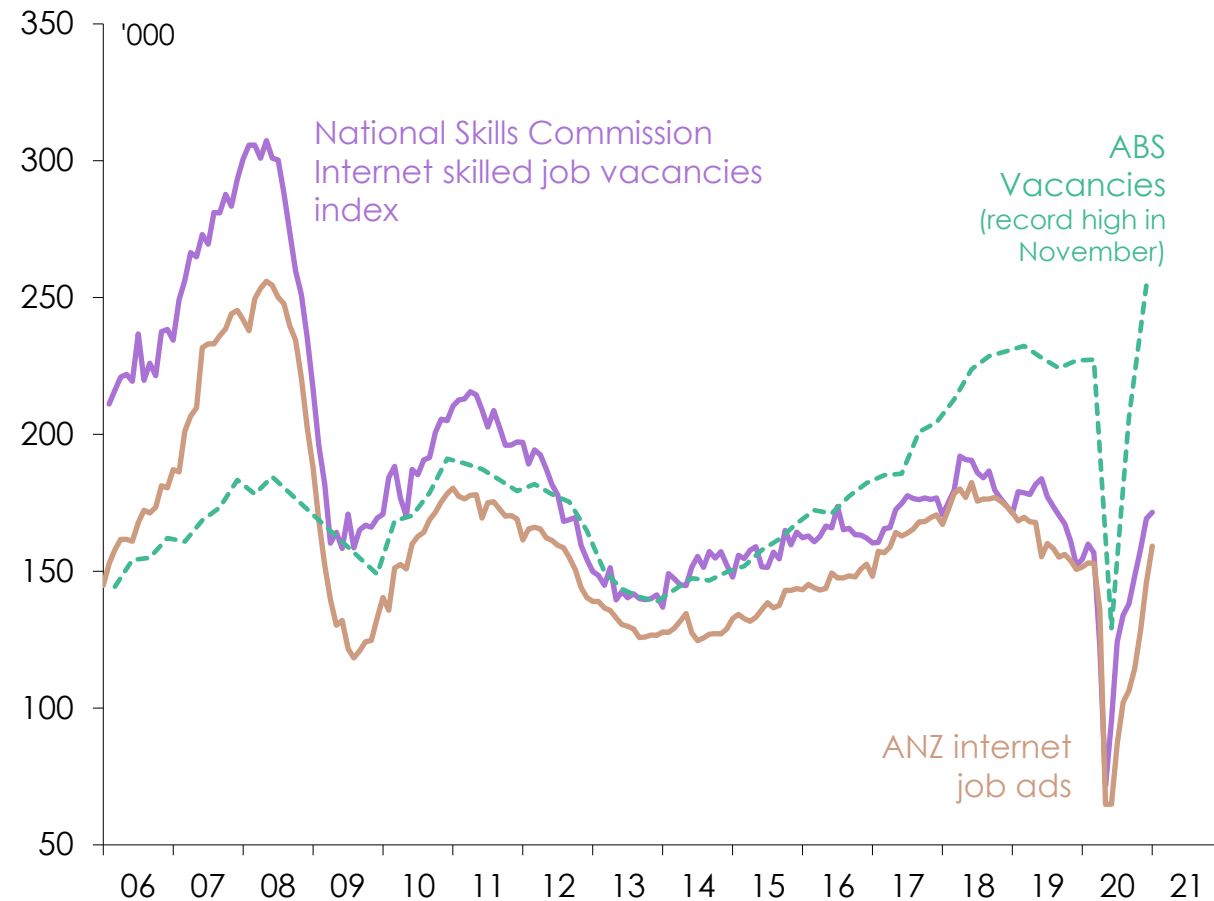


Not clear why although total payroll jobs returned to pre-pandemic levels by 5th December, neither males nor females did – nor any age group except people in their 20s – but now all have experienced seasonal falls

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 16th January will be released on 2nd February. [Return to "What's New"](#).

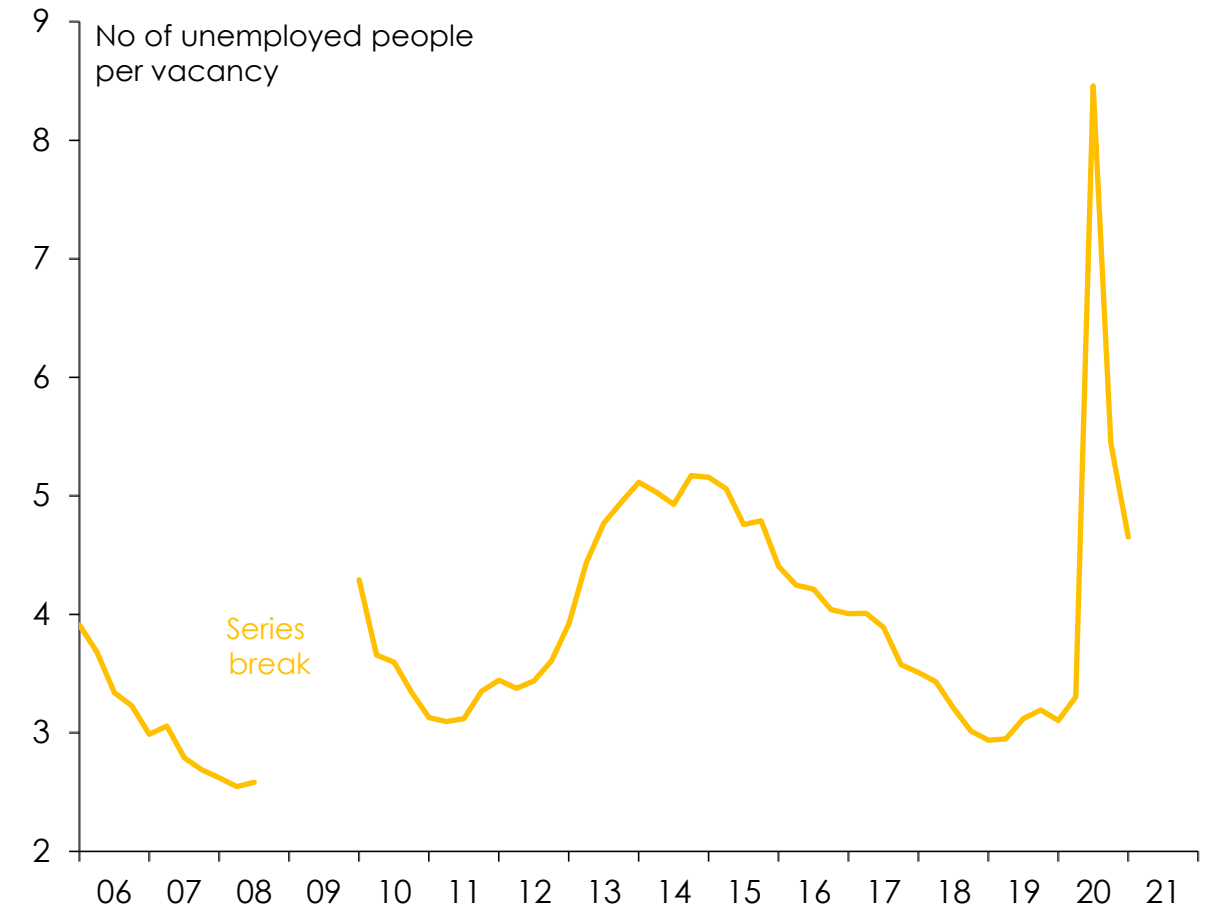
Job vacancies have rebounded swiftly from their recession lows, although there are still almost 5 unemployed people for every job on offer

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

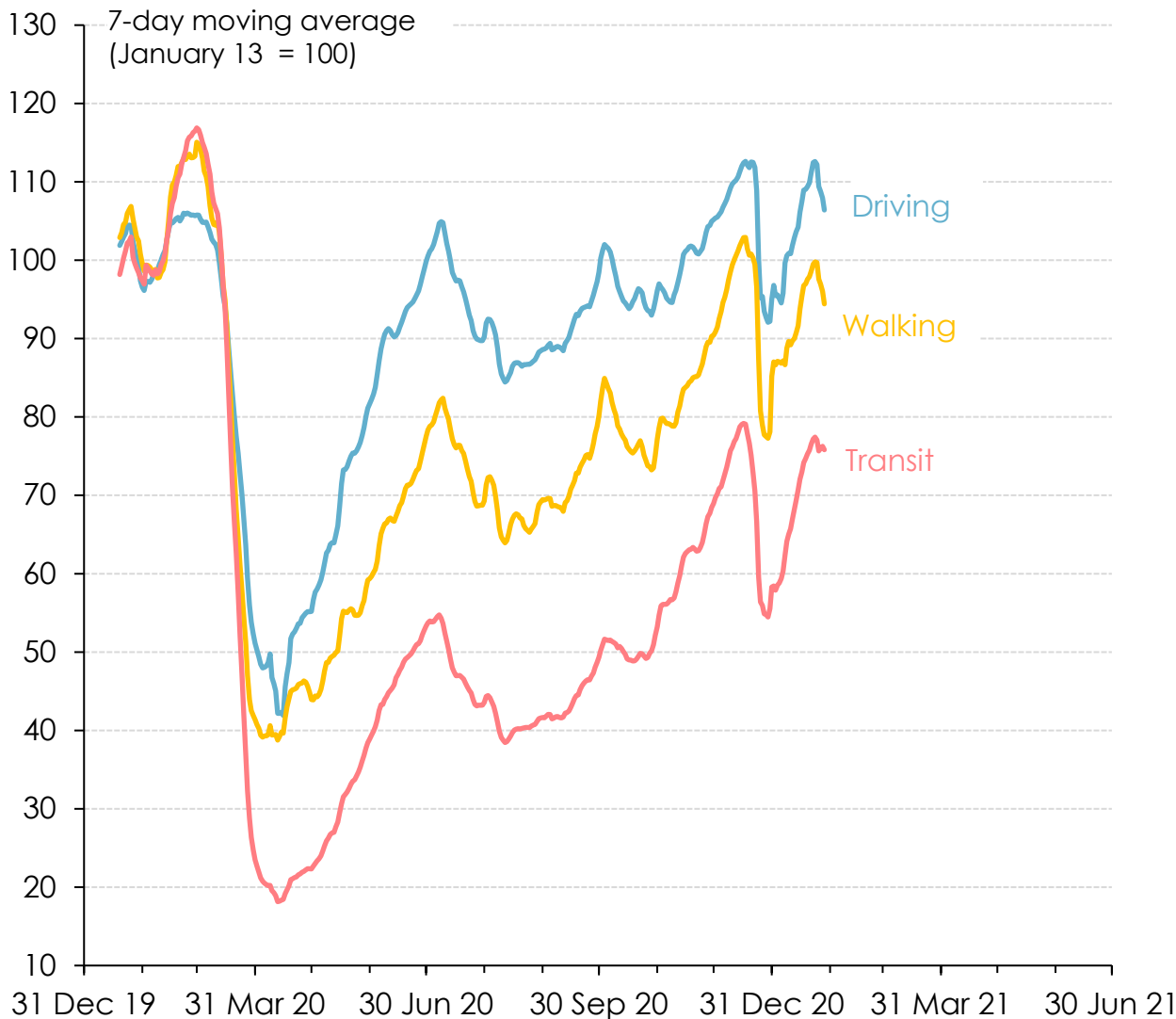
Ratio of unemployed people to job vacancies



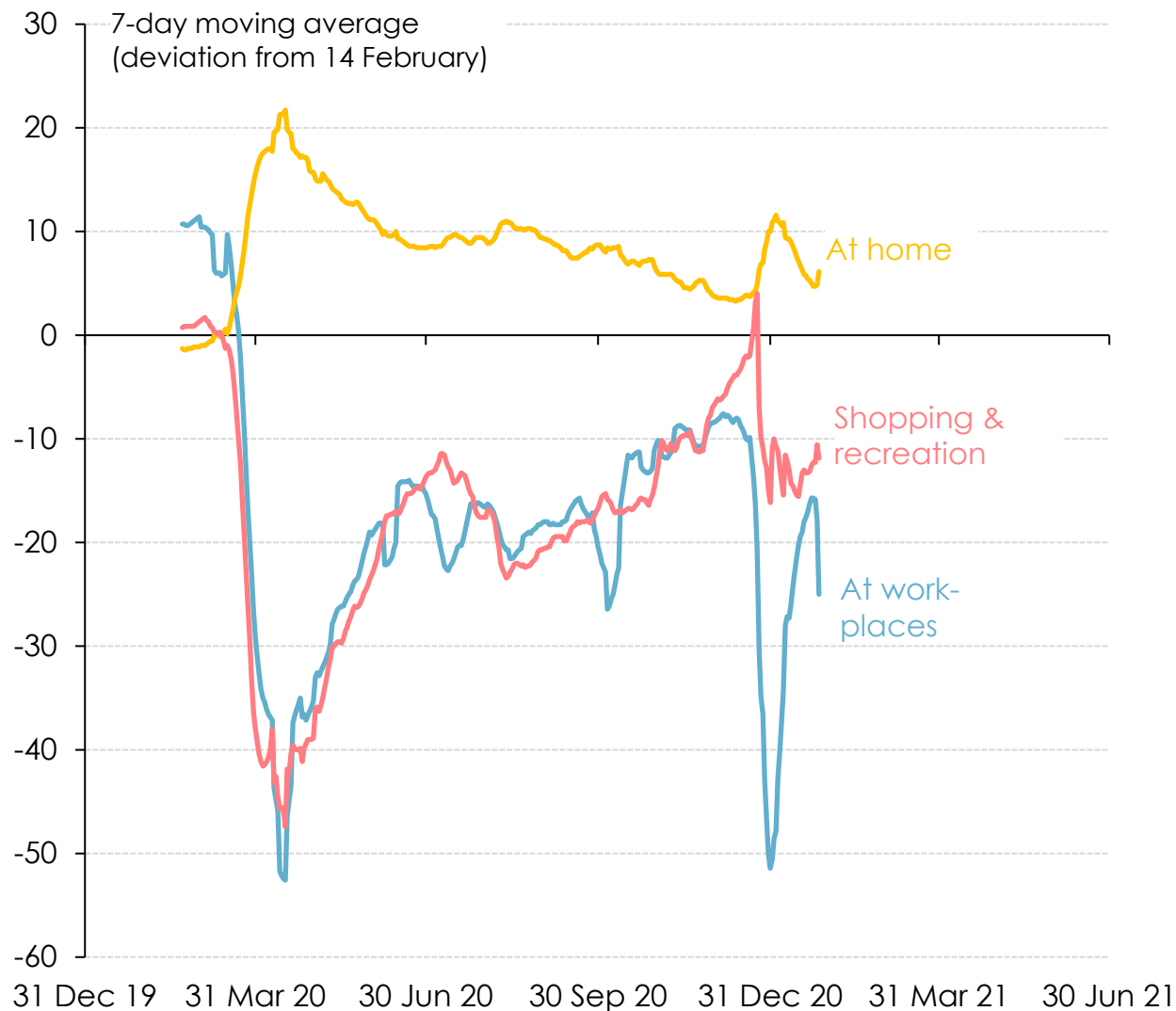
- In November there were roughly $4\frac{3}{4}$ unemployed people for every vacancy reported to ABS – down from a peak of $8\frac{1}{2}$ in May but above the decade average of 3.9

Mobility indicators are trending upwards abstracting from normal Xmas-New Year and this week's 'Sydney Day' holidays

Time spent driving, walking and in transit



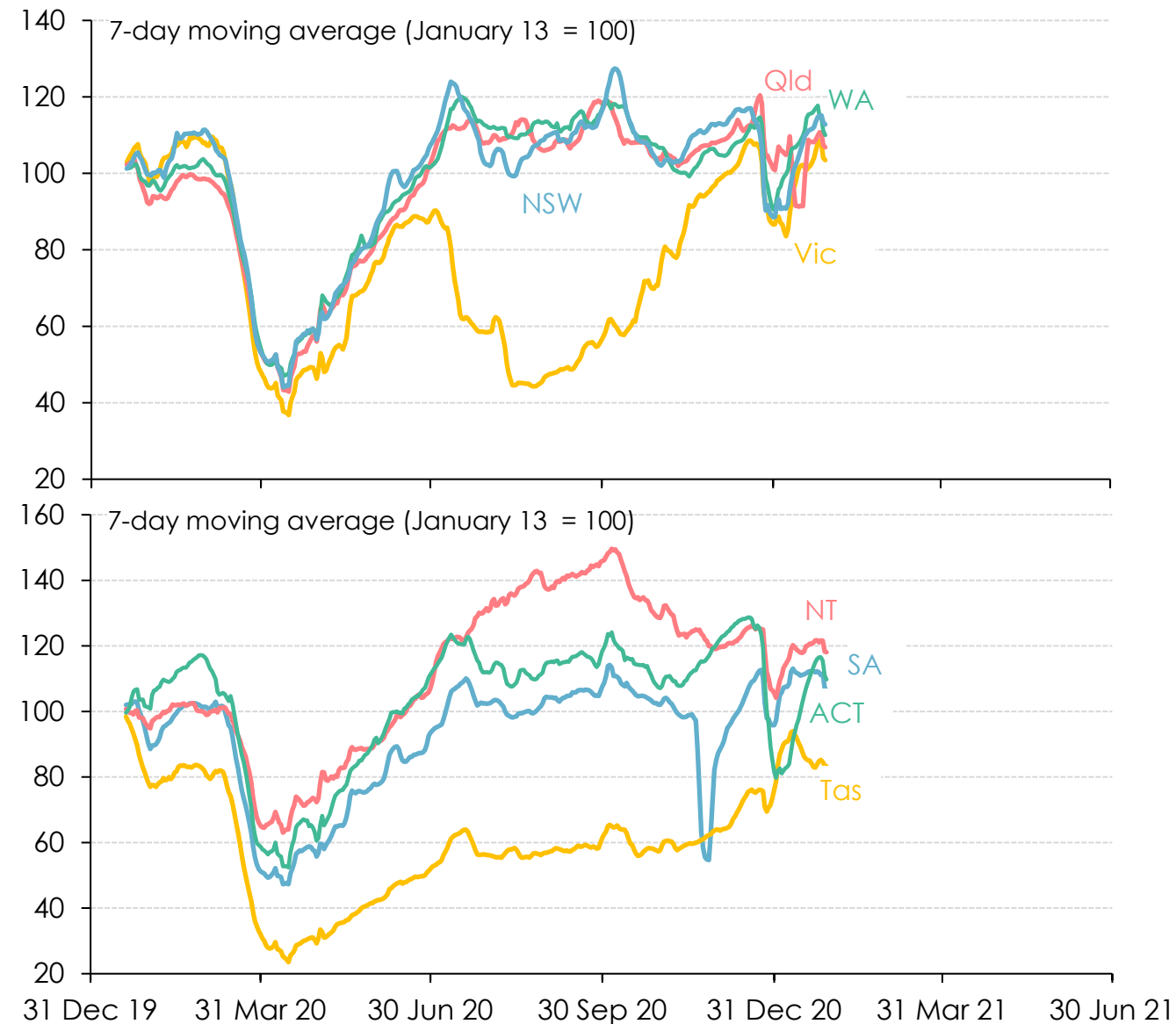
Time spent working, at home, shopping & playing



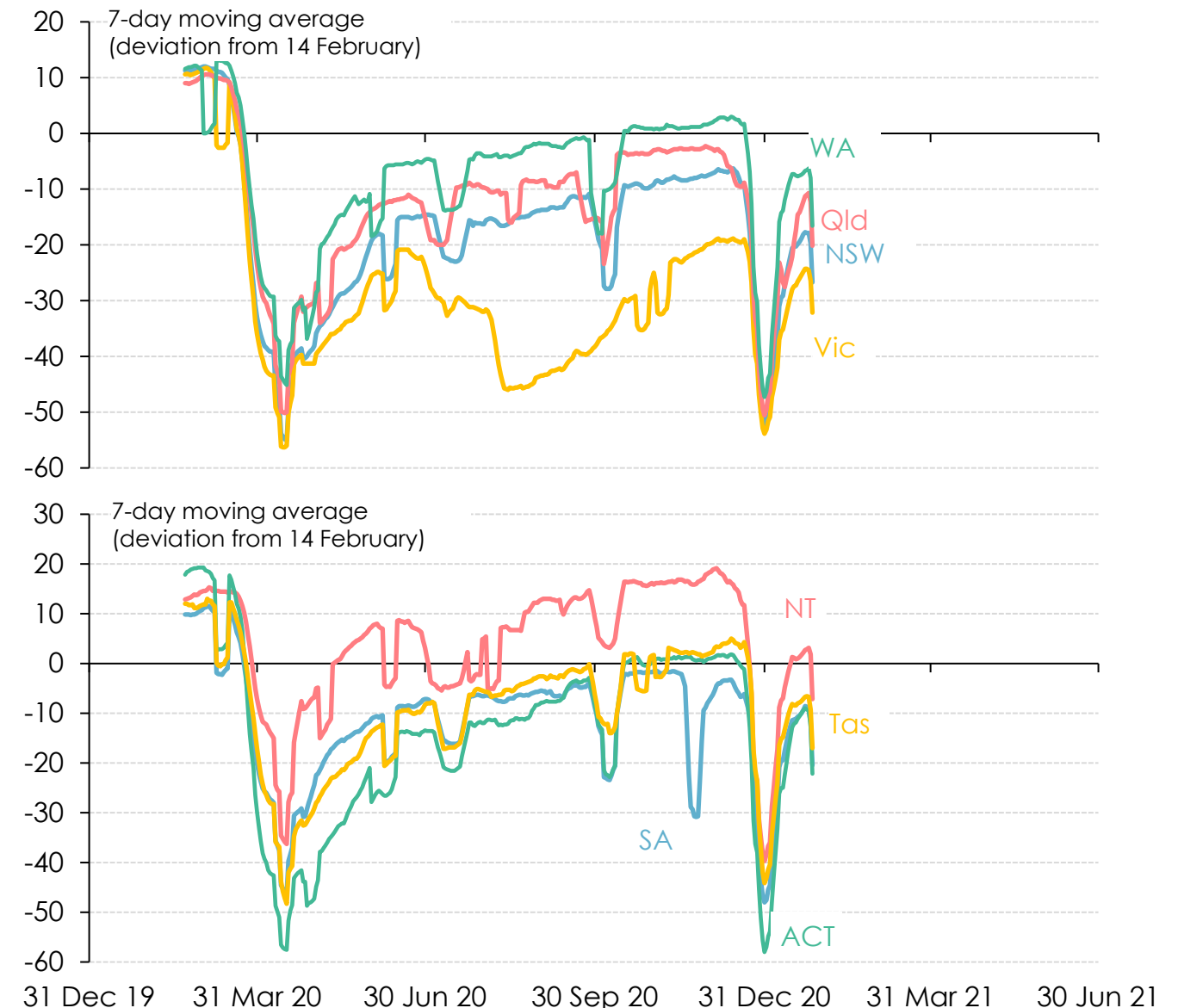
Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations such as Christmas-New Year and 'Sydney Day' (26th January) in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#)(data up to 28th January); [Google Community Mobility Reports](#) (data up to 26th January). For state-level data see [next slide](#). [Return to "What's New"](#).

As well as normal holiday variations, mobility data for NSW and Qld also show the impact of lockdowns in Sydney & Brisbane in late Dec / early Jan

Time spent driving, by State and Territory



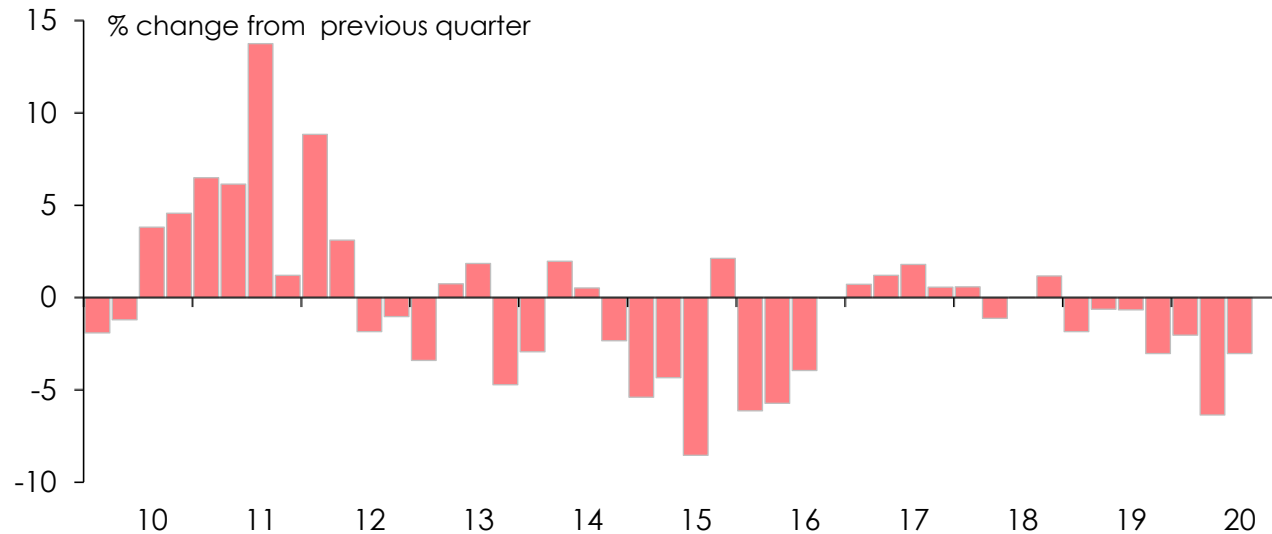
Time spent in workplaces, by State and Territory



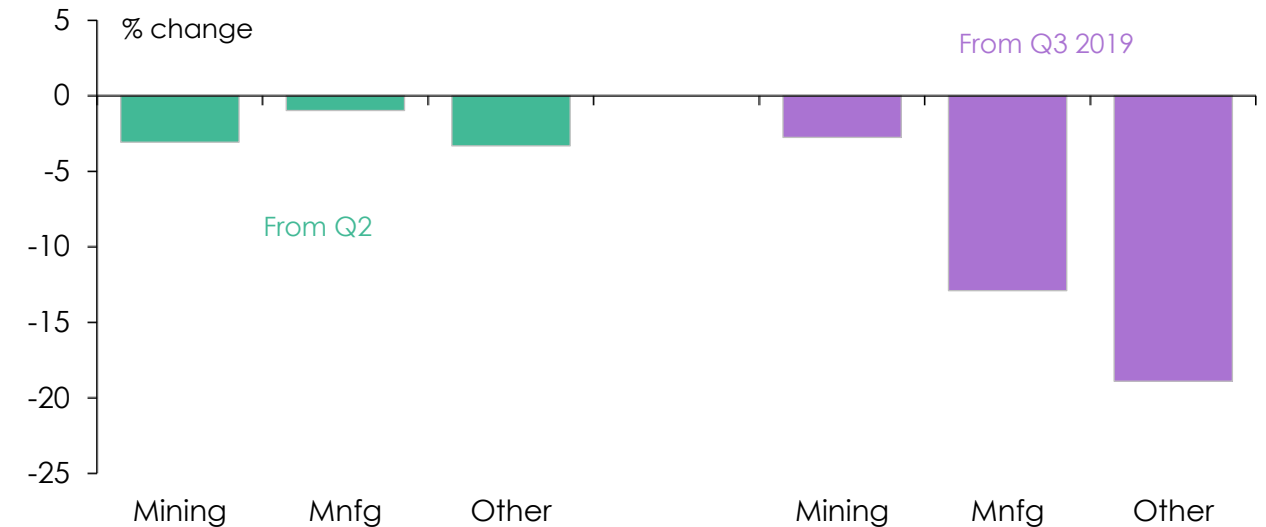
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 28th January); [Google Community Mobility Reports](#) (data up to 26th 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

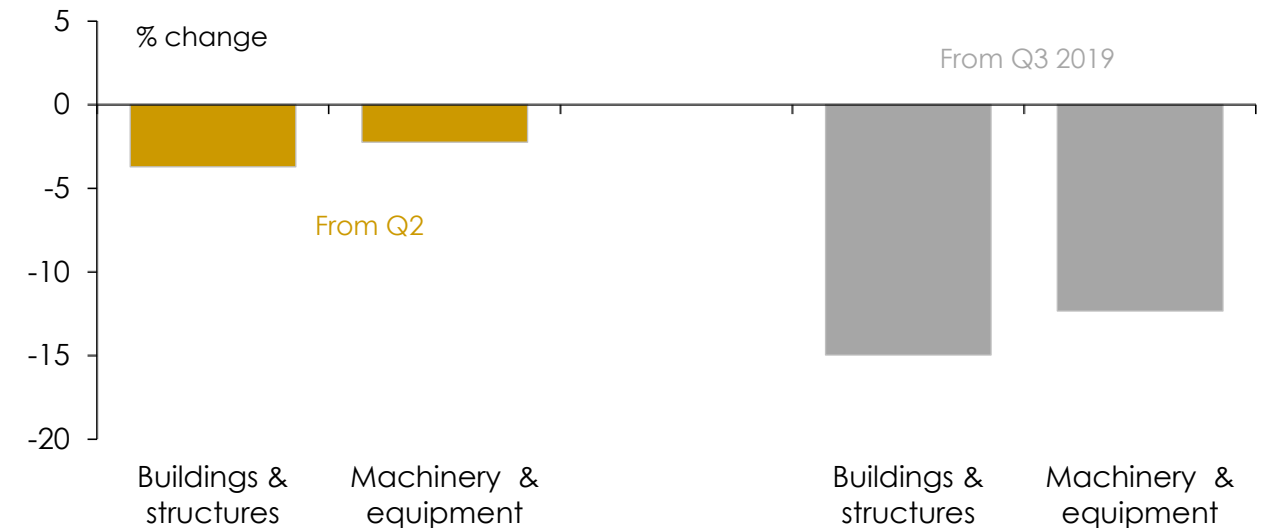
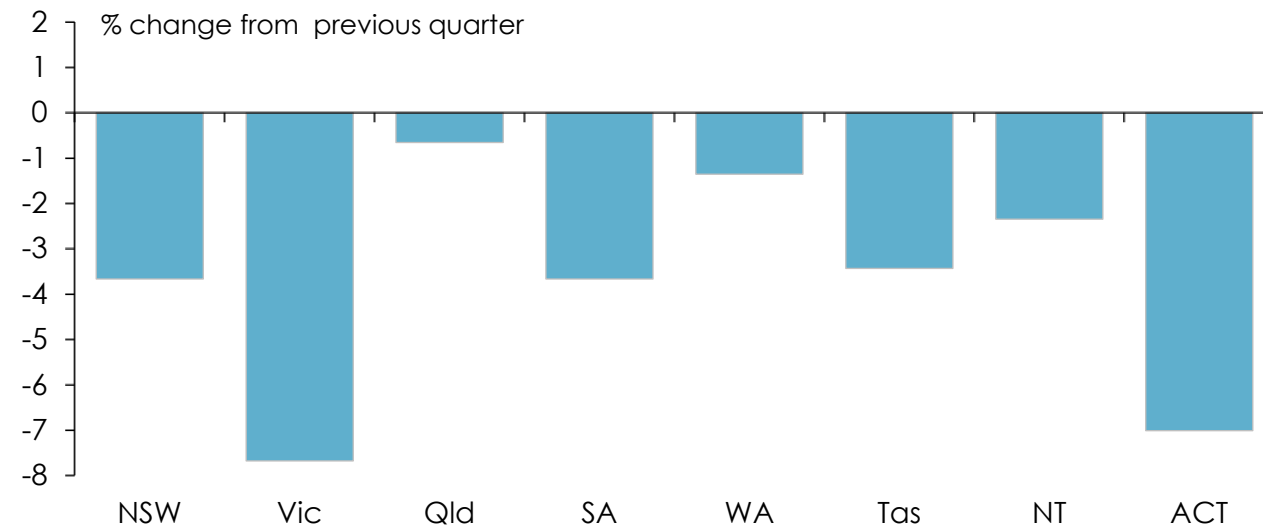
Real business new fixed capital expenditure



Real business new fixed capex, by industry, Q3



Real business new fixed capex, by state, Q3

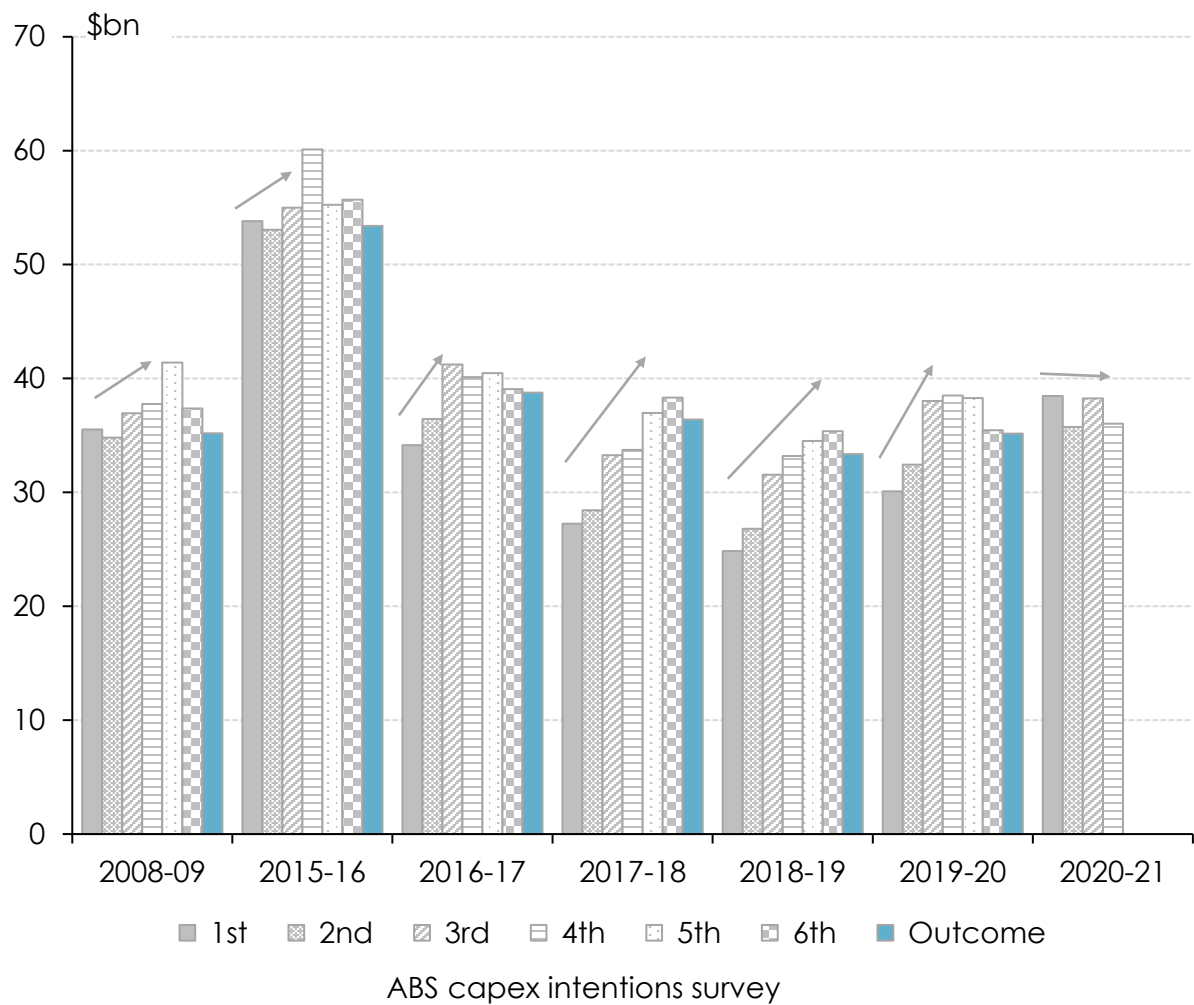


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

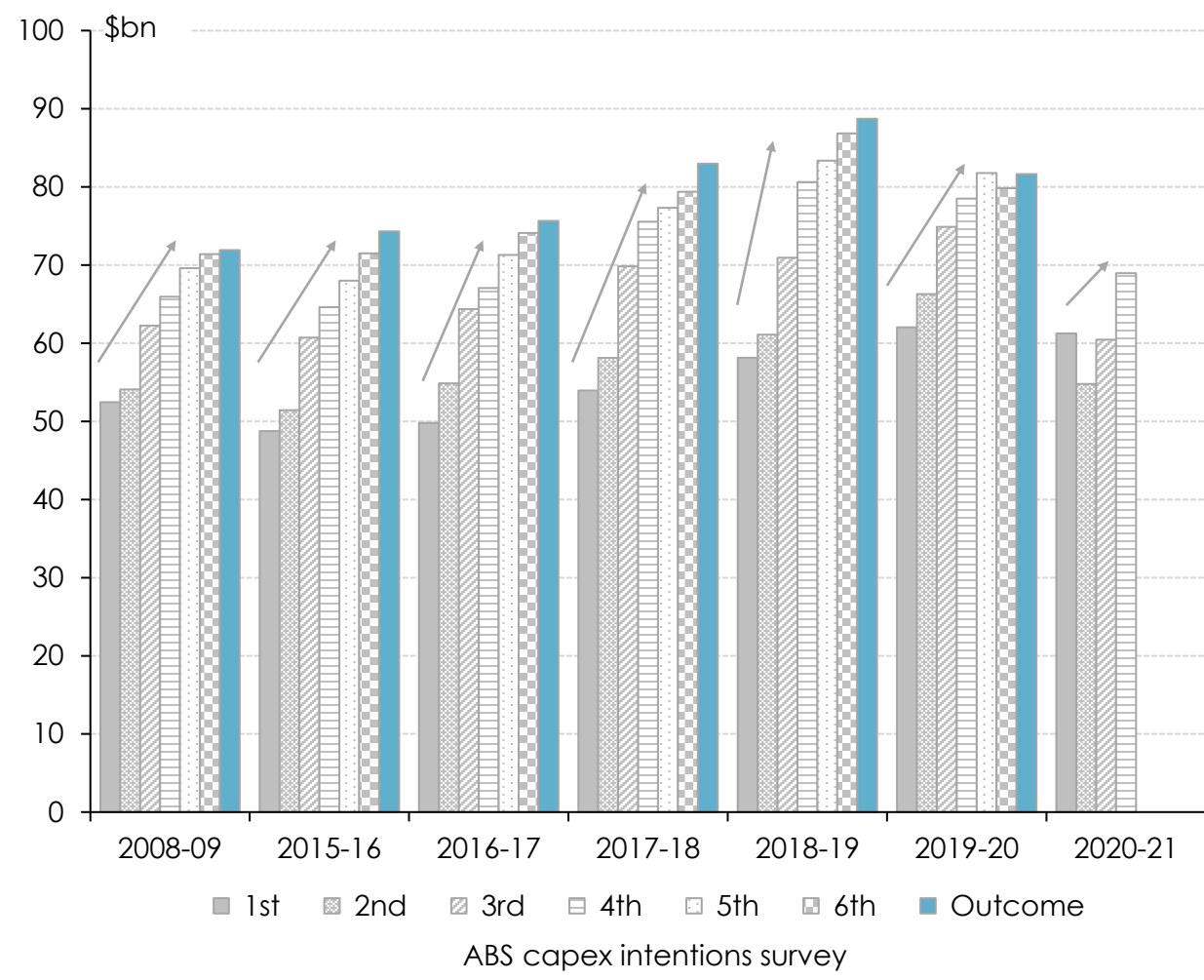
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); December quarter 2020 data will be released on 25th February. [Return to "What's New"](#).

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

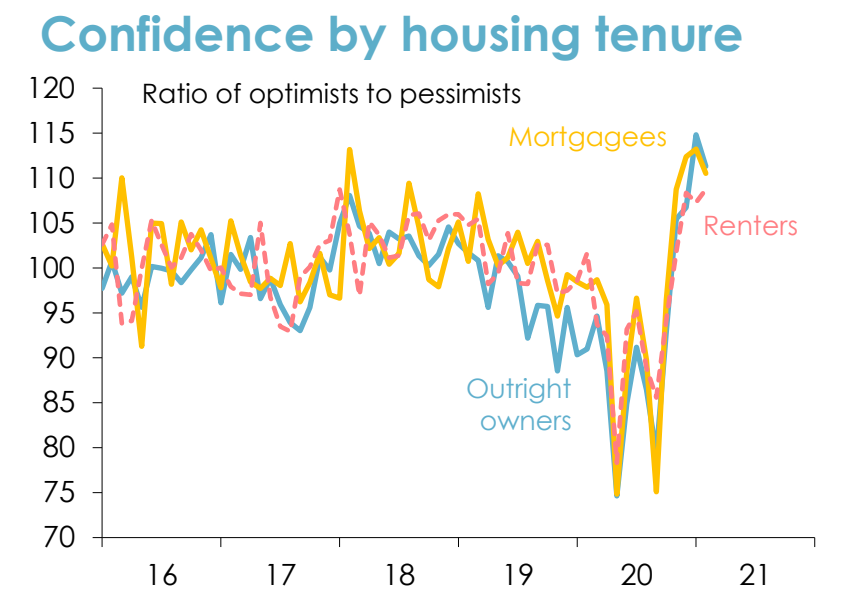
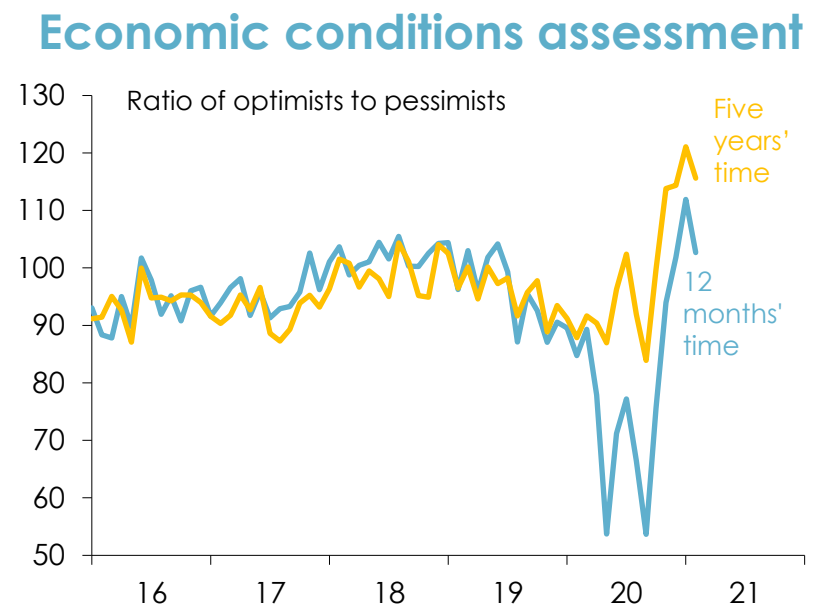
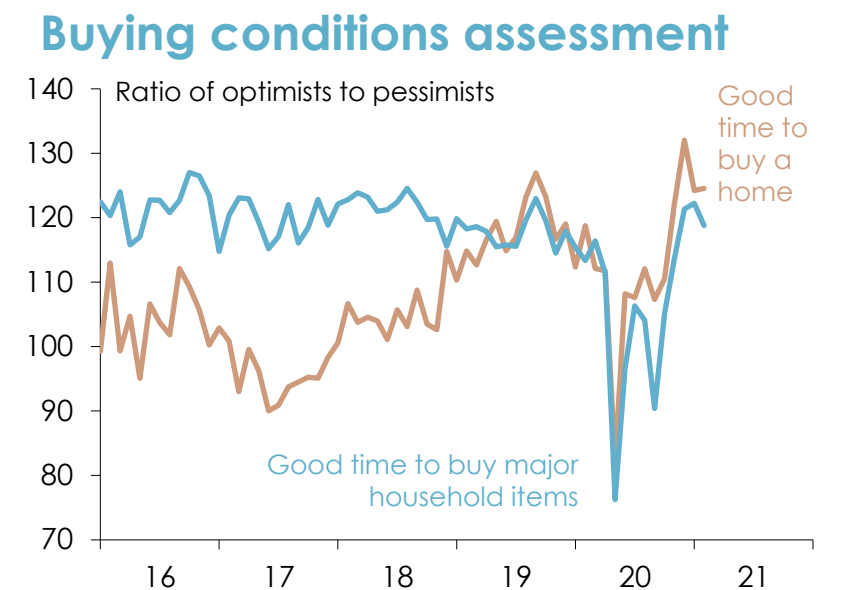
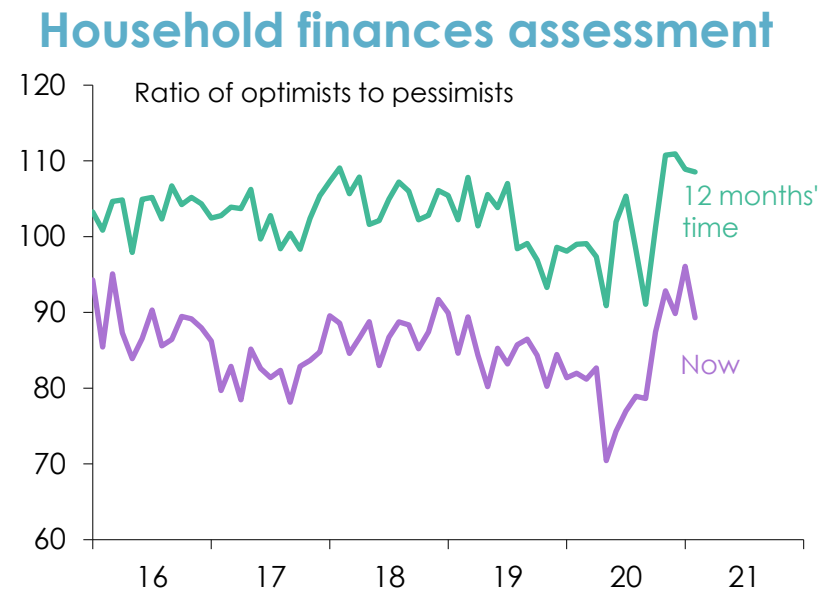
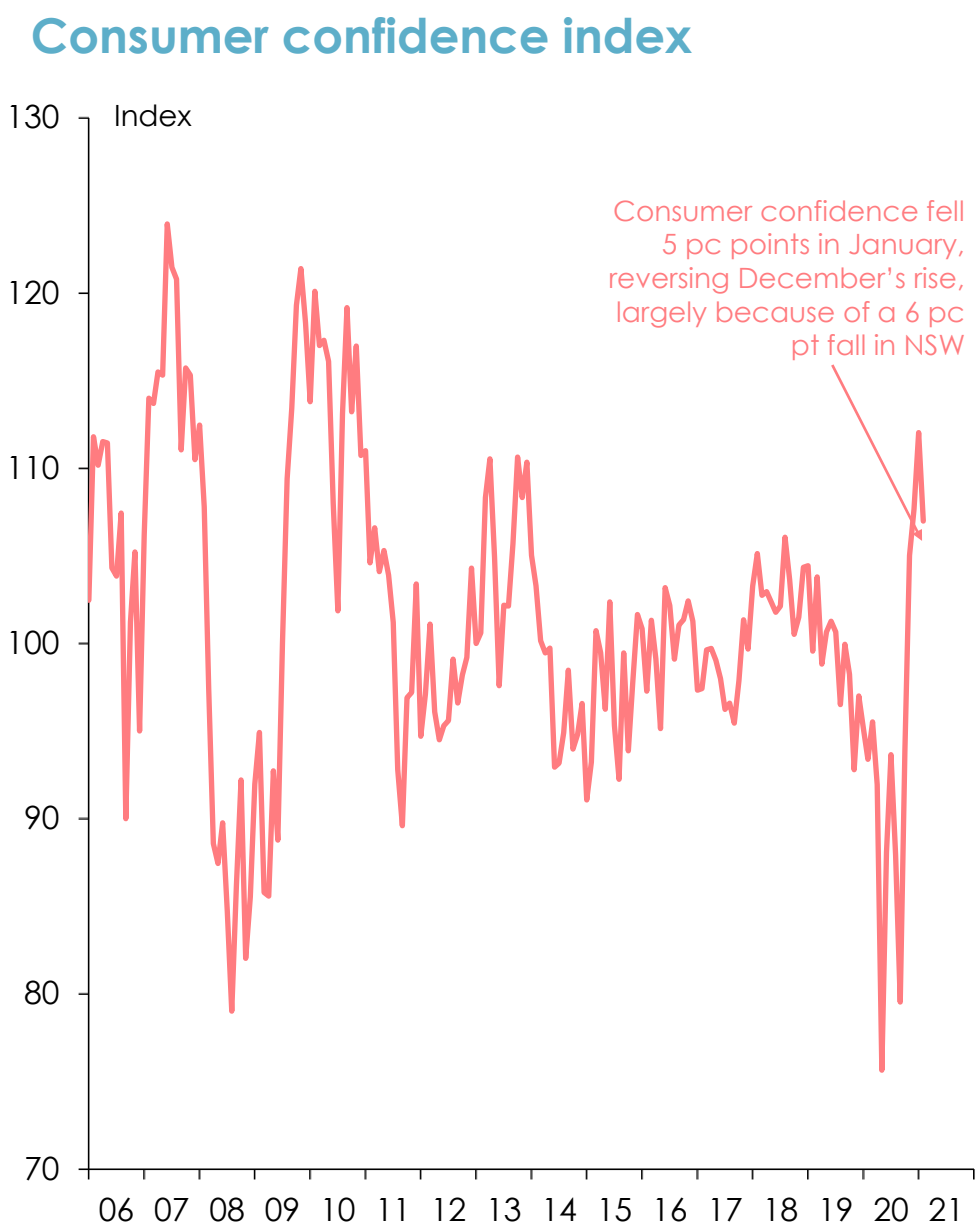


Capital expenditure intentions – non-mining

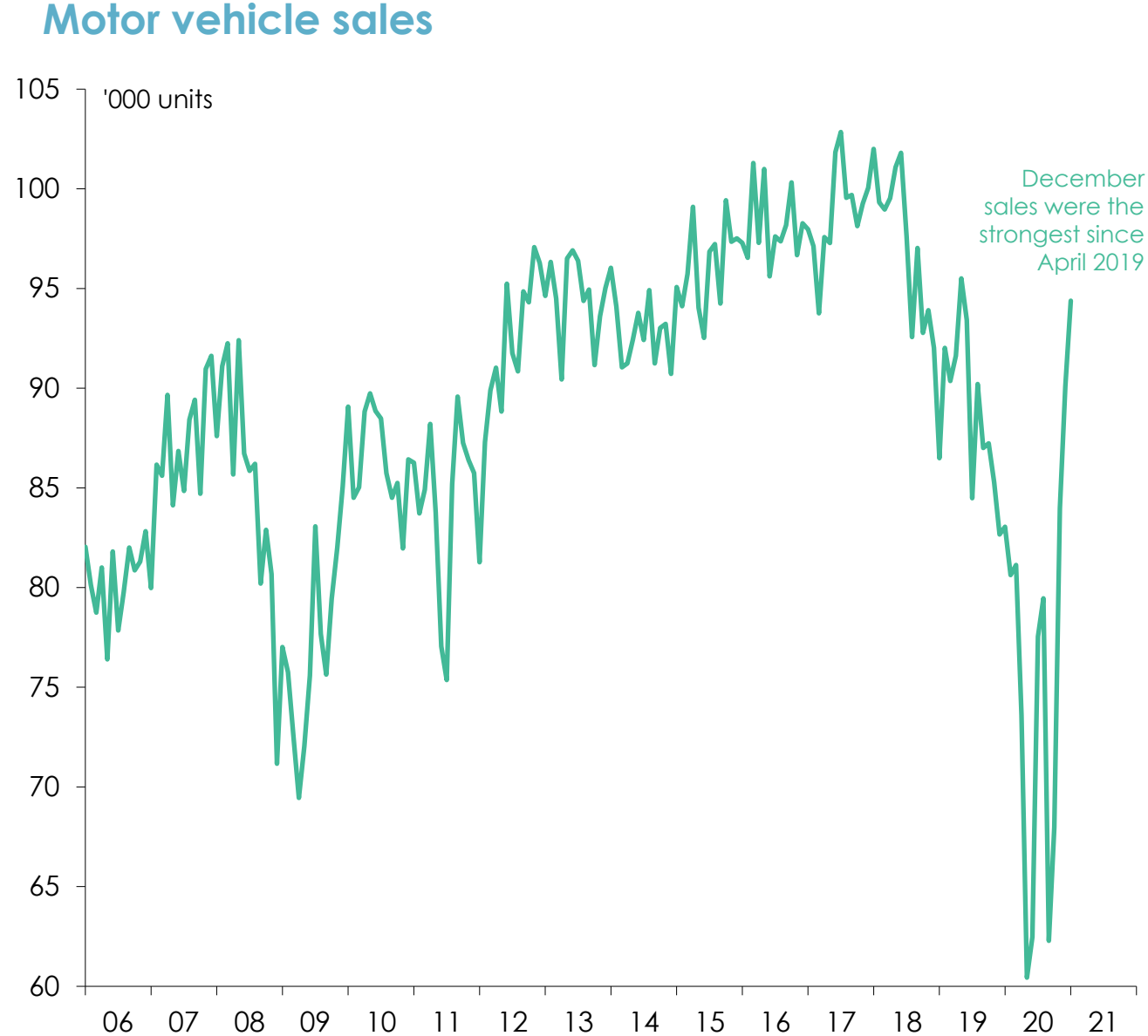
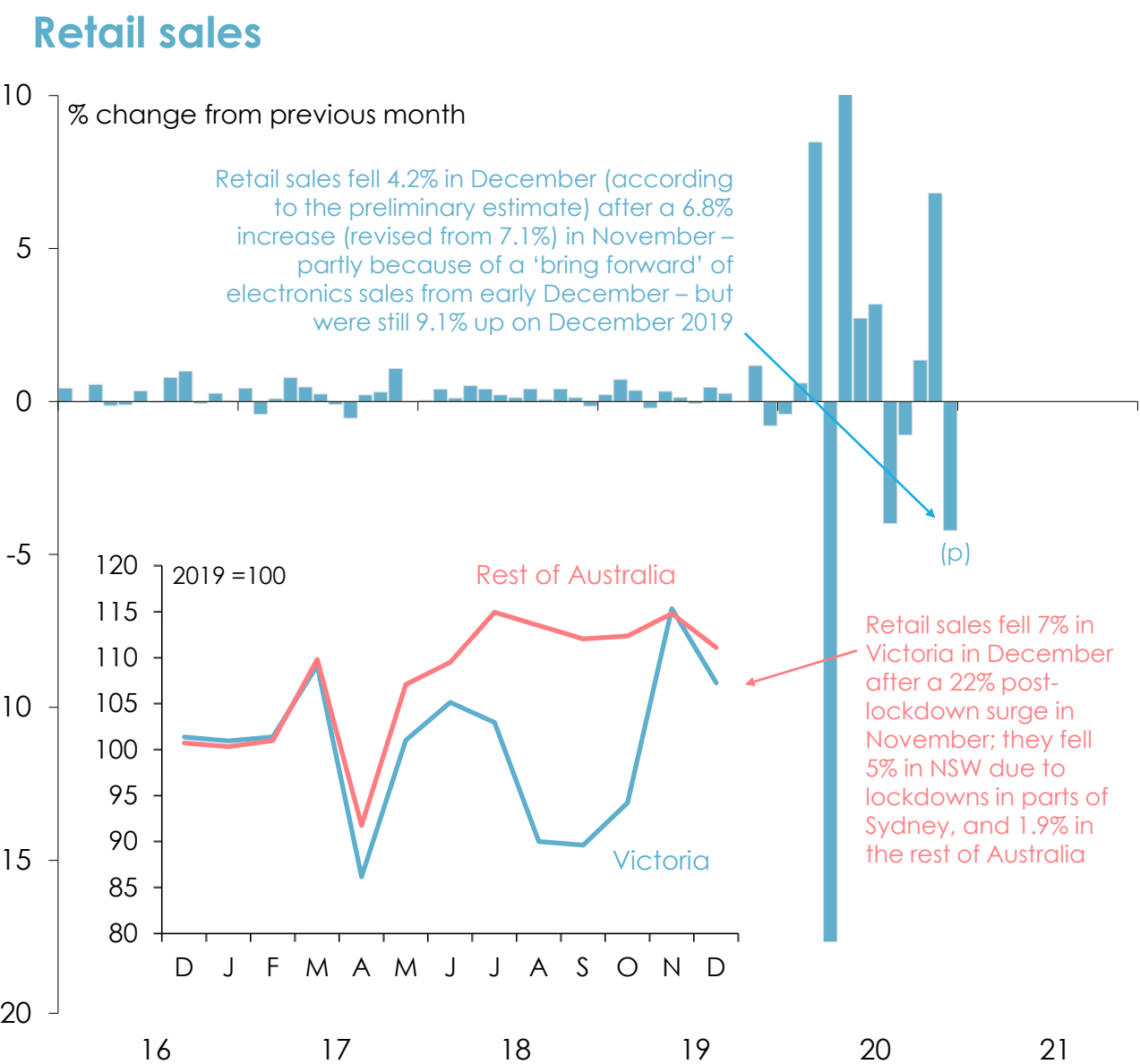


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

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



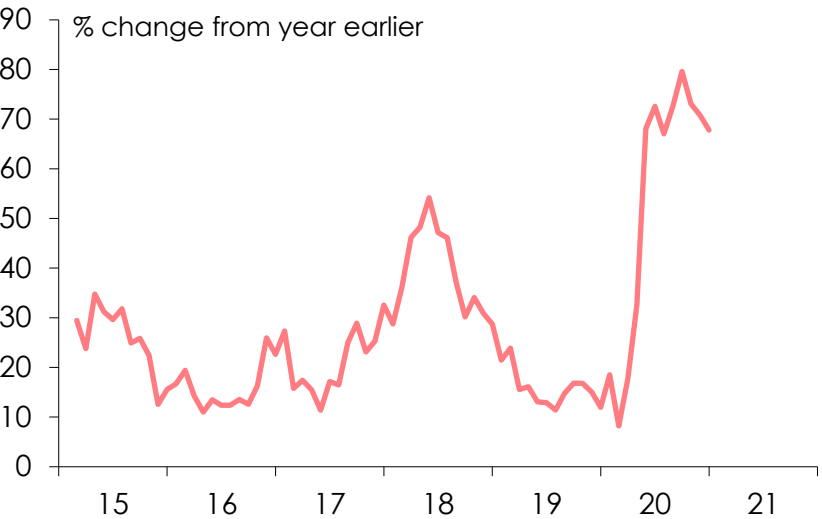
Retail sales fell 4¼% in December, but were still up 9% from a year earlier ; motor vehicles sales jumped another 5% in December to an 18-mth high



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 5th 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

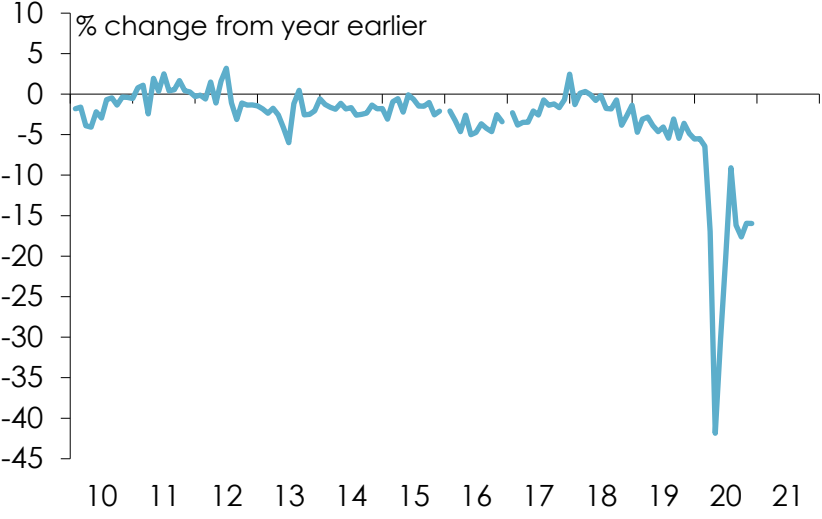
Growth in online retail sales



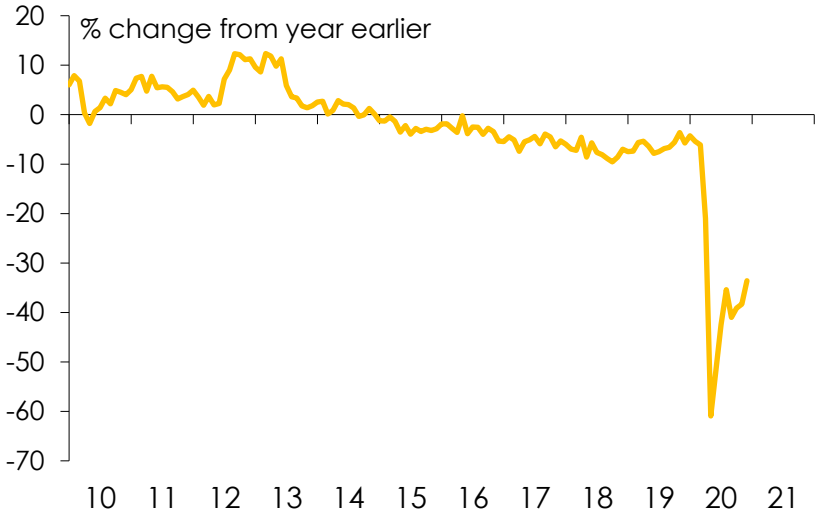
Online retail 'market share'



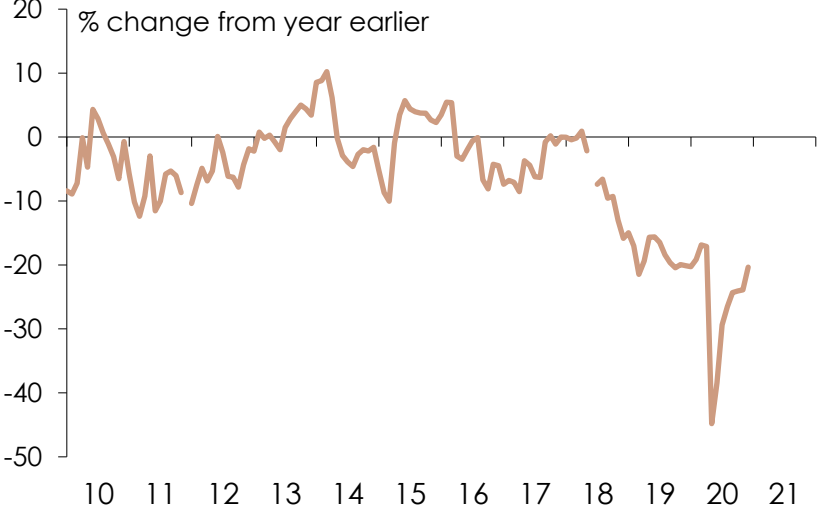
ATM cash withdrawals



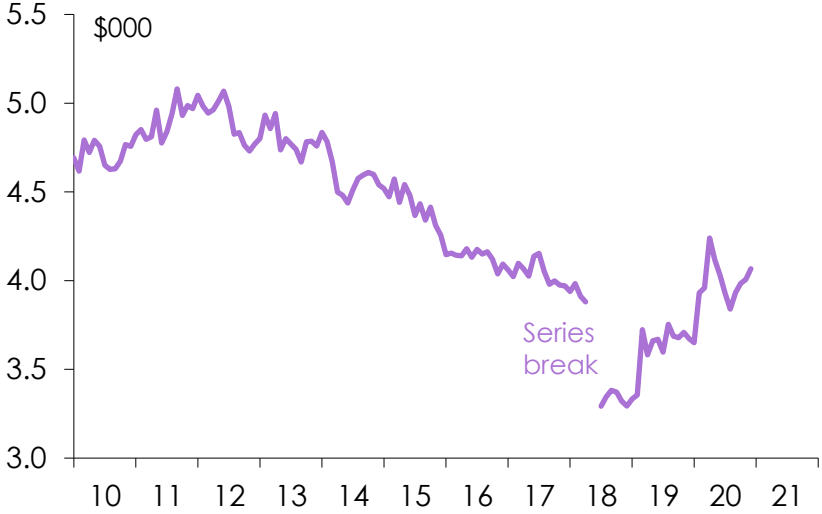
Debit card cash-outs



Credit card cash advances



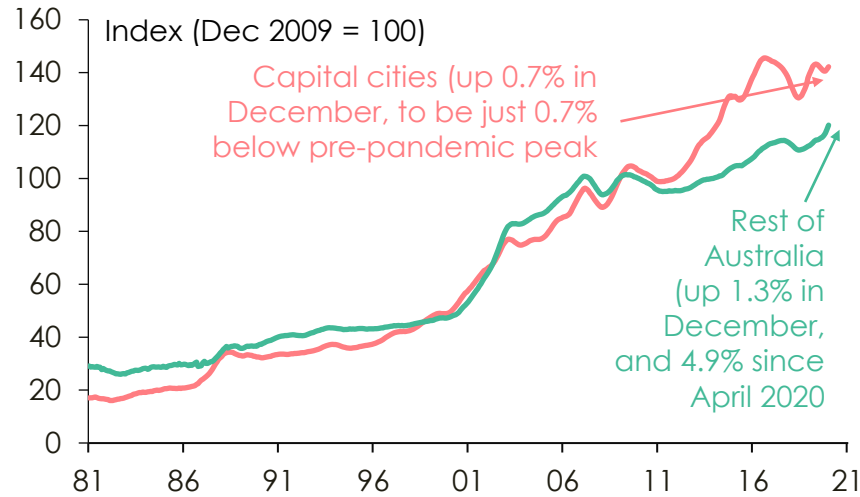
Direct entry payments



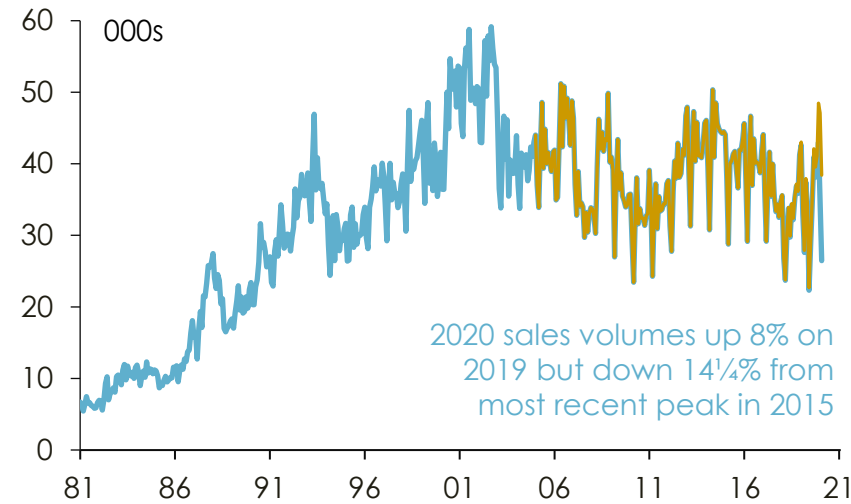
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for October: December data on online retail sales will be published on 5th February, and on the payments system on 8th February.

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

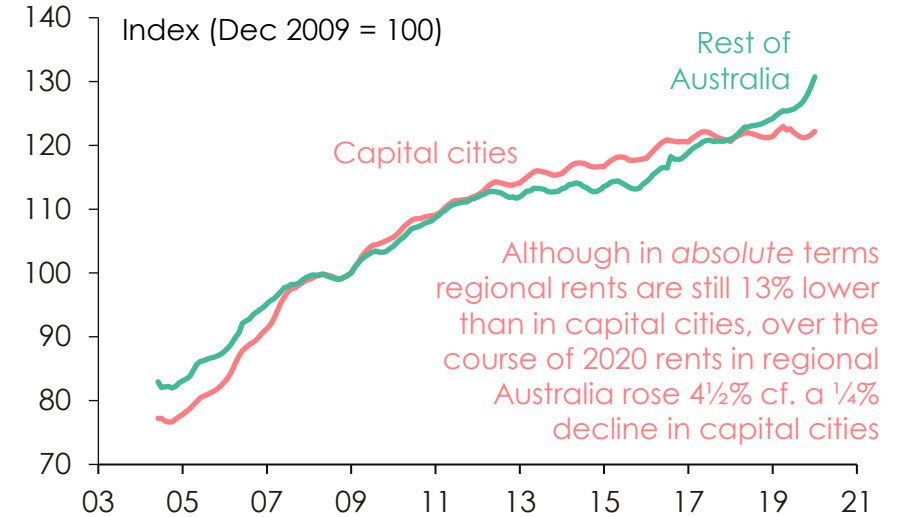
Residential property prices



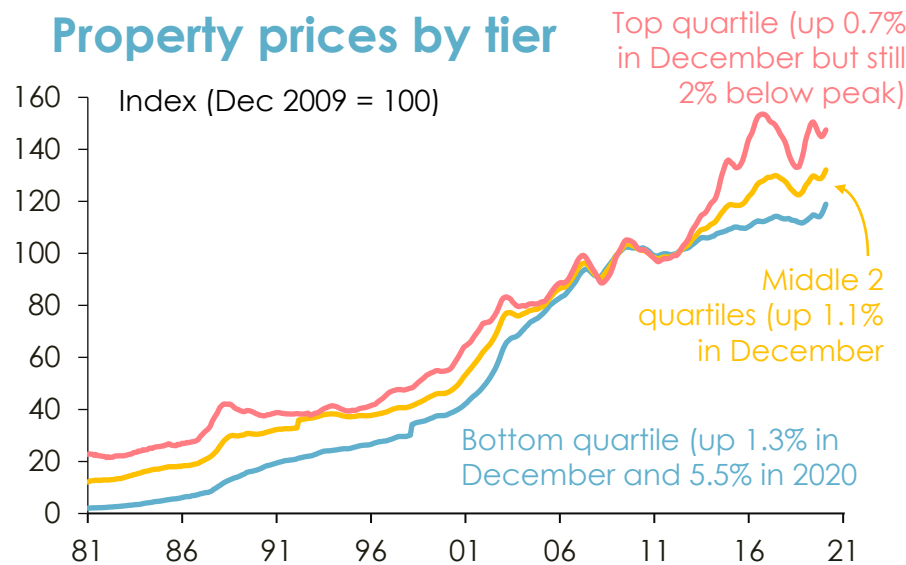
Residential property sales volumes



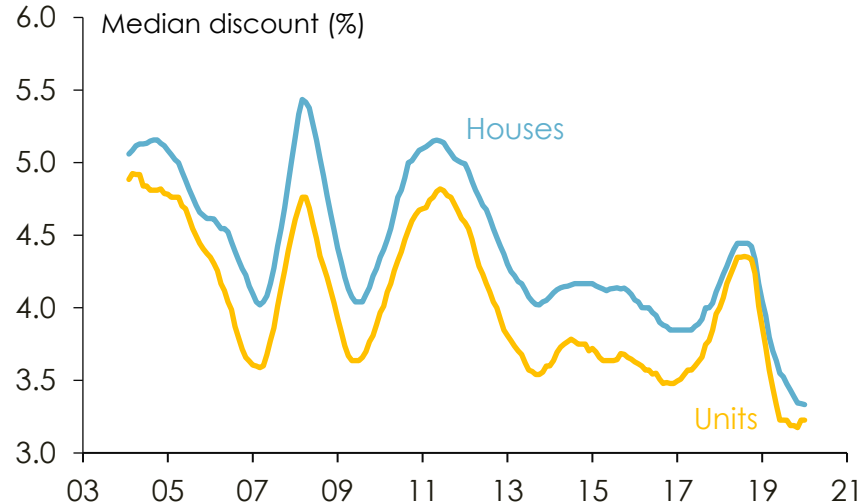
Residential rents



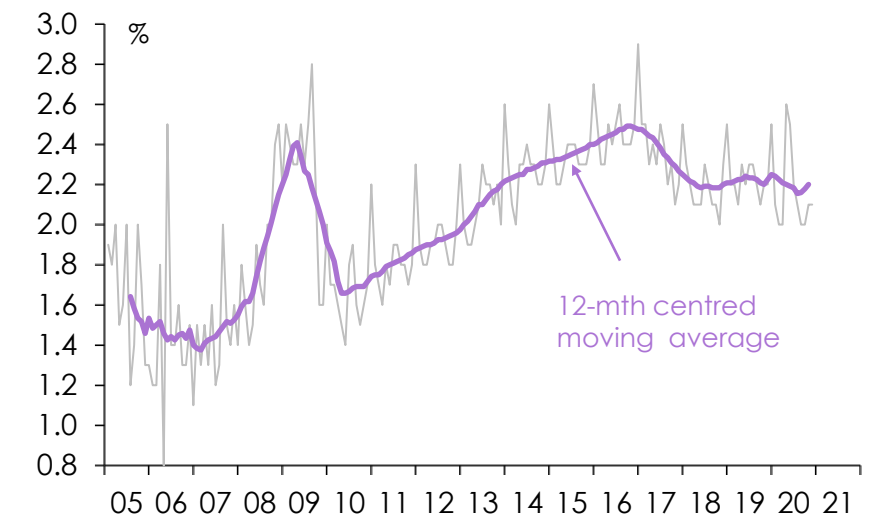
Property prices by tier



Vendor discounting



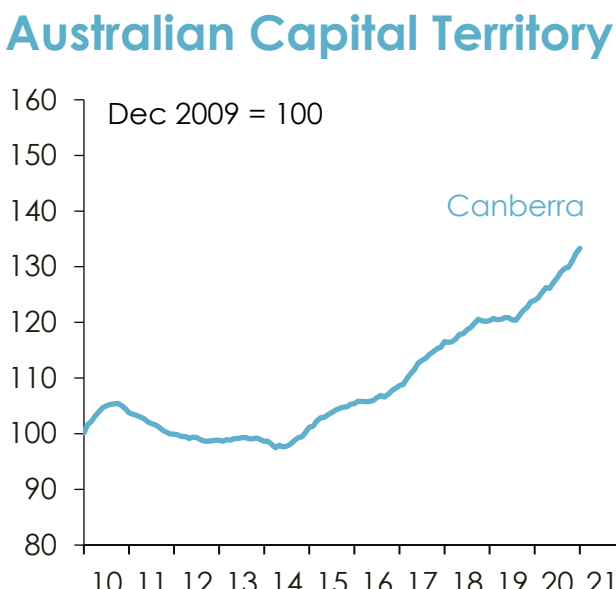
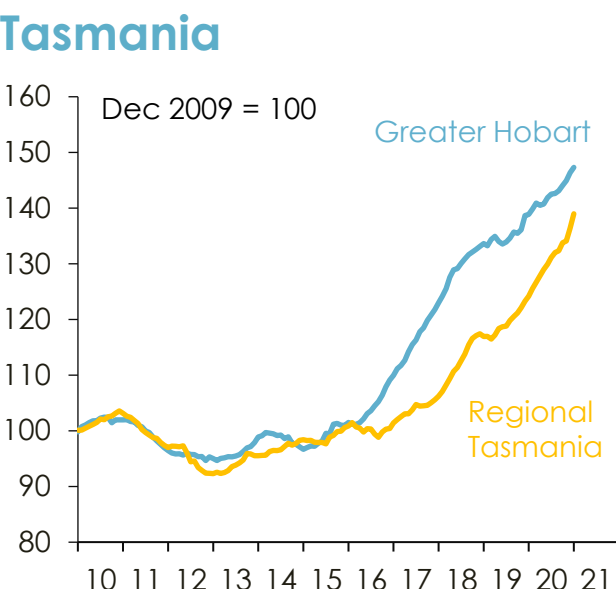
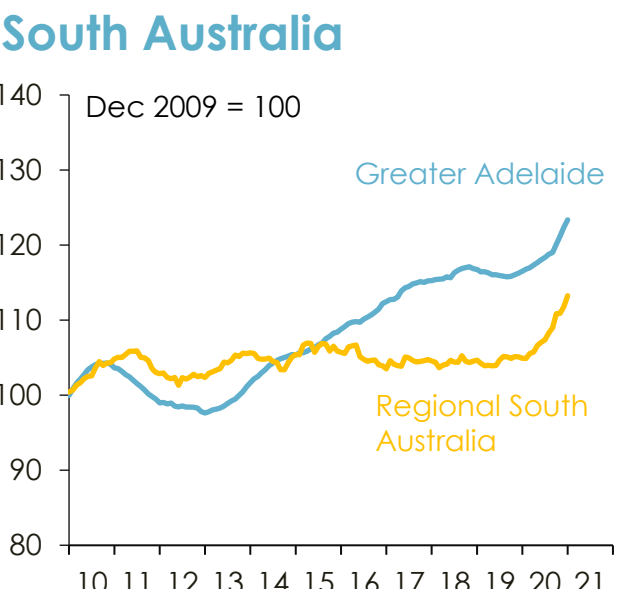
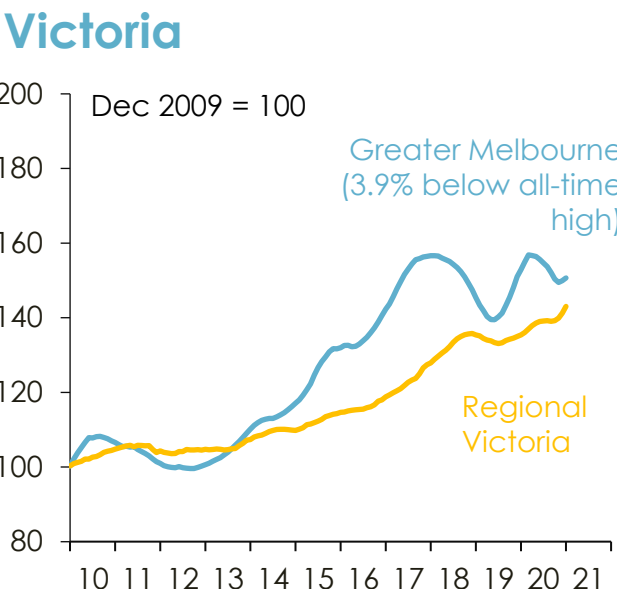
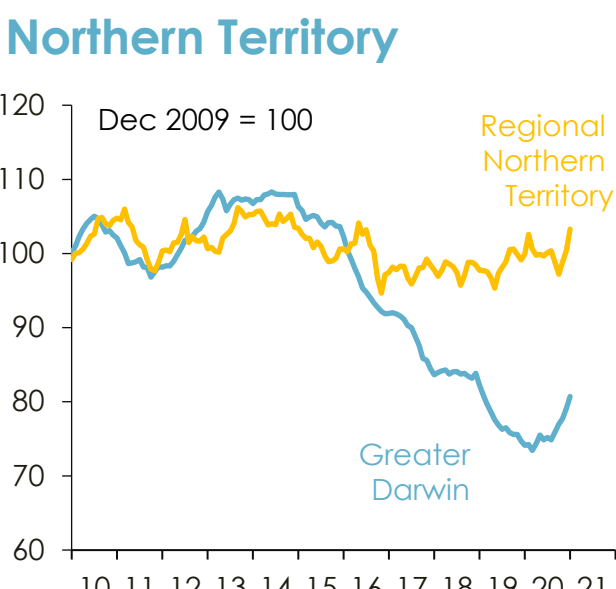
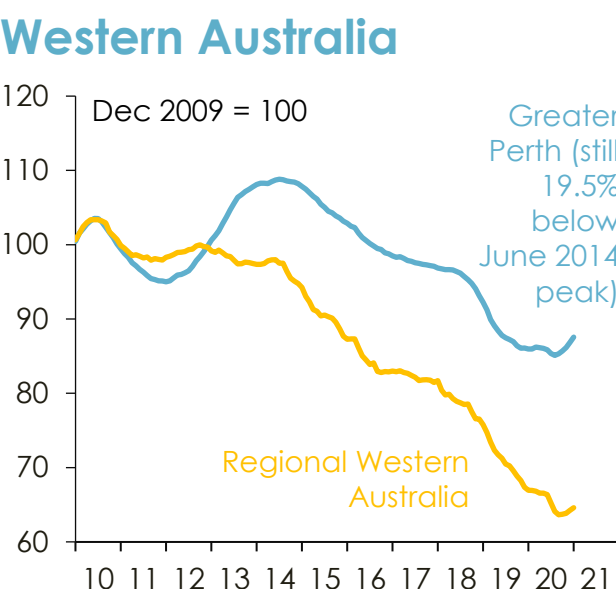
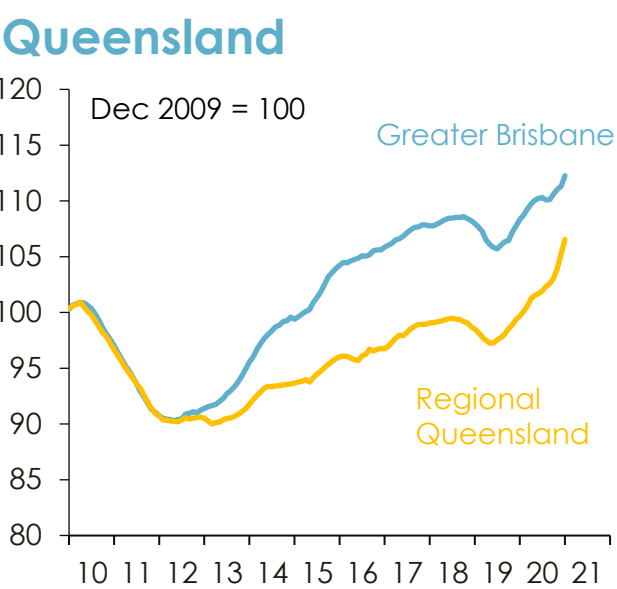
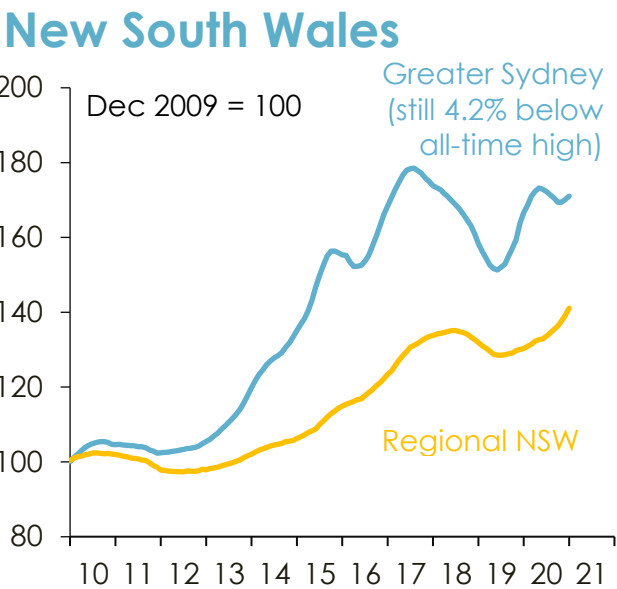
Capital city rental vacancy rates



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 1st February 2021.

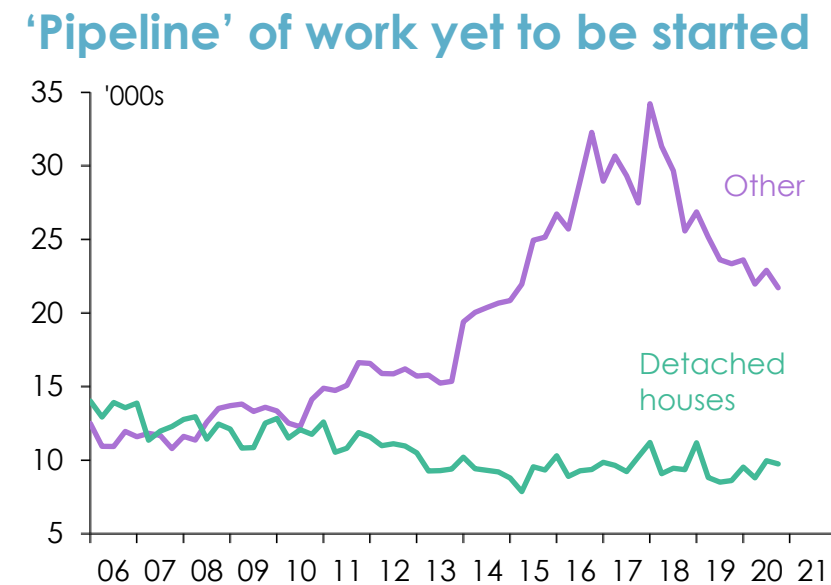
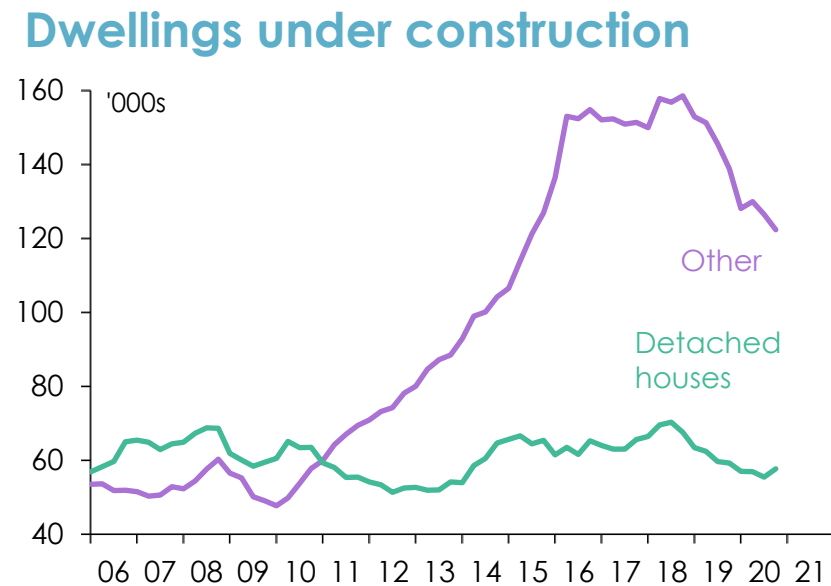
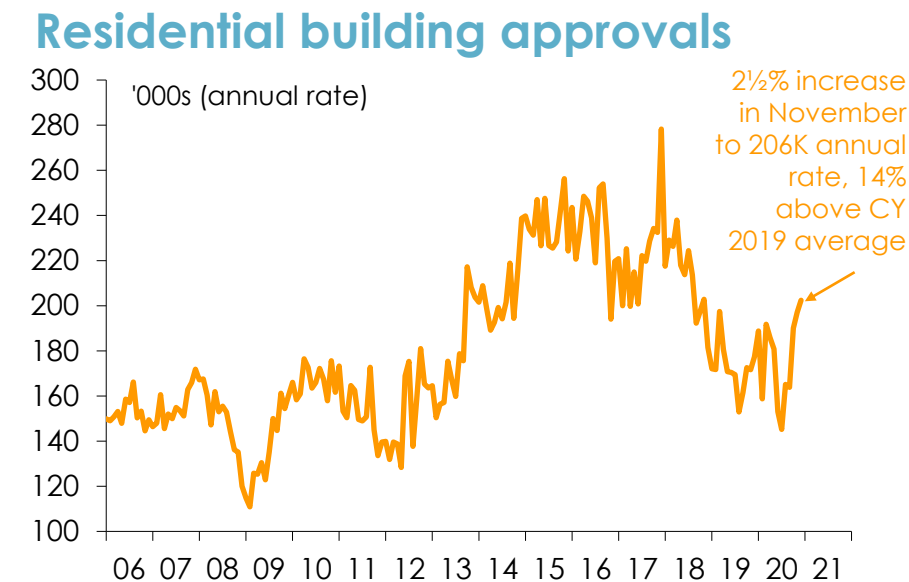
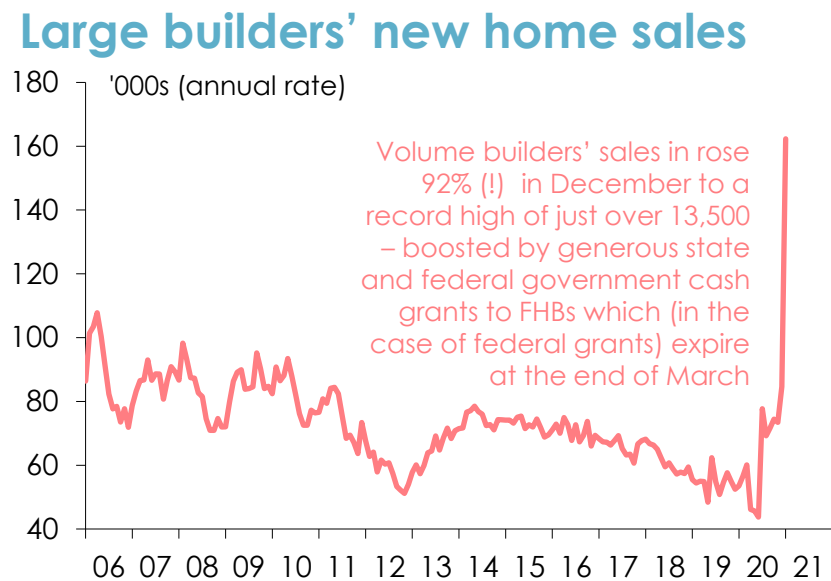
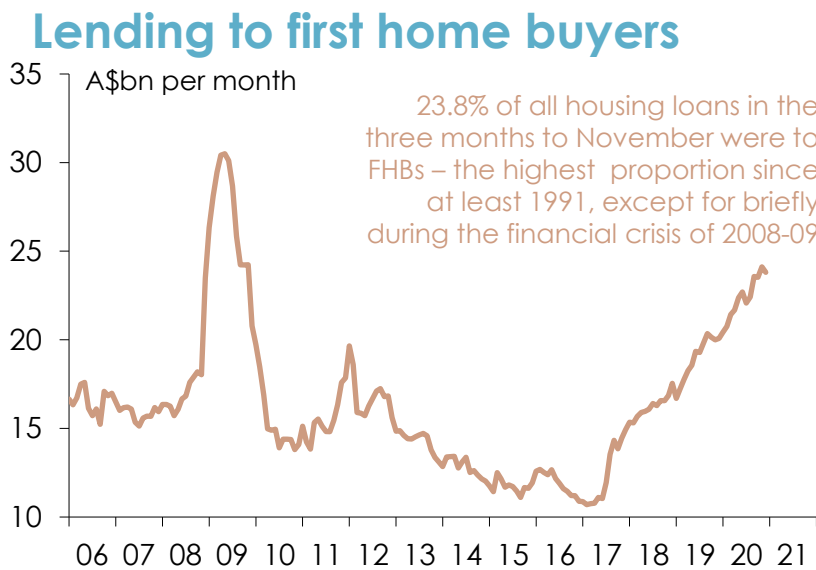
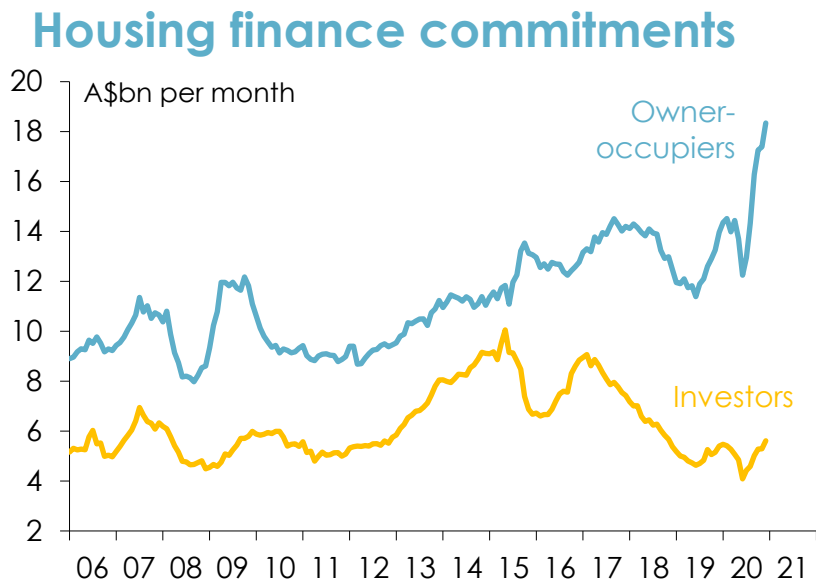
Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

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



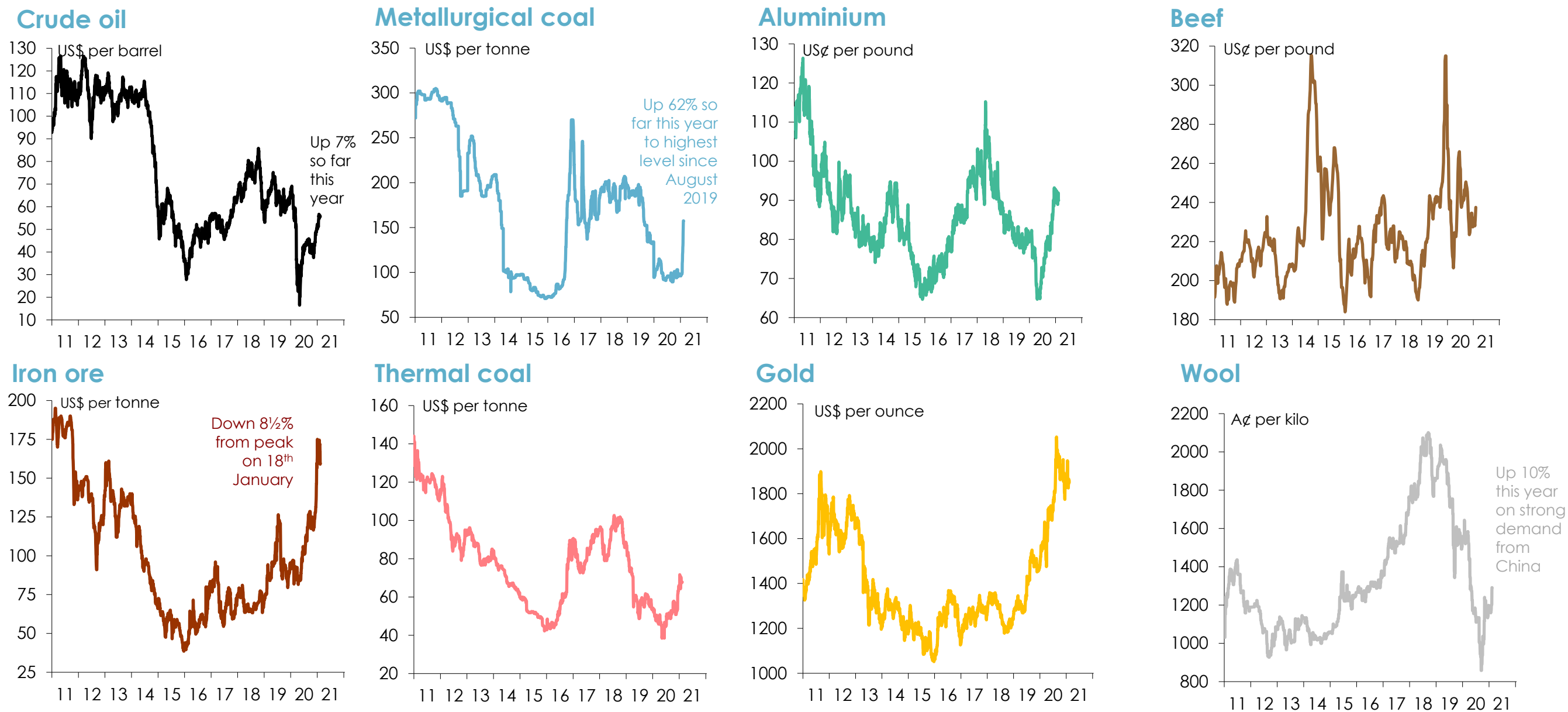
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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



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 1st February; building approvals data on 3rd February; December; and December quarter dwellings under construction and 'pipeline' data on 14th April. [Return to "What's New"](#).

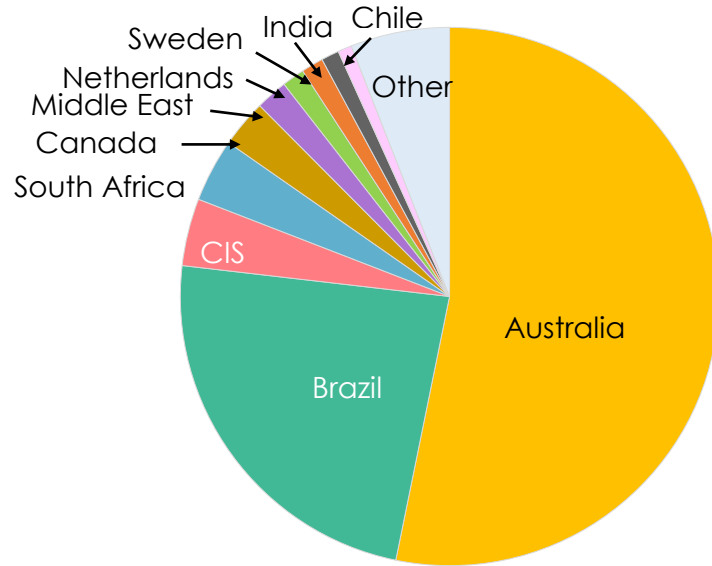
Met coal rose 18% this week on cyclone-related Qld supply fears, but iron ore fell another 7% on rising steel inventories, while beef and wool gained



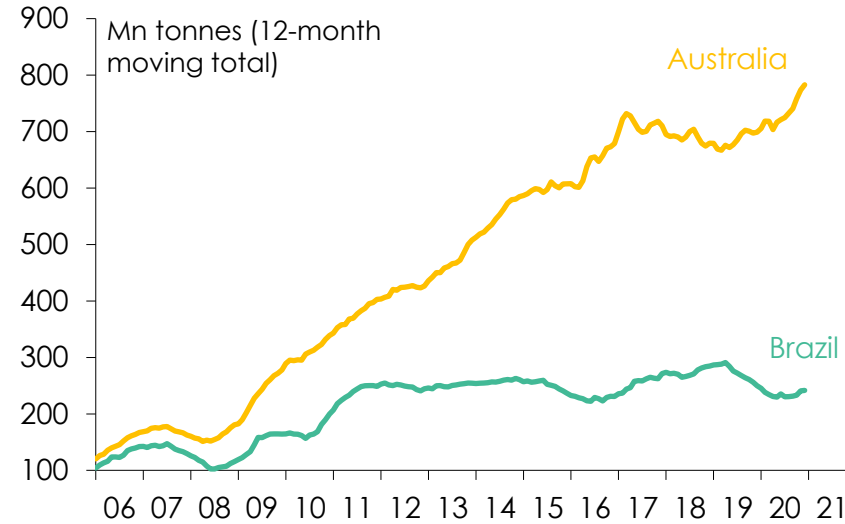
Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 29th January.
[Return to "What's New"](#).

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

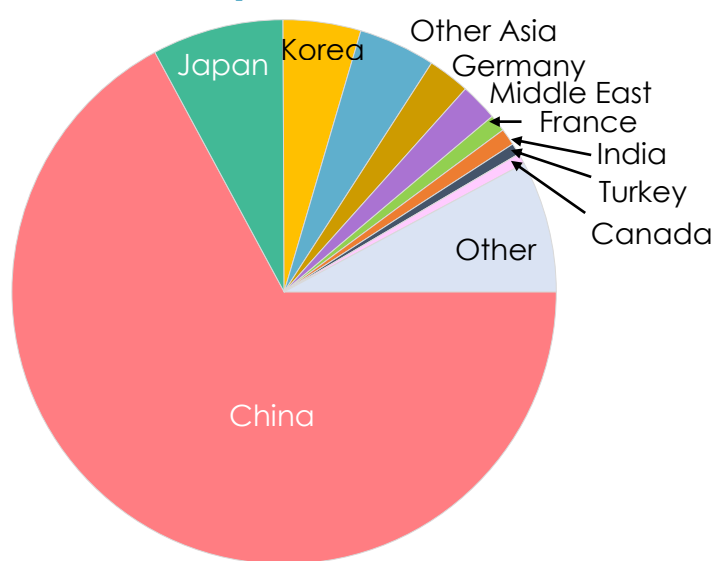
Iron ore exports, 2018



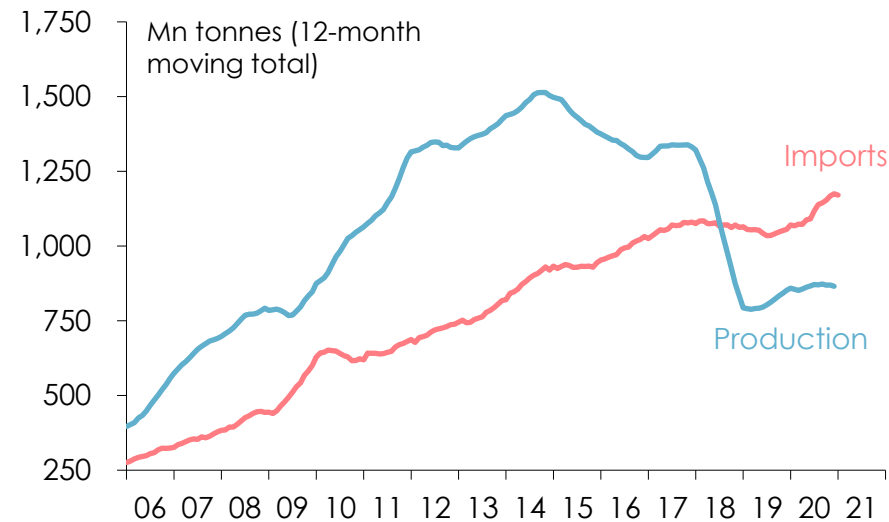
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports



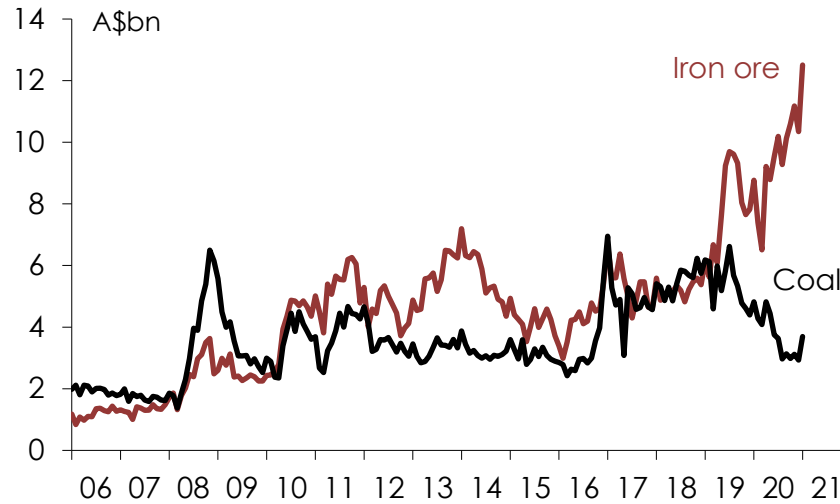
- ❑ The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely 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.

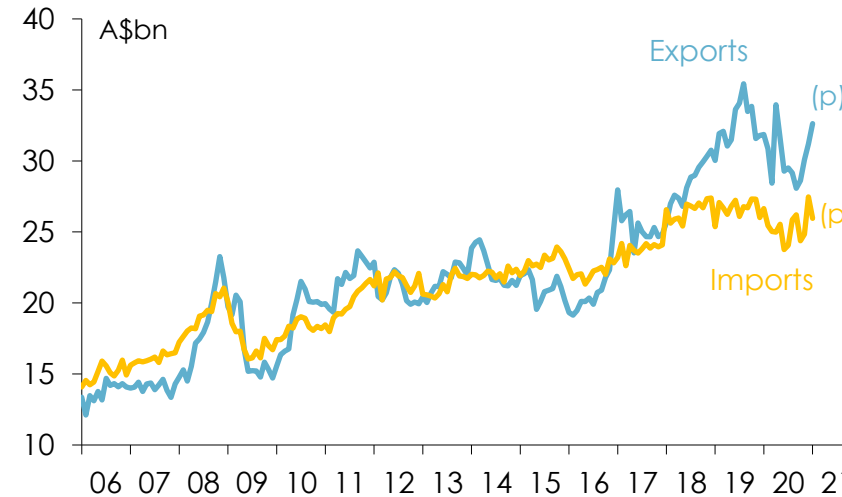
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS; IGBE; BHP; Corinna.

The merchandise trade surplus likely widened to over \$6½bn in December with exports up 4½% (iron ore again!) and imports down 5½%

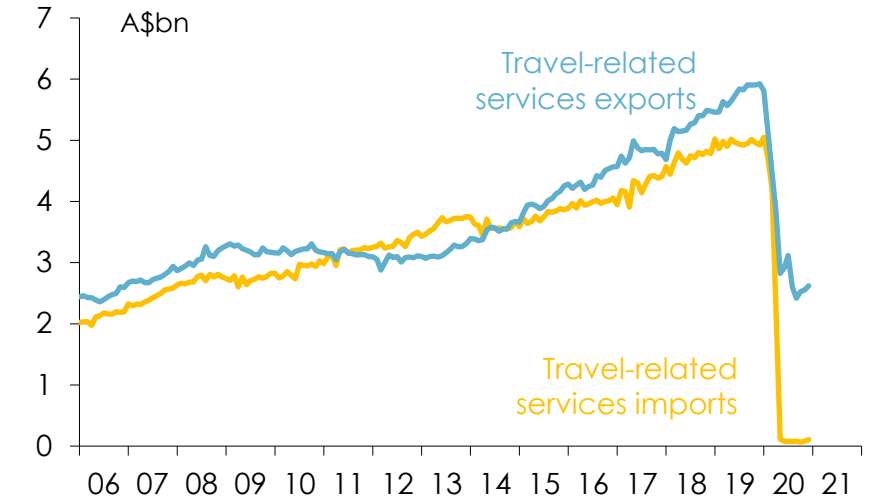
Iron ore and coal exports



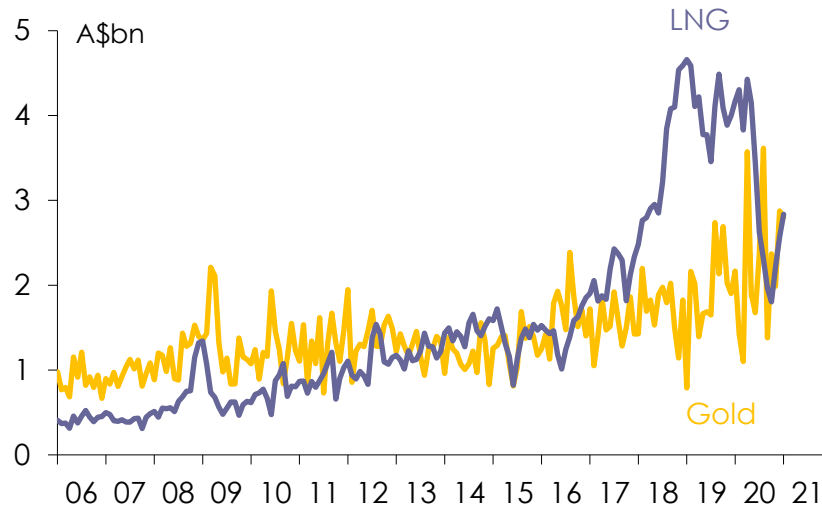
Merchandise exports and imports



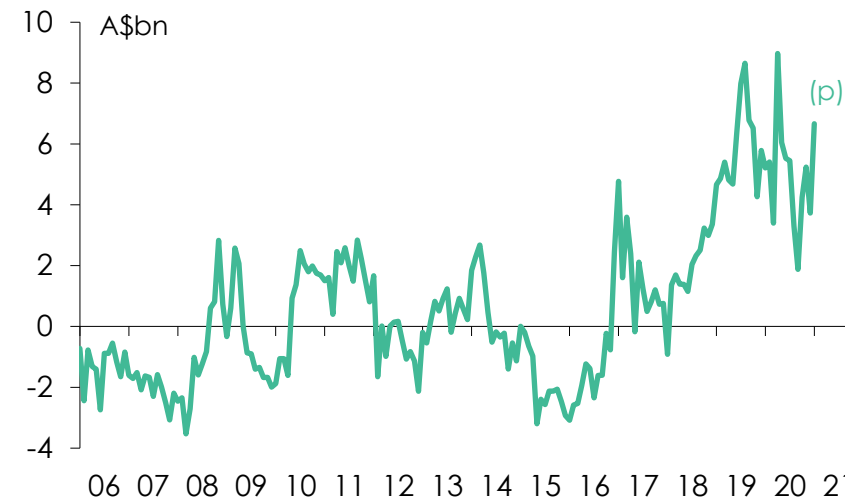
Tourism-related services trade



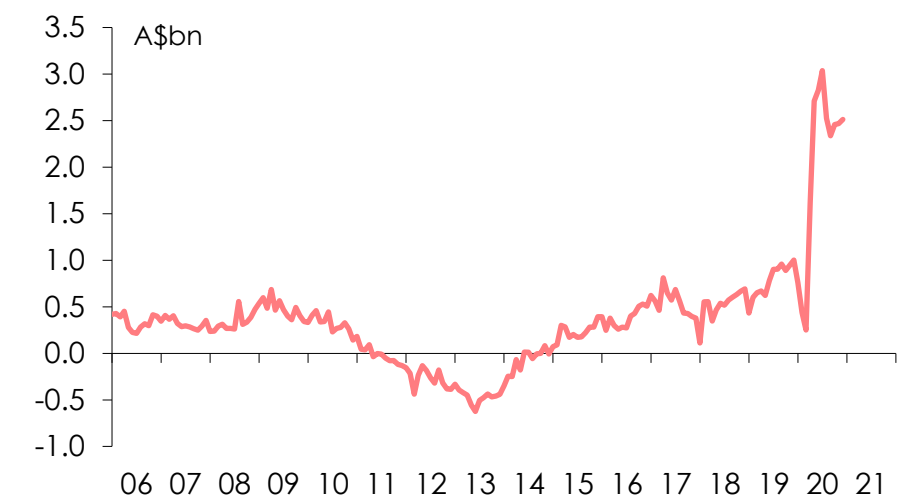
LNG and gold exports



Merchandise trade balance



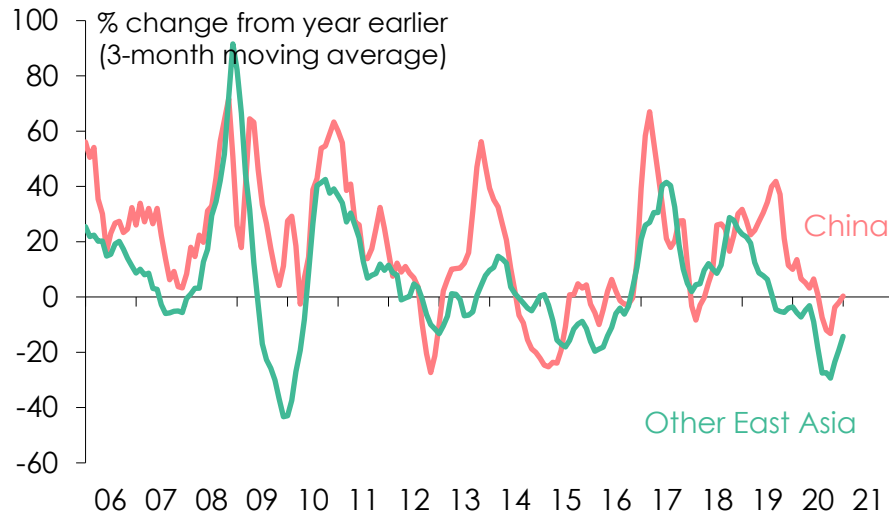
Tourism services trade balance



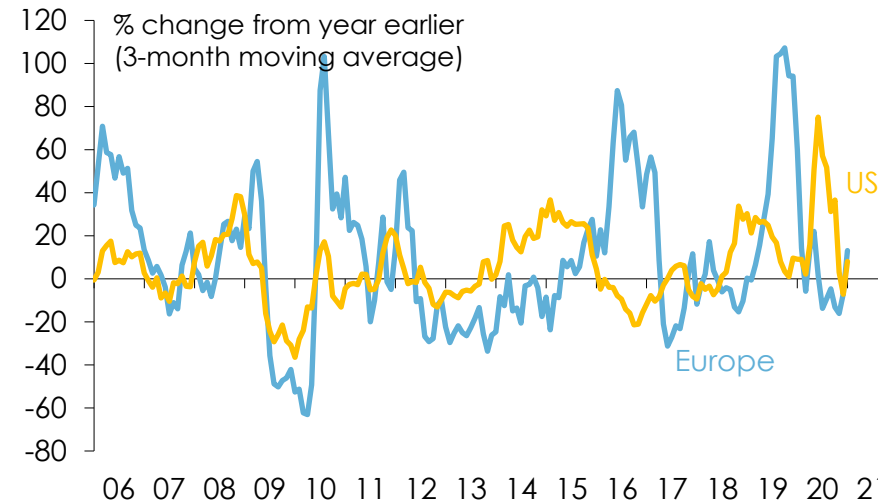
Note: Latest data for merchandise trade are preliminary December: final data (and data for tourism and other services) will be released on 4th February. Preliminary data are published in original terms and have been seasonally adjusted by Corinna using corresponding seasonal factors for December 2019.
Source: ABS, [International Merchandise Trade, Preliminary](#). [Return to "What's New"](#).

Australia is still running a large trade surplus with China despite China's sanctions against a range of Australian exports

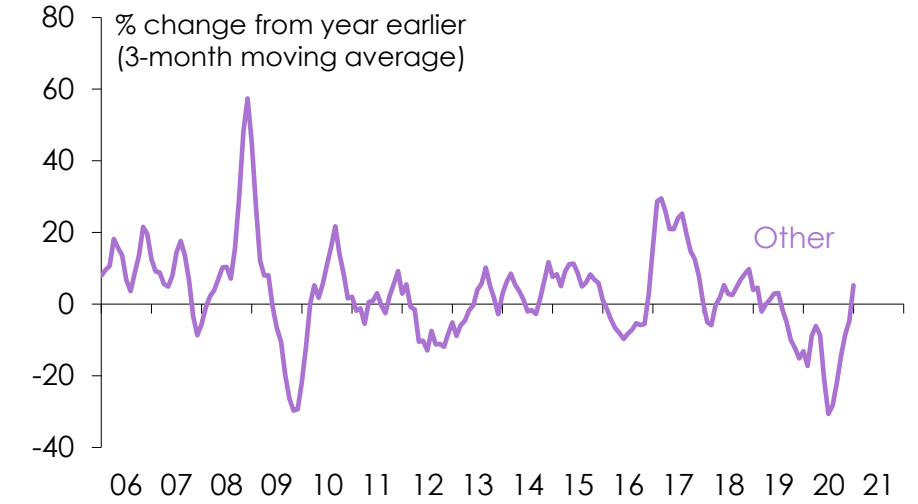
Merchandise exports – East Asia



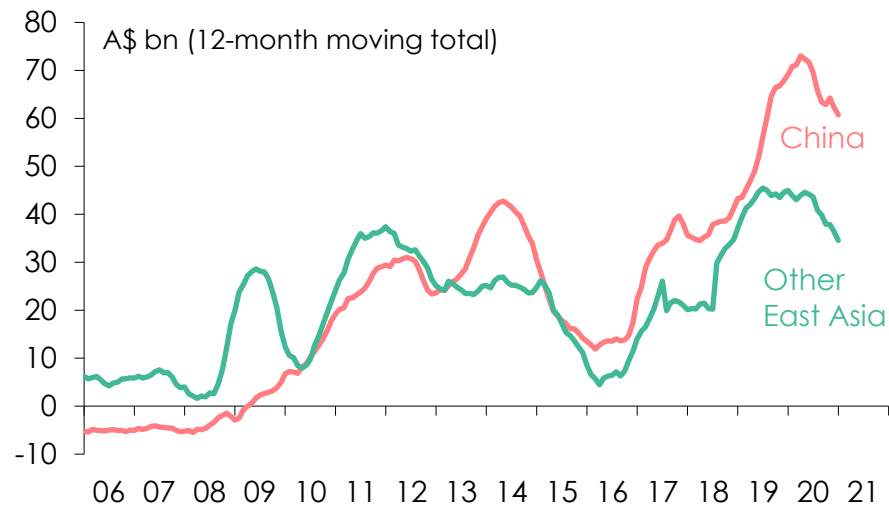
Merchandise exports – US & Europe



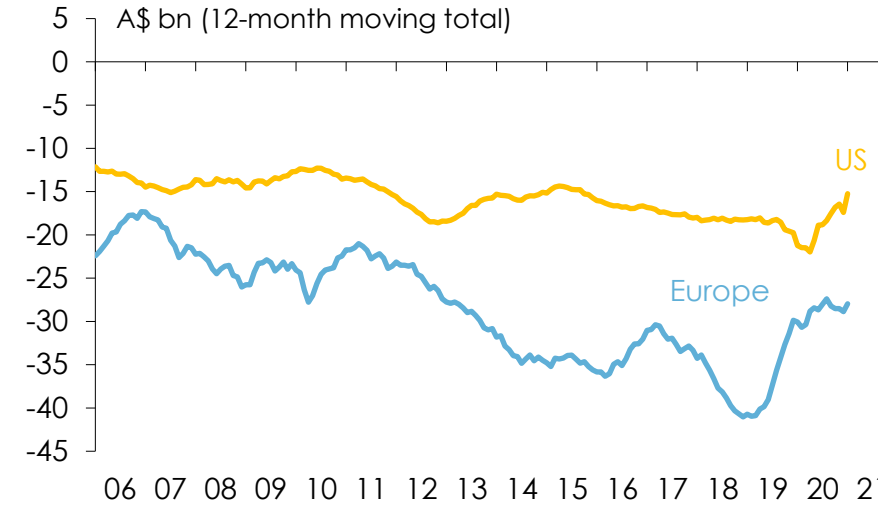
Merchandise exports – other



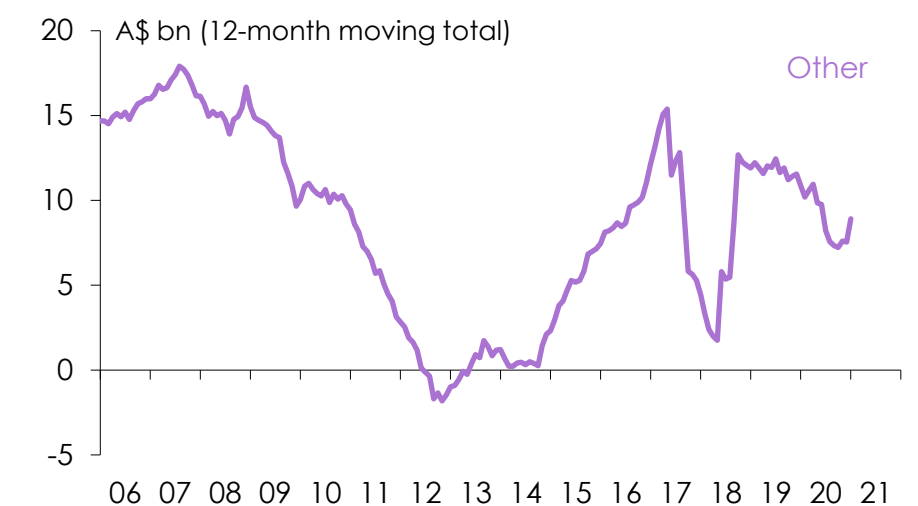
Goods trade balance – East Asia



Goods trade balance – US & Europe



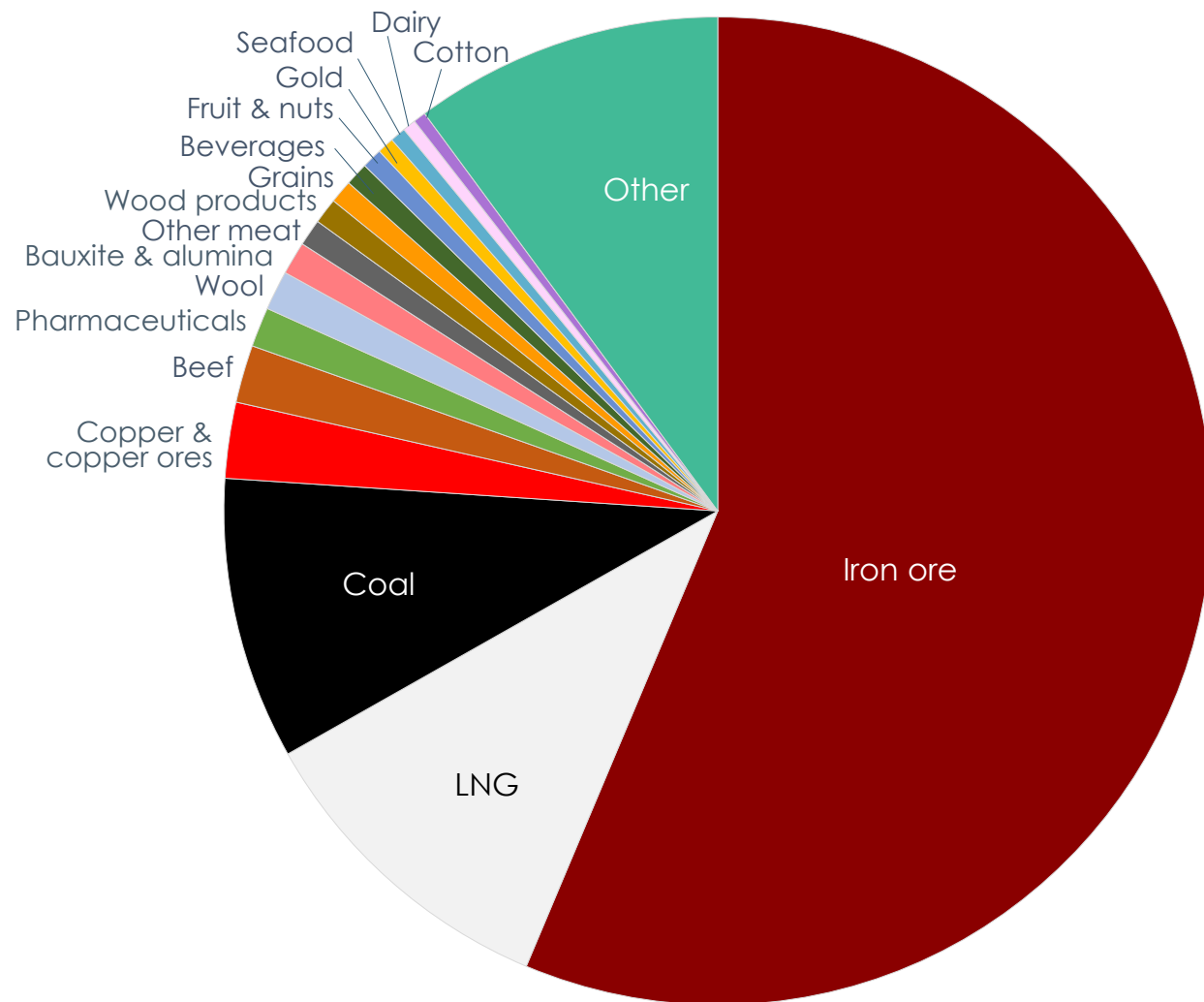
Goods trade balance – other



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 Merchandise Trade, Preliminary](#); final December data will be released on 4th 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

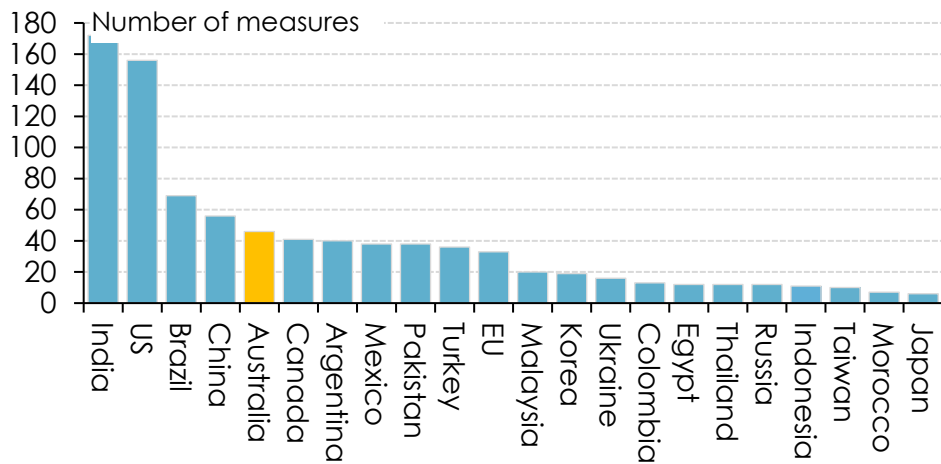


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna.
[Return to "What's New"](#).

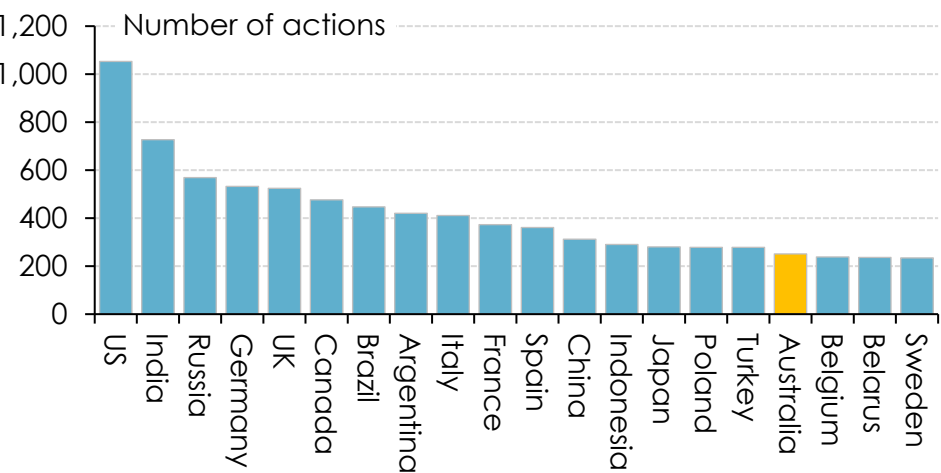
- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
 - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019
 - of which 'travel' (tourism & education) accounted for over 90%
- ❑ China has no real alternatives to Australian iron ore ([slide 101](#))
- ❑ 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

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

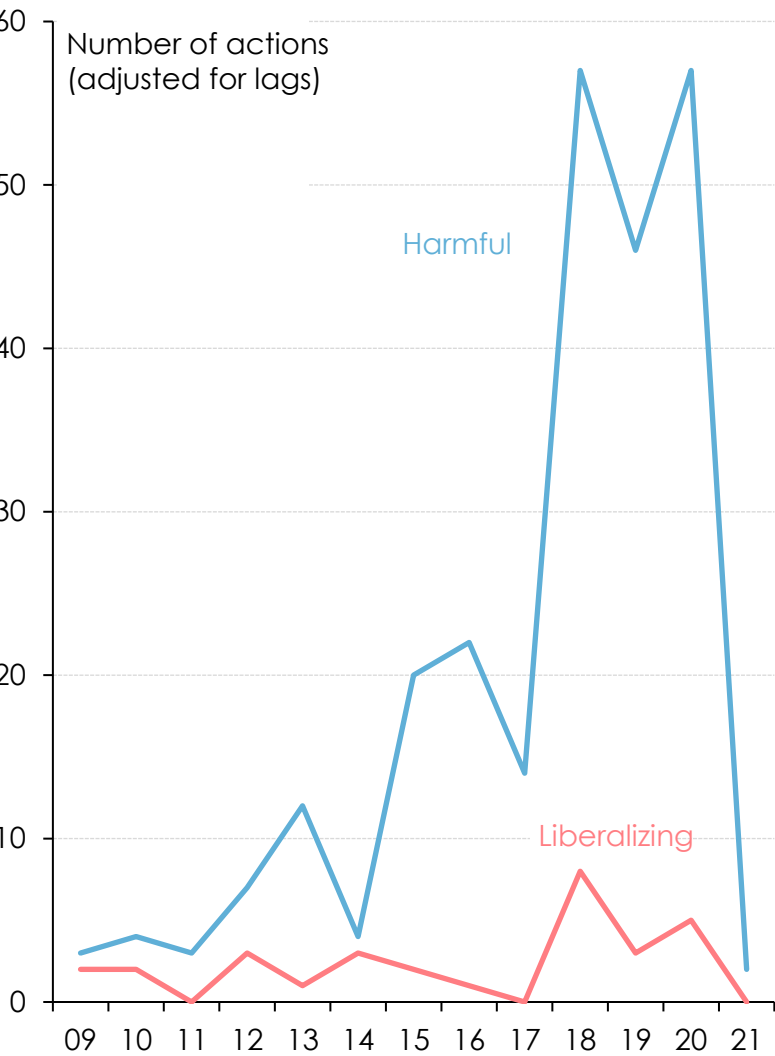
Number of anti-dumping measures imposed, 2015-19



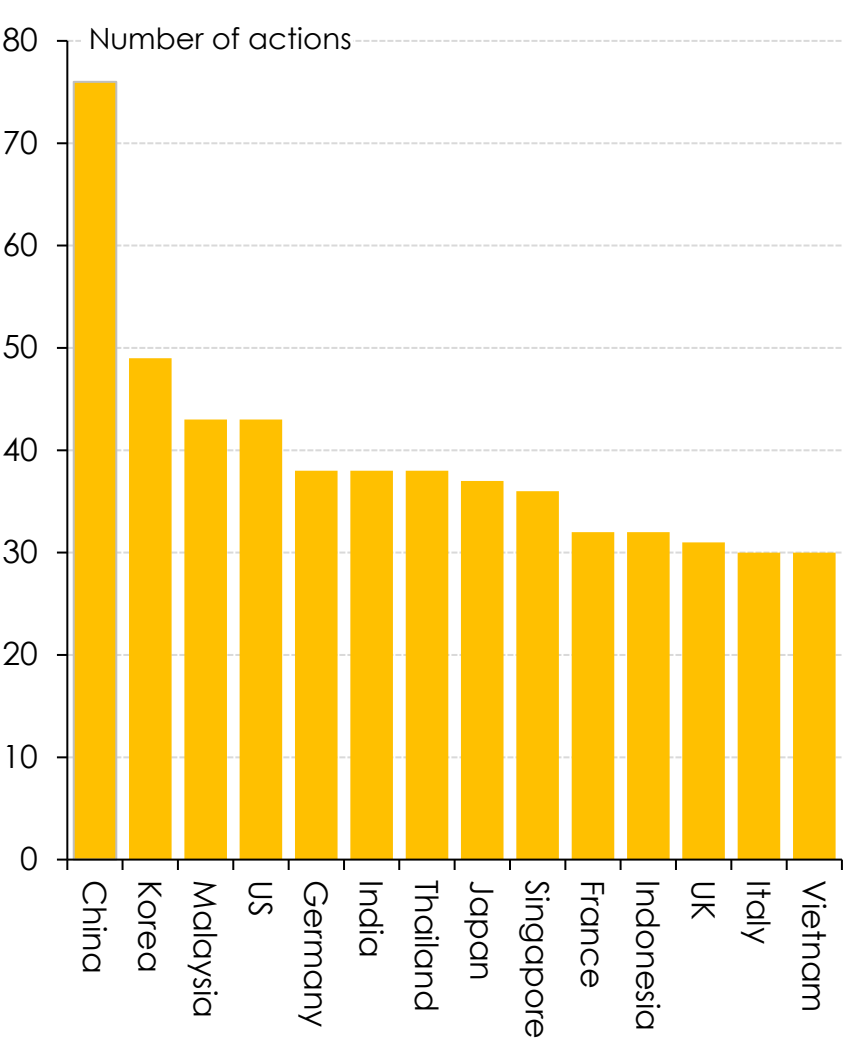
Number of harmful trade policy interventions, 2009-2021



Australian trade policy measures since 2009



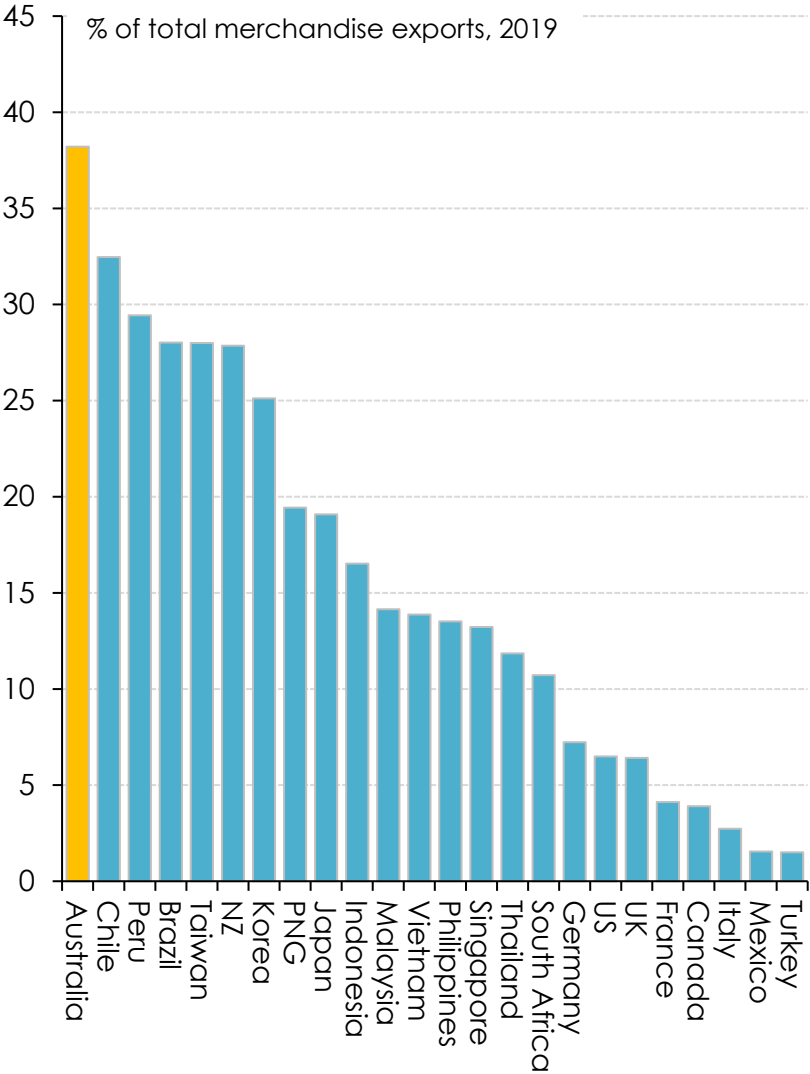
Countries adversely affected by 'harmful' Australian trade actions



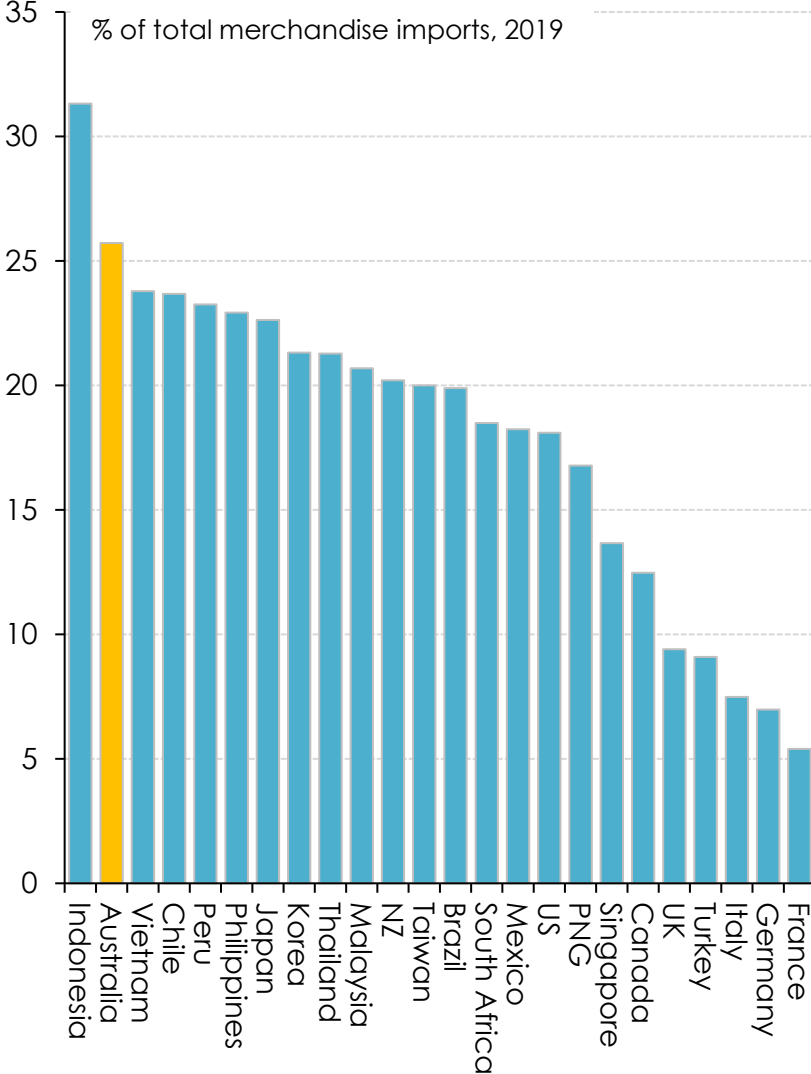
Sources: [World Trade Organization](#); Centre for Economic Policy Research, [Global Trade Alert](#) (data up to 29th January). [Return to "What's New"](#).

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

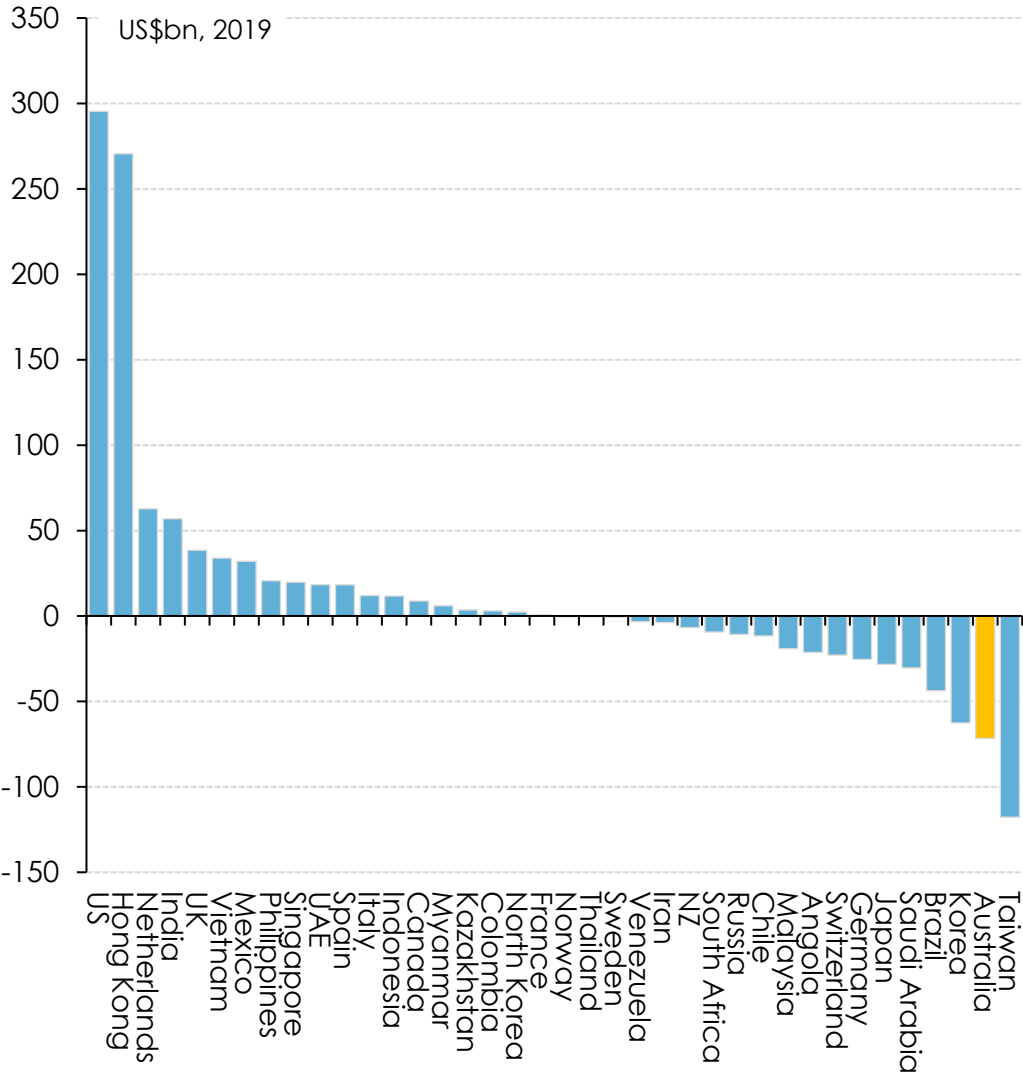
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



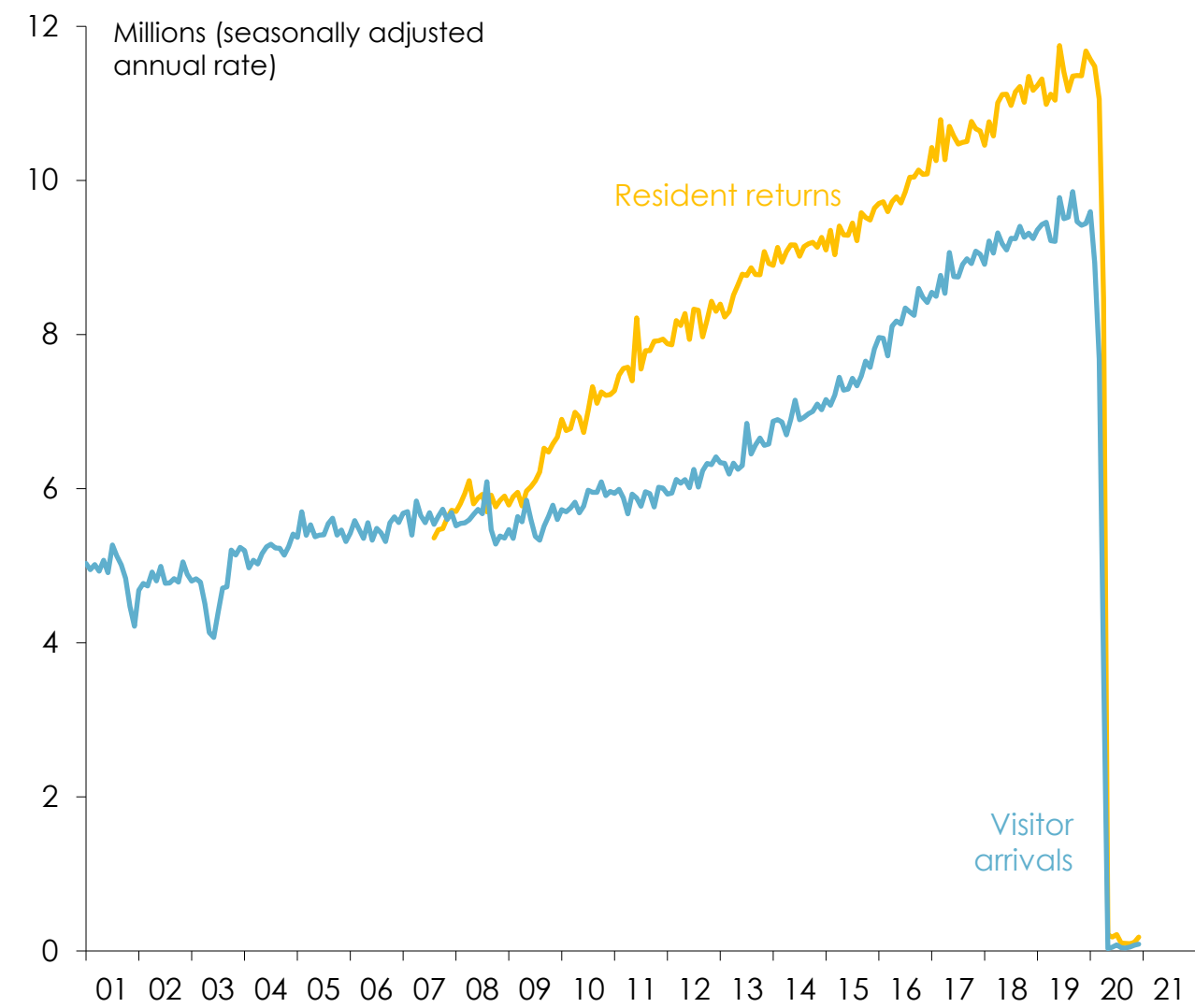
China's bilateral merchandise trade balances



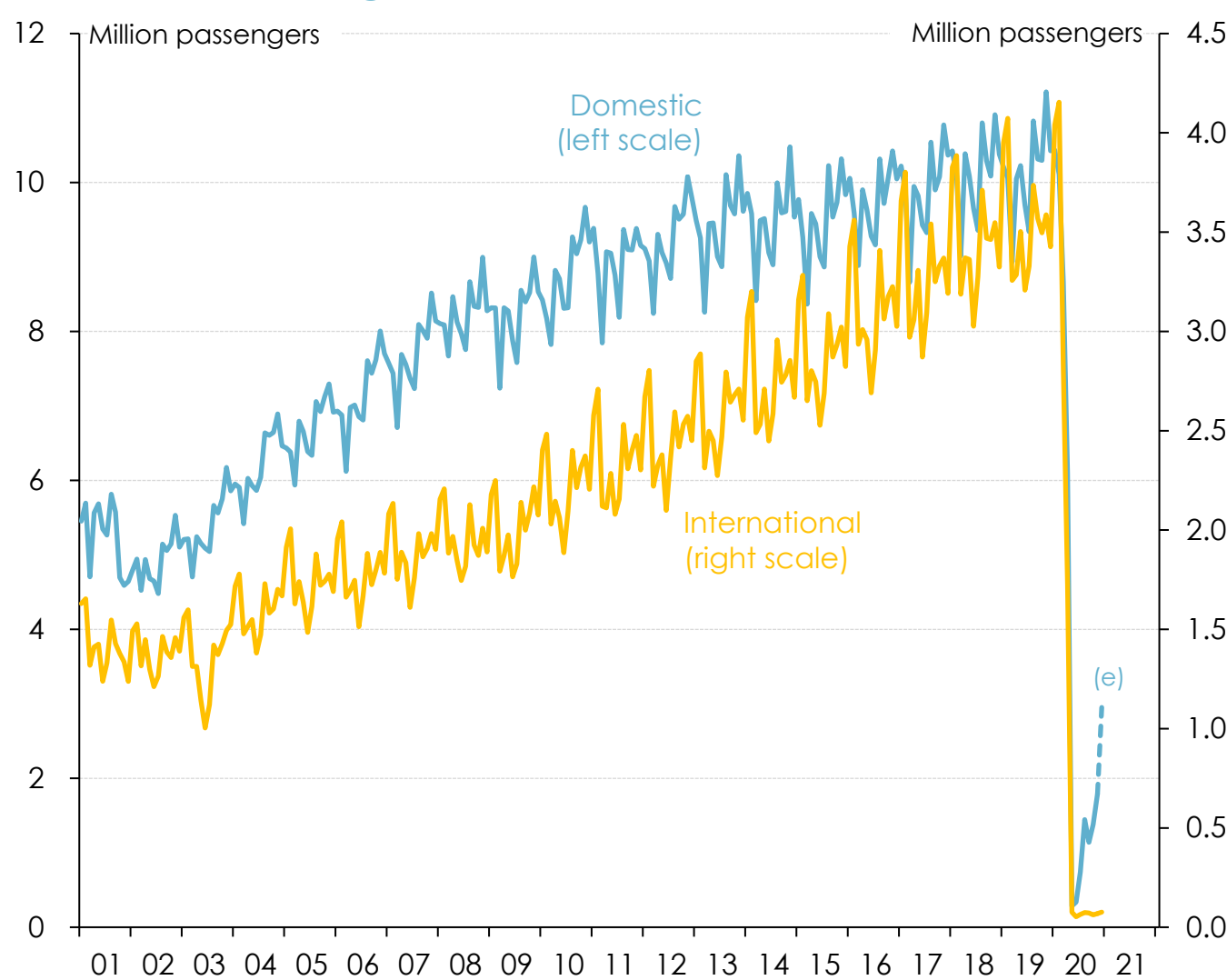
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

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

Short-term visitor arrivals and resident returns



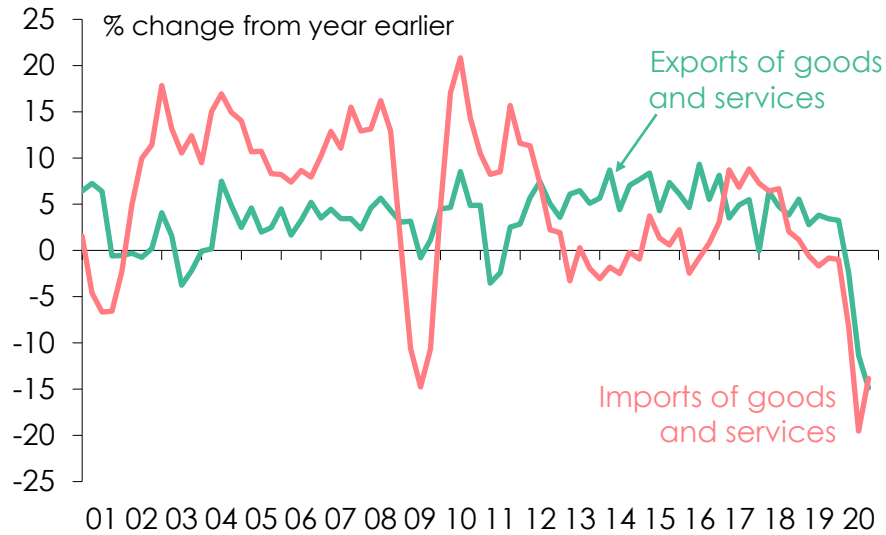
Airport passenger movements



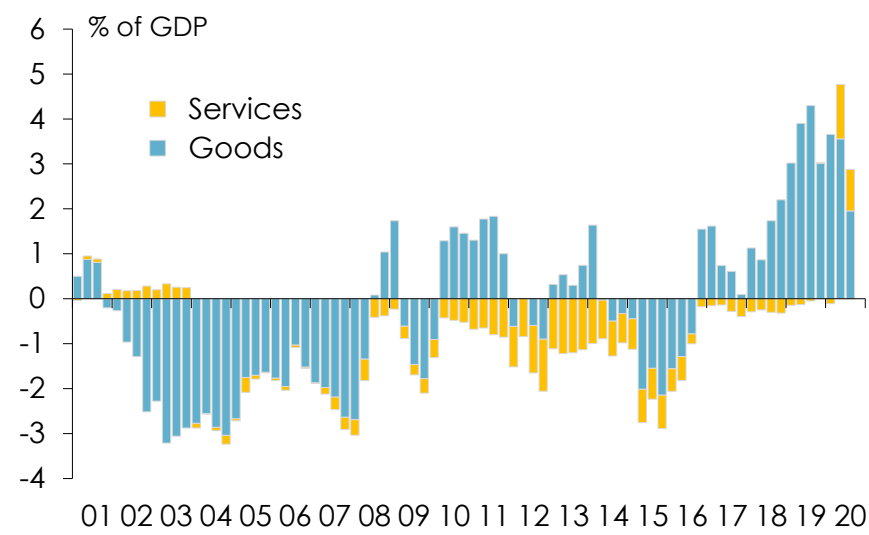
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

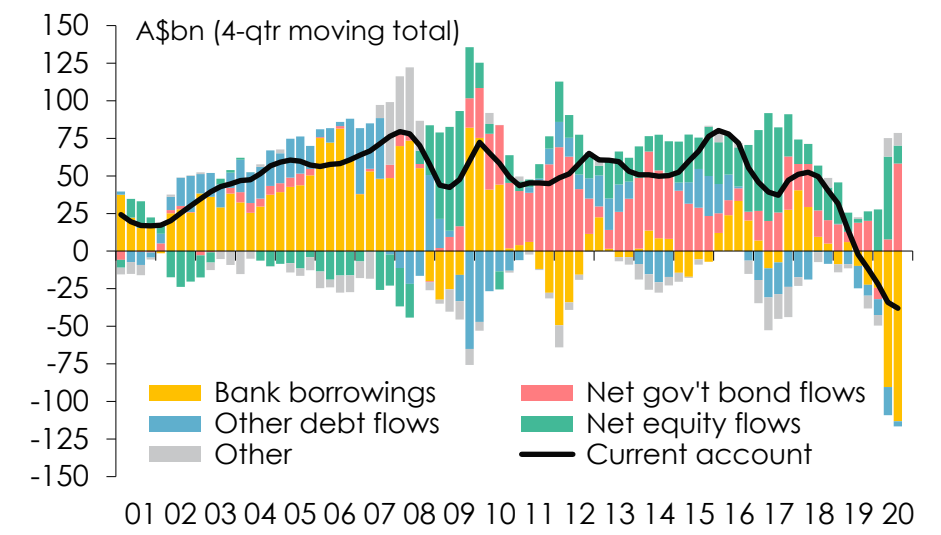
Export and import volumes



Goods & services trade balances



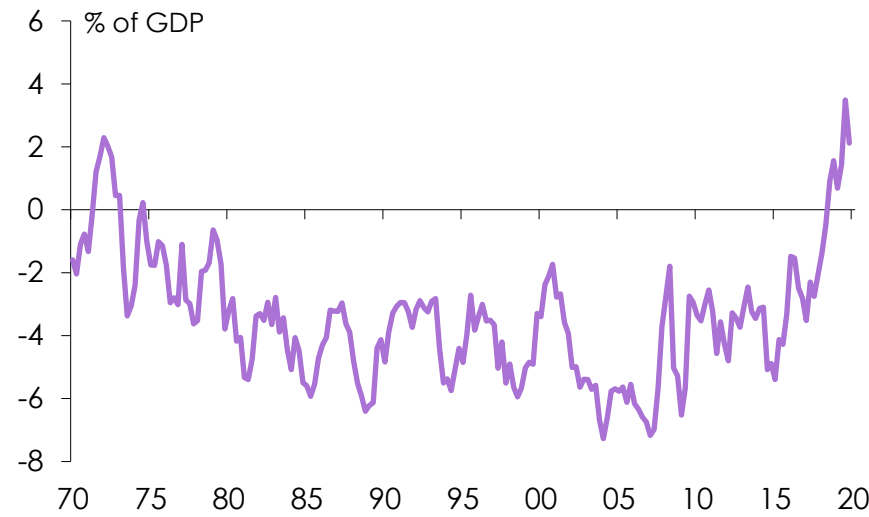
Capital flows



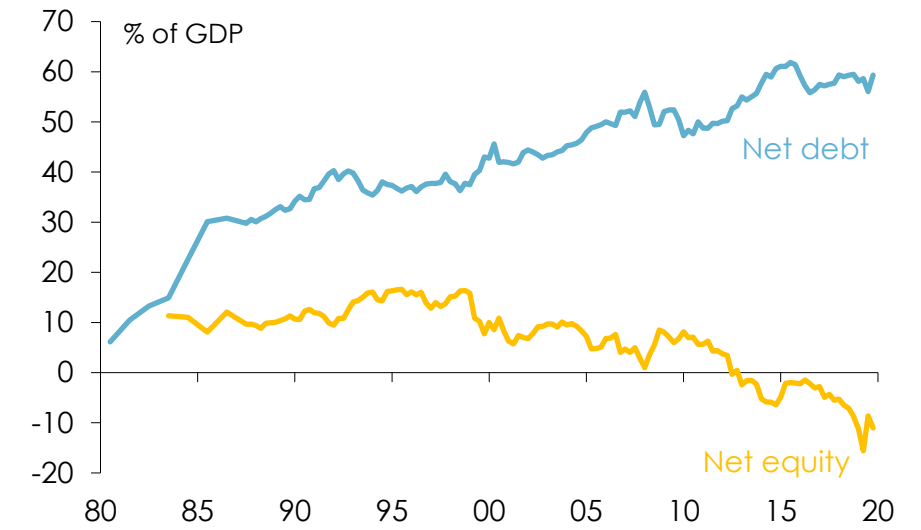
Export and import prices



Current account balance



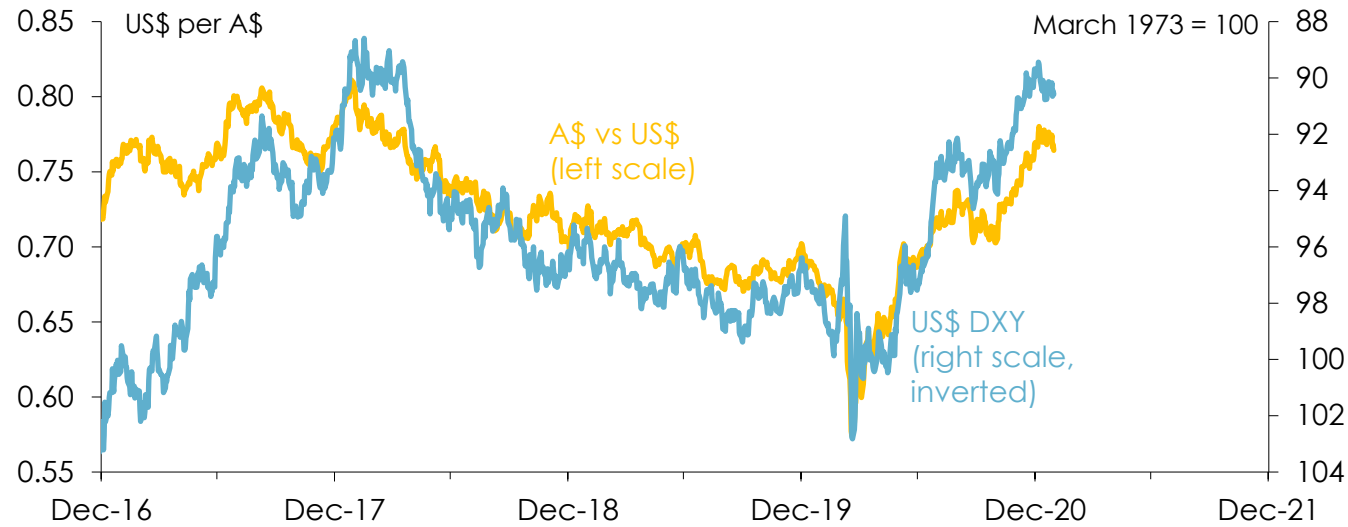
Net international investment position



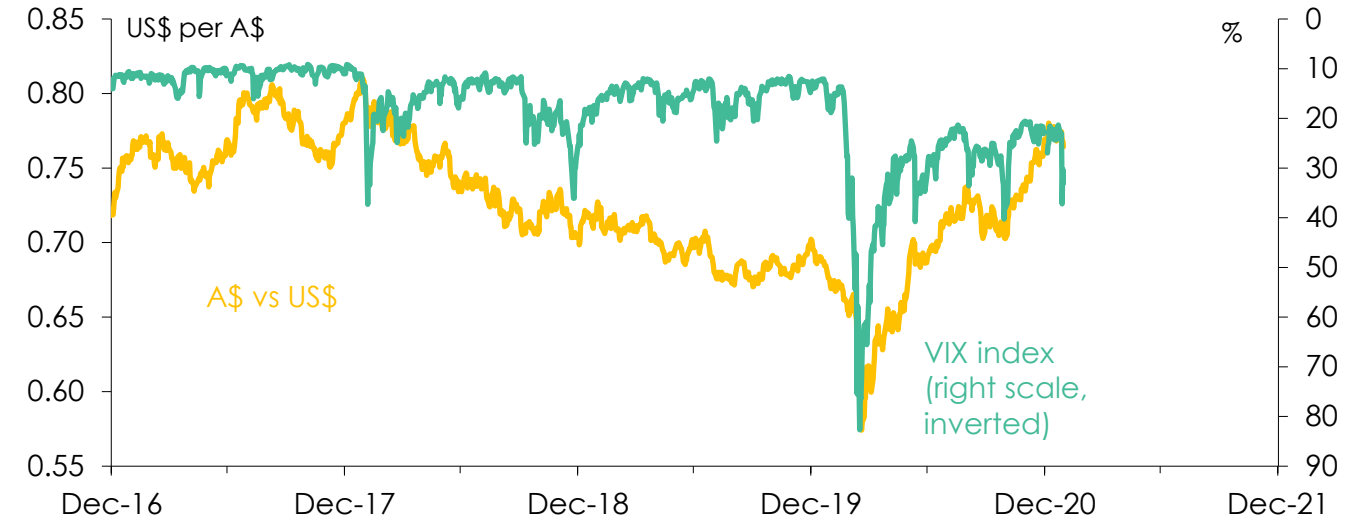
Note: Latest data are for September quarter (Q3); December quarter data will be released on 3rd March 2021. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

The A\$ dropped almost 1% to below US76.5¢ this week against a stronger US\$, with lower iron ore prices and a 'risk off' mood also contributing ...

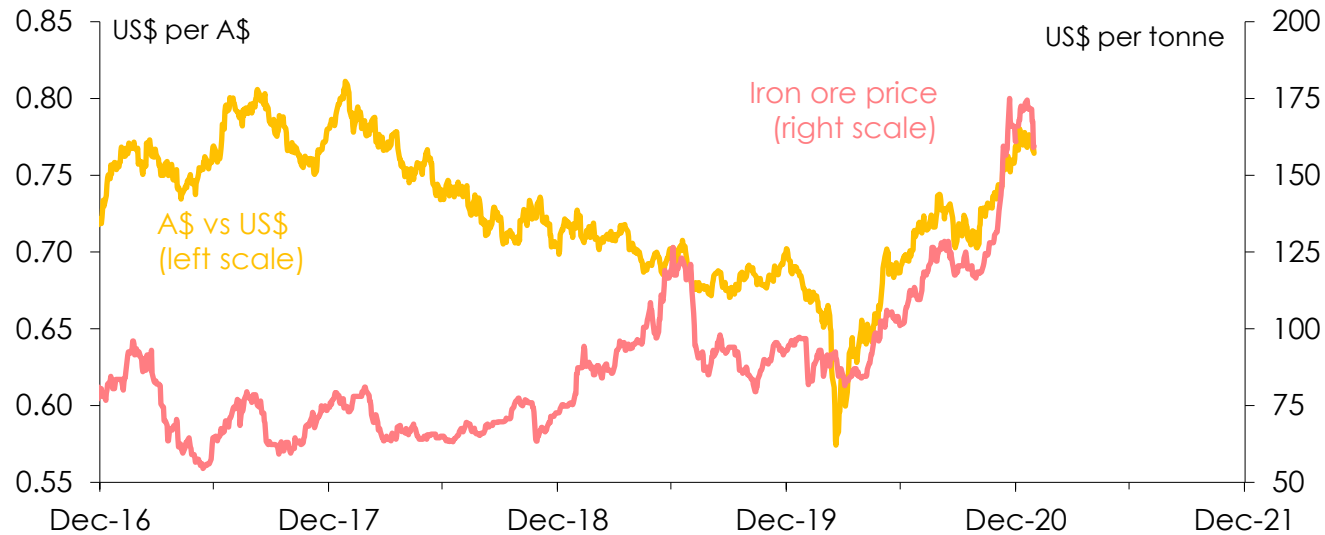
A\$-US\$ and US\$ trade-weighted index



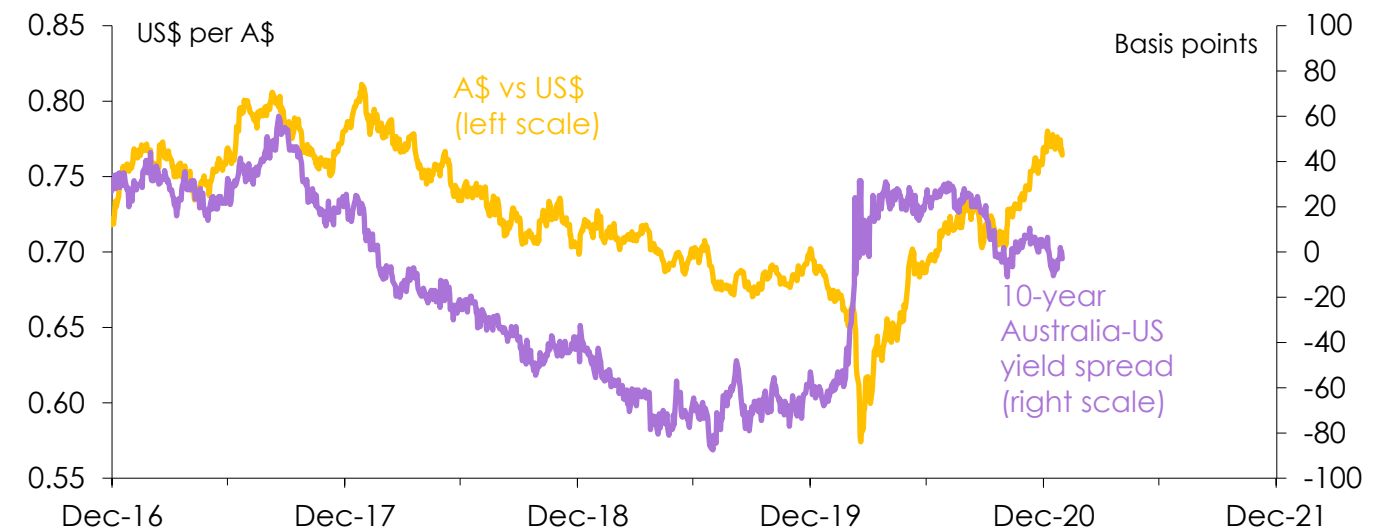
A\$-US\$ and US equity market volatility



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

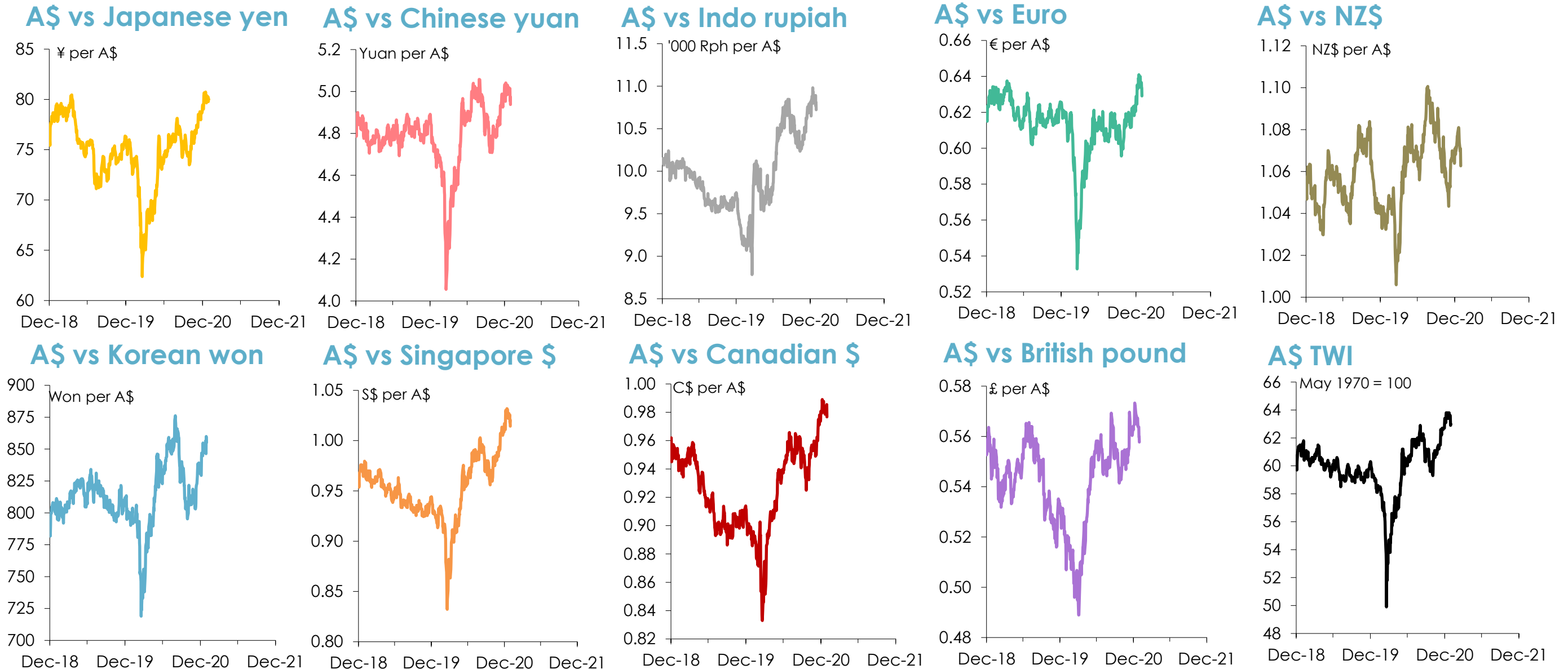


A\$-US\$ and Australia-US 10-year bond yield spread



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 101](#). Source: Refinitiv Datastream. Data up to 29th January. [Return to "What's New"](#).

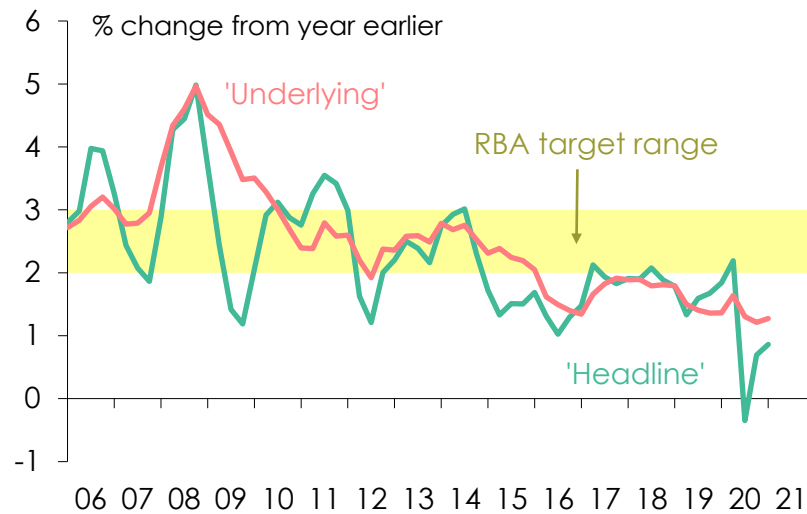
... reflecting which, the A\$ also fell against almost every other trading partner currency except the won, and by 1.1% in trade-weighted terms



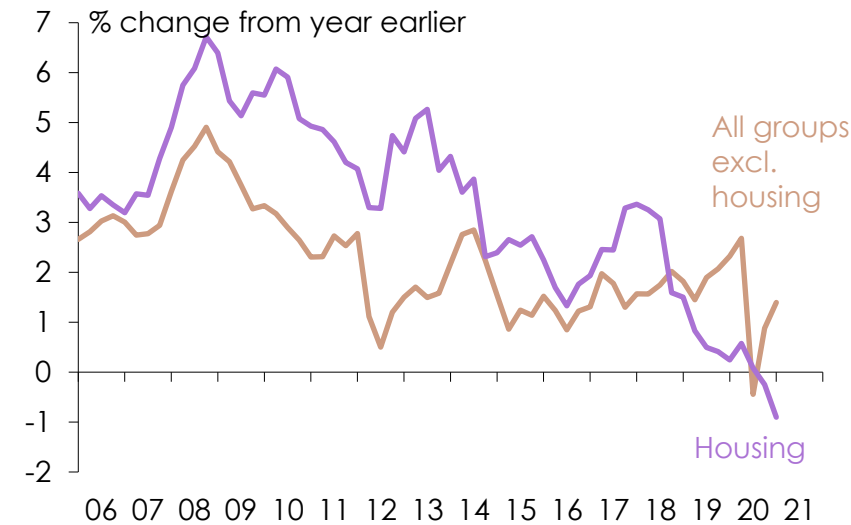
Note: 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 29th January. [Return to "What's New".](#)

Q4 'headline' inflation was a little higher than expected but 'underlying' inflation was below the RBA's target for the 20th quarter in a row

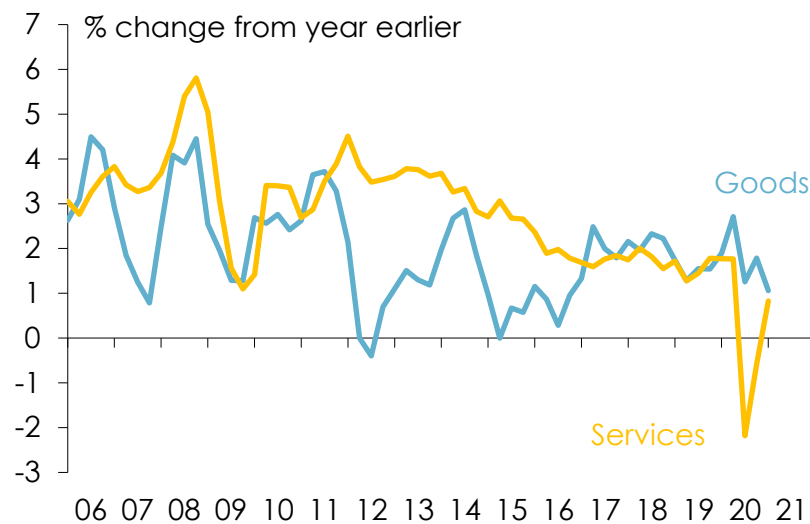
Consumer prices



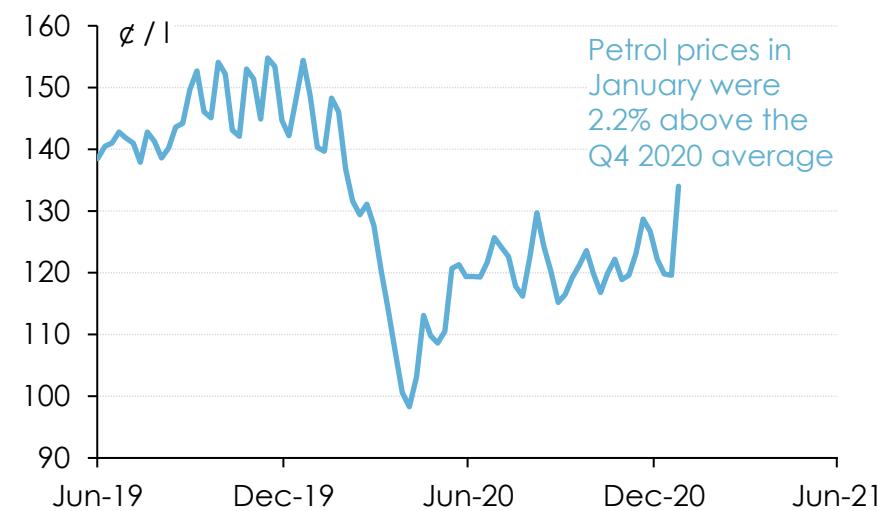
Housing costs



Goods vs services prices



Retail petrol prices



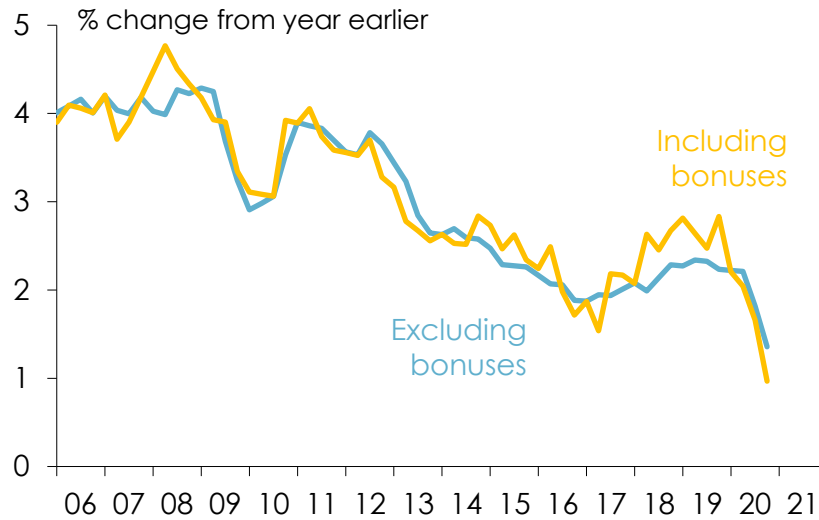
- ❑ The CPI rose 0.9% (a little above market expectations of 0.7%) in Q4 2020 taking the annual 'headline' inflation rate up 0.2 pc pts to 0.9%
- ❑ Main contributors to the Q4 outcome were a 38% increase in child care costs (reflecting the end to lockdown subsidies), an 11% increase in tobacco prices (due to the semi-annual excise hike) and a 6¼% increase in domestic holiday costs – partly offset by a large fall in electricity prices in Perth due to a one-off (pre-state election) credit
- ❑ House purchase costs would have risen 1.3% (rather than 0.7%) but for the dampening impact of government cash grants
- ❑ The RBA's preferred measure of 'underlying' inflation rose 0.4% in Q4 and 1.2% from a year earlier (unchanged from over the year to Q3, but marginally above the RBA's forecast of 1%) – marking five years since the 'underlying' inflation rate was last within the 2-3% target band

Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.

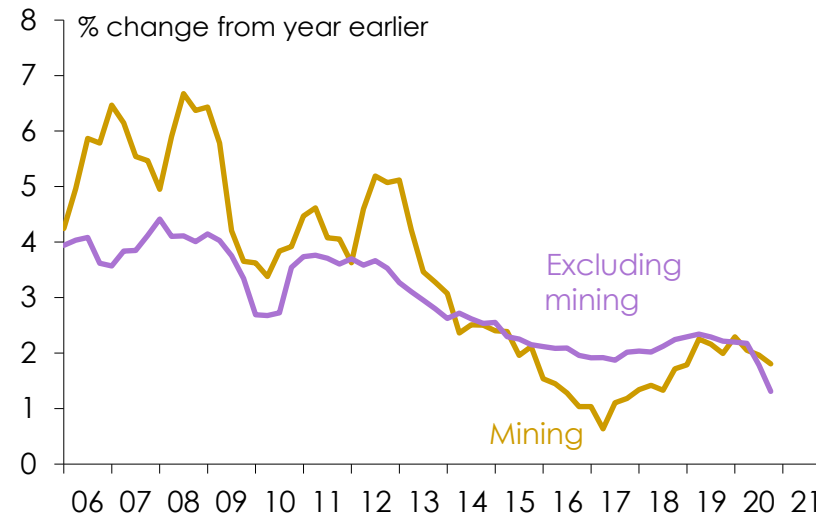
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The March quarter (Q1) CPI will be released on 28th April. [Return to "What's New"](#).

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

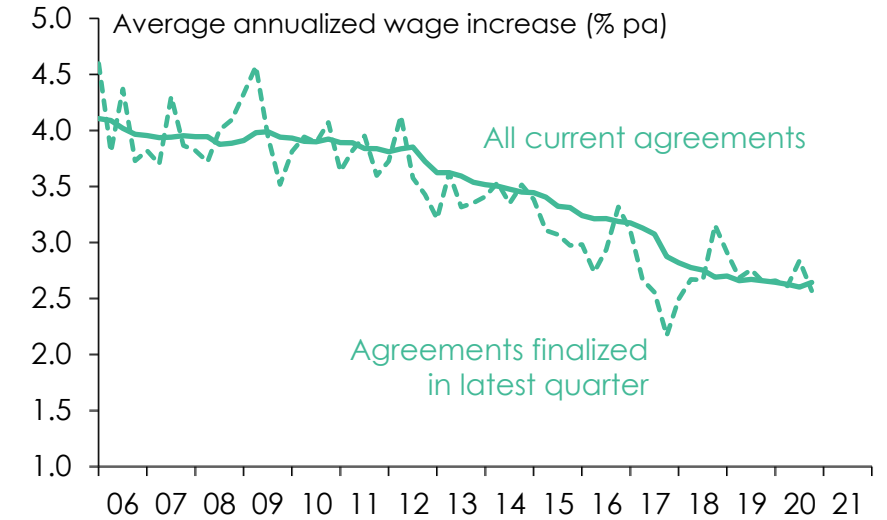
Wage price index – all sectors



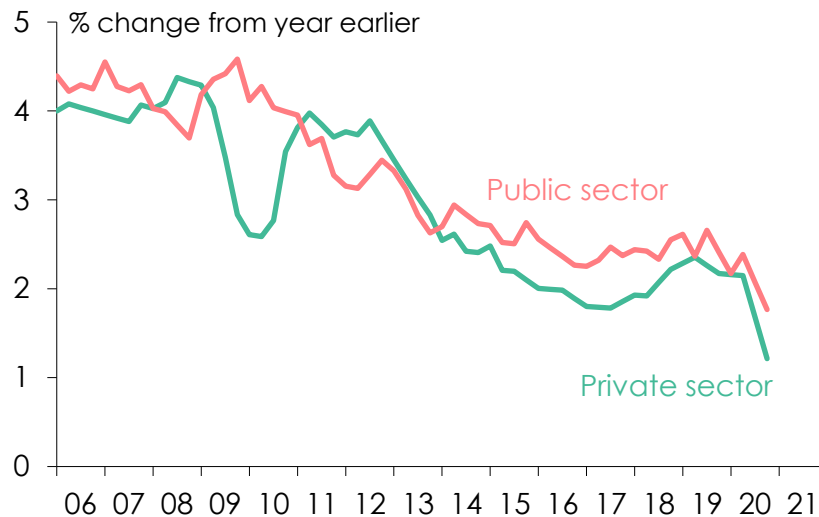
WPI by industry



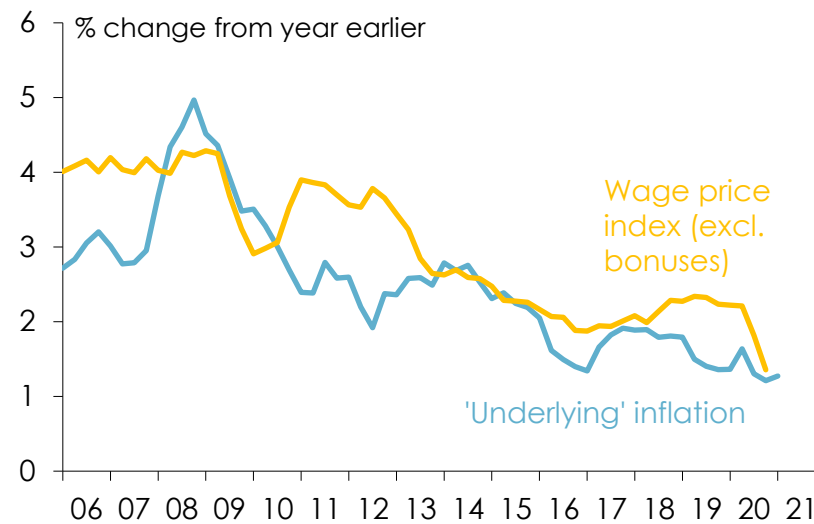
Enterprise bargaining agreements



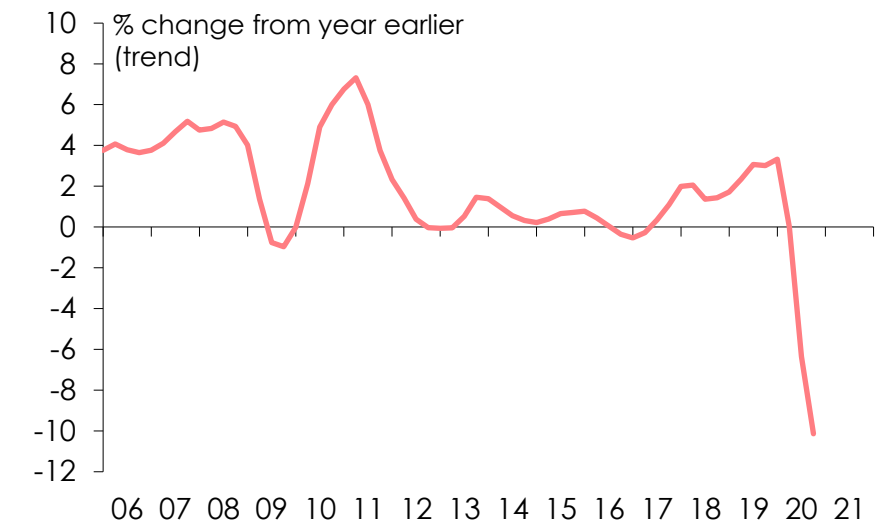
WPI – private vs public sectors



WPI and 'underlying' CPI inflation



Unit labour costs



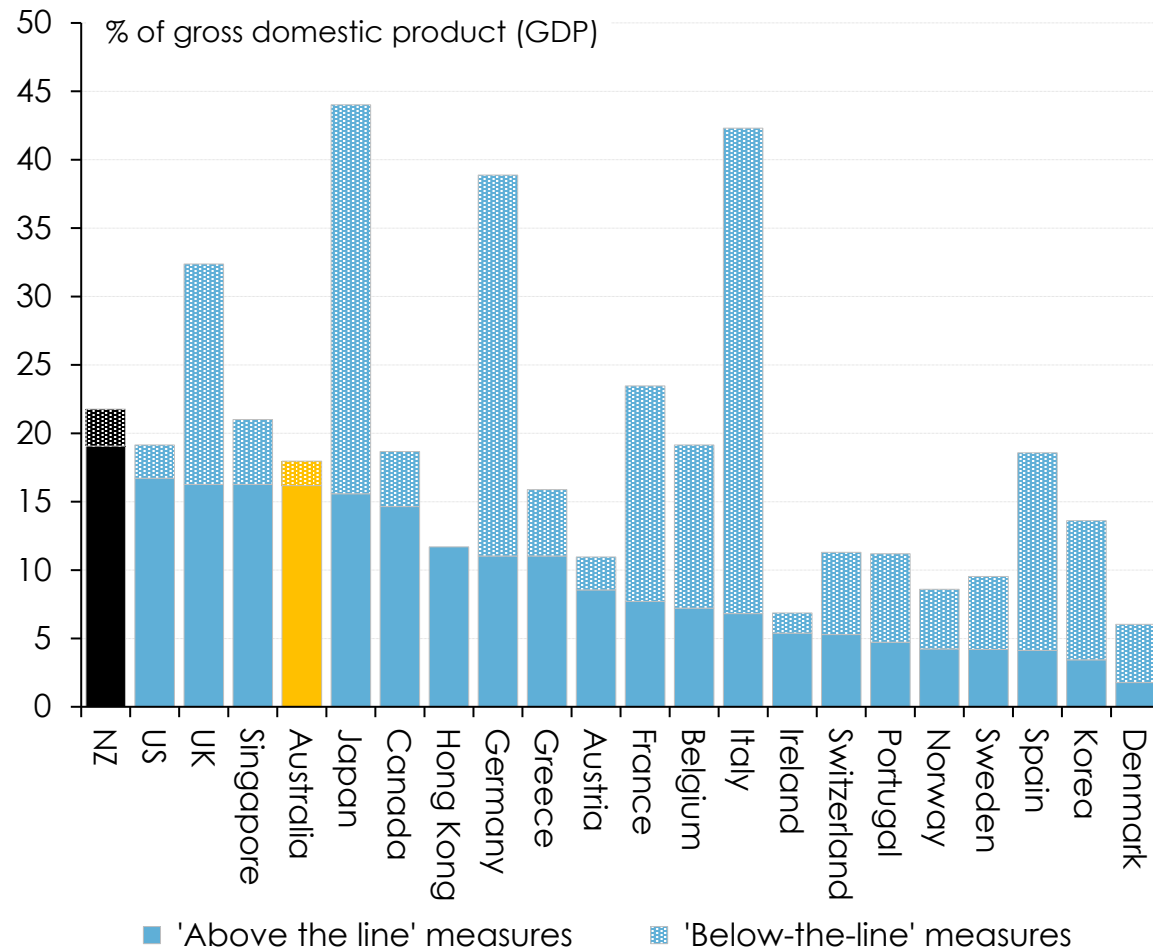
Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Source: ABS; Attorney-General's Department. December quarter WPI data will be released on 24th 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 31st December 2020.

Source: IMF, [Fiscal Monitor Update](#), 28th January 2021. [Return to "What's New"](#).

- Policy measures announced prior to last October's federal Budget totalled A\$232bn over FYs 2019-20 and 2020-21 or about 11¾% of one year's GDP – which is large by international standards (and double what was done during the GFC)
 - the IMF's latest *Fiscal Monitor Update* estimates that measures announced up to 31st December are equivalent to 16¼% of GDP
- Principal objectives of policy measures have been to –
 - strengthen the capacity of the health care system to cope with increased demand
 - maximize the 'survival prospects' of businesses affected by shutdowns
 - minimize the impact of the shutdown on employment
 - provide additional income support to those who lose their jobs
- 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
- Policy measures also designed to be readily 'switched off' once the need for them has passed

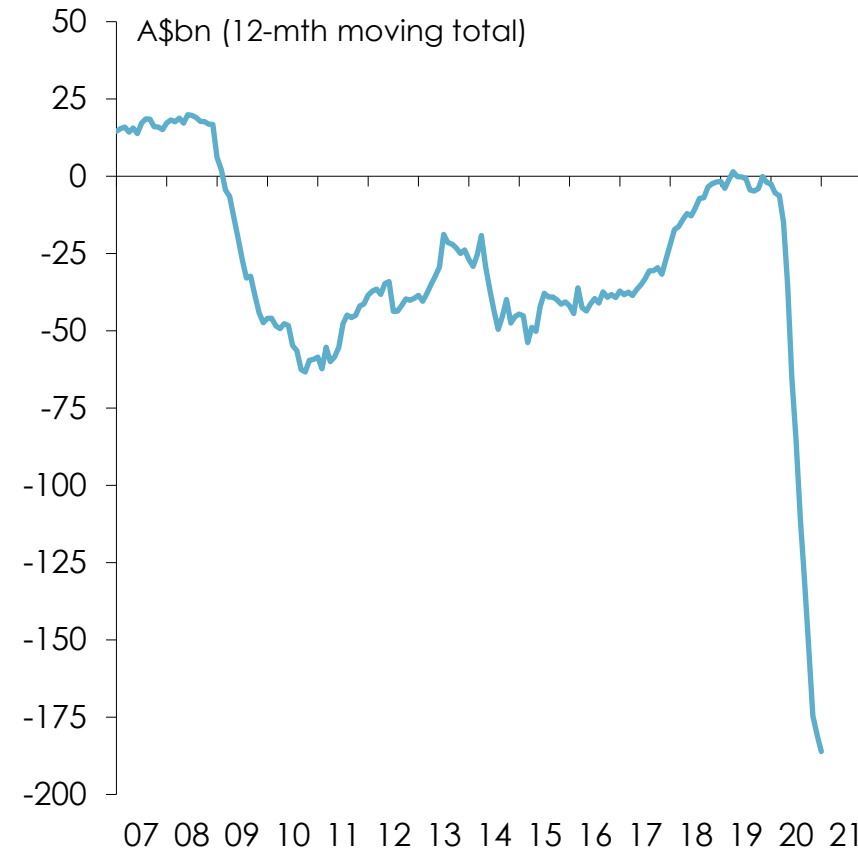
The budget deficit for the first half of the 2020-21 financial year was about \$9½bn (7½%) lower than the Mid-Year Outlook 'profile' projection

Australian Government revenue and expenses



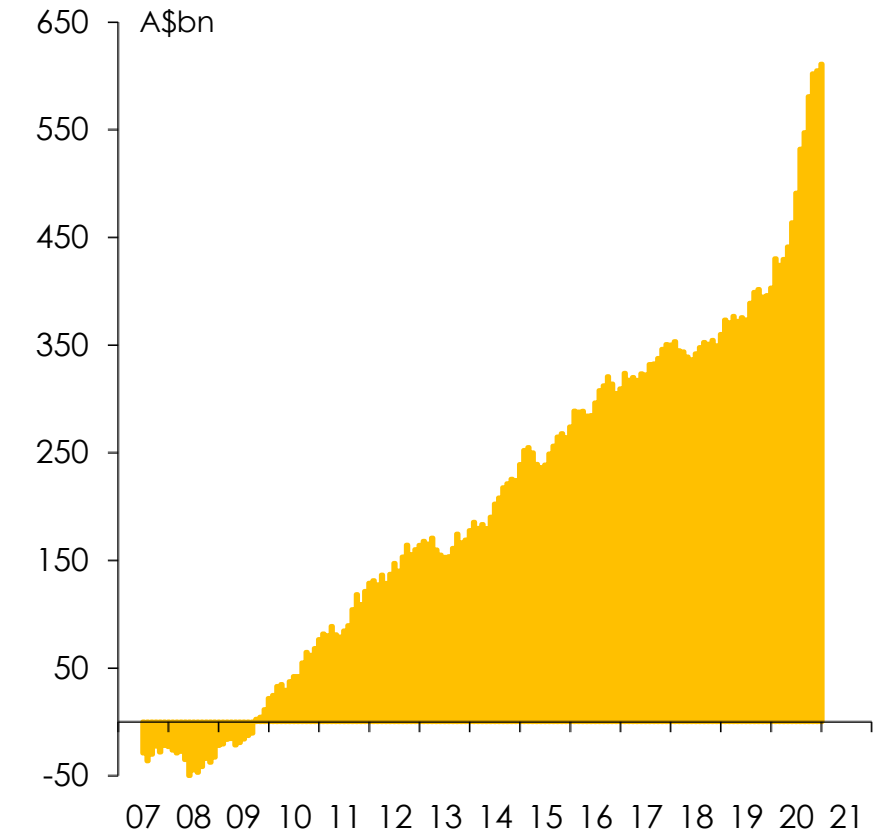
- Growth in expenses is levelling out, while revenue is beginning to turn around as the economy picks up

Australian Government 'underlying' cash balance



- The 'underlying' cash balance for the first half of FY 2020-21 was \$116bn – \$9½bn better than the MYEFO profile

Australian Government net debt



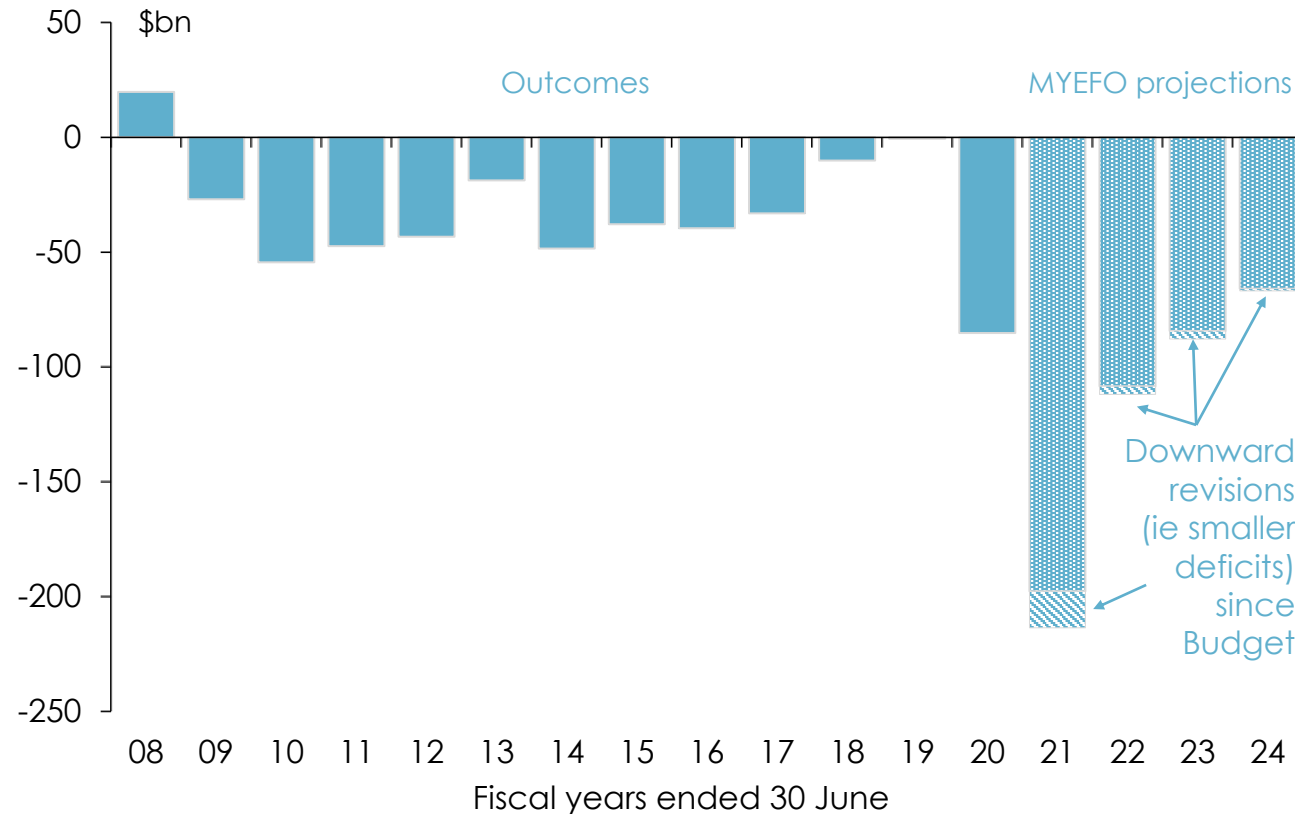
- Net debt as at 31st Dec was \$611bn (about 30½% of GDP), up \$120bn over the first half of FY 2020-21

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

The budget deficits forecast in October's 2020-21 Budget were revised down by about 5¼%, and debt projections by 1½%, in December's MYEFO

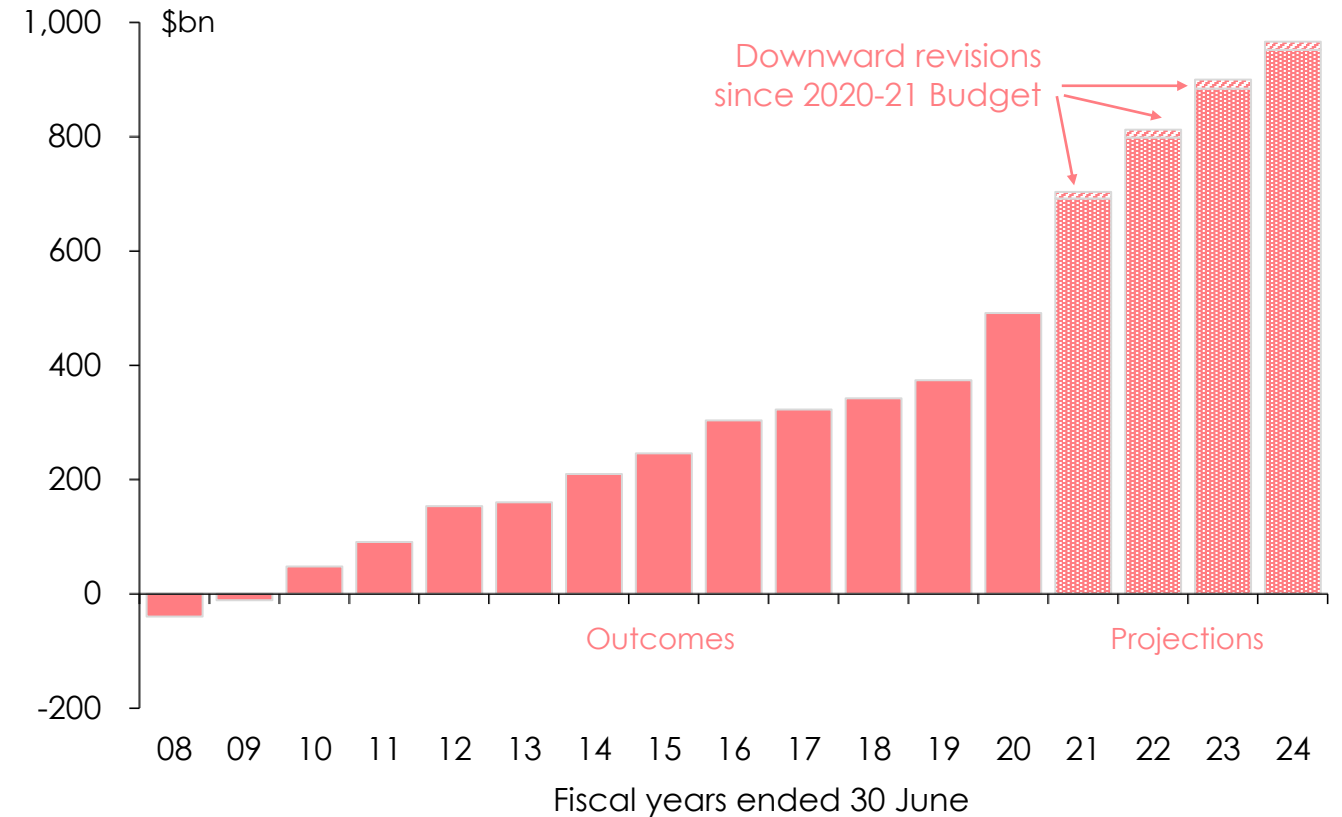
2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

'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

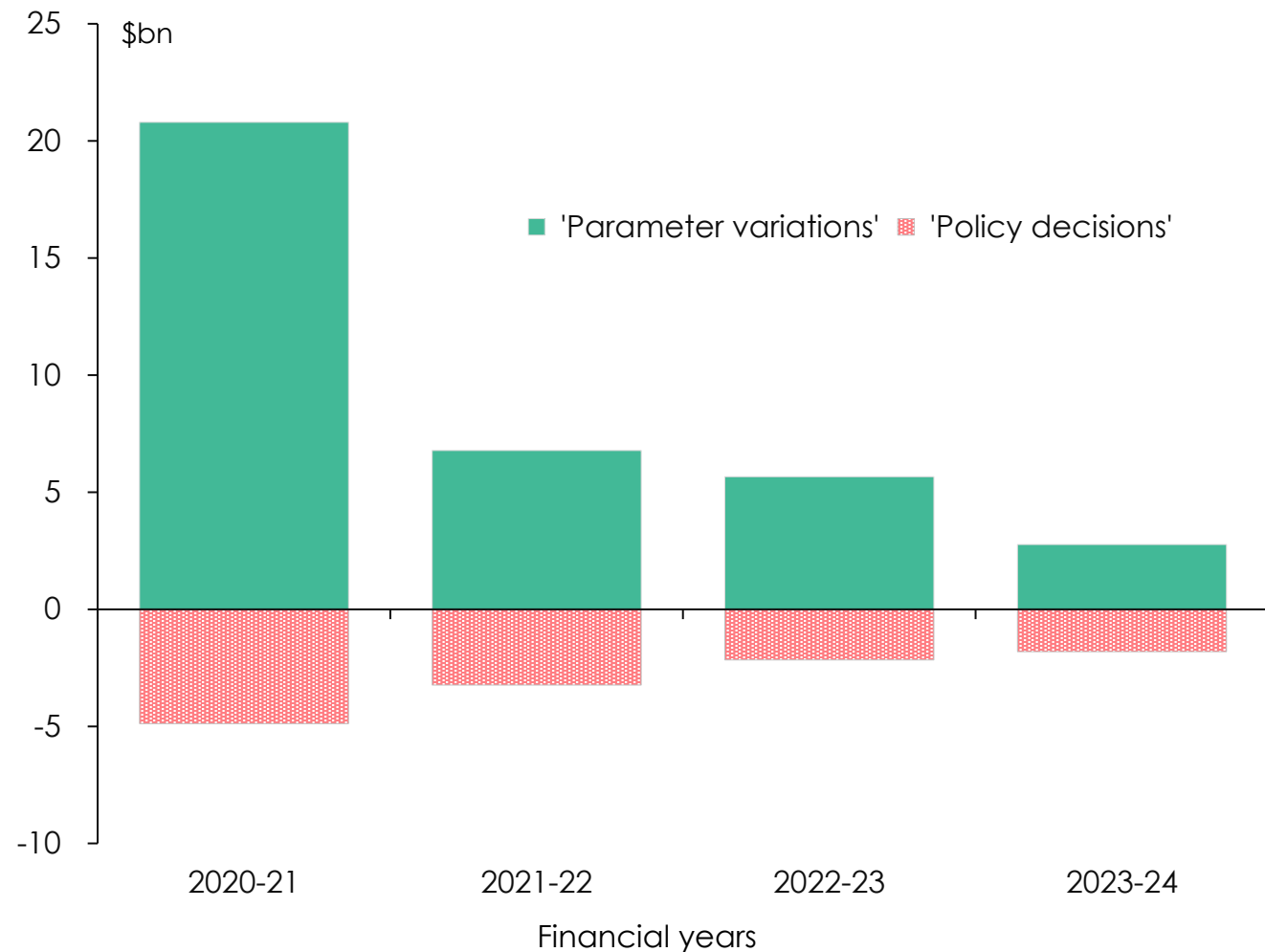
Net debt



- 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 30th 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 December's MYEFO

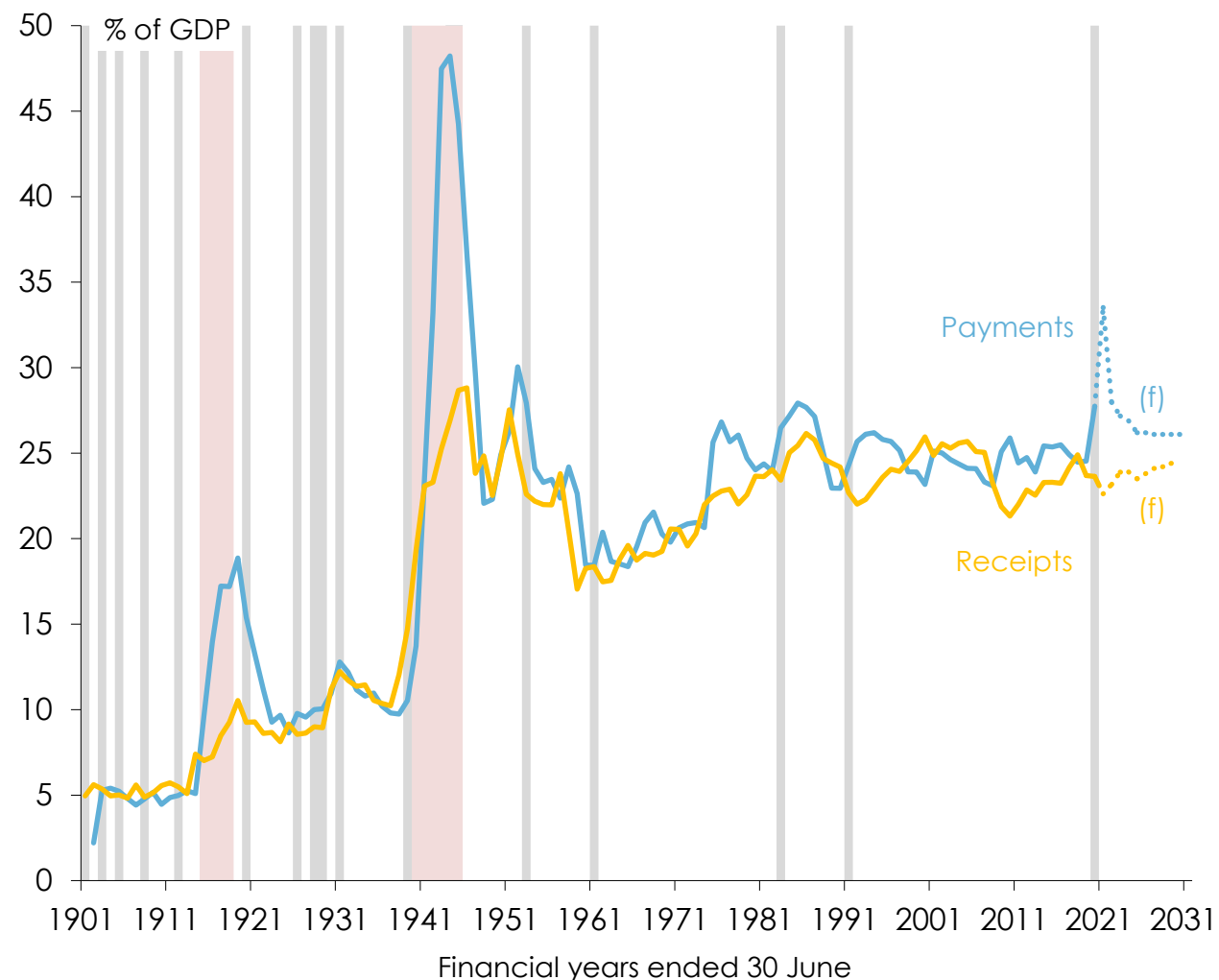


Source: Australian Government, [2020-21 Mid-Year Economic and Fiscal Outlook](#); Corinna.
[Return to "What's New"](#).

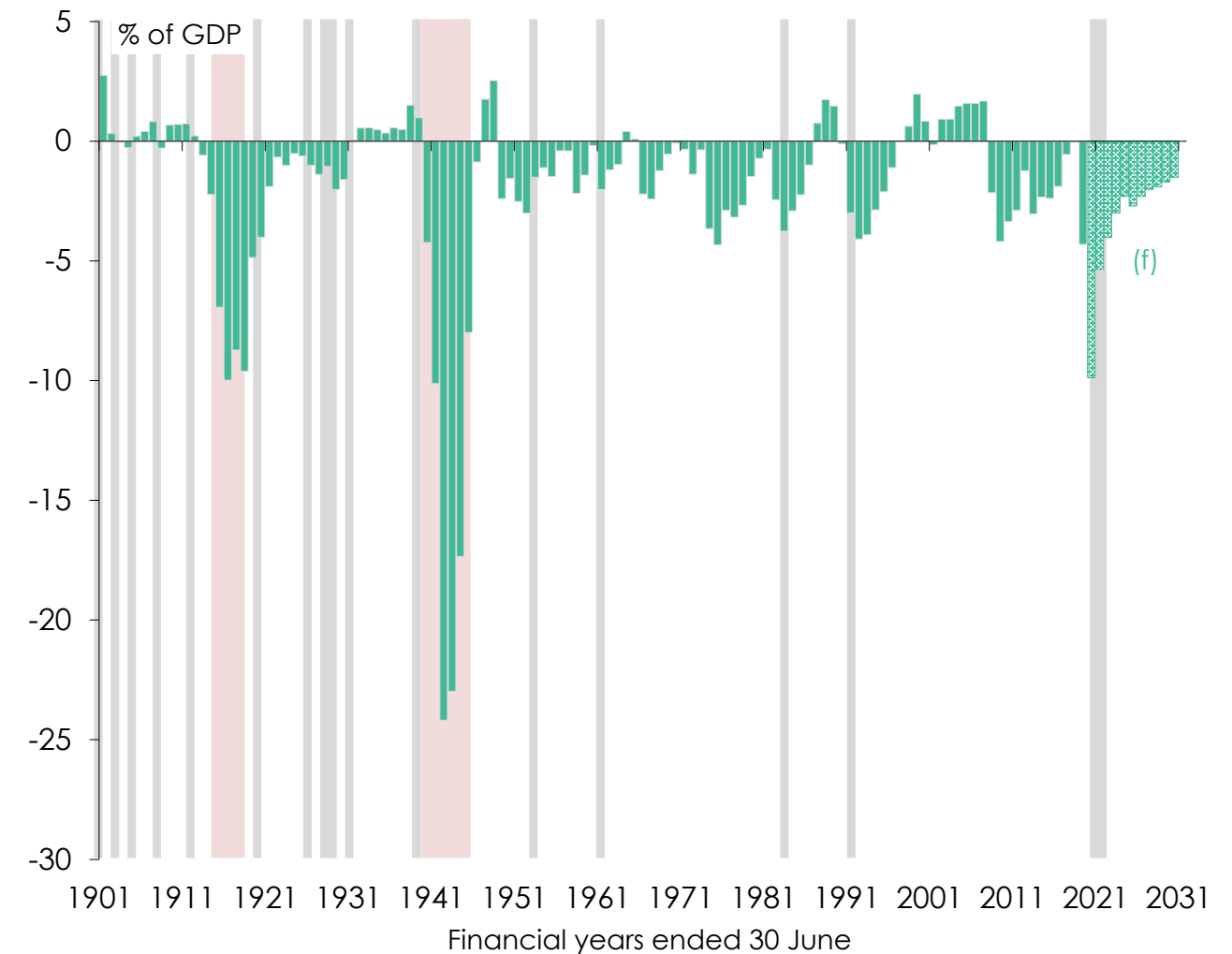
- Since the 2020-21 Budget was presented in the first week of October, 'parameter variations' (changes in economic forecasts and other assumptions) have improved the 'bottom line' by a total of \$36bn over the four years to 2023-24 (including \$21bn in 2020-21)
 - \$22bn of that amount is on the revenue 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

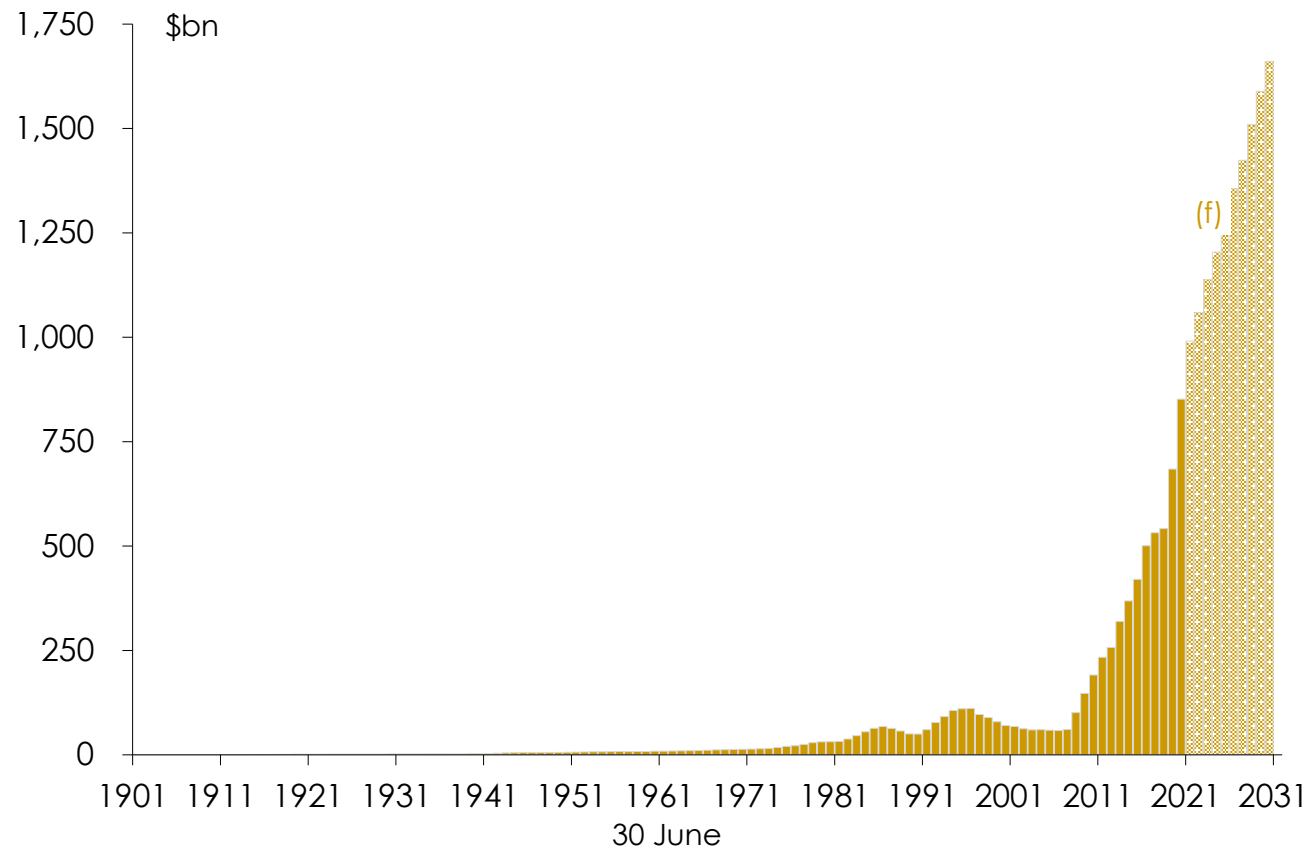


Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which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

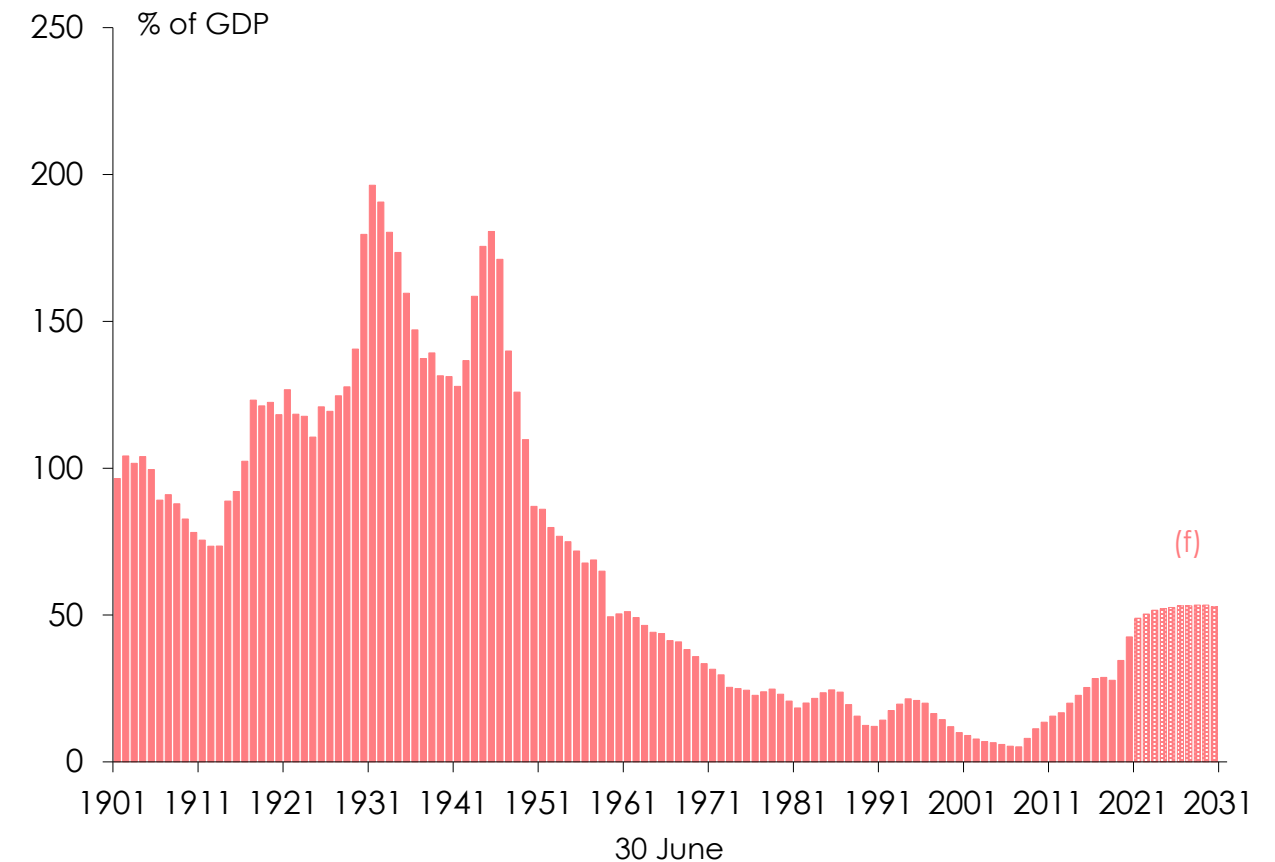
However, there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

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

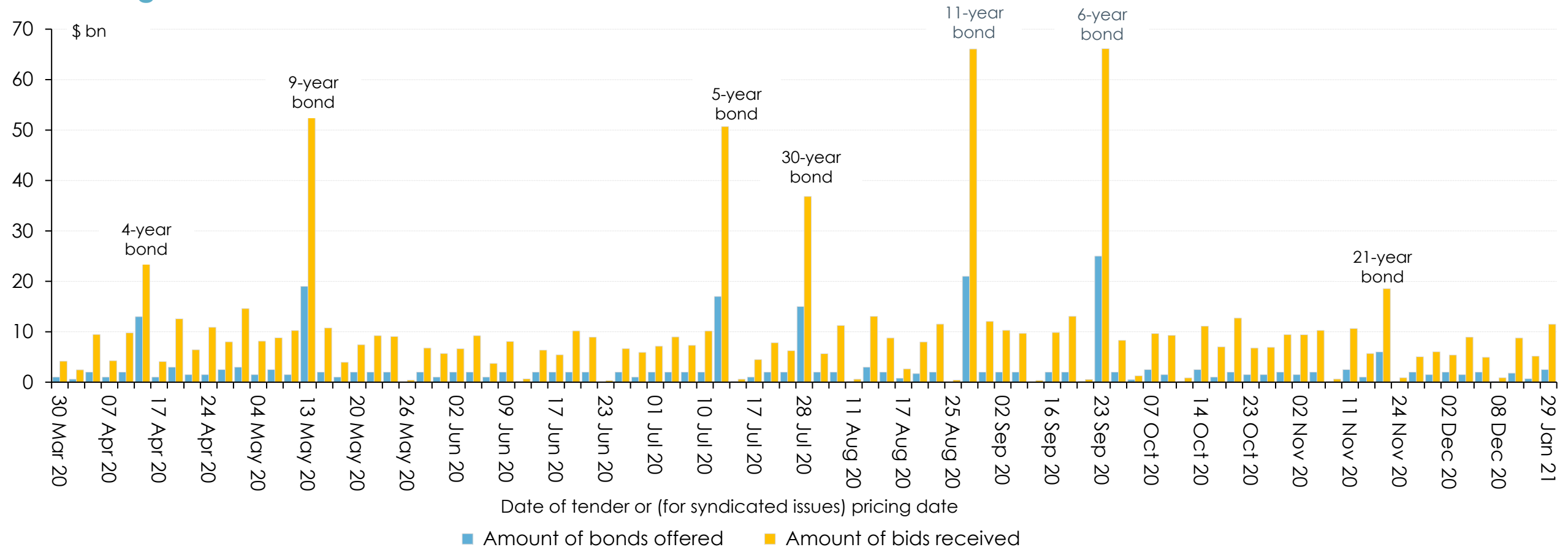


- ❑ However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an independent nation

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

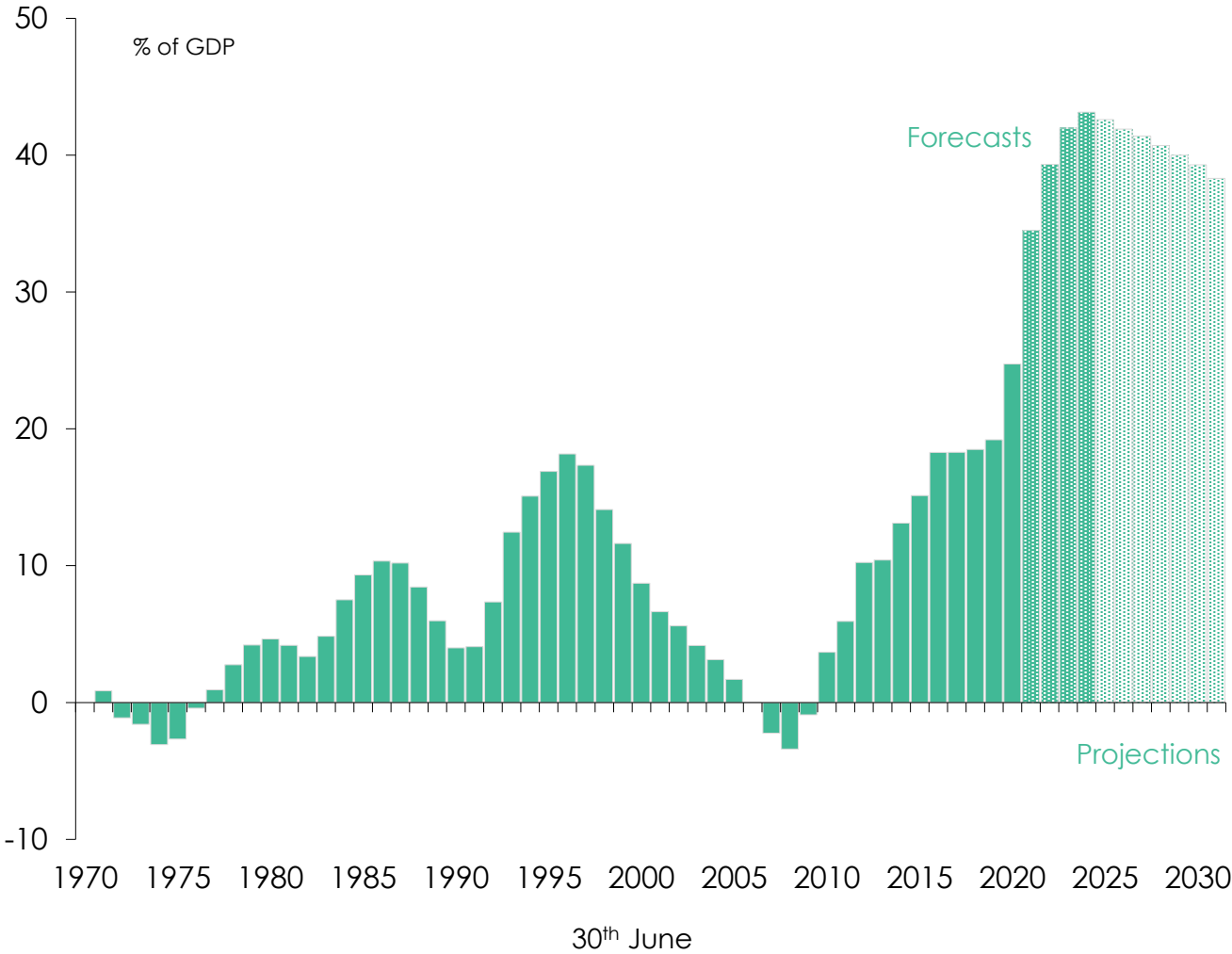


- ❑ Since 30th March 2020, the Australian Office of Financial Management has issued \$246.7bn of Treasury bonds – based on the volume of bids received it could have borrowed \$905bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted
- ❑ As of this week AOFM had issued \$159.8bn (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

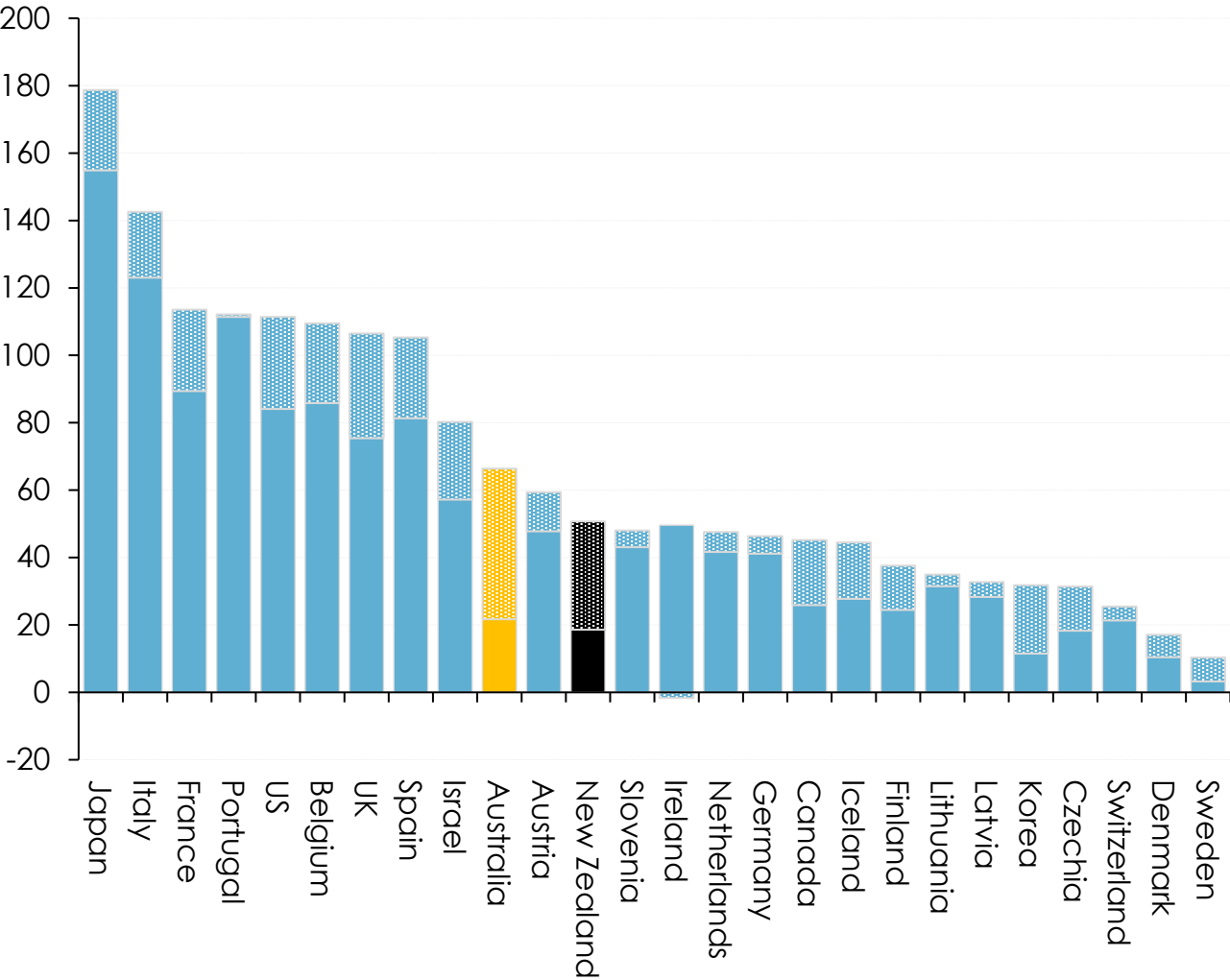
Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).

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



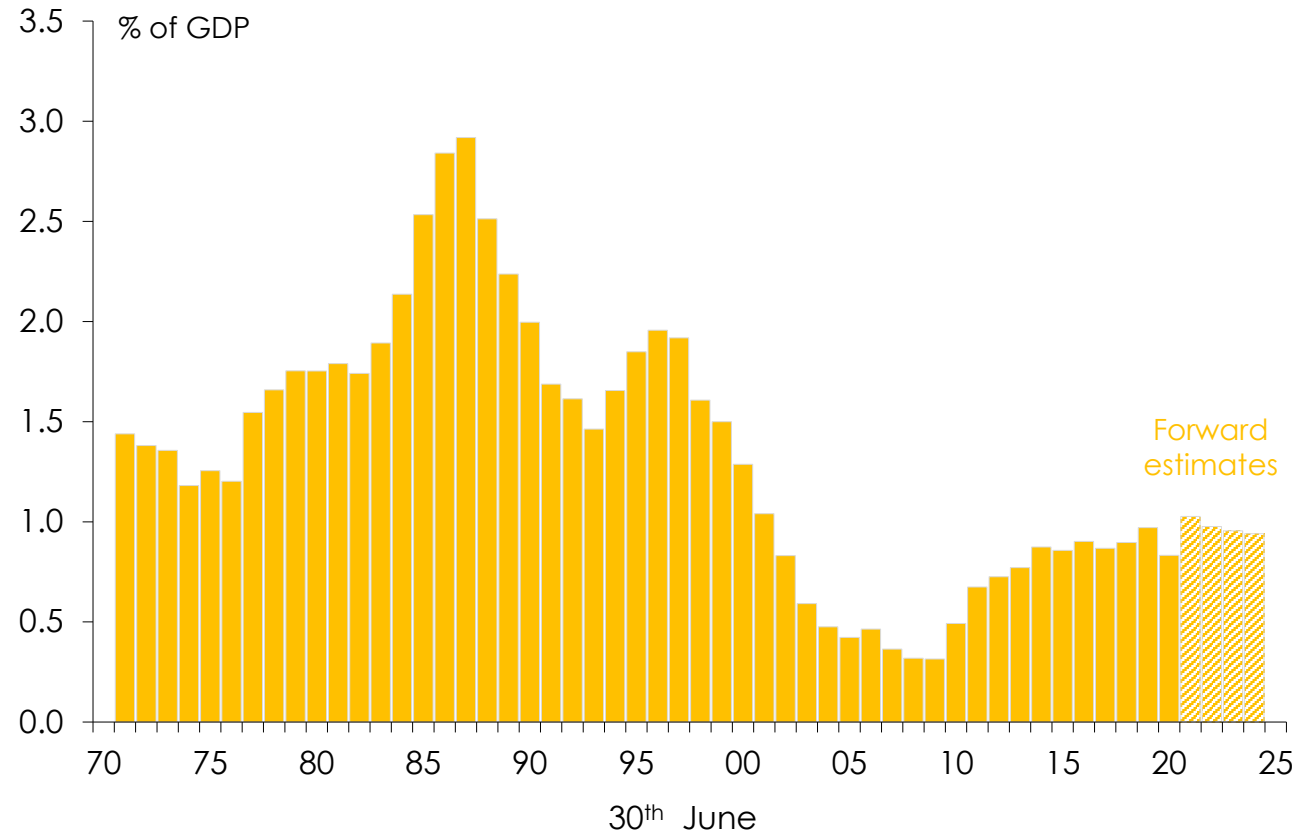
Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2019 and projected 2024



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](#), 17th December 2020; 2020-21 state and territory Budget Papers; New Zealand Treasury, [Half-Year Economic and Fiscal Update](#) 2020, 16th December 2020; IMF, [Fiscal Monitor](#), October 2020. [Return to "What's New"](#).

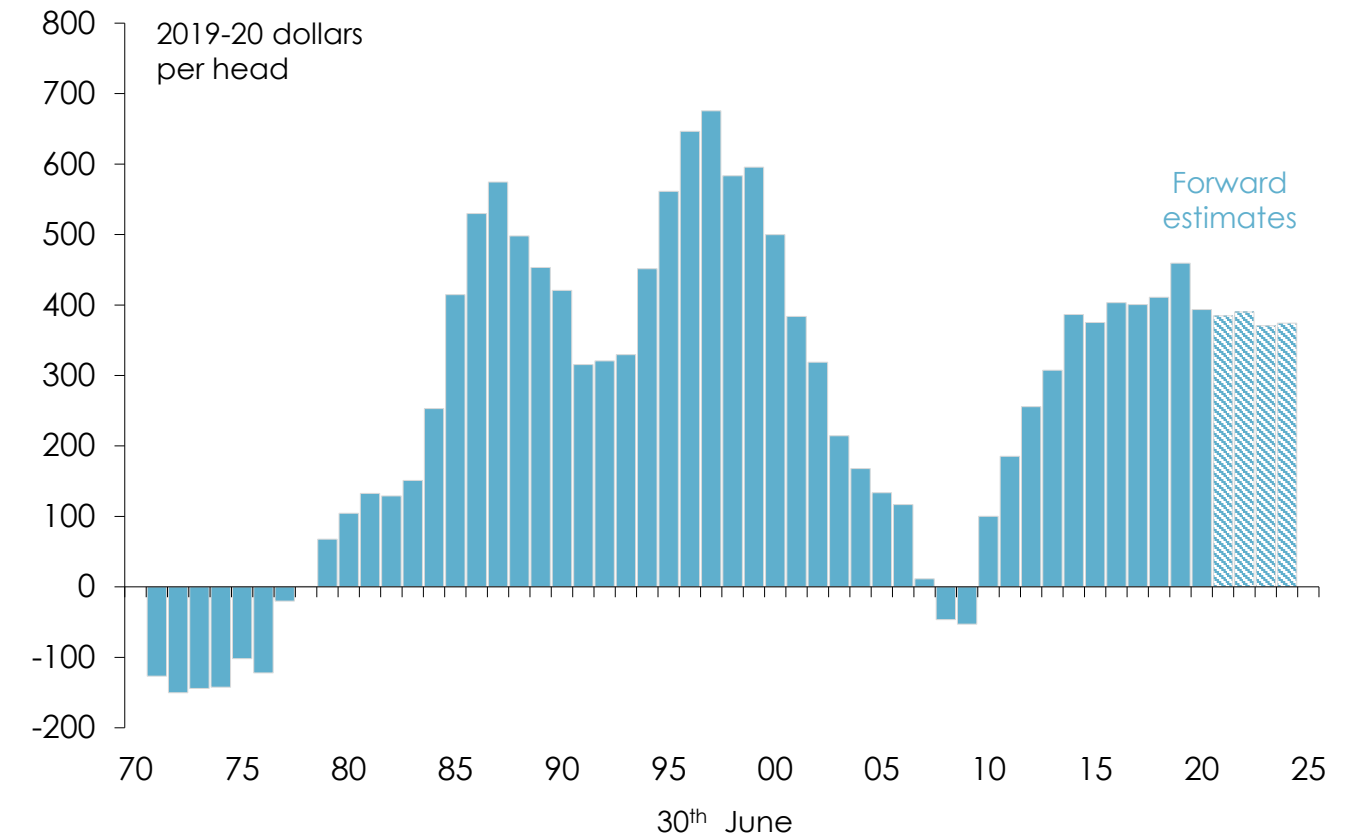
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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

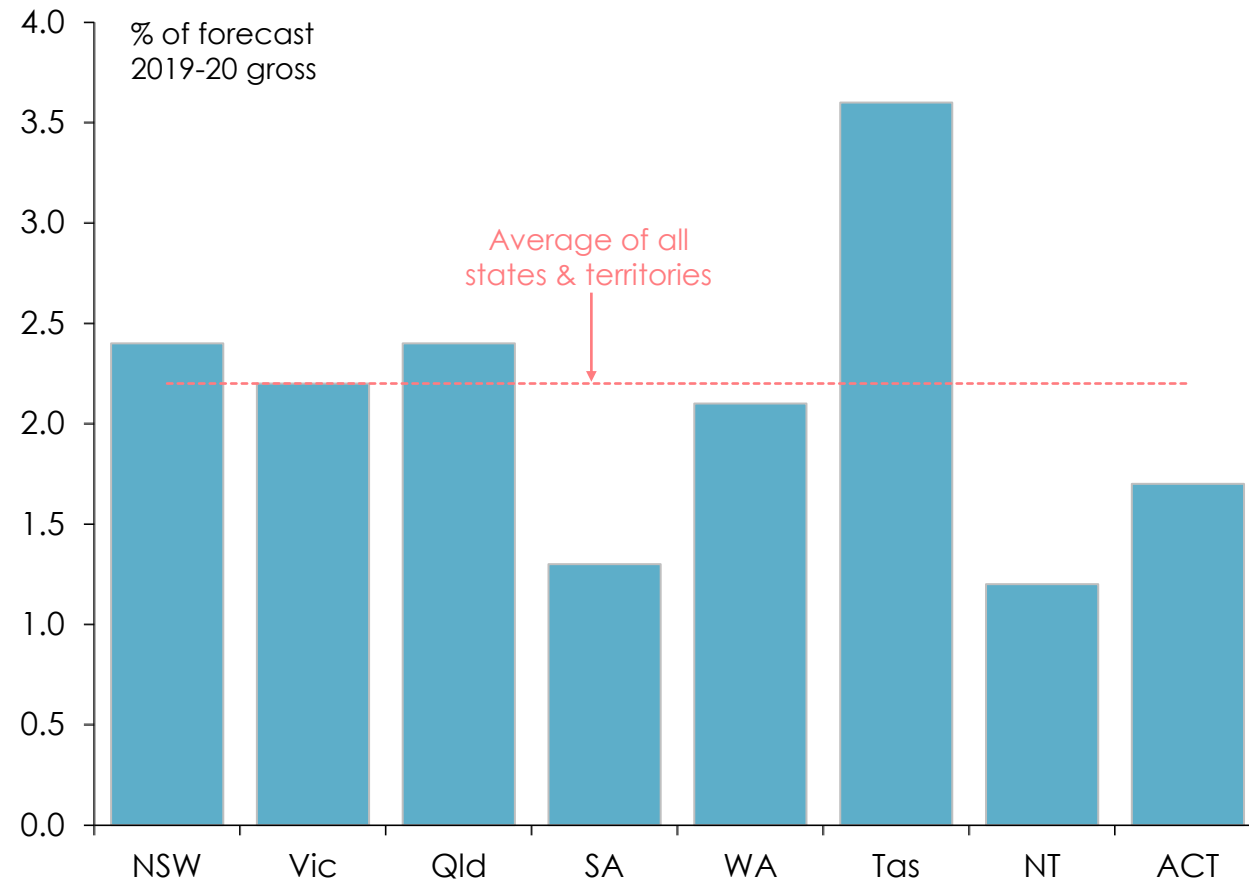
Australian Government net interest payments per head of population in 2019-20 dollars



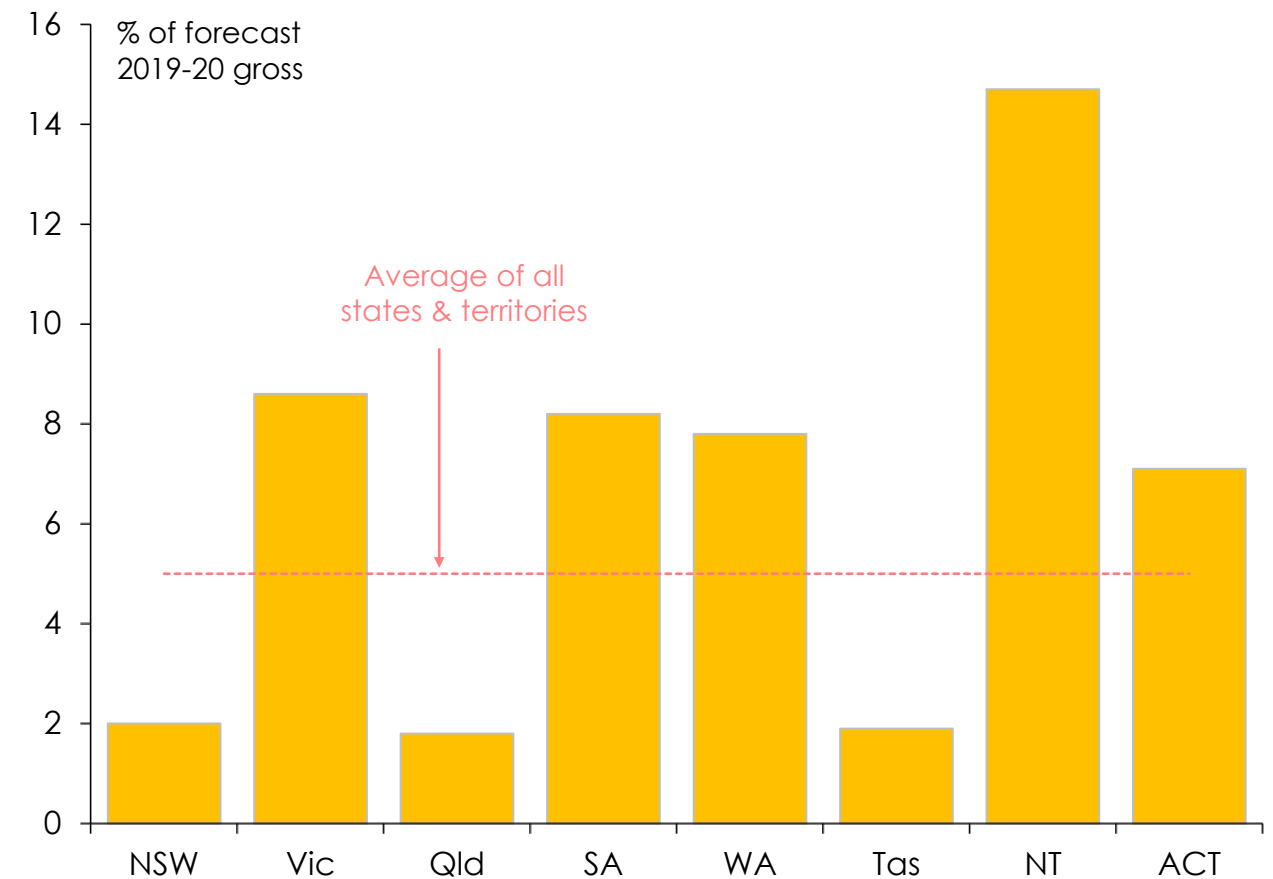
- ❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

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

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



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

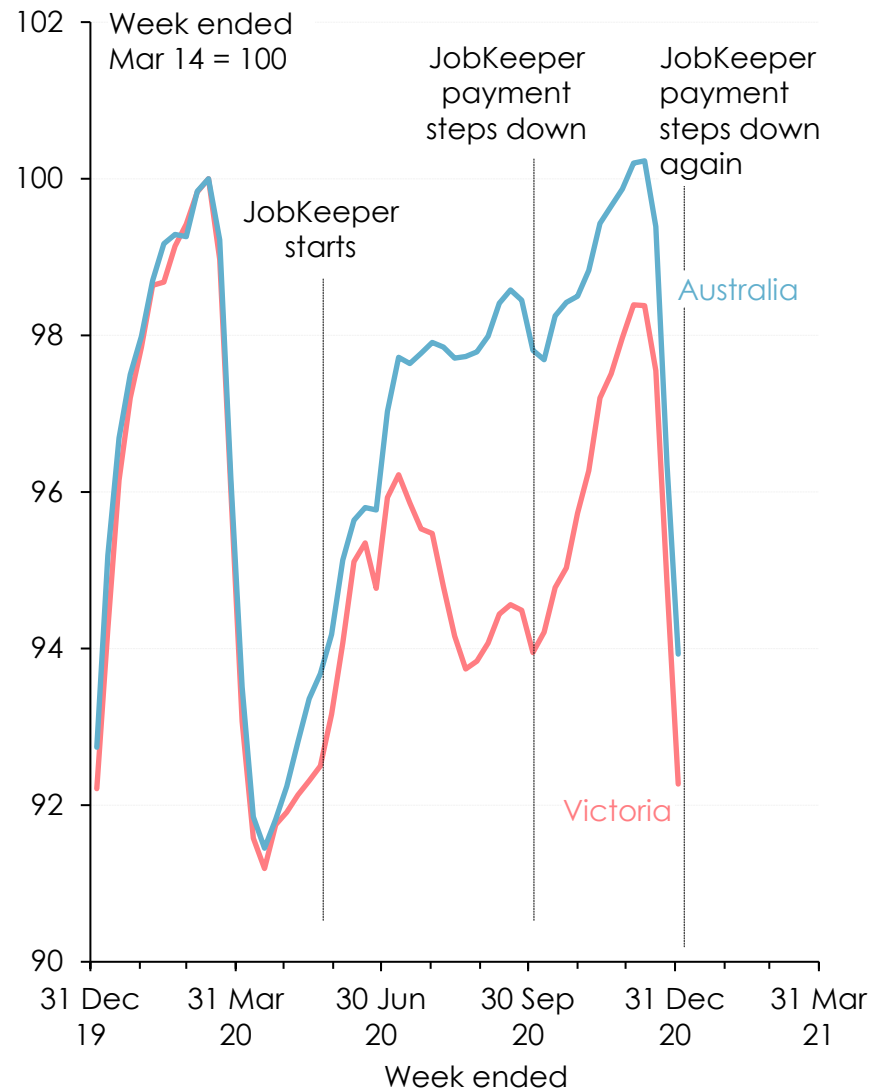


- ❑ In August RBA Governor Phillip Lowe advised state and territory governments to spend an additional \$40bn (2% of GDP) on infrastructure investment – an amount which S&P Global Ratings said state and territory balance sheets had “plenty of room to accommodate”

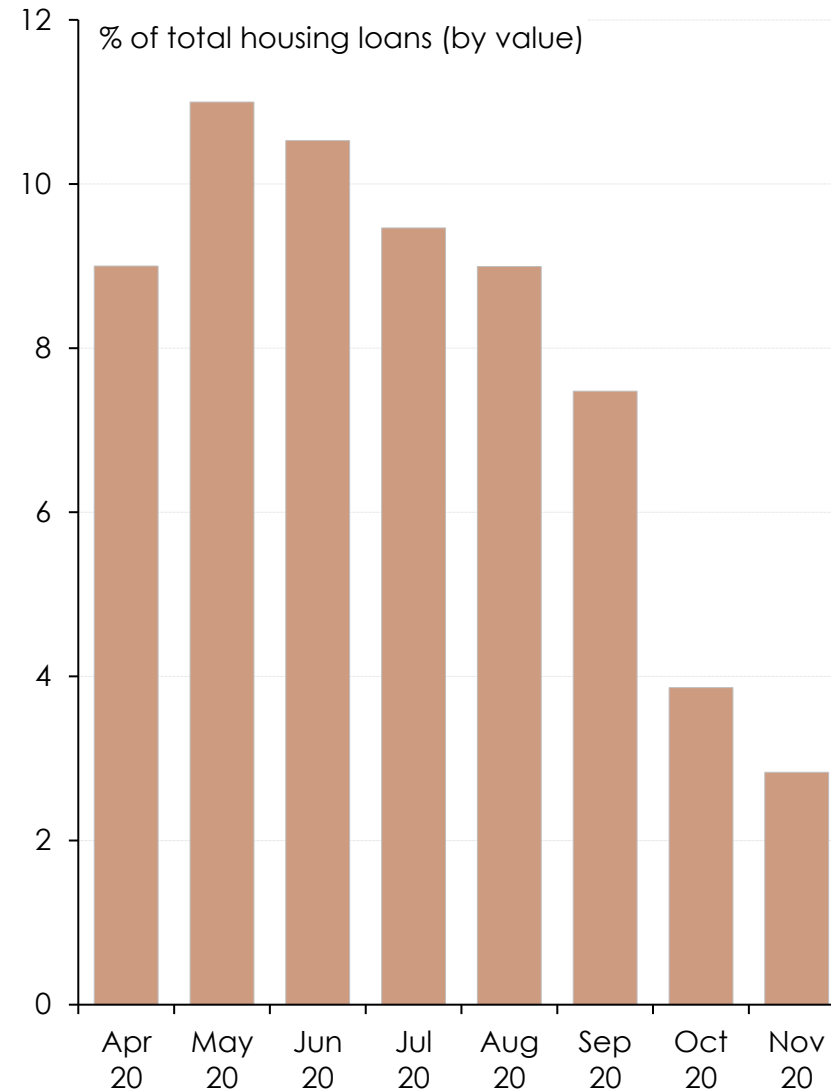
Sources: Commonwealth Treasury, 6th August 2020; Australian Financial Review, 14th August 2020; The Australian, 22nd August 2020. [Return to "What's New"](#).

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

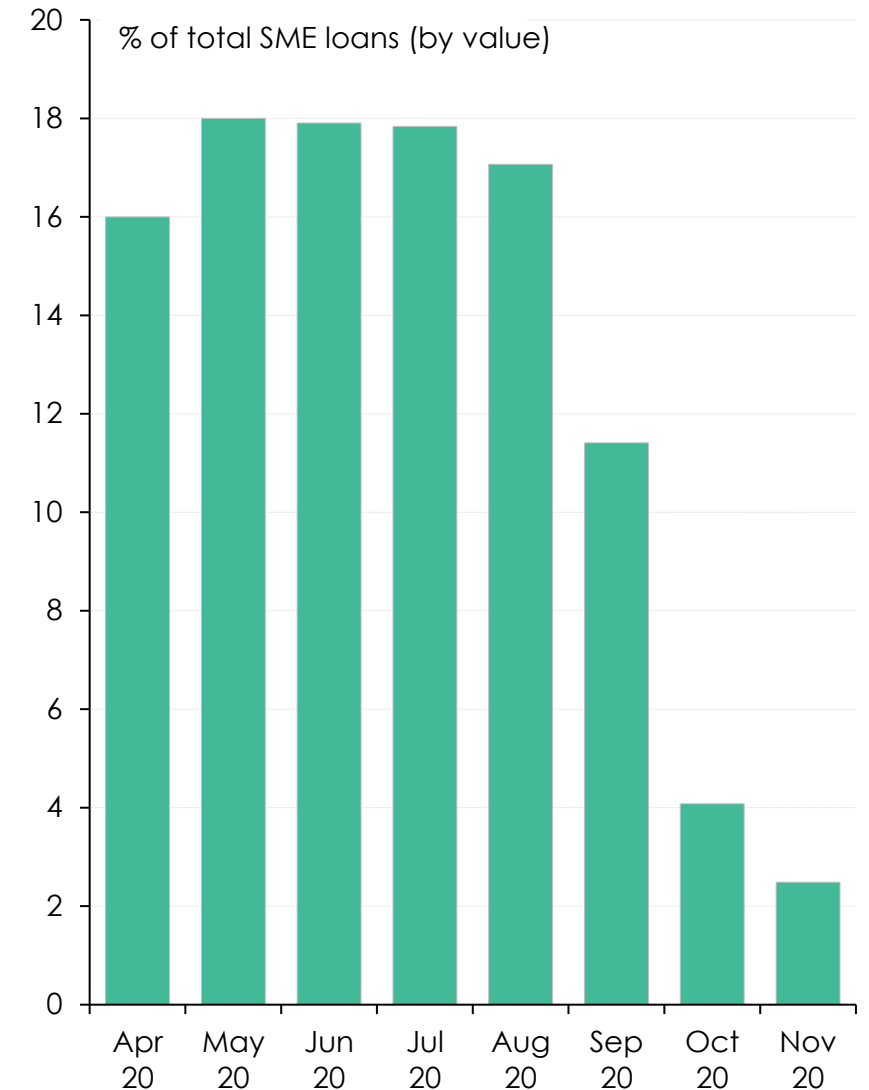
Payroll employment & JobKeeper



Mortgage repayment deferrals



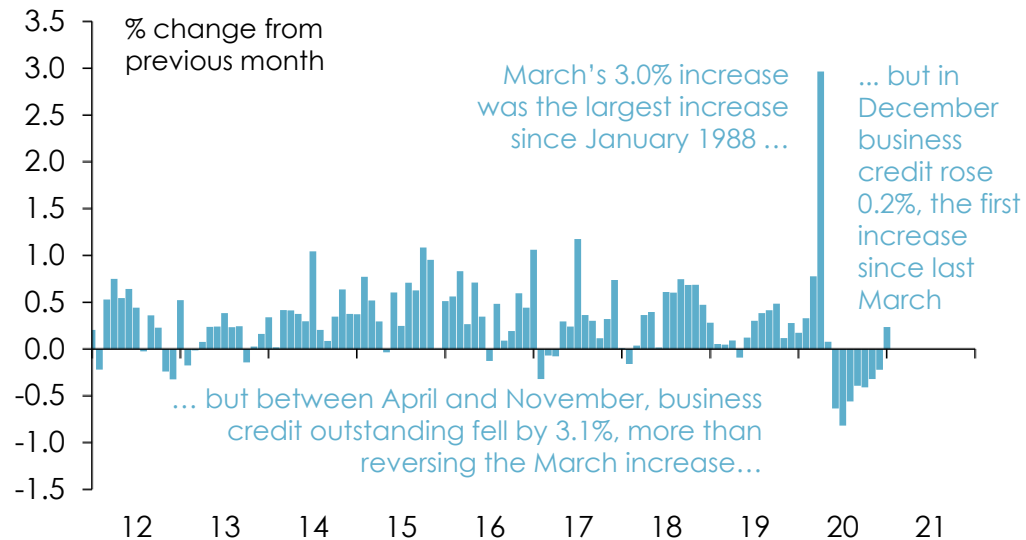
SME loan repayment deferrals



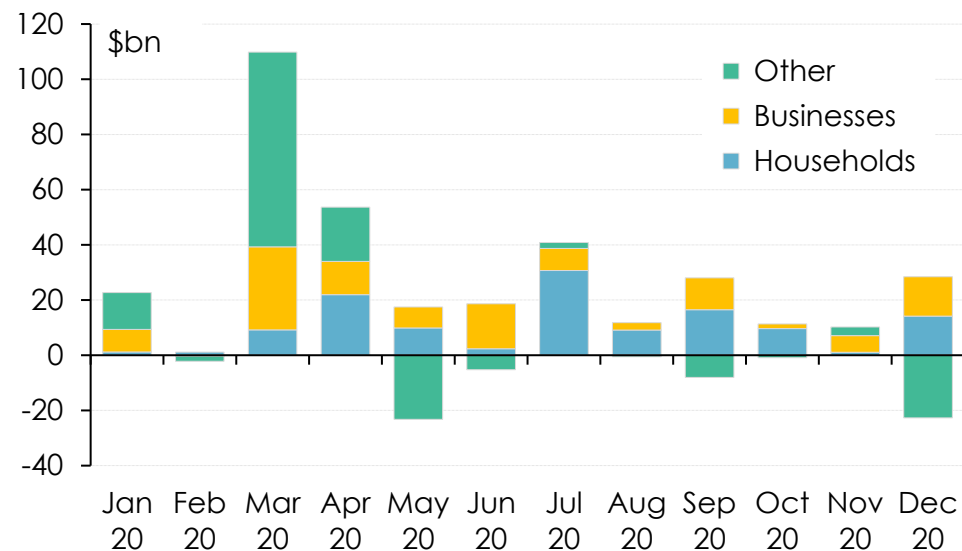
Note: Weekly payroll jobs data are not seasonally adjusted: as noted in [slide 87](#) the decline in the last two weeks of December and first week of January is consistent with normal seasonal patterns. Sources: [ABS](#); [Australian Financial Security Authority](#); [Australian Prudential Regulatory Authority](#).

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

Business credit outstanding



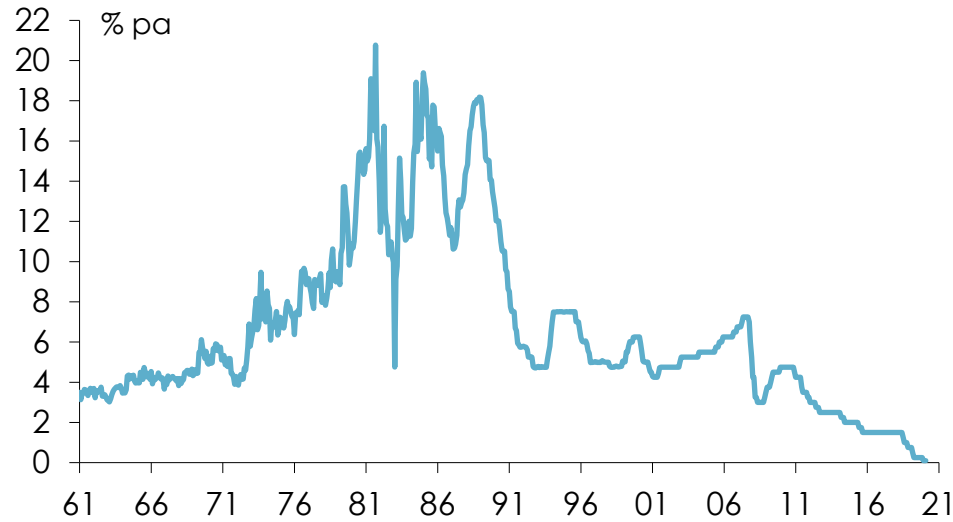
Monthly change in bank deposits



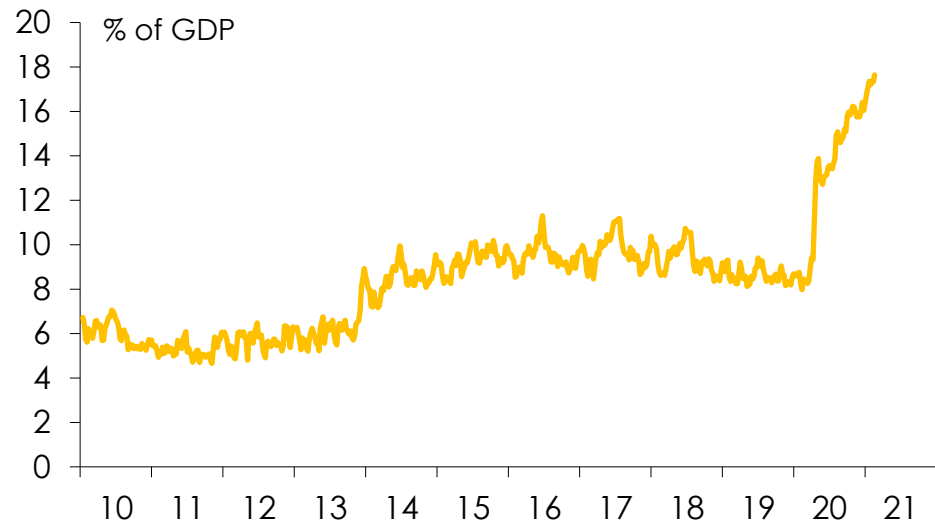
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – particularly in the early stages of the pandemic
- ❑ Banks extended 'repayment holidays' 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 124](#))
- ❑ Bank deposits have swelled by \$259bn (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 \$124bn (12½%) since February – of which \$36bn has been sourced from early release of superannuation savings – while business deposits have risen by \$104bn (17½%)

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".](#)

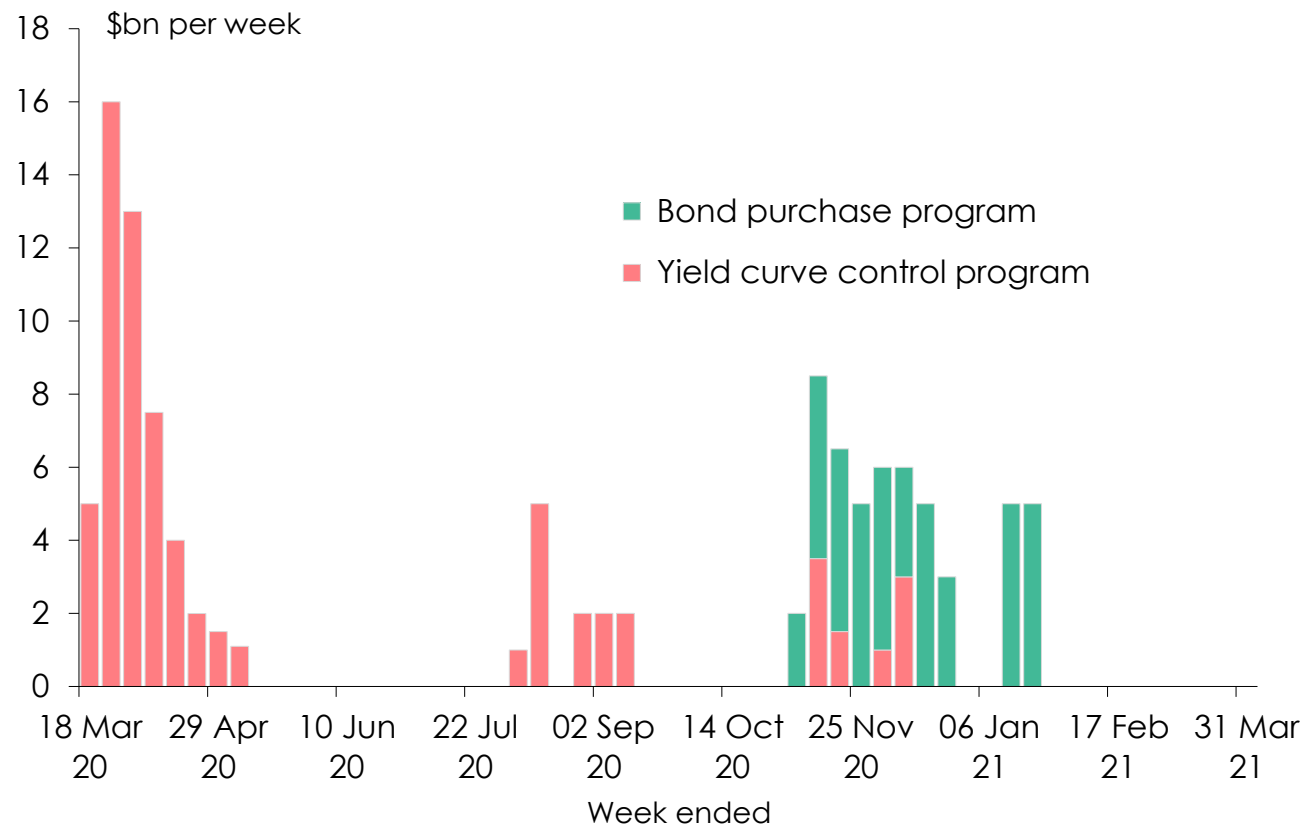
- ❑ Last year the RBA cut its cash rate target from 0.75% to 0.10% (and in practice allowed the cash rate to fall to 0.03%)
 - the Board and the Governor have repeatedly indicated that a negative cash rate is “extremely unlikely” in Australia, with “benefits outweighed by the costs”
 - but they have 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 will update its forecasts, and signal any changes in its thinking about the future trajectory of monetary policy, this coming week

- ❑ **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"
- ❑ ... and he 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"
 - 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 "things [could] 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
 - and the unemployment rate would likely need to fall to less than 5% before a sustained pick-up in wages growth could occur
- ❑ The RBA will communicate changes in its thinking after Tuesday's Board meeting, a speech to be given by Governor Lowe on Wednesday, and the Statement on Monetary Policy on Friday

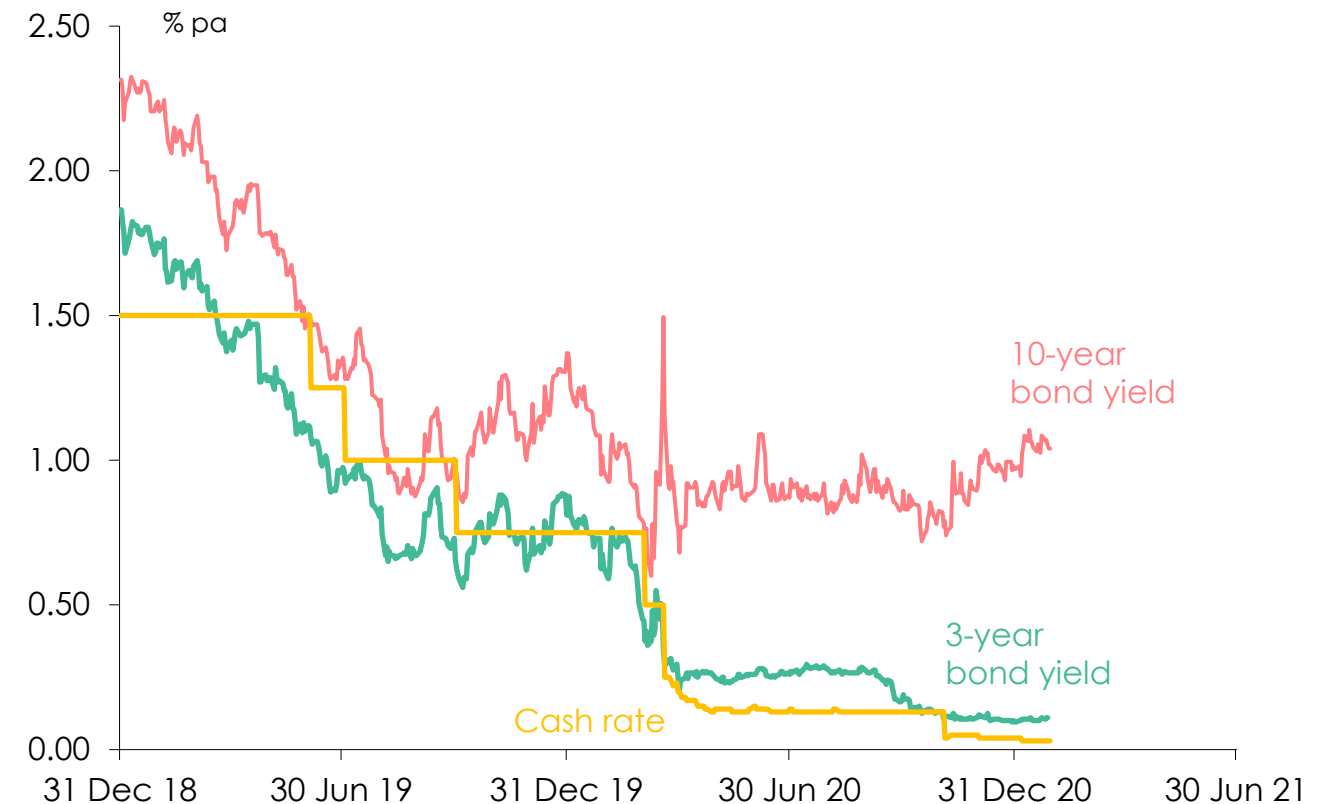
The RBA bought another \$5bn of bonds this week under its Bond Purchase Program, while 10-year yields edged 5bp lower but remain above 1%

RBA open market bond purchases



- ❑ 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 \$119bn (or 6.1% of GDP) of which \$71bn has been for YCC and \$48bn for BPP

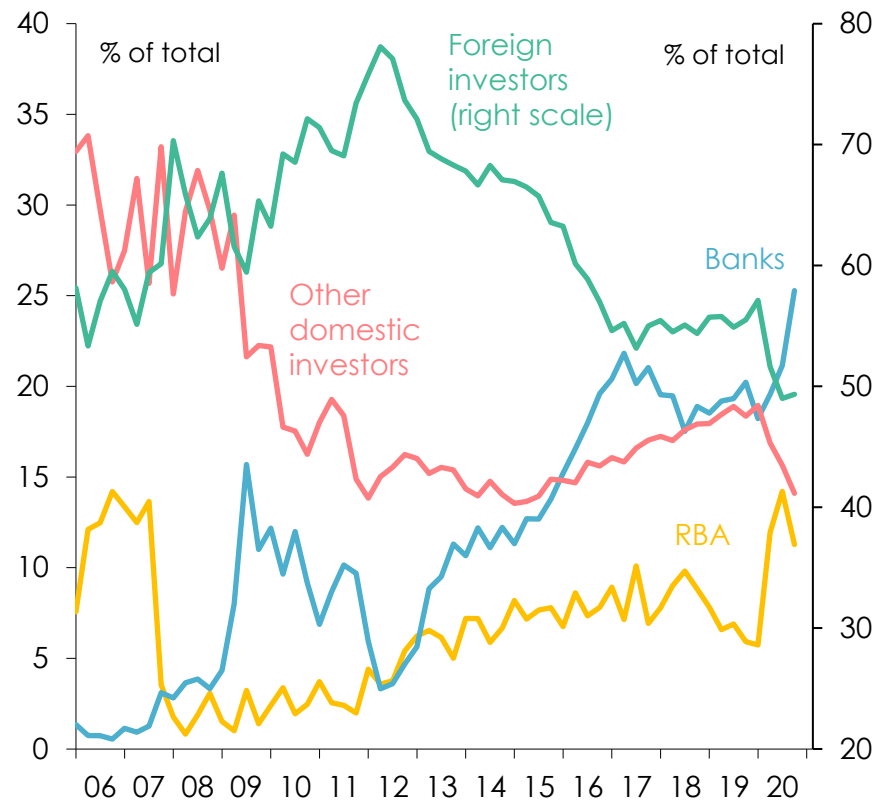
Interest rates



- ❑ 10-year yields fell 5bp over the course of this week, more or less in line with US yields, though they are still above 1% – while 3-year yields remained in line with the RBA's YCC target

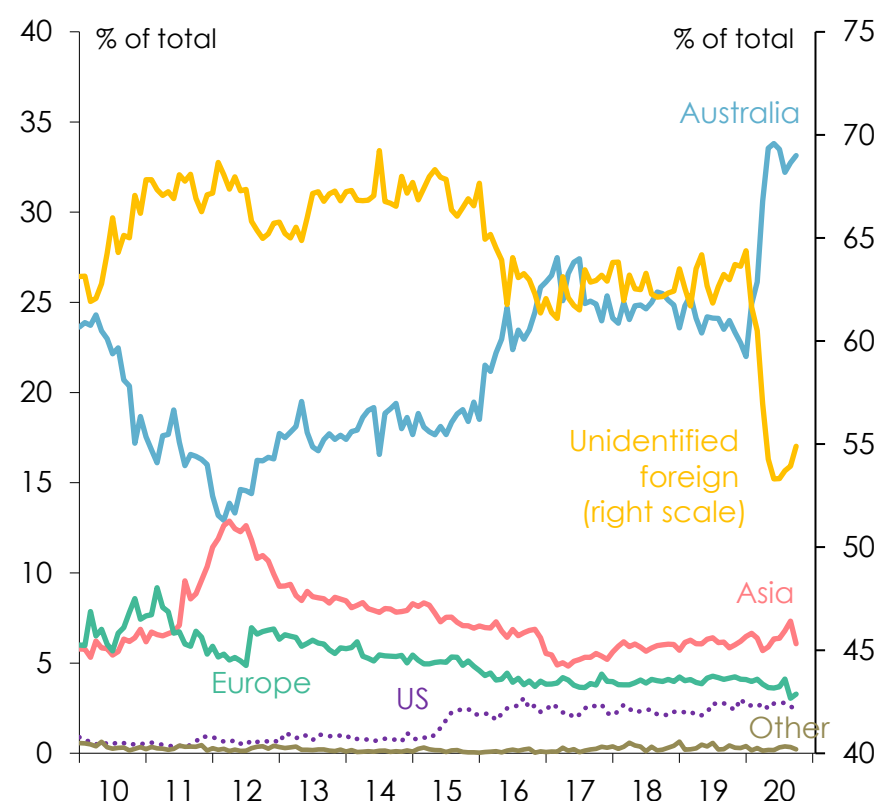
Domestic banks increased their holdings of federal, state and territory government bonds by \$160bn over the first three quarters of 2020

Holder of Australian Government bonds



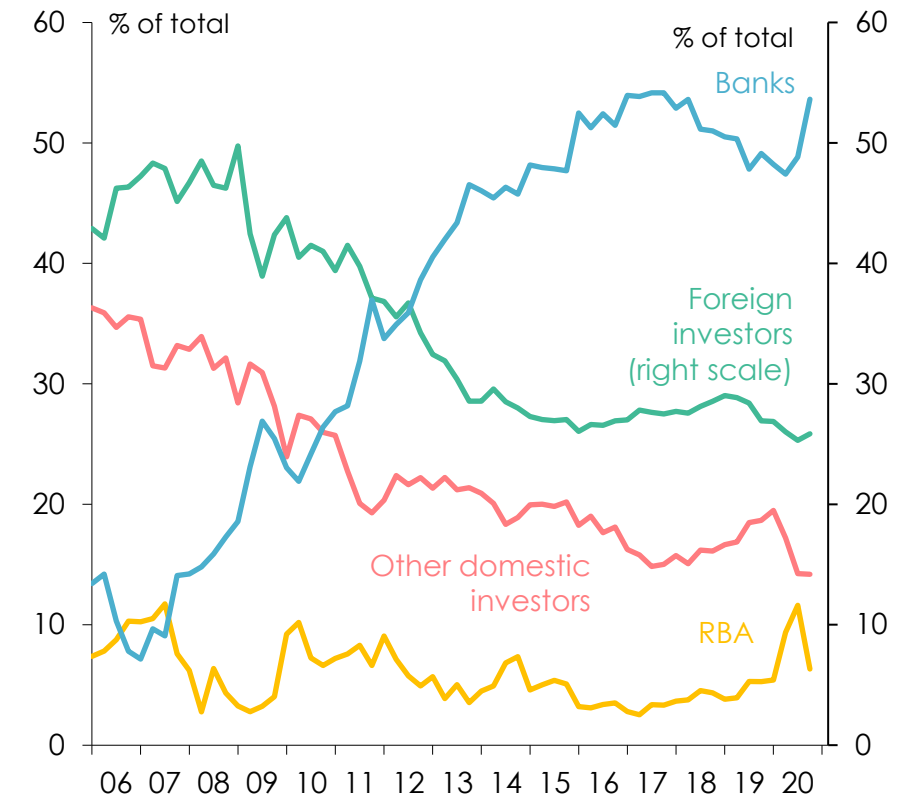
Australian Gov't bonds on issue rose by \$221bn over the first three quarters of 2020 – of which domestic banks absorbed \$101bn, and the RBA and foreign investors \$60bn each

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

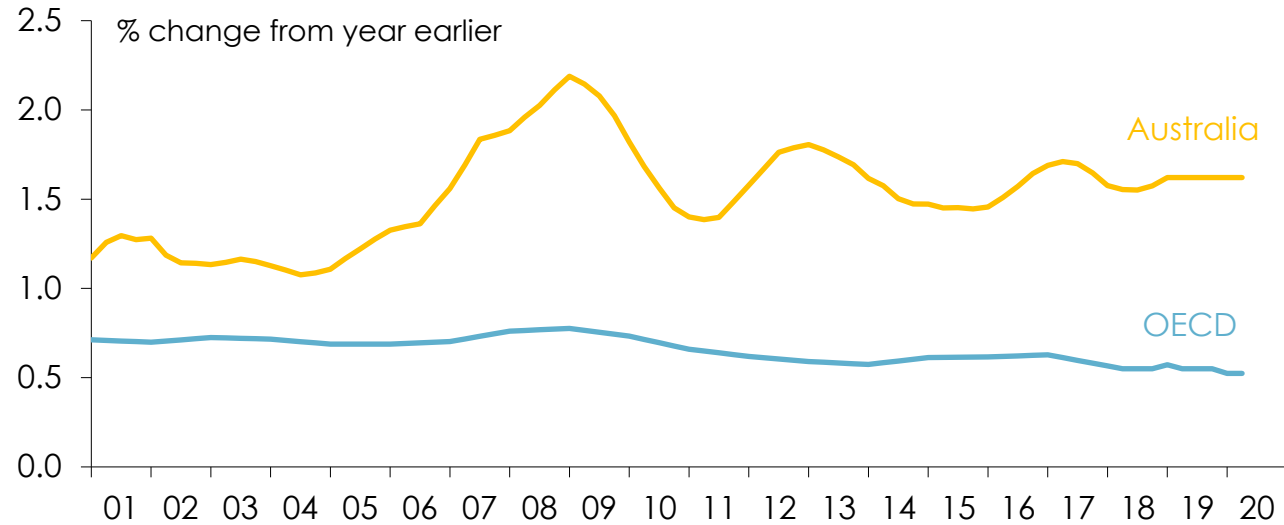
❑ **(Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies**

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

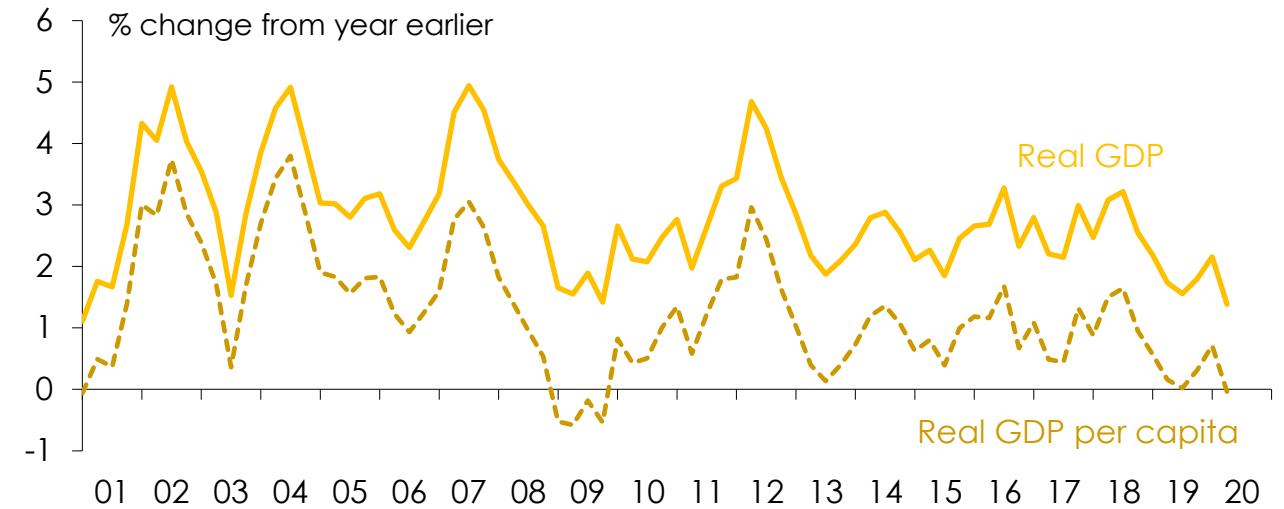
The first three of these are likely to be of less assistance from now on

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

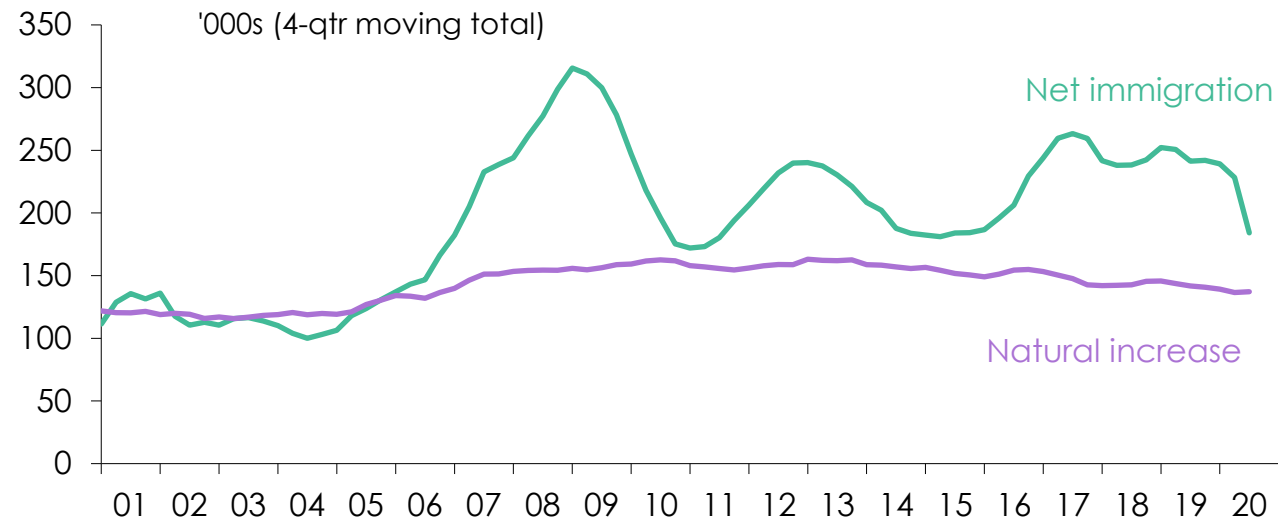
Australia and OECD population growth



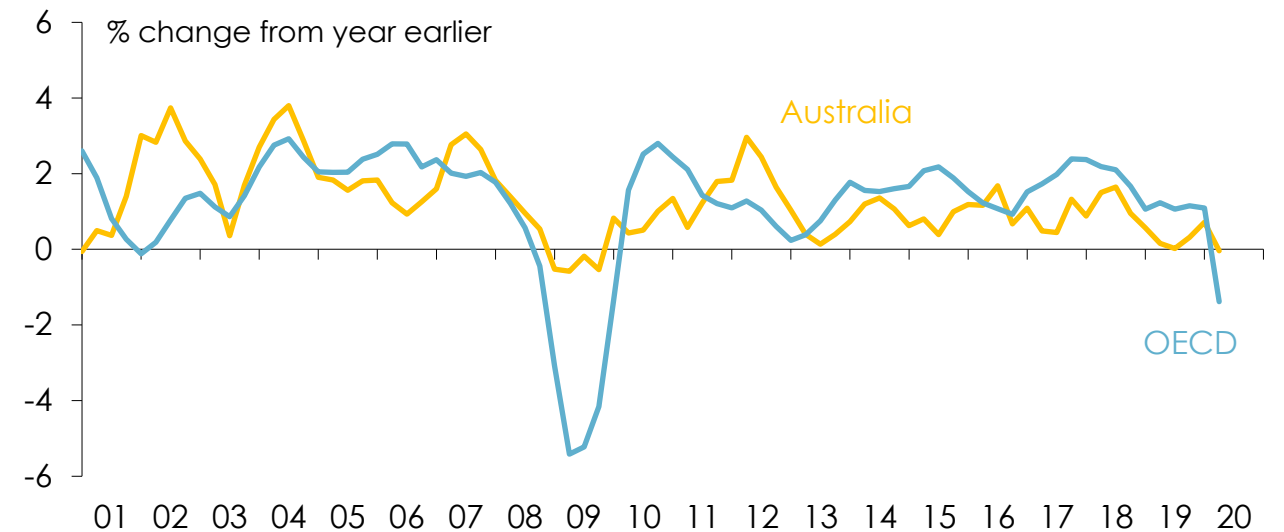
Australian GDP and per capita GDP growth



Sources of Australia's population growth



Australia and OECD per capita real GDP growth



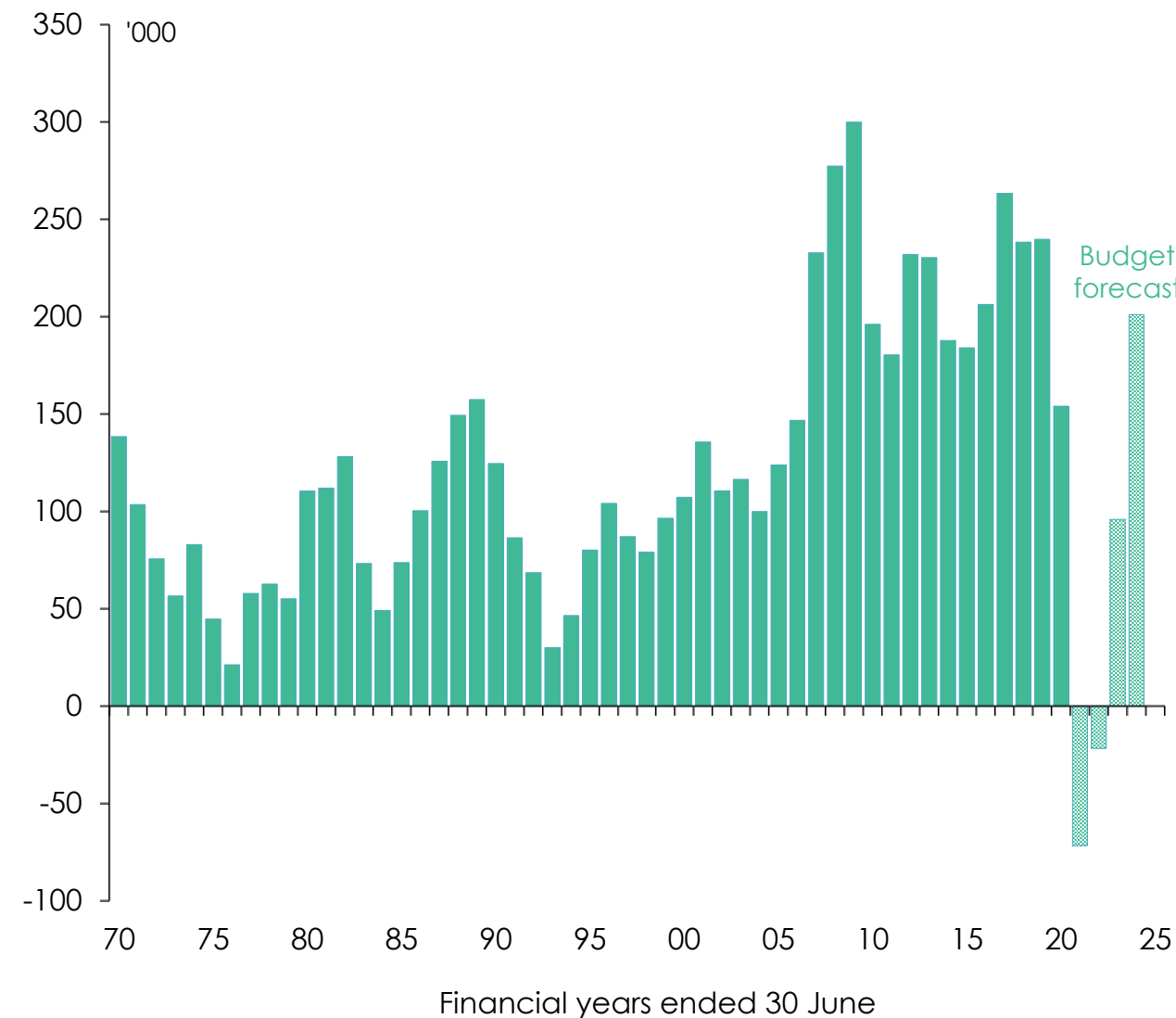
Note: Q2 and Q3 2020 data not shown in the charts of GDP and per capita GDP growth. Sources: ABS; OECD. [Return to "What's New"](#).

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



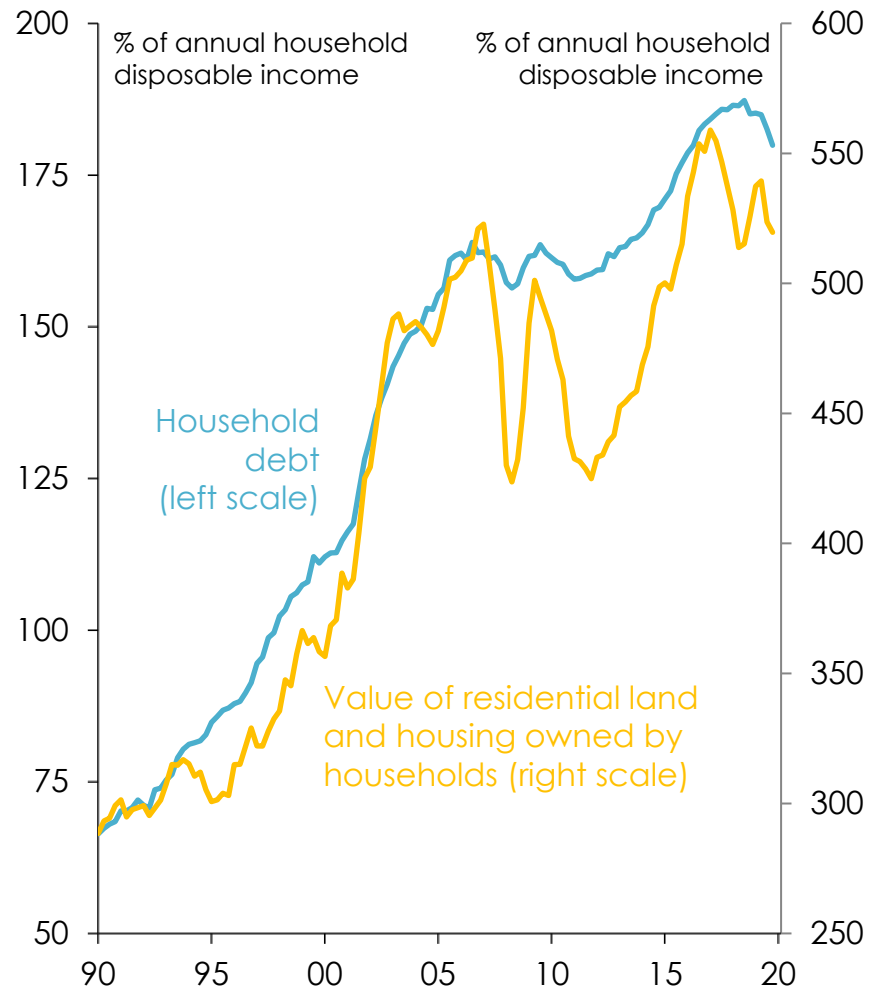
Net overseas migration



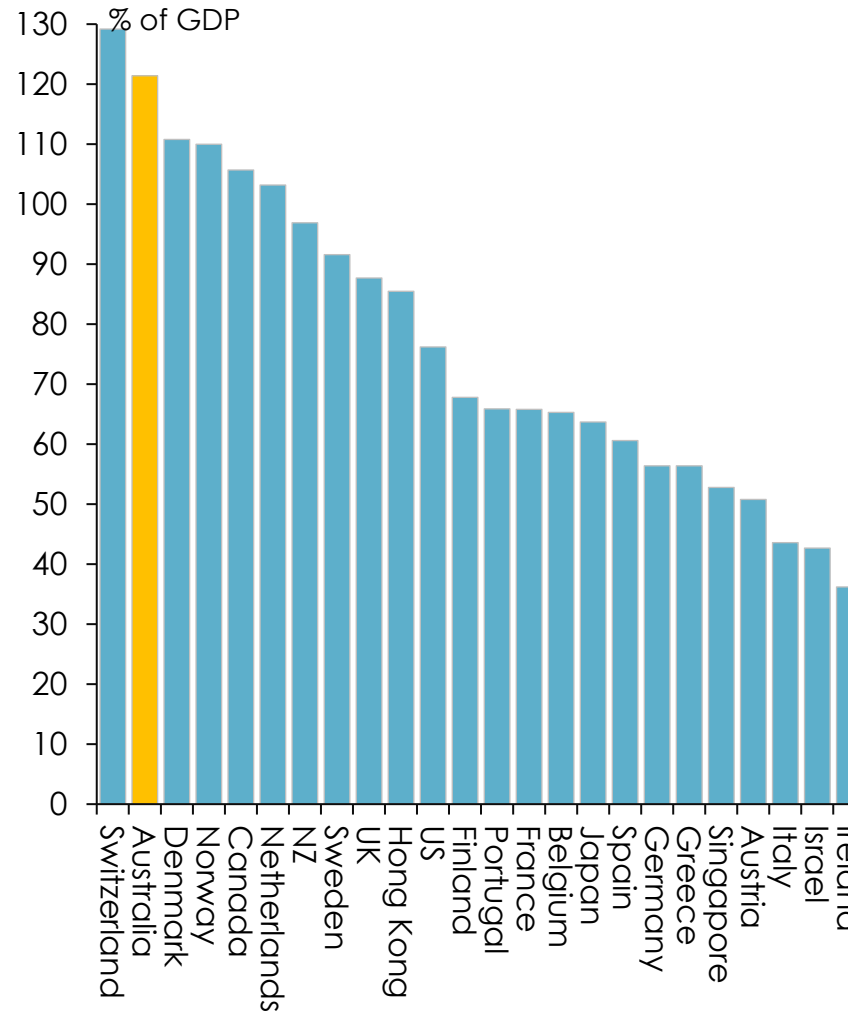
Sources: ABS, [National, state and territory population](#); Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 2](#) and [Budget Paper No. 3, Appendix A](#).
[Return to "What's New"](#).

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

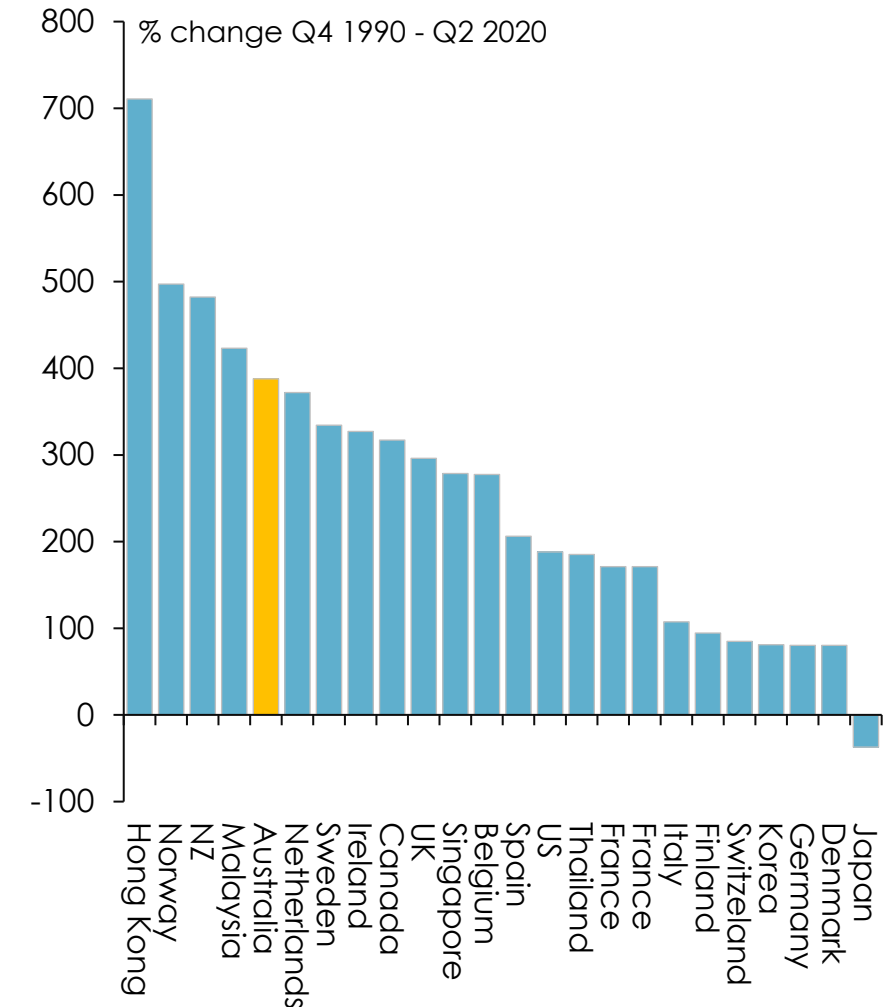
Australian housing wealth and household debt



Household debt as a pc of GDP, June 2020



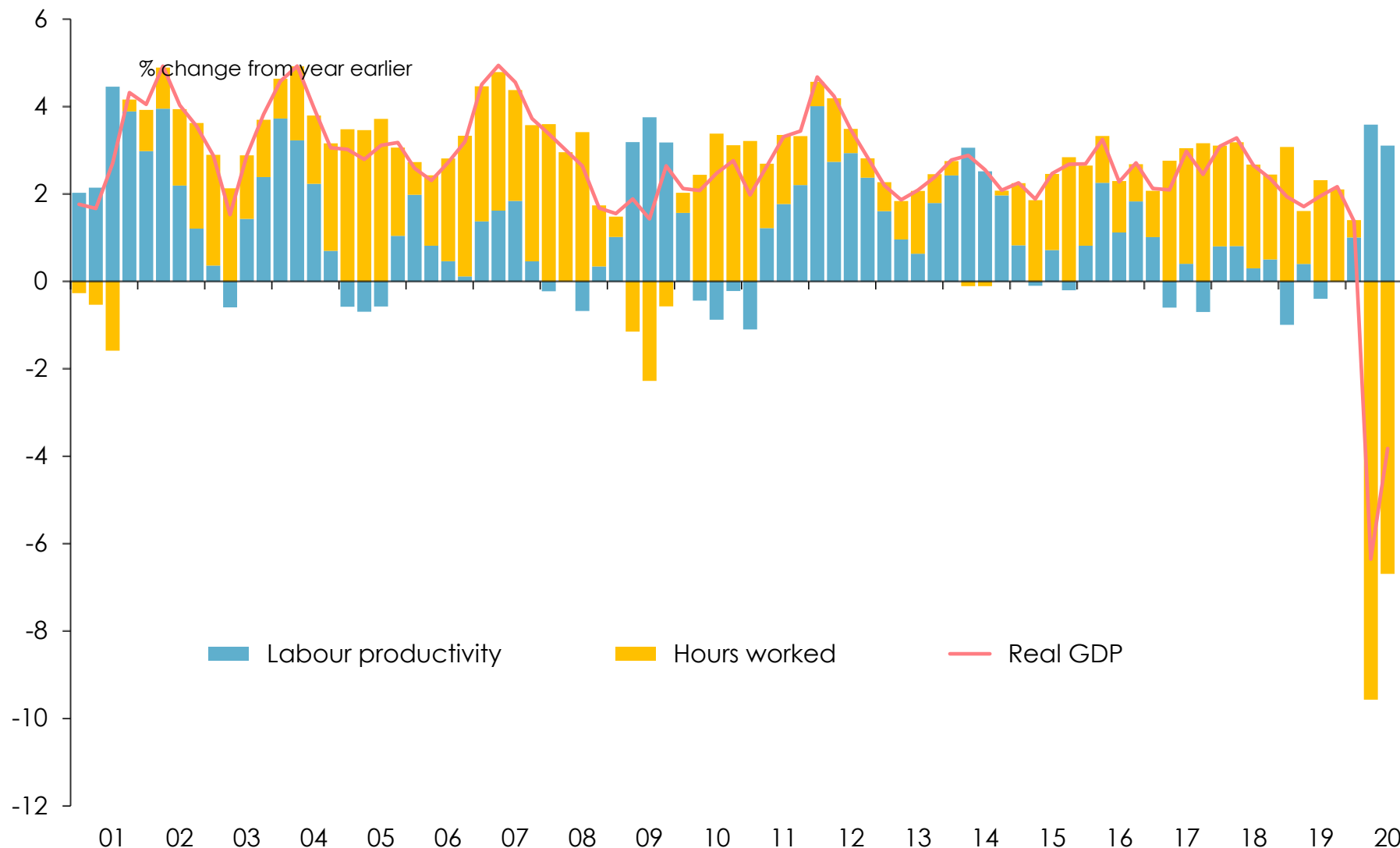
Increase in residential property prices, 1990-2020



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

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

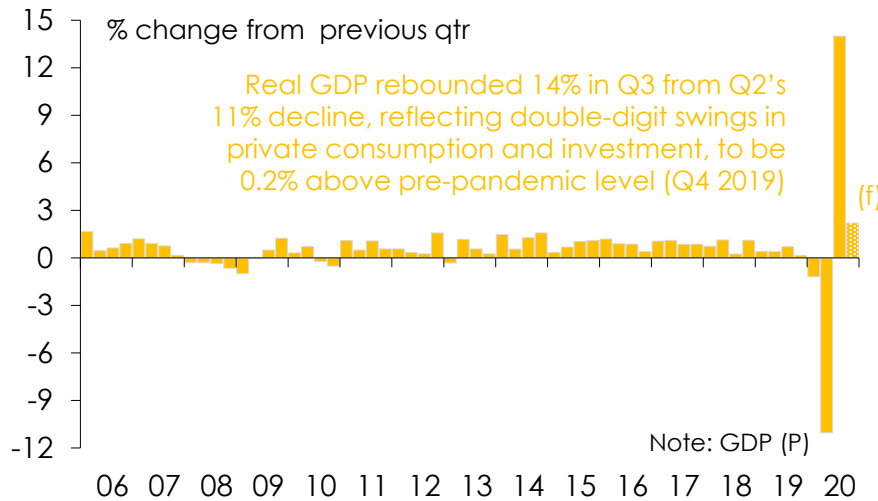
Some other likely / possible longer-term consequences of the pandemic

- ❑ **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)

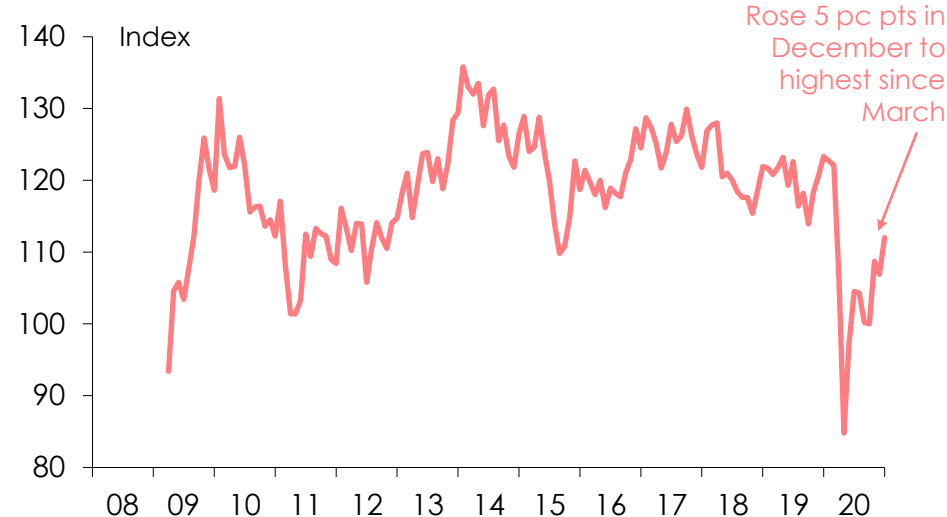
New Zealand

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

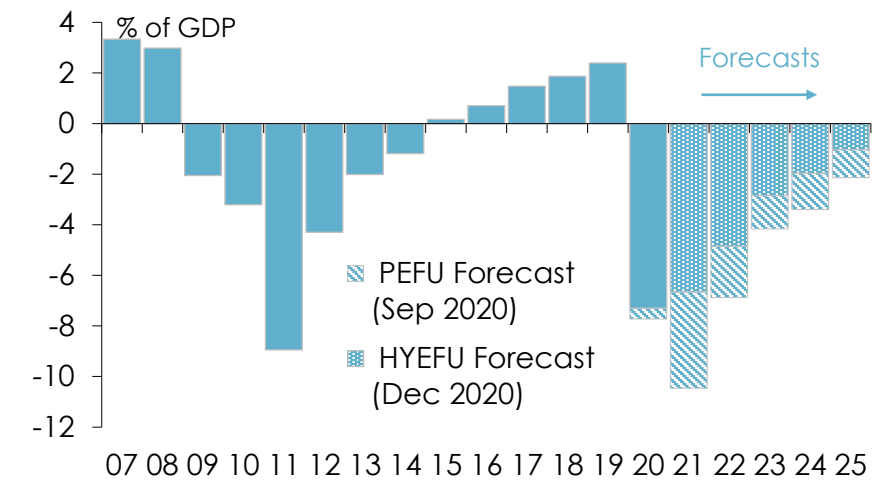
Real GDP



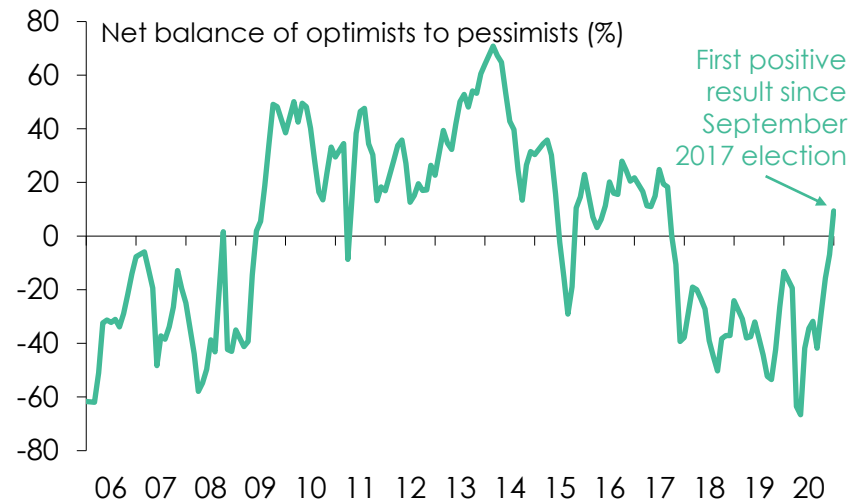
Consumer confidence



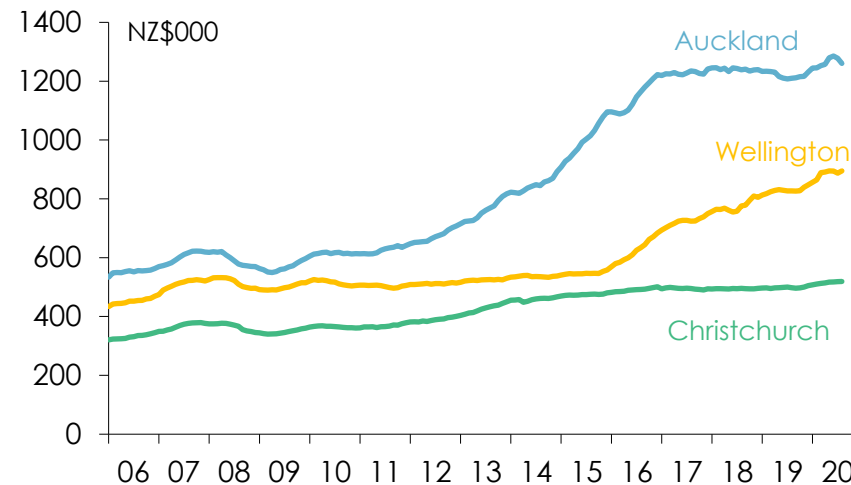
NZ government budget balance



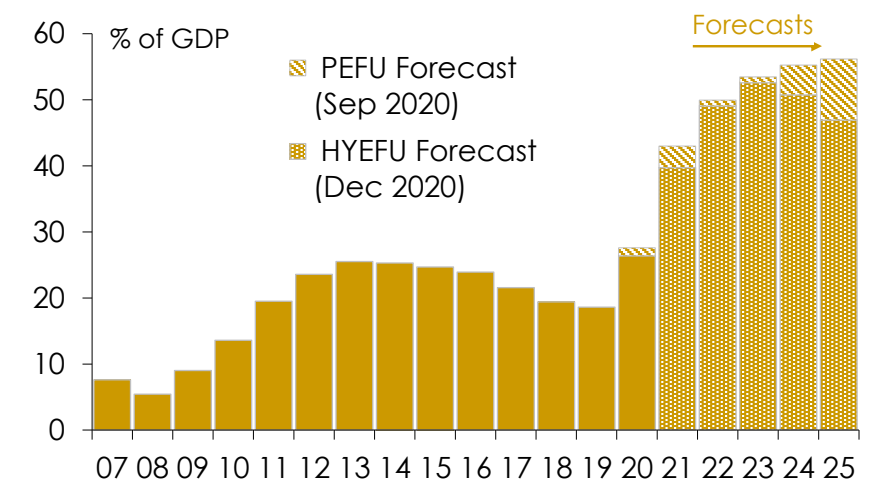
Business confidence



Residential property prices



NZ 'core Crown debt'

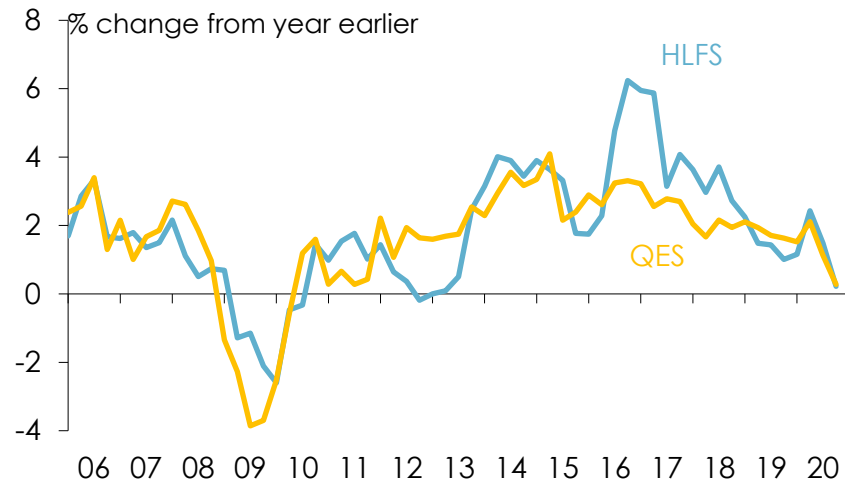


Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ 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 30th June.

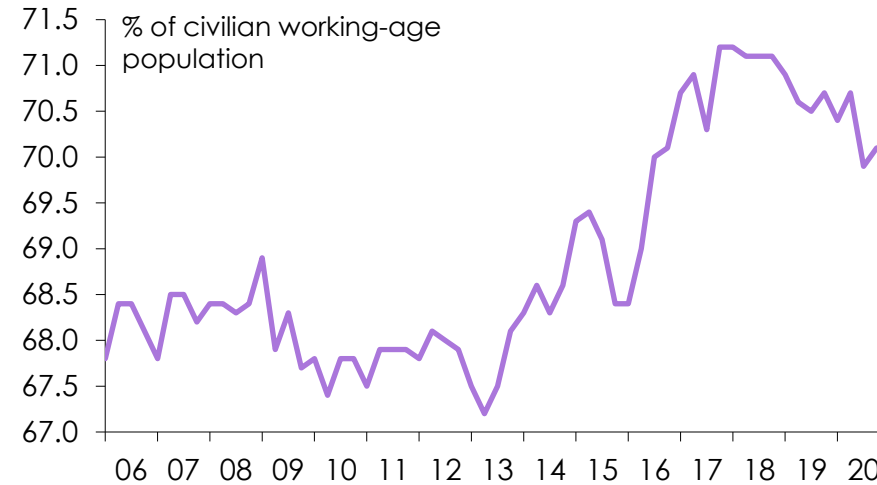
Sources: [Statistics NZ](#); ANZ-Roy Morgan; [ANZ Bank NZ](#); Quotable Value NZ; NZ Treasury [Half-Year Economic and Fiscal Update](#) 2020. [Return to "What's New"](#).

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

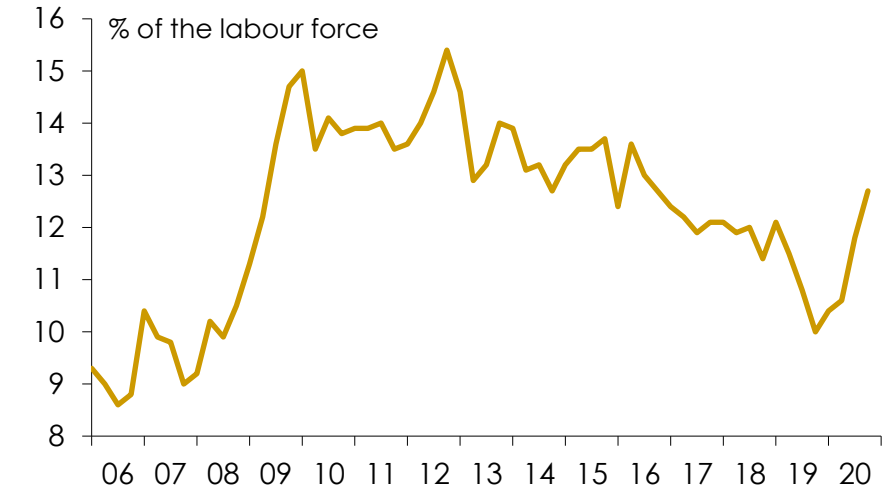
Employment



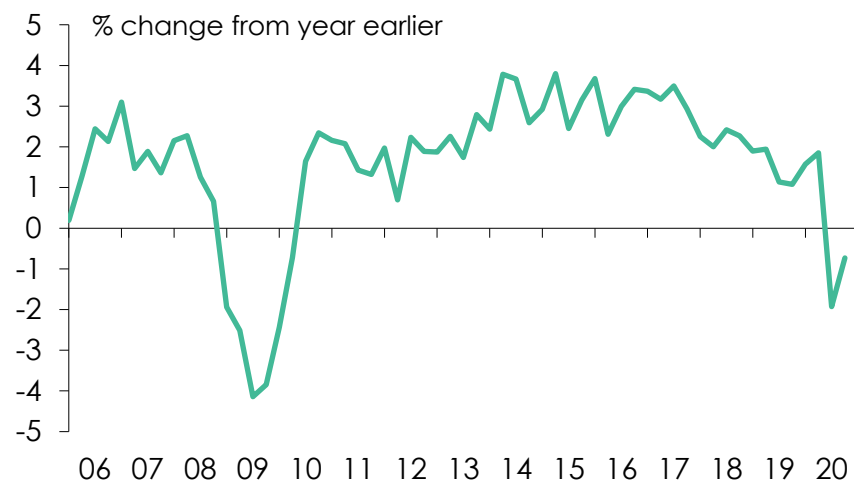
Labour force participation rate



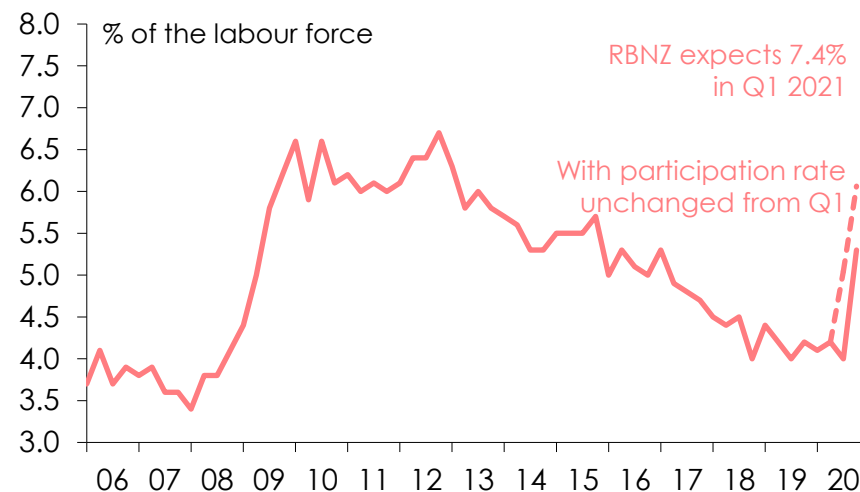
Labour force under-utilization rate



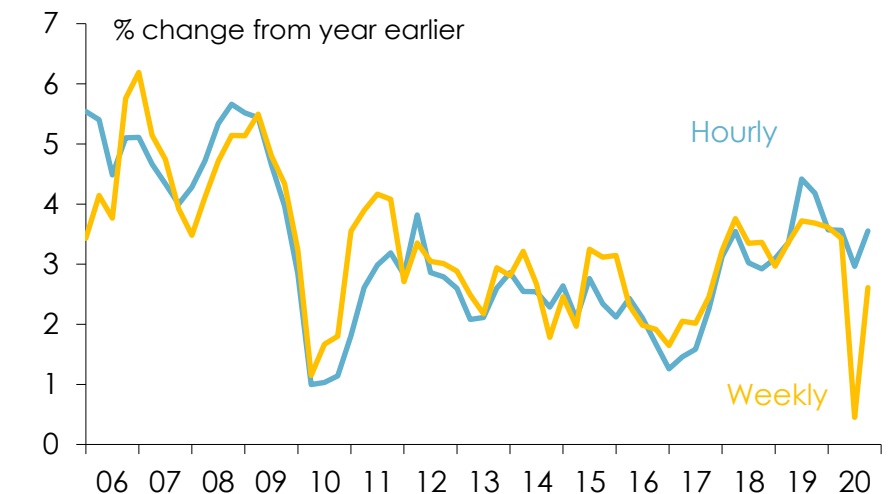
Hours worked



Unemployment rate



Average weekly earnings

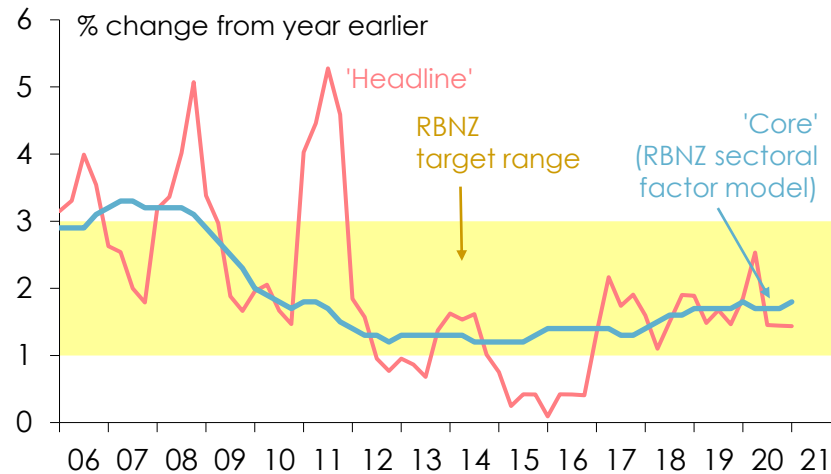


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled 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.

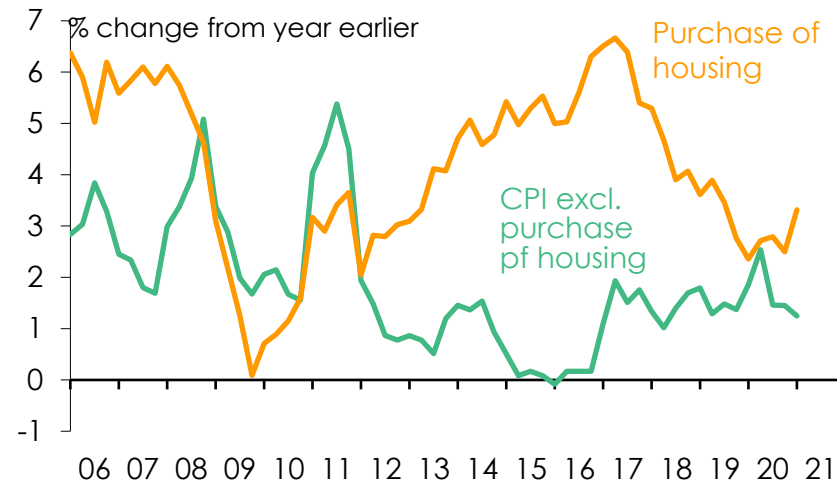
Source: [Statistics NZ](https://www.stats.govt.nz/). December quarter data will be released on 3rd February 2021. [Return to "What's New"](#).

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

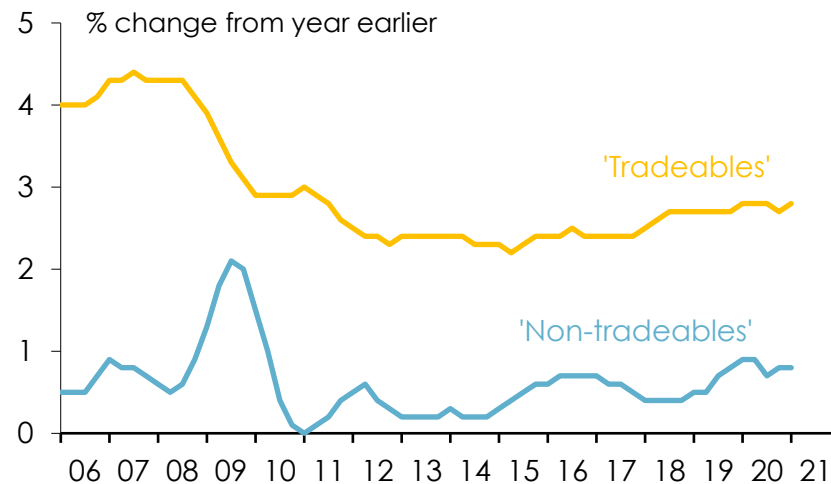
Consumer prices



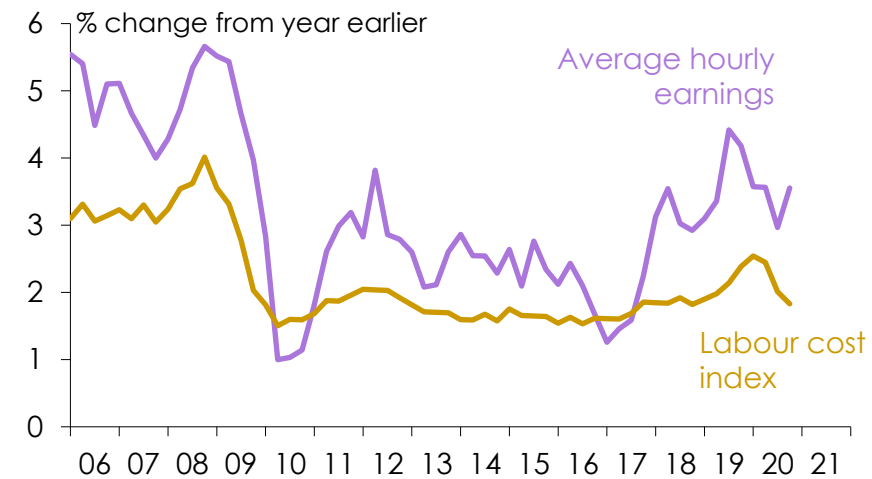
Housing costs in the CPI



Components of 'core' inflation



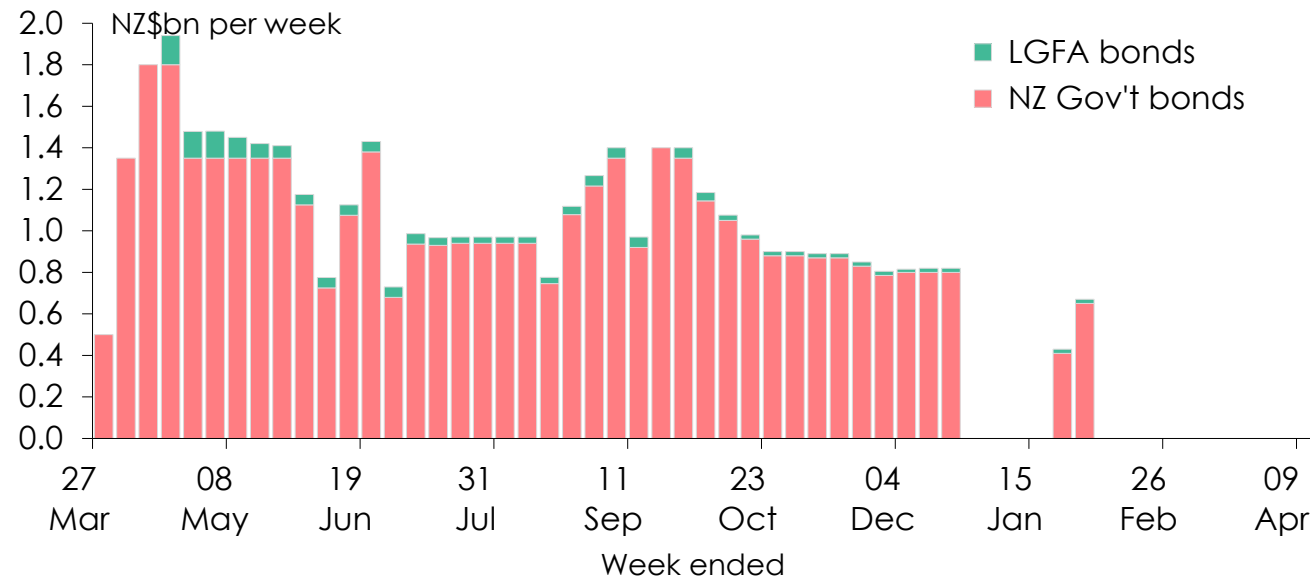
Labour costs



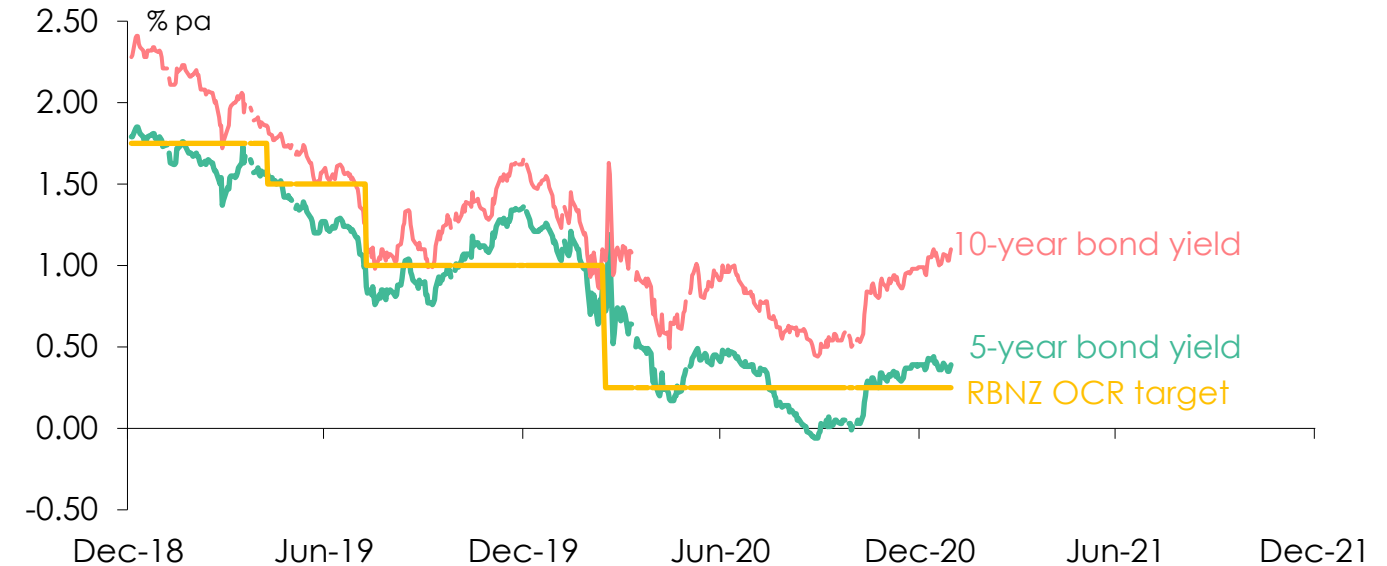
- ❑ The CPI rose 0.5% in Q4 2020, after a 0.7% rise in Q3, leaving the annual 'headline' inflation rate unchanged at 1.4%
- ❑ Main factors driving the Q4 increase were a 20% increase in 'domestic accommodation' prices (hotels, etc) reversing falls over the two previous quarters, a 4.6% increase in used 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 21st February

The RBNZ has resumed bond purchases after the Xmas-NY break, but long yields have drifted upwards with a negative OCR now looking less likely

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\$6700mn of bonds this week – up from \$470mn last week – bringing its total purchases to NZ\$44.3bn (13¾% of GDP) – while 10-year yields drifted up 4bp (against the global trend) to 1.10%, the highest since the beginning of April
- ❑ Starting 7th 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, a further \$1bn on 21st December, and \$100mn on 28th January – 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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