ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

13TH FEBRUARY 2021

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CORINNA ECONOMIC ADVISORY PTY LTD

What's new?

The world

- The global total of new cases dropped (for the fourth week in a row) to 2.92 mn this week, the first time under 3mn since the third week of October, while the global death toll dropped for the second week in a row to just under 86,000, the lowest since the first week of January (slide 4)
- The number of new cases appears to have peaked almost everywhere in the 'developed' world, and in much of the 'developing' world (including, possibly, Indonesia – although excluding some countries in the Middle East (slide 5)
- Over 70% of Israel's population has now been vaccinated, as has 21% of the UK's and 14% of the US', but in the rest of Europe less than 5% have been vaccinated and even fewer in Asia (slide 18)
- 22 countries have now reported Q4 GDP estimates, but still only 3 (China, Vietnam & Taiwan) recording positive y-o-y growth (slide 22)
- China's annual core inflation rate dropped sharply to -0.3% in January, the first negative number since November 2009 (slide 44) but the PBoC remains focussed on controlling credit growth slide 45)
- Malaysia's economy shrank 0.2% in Q4 2020 leaving it 3.4% smaller than in Q4 2019, while 2020's contraction of 5.6% was the worst since 1998 (slide 48)
- There has been a vigorous debate in the US over the past week as to whether the Biden Administration's US$1.9 trn stimulus plan is 'too big' and risks 'over-heating the US economy (slide 37)
- The UK economy grew a better-than-expected 1% in Q4 2020 but was still 7.8% smaller than in Q4 2019 (slide 66), while the 9.9% contraction in 2020 as a whole was the largest since 1709 (slide 67)

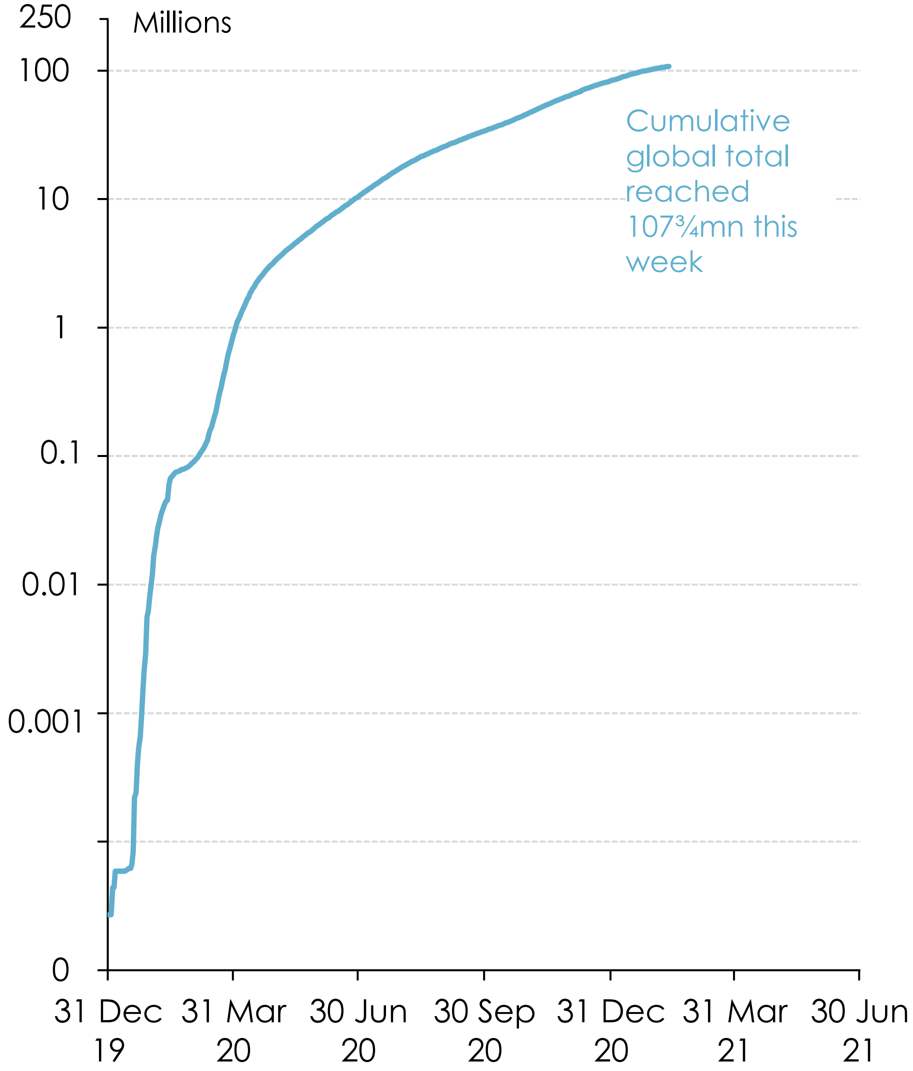
Australia

- Australia recorded only 44 new Covid-19 cases this week, 2 more than last week but otherwise the lowest number since March last year (slide 8) – but a 'cluster' of cases spreading from a quarantine hotel adjacent to Melbourne Airport has prompted a 5-day 'lockdown' in Victoria starting Saturday (slides 9-10)
- Business confidence improved in January, to its second-highest level (after last November) since April 2018 (slide 78) with almost all of the components of 'business conditions' in positive territory including both hiring and capex intentions for the first time since last February (slide 79)
- Consumer confidence also improved in February, to its second-highest level (after December) since November 2013 (slide 95)
- Domestic aviation traffic picked up strongly in November and (extrapolating from Sydney Airport movements) in December as well, but international passenger movements remain close to zero (slide 108)
- The near-total ban on Australians leaving the country has meant that around $45bn which Australians would have spent overseas between March and December last year (based on the average for 2016-19) was instead either spent within Australia (especially on discretionary items) or added to savings – an amount more than offsetting the loss of spending by foreign visitors to Australia in the same period (slide 109)
- Western Australia's state government is swimming in iron ore royalty revenues, according to its pre-election fiscal update – and under new GST revenue sharing arrangements imposed by the Federal Government in 2019 (in response to pressure from WA), WA will get to keep most of it (which if the iron ore revenue boom had been in NSW rather than in WA, NSW would not have done) (slide 128)

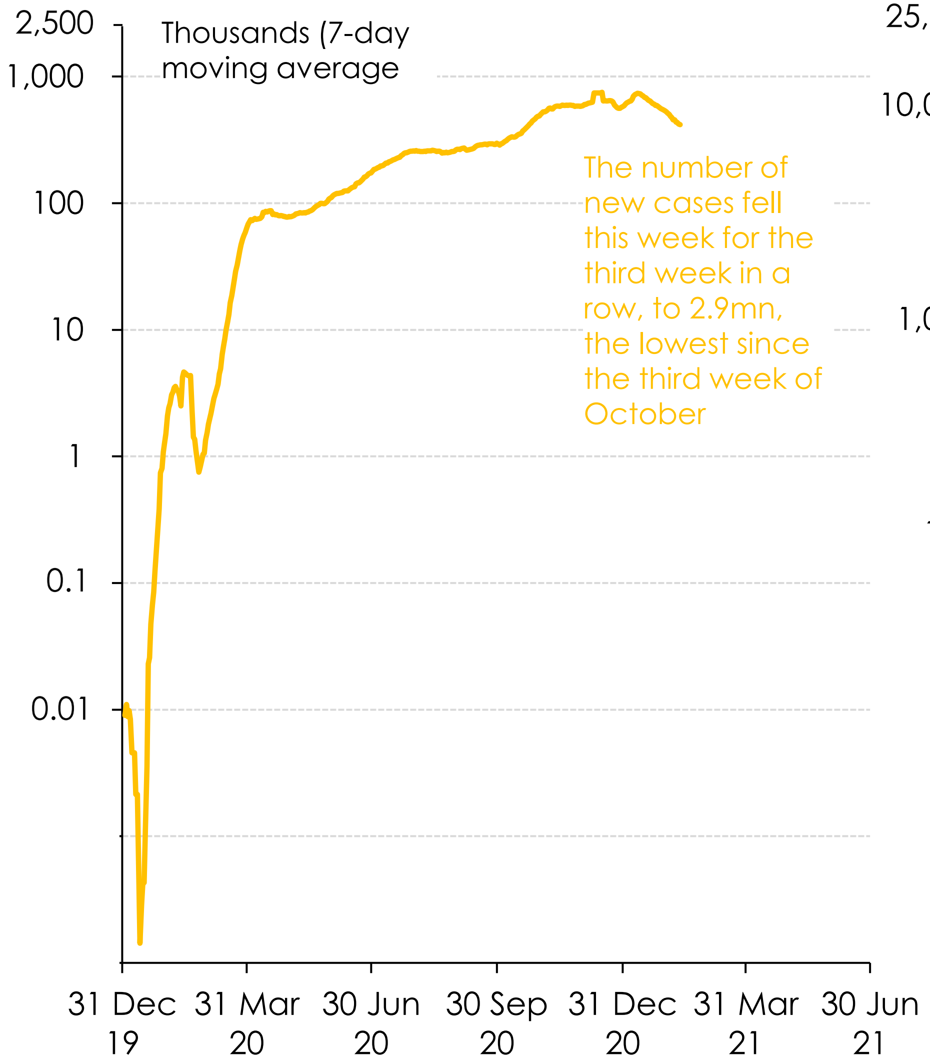
The virus

The total number of cases world-wide has fallen over the past three weeks, to its lowest since October, and the global death toll has also begun falling

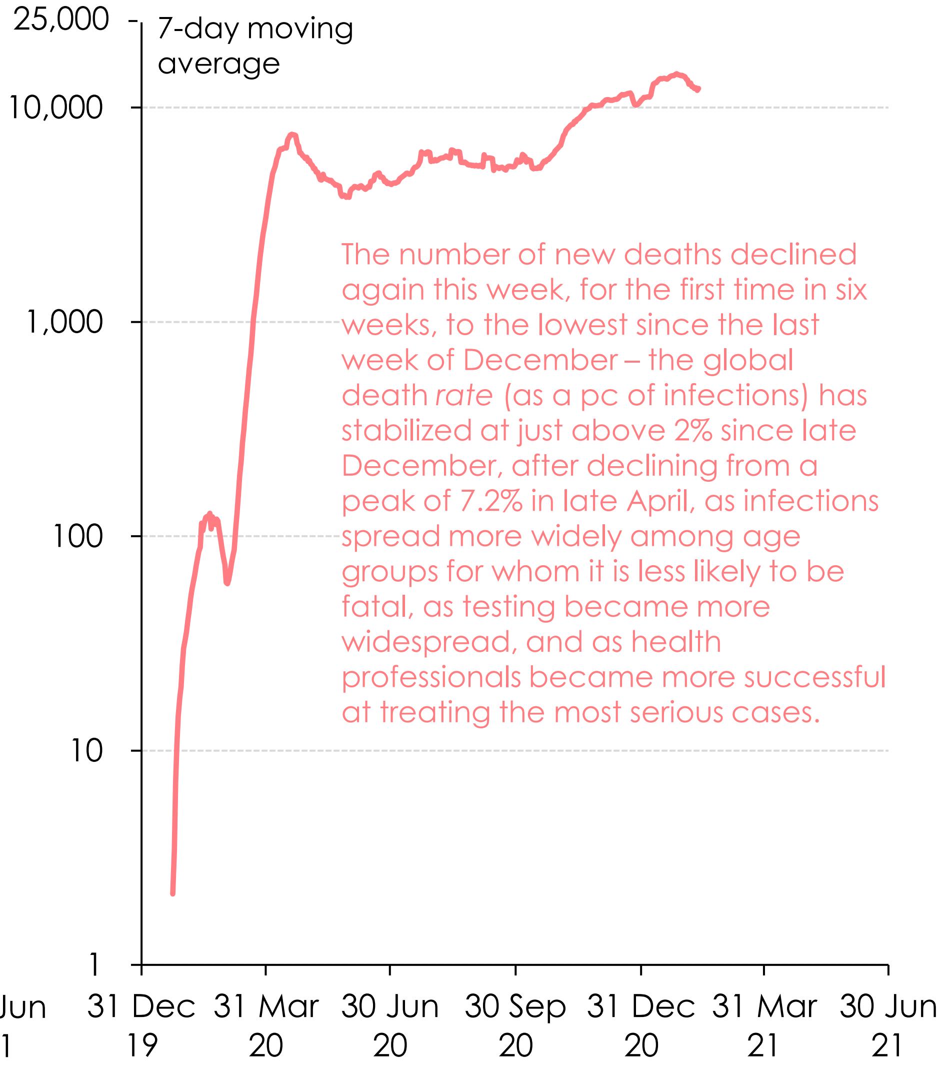
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



Note: All charts are on logarithmic scales. Data up to 11th February. *Source:* University of Oxford, Our World in Data.

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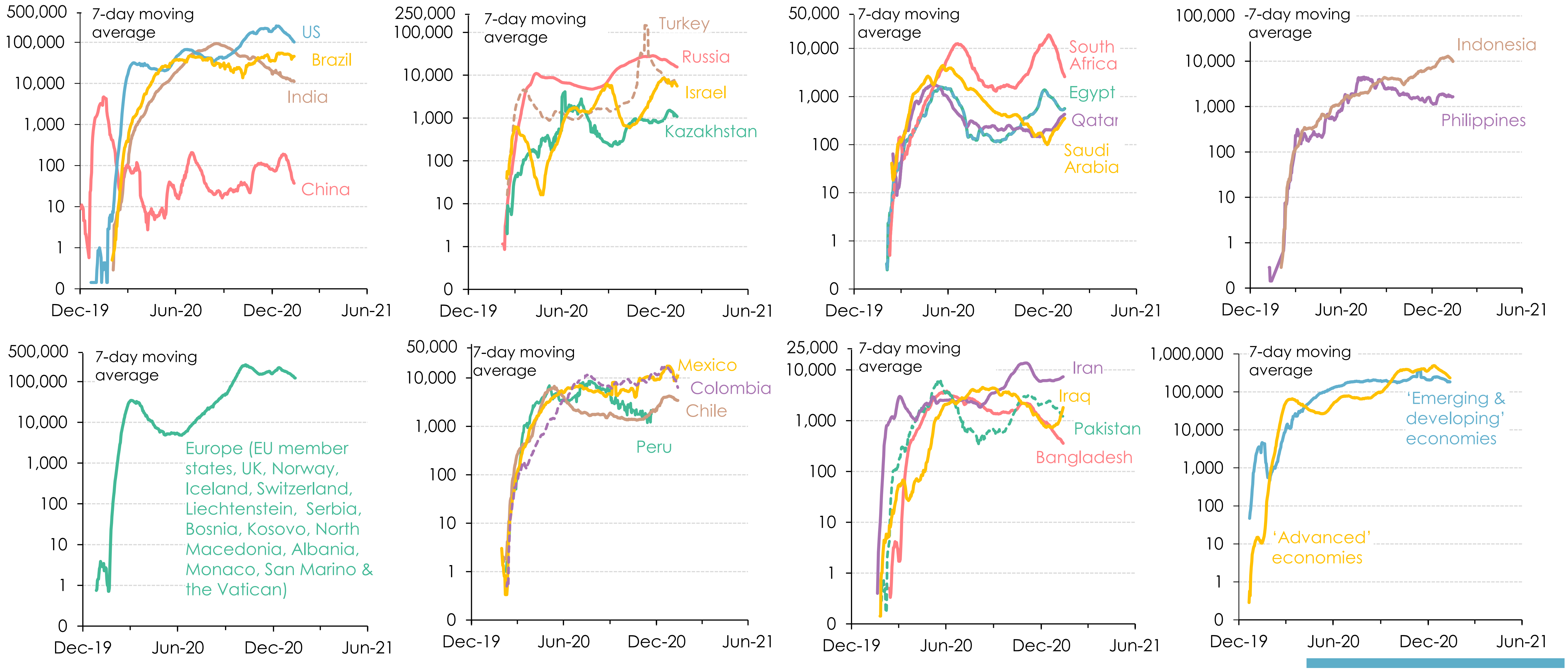
New cases have peaked in 'advanced' economies, and in many 'emerging' economies including possibly Indonesia, but rising in parts of the Middle East

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



Note: All charts are on logarithmic scales. Data up to 11th February. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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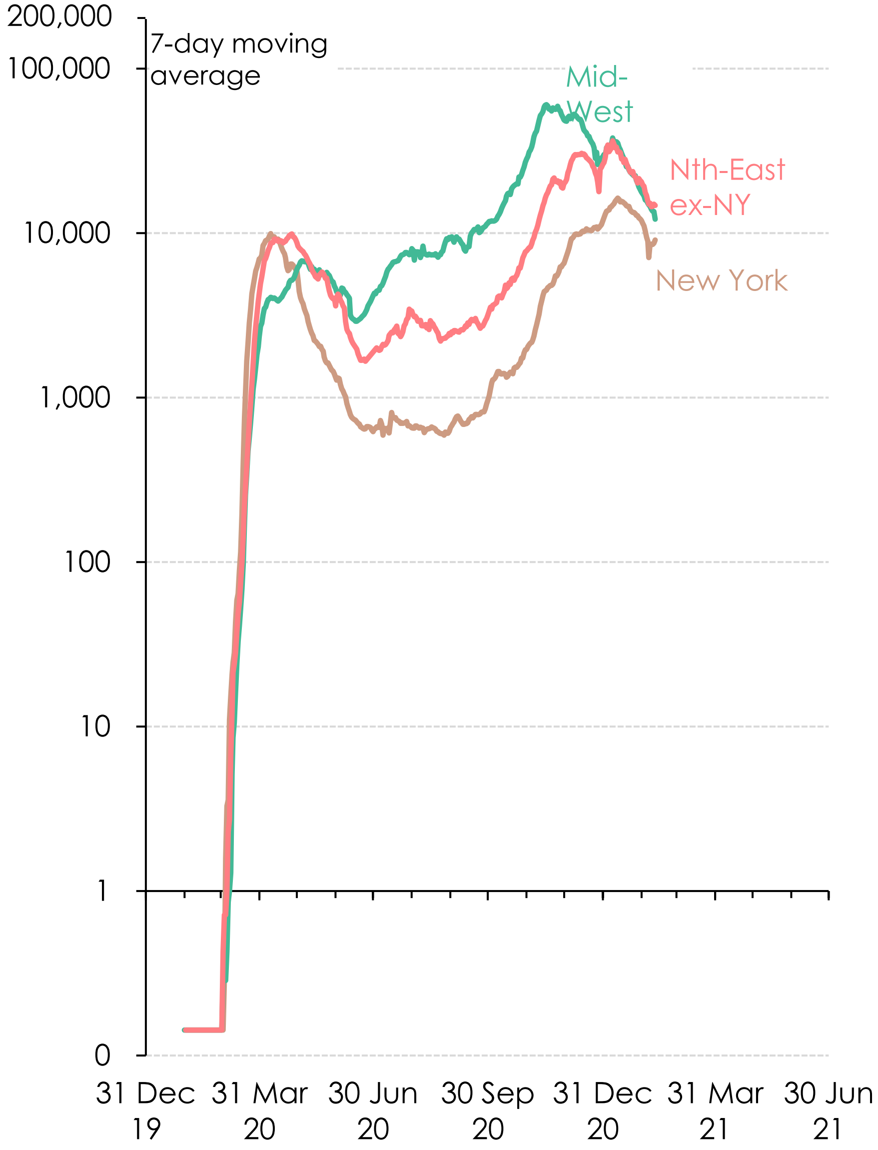
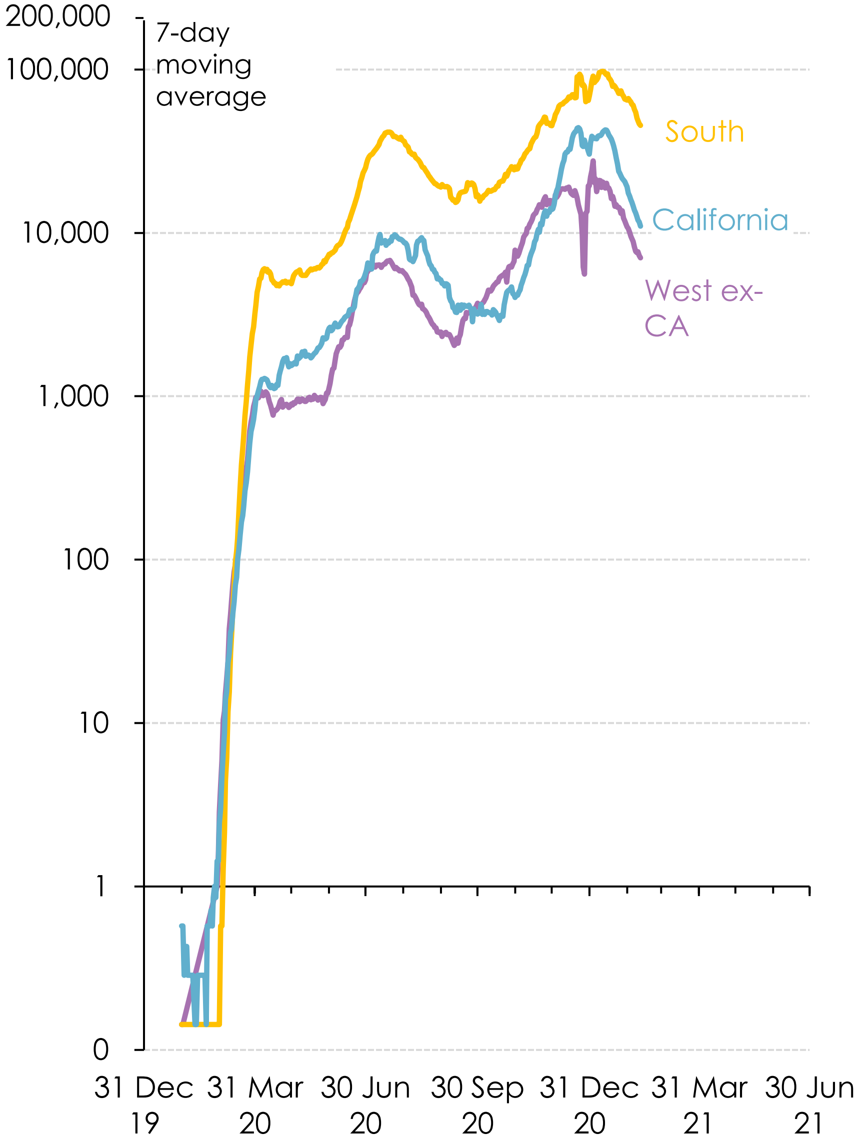
Case numbers appear to have picked up again over the past week in New York and the North-East but continue to decline in other US regions

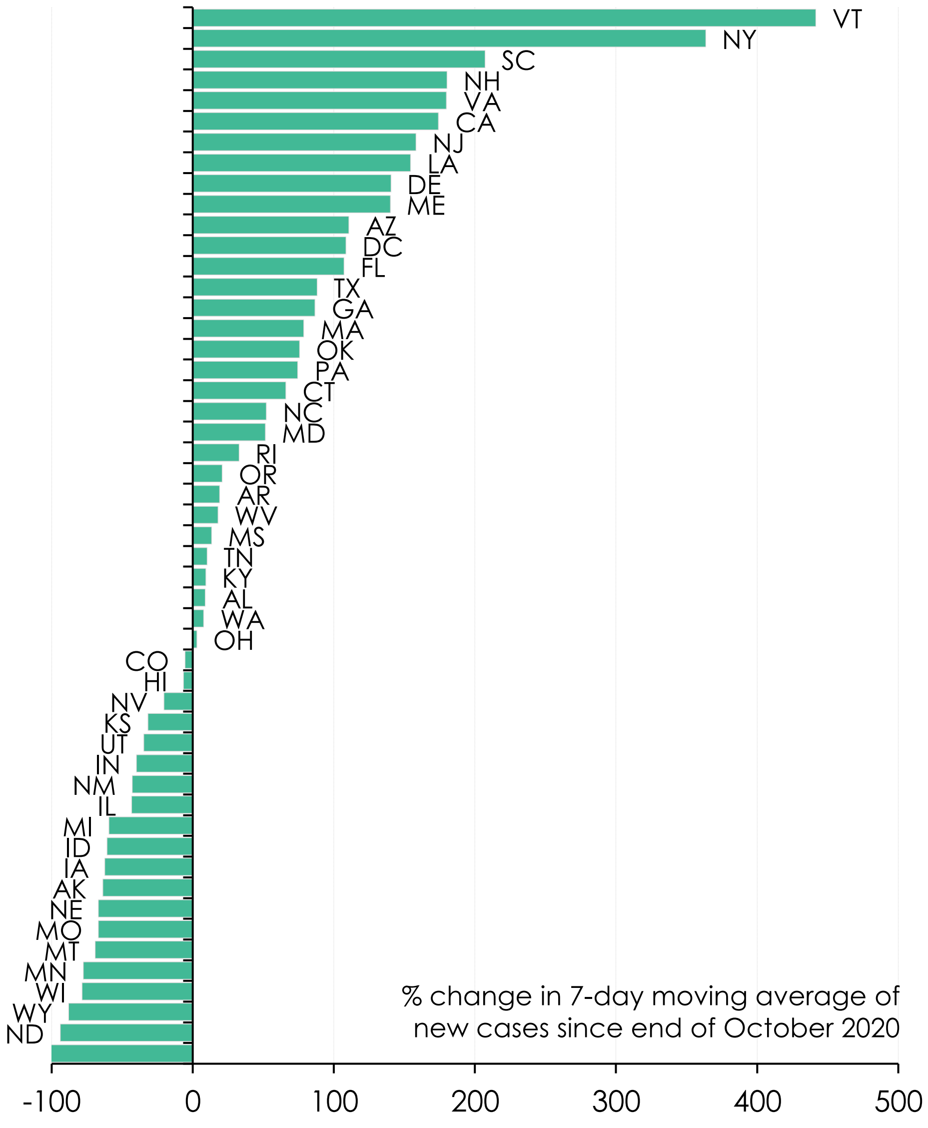
New cases – Mid-West and North-East



New cases – South and West



Increase in cases since end-October



Note: First two charts are on logarithmic scales. *Sources*: USAFacts; Centers for Disease Control and Prevention; Corinna. Latest data are for 11th February.
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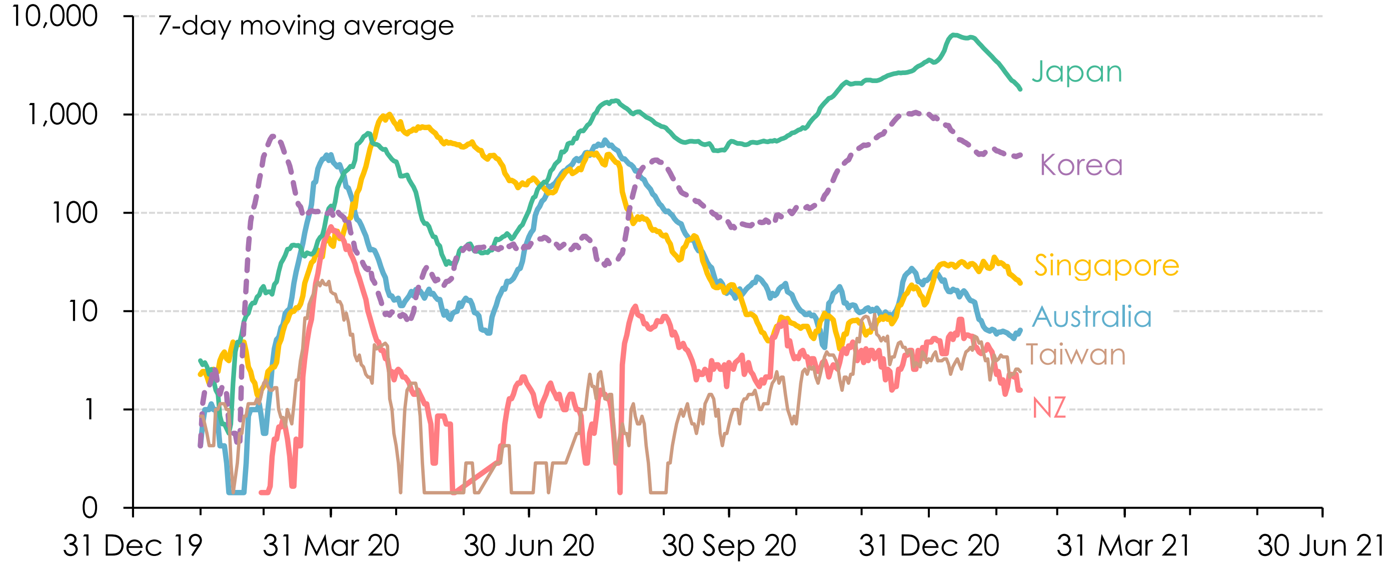
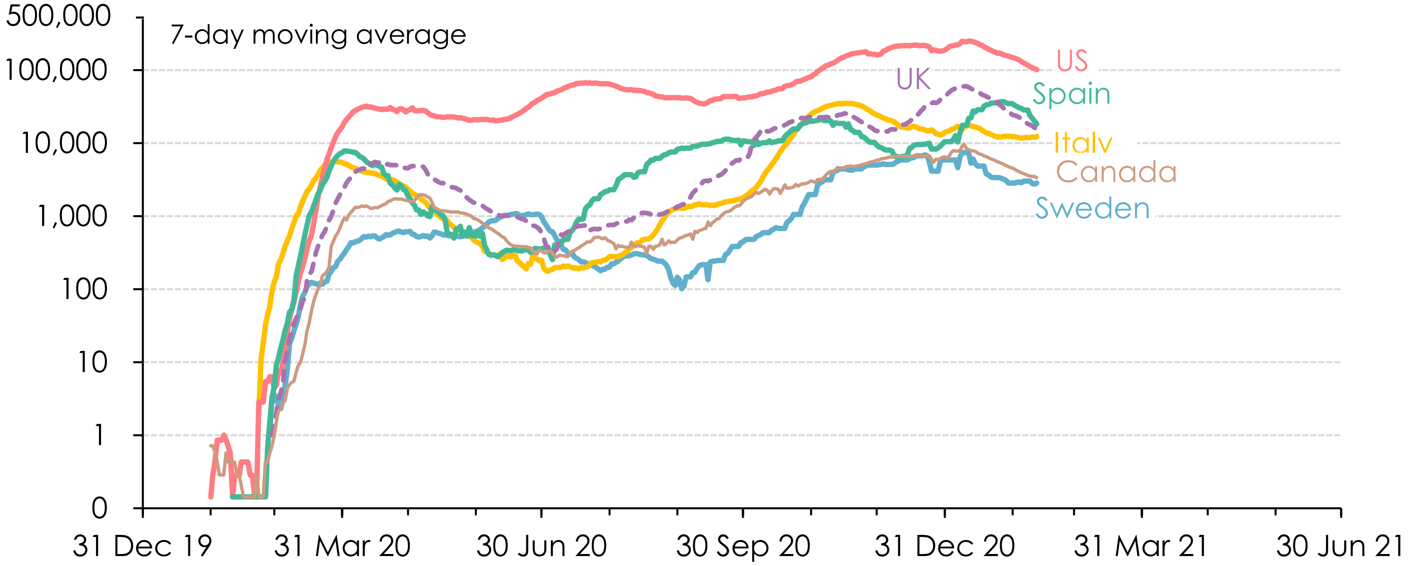
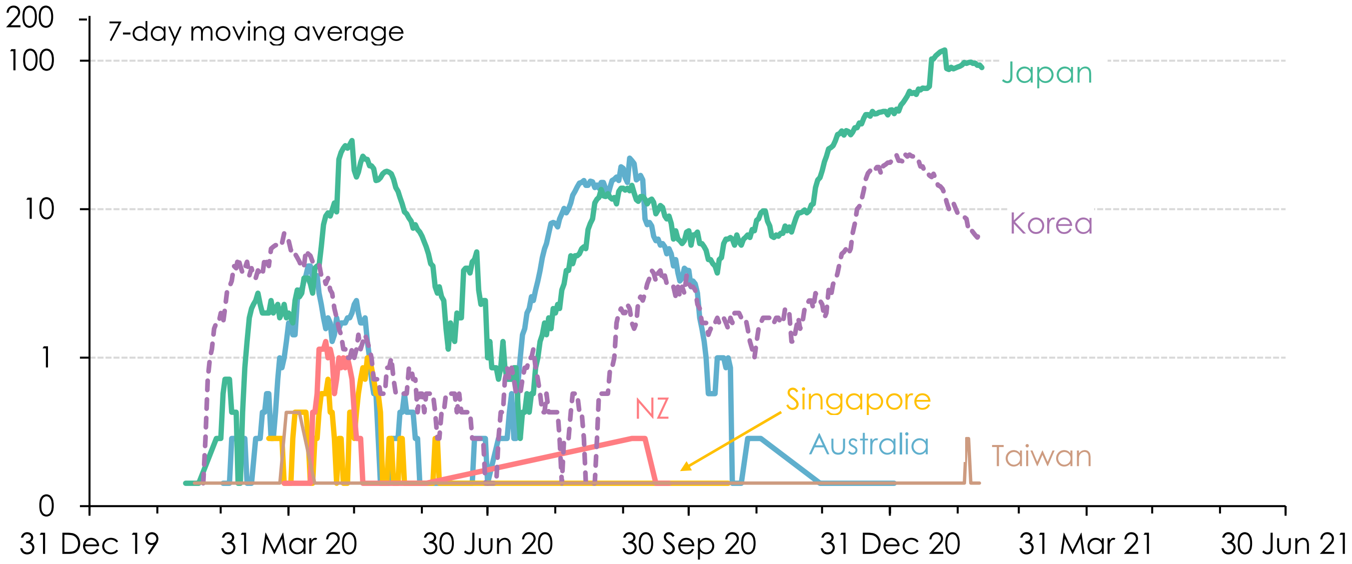
New infections and deaths are now declining in almost all 'advanced' economies

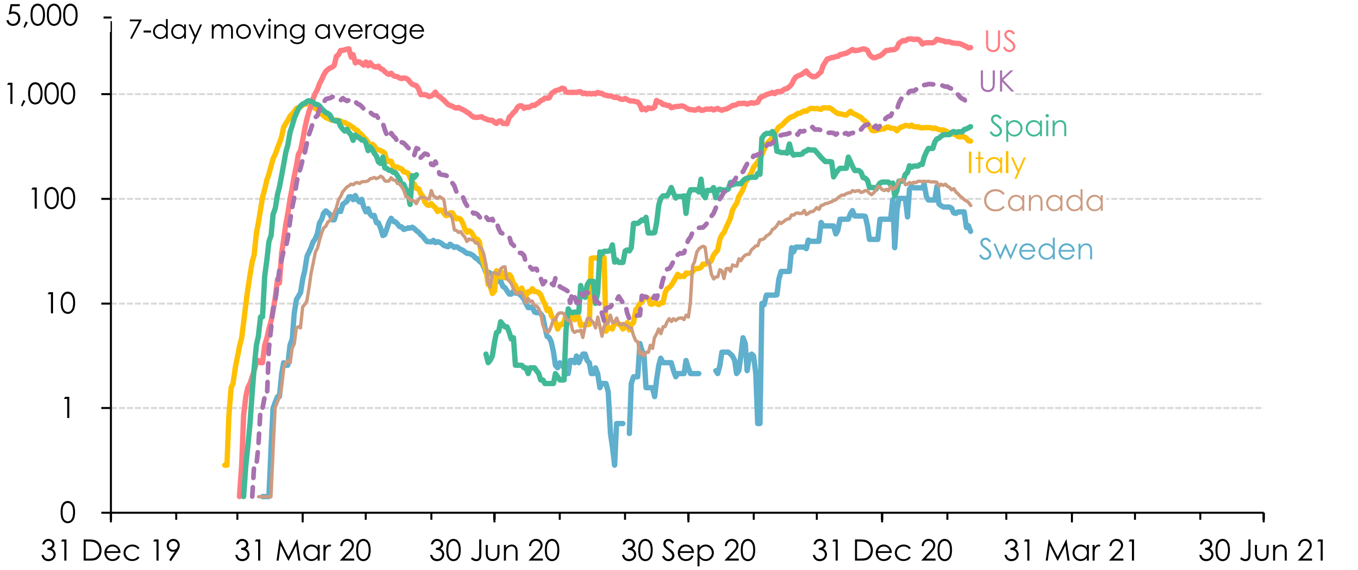
Daily new cases





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 11th February. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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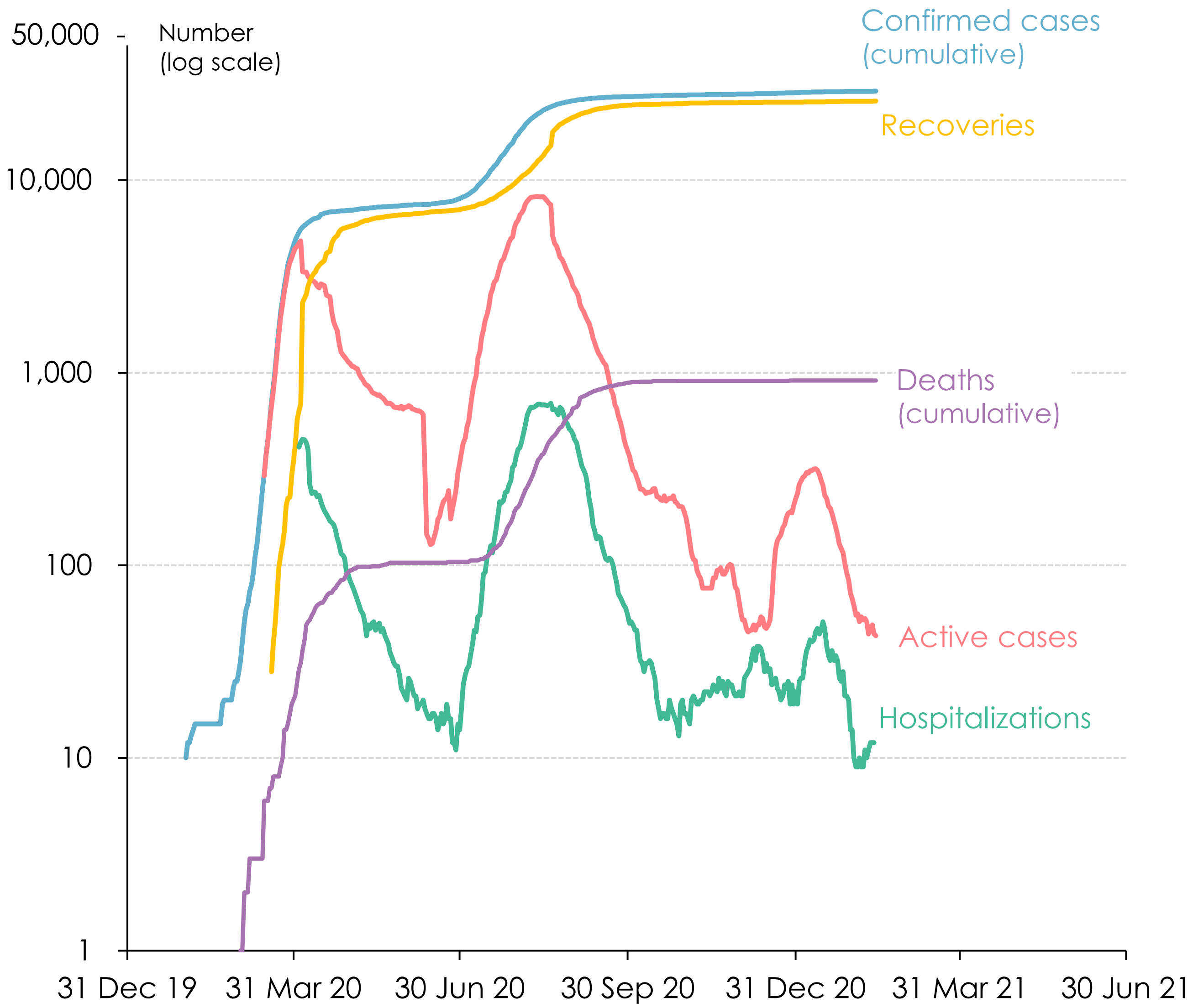
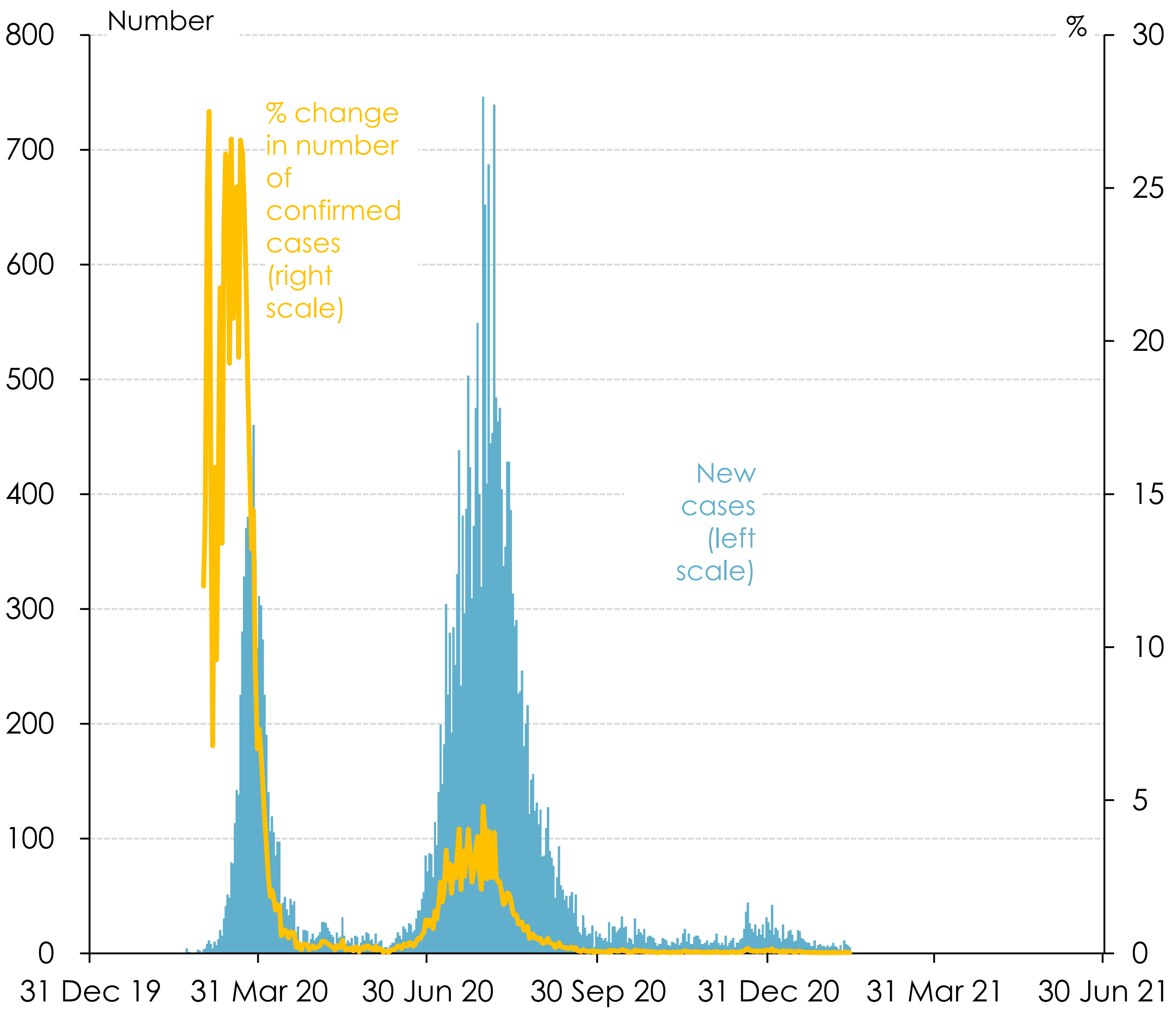
44 new cases were recorded in Australia this week – 2 more than last week – but 10 of these were locally acquired

Cases, recoveries, hospitalizations and deaths



New cases



Note: Data up to 12th February. *Source:* covid19data.com.au. Return to "What's New".

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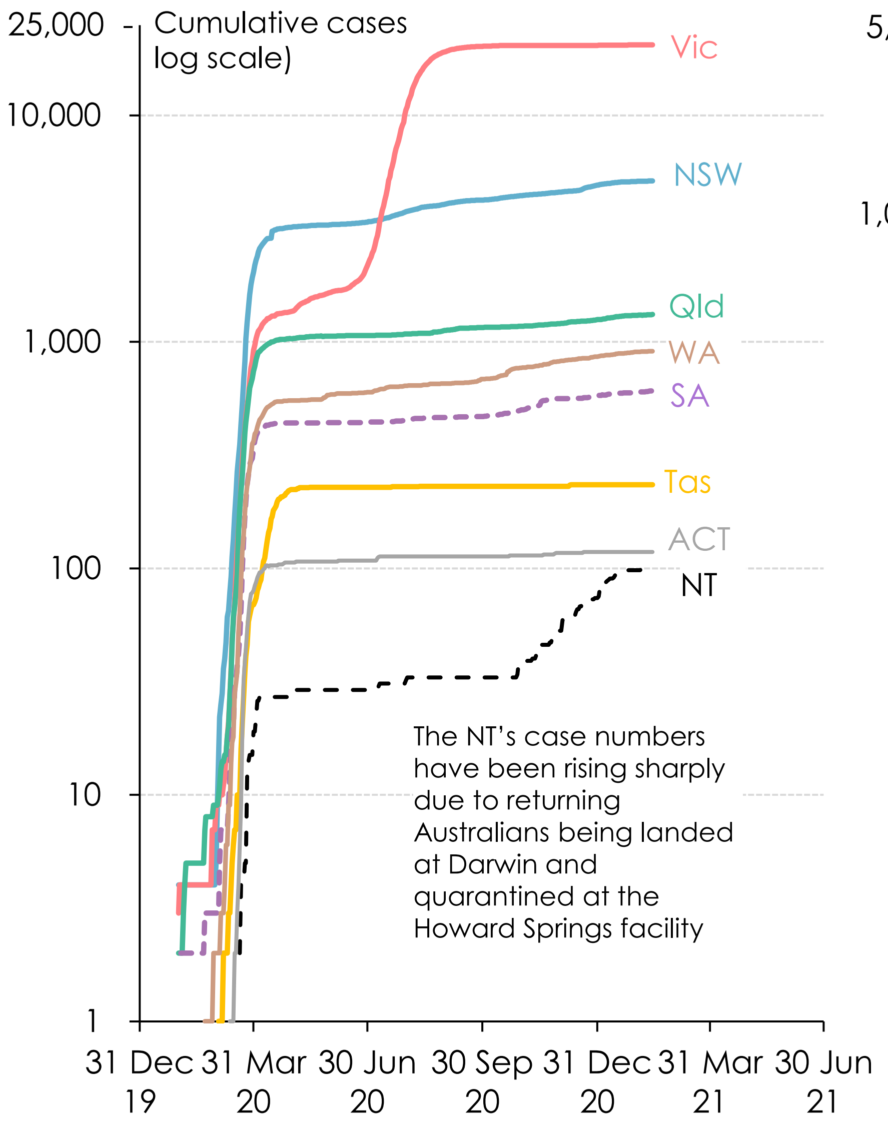
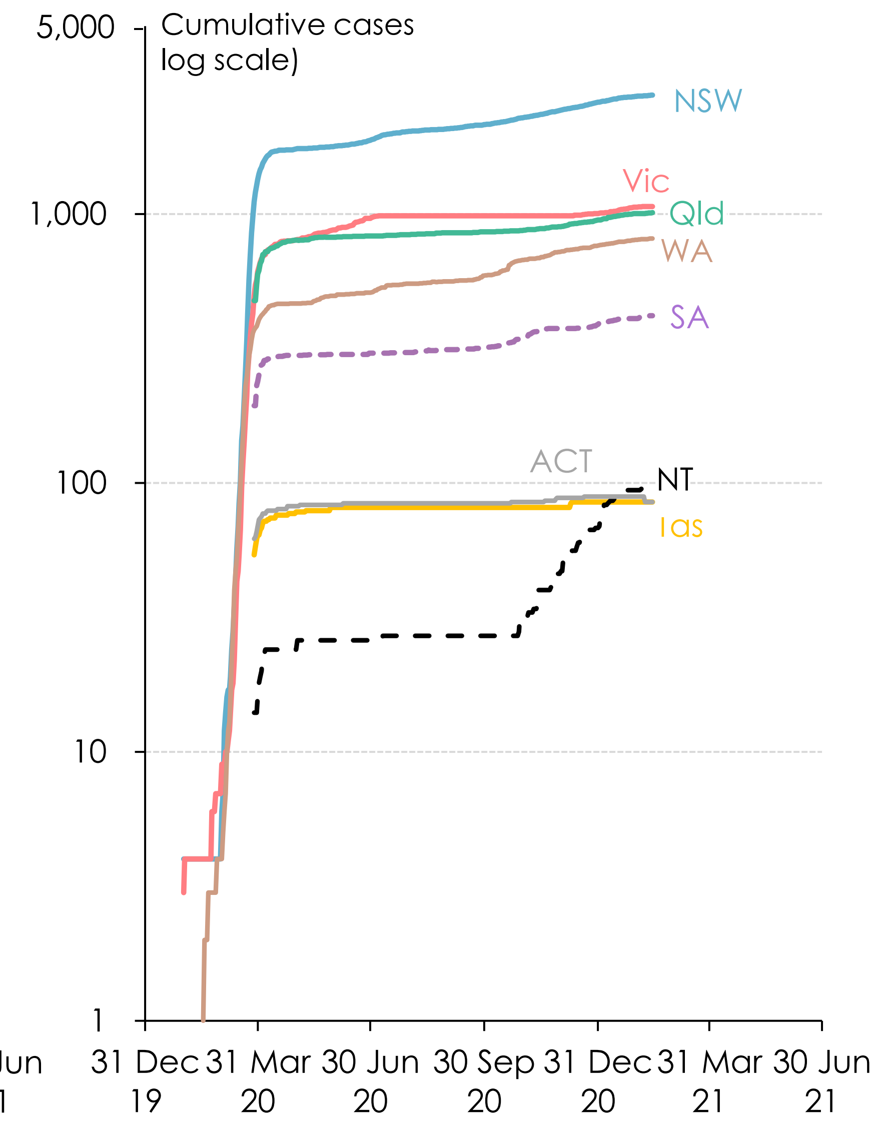
82% of new cases this year have been acquired overseas – but the 'cluster' at Melbourne Airport prompted Victoria to order a 5-day lockdown

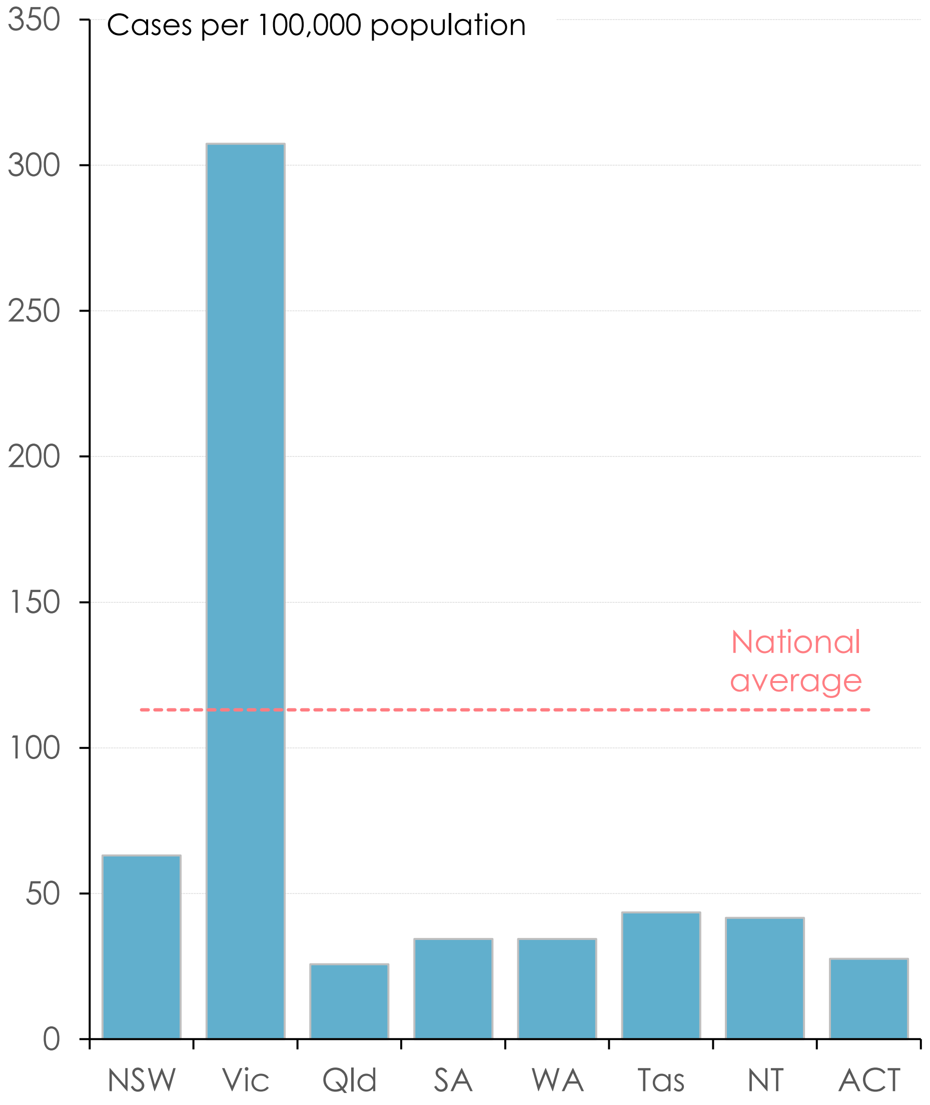
Cumulative cases, by State



Overseas transmissions



Cases per 100,000 population



Note: Data up to 12th February. *Source:* covid19data.com.au. Return to "What's New".

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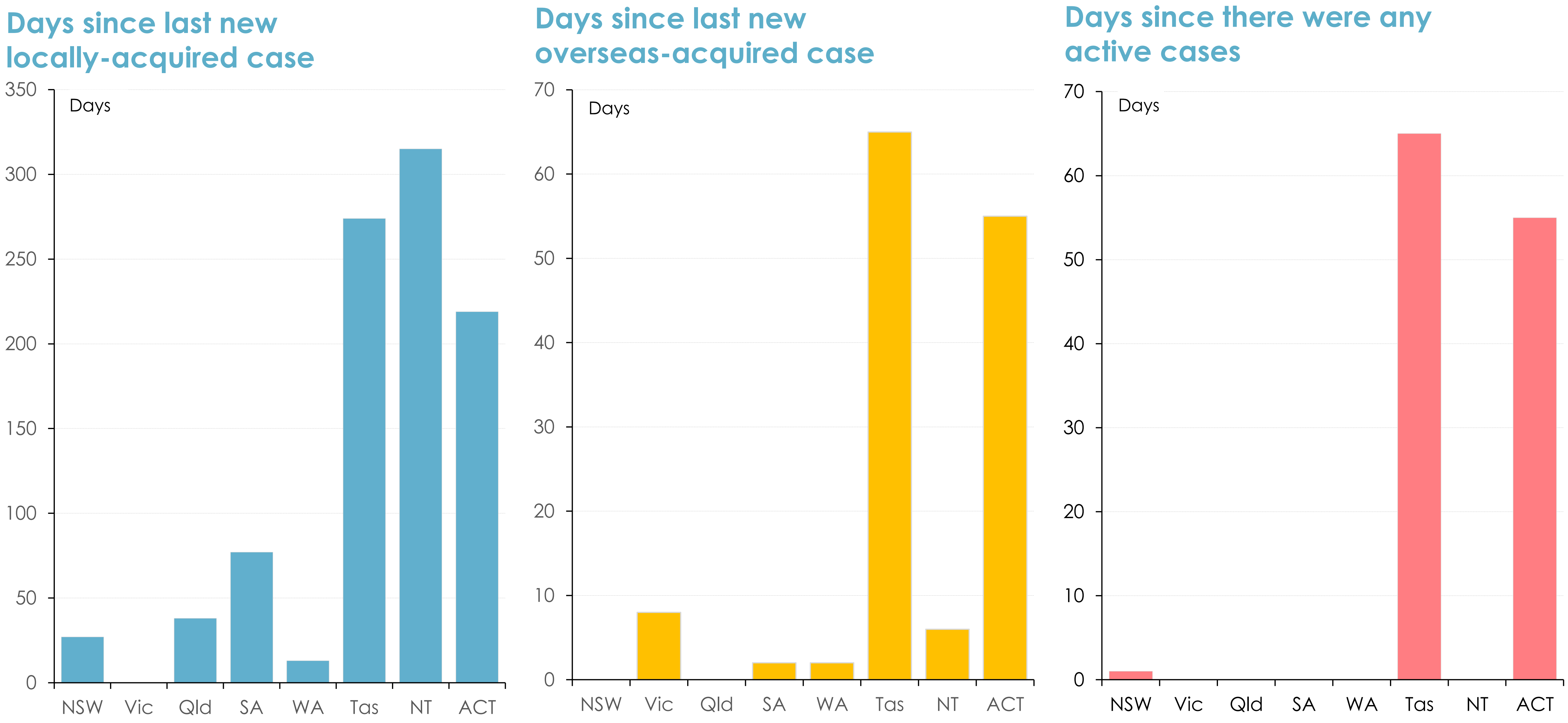
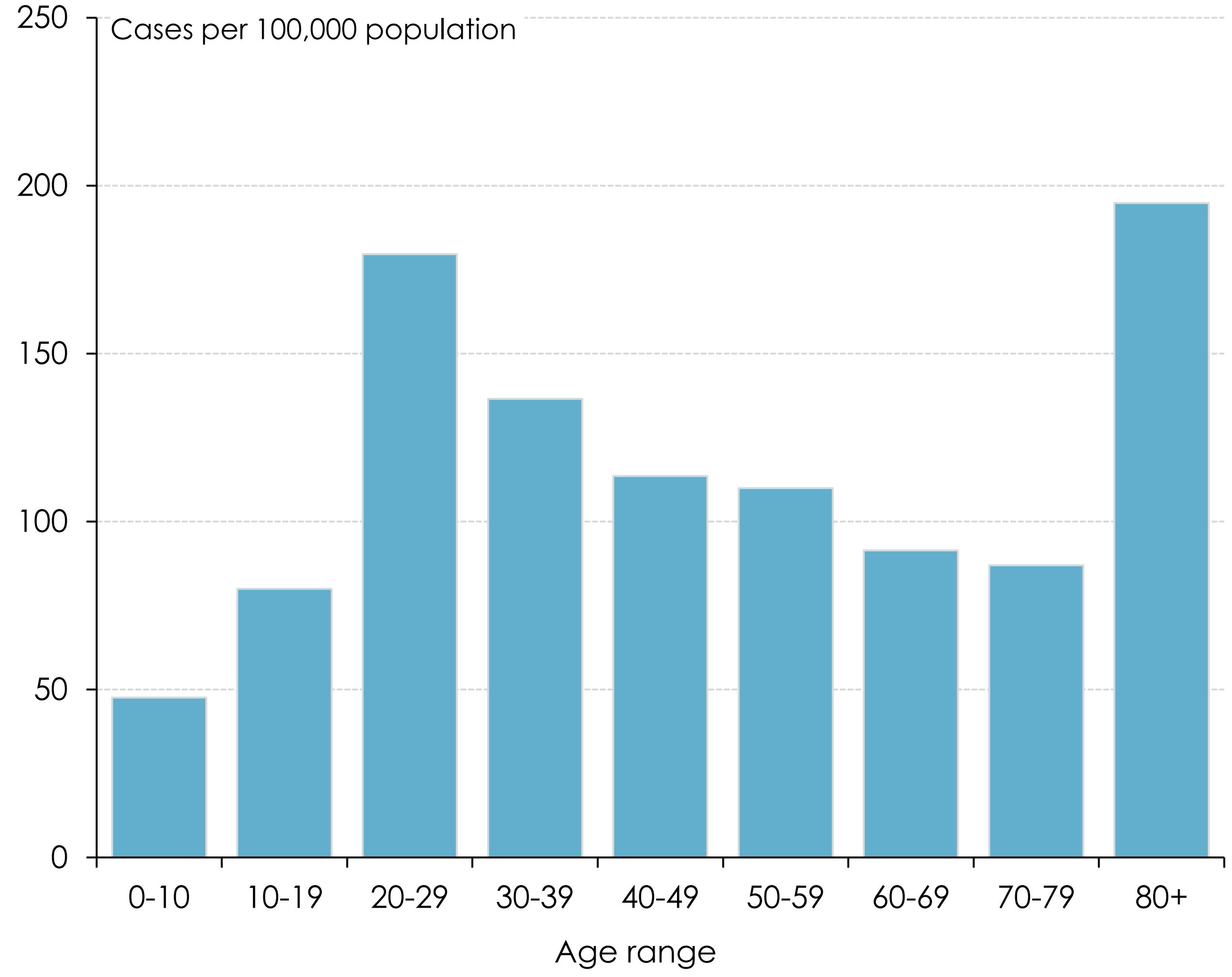
The Victorian Government ordered a 5-day lockdown starting Saturday after detecting a 'cluster' of UK-strain infections at Melbourne Airport



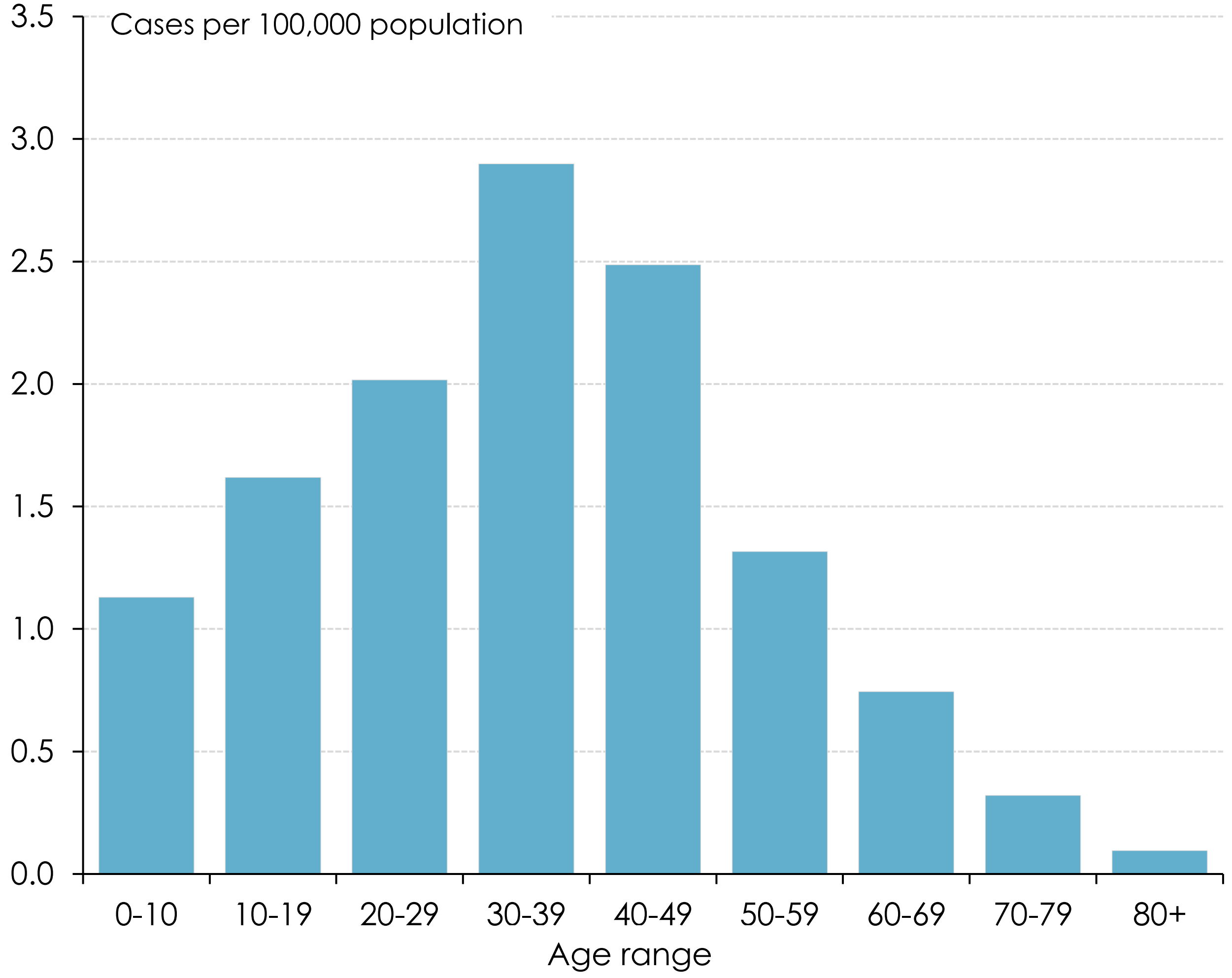
Note: Data are for 12th February. *Source* : covid19data.com.au. Return to "What's New".

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 12th February. *Source:* Australian Government Department of Health, National Notifiable Diseases Surveillance System; ABS; Corinna.

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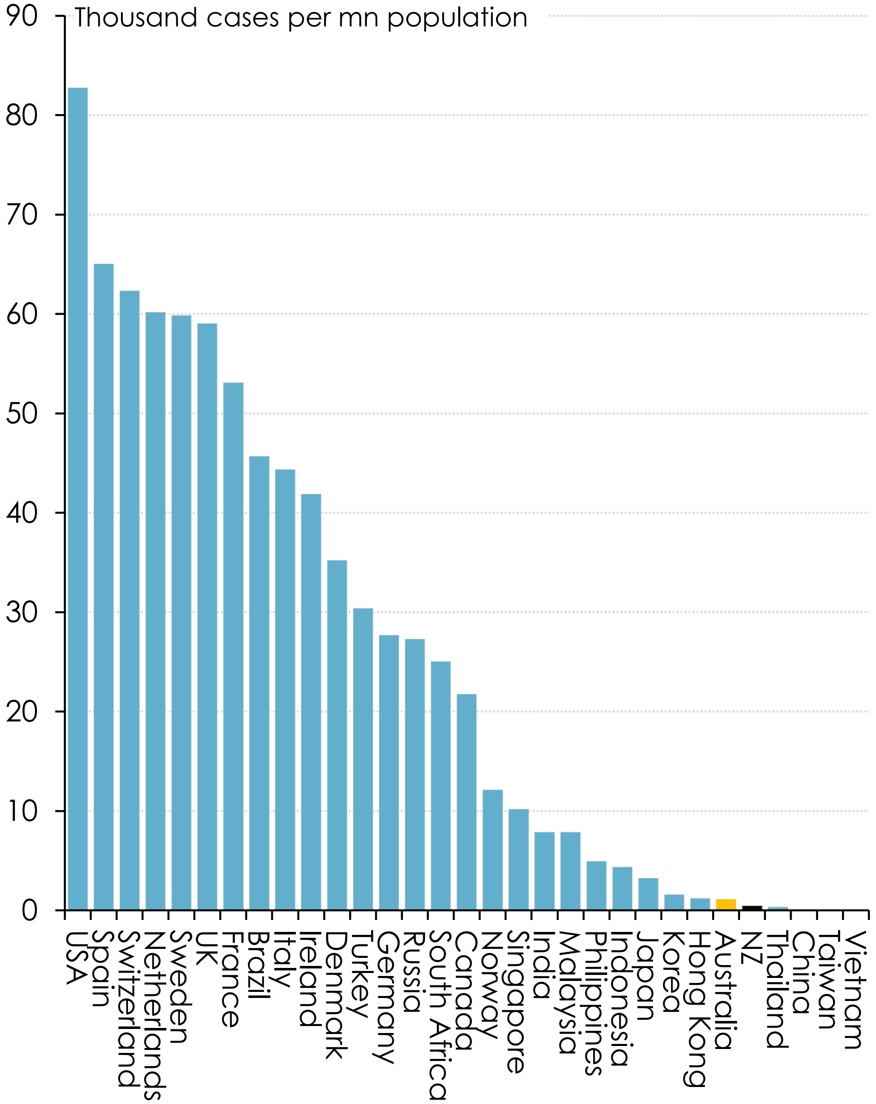
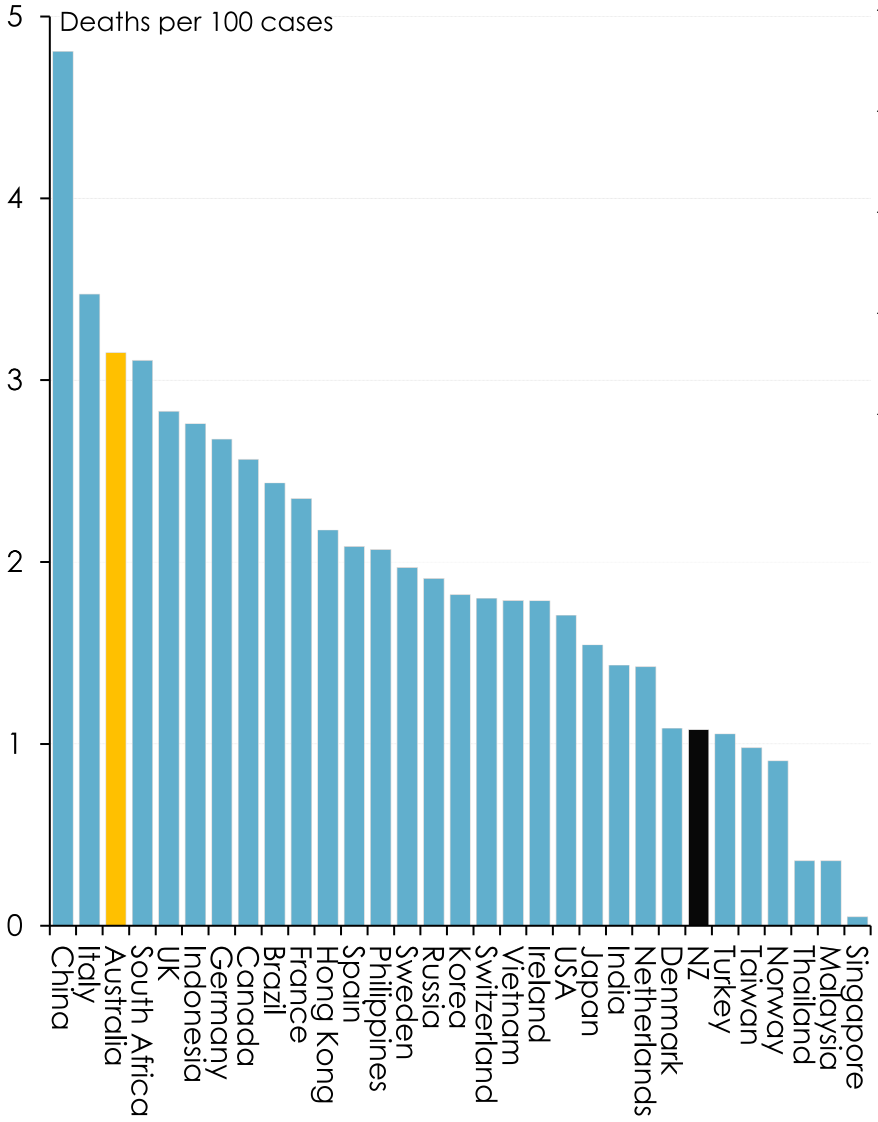
Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

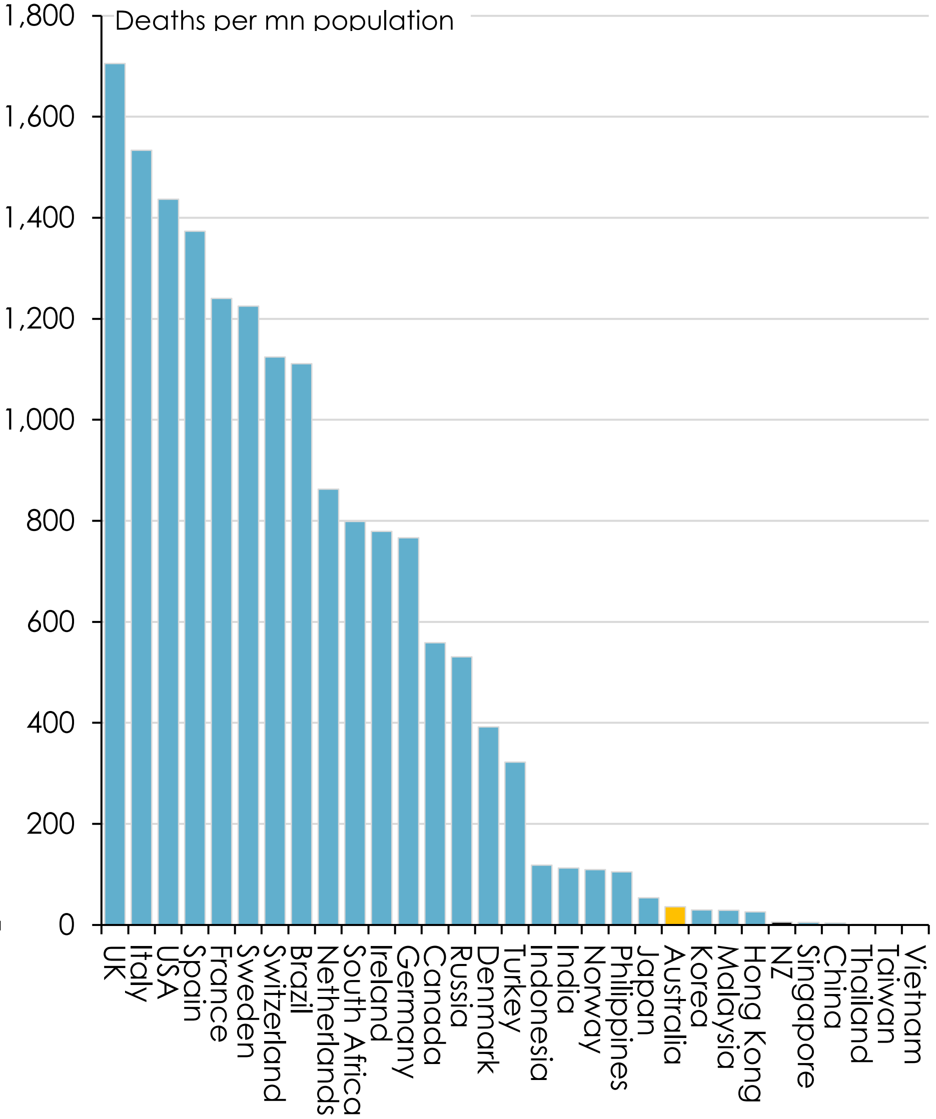
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up 11th February . *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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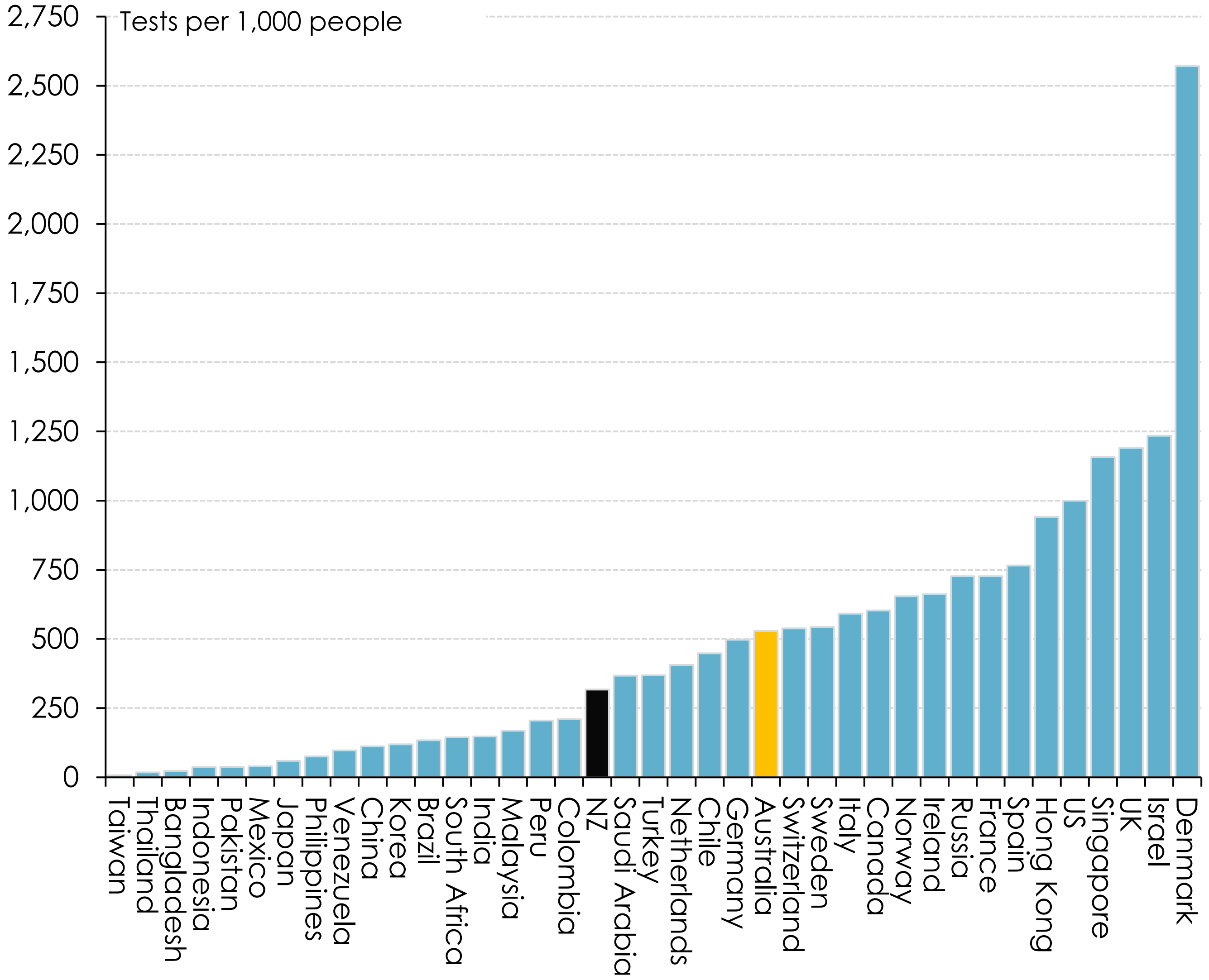
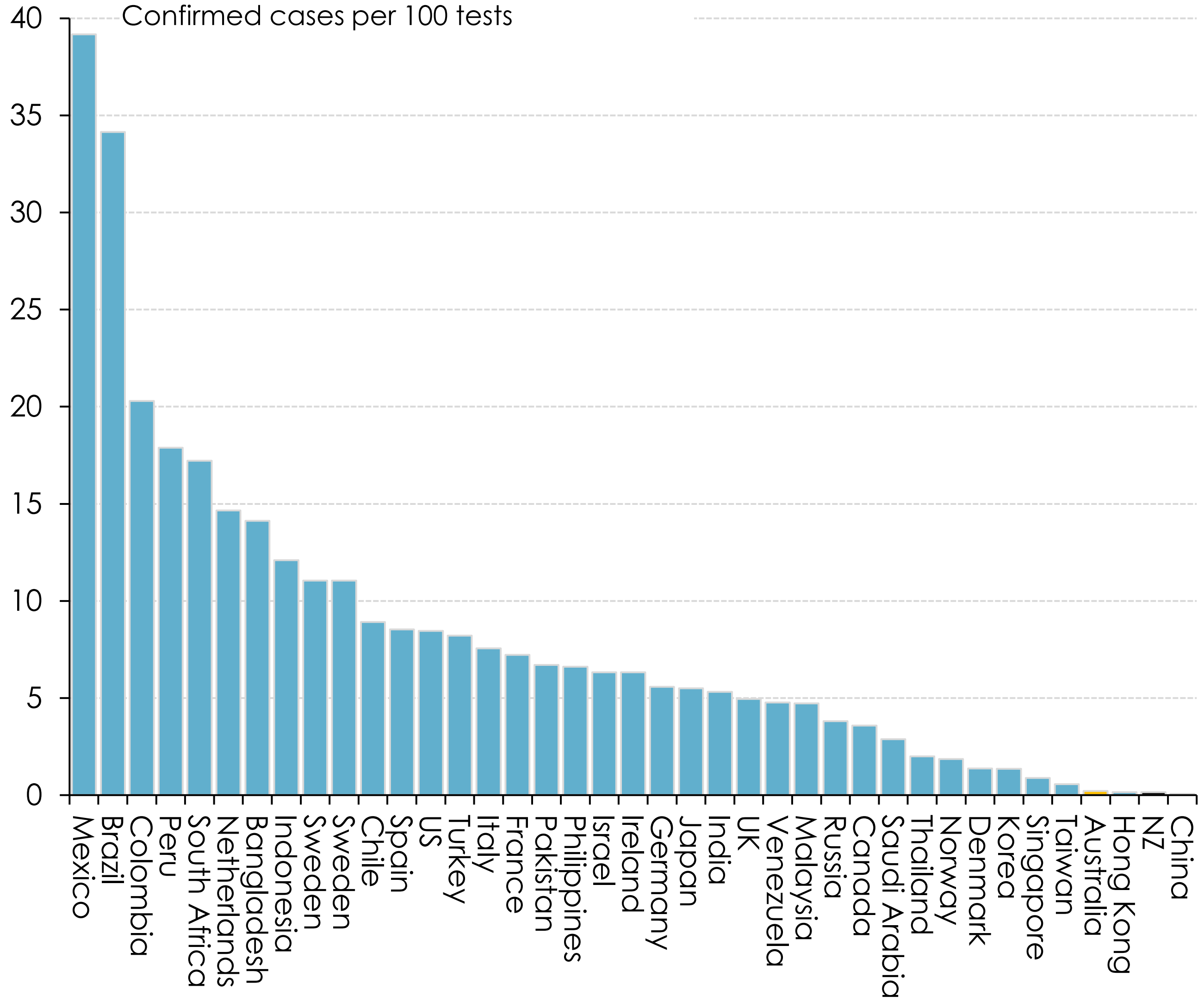
Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per thousand of population



Confirmed cases per 100 tests



Note: Data up to 12th February (and yes it appears, at face value, that Denmark has tested its entire population twice, and Israel, the UK 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".

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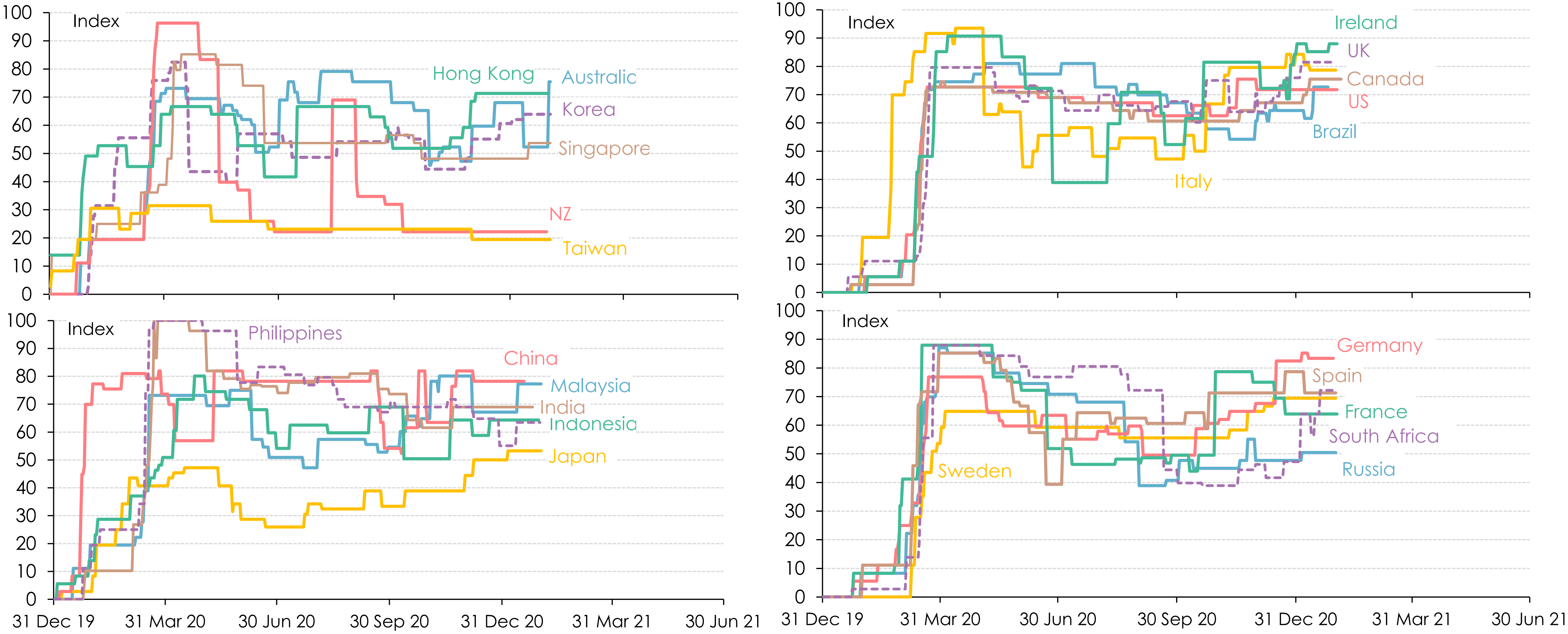
Much of the world (with conspicuous exceptions of Taiwan and NZ) have been under tight restrictions since mid-December

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



The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. *Source:* Blavatnik School of Government, Oxford University. Data up to 18th January – 4th February: there were no updates from the source this past week. Return to "What's New".

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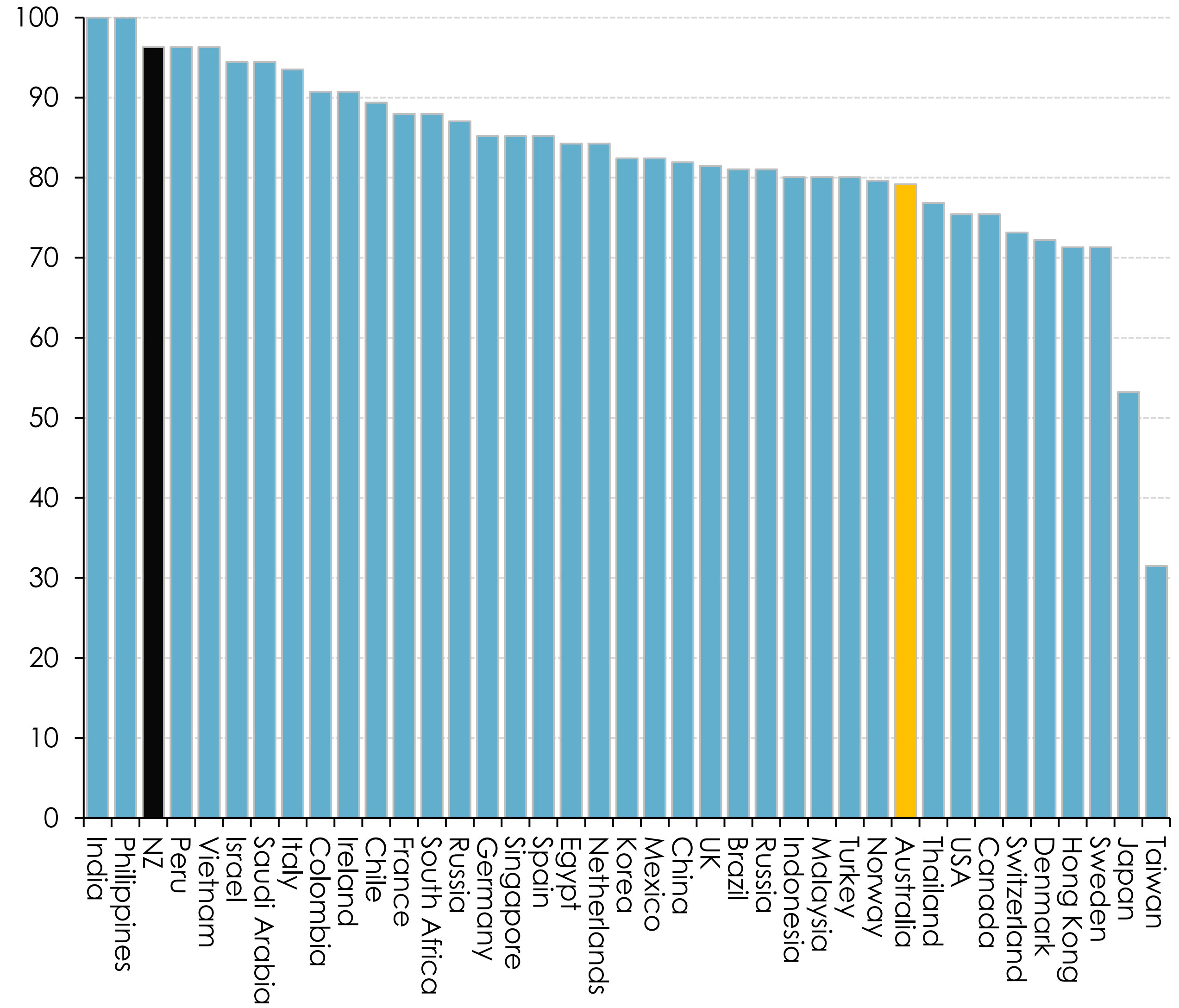
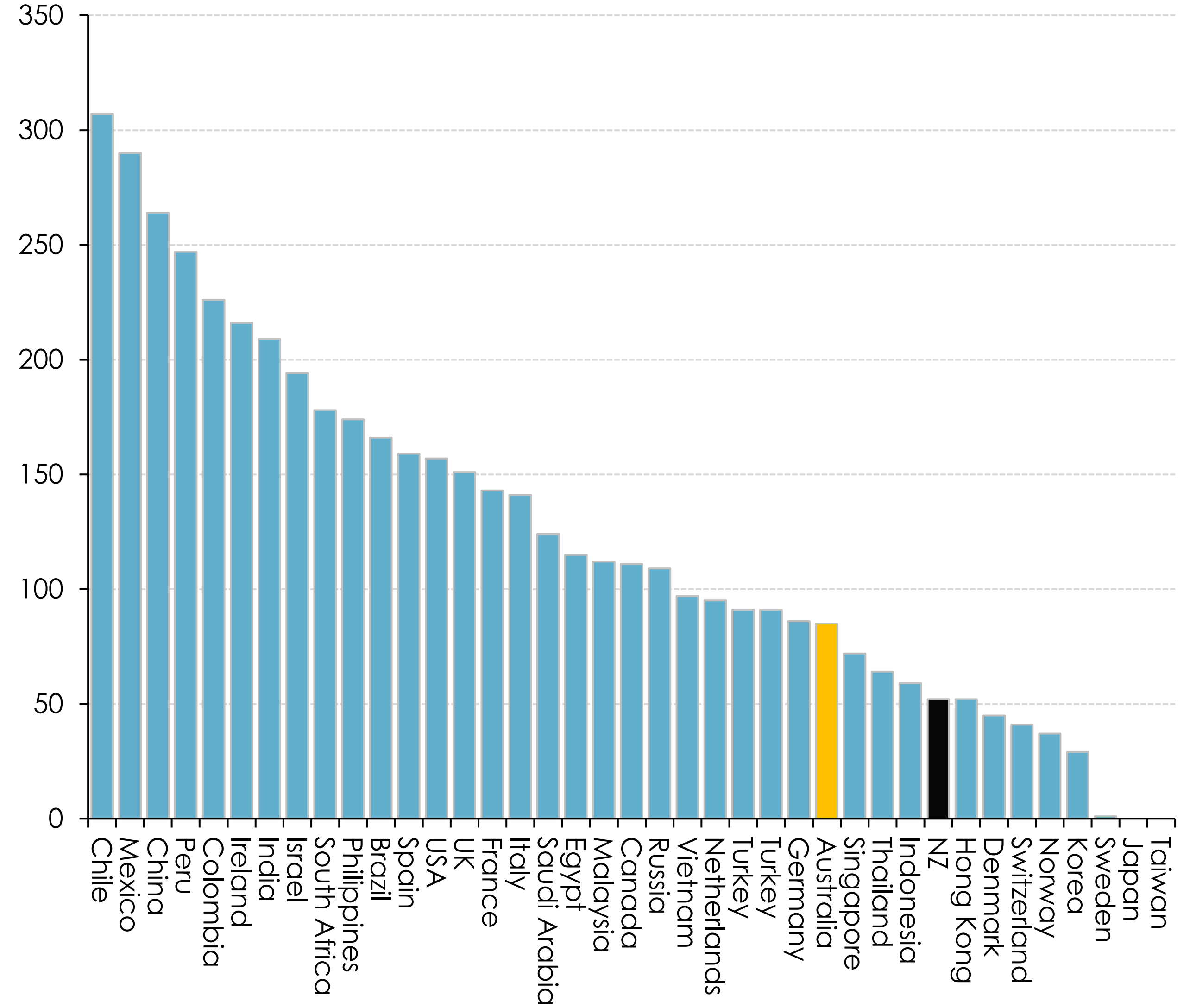
Australia's restrictions have been, on average, less stringent than in most other countries – though we did creep up the list during Victoria's lockdown

Highest level of restrictions imposed



Number of days restrictions above 70 on Oxford index



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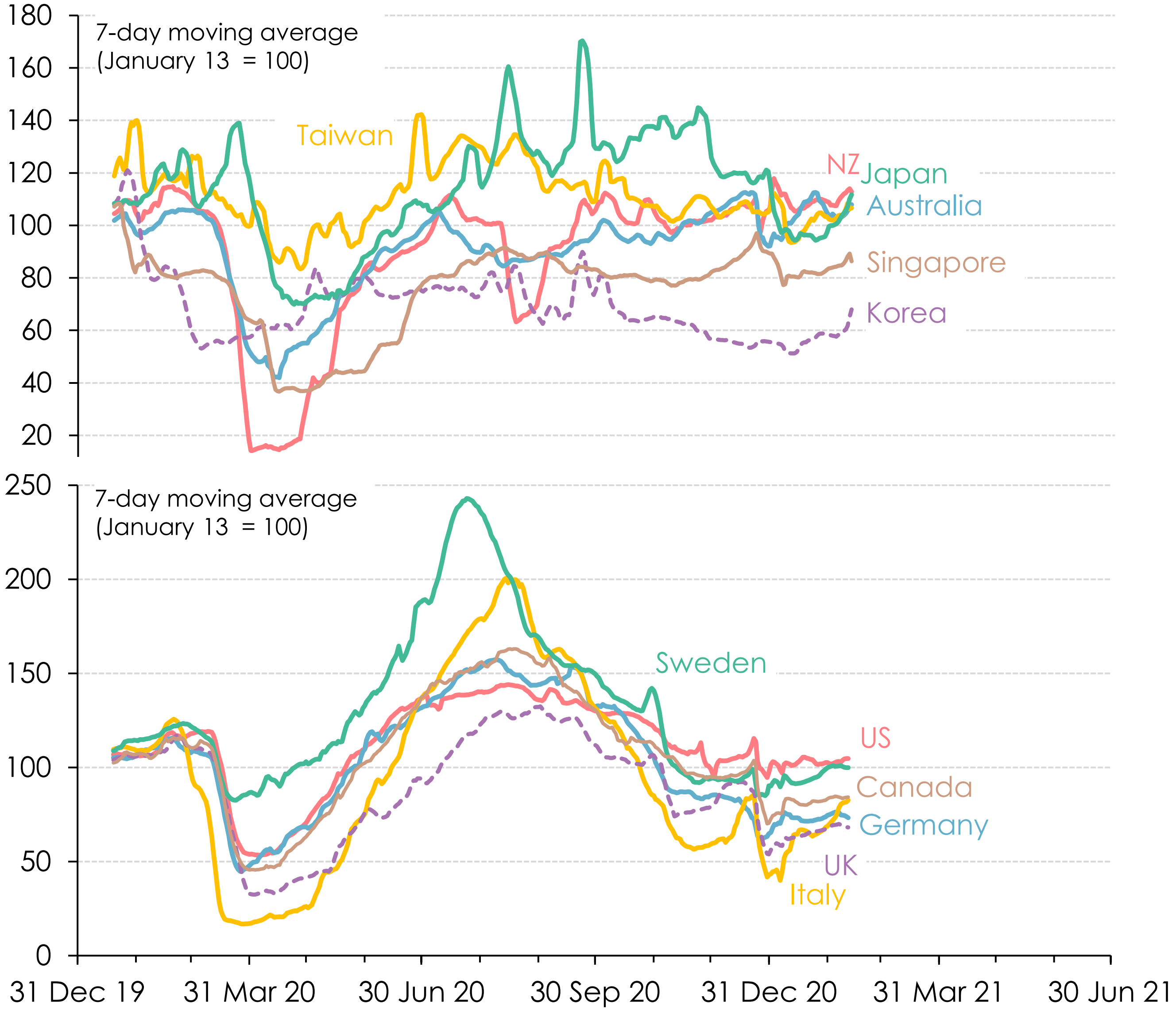
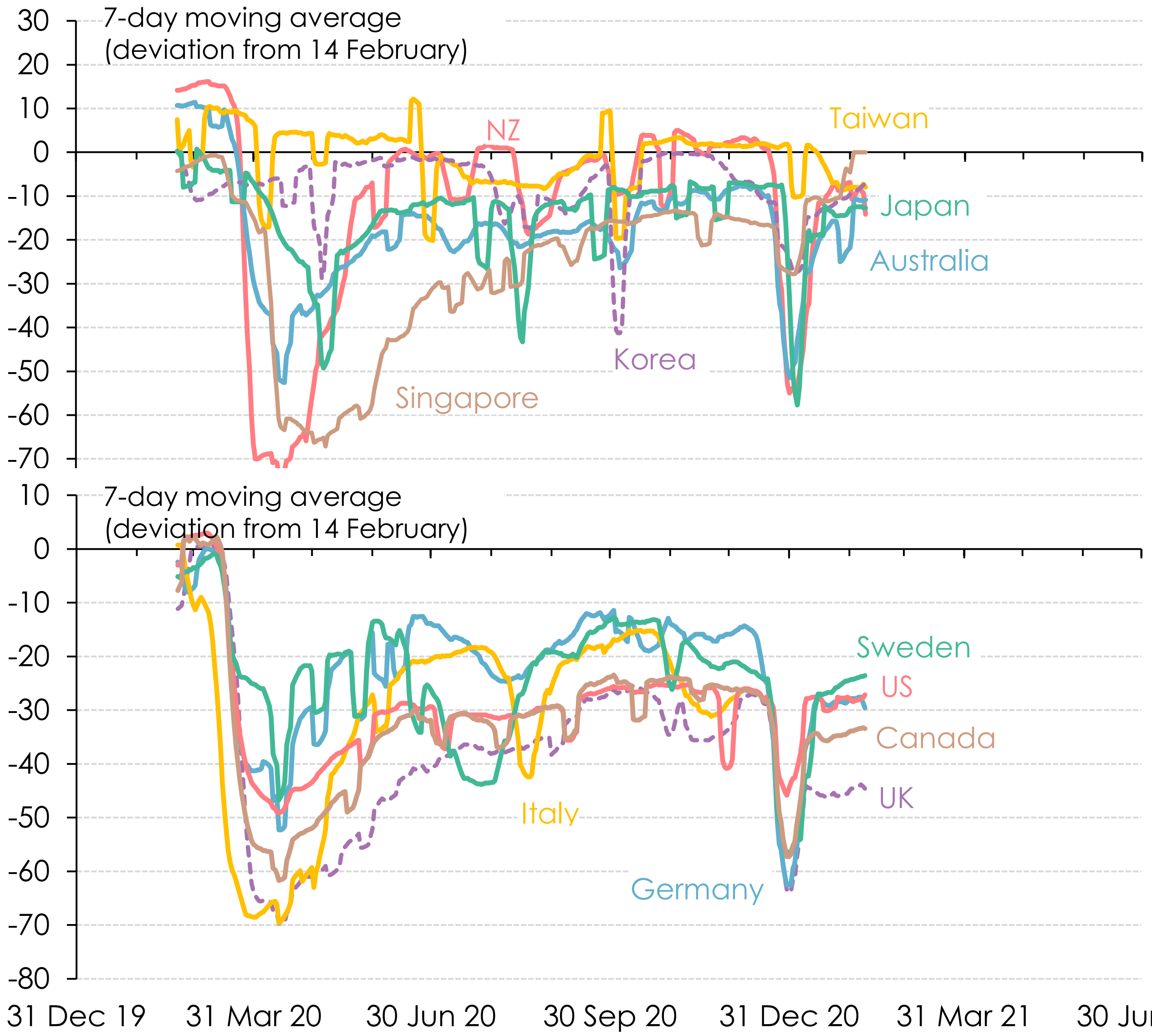
Some signs of mobility picking up again in late January / early February although it's hard to know how much of that is seasonal

Time spent driving



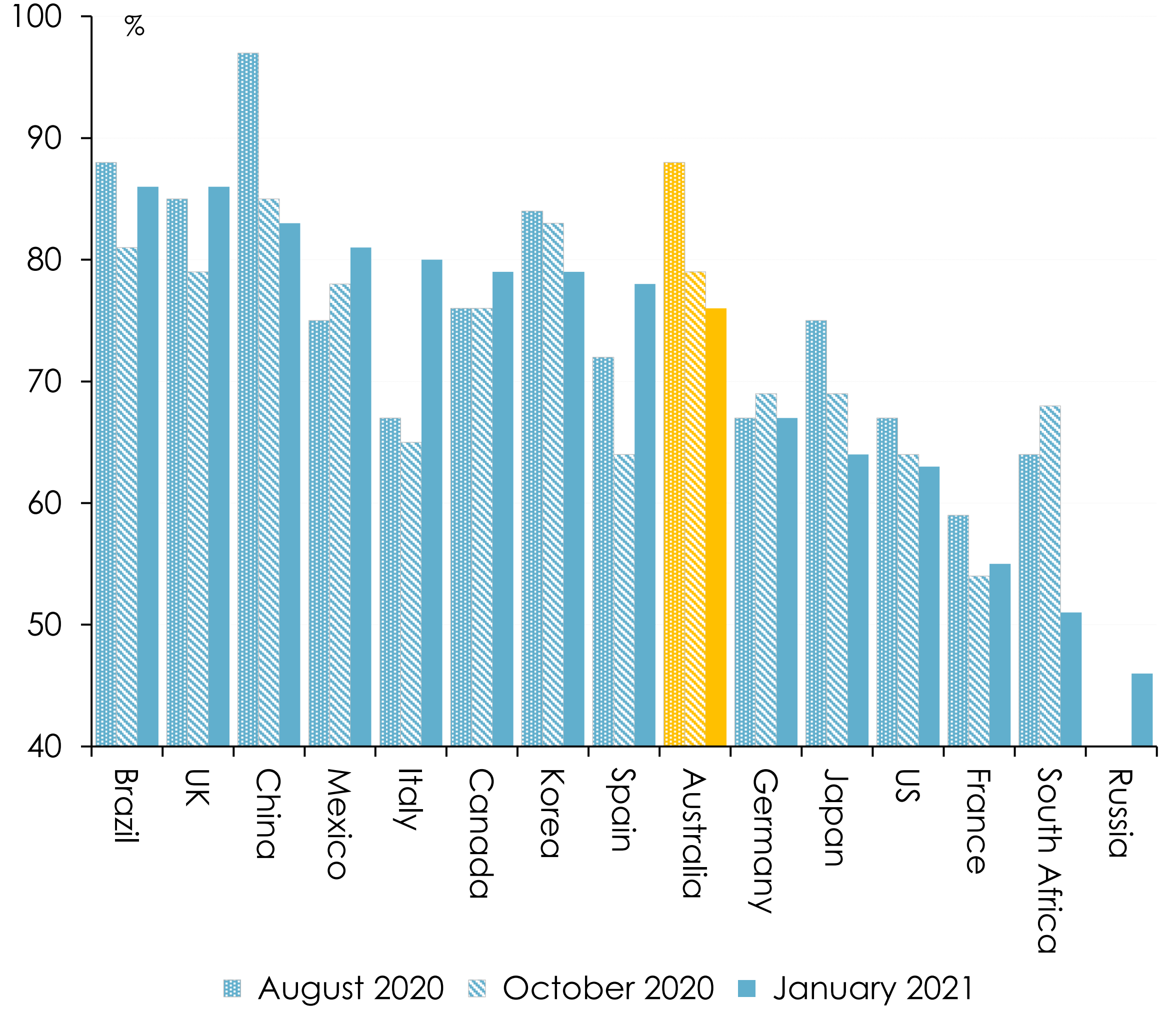
Time spent in workplaces



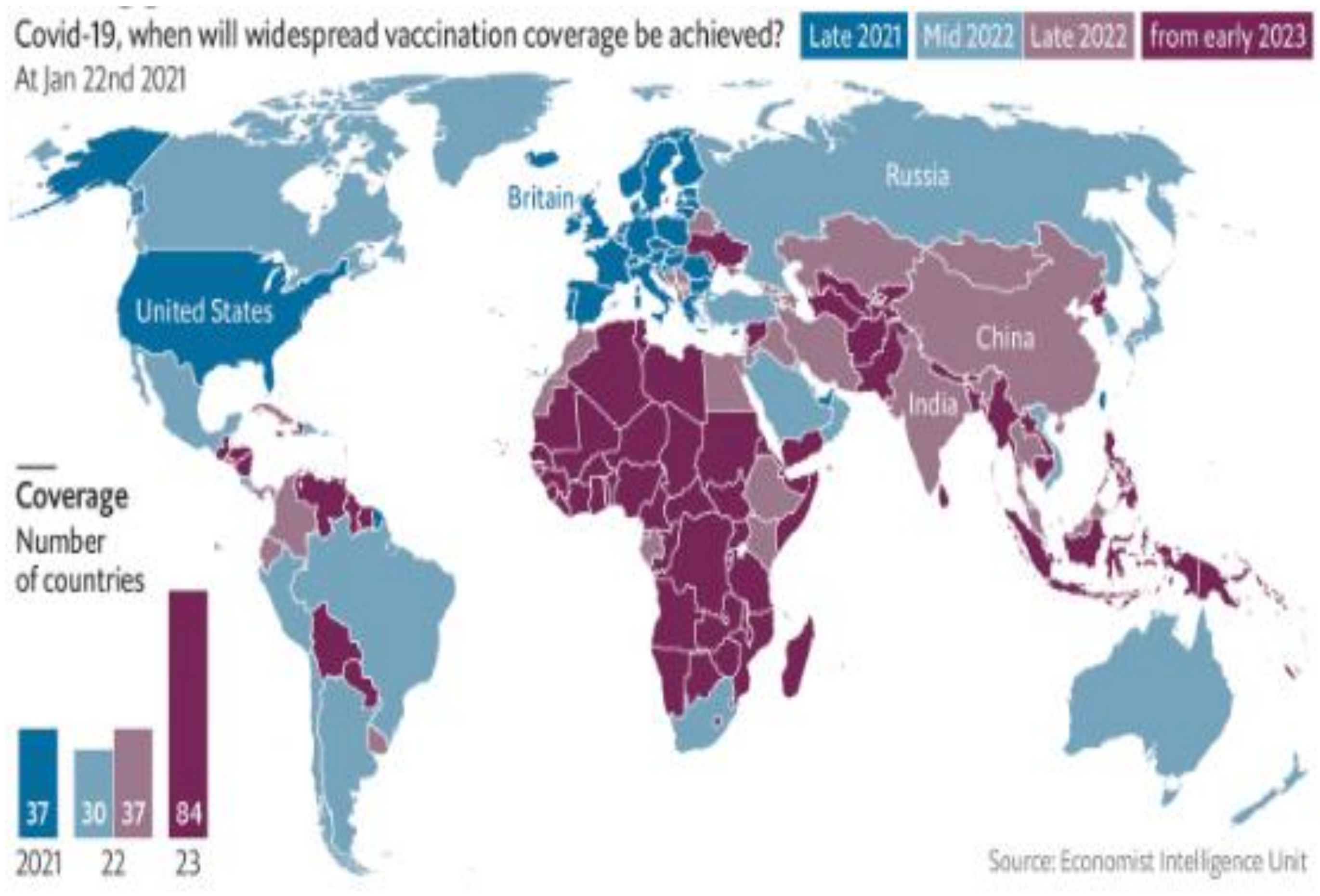
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. *Sources:* Apple Mobility Trends Reports (data up to 11th February); Google Community Mobility Reports (data up to 8th February). 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*, 11th February 2021. Return to "What's New".

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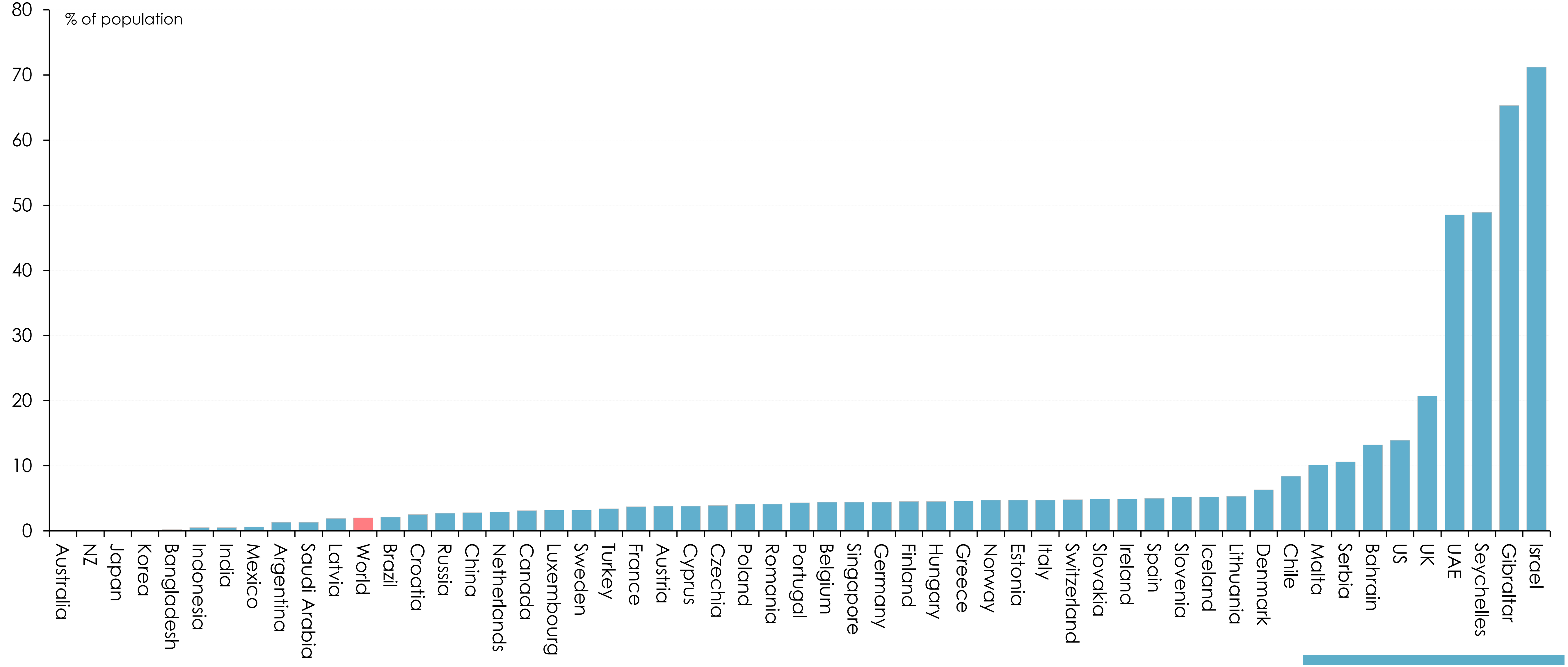
Israel has now vaccinated over 70% of its population, the UK over 20%, the US almost 14%, but mainland Europe lagging behind and Asia even more so

Percentage of population vaccinated as at 12th February



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

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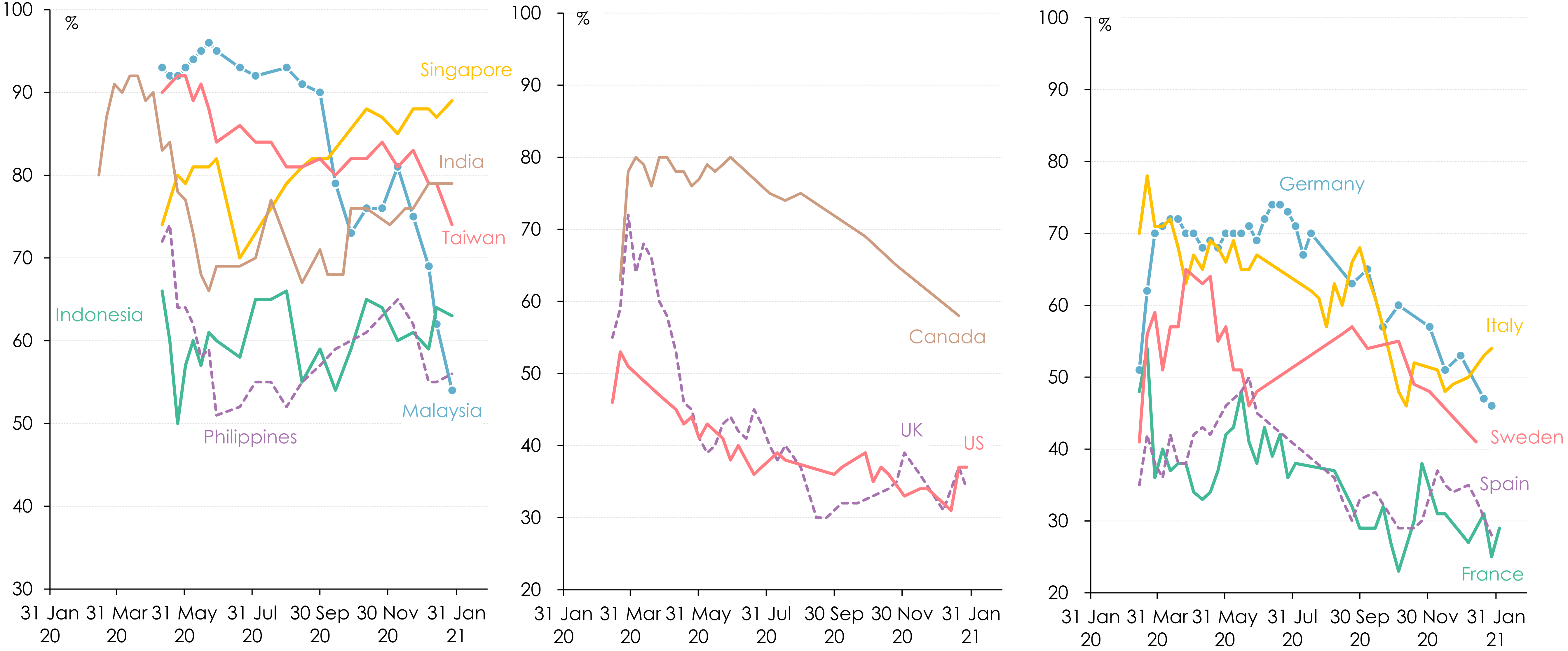
Voter approval of governments' handling of the pandemic has declined in most countries (including now in Asia) over the past few months

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



Note: there have been no new polls since the last week of January or first week of February.
Source: YouGov, Covid-19 tracker: government handling. Return to "What's New".

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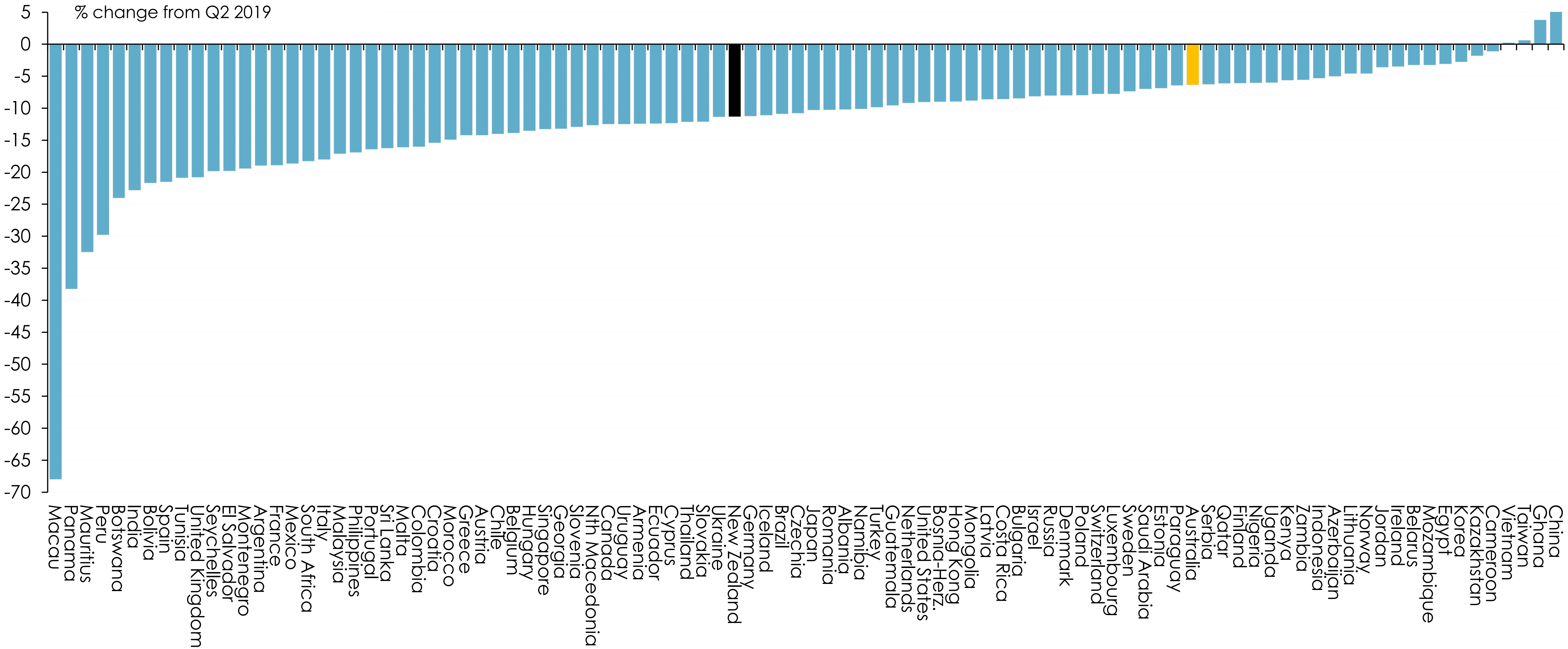
The world

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



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

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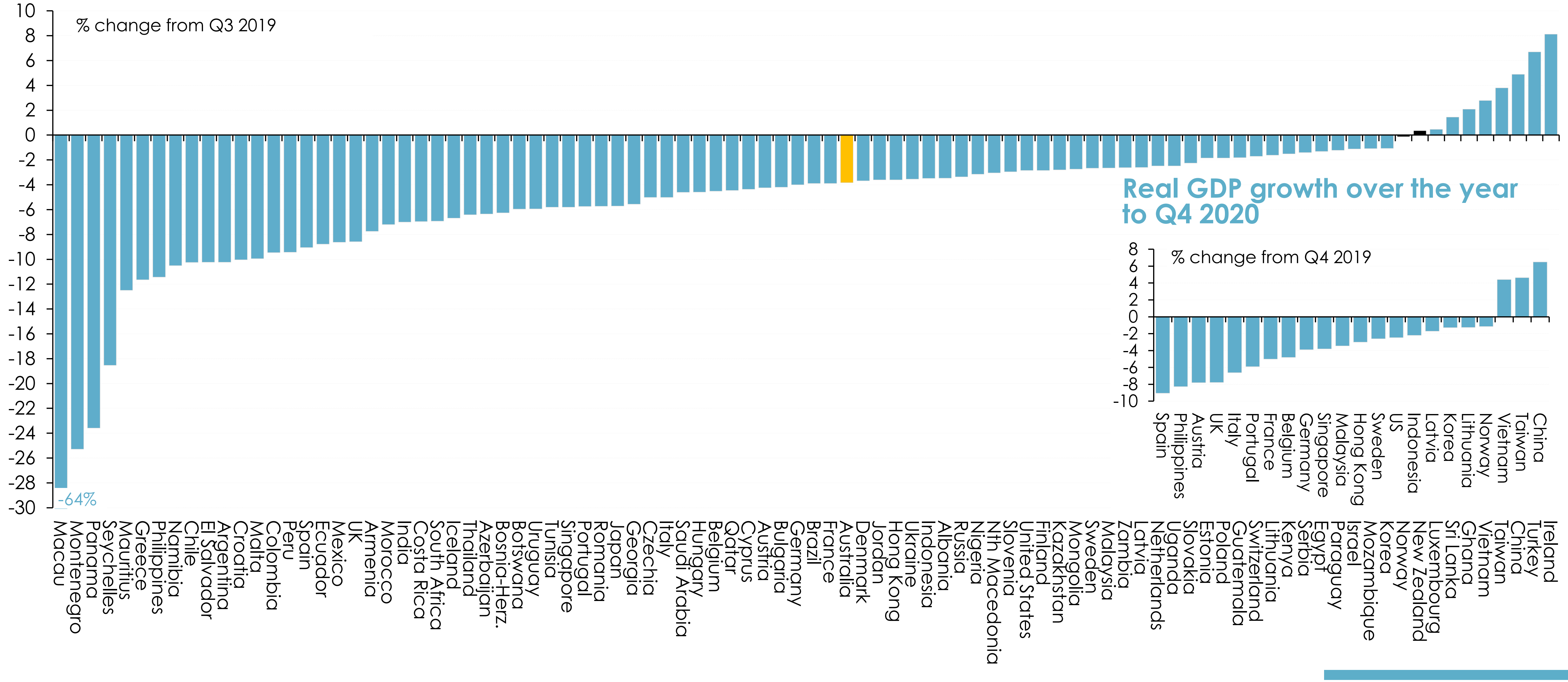
… but of 92 countries which have now reported Q3 numbers, 9 have shown positive growth, while 3 of 22 have reported positive yoy growth in Q4

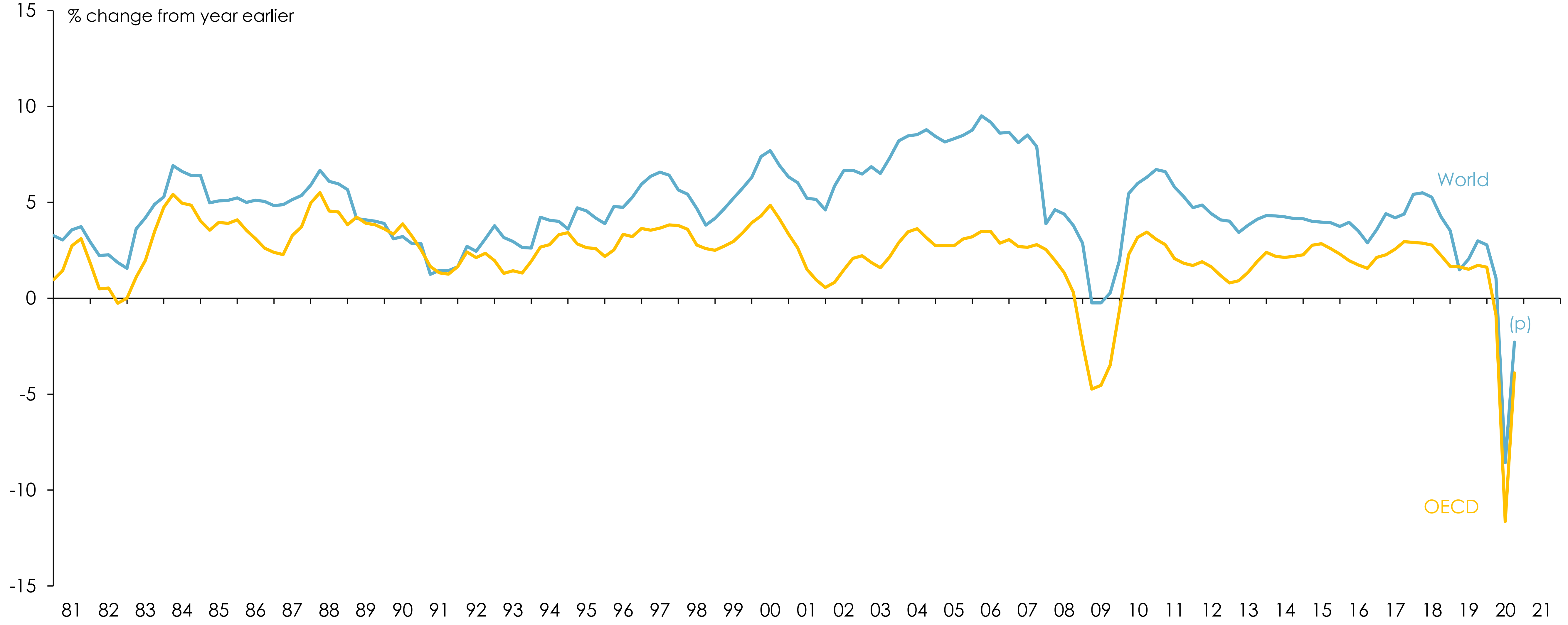
Real GDP growth over the year to Q3 2020



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

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 last month 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

	Actual	*IMF*			*World Bank*			*OECD*			*Australian Treasury*		
	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.
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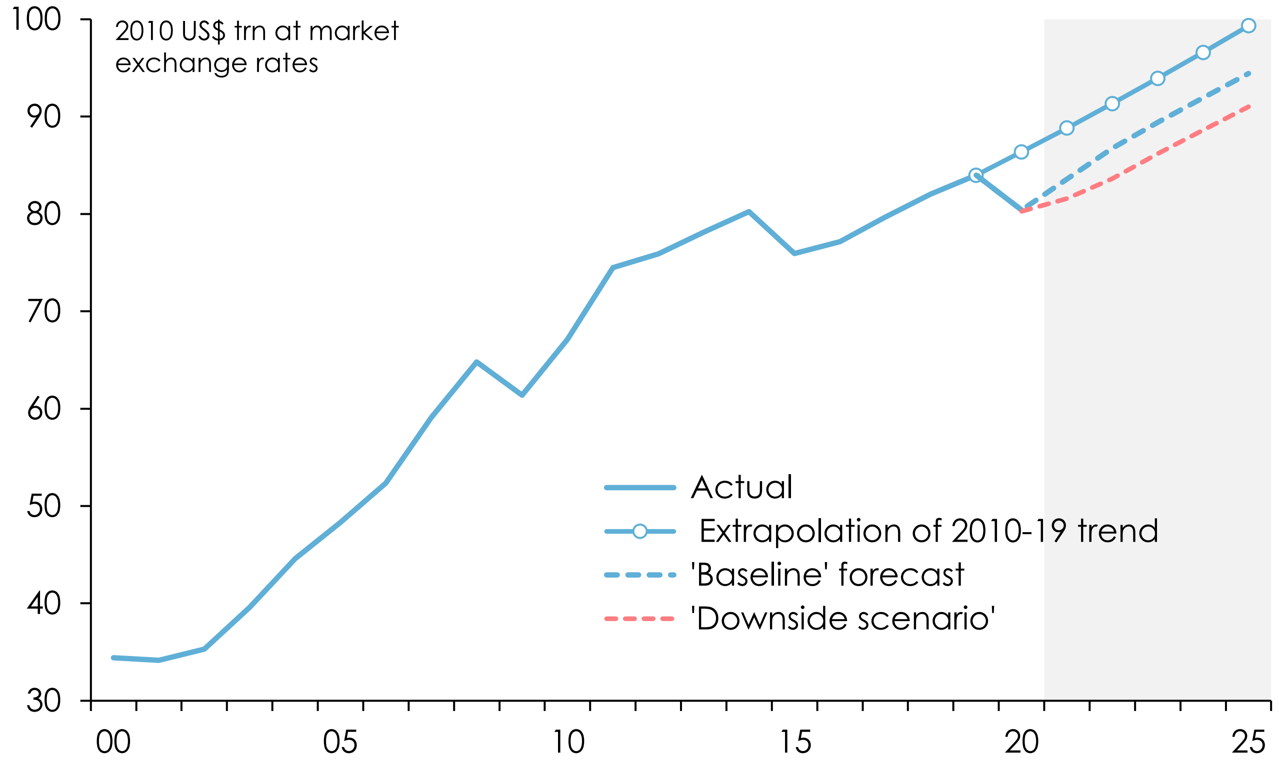
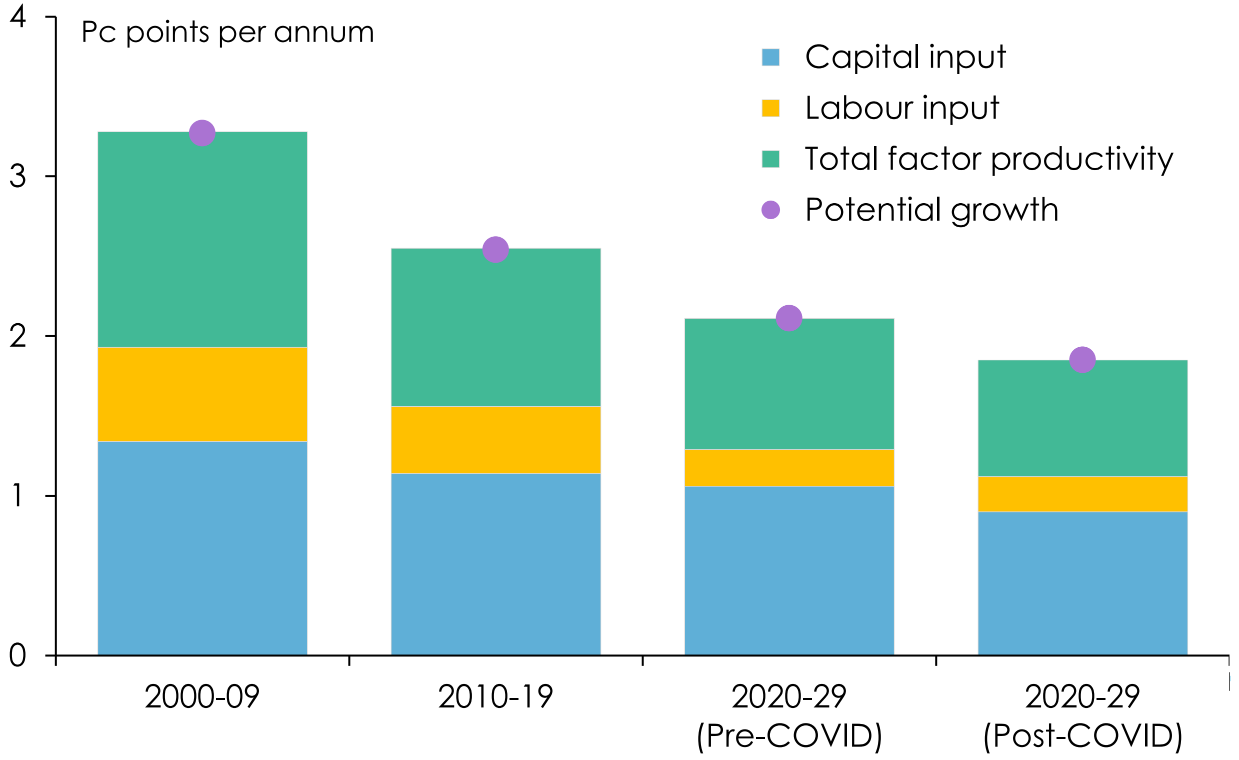
The World Bank's latest forecasts foreshadow a substantial long-term shortfall in economic activity in the aftermath of Covid-19

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

Source: The World Bank, Global Economic Prospects (Chapter 3), 6th January 2021. Return to "What's New".

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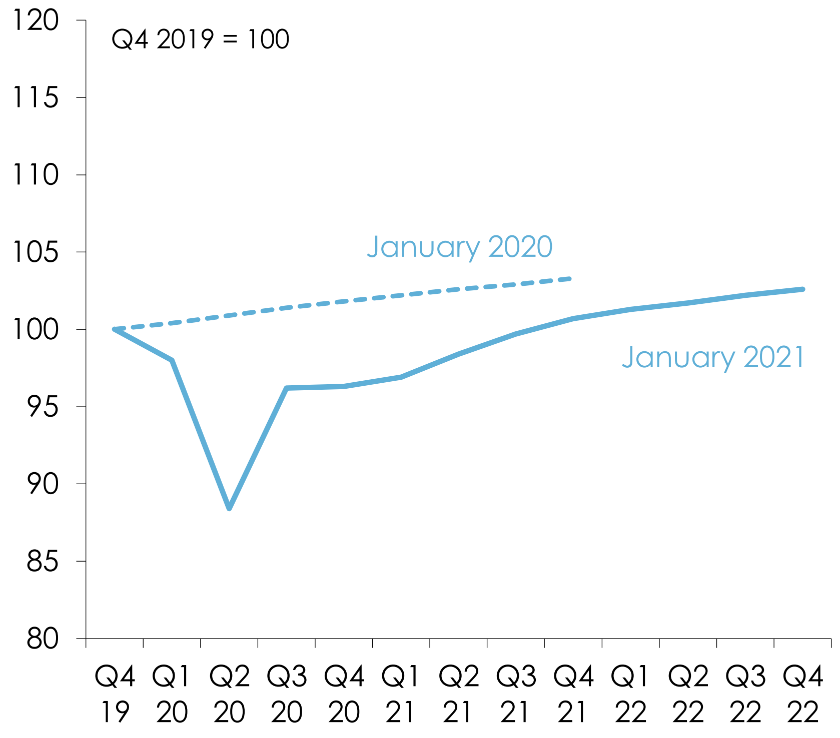
Latest IMF forecasts show China has already regained its pre-Covid level of GDP, which other economies won't until the second half of this year

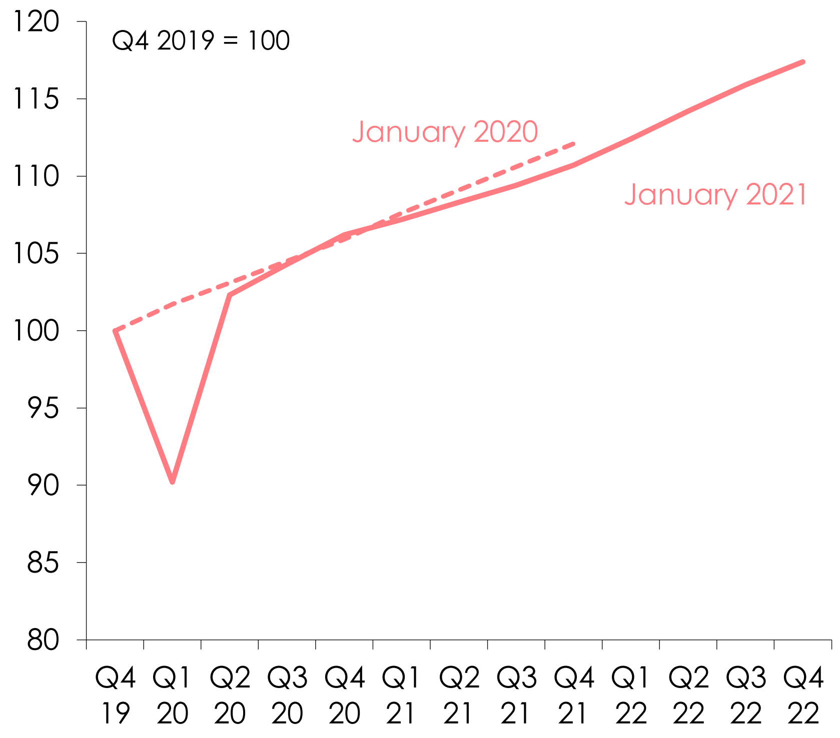
IMF World Economic Update real GDP forecasts – January 2020 and January 2021

'Advanced' economies



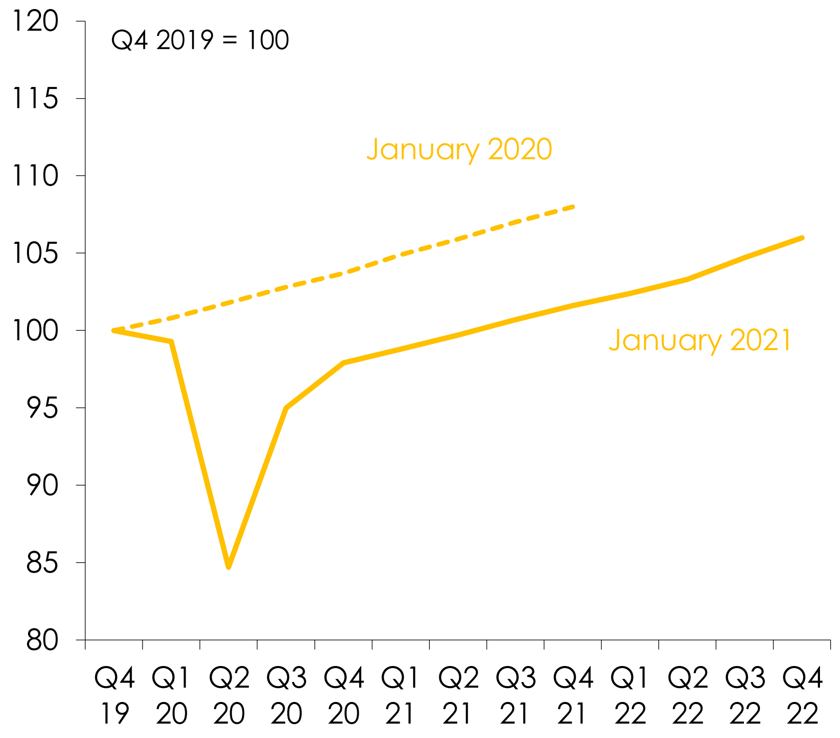
- **GDP fell 11½% during the recession, won't regain its pre-recession level until Q4 21, and by Q4 22 will still be ¾% below where last January it had been expected to be in Q4 21**

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**

Source: International Monetary Fund, *World Economic Outlook Update*, 27th January 2021. Return to "What's New".

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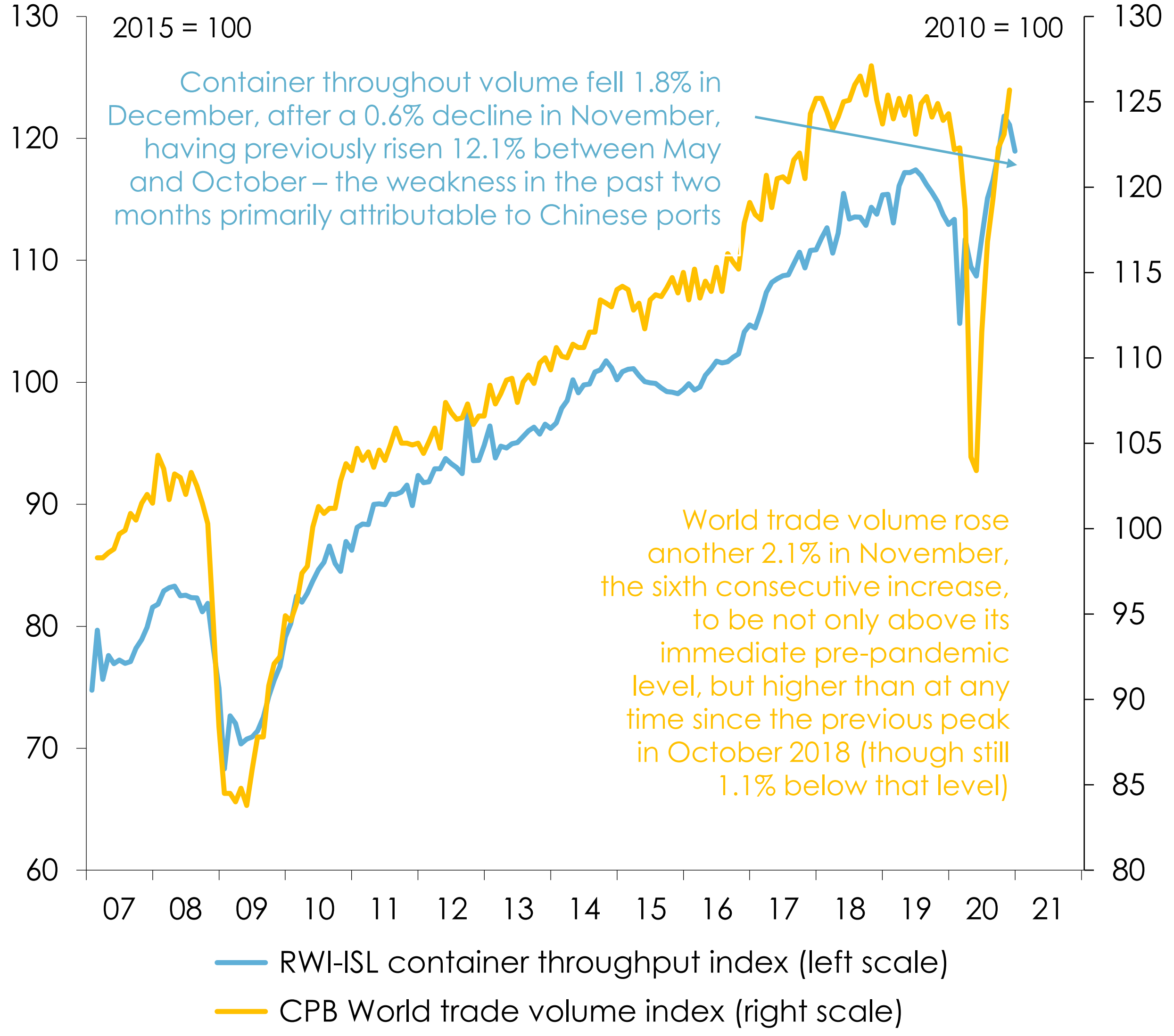
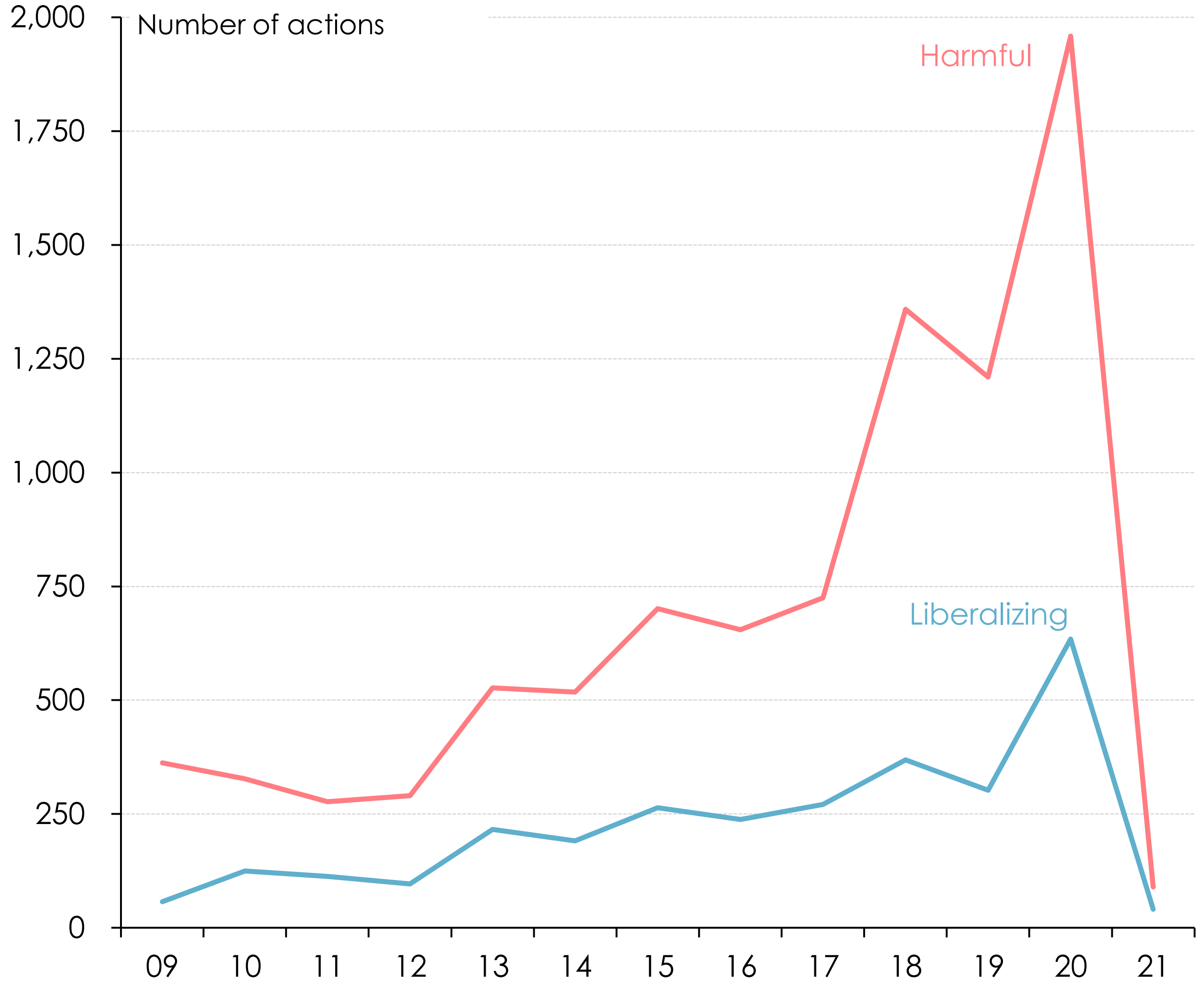
World merchandise trade volumes rose 2.1% in November to their highest level since the previous peak in October 2018

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 (January data to be released on 26th February); Centre for Economic Policy Research, Global Trade Alert *Global Dynamics* (data up to 12th February). Return to "What's New".

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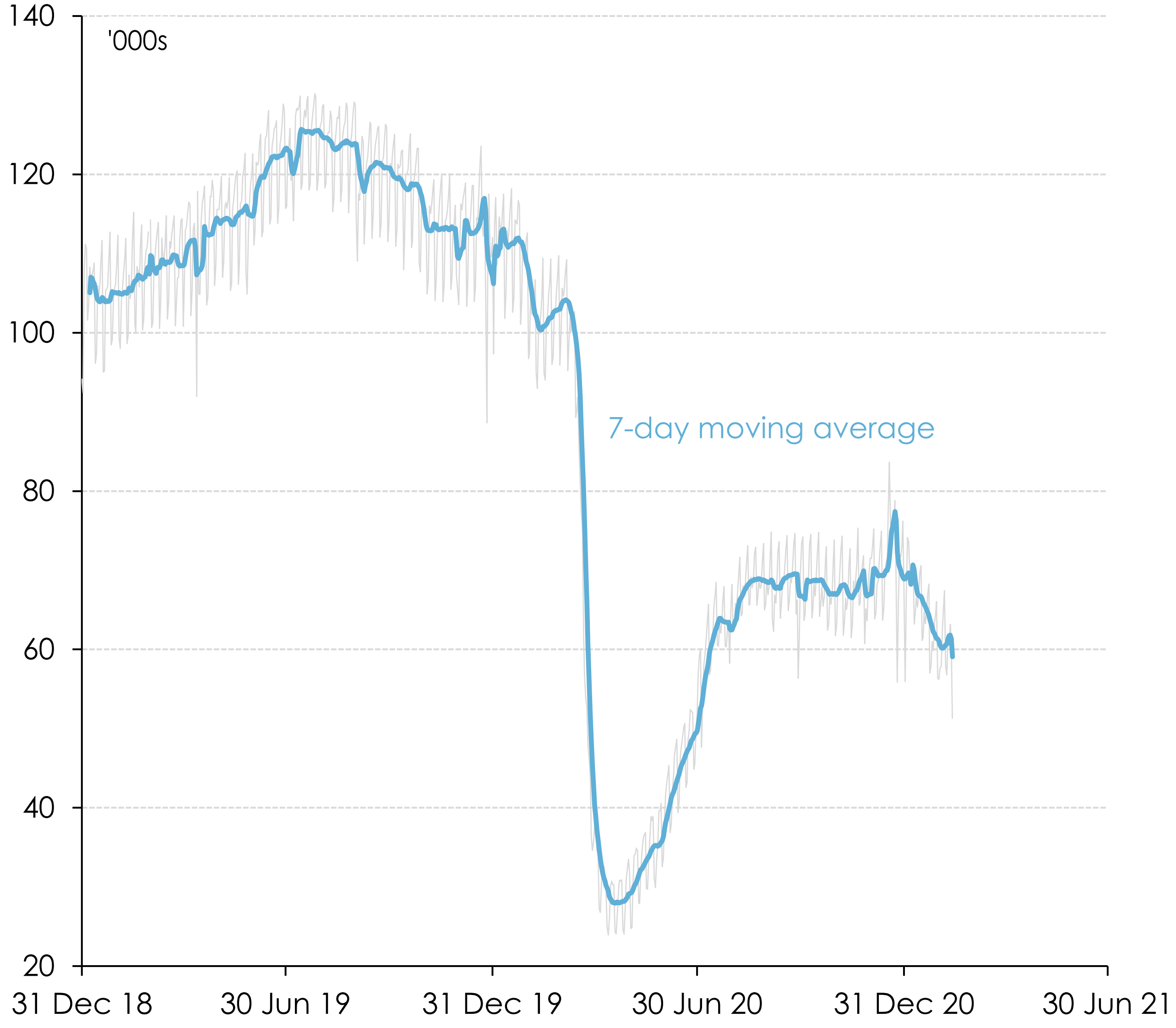
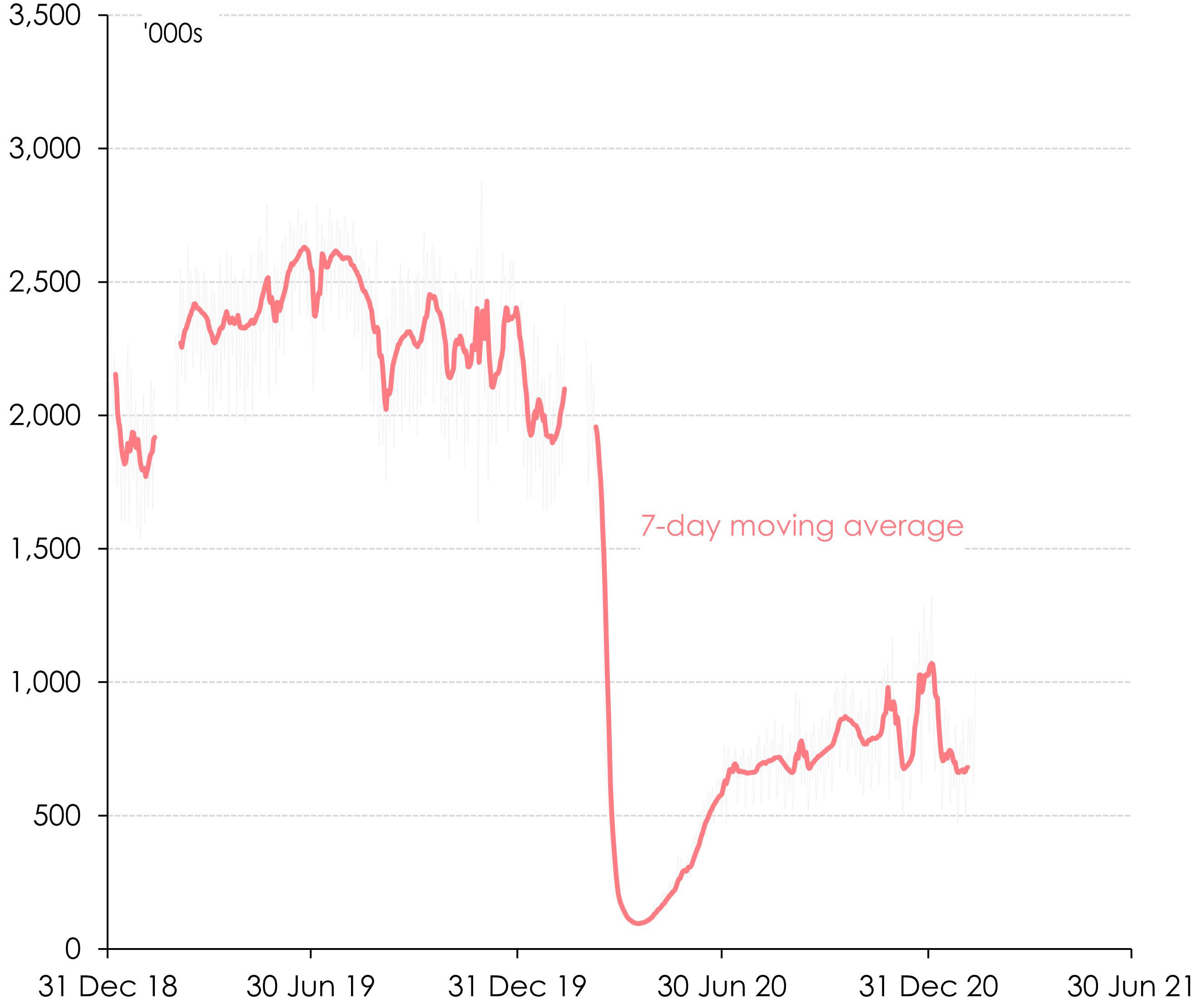
Commercial aviation traffic declined steadily through January and into early February – and by more than normal seasonal variations

Daily commercial flights worldwide



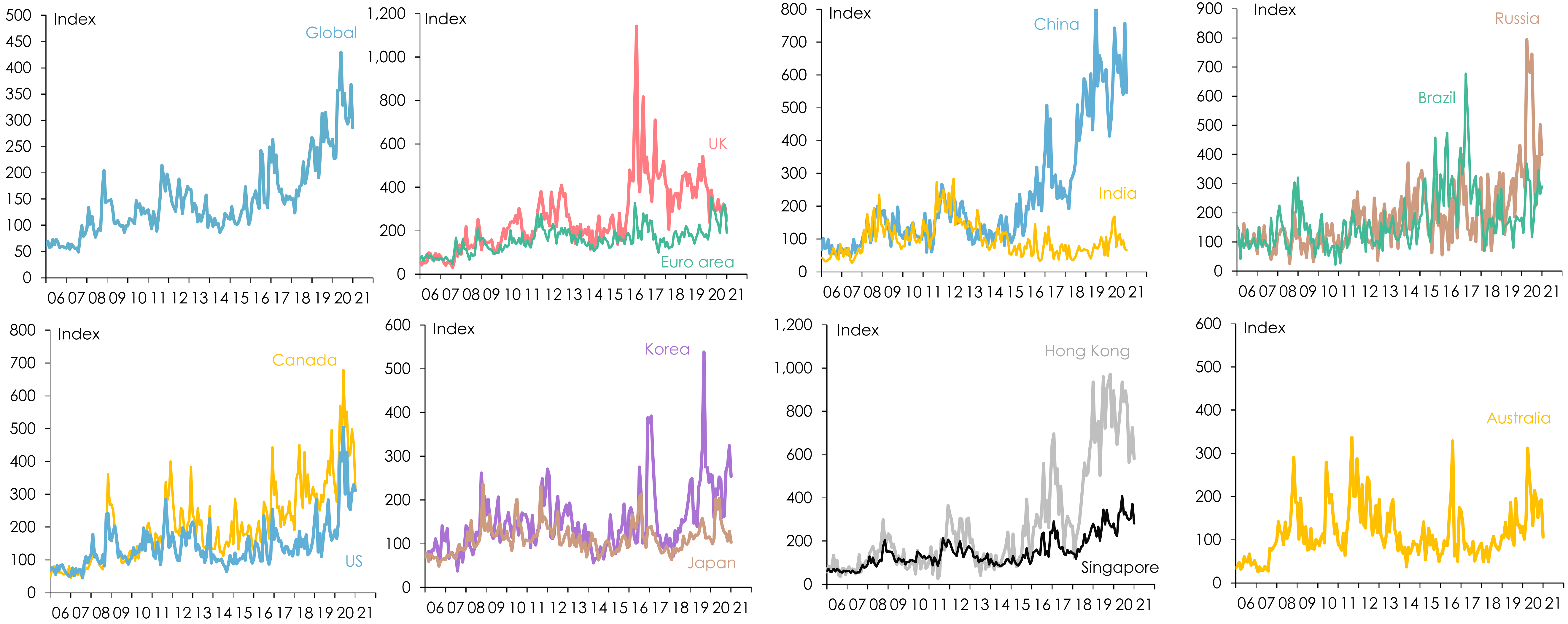
Daily US TSA security checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 12th February for commercial flights and 11th February for TSA checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines.
Sources: Flightradar24.com; US Transport Safety Administration (at last, something useful produced by aviation 'security'!!!). Return to "What's New".

Economic policy uncertainty declined everywhere in December – but remains higher than a year earlier except in the UK, HK, China and India

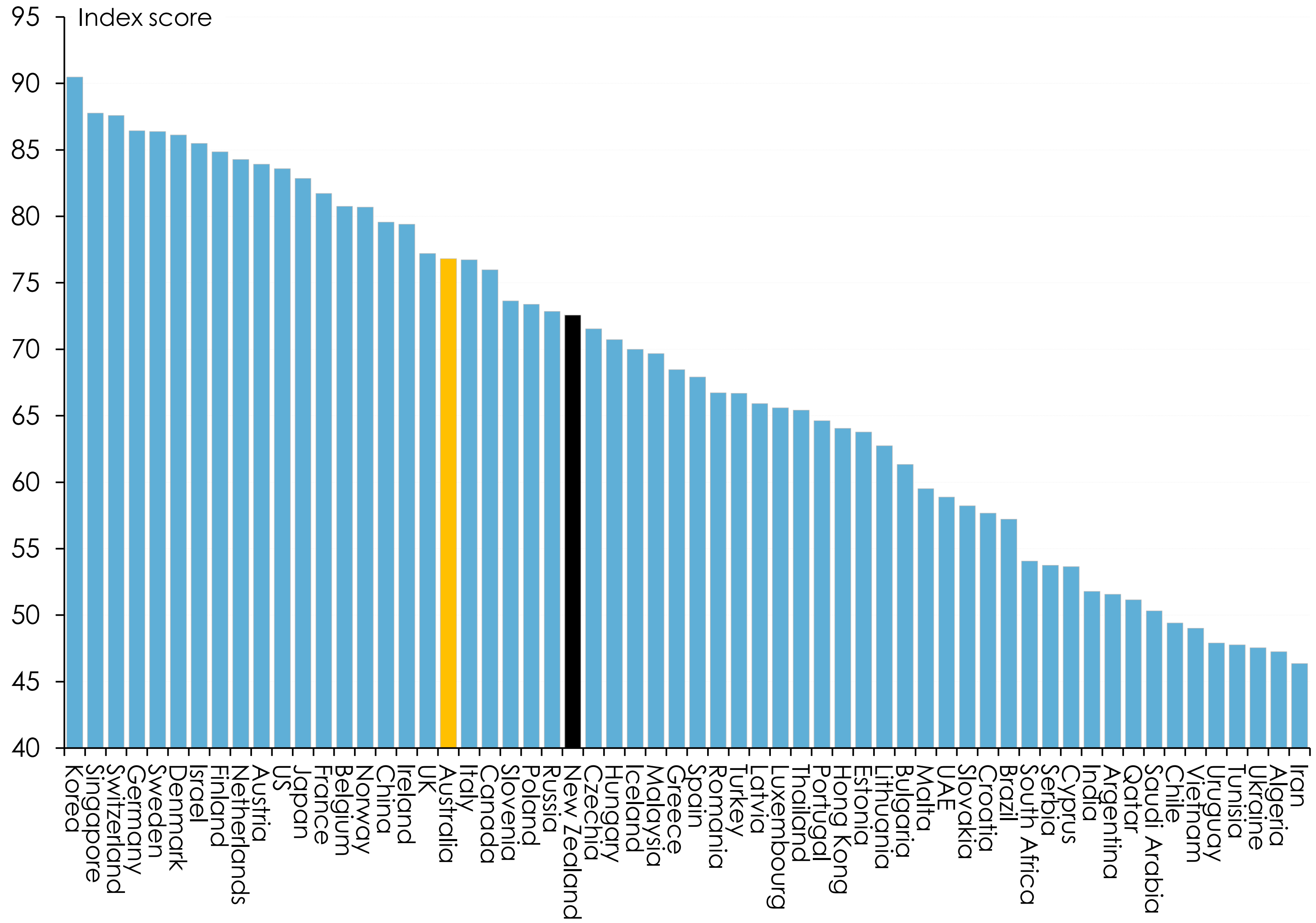
Economic policy uncertainty indices



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 December 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".

Asian and European nations are the world's 'most innovative' according to a Bloomberg index, with Australia ranked 19th and New Zealand 25th

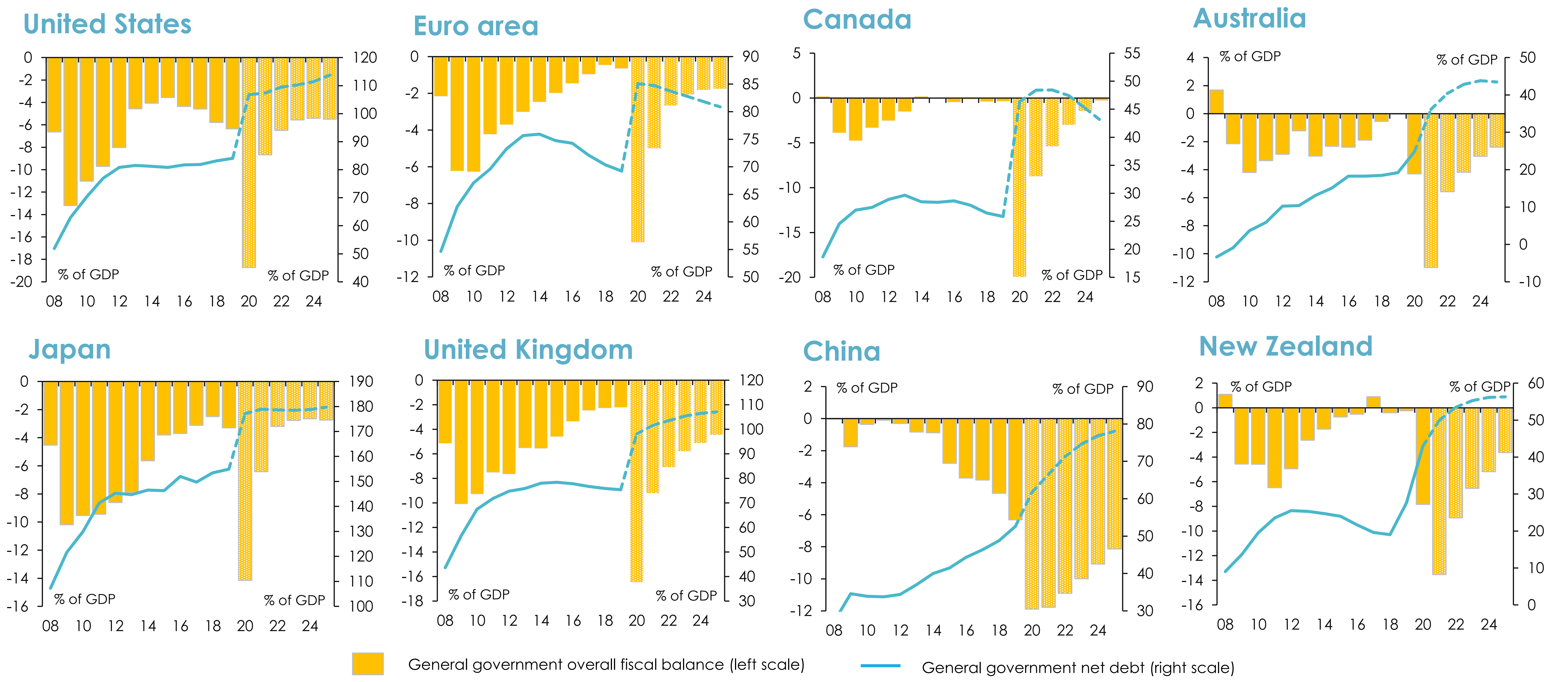
Bloomberg Innovation Index 2021



- **Australia ranked 19th (up one place) and New Zealand 25th (up four places) on Bloomberg's 'innovation index' for 2021**
- **Australia ranked 7th for patent activity, 8th (surprisingly) for productivity, and 10th for 'efficiency' of its tertiary education sector …**
- **… but only 20th for R&D intensity, 31st for 'researcher concentration' and 55th for manufacturing value added as a pc of GDP**
  - manufacturing isn't Australia's long suit, to be sure, but the BII doesn't recognize the potential for innovation in mining or services (an example of 'manufacturing fetishism' all too common in this space and others)
- **New Zealand ranked 15th for 'researcher concentration', but nothing else in the top 20, ranking 41st for manufacturing value added (higher than Australia) but only 29th for productivity and 40th for 'tertiary efficiency'**
- **Interestingly topped-rank Korea was only 36th for productivity – while US though 1st for 'hi-tech density' ranked only 47th for 'tertiary efficiency'**

Source: Michelle Jamrisko, Wei Lu, and Alexandre Tanzi, "South Korea Leads World in Innovation as US Exits Top Ten", *Bloomberg*, 3rd February.

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"

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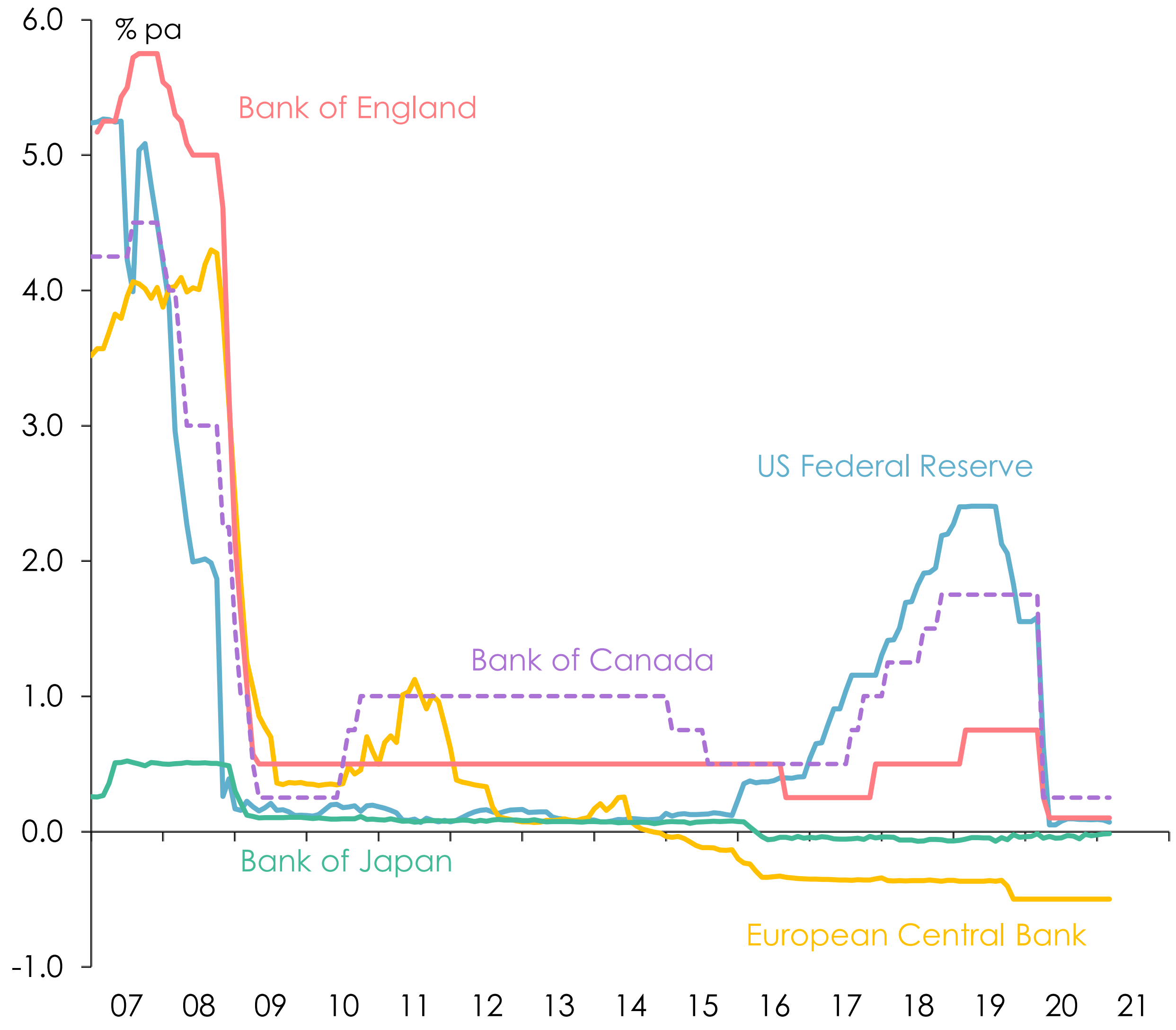
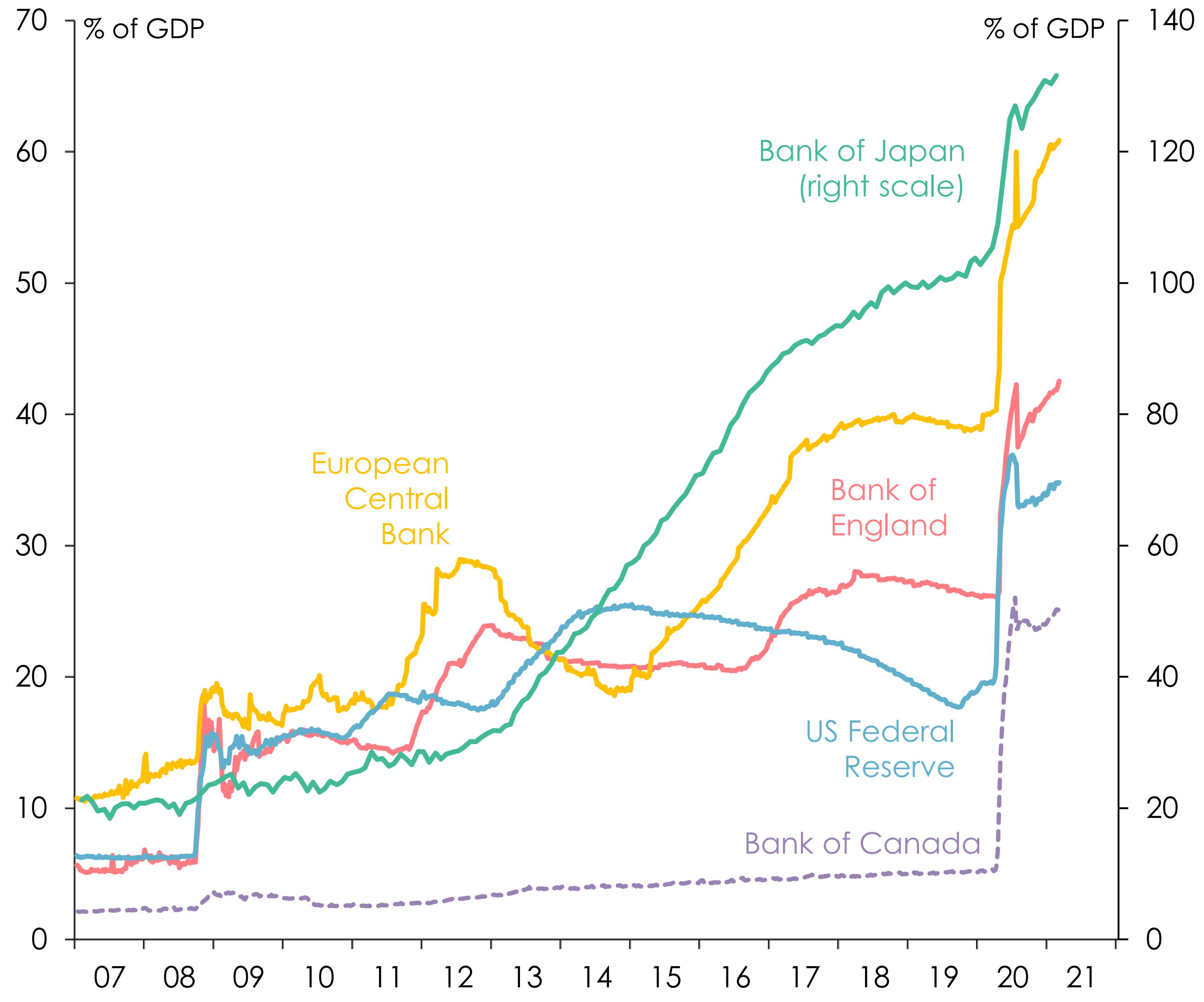
Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

Major central bank policy interest rates



Major central bank balance sheets



Note: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 are in large part due to rebounds in nominal GDP. Fed assets since October are expressed as a pc of (annualized) Q4 GDP; others are as percentages of Q3 GDP. *Sources:* US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; Bank of Canada; national statistical agencies; Corinna. Return to "What's New".

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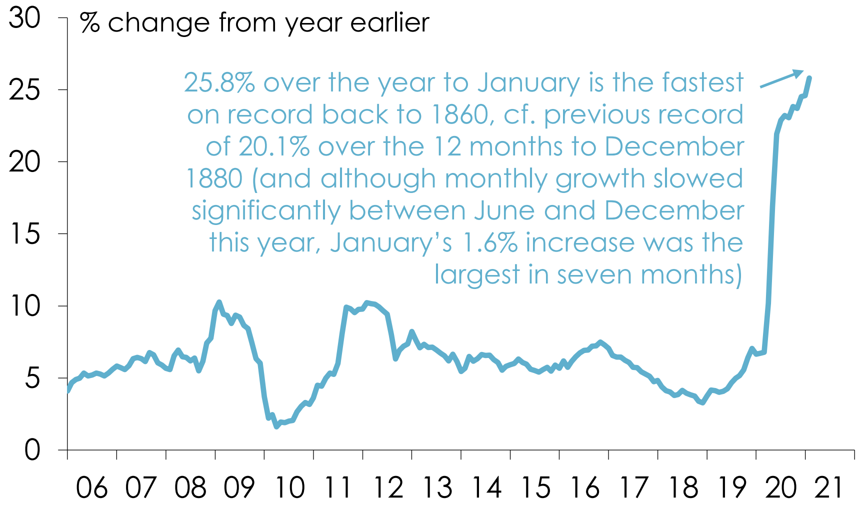
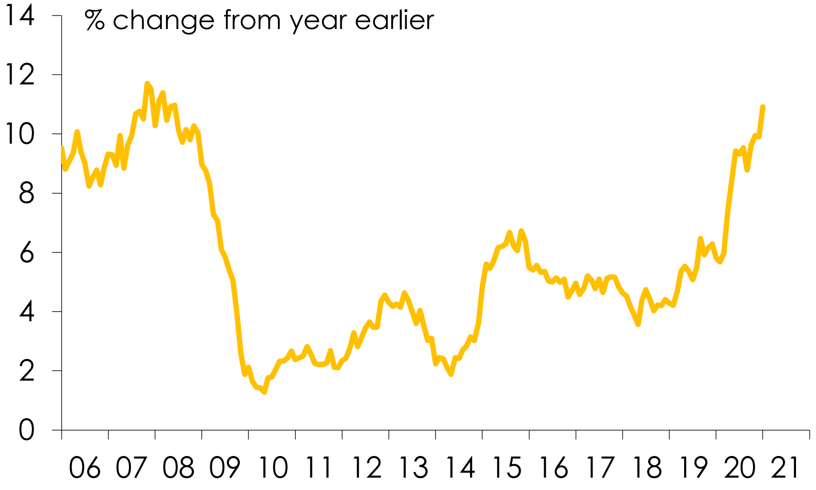
'QE' has prompted a faster acceleration in money supply growth than it did during the GFC – except in Australia & NZ which didn't do QE in the GFC

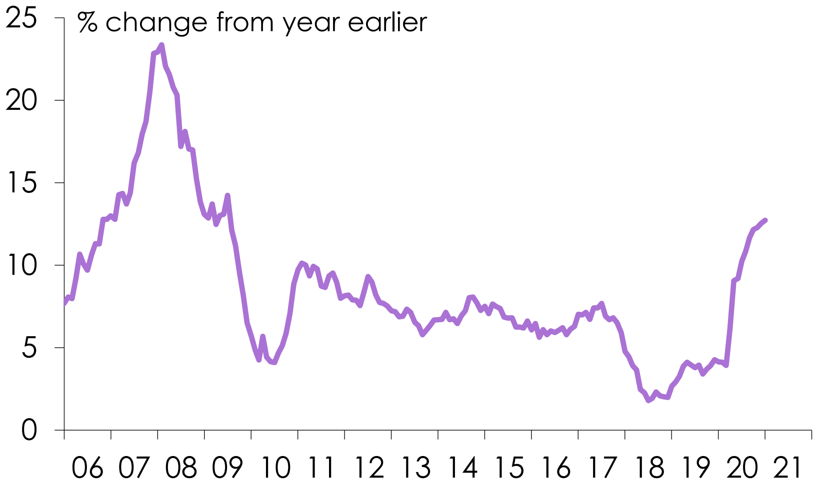
US M2



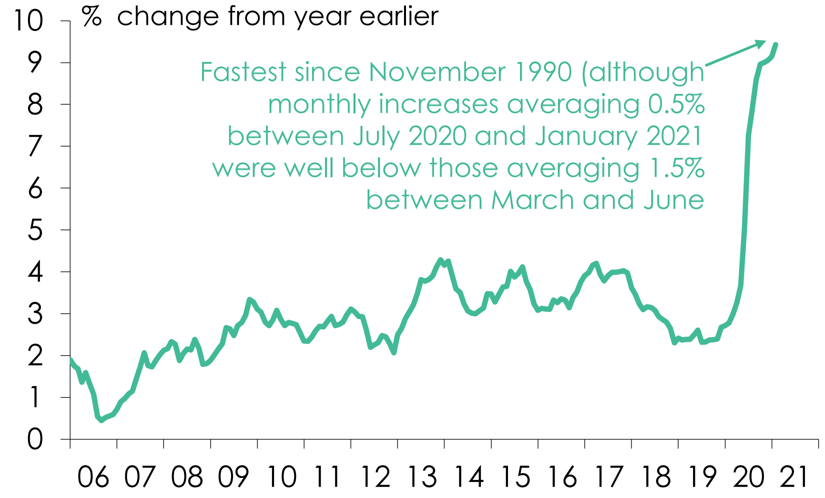
Euro area M2



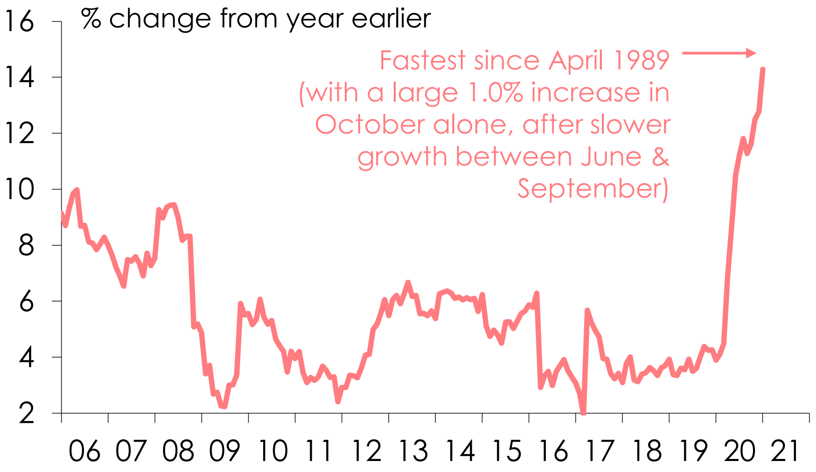
Australia M3



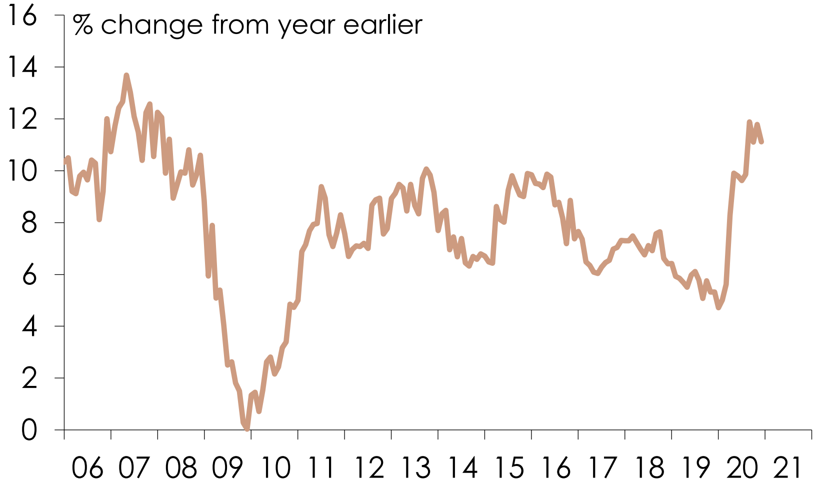
Japan M2 + CDs



UK M2



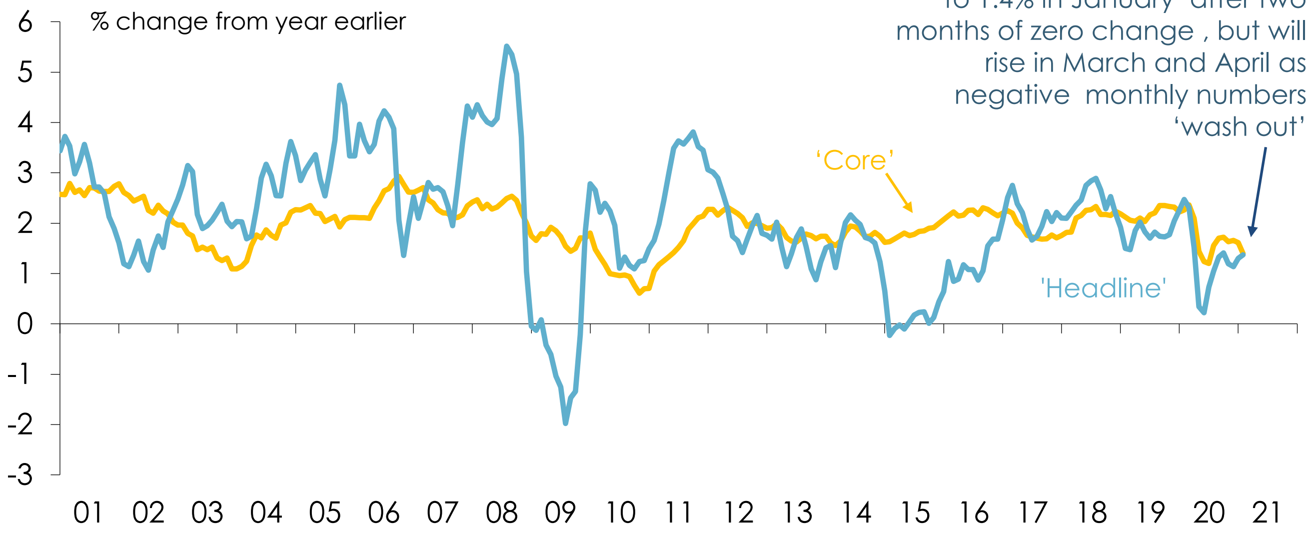
New Zealand M3



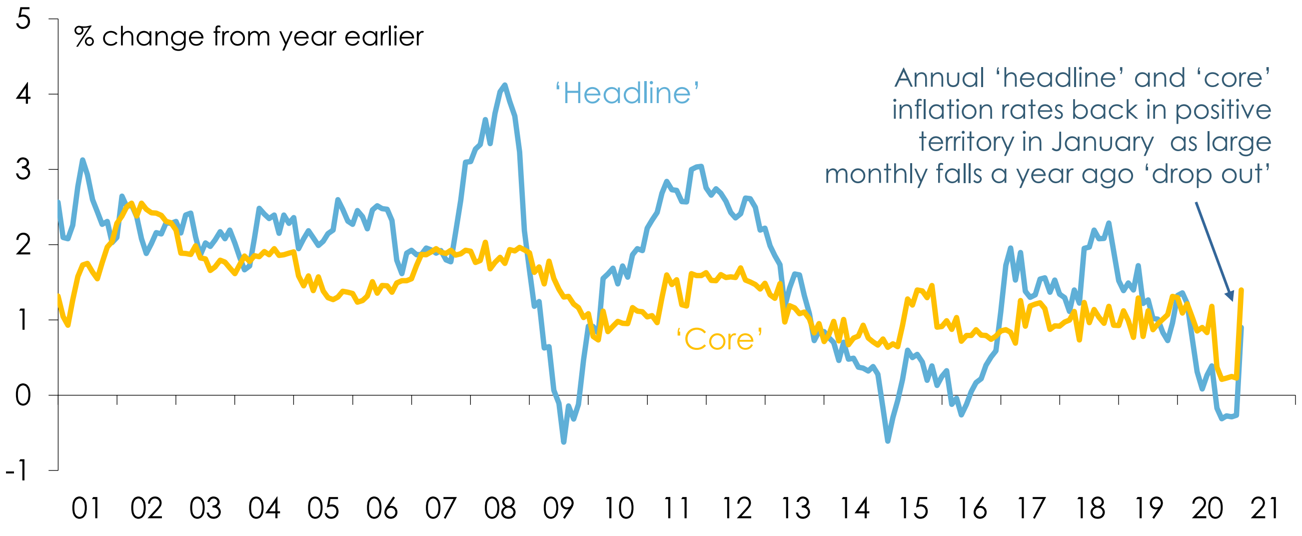
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ; Longtermtrends. Return to "What's New".

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

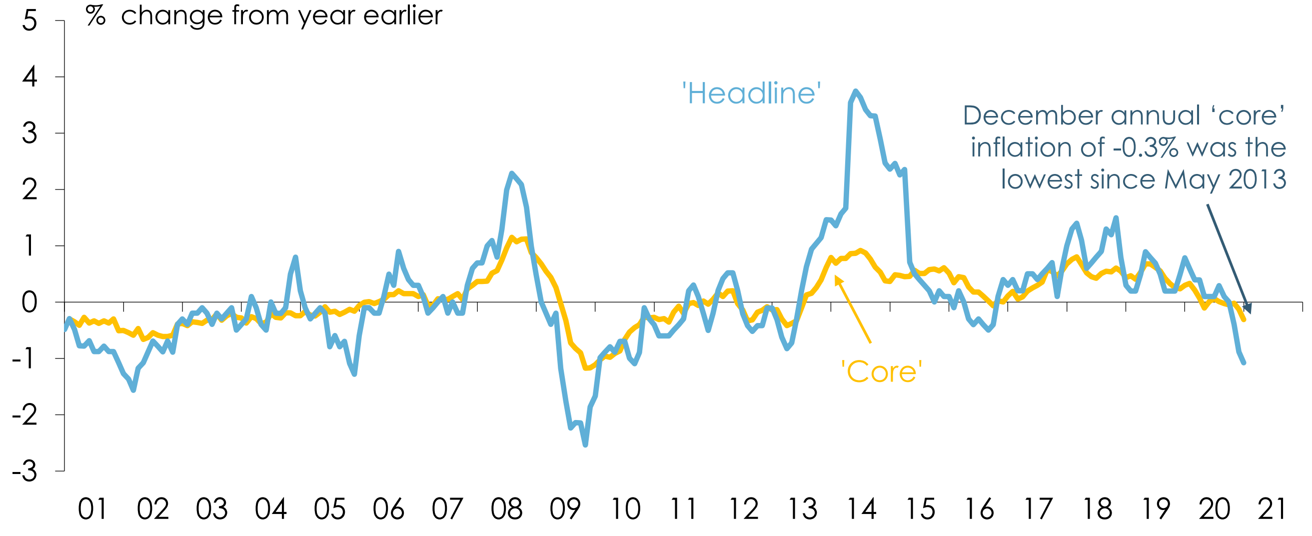
'Headline' and 'core' inflation - US



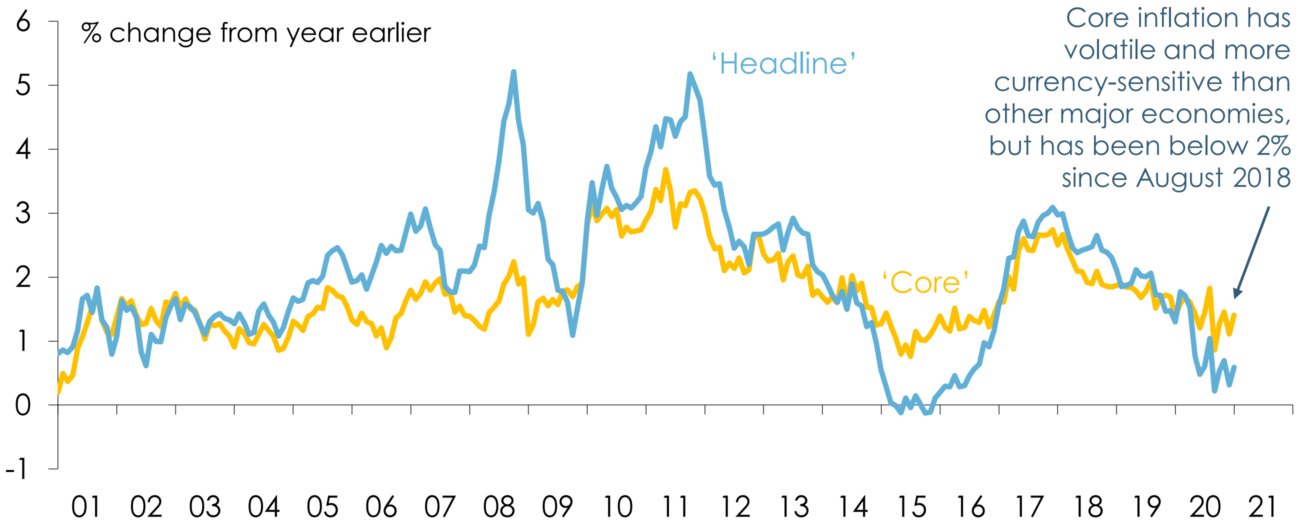
'Headline' and 'core' inflation – Euro area



'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".

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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 last month (27th January)**
  - 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"

Return to "What's New".

The BoE left monetary policy settings unchanged at its first meeting for 2021 last week, as the ECB and BoJ did last month

- **The Bank of England's Monetary Policy Committee left its monetary policy settings unchanged at its first meeting for 2021 held last Thursday**
  - BoE staff estimated that UK GDP had risen ½% in Q4 2020 (an upgrade from the previous estimate) but would fall 4% in Q1 (to be still 12% below the Q4 2019 pre-pandemic level) – before "recover[ing] rapidly towards pre-Covid levels over 2021" as progress with vaccines allowed restrictions to be eased, with GDP regaining its pre-Covid level by Q1 2022
  - "labour market slack" was probably higher than implied by the official unemployment rate of 5%, which was projected to peak at around 7¾% in mid-2021
  - 'headline' inflation was expected to pick up rapidly in March-April reflecting higher energy prices and the expiry of the temporary reduction in VAT
- **The European Central Bank left all its monetary policy settings unchanged at its first meeting for 2021 on January 21st**
  - it noted that "output is likely to have contracted in the fourth quarter of 2020" and that "the intensification of the pandemic poses some downside risks to the short-term economic outlook"
  - although because of other offsetting factors (in particular, the ECB had previously assumed a 'no deal Brexit', and hadn't factored in approval of the Next Generation recovery fund), the ECB characterized the outlook as still being "broadly in line with the latest baseline of the December 2020 macroeconomic projections"
  - the ECB recommitted to keeping interest rates "at present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2%", and to continuing asset purchases until "at least the end of March 2022 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over"
- **The Bank of Japan also held its first monetary policy meeting for 2021 on 21st January 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"

Return to "What's New".

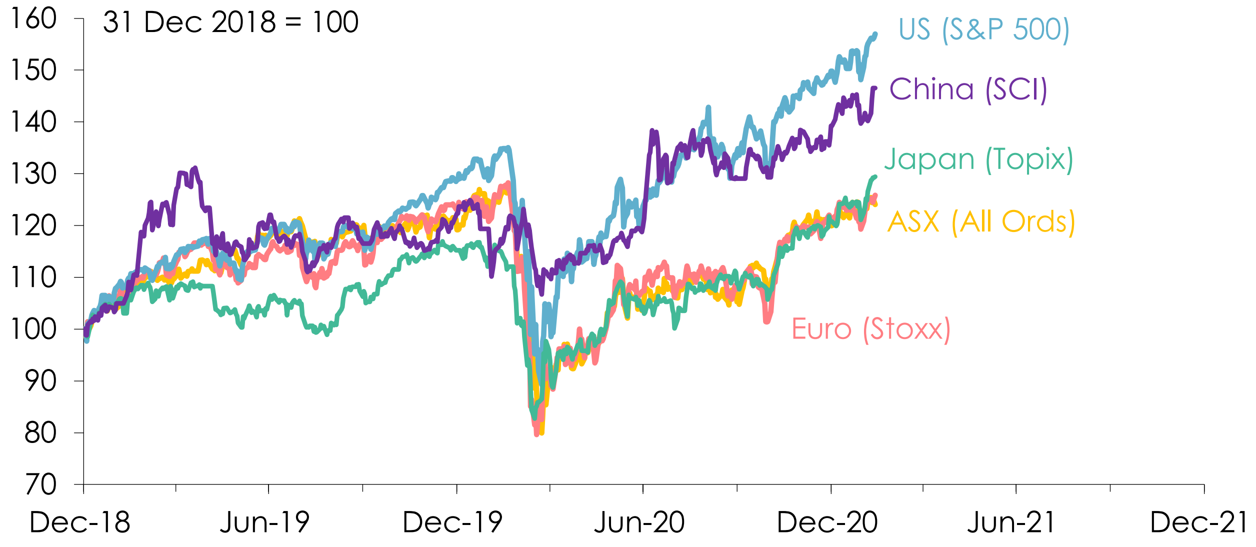
There's been widespread debate this week over whether the Biden Administration's US$1.9trn fiscal package is 'too big'

- **Last Friday (5th February) former US Treasury Secretary (in the second Clinton Administration) Larry Summers argued that the Biden Administration's US$1.9 trn stimulus plan was 'too big' and risked generating higher inflation**
  - Summers calculated that the proposed stimulus was three times as large as the 'output gap' (between actual and 'potential' GDP) as recently reckoned by the Congressional Budget Office (cf. the Obama Administration's fiscal response to the global financial crisis which was only half the size of the then-projected 'output gap'
  - combined with the US$1½ trn of additional savings which US households accumulated last year, and much looser monetary policy settings now than then, Summers argued that this stimulus could "set off inflationary pressures of a kind we have not seen in a generation, with consequences for the value of the dollar and financial stability"
  - Summers was also critical of the composition of the Administration's stimulus plan, noting that it contained "no increase in public investment" to address "everything from infrastructure to preschool education to renewable energy"
- **Former IMC Chief Economist Olivier Blanchard backed Summers, tweeting that the Biden program could "overheat the economy so badly as to be counter-productive"**
- **New Treasury Secretary (and former Fed Chair) Janet Yellen defended the Administration's proposals, citing the same CBO analysis as suggesting without additional fiscal support it unemployment wouldn't fall to pre-pandemic levels until 2025, and arguing "we have the tools to deal with [rising inflation] if it materializes"**
- **Fed Chair Jerome Powell, in a speech on Wednesday, seemed relaxed about the inflation outlook, emphasizing instead that the economy was "a long way" from the labour market conditions the Fed was seeking to achieve (and noting the 'effective' unemployment rate was still 'close to 10%' in January) – and that "achieving and sustaining maximum employment … will require a society-wide commitment, with contributions from across government and the private sector"**
- **While there is clear room for improvements in the composition of the stimulus plan (eg by 'means-testing' payments to households), if it does eventually lead to 'excess demand', that is more likely to be reflected in a larger current account deficit than in higher inflation**

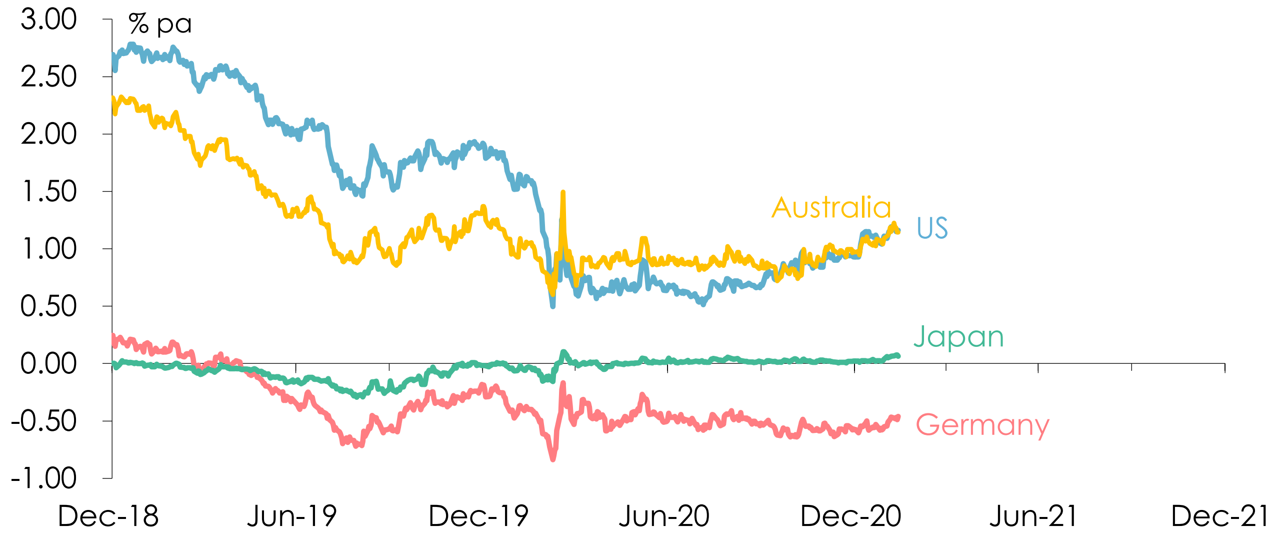
Return to "What's New".

The 'risk-on' mood in markets continued this week, with stocks (China and Japan in particular up), the US$ down and bond yields up then a bit lower

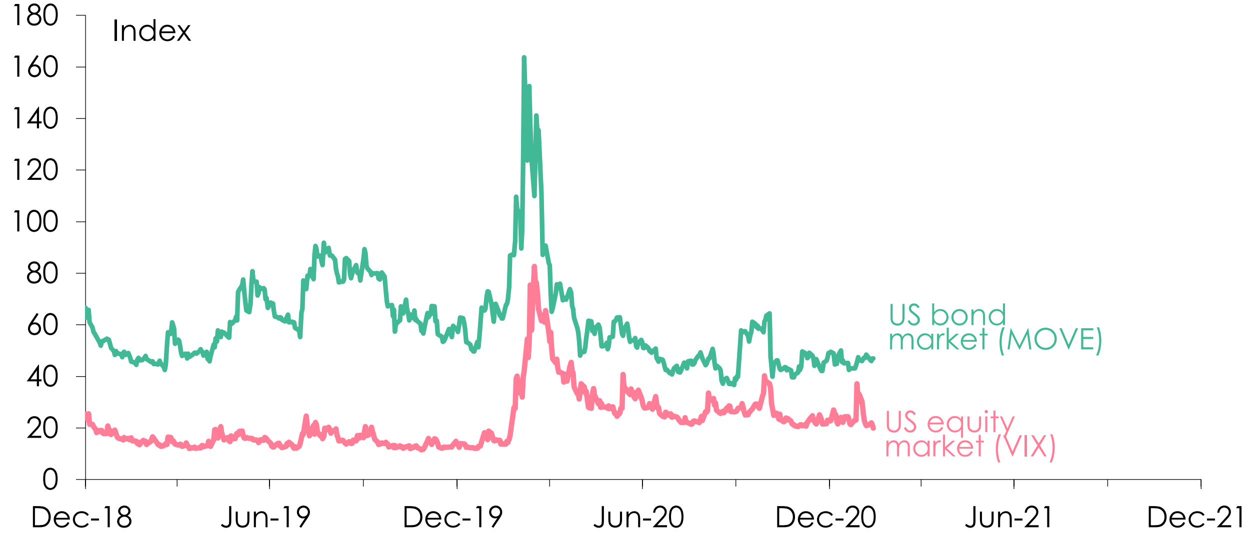
Stock markets



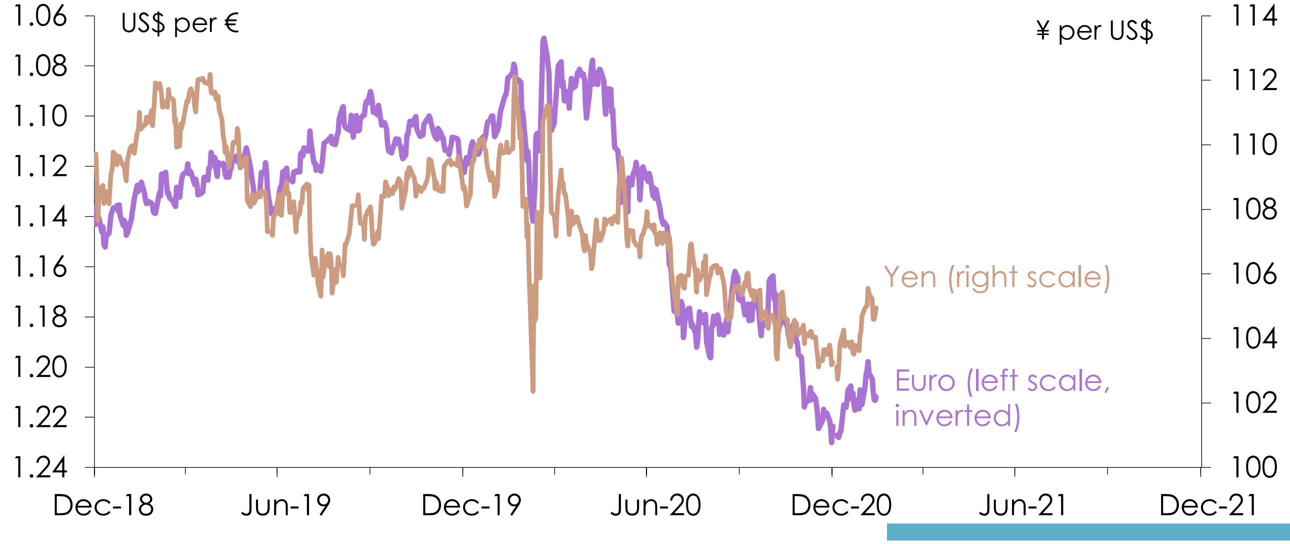
10-year bond yields



Measures of market volatility



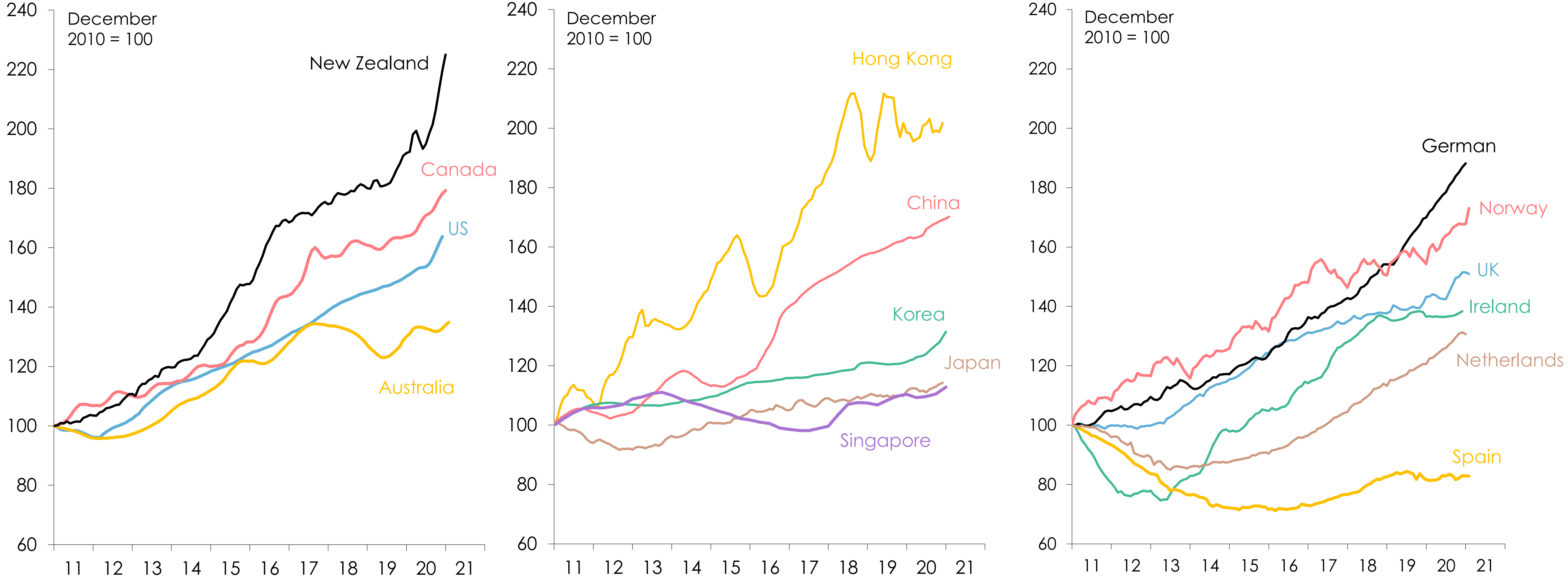
US dollar vs euro and yen



Source: Refintiv Datastream. Data up to 12th February. Return to "What's New".

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

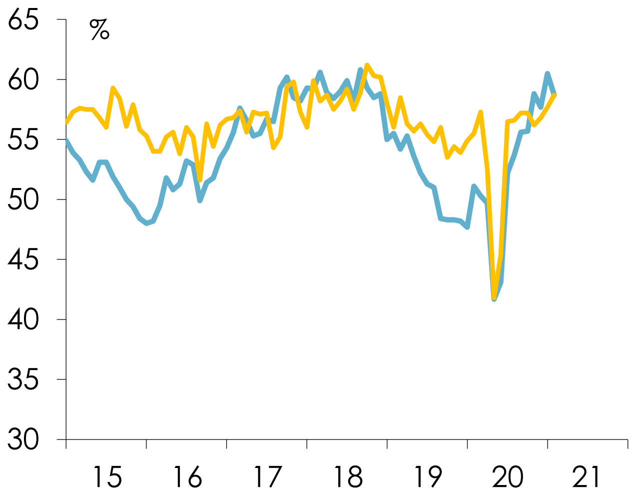
House price indices



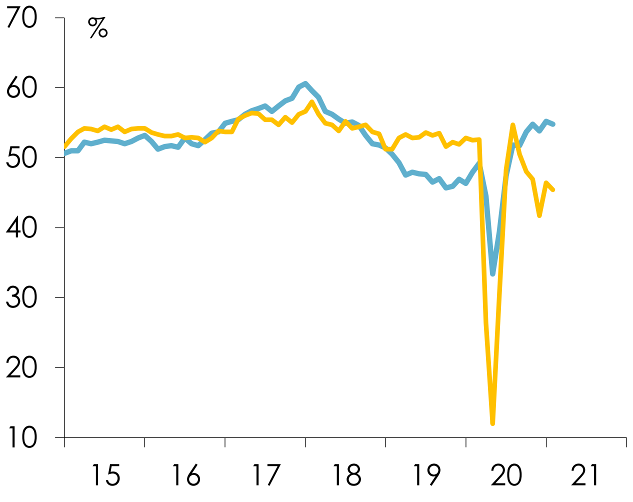
Note: House price indices shown in these charts are those published by S&P-CoreLogic Case Shiller national (United States); Teranet-National Bank (Canada); CoreLogic (Australia); Real Estate Institute of New Zealand; China Index Academy; Japan Real Estate Institute (Tokyo condominiums); Kookmin Bank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

January PMIs show ongoing recovery in manufacturing in 'advanced' economies by setbacks in services (except for US) and EM manufacturing

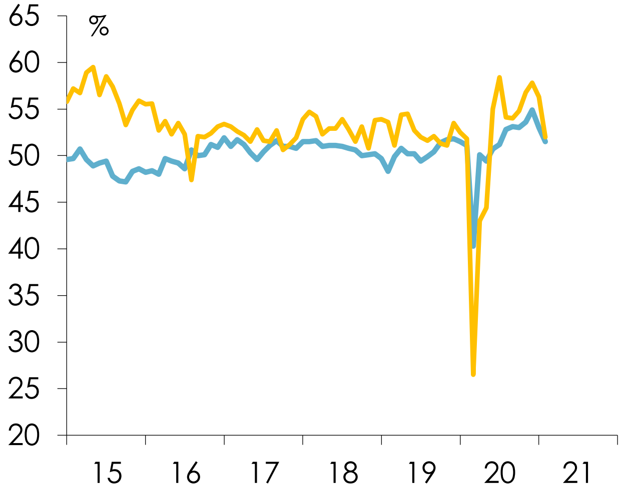
US



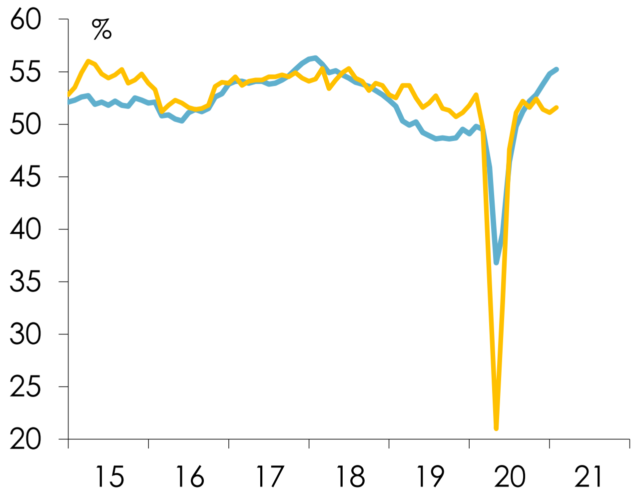
Euro area



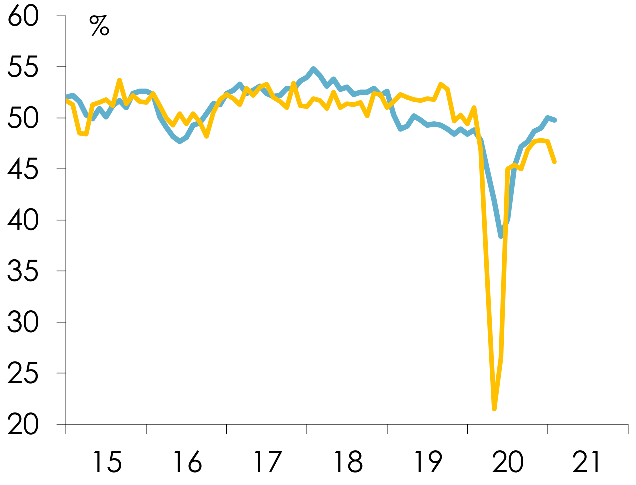
China



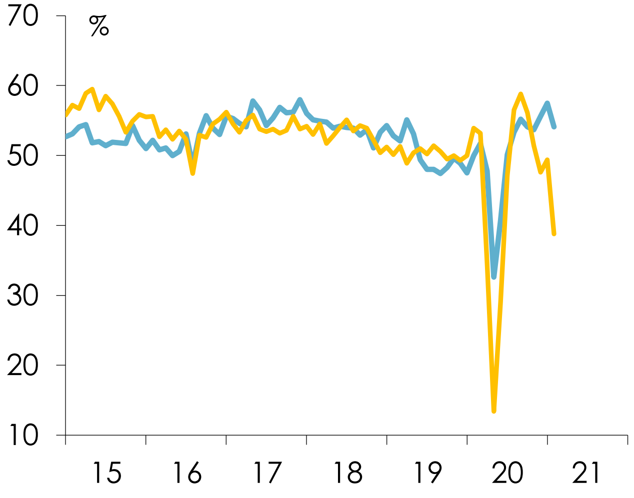
Developed markets



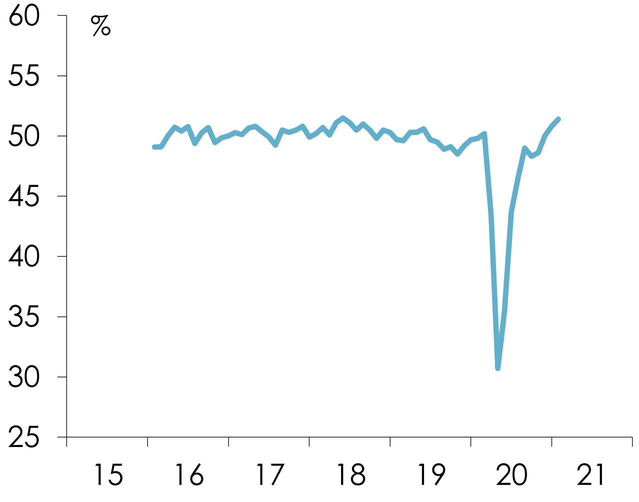
Japan



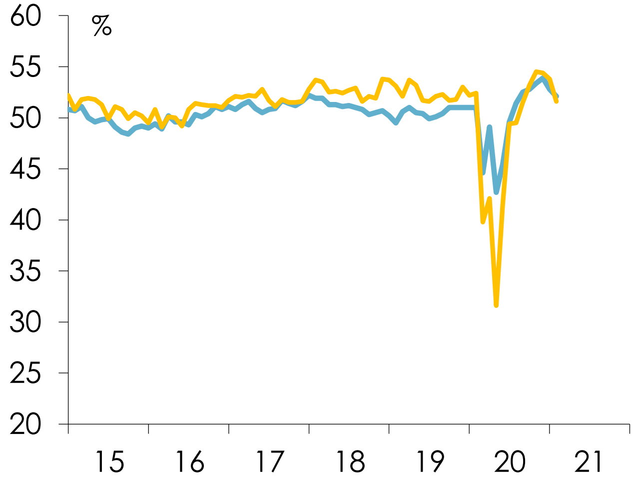
UK



ASEAN



Emerging markets



Manufacturing Services

Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for January. See also PMIs for other Asia-Pacific economies on slide 49. Sources: US Institute for Supply Management; IHS Markit; JP Morgan; Caixin; Refinitiv Datastream. Return to "What's New".

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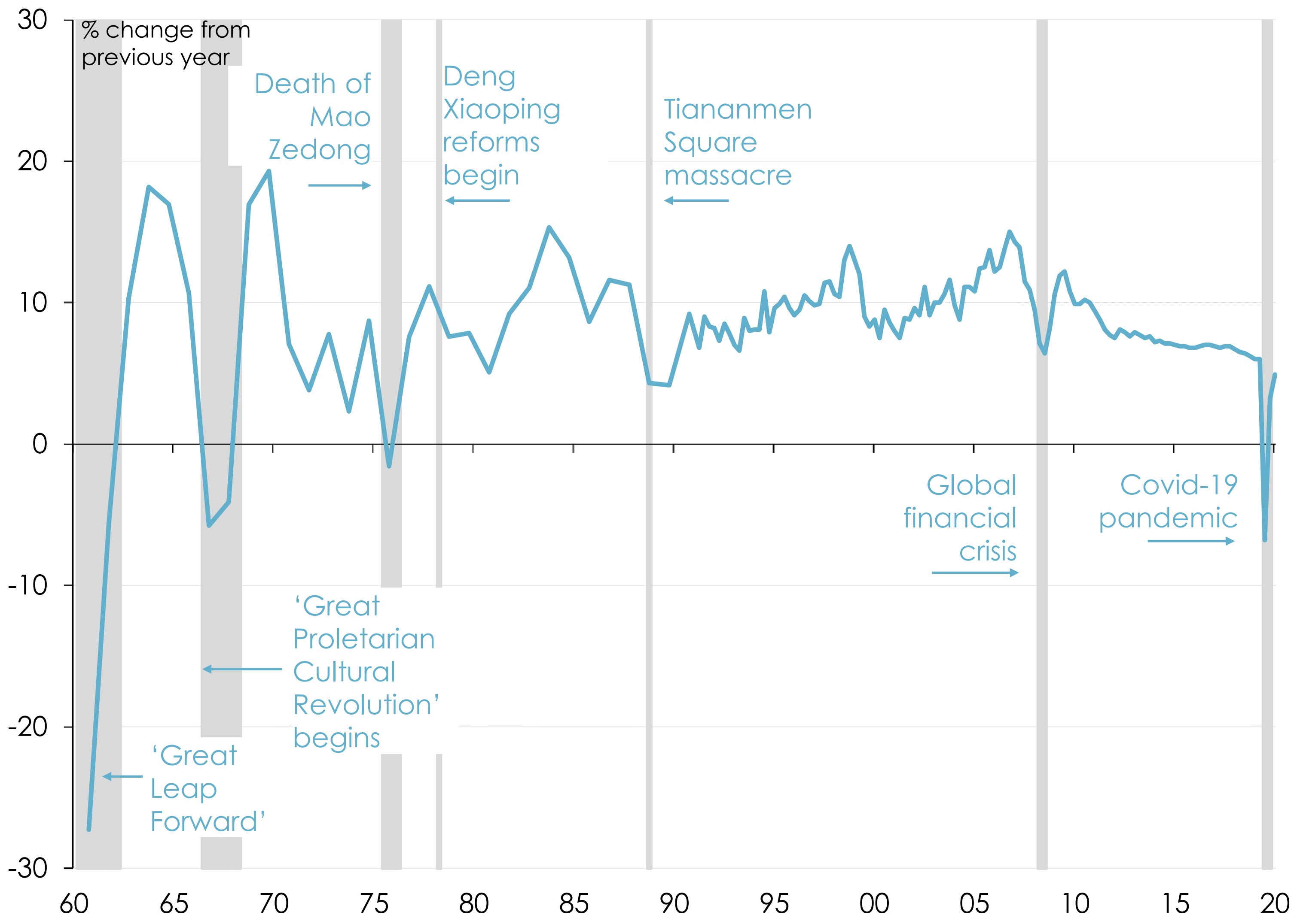
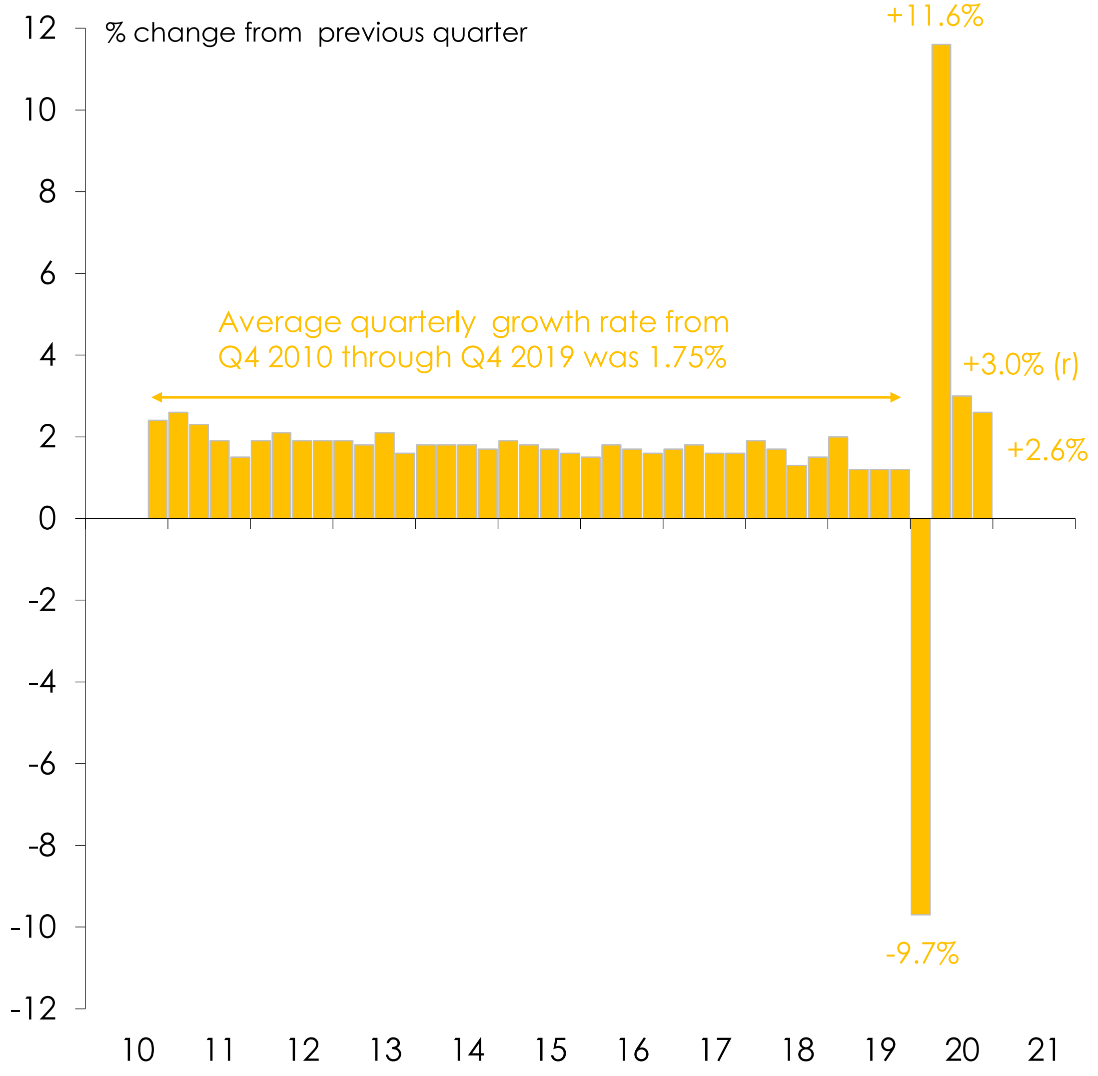
China's economy grew 2.7% in Q3, after an 11.7% rebound in Q2, implying that the 10% drop in output in Q1 has been fully recouped

Real GDP growth, from year earlier, 1961-2020



Quarterly real GDP growth, 2010-2020



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

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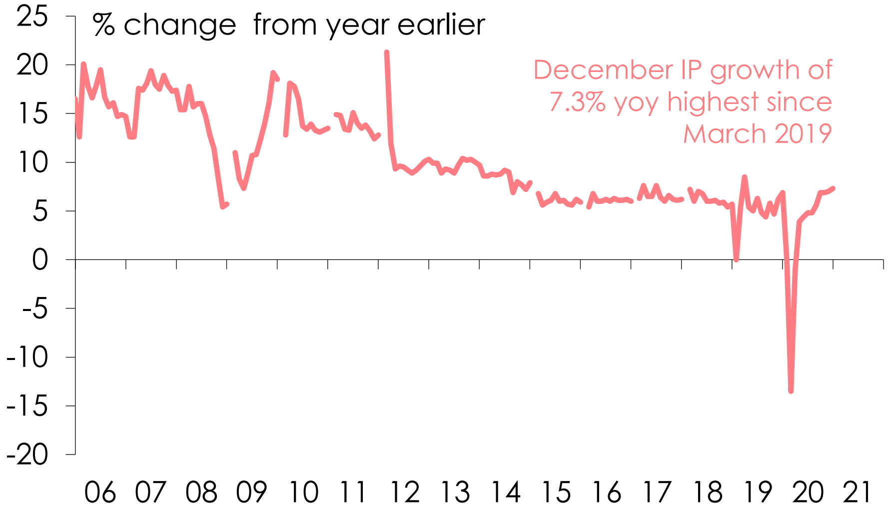
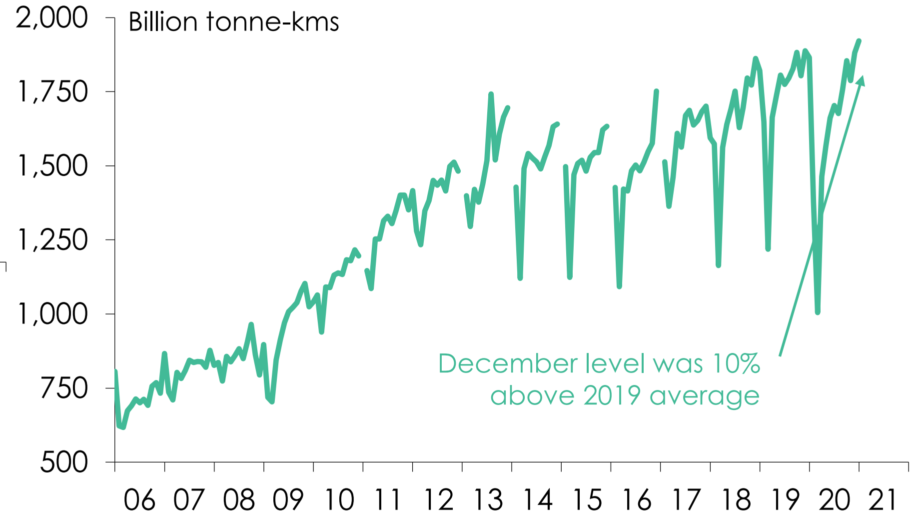
The 'production side' of the Chinese economy is now largely back to or above pre-pandemic levels, though levelling out in Q4

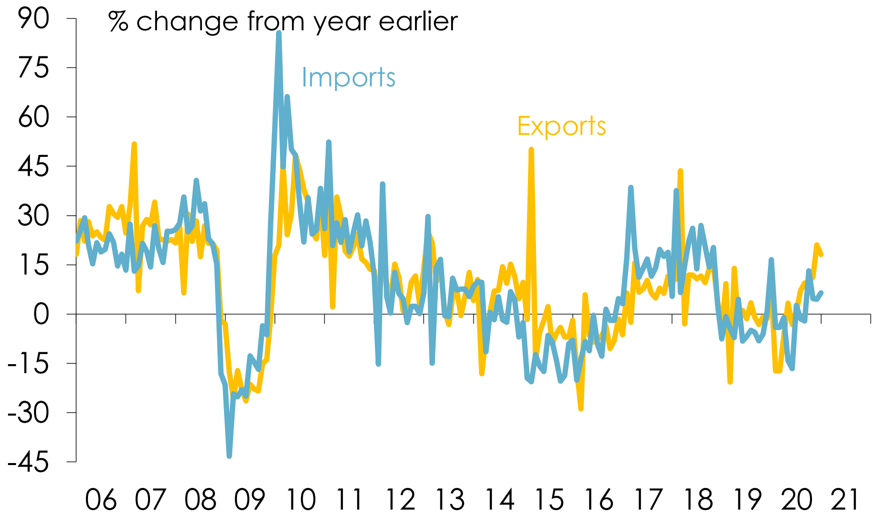
Industrial production



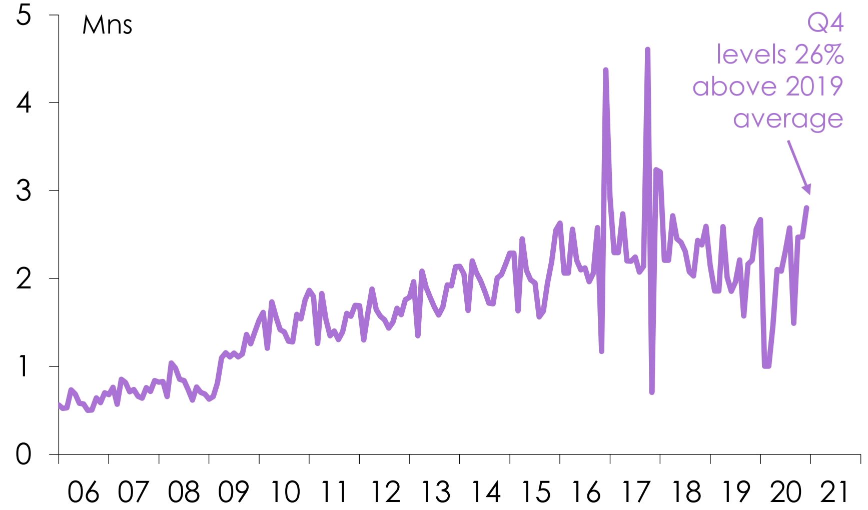
Freight traffic volumes



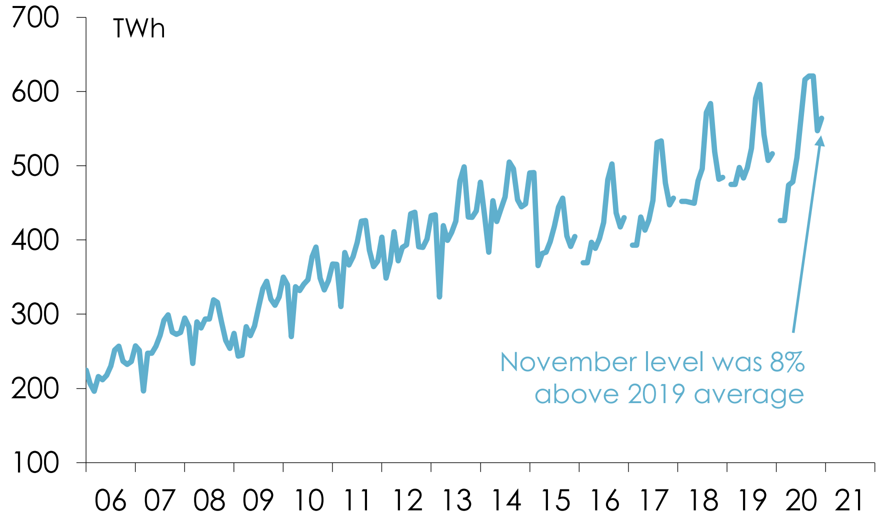
Merchandise trade



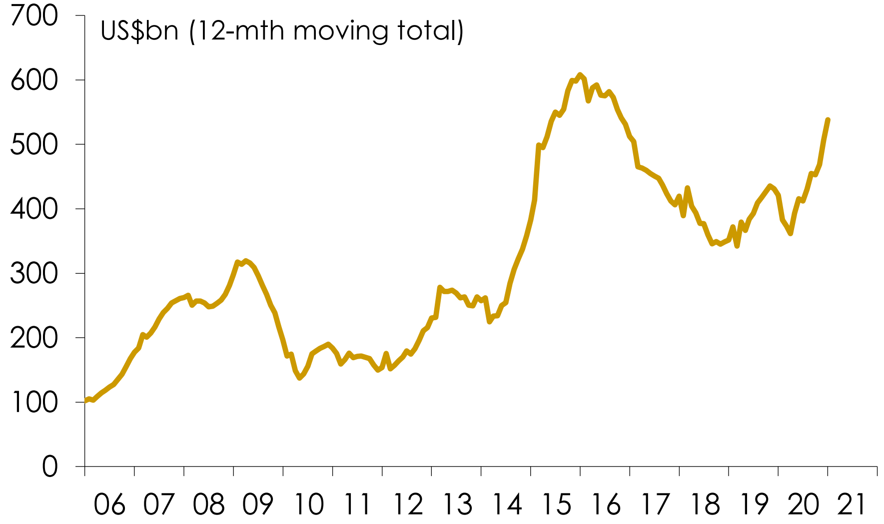
Motor vehicle production



Primary electricity production



Merchandise trade balance

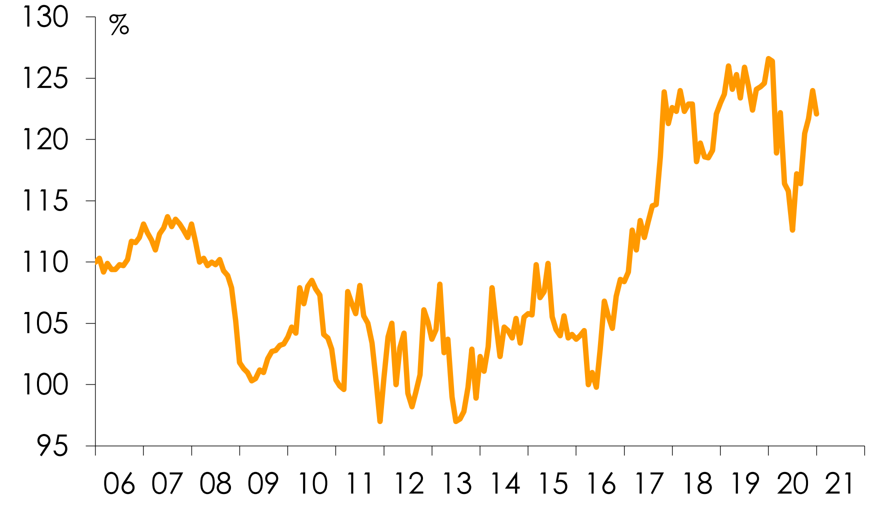


Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest data are for December: note that most monthly data for January and February are combined and will be released in the third week of March. Return to "What's New".

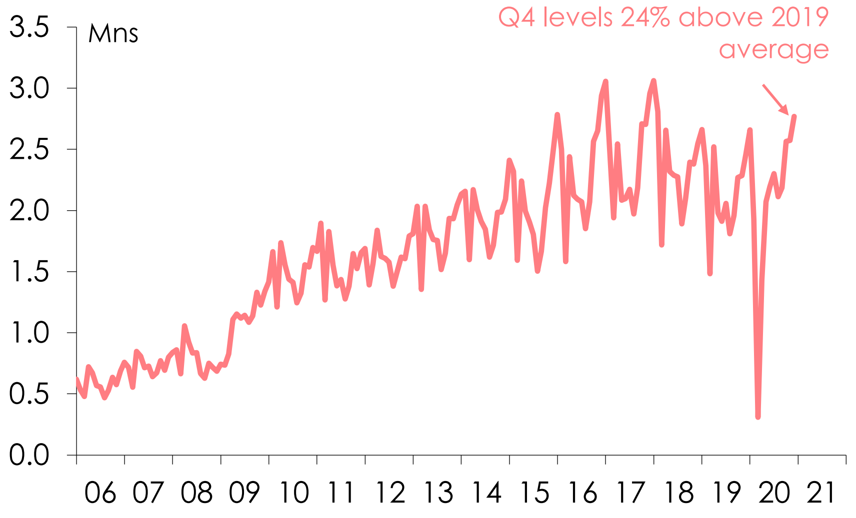
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

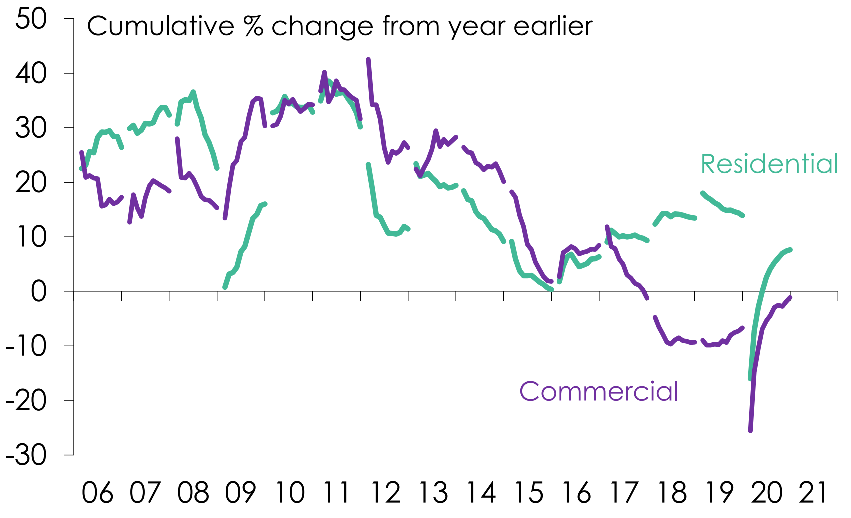
Consumer sentiment



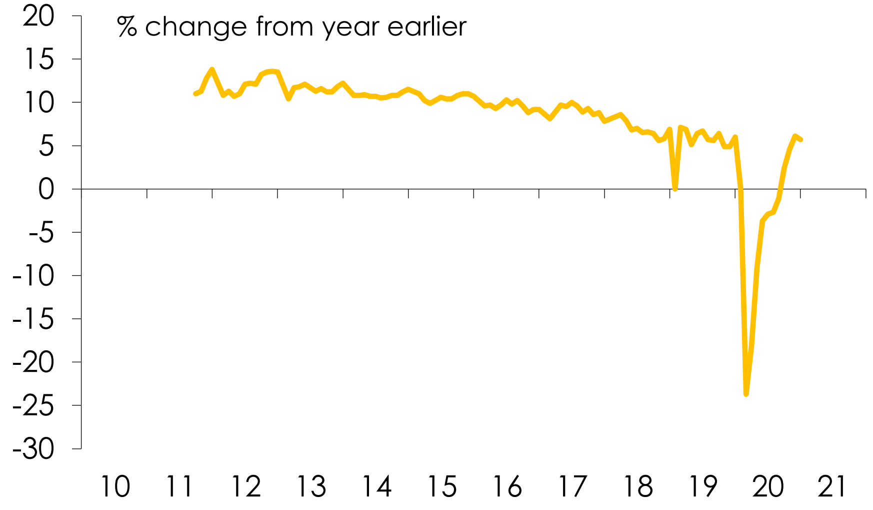
Motor vehicle sales



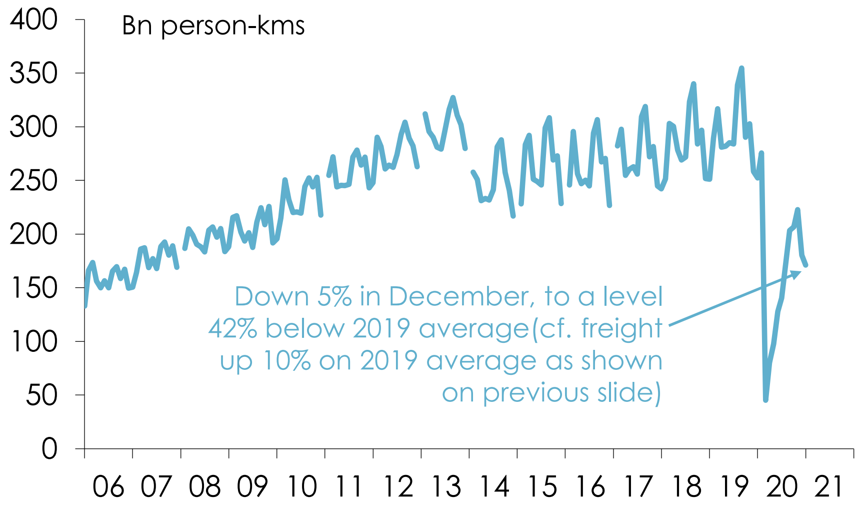
Real estate investment



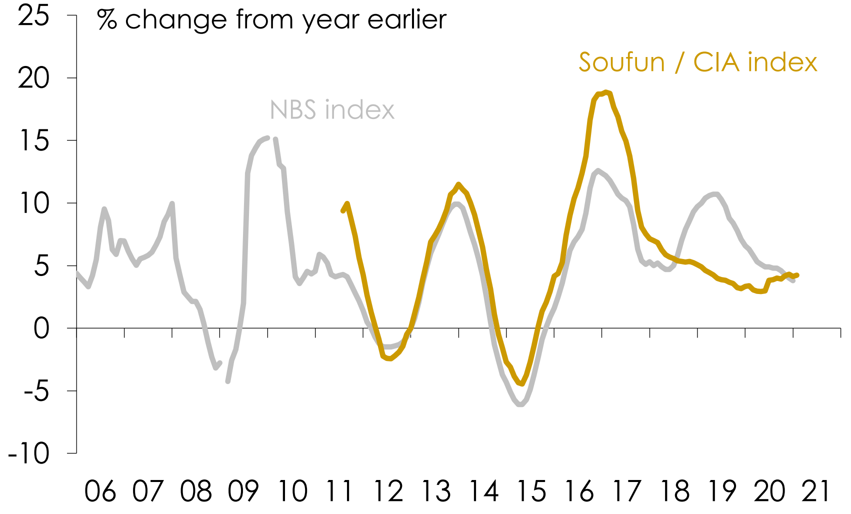
Volume of retail sales



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".

SAUL ESLAKE
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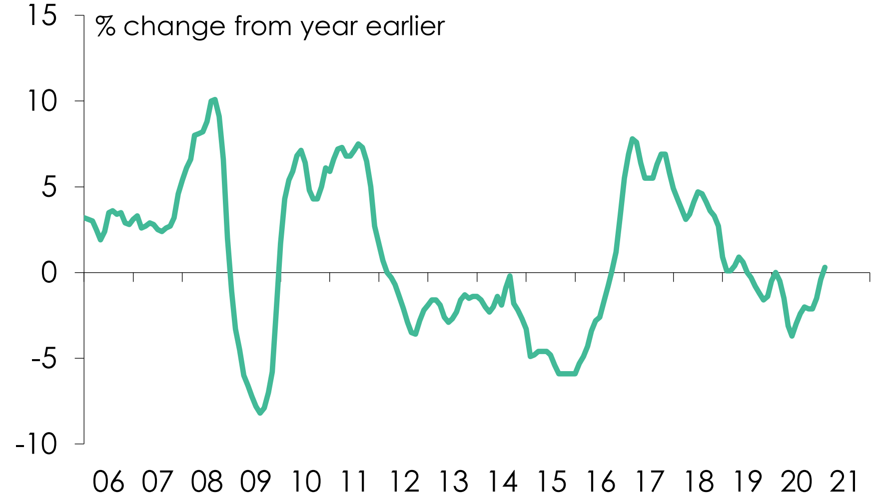
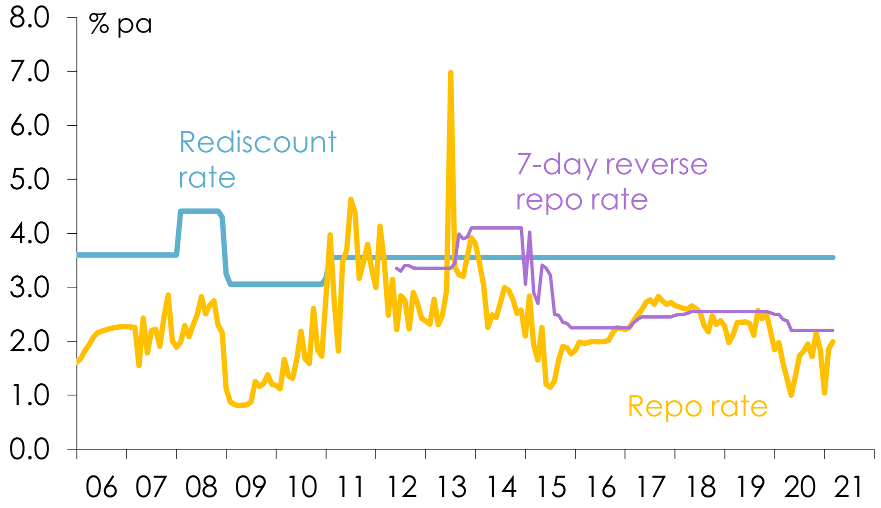
Lower inflation gives PBoC scope to ease monetary policy, but monetary authorities are giving greater weight to financial stability concerns

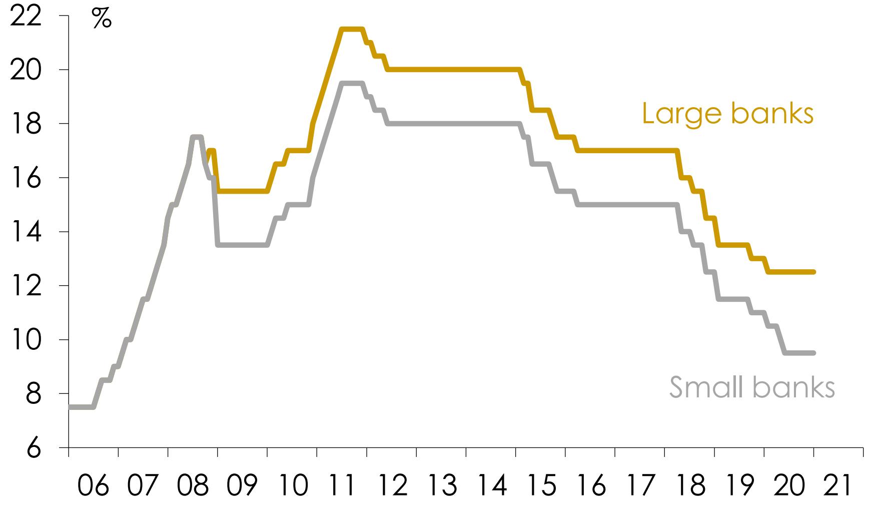
Producer prices



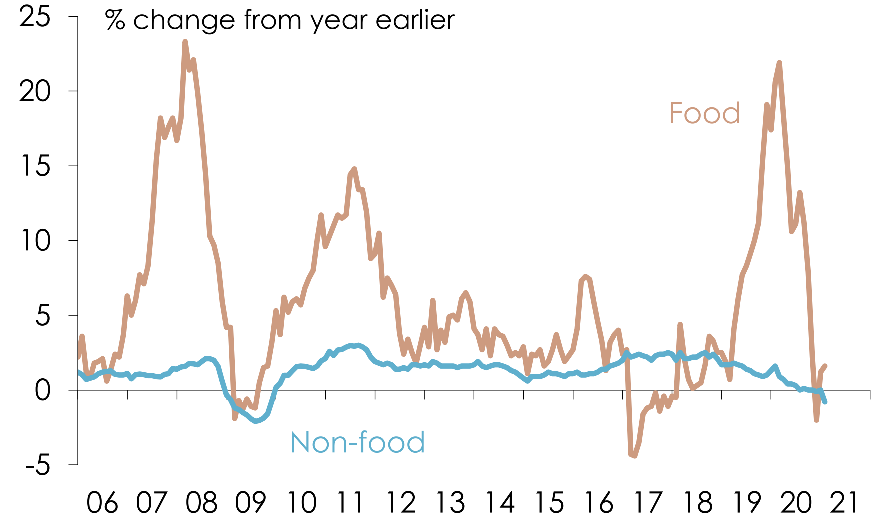
PBoC policy interest rates



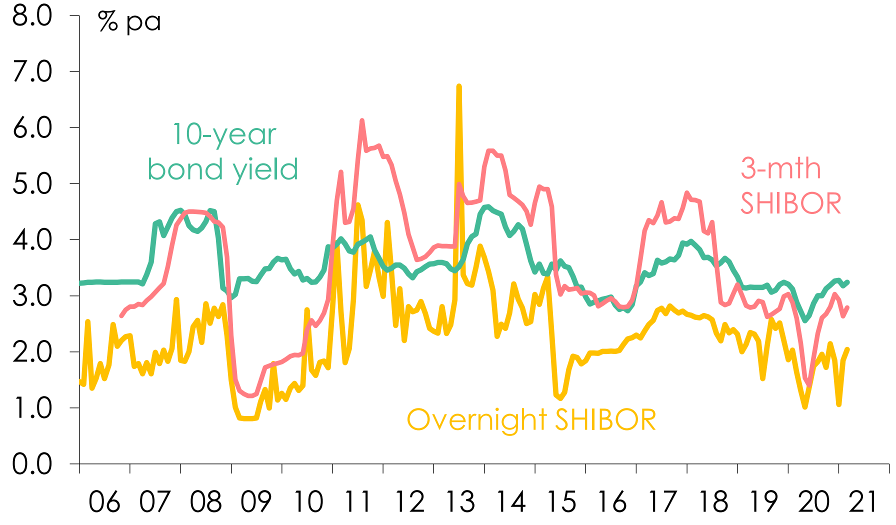
Bank reserve requirement ratios



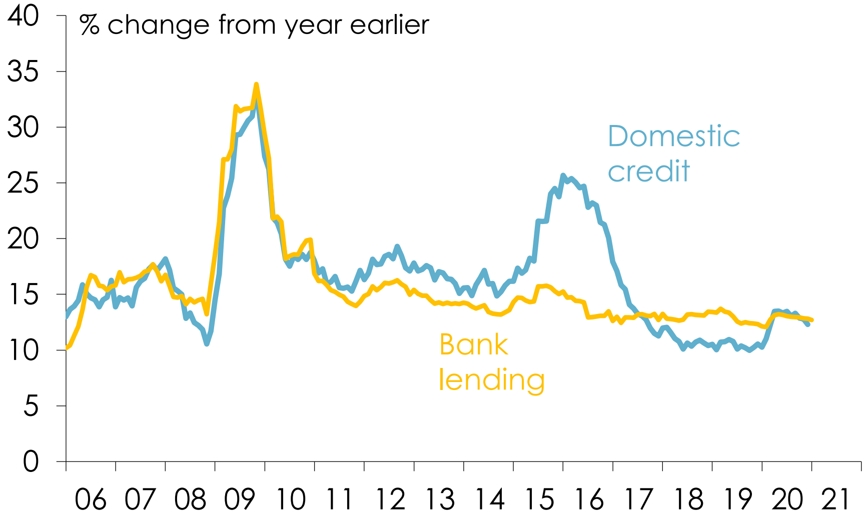
Consumer prices



Market interest rates



Credit growth

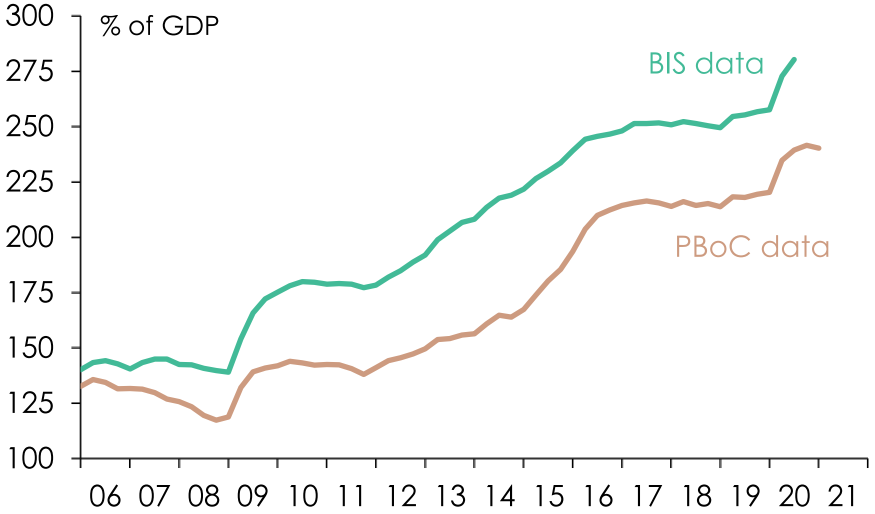


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.
Sources: China National Bureau of Statistics; Refinitiv Datastream; People's Bank of China. Return to "What's New".

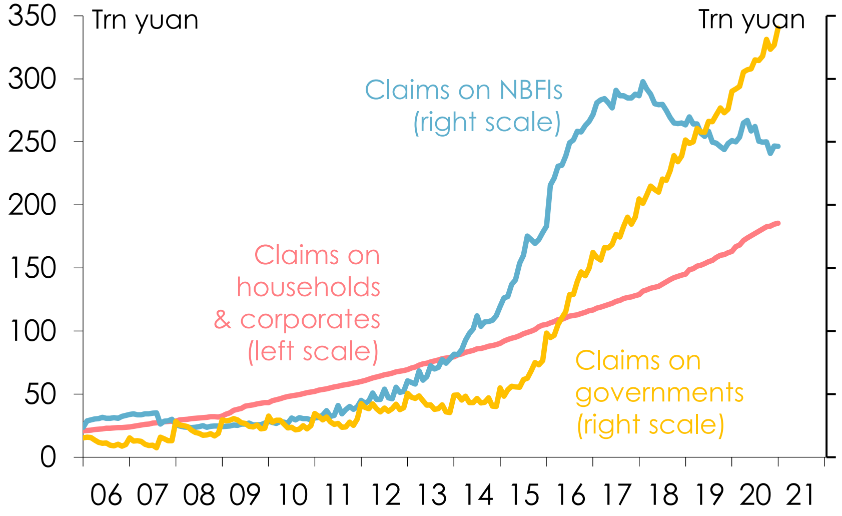
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

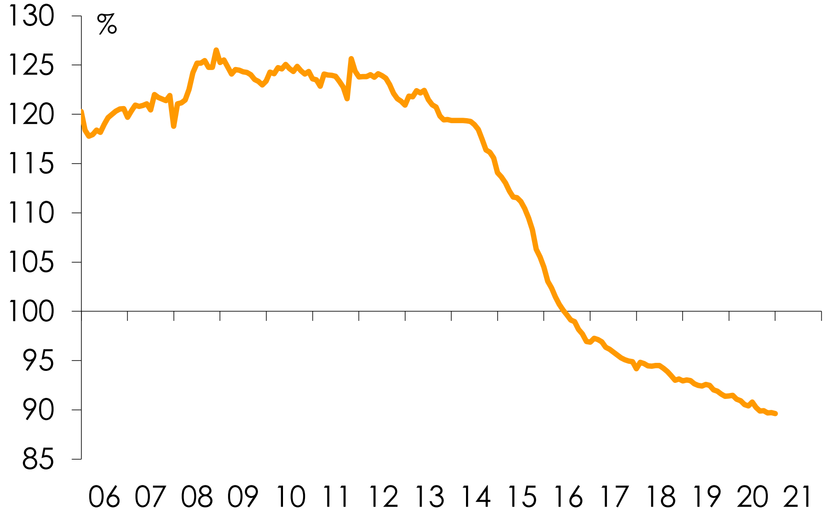
Credit outstanding as a pc of GDP



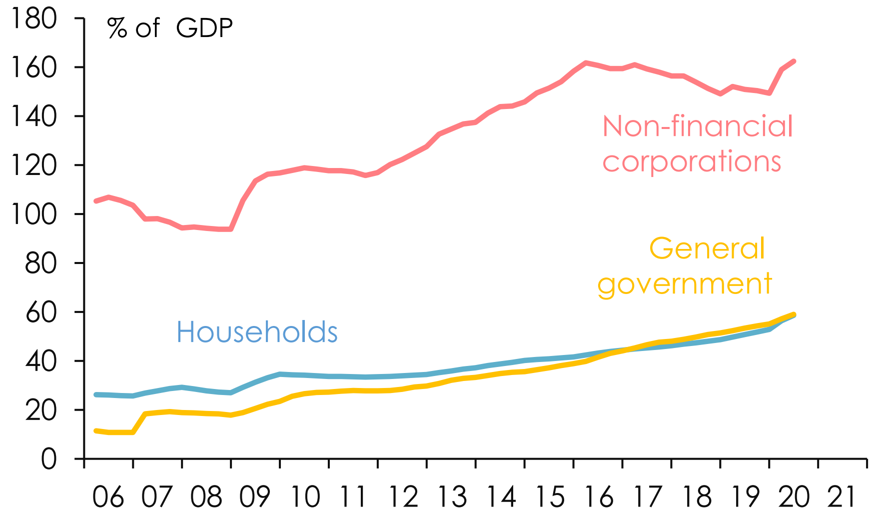
Banks' assets



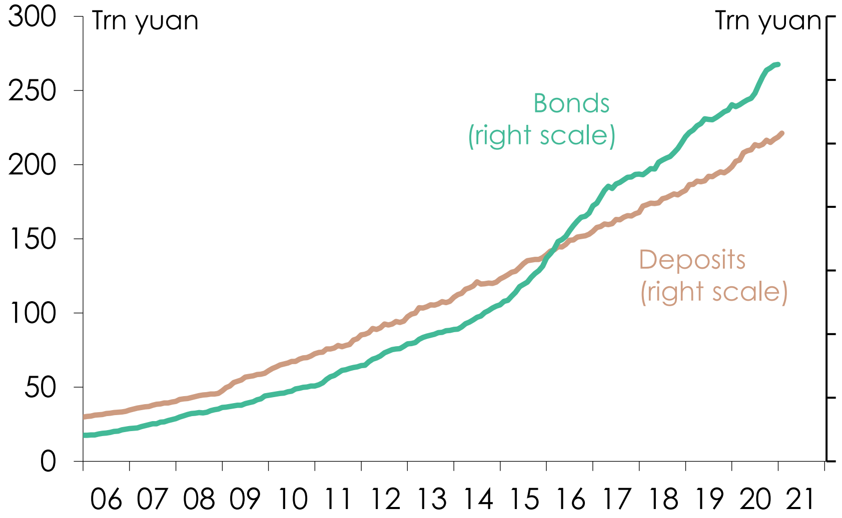
Banks' deposits-to-loans ratio



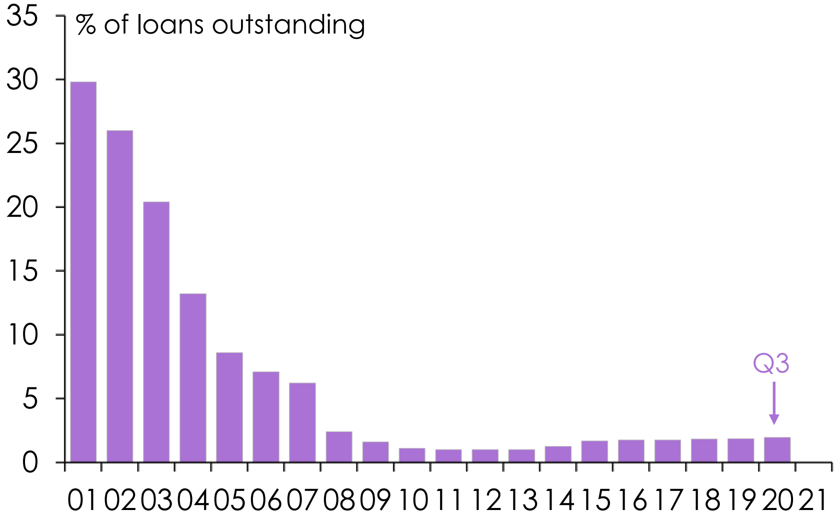
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates

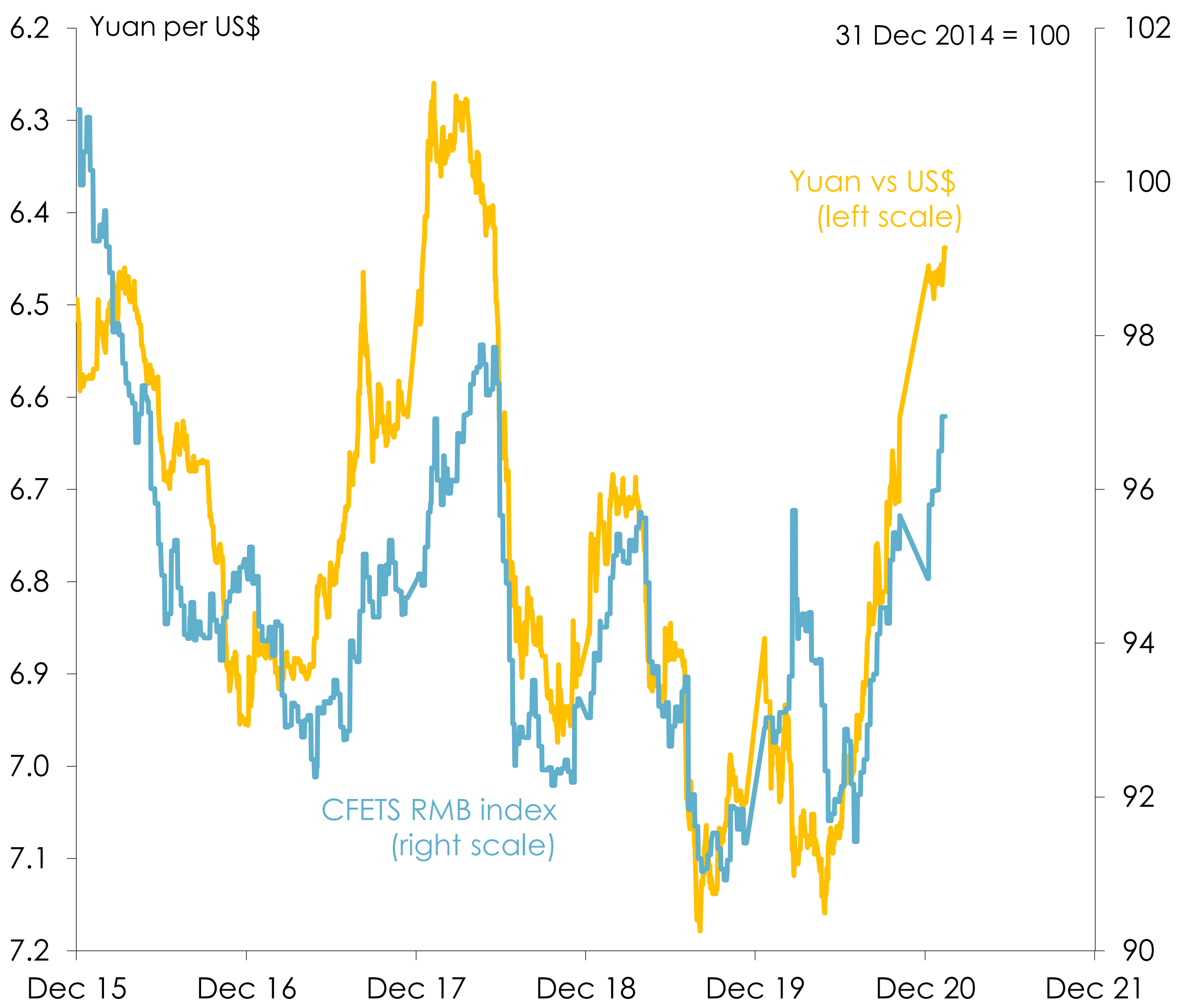


Sources: People's Bank of China; Bank for International Settlements; China Banking and Insurance Regulatory Commission. Return to "What's New".

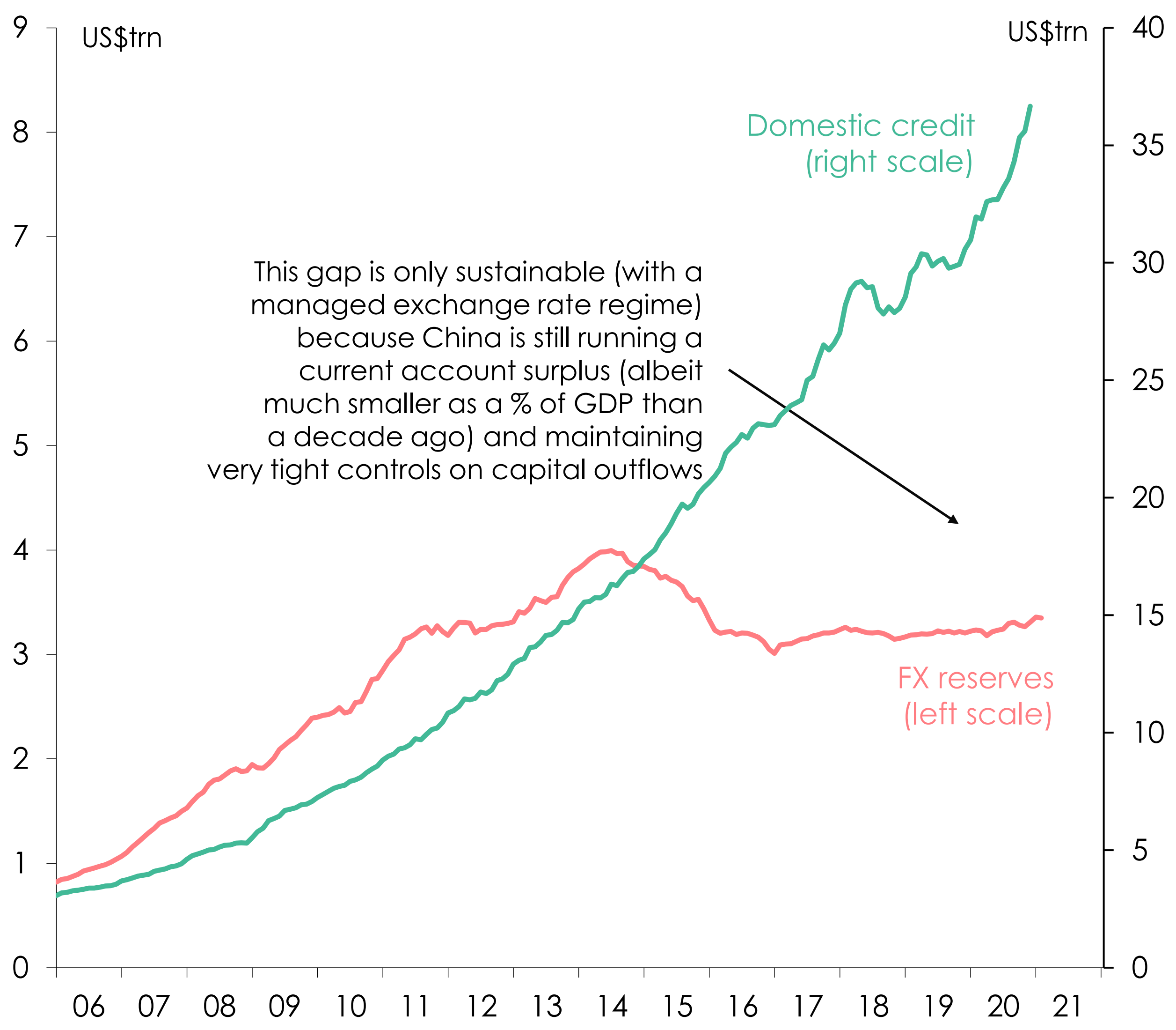
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The yuan rose 0.6% against a weaker US$ this week but was unchanged on the PBoC's trade-weighted index

Chinese renminbi vs US$ and trade-weighted index



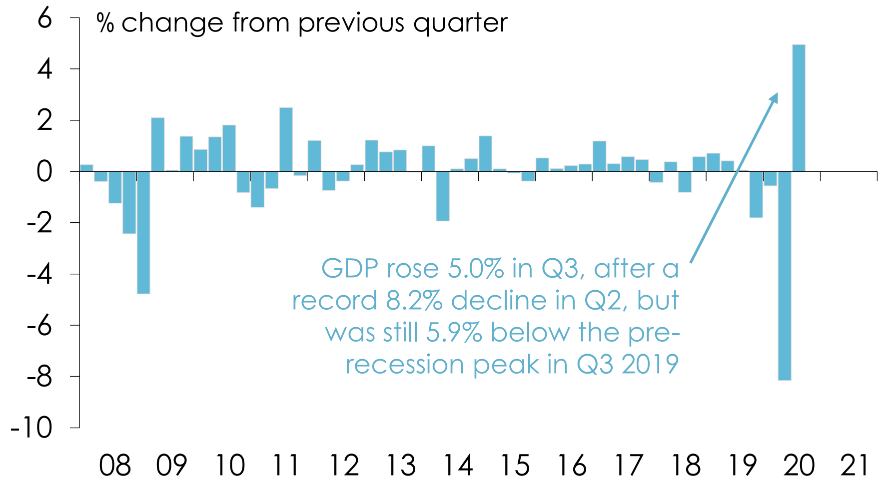
FX reserves and domestic credit



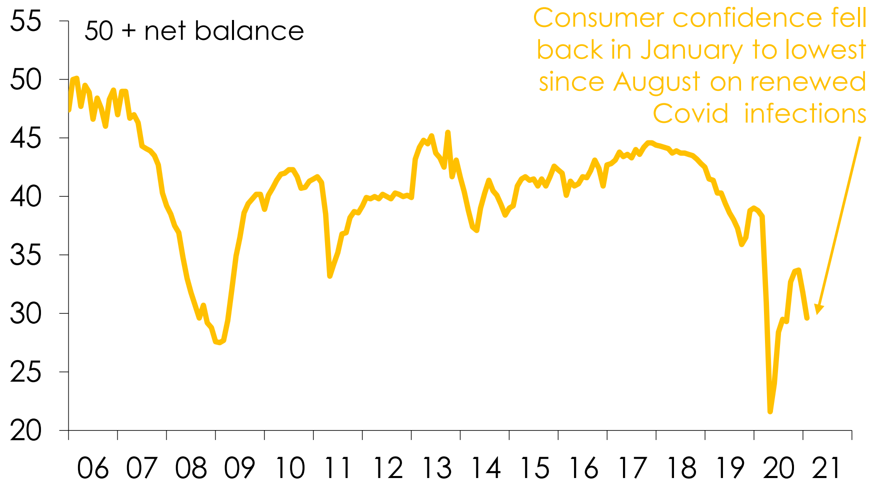
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 12th February; credit and FX reserves data up to December. Return to "What's New".

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

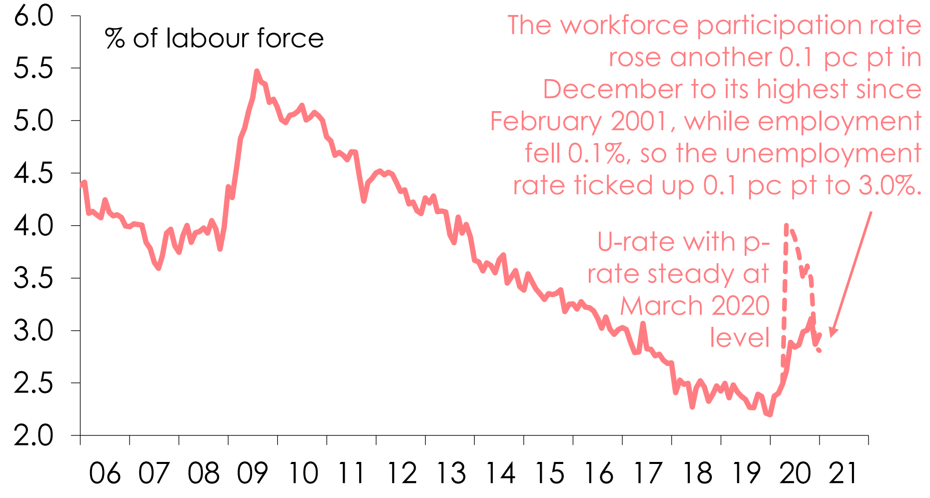
Real GDP



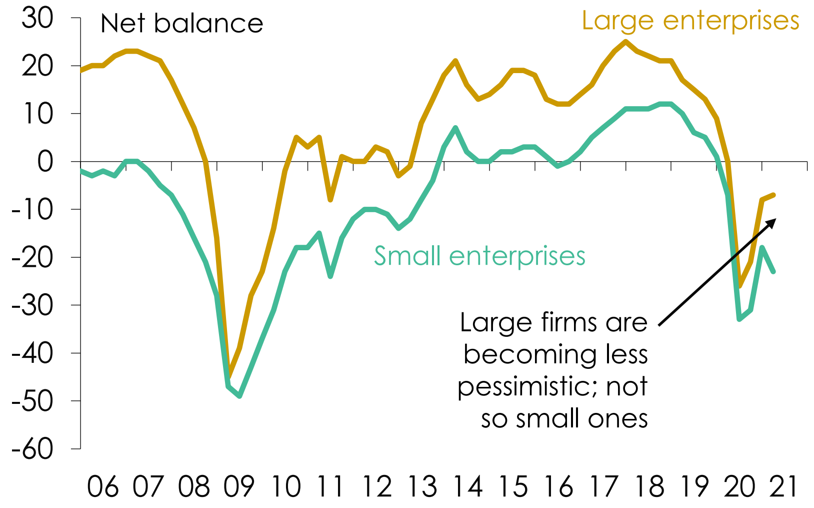
Consumer confidence



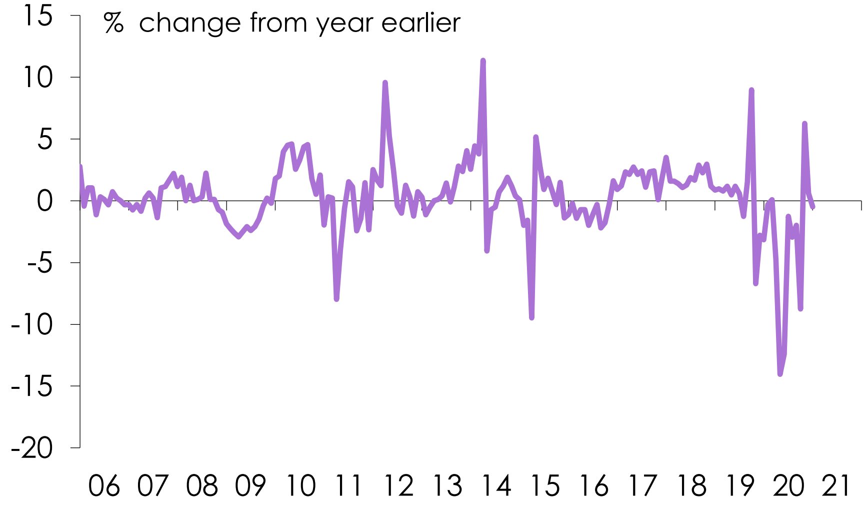
Unemployment



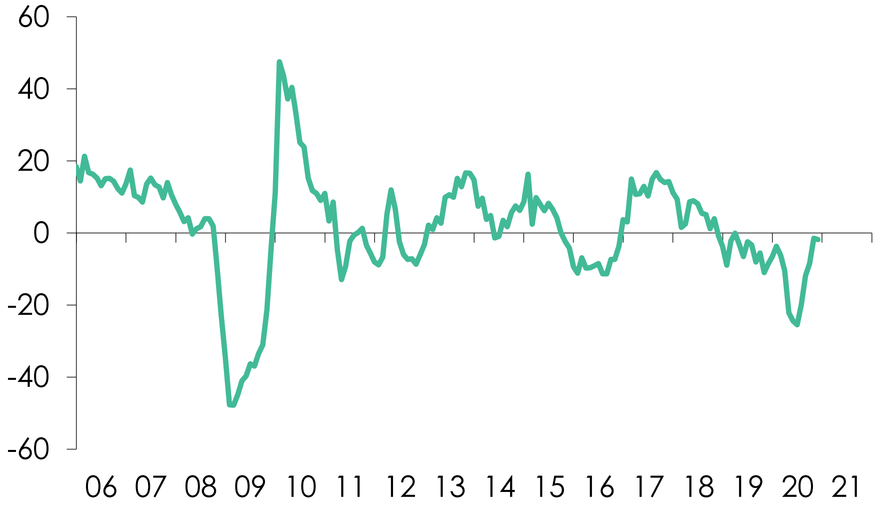
BoJ *Tankan* business conditions



Value of retail sales

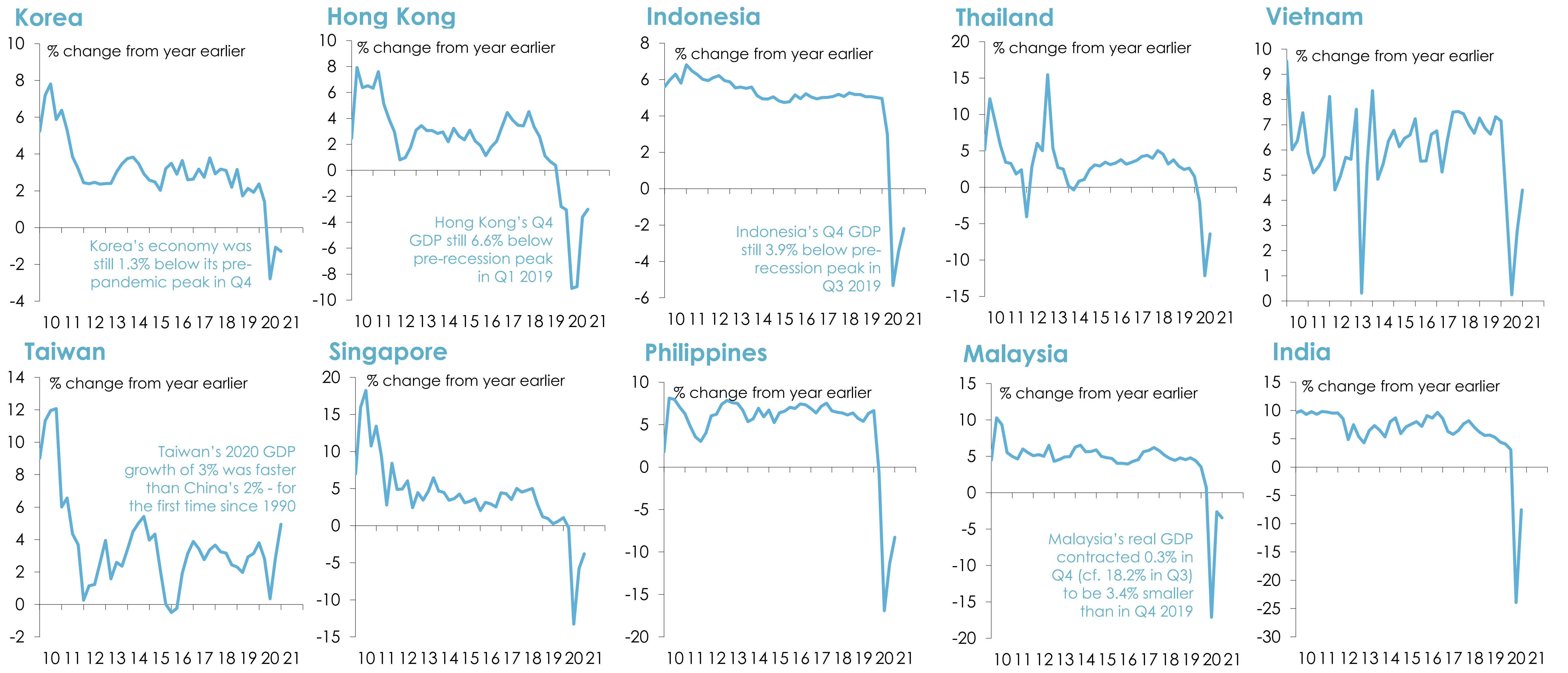


Merchandise export volumes



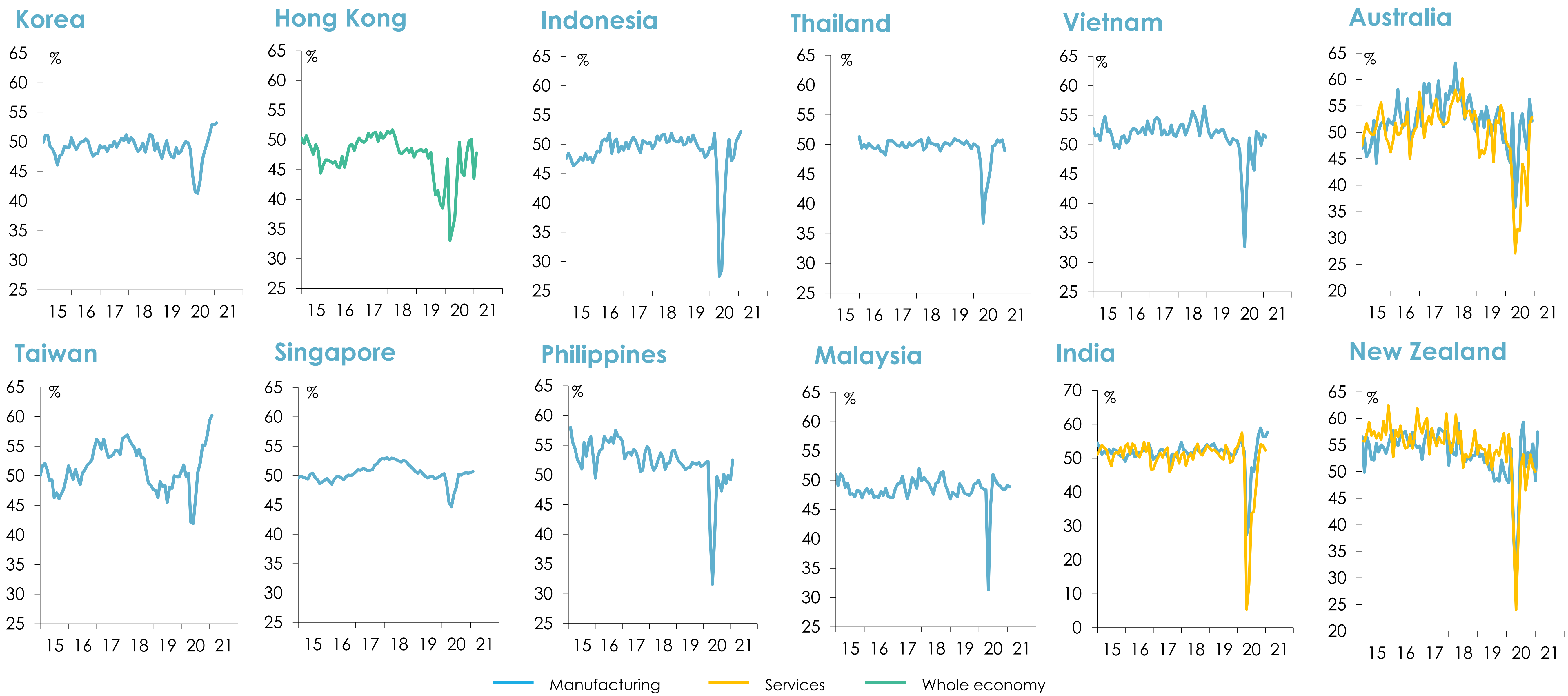
Sources: Japan Cabinet Office Economic and Social Research Institute; Bank of Japan; Statistics Bureau of Japan; Japan Ministry of Finance. Return to "What's New".

Malaysia's strong Q3 rebound reversed by 0.3% in Q4, leaving it 3.4% smaller than in Q4 2019: the 2020 result of -5.6% was the worst since 1998



Note: Latest data are Q4 for Korea, Taiwan, Singapore, Hong Kong, Indonesia, the Philippines and Vietnam, Q3 all others Malaysia's Q4 GDP data are released this Thursday, 11th February. *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".

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

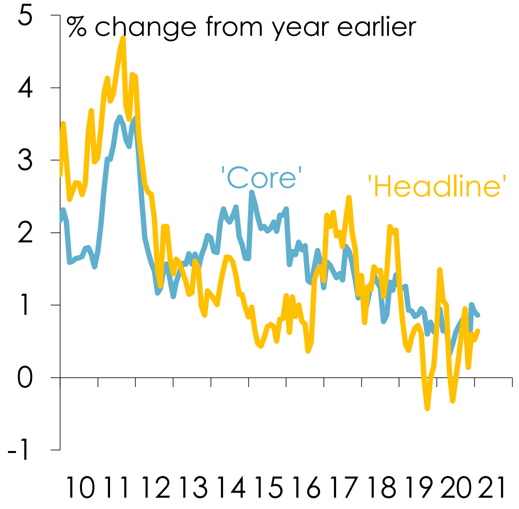


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for January – except for New Zealand services (which is December). January Australia data are missing.
Sources: IHS Markit; Singapore Institute of Purchasing and Materials Management; Australian Industry Group; Business NZ; Refinitiv Datastream. Return to "What's New".

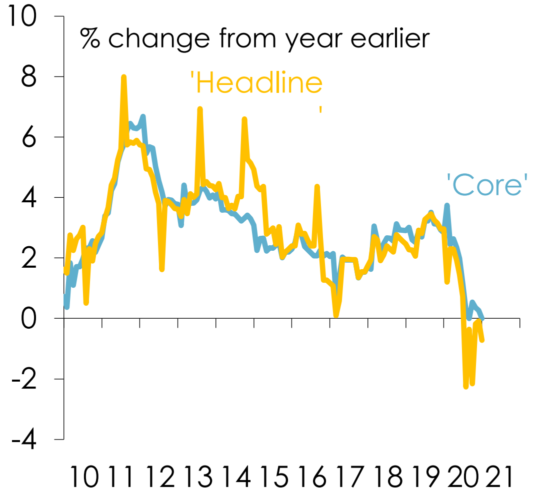
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Inflation remains very low across most Asian economies other than India, but has started rising again in Vietnam and the Philippines

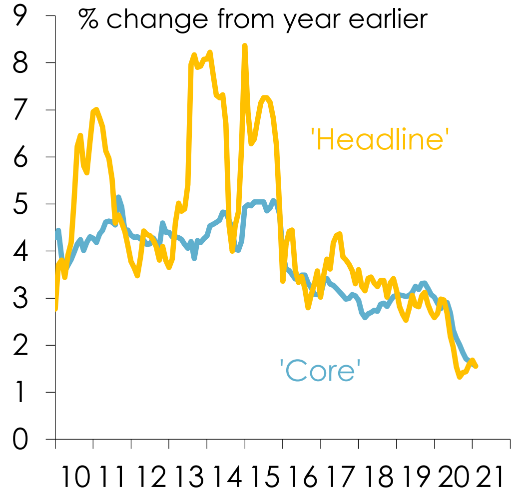
Korea



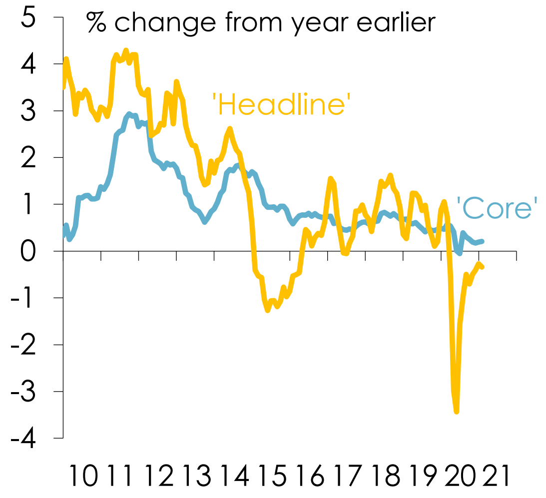
Hong Kong



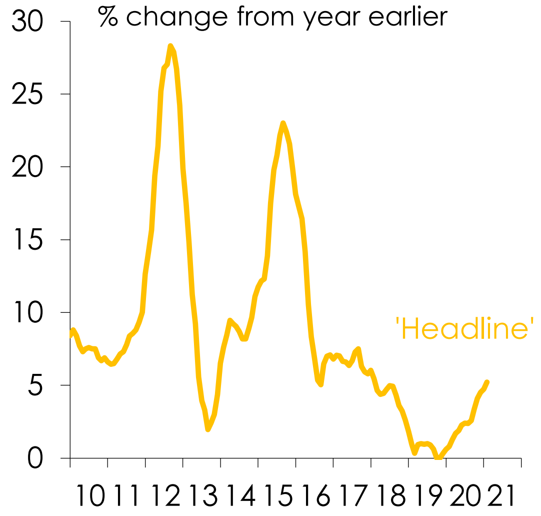
Indonesia



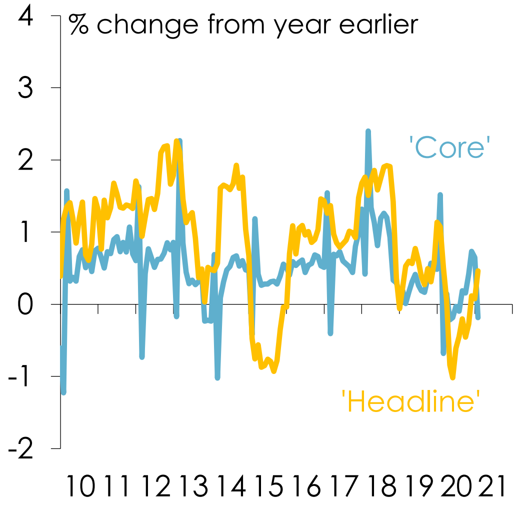
Thailand



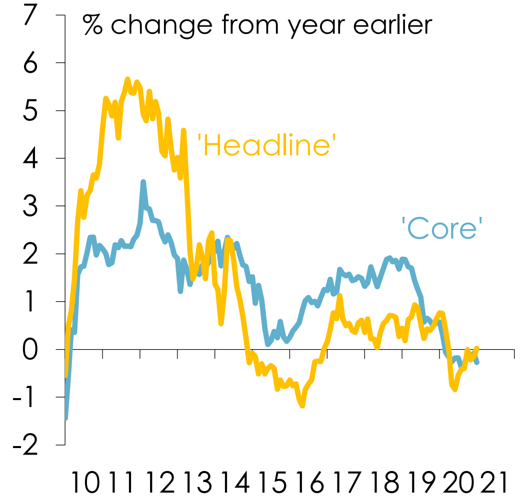
Vietnam



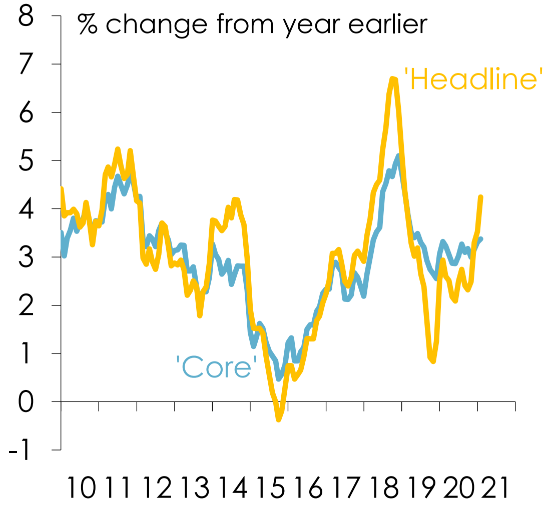
Taiwan



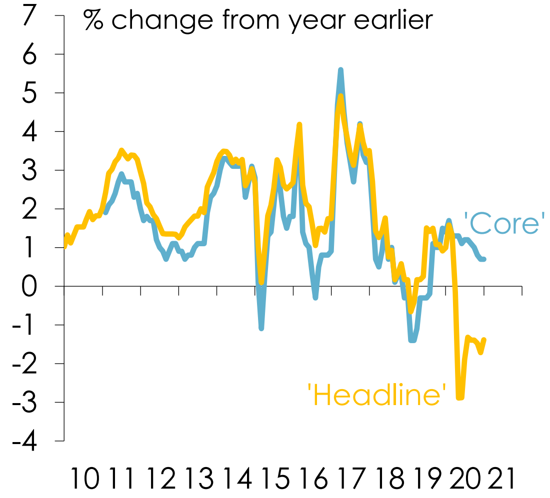
Singapore



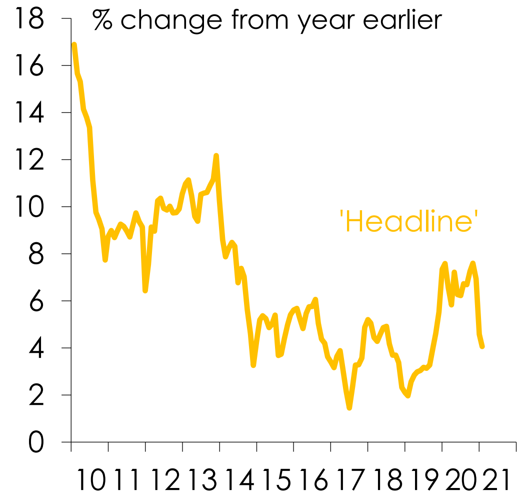
Philippines



Malaysia



India

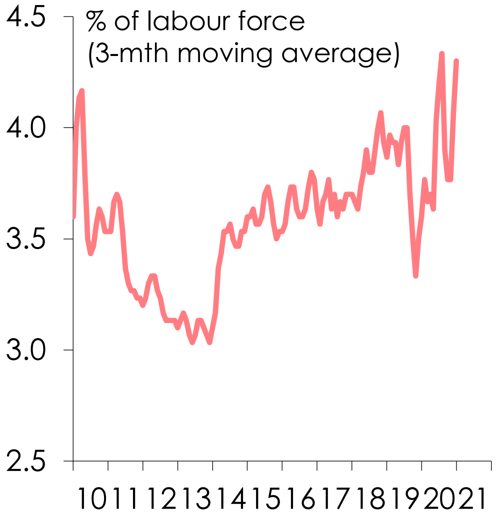


Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures. 'Core' inflation in Indonesia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

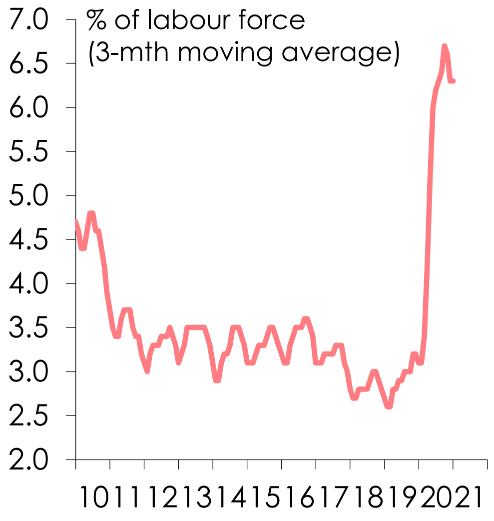
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

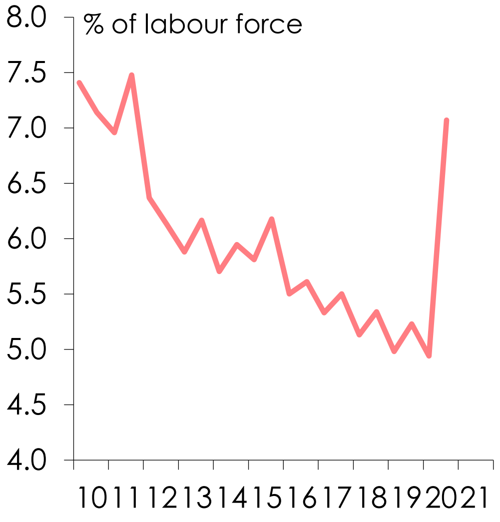
Korea



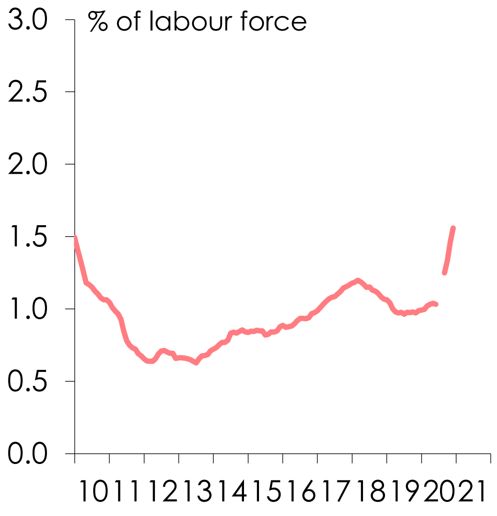
Hong Kong



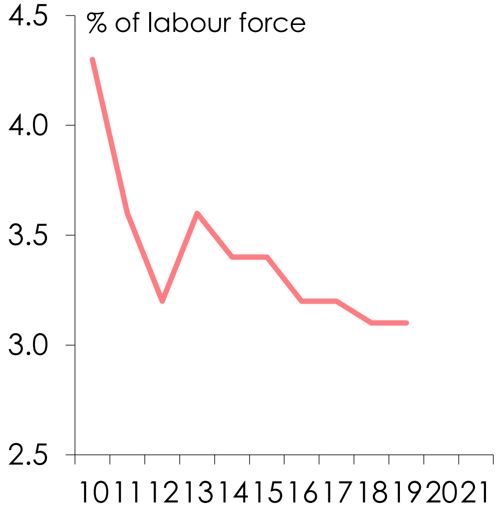
Indonesia



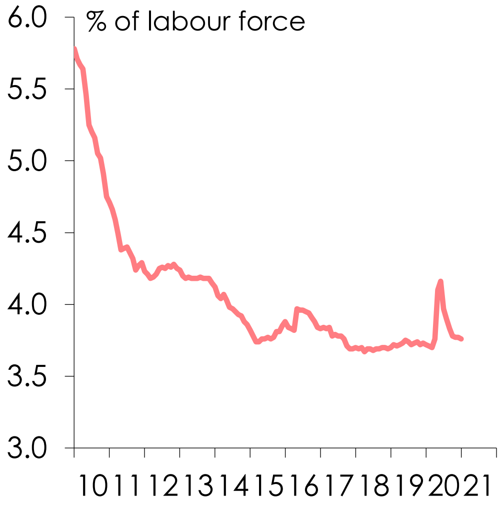
Thailand



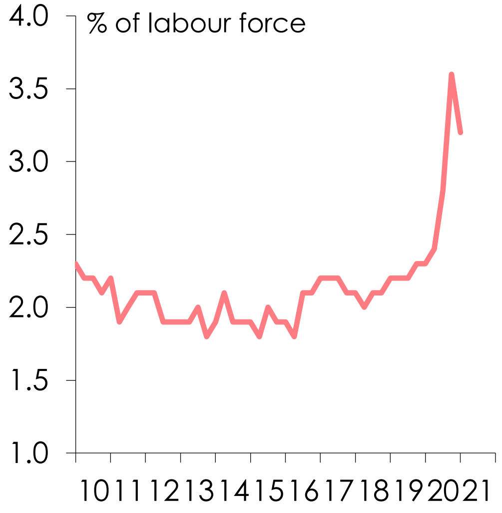
Vietnam



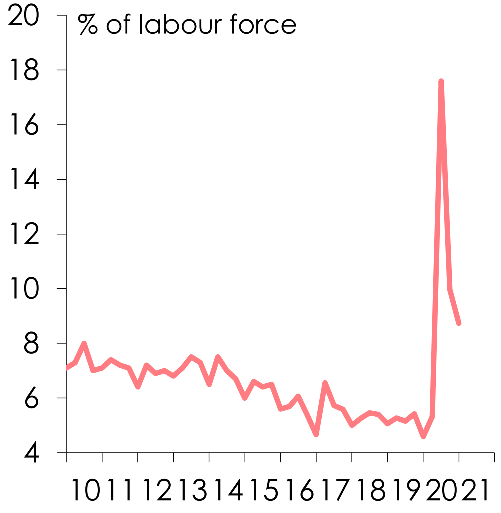
Taiwan



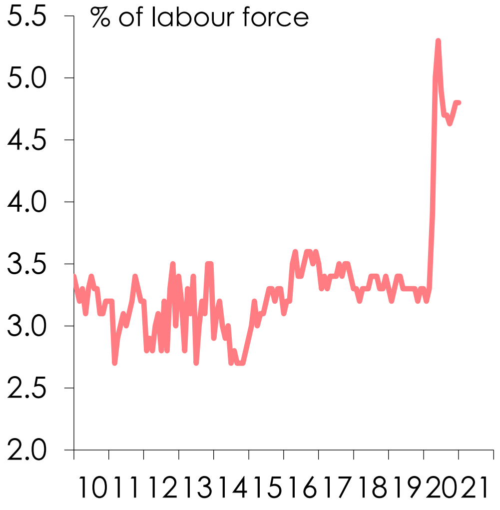
Singapore



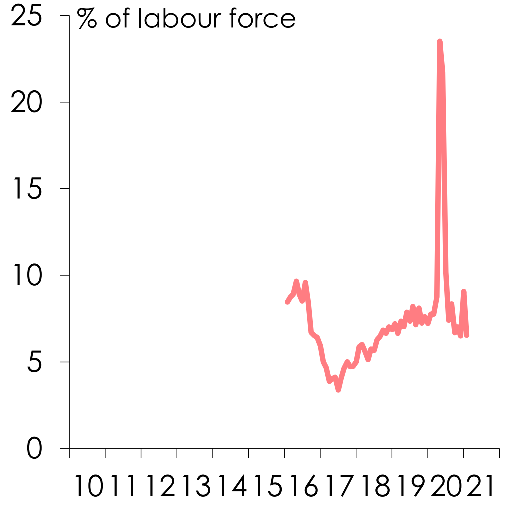
Philippines



Malaysia



India

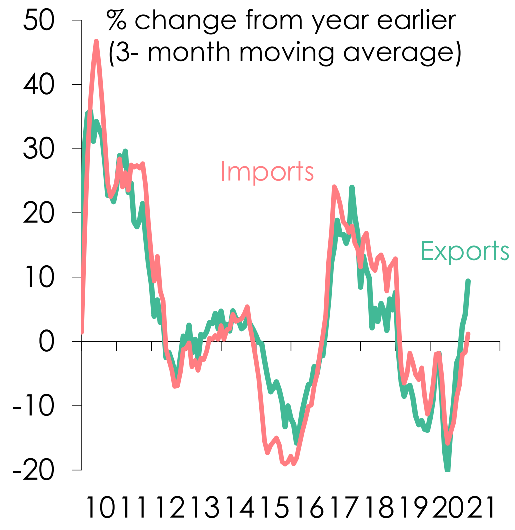


Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in India: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

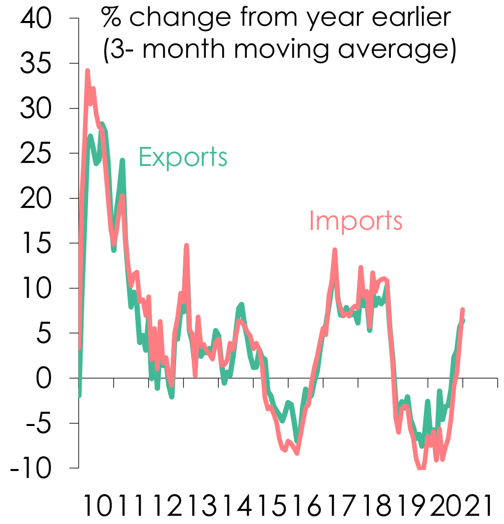
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

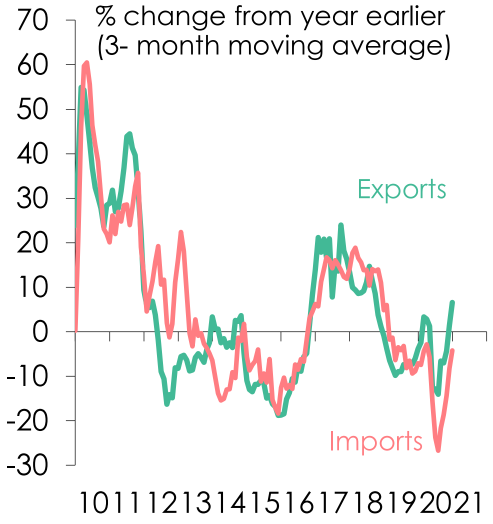
Korea



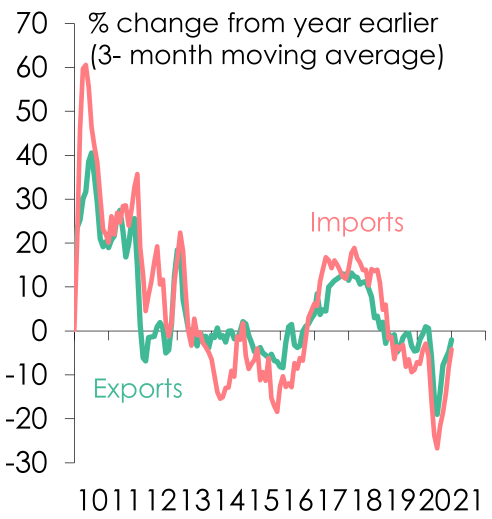
Hong Kong



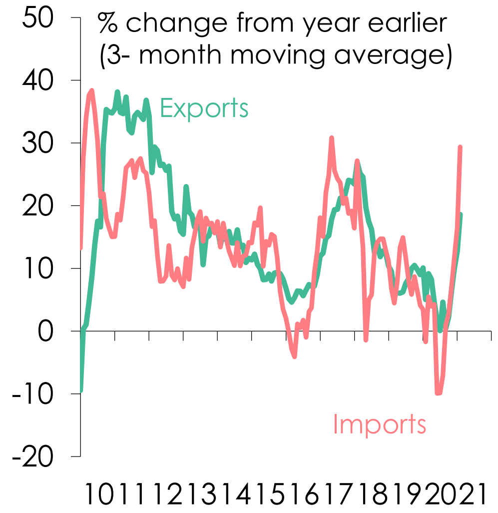
Indonesia



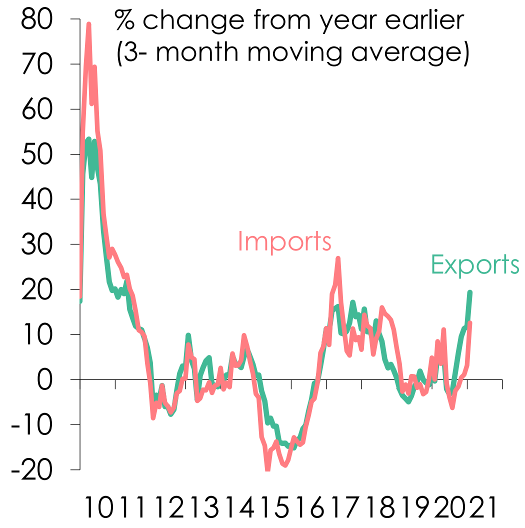
Thailand



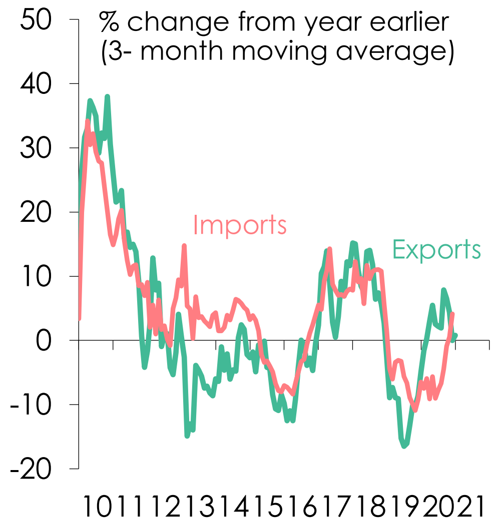
Vietnam



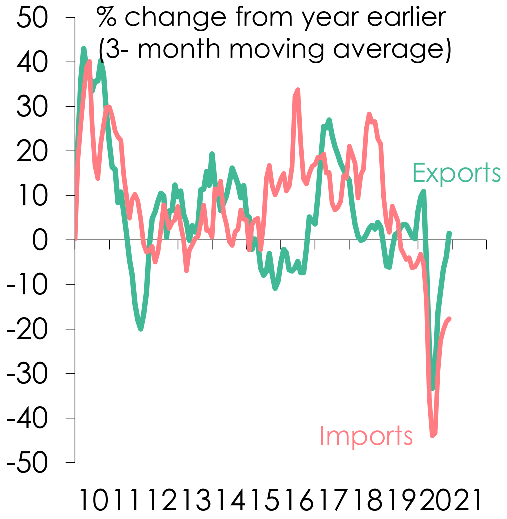
Taiwan



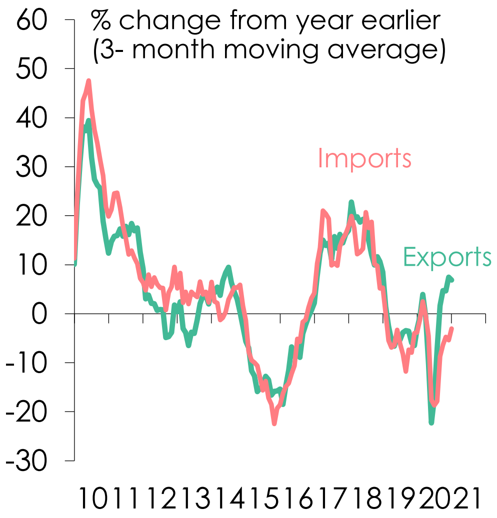
Singapore



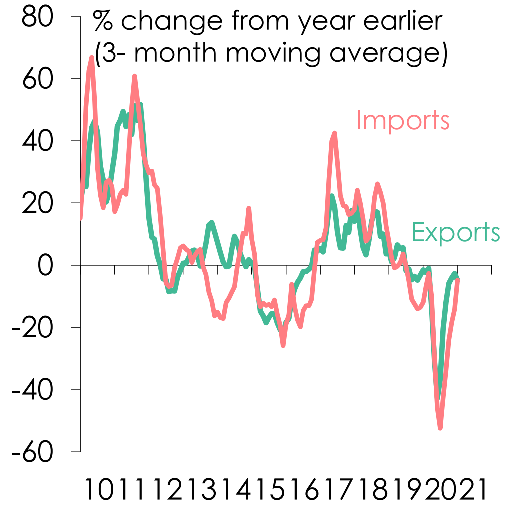
Philippines



Malaysia



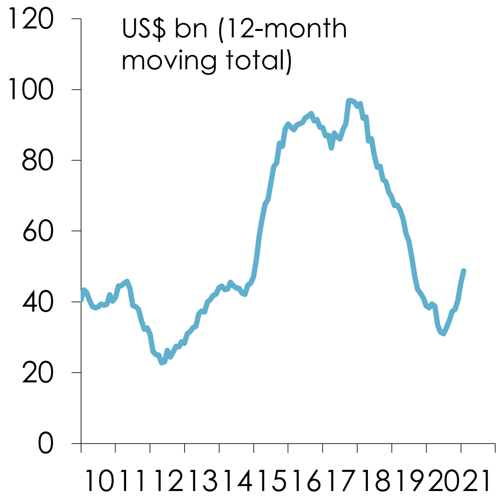
India



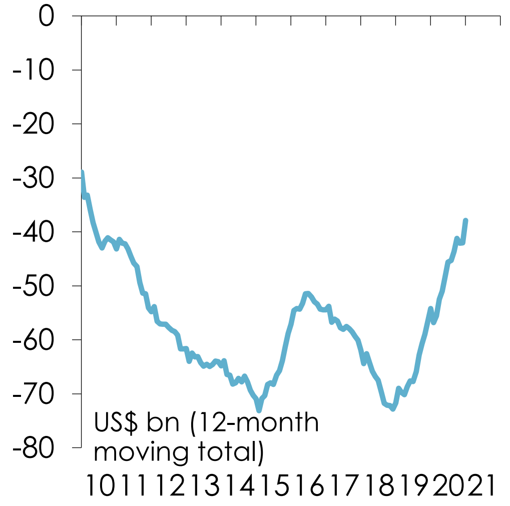
Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. Return to "What's New".

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

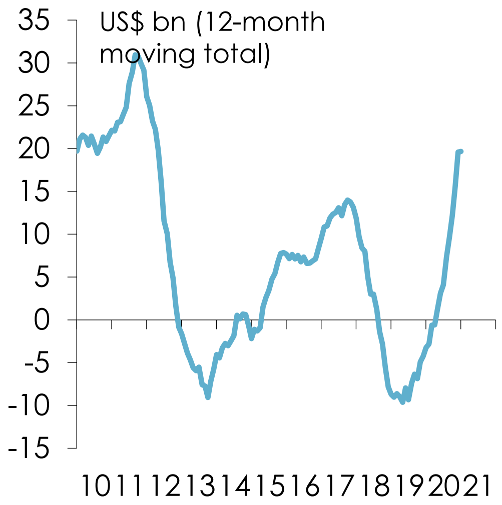
Korea



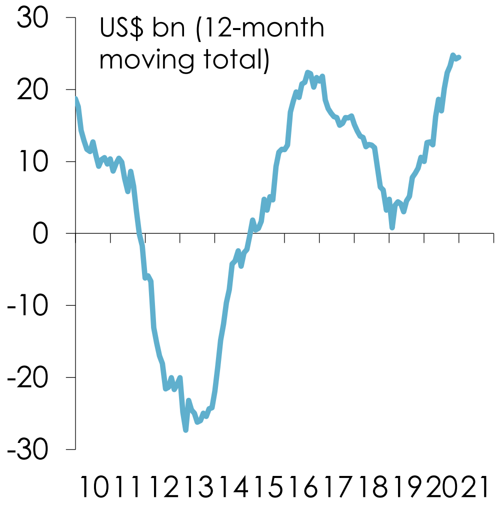
Hong Kong



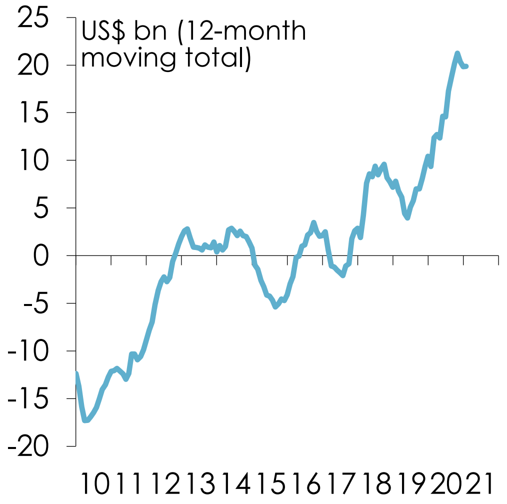
Indonesia



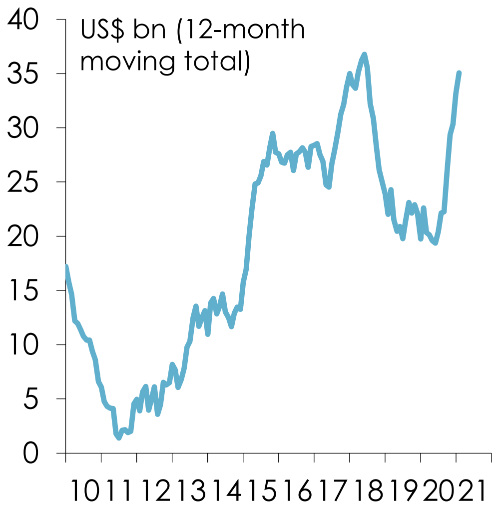
Thailand



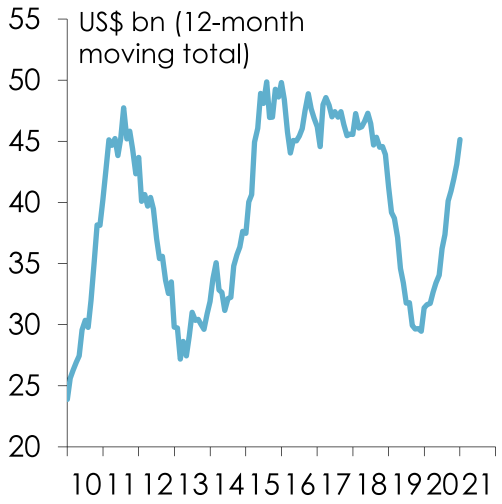
Vietnam



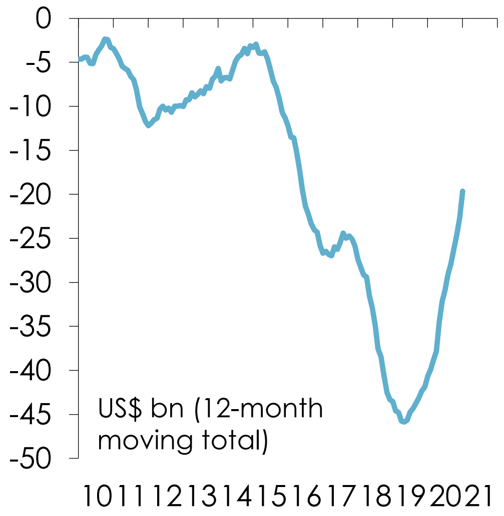
Taiwan



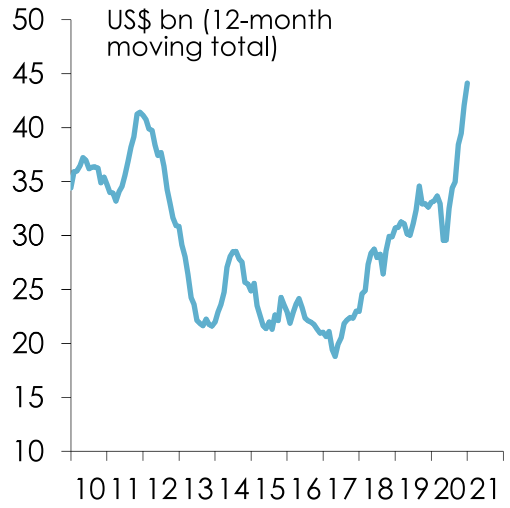
Singapore



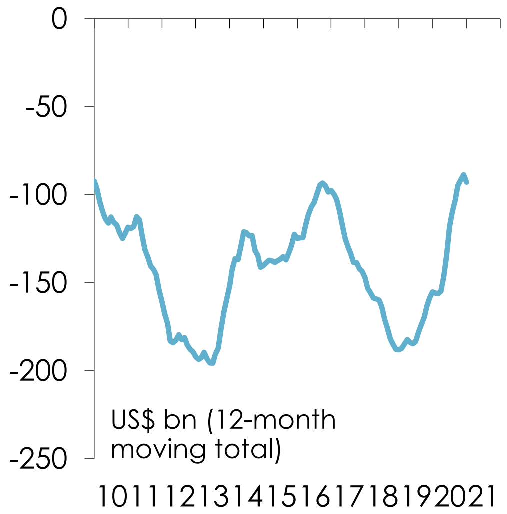
Philippines



Malaysia



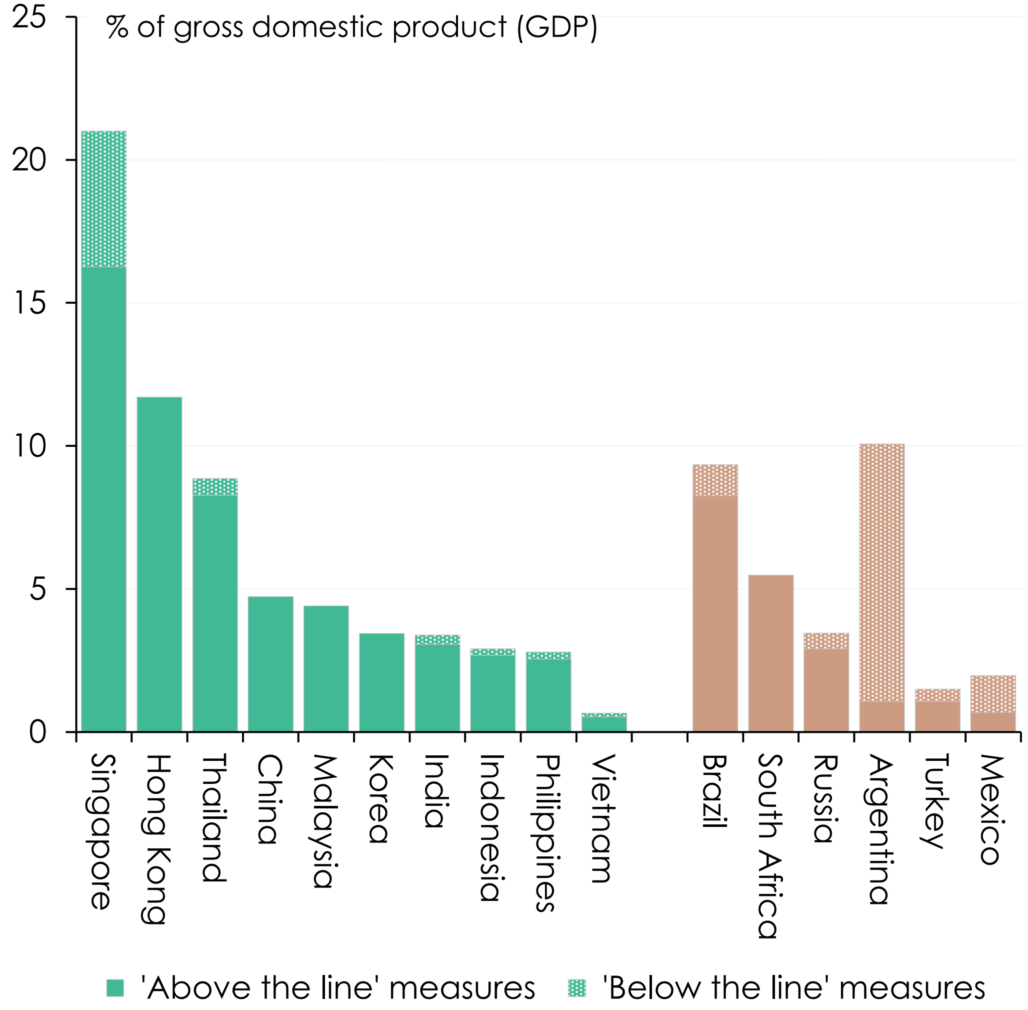
India



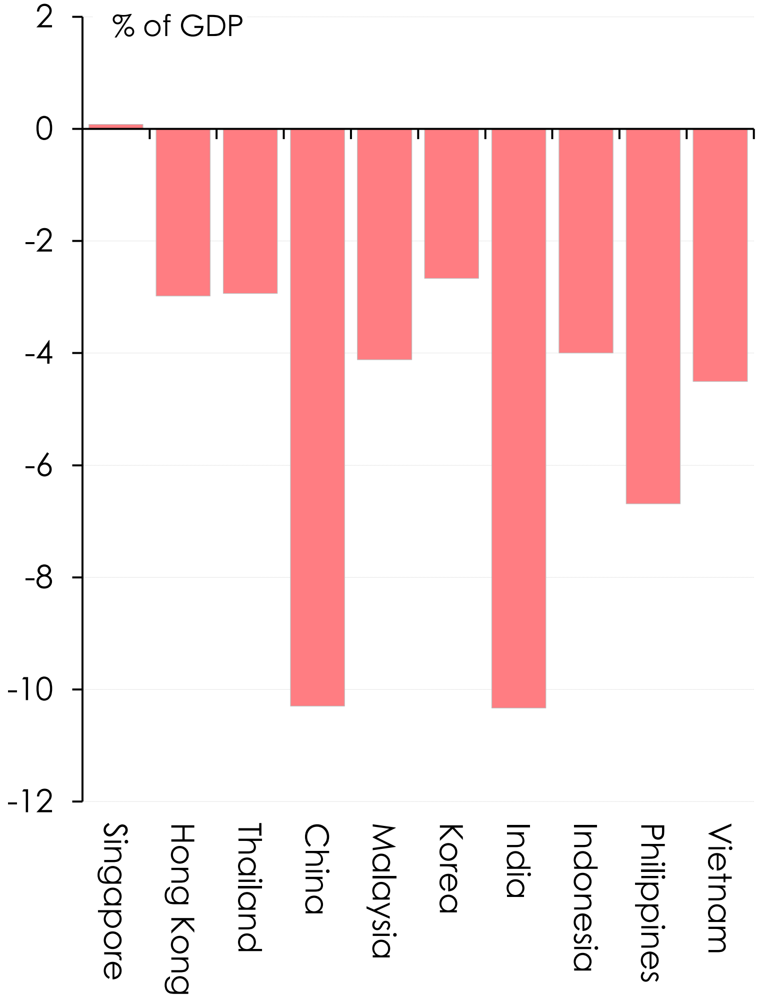
Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

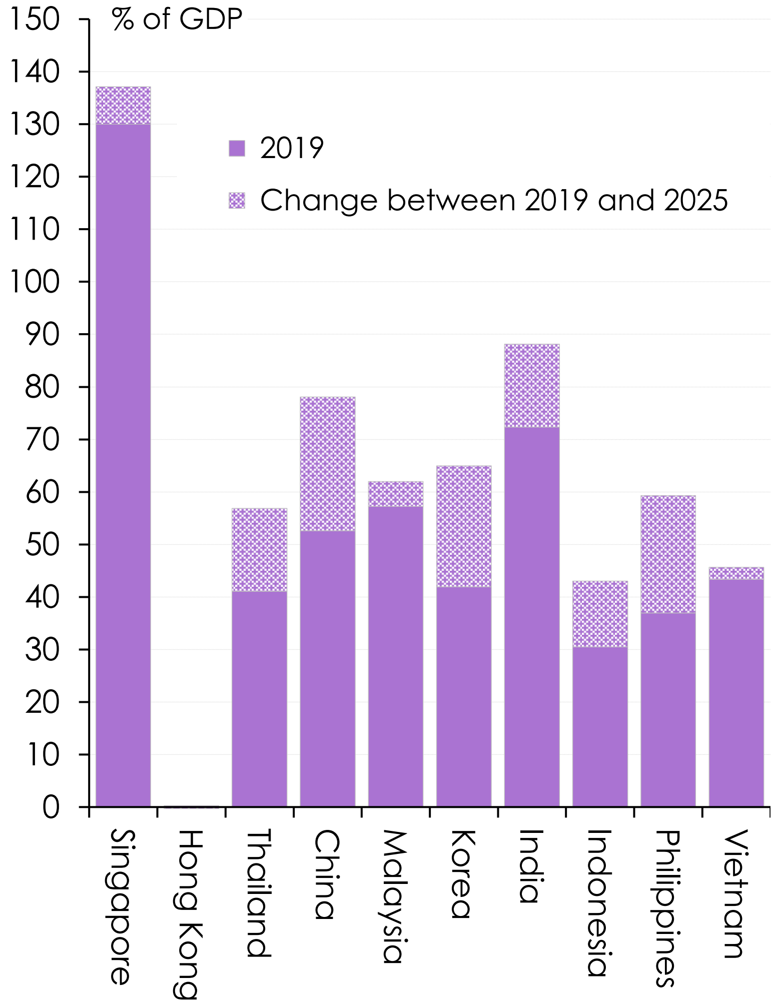
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2025



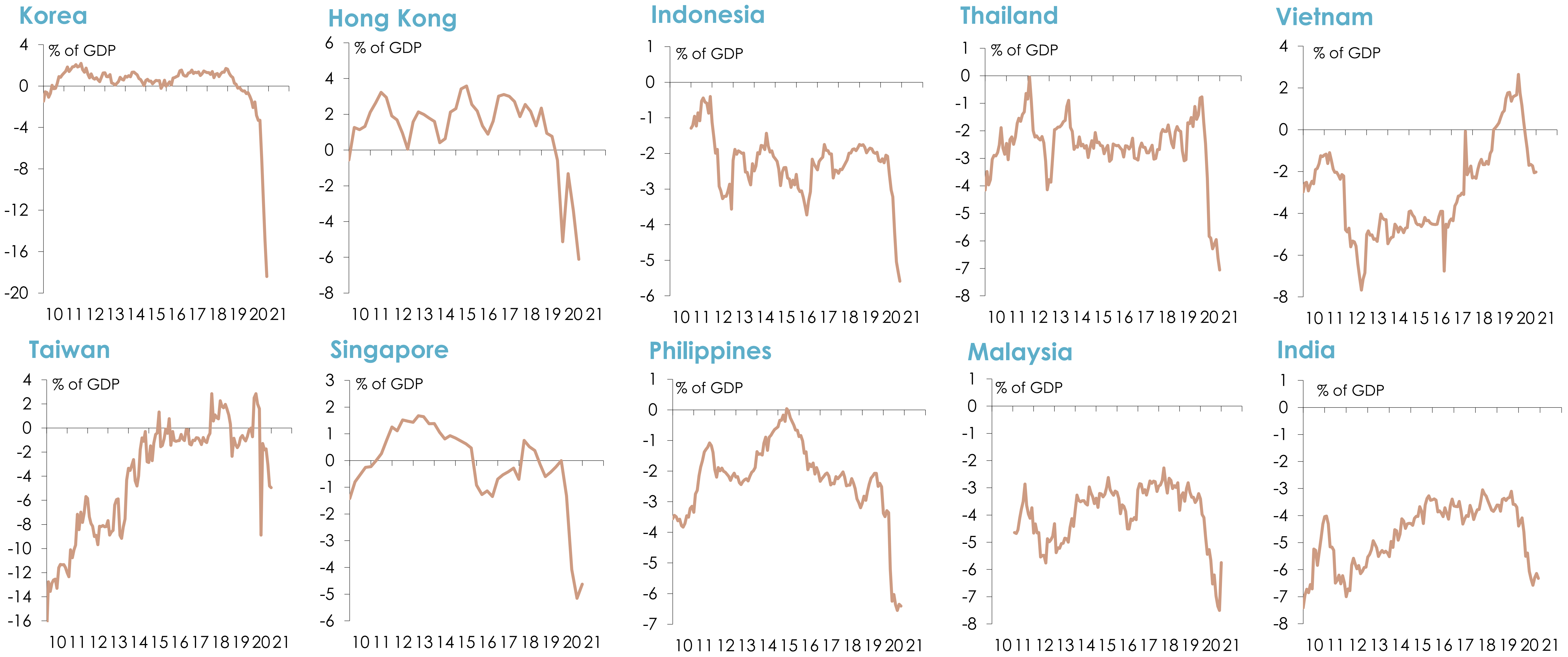
Gross government debt – Asian economies 2019-25



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, 11th February 2021; Fiscal Monitor, October 2020. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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".

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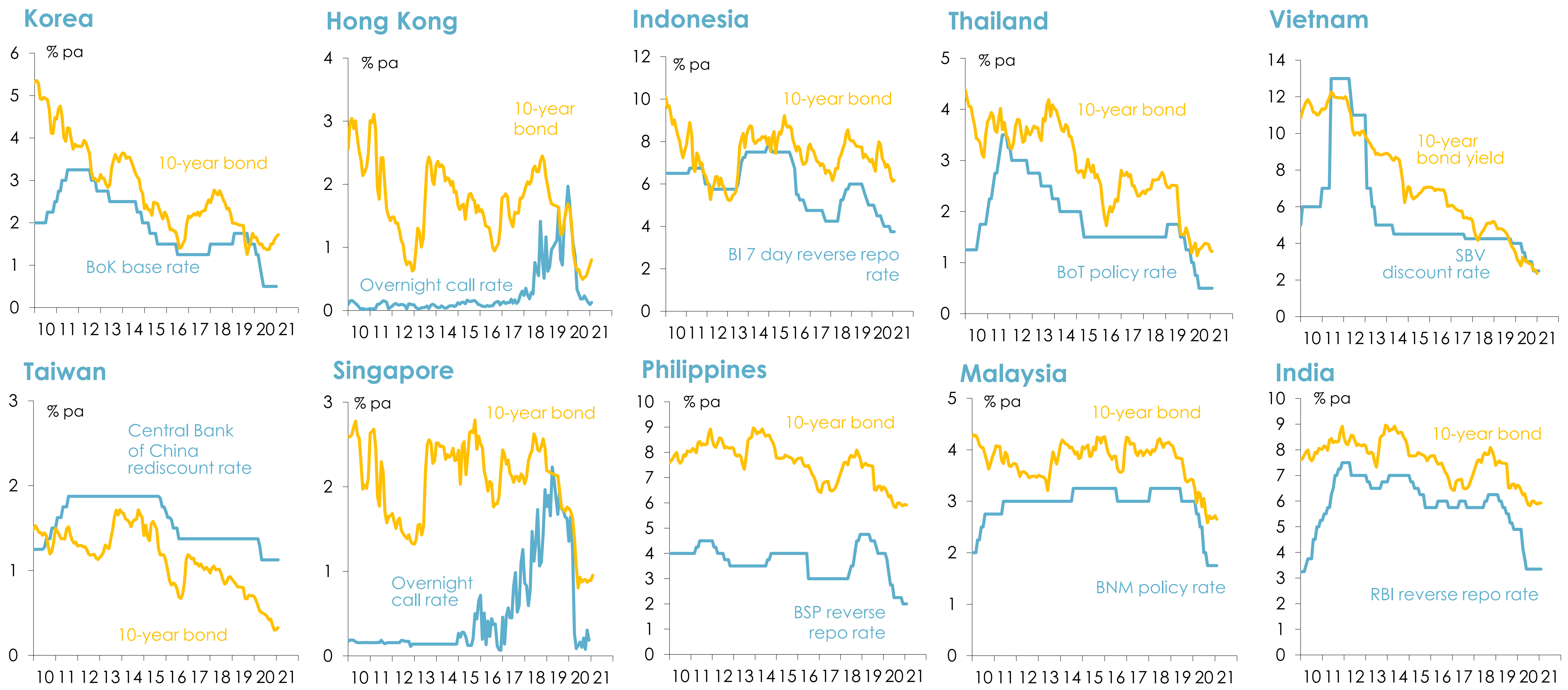
Low inflation gives Asian central banks room to cut interest rates further, if needed – except (perhaps) in India



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".

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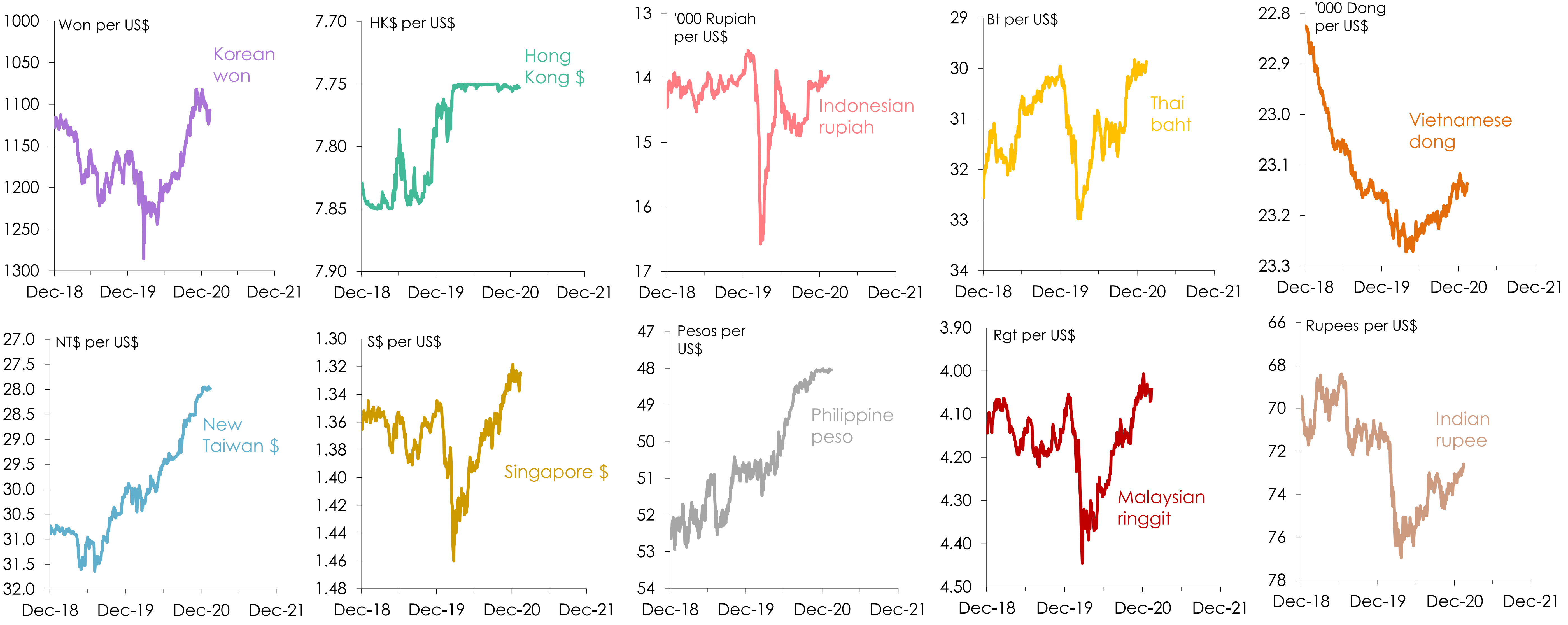
The Korean won staged a strong rebound (up 1½%) against the softer US$ this week while most others rose 0.4-0.7% except the peso and the NT$

Asian currency exchange rates vs US dollar



Note: Data up to 12th February. Source: Refinitiv Datastream. Return to "What's New".

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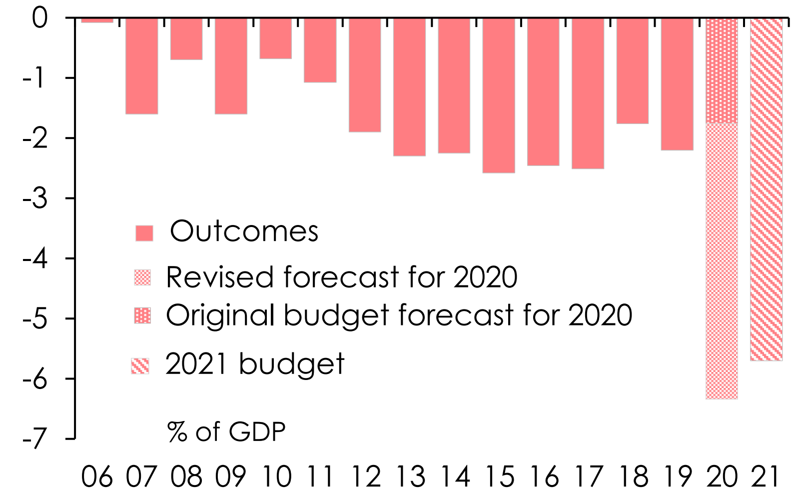
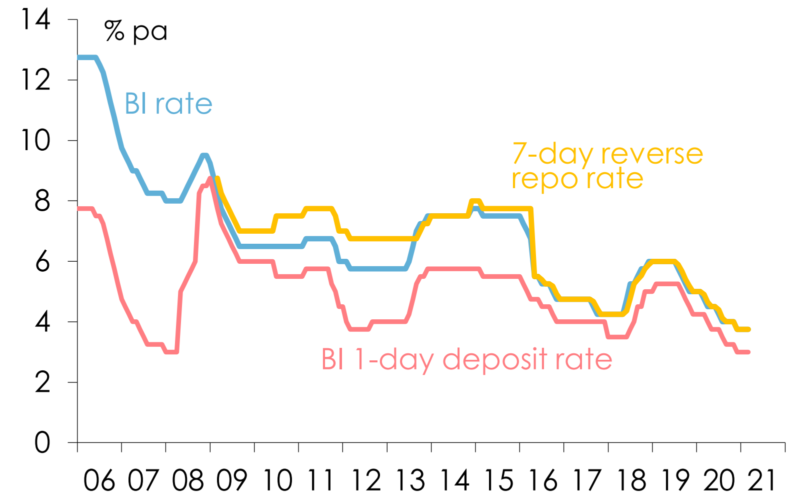
Indonesia's central bank last month re-affirmed its monetary policy stance, including ongoing support for 'synergistic monetary expansion'

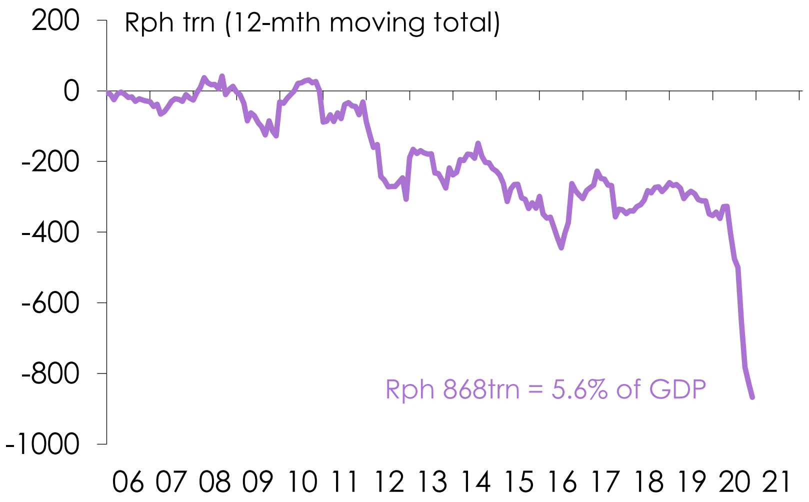
Indonesia budget deficit



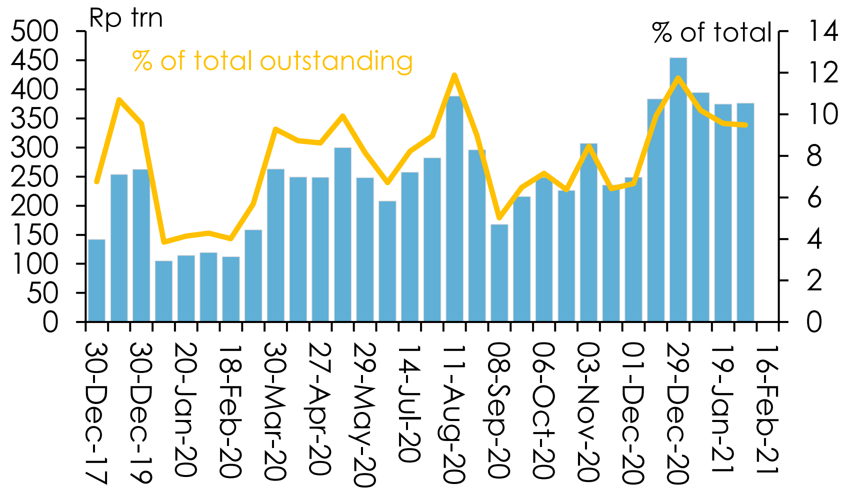
BI monetary policy rates



Central gov't budget balance



BI holdings of tradeable SBNs

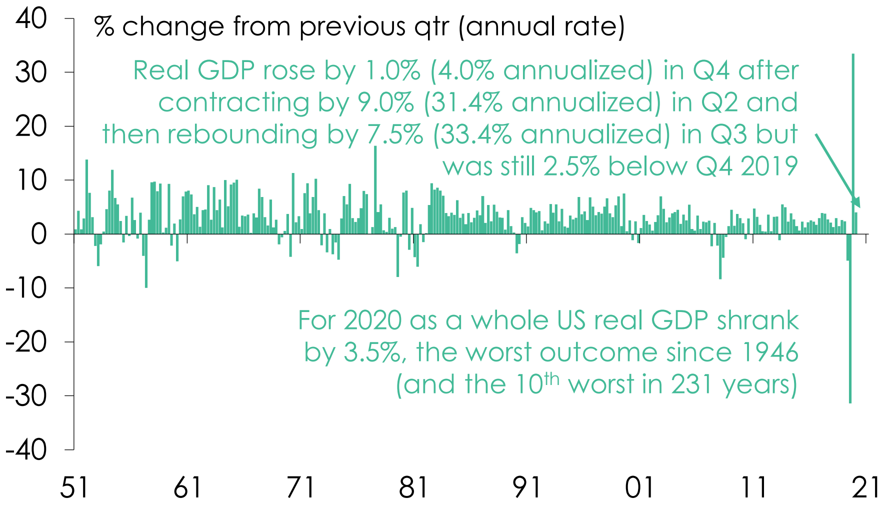


- **In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments 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 month at its first Board of Governors meeting for 2021 BI left monetary policy settings on hold**
  - BI expects economic growth to "gradually gain momentum" through 2021
  - inflation is expected to remain "under control and within the 3%±1% corridor"
  - Indonesia's current account deficit is expected to remain at 1-2% of GDP "thereby supporting external resilience"
  - and "financial system stability remains solid"

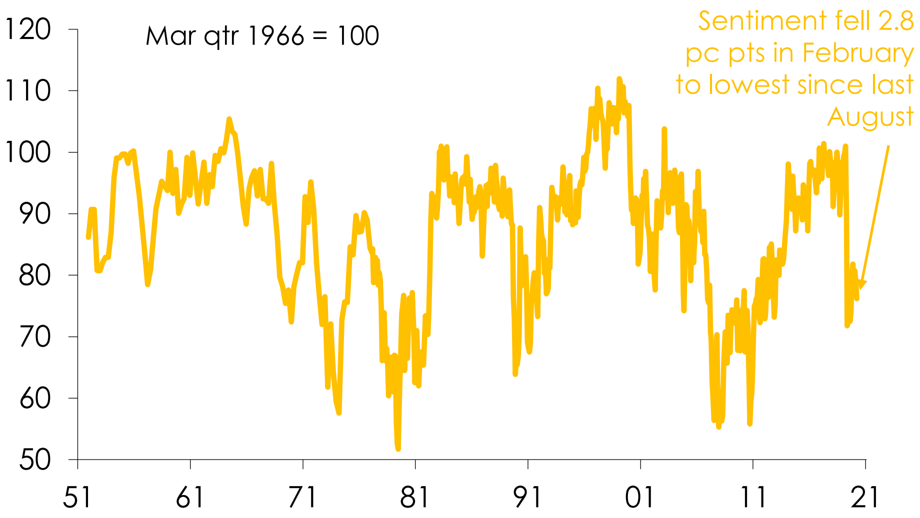
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

US economic growth slowed sharply in Q4 after Q3's strong rebound with Q4 GDP still 2.5% below Q4 2019 and 2020 the worst year since 1946

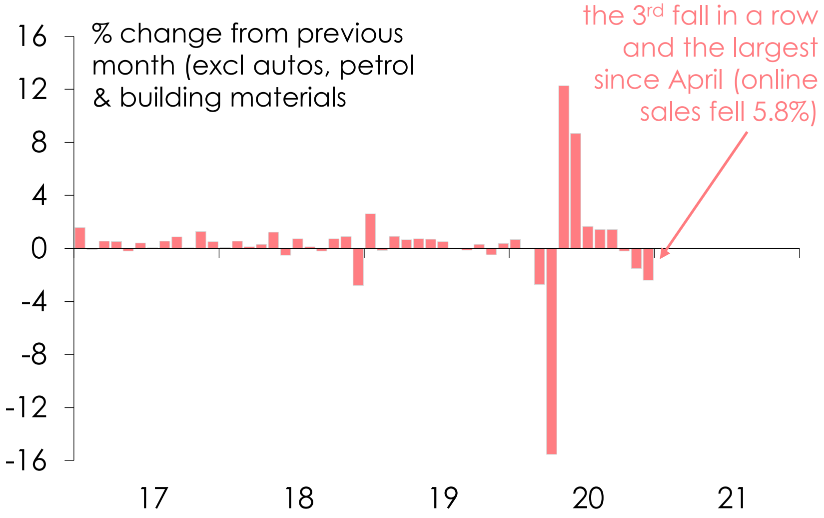
Real GDP



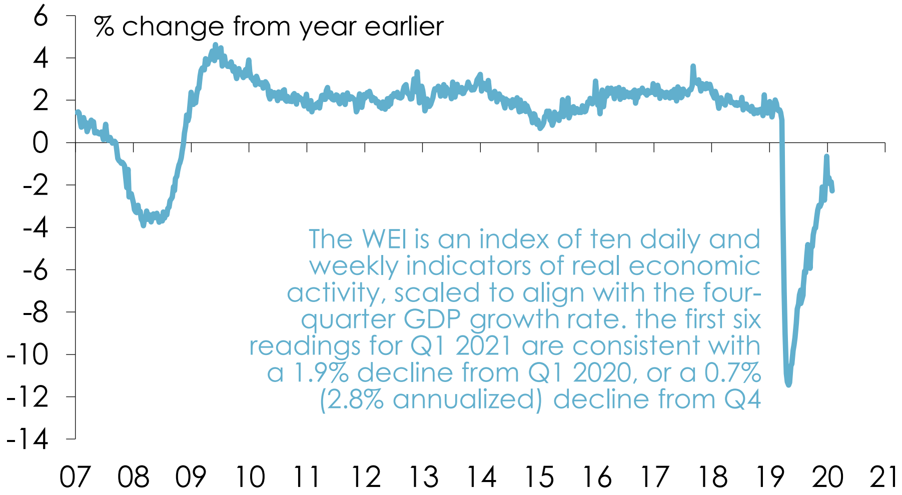
Consumer sentiment



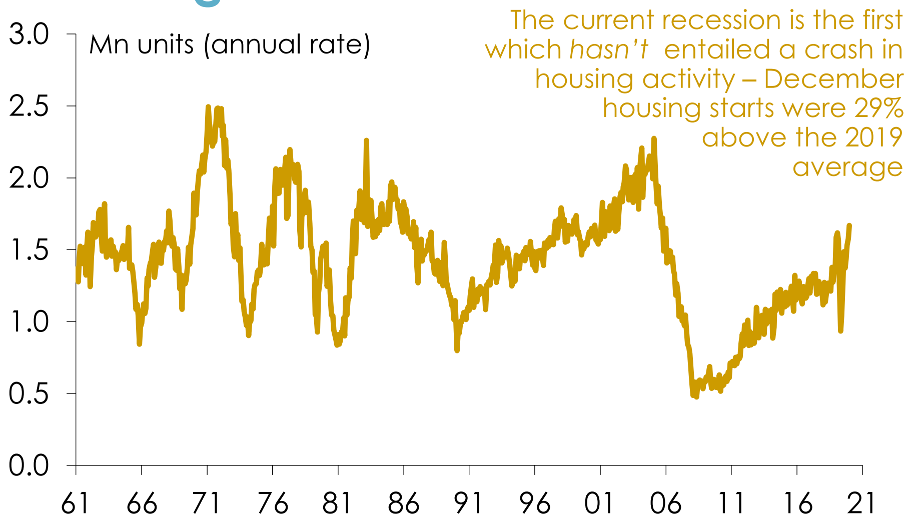
'Core' retail sales



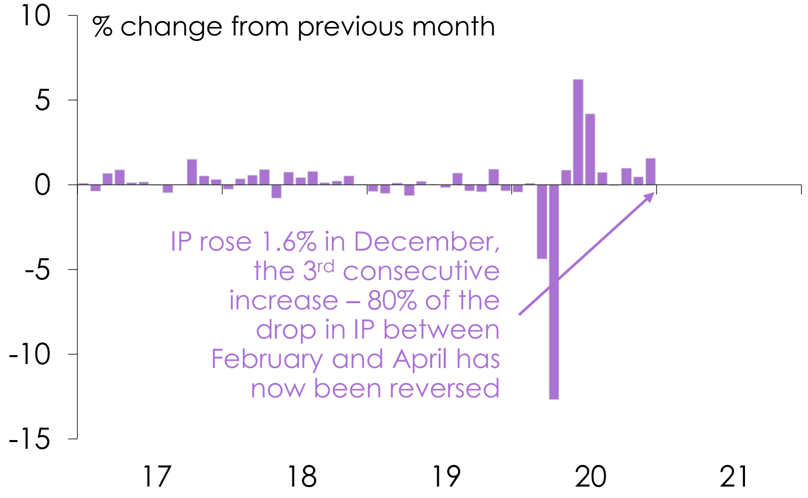
NY Fed weekly economic index



Housing starts



Industrial production

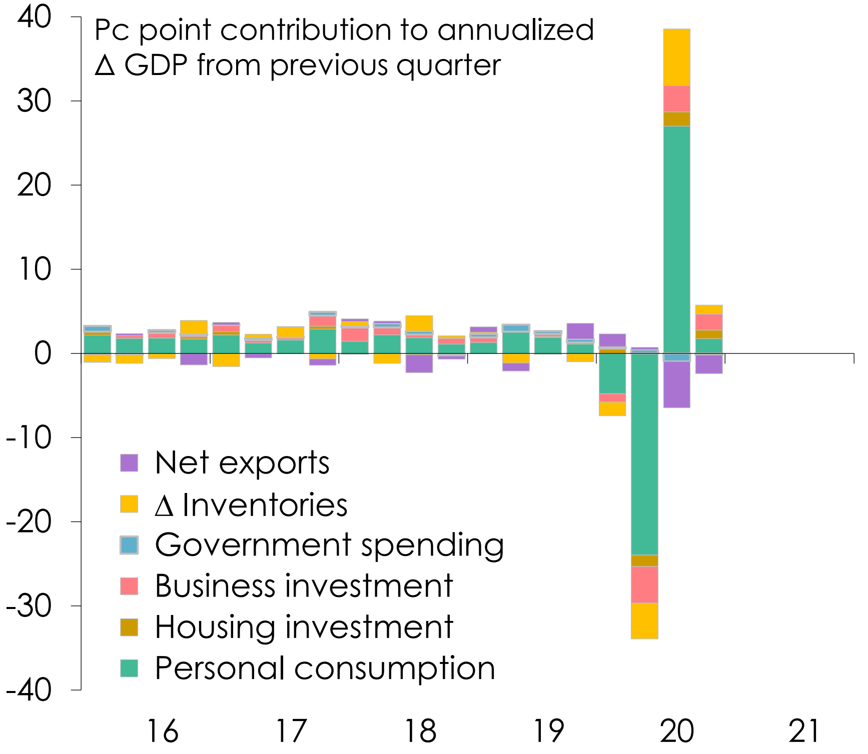


Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

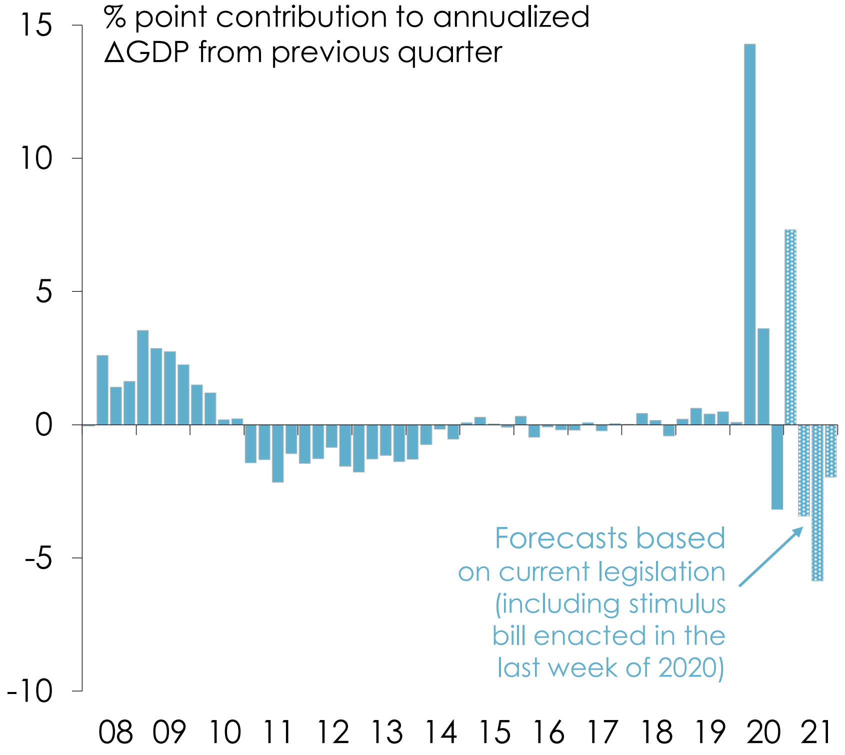
The huge gyrations in US real GDP during 2020 reflect the effects of restrictions, swings in fiscal policy and in personal saving

Major expenditure aggregates contribution to quarterly changes in real GDP



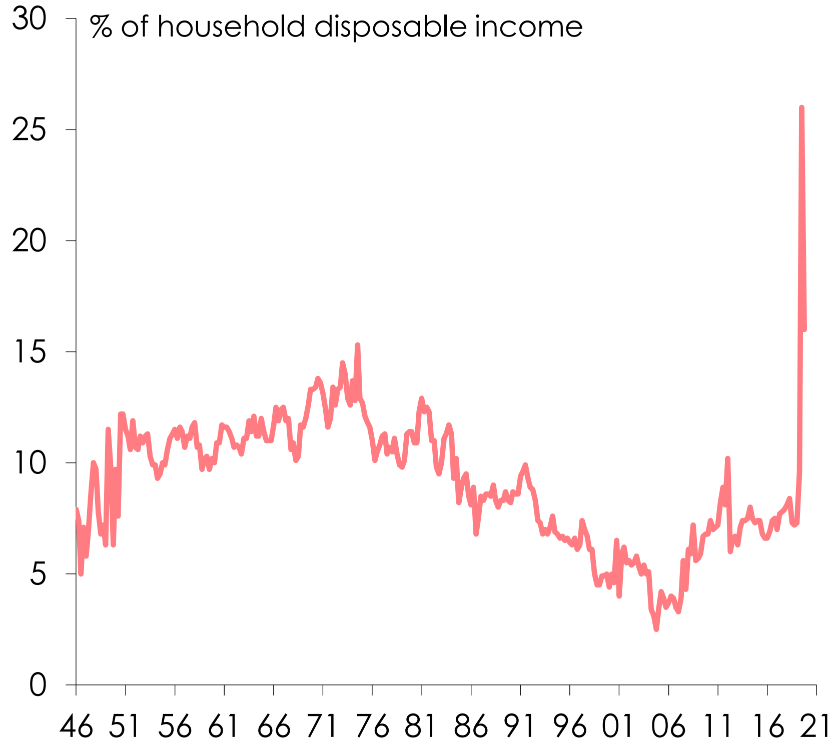
The slowdown in Q4 reflects a stalling in household spending on goods, a second consecutive fall in government spending, and a further drag from net exports

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

Source: US Bureau of Economic Analysis (estimates for Q4 2020 are preliminary); Brookings, Hutchins Center Fiscal Impact Measure; Corinna. Return to "What's New".

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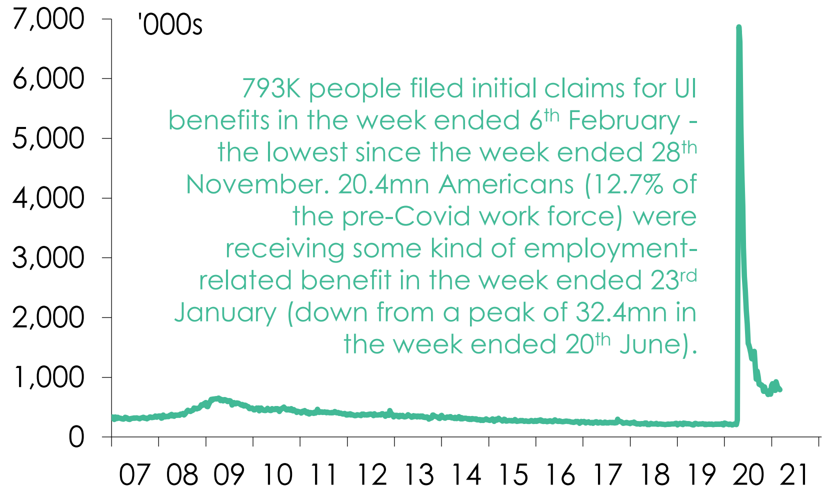
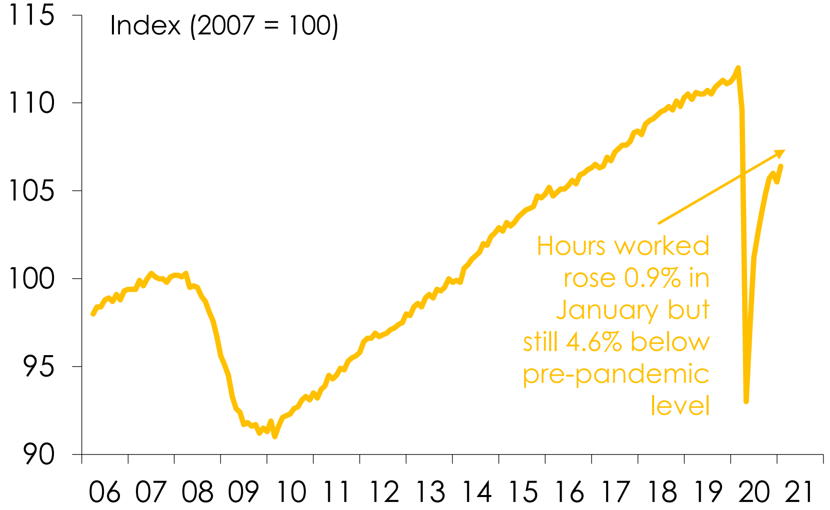
US non-farm payrolls rose 0.03% in January, but unemployment dropped 0.4 pc pts partly because of another fall in the participation rate

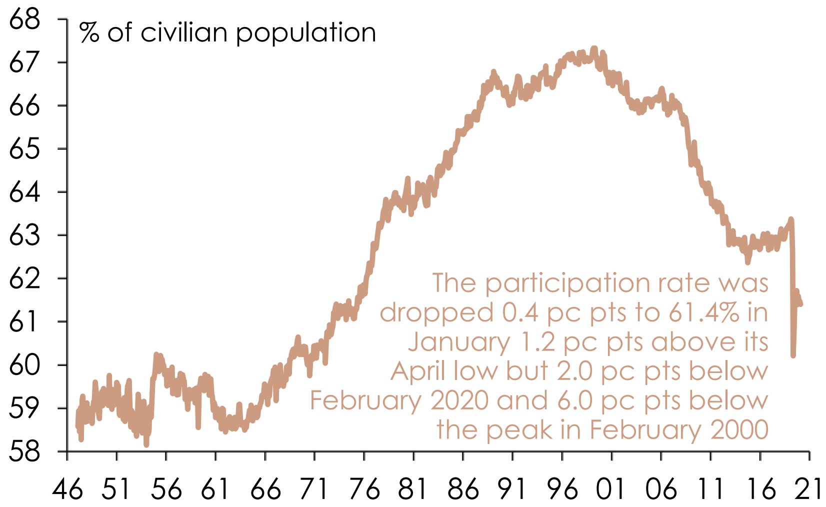
Unemployment benefit claims



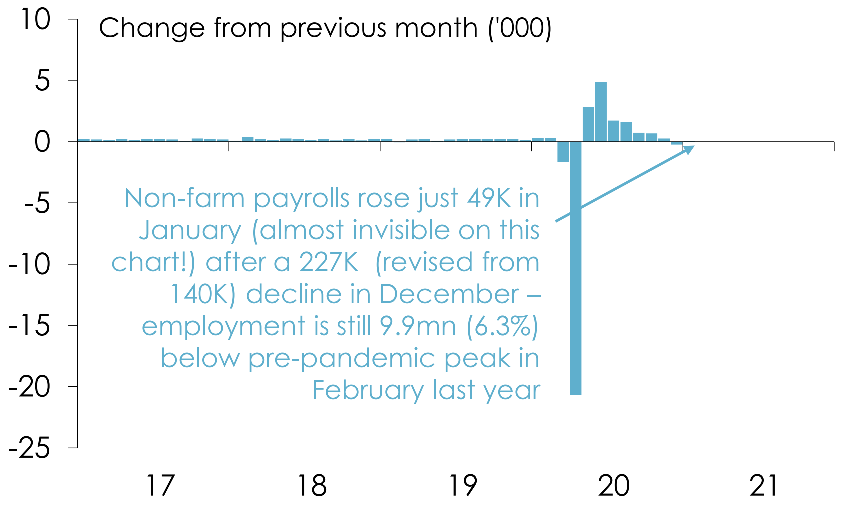
Hours worked (private sector)



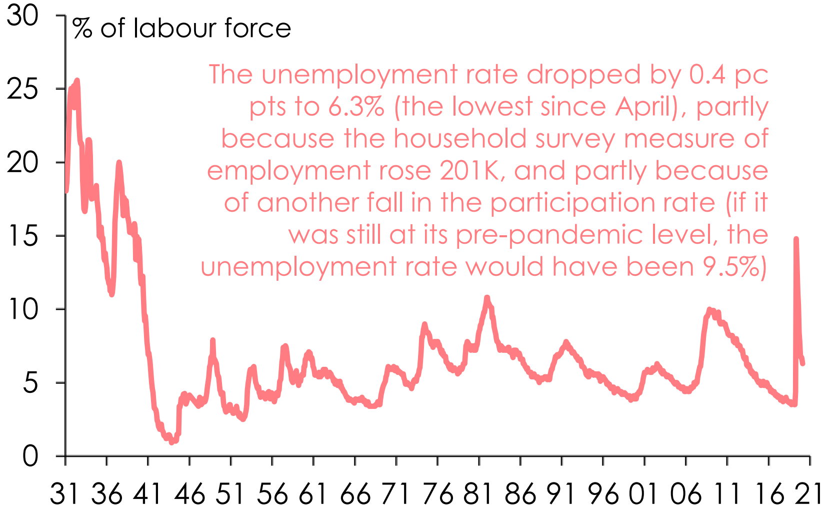
Labour force participation rate



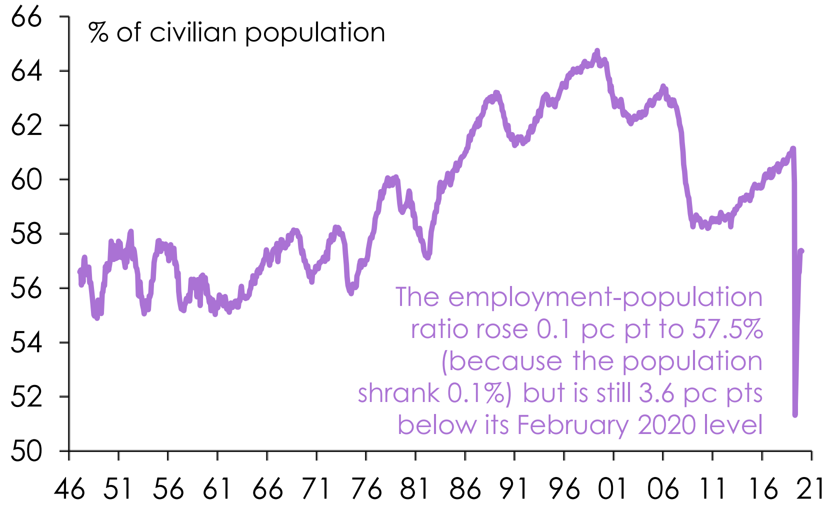
Non-farm payroll employment



Unemployment rate



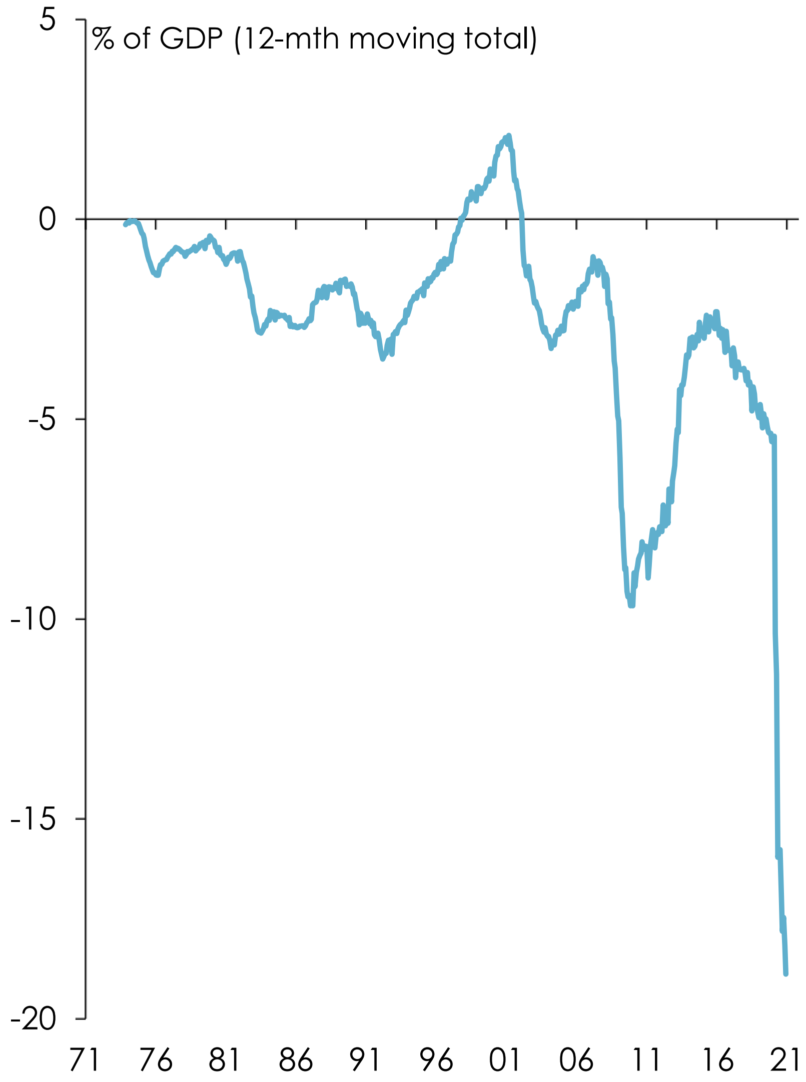
Employment to population ratio



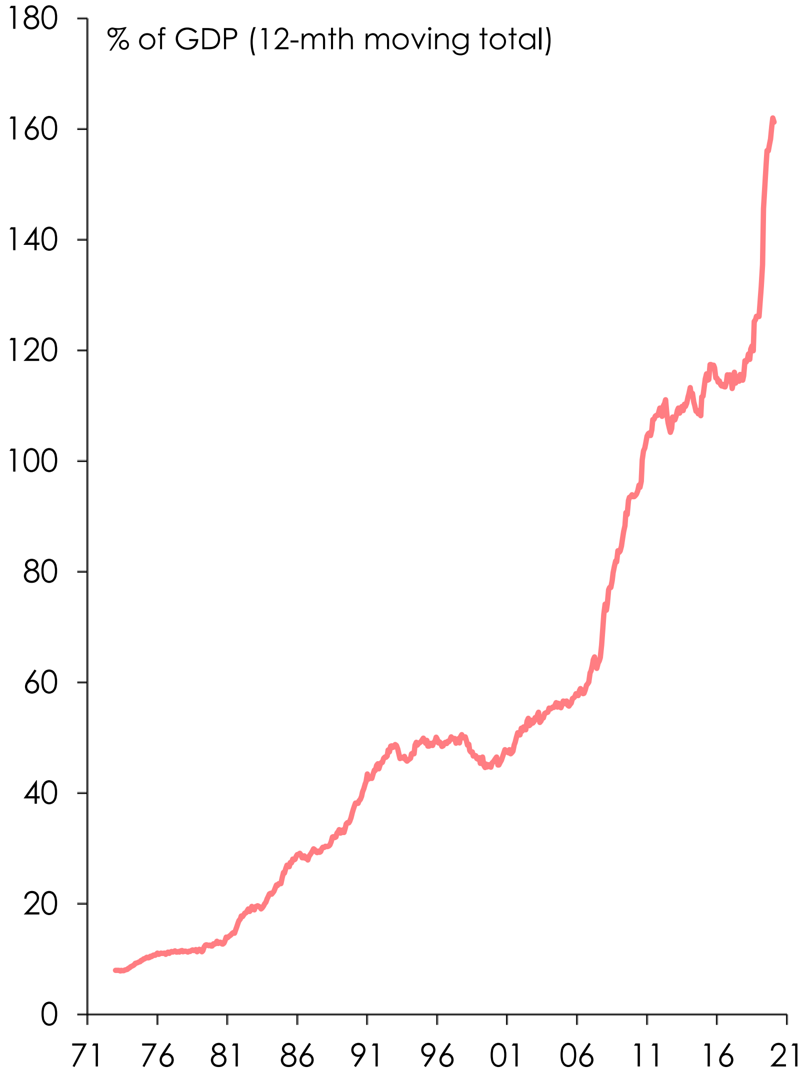
Sources: US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. February employment and other labour force data will be released on 5th March. Return to "What's New".

The US budget deficit reached US$3½ trn (19% of GDP) in the 12 months to January and will rise further when the Administration's stimulus is enacted

US Federal budget deficit



US gross Federal debt

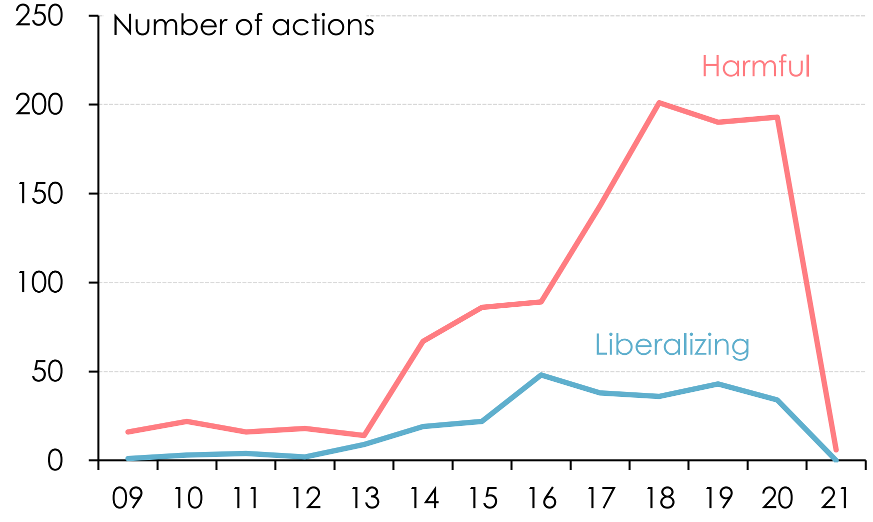


- The US budget deficit widened from US$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US$20.4 trn (115% of GDP) to $24.1trn (126% of GDP)
- For CY 2020 as a whole, Federal government spending rose by 49.7% (!) while revenues fell by 2.3%
- The deficit widened to $163bn in January, bringing the 12-month total to US$3.5 trn (18.9% of GDP)
- The market value of gross federal debt outstanding fell slightly (because of higher bond yields) to US$29.7 trn (161% of GDP) in January, of which $18.3 trn is held by non-government holders
- Bills incorporating the Biden Administration's US$1.9 trn stimulus package were passed by Congress (on strict party-line votes) on 12th February but some elements (eg cash payments to households) may be modified as part of the 'reconciliation' process

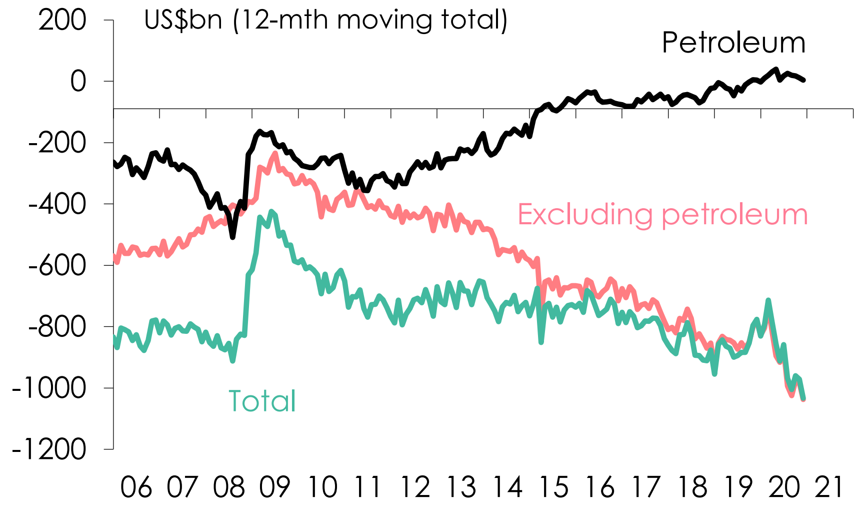
Note: The measure of US gross federal debt is at market value. *Sources:* US Treasury Department; Federal Reserve Bank of Dallas; US Bureau of Economic Analysis; US Congressional Budget Office; Corinna. February budget data will be released on 10th March.
Return to "What's New".

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

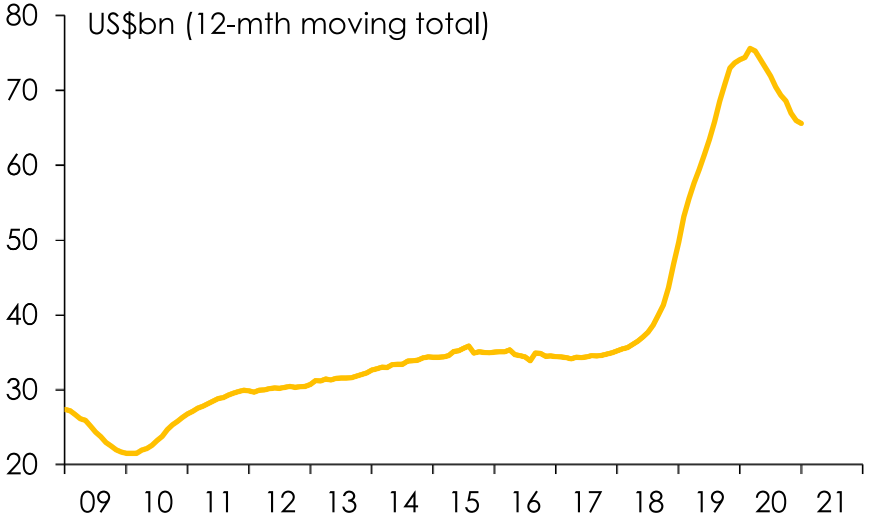
US trade policy actions



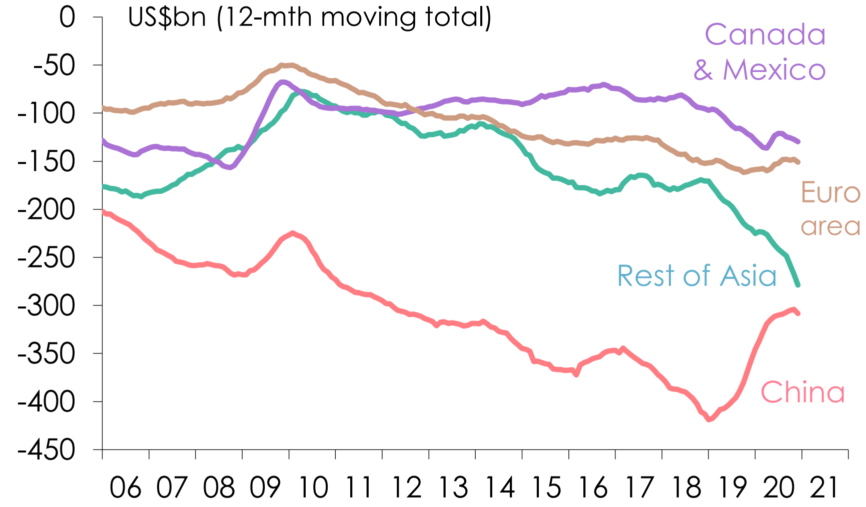
US merchandise trade balance



US customs duty revenue



US bilateral trade balances

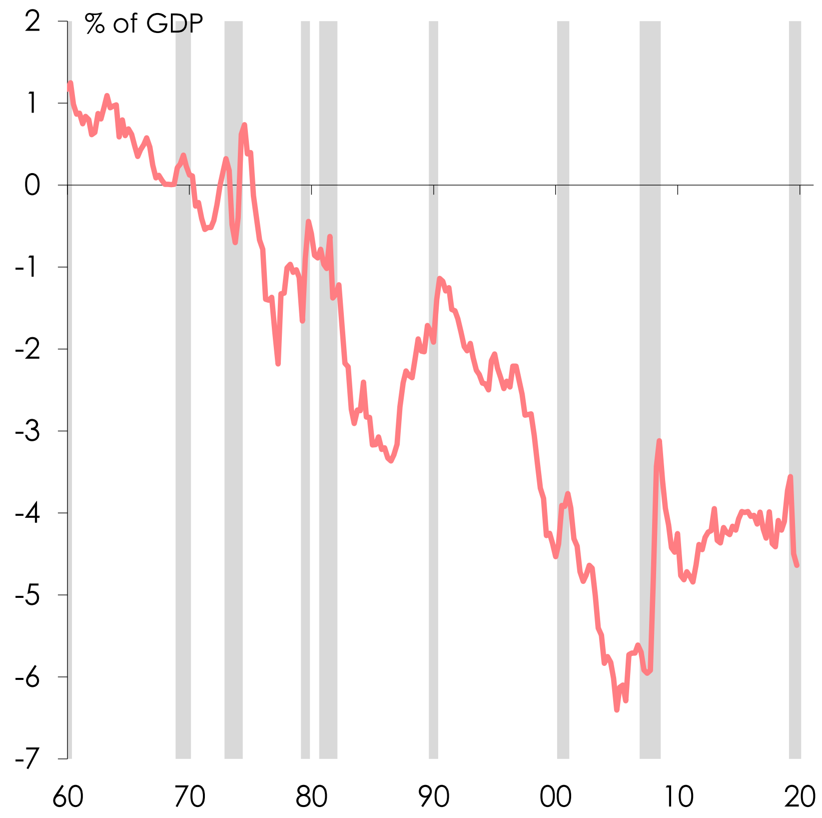


- **A Brookings Institution analysis of the impact of the Trump Administration's trade policies suggests that the average American household paid anywhere between "several hundred" and "a thousand dollars or more" per annum in higher prices due to tariffs**
  - consistent with what is widely understood 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, Mexico, Canada and Europe**

Sources: The Brookings Institution; Centre for Economic Policy Research, *Global Trade Alert Global Dynamics* (data up to 12th February); US Treasury Department; US Commerce Department. Return to "What's New".

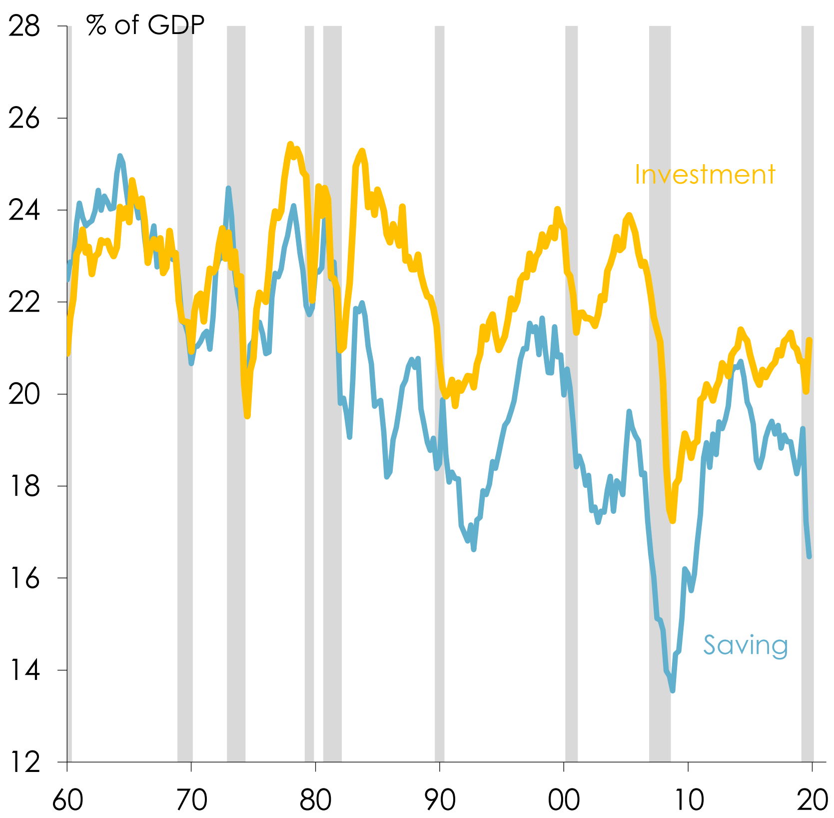
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



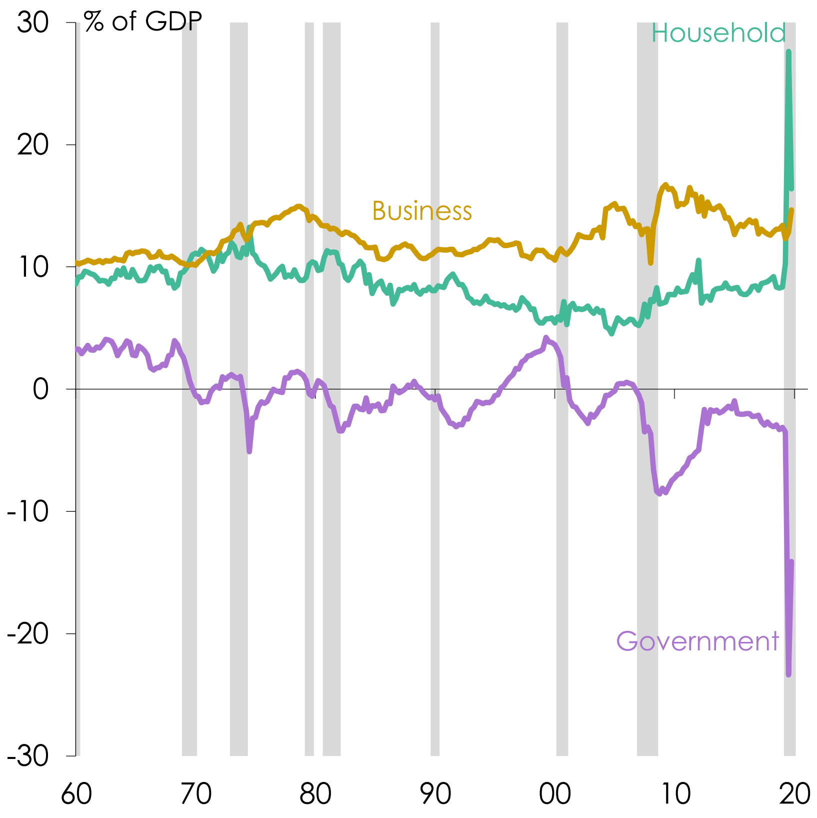
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

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

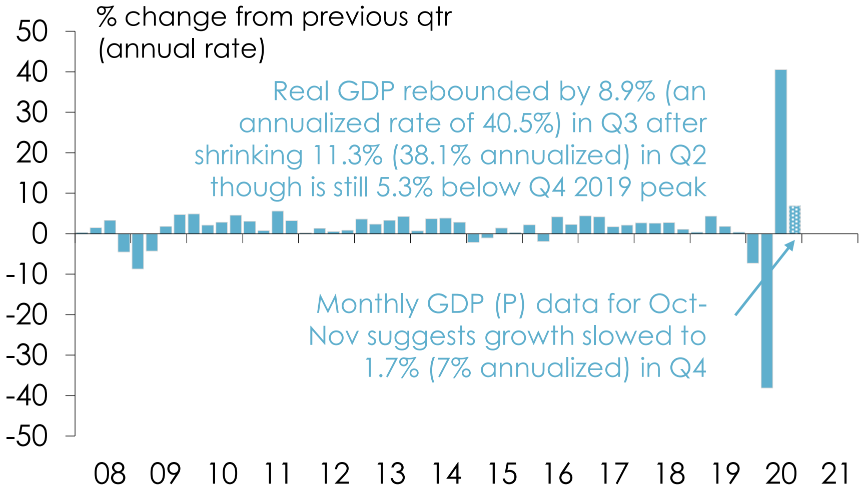


The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving (though monthly data says household saving fell in Q3

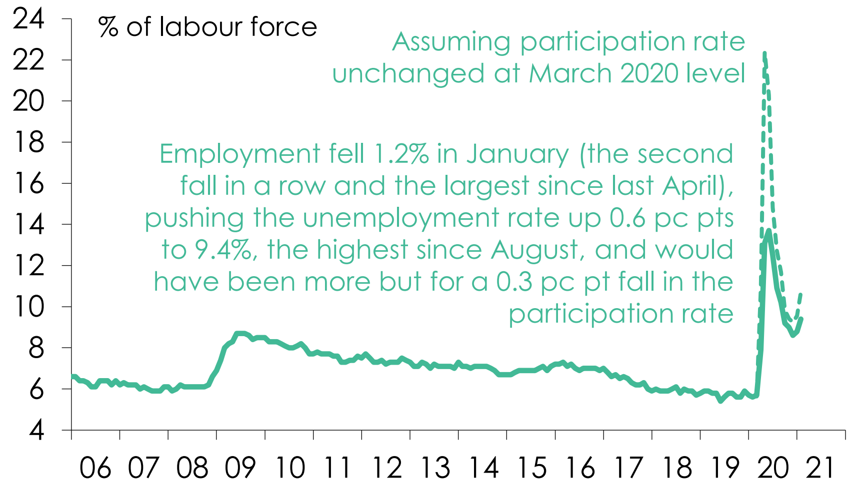
Note: shaded areas denote recessions as designated by the US National Bureau of Economic Research. 2020 Q4 data will be included in these charts with the release of the second estimates of Q4 GDP on 212th February. *Source:* US Bureau of Economic Analysis. Return to "What's New".

Canada's labour market experienced a sharp set-back in January with unemployment backing up to its highest since last August

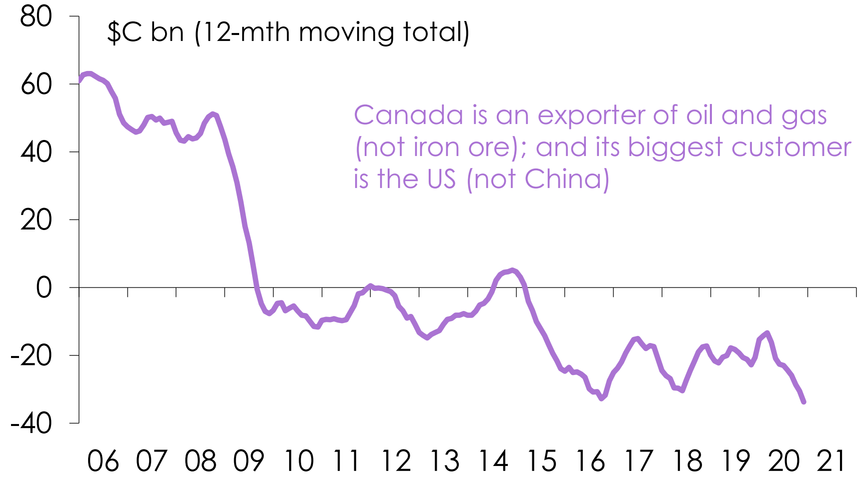
Real GDP



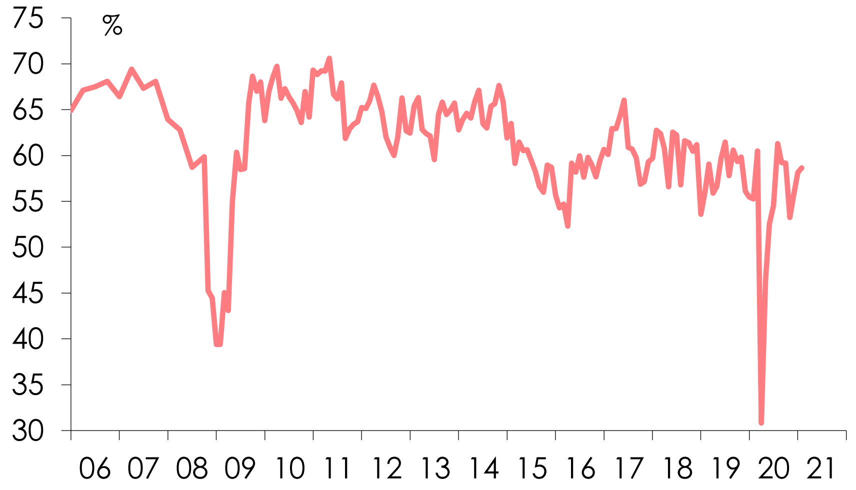
Unemployment rate



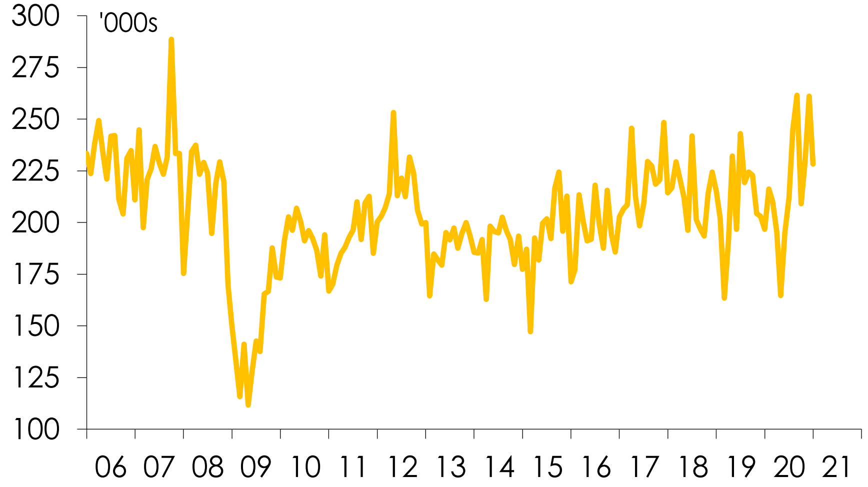
Merchandise trade balance



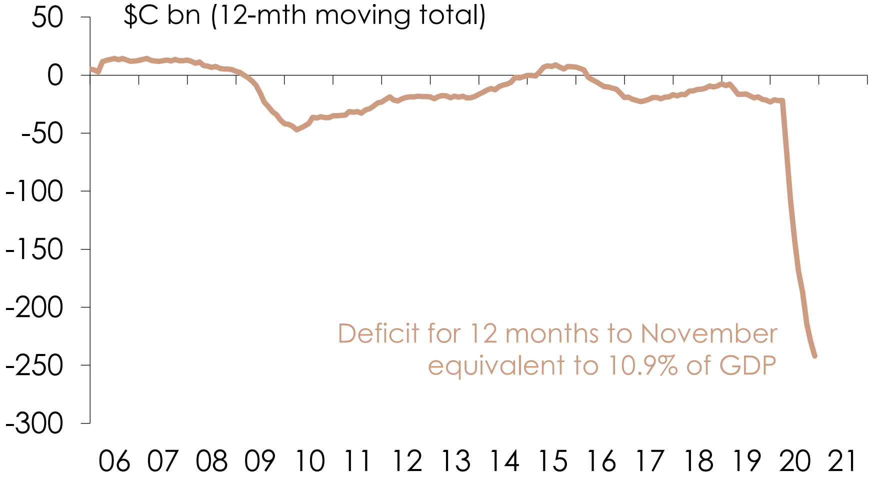
CFIB 'business barometer'



Housing permits



Federal budget balance

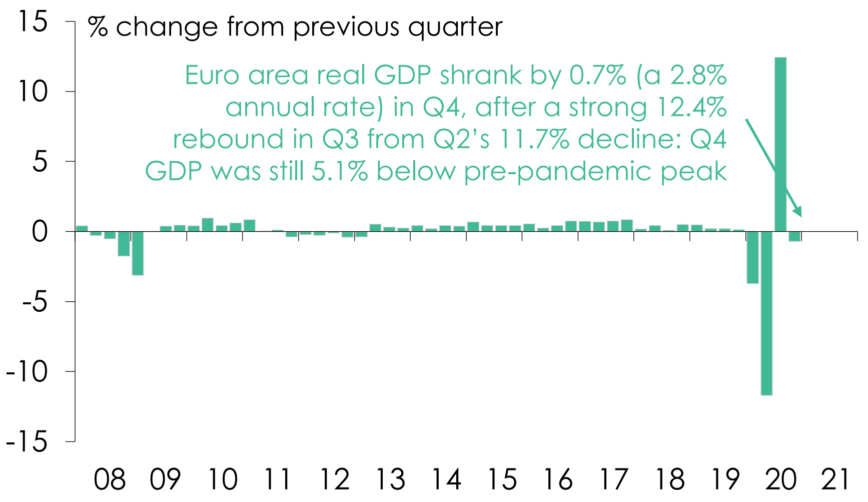


Sources: Statistics Canada; Canadian Federation of Independent Businesses; Teranet-National Bank of Canada; Department of Finance Canada. Return to "What's New".

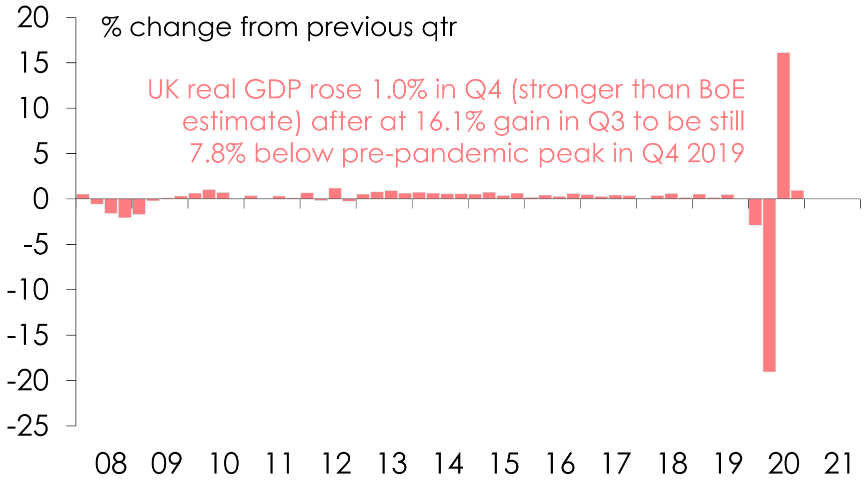
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The euro area economy contracted by 0.7% in Q4 2020 and 5.1% from Q4 2019: corresponding numbers for UK were +0.1% and -7.8%

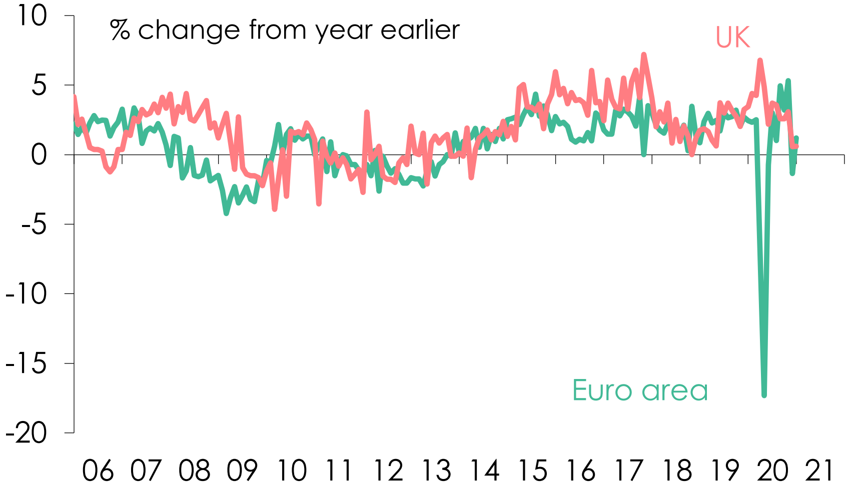
Euro area real GDP



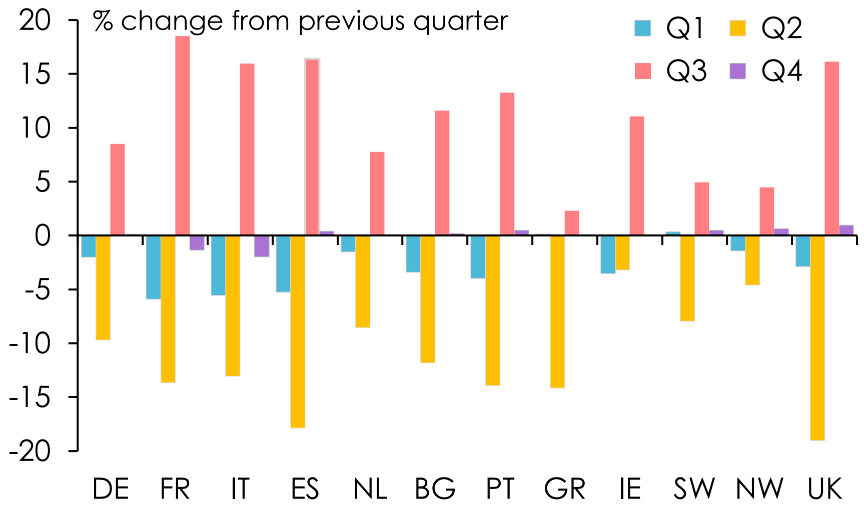
UK real GDP



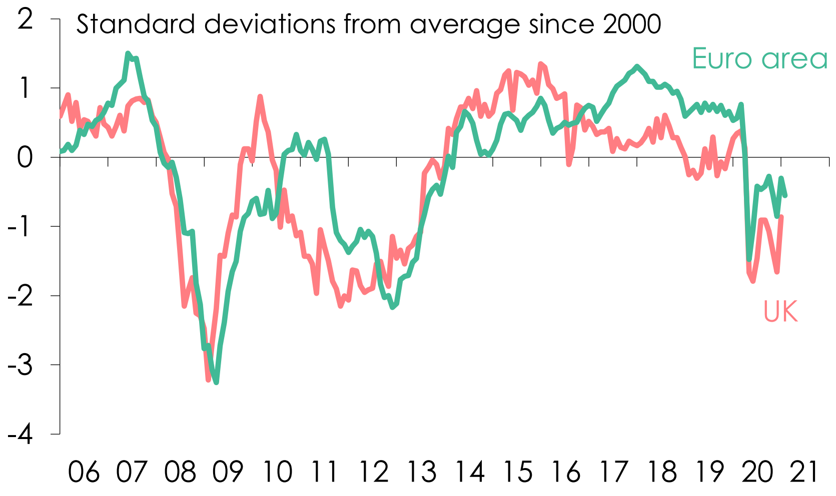
Retail sales volume



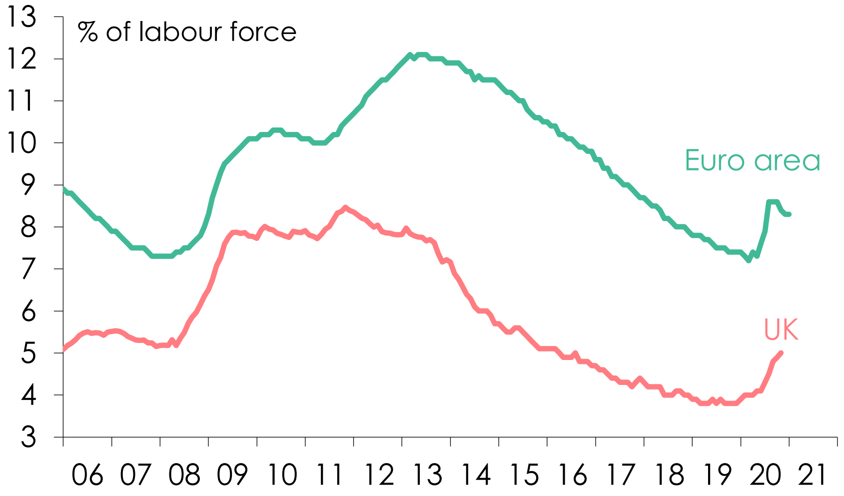
Quarterly GDP by country



Consumer confidence



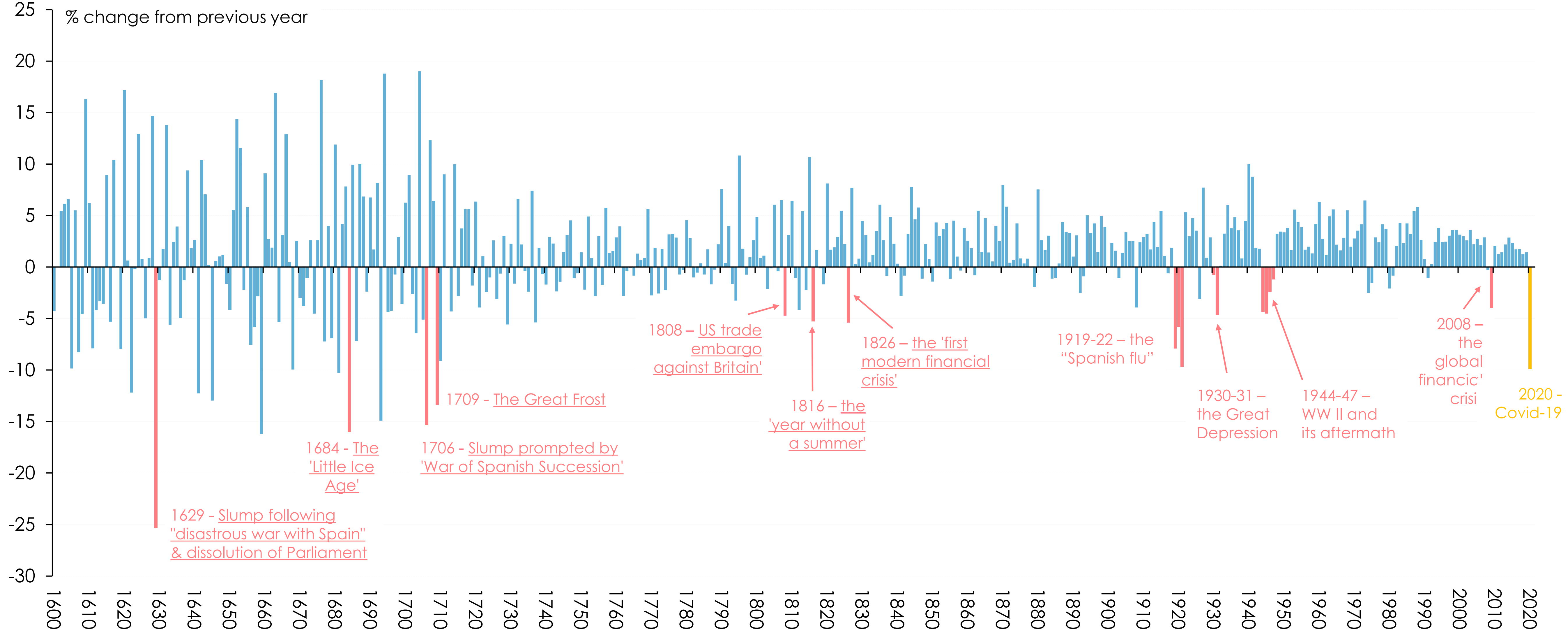
Unemployment



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

The 9.9% contraction in the UK economy in 2020 was the worst since the 'Great Frost' of 1709

UK real GDP since 1600



Sources: Bank of England, A millennium of macroeconomic data (2016); UK Office for National Statistics.

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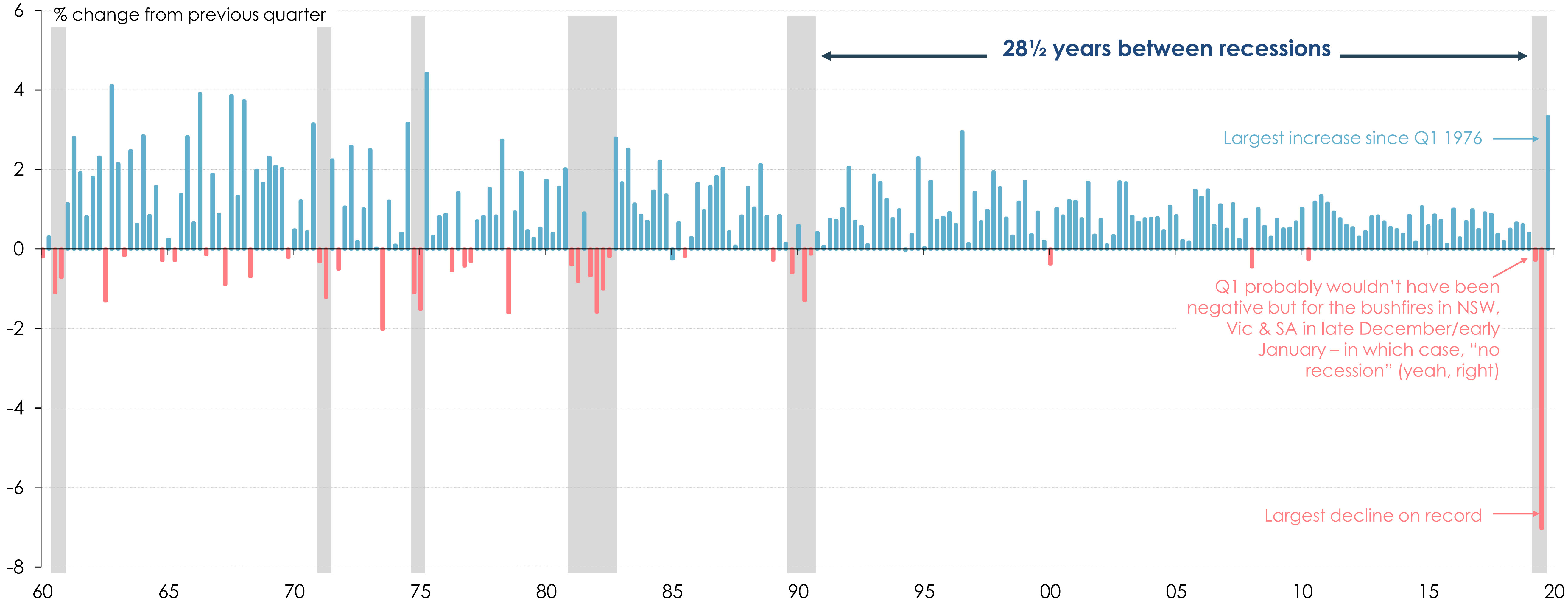
Australia

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 <u>sustainable</u> 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 <u>existing</u> jobs and businesses, to measures which nurture <u>new</u> 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".

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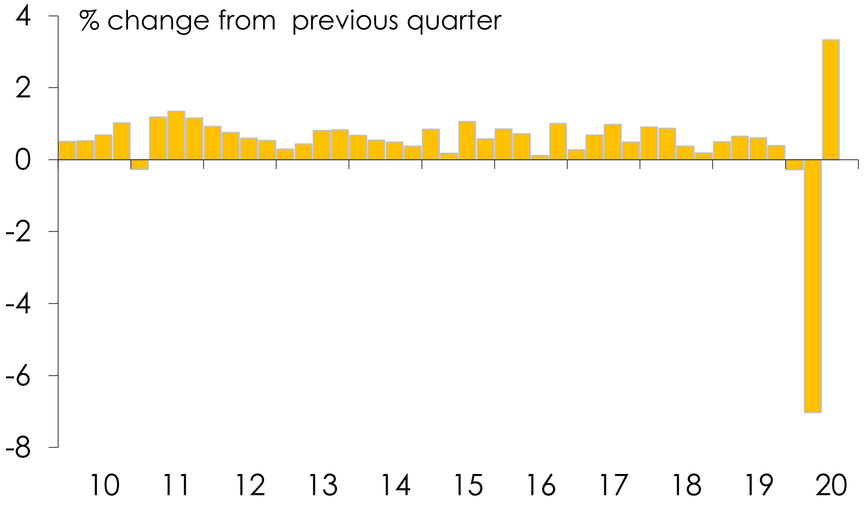
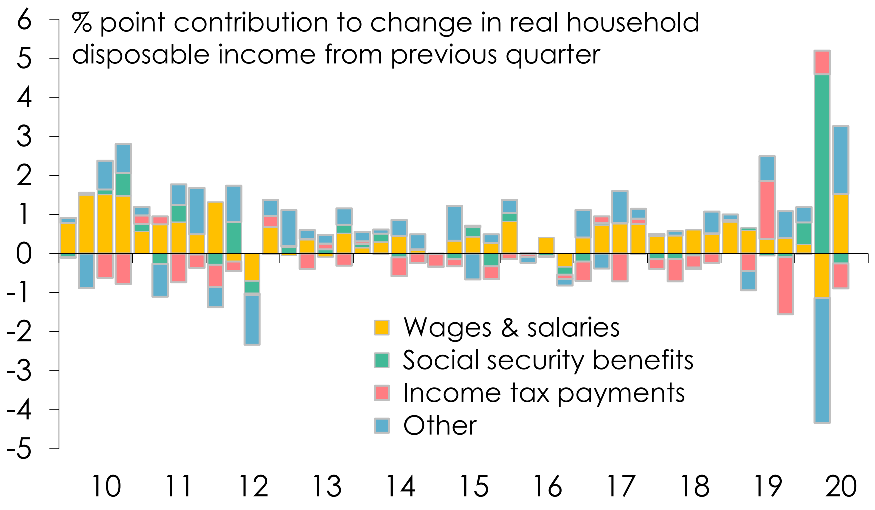
The 3.3% rebound in Q3, after a 7.0% plunge in Q2, was almost entirely driven by consumer spending on health and discretionary items

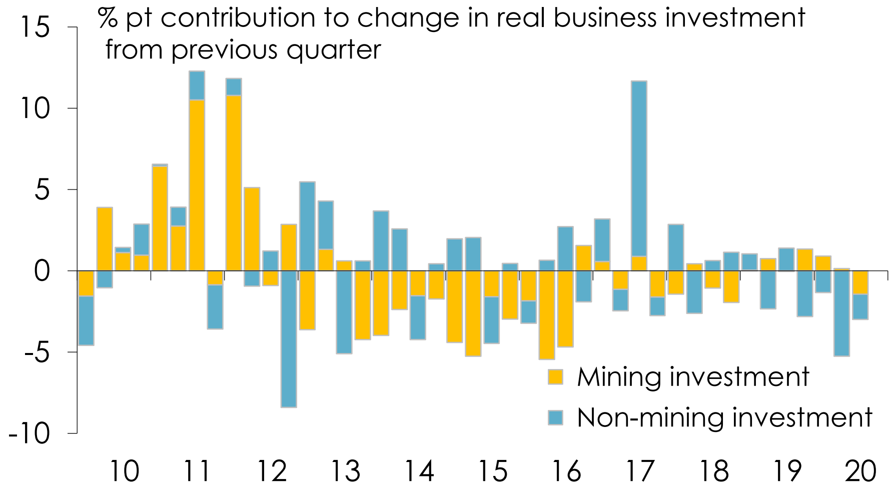
Quarterly change in real GDP



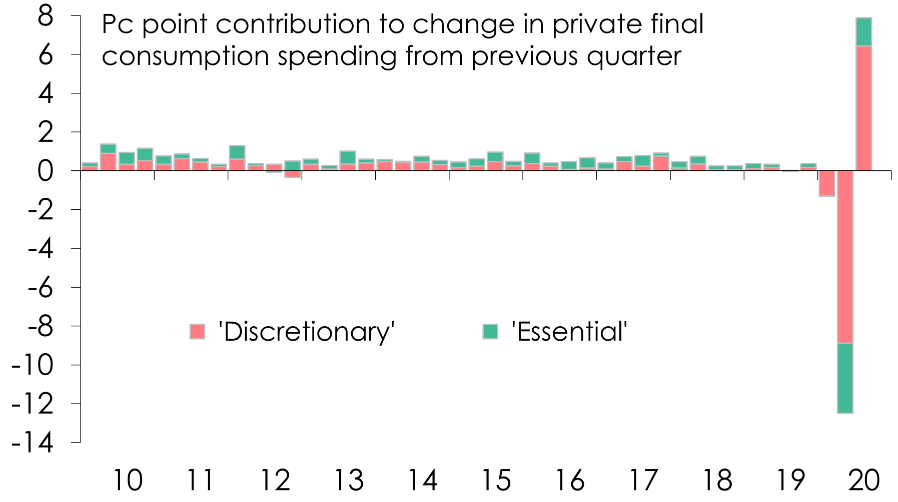
Household disposable income



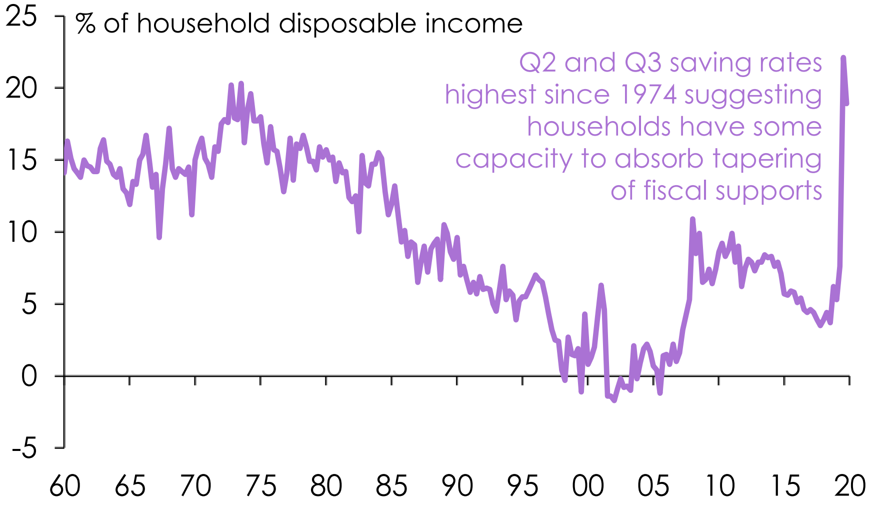
Business investment expenditure



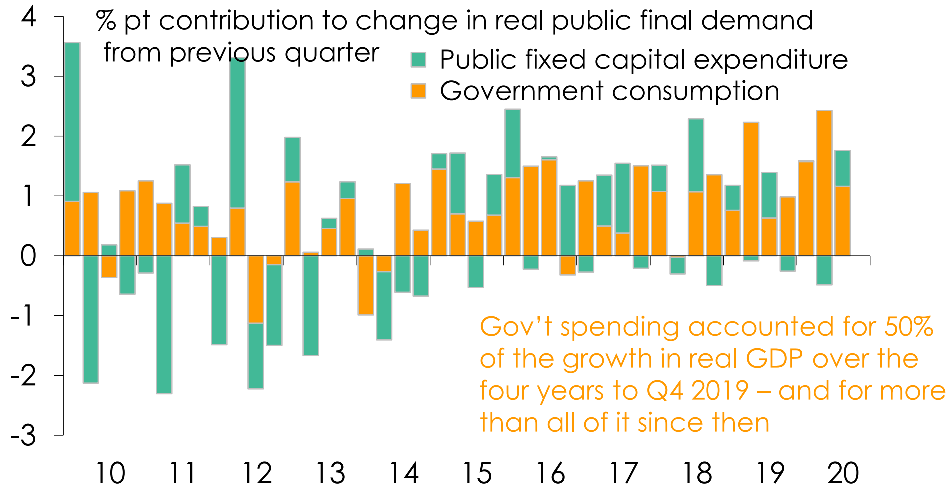
Household consumption expenditure



Household saving rate



Public expenditure



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

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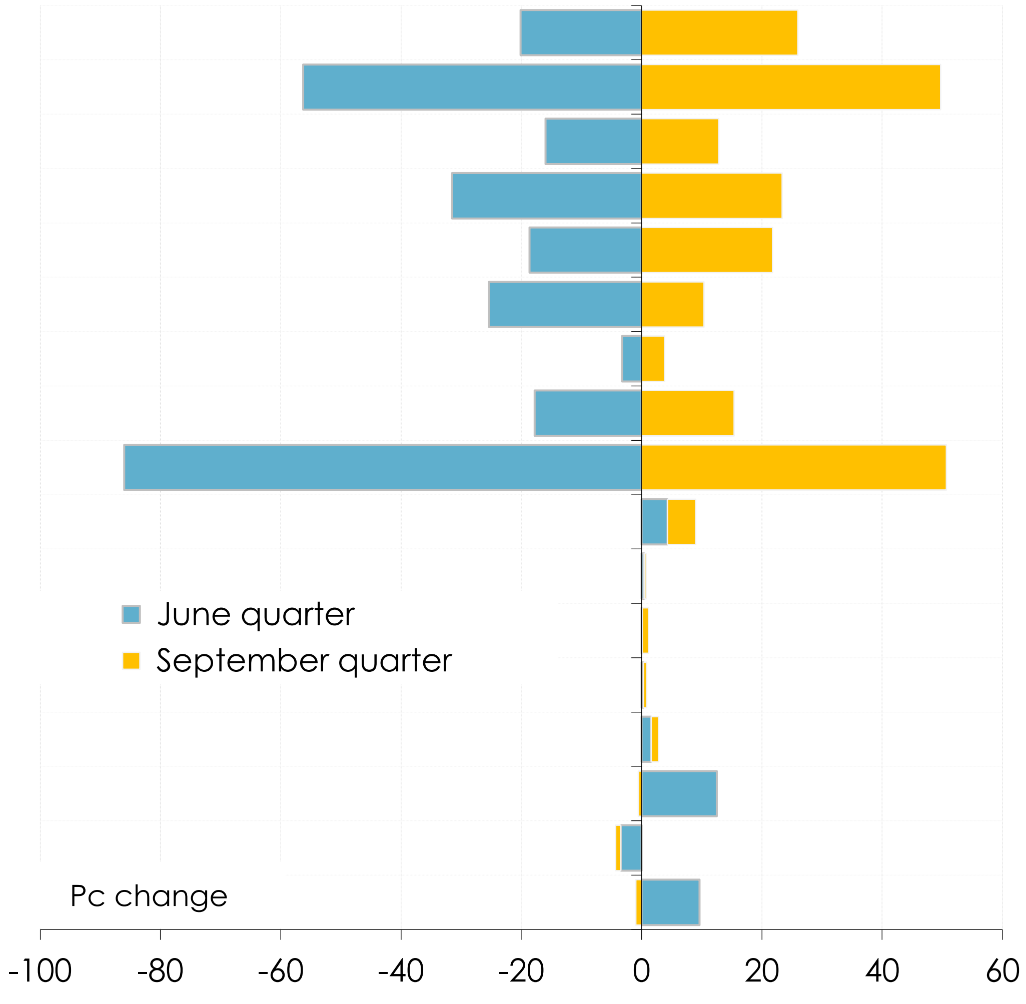
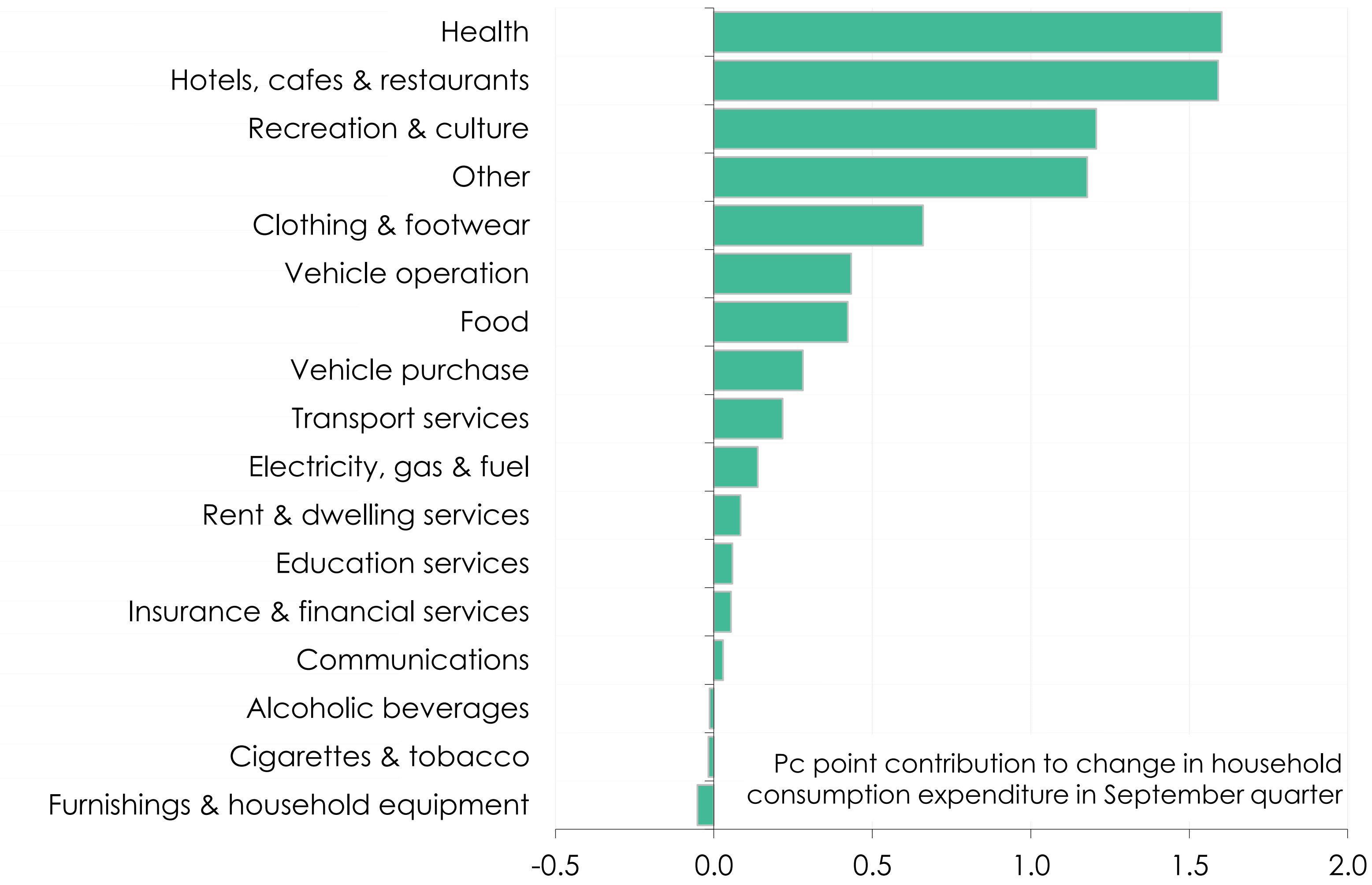
The rebound in consumer spending in the September quarter was focused on health and discretionary items especially clothing and going out

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



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



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

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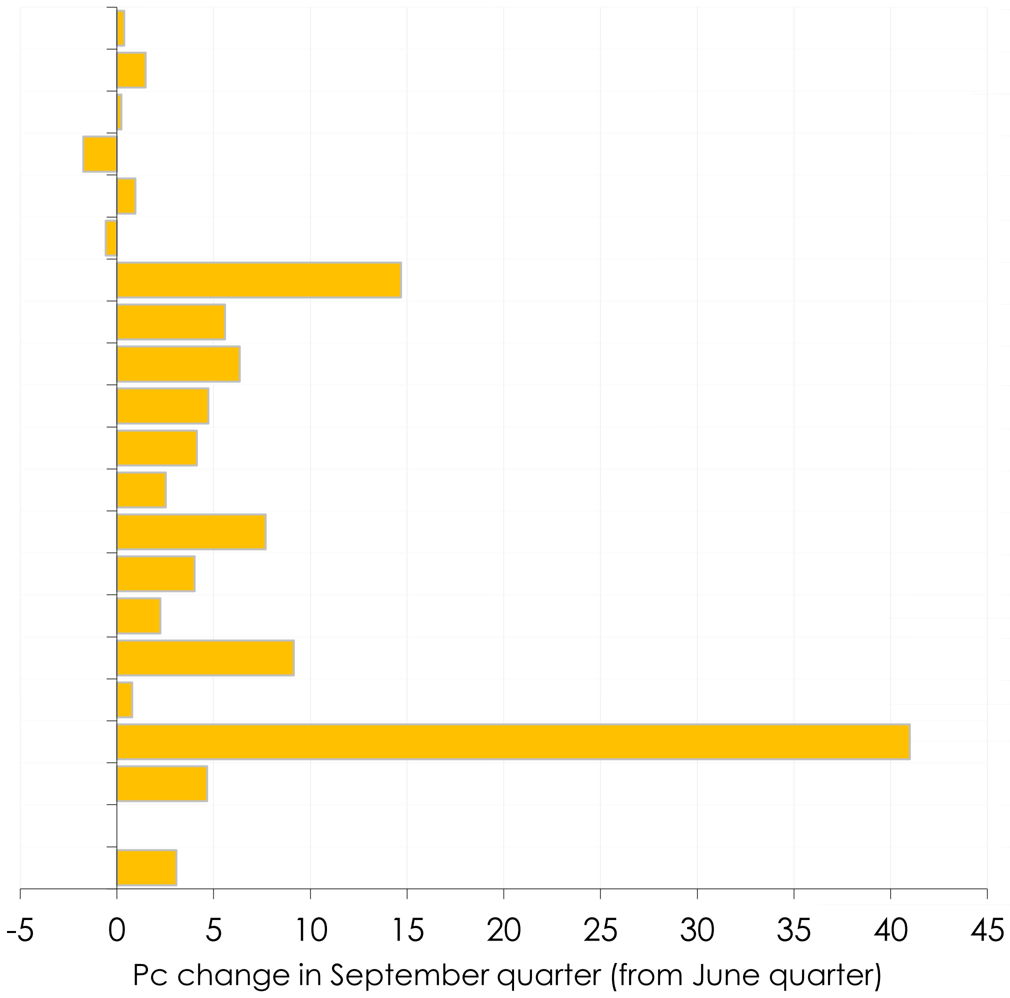
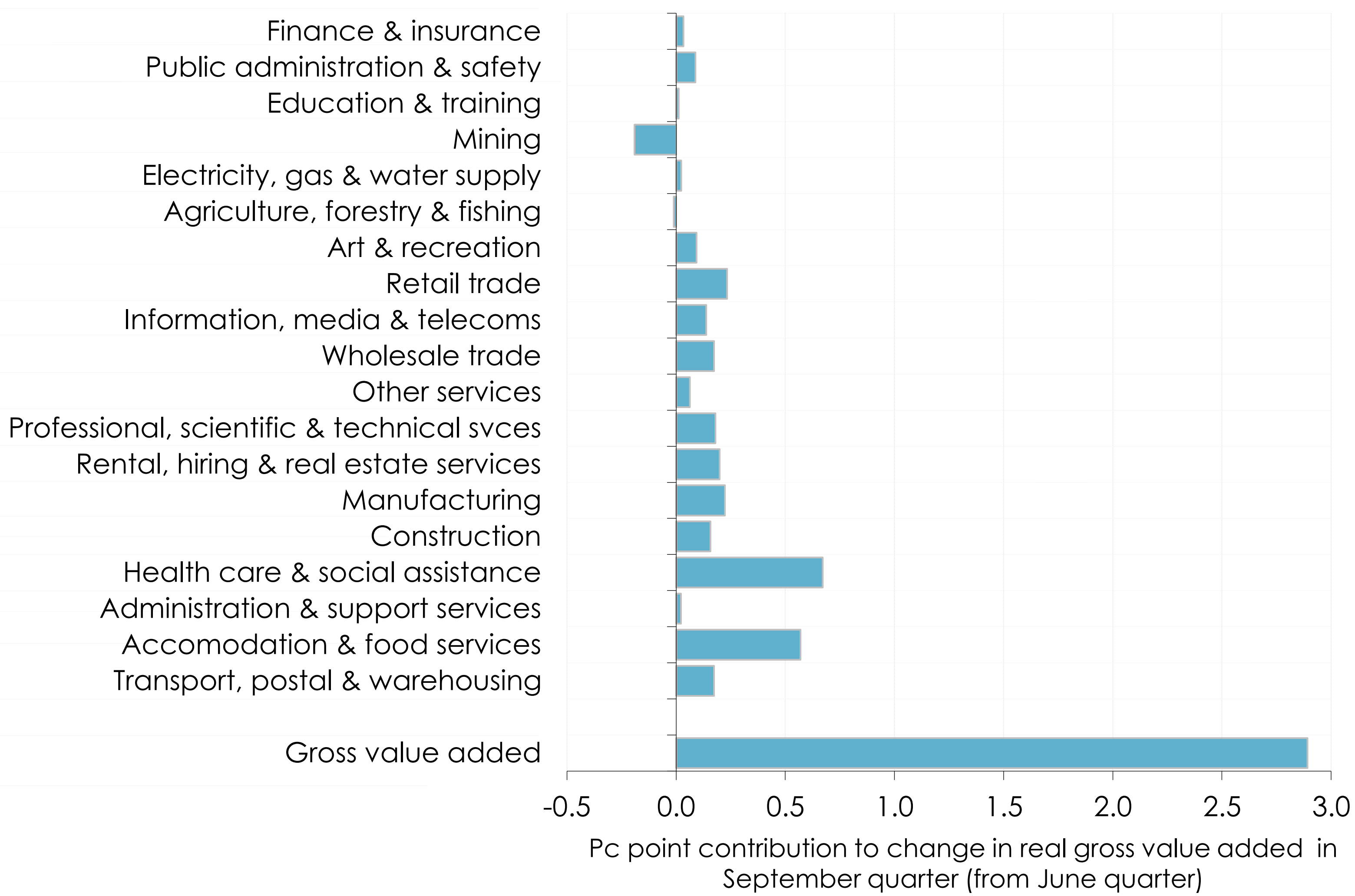
From an industry standpoint the Q3 rebound in real GDP was driven by health care & social assistance, and accommodation & food services

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".

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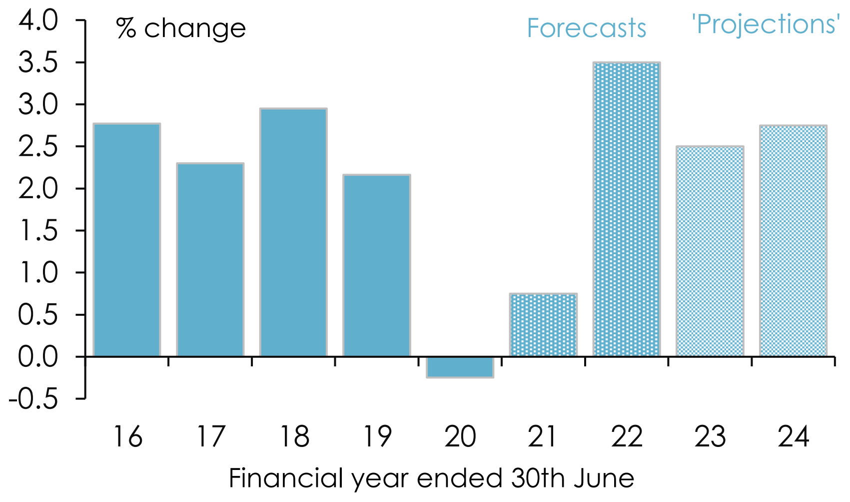
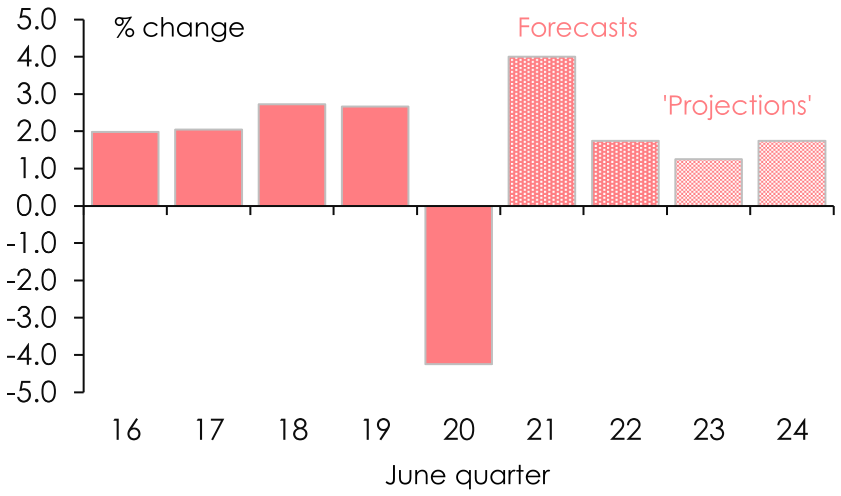
Treasury has raised its growth forecast for FY 2020-21(from -1½% to +¾%) but lowered it for 2021-22 (from 4¾% to 3½%)

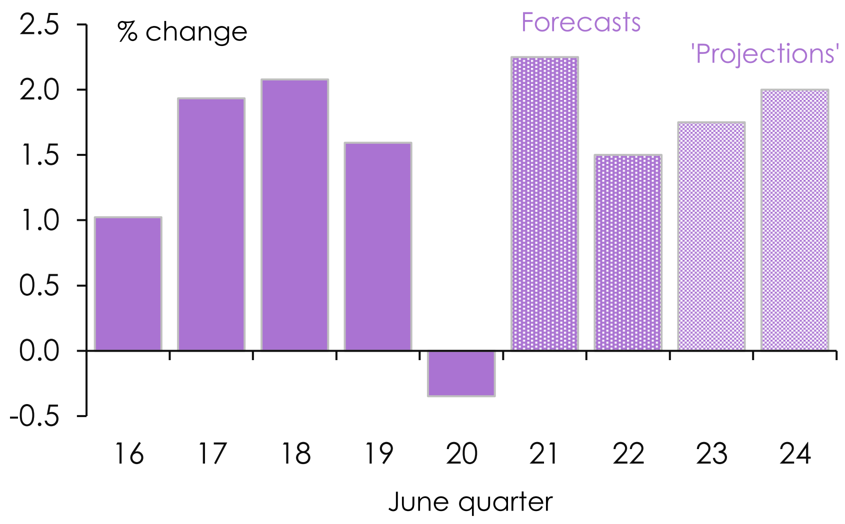
Real GDP



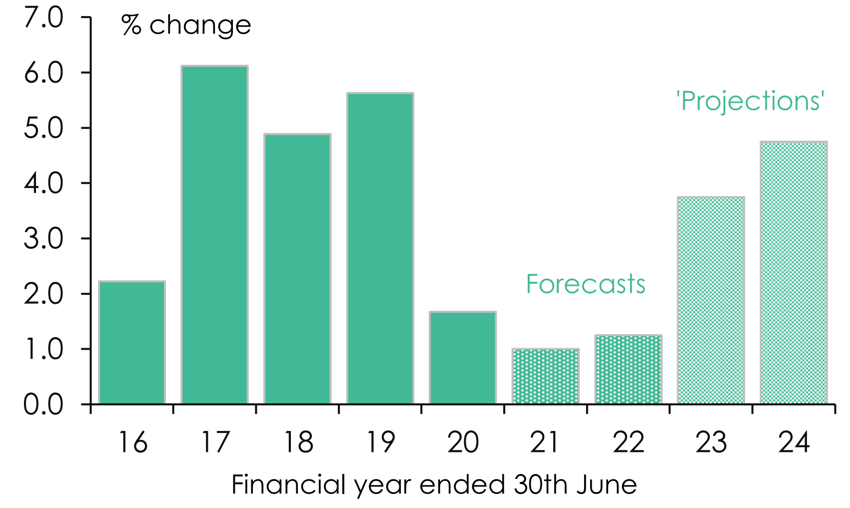
Employment



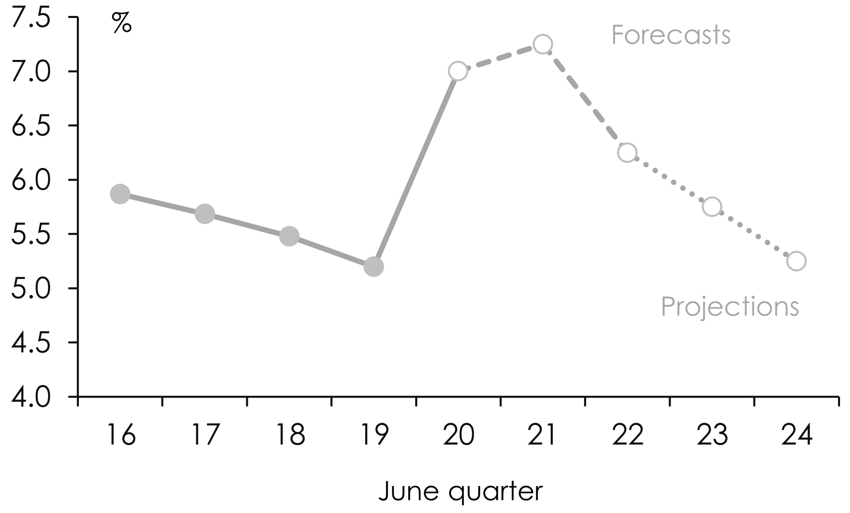
Consumer price index



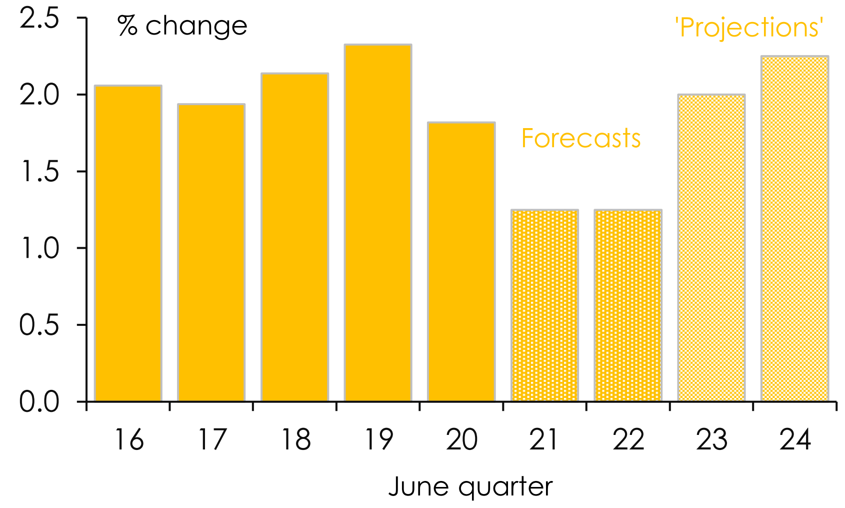
Nominal GDP



Unemployment rate



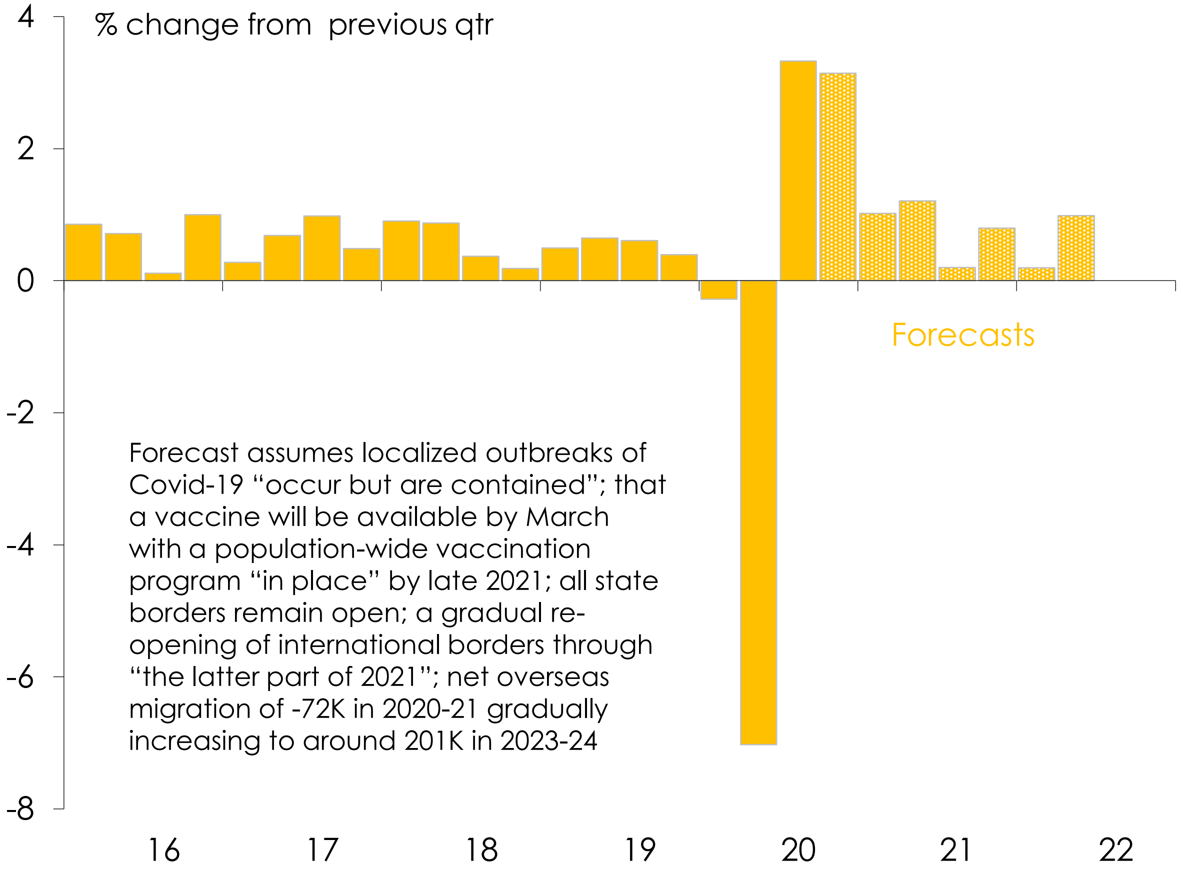
Wage price index



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.

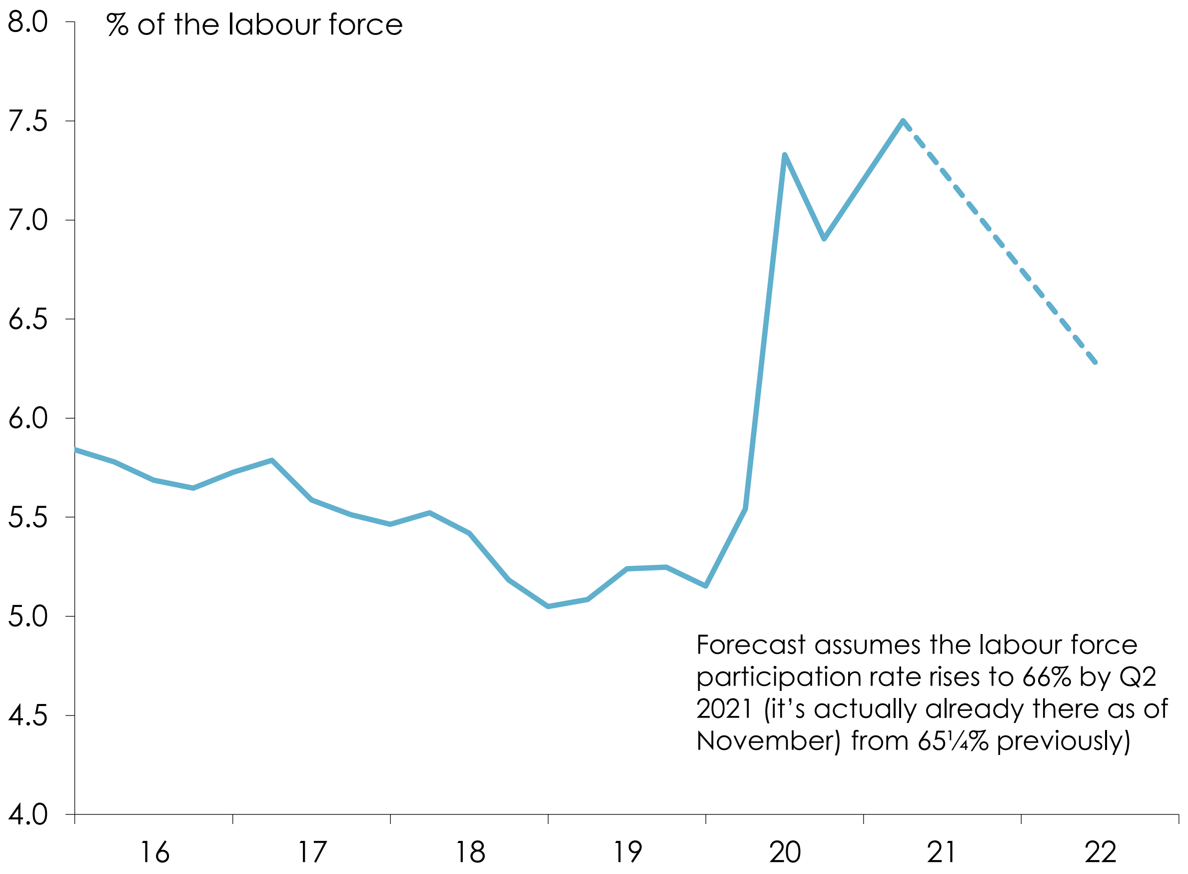
Treasury has revised up its near-term GDP growth forecast (but lowered it a bit for 2021-22) and lowered its unemployment rate forecasts

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

Sources: ABS; Australian Government, *2020-21 Mid-Year Economic and Fiscal Outlook*, 17th December 2020.

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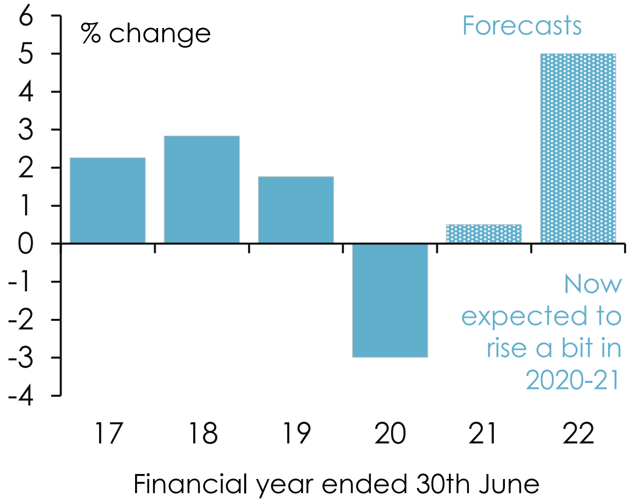
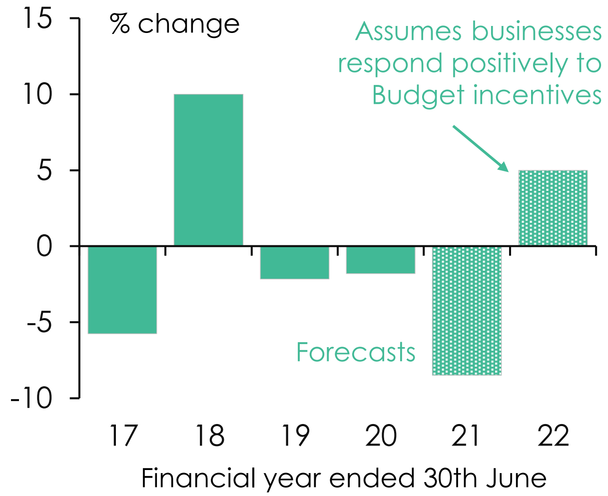
Household consumption and government spending the main forecast recovery drivers in 2020-21, with business investment picking up in 2021-22

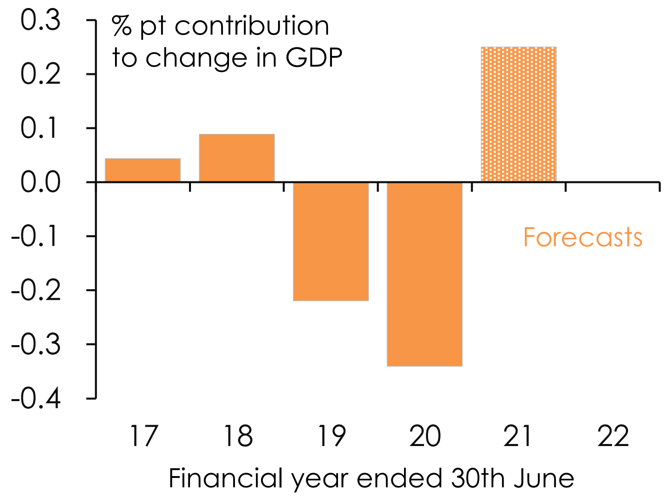
Household consumption



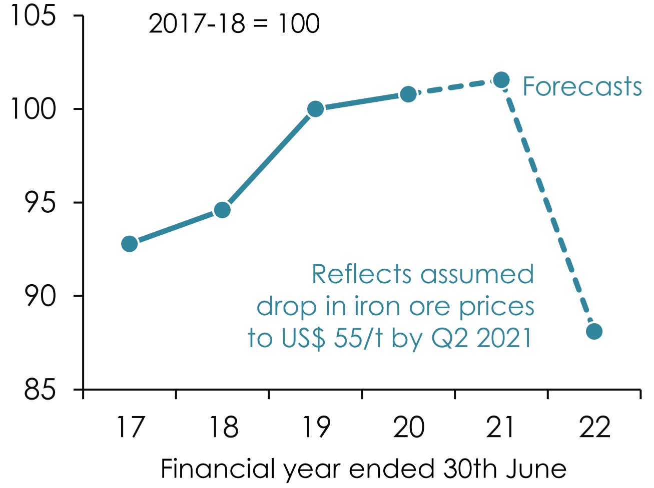
Business investment



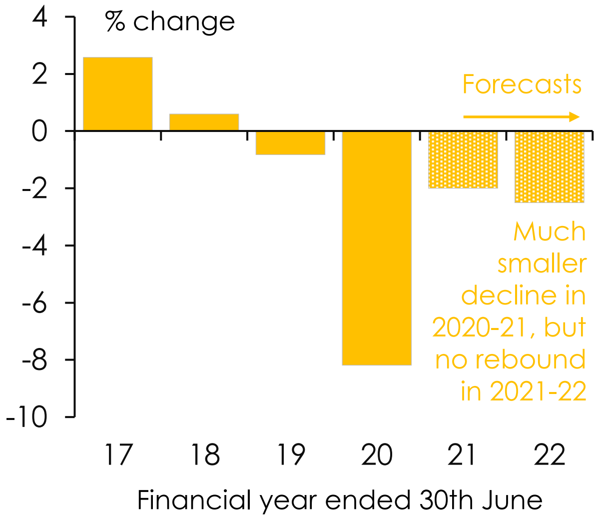
Change in inventories



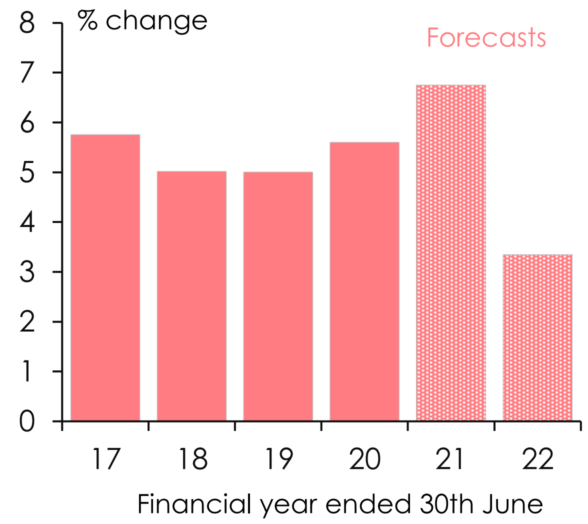
Terms of trade



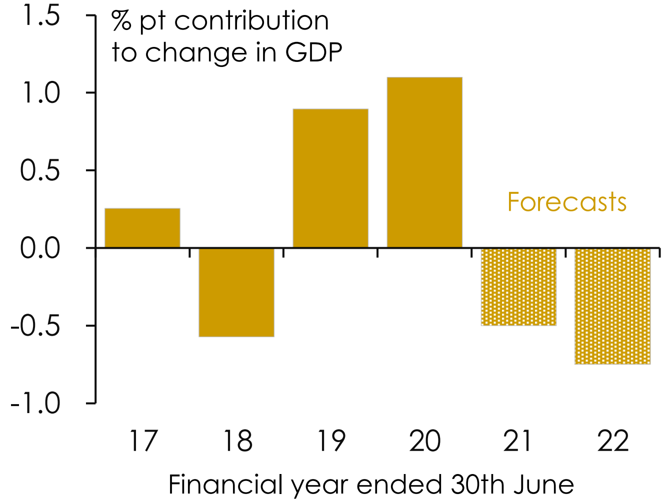
Dwelling investment



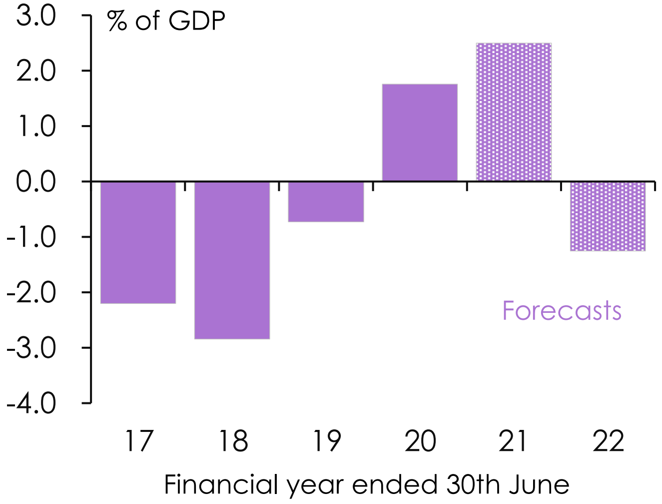
Public spending



Net exports



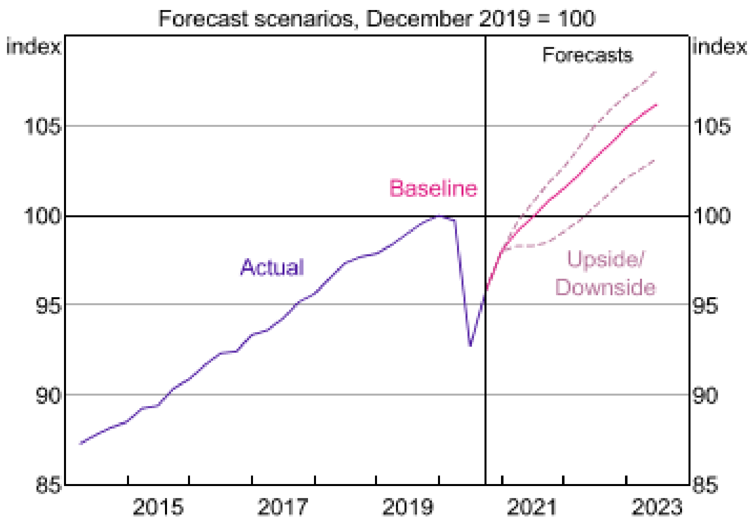
Current account balance



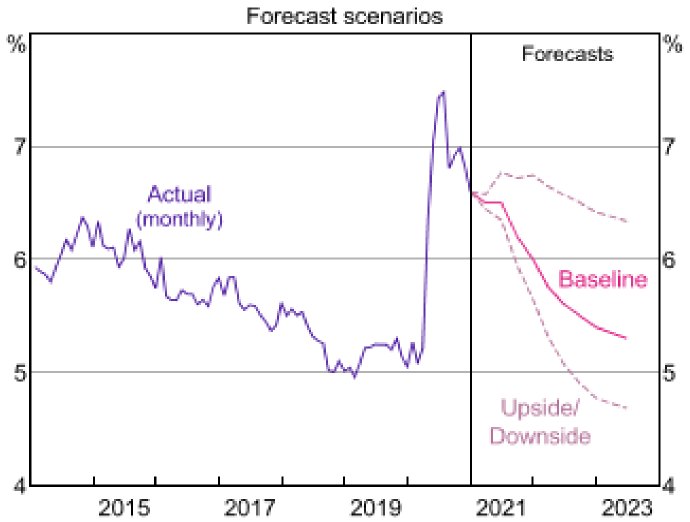
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K 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 RBA has upgraded its near-term growth outlook, and lowered its forecasts for unemployment, but still sees inflation below target until 2024

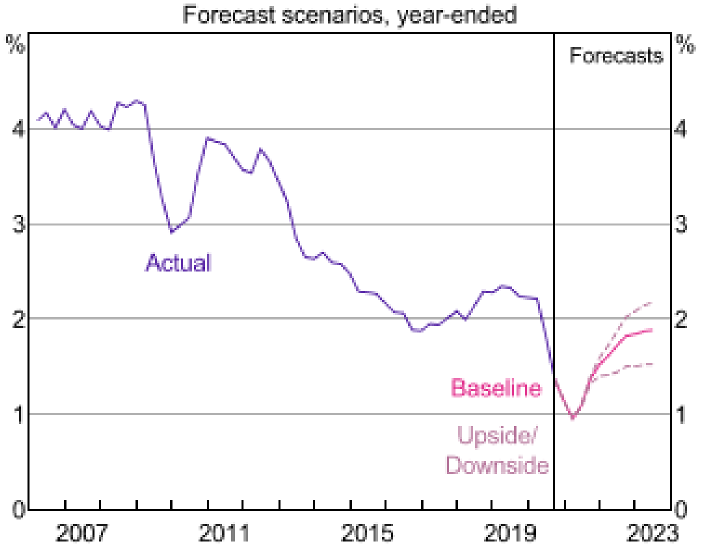
GDP



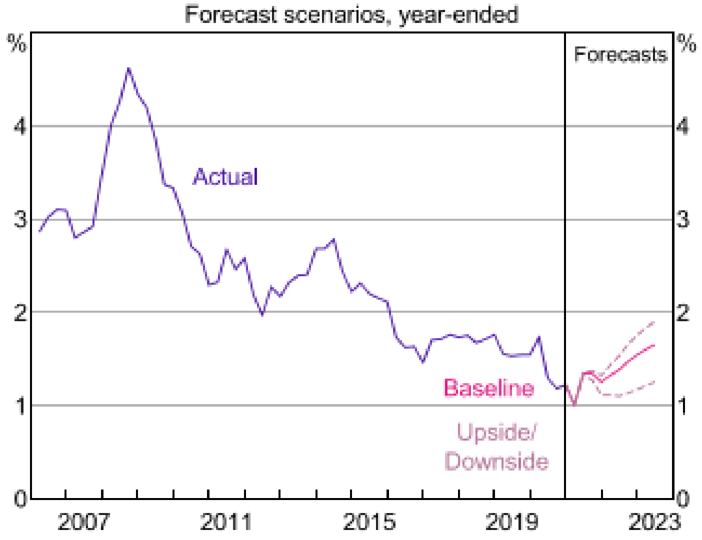
Unemployment



Wages



'Underlying' inflation

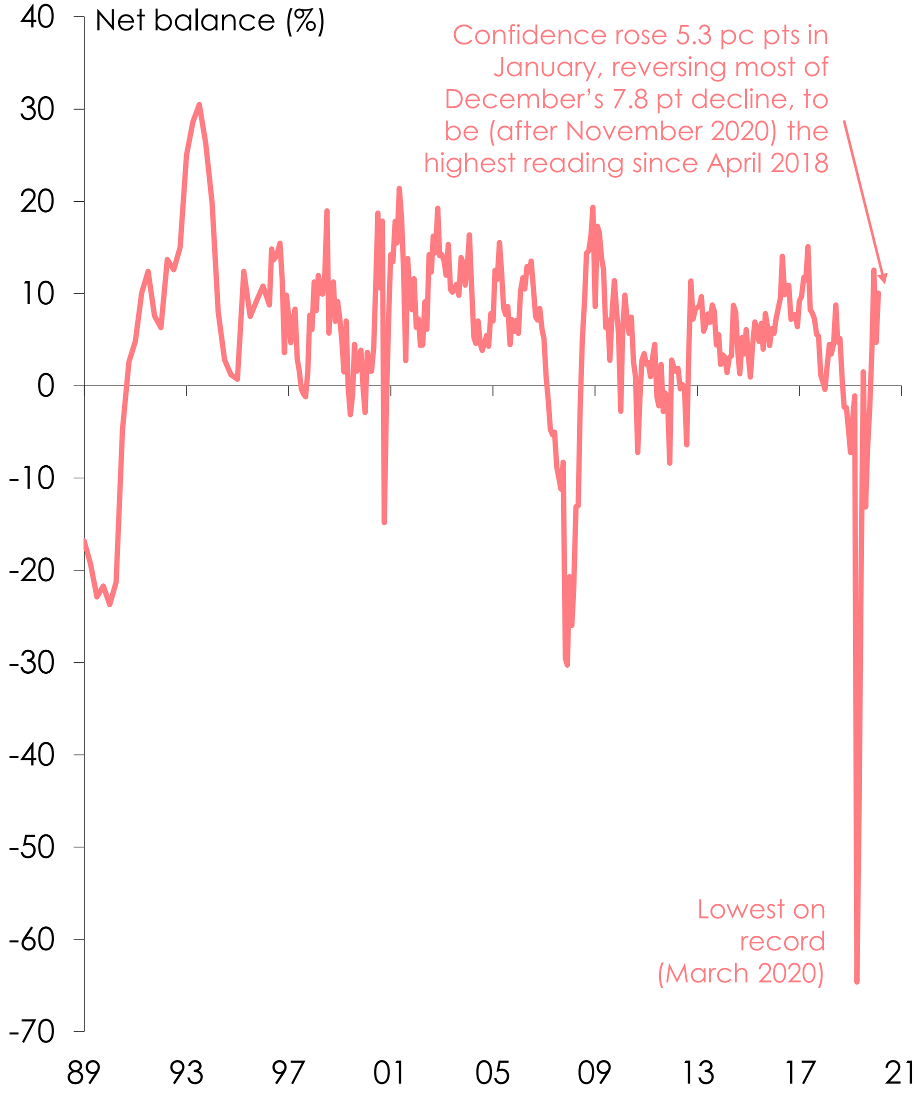


- ❑ The RBA now expects GDP to return to its pre-pandemic level by mid-2021, with real GDP growing 8% over the year to Q2 (previously 6%) but then 3½% (down from 4½% previously) over the year to Q4, followed by 3½% (unchanged) through 2022
- ❑ Unemployment now forecast to fall to 6½% (previously 7¼%) by June, 6% (previously 6¾%) by December, and 5½% (previously 6½%) by June 2022 – but then by only another ¼ pc pt to 5¼% by June 2023, still above the '4-point-something' required (in the RBA's judgement) to prompt a pick-up in wage and hence price inflation)
- ❑ Even in the RBA's 'upside' scenario (based on better health outcomes in Australia and abroad) unemploy-ment doesn't fall below 5% until the end of 2022
- ❑ Hence, wage inflation is expected to "remain below 2% in the next few years", while 'underlying' inflation stays at 1½% through 2022, reaching 1¾% by mid-2023 – and still doesn't reach 2% even in the 'upside' scenario
- ❑ This is the basis for the RBA's expectation that its conditions for raising the cash rate (actual inflation "sustainably within the 2-3% range") won't be met until "2024 at the earliest"

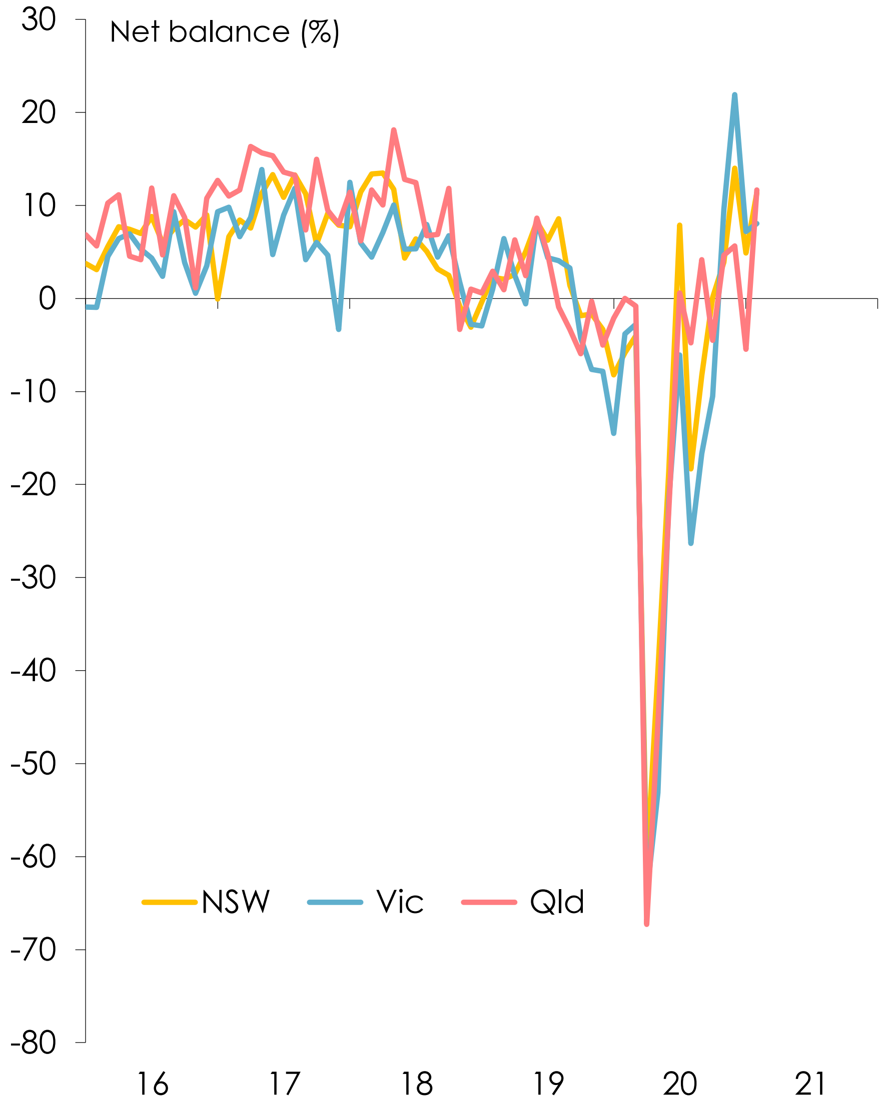
Source: Reserve Bank of Australia, *Statement on Monetary Policy* , 12th February 2021. The RBA's next set of forecasts will be published on Friday 7th May.

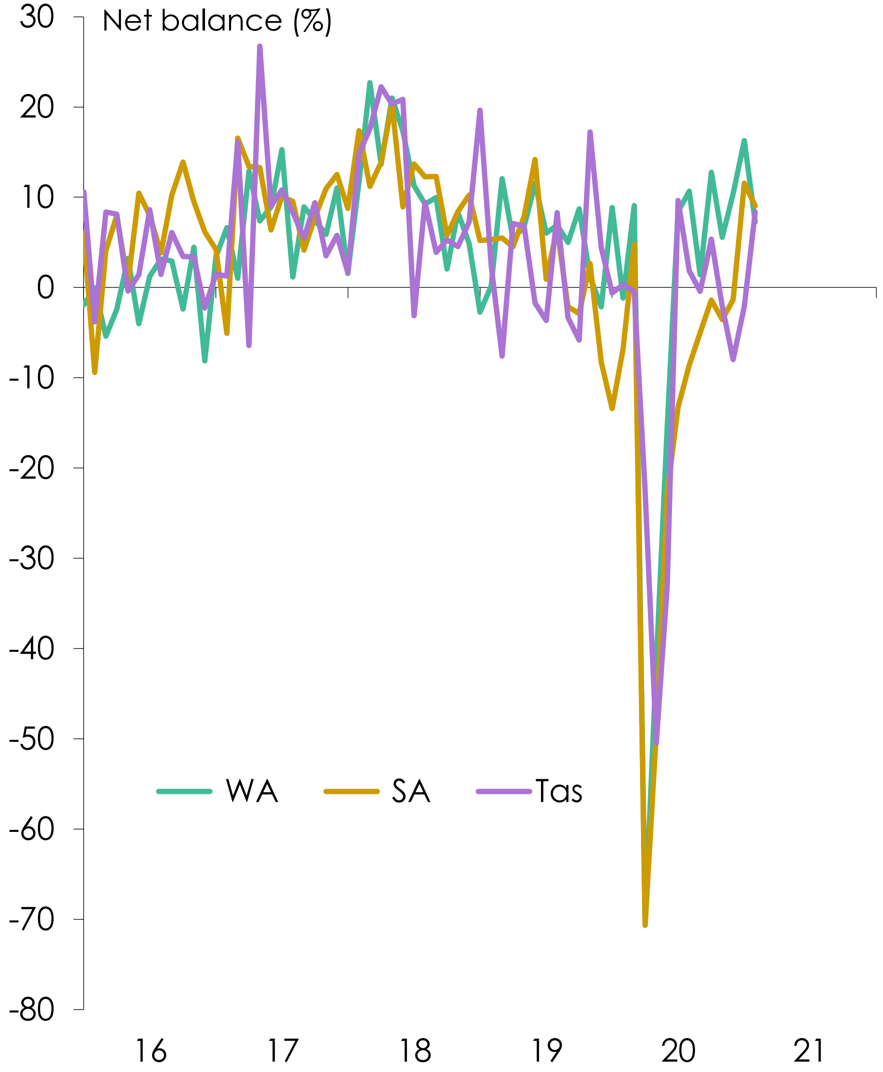
Business confidence improved in January, as Sydney and Brisbane emerged from temporary lockdowns

Business confidence



Business confidence, states and territories





Sources: National Australia Bank. February survey results will be released on 9th March. [Return to "What's New"](#).

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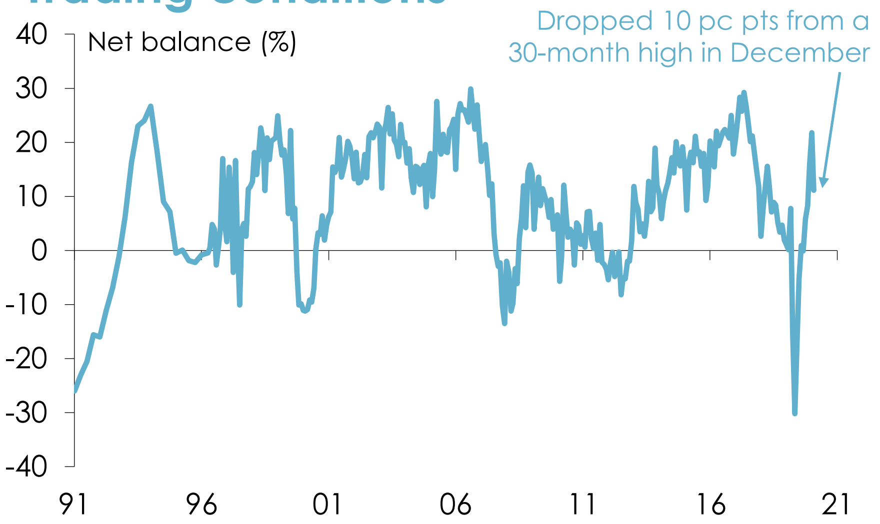
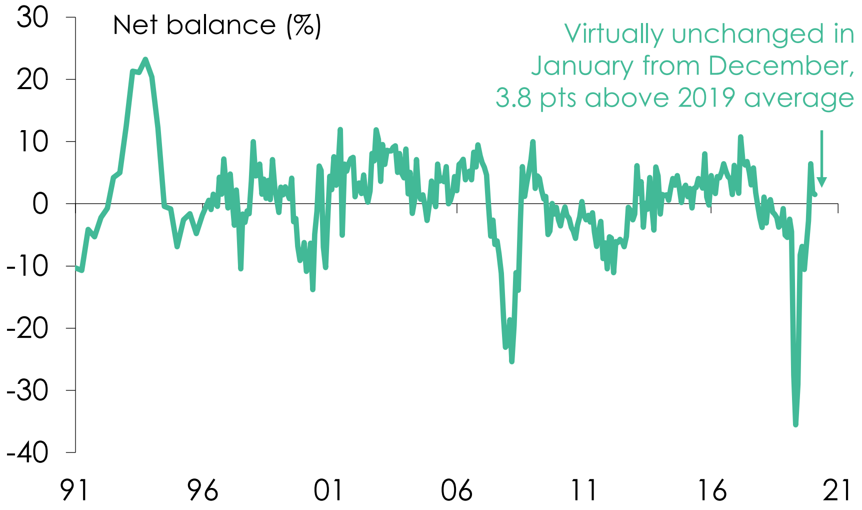
‘Business conditions’ as measured by the NAB survey softened a bit in January but were still mostly positive – including hiring and capex intentions

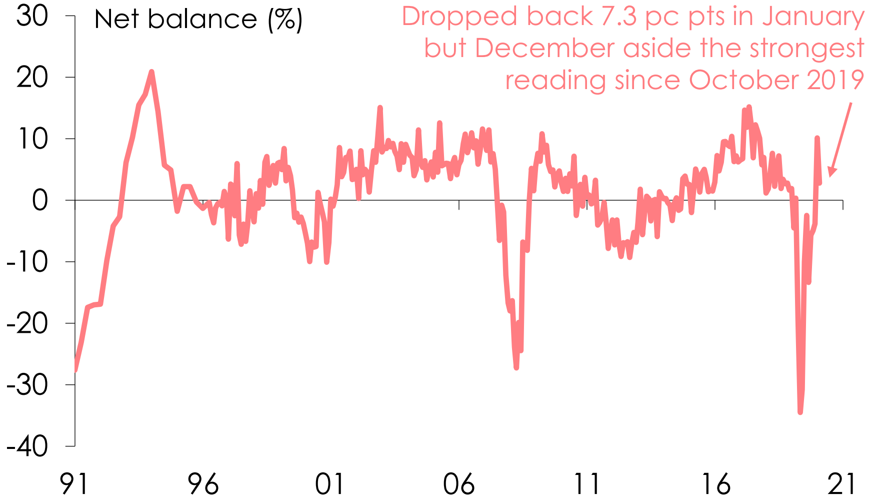
Trading conditions



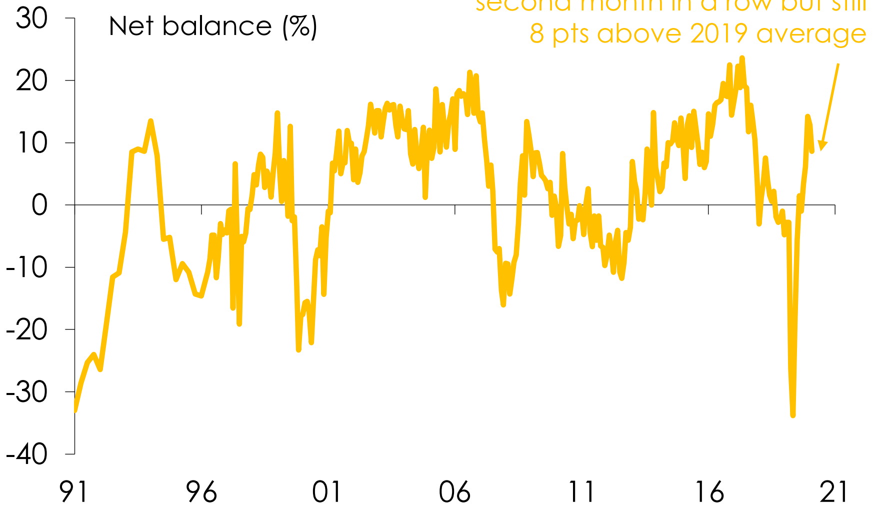
Forward orders



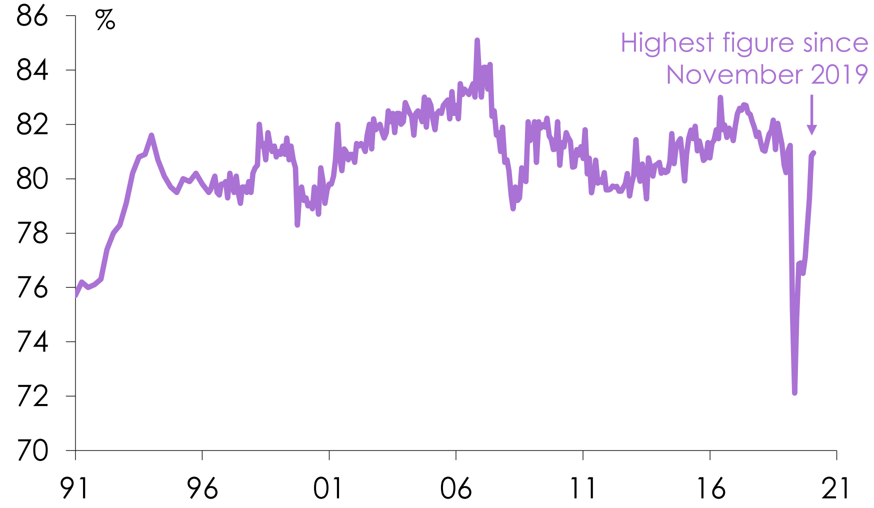
Employee hiring intentions



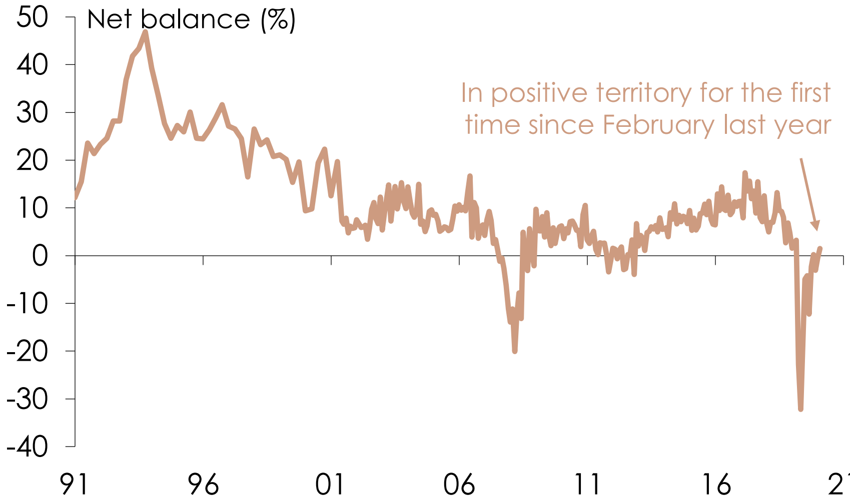
Profitability



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, January 2021; February survey results will be released on 9th March. Return to "What's New".

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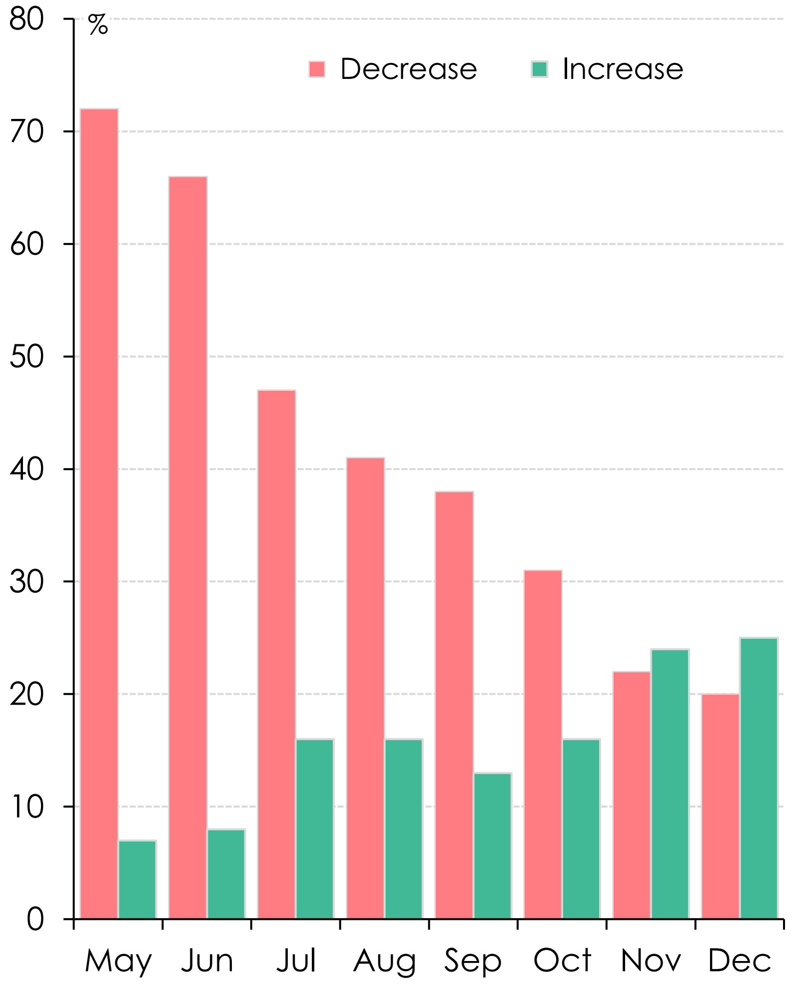
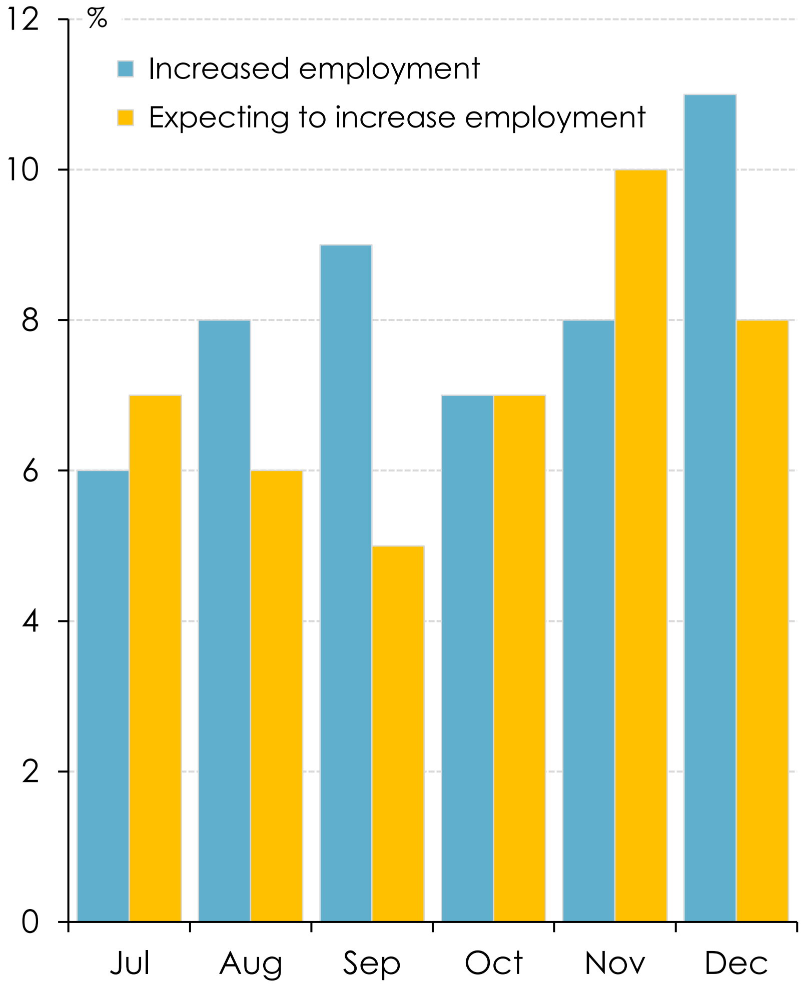
Fewer businesses are reporting falls in revenue, and more are reporting increases: more businesses are also expecting to increase headcount

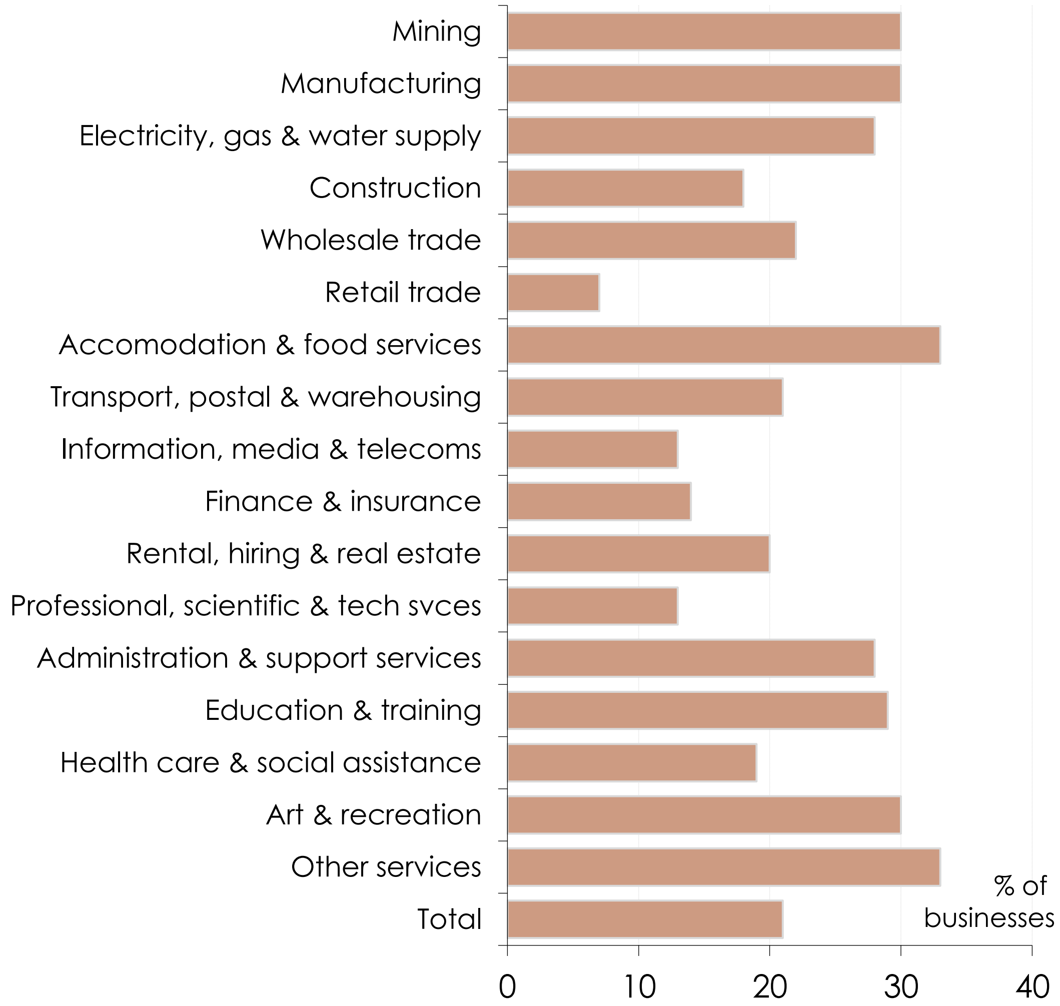
Proportion of businesses reporting decreases or increases in revenue



Proportion of businesses increasing and expecting to increase employee numbers



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



Source: ABS, *Business Impacts of Covid-19*, December 2020.

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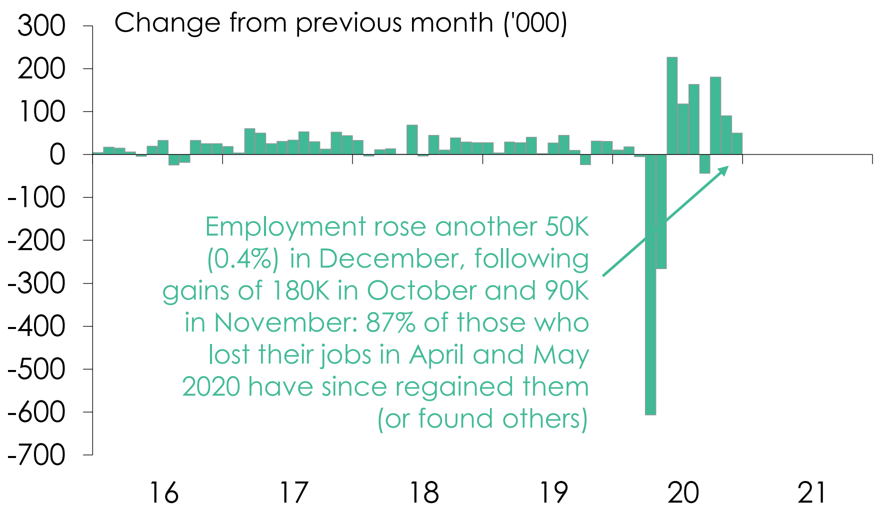
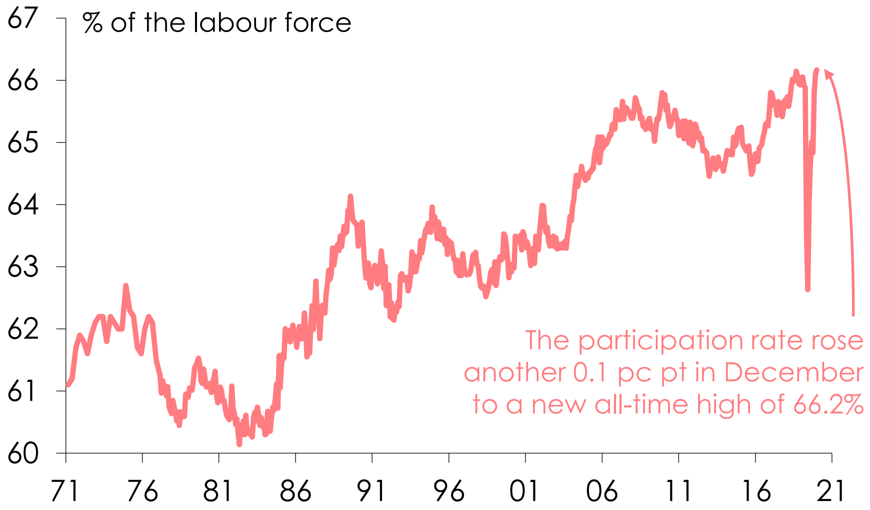
87% of those who lost their jobs in April or May last year have since regained employment, while the unemployment rate is now down to 6.6%

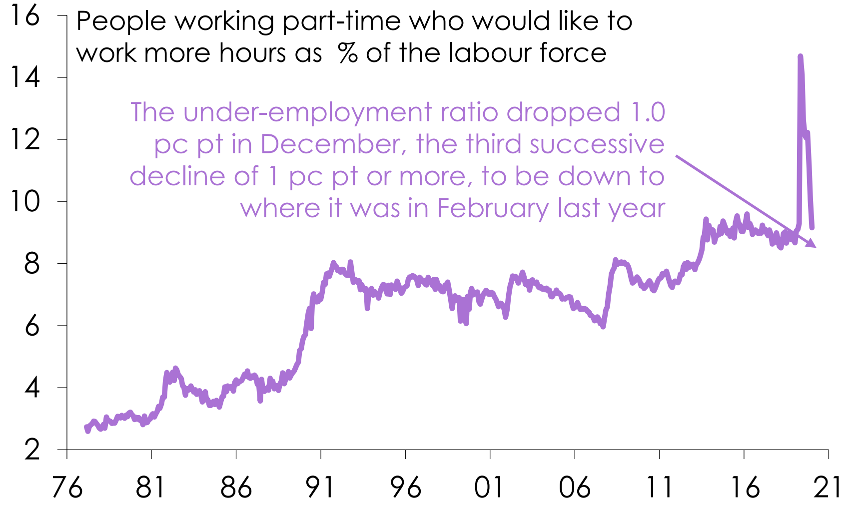
Employment



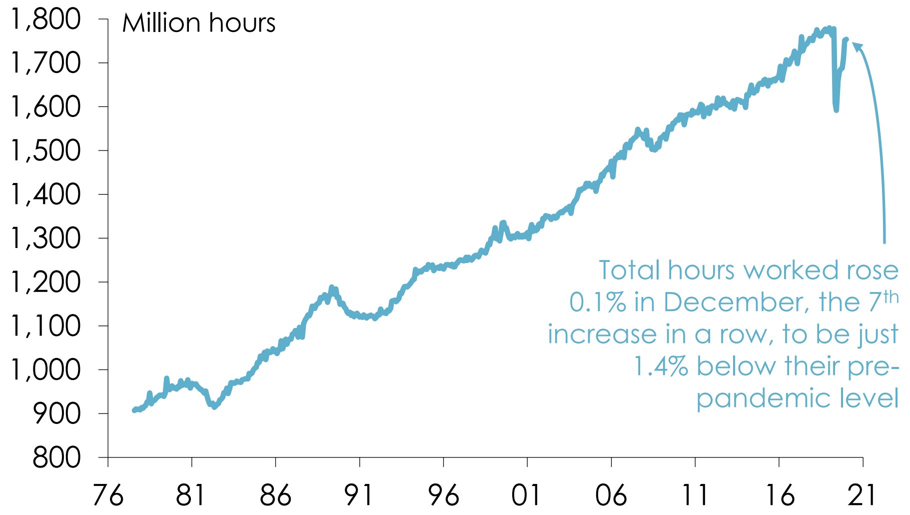
Labour force participation rate



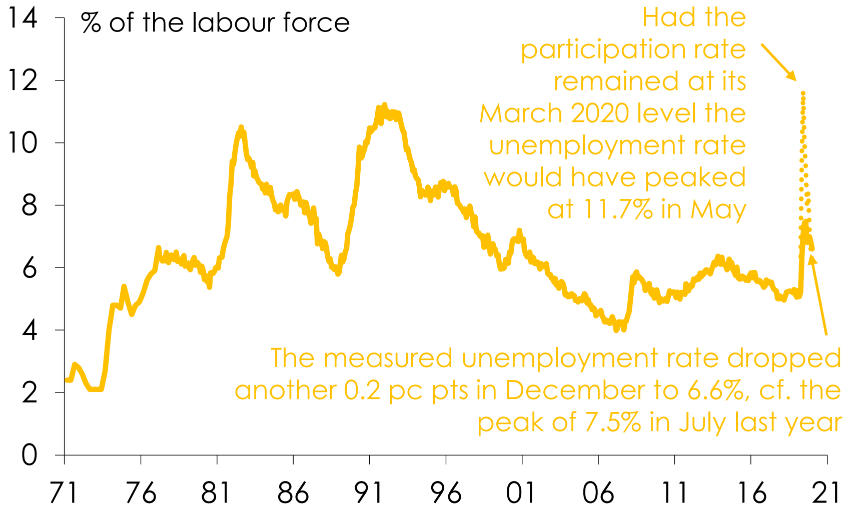
Under-employment ratio



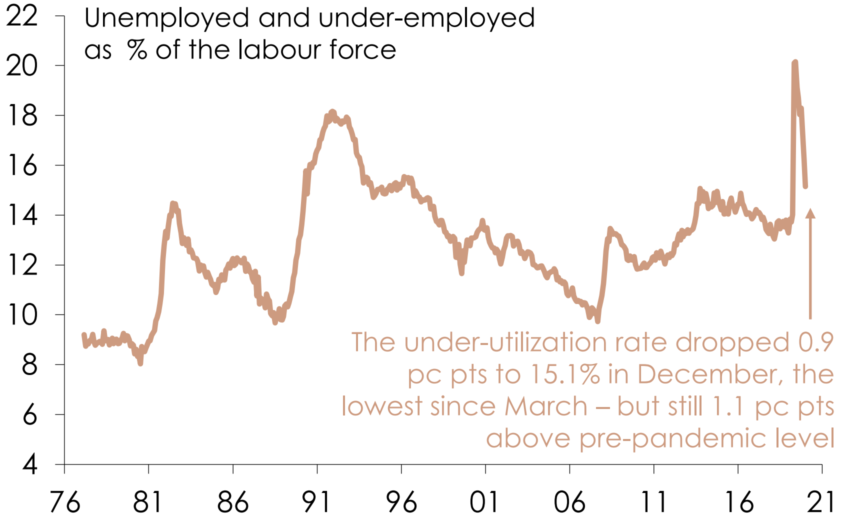
Total hours worked



Unemployment rate



'Under-utilization' rate



Source: ABS, Labour Force, Australia. January data will be released on 18th February. Return to "What's New".

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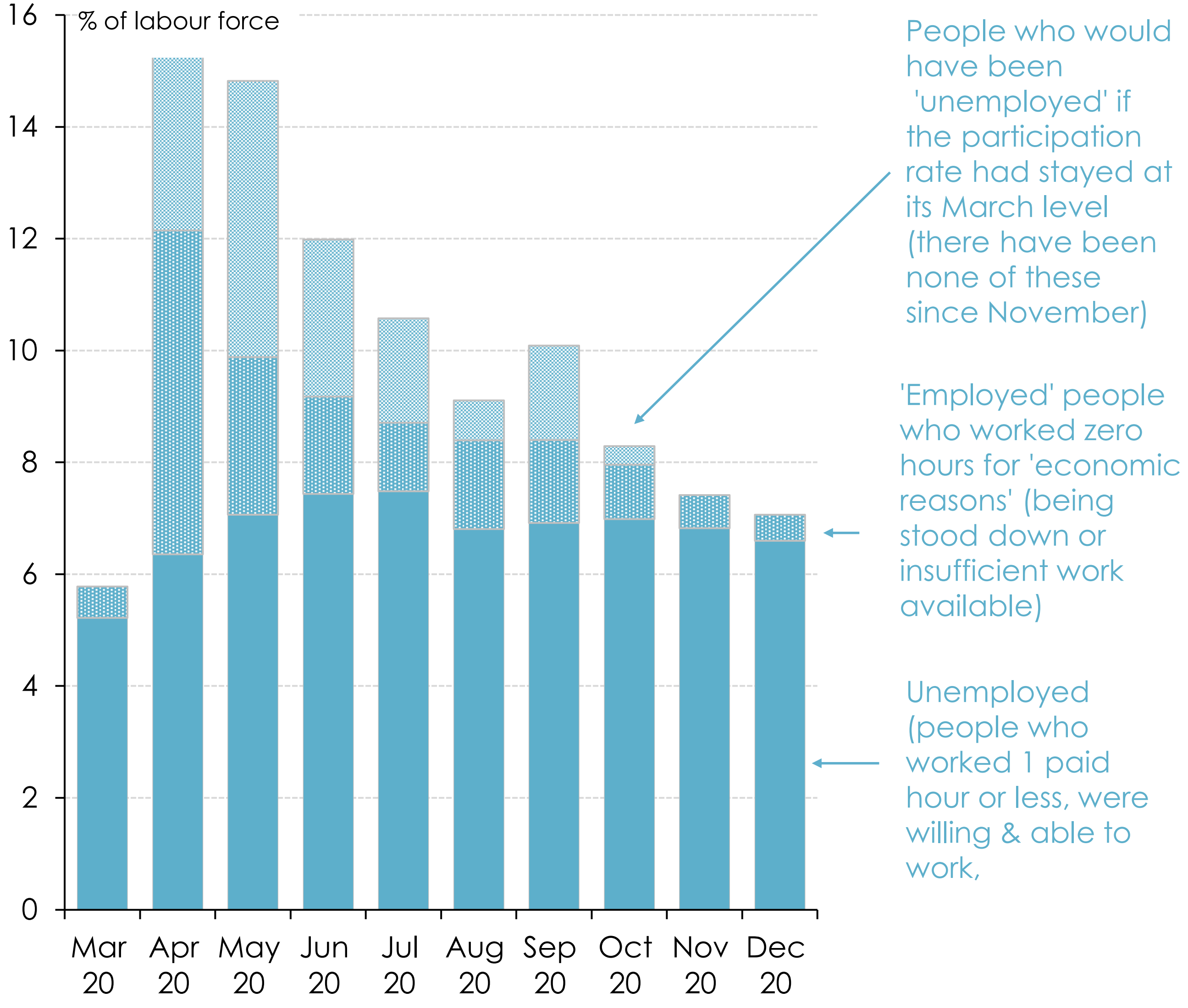
The 'effective' unemployment rate has fallen from a peak of 15.3% in April to 7.1% in December

Alternative measures of unemployment

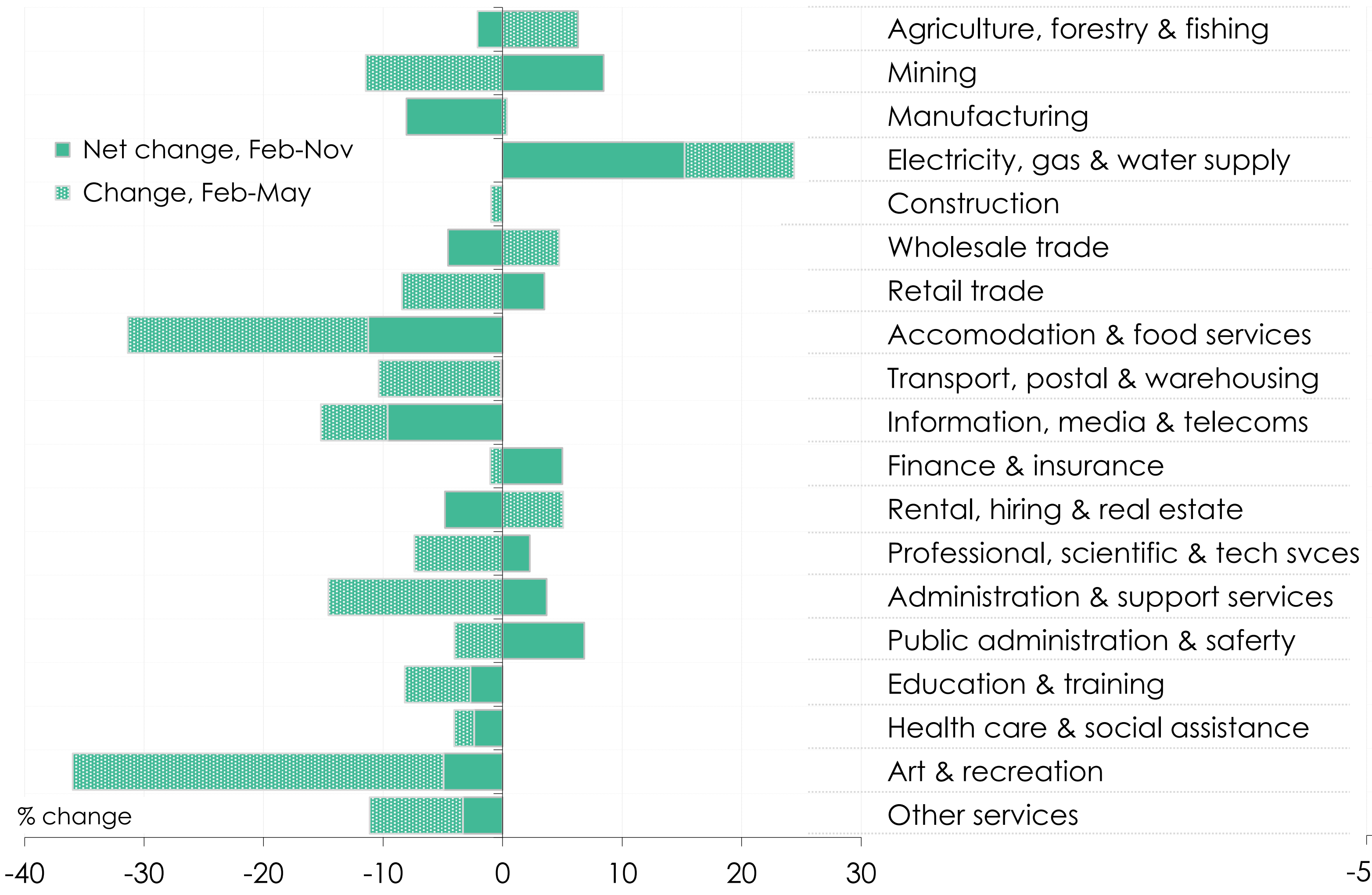


- **The Government's JobKeeper program paid eligible employers a subsidy of $1500 per fortnight for each eligible employee kept on the payroll between 30th March and 27th September (although payments didn't start until the beginning of May)**
- **From 28th September the JobKeeper payment reduced to $1200 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**

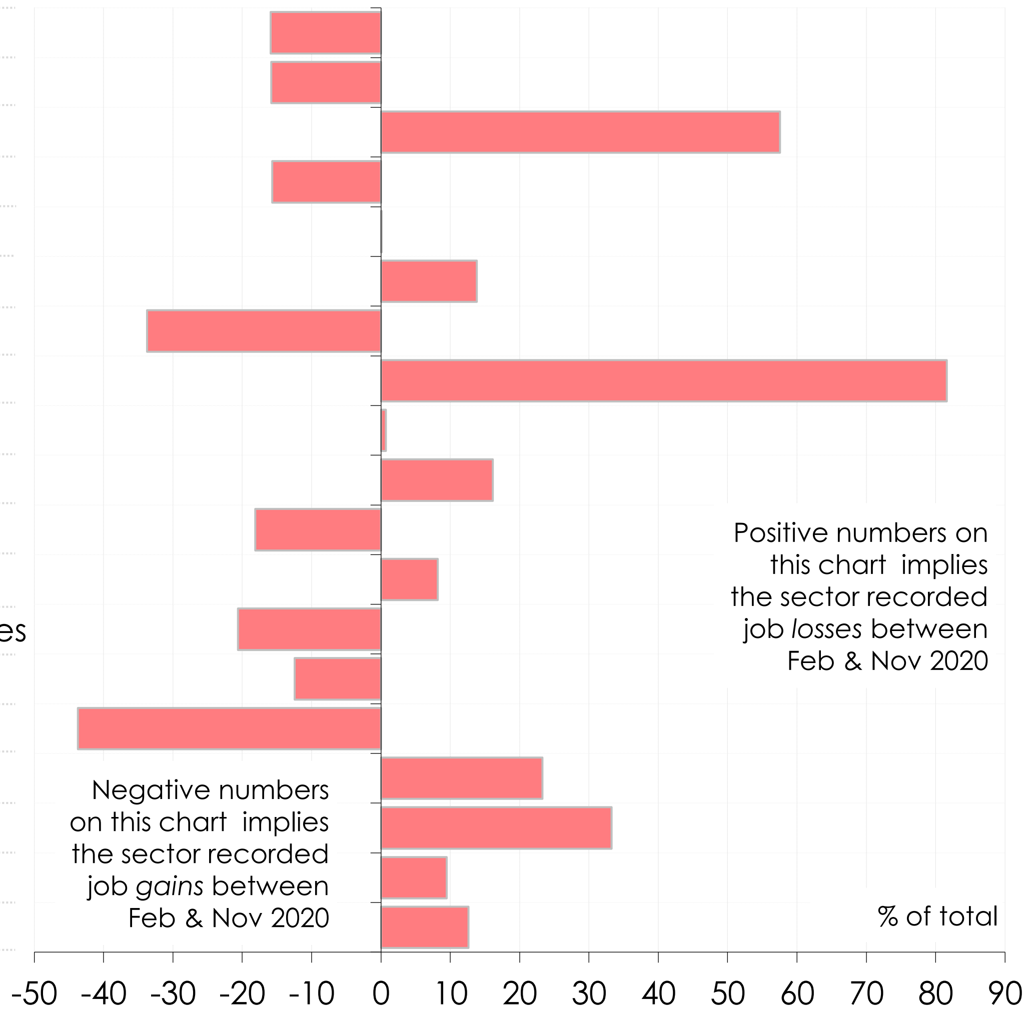
Source: ABS, Labour Force, Australia; Corinna. January data will be released on 18th February. Return to "What's New".

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".

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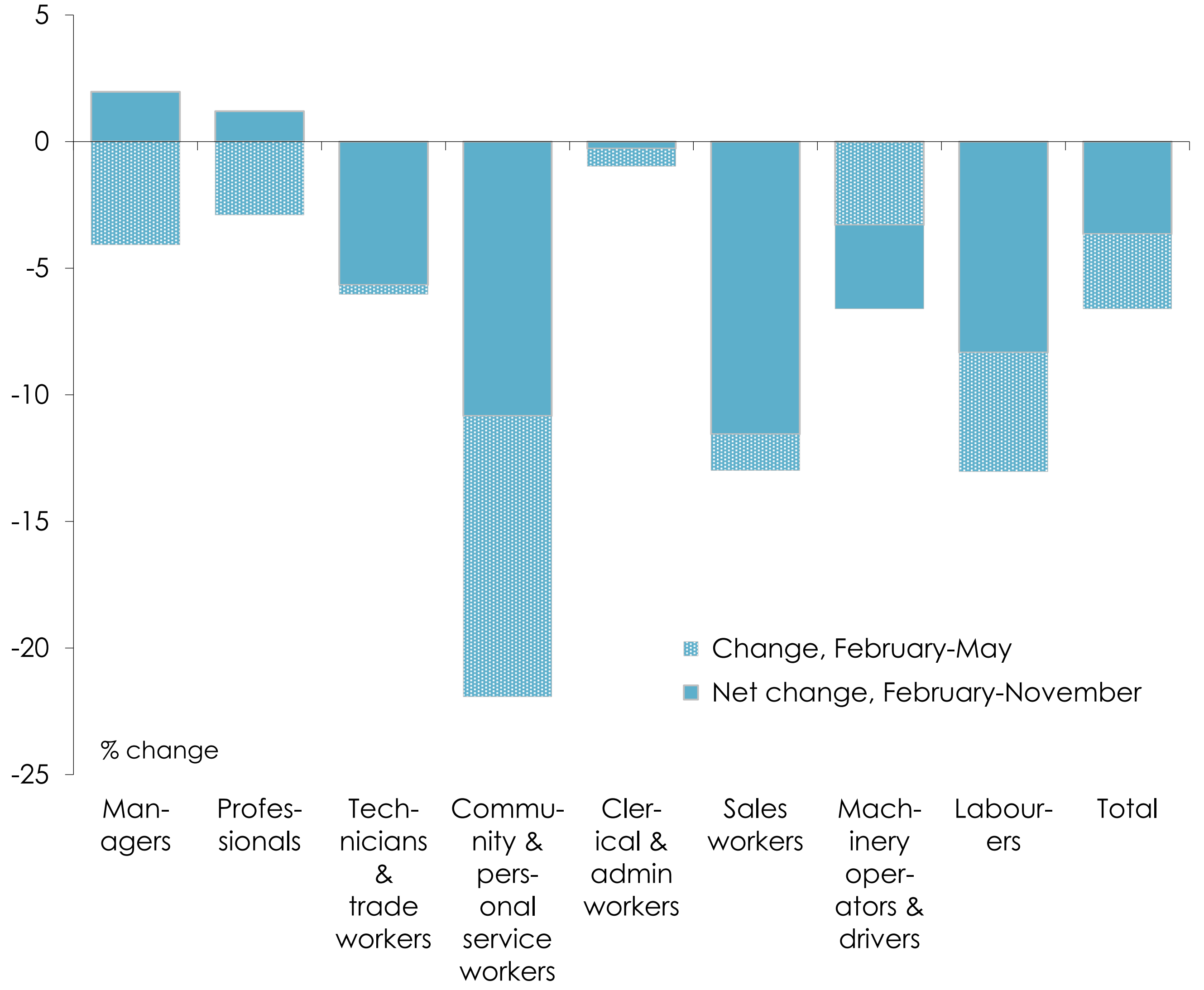
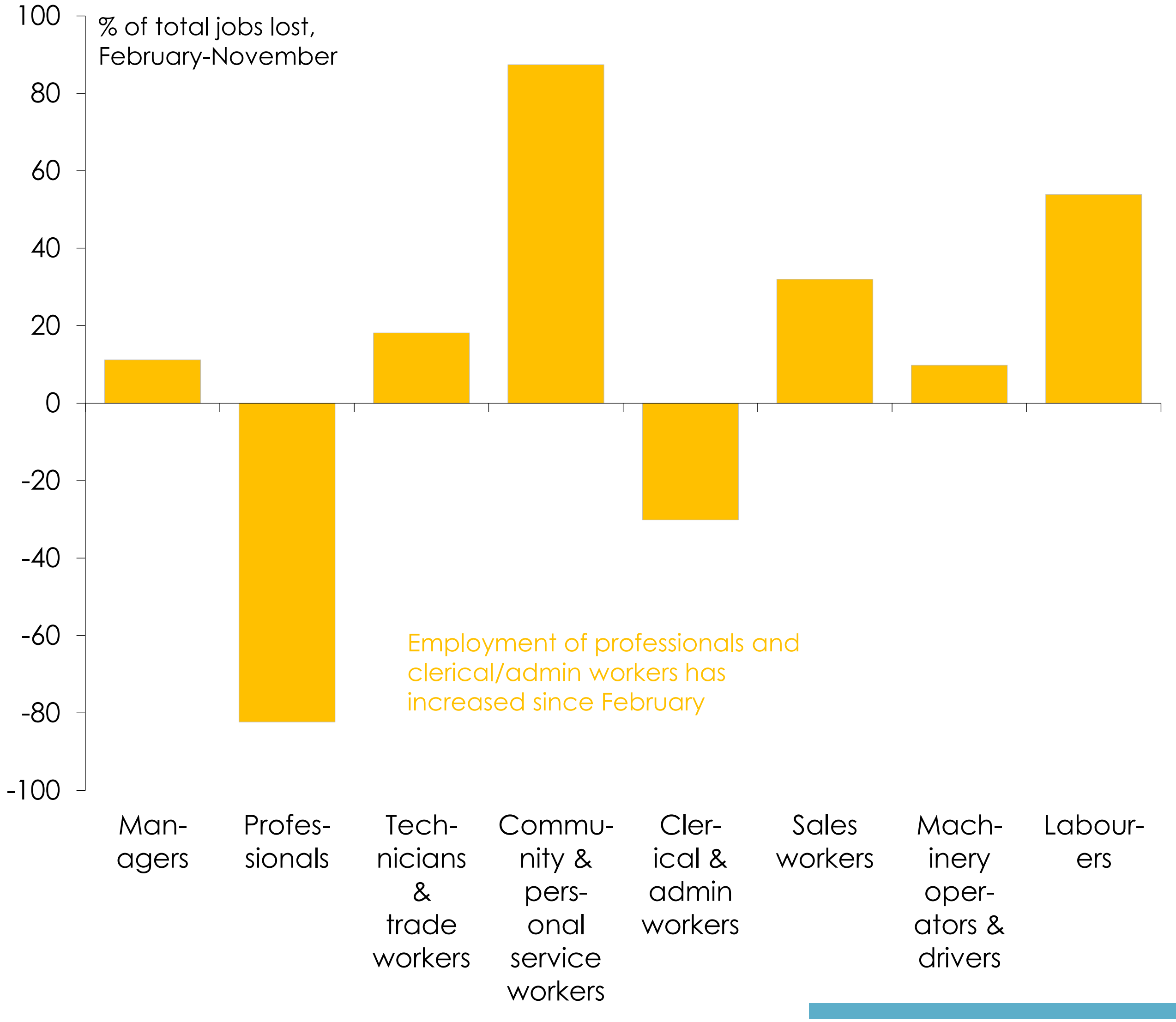
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

Change in employment between February and November 2020, by occupation



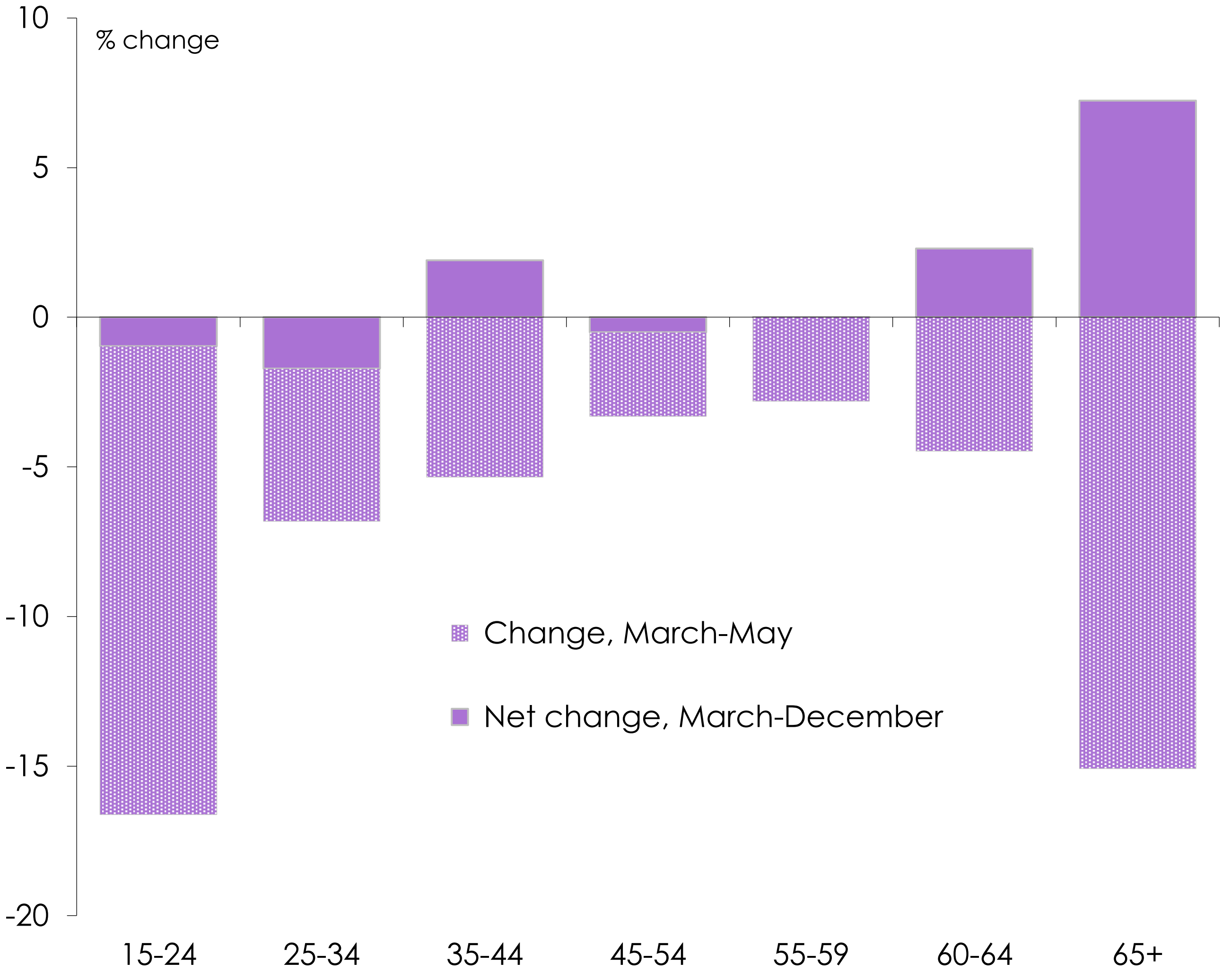
Proportion of change in total employment between February and March 2020, by occupation



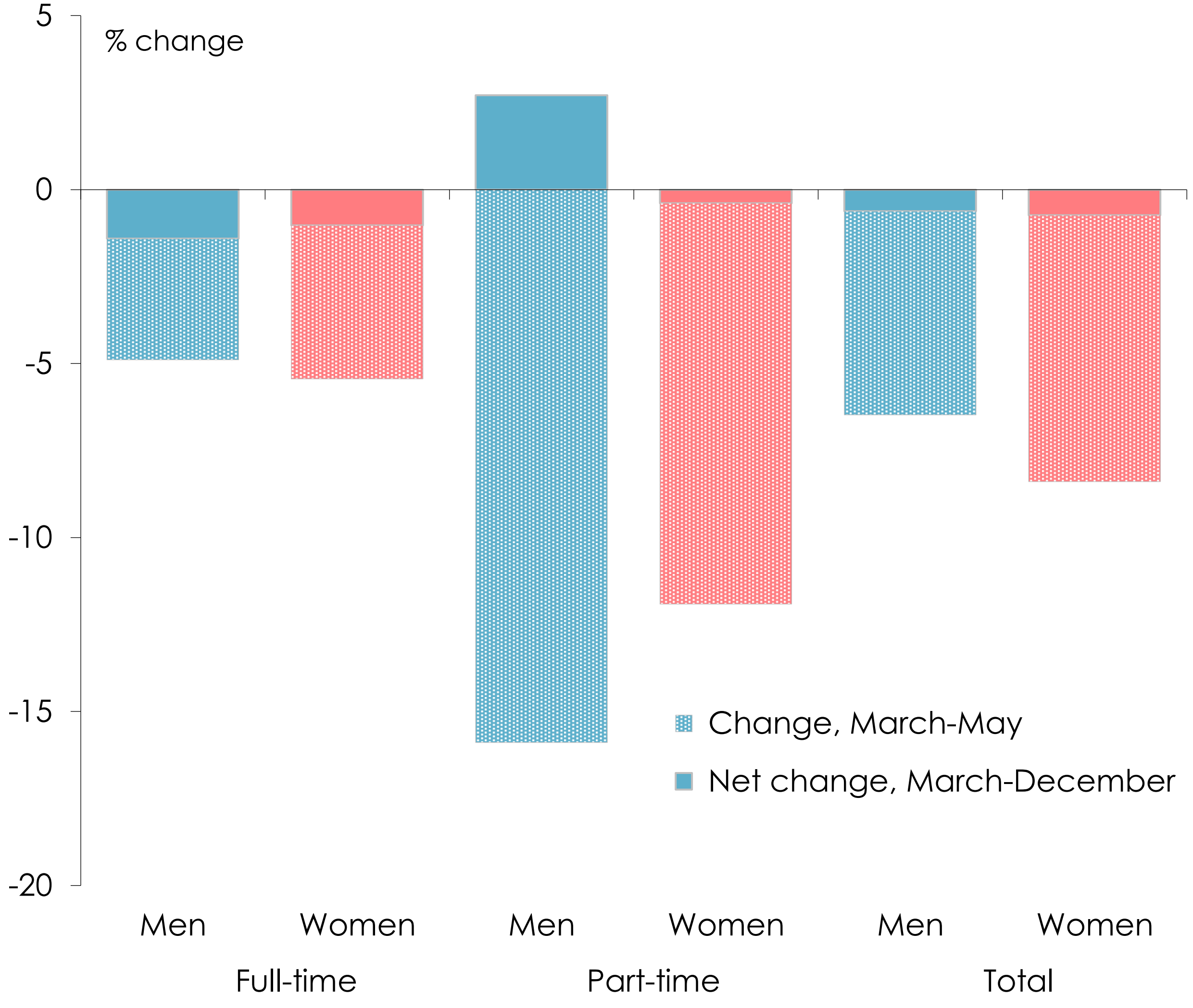
Source: ABS , *Labour Force, Australia, Detailed*, November 2020. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2021 data will be released on 25th March. Return to "What's New".

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 212th February. Return to "What's New".

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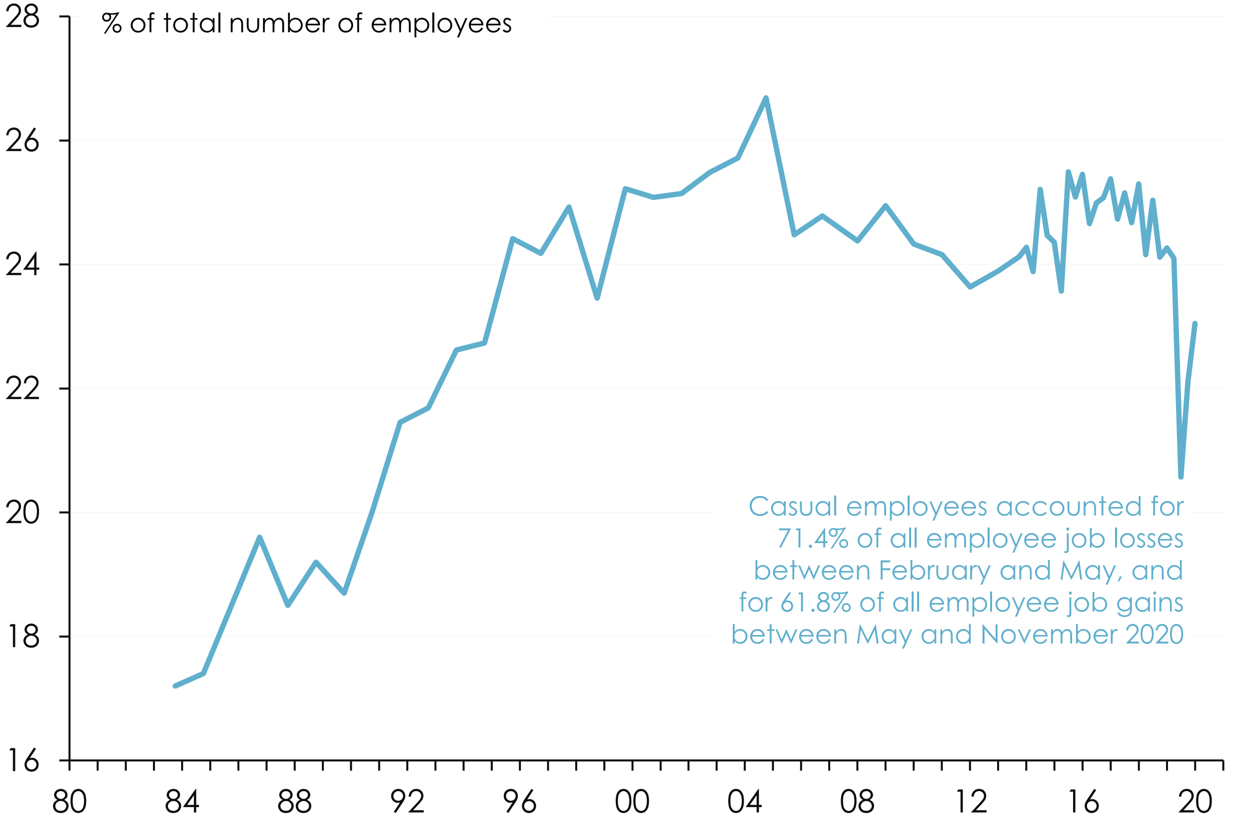
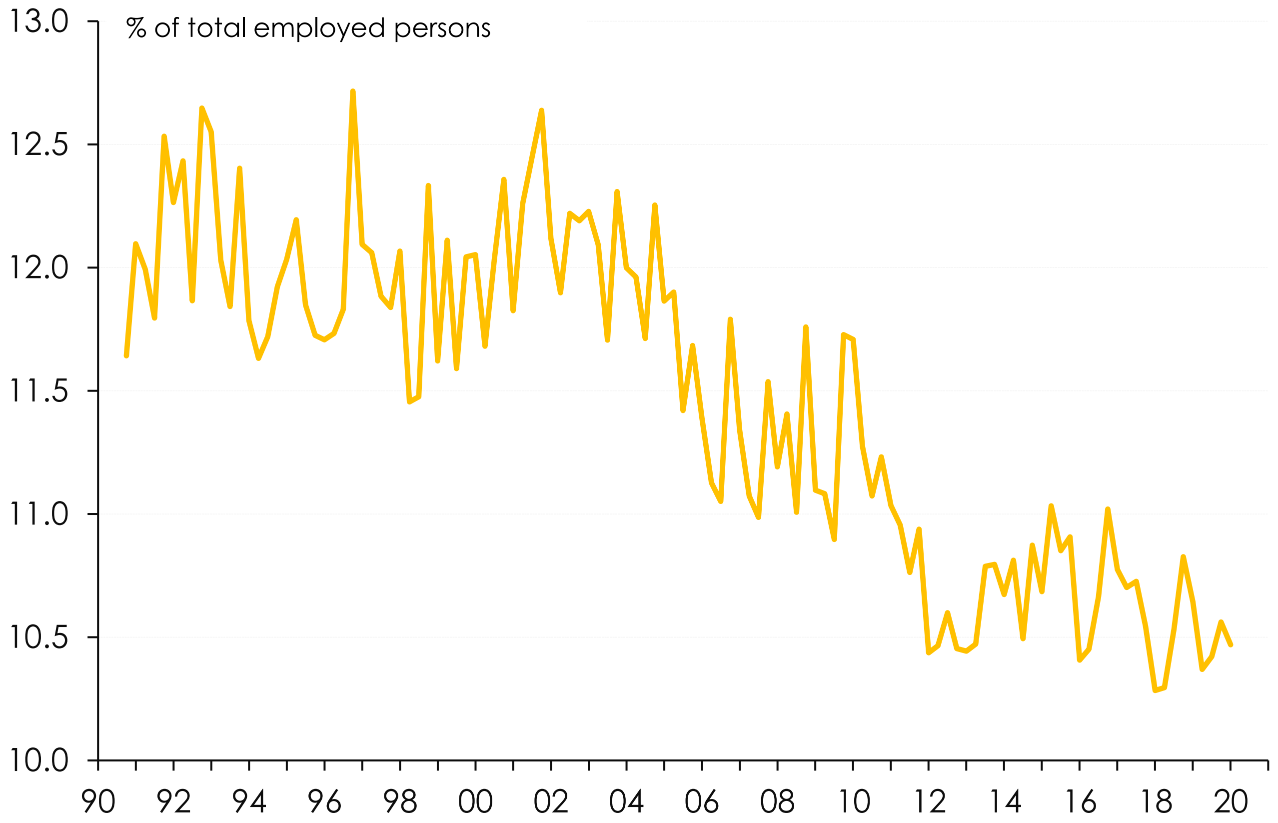
Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

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



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



- **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**
- **'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.

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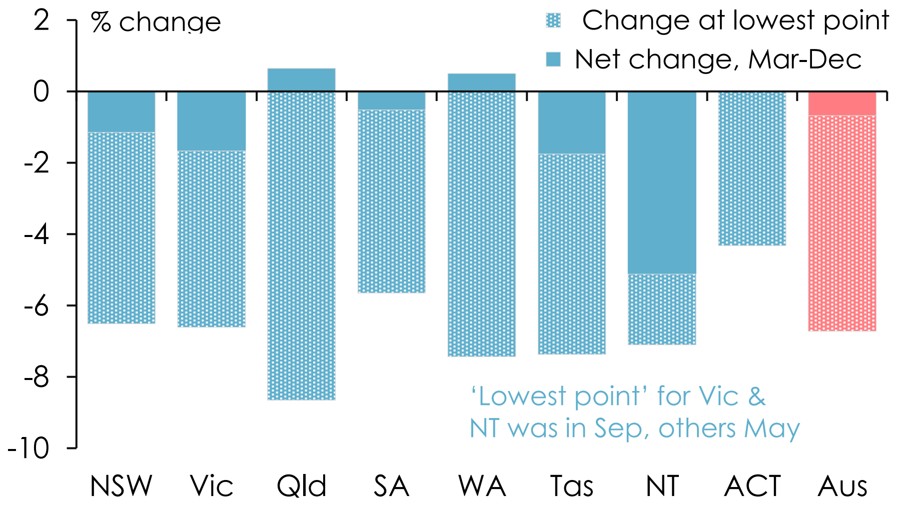
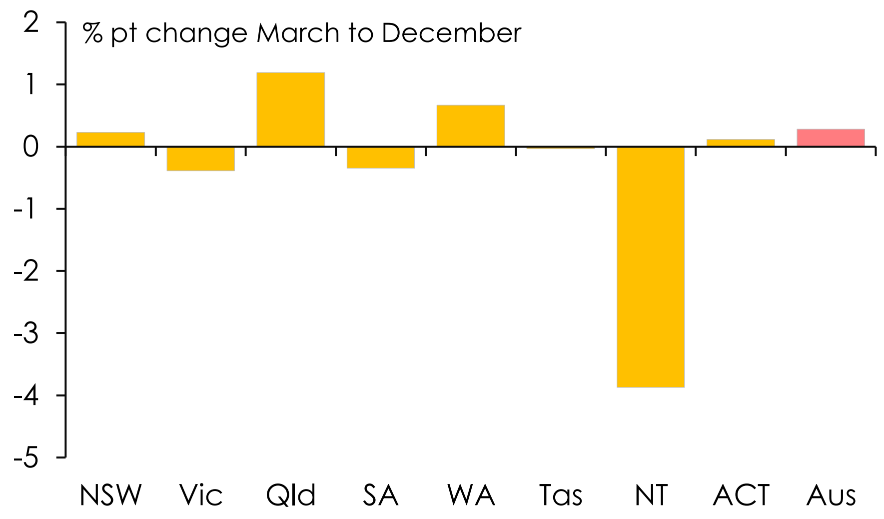
Strongest recoveries in employment have been in WA and Qld although in those states rising participation has slowed the fall in unemployment

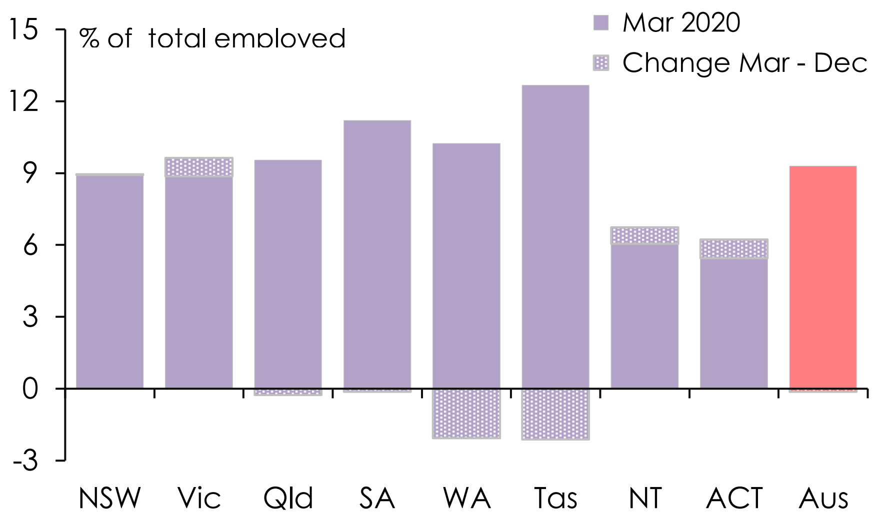
Employment



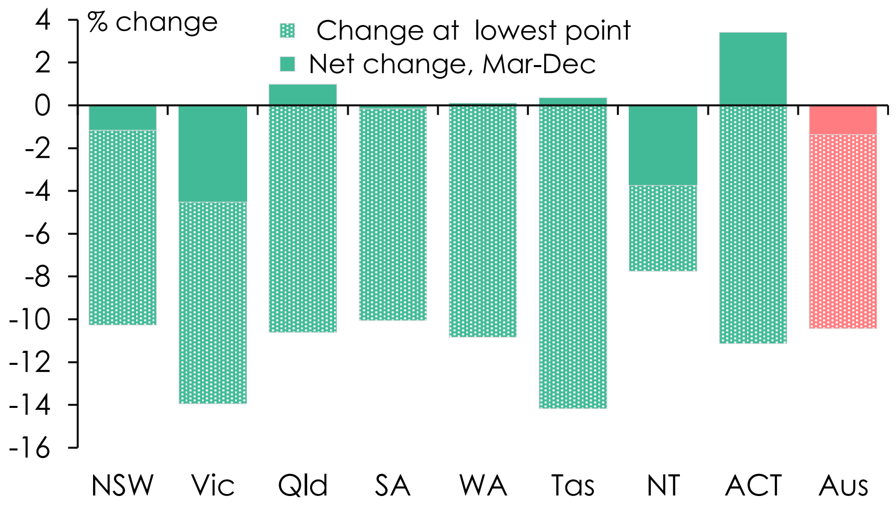
Labour force participation rate



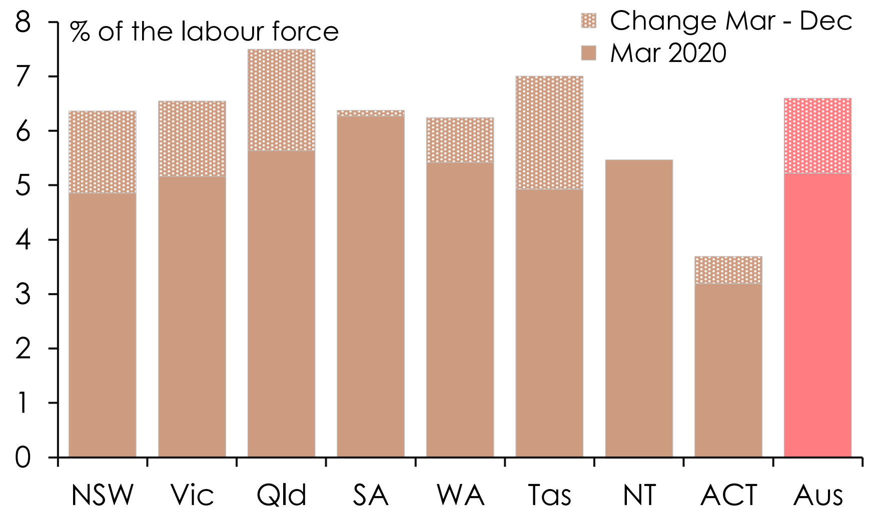
Under-employment ratio



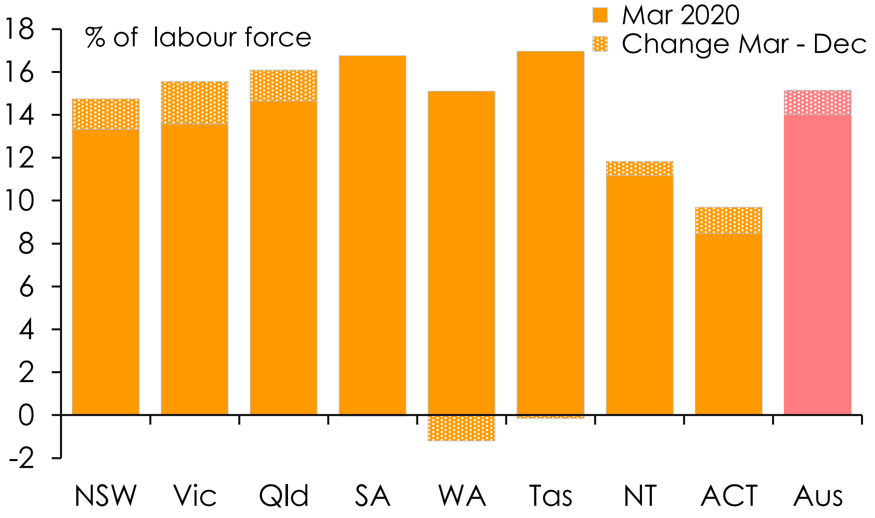
Total hours worked



Unemployment rate



'Under-utilization' rate



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

Return to "What's New".

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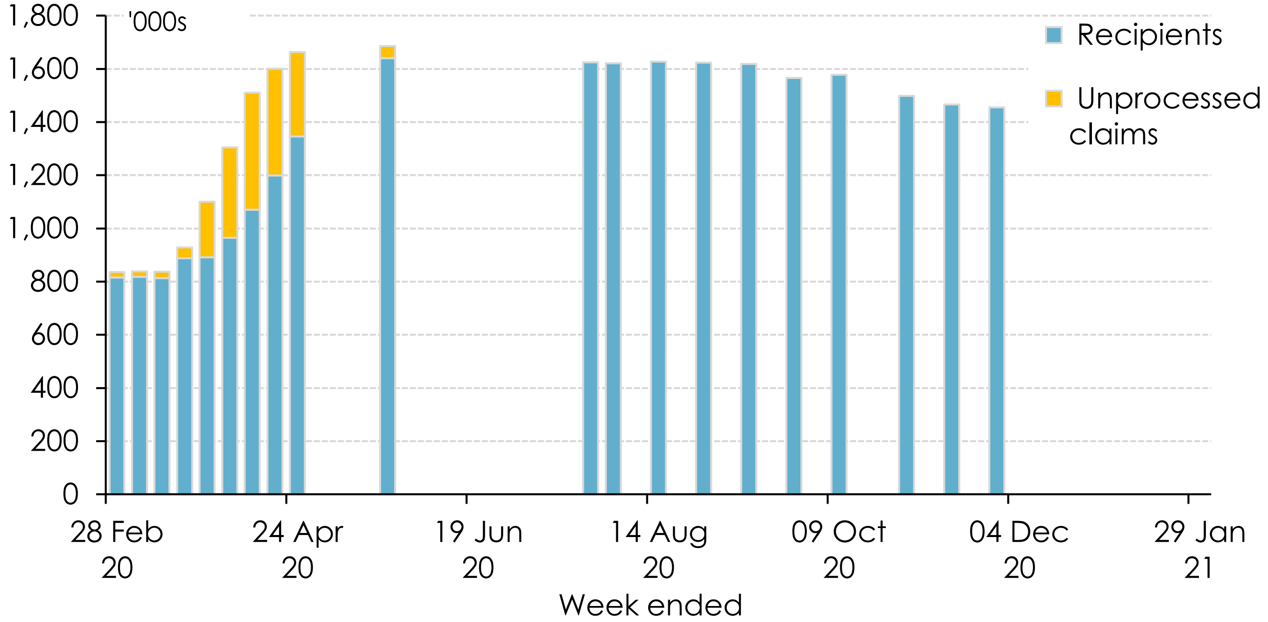
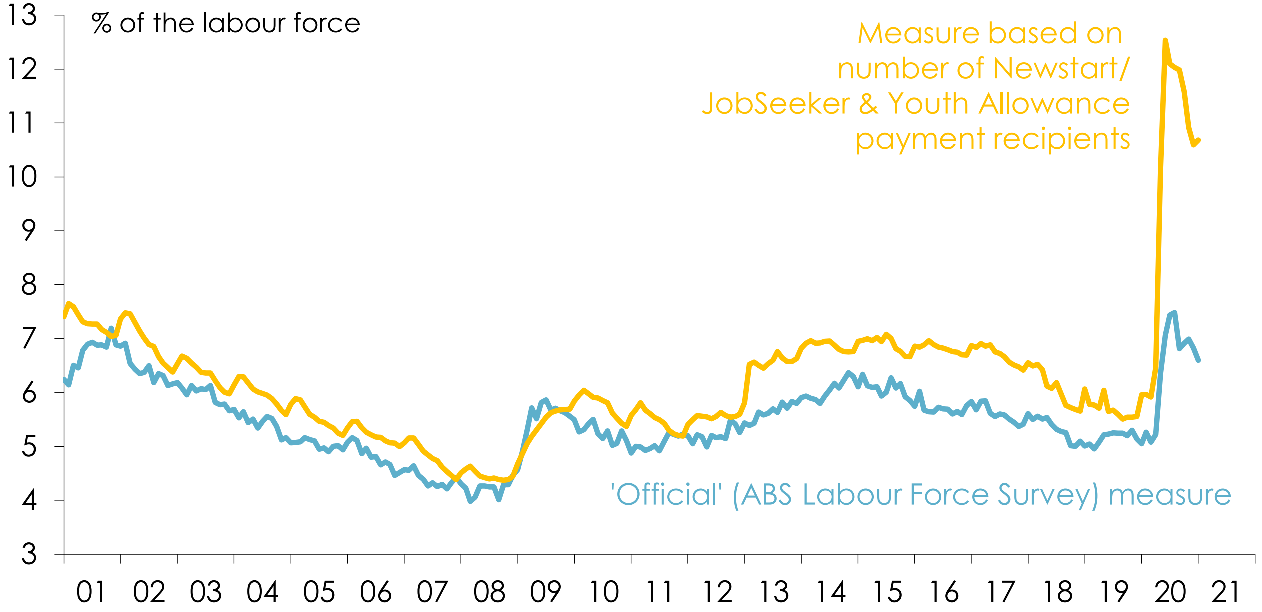
The Australian Government (unlike the US Government) is still keeping weekly data on benefit recipient numbers as a 'state secret'

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

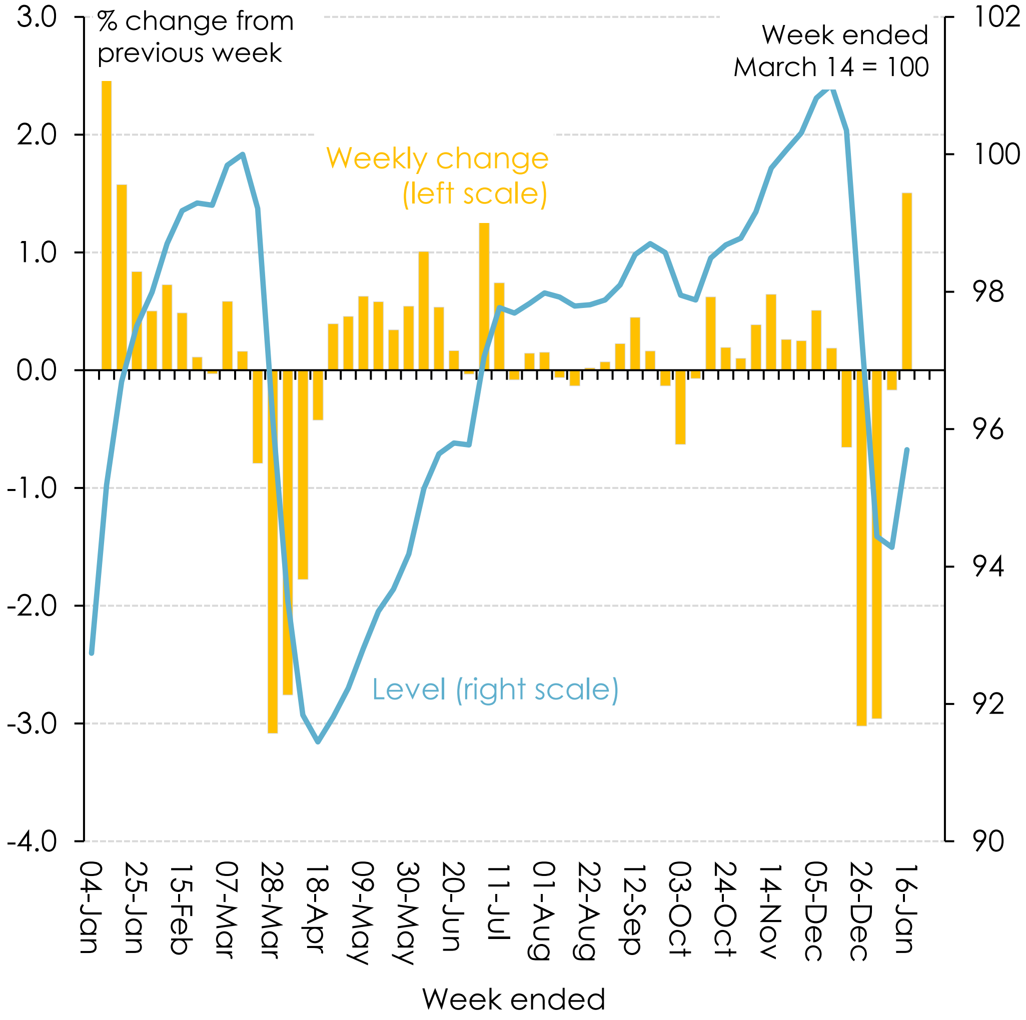


- **The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available**
- **On two occasions last year the Secretary of DSS provided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

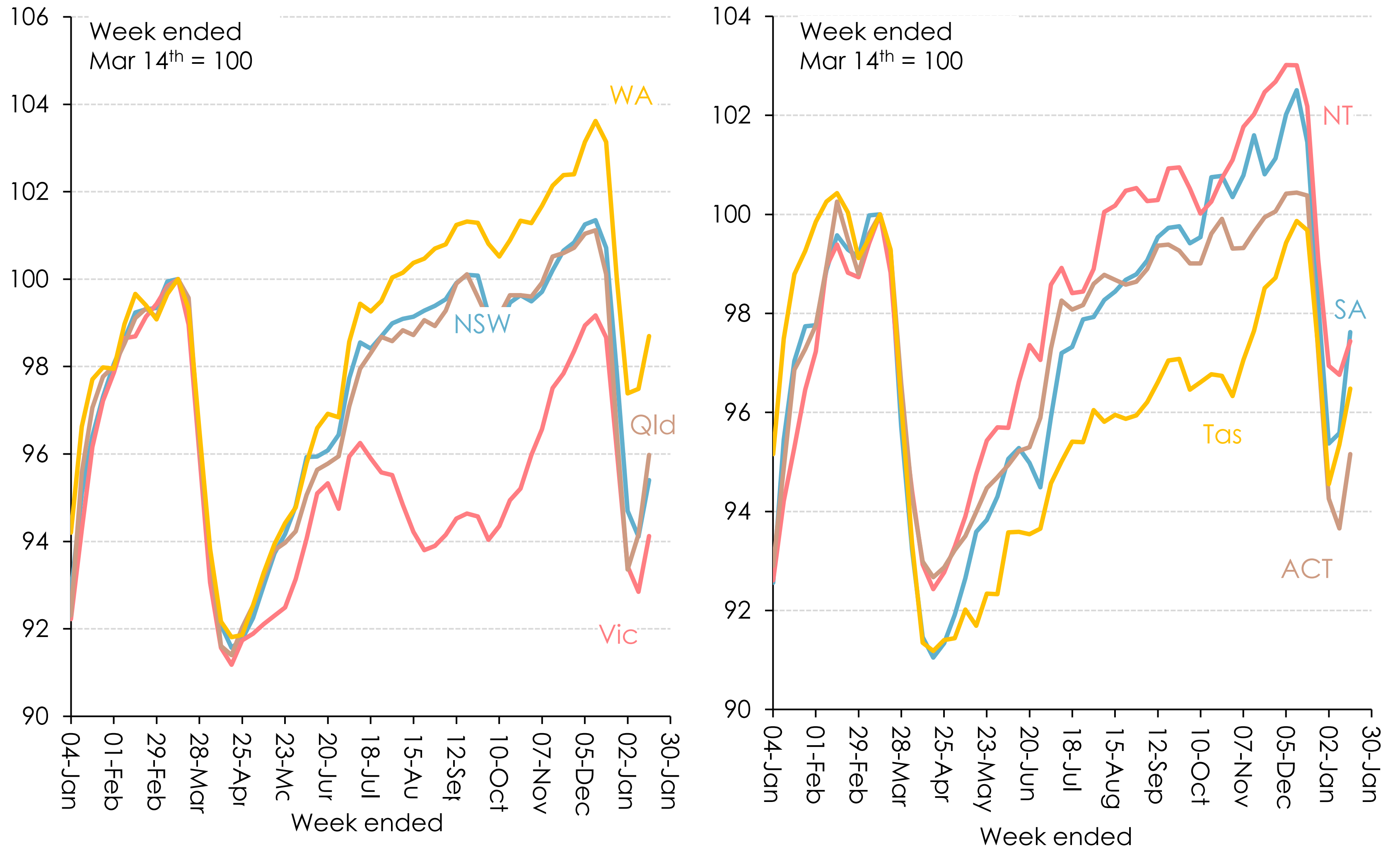
Sources: Department of Social Services, JobSeeker Payment and Youth Allowance Recipients - monthly profile, ABS; Senate Select Committee on Covid-19, Additional documents. Return to "What's New".

Weekly payroll jobs data have been affected by normal seasonal Xmas-NY slowdown but it's clear that second JobKeeper stepdown hasn't impacted

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 30th January will be released on 16th February. Return to "What's New".

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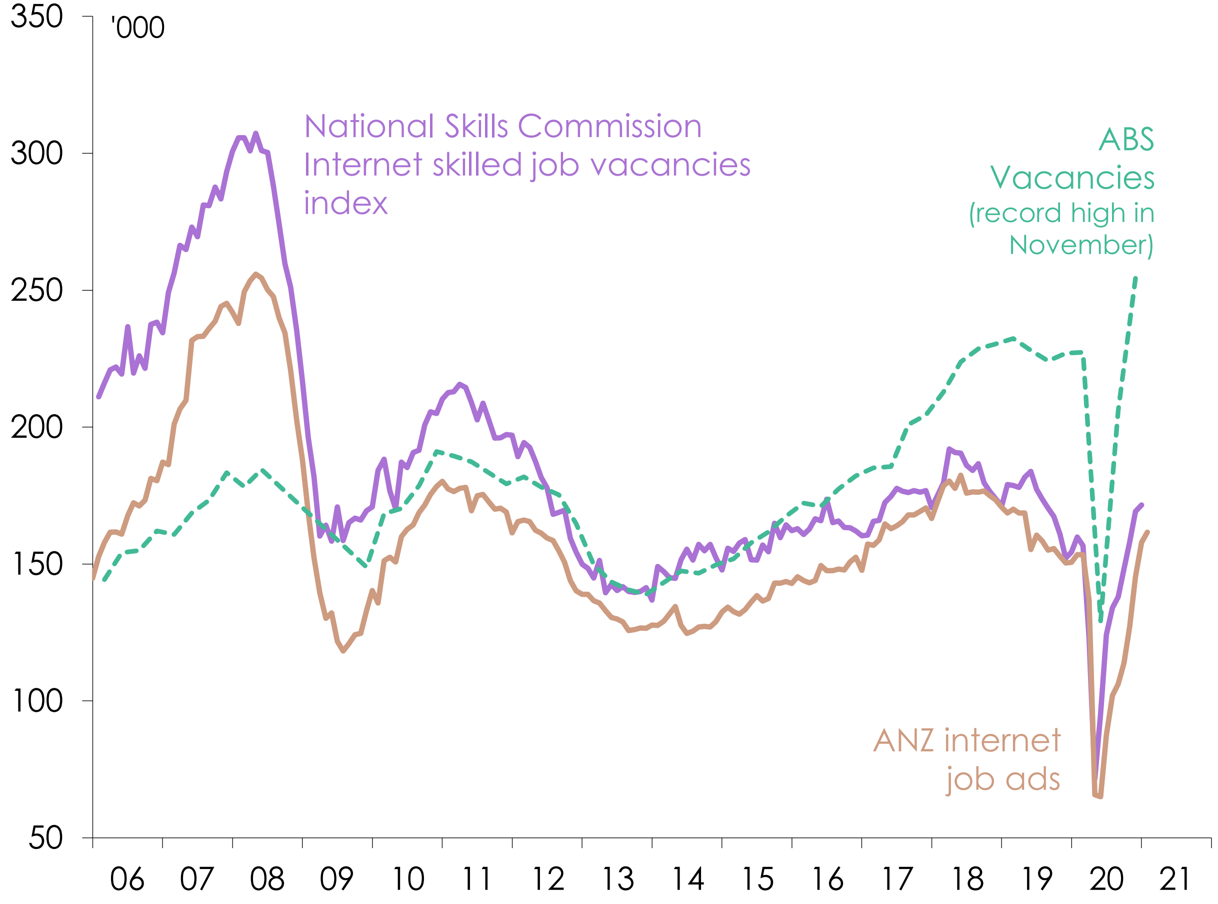
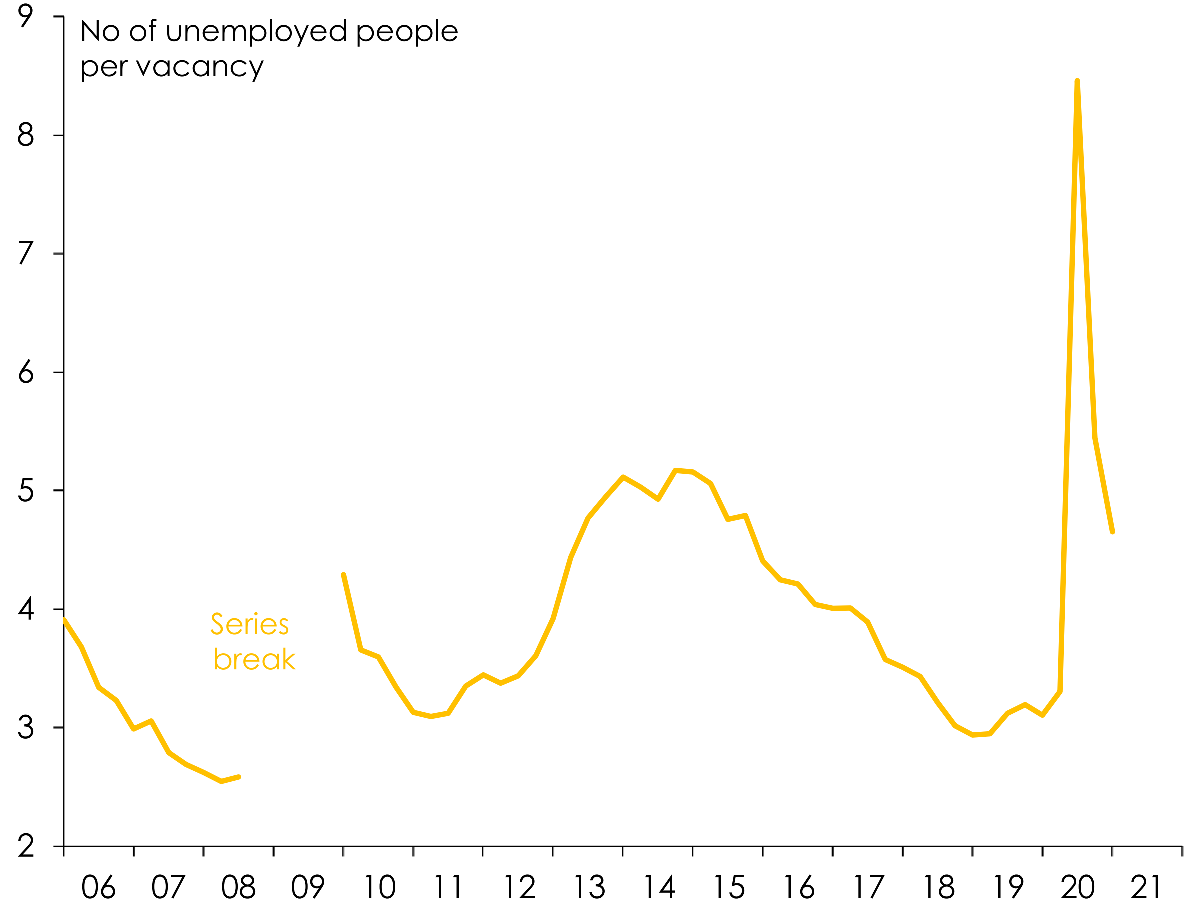
Job vacancies have rebounded swiftly from their recession lows, although there are still almost 5 unemployed people for every job on offer

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 4¾ unemployed people for every vacancy reported to ABS – down from a peak of 8½ in May but above the decade average of 3.9

Sources: Australian Government, Labour Market Information Portal; ANZ Research; ABS, Job Vacancies, Australia.

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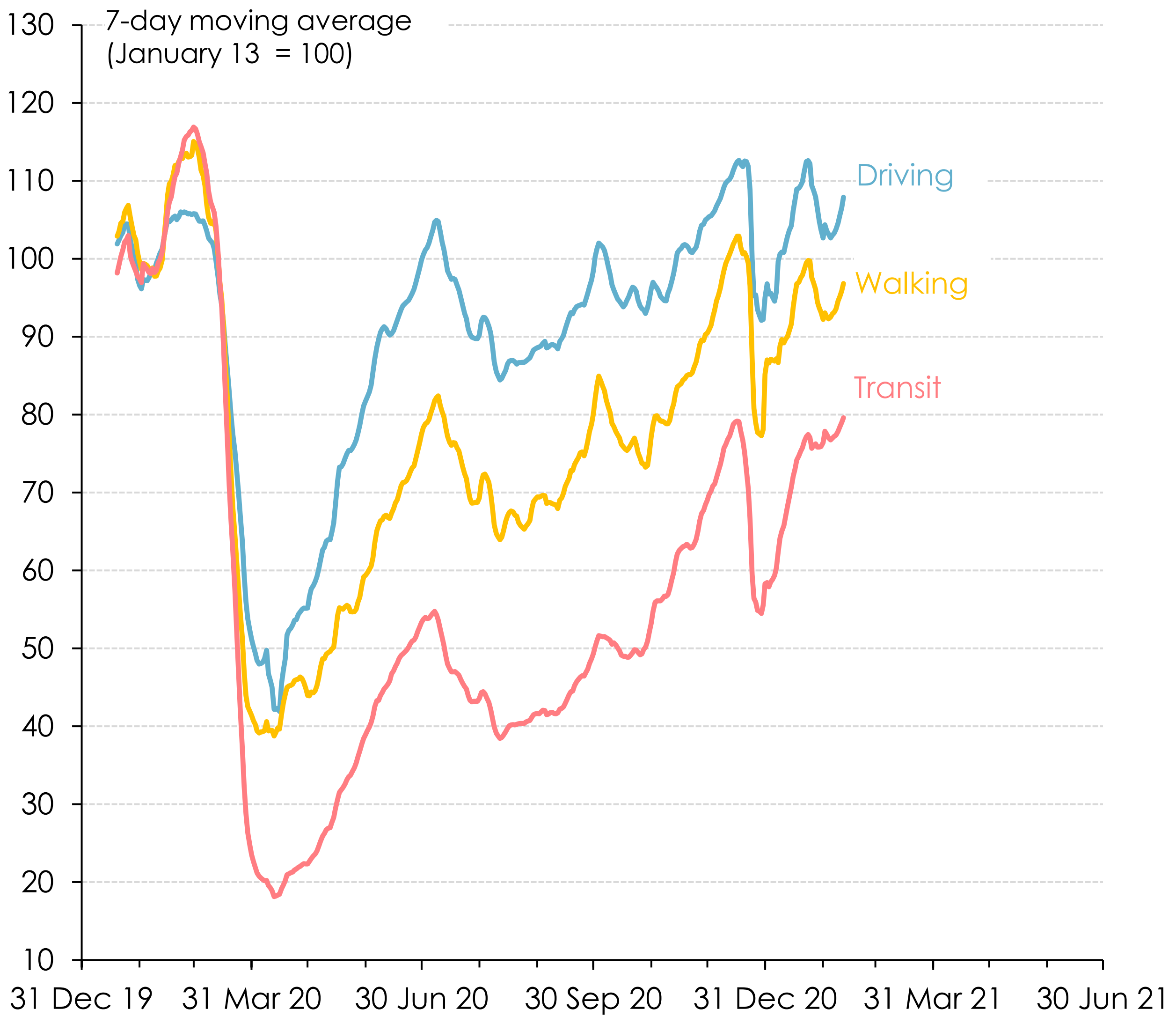
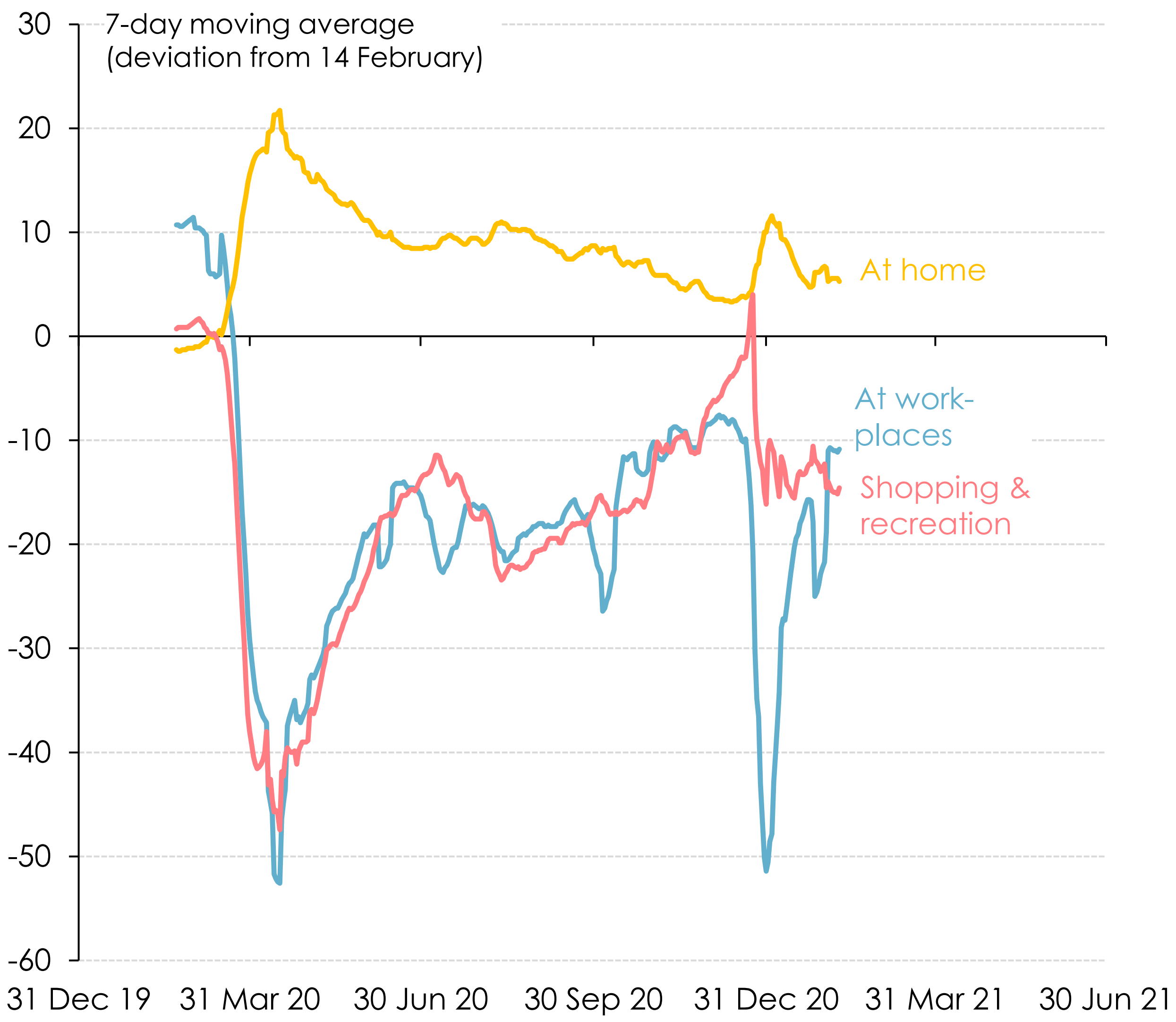
Mobility indicators suggest on-going recovery in a wide range of activities but will be impacted next week by Victoria's new lockdown

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 11th February); Google Community Mobility Reports (data up to 8th February). For state-level data see next slide. Return to "What's New".

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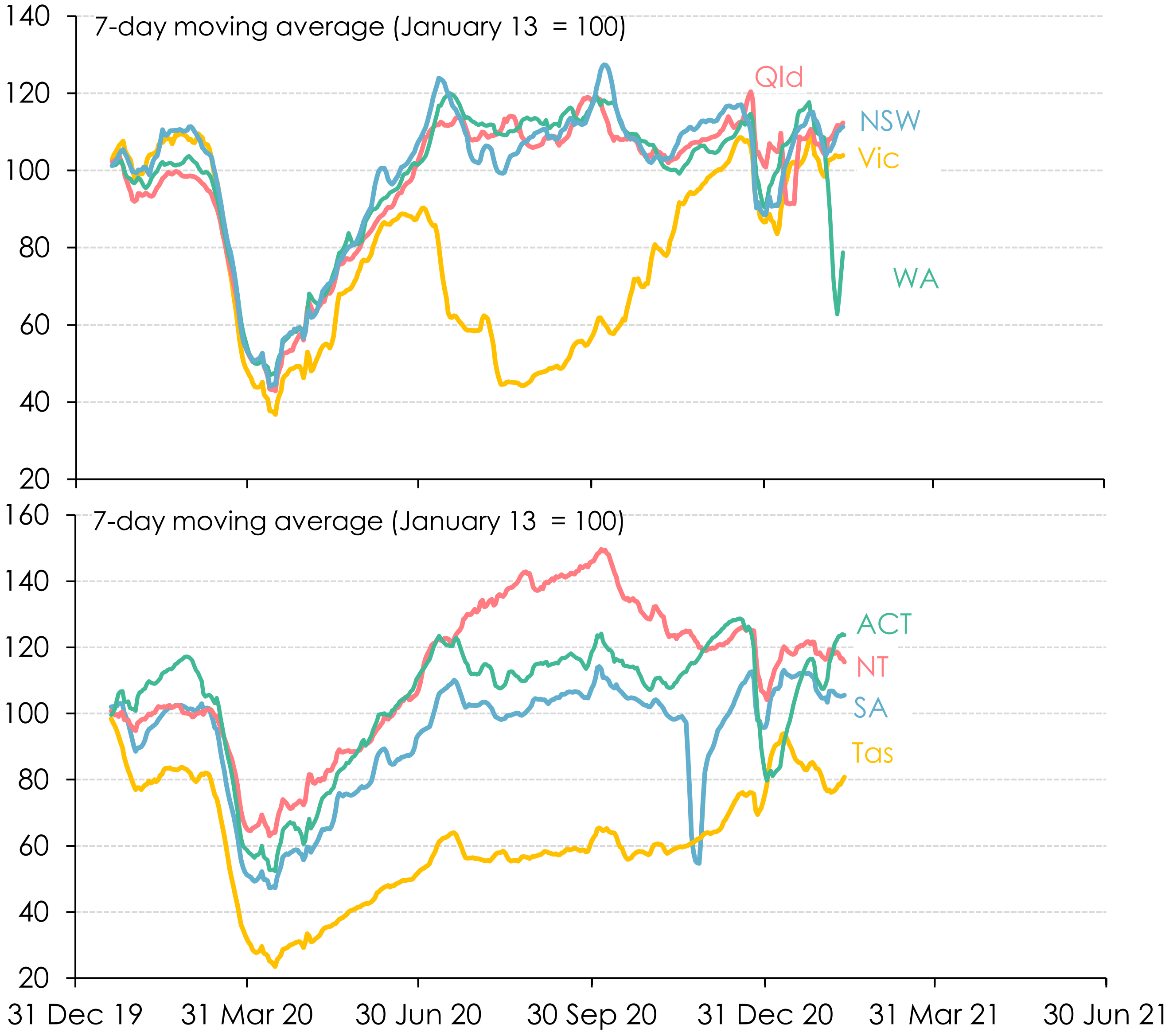
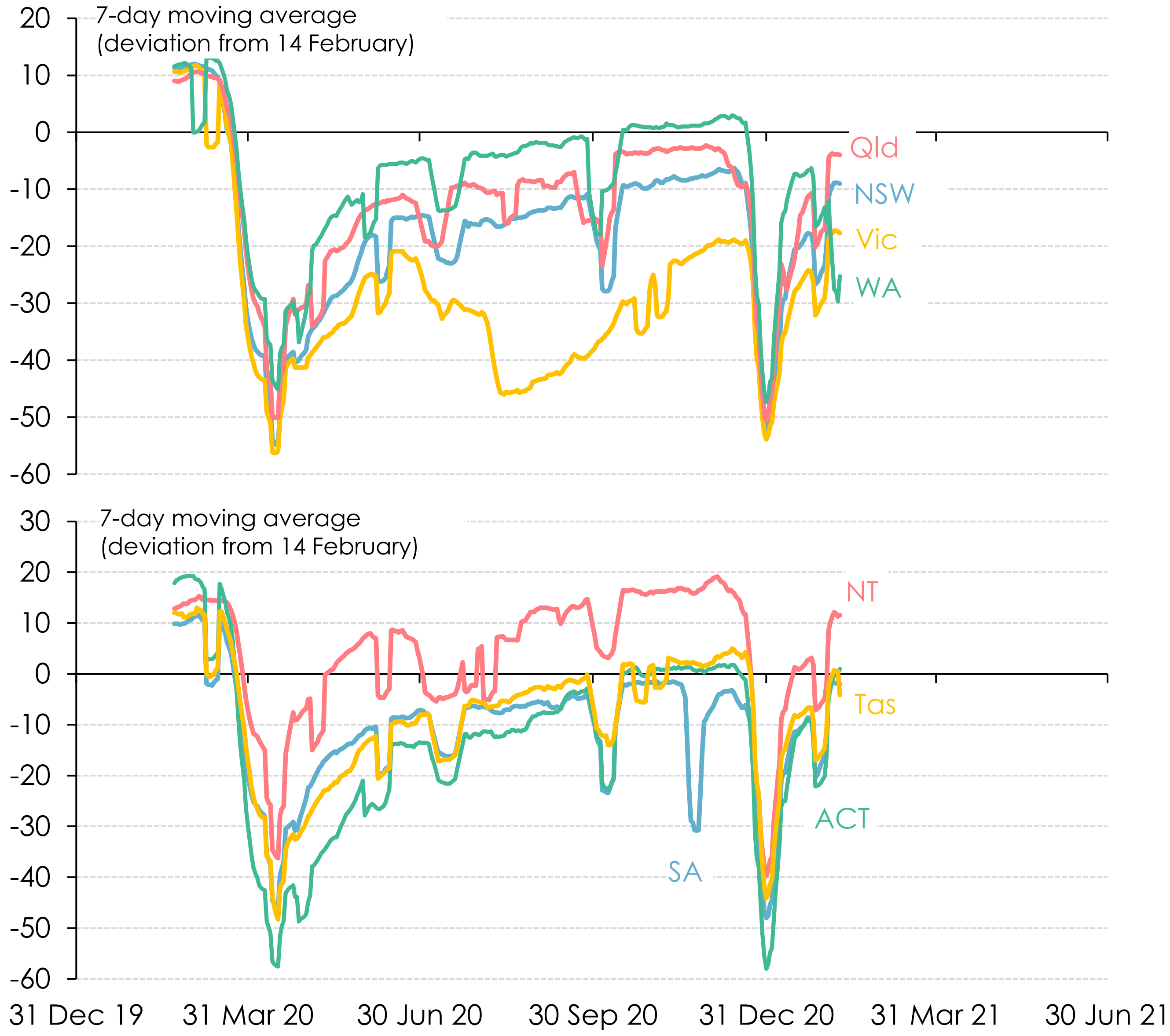
The effect of last week's lockdown in WA is apparent in mobility data, and Victoria's lockdown will show up in this coming week's data

Time spent driving, by State and Territory



Time spent in workplaces, by State and Territory



Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. *Sources:* Apple Mobility Trends Reports (data up to 11th February); Google Community Mobility Reports (data up to 8th February). Return to "What's New".

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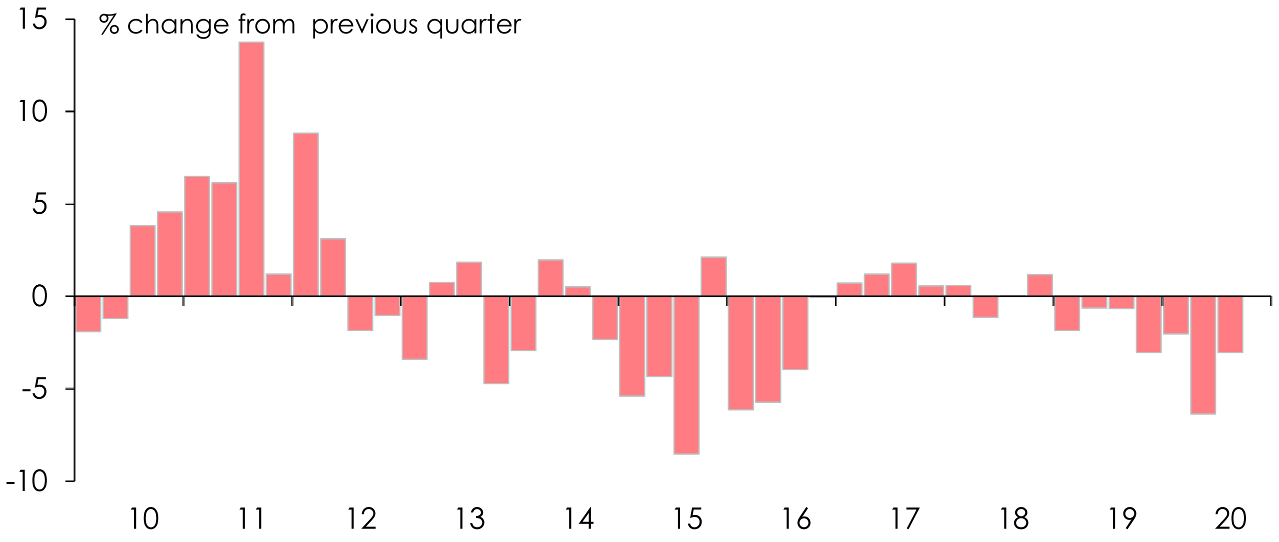
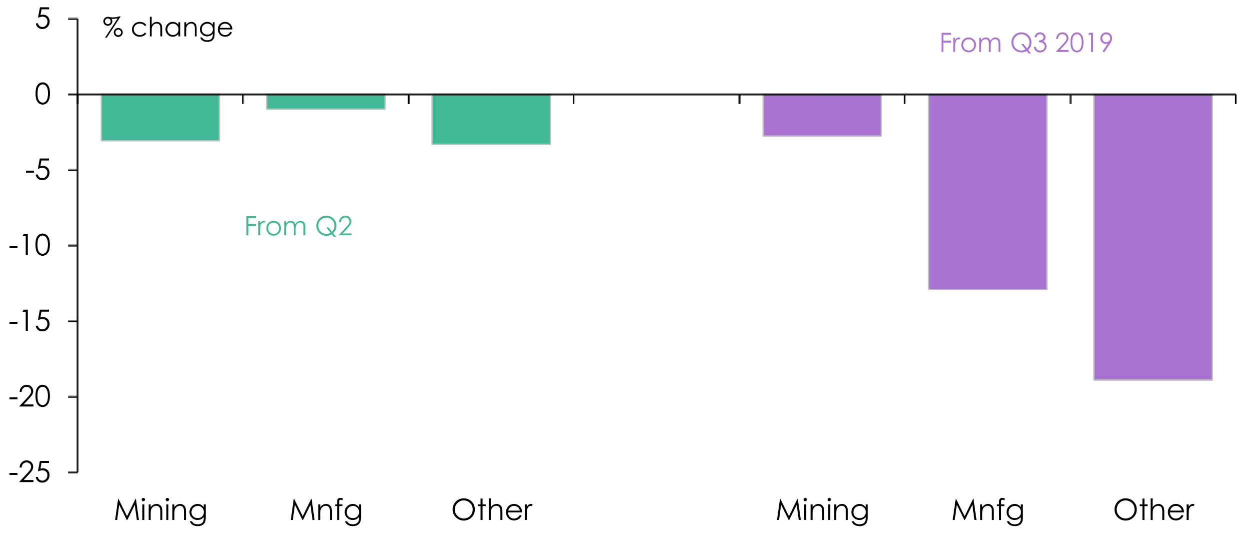
Business capex declined in Q3 for the seventh consecutive quarter, dragged down by Victoria, and by the construction & transport sectors

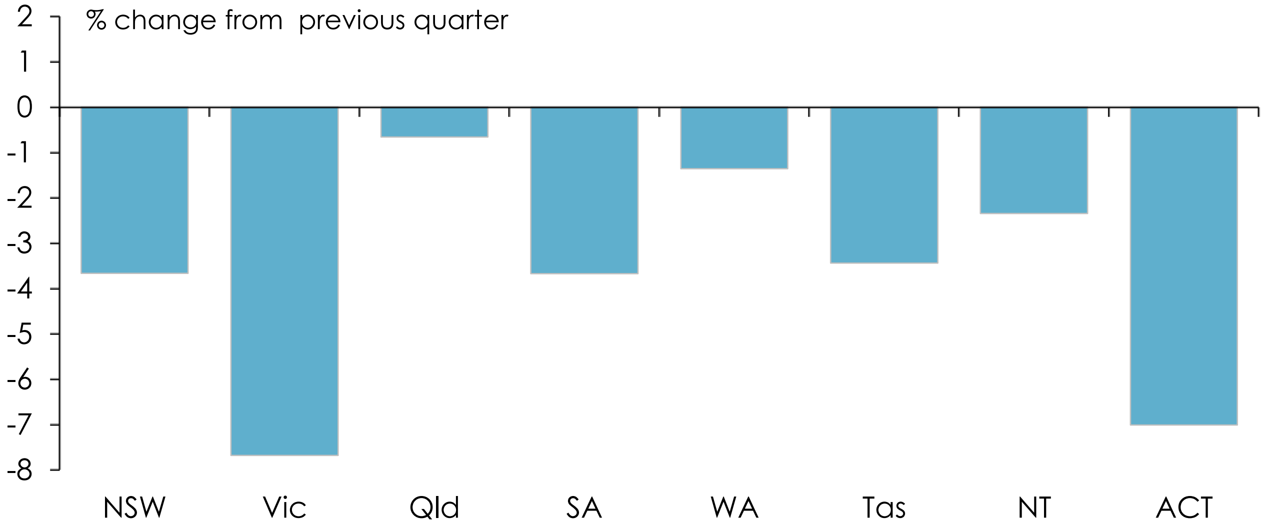
Real business new fixed capital expenditure

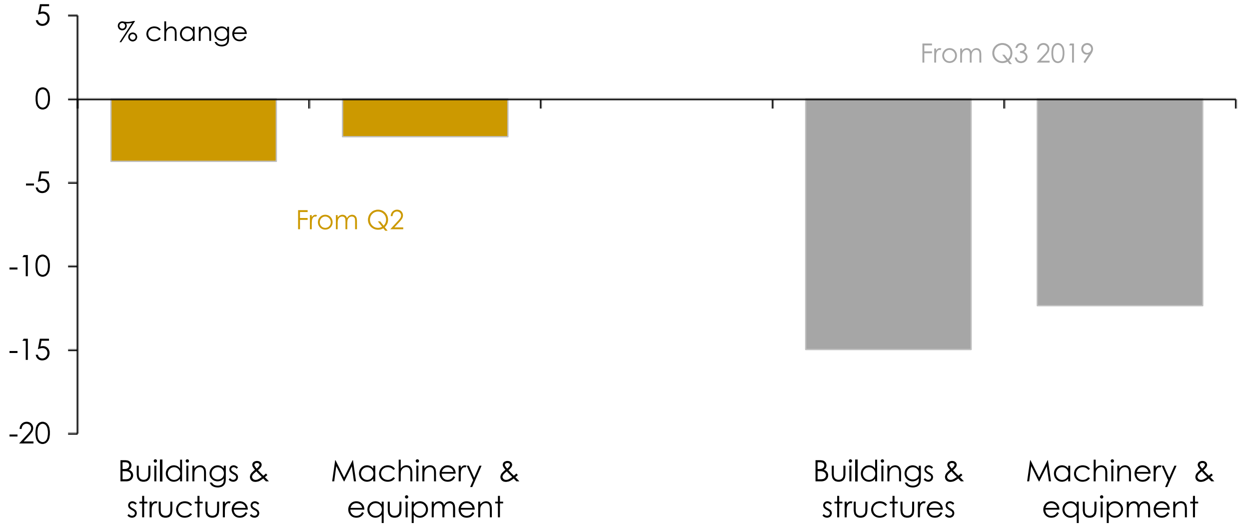


Real business new fixed capex, by industry, Q3



Real business new fixed capex, by state, Q3

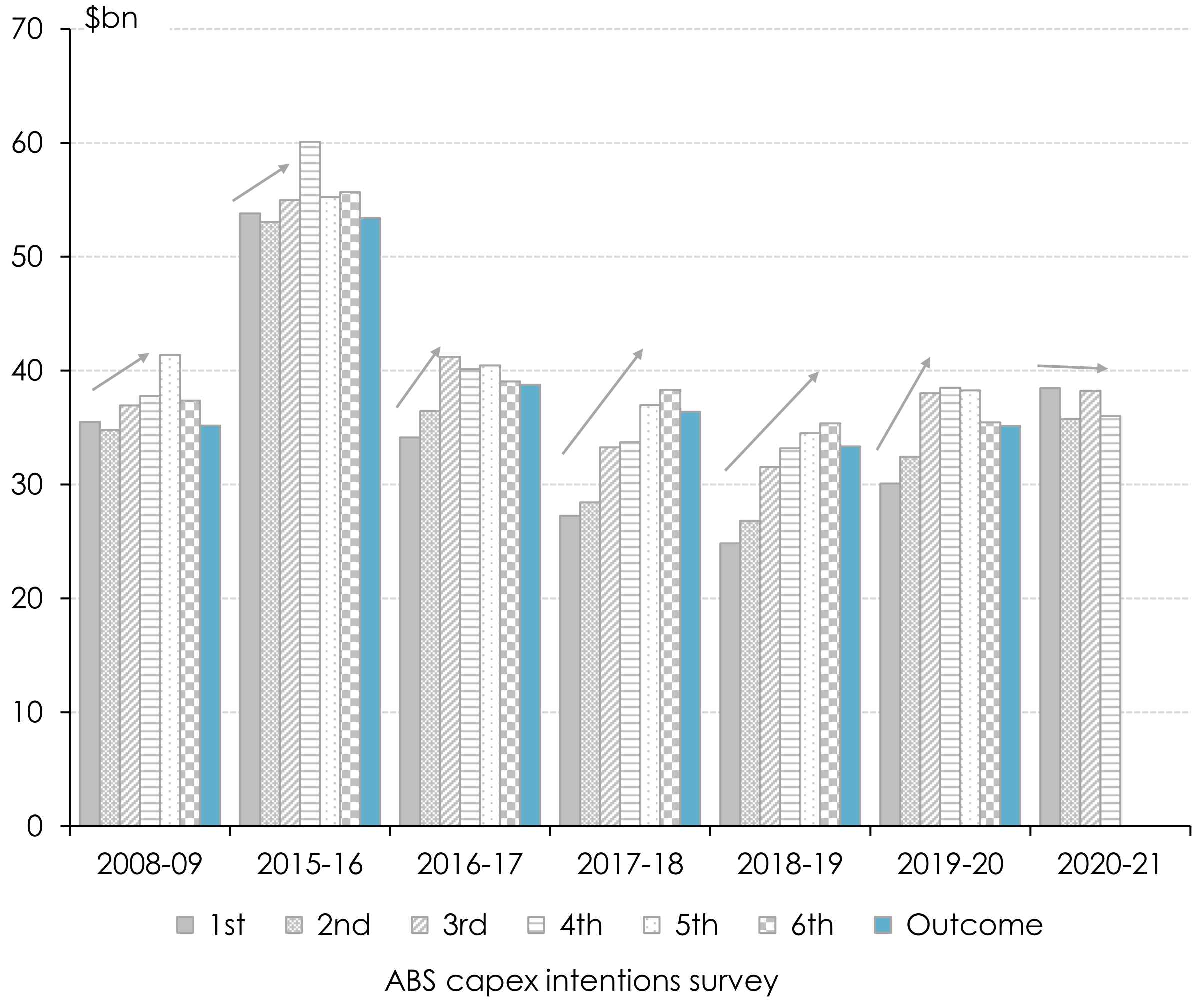




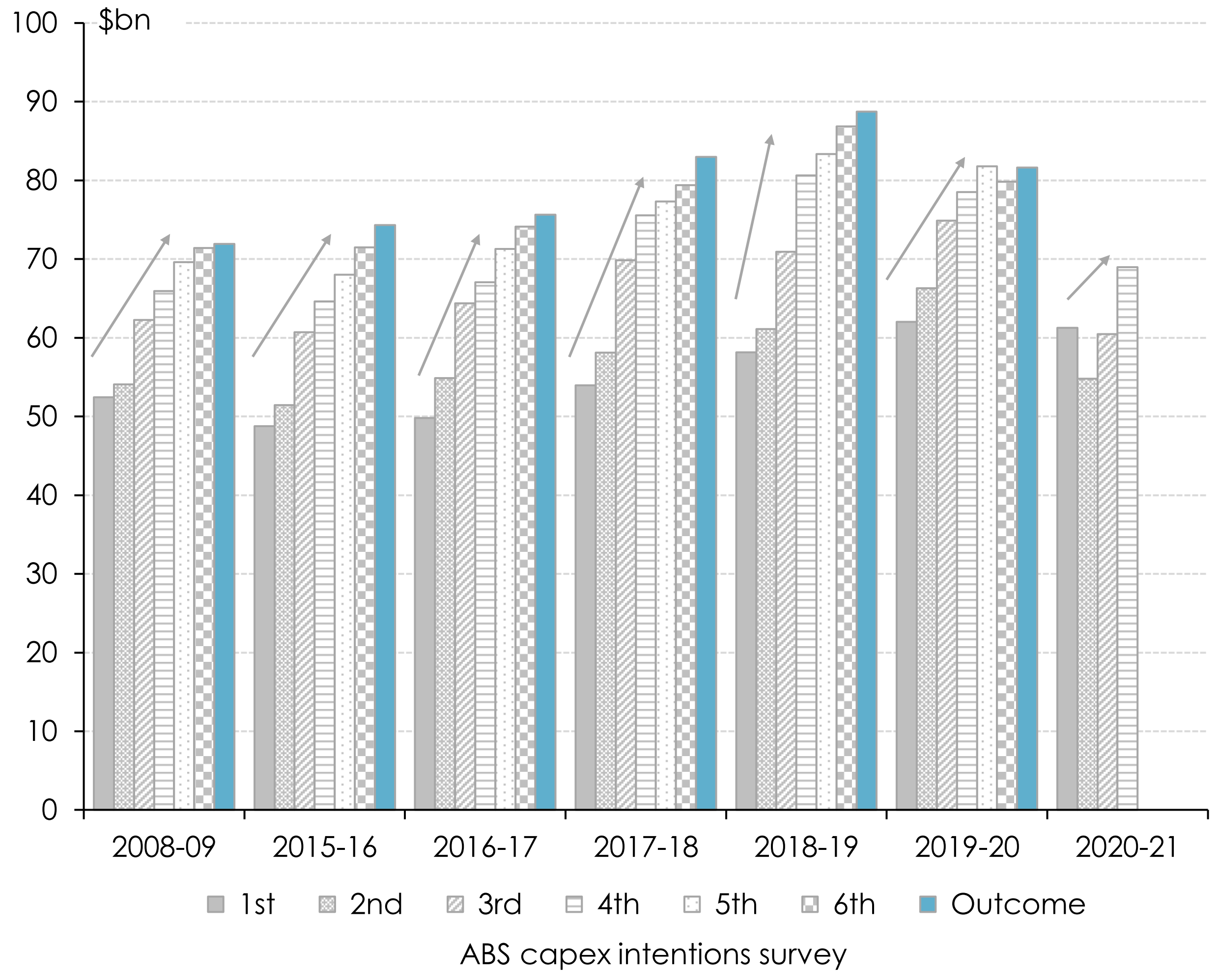
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia*; December quarter 2020 data will be released on 212th 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



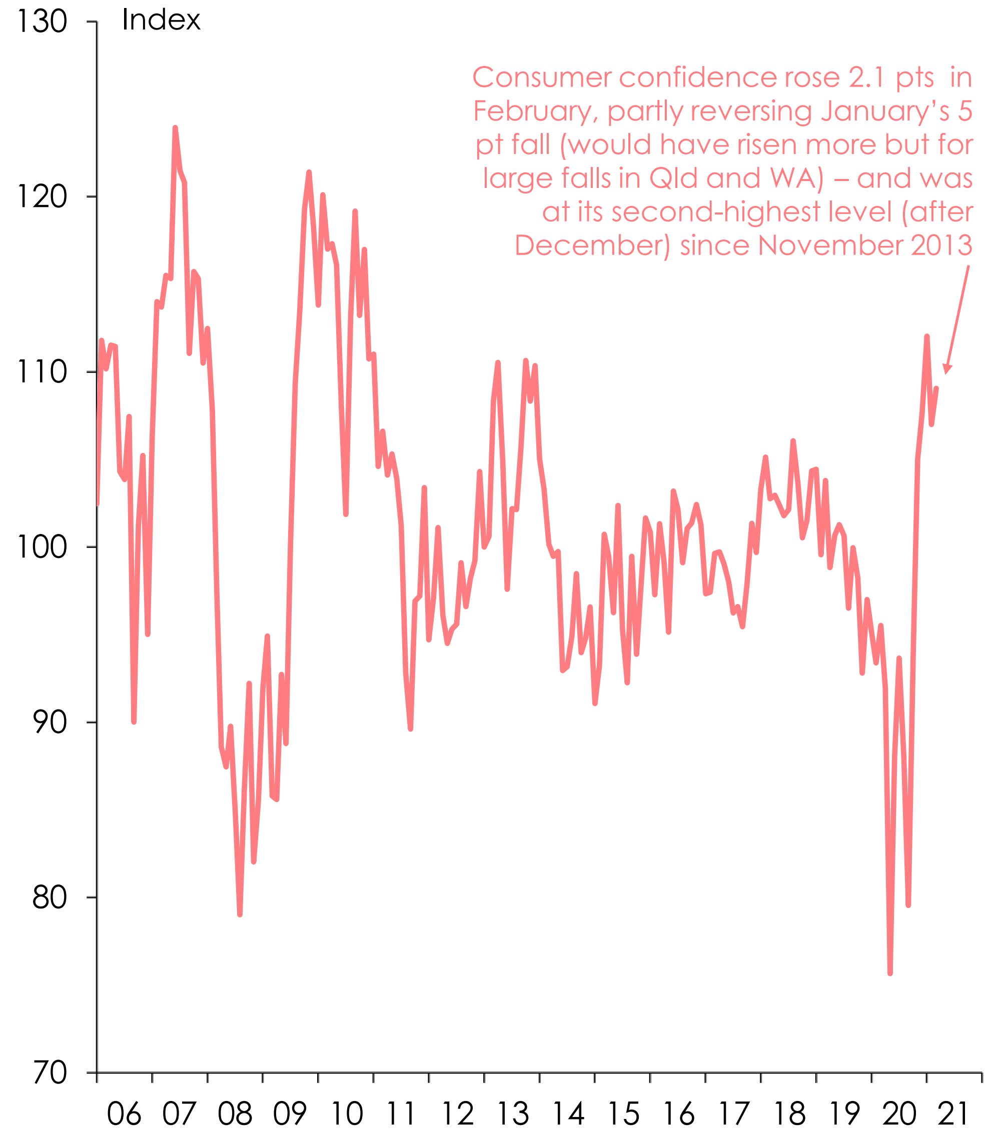
Capital expenditure intentions – non-mining



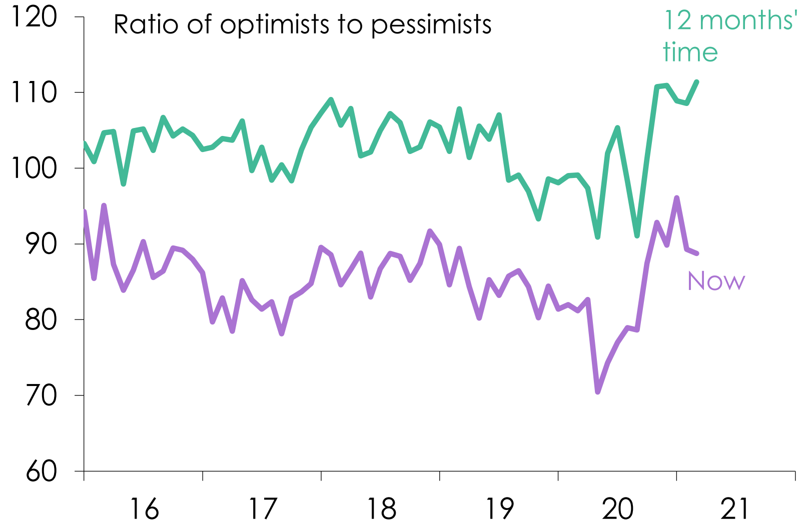
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & 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 212th February).

Consumer confidence rose a little in February to the second-highest since in over 7 years, would have been more but for falls in Queensland and WA

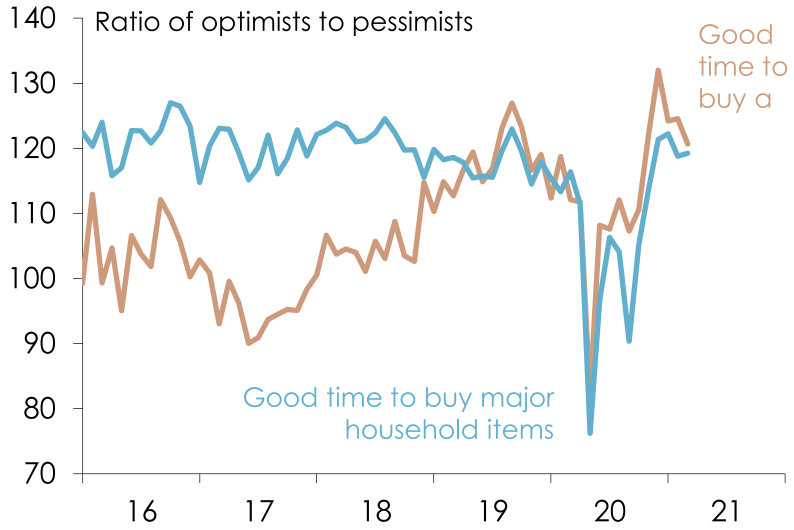
Consumer confidence index



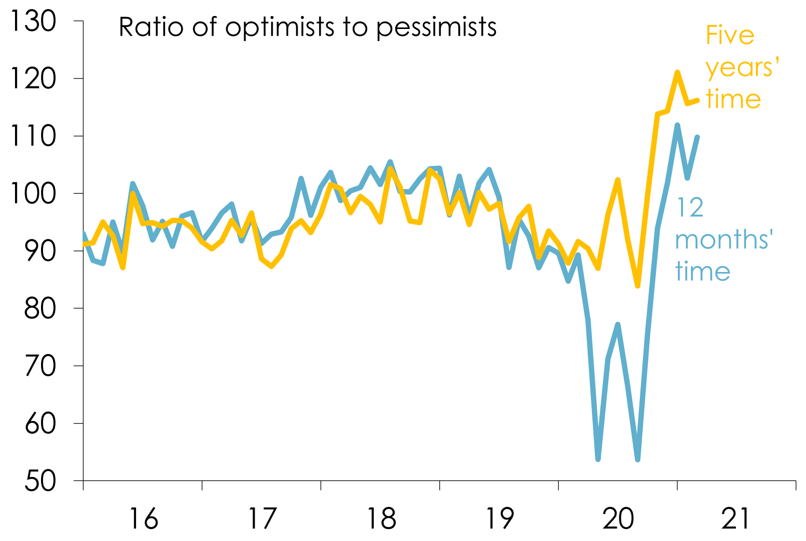
Household finances assessment



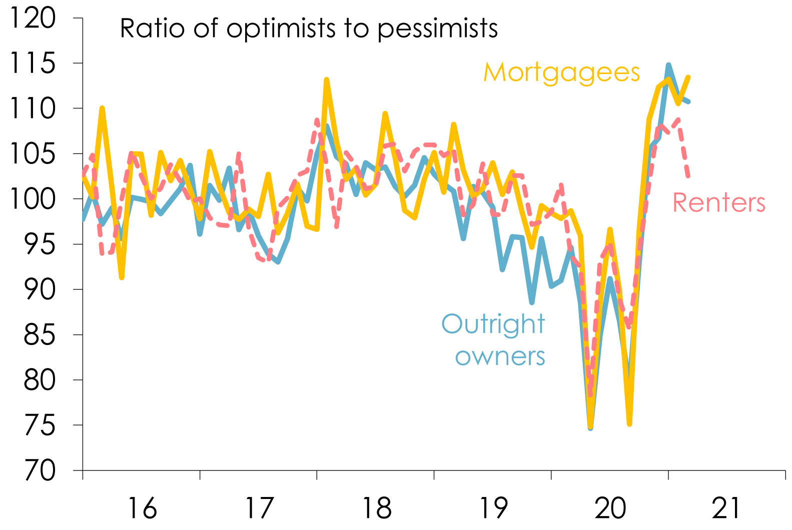
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure

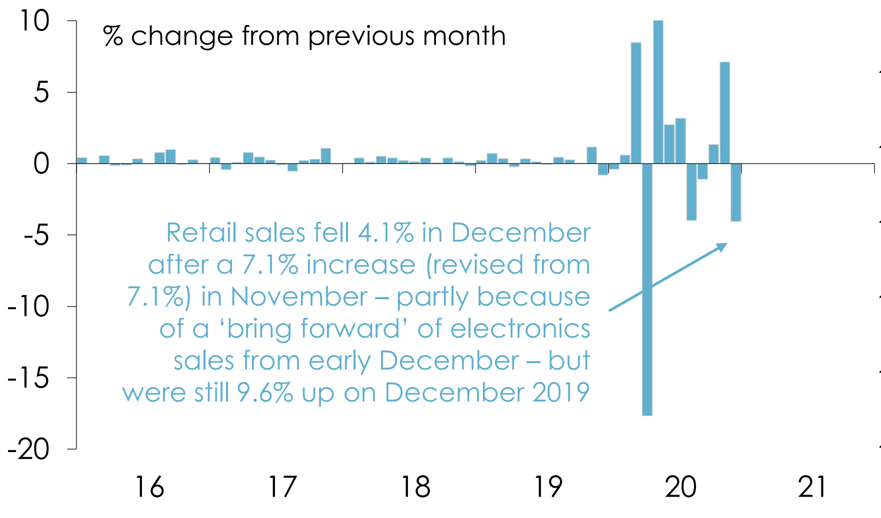


Source: Westpac Banking Corporation. March consumer confidence will be released on 10th March. Return to "What's New".

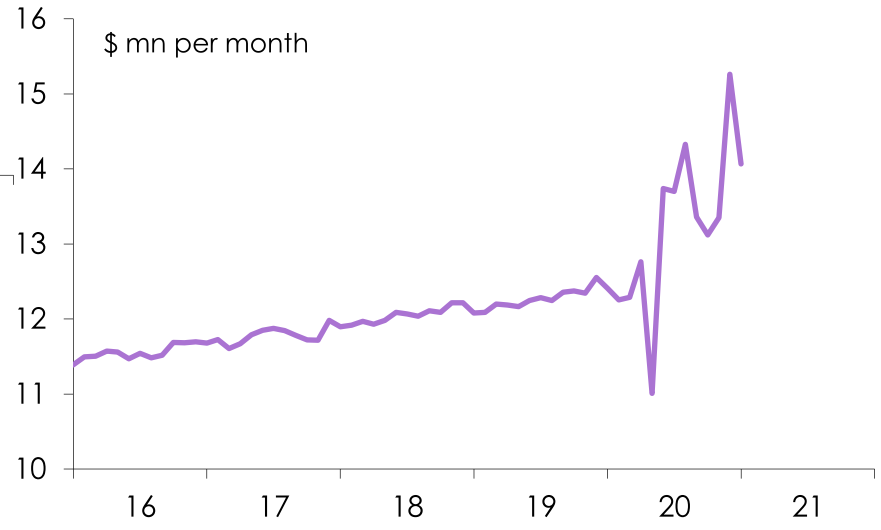
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Retail sales volumes rose another 2½% in Q4 last year; motor vehicles sales jumped another 5% in December to an 18-month high

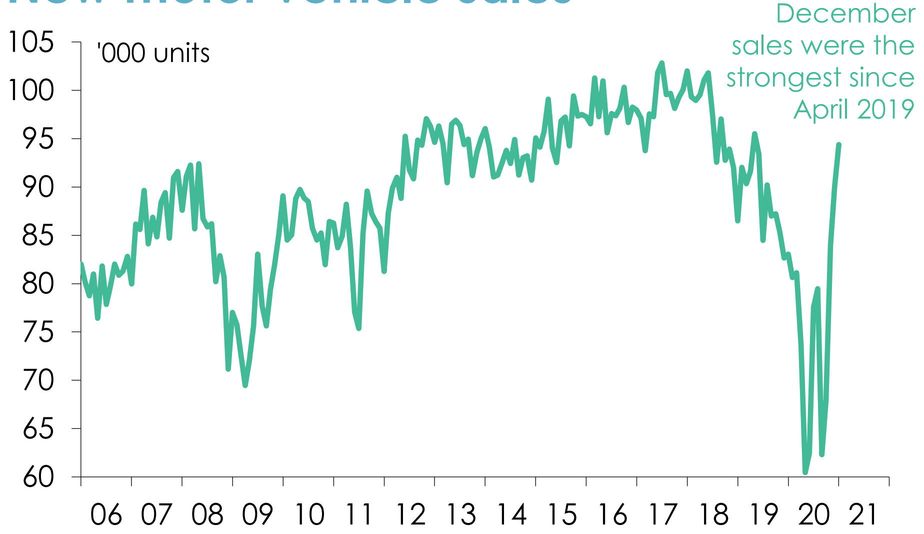
Monthly retail sales



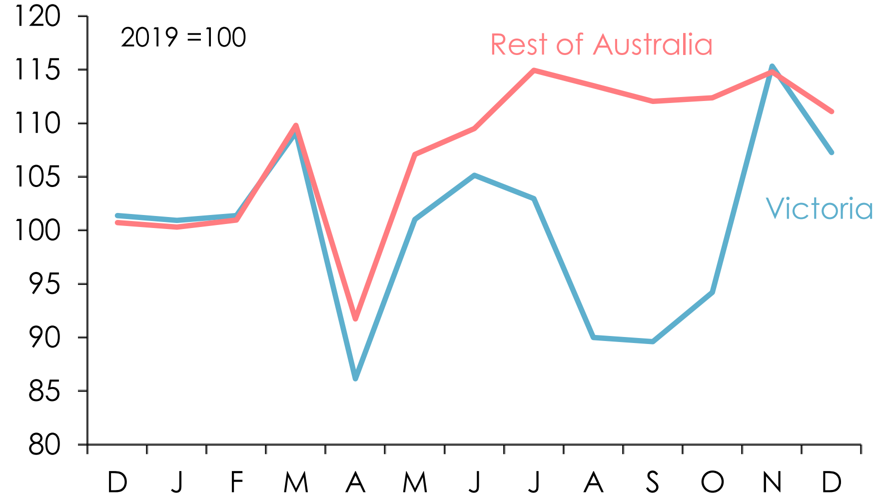
Level of retail sales



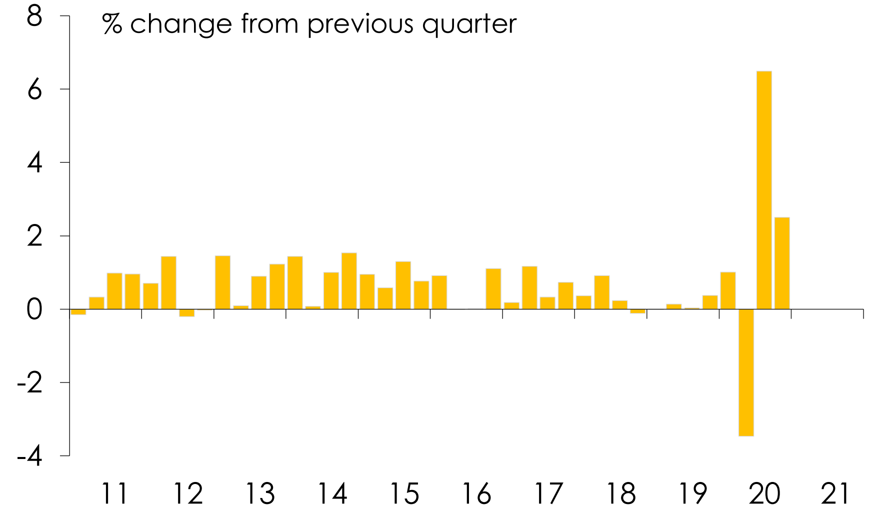
New motor vehicle sales



Retail sales – Victoria & the rest



Quarterly retail sales volumes



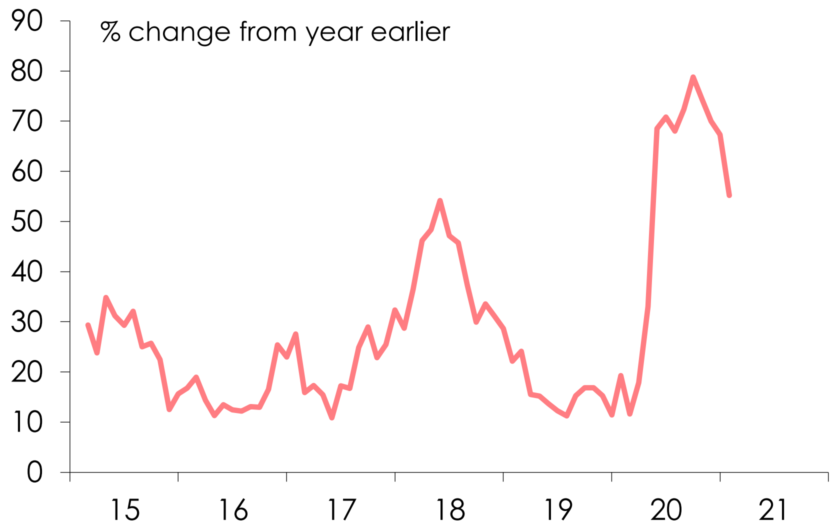
Vehicle sales – Victoria & the rest

Sources: ABS, Retail Trade, Australia; Federal Chamber of Automotive Industries VFACTS (seasonal adjustment of FCAI data by Corinna). January retail sales data will be released on 4th March (with preliminary data a week or so earlier); January motor vehicle sales data will be released next week. Return to "What's New".

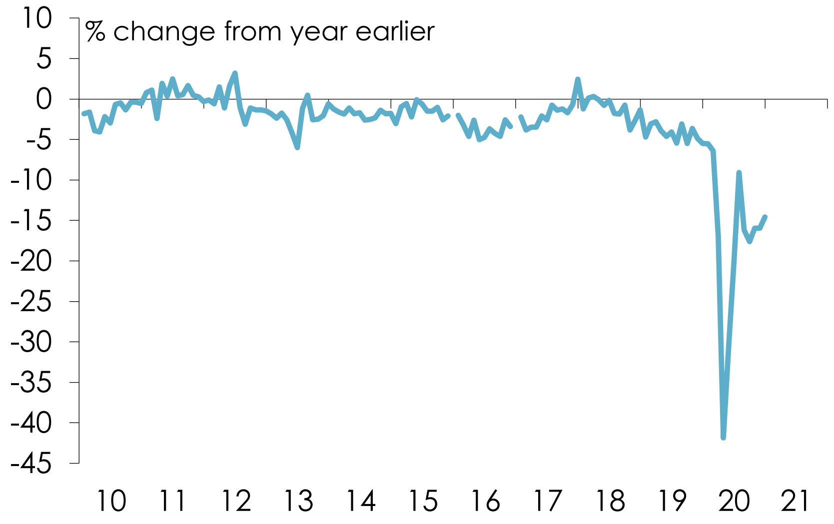
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

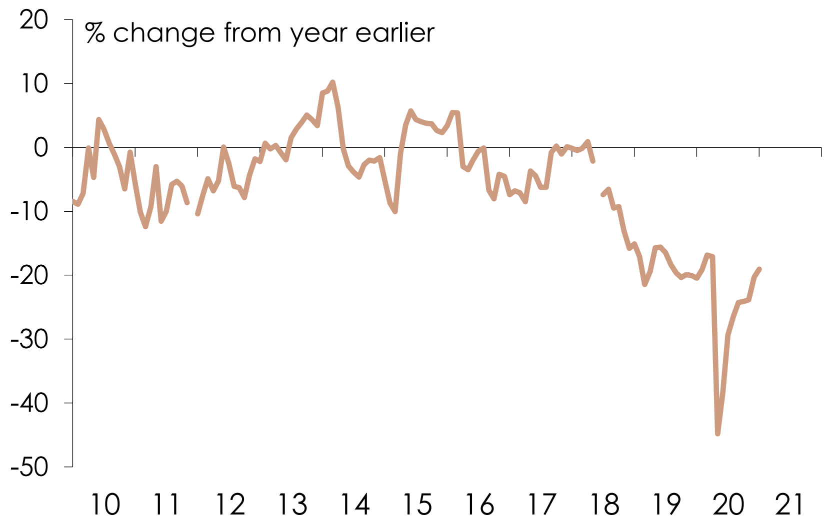
Growth in online retail sales



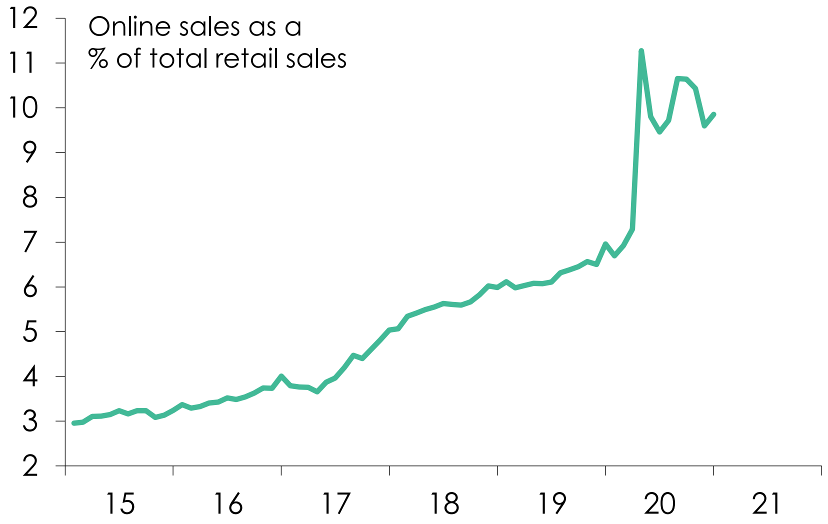
ATM cash withdrawals



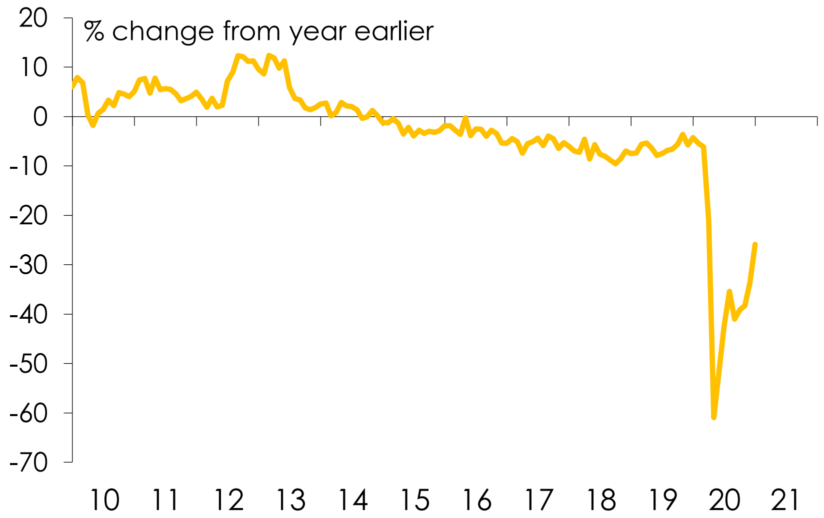
Credit card cash advances



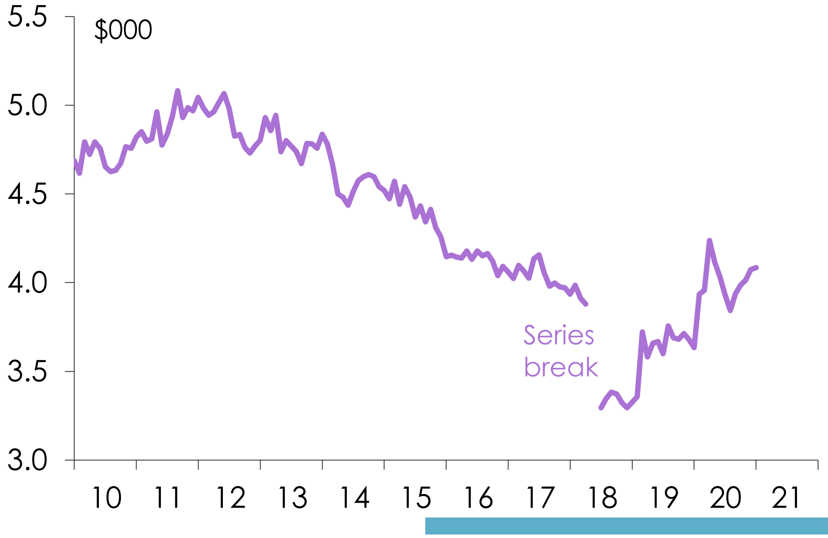
Online retail 'market share'



Debit card cash-outs



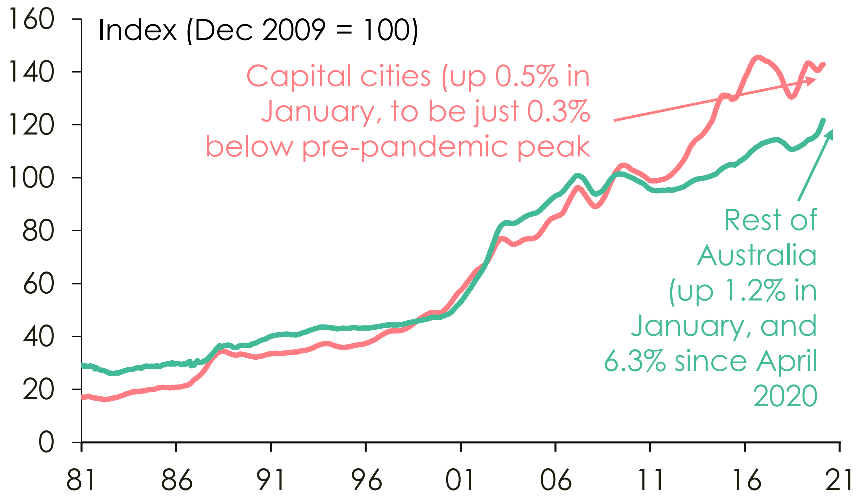
Direct entry payments



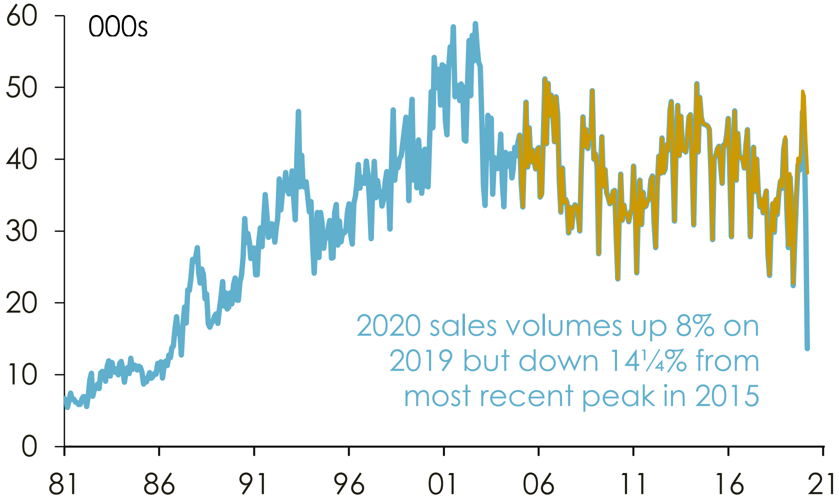
Sources: ABS, Retail Trade, Australia; RBA, Statistical Tables, C1, C2, C4 and C6. Latest data are for October: January data on online retail sales will be published on 4th March, and January data on the payments system on 8th March.

Property prices rose 0.7% in January, to be 2.9% higher than in January 2020, with regional areas up 7¾% and capital cities 1½% over the year

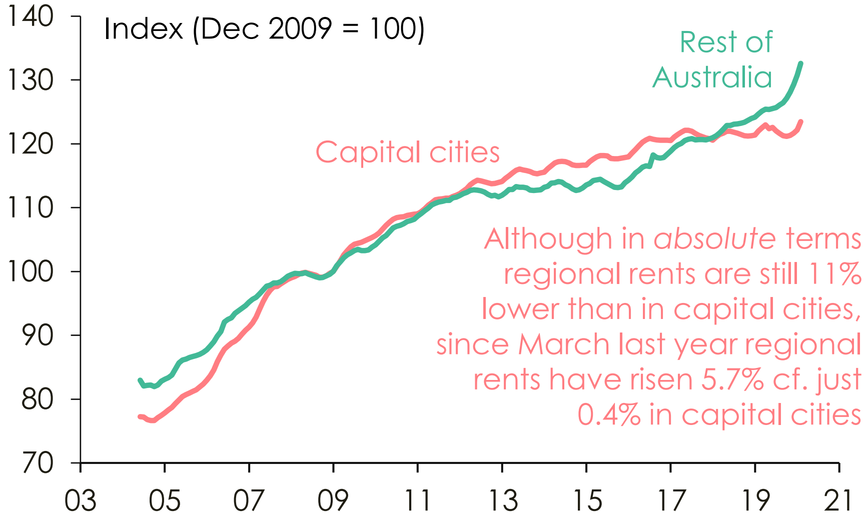
Residential property prices



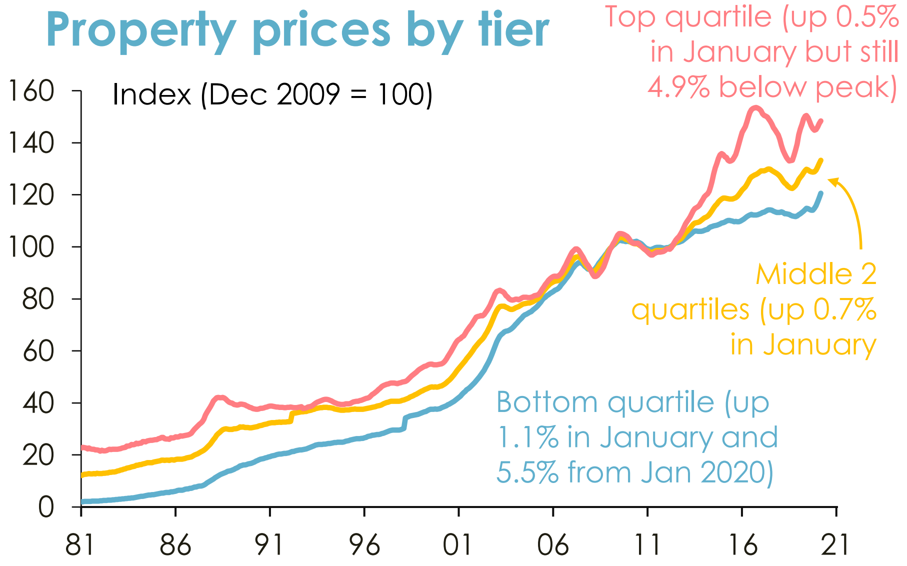
Residential property sales volumes



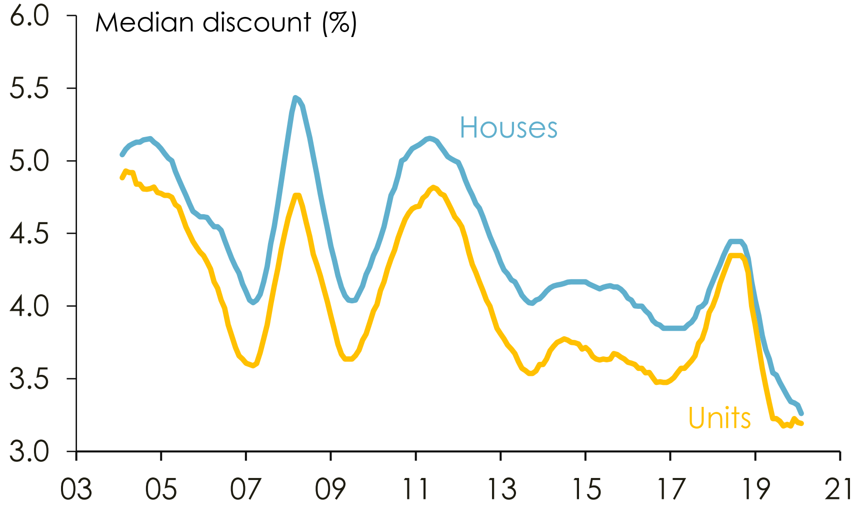
Residential rents



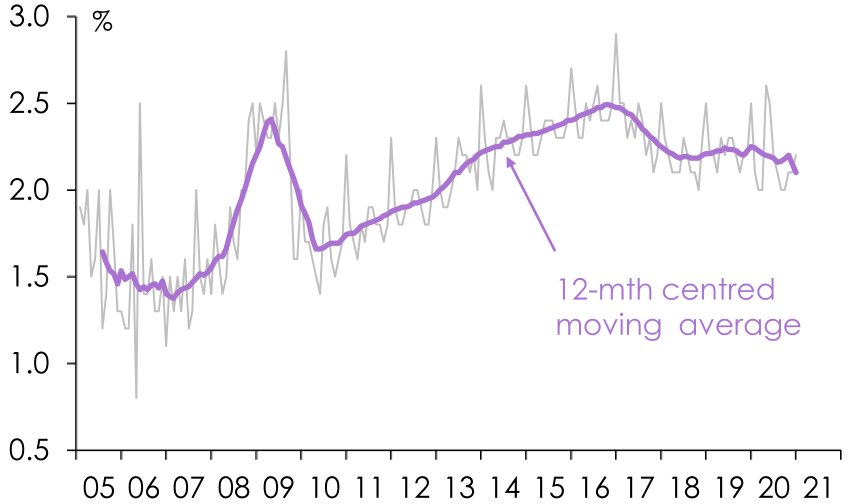
Property prices by tier



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 January; February data will be released on 1st March.

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

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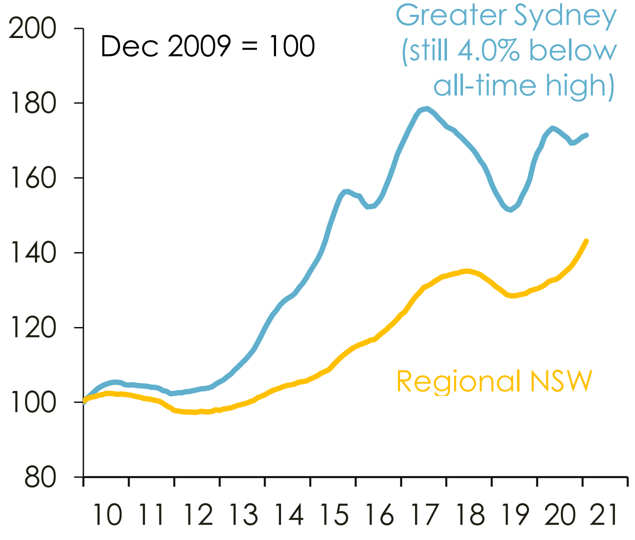
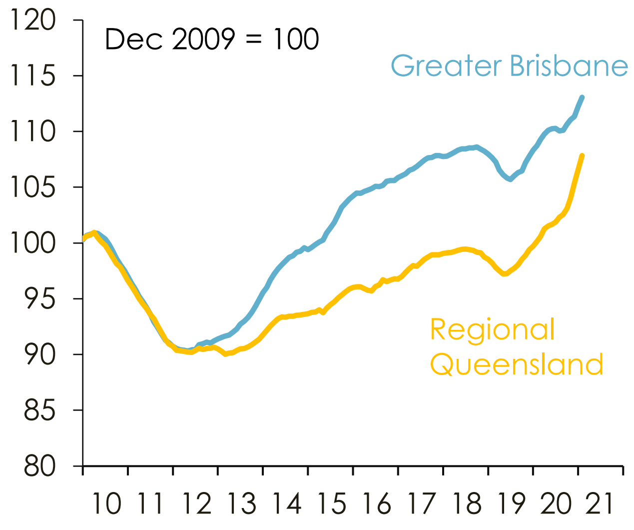
SYD, MEL, PER and DRW prices are still below prior peaks, but BNE, ADL, CBR and especially HBA (and many regional cities) are at record highs

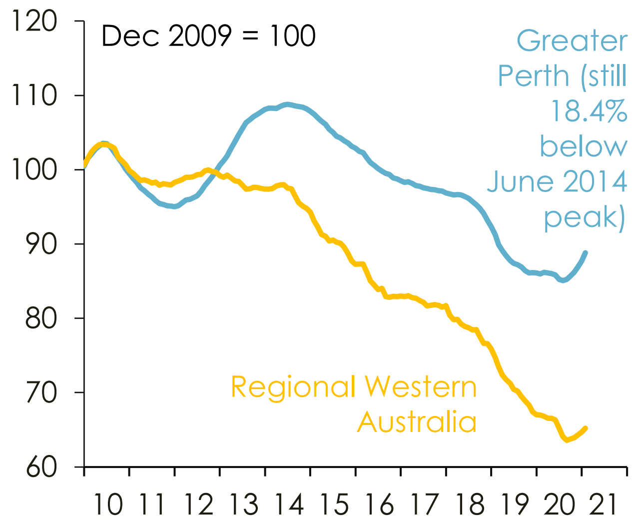
New South Wales



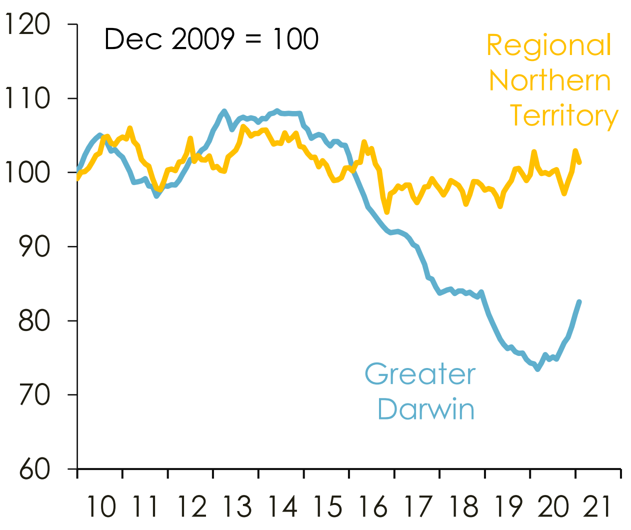
Queensland



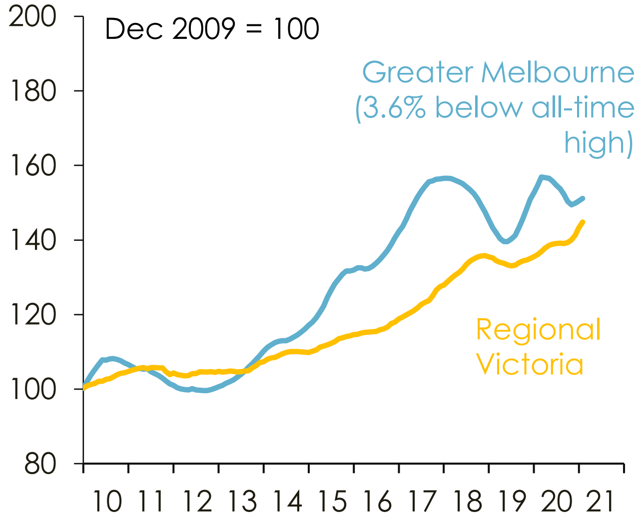
Western Australia



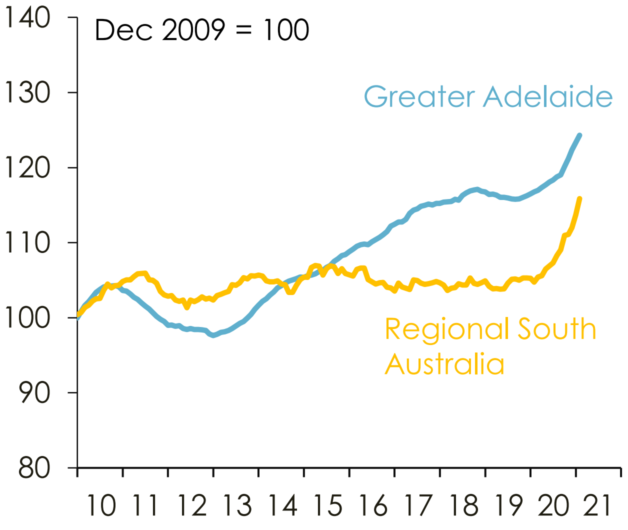
Northern Territory



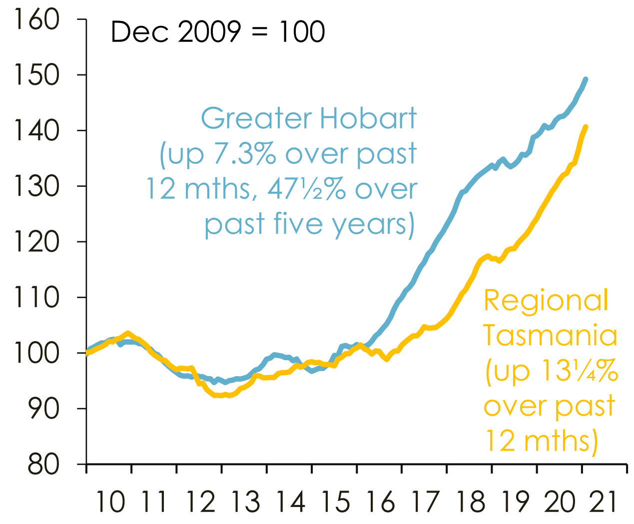
Victoria



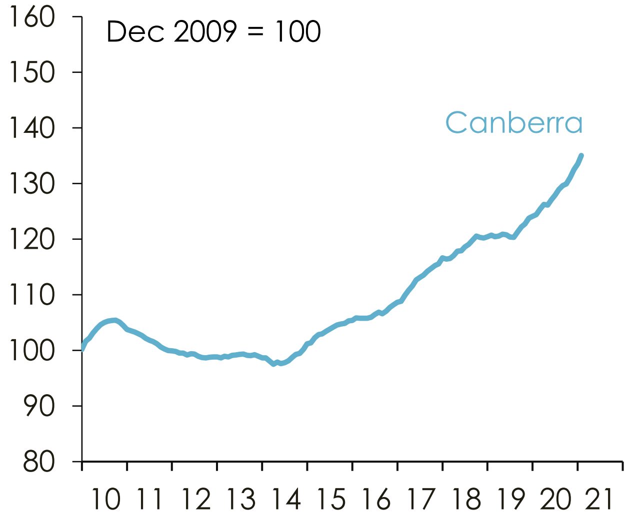
South Australia



Tasmania



Australian Capital Territory

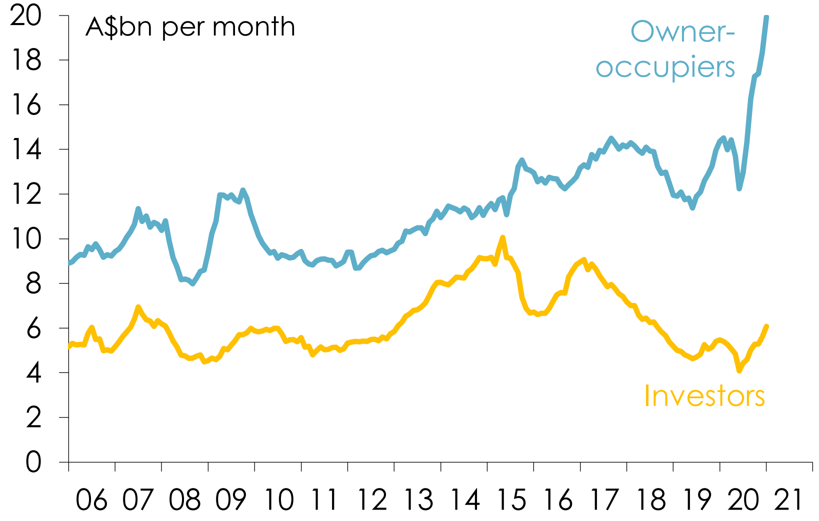


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

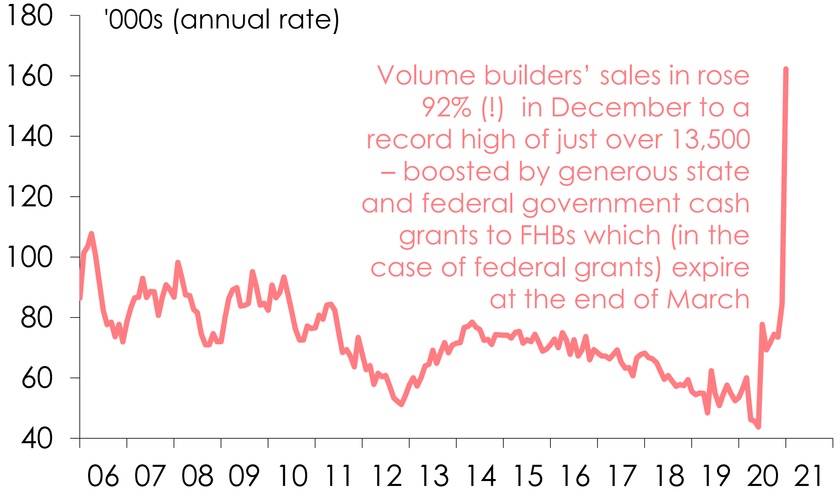
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

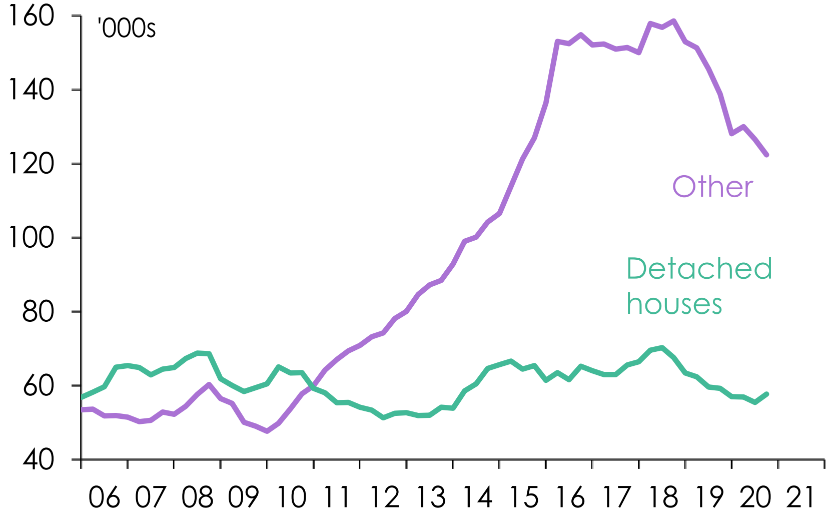
Housing finance commitments



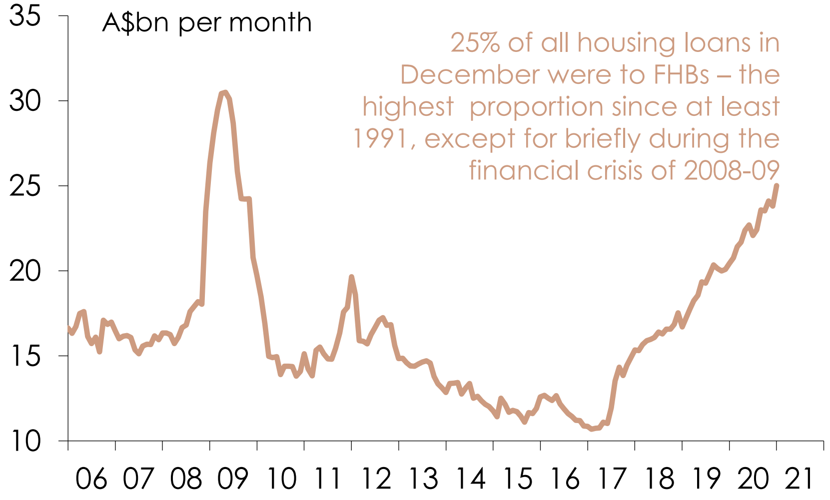
Large builders' new home sales



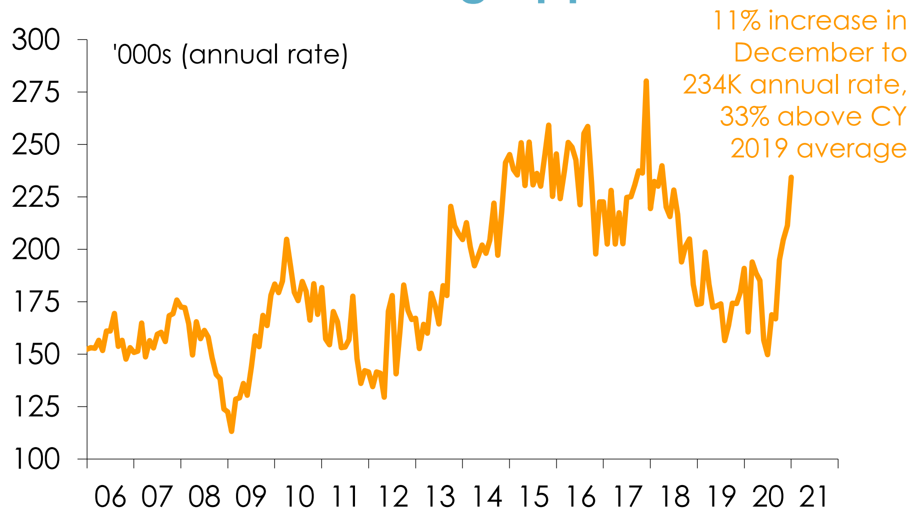
Dwellings under construction



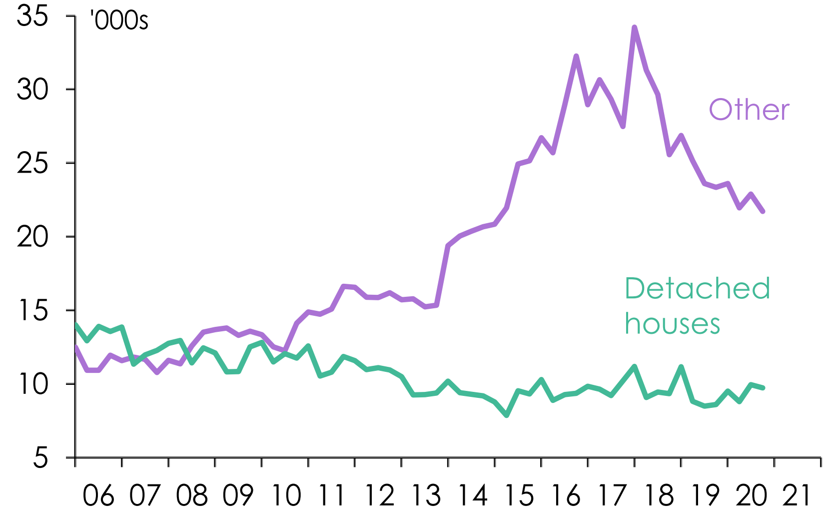
Lending to first home buyers



Residential building approvals



'Pipeline' of work yet to be started



Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. *Sources:* ABS; Housing Industry Association. January housing finance data will be released on 1st March; building approvals data on 2nd March; December quarter dwellings under construction and 'pipeline' data on 14th April. Return to "What's New".

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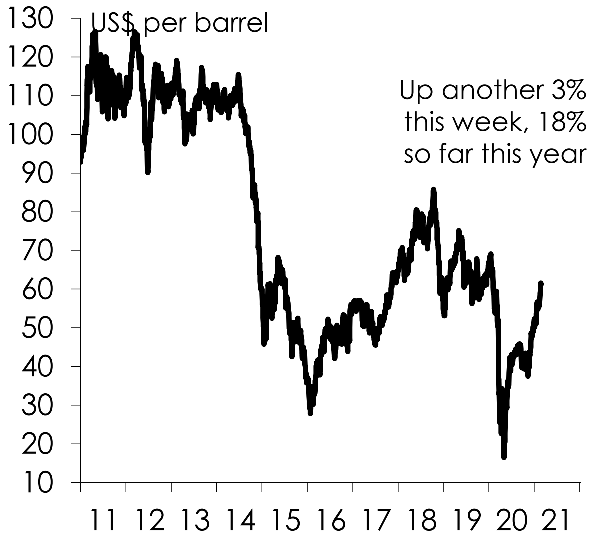
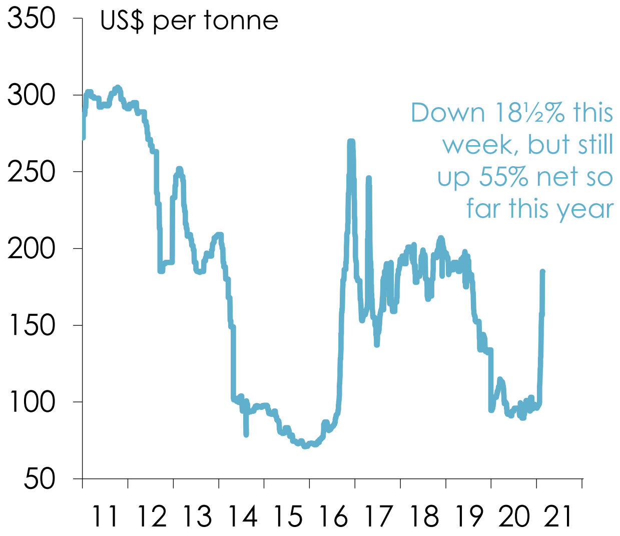
Met coal prices have risen 52% over the past 2 weeks as Chinese steel mills chase alternatives to banned Australian coal

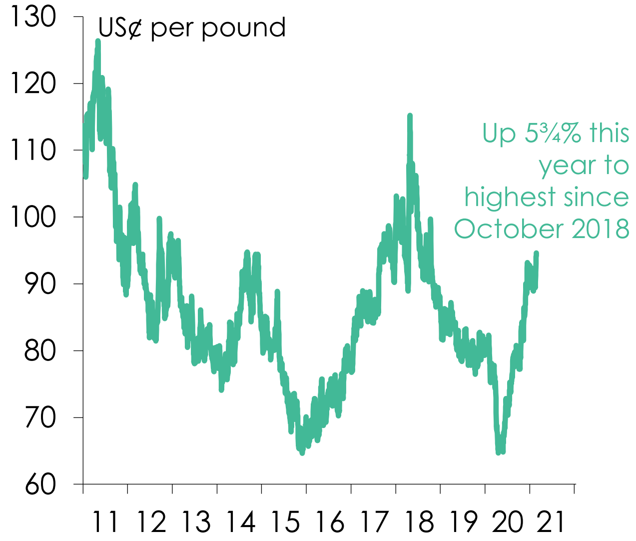
Crude oil



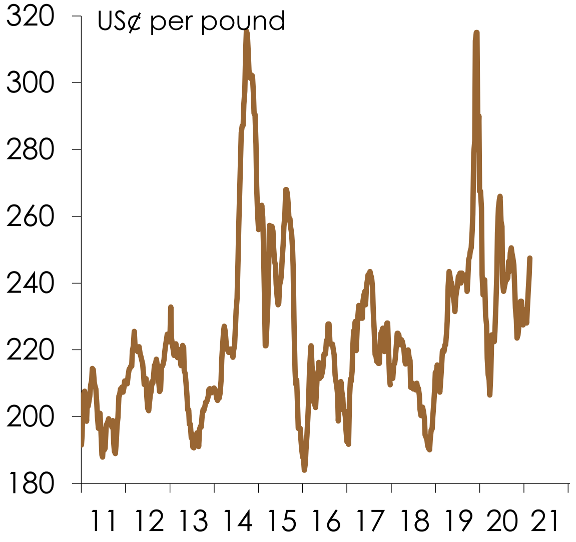
Metallurgical coal



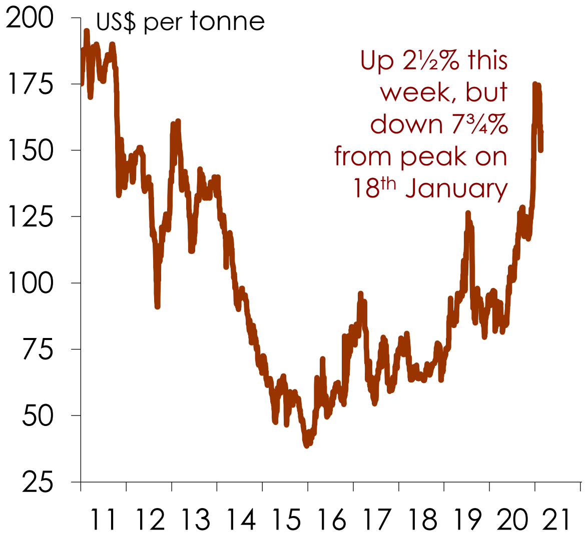
Aluminium



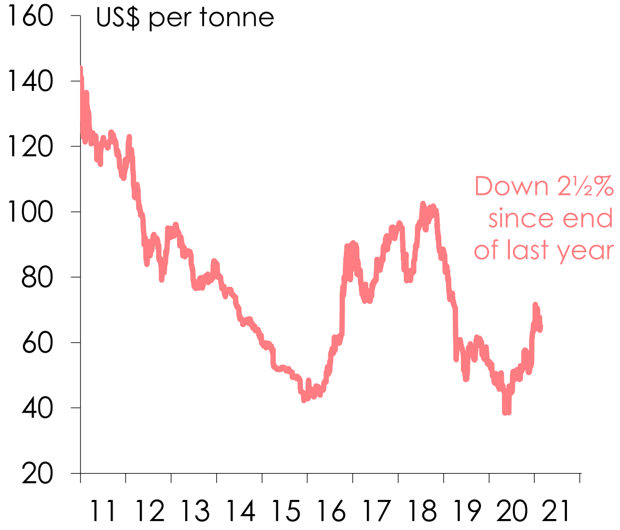
Beef



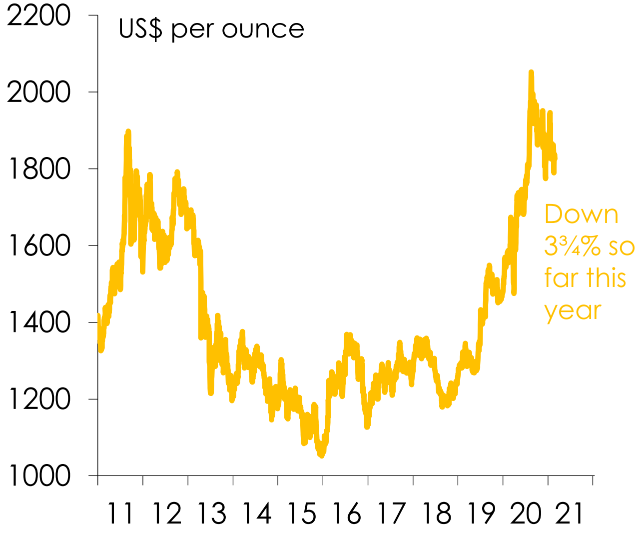
Iron ore



Thermal coal



Gold



Wool

Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 12th February.
Return to "What's New".

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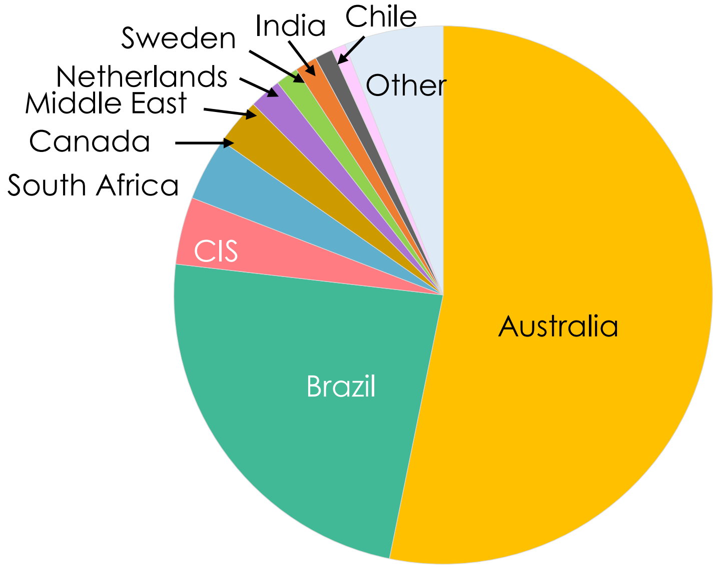
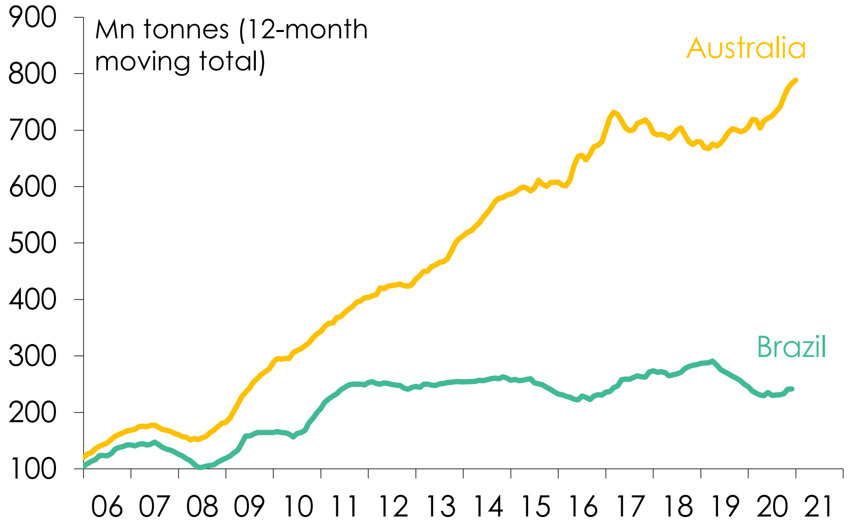
The resilience of iron ore prices stems from strong Chinese demand, declining Chinese production and constraints on Brazilian exports

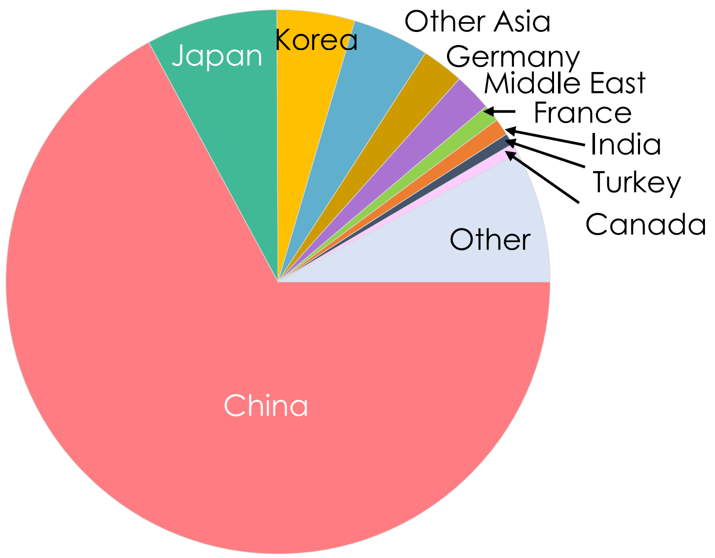
Iron ore exports, 2018



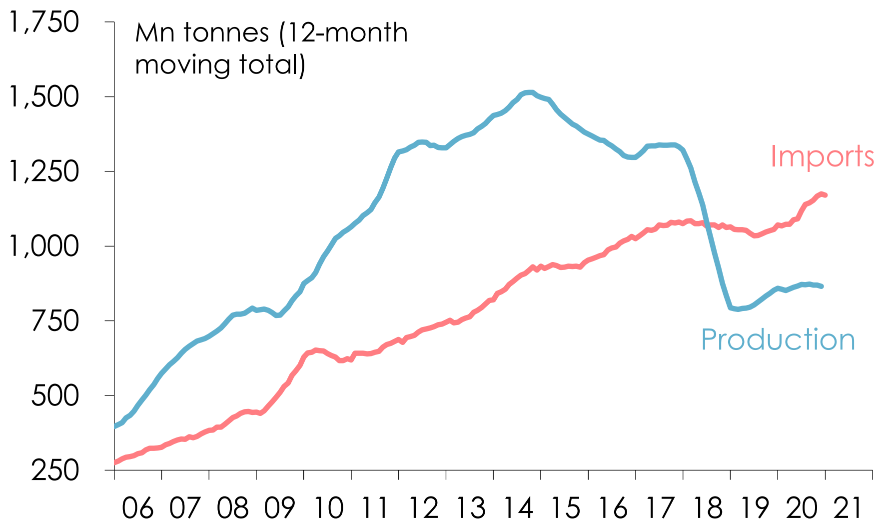
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports

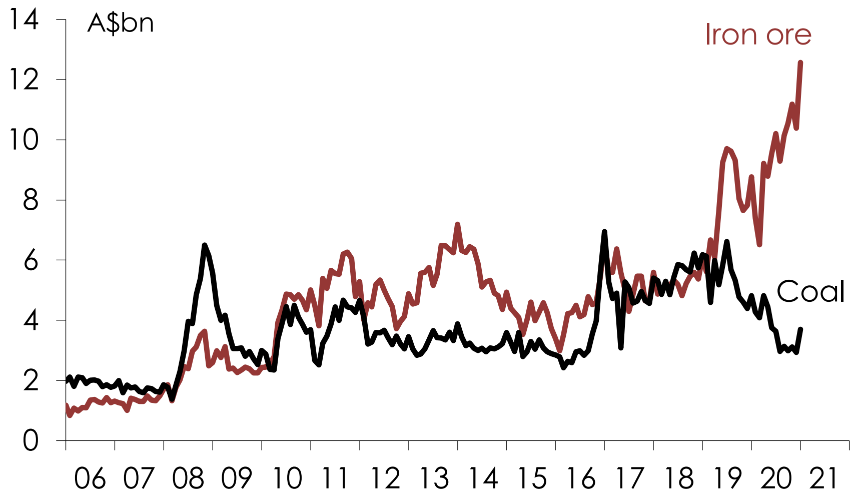


- **The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade**
- **Chinese iron ore production has fallen by more than 34% since 2017,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

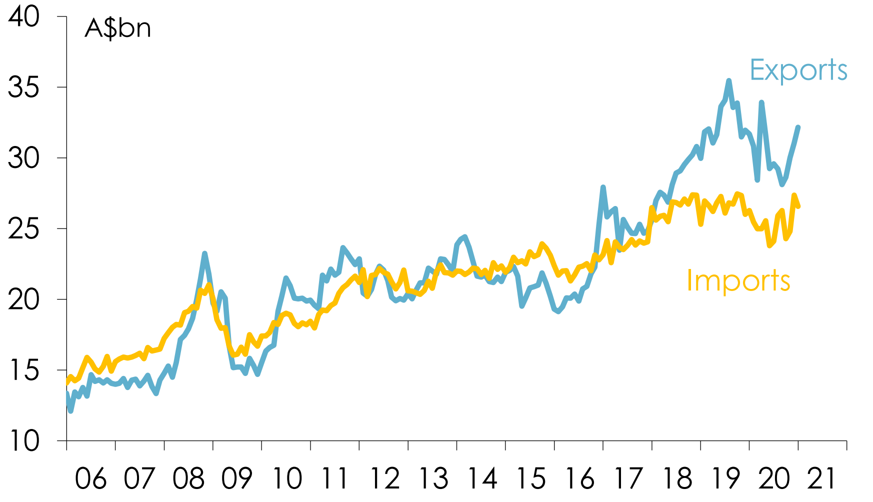
Note: Export volume data for Australia and Brazil derived by dividing export values (in US$) from ABS and IGBE by the average US$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS;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

Australia's goods & services trade balance widened to just over $6¾bn in December with exports up 2¾% and imports down 2½%

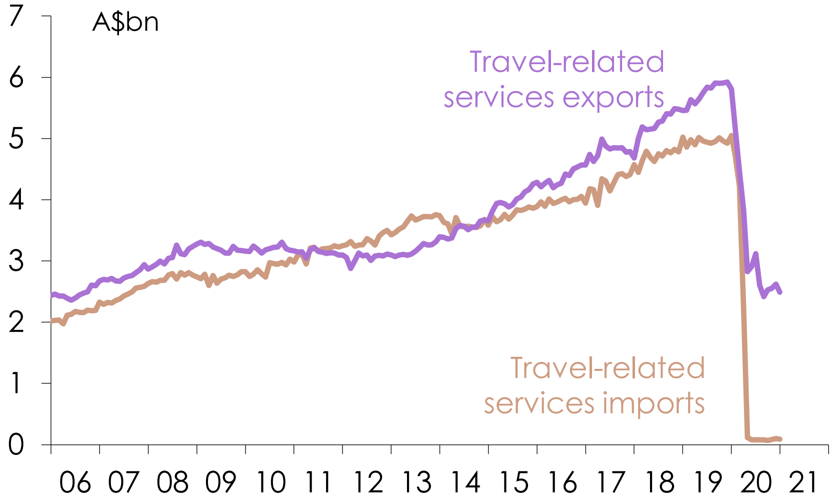
Iron ore and coal exports



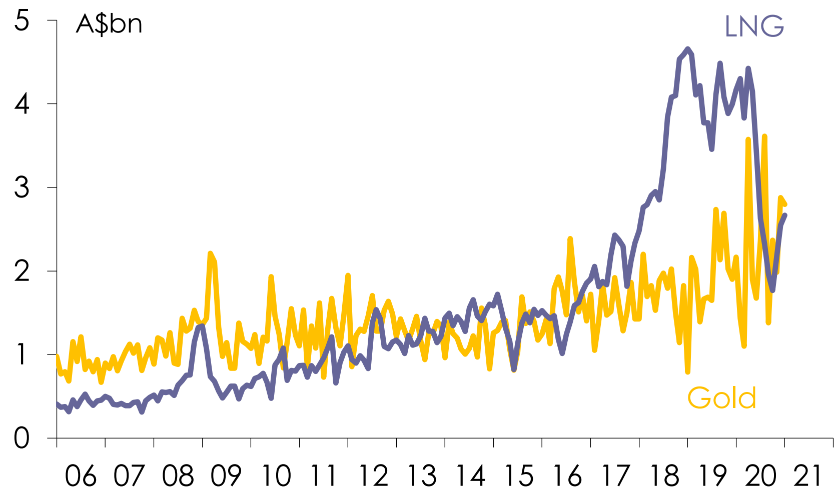
Merchandise exports and imports



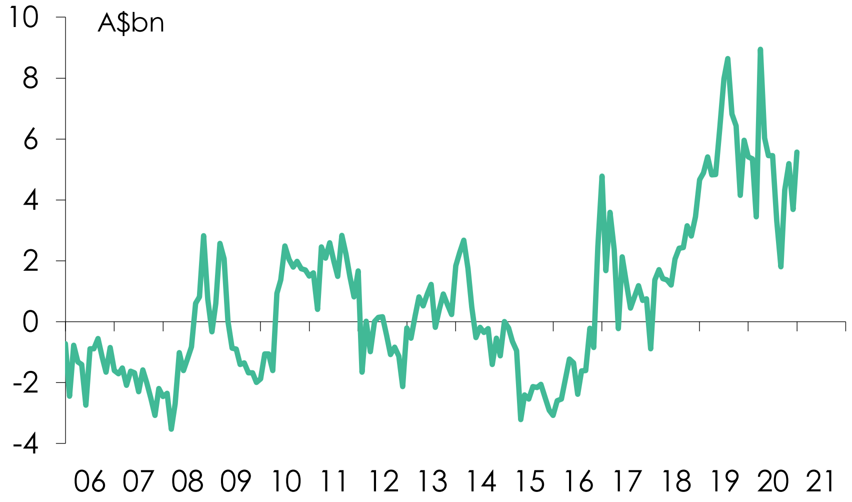
Tourism-related services trade



LNG and gold exports



Merchandise trade balance



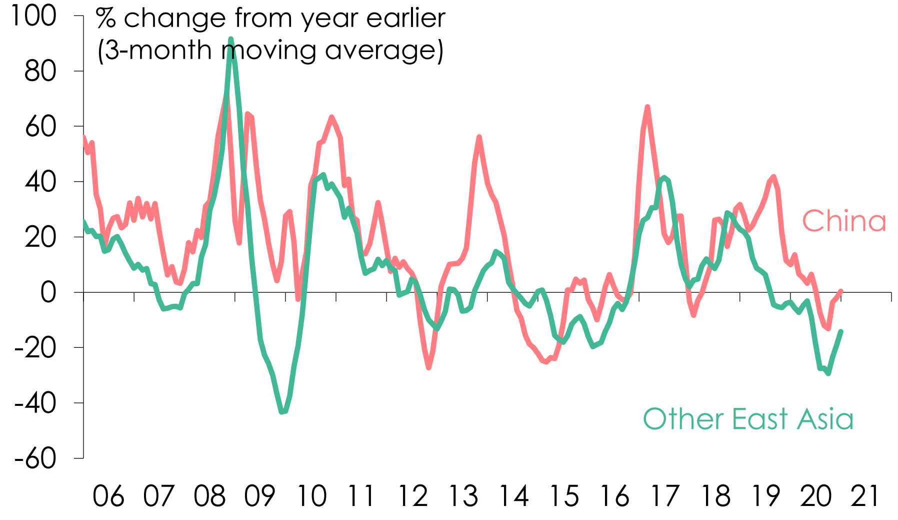
Tourism services trade balance

Note: Latest data for merchandise trade are for December: January data will be released on 4th March (with preliminary merchandise trade data released a week or so earlier). *Source:* ABS, *International Trade in Goods and Services, Australia*. Return to "What's New".

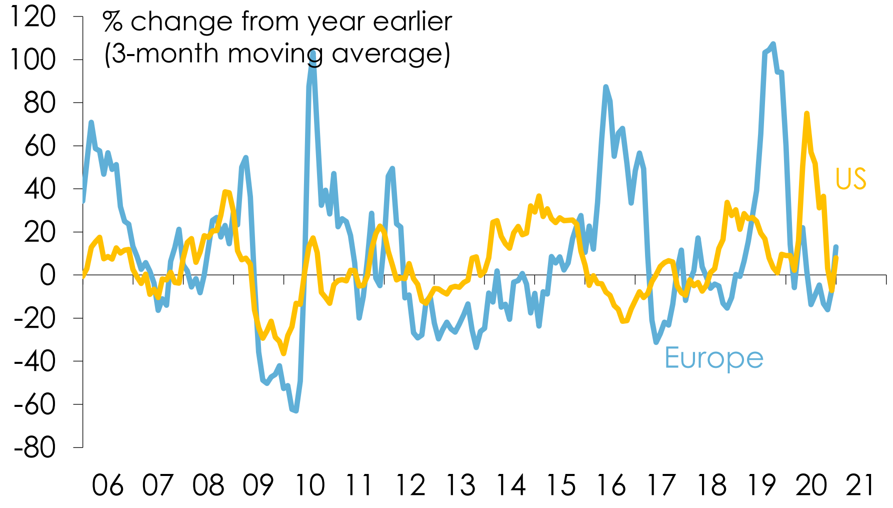
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

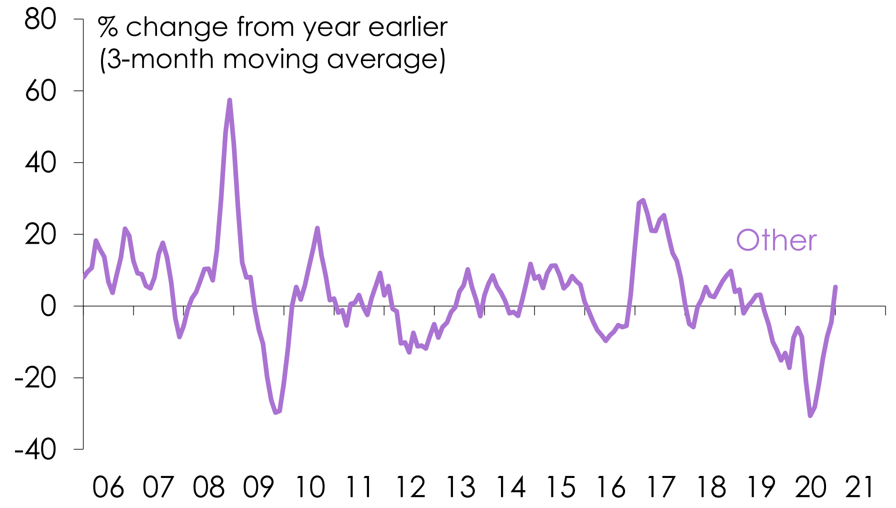
Merchandise exports – East Asia



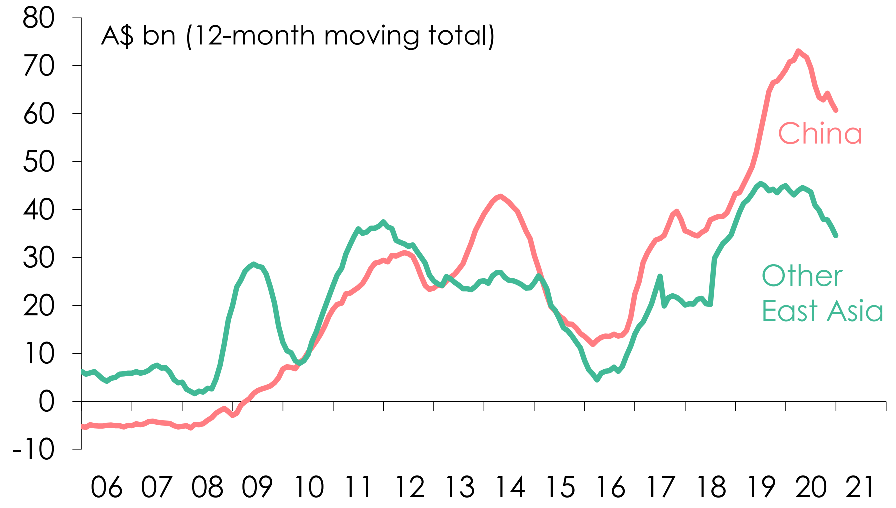
Merchandise exports – US & Europe



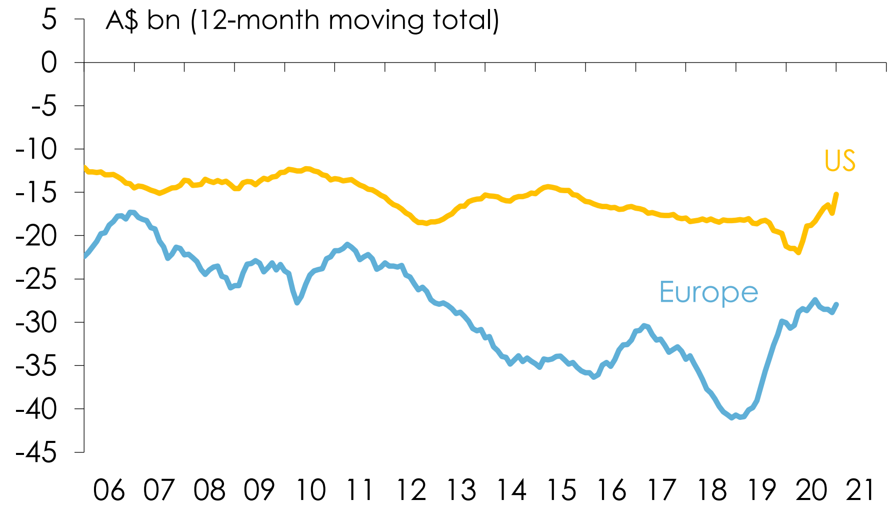
Merchandise exports – other



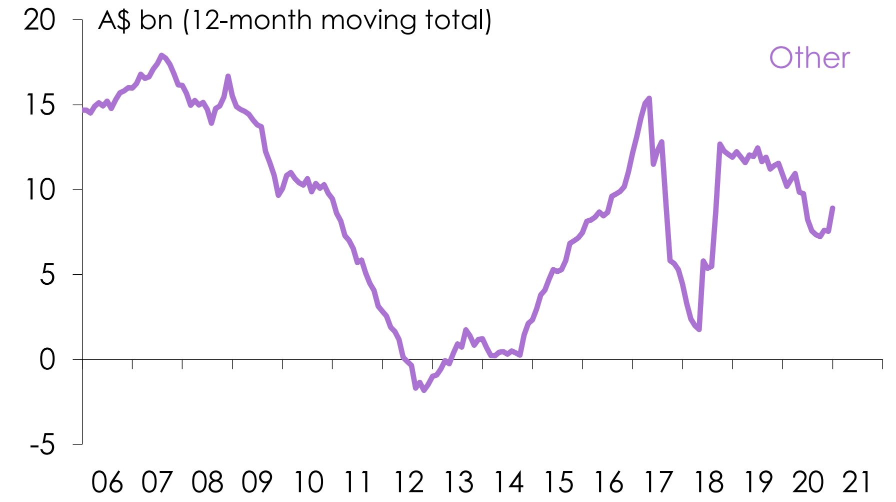
Goods trade balance – East Asia



Goods trade balance – US & Europe



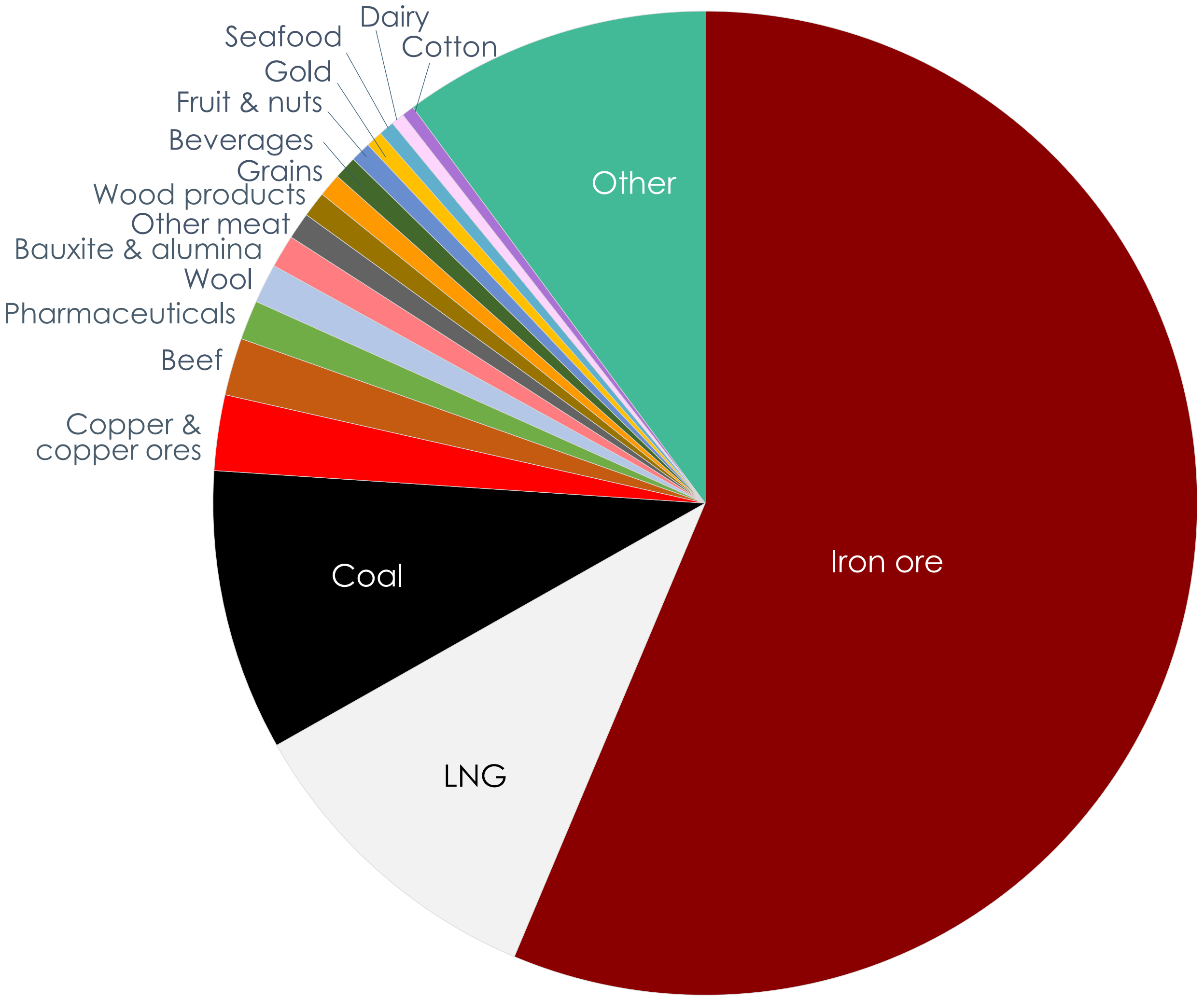
Goods trade balance – other



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 Trade in Goods and Services, Australia*; January data will be released on 4th March (with preliminary merchandise trade data released a week or so earlier). 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

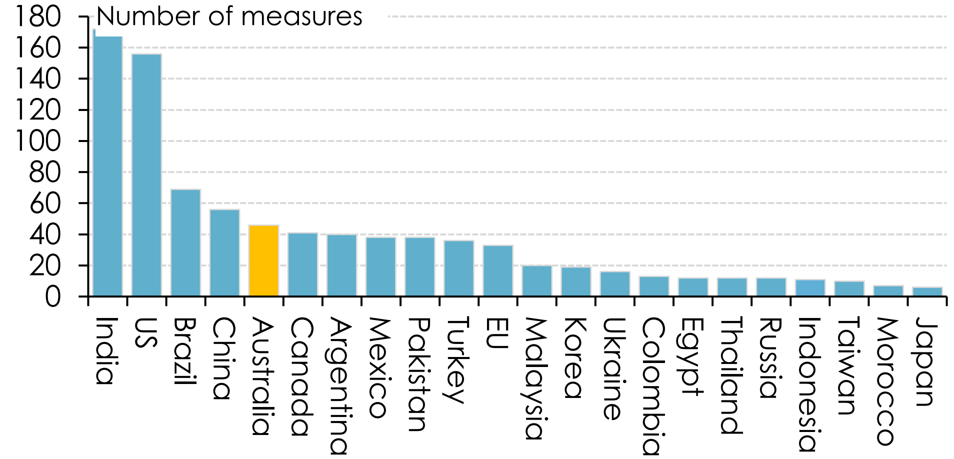


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna.
Return to "What's New".

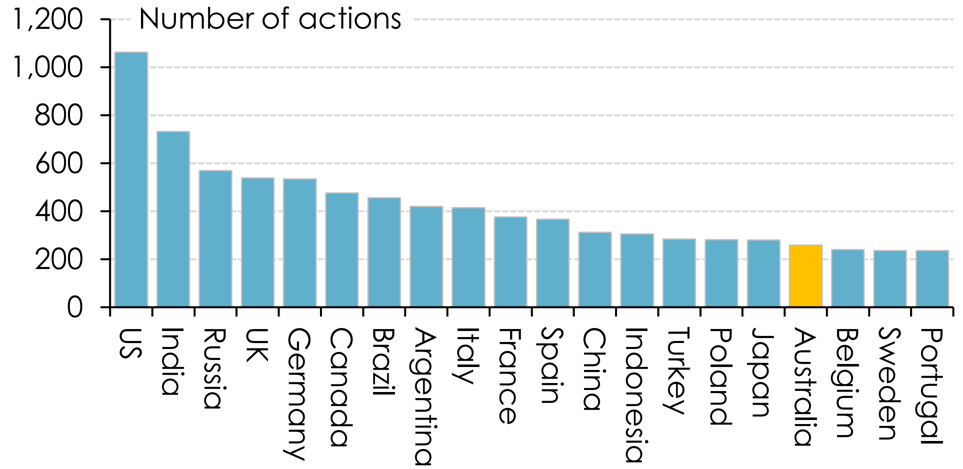
- China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (tourism & education) accounted for over 90%)
- China has no real alternatives to Australian iron ore (slide102)
- 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
- In December Chinese electricity generators and steel mills not to use Australian coal – in recent months China has instead sourced coal from Colombia, South Africa and Indonesia
- China appears to be seeking to 'make an example' of Australia as a warning to other countries in the region (as the Chinese proverb has it, "kill the chicken to warn the monkey")

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

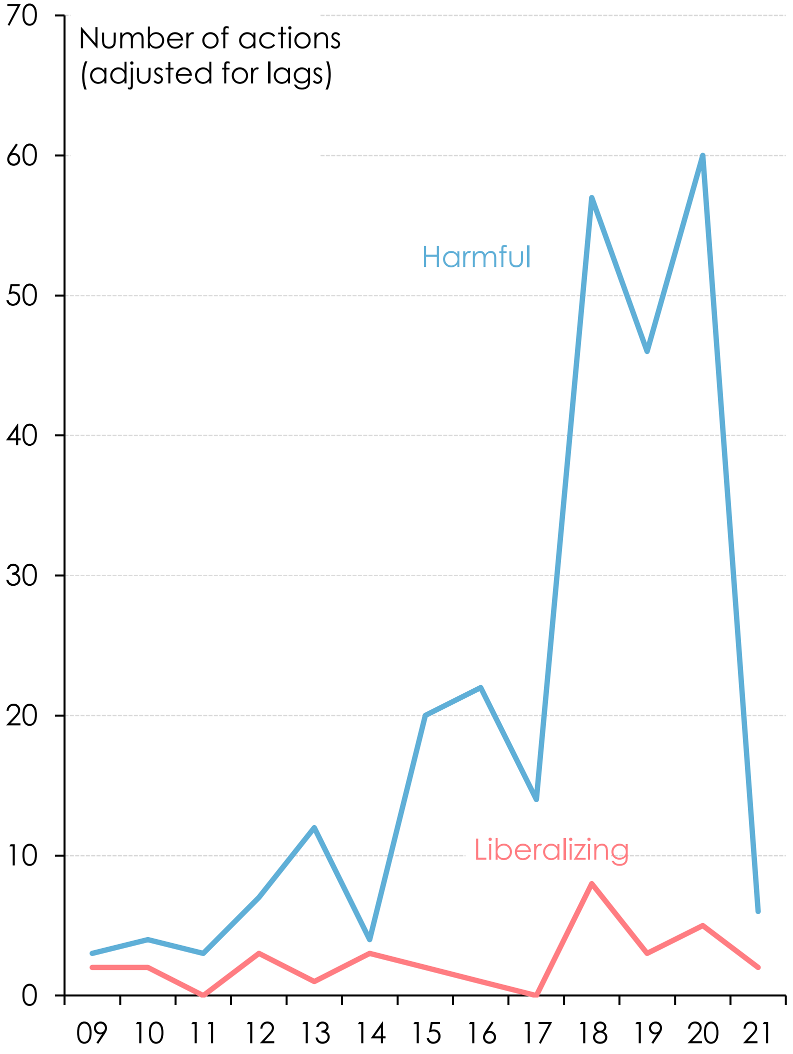
Number of anti-dumping measures imposed, 2015-19



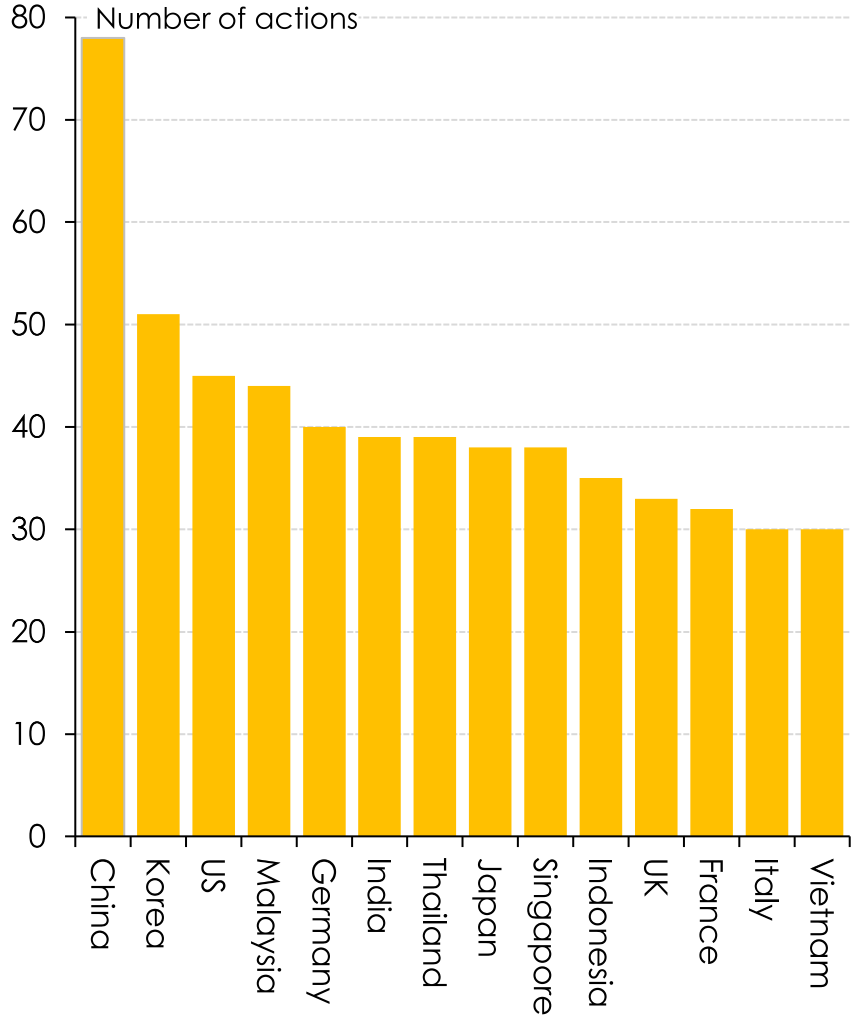
Number of harmful trade policy interventions, 2009-2021



Australian trade policy measures since 2009



Countries adversely affected by 'harmful' Australian trade actions

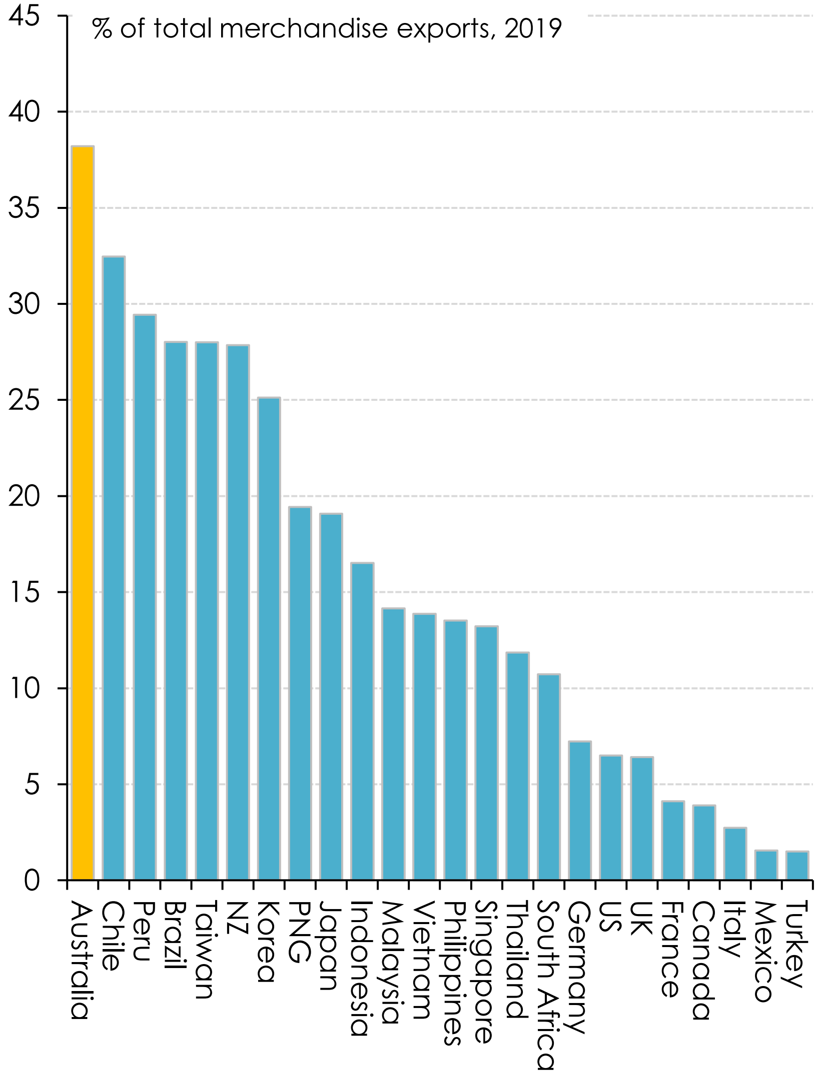


Sources: World Trade Organization; Centre for Economic Policy Research, *Global Trade Alert* (data up to 12th February). Return to "What's New".

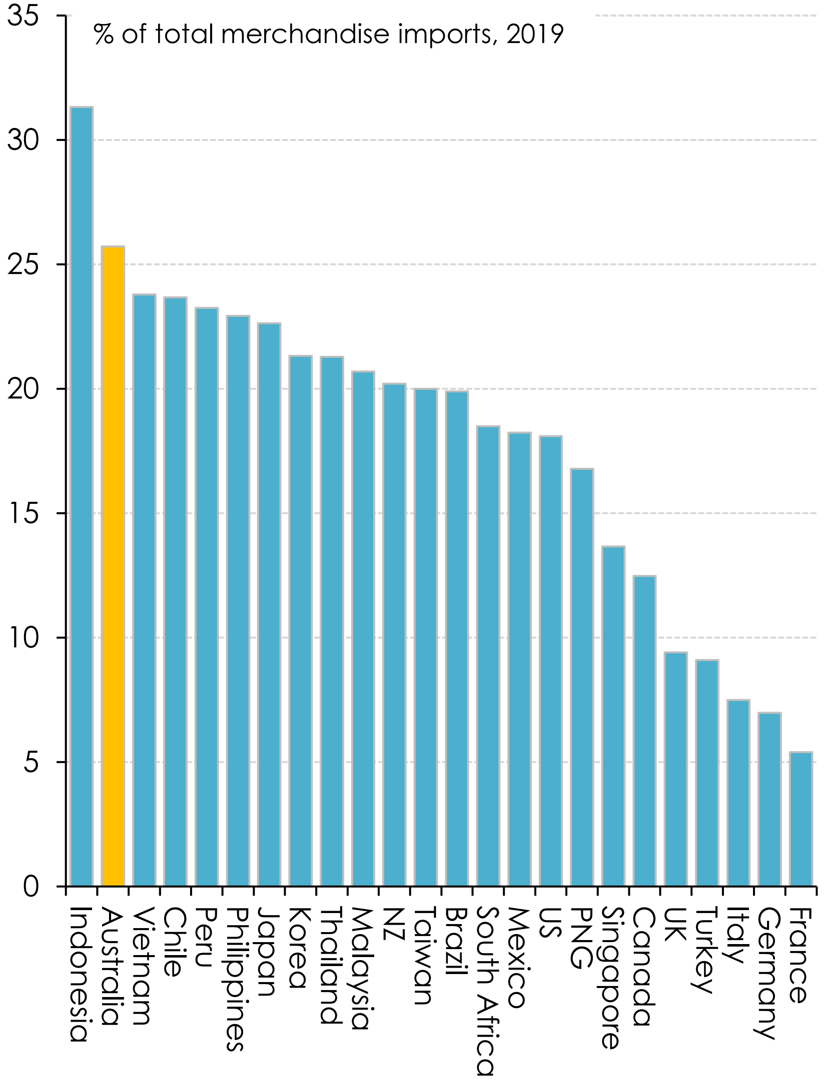
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

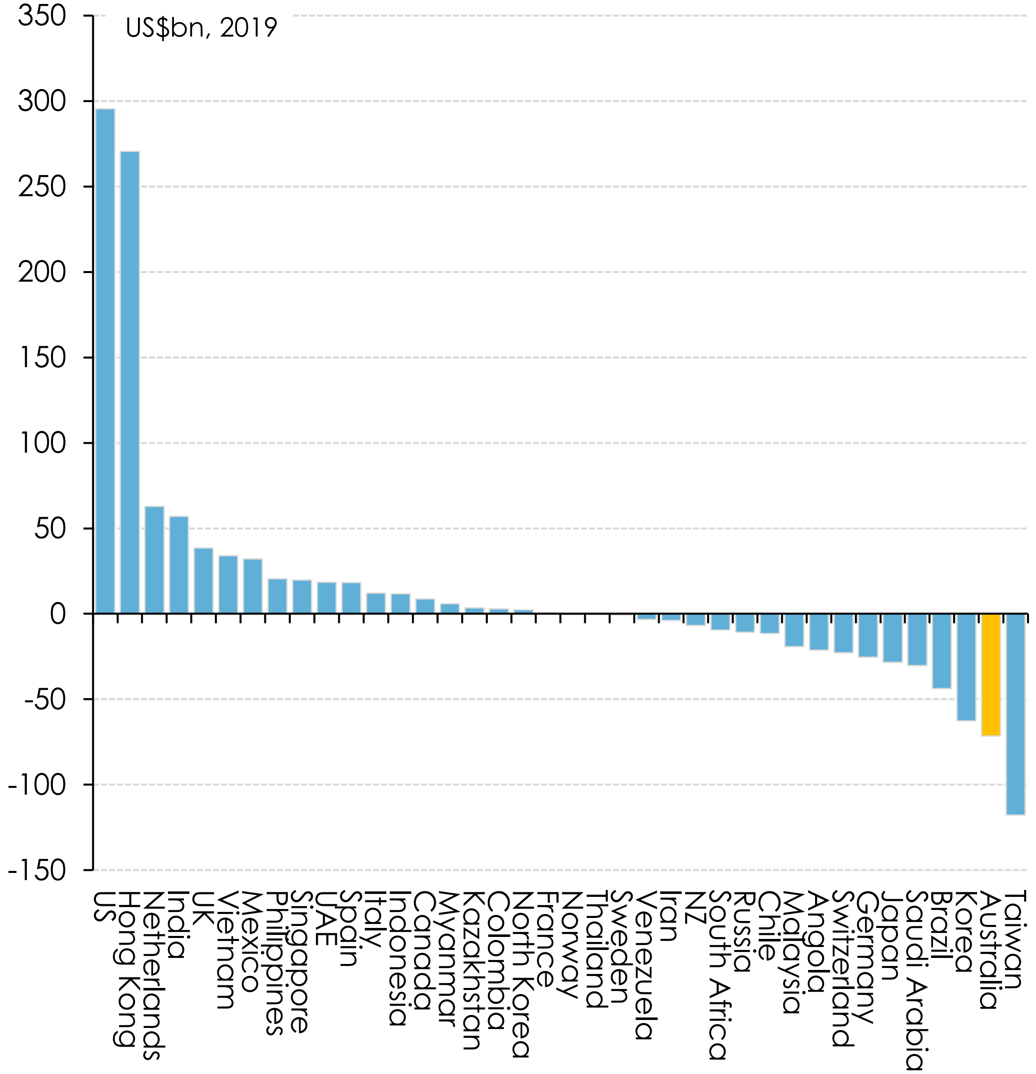
Merchandise exports to China as a pc of total



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".

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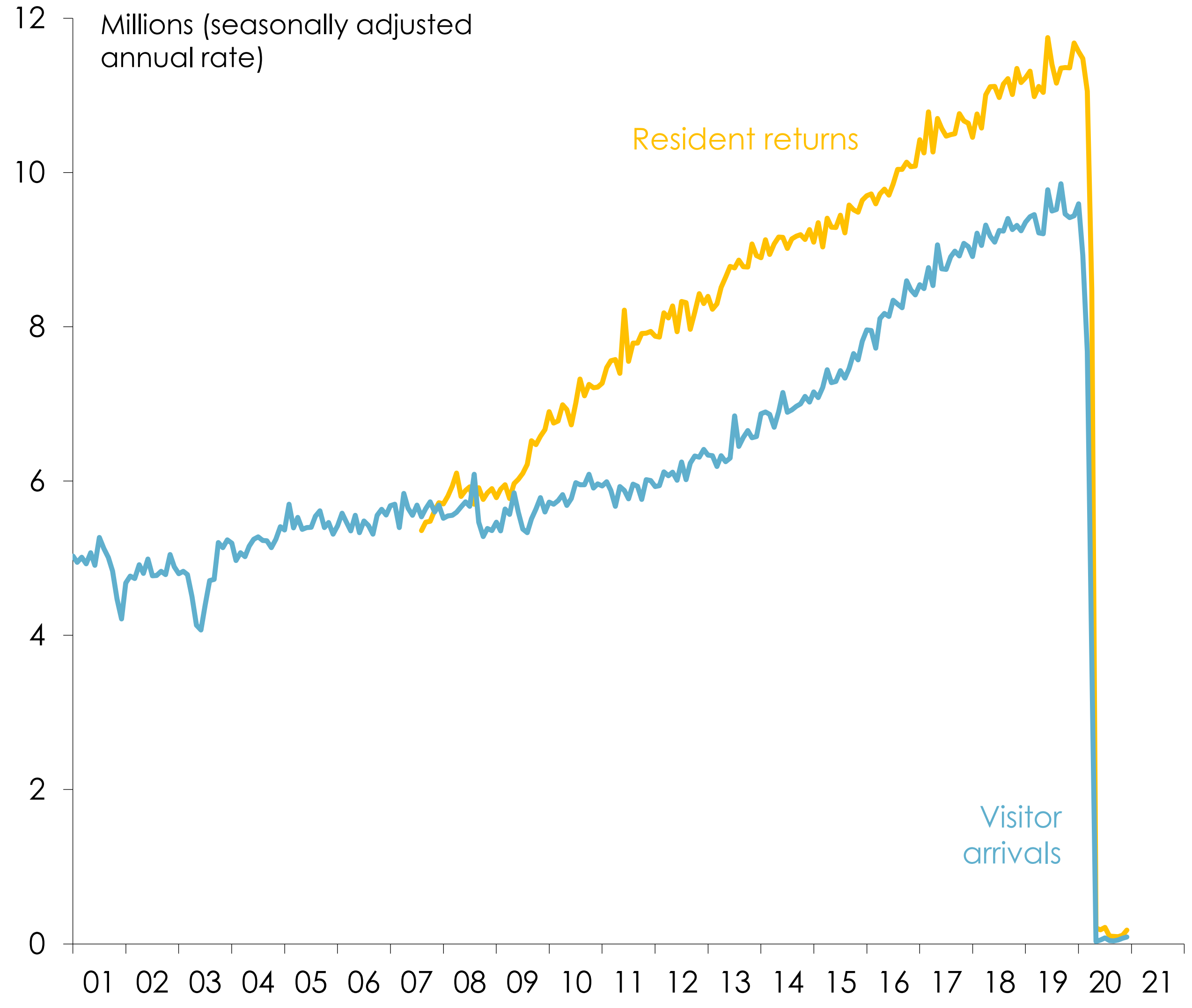
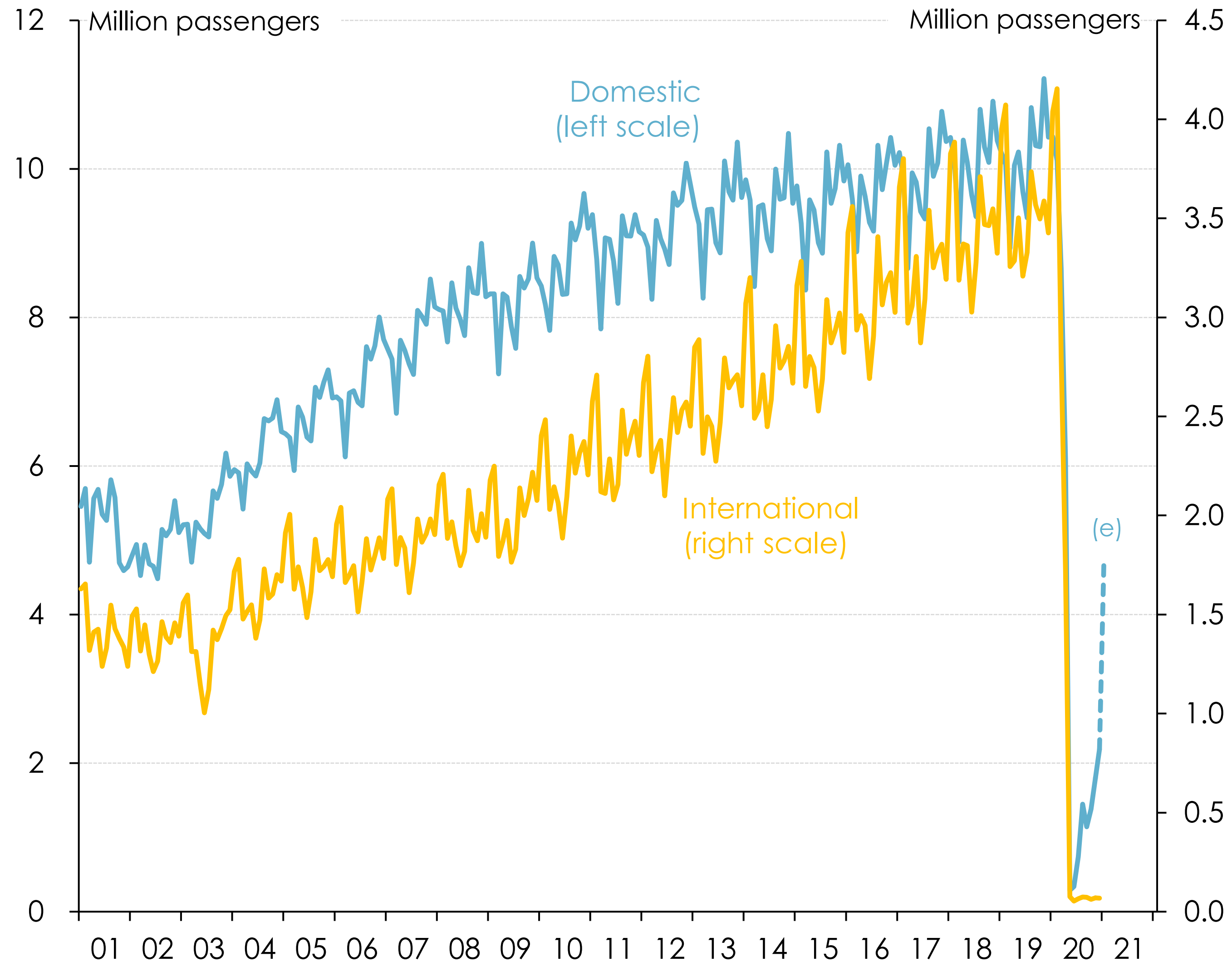
Domestic aviation traffic has picked up since September (and especially since November), but international movements remain close to zero

Short-term visitor arrivals and resident returns



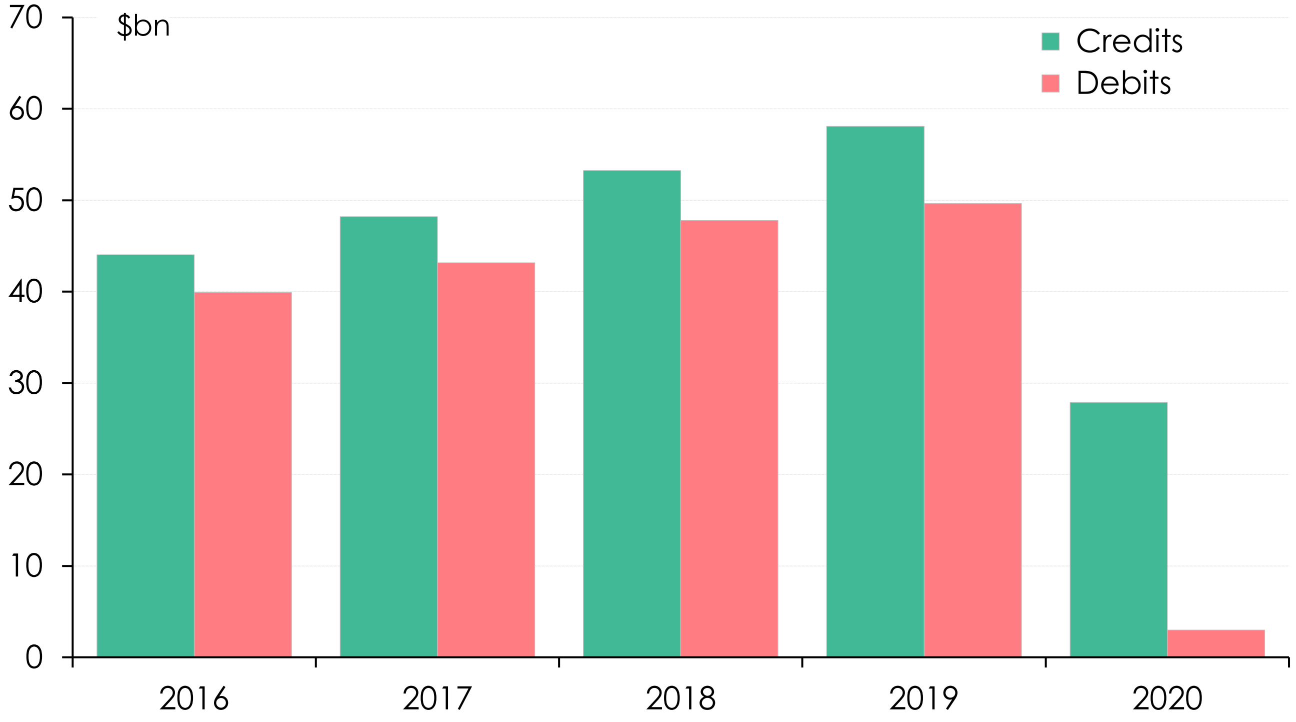
Airport passenger movements



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 November; December 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".

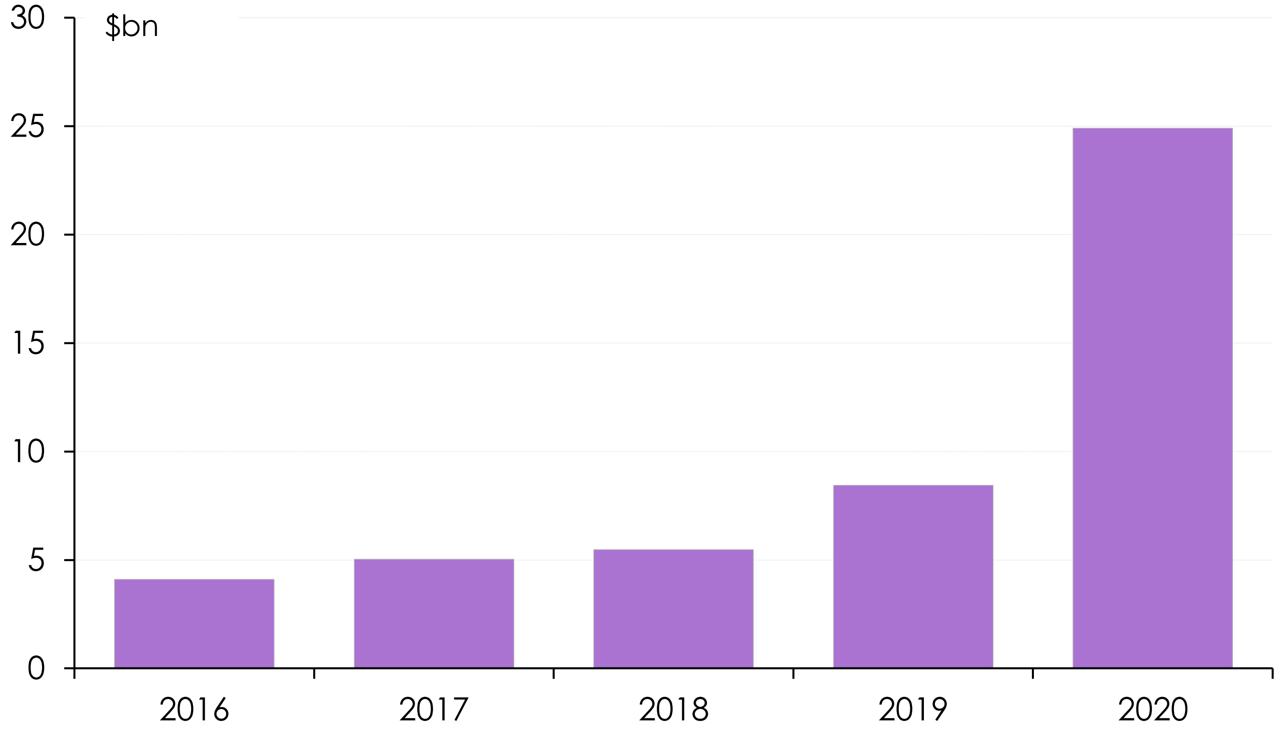
Travel restrictions have been disastrous for the tourism sector, but they may have been worth 1¼% of GDP to the broader economy

Travel credits and debits, March-December 2016 through 2020



- Between March and December of the four years 2016 through 2019, Australians spent an average of $45bn on overseas travel – money which they weren't able to spend in that way between March and December 2020, but which they appear to have spent in other ways (electronics, household goods, clothes, cars etc.)

Net travel transactions, March-December 2016 through 2020

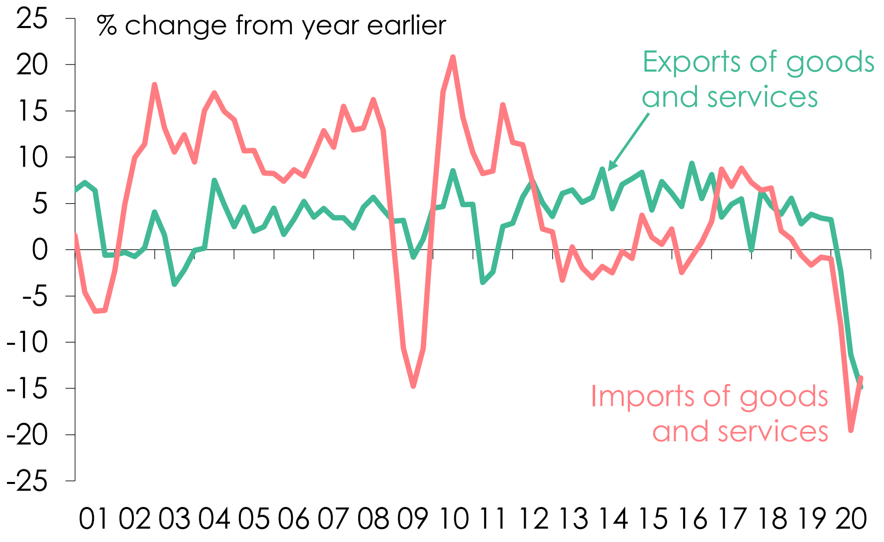


- Despite restrictions, foreigners still spent $28bn in Australia between March and December 2020 (down 45% from the 2016-19 average) implying a *net gain* to Australia during March-December of $19bn by comparison with the 2016-19 average – equivalent to about 1¼% of GDP

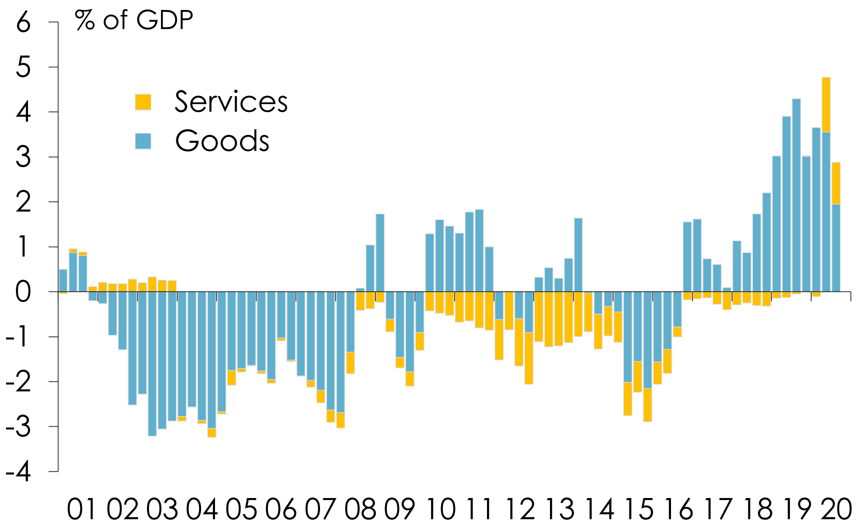
Source: ABS, International Trade in Goods and Services, Australia.

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

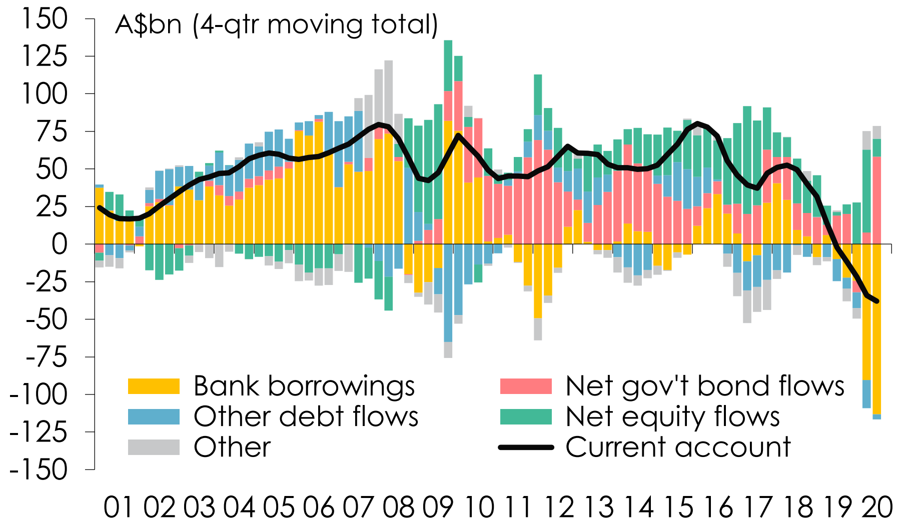
Export and import volumes



Goods & services trade balances

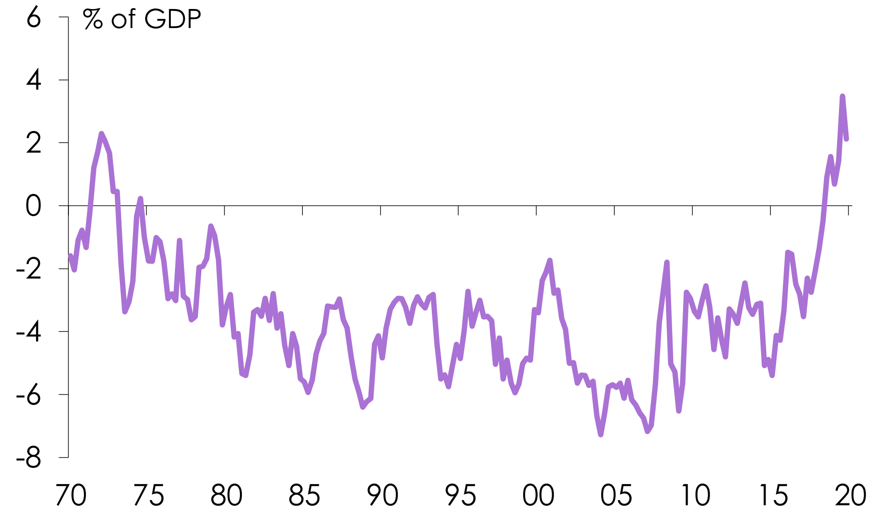


Capital flows

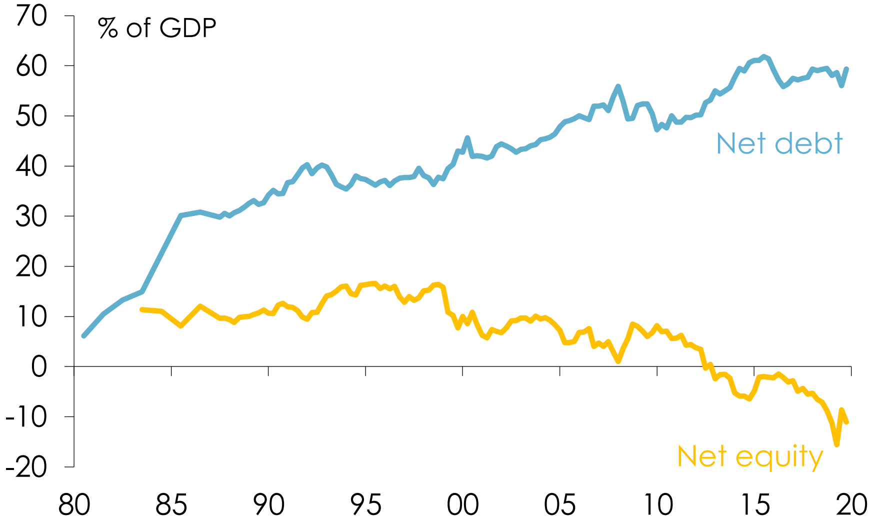


Export and import prices

Current account balance



Net international investment position



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

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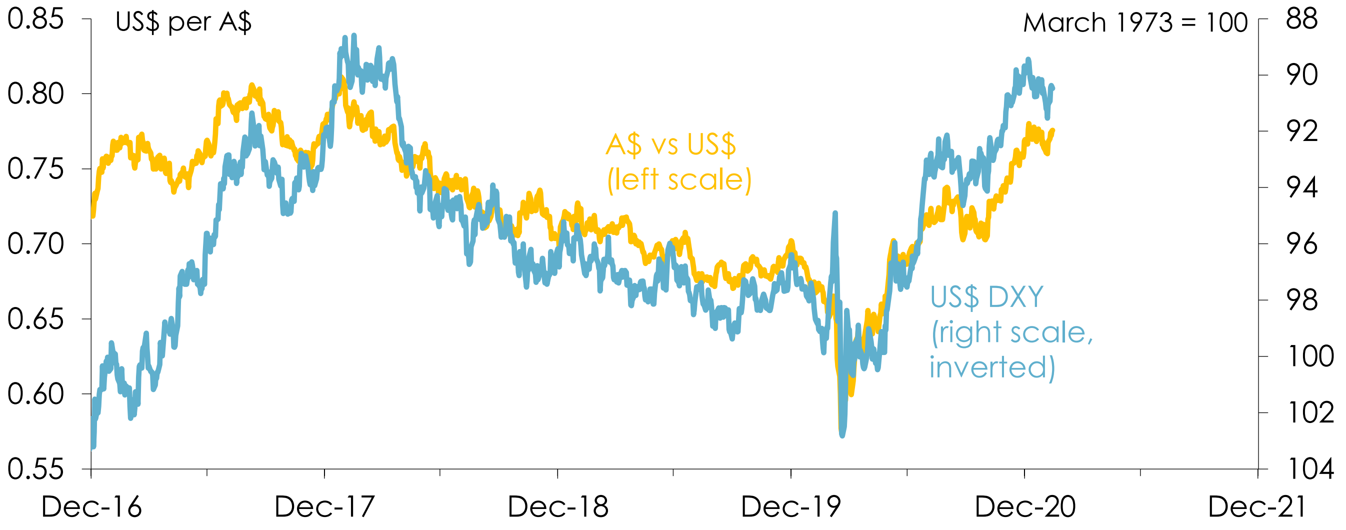
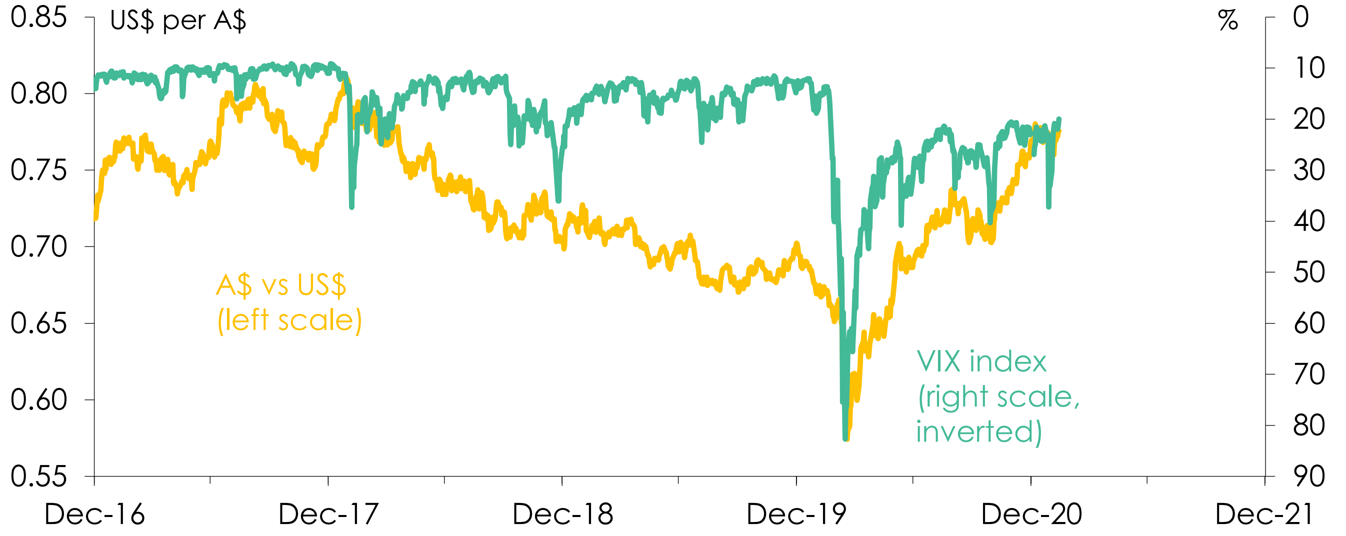
The A$ rose 1% against a softer US$ this week, aided by a modest rebound in iron ore prices and the on-going 'risk on' mood in global markets

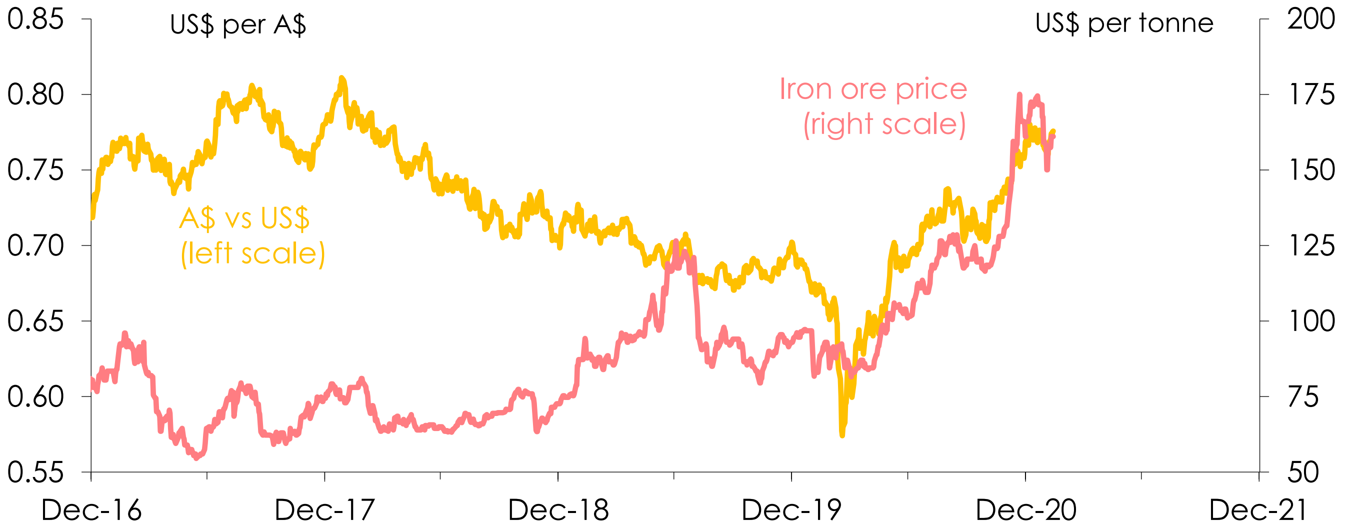
A$-US$ and US$ trade-weighted index



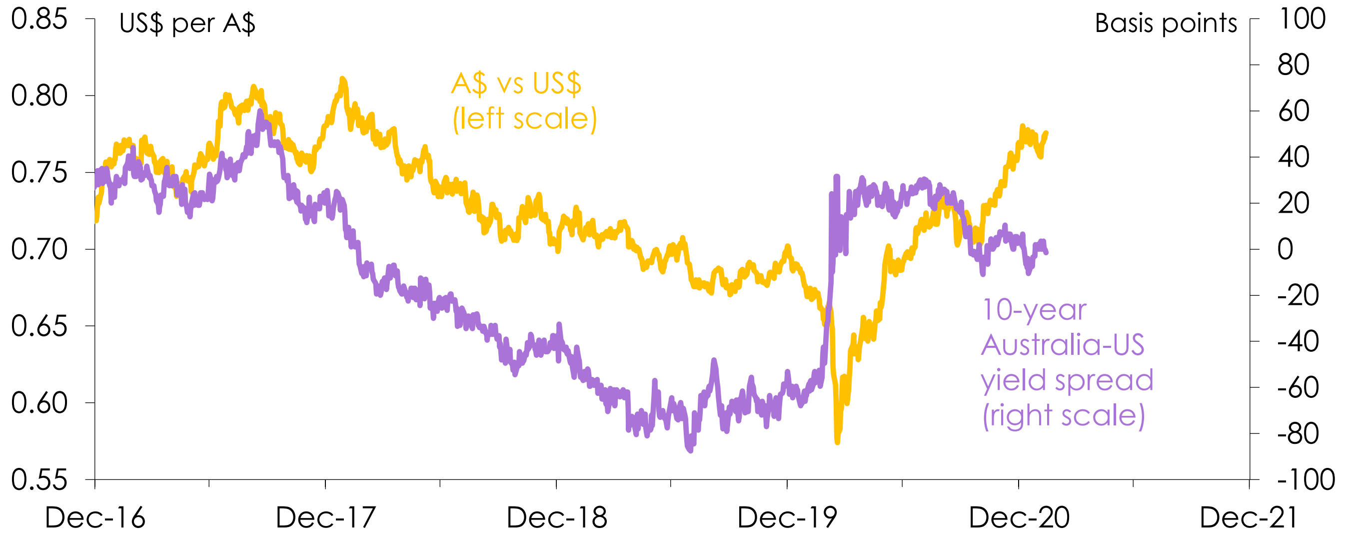
A$-US$ and US equity market volatility



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 102. *Source:* Refinitiv Datastream. Data up to 12th February. Return to "What's New".

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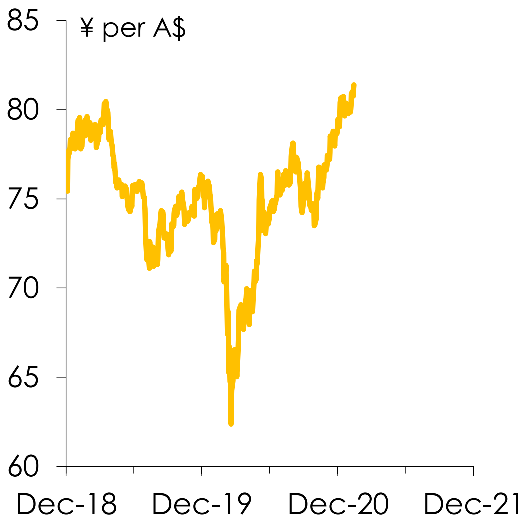
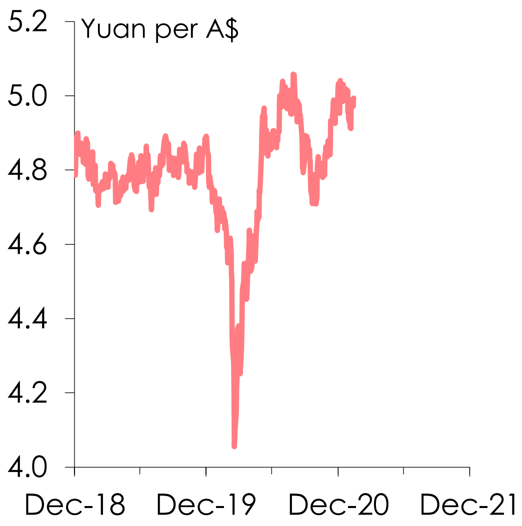
The A$ rose more modestly (0.2-0.6%) against third currencies this week, with the exception of the Korean won against which it fell ½%

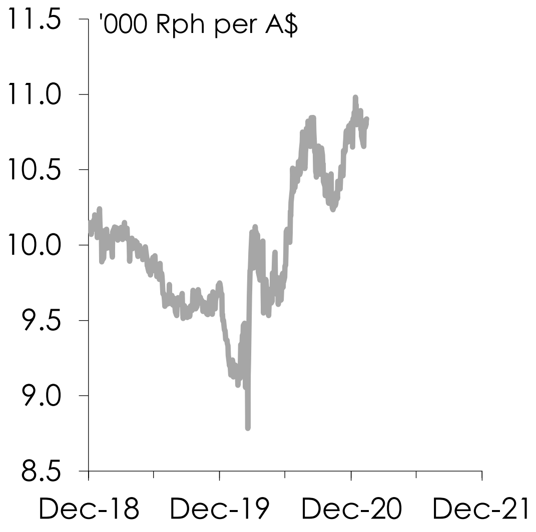
A$ vs Japanese yen



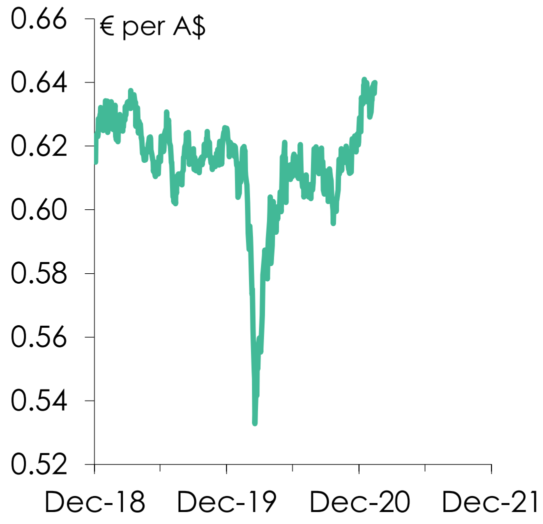
A$ vs Chinese yuan



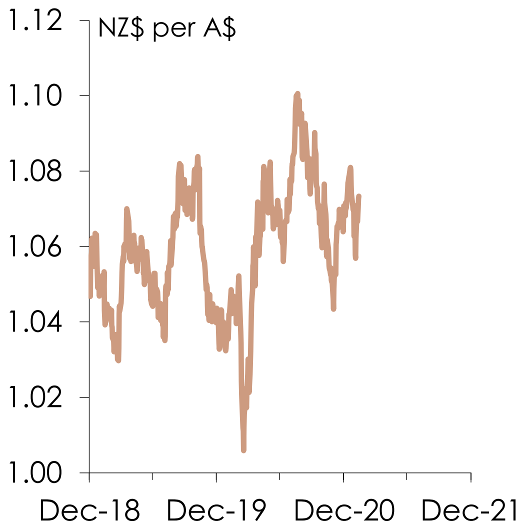
A$ vs Indo rupiah



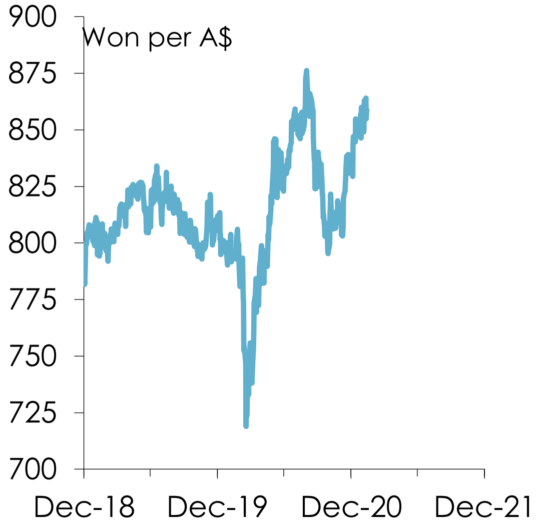
A$ vs Euro



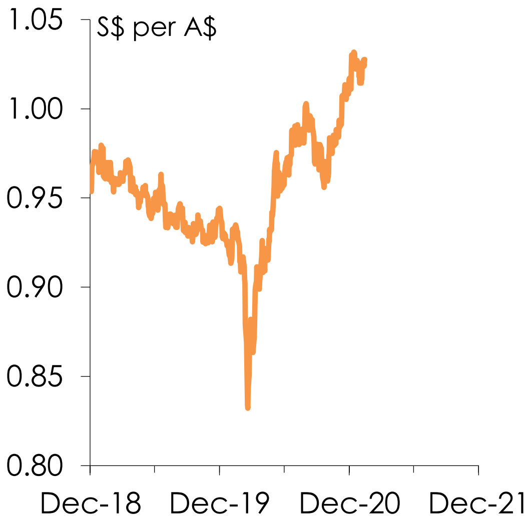
A$ vs NZ$



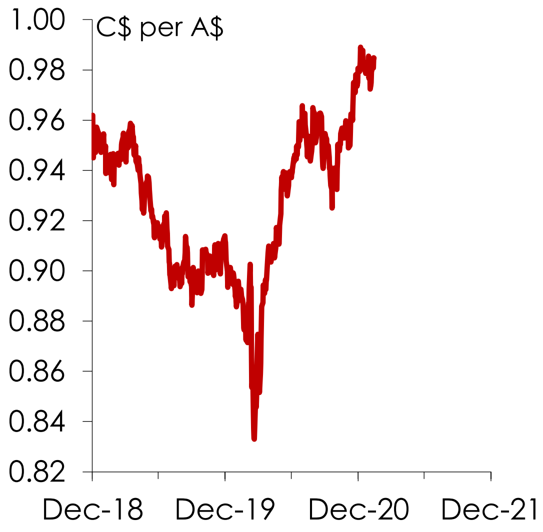
A$ vs Korean won



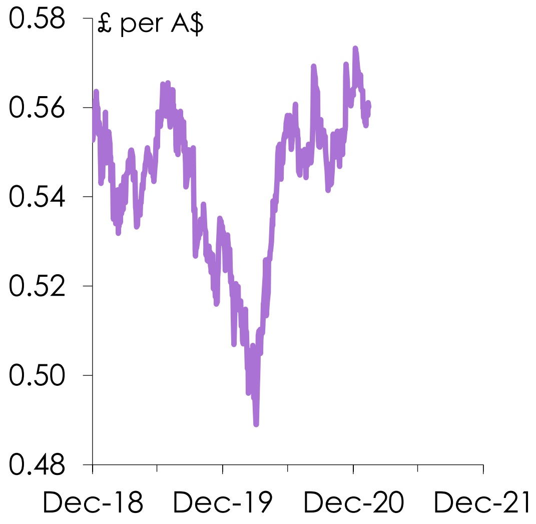
A$ vs Singapore $



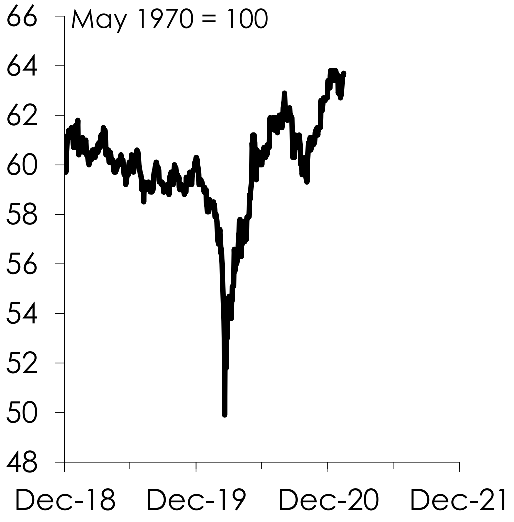
A$ vs Canadian $



A$ vs British pound



A$ TWI



Note: 'TWI' is the RBA's trade-weighted index of the A$. *Source:* Refinitiv Datastream. Data up to 12th February. Return to "What's New".'

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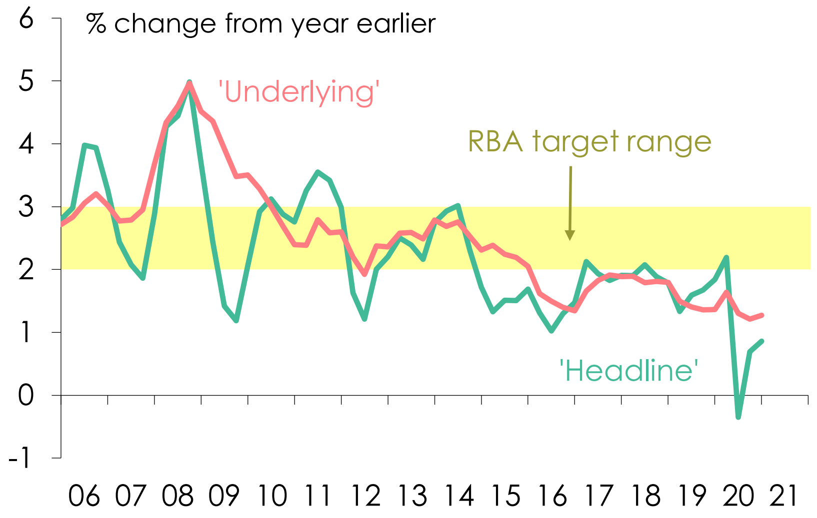
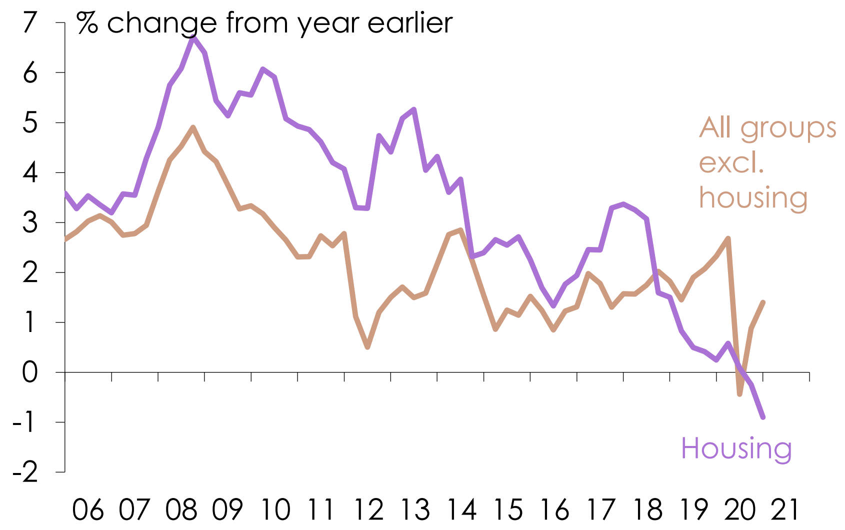
Q4 'headline' inflation was a little higher than expected but 'underlying' inflation was below the RBA's target for the 20th quarter in a row

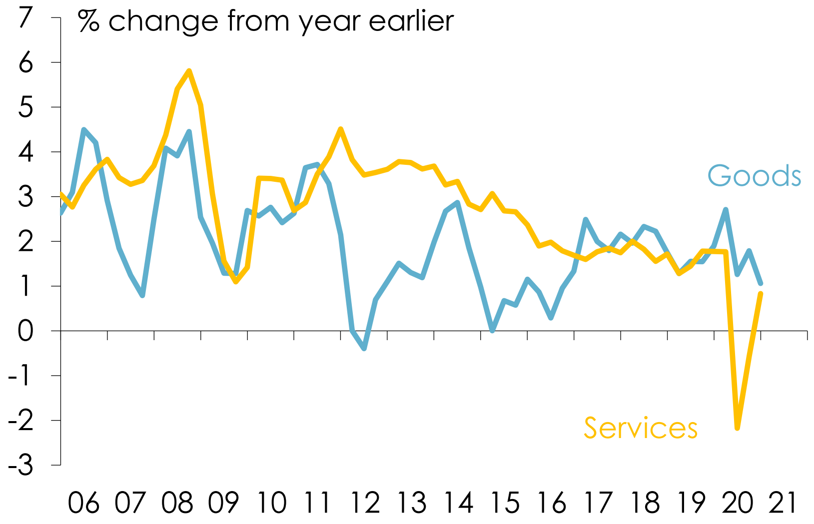
Consumer prices



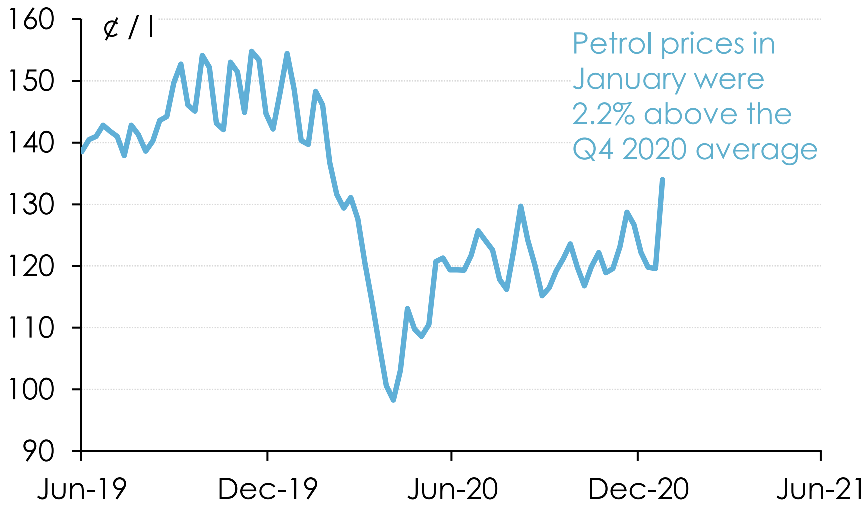
Housing costs



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".

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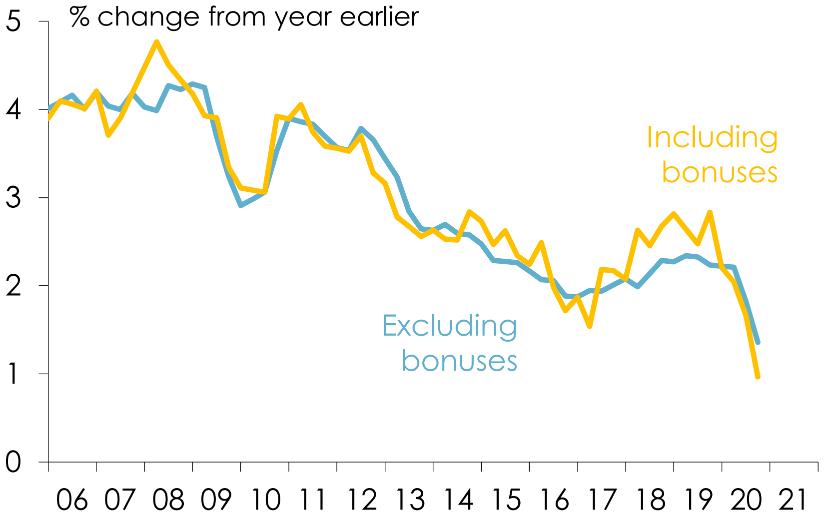
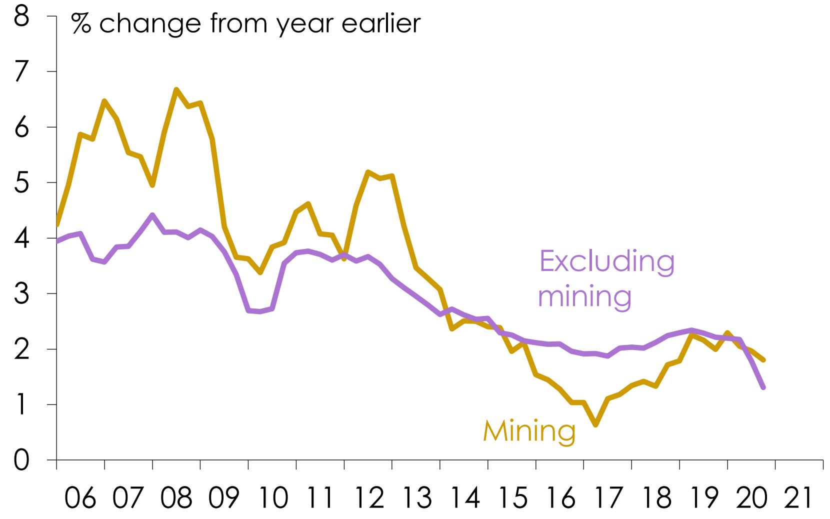
Wages rose by just 1.2% over the year to the September quarter last year (or just 0.7% including bonuses) – the lowest for at least 23 years

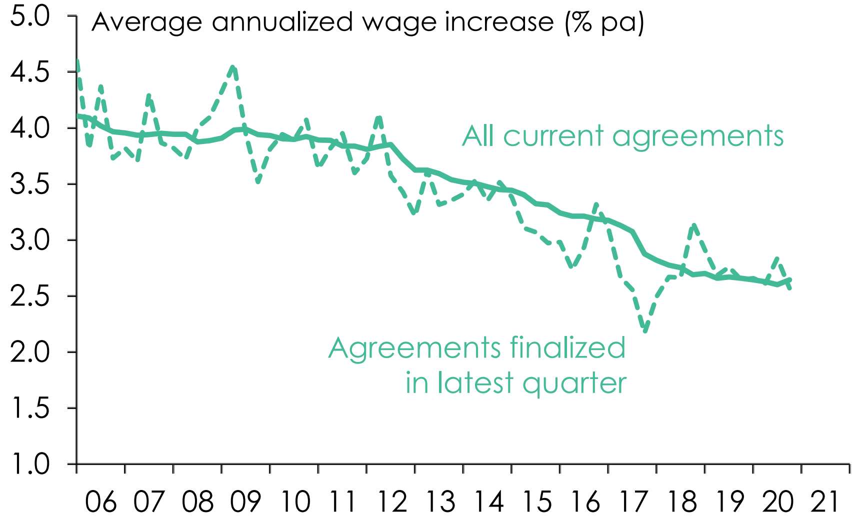
Wage price index – all sectors



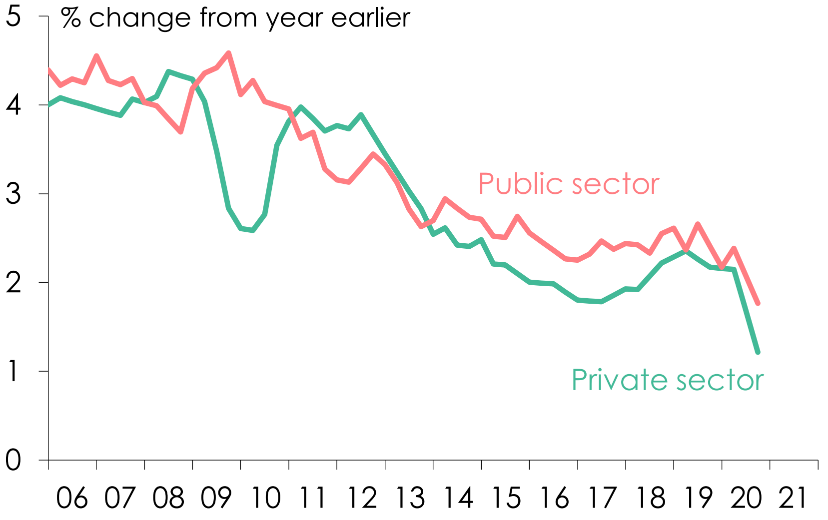
WPI by industry



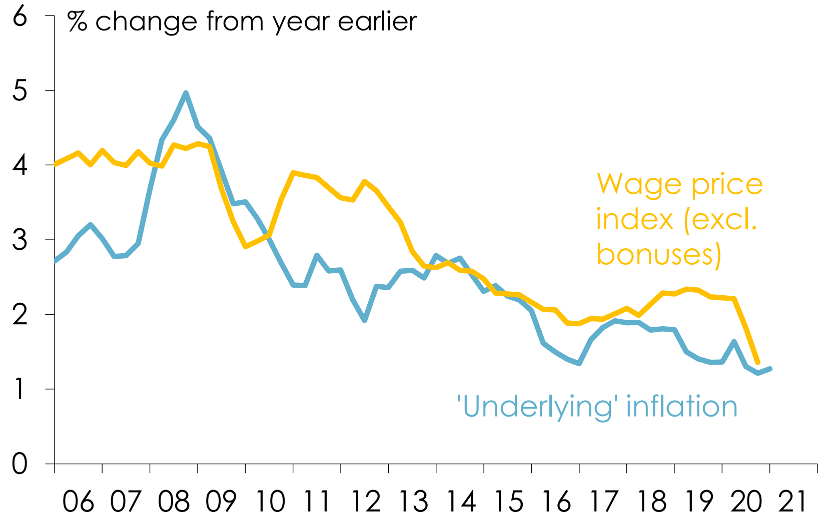
Enterprise bargaining agreements



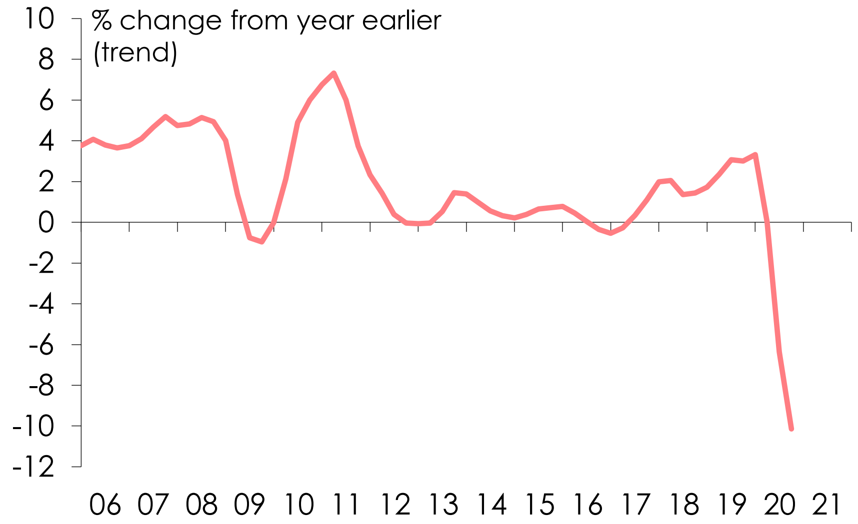
WPI – private vs public sectors



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 released on 211th February.
Return to "What's New".

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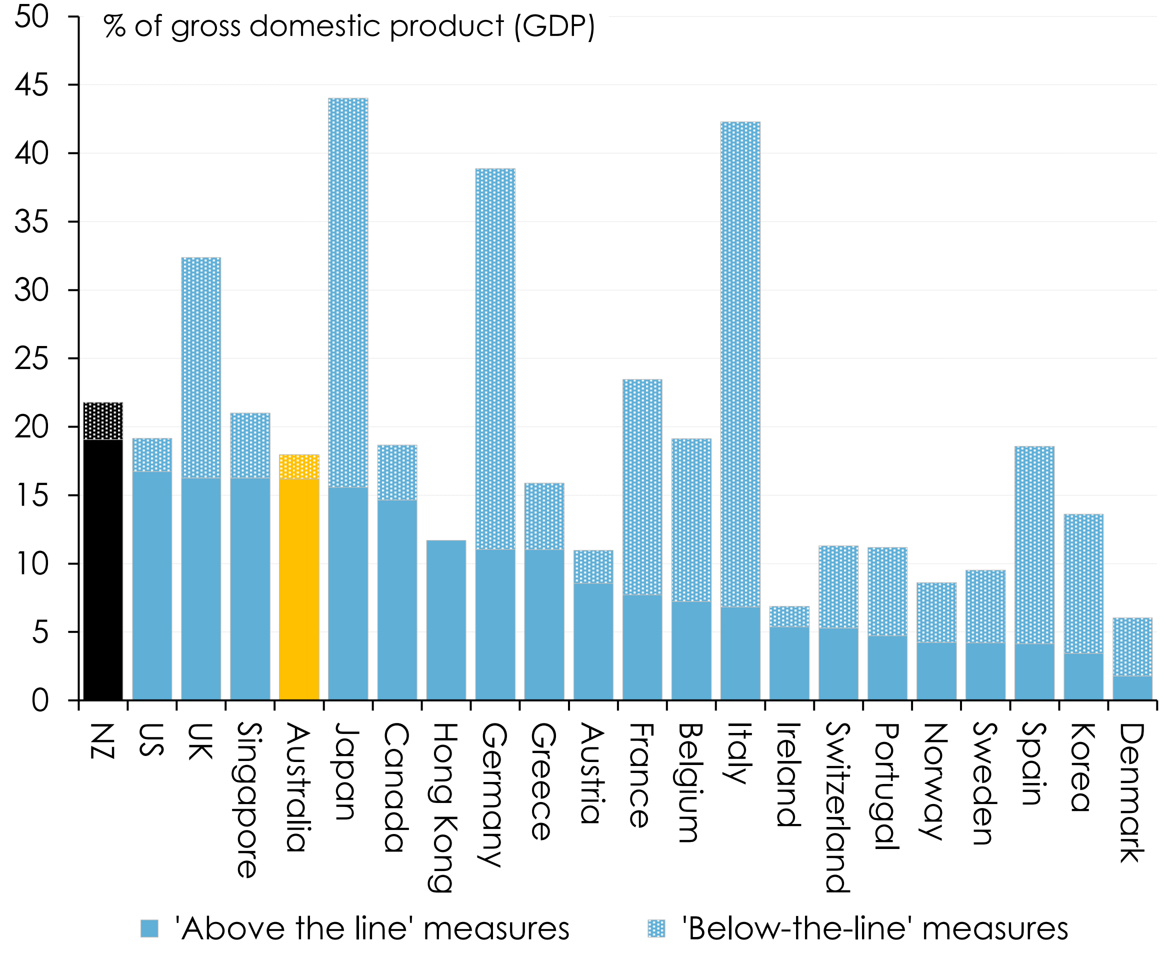
Australia’s fiscal and monetary policy settings

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

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



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 31st December 2020.

Source: IMF, *Fiscal Monitor Update*, 11th February 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**

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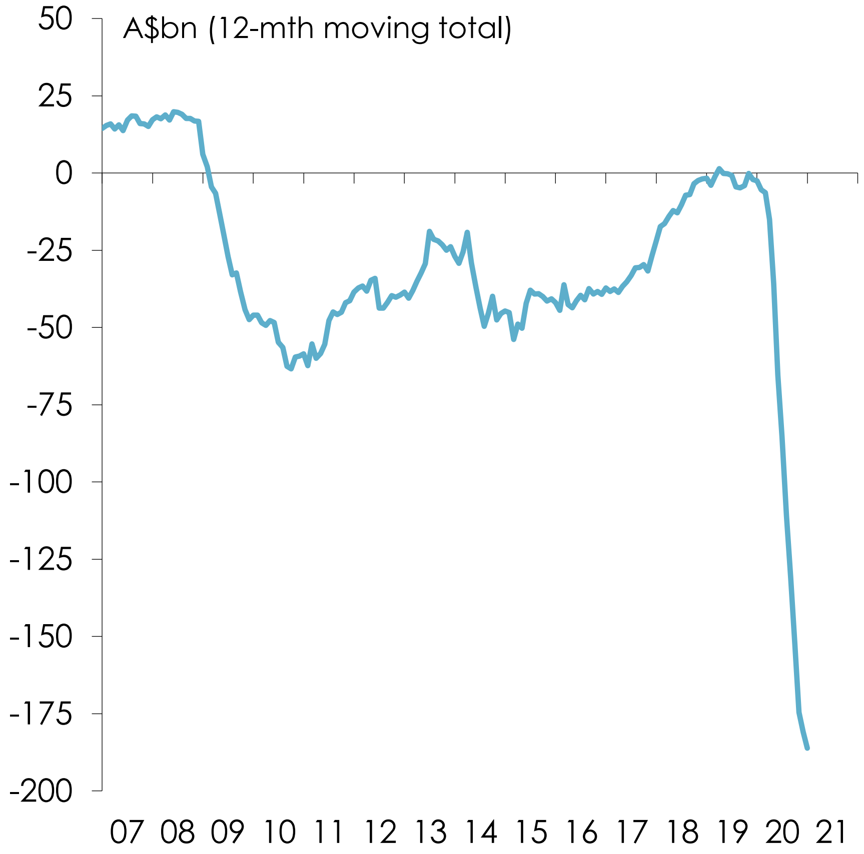
The budget deficit for the first half of the 2020-21 financial year was about \$9½bn (7½%) lower than the Mid-Year Outlook 'profile' projection

Australian Government revenue and expenses

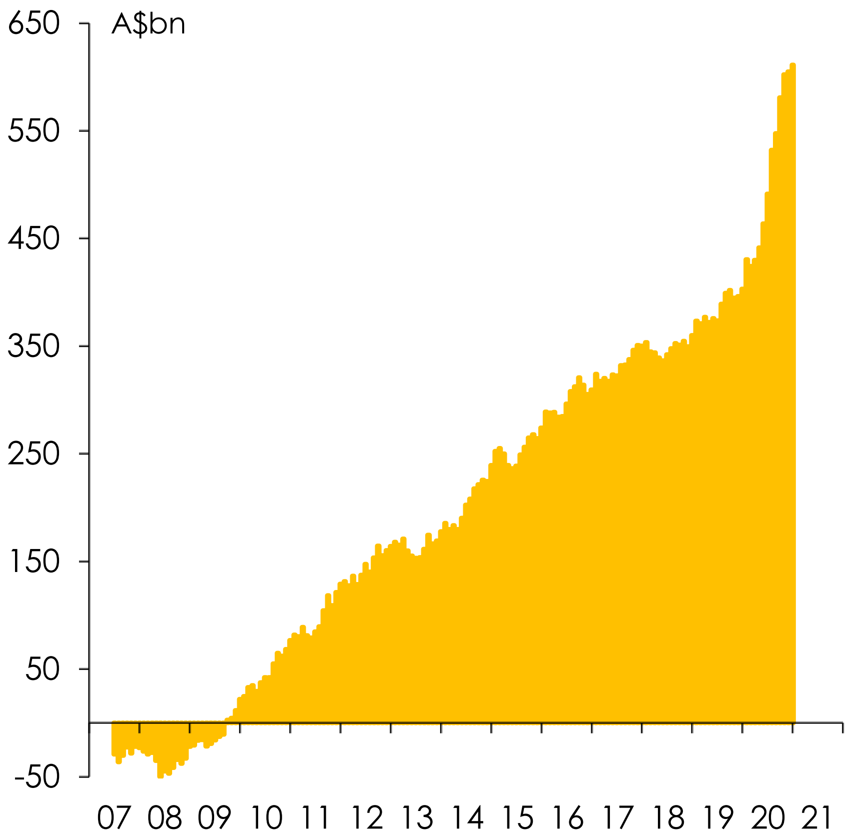
- Growth in expenses is levelling out, while revenue is beginning to turn around as the economy picks up

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".

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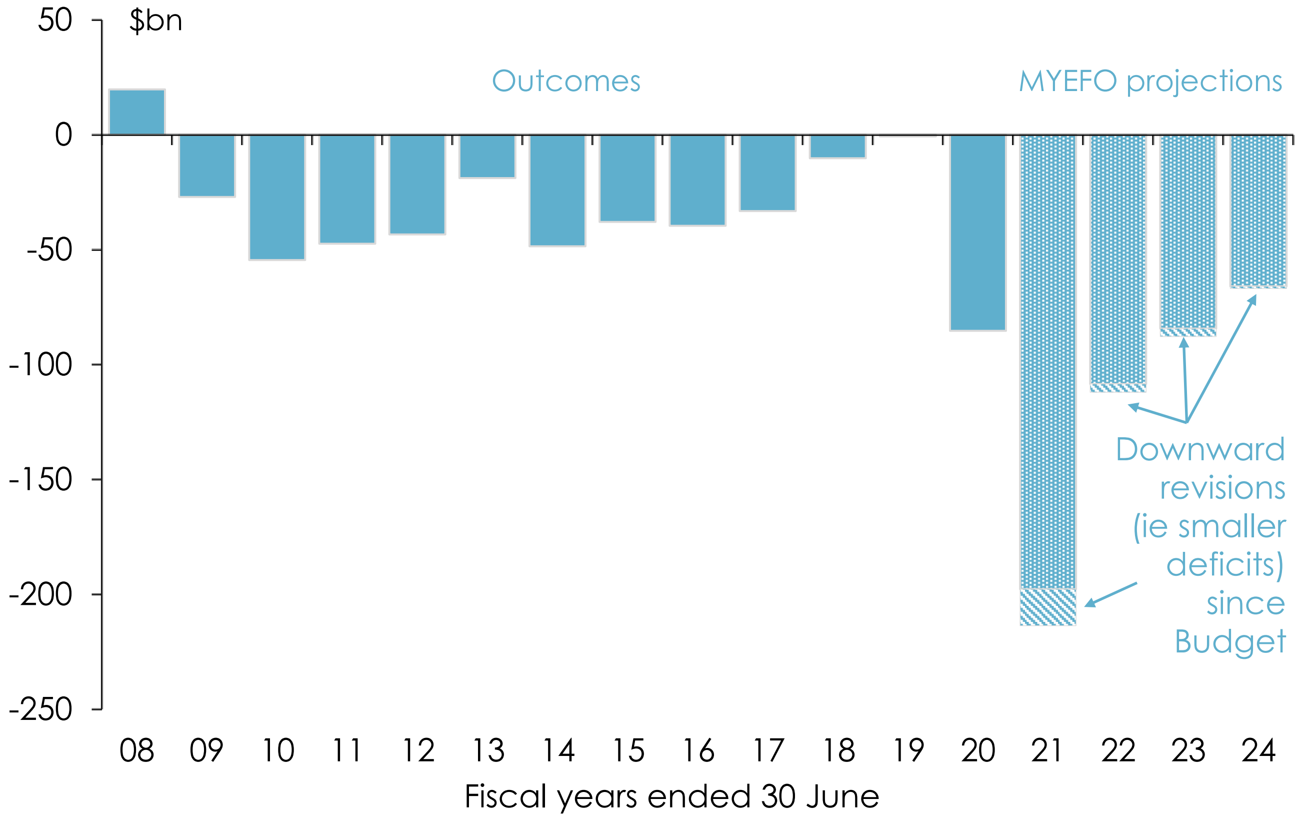
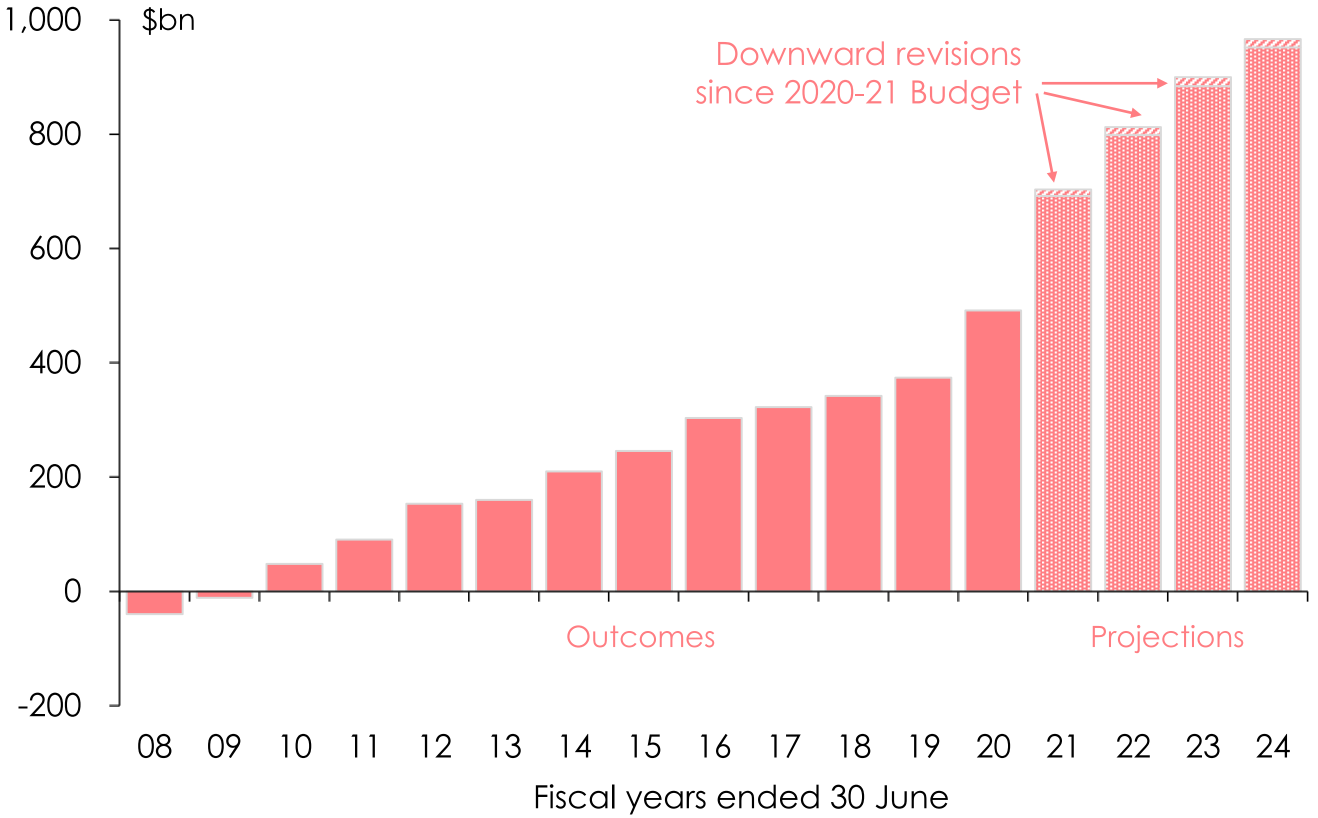
The budget deficits forecast in October's 2020-21 Budget were revised down by about 5¼%, and debt projections by 1½%, in December's MYEFO

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

'Underlying' cash balance



Net debt

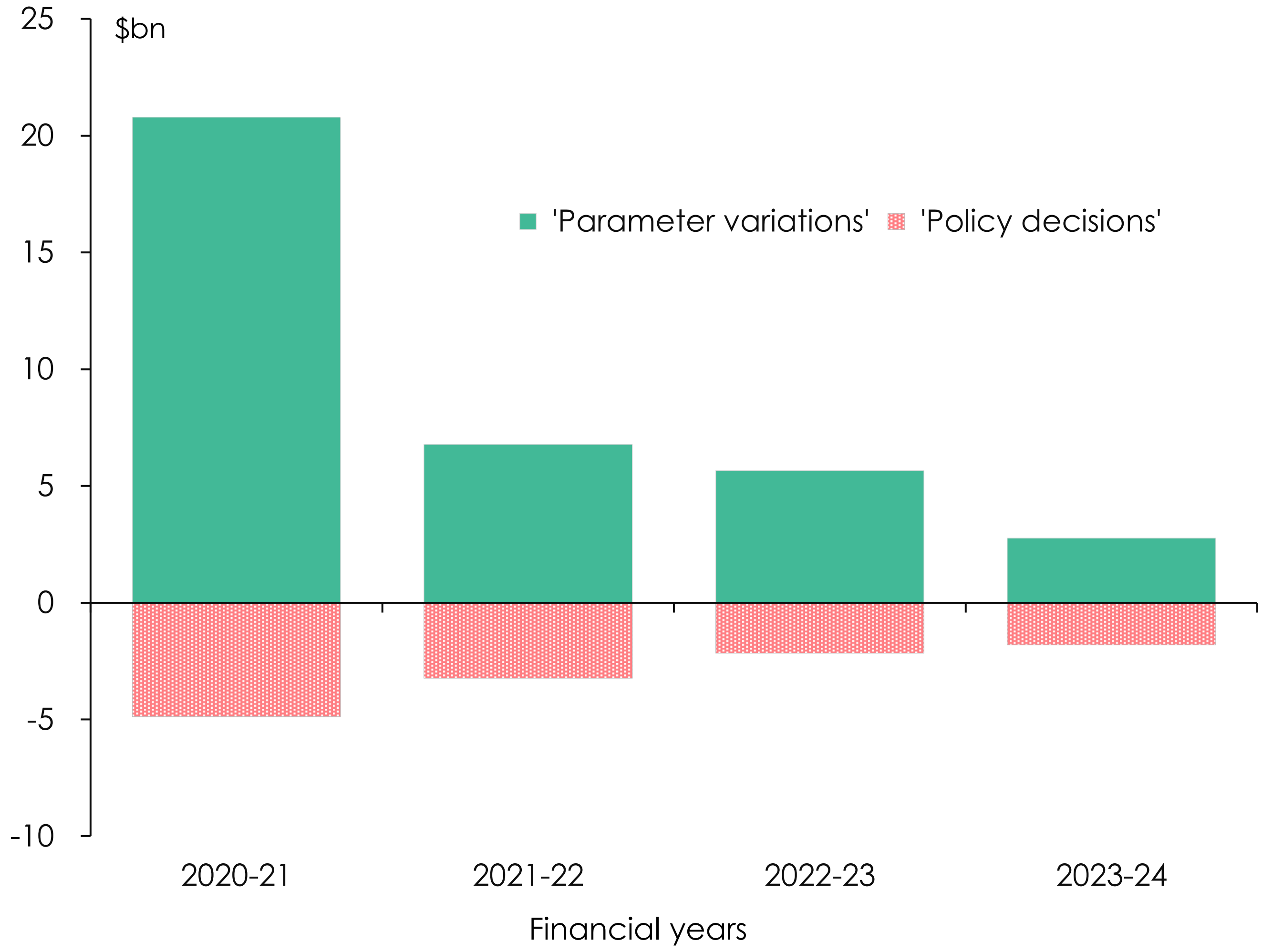


- **Forecast budget deficits over the four years to 2023-24 have been revised downwards by a total of $24bn (5¼%) since the 2020-21 Budget was presented in October**
- **Projected net debt has been revised downwards by an average of just over 1½% over each of the next four years, or by a total of $14bn by 30th June 2024**

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

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?)

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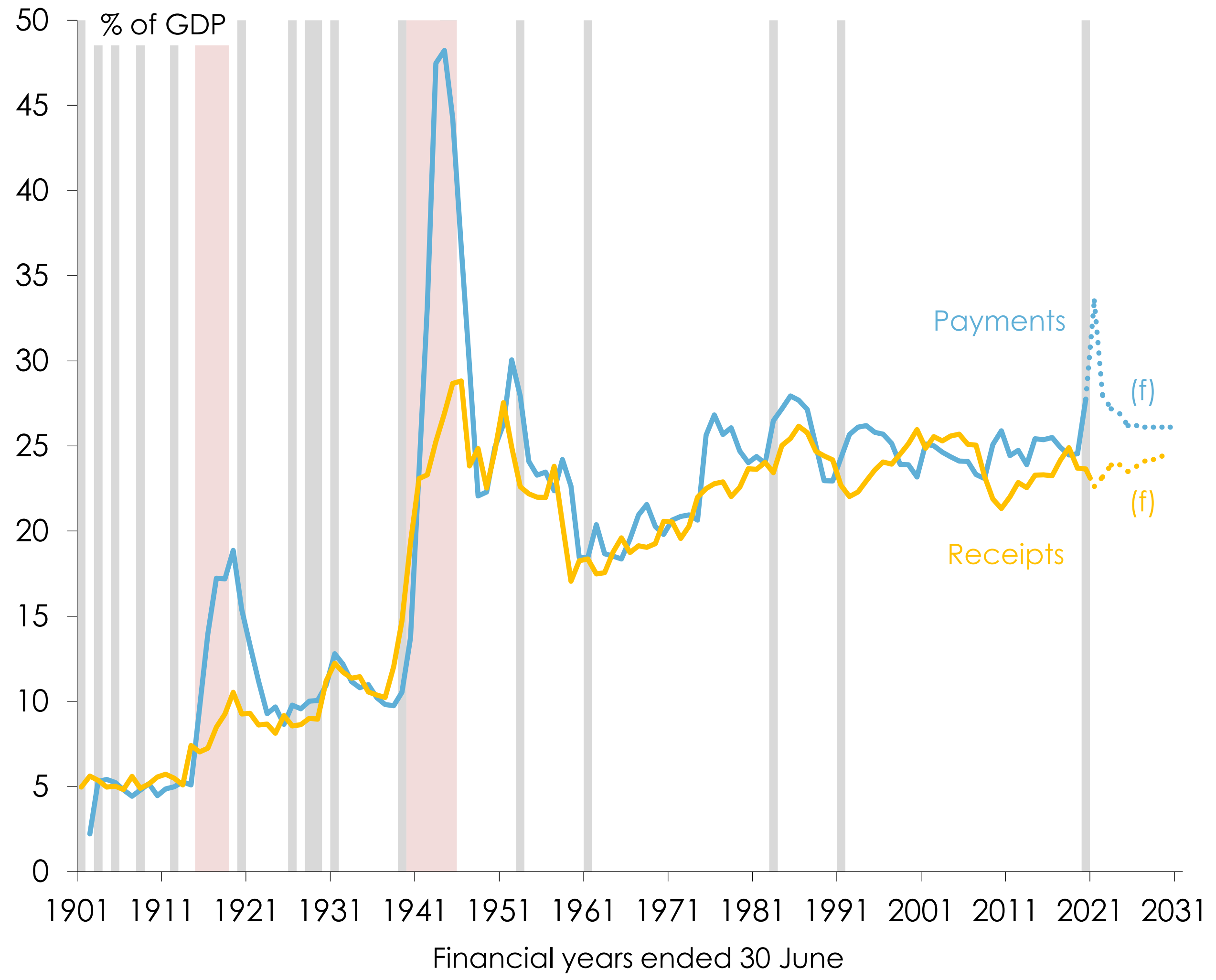
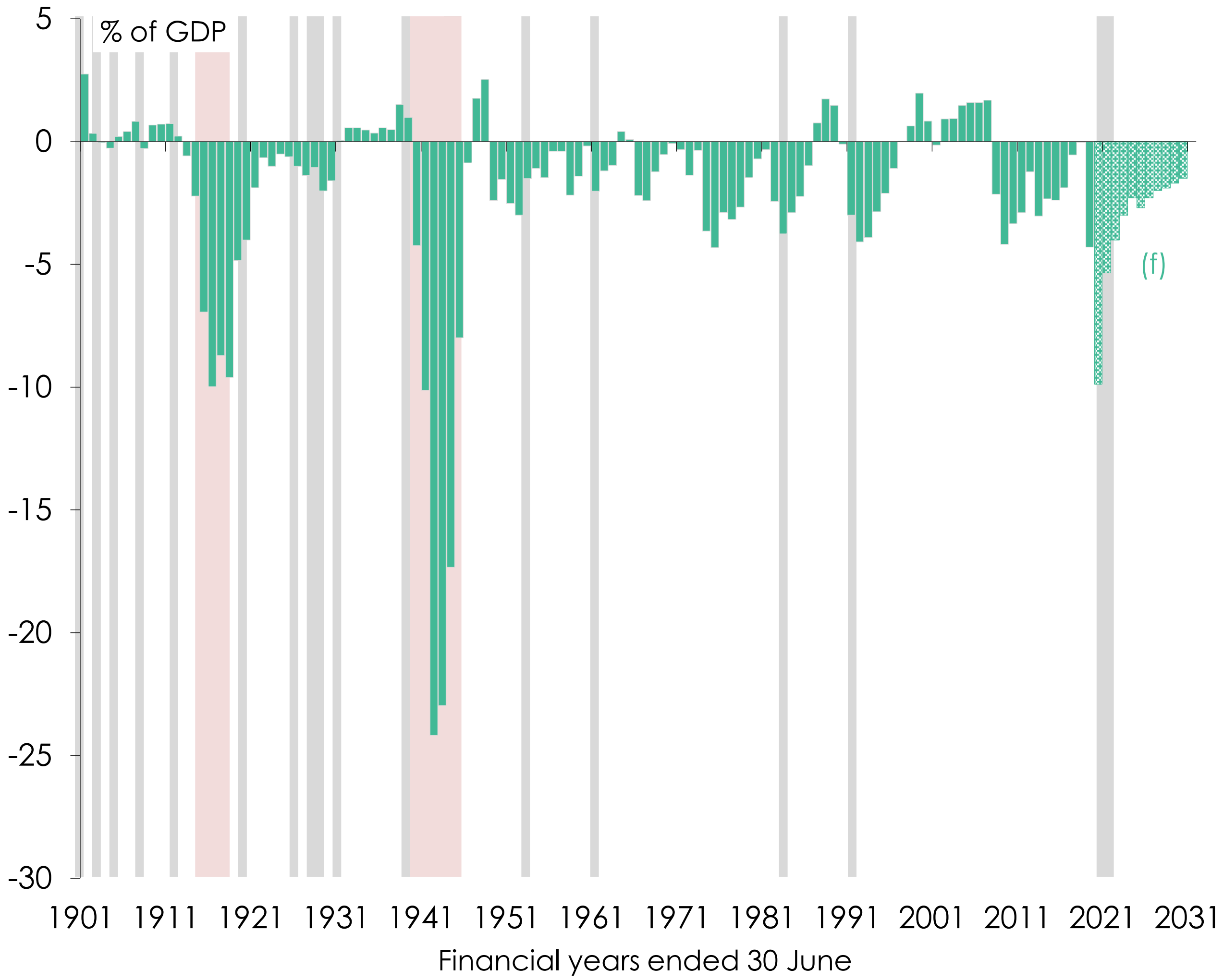
The budget deficits projected for 2020-21 (9.9% of GDP) and 2021-22 (5.4% of GDP) will still be the largest since the end of World War II

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".

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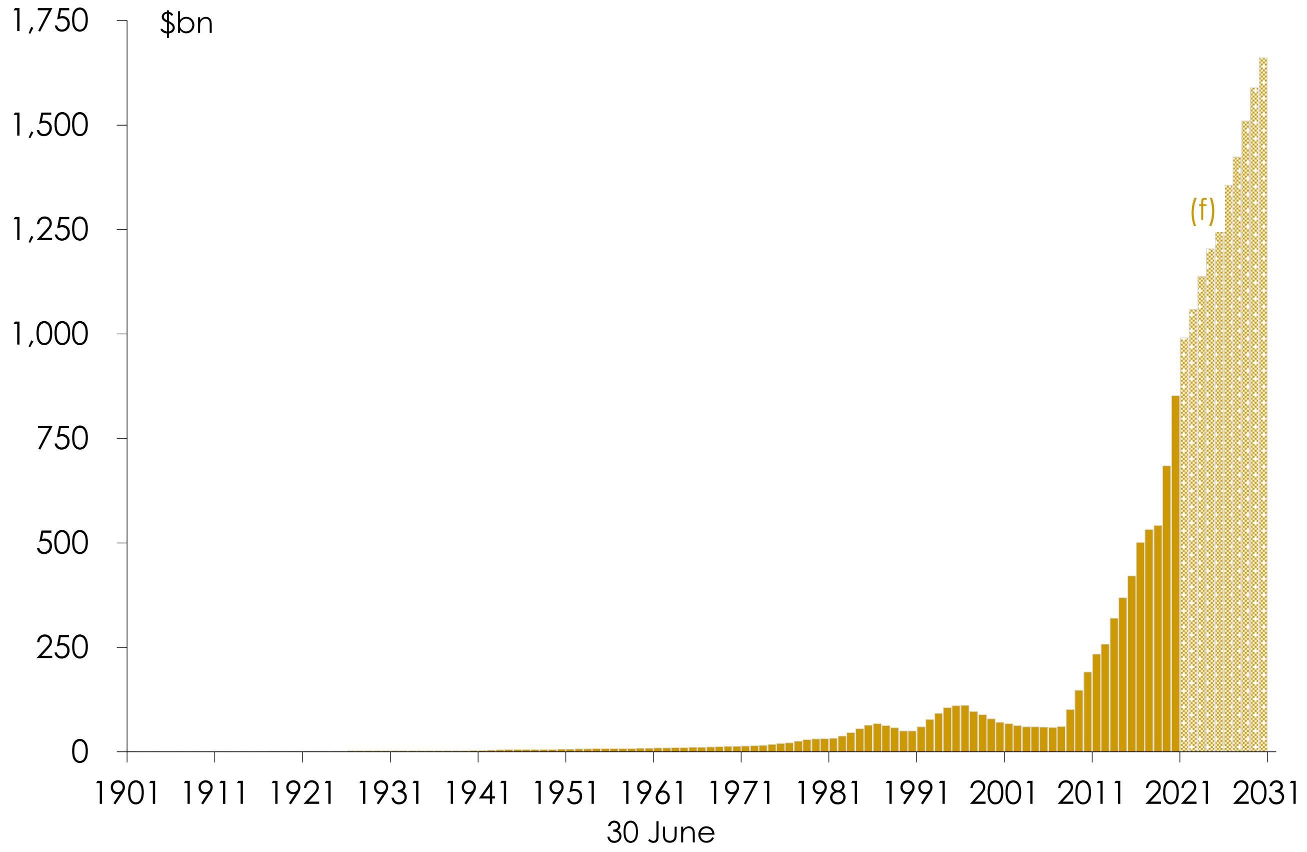
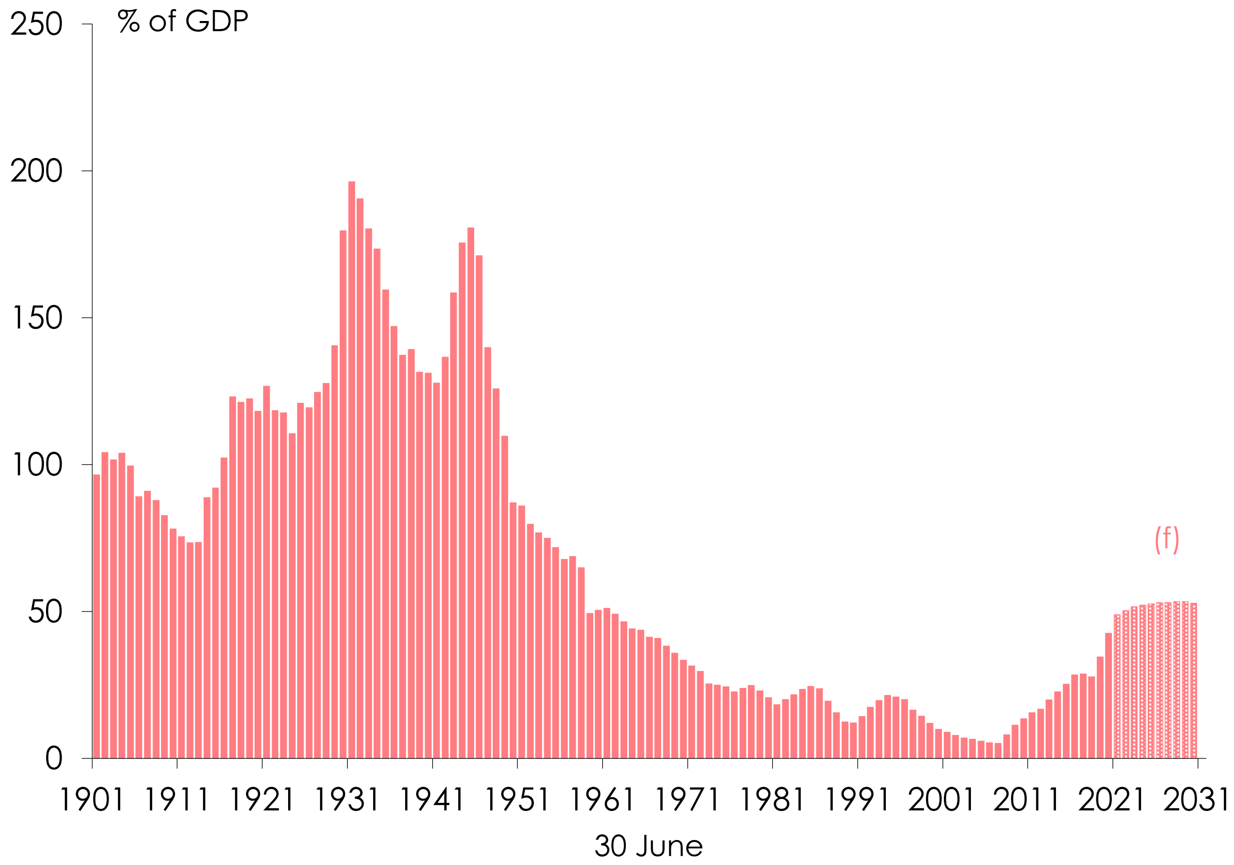
However, there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

Australian Government gross public debt in $



Australian Government gross debt as a pc of GDP



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

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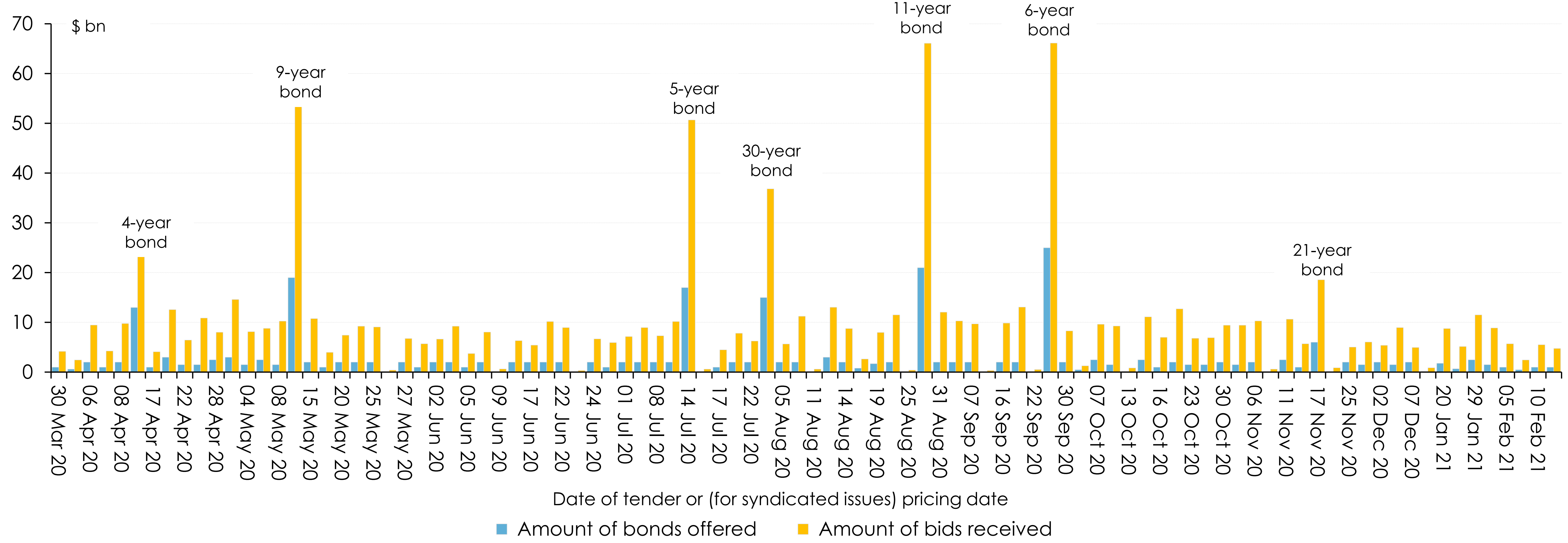
The Government has had no difficulty financing its deficit – and has cut its foreshadowed debt issuance by $1bn a week for the first half of 2021

Australian government bond issuance since March 2020



- **Since 30th March 2020, the Australian Office of Financial Management has issued $251.7bn of Treasury bonds – based on the volume of bids received it could have borrowed $932bn 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 $164.8bn (72%) 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".

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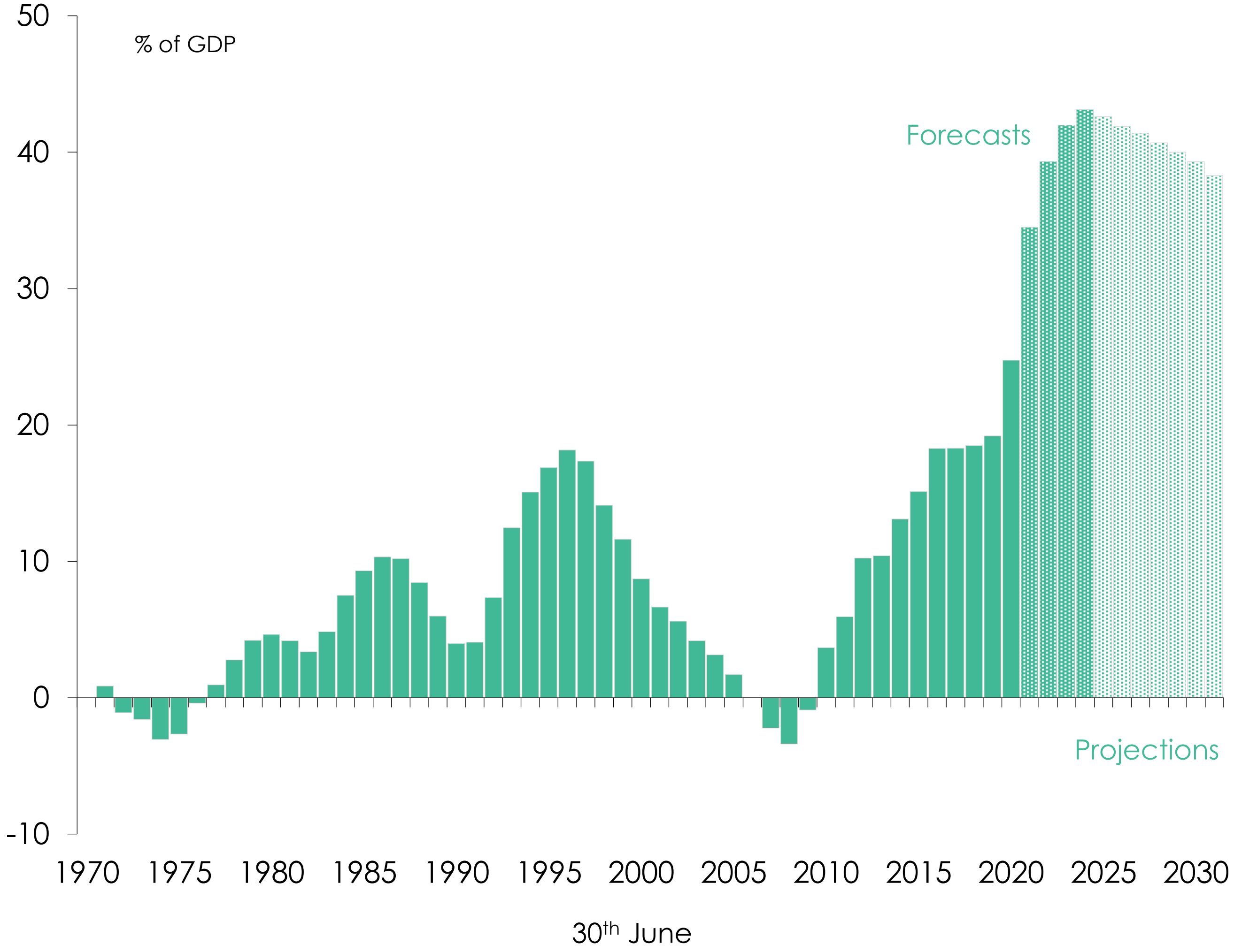
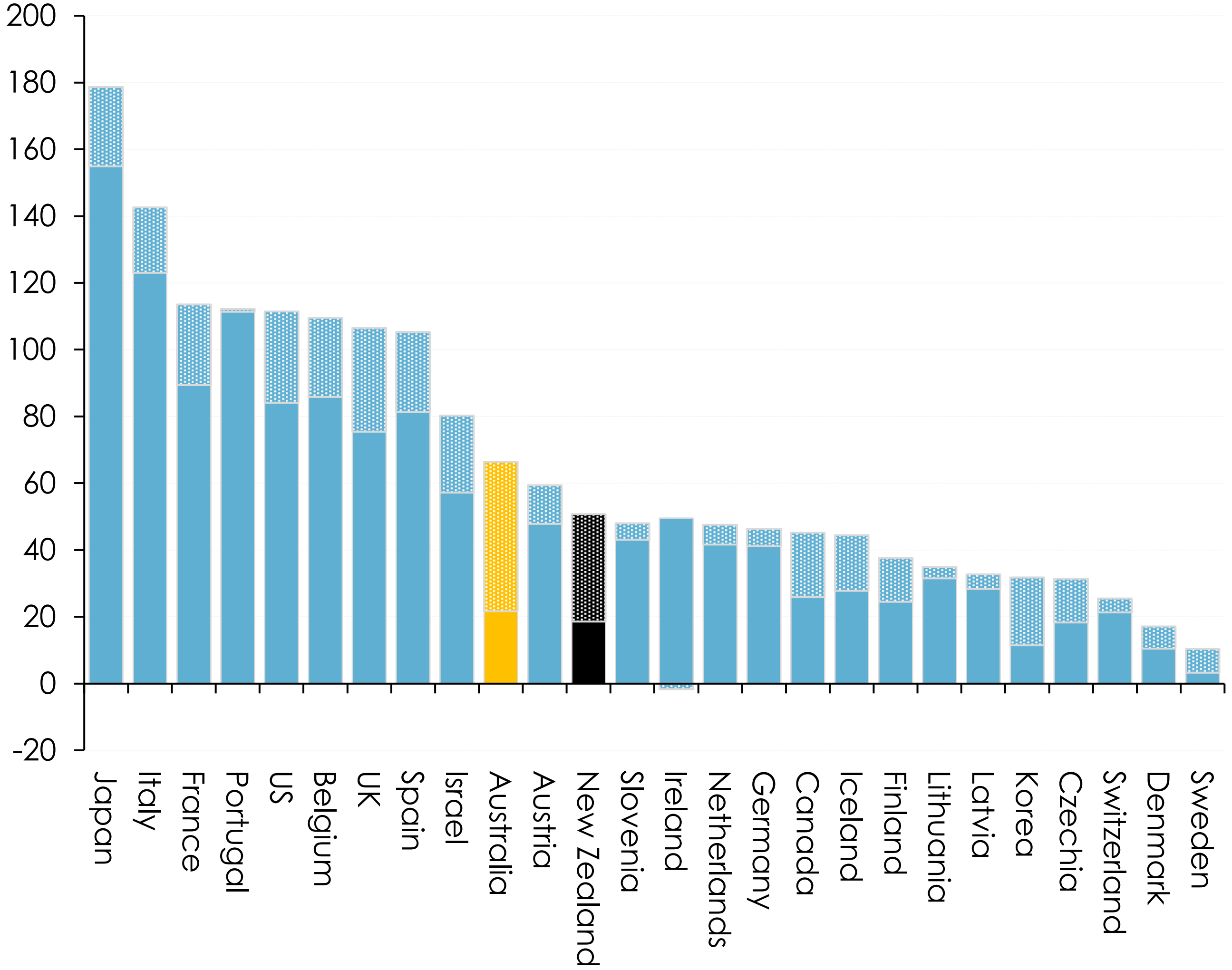
Although Australia's government net debt will reach new record highs, it will still be relatively low by comparison with most 'advanced' economies

Australian Government net debt as a percentage of GDP



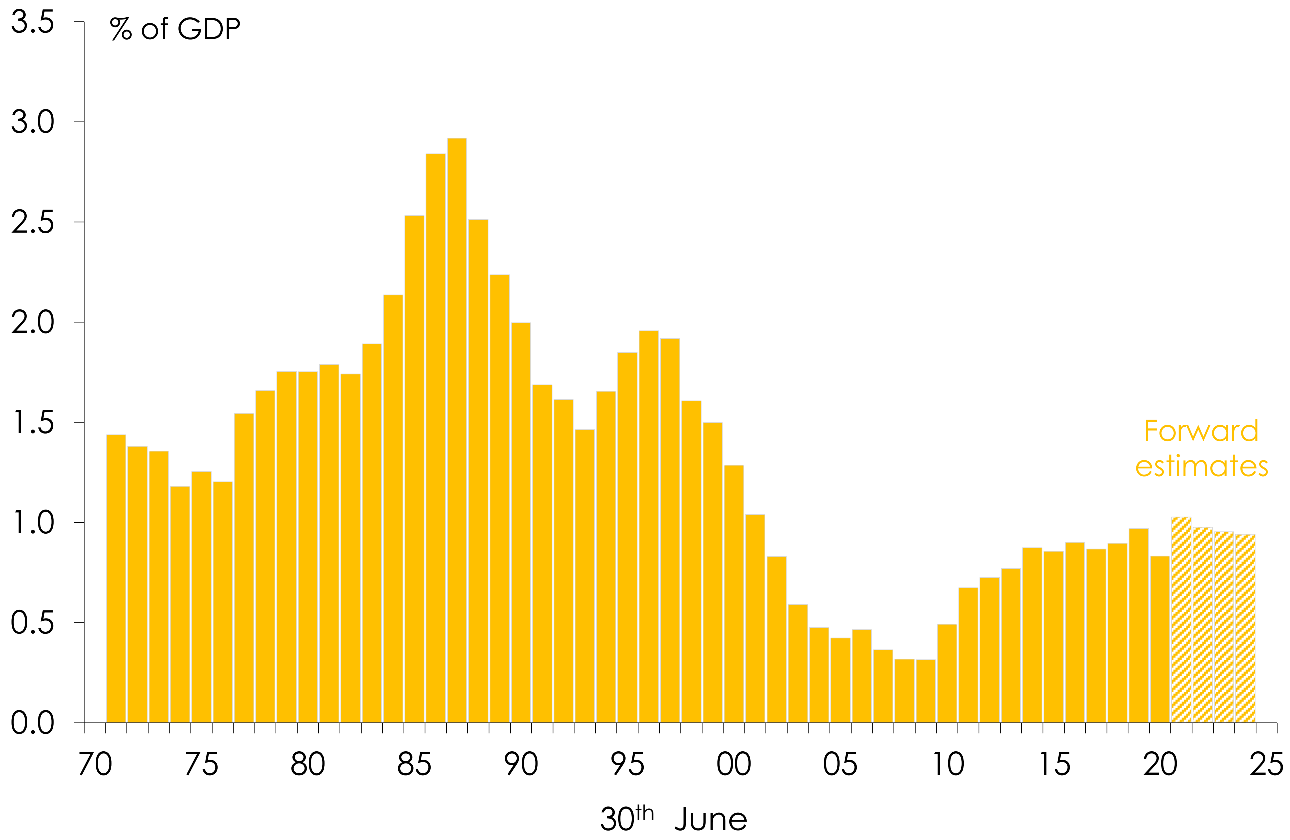
Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2019 and projected 2024



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".

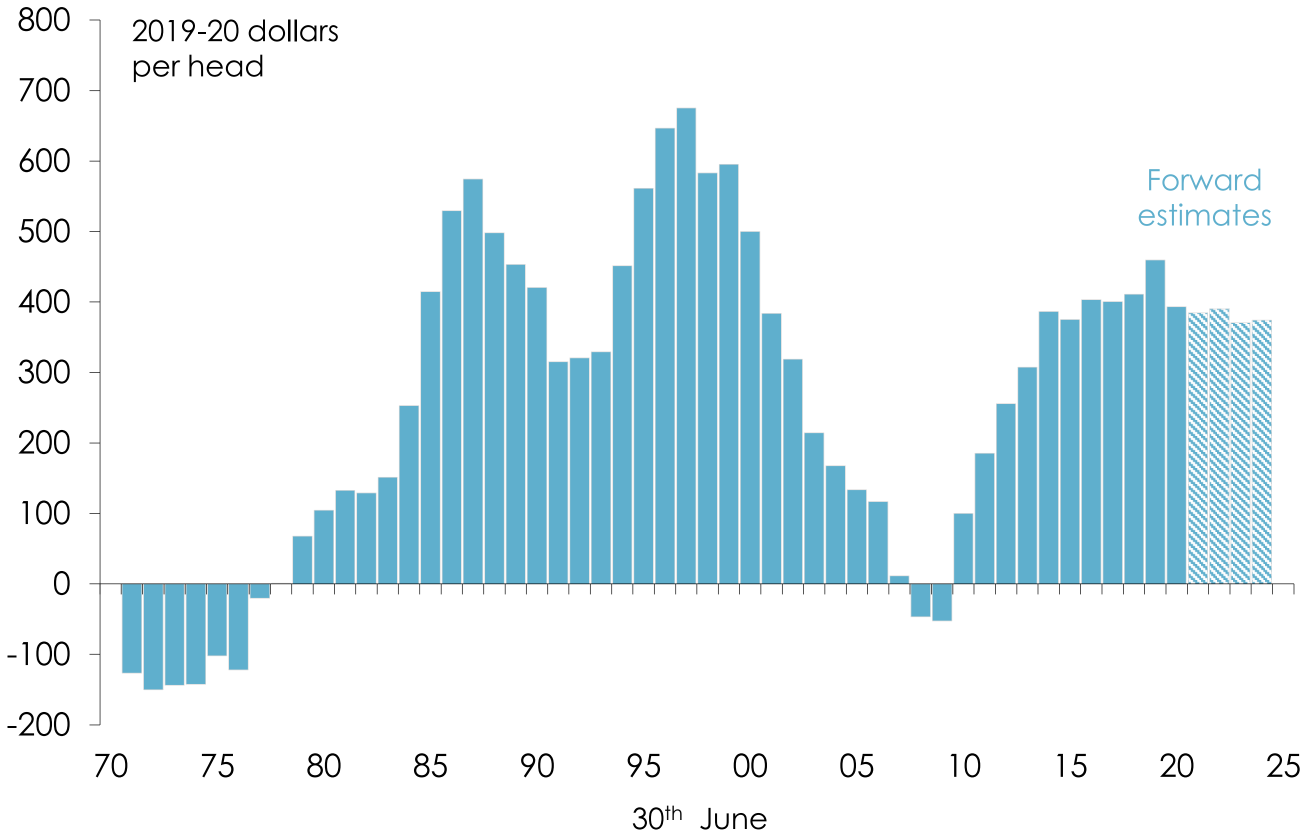
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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

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

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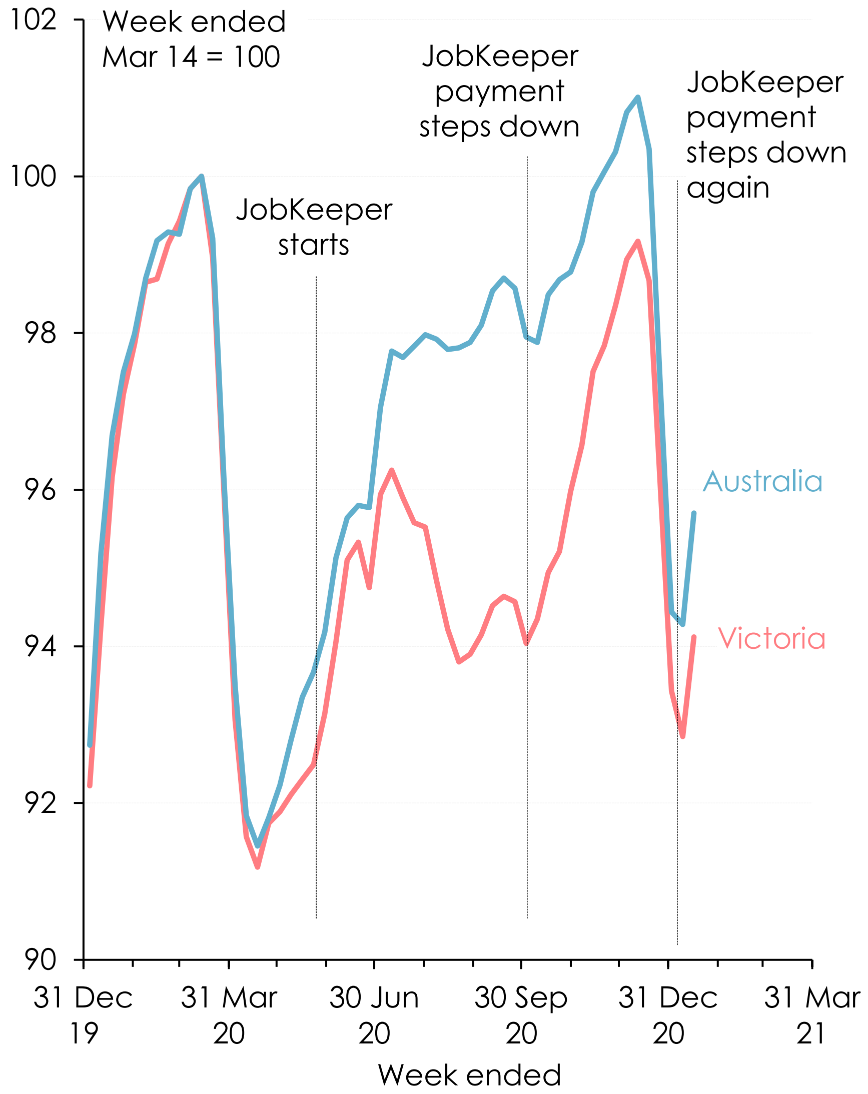
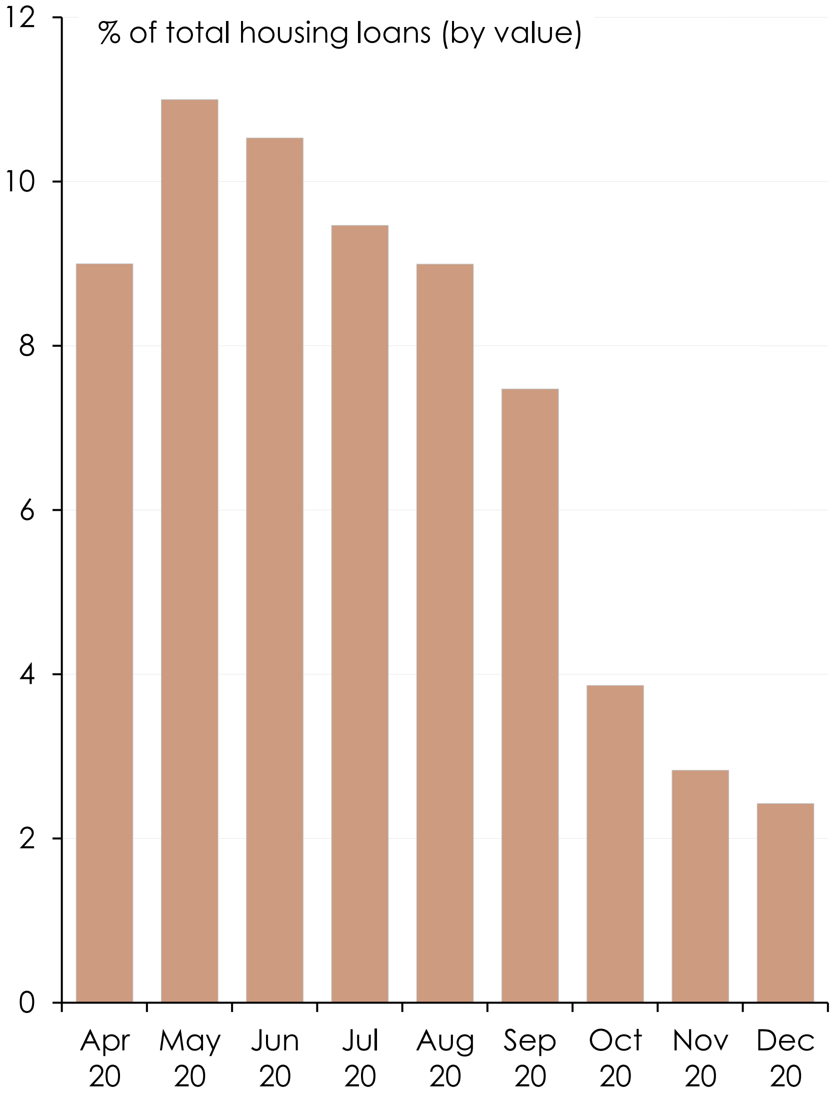
The transitions away from ‘emergency assistance’ are so far being accomplished very smoothly

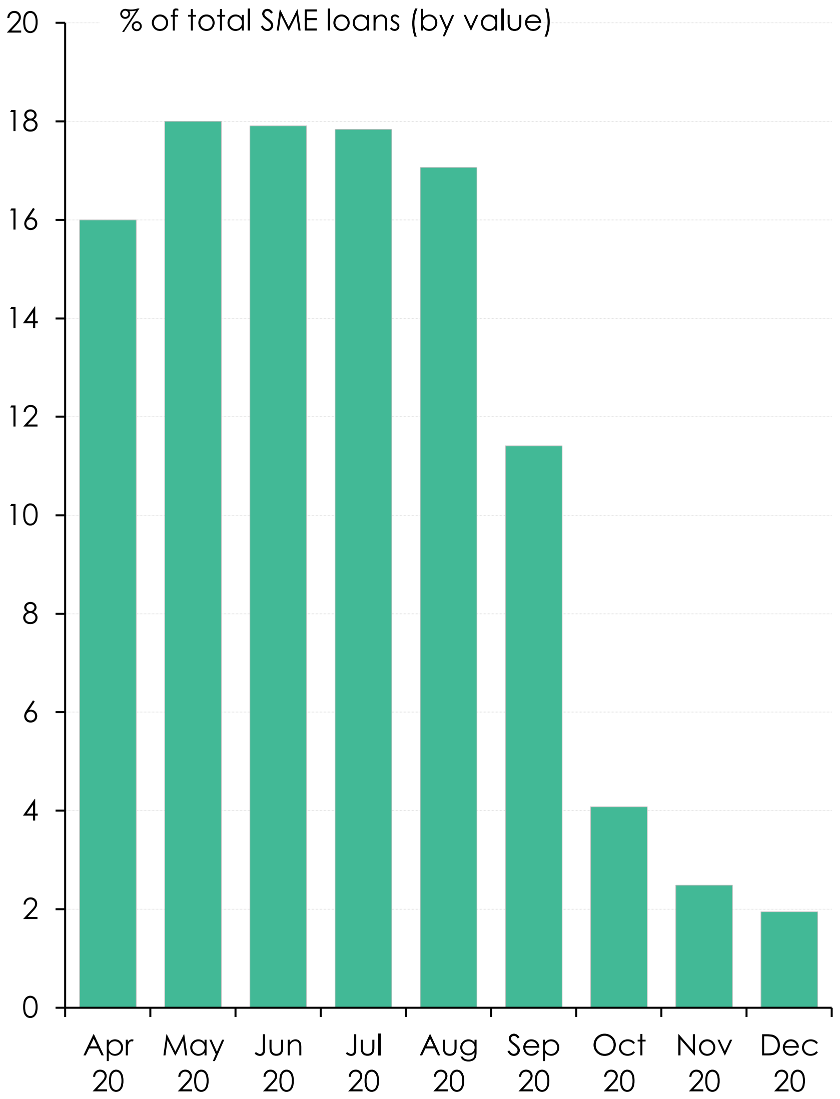
Payroll employment & JobKeeper



Mortgage repayment deferrals



SME loan repayment deferrals



Note: Weekly payroll jobs data are not seasonally adjusted: as noted in slide 89 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.

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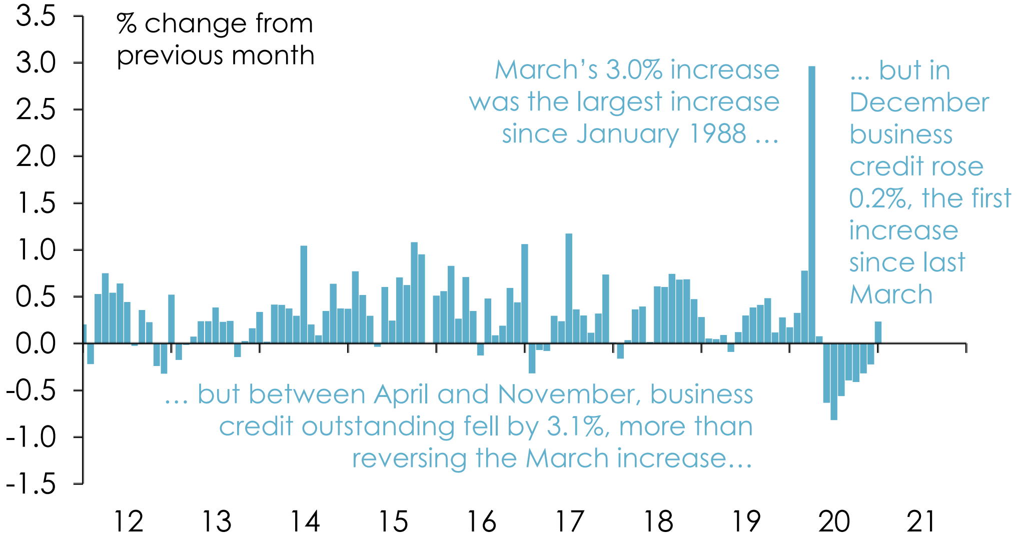
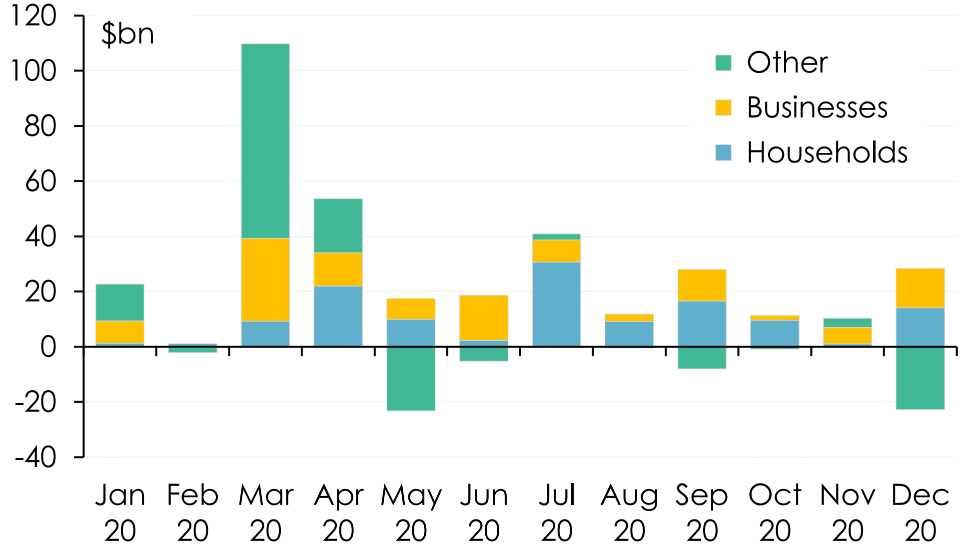
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

Business credit outstanding



Monthly change in bank deposits

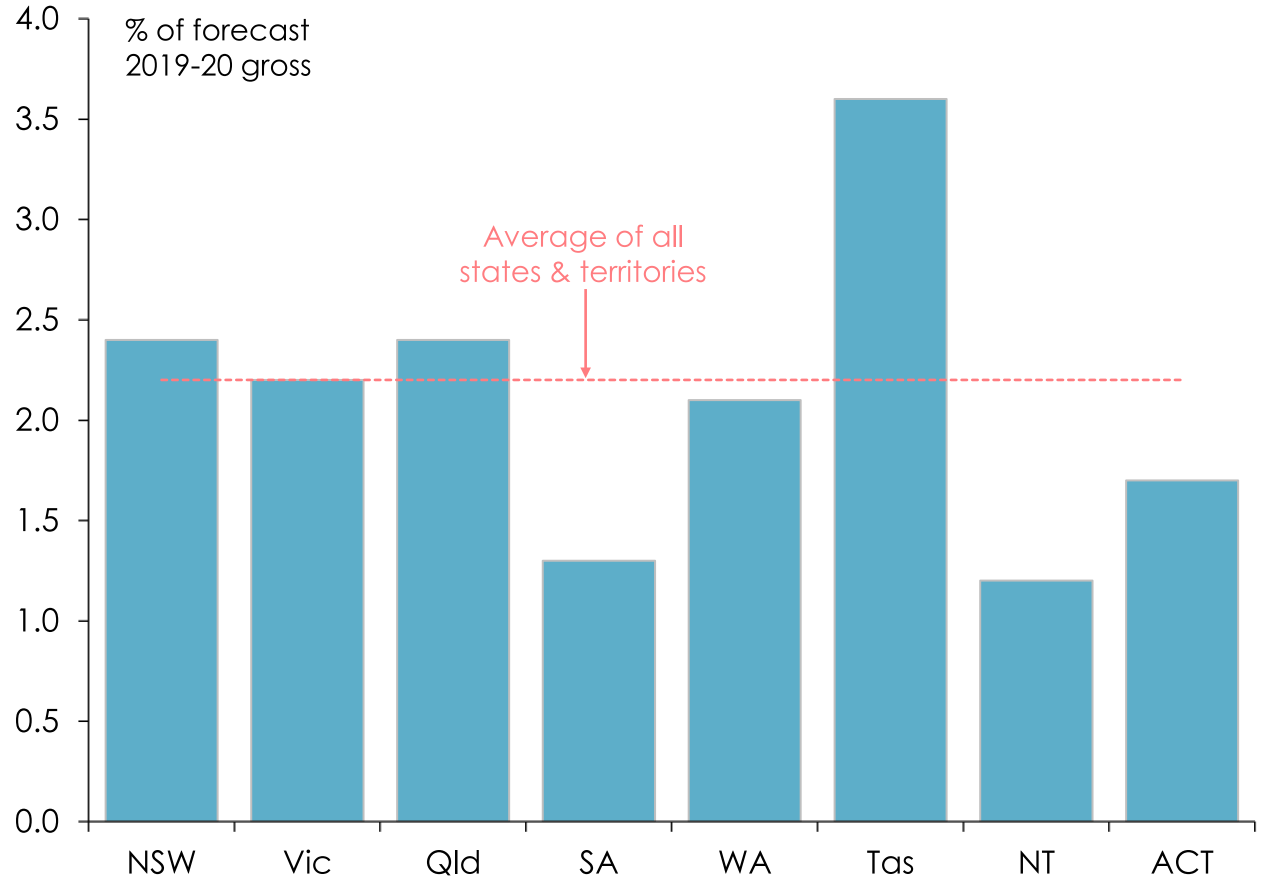


- Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- Banks have made credit readily available when needed – particularly in the early stages of the pandemic
- Banks extended 'repayment holidays' to 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 2.4% and 1.9% respectively as of December (see slide 125)
- 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%)

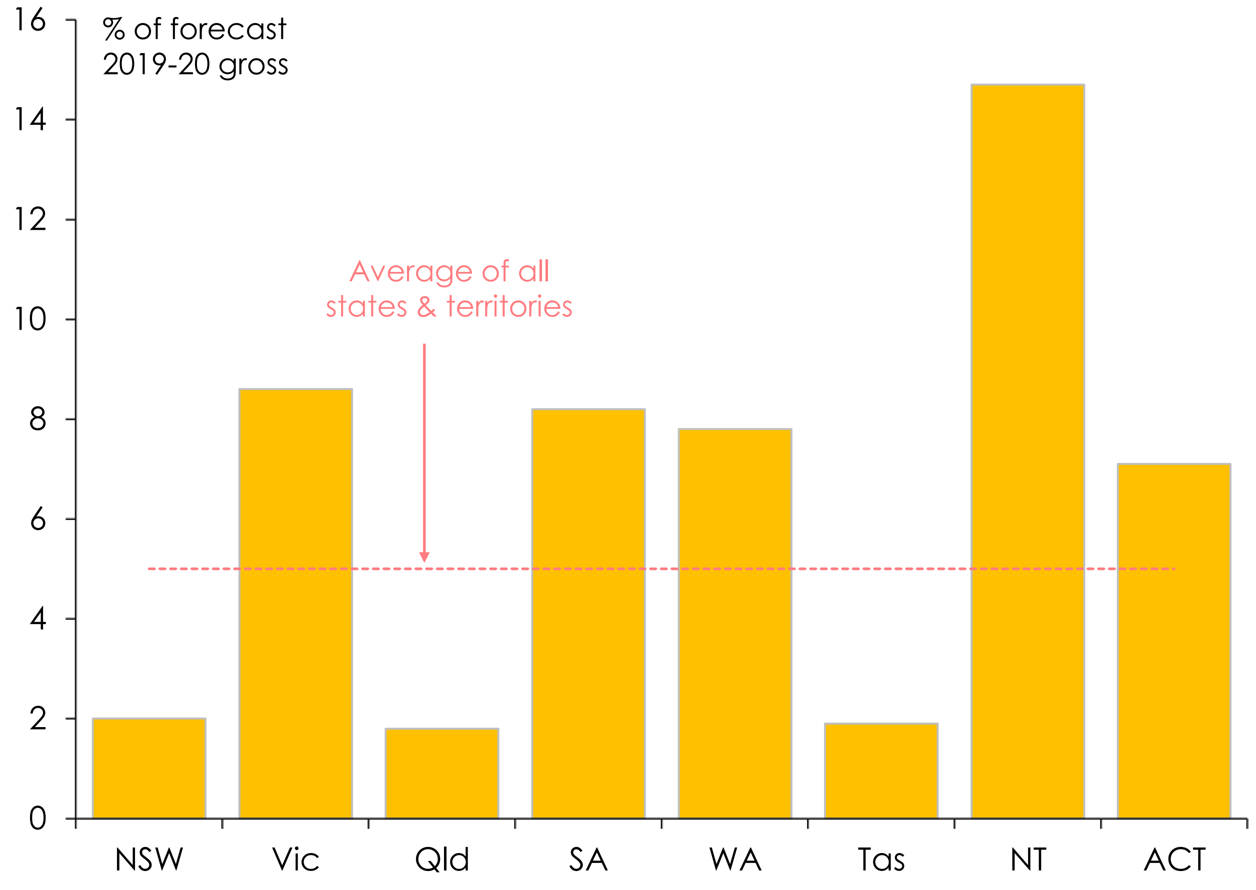
Sources: Reserve Bank of Australia; APRA. Return to "What's New".

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

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



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



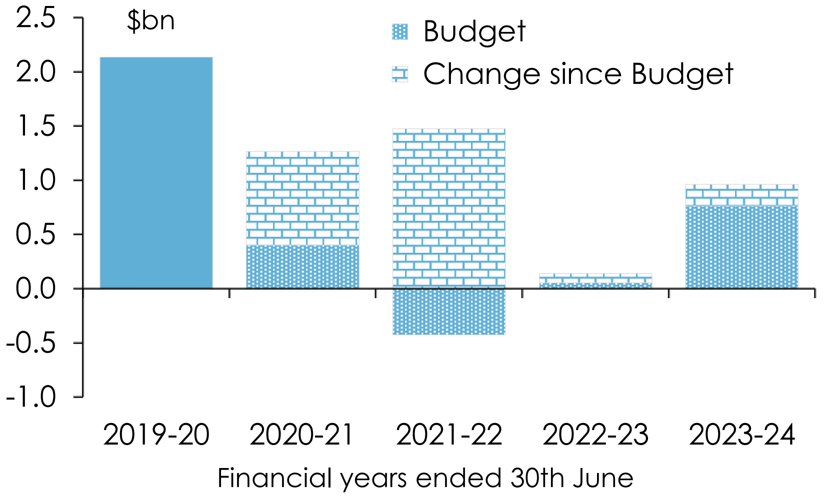
- **In August RBA Governor Phillip Lowe advised state and territory governments to spend an additional $40bn (2% of GDP) on infrastructure investment – an amount which S&P Global Ratings said state and territory balance sheets had "plenty of room to accommodate"**

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

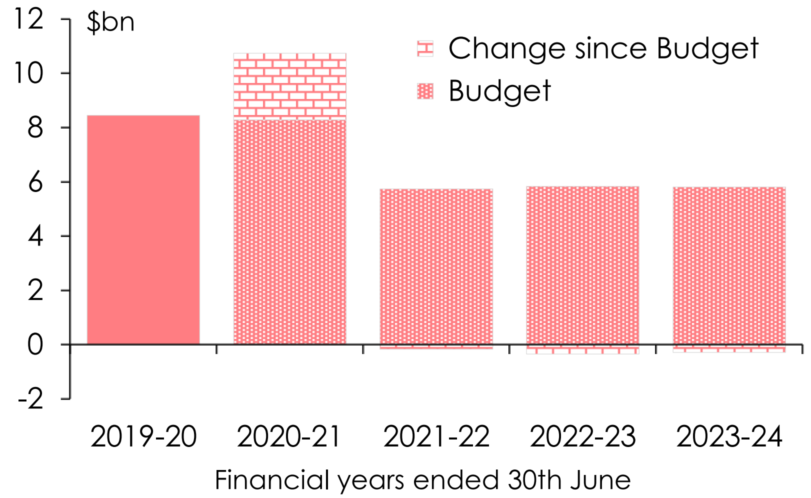
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Western Australia's government is swimming in iron ore royalty revenues – and under revised GST-sharing arrangements will get to keep most of it

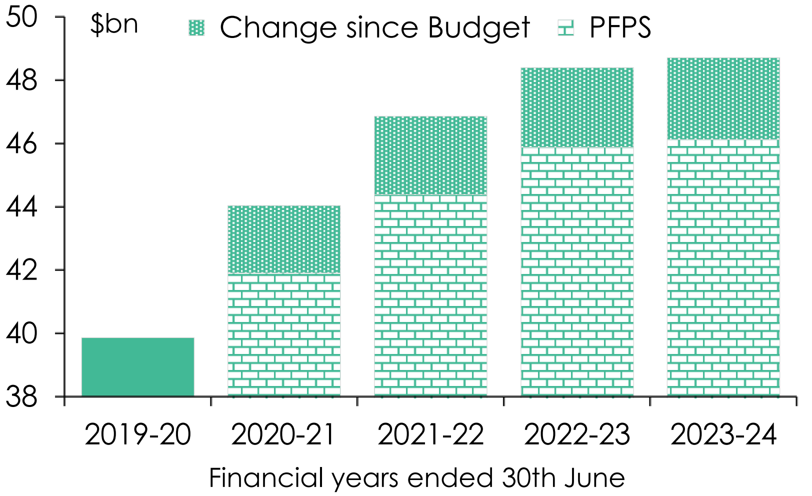
'General government' cash balance



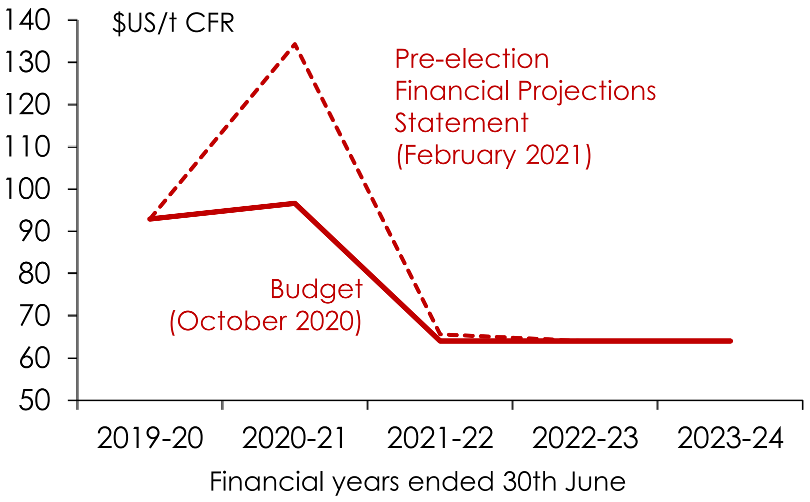
Mineral royalties revenue



Non-financial public sector net debt



Iron ore price assumption

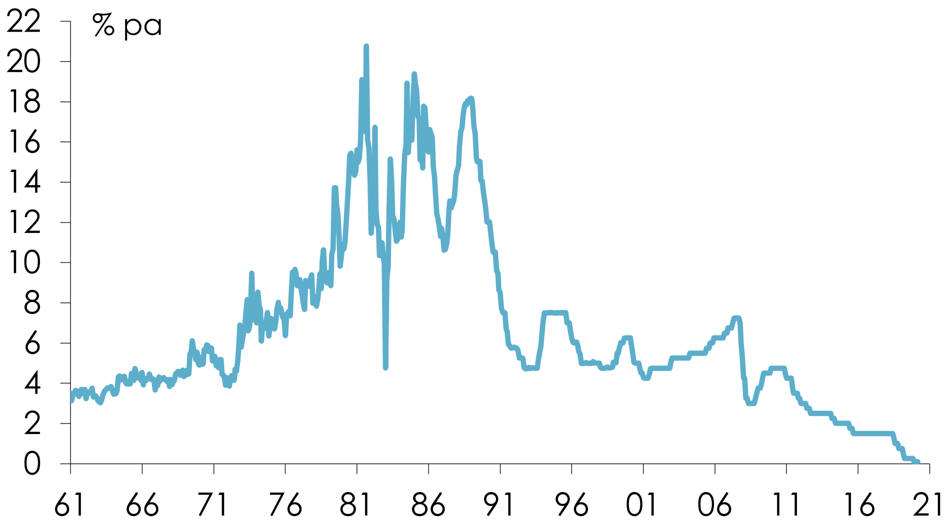


- **Western Australia's might be the only government in the world which *isn't* projecting budget deficits this year and for the foreseeable future**
  - WA Treasury's Pre-election Financial Projections Statement (PFPS) released ahead of next month's state election projects cash surpluses totalling $3.9bn over the four years to 2023-24
  - these have been revised upwards from $2.6bn in the Mid-Year Review published in late December, and $0.8bn in the State Budget presented on 8th October last year
- **The main reason for WA's strong financial position (and the improvement in it over the past four months) is the booming iron ore price**
  - the PFPS assumes an iron ore price of US$104 per tonne in 2020-21, up from $97 in October's budget
  - which generates an additional $2½bn in royalty revenues in 2020-21
  - the PFPS assumes iron ore prices come down to US$64/t by 2022-23 – but each additional $1/t is worth an extra $81mn pa in royalty revenues
- **As a result of changes to the GST revenue-sharing arrangements imposed by the Federal Government in 2019 (under pressure from WA), WA will get to keep much of these windfalls rather than having its GST share reduced**

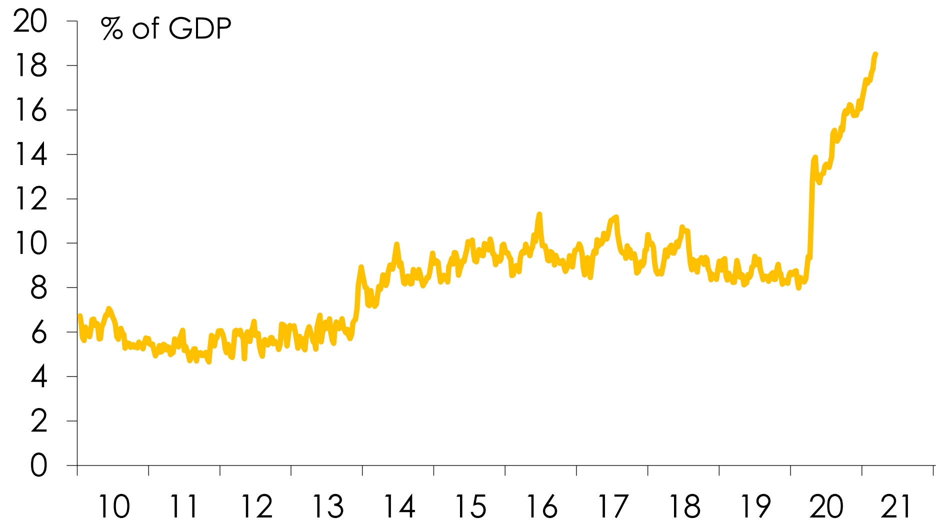
Note: 'CFR' means including freight costs. *Sources:* Government of Western Australia, 2020-21 *Budget Paper No. 3: Economic and Fiscal Outlook* (October 2020) and *Pre-election Financial Projections Statement (PFPS)* (February 2021).
Return to "What's New".

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

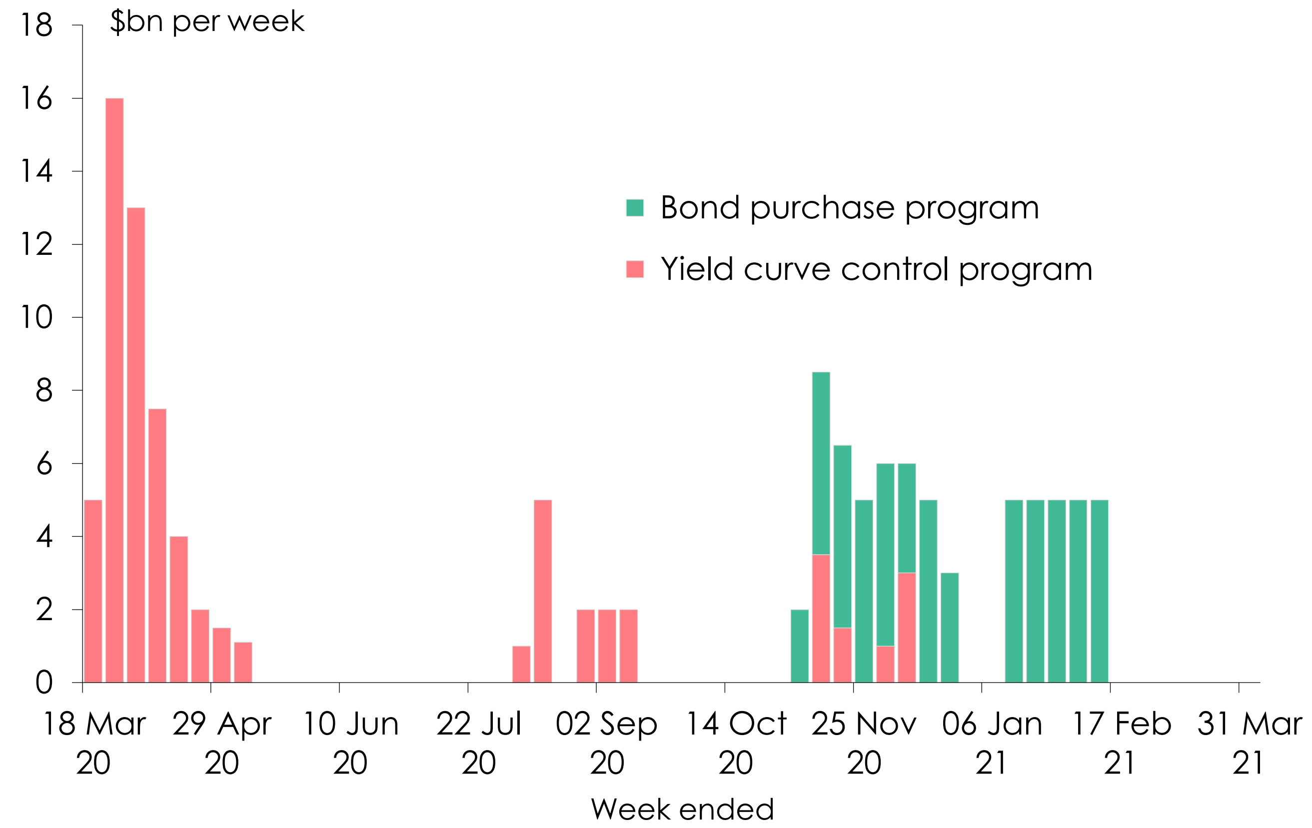


Source: Reserve Bank of Australia, *Statistical Tables* A3 and F1.1.
Return to "What's New".

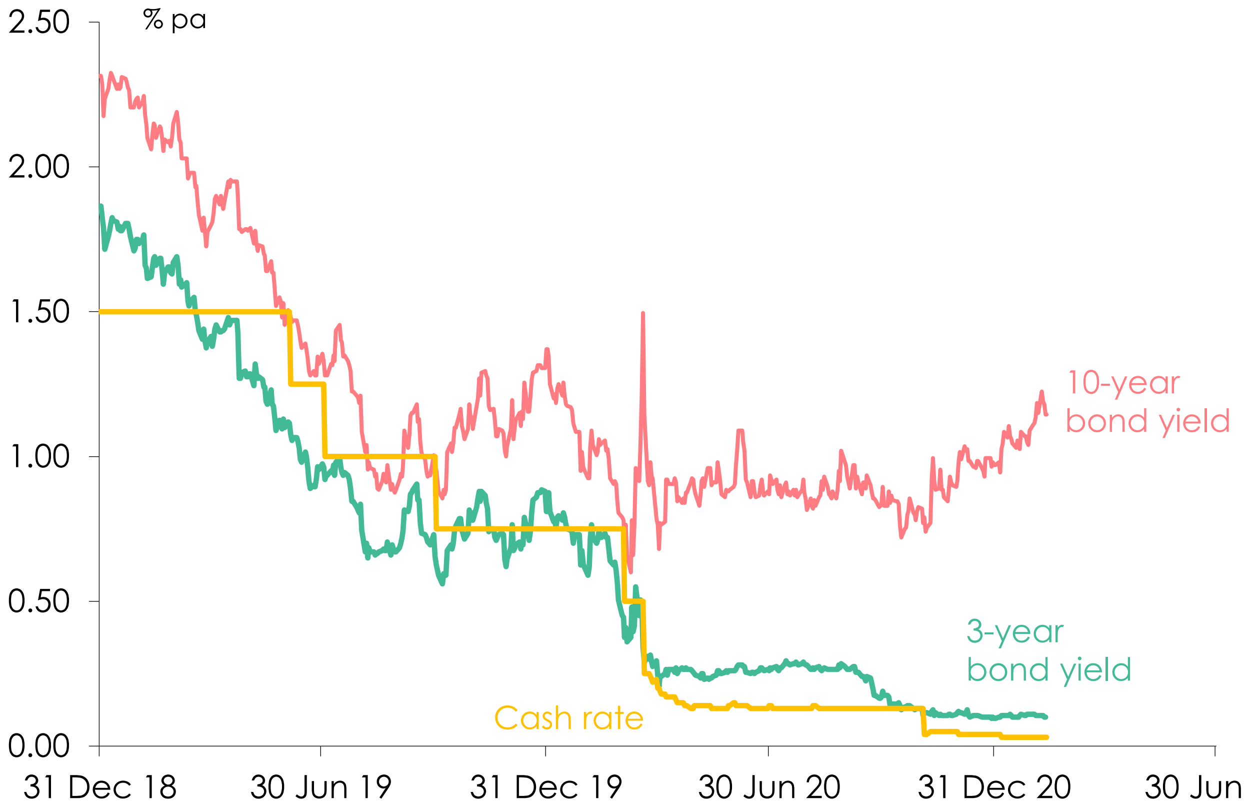
- **Last year the RBA cut its cash rate target from 0.75% to 0.10% (and in practice allowed the cash rate to fall to 0.03%)**
  - the RBA Board left all its monetary policy settings unchanged at its meeting this month, the first for 2021 …
  - and 'tweaked' its 'guidance' as to how long before it would start raising the cash rate from (previously) "at least three years" to "2024 at the earliest"
  - last week Governor Lowe re-iterated that the RBA has "done as much as it reasonably can" with interest rates and "has no appetite to go into negative territory"
- **The RBA has 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 (but has not needed to purchase any since early December)
  - a Fed or ECB-style 'Bond Purchase Program' targeting 5-10 year yields, under which it has since November purchased \$53bn – and which it this month extended for another six months to October, increasing the total planned purchases from \$100bn to \$200bn
  - 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 \$85½bn out of a potential \$185bn
- **The RBA estimates that its Bond Purchase program has lowered long-term bond yields by about 30 basis points (from what they otherwise would have been)**
  - and that (as a result) the exchange rate is "also lower than it otherwise would have been"

The RBA bought another $5bn of bonds this week under its Bond Purchase Program, while 10-year yields eased from a high of 1¼% on Monday

RBA open market bond purchases



Interest rates



- **The RBA bought $5bn of bonds this week under its Bond Purchase Program, the same as in each of the three preceding weeks – but nothing under its 3-year yield target program – bringing its total bond purchases since March to $129bn (or 6.6% of GDP)**
- **10-year yields reached 1¼% on Monday, the highest since the mini-meltdown of the third week of March last year, but then drifted down to 1.15% by week's end, narrowing the spread over US yields to zero – while 3-year yields stayed in line with the RBA target of 0.10%**

Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up to 12th February. Return to "What's New".

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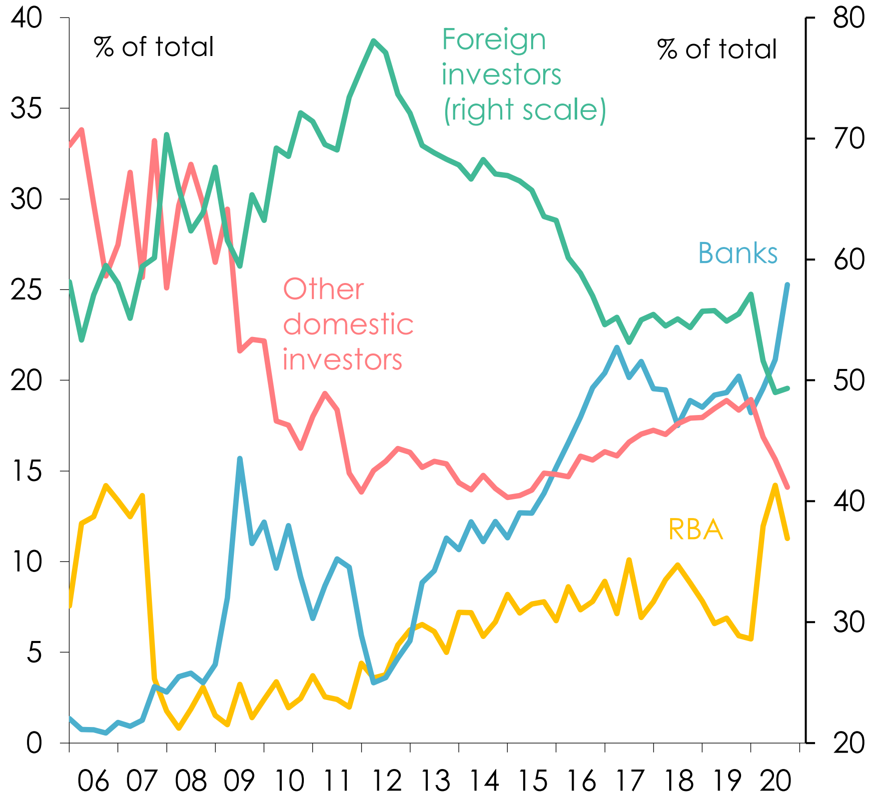
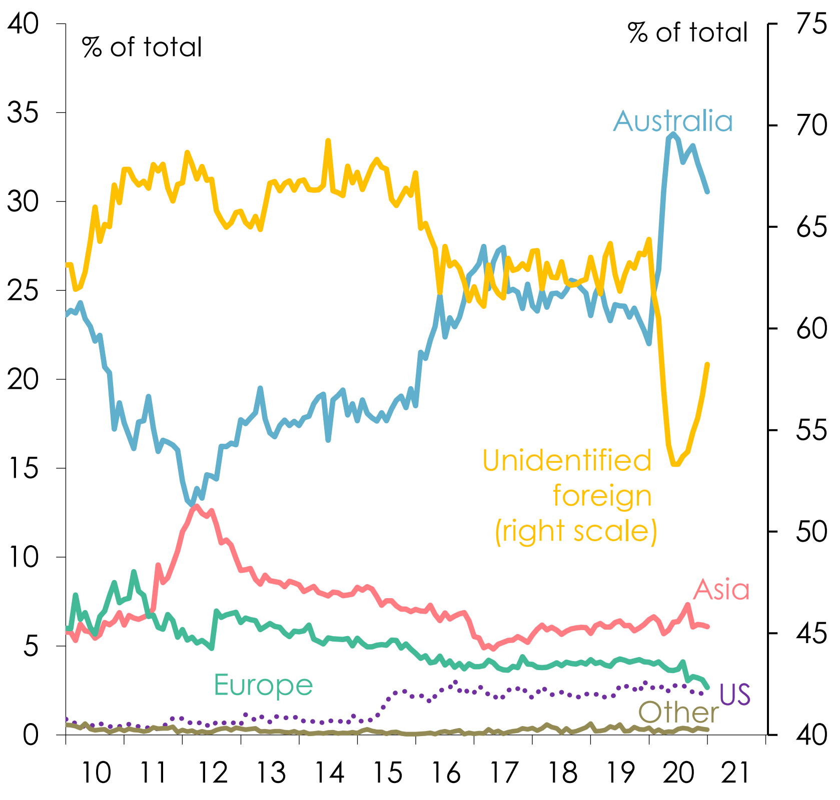
Domestic banks increased their holdings of federal, state and territory government bonds by $160bn over the first three quarters of 2020

Holders of Australian Government bonds



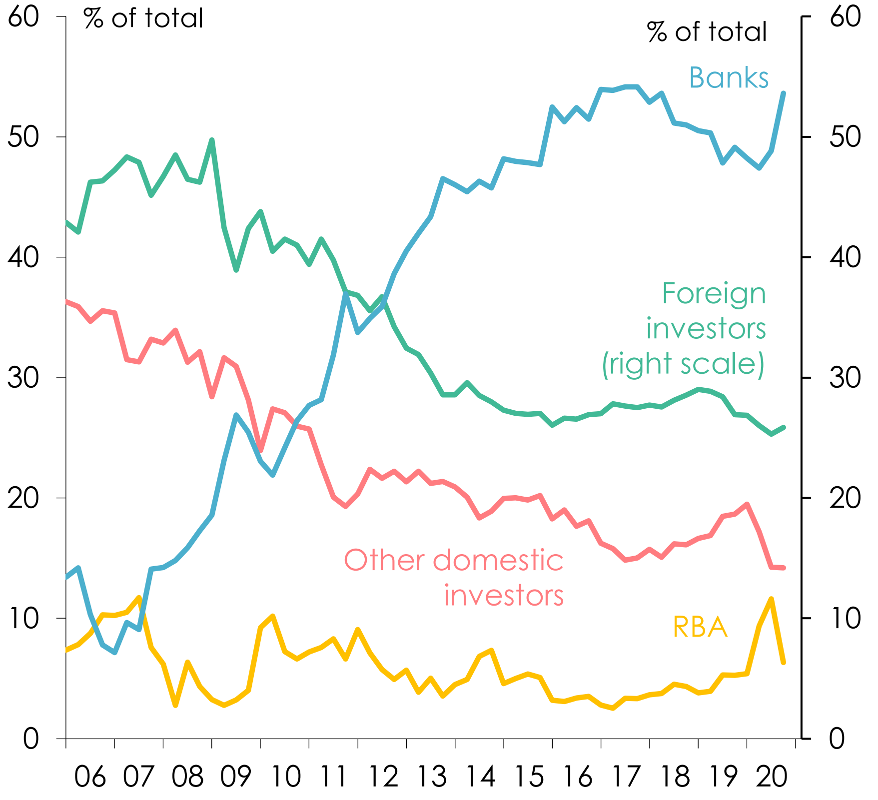
Australian Gov't bonds on issue rose by $221bn over the first three quarters of 2020 – of which domestic banks absorbed $101bn, and the RBA and foreign investors $60bn each

Nationality of Australian Government bond holders



Net increases in holdings of Australian Government bonds during 2020 were almost equally divided between foreigners ($123bn) and domestic holders ($122bn)

Holders 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

Sources: ABS, *Finance and Wealth Accounts*; Australian Office of Financial Management. December quarter data will be released on 25th March.
Return to "What's New".

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Longer-term considerations for Australia

The factors which helped us achieve almost 30 years of continuous economic growth may not be so helpful in the post-Covid environment

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

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

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

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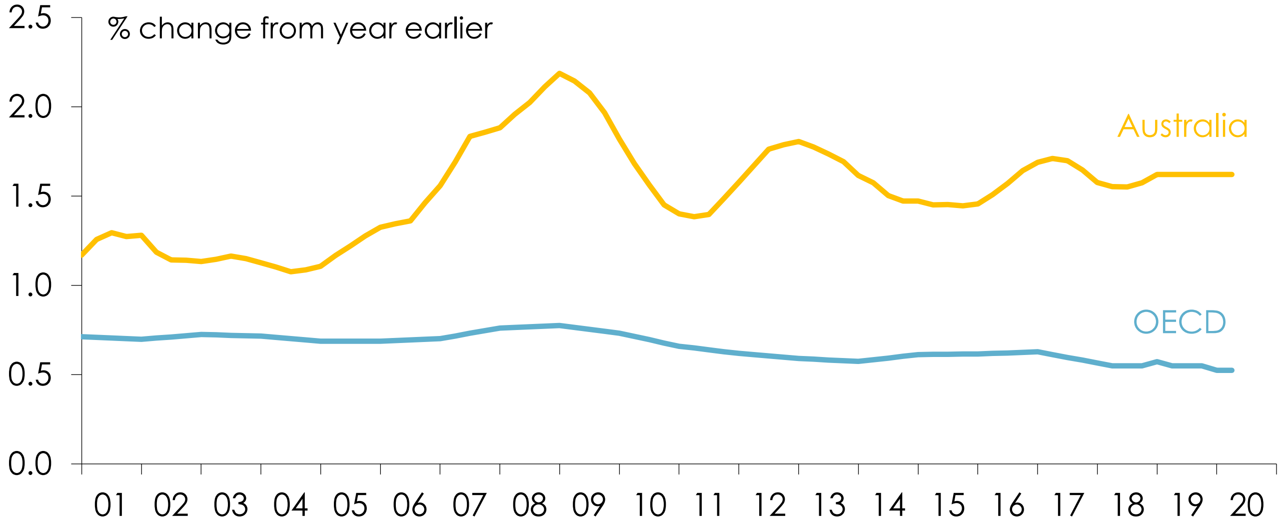
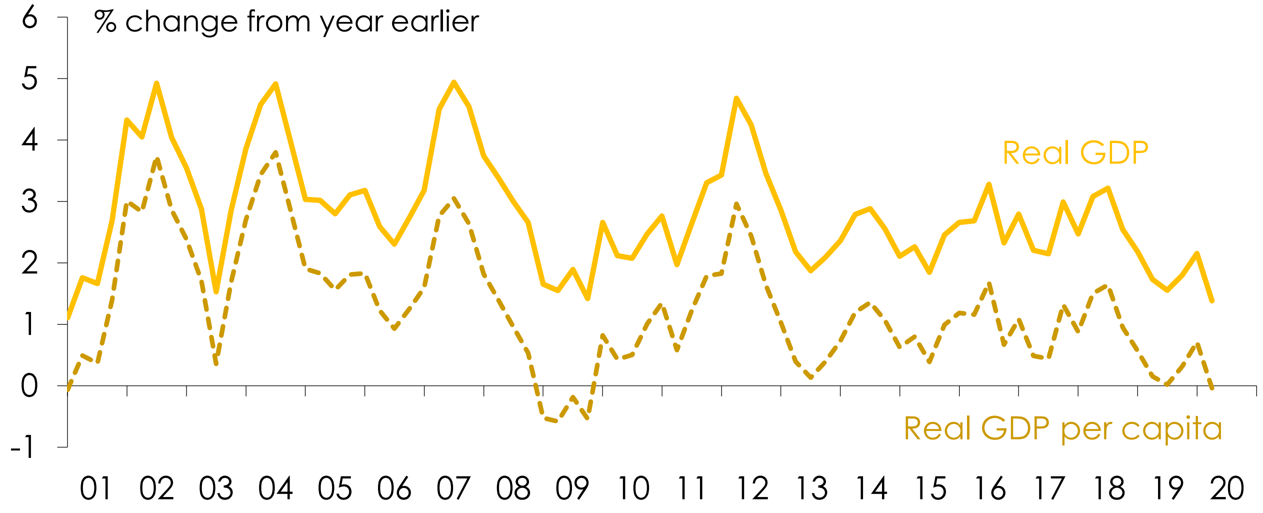
Australia's above-average economic growth over the past 20 years owes a lot to above-average population growth: that's about to change

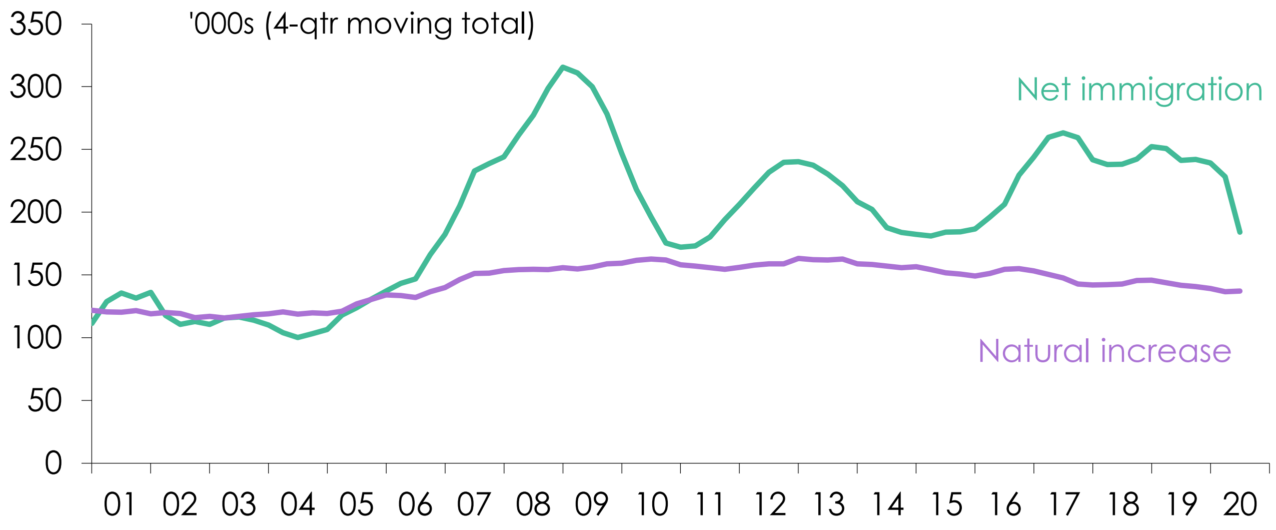
Australia and OECD population growth



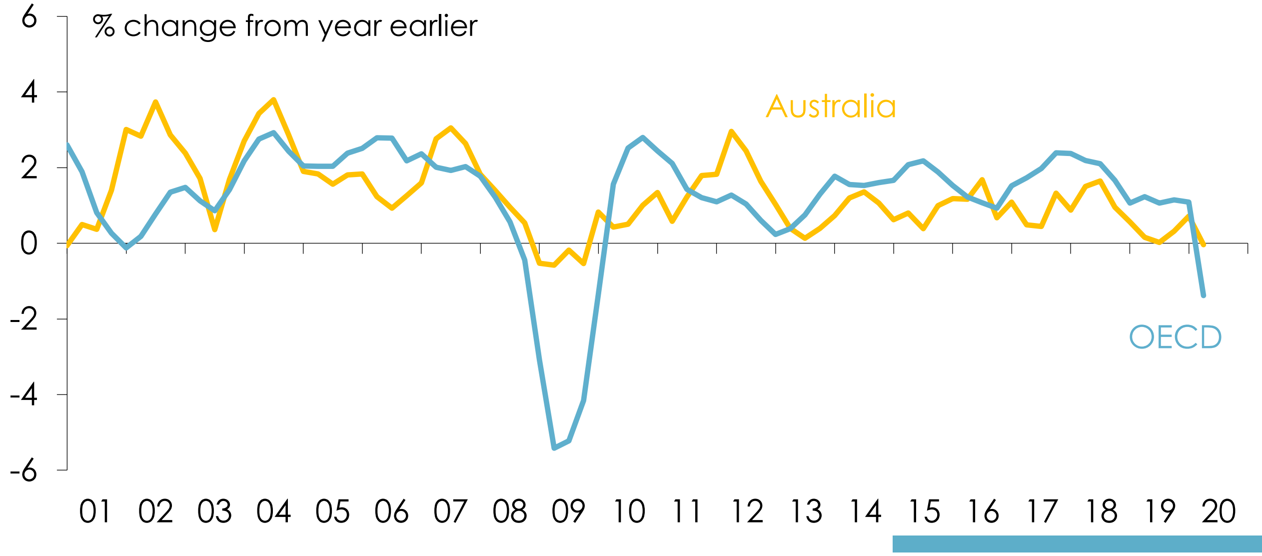
Australian GDP and per capita GDP growth



Sources of Australia's population growth



Australia and OECD per capita real GDP growth



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

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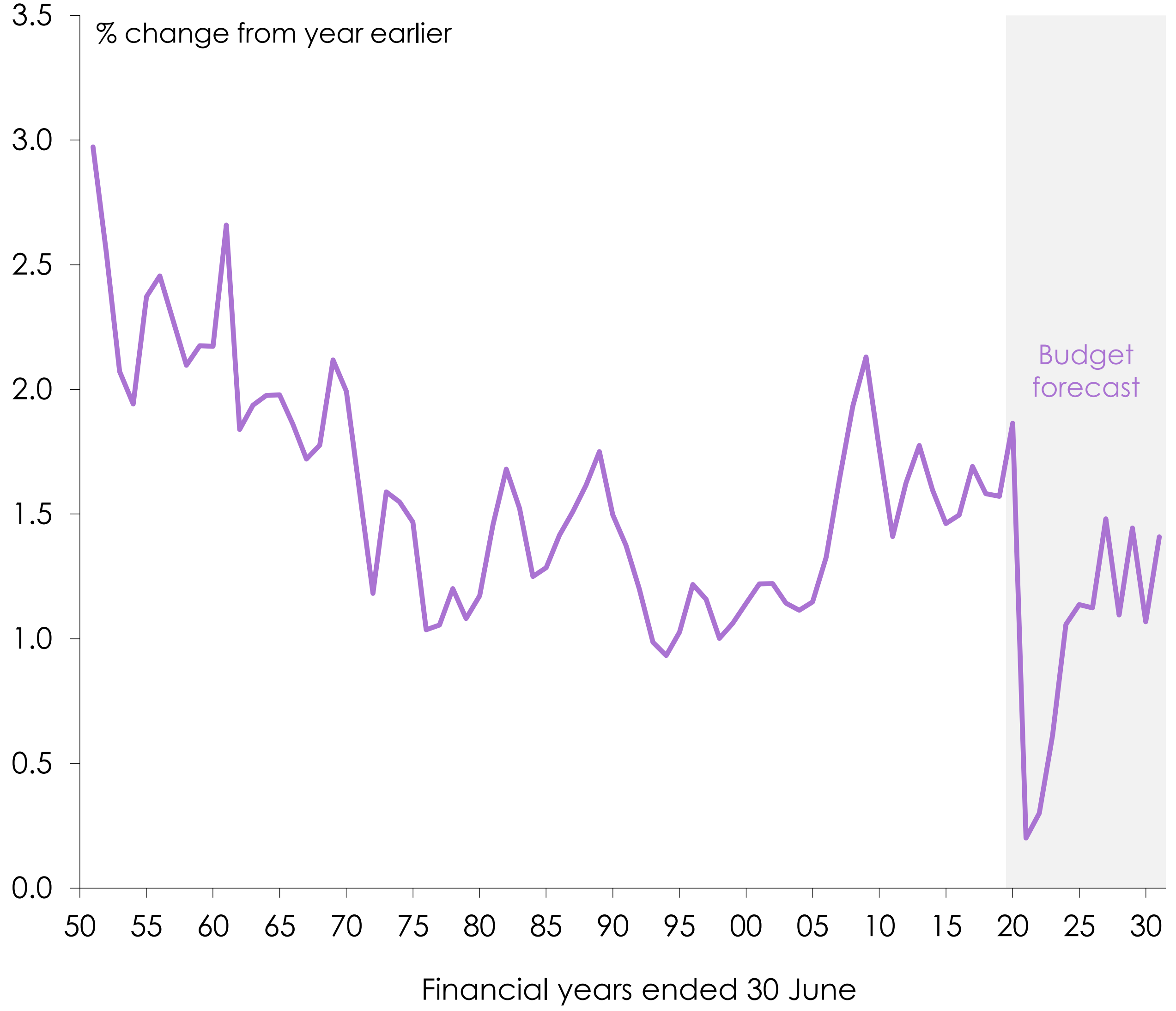
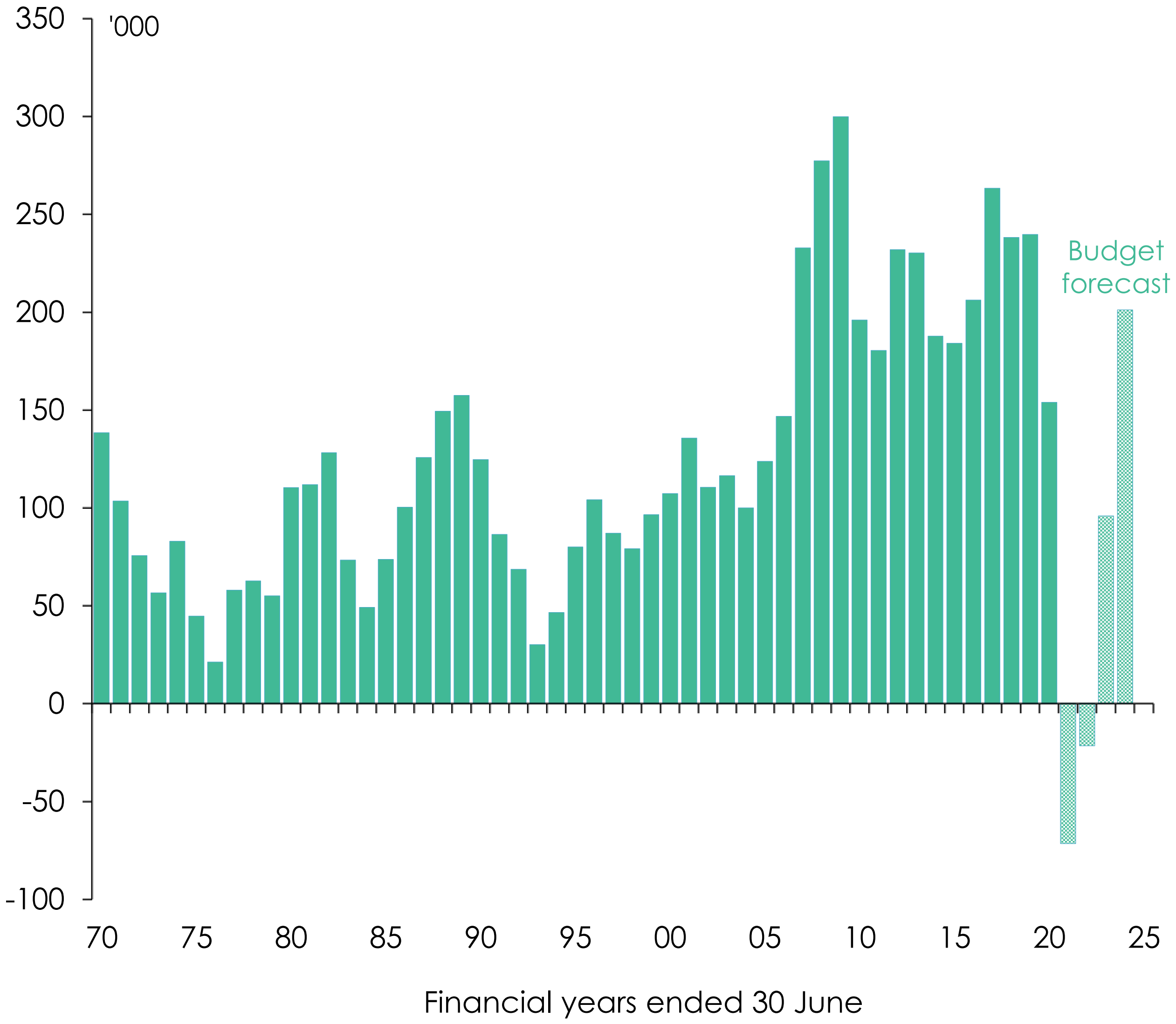
October's federal Budget incorporated a forecast of negative net migration in 2020-21 and 2021-22, and a 100-year low in population growth

Population growth



Net overseas migration



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

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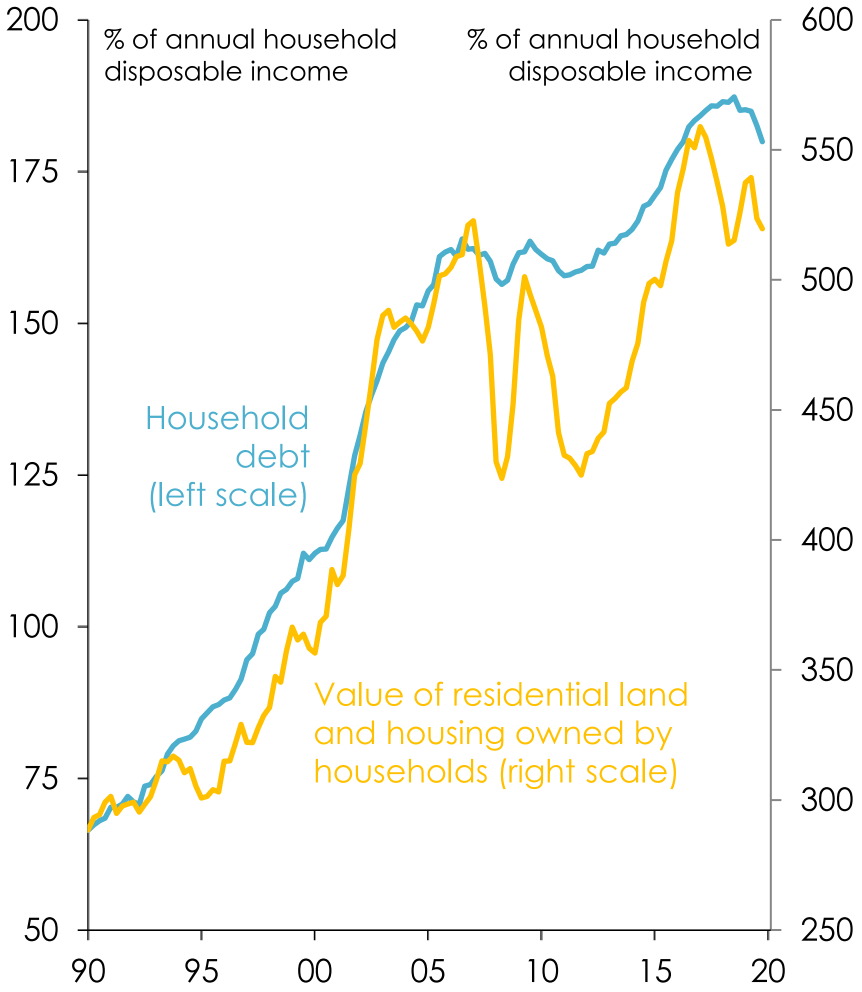
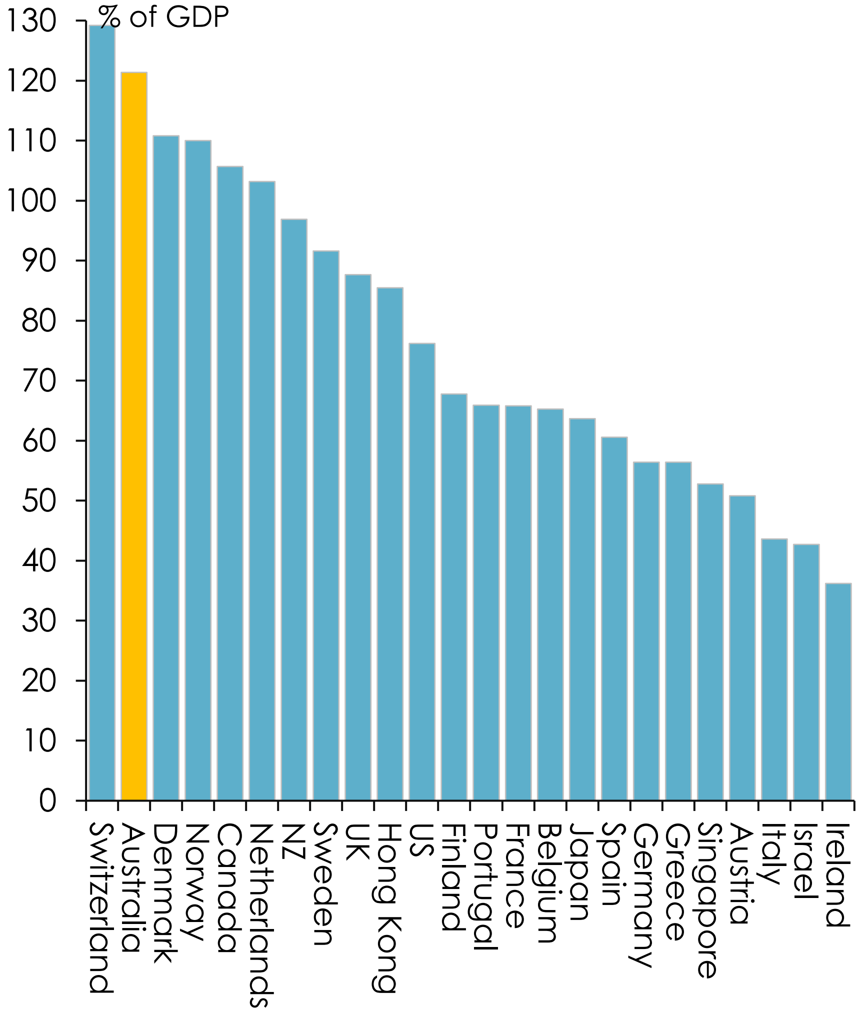
Rising property prices and household debt are unlikely to underpin Australian economic growth as they have done for most of the past 30 years

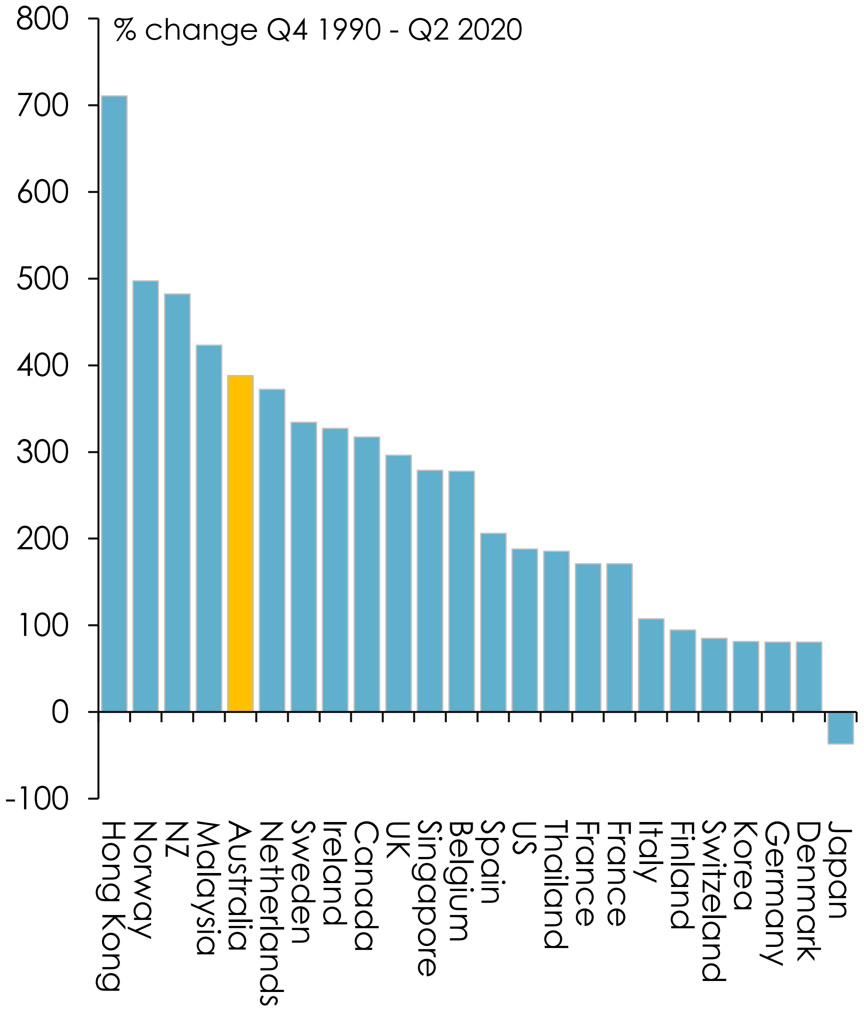
Australian housing wealth and household debt



Household debt as a pc of GDP, 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".

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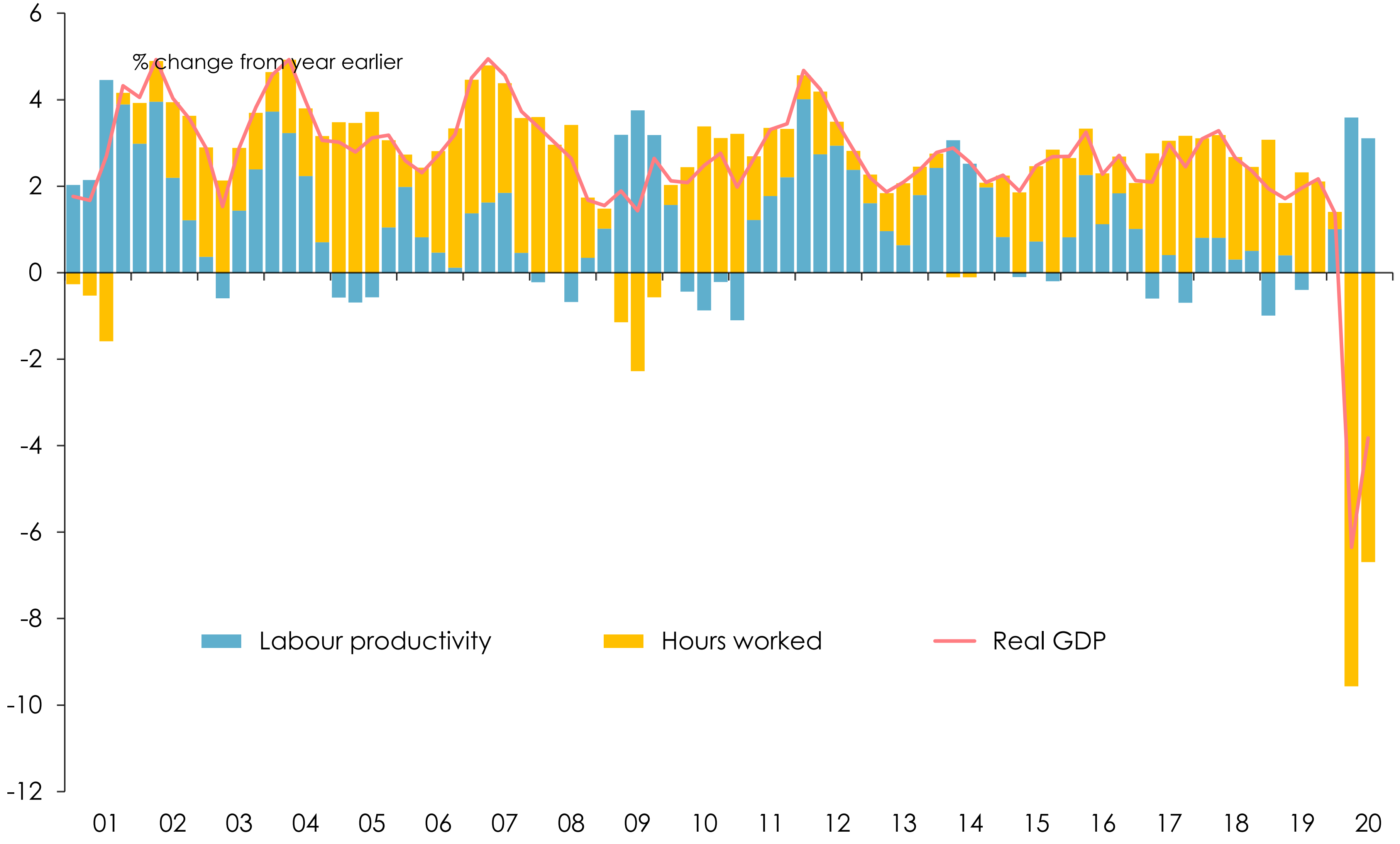
Australia has come to rely much more heavily on increased labour input to drive economic growth in recent years – we can't keep doing that

Labour input and labour productivity contributions to Australian real GDP growth



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

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

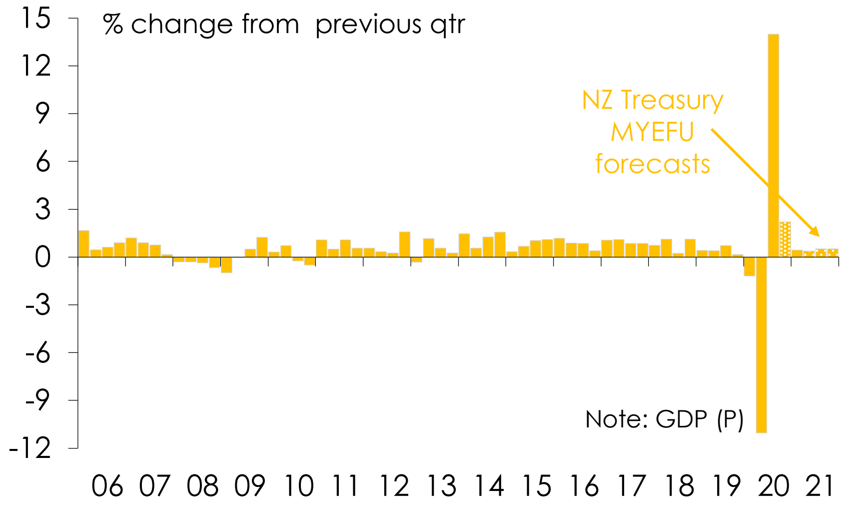
Some other likely / possible longer-term consequences of the pandemic

- **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)

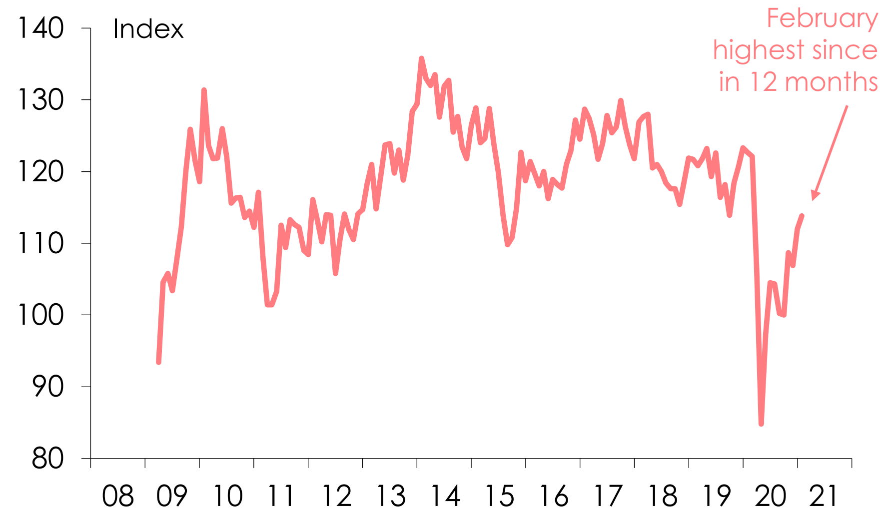
New Zealand

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

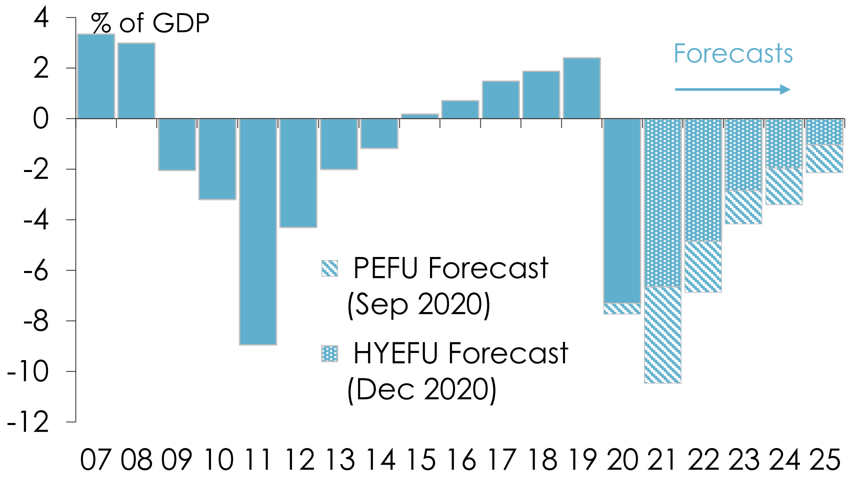
Real GDP



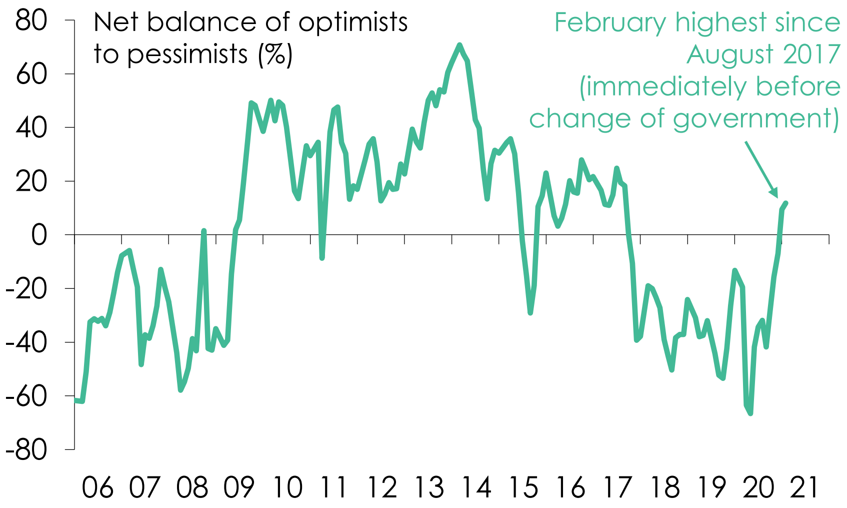
Consumer confidence



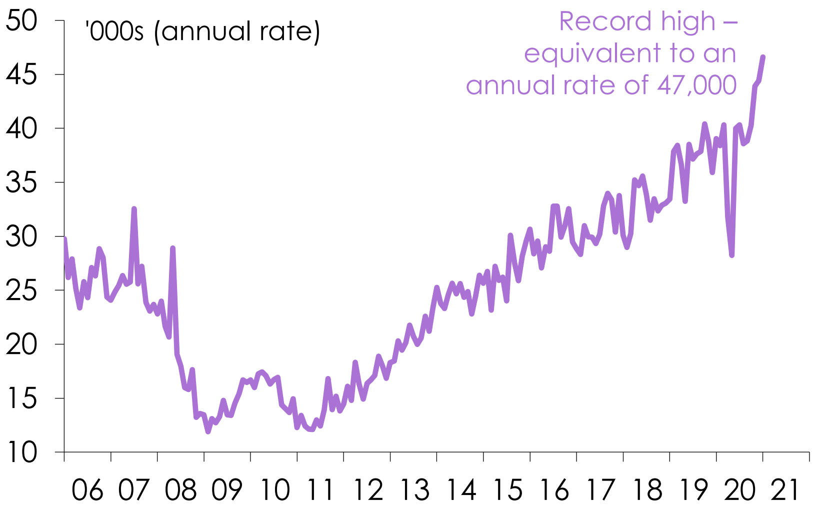
NZ government budget balance



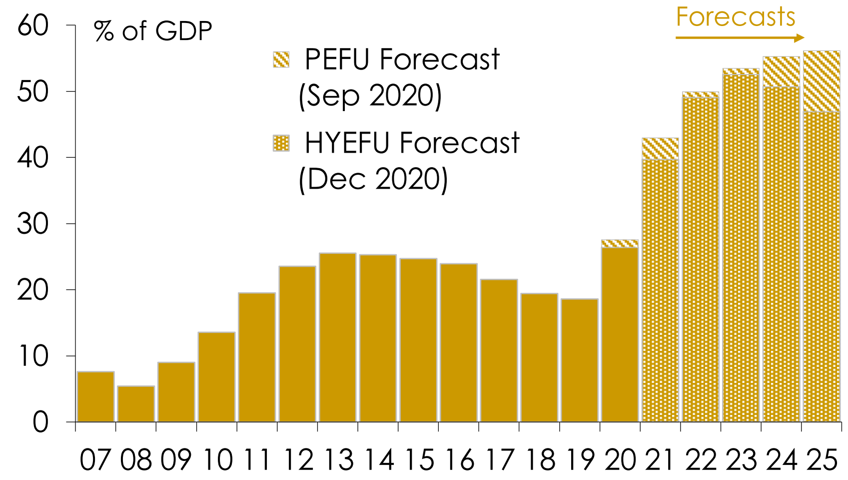
Business confidence



Dwelling 'consents' (permits)



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; NZ Treasury *Half-Year Economic and Fiscal Update* 2020. Return to "What's New".

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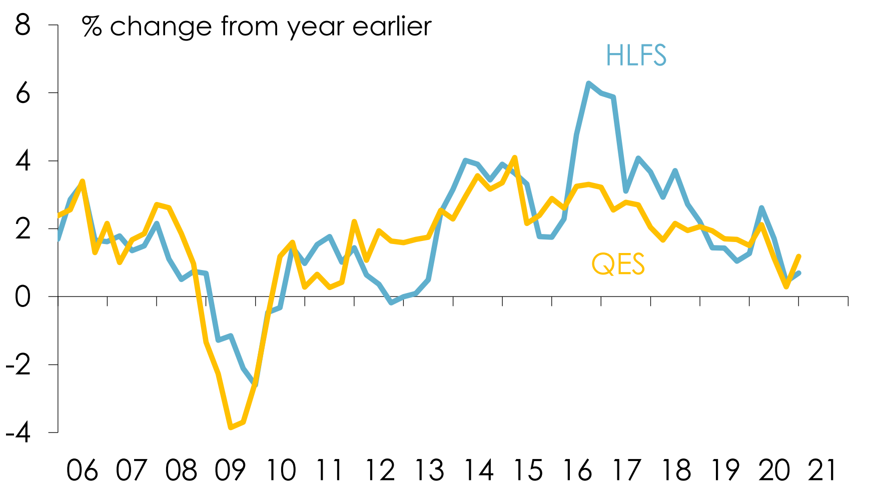
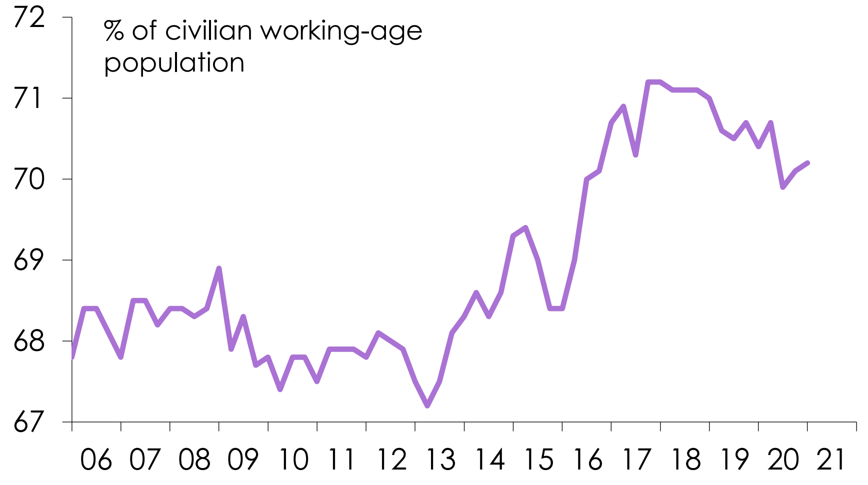
Employment rose 0.6% in Q4, 65% of those who lost jobs in Q2 and Q3 are now back at work, and unemployment fell 0.4 pc pts to 4.9%

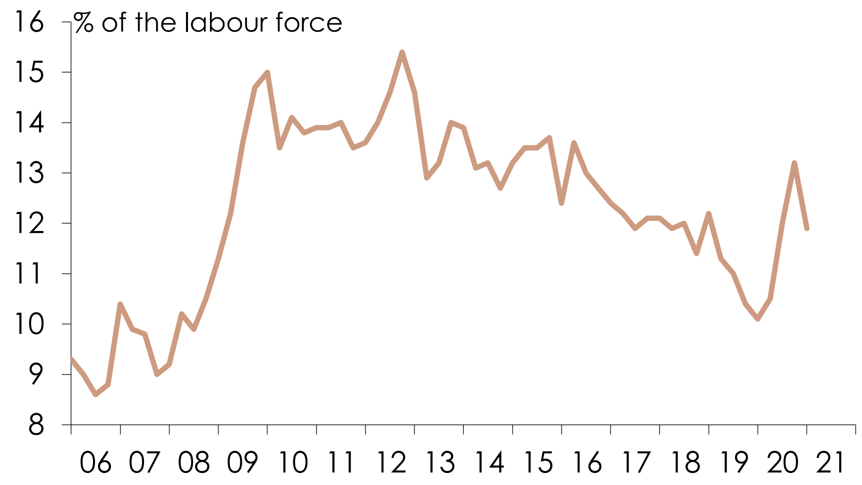
Employment



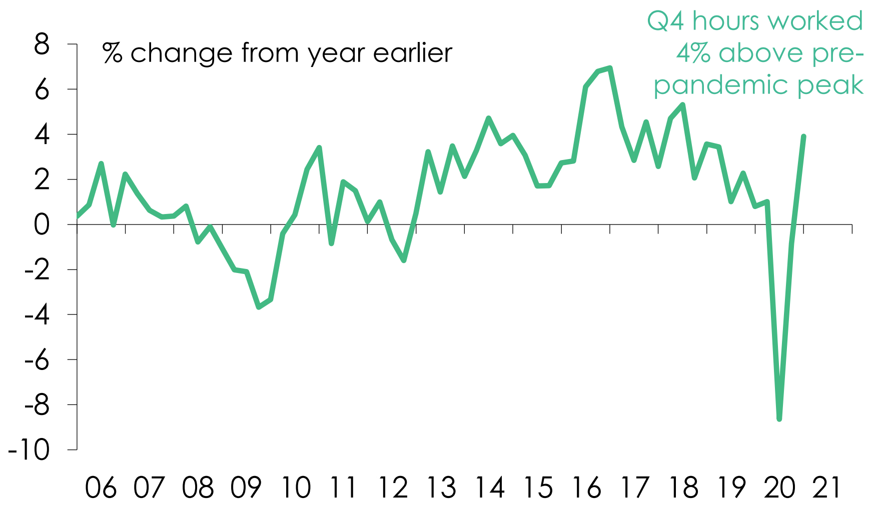
Labour force participation rate



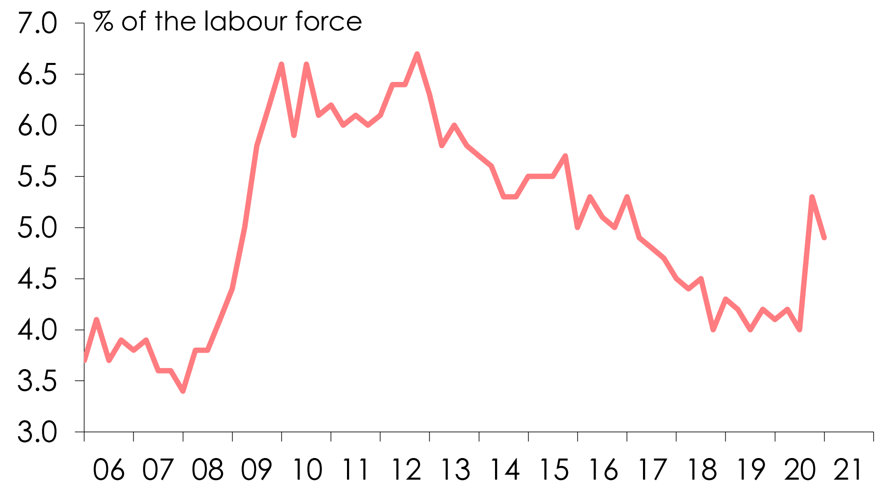
Labour force under-utilization rate



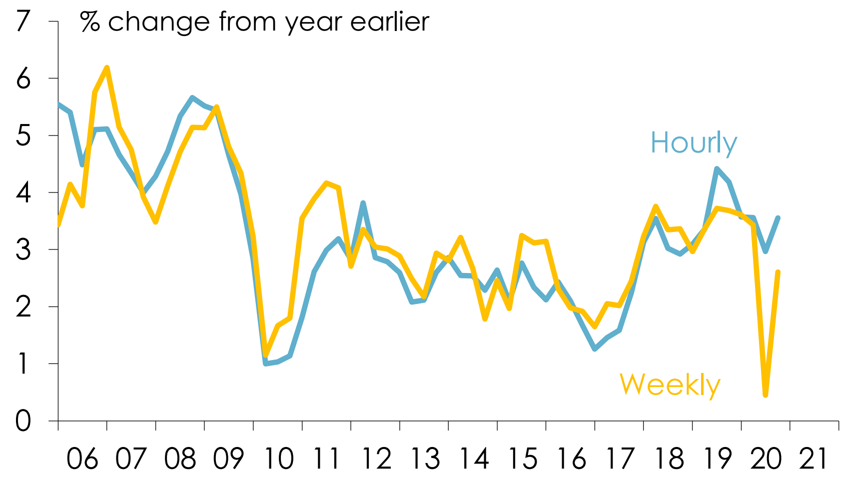
Hours worked



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. March quarter data will be released on 7th April. Return to "What's New".

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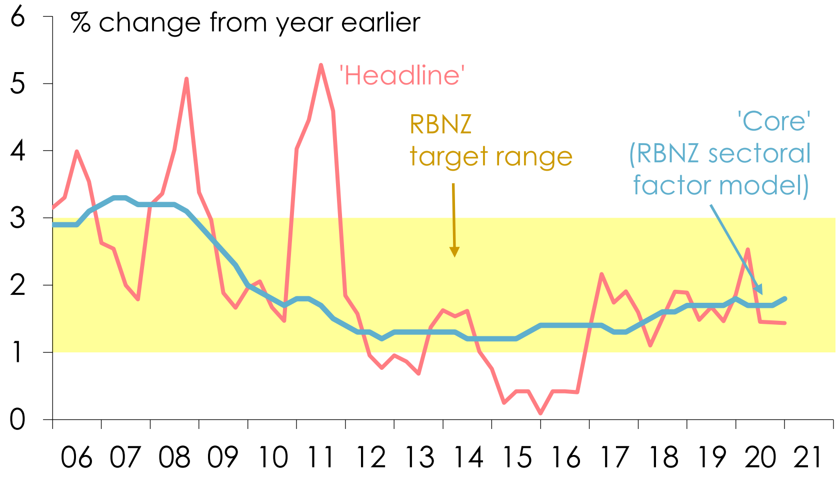
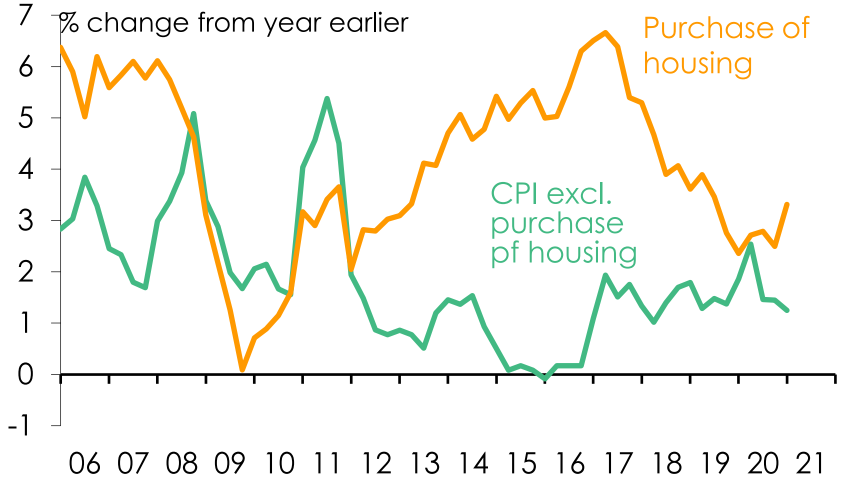
Consumer prices rose 0.5% in Q4 2020 leaving the annual 'headline' inflation rate unchanged at 1.4%

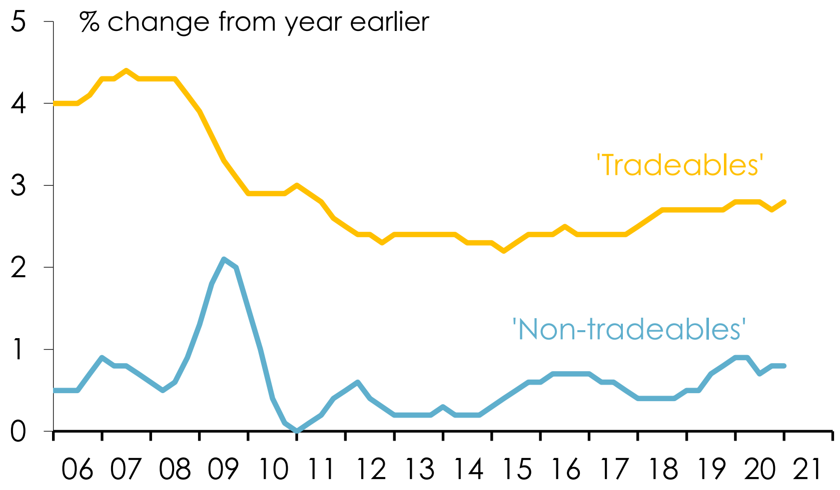
Consumer prices



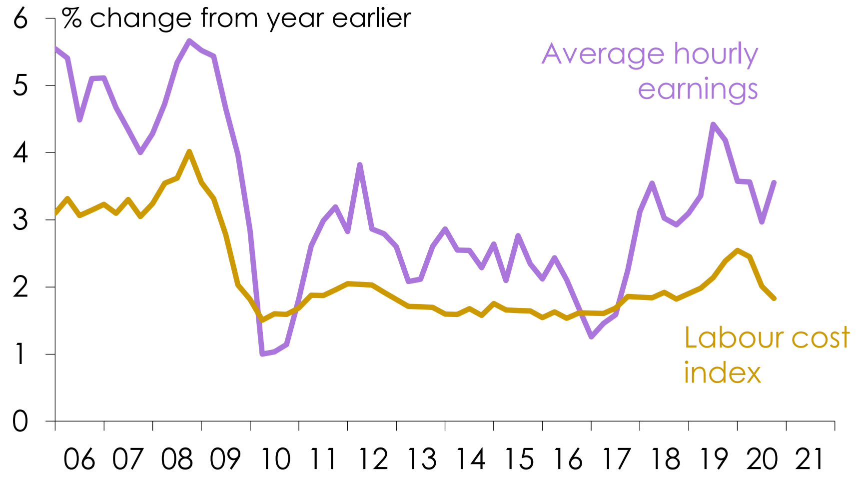
Housing costs in the CPI



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**

Sources: Statistics NZ ; Reserve Bank of New Zealand. March quarter CPI will be released on 21st April. Return to "What's New".

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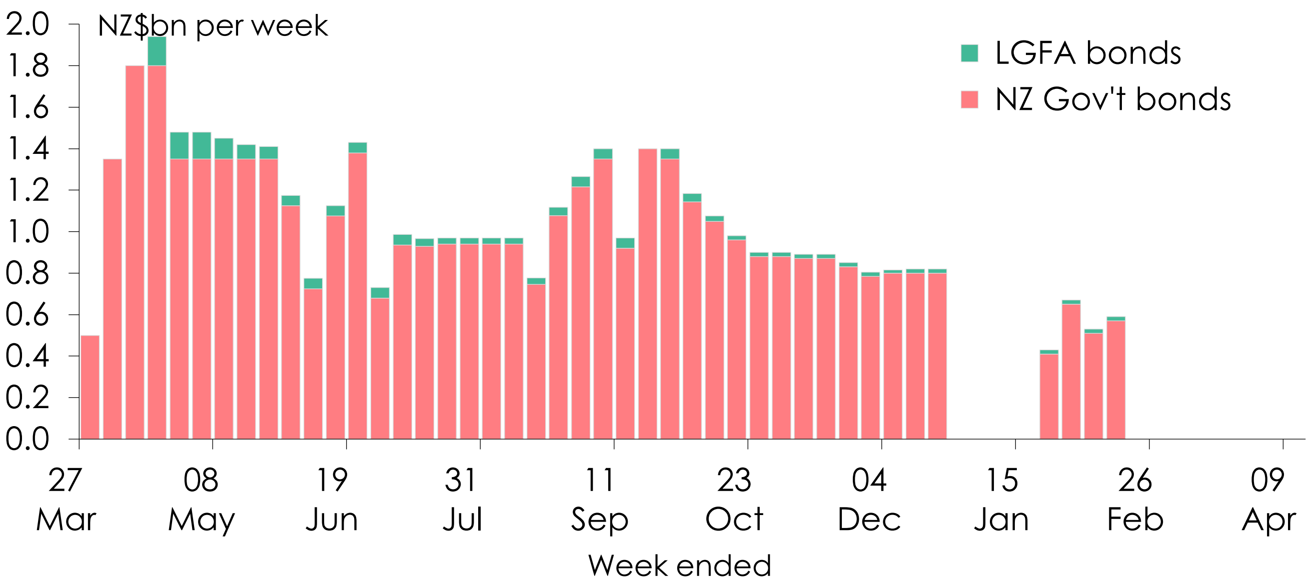
The RBNZ has resumed bond purchases after the Xmas-NY break, but long yields have moved higher with a negative OCR now looking less likely

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$590mn of bonds this week – up from $530mn last week despite it being a holiday-shortened week – bringing its total purchases to NZ$45.4bn (14.1% of GDP) – while 10-year yields finished at 1.31% (down 6bp from the previous week) after touching 1.40% on Tuesday**
- **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 for two years – $40mn was drawn in the first week, a further $1bn on 21st December, and $100mn on 28th January (for a total so far of $1.14bn)**
- **Unlike the RBA, the RBNZ is actively contemplating a negative OCR 'if needed' – but that seems increasingly unlikely**

Note: LGFA = Local Government Financing Authority. *Source*: Reserve Bank of New Zealand, *Statistics* Tables B2 and D3. Data up to 12th February. Return to "What's New".

Important information

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